

Willis Re 1st View

January 1, 2017

Struggling to Stabilize

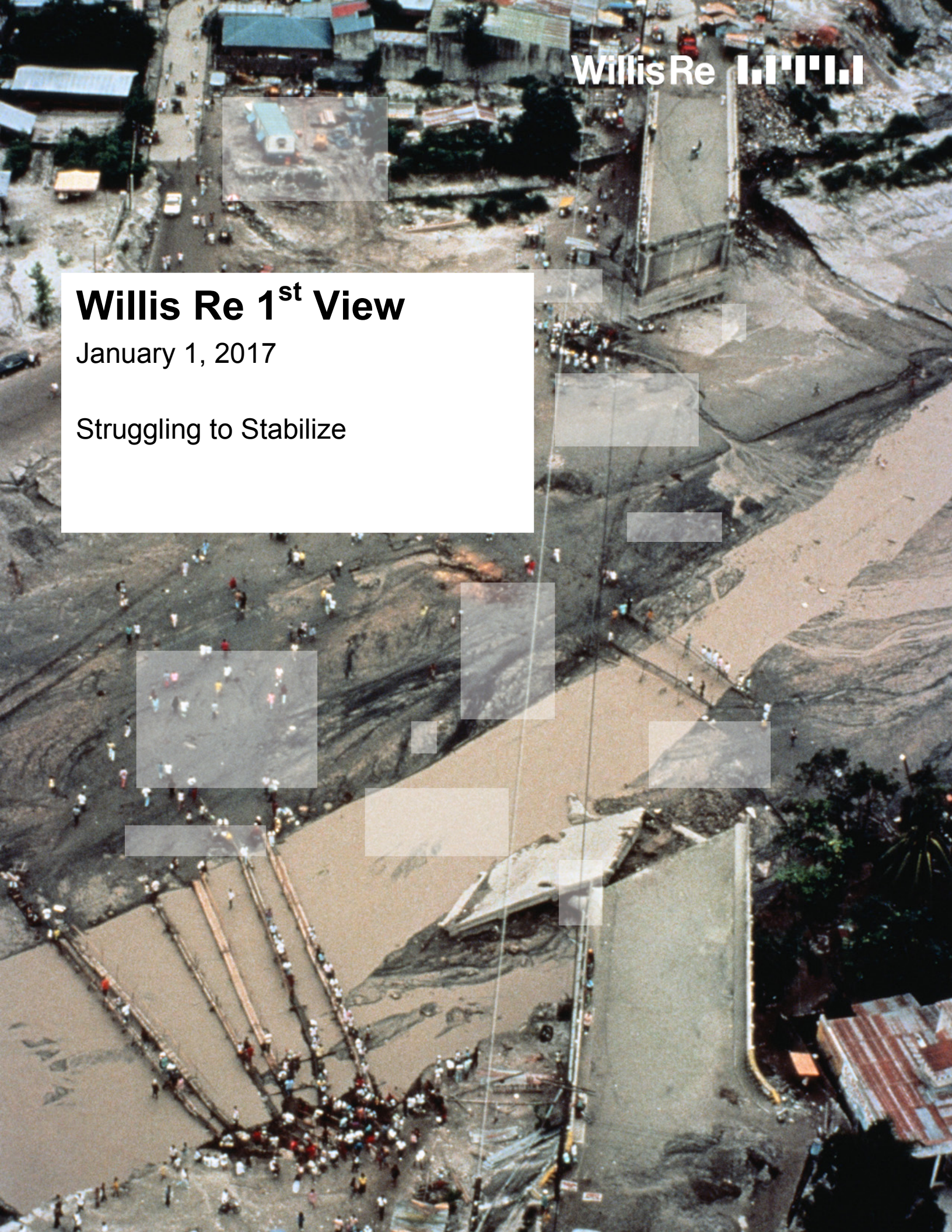


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1st View

This thrice yearly publication delivers the very first view on current market conditions at the key reinsurance renewal seasons: January 1, April 1 and July 1. In addition to real-time eVENT Responses, our clients receive our daily news brief, *The Willis ReView*, periodic newsletters, white papers and other reports.

