Property Market Update

RIMS Pittsburgh

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Market Conditions

October 2022 key trends and rate variances

Capacity ↘

- Anticipated contraction of CAT reinsurance and retro capacity for 1/1 renewals
- Continued scrutiny of Severe Convective Storm (SCS) and Flood
- Wildfire and Tier 1 named storm is challenging
- Expansion of Structure Capacity and Parametric solutions

Cost ↗

- Following a deceleration of rate increases upward pressure is anticipated for Q4 and into 2023
- Best in class risks will benefit from stable capacity and a willingness to retain profitable accounts
- Significant pricing increases for certain risks with the most pressure on Florida, Gulf and Atlantic coast states

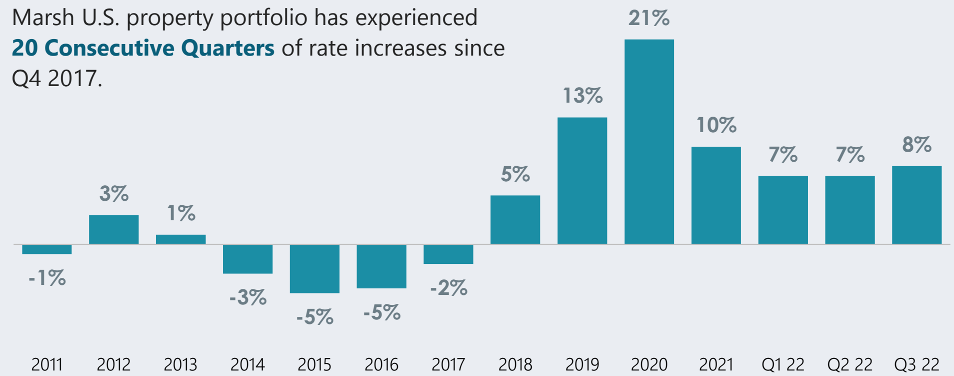
Coverage ↘

- Non-physical damage coverage still limited
- Time Element coverage extensions still under scrutiny
- Strong focus on valuation for both PD and BI driven by supply chain, labor costs and inflation
- Secondary Perils – wildfire, pluvial flooding, etc.
- Cyber and Communicable disease exclusions remain consistent in the market
- CAT deductibles under pressure

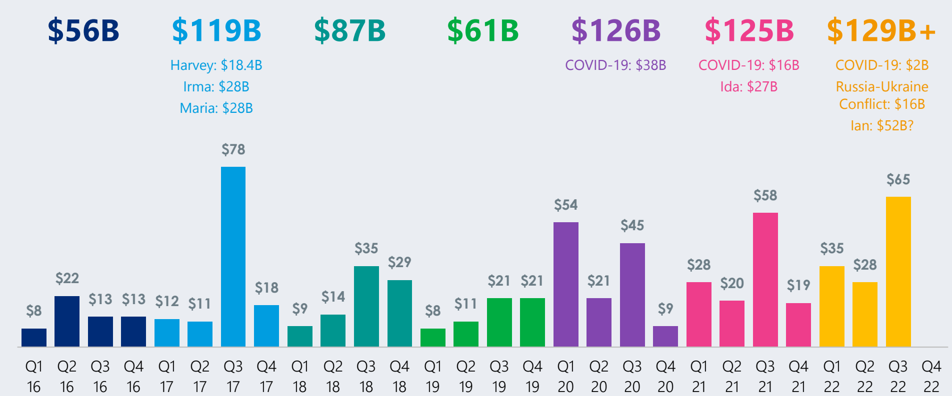
Claims ↗

- 2022 is potentially one of the worst loss years on record
  - Russia / Ukraine conflict
  - Hurricane Ian
- Flood, Flood, FLOOD! - significant flooding and surge losses continued in 2022 with a significant amount of uninsured loss

Rate Variance: US Property Portfolio (all industries)



Significant Global Insured Losses 2016 to 2022 ($B)



