

U.S. Insurance

ALL 4Q23 cat announcement well-below expectations; positive for PGR and TRV

Price Objective Change

Boosting 4Q23 EPS forecasts on catastrophe losses

Allstate (ALL) reported catastrophe losses for 4Q23 of just \$68mn. This outcome is well-below consensus expectations of \$589mn and our prior BofA forecast of \$457mn. Further, it is below 4Q22's \$779mn and an average of \$1.95bn over the previous three quarters. Some of the low loss could be attributed to favorable development on prior-period catastrophe losses, but it still seems to point to very low catastrophe losses for December 2023 and 4Q23. In addition to revising up our Allstate 4Q23 EPS forecast (to \$3.76 from \$3.17, previously), we increase our December 2023 EPS forecast for Progressive (PGR reporting Jan. 24) to \$0.88 from \$0.83 (inclusive of \$61mn in cat losses) and our 4Q23 EPS forecast for Travelers (TRV reporting tomorrow, Jan. 19) to \$5.45 from \$5.25 previously (with \$155mn in cat losses). No material change to out-year forecasts.

Adverse prior-year loss development continues at Allstate

Allstate also preannounced 4Q23 unfavorable prior-year reserve development of \$199mn, including \$148mn related to personal auto. This follows on the company having reported an average of \$312mn/qtr and \$49mn/qtr of personal auto development in 2022 and 9M23, respectively, as well as adverse development averaging of \$63mn/qtr and \$30mn/qtr largely related to commercial lines over the same periods. The emergence of even more adverse development from Allstate may partly vindicate Progressive's \$1.17bn in adverse prior-year development through November 2023 (over 90% of which occurred in 1H23). It is likely worth observing that adverse development at Travelers personal auto has been essentially negligible in both 2022 and 2023.

Reserve issues may be backward-looking; follow cash flow

Despite 6 quarters in a row of net losses (2Q22-3Q23), cash flow generation at Allstate has remained consistently positive in 2022 and 2023. With increasing losses from prior-period claims and catastrophe losses as headwinds, Allstate has consistently generated quarterly cash flow, and we expect the cash flow (and earnings) trend to inflect positive with 4Q23 results. Just as cash earnings were middling at Progressive in 2022 only to inflect to decidedly positive in 2023. We expect the same trend shift for Allstate in 2024. Travelers had a very good quarter of cash flow generation in 3Q23, though we are not yet certain if this defines a change in trend. (see pages to follow)

We remain bullish on ALL and PGR, while cautious on TRV

Shares of ALL, PGR and TRV each hit all-time highs yesterday. While remaining bullish on Buy-rated Allstate and Progressive, we are more cautious on Underperform-rated Travelers. While all three will benefit from what we perceive to be once-in-a-generation price increases in personal auto, this represents only a minority of Travelers (just under 20%), while Travelers is likely to be currently over-earning in workers' comp (10% of premium). We see Travelers as less levered to the personal auto investment theme (with downside to our new price objective of \$192 from \$188 previously, based on the 10.1x peer average multiple on 2025 EPS, vs prior 10x). Our Allstate PO also rises to \$172 from \$170 (for the same reasons as TRV), while our Progressive PO drops \$1 to \$233 based on parity matching a very slight S&P 500 multiple contraction (17.6x 2025 EPS vs prior 17.7x).

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Exhibit 1: Summary of price objective changes in report
PO changes

