Homeowners Return on Equity Outlook

November 2023

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Return on Equity Study Methodology

The basis of the prospective Return on Equity (ROE) estimate is state and aggregate statutory filing data including reported direct losses, expenses, payout pattern, and investment yields. We replace actual historical catastrophe losses as measured by Property Claims Services with a modeled view of expected catastrophe loss. On-leveling of direct premiums to current rates uses rate filing data from both SERFF and data vendors. Finally, estimated capital requirements and reinsurance costs consider a capitalization level consistent with an AM Best "A" rating for all states except for Florida Specialists where capitalization level is determined by Demotech rating. The ROE estimates exclude earthquake shake losses as the premium and losses for that coverage are recorded on a separate statutory line of business.

"Are you lagging?"

Aon's headline prospective ROE for the national cohort is 6 percent. The simplicity of that statement and the reported 6 percent return underemphasizes that it is a prospective calculation. As in prior years' versions of this study, Aon takes an actuarial view of trends, capital requirements, catastrophe and non-catastrophe losses, and reinsurance (among other inputs). In prior years, we assumed all loss trend, exposure trend, and rate impact were fully earned in. Not so for this year's study.

Lag

Lag is the bane of both online video game enthusiasts and insurance executives trying to play catch-up in an inflationary environment. The headline national cohort ROE for this year's homeowners study has everything to do with how we consider the timing of earnings from an income statement perspective.

Exhibit 1: Incurred loss versus premium earning effects, annualized

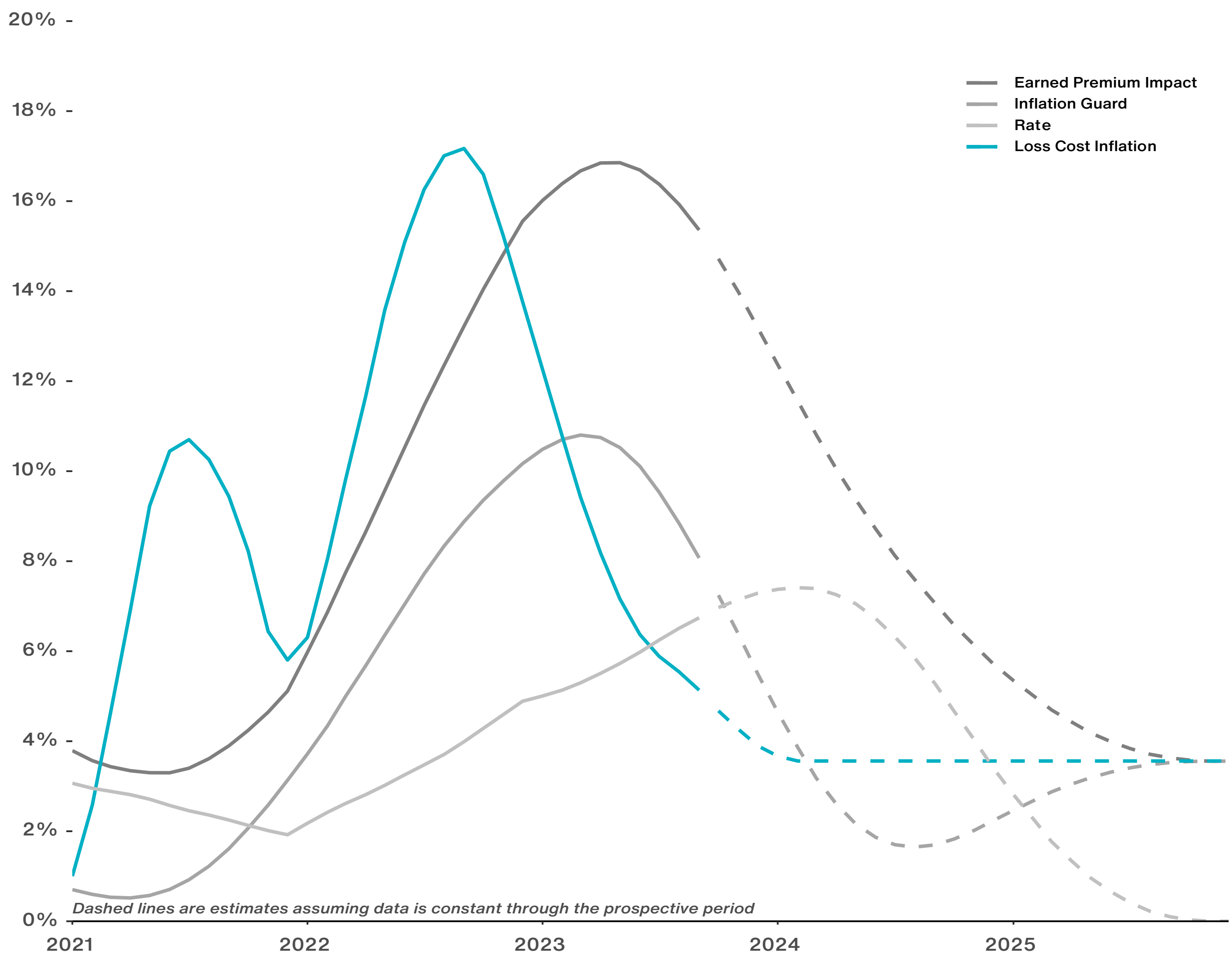


Exhibit 1 illustrates the matter at hand. Loss cost inflation hits the entire outstanding claims reserve and immediately affects underwriting results. We wrote extensively about rising claims costs in the last two versions of the study. The macroeconomic, political, and healthcare environments from 2020 to 2022 resulted in significant changes in claims propensity, materials costs, labor and construction costs, and monetary policy. The combined effects were a spike in inflation, as measured by both the consumer and producer price indices (CPI/PPI) that we had not seen in decades. And the inflationary impact to insurers and reinsurers' claims cost exceeded CPI/PPI estimates. The chart shows an estimate of when and by how much incurred claims costs increased for insurers.

An insurer's first line of defense in an inflationary environment is the inflation guard mechanism. This is a policy provision typical in homeowners policies whereby amount of insurance are indexed by the insurer to account for the changes in coverage brought about by the macroeconomic situation. Because policy premium is a function of coverage amount, if coverage increases by 10 percent, so too does the premium collected.

Unfortunately, inflation guard can miss in two important ways. First, it may underestimate loss inflation. Second, while claims cost inflation can affect the entire outstanding reserve immediately, inflation guard must be earned in over the policy period. Simplifying, if an insurer writes 1/12th of their policies each month, then it takes 12 months to convert all policies to the increased coverage amounts inflation guard provides. Exhibit 1 illustrates Aon's estimate of how this lag manifested between claims loss inflation and inflation guard features; the inflation guard line is to the right of and fails to reach as high as the loss cost inflation line.

Where inflation guard fails to keep pace with increasing claims costs, the difference must be corrected in the calculation of new rates which must then be filed with the insurance regulatory bodies (departments of insurance) state by state. The steps to this are as follows:

1. The insurer must collect enough data through claims payment that the trends emerge and are credible to require action. This will take, at minimum, six to twelve months.
2. The insurer's actuaries and data scientists must process the emergent loss data and do a rate calculation, file those new rates with an insurance department, and wait - in some cases, a year or more - for approval to use the new rates.
3. Once the rates are ready for use (and approved, where required), the insurer will earn in the written premium for renewed policies at the new rate level

We expect many readers of this study are already familiar with the mechanics of filing and earning rate change into the premium levels of a book of insurance business. We want to emphasize, visually, our current estimates for how this process is affecting and will affect the homeowners line over the next two years. Exhibit 1 shows one hypothetical scenario with the following assumptions:

- Loss inflation will settle to a 3.5 percent annualized increase.
- Inflation guard will equal loss inflation.
- All pending and approved rate activity in the SERFF pipeline as of September 2023 that Aon analyzed will earn through the rates, as described above.
- Premium is on-leveled and incorporates the combined effects of inflation guard and rate changes.

