ASSURED BRIEFING

May, 2023

What's Inside

The *Assured Briefing* is a monthly research note analyzing business development, financial, legal, or claim matters relevant to property/casualty insurance professionals.

In this edition

In the research pipeline

Two Assured Reports are in the pipeline: 1) An analysis focused on expense ratio trends by business line, and 2) our annual study of Atlantic hurricanes. And we're working on two industry trends: 1) changing medical treatment patterns possibly affecting BI claims, and 2) social inflation affecting…property!

One product change to share: After a decade of producing 2-4 Industry Studies each year, we'll be collapsing those into our Assured Report format. The upshot – fewer words and more pictures.

Assured Research is dedicated to producing substantive and actionable research for property/casualty insurance and investment professionals. In addition to subscription research, we offer bespoke research and educational services to subscribers.

Business Development: Navigating Economy to Grow Commercial Lines

Tailwinds, headwinds, or crosswinds? Excerpt of presentation from Verisk Insurance Conference

In mid-April we had the pleasure of presenting at the Verisk Insurance Conference. Our contribution in two sessions was focused on trends in economic and social inflation. **In this note we're pleased to be able to share an excerpt of the slides presented by Eric Price-Glynn, a Senior Principal at Verisk, and Head of Division MarketStance**. Regular readers will know that we have enjoyed a relationship with MarketStance for many years and that their tools and focus align with our own: F*inancial benefits will accrue to P/C insurers studying changes in the demand for insurance*.

Slides shown here were presented in the session entitled: **Tailwinds, Headwinds, or Crosswinds? Navigating the Economy to Grow Commercial Lines**. We wanted to share the content, with takeaways prepared by Mr. Price-Glynn, because **the economy is changing** in so many interesting ways; **all industry professionals benefit**, we think, **from being reminded that there are tools to help insurers successfully navigate those changes**.

U.S. Commercial Lines Forecasts

Over the next few pages, we've asked Eric, an economist by training, to offer salient points on the slides excerpted from the mid-April presentation. **The slides typically include premium projections by industry or line of insurance as well as past loss ratio experience**. *The loss ratios derive from up to 10 years of industry statistical data in BOP, GL, Auto, and Property*.

Figure 1: U.S. Commercial Lines Premium Forecast 2023-2025

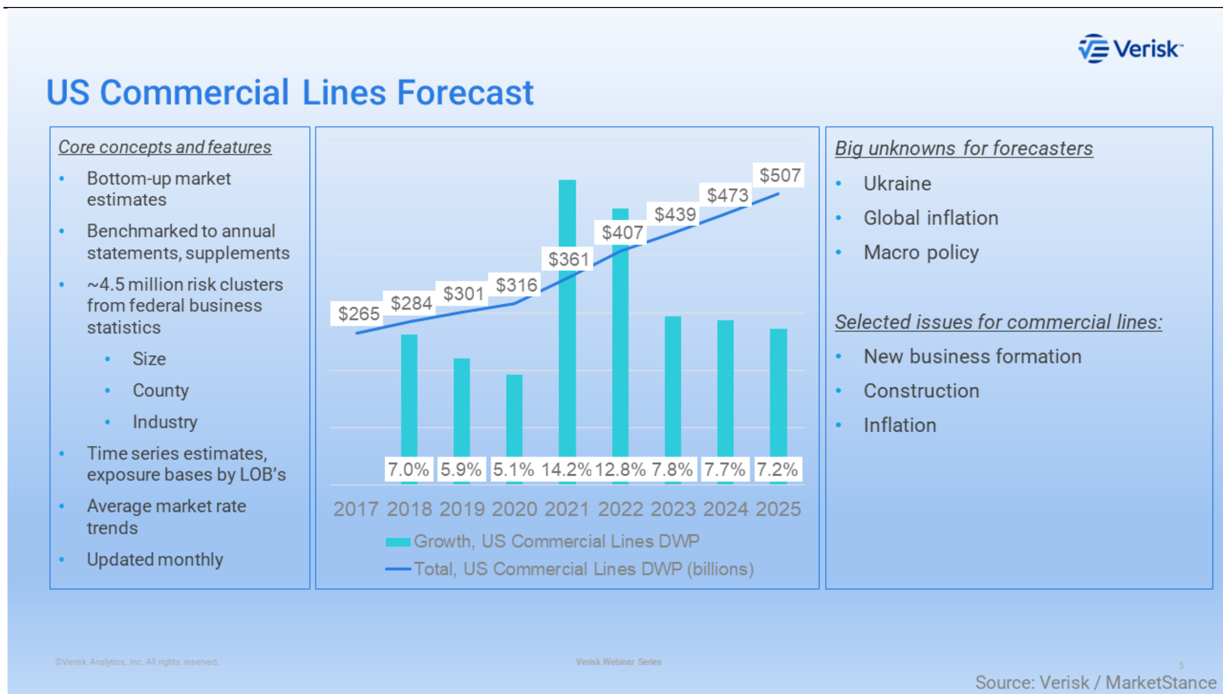


Figure 1: Commercial lines DWP growth is expected to fall from double-digit growth in 2021-22 with slowing U.S. exposure base growth and moderating rate tendencies contributing to the slow-down.

Figure 2: U.S. Commercial Lines (CL) Premium Forecast to 2023 by Industry

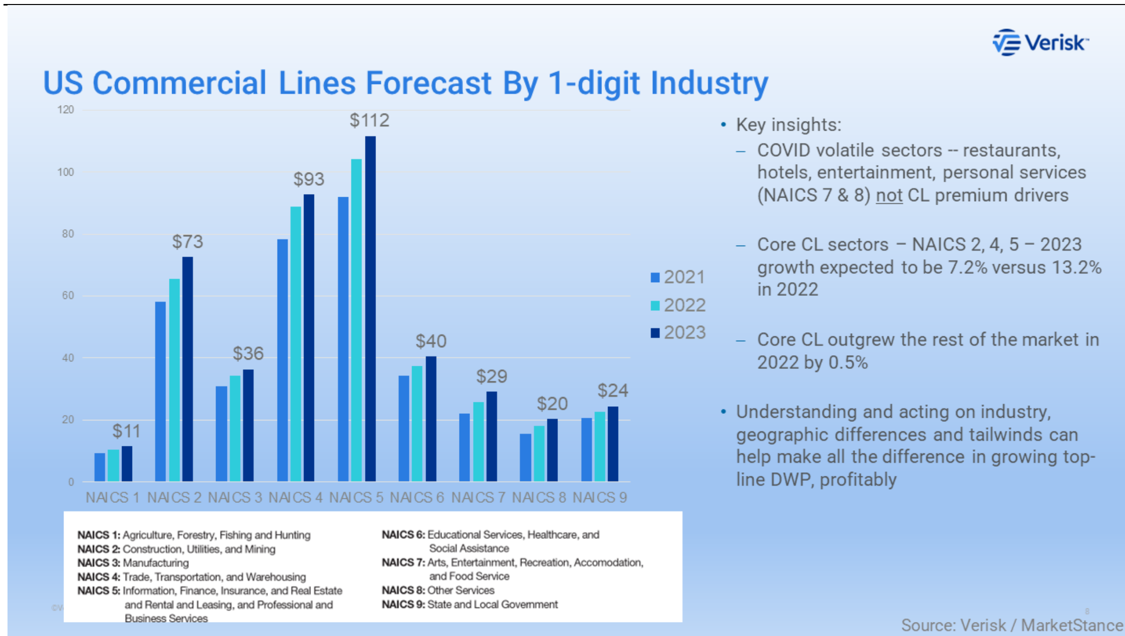


Figure 2: The major CL premium drivers in wholesale and retail trade, trucking, lessors risks, and even construction will continue providing a strong foundation for premium volume, bolstered by strong new business formation in many segments.

Figure 3: U.S. Commercial Lines Premium Forecast 2023-2025 by Lines of Business (LOB)

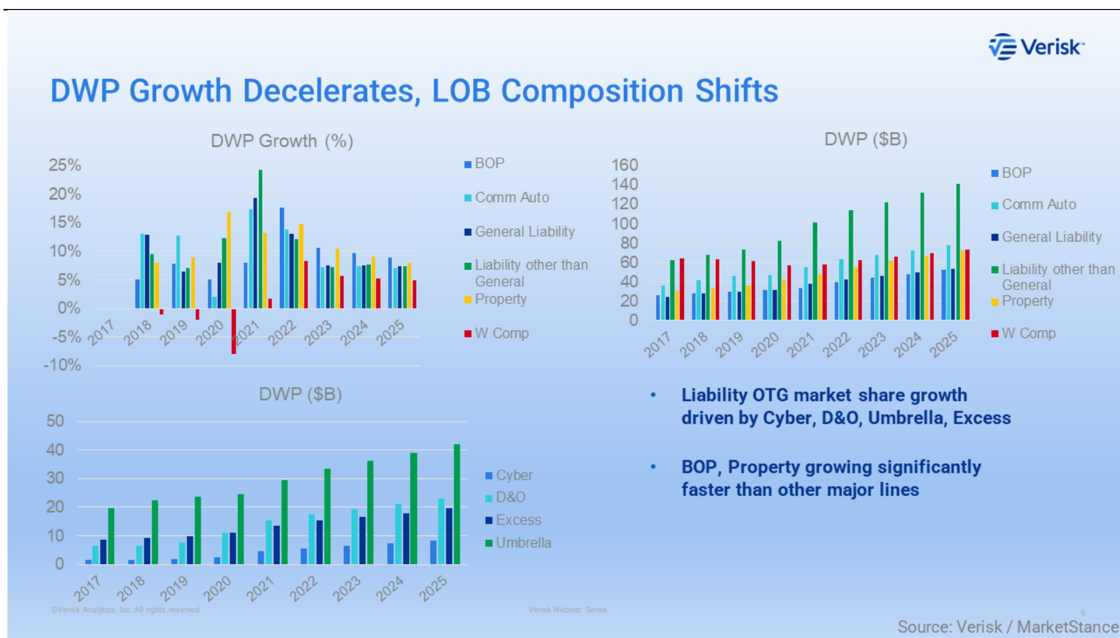


Figure 3: Looking at the commercial market's LOB composition, the liability lines other than GL have become an increasingly important focus for the industry. Organizations not well positioned to do business in these lines likely find themselves on the back foot competitively.