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Foreword: Struggling to Stabilize

Despite a 50% increase in insured losses from natural catastrophes during 2016, the global reinsurance industry achieved profitable results for the third quarter. Barring any last minute disasters, 2016 remains on track to close out another profitable full year. Reinsurers, eager for more widespread rating stabilization, have had their hopes dashed yet again, thanks to profitable results allied with continued capital oversupply from both traditional reinsurers and capital markets.

While there are signs that reinsurers are not prepared to be as flexible as in earlier years, many buyers have yet again managed to achieve improved terms. Sizeable reductions have been obtained on international business. In the U.S., there are signs of more stability, driven by the capital intensive nature of some U.S. classes and the very significant improvements in terms in recent years. Capital markets have again been active, leading to a further compression in margins, particularly on recent catastrophe bond issuances but also on a wider range of collateralized placements. Investor appetite continues to expand most recently in motor where issuers now have demonstrable access to alternative sources of capital.

What is more difficult to ascertain this year are more granular market trends, due to a greater fragmentation of market pricing by territory, class and specifically, by client. Major reinsurers are taking stronger client-centric approaches. This is leading to superficially inconsistent underwriting at a market level, which is misleading. Most major reinsurers in the current pricing environment are applying increasingly sophisticated and active portfolio management strategies, including the use of third party capital partners, which are generating less generalized and more client-specific outcomes.

Greater clarity about the regulatory treatment of reinsurance solutions is helping to drive increased reinsurance buying in both Life and Non-Life classes. While capital efficiency, both prospective and retrospective, remains a key driver of reinsurance purchasing, demand for earnings protection cover continues to increase and offers growth opportunities for some reinsurers.

The long-awaited upturn in U.S. interest rates has finally arrived, but has already been priced in by many reinsurers. One unhelpful trend that is emerging in some markets is the uptick of inflation. This is threatening to put pressure on the gift of reserve releases from previous years. At the same time, some long established reinsurers are starting to see their asbestos reserves deteriorate, which potentially puts

them at disadvantage to their newer peers who have no asbestosis exposures.

The pace of consolidation driven by M&A has slowed as compared to 2015, but there have been a number of notable transactions, including Sampo Japan and Endurance. In the last few weeks, two large deals — the acquisition of Allied World by Fairfax Group and Liberty Mutual acquiring Ironshore — were announced. These two transactions reflect the view that the new U.S. government may provide a more favorable corporate tax environment, leading to a change in the balance, tilted against the offshore model.

With the uncertainties that consolidation brings, many buyers have been more cautious about completely severing relationships with longstanding reinsurance partners. At the same time, the evolution of some reinsurers' business models continues apace with a number of new sidecars announced, many incorporating improvements in structure and operational efficiency to address buyers' concerns.

While reinsurers are still able to report profitable results despite the underlying issues they face, the situation for many primary companies is tougher. Rising combined ratios in many markets, including Lloyd's, driven by competition both from existing peers, as well as from new style competitors utilizing innovative low cost distribution and cost models, is a growing concern. InsurTech is rapidly emerging from theory into practical application, leaving many primary companies to ponder how to respond, while some of their peers are forging ahead, embracing the opportunities InsurTech offers. Among the most committed supporters of disruptive InsurTech solutions are capital markets and some reinsurers who are seeking access to original risk.

Despite the pressures, the global reinsurance market is facing, the ability to produce yet another profitable year, somewhat against the underlying pricing models, has meant that the pain threshold to force a market pricing stabilization has not yet been reached. With the January 1 renewal season setting the tone for 2017, reinsurers can only look forward to another demanding year where luck will play an even larger role in determining their final results. At the same time, buyers can anticipate that the period of time where reinsurers (reluctantly) accommodate their requests will be extended.



