Aon Benfield

Florida Homeowners ROE Outlook

INCON 2019

Risk. Reinsurance. Human Resources.

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Submitted blurb…

Florida Homeowners ROE outlook

In February of 2019 Aon launched their first study evaluating the ROE outlook for homeowners carriers specifically in the state of Florida. In this session we'll consider and contrast the market strategies of the FL domestic specialists against the FL subsidiaries of the national carriers. The discussion will include benchmarks of profitability, focus on risk tolerance, and consider potential impacts of recent market forces including assignment-of-benefits legislation and the recent reinsurance renewals.

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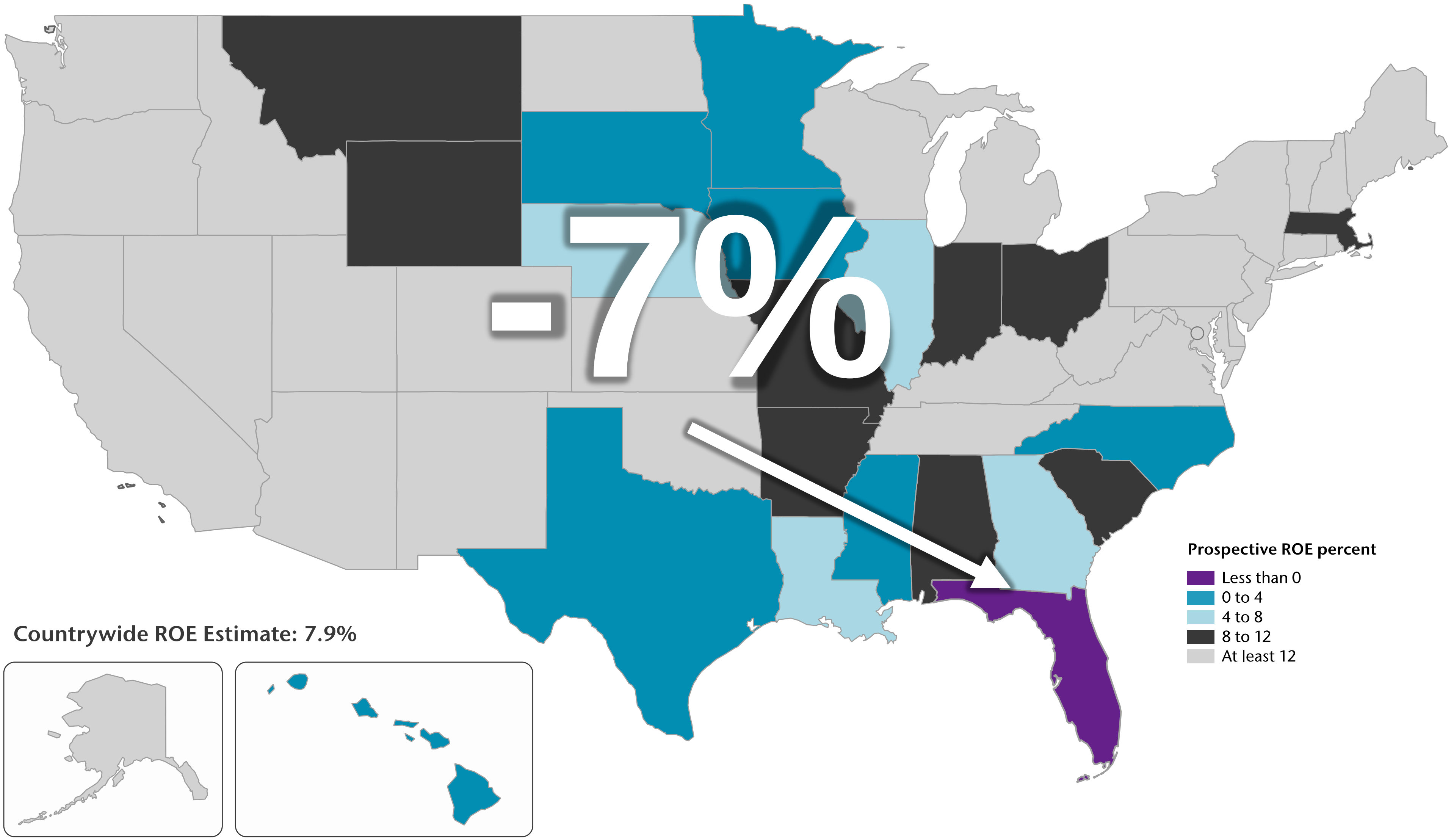
The ROE Of Florida Homeowners Business

Section Divider Sub Title

August 2014 Prospective ROE at Current Rates



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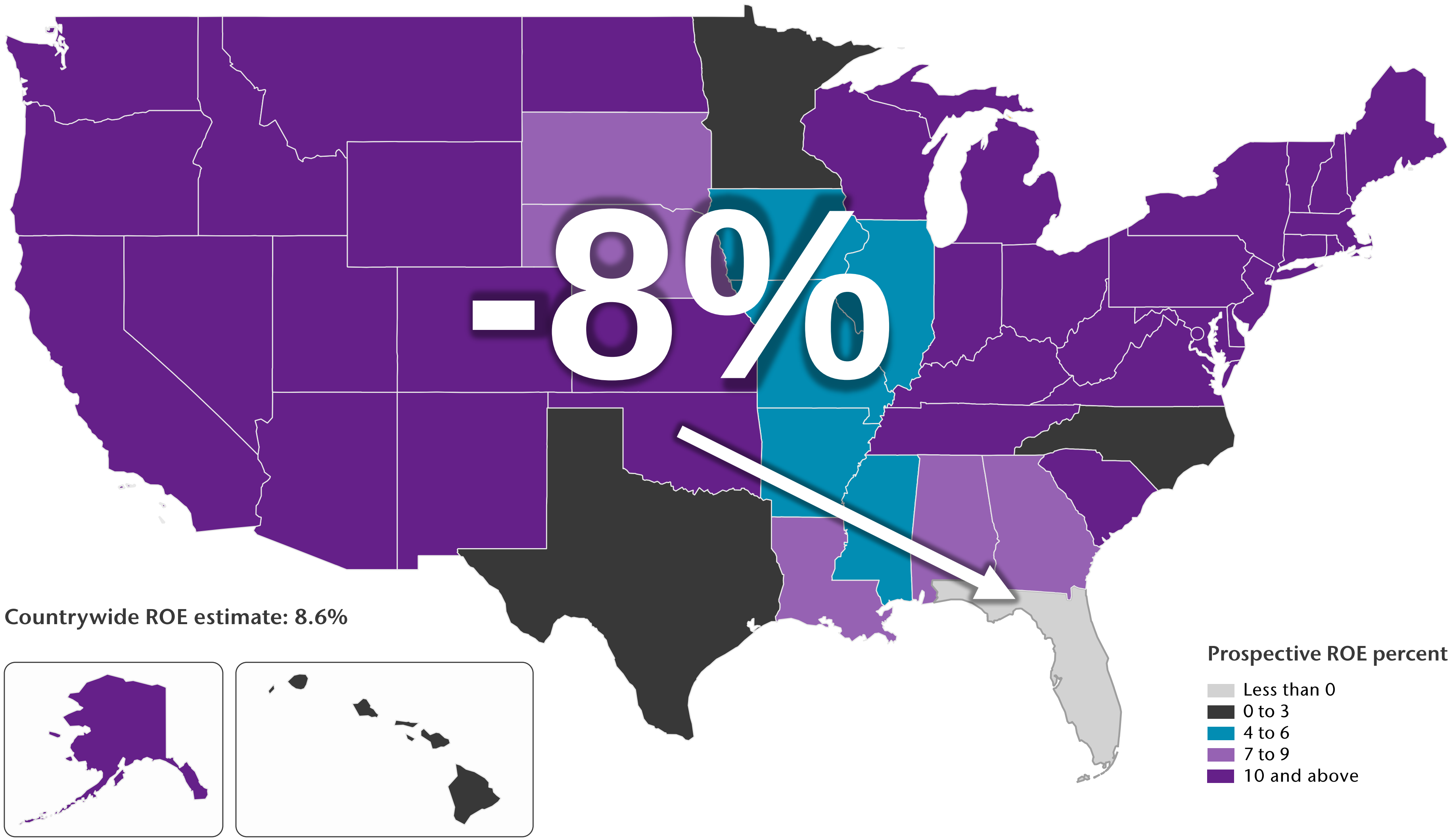
August 2015 prospective ROE at current rates (Public)



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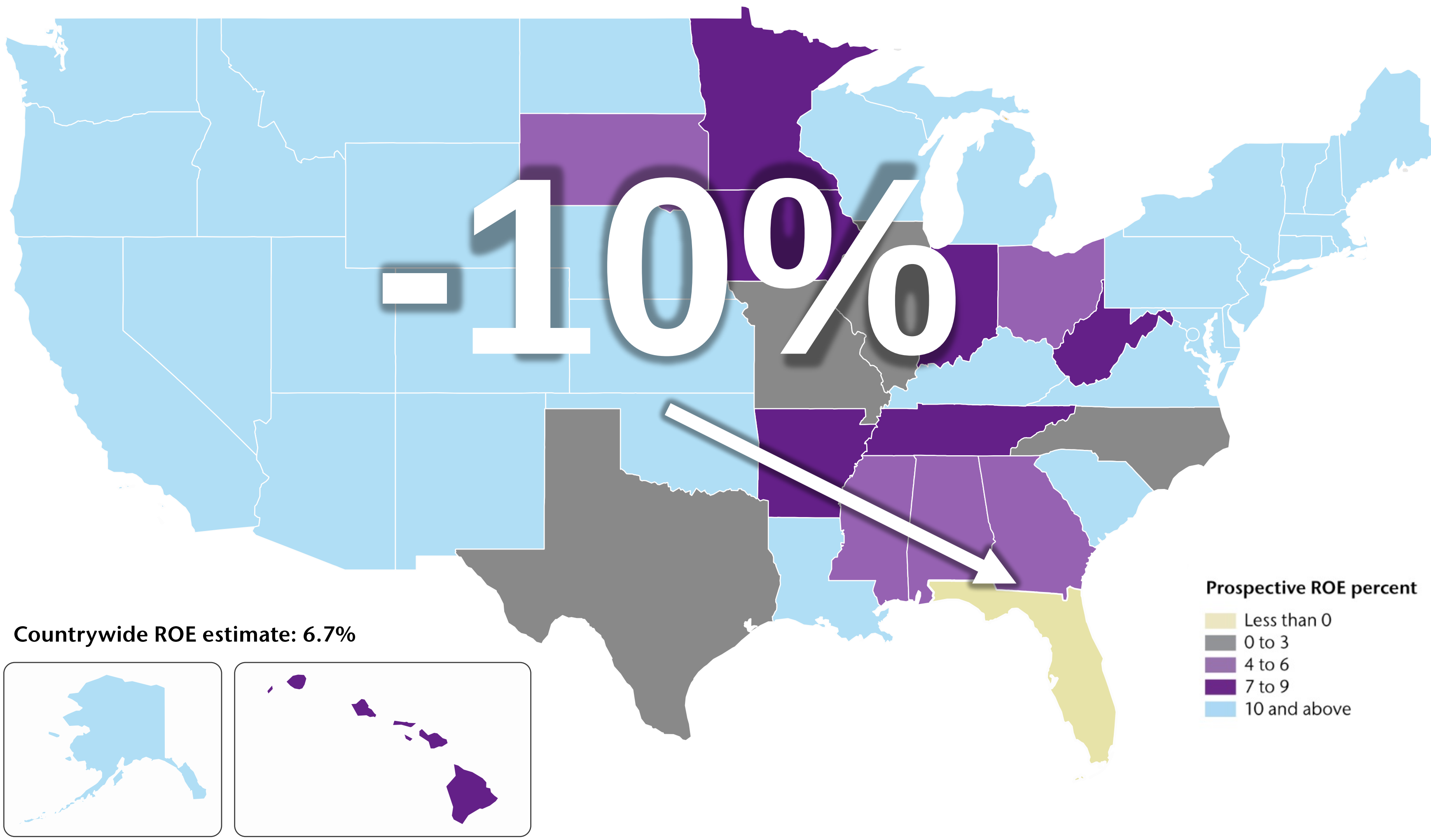
August 2016 Prospective ROE at Current Rates



