

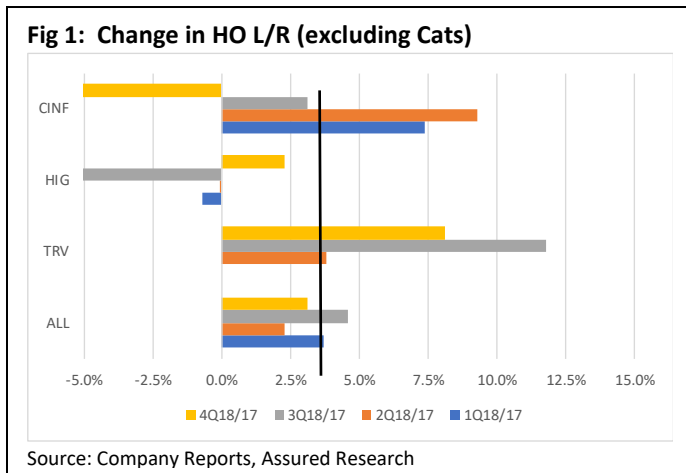
Assured Comment: Non-Cat Weather Rears its Head (Again) During 4Q Earnings

Insurers are determined to price for it; data through 2018 shows it's exposures, not perils that are increasing

Fourth quarter earnings reports are slowing, but management and actuarial activity over non-cat weather is heating up. **Most insurers writing commercial or personal property (homeowners - HO) policies described yet another quarter of higher-than-normal non-cat weather losses; they're determined to do something about it.** Several leading writers of HO policies declared that they'd be filing rates granting more actuarial credibility to the loss experience of recent years. Insofar as models of convective storms run against insurers' portfolios produce rate indications higher than those using historical events, **we'd guess rate filings will increasingly lean on convective storm models.**

This is good and as it should be. But with 2018 storm data freshly available, we wanted to return to a **theme we pursued frequently last year. The number of events and the perils emanating from convective storms aren't increasing** – tornado, non-tornado wind, and hail events. **Rather, exposures have increasingly moved into harm's way.** During 2018 we showed that the GDP growth of major metropolitan areas in traditional tornado alley states had exceeded those outside storm-prone geographies over the past 15 years. And we showed that housing unit growth in those same regions exceeded the rest of the nation these past 10 years.

The graphs below illustrate that **our hypothesis remains unchanged:** Non-cat weather is an increasing problem for property writers (Figure 1), but that's not because there is a rising trend of tornado, wind, or large hail events (Figures 2 and 3). The four insurers shown in Figure 1 control about 14% of the HO market. Their



non-cat, or underlying HO loss ratio rose about 3.1% over 2017 (with 3 of 4 reporting a higher y/y loss ratio in 4Q18). Rising non-cat weather isn't the only reason behind the rising loss ratio, but non-cat weather has been a consistent culprit. Comments like this from Travelers' 4Q18 call are common: *Consistent with comments we made earlier this year, given this recent...non-catastrophe loss experience, and our assumption that some of this elevated loss pressure will persist, we continue to implement granular pricing and underwriting actions to manage our exposure and improve results.* M. Klein, EVP of Personal Lines

