

# SCALE AND CAPITAL IN THE US HOMEOWNERS MARKET

How to win

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# Homeowners Is a Capital Game and Auto Is a Scale Game

Larger Companies Often Use Scale in Auto Where Aggregation Is Less of an Issue



## Smaller Companies

- Focus and speed are advantages when smaller. Choose where and how to play wisely.

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- Develop broad “all of the above” solutions to reinsurance and capital to handle higher CAT frequency and higher attachment.



## Larger Companies

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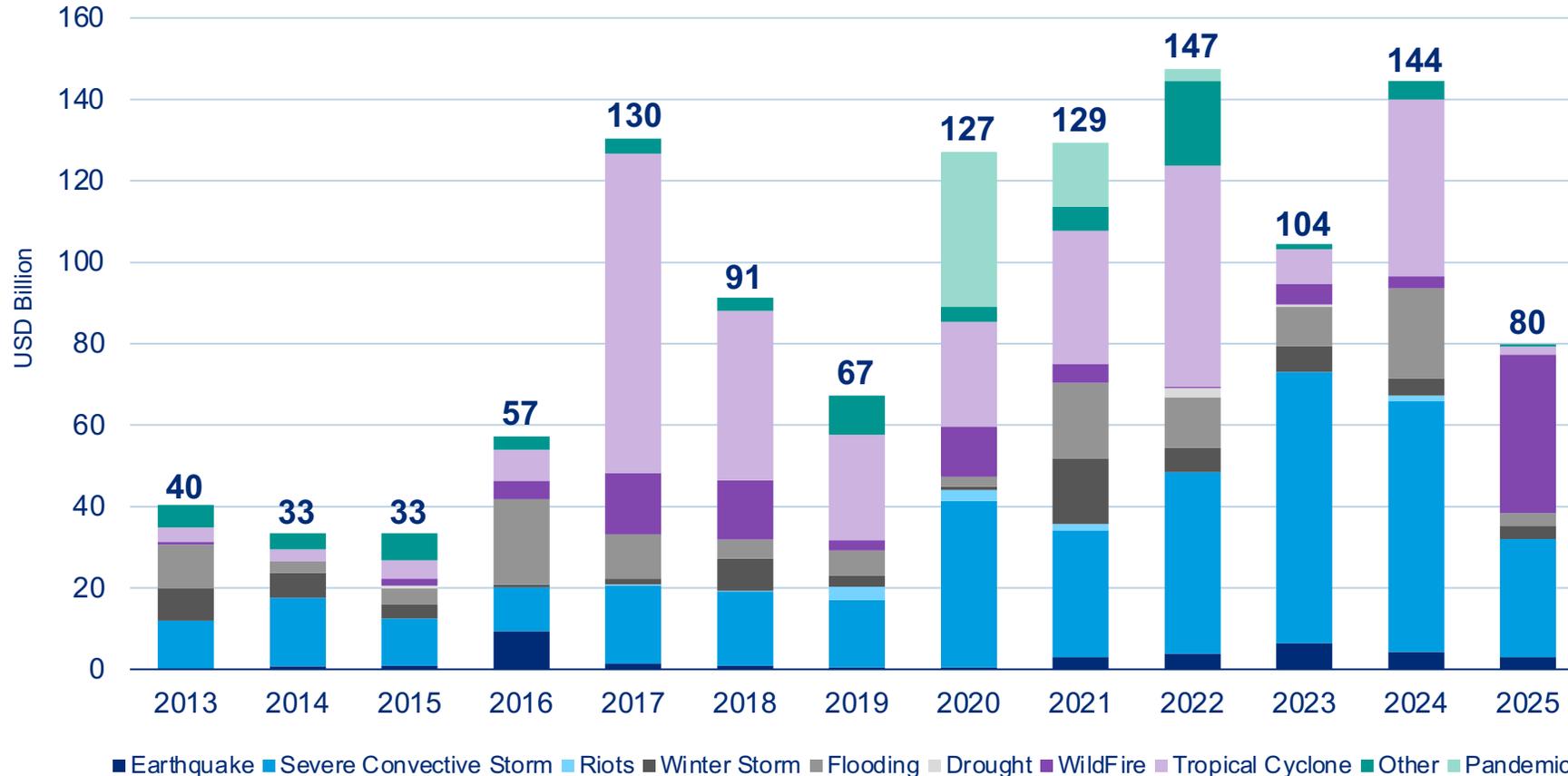
- Cost and supply of capital may be less of a constraint...still evaluate “all of the above” solutions for fit.

