BofA SECURITIES

U.S. Insurance

3Q23 SMid-cap P&C preview

Price Objective Change

11 October 2023

Equity
United States
Insurance

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Accumulation of weather events to impact 3Q23 results

Peak Atlantic hurricane season falls in Q3, and results in recent years have suffered from very costly major hurricane landfalls. While 3Q23 lacked a record-breaking hurricane loss, the accumulation of claims from smaller Atlantic storms, a continuation of challenging convective storms, and the Hawaii wildfire should still weigh on US P&C earnings. Primary insurers are also particularly likely to see pressure due to the lower likelihood of any single event reaching reinsurance thresholds, particularly given recent market hardening. That said, Assurant is a likely outlier among primary insurers in 3Q23 given its heavier coastal exposures in the face of lighter hurricane losses; on Sept. 20, the company pre-announced lower-than-expected QTD catastrophe losses.

Personal lines margins to remain under pressure

To date, loss cost pressure from inflation has 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 3Q23E, although we expect recent pricing actions gradually to alleviate the pressure. Several personal lines insurers should also lap difficult prior-year comparisons in mid-2023, inflecting to YoY margin improvement. 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 insurers have reported margin contraction from inflation in recent quarters. We believe the trajectory for commercial property pricing vs loss cost trends will remain a key topic with 3Q23 results. 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 re-underwriting actions to benefit commercial margins for regional P&C peers in 2H23E.

Updating investment yields for recent market movements

We modestly increase fixed income yields across our coverage to reflect higher interest rates, predominantly benefitting EPS in 2024E-25E. Alternative investments generally correlate with the broad market with a lag; for 3Q23E, we expect results to improve vs recent quarters given improved equity market performance in 1H23. However, ongoing macro uncertainty could still weigh somewhat on returns.

Multiple contraction weighs on POs

We update our price objectives to reflect recent market movements. Peer group multiple contraction (10x vs prior 11x) drives a net decrease for commercial property & casualty valuations. Furthermore, unfavorable equity market performance in 3Q23 and broad market multiple retrenchment (18x vs prior 19x) weigh on valuation for Cincinnati's sizeable common equity portfolio and Assurant's capital-light operations.

Exhibit 1: Updated price objectives
Group multiple contraction weighs on POs.

			Price Objective	
Company	**Ticker**	**Rating**	**New**	**Prior**
Assurant	AIZ	Buy	$175	$185
Cincinnati	CINF	Buy	$120	$127
Selective	SIGI	U/P	$99	$100
The Hanover	THG	Neutral	$123	$126

Source: BofA Global Research estimates
BofA GLOBAL RESEARCH

Refer to important disclosures on page 9 to 13. Analyst Certification on page 8. Price Objective Basis/Risk on page 7. 12610039

Timestamp: 11 October 2023 05:55AM EDT

Summary of key changes

Exhibit 2: Updated price objectives and 3Q23E EPS forecasts

Price objectives broadly fall on group multiple contraction.

		Price Objective		3Q23E EPS		
Ticker	Rating	New	Prior	BofA New	BofA Prior	Consensus
AIZ	Buy	$175	$185	$2.51	$2.05	$2.33
CINF	Buy	$120	$127	$1.20	$1.11	$1.10
SIGI	Underperform	$99	$100	$1.60	$1.68	$1.58
THG	Neutral	$123	$126	$1.78	$ 2.25	$2.11

Source: BofA Global Research estimates and Bloomberg

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Exhibit 3: 3Q23 catastrophe estimates

We update our catastrophe estimates for events in the quarter.

	Catastrophes ($m)		Catastrophes (%)	
Ticker	New	Prior	New	Prior
AIZ	54	85	11.5%	18.0%
CINF	182	201	9.3%	10.3%
SIGI	56	49	5.7%	5.0%
THG	109	86	7.5%	5.9%

Source: BofA Global Research estimates

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Exhibit 4: Updated full-year EPS forecasts

2024E-25E EPS forecasts broadly rise on higher investment yields.