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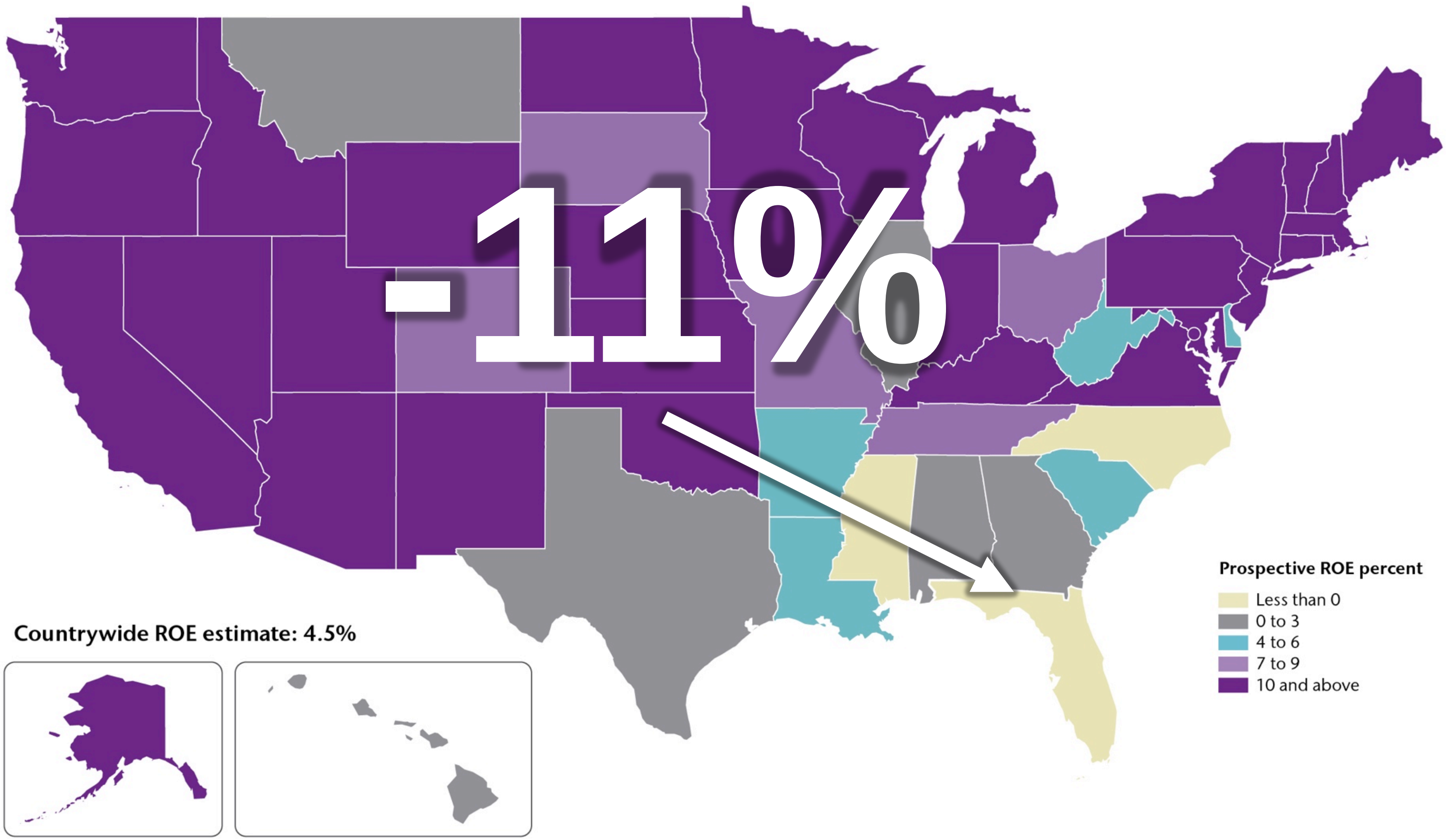
August 2017 prospective ROE at current rates



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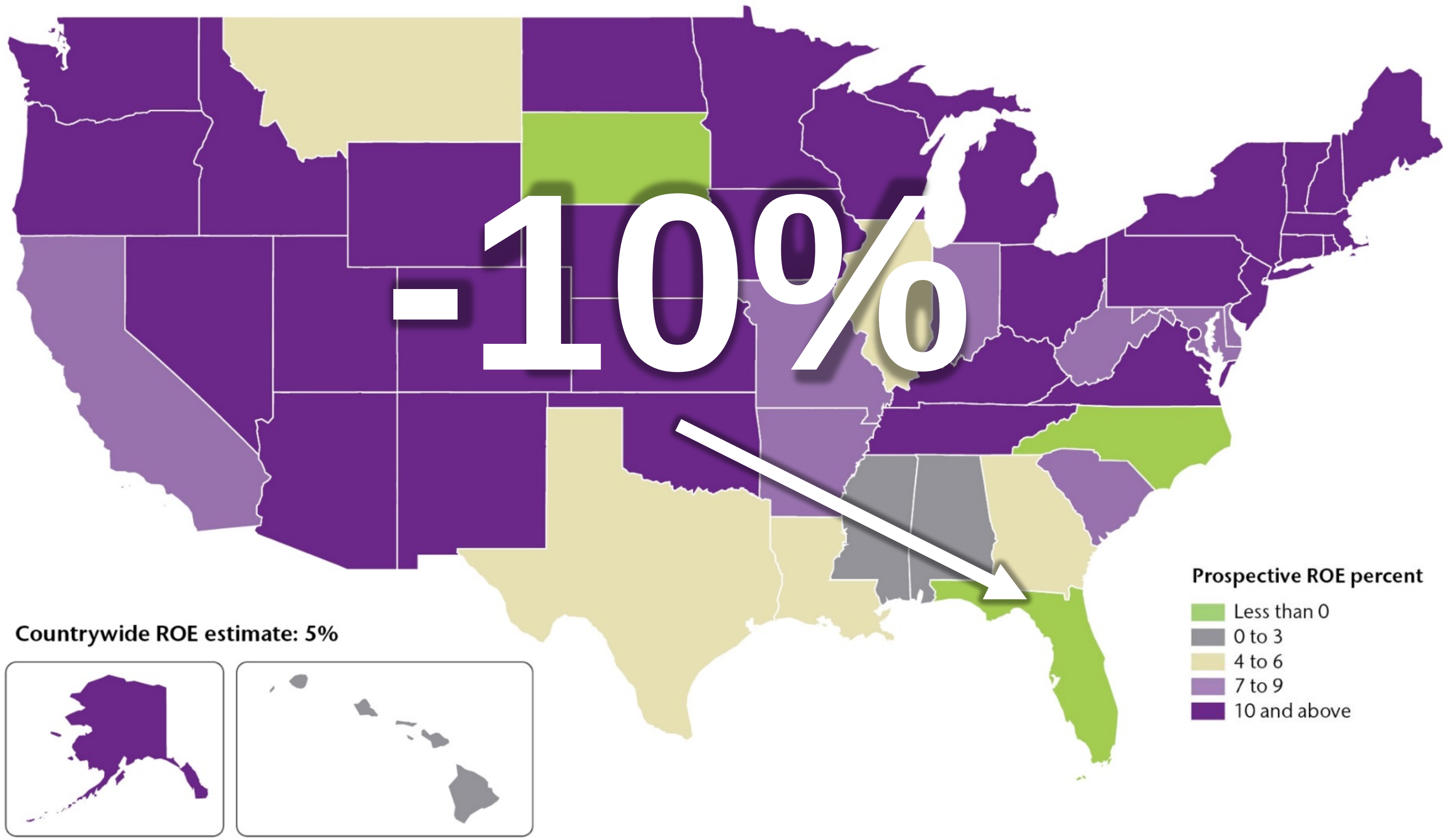
August 2018 prospective ROE at current rates



