U.S. P&C Insurance Industry Market Overview

9 Months 2020

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Highlights

Below we provide nine-month 2020 financial highlights for the ALIRT P&C Composite, based on insurers' statutory financial statements.

- ***ALIRT Composite surplus rose 1.3% in the first nine months of 2020*** as operating earnings of $14.9 billion were offset by $9.0 billion of net capital (shareholder dividends less net capital infusions) paid out to parent organizations. Net capital gains were almost flat ($177 million) through the first three quarters of the year and therefore had little impact on surplus.

- Direct premiums rose 0.6% in the first nine months of 2020 versus the prior year period, while net premium increased by 1.8%. The relatively flat direct premium growth reflects weaker demand for insurance (as well as some premium forgiveness) as the U.S. economy entered a sharp recession after the onset of the global pandemic in March. This was offset by the positive impact of higher rates in the commercial line sector. The slightly stronger net written premium growth is partially owing to changes within intercompany pools in the period.

- Underwriting leverage for the first nine months of 2020, on both a gross ((direct + assumed premium)/surplus) and net (net premiums/surplus) basis, rose slightly when compared to the prior year end result to 1.19 times and 0.73 times, respectively, on the aforementioned decline in surplus for the period.

- The ALIRT Composite reported a combined ratio of 99.0% in the first nine months of 2020, a slight deterioration over the prior year period. This reflects a substantially lower reported loss ratio, in part due to large prior year reserve releases (almost all personal lines related), as well as firming commercial rates, and lower losses in auto lines as Americans sheltered in place from late March through May. Offsetting these gains, the composite expense ratio deteriorated by 30 basis points in the current year period ***and a number of personal lines insurers paid substantial policyholder dividends in lieu of premium refunds.***

- The composite accident year combined ratio (which excludes the impact of prior year reserve development), was 100.9% as of 9 months 2020, a 50 basis point improvement over the prior year period reflecting in part an improvement in pricing offset by higher than average weather-related losses in the period.

- Pretax operating income declined 13.7% compared to the prior year period on the weaker underwriting results coupled with lower net investment income; reflecting this, current pre-tax return on earned premium fell by 1.3 percentage points to 7.3%.

- Net investment yield (annualized) of 2.59% was 70 basis points lower than at the prior year end period, while total investment return (annualized) of 2.62% was 5 ¼ percentage points lower than the 2019 result. These investment results reflect the impact of lower investment yield across most securities as well as volatility in equity markets which can be attributed in large part to the impact on capital markets and the economy of the Covid-19 pandemic.

State of the Underwriting Cycle: The "Underwriting" Hard Market

In its September 2020 market update, AJ Gallagher made the following observation:

> *"This hardening market is an underwriting-driven marketplace. In a traditional hard market, capital (and consequently capacity) is reduced, thereby limiting the availability of insurance. This marketplace is driven by the need for underwriters to make a profit from underwriting versus relying on investment income. Carriers remain intensely focused on underwriting discipline, ensuring they secure the right terms and pricing on certain lines of coverage that have historically not performed from an underwriting standpoint."*[1]

This same theme was picked up in a recent webinar hosted by Artemis' Steve Evans, in which David Flandro, director of analytics at UK broker Howden, spoke of the current pricing cycle being an "underwriting driven hard market on both the ILS and traditional side", stressing that the acceleration in rates was "not driven by a dearth of capital … this isn't about capital supply, there's plenty of capital at least on paper, right now. It is about risk premia and it's also about reverting to the mean, if you will."[2]

This anomaly is one that ALIRT has been aware of for some time, noting in its quarterly observations of the U.S. property & casualty market both the strength of the industry's capitalization as well as better than breakeven underwriting results in a number of the past several years. We have also noted that such an environment is not historically conducive to the sharp upward drift in pricing such that we are seeing today.

But here we are nevertheless, with many commercial lines of business reporting ever higher year-over-year price increases, tighter terms and conditions, lower limits/higher deductibles, policy exclusions, and even exits from particular lines of business – all classic indications of a hard market.

So what gives? ALIRT points to four principal reasons for this somewhat unique situation:

1. **Low interest rates:** As the Gallagher analysts – and many others – have correctly asserted, the ability of P&C insurers to cash flow underwrite (that is, offset underwriting losses with investment income) has been greatly restricted over the past decade by a historically low interest rate environment. The further leg down in broad interest rates since March, with the onset of the Covid-19 pandemic, has placed additional pressure on investment yields. ALIRT's research indicates that today's low yield environment has resulted in an almost 4 point deterioration in the industry's operating ratio since 2007 (representing $23 billion of lost income or 2% of average industry surplus as of year end 2019). These funds have to be made up somewhere, whether through higher rates, better underwriting, or lower expenses.