Figure 4: DWP Forecasted Growth and Prior Loss Ratio: Transportation (bubble relative $ size)

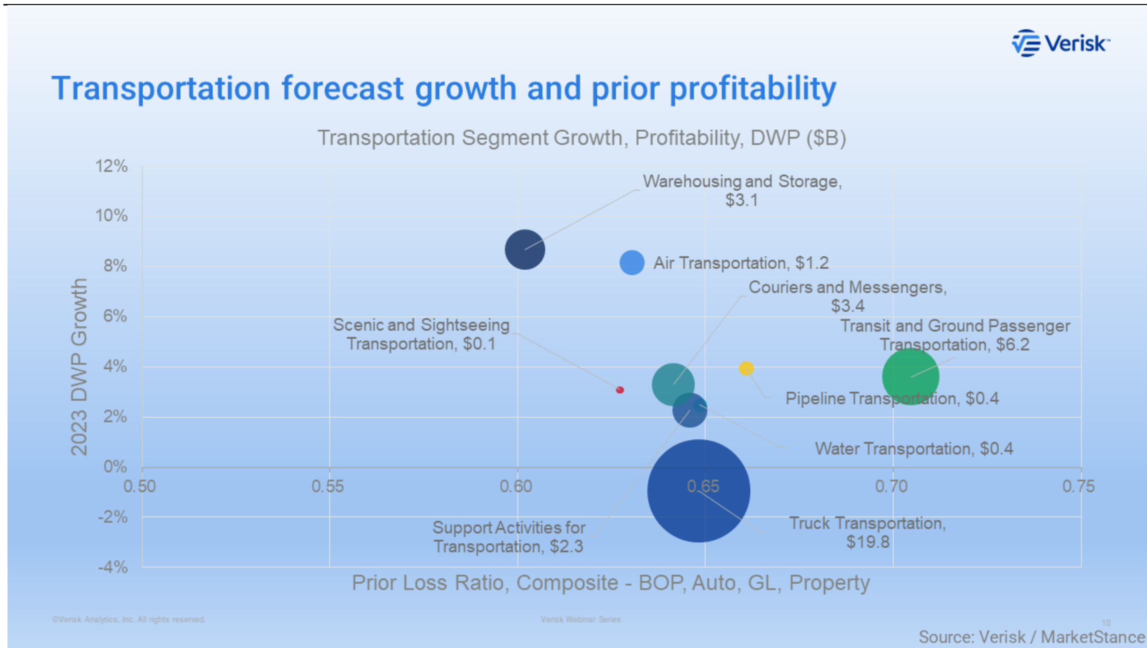


Figure 4: With goods production slowing from the pace of 2022, trucking DWP will likely be flat this year. Profitability has been a challenge in the transportation segment, not just trucking.

Figure 5: DWP Forecasted Growth and Prior Loss Ratio: Construction (bubble relative $ size)

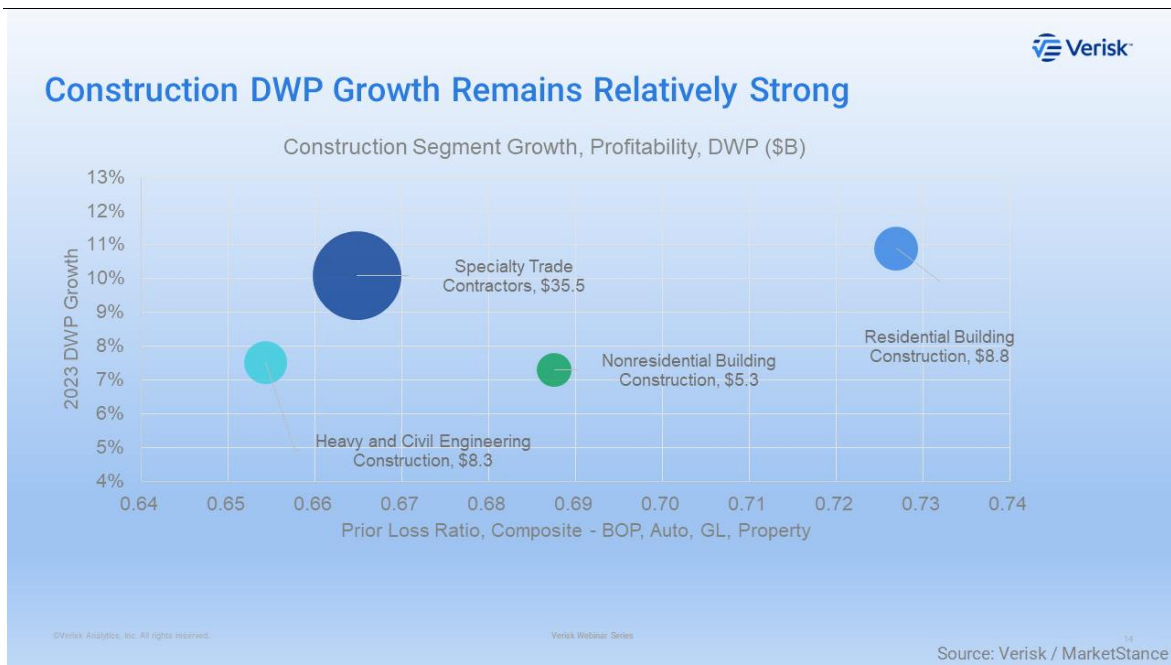


Figure 5: The # of units under construction in early '23 remains at multi-decade highs relative to prime-age (25-54) population, continuing to power DWP growth. Profitability pressures on residential have been greatest, but trades and non-residential have also been challenged.

Figure 6: DPW Forecasted Growth and Prior Loss Ratio: Manufacturing (bubble relative $ size)

Figure 6: Growth is projected to slow in the three major manufacturing segments owing to the economy, but they have had stronger prior profitability than many other commercial segments.

