

MOODY'S
RATINGS

US Insurance Industry Overview 2025

Agenda

1

US Macro Overview

2

US Life Insurance

3

US P&C Insurance

The background is a solid dark blue color. It features several large, overlapping, wavy patterns made of thin, light blue lines. These patterns resemble stylized waves or a complex grid that has been distorted into a fluid, undulating shape. The lines are most dense in the upper left and lower right corners, creating a sense of depth and movement.

Overview of US Macro Environment

Growth will moderate as favorable trends ease

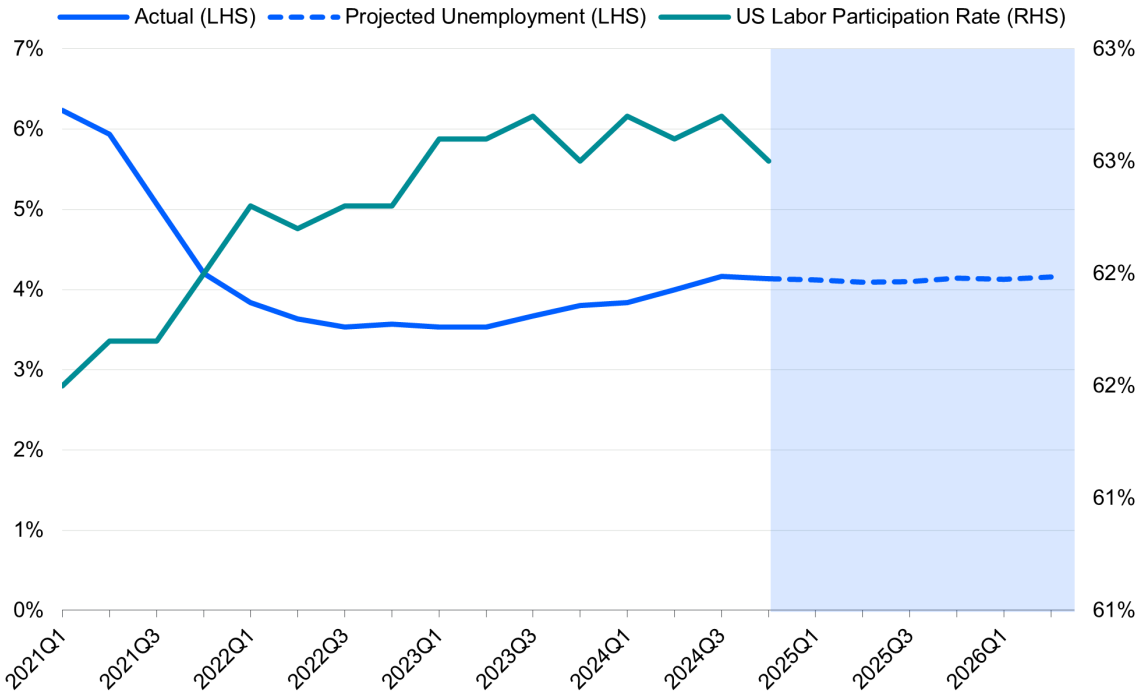
Slowing US economic growth will put downward pressure on prices

→ Expected annualized growth of 1.6% in 2025



US unemployment rate stable, but uncertainty ahead

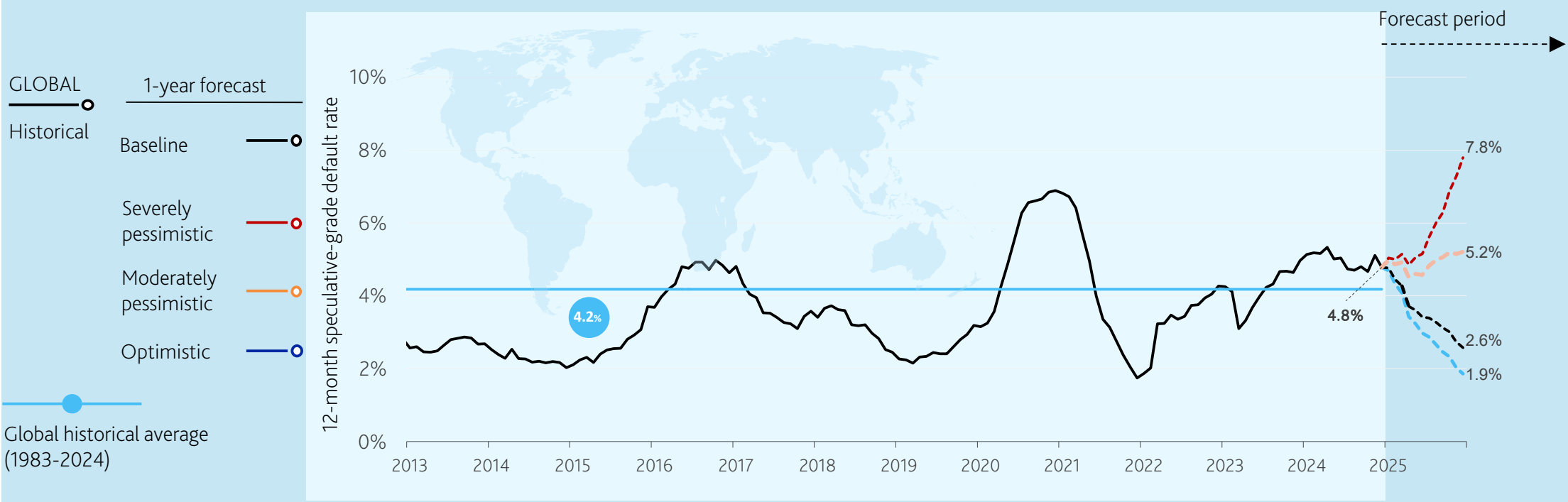
→ Expected to marginally rise to an average of 4.1% in 2025



Source: Moody's Ratings and FactSet

US speculative grade default rate expected to decline

US high-yield spreads are historically low; expected to return to average

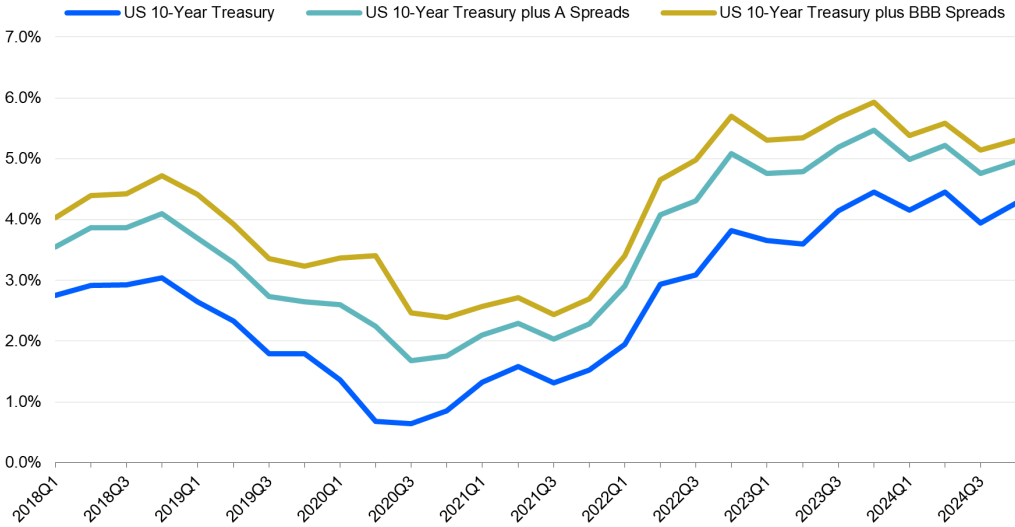


Source: Moody's

Higher interest rates and crediting rates generally positive

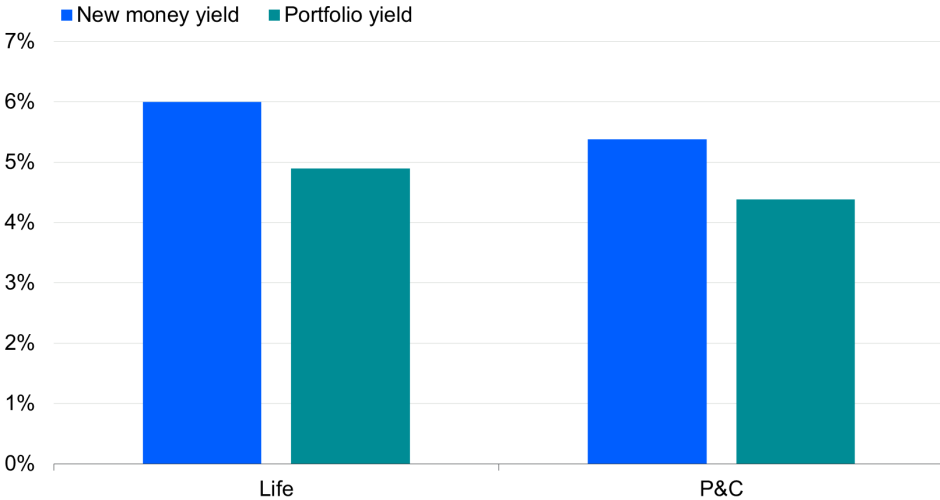
Gradually rising interest rates generally positive

- Benefits for the life industry
 - Relieves pressure on minimum guarantees
 - Helps reduce spread compression
 - Tight spreads, favorable macro helps earnings power
- Benefits for the P&C industry
 - Net investment income supports earnings



Higher portfolio yields a boon for industry*

- Positive as insurers able to earn greater net investment income
- Higher crediting rates support stronger sales in fixed-rate products
- Additional yield from private credit investments



*Life and P&C data consists of the average of 6 selected companies from each industry. Company data as of Q3 2024.

Source: Moody's Ratings, Company filings

The background is a solid dark blue color. It features several abstract, wavy, light blue line patterns that create a sense of depth and movement. One large, complex pattern of overlapping lines and a grid-like structure is on the left side, extending towards the center. Another similar but less dense pattern is on the right side. The overall aesthetic is modern and professional.

Overview of US Life Insurance Sector

2025 US Life insurance outlook is stable

What could change outlook to positive

- Stronger economic growth
- Curve normalization and gradual increase in long-term interest rates
- Robust equity market growth and capital

Key drivers

- **Higher interest rates**
- **Fixed income portfolios are well positioned for market shifts**
- **Solid balance sheets**
- **Evolving regulatory environment**

What could change outlook to negative

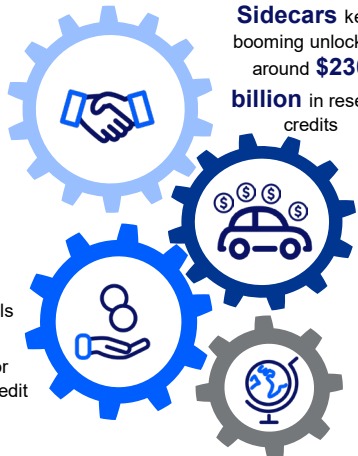
- Weakening economic environment and fluctuating interest rates
- Downgrades/defaults that weaken asset quality
- Significant decline in equity markets
- Increased return of capital to shareholders
- Significant business shifted offshore with a reduction in reserves and/or capital

Steering the transformation of the life insurance sector

Evolution 2.0



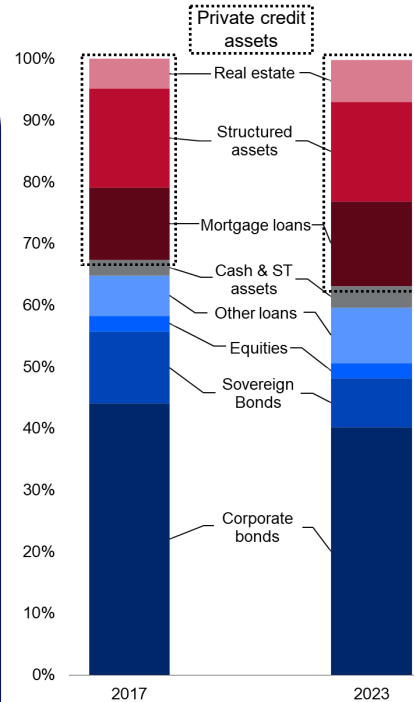
More **Partnerships and JVs** between insurers and asset managers



Sidecars keep booming unlocking around **\$230 billion** in reserve credits

Stocks and mutuals turn to **Asset originators** for access to private credit assets

ESR change will drive **Japan's** offshore activity

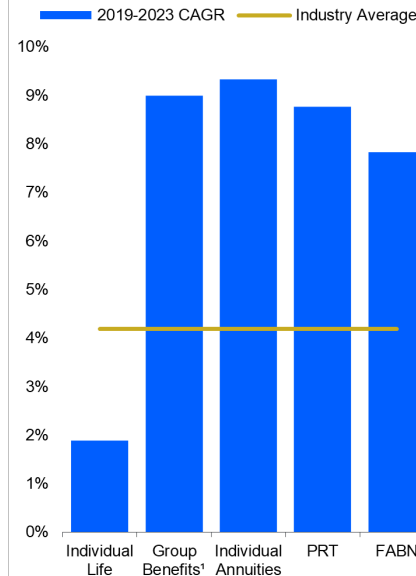


- Illiquid private assets increase
- Concentrated exposures rise

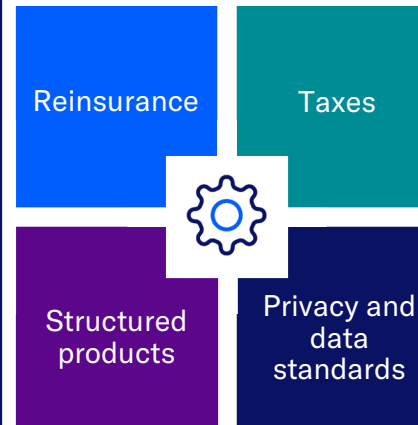
Investment risk rises



Breathing life into insurance



1. Group benefits include voluntary benefits



Regulators act



AI becomes real



70% of CEOs surveyed believe GenAI will significantly change the way their companies create, deliver, and recapture value

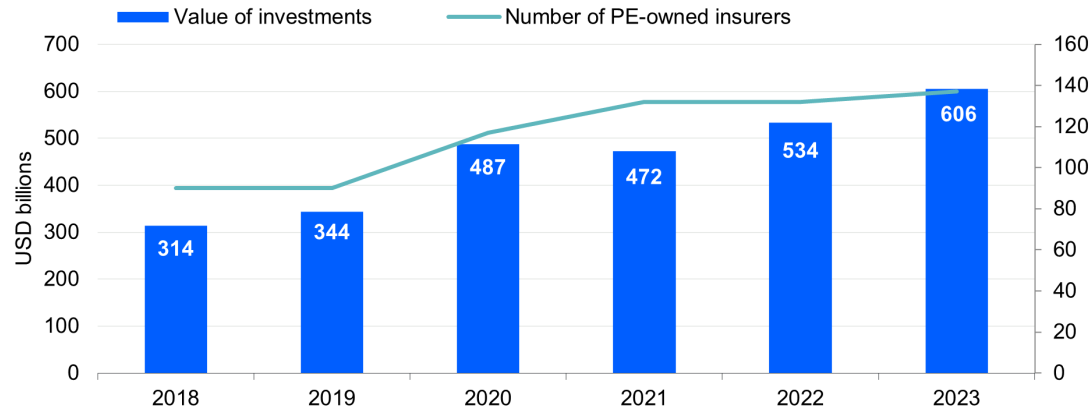
58% of CEOs indicate GenAI will improve the quality of their company's products within the next 12 months