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Property Market Outlook

What insureds should expect

- **Anticipated Market Headwinds**
  - Named storm – pricing increases and capacity reductions
  - Removal or increase of $ caps on catastrophe deductibles
  - Increased AOP deductibles on accounts with a high frequency of attritional losses
  - Non-concurrent terms on some placements to control costs
  - Buffer layer challenges
  - Placements with significant / predominant exposure to secondary perils may see significant premium increases and increased deductibles
  - Insurers may pull back on high hazard EQ as they look to balance their portfolios
- **What we know**
  - After beginning to taper this year, rates may again trend upward in Q4 and into 2023
  - Accounts with significant exposure in FL and predominately written by E&S carriers are beginning to see rate increases in the 30% to 100%+ and a reduction in available capacity
  - Insureds with significant CAT, but limited exposure to named storms face a changing market
  - Finding replacement, new or additional CAT capacity is difficult today
  - Insurers are quoting Q4 renewals with anticipated treaty costs and capital structure in mind
  - Several admitted property carriers currently have a combined ratio under 100%
  - Valuation and OLLE endorsements remain a focus

Insured's Focus

- Communicate often with brokers and internal stakeholders to update budget expectations
- Have a clear understanding and prioritization of objectives (price-vs-coverage-vs-risk retention, etc..)
- Understand the requirements of Lender / Third Party Agreements
- Do not be late to the market
- Develop a plan to differentiate your risk.
- Have clear data and messaging regarding inflation and ITV embedded in submission materials
- Meet with incumbents and focus on property risks or protections that may have changed since last renewal
- Review loss control weak spots and prepare a plan to address those that do not require significant capital.
- Rebalance Risk Transfer vs Risk Retention to ptimize TCOR
- Refine program limits / CAT limits to be in line with current risk profile.
- Explore alternative risk solutions such as Structured Risk / Captives / Parametric / ILS
- Develop contingency plans for both price and capacity – which objectives are critical vs. manageable?

Market Outlook

While the overall market conditions may harden in 2023, it also will remain bifurcated

Lesser Rate Increase & Greater Capacity		Greater Rate Increase & Lesser Capacity
Single insurer	Program Structure	Shared & layered
Low hazard	Occupancy	High hazard
Loss-free	Loss Experience	Loss-affected
Nominal	NatCat Exposure	Severe
HPR / non-combustible	Construction	Poor
Engaged	Loss Control Focus	Disengaged
Credible	Valuation	Questionable

Data and Risk Quality Drives Price and Capacity

Market Access

- Market Access
- Bowring
- Wholesale Strategy

Catastrophe Modeling

- Resources
- Our Process
- Blue [i] Property

Analytics

- Risk Finance Optimization
- Cost of Risk
- Loss Retention Analysis
- Benchmarking / Peer Review

Portfolio / Placement Solutions

- London Q/S Facility
- Prime / Terrorism
- Alternative Risk Transfer
- Structured Risk

Property + Risk Advisory

- Integrated approach
- Valuation
- Market Readiness

Property Market Outlook

Reinsurance market dislocation

- **Overall Reinsurance Market concerns since mid-year renewals have been driven by the following**:
  - Impact of climate change
  - Increased exposures and claims due to inflation
  - CAT modeling accuracy and corresponding impact on insurer capital allocations
  - Legal / legislative environment in certain states (FL and LA)
- **Post-Ian, capital constraints will shape the RI market and impact the direct market too:**
  - Retro market has severely contracted
  - Treaty reinsurers have not seen the same benefit as D&F reinsurers in recent years
  - Direct insurers will see increased retentions on both CAT and per risk treaties
  - Estimated $20B R/I capacity deficit versus anticipated demand from direct writers
  - Some expect a 25-50% risk-adjusted price increase in the RI market
- **Impact on direct insurers and potential actions:**
  - Insurers will look to pass on increased costs to clients
  - With less reinsurance protection insurers may reduce the amount of limit they deploy, leading to increased retentions and costs for insureds
  - Retail insurers may non-renew or reduce participation on programs where premium is below their pricing objectives (AAL / PML)
  - Continued shift of business from the admitted market to the E&S market

Potential impact on insureds

- While client fatigue is at its highest point, there are several indicators that an acceleration of rates increases will occur in Q4 2022 and full year 2023
- Early indications following hurricane Ian show continued pressure for named windstorm capacity and a significant hardening in certain Atlantic and Gulf coast states, especially Florida
- Potential contraction of coverage in the form of higher deductibles and reduced limits / coverage
- We continue to see a focus on secondary CAT perils which is resulting in pressure on pricing, capacity and deductibles (convective storm, wildfire, and flooding)
- On placements where incumbent CAT capacity needs to be replaced or for clients who were looking to increase limits, new CAT aggregate is being priced at higher premiums
- Insurer discipline with regards to terms and conditions such as deductibles, non-physical damage, cyber, and communicable disease exclusions, as well as Time Element extensions
- Valuation remains a key focal point for all Property carriers on every renewal.

