

Willis Re 1st View

January 1, 2018

Extreme Weather — Calm Market

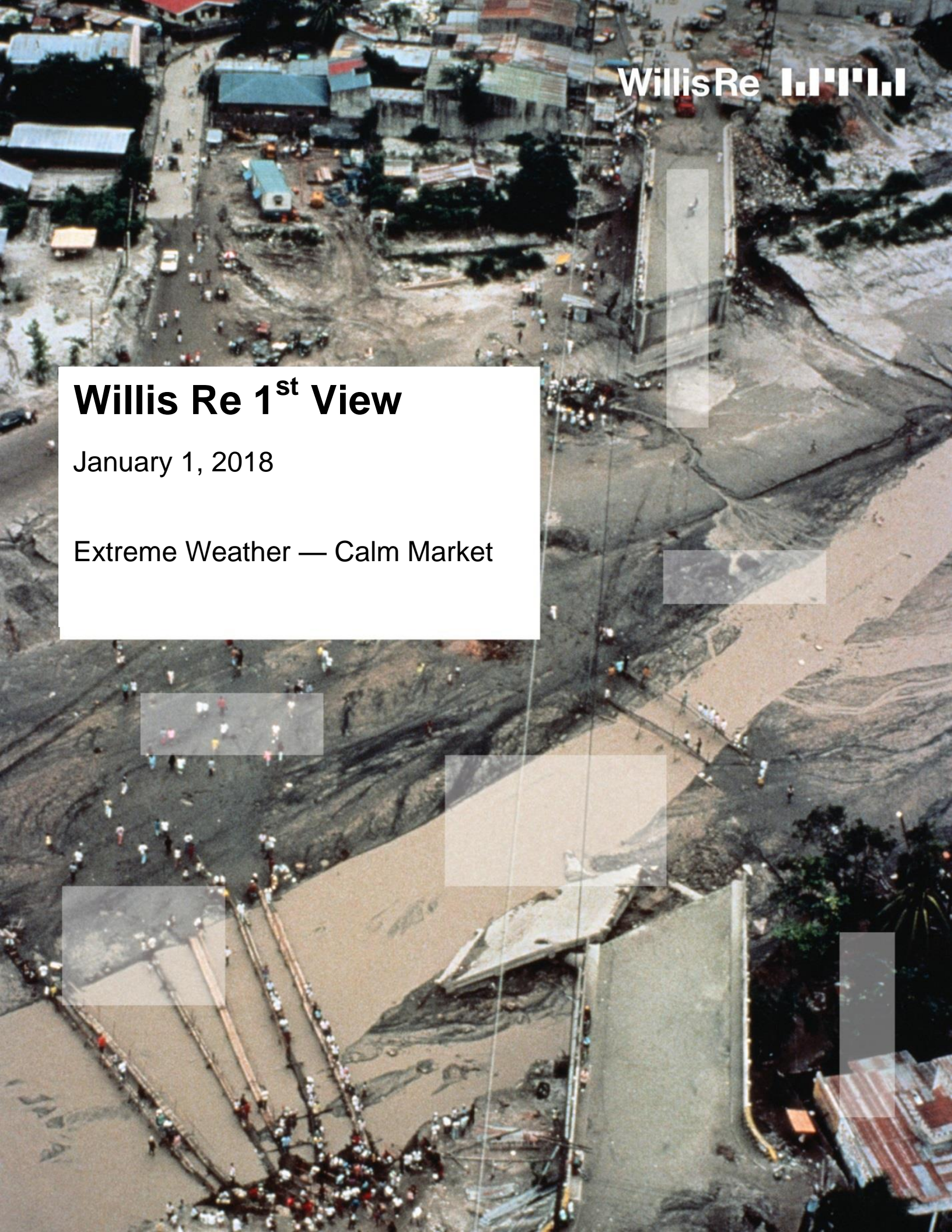


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1st View

This thrice yearly publication delivers the very first view on current market conditions at the key reinsurance renewal seasons: January 1, April 1 and July 1. In addition to real-time eVENT Responses, our clients receive our daily news brief, *The Willis ReView*, periodic newsletters, white papers and other reports.

Willis Re

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Foreword: Extreme Weather — Calm Market

With the recent catastrophe loss estimates in the region of US\$136 billion, 2017 is proving to be one of the worst loss years on record for the global (re)insurance market.

Unfortunately for reinsurers, these losses are coinciding when profitability in non-catastrophe lines is constrained and prior-year reserve releases slowing. Historically, such a combination of factors would have led to a widespread upward spike in pricing as witnessed in 2001 and to a lesser extent in 2005 and 2011. The fact that today's pricing corrections have been generally orderly seems to vindicate previous observations about secular rather than cyclical forces at play, though the makeup of the losses being split over a number of different events has undoubtedly played a part, as has the fact that a large tranche of the losses were retained in the primary market.

As society as a whole is starting to look more closely at the role the private sector can play in helping close the economic loss gap, the stability of the global reinsurance market bodes well for its continued development.



For buyers, the shape of the global reinsurance industry in 2017 is significantly different from the afore-mentioned years. Traditional reinsurers remain strongly regulated and capitalized while being supplemented by the continued growth in Insurance Linked Securities (ILS) capacity, which totals approximately US\$75 billion today as compared to US\$24 billion in 2011, US\$10 billion in 2005 and only US\$4 billion in 2001. At the height of the events in Q3, and notably when Hurricane Irma was bearing down as a potential direct hit on Florida as a Category 5 storm, there was a prospect of significant market disruption. However as the post event landscape evidenced that the traditional reinsurance markets were facing large but not market dislocating losses, discussions moved onto the expected resilience of the ILS market and, in particular, the impact on reinsurers' retrocession capacity and costs for 2018. By the middle of Q4, it became apparent that the ILS market was comfortably weathering its first major test for a number of funds, with investors prepared to recapitalize to make good both lost and illiquid trapped capital. Similarly, traditional reinsurers' Q3 2017 results have shown that while the losses are clearly an earnings event, the impact

on capital has been relatively muted, with average capital impairments in the range of 5% to 7.5%.

