U.S. Insurance

2Q23 SMid-cap P&C earnings preview: convective storms to shape results

Price Objective Change

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Equity
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Insurance

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Convective storms to materially impact 2Q23 results

2Q23 experienced particularly elevated US convective storm activity, which should pressure results across the property & casualty space. Industry and peer data to date suggest materially above average 2Q catastrophe claims. Although storm activity was widespread, losses are likely to be especially elevated for players with significant footprints in the Midwest and Southeast. Primary insurers are also particularly likely to see elevated catastrophe losses due to the low likelihood of any individual storm reaching reinsurance thresholds. Hardening reinsurance market conditions have broadly driven increased retention levels, further compounding this dynamic. Although we already modeled atypically high cat claims, we increase losses across the board to reflect a continuation of unfavorable weather trends though the end of June.

Personal lines margins to remain under pressure

To date, loss cost challenges from inflation have been most pronounced in personal lines, with nearly universal deterioration across auto and homeowners' margins. We expect a continuation of personal lines margin challenges in 2Q23E, although we expect recent pricing actions to gradually alleviate the pressure. Several personal lines players should also lap difficult prior year comparisons in mid-2023, inflecting to margin improvement later in the year. Any updates from management teams on the loss cost environment and progress on corrective pricing actions could influence sentiment for the group.

We continue to monitor commercial loss cost trends

While commercial lines results have not been under the same extent of pressure as personal lines, various players have seen margin contraction from inflation in recent quarters. We believe the trajectory of commercial property pricing vs loss cost trends will remain a key topic with 2Q23 results, particularly given higher property reinsurance pricing at 2023 renewals. Furthermore, multiple industry peers have called out rising casualty loss costs. Updated color from management teams on casualty loss trends as pandemic-related court backlogs unwind could impact group sentiment. We expect ongoing pricing and reunderwriting actions to benefit commercial margins for regional P&C peers in 2023E.

Peer multiple contraction weighs on commercial POs

We update our price objectives to reflect recent market movements. Peer group multiple contraction (10x vs prior 10.5x) drives a net decrease for commercial property & casualty valuations. Conversely, favorable equity market performance in 2Q23 and broad market multiple expansion benefits valuation for Cincinnati's sizeable common equity portfolio and Assurant's capital light operations.

Please see Exhibit 1 and 2 for a summary of our PO and EPS estimate changes.

Exhibit 1: Updated POs

Lower P&C group P/E multiples and broad market multiple expansion impact our PO changes.

			Price Objective	
Company	Ticker	Rating	New	Prior
Assurant	AIZ	Buy	172	164
Cincinnati	CINF	Buy	121	117
Selective	SIGI	U/P	93	97
The Hanover	THG	Neutral	125	130

Source: BofA Global Research

BofA GLOBAL RESEARCH

P&C: Property & Casualty

Refer to important disclosures on page 9 to 13. Analyst Certification on page 8. Price Objective Basis/Risk on page 8.
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Timestamp: 12 July 2023 06:00AM EDT

Summary of key changes

Exhibit 2: Price objective and 2Q23E EPS changes
We update our forecasts to reflect events in the quarter.

			Price Objective		2Q23E EPS		
Company	Ticker	Rating	New	Prior	BofA New	BofA Prior	Cons.
Assurant	AIZ	Buy	$ 172	$ 164	$ 2.52	$ 2.56	$ 2.76
Cincinnati	CINF	Buy	$ 121	$ 117	$ 0.21	$ 0.46	$ 0.75
Selective	SIGI	Underperform	$ 93	$ 97	$ 1.13	$ 1.27	$ 1.44
The Hanover	THG	Neutral	$ 125	$ 130	$ 0.14	$ 0.86	$ 1.36

Source: Bloomberg and BofA Global Research estimates

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Exhibit 3: 2Q23 catastrophe loss forecasts
Convective storms should drive materially elevated catastrophe losses.

		Catastrophes ($m)		Catastrophes (%)	
Company	Ticker	New	Prior	New	Prior
Assurant	AIZ	52	49	11.0%	10.5%
Cincinnati	CINF	358	310	18.8%	16.3%
Selective	SIGI	78	68	8.3%	7.2%
The Hanover	THG	184	152	12.9%	10.6%

Source: BofA Global Research estimates

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Exhibit 4: Full-year EPS forecasts
We revise some of our full-year EPS forecasts.

