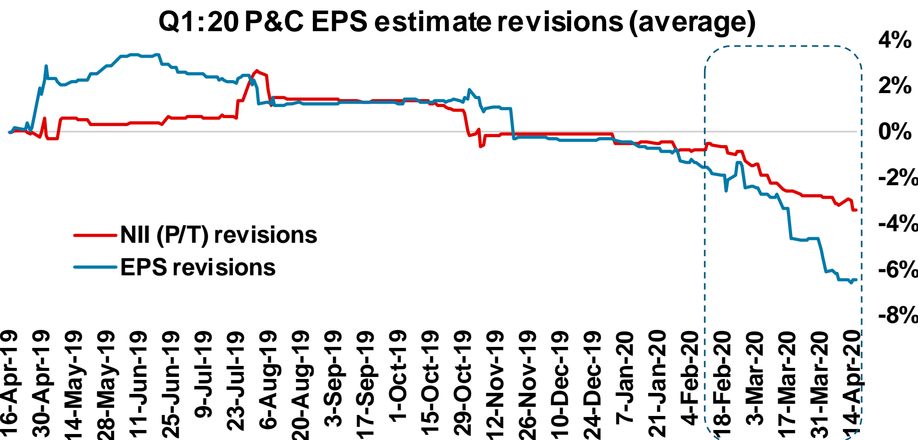
Q1:20 Meditations In An Emergency – A Five Step Covid Playbook



With Q1 results kicking off on Tuesday with **Chubb**, **Travelers**, **WR Berkley**, and **RLI**, we see the set-up in P&C as skewed to the downside for the foreseeable future.

On the one hand, the market is starting to "talk up" the total industry loss potential from Covid-19, and cracks are emerging in the BI issue that suggests there are the potential for some firms to have outsized losses due to poor underwriting controls and policy forms.

On the other, stocks have rallied significantly off their lows, with the Inside P&C Select now down only 22% YTD.

We find this hard to understand, putting aside even our more bearish views on macro than the market seems to have.

Q1 estimates for the Inside P&C firms have come down around 6.1% on average, compared to 5.2% for S&P 500. There are potential "good guys" for the quarter from low cats and a quarter that only saw a few weeks of real crisis. The book value impacts from asset price declines are likely to be significant but well off their worst marks for the quarter.

But even more significant is (a) a narrative problem in a politically sensitive period, and (b) incentives for management that skew heavily to take as much pain upfront and defer as much good news for as long as possible.

To that end, we see the next two quarters at least as powerfully set up to skew to the downside in terms of data points, narrative, and earnings from most companies. Our five step Covid Playbook would go something like this:

- **Step 1** – Recognize all bad Covid-linked news as early and as loudly as possible. Put up the largest possible claims reserves, stuff IBNR based on "conservatism", and accrue as much bad debt from agent's balance as the accountants will sign off on. Given the level of uncertainty around a range of outcomes, there is plenty of scope to do this reasonably.
- **Step 2** – Take the opportunity for the mother of all get out of jail free cards. Abandon the "pay as you go" approach to soft-market reserves

Inside P&C Research

Gavin Davis
Director of Research
E: gavin.davis@insidepandc.com
T: (212) 224 3328

James Thaler, CFA
Senior Analyst
E: james.thaler@insidepandc.com
T: (212) 224 3336

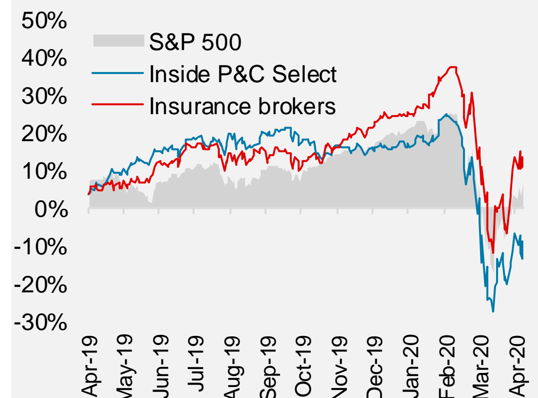
Dan Lukpanov, CFA
Research Analyst
E: dan.lukpanov@insidepandc.com
T: (212) 224 3326

Gianluca Casapietra
Research Analyst
E: gianluca.casapietra@insidepandc.com
T: (212) 224 3495

Composite	YTD px chg.	P/B
Large comm.	(32.0)%	0.7x
Regional	(20.6)%	1.3x
Specialty	(19.8)%	1.4x
Personal	2.5%	2.0x
Bermuda	(30.9)%	1.0x
Florida	(27.5)%	0.9x
Brokers	(8.8)%	-
IPC Select	(22.1)%	1.0x
S&P 500 Fin.	(27.1)%	-
S&P 500	(11.0)%	-

Top performer on the day	HIG +6.9%
Bottom performer on the day	DGICA -4.2%

1YR Price Peformance



and take every ounce of pain you have been deferring, true up every accident year loss pick, and add to prior years reserves. Again, nothing that cynical about finally marking to market.

- **Step 3** – Scream bloody murder to regulators. Point to the colossal loss "total" (e.g. gross losses, not net of frequency benefits elsewhere). Point to the reserve pain and loss ratio pressure as an industry already on its knees. Dare regulators to risk availability of insurance in their states.
- **Step 4** – Continue to push price increases based on long running profitability pressures for as long as possible based on terrible calendar year results and NII pressures.
- **Step 5** – Bank the frequency dividend on the 2020/2021 accident years over the longest possible period when no longer politically sensitive (likely the next soft market), akin to the post 9/11 accident years.