John Cavanagh, Global CEO Willis Re
January 1, 2017

Property

Commentary by territory

Asia

- Inconsistent market pricing by territory and client with little consensus between reinsurers
- Price reductions larger and more widespread than expected
- Pro rata commission terms stable with increases in event limits
- Excess of loss placements mostly oversubscribed, no shortage of capacity
- Pro rata capacity much tighter, reinsurers showing signs of fatigue

Australia

- Market softening continues, with rate of reductions dependent on perceived program price adequacy and level of first event retentions
- Reinsurers showing limited appetite for rate reductions on loss affected layers
- Some reinsurers starting to reduce capacity where rates are perceived to be inadequate; although long term relationships are still considered important and prevail in the majority, both buyers and reinsurers are increasingly prepared to disengage if perceived mutually beneficial terms cannot be realized
- Plentiful capacity still available from both traditional sources and ILS markets
- Buyers looking to stretch terms and conditions and many exploring multi-year capacity

Canada

- 2016 proved to be a very active year, particularly for non-modeled losses emanating from the Ft. McMurray wildfire loss and hail events across Alberta and Manitoba; the vast majority of these losses have been carried by reinsurers
- The Ft. McMurray event is the largest loss in Canadian history, with current insured loss estimates between C\$3.6 billion and C\$3.9 billion
- Rate increases on loss affected layers have been mitigated by substantial global capacity
- Nationwide portfolios with superior diversification saw more modest risk adjusted rate increases compared to less well diversified regional portfolios
- Property per risk working layers renewed in line with expected (modeled) loss cost
- Price increases can be attributed to a regional view on earnings erosion and the recalibration of pricing methodology associated with non-modeled perils
- Commissions for quota share programs have generally reduced, driven by deterioration of original primary rates, particularly in commercial lines
- Water Protection insurance packages have now become prevalent with the vast majority of nationwide insurers in various phases of rollout across the country
- Continued additional top-end limit being purchased due to OSFI regulatory requirements which mandate companies buy to their 1 in 500 year earthquake PML by 2022; companies below this threshold are strategically purchasing more top-end limit each year, rather than making a large leap the year before this regulation comes into force

Caribbean

- Surplus capacity remains readily available leading to continued downward pressure on reinsurance pricing
- Original rates on all islands continue to decline, fueled in part by competition in the local broker market and the leading regional players
- Erosion of original rates is starting to put pressure on the viability of proportional programs
- Reinsurers seeking positions across all lines of business to help balance their returns by client

Central & Eastern Europe

- Property catastrophe program limits slightly increased driven by Solvency II requirements
- Markets stable with some increased appetite from reinsurers outside Europe
- Property pro rata treaties stable with some small commission improvements

China

- Cedants generally targeted a stable renewal without much change to structures or aggressive changes to terms
- Overall market is not as soft as last year, reinsurers were selective on a treaty by treaties basis
- Proportional treaties' margins are being squeezed due to the net value-added-tax regime, making placements more difficult
- Adequately priced excess of loss contracts are very popular
- Although post loss excess of loss contracts did not have significant price adjustment, they were still placed

Europe-wide

- Renewal showed clear signs of a softening market in the later stages
- Differing view of risk, with some (mainly larger) reinsurers reducing and others gaining market share leading to a greater fragmentation of market pricing
- Mostly reinsurers did not initially quote below risk adjusted flat
- Buyers continued to enhance their protection landscape closing coverage gaps between lines of business and perils
- Greater demand for frequency protection and multi-year solutions
- Technical underwriting margins for reinsurers moving further towards negative territory

France/Belgium

- Some reinsurers starting to reduce shares or exit programs
- Capacity still high
- Strong appetite from new reinsurers/ILS funds
- Belgium: overall renewal in line with the rest of Europe; volatile pricing on covers impacted by Elvira (flood)
- Belgium: in November, similarly to Germany, the regulator's ruling on the use of reinsurance capacity from reinsurers based in non-Solvency II equivalent jurisdictions impacted some reinsurers

Germany

- Solvency II continues to impact buying strategies resulting in a widening of coverage for catastrophe treaties to include man made exposures

- Most proportional treaties remained unchanged regarding cessions and commissions
- Overall still a soft market, however, softening eased compared with last renewal
- Placement panels shifted in an otherwise historically stable market place as a result of differing reinsurer risk appetite and the new Third Country ruling by the regulator, BaFin
- Majority of reinsurers seeking new opportunities and demonstrating appetite for growth of German catastrophe business