If all the above holds, Exhibit 1 shows insurance premiums should catch-up with inflationary driven loss trends during 2023 and bring insurers to underwriting profitability by 2025. Exhibit 2 illustrates our view of how the ROE for the national cohort could change under alternative scenarios:

Exhibit 2: Prospective ROE for the national cohort

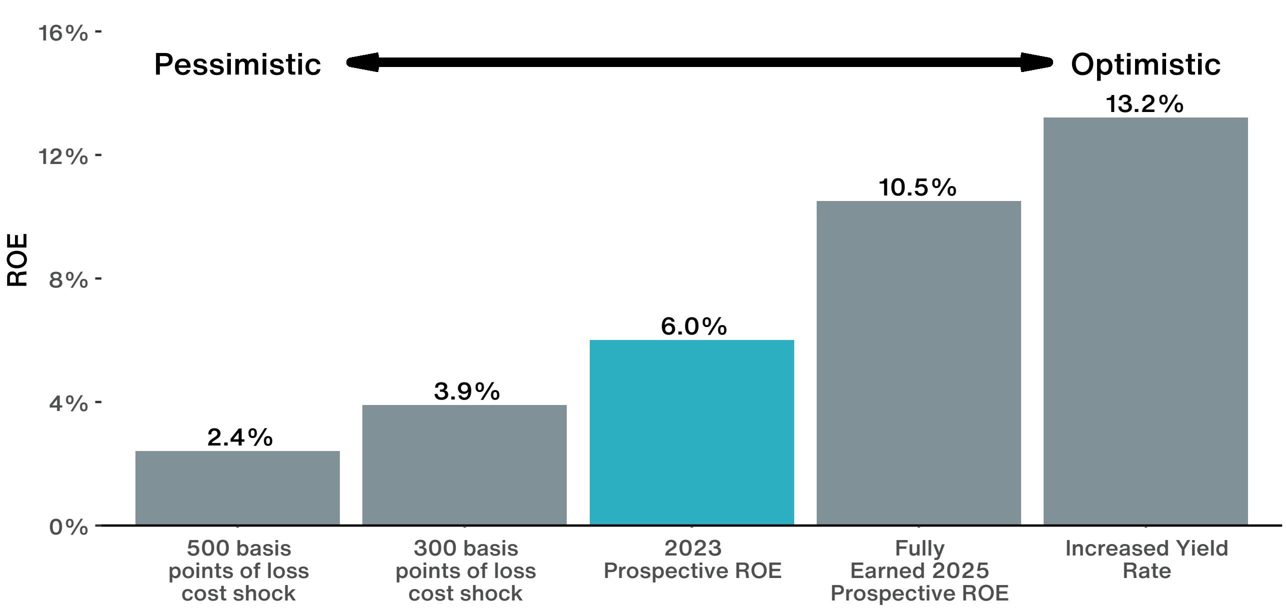


Exhibit 2 starts with the 6 percent headline prospective ROE. It is strengthening relative to the 5.4 percent ROE reported last year and recognizes that both loss cost inflation and inflation guard have been slowing and are past their peaks, new rates are starting to earn in and reinsurance costs are elevated relative to 2022. This represents a 2023 prospective ROE assuming no additional inflation shock and normalizing catastrophe losses.

We then step forward to a 10.5 percent ROE. This would be the first double digit ROE ever reported by the study (if achieved) and the highest ROE we have ever benchmarked for a prospective period. This can be considered a Fully Earned 2025 view of what's possible and assumes all filed and approved rate as of September 2023 fully earns in, inflation remains stable, and catastrophe losses are normalized. The return is sensitive to the following assumptions and risks:

- **Investment returns:** Reinvestment of maturing fixed income assets to higher yielding assets could add additional uplift to the ROE. At the time of writing two-year U.S. Treasury note yields were 5.1 percent. At a 5 percent risk free rate the 10.5 percent becomes 13.2 percent. Two-year average historical returns on cash and invested assets are closer to 3 percent pre-tax.
- **Attracting capital:** Even 13.2 percent ROE may be too low to attract capital to the line of business. Where Aon's Capital Advisory group works with clients attempting to raise capital for de novo business plans in homeowners insurance, investor return requirements can exceed 20 percent, requiring both an aggressive premium growth ramp and strong profitability to hit mid-teens ROEs. Private investors are hesitant to take on volatile catastrophe-exposed results for lower returns in the catastrophe-prone homeowners line.
- **Loss cost trend:** Our 2025 prospective ROE assumes loss cost trend to normalize with inflation guard. Exhibit 1 assumes they normalize between three and four percent. If loss trend moves slowly enough that inflation guard's lag is minimal, then it will have minimal impact to the ROE. However, it is quite material to the policyholder paying for the cost of insurance, and this will be addressed later in the study. If rates fail to earn in (due to regulation or competitive pressure) and loss trend outpaces inflation guard, we report downside scenarios of a 3.9 percent ROE (at 300 basis points of loss cost shock) and 2.4 percent ROE (at 500 basis points of loss cost shock) by 2025.

Actual ROEs

As discussed above, this study is prospective in the estimates it provides of the profitability and health of the homeowners line. Actual results can vary significantly due to both the volatility associated with natural catastrophes and macroeconomic impacts.

