Texas Captive Insurance Association

Reinsurance Meetings

Property & Casualty Insurance Market Update

October 9, 2024

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Casualty

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Primary & Excess Casualty Rate Environment

- **General Liability:** The average Q2 2024 renewal rate saw an increase of +3.2% with 56% of renewals yielding a flat or better than flat rate result. The “middle 50%” range was flat to +7%. 2H 2024 Expectations are for continued low to mid single digit rate increases.

- **Automobile Liability:** Average renewal rate in Q2 2024 was +8.4%, an increase over 2024 Q1’s which was +6.6%. 72% of AL programs experienced a rate increase while only 14% achieved a YoY rate decrease. The “middle 50%” range was flat to +15%. 2H 2024 Expectations are for continued high single digit rate increases at a minimum. Clients with adverse auto loss history or material fleet exposure are projected to see double digit rate increases.

- **Workers’ Compensation:** Continuing to be the most profitable primary casualty line of coverage for carriers, Q2 2024 Workers’ Compensation renewals experienced an average renewal rate of –3.4%, marking yet another quarter of average rate reductions. 2H 2024 Expectations are for low single digit rate decreases to flat renewals.

- **Lead Umbrella Liability:** Average Q2 2024 renewal rate was +9.7% with 71% of renewals experiencing a rate increase. The “middle 50%” ranged from Flat to 13.2%. 2H 2024 Expectations are for rate increases to continue to climb with most clients seeing double digit increases from +10% to +18%.

- **Total Umbrella + Excess Liability:** Average total excess tower renewal rate in Q2 2024 was +12.3%, with 71% of all programs renewing with a rate increase. The “middle 50%” ranged from Flat to +12.6%. 2H 2024 Expectations are for rate increases to continue to climb with most clients seeing double digit increases from +12% to +20%.

	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 & Q4 2024 Forecast*
General Liability	2.50%	1.80%	0.80%	**3.20%**	Flat to +5%
Automobile Liability	9.00%	5.90%	6.60%	**8.40%**	+8% to +12.5%
Workers' Compensation	-2.80%	-1.10%	-4.20%	**-3.40%**	-4% to +1%
Lead Umbrella	9.90%	8.00%	12.40%	**9.70%**	+10% to +18%
Total Umbrella / Excess Liability	9.90%	6.80%	13.00%	**12.30%**	+12% to +20%

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Overall Casualty Market Dynamics

- **Pricing:** Pricing for the primary casualty lines (General Liability, Automobile Liability and Workers' Compensation) remains relatively stable, but rate pressure in the Lead Umbrella and Excess Liability space has increased at an increasing rate.
  - Individual risk characteristics are "driving" pricing outcomes as we continue to trade in a two-tier market.
  - Carriers continue to seek rate increases on accounts with poor risk profiles, while rewarding those with "positive stories" and favorable loss experience.

- **Underwriting:** Underwriting remains robust.
  - Carriers continue to focus on risk specific issues.

- **Coverages:** Coverage enhancements remain available with quality underwriting data.
  - Markets continue to review coverage grants associated with critical and leading emerging risks, including but not limited to:
    - Forever chemicals (PFAS)
    - Wildfire
    - Abuse & Molestation
    - Microplastics
    - Biometric Data
    - Cyber (BI/PD)
    - Territorial challenges (Russia, Ukraine, Yemen)
    - Traumatic Brain Injury (TBI)

- **Capacity:** Overall Umbrella & Excess Liability net deployed capacity is down YoY as insurers continued to make significant changes to their portfolio, including increasing minimum premiums, introducing "corridor" features, managing capacity deployment, requesting to be "moved up" within a tower or entirely exiting the Umbrella / Excess space.
  - While we successfully secured increased capacity on certain risks, often on a ventilated basis, we have experienced carriers reduce previously deployed capacity, reinforcing the two-tiered market theme.
  - Recent focus on intermediate capacity leading to shorter lines within intermediate layers.

- **Concerns:** Carrier partners are focused on:
  - Non owned & Hired and 3rd party hauling exposure
  - Inflation and its impact on claims
  - Nuclear Verdicts
  - Adequate attachment points on lead Umbrellas
  - Economic uncertainties
  - Global unrest, New technologies

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Primary Casualty Market Headlines 2H 2024

Clients continue to explore alternative forms of collateral. Creative solutions are paramount.

Workers' Compensation renewals averaged a -3.4% rate reduction as the favorable WC market landscape continued.

