THE MUTUAL FACTOR

2023 MIDYEAR UPDATE

2023

NAMIC®
NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES

AON

REVISITING THE 2022 MUTUAL FACTOR REPORT

2022 marked the fifth anniversary of the publication of NAMIC's Mutual Factor report, delivering unique insights and perspectives on the mutual property/casualty insurance industry. As in previous years, the report highlighted the strong performance and resiliency of the mutual insurance segment during a very volatile time in the market.

INDUSTRY RESULTS

At the time of its publishing, the 2022 Mutual Factor report included perspective on the first half of the year. The report sheds light on several key observations from that time period: (1) the broader market experienced significant property catastrophe activity driven by an active spring storm season, (2) carriers were faced with a challenging pricing market across multiple lines of business caused by inflationary pressures, and (3) the first half of the year closed one of the most volatile six-month periods in terms of investment market performance. In the face of those pressures, the mutual insurance segment continued to adeptly navigate the challenging market and play a vital role in serving their customer base and distribution partners.

ANNUAL SURVEY

Similar to prior editions, the 2022 Mutual Factor report provided yet another opportunity to explore the perspectives and insights of a stakeholder group that is critically important to the mutual insurance industry. With a view on the horizon, NAMIC set out to commission an informative study on the reinsurance market in anticipation of an upcoming challenging reinsurance renewal market for its members.

More specifically, the report focused on in-depth interviews with 24 executives from the reinsurance industry to learn how they perceived the challenges facing both their own industry along with mutual insurers.

REINSURER SURVEY FEEDBACK – CATASTROPHE LOSS ACTIVITY

The survey of market-leading reinsurers clearly outlined how the industry largely shared the belief that extreme weather events are becoming more frequent and more severe. Additionally, several experts shared that many of these events (e.g., derechos, wildfires) are underrepresented within catastrophe models the industry largely relies upon; the by-product being heightened uncertainty surrounding the extent of catastrophe risk taken on by (re)insurers. The confluence of the catastrophe severity and frequency dynamic over time has led to negative trends in reinsurers' earnings and underpinned an expected firming of the overall reinsurance market.

REINSURER SURVEY FEEDBACK – INFLATION AND THE ECONOMY

Similar to the catastrophe loss activity, the topic of economic inflation was a key item of conversation between NAMIC members and their reinsurance partners. By and large, the feeling of reinsurance leaders was that economic inflation was expected to be short-lived, but social inflation is a looming concern and considered a more insidious problem by reinsurers.

INAUGURAL MUTUAL FACTOR REPORT MIDYEAR UPDATE

NAMIC and Aon share in the desire and commitment to continue enhancing the value and visibility of the Mutual Factor report. For the first time, this midyear update is being published to provide members the opportunity to reflect on the close of the prior year, the challenges that remain for our industry, perspectives shared with the world's leading reinsurers, and opportunities that lie ahead for mutual insurers. This midyear report provides updates to various key topics addressed in the previous annual report.