Indonesia

- Market softened for loss-free programs beyond initially expected levels
- Capacity still remains high especially with continuation of the property rating tariff
- Additional proportional property capacity available
- Additional fees for acquiring primary business driving demand from primary companies for increased treaty commissions
- Local reinsurance companies have increased their acceptances for 2017 taking up the minimum local priority cessions

Italy

- Of the two severe earthquakes that hit Central Italy in August and October, Willis Re estimates the August event at around €80 million/€100 million and anticipates the October event will produce larger insured losses
- Catastrophe renewal pricing has been based only on August's event which, with a few exceptions, had a modest impact on reinsurers due to the very limited exposure in the affected areas or high program attachment points
- Increased catastrophe capacity was purchased in some cases due to conflagration (Solvency II man-made catastrophe scenarios) and/or increases in exposures especially for small/medium sized companies; retentions remained largely unchanged (combination of soft market/protection needs)
- An increase in large risk losses (especially food sector) was observed, hitting some excess of loss programs; retentions remained virtually unchanged
- Smaller companies buying risk/event combined
- Property pro rata remains uncommon, with modest cessions (natural perils included) and demanding margins for reinsurers

Korea

- Lack of loss activity led to meaningful pricing reductions
- Risk adjusted price movements varied depending on portfolio composition
- Reinsurers clearly identified client targets in advance of renewal; renewal pricing reflected this segmented approach
- No meaningful change to conditions/exclusions

Latin America

- The resurgence in the supply of pro rata capacity continues
- Over-capacity in the international catastrophe excess of loss market has permitted a further reduction in prices; more reinsurers are wanting to enter this class in the region
- There appears to be more downwards pressure on catastrophe pricing in the Southern Cone at the moment than in the northern area of the region

- The Ecuador earthquake event in April 2016 has had no impact on regional pricing and relatively little on local pricing
- Pricing continues to be very competitive even in traditionally “non-catastrophe” areas such as Argentina and Brazil
- The increasing interest from both regulators and primary companies in local reinsurer registration and international rating agencies continues unabated

Middle East and North Africa

- Further broadening of terms and conditions by reinsurers to offset larger price reductions
- Buyers have achieved typical soft market improvements ranging from lower paid reinstatements, multi year deals and profit commissions
- Premium volume is still being chased by reinsurers on pro rata treaties despite worsening of underlying rates

Nordic Countries

- Another year of abundant capacity with increased appetite from new markets
- Many reinsurers continued to try to identify their key strategic partners; despite early resistance from reinsurers, the soft market trend continued unabated
- No major weather related events across the Nordic region; catastrophe programs remained largely loss free
- Risk losses during the year impacted property per risk and pro rata treaties
- Proportional reinsurance is still being purchased both for capital/solvency and capacity purposes
- Reinsurers’ continued appetite for proportional reinsurance mirrors the strong performance of the direct market in recent years; demand for proportional reinsurance premium therefore remains high with reinsurers

Philippines

- Marginal increase in appetite for catastrophe business leading to rate reductions
- Reinsurers resisting any increase in event limits on pro rata treaties
- Terms and conditions broadly as expiring

South Africa

- Some reinsurers declining renewal
- Still over supply of capacity

Switzerland

- Very little fluctuation in reinsurer panels
- Stable oversupply of reinsurance capacity available allowing modest rate reductions to be achieved
- Swiss market business remains an attractive diversifier for reinsurers

Taiwan

- Most excess of loss programs suffered losses from natural catastrophes
- Wide range of price movement driven by the severity of losses to individual programs
- Capacity still abundant in most cases

Turkey

- Challenging renewal due to terrorism losses which were advised to reinsurers but remain outstanding
- Potential impact of outstanding terrorism losses varies by company leading to a wide variation in renewal pricing
- No other catastrophe losses in the market