	2023E		2024E		2025E	
Ticker	BofA New	BofA Prior	BofA New	BofA Prior	BofA New	BofA Prior
AIZ	$12.45	$12.00	$14.35	$14.20	$16.50	$16.35
CINF	$4.95	$4.85	$6.10	$6.10	$6.95	$6.90
SIGI	$5.95	$6.05	$8.00	$7.90	$9.10	$9.00
THG	$2.60	$3.10	$11.95	$11.90	$14.20	$14.10

Source: BofA Global Research estimates

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Assurant (AIZ)

Price Objective: $175

BofA 3Q23E EPS Estimate: $2.51

Street High/Consensus/Low: $2.98 / $2.33 / $1.76

Release date: 10/31 after market close; call 11/1 at 8 a.m. ET

Items to Watch:

- We model $54mn in catastrophe losses, or an 11.5% catastrophe load, in the Global Housing segment. On September 20, Assurant published an 8-K disclosing <$50mn in catastrophe losses quarter-to-date. Hurricane Idalia drove over half of the losses, and the Hawaii wildfire accounted for the remainder. We have included a buffer in our estimate for events in the last 10 days of the quarter, such as convective storms, but we acknowledge upside potential in the event claims do not surpass $50mn. On an ex-cat basis, we forecast adj. EPS of $3.30.

- Excluding catastrophe losses, we forecast +39% YoY growth in Global Housing EBITDA in 3Q23E. Inflationary pressures have elevated the ex-cat loss ratio in recent quarters; however, the company has largely lapped earlier, challenging comparisons. We expect FY23E ex-cat EBITDA growth of +29% as corrective pricing actions and expense reductions earn into results. Any management updates on loss costs and written pricing levels could influence stock reaction.

- We expect Global Lifestyle adj. EBITDA to rise +6% in 3Q23E. International strain on consumers and foreign exchange volatility have pressured results in recent quarters; however, with 3Q23, the company has lapped challenging YoY comps. We forecast EBITDA to fall -2% for FY23E, in line with guidance for a modest decline. Any updates on near-term expectations given potential pressure on consumer demand and inflationary pressure on claims costs could influence sentiment.

- We forecast an “other” investment yield of 4% in 3Q23E, 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 macroeconomic uncertainty.

- We expect consolidated adj. EBITDA to rise +9% for FY23E, in line with guidance for high-single-digit growth. We also expect growth in ex-cat adj. EPS of +7%. Any tweaks to the FY23E outlook could be consequential for stock reaction.

- We forecast $30mn in repurchases in 3Q23E and a further $100mn in 4Q23E, per guidance for buybacks to be weighted towards the end of the year. The company paused buybacks in late 2022 through early 2023 as it rebuilt capital from challenging 2022 investment portfolio marks. All-in, we forecast $150mn in repurchases for FY23E compared to annual run rate guidance of $200mn-$300mn. If repurchases resume run rate levels more quickly than we assume, there could be upside potential to our forecasts.

- We lower our PO to $175 from $185, predicated on 75% the forward S&P 500 P/E multiple on our 2024E EPS forecast (incl. amortization expense). Multiple contraction to 18x vs prior 19x drives the decrease. 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: $120

BofA 3Q23E EPS Estimate: $1.20

Street High/Consensus/Low: $1.22 / $1.10 / $0.99

Release date: 10/26 after market close; call 10/27 at 11 a.m. ET

Items to Watch:

- We forecast $182mn in net catastrophe losses, or 9.3% combined ratio contribution. While we expect Cincinnati to see losses from Atlantic storms in the quarter, namely Hurricane Idalia, the lack of a very costly landfall in 3Q23 leads us to lower our catastrophe expectations for the reinsurance and global property businesses. That said, we expect the accumulation of convective storms and Atlantic storms to drive average to above-average losses in the remaining primary lines. Relatively small market share in Hawaii should constrain wildfire losses.

- We estimate a Commercial core loss ratio of 61.9% for 3Q23E, or 270bps YoY improvement. In recent quarters, Cincinnati has called out margin pressure from challenging loss cost trends, particularly in commercial umbrella lines. However, the company has lapped difficult comparisons. 1H23 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 lower case incurred levels persist, there could be upside vs our forecasts.

- For Personal lines, we expect a 3Q23E core loss ratio of 58.5% vs 59.5% in 3Q22. We expect YoY deterioration in personal auto given inflationary pressures, more than offset by improvement elsewhere given atypically high losses in 3Q22. 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 97.5% for 2023E (98.1% in 3Q23E) vs the original outlook of low-to-mid-90%s. Elevated catastrophe activity in 1H23 essentially drives the estimated miss vs guidance. Reserve re-estimates are also likely to be a source of volatility; we forecast -2.7% 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 be at the lower end of its long-term average value creation target of +10-13% in 2023E with elevated catastrophe losses offsetting net positive equity market performance YTD. We acknowledge downside to our forecast if macro uncertainty translates to further equity market turbulence for the rest of the year.