Valuations

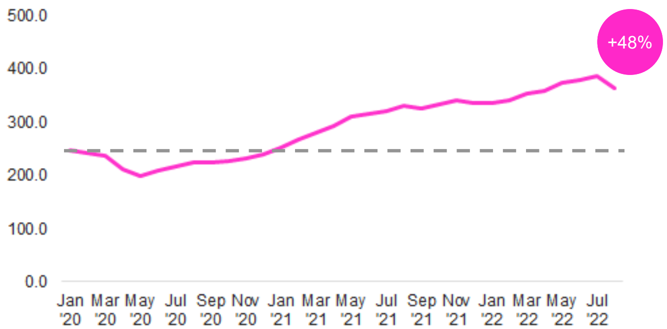
Impact of inflation on insurers

- Larger than anticipated losses
- Premium inadequate for exposure
- Deductibles not set appropriately
- Weakened investment results
- “Social” inflation (not exclusive to casualty and finpro)
- Loss estimates and maximum foreseeable loss (MFL) estimates may be inaccurate
- Exposure to natural catastrophe perils may be greater than anticipated

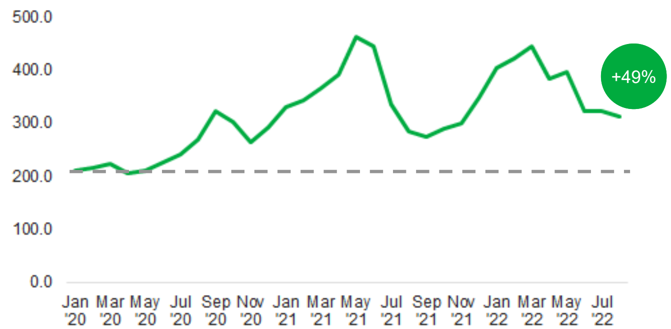
Valuations

Sharp cost increases since 2020 for production and construction inputs – U.S.

