Property Casualty Intelligence Briefing

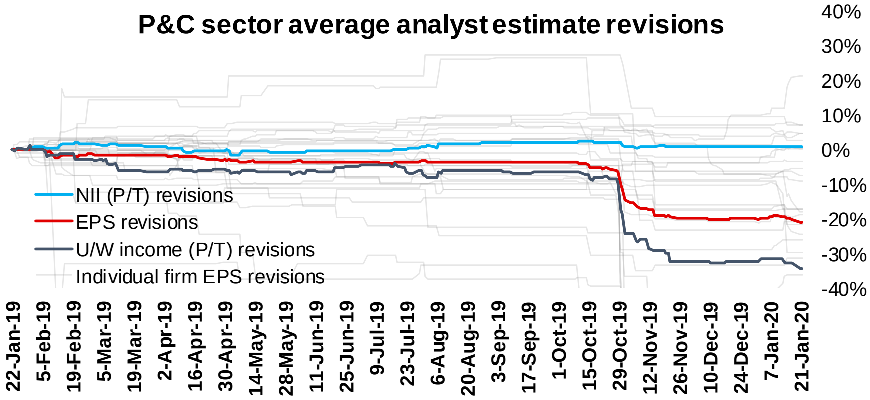
Inside P&C

by The Insurance Insider

January 23, 2020

A RISING TIDE VS. QUICK SAND

Having front-loaded the good news on pricing in 2019, the market is widely expected to spend Q4 in a more confessional mode.



With Q4 earnings now kicking into full gear with **Travelers** reporting this morning, the market is widely expecting bad news across the market. After months of jaw-boning on social inflation, the combination of the cover provided by "good news" on price increases, the social acceptability of "not going first", and the pressure from multiple stakeholders like actuaries, auditors, and regulators mean recognizing at least some bad news will likely be unavoidable for many.

However, we expect this will only be a first step rather than a kitchen sinking. As we wrote in Pretend and Extend, we think the incentives are heavily skewed to punt as much bad news as possible into 2020 in order to ride the wave of price increases. For many who have grown too aggressively in the soft cycle, ironically the incentive is to double down on growth and try to outrun the pain.

Back in April last year when the first signs of a transitioning market emerged, we wrote the following:

> *"Rather than a rising tide that lifts all ships that we saw in 2011, we expect to see a market that is bifurcated between winners and losers as balance sheet problems emerge. For those with a clean balance sheet, capacity to spare, and an appetite to grow there is clearly opportunity.*
>
> *Our view is this will most likely manifest as (1) an opportunity to grow due to from more "looks" at new business as accounts churn due to competitor actions; (2) an opportunity to improve accident year reserve strength rather than dropping pricing and improved terms and conditions to calendar year margins; and (3) improved efficiency as higher renewal premium leads to improved operating leverage on fixed expenses.*
>
> *"However, though many will frame it this way, in reality this group is likely to be a privileged minority. Many others will attempt to "trade through" by pretending-and-extending on reserves, with pay-as-you go additions to older accident years offset by improving reserve strength in newer business."*

A year later, and we still think this is still a pretty good model for thinking about the market today. The only thing that's changed for us is a growing skepticism around the size of the cohort that will be included among the ultimate "winners".

INSIDE P&C RESEARCH

Gavin Davis, Director of Reserach
gavin.davis@insidepandc.com
(212) 224 3328

James Thaler, CFA, Senior Analyst
james.thaler@insidepandc.com
(212) 224 3336

Dan Lukpanov, CFA, Research Analyst
dan.lukpanov@insidepandc.com
(212) 224 3326

Gianluca Casapietra, Research Analyst
gianluca.casapietra@insidepandc.com
(212) 224 3495

Index	QTD	YTD
Large Cap	1.1%	1.1%
Regional	1.7%	1.7%
Specialty	3.1%	3.1%
Personal	2.0%	2.0%
Bermuda	2.7%	2.7%
Florida	(5.7)%	(5.7)%
Brokers	2.2%	2.2%
IPC Select	1.2%	1.2%
S&P 500	2.8%	2.8%
S&P Fin.	0.2%	0.2%

Source: S&P Global, Inside P&C

Mixed read from RLI, Travelers to offer better look Thursday

On Wednesday, first-reporter **RLI** posted Q4 results last night with operating EPS of $0.63, a beat against analyst consensus of $0.59. The results included plenty to like, including strong reserve releases against a backdrop of rising social inflation, 35% growth in property, a special dividend, and quarter that rounded out its 24th consecutive year of underwriting profits.

However, the headline results were flattered by several modest non-core factors, and relied heavily on $16.3mn of favorable reserve development, which contributed $0.27 of EPS versus $0.20 in the prior period.

Perhaps most notably, the growth in casualty - its biggest segment – slowed to 1% following 16% growth in Q3, while the casualty accident year loss ratio ticked up 0.8pts to 70.2% – more details below.

Our first impression is to say these results are pretty good - and may come to be considered very good relative to peers as the Q4 earnings season progresses - but perhaps are not as good as the headline numbers suggest.

In fact, given the expectations of some that higher rates would lead to a period of improving underlying loss ratios (the "rising tide thesis"), the combination of RLI's deteriorating casualty AY loss ratio and decelerating growth should be considered an early red flag, even if the firm has often proved a weak signal for broader market trends.