We think this is a pretty solid playbook that a lot of high-quality companies will likely play their parts to perfection.

Ironically the challenge may fall on the weaker companies coming into the crisis who are under fundamental pressure from investors to show improving loss ratios and to outperform peers on large loss exposures.

And beyond that, companies with real problems around loose policy wording and risk aggregations have every incentive to low-ball the number.

There are many paradoxes in P&C insurance where superficially good news is fundamentally bad news for the industry, and vice versa. With a lot of "good" and "bad" data points likely to be disclosed over the next few weeks, the key to Q1 will be being able to tell one from another.

Read more on Q1 earnings below.

Q1 earnings preview: A good day to bury bad news

Q1 2020 earnings season kicks off this week with the big P&C carriers all stacked on Tuesday to release their quarterly results. Chubb, Travelers, WR Berkley and RLI will be the first to get the ball rolling. With earlier reporters in financial services already showing weaker revenues and earnings due to the pandemic, attention will be on the implications of the lockdown and rapidly changing macro environment on P&C operations.

Also, on Monday next week Truist will provide an early read on the brokerage industry. Although brokers have a track record of weathering headwinds in a recessionary environment, the sample does not include the pandemic-driven steep contractions. Some industry experts warn that the crisis may drive the broker organic revenues to contract, a rare occurrence for the public brokers, though this will likely show up more in Q2. Narrative on current conditions will be more important than Q1 results.

The following week will see 50% of the companies with earnings date announced, including all big public brokers, Hartford, Axis, many regional carriers and Berkshire Hathaway closing the report heavy week on Saturday.

The week after is filled with the results from Bermuda and auto carriers.

Exhibit: P&C earnings calendar

Source: Company reports, SNL, Inside P&C

MO/YR	MON	TUES	WED	THURS	FRI	SAT
APRIL 2020	13	14	15 Progressive	16	17	18
	20 Truist	21 Chubb RLI Travelers WR Berkley	22 Old Republic	23	24	25
	27 Cincinnati Universal Brown & Brown	28 Donegal Hanover	29 Amerisafe Hartford NatGen	30 AJ Gallagher Kinsale Marsh & McLen. Willis Towers Wat.	1 Aon	2 Berkshire Hath.
MAY 2020	4 Arch Axis Mercury	5 Allstate FedNat Selective	6 Everest State Auto RenRe	7	8	9
	11 AFG	12	13	14	15	16
	18	19	20	21	22	23
	Not announced: AIG, Alleghany, Argo, Blue Capital, CNA, Employers, Erie, Greenlight Re, HCI, Heritage, Horace Mann, Intact, James River, Kemper, Kingstone, Maiden, Markel, Third Point Re, United Fire, United Insurance, Watford Re					

Q1: Covid-19 under the spotlight

With the economy in hibernation due to the extensive social distancing measures that are now estimated to last through at least middle of May in many US states, the firms may have to deal with an anxiety around implications of the prolonged lockdown for the industry.

The businesses with an immediate and pronounced impact on the top-lines and losses will receive an increased attention, e.g. workers' comp (lower payrolls - lower premiums), personal auto (lower frequency), small commercial (lower frequency), medmal (higher frequency), surety (higher frequency, lower premiums), etc. Exposures on the industries experiencing heavier consequences and where the impact may stretch for an extended period beyond the lockdown may also receive an increased scrutiny, e.g. travel, hospitality, events and conventions, etc. Similar questions will likely be asked of credit exposures – both in terms of financial investments and accrued balances for premiums with payment deferred.

However, carriers are in a tight spot on "narrative" around Covid-19. Any positive comments around frequency or reduced loss trend are likely to be scrutinized and subsequently weaponized by regulators and insureds. With the industry looking to play defense, we expect the focus on the exclusively tipped towards the negative.

This is not for nothing. Though we outlined early our expectations this would lead to loss trend benefits across the P&C landscape, so far most of the specific rate action and premium returns have been centered on personal auto only –the most obviously effected, the most heavily regulated, and most politically sensitive.

Because of this moment in the spotlight, almost every major auto carrier has already outlined plans for premium rebates to customers, largely in the 15-20% range for two months.

Exhibit: Auto carrier refund announcements

Source: SNL, Company Reports

Firm	Refund/Credit	2019 Auto DWP
State Farm	25% credit on two months of auto premium	$40.9B
Geico	15% (for 6M policy) credited at renewal, totals $2.5B	34.9B
Progressive	20% credit on two months of auto premium	31.0B
Allstate	15% refund credited to customer, totals $600M	23.6B
USAA	20% credit on two months of premiums in coming weeks	15.2B
Liberty	15% refund on two months of auto premium	11.7B
Farmers	25% credit for the month of April	10.5B
Nationwide	One-time premium refund of $50 per policy	6.2B
AmFam	$50 payment per covered vehicle, one time, totals $200M	5.8B
Travelers	15% refund credited to customers (April / May)	4.9B
Kemper	15% credit on two months of auto premium	3.4B
National General	No refund/credit yet	3.2B
Mercury	15% credit on two months of premium	2.8B
Hartford	15% credit on two months of premium	2.0B
Hanover	15% refund on two months of premium	1.2B

Exhibit: Auto carrier refund announcements (continued...)

