DECEMBER 2019

US PROPERTY INSURANCE OUTLOOK YEAR-END 2019

MARKET OVERVIEW

The overall market for commercial property insurance continues on a tightening course as we move to close out 2019 and begin the first quarter activity for 2020.

Looking back into the second half of 2018, there were initial signs of a firming market, primarily limited to certain challenging classes of business which included food accounts, habitational / multi-family, waste recyclers, wood-frame Builders Risk, dealer's open lot, and woodworking-related industries.

Renewal negotiations for Q1 2019 saw insurance carriers expand the firming trend across additional classes of business, while targeting accounts with a challenging loss history where underwriting results had been impacted. By the end of Q1 2019 and into the mid-year renewal season, the common focus of property underwriters was to achieve significant rate increases throughout account portfolios. For certain accounts, this upward pricing pressure has been combined with a critical evaluation of existing deductible levels, along with stricter terms and conditions.

This firming trend continues to escalate as the year-end approaches, and it is expected to continue into 2020.

Forecasting beyond the first quarter of 2020 brings into play additional factors to consider. On average, the overall market has achieved a consistent level of upward pricing beginning in the later quarters of 2017. According to the Marsh Global Insurance Market Index, "Average commercial insurance pricing increased 7.8% in the third quarter of 2019, the eighth consecutive quarter of average price increases."

CATASTROPHE ACTIVITY

Compared to the prior 10-year average (2009 – 2018), preliminary estimates of global catastrophe losses during the first half of 2019 have been reported below average. Aon's Global Catastrophe Recap July 2019 report has estimated "insured losses of approximately $20 billion, down 45% from the 10-year average $36 billion." U.S. catastrophe losses represent 66%, or approximately $13 billion. Severe convective storms and large scale flooding in the Midwest and Southern regions are the two primary loss drivers during this period. Upward revisions with these initial loss estimates can be expected with further loss development.

Note – These totals do not incorporate all of the 2019 Pacific Typhoon Season, which has been the costliest season on record, just ahead of 2018. Three storms alone (Lekima, Hagibis and Faxai) were responsible for $32.4 billion in the third quarter.

Hurricane Activity:

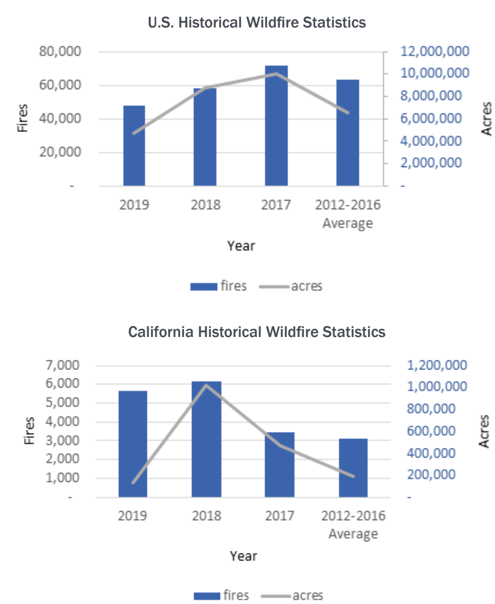
The National Oceanic and Atmospheric Administration (NOAA) reported, "The 2019 Atlantic hurricane season, which ended on November 30, was marked by tropical activity that churned busily from mid-August through October."

Overall, 2019 produced 18 Named Storms which included three major hurricanes of Category 3 and higher and marked the fourth consecutive year with above normal activity for the Atlantic hurricane season.

Wildfire Activity:

The 2019 wildfire activity in the U.S. Western states through November has not been as active compared to 2018. At the same time, it remains a significant factor for the negative

Figure 1: Historical Wildfire Statistics



Source: fire.ca.gov

THE RT PROPERTY COMMITMENT

RT Property remains the fastest growing Property team in the U.S. since the founding of RT Specialty in 2010. This team of exceptional wholesale property brokers will exceed $2 billion in premium for 2019. Full focus for this dedicated team of professionals is on delivering creative solutions for retail broker partners and insureds throughout the challenging and ever-changing property market.

"The RT Property team is prepared and well-positioned for this challenging market by retaining and acquiring the best talent in the industry. RT offers a deep bench of committed specialists who are supported by our collaborative environment. Challenges become opportunities through focused strategy while offering creative, proactive solutions," says *Brenda (Ballard) Austenfeld, Managing Director and President of RT's National Property Practice.*

CONTACT

For more information, please contact your RT Property Broker.

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underwriting results of several of the affected insurers. The Kincade fire in Sonoma County, and the Getty fire near Los Angeles resulted in significant property damage and evacuations of several buildings and residences earlier this year. Due to its unpredictable nature and the lack of historical loss data, the wildfire risk presents a challenge for the primary insurers to properly structure the protection they need with their reinsurance treaties.