United Kingdom

- U.K. catastrophe loss experience remains benign
- The performance of per risk treaties is more varied with a number of programs affected by losses in 2016
- No significant change in retention levels or overall limits purchased
- Appetite from reinsurers remains strong resulting in risk adjusted reductions on loss free catastrophe and aggregate programs
- As catastrophe rates continue to soften, reinsurers are increasingly diversifying into risk excess of loss treaties creating more capacity in the market; even for loss affected risk programs capacity remains sufficient
- New entrants (many of them Lloyd's) have managed to access U.K. business and there was a heightened appetite from a number of the ILS funds
- Few changes to coverage with the key discussion point being the 2015 Insurance Act and the Duty of Fair Presentation; there was no consensus on this issue with clients handling it in different ways
- Most programs are now at reduced minimum premiums to assist Solvency II technical provisions

United States

- Lack of major catastrophe loss activity and abundant capital continues to drive the soft market but price reductions are significantly less than January 2016
- Price increases on loss affected business observed mainly from accounts in Texas and the Mid-West, in addition to North American insurers with Canadian losses
- Reinsurers are seeking to differentiate their responses to programs based on their own view of pricing adequacy and long-term partnership goals
- There is some evidence of clients lowering the attachment point of catastrophe programs but it is not sufficiently widespread to be viewed as an overall industry trend

Venezuela

- All treaties now necessarily operate on the basis of a pre-agreed fixed rate of exchange of the VEF to USD making for a clearer mode of operation and payment of premiums / losses
- Many reinsureds have moved from proportional to excess of loss
- There has been more downward pressure on pricing than in previous renewals
- There is still reasonable capacity available for catastrophe excess of loss, and a bit less for risk excess of loss

Vietnam

- Stable capacity, some increased interest from reinsurers outside of Asia
- Excess of loss pricing showing significant reductions
- Pro rata commission terms largely as expiring

