

## U.S. Insurance

## 4Q23 regional takeaways: reserve charges overshadow core improvement

## Industry Overview

**Adverse casualty development looms over 4Q23 results...**

Several insurers took casualty reserve charges with 4Q23 results, including regional peers Selective and Cincinnati (and Markel, AXIS, and Everest, so far). The quantity of charges calls into question the adequacy of industry reserves. General liability drove the strengthening at both Selective (SIGI) and Cincinnati (CINF). While Cincinnati was one of the earliest insurers to acknowledge rising casualty loss trends in mid-2022, challenges were related to umbrella. Reserves for the soft market years of 2015-19 have been under particular scrutiny; however, the “pandemic years” with suppressed claims activity were also included in some true-ups. We do not project further strengthening for any regional peers; we concede downside risk to our forecasts if additional charges occur. We retain Buys on AIZ (Assurant) and CINF given material upside vs our POs, Neutral on THG (The Hanover) given limited upside, and Underperform on SIGI given downside.

**... with limited readthrough to underlying margins**

Attritional commercial margins were in line with or better than our forecasts; recent firm pricing across most lines likely contributed. However, given prior-year reserve pressure, casualty loss picks, present and past, are likely to remain under scrutiny moving forward. Selective gives detailed loss cost expectations, increasing the consolidated trend to +7% vs prior +6.5%, driven by casualty loss costs rising to +8% from +6%. Property loss cost trends are a partial offset, expected to slow to +4% from +7% as inflation cools.

**Personal lines margins turn the corner**

Inflated costs for repairing/replacing damaged vehicles and homes have weighed on personal lines profitability, but results have started to show green shoots. 4Q23 core loss ratios significantly improved across the group, including Cincinnati and The Hanover. However, particularly benign winter weather benefited results on top of pricing and underwriting actions. While margin expansion should persist, some improvement will likely retrace in 1Q24E given more active winter weather. Selective continues to be an outlier as it repositions its book; we expect it to reach target profitability by YE26E.

**Higher cat loss expectations despite 4Q23 reprieve**

Given significantly elevated catastrophe losses in 9M23, benign weather in 4Q23 was a welcome reprieve. That said, several regional insurers increased expected cat loads with 4Q23 results to reflect evolving weather patterns, portfolio growth, and reinsurance program updates. The Hanover, which has experienced atypically outsized losses over the past year, increased the cat load to 7.0% from prior 5.1%; 2024E should be a high watermark as underwriting actions earn into the book. Selective now expects a 5.0% cat load vs prior 4.5%, and Assurant increased est. cat losses to \$155mn from \$140mn.

**Outlooks broadly in line with expectations**

We believe the group has set achievable targets for 2024E. The Hanover expects an ex-cat combined ratio of 90-91% in 2024E, down from 91.3% in 2023. Likewise, Selective guided to improvement to a 95.5% CR in 2024E vs 96.5% in 2023. Assurant estimates mid-single-digit adj. EBITDA growth; while in line with our pre-earnings growth estimate, it is now off a higher base given a 4Q23 beat. Cincinnati lowered its 5Y average CR target to 92-98% vs prior 95-100%, more in line with recent results.

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**Exhibit 1: Stocks mentioned**

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AIZ	AIZ US	Assurant	US\$ 174.49	B-1-7
CINF	CINF US	Cincinnati	US\$ 108.89	B-1-7
SIGI	SIGI US	Selective	US\$ 100.08	B-3-7
THG	THG US	The Hanover	US\$ 131.89	B-2-7

Source: BofA Global Research

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## Price objective basis & risk

### Assurant (AIZ)

Our price objective of \$215 is based on 75% of the S&P 500 year-ahead P/E multiple of 18x on our 2024E EPS forecast including amortization expense. This is an increase compared to the historical valuation vs the S&P 500 (70%), which we believe is merited given a) Assurant's increasingly capital-light business mix and b) the relative defensiveness of its businesses.

Downside risks to our price objective are a slowdown in capital returns to shareholders, outsized catastrophe losses, loss of a major distribution partnership, and a deceleration in top line growth for the Connected World businesses.