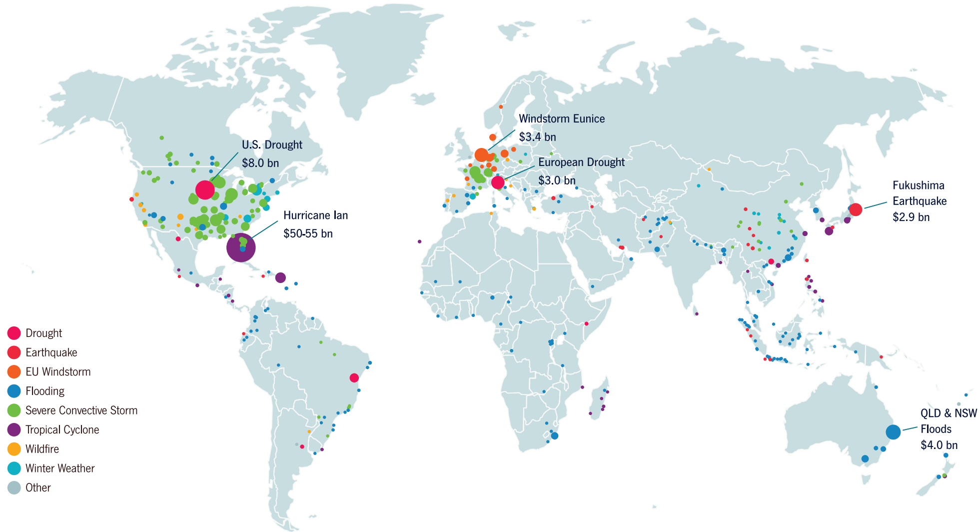
KEY TOPIC UPDATE: GLOBAL CATASTROPHE LOSS ACTIVITY

Contemplating broader, global catastrophe activity is useful in understanding trends impacting the overall insurance landscape. Investors providing capital that support the global (re)insurance market have a meaningful impact on the supply and demand dynamic that drives market trends, emphasizing the importance of being informed on global catastrophe activity.

GLOBAL CATASTROPHE LOSSES

Visualizing the geographic distribution of 2022 natural catastrophe events allows for distinguishing certain patterns including: higher frequency of medium-sized severe convective storm events in the U.S. and Europe, the prevalence of costly flooding events in Australia, and costly drought events across the globe.

Significant 2022 Insured Loss Events

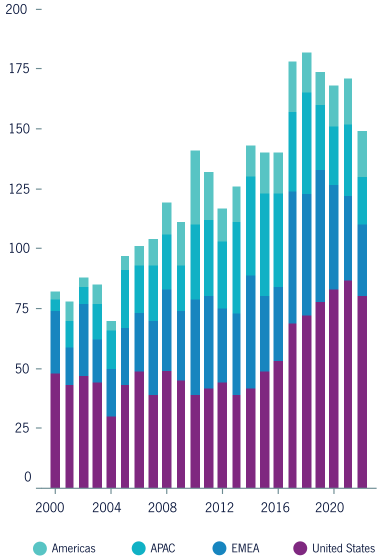


Data: Aon Catastrophe Insight

Fast forward several months since the end of the year, and global insured losses from natural disasters in 2022 are estimated at $132 billion, well above the short-, medium-, and long-term averages. Roughly 42 percent of direct aggregated economic losses were covered by public and private insurance entities, translating to a global protection gap of 58 percent. This statistic remains a critical consideration for the industry as it contemplates the opportunities that lie ahead and shines a light on the importance of continued investment in developing new products and sources of capital to fulfill this global demand.

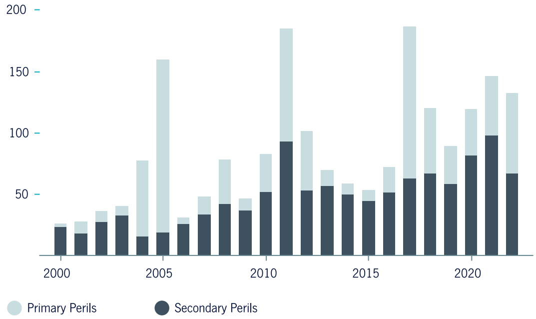
Various factors are causing a steady increase of global natural catastrophe events with meaningful insured loss. Global population expansion, significant GDP growth, and climate volatility are all contributing to the increase in observed natural catastrophe events. These items result in overall global (re)insurance market hesitations as companies identify these trends and use them to analyze potential future insured loss impact.

Global Events With Insured Loss of $25m+



Data: Aon Catastrophe Insight

Significant 2022 Insured Loss Events by Peril Category



Data: Aon Catastrophe Insight

Even though natural perils traditionally considered as primary or peak (tropical cyclone, earthquake, and European windstorm) resulted in the highest individual event losses this century, aggregated losses from the other types of disasters have already outpaced their cumulative costs. One of the factors driving this shift is the consistent increase of severe convective storm losses that continue to garner attention across the industry.

