Client Briefing – Post COVID-19

Navigating the Insurance Market

Speakers

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Agenda

01 | Reinsurance Market Overview

02 | Insurer Solvency and Loss Estimates

03 | After COVID-19: Claims in the Hard Market

04 | Credit Specialties: Lockdown Challenges And Response

05 | Directors and Officers Liability: Pre And Post COVID-19

Reinsurance Market Overview

James Nash, International CEO,
Guy Carpenter

Market Resilience: A Retrospective
1990 to 2019

	Characteristics	New Capital	Reduction of Reinsurance Capital	Insurance Impact	Reinsurance Pricing Impact
World Trade Center	▶ $40bn Loss ▶ US casualty reserve development ▶ Financial market volatility ▶ End of prolonged soft market	$ 28.6bn	Significant	Hardening of pricing across all lines	24%
SARS	▶ Localised Insurance Loss	Nil	Nil	Localized coverage changes	Nill
Global Financial Crisis	▶ Asset Market volatility ▶ End of prolonged soft market	2008-2019 alternative capital has grown by $70bn*	18%	Limited	8%

* Growth in alternative capital from $18bn in 2008 to $88bn in 2019

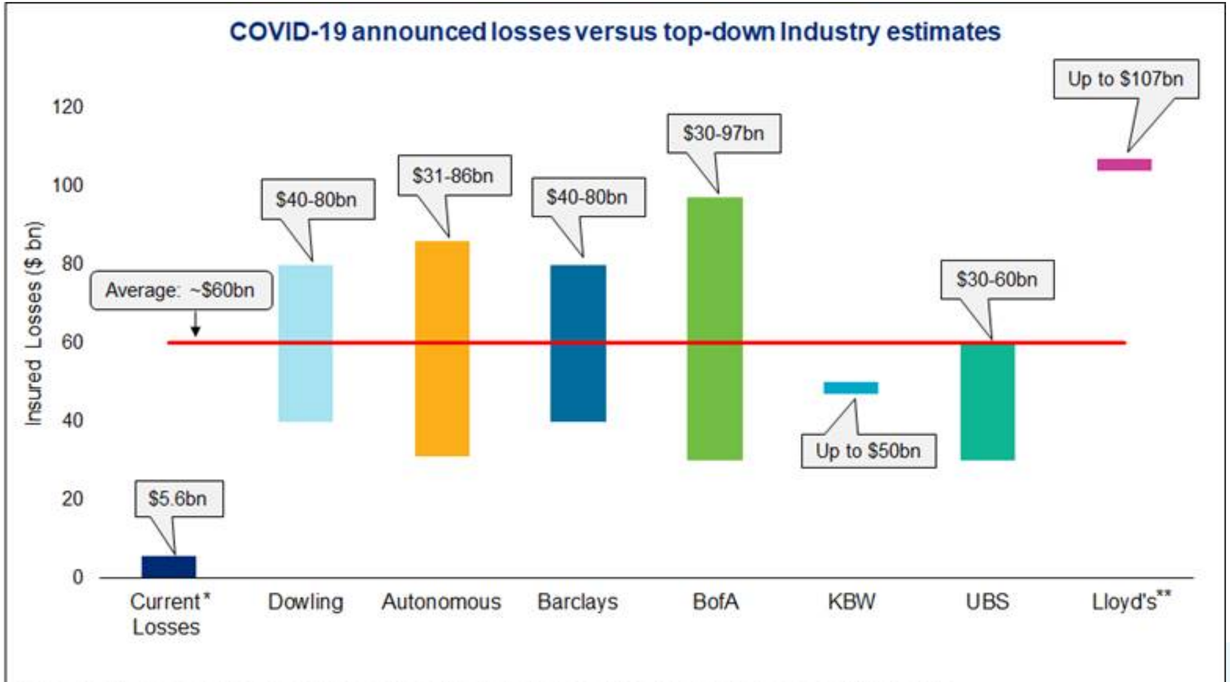
Market Resilience: COVID-19

	Characteristics	Dedicated Reinsurance Capital Reduction	Market
	▶ In excess of $50bn Loss* ▶ US casualty reserve development Asymmetric Loss ▶ Financial market volatility ▶ End of prolonged soft market ▶ Global economic slowdown ▶ Solvency II & Enhanced regulation	Currently 6%	▶ Enhanced exclusionary language ▶ Market scrutiny regarding go forwardd exposure to virus/ pandemic ▶ Reinsurer sensitivity to capital at risk during economic uncertainty, financial market volatility and unknown loss impacts

* Loss based on midpoint of current industry losses

COVID-19 Loss Estimations To Date

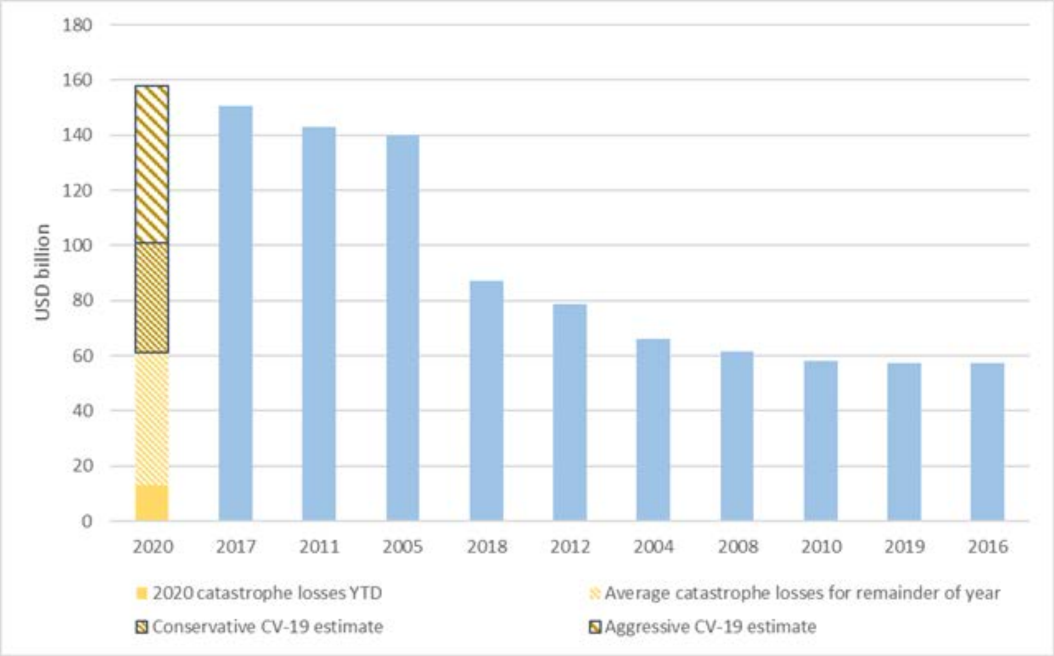
The average industry loss consensus is $60bn