Given RLI's niche businesses and narrow focus, we expect a more meaningful read on the broader market to begin in earnest this morning as Travelers reports.

Next week will almost exclusively be the brokers' week with all big public brokers but Willis Towers Watson scheduled to report. Following strong earnings in prior quarters markets expect brokers to close 2019 on a high note.

Other significant data points of the week will be from **WR Berkley** with potentially more details on dislocated specialty markets, **Progressive** where markets will be embracing updates on the carrier's margins and auto severity trends and **Axis** that has faced a number of challenges in recent quarters, from prior period development to a rise in "midsized losses" and shrinking premium volumes.

Inside P&C

EXHIBIT: P&C EARNINGS CALENDAR

Source: Company press releases, SNL, Inside P&C

☀ - before market opens ☾ - after market closes

mon	tue	wed	thu	fri	
20-Jan	**21-Jan**	**22-Jan**	**23-Jan**	**24-Jan**	**Not announced**
		RLI ☾	Travelers ☀		AIG
		Old Republic ☾			Argo
27-Jan	**28-Jan**	**29-Jan**	**30-Jan**	**31-Jan**	Erie
Brown & Brown ☾	WR Berkley ☾	Progressive ☀	BB&T ☀	Aon ☀	Greenlight Re
		Axis ☾	MMC ☀		Hartford
			AJ Gallagher ☾		HCI
			Blue Capital ☾		Heritage
			Selective ☾		Maiden
3-Feb	**4-Feb**	**5-Feb**	**6-Feb**	**7-Feb**	Mapfre
AFG ☾	Allstate ☾	Cincinnati ☾	Beazley ☀		Markel
	Chubb ☾	Horace Mann ☾	Munich Re ☀		NatGen
	Hanover ☾		Willis Towers Watson ☀		ProSight
	Intact ☾				Third Point Re
	RenRe ☾				United Insurance
10-Feb	**11-Feb**	**12-Feb**	**13-Feb**	**14-Feb**	
CNA ☀	Arch ☾		Zurich ☀		
Mercury ☀	Watford Re ☾				
Everest ☾					
Kemper ☾					
17-Feb	**18-Feb**	**19-Feb**	**20-Feb**	**21-Feb**	
QBE ☾	United Fire ☀	Alleghany ☾	State Auto ☀	Berkshire (Feb-22) ☀	
		Amerisafe ☾	Swiss Re ☀		
			James River ☾		
			Kinsale ☾		
24-Feb	**25-Feb**	**26-Feb**	**27-Feb**	**28-Feb**	
Donegal ☾			RSA ☀	Kingstone (Mar-11) ☾	
				Talanx (Mar-15) ☀	

9-in-10 P&C carriers expected to grow earnings YoY

According to analyst consensus, only three firms from the list of 32 companies in the Inside P&C Select with at least three EPS estimates available are forecast to report YoY EPS declines.

EXHIBIT: SUMMARY OF YOY EPS CHANGE EXPECTATIONS

Source: FactSet, Inside P&C

Company	Peer group	Q4-18 EPS	Q4-19E consensus	% chg	Est. #
AFG	Specialty	$1.75	$2.23	27%	7
AIG	Large Comm.	-$0.63	$1.01	NM	18
Alleghany	Other	-$4.35	$8.46	NM	4
Allstate	Personal	$1.24	$3.24	162%	19
Arch	Bermuda	$0.46	$0.68	47%	15
Argo	Other	$0.55	$0.24	-56%	6
AXIS	Bermuda	-$1.77	$0.05	NM	11
Berkshire	Other	$3484.94	$3631.64	4%	5
Chubb	Large Comm.	$2.02	$2.14	6%	20
Cincinnati	Regionals	$0.98	$1.09	11%	9
CNA	Large Comm.	-$0.08	$0.90	NM	5
Donegal	Regionals	-$0.30	$0.28	NM	3
Everest Re	Bermuda	-$5.89	$5.18	NM	11
FedNat	Florida	-$0.43	$0.60	NM	4
Hanover	Regionals	$1.51	$1.95	29%	6
Hartford	Large Comm.	$0.78	$1.32	69%	17
HCI	Florida	-$0.48	$0.87	NM	4
Heritage	Florida	$0.15	$0.38	156%	5
Horace Mann	Personal	-$0.21	$0.72	NM	4
Kemper	Personal	$0.91	$1.39	53%	7
Markel	Specialty	$7.44	$8.05	8%	6
Mercury	Personal	-$0.26	$0.17	NM	4
National General	Other	$0.30	$0.62	107%	5
Progressive	Personal	$1.21	$1.12	-8%	19
RenRe	Bermuda	$0.02	$0.75	NM	12
RLI	Specialty	$0.40	$0.63	58%	6
Selective	Regionals	$1.20	$1.13	-6%	9
State Auto	Regionals	$0.67	$0.68	2%	4
Third Point	Other	-$3.24	$0.39	NM	3
Travelers	Large Comm.	$2.13	$3.29	54%	21
United Insurance	Florida	-$0.02	$0.29	NM	5
WR Berkley	Specialty	$0.62	$0.72	17%	12

In general, results are expected to improve largely due to the favorable YoY cat comparison versus Q4:18 when the carriers booked the losses from Hurricane Michael and Typhoon Trami, as well as adverse developments from the prior quarter's Typhoon Jebi and Hurricane Irma.