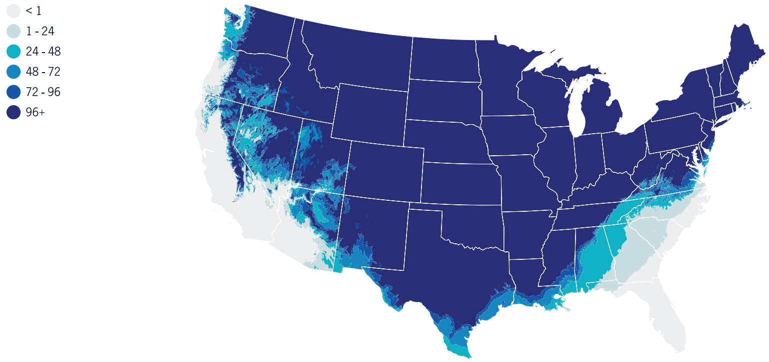
Severe convective storms once again generated significant insured loss in 2022, the fourth costliest year on record for the peril, and reaffirmed its position as perhaps the most significant of all perils traditionally referred to as secondary.

KEY TOPIC UPDATE:
U.S. CATASTROPHE LOSS ACTIVITY IN 2022

U.S. Q4 2022 CATASTROPHE LOSSES – AN ACTIVE END TO THE YEAR

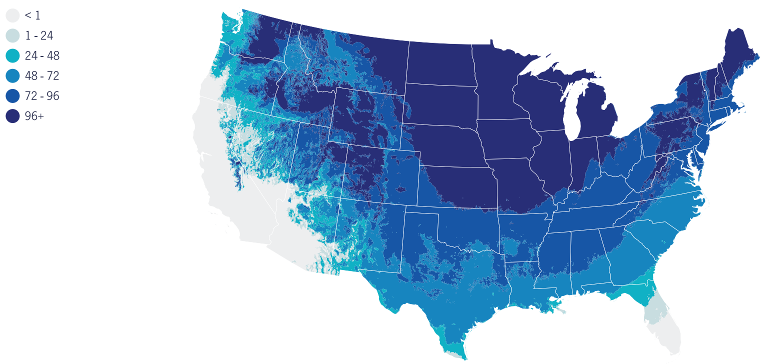
An active 2022 catastrophe year ended with a late-December arctic outbreak and winter storm that impacted the Central and Eastern United States. While the event resulted in dozens of fatalities and significant financial loss, it did not reach the intensity and extent of the historic freeze event from February 2021.

Hours at or Below Freezing During February 13-19, 2021



Data: NOAA, Aon Analytics

Hours at or Below Freezing During December 22-26, 2022



Data: NOAA, Aon Analytics

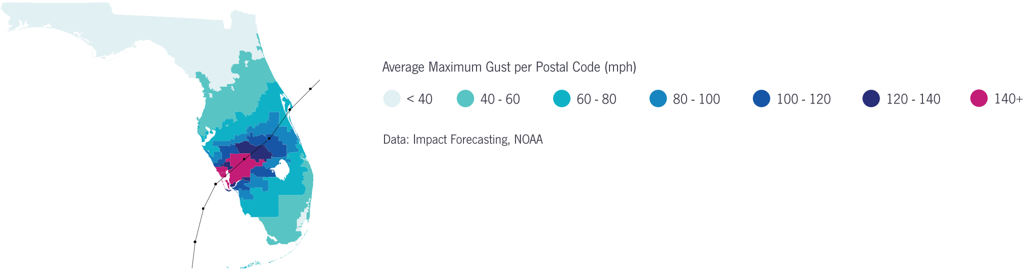
While each of these winter events occurring in successive years significantly impacted the industry, one differentiating feature between these events was the duration of below-zero temperatures. The analysis of both events shows that the duration of freezing temperatures in 2021 was much longer and more widespread across the U.S., particularly in Texas. Experiencing two consecutive years with significant winter weather events initiates discussion on whether this is now a peril needing consideration as a more meaningful loss driver going forward.

U.S. CATASTROPHE LOSSES – FULL YEAR 2022

As the dust settles on a volatile catastrophe year in 2022, a look into the rearview mirror shows economic and insured losses from natural disasters in the U.S. were substantially above long-term averages. Total economic losses were estimated at $178 billion, which was nearly 80 percent above average since 2000.

