US PROPERTY INSURANCE OUTLOOK

THE RT PROPERTY COMMITMENT

“The RT Property Team remains committed to our motto: ‘Out-Think. Out-Work. Out-Execute. Repeat.’ The combination of talent, technology and leadership of the expanded RT / RSG firm allows RT’s Property Team to raise the bar even higher for outstanding service to all our retail brokers and carriers.

“Our team is well prepared to deliver focused creative solutions for various challenges encountered as we finish 2020 and look to 2021 and beyond!” says *Brenda (Ballard) Austenfeld, President of RT’s National Property Team and Managing Director.*

2020 Atlantic Hurricane Season

The year 2020 has proven to be one of unprecedented events—from a global pandemic to a record-breaking catastrophe season across North America, as Tropical Storm Zeta is currently heading toward the U.S. Gulf Coast. The Atlantic hurricane season runs June 1 to November 30, and as of October, 27 named storms had formed—just one shy of the record set in 2005. Of those 27 storms, 24 had the earliest formation date on record for their rank. For example, Tropical Storm Fay was the earliest sixth named storm on record when it formed on July 9, almost two weeks earlier than Tropical Storm Franklin, which was the sixth named storm in 2005. This is only the second year on record to exhaust the entire list of names and subsequently use letters from the Greek alphabet to name storms. Hurricane Delta made landfall on October 9 in Louisiana as the tenth landfalling named storm in the U.S. in 2020, breaking the previous 104-year-old record of nine such storms set in 1916.

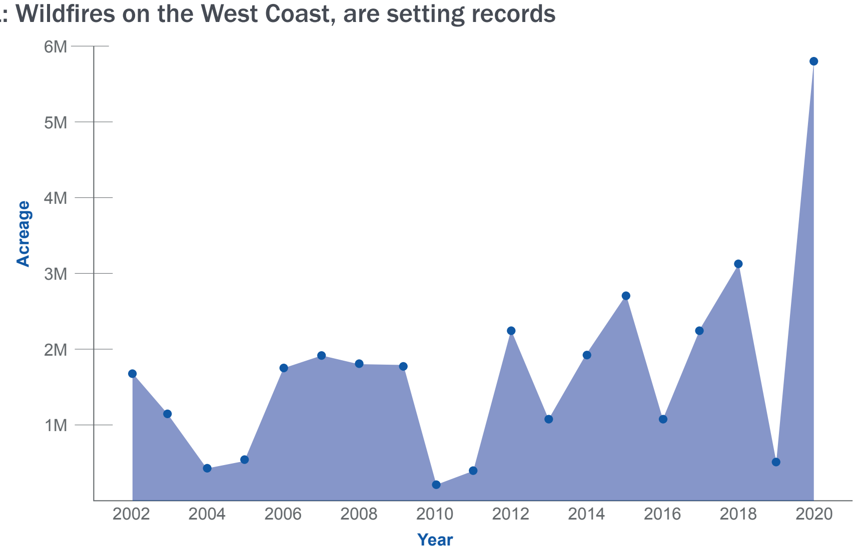
Fortunately, most of the storm systems have been relatively weak, despite the record-breaking statistics seen just midway through this hurricane season, but there are a few notable exceptions. Hurricane Delta (landfall October 9, CAT 2) caused flooding and windfall damage near Lake Charles, Louisiana, which further complicated loss estimates from Hurricane Laura (landfall August 27, CAT 4), as their paths were in close proximity to one another. Hurricane Laura made landfall in southwestern Louisiana and southeastern Texas in late August as the tenth-strongest U.S. storm by wind speed on record. At this time, property damage is estimated to be in excess of $10 billion in damages. Hurricane Sally made landfall as a Category 2 storm on September 16 near Gulf Shores, Alabama with current loss estimates in excess of $5 billion. In a typical storm season, the Atlantic basin averages only one named storm after mid-October. The current weather patterns continue to differentiate the year 2020 and make it plausible to exceed this named storm average into early November.