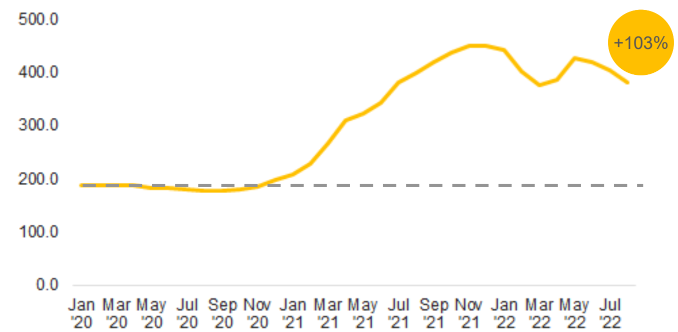
Chemicals and Allied Products



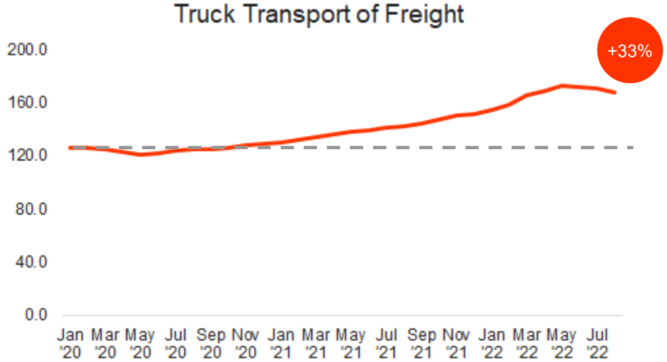
Lumber and Wood Products



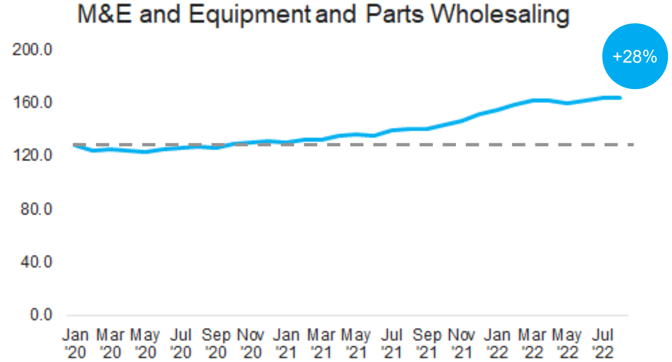
Metals and Metal Products



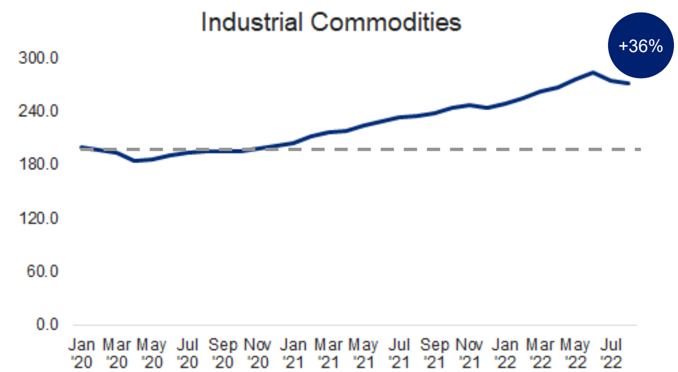
Truck Transport of Freight



M&E and Equipment and Parts Wholesaling



Industrial Commodities



Source: Bureau of Labor Statistics, producer price indexes

Hurricane Ian

U.S. Landfall – Florida 9/28 and South Carolina 9/30

Hurricane Ian NHC Landfall Status

Florida Landfall 3:05 PM EDT, September 28, 2022

Landfall location: Cayo Costa, Florida

Extent of hurricane force winds: 45 miles
Extent of TS force winds: 175 miles

Max sustained: 150 mph
Category: 4

Minimum central pressure: 940 mb

Forward speed: NNE at 9 mph

South Carolina Landfall 2:05 PM EDT, September 30, 2022

Landfall location: Georgetown, South Carolina

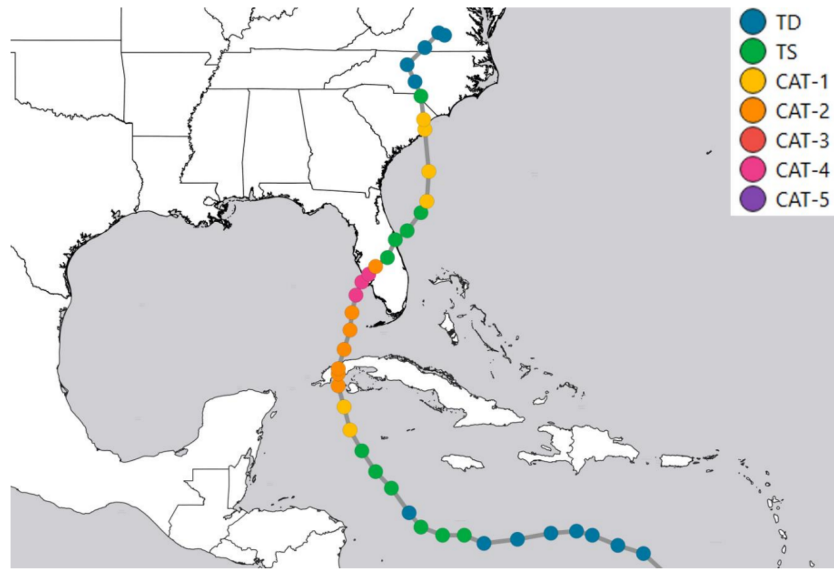
Extent of hurricane force winds: 70 miles
Extent of TS force winds: 275 miles