# 1H 2025 Insured Losses Reach Record Levels Due to LA Wildfires



## Commentary

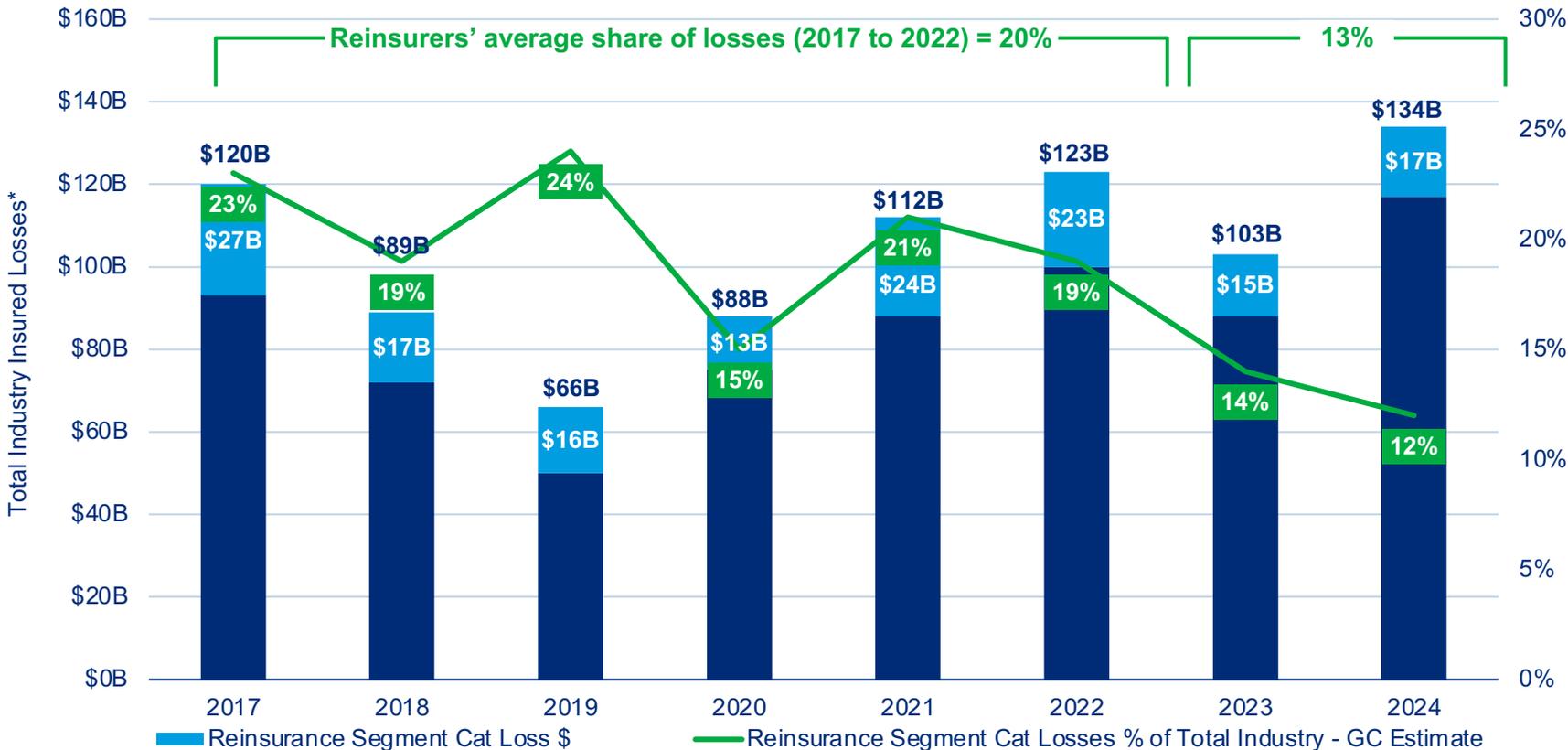
- Global natural catastrophes losses continue to grow.
- The total insured industry losses for H1 2025 **exceeded \$80B**, exceeding the five-year inflation-adjusted average.
- The **CA wildfires losses of ~USD 40 billion** represented **49%** of the industry losses for the first half. Additional losses included severe convective storms (SCS) in the US, Cyclone Alfred in Australia, and the Myanmar/Thailand earthquake.
- **SCS in the US continued to impact the losses** in 2025, accounting for ~35% of the total losses.
- The **CA wildfire losses in 1Q 2025 are the largest insured wildfire losses on record.**