Chubb	35% reduction for April/May, "with additional discounts for subsequent months, as the situation warrants"	0.8B
Cincinnati	15% credit on two months of premium	0.63B
Horace Mann	15% credit on two months of premium	0.45B

Indeed, there already appears to be some spread to commercial. Progressive and Farmers have outlined some specific premium rebate measures, while others have emphasized other forms of relief. The California regulator shared expectations on premium returns in workers' comp, commercial auto, medmal, as well as any other lines of business with lower risk of loss due to the pandemic. Ohio state-run workers' comp insurer BWC, that covers two-thirds of the state's workforce, announced the return of $1.6bn worth of premiums back to private and public employers in the state. This could lead to similar pressure on other states and P&C firms to follow.

Exhibit: Commercial carrier actions

Source: SNL, Company Reports

Firm	Action (commercial lines)
Travelers	Billing relief (suspending cancellation/nonrenewal through May 15th)
Chubb	25% reduction in sales/payroll exposures used to calculate premium as well as a 15% reduction in premiums for comm'l auto insurance (for small business clients)
CNA	Until June 1, suspend all policy cancellations for nonpayment, waive all late fees, continue regular premium billings
Berkshire	"Could include: grace period to make premium payments, deferral of cancellation due to nonpayment, or waiver of late fees"
Nationwide	"…suspend the cancellation of some policies, defer payment deadlines, and waive some late fees"
Progressive	- Suspending cancellations/non-renewals on comm'l lines policies through May 15 - 20% credit, April/May for Business owner/GL
Farmers	20% credit for two months (BOP) in addition to extended time to pay

There were also signs of a pushback from carriers. As a reaction to state lawmakers' attempt to introduce bills forcing insurers to cover Covid-19-related claims retrospectively, Chubb CEO Evan Greenberg defended the industry by saying that such "unconstitutional" legislative action would "bankrupt the industry", as our sister publication Insurance Insider reported last week with reference to Greenberg's interview to Bloomberg.

But beyond political rhetoric, Washington connectivity, and a big megaphone, the most powerful lever the P&C industry has to use in its defense against an aggressive plaintiff bar and unsympathetic political leaders is simple: losses.

As outlined above, we expect companies to focus their narratives on the losses they are paying out and reserving for as evidence of an industry doing its part, while doing a bit of "time arbitrage" on how it recognizes the good news.

However, this remains a delicate balancing act for many. Companies need to take enough bad news to placate some stakeholders while not undermining / frightening others (e.g. shareholders). As we have previously outlined, management track record with investors may be the most valuable asset at this juncture of crisis.

Analysts lower the bar

The US economy was up and running most of the time in Q1. Los Angeles County announced near-lockdown on March 19 and New York State was announced “on pause” in March 20. However, economic anxiety persisted for entire month of March with bond and stock markets in disarray.

The impact found a reflection in Q1 analyst estimates that trended down for most of the quarter. Analysts now expect Q1 earnings to be lower by an average of 6% than the expectations at the beginning of the year. Notably, net investment income estimates were down 4% as analysts likely expect that the effect from higher corporate yields, lower risk-free yields, and lower alternative asset returns (mind the report lag varies between firms) will bet net negative for the carriers in the quarter.

Arch was the rare carrier to provide details and early clues on the impact of Covid-19 crisis on the business, sending a wave of concern to the industry, where few expected material losses in the quarter with only two lockdown weeks.

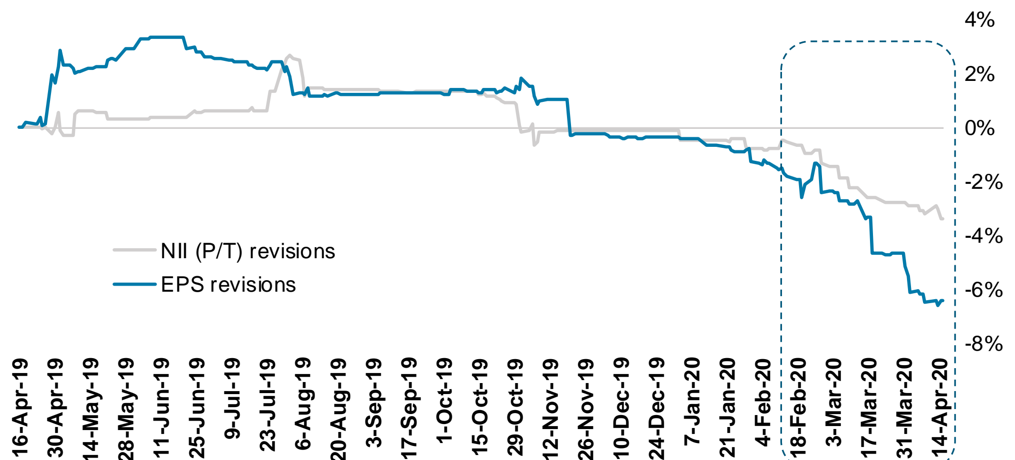
Exhibit: Pre-announced Covid-19 losses by Arch Capital

Source: Arch Capital

	Q1:20E	As a % of Q1:19 NEP
P&C (re)insurance Covid-19 related losses	$85mn-$95mn	10.0%
Mortgage losses Covid-19 related losses	$40mn-$50mn	13.9%