Northwest Wildfires

On the other side of the continental U.S., wildfires in California, Oregon and Washington, fueled by high temperatures and dry terrains, are setting records of their own. The August Complex fire in California burned in excess of 1 million acres, raising it from a “megafire” to a new classification of “gigafire.” According to data published by the National Interagency Fire Center, the number of wildfires across the U.S. has decreased in recent years, but wildfires are becoming significantly larger and causing more widespread destruction. (See Figure 1) Furthermore, in California, five of the 20 largest wildfires recorded in the state’s history occurred during this year’s wildfire season.

As of September 30, over 5.8 million acres have burned, surpassing the worst previous year and illustrating a trend that wildfires are becoming

Figure 1: Wildfires on the West Coast, are setting records



Source: nifc.gov

CONTACT

For more information, please contact your local RT Property broker.

more destructive and widespread. Many surplus lines insurers are stepping in to fill the void of admitted capacity where wildfire exposure is becoming too great a risk for some standard markets.

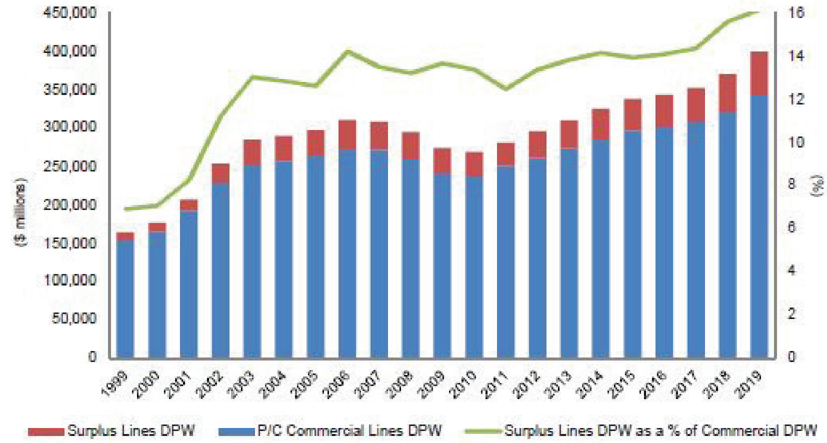
While 2020 has been a record-breaking year of catastrophic events, it is not an outlier when considering the trends from the previous decade. Extended claims development, or “loss creep,” related to recent years of catastrophic claim activity is a major driver of the tightening property market. Loss creep from prior hurricanes and wildfires in 2017, 2018 and 2019 were unanticipated by insurers, with losses continuing to develop adversely. The current adverse loss development estimates from Hurricane Irma in 2017 and Hurricane Michael in 2018 range from 35% to 45% above initial estimates. California wildfires in these same years have surpassed the combined loss of any previous 10-year period.

Market Overview

As we are in the final quarter of 2020, the commercial property market continues to tighten. According to the Marsh Global Insurance Market Index, “average commercial property pricing in the U.S. increased 22% in the second quarter of 2020 and 19% year-over-year.” We are seeing a greater shift of business to the Excess and Surplus Lines market as risks become increasingly complex and unique given technological advances, profiles become higher-risk, new challenges emerge from COVID-19, supply chains become disrupted, and catastrophic activity increases. The price and coverage flexibility coupled with the specialized underwriting offered in the surplus lines market has provided solutions to what were once single-carrier placements, which are becoming increasingly rare. The surplus lines market accounted for 16.1% of the commercial lines industry in 2019 – a more than five-fold increase since 1998 according to A.M. Best. (See Figure 2)

In the first six months of 2020, stamping and service offices reported almost $20 billion worth of premium, up 10.3%

Figure 2: Surplus Lines DPW as a % of P/C Industry Commercial Lines DPW, 1999-2019



Source: ©A.M. Best - used with permission

over the same period the year before, according to the 2020 mid-year report from the Wholesale & Specialty Insurance Association (WSIA). Overall, the market has measured a commercial property composite rate increase for seven consecutive quarters. This upward pricing pressure is expected to continue for the remainder of the year and into 2021.