64% of CEOs believe GenAI will increase employee efficiency by at least 5% within the next 12 months

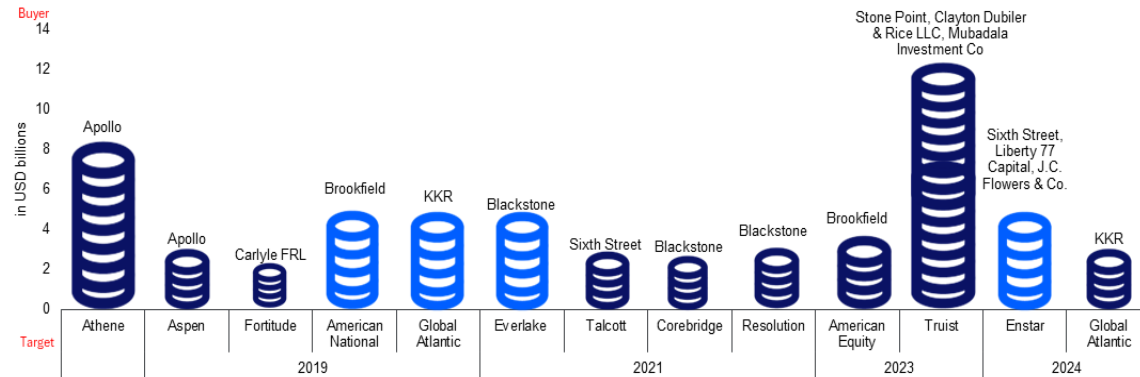
Source: PwC, 2024

The next phase of evolution

PE investments in US life insurers continue to grow



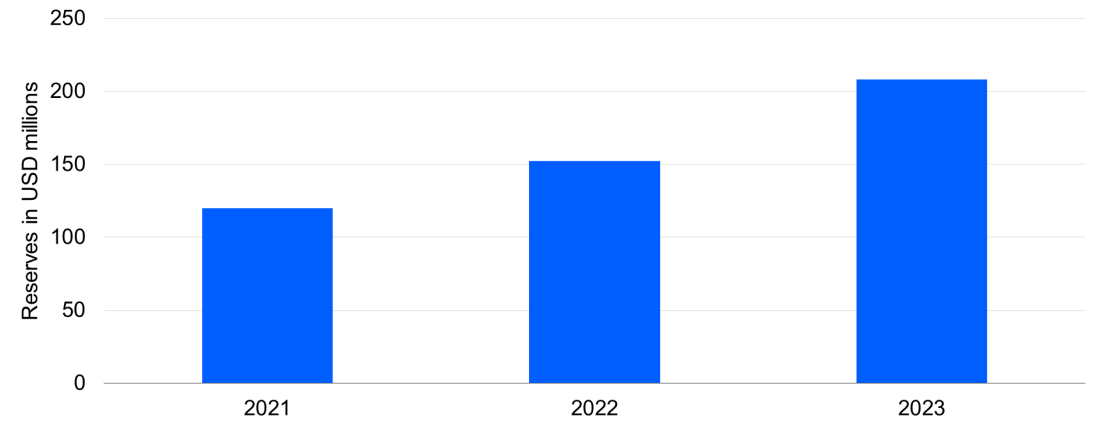
Recent transactions enhance asset origination



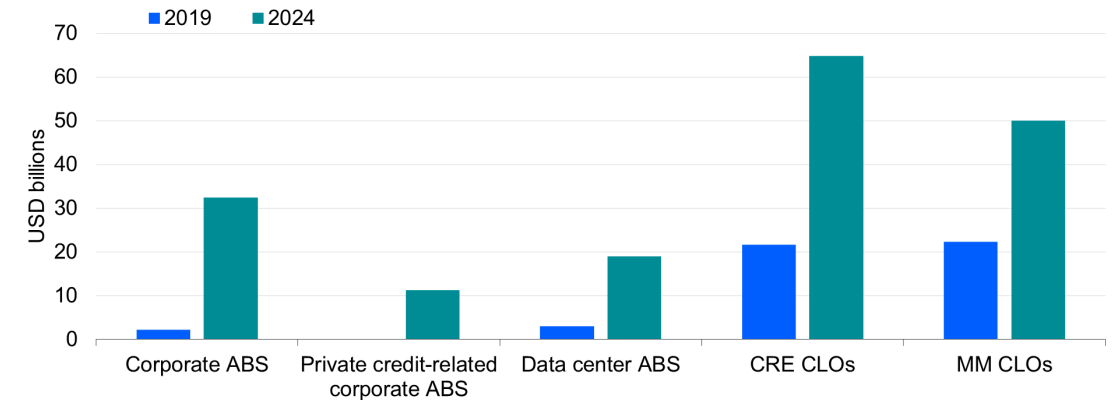
Source: Moody's Ratings, Company filings

Offshore reinsurance strategies include the use of sidecars

Expect trend to continue in the near term

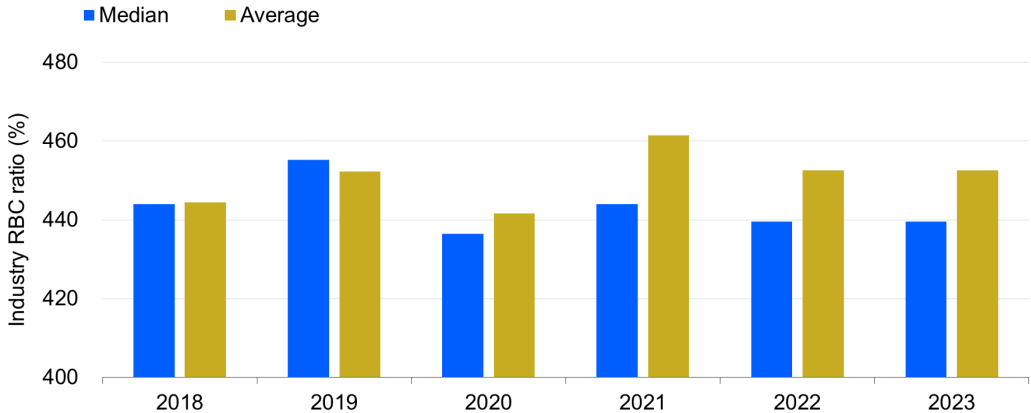


Private credit related assets among fastest growth sectors in SF

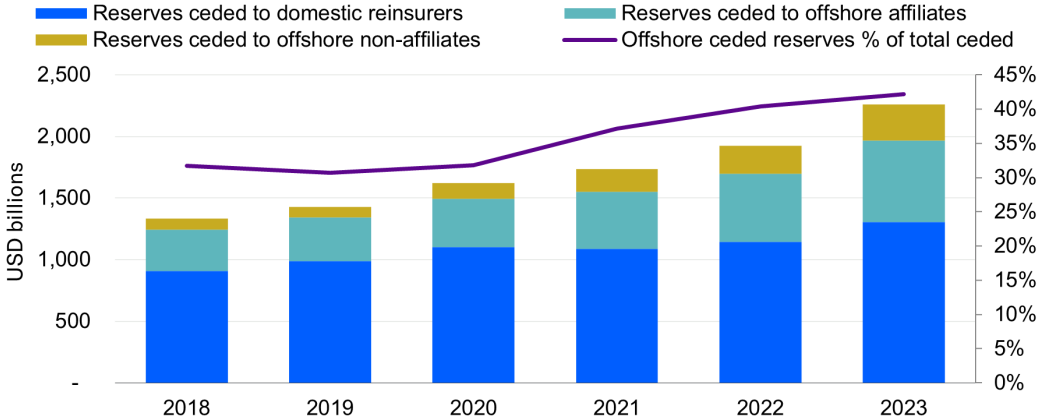


RBC remains solid, but more business moves offshore

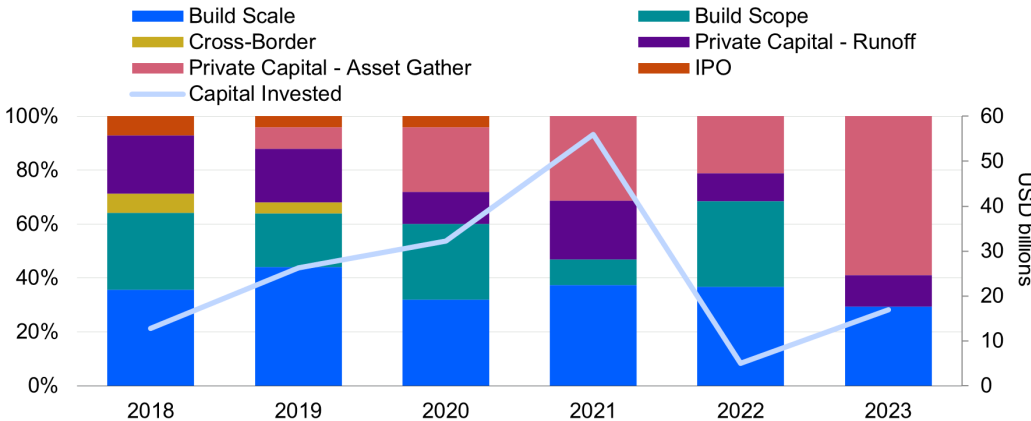
Strong capital, but capital market pressures rising



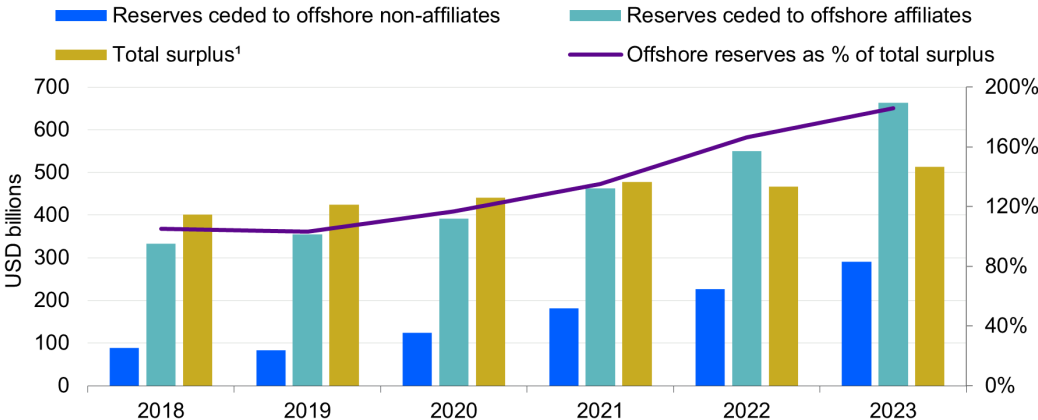
An increasing amount of business is being reinsured offshore



Recent activity focused on capital and cash flow



Offshore life reinsurance reserve credits exceed industry capital



Based upon an estimated amount of capital invested in USD billions
Source: Moody's Ratings, Company filings