Figure 7: New Business Formation Rate 2022-2024

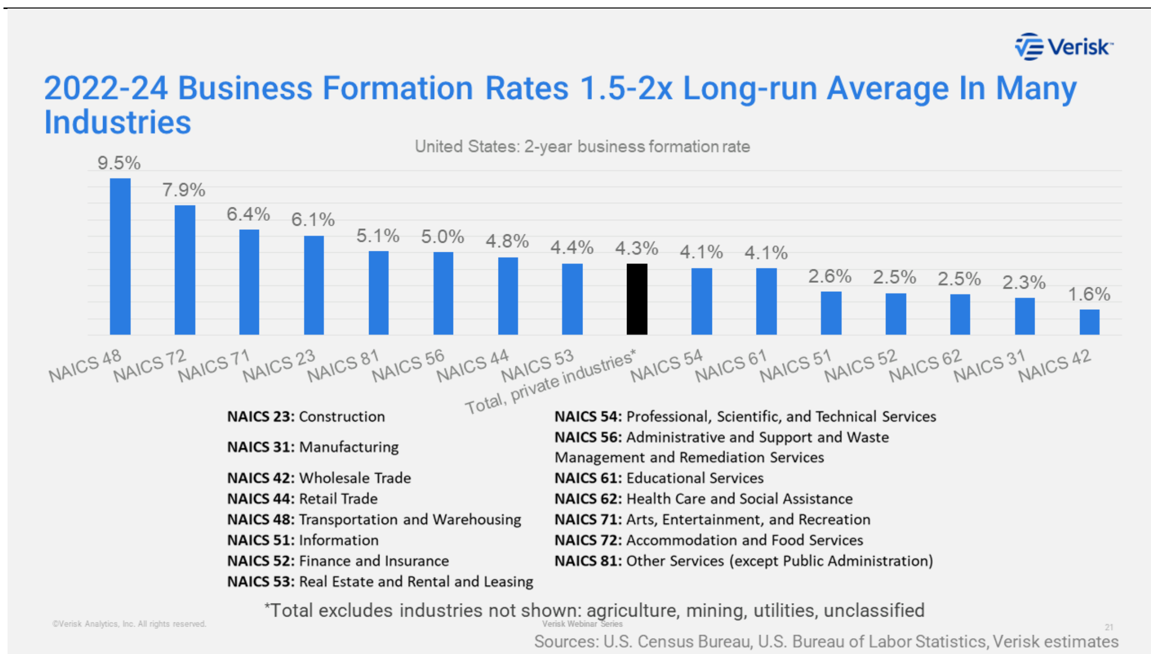
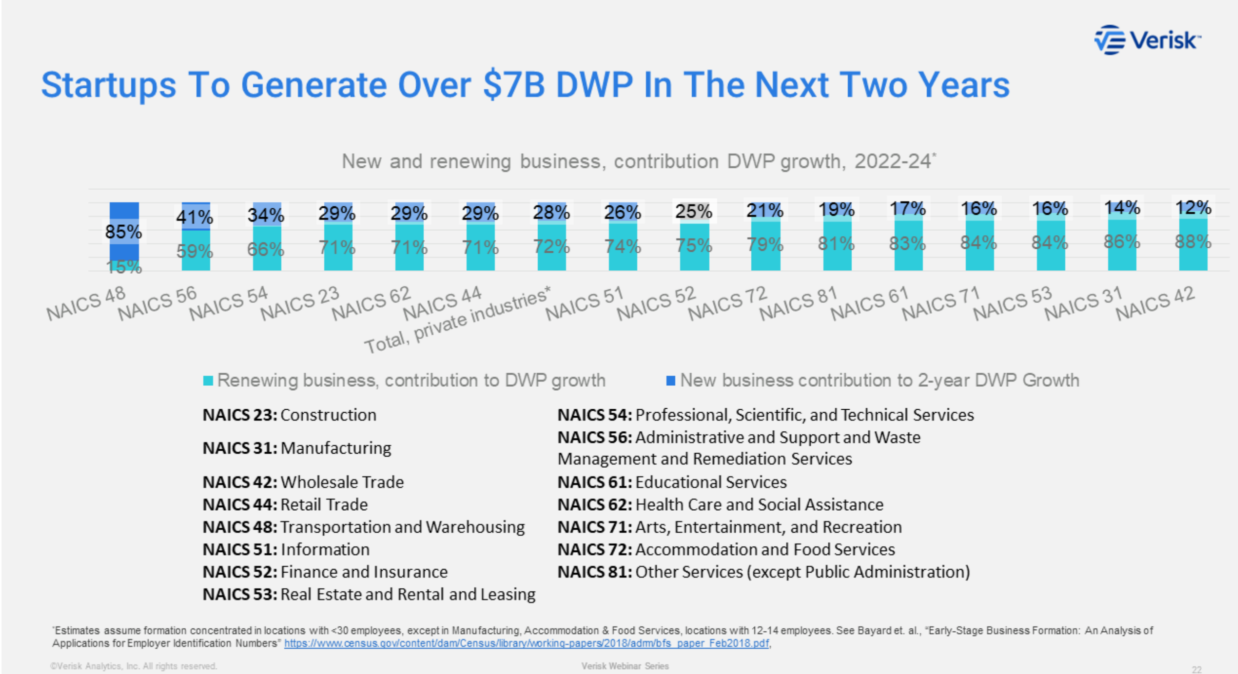


Figure 8: New Business Formation – Substantial New Premiums



Sources: U.S. Census Bureau, U.S. Bureau of Labor Statistics (QCEW), Verisk / MarketStance

Figures 7 & 8: The U.S. Census Bureau projects new businesses – new firms with employees, non-employers transitioning to employer firms, and firms adding locations – based upon applications for employer identification numbers. **Census projects business formations significantly above historical averages through 2024**. If borne out, this will continue a surprising pattern evident **during the height of the pandemic**, where **business formation rates rose significantly**. The reasons for this are still being analyzed, and recent bank failures and possible credit curtailment may mute the actual formations.

However, focusing on the most recent Census projections, **many segments will see much DWP growth concentrated in new business**. **Figure 8 uses MarketStance Commercial Insight data** to estimate the contribution of new and renewing business to premium growth. **Segments such as transportation will see most of their growth derived from new business**.

But while DWP growth composition is not quite so heavily driven by new business in other segments, **most companies will find a distinct payoff from understanding what it takes to identify, underwrite, and service new versus existing business**. Moreover, **winning** existing business often involves different tactical maneuvers, including competing on price and terms/conditions to induce switching from incumbents versus **new business** where **incumbency does not yield an advantage and price sensitivity may not be as important**, particularly for companies that stress their capabilities to "grow with the startup."

Summary: Please let us know if we can put you in touch with or Eric Price-Glynn, who heads the [MarketStance business for the Underwriting Solutions division of Verisk.]

Liability Insurance: Social Inflation Hits Insurers, Not Economies

No sign of economic disruption in states tagged as having the worst legal environments

You know things are bad when the term "nuclear" is deemed inadequate to describe the rise in legal verdicts against corporations. "Thermonuclear" is the new term coined by the public relations and communications firm Marathon Strategies which recently released a report on the topic of social inflation and ~~nuclear~~ thermonuclear verdicts. For the record, the consultancy examined nearly 900 nuclear legal verdicts against corporations (awards > $10 mil.) from 2009-2022 and was motivated, we suspect, to add the "thermo" prefix when the researchers noticed that 191 of those verdicts were greater than $100 mil. (with 23 greater than $1 bil.).

In this note we bring together data from a number of sources to examine the impact of social inflation and nuclear verdicts on statewide economies and liability loss ratios. Our observations:

- **There's no evidence that social inflation results in below-average economic growth**. Many states deemed to have plaintiff-friendly legal environments or frequent nuclear verdicts against corporations have produced 5 and 10-year CAGRs in real GDP that are higher than or broadly in line with the national average.

- **Many of the states earning high regard for their stable and business-friendly legal systems have lagged the national average rate of real economic growth**.

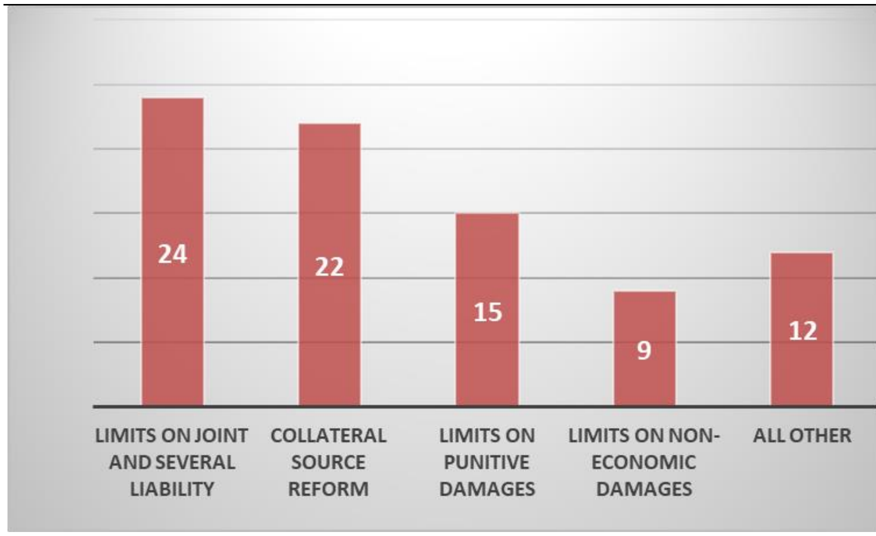
- Turning to insurance results, **with examination of the calendar year loss ratio for the major liability lines** - Other, Product, and Medical Professional Liability – it appears that **states with rampant social inflation and/or plaintiff-friendly legal systems produce higher liability loss ratios** than states with the 'best' legal systems.

What will bring this era of social inflation to an end?

It's gotten so crazy, there has to be tort reform soon, right? Such is the lamentation we occasionally hear from industry professionals. **It was tort reform that ended social inflation in the 1980s; 82 instances of tort reform to be exact. But, unfortunately, armed with new economic and P/C industry data through year-end 2022 we come to the same conclusion we did three years ago**.

