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Alternative Risk Transfer

The Basics

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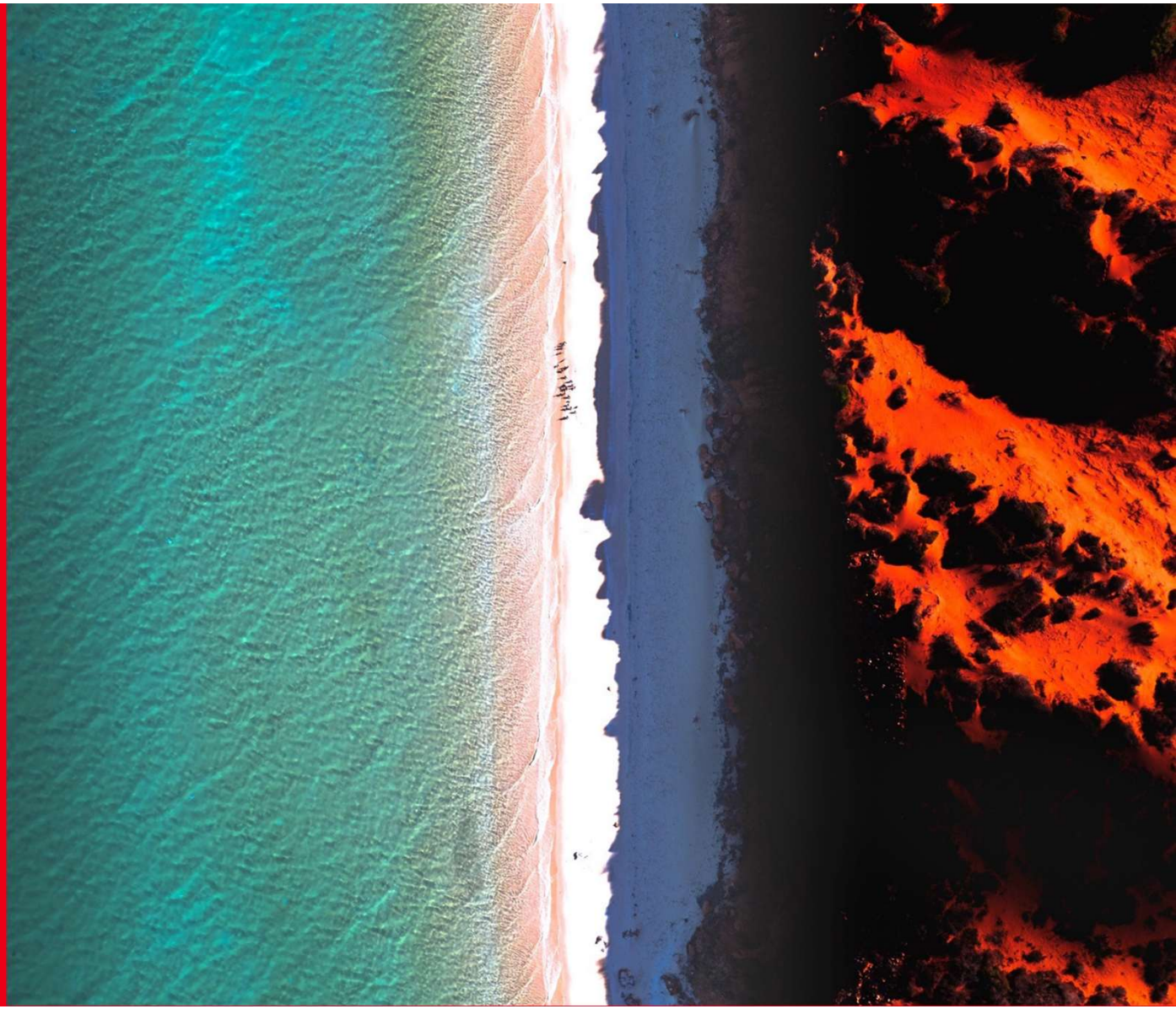

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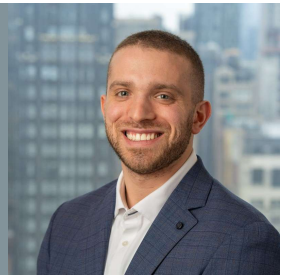
Today's Speakers

Matt Ginsburg
Director
Aon North America Alternative Risk Transfer



Robert Curtis
Practice Leader
Liberty Mutual Alternative Risk Solutions

About Aon ART:

Largest fully-integrated **alternative risk transfer** team in the market. With resources and expertise around structured risk programs, parametric insurance, captive reinsurance, and capital markets, Aon ART provides a single dedicated point of client advisory and capital-agnostic program placement.

About Liberty ARS:

At Liberty Mutual, our dedicated team of experts is committed to understanding your unique risk challenges. Leveraging our extensive network of experienced underwriters worldwide, we collaborate to craft tailored insurance solutions that address your specific needs. These can range from captives, structured solutions, integrated solutions, and parametric programs

