THE HALES REPORT

1270 Avenue of the Americas, Suite 930, New York, NY, 10020 | subscriptions@thehalesreport.com Issue #8, Vol: 3 April 15, 2019

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Applied Systems Acquires TechCanary (Salesforce.com based). Rounds Out Front To Back End Capabilities While Evolving To Open Architecture.

*"The **digital age of insurance is upon us**, redefining customer expectations and driving agencies, insurers and MGAs to place greater focus on front office applications to more effectively automate the selling and marketing processes to both prospects and customers."*

- Applied Systems, April 2019

Applied Systems, on the heels of the "nine figure" investment last October from **CapitalG/Google**, will purchase **TechCanary**, the leading insurance CRM system built on the open architecture Salesforce.com platform. Having successfully migrated the majority of its 160K+ users to "the cloud," the purchase has the potential to be transformational while providing further evidence of a broader technology evolution across the insurance value chain. Most notably, we believe the deal:

(i) **"Ups the game" for Applied on front office capabilities** and agents' primary goal = sell more insurance/obtain new customers. Agency management systems (AMS) for years have focused on the "back office" (keeping track of policies, servicing existing customers, etc) but were inadequate/bad at the increasing demand/need to focus on customer acquisition/retention in a more modern (i.e. technology empowered) way. With the power of Salesforce, and its open ecosystem, Applied will be better able to address the demands of clients seeking more sophisticated sales & marketing solutions (new business and renewals). If executed properly Applied can position itself to control the entire "flow" of business from prospecting to renewal rather than just the back end; and

(ii) Marks an **evolution towards "open" architecture**. Applied (along with Vertafore) dominate the AMS market, but have long operated with closed end systems which, in our view, involved massive switching costs but opened them up to displacement from more customizable platforms. With TechCanary built and designed within the highly customizable Salesforce ecosystem, new functionality and applications can be more easily pursued by Applied (and agency customers). This could prove particularly powerful if/when a world of "SEMCI" for commercial lines comes into play. We're not there yet, but the path is becoming more clear and we remain convinced it's a matter of when, not if. It's early days, so stay tuned.

Additional Details / Background …

TechCanary, founded in 2013 (by a former insurance agent) and based in Milwaukee, is a cloud-based, insurance CRM system built natively on the Salesforce Platform™. The TechCanary solution supports complete front office operations and has an insurance data model to pre-configure the Salesforce.com platform for the insurance industry.

TechCanary's insurance CRM will be integrated with Applied's AMS, "Applied Epic," so clients can utilize the Salesforce.com platform to manage sales and marketing activities. The Salesforce.com platform will also provide users open access to applications available on the Salesforce AppExchange.

"This transaction brings together the leading provider of agency management systems globally with the leading insurance CRM system built on the Salesforce.com platform, providing an integrated solution for front-office sales and marketing automation."

- Reid French, CEO of Applied Systems

"As the demand for sales and marketing automation is increasing at a rapid pace, we recognized an opportunity with Applied for our customers to benefit from the broader, more global product portfolio as well as Applied's technical resources and support services…This acquisition provides our customers with access to new innovation and scale to further accelerate the growth of their businesses."

- Reid Holzworth, CEO of TechCanary

Google's Minority Investment: In October 2018 Applied announced a sizable "nine figure" (not specifically quantified) minority investment from Google through its growth investment fund **CapitalG** (other investments include Lyft, Airbnb, SurveyMonkey, etc). Affiliates of Hellman & Friedman retained majority ownership. The investment was intended to support *"Applied's focus on accelerated growth through innovative technology for the global insurance market and will bring Applied access to Google's people, expertise and culture…and will spur artificial intelligence, machine learning, and digital marketing innovation in the insurance industry."* In addition to the funds, Google provides "validation" to the Applied business model and their role in the (re)insurance value chain.

Dowling Hales

DOWLING HALES ANNOUNCES ITS THIRD TRANSACTION OF 2019: INSURANCE PROGRAMS OF AMERICA ANNOUNCES ITS SPECIALTY PROGRAM GROUP.

Dowling Hales served as exclusive financial advisor to Insurance Programs of America ("IPOA"), a specialty managing general agency and Lloyd's coverholder, and Risk Advisors of America, a retail agency ("RAA" and together, the "Companies"), in its sale to Specialty Program Group, a division of Hub International.

Headquartered in Maitland, FL with a satellite office in Ormond Beach, the Companies comprise an insurance distribution platform focused on specialized niche hospitality classes, including hotels, restaurants, senior living facilities and national property accounts. The Companies are led by Co-Founders, Stefan Burkey and Chris Hagle, who will continue to lead the operation with their new partner.

Insurance Programs of America Inc.	Paramount General Agency	Tolman Wiker Innovative Risk Advice Since 1923 Tolman & Wiker Insurance Services, LLC
REPRESENTED BY DOWLING HALES*	REPRESENTED BY DOWLING HALES*	REPRESENTED BY DOWLING HALES*
HAS BEEN ACQUIRED BY	HAS BEEN ACQUIRED BY	HAS BEEN ACQUIRED BY
Specialty Program Group	Insurance Strategies	AssuredPartners Inc.
MARCH 2019	FEBRUARY 2019	FEBRUARY 2019
*CONDUCTED THROUGH HALES SECURITIES, LLC	*CONDUCTED THROUGH HALES SECURITIES, LLC	*CONDUCTED THROUGH HALES SECURITIES, LLC

KBK Insurance Group	Cambridge Consulting Group	Anderson McTague & Associates
REPRESENTED BY DOWLING HALES*	REPRESENTED BY DOWLING HALES*	REPRESENTED BY DOWLING HALES*
HAS BEEN ACQUIRED BY	HAS BEEN ACQUIRED BY	HAS BEEN ACQUIRED BY
NSM Insurance Group	NFP	Totten Group Insurance
NOVEMBER 2018	OCTOBER 2018	OCTOBER 2018
*CONDUCTED THROUGH HALES SECURITIES, LLC	*CONDUCTED THROUGH HALES SECURITIES, LLC	*CONDUCTED THROUGH HALES SECURITIES, LLC

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Marsh Agency Not Sitting Still Amidst Broader JLT Integration; 2 "Top 100" Agents Acquired YTD With Revenues Now Approaching $1.4B+.

Marsh & McLennan Agency has already added ~$100M of revenues to its ~$1.3B revenue base (a top 10 stand-alone broker) in 2019. This month the unit announced its 2nd "Top 100" deal of the year, acquiring Phoenix-based **Lovitt & Touché**, the #74 broker in the *Hales 100* with ~$40M of revenue. This follows the acquisition of #72 **Bouchard** in January (~$43M of revenue). In total, Marsh Agency has announced 4 deals so far in 2019 (compared to 7 deals in FY 2018).

Parent Marsh is holding true to its promise to continue to support the Marsh Agency strategy amidst the integration of #6 broker JLT (deal closed 4/1). Recall, management commented at the time of the JLT acquisition: *"We'll be more selective, but I want to be clear that Marsh & McLennan Agency...we'll allow for some flexibility for the continuation of their strategy."* We suspect Marsh management appreciates the fact that there is a declining number of acquisition targets in the U.S., particularly agents & brokers of a decent size (not owned by PE) amidst the ongoing record pace of M&A activity – see our Q1:19 M&A update in Hales#7.

Exhibit 1

Hales Top 25 U.S. Agents & Brokers

Rank			U.S. Revenue ($,M)			
'16	'17	Company	2016	2017	% Change	Ownership Type
1	**1**	Marsh & McLennan	$6,573	**$6,870**	4.5%	Public
2	**2**	Aon PLC	$3,981	**$4,425**	11.2%	Public
3	**3**	Willis Towers Watson	$3,395	**$3,821**	12.5%	Public
4	**4**	Arthur J. Gallagher	$2,945	**$3,177**	7.9%	Public
5	**5**	Brown & Brown	$1,749	**$1,865**	6.7%	Public
6	**6**	BB&T Insurance	$1,713	**$1,754**	2.4%	Public
9	**7**	USI Insurance Svcs	$1,049	**$1,740**	65.9%	Private Equity
7	**8**	Hub International	$1,281	**$1,461**	14.0%	Private Equity
8	**9**	Lockton	$1,055	**$1,171**	11.0%	Private
11	**10**	Alliant Insurance Svcs	$968	**$1,125**	16.2%	Private Equity
12	**11**	NFP Corp.	$930	**$1,069**	15.0%	Private Equity
14	**12**	Acrisure LLC	$649	**$1,042**	60.5%	PE/ Management
13	**13**	AssuredPartners	$834	**$967**	16.0%	Private Equity
15	**14**	BroadStreet Partners	$423	**$481**	13.6%	Private Equity
17	**15**	Edgewood Partners / EPIC	$245	**$386**	57.5%	Private Equity
~~16~~	~~**16**~~	~~JLT~~ (Marsh 9/18)	~~$275~~	~~**$365**~~	~~32.7%~~	~~Public~~
~~20~~	~~**17**~~	~~Integro~~ (EPIC 12/17)	~~$221~~	~~**$347**~~	~~57.1%~~	~~Private Equity~~
19	**18**	CBIZ Benefits & Insurance Svcs	$269	**$286**	6.3%	Public
22	**19**	Risk Strategies	$198	**$238**	20.2%	Private Equity
18	**20**	Leavitt Group	$225	**$236**	4.7%	Private
21	**21**	Paychex Insurance Agency	$171	**$207**	21.1%	Public
~~23~~	~~**22**~~	~~Hays~~ (B&B 10/22)	~~$195~~	~~**$199**~~	~~2.1%~~	~~Private~~
24	**23**	Insurance Office of America	$181	**$199**	10.0%	Private
26	**24**	Alera Group	$158	**$193**	22.3%	Private Equity
30	**25**	Digital Insurance	$148	**$190**	28.3%	Private Equity
		Other Notable Deals From The Top 100				
~~25~~		~~Crystal & Co~~ (Alliant 4/12)	~~$150~~			~~Private~~
~~34~~	~~**32**~~	~~Regions~~ (BB&T 4/18)	~~$142~~	~~**$145**~~	~~2.2%~~	~~Public~~
~~36~~	~~**33**~~	~~Wortham~~ (Marsh 6/25)	~~$128~~	~~**$131**~~	~~2.1%~~	~~Private~~
~~59~~	~~**55**~~	~~Key Insurance~~ (USI 3/29)	~~$55~~	~~**$60**~~	~~9.1%~~	~~Public~~
~~80~~	~~**72**~~	~~Bouchard Insurance~~ (MMA 1/22)	~~$40~~	~~**$43**~~	~~5.9%~~	~~Private~~
~~81~~	~~**74**~~	~~Lovitt & Touche~~ (MMA 4/2)	~~$37~~	~~**$40**~~	~~9.2%~~	~~Private~~
~~91~~	~~**84**~~	~~Tolman & Wiker~~ (AssuredPartners 2/15)	~~$33~~	~~**$33**~~	~~0.0%~~	~~Private~~

Source Dowling Hales

This marks the 3rd "top 100" deal of 2019 (following 7 in 2018), and we fully expect multiple additional deals for Hales Top 100 agencies by year-end 2019. See Exhibit 1 on the previous page for the running tally.

