



MARSHBERRY

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Program Administrators Association



**STATE OF THE SPECIALTY INDUSTRY –
A MARKET IN TRANSITION**

PRESENTING TODAY



Gerard Vecchio
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- Gerard Vecchio joined MarshBerry in 2017 and works specifically with the Insurance Services Division of MarshBerry. Gerard's responsibilities include providing strategic and operational consulting services to specialty insurance distributors, insurance carriers and outsourced service providers within the insurance industry.
- Gerard has nearly 30 years of experience within the insurance industry where he has gained knowledge related to being a private equity investor in, board member of, and advisor to insurance distributors, underwriters and service and technology providers.



MARSHBERRY: WHO WE ARE

TRUSTED ADVISOR TO THE INSURANCE DISTRIBUTION AND WEALTH ADVISORY INDUSTRIES



Founded in **1981**;
headquartered in
Cleveland, Ohio U.S.



5 U.S. Regional Offices
+ 4 International OfficeS*



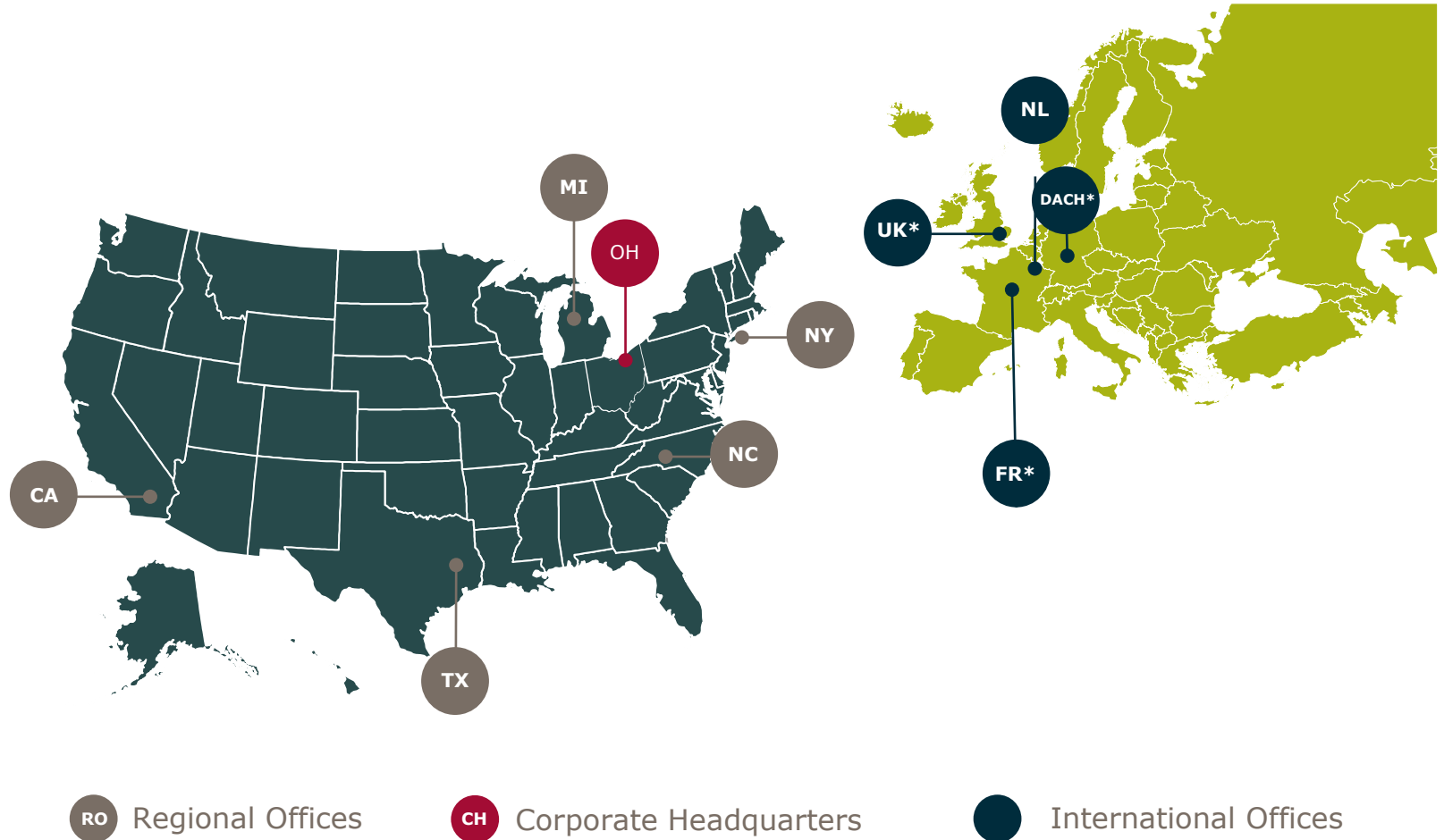
PE backed by
Atlas Merchant Capital



> **180 employees**



200+ licenses and
professional designations
held by MarshBerry staff



*Offices in DACH-region, the UK, and France will open in 2023.



STATE OF THE SPECIALTY MARKETPLACE: 2022 - 2023

In 2022, the Non-Admitted / Surplus Lines Marketplace has been characterized by:

1. Growth in Surplus Lines premiums continues to outpace Admitted Market premiums
2. Continued one-way flow of hard-to-place Admitted Market business into the Surplus Lines Market
3. A “Hard Market” pricing environment has given way to a Market in “Transition”
4. Rate increases continuing at a decreasing rate (**Construction, Property, GL & Auto all up from 1Q22**)
5. Improved underwriting results for carriers, though margins are only slightly above breakeven
6. M&A activity remains robust for MGAs and Program Administrators
7. 2022 net unrealized investment values decreased, partially offset by higher short-term bond yields
8. Claims continue to increase, with “claims leakage” continuing a worsening trend
9. Reserve strengthening more prevalent than earlier in the hard market cycle
10. Carrier reinsurance costs up significantly for property with higher attachment points

M&A: Mergers & Acquisition – E&S: Excess and Surplus



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2023: A MARKET IN TRANSITION

"We are going to continue to push for what we believe are **must-have rate increases** and we are **prepared to walk away from business** that's not adequately priced." ~**Markel Specialty's President Brian Sanders** (March 22, 2023, E&S Insurer Conference NY)

"**It is increasingly difficult to get players to offer lead limits on the umbrella.** Obtaining a lead \$5M is tough as most carriers only want to provide a lead \$2M or \$3M. If more than \$5M is needed, carriers are charging a premium for that higher capacity." ~**CRC 2023 State of the Market** (March 23, 2023, Online Release)

"...softening [Construction] will be heavily reliant on venue, as **the counterweight to softening remains ever-increasing employee injury verdicts** and several high-profile defect settlements that will undoubtedly set pricing floors for CAT excess." ~**CRC 2023 State of the Market** (March 23, 2023, Online Release)

"Throughout the year, Swiss Re took measures to **add USD 1.1 billion in reserves** to address the **risk of higher claims due to economic inflation** across our property and casualty businesses. ." ~**Swiss Re's CFO John Dacey** (4Q22 Earnings Release)

"During the fourth quarter, we also experienced an **unexpected increase in claims activity**, both on treaties subject to the Fortitude Re loss portfolio transfer as well as select treaties not subject to the legacy transaction." ~**James River's CEO Frank D'Orazio** (4Q22 Earnings Call)



STATE OF THE SURPLUS LINES CARRIERS



DIRECT PREMIUMS WRITTEN 2010 - 2022

Year	Total P&C Industry		Total Surplus Lines		Domestic Professionals	
	DPW	YoY % Change	DPW	YoY % Change	DPW	YoY % Change
2010	481,120	-0.1%	31,716	-3.8%	21,882	-4.2%
2011	501,555	4.2%	31,140	-1.8%	22,582	3.2%
2012	523,360	4.3%	34,808	11.8%	25,490	12.9%
2013	545,760	4.3%	37,719	8.4%	26,818	5.2%
2014	570,187	4.5%	40,243	6.7%	28,274	5.4%
2015	591,186	3.7%	41,259	2.5%	29,333	3.7%
2016	612,906	3.7%	42,425	2.8%	29,112	-0.9%
2017	642,127	4.8%	44,879	5.8%	30,594	5.1%
2018	678,029	5.6%	49,890	11.2%	30,054	11.3%
2019	712,194	5.0%	56,279	11.2%	39,060	14.7%
2020	728,866	2.3%	66,102	17.5%	46,948	20.2%
2021	798,246	9.5%	82,653	25.0%	61,200	30.3%

- 2021 saw an acceleration in premium growth in Surplus Lines marketplace
- Direct Surplus Lines Premiums up 25.0% in 2021 after 17.5% increase in 2020
- In January 2023, based upon YTD September 2022 Stamping Office performance, MarshBerry estimated that premiums increased commensurate with prior years

Source: AM Best Data & Research; YoY: Year-Over-Year; P&C: Property & Casualty; DPW: Direct Premium Written



A.M. BEST'S DOMESTIC PROFESSIONAL SURPLUS LINES COMPOSITE: 12-MONTH FINANCIAL INDICATORS, 2020 - 2021

	DPSL COMPOSITE			P&C INDUSTRY		
	2020	2021	YoY % Change	2020	2021	YoY % Change
Net Premiums Earned	16.0	19.2	19.9%	646.1	693.9	7.4%
Underlying Income/Loss	-0.2	0.6	NM	5.3	-4.1	NM

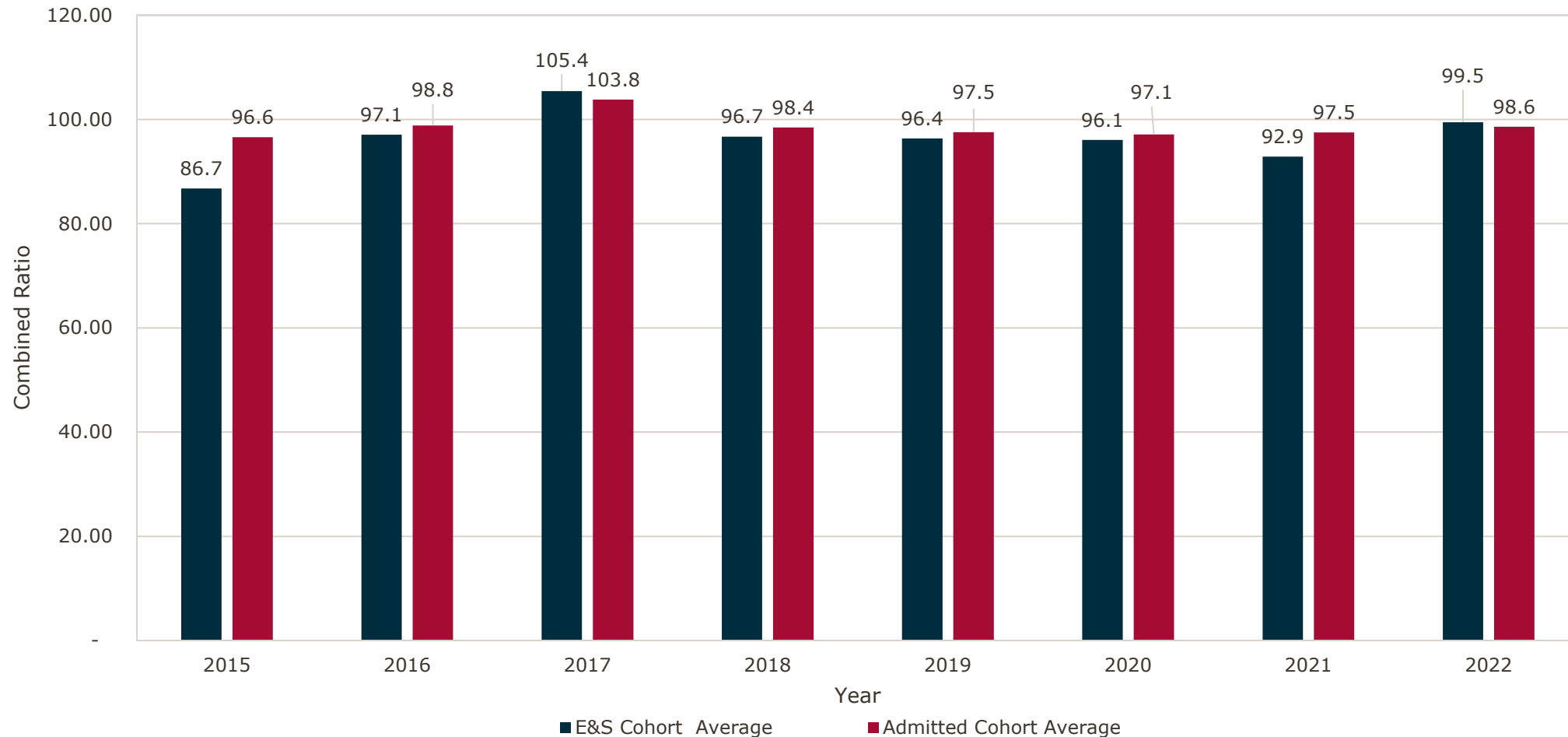
- 3.1% underwriting profit (U/W Income/NEP) in 2021 compares favorably to a -1.3% underwriting loss in 2020 for the Surplus Lines Composite
- 2022 unrealized and realized gains likely to wipe out any investment gains from 2021
- In 2022, with rates up over 10% for virtually all E&S lines, MarshBerry estimates that underwriting profit AND pre-tax profits exceeded 5% (assuming total investment returns were near zero as investment losses offset higher investment yields)

Source: AM Best Data & Research; DPSL: Domestic Professional Surplus Lines; YoY: Year-Over-Year; P&C: Property & Casualty



MARSHBERRY ESTIMATES FOR UNDERWRITING PROFITABILITY

Combined Ratio



Source: A.M. Best Data & Research; YoY: Year-Over-Year; E&S: Excess & Surplus; DPW: Direct Premium Written



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A.M. BEST'S DOMESTIC PROFESSIONAL SURPLUS LINES COMPOSITE: INVESTMENT PERFORMANCE 2020 - 2021

U.S. DPSL COMPOSITE VS. P&C INDUSTRY: INVESTMENT PERFORMANCE 2020 – 2021 (\$MILLIONS)						
	DPSL			P&C INDUSTRY		
	2020	2021	YoY % Change	2020	2021	YoY % Change
Net Investment Income	1,573	1,639	4.2%	54,401	56,620	4.1%
Realized Capital Gains/ Losses	117	657	46.1%	10,937	18,154	66.0%
Net Investment Gain/Loss	1,689	2,296	35.9%	65,338	74,774	14.4%
Unrealized Capital Gains / Losses	1,803	3,645	236.6%	40,361	91,943	127.8%
Total Investment Return	2,772	5,940	114.3%	105,699	166,717	57.7%

- 2021 Composite E&S writers' total investment return up 114% vs. sinking 50% in 2020!
- BUT: Stock Markets were down in 2022, making these gains illusory!
- MarshBerry estimates that 2022 investment losses exceeded 10% as the total return on the stock markets was down 20% on average, with bonds also falling due to rising interest rates.

Source: AM Best Data & Research; P&C: Property & Casualty; DPSL: Domestic Professional Surplus Lines; YoY: Year-Over-Year; E&S: Excess & Surplus



STOCK MARKET PERFORMANCE 2022

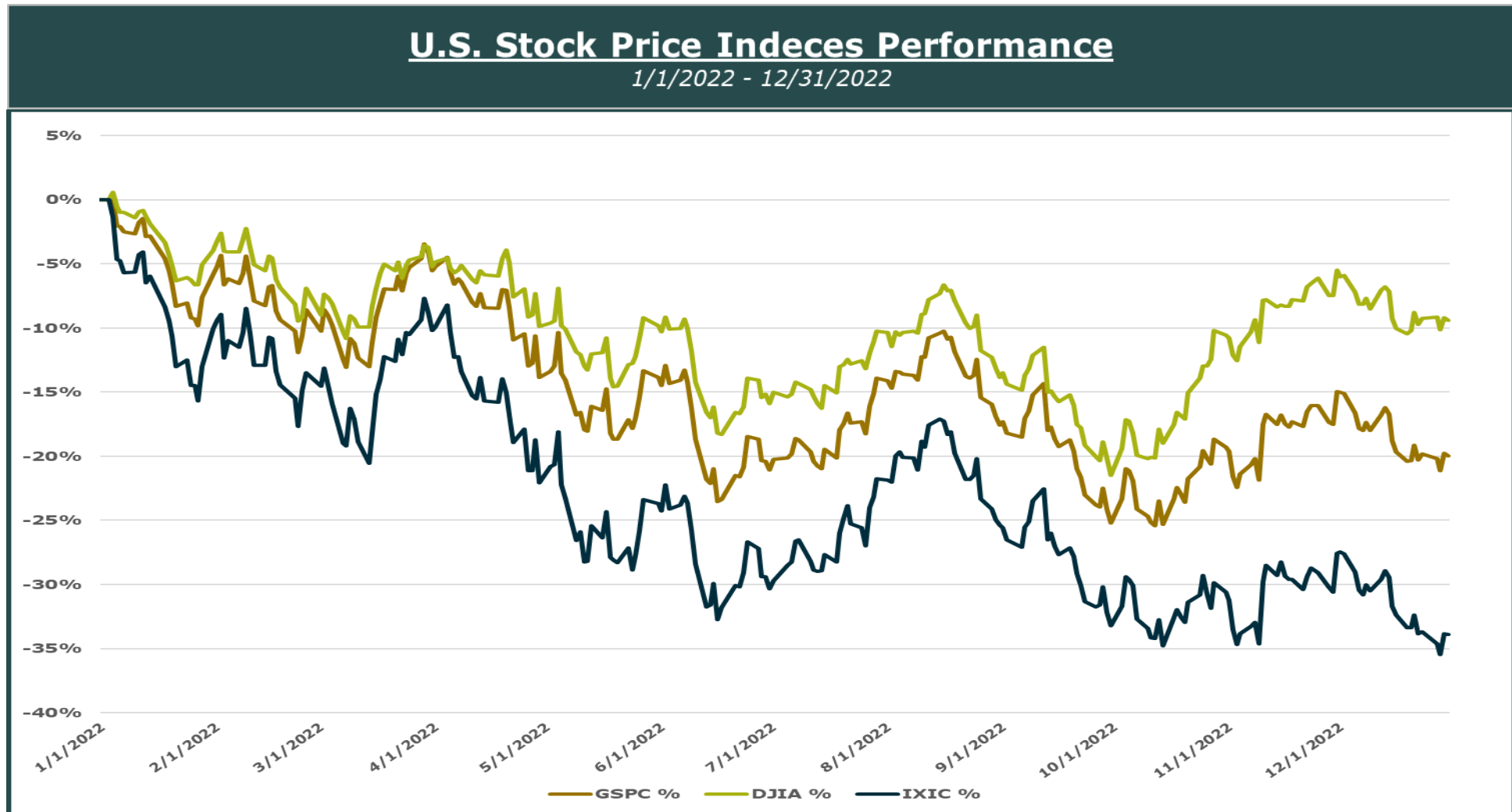


Illustration generated by MarshBerry with data sourced from Yahoo Finance – 4/20/23. The MarshBerry Broker Index is a composite of market data sourced from Yahoo Finance on the following companies: BRP, BRO, AON, AJG, MMC, WTW. It is prepared for analytical purposes only. This information is not to be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any securities, financial instruments or to participate in any particular trading strategy.