Introduction of market competition continues to yield favorable renewal results.

Markets have leveraged other coverage lines to help retain or win the primary casualty.

Inflation trends have led to even greater monitoring of actuarial reserves as well as clients increasingly exploring Loss Portfolio Transfer solutions.

Current inflationary environment continues to impact wages, medical costs and benefit levels for WC.

Exploration and utilization of Buffer and Structured programs, especially for risks with large fleets, has risen to help support increased attachment points of lead umbrella programs.

Carriers continue to evaluate coverage grants, retention thresholds and attachment points on more challenging risk profiles.

Most client exposures have increased, but an economic slowdown could have negative impact on rates if exposures begin to be impacted.

Well-funded and highly organized Plaintiffs Bar continues to negatively impact verdicts and settlements.

Umbrella / Excess Liability Casualty Market Headlines 2H 2024

Overall, net deployed capacity is down YoY as insurers continued to make significant changes to their portfolio, including increasing minimum premiums, introducing “corridor” features, managing capacity deployment, requesting to be “moved up” within a tower or entirely exiting the Umbrella / Excess space.

The Umbrella / Excess market is becoming more dynamic and have mounting concerns of market deterioration as upward rate pressure momentum continued in Q2 2024. Renewals have now experienced an average rate increase for the fifth consecutive quarter.

71% of Lead Umbrella and Total Umbrella / Excess Liability renewals experienced a renewal rate increase in Q2 2024.

Automobile Liability wrongful death claim averages continue to increase - average in 2023 was $30MM compared with $23MM in 2016 - thus putting continued pressure on structure, attachment points and pricing.

Median Top 50 U.S. Verdicts have rebounded and approaching pre-covid levels. 2022’s median value was $48.7MM as compared to 2019’s $49.65MM.

Carriers continue to focus on several critical and emerging risks including biometric privacy, Cyber (BI/PD), forever chemicals (e.g., PFAS), Microplastics, wildfire, Traumatic Brain Injury (TBI), etc.

Increased exploration and utilization of structured, buffer and other ART & captive solutions, especially for risks with large fleets and 3rd party Hired & Non-owned exposure, to help support increased attachment points of lead umbrella programs.

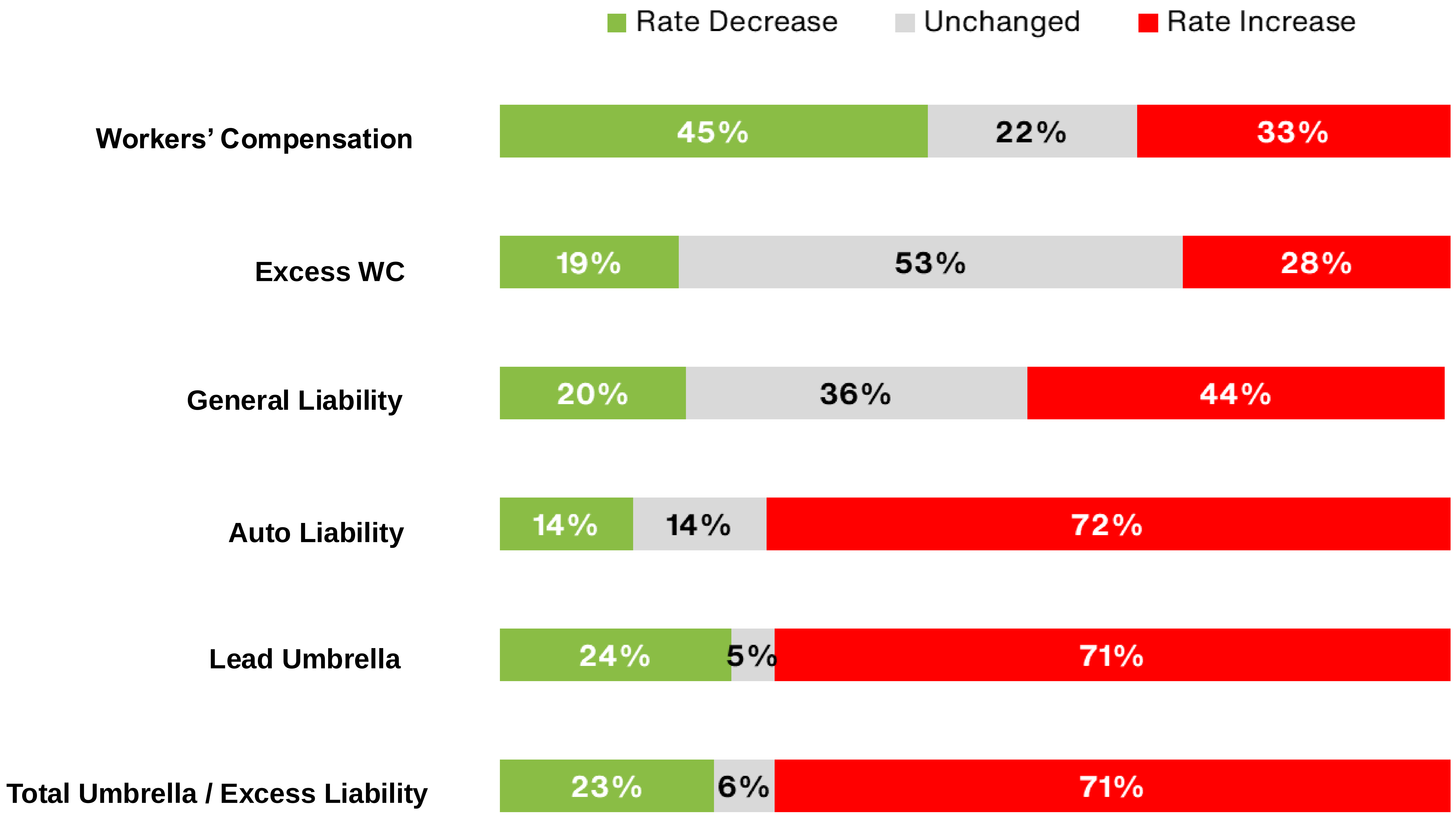
Carriers are closely monitoring annual excess claim trends of 8-10%. Assuming a 9% trend, the same claim that settled in 2010 for $20MM would be valued at $61.3MM in 2023.

