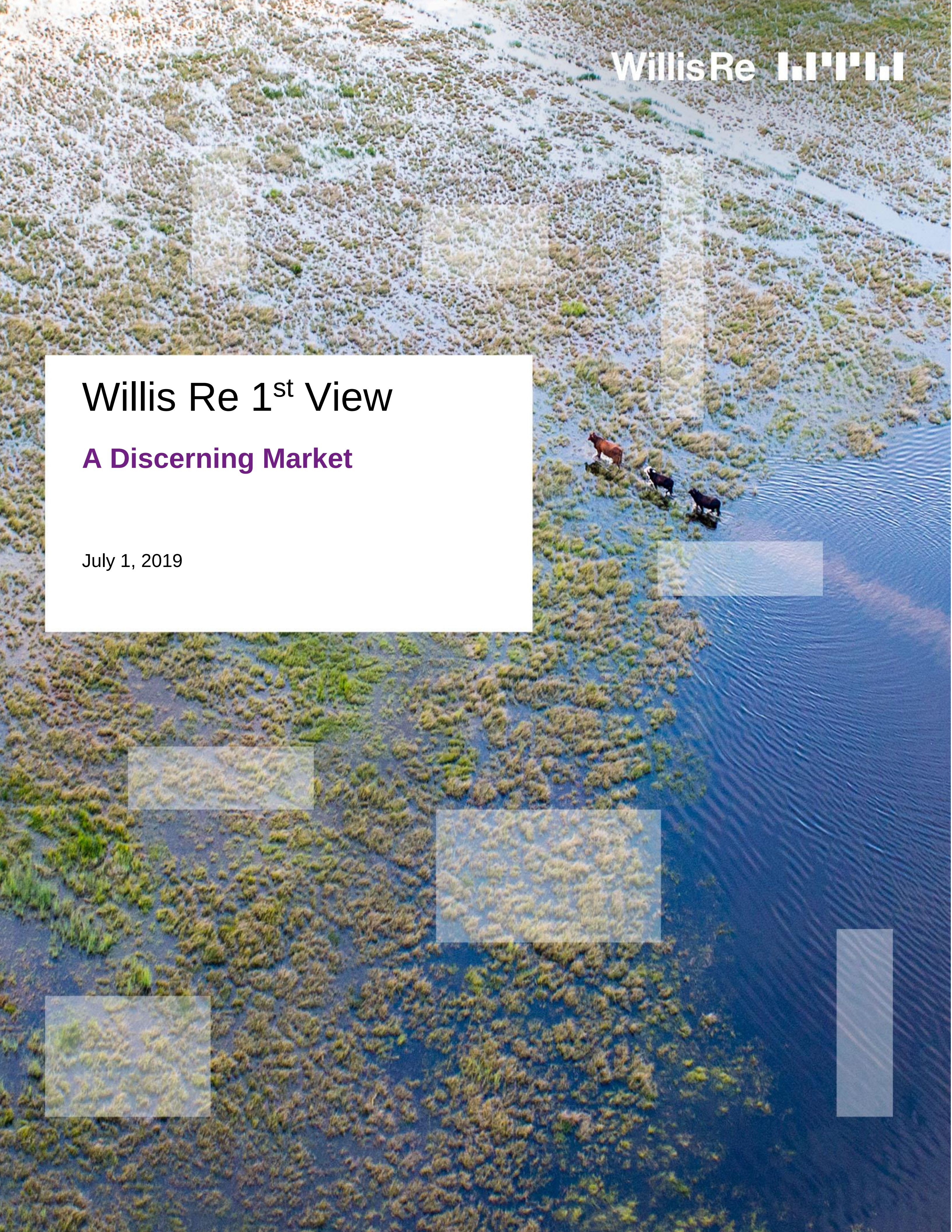

Willis Re 1st View

A Discerning Market

July 1, 2019

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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*, as well as our global industry reports:

The Reinsurance Market Report is a biannual publication providing in-depth analysis of the size and performance of the reinsurance market. Analysis is based on the Willis Reinsurance Index group of companies. The report is issued in April covering full year results, and September covering half year results.

The Global Risk Appetite Report outlines the findings from our global survey of over 250 insurance companies worldwide. The report gives insight into global reinsurance and purchasing trends.

