Evolving Criteria

Global Rating Agency Outlooks, Criteria Updates and Regulatory Developments

October 2023

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Executive Summary

Executive Summary
Challenges Weigh on Insurer Results

2023 has been a challenging year for many in the (re)insurance space, particularly on the primary side. Insurers have had to grapple with a number of headwinds, including:

- Reaching or maintaining rate adequacy given inflation (both economic and social)
- Delivering positive underwriting results given increased retention and higher reinsurance costs following a difficult renewal season
- Weathering rising interest rates that have impacted the market value of fixed income investments
- Experiencing increased natural catastrophe-related volatility

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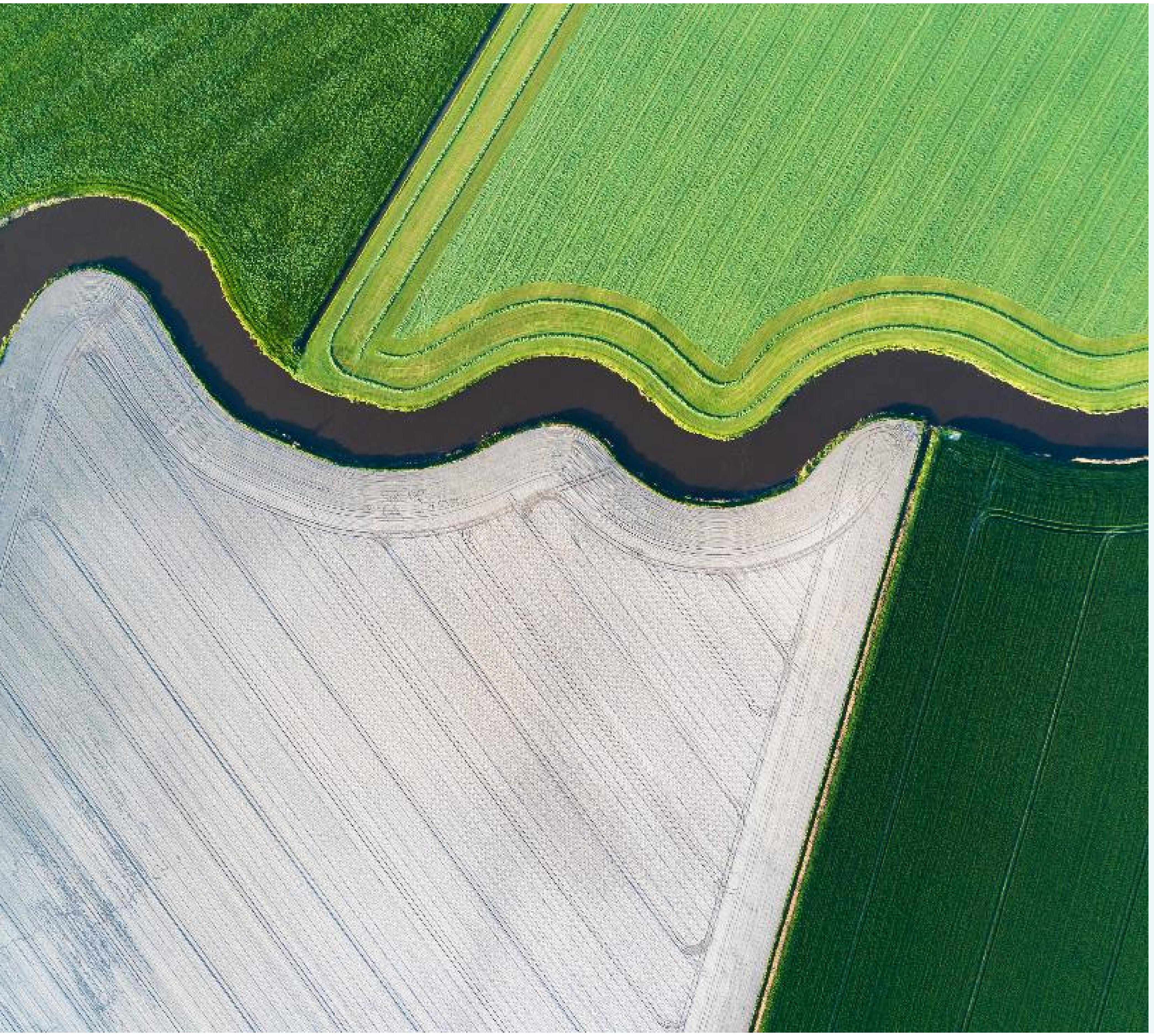
Executive Summary

Rating Agencies Adopt More Negative Outlooks; Capital Model and Equity Credit Changes



In light of these challenges, some of the rating agencies updated their outlooks on the property casualty segments of the industry, reflecting more negative credit trends.

- Despite these pressures, in general, the industry remains sufficiently capitalized with adequate liquidity.
- Primary insurers, particularly those focused on personal lines, are facing a series of headwinds.

Rating agencies have placed more scrutiny on performance metrics, particularly in regards to underwriting.

- The macroeconomic environment continues to be a source of concern for rating agencies.

S&P's revised capital model proposal is expected to be the most significant rating agency methodology update this year, with the changes potentially impacting up to 10% of ratings.

- AM Best and Moody's both launched *Requests for Comment* on their equity credit criteria in 2023

02

2023 Industry Outlooks

Industry Outlooks

More Rating Agencies Move to Negative Outlook on the P&C Sector

Ratings agencies were mixed in their outlooks on the property/casualty segment.

- S&P moved its outlook to negative on the entire US property/casualty sector in the latter half of 2022. Cited factors included:
  - Reduced market value of fixed income portfolios which weighed on equity;
  - Higher natural catastrophe activity; and
  - Underperformance in the personal auto segment.
- Moody's also changed its personal P&C outlook to negative as higher reinsurance costs, inflation, and rising claims were expected to weigh on underwriting profitability.

Rating agencies were neutral on the global reinsurance segment.

- S&P revised its outlook from negative to stable in Sept 2023 and Fitch moved from neutral to improving.
- The hard reinsurance market and potential for underwriting profitability outweighed the headwinds posed by increased claims activity and amounts

All of the rating agencies maintained stable outlooks on the life and annuity segment as well as the health segment.

- The higher interest rate environment is expected to bolster life insurers investment returns, although exposure to certain asset classes--such as commercial real estate --could prove to be a headwind.

Sector	AM Best	Fitch	Moody's	S&P
US Commercial	Stable	Neutral	Stable	Negative
US Personal	Negative	Neutral	Negative	Negative
Global Reinsurance	Stable	Improving	Stable	Stable
Life & Annuity	Stable	Neutral	Stable	Stable
Health	Stable	Neutral	Stable	Stable

Industry Outlooks

AM Best considers several sub-segments of the commercial segment negative

AM Best maintained its negative outlook on the US personal lines segment largely due to the continued difficulties faced by the personal auto segment.

- Rate adequacy has not kept pace with loss cost inflation, and achieving rate adequacy has been hampered by the regulatory environment.

In September, AM Best moved the homeowners outlook to negative as well.

- Secondary perils and higher retentions have made the return to underwriting profitability unlikely.

On the commercial side, several of the sub-segments outlooks were also negative.

- Commercial auto has been beset by an increase in severity and continued adverse reserve development.
- Social inflation along with litigation financing has been a headwind to liability segments.
- As the pandemic-induced court backlogs have begun to unwind, insurers have faced outsized jury verdicts and settlements.
- High mortgage rates and monetary tightening as well as the uncertainty about the economy has weighed on the title sector.

AM Best Market Segment Outlook	
US Personal Lines	**Negative**
Personal Auto	Negative
Homeowners	Negative
US Commercial Lines	**Stable**
Commercial Auto	Negative
General Liability	Negative
Medical Professional Liability	Negative
Professional Liability	Negative
Title	Negative

03

Rating Agency Updates

Rating Agency Updates

S&P Released Updated Capital Model Proposal; Proposed Changes to Equity Credit from AM Best and Moody's

In May 2023, S&P Global Ratings issued an updated draft of changes to its methodology for assessing the risk-based capital adequacy of insurance and reinsurance companies

- Revision could lead to credit rating actions on approximately 10 percent of ratings
- This version of the proposal seems more favorable to the market in that companies are awarded more credit for diversification
- The proposal may lead to increased reinsurance capacity over the intermediate term, given preliminary estimates of capital redundancy
- Implementation of these updates is expected in the fourth quarter of 2023

AM Best expanded its national scale ratings to India, Indonesia, Philippines, Vietnam, and Egypt

- AM Best Requests Comments on Proposed Revisions to Best's Credit Rating Methodology, Available Capital and Holding Co Analysis
- Moody's: Hybrid Equity Credit, Financial Statement Adjustments and REITs: Proposed Methodology Updates

AM Best expanded its national scale ratings to India, Indonesia, Philippines, Vietnam, and Egypt

Kroll received Freddie Mac approval

Fitch made standard updates to its criteria and methodologies

- Updates focused on clarifying parts of existing criteria, such as how climate risks are captured in the credit analysis

Demotech published criteria and default studies

Rating Agency Updates

S&P - Proposed Capital Model Changes

Timeline

- **On May 9**, S&P issued a revised request for comment (RFC) on its proposed criteria for analysing the risk-based capital (RBC) adequacy of insurers and reinsurers. The proposed criteria can be found through the following link: [RFC Insurance 2023 | S&P Global Ratings (spglobal.com)]
- RFC comment period closed **July 14, 2023.**
- S&P currently expects to publish their final criteria in Q4 of 2023

Key Changes

- **Calculation of total adjusted capital (TAC)**
  - TAC could increase because non-life deferred acquisition costs (DAC) are not deducted and various haircuts to liability adjustments are removed.
  - TAC could decrease due to the treatment of hybrid capital and debt-funded capital.
- **RBC requirements**
  - The confidence levels used to calibrate the capital charges are increasing and the diversification benefits will be more explicitly captured. The two may not offset each other, which would result in a higher RBC requirement.

Impact

- S&P believes that the proposed criteria could lead to credit rating actions on about **10% of group ratings** in the insurance sector.
- S&P estimates most group rating changes would be by one notch, with more upgrades than downgrades.
- After the criteria is enacted, under criteria observation (UCO) designations will be issued and communicated to companies that could have a credit rating action as a result of the new criteria.
- UCO designation is likely to be resolved in approximately six months after being assigned to a company.

Rating Agency Updates

S&P - Updated Principles for Determining the Eligibility of Debt-Funded Capital in TAC

Structural Subordination Principle

S&P proposed two paths for debt instruments issued by a nonoperating holding company (NOHC) to be eligible for consideration as debt-funded capital

1. Issued from a NOHC within a jurisdiction with high structural subordination
   - Include debt issued by NOHC of an insurance group as debt-funded capital whether or not it has loss absorbing capabilities
   - Apply a 20% haircut to the value of cash and investments retained on the balance sheet of a NOHC
2. Issued from a NOHC within a jurisdiction with low structural subordination
   - Only include NOHC debt issued in a jurisdiction with low structural subordination that have loss absorbing capabilities (e.g., deferral of the coupon, write-down of principal)
   - Do not apply the 20% haircut to cash and investments on the balance sheet of a NOHC
   - Where potential regulatory restrictions to payment are low, the ICR of a NOHC is generally 2 notches lower than the ICR on the core operating entities

S&P considers structural subordination high when potential regulatory restrictions to payment are high between regulated operating entries and the NOHC – typically this is when the NOHC is outside the regulatory perimeter

Additional Principle

Debt instruments are eligible as debt-funded capital only where all the following conditions are met:

- The regulator allows NOHC debt to fund operating company capital (amounts that exceed any regulatory tolerance limits are excluded)
- If the NOHC is inside the regulatory perimeter, the debt instrument is included as regulatory capital in group solvency calculations
- The residual time until the effective maturity exceeds one year
- The NOHC directly or indirectly owns the regulated operating entities and is not owned directly or indirectly by regulated operating entities
- None of the NOHC’s (or financing subsidiary of the NOHC’s) financial obligations are guaranteed by regulated operating entities
- The proceeds from the debt instruments are available to the regulated operating entities to absorb losses on a going concern basis (for example, debt raised to fund nonregulated activities)
- The debt instrument is not an eligible hybrid capital instrument (i.e., an intermediate or high equity content hybrid capital instrument)

Specific treatment for debt issued by NOHCs will be determined by a committee – considering the facts and circumstances specific to an issuer – in application of finalized proposals and other relevant criteria

Rating Agency Updates

S&P - Non-Life: Proposed Changes to Risk Based Capital Requirements

RBC Requirements

- Revising confidence levels to 99.5%, 99.8%, 99.95%, 99.99%
- Updating capital charges (premiums, reserves, assets, etc.)
- Updating correlation assumptions and added risk pairings
- Single set of charges for each risk with country- or region-specific charges
- Removing "M factor" adjustment resulting from review of insurers' economic capital models
- Removing capital charges for assets under management and deducting the investment in asset management businesses to determine TAC
- Clarifying that company-specific adjustments will be made only when material to analysis

