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PROPERTY MARKET UPDATE

Q1 2024

INTRODUCTION AND MARKET OVERVIEW

All in all, clients with excellent loss experience should feel a lot more optimistic going into their 2024 renewals.

The catastrophic events of the past few years have presented many challenges to both the insurance and the reinsurance sectors along with the consequences of the broader economic impact on clients. We share in our clients frustrations at having been impacted by year-on-year compound rate increases for six years.

The treaty reinsurance market at 1.1.24 has been far more orderly than in the prior year, encouraged by a benign 2023 USA hurricane season and the prospect of much improved annual underwriting results for both insurers' and reinsurers'. This is despite global cat insured property losses likely to exceed USD100 billion in 2023, with this amount being largely driven by severe convective storm losses in the USA, which are currently estimated to be totaling around USD60Bn.

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In recent weeks, there have been some encouraging signs from London property insurers with many advising that they have increased capacity for 2024, both in terms of overall aggregate and in a number of instances, increased line size for 2024 renewals. Some of the additional capacity will also come from internal carrier capacity redeployment from less profitable lines of business or where they have closed down their trading divisions, as has been the case in a few instances where syndicates are no longer trading in treaty reinsurance.

Initial indicators are that with inflation easing, property valuation increases will be moderated for 2024 renewals. An improvement in capital to the property sector whether externally raised or internally redeployed will certainly assist in our 2024 renewal negotiations.

We very much value your continued support over the past years and look forward to continuing our trading relationship throughout 2024 and beyond.

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US MARKET VIEW

KEY FACTORS

- Numerous reports of smoother end-of-year treaty renewals. Reinsurer's generally maintaining high attachment points on Cat Excess of Loss (XOL) programs at flat to modest rate increases on clean programs. Higher layers on programs tending to be oversubscribed. Risk excess placements were an outlier, seeing larger rate uplifts and tightening of terms.
- Increased excess and surplus lines (E&S) capacity for both Cat and non-Cat businesses. Insurers are generally looking to grow their top line, increase their line sizes etc. with more internal capital allocated to primary property insurance following excellent results in 2023.
- Further expansion of facility/consortium arrangements in the form of market tracking facilities and algorithmic follow syndicates. This will inevitably have a dampening impact on the rating environments for underwriters but is very positive for insureds.
- While there is clearly more appetite for Cat risk than in 2023, E&S markets will also focus on growing non-Cat exposure within portfolios to 'balance the books' and reduce overall volatility.
- Insurance to value adequacy still very much part of the conversation in 2024; however, if clients have been trending values correctly in recent years, expectations are of a more muted impact from inflation on reported insured values.
- Perception is of comfortable rating adequacy on critical catastrophe accounts following six years of rate increases. However, secondary perils will come more into focus following circa USD60Bn of USA severe convective storm losses in 2023. Secondary perils also include wildfires, winter storms, and floods.
- Higher levels of deductible are expected to hold, with underwriters maintaining discipline in this regard, with the main battleground being around pricing.
- RMS's new Cat model (V23) has been released, increasing modeled output for named windstorms in the Gulf Coast and Floridian regions. There is much debate as to when this model will be adopted by markets and therefore, whether it will impact pricing in 2024, and by how much. The prevailing sentiment is that attaining model-driven rate increases will be challenging in a more abundant marketplace.

KEY FACTORS CONTINUED

- Certain classes will remain challenging due to loss of experience, including habitational, food, and agribusiness.
- Alternative risk transfer (ART) mechanisms such as parametric, captive, and ART solutions will continue to be viable alternatives for buyers in what remains a historically firm market.

In summary, it is apparent already in 2024 that the supply side of the equation is certainly improving for insureds. Despite the above, we do not expect carriers in the Direct and Facultative (D&F) space to give up hard-fought gains in rate, terms/conditions and deductibles easily.

However, whilst recognizing the fact that we are still in a historically challenging phase of the insurance cycle, insureds can take solace in the fact that the extreme rating uplifts of the last six years are losing momentum. Brokers will clearly have access to additional capacity in 2024 to leverage better outcomes for buyers who could be forgiven for feeling the hardening phase would never end.