# Reinsurers' Share of Cat Losses Declines



Global Insured Cat Losses and Reinsurers' Share



- Reinsurers' share of global Catastrophe (Cat) losses has declined owing to (1) *higher attachment points* since 1/1/2023 and (2) *a lower number of high-severity events*.
- Catastrophe losses in 2023 and 2024 have largely consisted of SCS.
  - Except for Hurricanes Helene and Milton, each event resulted in insured losses under \$10B and within the primary insurers' retention levels.
- Reinsurers' share of insured catastrophe losses declined from 20% to 13%.
- Insurers will increasingly be differentiated by their primary pricing and aggregation management. Larger carriers may be able to withstand larger surplus drawdowns.

# Silver Lining in US Property Catastrophe Rates

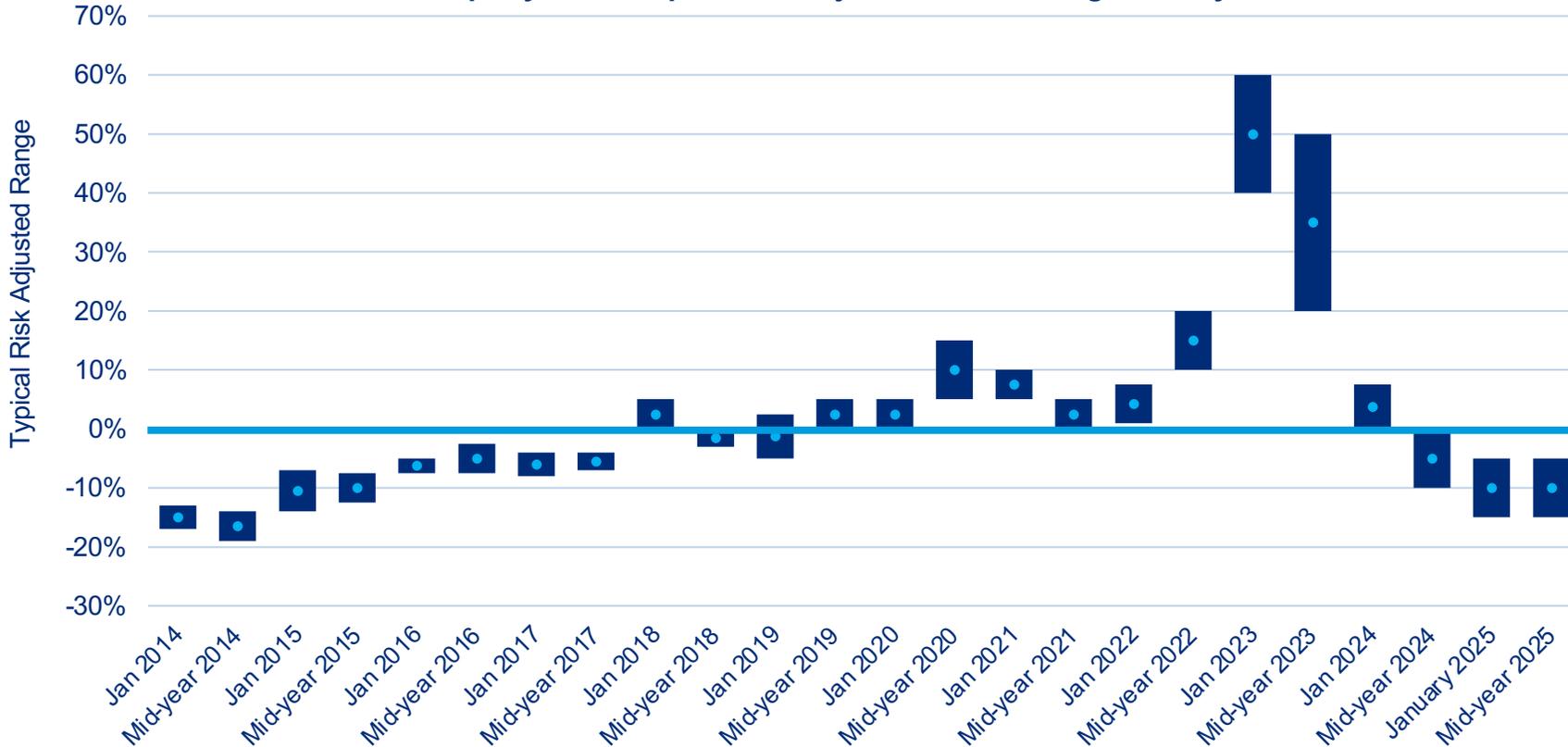
## Historical Risk Adjusted Price Change



