



ALIRT
INSURANCE RESEARCH

ALIRT Research

State of the U.S. P&C Market (And Other Analytics)

Wednesday, April 27, 2022

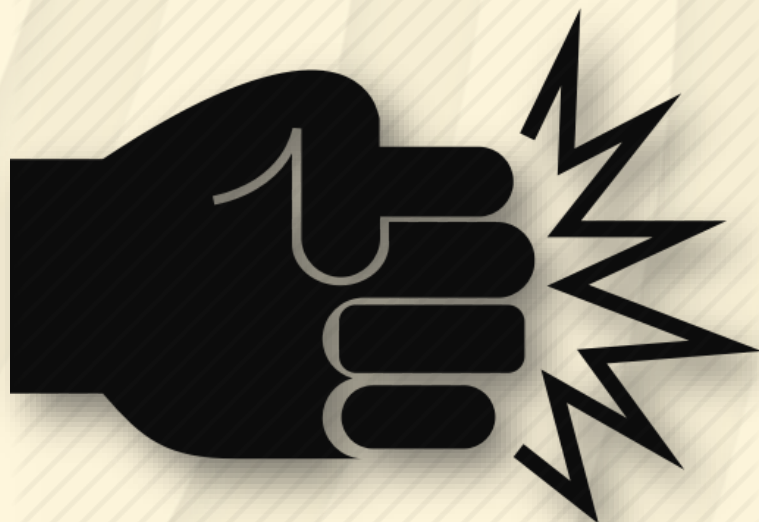
*Presented by:
David Paul
Principal, ALIRT Insurance Research*

David.Paul@alirtresearch.com
(860) 683-2070

ALIRT INSURANCE RESEARCH, LLC

- Provides private credit analytics on the life, property & casualty, and health industries
- Located in Windsor, CT
- Years in Business: 23
- Principals have worked together providing credit oversight on insurers for the past 30 years
- Produces quarterly financial analyses on approximately 500 Life, 1,700 P&C, and 450 managed care insurers (U.S.); foreign analyses includes Bermuda, Lloyds, and London Market insurers.
- Analysis generated by running statutory and GAAP financials through a proprietary model that screens for relative financial strength
- Clients: distributors of insurance products, end users of insurance products, asset managers, boards of directors, insurers
- Purpose 1: to “get below” the public ratings in order to more accurately determine the *relative* financial strength and weakness of insurers
- Purpose 2: Act as the outsourced due diligence staff for our agency/broker clients.

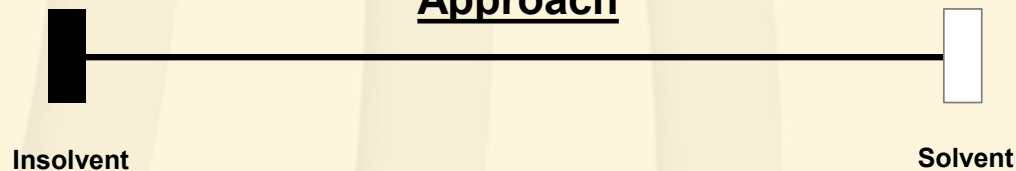
Credit Analysis: Special Considerations



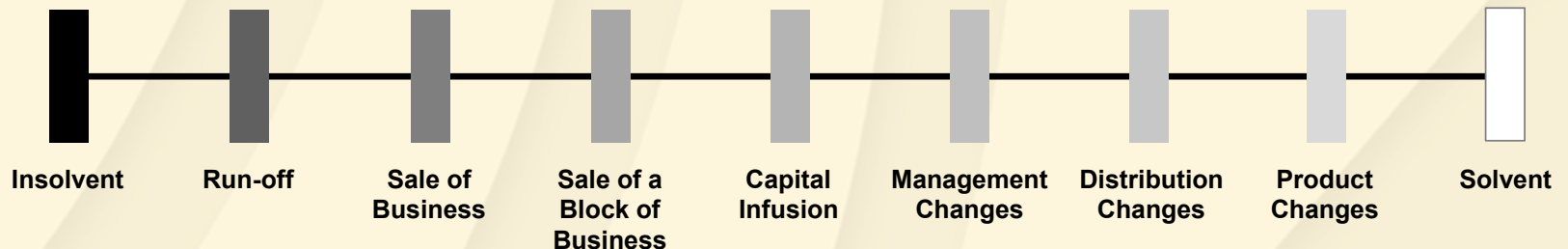
- *Because the future is to a large extent unknowable, credit analysts focus on the relative financial strength of an individual or entity.*
- *In the context of insurance analysis, ALIRT concentrates on the ability of an insurer to “take a punch” and remain standing.*
- *“Punches” can include losses arising from a cyclical deterioration in the industry’s pricing/profitability, shock losses, investment losses, or the adverse impact of economic downturns.”*

Credit Analysis: Special Considerations

From A Binary Approach



To A Spectrum Approach



Per the National Conference of Insurance Guaranty Funds:
600 U.S. P&C insolvencies since 1969 = on average 0.5% each year

Balance Sheet of the U.S. P&C Industry - 2021

Assets

Invested Assets	85%
Premiums Receivable	9%
Reinsurance Recoverable	2%
Other Assets	4%
<hr/>	
Total Assets	100%

Liabilities and Surplus

Loss Reserves	25%
Loss Adj. Expense Reserves	5%
Unearned Premiums	12%
Other Liabilities	18%
<hr style="border-top: 1px dashed black;"/>	
Policyholders' Surplus	40%
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Total Liabilities & Surplus	100%

U.S. P&C Industry figures per S&P Global Market Intelligence (as of 12/31/2021)

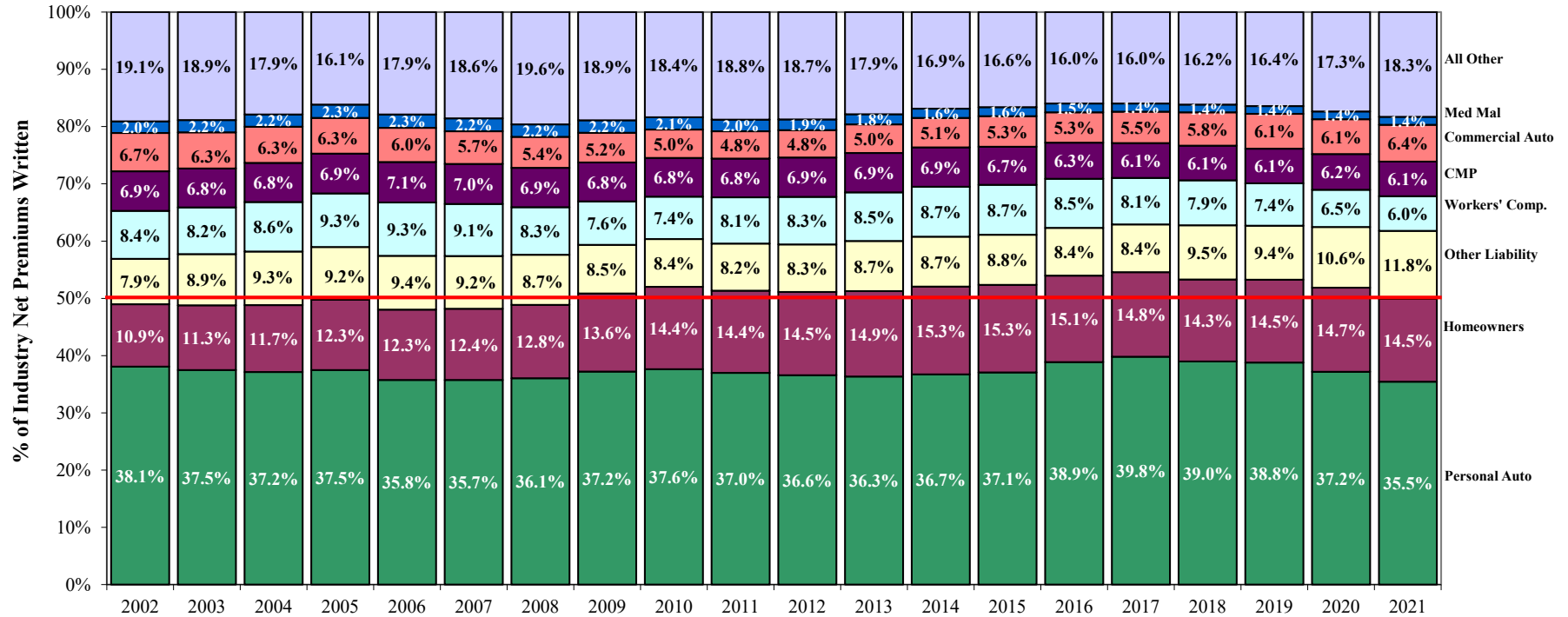
Assets = \$2.60 Trillion

Loss & LAE = \$782 billion

Total Surplus = \$1.05 Trillion

Income Statement – Net Written Premiums

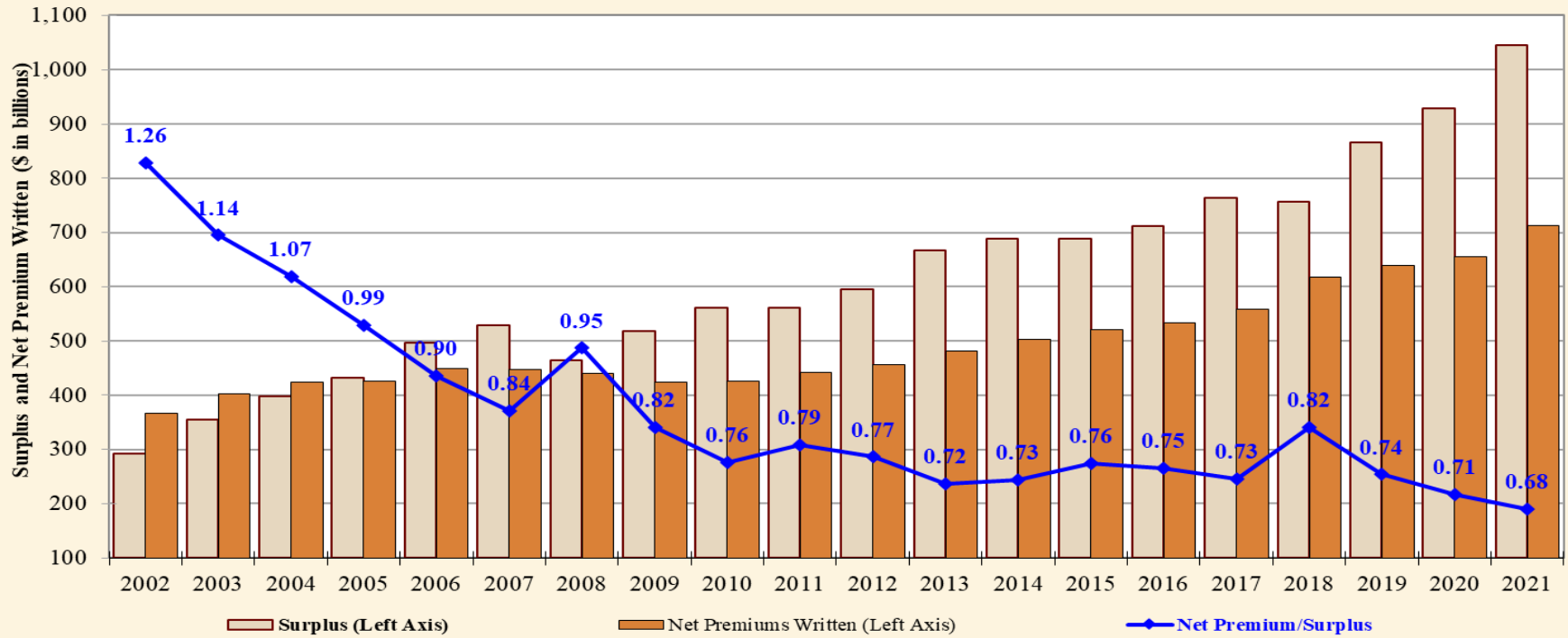
P&C Industry Line of Business Breakdown (2002 - 2021)