ALTERNATIVE RISK TRANSFER (ART) UPDATE

With the increased pressure from the hard market outlined by our property colleagues, we have seen greater focus and interest in ART products, including Retained Risk Financing programmes, Parametric solutions, and Loss Portfolio transfers.

The use of ART products has enabled risk managers/CFOs to alleviate some of the pricing pressures, deductible increases, and restrictions of coverage being imposed, as well as remove volatility to their balance sheets, take more control in the primary space of their programmes, and build for the future.

It has also been useful as a conversation starter or to reaffirm our innovation to existing and prospective clients, and in a lot of cases, it is not appropriate for clients but has proven successful in defending against other brokers and also obtaining better terms from the traditional markets.

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ESG UPDATE

Climate change has led to the increasing frequency and severity of natural catastrophes impacting either directly, on a company's physical premises, or indirectly through non-damage business interruption, to their operations or supply chains.

As climate risks continue to grow, we recognise the need to address the increasing physical risks faced by business and communities across all client sectors and to build greater resilience. In addition to traditional insurance, parametric insurance, an alternative risk transfer tool, can help clients' strengthen their capacity related to climate and disaster risk and improve climate resilience against the impact of weather risk either directly, on a company's physical premises, or indirectly through non-damage business interruption, to their operations or supply chains.

To better deliver these services we recently announced the creation of the newly formed 'Parametrics centre of excellence'. This will draw on the combined expertise of the analytics team, alternative risk transfer team and climate strategy team to deliver enhanced advisory, modelling and placement capabilities to Alesco.

JAMES BOSLEY
HEAD OF CLIMATE STRATEGY

MOODY'S RMS NORTH ATLANTIC HURRICANE MODEL VERSION 23 UPDATE

EXECUTIVE SUMMARY

Moody's RMS released its latest version of the North Atlantic Hurricane Model in June 2023. It is a significant update with changes being made to geocoding, event rates, (both long- and medium-term) hazard, vulnerability data, post-event loss amplification (PLA), as well as new functionality within the software that allows users to create custom post-event loss amplification scaling.

The update is informed by new hurricane activity and loss data from recent events, new building code information/adoption, over USD6B in new claims data for both residential and non-residential properties, changes to reflect new legislation in Florida as well as Florida Hurricane Commission requirements.

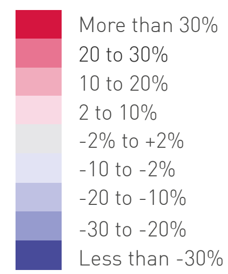
HOW DOES ALL OF THE ABOVE AFFECT THE MODELED LOSSES?

Losses change in all North Atlantic hurricane modeled countries in Version 23. The exact magnitude of change varies by country, region, exposure and building characteristic combination, and return period. The largest contribution to the overall Version 23 modeled loss changes comes from the vulnerability update, which has the broadest range of impacts on both client portfolios and the US Hurricane IED, depending on the mix of primary characteristics coded.