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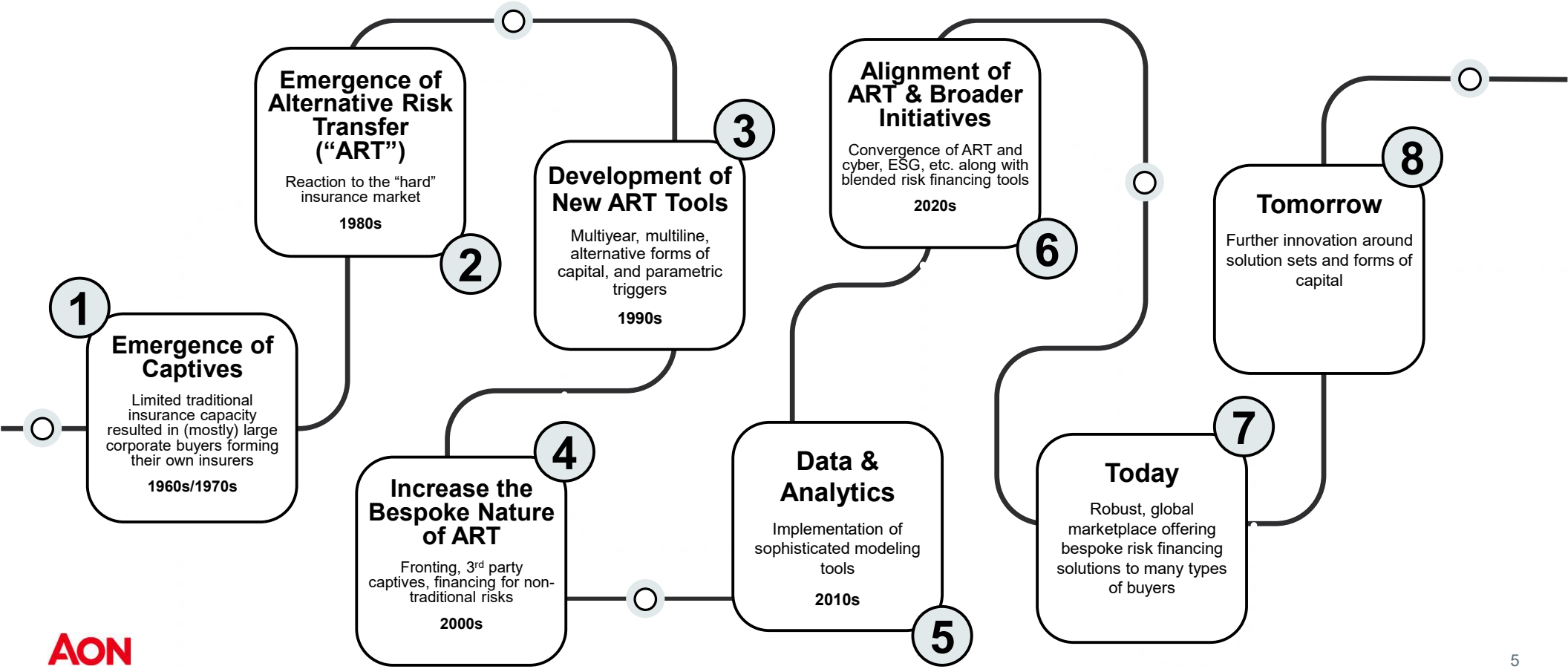
1

Evolution of Alternative Risk Transfer: A Timeline

Evolution of Alternative Risk Transfer (ART)

A Brief Timeline



The Modern ART Landscape

Solution focus areas

Structured Insurance

What is structured insurance?

How does it work?

What is the value of structured insurance?

Who is a candidate for structured insurance?

What markets a writing structured insurance?

How can structured insurance be implemented into my risk management program?

Parametric Insurance

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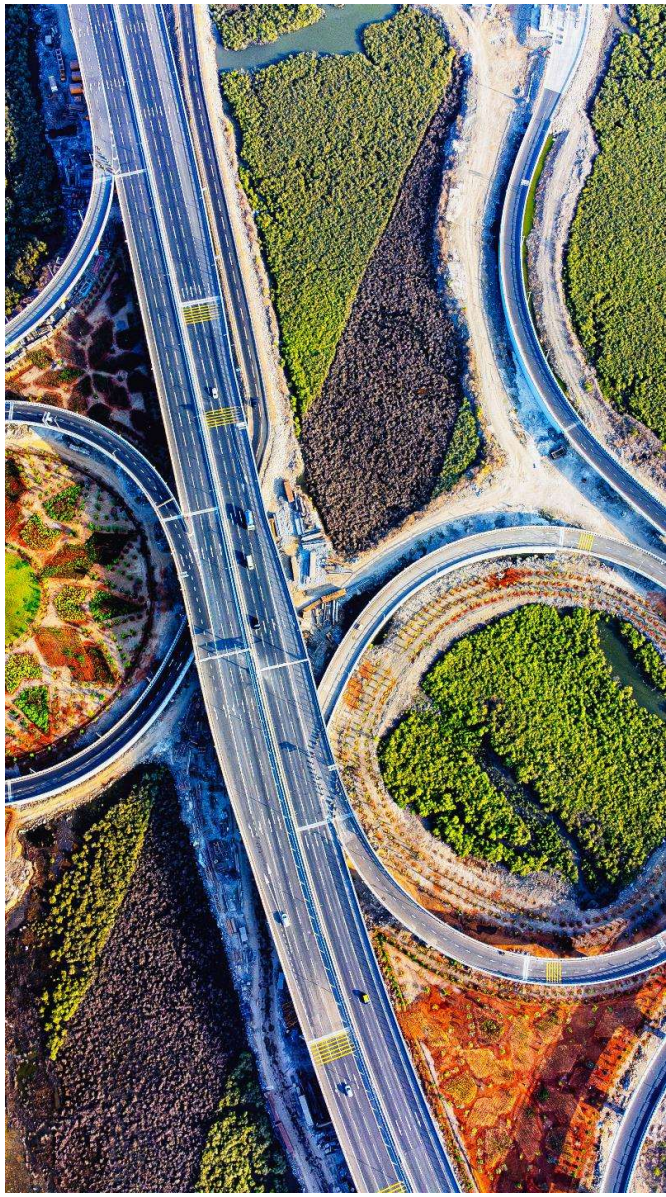
What markets a writing parametric insurance?

How can parametric insurance be implemented into my risk management program?



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Structured Risk Insurance

Why Structured Risk and Why Now?

