THE MUTUAL FACTOR

2024 MIDYEAR UPDATE

NAMIC® NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES | AON

REVISITING THE 2023 MUTUAL FACTOR REPORT

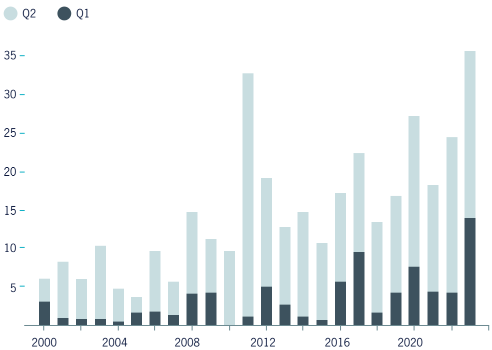
NAMIC and Aon were honored to partner for the fifth consecutive year of publishing the Mutual Factor report in 2023. The much-anticipated report quantified not only the challenges the industry faced throughout 2023, but also the resiliency of the mutual insurance segment.

INDUSTRY RESULTS THROUGH Q2 OF 2023

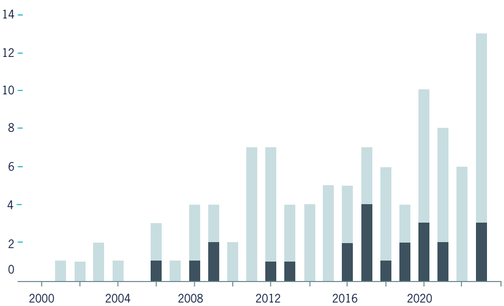
The first six months of 2023 marked a challenging start for the industry, with U.S. insured catastrophe losses roughly matching those of the famous 2020 year that included remarkable winterstorm activity throughout much of the U.S. The combined ratio for mutual insurers as of Q2 2023 was 113.2% compared to 97.9% for stock companies that operated with an underwriting profit, aligning with their focus on returns.

In particular, severe convective storms were the most meaningful contributor to 2023's broader catastrophe experience for the industry, with the first half of 2023 setting a record for U.S. insured losses from the peril.

Q1/Q2 U.S. Insured Losses from SCS (2023 $ B)



Count of Q1/Q2 U.S. Billion-Dollar SCS Events



Data: Aon Catastrophe Insight

ADDITIONAL KEY TAKEAWAYS FROM SEPTEMBER'S REPORT

In addition to the above perspective on industry results from the first half of 2023, last fall's Mutual Factor report also identified several other observations on the industry:

- Severe convective storm (SCS) losses are inherently regional in nature and, combined with insurance carriers generally retaining more catastrophe risk in 2023 than in 2022, the impact of weather was felt across large segments of the NAMIC membership.
- In particular, the aberrational SCS activity stretched across the Midwest and down to Texas territories where mutuals have significant market share.
- Inflation appeared to be broadly cooling, but a more detailed and nuanced review of contributing factors remained critical for mutual insurers' success.
- 88% of mutuals had their rating affirmed through June 2023.

SECOND ANNUAL MUTUAL FACTOR REPORT MIDYEAR UPDATE

Now in its second year of publication, this midyear update is being published to provide a fresh look at the close of 2023, the challenges that remain for our industry, and the opportunities that lie ahead for mutual insurers.