This continued supply of capital has produced a different set of dynamics over the current renewal season than reinsurers might have traditionally anticipated. Although the losses have stopped a further downward movement in risk-adjusted rates in most markets and classes, the continued supply of capital has helped curtail widespread increases in risk-adjusted rates particularly on loss free portfolios. The concerted effort by many reinsurers to seek meaningful risk-adjusted rate increases across the board has been unsuccessful though the general stabilization of rating levels across a wide range of classes — and not just property catastrophe — as well as pricing improvement on some primary classes of business, provides a better trading environment for reinsurers heading into 2018 than was the case before the catastrophe events.

No commentary on the 1 January renewal season can overlook the scale of human suffering and economic loss that the catastrophes in the second half year of 2017 have caused. The global reinsurance industry is playing its part in helping to alleviate the impact of the losses. The speed of claims payments from reinsurers to their clients has been exemplary, particularly in the Caribbean where many primary companies are highly reinsurance dependent. Requests for advance payments have been promptly settled and the true value and purpose of reinsurance has again been reinforced.

The common perception that the overall 1 January rating environment has been disappointing for reinsurers needs to be balanced against the aptitude of the market to provide buyers with stability of capacity at reasonable prices with an orderly renewal process that demonstrates the growing advancement of the market. As society as a whole is starting to look more closely at the role the private sector can play in helping close the economic loss gap, the stability of the global reinsurance market bodes well for its continued development.

James Kent, Global CEO Willis Re
January 1, 2018

Property

Commentary grouped by territory

Asia

- Overall price movement points to risk-adjusted flat but there were diverging views on how to make that calculation
- Significant pricing uplifts were met with increases in selected program entry points as clients struggled to close the gap between immediate uplifts to reinsurance cost and delayed impact to original pricing
- No significant additional coverage issues
- No identifiable reduction in capacity available to the region; reinsurers disciplined in leveraging price for additional shares

Australia

- Most reinsurers taking a client by client approach, with a focus on supporting key relationships; historical buying philosophies are being recognized by reinsurers
- Reinsurer pricing pressure on loss-affected layers
- Reinsurer response to pricing largely dependent on perceived program price adequacy and level of first event retentions; some reinsurers starting to reduce capacity where rates are perceived to be inadequate
- Reinsurer appetite remains limited for low level catastrophe layers and aggregate covers; as a result, pricing remains challenging in this area

China

- Expectation of firmer correction in a territory perceived as technically underpriced failed to materialize
- Widespread local risk and catastrophe 2017 loss activity obscured price impact from external factors
- Catastrophe programs required modest capacity (largest is not 1 January) that was largely accommodated by regional reinsurers less impacted by Hurricanes Harvey, Irma and Maria (HIM)
- Growing evidence of tighter placements such that buyer options and future flexibility are reducing
- Growth opportunities apparent in new construction protections signaling separation of fire and engineering elements of hitherto combined property surplus treaties
- Changes on proportional terms/conditions focusing more on limiting downside rather than amplifying upside

Indonesia

- Market starting to harden, but not as much as overseas reinsurers expected; local reinsurers still competitive
- Capacity remained stable with profitable programs changing leaders
- Reinsurers tried to hold positions but under pressure from strict guidelines after HIM losses
- Increasing pressure of additional fees being paid by insurance companies to acquire direct business driving demand for increase in reinsurance treaty commissions

- Local reinsurance companies potential growth starting to stabilize in 2018 as local placements are nearly maximized

Korea

- With fire losses affecting some risk excess of loss treaties, quoted terms varied considerably among reinsurers
- Buyers continued to increase retentions to control reinsurance costs
- No meaningful change to conditions/exclusions
- Continued lack of natural catastrophe activity in Korea maintained reinsurer appetite with no drop in capacity available

Europe-wide

- With the exception of some smaller, more regionally impacting events, Europe as a whole has seen as a very benign catastrophe year during 2017
- On the back of the global loss activity, reinsurers aimed to claw back some of the rate reductions conceded during recent renewal rounds
- The market as a whole renewed at a minimum of risk-adjusted flat (bar some rare exceptions) and the renewal outcome of the European catastrophe programs established a change in trend of the past decade during which we have seen continuous rate reductions
- However, pricing adjustments for loss free catastrophe programs were mainly restricted to a risk-adjusted uplift of up to +5%, i.e., at best the reductions given at 1 January 2017
- Within this range reinsurers differentiated on past performance and renewal behavior

Central and Eastern Europe

- Underlying exposure movements and losses (where applicable) determined catastrophe and risk pricing
- 2017 saw a few localized natural perils events in Central and Eastern Europe (CEE), some affecting bottom layers of catastrophe programs
- Reinsurers required risk-adjusted stable pricing as a minimum for loss-free programs
- CEE continues to be regarded as positive diversification for reinsurers
- Capacity remained stable for both catastrophe and risk programs
- Increases in the range of +5% to +15% for loss-affected programs

France

- Baden-Baden was the turning point of the renewal during when terms and conditions started to crystallize
- Significant rate increases were asked for by a limited number of reinsurers
- Relatively small shift of leaders
- A consensus appeared for non-hit catastrophe covers at risk-adjusted flat to +4%
- Increased appetite from traditional and ILS market
- A few programs were firm ordered below modelled risk-adjusted flat and consequently suffered reduced over-placements
- Placement smoothly achieved

Germany

- With the exception of some local / regional loss affected covers Germany has seen very benign catastrophe loss activity in 2017; price movements on loss affected covers were mainly driven by their individual historical performance and not by any global impact
- Until Baden-Baden the impact of international H2 losses on pricing was yet to form
- After Baden-Baden most buyers offered risk-adjusted flat renewals (for loss free covers)
- The majority of reinsurers agreed to this approach, with few reinsurers coming off or reducing shares; thus reinsurer panels have only seen minor changes
- Most programs were renewed with an unchanged structure and unchanged terms and conditions — Improvements achieved over the last couple of years (e.g., covered line of business, clauses, etc.) could be maintained
- Interest in and demand for cyber reinsurance has significantly grown — especially non-proportional solutions were of interest; more and more reinsurers offered capacity on this basis
- No significant increase of minimum rates on line for natural catastrophe covers