There were 2 Hales Top 100 brokers acquired during Q1: (i) the aforementioned #72 **Bouchard**, with ~$43M of revenue, was acquired by **Marsh Agency**; and (ii) #84 **Tolman & Wiker**, with ~$33M+ of revenue, was acquired by **AssuredPartners**. As shown above, **Lovitt & Touché** is the 10th "Top 100" broker to be acquired in 2018 / 2019.

Marsh & McLennan Agency Strategy / Update –

Marsh Agency has grown from a de novo start in 2009 to a top 10 stand-alone broker with revenues now approaching ~$1.4B+. The strategy is based on the premise that the middle market in the United States provides an opportunity for higher growth than Marsh Mac's prevailing large account focus, and this has largely proven to be true since the 2009 start.

Since 2009, MMA has acquired 12 agencies within the "Top 100" with 2017's acquisition of #30 **J. Smith Lanier** (ranking prior to acquisition) being the largest deal to date, at $130M of annual revenue.

> *"We have a good acquisition pipeline within the agency and despite the significant commitments with regard to JLT, we have provided for continuing funding for acquisitions within Marsh & McLennan Agency."*
>
> \- Dan Glaser, President & CEO of Marsh & McLennan

Exhibit 2

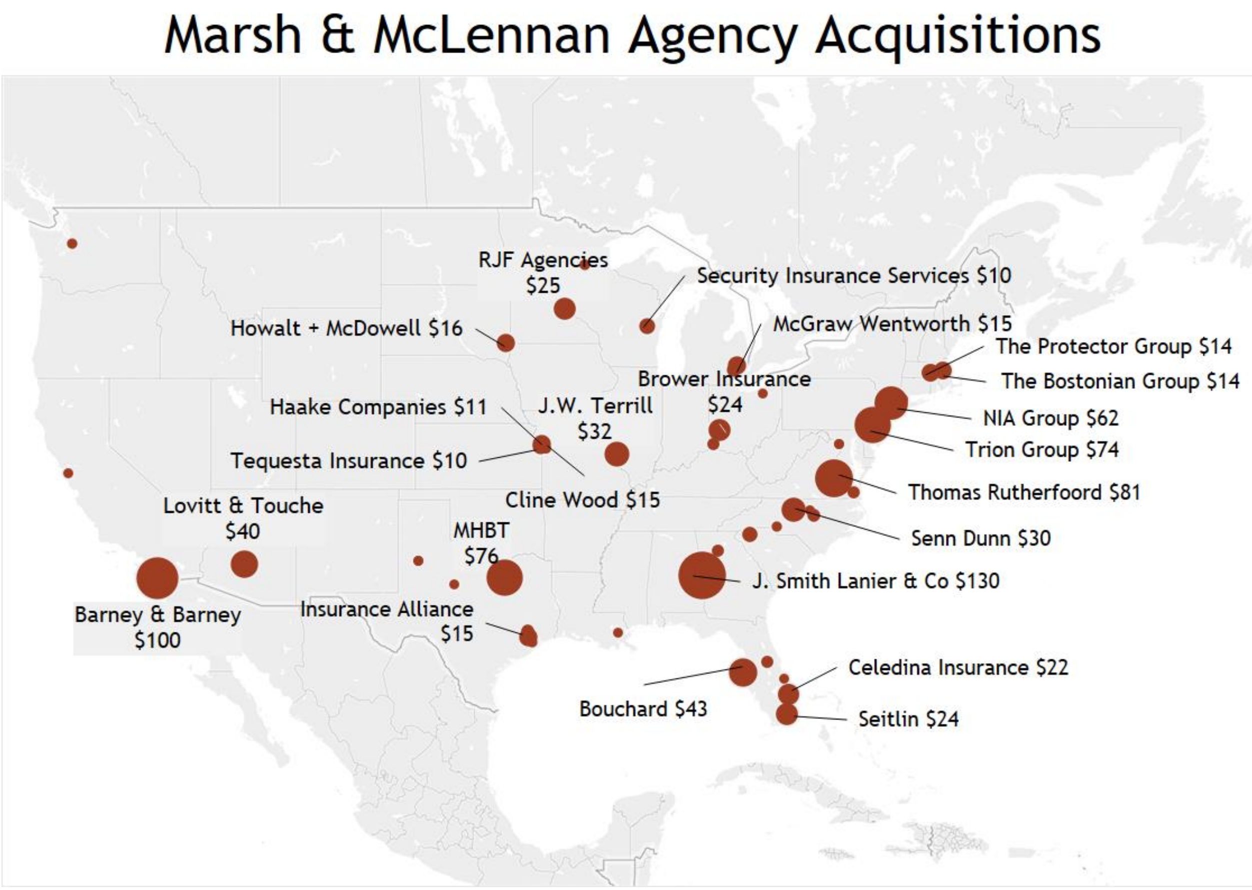
Marsh & McLennan Agency Top 100 Broker & Agencies Transactions

Date	Rank*	MMA Deals	Revenue**	Headquarters
12/22/2009	34	The NIA Group	$62M	Paramus, NJ
3/16/2010	32	Thomas Rutherfoord	$81M	Roanoke, VA
12/22/2010	30	Trion Group	$74M	King of Prussia, PA
1/5/2011	89	RJF Agencies	$25M	Minneapolis, MN
11/17/2011	84	Seitlin Insurance	$24M	South Florida
12/5/2012	89	Brower Insurance Agency	$24M	Dayton, OH
2/3/2014	34	Barney & Barney	$100M	San Diego, CA
6/1/2015	50	MHBT, Inc.	$76M	Dallas, TX
7/1/2015	90	J. W. Terrill	$32M	St. Louis, MO
1/18/2017	30	J. Smith Lanier & Co.	$130M	West Point, GA
1/22/2019	72	Bouchard Insurance	$43M	Clearwater, FL
4/2/2019	74	Lovitt & Touché	$40M	Phoenix, AZ

Source: Company Reports; *Ranking based on previous year's annual revenue
**At time of acquisition if provided; Hales Top 100, Business Insurance

The following map plots the history of announced Marsh Agency acquisitions. Note, the larger the revenue (where known/disclosed) the larger the bubble. “Hubs” are clearly in place across much of the U.S. (aside from the Pacific Northwest).

Exhibit 3



Source: Company Reports, Press Release Announcements, Hales Top 100

Agency-Focused "Super Regionals" Realigning Back Towards Core U.S. Commercial Ops, De-Emphasizing Other Strategies.

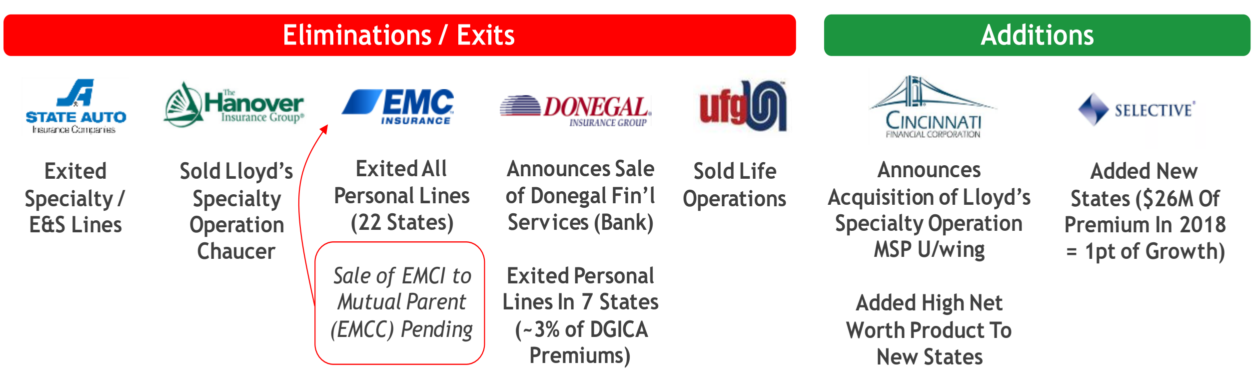
We loosely define "Regional" carriers as multi-state/multi-line insurance companies (core footprint in 20-30 states) seeking to balance a size large enough to achieve "economies of scale" while still being small enough to be flexible and accommodating to their agents (local knowledge). Regionals are highly reliant on independent agents for the overwhelming bulk of their business and tend to pay above average commissions (see Exhibit 5 on the following page).

Last year was a transitional year as many Regionals made (or announced) significant strategic business / mix changes. Generally speaking, most took steps that refocused them to their core U.S. commercial books via exiting Specialty and/or International Lines (**Hanover** and **State Auto**), Personal Lines (**EMCI** withdrew completely while **Donegal** exited certain states where it lacked scale) or "other" non-core operations (**Donegal** sold its community bank and **United Fire** sold its Life business). While no two Regionals are exactly alike, most are weighted towards smaller U.S. commercial lines.

In contrast, **Cincinnati Financial** further diversified its organization with the bolt-on acquisition of a Lloyd's operation, and remains committed to its reinsurance and E&S strategies. **Selective** did not make material business mix changes, though we acknowledge the company did add new states to its footprint.