Today's Challenges

- Rising risk transfer costs and higher retentions
- Market cycles driving **budget and earnings volatility**
- Pressure to use **capital more efficiently**

Traditional Responses Fall Short

- Traditional insurance: High-cost protection and year-over-year volatility
- Self-insurance: Drives savings but introduces material earnings volatility

Why Structured Fits

- Balanced mix of risk retention and transfer over **multi-year period**
- **Defined cost outcomes** and loss sensitivity
- Designed for greater **stability and savings**

Value Summary

- **Stabilize outcomes:** smoother earnings and more predictable cost
- **Optimize capital**: efficient balance between retained and transferred risk
- **Lower cost of risk:** controlled risk taking generates multi-year savings
- I**mprove resilience**: reduced dependence on annual market cycles

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Structured Insurance

What can it help me achieve?

How it works:

Multi-year structure
Multi-year insurance program with more predictable cost outcomes

Shared risk with carrier
Insured assumes a pre-defined share of losses over the term

Flexible funding of risk
Insured funds its share via multi-year financing or aggregated retentions

Risk transfer protection
Insurer pays claims when losses exceed agreed aggregate

What it achieves:

Replace expensive cover
Replace overly expensive traditional insurance programs

Reduce earnings volatility
Mitigate downside risk associated with higher retentions

Align capital with risk
Better match capital deployment to actual loss experience

Support long-term planning
Align insurance with long-term financial forecasts

Increase control
Exercise more control over your program while preserving protection

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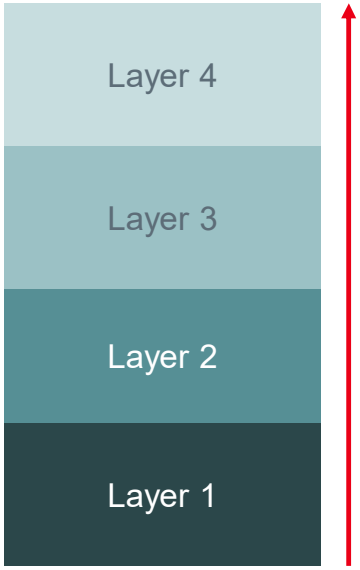
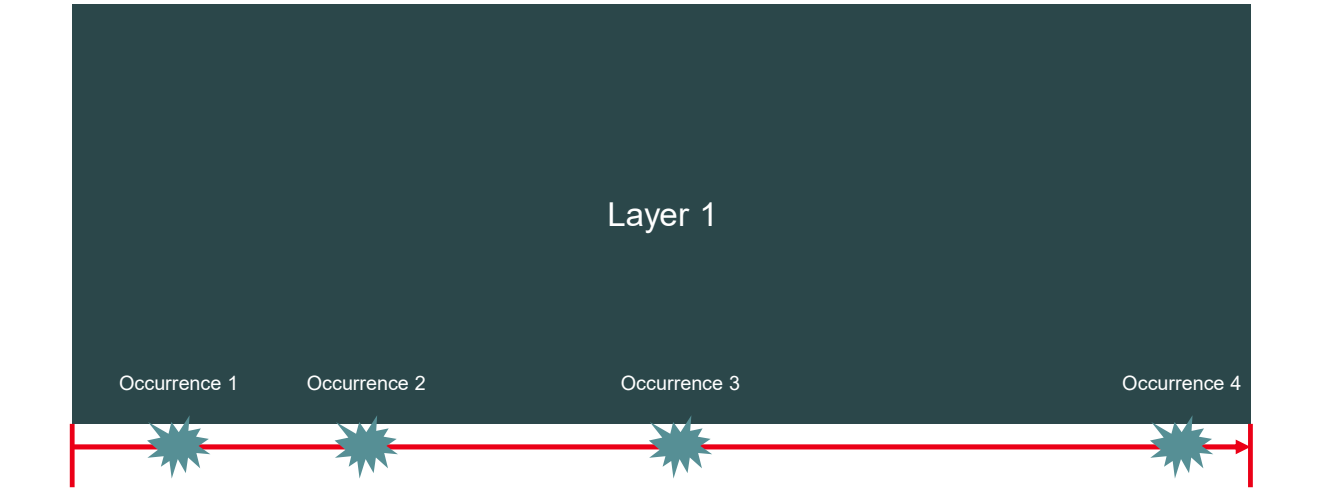
Structured Risk Insurance: Foundational Concepts

Excess vs. sideway concept



Excess

The underlying layers must be exhausted before the higher layers respond.



Sideways

The subject layer absorbs losses on a per occurrence basis up to its limit of liability. This assumes the subject layer “resets” or has aggregate limit available to cover multiple occurrences.

Structured Risk Insurance: Foundational Concepts

Components of a premium dollar

Loss costs & loss adjustment expenses

(~60%)

Underwriting expense

(~20%)

Reinsurance premium

(~12.5%)

Profit margin

(~7.5%)