2. **Social Inflation:** While current reported underwriting ratios for the broad U.S. P&C industry remain historically decent, the casualty line profitability has come under increased pressure of late due in part to social inflation, or the tendency for greater frequency and severity of loss due to spiraling legal settlements. Even outside of social inflation itself, insurer managements worry that reserves are properly established given increasingly poor performance in certain general and professional liability lines and commercial auto. Every 1% increase in booked reserves costs the U.S. P&C industry $5.6 billion in underwriting earnings; a 10% increase would wipe out all of 2019 earnings.

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[1] Gallagher's Fall Insurance Market Update – page 2
[2] Artemis.bm Prospectus 2021 Panel: "Covid-19 Outlook for the re/insurance & ILS industry." – November 12, 2020

3. **Higher Weather-Related Losses:** Accident years 2017, 2018, and 2020 saw higher than average weather-related losses, including hurricanes, tornadoes, lightning and hail storms, droughts, flooding and West Coast wildfires[3]. Whether tied to changing climate patterns or not, reinsurers have taken note and are pushing rates higher as well as restricting capacity[4]. All things equal, higher reinsurance pricing and/or lower availability puts pressure on primary rates as well.

4. **Covid-19:** Just as the 9/11 terrorist attacks in 2001 were the "straw that broke the camel's back" of a then multi-year soft market, the current pandemic has likewise further hastened a hardening trend that was already in play. ALIRT's rate tracker shows that U.S. commercial lines pricing began to move appreciably higher in 2Q2019 and has been on an accelerating trend since. A broad uncertainty regarding ultimate insured losses tied to the pandemic (for business interruption, D&O, workers comp, travel and cancellation insurance, medical malpractice, and credit & surety, among others) has caused a further retrenchment among underwriters and their insurer managements.

All of which leaves us at a strange place. Traditionally, changes in the pricing cycle could be gauged by the rise and fall in industry capitalization in conjunction with the movement in underwriting metrics. If this is no longer the case – or at least for now – we must begin to look at different metrics.

Returns on equity may be a good place to start. Insurers like to measure their results against an "adequate" return on equity. What "adequate" is, is never quite spelled out but one gets the feeling that it hovers somewhere around 10% for the broad industry (after taking into account mutual, private, and publicly-traded insurer performance). At current premium leverage levels, that would translate to a 12% return on premium. ALIRT's personal lines composite returns were below that level in 2019 (7.3%), while the commercial lines cohort was close (11.3%).

Given several years of underperforming that benchmark, insurers may well try to reach beyond it and play "catch up," but pricing is getting rich enough in places that we may start to see a tailing off of the sharp rate increases as insurers become more competitive. Of this, however, Pat Gallagher (CEO of AJ Gallagher), is skeptical. In answer to a recent analyst question, Mr. Gallagher said there is "0 interest from the (insurance) partners we're talking to to modify rate increases at all."

And we give Evan Greenberg, CEO of Chubb plc, the final word on all of this:

> *"But, again, at its core, the hard market is not about recovering lost revenue, it's about setting profitability baselines that make the business modes in the insurance and reinsurance industry more sustainable. We've been saying for a while that rather than just hiking rates in reaction to loss activity, the industry needs to get better at pricing risks in a manner where they can be underwritten sustainably over the cycle. It helps no one, least the policyholders, when capacity exits market segments when they become unprofitable for it. This hard market sees carrier trying to recalibrate their pricing, as well as the terms on which they deploy their underwriting capital. Which should result in a better and more sustainable environment, albeit at higher pricing benchmarks."*

The end of the pricing cycle? I don't know that we'd bet on it.

[3] An estimated $25 billion in 3Q U.S. catastrophe losses (Fitch) would bring the 9-month total to almost $50 billion, higher than the total 2017 figure, with the industry hit by hurricanes/tropical storms, the Derecho Windstorm, and West Coast wildfires.

[4] Evan Greenberg's commentary 3Q analyst call: "The increasing trend of both frequency and severity of events from a variety of natural perils … informs our views of current and future expected cat loss levels as well as our view of required rate to insure the exposure in both commercial and consumer property-related lines. Where we can get paid adequately for the volatility and uncertainly, we will maintain and even grow our exposures. Where we cannot, we shrink."