Per S&P Global, U.S. P&C industry net written premiums were \$712 billion for 2021, up 9% from 2020. 20 Year Avg. Mix is 51% PL / 49% CL

The Balance Sheet: Surplus

P&C Industry Surplus and Net Premium Leverage



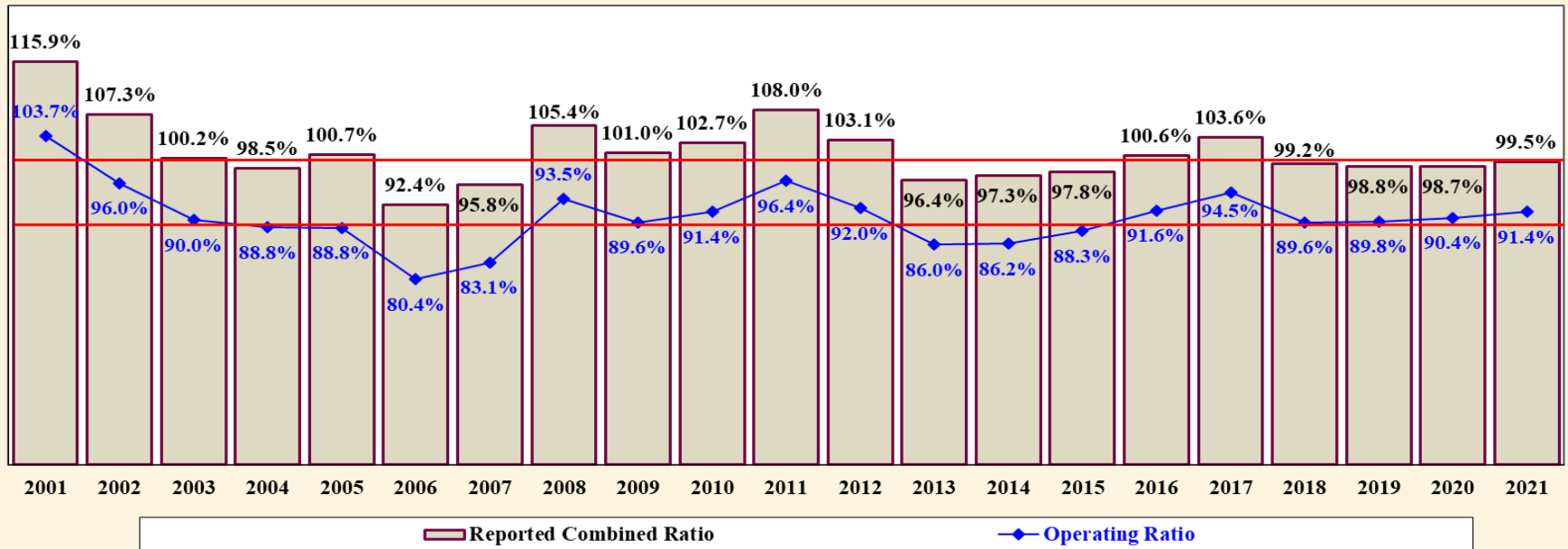
CHANGE IN SURPLUS



- Net Income
- Unrealized Capital Gains/Losses
- Surplus Paid In/Paid Out

Income Statement – U/W & Operating Profitability

P&C Industry Reported Combined Ratio vs. Operating Ratio

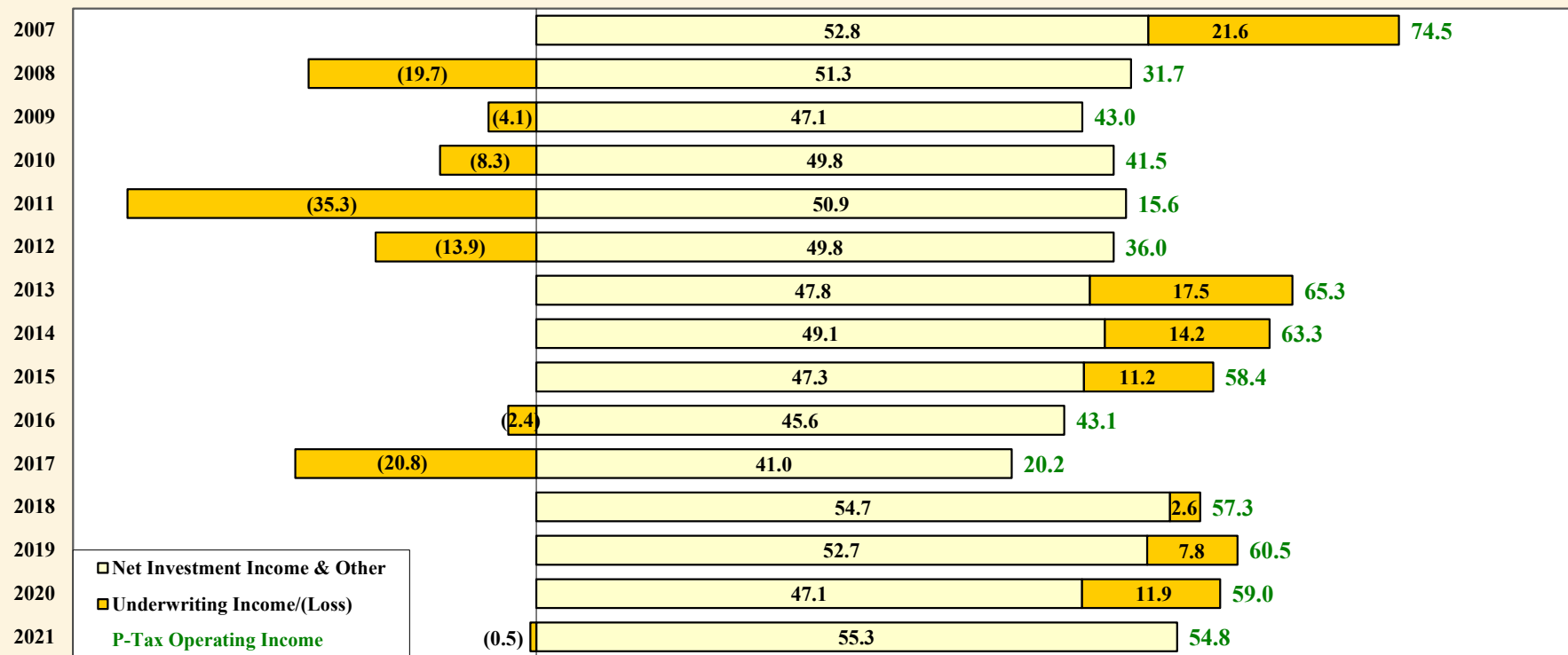


15 Year Average Reported Combined Ratio = 100.5%; 15 Year Average Operating Ratio = 90.2%

15 Year Average Benefit of Net Investment Income = 10.3 points; range = 8.1 – 12.7 points. (2021 = 8.1 points = a cyclical low)

Income Statement – Operating Profitability

P&C Industry Components of Income (\$, Bln)



Key Takeaways:

Underwriting profits in 7 of the past 15 years. 2004 was the first year of underwriting gain since the mid-1970s.
Investment income still represents the vast majority – if not all – of industry operating profits.

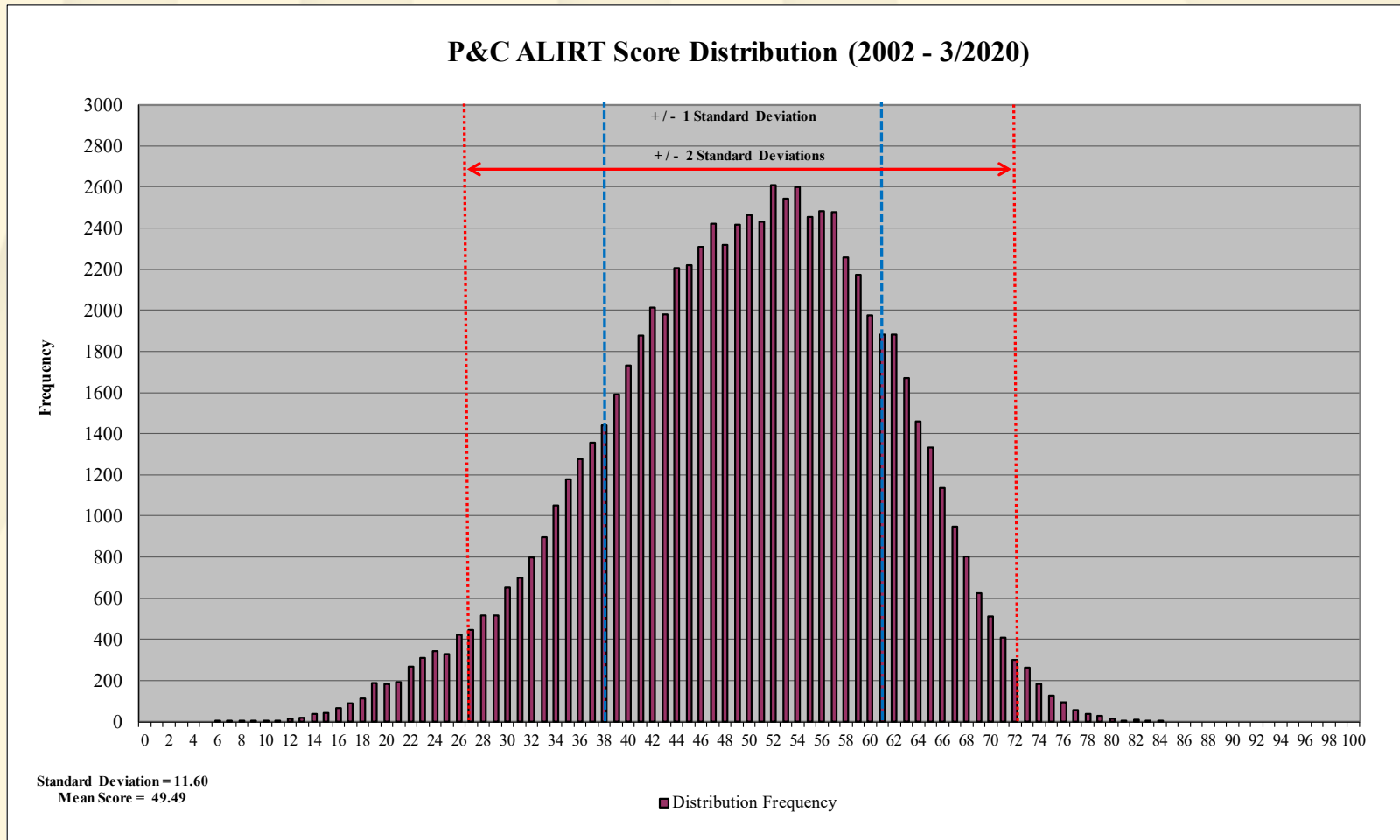
Sample ALIRT Analysis

ABC Property Casualty Insurance Company						Time Series = Five Years and Current Year Period						ALIRT																																																																																																																							
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Notes:
Every score is compared against an industry composite average.