Source: Dowling Group, Artemis Autonomous Research, Barclays, Bank of America, KBW , UBS, Lloyd's; Updated as of 27 May, 2020
*Note 1: *Represents the consolidated CV-19 losses in BI Q1 2020 Earnings Summary list, as of 27 May, 2020.*
*Note 2: **Lloyd's estimate is for underwriting losses from CV-19. This includes claims as well as anticipated lower profits due to lower premiums.*

COVID-19 Losses Against Historical Events

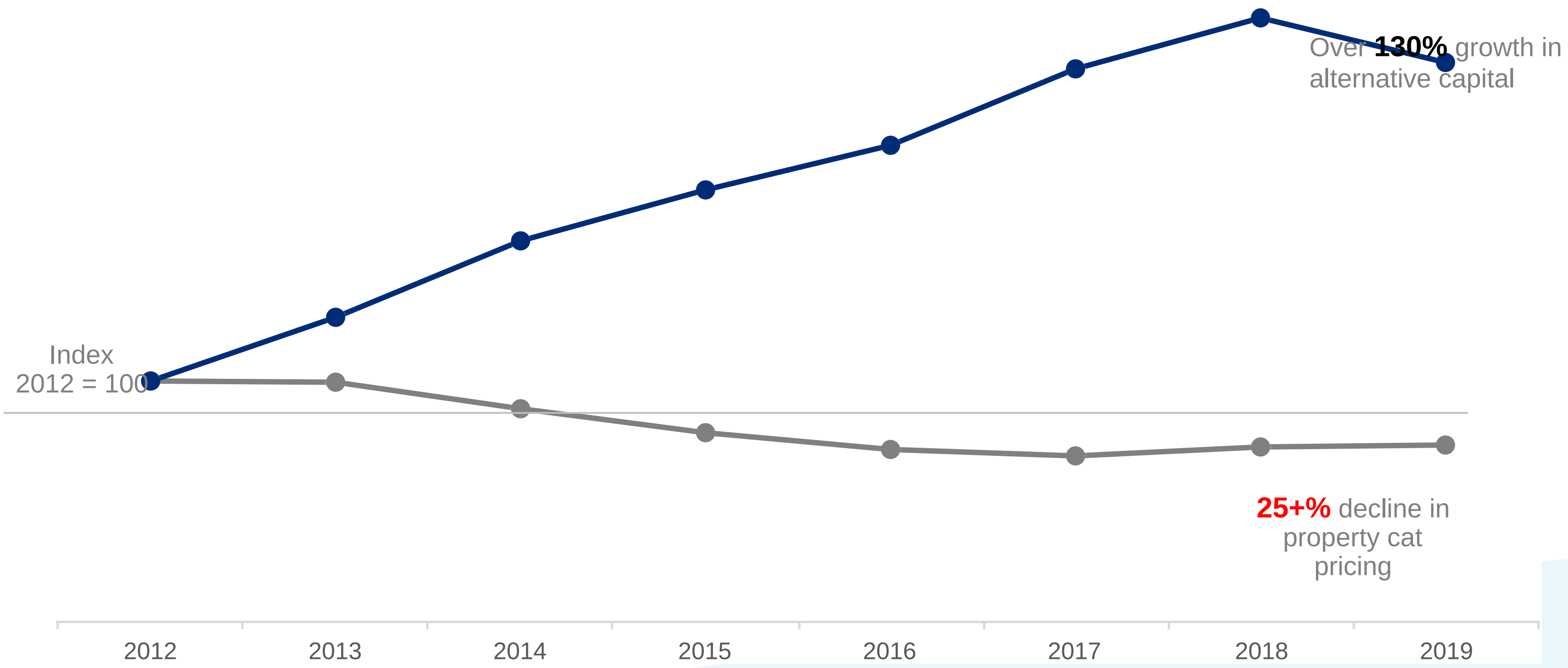
- A $100bn industry loss for 2020 seems likely
- Depending on the evolution of COVID losses we could we see an upper end of $160bn making it the most loss impact year on record



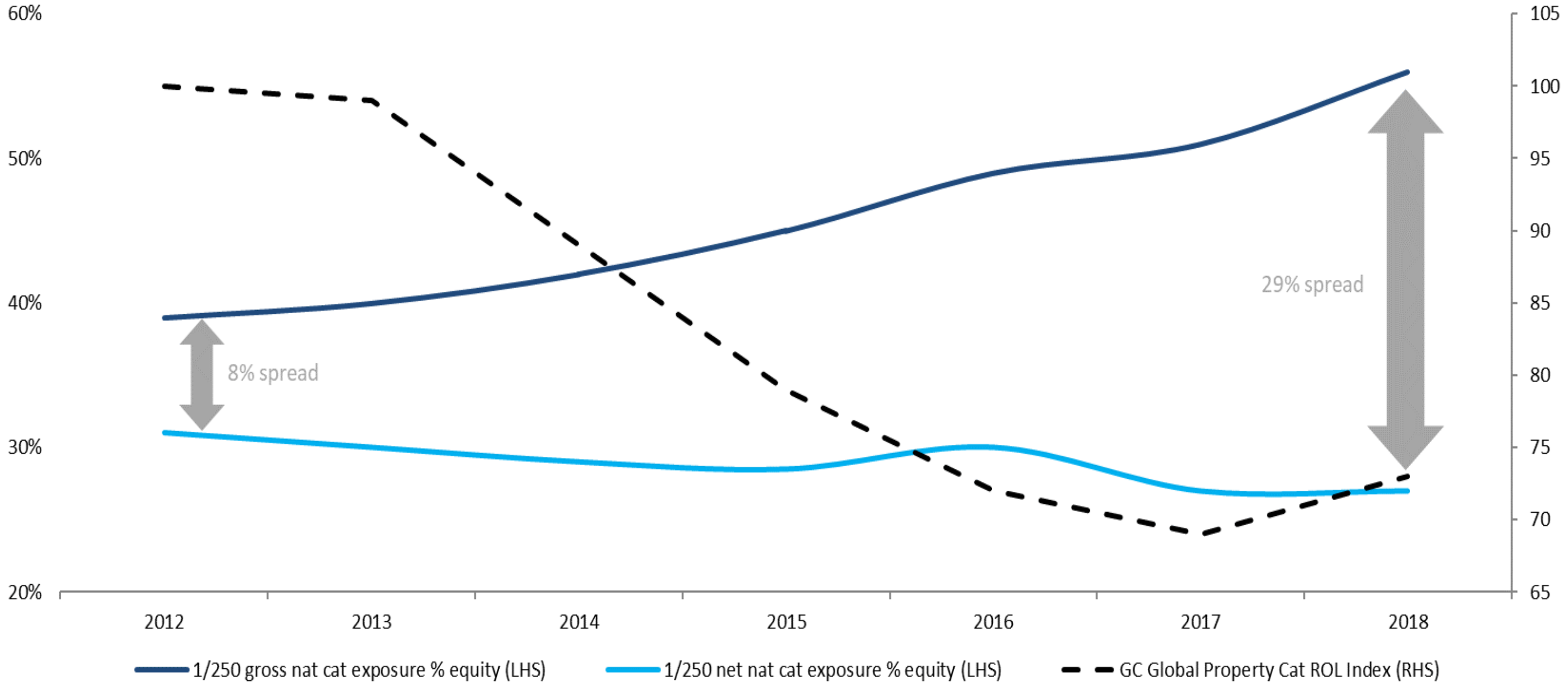
(Re)Insurance Value Chain

Teacher's House						Retro Capacity	Teacher's Pension/Capital

Significant Capital Inflows Into Reinsurance Market Post GFC
2012 to 2019



Widening Spread Between Reinsurers' Gross And Net Natural Catastrophe Exposure



COVID-19 Impact On ILS

1. Too early to understand the impact on the ILS market
    - Q2 has historically been the most active as US insurers access the market for capacity
2. Pre COVID: cat bond issuance was strong
3. Post COVID:
    - market was suspended in 2-3 weeks
    - Spreads –Spike in secondary market somewhat normalised but trading at +10% above pre-COVID
4. Expect no property cat bonds to be triggered by COVID
5. Unstructured ILS products have more uncertainty with regard to COVID losses