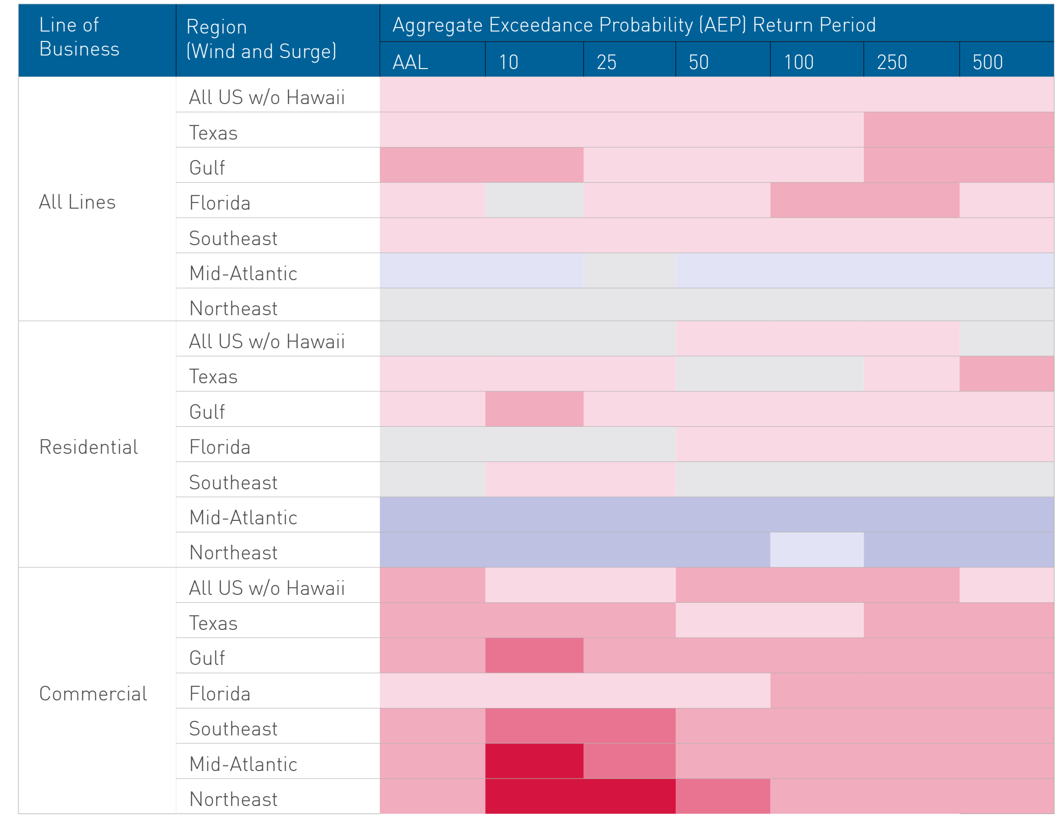
Moody's RMS has run analysis on their 2021 US Hurricane Industry Exposure Database (IED), and the table on the right shows the changes by region and class of business for various return periods and on an average annual loss (AAL) basis. The same version of the IED was used for both Version 21 and Version 23 calculations, so only the changes due to the model are shown.

Table 1: Percentage change in aggregate exceedance probability gross U.S. loss changes from Version 21 to Version 23 for (a) long-term rates and (b) medium-term rates. Ranges based on the 2021 U S Hurricane IED.

Source: Moody's RMS



(a)



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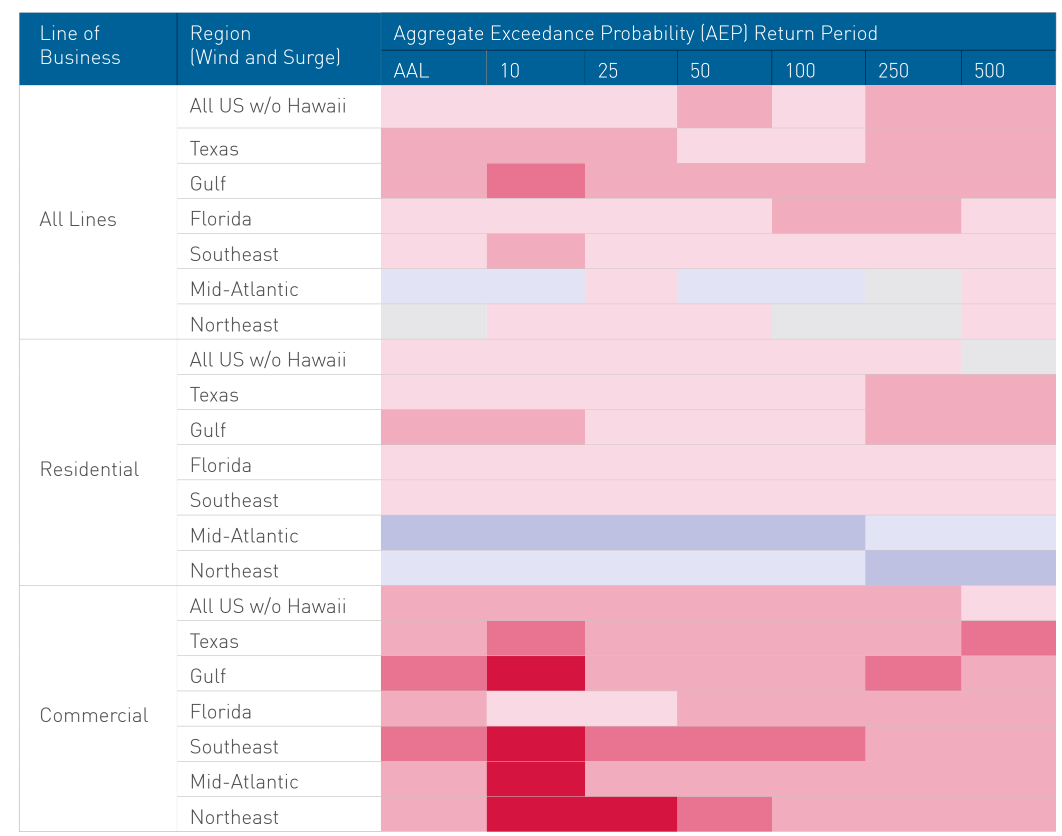