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ABC Property Casualty Insurance Company																							
TIER 1 - OPERATIONAL RISK																							
◆ CAPITALIZATION AND LEVERAGE						■ UNDERWRITING PROFITABILITY AND EARNINGS						▲ REINSURANCE						UNAFFLATED COS. ONLY					
YEAR	TOTAL SURPLUS (\$ MNS)	5 YR SURPLUS GROWTH	RISK BASED-CAPITAL RATIO	SURPLUS STABILITY TEST	GROSS PREMIUM LEVERAGE	NET PREMIUM LEVERAGE	LOSS RATIO	EXPENSE RATIO	COMBINED RATIO	ACC. YEAR COMBINED RATIO	OPERATING RATIO	PRE-TAX RETURN ON EARNED PREMIUM	BUSINESS DIVERSIFICATION	UNAFFLATED COS. ONLY RECOVER / OF GROSS SURPLUS	NET P&C AS % OF GROSS PREMIUMS								
2002	5,116	-5%	169%	52.3%	1.73	1.38	76%	28%	105%	109%	59%	33.2%	2.5	156%	16%								
2003	6,046	2%	146%	58.1%	1.77	1.22	117%	31%	149%	109%	123%	-37.7%	3.0	169%	30%								
2004	6,815	2%	170%	53.0%	1.35	1.03	78%	27%	106%	102%	89%	5.2%	3.0	143%	15%								
2005	6,743	6%	165%	60.6%	1.31	1.00	94%	29%	124%	107%	92%	5.2%	3.5	113%	13%								
2006	7,939	69%	156%	54.7%	1.11	0.80	81%	28%	109%	106%	83%	13.3%	3.0	75%	11%								
9/2007	8,246	63%	N/A	53.1%	1.06	0.79	82%	29%	111%	104%	78%	19.3%	N/A	N/A	N/A								
COMPL LINES COMP.	1,235	113%	241%	19.2%	1.21	0.61	64%	27%	82%	92%	75%	22.8%	2.0	37%	9%								
TIER 1 - OPERATIONAL RISK (continued)												TIER 2 - INVESTMENT RISK											
● RESERVES						◆ REVENUE VITALITY AND LIQUIDITY						INVESTMENT RISKS						INVESTMENT PERFORMANCE					
YEAR	COMPL LINES	# OF YRS OF RESERVES/ LAST 5 WITH TOTAL RESERVE	ONE YEAR RESERVE DEVELOP	OPERATING CASH FLOW RATIO	UNDERWRIT. CASH FLOW RATIO	ANNUAL % CHANGE EARNED PREMIUMS	TOTAL LIQUIDITY	UNAFFL STOCKS/ SURPLUS	AFFL INVEST/ SURPLUS	NON-RV GRADE BONDS/ SURPLUS	CMO'S/ OTHER ABS/ SURPLUS	WEIGHTED TRADE BONDS ON BONDS	GROSS YIELD ON INVEST	NET YIELD ON INVEST	TOTAL RETURN ON ASSETS								
2002	79.4%	1	-4.1%	235.1%	159.2%	98.4%	91%	11%	49%	38%	81%	11.61	5.8%	14.41%	3.14%								
2003	83.4%	1	38.6%	120.3%	101.4%	2.5%	95%	7%	52%	21%	94%	12.58	5.3%	6.26%	6.50%								
2004	81.6%	1	3.7%	118.4%	105.9%	12.1%	96%	6%	58%	24%	86%	11.55	5.24%	4.02%	8.24%								
2005	81.4%	1	15.3%	171.2%	133.5%	-6.5%	79%	10%	49%	29%	167%	15.20	4.89%	6.71%	5.64%								
2006	82.6%	1	2.4%	152.0%	121.7%	-2.1%	82%	25%	50%	31%	149%	12.95	5.58%	5.06%	7.01%								
9/2007	N/A	0	5.0%	133.8%	100.4%	-3.2%	N/A	30%	46%	36%	N/A	N/A	N/A	5.68%	4.62%								
COMPL LINES COMP.	81.2%	0	-0.4%	141.2%	114.5%	1.8%	144%	30%	51%	4%	34%	7.64	4.31%	4.40%	7.02%								
TIER 3 - FINANCIAL RISK - HOLDING COMPANY ANALYSIS																							
STRATEGIC VALUE						FINANCIAL FLEXIBILITY & LIQUIDITY						LEVERAGE, COVERAGE, AND PROFITABILITY						TIER 4 - SIZE & RATINGS					
STATUTORY INS. CO. AS A % OF TOTAL ORGANIZATION						ANNUAL % CHANGE IN REVENUE						ANNUAL % CHANGE IN DEBT/ EQUITY RATIO						IN 9 MNS.					
YEAR	ASSETS	SURPLUS	TOTAL REVENUE (\$ MNS)	ANNUAL % CHANGE IN REVENUE	OPERATING CASH FLOW REVENUE	STOCK MARKET VAL/ BOOK VAL	LIQUID ASSETS AS % OF TOTAL ASSETS	DEBT/ EQUITY RATIO	PRE-TAX EARNINGS	INTEREST COVERAGE	PRE-TAX OPERATING ROE	NET P&C WRITTEN	NET P&C EARNED	TOTAL ASSETS	WEIGHTED COMPOSITE RATINGS								
2002	41.0%	54.4%	12,298	-6.9%	8.5%	60.0%	57.0%	24.4%	N/A	1.9	3.8%	7,073	5,783	25,312	A+								
2003	50.5%	67.6%	11,716	-4.6%	15.0%	60.2%	56.1%	21.3%	N/A	-17.3	-25.6%	7,403	5,929	34,559	A+								
2004	54.7%	74.0%	9,930	-15.2%	16.2%	74.4%	60.2%	24.5%	N/A	3.3	5.5%	7,028	6,645	34,212	A+								
2005	61.1%	75.3%	9,862	-0.7%	22.0%	53.6%	64.5%	18.9%	-67%	1.1	1.8%	6,753	6,212	35,913	A+								
2006	63.4%	81.3%	10,376	5.2%	21.7%	112.0%	69.7%	22.1%	88%	9.1	17.1%	6,889	6,079	38,188	A+								
9/2007	67.2%	81.5%	9,960	-4.0%	9.5%	106.6%	69.2%	21.3%	-16%	7.2	13.6%	6,537	5,697	40,375	A+								
COMPL LINES COMP.	5.3%	24.2%	4,439	1.9%	20.0%	123.4%	59.0%	23.0%	7%	10.2	22.3%	896	845	3,625	AA-								

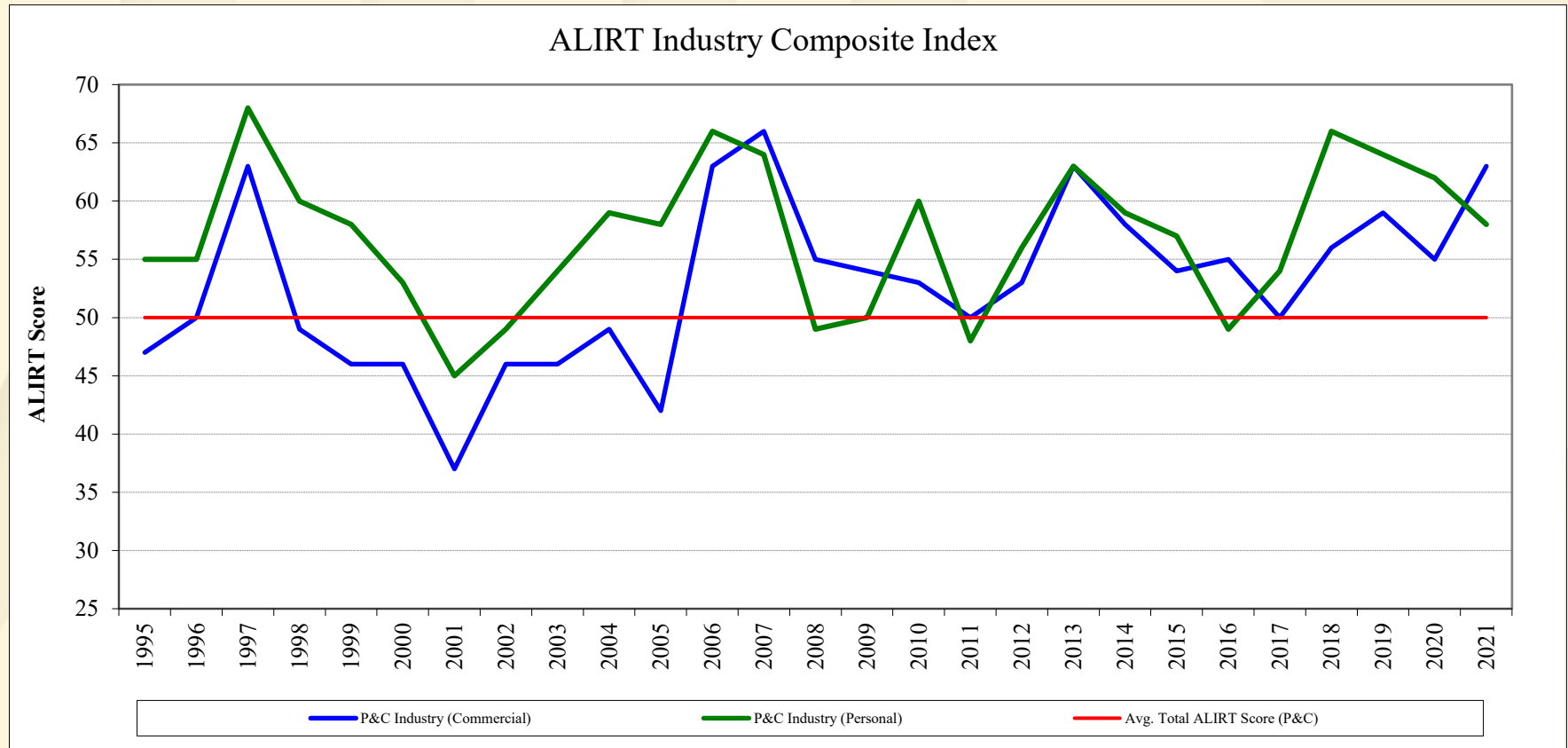
Program Insurers – Historical Distribution of Scores



Key Takeaways:

The normal range of ALIRT Scores is very steady over time and serves as a statistically valid benchmark for individual company performance. Insurance companies whose scores fall into the low 30's (or below) traditionally face some remedial action, which can include insolvency.