### Commentary

- Mid-year 2025 renewals mark the **third consecutive renewal season of risk-adjusted decreases**, which began at mid-year 2024.
- The chart reflects typical ranges of estimated risk-adjusted price change for non-loss-impacted programs.
- Risk-adjusted change – calculated in January and mid-year (July) each year, and considers changes in modeled loss due to changes in structure and/or exposure.
- **Smaller carriers may be better** positioned to take advantage of the reinsurance cycle and to build more dynamic allocation to sources of coverage.

US Property Catastrophe Risk Adjusted Price Change History



# Why Scale Is Different in Homeowners vs Auto



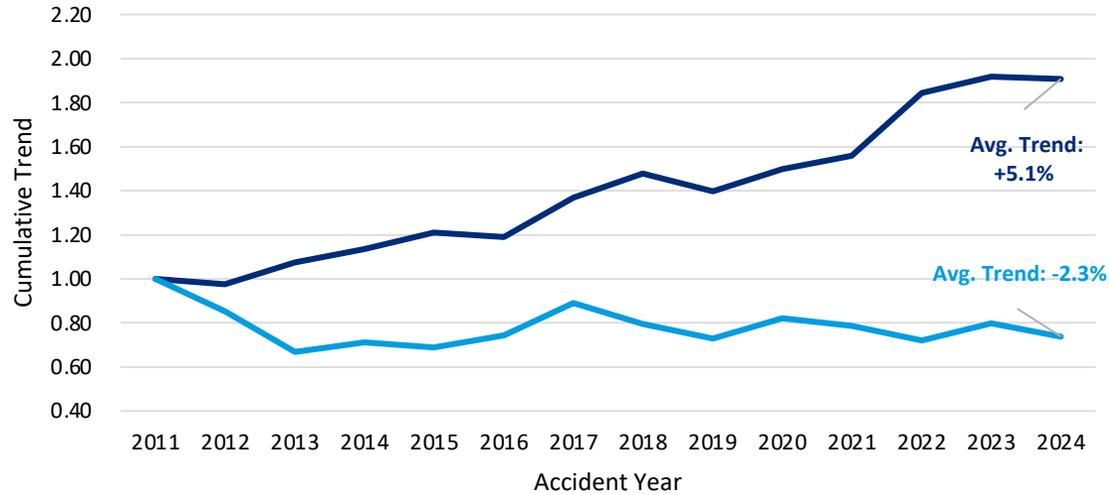
- Risk aggregation in retaining risk below the attachment is one of the key reasons homeowners carriers are on average smaller.
- Distribution is one of the key reasons auto carriers are on average larger.
- Manufactured (auto) is easier to distribute direct than crafted (homeowners).
- Fixed costs, including branding and direct to consumer technology, reward larger scale to spread fixed costs.