1. Excludes capital and surplus retained in offshore (re)insurers

Life insurers are moving business offshore

Each insurer has tailor-made motivations

US reserve credits in Bermuda, Cayman Islands



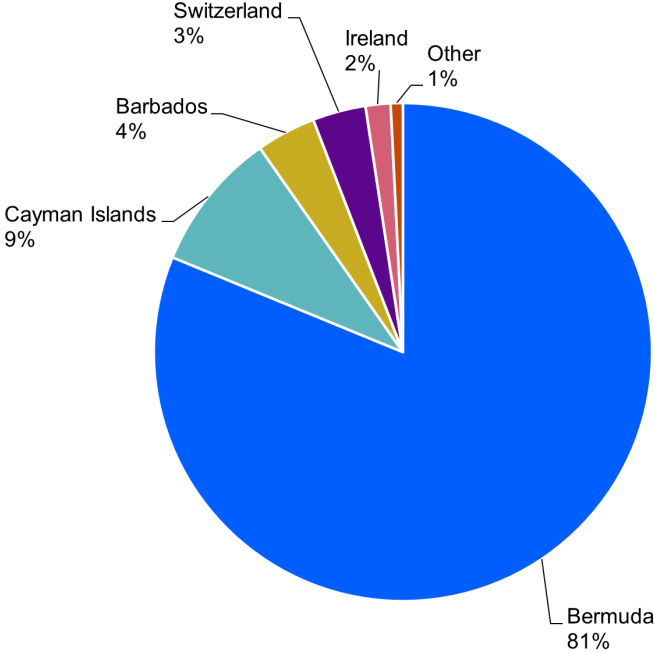
Capital



Investments



Financial Reporting / Taxes

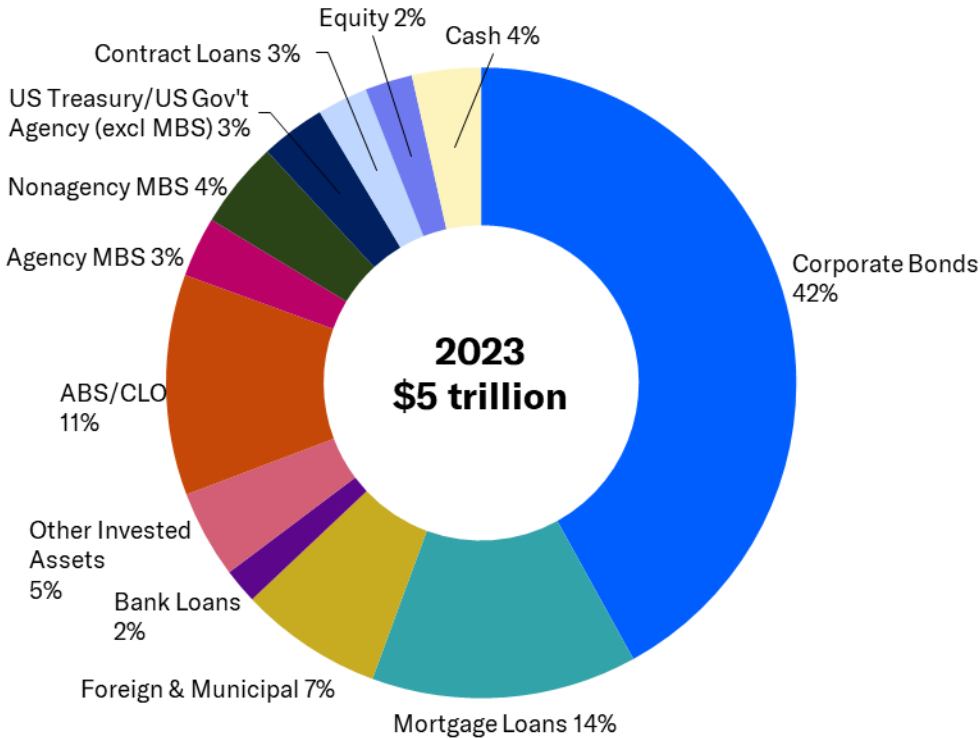


Based upon USD 0.8 trillion of reserve credits as of December 31, 2023

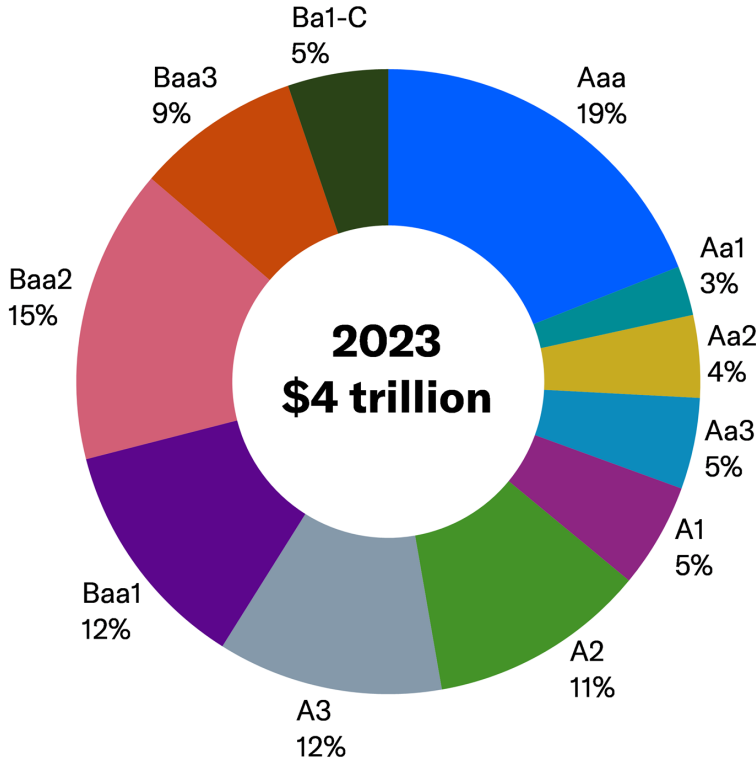
Source: Moody's Rating, Company filings

US life insurers incrementally add exposure to private credit

Investment portfolio



Fixed income breakdown

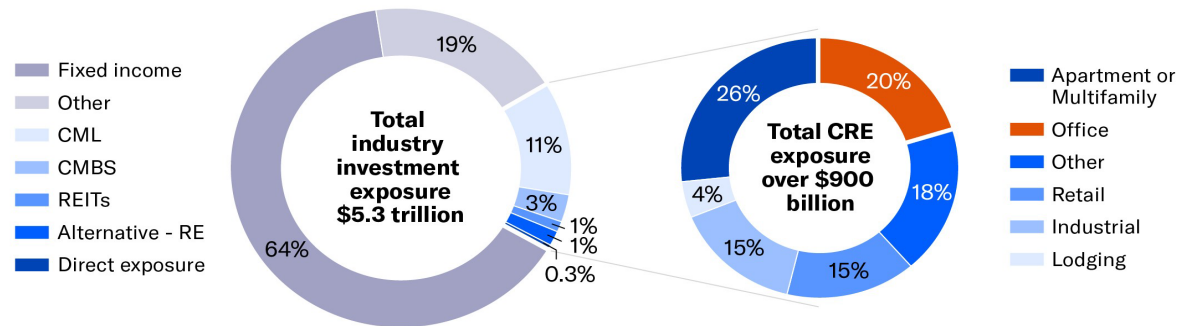


NAIC designations translated to Moody's Ratings

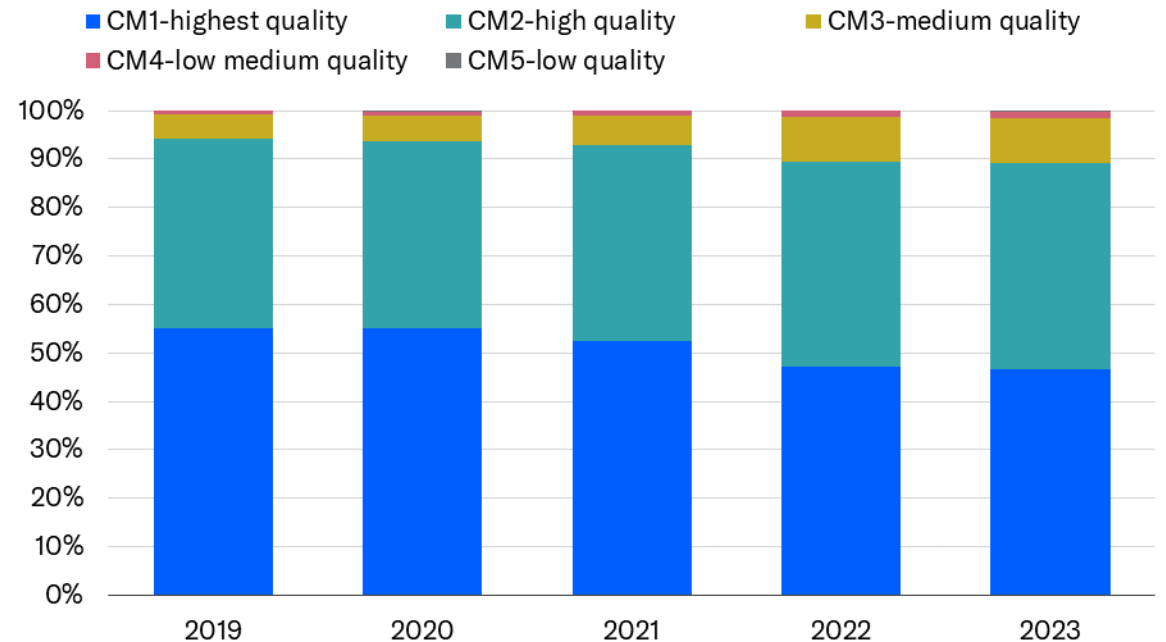
Source: Moody's Ratings; S&P Capital IQ (Contains copyrighted and trade secret materials distributed under license from S&P Capital IQ, for recipient's internal use only)

Weaker credit quality in CMLs will weaken regulatory capital

Commercial real estate exposure to office properties is 20% of total exposure



CML quality has been gradually deteriorating and we expect further weakening

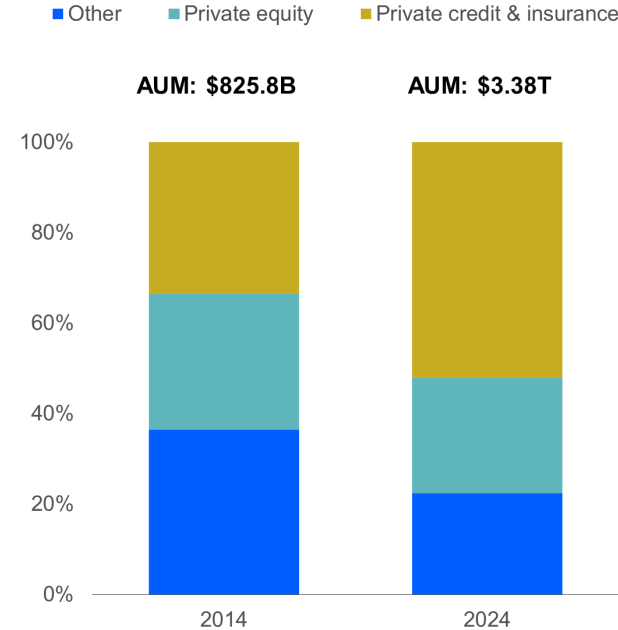


CMBS excludes agency bonds

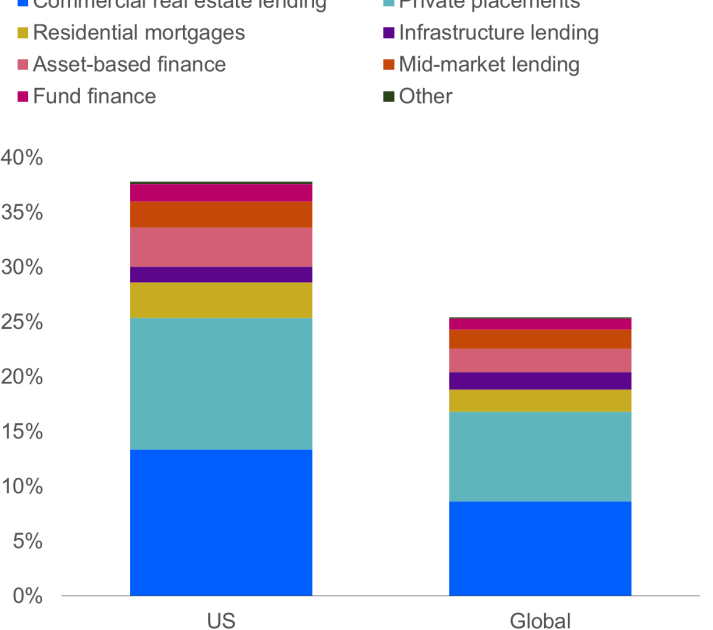
Source: Moody's Ratings; S&P Capital IQ (Contains copyrighted and trade secret materials distributed under license from S&P Capital IQ, for recipient's internal use only)

Private capital has allowed access to asset originator platforms

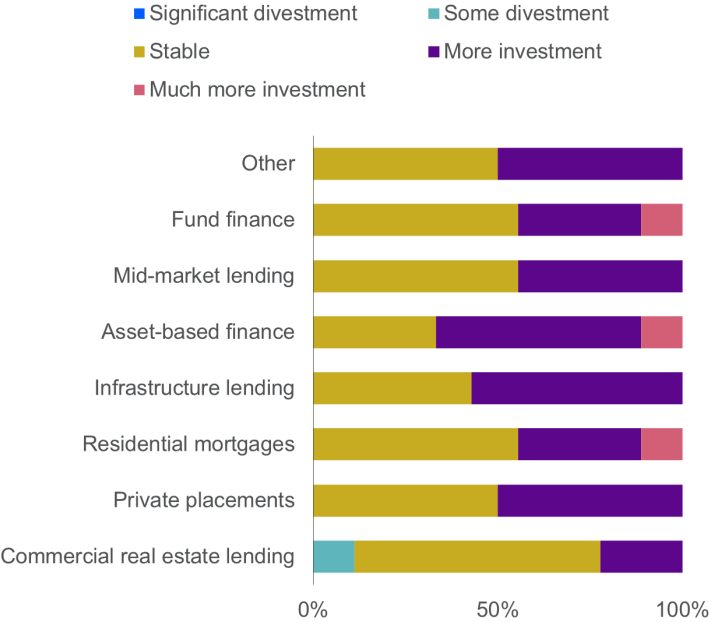
Alternative AMs are emphasizing private credit, insurance



US life insurers hold the largest share of private credit assets



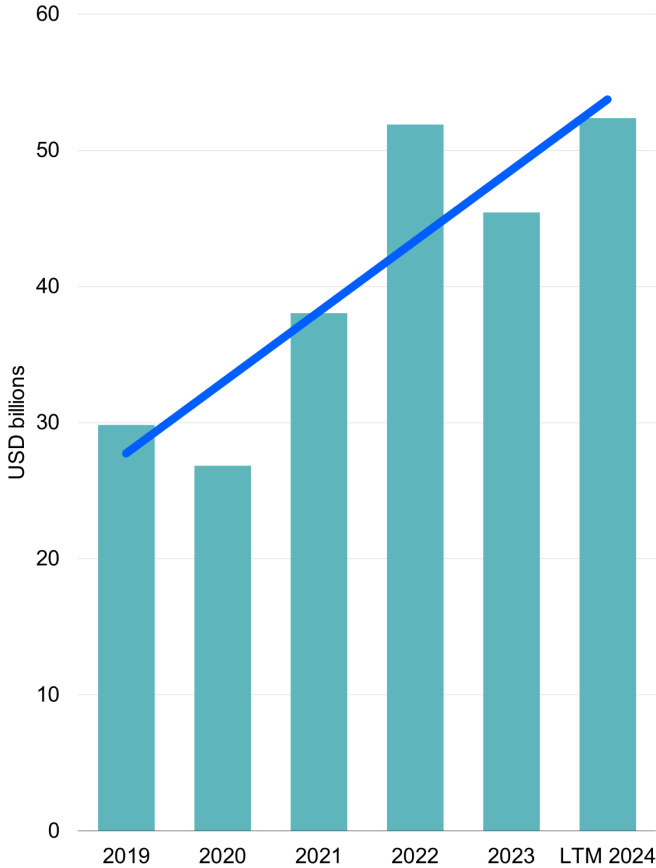
And appetite for increased allocation is strong



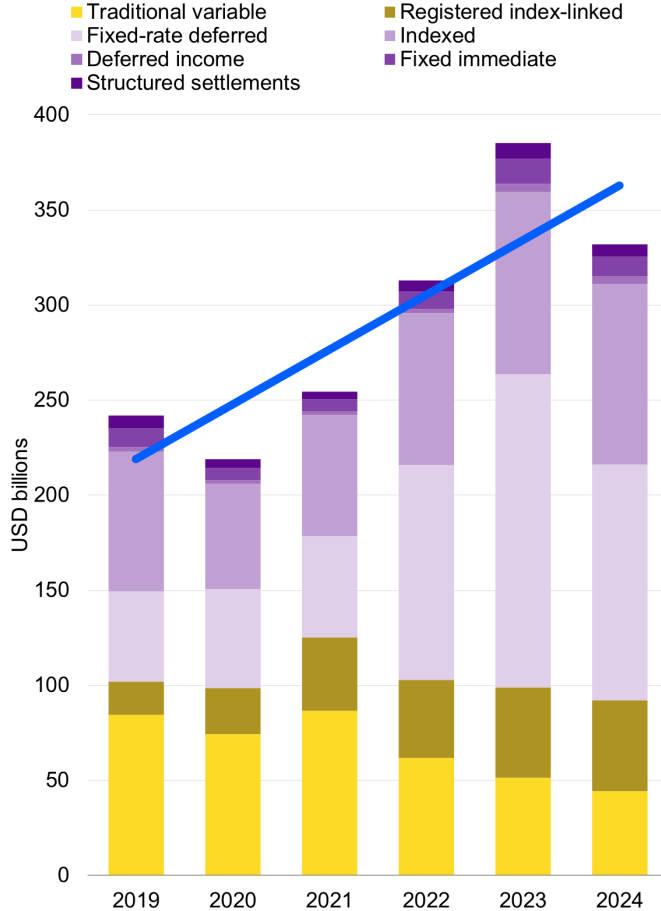
Data does not include asset based financing, real estate and infrastructure PC assets or assets in non-fund structures and leverage on these funds; AUM mix of the four largest alternative asset managers (Blackstone, Apollo, KKR, and Carlyle)
 Source: Moody's Ratings, Prequin, S&P Capital IQ (Contains copyrighted and trade secret materials distributed under license from S&P Capital IQ, for recipient's internal use only)