Exhibit: Average P&C estimate revisions for Q1:20 operating EPS and NII

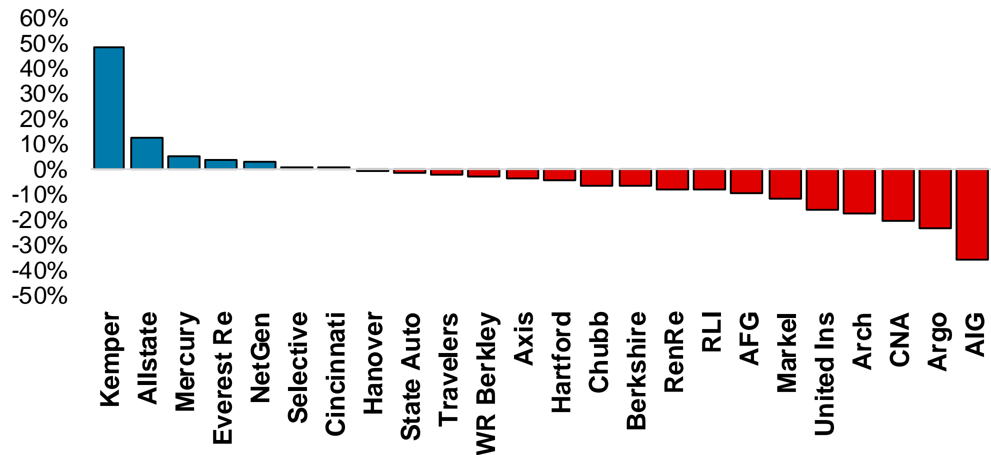
Source: FactSet



The estimates trended lower for the carriers with life insurance exposure and had upward bias for the personal auto carriers (see chart below).

Exhibit: YTD revisions of Q1:20 EPS

Source: FactSet



Overall, from our select of P&C firms with at least 3 EPS estimates available, analysts expect 20 firms to report higher YoY EPS in Q1, with 11 firms expected to print reduced bottom lines (see chart below).

Exhibit: Estimated YoY EPS changes

Source: FactSet

Company	Peer group	Q1-19 EPS	Q1-20E consensus	% chg	Est. #
AFG	Specialty	$2.02	$1.96	-3%	4
AIG	Large Comm.	$1.58	$0.81	-49%	15
Alleghany	Other	$9.66	$10.16	5%	4
Allstate	Personal	$2.30	$3.22	40%	17
Arch	Bermuda	$0.67	$0.60	-10%	12
Argo	Other	$1.18	$0.59	-50%	5
Axis	Bermuda	$1.24	$1.30	5%	9
Berkshire	Other	$3391.50	$3759.15	11%	4
Chubb	Large Comm.	$2.54	$2.57	1%	20
Cincinnati	Regionals	$1.05	$1.03	-2%	8
CNA	Large Comm.	$1.17	$0.80	-32%	3
Donegal	Regionals	$0.26	$0.32	25%	3
Everest Re	Bermuda	$6.91	$6.59	-5%	10
FedNat	Florida	-$0.19	$0.39	NM	3
Hanover	Regionals	$1.96	$2.03	3%	5
Hartford	Large Comm.	$1.39	$1.34	-4%	16
HCI	Florida	$0.35	$0.77	119%	3
Heritage	Florida	$0.24	$0.25	2%	4
Horace Mann	Personal	$0.63	$0.67	6%	4
Kemper	Personal	$1.50	$2.26	50%	6
Markel	Specialty	$8.07	$9.27	15%	6
Mercury	Personal	$0.87	$0.88	1%	3
NetGen	Other	$0.77	$0.82	7%	5
RenRe	Bermuda	$3.60	$4.12	15%	9
RLI	Specialty	$0.71	$0.64	-10%	6
Selective	Regionals	$0.90	$1.01	12%	8
State Auto	Regionals	$0.31	$0.40	30%	4
Travelers	Large Comm.	$2.83	$2.82	0%	20
United Fire	Regionals	$0.91	$0.12	-87%	3
United Ins	Florida	$0.07	$0.26	270%	4
WR Berkley	Specialty	$0.60	$0.73	23%	10

Bullish outlook on pricing

Although the temptation is to expect changes in pricing trends in the changed economic environment, the history suggests P&C rate cycles develop independently from business cycles. That said, individual lines highly impacted by the current environment may see a reversal or change in pace.

For example, slower economic activity and payroll declines may impact the pricing dynamics in **workers' comp** beyond even exposure rebases. **Medmal** can see accelerated rate increases due to the heavy use of medical facilities in connection with the pandemic, particularly for long term care and elderly related facilities. **Personal auto** can see softer pricing (net of rebates) should the lower frequency add fuel to already highly competitive environment and a stronger push on retention.

Outside few selected lines, we view the existing rate trends to remain intact as loss cost trends are still viewed as biased upwards, with more potential for the income yield and spread compression driven by the Fed actions. With so much monetary stimulus in place, we are likely to see low risk-free yields and even tighter corporate spreads coming out of the crisis.

Perhaps more than anything, it is still early days in this crisis and insurance is a slow moving industry. A lot of insurance pricing and contract negotiations have a long lead time. We do not see pricing dynamics through 1 April as indicative of an industry immune to a macro-backdrop, and will need to see what happens in the next few months, particularly key property summer renewals.

Supporting our view are the Q4 pricing surveys and management commentary that largely favor the continued upward pricing momentum through 2020 with a potential for further acceleration.