Exhibit 4

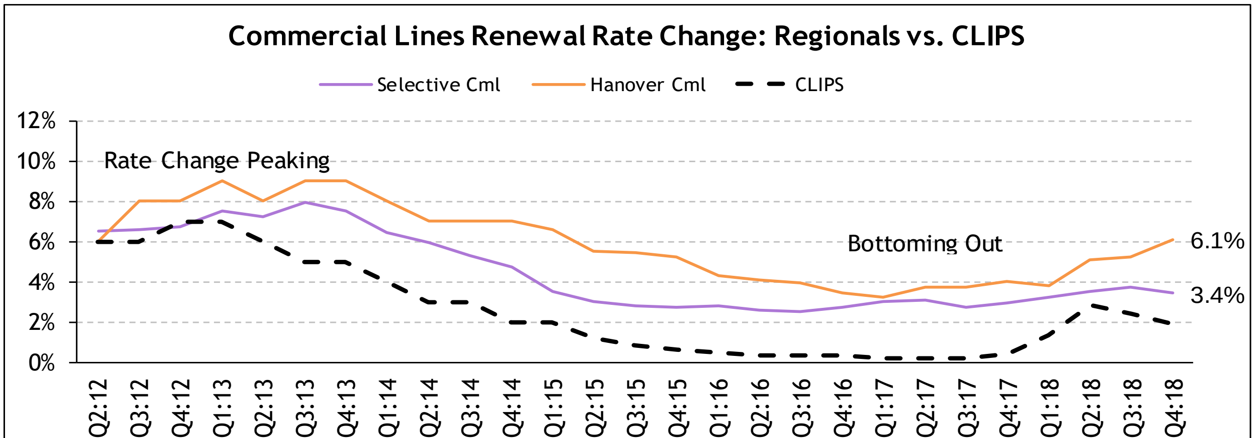
U.S. Regionals: Significant Business Eliminations / Additions



Source: Company Reports

While encouraged by the profit potential across U.S. commercial lines, **agency-focused "regional" carriers are still seeking price-driven margin improvement in 2019** after years of rates lagging loss costs and 2 heavy (above average) catastrophe years. That said, this cohort of companies tends to be less volatile with its pricing (sensitive to agent relationships). Still, they have actually sustained a higher absolute level of pricing increases than most national companies in recent years (given their lagging profitability).

Exhibit 5



Source: Company Reports, Willis Towers Watson

Exhibit 6 shows a high-level summary of our "regional" composite. Additional comparisons follow.

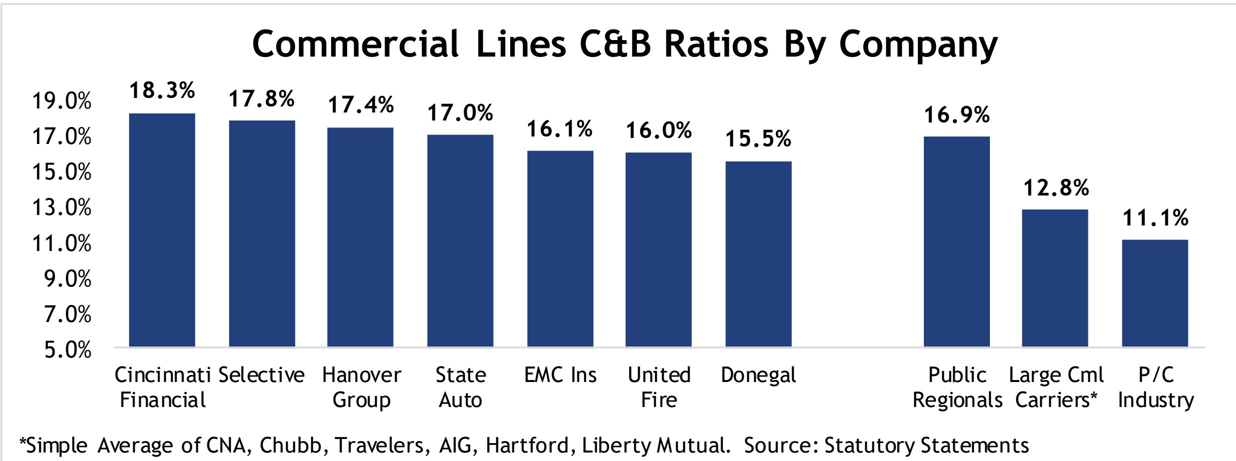
Exhibit 6

Public Regional Comparison	Stock Regionals				"Stutual" Regionals		
Metric / Measure	Selective (SIGI)	CinFin (CINF)	United Fire (UFCS)	Hanover (THG)	EMC (EMCI)	Donegal (DGICA)	State Auto (STFC)
Top Line:							
2018 Gross Premiums ($,M)	$2,514	$5,030	$1,062	$4,850	$1,808	$791	$1,715
Agency Relationships (000)	1.32	1.76	1.10	2.10	2.13	2.40	3.00
Premium Per Agency ($,M)	$1.9	$2.9	$1.0	$2.3	$0.8	$0.3	$0.6
Approximate P/C Business Mix:				*Pro Forma*	*Pro Forma*		*Pro Forma*
Standard Commercial	79%	65%	90%	60%	76%	47%	39%
Personal	12%	27%	7%	40%	N/A	53%	61%
E&S / Specialty	9%	5%	2%	N/A	N/A	N/A	N/A
Reinsurance	N/A	3%	1%	N/A	24%	N/A	N/A
P/C Geography Mix:							
South	32%	37%	31%	22%	24%	38%	51%
West	4%	10%	23%	13%	16%	4%	6%
Northeast	46%	10%	6%	31%	8%	41%	8%
Midwest	19%	43%	39%	33%	51%	17%	35%
Top 3 States as % of U.S.	38% *NJ, PA, NY*	26% *OH, IL, GA*	37% *TX, CA, IA*	38% *MI, MA, NY*	24% *IA, KS, NE*	61% *PA, GA, VA*	26% *TX, OH, KY*

Source: Company Reports, Dowling & Partners Analysis

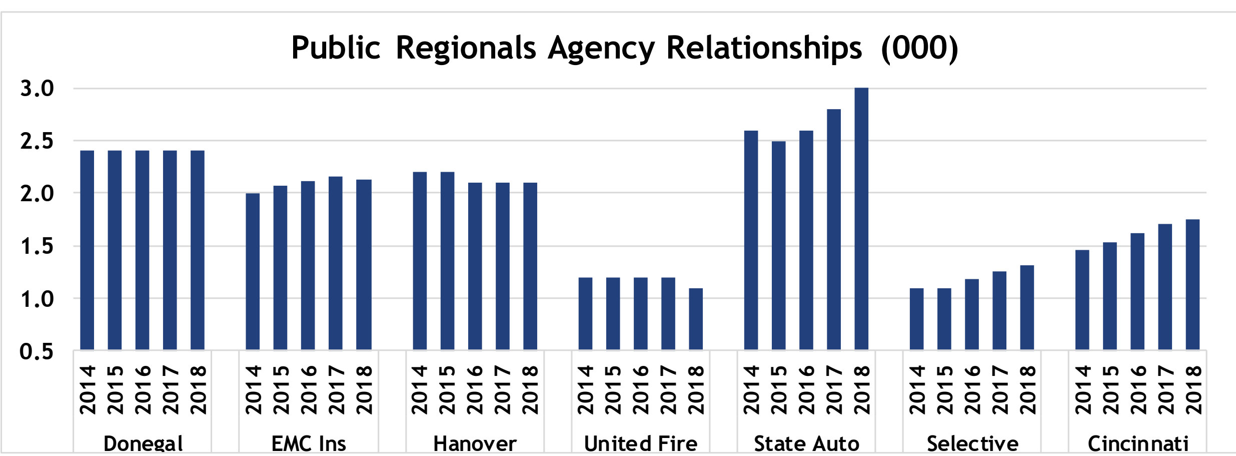
Commission Levels: Note, when assessing the commission levels by company in the subsequent exhibit, keep in mind mix can have a substantial influence. This is true by line (f/e lower commission workers' comp vs. higher commission package and/or liability lines) and by segment (higher commission "specialty" / E&S lines of business as an example). Still, regional carriers clearly pay higher commissions relative to national counterparts.

Exhibit 7



Agency Appointments: Most Regionals seek to limit their agency appointments to preserve franchise value, while at the same time appointing enough agents to support ongoing growth. Most disclose an approximate number of agency relationships annually. Despite consolidation, most companies have either been able to maintain or grow the number of appointed independent agents (likely still counting many acquired agencies as a separate appointment).

Exhibit 8



Source: Company Reports

Macro Outlook: There are several longer-term macro concerns facing this group likely to pressure returns. Of most relevance, **(1) the impact of digitization in small commercial.** This market is moving towards a customer/agent experience requiring quick turnaround to obtain a bindable/issuable quote and low-touch digital experience, and bringing new business models and competitors. **The smaller size of regionals, and lack of substantial dollars to invest, could be a key disadvantage as technology takes center stage.**

> *"Existing competitors and new entrants to the industry are developing new platforms that are leveraging digital technology to provide a lower cost "direct-to-the customer" and "pay-as-you-go" or "pay for use" models. <u>These new platforms may offer the potential for enhanced customer experience, ease of understanding coverages, and streamlined claims processing</u>."*
>
> \- Selective 2018 10-K

(2) Intermediary consolidation continues with larger brokers wielding greater power and putting pressure on commission expenses. ***He Who Controls The Customer Wins***.

> *"If agency consolidation continues at its current pace or increases in the future and more agencies are consolidated into larger agencies or managing general agencies, our sales channel could be materially affected in a number of ways, including loss of market access or market share in certain geographic areas if an acquirer is not one of our appointed agencies, loss of agency talent as the people most knowledgeable about our products and with whom we have developed strong working relationships exit the business following a disposition of an agency, <u>increases in our commission costs as larger agencies acquire more negotiating leverage over their fees</u>, and interfere with the core agency business of selling insurance due to integration or distraction. Any such disruption that materially affects our sales channel could have a negative impact on our results of operations and financial condition."*
>
> \- Hanover 2018 10-K

(3) Long-term decline of personal auto premiums due to spreading usage of advanced / autonomous cars, more transport via rideshare and auto manufacturers looking to bundle insurance at the point of sale. **Personal auto has already been a challenging line for Regionals as it has become increasingly "commoditized" where competitive "battles" are fought over comparative raters, aggregators, telematics, and efficient pricing.**

Public Regional 2018 Results Snapshot: Against this macro backdrop, we summarize the 2018 results of the public Regional composite. **Regionals posted an operating ROE of 8.3% in 2018, among the best result in their recent history, and in line with large commercial peers** (which have historically outperformed regionals).