Below are some company-specific developments that in our opinion will be highly watched in Q4:

- In commercial lines, **Travelers'** pricing data, accident year loss ratios, and prior year development in GL and commercial auto are among the most waited for data points. This follows Q3 results when the company reported first net adverse development since 2005, as well as current accident year true-ups as social inflation worries flared up. Notably, despite the recent headwinds Travelers is forecast to report highest quarterly EPS on record.

- **AIG** reported remarkable improvement in operating results in 2019 quarters to date, and will be watched on further progress around re-underwriting and expense ratio reduction efforts. As we have previously written, we believe the firm will face pressure to provide more details on its ambitious sounding but thus far detail-light AIG 200 operating plan, which has pledged both significant cost reductions and operating improvements in short order. Ultimately, we expect something will have to give in terms of the company's multiple, but competing, commitments to its stakeholders, and that the company will need to make clearer the intended timing and sequencing of its strategic priorities.

- In personal lines, **Progressive's** comments on deteriorated pricing trends and continued unfavorable severity trends will likely be the main points of attention, as the auto carrier's recent results suggest that the trends has likely intensified its pressure on margins. The company is one of the few in the broad P&C industry that is expected to report YoY EPS decline in Q4. As we highlighted in December, the stock market had a negative reaction on Progressive's last 7 monthly earnings releases.

- **Bermuda carriers** – among the Bermuda composite, analysts and observers will be paying close attention to the results out of **Axis**, following a disappointing Q3 result in which the firm posted a $33mn or .39/sh operating loss, mostly due to catastrophes and "midsized losses". Following Tuesday's preannouncement of a "modest" operating profit for the fourth quarter—stemming from a loss in agriculture and $140mn in cat losses—the company will be scrutinized over the persistence of trends—particularly losses in the property and surety portfolios—and whether the company has slowed the slide in the shrinking of the premium base year-to-date.

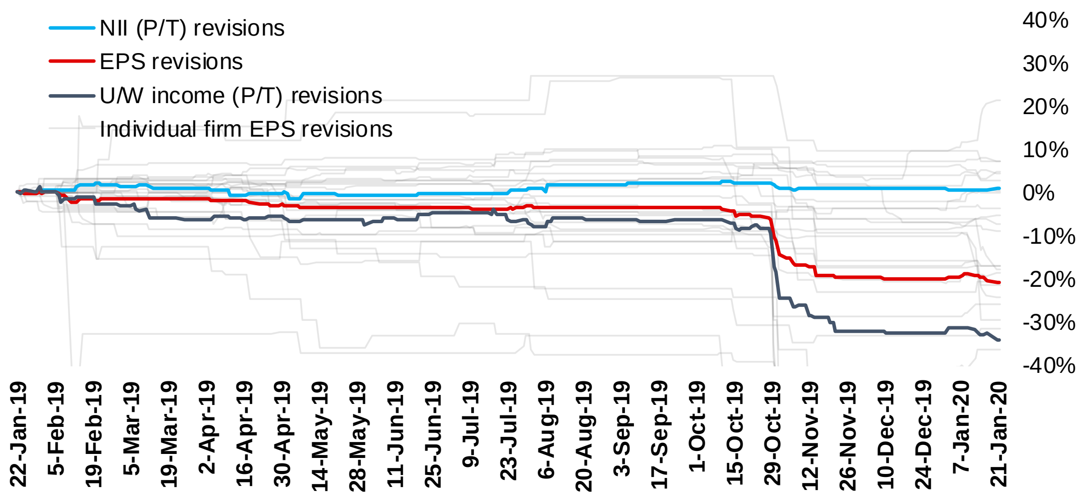
- **The insurance brokers'** stellar operating results through recent years lifted the expectations bar for the results to an extraordinarily high level. While the intermediaries will likely repeat "boringly" good operating result, some company-specific themes may still attract elevated attention. For MMC, strong Q3 results across all business units was a quick reverse from Q2 when JLT headwinds pressured organic growth, particularly at Guy Carpenter. However, management's base case guidance on future performance still incorporates revenue dis-synergies and "choppiness".

EPS expectations moderated

Since the start of the year, the P&C industry passed through multiple stages of EPS analyst revisions due to various reasons including the downswing of fixed income yields, the threat of Dorian destructive potential for the US that alleviated as quickly as it erupted. However, they all got dwarfed by the large wave of EPS revisions on social inflation worries flared up during Q3 earnings.

