Property Market Update Q1 2019

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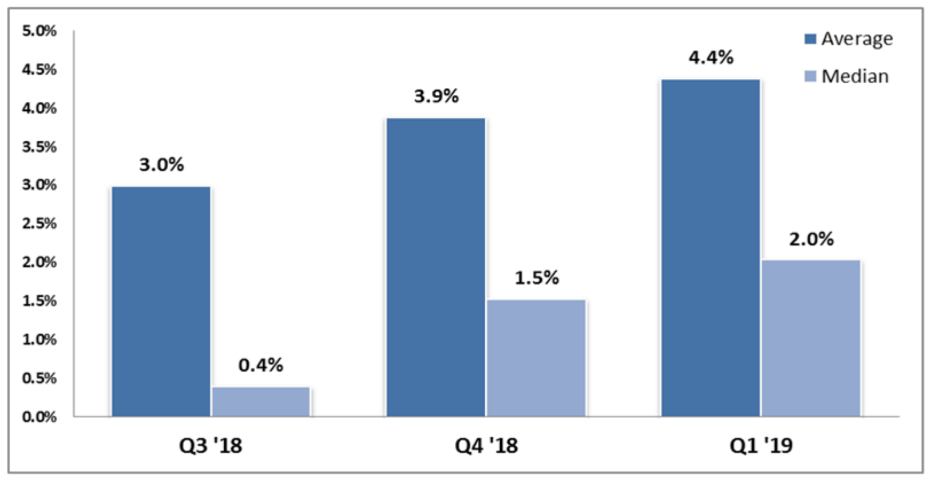
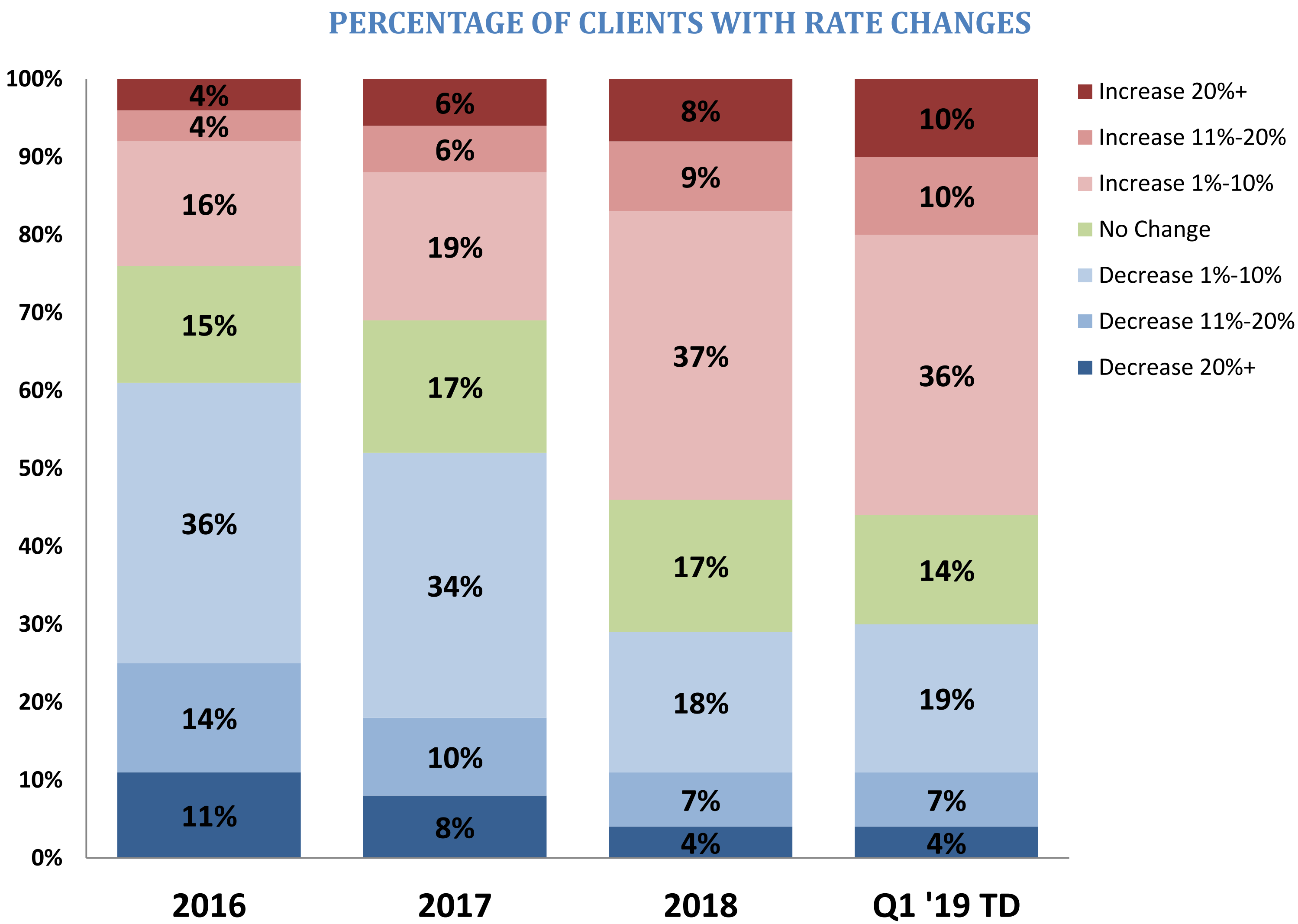
Property Renewal Rates
Property Market - First Quarter 2019