Capital does not like surprises such as the wildfires; COVID could be another example

Market Activity

Present Uncertainty

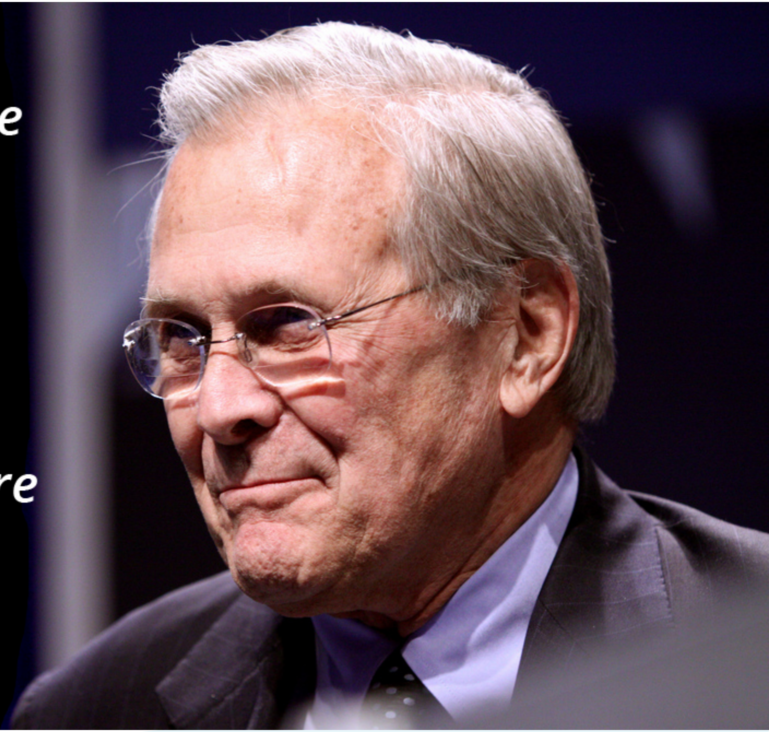
- ▶Loss
- ▶Capital
- ▶Exposure
- ▶Reserving
- ▶Reinsurance recovery
- ▶ILS response
- ▶Reinsurance capacity 2021

There are known knowns; there are things we know that we know.

There are known unknowns; that is to say, there are things that we now know we don't know.

But there are also unknown unknowns – there are things we do not know we don't know.

-Donald Rumsfeld



Insurer Solvency and Loss Estimates

Paul Sherbine, Global Head, Market Information Group, Marsh

COVID-19 Loss Estimates

INSURANCE COMPANY	COVID LOSSES	1Q NET REALIZED CAPITAL GAINS/ (LOSSES)	1Q NET UNREALIZED CAPITAL GAINS/ (LOSSES)	2019 SURPLUS (PHS) OR CAPITAL (EQUITY)	ESTIMATED LOSSES AS A % OF PHS (PRE-TAX)	COMMENTS
Aflac	$8 million			$29 billion	0.03%	
AIG	$272 million	$3.52 billion	($2.55 billion)	$65.7 billion	0.41%	The derivative losses were $2.192bn.
Alleghany	$153 million			$8.8 billion	1.74%	TransRe related to Covid-19 included event cancellation.
Allianz	$1.1 billion		($6.558 billion)	$82.9 billion	1.32%	
Allstate	$210 million	($462 million)		$26 billion	0.81%	
American Financial		($435 million)	$16 million	$5.4 billion		
Arch	$125 million to $145 million	($367 million)		$11.5 billion	1.26%	Estimated pre-tax net losses are $85-$95mn across P&C insurance and reinsurance segments and $40-$50mn in the mortgage segment.
Argo	$26.2 million			$1.8 billion	1.47%	
Assurant	$2 million			$5.7 billion	0.04%	
Aviva	$277 million					
AXA		$192 million		$78.3 billion		
Axis	$235 million		($336 million)	$5.5 billion	4.24%	COVID losses ($235mn) are mostly property related coverages but also incudes event cancelation and A&H, and considers global shelter in place through July 31, 2020. AXIS also expects to report a full limit loss on the $10mn World Health Organization Pandemic Response Bond. Estimate for unrealized losses is $61mn related to equity securities portfolio and $275mn related to fixed portfolio.
Beazley	$170 million	($55 million)		$1.6 billion	10.46%	
Berkshire Hathaway	$230 million	($49.7 billion)	$67.5 billion	$424.8 billion	0.05%	Q1 2020 shareholders' equity is $371.6bn, down from $424.8bn at YE2019. Almost all of the fall in equity came from the $49.7bn drop in net earnings, which is the result of the $70.3bn drop in investment and derivative contract losses. The derivative losses were $1.393bn.
Chubb	$13 million	($958 million)	$(2.8 billion)	$55.3 billion	0.02%	
C N A	$15 million	($61 million)	$2.111 billion	$12.2 billion	0.12%	
Direct Line Insurance	$30.6 million			$3.7 billion	0.83%	
Enstar	$8.6 million			$4.8 billion	0.18%	