Asset Risk

Credit Risk

Market Risk

- Bond risk charges to capture only unexpected losses, instead of total losses
- Increasing bond and loan risk differentiation - sector, seniority and collateral features
- Increasing equity risk differentiation - explicit risk charges for infrastructure equities
- Updating interest rate risk approach
- Increasing risk differentiation in interest rate stress assumptions by country
- Using liabilities as the exposure measure
- Enable use of company-specific inputs under certain conditions
- Applying an assumption for mean term of liabilities to measure duration mismatch
- Increasing globally consistent assumptions for:
- Rating input for bonds and loans – using a regulatory mapping table
- Capital requirement for residential / commercial MBS and mortgage loans

Liability Risk

Premium and Reserve Risk

- Updating premium and reserve capital charges (generally increasing)
- Enhancing consistency in assessing liability-related risks by aligning the treatment of mortgage insurance, trade credit insurance and title insurance with other non-life business lines

CAT Risk

- Replacing the flat one-in-250-year post tax property catastrophe capital charge with a pretax natural cat capital requirement that varies from one-in-200 to one-in-500 years at different stress scenarios
- Introducing capital charges to capture contingent counterparty credit risk relating to reinsured catastrophe exposures

Benefits of Risk Diversification

Rating Agency Updates

AM Best - Proposed Changes

On February 28, 2023, AM Best introduced draft updates to the following criteria:

- **Best's Credit Rating Methodology (BCRM)**
  - Contains newly developed AM Best classifications of insurance groups
  - Clearer description of factors that drive notching between operating companies and holding companies – rating levels, group capital fungibility, holding company diversification
  - Highlights the importance and role of a group's prudential regulatory oversight
- **Available Capital and Holding Company Analysis**
  - Elaborates on the importance of regulation for treatment of debt in credit rating analysis
  - Clarifies the treatment of perpetual preferred shares
  - Increases transparency on senior debt treatment in BCAR

Are ratings going to be affected?

- **Revisions to BCRM** will lead to a rating change for a small portion of AM Best credit ratings
- **No expected rating changes as a result of revisions to Available Capital and Holding Company Analysis**

When?

- Proposal is expected to be in-force in Q4 2023.

Rating Agency Updates

Moody's - Proposed Changes and Annual Updates

On September 5, 2023, Moody's introduced a request for comment related to draft updates to the following rating methodology:

- *Hybrid Equity Credit*
- *Financial Statement Adjustments in the Analysis of Non-Financial Corporations*
- *Financial Statement Adjustments in the Analysis of Financial Institutions*
- *REITs and Other Commercial Real Estate Firms rating methodology*

Moody's proposed changes focus on streamlining its equity-credit evaluation, including reducing the amount of possible equity credit to only three scenarios: 0%, 50%, and 100%.

Moody's expects limited rating impact from the proposed changes.

Moody's published updated methodologies for rating life insurers, property and casualty insurers, reinsurers and trade credit insurers on January 19, 2023.

- These updates addressed the accounting changes under IFRS-17 and US GAAP LDTI.
- The application of IFRS 17 or LDTI may significantly affect the overall presentation of financial statements and/or certain reported amounts, some of which are inputs to scorecard metrics.
- Scorecard metrics whose inputs are affected by the application of IFRS 17 or LDTI may result in values and unadjusted scores that are significantly different from previous years.
- The application of the new accounting standards are not expected to directly affect the underlying economic risk or expected cash flows of in-force business.
- Qualitative adjustments to factor scores of affected metrics will, for a period of time, be particularly important for certain insurance companies, due to limited comparability with prior accounting periods or with insurers that follow different accounting standards.
- These adjustments fall within the scope of overall approach to analyzing insurers where factor scores might be adjusted to reflect analytical perspective of credit risk. Supplemental metrics might be considered in the analysis.

Rating Agency Updates

Fitch Ratings (Fitch) updated its Insurance Rating Criteria on July 20, 2023. The revised criteria focused on editorial updates and clarification, with no impact on ratings.

The changes clarify: 1) how climate risks are considered in credit analysis, 2) the approach to start-ups in the Business Profile section and 3) the Equity Capital component for the various ratio definitions in the Criteria appendix.

1) How climate risks are considered in credit analysis

- Insurance companies are inherently exposed to climate risk through their investing and underwriting activities.
- Where climate-related risks are sufficiently foreseeable and material, they are most likely to be reflected in Fitch's analysis with scoring of relevant rating drivers. This may include:
  - Physical risks, or the potential impact of higher temperatures, rising sea levels and more extreme weather events on insurers' underwriting and investment performance
  - Transitional risks, the effects of decarbonization on business sentiment, technology and the long-term viability of certain economic sectors; and
  - Adaptation capacity, including insurers' geographic and business model diversification, climate risk governance and long-term greening strategy. Climate-related risks may also affect an insurance companies' operating environment and its financial profile.
- Fitch points out that insurers that exhibit relatively high vulnerability to climate risk may be subject to additional review to assess strategic actions that could mitigate or amplify this vulnerability.

2) Approach to start-ups in the Business Profile

- Fitch clarified and added the approach to start-ups in the Business Profile section. Insurers with less than three years of operating history, or those in runoff, will typically be rated no higher than the 'BBB' rating category barring any mitigants, such as parent or group support.
- Fitch also breaks start-ups into 2 categories, where insurers with 'limited operating history' are considered as 'Less Favorable' and insurers with 'very limited operating history' are deemed as 'Least Favorable'.

3) Update of Equity Capital component for the various ratio component

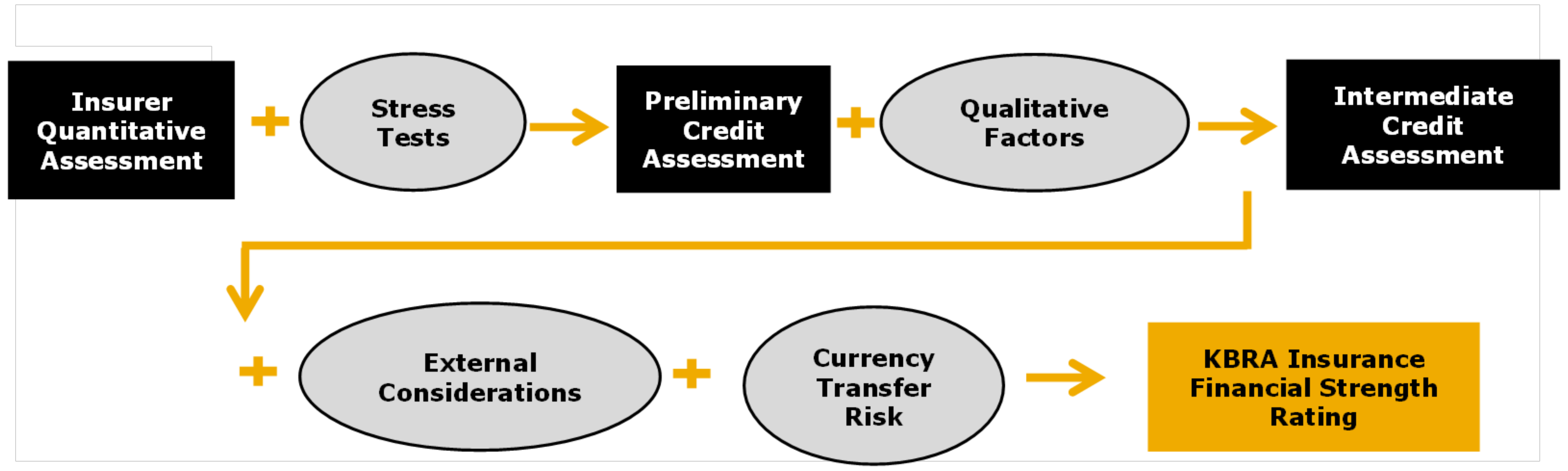
Clarified the definition of equity capital for each of the various accounting standards.

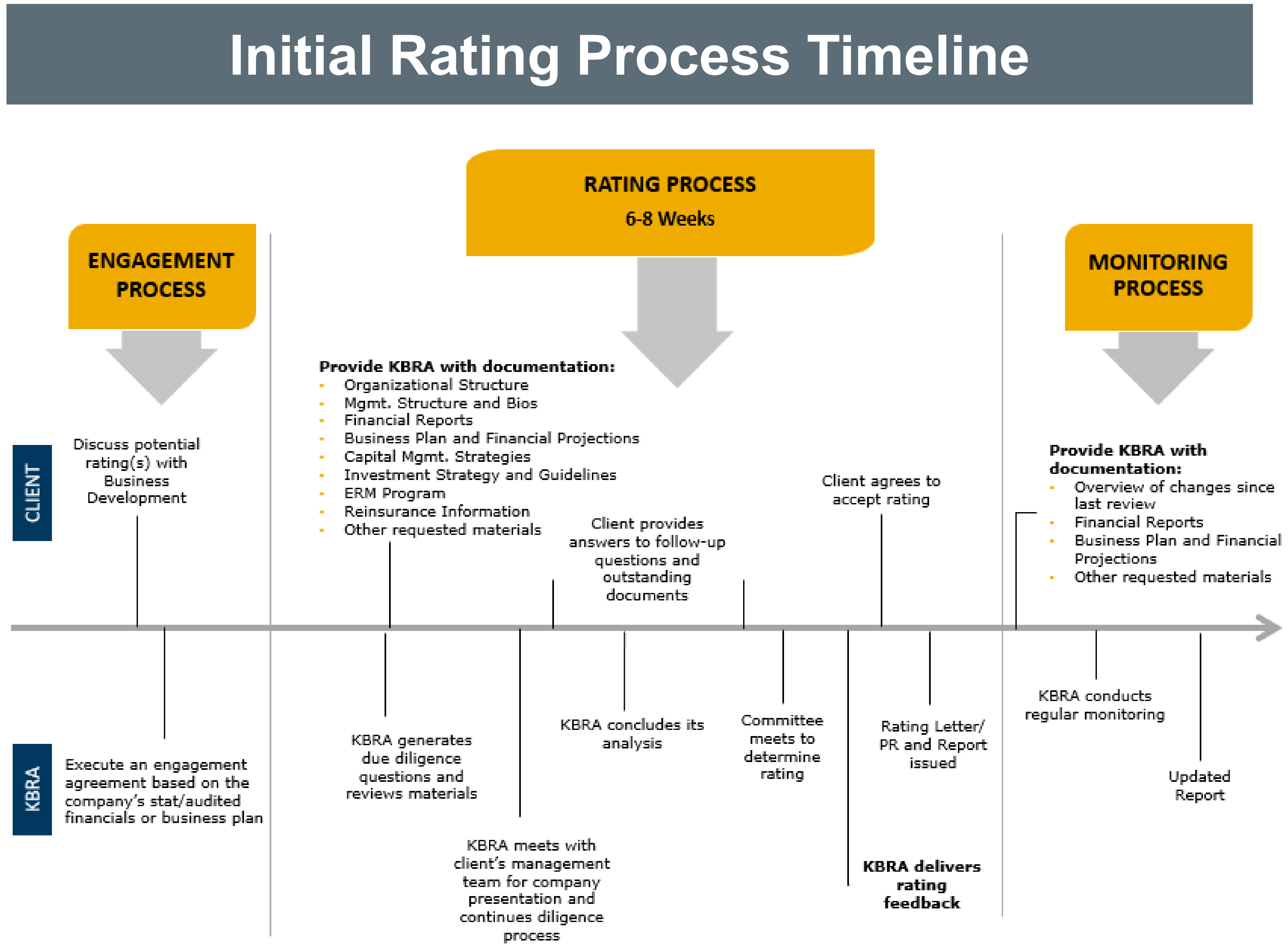
- **US Sovereign Downgrade**: On August 1, 2023, Fitch downgraded the United States of America's Long-Term Foreign-Currency Issuer Default Rating (IDR) to 'AA+' from 'AAA'. The downgrade reflects expected credit deterioration over the next three years, a high and growing general government debt burden, and the erosion of governance relative to 'AA' and 'AAA' rated peers over the past two decades that has manifested in repeated debt limit standoffs and last-minute resolutions.
- Fitch subsequently published commentary that the ratings of 'AAA'-rated U.S. life insurers are unaffected by the recent downgrade of the U.S. sovereign. The three 'AAA'-rated life companies can maintain IFS ratings up to two notches above the sovereign given their diversified investment portfolios and franchise strength. In addition, they expect any potential market volatility resulting from the downgrade to be short-lived and have limited impact on companies' investment portfolios and capital.

Source: Fitch Ratings, "Insurance Rating Criteria" published July 20, 2023; "Fitch Downgrades the United States' Long-Term Ratings to 'AA+' from 'AAA'; Outlook Stable", published August 1, 2023; "Insurance 'AAA's Unaffected by U.S. Downgrade, Financial Conditions Key Risk" published August 2, 2023.