Average verdict size for lawsuits above $1MM involving a truck crash has increased nearly 1,000% from 2010 to 2018, rising from $2.3MM to $22.3MM.

Litigation Finance continues to rise thus increasing potential exposure to larger / nuclear awards.

Q2 2024

Distribution of Rate Changes



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Examples of Large Casualty Loss Verdicts

Tractor-trailer struck by van resulting in fatality. Trucking company found liable as a result of inadequate driver training. $247MM in damages.

Army veterans awarded $110MM due to defective ear plugs. $30MM in compensatory damages and $80MM in punitive damages.

Company agreed to pay $55MM in penalties prior to facing criminal prosecution as a result of causing two wildfires.

School district liable for sexual abuse & molestation claim resulting in damages of $102.5MM amongst 2 plaintiffs.

Customer assaulted on premises resulting in severe injuries and traumatic brain injury. $91MM in damages awarded.

Employee assaulted customer resulting in fatality. Employer liable for damages in the amount of $337.5MM as a result of faulty hiring practices.

Cancer survivor successful in suit against chemical company for continuous exposure to PFAS. $40MM in damages awarded.

Driver of rear vehicle failed drug test following rear-end collision. Trucking company found liable for faulty hiring policies. $101MM in damages.

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Property

Q2 2024 - General Property Market Summary

	Overall Market	Single Carrier Placements	Quota Share & Layered Placements
Pricing	Property rate decreased once again from +3.4 in Q1 2024 to -0.94% in Q2 2024. This is the first time rates have been in negative territory in 27 quarters (since Q3 2017). There will continue to be rate differentiation as follows: • -10% to flat rate change for desirable accounts/occupancies, as well as predominantly Nat-Cat exposed accounts (excluding Florida (FL)) • Flat to 5% increases for loss-challenged or less desirable occupancies; • Flat to 10% or greater rate increases for FL-only accounts or significantly Nat-Cat exposed FL accounts Some clients may still expect a small increase on Sabotage and Terrorism (S&T) placements while Political Violence (PV) rates continue to increase at a higher level. Clients with S&T renewals can expect rate increases from flat to 7.5% subject to location, occupancy and loss activity. Programs that include PV are continuing to increase from upwards of +20% on expiring rates.	Average rate change for single carrier accounts in Q2 2024 was +3.1%, a decrease from +6.68% in Q1.	Shared and layered accounts decreased over the quarter from a Q1 average -0.05% to -3.18%. Average rate change for single carrier accounts quarter-over-quarter was +3.1%.