### Cincinnati Financial Corporation (CINF)

We arrive at our \$135 price objective via summing the value per share of a) the company's insurance operations and b) the common equity portfolio. We estimate \$70/sh for the insurance operations, predicated on 100% the year-ahead peer group P/E multiple (10x) on our op. 2025E EPS forecast. We expect valuation within the long term average range of 95-105% based on current margin and growth projections. We estimate \$65/sh for the common equity portfolio, based on our long-term market appreciation assumption of +6.5% on the marked-to-market portfolio value (\$11bn), tax-effected and multiplied by the S&P 500 forward P/E multiple (18x).

Bidirectional risks to our PO are the magnitude of catastrophic losses, prior year reserve development, the evolution of industry rate and loss cost trends, and equity market movements.

### Selective (SIGI)

Our price objective of \$101 reflects 110% of the 2025E peer group P/E multiple (10x) applied to our corresponding EPS forecast. This reflects the historical trading range. The stock has historically commanded a premium given its higher return profile.

Bi-directional risks to our PO are the magnitude of catastrophic losses, prior year reserve development, investment yield trajectory, P&C (property and casualty) pricing trajectory, and changes in loss cost trends. An increase in capital returns to shareholders could also present upside risk.

### The Hanover (THG)

Our price objective of \$137 reflects 100% of the P&C group forward P/E multiple (10.4x) applied to our 2025E EPS forecast. We assign a relative valuation near historical averages. We believe the stock will have difficulty capturing the premium valuation implied by the company's business mix while it executes its margin remediation plan.

Bi-directional risks to our PO are catastrophic losses, reserve development, investment

yields, changes in P&C pricing trajectory, evolving loss cost trends, and changes in the competitive environment.

## **Analyst Certification**

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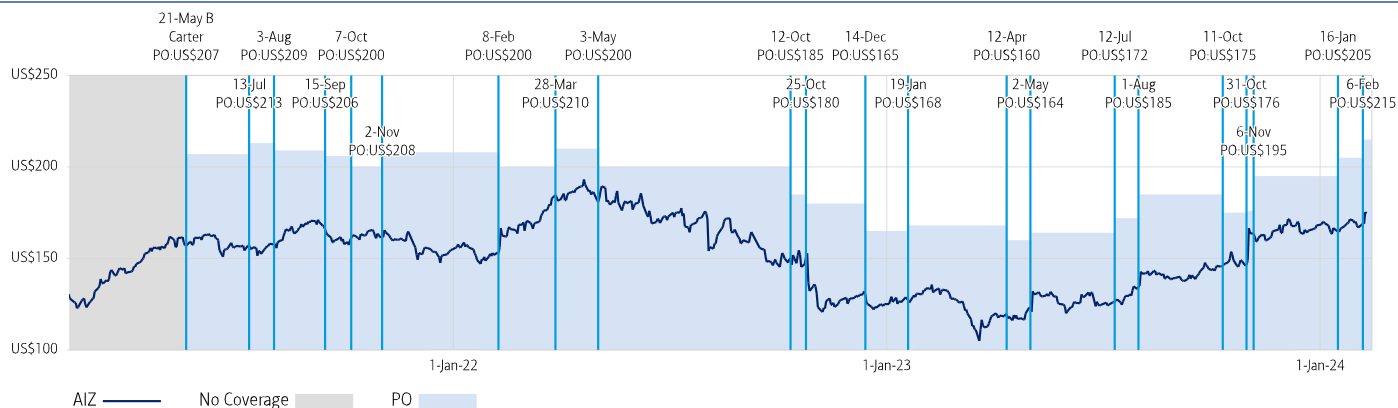
## US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Aflac	AFL	AFL US	Joshua Shanker
	Allstate Corp.	ALL	ALL US	Joshua Shanker
	American International Group	AIG	AIG US	Joshua Shanker
	Arch Capital	ACGL	ACGL US	Joshua Shanker
	Assurant	AIZ	AIZ US	Grace Carter, CFA
	Axis Capital	AXS	AXS US	Joshua Shanker
	BRP Group, Inc.	BRP	BRP US	Joshua Shanker
	Cincinnati Financial Corporation	CINF	CINF US	Grace Carter, CFA
	Corebridge Financial	CRBG	CRBG US	Joshua Shanker
	Everest Group Ltd	EG	EG US	Joshua Shanker
	Intact Financial	YIFC	IFC CN	Grace Carter, CFA
	Intact Financial	IFCZF	IFCZF US	Grace Carter, CFA
	MetLife	MET	MET US	Joshua Shanker
	Progressive	PGR	PGR US	Joshua Shanker
	RenaissanceRe	RNR	RNR US	Joshua Shanker
	The Hartford	HIG	HIG US	Joshua Shanker
	Voya	VOYA	VOYA US	Joshua Shanker
	W.R. Berkley	WRB	WRB US	Joshua Shanker
<b>NEUTRAL</b>				
	Aon	AON	AON US	Joshua Shanker
	Brown & Brown	BRO	BRO US	Grace Carter, CFA
	Lincoln National	LNC	LNC US	Joshua Shanker
	Marsh McLennan	MMC	MMC US	Joshua Shanker
	Principal Financial Group	PFG	PFG US	Joshua Shanker
	Prudential Financial	PRU	PRU US	Joshua Shanker
	The Hanover	THG	THG US	Grace Carter, CFA
	Trupanion	TRUP	TRUP US	Joshua Shanker
	Unum	UNM	UNM US	Joshua Shanker
<b>UNDERPERFORM</b>				
	Arthur J. Gallagher & Co.	AJG	AJG US	Joshua Shanker
	Chubb Ltd	CB	CB US	Joshua Shanker
	CNA Financial	CNA	CNA US	Joshua Shanker
	Goosehead Insurance Inc.	GSHD	GSHD US	Joshua Shanker
	Selective	SIGI	SIGI US	Grace Carter, CFA
	Travelers Cos	TRV	TRV US	Joshua Shanker
	Willis Towers Watson	WTW	WTW US	Joshua Shanker