Home	Auto
<ul style="list-style-type: none"><li>• Top 5 Carriers 46% of Premium</li><li>• Top 10 Carriers 62% of Premium</li></ul>	<ul style="list-style-type: none"><li>• Top 5 Carriers 63% of Premium</li><li>• Top 10 Carriers 76% of Premium</li></ul>

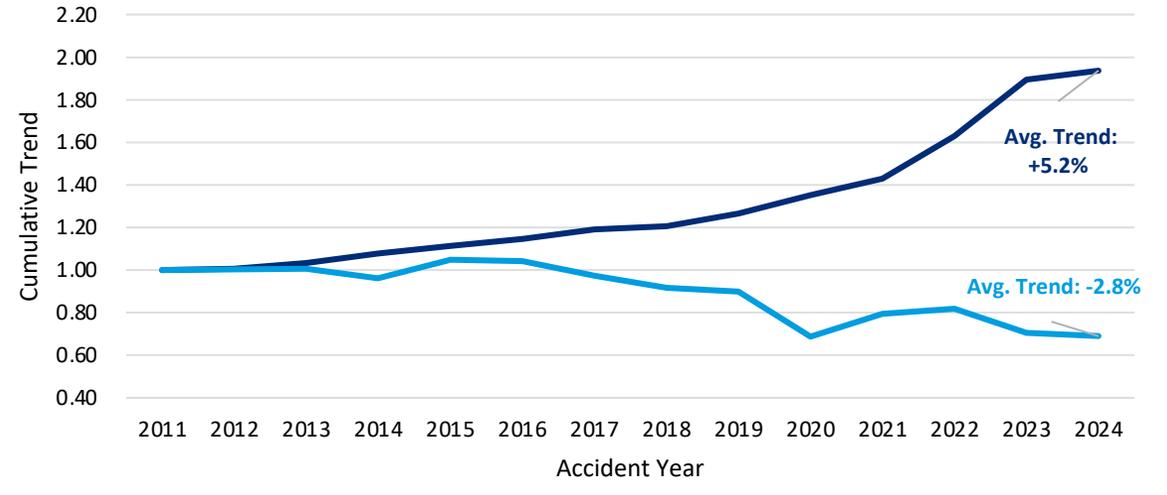
*Homeowners-focused company, you are more likely to be small. Smaller companies win via focus and speed. Larger companies win via operational efficiency and balance sheet strength. This has meaningful implications for capital.*

