

State of the Insurance Market

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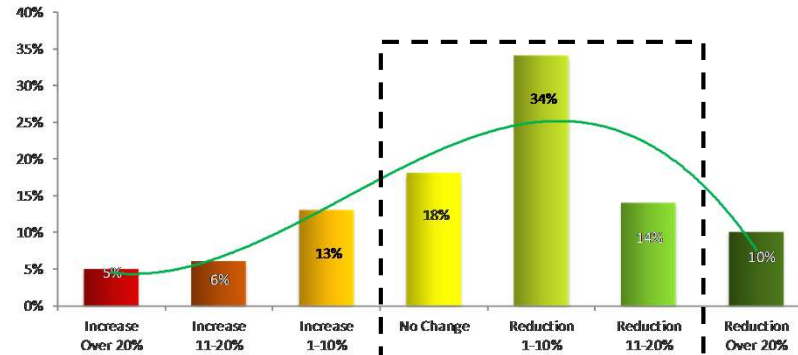
Property Market Update Discussion

June 2020

Market Shift – Q2 2017 to Q4 2019

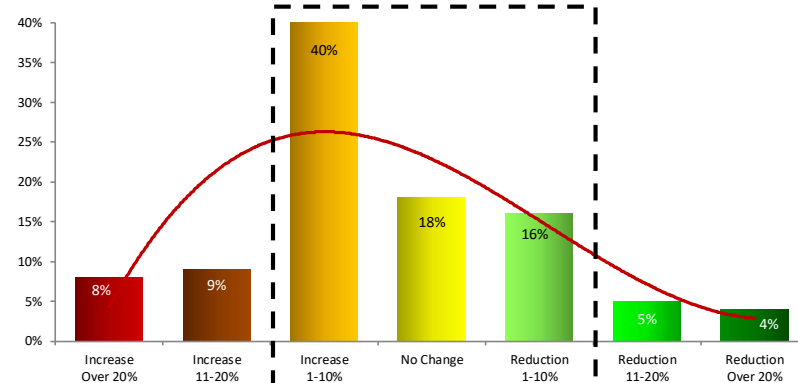
Q2 | 2017
Pre-H.I.M.

58% of renewals seeing rate decreases renewal



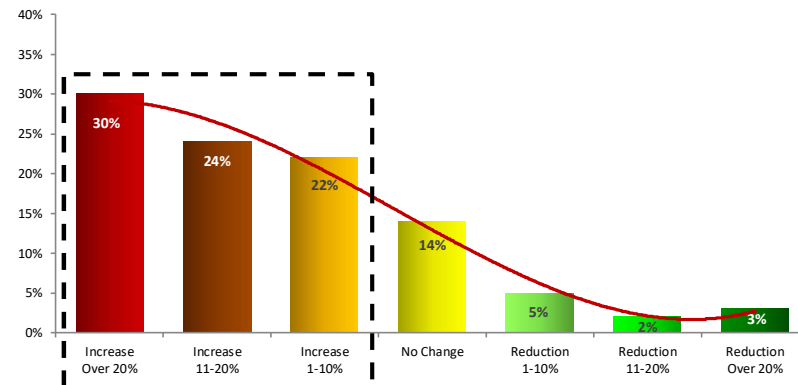
Q4 | 2018
One-year after H.I.M.