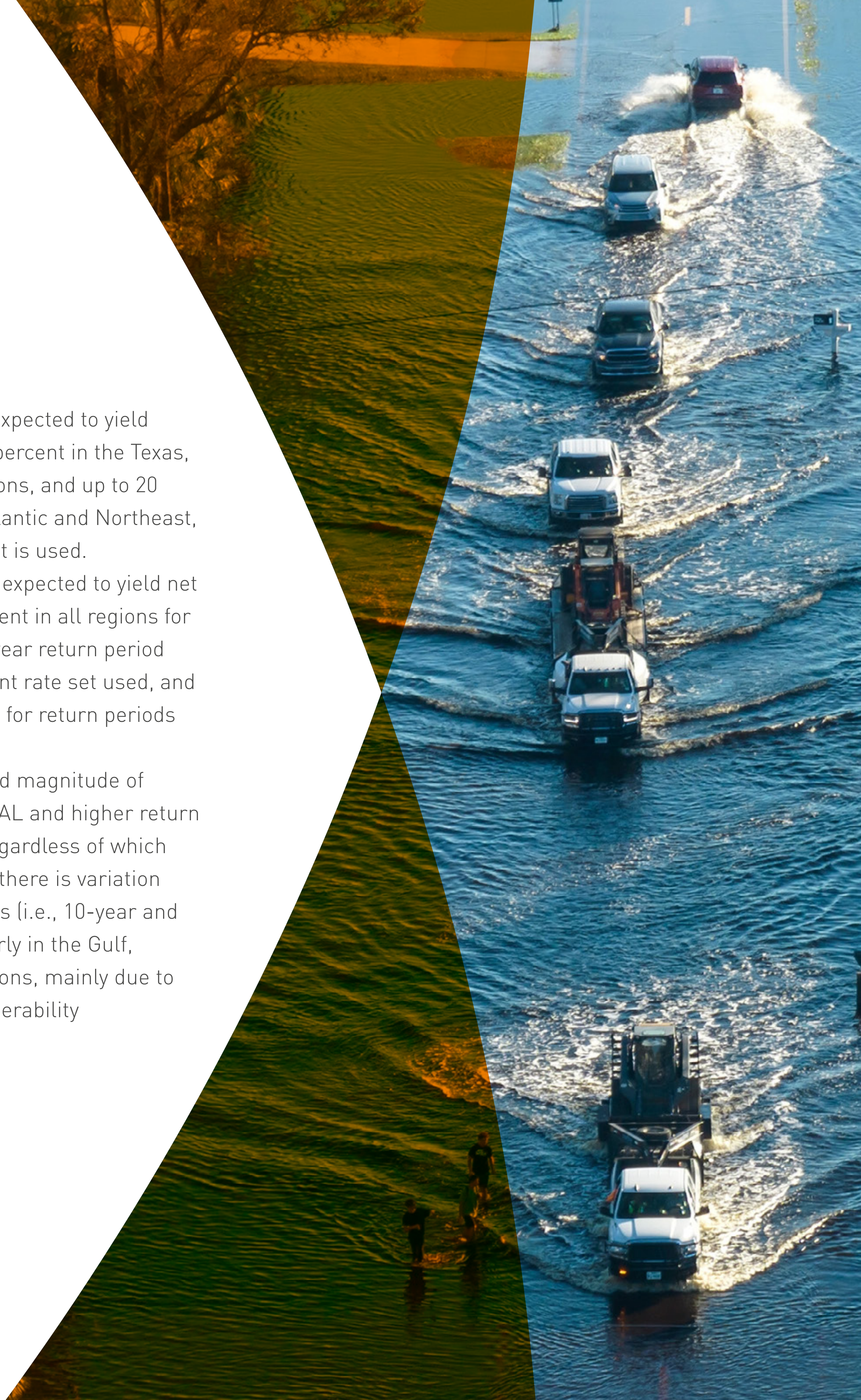

WHAT ASPECTS OF THE MODEL ARE DRIVING CHANGE?

- Vulnerability updates are the biggest driver of loss changes in most US regions and across most return periods, regardless of which event rate set is used. Event rate updates (both long and medium-term) have the largest impact in the Gulf, and both hazard and PLA updates have the largest impacts in Florida.
- When medium-term rates are used, overall changes for all mainland US hurricane states as one region, across all lines and all model components are up to 20 percent increases in loss. At the regional level, we expect up to 30 percent loss increases in Texas, Gulf, Florida, and the Southeast, and +/- 10 percent change in losses in the Mid-Atlantic and Northeast.
- When long-term rates are used, overall changes for all mainland US hurricane states as one region, across all lines and all model components are up to 10 percent increases in loss. At the regional level, changes range from up to 20 percent loss increases in Texas, Gulf, Florida, and the Southeast, and up to 10 percent loss reductions in the Mid-Atlantic and Northeast.
- Updates to residential lines are expected to yield net increases in loss of up to 20 percent in the Texas, Gulf, Florida, and Southeast regions, and up to 20 percent reductions in the Mid-Atlantic and Northeast, regardless of which event rate set is used.
- Updates to commercial lines are expected to yield net increases in loss of up to 30 percent in all regions for the average annual loss and 50-year return period and higher, regardless of the event rate set used, and increases in excess of 30 percent for return periods less than 50 years.