		2023E		2024E		2025E	
Company	Ticker	BofA New	BofA Prior	BofA New	BofA Prior	BofA New	BofA Prior
Assurant	AIZ	$ 10.65	$ 10.75	$ 13.95	no change	$ 15.40	$ 15.45
Cincinnati	CINF	$ 3.85	$ 4.05	$ 6.00	$ 5.90	$ 6.80	$ 6.70
Selective	SIGI	$ 5.95	$ 6.10	$ 7.70	no change	$ 8.55	no change
The Hanover	THG	$ 5.60	$ 6.30	$ 12.40	$ 12.45	$ 14.15	no change

Source: BofA Global Research estimates

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Assurant (AIZ)

Price Objective: $172

BofA 2Q23E EPS Estimate: $2.52

Street High/Cons/Low: $3.07 / $2.76 / $2.20

Release date: 8/1 after market close; call 8/2 at 8 a.m. ET

Items to Watch:

- We model $52mn in catastrophe losses, or an 11% catastrophe load, in the Global Housing segment. We expect Assurant to have exposures to elevated convective storm activity throughout the quarter as well as floods in South Florida, driving an above average 2Q cat loss ratio. A heavier coastal footprint could lead Assurant's convective storm losses to compare favorably vs that of peers with greater exposures in the middle of the country. On an ex-cat basis, we forecast adj. EPS of $3.27.

- Excluding catastrophe losses, we forecast +34% YoY growth in Global Housing EBITDA in 2Q23E. Inflationary pressures have elevated the ex-cat loss ratio in recent quarters; however, the company has now lapped earlier, challenging comparisons. We expect FY23E ex-cat EBITDA growth of +11% as corrective pricing actions earn into results. Any management updates on loss costs and written pricing levels could influence stock reaction.

- We expect Global Lifestyle adj. EBITDA to fall -10% in 2Q23E, reflecting international strain on the consumer and foreign exchange pressure. We forecast EBITDA to rise +1% for FY23E in line with guidance for modest growth, expecting YoY comparisons to become easier as the year progresses. Any updates on near-term top line expectations given recent challenges and potential pressure on consumer demand could influence sentiment.

- We forecast an "other" investment yield of 3% in 2Q23E, below our run rate forecast of 5.75%. Despite favorable public equity market performance YTD, we expect alternative marks to remain cautious in the near term due to macro uncertainty.

- We expect consolidated adj. EBITDA to rise +4% for FY23E, informed by guidance for low-single-digit growth. We expect modest growth in ex-cat adj. EPS of +1%; the company expects EPS growth to fall below EBITDA growth. Following a strong beat with 1Q23 results, we believe risk vs our estimates is skewed to the upside. Any early tweaks to the FY23E outlook could be consequential for stock reaction.

- We forecast $10mn in repurchases in 2Q23E and a further $75mn in 2H23E. The company aims to exercise prudence in the near term compared to annual run rate guidance of $200mn-$300mn as it rebuilds capital from challenging investment portfolio mark-to-market in 2022. If repurchases resume run rate levels more quickly than we assume, there could be upside to our forecasts.

- Our PO rises to $172 from $164, predicated on 75% the forward S&P 500 P/E multiple on our 2024E EPS forecast (incl. amortization expense). Multiple expansion to 18x vs prior 17x drives the increase. Material upside vs our PO underlies our Buy rating; we believe current valuation does not adequately reflect Assurant's capital-light business mix.