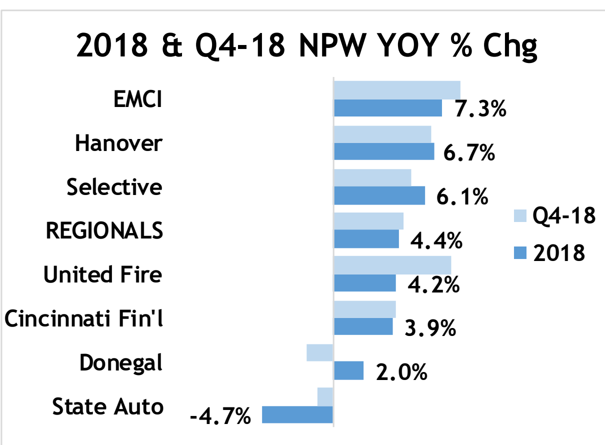
Compared to 2017, lower catastrophes (though still elevated) and higher reserve releases more than offset deterioration in the underlying combined ratio. Higher investment income also helped, increasing 5%. Top line growth (+4.4%) continued to decelerate as it has since 2012, though still ahead of large commercial carriers.

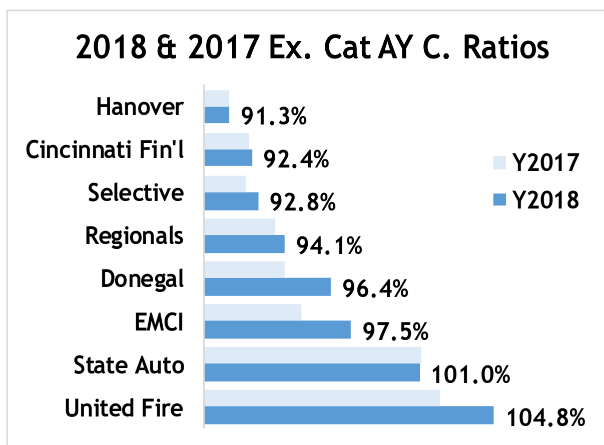
Exhibit 9

Public Regionals	Q4-18	Q4-17	Chg	Y2018	Y2017	Chg
Net Written	$3,671	$3,507	4.7%	$15,606	$14,954	4.4%
Net Earned	$3,894	$3,730	4.4%	$15,273	$14,577	4.8%
Loss Ratio	64.5%	61.9%	2.6	65.5%	65.9%	-0.4
Expense Ratio	32.5%	33.0%	-0.5	32.5%	32.7%	-0.2
C. Ratio	**97.0%**	**95.0%**	**2.0**	**98.0%**	**98.6%**	**-0.6**
Cats	5.5%	2.2%	3.3	6.1%	6.9%	-0.8
Prior Yr Dev.	-2.5%	-1.7%	-0.8	-2.2%	-1.9%	-0.3
Ex. Cat AY C. Ratio	**93.9%**	**94.4%**	**-0.5**	**94.1%**	**93.6%**	**0.5**
Ex. Cat AY L. Ratio	**61.4%**	**61.4%**	**0.0**	**61.6%**	**60.9%**	**0.7**
P/T NII	$279	$263	6.3%	$1,106	$1,056	4.7%
Ending S/H	$15,284	$15,861	-3.6%	$15,284	$15,861	-3.6%
Ann. Op ROE	**8.2%**	**8.0%**	**0.2**	**8.3%**	**5.6%**	**2.7**

Source: Company Reports

Exhibit 10 & 11





Source: Company Reports

Regulators Taking On "Disparate Impact" of Insurance Rating Variables.

A bill was introduced in the U.S. House of Representatives that would ***eliminate* the use of credit scores for the purpose of underwriting or rating auto insurance policies,** one of the most (if not the most) powerful risk differentiators for auto insurance risks used by all major insurers. **"Disparate impact" is the key issue at hand.**

> *"In general. No consumer reporting agency may furnish a consumer report or consumer information with respect to any consumer to any person for use in making any decision to underwrite or rate auto insurance, and no person shall use or obtain a consumer report or consumer information with respect to any consumer in connection with the underwriting or rating of any consumer in connection with a transaction involving auto insurance."* **– H.R. 1756**

Credit scores were first introduced as a rating factor in the 1990s and were widely used by the end of the decade. While there is an incredibly strong correlation between credit and auto accidents/claims, there has been consistent political objection due to the perceived unrelated nature of credit and issues of "disparate impact" (i.e. adversely affects certain group(s) of minorities within a protected class). **Today credit is permitted (and used) in every state except CA, HI, and MI, where it has been prohibited because it was deemed to have a "disparate impact" on those lower on the economic scale.**

For perspective, **Progressive** (one of the first movers in using credit in the late 90s) noted that traditional rating variables (age, sex, marital status, territory, driving record, etc) provide roughly 50 data points on the consumer whereas the addition of credit increases the number to >2,000 data points!

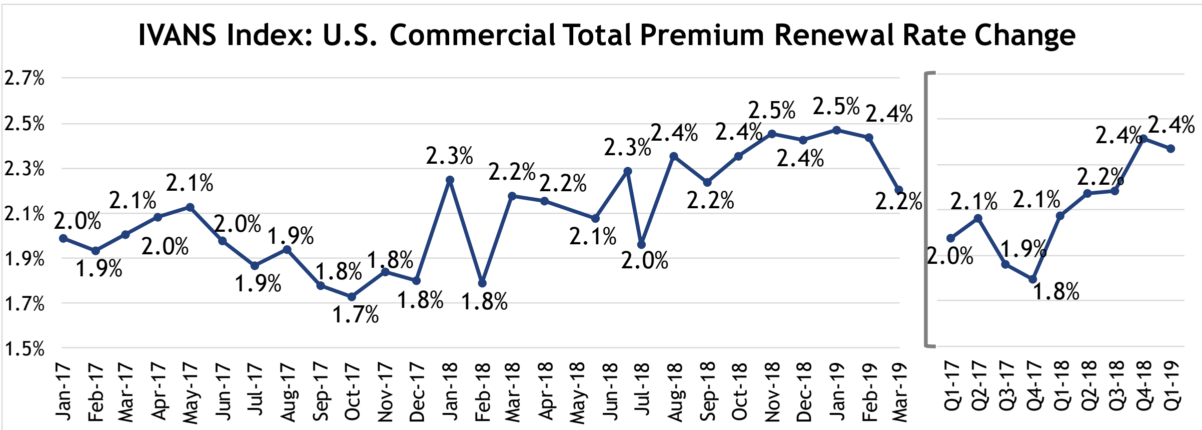
The "disparate impact" issue has increasingly been raised by regulators and law-makers in recent months over other rating variables. For example: (i) Effective January 1, California began prohibiting insurers from rating on the basis of gender for personal auto insurance; and (ii) New York became the first state to provide guidance for how life insurers can use social media when evaluating customers. New York requires that life insurers prove that any social media data used in underwriting is actuarially justified and does not unfairly discriminate against certain customer cohorts. It would not be a stretch to assume P&C insurers would run into the same issue, were they to begin using social media as a ratings consideration (particularly given NY regulators carry a lot of weight across the industry).

The above bill would allow for continued use of information regarding **(1)** property loss data (e.g. per the Comprehensive Loss Underwriting Exchange (CLUE) and Automobile Property Loss Underwriting Systems (A-PLUS)) and **(2)** databases containing driver history (e.g. accidents or moving violations). Still, the bill would be a major setback to assessing and segmenting auto insurance risks and perhaps add further momentum to the "trend" of removing any "disparate impacts" from P&C rating processes.

IVANS Points To “Low-Single Digit” Rate Stability For March / Q1:19.

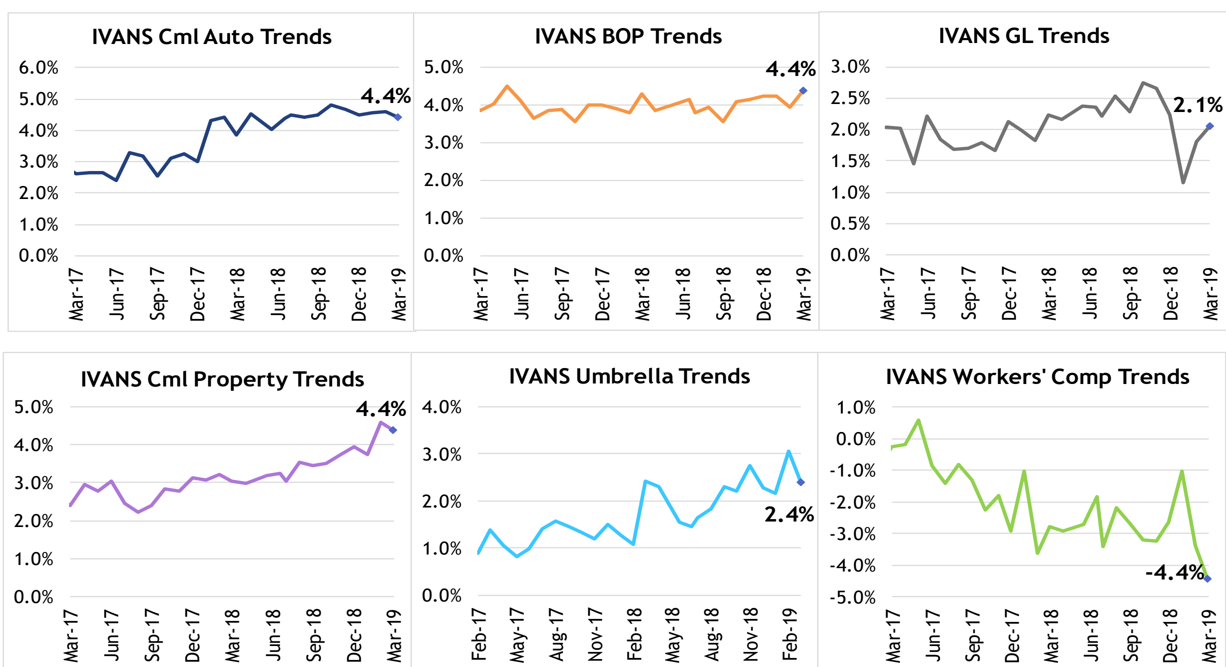
<u>In March</u>, overall U.S. premium renewal rates captured in the IVANS Index increased +2.2% vs February of +2.4% and January of +2.5%. Note, IVANS reports premium renewal rate change (i.e. captures rate & exposure change). The March figures bring the Q1 average premium renewal rate change to +2.4%, consistent with Q4:18.