Companies take advantage of growth opportunities

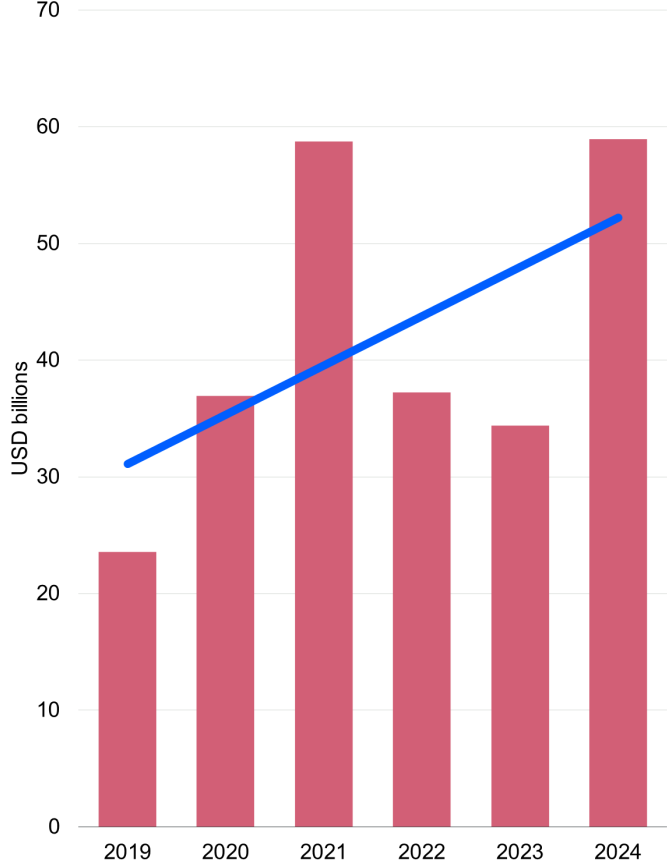
PRT (sales)



Annuities (sales)

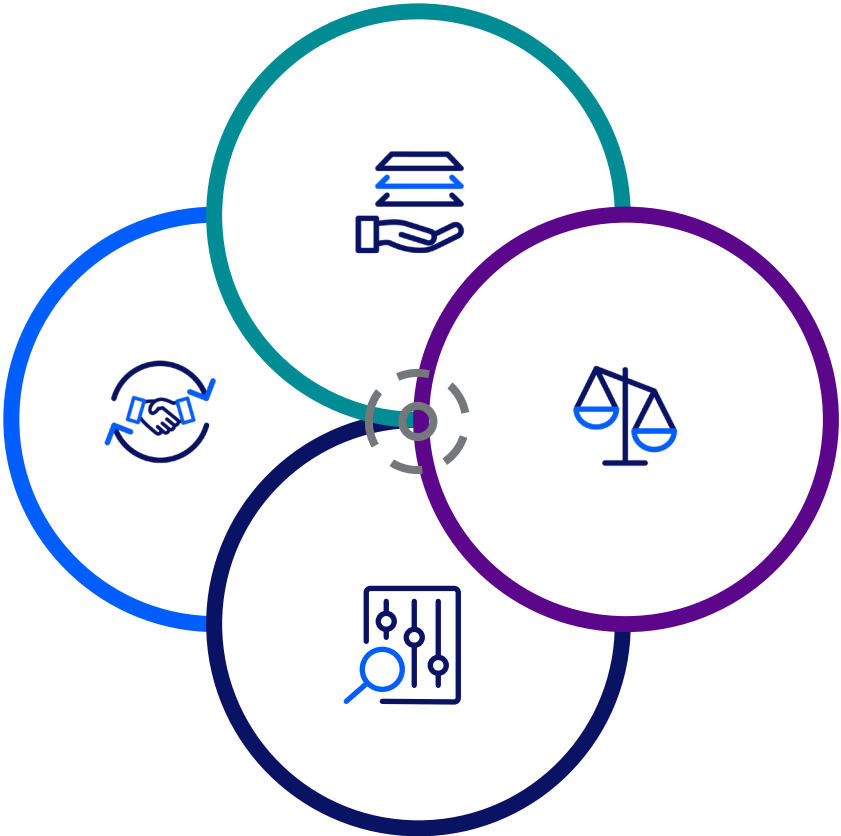


FABN (amount issued)



Source: Moody's Ratings, LIMRA, Bloomberg

Key regulatory developments



Reinsurance



Taxes



Assessing risks on structured products



Privacy and data standards

CLO holdings rise, regulatory change has minimal impact

Capital impact from preliminary proposed CLO scenario modeling will mostly affect below investment grade holdings

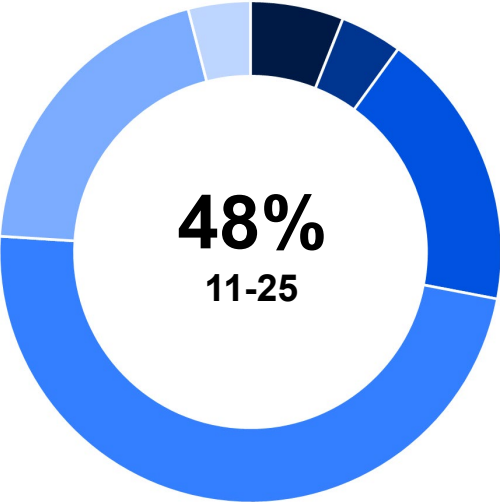


NAIC designations translated to Moody's Ratings

Source: Moody's – Structured Finance Portal, NAIC; S&P Capital IQ (Contains copyrighted and trade secret materials distributed under license from S&P Capital IQ, for recipient's internal use only)

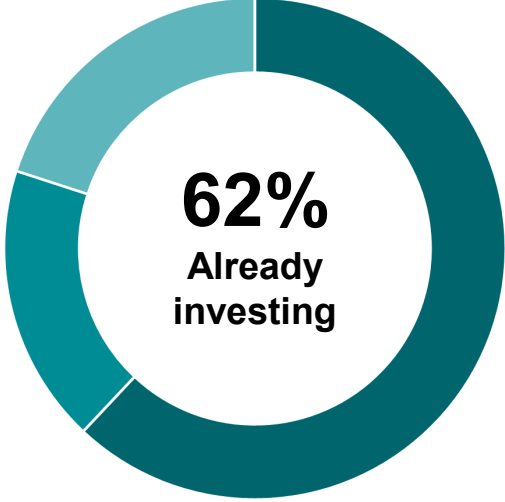
AI becomes real

Number of identified use cases for GenAI



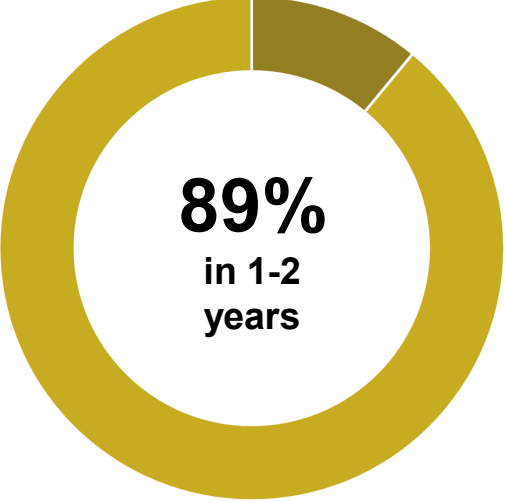
- 101-125
- 51-100
- 26-50
- 11-25
- 5-10
- <5

Firm's interest in investing in GenAI



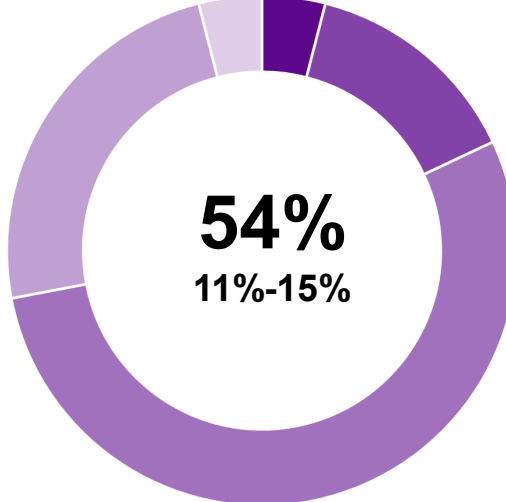
- Already investing in GenAI
- Very interested - planning to invest
- Somewhat interested - want to learn more
- Neutral - waiting to see what happens

Plans to establish a GenAI team in the future



- Yes, within next 3-5yrs (2026-2028)
- Yes, within next 1-2yrs (2024-2025)
- Yes, this year (2023)
- Do not know/no plans to establish team in next 5yrs

Anticipated revenue uplift from implementation of GenAI



- >25%
- 21%-25%
- 16%-20%
- 11%-15%
- 5%-10%
- <5%

Source: EY "Generative AI in insurance" survey (2024)



Overview of US P&C Insurance Sector

2025 US P&C insurance outlook is stable

Commercial: STABLE

Key drivers

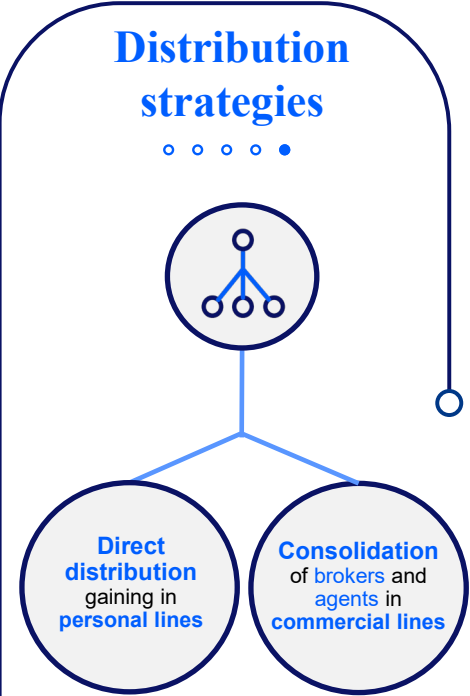
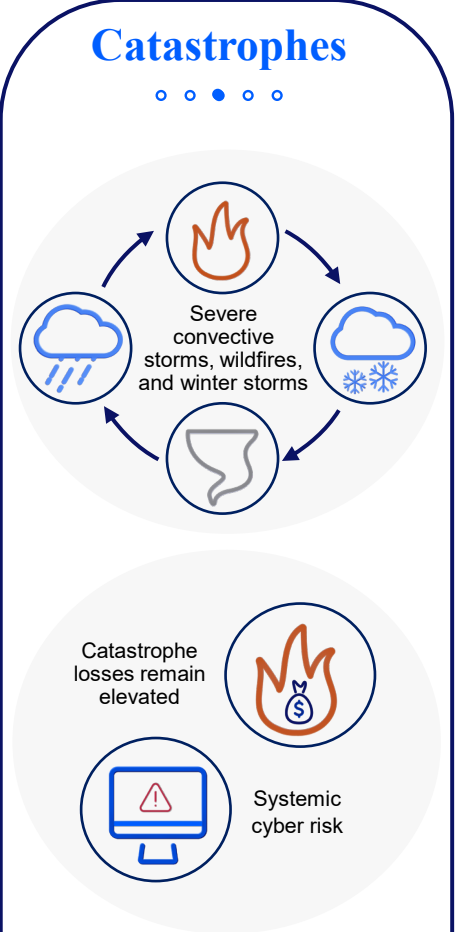
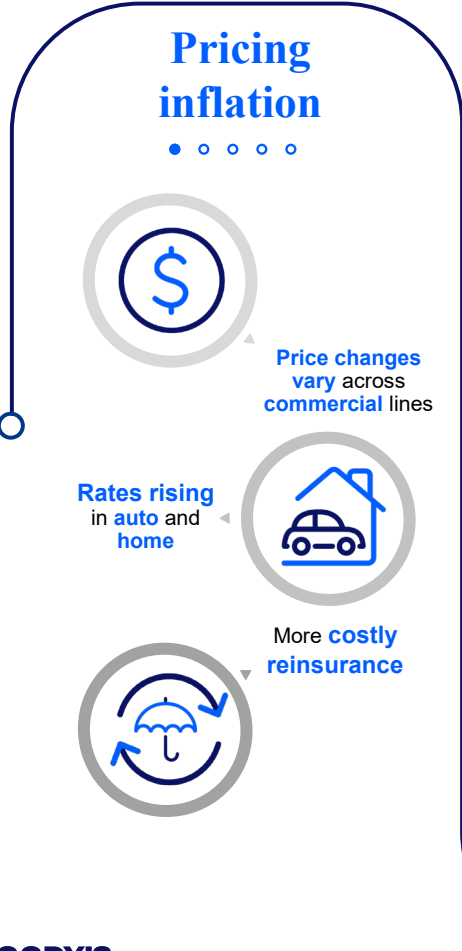
- Strong underwriting profitability
- Inflation could drive up claim costs and reserve volatility
- Higher investment income boosts profitability
- Insurer's capitalization remains healthy

Personal: STABLE

Key drivers

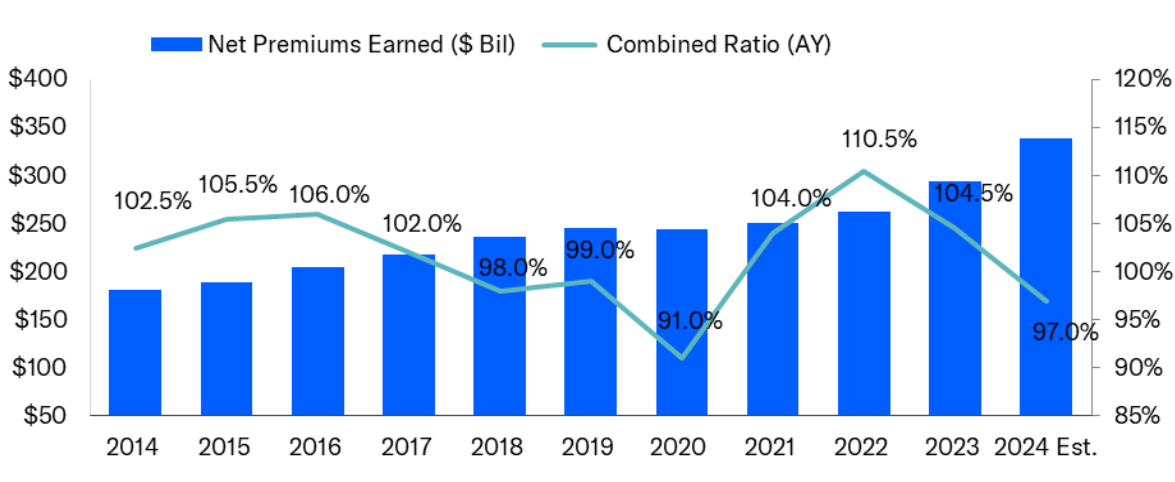
- Personal auto performance improves significantly, and insurers shift toward growth
- Homeowners insurers increase rates, coverage levels to enhance underlying profitability
- Premium growth will easily outpace US economic growth
- Catastrophe losses drive homeowners volatility
- Solid capital levels driven by higher auto profits and net investment income