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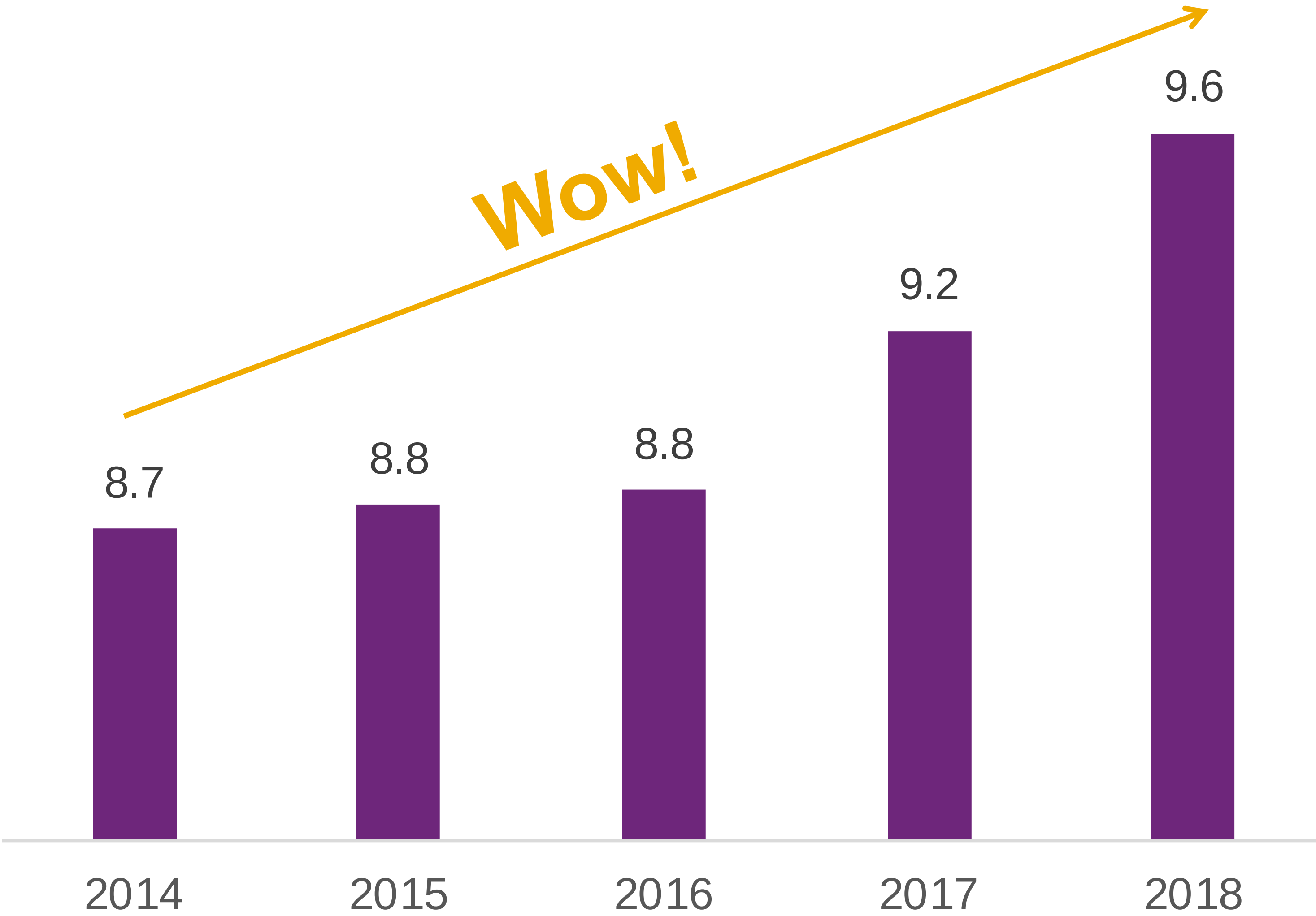
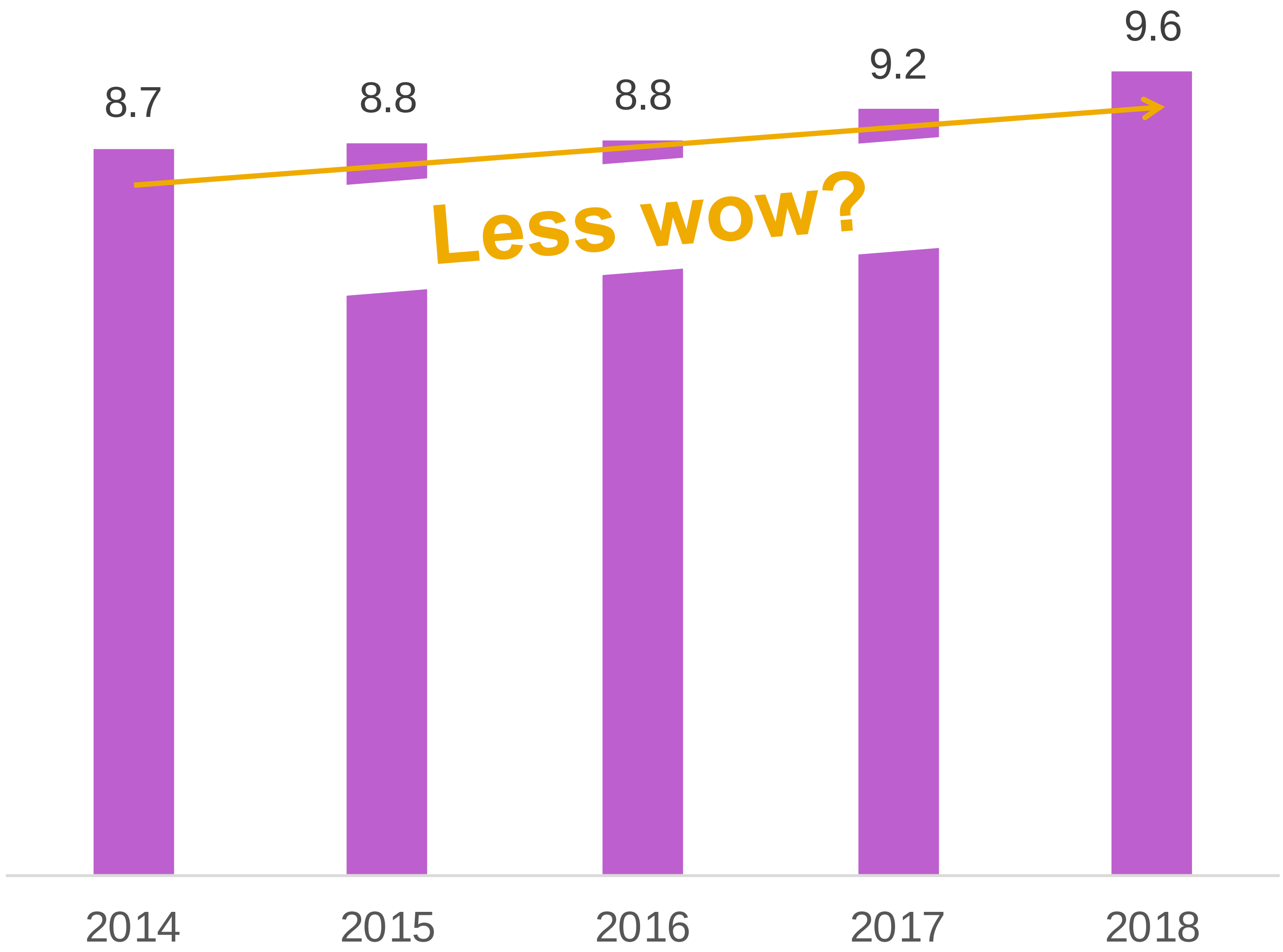
Does Anyone Believe Those ROEs?

Florida homeowners industry direct premiums written



Or…how to lie with statistics?



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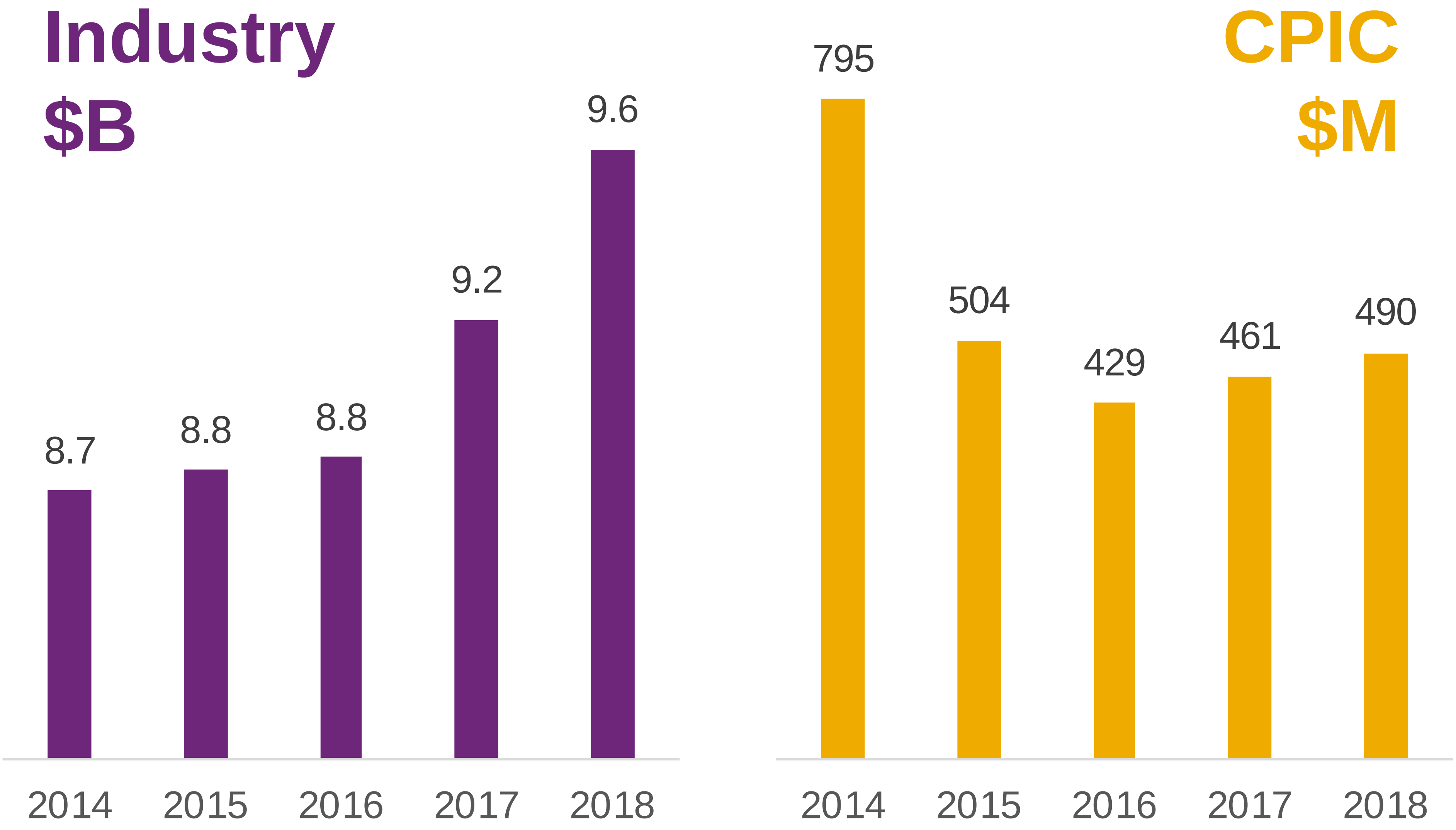
While the industry grew, Citizens shrank



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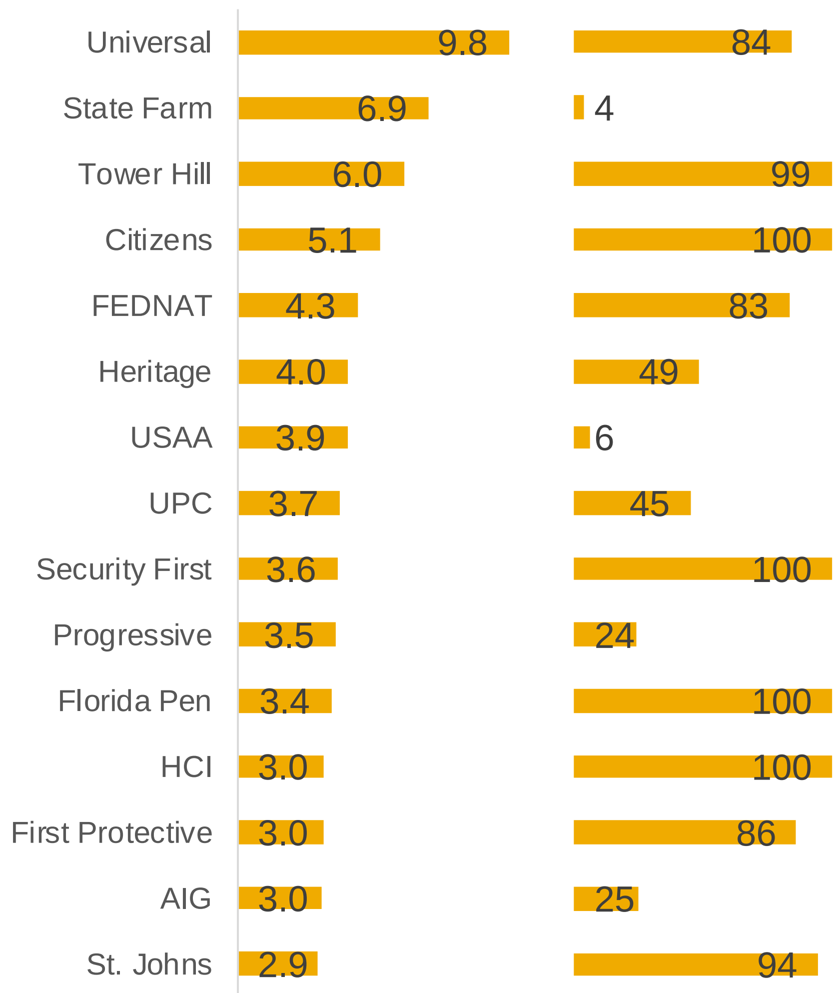
Market concentration of the largest fifteen carriers