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A Discerning Market

After a hesitant start in January and a slightly more robust response in April, the June 1st and July 1st renewal season has witnessed tangible pricing momentum. Most territories and classes are seeing price increases and some tightening in terms and conditions. Improvements to reinsurance treaty terms and conditions, however, are being outstripped by more significant changes in primary markets. The impact of global commercial carriers and Lloyd's repositioning their portfolios, in terms of price, conditions and capacity, is flowing through into most territories and classes, with an acceleration in the primary market from that previously observed. Regional carriers are following this trend and showing no signs of seeking to undermine these movements. The underlying primary improvements may not be matched by a tightening in reinsurance terms and conditions, but in several cases, reinsurers are relying more on improvements in original underwriting than on treaty terms and conditions. This is particularly pertinent in segments and/or with clients who are taking the appropriate action to enhance profitability.

Improvements to reinsurance treaty terms and conditions are outstripped by more significant changes in primary markets

The reinsurance market's resolve to seek better terms is underpinned by the continued loss development of the major 2017 and 2018 natural catastrophe events. Compounding this loss development is the continuation of medium-sized losses, both manmade and natural, as well as prior-year loss development in several long-tail classes. Many of the smaller natural catastrophe losses emanate from less well-modeled perils, impacting capacity particularly for aggregate placements, and causing reinsurers to revisit their underwriting models. This trend was most notable in the June 1st Florida renewals, where a number of ILS markets and a few traditional reinsurers pulled back shares materially influencing market pricing for some clients. Not surprisingly, this shift was most noticeable for clients seeking new limit and resulted in them paying higher returns to secure new capacity than that needed for renewal limits.

Aside from the Floridian renewals, the retrocession market has felt the greatest impact from changes in markets' appetite and capacity. Some players who significantly relied on ILS retrocession capacity are finding their business models under stress as this capacity pulls back. The change in ILS capacity has left an opening for reinsurers who are less reliant on retrocession capacity to expand their portfolios in the improving pricing environment.

As seen in earlier renewals this year, despite these pressures in some sectors, buyers have been able to secure sufficient reinsurance capacity at June 1st and July 1st. However, there is a widening gap between primary companies with portfolios and operating models who reinsurers find attractive and those they do not. Reinsurers are particularly focusing on loss estimate movements for major catastrophe losses. Some primary companies are demonstrating that they can estimate their losses accurately, while others are reporting persistent and material deterioration versus their initial estimates. Renewals in Florida support this view, with a significant pricing gap between various clients; this gap is in contrast with prior years, when there was generally a 'market standard' price increase across most programs following loss events.

For casualty classes, there are continued improvements in original rates and reinsurance terms. However, there are signs that the longstanding concern over the level of reserve redundancy in past year reserves is coming to fruition. In some classes, there is a clear trend of worsening loss ratios in recent underwriting years due to a prolonged soft market and an increase in loss severity. Few doubt that conditions are improving, however, there remains concern that the current improvements, whilst welcome, will need to move further to ensure sustainable returns.

Despite the challenging results of 2017 and 2018, the reinsurance market remains well capitalized and able to provide stable capacity to buyers, albeit on an increasingly differentiated basis. The logical differentiation in the response and approach from most reinsurers appears not only rational but indicates that reinsurance capacity remains somewhat discerning; on that basis, we remain confident that the market continues to function in an appropriate fashion, with superior pricing and capacity made available for the clients viewed by reinsurers as preferred trading partners.

James Kent, Global CEO, Willis Re
July 1, 2019

Property

Commentary grouped by territory

Australia

- Reinsurers continue to take a client-by-client approach to pricing and supporting programs, with a focus on supporting key relationships. Reinsurers are recognizing differences in buyers' historical buying philosophies.
- Increased reinsurer pricing pressure on loss affected layers, with some reinsurers reducing capacity where rates are perceived to be inadequate.
- Reinsurers are resistant to providing rate reductions on loss-free layers, although those clients with demonstrably better portfolios and greater transparency are able to achieve more positive reinsurance outcomes.
- Some reinsurers looking to grow relationships with clients, while some are looking to scale back capacity slightly. Overall, plentiful capacity remains available.