Italy

- No major catastrophe losses have occurred in 2017 after the series of earthquakes in 2016
- A number of minor events have affected first layers or retentions of some companies (excess snow in January, heavy rainfall in June, hail in August and September)
- This has led to an increasing number of companies exploring aggregate covers
- Generalized increase in exposures
- For risk covers, significant loss activity registered in the Italian market with two large losses in the range of €50 million; several reinsurance programs have been affected and as a consequence reinsurance prices followed market trend increases

Middle East and North Africa

- Still a competitive market which broadly achieved a risk-adjusted flat renewal for loss free programs despite higher initial expectations
- Increasing commissions on quota share programs
- Similar market dynamics for regional retrocession programs which were risk-adjusted flat for loss free programs
- Strong capacity appetite in the region despite lower than expected improvements

Netherlands

- Loss free covers renewed mostly at risk-adjusted flat with some cases showing only minor increases
- Some leading reinsurers pushed for larger increases than buyers were prepared to accept and as a result there have been some changes in reinsurer panels
- Sufficient capacity in the market to support existing pricing levels
- Proportional programs without sufficient margins under greater spotlight than in previous renewals

Nordic Countries

- Following the multiple losses that the reinsurance market experienced in Q3 and Q4, there were clear signs around Baden Baden that the downwards pricing trend had come to an end

- However, the market still benefited from abundant capacity and as the renewal unfolded the initial indicated price increases of +10% or more, proved too steep and the Nordic catastrophe market settled around small single digit risk-adjusted increases
- No major weather related events across the Nordic region; catastrophe programs remained largely loss free
- Risk losses during the year impacted property per risk and pro rata treaties
- Proportional reinsurance is still being purchased both for capital/solvency reasons as well as capacity purposes with a continued drift towards performance based commissions
- Reinsurers' continued appetite for proportional reinsurance mirrors the strong performance of the direct market in recent years; demand for proportional reinsurance premium therefore remains high with capacity outstripping demand

Spain

- Very early in the renewal process reinsurers indicated that they were expecting a smooth renewal
- Excess of loss covers saw flat to modest rate reductions
- Conditions and commissions level were maintained on pro rata treaties
- Reinsurance markets were unchanged (both leaders and main followers); local reinsurers remain dominant
- Wildfire losses did not impact Spanish market while Portugal saw some small adjustments

Switzerland

- Swiss clients' expectation for unchanged renewal was communicated before and during Baden Baden; this was achieved with the timing of renewals similar to previous years
- Reinsurers continue to value Swiss business for its diversifying characteristics and longstanding relationships
- No reduction in available capacity observed at 1 January and programs generally renewed with unchanged structure
- 2017 was another year free from major market catastrophe losses for Swiss buyers
- More than sufficient capacity available for Swiss buyers in the global market
- Increasing earthquake exposures in Switzerland continue to be the focus for reinsurers

Turkey

- Catastrophe excess of loss treaties on average up by +10%
- Exposures reducing substantially in Euro due to the devaluation of the Turkish lira
- Few new entrants into the market and similar capacity available as last year
- Over placements on higher layers were seen whereas lower layers were more challenging
- Pro rata commissions mainly stable but some changes depending on results
- Generally lower limits purchased

United Kingdom

- Some strong reinsurer messaging early in the renewal season resulted in longer negotiations at the price discovery phase; with credible lead support, programs were then completed in a timely manner
- Greater emphasis on marketing programs as a package; this occasionally extended beyond property to include motor and liability placements

- The above, coupled with some reinsurers adjusting their written lines, resulted in modest amendments to placement panels
 - Few significant structural changes but a trend towards consolidation of program layers with buyers placing core capacity in larger tranches
 - Pricing across catastrophe and risk programs saw risk-adjusted increases of 0% to +5%; placements with increased spend on slips often seeing more favorable pricing
-

Latin America

- Main catastrophe events in Latin America (excluding Caribbean) during the last six months were the Mexico earthquakes of Chiapas and Puebla with losses mostly affecting lower catastrophe excess of loss layers and program retentions
- Q3 catastrophe losses have not changed Latin American reinsurer appetite and capacity remained at previous levels; however, limited over placements and in some cases a number of reinsurers exited programs at the firm order terms
- General consensus amongst buyers that prices were not going to reduce anymore
- Loss affected programs impacted by modest price increases though varied depending on underlying growth and increases in upfront premium
- Loss free catastrophe programs were generally flat risk adjusted to modest price increases although placement more difficult than in previous renewals particularly if there has been an increase in underlying exposure

Caribbean

- Reinsurers looked to push terms and conditions to 2012 levels, with varying success
 - Loss affected islands being treated on a case-by-case basis
 - Capacity continued to be available in abundance
-

United States — Nationwide

- The significant run of Q3/Q4 catastrophe events resulted in a slow-developing renewal season, with reinsurers initially pushing for significant increases; however these were mostly discounted as firm orders came in late and well below most reinsurers' expectations
- While price increases were most evident on loss affected layers, in many instances buyers sought to distribute such increases throughout programs resulting in price changes on non-loss impacted layers
- Reinsurers' desire to push up prices was further frustrated by the latest catastrophe model changes which reduced technical expected losses as well as buyers with net retained losses holding a firm line on increases
- The largest influence in dampening a change in pricing was alternative capital sources reinvesting to maintain or increase participations; consequently capacity remains plentiful
- Some west coast insurers with average rates on line much lower than wind exposed accounts have been subject to larger percentage increases following the California wildfires