Florida

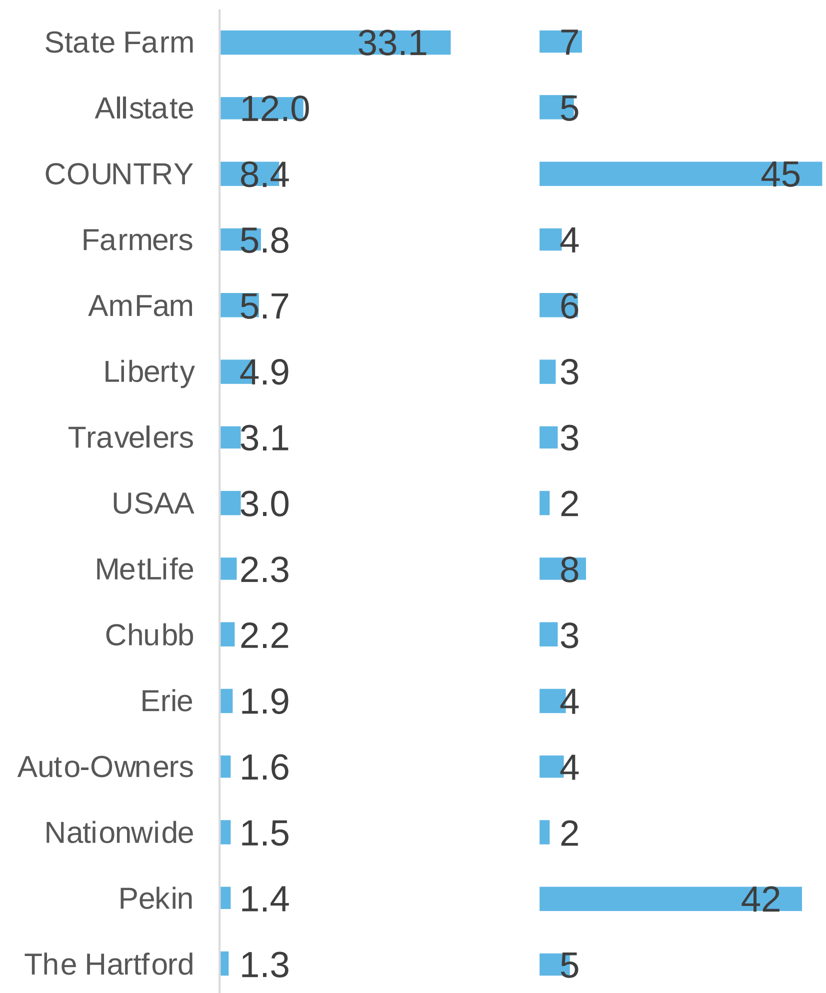
2018 Market Share | % of Total HO



66

Illinois

2018 Market Share | % of Total HO



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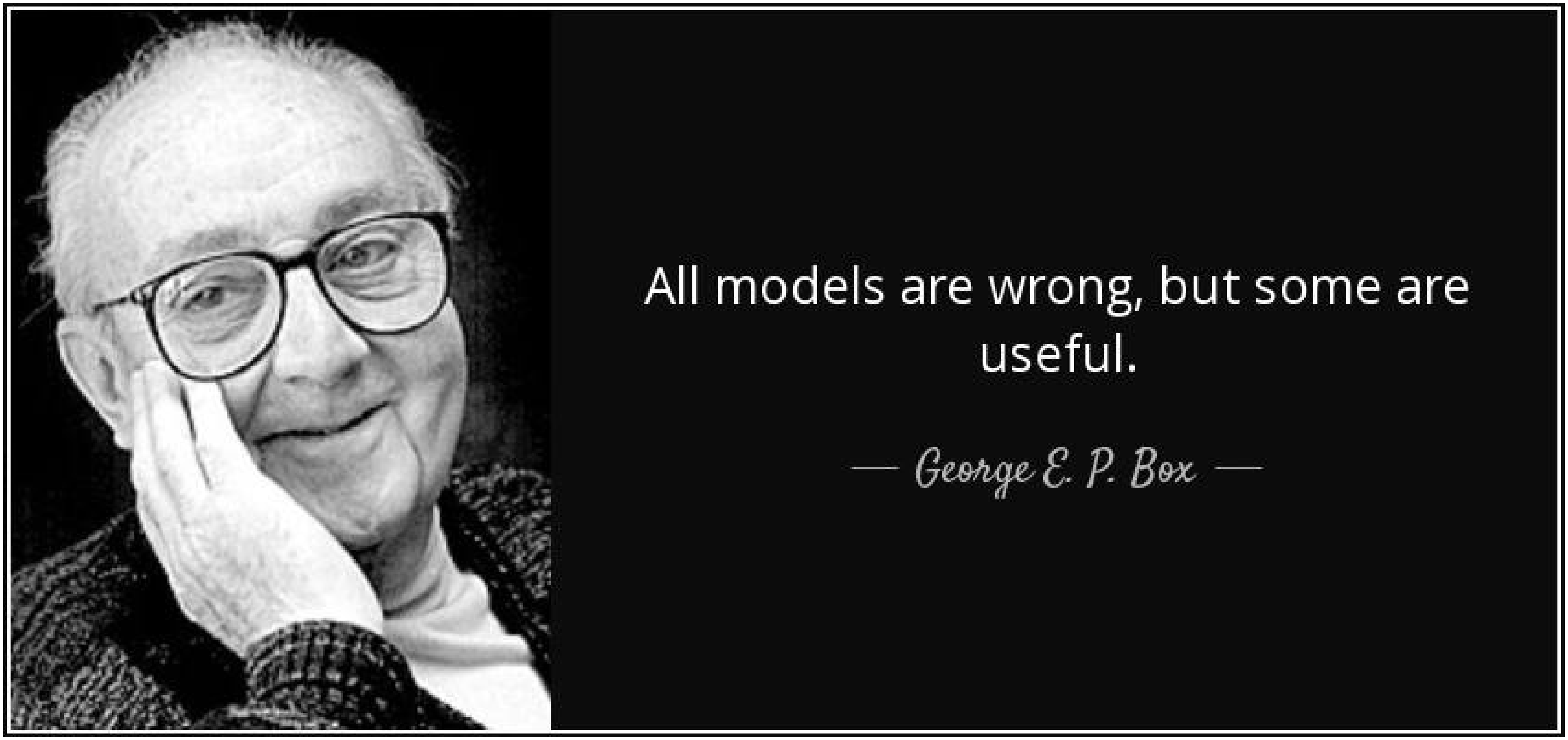
What’s The Right Way To Evaluate Florida Homeowners?

Before we get started, keep this in mind…

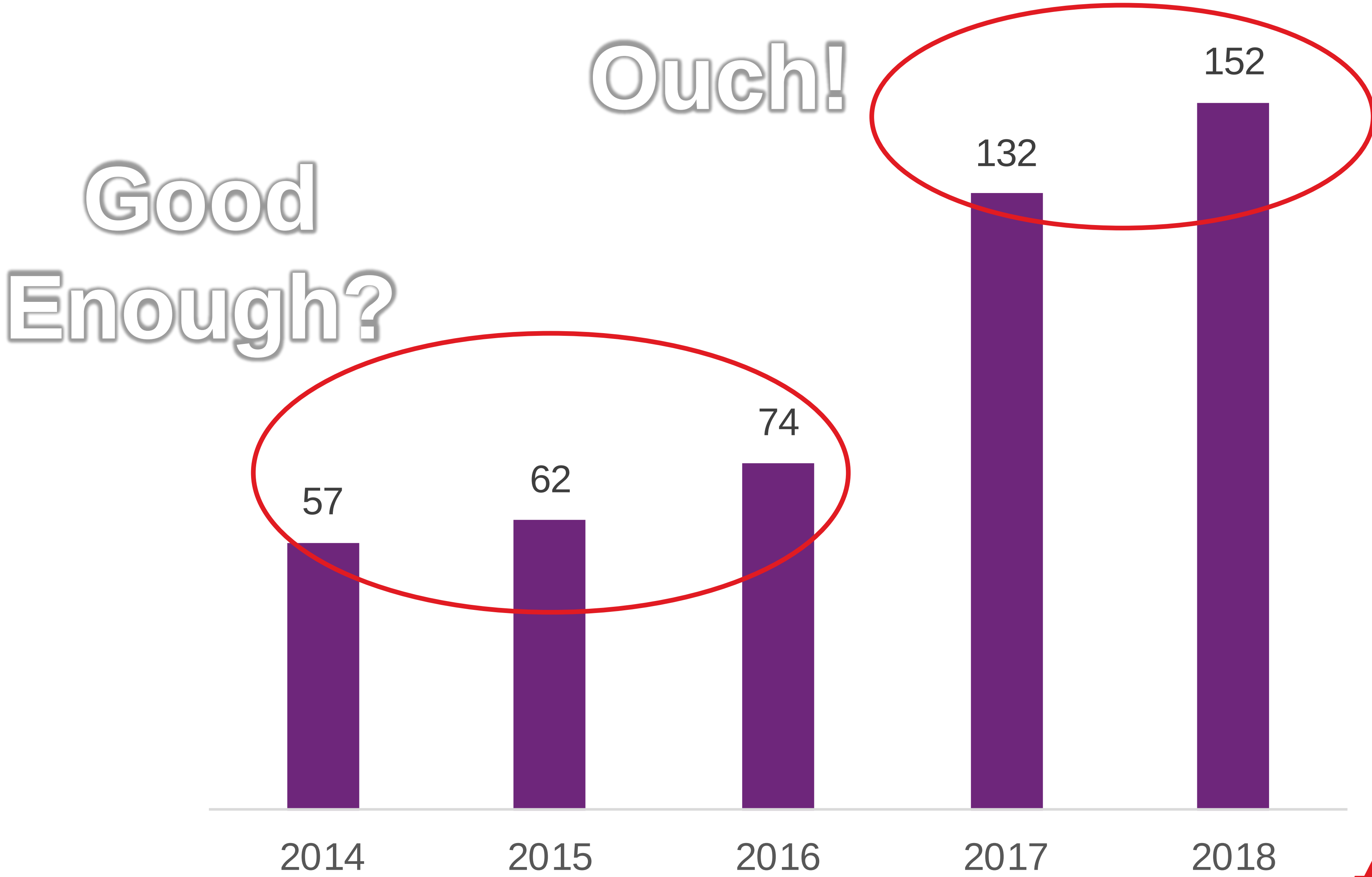


What's in an ROE study, anyway? The ROE formula, sort of!