Exhibit 12



Of the 6 major lines, <u>Commercial Auto</u> continued to see the highest rate increases in Q1 (average of the last 3 months) at +4.5%, decelerating slightly from +4.7% in Q4. Two lines saw rate acceleration vs Q4, with Commercial Property +4.2% vs +3.7% and Umbrella +2.5% vs +2.4%, while GL decelerated to +1.7% vs 2.5%. BOP remained stable at 4.2% in Q1 and Q4. Workers’ Comp remained negative, -2.95% vs -3.04% in Q4. **The exhibits below illustrate the <u>monthly</u> movements by line.**

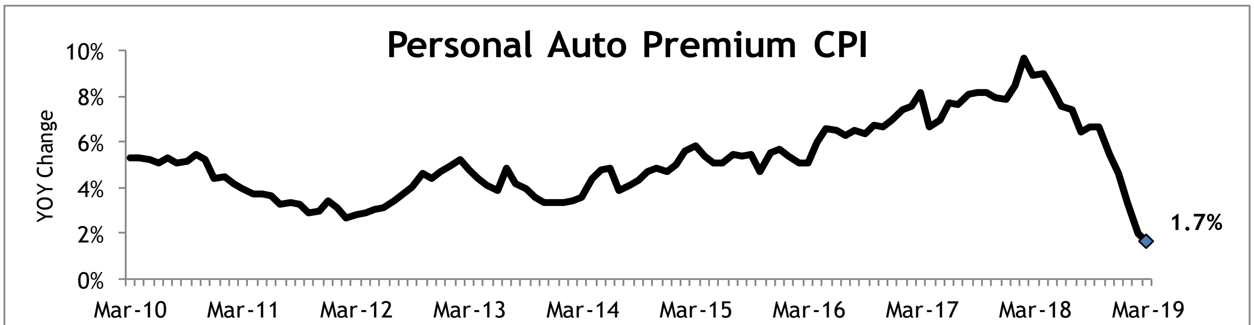
Exhibit 13 - 18



Personal Auto Premium CPI Drops To New ~11 Year Low, Loss Severity Gap Now Negative.

Having "peaked" in Feb '18, now just over a year later the **Personal Auto Premium CPI** (proxy for rates) is now again at the lowest level in ~11 years at 1.7% vs. 2.0% in February (previous low). While the decline is more dramatic than anticipated, it is not surprising given the declining frequency trends and a more rapid return to profitability for the industry. <u>We continue to believe the CPI will remain positive given the positive severity trends (rising auto repair costs) that are unlikely to be completely offset by frequency decreases.</u>

Exhibit 19



Source: Bureau of Labor Statistics

The Dowling & Partners' CPI "Loss Cost Index" declined slightly to 1.9% vs 2.0% in Feb. Given the decline in auto premium CPI, the spread <u>between premium and loss costs is now negative for the first time since July 2008</u>.

Exhibit 20

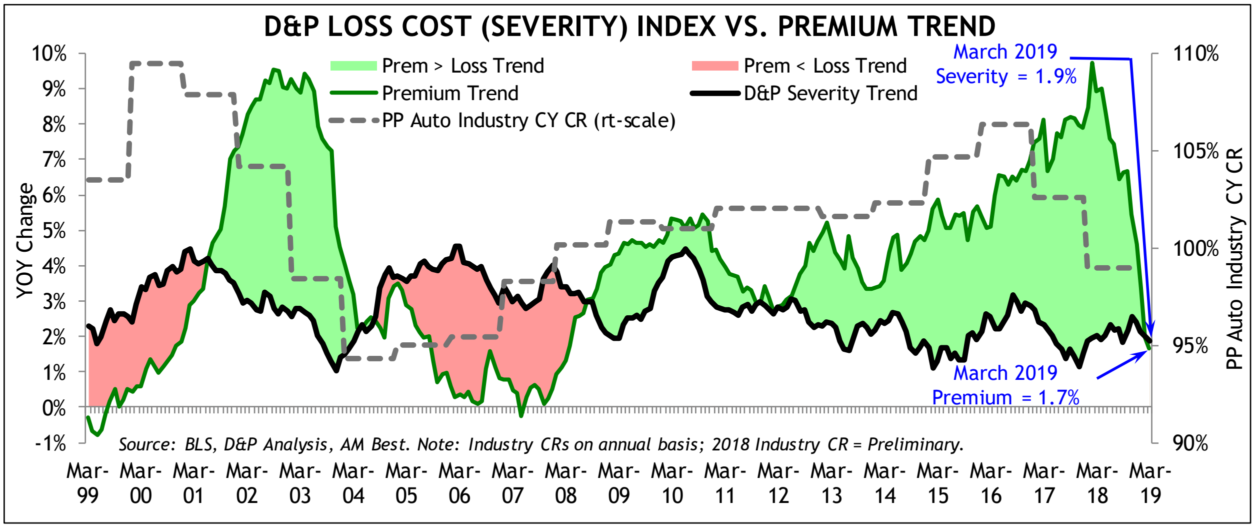
	2018 Mar	2018 Apr	2018 May	2018 June	2018 July	2018 Aug	2018 Sep	2018 Oct	2018 Nov	2018 Dec	2019 Jan	2019 Feb	2019 Mar
<u>CPI - Auto Related</u>													
Motor Vehicle Ins. Premium	**8.9%**	**9.0%**	**8.3%**	**7.6%**	**7.4%**	**6.4%**	**6.6%**	**6.7%**	**5.5%**	**4.6%**	**3.4%**	**2.0%**	**1.7%**
Medical Care (Bodily Injury - 50%)	2.0%	2.2%	2.4%	2.5%	1.9%	1.5%	1.7%	1.7%	2.0%	2.0%	1.9%	1.7%	1.7%
Auto. Body Work (PD - 40%)	2.4%	2.2%	2.5%	2.9%	2.9%	3.3%	2.7%	3.2%	3.2%	3.2%	2.5%	2.6%	2.4%
<u>Used Cars & Trucks (PD - 10%)</u>	<u>0.4%</u>	<u>-0.9%</u>	<u>-1.7%</u>	<u>-0.7%</u>	<u>0.8%</u>	<u>1.3%</u>	<u>-1.5%</u>	<u>0.4%</u>	<u>2.3%</u>	<u>1.4%</u>	<u>1.6%</u>	<u>1.1%</u>	<u>0.4%</u>
Weighted Avg. Phys. Dam.	*2.0%*	*1.6%*	*1.7%*	*2.2%*	*2.5%*	*2.9%*	*1.9%*	*2.7%*	*3.1%*	*2.8%*	*2.4%*	*2.3%*	*2.0%*
<u>D&P Loss Cost Index</u>	**2.0%**	**1.9%**	**2.0%**	**2.3%**	**2.2%**	**2.2%**	**1.8%**	**2.2%**	**2.5%**	**2.4%**	**2.1%**	**2.0%**	**1.9%**
Premium-Loss Severity Gap	**6.9%**	**7.1%**	**6.3%**	**5.3%**	**5.3%**	**4.2%**	**4.8%**	**4.5%**	**2.9%**	**2.2%**	**1.3%**	**0.0%**	**-0.2%**
<u>Other Auto Related</u>													
Motor Vehicle Main. & Repair	1.5%	1.5%	1.6%	2.3%	2.3%	2.3%	2.2%	2.0%	2.7%	2.3%	2.6%	2.8%	3.7%
Motor Vehicle Parts & Equip. ex Tires	1.3%	1.7%	1.8%	3.0%	2.7%	3.4%	3.3%	3.1%	3.6%	3.5%	3.7%	3.3%	2.8%
Prof. Medical Services	0.6%	1.3%	1.1%	1.5%	1.4%	0.8%	0.9%	0.8%	1.0%	1.0%	1.2%	1.0%	0.4%
Hospital & Related Services	4.9%	4.2%	4.5%	4.5%	4.3%	4.1%	3.7%	3.2%	3.5%	3.6%	2.4%	2.1%	1.9%
New Vehicles	-1.2%	-1.6%	-1.1%	-0.5%	0.2%	0.3%	0.5%	0.5%	0.3%	-1.5%	0.0%	0.3%	0.7%

Source: Bureau of Labor Statistics, Dowling & Partners

Recall, there are 3 key components to the Loss Cost Index: Medical Care (50%), Auto Body Work (40%) & Used Cars & Trucks (10%). The Loss Cost Index has been relatively stable over the last 12 months, with Auto Body work driving many of the fluctuations.

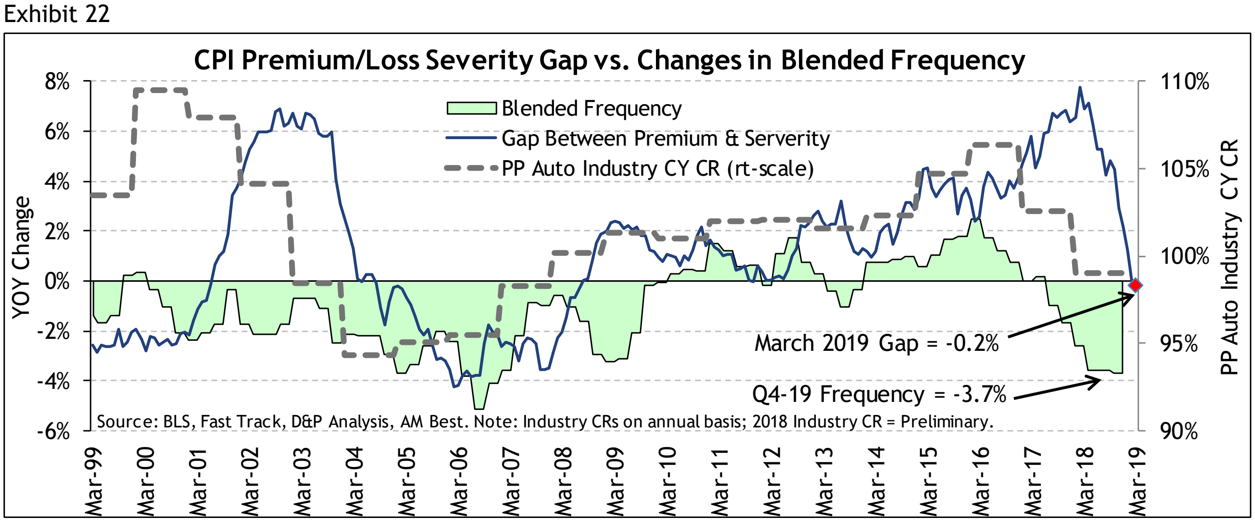
Below we show Loss Cost vs. Premium Trend with the addition of the Personal Auto Industry calendar year ("CY") combined ratios to give a sense of how the industry performed in different parts of the cycle. Looking back at 2003-04, when frequency was sharply declining, the spread also turned negative, while the industry combined ratio remained at record profits.