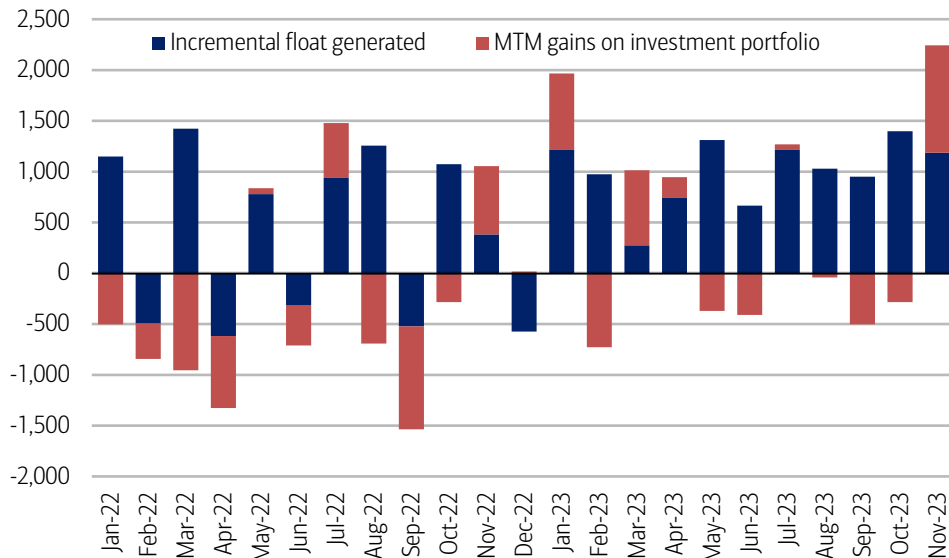
	Rating	New PO	Old PO
Allstate	Buy	172	170
Progressive	Buy	233	234
Travelers	Underperform	192	188

Source: BofA Global Research

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Exhibit 2: Month-over-month change in Progressive's investment portfolio (\$ in mn)

After an inconsistent year of monthly cash flow generation in 2022—a year of heavy repricing actions—Progressive's cash flow generation stabilized to consistently positive months in 2023. Progressive generated about a billion dollars of incremental float per month in 2023, and we expect it to be higher in 2024.

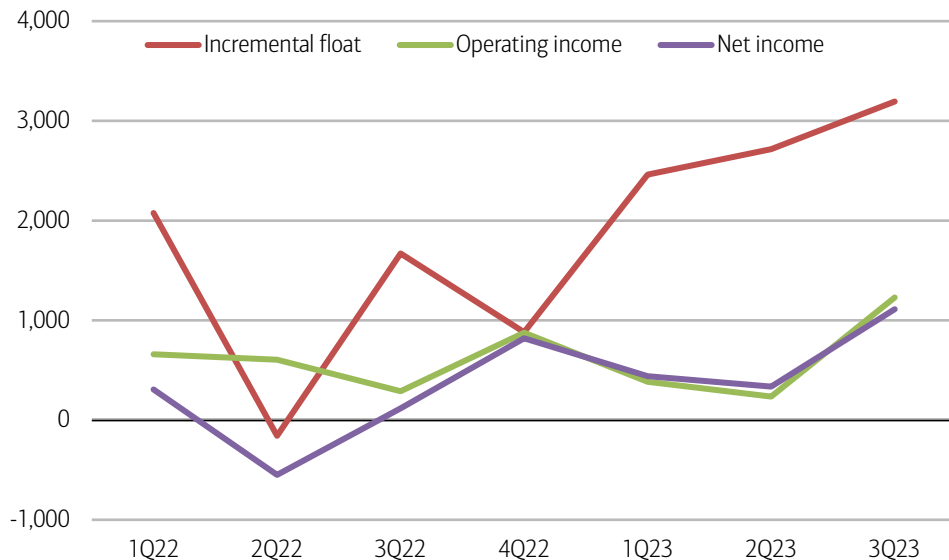


Source: Company reports

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Exhibit 3: Comparing float generation with income production at Progressive (\$ in mn)

We believe healthy insurance operations point to cash flow generation and income production moving in the same direction. We believe that Progressive has emerged from a 2022 trough toward increasingly higher operating production in 2023 and 2024.