Industry Results: ALIRT Composite



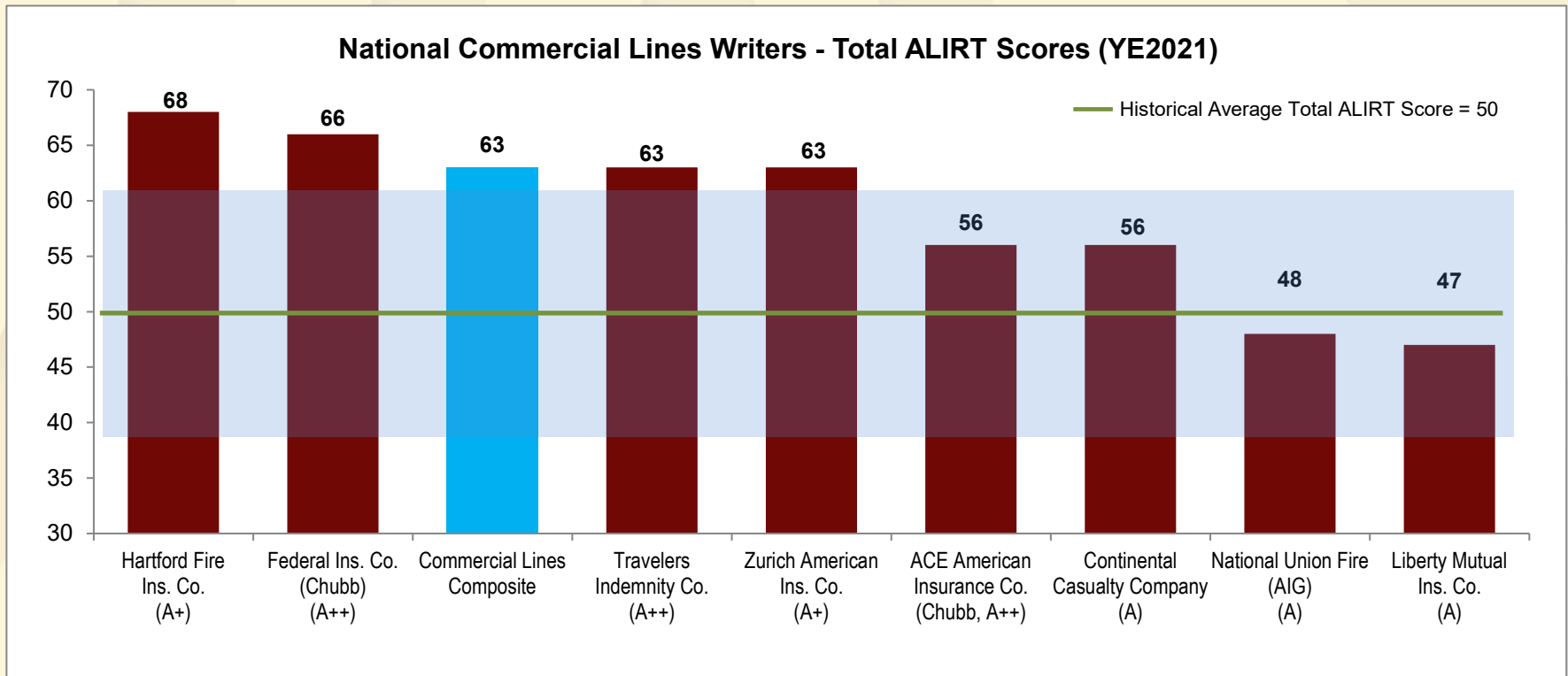
Key Takeaways:

The U.S. P&C Industry came into the current crisis with a relatively strong financial profile.

The recession of 2000-2001 coincided with the end of a deep and protracted soft market.

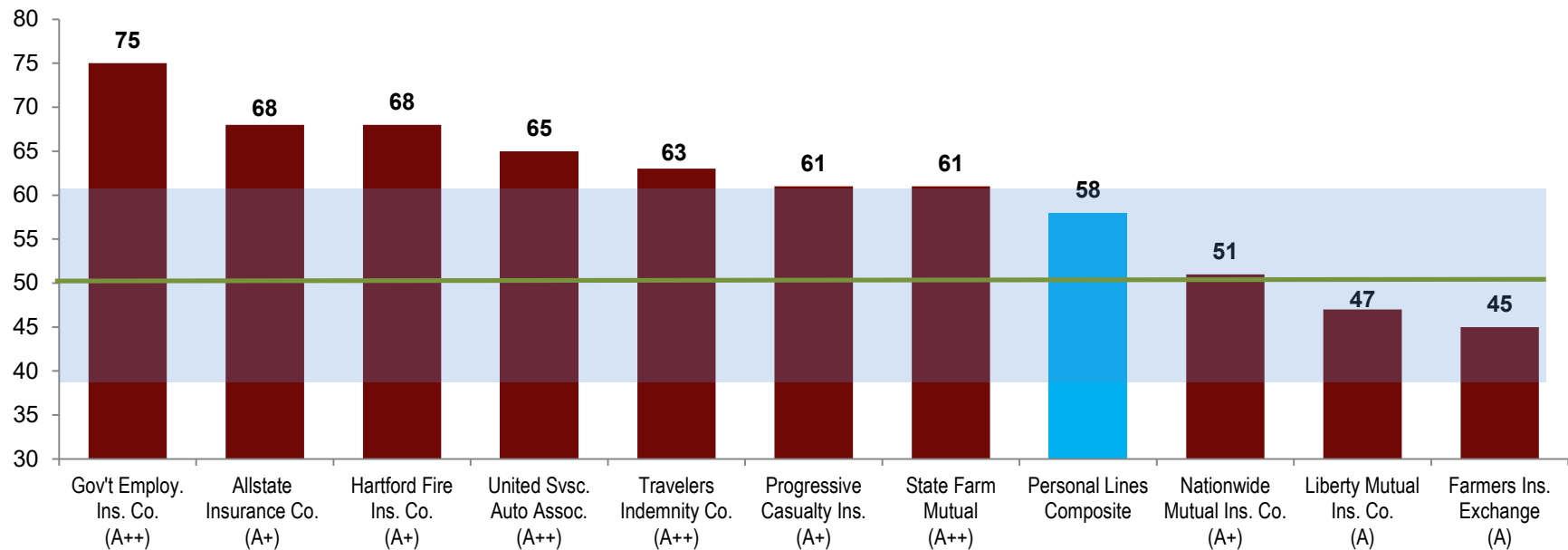
Neither the 2008-2009 Great Recession nor the 2020-2021 Pandemic severely impact the P&C Industry as they did not coincide with the fall-out from a soft market cycle.

2021 ALIRT Scores – National Insurers

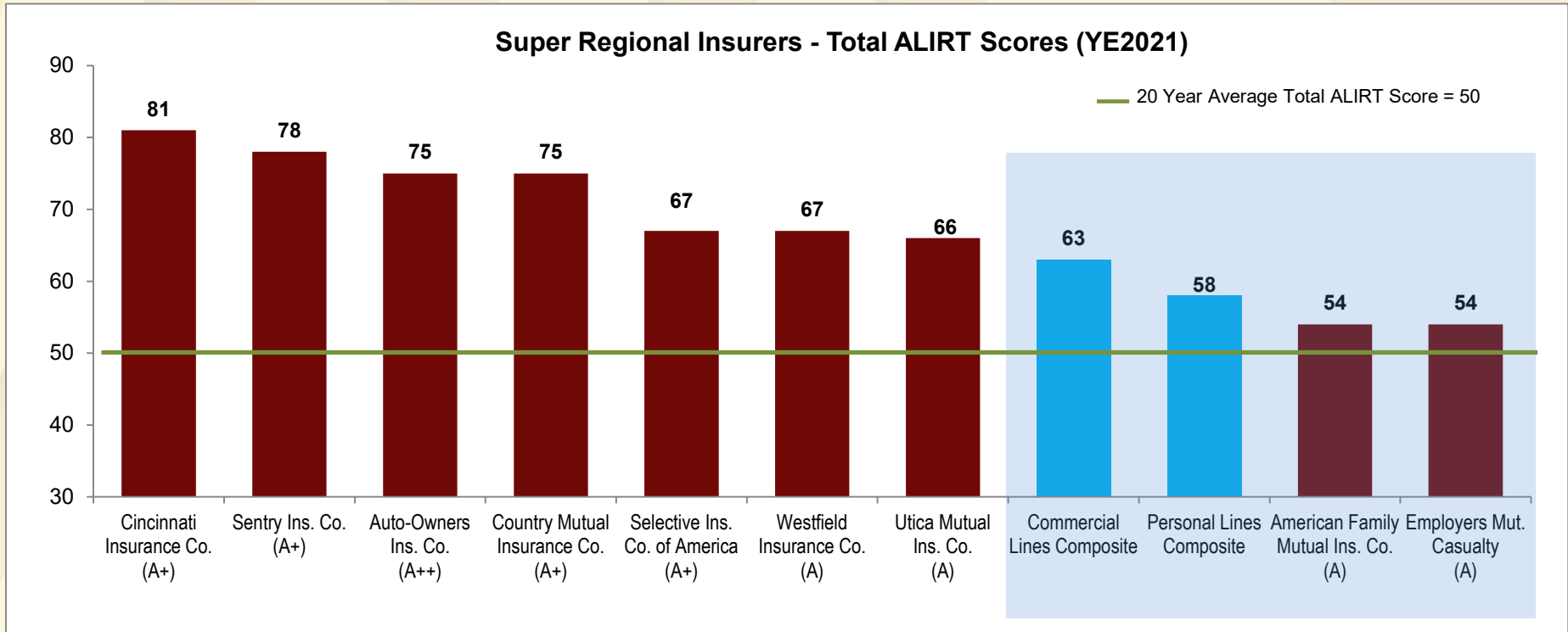


2021 ALIRT Scores – Personal Lines Insurers

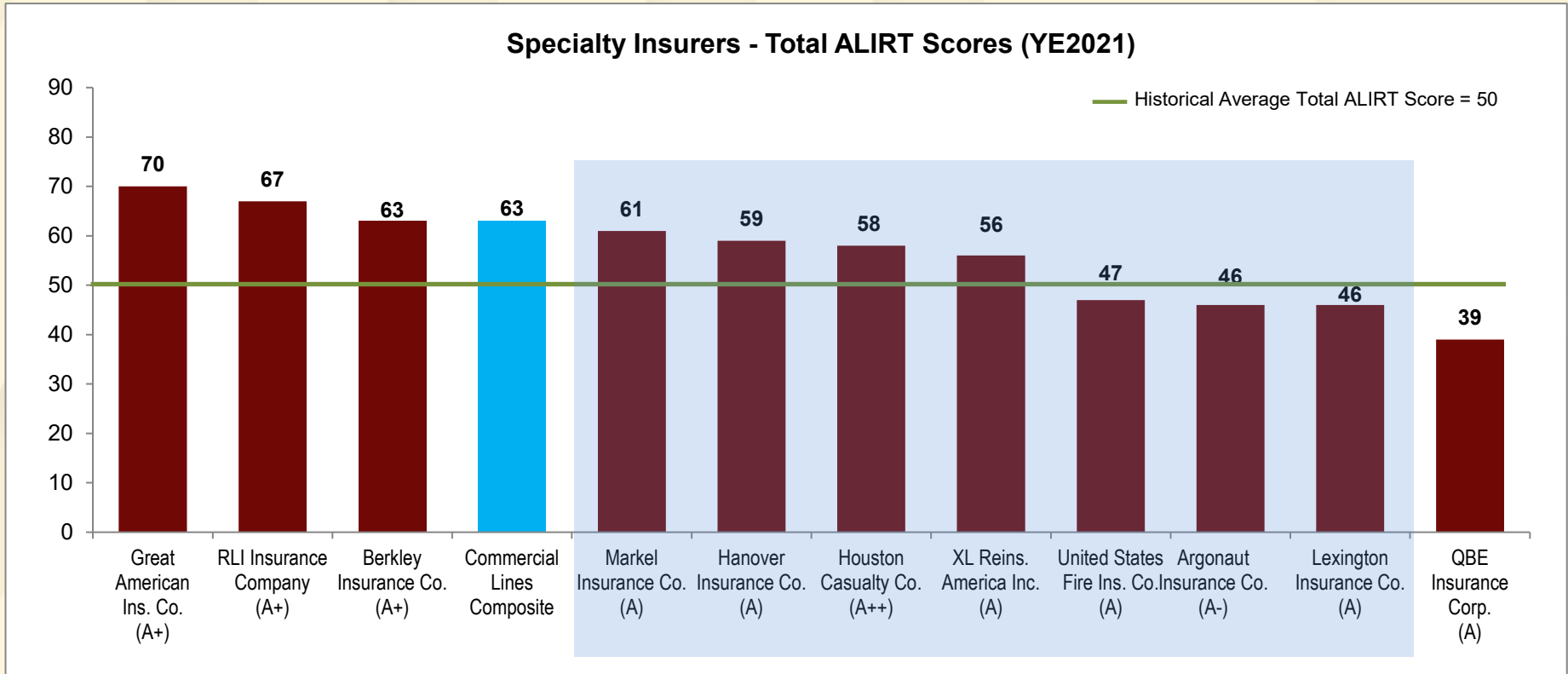
National Personal Lines Writers - Total ALIRT Scores (YE2021)