Canada

- (Re)insurers did not experience a major Canadian property event in 2017
- Despite sub 90% combined ratios being expected for Canadian property reinsurers in 2017, pressure on global property catastrophe renewal capacity — driven by HIM — and continued consideration toward (reinsurance) losses emanating from the 2016 Ft. McMurray wildfires have resulted in risk-adjusted rate increases for a number of buyers
- Generally, nationwide portfolios continued to achieve more modest risk-adjusted rate increases compared to less diversified regional portfolios
- Commissions for quota share programs have generally reduced, driven by global supply/demand dynamics and continued deterioration of original primary rates, particularly in commercial lines
- Continued additional top-end limit being purchased due to Office of the Superintendent of Financial Institutions regulatory requirements which mandate companies buy to their 1-in-500 year earthquake probable maximum loss by 2022; companies still below this threshold are strategically purchasing more top-end limit each year
- Comprehensive water protection insurance packages are now being offered by the vast majority of regional and nationwide insurers

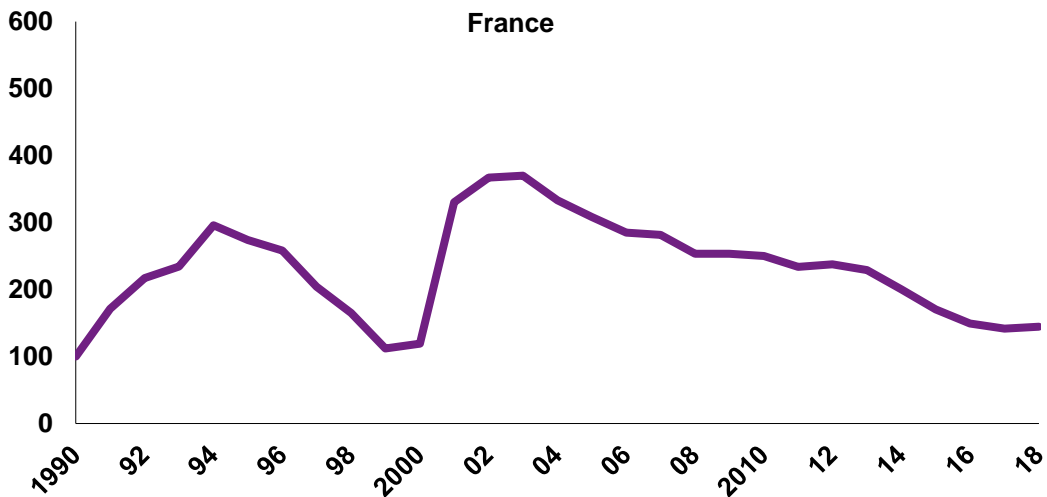
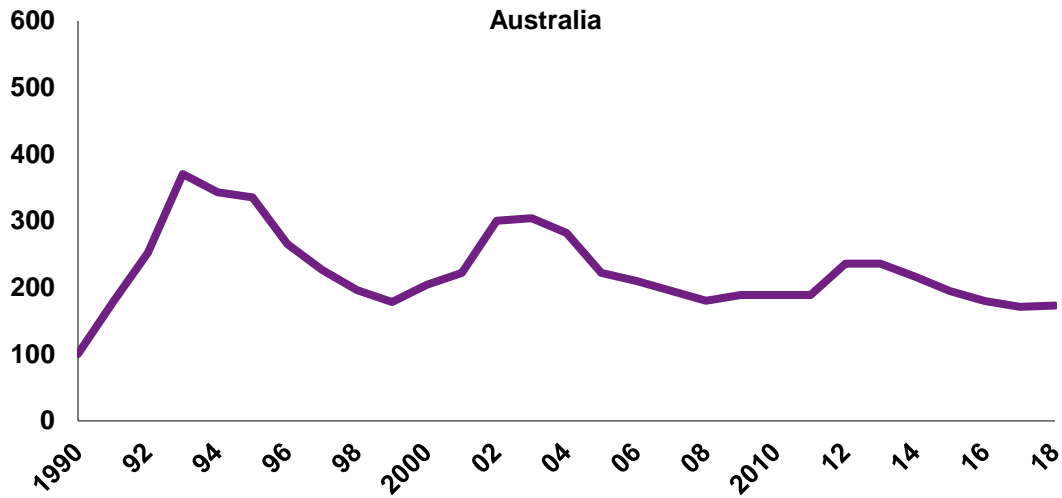
Property rate movements