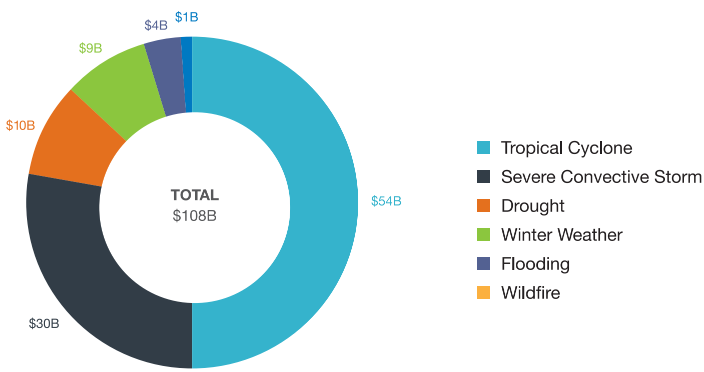
Despite initial expectations of a relatively active tropical storm season, only two significant tropical cyclones made landfall on the U.S. mainland. One of them, however, ended up being the second costliest event in terms of insured loss in recorded history. Hurricane Ian made landfall in Florida on September 28 as a Category 4 storm causing widespread damage and 152 deaths. With estimated insured losses well into the tens of billions, the event sent shock waves through the (re)insurance industry in an already challenging period heading toward the end of the year.

2022 Wind Print of Hurricane Ian



Additionally, the Western U.S. continued to experience severe drought conditions through year-end, driving the annual nationwide economic losses from the peril well beyond $10 billion.

2022 U.S. Insured Losses



Data: Aon Catastrophe Insight

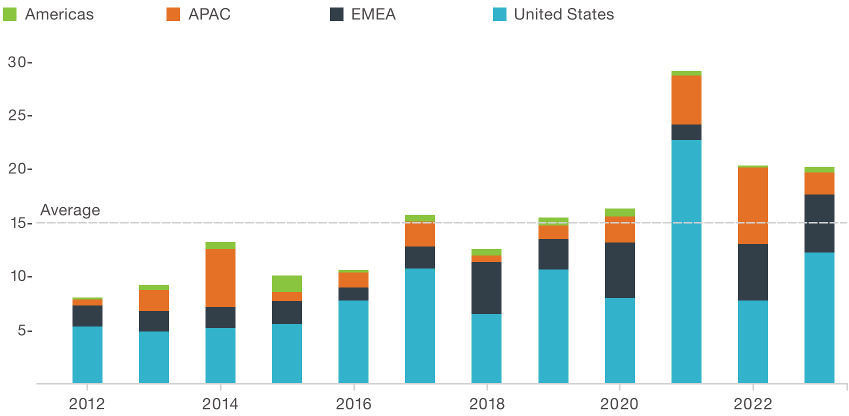
KEY TOPIC UPDATE:
CATASTROPHE LOSS ACTIVITY TO START 2023

Following an active close to the 2022 calendar year, the start of 2023 has included above-average catastrophe activity across the country once again.

GLOBAL Q1 2023 CATASTROPHE LOSSES – ABOVE THE LONG-TERM AVERAGE

Global insured catastrophe losses are outpacing the longer-term average, with the U.S. being a significant contributor to the overall loss total.

Q1 2023 Global Insured Losses

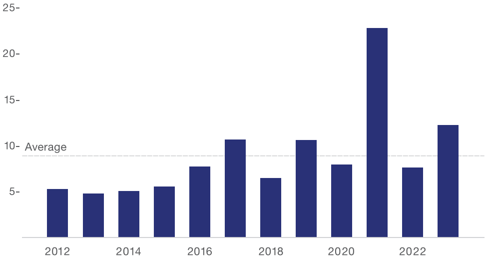


Data: Aon Catastrophe Insight

U.S. Q1 2023 CATASTROPHE LOSSES – ADDITIONAL SEVERE CONVECTIVE STORM ACTIVITY

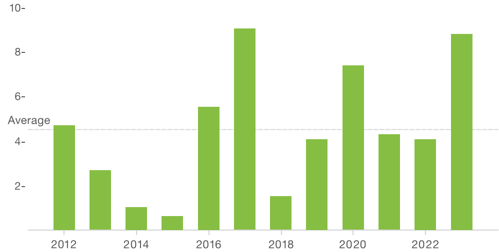
While Q1 catastrophe losses in 2023 trail the aberrational experience of 2021 from the vast storm named Uri, 2023 is already well above longer-term averages. The activity impacting several areas of the United States to start the year was largely driven by the severe convective storm peril.