Surplus/Leverage

Surplus for the ALIRT P&C Composite fell 1.3% in the first nine months of 2020 as operating earnings of $14.9 billion were offset by $9.0 billion of net capital (surplus paid-in less shareholder dividends) upstreamed to parent organizations in the period. Net capital gains were essentially flat, as equity markets continued to rebound from lows reported in late 1Q, and therefore did not impact surplus much in the period.

Surplus Development							ALIRT P&C Composite	
(Data in $ Millions)	2013	2014	2015	2016	2017	2018	2019	9M 2020
Surplus Beginning of Period	322,048	347,469	365,661	371,166	385,100	399,252	406,557	455,901
Operating Earnings	26,504	25,167	21,367	14,699	14,905	27,468	27,070	14,868
Net Capital Gains or (Losses)	24,761	15,304	-2,410	13,676	29,877	-8,597	38,245	177
Surplus Paid-In	-4,080	2,623	4,658	1,547	1,502	6,157	522	779
Shareholder Dividends	-19,612	-19,169	-18,726	-16,732	-19,280	-18,022	-15,349	-9,777
All Other Changes to Surplus	-2,152	-5,733	617	744	-12,852	298	-1,144	2
Surplus End of Period	347,469	365,661	371,166	385,100	399,252	406,557	455,901	461,951
Change in Surplus	*7.9%*	*5.2%*	*1.5%*	*3.8%*	*3.7%*	*1.8%*	*12.1%*	*1.3%*

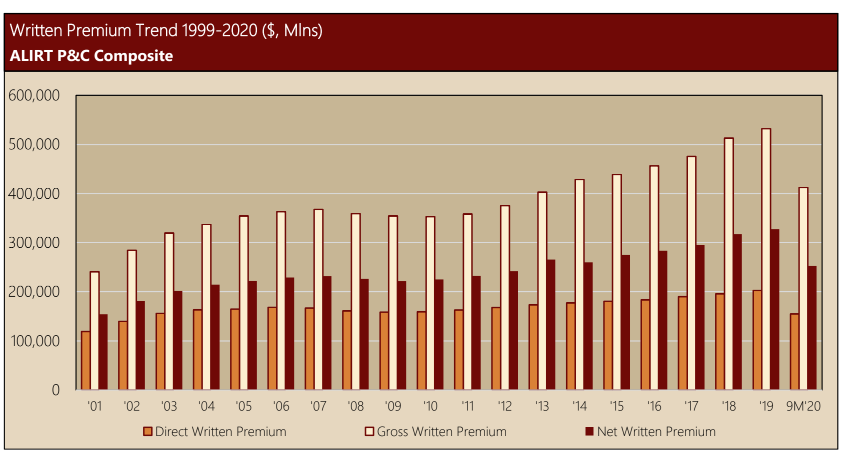
Despite liquidity concerns around Covid-19 earlier in the year, a number of composite insurers continued to pay substantial dividends to parent companies over the first three quarters of 2020. These include Allstate Insurance Company ($3.1 billion), Travelers ($1.5 billion across three insurers), Hartford ($1.17 billion million, 2 insurers), CNA's Continental Casualty Company ($855 million), Berkley Insurance Company ($600 million), Progressive ($500 million, 2 insurers) and Zurich American Insurance Company ($461 million).

In contrast, several composite companies received surplus support from their parents, with two AIG subsidiaries reporting total infusions of $455 million, while lead Crum & Forster insurer U.S. Fire Insurance Company received $275 million and lead XL pool insurer XL Reinsurance America Inc. received $193 million (in part to support its rapid net premium growth, discussed below).

We note that equity markets have continued to rise thus far in 4Q which could provide a further boost to surplus - all things equal - as of the full year reporting due out in March of 2021.

Premium Growth

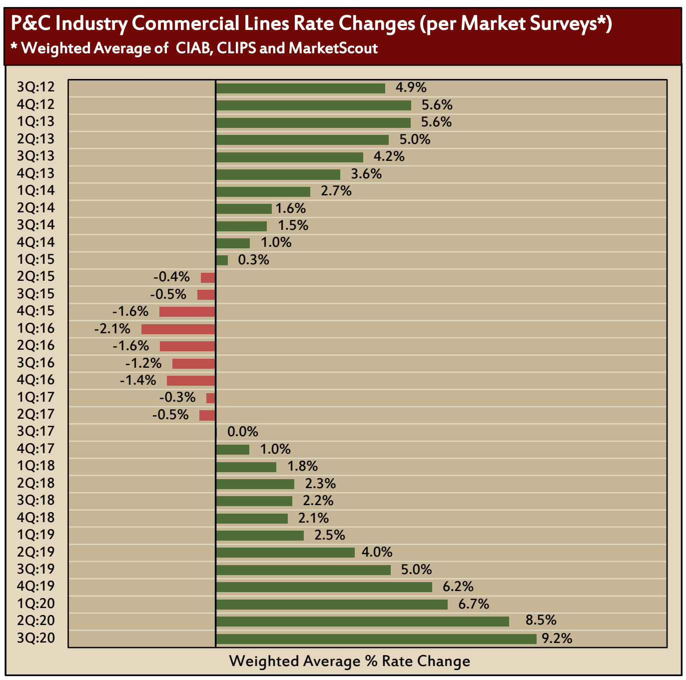
Direct and net premium written rose by 0.6% and 1.8%, respectively, in the first nine months of 2020 versus the prior year period. Premium flows are reflective of both exposure units and rates, as well as the utilization of reinsurance, whether intercompany or third party.