2021 ALIRT Scores – Super Regional Insurers



2021 ALIRT Scores – Specialty Insurers

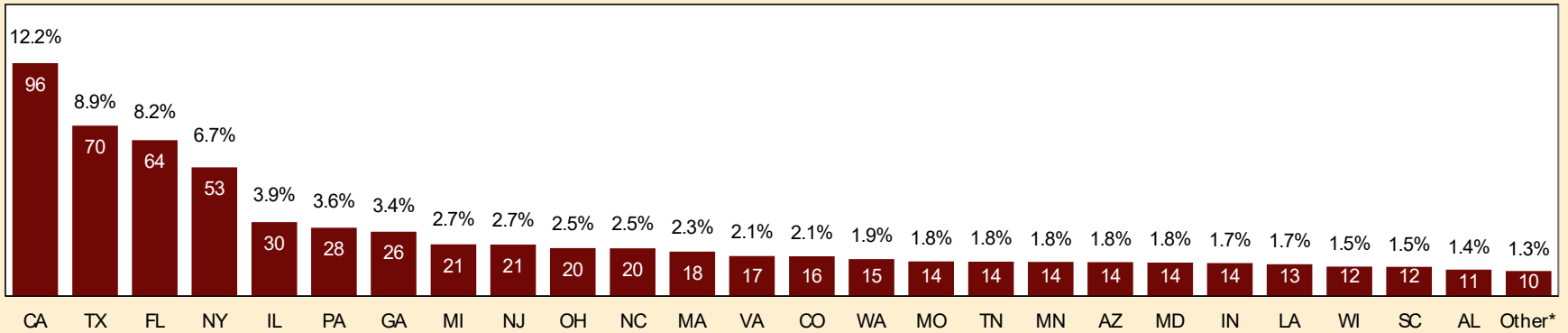


Regional U.S. P&C Market – Talking Points

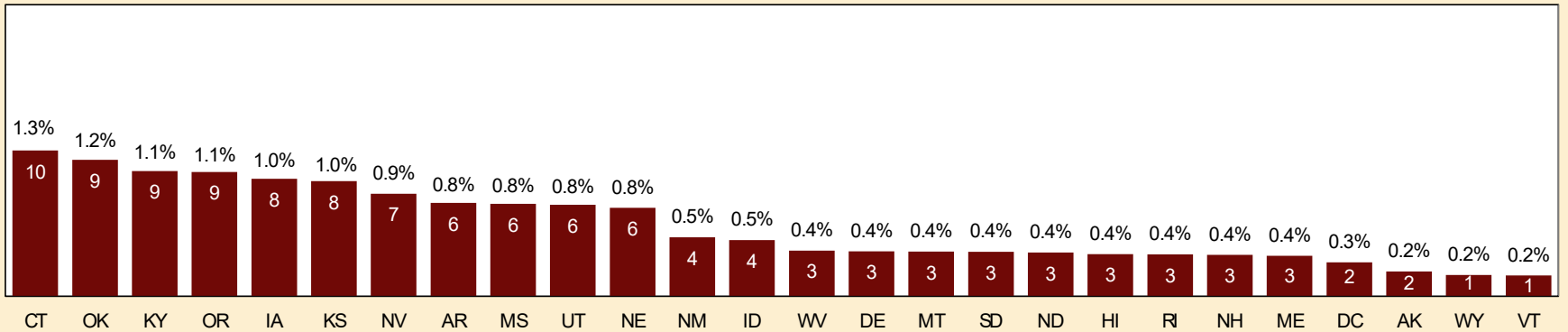
- We have divided the country up into 6 regions: Northeast, MidAtlantic, Southeast, Midwest, Southwest, and Northwest.
- The leading regions, as regards DPW, are the southwest, which includes both California and Texas, and the Southeast (FL, GA) and Midwest (IL, MI).
- The following companies are the leading (super) regional insurers, as regards direct writing premium. We exclude the national carriers (both commercial and personal lines), as well as specialty insurers (including workers comp funds).
- These insurers largely underwrite personal lines insurance, with the larger (super) regionals also providing commercial auto, CMP, and workers compensation, as well as smaller amounts of liability and other coverages.
- As regards financial strength, a number of the (super) regionals have ALIRT Scores approaching a second standard deviation from the historical average of 50, representing underwriting and operating excellence and strong capitalization.
- Many of these insurers have scored in such a way for many years, reflecting in part the “plain vanilla” lines of business written as well as strong relationships with independent agency networks.

U.S. P&C Market – By State Breakout (2021 DWP)

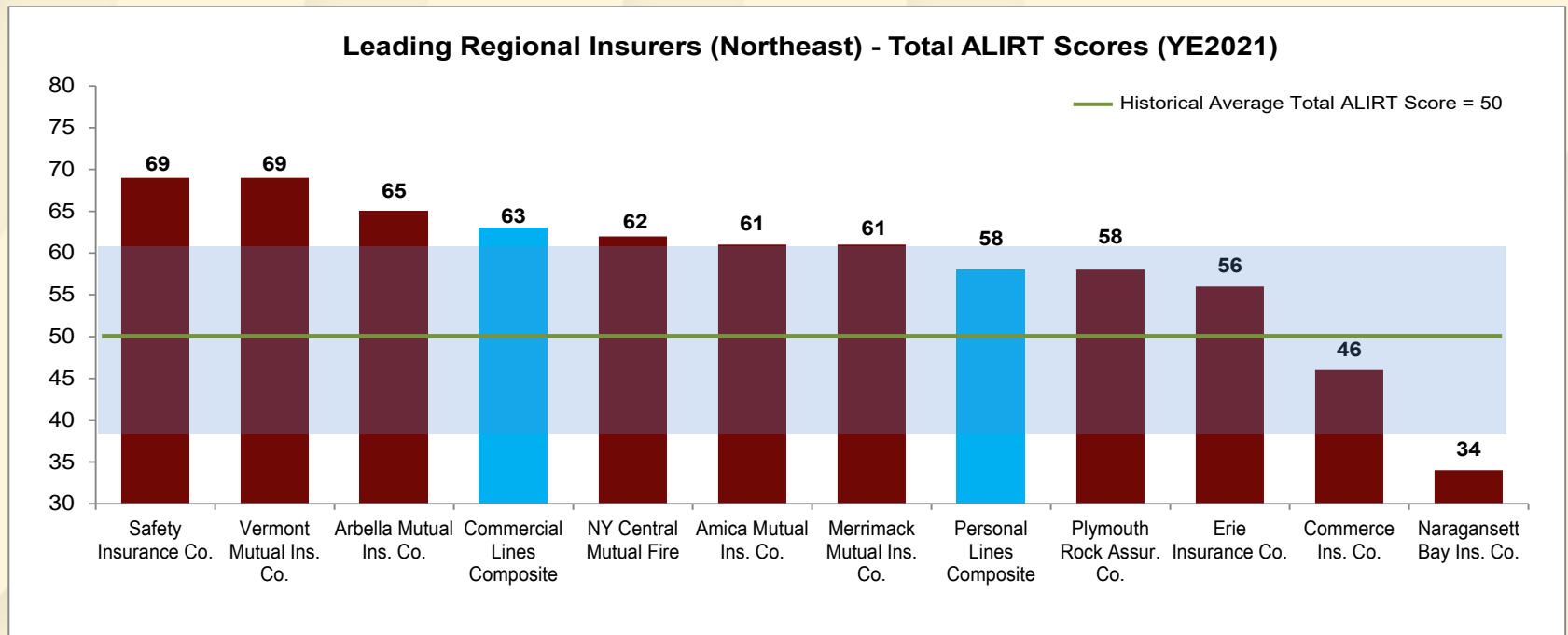
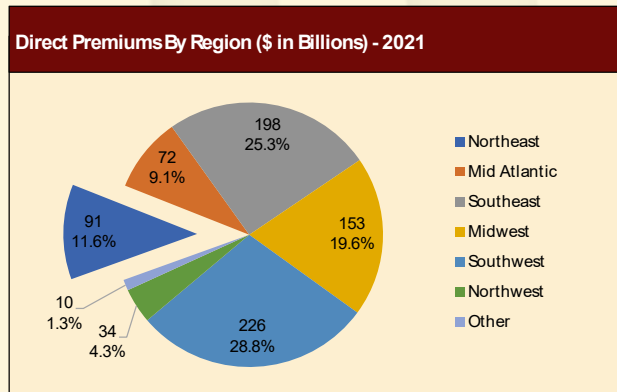
Percentage of U.S. Industry Direct Premiums Written in each State (\$ in Billions)



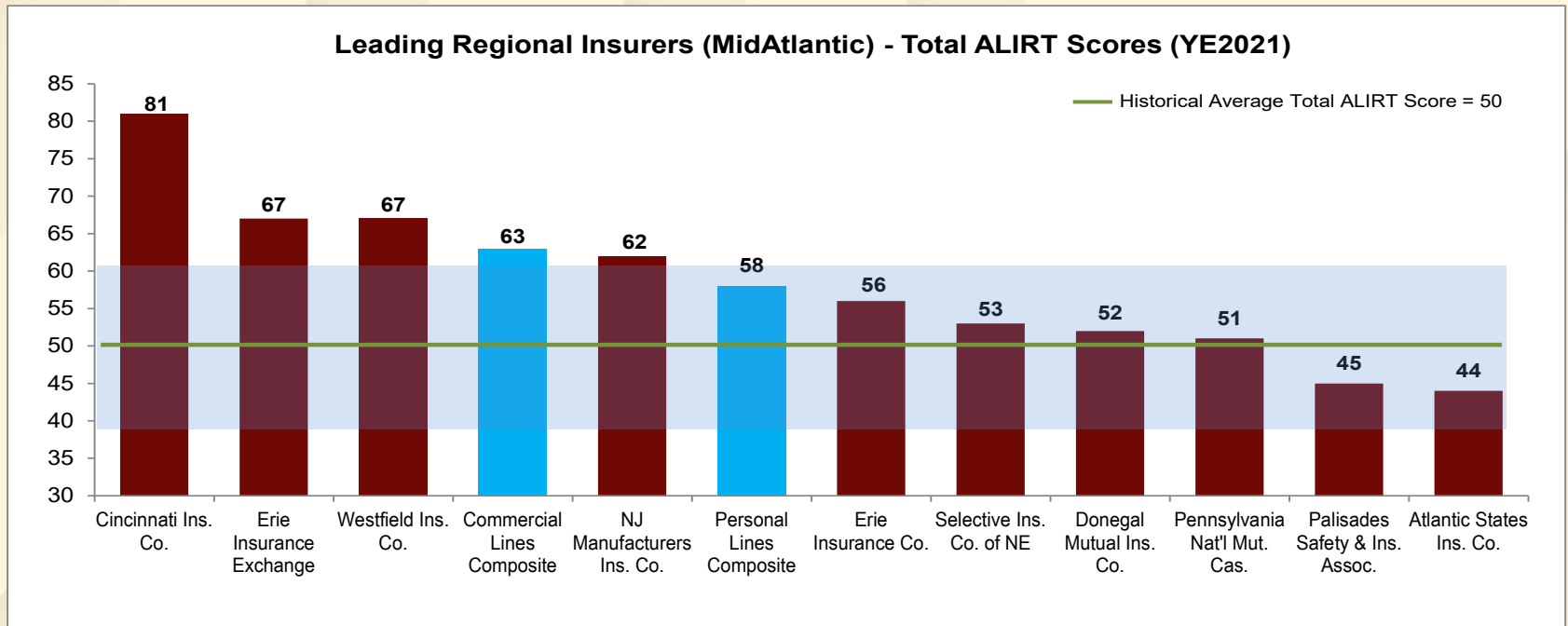
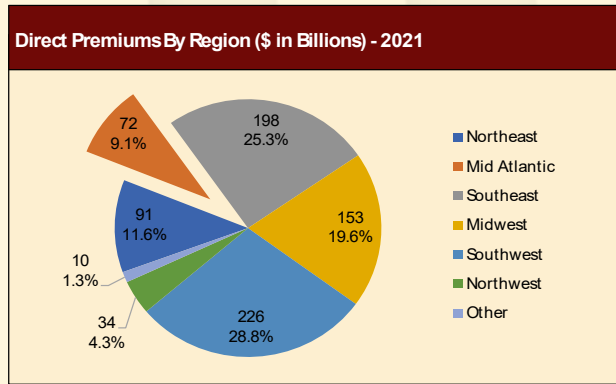
Percentage of U.S. Industry Direct Premiums Written in each State (\$ in Billions)