74% of renewals seeing small rate increases to small rate decreases



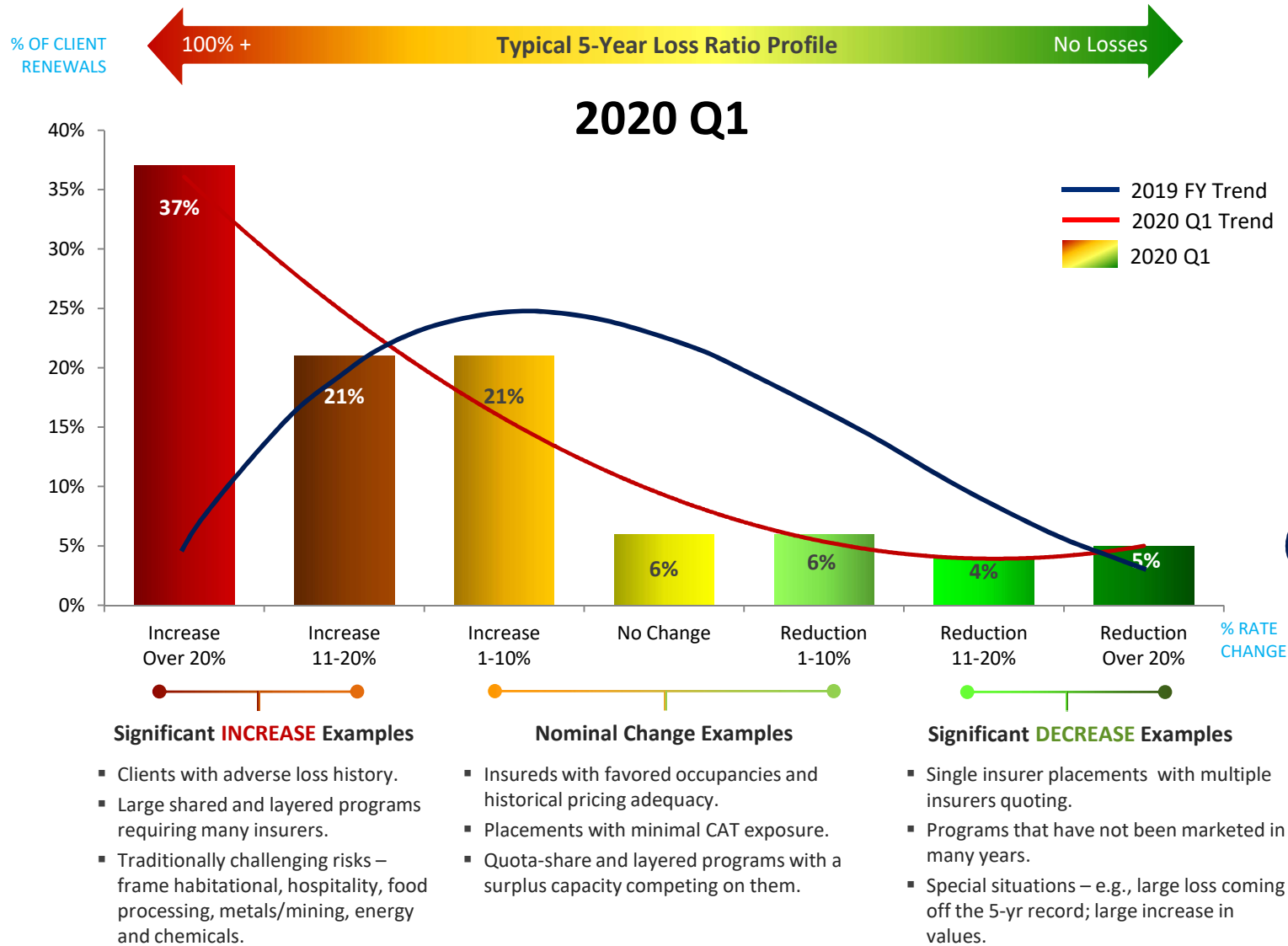
Q4 | 2019
Most recent results

76% of renewals seeing rate increases with the majority being double-digit



This information includes broad commentary about the property insurance market. Underwriters consider each risk on its own unique merits. Among many factors that may affect an insured's specific outcome are the competitiveness of the current rate, account size, scope of marketing effort, risk quality, data quality, geographic considerations and intangible considerations such as insurer relationships.