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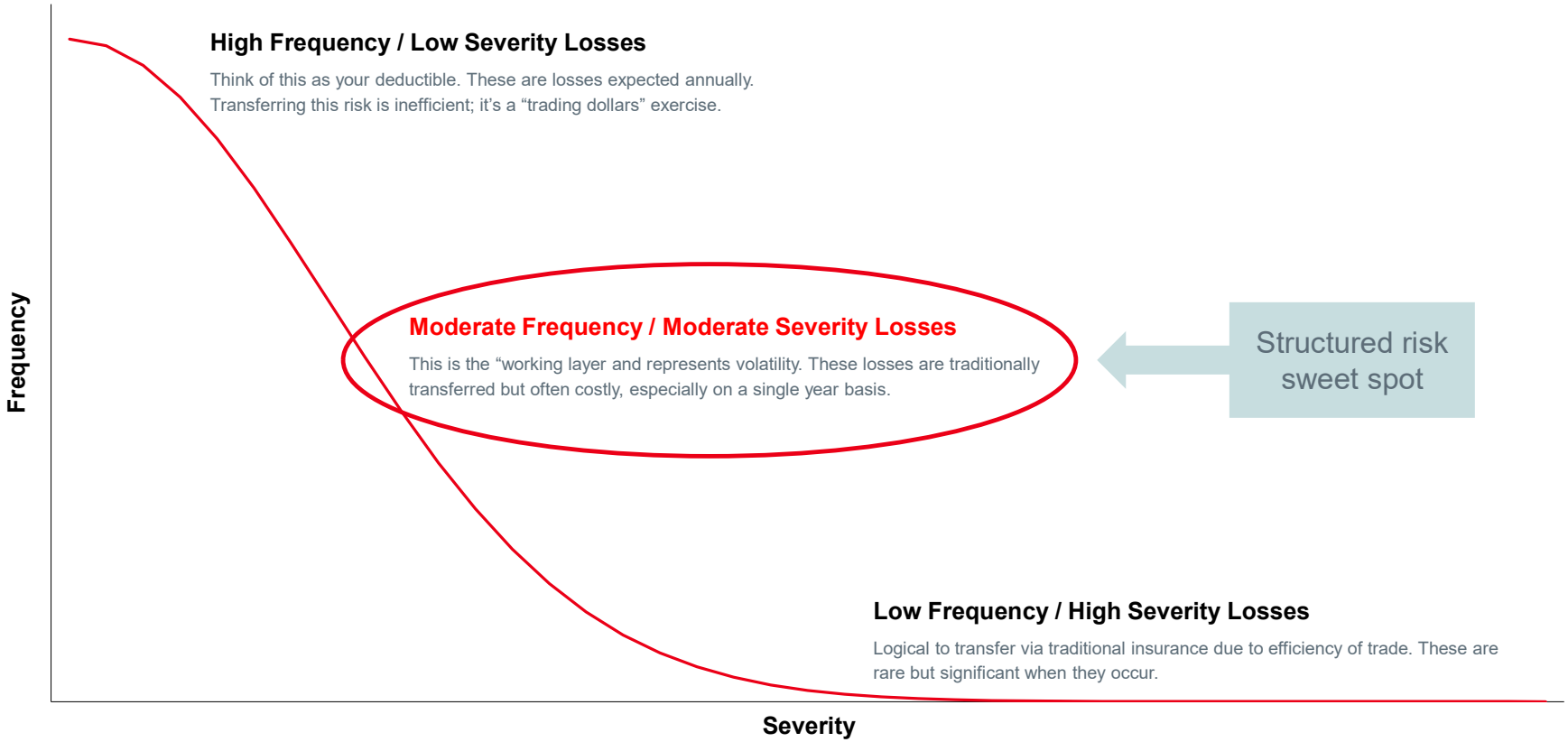
Structured Risk Insurance: Foundational Concepts

The volatility play



Candidates for Structured Insurance

Who is buying structured insurance?

Structured insurance is frequently deployed in the following industries:

Industries:

- Real Estate & Hospitality
- Retail and Distribution
- Manufacturing & OEMs
- Logistics and Transportation
- Pharmaceutical and Life Sciences

Coverages:

- Auto liability
- General liability
- Umbrella liability
- Primary property insurance
- Unique one-off risks that are traditionally uninsurable

When to explore structured insurance

Signals to buy

Structured insurance is a versatile solution that can be applied to many types of companies and across a wide range of coverages.

Common reasons for implementation:

1. Overly expensive traditional insurance.

   If rate-on-line (premium/limit) exceeds 30%, structured insurance can provide a more economical option to access risk transfer

2. Help retain more risk

   Help minimize volatility and protect downside risk associated with increasing retentions

3. Hedge against future insurance market uncertainty

   Protect against market cycles, premium increases, and forced retentions

Flexibility in Implementation

There is not one single way to implement a structured program.

Each program is deigned to meet the insureds specific preferences.

Priority: Retain more risk but control potential downside

Desire: Low-cost solution that protects tail scenarios

Solution: Aggregate stop-loss structured program

Priority: Replace overpriced traditional insurance

Desire: Stable insurance program with minimal annual volatility

Solution: Experience account program with stable annual cost.

Priority: Replace overpriced traditional insurance with lower cost alternative

Desire: Low-cost solution that provides a “budgetable” downside

Solution: Swing program

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Structured Risk Program – Aggregate Stop-Loss

How it works:

- Insured defines an aggregate amount of risk it will take over a multi-year period
- Insured is responsible to pay for losses until threshold of aggregate risk-taking is met
- Insurance carrier pays for losses once insured satisfies its portion of risk taking

Example Program:

Program Limits:

- $10M per occurrence
- $20M annual aggregate
- $30 three-year term aggregate

Risk Financing

- $10M of loss financed through aggregate corridor retention

Program Cost Table:

	Year 1	Year 2	Year 3	Total:
Premium	$667k	$667k	$667k	$2.00M

Key Takeaways:

- Insured pays $2M in premium over three-years in $667k annual installments
- Insured pays for the first $10M of loss to program via the aggregate corridor retention

Structured Risk Program – Experience Account

How it works:

- Insured assumes an aggregate amount of risk over a multi-year period
- Premiums are paid over multiple years to finance that risk
- A portion of premium is credited to a notional experience account used to pay program losses
- Any positive balance at the end of the term may be returned to the insured, subject to a commutation agreement

Example Program:

Program Limits

- $10M per occurrence
- $20M annual aggregate
- $30M three-year term aggregate

Risk Financing

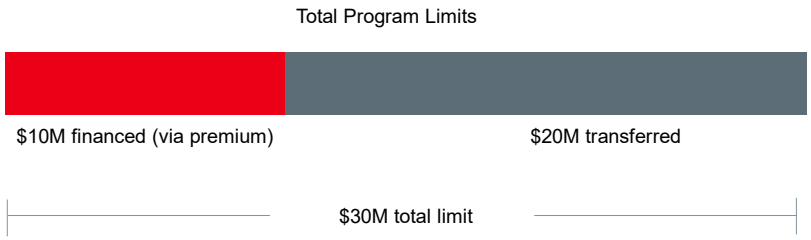
- $10M of loss is financed through premium
- Any portion of this $10M not used to pay loss is eligible to be returned to the insured

Program Cost Table:

	Year 1	Year 2	Year 3	Total:
Premium	$4.00M	$4.00M	$4.00M	**$12.00M**
Behind the scene cost mechanics:				
Experience Account Funding	$3.33M	$3.33M	$3.33M	$10.00M
Margin Premium	$667k	$667k	$667k	$2.00M

Key Takeaways:

- Insured pays $12M in premium over three-years in $4M annual installments
- $10M of premium goes into an ‘experience account’ used by the insurer to pay claims
- If $10M is not used, it is eligible to be returned to insured



Structured Risk Program – Swing Program

Details:

- The insured assumes an aggregate amount of risk over a multi-year period.
- That risk is financed through (i) fixed multi-year premium installments and (ii) an additional premium provision that may be triggered based on loss experience.
- The insurer allocates a portion of the premium to a notional experience account, which is used to fund losses under the program.
- Additional premium is payable only if program losses exceed the amount prefunded through the multi-year premium installments.
- Any positive balance in the experience account at the end of the multi-year term may be returned to the insured, subject to a commutation agreement.

Example Program:

Program Limits:

- $10M per occurrence
- $20M annual aggregate
- $30 three-year term aggregate

Risk Financing:

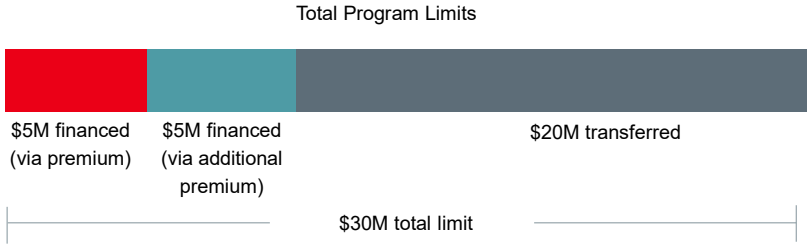
- $5M of loss is financed through premium
- $5M of loss is financed through additional premium, payable on a $1 for $1 basis once total aggregate loss to layer exceeds $5M

Program Cost:

	Year 1	Year 2	Year 3	Total:
Premium	$2.33M	$2.33M	$2.33M	**$7.00M**
Behind the scene cost mechanics:				
Experience Account Funding	$1.67M	$1.67M	$1.67M	$5.00M
Margin Premium	$667k	$667k	$667k	$2.00M

Key Takeaways:

- Insured pays $7M in premium over three-years in $2.33M annual installments
- $5M of premium is pre-funding used to pay for claims
- If $5M is not used, it is eligible to be returned to insured
- Up to a maximum $5M additional premium becomes due if program losses exceed $5M

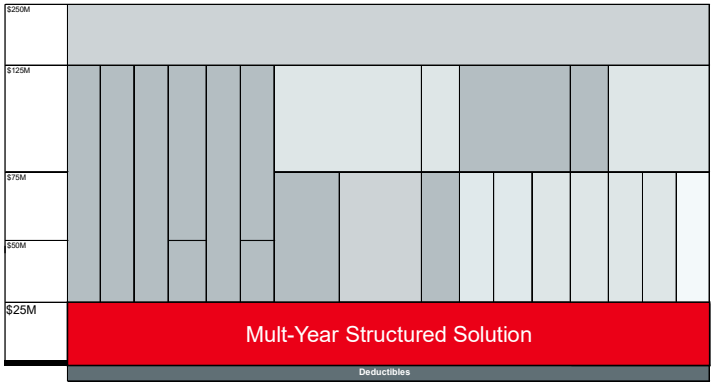


Structured Insurance Example: Property

Client Situation:

- Large real estate investment fund
- Asset mix contains difficult occupancy classes, driving up insurance costs
- Real estate investment fund forced to purchase insurance program with low deductible to satisfy asset cost allocation requirements and lender requirements
- Premium is $20M for primary $25M
- 80% rate-on-line means this client is effectively paying for over two full limit losses to the primary $25M over a three-year period

Alternative Solution:



- Replace the primary $25M layer with a multi-year structured solution
- Multi-year structure:
  - $16.67M premium per year | $50M premium over three-years
  - Of the $50M payable, $40M is returnable based on loss experience
- Policy Limits:
  - $25M per occurrence
  - $50M annual aggregate
  - $75M term aggregate

Value:

- **Cost savings:** Upfront and over time with return premium
- **Smoothing:** Pre-loss funding structure provides smooth cashflow profile
- **Risk transfer & cost certainty:** Aggregate risk protection & multi-year financing
- **Competitive weapon:** Can be implemented to replace 100% of the primary $25M layer or only used to replace a portion of carriers with the highest pricing

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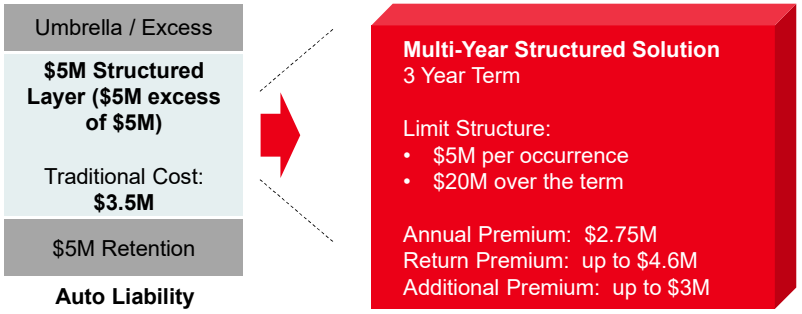
Structured Insurance Example: Casualty