Key areas of focus for P&C insurers

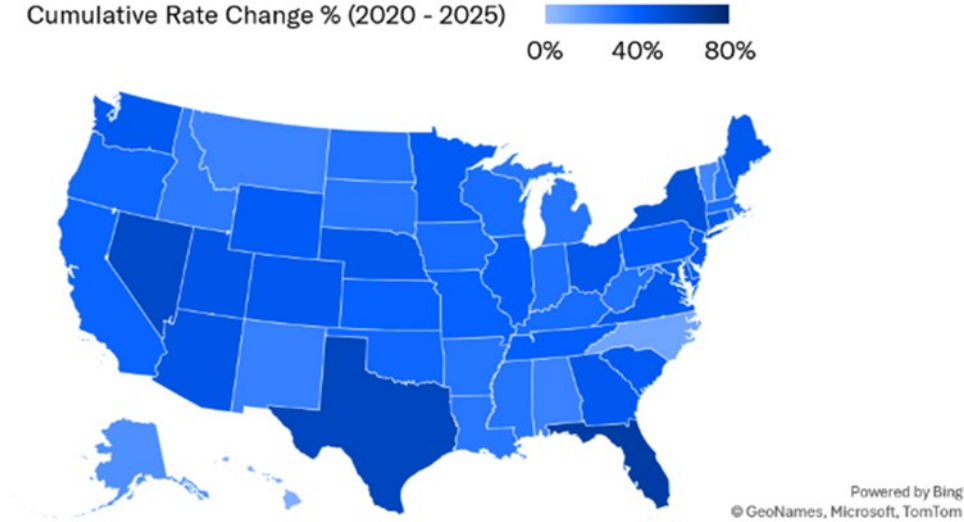


Significant improvement in personal auto profitability

Improving combined ratios on higher rates and moderating loss costs



Personal auto rate change by state

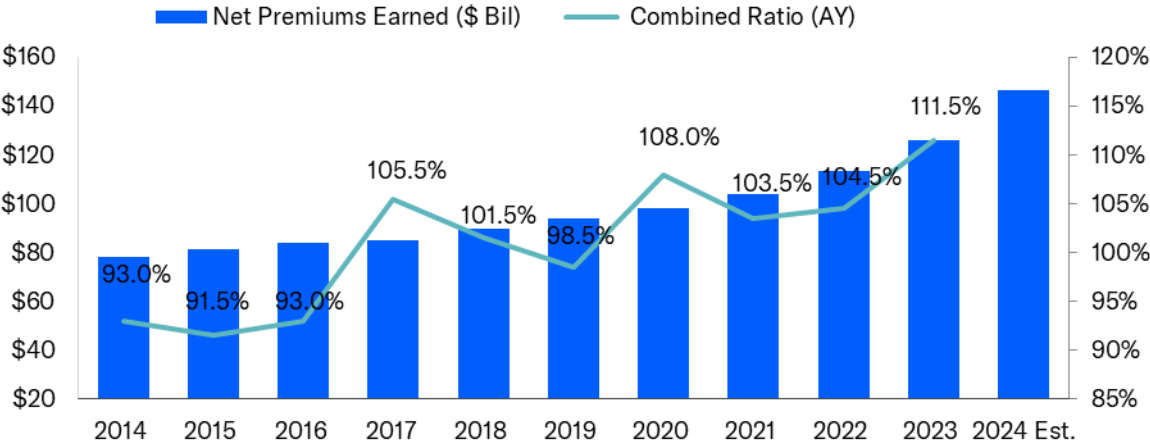


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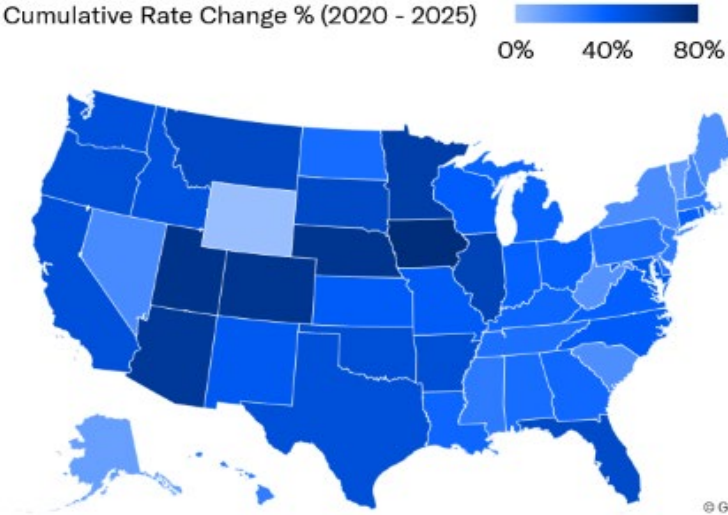
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Insurers raising homeowners rates in response to higher reconstruction and reinsurance costs, catastrophes

Weak results driven by catastrophes



Homeowners rate change by state

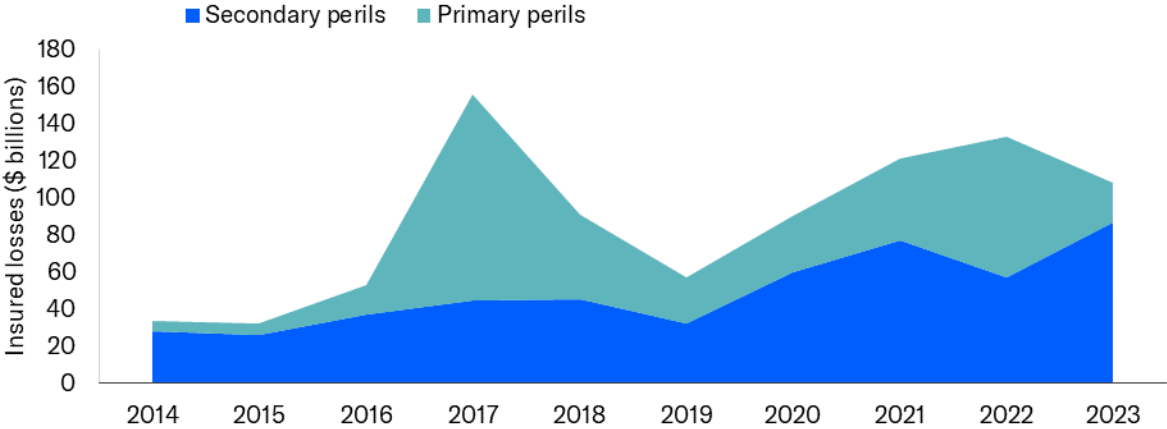


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Primary insurers profitability hit by convective storms

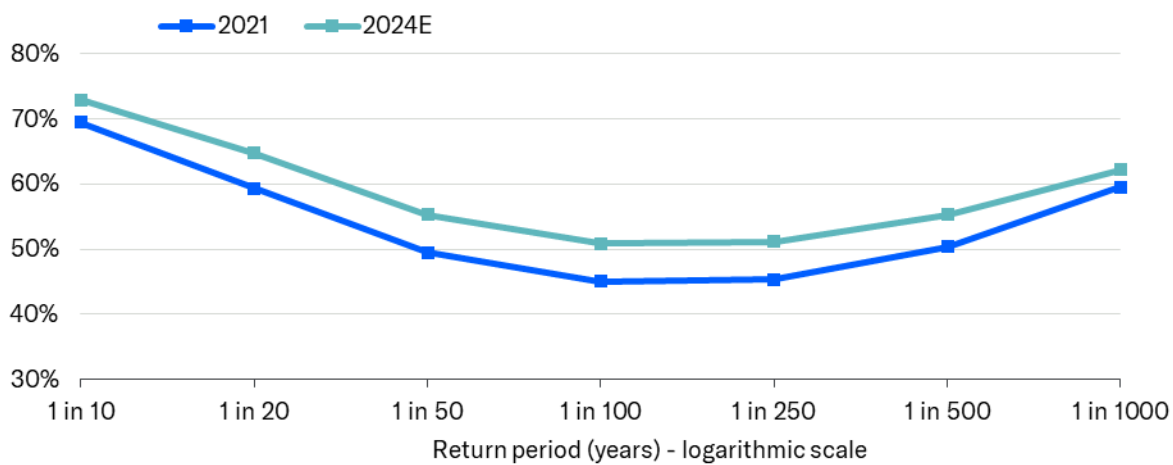
Recent catastrophe losses driven by secondary perils



Note: Primary perils include natural catastrophes that tend to happen less frequently, but with high loss potential, including earthquake, tropical cyclone and winter storms.

Source: Swiss Re Sigma, presented by Moody's Ratings

Primary insurers retaining larger share of catastrophe exposure



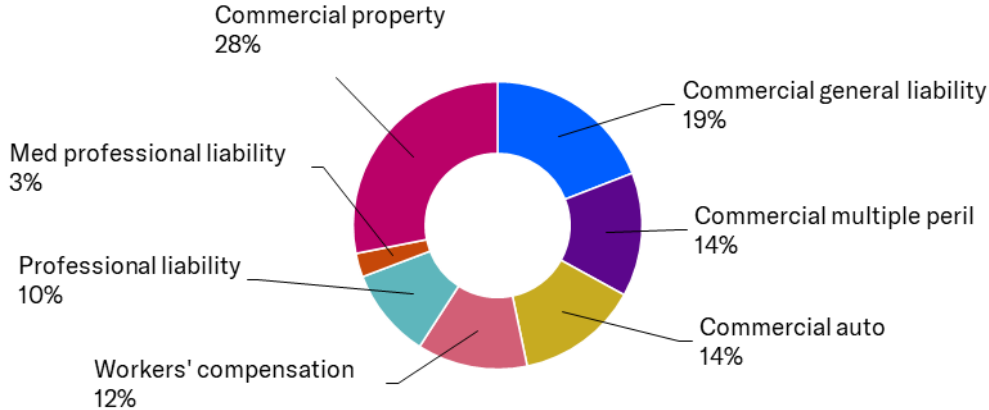
Note: Gross PMLs are before reinsurance cessions while net PMLs are after reinsurance cessions; the curves reflect aggregate results from yearly catastrophe surveys completed by a group of rated US P&C insurers

Source: Moody's catastrophe risk management surveys

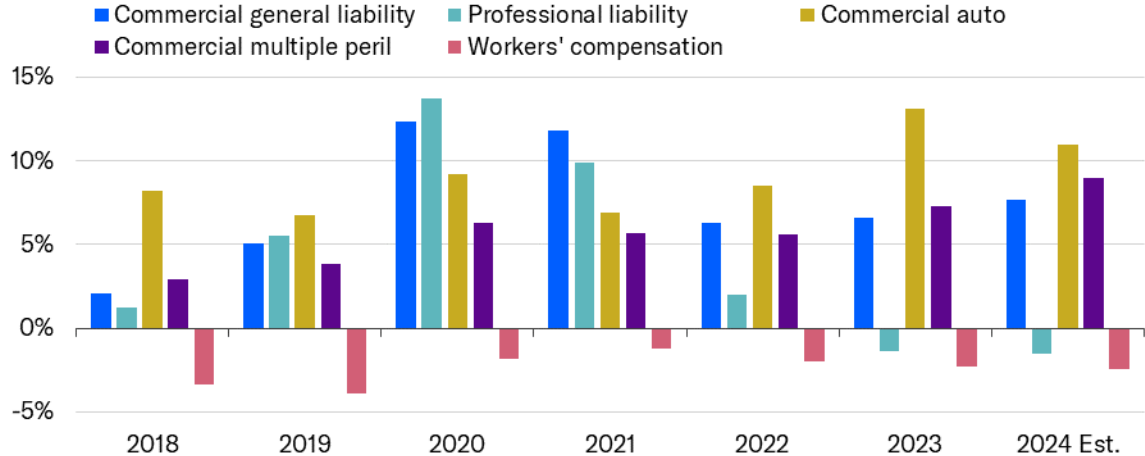
Strong commercial lines profitability; casualty pricing varies by line

Commercial premium mix

\$468 billion of direct premium written in 2023



Rate increases/(decreases)



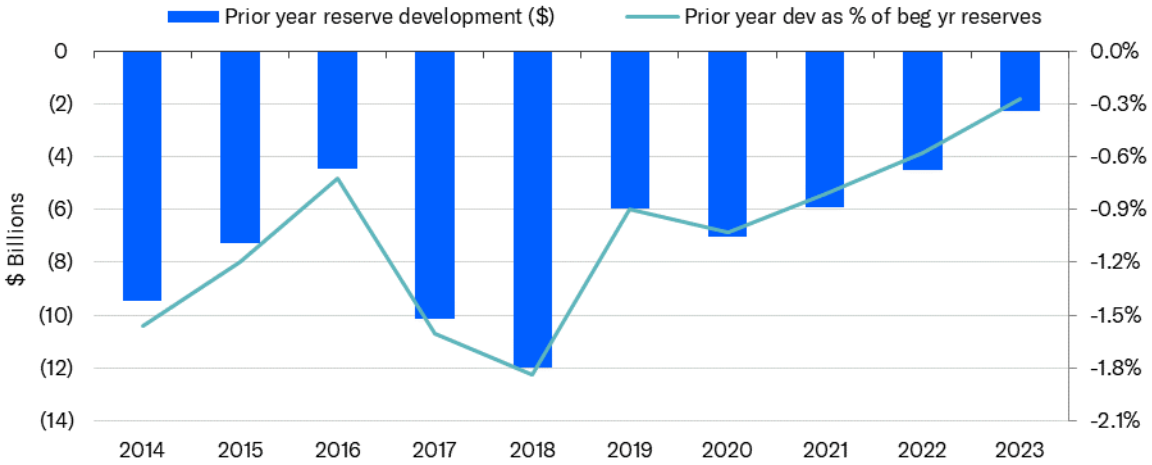
Source: Moody's Ratings, S&P Capital IQ (Contains copyrighted and trade secret materials distributed under license from S&P Capital IQ, for recipient's internal use only)

Note: This chart incorporates Moody's yearly issuer pricing surveys

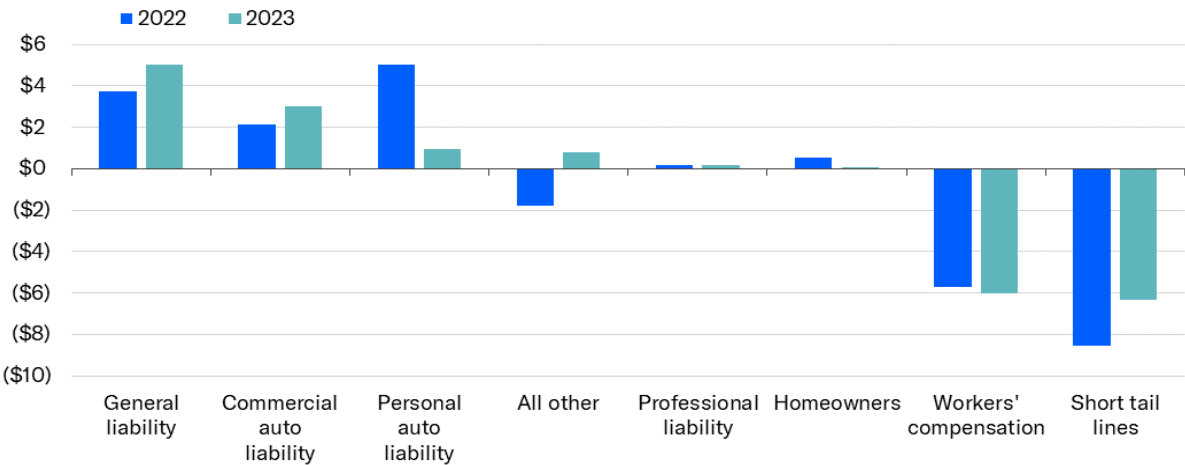
Source: Moody's Ratings, S&P Capital IQ (Contains copyrighted and trade secret materials distributed under license from S&P Capital IQ, for recipient's internal use only)