Exhibit: Q4 pricing management commentary

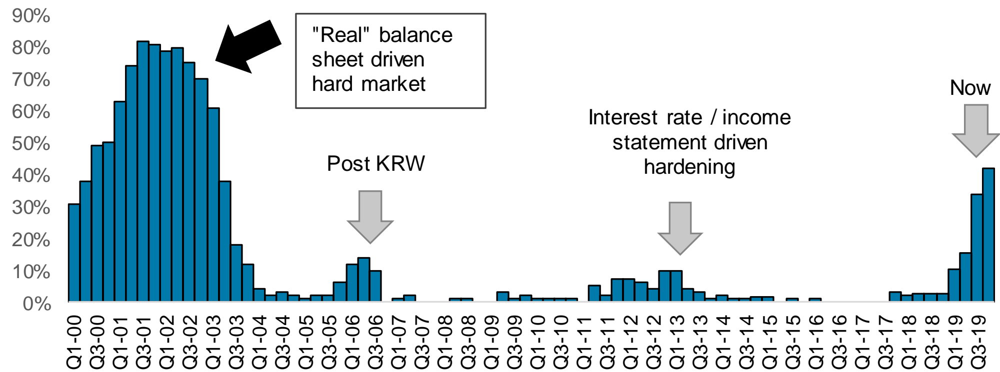
Source: CIAB, Inside P&C

CB	"On pricing, I think it endures. The fundamentals speak to it. And so the environment we see is the environment I imagine will continue for some time. It's rational. And there are many reasons for it, and there's nothing that I see that tells me the momentum will slow. If anything, it's picked up, and it is spreading more broadly. Industry needs rate and needs it in quite a number of classes and across the globe. And then you're in a low interest rate environment and you can hardly rely on investment income to bail you out, and the industry needs rate because rate has just not kept pace with loss cost trend for quite a number of years. The math is so simple. People seem to overintellectualize this". **- CEO Evan Greenberg**
TRV	"We are definitely pleased with the trajectory of rate versus loss trend. That continues to be a good story. And importantly, you got to look at retention in that regard. That's hanging in there, which suggests we think this is an environmental thing, and we would say that the pricing actions have room to go here". **- CEO Alan Schnitzer**
AIG	"Do I think that acceleration will continue in 2020? Hard to tell, but I certainly believe that the rate environment in terms of getting paid better pricing on a risk-adjusted basis will continue in 2020". **- CEO of General Insurance Peter Zaffino**
HIG	"In Middle Market commercial, we expect renewal written pricing to remain strong during 2020. In Global Specialty, we expect renewal written rate increases to remain in the double digits. We'll continue to lean into this rapidly firming market to improve the profitability of both our Middle Market core lines and Global Specialty book. In workers' compensation, we expect continued pricing headwinds". **- President Doug Elliot**

WRB	"Putting aside comp, when we look at our business, every component of the commercial lines marketplace that we participate in, to a greater or lesser extent, we are seeing rates moving up and our sense is that the trend will continue and, in many cases, will not only continue but may very well accelerate from here". **- CEO Bob Berkley**

Recall, CIAB's Q4 rate surveys pointed to an accelerated rate firming which we used as an evidence for "transitioning" but not a truly hard market.

Exhibit: Large accounts: % of respondents indicating 10%+ price increases
Source: CIAB, Inside P&C



More bad news on loss costs?

We expect continued reports on the elevated casualty loss cost trends that started in Q3:19 with rare all-in reserve charge at Travelers.

We remind that in P&C insurance pricing follows pain and so long as we have rate increases it is reasonable to expect more true ups.

In Q4, most carriers acknowledged the growing loss costs in casualty lines but defended their loss picks describing the trend as old news.

Exhibit: Q4 management commentary on loss cost trends
Source: CIAB, Inside P&C

CB	"We've been talking about it [loss cost trends] for a while. Frequency and severity both moved up, but that was a couple of years ago, and we've seen it pretty steady at that elevated level. We don't see that continuing to deteriorate overall, and that's all classes that we've mixed together in there. There are some classes, individual classes, subclasses that have an increasing frequency, but overall, in primary casualty, we're seeing severity stable". "We're comfortable with our picks". **- CEO Evan Greenberg**

TRV	"We continue to believe that social inflation is an environmental issue, driven primarily by a more aggressive plaintiffs' bar". **- CEO Alan Schnitzer**

AIG	"Although they [rate increases] bode well towards 2020, the uptick in U.S. social inflation, together with an increasing proportion of litigated claims and increased securities class action filings, may cause slower recognition of any arithmetically implied margin expansion". **- CFO Mark Lyons**

HIG	"Last quarter, I said that social inflation was not a new phenomenon. A quarter later, my view hasn't changed. But there are a few points to make. I expect some level of social inflation will be felt by many carriers, if not all, across the industry. However, the impact on loss costs will vary by company. Variation depends on several factors, including the line of business and coverage limits". "Each company's ability to react to social inflation will be impacted by the quality of data and analytics supporting product pricing and loss reserve estimates". **- CEO Chris Swift**
WRB	"As we are approaching 9 points of rate at this stage, it's very hard for us to imagine, we are not comfortably outpacing loss cost trend at this level". **- CEO Bob Berkley**

Furthermore, our view is that the current climate provides massive incentives for managements to skew heavily to take as much pain upfront and defer as much good news for as long as possible.