DEBUNKING THE MYTH: THE
E&S MARKET EBBS AND
FLOWS WITH HARD & SOFT
MARKET CYCLES

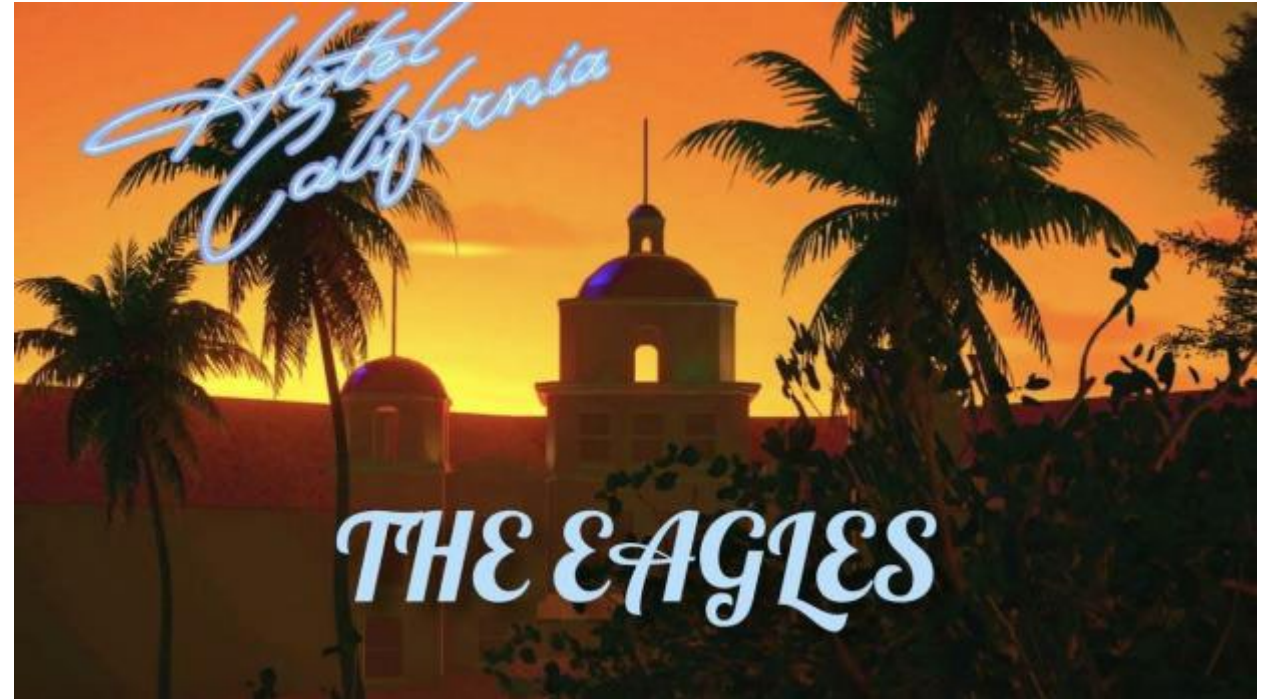


DEBUNKING THE EBB AND FLOW MYTH #1

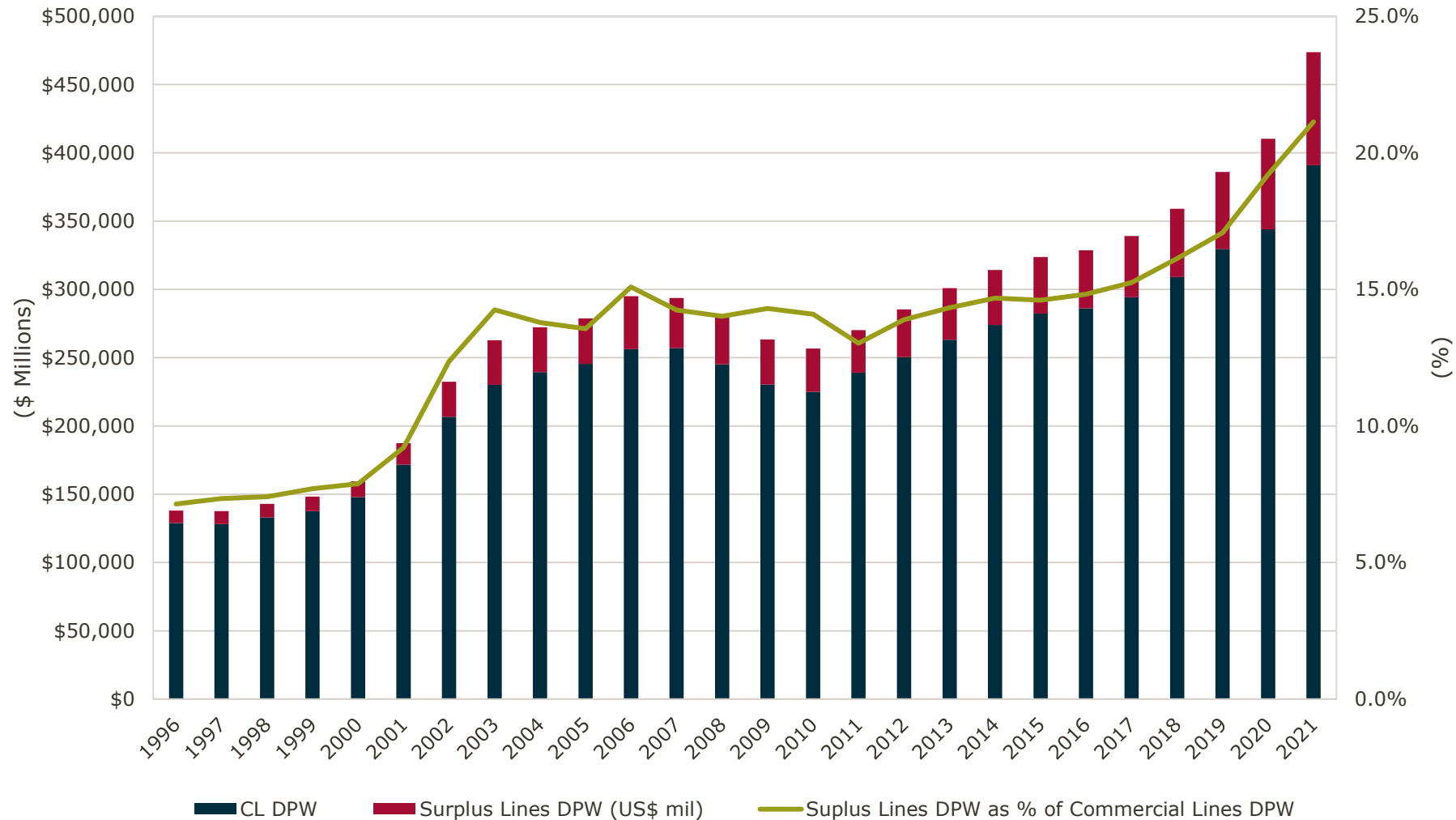
MYTH: Loss-prone risk that move into the Surplus Lines Marketplace during a hard market move back to the Admitted Market as rates soften and equilibrium is reached.

REALITY: The E&S Market is analogous to Hotel California: *"You can check out any time you like, but you can never leave!"*

Once in the Surplus Lines Marketplace, premiums tend to stay there, even as policies move between the two markets!



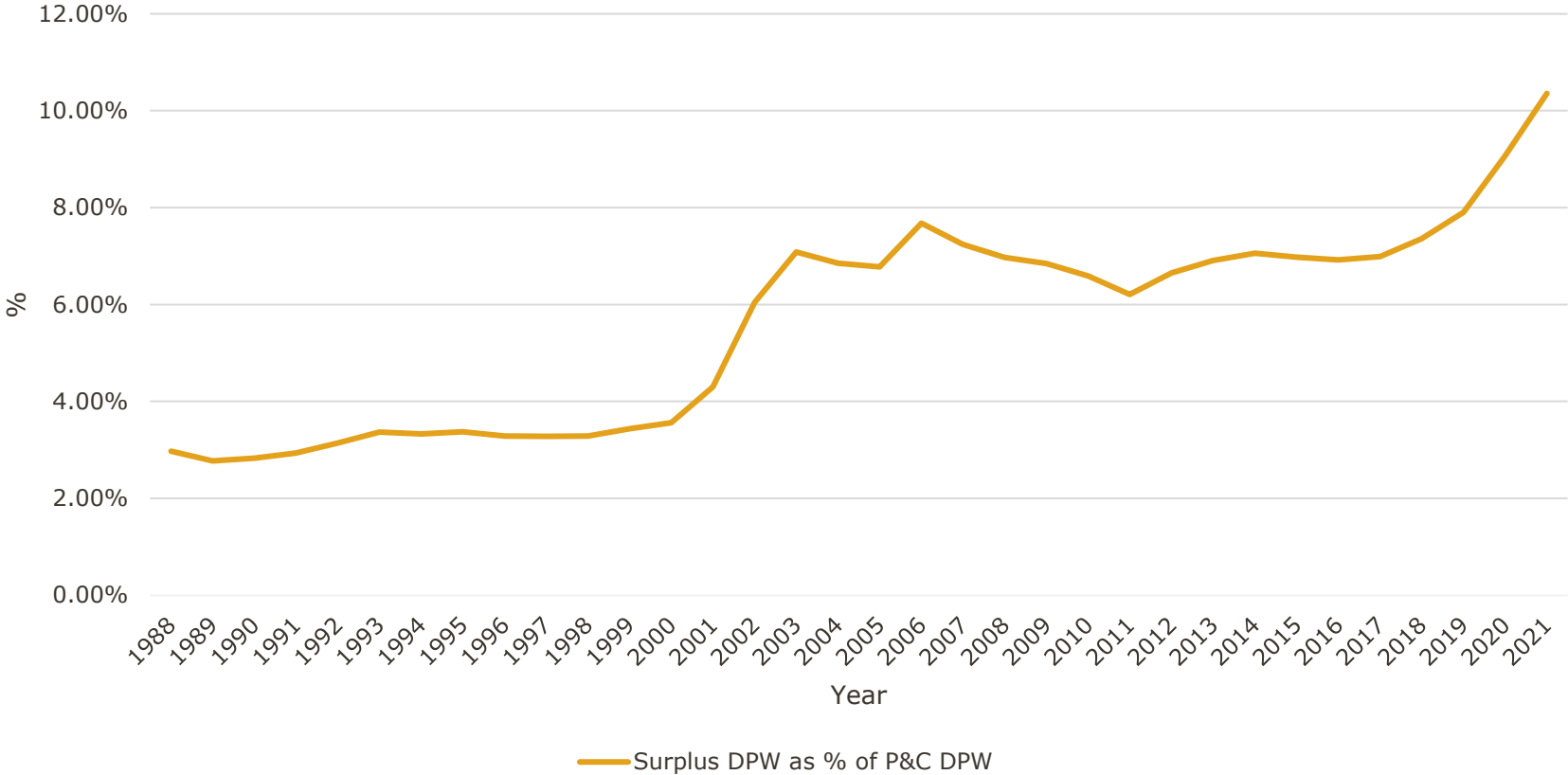
SURPLUS LINES DWP AS A % OF COMMERCIAL DWP



Source: A.M. Best 2022 Excess & Surplus Lines Report; DPW: Direct Premium Written



SURPLUS LINES DWP AS A % OF TOTAL P&C DWP

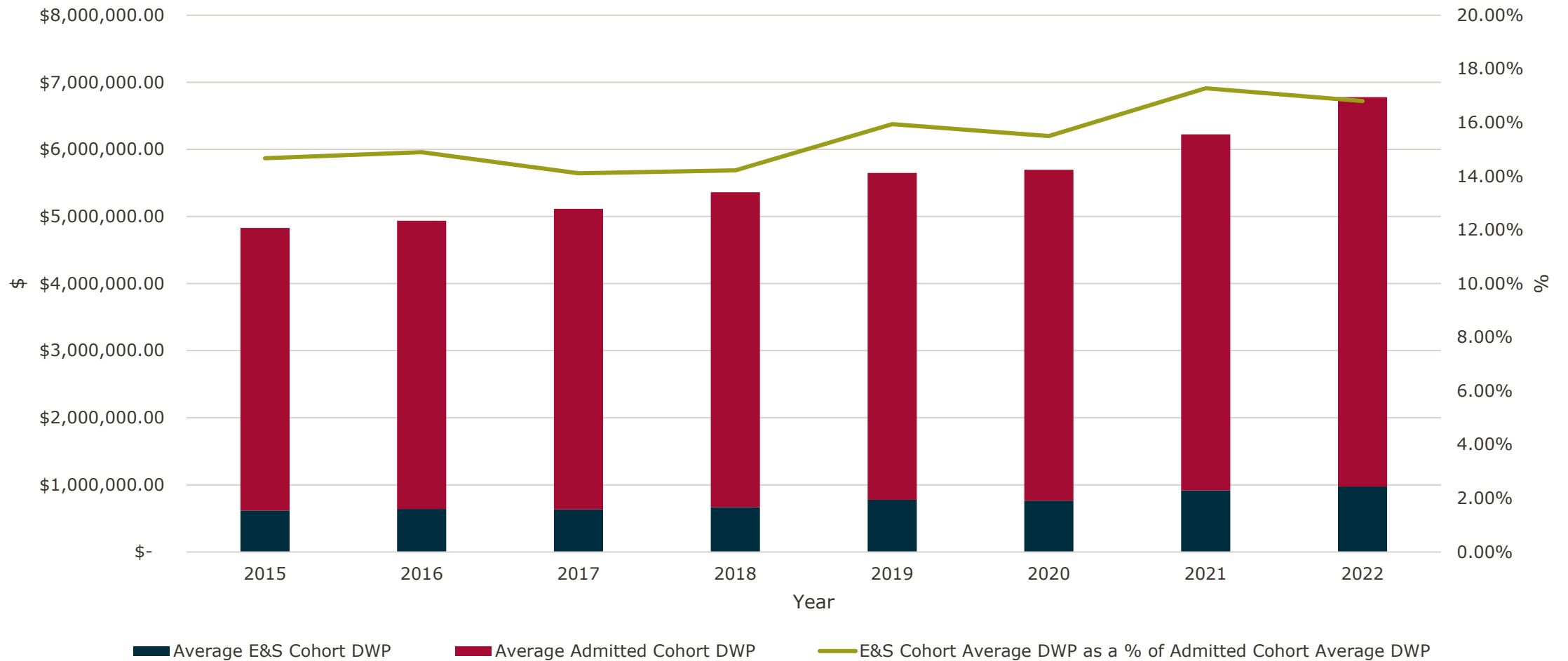


To what extent is high-value homeowners' coverage (especially Tier-One and wildfire exposures) accelerating this trend?

Source: A.M. Best 2022 Excess & Surplus Lines Report; DPW: Direct Premium Written; P&C: Property & Casualty



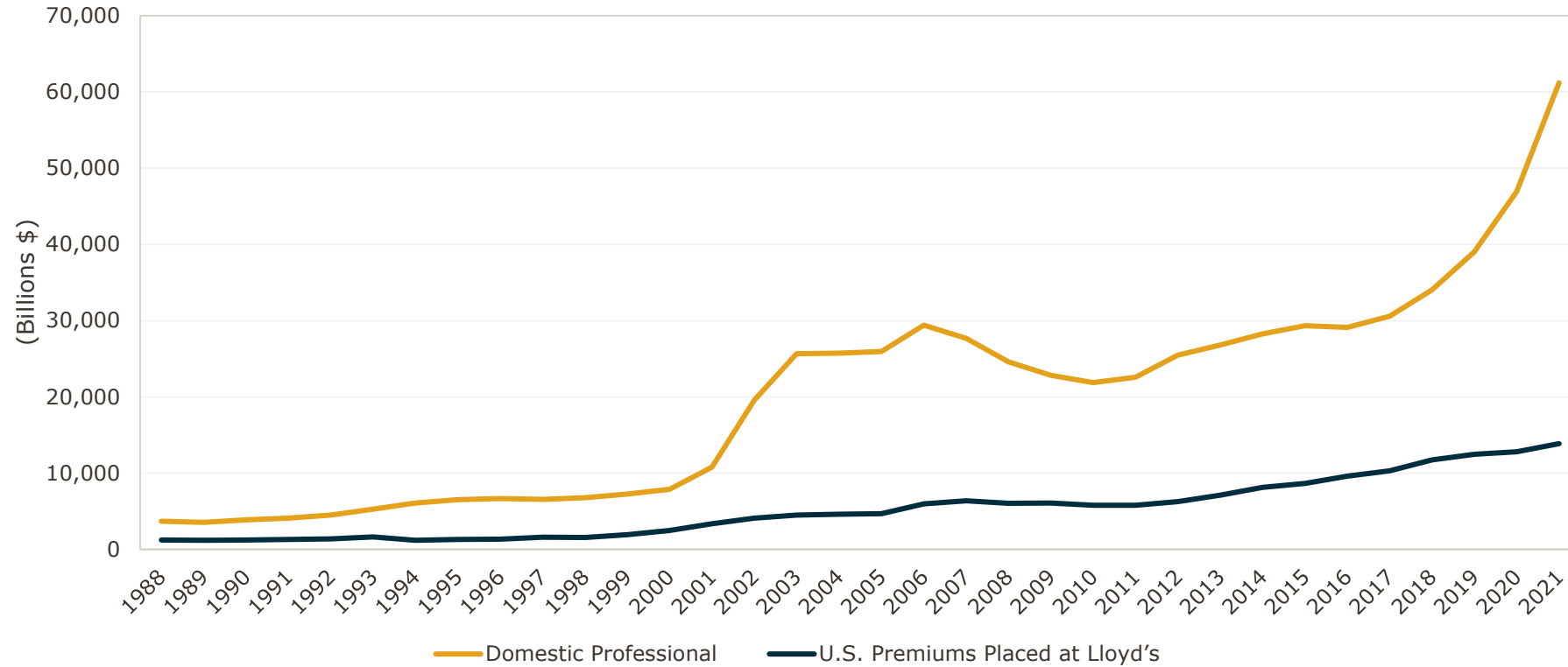
SURPLUS LINES DWP COHORT AS A % OF ADMITTED DWP



Source: A.M. Best 2022 Excess & Surplus Lines Report; DPW: Direct Premium Written; E&S: Excess & Surplus



U.S. SURPLUS LINES DWP VS. LLOYD'S DWP IN THE U.S.