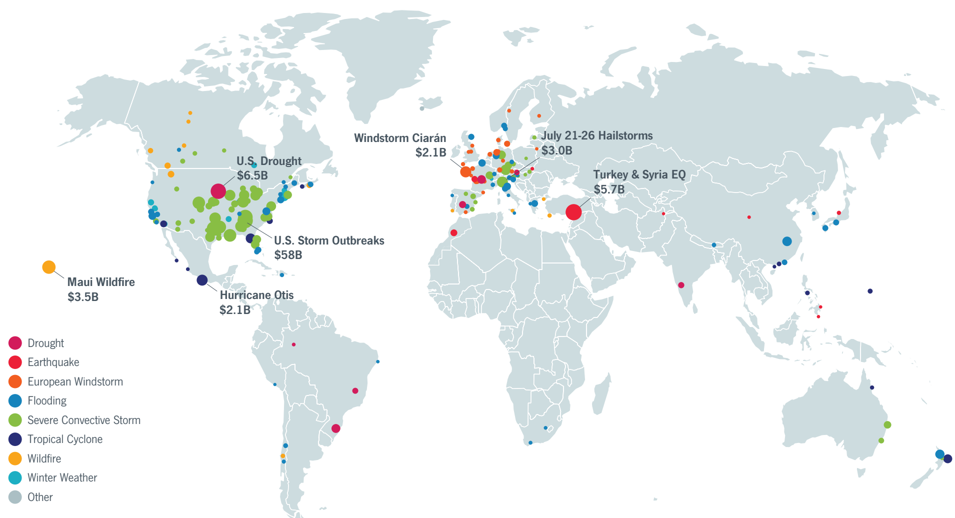
KEY TOPIC UPDATE:
GLOBAL CATASTROPHE LOSS ACTIVITY

Reinsurance is a global business supported by capital providers across the insurance value chain that aim to efficiently match risk and capital. As we consider the performance of the reinsurance sector later in this report, perspective on the loss activity across the globe is critical to understanding the results for the industry. Poor results can have a large impact on the future appetite and expectations of key capital sources and the broader industry.

GLOBAL CATASTROPHE LOSSES

Global insured losses from natural disasters in 2023 are estimated at $118 billion, well above the short-, medium-, and long-term averages. The largest loss of the year can be attributed to the seasonal drought in the U.S., with total crop insurance payouts of more than $6.5 billion.

Significant 2023 Global Insured Loss Events

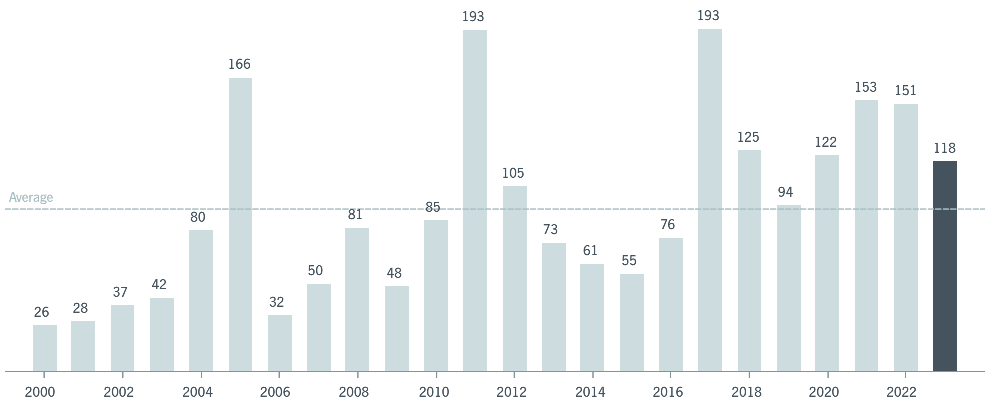


Data: Aon Catastrophe Insight

For the first time since 2016, no global event on a pre-inflated basis resulted in losses to the industry in excess of $10 billion; however, 2023 was the year of heightened frequency of both medium- and smaller-sized events throughout the globe.

While 2023 will be remembered for lacking a large industry-altering catastrophic event, the number of medium-sized events, notably those more than $1 billion in insured losses, was unprecedented. The total of 37 such events surpassed the previous record of 30 set in 2020. The 2023 total was largely driven by the relentless SCS activity in the U.S. and Europe, contributing seven of the top 10 insured events for the year. Total insured losses from natural disasters in 2023 reached $118 billion and were well above the 21st century average ($90 billion) and median ($80 billion), yet significantly lower than the average since 2017, which featured six consecutive years of above-average losses. It was the fourth year in a row that global losses exceeded $100 billion.

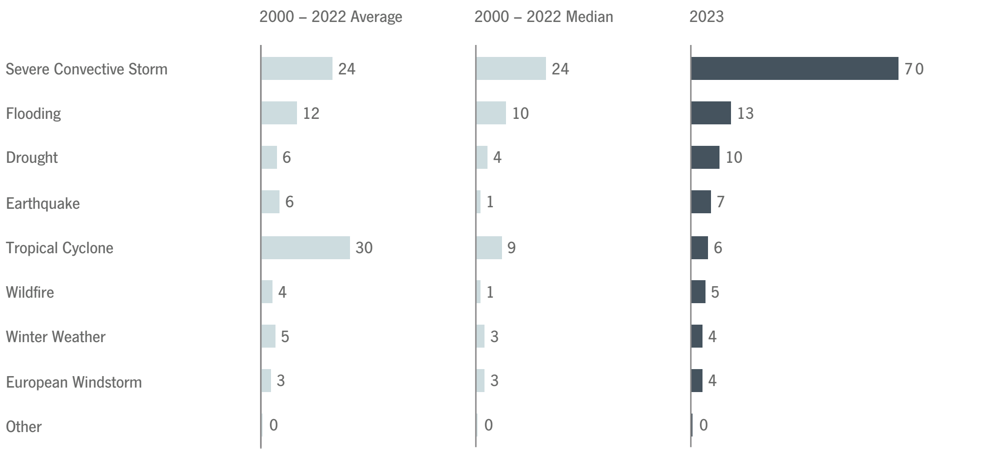
Global Insured Losses From Natural Disasters (2023 $B)