Rating Agency Updates: Kroll Bond Rating Agency (KBRA)

For a mortgage lender to sell a loan to a Government Sponsored Enterprise (GSE), the property must be insured by an insurance company with a rating designation from a company on the approved sellers guide above a certain threshold. In February of 2023, Freddie Mac amended their guide to expand their list of eligible rating providers to include KBRA. Now any insurer with a minimum financial strength rating of BBB by KBRA will fulfill Freddie Mac's requirements. KBRA had already been approved by Fannie Mae in 2018.





Key Quantitative Metrics For Life Insurance Companies:

- Capital & surplus (C&S) to total liabilities
- High-risk assets to C&S
- % of interest-sensitive reserves
- Net investment yield
- Risk-adjusted capital metrics

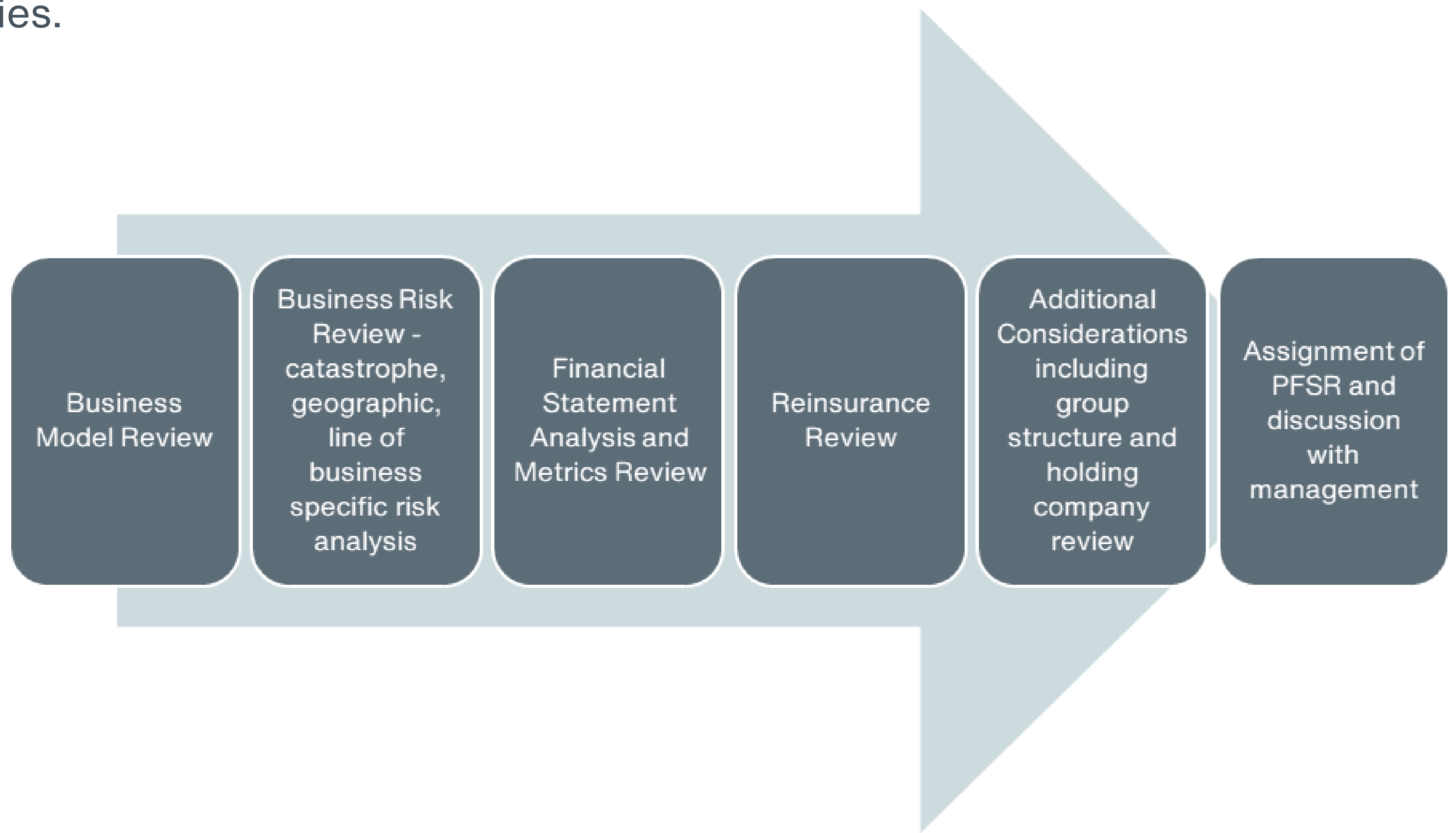
Key Quantitative Metrics For Non-Life Insurance Companies:

- Net leverage
- Operating cash flow ratio
- Combined ratio
- Operating ratio
- Risk-adjusted capital metrics

Rating Agency Updates: Demotech

Demotech rates most carriers in the Florida homeowners' market and their 'A' rating satisfies requirements for Fannie Mae and Freddie Mac. During a tumultuous 2022, Demotech was vocal about the need for reforms in the state to continue rating Florida carriers. During 2022, the State of Florida enacted many insurance reforms as summarized by Demotech in the below chart.

On July 11, 2022, the Securities and Exchange Commission (SEC) designated U.S. insurance rating agency Demotech a Nationally Recognized Statistical Rating Organization (NRSRO). As part of the NRSRO designation, Demotech is subject to SEC compliance rules, which include published criteria and default studies.



Metric	Target
Risk Based Capital (RBC)	>300%
Liabilities to Surplus Leverage	<3:1
Liquidity = Cash & Invested Assets / Total Liabilities	>1:1
Gross Written Premium to Surplus Leverage	<6:1
Net Written Premium to Surplus Leverage	<3:1

Demotech highlights that the key consideration in its ratings process is the balance sheet strength and financial integrity of the company, including a review of reinsurance protection and adequacy of loss reserves. Profitability is another element of the rating review. Demotech defines their financial strength rating (FSR) as the 'relative ability' of an insurer to honor meritorious claims during a downturn in general economic conditions as well as a downturn in the underwriting cycle.

Business Model Review: Demotech considers the business model and operating profile of the insurer including lines of business, geographic profile, operating environment, and other operational aspects

- **Business Risk Review:** Review of risk profile of insurer including lines of business, geography, cat exposure, legislative, regulatory and judicial environment, enterprise risk management (including any catastrophe response plan and disaster recovery plan)
- **Financial Statement Analysis and Metrics Review:** While Demotech does not state specific minimums or thresholds for these metrics, companies outside the ranges may be subject to additional review and analysis.

Quality and Quantity of Reinsurance Review: Demotech will review catastrophe modeling output (including selection of certain parameters), net catastrophe retentions for specified return times and its vertical and horizontal reinsurance capabilities. Companies with a net catastrophe retention greater than 15 percent of prior year surplus (first event, pre-tax) may be subject to greater review.

Additional Considerations: Includes review of group and ownership structure, holding company, management team and future plans and anticipated changes.

04

AM Best Analytics

AM Best Analytics: BCRM

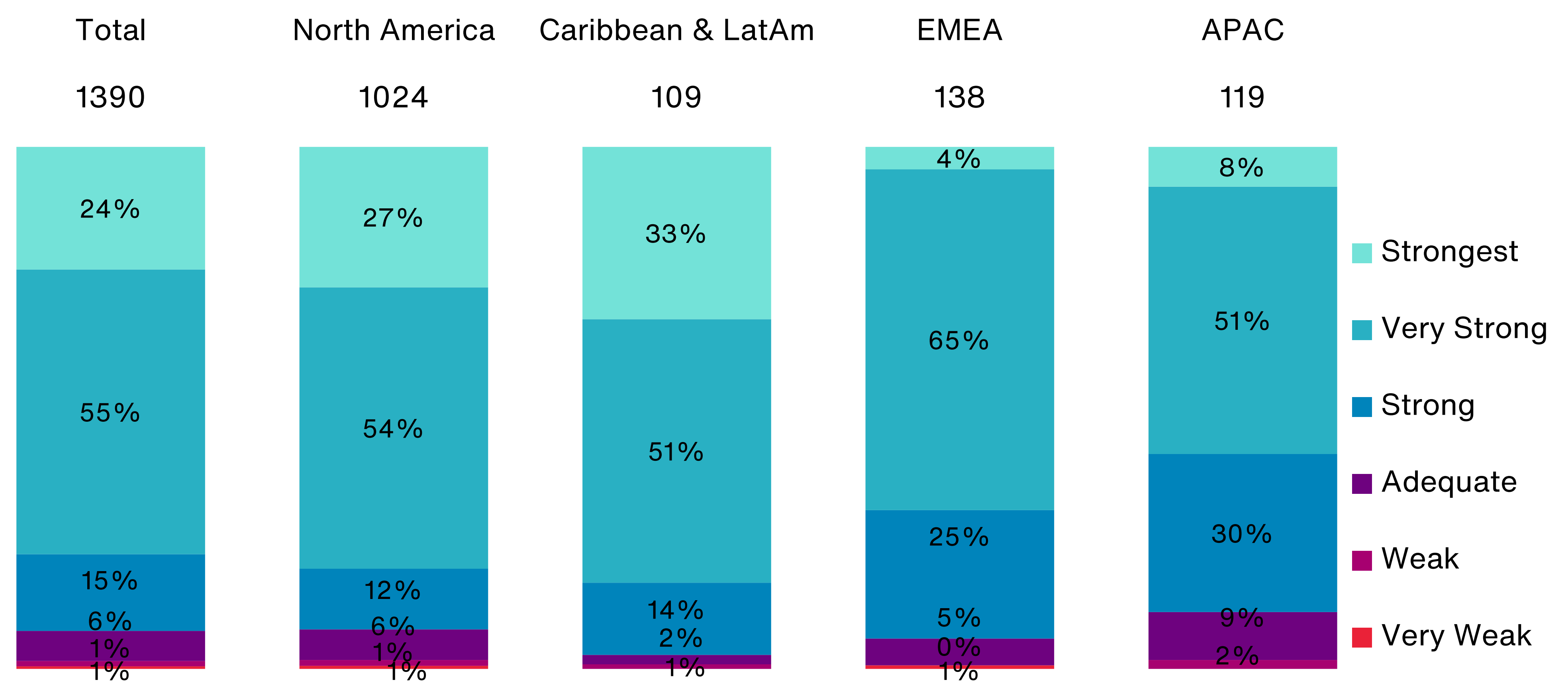
Aon's analysis of AM Best's Credit Rating Methodology (BCRM) process provides insurers with useful insights into the rating process and how the various factors drive ratings outcomes. The BCRM process begins with a balance sheet strength assessment and is adjusted based on the components described below. The final Issuer Credit Ratings (ICR) are the foundation for the Financial Strength Rating (FSR). The charts in this section are based on the global companies composite as of August 2023.

Balance Sheet Strength

Assessment of balance sheet strength begins with the measuring risk-adjusted capitalization through its proprietary model—Best's Capital Adequacy Ratio analysis (BCAR) with results measured by scores at various confidence intervals. Analysis of other factors, such as quality of capital, stress tests, liquidity, appropriateness of the reinsurance program, loss reserve strength and asset liability management are then used to form the balance sheet strength assessment.

Balance Sheet Strength	Count	Median BCAR			
		VaR 95.0	VaR 99.0	VaR 99.5	VaR 99.6
Strongest	326	74	63	58	57
Very Strong	759	70	58	52	50
Strong	204	60	45	40	37
Adequate	80	42	20	10	6
Weak	14	26	-7	-23	-28
Very Weak	7	-25	-82	-105	-111
Total	**1390**	**69**	**56**	**50**	**48**

Overall, strong capitalization of the global insurance industry, with 82% of the sample size having a BCAR score greater than the 25-point threshold for the "Strongest" BCAR assessment at VaR 99.6. However, only 23% received the "Strongest" balance sheet assessment.