- We decrease our PO to $120 from $127 upon updating our sum-of-the-parts calculations. Unfavorable common equity portfolio mark-to-market and peer group multiple contraction drive the decrease. Material upside vs our PO underlies our Buy recommendation; we believe forward earnings risk is skewed to the upside.

Selective (SIGI)

Price Objective: $99

BofA 3Q23E EPS Estimate: $1.60

Street High/Consensus/Low: $1.76 / $1.58 / $1.36

Release date: 11/1 after market close; call 11/2 at 11 a.m. ET

Items to Watch:

- We estimate $56mn in 3Q23E catastrophe losses, or a 5.7% loss ratio impact, above our run rate Q3 estimate. We expect above-average losses due to the accumulation of convective storms and Atlantic storms over the course of the quarter. Selective's excess & surplus business could also see exposures from the Hawaii wildfire.

- For Standard Commercial, Selective's largest segment, we expect an underlying loss ratio of 58.0%, or 500bps improvement YoY (3Q22 incl. +60bps impact from a reinstatement premium). Throughout 2022, inflationary pressures noticeably impacted results, and we expect this to persist to a degree in the near term. However, the 1H23 underlying loss ratio of ~58% improved vs 61% for FY22. We expect 1H23 levels to continue as higher pricing earns into results.

- We forecast 920bps of deterioration in the Personal core loss ratio to 70.0%, reflecting the impact of inflation. Any updates on the timeline for recapturing target margins could be key for sentiment.

- We forecast a 2023E combined ratio of 96.4%, or 96.9% excluding any further reserve development. This is above full-year guidance of 96.5%, predominantly due to higher expected catastrophe losses in 3Q23E. On an underlying basis, we forecast 90.8%, relatively in line with management's outlook of 91%. Any adjustments to full-year guidance could impact stock reaction.

- We model an alternative investment yield of 9% for 3Q23E, in line with our run rate estimate. Alternative investments often correlate with the broad market on a lag; despite favorable public equity market performance in 1H23, 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 potential to our forecast should they resume.

- We lower our PO to $99 from $100, reflecting 120% the peer group forward P/E multiple on our 2024E EPS forecast. Peer group multiple contraction (10x vs prior 11x) 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: $123

BofA 3Q23E EPS Estimate: $1.78

Street High/Consensus/Low: $2.80 / $2.11 / $1.58

Release date: 11/1 after market close; call 11/2 at 10 a.m. ET

Items to watch:

- We estimate a 3Q23E catastrophe load of 7.5% ($109mn). We expect above-average losses due to the accumulation of convective storms and Atlantic storms over the course of the quarter. In particular, Michigan, the company's largest personal lines state, experienced challenging convective storm activity in late August. Relatively small market share in Hawaii should constrain wildfire losses. The company has recently seen high catastrophe losses relative to its risk appetite, and it is undergoing remedial actions to reduce exposures moving forward. 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 56.5%, or 610bps YoY improvement. In 2022, the Homeowners' underlying loss ratio deteriorated sharply due to inflation and unusual large loss activity. While inflationary pressures remain present in 3Q23, the company has now lapped more challenging YoY comps, and re-underwriting actions should increasingly improve margins moving forward.

- For Personal Auto, we model a core loss ratio of 77.5%, or 120bps lower YoY. The 3Q22 core loss ratio included 3pts from intra-year reserve charges, implying underlying deterioration of 180bps due to ongoing pressure from inflation. We expect the company to finally lap challenging YoY comps in 4Q23E. Any updates on pricing actions to remediate Personal lines margins and the pace of expected improvement could affect sentiment.

- We forecast a Core Commercial attritional loss ratio of 58.5% for 3Q23E, or 320bps YoY improvement. Inflation and supply chain challenges pressured 3Q22 results, but the company should lap difficult comps this quarter, benefiting from recent re-underwriting actions. For Specialty, we forecast 54.0%, or 50bps of deterioration vs 3Q22. 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 92.0%, in line with guidance for "the higher end of 91-92%". On an underlying basis, we estimate 92.3%. We acknowledge bi-directional risk depending on the trajectory of inflation-driven severity trends.

- We forecast an alternative investment yield of +8.5% in 3Q23E in line with our run rate expectations. Alternative investments often correlate with the broad market with a lag; despite favorable public equity market performance in 1H23, we expect marks to remain cautious in the near term due to macro uncertainty.