U.S. PROPERTY RATE CHANGE BENCHMARKING



Q1 HIGHLIGHTS

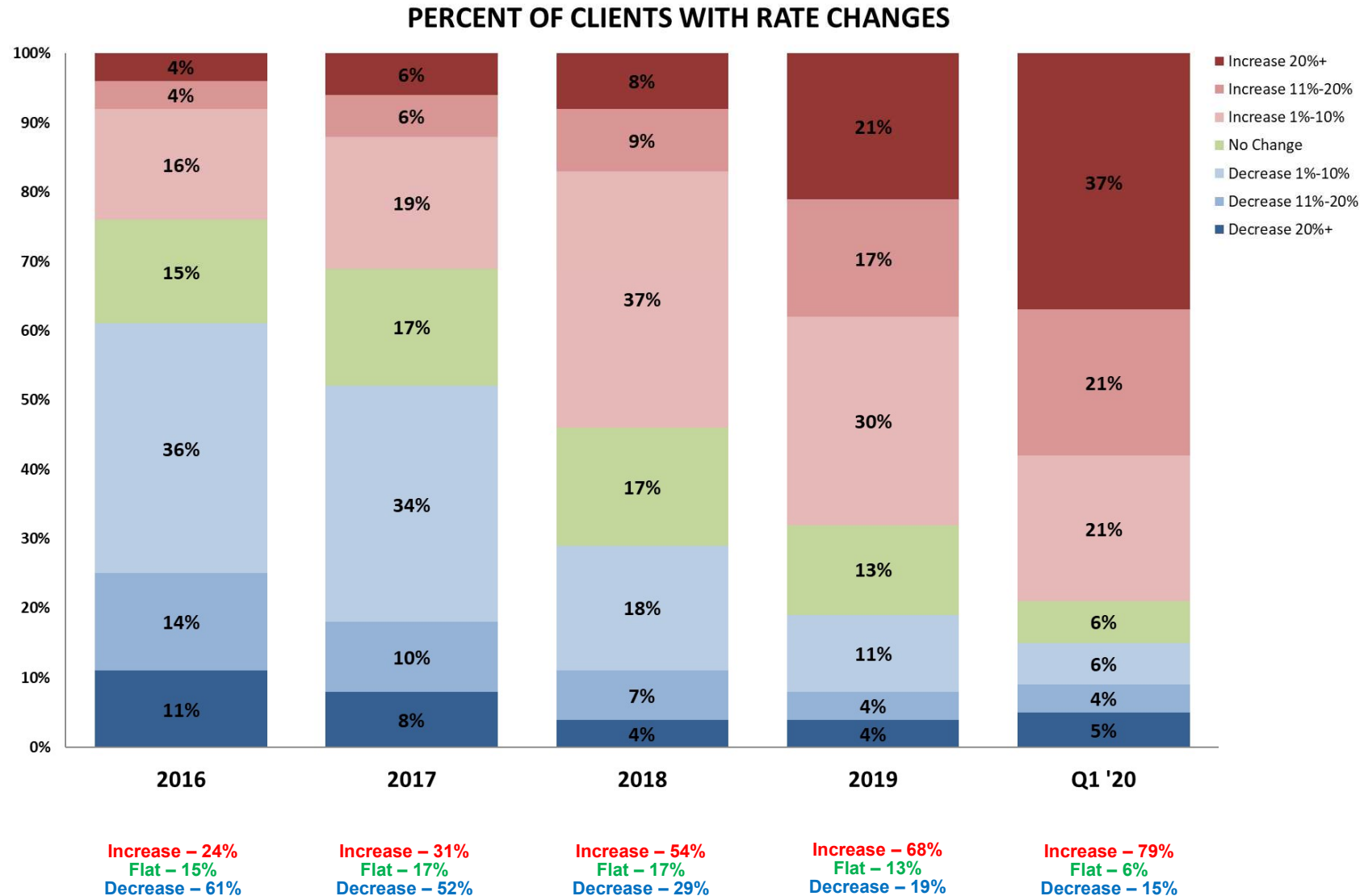
- 58% of programs experienced a rate increase greater than 10%.
- 79% of companies saw rate increases in the second quarter. 6% of clients had no change in rate for their Q1 renewal.
- Only 9% of companies saw rate decreases at renewal.
- Average rate changes:
 - All companies: +21.1%
 - Non-CAT: +21.9%
 - Medium-CAT: +19.8%
 - High-CAT: +20.9%
- Coverage for terrorism was purchased by 54% of clients.

The data excludes renewals with increased deductibles or less limit from expiring. Data excludes rate changes greater than +250% or less than -60%.

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Marsh US Property Portfolio Rate Movement

Percentage of Client with Rate Changes



Market Drivers

Top 10 Largest Insured Loss Years and Projections for 2020



Losses for Full Year 2020 look set, at a minimum, to approach USD \$100 billion for only the fourth time ever.