Client Situation:

- Commercial landscaping; large fleet risk & associated challenges including high risk transfer costs, increasing attachment points for excess capacity, and resulting questions of program sustainability
- Does not see value in paying current premium, but does not want to retain either
- Seeking alternative ways to transact to reduce dependence on insurance and exposure to marketplace pricing volatility

Alternative Solution:



	Traditional Solution	Structured Solution
Annual Cost	$3.5M	$2.75M
Three-Year Cost	$10.5M	$8.25M
Available Return Premium	N/A	$4.6M
Maximum Additional Premium	N/A	$3M
Minimum Three-Year Cost	N/A	$3.65M
Maximum Three-Year Cost	N/A	$11.25M

Value:

- **Cost savings:** Upfront (22% or $2.75M vs. $3.5M) and over time if losses don't materialize (up to 65% savings)
- **Evidence of cover:** Addresses certificate needs
- **Smoothing:** Provides cashflow smoothing mechanics
- **Risk transfer & cost certainty:** Aggregate risk protection & multi-year financing

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Structured Insurance Example: Multiline

Client Situation:

- Large technology company
- Rising cyber insurance costs even though this company never filed a claim
- Strategic initiative to retain more risk to drive premium savings
- In addition to Cyber, Property insurance coverage identified as area for more aggressive risk taking

Alternative Solution:

- Increase the property and cyber retention to $26M for each coverage, respectively
- Multi-year structure:
  - $1M premium per year | $3M premium over three-years
- Policy Limits:
  - $25M per occurrence
  - $50M annual aggregate
  - $50M term aggregate

Value:

- **Cost savings:** Drove premium savings through increasing retentions on cyber and property
- **Risk transfer and aggregate protection:** Provides aggregate protection against accumulation of retained loss
- **Stability:** Three-year program
- **Uniformity:** Business unit retention across cyber and property unified at $1M

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Structured Insurance Marketplace

Players and parameters

Markets:

- Allianz
- AXA XL
- Chubb
- LaPlace (MGA with capacity from Accelerant)
- Liberty Mutual
- Nexus Specialty (MGA with capacity from Beazley, Hiscox, AXA XL London)
- Starr
- SRS Altitude (MGA with capacity from Beazley, Generali)
- Swiss Re
- USQRisk (MGA with capacity from SCOR, Applied Underwriters, Nationwide, Chaucer)

Continual interest from other markets in building out a structured product

Market Appetite:

- Appetite across variety of risks
- General property and casualty appetite
- Appetite for specialty risks – cyber, contingent auto, construction defect, builders risk, etc.
- Some markets have a broader appetite than others

Market Capacity:

- Capacity varies across insurers
- Maximum downside* available from any one market is $25M
- Structured offerings most often deployed in primary (excess $100k+ deductible) or first excess layer
- Limit size can range from $1M - $50M

*Downside risk defined as total policy limit minus total policy premium

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Parametric and Event-based Solutions

What is Parametric Insurance?

And why it matters to your business

1

"If-then" coverage based on an Index

- Event-based coverage
- Policy pays out a pre-agreed formulaic amount for defined events
- Current use is heavily focused on climate and natural catastrophe risk

2

Reconstructs Insurance

- **Fast**: Recoveries occur within weeks of an event
- **Broad:** Turns previously uninsurable exposure into insurable losses
- **Innovative:** Delivers an insurance outcome with a redesigned, index-based claim process

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Parametric Insurance

Three compelling attributes

Three key attributes	How it works in practice
1 **Independence**	Triggered by **independent data** (NOAA,USGS, private providers)
2 **Speed**	Once the index triggered, pre-agreed payment **made in weeks**
3 **Broad Coverage**	Claim proceeds can be used for **any economic loss** from the triggering event

How Parametric Works

From start to finish

Step 1: Exposure

Business exposed to an event

Operations are vulnerable to a defined event (often natural-catastrophe related)

Step 2: Data collection

Defined event can be measured

The event can be tracked using objective, independent data

Step 3: Index creation

Defined event indexed

An index is built to track insured specific exposure ; the insured chooses what the index measures and the level at which policy payouts begin

Step 4: Payout

If/then Payout

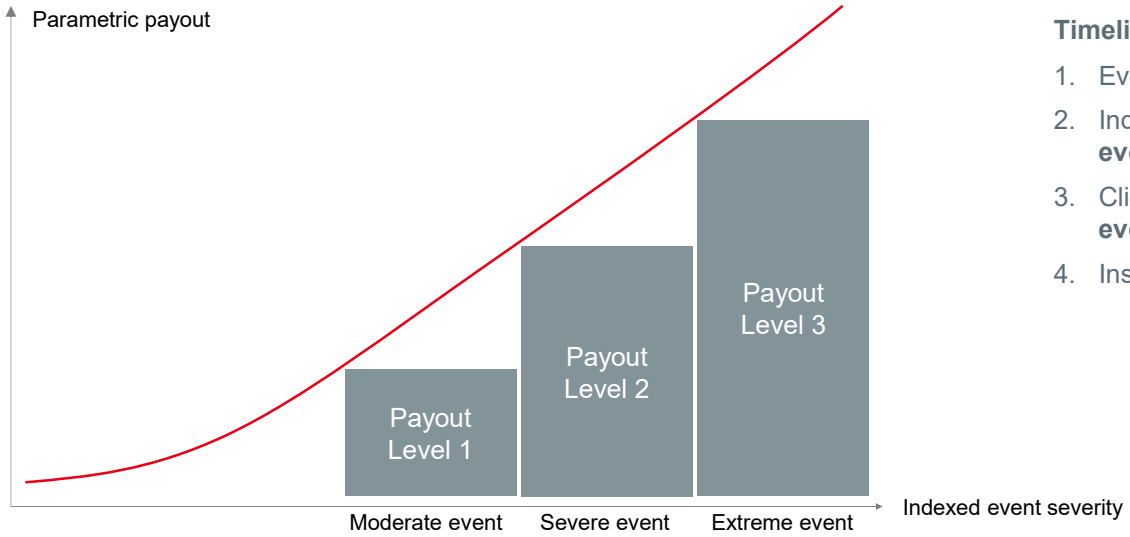
If index hits trigger, policy pays a pre-agreed amount