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Equitable	$40 million			$13.5 billion	0.30%	COVID-related claims, through April were approximately $40mn gross before accounting for any offsets.
Everest Re	$150 million			$9.1 billion	1.64%	The IBNR loss attributed $110mn to reinsurance and $40mn to insurance operations.
Fairfax	$84 million	($57 million)	($1.482 billion)	$14.4 billion	0.58%	"Covid losses represent 2.6 combined ratio points. COVID losses are all IBNR and include reserves for potential event cancelation, credit, travel, & D&O losses."
Hannover Ruck SE	$238 million			$11.5 billion	2.07%	
Hartford	$50 million	($232 million)		$16.3 billion	0.31%	
Hiscox	$150 million			$2.2 billion	6.85%	
International General Insurance (IGI)	$11.9 million		($4.6 million)			
Kemper	$4 million			$4 billion	0.11%	
Lancashire	$35 million			$1.2 billion	2.93%	
Liberty Mutual		($247 million)	($576 million)	$23.6 billion		
Lloyd's of London	$3.0 billion to $4.3 billion			$39.1 billion	10.98%	
Markel	$325 million	($1.4 billion)	$65 million	$11.1 billion	2.94%	
Munich Re	$1.08 billion			$34.1 billion	3.17%	
Partner Re	$18 million		($610 million)	$7.3 billion	0.25%	
Prudential Financial	$430 million	($698 million)		$63.7 billion	0.67%	
RenaissanceRe	$104 million	$110.7 million		$6.0 billion	1.74%	Net realized and unrealized losses on investments was $110.7mn in Q1.
RLI	$5 million			$995 million	0.50%	
RSA	$30.6 million	$253 million		$5.5 billion	0.56%	
SCOR			($267 million)	$7.1 billion		Q1 2020 results were not materially affected by Covid 19.
Selective	$19.3 million					After-tax Covid 19 losses
Sirius	$140 million			$1.6 billion	8.54%	The global reinsurance segment recorded an underwriting loss on $126mn of losses from COVID-19, the company said. Global accident and health saw $14mn in losses from COVID-19 pandemic.
Suncorp	$133 million					
Swiss Re	$476 million			$29.3 billion	1.63%	The total of USD476mn Covid-19 related losses is split into USD253mn from P&C Re and USD223mn from Corporate Solutions, both refer to additions to loss reserves for event cancellations.

COVID-19 Loss Estimates

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Talanx (HDI)	$338.9 million			$11 billion	3.07%	Reinsurance accounted for (€220mn) ($238.2mn)
Third Point Re	$9.5 million			$1.4 billion	0.67%	
Tokio Marine	$46.5 million	($297.3 million)				
Travelers	$86 million	($98 million)	$2.3 billion	$25.9 billion	0.33%	
Tryg A/S	$16.9 million			$1.8 billion	0.95%	
Unum		($144 million)				
Watford		($5 million)	($285 million)	$872 million		
WR Berkley	$65 million	$11 million		$6.1 billion	1.07%	
Zurich	$750 million			$35 billion	2.14%	
Total	**$9 billion to $10.3 billion**					

After COVID
Claims In The Hard Market

Rob Powell, International Head of Claims
Marsh

What Just Happened?
COVID-19 Claims

Events

Cancellations and postponements.

Travel

Cancellations, repatriation, and unforeseen expenses.

Business Interruption

Forced closures, travel, restrictions.

Non-Damage Business Interruption

Denial of access, infectious diseases.

Casualty/Liability

Employers liability, WC, customers, visitors, and guests.

Trade Credit

Insolvency and debt default.

Directors and Officers

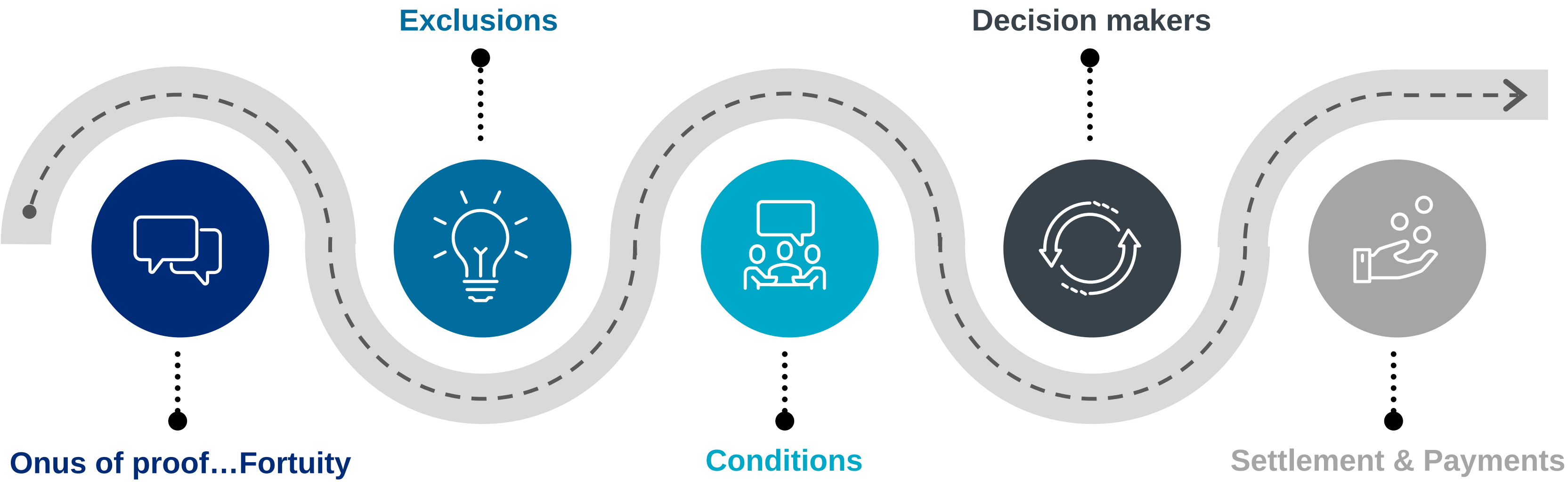
Managements exposure for failure to respond appropriately.

Behavioural Change

- Increased scrutiny
- Claims being lead by coverage counsel
- Claims Agreement Parties
- Loss Adjusters have zero authority
- Leadership
- Proliferation of Insurer’s Consultants

When it will make a difference – Insurers will change their behaviour

Insurers Reaction - The Clients Claim Experience?



We change other people’s behaviour by changing our own

Levelling The Odds
Is There A Treatment?

Strategy –
Consider likely
hurdles

Claim Preparation
Early and transparent.

Focus on Coverage
determination

Avoid ambiguity -
aligning the Risk with
expectations

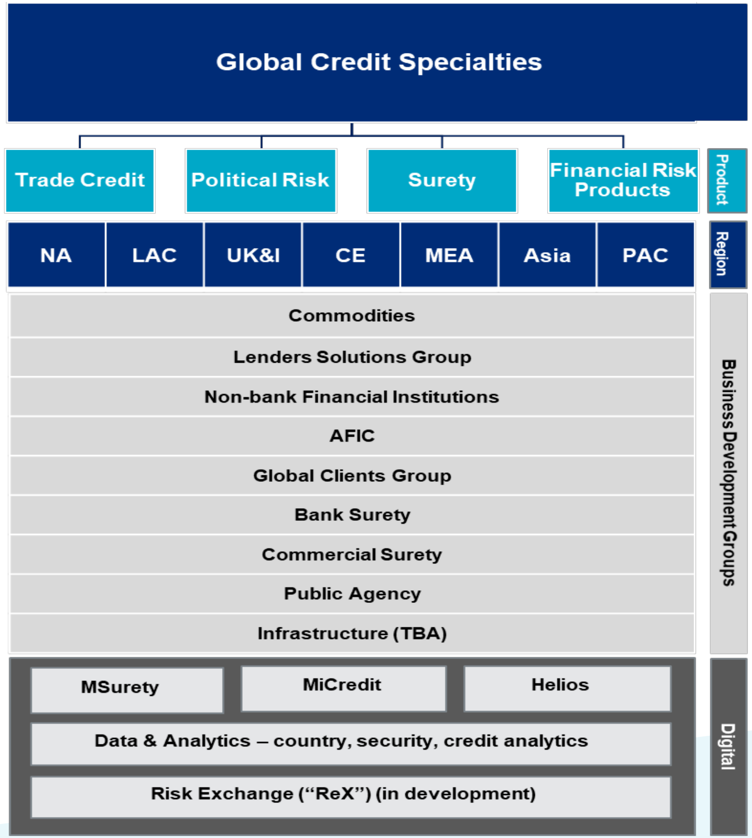
Project manage the
claim with a critical
path and milestones.