As such, more conservative loss picks and reserve charges would come as no surprise to us. We see this set-up in P&C as skewed to the downside further down in Q2 as well.

There are plenty of other interesting components we'd like more color on, including the potential long run shift in severity dynamics in a recessionary environment instead of late cycle, but multiple near term risks to the downside on loss and LAE due to economic disruption (supply chain, difficulty adjusting, vacancies etc.).

Investment income and mark-to-market

The current crisis has a potential to have far-going implications for businesses that rely on interest income to generate returns, including banks, life insurers and partly P&C carriers.

In March, the Fed slashed rates to 0-0.25% and announced an "unlimited" QE with the central bank's balance sheet passing $6tn for the first time in history. Globally, in March, 50 central banks implemented key policy rate cuts, including multiple cuts by the most major central banks ex. ECB.

These actions pushed benchmark risk-free interest rates around the world to new record lows, including US treasuries.

However, reflecting the expectations for higher default rates due to the pandemic-driven economic slowdown, the corporate spreads spiked in March across entire risk spectrum (triple-C to triple-A), at a point reaching the highest levels since 2009.

Currently, P&C investment portfolios consist of ~70% debt with corporate, municipal or mortgage exposure. The higher spreads compensated for lower risk-free yields and the QoQ shift in new money yields is likely to be limited for P&C carriers, which we expect managements to point out on Q1 conference calls.

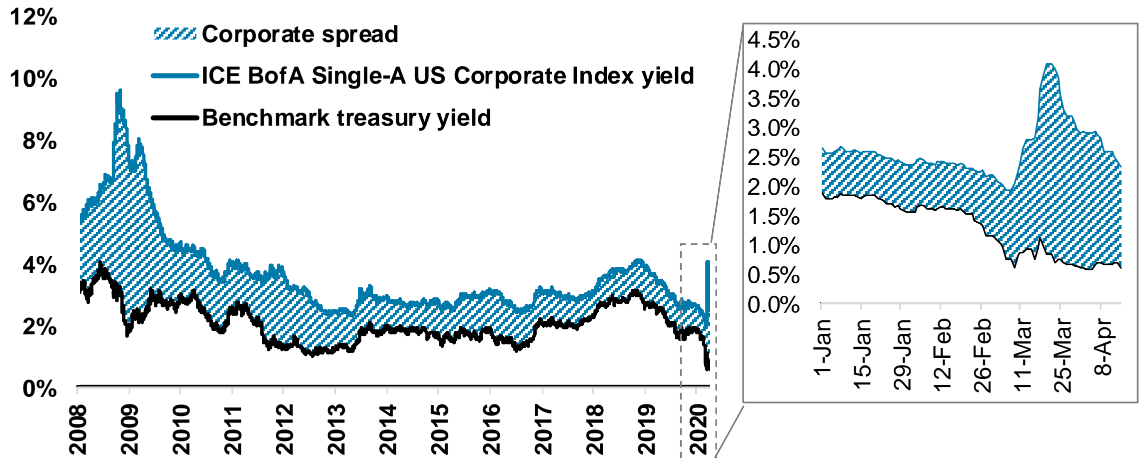
However, we would highlight that although the yields are same, there is more risk in them now. Should the economic downturn last longer than one or two quarters as anticipated by many, the higher corporate yields may end up generating lower default-adjusted returns.

Later, coming out of the crisis, with so much monetary stimulus in place, we are likely to see low risk-free yields and even tighter corporate spreads.

To summarize, the crisis and the Fed actions made the hunt for yield more costly for investors.

Exhibit: Single-A corporate bond yields and spreads

Source: CIAB, Inside P&C



Despite that the investment-grade corporate yields returned to the pre-crisis levels by mid-April, by the end of March (end of reporting quarter for all carriers) the yields remained elevated, which we expect to have a negative impact on the firms' Q1 reported book values.

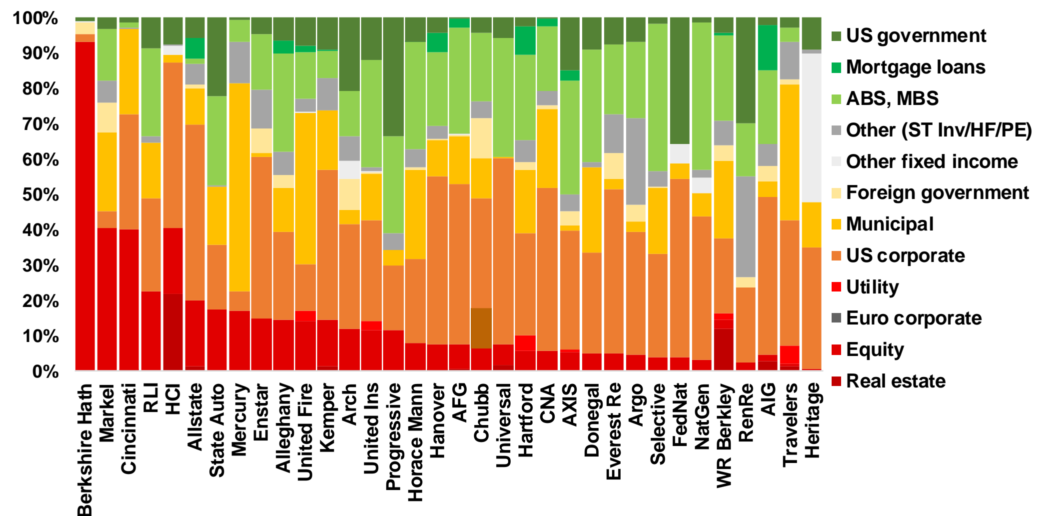
The stock market traded at much lower levels at the end of Q1 as well, which will also negatively impact the GAAP earnings and book values.