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Q2 2024 – General Property Market Summary

<table>
<tr><th></th><th>Overall Market</th><th>Single Carrier Placements</th><th>Quota Share & Layered Placements</th></tr>
<tr><td>Capacity</td><td>Given current softening/stabilization of market, many carriers are becoming more competitive with capacity and pricing. Also noticing an increase in clients using London markets. Carriers continue to look to maintain quality risks and less challenging occupancies.
Capacity for Florida Windstorm, Severe Convective Storm (SCS) and Wildfire continues to be challenged.
Capacity is becoming more readily available for CA EQ which is helping to moderate pricing for this peril.
Difference in Conditions (DIC) capacity is becoming more available as select carriers are now offering expanded capacity and new carriers in the market are looking to deploy capacity. Select wholesalers are moving into growth mode which will also support capacity and potentially ease pricing</td><td>Large, single carrier capacity is easing and is becoming more available in the large commercial space.
Capacity is adequate for well-engineered / protected risks with limited or no Nat-Cat exposures.</td><td>With increased competition among insurers, capacity continues to become more readily available for shared / layered placements, especially for desirable occupancy classes, nominal Nat-Cat and profitable historic loss ratios. Accounts with poor loss experience are still facing some challenges to obtain adequate capacity.
Non Nat-Cat capacity will be adequate for most clients.
With regard to Strike, Riot and Civil Commotion (SRCC) coverage, we continue to see the steady decline of the hard market as new capacity continues to drive competition.
In 2024, more than 40% of the global population will head to the polls for government elections. This brings greater risk for potential Strike, Riot and Civil Commotion (SRCC) loss and has been an area of concern for many carriers. Capacity providers will be keeping a close eye on these events and we continue to advise clients to renew and bind as early as possible.</td></tr>
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Q2 2024 – General Property Market Summary

	Overall Market
Deductibles / Retentions	Deductibles remained consistent for the quarter with 95.4% of clients maintaining deductible levels. The percentage of clients increasing retentions was 4.6% which is down from 5.8% in Q1 2024. There is still moderate pressure on Nat-Cat deductibles.
Limits	7.5% of clients increased limits in Q2 2024. Conversely, 4.0% of clients decreased limits in Q2. Clients maintaining limits increased slightly by 0.9% to 88.6% compared to the prior quarter. For perspective, over sixteen quarters, the average for clients maintaining their limits is 87.7%. We observed an expansion of available Nat-Cat limits.
Coverage	The overall percentage exposure change for Q2 2024 was 2%, up slightly from 1.7% in Q1 2024. Q2 2024 values reported as thus: • Building values reported at 4.6% (down from 6.2% in Q1); • Inventory values reported at 3.6%, a sharp drop from 15.6% in Q1; • Equipment values reported at 2.7%, similar to 2.8% reported in Q1 2024 • Business Interruption (BI) values decreased to flat in Q2 from 1.8% in Q1 2024.