Property Market Conditions

Q1 2020 - Present

U.S. property/casualty surplus reached an all time record \$800B+) in 2019 following a benign CAT loss year. Hopes were that market conditions would begin to ease. Those hopes faded in March as Covid 19 brought the global economy to a halt.

- Pandemic (still a live event) has compounded the headwinds already being felt.
- Riot and civil commotion losses will add billions of dollars more in losses to the market.
- Other “non-modeled” loss dragging on loss ratios:
 - Convective storm (Tornado/Hail)
- 2020 hurricane season is predicted to bring a heightened number of named windstorms.
- Terms, conditions and manuscript wordings are being scrutinized
 - Non-physical damage time element extensions excluded
 - Communicable disease exclusion
 - Cyber exclusion
 - Emergence of exclusion for riot and civil commotion (Lloyd’s) following Chile, Hong Kong, US.
- Market conditions will remain challenging into 2021.
 - Underwriters focus on profitability: 1) Rate 2) Deductibles 3) Coverage restrictions.

NEXT STEPS: Differentiate



Differentiating an Account in a Dislocated Market



Property Market Update - How To Prepare

Second Quarter 2020

- **Monitor market conditions throughout the year**
- **Start early by facilitating the discussion with your insurers: “What are you forecasting?”**
- **Why do we purchase insurance?** The market is a more efficient taker of our risk – if I can transfer hazard risk at 3% Rate – on – Line when it costs me 7% to retain.
- **Know the value of your program. Know the value of your trades:**
 - CAT purchase: Modeling
 - Revisit CAT Limits (Need To Have –vs- Nice To Have)
 - Revisit CAT deductibles
 - Know the value of your fire only (Excl. CAT) program
 - Historical loss analysis
 - MFL (maximum foreseeable loss scenarios) PML (probable maximum loss scenarios), NLE (Normal Loss Expectancy)
- Rebalance Risk Retention and Risk Transfer (don't trade dollars with insurance cos)
- Consider alternative program solutions to drive competition – need additional premium, not \$0!

Casualty Insurance Market Update

Rocky Mountain RIMS Presentation

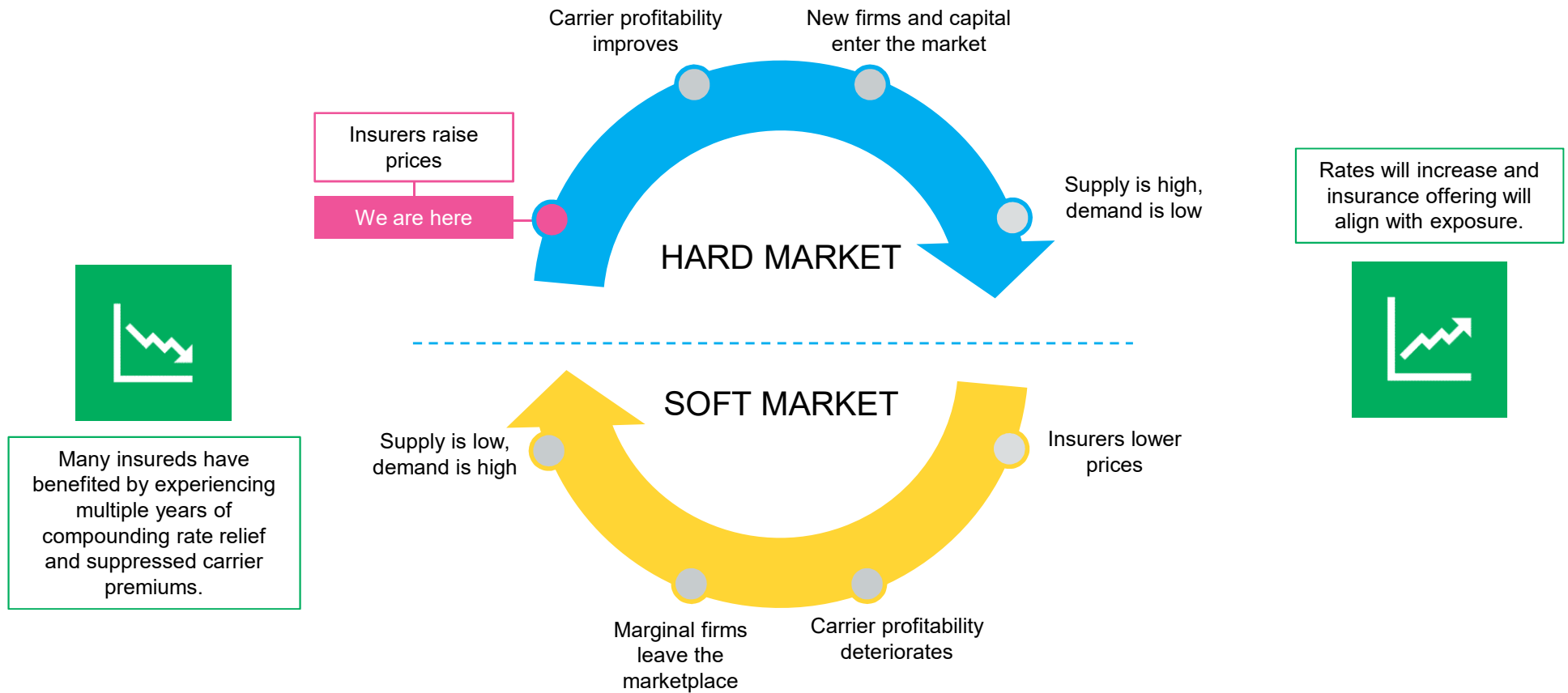
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June 2020