Caribbean

- 2017 catastrophe claims with public adjuster involvement remain problematic for insurers and reinsurers.
- Some reinsurers have communicated changes in their pricing models and/or risk appetite and in some cases, the local offices of reinsurers have had their authority reduced with underwriting decisions being made at more senior management levels.
- There was an adequate supply of capacity to achieve risk-adjusted flat renewals across the region, other than Puerto Rico, which saw some increases.
- There is an increased scrutiny on wordings and the inclusion of certain contractual language.

Latin America

- Predominantly a flat renewal on loss-free programs.
- Reinsurers are pushing back discounted terms and, in many instances, are coming off programs.
- Some reinsurers are changing their underwriting strategies and placing more focus on proportional contracts.

Middle East

- The balance of proportional treaties is once again in the spotlight, with reinsurers increasingly refraining from offering improvements to proportional treaty terms.
- Motor has been a key focus for reinsurers in this renewal, with tightening of reinsurance terms and aggressive original pricing.
- Lack of growth in the original market has started to filter through with companies finding difficulty in achieving their estimated premium income targets.

South Africa

- Lower layers are once again catastrophe loss-impacted.
- Continued pressure on catastrophe deductible levels.
- Capacity available is static as compared to January 1st.

United Kingdom

- Terms renewed at risk-adjusted flat following a similar trend to placements earlier in the year.
- Most buyers maintained similar structures and coverage.
- Reinsurer appetite remains strong with markets keeping an eye on the impact to overall demand from recent announcements around consolidation within the UK General Insurance Market.

United States — Florida

- Recent catastrophe activity has resulted in reinsurers changing their hurricane models and view of risk; this change most impacted layers alongside and above the Florida Hurricane Catastrophe Fund (FHCF).
- Buyer differentiation evident in both quotes and authorizations.
- Overall renewal process can be categorized as “slow” and “late” as reinsurers refined their view of risk, resulting in later than normal quotes and firm order terms.
- Reduced appetite from reinsurers reliant on retro and sidecars.
- Conversely, reinsurers with large balance sheets (and those less reliant on retro) grew existing relationships and added new cedants.
- Some buyers reduced open market catastrophe excess of loss limits year-over-year. This reduction was driven by a combination of two factors, namely, portfolio reductions in Tri-County region and increases to FHCF elections to mitigate private market rate increases.
- New limits being purchased by some buyers required higher rates to attract reinsurer capital.

United States — Nationwide

- Despite being tested by substantial catastrophe losses over the last few years, the U.S. property reinsurance market remains stable, with variances observable by cedant.
- Reinsurers remain supportive of cedants who have not presented substantial losses or loss creep.
- Driven by a drawback of some ILS and collateralized markets, there has been some turnover in reinsurance panels. However, this has been balanced by increased support from traditional incumbents and some new markets.
- Portfolios with meaningful reductions in exposure have difficulty getting commensurate rate reductions.