Data: Aon Catastrophe Insight

Diving further into the SCS peril that dominated 2023 and accounted for approximately $70 billion of insured losses globally, or 59% of losses from all natural disasters, the graph below further highlights just how unique the SCS activity was in 2023.

Global Insured Losses by Peril (2023 $B)



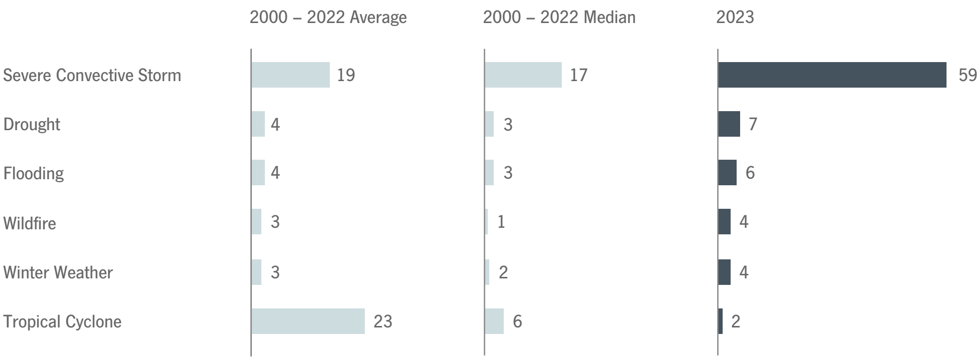
Data: Aon Catastrophe Insight

KEY TOPIC UPDATE:
U.S. CATASTROPHE LOSS ACTIVITY IN 2023

U.S. CATASTROPHE LOSSES – FULL YEAR 2023

Highlighting another active year for weather in the U.S., natural disasters resulted in economic losses estimated at $114 billion, slightly above the long-term mean ($105 billion) and notably above the median since 2000 ($84 billion). SCS contributed an astonishing $73 billion of the total economic loss and generated nearly $59 billion of total insured loss for the year, by far the costliest year for SCS in U.S. history. In fact, compared to the next costliest year in 2020, it's $14 billion higher in terms of insured losses. Among the staggering 23 billion-dollar SCS events, the costliest storm of the year was the March 1-3 outbreak, resulting in $5 billion in insured losses.

U.S. Insured Losses by Peril (2024 $B)



Data: Aon Catastrophe Insight

Despite economic and insured losses from tropical cyclones in 2023 being among the lowest over the last decade, the year still featured several unique events for the industry, including:

- Hurricane Idalia made landfall at Category 3 intensity and caused widespread flooding damage across much of the Southeastern U.S. Despite $3.5 billion in economic losses, many more severe potential impacts were not realized given the storm's landfall in rural Florida.
- Hurricane Hilary brought record rainfall to much of the Western U.S. As only the fourth tropical storm on record to affect California, Hilary generated economic losses below $1 billion.

Overshadowing what was otherwise a mild wildfire season for the U.S. overall:

- The Lahaina wildfire in Maui County made history as the worst natural disaster in Hawaii since statehood. The devastating fire destroyed most of the town, killed 100 people, and contributed $3.5 billion in insured losses to the year's total.