A Bit Like Mario Kart Racing



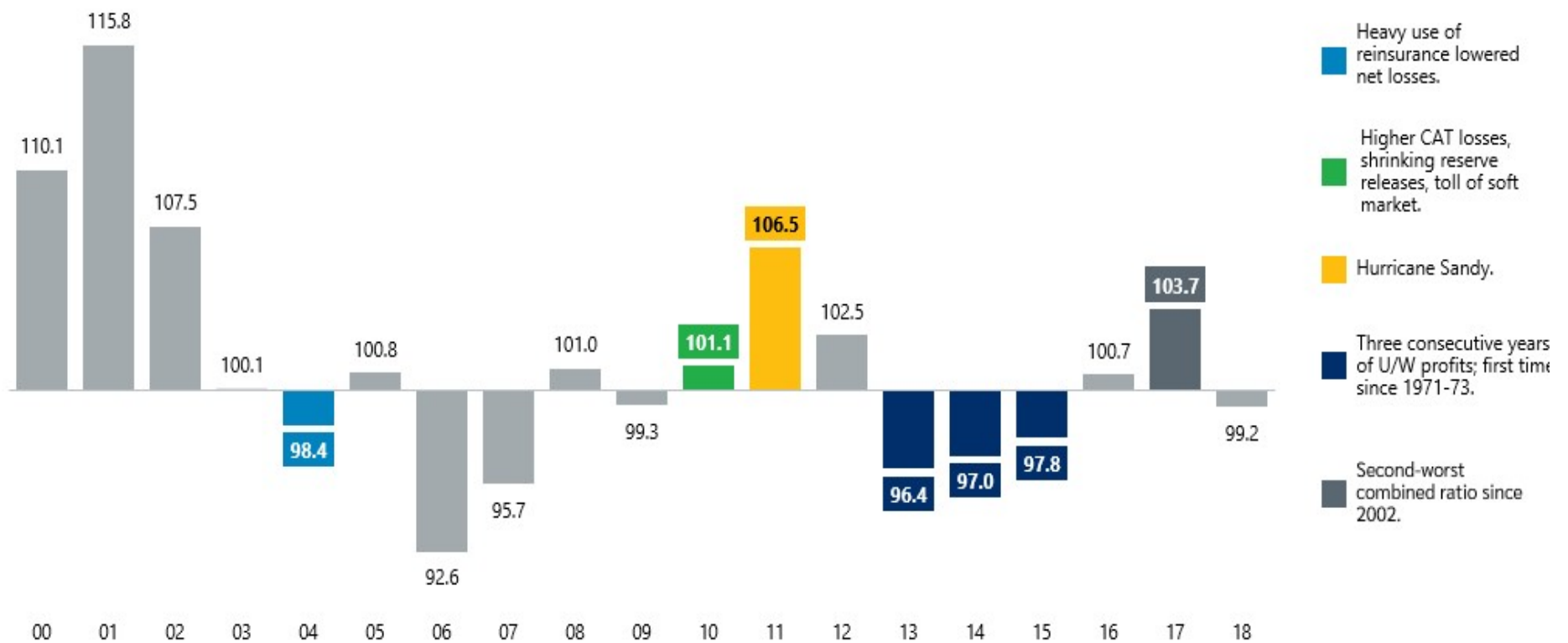
Soft-to-Hard Market



Key Market Drivers

Combined ratio

*P&C insurance industry combined ratio, 2000-18**