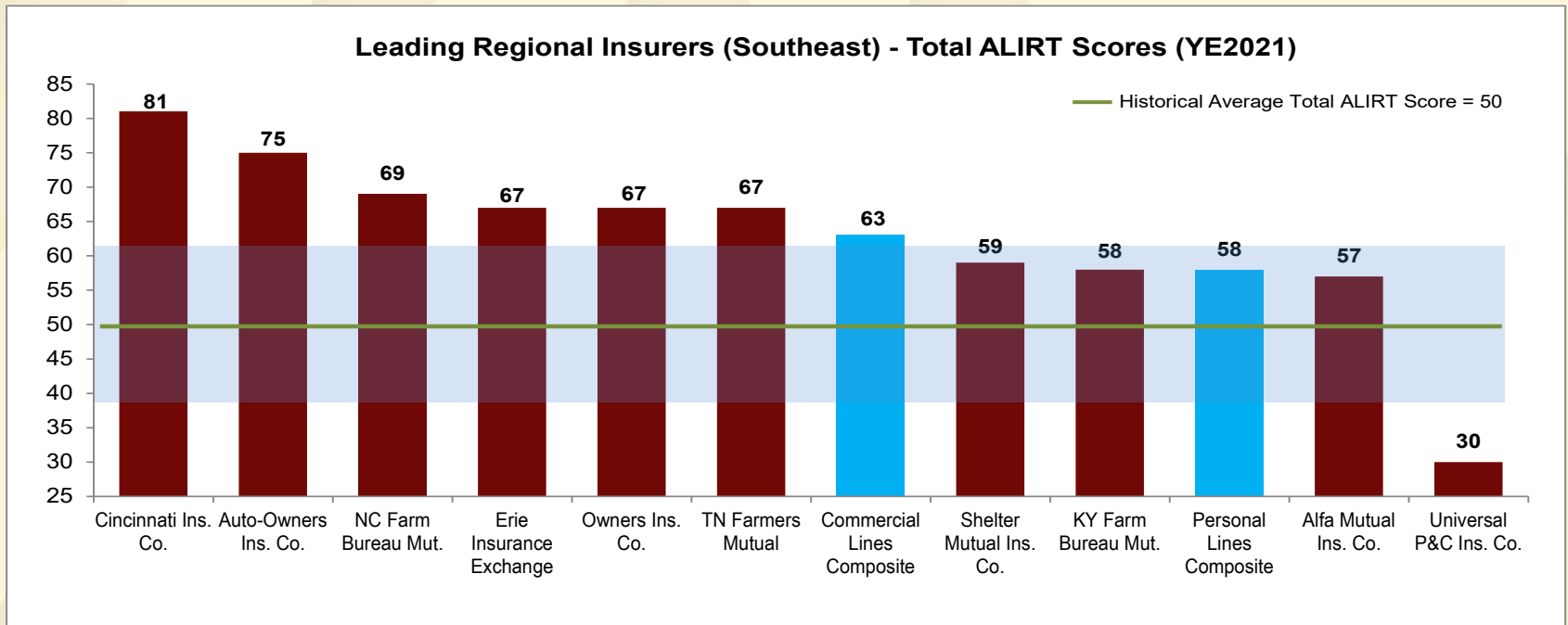
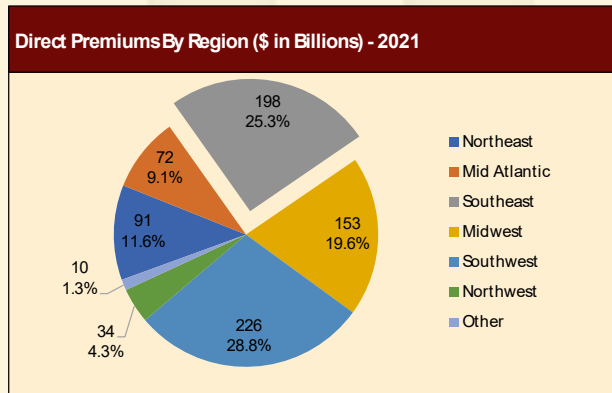
U.S. P&C Market – Northeast Region



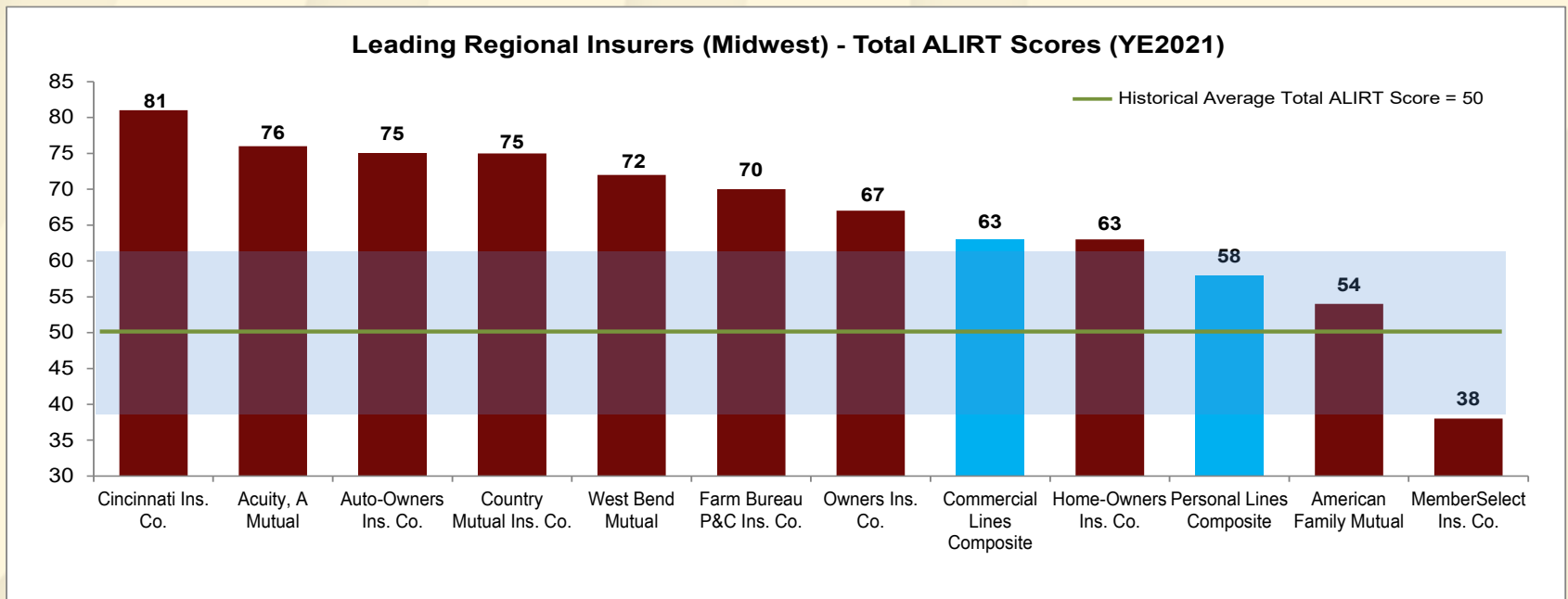
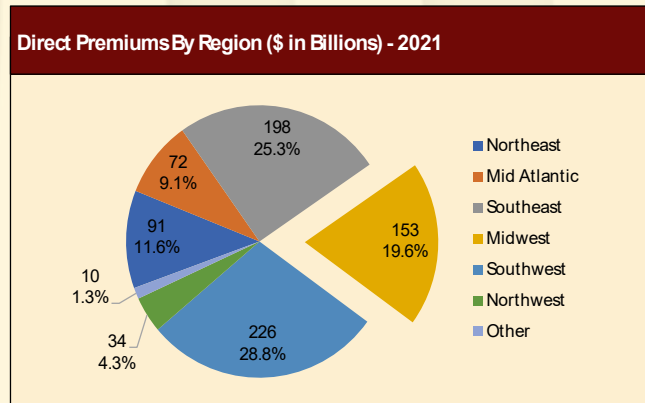
U.S. P&C Market – MidAtlantic Region



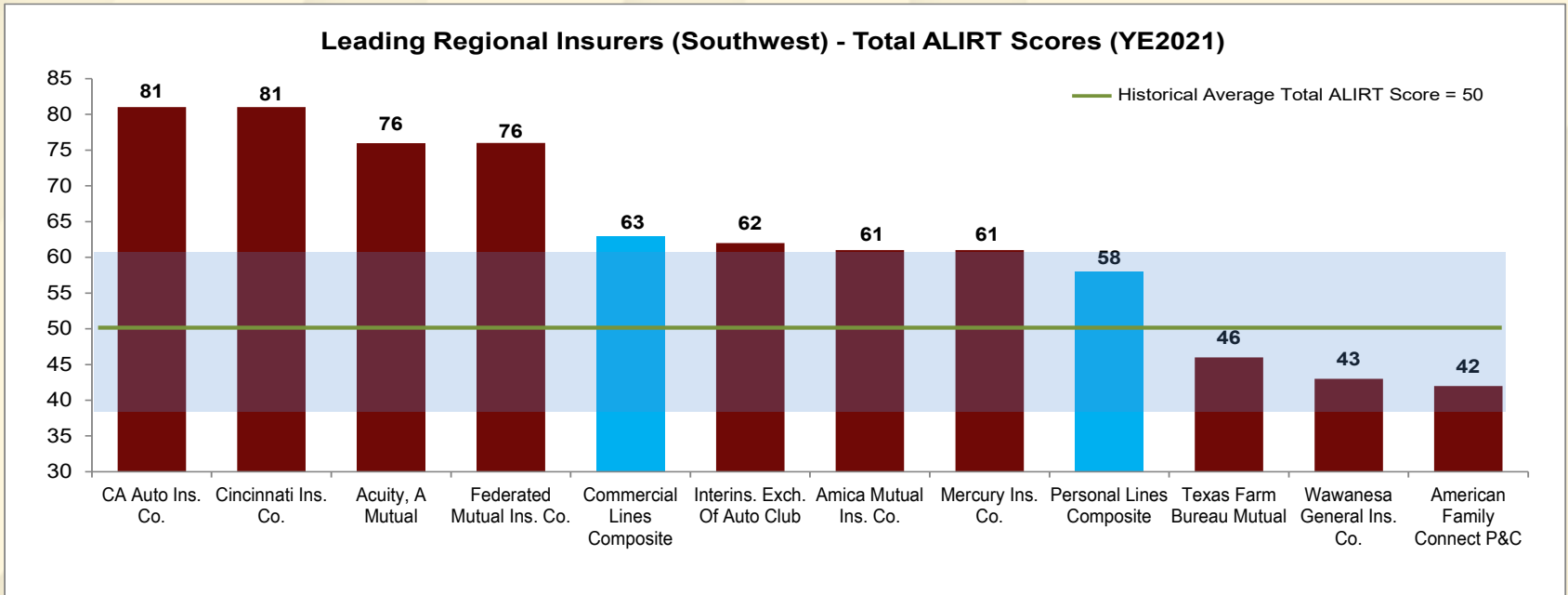
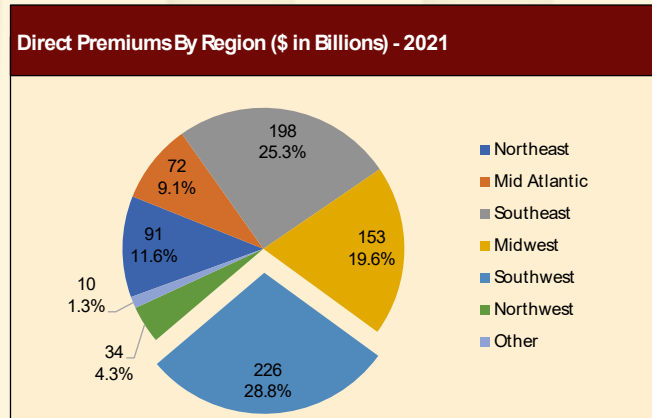
U.S. P&C Market – Southeast Region



