

STONYBROOK CAPITAL

STONYBROOK ASSESSES MARKET CONDITIONS FOLLOWING IAN'S RECORD SETTING LOSSES

Stonybrook estimates that the damage from Hurricane Ian is the largest-ever insured loss event, in nominal dollars, anywhere globally.





Reflecting economic growth and inflation, considering Ian as points on the insurance industry's annual loss ratio, it is still one of the top US events of the last hundred years. Likely over 10 points on the national direct loss ratio, Ian only lists behind the 2001 terror attacks and 2005 Hurricane Katrina and matches or may even be a bit higher than the 1938 New England hurricane. As this becomes recognized, the market effects will be profound and widespread.

The Florida market is uniquely dependent on many domestic or coastally-focused regional carriers, with much lower relative resources than the large national carriers, and generally poorer underwriting results for several years. Many are now in jeopardy.

They have so far been backed by state sponsored plans, but which are now also deeply drained by losses. The Florida Hurricane Cat Fund and the new RAP reinsurance program may have been exhausted for this year. Another big event before next June would not have the same protection for insurers as they received in Ian and could have even bigger net costs to the coastal carriers. (Nothing ominous is currently being tracked.)

In the private sector, one of the leading reinsurance underwriters of Florida treaties noted that "Ian is the straw that broke the back" of this marketplace. He and others believe that many underwriters will be required to withdraw their capacity from next year's renewals, unless there is a clear end to the state's "excessive property claim litigation and fraud." A special legislative session considered for the Spring of 2023 would be too late, in his view.

Modeler's Current Overall Estimates

Modeler	Estimate (\$M)	Inclusions	Exclusions	Litigation @ 20%	All Modeled Loss Coverages (\$M)
 KC & CO	63,000	Autos, Flood, Litigation, SC and Caribbean	LAE, Marine	Included	63,000
 Verisk	42,000 - 57,000		LAE, Litigation, Auto, Marine	9,900	64,650
 RMS	53,000 - 74,000	Litigation, Auto, Marine, Flood	LAE, Litigation, Auto, Inland Flood, FEMA	Included	65,500
 CoreLogic	31,000 - 53,000	Insured Only (\$6-12B NFIP Insured)	LAE, Litigation, Auto	8,400	44,650
Average					59,450
Median					63,825
Median Non-Modellable exposures and perils					3,000
Estimated LAE					12,000
Total Industry Insured Loss & LAE					\$75,000+

The modeling firms take different perspectives, including or excluding different coverage. The widest view is taken by Karen Clark & Co, who estimates total insured losses of \$63B. Adjusting for Florida litigation experience, and excluded exposures and perils, RMS and Verisk/AIR have largely similar views to KC&C. Each of the modelers exclude LAE, and some non-modellable exposures, such as Marine. LAE has generally been notably higher in larger events. We understand that loss locations that are further from other, unaffected states (like southwest Florida), have increased costs of adjusting and repairs, simply due to the longer travel distances. We estimate that Ian's property Wind losses will cost over 20% to adjust and it will be at least moderately elevated for other coverages.

Stonybrook estimates that the all-in insured loss and LAE is over \$75B, perhaps significantly over, and that it represents more than 10% of US 2022 P&C industry direct premiums.

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Stonybrook Estimates

Losses By Coverage (\$M)

Florida Residential Wind	40,000+
Florida Commercial Wind	15,000+
Subtotal	\$57,500+
Florida Auto	3,000+
Florida Private Flood	6,000+
SC and Further North	2,000+
Caribbean	250+
Other Perils and Coverages	3,500+
Total	\$75,000+

Loss Shares by Market Sector

	Direct	Ceded	Assumed	Net
FHCF	0%	0%	22%	22%
SBA / RAP	0%	0%	3%	3%
Citizens	9%	7%	0%	2%
Domestics	35%	29%	0%	6%
HNW Specialists	7%	4%	0%	3%
Other US Nationals	38%	30%	4%	13%
Offshore	10%	5%	37%	41%
Cat Bonds	0%	0%	10%	10%

Citizen's Insurance will likely experience a 25% or greater reduction in capital. It was already expecting to grow share as some domestic companies had already begun running off their in force, and more will follow soon. We estimate that its 2023 premium volume could double 2021's, on a significantly lower capital base, with much less reinsurance support. Citizen's is backed by all carriers admitted in the state. Their appetite to continue writing in Florida generally may reflect concerns about this increasing risk concentration.

The average domestic company has a significant double-digit loss of capital. We expect further downgrades below the "secure" level, and local observers believe some of these companies won't survive as independent businesses. Some recently received a degree of bankruptcy backstop onward to Citizen's, which could even further increase its share of the loss, if there are insolvencies,

We estimate global reinsurer portfolios on average will lose close to a year's earnings after tax: simplistically a very bad earnings event for many of them, and a capital hit to others. They will critically assess their catastrophe appetites worldwide. Big national US carriers are generally well-protected by diversification and stronger reinsurance programs. Personal lines focused groups will report a loss at their catastrophe reinsurance retention, although some have Florida subsidiaries that could be quite stressed unless recapitalized. Commercial focused groups may be even less exposed, unless they have a reinsurance or E&S Property arm.

As was seen in Katrina, we believe that it is likely that 100% of 2022 occurrence Cat XOL retrocessions sustained total losses, although relatively less capacity was placed than in 2005. Ian is also a record loss to the Cat bond market. Not all bonds are exposed in Florida and not all are occurrence based. Still, a meaningful share of total limits outstanding likely are totaled. Many diversified Cat funds are now in deep in the red for the year (if not earlier), and all will have "trapped capital" again. Some will now report experience that is far below their investor representations in 5 of the last 7 years. With the alternative of short term, rated, corporate, high yield returns trending above 7%, there will be less institutional investor interest in backing any form of Cat risk for 2023.