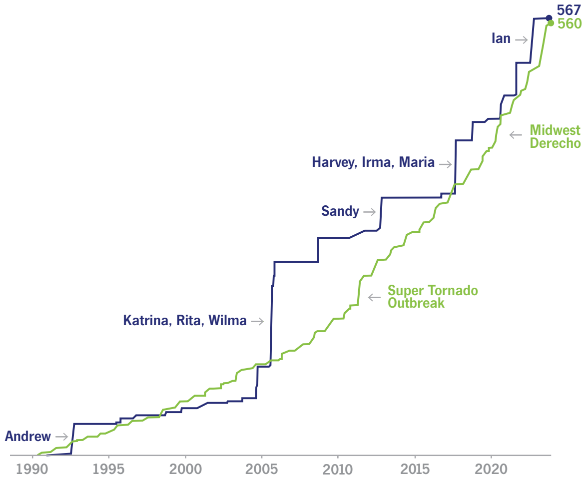
KEY TOPIC UPDATE:
CONTINUING THE TREND OF SECONDARY PERILS

As the industry continues to navigate the challenges that weather volatility presents, the so-called secondary perils of SCS, wildfire, and winter storm have maintained their steady, upward trajectory of industry loss contribution. Dating back to 1990, primary and secondary perils have contributed a nearly equal amount of total insured loss in the U.S. The graph below reflects a steepening curve, representing the trend of an increase in insured catastrophe losses resulting from both primary and secondary perils.

Primary vs. Secondary Perils in the U.S.

Cumulative Insured Losses in the U.S. From Hurricane and SCS

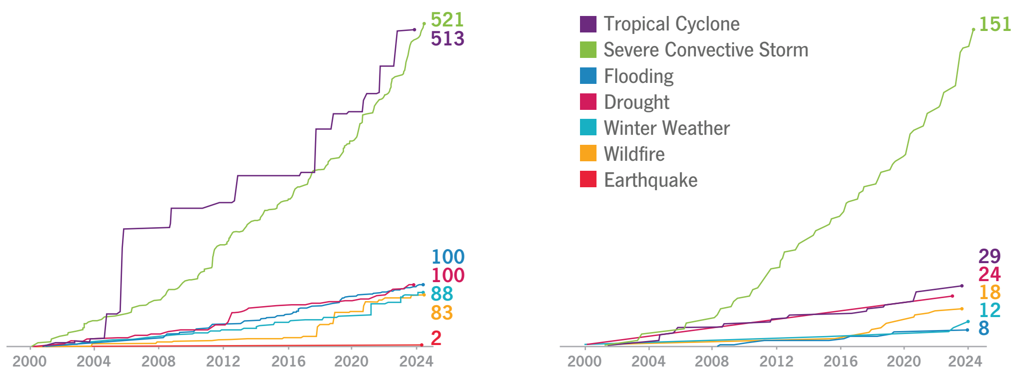
Data: Aon Catastrophe Insight



2023's record SCS year was further felt by the NAMIC membership as it clashed against the general trend of increased reinsurance program retentions across the industry. Localized in nature, this SCS activity was more broadly retained by the insurance market following the evolution in catastrophe reinsurance programs starting on January 1, 2023.

Primary vs. Secondary Perils in the U.S.

Insured Losses (2024 $B) *Count of Billion-Dollar Events*

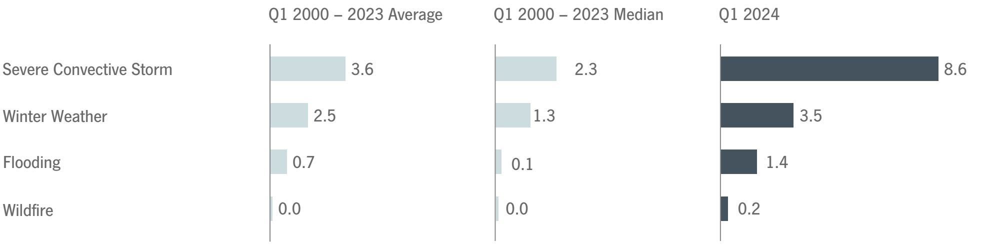


Data: Aon Catastrophe Insight

KEY TOPIC UPDATE:
CATASTROPHE LOSS ACTIVITY TO START 2024

U.S. insured losses from SCS, winter weather, and flooding across the country in Q1 2024 were preliminarily estimated at nearly $14 billion, almost doubling the 21st-century average of nearly $7 billion. However, both amounts are significantly less compared to Q1 insured losses from last year (above $19 billion), which featured several costly SCS events. Similar to 2023, the costliest Q1 2024 insured loss event in the U.S. also came from severe weather. Widespread large hail and multiple violent tornadoes from the south-central Great Plains to Ohio generated losses preliminarily estimated at $3.4 billion.