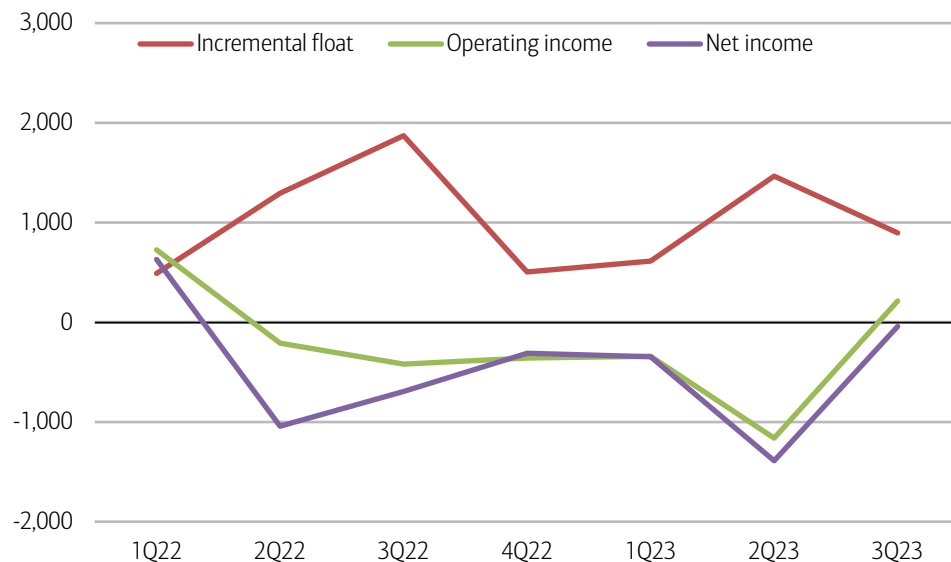


Source: Company reports

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Exhibit 4: Comparing float generation with income production at Allstate (\$ in mn)

Allstate has yet to “turn the corner” (as of 3Q23 results), but the Progressive trends in Exhibits 1 and 2 may be instructive. We believe stagnant cash flow generation (albeit, importantly, not negative) in 2022 and 2023 is likely to be replaced with a positive trend in 2024.

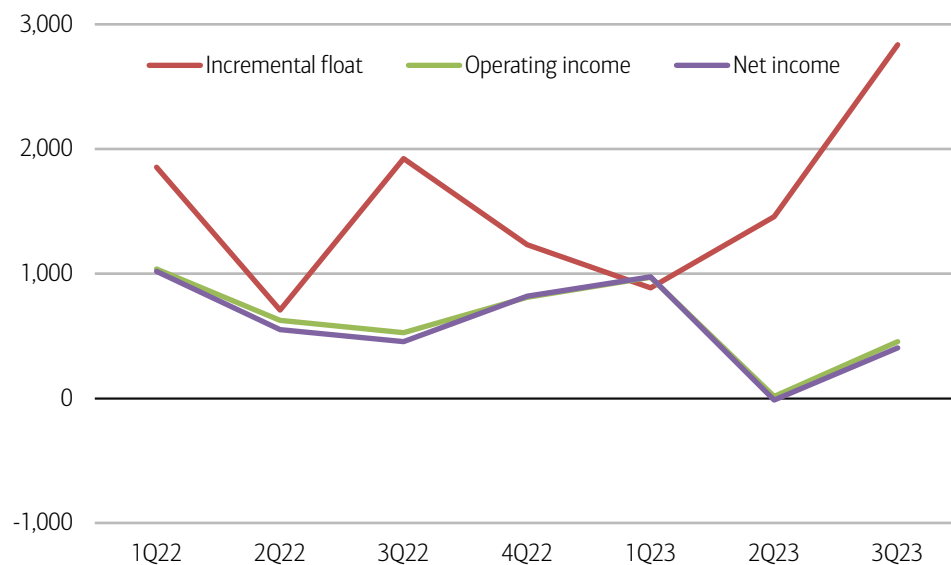


Source: Company reports

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Exhibit 5: Comparing float generation with income production at Travelers (\$ in mn)

Travelers produced a very positive incremental cash flow improvement in 3Q23 vs. 2Q23, despite two quarters in a row with very little earnings to report. Some of this appears seasonal, with 3Q being a strong quarter for cash flow generation (and 4Q23 cash flow likely to be pressured by 2Q23-3Q23 catastrophe losses). Given its far broader premium footprint, we are less confident in predicting the direction of Travelers's cash flow generation trend.



Source: Company reports

GLOBAL RESEARCH

Exhibit 6: Stocks mentioned

Prices and ratings for stocks mentioned in this report

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
ALL	ALL US	Allstate Corp.	US\$ 152.92	B-1-7
PGR	PGR US	Progressive Corp	US\$ 169.91	B-1-7
TRV	TRV US	Travelers Cos	US\$ 198.35	B-3-7

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk**Allstate Corp. (ALL)**

Our \$172 PO is based on parity with the peer group 2025E P/E multiple of 10.1x. The life insurance divestiture from two years prior and upcoming announced health divestiture should drive a higher relative valuation compared to the past, and, given our view that personal lines is a better business, there could be upside potential should the market shift to valuing personal lines at a premium. We believe this valuation is supported by our forecast for a 20%+ ROE (on tangible and stated).