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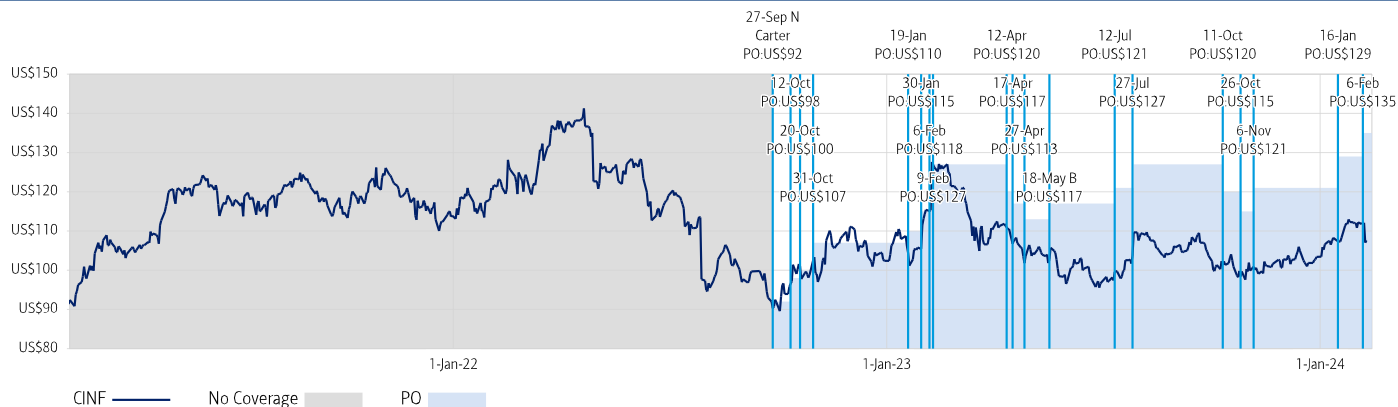
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## Assurant (AIZ) Price Chart