Lloyd's Decile 10 Initiative evident in anemic premium growth past several years.

- Will Lloyd's U.S. business recover?
- Implications for MGAs / Program Administrators seeking additional capacity

Source: A.M. Best 2022 Excess & Surplus Lines Report; DPW: Direct Premium Written



IMPLICATIONS FOR LLOYD'S POST DECILE 10

Decile 10 – Four Years Later

Intended Consequence:

- Improved loss results and improved balance sheets for Lloyd's syndicates to make market viable for the long-term
- Additional capacity supporting improved underwriting results

Unintended Consequence:

- Lloyd's has lost material market share to domestic carriers, fronting companies, and reinsurers
- Can Lloyd's recover its 2017-2018 market share of 23%+ (currently 16.8%) that is down almost 6½ percentage points (~ 28%) in three years?
- As an E&S wholesaler or an MGA relying upon Lloyd's for capacity, will you need to rethink your Lloyd's strategy in light of:
 - Shrinking market share?
 - 1/1/23 Reinsurance Renewals / Market Dislocations?
 - Evolving risk profiles for Cyber, Business Interruption, Windstorm/Florida Property, Wildfires, Umbrella coverage?
 - Short vs. Long term?

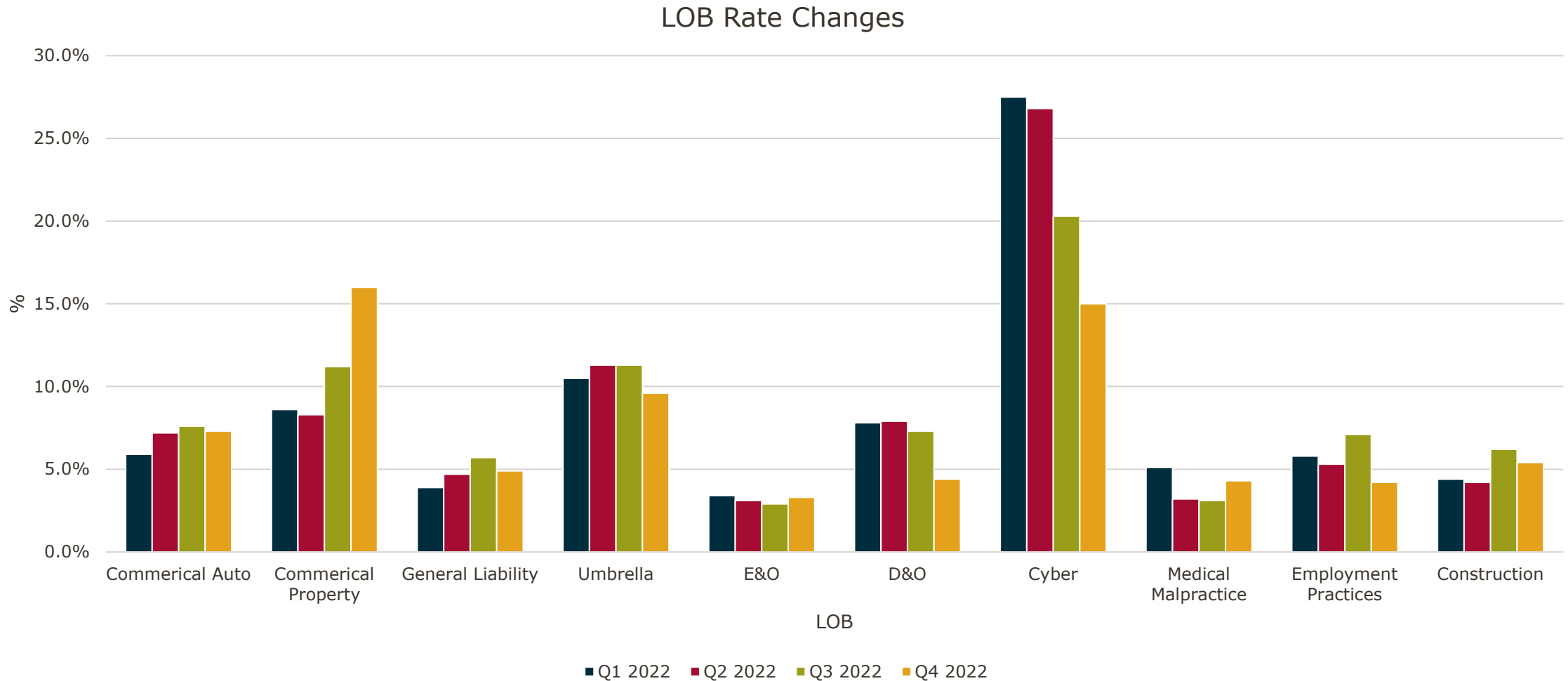
E&S: Excess & Surplus; MGA: Managing General Agent



MYTH 2: HARDENING PRICING
CYCLE WILL LAST 18-24 MONTHS
(FROM 2019 INCEPTION)



LINE OF BUSINESS (LOB) RATE CHANGES



Source: The Council of Insurance Agents & Brokers; E&O: Errors & Omissions; D&O: Directors & Officers



4Q22 COMMERCIAL P&C MARKET REPORT OF THE CIAB

4Q22 Commercial P&C Market Report of the Council of Insurance Agents & Brokers

- **Q4 2022:** According to CIAB, across all lines of business, premiums increasing by an average of 8.0%
 - 21ST consecutive quarter of premium increases
 - Large Accounts' average 9.1% premium increase eclipsed both small (6.5%) and medium (8.3%)
- **Property**
 - Inflation was the primary driver that most respondents mentioned as exerting upward pressure on property premiums **(up 16% 4Q22 vs. 8.6% 1Q22)**
- **Cyber**
 - Strict underwriting, reduced limits, and higher deductibles
 - Rates **up 15% 4Q22 after consecutive 20%+ rate increases** 1Q22 – 3Q22
- **Umbrella**
 - Up 9.6% 4Q22 vs. 10.5% 1Q22 **(78% experienced increases of 1-19%)**
- **Commercial Auto**
 - Negatively affected by higher repair costs and greater miles driven post-pandemic
 - up 7.3% 4Q22 vs. 5.9% 1Q22 **(88% experienced increases of 1-19%)**
- **Construction**
 - Up 5.4% 4Q22 vs. 4.4% 1Q22 **(70% experienced increases of 1-19%)**
- **General Liability**
 - Up 4.9% 4Q22 vs 3.9% 1Q22 **(66% experienced increases of 1-19%)**

Source: The Council Commercial Property / Casualty Market Index Q4/2022; EPLI: Employment Practices Liability Insurance; D&O: Directors & Officers



4Q22 COMMERCIAL P&C MARKET REPORT OF THE CIAB

Premium increases continue to significantly exceed price declines across major lines

- **Average Across of Lines**: High of 35.3% vs. Low of -13.2%
 - **Commercial Property**: High of 45.4% vs. Low of -15.5%
 - **Cyber**: High of 34.3% vs. Low of -1.5%
 - **Commercial Auto**: High of 28.6% vs. Low of -11.6%
 - **Umbrella**: High of 51.9% vs. Low of -13.5%
 - **Construction**: High of 38.7% vs. Low of -10.7%
 - **General Liability**: High of 26.0% vs. Low of -13.6%
 - **Medical Malpractice**: High of 32.5% vs. Low of -4.1%

Carrier demands were focused on three primary areas:

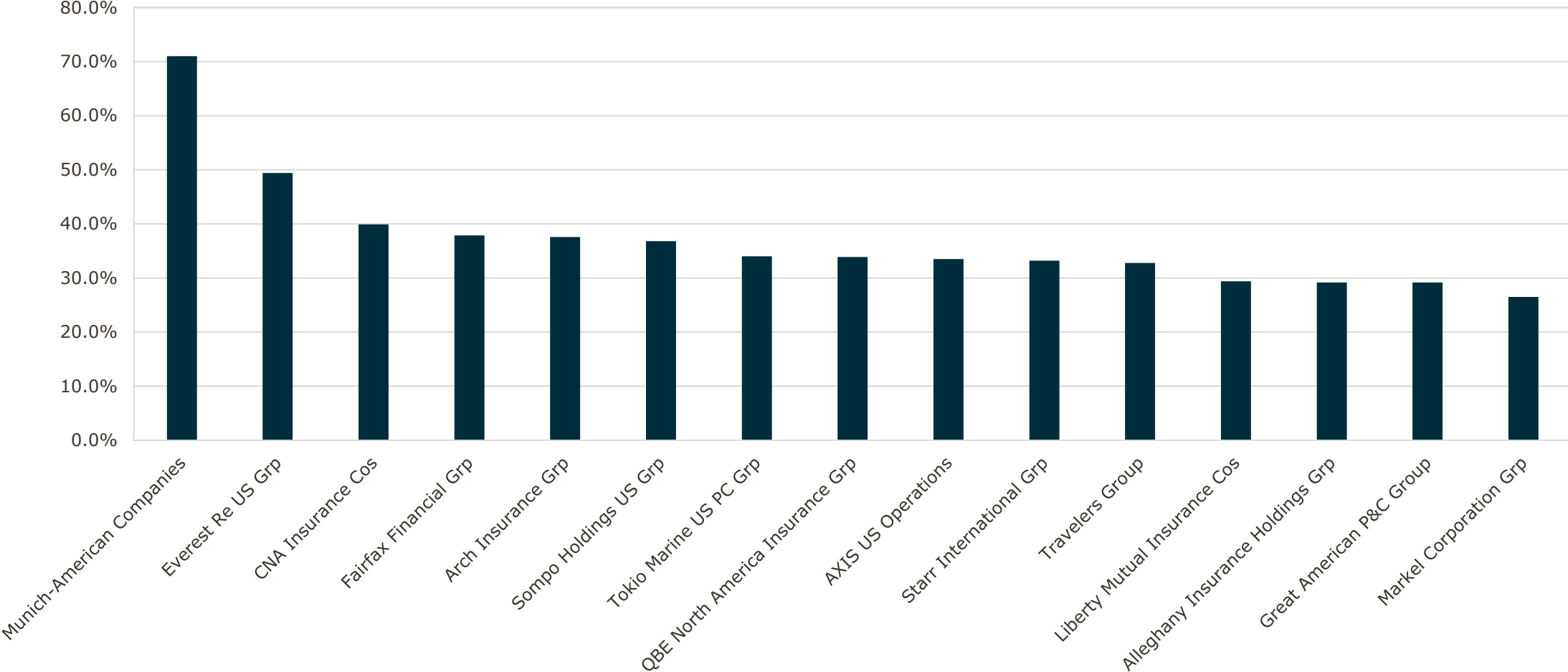
- Higher Deductibles
- Higher Pricing
- More Restrictive Coverages

Source: The Council Commercial Property / Casualty Market Index Q4/2022; EPLI: Employment Practices Liability Insurance; D&O: Directors & Officers



15 OF TOP E&S CARRIERS' GROWTH EXCEEDED INDUSTRY AVERAGE

Top 25 Group with Greater Growths than Market



Source: The Council of Insurance Agents & Brokers; E&S: Excess & Surplus



CAUSES OF LOSS COSTS FOR
CARRIERS: LITTLE CHANGE
FROM 2021



STATE OF THE E&S MARKETPLACE

UNDERLYING CAUSE OF INCREASING LOSS COSTS

AS WAS TRUE IN 2021, 2022 SEES A CONTINUATION OF MULTIPLE DRIVERS OF LOSS COSTS INCREASING CLAIMS COSTS FOR CARRIERS



Increased Frequency And Severity Of Harsh Weather And Natural Disasters



Evolving Digital Risks: Cyber Ransom, Intellectual Property Theft



Negative Investment Returns Throughout 2022



Inefficient Claims Handling, though improving?



Social Inflation: Not Going Away Anytime Soon



Reserve Strengthening Becoming More Prevalent Than Prior to 2022



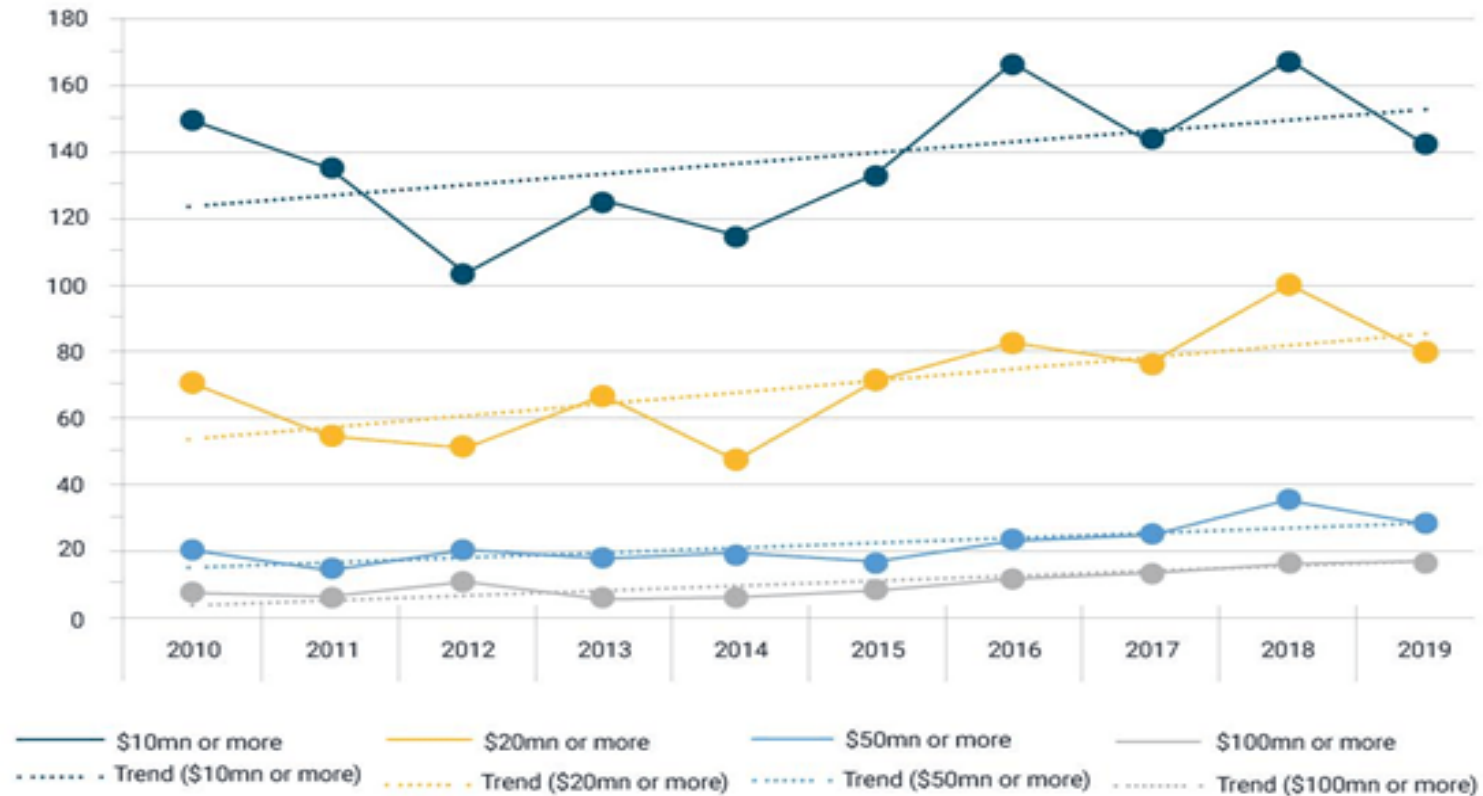
COVID-19 Effects: Diminishing - But Not Gone