Max sustained: 85 mph
Category: 1

Minimum central pressure: 977 mb

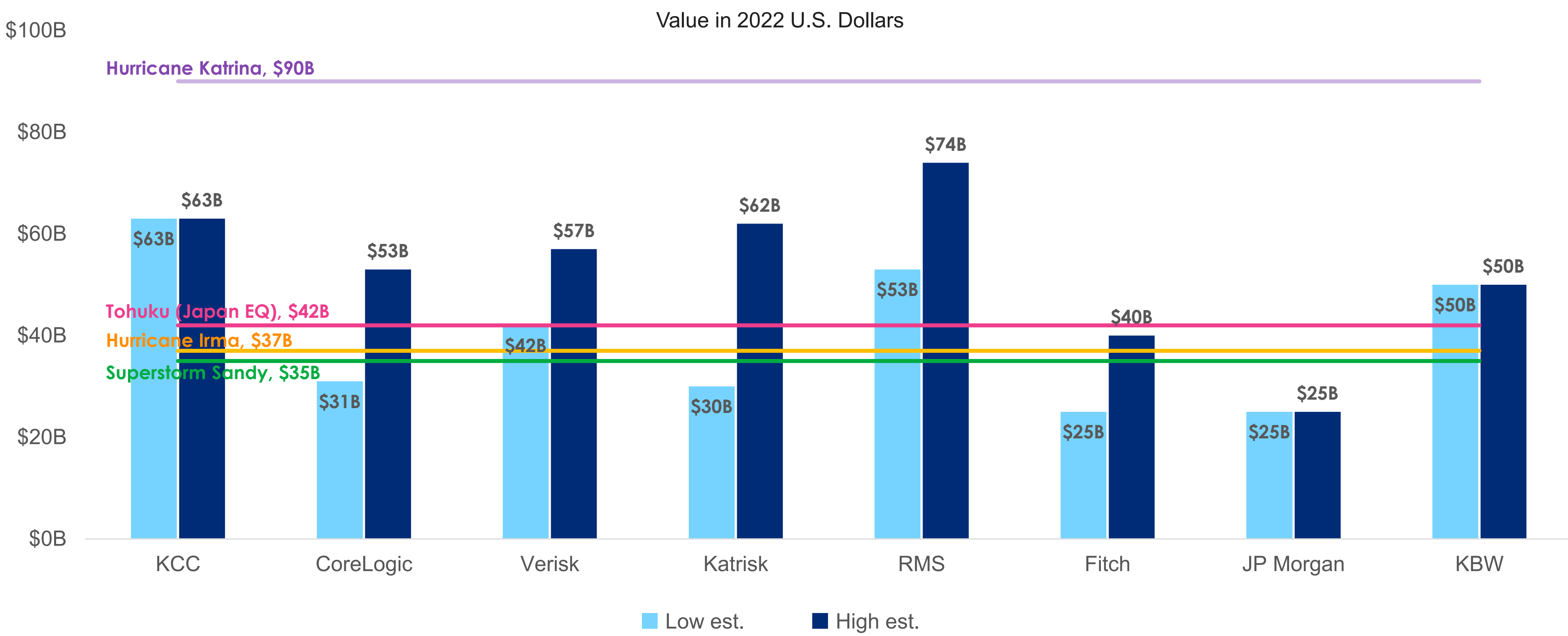
Forward speed: N at 15 mph

Figure 1: Hurricane Ian track and position reports. (Source: NOAA/NHC, Kinetic Analysis Corporation)



Hurricane Ian

Insured loss estimates in historical context



Preparing for Renewal

Obtaining the best possible outcome in a challenging market

1. More C.O.P.E., more hope
   – Better data reduces uncertainty
2. Understand your natural catastrophe profile
   – Avoid over-buying expensive limits
3. Be able to explain your values
   – You will be asked by underwriters
4. Retain attritional losses
   – Avoid dollar-trading with your insurers
5. Begin the process early
   – Review potential weak spots and strategize accordingly
6. Develop a loss control narrative
   – Insurers are looking to partner with clients that seek to avoid losses
7. Meet with underwriters
   – It’s more difficult to say NO to someone you KNOW!
8. It’s uncomfortable, but remain patient
   – The best offer almost never comes at the beginning

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