Favorable reserve development declining

US P&C favorable reserve development



Reserve development by line of business

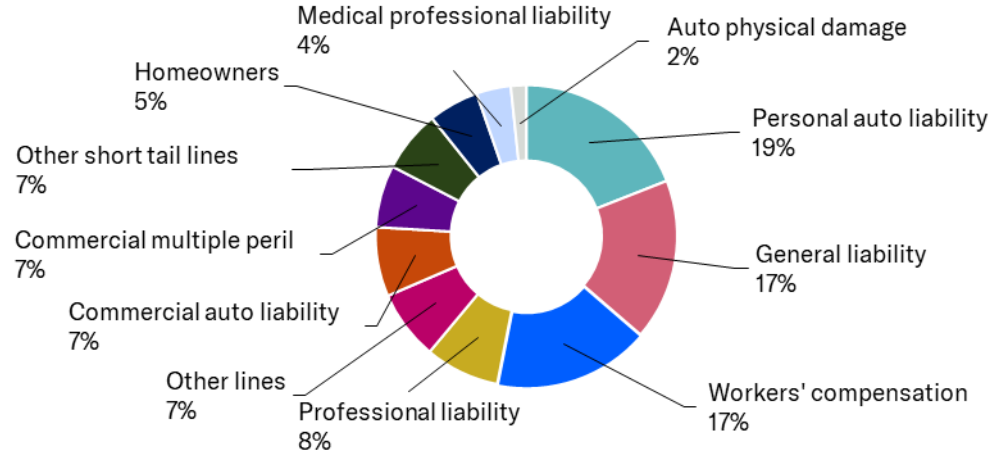


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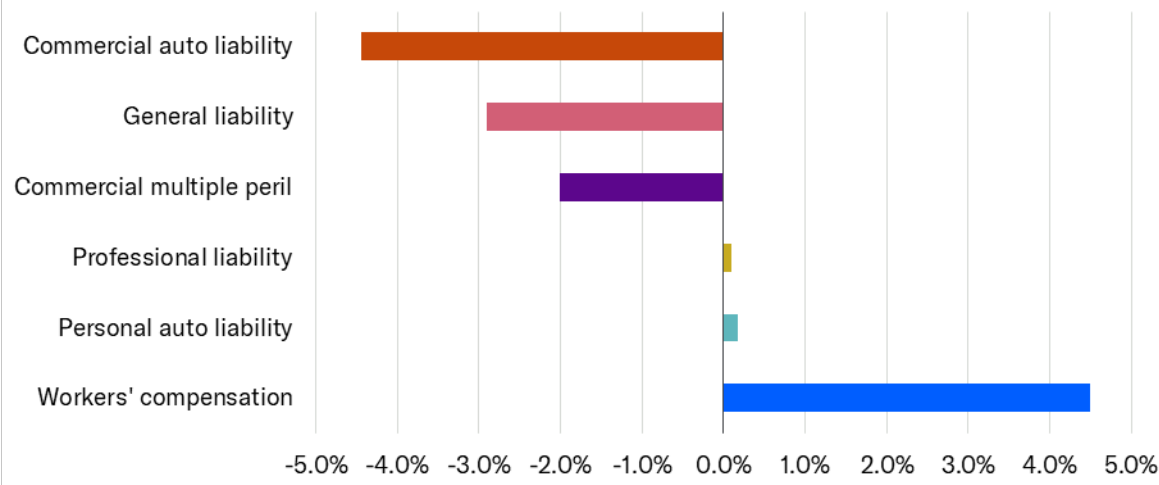
Source: S&P Global Market Intelligence LLC (contains copyrighted and trade secret material distributed under license from S&P, for recipient's internal use only), Moody's Rating

Modest reserve deficiency in long-tail casualty lines offset by redundancy in workers' compensation

US P&C reserves by line of business
\$901 billion in reserves at year-end 2023



Moody's estimate of US P&C reserve adequacy
\$901 billion in reserves at year-end 2023

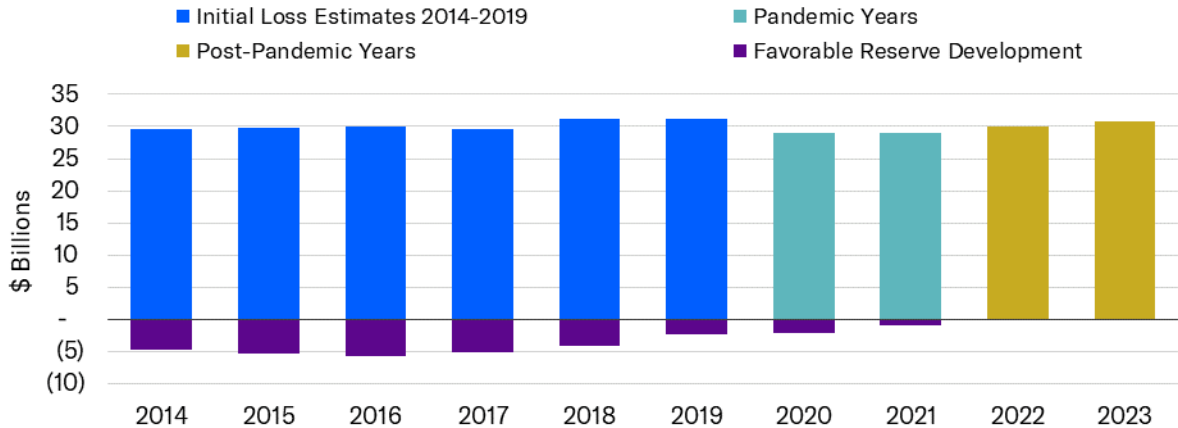


Source: Moody's Ratings, S&P Capital IQ (Contains copyrighted and trade secret materials distributed under license from S&P Capital IQ, for recipient's internal use only)

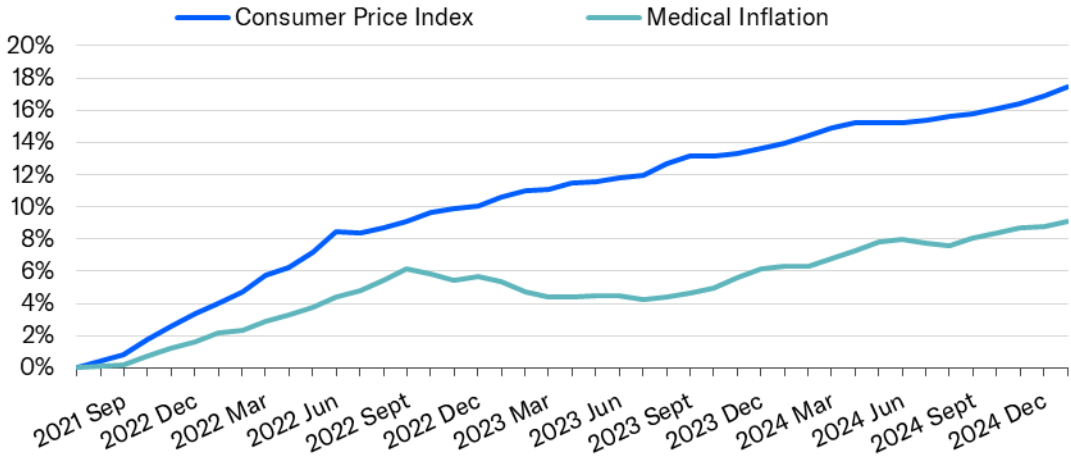
Source: Moody's Ratings, Company reports including a cohort of 18 Moody's rated US P&C insurers

Workers' compensation: reserves redundant, but rising medical inflation is a risk

Workers' compensation losses remain flat



Medical inflation starting to rise



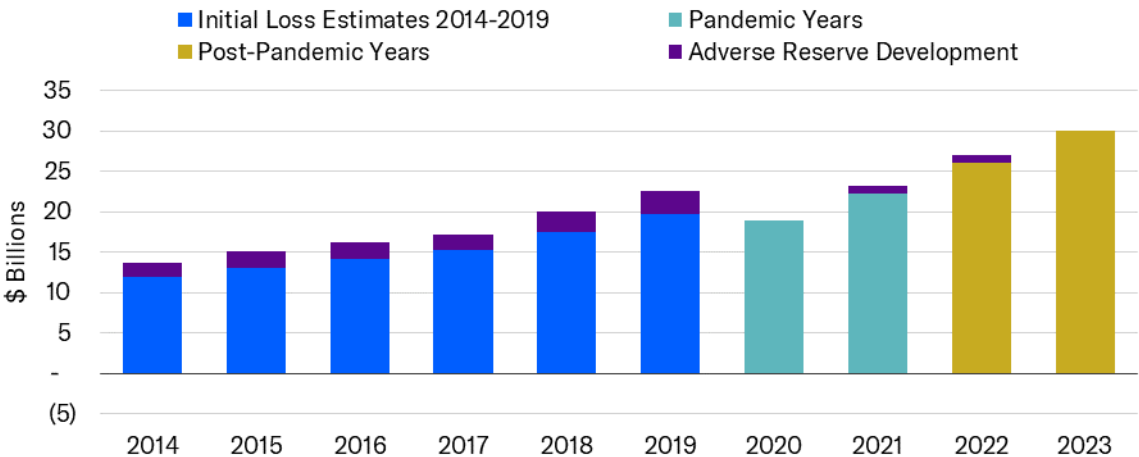
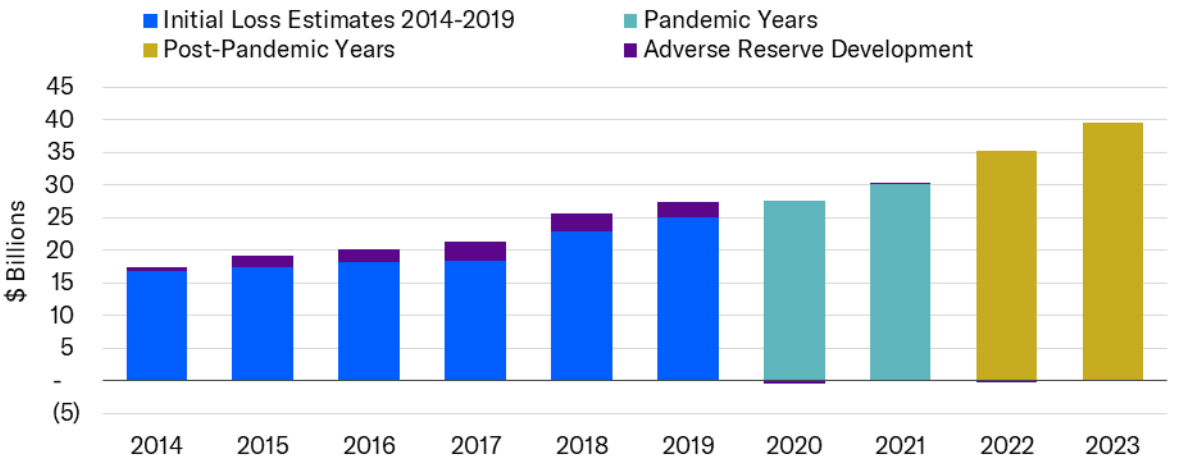
Source: S&P Global Market Intelligence LLC (contains copyrighted and trade secret material distributed under license from S&P, for recipient's internal use only), Moody's Ratings

Source: Moody's Ratings, US Bureau of Labor Statistics

General liability and commercial auto: adverse development likely to continue

General liability losses: more than doubled in 10 years

Commercial auto liability losses have also more than doubled in the past 10 years

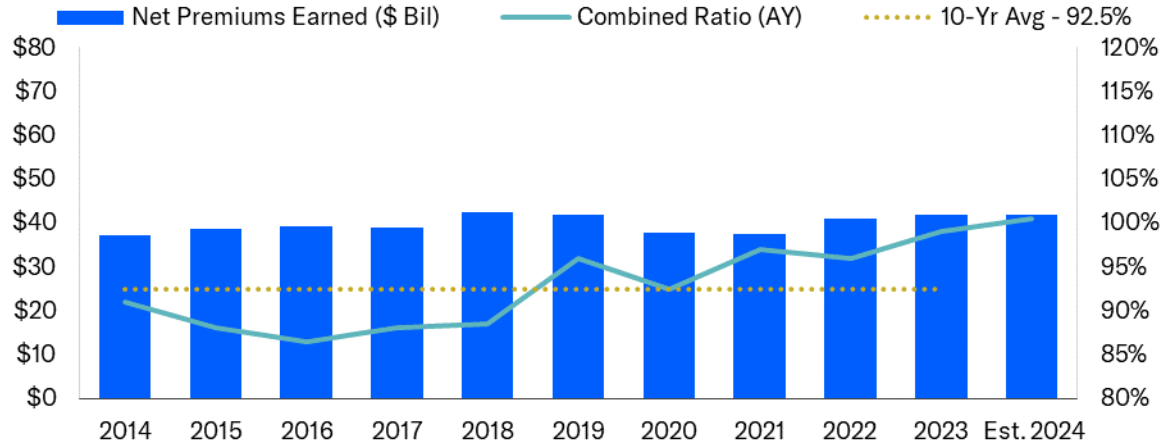


Source: S&P Global Market Intelligence LLC (contains copyrighted and trade secret material distributed under license from S&P, for recipient's internal use only), Moody's Ratings

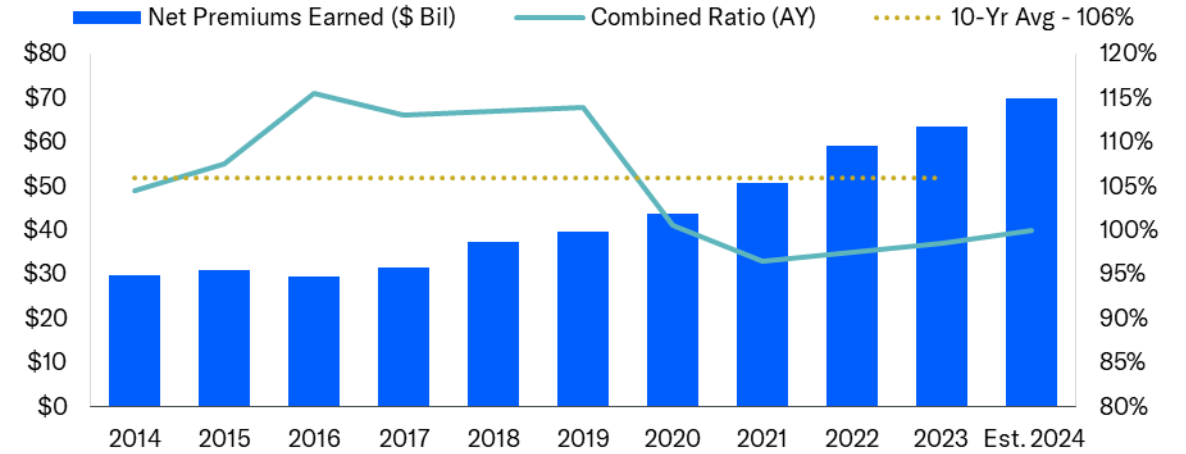
Source: S&P Global Market Intelligence LLC (contains copyrighted and trade secret material distributed under license from S&P, for recipient's internal use only), Moody's Ratings