On alternative assets, the assessment is complicated by the fact that the associated gains and losses are recognized with a lag variably across firms.

At the start of April, we attempted to quantify the impact of the changes in investment asset values on P&C Q1 book values. The exercise showed that the companies with a high investment leverage (=most of life exposed carriers) and high exposure to equities will see substantially higher book value impact. Note, the life-exposed carriers will likely have partial offsets on the liability side.

P&C company-level portfolio allocation heatmap sorted by equity exposure (red – poor performer assets, green – outperformer assets)

Source: CapIQ, Inside P&C



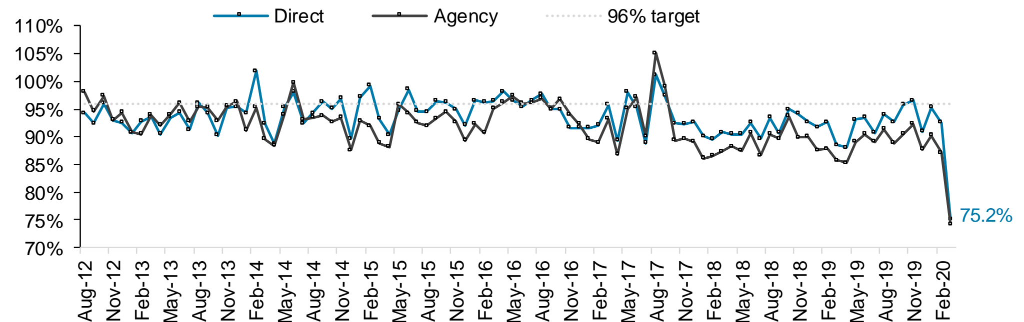
Auto: Expect low loss ratios and commentary on benign frequency

For personal lines carriers, Q1 will be characterized by low accident frequency. Covid-19 has resulted in nationwide lockdowns and social distancing mandates which have resulted in less travel, and thus accidents. We expect carriers to lean heavily into severity arguments as an offset to frequency to try and capture some of the benefits of reduced driving.

Progressive provided a first look at the Covid effect on auto, and we expect other auto exposed names to provide similar commentary. Results included heavy investment losses and a lower personal auto combined ratio which came in at 74.7% for the month of March, and 86.3% for the first quarter.

Progressive monthly auto combined ratios

Source: Company reports, Inside P&C



Other disclosures made by Progressive included reserve increases to reflect the impact Covid-19 had on its “estimates of ultimate costs to settle claims” and charges related to an allowance for doubtful accounts resulting from steps taken to allow for payment grace periods.

We believe these items will be discussed in upcoming releases, and that it is worth noting that the full impact of shutdown measures were not fully reflected with many states only taking significant social distancing measures roughly half-way through the month of March.

Benign cat quarter

The overview of Q1 cat events points to relatively benign US cats in the quarter with around $1.5bn+ losses from winter storm in Central and Eastern parts of the country and $825mn losses from tornadoes in Tennessee, Missouri, Kentucky, Mississippi, Georgia and Texas, according to Aon Benfield’s monthly Global Cat Recaps.

For carriers with international and reinsurance exposures, the cat losses were mostly concentrated in $1bn+ insured losses resulted from Australia’s January Bushfires and $1.1bn+ losses from Windstorm Ciara, with the insured losses largely concentrated in Germany.

Exhibit: Q1 cat summary

Source: Aon Benfield

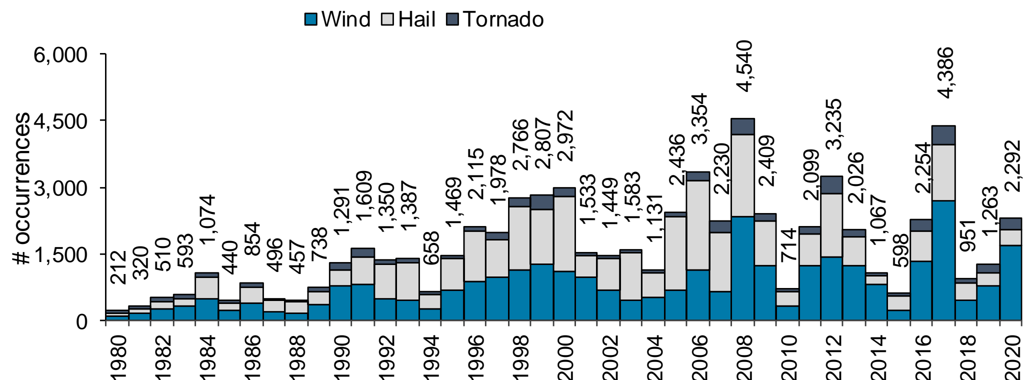
Dates	Catastrophes	Location	Structures/ Claims	Economic loss est.	Insured loss est.
		United States			
01/10-01/12	Severe weather	Central, Eastern US	100,000+	$1.2bn+	$800mn+
02/03-02/08	Severe weather	Central, Eastern US	100,000+	$925mn+	$675mn+
02/08-02/10	Severe weather	West	15,000+	$140mn+	Most losses
02/10-02/17	Flooding	Southeast	Thousands	$100mn+	Small part of losses
02/25-02/27	Winter weather	Midwest, Northeast	Thousands	10s of millions	Millions
03/02-03/05	Severe weather	Midwest, Southeast	40,000+	$1.1bn+	$825mn
03/11-03/13	Severe weather	Midwest, Southeast	Thousands	10s of millions	Millions
03/17-03/20	Severe weather	Plains, Midwest, Southeast, Northeast	30,000+	$290mn+	$225mn
03/18	Earthquake	Utah	Thousands	Millions	Millions
03/20	Flooding	Midwest	NA	Millions	NA
03/24	Severe weather	Southeast	Thousands	10s of millions	10s of millions
03/27-03/30	Severe weather	Plains, Midwest, Southeast, Northeast	100,000+	$1.0bn+	Most wind and hail
03/31	Severe weather	Southeast	10,000+	10s of millions	NA
		International significant cats			
11/08-01/17	**Bushfire**	**Australia**	**20,000+**	**Billions**	**$1.13bn**
01/07-01/11	Earthquake	Puerto Rico	5,000+	$450mn+	Fraction of losses
02/09-02/10	Windstorm Ciara	Western & Central Europe	750,000+	$1.9bn+	$1.1bn+