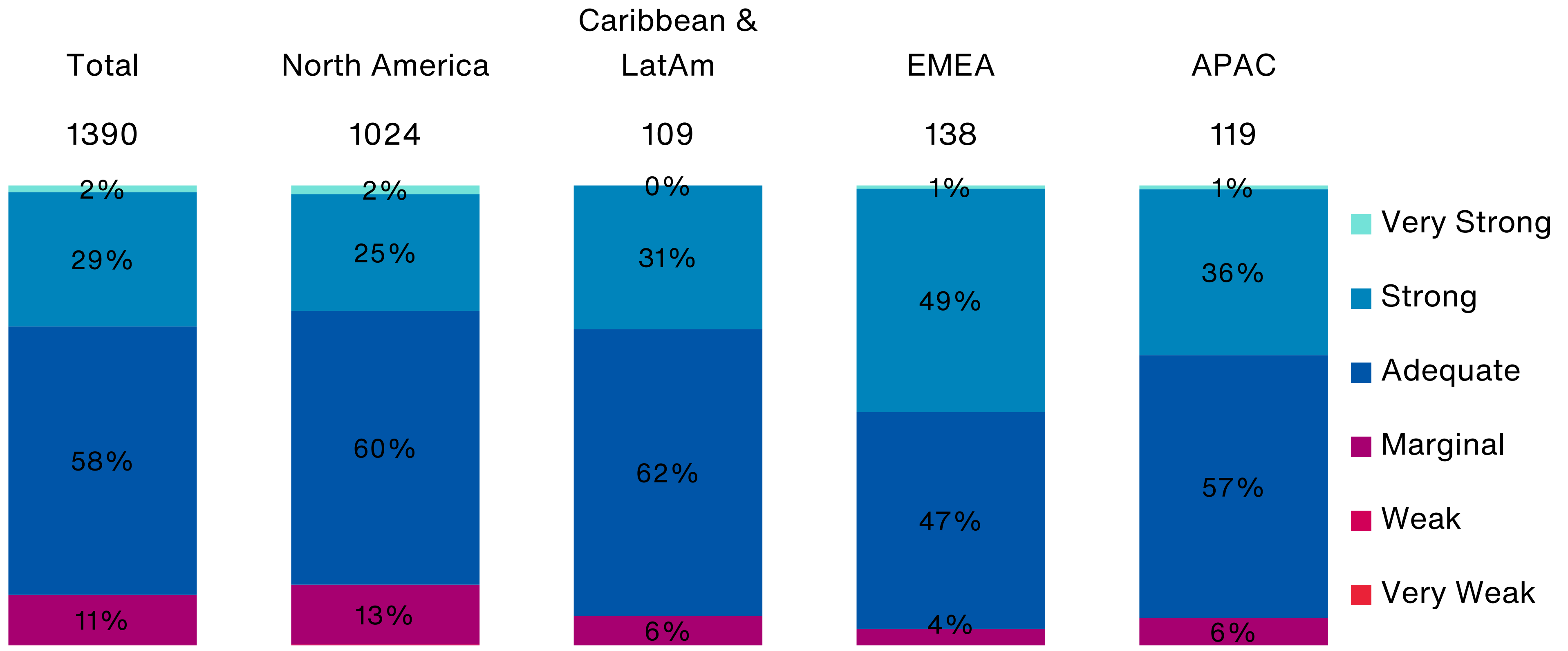


- Majority of the rated companies have a "Strongest" or "Very Strong" balance-sheet-strength assessment, whereas very few companies (two percent in total) are rated "Weak" or "Very Weak".
- Companies with surplus size above $1 billion and more complex business profiles have a lower median VaR 99.6 BCAR of 42%, whereas the median for companies with lower surplus size (<$100 million) is 52%.
- Mutual companies have a higher VaR 99.6 median BCAR score of 54% compared to stock companies with a median of 46%. The median VaR 99.6 BCAR score for P&C companies is 52% while L&H companies is 39%.

AM Best Analytics: BCRM

Operating Performance

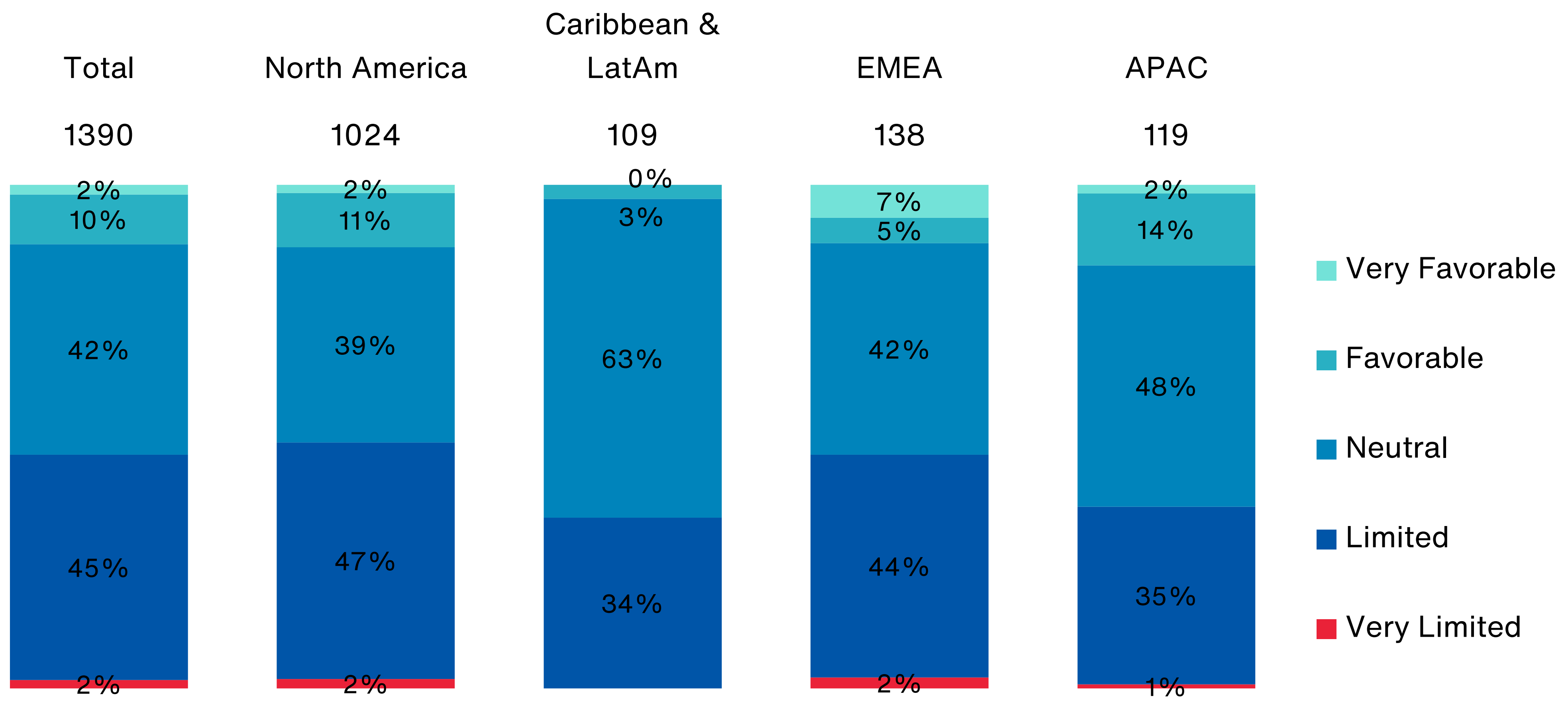
The evaluation of operating performance can move the baseline ICR up as much as two notches or down as much as three notches. Key profitability indicators used to measure underwriting performance, investment performance, and total operating earnings include loss ratio, expense ratio, combined ratio, operating ratio, change in premiums & reserves, net yield, pre-tax total return, pre-tax operating ROR, operating ROE, net operating gain (NOG) to assets and NOG to revenue.



- Most companies in our database received an “Adequate” operating performance assessment. No company is currently assessed as “Very Weak” and only 2 companies (U.S. L/H) have “Weak” operating performance.
- The median 5-year combined ratio for “Very Strong” companies is 83% and the 10-year is 82% with a low volatility of 6%, while the median 5-year combined ratio for “Adequate” companies is 99% and the 10-year is 98% with a volatility of 7% (Volatility based on the standard deviation of the 5-year combined ratio).

Business Profile

A company’s business profile can increase or decrease its’ ICR by up to two notches. AM Best will assess a company’s market leadership position, brand recognition, degree of competition, distribution channels, product/ geographic diversification, pricing sophistication, data quality, management capabilities and innovation.



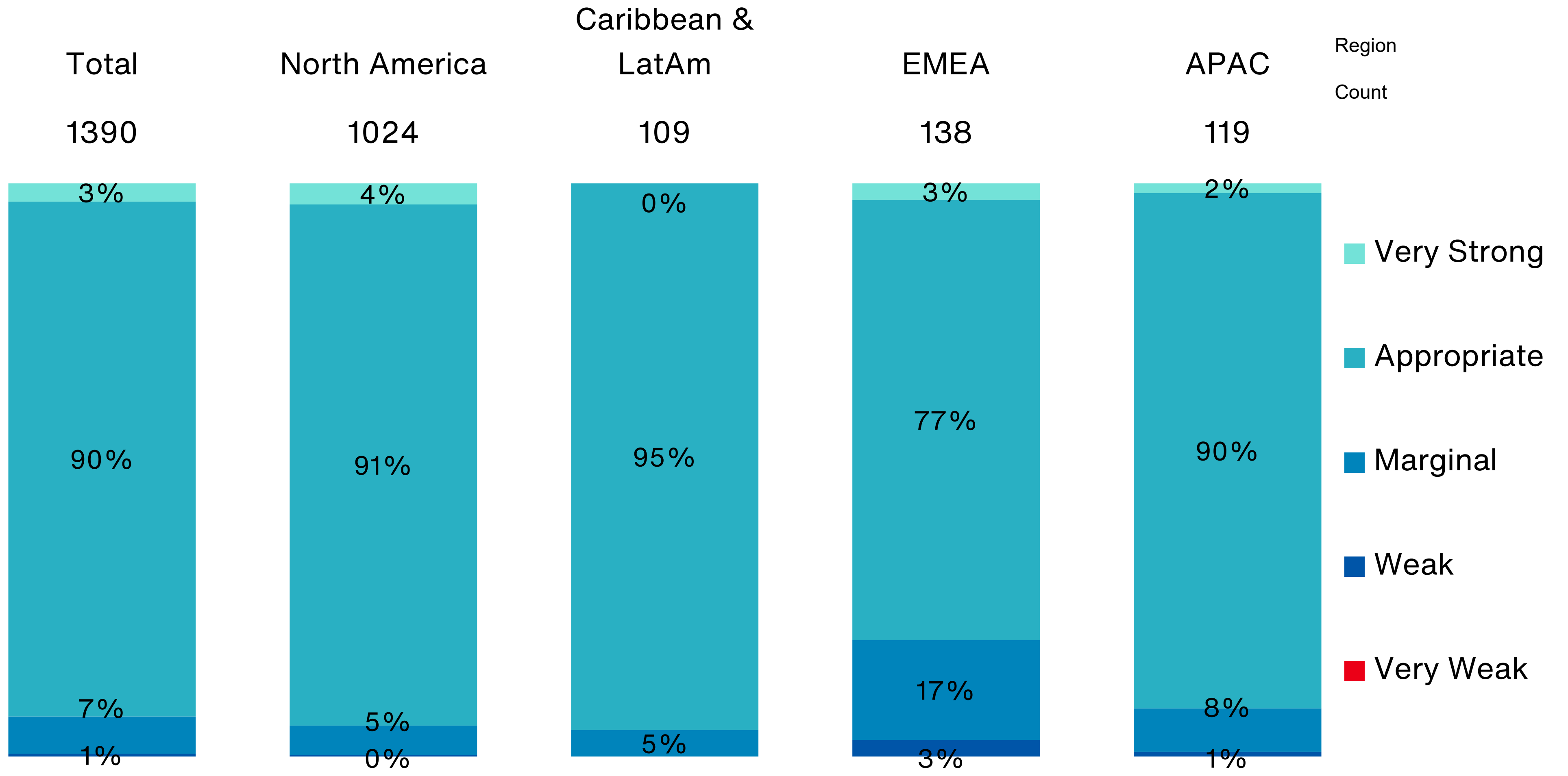
- Overall, 46% of companies received a negative notch (Limited & Very limited) for the business profile assessment, and 42% have a “Neutral” assessment. Of the 27 companies that received the “Very Favorable” assessment, 10 are large, global reinsurance companies. The 23 companies with a “Very Limited” business profile were cited as having high product and geographic concentration.
- Surplus size has a high correlation to the business profile: 52% of the companies with a surplus greater than $1 billion have a favorable assessment while none of the companies with surplus less than $100 million received a favorable assessment.

AM Best Analytics: BCRM

Enterprise Risk Management

Strong ERM can increase the ICR by up to one notch, whereas weak ERM can decrease the ICR by up to four notches. AM Best evaluates both risk management capabilities and the risk profile of each company.

Analysts use a Risk Impact Worksheet in the ERM assessment process. This worksheet contains 10 categories of risk which are measured against risk management capabilities for each area. These categories are product/underwriting, reserving, concentration, reinsurance, financial flexibility, investments, legislative / regulatory / judicial / economic, management, operational, and risk appetite / stress testing.



- Clear majority (90%) of companies have “Appropriate” ERM, whereas only 7% have received a negative notch and 3% a positive notch.
- No companies have yet been assigned a “Very Weak” assessment and only seven companies have the “Weak” assessment with “-2” notch.

Rating Enhancement

A non-lead rating unit may receive a lift (or drag) adjustment to their rating based on factors such as integration, strategic importance and contribution to the overall enterprise and lead rating unit. Rating enhancement can increase or decrease ICR by up to four notches.