Pricing survey suggests lower but still strong profitability

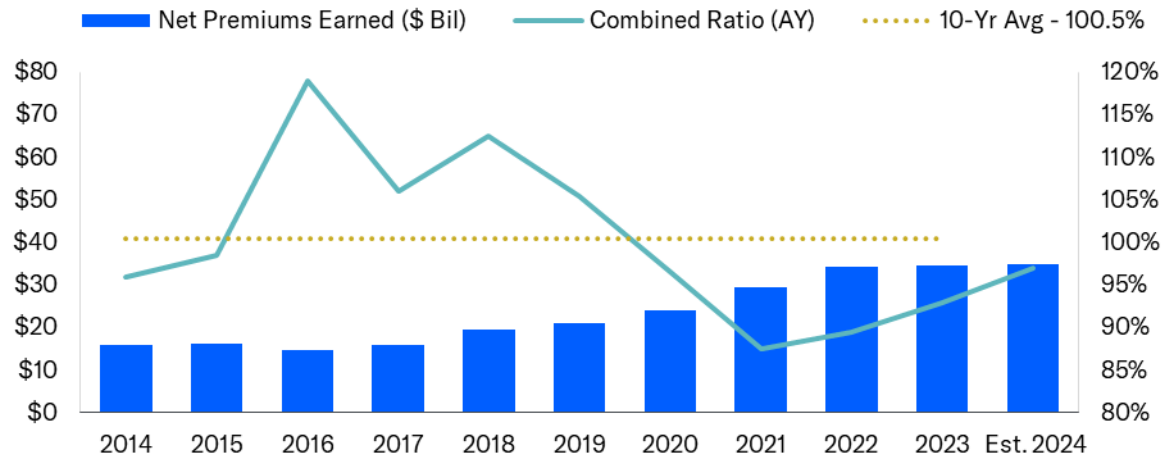
Workers Comp



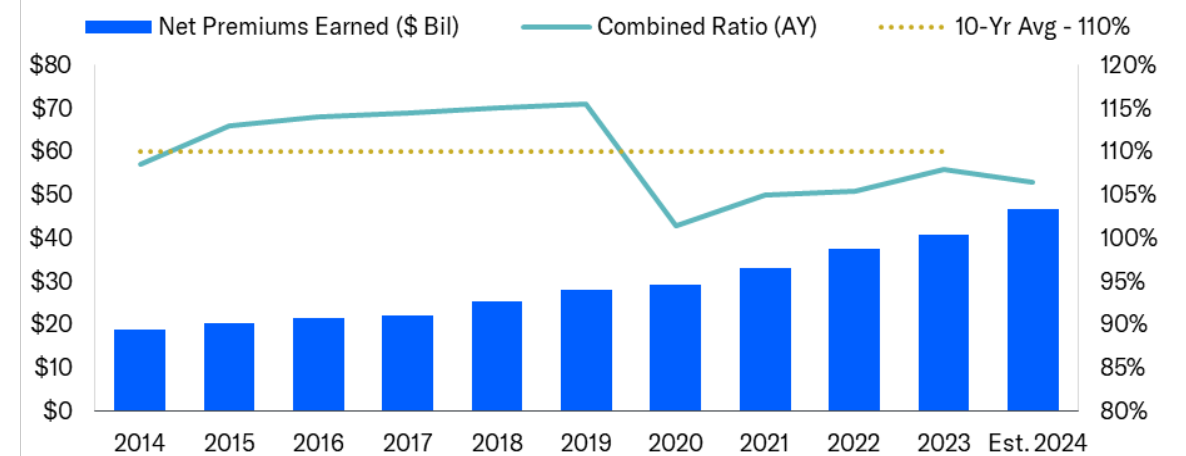
General Liability



Professional Liability



Commercial Auto

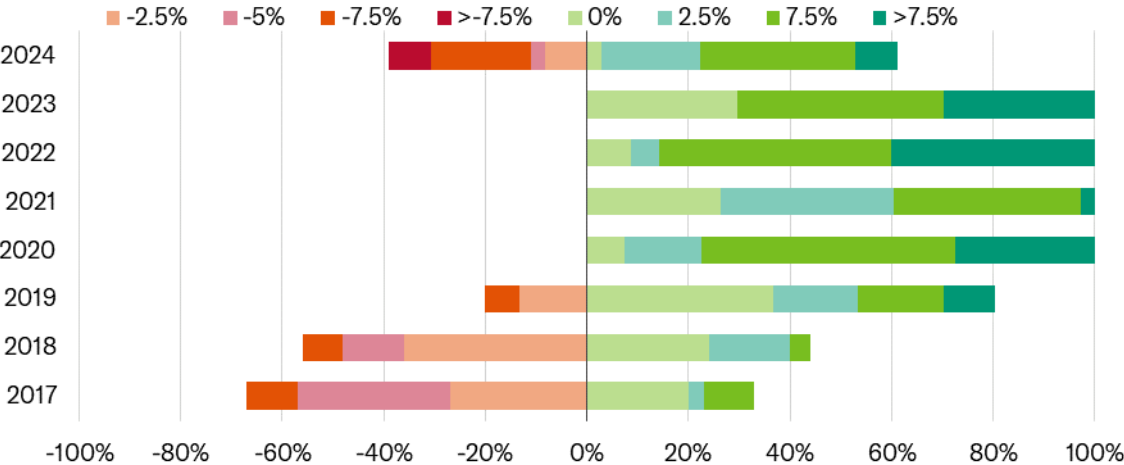


Source: Moody's Ratings, Company filings

Reinsurance price hikes to slow in 2025, buyer's survey indicates

Respondents expect a slowdown in property reinsurance rate increases

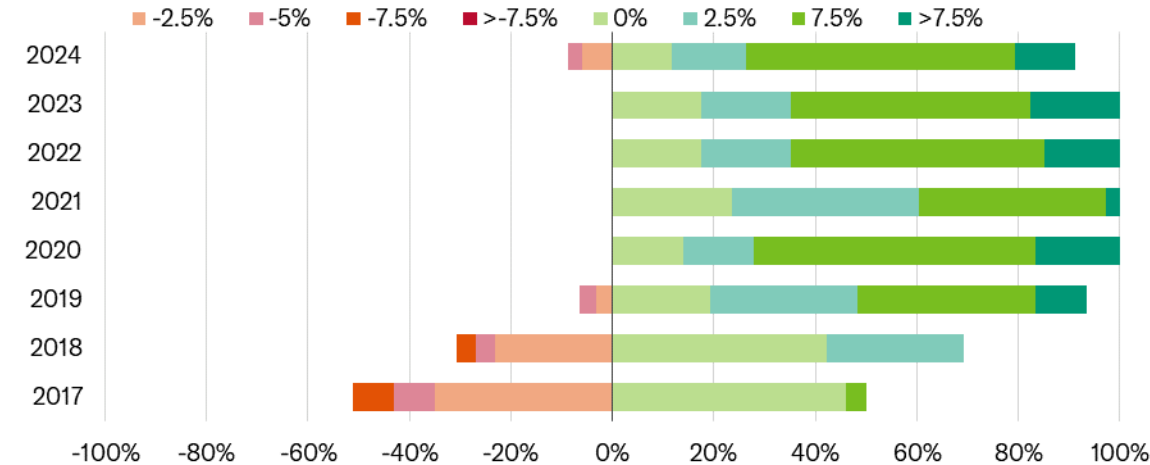
Cedents' expectations for property portfolio-wide pricing for the following year



Source: Moody's Reinsurance Buyers' Survey 2024

Respondents expect casualty pricing to continue to increase

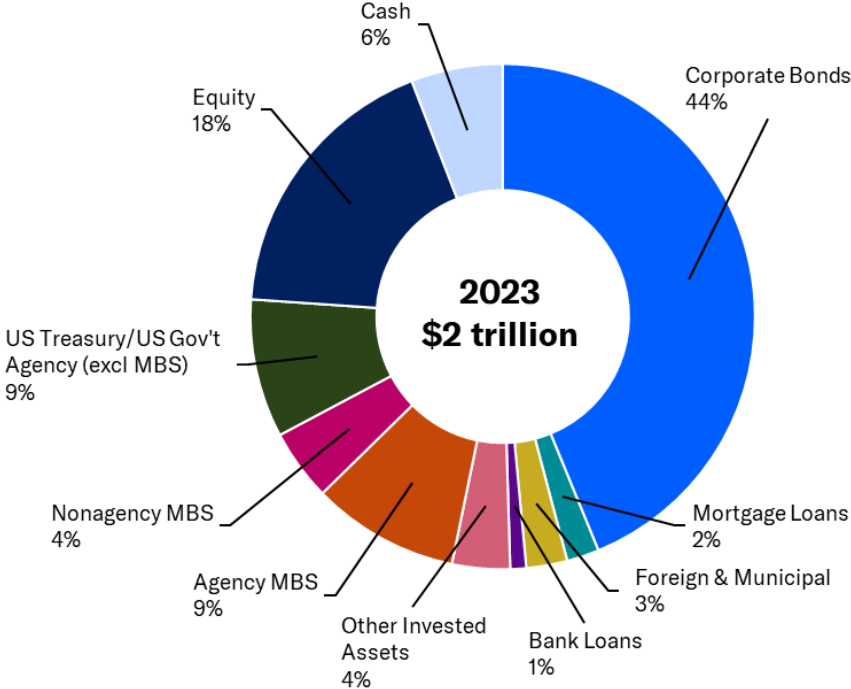
Cedents' expectation for casualty pricing for the following year



Source: Moody's Reinsurance Buyers' Survey 2024

P&C insurers maintain high quality investment portfolios with strong liquidity

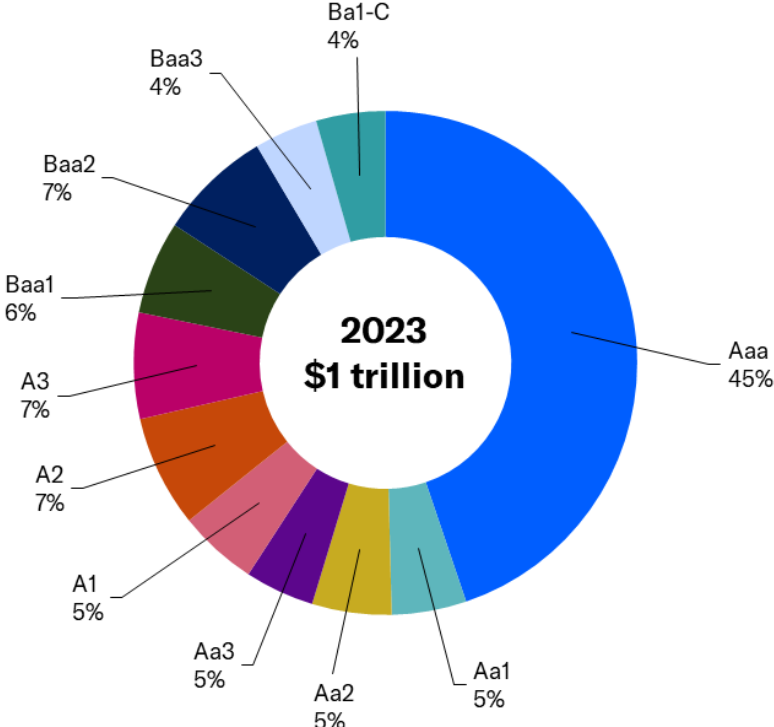
US P&C industry investment portfolio mix



Note: excludes Berkshire Hathaway

Source: Moody's Ratings, S&P Capital IQ (Contains copyrighted and trade secret materials distributed under license from S&P Capital IQ, for recipient's internal use only)

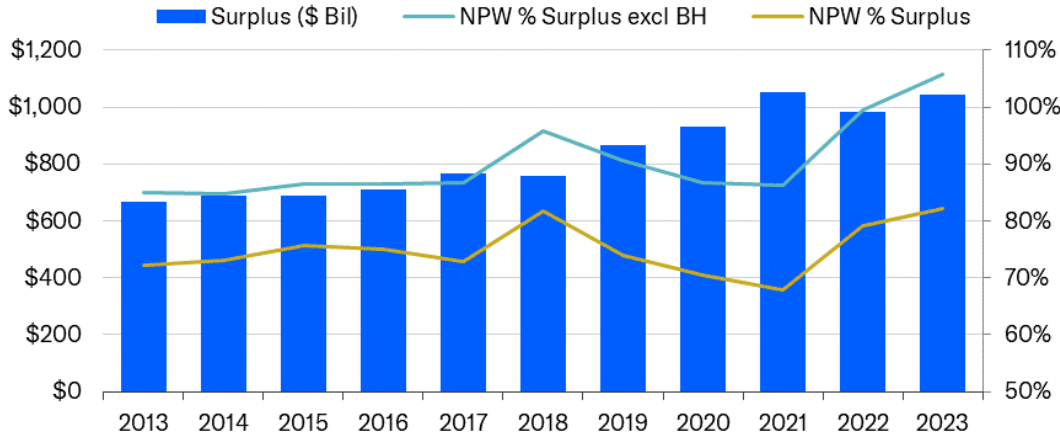
Credit quality of fixed income portfolio



Source: Moody's Ratings, S&P Capital IQ (Contains copyrighted and trade secret materials distributed under license from S&P Capital IQ, for recipient's internal use only)

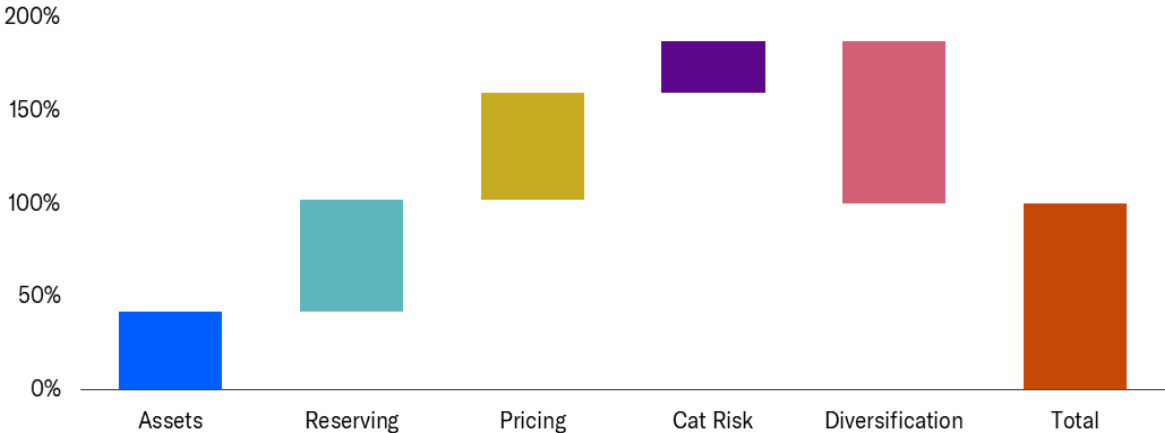
P&C capital remains solid

Net premiums written to surplus ratio Including and excluding Berkshire Hathaway (BH)