From our April, 2020 Assured Report: Tort Reform Led to the End of Social Inflation in the 1980s: *We don't know what is going to bring this period of social inflation to a close. We know that when a similar trend emerged in the mid-1980s the end came about through a broad range of state tort reforms. But we don't believe that will happen now because the impact of social inflation on society, corporations, and the insurance industry is not nearly as severe as in the earlier period. Consequently, there is not yet the public outcry that previously led to meaningful* *political action. [Our 2023 addendum: We comment on recent developments in Florida toward the end of this note.]*

Figure 1: State Tort Reform Actions: 1985-1990

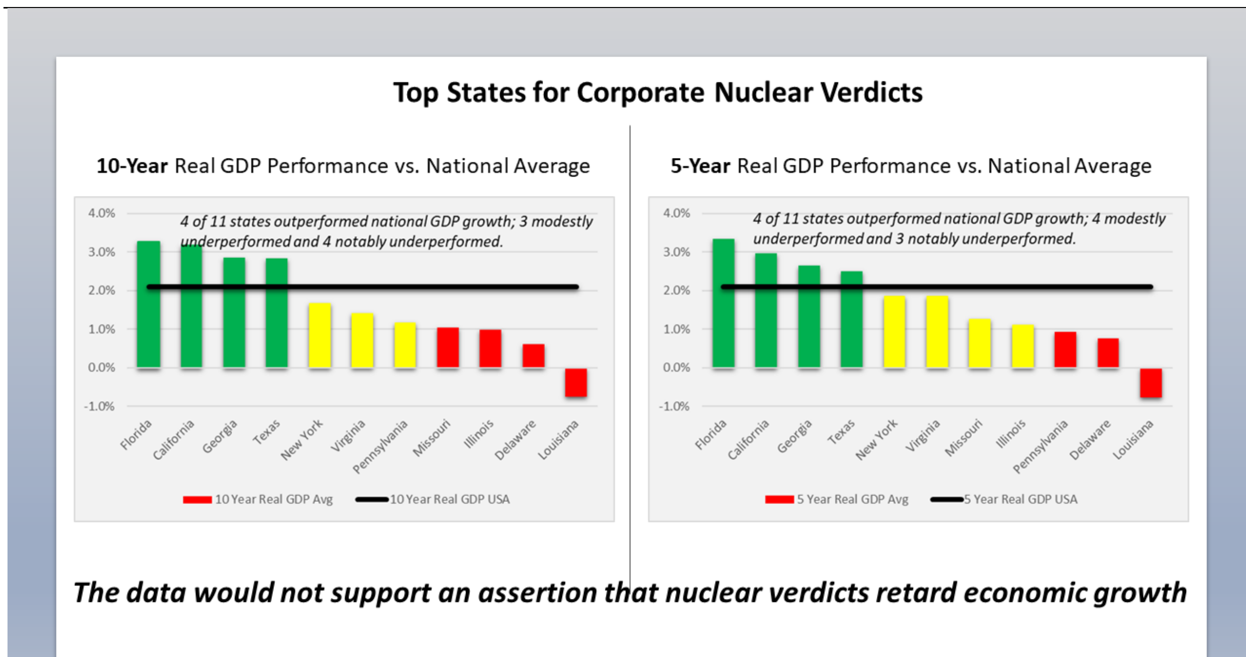


The majority of the 82 actions were taken in 1986 (31) and 1987 (32); shortly after the liability combined ratio breached 150%! The 2022 combined ratio for major liability lines is closer to 100%.

Source: American Tort Reform Association, Assured Research

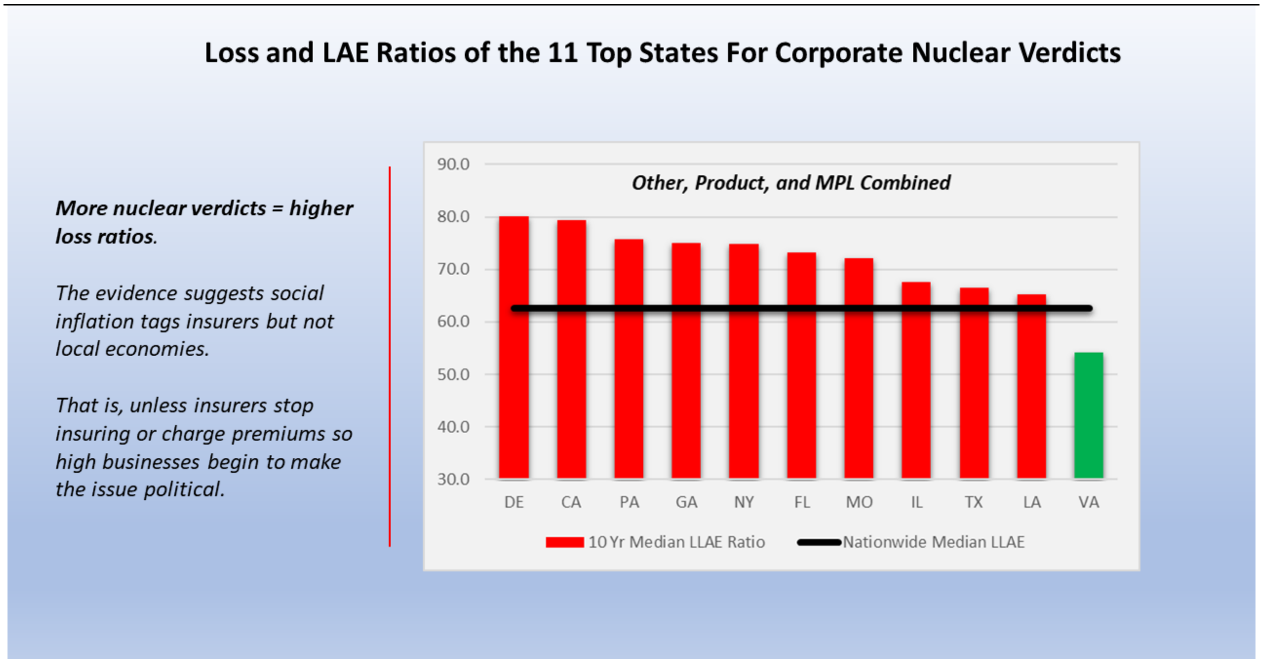
In the graphs following we combine recent 2022 economic data from the Bureau of Economic Analysis, P/C industry results, the Marathon Strategies report, and yet another ranking agency to examine the impact of social inflation on economies and liability insurance results.

Fig 2: Eleven States Cited in the Marathon Strategies Report as Being Top for Nuclear Verdicts



Source: Corporate Verdicts Go Thermonuclear (Marathon Strategies), U.S. BEA, Assured Research

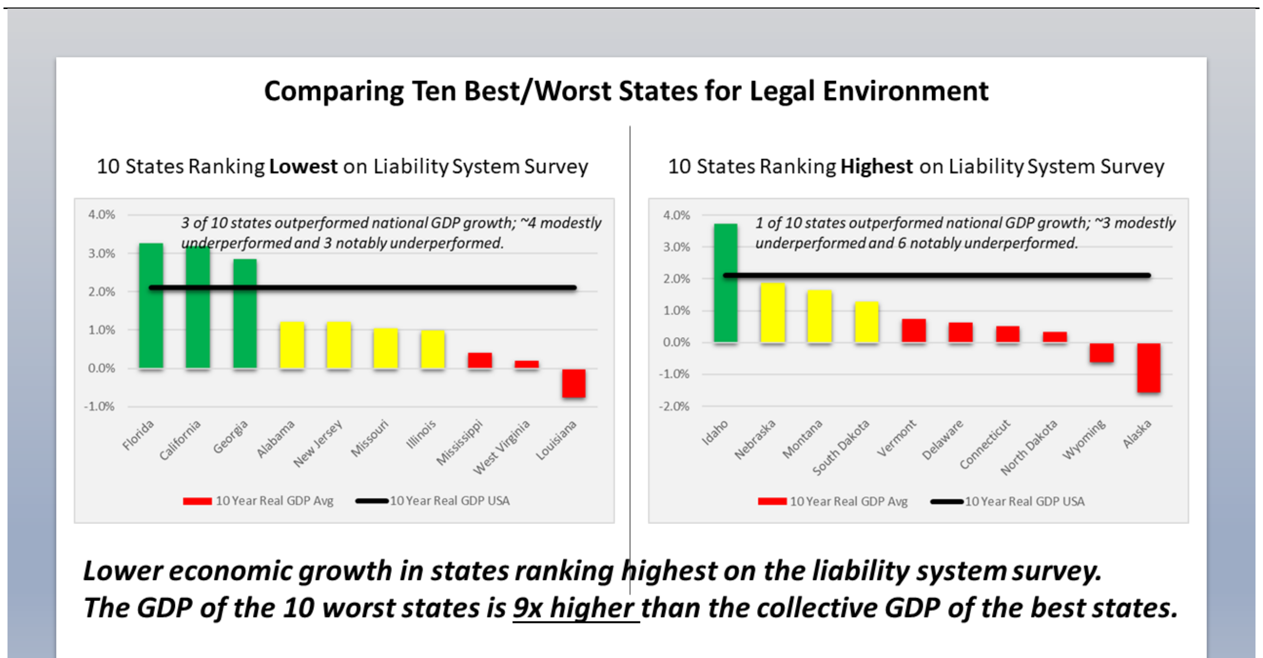
Figure 3: L&LAE Ratios 11 States Rife with (Thermo) Nuclear Verdicts – Higher Loss Ratios



Source: Corporate Verdicts Go Thermonuclear (Marathon Strategies), ©2023 S&P Global Market Intelligence, Assured Research

In Figures 4 and 5 we turn to another ranking agency – the American Legislative Exchange Council, or ALEC, which ranks the economic competitiveness of states on 15 policy variables (the legal system being one of those).