The accompanying chart shows direct premium written, along with gross premium (direct + assumed premium), and net premium (gross less premium ceded to reinsurers). The difference between the beige and maroon bars represents the industry's sizeable dependence on (and credit exposure to) outside reinsurance.

The composite's anemic direct premium growth can be attributed in part to the impact of the pandemic as U.S. economic activity was broadly disrupted in the spring (GDP down 34% at an annualized rate) before beginning its recovery in the third quarter (GDP up 33%). While fourth quarter economic activity remains a wildcard with the onset of a second wave of Covid-19 infections, economists anticipate an aggregate 3-4% decline in GDP for 2020, which will continue to pressure demand for insurance. Reflecting this reality, almost half of composite companies reported a decline in direct premiums through 9/30/2020, with the largest declines reported by AIG's three composite companies as that group continues to retrench from decade's long poor experience.

In addition to lower aggregate demand, some personal and commercial lines insurers were pressured to return premium to policyholders in auto lines given the lack of miles driven in 2Q especially. It is likely that premium may also be adversely impacted by workers compensation audits as well, in cases where employment dropped off sharply.



As regards insurance rates, the graph to the left indicates a spike in annual pricing starting in late 2019. The onset of the pandemic in mid-March, which introduced further uncertainty into the future loss profile of many insurers (as well as driving interest rates lower) accelerated this trend.

For this reason, some of the strongest net premium growth – offsetting somewhat the pressure on exposure unit growth – was reported by commercial lines predominant insurers which are benefitting most from these hardening rates.

As regards the impact of reinsurance, in the first nine months of 2020, composite net premium growth was positively impacted by adjustments to the AXA/XL and Travelers intercompany pools. For instance, the 78% growth in net premium for lead XL pool insurer XL Reinsurance America, Inc. reflects the dissolution of the Catlin pool as of 1/1/2020 and subsequent assumption of greater pool premium by this composite insurer.

Underwriting Profitability & Earnings

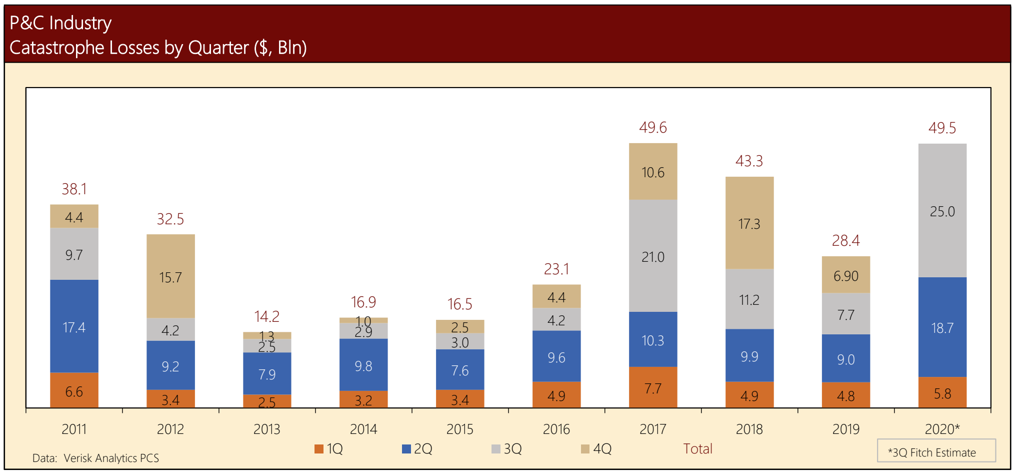
The ALIRT P&C Composite reported a near break-even combined ratio of 99.0% in the first nine months of 2020, essentially in line with the prior year period performance of 98.7%.