Property rate movements

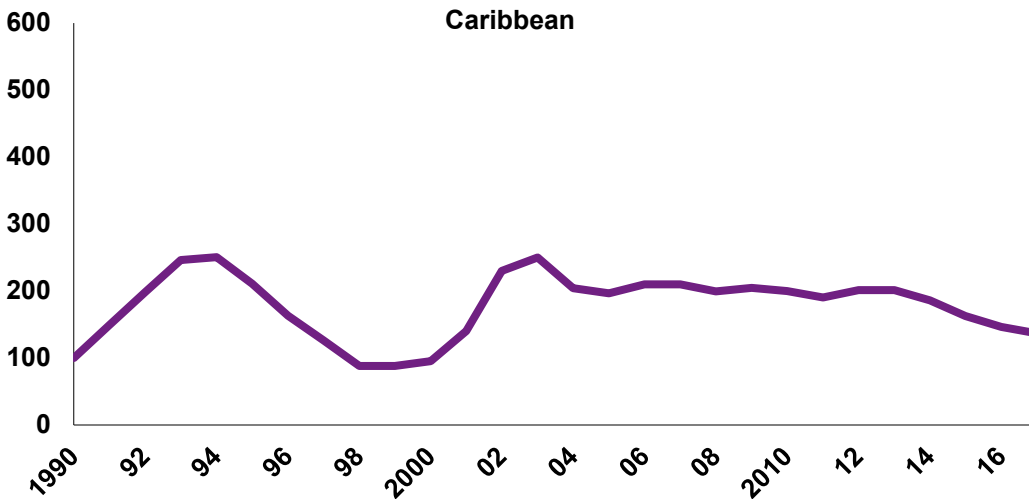
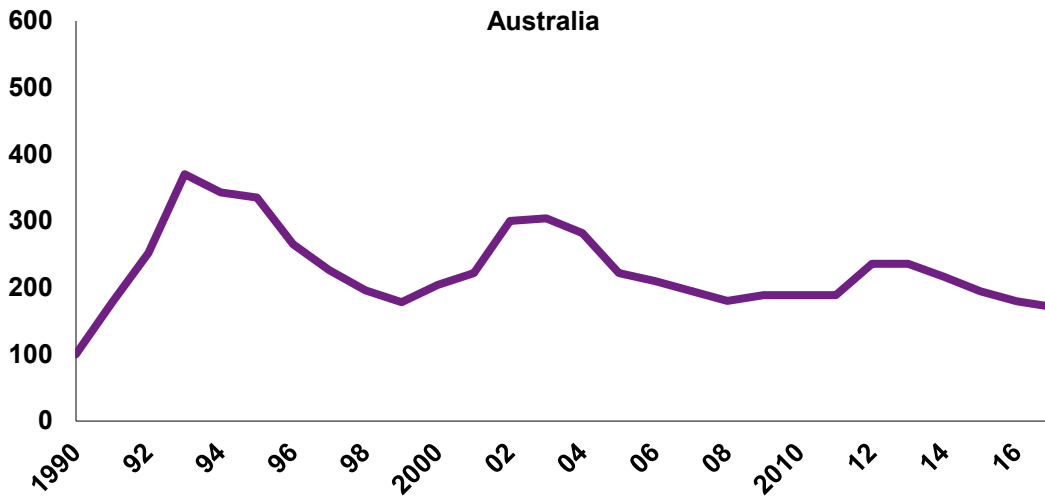
Territory	Pro rata commission	Risk loss free % change	Risk loss hit % change	Catastrophe loss free % change	Catastrophe loss hit % change
Asia	0%	-5% to -7.5%	+5% to +7.5%	-7.5% to -15%	+10% to +15%
Australia	0% to +1%	-5% to -10%	Varies	-2.5% to -7.5%	-5% to +15%
Canada	0% to -1%	0% to -5%	+15% to +30%	0% to -5%	+15% to +30%
Caribbean	0% to +0.5%	-5% to -10%	0%	-3.5% to -10%	0% to +10%
Central & Eastern Europe	0% to +2%	0% to -5%	0% to +10%	0% to -5%	N/A
China	-2% to +2.5%	-5% to -20%	N/A	-20% to +10%	-5% to +10%
Colombia	0% to +2%	-5% to -15%	0% to +15%	-7.5% to -12.5%	N/A
Europe wide	N/A	N/A	N/A	-4% to -6%	N/A
France	N/A	0%	+5%	-2.5% to -7.5%	N/A
Germany	-2.5% to +2.5%	-2% to +2%	Varies	-2% to -6%	Varies
Indonesia	0% to +2%	-5% to -15%	N/A	0% to -15%	N/A
Italy	N/A	N/A	-5% to -10%	0% to -7.5%	0% to -5%
Korea	0%	-10%	N/A	-10%	N/A
Latin America	0% to +2%	-5% to -15%	0% to +15%	-5% to -12.5%	+3% to +7.5%
Middle East and North Africa	+1% to +2.5%	-5%	+5%	-10%	+10%
Netherlands	N/A%	-2.5% to -7.5%	N/A	-5% to -10%	-5% to +5%
Nordic Countries	Varies*	Varies	Varies	-4% to -7.5%	N/A
Philippines	0%	-5% to -15%	N/A	-7.5% to -15%	N/A
South Africa	0%	-10%	0%	-10%	0% to +10%
Switzerland	0%	0%	N/A	-3% to -5%	N/A
Taiwan	N/A	N/A	+5% to +30%	-5% to -10%	+15% to +25%
Turkey	0%	0%	N/A	0% to -7.5%	+20%
U.S.	0% to -2%	0% to -5%	+5%	0% to -5%	+5% to +15%
United Kingdom	N/A	-5% to -10%	-5% to +20%	-5% to -7.5%	N/A
Venezuela	0%	0% to -15%	0% to +15%	-5% to -15%	0%
Vietnam	0%	-5% to -10%	N/A	-5% to -15%	N/A