E&S: Excess & Surplus



LIABILITY VERDICTS AGAINST INSURERS

Number of reported nuclear verdicts, 2010 – 2019

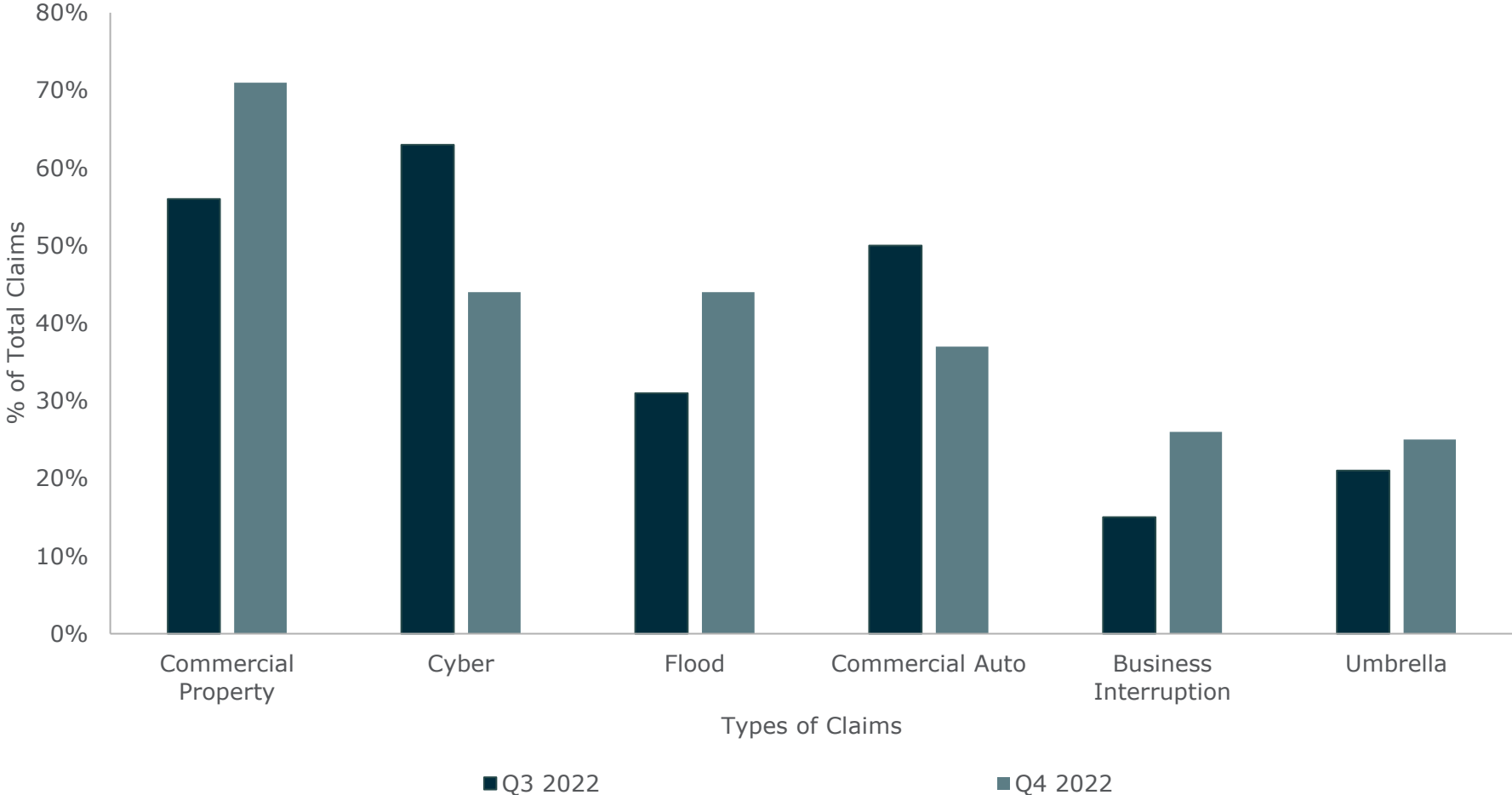


Source: Nuclear Verdicts Trends, Causes, and Solutions September 2022, U.S. Chamber of Commerce Institute for Legal Reform



CLAIMS ARE INCREASING

Respondents Reporting an Increase in Claims



Source: Council of Insurance agents & Brokers 4Q22 Pricing Report



THIRD-PARTY LITIGATION FUNDING = HIGHER SOCIAL INFLATION

Social inflation: Total cost of an insurance claim greater than the rate of inflation

- McKinsey & Company: “Our estimates show that rising prices contributed to an approximately \$30 billion increase in loss costs—the amount an insurer must pay to cover claims—in 2021, over and above historical loss trends.” (August 25, 2022 – *Countering Inflation: How U.S. P&C Insurers Can Build Resilience*)
 - Amounts to ~ 4% above inflation of ~4%-6%!

Lines of Business Most Affected

- Auto
- Products
- D&O

The Newest Twist: Third-Party Litigation Funding

- Investors providing litigation funding in return for a percentage of settlement value
- No refunds to investors if a case settles without a verdict for the plaintiffs

Source: D&O: Directors & Officers



CLAIMS ARE INCREASING

Aon and Ponemon Institute: Aon Global Markets Insights Report 3Q22

- More than 90% of corporate value is derived from Intellectual Property according to Aon and the Ponemon Institute
 - Only 17% of Intellectual Property (IP) is insured
 - Damages from IP suits over the last 10 years have averaged \$48 million with median damages of \$2.6 million
 - The number of IP Risk lawsuits is at a five-year high
 - Lawsuits are expected to increase due to risk exposure from a recessionary economic environment.

- According to Cloudwards, cyber crime increased by 600% during the COVID pandemic
- Additionally, the number of cyber complaints reported to the FBI increased from 250,000 / year (2008-2018 years) to over 750,000 / year (2020 & 2021)

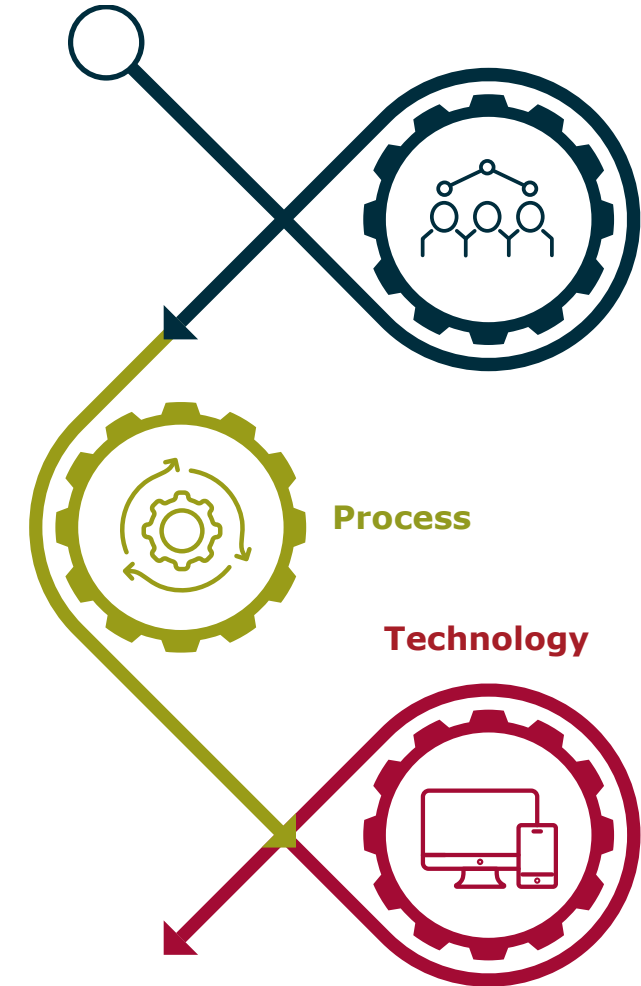
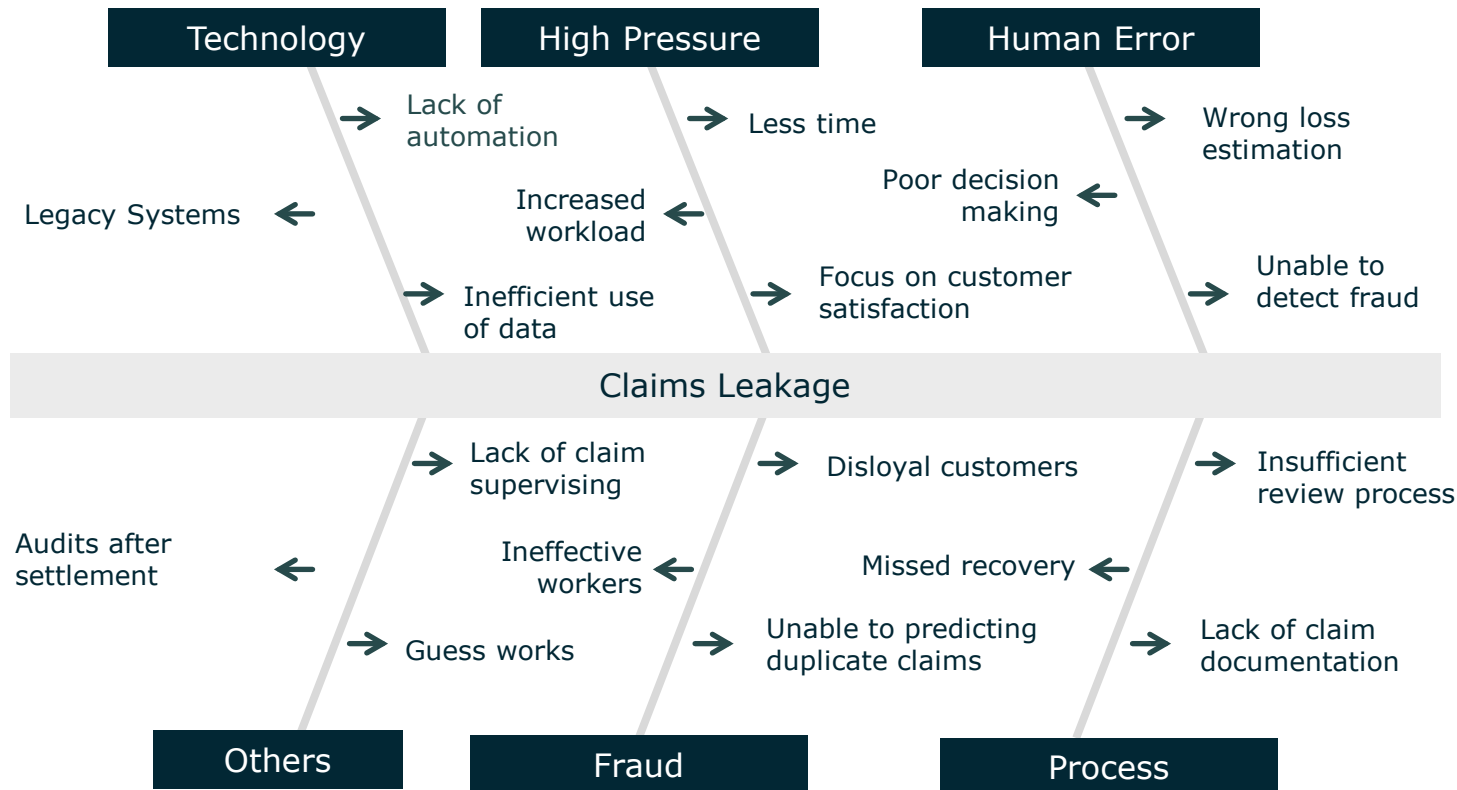
Source: Insurance Thought Leadership, July 20, 2022



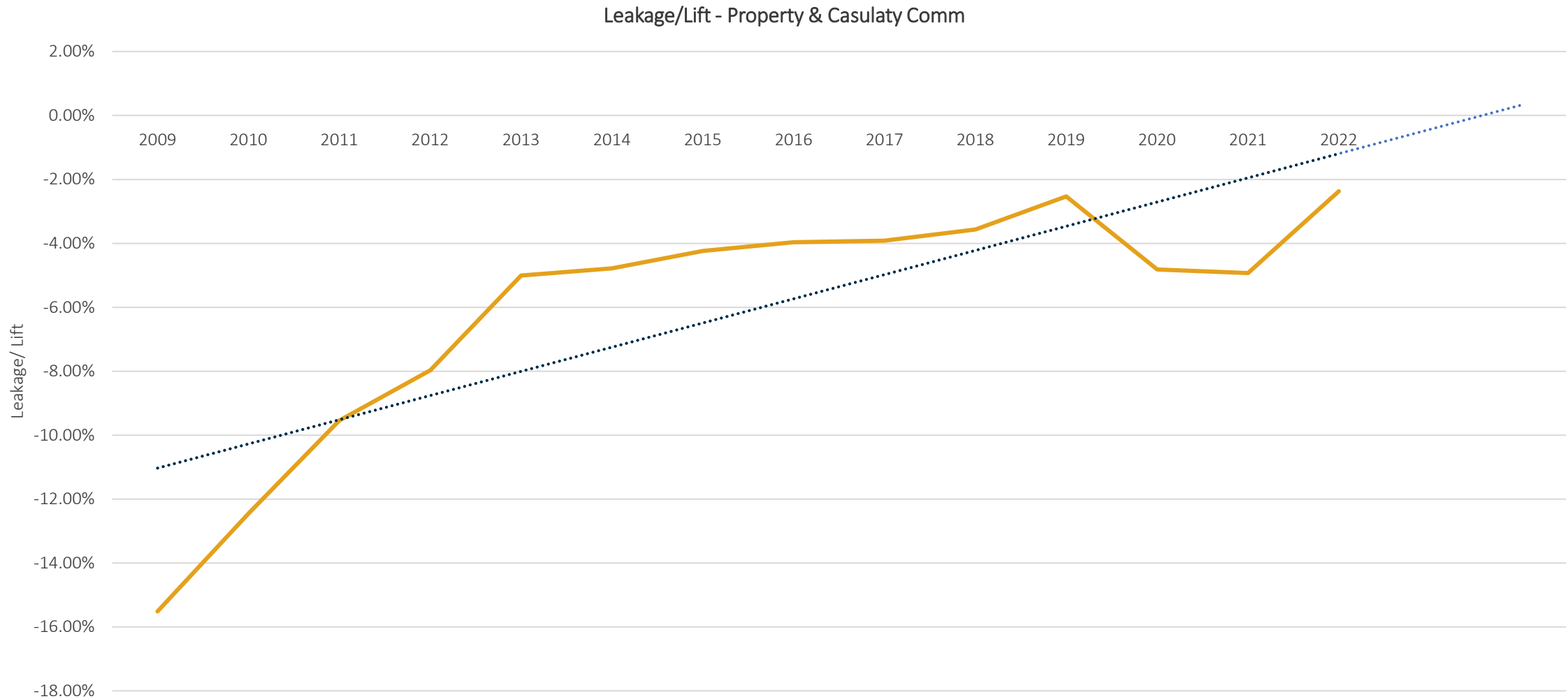
STATE OF THE E&S MARKETPLACE

THE COST OF INEFFICIENT CLAIMS HANDLING

The Cost of Inefficient Claims Handling



CLAIMS EFFICIENCY IMPROVED IN 2022 FOR CARRIERS



Source: MarshBerry Proprietary Financial Benchmarking Database, Perspectives for High Performance



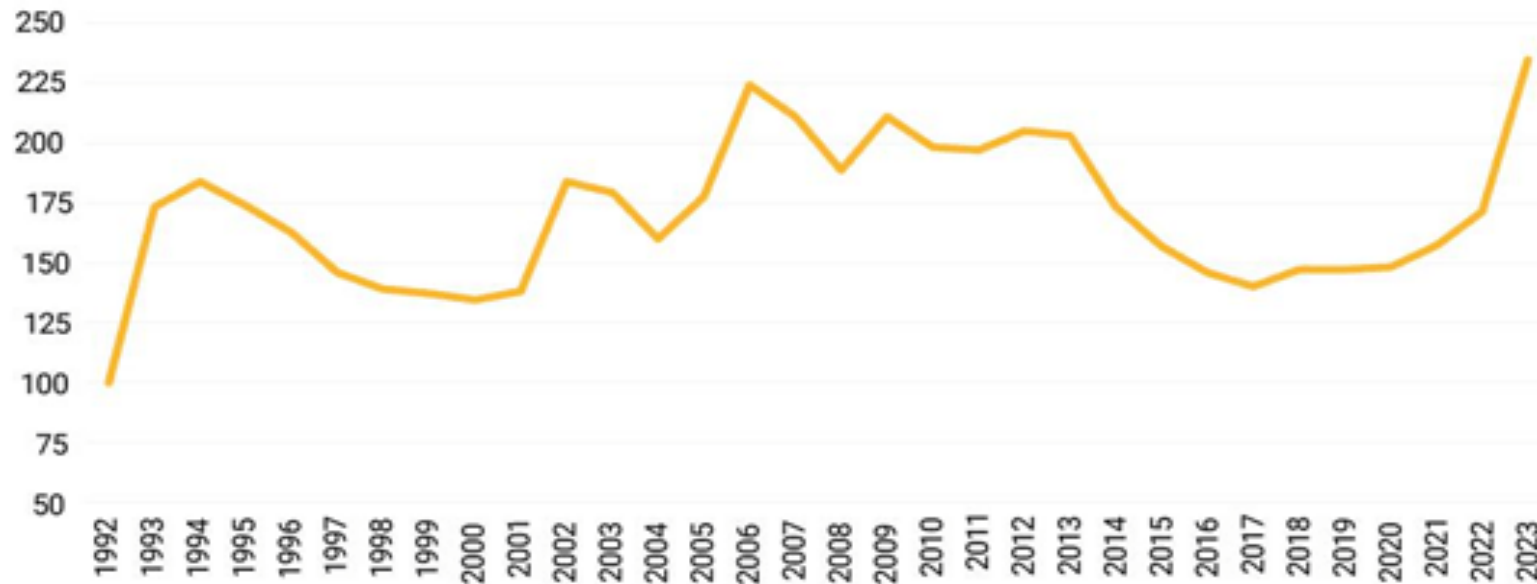
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JANUARY 1 REINSURANCE
RENEWALS: NO HYPE HERE -
LEGITIMATE CAPACITY
CONSTRAINTS



HOW WILL 1/1 REINSURANCE RENEWALS AFFECT MGAs?