Exhibit 3: Prospective vs. actual ROEs and catastrophe loss ratios through time

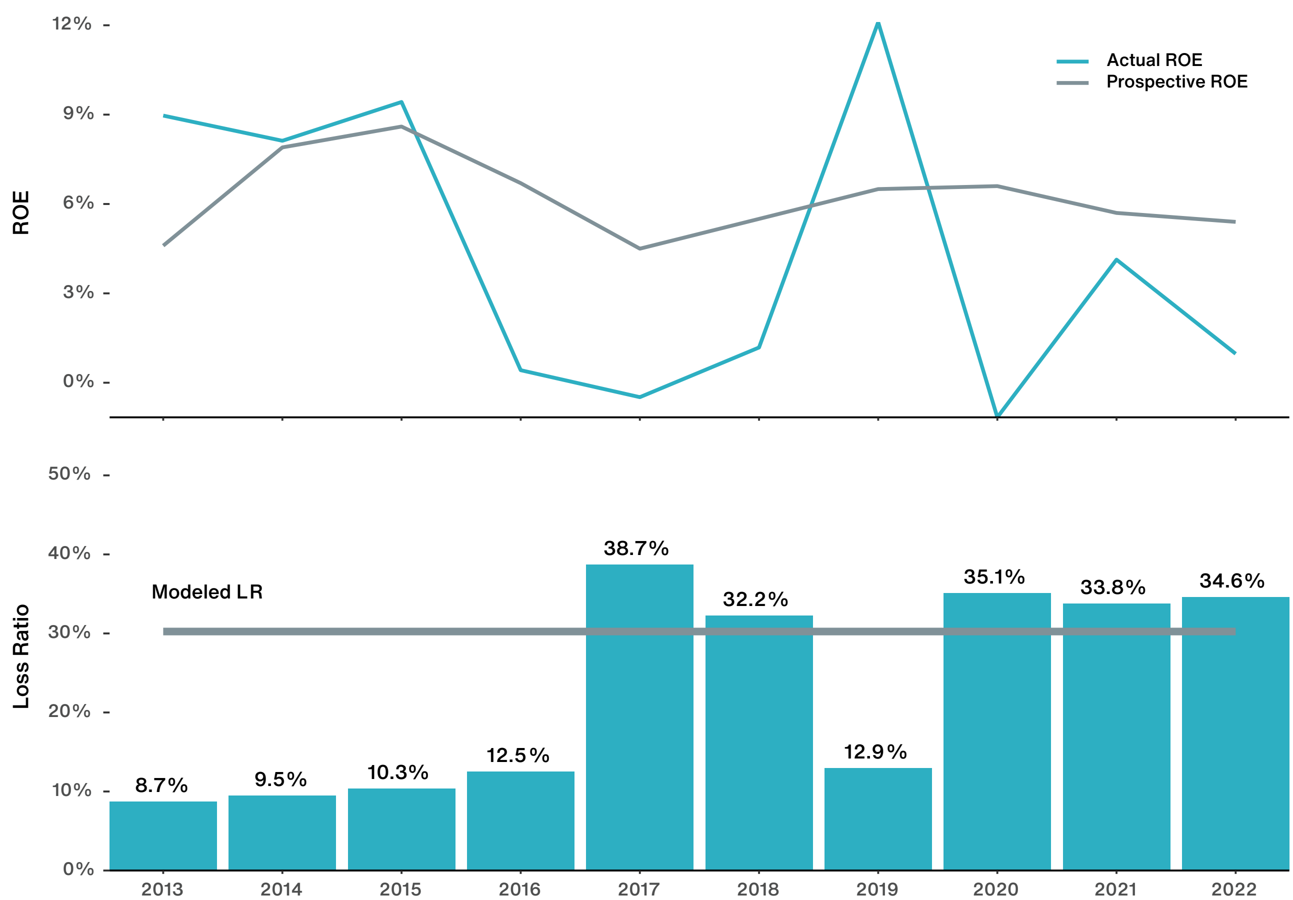


Exhibit 3 compares our prospective ROE, published before macroeconomic impacts, with the actual ROE calculated the Spring after a given year. For example, our 2022 prospective ROE was published in 2021, and we calculated the actual in Q2 of 2023. The industry exceeded our study's estimated ROE four out of the last ten years. Unfortunately, only one of those years (2019) exceeded the target (at the time) of 10 percent. The target ROE is supposed to reflect an expected return to attract capital over the long term, supporting a healthy insurance marketplace.

Whenever the actual ROE exceeded our prospective ROE, catastrophe losses were below average. Finally, a note on randomness: if you consider the decade in two five-year halves, the first is mostly good results and the second is mostly bad. The catastrophe results are nearly binary at either ~10 percent or ~35 percent cat loss ratio. If we flip a coin five times, we expect at least four heads 19 percent of the time. Four out of five good years followed by four out of five difficult years isn't that unusual (for those interested, a statistical "runs test" on this outcome yields p-value of 18 percent versus the < 5 percent rule of thumb for statistical significance). Homeowners carriers should not get lost in recency bias and assume a regime change is happening when it largely boils down to short term bad luck.

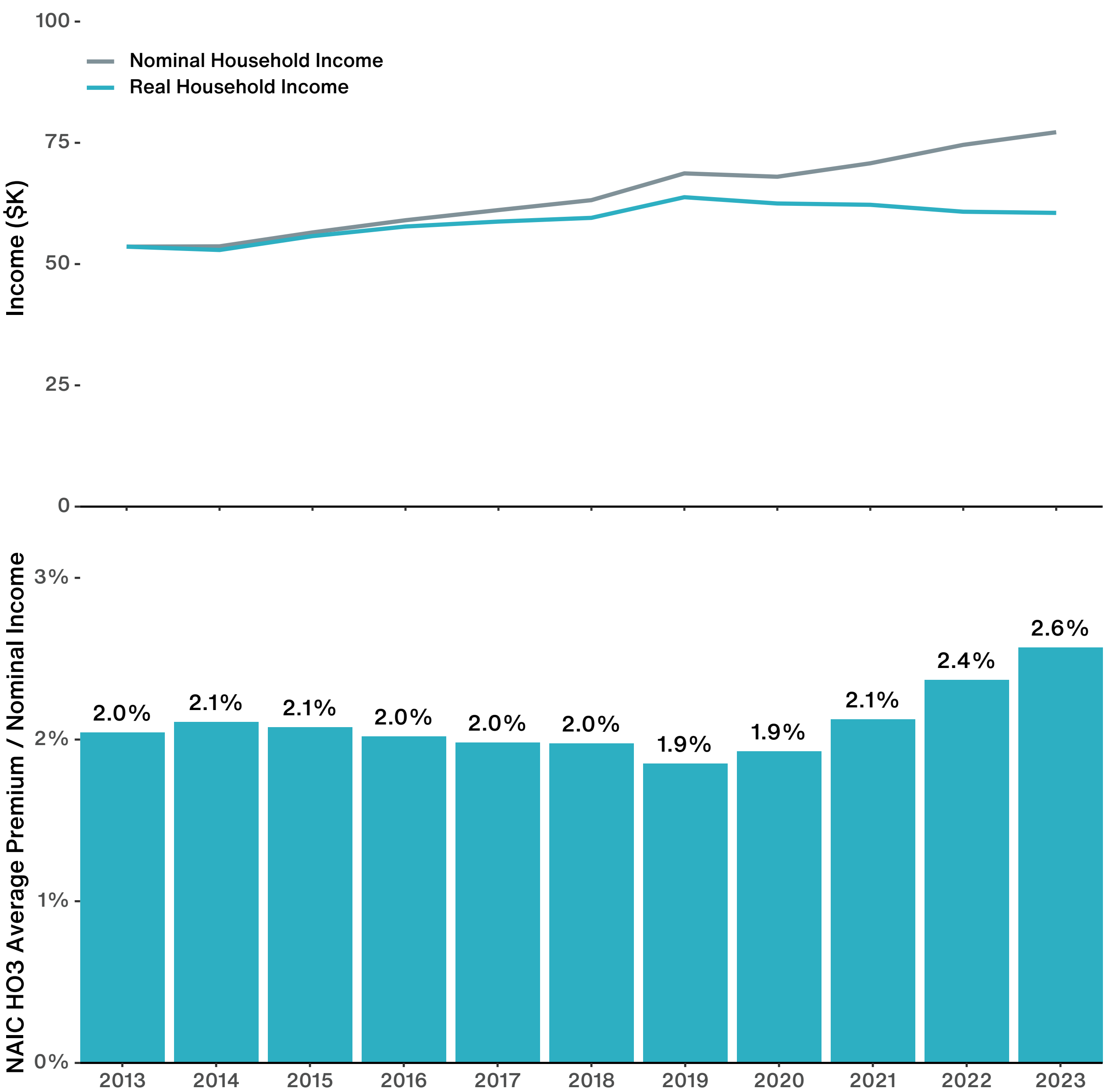
Changing long term loss costs, including rising costs from climate change, are an issue especially relevant to the affordability of homeowners coverage for decades to come. They are unlikely more than a percent or two versus the macroeconomic conditions and resulting premium lags described above hurting insurers' recent performance with ten to twenty percent inflationary pressures.