Underwriting Results									ALIRT P&C Composite
	2013	2014	2015	2016	2017	2018	2019	9M '19	9M '20	Change (points)
Loss/LAE Ratio	70.1%	70.3%	71.8%	75.5%	77.2%	72.4%	72.2%	72.5%	71.3%	-1.2%
Expense Ratio	26.7%	27.6%	27.2%	27.0%	26.4%	26.2%	26.2%	25.8%	26.1%	0.3%
Combined Ratio	97.4%	98.4%	99.6%	103.0%	104.1%	99.2%	99.1%	98.7%	99.0%	0.3%
AY Comb. Ratio*	99.0%	101.5%	99.5%	102.1%	104.9%	100.4%	99.7%	100.4%	100.9%	0.5%
Operating Ratio	86.7%	88.3%	90.2%	93.9%	94.9%	89.4%	90.2%	90.6%	91.6%	1.0%

* Accident year combined ratios remove the impact of prior year reserve adjustments, thereby reflecting the profitability of business written only in the current year.

This decent underwriting performance reflects the beneficial impact of lower claims activity in certain lines (e.g., personal and commercial auto, workers compensation) occasioned by the pandemic, as well as continued prior year reserve releases (largely in the personal lines cohort), and the continued positive impact of rapidly firming rates across a number of commercial lines (discussed below).

These positives were offset by much higher than average weather-related losses through nine months as the country was buffeted by a series hurricane and other severe weather events along with a spate of west coast wildfires.[5] Fitch's current estimate of $25 billion in catastrophe and other weather-related losses in 3Q alone would put the current total in line with the full year 2017 result.



Specifically, the industry loss and loss adjustment expense ratio improved (fell) by 1.2 percentage points to 71.3%, offset slightly by a 30 basis point deterioration in the expense ratio to 26.1%. ***The largest impact to the combined ratio, however, was $3.7 billion of policyholder dividends paid by several personal lines predominant companies (versus $852 million in the prior year period), adding an additional 1.5 percentage points.*** These policyholder dividends were likely in lieu of a reduction to premium income reported by other composite insurers issuing rebates.

The composite operating ratio, which takes into account both underwriting and investment income, deteriorated (rose) by 100 basis points to 91.6% compared to the prior year period. This largely reflects the impact of lower investment income, the largest component of property & casualty insurer profitability, which we discuss at greater length below.

The composite's large personal lines insurers have been the "winners" in the current environment given much lower frequency of ex-catastrophe loss in the personal automobile line, the industry's largest by premium, especially in the second quarter[6]. Reflecting this, some of the largest improvements in year-over-year loss ratios were reported by composite insurers owned by Erie Insurance Group, GEICO, State Farm, and USAA.

We also note that in 3Q a number of personal lines insurers were partially reimbursed for sizeable property losses tied to 2017-2018 wildfires in California via settlements with several California utilities found responsible for those catastrophes. The two Hartford composite subsidiaries, for instance, reported the strongest loss ratios in the current period, citing in part the subrogation of these claims.

That said, outsized catastrophe losses in 3Q contributed to poor underwriting results at a number of (largely commercial lines) carriers, including composite subsidiaries of AXA/XL, Chubb, CNA, Factory Mutual, and Zurich.

[5] Hurricanes Laura and Sally, Tropical Storm Isaias, the Midwest Derecho, as well as a numer of other regional weather events.

[6] However, it appears that driving trends are normalizing again, with State Farm recently citing 3Q2020 loss frequency approaching normal amounts in its personal auto line.

Loss Reserve Adequacy

The table below tracks prior year loss reserve development[7] for the ALIRT P&C Composite over the past ten calendar (reporting) years.

Prior Year Reserve Development (Calendar Years 2011 - 2020) ALIRT P&C Composite											Data in $ Millions
Acc. Year	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019	CY 2020	Total
Prior Yrs.	-6,225	-1,627	-1,363	-1,524	1,410	334	-545	-611	-1,266	-1,342	-12,759
2011	--	-2,976	-263	-606	14	-450	-319	-217	-107	--	-4,925
2012	--	--	-2,594	-1,774	-205	261	-302	-390	-79	--	-5,083
2013	--	--	--	-3,959	113	237	-539	-496	-217	--	-4,862
2014	--	--	--	--	-914	689	-568	-381	-229	--	-1,404
2015	--	--	--	--	--	1,316	-198	-156	130	--	1,093
2016	--	--	--	--	--	--	20	8	201	--	228
2017	--	--	--	--	--	--	--	-1,601	-215	--	-1,816
2018	--	--	--	--	--	--	--	--	-98	-530	-628
2019	--	--	--	--	--	--	--	--	--	-2,759	-2,759
Total Dev.	-6,225	-4,602	-4,220	-7,864	417	2,387	-2,453	-3,843	-1,881	-4,631	-32,915

As the far-right hand column illustrates, reserve releases were the largest for ***accident years*** 2011-2013 before trailing off in subsequent years, reflecting less income statement contribution from redundant reserves. The industry subsequently strengthened reserves for the 2015-2016 underwriting years, while development over the last three accident years has again shown a pattern of aggregate reserve releases.