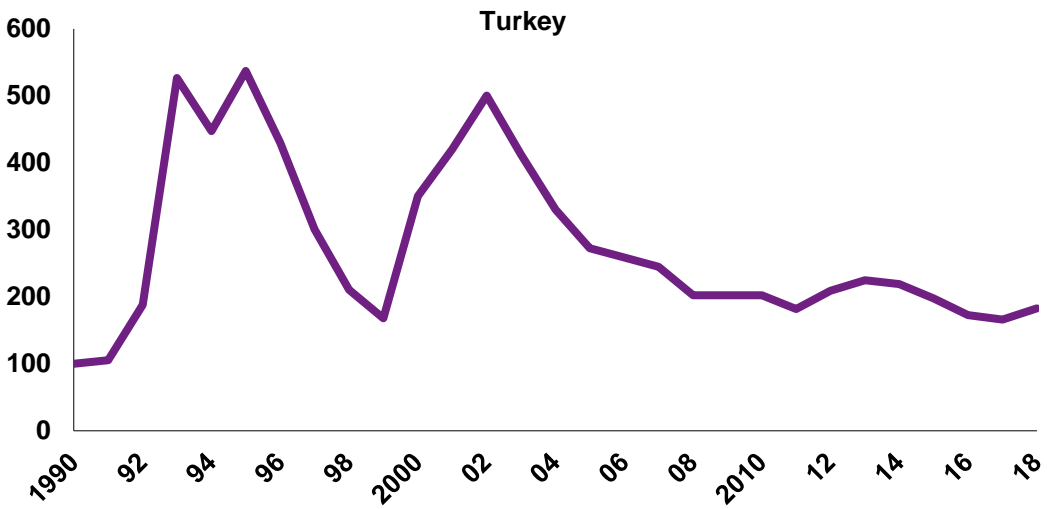
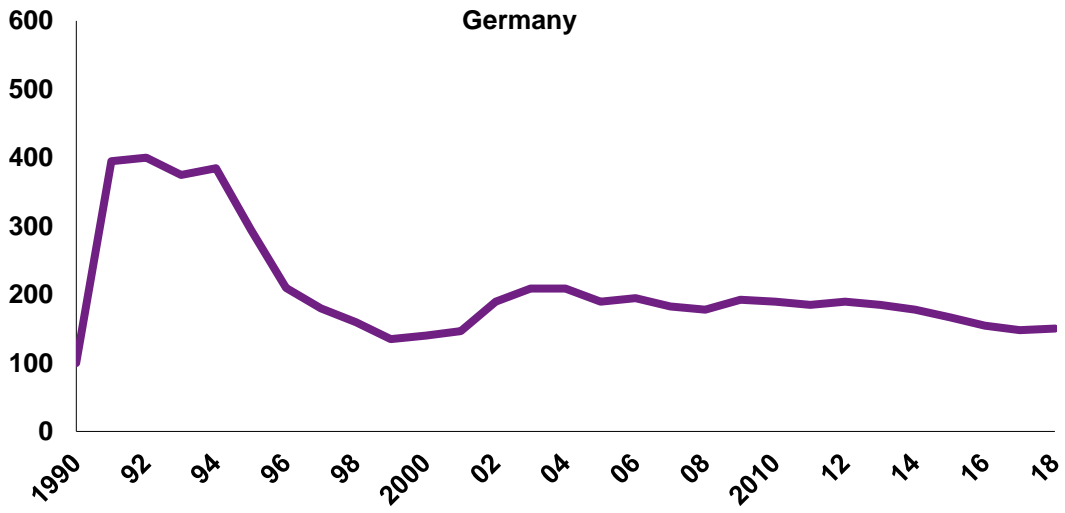
Territory	Pro rata commission	Risk loss free % change	Risk loss hit % change	Catastrophe loss free % change	Catastrophe loss hit % change
South East Asia	+0.3%	N/A	N/A	+0.4%	N/A
Australia	varies	0% to +2.5%	varies	0% to+2.5%	varies
Canada	0% to -3%	0% to +5%	+15% to +30%	0% to+5%	+10% to +30%
Caribbean	0% to -4%	0% to+10%	+5% to +20%	+10% to+20%	+20% to +40%
Central and Eastern Europe	0% to -2.5%	0% to -2%	+10%	0% to+5%	+5% to +15%
China	-2.5% to +1%	N/A	+10% to +25%	N/A	-10% to+10%
France	N/A	0% to +5%	0% to +5%	0% to +4%	N/A
Germany	0% to -1.5%	0% to +2%	varies	0% to+3%	+5% to +10%
Indonesia	0% to +2.5%	N/A	N/A	0% to+15%	N/A
Italy	N/A	0% to +1%	+2% to +11%	0% to+5%	0% to +10%
Korea	0%	N/A	+7.5% to +15%	0% to 10%	N/A
Latin America	0%	0%	+5 to +15%	0% to +3%	+5% to +10%
Middle East and North Africa	0% to +1%	0%	+5%	0%	+1%
Netherlands	0%	0% to +5%	+2.5% to +5%	0% to +5%	+5% to +10%
Nordic Countries	varies	varies	varies	0% to+3%	N/A
Spain	0%	0% to -10%	-5% to +5%	0%	0% to +5%
Switzerland	0%	0%	N/A	0%	N/A
Taiwan	N/A	0% to +5%	0% to +10%	0% to +5%	N/A
Turkey	0%	N/A	N/A	+10%	+20%
United States — Nationwide	0% to -2.5%	0% to +5%	+5% to +10%	0% to +7.5%	5% to +10%
United Kingdom	0%	0% to +5%	N/A	0% to +5%	N/A

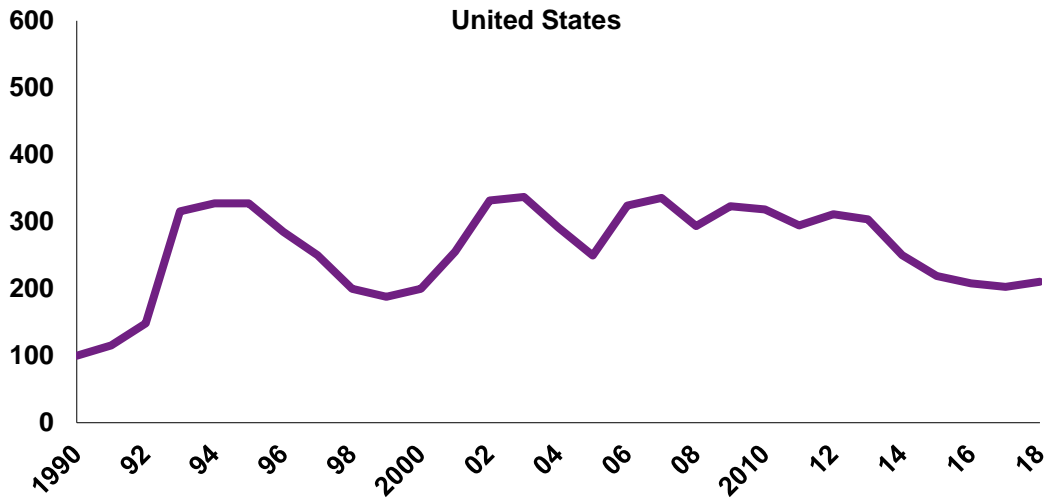
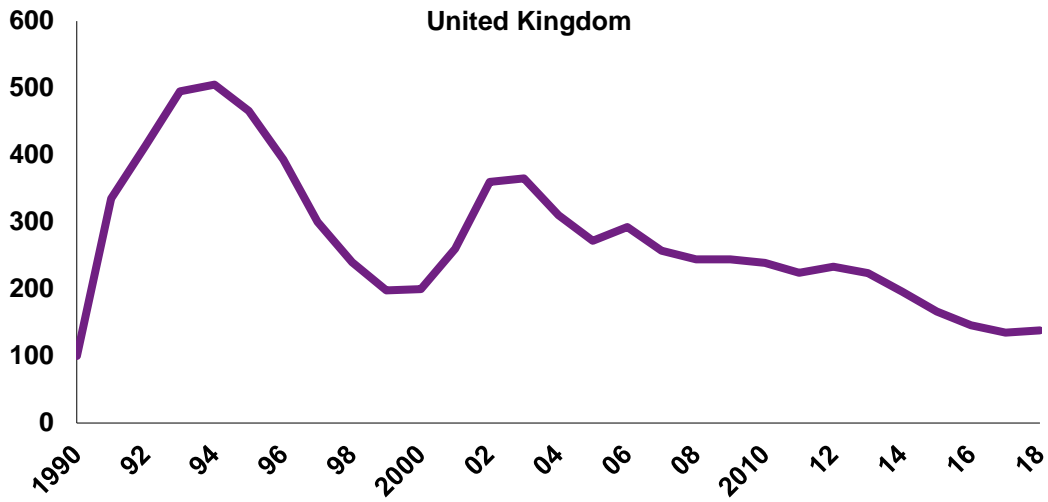
Note: Movements are risk adjusted