Affordability

In its 22 years of publication, the perspective of this report has always been towards measuring the long-term health of the homeowners line of business. The insurance marketplace will fail to attract the private capital necessary to create strong balance sheets capable of withstanding the volatility, both from catastrophes and other sources, if it cannot produce returns commensurate with the return requirements of the owners of capital. The insurance product is a promise to be made whole. If that promise is backed by a weak balance sheet, the quality of that product diminishes and policyholders ultimately receive a worse product.

It might be true that the financial strength of the insurer backing a policy is the single most important attribute of that policy. Even so, it is also true that the policyholder's perspective includes, and deserves to include, the affordability of the policy. A strong financial backing to a homeowners policy does the homeowner no good if the policy is too expensive to bind in the first place. Inflationary pressure on the loss side spreads the pain to everyone. The insurers are stuck in an expected loss position hoping they are not impacted by catastrophe losses while waiting for the adequate premiums to earn in while policyholders wait for the other shoe to drop in the form of increased premiums.

Exhibit 4: Countrywide Nominal vs Real Household Income: Base Year 2013



Estimated nationwide average premium for an HO-3 homeowners policy was $1,096 in 2013. Aon estimates that cost increased to $1,984 by 2023. In 2013, that homeowners policy cost the policyholders about 2.1 percent of their income. By 2023, Aon estimates it increased to 2.6 percent of their income. Is that an affordability crisis? Probably not yet.

The affordability situation puts the policyholder in a difficult position over the long term. The fully earned in optimistic ROE of 10.5 percent, reported above, corresponds to a policy premium near $2,100 in 2023 dollars. Many high catastrophe jurisdictions, including the Atlantic Coast with its exposure to hurricanes and the Sierra Nevada region with its exposure to wildfires, will require a premium several times that national average. If loss costs continue to inflate faster than the income level of the policyholders, the industry will reach an affordability crisis.

Previous attempts at regulating price resulted in undercapitalized insurance companies that tried to fit their balance sheet size inside the prices the regulators would allow. Our 2022 HO ROE study dealt with this in detail, noting there were ten insurer insolvencies in Florida since 2019. Only one insolvency was from a company meeting a capital standard equivalent to the AM Best A rating this study assumes. Prioritizing initiatives that can have a large aggregate impact over the long term like preventing runaway legal costs as friction to the claims process and promoting building code standards that result in homes with greater resilience to loss like the Fortified programs promulgated by the Insurance Institute for Business & Home Safety (IBHS) would serve both policyholders and their insurers well.

Regulatory Update

Issues we discussed in 2022 included shifts in the marketplace to non-traditional insurers including residual markets, non-admitted insurance carriers, and capital lite business plans. All are strategic plays against a backdrop of increasing loss costs, increasing litigiousness and defense costs, and pricing constraints from regulators. Further, demographic trends pointed to population migration to higher catastrophe prone markets with higher regulatory scrutiny. To their credit, regulators in 2023 are attempting to address the long-term health of their local markets. Below is a summary of key regulatory developments in states that have both high catastrophe exposure and growing populations on a twenty-year basis.

- In California, due to multiple insurers halting new business or exiting the state entirely, the FAIR Plan growing at a record pace, and the legislative session failing to pass major insurance reform in 2023, Governor Newsom issued an executive order in September to authorize Commissioner Lara to reform insurance regulations and to improve market conditions. The reform will address issues such as allowing reinsurance provisions in rate filings, use of cat models for wildfire ratemaking, and encouraging insurers to write business in high hazard areas. The new regulations are still under development and planned to be effective no later than Dec. 2024.
- Since December 2022, Florida passed a series of property insurance reforms to address challenges in the property insurance market, including SB 2-A which addressed the one-way attorney fee and assignment of benefit issues. While the industry is moving toward a positive direction, the rate inadequacy of FL Citizens continues to make the residual market the major competitor in most parts of the state, instead of their mission to be a customer’s last resort.
- Colorado passed HB23-1288 in May 2023 to establish a new FAIR Plan in response to the availability issues caused by natural catastrophes. This is the first new FAIR Plan to be formed in the U.S. in decades and is expected to start writing business in early 2025.
- Louisiana has been impacted by insolvencies in recent years. The regulators in the state acted promptly to institute reforms to keep business in the voluntary market. The Louisiana Department of Insurance (LDI) addressed LA Citizens rate inadequacy by approving rate changes ranging from 62.9 percent to 65.6 percent effective January 2023. LDI has been working with insurers though multiple rounds of take out.

How to compete

Success in homeowners is possible. We estimate a combined ratio of 91.6 on a direct basis gets a well-diversified insurer to at least at 10 percent ROE. On a net basis, that increases to 94.1. Notably, even with recent market hardening, reinsurance continues to be a very accretive form of capital protection for insurers. In last year's study, we observed that insurers in the top quartile produce results about ten combined ratio points better than the median. The industry ten-year combined ratios were 98.7 (direct) and 100.3 (net). Subtract ten points from either of those and the result is at or above at least a 10 percent ROE hurdle. We note that, on a ten-year basis, one of the eight insurers in the national cohort achieved combined ratios at or below those stated targets on both a net and direct basis.

Consistent top quartile performance over the long term requires deliberate consideration by management about the alignment of the book of business they intend to have and how it overlaps with the insurer's expertise and business appetite, including:

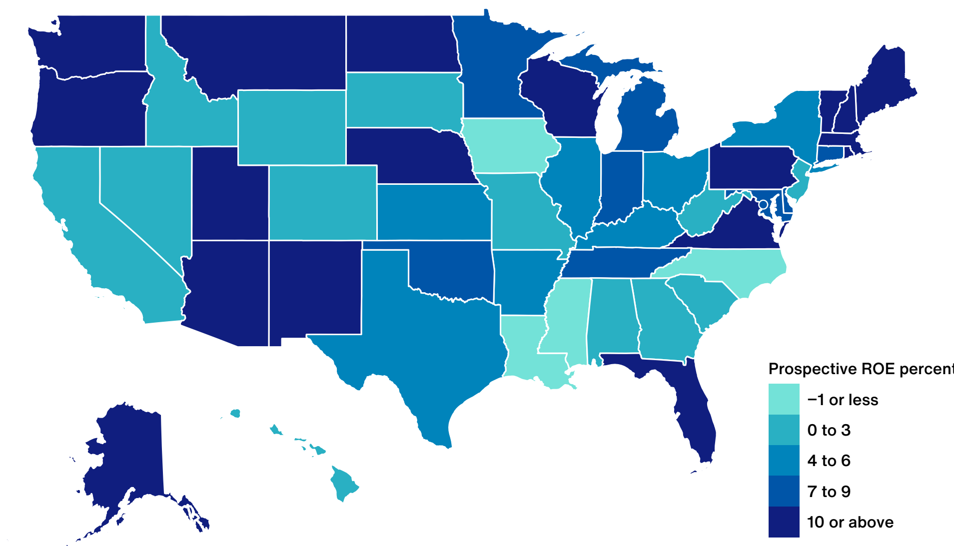
- **The capital stack.** The marketplace of capital sources for balance sheet support, once summarized as, "debt, equity, reinsurance" is more nuanced and robust today with hybrid vehicles. Each vehicle has its own appetite that affects where and how it is most accretive to deploy. Aon helps clients identify sources of capital, the appetite of that capital for various forms of risk to support insurers.
- **The strategic niche.** What is the insurer's target customer? What distribution channels does the insurer use to reach that customer? How is the insurer differentiated within its niche to win the in-appetite business? A specific example is the rapid growth of non-admitted premium as a percentage of the total marketplace. Aon provides both strategic consulting services backed by Aon's proprietary datasets and implementation support to effect change through an organization when defining (or refining) strategic niche.
- **Operational efficiency.** The importance of efficiency in delivering value to the policyholder while achieving reasonable returns for taking risk cannot be overemphasized. Questions such as how to optimally structure the firm's personnel and responsibilities, how to minimize runaway costs in the claims process, and how to benchmark expense efficiency in detail against peers and the industry are key to the operational success of an insurer. Aon supports clients to become operationally excellent organizations who can effectively manage their expenses to provide the best price possible, have efficient processes to proactively support customer needs, and are rewarded with the time and space to plan and innovate for the future.
- **Robust analytics.** Creating and quantifying a target portfolio is necessary to communicate action from management to personnel throughout the organization like underwriters, risk managers, and pricing actuaries. In the above section describing the differences between prospective ROEs and historical ROEs actually achieved by the national cohort, we highlighted the importance of catastrophe losses to the overall financial results of homeowners insurers. Aon's teams specialize in topics including reinsurance cost allocation, catastrophe model evaluation, creating and validating a view of risk, profitability measurement analytics as well as capital modeling solutions and subject matter experts to turn analytics into a well-defined target portfolio quantifying risk/reward tradeoffs for management to dial appropriate to their appetite.