U/W Profit X Leverage Ratio = ROE

The underwriting component - Florida homeowners direct CRs

U/W Profit X Leverage Ratio = ROE



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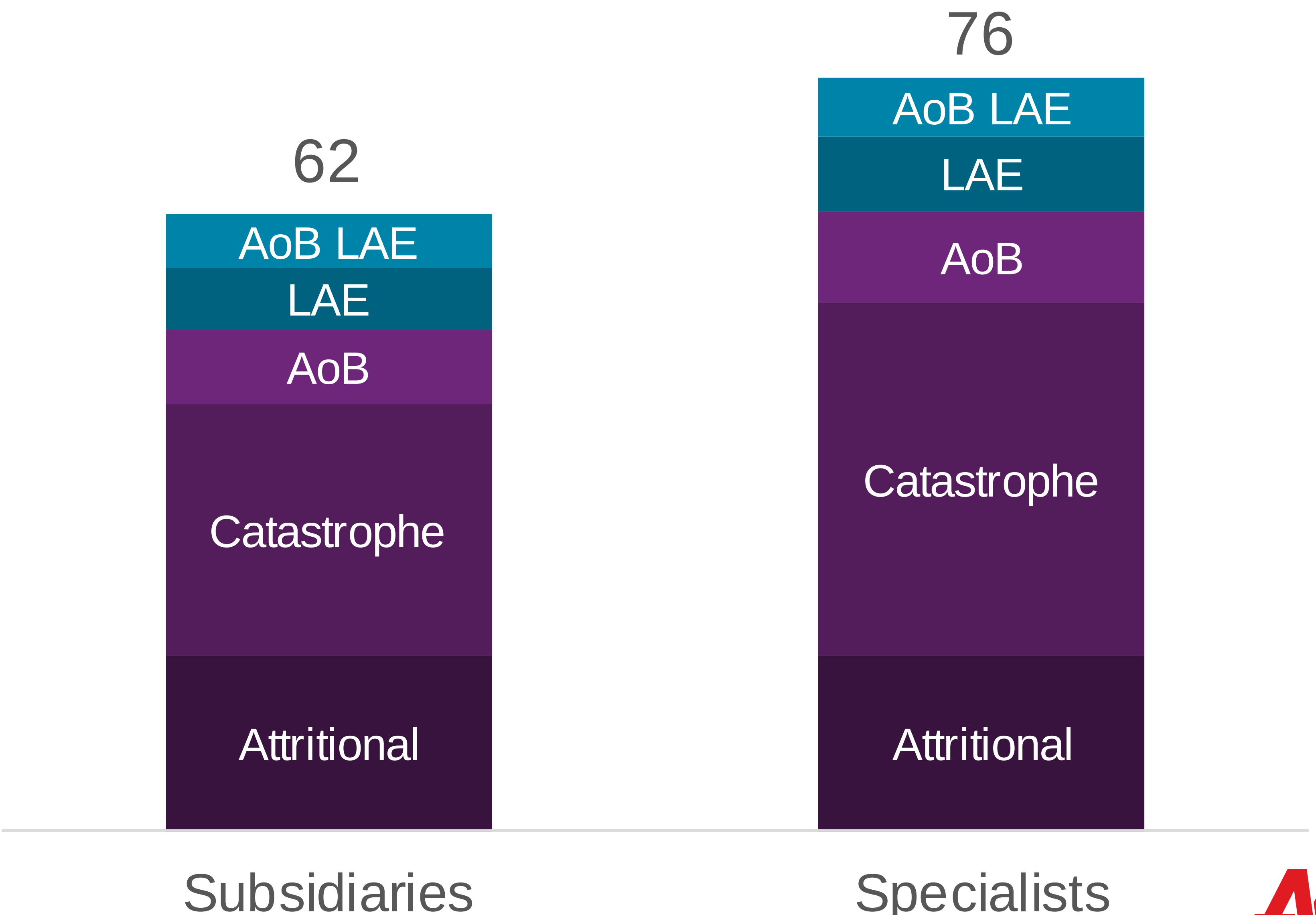
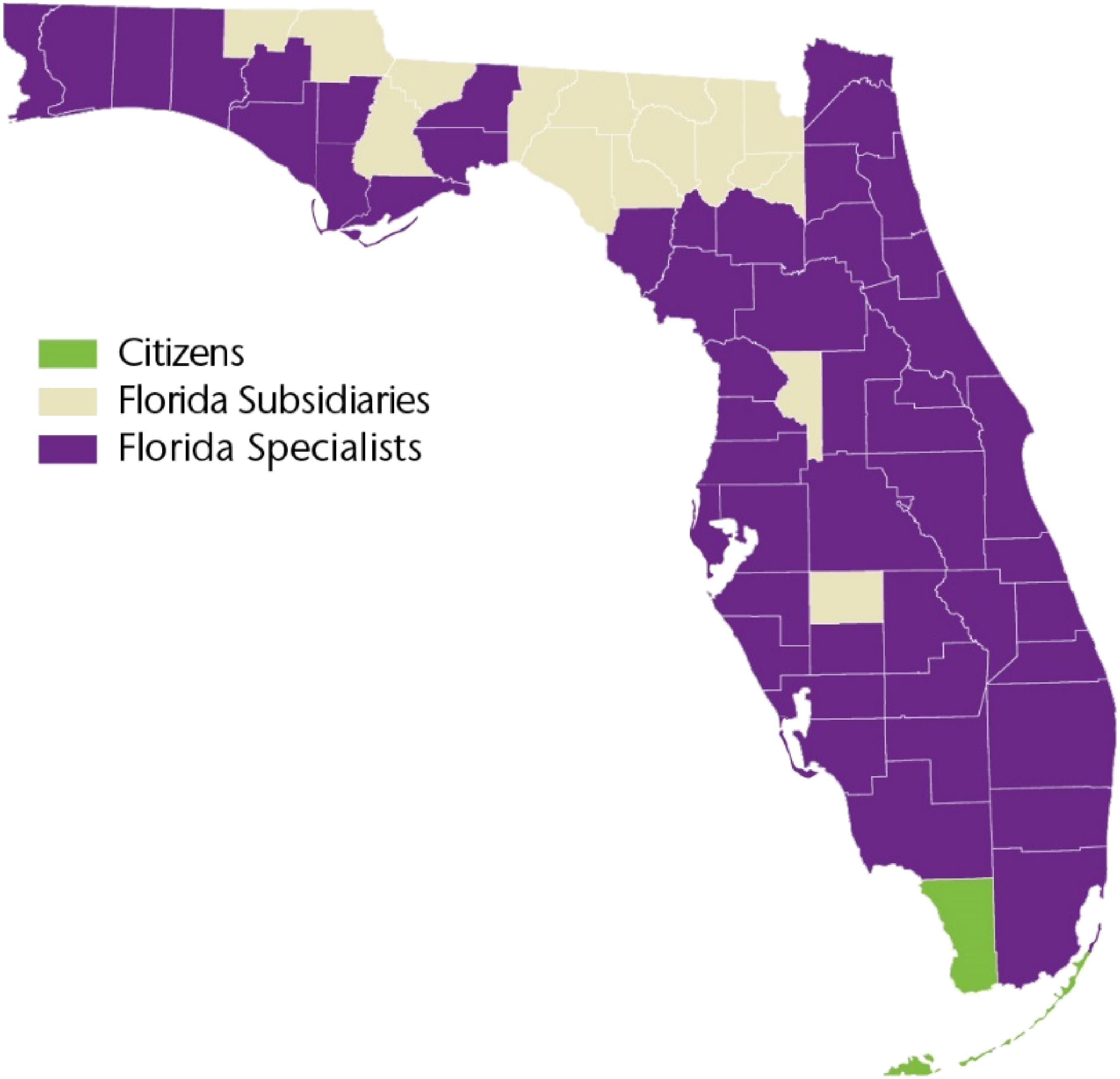
Building the prospective combined ratio: direct losses and loss adjustment expenses

U/W Profit X Leverage Ratio = ROE



Florida who's who: market share by county and cohort



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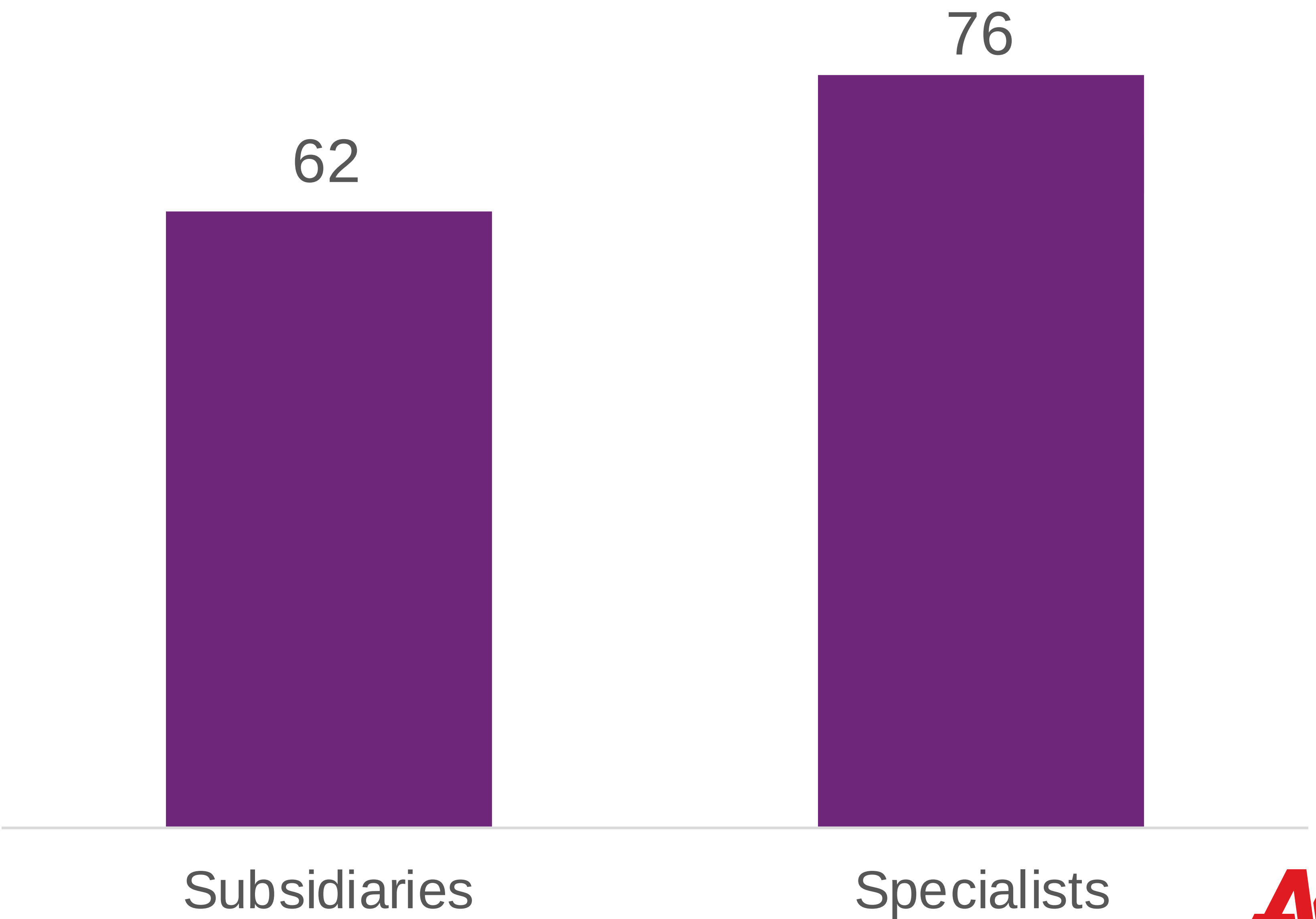
Building the prospective combined ratio: expenses

U/W Profit X Leverage Ratio = ROE

Question 1: Do you believe these loss and adjustment expense ratios?