Property catastrophe pricing trends

The charts on these pages display estimated year over year property catastrophe rate movement, using 100 in 1990 as a baseline.







Casualty

The global casualty business is too diverse to provide any all-encompassing description of market forces that has universal application for all sub classes in all territories. However, with that caveat, over the past several years global casualty business which was defined by compound improvements in terms and conditions for reinsurance buyers is now slowing down and, in several key classes and territories, reversing. We are hesitant to refer to 2017 as the nadir of reinsurance pricing in all long tail classes, but at this stage, it appears to be a reasonable description.

Further exposure adjusted reductions have become harder and harder for buyers to secure, requiring high hurdle rates about underlying profitability to be overcome. This landscape is driven by deteriorating accident-year results, diminished reserve releases and various territorial specific issues, e.g., Ogden reform in the U.K. and wildfire related casualty losses in the U.S., all of which are converging. Added to this is the blanket of profitable natural catastrophe business which has subsidized reinsurer performance for a number of years and has been abruptly withdrawn in 2017. Notwithstanding reinsurers pushing for improvements in terms and conditions, the market has generally been orderly. It has been methodical and efficient, calming down over the past month from an immediate post-HIM hiatus. With a few exceptions, most reinsurers have been discerning, negotiating sensibly around the issues and, most importantly, in a way that is compatible with their long-term trading relationships.

Commentary by territory

Australia

- Buyers experienced resistance to rate reductions from the majority of reinsurers
- Most reinsurers sought a minimum risk-adjusted flat rate for non-loss affected programs and rate increases for loss affected accounts, however range of rate changes varied widely
- Increases were ameliorated by abundant additional capacity, which affected reinsurers shares this renewal and may lead to a further turnover of reinsurers on panels in future renewals
- Buyers continued to focus on casualty systemic and accumulation risks, with reinsurer appetite generally meeting buyer requirements
- Reinsurer appetite for cyber continued to grow, outstripping demand from buyers

Canada

- Broadly, the casualty market has continued its run of profitability through 2017
- Reinsurer appetite for casualty-related lines of business remained favorable as reinsurers sought to balance their (broadly) overweight property portfolios, leading to a favorable impact on the supply/demand dynamic experienced by buyers
- Any (property) pricing pressures being driven by global property catastrophe events have not translated into risk-adjusted rate increases to the casualty market

Europe — General Third Party Liability

- The renewal season has focused primarily on pricing rather than technical or coverage issues
- However, terrorism cover under motor insurance has been a talking point — the wide variety of approaches in different regions and countries has meant that reinsurance coverage continues as before — for now at least
- Traditional reinsurance leaders have been seeking substantial rate increases and consequently there has been a wide range in quoted terms
- Firm order terms have shown wide regional variation from 0% to +7.5% in some markets to over +25%
- In the Nordic market, for example, there has been recognition of the low frequency and severity of bodily injury claims
- While in the Central and Eastern Europe region, low deductibles and increasing claims activity have driven reinsurance rate increases

France — Motor Liability and General Third Party Liability

- Rating movements were between flat and +10% for some layers.
- Compared to last year, no major wording change (ecological damage law/discount rates for the PPOs)

Italy — General Liability/Employer Liability/Professional Liability

- Business covered under excess of loss reinsurance remains low risk mainly linked with home owners and small and medium enterprises
- The market continued to see volatile performance mainly related to frequency rather than severity
- Heavy casualty mainly related to medical malpractice continued to be ceded through facilities or diluted in larger international programs

Italy — Motor Liability

- Original rates continued to be under pressure and companies struggle to meet their growth plans
- From a reinsurance perspective, there is an increased frequency of losses in excess of EUR 2 million, but severity remains stable; as a consequence, unless budget constrained, buyers preferred to keep the retention levels at current levels
- Some motor quota shares appeared in the market for capital relief purposes

Netherlands — Motor Liability and General Third Party Liability

- Growing issue with regard to motor third party liability claims development
- Proportional programs without sufficient margins under greater spotlight than in previous renewals
- Some longstanding reinsurers attempted to enforce substantial price corrections leading to changes in reinsurer panels

Spain — Motor Liability

- Motor was once again the main liability topic in Spain
- Still fierce competition in the direct market
- Despite BAREMO impacting reinsurance losses, rates only modestly increased due to competition
- Average increase for 2018 about +5%. (2016: +40% to +60% / 2017 increase +10% to +20%)

- Large losses have emerged (EUR 8 million and above)

United Kingdom — Motor Liability

- 1 January is a key renewal date and 1 January 2018 is the first renewal since both the change to the Ogden personal injury discount rate in Q1 2017 and the further guidance about future direction of Ogden released in H2 2017
- These announcements during H2 2017 have generated optimism but not sufficient clarity about timescales or likely final decisions
- Reinsurers forced to hold reserves at -0.75% discount rate may be looking at negative balances on treaties from recent years, while also trying to recognize the reality of today's settlement environment where lump sums are being awarded at broadly positive discount rates
- Whilst rates are clearly increasing, there is significant divergence of market pricing with a lack of consensus among reinsurers about where the Ogden rate is likely to settle in near future, with a wide variety of assumptions in pricing models
- Some interest from potential new markets has dampened the degree of upwards pricing momentum
- Determining a consensus price that can carry a program to a 100% placement has been challenging
- Buying patterns have changed in some cases, with some insurers opting to increase retentions
- Complexity of market dynamics precludes any simple market average rate change assessment — individual programs' rate changes have been influenced by attachment point, impact of the Ogden rate change on claims and perceived adequacy of previous years' pricing
- For programs with higher attachments, increases of around 100% were not atypical.