EXHIBIT: AVERAGE ESTIMATE REVISIONS

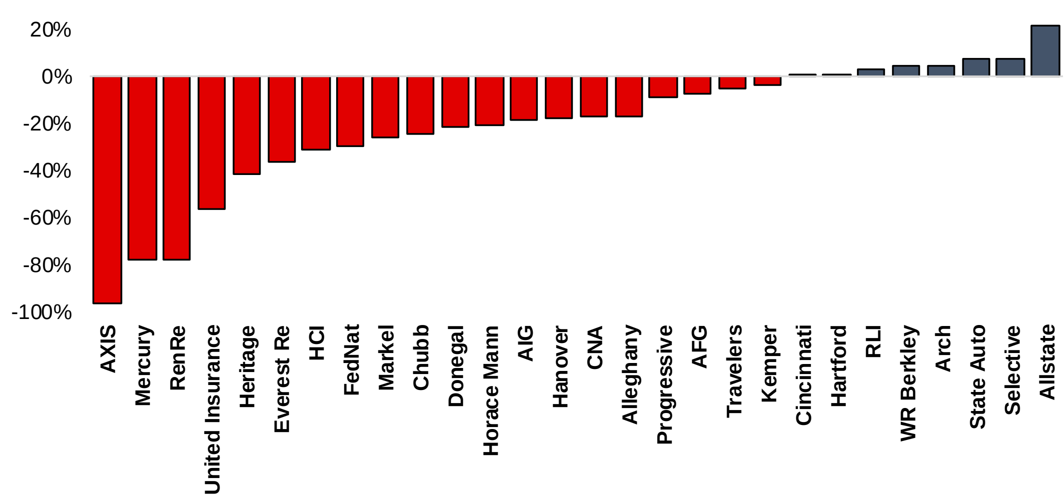
Source: FactSet, Inside P&C



During the year, P&C firms' Q4 EPS estimates were revised downward by 20% on average with approximately 3/4 of the downside owing to the revisions during the Q3 earnings (see chart below).

EXHIBIT: REVISIONS OF Q4 EPS SINCE THE START OF 2019

Source: FactSet, Inside P&C



Pricing: Continuation of recent trends, but likely deceleration

As always, pricing will receive a central focus on company conference calls, following three consecutive quarters of rate acceleration reported broadly in the sector as almost all lines of businesses and geographies contributed.

Following bullish outlooks vocalized throughout 2019 conference calls, the baseline scenario for Q4 pricing momentum is a continuation of increases, but likely a deceleration in the pace of increase. Following Q3 results that suggested the rate increases may be the result of elevated loss costs, we do not see much room for dispersion of views on further rate direction, like in Q1 and Q2, and to a lesser extent in Q3. This includes brokers that had been the most circumspect voice in Q1 and Q2 but eventually capitulated in Q3 as fundamental causes of the trend grew strong.

We expect a continuation of recent themes, with wholesale pricing better than retail, and more dislocation in large and complex risks where the reduction of line sizes has made programs harder to place.

Q3 earnings commentary generally supports bullish outlook for Q4.

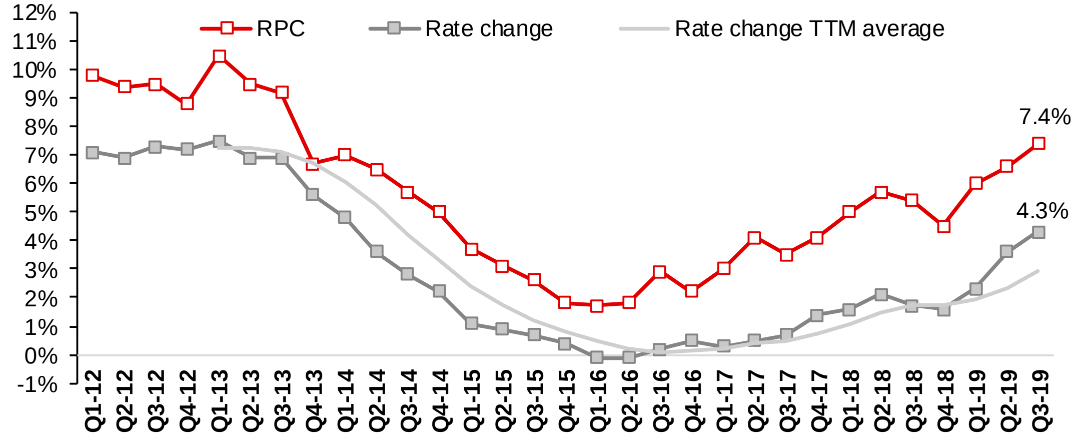
EXHIBIT: Q3 PRICING COMMENTARY

Source: S&P Global, Inside P&C

CB	“The pricing environment continued to improve quarter-on-quarter with the rate of increase accelerating and spreading to more classes of business and risk type." "The market is responding to the fact that rates have not kept pace with loss costs over a number of years, which has put pressure on margins and ultimately on reserves." "The trends as we see them are positive, they are good, and all things being equal, it benefits margin". - ***CEO Evan Greenberg***
AIG	"We continued to see meaningful rate increases across the board in the third quarter, a trend that has accelerated throughout the year. In some lines, rate improvement has been at the highest level in over a decade." - ***CEO of General Insurance Peter Zaffino***
WRB	"There is a broad rate need for the industry, and we are looking forward to rates continuing to move up from where they are. And once they reach a certain level, I think you will see us start to grow the business more aggressively." ***- CEO Bob Berkley***
HIG	"We are optimistic that our nonworkers' compensation pricing continues to improve. As I suggested, that certainly was the case in Q3 and I expect that to continue into Q4." - ***President Doug Elliot***
CNA	"Based on the momentum that currently exists and the overall tone of the market, I now believe it is more likely that rate increases running above our loss cost trends will persist throughout 2020." - ***CEO Dino Robusto***
MMC	"I expect upward pricing pressure to continue throughout next year". - ***CEO of Marsh John Doyle***

EXHIBIT: TRAVELERS DOMESTIC BUSINESS INSURANCE PRICING

Source: S&P Global, Inside P&C



In-between quarters, as the market has gone through the holiday season, there were limited commentary on how market conditions developed more recently.