Exhibit 21



Below, we show ISO Fast Track blended frequency (PD & BI) vs. the CPI premium / loss severity spread, again with the addition of Personal Auto Industry CY combined ratios as a backdrop. Larger declines in frequency are associated with negative premium-severity spreads.

Exhibit 22



2019 Atlantic Hurricane Season Forecasts Begin To Roll In; Mixed Views.

Hurricane Season officially begins on 6/1 and a few forecasters have released initial views so far. Both **Colorado State University (CSU)** and **Tropical Storm Risk (TSR)** expect hurricane activity will be slightly *below* normal. By contrast, **AccuWeather** calls for "near to slightly above normal" activity. See exhibit 23 below for a summary.

Note, storm activity does not necessarily correlate with higher losses as just one storm can cause a significant loss (Hurricane Andrew in 1992 is a good example), or very active years may fail to have a U.S. landfall (2010 had 19 storms, 12 hurricanes and 5 major, but no U.S. landfall).

Exhibit 23

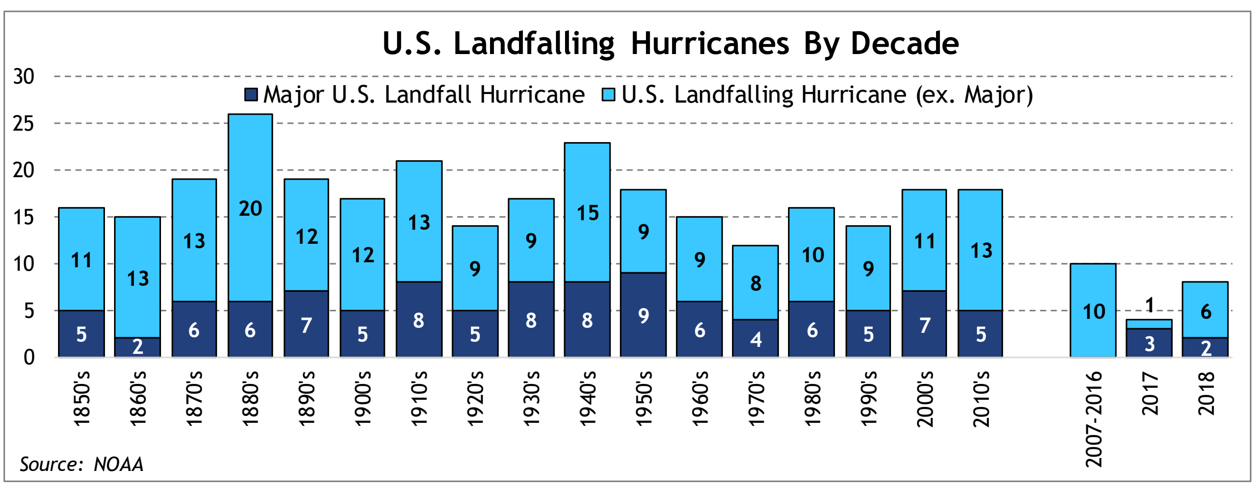
2019 Atlantic Hurricane Forecasts

Forecaster	As of	Next	Qualitative	Named Storms	Hurricanes	Major Hurricanes
Colorado State	4/4	6/4	"Slightly below normal activity"	13	5	2
Tropical Storm Risk	4/5	5/30	"Slightly below long-term norm"	12	5	2
AccuWeather	4/5	--	"Near- to slightly above-normal"	12-14	5-7	2-4
Weatherbell	4/4	--		12-13	5-6	1
Recent Average (2009-2018)				**14**	**7**	**3**
Long-Term Average (1950-2018)				**11**	**6**	**3**

Source: Press Reports

As the 2019 hurricane season approaches, it's also important to note (i) weather events are becoming more extreme, and we may someday soon face the reality of a "Category 6" Hurricane and (ii) 2017 and 2018 activity was not so unusual, it was the prior decade that saw an unprecedented period of low hurricane activity (no major hurricane landfalls). Just returning to "normal" will have major consequences for (re)insurers.

Exhibit 24



Q1 Cats Expected To Exceed "Normal" Levels, But Variance By Region.

With Q1 having come to a close and industry loss estimates known for the majority of events, U.S. insured cat losses are currently estimated **to be in the range of $3.7-4.3B. This is slightly above "normal" levels when compared to the 10-year mean and median of $3.9B and $3.4B, respectively.**

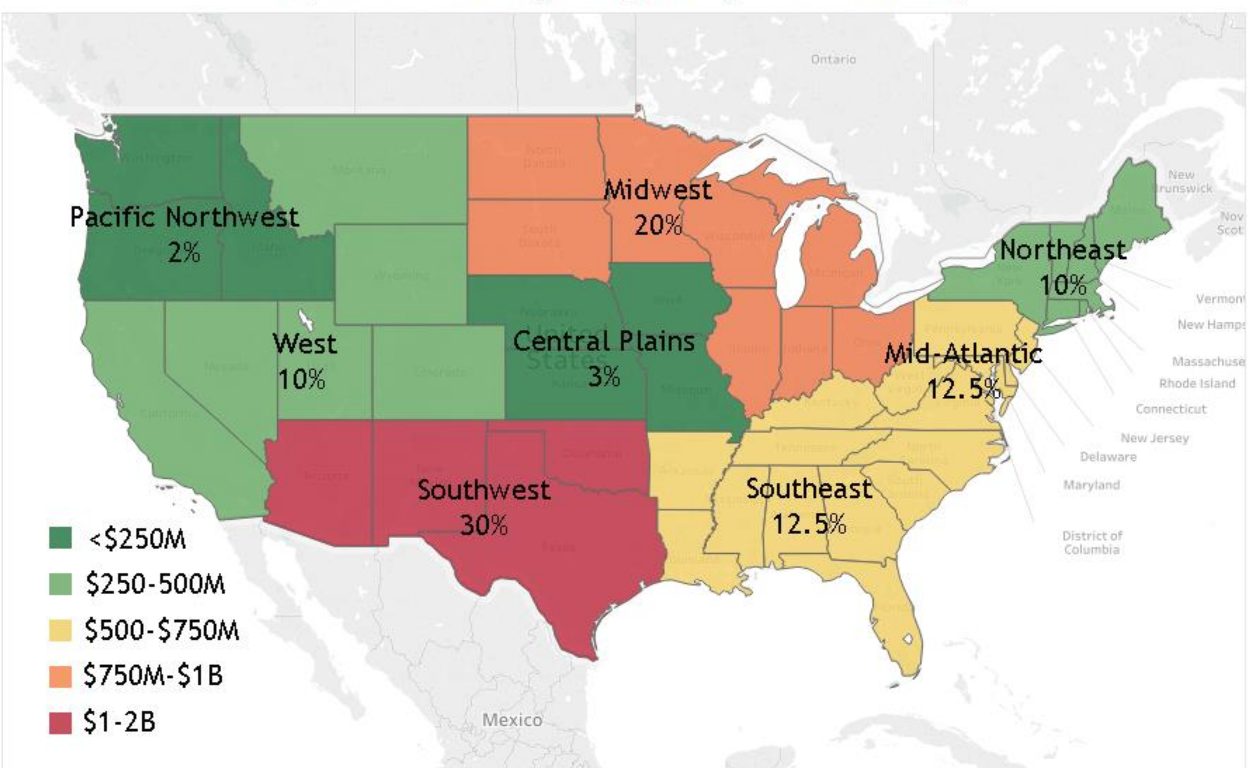
As seen in Exhibit 25, domestic losses in Q1 were more concentrated to the Southwest and Midwest. The largest domestic event in Q1 was the late February winter storm mainly affecting New York, Ohio and Pennsylvania, with insured losses estimated to be around ~$1B. In addition, two mid-to-late March weather events with <u>combined</u> insured losses of ~$1.5B hit the Southeast & Central U.S., mainly Texas, driving Q1 insured losses above "normal levels."

Internationally, there was modest cat activity in Q1, with estimated insured losses of $1.8-2.5B. The majority of these losses were the result of two events, (1) Winter Storm Eberhard, affecting Germany/ Europe with estimated insured losses of $1.0-1.7B; and (2) The Townsville flooding in Australia, with estimated insured losses of $0.7B.

All in, global Q1 insured cat losses are estimated to be in the range of $5.5-7.0B.

Exhibit 25

Q1:19 Cats By Region ($3.7-$4.3B)

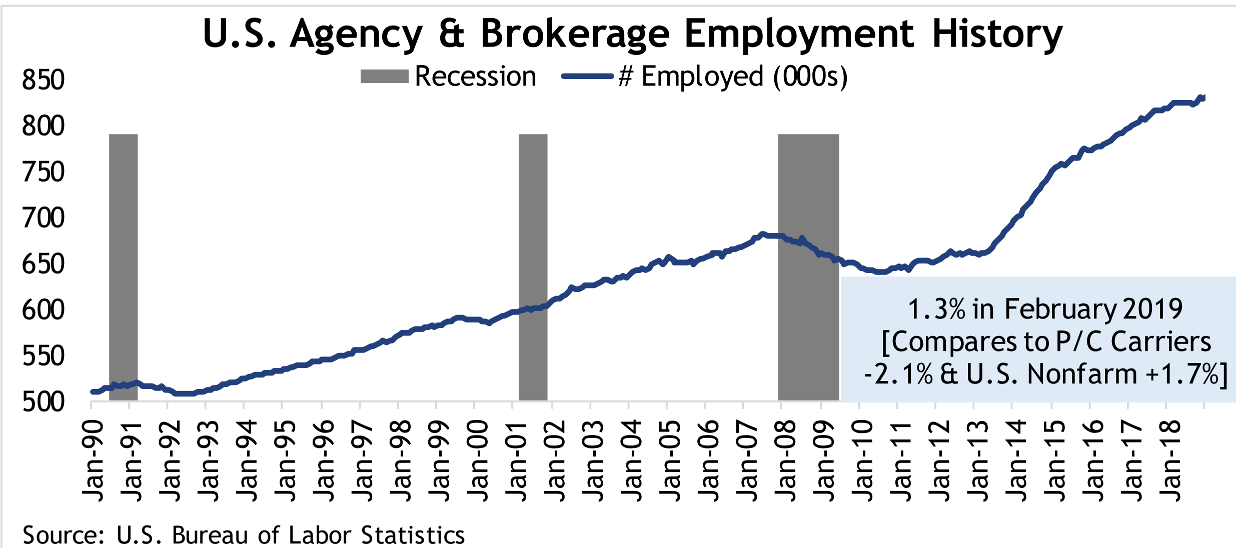


Agent & Broker Employment Increases +1.3% While P&C Continues To Experience YOY Decreases (-2.1%).