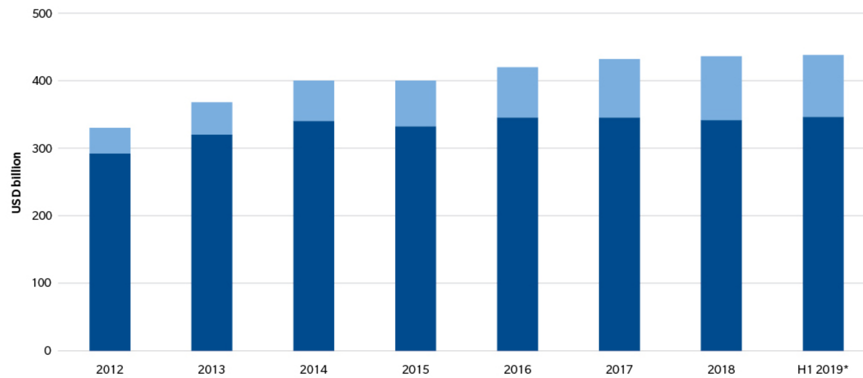
Earthquake Activity:
The mid-year Ridgecrest and Trona earthquakes in Southern California have insurers maintaining a cautious posture. As a result, there are market signals such as reduced capacity for California earthquake on recent renewals, along with changes in pricing and terms and conditions.

Flood Activity:
Flood coverage has also shown signs of firming terms and conditions along with restrictions in capacity. Risks with exposure to flood are being reviewed carefully. NOAA reported that average precipitation across the contiguous U.S., broke the record for a 12-month period, July 2018 - June 2019.

MARKET IMPACT

For the past several years, the commercial property market has been led by principal insurers offering sizable capacity to support larger accounts. Key markets including AIG, Lloyd's of London, and FM Global, among others, have amended focus and strategy. With increases in both catastrophe loss activity and intensity of attritional losses, underwriting profitability over the last several years has steadily eroded. As a result, the overall strategy for capacity deployment by these primary property markets has changed and tightened significantly. Where previously a single primary carrier could offer full layer capacity in the risk transfer portion a program, underwriters are quoting smaller line sizes and requiring pro-rata participation of. At the same time, several of the traditional excess markets are requiring higher attachment points, especially for average and below average accounts with losses. This creates the need to incorporate additional markets and place additional layers to reach the targeted limits for the risk.

Figure 2: Dedicated Reinsurance Sector Capital - 2012 to H1 2019



Source: Guy Carpenter, A.M. Best – used with permission

Additional factors impacting the tightening commercial property market include reserves from prior losses that continue to adjust upward, and the effect of valuation adjustments. Compared to prior years, underwriters are much more focused on valuations and are challenging the methodology being used for replacement cost figures.

REINSURANCE

As insurance companies move through the year to renew reinsurance treaties, the reinsurers are raising rates and tightening capacity. As a result, additional cost is being passed through to the insured, or less reinsurance is being purchased resulting in a reduction in capacity.

Until 2018, Insurance-Linked Securities (ILS), sidecars and collateralized reinsurance represented a growing percentage of the total reinsurance global capital available, however during 2019, capacity within the ILS arena has stabilized or modestly decreased.

The catastrophe losses of late 2017 that continued throughout 2018, impacted the investors of alternative capital offerings. As losses from these prior CAT events move closer to their final settlement stages, the alternative capital trapped as part of these reserves should soon become deployable again. Even with the current slowdown of alternative capital coming into the market, overall global capacity remains steady and moderately increased with the support of traditional reinsurance capital.

Refer to the Guy Carpenter chart above for estimated dedicated reinsurance capital from 2012 to H1 2019, which outlines traditional and alternative capital as part of total reinsurance capital.

LOOKING FORWARD

The current commercial property market conditions are expected to continue into 2020. This includes an environment of upward pricing pressure, selective deployment of the available market capacity, and reevaluations of coverage terms and conditions on renewals. Certain classes of business will remain very challenging including habitational / multi-family, wood-frame Builders Risk, waste recyclers, food processing, various manufacturing, dealer's open lot and woodworking, among others. In addition, renewals for catastrophe exposed risks throughout all aspects, along with continued loss experience, will be faced with upward pricing pressure and potential capacity restrictions similar to the conditions of the current market.

The volume of submissions shifting from the standard market into the Excess & Surplus market has grown at an exponential rate. Due to the shifting market appetite, the submission flow into the E&S channel could become the new "normal" based upon markets changing focus on how capacity is deployed. Quality submissions require historically detailed exposures and loss data coupled with the most advanced modeling techniques. Retail brokers who partner with experienced, creative, cutting-edge wholesale brokers will create focused strategies for insureds in today's ever-changing market.