Aon provides services and functional expertise in raising capital and has practice groups with dedicated experts in E&S, MGA, InsurTech and other relevant business trends. We are here to help our clients and partners navigate a complex and highly competitive marketplace to make better business decisions.

Benchmarking Prospective ROE: National Multiline Carriers

The National carriers' greatest competitive attribute is scale. Generally, they are recognizable household names backed by massive marketing reach, multi-channel distribution strategies, and voluminous data and operational complexity. That said, no two national carriers are the same; their strategies are as diverse as their organizational structures (which include mutual, stock, and reciprocal exchange).

Exhibit 5: November 2023 prospective ROE at current rates



The scale of the study's national cohort has long been a theme – these companies have strong financial diversification, are very conservative, and maintain larger net positions with high reinsurance limits backed by a large balance sheet. However, we've seen these carriers recently taking action to curtail their exposure even further in higher risk states which emphasizes their conservative nature. Four of the top eight homeowners writers that comprise our national cohort in the study have restricted new business in California in the last twelve months as a result of higher losses and a challenging regulatory environment.

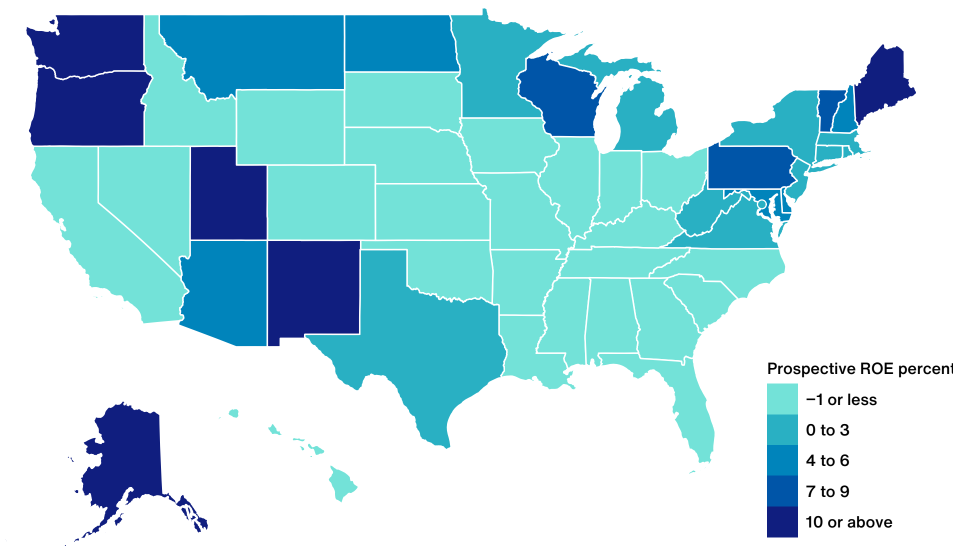
Nonetheless, the national cohort this year produces a model-adjusted 95 combined ratio which produces a 6 percent ROE. As previously mentioned, the 6 percent ROE only gives credit for rate earned in 2023 and we find that overall rate action over the last eighteen months has demonstrated the industry's attempt to grapple with inflation and higher loss activity. Of note, recent loss trends have challenged even the national cohort's performance, which has reduced BCAR scores and put pressure on the financial ratings of these carriers. Given the strength of these carriers, we model them with a 1.2:1 premium to surplus ratio while exceeding capital requirements for an A rating.

In total, 36 states with 69 percent of the cohort's premium volume post a modeled combined ratio below 100 percent. 18 states representing 23 percent of the cohort's premium volume meet or exceed our prior study ROE hurdle at 10 percent. As previously noted, the 10 percent hurdle may be too low to attract capital to support homeowners.

Benchmarking Prospective ROE: Single-State Monoline Specialist Carriers

Regional and specialty insurers turn focus to competitive advantage. These carriers often thrive on deep, local relationships with their markets, including independent agents, policyholders, and domiciliary regulators.

Exhibit 6: November 2023 prospective ROE at current rates



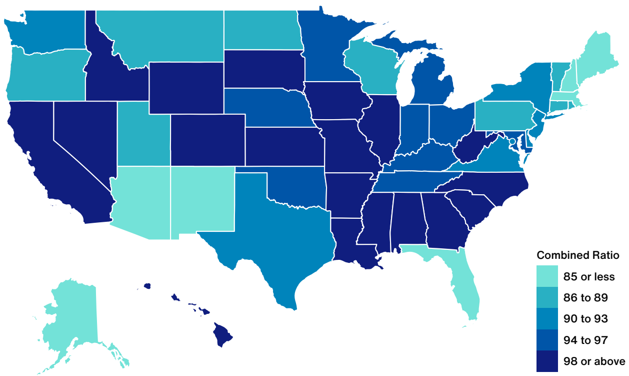
Florida has long been the standard bearer for single state homeowners insurers but given recent trends in high risk states like California, opportunistic specialty carriers backed by the large diversification benefit of their reinsurance partners broader footprints may seek to enter regions the national carriers deem too risky for their business. To represent those carriers and others at the opposite end of the spectrum from the large national writers, our synthetic specialty carriers are comprised of industry average financial and market characteristics of insurers whose primary business is homeowners. We dampened noise in the study by reflecting average expense loads in each state and modeled the lack of diversification in our catastrophe and capital benchmarks.

Writing profitable business has been a challenge for this cohort due to their lack of diversification. While reinsurance partners can help mitigate the risk, localized events put pressure on these carriers in a way that doesn't materially impact national writers. Reinsurance costs are also much higher for this cohort due to their concentrations in risk prone geographies, putting 220 basis points of pressure on the prospective ROE, which is almost double the impact reinsurance costs put on the national cohort.

One tailwind for this cohort is rate action – the specialists have consistently aimed for higher rate in the states that they do business in than the national cohort due to their concentrations and lack of diversification. Carriers not included in the national cohort achieved a weighted average 9 points in both 2022 and 2023. This slightly outpaced the rate activity for the nationals who achieved 8 points in 2022 and 10 points of rate in 2023.