There were limited cat pre-announcements in the quarter, hinting to a benign cat loss quarter for the space.

Using the data from National Weather Service, Q1:20 saw a roughly average number of weather events at 2,292. This compared to last year's below average figure of 1,263. The result was driven by an above average winds events, above average tornado events, offset by a below average hail events.

Exhibit: Q1 total weather events

Source: NWS, Inside P&C



Wind events came in at 1,679, above the 1,010 average since 2000. Last year, the figure came in below average at 759. Tornado events came in above the average of 170 at 242. This compares to last year's figure of 189. Hail events for the quarter came in at 371, below the average of 932. Following 2009, hail events have been below average every year except for 2012 at 1,426, and 2017 at 1,257.

Note, the data on the weather event occurrence does not directly correlate with insured losses as the events are not unique to urban areas. However, it does point for some potentially worse YoY non-cat weather losses, albeit against a soft comp.

Clues to future results in the spotlight for brokers

For insurance brokers, the Q1 will be all about forward-looking statements. Since Q3:17, brokers have been growing at an average 5% rate organically, with a particularly strong growth in insurance brokerage operations at an average 5.6%.

Despite broker revenues typically have high "stickiness" (low switching risk), our view is that there is still enough cyclicality in them to warrant an underlying revenue contraction during steep declines in economic activity.

The coronavirus impact on the businesses, particularly from the last 2 weeks in the quarter, and the forward-looking statements for Q2 will be in focus.

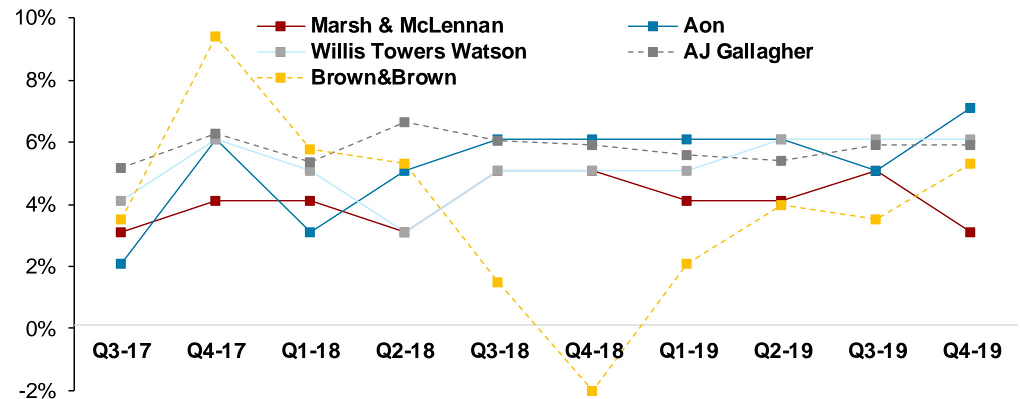
The large carriers with a high exposure on large accounts outside the industries directly hit by the crisis (e.g. travel, hospitality, energy, events and conventions) should see lower revenue headwinds.

As we discussed last week, we see a high potential for negative developments at non-public brokers, albeit unlikely being an observable data point for the public in Q1 earnings season.

Truist is expected to give early clues on Q1 and future results today morning, while results for all other brokers are scheduled to be out next week.

Exhibit: Public brokers' quarterly YoY organic growth

Source: NWS, Inside P&C



This research report was written by Insider Publishing's Research team which includes Gavin Davis, James Thaler, Gianluca Casapietra, and Dan Lukpanov.

The content of this report includes opinions based on publicly disclosed financials and management commentary.

The content of this report is the copyright of Insider Publishing Ltd. All rights reserved. Registered in England 3923422. Insider Publishing actively monitors the usage of our reports, emails and websites and reserves the right to terminate accounts if abuse occurs. No part of this report may be used, reproduced or stored in an information retrieval system or transmitted in any manner whatsoever without prior consent from Insider Publishing

For further information on what you can and cannot do with the information contained within this report, please refer to our Terms & Conditions page on our website. Insider Publishing Limited - 3rd Floor, 41 Eastcheap, London, EC3M 1DT, United Kingdom.