Downside risk is presented by the pressure from lower interest rates causing a decline in earnings power and potentially leading the company to miss our EPS expectations. The race to reprice business following the new wave of auto accident frequency and severity could take longer than we forecast. The volatility associated with catastrophes also creates the risk of missing or exceeding our EPS outlook. Another risk: revenue and earnings uncertainty looms in the distance with the eventual adoption of autonomous vehicles.

Progressive (PGR)

Our \$233 price objective is based on the current S&P 500 P/E multiple for 2025 of 17.6x on our 2025E EPS forecast. Due to quickly accelerating EPS ahead of the market growth rate, as seen in 2016-2019, we believe Progressive shares should trade at a premium to market as its earnings accelerate. However, given a multiple valuation two years out, we only assume parity due to the necessarily decreased certainty in an out-year forecast.

Downside risks to our PO are 1) presented by the pressure from lower interest rates, causing a decline in earnings power and potentially leading the company to miss our EPS expectations, 2) the volatility associated with catastrophes, which also creates the risk of missing and exceeding our EPS outlook, 3) the impact of material pricing changes by major competitors, 4) the long-term impact of emergent technologies, such as ride-sharing applications and autonomously driven automobiles.

Travelers Cos (TRV)

Our \$192 price objective is based on the large-cap P&C peer group's next-year P/E multiple (currently 2025E), which currently stands at 10.1x. The company's transparency aids in establishing investor confidence in its reserving methodology and underwriting discipline.

Upside risks to our price objective are the potential that commercial loss reserves established during the COVID19 period do not evolve into paid claims and instead create earnings in the form of net prior-year favorable reserve development. Additionally, high loss cost trend has muted the impact of rate improvements. Should loss costs decelerate, the company's underlying margins would expand more quickly. Downside risks are workers' comp claims could accelerate as back-to-work trends post-pandemic trend toward full employment. Catastrophe losses remain a key factor in earnings

volatility and could prevent the company from achieving our price objective. The risk of inflation remains a longer-term concern that would likely weigh materially on results or improve results in an extended disinflationary period.

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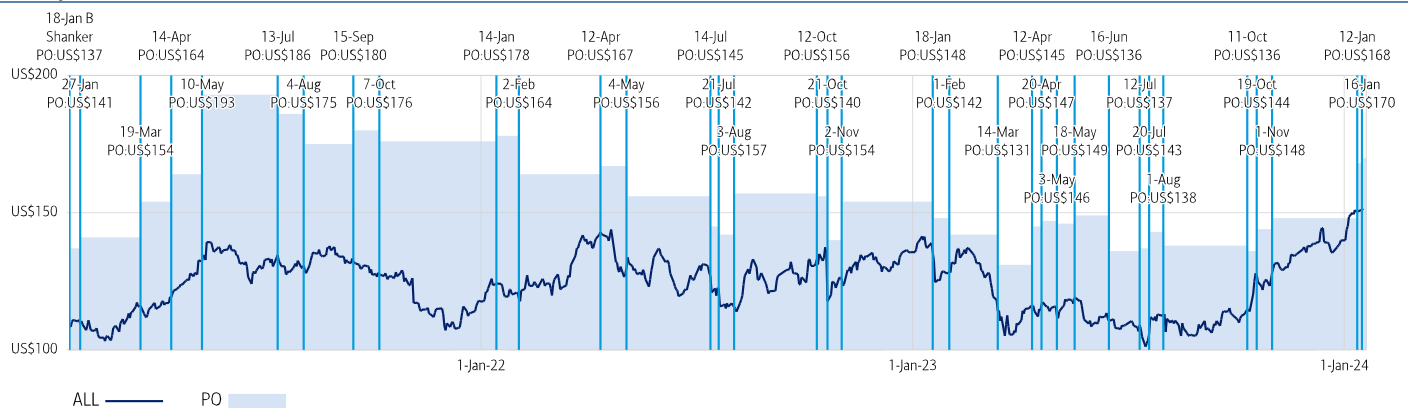
US - Insurance Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	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
NEUTRAL				
	Aon	AON	AON US	Joshua Shanker
	Brown & Brown	BRO	BRO US	Grace Carter, CFA
	CNA Financial	CNA	CNA US	Joshua Shanker
	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
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	Chubb Ltd	CB	CB 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