Q1 2023 U.S. Insured Catastrophe Losses – All Perils



Data: Aon Catastrophe Insight

Q1 2023 U.S. Insured Catastrophe Losses – SCS



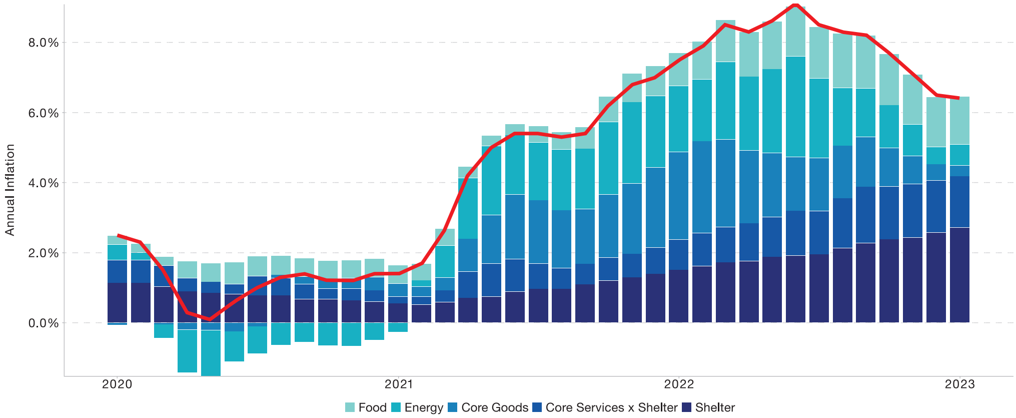
Data: Aon Catastrophe Insight

KEY TOPIC UPDATE:
INFLATION AND THE ECONOMY

2022 will be remembered as the year when inflation was the focus of virtually every reinsurance renewal meeting and discussion. The convergence of inflation reaching multi-decade highs, interest rates increasing at a rapid pace, and the knock-on effect that monetary policy had on bond values led to a very challenging reinsurance environment that NAMIC's survey of reinsurance leaders telegraphed.

As the calendar turned to 2023, several key indicators began to demonstrate a more cautiously optimistic view of stability in the future, with the understanding that inflation will continue to have a meaningful impact across the industry in the short term.

Inflation trends for housing (shelter) and other services are not subsiding to the levels of other categories. Both tend to be key predictors of the influence that inflation stands to have on property/casualty insurance company portfolios. Driven by wage growth, inertia for service inflation remains and will take longer to subside.

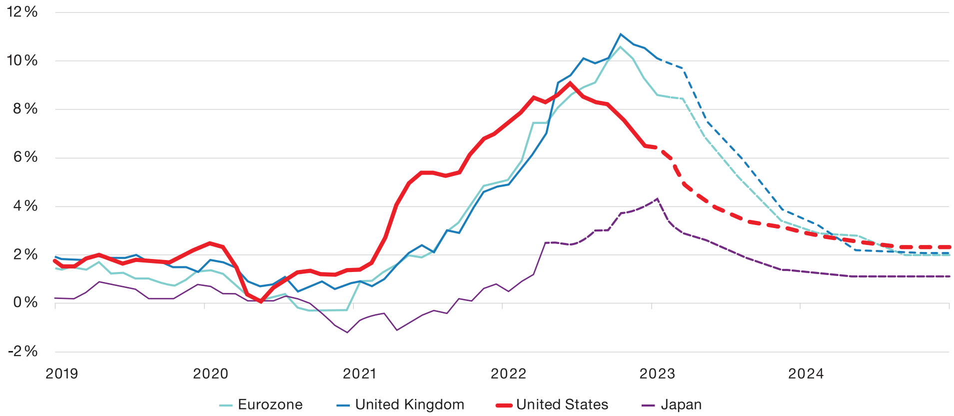


Source: U.S. Bureau of Labor Statistics, Aon Analytics

Detailed views of inflation trends by category allows re(insurance) companies to better understand how these developments may potentially impact their portfolios. Moving beyond the summarized Consumer Price Index view is imperative in order to understand the full inflation picture.