Cincinnati (CINF)

Price Objective: $121

BofA 2Q23E EPS Estimate: $0.21

Street High/Cons/Low: $0.98 / $0.80 / $0.46

Release date: 7/27 after market close; call 7/28 at 11 a.m. ET

Items to Watch:

- We forecast $358mn in net catastrophe losses, or an 18.8% combined ratio contribution. The quarter saw an elevated level of convective storm activity, and industry catastrophe loss data to date suggests significantly above-average losses for primary insurers. Given Cincinnati's likely exposures to storms across the Midwest and Southeast, we expect material 2Q23E losses.
- We estimate a Commercial core loss ratio of 62.4% for 2Q23E, or 240bps YoY improvement. In recent quarters, Cincinnati has called out margin pressure from challenging loss cost trends, particularly in commercial umbrella lines. However, the magnitude of YoY deterioration slowed meaningfully with 4Q22-1Q23 results vs 2Q22-3Q22, and the company has finally lapped difficult comparisons. 1Q23 results included an increasing percentage of claims expense allocated to incurred-but-not-reported vs case incurred, suggesting heightened caution in current period reserves. If 1Q23 case incurred levels persists, there could be upside vs our forecasts.
- For Personal lines, we expect a 2Q23E core loss ratio of 59.5% vs 63.5% in 1Q22. We expect YoY deterioration in personal auto given inflationary pressures, more than offset by improvement in homeowners' given atypically high losses in 2Q22. However, the extent to which individual convective storm events meet the "catastrophe" threshold could impact the balance between the attritional and catastrophe loss ratios.
- We forecast a total combined ratio of 100.0% for 2023E (107.3% in 2Q23E) vs the original outlook of low-to-mid-90%s. Elevated catastrophe activity YTD drives the estimated miss vs guidance. Reserve reestimates are also likely to be a source of volatility vs our estimate; we forecast -2.0% loss ratio impact in 2023E vs -2.3% in 2022 and -6.9% in 2021. We concede upside to our forecast if results fall within the guided range.
- Cincinnati has an atypically high allocation to common equities; they comprise ~40% of the company's investment portfolio. We currently model Cincinnati to exceed its long-term average value creation target of +10-13% in 2023E given favorable 1H23 equity market performance. However, we acknowledge downside to our forecast if macro uncertainty translates to renewed equity market turbulence later in the year.
- We increase our PO to $121 from $117 upon updating our sum-of-the-parts calculations. Favorable common equity portfolio mark-to-market more than offsets peer group multiple contraction. Material upside vs our PO underlies our Buy recommendation; we believe forward earnings risk is skewed to the upside.

Selective (SIGI)

Price Objective: $93

BofA 2Q23E EPS Estimate: $1.13

Street High/Cons/Low: $1.62 / $1.47 / $1.27

Release date: 8/2 after market close; call 8/3 at 11 a.m. ET

Items to Watch:

- We estimate $78mn in 2Q23E catastrophe losses, or 8.3% loss ratio impact, above our run rate Q2 estimate. The quarter saw an elevated level of convective storm activity, and industry catastrophe loss data to date suggests significantly above-average losses for primary insurers. However, Selective's catastrophe losses could compare favorably vs peers due to a smaller footprint in the Southeast and lower allocation to personal lines business.

- For Standard Commercial, Selective's largest segment, we expect an underlying loss ratio of 58.5%, comparable with 2Q22 results. In recent quarters, inflationary pressures have impacted results, and we expect these dynamics to persist to a degree in the near term. However, we could be surprised to the upside if the 57.8% reported in 1Q23 recurs. We forecast 550bps of deterioration in the Personal core loss ratio to 67.5%, reflecting the impact of inflation. Management has previously provided detailed thoughts on the loss cost environment; any updates could be key for sentiment.

- For 2Q23E, we expect a consolidated core combined ratio of 91.8%, or 40bps of YoY deterioration. For FY23E, we forecast an underlying combined ratio (incl. 1Q23 reserve releases) of 91.4%, better than guidance of 92% due to favorable 1Q23 results. Any adjustments to full-year guidance could impact stock reaction.

- We model an alternative investment yield of 7.5% for 2Q23E, below our run rate of 9%. Despite favorable public equity market performance YTD, we expect marks to remain cautious in the near term due to macro uncertainty.

- In 4Q20, Selective authorized a share repurchase program following several years of no buyback activity. In 2022, the company repurchased a modest $12mn in shares. We do not forecast any further buybacks going forward; however, we acknowledge upside to our forecast should they resume.

- Our PO decreases to $93 from $97, reflecting 120% the peer group forward P/E multiple on our 2024E EPS forecast. Peer group multiple contraction (10x vs 10.5x 2024E P/E multiple) drives the decrease. Downside vs our PO underlies our Underperform rating; Selective's current premium vs the group is materially above-average and could be difficult to sustain over the longer term.