- 274 companies (20% of total) are receiving rating lift from their parents. Of the companies receiving lift, 77% have “+1”, 17% receive “+2”, 3% get “+3”, and 3% have “+4”. 1% of total companies have a rating drag.
- Of 274 companies, 69% of the companies receiving lift are domiciled in North America, 8% in Caribbean and Latin America, 11% in EMEA and 12% in APAC.
- Only 20 companies are receiving ratings drag mainly due to high leverage at the parent company level.

Rating Enhancement

Analysis of AM Best ratings actions during 2023 to date shows that rating downgrades are increasing as a portion of overall rating actions.

Globally, 852 companies have gone through a rating cycle since 12/31/2022:

- 129 (~15%) had rating change (41 upgrades, 57 downgrades, 12 downgrade-withdrawals, and 19 withdrawals)
- 39 (~5%) had a change in rating factor assessments but no change in rating

405 U.S. P&C companies have gone through rating cycle since 12/31/2022:

- 60 (~15%) had rating change (14 upgrades, 32 downgrades, 9 downgrade-withdrawals, and 5 withdrawals)
- 15 (~4%) had a change in building block assessments but no change in rating

170 U.S. Life & Health companies have gone through rating cycle since 12/31/2022:

- 23 (~14%) had a rating change (10 upgrades, 10 downgrades, and 3 withdrawals)
- 18 (~11%) had a change in building block assessments but no change in rating

AM Best Analytics: DUAE Performance Assessments

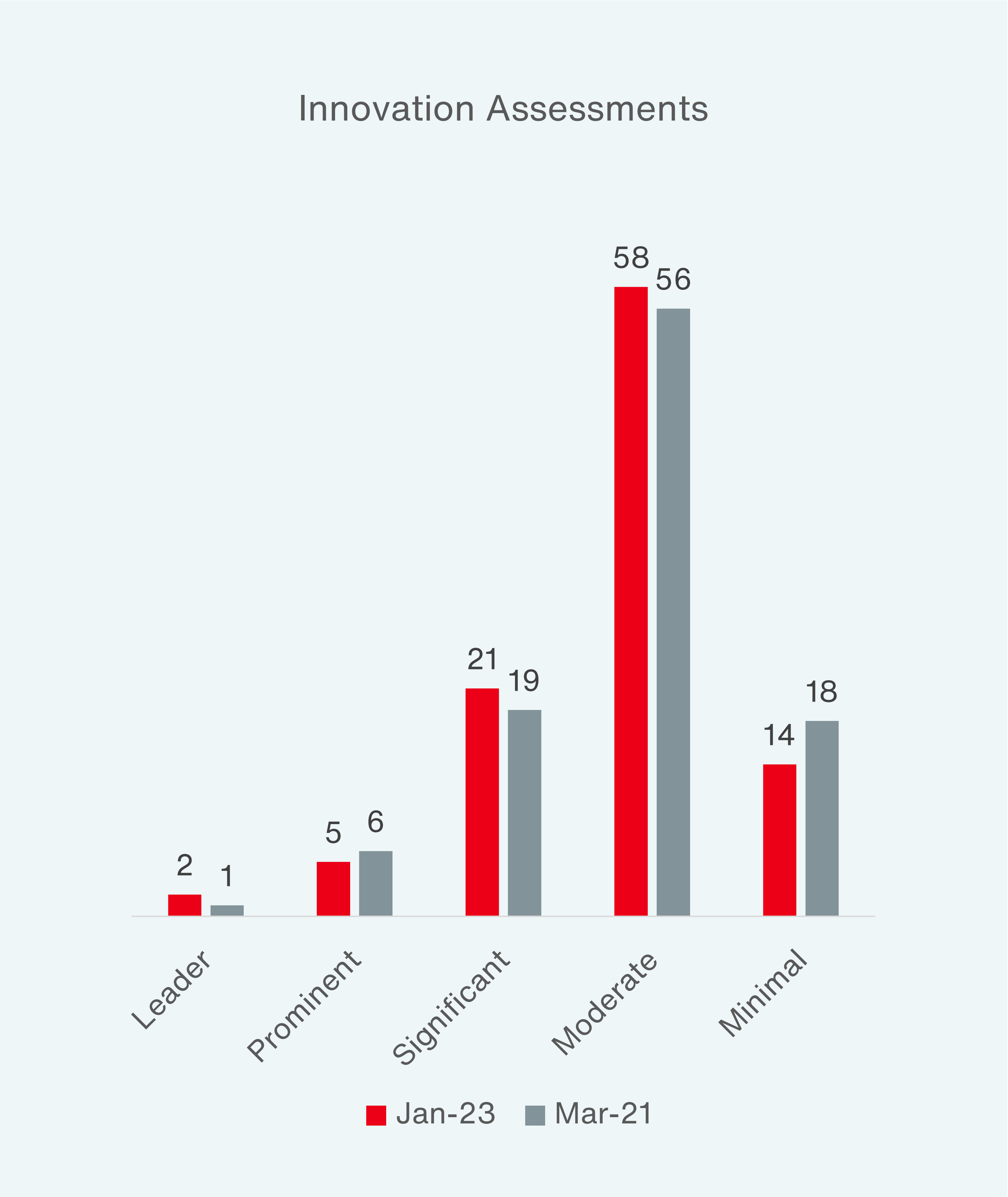
Entity Assessment Unit	Underwriting Capabilities	Governance and Internal Controls	Financial Condition	Organizational Talent	Depth/breadth Of Relationships
Corin Underwriting Limited	Strong	Excellent	Strong	Strong	Strong
First Indemnity Insurance Agency	Strong	Strong	Strong	Strong	Strong
Cargo Risk Corporation	Strong	Strong	Strong	Strong	Strong
Castel Underwriting Agencies Limited	Excellent	Excellent	Excellent	Excellent	Excellent
Amwins Group	Exceptional	Exceptional	Excellent	Exceptional	Exceptional
Delta International Limited	Strong	Excellent	Strong	Excellent	Strong

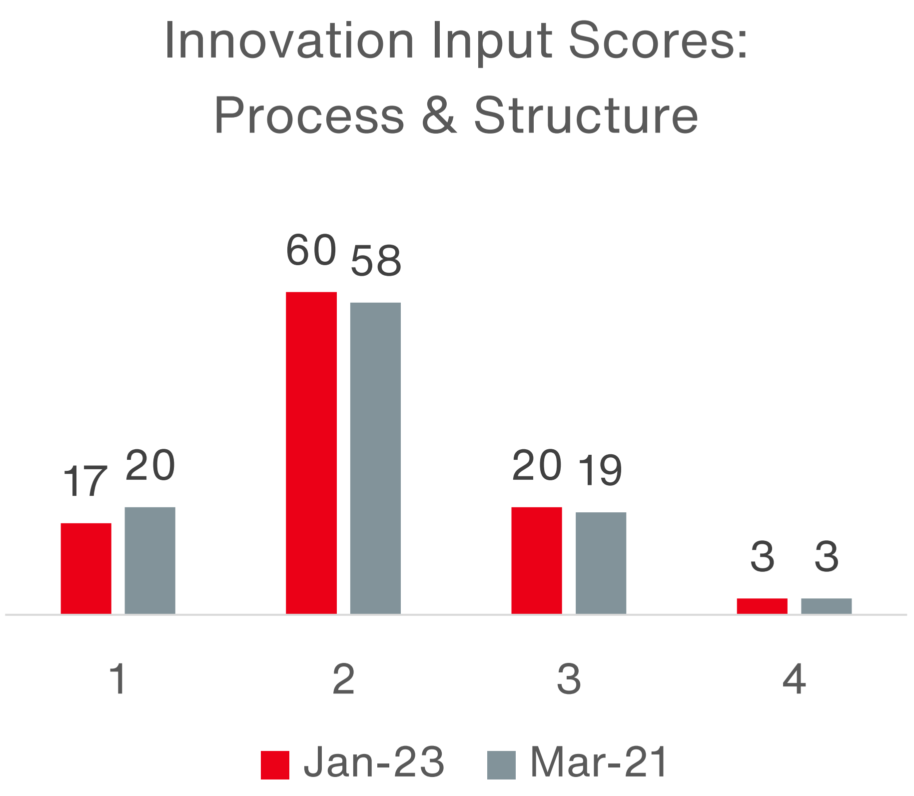
In 2021, AM Best released a draft methodology outlining how it would assess DUAEs (delegated underwriting authority enterprises) ‘to provide transparency to the market and inform the industry of a DUAE’s ability to perform services on behalf of its insurance partners’. Since the methodology’s launch, AM Best has so far given performance assessments (PA) to the six DUAEs above. These DUAEs range from PA-1 (Exceptional), which was assigned to Amwins Group, to PA-3 (Strong).

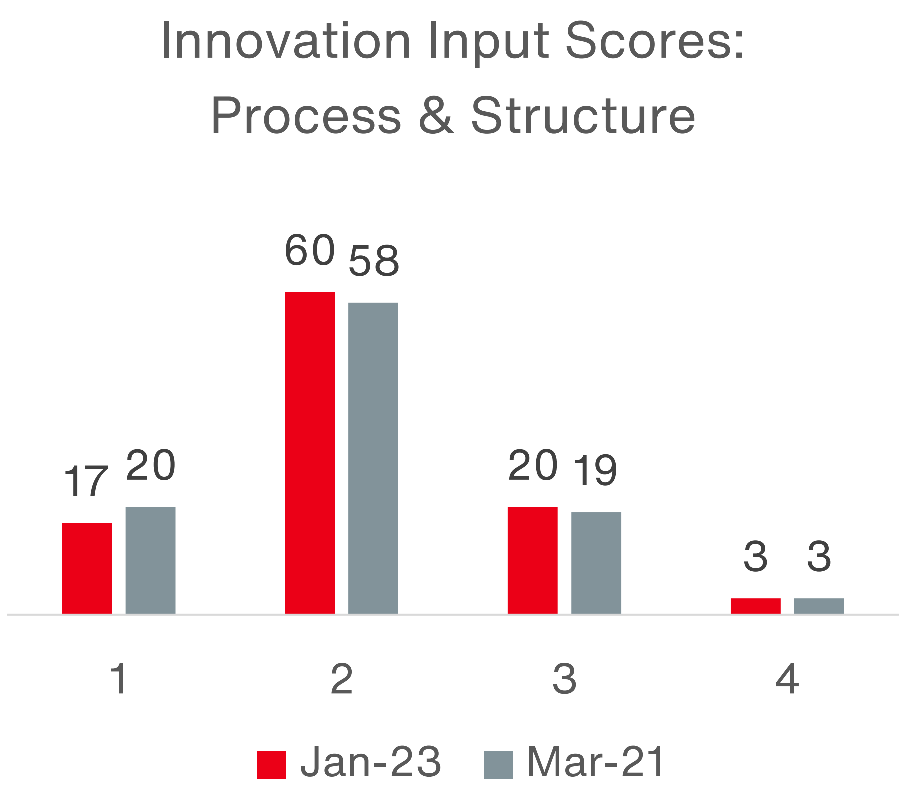
PA Categories	PA Symbols	PA Ranges
Exceptional	PA-1	34-40
Excellent	PA-2	27-33
Strong	PA-3	20-26
Fair	PA-4	13-19
Weak	PA-5	Up to 12

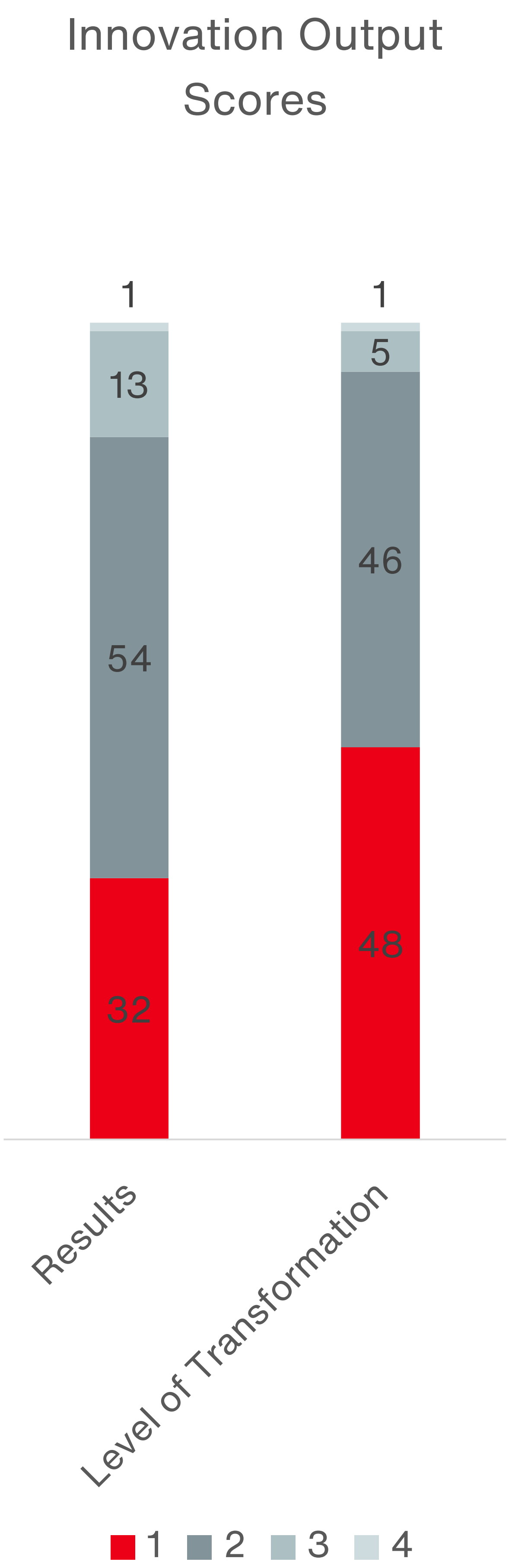
AM Best Analytics: Innovation Benchmarking