As of 9 months 2020, the 2019 accident year has proven redundant by $2.8 billion dollars, though this amount was exceeded alone by industry heavyweight State Farm Mutual Automobile Insurance Company ($3.1 billion). Some of this redundancy may reflect releases of initial reserves posted for anticipated catastrophe losses which were lower than expected (i.e. 2019 was a relatively light year for weather-related losses). As important, "normal" reserving patterns for auto insurance written in the later months of 2019 would not have anticipated the low losses occasioned by Covid-19 and therefore some of these reserves may also have been released thus far in 2020.

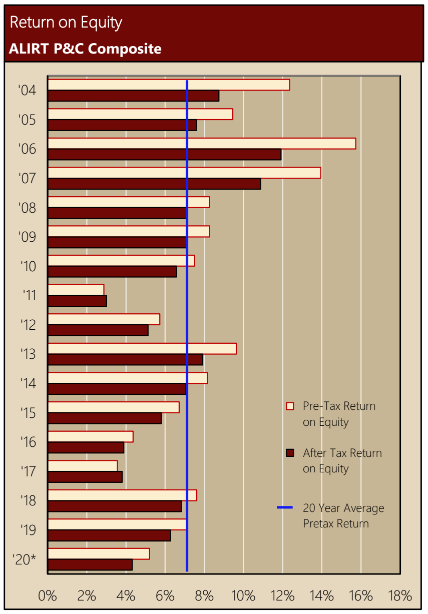
Calendar year reserve releases (bottom row) also declined progressively in the years 2011-2014, ultimately resulting in the need to ***strengthen*** aggregate prior year reserves in 2015 and 2016, respectively. This weaker performance was likely due to personal line insurers seeing higher than projected losses in their auto lines (distracted driving, more miles driven, more expensive car repairs, etc.) as well as substantial reserve strengthening in the AIG intercompany pool in the latter year.

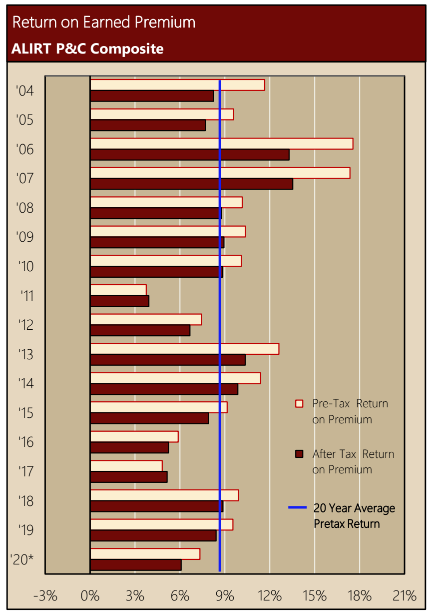
Starting in calendar year 2017, the composite began to release aggregate reserves again with the redundancies accelerating somewhat in 2018 before easing in 2019. Releases thus far in 2019 helped boost the industry's reported underwriting profitability, shaving almost 2 points off the accident year combined ratio of 100.9%.

The 23 commercial lines-predominant insurers in the composite reported aggregate release of just $288 million as of 9/30/2020 (versus $4.2 billion for personal lines insurers), ***indicating that this cohort's underwriting and operating profitability on the whole is now benefitting only slightly from reserve redundancies.*** This includes $657 million of reserve strengthening in the 2019 accident year across a number of commercial line carriers, with the largest boost to reserves for that year recorded by Zurich American ($131 million).

[7] For each calendar year period (in the columns), we show the development for the prior 10 accident (underwriting) years as well as a catchall "prior years" category. Note that on a quarterly basis, the statutory statements only provide development for the two prior accident years and then lump all other underwriting years under a "prior years" category (quarterly results in red lettering).

Operating Earnings





* Annualized

Pre- and after-tax operating earnings and returns[8] weakened on an annualized basis through 9 months of 2020 when compared with full year 2018 and 2019 results. While underwriting results remain near break-even, the aforementioned pressure on investment income results in lower operating earnings.