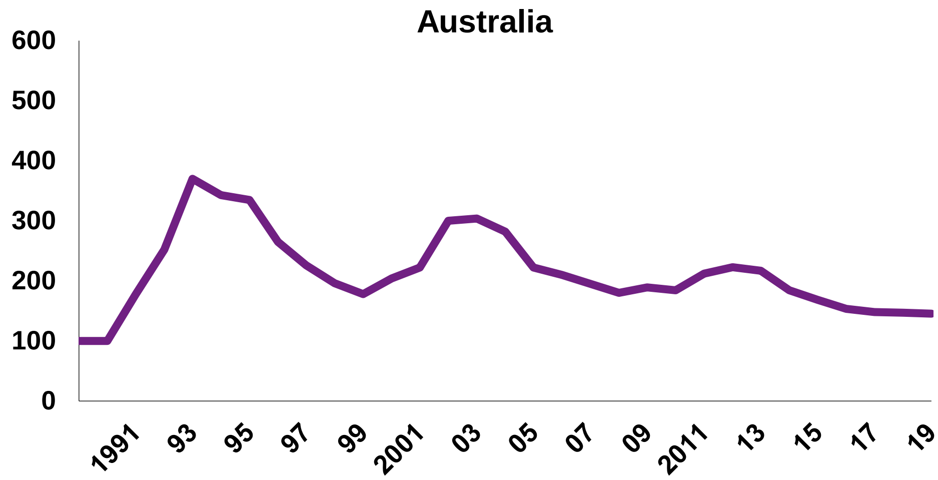
Property rate movements

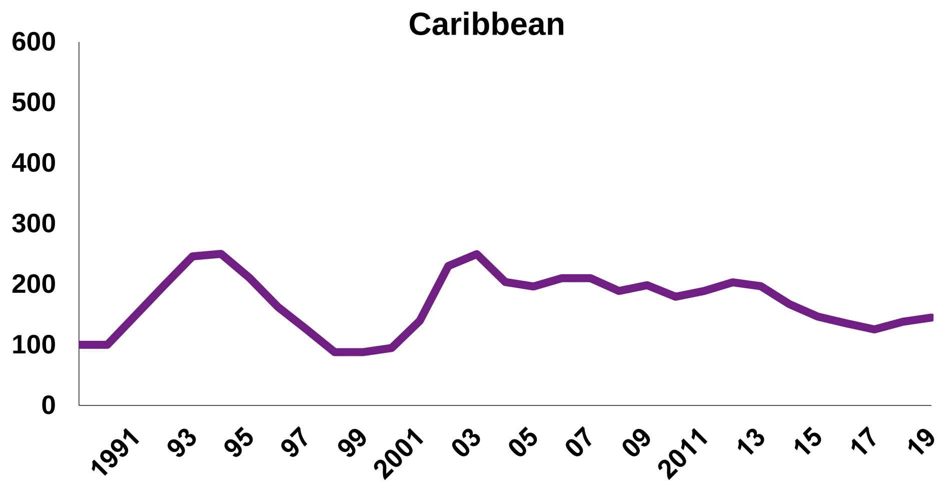
Territory	Pro rata commission	Risk loss free % change	Risk loss hit % change	Catastrophe loss free % change	Catastrophe loss hit % change
Australia	Varies	-5% to 0%	Varies	-2.5% to 0%	+5% to +15%
Caribbean	0%	0%	0% to +10%	0% to +10%	N/A
China	N/A	N/A	0%	-10% to 0%	N/A
Latin America	N/A	N/A	0% to +10%	N/A	0% to +10%
Middle East	0%	+5% to +7.5%	+15% to +35%	-7.5% to -5%	+5% to +7.5%
South Africa	0%	N/A	0%	N/A	0% to +20%
United Kingdom	N/A	N/A	N/A	-2.5% to +2.5%	N/A
United States - Florida	-10% to -5%	0% to +5%	+5% to +25%	0% to +7.5%	+5% to +25%
United States - Nationwide	-1% to 0%	0%	+5% to +20%	0% to +5%	+5% to +20%

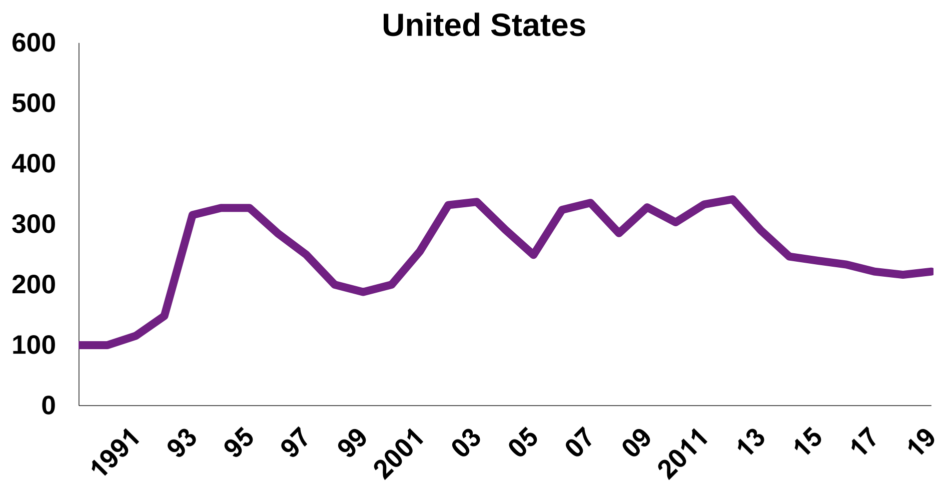
Note: Movements are risk adjusted.