U.S. INFLATION IS FORECASTED TO CONTINUE SLOWDOWN

The 2022 Mutual Factor Reinsurance Survey showed how inflation was universally on the minds of the world's reinsurance leaders. As they continue to run global operations, reinsurers continue to closely monitor inflationary impacts on the U.S. and global economies. As we look to the future, experts generally expect inflation to moderate over the next couple years to levels that are still higher than pre-COVID years but less than what we saw in 2021 and 2022.

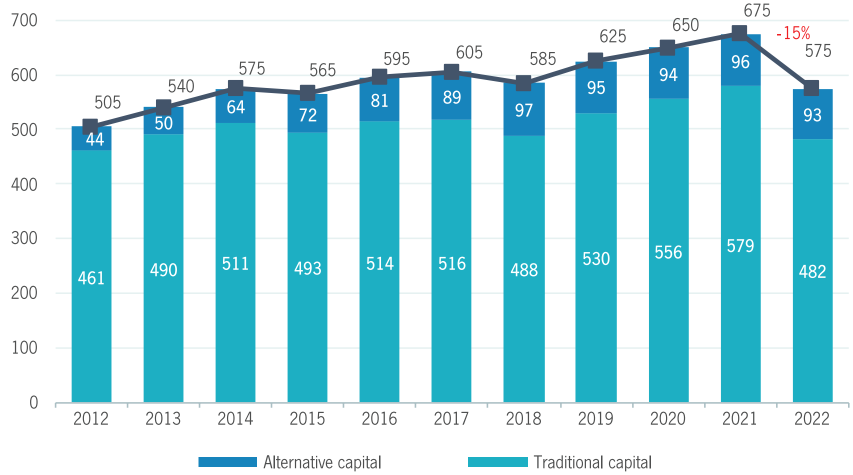


Source: Bloomberg consensus forecasts, Aon. as of 1 March 2023

KEY TOPIC UPDATE: STATE OF THE REINSURANCE MARKET

GLOBAL REINSURANCE CAPITAL

Aon estimates that global reinsurer capital declined by 15 percent, or $100 billion, to $575 billion over the year to December 31, 2022. The reduction was principally driven by substantial unrealized losses on investment portfolios.



Source: Aon Analytics

However, it is important to recognize that despite reductions in reported equity, reinsurer capital adequacy generally remains strong under risk-based regulatory and rating agency capital models, which take a more economic view of the current situation. That said, reinsurer sensitivity to major losses has increased and debt leverage tolerances are being tested in some cases.

Additionally, while it is recognized that bonds are generally held to maturity by the industry and their value will recover as that date approaches, it may become necessary for reinsurers to sell in order to create liquidity in the wake of an extreme event, thereby crystallizing the loss. In short, there is potential for heightened sensitivity across the industry to a future major catastrophe should such an event occur.

COMMON OBSERVATIONS OF REINSURER OPERATIONS

Analyzing a composite of results for leading reinsurance entities allows for a broader set of observations to be made on the health and performance of the market. Annually, Aon publishes its Aon Reinsurance Aggregate report featuring a qualitative study of 19 companies that represent roughly 50 percent of the world's life and non-life reinsurance premiums and is viewed as a reasonable proxy for the sector.

Key observations on year-end 2022 reinsurer performance from the most recent Aon Reinsurance Aggregate report include:

STRONG PREMIUM GROWTH – Most ARA constituents reported strong growth in property/casualty premiums, driven by higher pricing and strong demand for risk transfer in a volatile operating environment.

RESILIENT UNDERWRITING – Underwriting results were generally resilient, reflecting the benefit of compounding rate increases and lower exposure to natural catastrophe event frequency.