- In most regions, the direction and magnitude of changes in loss are similar for AAL and higher return periods (50 years and higher), regardless of which event rate set is used. However, there is variation amongst the lower return periods (i.e., 10-year and 25-year return period), particularly in the Gulf, Mid-Atlantic, and Southeast regions, mainly due to the updated event rates and vulnerability model components.

Source: Moody's RMS

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Individual client portfolio losses can vary considerably from the IED, which relies heavily on the building inventory database, which was also updated in Version 23. The materiality of changes in some client portfolio losses, which code more primary characteristics and rely less on the building inventory database to supplement unknown information, differs from the range of changes observed in the IED, which uses assumptions from the building inventory for unknown primary building characteristic classes.

Based on our own analysis of our clients' portfolios, we have seen increases ranging between +5 percent to +40 percent with some of the largest increases seen in hotels as v23 now takes into account landscaping and signage, with interior losses also increased to account for the impact of water intrusion based on updated claims data.

Retail and warehouse occupancies have also seen increases, this is driven by better knowledge and data from claims, education institutions, particularly schools have seen smaller increases, these are driven by lower maintenance and the fact that gymnasiums are vulnerable to water intrusion damage.

Restaurants located within offices or retail premises have seen small decreases as they are less vulnerable compared to stand alone retail/warehouse premises.