Ability to provide ‘certainty’ is a corollary of Risk Transfer

Credit Specialties
Lockdown Challenge And Response

Nick Robson, Global Head, Credit Specialties
Marsh JLT Specialty

What Is Credit Specialties?
All Activity Connected By Credit Risk Discipline

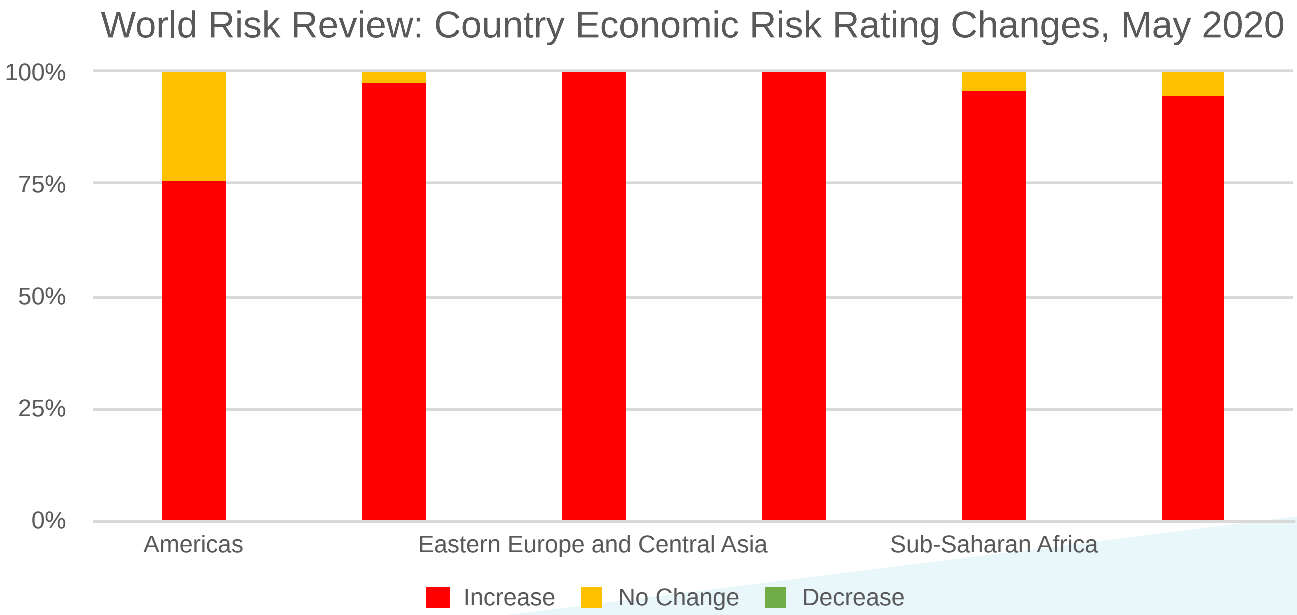


Credit Specialties

Lockdown Risk Impact

Risk Environment
Sovereign Risk Impact

Economic risks are rising in every region. As per our *World Risk Review* rating platform, in May 2020 economic risks increased in 93% of countries. In Europe, all countries demonstrated a deteriorating economic environment.



Risk Environment
Sovereign Risk Impact

Fitch Ratings – Sovereign Rating Actions, January – May 2020

Rating Upgrade

Europe

Lithuania, Greece

Rating Downgrade

Sub-Saharan Africa

Angola, Cabo Verde, Gabon, Nigeria, South Africa, Zambia

MENA

Lebanon, Oman

Europe

Italy, San Marino, UK

Source: Fitch Ratings

Risk Environment
Global Credit Risk Heightened

The global speculative-grade default rate is expected to rise significantly amid unprecedented market turmoil, even in the most optimistic scenarios per Moody's.

Global speculative-grade default rate expected to reach double digits by year end

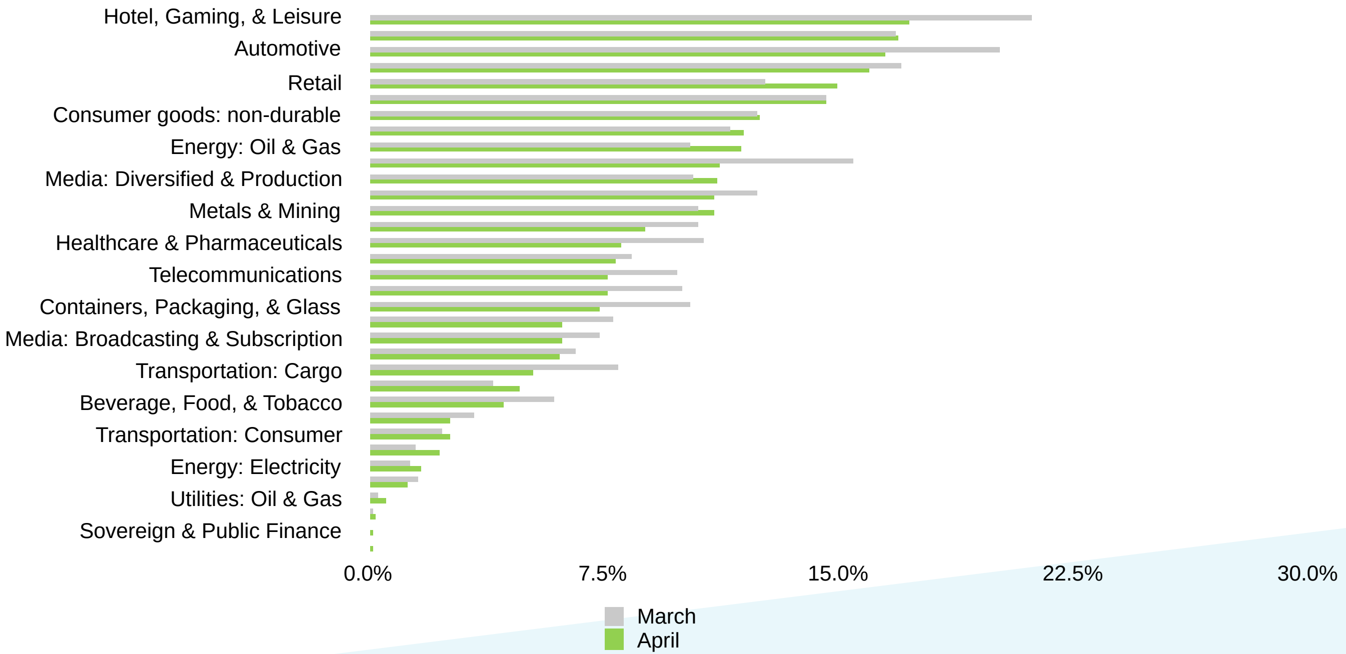
Macroeconomic Assumption	Baseline Scenario				Pessimistic Scenario			
3-month period ending in:	Jul 2020	Oct 2020	Jan 2021	Apr 2021	Jul 2020	Oct 2020	Jan 2021	Apr 2021
US Unemployment Rate* (%):	12.2	7.5	9.4	9.4	17.4	9.1	12.4	12.3
US HY Spread* (bps):	1,234	777	629	504	1,702	1,559	1,207	957

* These rates are three-month averages.