WEAK OVERALL EARNINGS – Despite the final underwriting results for 2022 being better than some would have expected, the six-year period from 2017 to 2022 was challenging for earnings. Over this time frame, the ARA reported an average net combined ratio of 100.3 percent and an average return on equity of 5.9 percent, which was only around two-thirds of the average cost of equity.

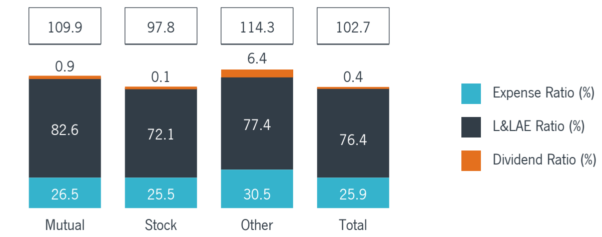
DECLINING EQUITY – 2022 featured an unusual amount of volatility in the capital markets. Bond values were impacted by sharply rising interest rates as central banks moved to head-off the threat of inflation. At the same time, geopolitical risk and fears of recession drove poor stock market performance.

IMPROVED REINSURER VALUATIONS – Reinsurance stocks have significantly outperformed since Hurricane Ian, reflecting increasing optimism from investors around future pricing. Renewals so far in 2023 appear to be delivering on the expectation of better future returns, with higher interest rates also offering a potential tailwind.

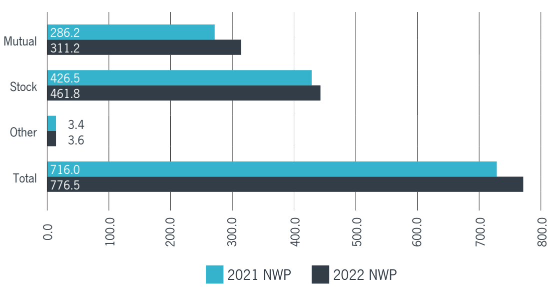
KEY TOPIC:
HOW DID YEAR-END 2022 RESULTS LOOK FOR INSURERS?

As discussed in the beginning of this report, 2022 was a challenging year for the industry. The pressures discussed for the first half of 2022 in the 2022 Mutual Factor report (significant property catastrophe activity, challenging pricing market due to inflation, and investment market volatility) carried into the second half of 2022. This put strain on the YE 2022 results across all segments in the industry. Below are some key metrics, which will be explored further in the 2023 Mutual Factor report.

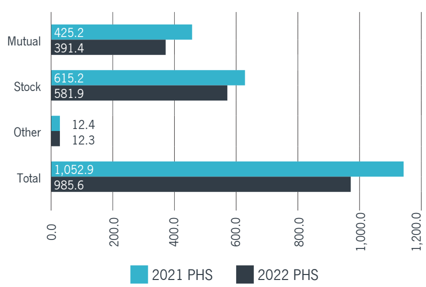
2022 Combined Ratio Breakout (%)



Change in Net Written Premium ($m)



Change in Surplus ($m)



ANNUAL CHANGE (%)

	Mutual	Stock	Other	Total			Mutual	Stock	Other	Total
NWP Change	8.7	8.3	7.3	8.5		PHS Change	-8.0	-5.4	-1.4	-6.4

SNEAK PEEK INTO 2023 MUTUAL FACTOR REPORT

Work is underway on the 2023 Mutual Factor report with NAMIC and Aon continuing to partner in delivering expanded insights into the overall performance of the mutual insurer segment. As the market continues to navigate additional volatility, it will be informative to continue to track the trend of companies retaining more risk than in previous years. The development of higher retentions and the increase of co-participations within reinsurance programs have the potential to create more volatile results for mutual insurers across the market in 2023.

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ABOUT NAMIC

The National Association of Mutual Insurance Companies consists of more than 1,500 member companies, including seven of the top 10 property/casualty insurers in the United States. The association supports local and regional mutual insurance companies on main streets across America as well as many of the country's largest national insurers. NAMIC member companies write $357 billion in annual premiums and represent 69 percent of homeowners, 56 percent of automobile, and 31 percent of the business insurance markets.