However, one data point from AIG's Peter Zaffino who spoke at Goldman Sachs US Financial Service Conference in December last year supports (unsurprisingly) continued rate acceleration.

EXHIBIT: IN-BETWEEN EARNINGS PRICING COMMENTARY

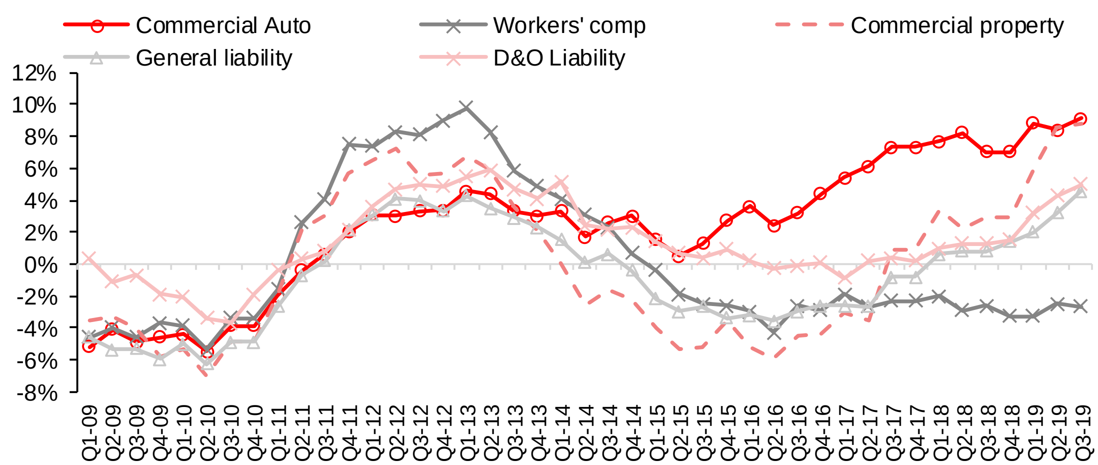
Source: S&P Global, Inside P&C

AIG	"You really have to look at it across the world and put it in its geographic components and then segment it. But if I look at the area where I think it's going to have probably the most impact, it will be North America. If I go to product lines, property, you have 3 years in a row of cat activity. You have the first time we've seen where alternative capital, stated capital is going to go down. So that has dynamics on the retro market, it has dynamics on the property reinsurance market. So we'll see how that all plays out January 1, April 1 for Japan and June 1 for Florida. But I would expect that there's going to be more discipline. They blinked a little bit last year. I don't think you'll see that as much this year". "We talk about it on the quarter calls ... We've seen more meaningful rate improvement, and that's in financial lines, casualty lines, motor and property. I mean property excluding cat, even on attritional, you start to see more movement. I would expect that to continue". ***- CEO of General Insurance Peter Zaffino***

Another data point came from CIAB whose highly watched survey suggested significant pockets of the market are the hardest they have been for close to two decades.

EXHIBIT: CIAB RATE DISCLOSURES

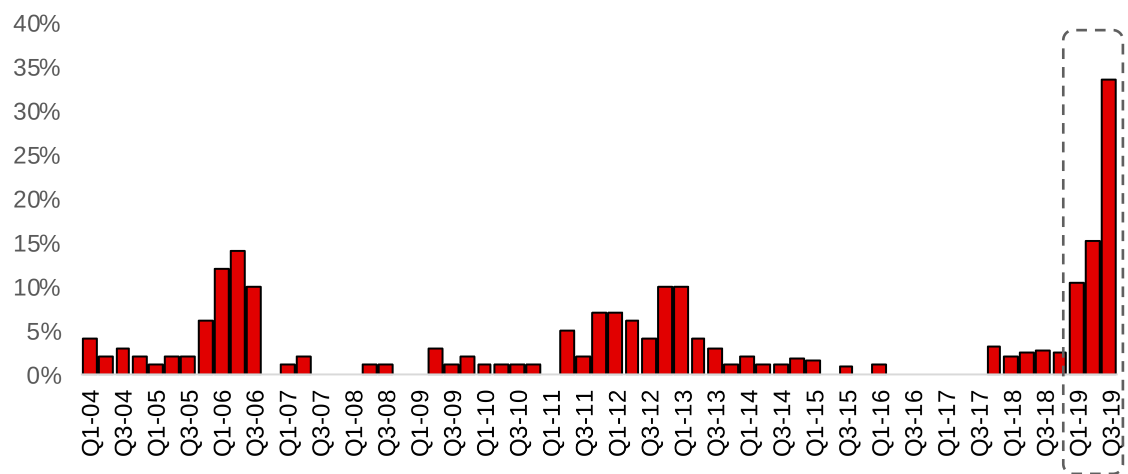
Source: CIAB, Inside P&C



For both medium and large account business, a substantially higher share of respondents are indicating a "hard market" of greater than 10% price increase than at any time since 2003. By line, commercial property, commercial auto and umbrella are all indicating the biggest percentage of disruption since the early 2000s. (See: Hard Market Watch: The CIAB Q3 edition for background).