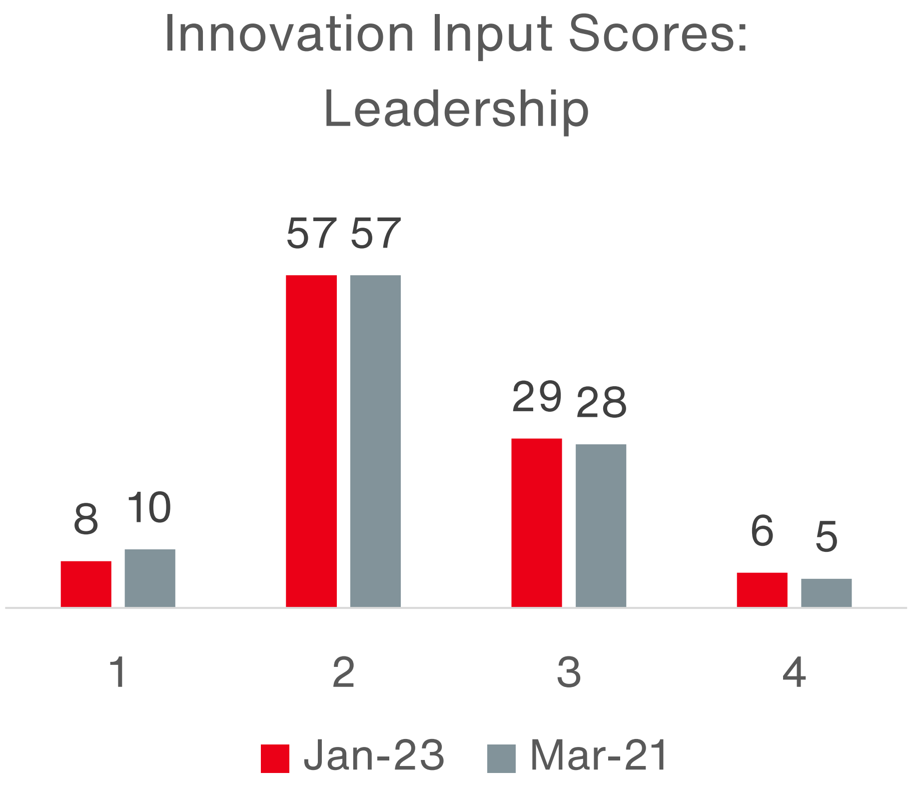
AM Best views Innovation scores for companies are improving from their initial assessments in March 2021

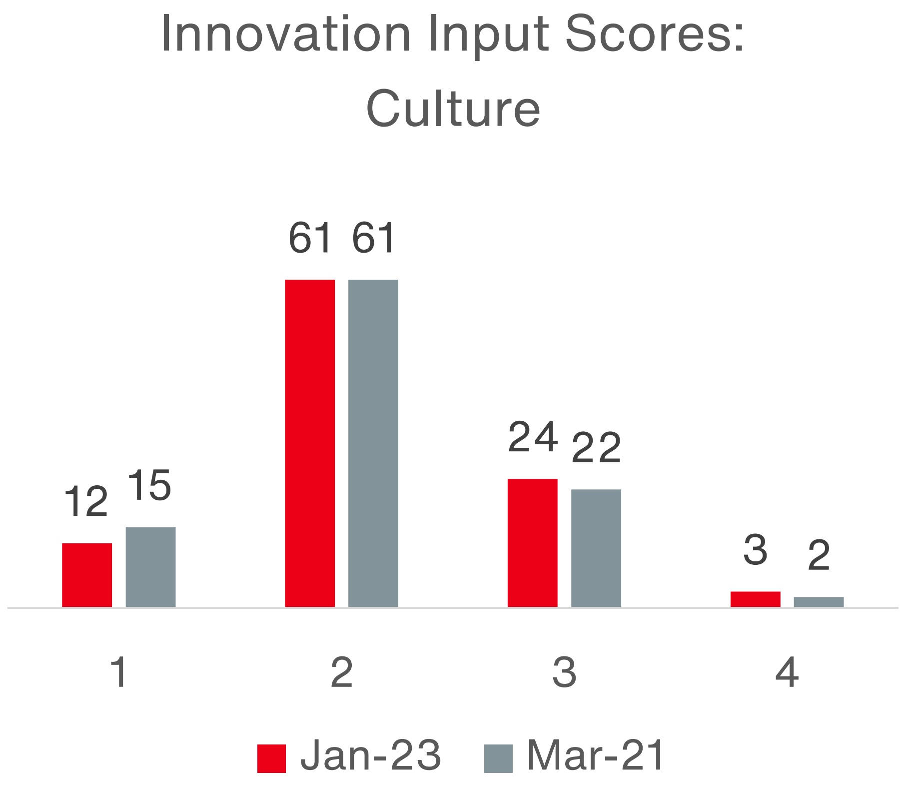












Source: AM Best's Special Report on Innovation Apr 2023

05

Regulatory Updates Across the Globe

Regulatory Updates

Click the following links to read the regulatory updates

- **United States**
  - NAIC
    - SSAP No. 62R Project on Loss Portfolio Transfer
    - RBC Updates
    - Reinsurance Comparison Worksheet
- **Canada**
  - OSFI
    - Published Guidelines
    - Draft Guidelines
- **Caribbean**
  - BMA
  - IFRS 17
- **European Union**
  - EIOPA
    - Convergence Plan
    - Governance Arrangement in Third Countries
    - Reinsurance from Third-Country Reinsurers
    - Exclusions in Insurance Products Related to Risks Arising from Systemic Events
    - Cyber Risk Stress Testing
- **United Kingdom**
  - HM Treasury
  - Insurer Resolution Regime
  - UK Technical Standards: Global Systemically Important Institutions (G-SIIs)

Regulatory Updates

Click the following links to read the regulatory updates

- **Middle East**
  - Israel
  - Jordan
  - Oman
  - Saudi Arabia
  - United Arab Emirates
  - Egypt
- **Turkey**
- **Africa**
  - Ghana
  - Kenya
  - Morocco
  - Nigeria
  - South Africa
  - Zimbabwe
- **Asia**
  - China
  - Hong Kong
  - India
  - Indonesia
  - Japan
  - Korea
  - Malaysia
  - Pakistan
  - Philippines
  - Singapore
- **Australia**
- **New Zealand**

06

Looking Forward

YE 2023 Continued Challenges for Insurers

Pressure on Ratings Expected to Remain

**The reinsurance market has shown some signs of softening;
January 2024 renewals are expected to be more orderly than January 2023**

- Some increase in capacity, driven by both third-party investors and ILS
- Recovering asset values have alleviated pressure on traditional reinsurers balance sheets
- Reinsurers expected to maintain pricing discipline

Insurers continue to face a series of macroeconomic challenges

- Depending on the duration of their portfolio, an insurer's equity may still be impacted by unrealized losses
- Expenses and loss severity have risen with inflation, weighing on underwriting results

Social inflation is an ongoing issue for the industry

ESG remains a rating concern

- The first half of 2023 demonstrated the outsized impact of climate risk on results

Cyber risk is a key area of focus for regulators and rating agencies

There are a variety of solutions available to insurers to alleviate financial difficulties, replace capital, and improve earnings, including:

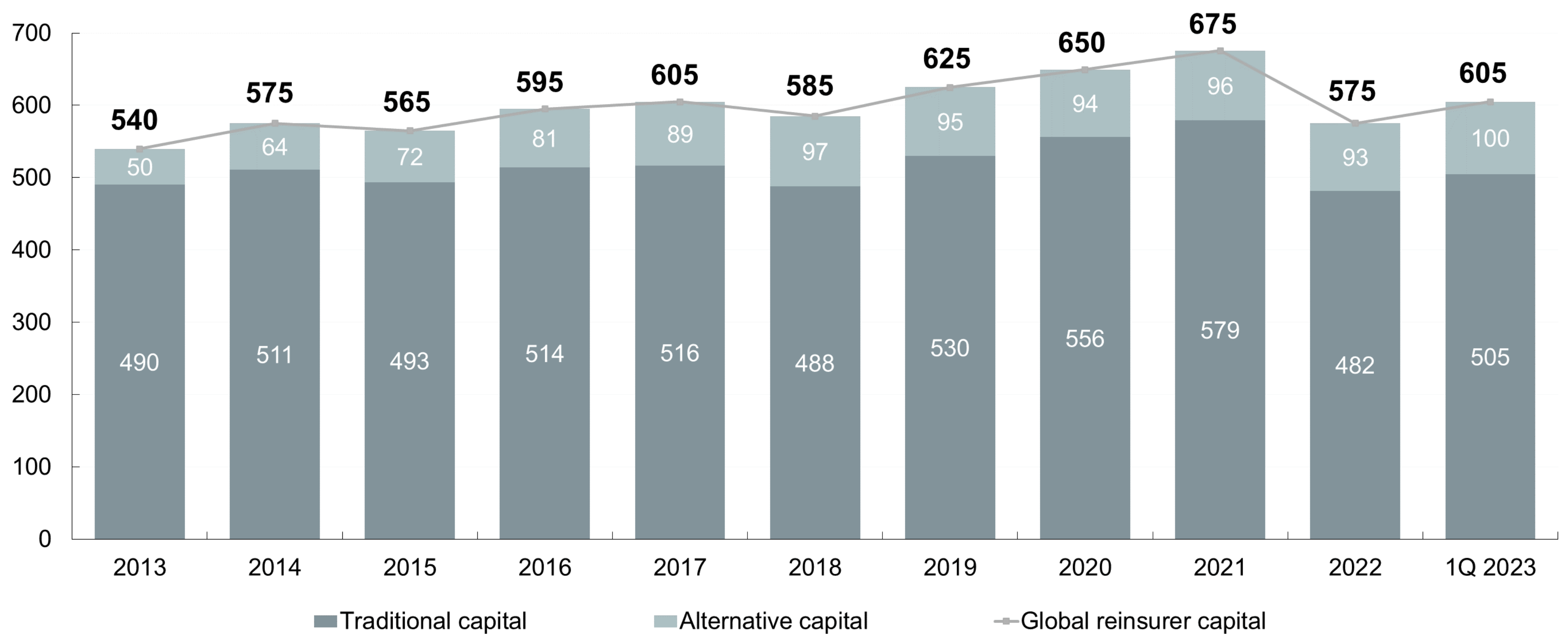
- Structured QS
- LPT/ADC Covers
- Structured Cat
- Surplus Notes
- Aggregate Stop Losses

Close dialogue with rating agencies will be continue to be key

Hard Reinsurance Market Recovery in Progress

- The reinsurance market is showing modest signs of softening through mid-year renewals after a challenging January 2023 renewal
- Pricing movement on the primary side is counteracting the increased demand driven by loss cost volatility and inflation
- New capital is beginning to enter the market, partially offsetting the reduced supply due to:
  - o higher ceded catastrophe losses over prior 6 years
  - o lack of retrocession coverage
  - o unrealized asset losses
  - o concerns that reinsurance pricing/risk models inadequately reflect climate change impact