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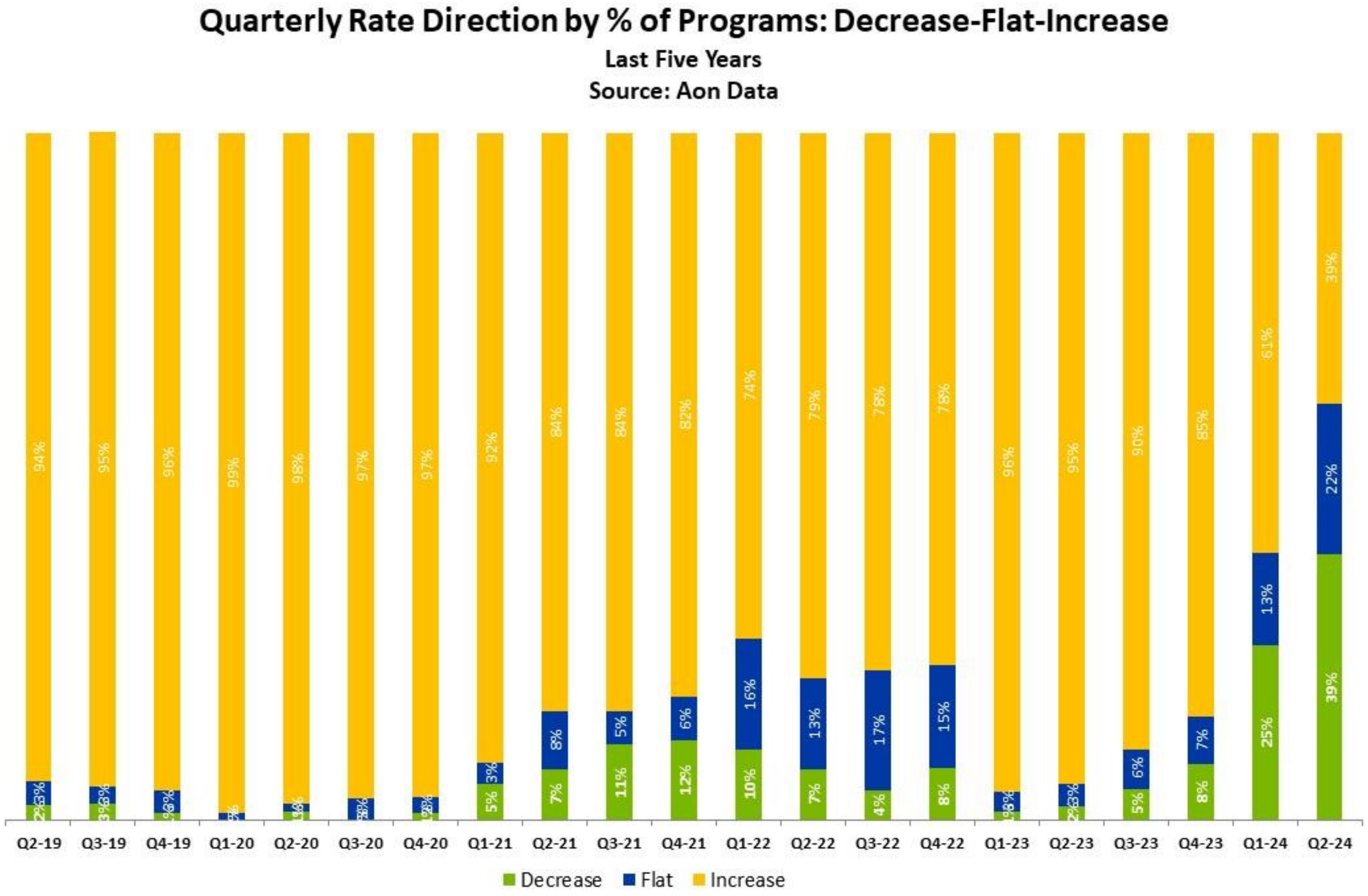
General Property – Quarterly Rate Direction by % of Programs



Programs with a rate change of +/- 2% or less are considered Flat in this analysis.

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General Property - Renewal Guidance for Q3-Q4 2024

Category	Q2 2024	Guidance for Q3-Q4 2024 Property Renewals
Pricing	↓	***Rate moderation, which generally began in Q1 2024, continued to moderate into Q2 2024, where we are seeing negative rate reported for the first time in 27 quarters since Q3 2017. We expect rate moderation to continue through Q3 2024.*** • Broad market conditions continue to moderate, especially for Nat-Cat-exposed businesses. Shared and layered accounts, per Q2 2024 account data set, are now showing negative rate for pricing (-3.18%). We expect these rate dynamics to continue into Q3. • Desirable occupancies, as well predominantly Nat-Cat exposed accounts (excluding Florida) are experiencing flat pricing and even rate reductions. • The London market, as a whole (including European markets), has seen an acceleration in reduction in rates with double-digit rate decreases on shared and layered programs with flat to small reductions on quota share vertical placements. • The Department of Labor’s July CPI reported core inflation (less food and energy) at 3.2%, the smallest 12-month increase in that index since April 2021, further suggesting easing impacts on valuations. • For Sabotage and Terrorism (S&T) placements, it is still commonplace however for clients to see a small rise in rates while Political Violence (PV) rates continue to increase at a higher level. Clients with S&T renewals can expect rate increases from flat to 7.5% subject to location, occupancy and loss activity. Programs that include PV are continuing to increase from upwards of +20% on expiring rates.

General Property - Renewal Guidance for Q3-Q4 2024 (cont.)