EXHIBIT: **LARGE ACCOUNTS:** PERCENTAGE OF RESPONDENTS INDICATING +10% PRICE INCREASES

Source: CIAB, Inside P&C



Loss costs: The second-wave of confessionals

Last quarter, despite the continued acceleration in upward repricing of premiums, some of the positivity was tempered by an increased atmosphere of confessionals.

The true-ups and rare reserve strengthening at Travelers reminded that the nature of insurance business is that pricing follows pain. However, there are two historically observed tendencies to remember in times like this. First, no company wants to be first to confess the pain against relatively positive market rhetoric, making it look like a firm-specific failure. And if a company has to be the one, it will likely emphasize it as an industry-wide phenomenon, just like Travelers did in Q3.

TRV	"We don't think there's anything about our book of business that makes us more susceptible to these types of claims. I mean the rate of attorney involvement and the aggressive behavior is up. And I think that's going to impact anybody writing liability coverages. So we don't think there's any reason to think that our book of business is more susceptible than anybody else's". ***- CEO Alan Schnitzer***

Second, partly driven by this exact reason, the good news on pricing come first (Q1 and Q2), and the bad news on loss trend come only once the "cover" of pricing momentum provides an offset (Q3 and forward).

We highlight Travelers and CNA as "first-wave" confessionals who have adjusted their reserves significantly to reflect the adverse trends (both reported rare adverse PYD).

Most other large carriers downplayed the social inflation buzz highlighting the trends as old news that their models and loss picks have already incorporated.

CB	"We have classes in long and short tail where the loss cost trend is benign. And we have, in both long- and short-tail, classes where it is less benign, and I specifically spiked out to talk about the casualty, and I'm using casualty in the broad sense, including professional lines. The areas where we for some time have been talking about that loss cost trends or the strike loss cost trends, the loss environment has been worsening or becoming more hostile. That's all baked into that 4.5% (note: loss cost trend)". ***- CEO Evan Greenberg***
AIG	"I think, some pretty steep loss trend pure premium assumptions and a lot of the lines of business subject to what you're concerned about. Some of them in the mid- to upper single-digit trends already. So that's already been kind of baked in on how we look at things, translates into pricing models, so forth and so on". ***- CEO of General Insurance Peter Zaffino***
HIG	"Social inflation related to larger claims settlement continue to put pressure on loss cost trends. However, social inflation is not a new phenomenon. We have been monitoring these trends for years, taking the appropriate actions to ensure our pricing models and underwriting reflect these realities". ***- CEO Chris Swift***

Most carriers were hesitant to share a prediction for the future path of the loss cost trends. However, the conference call of WR Berkley's that has warned its analysts and investors about potential social inflation headwinds in every quarterly call of the last couple of years included an interesting detail.

WRB	"The trends are not going to change. We have a while before you are going to see it change, a while meaning you probably have on the short end, it would be 18 months; on the longer end, 3 years". ***- Executive Chairman William Berkley***

As reserve charges become a new normal industry-wide we expect the number of companies with reserve true-ups to increase further down the line, and the "second-wave" confessionals are likely coming as soon as this quarter.

Weather losses – another wild card

The overview of Q4 cat events points to relatively benign US cats in the quarter. For carriers with international and reinsurance exposures, the cats were above average when compared to history, as losses from Typhoon Hagibis that struck Tokyo and central Japan in October may have reached double-digit billions figure according to some estimates.

The pre-announced catastrophe losses from the last week by Chubb, Allstate and Mercury and this week by Axis generally support this expectation.

EXHIBIT: PRE-DISCLOSED Q4 CAT LOSSES (BASED ON P/T LOSSES)

Source: Company press releases, S&P Global, Inside P&C

	Chubb			Axis		
	Q4:17 Actual	Q4:18 Actual	Q4:19E Estimate	Q4:17 Actual	Q4:18 Actual	Q4:19E Estimate
Cat losses, P/T ($mn.)	417	551	430	132.8	269.1	140.0
Per share, P/T	0.89	1.19	0.94	1.60	3.22	1.66
Points on the combined	6.3pt	8.0pt	5.8pt	11.0pt	22.2pt	12.6pt
% of common equity	0.8%	1.1%	0.8%	2.9%	6.3%	3.0%

	Allstate			Mercury		
	Q4:17 Actual	Q4:18 Actual	Q4:19E Estimate	Q4:17 Actual	Q4:18 Actual	Q4:19E Estimate
Cat losses, P/T ($mn.)	598	963	295	20	43	36
Per share, P/T	1.64	2.77	0.89	0.36	0.78	0.65
Points on the combined	7.5pt	11.4pt	3.4pt	2.5pt	5.0pt	3.9pt
% of common equity	2.8%	4.8%	1.2%	1.1%	2.7%	2.0%

However, beyond cat losses, **Hanover** pre-disclosure on non-cat losses of $20mn (above estimates) sent a red flag to the market implying additional noise for the sector's earnings. We remain watchful for any commentary on rising attritional property losses and large individual risk losses that have become increasingly prevalent in market chatter.