Global Reinsurer Capital



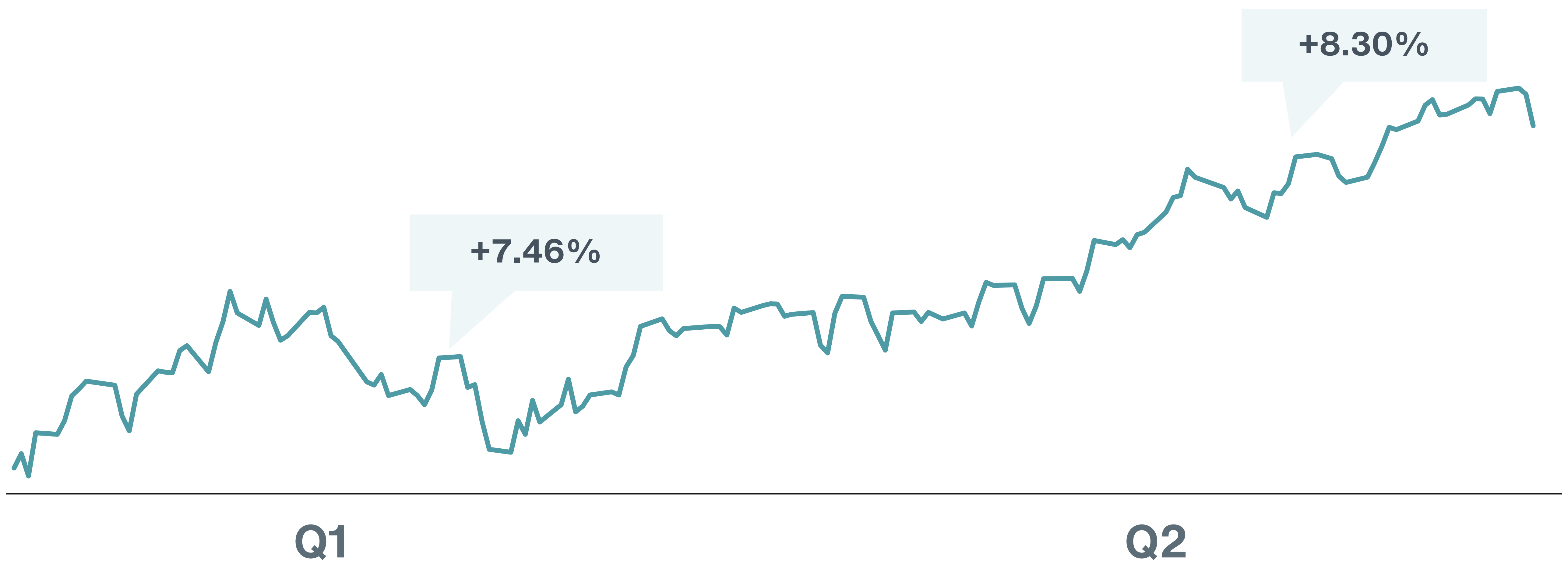
Sources: Company financial statements / Aon's Reinsurance Solutions / Aon Securities Inc

Aon estimates that global reinsurer capital rose by 5%, or $30bn, from the historic 15% drop experienced at YE 2022

- The increase in capital was mainly driven by retained earnings, recovering asset values and new inflows to the cat bond market.
- Alternative capital has increased to a new high of $100bn.
- The reduced capacity has led many insurers to increase retentions, limit coverage and pay (on average) about 20-50% higher rates.

Macroeconomic Challenges: Asset Value Declines Negatively Affect P&C Insurer Balance Sheets

Equity Market Fluctuation – S&P 500 Index



Period	Change
Q1 Change	+7.64%
Q2 Change	+8.30%
YTD Change	+15.76%

Results and Observations

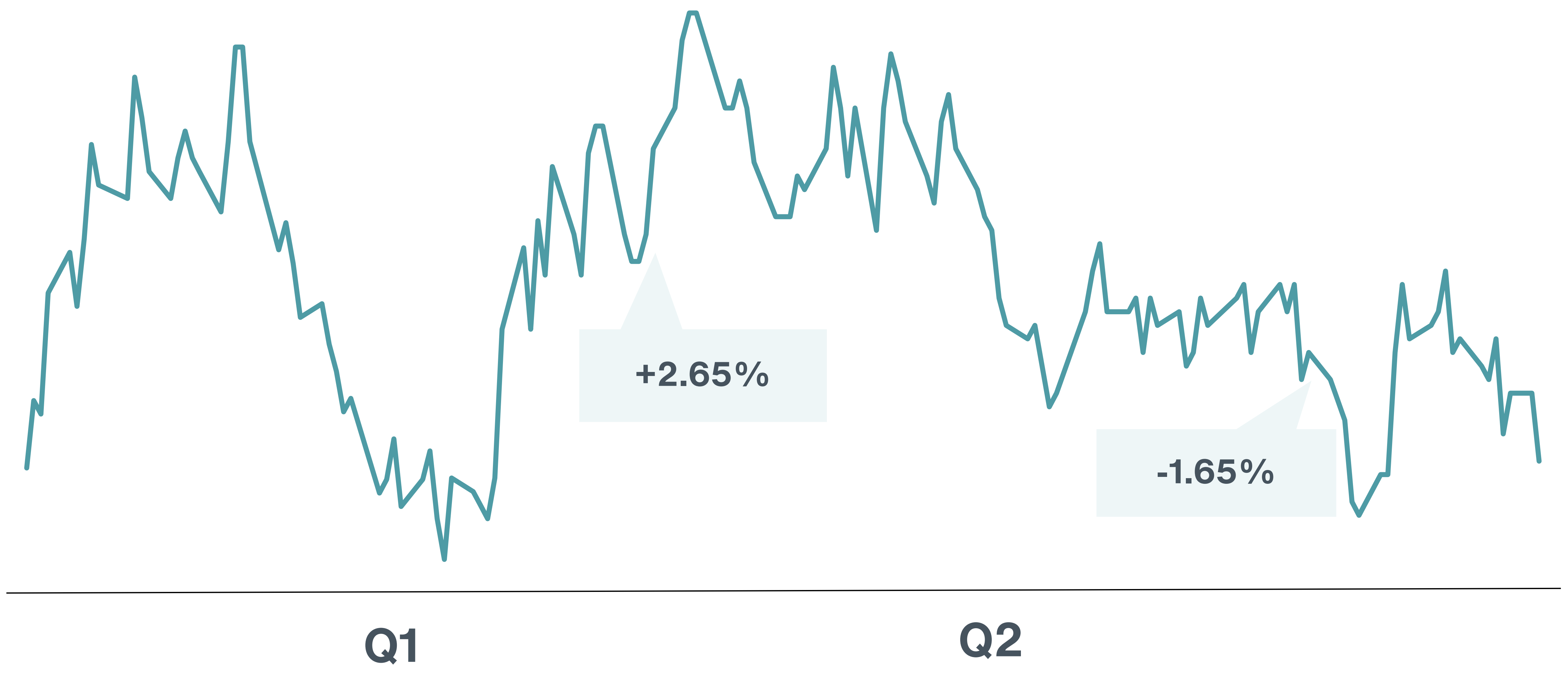
- 2022 saw the worst stock market performance since 2008 – direct negative impact to equity/policyholders' surplus
- Equity markets show signs of recovery in 2023
- No rating actions have been taken due to stock market performance alone
- Insurers typically have a buy and hold strategy

What to Watch For – Key Indicators

- Impact on reported capital
- Stock leverage (common stock % of equity/surplus)
- Stock portfolio valuation change vs. broad market trends
- Performance vs. similarly rated peers

Interest Rate Hikes Negatively Affect P&C Bond Portfolio Valuations

Bond Market Fluctuation – Bloomberg Aggregate Bond Index



Period	Change
Q1 Change	+2.65
Q2 Change	-1.65%
YTD Change	1.00%

Results and Observations

- Short-term negative
  - Interest rate hikes have negatively impacted bond values and eroded capital positions
  - Increased cost of borrowing
- Longer-term could be a positive for earnings (higher investment income)
- Rating agencies view insurers' capital on an economic basis, inclusive of mark-to-market valuations
- Insurers typically hold their assets to maturity and do not need to sell assets at a loss (view in the context of a significant CAT event or a confluence of events)

What to Watch For – Key Indicators

- Credit quality of bond portfolio
- Financial flexibility - access to capital and liquidity
- Risk mitigation strategies

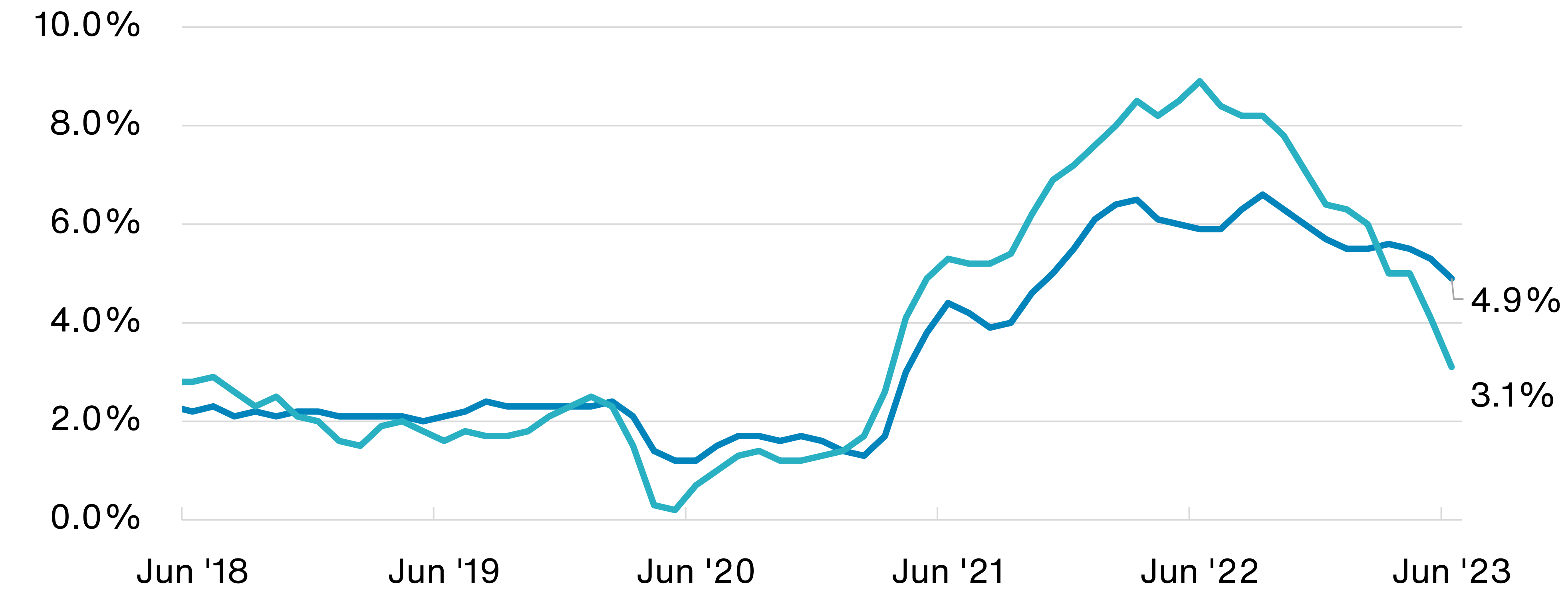
Economic Inflation

US inflation is cooling as interest rates increases take effect, however loss cost inflation continues to be a challenge for insurers

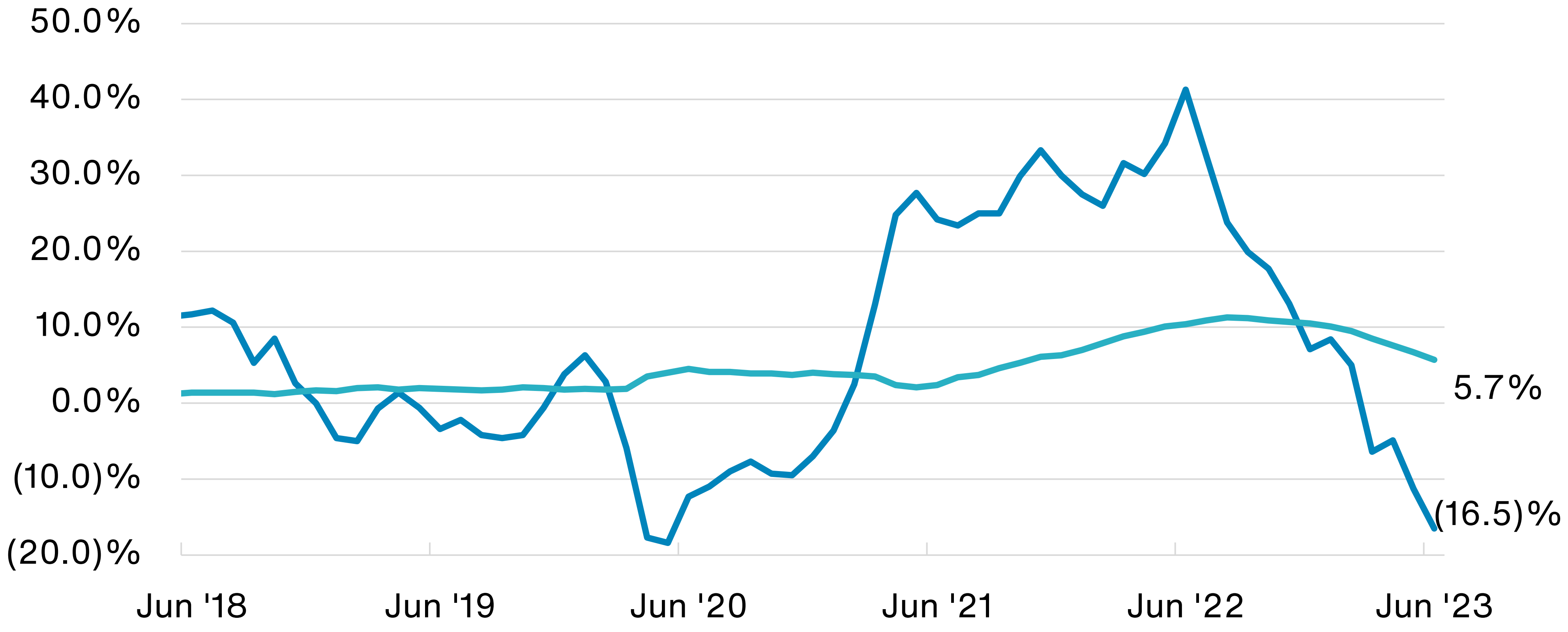
- US Inflation has decreased from a peak of 8.9% in June 2022 to 3.1% in June 2023, as measured by CPI[1]
- According to The Federal Reserve's Survey of Consumer Expectations as of June 2023, consumers expect inflation to moderate over time
- Primary insurers have struggled to achieve rate adequacy and, despite easing economic inflation, pressure on claims cost is expected to remain high for some time