Howden global risk-adjusted property-catastrophe rate-on-line index – 1992 to 2023

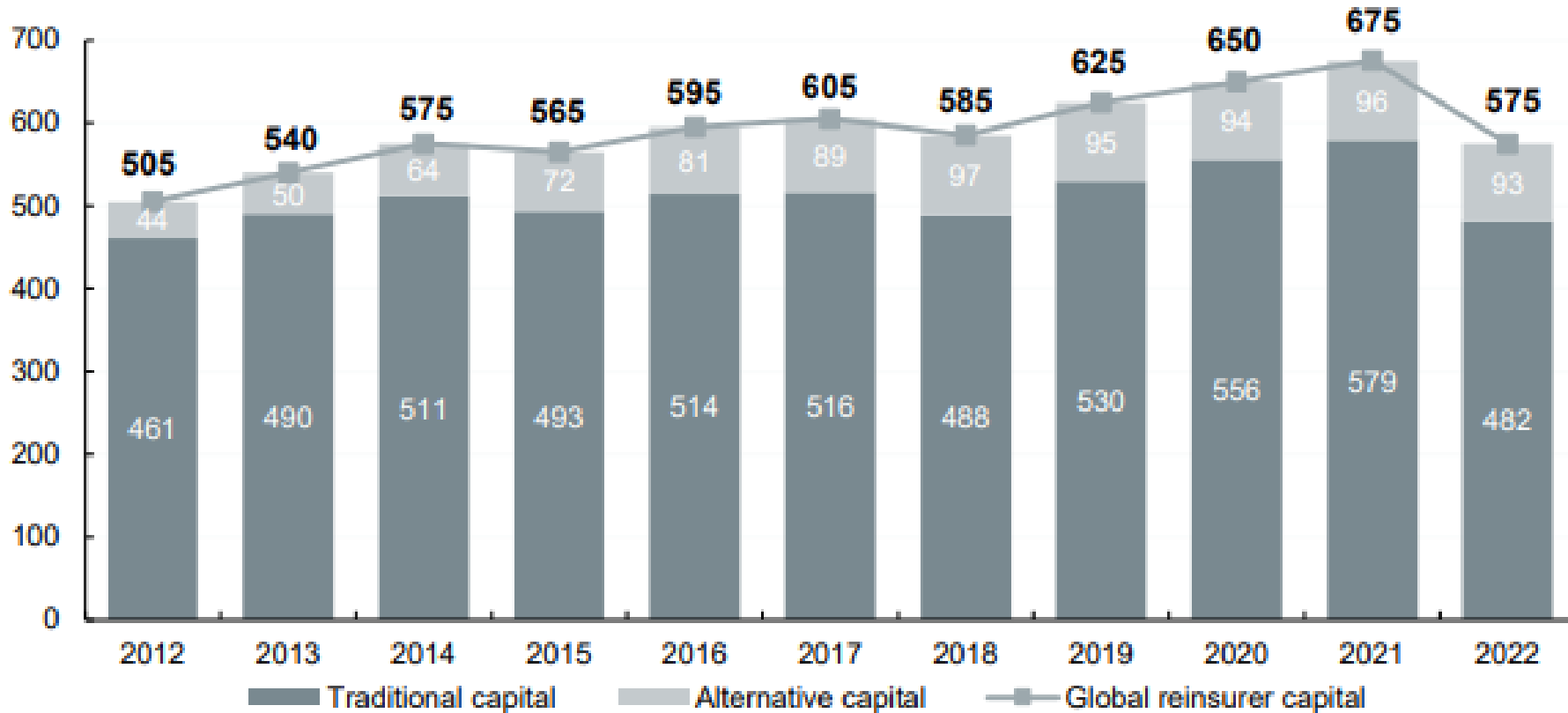


Source: The Insurer – January 3, 2023; NOVA



2022 WITNESSES REDUCTION IN REINSURER CAPITAL

Exhibit 1: Global Reinsurer Capital (\$ billions)



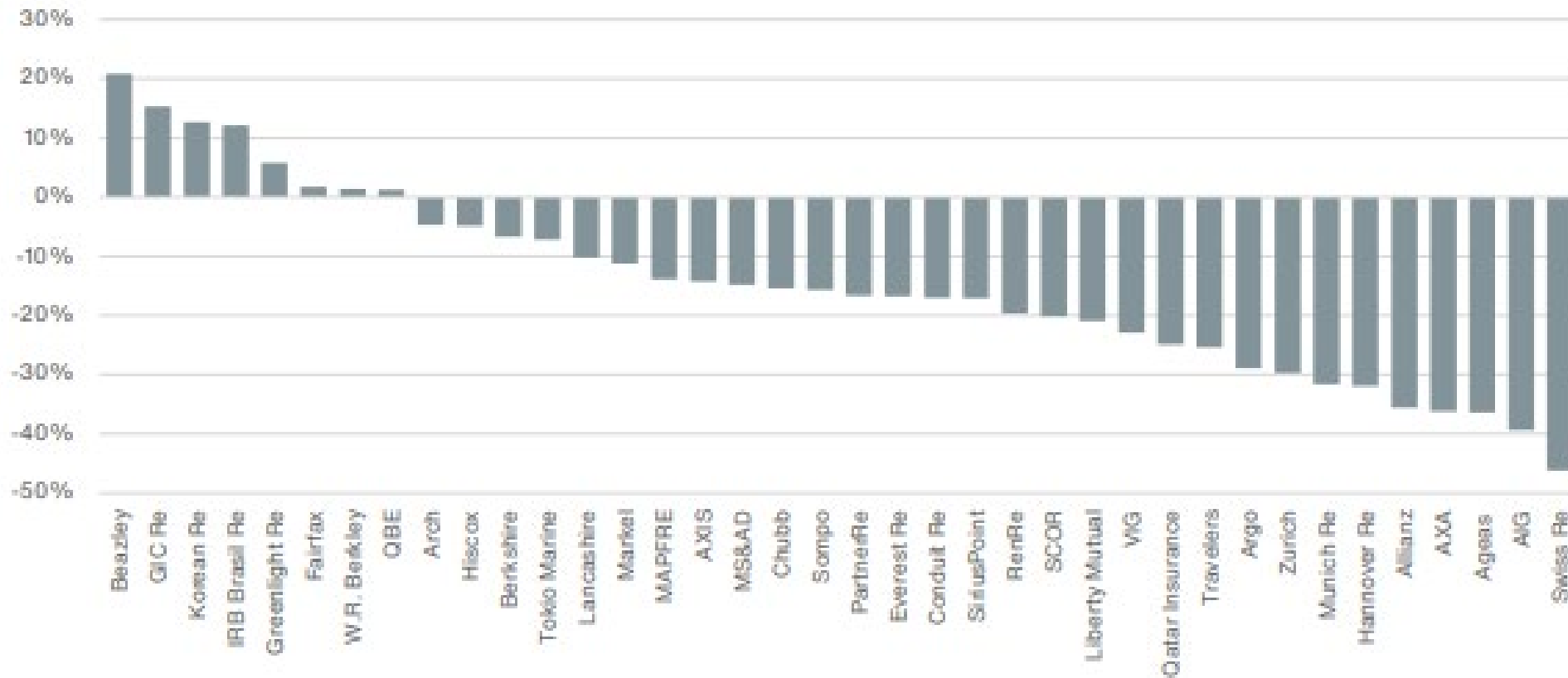
Source: AON – Reinsurance Market Dynamics- April 2023



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PERCENTAGE CHANGES IN INDIVIDUAL REINSURER EQUITY

Exhibit 3: 2022 Changes in Total Equity (Original Reporting Currencies)



Source: AON – Reinsurance Market Dynamics- April 2023



HOW WILL 1/1 REINSURANCE RENEWALS AFFECT MGAs?

Reinsurers want us to believe they still control pricing...To some extent they do!

- Many **carriers accepting significantly higher attachment points** (primary writers' net retention higher than 2022)
- Among others, Axa & Liberty Mutual raised attachment points on property cat portfolios:
 - Axa: Cancelled \$250 MM xs \$350 MM layer, effectively starting coverage at \$600 MM
 - In early December, the self-insured California Earthquake Authority (CEA) disclosed that it was unable to fully renew a portion of its reinsurance program
- **Loss affected carriers/geographies** likely to experience gaps in coverage (e.g., Florida)
- Rate increases up 75% (up 50% on a risk-adjusted basis) according to RenRe & Swiss Re
 - Howden reported risk-adjusted Rate-on-Line (ROL) increases of 37% for global property cat risks
 - More problematic was North American U.S. property cat with **ROL up 50%**
 - According to Howden, some reinsurance buyers failed to fill their program
 - Named peril contracts became more prevalent as coverage narrowed
 - **Largest increase in ROL since Hurricane Andrew in 1992!**



HOW WILL 1/1 REINSURANCE RENEWALS AFFECT MGAs?

January 1 Renewals - Guy Carpenter

- “More orderly than initially expected” but foreshadows continued firm(er) market for both property *and* casualty
- Property “most challenged” sector
- Adjustments focused on pricing, attachment points and coverage limits
- Casualty pricing pressures evident
- Dedicated reinsurance capital down in 2022

April 1 Renewals – Aon

- Asia Pacific focus, dominated by Japan property cat
 - Continue material hardening
 - Limited appetite for aggregate covers
 - Global property losses: Mississippi tornadoes, New Zealand floods, Turkey earthquakes
- Capacity at 12/31/22 down 15% globally - \$100 billion!
 - Unrealized investment losses – Could these become realized if reinsurers need capital?
 - Inflation and climate change limiting investor appetite for increasing capacity
 - ILS Cat bond market more liquid after a tough 4Q22

Source: Aon Reinsurance Market Dynamics 2023 and Guy Carpenter January 2023 Property Reinsurance Renewals



HOW WILL 1/1 REINSURANCE RENEWALS AFFECT MGAs?

PROPERTY RATE MOVEMENTS					
TERRITORY	PRO RATA COMMISSION	RISK LOSS-FREE % CHANGE	RISK LOSS-HIT % CHANGE	CATASTROPHE LOSS-FREE % CHANGE	CATASTROPHE LOSS-HIT % CHANGE
United States	-6% to -3%	+15% to +25%	+35% to +150%	+25% to +50%	+45% to +100%

Source: The Insurer – January 3, 2023; Gallagher Re



HOW WILL 1/1 REINSURANCE RENEWALS AFFECT MGAs?

But other large carriers (e.g., AIG, Chubb) pushing back on reinsurance price hikes

- Largest MGAs are seeing capacity allocations being reduced in favor of more profitable niche business.
 - Implications for specialty MGAs: Profitability of the underlying book of business continues to grow in importance!
 - **MGAs with established relationships that have performed well from an underwriting perspective are more likely to find success/maintain capital capacity**
- **Are you hampered by not having enough “specialty” in “specialty?”**

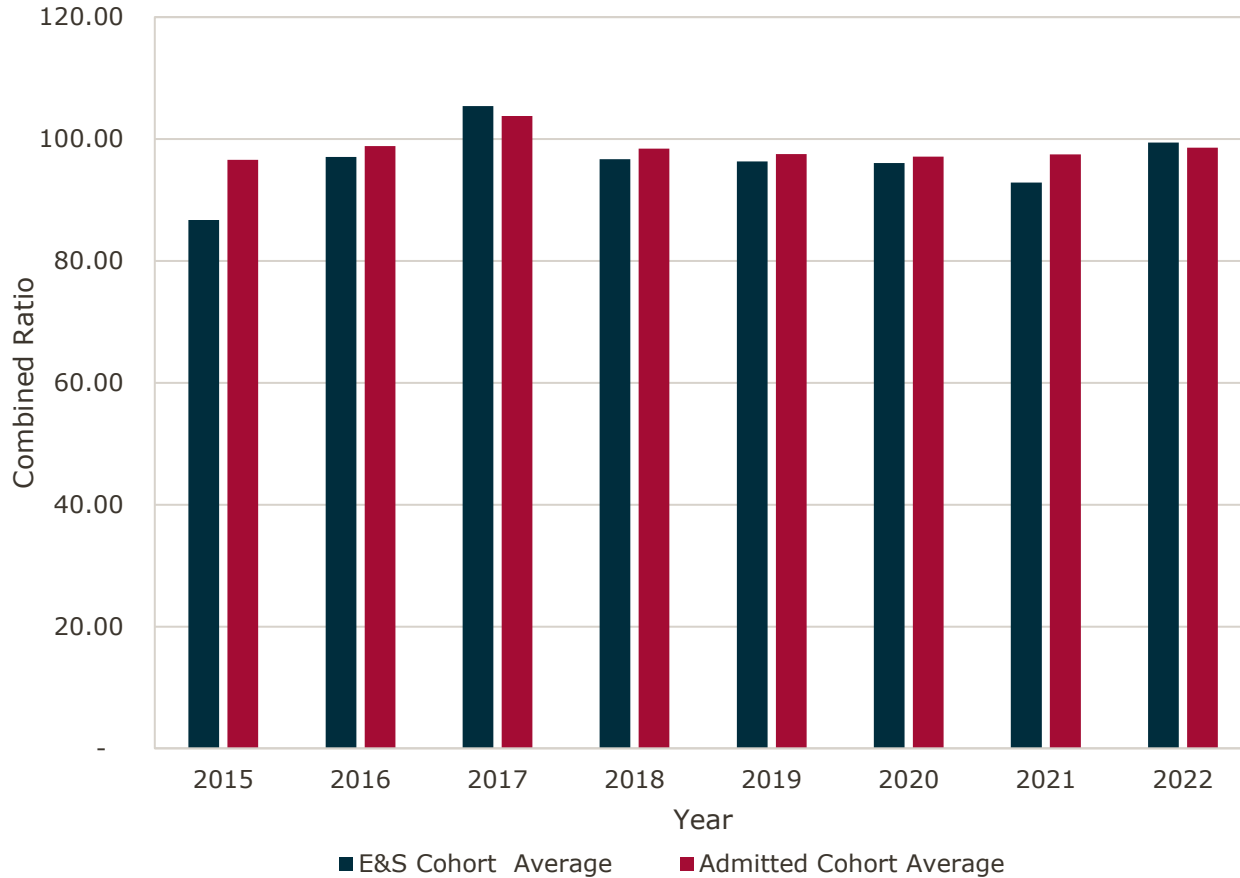


SURPLUS LINES CAPACITY:
DIGGING OUT FROM A
SIGNIFICANT DEFICIT

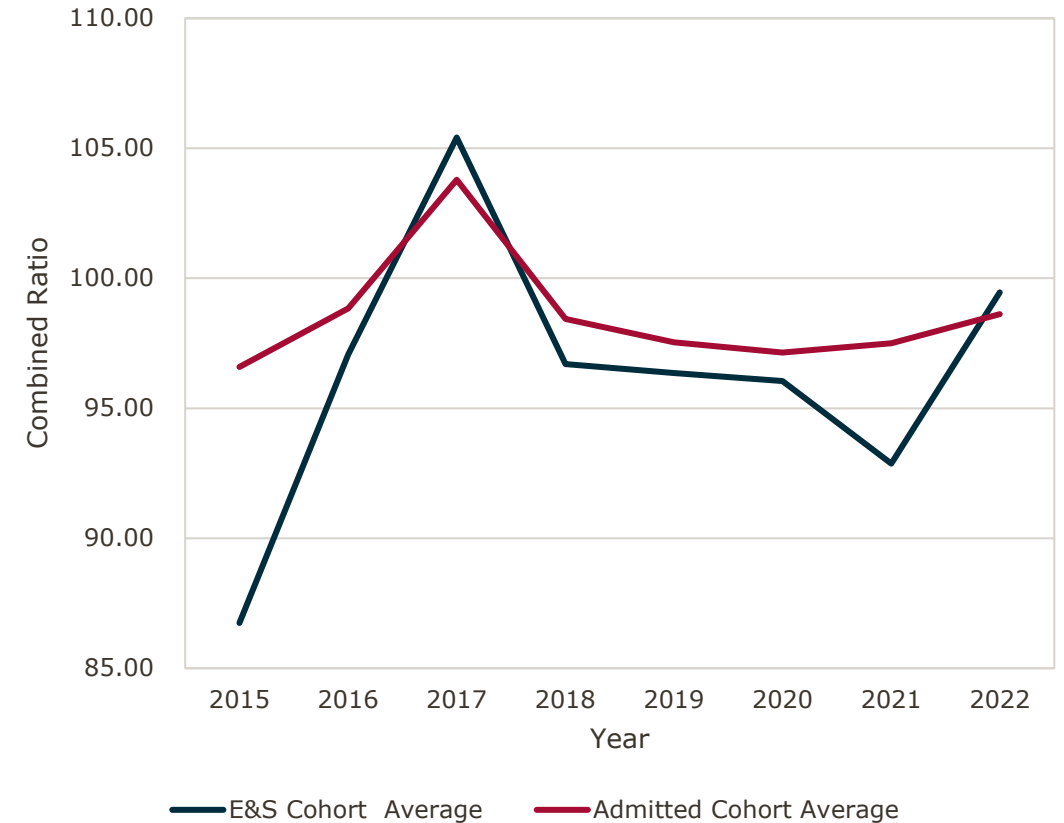


SURPLUS LINES COMBINED RATIO 2015-2022

Combined Ratio



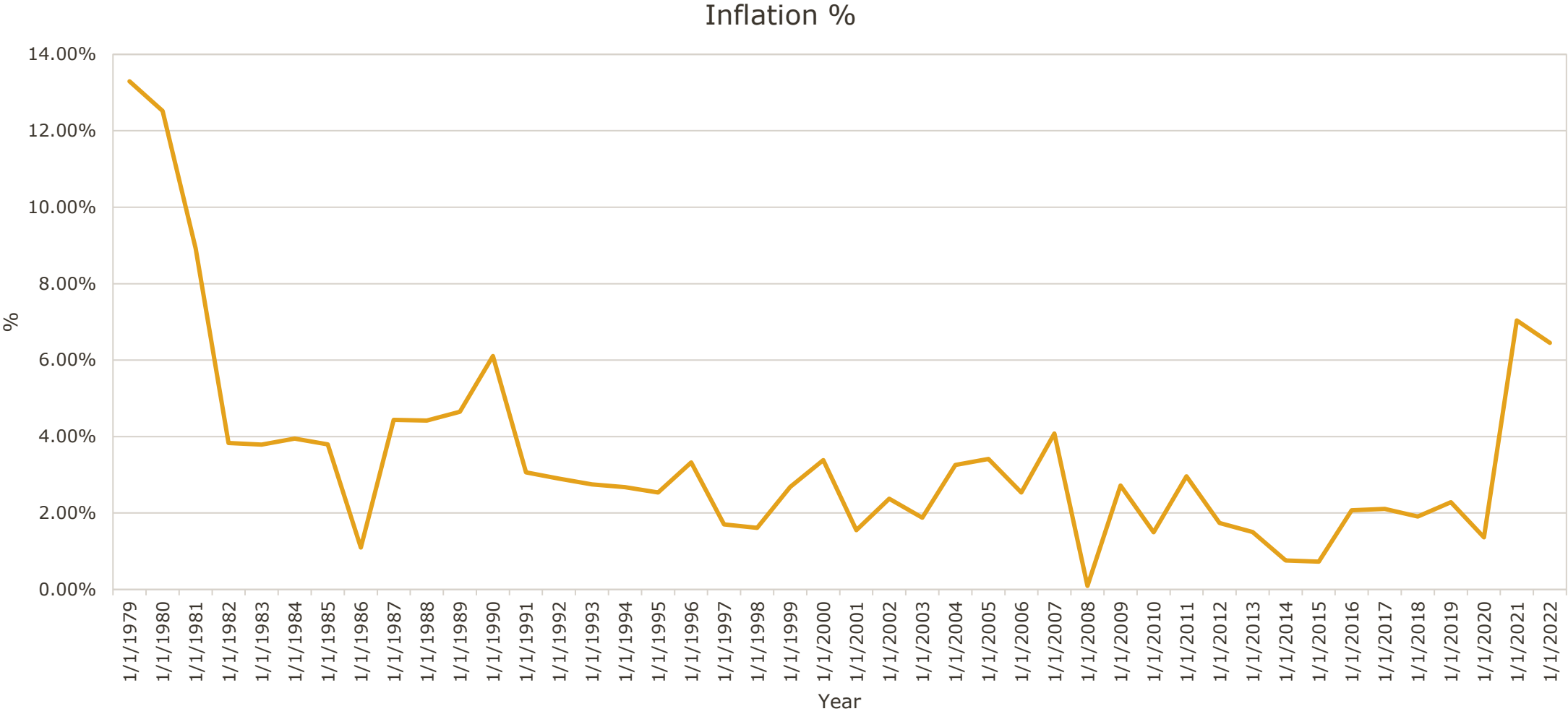
Combined Ratio



Source: A.M. Best 2022 Excess & Surplus Lines Report; E&S: Excess & Surplus



INFLATION: VOLATILITY INCREASE BUT RELEVANCE TO E&S?