# Homeowners Has Rising Severity and Flat Frequency, While Auto Has Higher Severity Trend and Declining Frequency

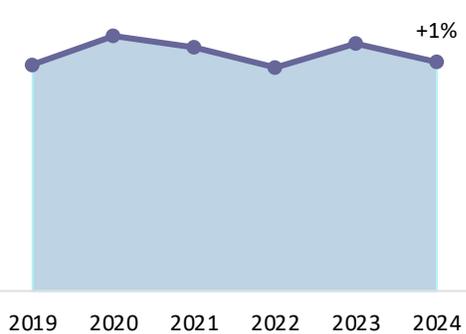
Homeowners Multi-Peril



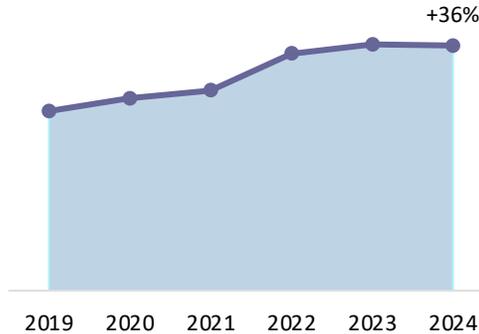
Private Passenger Auto Liability



Frequency



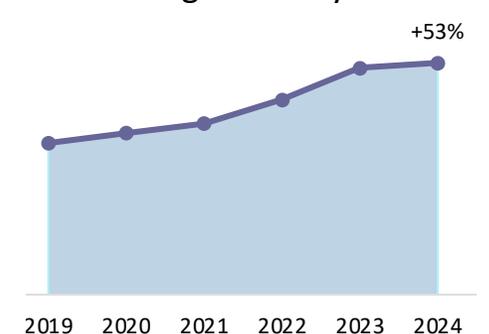
Average Severity



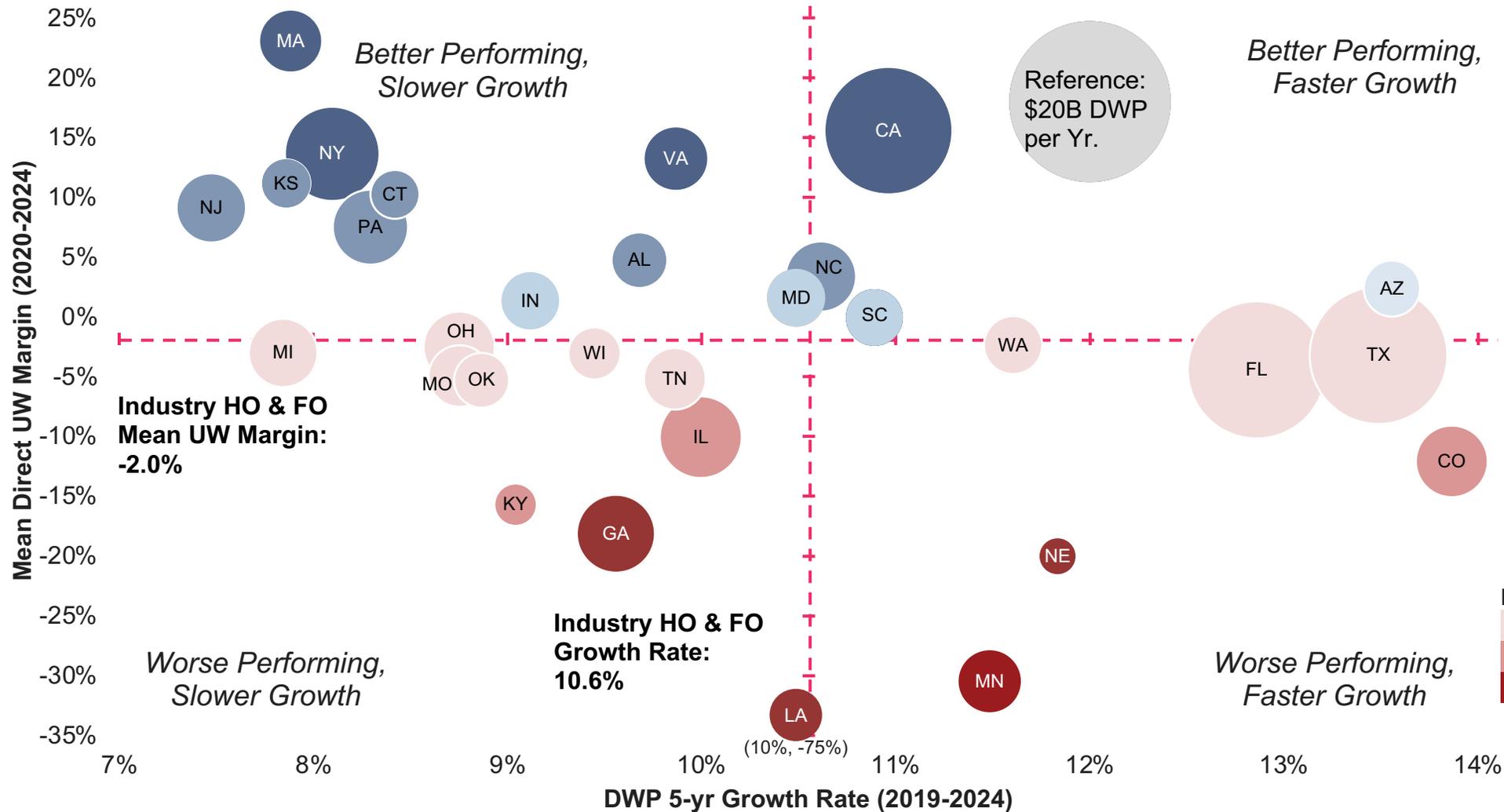
Frequency



Average Severity



# Homeowners Performance by State Continues to Show Region and Peril Variance



- Top 30 states shown here together account for **90%** of the HO market.
- 2025 will look quite different, in particular California.
- Reinsurers and insurers are informed by history but increasingly have a forward-looking view of risk informed by imperfect models

# Building a Customized View of Homeowners' Risk with Guy Carpenter's Cat Studio Tool Suite



## Ensure a Strong Data Foundation

### GC Data Enrichment

- Data quality and completeness, alongside third-party data sets, have a significant impact.
- Guy Carpenter has a unique arrangement with multiple data vendors to explore risk-free.