Given the unlikelihood of improved investment yield in the near term, insurers will need to continue to focus on underwriting earnings to hopefully meet – or at least approach – their targeted returns on equity.

The current firming rate environment reflects this strategy, with insurers also mindful of the potential for continued large catastrophe losses in the future, concerns around growing frequency and severity in certain liability lines, as well as the potential for a spike in Covid-related lawsuits/losses in both commercial property and casualty lines of business. Another danger is the potential for investment impairments in an extended recession, which would be reported through an insurer's income statement, further hurting earnings.

Investment Mix

Invested assets rose for the ALIRT Composite rose by 4.3% in the first nine months of 2020, largely reflecting gains in equity values as markets recovered through the second and third quarters of the year. Even with this improvement, however, the industry's unaffiliated stock holdings fell by 1.4%. This may reflect the desire of some insurers to trim equity holdings given the need/desire to hold more cash during this time of uncertainty. Several composite insurers showed an over 5% drop in unaffiliated stocks, including Allstate Insurance Company, two large Geico subsidiaries, and Starr Indemnity & Liability Company.

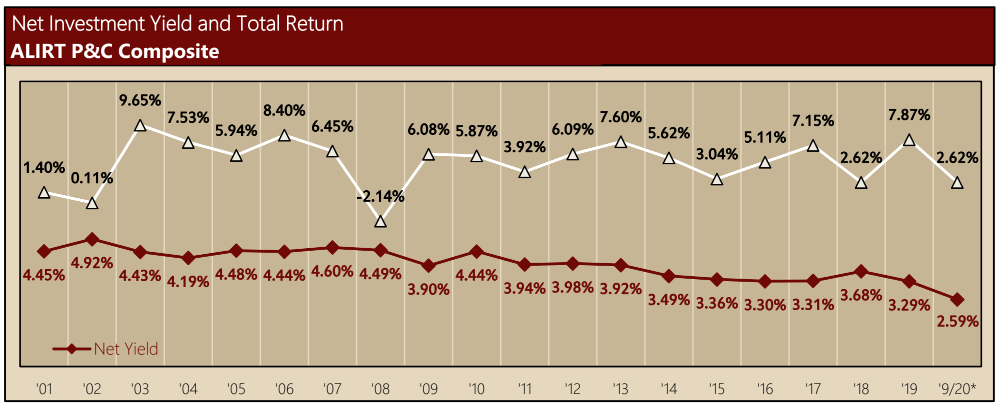
Distribution of Invested Assets						ALIRT P&C Composite	
	2015	2016	2017	2018	2019	9/30/2020	Change In 2020
Bonds	55.1%	54.5%	52.9%	55.3%	53.0%	53.0%	0.0%
Unaffiliated Stocks	13.7%	14.4%	16.0%	13.7%	16.2%	14.8%	-1.4%
Affiliated Stocks	18.4%	18.4%	18.5%	18.2%	18.4%	18.2%	-0.2%
Mortgage Loans & Real Estate	2.1%	2.3%	2.5%	2.8%	2.7%	2.6%	-0.1%
Cash & Short-Term	2.4%	2.6%	2.4%	2.6%	2.4%	3.6%	1.2%
Schedule BA	7.6%	7.3%	7.1%	6.8%	6.8%	7.1%	0.3%
Other	0.7%	0.5%	0.7%	0.6%	0.5%	0.7%	0.2%
Change in Inv. Assets	0.7%	4.5%	3.6%	1.9%	8.0%	4.3%	N/M

[8] Excludes the impact of net capital gains/losses.

Offsetting the sizeable drop in equities was a 1.2% bump in cash and short-term investment holdings, along with smaller gains in alternative investment (Schedule BA) and "other" (largely receivables and collateral for securities lending). Bond holdings – the single largest investment class by P&C insurers – remained steady vis-à-vis the prior year end.

It will be interesting to see how insurers react to the continued downturn in broad interest rates since late 2018, a trend only accelerated by the pandemic crisis and attendant economic shock which we discuss at greater depth below. With basement-bottom investment yields on safer bonds (i.e. U.S. government or highly rated corporate) and a remarkably resilient stock market, insurers may feel they have no choice but to allocate more of their investment dollars in equities and/or equity-like investment (such as alternative/Schedule BA assets). That said, should the pandemic prove more baleful to the long-term economic and capital market outlook, then insurers may become much more conservative with their exposures, resulting in continued pressure on investment income.