- The number of companies that had rate increases in this quarter was 56%; an increase of 1% to 10% was prevalent for these accounts.
- 14% of companies experienced no rate change at renewal.
- 30% of companies experienced rate decreases at renewal.
- Average rate changes:
  - All companies: +4.4%
  - Non-CAT: +4.5 %
  - Medium-CAT: +2.5%
  - High-CAT: +5.2%



Methodology: Rate changes outside of -60% to 250 % range are excluded, all other renewals are included.

US Property Benchmarking
Property Market - First Quarter 2019

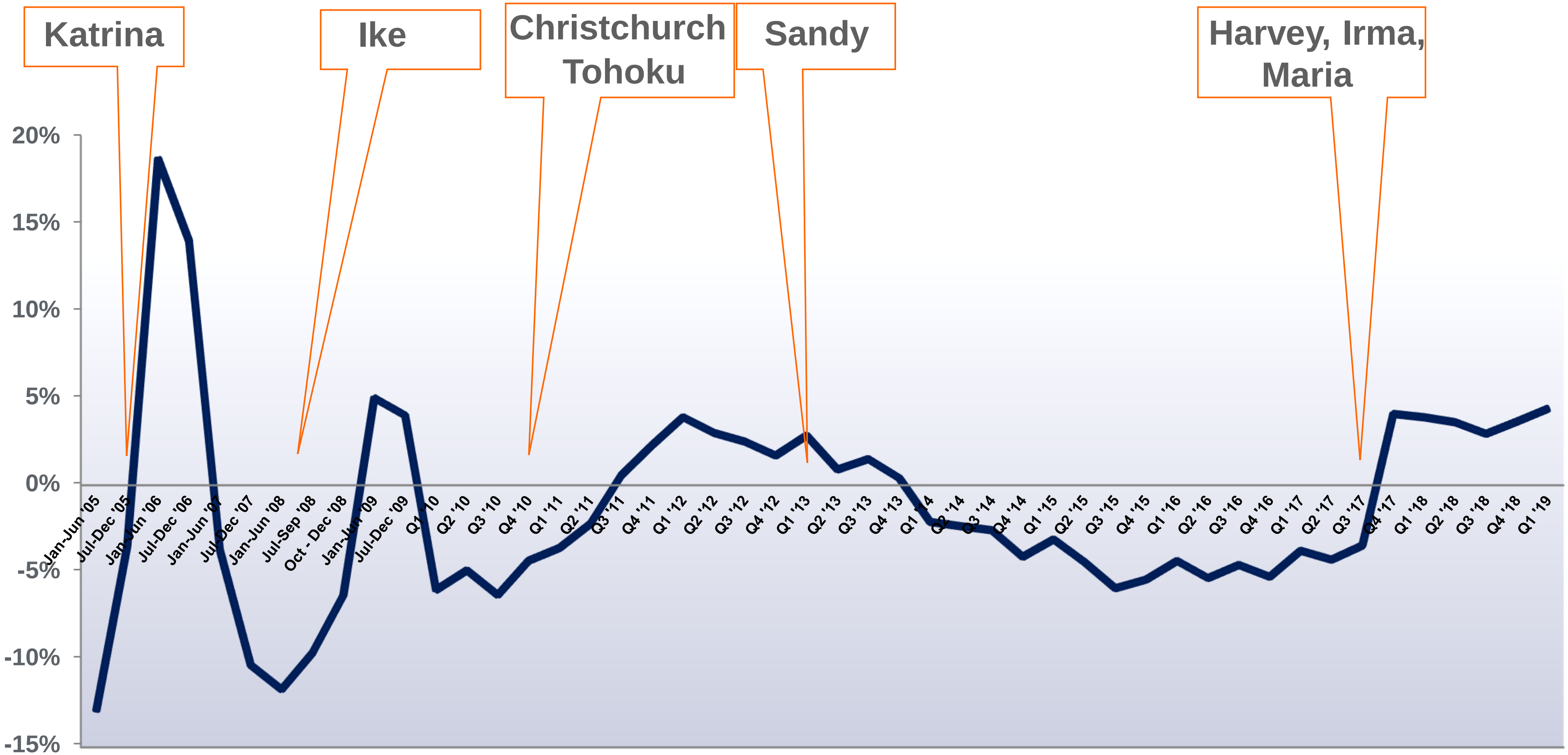


Factors Affecting Market Conditions
Property Market - First Quarter 2019

- Record CAT losses in 2017 and higher-than-average losses in 2018.
- The majority of large property insurers have seen two consecutive years of combined loss ratios in excess of 100%.
- Insurance carriers feel their property portfolios are underpriced based on exposure.
- Increasing reinsurance costs in 2019 due to 2017 and 2018 loss-impacted treaties.
- An insistence from senior insurance company executives that their property product line return to profitability.

Average Property Rate Changes – All Industries (10+ Year History)

Property Market - First Quarter 2019



What to Expect in 2019
Property Market - First Quarter 2019

- Actions being taken by insurers include:
  - Increasing their minimum attachments on certain industry classes or exiting certain industry classes altogether (for example, multifamily, hospitality, metals, and mining).
  - Increasing minimum deductible requirements.
  - Implementing additional deductibles for water damage, hail, and other perils.
  - Tightening terms and conditions and reduction of sublimits.
  - Pushing rate.

Potential Restrictions on Coverage Terms
Property Market - First Quarter 2019

- All **flood** coverage, including high hazard (SFHA/100-year flood zones) flood limits and international flood limits, are being closely scrutinized. Attention should be paid to obtaining additional data.

- **High hazard (SFHA/100-year flood zones) flood deductibles**: In some instances, higher deductibles are creating gaps between what is available through the National Flood Insurance Program and the commercial market.

- **Named windstorm**: Some insurers are seeking higher-percentage deductibles to apply for all Tier 1 wind zones and are pushing back on deductible caps that may have been added in past renewals.