Category	Q2 2024	Guidance for Q3-Q4 2024 Property Renewals
Deductibles / Retentions	⟷	With rate moderation, many clients will reconsider decisions to increase retentions as a cost-control mechanism in order to avoid higher rate increases imposed to control attritional losses. We are seeing moderate pressure on Nat-Cat deductibles.
Capacity	⟷	Given stabilization and rate moderation in the market, carriers are more competitive with capacity and pricing. Clients are also leveraging capacity in London markets, as well as capacity through Aon Client Treaty. Carriers continue to look to maintain quality risks and less challenging occupancies. • Capacity for Florida Windstorm, Severe Convective Storm (SCS) and Wildfire is expected to remain challenged into Q3. Accounts with heavily exposed Nat-Cat risks may see aggressive competition from carriers, thereby potentially replacing opportunistic incumbent capacity. • Capacity is more readily available for California Earthquake (CA EQ) which is helping to moderate pricing, especially for those accounts with largest capacity from key markets. Some markets have "right sized" their business and may be inclined to quote lower in programs and even provide single-digit increases. • There are more options for CA EQ from the wholesale markets as well as retail carriers this year. • London market Nat-Cat capacity is increasing with underwriters willing to deploy more capacity at pricing deemed to be favorable to markets. • “Opportunistic carriers” may seek to deliver rate decreases to stay on program as incumbents.

General Property - Renewal Guidance for Q3-Q4 2024 (cont.)

Category	Q2 2024	Guidance for Q3-Q4 2024 Property Renewals
Limits	⟷	• Though inflation has slowly moderated over the past two quarters to 3.2% (Core), clients should continue to consider program limit adjustments to ensure adequate coverage. • Markets continue to monitor exposure to contingent business interruption (CBI) with concerns over extended and vulnerable supply chains.
Coverage	⟷	• Clients should continue to carefully review all policy limits and sub-limits, which may no longer be adequate based on previous values. When reviewing values across buildings, business interruption (BI), equipment and inventory, clients should pay close attention to impact of inflation on values, notably inventory and BI. • Contingent BI coverage continues to be very carefully underwritten.

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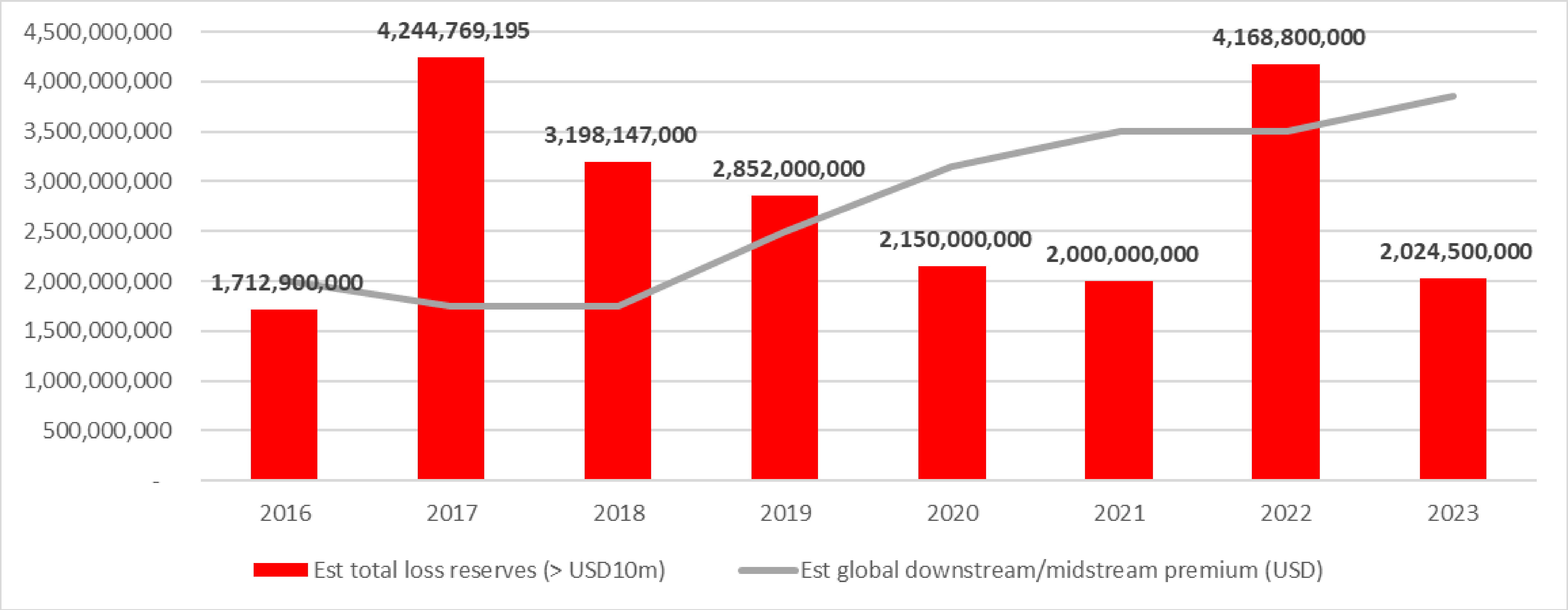
Q2 2024 - Downstream Property Market Summary