## Evaluate and Adjust Vendor Models

### GC Model Suitability Analysis GC MetaRisk®

- Guy Carpenter's Model Suitability Analysis (MSA) framework identifies where models have gaps.
- Gap adjustments can be applied and stress-tested using MetaRisk.



## A View Beyond Probabilistic Models

### GC AdvantagePoint® GCAT™ Hazard Scores

- For perils where probabilistic models are less useful, GCAT Hazard Scores offer a hazard view by location.
- GC AdvantagePoint provides concentrations of risk views agnostic of models.



## Future Climate Considerations

### GCAT™ Hazard Scores GC Climate Adjustments

- Climate change will alter risk and should be built into growth strategies.
- Vendor model and Guy Carpenter proprietary tools are available across future time horizons.

# Taking Advantage of Correlation

## Natural Catastrophes Are Uncorrelated with Each Other and with US Equities

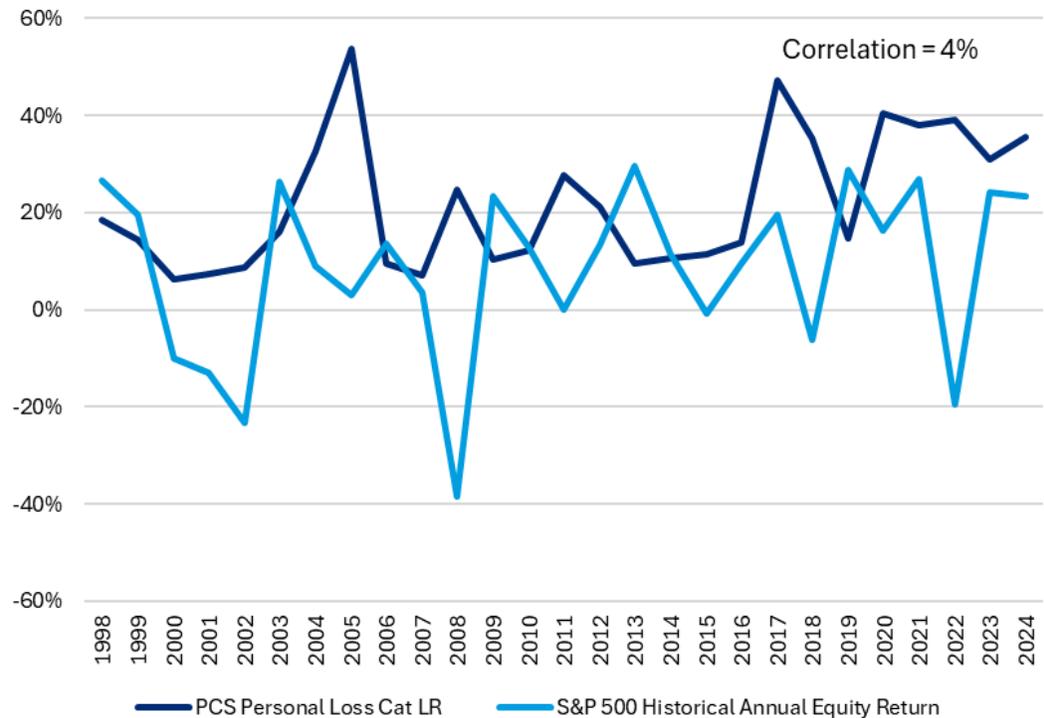
	Hurricane	SCS	Winter	Wildfire
Hurricane	100%	4%	14%	22%
SCS	4%	100%	23%	25%
Winter	14%	23%	100%	7%
Wildfire	22%	25%	7%	100%



- Natural catastrophe loss ratio is uncorrelated with US equities
- One of the fundamental drivers of ILS growth



- Trended PCS losses from 1998 to 2024 show the lack of peril correlation
- Classic value of diversification that can be captured by managing geographic diversification and aggregation