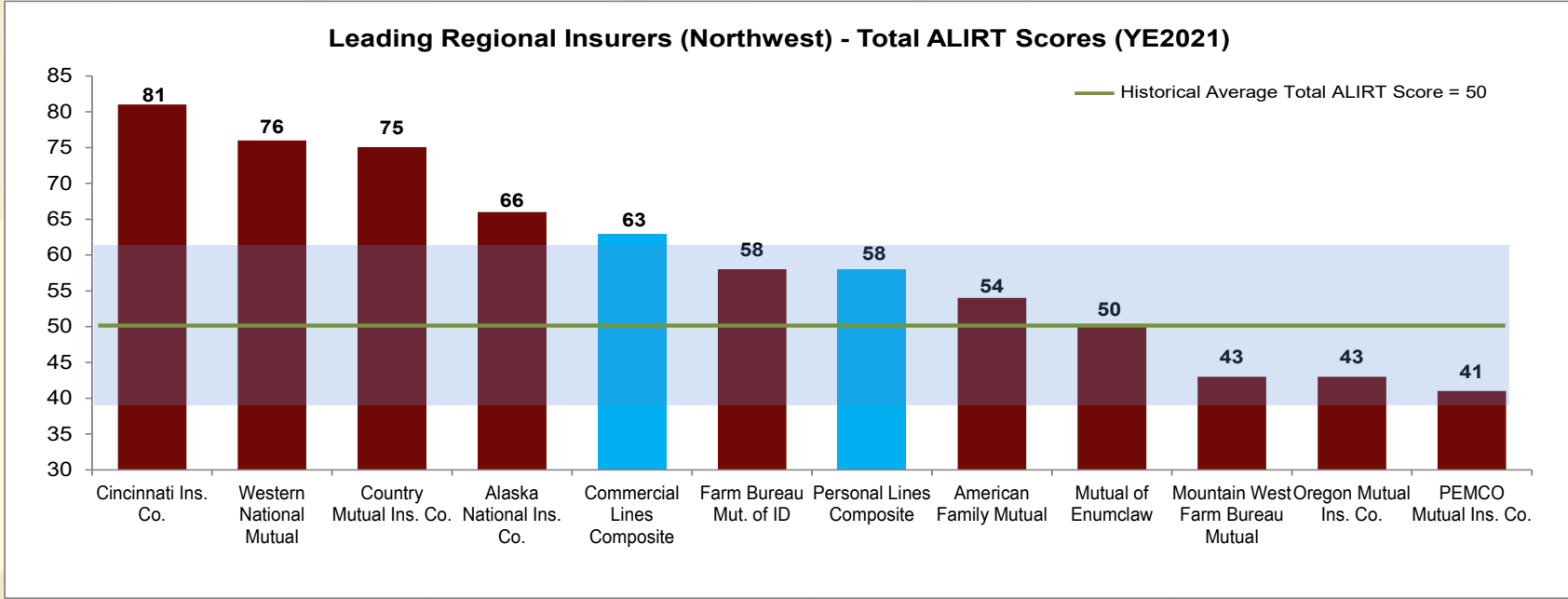
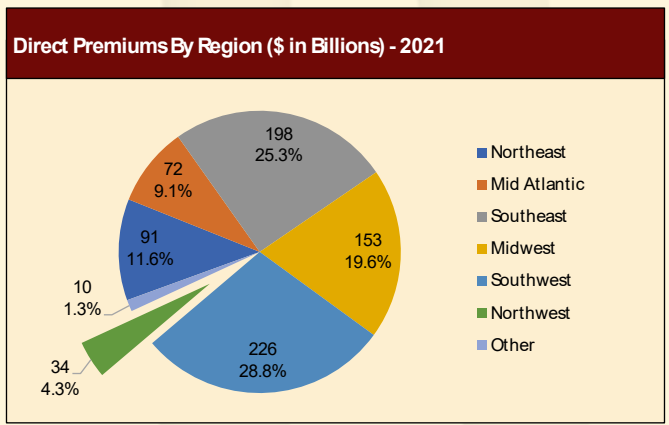
U.S. P&C Market – Midwest Region



U.S. P&C Market – Southwest Region



U.S. P&C Market – Northwest Region

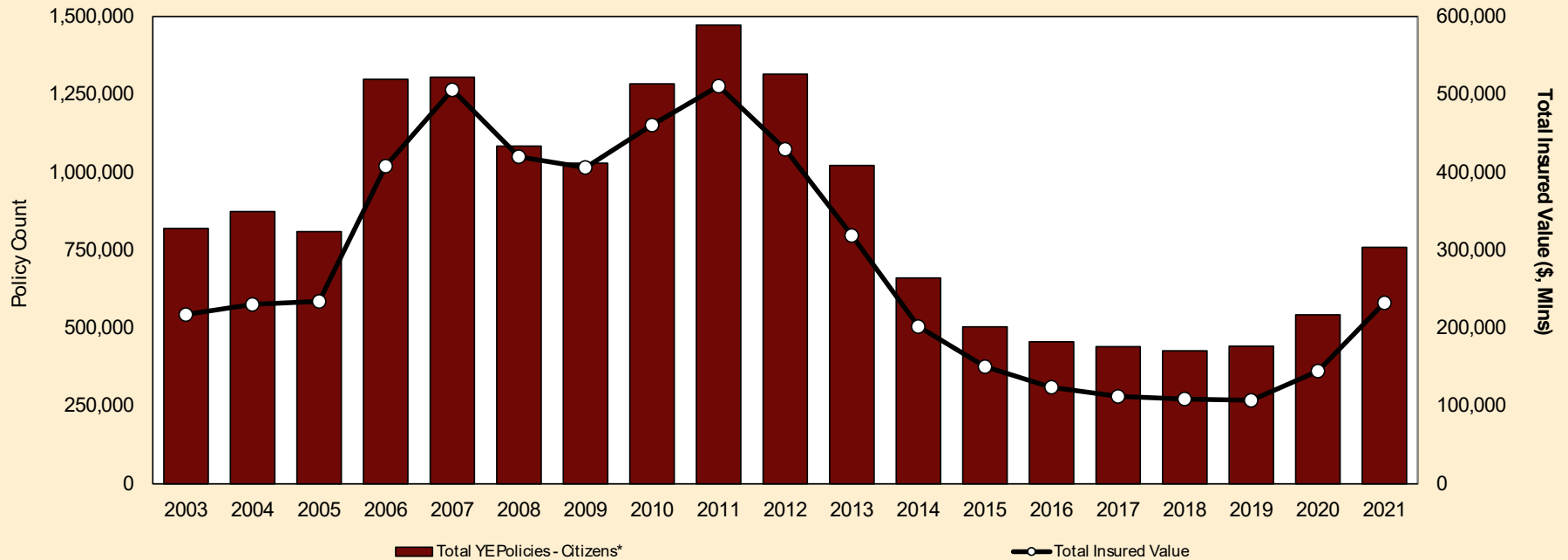


Florida Homeowners Market – Talking Points

- The Florida residential homeowners market is arguably the most difficult one in the U.S. This is due to the following:
 - State government controlled rates = no pricing for actual risk
 - Large residual market offering easy access to large premium volume
 - Sizeable windstorm exposure
 - Sinkhole losses
 - Assignment of Benefit issues – powerful plaintiff bar
- In the past 15 years, 22 out of 79 Florida Domestic Insurers (FDIs) have become insolvent (including 3 over the past year). ***This is nearly 30% of the total.***
- In addition, 15 FDIs have merged into peer companies.
- Eight FDIs have suspended business or non-renewed large blocks of policies in the past year. Even surplus lines carriers are starting to exit market.
- 25 of current 36 Florida Domestic Insurers have scores in ALIRT’s “red” zone.
- The can has been kicked down the road for the past 30 years (since Andrew in 2002); Florida is running out of road.

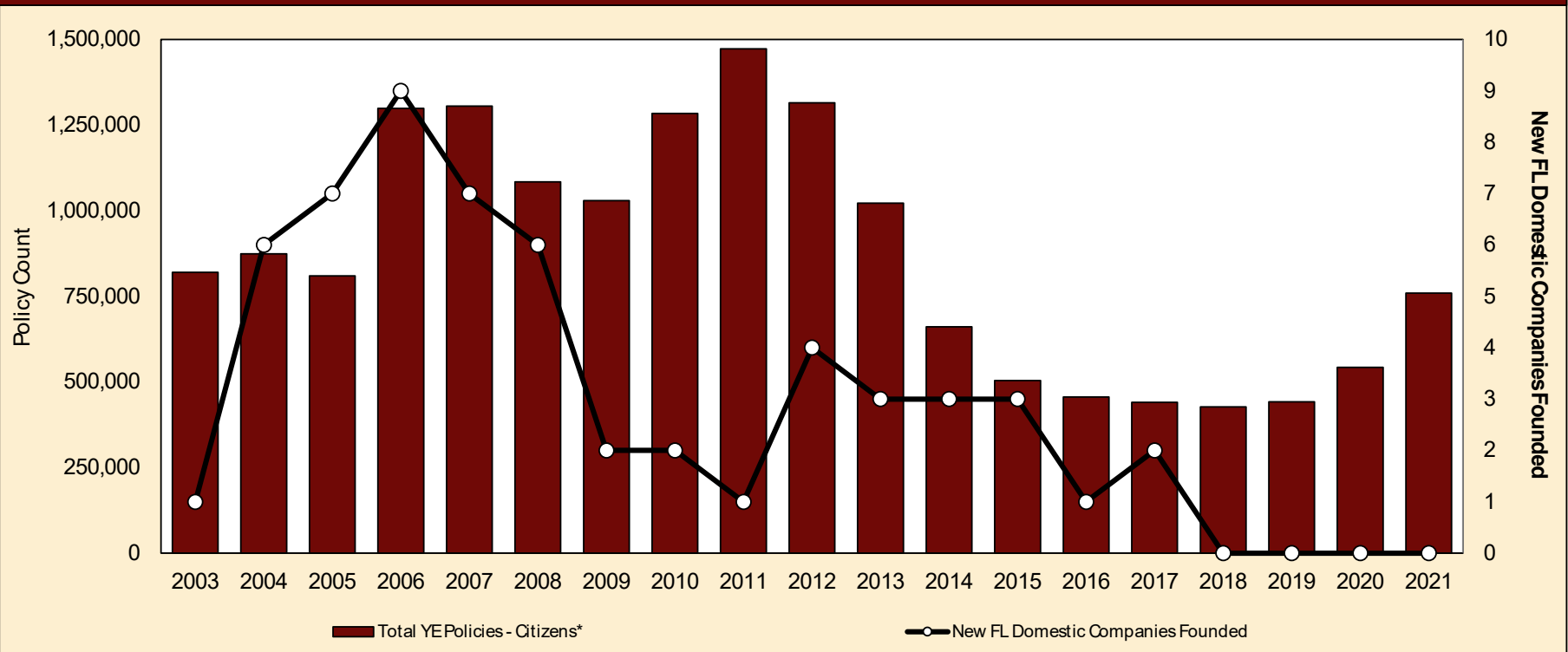
Florida Homeowners Market – Growth of Citizens