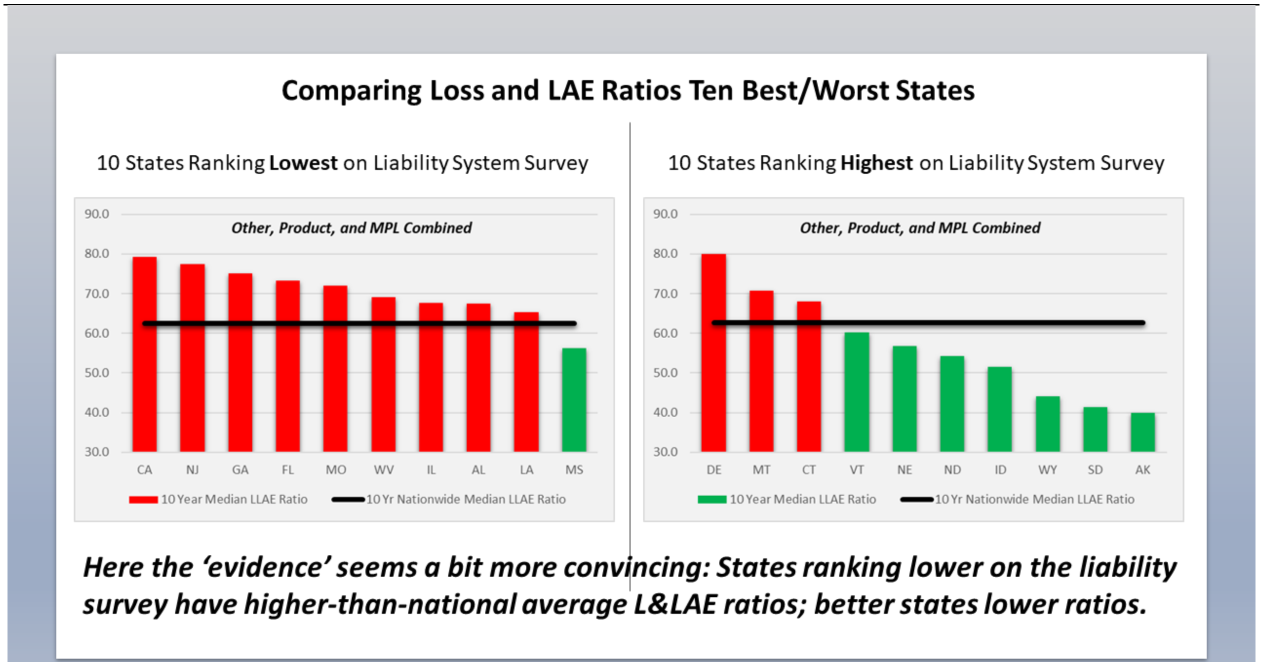
Figure 4: The American Legislative Exchange Council's Selection of Ten Best/Worst States



Source: Rich States/Poor States 15th ed. (American Legislative Exchange Council), U.S. BEA, Assured Research

We're agnostic as to the different organizations ranking states; most of the same states appear in the top/bottom listings anyway. And we want to make sure this point in Figure 4 is not missed: **The collective GDP of the ten worst legal states is 9x larger than the best states**.

Fig 5: States Ranked as in Fig 4; Correlation Between Social Inflation and Loss Ratios Clear



Source: [Rich States/Poor States](#) 15th ed. (American Legislative Exchange Council), ©2023 S&P Global Market Intelligence, Assured Research

What about Florida?

Might Florida vault, like a bat out of hell, from the bottom legal ranking to the top in the immediate-to-near term following their recent rounds of tort reforms? It seems highly likely that the property-related reforms (eliminating AOBs and 1-way attorney fees, for instance) and more recently, substantial tort reform actions will have a chilling effect on lawsuits and a favorable impact on the property and liability loss ratios in the state - at least for a few years. However, we think Florida's presence among the top nuclear verdict states serves to make our takeaway from this work even more emphatic – **states with plaintiff friendly legal environments can do just fine economically**, thank you very much. (The ocean, abundant sun, and lack of state income taxes help too.)

Summary

We don't see evidence that social inflation, in its recent or current manifestation, is retarding economic growth. It has happened before, as in the 1980s when businesses stopped selling their products or services in some states (or they could not buy insurance) and the ensuing political pressures led to widespread tort reform. The '21/'22 HO/property crisis in Florida was the political catalyst for reforms in the Sunshine state…perhaps other states will reach boiling points too; because it does seem clear that social inflation leads to higher liability loss ratios.

Property Catastrophe: Interview with Fermat Capital Management

In 10 years, ILS could grow to a $300-$500 bil. market. Rising interest rates increase ILS demand

It's widely understood that during the difficult January 1st reinsurance renewals, reinsurers pushed material property risk back onto the balance sheets of primary companies. Reinsurance capacity for 'earnings protection' was either unavailable or uneconomical which has shifted the focus of reinsurance buyers to 'balance sheet protection' (arguably, a more sustainable balance between the two markets). Said another way, **reinsurers have incrementally shifted earnings volatility back to their primary company cedants**.

What's the role being played by the catastrophe bond and the broader insurance-linked securities (ILS) markets? (Collectively, referred to as "ILS" throughout.) Through 1Q23 we know that catastrophe bond issuance was a healthy (but not record-setting) $3.3 billion with spreads (i.e., coupons minus expected loss) on most products reported by Artemis and others to be around 10.5% - all-time highs.

To both learn more about current market dynamics and peer into the near future we conducted this Q&A with Fermat Capital Management. Fermat was started in 2001 by John and Nelson Seo; its growth since has paralleled the ILS markets and it now counts more than $10 bil. in AUM with strategies focused on ILS and trade finance. We're grateful for this opportunity to tap into their deep expertise in the financing of insurance risks.

AR: With its 25-year anniversary not so far off, Fermat has seen incredible market developments, catastrophic events, and explosive growth in the cat bond and ILS sector. The asset class is now well-established, but with interest rates rising back to pre-financial crisis levels (and, arguably, likely to remain near there) what's been the immediate impact on demand for ILS?

Fermat: *Interest rate rises have increased investor demand for ILS. Interest rate rises have not hurt demand for ILS, as many have wrongly predicted. Cat bonds typically pay a monthly floating rate coupon, so they are cash plus premium investments. The Federal Reserve policy of quantitative easing ("QE") artificially suppressed rates on cash. Now that QE is over, for the first time in many years, investors find cash returns to be interesting, so it is no surprise now to see more, not less, investors attracted to the cash plus premium returns in the ILS market.*

Follow Up: What's your perspective on the demand for ILS into 2024/2025? Is your perspective influenced by the lack of new capital flowing into traditional reinsurance companies (e.g., no 'Class of 2022' to the surprise of some.)? And how does marketplace volatility in other asset classes impact demand for ILS, if at all?

Fermat: *Investor demand will continue to be strong well into 2024 and 2025. The planets are aligned here. Capital mobility is impaired on the traditional reinsurance side. Capital market volatility is back. Even after capital starts to flow into traditional reinsurance channels and investors acclimate to market volatility, which I assume will occur no later than 2024, we will have built a Class of 2023 ILS investor base that will be largely here to stay.*

AR: We gather all reinsurers and ILS participants are now in the throes of analyzing the risks/rewards in the Florida and Southeastern U.S. wind marketplace. It's clear that a re-pricing of risk is in the offing, but of course substantial and beneficial legislative reform has finally passed in Florida. What's your take on the June and July property/catastrophe renewals?

Fermat: *From both an ILS investor and reinsurer point of view, the hurricane market renewals are likely seen as an attractive opportunity. The premiums are high, terms are favorable, and the Florida legislative reforms are no doubt helpful. The main issue is that, even with an influx of ILS capital and some internal reallocation of capital within reinsurers, the potential demand for coverage outstrips the supply of available capital across all channels. This will make the mid-year renewals at times look a bit chaotic, but it is not because capital is not attracted to the risk. There's just not enough capital to meet all demands*.

Follow Up: With traditional reinsurers moving into the higher layers of property/cat programs, will that create conflicts, or competing interests with ILS structures?

Fermat: *You might think so, but this move by reinsurers does not bring more competition to ILS markets. The reason is price, not capacity. In soft markets, reinsurers pencil in a nominal and low rate for high-layer coverage. It's an afterthought. High-layer reinsurance coverage rarely trades on a standalone basis in soft reinsurance markets. Instead, it trades as part of the entire reinsurance tower, all layers tied together with a ribbon and a bow. In soft markets, the reinsurance price assigned to high layers is artificially low, and the price is not real. No reinsurer would accept the high layer alone at the penciled-in price. In hard markets, reinsurers retreat to higher layers, which makes the pricing of those layers more real, and behold - it makes cat bond pricing look good! When this happened post-Katrina, the cat bond market tripled in size. I do not predict a tripling of the market post-Ian, but a doubling would not surprise me over the next two or three years.*

AR: How should an ILS market observer think about the price of risk transfer in the ILS markets vis a vis the traditional property/catastrophe reinsurance market? Have the two markets reached an (approximate) equilibrium and are they likely to move in concert in the year(s) ahead? Or do different supply/demand factors make these distinct markets for pricing insurance risk transfer?