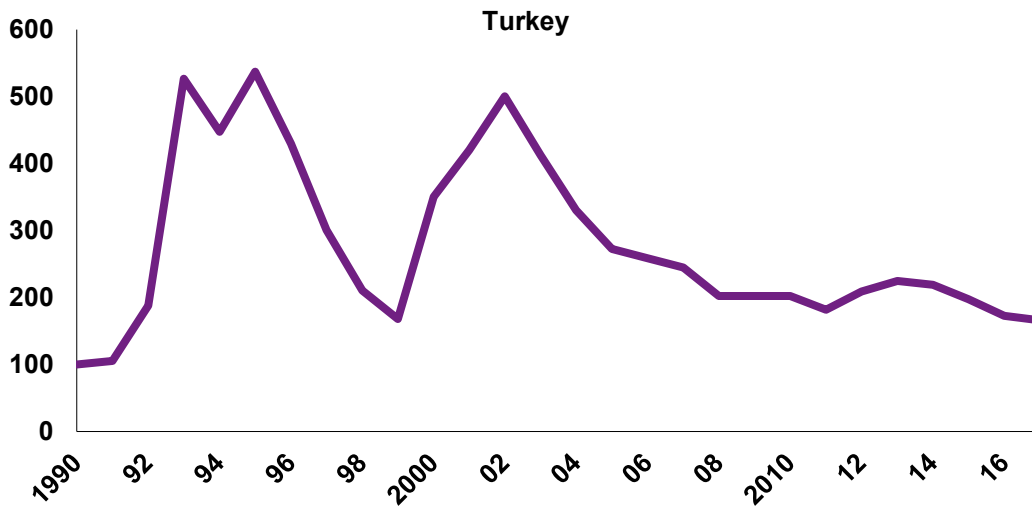
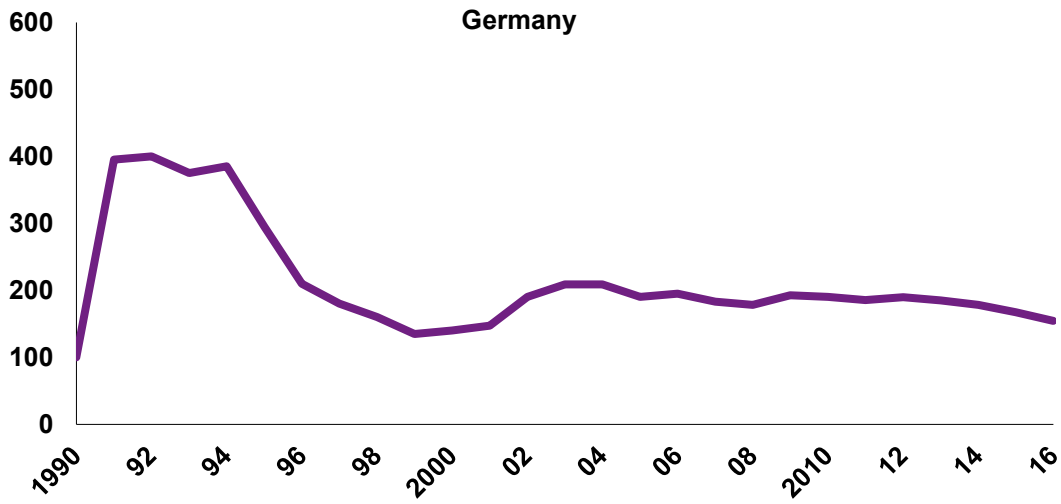
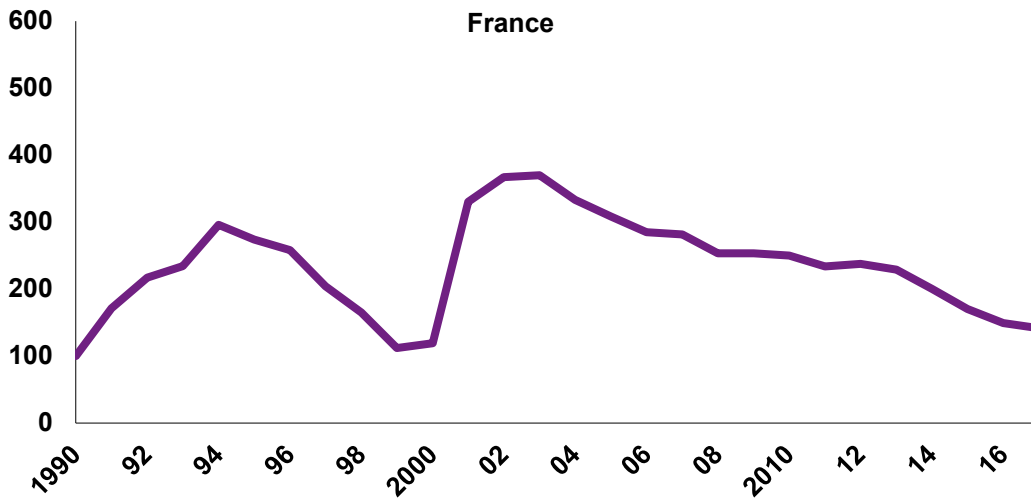
Note: Movements are risk adjusted