The Hanover (THG)

Price Objective: $125

BofA 2Q23E EPS Estimate: $0.14

Street High/Cons/Low: $1.98 / $1.61 / $0.86

Release date: 8/2 after market close; call 8/3 at 10 a.m. ET

Items to watch:

- We estimate a 2Q23E catastrophe load of 12.9% ($184mn). We expect losses to exceed 2Q guidance of 6% due to significantly elevated convective storm activity. In recent quarters, the company has seen high catastrophe losses relative to its risk appetite, and it is currently implementing remedial actions to mitigate exposures. While we expect these efforts to be successful, they will likely require more time to make a noticeable difference.

- We forecast a Homeowners' core loss ratio of 55.5%, or 470bps YoY improvement. In 2022, the Homeowners' underlying loss ratio deteriorated sharply due to inflation and unusual large loss activity. While inflationary pressures should continue in 2Q23, the company has now lapped more challenging YoY comps, and reunderwriting actions should increasingly counteract margin compression moving forward.

- For Personal Auto, we model a core loss ratio of 74.5%, or 250bps of YoY deterioration, anticipating a continuation of challenging severity trends. Any updates on pricing actions to remediate Personal lines margins and the pace of expected improvement could affect sentiment.

- We forecast a Core Commercial core loss ratio of 59% for 2Q23E, or 200bps YoY deterioration. Inflation and supply chain challenges have pressured recent results, and we expect these challenges to persist in the near term. However, if 1Q23 results of 58.5% repeat, there could be upside vs our forecast. For Specialty, we forecast 54.0%, or 170bps of deterioration vs 2Q22. In light of current severity pressures, any color from management on loss cost trends and the commercial rate environment could impact stock reaction.

- For FY23E, we forecast an ex-cat combined ratio of 91.3%, in line with guidance of 91-92%. On an underlying basis, we estimate 91.5%. We acknowledge bidirectional risk depending on the trajectory of inflation-driven severity trends.

- We forecast an alternative investment yield of +7% in 2Q23E vs our run rate expectations of +8.5%. Despite favorable public equity market performance YTD, we expect marks to remain cautious in the near term due to macro uncertainty.

- Our PO falls to $125 from $130, reflecting the year-ahead peer group P/E multiple on our 2024E EPS forecast. Peer group multiple contraction (10x vs 10.5x 2024E EPS forecast) drives the decrease. Relatively limited upside vs our PO underlies our Neutral rating; we believe current valuation adequately reflects progress in margin remediation plans.

Exhibit 5: Stock Mentioned
Stock prices and ratings mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AIZ	AIZ US	Assurant	US$ 126.54	B-1-7
CINF	CINF US	Cincinnati	US$ 99.60	B-1-7
SIGI	SIGI US	Selective	US$ 94.72	B-3-7
THG	THG US	The Hanover	US$ 111.85	B-2-7

Source: BofA Global Research

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Price objective basis & risk

Assurant (AIZ)

Our price objective of $172 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 $121 price objective via summing the value per share of a) the company's insurance operations and b) the common equity portfolio. We estimate $61/sh for the insurance operations, predicated on 100% the year-ahead peer group P/E multiple (10x) on our op. 2024E EPS forecast. We expect valuation within the long term average range of 95-105% based on current margin and growth projections. We estimate $60/sh for the common equity portfolio, based on our long-term market appreciation assumption of +6.5% on the marked-to-market portfolio value ($10bn), 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 $93 reflects 120% of the 2024E peer group P/E multiple (10x) applied to our corresponding EPS forecast. This premium is above longer-term averages (110%), reflecting Selective's higher operating and investment leverage and return profile in a challenging loss cost environment.