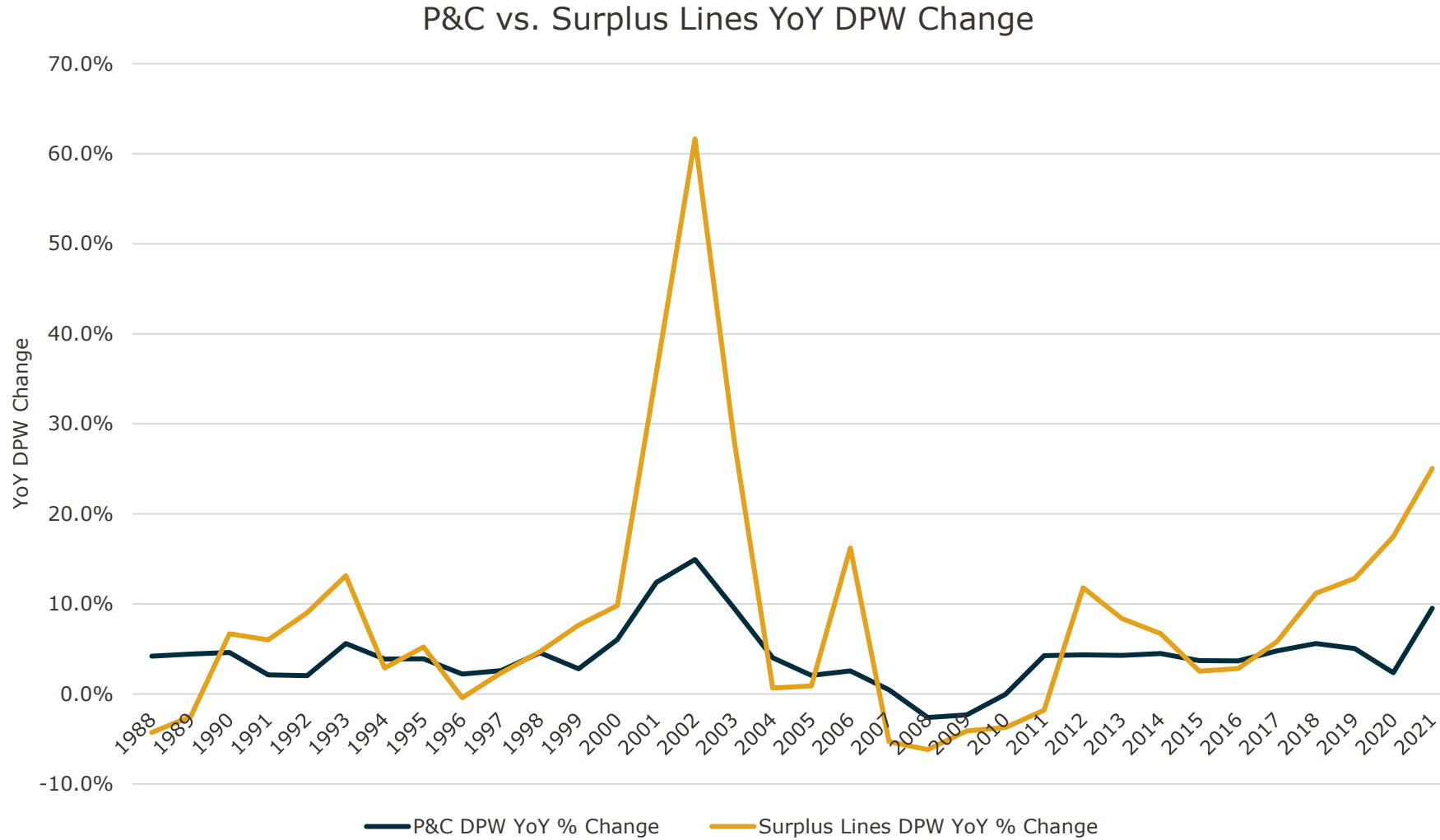


Source: A.M. Best 2022 Excess & Surplus Lines Report



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SURPLUS LINES VOLATILITY GREATER THAN OVERALL INFLATION

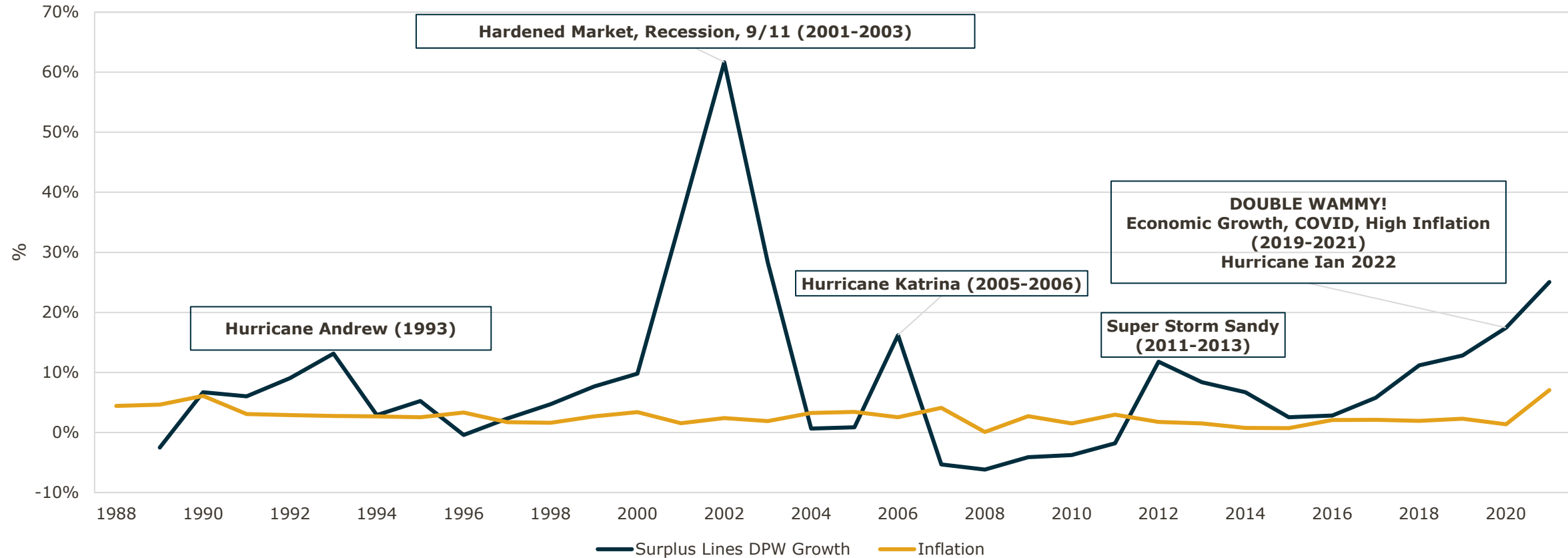


Source: A.M. Best 2022 Excess & Surplus Lines Report; DPW: Direct Premium Written; YoY: Year-Over-Year; P&C: Property & Casualty



IMPACT OF CAT EVENTS GREATER THAN OVERALL INFLATION

Inflation vs Surplus Lines DPW Growth



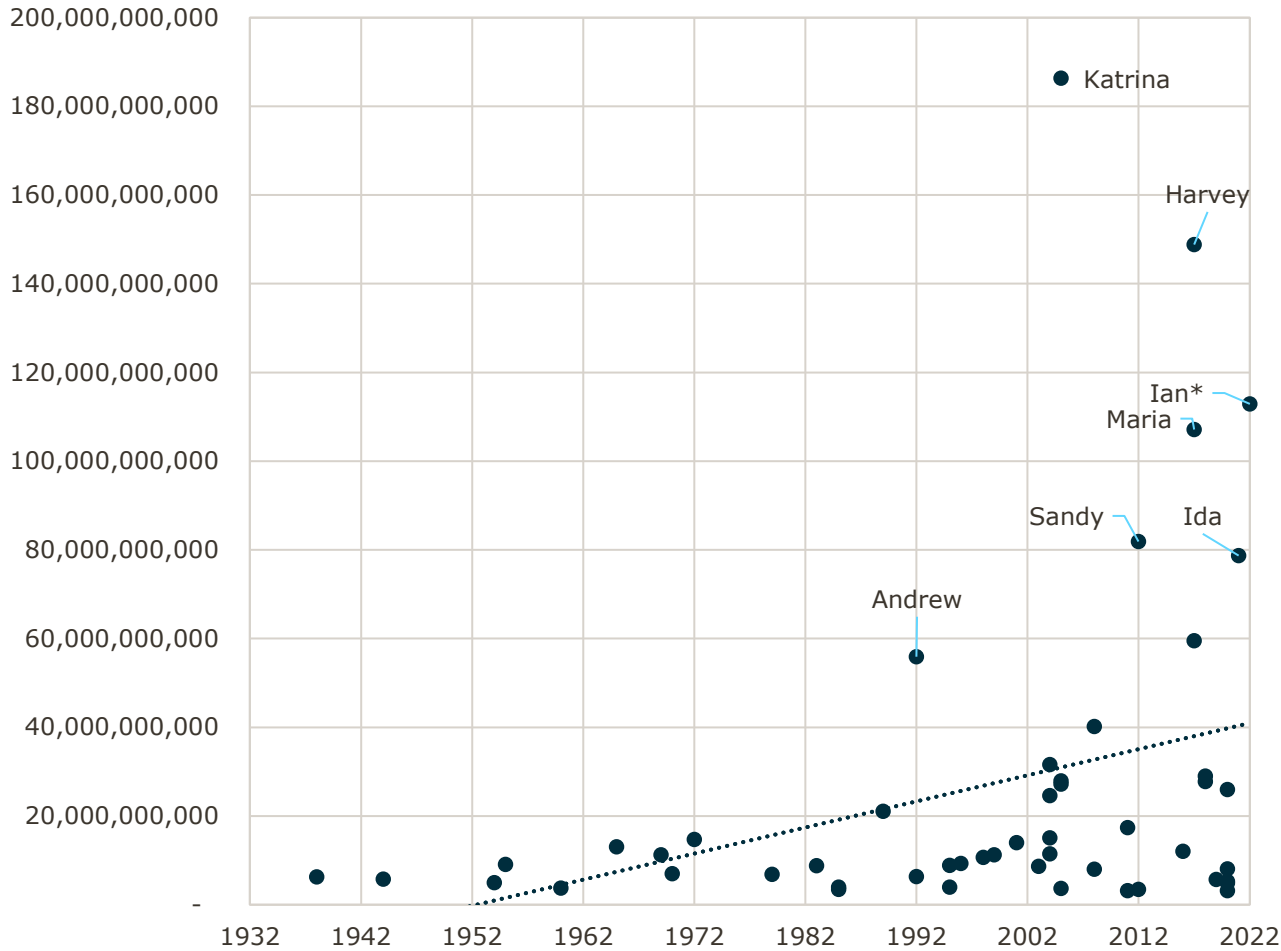
Source: A.M. Best 2022 Excess & Surplus Lines Report; DPW: Direct Premium Written; CL: Commercial Lines



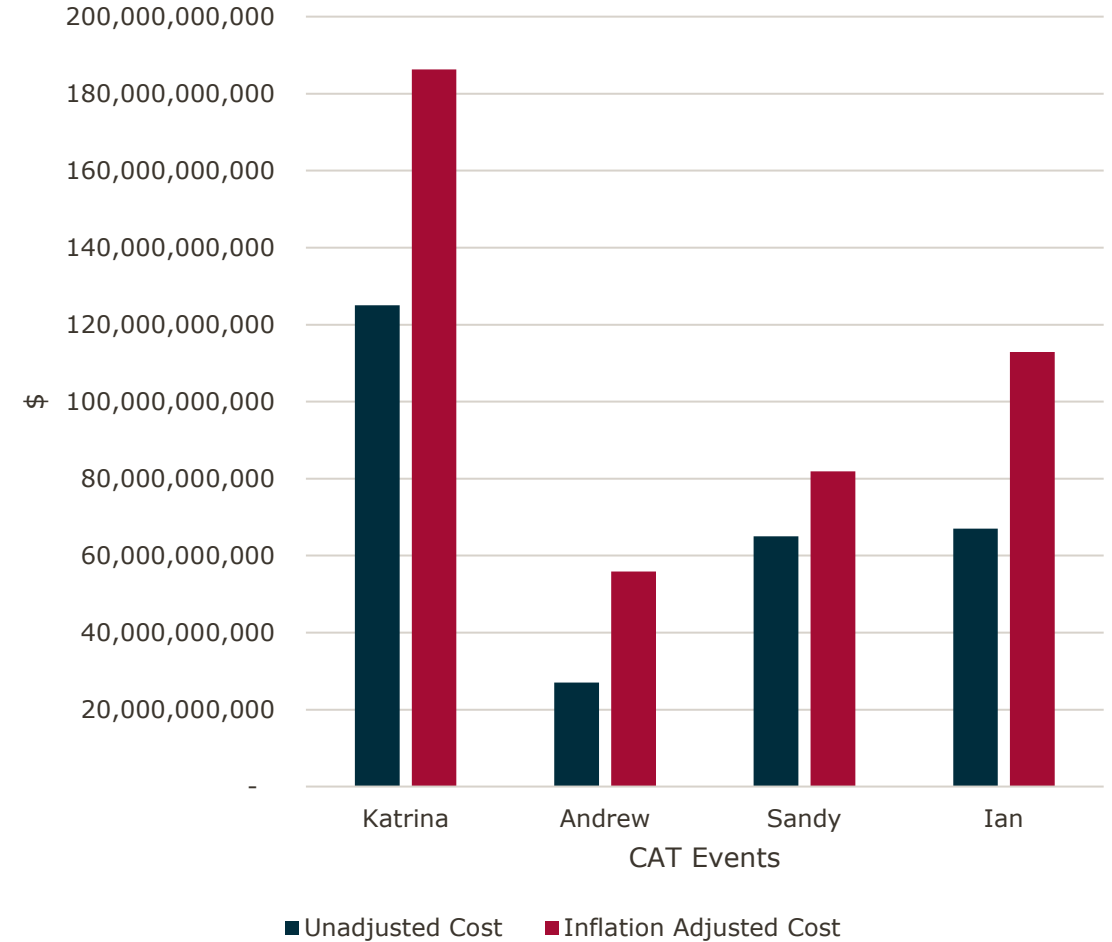
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IMPACTS OF CAT EVENTS

50 Largest US Hurricanes by Damage



Unadjusted and Inflation Adjusted Costs



Source: A.M. Best 2022 Excess & Surplus Lines Report



NEW CAPACITY IN A MARKET IN TRANSITION



THE NEW FRONTING CARRIERS: \$1.2 BILLION PREMIUMS

2022 Surplus Lines DPW

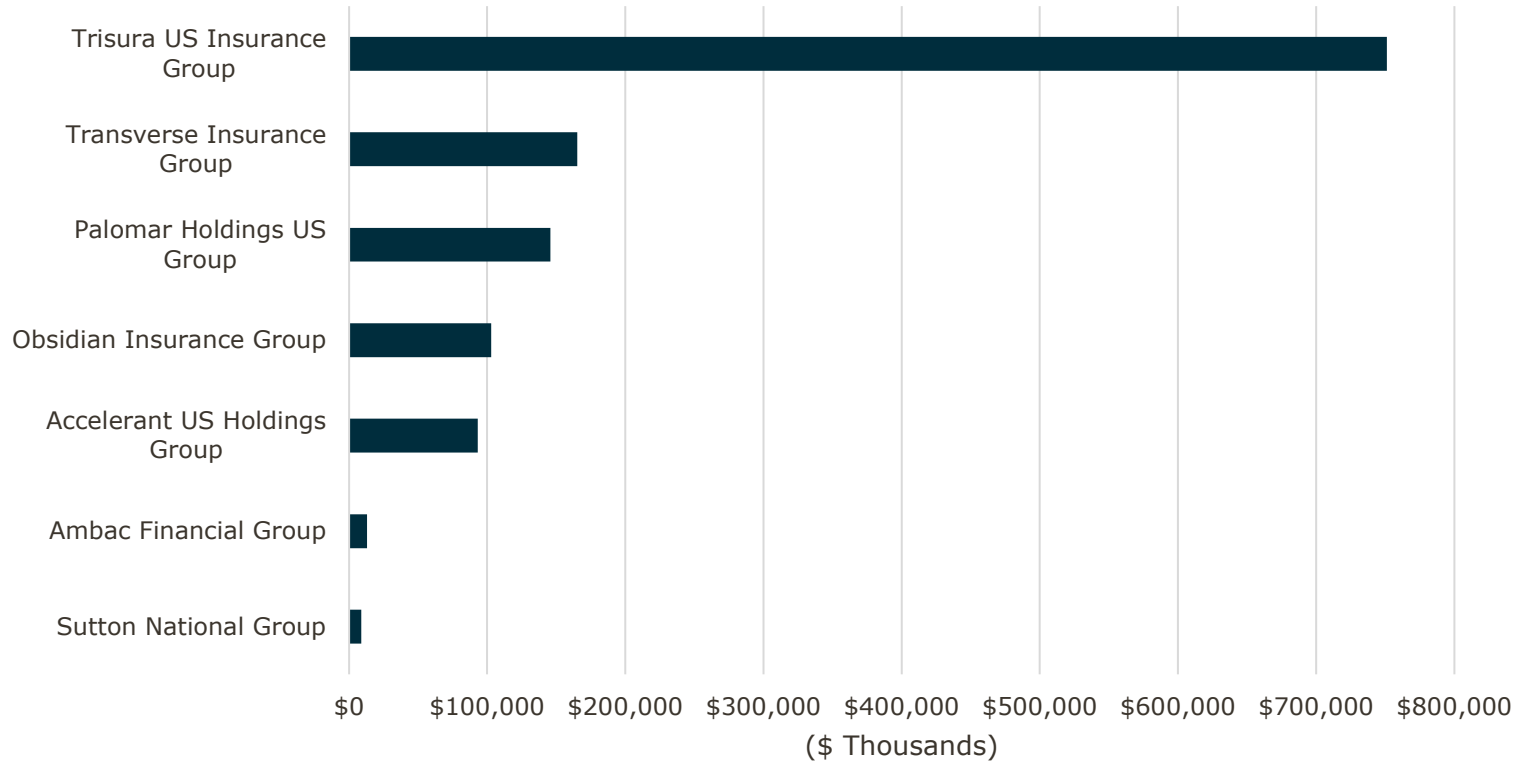


Exhibit 8
US Surplus Lines (Fronting) Companies Rated by AM Best in the Last Five Years, by DPW
 (\$ thousands)

AMB #	Company Name	2022 Surplus Lines DPW	Best's FSR
18944	Trisura US Insurance Group	751,222	A-
18931	Transverse Insurance Group	165,134	A-
18954	Palomar Holdings US Group	145,656	A-
18956	Obsidian Insurance Group	102,913	A-
18965	Accelerant US Holdings Group	93,118	A-
18449	Ambac Financial Group	13,037	A-
18947	Sutton National Group	8,777	A-
All Companies		1,279,857	

Source: A.M. Best 2022 Excess & Surplus Lines Report; DPW: Direct Premium Written



USING REGRESSION ANALYSIS TO VALIDATE A MARKET IN TRANSITION



A P&C MARKET IN TRANSITION

“It is especially difficult to reach equilibrium pricing when competition is moving the market from identifiably hard to possibly softening, as appears to be the case today.”