Fermat: *The two markets unquestionably move together in an overall sense. That implies a quasi-equilibrium exists. But if you look closer, there are differences, and I think there should be (though that drives a lot of intermediaries and protection buyers crazy). The context and the purpose are radically different between the two markets. Cat bonds trade a couple hundred days a year versus only a few times annually for reinsurance. ILS are a diversifier to traditional capital markets risk just as catastrophe reinsurance is to other insurance market perils. ILS is an arms-length, multi-year, fully-collateralized capital. Reinsurance is relationship-driven, annual-renewal, promise-to-pay capital. Words change meaning with context. Prices should respond to context, too.*

AR: We understand Fermat was integral to the launch of a first-of-its-kind cyber cat bond sponsored by Beazley. Readers can learn more about the bond specifics at this link, but share with us please what key ingredients coalesced to bring this issuance to life? Presumably, some combination of maturation of the risk, insurance coverages, and modeling capabilities?

Fermat: *All of the above had to come together. It was a labor of love between several parties and a journey over many years. As a team effort, I am reluctant to single out one link in the chain, but we here at Fermat give much credit to the brokers involved. They sought to build a market, not just grab a headline.*

Follow Up: Do you expect dramatic growth in ILS coverage for this peril? And what other perils, if any, do you think are on a similar precipice? We'd be particularly interested in your thoughts surrounding flood in the U.S. and Europe.

Fermat: *I expect healthy growth in cyber ILS. An obstacle to dramatic growth is that most protection buyers have yet to come to grips with the high premium it takes to build a new market segment like cyber ILS. Many would-be cedants also have the unconstructive habit of just making up a price expectation in their heads, purely in a vacuum, then tasking the broker to make that price expectation come true. Leverage relationships. Twist some arms. Okay, now you have X amount of twisted-arm coverage, but you need 3X. Rinse and repeat. But over the years, by the time you get to 3X, the risk has ballooned 3x again. You are bullying, not building capacity. As for other perils, flood is probably the most addressable by the ILS market. ILS investors are more comfortable with flood risk than traditional insurers.*

AR: Let's turn our attention to big picture topics and conclude with a series of questions. First, where do you see this asset class in ten years?

Fermat: *Depending on how broadly you define ILS, in ten years, I see ILS as a $300 billion to $500 billion market. That is versus $100 billion today. ILS will also be going to onshore execution in the U.S. by then. That will help propel the market to even greater heights ten to twenty years from now.*

Follow Up: And what do you see as one (or more) of the consequential societal challenges the ILS sector is best positioned to address? For instance, cat bonds sponsored by the Work Bank to cover catastrophes in developing countries can help to close the insurance gap around the world. What's the further opportunity here and are there other examples?

Fermat: *ILS are well-suited to addressing the insurance gap in developing and middle-income countries, as the World Bank does with their cat bond program, and here in the United States. Going back to flood, in Hurricane Harvey, the average NFIP payout was $117,000 versus $4,400 of federal assistance for those who failed to purchase a flood policy. If that does not illustrate the flood insurance gap here in our backyard, I do not know what does. There is an opportunity for ILS to help back community-based insurance schemes to shrink the insurance gap here in the U.S. and worldwide. I could go on and on, but for me, an equally important ILS opportunity is to allow private insurance and reinsurance markets to make it to the end of the 21st century as private markets—at least, in the sense that we know today. ILS allow insurers and reinsurers to do what they do best while keeping the government from having to step in and bail out the system after the Big One hits. Basel III requires banks to hold 1 in 1,000-year capital. Solvency II requires insurers to keep 1 in 200-year capital. But insurance is just as important as banking. If insurers do not bring their resilience more in line with the banking system, the government could one day pronounce certain aspects of insurance to be too big to fail. I'm not anti-government, but I am against that outcome.*

AR: As a tangent to that last question, we've always thought the insurance industry has a greater opportunity to attract and retain young talent when they can make a connection between our industry and its role in addressing many of these societal (global) challenges. Do you agree, and can you share thoughts on how to find and interest that talent in the (re)insurance/ILS space? We gather Fermat has had some success in this area having grown from $30 mil. to more than $10 bil. of AUM in under 25 years!

Fermat: *I agree that the tiebreaker in the war for talent is vision rather than pay and benefits. But it is a mistake for any industry to get too fixated on talent metrics. I hope it is job performance we are all after in the end, and that does not have an iron-clad correlation with any talent measures I am aware of.*

Summary

We concluded by asking John if he would share any recommended reading. He did, and we will:

"Everything Will Be Too Big to Fail," John Seo, *Foreign Policy*, 2011.

"In Nature's Casino," Michael Lewis, *New York Times Magazine*, 2007.

Managing General Agents: KYC Important for all DUAEs…What?

Know your customer is the operative rule for delegated U/W authority enterprises

It's been about one year since A.M. Best began to issue performance assessment ratings for Delegated Underwriting Authority Enterprises (or DUAEs, an acronym best pronounced by its letters.) We don't have a sense for the momentum of this initiative (though we only see a handful of rating announcements at the Best website) but we can understand their business interest in rating DUAEs. Thanks to Note 19 disclosure in recently filed 2022 annual statements, we can see that **direct premiums written by managing general agents sums to around $60 billion, or some 7% of industrywide direct premiums**. (At the time of this analysis S&P Global was still backfilling financial data on late filers so ours should be considered an estimate.)

Using financial screens to isolate the U/W performance of companies relying (almost) entirely on MGA-produced business, **we sought to compare the gross, ceded, and net results of MGA business to the performance of business underwritten by traditional insurers (i.e., non-MGA cohorts)**.

The graphs in this report yield these observations:

- **U/W results** - as measured by the L&LAE ratio from the past three years - wouldn't support any blanket statements such as 'MGA-produced business is better (or, worse) than traditional P/C premiums.' **The median loss ratios we examined were broadly comparable**.

- **But the variability of the L&LAE ratio produced by MGA writers has been substantial and is often higher than traditionally underwritten business**. That's true for gross and ceded loss ratios alike – so reinsurers beware!

- **Our comparisons require some caveats**: 1) Entities writing entirely **MGA-produced-business are often smaller** (than those comprising our industry cohort) **so more variability shouldn't be too surprising**. And 2) Our review of Note 19 suggests most MGA business is focused on workers' compensation, commercial auto, homeowners (and commercial residential), and agricultural business. In other words, **our comparisons aren't entirely apples-to-apples because of different business mixes**.

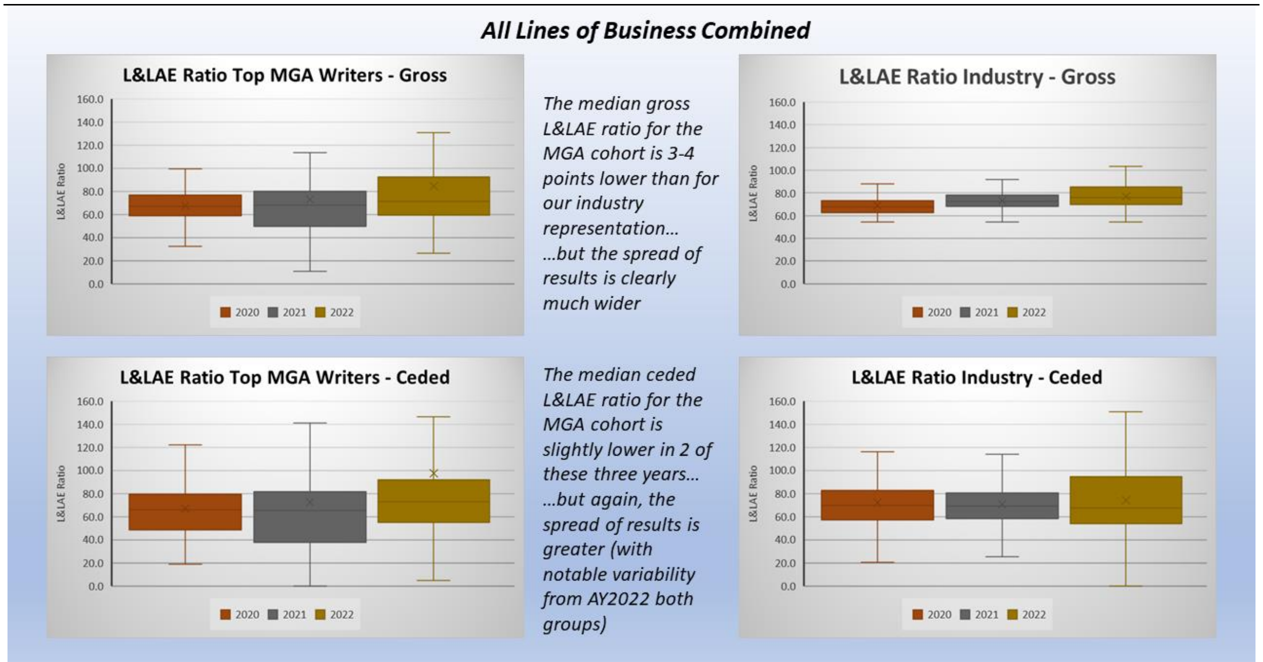
- Still, **we think this work reinforces the imperative of a critical business practice for any enterprise – know your customer!** We don't doubt that Best's performance assessments can form part of any due diligence, but they shouldn't take the place of substantive diligence on the part of the insurance carrier and risk taker.