Benchmarking Target and Prospective Combined Ratios: National Multiline Carriers

Exhibit 7: Model adjusted prospective combined ratio

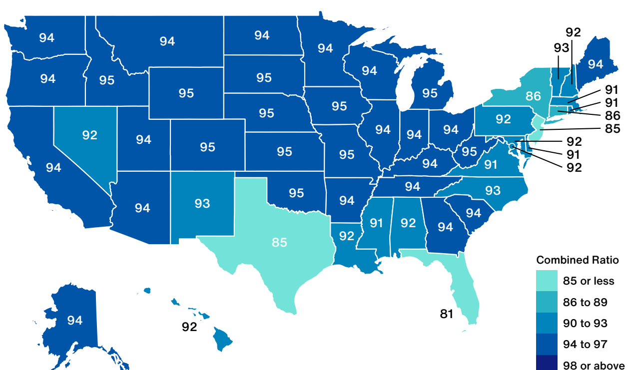


Countrywide CR, Avg: 95

The prospective combined ratio calculation illustrated in the left map (and next page, right for specialist cohorts) substitutes catastrophe experience with a custom model view of loss, on-levels historical premiums to prospective levels, and incorporates expense levels consistent with annual statement reports.

The national cohort appears to struggle in states with significant thunderstorm or wildfire exposure, but approved rate within the U.S. has helped bring the national carrier's aggregate model adjusted combined ratio to a 95, down from last year's 97.

Exhibit 8: Direct combined ratio to achieve a 10% return on allocated capital

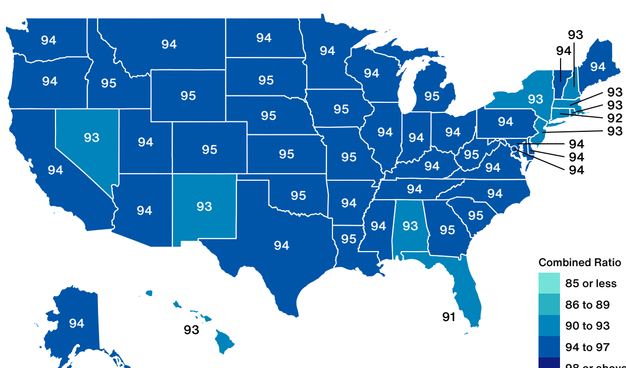


Countrywide CR, Avg: 92

The percentages in the left map (and next page, right for specialist cohorts) show the direct target combined ratios necessary to fund reinsurance costs and allocated capital for retained risk by state, including catastrophe and non-catastrophe risk. The risk-taking habits of the national cohort also comes out in this modeling. The cohort is generally underweight in Florida relative to its market share in the rest of the U.S. This creates a dual peak catastrophe risk footprint with the primary peak in Texas and secondary in New York. It remains to be seen how recent activity in California will change the dynamics of this map.

For a diversified national insurer, the target combined ratios fall into three main categories: (1) Peak (TX/NY), (2) other hurricane-exposed states and (3) states not materially exposed to hurricanes.

Exhibit 9: Net combined ratio to achieve a 10% return on allocated capital



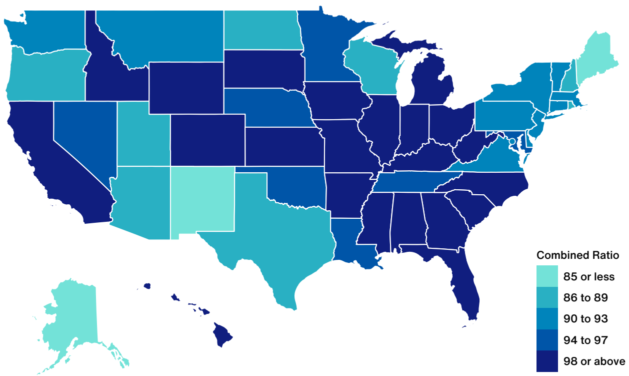
Countrywide CR, Avg: 94

The percentages in the left map (and next page, right for specialist cohorts) show the net target combined ratios necessary to fund allocated capital for retained risk by state, including catastrophe and non-catastrophe risk.

The net target combined ratios for the national cohort demonstrate the benefit of reinsurance even to large national writers with significant diversification within their own footprint. After reinsurance, the peak risk areas are effectively mitigated. Texas, New York, and states heavily correlated with those two peaks achieve targets similar to non-peak areas.

Benchmarking Target and Prospective Combined Ratios: Single-State Monoline Specialist Carriers

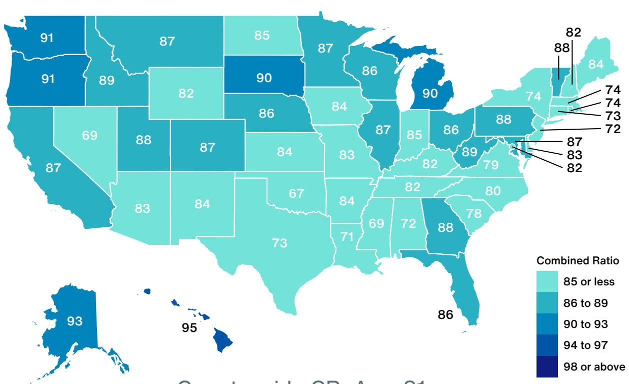
Exhibit 10: Model adjusted prospective combined ratio



Countrywide CR, Avg: 97

As expected, the model-adjusted combined ratios for the specialists show more variability between states than the national cohort. States with severe thunderstorm and wildfire exposure seem to pose the greatest challenge to pricing actuaries, regardless of the size and scale of the carrier.

Exhibit 11: Direct combined ratio to achieve a 10% return on allocated capital

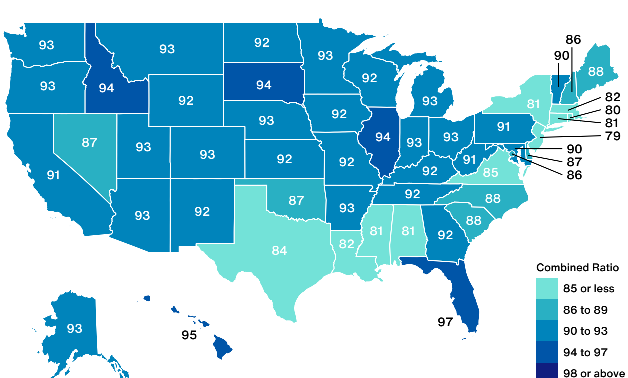


Countrywide CR, Avg: 81

We've illustrated target combined ratios for our synthetic specialist cohort, but actual targets will vary significantly among individual companies due to state premiums distribution, capital adequacy standards, target return on capital, allocation methods, reinsurance, and other considerations.

Monoline specialists have larger capital requirements in AM Best's capital framework, which necessitates lower direct target combined ratios than competitors with more diversified insurance footprints or lines of business as seen in the national cohort.

Exhibit 12: Net combined ratio to achieve a 10% return on allocated capital



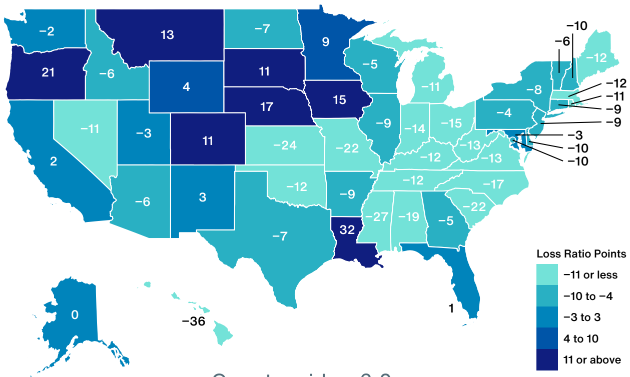
Countrywide CR, Avg: 89

Reinsurance provides a significant benefit to specialist target combined ratios. Specialists can tap into the balance sheet of their global reinsurance partners to provide an alternative form of risk diversification.