Example "Events" suitable for parametric solutions:

- Earthquakes
- Named windstorm
- Tornado / hail
- Wildfire
- Flood
- Weather indices (precipitation, temperature, etc.) over defined periods
- Any other event that can be independently indexed

Parametric Solutions

The index at work



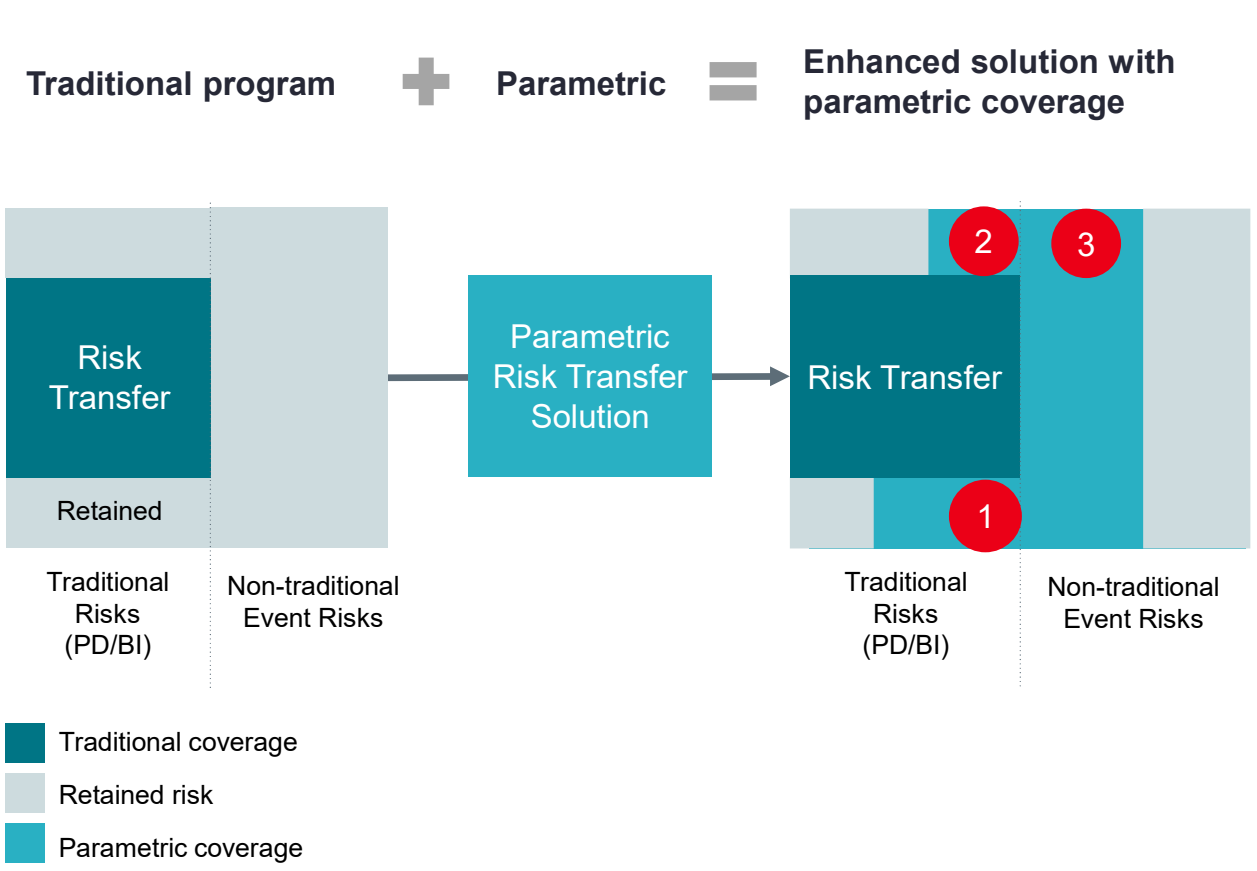
Timeline:

1. Event occurs
2. Indexed severity of event available – **2 to 4 days post event**
3. Client signs sworn attestation of loss - **~1 week post event**
4. Insurer pays client – **2 to 4 weeks post event**

As indexed event severity increases, parametric payout steps up in predefined levels, aligning with the loss

Parametric Solutions

Supplementing, not replacing, traditional coverage



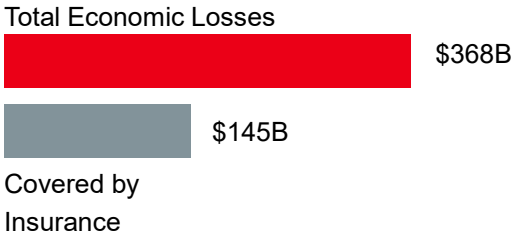
Solution provides value in 3 ways:

1. Deductible fill-in
2. Additional limit
3. New non-traditional coverage

Economic vs. Insured Loss

A growing divergence

What is the "coverage gap"



Data from Aon 2025 Climate and Catastrophe Report

Reflects natural catastrophes from 2024

$223B difference between economic and insured losses following natural catastrophes in 2024

Approximately 60% of losses from natural catastrophes were not covered by insurance in 2024

What causes the coverage gap?