# Insurance-Linked Securities (ILS) Continue to Grow Alongside Traditional Balance Sheets

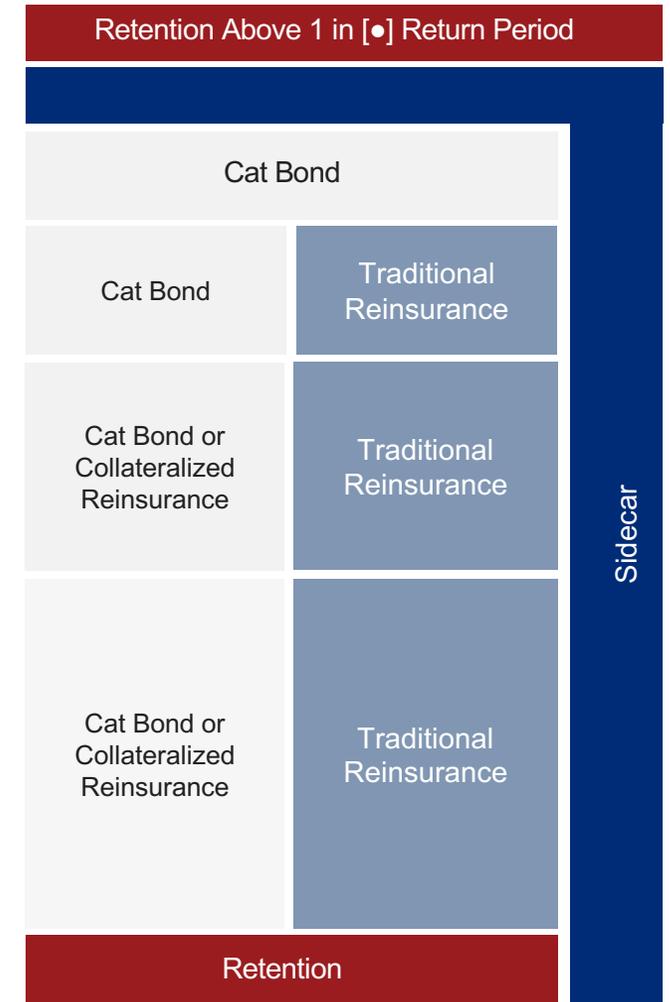
**Traditional Reinsurance:** Contractual agreements to transfer risk to a rated reinsurance balance sheet.

**ILS:** Capital-market instruments that enable investors to assume defined insurance risks and provide payouts based on specified loss triggers.

- Industry Loss Warranties (ILW, a parametric agreement to pay)
- Catastrophe Bonds ("Rule 144A" or "Section 4(a)(2)")
- Sidecars (Structured Collateralized Quota Shares)
- Collateralized Reinsurance (often Quota Share)

**Global dedicated reinsurance capital** is projected to hit \$649 billion by year-end 2025, \$535 billion of traditional and \$114 billion of ILS

- Range of appetites from different capital partners, for example post LA Wildfires:
  - Bamboo sidecar for \$70 million focused on California Wildfire
  - SageSure sidecar for \$50 million focused on SCS and other perils



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# Appendix

# Introduction to Insurance-Linked Securities (ILS)

## ILS Product Types

	Catastrophe Bond	Sidecar	Collateralized Re	ILW
<b>Description</b>	A cat bond involves a special purpose vehicle (SPV) that enters into a reinsurance agreement with a sponsor (and receive premiums) and issues securities to investors (and receive principal)	A fully collateralized vehicle allows capital market investors to participate in the risk and return of a specific book of business on a proportional basis	Traditional reinsurance placed via a fronting arrangement or a transformer with capital market investors who post full collateral through a trust account	Industry loss warranties are a form of derivative insurance contract that compensates a buyer based on total industry insured losses. If triggered, the ILW pays out a specified limit
<b>Type of Risk Transfer</b>	Excess of Loss	Quota Share	Excess of Loss; Quota Share	Swap
<b>Product Legal Form</b>	Securities Rule 144A	Securities Act Section 4(a)(2)	Reinsurance	ISDA Master Agreement
<b>Sponsor Motivations</b>	Risk transfer Volatility management	Strategic Capital decision	Risk transfer Volatility management	Opportunistic Short term hedging
<b>Investor Motivations</b>	Liquidity, accessibility, transparency	Alignment of interest with sponsor	Efficiency, cost benefits	Opportunistic