- Despite challenges over the course of 2023, capacity levels generally remained stable. Underwriters sought rate adequacy/increases on most accounts, though toward the year end, rate movement were less steep compared with renewals at the start of 2023.
- Overall market performance for 2023 appears positive. Results demonstrate profitability, with there having been just a few larger losses and some smaller attritional losses throughout the year. There has been further deterioration reported with respect to claims that occurred during 2021 and 2022 though, and understandably underwriters continue to closely monitor.
- For H2024, capacity levels have continued to remain relatively stable. There is a new market entrant, Canopius, and there is a small up-tick in capacity for some existing markets following the more positive results of the January 2024 treaty renewals (with the majority reported as having renewed at flat rates to small single digit rate increases).
- Toward the latter half of 2023, some underwriters raised concern with respect to attrition of secondary peril losses such as thunderstorms, floods and wildfires (often referred to as unmodelled Nat Cat). With great difficulty to model, they have been giving consideration as to how best they manage their exposures. In an attempt, for certain locations, some underwriters affected by these losses sought to restrict coverages including service interruption, ingress/egress and interruption by civil/military authority by reducing sub-limits and ensuring adequate waiting periods apply. Focus on these coverage restrictions has continued through H1 2024, along with close attention being paid with respect to the wordings surrounding these coverages to ensure clarity.
- Generally, for 2024, the Downstream Energy market outlook appears positive with profitability returning and stability of capacity lending to a softening rating environment from which loss free, well-engineered clients are likely to benefit.

2016-23 Downstream / Midstream Property Premium vs Losses



Estimated total loss reserves are now exceeding premium income for the period 2016-2023 by $638,216,195. This is a significant improvement from 12 months ago.

This represents a loss ratio of 103% before expenses.

	2017	2018	2019	2020	2021	2022	2023	Total
Estimated Global Downstream/Midstream Premium ($)	1,750,000,000	1,750,000,000	2,500,000,000	3,150,000,000	3,500,000,000	3,500,000,000	3,850,000,000	20,000,000,000
Estimated Total Loss Reserves (above $10m)	4,244,769,195	3,198,147,000	2,852,000,000	2,150,000,000	2,000,000,000	4,168,800,000	2,024,500,000	20,638,216,195
Loss Ratio	**242.56%**	**182.75%**	**114.08%**	**68.25%**	**57.14%**	**119.11%**	**52.58%**	**103.19%**
Number of significant losses (above $10m)	17	22	16	10	16	26	23	130

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Reinsurance Market Overview

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Q2 2024 Reinsurance Update

- The P&C reinsurance industry has enjoyed "exceptional" results over the past 18 months. Reinsurers achieved an average common return on equity of 17.6% in the first half of 2024.
- Two-thirds of the way through 2024, the reinsurance sector remains on course to produce very strong results for the second consecutive year.
- Mid-year renewals have further consolidated the positive trends at 1/1 and 4/1, setting the stage for a more competitive reinsurance market in 2025. However, the market emerging from last year's global reset is more dynamic so the ability to make informed decisions quickly, supported by data and analytics, will be key to navigating the market going forward.
- June 1 and July 1 are significant renewals for the U.S. especially Florida, Latin America as well as Australia and New Zealand. Coming at the start of the Atlantic Hurricane season, and at a critical stage in the reinsurance market cycle, these catastrophe-focused renewals are also of global significance. Overall, insurers achieved positive renewal outcomes at mid-year renewals, with property catastrophe risk-adjusted rate reductions and improvements in terms and/or coverage.
- With the hurricane season yet to unfold, the outlook for renewals in 2025 is promising. At a new high of $695 billion total reinsurance industry capital at Q1 2024 is above peak levels seen back in 2021, driven by retained earnings, recovering asset values and new inflows to the catastrophe bond market.
- Ample supply of capacity and strong underlying fundamentals should result in stable conditions for January 1 casualty reinsurance renewals. However, some reinsurers have pulled back from U.S. casualty.
- Loss development on U.S. exposures written in the soft market of 2014 to 2019, mostly related to large corporate and auto liability, remains a growing area of focus for reinsurers as has "social inflation".