~Robin Russo, Chief Underwriting Officer, Markel Corporation website (August 12, 2022)

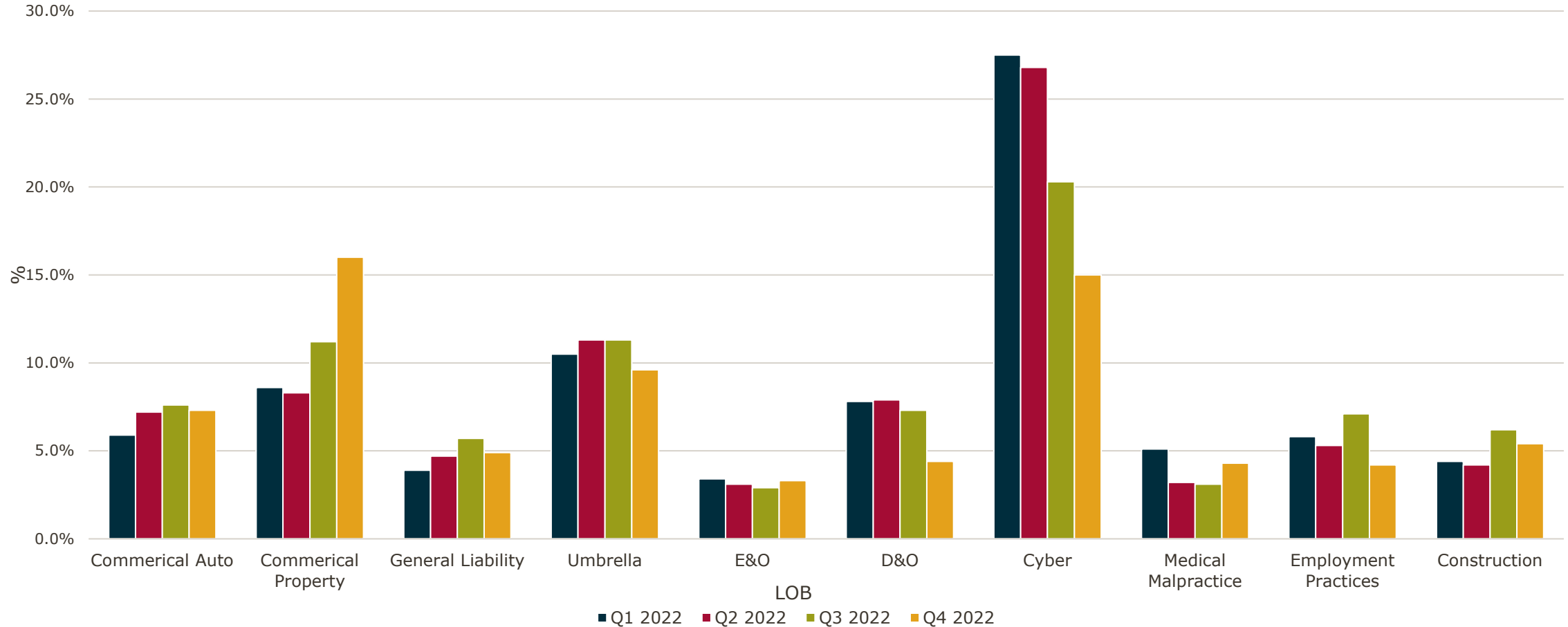
As a market in **transition**, is Surplus Lines pricing more likely to resemble a typical post-hard market, or the **market that erupted after 9/11** when **pricing spiked a second time** and lasted for 18 more months?

REGRESSION ANALYSIS PROVIDES A COMPELLING GUIDEPOST



LINE OF BUSINESS RATE CHANGES

LOB Rate Changes

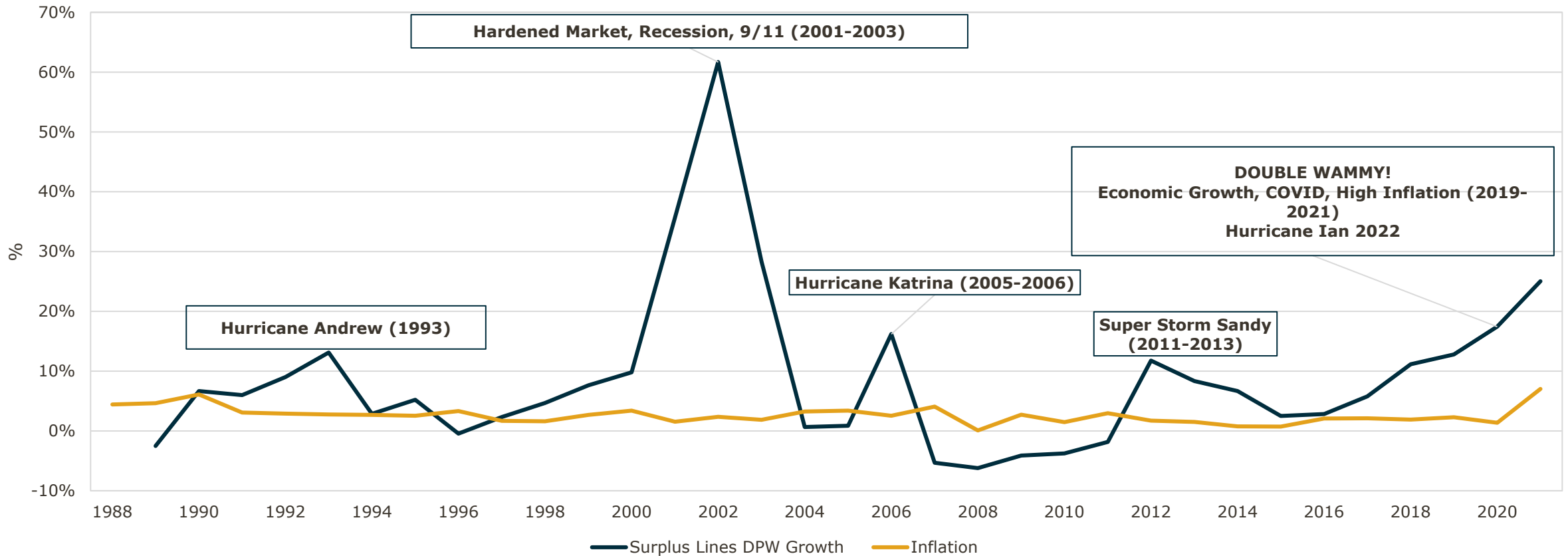


Source: The Council of Insurance Agents & Brokers; E&O: Errors & Omissions; D&O: Directors & Officers; LOB: Line of Business



SURPLUS LINES VOLATILITY GREATER THAN OVERALL INFLATION

Inflation vs Surplus Lines DPW Growth



Source: A.M. Best 2022 Excess & Surplus Lines Report; DPW: Direct Premium Written; YoY: Year-Over-Year; P&C: Property & Casualty



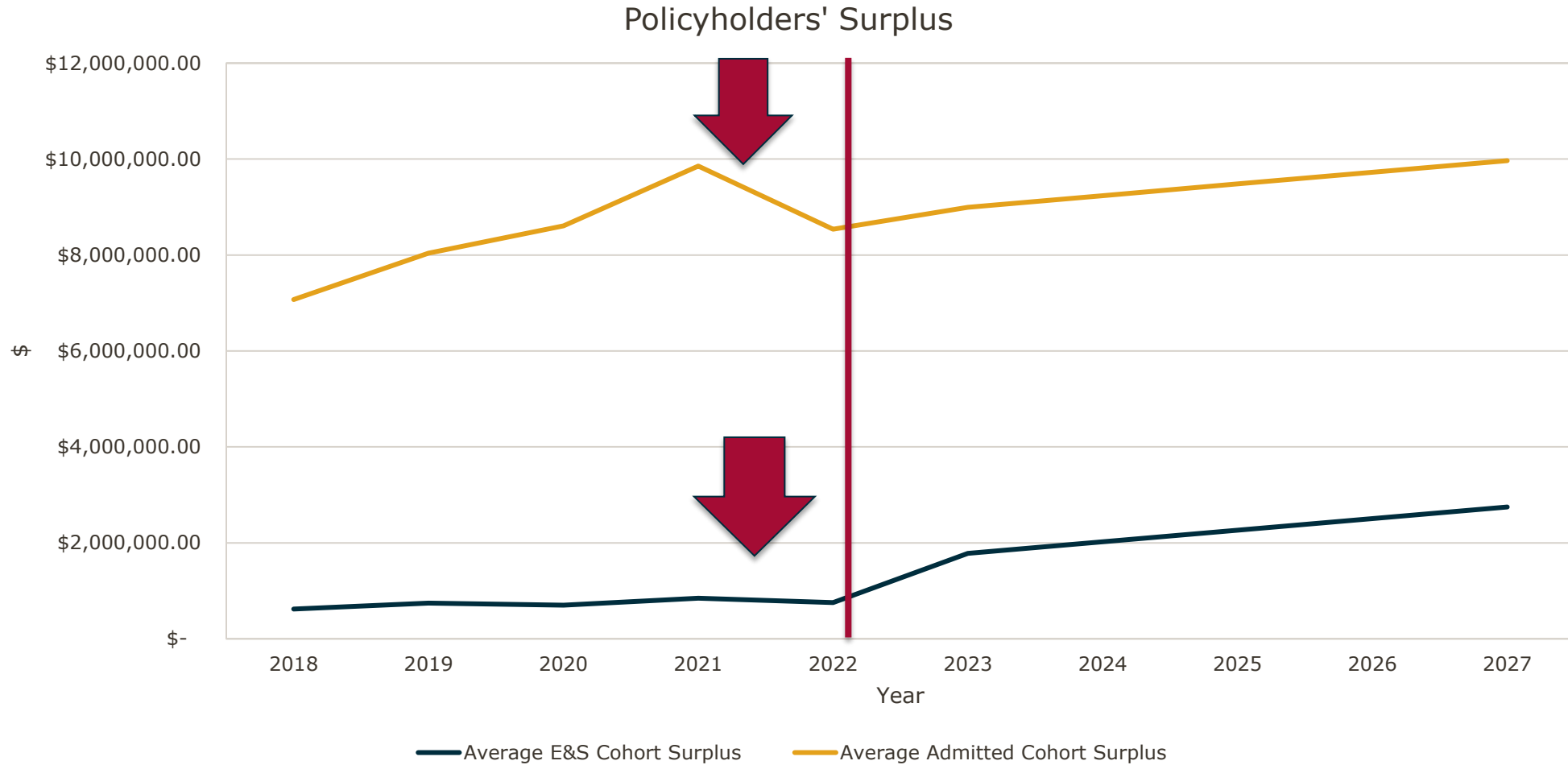
MARSHBERRY REGRESSION ANALYSIS

Purpose

- Tool used to predict future outcomes based on past observations
- Correlation is not causation
- All output presented is statistically significant
- Data projections are subject to change (with the introduction of new data)
- Objectives
 - Highlight future rate trends
 - Implication for MGAs and Program Administrators