Many insurers are reassessing underwriting positions and lowering individual limit offerings while closely managing their capacity deployment. Many risks now require restructuring at renewal and multi-carrier participation in shared and layered programs in order to achieve target limits. Underwriters are emphasizing the importance of risk selection on every account, thereby prioritizing submissions with ample and quality data. Accounts demonstrating proactive risk management, especially with the perceived risks resultant from the ongoing pandemic and civil unrest, will have a much greater chance of obtaining favorable terms from insurers. Several insurers are also increasing the use of facultative reinsurance to lower risk positions. All of these factors combine to create significant drivers for upward rate levels and exacerbate pricing pressure.

Carriers are, in many instances, modifying policy forms and issuing additional amendatory endorsements in response to the increasingly challenging risk environment. Most recently, there has been a trend by insurers to adjust policy wording in an apparent effort to reaffirm or reiterate their positions concerning coverage for losses occurring globally related to COVID-19 and civil unrest. Policy language requires close evaluation, especially pertaining to business interruption triggers, policy definitions and occurrence limit of liability wordings. Underwriters continue to reevaluate and modify existing manuscript policy forms, causing a gradual shift in the property market towards more standardized underwriting policy forms. The RT Property team recommends starting renewal planning early with our retail trading partners in order to adequately address the changing market and negotiate alternatives well ahead of renewal dates.

All individual market segments and classes of business are experiencing the effects of increased pricing, capacity restrictions and tightening coverage terms to varying degrees. The segments and classes seeing the most challenges continue to include habitational, agricultural, high-risk manufacturing, woodworking, hospitality, recycling and dealer’s open lot. Accounts with above-average exposures to flood, convective storm, hurricane, earthquake and wildfire are especially prone to the effects of the hardening market.
In response to the reduced capacity and

more restrictive coverages, the property market is slowly adjusting with new carrier and facility entrants offering new alternatives. London-based capacity continues to increase; certain syndicates and London-based carriers now sense a greater opportunity to expand further into the U.S. property market. Lloyd's of London has taken a lead in developing stand-alone coverage options to meet the increasing demand for insurance voids caused by stricter underwriting criteria and capacity limitations. Examples include specialized coverages to address pandemic business interruption exposure and the deployment of more capacity for the U.S. catastrophe-exposed property segment. Existing terrorism and political violence facilities are expanding offerings to include stand-alone coverage for strikes, riots and civil commotion (SRCC) perils in response to exclusions rapidly developing within the marketplace. Higher rates and premium increases have attracted additional interest from Bermudian markets to increase participation in these segments as well.

The long-term impact of COVID-19 on the property market remains uncertain. Numerous claims have been reported and reserved, especially for business income loss related to either supply chain interruptions or a decrease in demand in the hospitality, restaurant and entertainment sectors. Many insurers are introducing stricter policy language to reaffirm their stances on contagious disease exclusions and a lack of coverage for business interruption losses where the requisite physical damage trigger is absent. Carriers still face evolving challenges and uncertainties resulting from the ongoing pandemic, including an uncertain legislative and litigation landscape. The potential creation of a federal-level program for future pandemics, similar to the government backstop for terrorism losses, remains a source of uncertainty as well. RT and Ryan Specialty Group will continue to closely monitor the developing insurance, regulatory and legal terrains concerning the COVID-19 pandemic.

Builder's Risk Update

The U.S. Builder's Risk market has continued to contract and firm in the second half of 2020. This segment of the industry was deemed "essential" by most state and local government responses to the ongoing COVID-19 crisis, which allowed continued progress on active projects. Many projects nonetheless have experienced delays, causing challenges for insurance contract extensions. Communication with insureds leading up to policy expiration is critical and should begin far in advance in order to provide best available terms. Many insurance companies who purchased facultative reinsurance have now lost that capacity and the challenge of replacing their participation has become difficult and very costly.

The wood-frame multi-family construction market remains in high demand for Excess and Surplus Lines capacity. Large frame fire losses have continued to occur throughout the year. (See Figure 3) This has resulted in further restrictions to the terms of coverage, reduced capacity and increased rates and deductibles. Quality information for underwriting remains critical in order to secure terms.