Source: Moody's Investors Service April 2020 Default Report

Risk Environment
Industry Default Rate Forecasts

Most industry sectors saw substantial increases in Moody's forecasted default rates 3/10/20 to 4/10/20. The Hotel, Gaming & Leisure sector is now seen as the riskiest industry in terms of expected default rate, followed by the Automotive sector.



Source: Moody's Investors Service March & April 2020 Default Report

Risk Environment
Global Credit Risk Heightened

Claims Estimates

- Estimated Credit Specialties claims range from GFC level (approx. $7bn) to $46bn (Morgan Stanley).
- The range is large because the correlation between default ratings and insolvency losses is no longer clear.

Moderating Factors

- Unprecedented level of good will to absorb late payments.
- Scale of government relief and stimulus beyond any prior experience.
- Adjustment in legislation to temporarily requalify insolvency status and grant recovery time.

Implications

- Claims may be closer to $10bn - $15bn than higher level forecasts.
- Government reinsurance and capital schemes to support credit insurance now in place.
- Risk changes = premium rate hardening & cautious underwriting. Expect 10%++ rate changes.

Credit Specialties

Enabling Growth. Securing Capital.

Credit Specialties
Underwriting Opportunities And Priorities

There are growing challenges in many industries, but many sectors have moderate and lower exposures. Underwriters are supporting business, but are prioritizing by perceived quality of client financial and risk management, transparency of data and premium reflecting increased risk.

Nonfinancial Corporates: North America Coronavirus Heat Map - Most sectors have moderate exposure

High exposure

- Apparel
- Automotive & Auto Suppliers
- Consumer Durables
- Gaming
- Lodging/Leisure & Restaurants
  - Includes Cruise Lines
- Non-food Retail*
- Passenger Airlines
- Transportation & Services
  - Includes Shipping

Moderate exposure

- Aerospace & Defense
- Business Services
- Chemicals
- Construction & Homebuilding*
- Consumer Non-Durables
- Consumer Services
- Healthcare & Pharma
- Manufacturing
- Media & Ad Agencies*
- Mining & Mining Services
- Oil & Gas
- Real Estate*
- Steel Processors*
- Tech Hardware
- Wholesale Distribution

Low exposure

- Food & Beverage
  - Includes Food Retailers
- IT Software & Services
- Natural Products Processors
- Packaging
- Telecom
- Waste Management

[1] This heat map is based on a bottom-up analysis of individual issuers' COVID-19 exposure, overlaid with qualitative considerations for the sectors believed to be the most exposed to the outbreaks in the highly affected regions. Our heat map does not include industry-specific government intervention, though it would be considered in our credit analysis.
[2] An (*) denotes a change in exposure since mid-March heat map report.
Source: Moody's Investors Service

Credit Specialties
Enabling Growth

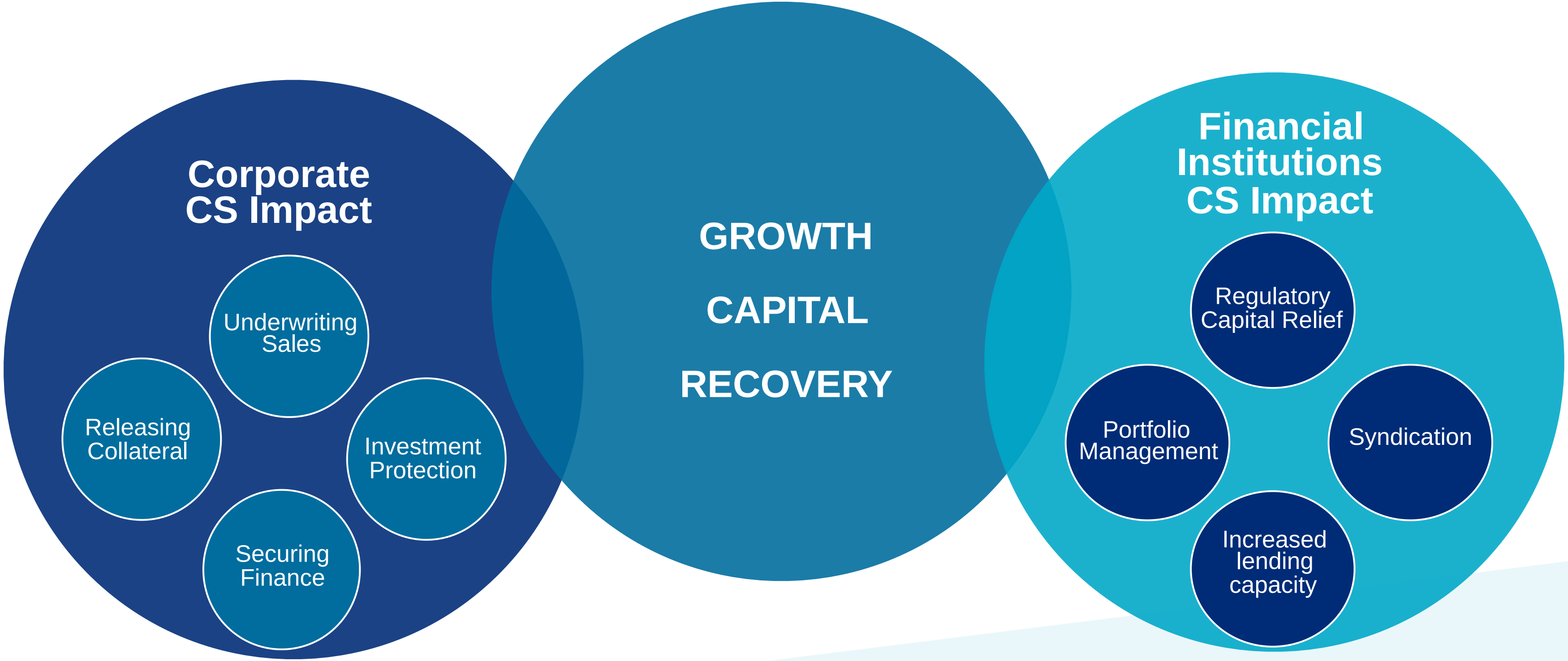
Context

- Every modern economic crisis (Asia 1997, US/ Global 2001, GFC 2008) has resulted in significant and sustained growth of Credit Specialties products
- The core value proposition for CS is to enable growth, every $ of CS premium generates 100s of $'s of sales, investment and/or capital saving.
- Claims Performance through crises embeds confidence in longer term CS product value – post crisis growth becomes sustainable.