Disclosures

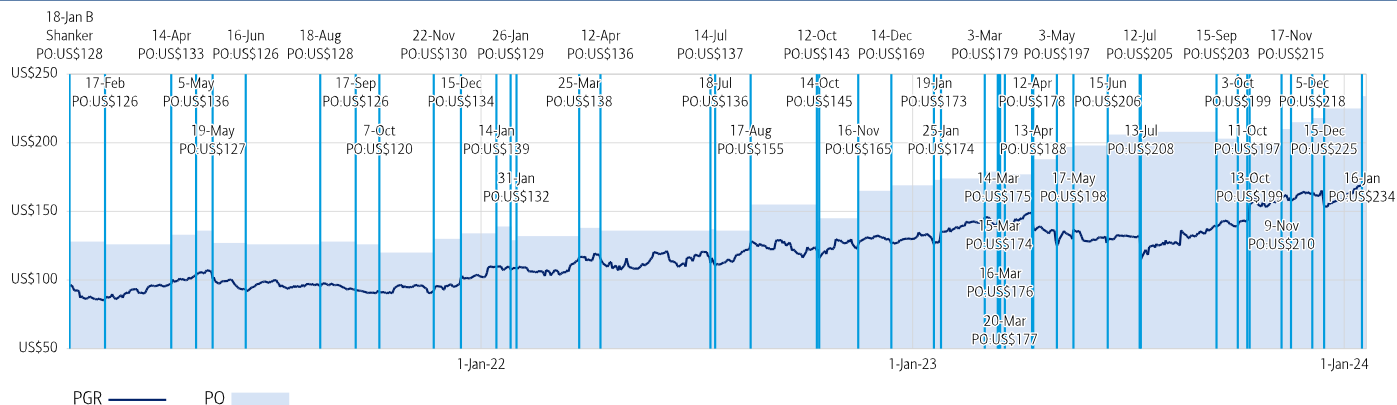
Important Disclosures

Allstate Corp. (ALL) Price Chart

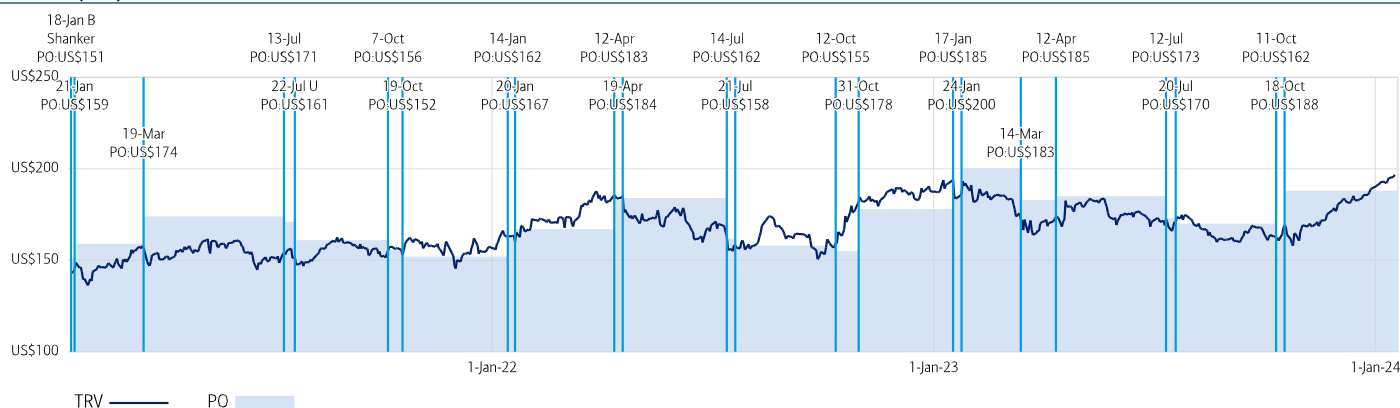


B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Allstate Corp. (ALL) Price Chart**Progressive Corp (PGR) Price Chart**

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Travelers Cos (TRV) Price Chart

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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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 ^{R1}	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%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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