A Word on our Methodology – Comparisons on Total Premiums

In Figures 1 and 2 we compare the L&LAE ratios of MGA-produced business against 'the industry.' Here's what that entails: **The 122 companies in our MGA cohort produce between 80-100% of their direct premiums through MGAs**. These companies account for roughly $37 billion of direct premiums, or about 60% of the industrywide MGA total. **The industry cohort against which they are compared includes the top 122 writers producing less than 5% of their premiums through MGAs**. These entities account for $456 billion of DWP, over half of the industrywide total.

And while it could probably be left unwritten, we'll mention that we're intermixing the terms DUAE and MGAs…our sense is that Note 19 is meant to capture any and all of such enterprises.

Figure 1: Gross and Ceded L&LAE Ratios of MGA Carriers vs. Industry Composite – All Lines



Source: ©2023 S&P Global Market Intelligence, Assured Research. "Industry" is actually the top 122 writers not using MGAs. In total they account for 53% of industry premiums

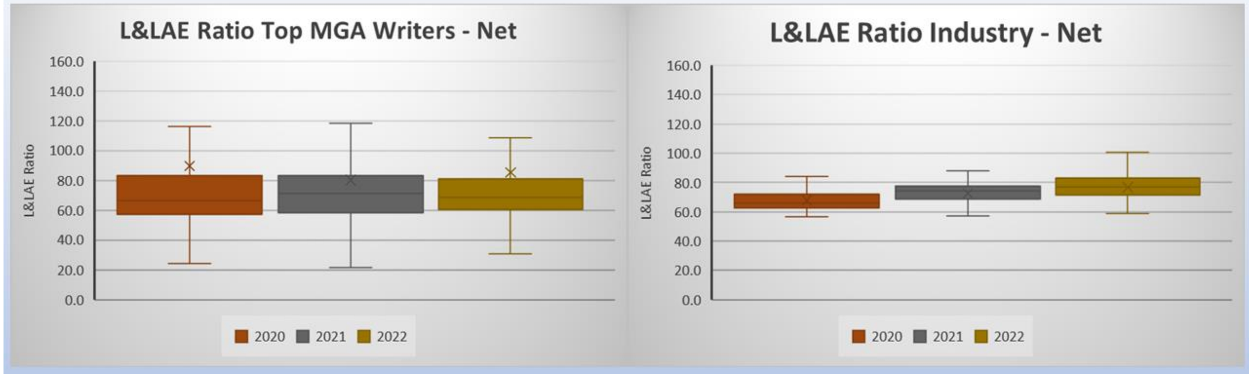
Repeating briefly the observations included in Figure 1 (and Figure 2, next page), **the greater variability of the MGA-produced business is our primary takeaway**. But if someone came to this analysis with the hypothesis that MGA-produced business is typically better (or, worse) than non-MGA business, we'd suggest that the 'data would not support either hypothesis.'

In other words, **we've concluded that each deal and each business partner has to be assessed separately; hence our inclusion of KYC – know your customer – as a recurring theme**.

Another data note – we only include the past 3 years for comparison on the premise that the business mix/focus of MGA writers, in particular, is subject to fairly regular change.

Figure 2: Net L&LAE Ratios of MGA Carriers vs. Industry Composite – All Lines

All Lines of Business Combined



The median net loss (and LAE) ratios of the largest MGA writers were lower than for our representation of the industry in each of the past three years (and in 2022 lower by 10 points). But as with our two previous screens, it's the loss ratio dispersion that warrants caution.

The line in each box shows the median and X the mean. The upper and lower quartiles form the top and bottom of the boxes. The extreme values are the "whiskers".

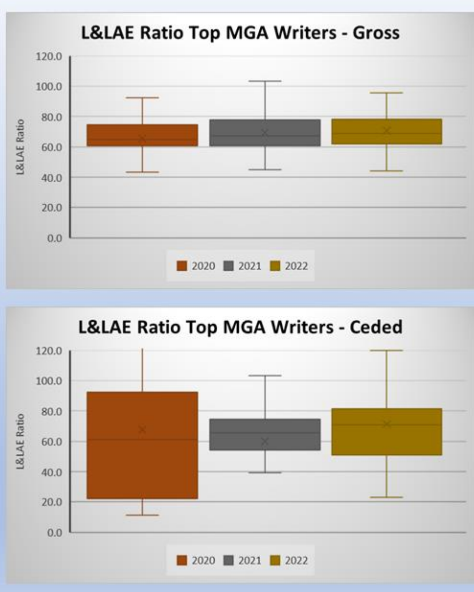
Source: ©2023 S&P Global Market Intelligence, Assured Research. "Industry" is actually the top 122 writers not using MGAs. In total they account for 53% of industry premiums

Comparisons of Workers' Compensation Writers

In Figures 3 and 4 we turn our attention to companies writing predominantly workers' compensation premiums. The reason – that's one of the larger lines written by MGAs.

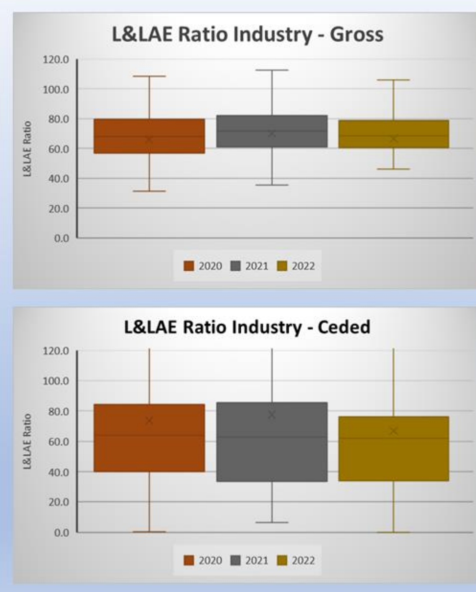
Figure 3: Gross and Ceded L&LAE Ratios of MGA Carriers vs. Industry Composite – WC

Workers' Comp Focused



The median gross L&LAE ratio for the MGA cohort is very similar to our industry representation and with comparable variability.

The median ceded L&LAE ratio for the MGA cohort is noticeably higher in AYs '21 and '22 at 7 and 13 points, but the variability is actually lower.

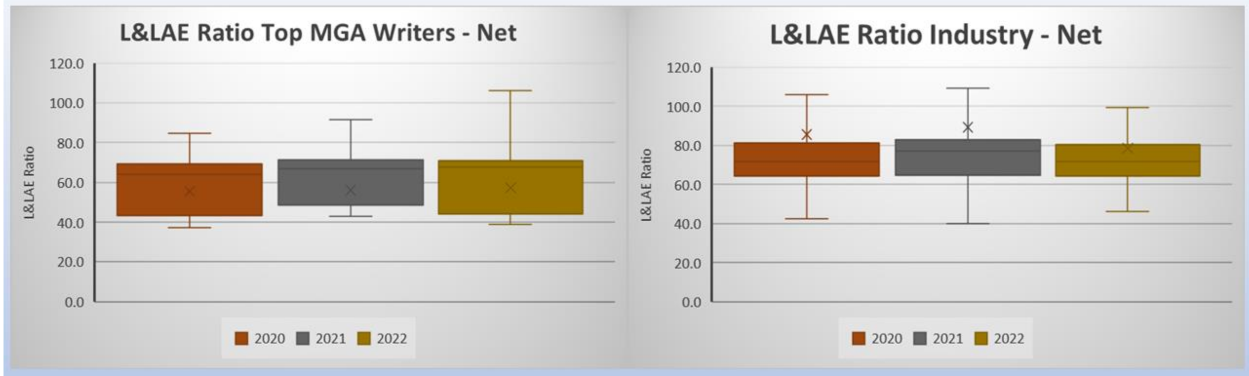


Source: ©2023 S&P Global Market Intelligence, Assured Research. Data includes 24 predominantly MGA and WC writers and 122 predominantly WC writers not using any MGAs

For these screens **we include in our MGA cohort insurers writing between 67-100% of their premiums through MGAs and with more than 50% of their total premiums from WC. They are compared to an industry cohort with no MGA-produced business and with WC premiums at 95% or more of total premiums**. The aperture to screen for MGA/WC focused companies needed to be a bit wider to generate a robust sample; the tradeoff is that the business mixes, while broadly comparable, aren't exact.

Figure 4: Net L&LAE Ratios of MGA Carriers vs. Industry Composite – WC

Workers' Comp Focused



The median loss ratios over these three years are broadly comparable while the cohort NOT using MGAs shed a substantial quantum of variability via reinsurance. This focus on workers' compensation didn't reveal any overarching concerns about working with MGAs broadly, but the KYC acronym is always relevant.