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

Commentary by territory

Australia

- Reinsurers were reluctant to support further rate reductions on excess of loss business.
- Small rate increases were seen on the lower layers of treaties with claims activity or adverse loss development.
- Overall, there is ample capacity for well-performing business and target accounts, despite a small reduction in support seen from some Lloyd's markets.
- As buyers better understand the accumulation of their exposures, some are expanding their protections against casualty catastrophe exposure. Reinsurers responded favorably to these developing needs.

Global — Cyber

- While modeling tools provide cyber insurers with helpful portfolio and pricing guidance, the output, especially for extreme scenarios, is viewed with considerable caution, fueling demand for reinsurance.
- Underlying cyber rates continue to reduce which is moderating certain reinsurers' appetites, although capacity remains plentiful.
- Reinsurance (over)supply is particularly evident for niche, small and medium enterprise, low limit and geographically diverse business with limited first party exposures, as distinct from United States & Global / Fortune 500 insureds where accumulation challenges are prevalent.
- More standalone cyber treaties coming to market as buyers look to ring-fence their cyber exposures and react to pressure on ceding commissions on multi-line treaties
- Reinsurers watching closely on expansions in coverage and whether cyber underwriters will land on a consistent approach to war and cyber terrorism.

International — Motor Liability

- Very few motor renewals at mid-year, so wider trends may not be adequately captured.
- UK motor pricing is flat pending outcome of Ogden review this summer. Some potential exists for rates to reflect improvements in risk profiles or loss experience.
- Central and Eastern Europe have seen additional capacity for treaty placements and risk adjusted rates are still increasing coupled with original price improvements.
- New capacity for MGAs is limited while exisiting providers benefit from growth in existing partnerships.
- English-speaking Caribbean generally saw flat rates, but minor increases were imposed on programs with unfavorable loss experience.

United States — General Third-Party Liability

- Original rate increases continue to accelerate and beat expectations.
- Actual loss emergence from prior years continues to be worse than expected.
- Despite improvements in primary markets rates and conditions, reinsurers are using deteriorating historical experience to argue for lower ceding commissions or increased excess of loss rates, even on accounts that have good experience.
- Reinsurance capacity overall is down, and against increased demand, this imbalance is creating a favorable environment for those reinsurers who do have an appetite.

United States — Healthcare Liability

- Renewal terms are seeing increased pressure particularly on programs with higher than expected loss development.
- Programs with favorable experience have generally renewed without any price increase.
- Reinsurers are closely scrutinizing treaty limit capacity on programs with business profiles comprised of higher limit policies.
- Loss severity trends remain a focal point in reinsurer analyses; high profile losses have gained the attention of reinsurers.
- Rate levels on the reinsured business have begun moving higher and serve to moderate reinsurer pricing perspectives.

United States — Motor Liability

- After years of significant rate increases and (re)underwriting, loss experience is starting to stabilize in both personal and commercial auto.
- Reinsurers are applying downward pressure on ceding commissions where full margins were not met.
- Excess of loss rates varied depending on program loss experience; capacity remains stable.
- Reinsurers' interest in supporting auto (pro rata or excess) continues to rise as results improve driven by primary rate increases.

United States — Professional Liability

- Underlying market is quickly evolving as rates increase and limits compress in lower layers. Primary market seeing upward of 10% price increases or more with some carriers also reducing lines. Excess layers also seeing increases in the mid single digit range.
- As a result, the reinsurance market is optimistic. After 18 months of downward pressure, placements are renewing flat.
- Capacity remains abundant with signs of renewed interest from reinsurers who had been pulling back in recent years.

United States — Workers' Compensation

- We view workers' compensation reinsurance as two distinct markets. These are the working layer market and the catastrophe market.
- Working layer capacity is single life exposed and pricing is established by actuarial weighting of exposure and experience developed rates.
- Pricing in the working layers has modestly increased. This is primarily in response to decreasing primary rates, but also due to a modest increase in frequency of large losses.
- Catastrophe market has been relatively stable with modest Rate on Line decreases where exposures are relatively unchanged.