Statewide Economic Concerns

The National Flood program does not directly impact insurers' results, but it does concern the wider economy. Including NFIP and other FEMA and state spending, this is a nearly immediate cash injection of well over \$100B, and over 10% of statewide GDP. Ian's LAE inflation and insured demand surge will also be at very high levels. Some of the modelers explicitly address demand surge, but in this economy there's more room here for negative surprises than positive.

Following catastrophes, state and local governments often see reduced collections of sales, property and other taxes. They bear the cost of rescue and relief operations and repairing or replacing damaged government property. Both stress the budget.

Looking forward, the state backstop reinsurance program's capacity for next year depends on the State's ability to issue new bonds. That may be tougher, or at least pricier, next year than this past Spring. The FHCF's capacity will likely be much smaller. We don't expect much political desire for the state's general fund to reinstate the RAP while coffers are stressed by the local economic disruption of Ian, a generally weakening national economy and rising bond rates.

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Coastal Insurers: Market Performance

As the market digests the damage from Ian, most P&C stocks marginally underperformed the broader market last week, compared to the 3.2% advance in the S&P 500. Coastal insurers particularly underperformed with a median (5.0%) price change week to week.. The group continues to trade at a discount to book value and prices remain ~75% off of 52 week-highs.

As of Market Close 10/07/2022	Price	Mkt. Cap	% Change from Last Week	% of 52 Week High	Price to Book	Div Yld	Estimate Summary		
							Comb. Ratio	EPS	ROE
							2022E	2022E	2022E
Coastal Insurers									
HCI Group ("HCI")	\$33.25	\$300.7	(18.0%)	23.8%	1.26x	4.8%	105.6%	(0.53)	(1.8%)
Universal Insurance ("UVE")	8.56	262.9	(12.0%)	43.6%	0.72x	7.5%	102.9%	1.35	10.6%
Heritage Insurance ("HRTG")	2.01	51.9	(16.3%)	27.3%	0.30x	11.9%	106.2%	(0.97)	(9.1%)
United Insurance Holdings ("UIHC")	0.62	26.9	1.8%	12.2%	0.16x	0.0%	139.3%	(3.55)	NA
Kingstone Companies ("KINS")	2.60	27.7	(4.1%)	39.4%	0.59x	6.2%	106.6%	(0.79)	(13.8%)
FedNat ("FNHC")	0.19	3.3	17.1%	6.4%	0.23x	0.0%	NA	NA	NA
Average		\$112.2	(5.2%)	25.4%	0.54x	5.1%			(3.5%)
Median		\$39.8	(8.0%)	25.5%	0.44x	5.5%			(5.5%)

Stonybrook Services | Global presence – HQ in NYC and offices in London

Stonybrook Advisory Services | Investment Banking

- **Middle market insurance specialist with a focus on:**
 - M&A, raising capital, mutual insurers, coastal state carriers, MGAs, divesting non-core assets, and valuation analyses

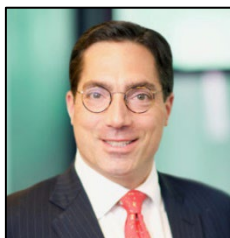
Stonybrook Alternative Investments

- **Placement agent for a variety of insurance related funds:**
 - Insurtech Funds, Lloyd's Capacity, and Surplus Notes Fund

Stonybrook Risk Management | Reinsurance Broking

- **Services provided include:**
 - Prospective carrier/MGA identification, product development, alternative risk, captive services, strategic advisory, and reinsurance placement
 - Fronting expertise

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Notable Stonybrook Capital Transactions

May 2022	April 2022	March 2022	November 2021
 <p>Series A Financing</p>	 <p>Acquired by  AF Group</p> <p>Exclusive Buy-Side Financial Advisor</p>	 <p>\$7,500,000 Capital Raise</p>	 <p>Loss Portfolio Transfer</p>  <p>MAIDEN HOLDINGS, LTD</p>
September 2021	June 2021	May 2021	December 2020
 <p>Acquired by  Porch Group</p> <p>Exclusive Advisor to CSE's Management</p>	 <p>\$20,000,000 Capital Raise</p>	 <p>European Operations</p> <p>Acquired by  RESOLUTION UNDERWRITING</p> <p>Exclusive Buy-Side Financial Advisor</p>	 <p>Acquired by  MILESTONE PARTNERS</p> <p>Exclusive Sell-Side Financial Advisor</p>
December 2020	November 2020	October 2020	May 2020
 Xchange Group LLC <small>Affinity • Benefits • Consulting • Intermediaries • Specialty • Travel</small> <p>Acquired by  Ambac</p> <p>Exclusive Sell-Side Financial Advisor</p>	 <p>Program Agreement</p>  APPLIED UNDERWRITERS	 AUI, Inc. <small>MGA & Surplus Lines Agent</small> <p>Acquired by  NORTHEAST COVERAGES</p> <p>Exclusive Buy-Side Financial Advisor</p>	 ANCHOR INSURANCE <p>Acquired by  Weston INSURANCE</p> <p>Exclusive Sell-Side Financial Advisor</p>

Stonybrook Risk Management 2021 Placements

<p>Market Finding Assignment</p> <p>Multi-State Surety</p>	<p>US and EU Retro Protection</p> <p>\$25M Excess of Loss Limit</p>	<p>Start-Up Coastal Homeowner Carrier</p> <p>Gross Account Quota Share</p>	<p>Northeast Regional Carrier</p> <p>Multiple Line, Catastrophe and Clash Excess of Loss</p>	<p>Dental and Medical Malpractice Insurer</p> <p>Excess of Loss</p>
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