Reinsurance buying habits vary significantly amongst the specialists depending on their geographic footprint. For example: Midwest insurers buy limits to higher return periods than Northeast insurers because of the tradeoff between modeled tail loss (Northeast hurricane is riskier than Midwest thunderstorm) and the pricing levels in the reinsurance market (Midwest thunderstorm tends to be priced lower as a diversifying peril).

Total Industry Aggregate Catastrophe Results

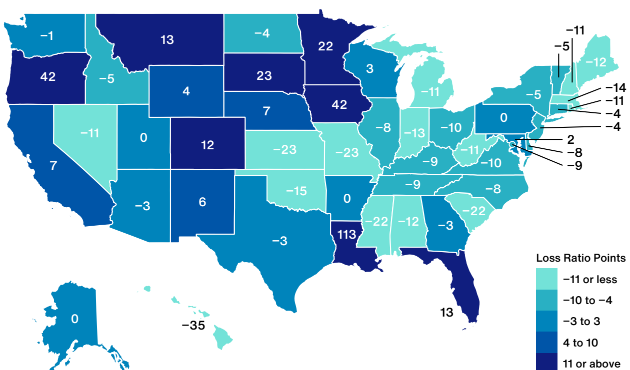
Exhibit 13: Ten year Property Claims Services loss experience vs. modeled average annual loss



Countrywide: -6.0

The maps left and below show, in loss ratio points, the amount that catastrophe experience varies from model average annual loss. Adjusting combined ratios for expected versus historical catastrophe loss is an important step to distinguish weather-related randomness from inadequately priced business. Historical catastrophes can distort measures of results at a state level, causing the noise to overwhelm the signal. While state level adjustments can be significant, the ten-year nationwide experience catastrophe loss ratio of 24 points is meaningfully lower than the modeled expected catastrophe loss ratio of 30 points.

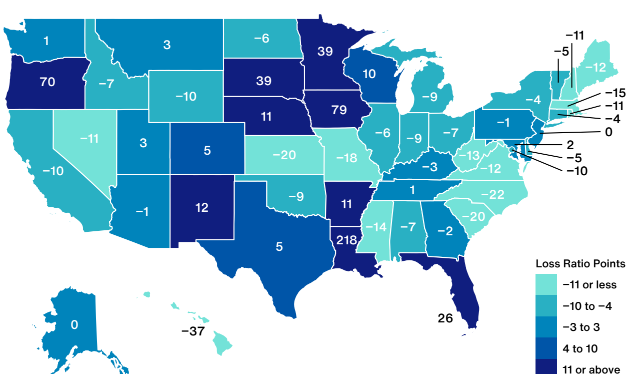
Exhibit 14: Five year Property Claims Services loss experience vs. modeled average annual loss



Countrywide: 0

On a five-year basis (2018-2022), substantial catastrophe loss occurred from multiple perils including the record setting landfalls in Louisiana along with the recent severe thunderstorm activity across the upper Midwest, which has put the industry in line with modeled outcomes.

Exhibit 15: Three year Property Claims Services loss experience vs. modeled average annual loss



Countrywide: 4.0

The three-year perspective shows the most variation on a state-by-state basis between favorable and adverse loss results. This is expected given the catastrophe exposure inherent in the Homeowners line; longer time horizons generally help smooth results. 2020 – 2022 saw significant weather events that caused substantial loss in select geographies. While 2023 has had no marquee weather events that affected multiple geographies, loss activity for the first half of the year is at a similar level to 2022 which will suppress profitability in the short term.

Rate Activity Indices

The homeowners market is pushing substantial rate through to help offset inflationary pressures. Our national cohort achieved double digit rate weighted average rate for the U.S. in aggregate in 2023 while the specialist cohort achieved another 9 points this year.

Exhibit 16: Rate activity index; National multiline carriers

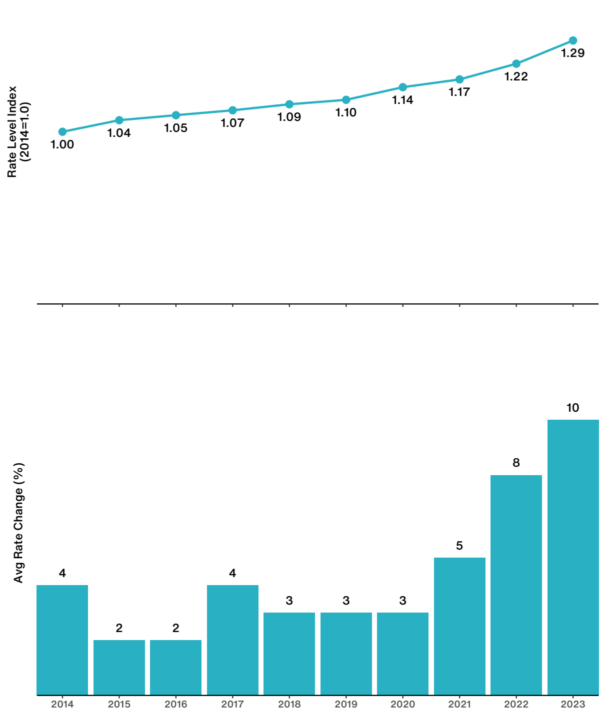
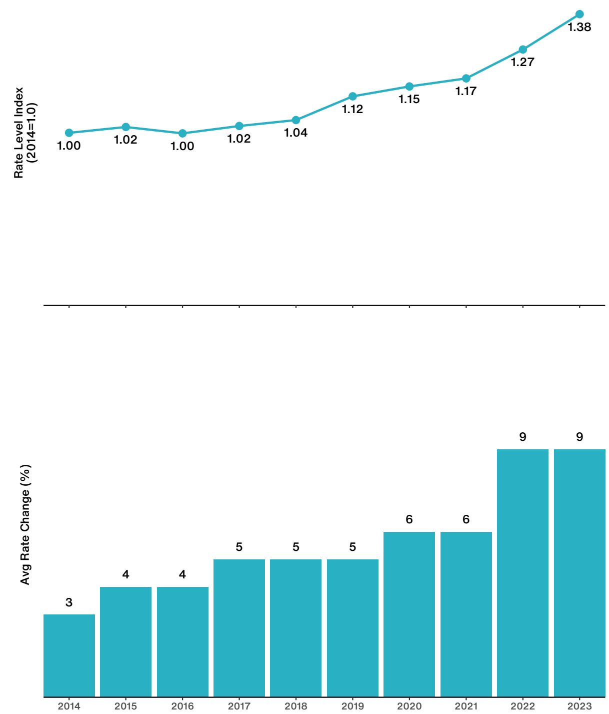