- We reduce our PO to $123 from $126, reflecting the year-ahead peer group P/E multiple on our 2024E EPS forecast. Peer group multiple contraction (10x vs prior 11x) 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: Stocks Mentioned
Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AIZ	AIZ US	Assurant	US$ 145.92	B-1-7
CINF	CINF US	Cincinnati	US$ 101.39	B-1-7
SIGI	SIGI US	Selective	US$ 101.94	B-3-7
THG	THG US	The Hanover	US$ 109.40	B-2-7

Source: BofA Global Research

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Price objective basis & risk

Assurant (AIZ)

Our price objective of $175 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 $120 price objective via summing the value per share of a) the company's insurance operations and b) the common equity portfolio. We estimate $63/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 $57/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 $99 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 $123 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.

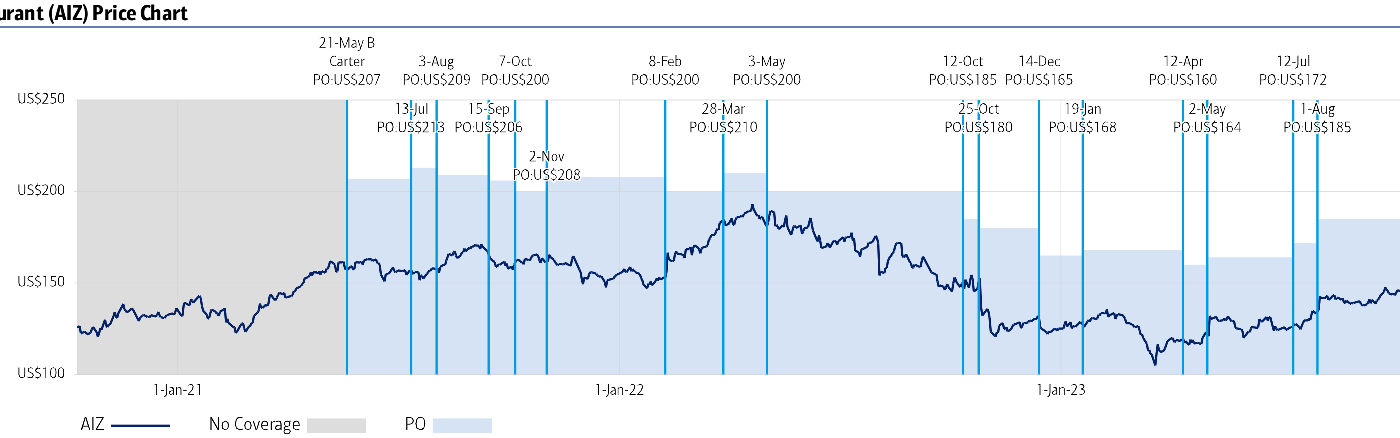
US - Insurance Coverage Cluster

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
	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
	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
	Unum	UNM	UNM US	Joshua Shanker
UNDERPERFORM				
	Arthur J. Gallagher & Co.	AJG	AJG US	Joshua Shanker
	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

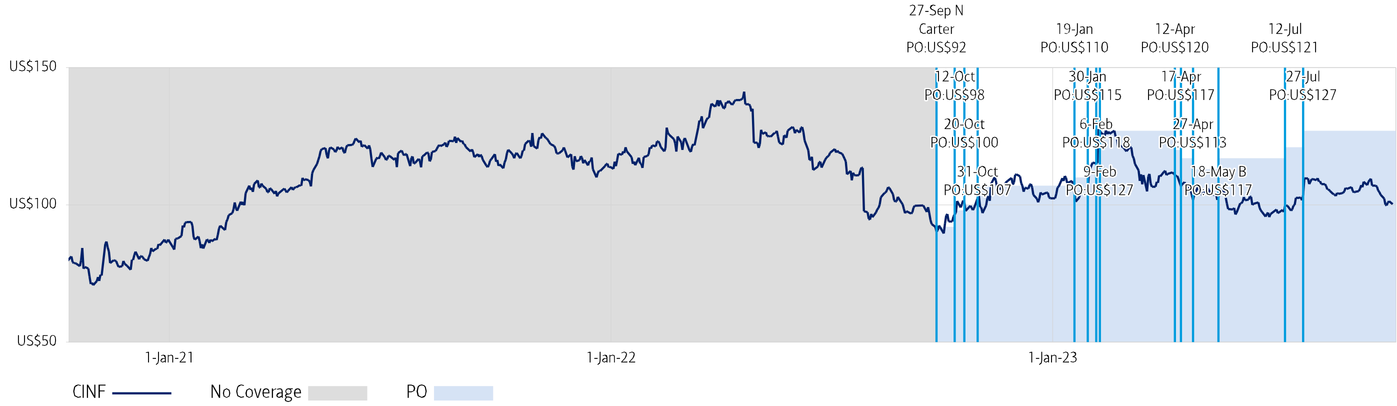
Assurant (AIZ) Price Chart



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.