U/W Profit X **Leverage Ratio** = **ROE**



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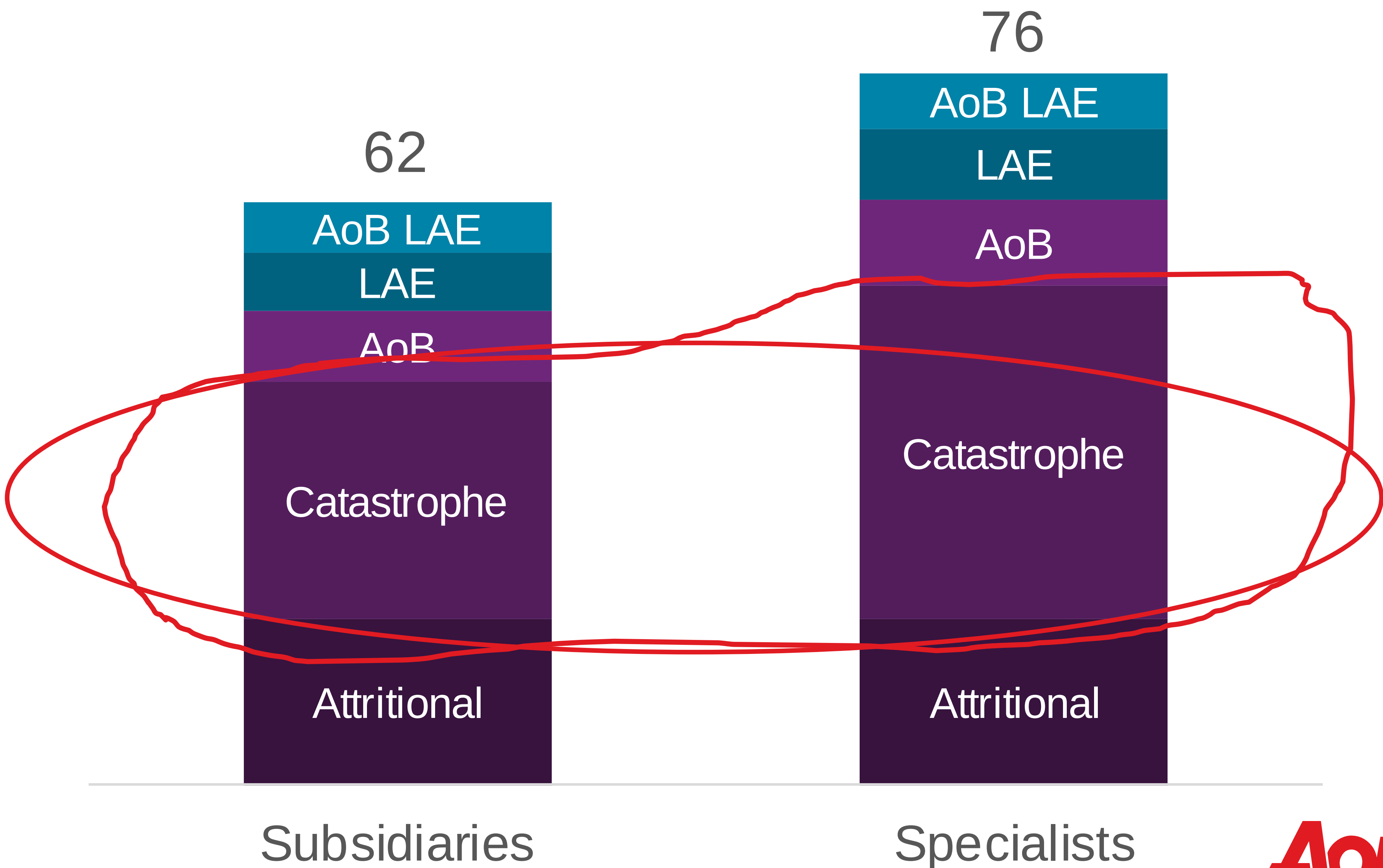
Question 2: What happens when the wind doesn't blow?

U/W Profit X Leverage Ratio = ROE



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What's in your denominator?

U/W Profit X **Leverage Ratio** = ROE

$$\text{ROE} = \frac{\text{Profit}}{\text{Equity*}}$$

***Also known as surplus, depending which accountant you talk to**

With a long enough lever, I could move the world's profits

U/W Profit **X** **Leverage Ratio** **=** **ROE**

0.9:1
premium to surplus ratio

2:1 premium
to required surplus ratio even with business in high risk counties

Subsidiaries

Specialists

Be careful what you say, and how you say it!

THE INSURER

Global risk capital intelligence

Paul Eaton

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News

Florida specialists outperform in cat years: Aon

The group of largely Demotech-rated carriers that dominate Florida's homeowners insurance market typically outperform the subsidiary operations of national insurers operating in the state in years hit by hurricanes, according to a report by Aon.

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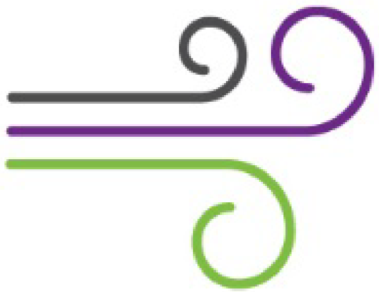
OK, admittedly that is literally what was said

While they achieve positive ROEs on average, this group models to a **negative 23 ROE** in years with a catastrophe reflecting their **higher net catastrophe retentions**



Aon models

17 percent

ROEs for Florida specialists when the wind does not blow

Risk Tolerance

Generic definition per Wikipedia…

“An event study is a statistical method to assess the impact of an event on the value of a firm”

Invented by Fama, Fisher, Jensen, and Roll –

“The Adjustment Of Stock Prices To New Information” (1969)

FIGURE 2a

AVERAGE RESIDUALS—ALL SPLITS

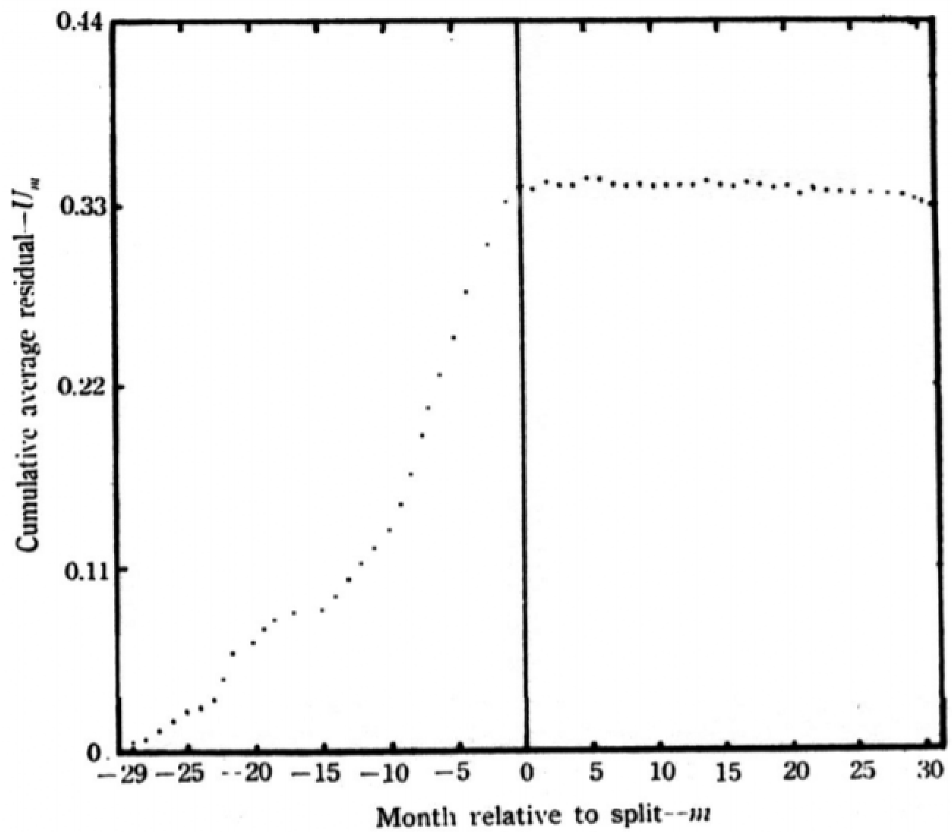
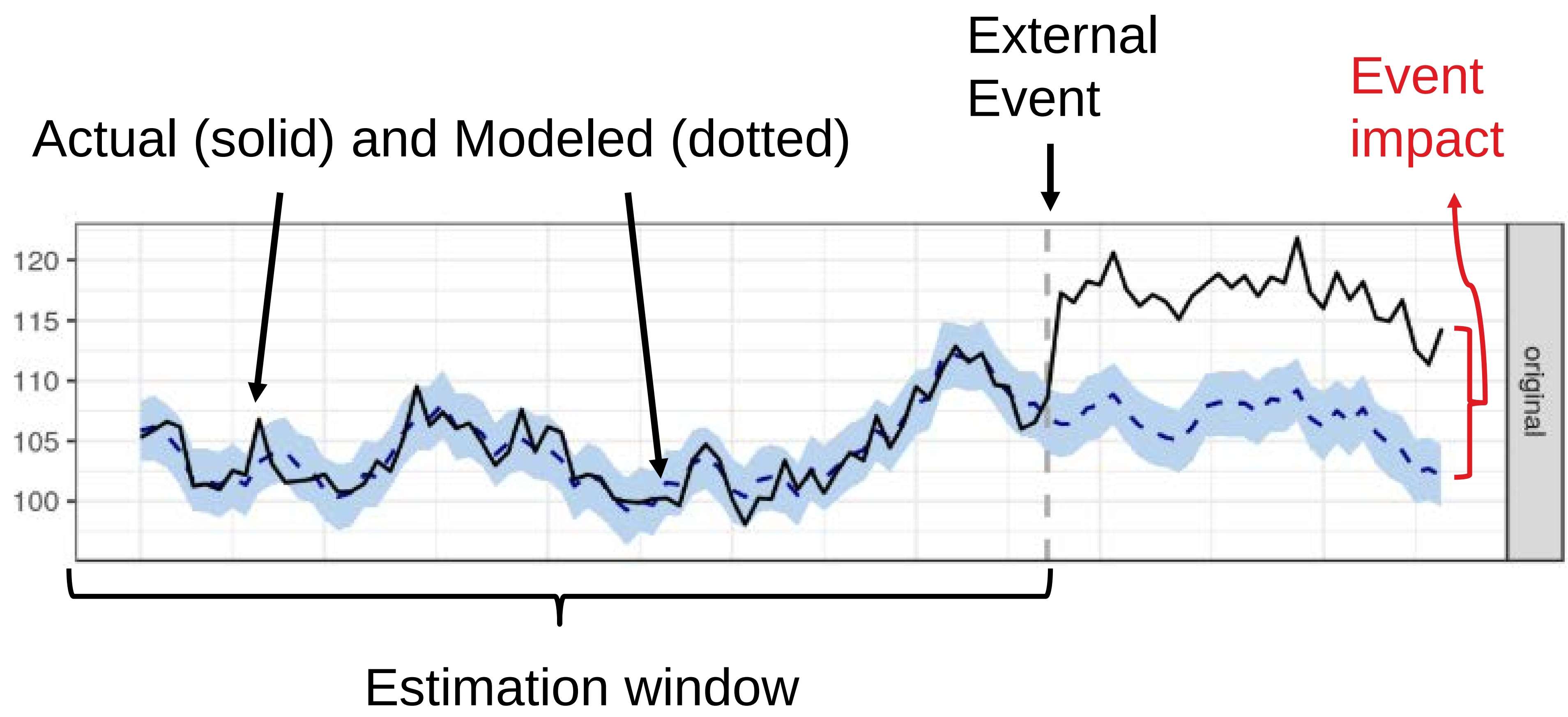


FIGURE 2b

CUMULATIVE AVERAGE RESIDUALS—ALL SPLITS

How is stock price impacted by occurrence of an event?