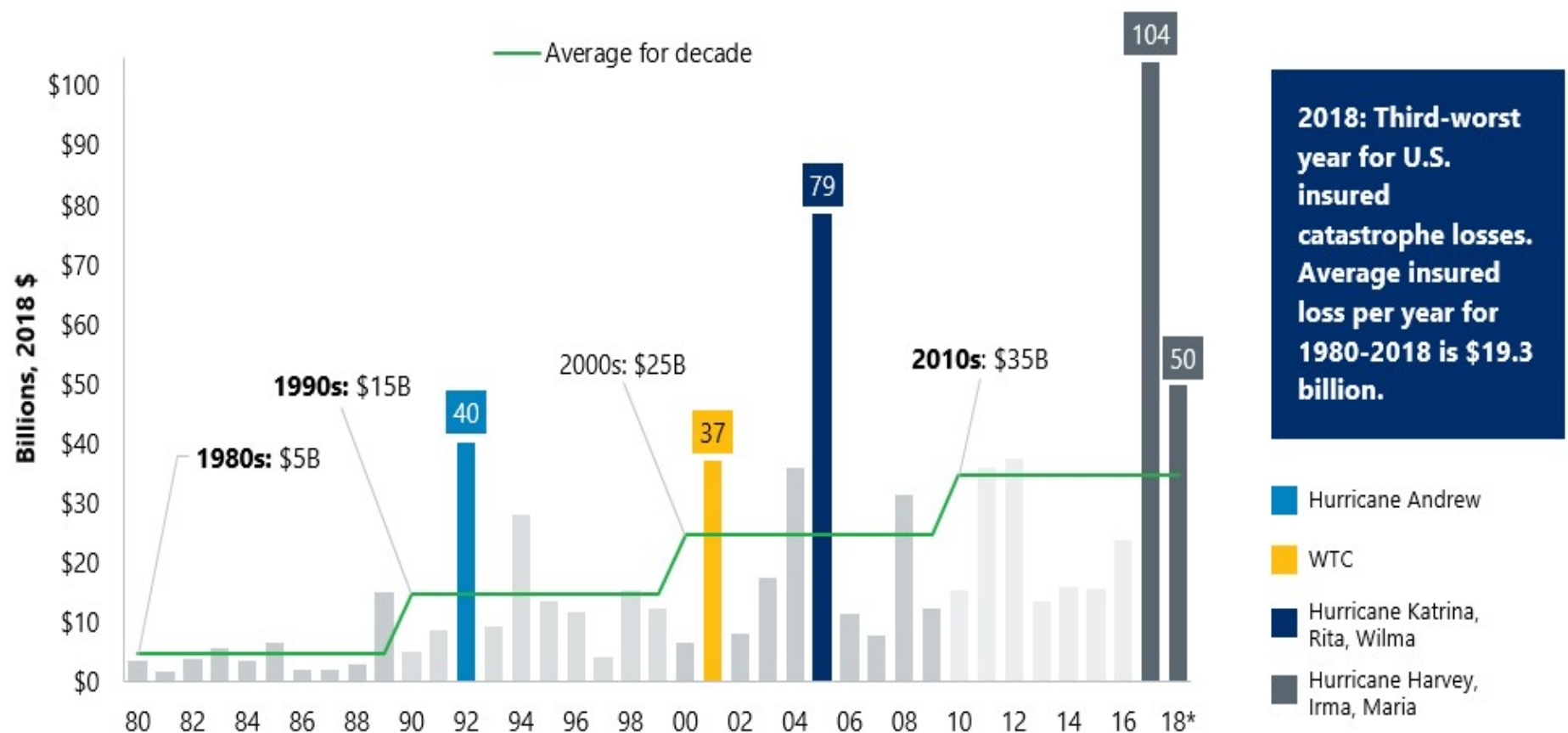
Key Market Drivers

Interest rates are declining



US inflation-adjusted CAT losses

Key Market Drivers





What might this mean for you?