Source: S&P Global Market Intelligence LLC (contains copyrighted and trade secret material distributed under license from S&P, for recipient's internal use only), Moody's Ratings

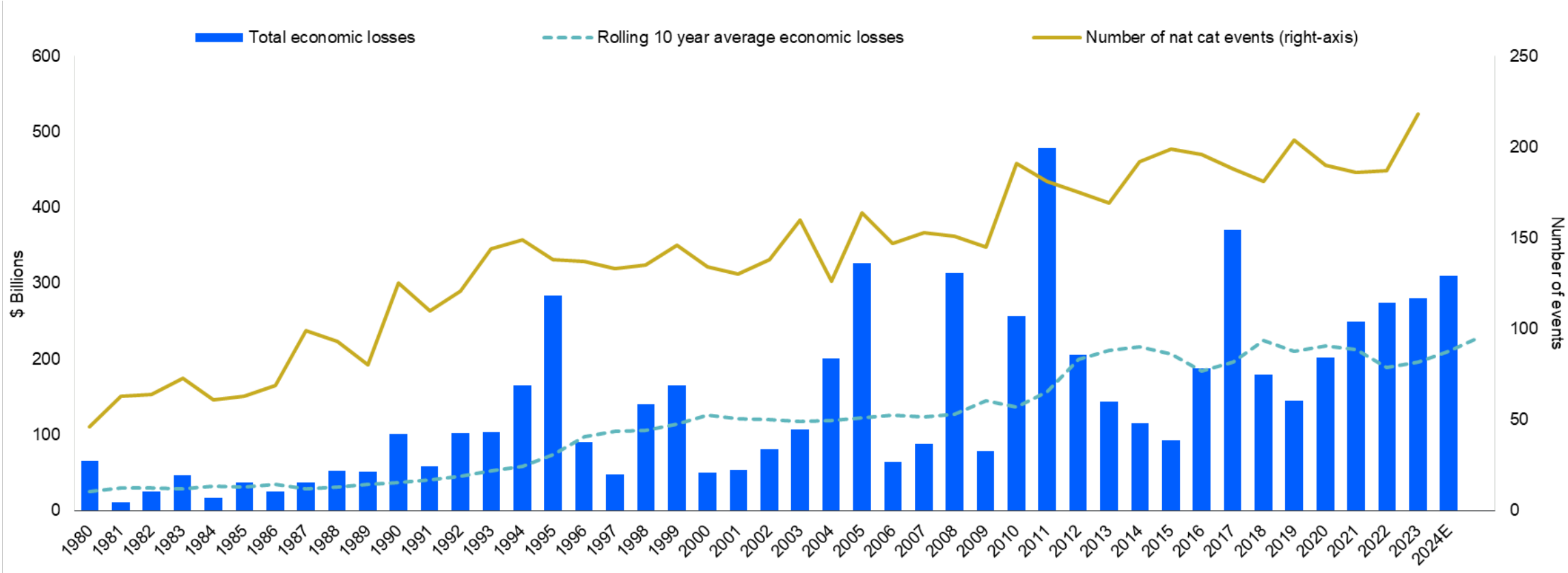
Moody's Capital Tool - diversification benefit reduces capital needs



Source: Moody's Ratings

Rising physical climate risk generates uncertainty, complicates risk management

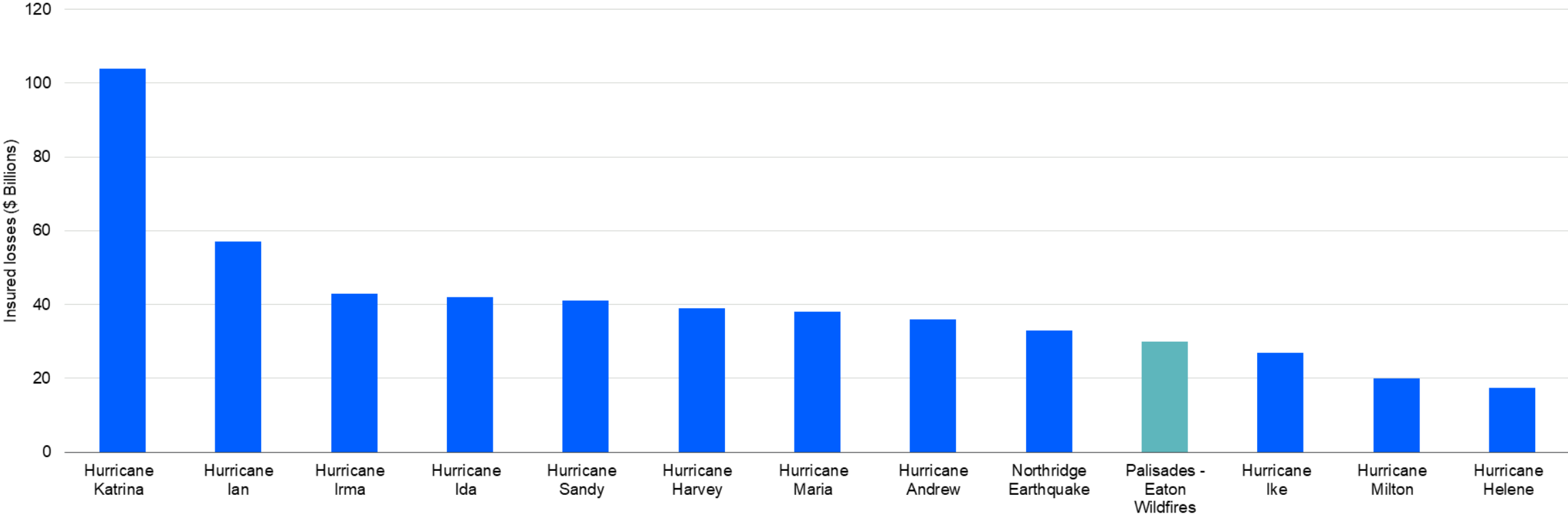
Natural catastrophes have increased steadily over time



Source: Swiss Re Sigma, Moody's Ratings

Largest US insured natural catastrophe losses

Los Angeles wildfires expected to enter the top 10 insured losses

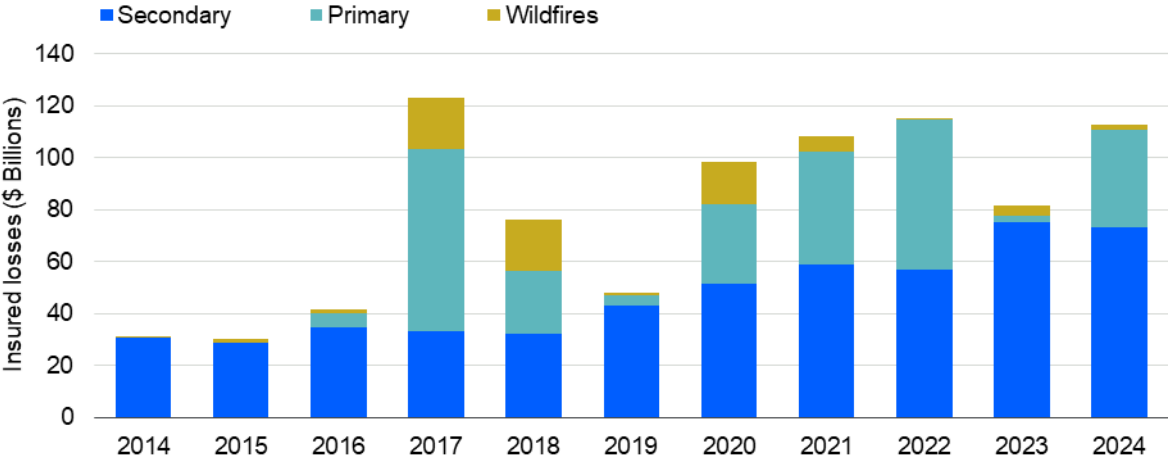


*All figures in 2024 USD. Palisades – Eaton Wildfires based on average insured loss estimate of \$30bn according to multiple modelling agencies

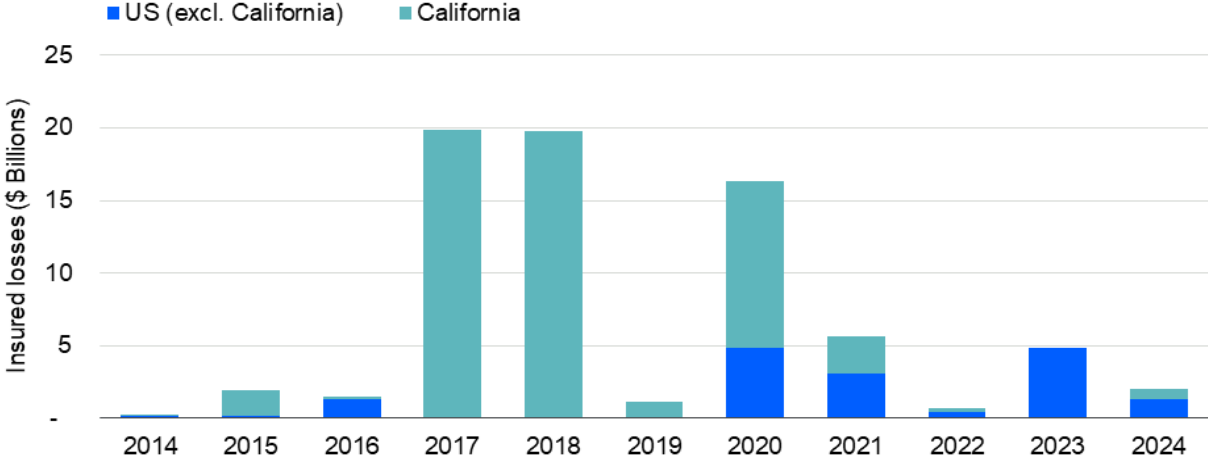
Source: Aon, Moody's Ratings

Secondary perils such as severe convective storms rise significantly

In the US, severe convective storms account for increasing share of losses



Insured losses from wildfires primarily in California

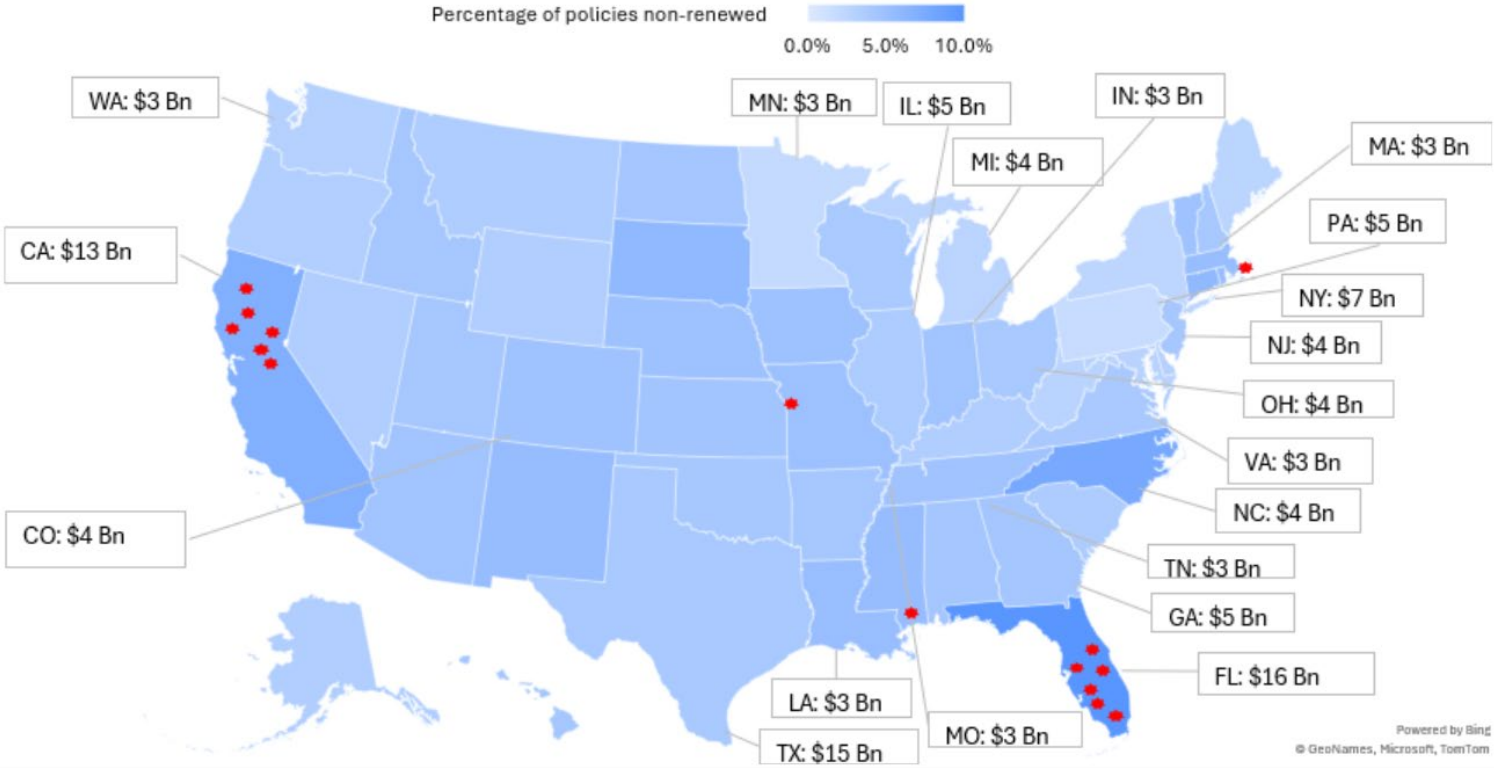


Source: Aon, Moody's Ratings

Insurers reduce their exposure in targeted areas

The highest percentage of non-renewed policies were in CA and FL

Top 15 counties with the highest non-renewal rate in 2023



County	State	Percentage Non-Renewed
LAKE	CA	7.6%
NEVADA	CA	6.5%
BARNSTABLE	MA	6.4%
TUOLUMNE	CA	6.1%
JACKSON	MS	5.6%
TEHAMA	CA	5.3%
HARRISON	MS	5.1%
ELDORADO	CA	5.0%
SHASTA	CA	4.9%
COLLIER	FL	4.9%
INDIANRIVER	FL	4.8%
CHARLOTTE	FL	4.7%
BREVARD	FL	4.5%
POLK	FL	4.3%
MIAMI-DADE	FL	4.3%

Source: Moody's Ratings, Senate Committee report (December 2024)

Thank you

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