Q1 2024 U.S. Insured Losses by Peril (2024 $B)



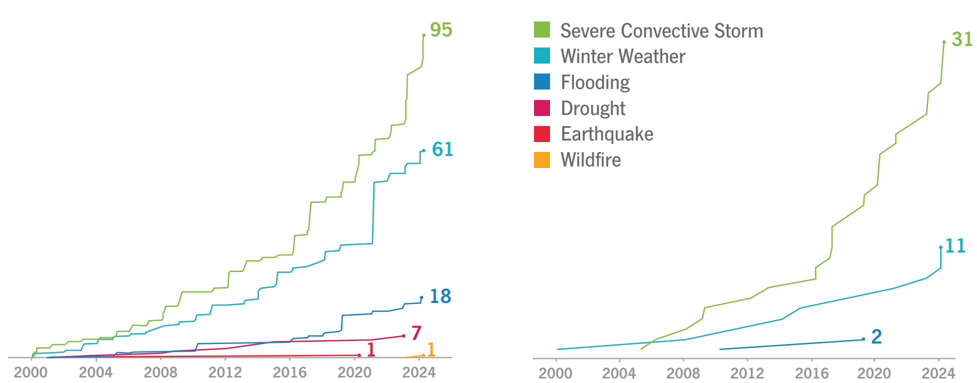
Data: Aon Catastrophe Insight

In addition to the above-average activity from SCS, with heightened wildfire activity in Texas and Oklahoma in February and March, Q1 2024 experienced the highest U.S. insured loss total from wildfires on record. Nearly all of these losses came from the Smokehouse Creek Fire in Texas and western Oklahoma.

Cumulative U.S. Insured Losses by Peril

Q1 Insured Losses (2024 $B)

Count of Billion-Dollar Events in Q1

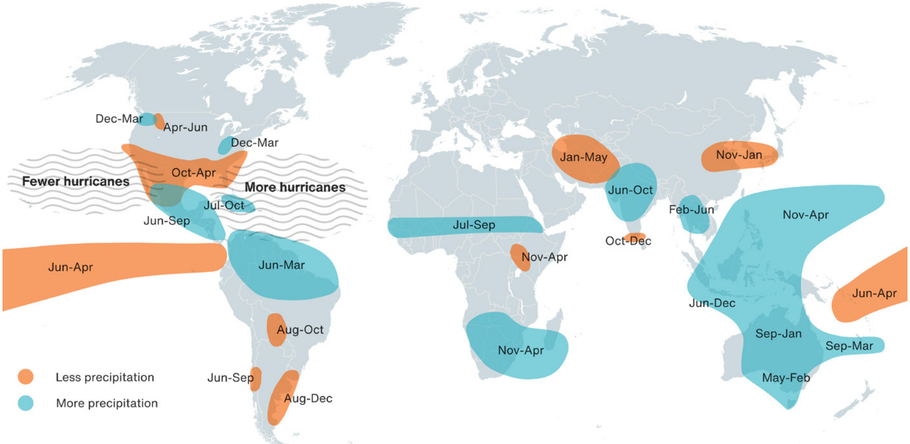


Data: Aon Catastrophe Insight

KEY TOPIC UPDATE:
2024 TROPICAL STORM PROJECTIONS

On the heels of the above-average loss activity in Q1 of 2024, the industry collectively turns its sights to what many have predicted to be an active, above-average hurricane season. Of particular note is the timing of a shift to La Niña conditions as one of the critical factors in manifesting conditions more conducive to storm formation and a reduction in wind shear, a key factor that hinders tropical storm development.

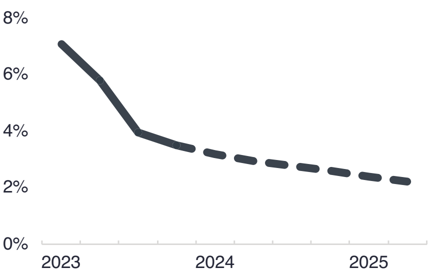
Typical La Niña Teleconnections



Source: IRI Columbia, Ienssen et al. (2020), Mason and Goddard (2001)

Several groups and organizations have released their long-range forecasts for the upcoming North Atlantic hurricane season. All of these predictions suggest that 2024 could be very active, with an average number of expected hurricanes at 11.