- **Flood resulting from a named windstorm**: Some insurers are seeking to apply the same percentage deductible for flood resulting from a named windstorm as they do for a named windstorm itself.

Potential Restrictions on Coverage Terms
Property Market - First Quarter 2019

- **Nondamage business insurance coverages**: Some insurers are restricting coverage (for example, cancellation of bookings, loss of attraction, and communicable disease).
- **Cyber**: First-party coverage for time element from cyber perils continues to be a concern for many property carriers, with some carriers excluding or aggregating their coverage offering for non property damage events.
- **Contingent time element**: CTE is heavily scrutinized based on industry exposure/aggregation; we have seen a significant reduction in, and increased demand for, available CTE capacity in the auto sector as insurers restrict to levels of other critical catastrophe capacity or decline to provide.

Potential Restrictions on Coverage Terms
Property Market - First Quarter 2019

- **Definitions of catastrophic perils**: Depending on the risk profile, some carriers are seeking to move storm surge from named windstorm to the flood definition, which would limit coverage to the flood aggregate and potentially increase the deductible.
- **Catastrophic peril deductibles:** Deductibles are generally increasing to a standard 5%, with maximums eliminated.
- **Convective storm and/or tornado/hail deductibles**: Depending on an insured’s risk profile/occupancy, some carriers are looking to implement higher deductibles for these perils and/or a percentage deductible.
- **All other peril deductibles:** Several insurers are seeking to increase deductibles on programs where significant attritional losses have been occurring; thus, funding for CAT events is being eroded.

Summary
Property Market - First Quarter 2019

- The property market is firming quickly. Start your renewals early!
- Expect additional scrutiny around exposure/underwriting data, especially if you have CAT exposure and/or if there has been loss activity.
- Be prepared for the following:
  - Decreases in…
    - ➢ Capacity
    - ➢ Coverage terms
    - ➢ CAT sublimits
  - Increases in…
    - ➢ Deductibles
    - ➢ Rate/Premium

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