- Rate increases
- Higher retentions
- Reduced capacity
- Underwriter scrutiny
- Restrictive coverage terms

Casualty Market Line-by-Line Review



Auto Liability



General Liability

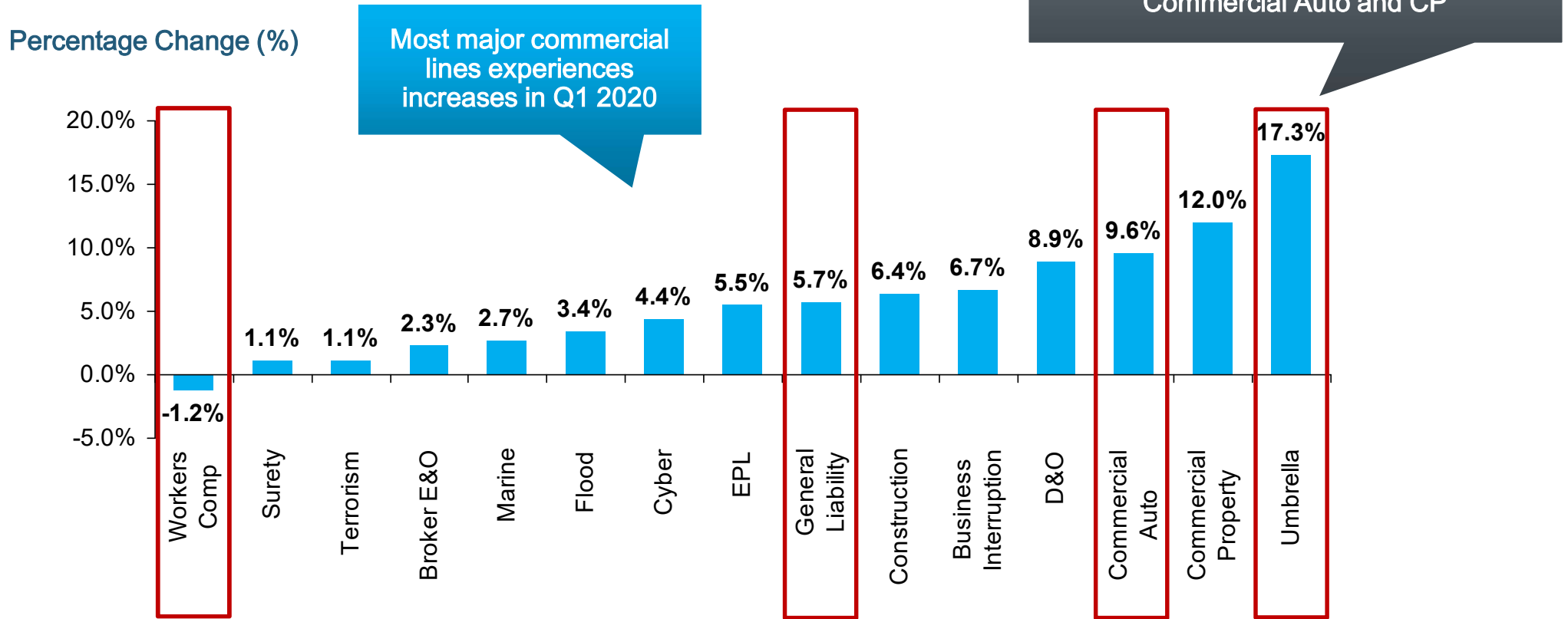


Workers Compensation



Umbrella/Excess Liability

Change in Commercial Rate Renewals, by Line: 2020:Q1



Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.

Source: Council of Insurance Agents and Brokers; USC Center for Risk and Uncertainty Management.

Arise, go forth, and conquer as of old.