The latest U.S. Labor Department's Bureau of Labor Statistics (BLS) employment data shows the **agent/broker segment gained 11,000 jobs in February 2019, an inc*rease* of 1.3% YOY.** A total of 833,000 are employed.

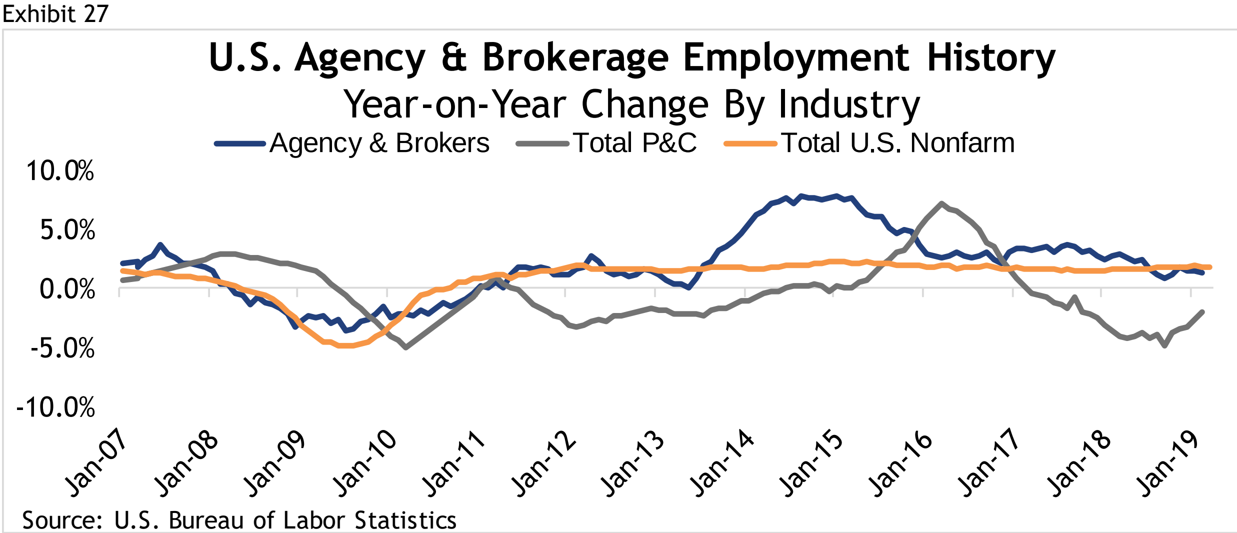
Agency and Broker growth continues to marginally lag total nonfarm U.S. employment, which was +1.7% for March (flat sequentially). Note, BLS restated historical data, so graphs below may differ from previous reports.

Exhibit 26



Comparatively, **P/C carrier employment experienced another decrease of 2.1%. Life/annuity** carrier employment was ~flat at -0.1% (only two months removed from its largest increase since December 2016 of 1.8%, down 0.3% sequentially), while **Health** carriers continue to lead the pack at +2.9%.

Exhibit 27



Hales Hits:

- **Lemonade,** the renters/homeowners Insurtech start-up, announced a $300M Series D funding round led by existing investor **SoftBank**, with participation from **Allianz**, **General Catalyst**, **GV**, **OurCrowd** & **Thrive Capital.** Recall, SoftBank led the $120M Series C round in December 2017. Total funding is now $480M and press reports suggest a valuation of ~$2B (vs. ~$600M in the prior round). See Hales#3 for our latest overview of the company.

- **HyreCar**, a transportation network company (TNC) that allows car owners to rent their vehicles to rideshare drivers, has indicated it may pursue self-insurance. One of the key drivers of a long-term decline in "wheels" business in our view (aside from safer / autonomous vehicles) is the increase of TNCs. The largest, **Uber**, already self-insures about ½ of its commercial insurance risk while Lyft self-insures substantially all.

- For the first time since 2014, the CA workers' comp rating bureau **WCIRB** will not make an advisory rate filing at 7/1, given the small and slowing pace of improvement in experience for the industry. CA represents 21% of total U.S. w/comp premiums, and rates have been declining since 2015 in the state (down ~20% cumulatively).

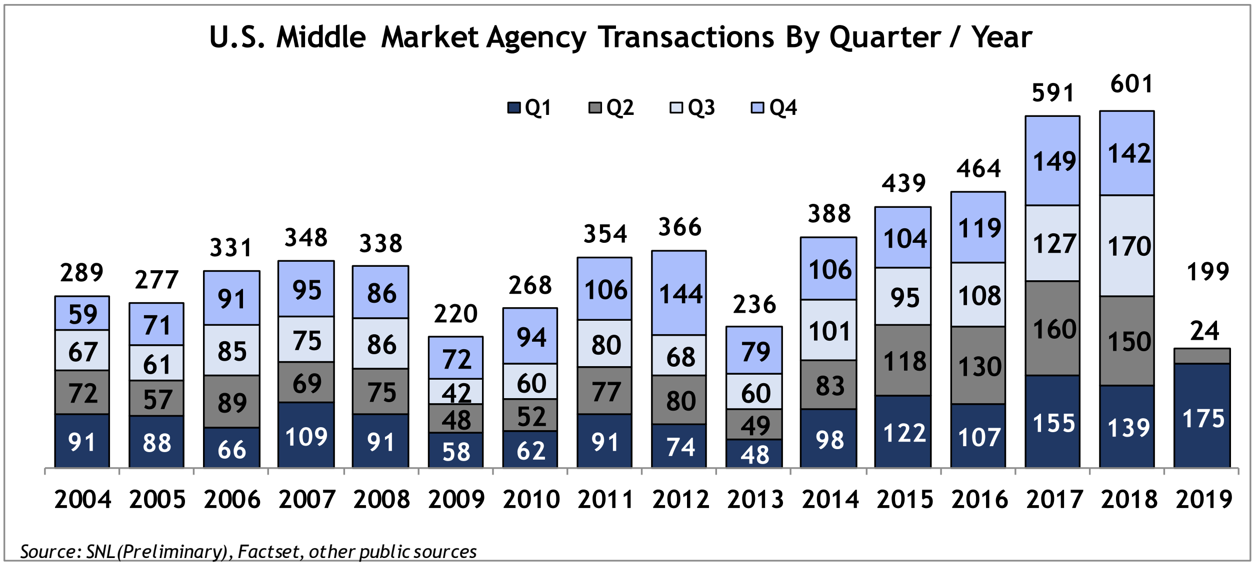
- **Ameriprise** agreed to sell **Ameriprise Auto & Home (AAH)** to **American Family Insurance**, the #10 personal auto writer in the U.S. Ameriprise will receive net proceeds of ~$950M. The deal provides American Family geographic /distribution diversification, and puts the company just shy of Travelers in the Homeowners business (at #7) and will overtake Travelers in Personal Auto (moves to #9). Total pro forma DPW is $5.9B.

- **Zurich** expanded its use of **CoverWallet's** online platform for small commercial business to Switzerland, following a similar partnership in Spain (began February 2018) that "exceeded goals." CoverWallet has been a prime example of an insurtech start-up evolving from "disruptor" (initially billed as a digital commercial broker) to "enabler" (now providing Platform as a Service / "PaaS"). **Hanover Grp** similarly has an agreement to "white label" CoverWallet tech for micro-business in the U.S. (see Hales#10).

- **Swiss Re Sigma** estimates global insured losses were $85B in 2018 ($76B of cats & $9B of man-made (unchanged)), an increase from their initial $79B estimate in Dec-2018. By region, insured losses were the highest in North America ($53B), followed by Japan ($17B) and Europe ($9B).

U.S. Deal Diary – Q2 Updates: The 24 deals over the past 2 weeks put the total Q2 count of deals at 24 (vs. 150 total in Q2 2018). So far this year, the deal tally of 199 is higher than 176 at this time last year.

Exhibit 28 & 29



2019 Most Active Acquiring Brokers - Monthly (Domestic Deals)

	2018	Jan-19	Feb-19	Mar-19	Apr-19	19 YTD
National Brokers						
Acrisure, LLC	100	4	6	6	8	24
Patriot Growth	-	17	1	-	-	18
Arthur J. Gallagher & Co.	32	5	1	6	-	12
Hub International	28	1	3	5	3	12
Broadstreet Partners	30	4	3	3	-	10
Brown & Brown	23	1	4	3	2	10
AssuredPartners, Inc.	33	4	3	2	-	9
Seeman Holtz	26	2	-	2	-	4
NFP Corp.	16	2	-	2	-	4
Marsh & McLennan Companies	7	1	-	1	2	4
Hilb Group, LLC	11	1	-	1	1	3
Alera Group	28	-	2	-	-	2
RSC Insurance Brokerage, Inc.	8	1	-	1	-	2
USI, Inc.	4	-	2	-	-	2
Sub-Total	**346**	**43**	**25**	**32**	**16**	**116**
Other	*255*	*38*	*23*	*14*	*8*	*83*
Total Broker Deals	**601**	**81**	**48**	**46**	**24**	**199**