Casualty rate movements

Territory	Pro rata commission	XL - no loss emergence % change	XL - with loss emergence % change
Australia	0%	0% to +2%	0% to +5%
China	N/A	-10%	0%
International	N/A	-5% to 0%	0% to +10%
United States - General Third-Party Liability	-4% to 0%	0% to +5%	+5% to +15%
United States - Motor Liability	-3% to 0%	0% to +7.5%	0% to +10%
United States - Professional Liability	+0.5%	-5% to 0%	0% to +5%

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 Liability	-1.5% to +4%	-3% to 0%	0% to +10%	N/A	N/A
United States Workers' Compensation	-2% to -1%	0% to +2%	+3% to +8%	-3% to 0%	N/A

Specialty

Commentary by line of business

Capital Markets

- We continue to see a mixture of both new and old funds raising money alongside other funds with net redemptions.
- Risk spreads for non-life risks increased through April and May but seem to be stabilizing or even declining in June
- This year many investors have tended to act more like traditional reinsurers in their underwriting approach. For example, they differentiated strongly among cedants and reinsurance structures rewarding higher quality placements with better pricing, terms, and conditions relative to what the raw modeling output would otherwise suggest.
- Investors are monitoring regulatory initiatives in Guernsey and Bermuda with keen interest for potential impact on their cost structure.

Global — Marine

- Capacity for marine and energy reinsurance remains plentiful.
- Volatility protection is a clear trend amongst cedants; aggregate covers are a popular solution to hedge against volatility.
- Clean renewals are enjoying flat pricing, loss affected face rate increases.
- The war market has reacted almost immediately to recent events in the Gulf.
- Direct cargo market showing steady upward pricing curve.

Global — Non-Marine Retrocession

- Rate movements at July 1st kept pace with first and second quarter renewals as a minimum.
- ILS capacity continues to be under strain.
- Additional demand driven by both new and increased midyear purchases has put further strain on reinsurance capacity.
- Significant Typhoon Jebi loss deterioration has begun to impact otherwise loss-free layers and continued to trap collateral for ILS markets.
- Perceived sustained rate increases are attracting greater interest from traditional reinsurers that have previously reduced their capacity or exited the retrocession market.

Global — Personal Accident / Life Catastrophe

- No significant personal accident or life catastrophe losses since 9/11.
- A reasonable amount of personal accident risk losses (mainly from sports) are hitting the market, though these losses are well syndicated across reinsurers.
- There is still an abundance of capacity in the United States catastrophe and risk markets.
- No signs of market hardening or rate reductions.

Global — Political Risk

- The claims activity and number of monitored situations being reported in 2018 continues to slow, although there are several high-profile circumstances that rely on being successfully restructured to avoid loss.
- As in previous years, there remains an abundance of reinsurance capacity, but less so than in 2018 with some reinsurers reining in their capacity, resulting in price hardening in certain quarters.
- Reinsurance subscription panels were reduced over recent renewals due to reinsurers discovering their walk-away price, exiting specific programs and reinsurers preferring to renew signed lines rather than written lines. Despite these factors sufficient capacity remains.
- Excess of loss pricing for non-loss affected renewals remains flat.
- Terms and conditions for proportional covers are broadly unchanged.

United States — Medical Excess

- The medical reinsurance market continues to experience increases in both frequency and severity of large medical and pharmaceutical claims
- While there is ample capacity and competition, excess medical reinsurance pricing is hardening, due to losses.
- There has been some market turmoil, including underwriting team and executive turnover.
- Many markets have become tough on medical reinsurance claim reimbursements, including denied and cut back claims.
- Some ceding companies increased excess attachment point to offset rate increases.

Specialty rate movements

Territory	Pro rata commission	Risk loss free % change	Risk loss hit % change	Catastrophe loss free % change	Catastrophe loss hit % change
Non-Marine Retrocession	-5% to 0%	0% to +10%	+15% to +35%	+5% to +15%	+20% to +35%
Personal Accident / Life Catastrophe	N/A	0%	0%	0%	N/A
Political Risk	0	0%	+5% to +10%	N/A	N/A
United States - Medical Excess	0%	0% to 10%	Varies	N/A	N/A

Note: Movements are risk adjusted.

Global and local reinsurance

Drawing on our network of reinsurance and market experts worldwide, and as part of the wider Willis Towers Watson company, Willis Re offers everything you would look for in a top-tier reinsurance advisor, one that has comprehensive analytics and transactional capabilities, with on-the-ground presence and local understanding. Whether your operations are global, national or local, Willis Re can help you make better reinsurance and capital decisions, access worldwide markets, negotiate optimum terms and boost your business performance.

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