The line in each box shows the median and X the mean. The upper and lower quartiles form the top and bottom of the boxes. The extreme values are the "whiskers".

Source: ©2023 S&P Global Market Intelligence, Assured Research. Data includes 24 predominantly MGA and WC writers and 122 predominantly WC writers not using any MGAs

This analysis of WC premiums seems broadly supportive of MGA-produced WC premiums, but we'd never suggest a relaxation of diligence or KYC principles before entering into a production agreement. **At best, we'd suggest this data wouldn't support a *prima facie* rejection of the idea to partner with an MGA producing WC business**.

It's worth noting that **many of the Florida-focused property companies use MGAs to produce their HO and commercial residential business** and it's no insight to share that those gross, ceded, and net results have been really poor for several years. However, **in many (most?) cases, the U/W company and the MGA share common ownership, so is the underwriting really being delegated?** A debate for another day…

Summary

Where DUAEs are concerned, the best practice is to KYC…even if the entity has a performance rating from A.M. Best.

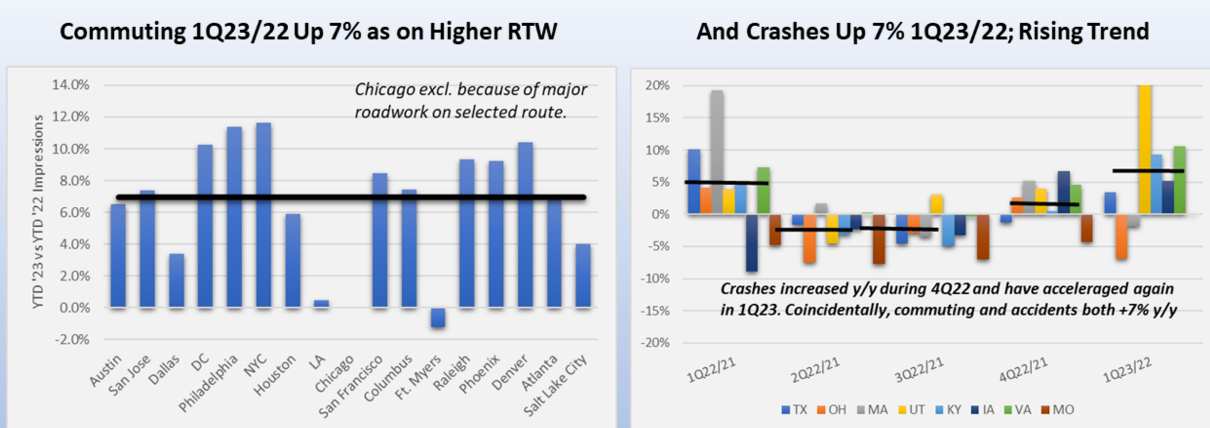
Trendspotting: Diverse Graphs of Interest to Insurance Professionals

A new feature we'll add periodically to the Assured Briefing

Regular readers will know that we have included graph-heavy research notes entitled *Trendspotting* to the occasional Assured Briefings. We've received enough positive feedback on those notes that going forward we'll include them more frequently. We're not going to handcuff ourselves with rules – when we have more than a couple of interesting graphs, we'll include a *Trendspotting* note. When we don't, we won't.

Topics and graphs that are candidates for this feature will typically be those that are mostly explained by a single graph. And sometimes our research process will start with a graph and whereas we may decide the topic doesn't warrant further research, the initial graph/analysis is sufficiently interesting to include in a note such as this. Last, **we always invite your inquiries** and expect that occasionally the result will be a graph that is a candidate for this setting.

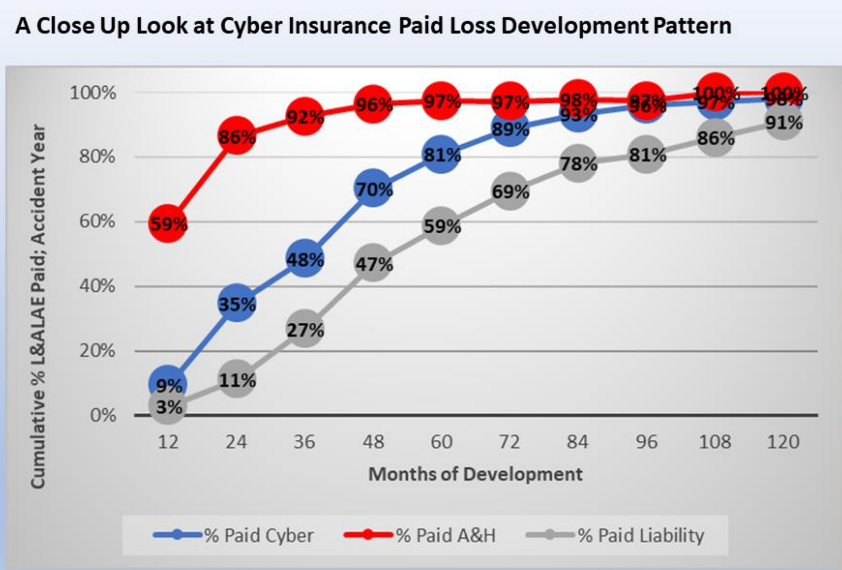
Figure 1: Private Passenger Auto – More Commuting (left) and More Crashes (right) in 1Q23



With more commuting comes more crashes*. The average Kastle office occupancy index (of which most cities are included in our commuting index above) was about 49% during 1Q23, up from 35% occupancy during 1Q22. Our measure of commuting across 16 cities (above, left) only rose 7% partly because public transportation has been on the rise. But we gather that recreational miles are being swapped for commuting miles, and with more commuting comes more crashes as the graph to the right shows. Many auto insurers reported still-high auto combined ratios during 1Q23 citing adverse development and loss severity. We suspect a changing driving mix and more crashes are partly to blame.*

Source: Placer.ai, Kastle, State DOT sites, Assured Research. Data through 3/31/23 retrieved April 14, 2023.

Figure 2: A First Look at Cyber Liability Payment Patterns



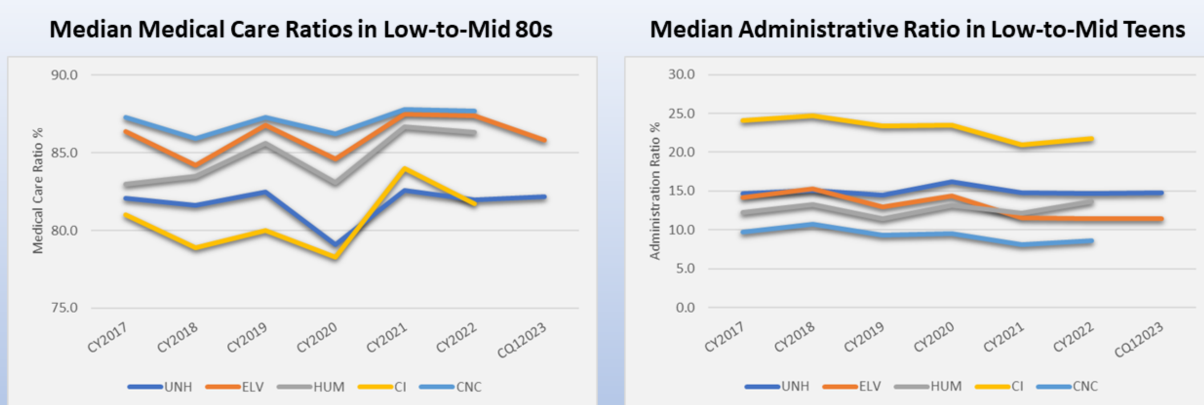
Axis Capital is the first major writer of cyber insurance to provide historical loss data from which development patterns can be constructed. This is the first year Axis has made the data available, and we did not see similar detail in the filings of other major writers of cyber insurance.

Axis characterizes cyber as a medium-tailed line of business; we show it here next to A&H (short) and liability (long-tailed).

Further analysis should be possible when the company releases its Global Loss Triangles.

Source: Axis Capital 10-K, Assured Research. *Selection of loss development parameters for illustration only.*

Figure 3: Managed Care Metrics – Medical Care Ratio (left) and Admin Expense Ratio (right)



We watch trends affecting healthcare insurers for insights into P&C medical cost trends*. Following early 1Q23 results, we thought to take a step back to examine health insurers' medical loss ratios (MLRs) and administrative expense ratios. Recognizing it's not an apples-to-apples comparison to P&C products, as <u>consumers</u> we still like to see MLRs consistently in the low-to-mid 80% range (i.e., more premiums being returned as benefits to us policyholders). Adding mid-teen expense ratios,* ***the typical healthcare U/W margin is around 3 points****. So* ***how do the managed care companies reach the mid-teen ROEs they've steadily produced over the past 6 years? Higher*** *(than P&C)* ***operating leverage*** *is part of the story;* ***typical premium-to-equity ratios are in the 3.0-3.5x range.***

Source: ©2023 S&P Global Market Intelligence, Assured Research. Tickers represent United Health, Elevance (fka Anthem), Humana, Cigna, Centene