Source: Aon Reinsurance Market Dynamics Report, July 2024

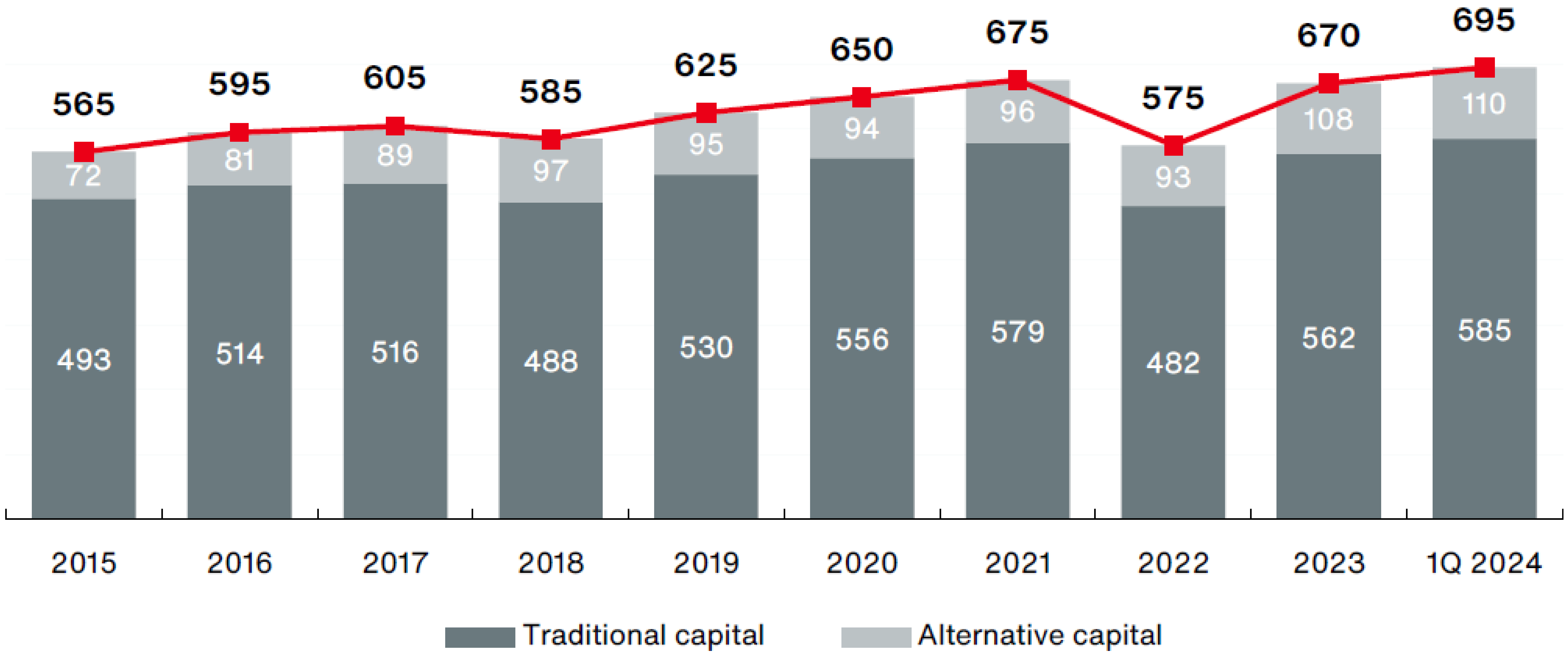
Q2 2024 Reinsurance Update (cont.)

Key considerations for reinsurers to generate a successful renewal in today's market conditions:

1. Clearly articulate your pricing and underwriting strategies, and its impact on your risk profile to differentiate your portfolio.
2. Develop a custom view of risk to de-risk and reduce exposure concentrations, improve your understanding of secondary perils and emerging risks, and optimize your placement strategy.
3. Leverage strategic consulting and analytics to refine risk appetite, adjust investment and underwriting strategies, or review business lines.
4. Consider third-party and alternative capital for optimal placement results.
5. Explore structured reinsurance covers and legacy reinsurance solutions to manage volatility and free up capital to support growth opportunities.

Source: Aon Reinsurance Market Dynamics Report, July 2024

Global Reinsurer Capital ($ billions)



Sources: Company financial statements / Aon's Reinsurance Solutions / Aon Securities Inc.

Aon estimates that global reinsurer capital rose by $25 billion to a new high of $695 billion over the three months to March 31, 2024. The increase was principally driven by retained earnings, recovering asset values and new inflows to the catastrophe bond market.

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Thank you!