KEY TOPIC UPDATE:
ECONOMIC INFLATION



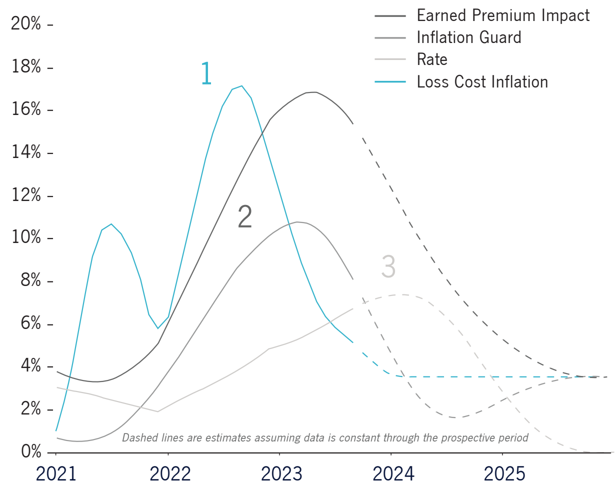
Source: U.S. Bureau of Labor Statistics, Aon Analytics, Bloomberg consensus forecasts as of 12/31/23.

While economic inflation has been a critical headwind for the industry to overcome in recent years, the Federal Reserve now expects broad inflation to be 2.4% in 2024. While the industry has been reminded that more detailed metrics and tools are necessary to effectively manage valuations across an insurance portfolio, the future points to further stabilization of key macroeconomic factors that will be critical for the industry's approved rates and coverage changes being enough to return portfolios to profitability.

Focusing more specifically on the homeowners line of business and the challenges that it has presented NAMIC's membership over recent years, the cooling of inflation is a helpful factor to foster broader market stabilization. As has been experienced throughout recent years, (1) loss cost inflation hits an entire outstanding claims reserve and immediately affects underwriting results. (2) The first line of defense in an inflationary environment is the inflation guard mechanism. Unfortunately, inflation guard can miss in two important ways – it can underestimate loss inflation in certain circumstances and it must be earned over the entirety of a policy period. Where inflation guard fails to keep pace with increasing claims costs, (3) new rates must then be filed with the state insurance regulatory bodies. Reasonable forward-looking assumptions for the industry suggest insurance premiums catch up with inflationary-driven loss trends to bring well-managed insurers to underwriting profitability by 2025.

2023 Combined Ratio Breakout (%)

Source: Aon Analytics



KEY TOPIC:
LEGAL SYSTEM ABUSE

Given that most metrics measuring economic inflation are showing a significant decrease from the peak in summer 2021, much of the market has pivoted slightly to specifically highlight concerns around legal system abuse and social inflation – the increase in insurers' claims costs above economic inflation. As the industry continues to study these topics and understand their impact on the broader market, a trend toward refocusing attention, specifically on legal system abuse, is taking shape. Poised to be a critical topic of discussion for the industry going forward, legal system abuse has the potential to fundamentally shift insurance economics, impact insurers' solvency and strategies, and ultimately alter the insurance products available to consumers. Insurers continue to navigate its impact through careful risk selection, pricing, excess, limit deployment, and policy terms. Reinsurance is also a common tool to support the management and uncertainty around legal system abuse.

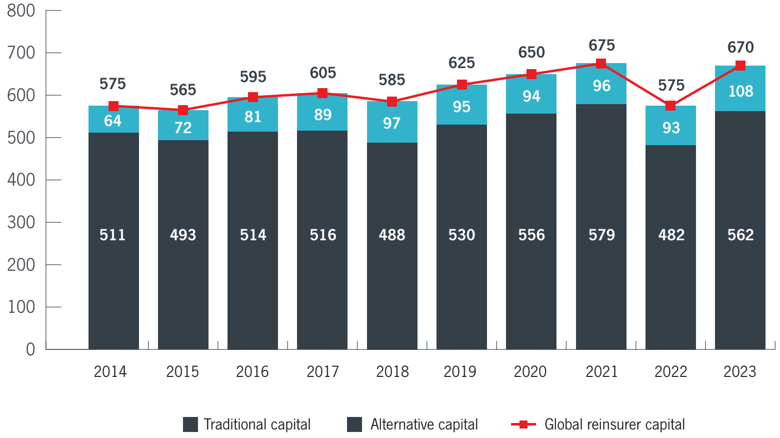
Looking to the future, insurers should be actively looking to establish both external initiatives (raising awareness, promoting tort reform, encouraging increased transparency over litigation processes, etc.) and internal initiatives (prioritizing product innovation, investing in artificial intelligence, enhancing defense case management, etc.) to counter the impact of legal system abuse.