EXHIBIT: Q4 CAT SUMMARY

Source: Aon Benfield, Inside P&C and other public sources

Dates	Catastrophes	Location	Structures/Claims	Economic loss est.	Insured loss est.
		United States			
10/10-10/17	Wildfire	California	1,000+	$100mn+	$100mn+
10/16-10/17	Severe weather	Northeast, Mid-Atlantic	35,000+	$245mn+	$190mn
07/04-07/05	Tropical Storm Nestor	Southeast	10,000+	$150mn+	$75mn
10/20-10/21	Severe weather	Plains, Southeast	Thousands	100s of millions+	100s of millions+
10/23-10/31	Wildfire	California	Thousands	100s of millions	100s of millions
10/26-10/31	Tropical Storm Olga	Southeast	Thousands	$100mn+	NA
10/26-10/31	Severe weather	California	Thousands	Millions	NA
10/31-11/01	Severe weather	Northeast, Mid-Atlantic	Thousands	100s of millions	NA
11/12-11/14	Winter weather	Plains, Midwest, Southeast, Northeast	Thousands	Millions	Millions
11/19-11/21	Severe weather	Arizona	Thousands	10s of millions	10s of millions
11/25-11/28	Winter weather	West, Plains, Midwest, Southeast	Thousands	Millions	Millions
11/27-12/02	Winter weather	West, Plains, Midwest, Northeast	Thousands	Millions	Millions
12/15-12/18	Severe weather	Rockies, Midwest, Southeast, Northeast	15,000+	$235mn+	$175mn
12/21-12/24	Flooding	Southeast	12,000+	$125mn+	NA
12/28-12/31	Severe weather	Plains, Midwest, Northeast	10,000+	$200mn+	NA
		International significant cats			
10/01-10/02	Typhoon Mitag	China, Taiwan, Korean pen.	Thousands	$860mn+	NA
10/01-10/02	**Typhoon Hagibis**	**Japan**	**94,000+**	**$10bn+**	**$7-11bn**
11/11-11/19	Flooding	Italy, Austria	Thousands	$1.9bn+	NA
11/21-11/24	Flooding	France, Italy	40,000+	$945mn+	$315mn+ in France

Brokers preview

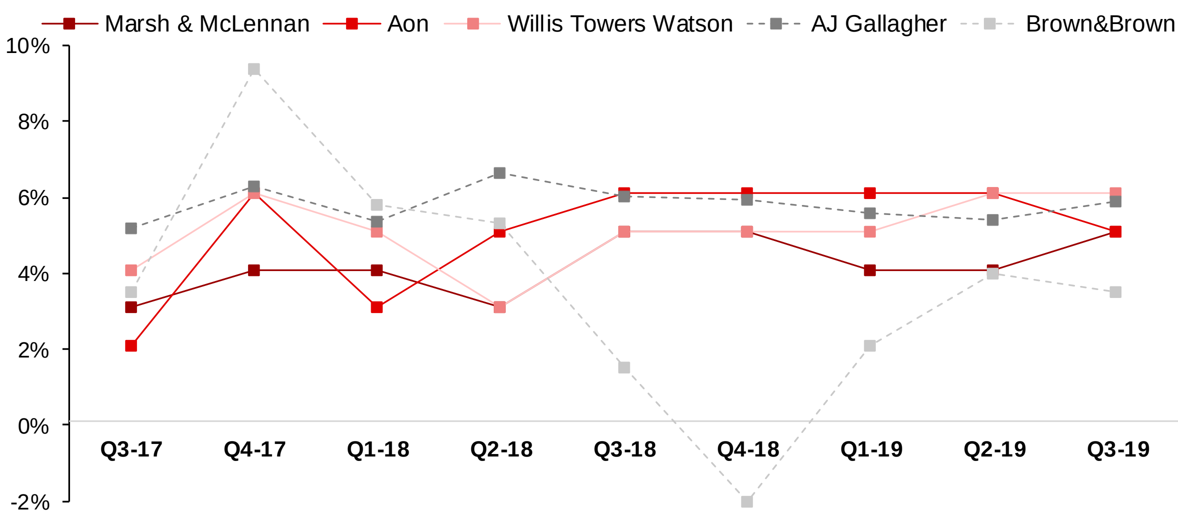
Insurance brokers' stellar operating results through recent years lifted the expectations bar for the broker results to an extraordinarily high level. The intermediaries' stock price reaction to Q3 releases suggested that earnings are struggling to be a catalyst for pushing the stocks further up, as they underperformed market despite another quarter of strong results. Perhaps the only exception was MMC whose Q3 results came in with weathered JLT headwinds.

Equity analysts are expecting the Q4 organic growth to exceed 5% at Aon, Willis Towers Watson and AJ Gallagher. A slower growth of around 3% is expected from Brown & Brown as the broker continues facing headwinds in National Programs segment due to underperformance of the lender-placed business.

Marsh & McLennan is also expected to trail the peers on growth as the JLT-related revenue-leakage will likely continue hurting the YoY comparison.

EXHIBIT: ORGANIC GROWTH

Source: Company reports, S&P Global, Inside P&C



Elsewhere, the results of margin expansion ambitions will also be topical, with particular focus on the initiatives at Willis Towers Watson in its efforts to catch up with the peers.

BB&T Insurance Holdings results that are set to release this Thursday will be highly scrutinized for an early read on P&C market conditions.