It is worth noting that changes in modeled losses, regardless of model versions, are dependent on a number of factors, such as data quality, completeness of COPE information, region, occupancy, and many more factors, so the above update is designed to be a high-level overview of some of the key changes rather than being client specific.

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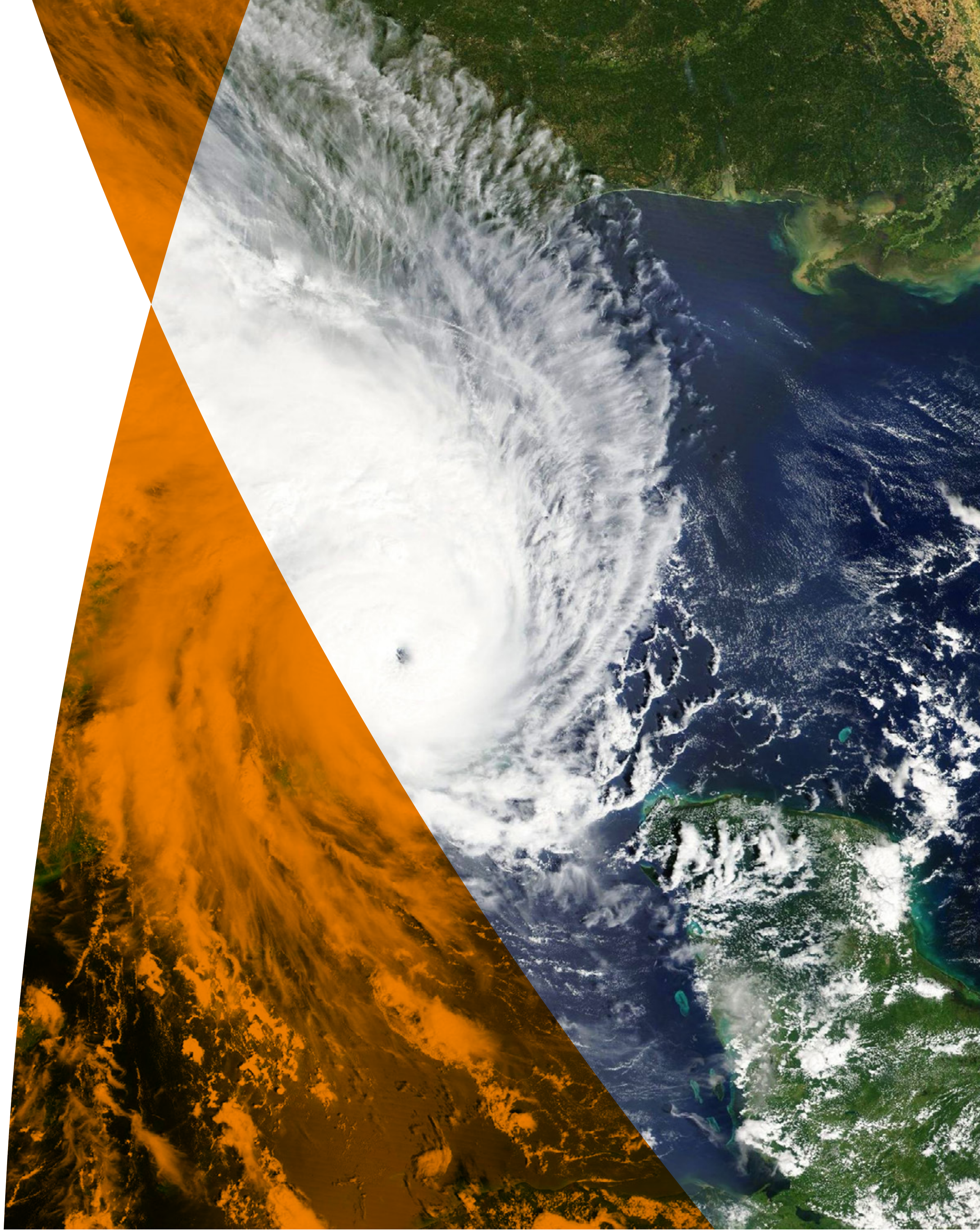

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