Source: SNL, Factset, and other public sources through YTD

Exhibit 30

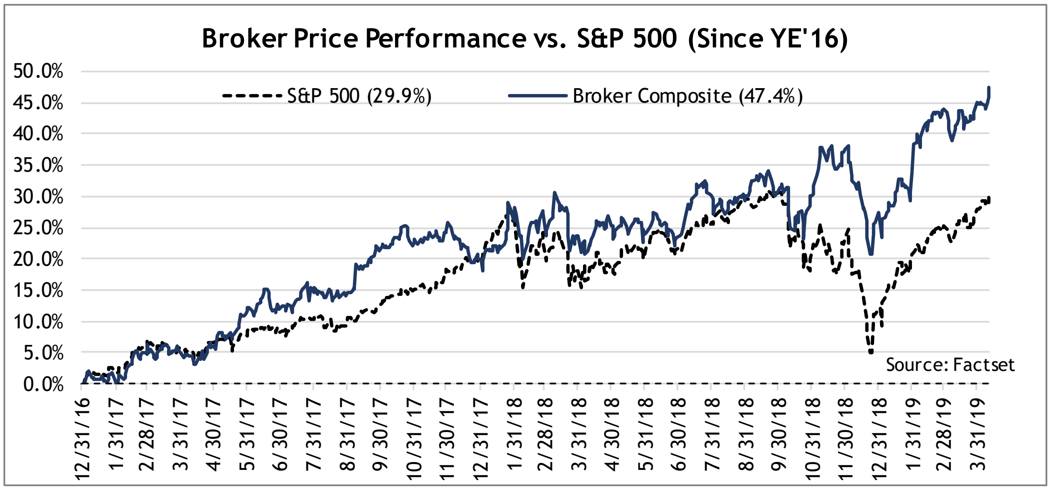
2019 U.S. Middle Market Brokerage M&A Since March

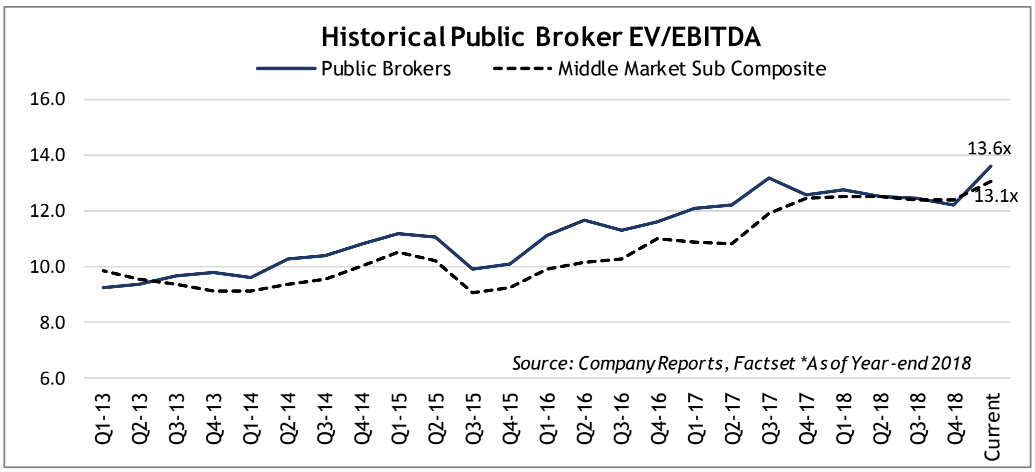
Date	Acquirer	Acquiree	Acquiree State
1-Mar	BroadStreet Partners, Inc.	*Book of business*	*FL*
1-Mar	BroadStreet Partners, Inc.	*Certain insurance assets*	*CA*
1-Mar	BroadStreet Partners, Inc.	*Certain insurance assets*	*TX*
1-Mar	Engle-Hambright & Davies, Inc.	*J. Seltzer Associates*	*PA*
1-Mar	Hilb Group LLC	*Marsh-Kemp Insurance Agency, Inc.*	*MA*
1-Mar	Insurance Group of St. Charles County, LLC	*BLP Insurance Services LLC*	*GA*
1-Mar	World Insurance Associates LLC	*MedNET Financial, Inc.*	*NJ*
1-Mar	WTPhelan & Co. Insurance Agency, Inc.	*Robert J. Cappadona Insurance Agency*	*MA*
4-Mar	Hub International	*Integrated Risk Solutions, Inc*	*WI*
4-Mar	Kingsway Financial Services Inc.	*Geminus Holding Company, Inc.*	*PA*
4-Mar	Marsh & McLennan Companies, Inc.	*Employee Benefits Group, Inc.*	*MD*
4-Mar	NFP Corp.	*Wright Insurance Agency*	*CA*
4-Mar	Reliance Partners, LLC	*CTS Insurance Agency, LLC*	*CA*
5-Mar	Relation Insurance, Inc.	*Villane Ward Insurance Services, Inc.*	*CA*
6-Mar	Synchrony Financial	*Pets Best Insurance Services, LLC*	*ID*
7-Mar	Hub International	*Peak Financial Group, LLC*	*TX*
8-Mar	AssuredPartners, Inc.	*Duffy & Livingston, LLC*	*NJ*
8-Mar	Brown & Brown, Inc.	*Austin & Austin Insurance Services, Inc.*	*CA*
11-Mar	Arthur J. Gallagher & Co.	*Merit Insurance*	*CT*
11-Mar	DiBuduo & DeFendis Insurance Brokers, LLC	*Dority Insurance & Financial Services, Inc.*	*CA*
11-Mar	Hub International	*Insurance Exchange, Inc.*	*MD*
11-Mar	Arthur J. Gallagher & Co.	*Merit Insurance Inc.*	*CT*
11-Mar	Starion Bancorporation	*Crabtree Insurance Agency Inc.*	*ND*
12-Mar	Hub International	*Insurance Programs Of America Inc./Risk Advisors of America LLC*	*FL*
12-Mar	RSC Insurance Brokerage, Inc.	*Krauter & Company, LLC*	*NY*
13-Mar	Arthur J. Gallagher & Co.	*Iowa First Insurance Agency*	*IA*
13-Mar	Arthur J. Gallagher & Co.	*Hammerberg Insurance Services, Inc.*	*IA*
13-Mar	Baldwin Risk Partners, LLC	*Lykes Insurance, Inc.*	*FL*
14-Mar	Brown & Brown, Inc.	*Cossio Insurance Agency LLC*	*SC*
14-Mar	Reliance Global Group, Inc.	*Platinum Benefit Advisors, Inc.*	*MI*
15-Mar	Brown & Brown, Inc.	*Medval, LLC*	*MD*
15-Mar	Hanson Insurance Group	*KMI Insurance LLC*	*OR*
18-Mar	NFP Corp.	*BD Capital Partners*	*OH*
19-Mar	Hub International	*RiteHealth Solutions, Inc.*	*CO*
22-Mar	Seeman Holtz Property and Casualty, Inc.	*Kaercher Campbell & Associates Insurance Brokerage LLC*	*CA*
23-Mar	Popular, Inc.	*Certain assets and employees of Team Insurance Services Inc.*	*PR*
25-Mar	Arthur J. Gallagher & Co.	*McLean Insurance Agency*	*VA*
25-Mar	Arthur J. Gallagher & Co.	*Mclean Insurance Agency, Inc.*	*VA*
26-Mar	Seeman Holtz Property and Casualty, Inc.	*Prey Insurance Services, LLC*	*WI*
29-Mar	AssuredPartners, Inc.	*GoodWorks Financial Group*	*CT*
1-Apr	Hilb Group LLC	*eBenefits Group LLC*	*CT*
1-Apr	Peter C. Foy & Associates Insurance Services, LLC	*Broadfield Group LLC*	*NY*
1-Apr	Peter C. Foy & Associates Insurance Services, LLC	*Grosslight Insurance, Inc.*	*CA*
1-Apr	Tokio Marine & Nichido Fire Insurance Co., Ltd.	*NAS Insurance Services, LLC*	*CA*
1-Apr	White Mountains Insurance Group, Ltd.	*Embrace Pet Insurance Agency LLC*	*OH*
1-Apr	Brown & Brown, Inc.	*Undisclosed Business*	*N/A*
2-Apr	Integrity Marketing Group, LLC	*Multi-State Insurance Center Inc.*	*MI*
2-Apr	Marsh & McLennan Companies, Inc.	*Lovitt & Touché, Inc.*	*AZ*
3-Apr	Hub International	*Premiere Risk Management*	*IL*
4-Apr	Hub International	*M.B.I. Group LLC*	*MS*
5-Apr	Hub International	*Assets of Corey Steinbach Insurance Agency LLC*	*MN*
5-Apr	OceanPoint Financial Partners, MHC	*Paquin Insurance Agency*	*RI*
8-Apr	Valley Insurance Agency Alliance, LLC	*Nichols Insurance Agency LLC*	*MO*
9-Apr	Peter C. Foy & Associates Insurance Services, LLC	*Hipskind Seyfarth Risk Solutions, LLC*	*IL*
11-Apr	Integrated Specialty Coverages, LLC	*Paramount General Agency/Paramount Acceptance Corp.*	*TX*
15-Apr	Brown & Brown, Inc.	*ALMEA Insurance, Inc.*	*WA*

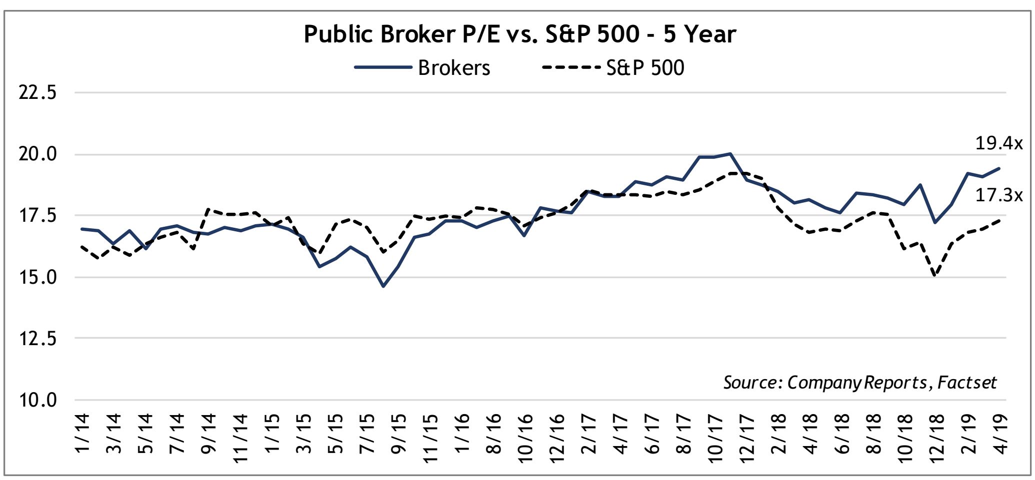
Source: SNL, Factset, other public sources; Note: Does not include some deals where target was not disclosed; Excl. Acrisure Deals.

Public Broker Valuations:

Exhibit 31, 32, & 33







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