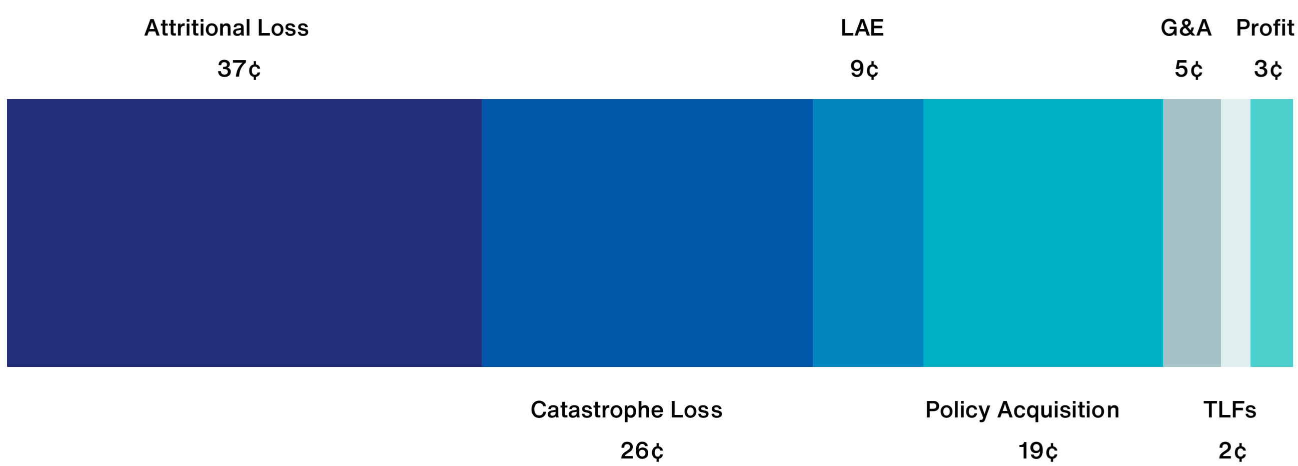
Exhibit 17: Rate Activity Index; excluding national multiline carriers.



One dollar of homeowners premium

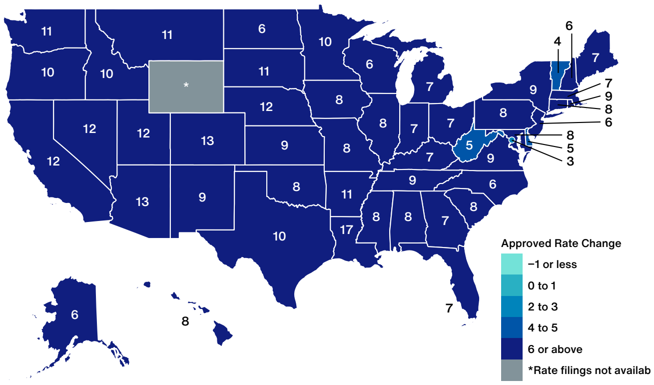
Aon's study suggests that, at prospective 2023 rates and before income taxes, Homeowners insurers keep about three cents of profit for every premium dollar they earn. That direct profit must be shared between the primary carrier, reinsurance partners, and the U.S. Treasury

Exhibit 18: Dollar of premium breakdown for the industry aggregate homeowners insurance carriers



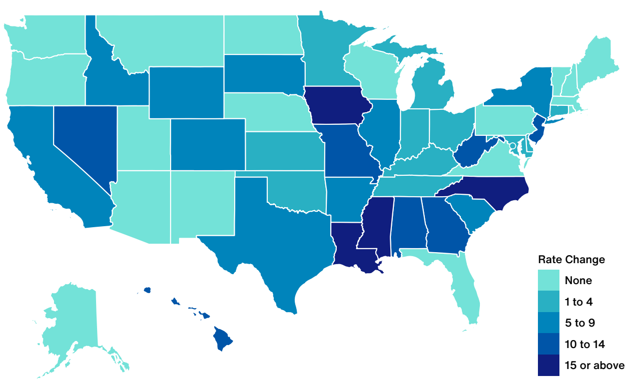
Total Industry Aggregate Growth and Rate Activity

Exhibit 19: Homeowners average approved rate change



The map on the left shows the homeowners rate changes by state from January 2022 – September 2023. Almost every state shows 6 points or more of rate, with notable standouts in California which may help reduce carrier flight from the state.

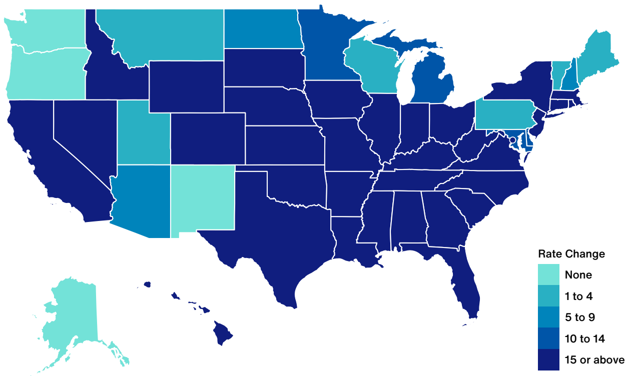
Exhibit 20: National carriers rate need to achieve 10% ROE



The left map and map on following page show the rate needed for the national and specialist cohorts to achieve a 10 percent ROE on a direct basis. These are indications based on Aon's study including aggregation of financial data to construct our synthetic carrier cohorts. The actual rate and return needs of any individual carrier will vary depending on portfolio distribution, competitive and strategic decisions, risk appetite and the demands of policyholders, owners, and other stakeholders.

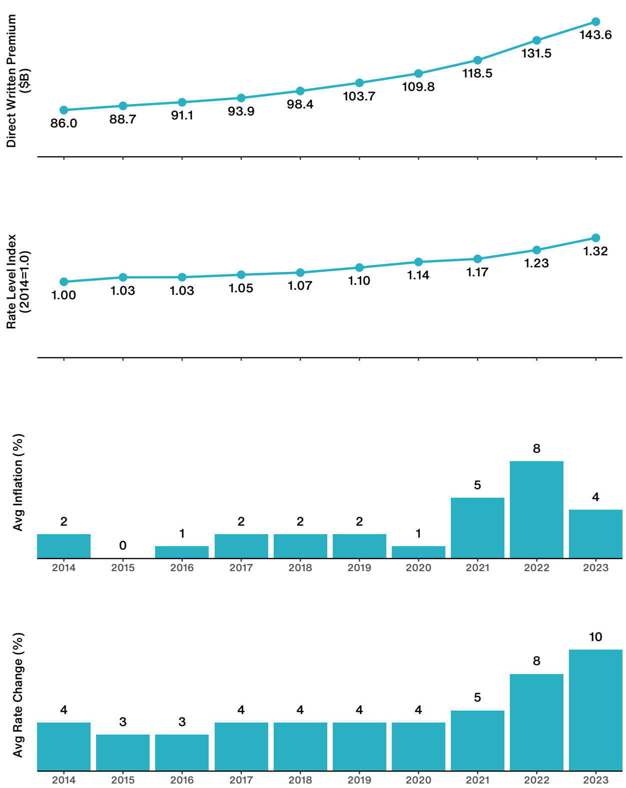
The national cohort's diversification benefits continue to be reflected in this map with 18 states already achieving a 10 percent ROE. However, wildfire and severe thunderstorm prone states stand out as areas needing further rate action in addition to current rate progress for inflationary pressures.

Exhibit 21: Specialist carriers rate need to achieve 10% ROE



On a direct basis, specialist carriers require more rate to reach 10 percent ROE due to their focus in catastrophe prone states, less diversification, and larger surplus requirements by the rating agencies but can offset this by leveraging their reinsurance partners to reduce volatility.

Exhibit 22: Premium growth and rate change, 2014 to 2023*



Direct written premiums increased from $86 billion in 2014 to $132 billion in 2022 with a projected $144 billion for 2023 given prospective rate activity (and assuming no further growth). Policyholders changing insurers will prevent the industry from realizing the full aggregate benefit of the individual carriers' rate actions.

Rate activity continued through 2023 with 10 points of approved rate in the pipeline for our prospective period. The open question remains: are we past peak inflation and are loss trends expected to come down? Carriers will need to watch trends closely over the next year to determine if continued elevated rate action will be necessary.

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