Date	Rate Change (bps)	Federal Funds Rate
June 26, 2023	+25	5.25% - 5.50%
May 3, 2023	+25	5.00% - 5.25%
March 22, 2023	+25	4.75% - 5.00%
Feb 1, 2023	+25	4.50% - 4.75%
December 14, 2022	+50	4.25% - 4.50%
November 2, 2022	+75	3.75% - 4.00%
September 21, 2022	+75	3.00% - 3.25%
July 27, 2022	+75	2.25% - 2.50%
July 16, 2022	+75	1.50% - 1.75%
May 5, 2022	+50	0.75% - 1.00%
March 17, 2022	+25	0.25% - 0.50%

Benchmark Inflation Rates[4]



Exponents Excluded from Core CPI[4]



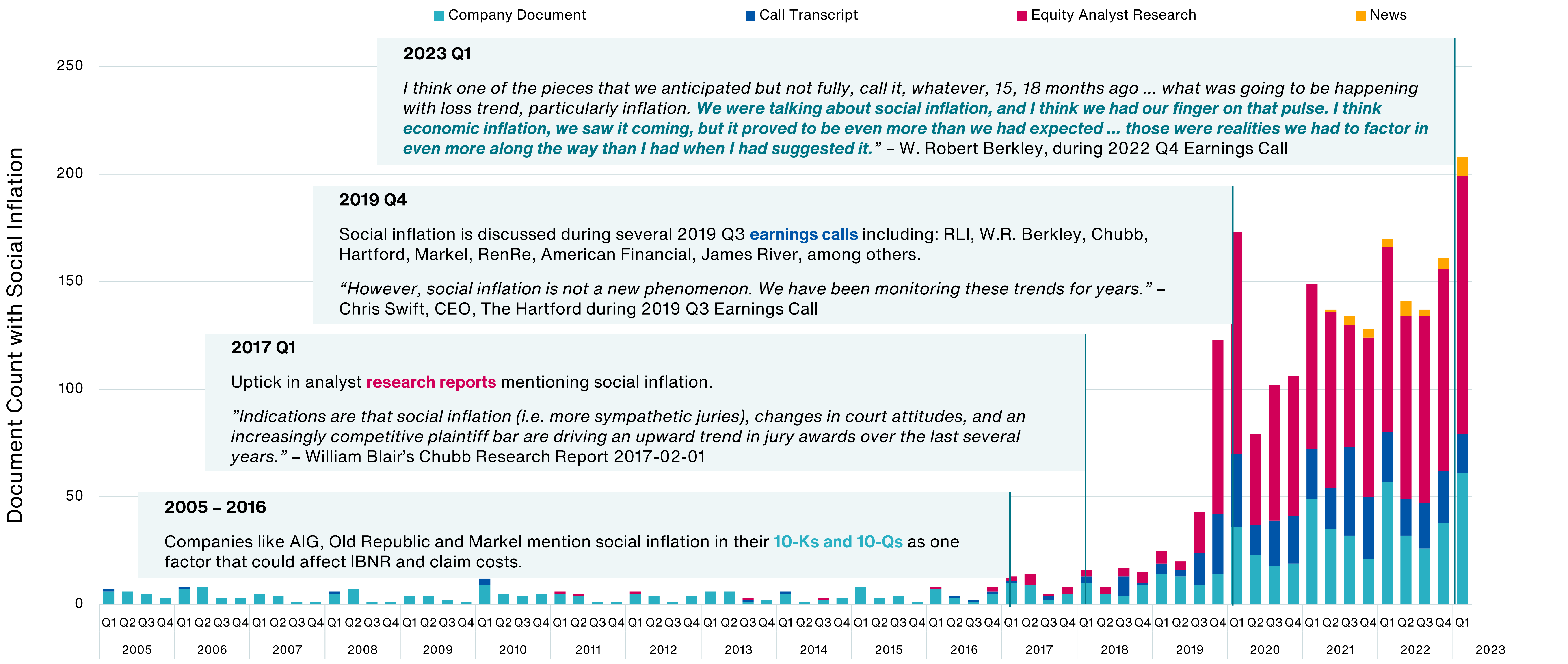
Notes:
1. Source: Bureau of Labor Statistics. CPI for All Urban Consumers, All Items
2. Source: Bureau of Labor Statistics. CPI for All Urban Consumers, All Items, excluding Food and Energy
3. Source: Aon Property Inflation Trends Report as of March 30, 2023
4. Source: Bureau of Labor Statistics

Social Inflation

Social inflation continues to impact casualty results

- Outside of economic inflation, insurers face elevated claims severity driven by social inflation
- Litigation financing has exacerbated issues caused by nuclear verdicts
- Pressure on pricing expected to remain given loss experiences

Publicly Traded P&C (Re)insurer Documents Mentioning "Social Inflation"



Source: AlphaSense search for "social inflation" between January 1, 2005 and June 10, 2022 across publicly traded P&C insurers across personal, commercial, reinsurance and specialty lines sectors.

Environmental, Social & Governance (ESG) Risk Factors

Despite Muted ESG Commentary in 2022, Climate Risk Remains a Direct, Looming Concern

Recent AM Best Commentary Highlights

- ESG reporting took a backseat to more pressing inflationary data, rising interest rates and equity market volatility
- Only report published by AM Best related to corporate governance failures of FTX scandal, an example of importance of "G" to company health and performance
- Despite lack of explicit reporting, climate risk remains the largest ESG threat to (re)insurers
    - Secondary perils have increasingly caused devastating damage and losses, with Canadian wildfires and severe convective storms contributing to total insured losses of **$53B through the first half of 2023 according to Aon's Global Catastrophe Recap**
- Aon expects that as more US states adopt and mandate NAIC TFCD reporting, the impact of climate change on both underwriting and investing decisions and results will intensify
- Finally, S&P announced in August 2023 that it will no longer publish alphanumeric ESG credit indicators in its rating reports, but will continue to utilize its cross-sector ESG rating criteria and comment on the importance of ESG issues to its rated entities

Source: AM Best, $US mil.

Rating Agency Considerations in Evaluating Insurer Cyber Risk

AM Best

- Internal and external protection of systems
  - Multi-factor authentication, system duplication and backups, cyber insurance policies from other carriers, and external vendor requirements.
- Impact on business interruption
- Cyber risk governance

S&P

- Cyber risk governance
  - Risk management culture and oversight
- The rate at which companies can **Respond**, **Repair** and **Recover** from a cyber attack

Moody's

- Cyber risk governance
  - Risk management culture and oversight
- Evaluation of organizational priorities
- A successful cyber event's **severity** and **duration** will determine any credit impact

Fitch

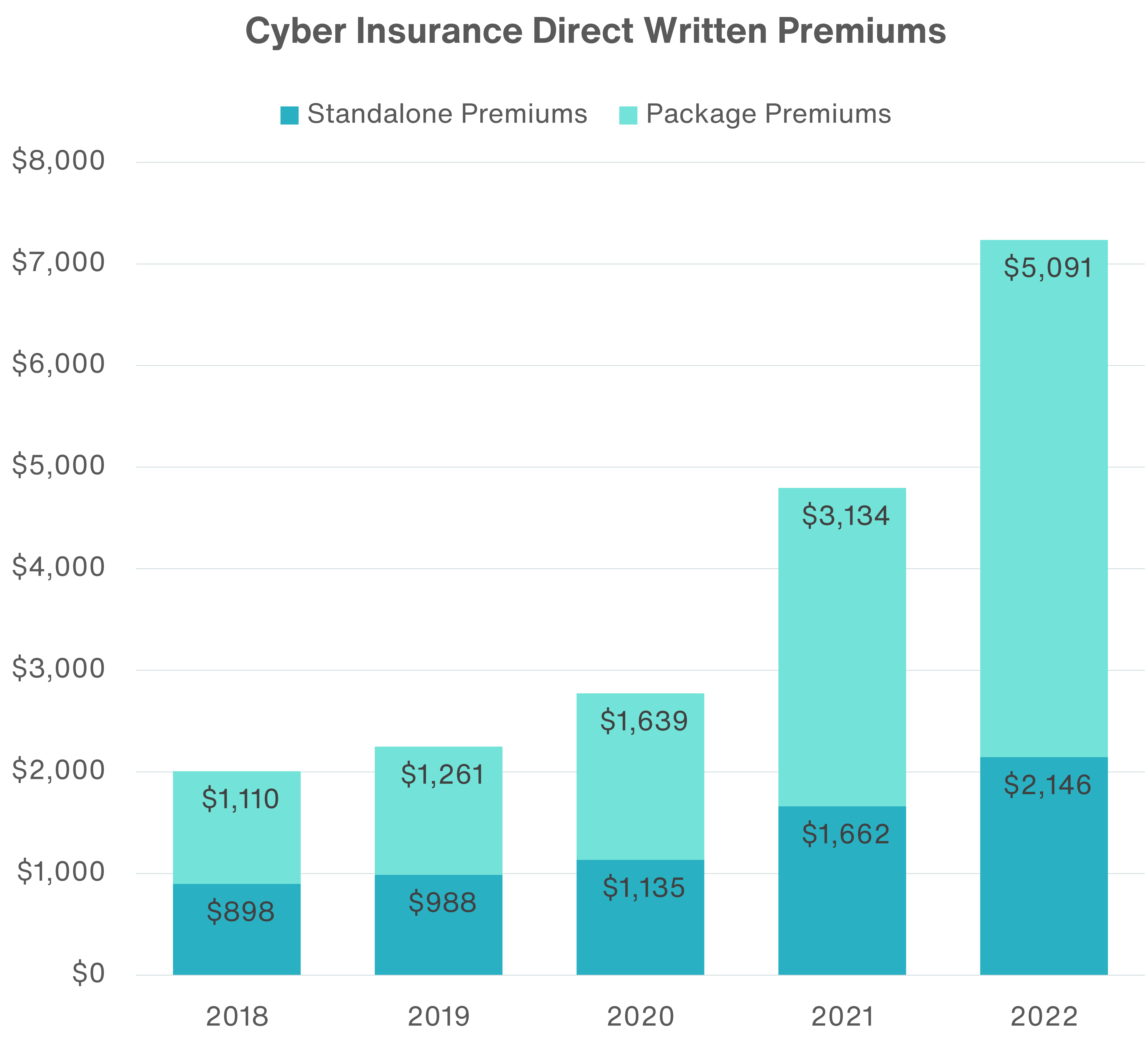
- Cybersecurity is captured within Fitch's credit rating analysis as well as being a part of their Environmental, Social and Governance framework. Fitch has additionally adopted a cybersecurity score card that assesses both a company's cyber health and vulnerabilities, as well as how the company manages its cyber risk.

AM Best View of Insurers' Cyber Risk

AM Best views Innovation scores for companies are improving from their initial assessments in March 2021

Recent AM Best Commentary Highlights

- Concerns are related to industry's rapid growth in premiums and pronounced escalation of loss trends
- 2022 cyber DPW estimated to be between $8 billion and $11 billion (was < $2 billion in 2016)
- Fastest growing segment in P&C; surge in claims
- Questions on data quality and evolving nature of risk creates uncertainty with long-term performance of the line
- Trend in defense cost and containment per Best is "disturbing"
- Growing sophistication of attacks and ransomware
- AM Best makes distinction that unlike natural catastrophes and terror attacks, a major cyber event has no geographic or commercial borders
- Released report in October 2021 in conjunction with CyberCube and Aon; provided illustration on the estimated impact of a modeled scenario industry loss of $12.5 billion on individual company BCAR scores—18 out of 579 PC companies experienced decline in BCAR assessment



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Pat Matthews | Philadelphia | Global Head of Rating Agency Advisory

Pat joined Aon in 2002 and also serves as US Head of Capital Advisory. His team advises on over 200 rating agency assignments per year and includes former analysts from AM Best, S&P, Fitch, Moody’s, and KBRA.

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Bermuda / International	👤👤	👤👤		
Rating Criteria	👤			

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