Combined Accounts - Inforce Policy Counts vs. Total Insured Value (\$, MIns)



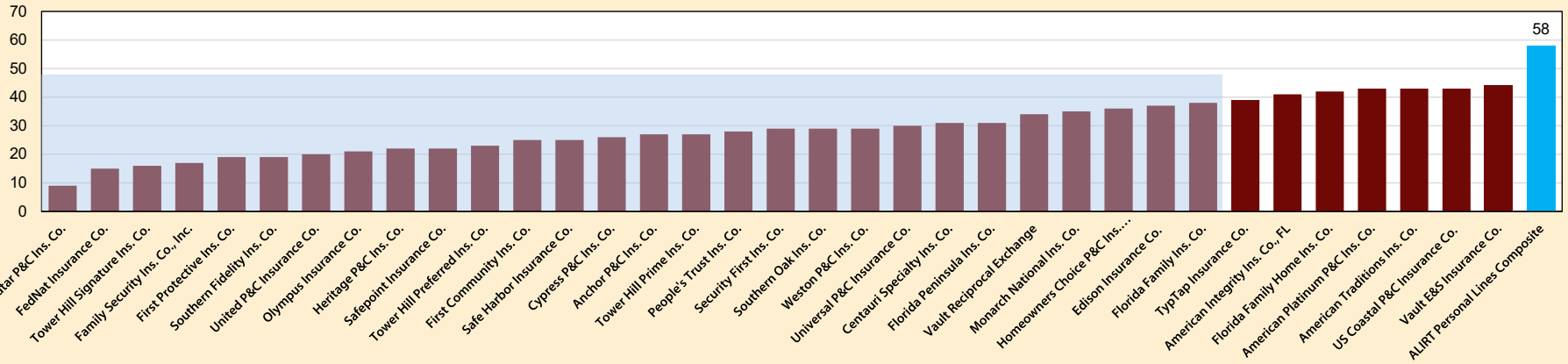
Florida Homeowners Market – New Domestic Insurers

Combined Accounts - New FL Domestic Companies Founded vs. Inforce Policy Counts



Florida Domestic Insurers – 2021 ALIRT Scores

Small Florida Domestic Insurers - 2021 ALIRT Score



U.S. InsurTech Carriers (P&C) – Talking Points

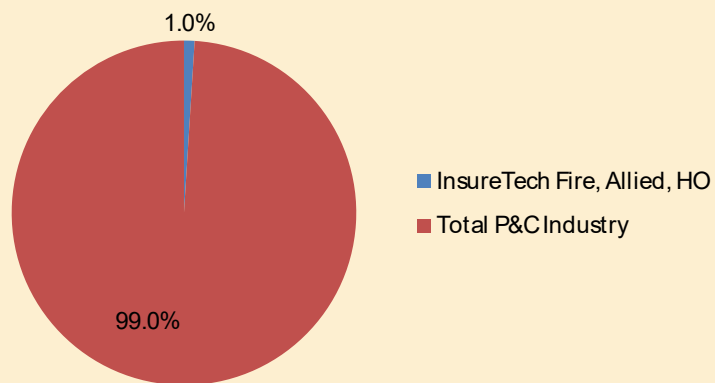
- The growth of U.S. InsurTech (P&C) “full stack” insurance groups is a relatively recent phenomenon. There have been 13 such groups established since 2015, though most have only owned insurers for the past several years.
- Almost all the insurers remain unrated by A.M. Best. Only Spinnaker (now owned by Hippo) and Next Insurance currently carry Best ratings, both at A-.
- Most of the older U.S. InsurTech (P&C) groups (“Class of 2015-2016”) became publicly traded companies over the last two years. These include Hippo, Lemonade, Metromile, and Root. We note that Lemonade plans to acquire Metromile in 2022.
- The insurer subsidiaries of these InsurTech companies represent only a fraction of U.S. direct premium written = approximately .04% in 2021, with approximately 50% written in the homeowners line and 42% written in personal auto.
- Profitability has been problematic for these insurers thus far, with start-up and acquisition costs (including advertising) together with underwriting miscalculations contributing. We note that of the group, only Spinnaker has been able to consistently post underwriting profits.
- The future viability of these U.S. InsurTech groups remains in question. Additional surplus support will likely be needed and acquisition of some by established insurance groups is possible.

U.S. InsurTech Carriers (P&C)

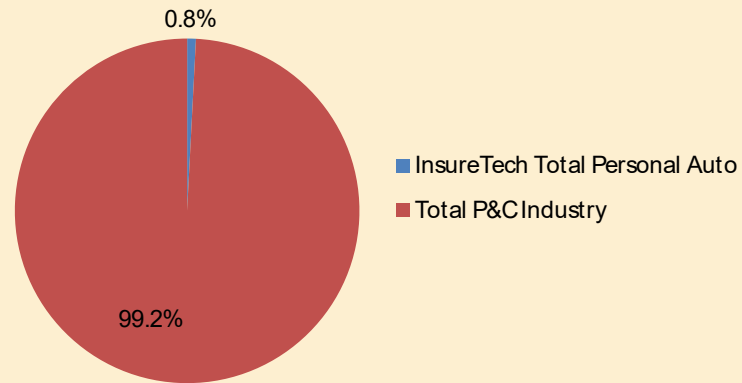
PC Insurtech Insurers (ALIRT Research Peer Group)						
NAIC Code	Company	Year Business Incepted	Year Acquired	Parent	Year Parent Founded	Ownership Type
16825	Branch Insurance Exchange	2020		Branch Financial, Inc.	2017	Reciprocal
38237	American Country Insurance Co.	1978	5/2021	Buckle Corporation	2019	Private
42897	American Service Insurance Co.	1983	5/2021	Buckle Corporation	2019	Private
28339	Gateway Insurance Co.	1986	4/2020	Buckle Corporation	2019	Private
16524	Clearcover Insurance Company	2019		Clearcover, Inc.	2018	Private
24376	Spinnaker Insurance Co.	1986	9/2020	Hippo Holdings Inc.	2015	Public - 8/'21
17045	Spinnaker Specialty Insurance Co.	2021		Hippo Holdings Inc.	2015	Public - 8/'21
16603	Kin Interinsurance Network	2019		Kin Insurance, Inc.	2019	Reciprocal
33987	ADM Insurance Co.	1986	12/2021	Kin Insurance, Inc.	2019	Private
16023	Lemonade Insurance Company	2015		Lemonade, Inc.	2015	Public - 7/'20
16187	Metromile Insurance Company	1971	8/2016	Metromile, Inc.	2016	Public - 2/'21
16285	Next Insurance U.S. Company	2017		Next Insurance, Inc.	2016	Private
10997	Pie Casualty Insurance Company	1998	9/2021	Pie Group Holdings, Inc	2017	Private
12536	Homeowners of America Insurance Co.	2006	4/2021	Porch Group, Inc.	2011	Public - 12/'20
10974	Root Insurance Company	1998	10/2016	Root Inc.	2015	Public - 10/'20
24503	Root Property & Casualty Ins. Co.	1928	11/2020	Root Inc.	2015	Public - 10/'20
	Not Available	2022		Slide Ins. Holdings, Inc.	2022	Private
15885	TypTap Insurance Company	2015		HCI Group, Inc.	2006	Public
17048	Vouch Insurance Company	2021		Vouch, Inc.	2019	Private - PE

U.S. InsurTech Carriers (P&C)

U.S. InsurTech Carriers (P&C)
Direct Premium as % of Industry Premium - 2021

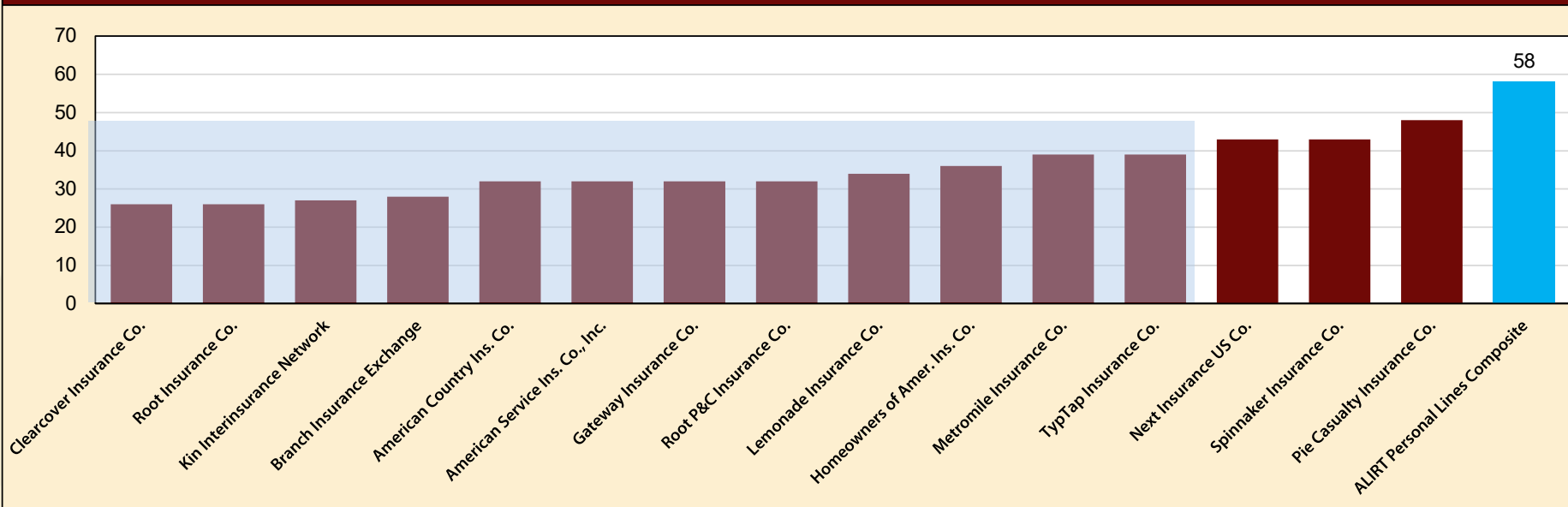


U.S. InsurTech Carriers (P&C)
Direct Premium as % of Industry Premium - 2021



U.S. InsurTech Carriers (P&C)

U.S. InsurTech Carriers (P&C) - 2021 ALIRT Score





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INSURANCE RESEARCH

ALIRT Research

State of the U.S. P&C Market (And Other Analytics)

Wednesday, April 27, 2022

*Presented by:
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Principal, ALIRT Insurance Research*

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