Excluded and/or sub-limited coverage on insurance polices:

- Non-Damage Business Interruption
- Loss of market
- Dislocation of employees
- Contingent business interruption
- Ingres/egress
- Large deductibles for catastrophic losses
- Sub-limited catastrophic coverage
- Foundations, underground pipes, landscaping, transmission and distribution lines
- Time value of money and opportunity cost associated with protracted claims settlement

When to buy parametric

Signals to buy

Parametric insurance can be used to treat financial exposure to several of event-based perils

Common reasons for implementation:

1. Significant non-damage business interruption

   Business performance is subject to material disruption from catastrophic weather event, even if there is no physical loss to assets

2. Deductible fill-in for large % TIV deductibles

   As deductibles scale in size, parametric can fill-in to control total retained risk in catastrophic scenarios

3. Increase business resilience to catastrophic events

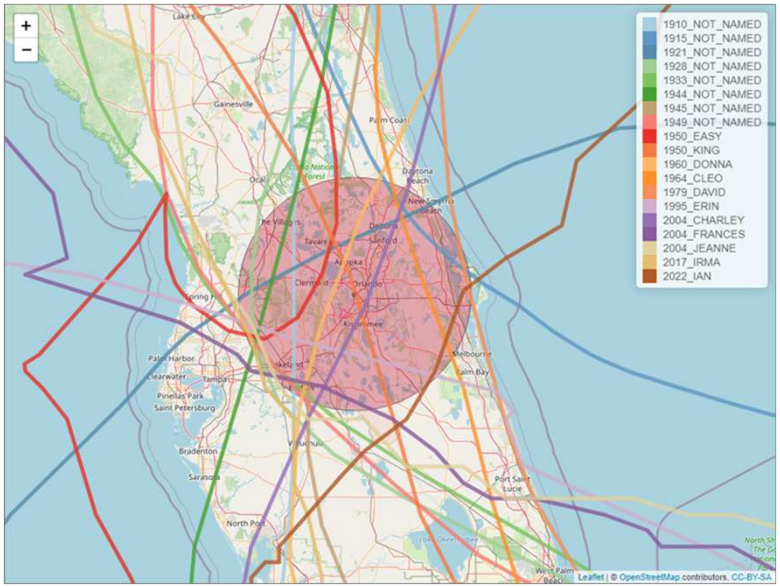
   Gain access to liquidity that can indemnify for any economic loss following a “triggering event”

Parametric Insurance Example: Hurricane Focused

Parametric Insurance to Address Wide-Area Impact & Deductible Buydown

Client Situation:

- Client with substantial consumer discretionary exposure in Orlando area
- Concerned about hurricane, including direct impacts (large property insurance deductible and captive capital at risk) and indirect impacts
- Example indirect impact: decline in tourism (regardless of physical impact of the event) and impact of a hurricane on employees



Parametric Solution:

- "Cat in a Circle" structure – 50-mile radius circle needs to be hit by track of the storm
- Dual trigger: payout based on storm category within the circle, based on wind **OR** central pressure;
- Payout matrix: cat 5 100% of the limit, cat 4 50%, cat 3 25%, cat 2 10%, cat 1 5%
- Cost: ~4% rate on line ($1M for $25M of coverage)

Hurricane Milton Claim:

- October 10, 2024: Hurricane Milton intersects the circle as a cat 2 storm based on central pressure. Entitles insured to 10% payout
- October 16, 2024: Claim is paid
- Proceeds offset economic damage associated with the storm

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Parametric Solutions: Real Examples

10 Recent Parametric Deals Highlights Breadth of Applications

Louisiana Health System Gulf Hurricane Addresses "protection gap" retained risks **& large % deductibles** due to asset concentration	**Multi-Location Retail** Florida Hurricane Innovative structure **facilitates growth buildout** of 200+ locations across the state; facilitates higher property risk retention & captive utilization; structured as reinsurance	**Public Transport Authority** Earthquake Addresses **NDBI revenue risks** for a large tollway (expected to survive EQ but not the same for inbound network) for otherwise fully self-insured risk	**Chemical Manufacturing** Gulf Hurricane Addresses **sizable, otherwise retained property risk**; intrigued by parametric concept and dipping toe in the water as a hedge with plans to expand; deal split between two competing structure methods	**Bitcoin Miner / Data Center** Texas Tornado Addresses **lack of available traditional BI capacity** and existential threat of a tornado
Marine Terminal **MEX** Wind & Earthquake Addresses highest value portfolio asset where adequate BI limits are prohibitively expensive & client is concerned about **liquidity impact from a cat event**	**Petrochemical Terminal** Gulf Hurricane Unavailable traditional limits due to occupancy / loss experience; parametric provides needed balance sheet protection & **crisis liquidity**	**Metals Producer** Mississippi Tornado Fills **gaps in available traditional capacity for large construction project**; largest tornado parametric solution in the marketplace	**Higher Ed Pooling Facility** Florida Hurricane Addresses "protection gap" retained risks for pool constituents and **storm impact on student population**; mitigates large retention property risk	**Aircraft Parts Manufacturer** Philippines Typhoon Addresses **supply chain risks** due to accumulation of supply chain in low-cost manufacturing areas

Structured Insurance Marketplace

Players and parameters

Markets:

- Allianz
- AXA XL
- Berkshire Hathaway Specialty Insurance
- Descartes (MGA with capacity from Generali)
- K2 Parametric (MGA with capacity from Chaucer, Palms Insurance)
- Liberty Mutual
- Munich Re
- NormaMax (MGA with Lloyds capacity)
- SRS Altitude (MGA with capacity from Beazley, Generali)
- Swiss Re

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Market Capacity:

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- $100M+ million in limit available

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Questions