KEY TOPIC:
KEY OBSERVATIONS FROM ACROSS THE REINSURANCE MARKET

The January 2023 renewal date marked an inflection point in the reinsurance market. Rapid rate hardening, tightening in terms and conditions, and increased ceded retentions all contributed to a return to profitability for the reinsurance market.

Through a combination of retained earnings, investment returns, and new capital raises, global reinsurance capital has quickly rebounded across both the traditional and alternative capital spaces. This has fundamentally helped stabilize the reinsurance marketplace in the early months of 2024.

Global Reinsurer Capital – 2014–2023 ($B)



Source: Company financial statements / Aon's Reinsurance Solutions / Aon Securities, LLC

Observations across midyear 2024 renewals reflect an increase in demand for reinsurance and a market with ample supply to meet that demand. As such, pricing improvement and enhanced consistency on terms are expected to continue heading into June and July 1.

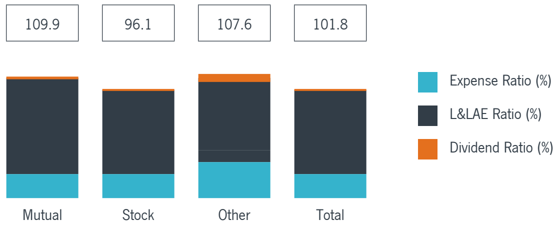
Faced with pressure to maintain higher net retention levels, NAMIC members continue to execute and implement fundamental changes to their underlying portfolios, including rate adjustments, changes to deductibles and coverage, risk selection, and broader aggregation management. Although insurers are at differing stages of this journey, positive results are now beginning to materialize.

Positive responses from reinsurers continue to manifest across the market, including evidence of a growing number of reinsurers writing reinsurance programs for the first time. As reinsurers continue to acknowledge and respond to the portfolio improvements, enhanced underwriting, and reinsurance structure enhancements may be cedents, the overall reinsurance market for NAMIC members has the potential to stabilize further should positive results continue to manifest.

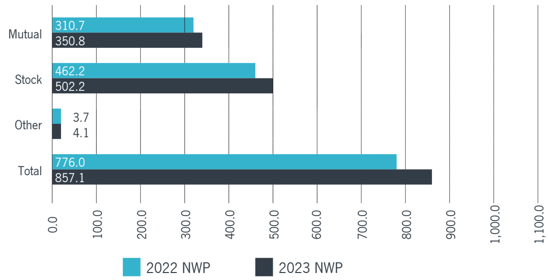
KEY TOPIC: HOW DID YEAR-END 2023 RESULTS LOOK FOR INSURERS?

As discussed in the beginning of this report, 2023 was another challenging year for the industry. The significant property catastrophe activity, mainly from more frequent smaller events, continued to put pressure on insurers, as it had in 2022. In 2023, the investment market began to stabilize a bit, and insurers were able to increase their rates, which will continue throughout 2024. The benefits are seen by below the growth in net written premium and policyholder surplus experienced by the industry. Below are some key metrics that will be explored further in the 2024 Mutual Factor report.

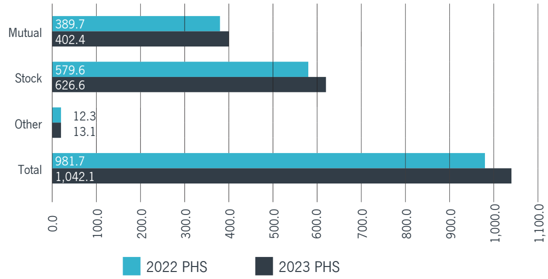
2023 Combined Ratio Breakout (%)



Change in Net Written Premium ($M)



Change in Surplus ($M)



ANNUAL CHANGE (%)

	Mutual	Stock	Other	Total			Mutual	Stock	Other	Total
NWP Change	12.9	8.7	11.7	10.4		PHS Change	3.2	8.1	6.2	6.2

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ABOUT NAMIC

The National Association of Mutual Insurance Companies consists of nearly 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 $391 billion in annual premiums and represent 68 percent of homeowners, 56 percent of automobile, and 31 percent of the business insurance markets.