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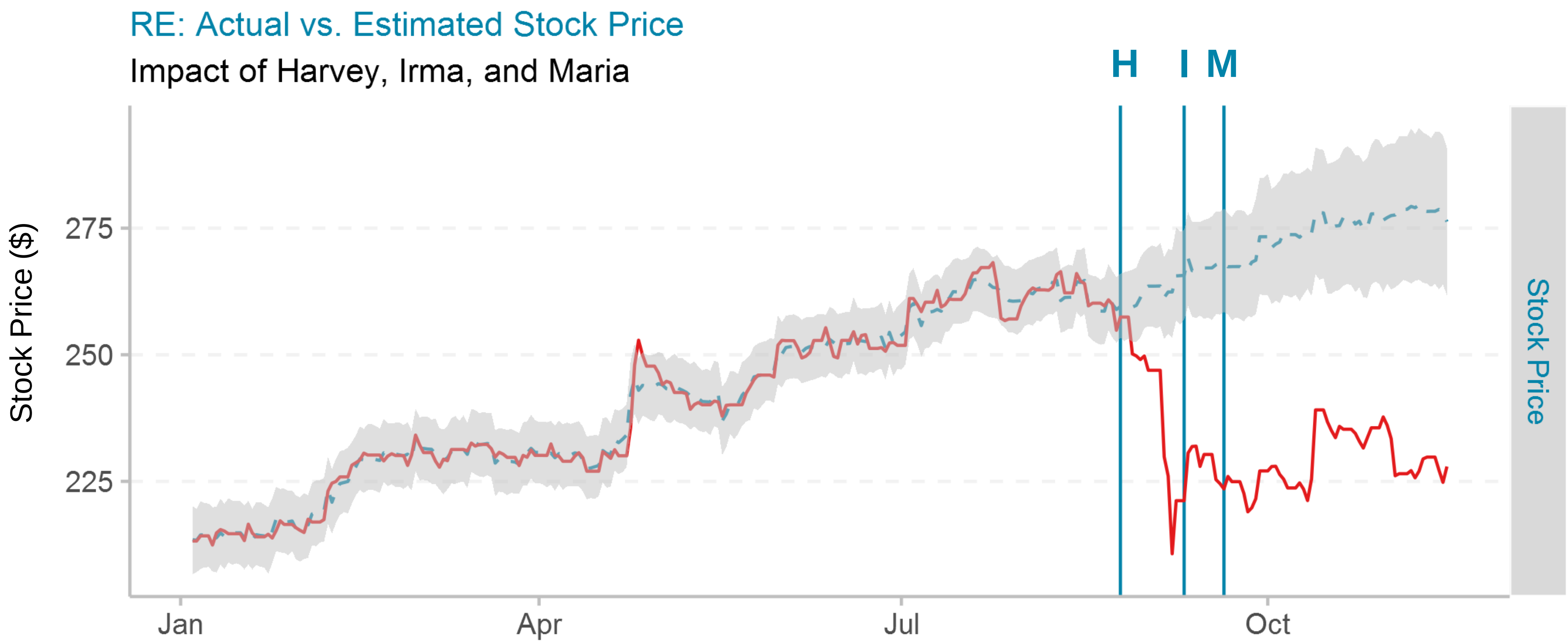
Example – Everest Re, 2017 HIM Events



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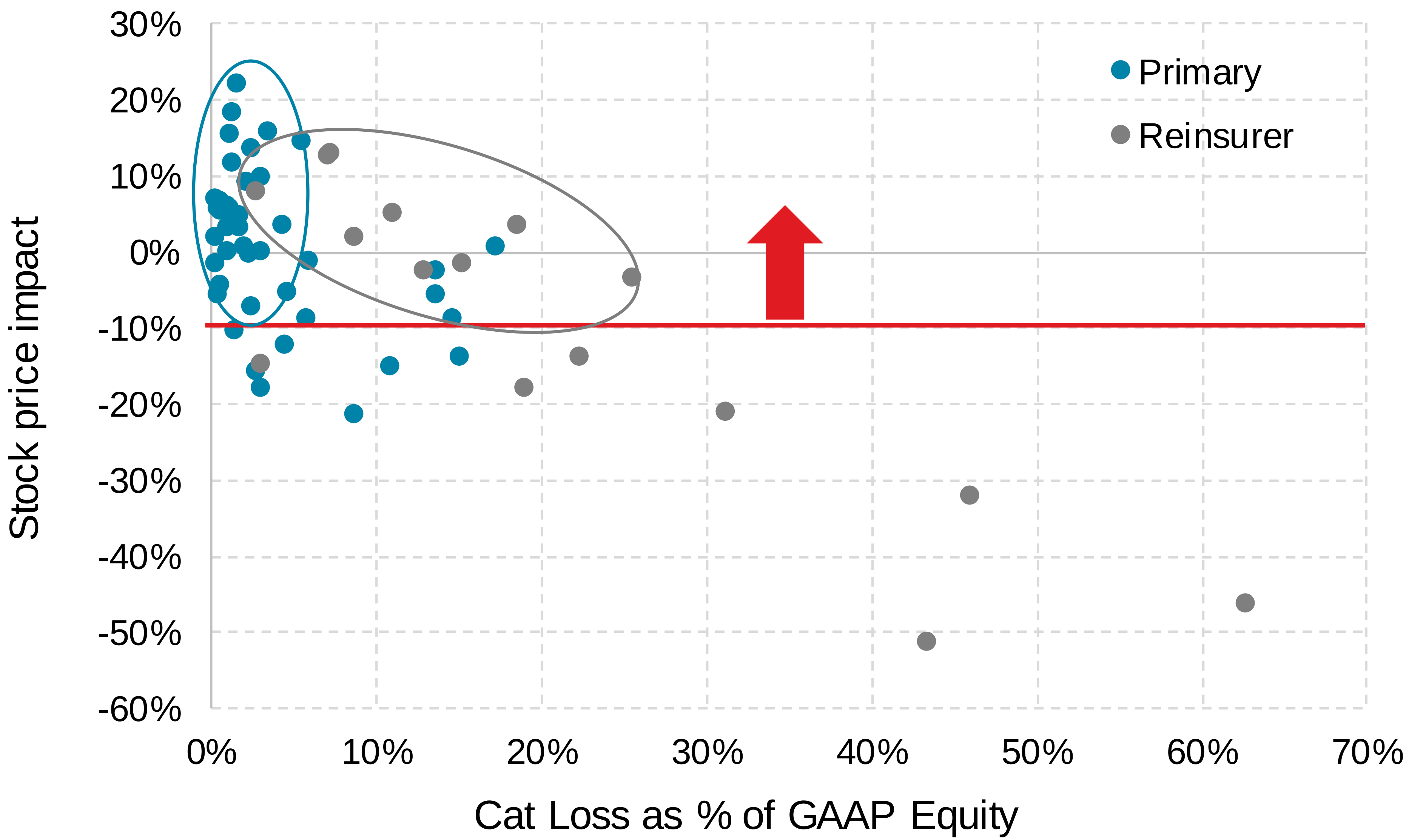
Goal – Implied investor risk appetite

What proportion of one years earnings can be lost in a single event without an adverse stock price reaction?

What proportion of GAAP equity can be lost in a single event without an adverse stock price reaction?

Does investor tolerance vary depending on what caused the loss?

Katrina Event Study results



Katrina Event Study results

Reinsurers / Insurers losing less than 10% of shareholder value had Katrina losses in the following ranges

	Katrina	
	*Cat loss as % of	
Sector	Capital	Earnings
Insurers	3% to 6%	21% to 34%
Reinsurers	12% to 19%	107% to 110%

Note: *Shown on a net post-tax basis.

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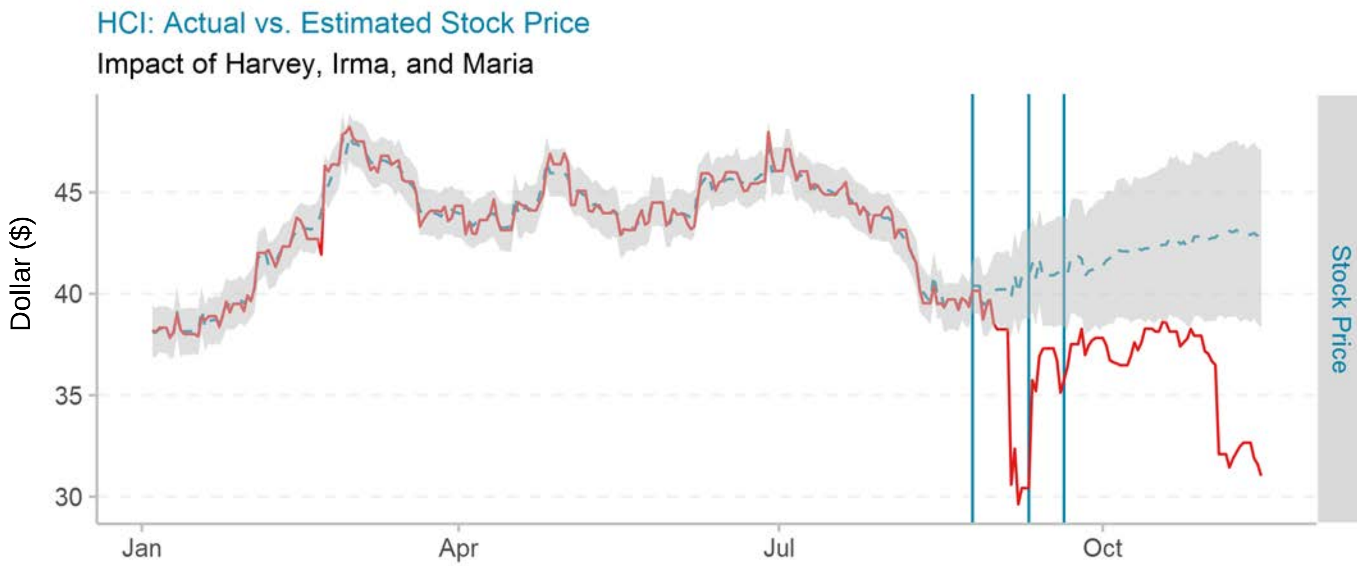
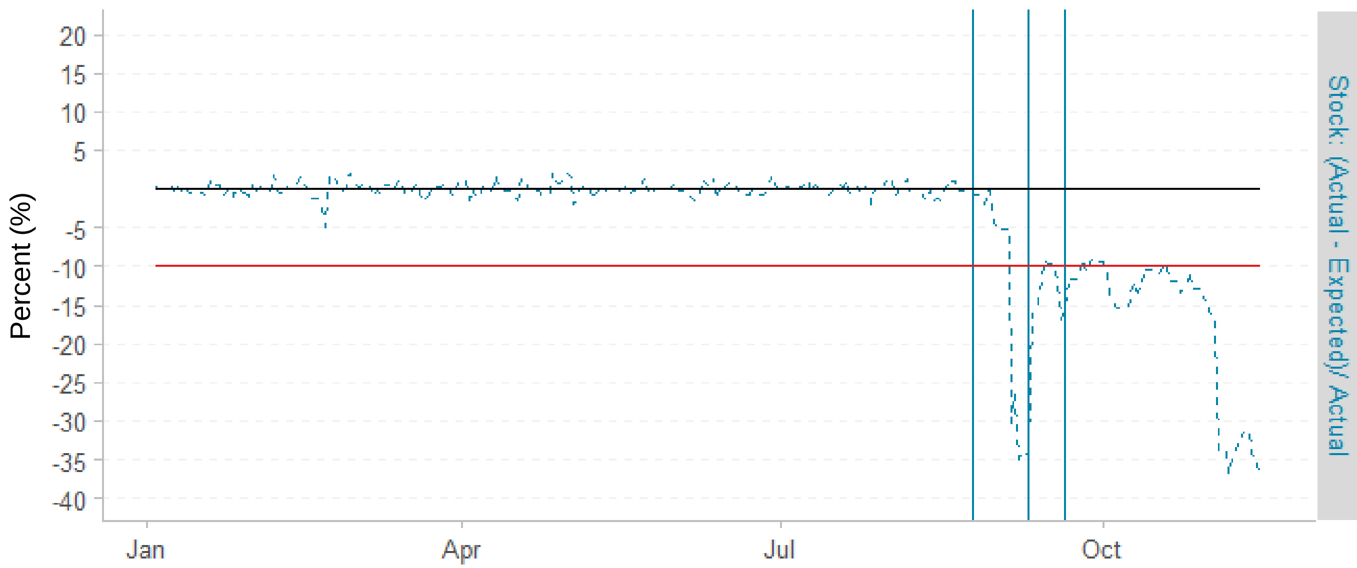
HIM Event Study – HCI