-- Alfred, Lord Tennyson (Idylls of the King)

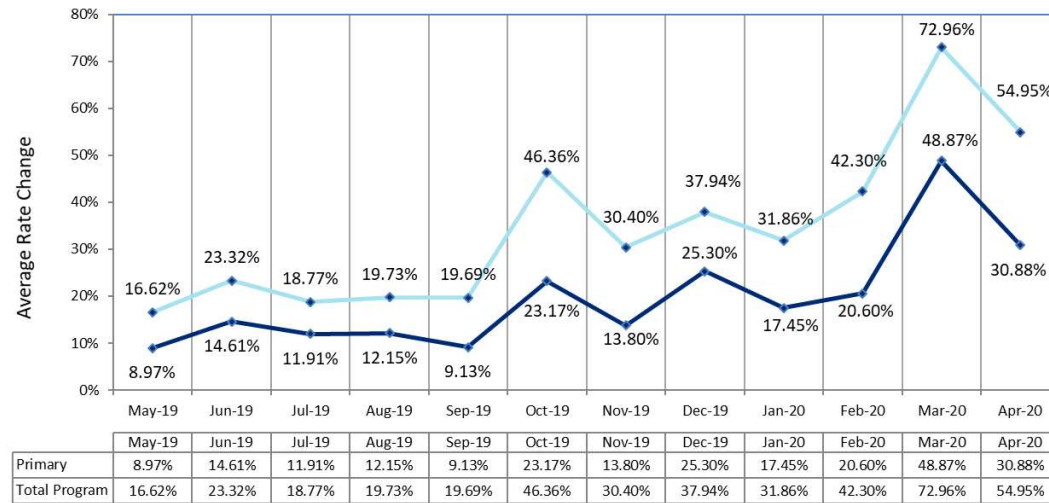


Financial and Professional Lines Market Update



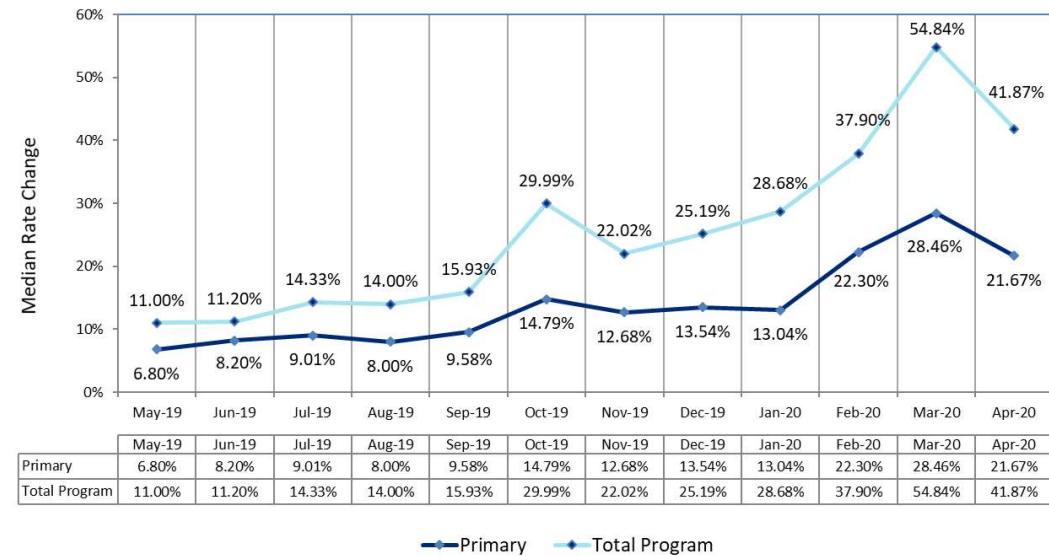
US PUBLIC CO. MONTHLY D&O RATE TRENDS - THROUGH APRIL, 2020

Average Rate Change – Primary & Total Program



Primary Total Program

Median Rate Change – Primary & Total Program



Primary Total Program

The image features three decorative curved lines in the corners, each composed of multiple overlapping layers in shades of light blue, grey, and beige. One arc is in the top right, another in the bottom left, and a third is partially visible on the left edge.

QUESTIONS?