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 $125 reflects 100% of the P&C group forward P/E multiple (10x) applied to our 2024E 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

I, Grace Carter, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

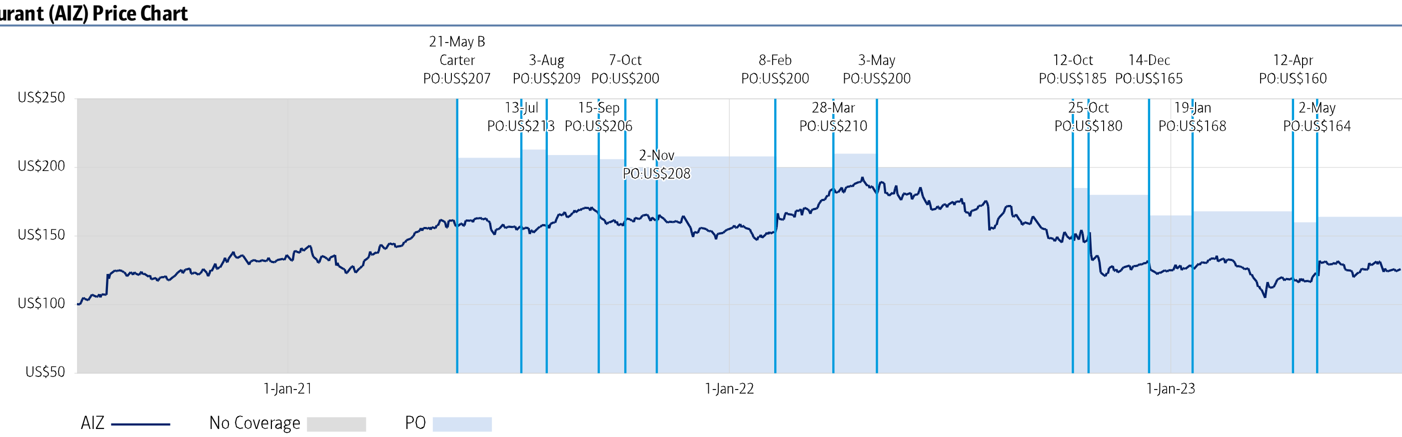
US - Insurance Coverage Cluster

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
	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
	CNA Financial	CNA	CNA US	Joshua Shanker
	Lincoln National	LNC	LNC 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
UNDERPERFORM				
	Arthur J. Gallagher & Co.	AJG	AJG US	Joshua Shanker
	Axis Capital	AXS	AXS US	Joshua Shanker
	Chubb Ltd	CB	CB US	Joshua Shanker
	Goosehead Insurance Inc.	GSHD	GSHD US	Joshua Shanker
	Lemonade, Inc.	LMND	LMND US	Joshua Shanker
	Marsh McLennan	MMC	MMC 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