Investment Results



* Quarterly results are annualized.

Net investment yield fell 70 basis points to 2.59%, annualized, for the first nine months of 2020. This is the industry's lowest reported net yield by an appreciable margin over the past 20 years. With the caveat that composite net investment yield can be distorted in any period by outsized/undersized dividends paid by affiliate investments, the continued downward trend in industry book yield is unmistakable, reflecting a decades-long retreat in bond yields.

This long-term trend was only exacerbated by the great recession of 2008-2009 and now the Coronavirus pandemic, which has compelled central banks globally to maintain key lending rates at low - and in some cases, negative - levels. In addition, some central banks (such as our Federal Reserve) have utilized other monetary tools, such as the direct purchase of both government and non-government debt, mortgage-backed securities, commercial paper, bank loans, and even exchange traded bonds funds.

Such actions have calmed credit markets and likely helped insurers avoid potential credit losses on bond and commercial mortgage portfolios, but at the expense of a continued very low interest rate environment. Whether such massive monetary actions, along with fiscal programs, will result in future inflation waits to be seen. While an inflationary response would boost bond yields, helping investment income over time, it would also likely lead to increased severity of loss on the underwriting side of the business as claims costs rise.

Total investment return improved to 2.62% as of 9/30/2020 after plummeting in 1Q2020 when broad stock market indices declined by an aggregate 19%. Fortunately, given the government's fiscal and monetary response discussed above, equities have retraced all of these losses and then some, helping to support industry surplus.

The danger is that extended pandemic conditions (including a 2nd or 3rd wave), and/or lack of continued adequate government support, could lead to a deeper economic crisis and attendant fall in equity markets. However, in recent days the prospect of viable vaccines in 2021 seems to have put a floor under equity prices as the market looks forward to a normalization of economic activity later next year.

Changes in Stock Market Indices													
	2011	2012	2013	2014	2015	2016	2017	2018	2019	1Q20	2Q20	3Q20	4Q20*
DJIA	5.5%	7.3%	26.5%	7.5%	-2.2%	13.4%	25.1%	-5.6%	22.3%	-23.2%	17.8%	7.6%	5.3%
S&P 500	0.0%	13.4%	29.6%	11.4%	-0.7%	9.6%	19.4%	-6.2%	28.9%	-20.0%	20.0%	8.5%	5.8%
NASDAQ	-1.8%	15.9%	38.3%	13.4%	5.7%	7.5%	28.2%	-3.9%	35.2%	-14.2%	30.6%	11.0%	6.2%
Avg.% Change	1.2%	12.2%	31.5%	10.8%	0.9%	10.2%	24.2%	-5.3%	28.8%	-19.1%	22.8%	9.0%	5.8%

* As of end of day November 19, 2020

Concluding Remarks

Despite the backdrop of a major global pandemic, historically low interest rate environment, and surge in catastrophic losses, the U.S. property & casualty market remains in surprisingly good shape. Surplus continues to grow (and underwriting metrics remain conservative) on continued underwriting and operating gains and a resurgent equity market. True, premium growth is pressured as the pandemic dampens demand, though this has been offset in most commercial lines of business by hard market-like rate increases. And over all of this hangs the cloud of possible large business interruption (and other casualty) losses as the fall-out from Covid-19 is reckoned with over the coming years.

It is this "push and pull," this suite of offsetting positive and negative factors, that makes the current operating environment so interesting.

Surely not all lines of business, and certainly not all insurance groups, are having the same degree of success navigating the current market challenges. Social inflation is a reality, and the frequency and cost of weather-related losses may indeed be accelerating. Insurers and reinsurers alike are taking this into account in their pricing, with commercial lines underwriters remaining especially conservative.

But what specifically of the rate environment?

We conclude with some additional commentary by Evan Greenberg of Chubb taken from a recent analyst call. Like many of his peers, he is attempting to predict future trends which remain murky at best.

> *"In sum, we are in a hard market or firming market for Commercial P&C, depending on where you are in the world or cohort of business, and it is spreading. Where we are growing, we are achieving rates that exceed loss cost, and therefore, we are achieving margin improvement. More lines of business on a policy year basis are coming closer to achieving combined ratio levels that will produce adequate risk-adjusted returns. However, in most areas, rates need to continue moving higher. I believe they will based on everything we see, given the risk environment, interest rate levels and for how long business was inadequately priced by many companies. But when you look through, you have a loss cost environment that is not benign. And you have an industry that, in my judgment, fell behind on pricing, quite a bit behind. And the momentum is very good, but it's got a ways to go …"*

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