Credit Specialties Growth Priorities

- Supply chain and receivable finance secured against TCI – huge demand already and will grow rapidly as recovery begins.
- Bank portfolio risk distribution. The banks need to sell down more of their better quality risk to release capital and increase lending limits.
- Collateral replacement for corporate clients. Commercial & Bank surety used to replace cash and bank line collateral, releasing capacity to fund growth.
- PRI to secure infrastructure investment in emerging markets & increase bank country lending envelope following sovereign credit

Credit Specialties
Enabling Growth. Securing Capital. Recovering From Crisis.

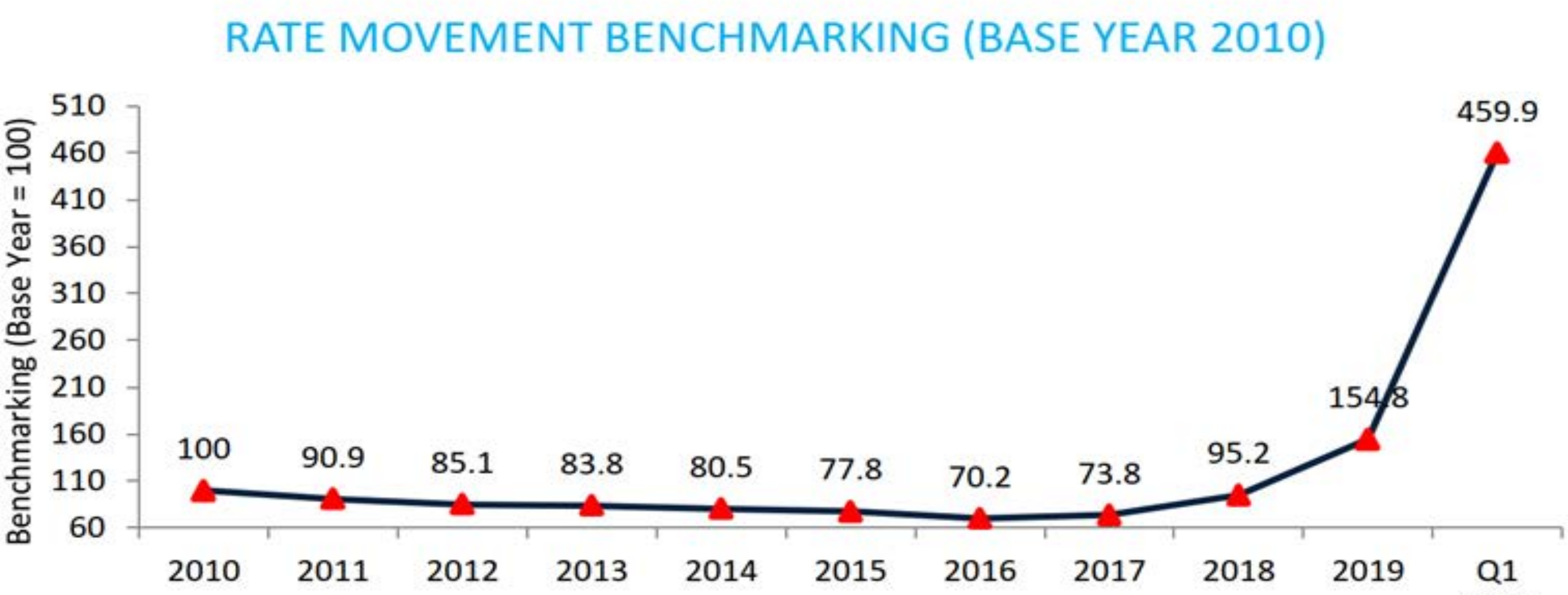


Directors and Officers Liability

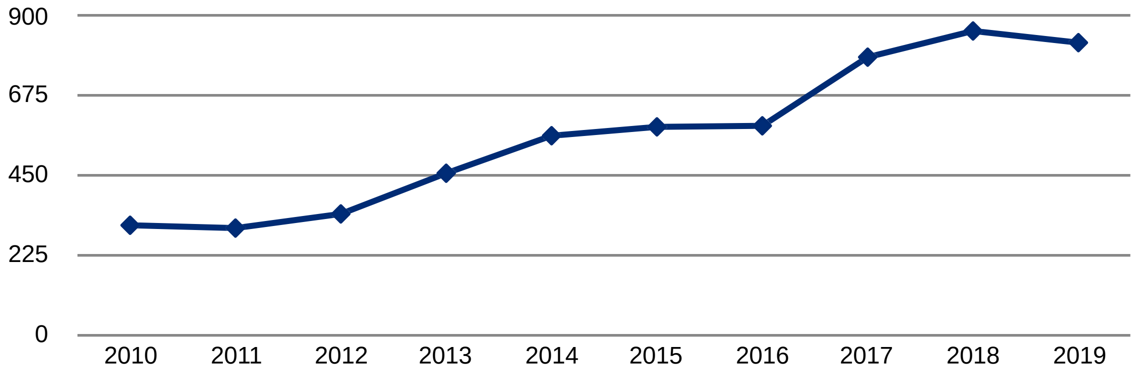
Pre And Post COVID-19

Jason Mills, Head of Wholesale, Financial and Professional lines
Marsh JLT Specialty