Cincinnati (CINF) Price Chart



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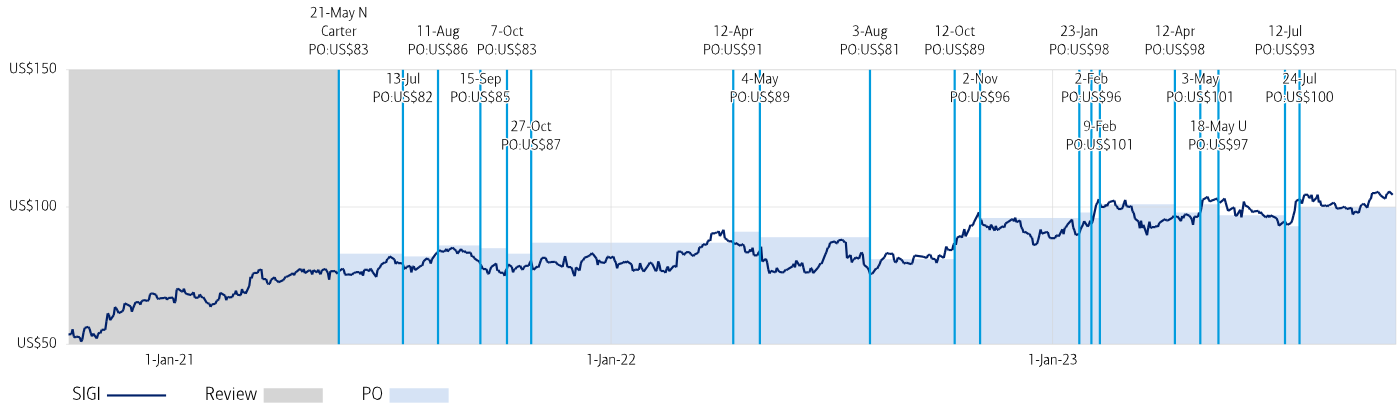
Selective (SIGI) Price Chart



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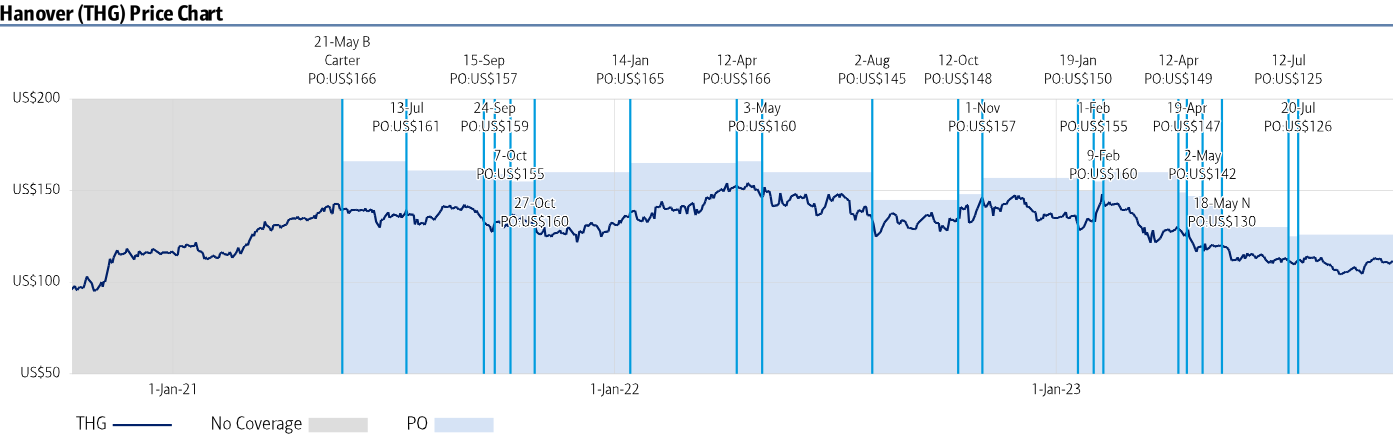
The Hanover (THG) Price Chart



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 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	156	53.24%	Buy	94	60.26%
Hold	79	26.96%	Hold	52	65.82%
Sell	58	19.80%	Sell	32	55.17%

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

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

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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