United States — General Third Party Liability

- Certain reinsurers pulled back capacity and/or pushed terms on loss affected contracts
- Terms are holding flat for buyers with good experience
- Still an abundant supply of capacity from newer markets looking to grow market share, although this capacity remains disciplined
- Buyers sought to maintain or increase orders at expiring terms, and reduced placement orders if reinsurance terms deteriorated

United States — Healthcare

- There continued to be ample reinsurance capacity for medical professional liability and related lines
- Reinsurance pricing for medical professional liability lines remained stable with measured upward adjustments on programs impacted by increases in loss experience or risk exposure profiles
- Reinsurers are increasingly focused on recent headline settlement verdicts, although the macro loss experience in the line continues to be favorable
- Buyers continued to favor reinsurers who exhibit a consistent underwriting approach

United States — Motor Liability

- Personal auto claims frequency and severity remain elevated; there are many reasons for this but distracted driving due to mobile technology leads the way
- Personal and commercial auto carriers continue increasing rates across the country to offset increased claim frequency and severity

- Pro rata reinsurance terms have remained consistent but there is mounting downward pressure by reinsurers on sliding scale commissions
- Excess of loss reinsurance rates varied, with directional changes depending on individual program loss activity
- Commercial auto appetite has grown amongst reinsurers as primary rates have continued to increase and are now at a level that has created more reinsurer interest
- For all auto best in class performers and/or niche programs for both managing general agents and carriers receive a lot of interest; for start-up programs terms have tightened

United States — Professional Liability

- Pro rata ceding commissions are flat to -2% with larger decreases for loss impacted programs
- Excess of loss pricing continues to fluctuate between -10% to +10% with year over year changes being under less pressure than quota share ceding commissions
- The market has been slower than recent years to respond as no reinsurer wants to be the first mover
- Market capacity was stable

United States — Workers' Compensation

- We distinguish workers' compensation as two separate reinsurance markets: Working layers that include single claimant coverage are actuarially priced and based on both exposure and experience; catastrophe layers that commonly require two or more claimants in the same loss occurrence are primarily priced based on capacity charges
- Heading into 2018, the working layers are facing a tightening market as primary pricing has been decreasing, resulting in reinsurers raising prices to offset these declines
- Programs with increased losses trending into a layer experienced greater increases
- The catastrophe market continues to be more stable, however the market softening has stopped

Casualty rate movements

Territory	Pro rata commission	XL — No loss emergence % change	XL — With loss emergence % change
Australia	0%	0% to +2.5%	0% to +10%
Canada	0% to +3%	0% to -10%	0% to +10%
China	N/A	-7.5% to -15%	-2% to -9%
Europe — General Third Party Liability	N/A	0% to +7.5%	0% to +25%
France — Motor Liability and GTPL	N/A	0% to +5%	0% to +15%
Italy — GTPL	N/A	0% to +5%	0% to +10%
Italy — Motor	N/A	N/A	0% to +10%
Spain — Motor	N/A	0% to +5%	+5% to +10%
United States — General Third Party Liability	0% to -2.5%	-5% to +5%	0% to +15%
United States — Motor Liability	0%	0%	N/A
United States — Professional Liability	0% to -2.5%	-10% to +10%	N/A

Note: Movements are risk adjusted

Territory	Pro rata commission	Risk loss free % change	Risk loss hit % change	Catastrophe loss free % change	Catastrophe loss hit % change
United States — Healthcare	0% to -2%	0%	0% to +7.5%	0% to +5%	0% to +15%
United States — Workers' Compensation	0% to -2%	+2% to +5%	+5% to +15%	0%	N/A

Notes: Movements are risk adjusted

For Workers compensation risk layers are working layers that include single claimant coverage are actuarially priced and based on both exposure and experience; catastrophe layers that commonly require two or more claimants in the same loss occurrence are primarily priced based on capacity charges

Specialty

Commentary by line of business

Aerospace

- After many years, signs of firming in both the aviation insurance and reinsurance markets have been evident
- General view across both direct and reinsurance markets was that no further reductions in pricing would be available; this was a position largely followed, arguably more rigorously by the reinsurance market than the direct market where some degree of further rate reduction was available, especially for better performing accounts and where further passenger and fleet growth was evident; conversely certain less well performing direct airline and aerospace accounts were subject to significant pricing increases
- Excess of loss reinsurance pricing stabilized across the board with no risk-adjusted rate reductions; in a few cases where exposure growth was considered not to have been adequately reflected within renewal pricing some reinsurers declined
- For loss affected programs rate increases were seen though the increases were mitigated by the generally positive performance of almost all general excess of loss programs over the last 10 years
- Commissions on pro rata treaties were as expiring; some poorly performing regional proportional placements continue to be the subject of wholesale re-structuring, with commission levels and underlying pricing of the ceded business being subject to significant levels of scrutiny from reinsurers
- Retrocessional pricing also stabilized with modest rate increases in the region of +5%

Engineering

- The direct market terms and conditions are lagging the hardening of the reinsurance market
- Commission reductions imposed by reinsurers on proportional treaties
- HIM and late large loss notifications resulted in a late renewal
- Cyber exposures a major renewal topic
- A modest hardening of direct terms is being awaited by reinsurers during 2018
- Modest increase in proportional reinsurance capacity increase has been seen