	Group	HCI Group
	Symbol	HCI
	(Re)Insurer	P
Actual v Expected	Min	-37.1
	Average	-15.9
	Final	-37.1
Std Dev	1/1 - 8/24	1.6
	8/25 - 11/15	4.2
Cat Loss / Total Equity	Harvey	NA
	Irma	22.0
	Maria	NA
	MX EQ & O	NA
	Total	22.0



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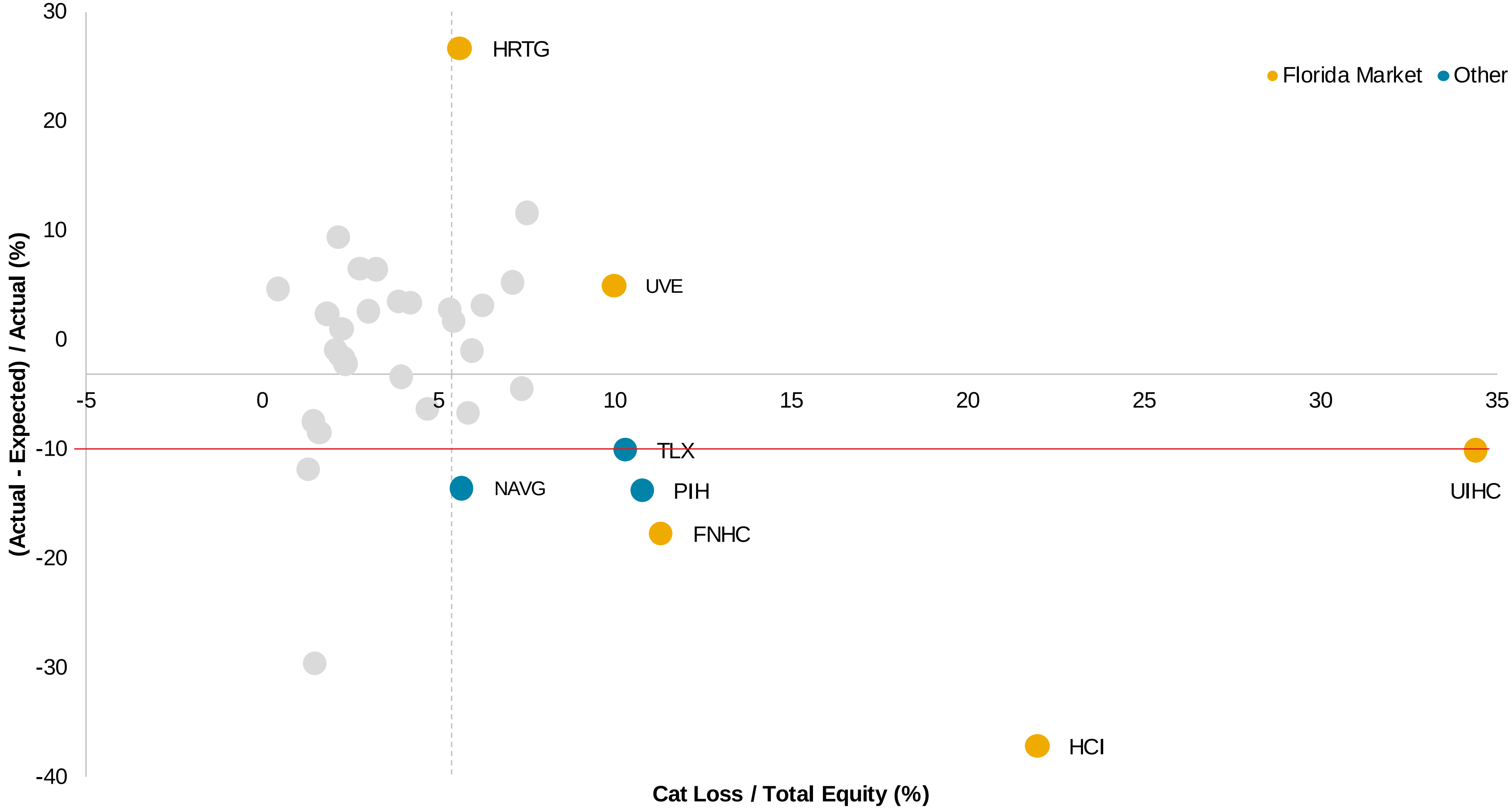
HIM Event Study – Primary Companies

Cat Loss as % of Equity vs. Stock Price



Note: Dashed line crosses at average
Cat Loss / Total Equity: 5.4
(A –E) / A: -3.2

HIM vs. Katrina

Reinsurers / Insurers losing less than 10% of shareholder value had Katrina losses in the following ranges

	Katrina		HIM	
	*Cat loss as % of		*Cat loss as % of	
Sector	Capital	Earnings	Capital	Earnings
Insurers	3% to 6%	21% to 34%	3% to 6%	24% to 44%
Reinsurers	12% to 19%	107% to 110%	7.5% to 10%	64% to 81%

Note: *Shown on a net post-tax basis.

Catastrophe risk tolerance disclosure trend analysis

Post Tax Net PML as a Percent of Equity: Insurers

	1 in 100 Yr			1 in 250 Yr		
	Count	Median	Max	Count	Median	Max
2018	13	7%	22%	16	10%	32%
2017	15	7%	19%	17	11%	23%
2016	18	6%	23%	17	9%	26%

Post Tax Net PML as a Percent of Equity: Reinsurers

	1 in 100 Yr			1 in 250 Yr		
	Count	Median	Max	Count	Median	Max
2018	4	8%	15%	7	13%	21%
2017	6	8%	15%	9	12%	21%
2016	5	10%	18%	7	13%	25%

	Katrina		HIM	
	*Cat loss as % of		*Cat loss as % of	
Sector	Capital	Earnings	Capital	Earnings
Insurers	3% to 6%	21% to 34%	3% to 6%	24% to 44%
Reinsurers	12% to 19%	107% to 110%	7.5% to 10%	64% to 81%

Note: *Shown on a net post-tax basis.

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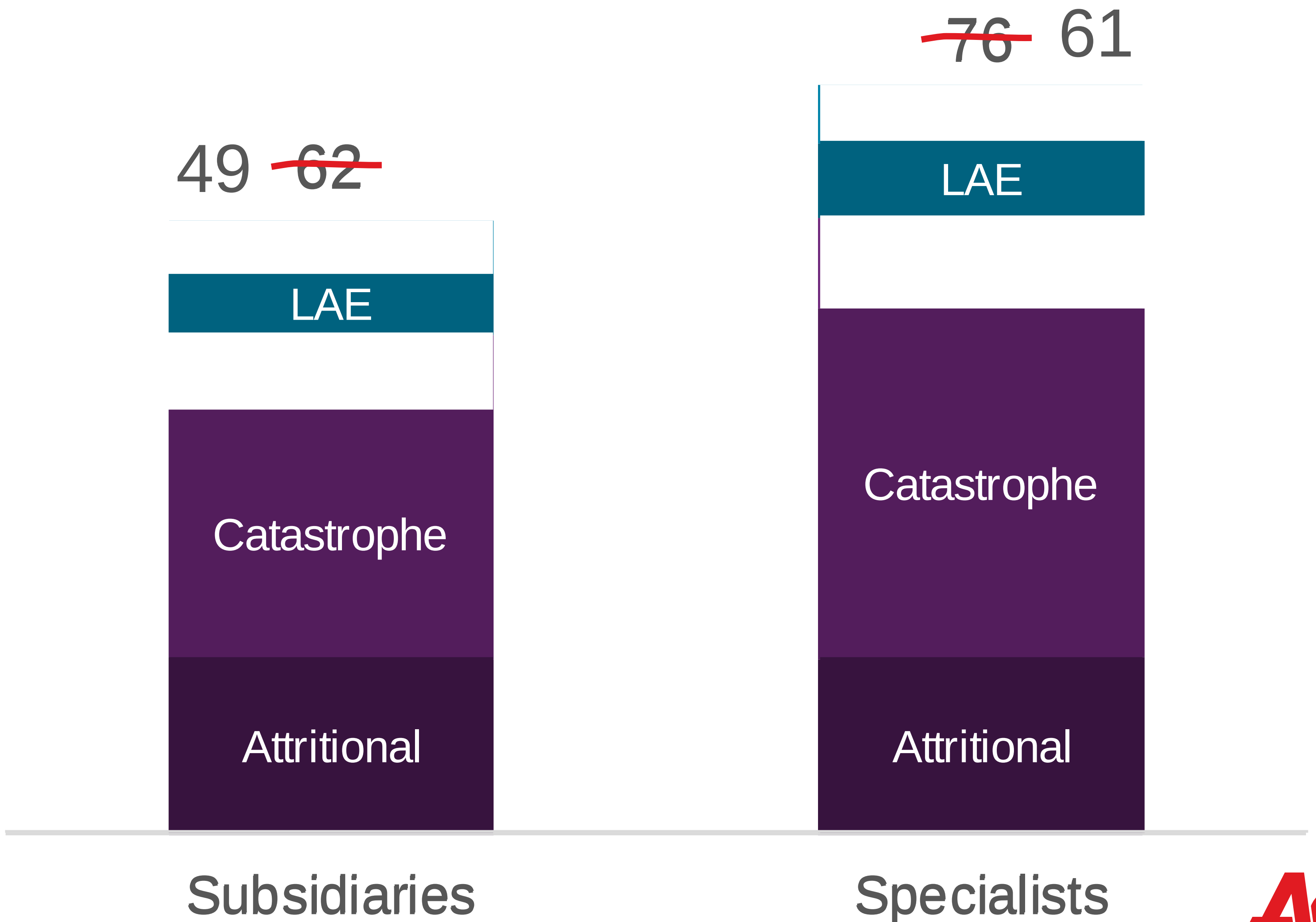
What If The Legislature Really Fixed AoB?

What if assignment of benefits issues are actually fixed?



Contacts – that's me!

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