Figure 3: US Frame Builder's Risk Fires
Jan 1 - Oct 15, 2020

Date of Loss	Location	Loss Estimate	Cause of Loss
10/14/20	Katy, TX	$30,000,000	Under Investigation
9/16/20	Los Angeles, CA	$31,000,000	Under Investigation
8/25/20	Phoenix, AZ	Total	Under Investigation
8/22/20	Dallas, TX	Total	Undetermined
8/21/20	Somerville, NJ	$15,000,000	Undetermined
8/20/20	Seattle, WA	$5,000,000	Arson
8/11/20	Durham, NC	$1,000,000	Arson
8/4/20	St Paul, MN	$35,000,000	Arson
7/23/20	Reno, NV	Partial	Arson
7/16/20	Everett, WA	$30,000,000	Under Investigation
7/6/20	Highlands Ranch, CO	$2,000,000	Flammable Liquids
7/2/20	Concord, CA	Partial	Fireworks
6/19/20	Asheville, NC	Total	Arson
6/7/20	Phoenix, AZ	Total	Arson
5/31/20	Columbus, OH	$25,000,000	Arson
5/27/20	Minneapolis, MN	$33,500,000	Arson
4/13/20	West Des Moines, IA	Partial	Undetermined
4/11/20	Seattle, WA	Total	Undetermined
2/27/20	Savannah, GA	$80,000,000+	Undetermined
2/23/20	Rocky River, OH	$7,000,000	Undetermined
2/8/20	Alexandria, VA	$48,000,000	Trash Chute
1/12/20	Bound Brook, NJ	Total	Arson
1/12/20	Jacksonville, FL	$16,500,000	Undetermined
1/9/20	Ashland City, TN	Partial	Undetermined

Security for all types of projects has become a focal point. Most insurance companies require job site security, ranging from in-person onsite monitoring to video surveillance. Insurers also are utilizing third-party firms to provide additional risk management products for project sites. Specific products for wood-framed fire protection and water flow management systems, for example, have been viewed more favorable than others and have been embraced by insurers operating in the Builder's Risk arena.

Overall, we expect demand for Builder's Risk coverage to remain static due to the ongoing housing shortage of single and multi-family homes across the U.S. We expect the events from 2020 will continue to expand development to all parts of the country. Civil and infrastructure investment remains a large need, with projects gaining footing in early 2021. Although the Builder's Risk marketplace seems ready to meet these anticipated demands, starting the marketing process well in advance with detailed and accurate information is highly beneficial.

Reinsurance

Reports from major reinsurers indicate capacity will continue to be priced and deployed on a selective basis. Property reinsurance treaty renewals through mid-year 2020 resulted in significant rate increases due to less capacity available from reinsurers. The effects on the primary markets are two-fold: reinsurance rate increases have become a pass-through cost to policy premiums, creating an additional driver to increase renewal pricing at the insured level; and several primary and excess insurers are deciding to purchase less reinsurance, which results in a reduction in capacity offerings. Refer to the Guy Carpenter U.S. property catastrophe index ROL (Rate On Line) for the first half of 2020, which demonstrates a 12% increase year-over-year for treaty reinsurance renewals. (See Page 4, Figure 4) Major drivers for the rise include significant CAT losses, including the

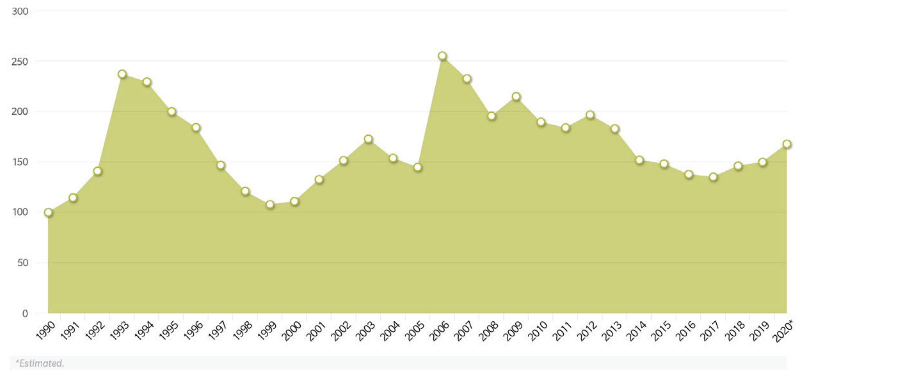
WELCOME ALL RISKS TO THE RT / RSG TEAM!