Assurant (AIZ) Price Chart

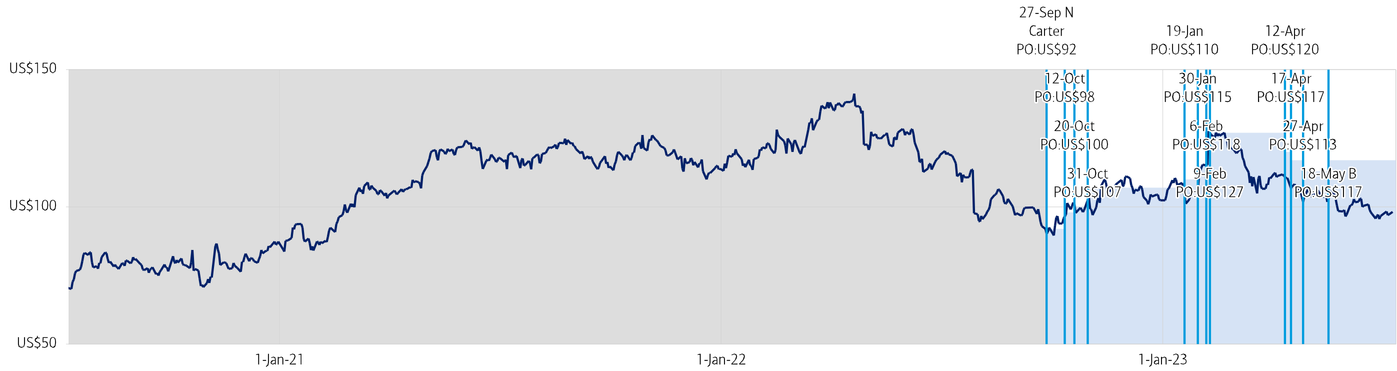


B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Assurant (AIZ) Price Chart

Cincinnati (CINF) Price Chart



CINF —— No Coverage PO

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

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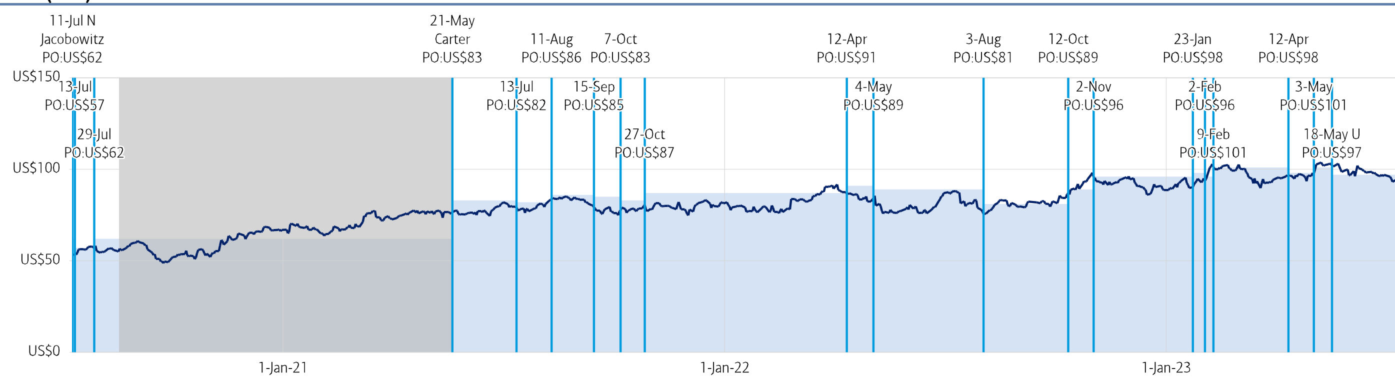
Selective (SIGI) Price Chart



SIGI —— Review PO

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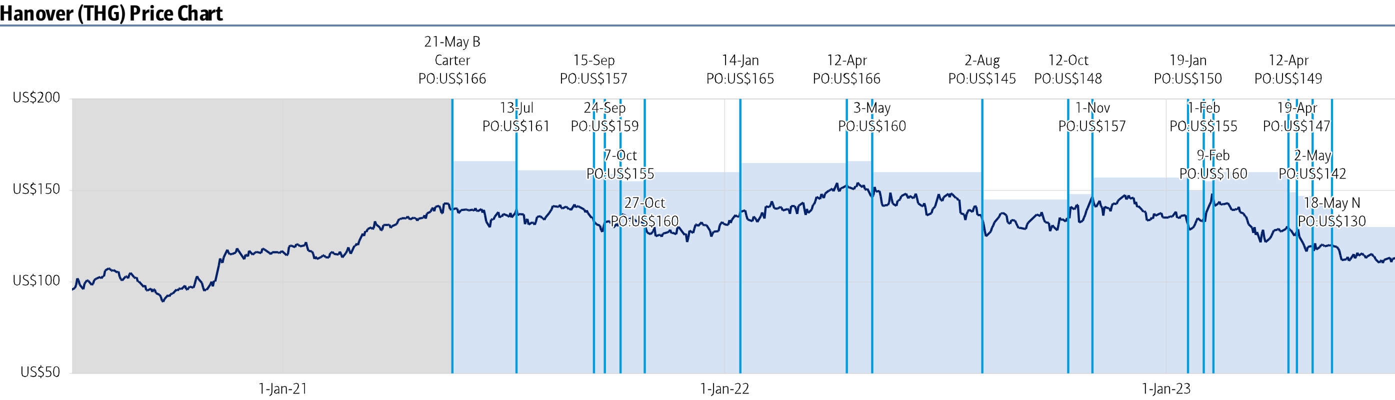
The Hanover (THG) Price Chart



THG —— No Coverage PO

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 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	145	50.52%	Buy	91	62.76%
Hold	78	27.18%	Hold	47	60.26%
Sell	64	22.30%	Sell	38	59.38%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	1877	53.28%	Buy	1040	55.41%
Hold	815	23.13%	Hold	464	56.93%
Sell	831	23.59%	Sell	385	46.33%

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

R2 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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