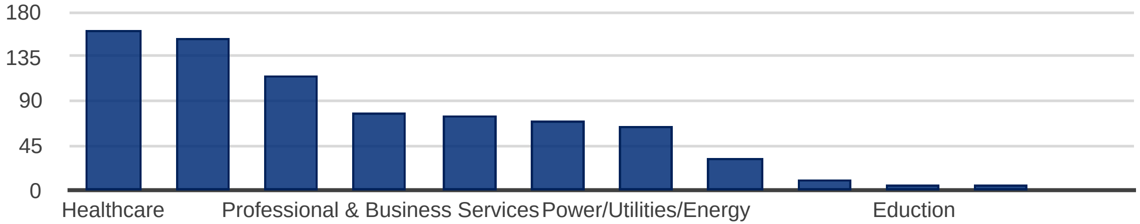
Directors And Officers Pricing Movement



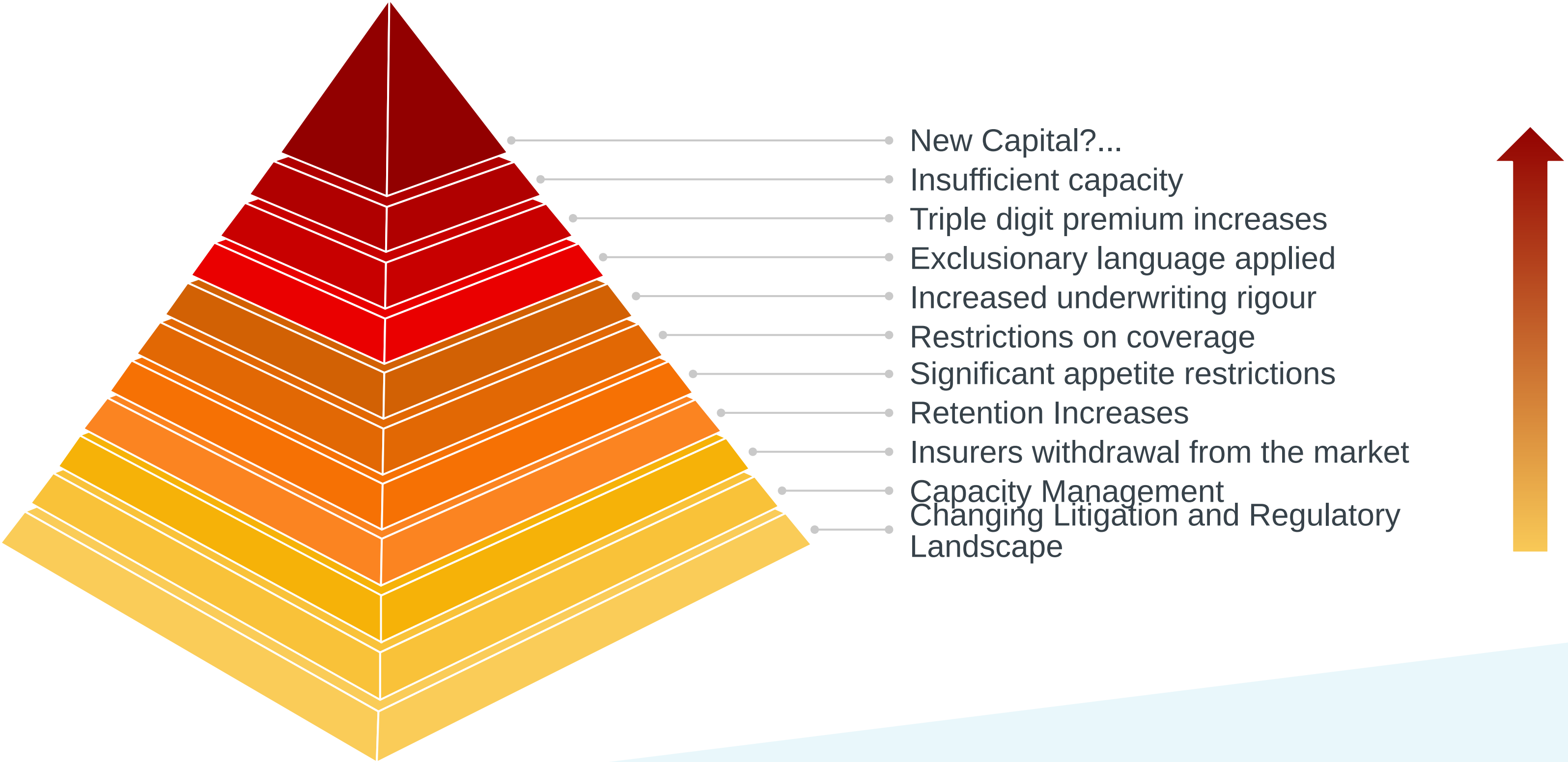
Claims Volume And By Industry Sector



Claims and Circumstances by Industry Sector (2019)



State of the D&O Market – Pre-COVID-19



Post COVID-19: Transitioning Market
Categories Of Risks

- Jurisdiction
- Industry Sector
- Claims Activity
- Financial Stability
- Historic Pricing
- Market Correction
- Pandemic Preparedness
- Pandemic Insolvency

Marsh - D&O Market Management Strategies

HISTORIC MARKET — SOFT

- Oversupply of capacity.
- Strong competitio n for business.
- Pricing flat or reducing .
- Coverage extensions include at no/low cost.
- Limited require- ment for additional data/ analysis.

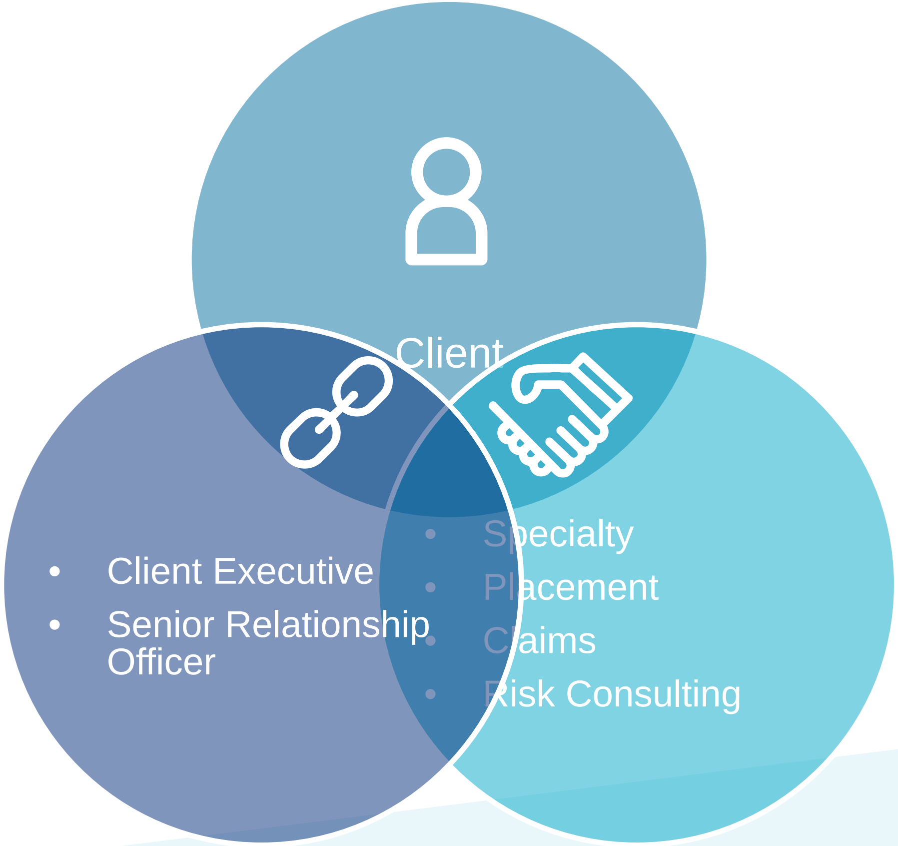
CURRENT MARKET — TRANSITIONING

- Capacity reducing by insurer and on specific lines of business.
- Withdrawa l of under- writers from loss making portfolios / classes.
- Pricing increases sought across all lines.
- Significant increase in data / analysis required to support placement.
- Multiple layers of sign off required on complex risks.
- Increase d time needed to get agree- ment from insurers.
- Increased retentions and coinsuranc e require- ments.

KEY STRATEGIES

1. Start early
2. Dedicate time & resources
3. Involve senior manageme nt
4. Be proactive & transparent
5. Consider limit adequacy
6. Budget for costs increases
7. Evaluate your program structure
8. Leverage market relationships
9. Consider marketing your risk globally
10. Have a plan A, plan B…. potentially a plan C & D too…

Next Step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Questions

MARSH