RT Specialty and Ryan Specialty Group are excited to welcome All Risks to our talented team of insurance specialists! The combination of All Risks and RSG brings the overall RSG employee count to 3,300+ with more than 70 offices across the United States, the United Kingdom and Europe. Together, we are projected to handle an impressive $15 billion in premium during 2020.

Patrick G. Ryan, Founder, Chairman and CEO of Ryan Specialty Group, explains the strategy of combining these two outstanding companies, commenting, "The world has become a much riskier place, and our clients' needs have expanded. As hazards continue to evolve, they are becoming larger and more complex. Social inflation liability, cyber and transactional exposures, among a myriad of other emerging and ever-present unforeseen threats, require forward-thinking responses.

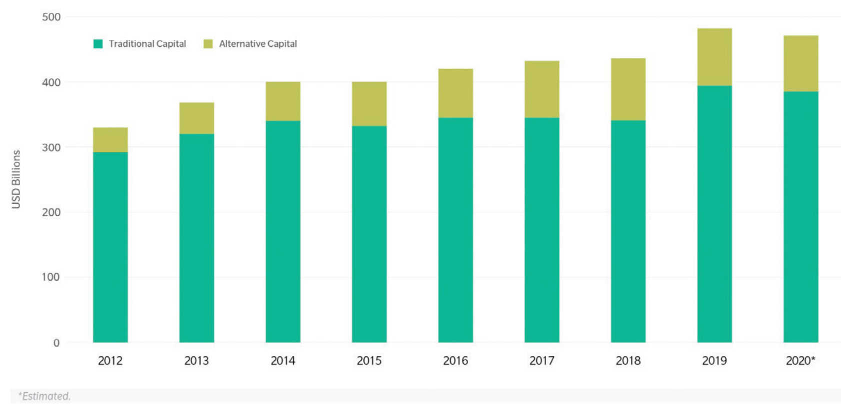
"To provide our clients the best solutions, we have brought together an exceptional group of brokers and underwriters. Along with the extraordinary talent that All Risks brings to the group, there are over 36 superb specialty programs, an industry leading training and development platform in All Risks University, and a deep, complementary culture. Further strengthened by the former All Risks team, Ryan Specialty Group is in prime position to continue to be nimble and innovative as we create products and find the answers that meet the ever-changing needs of the industry."

Figure 4: Guy Carpenter United State Property Catastrophe ROL Index 1990 - 2020



Source: https://www.gccapitalideas.com/2020/09/15/chart-u-s-property-catastrophe-rate-on-line-rol-index-1990-to-2020/

Figure 5: Dedicated Reinsurance Sector Capital: 2012 - 2020



Source: https://www.gccapitalideas.com/2020/09/16/september-2020-dedicated-reinsurance-capital-update/

increase of convective storm and wildfire activity during the second quarter of 2020, along with the uncertain impact of COVID-19. In evaluating the rise in Guy Carpenter's ROL index since the end of 2017 and onward, 2020 represents the sixth consecutive year with at least ten separate billion-dollar disasters.

Dedicated reinsurance capital has fallen by 2.4% since year-end 2019. As of September 2020, Guy Carpenter and A.M. Best jointly estimate capital at a level of $471 billion. (See Figure 5) Traditional capital is estimated at $385 billion, down 2.3% for the period, and alternative capital is estimated at $86 billion, down 2.7%. A Guy Carpenter report recently stated, "It is becoming increasingly evident that an above-average catastrophic year combined with losses relating to COVID-19, as well as lower reserve releases from prior years, will result in a capital loss for many reinsurers. We continue to believe that the reinsurance sector is resilient to the many challenges confronting it."

Looking Forward

Overall, the property and reinsurance markets remain under pressure, with specific industry segments more challenged than others. Market conditions as influenced by the continuing pandemic have created new uncertainty, especially regarding the industry's long-term financial results and coverage offerings. Renewal outcomes are expected to vary significantly depending upon individual account characteristics, catastrophe exposures and loss experience. Going forward for the remainder of 2020 and into 2021, tightening conditions are expected to continue, but there are some signs of stabilizing as the markets continues to adjust. New alternative capital and facilities entering the market will also help drive more predictability in the future.