North America business review

While North America's performance benefitted from the continuation of a positive premium rate environment and a profitable organic growth strategy, the overall result was impacted by heightened catastrophe claims and ongoing inflationary pressures.

Todd Jones • Chief Executive Officer • North America

Gross written premium (US$M)

6,289

32% from 2020

Net earned premium (US$M)

3,965

18% from 2020

Combined operating ratio

102.9%

2020 112.7%

Underwriting result[1] (US$M)

(118)

307 from 2020

Insurance (loss) margin

(0.6)%

2020 (14.6)%

2021 overview

Market conditions remained favourable in 2021 with pricing momentum resulting in an average renewal rate increase (excluding Crop) of 10.7% compared with 10.2% in the prior year.

This included rate increases of 26% in financial lines, 16% in general aviation, 16% in property programs and 10% in A&H. While rate increases continue to exceed claims inflation, during 2021 we observed heightened inflationary pressure, most notably in property.

Strong growth, particularly in Crop, financial lines and middle market commercial, reflected higher premium rates, increased new business volumes and slightly improved retention. Materially higher commodity prices underpinned very substantial premium growth in Crop.

In addition to an improvement in the ex-cat claims ratio, cost savings and operating leverage resulted in a materially lower expense ratio. This was partly offset by elevated catastrophe claims due to Winter Storm Uri and Hurricane Ida.

Operating and financial performance

Underwriting performance

North America reported a combined operating ratio of 102.9%, down from 112.7% in 2020.

The result was impacted by a heightened level of catastrophe claims which increased to $305 million or 7.7% of net earned premium compared with 7.1% in 2020.

The underwriting result benefitted from a 2.5% improvement in the ex-cat claims ratio and a 4.0% reduction in the total acquisition cost ratio, due to rate increases and a combination of cost savings and improved operating leverage.

Prior accident year claims development added 3.7% to the claims ratio, primarily in legacy E&S lines and discontinued programs, albeit down from 9.0% in 2020. We also strengthened our underlying claims inflation assumptions.

The combined operating ratio for Crop was 92.7% compared with 98.2% reported in 2020.

Underwriting result

FOR THE YEAR ENDED 31 DECEMBER		2021	EX-COVID 2021	EX-COVID 2020	2019	2018
Gross written premium	US$M	**6,289**	**6,289**	4,775	4,361	4,450
Gross earned premium	US$M	**5,838**	**5,838**	4,551	4,375	4,348
Net earned premium	US$M	**3,965**	**3,965**	3,351	3,692	3,557
Net incurred claims	US$M	**3,136**	**3,046**	2,917	2,929	2,397
Net commission	US$M	**512**	**512**	486	536	535
Expenses	US$M	**460**	**460**	469	488	528
Underwriting result	US$M	**(143)**	**(53)**	(521)	(261)	97
Net claims ratio	%	**80.7**	**78.4**	84.2	77.9	68.2
Net commission ratio	%	**12.9**	**12.9**	14.5	14.5	15.1
Expense ratio	%	**11.6**	**11.6**	14.0	13.2	14.8
Combined operating ratio	%	**105.2**	**102.9**	112.7	105.6	98.1
Statutory combined operating ratio	%	**103.6**	**101.3**	115.5	107.0	97.3
Insurance (loss) margin	%	**(2.8)**	**(0.6)**	(14.6)	(3.7)	N/A

1 Excludes impact of changes in risk-free rates used to discount net outstanding claims.

Premium income

Gross written premium increased 32% to $6,289 million. This reflected especially strong growth in Crop and 20% growth across broader P&C lines as a result of continued strong premium rate increases, new business growth and slightly improved retention levels.

Crop gross written premium increased 51% primarily due to higher commodity prices, notably for Corn (+18%) and Soybeans (+29%), coupled with organic growth of around 21%. The Crop business continues to grow market share through its especially strong technology-based service offering, deeply ingrained agent loyalty and investment in new talent.

Specialty & Commercial premium grew 28% compared with 2020. Premium rate increases remained strong in all lines while investment in market-leading talent as part of the build-out of financial lines translated into strong organic growth. Increased new business in middle market commercial lines, coupled with rate increases and improved retention in A&H, further contributed to premium growth.

Alternative Markets' gross written premium increased 14% due to strong premium rates in commercial property as well as new business growth in casualty programs.

Net earned premium increased 18% to $3,965 million. Growth in net earned premium lagged top line growth largely due to strong growth in heavily reinsured portfolios such as Crop (including growth in dairy that is fully reinsured) while material quota share reinsurance was purchased to prudently support the expansion of our financial lines business.

Claims expense

The ex-cat claims ratio improved to 66.7% from 69.3% in 2020 or to 57.1% from 60.2% excluding Crop insurance.

This reflected rate increases in excess of claims inflation across most classes, coupled with reduced severity in aviation following unusual experience in 2020. Notwithstanding the aforementioned improvement, we observed increased severity in certain property segments and higher social inflation in casualty lines during the second half of the year.

Catastrophe claims increased to 7.7% of net earned premium from 7.1% in 2020, primarily due to Winter Storm Uri and Hurricane Ida.

Adverse prior accident year claims development was $148 million or 3.7% of net earned premium compared with 9.0% in 2020, reflecting significant strengthening in legacy E&S lines and discontinued programs. Elsewhere, increases in financial lines and property programs were more than offset by favourable development in commercial retail, workers' compensation and A&H.

The result included a risk margin charge of 0.3% of net earned premium compared with a release of 0.7% in the prior year.

Claims management efficiencies and improved operating leverage in the Crop business resulted in a reduction in claims settlement costs to 4.1% of net earned premium from 4.5% in 2020.

The statutory claims ratio included around 1.3% of COVID-19 related claims, primarily in A&H, professional liability and workers' compensation as well as a 1.0% impact from COVID-19 related supply chain disruption which resulted in higher average claims costs, most notably in property classes.

Commission and expenses

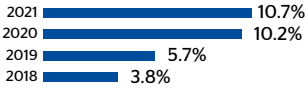
The combined commission and expense ratio improved to 24.5% from 28.5% in 2020, partly reflecting the benefit of business mix and operating leverage associated with strong growth in Crop which operates on commission and expense ratios well below the North America average.

Excluding Crop, North America's combined commission and expense ratio improved by approximately 3%, due to underwriting expense savings coupled with improved operating leverage as a result of strong premium growth in targeted segments.

Average renewal premium rate increase

10.7%

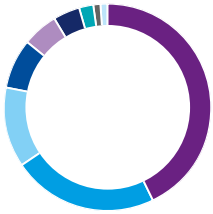
0.5% from 2020



Gross written premium by segment

	2021 %
Crop	42.9
Alternative Markets	30.6
Specialty & Commercial	21.6
Retail	4.9

Gross written premium by class of business



	2021 %
Agriculture	42.9
Commercial & domestic property	22.7
Professional indemnity	12.6
Accident & health	7.7
Workers' compensation	5.7
Public/product liability	4.0
Marine, energy & aviation	2.4
Motor & motor casualty	1.0
Financial & credit and other	1.0

Combined commission and expense ratio

24.5%

4.0% from 2020