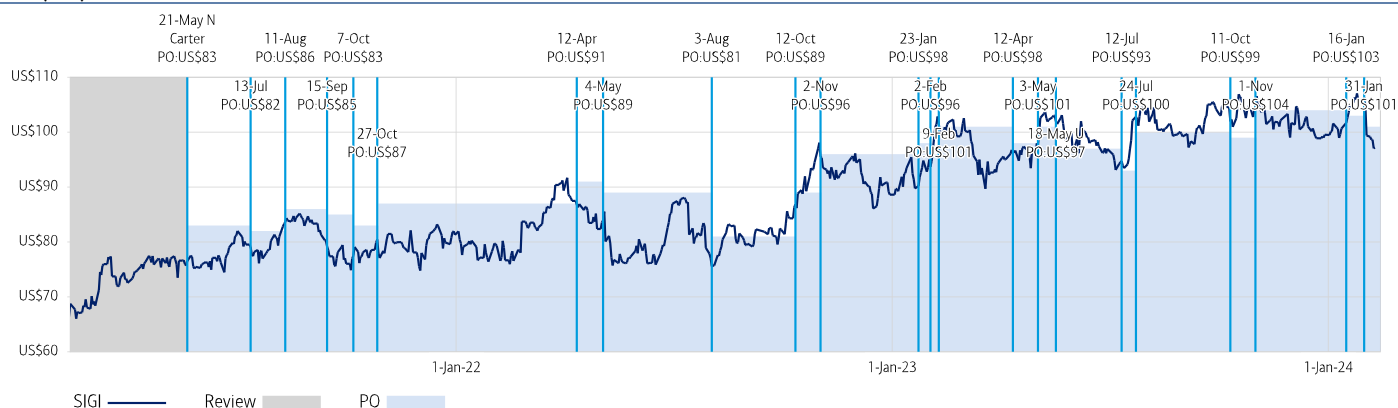
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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**Assurant (AIZ) Price Chart****Cincinnati (CINF) Price Chart**

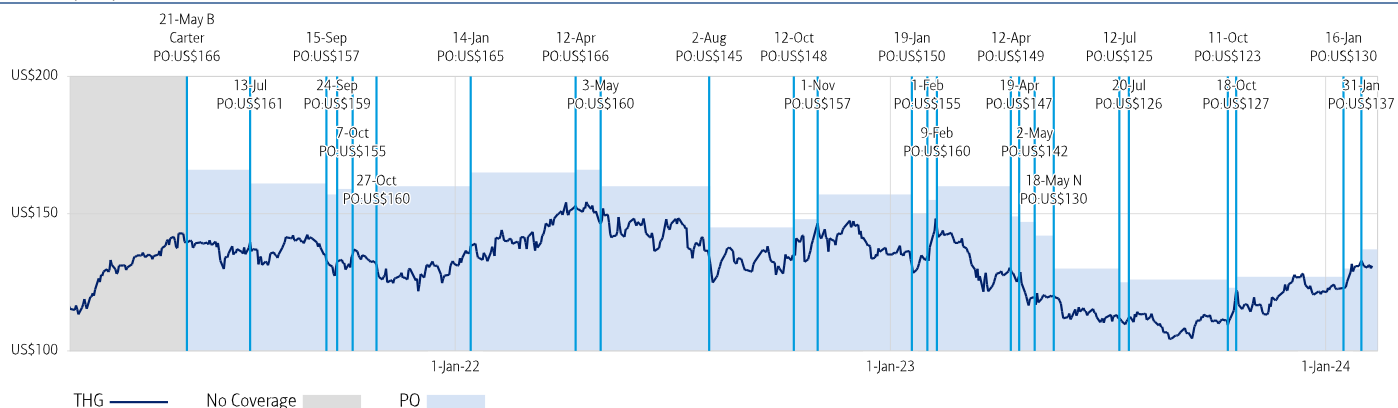
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**Selective (SIGI) Price Chart**

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**The Hanover (THG) Price Chart**

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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**Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

**Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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