Global — Cyber

- Silent cyber concern increasing in market post-NotPetya with (re)insurers trying to quantify potential aggregation levels
- Growing interest in stop loss reinsurance to address silent cyber
- Quota share remains dominant form of reinsurance for affirmative cyber cover on standalone basis although increased interest in London and international markets for excess of loss solutions
- Some pressure on ceding commissions but capacity remains plentiful, while underlying conditions are still competitive
- (Re)insurers anticipating increasing demand as result of forthcoming General Data Protection Regulation (EU) and similar regulations, however U.S. business still predominates

Global — Trade Credit

- Increased trend towards multi-year programs
- Potential large losses from Steinhoff accounting issues and Seadrill bankruptcy
- Stable reinsurance capacity
- Increased appetite by reinsurers for longer tenors
- Increased interest from export credit agencies in portfolio risk transfers to the private reinsurance market

Marine

- Signs of market hardening following the Q3 catastrophe losses and further loss deterioration on Tullow and SBM losses
- The new Joint Excess Loss Committee (JELC) wording is a major talking point as clients analyze the changes
- Poor performing pro rata contracts have seen pressure on commission levels
- New capacity came into the market in anticipation of the hardening market, reducing the impact of the rate increases

Non-Marine Retrocession

- This has been one of the most unique and challenging renewal seasons witnessed in recent times
- Concerns of a capacity crunch were quickly dismissed as the ILS market reloaded and the traditional market responded with an increased appetite
- Differentiation of renewal pricing for buyers varied considerably due to a number of factors including their losses, past experience and overall trading relationship in recent years
- Reinsurers preferred to maintain similar attachment levels and take advantage of “more money” for the same risk
- Still a mismatch between the underlying reinsurance pricing and retrocession pricing — how long can this continue and who will break first remains the key challenge for 2018

United States — Medical Excess

- Continued increases in both severity and frequency of large medical claims
- Specialty pharmaceuticals a growing concern with a +18% trend increase in costs per year
- Increase in frequency of multi-million dollar specialty pharmaceutical claims
- Over 20 medical reinsurance markets and continued new entrants
- Many insurance carriers and health plans have pulled back or exited Affordable Care Act business due to losses
- Continued need for capital and surplus by health insurers due to growth and/or losses

United States — Surety

- Reinsurance capacity remained abundant and far exceeds demand; reinsurer panels are well syndicated and despite incumbent market resistance toward rate reductions, excess capacity continued to support softened terms across placements
- Following several years of compounding price declines, risk-adjusted rate reductions continued albeit at a slower pace than that experienced in recent years; certain reinsurers, being more price disciplined, reduced shares or exited programs

- Reinsurers continued to quantitatively differentiate among buyers as markets continued to support good performing programs by providing concessions where underwriting expertise and prudent market cycle management are apparent
- Loss affected programs impacted by price increases though quantum varied depending on loss history; however, some loss affected treaties renewed with no real sign of genuine rate increases
- Structures remain largely unchanged with breadth of coverage remaining an important consideration for buyers along with relaxation of administrative burdens
- The U.S. surety industry continued to report strong results through the third quarter of 2017; loss frequency for reinsurers has increased with severity trending higher in some segments of the market

Specialty rate movements

Territory	Pro rata commission	Risk loss free % change	Risk loss hit % change	Catastrophe loss free % change	Catastrophe loss hit % change
Aerospace	0% to -2.5%	0%	+2.5% to +10%	0%	N/A
Engineering	0% to -2%	+2.5%	+10%	+5%	+10%
Global — Cyber	0% to -2%	N/A	N/A	N/A	N/A
Global — Trade Credit	0% to +1.5%	0%	+5%	N/A	N/A
Non-Marine Retrocession	0% to -2.5%	+5% to +15%	+10% to +25%	+5% to +15%	+10% to +30%
United States — Medical Excess	0%	0% to +10%	+10% to +50%	N/A	N/A

Note: Movements are risk adjusted

Capital Markets

- ILS investors have suffered a considerable amount of natural catastrophe losses in H2 2017.
- Private ILS suffered to a much greater extent than catastrophe bonds.
- The potential trapped capital problem appears overstated with a few notable exceptions.
- ILS investors have replenished their capital and continue to trade forward with modest spread increases for loss affected perils.
- Merger and acquisition (M&A) transaction volume in the global insurance sector finished 2017 on a par with 2016's \$49 billion.
- As usual, North American activity led the way, with approximately \$23 billion of deal volume, followed by Asia and then Europe. Globally, life insurance deals outpaced non-life by a wide margin.
- We identify the following trends that have been driving M&A activity:
 - Healthy acquirer balance sheets combined with a lack of organic top-line growth. Example: Allianz's purchase of a 49% stake in the UK's LV.
 - Increased strategic value placed on companies with insurtech credentials, and some insurtech companies moving beyond the incubation phase. Example: Traveler's \$0.5 billion purchase of Simply Business.
 - Increased willingness of insurers to part with legacy books, both life and non-life, and an increased number and sophistication of legacy book buyers. Example: Hartford's \$3 billion disposal of Talcott.
 - An increased value placed on non-life specialty lines players, partly due to their increasing scarcity value. This is exemplified by the three acquisitions seen in the Lloyd's market in 2017 (Centrebridge's purchase of Canopus being the largest), as well as higher stock market valuations being placed on the publicly traded specialty lines companies (e.g., the U.S. specialty lines sector trades at 1.8x book value versus 0.9x in 2011).
 - The strategic value placed on distribution in the higher growth Asian markets. Example: AIA's distribution agreement signed with VP Bank in Vietnam.
 - The attractiveness seen in capital-light MGA and broker models, particularly by financial buyers. Example: KKR's \$4 billion purchase of USI.
- Interestingly, we do not see the 2017 natural catastrophe losses as a driver to date of M&A. To date, instances of seller distress have been rare, and buyers are showing sufficient willingness to capitalize on market opportunities organically.

Note: Capital markets commentary provided by Willis Towers Watson Securities www.willis.com/securities

Global and local reinsurance

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