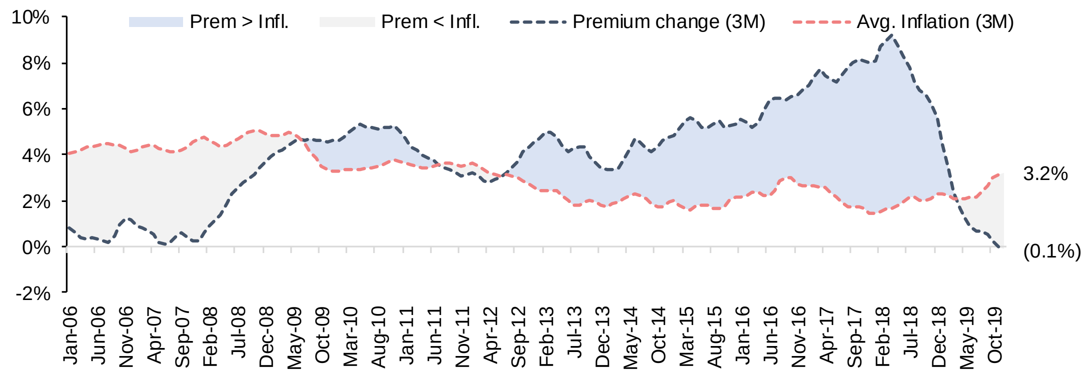
Personal auto preview

Personal lines companies are expected to feel pressure from low premium inflation relative to average estimated loss cost inflation compiled from the BLS.

Progressive, which reports this upcoming Wednesday is considered a bellwether in the personal auto sub-sector as it's known for its accurate and timely recognition of trends in frequency and severity. Last week BLS released December's inflation data and YoY premium inflation rose to 0%, up from the previous two months of -0.2%, but still below average loss cost inflation of 3.2%. A spread between premium inflation and loss costs has existed since February of 2019.

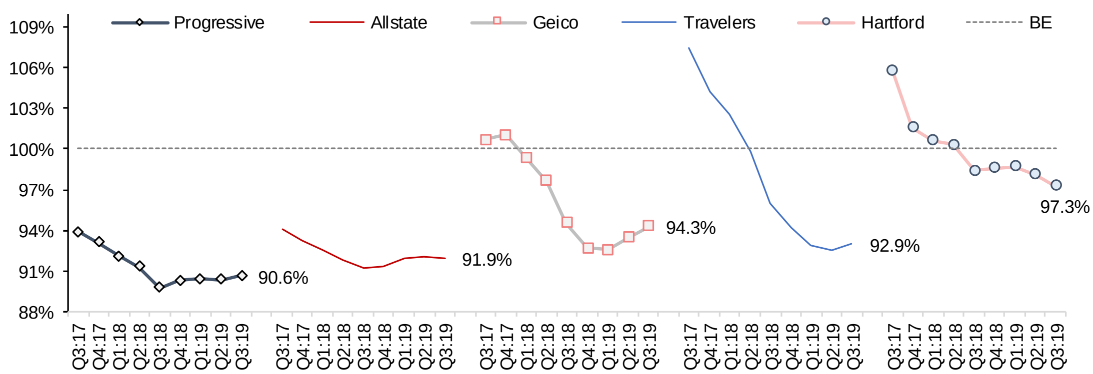
EXHIBIT: TRAILING 3M PREMIUM INFLATION & LOSS COST EST.

Source: BLS, Inside P&C



The results have followed years of just the opposite, and margin improvement was seen across the board through 2018. Now, as premium inflation remains low, combined ratios are starting to move back up. During the third quarter of last year,

EXHIBIT: TTM PERSONAL AUTO COMBINED RATIO



Bermuda preview

Earnings expectations for the Bermuda composite present a mixed picture, with popular / highly profitable P&C-cum mortgage insurance carrier Arch looked upon by analysts the most favorably, while questions abound whether **Axis** was able to stem the downturn in the company's year-to-date premium writings as well as contain the "midsized" property and surety losses that have cropped up in recent quarters.

At **Arch** profitability is heavily driven by the company's mortgage segment. In the third quarter, the company generated an overall underwriting profit of $232mn, led by a $263mn gain in the mortgage, offsetting underwriting losses of $24mn and $3mn in insurance and reinsurance, respectively. Arch last posted back-to-back negative insurance underwriting quarters in 3Q18 and 4Q18, and given the lighter 4Q19 cats, we expect the segment to return to profitability. Arch posted strong premium growth in Q3 (+22% in Insurance and +40% in Reinsurance). Similar numbers in Q4 would be a positive signal, given the rate action the market is experiencing.

Ren Re, third quarter earnings took a hit from catastrophes. Given the heightened volatility of RNR's results, heavy focus on property cat, we expect the more muted cat season compared to the prior two years, plus the increasing rate momentum in the reinsurance market to act as a tailwind. Recall, Ren's premium growth figures are currently skewed by the closing of the acquisition of Tokio Millennium Re this past year.

The companies have each reported strong quarter-over-quarter acceleration in rate change, and we will look to see how premium growth figures compare with rate increases the carriers have achieved.

This research report was written by Insider Publishing's Research team which includes Gavin Davis, Gianluca Casapietra, Dan Lukpanov and James Thaler.