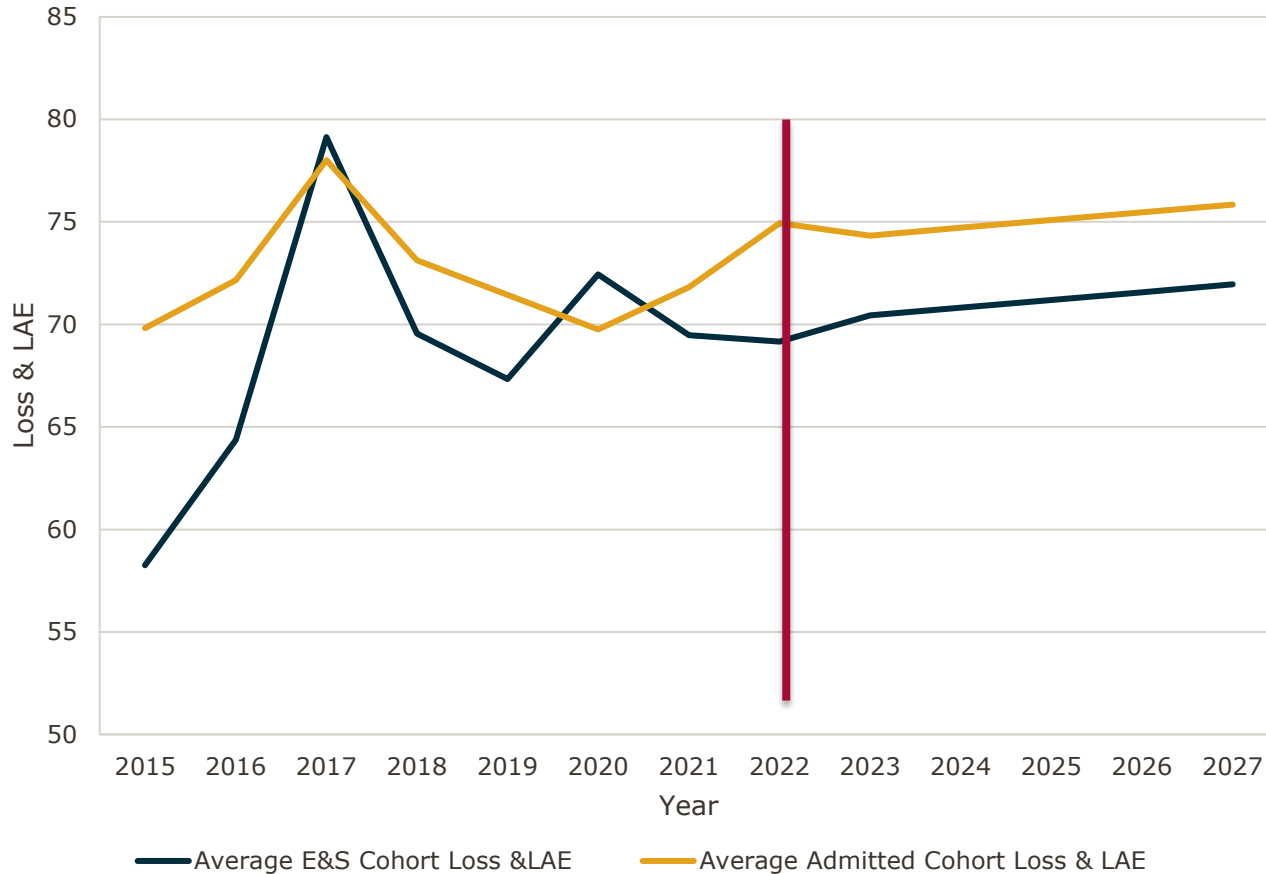


MARSHBERRY REGRESSION ANALYSIS

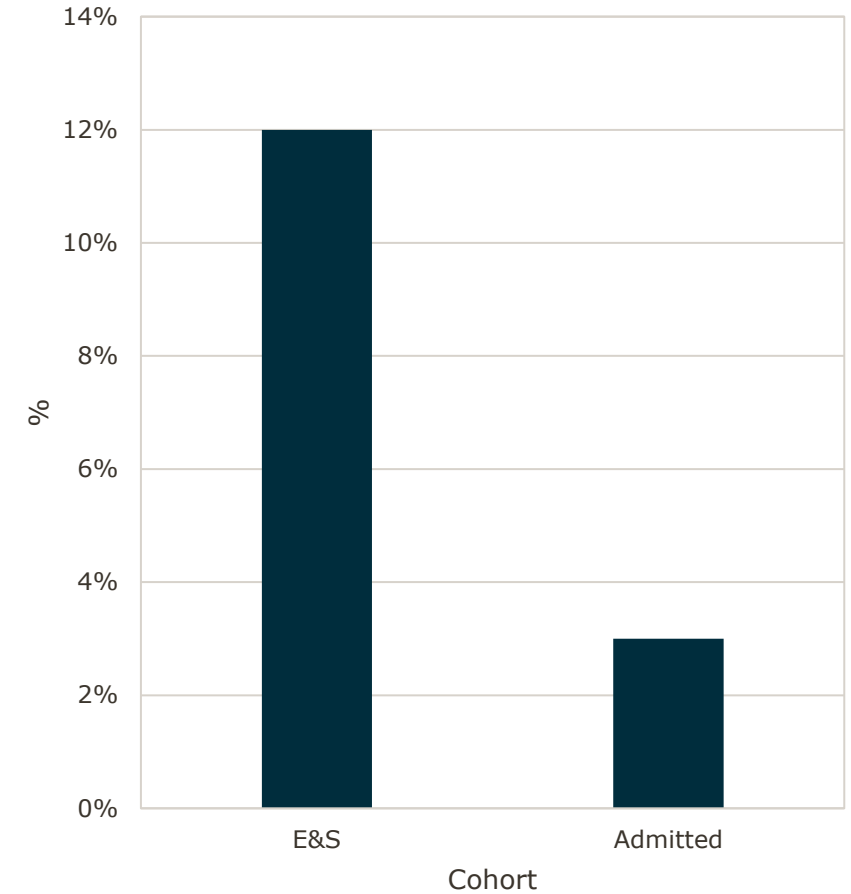


MARSHBERRY REGRESSION ANALYSIS

Projected Loss & LAE



Average Projected Surplus Growth: 2023-2027

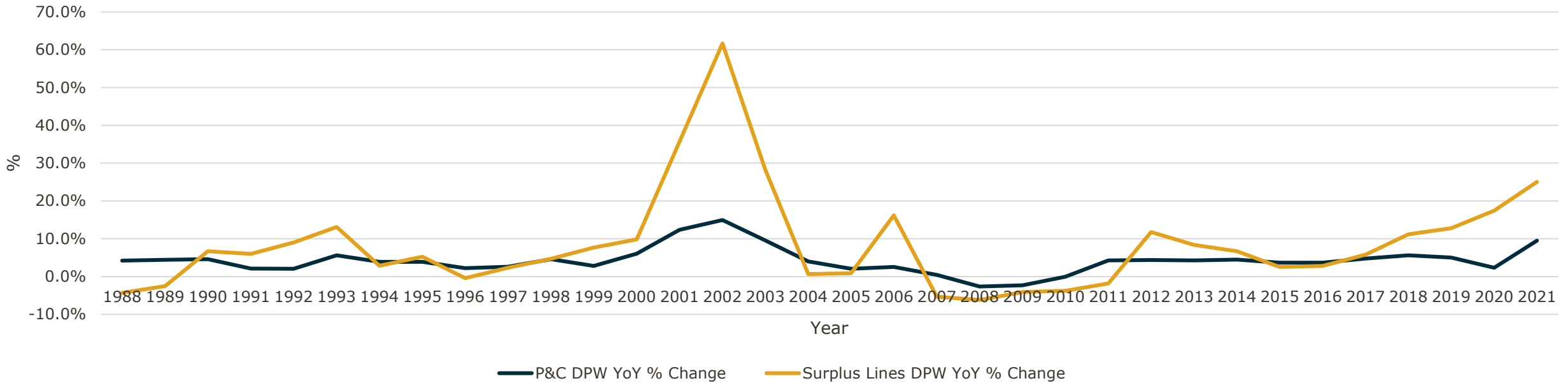


LAE: Loss Adjustment Expense



MARSHBERRY REGRESSION ANALYSIS

P&C vs Surplus Lines YoY DPW Change

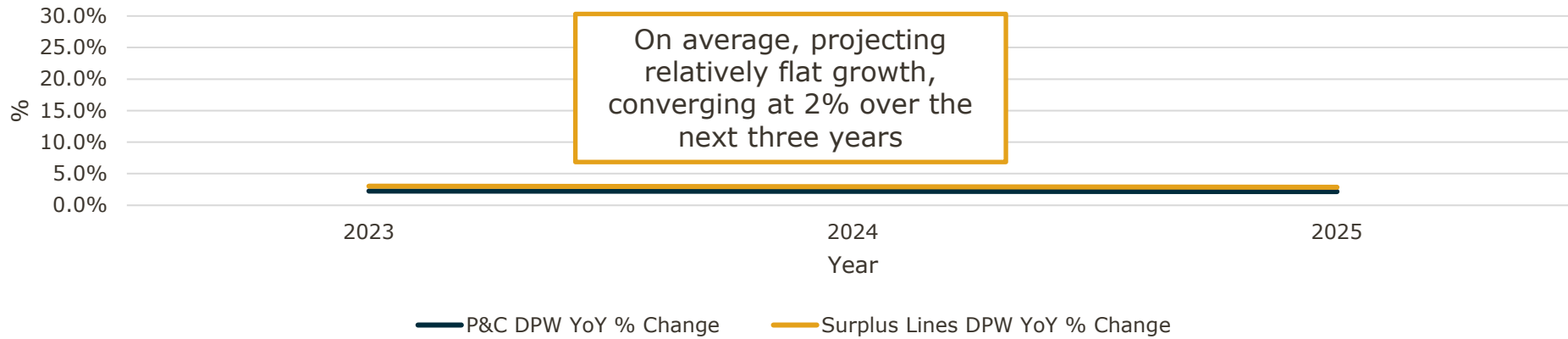


Source: A.M. Best 2022 Excess & Surplus Lines Report; DPW: Direct Premium Written; YoY: Year-Over-Year



MARSHBERRY REGRESSION ANALYSIS

P&C vs Surplus Lines YoY DPW Change Projections



<i>Regression Statistics</i>	
Multiple R	0.930307282
R Square	0.865471639
Adjusted R Square	0.861267628
Standard Error	7148.597119
Observations	34

<i>Regression Statistics</i>	
Multiple R	0.978416931
R Square	0.957299691
Adjusted R Square	0.955965306
Standard Error	34990.53751
Observations	34

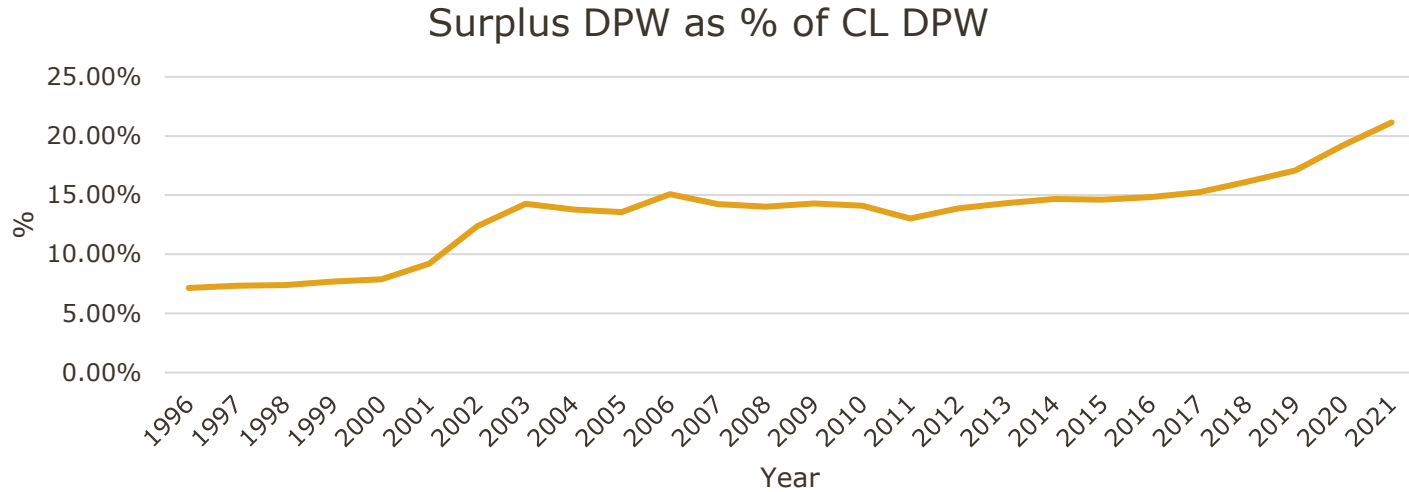
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	-3565999.539	250491.0749	-14.23603432	2.14313E-15
Year	1792.980138	124.9628709	14.34810296	1.72347E-15

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	-32397724.2	1226089.148	-26.4236	2.64E-23
Year	16383.02995	611.6609943	26.78449	1.74E-23

Source: A.M. Best 2022 Excess & Surplus Lines Report; DPW: Direct Premium Written; YoY: Year-Over-Year

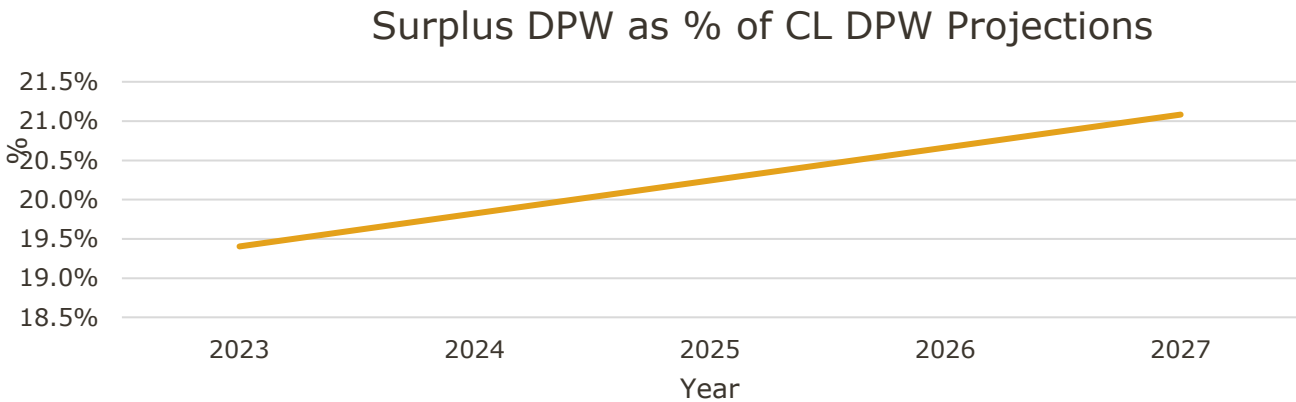


MARSHBERRY REGRESSION ANALYSIS



Regression Statistics	
Multiple R	0.940717905
R Square	0.884950176
Adjusted R Square	0.880156433
Standard Error	23705.34585
Observations	26

	Coefficients	tandard Erro	t Stat	P-value
Intercept	-16675513.99	1245011.1	-13.393868	1.2439E-12
Year	8422.10032	619.866775	13.5869523	9.1693E-13

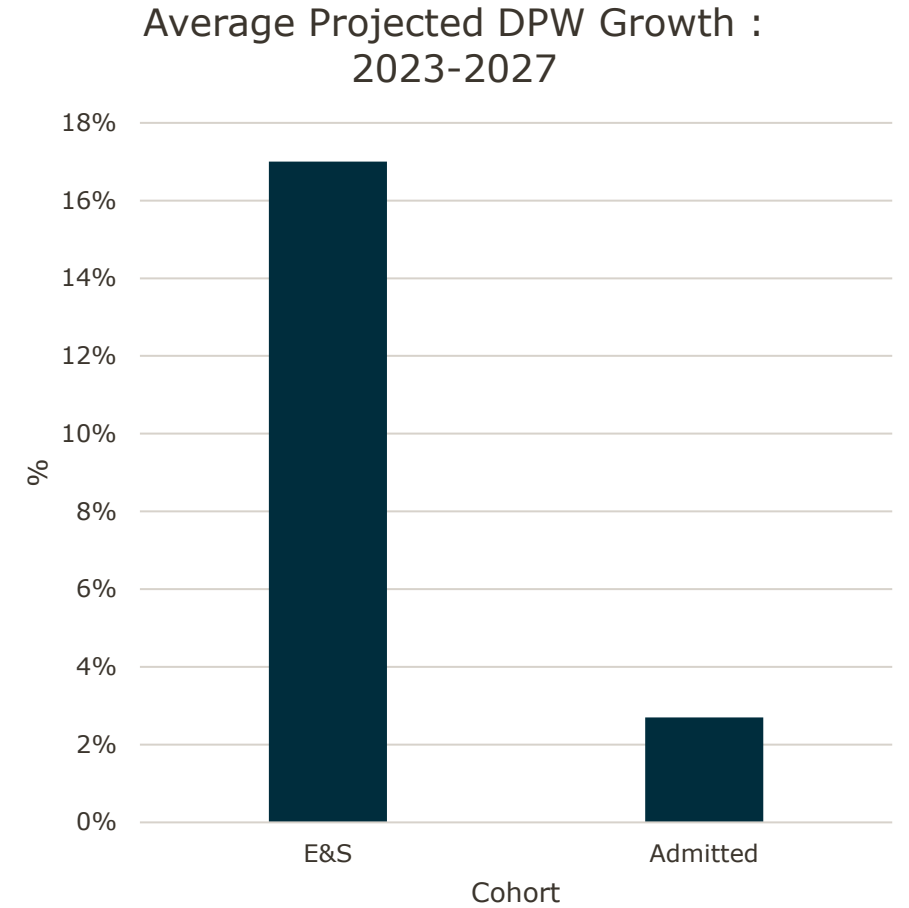
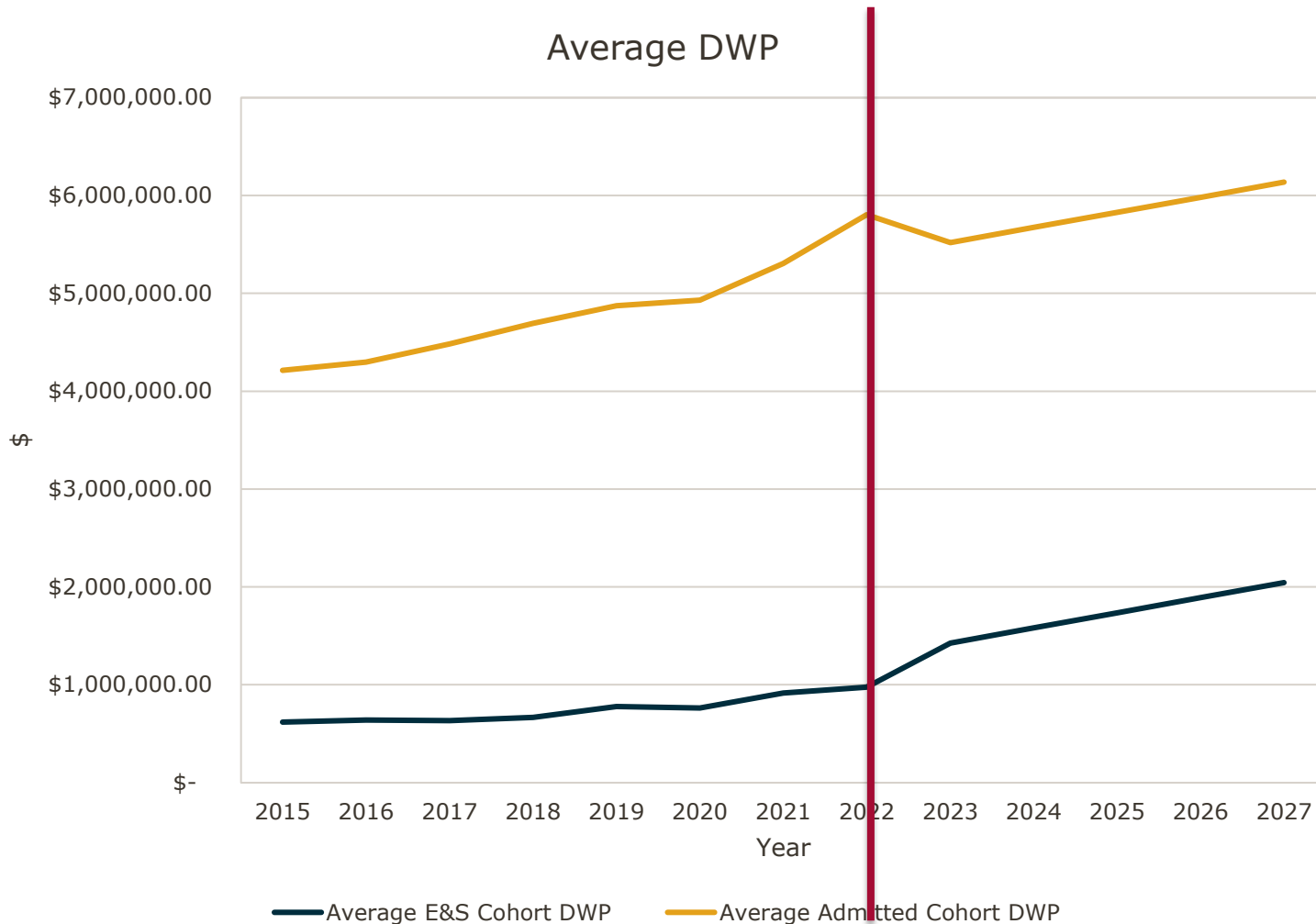


On average, MarshBerry is projecting a 4% increase YoY for the next five years

Source: A.M. Best 2022 Excess & Surplus Lines Report; DPW: Direct Premium Written; YoY: Year-Over-Year; CL: Commercial Lines



AVERAGE PROJECTED GROWTH PER YEAR FOR EACH COHORT



DPW: Direct Premium Written



2023 & BEYOND



A P&C MARKET IN TRANSITION

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~Robin Russo, Chief Underwriting Officer, Markel Corporation website (August 12, 2022)

- MarshBerry hypothesizes that most (but not all) rates will firm in the next 12-18 months (or longer until “equilibrium” is reached)
- E&S lines more likely to see continued firming are Commercial Auto, Property, Umbrella, and EPLI
- For some, such a firming market may allow owners to put off making hard decisions about technology improvements, process efficiency upgrades, and securing growth capital...beware of this trap!
- For those better run MGAs, wholesalers and program administrators, this period could prove to be a perfect opportunity to surpass competitors and cement one’s future as an independent operator

E&S: Excess & Surplus; EPLI: Employment Practices Liability Insurance ; MGA: Managing General Agent



2023 & BEYOND: SPECIALTY FORECAST

- A market in “transition” is likely to put additional stresses on MGAs to remain competitive
 - More premiums and some exposures remain “captured” by the surplus lines market
 - Claims frequency increasing as exposures increase
 - Claims severity increasing as social inflation is reinforced by the CAPITAL MARKETS
- Access to capital may be critical to
 - Attract and complete acquisitions
 - Secure underwriting talent
 - Improve operating efficiencies
 - Invest in technology upgrades
 - Fund risk-taking facilities
- **To remain competitive, a truly focused strategy is becoming more important than ever to demonstrate *and* reinforce one’s value proposition**



WANT TO CONTINUE THE CONVERSATION?



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Managing Director, MarshBerry
C: 860.916.4149
E: Gerard.Vecchio@MarshBerry.com



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