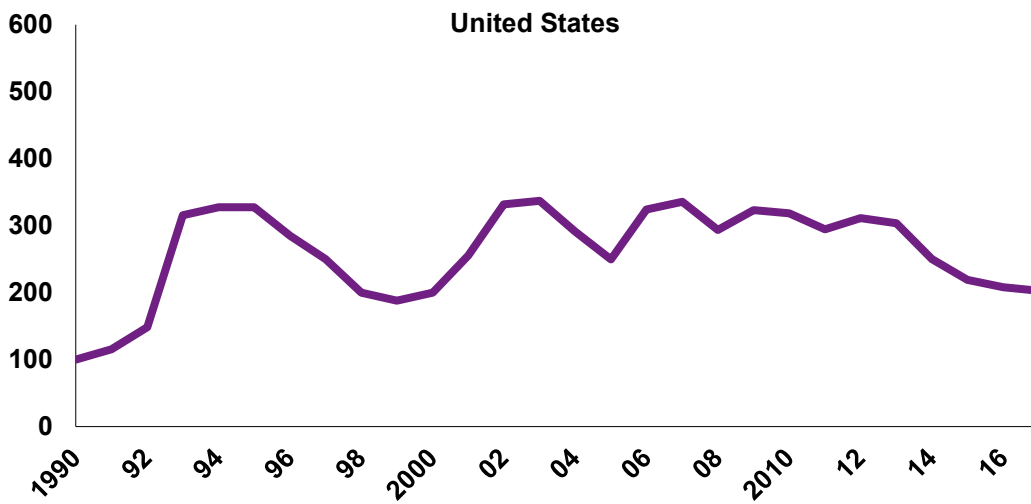
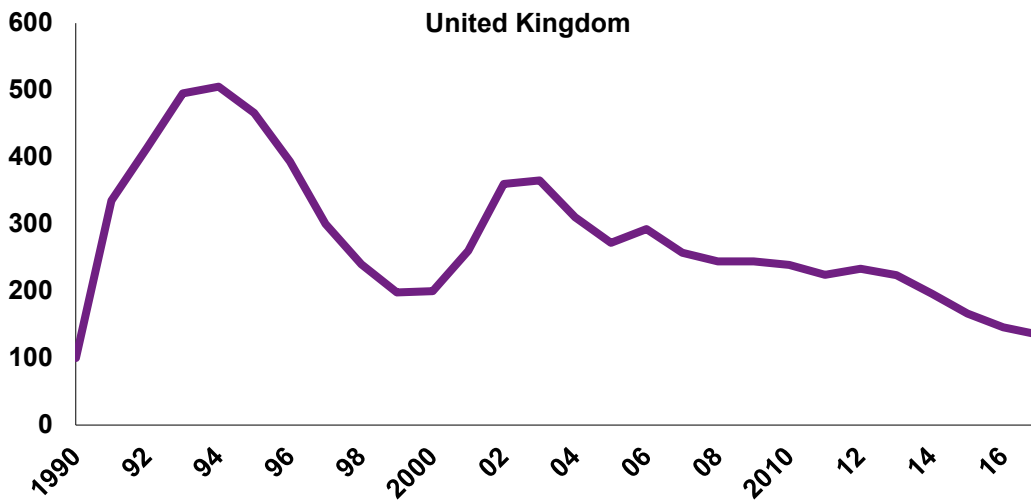
* Move towards performance-based commission

Property catastrophe pricing trends

The charts on these pages display estimated year over year property catastrophe rate movement, using 100 in 1990 as a baseline.







Casualty

Overview

Long term market trends

- All classes are benefitting from largely profitable reported calendar year results and continue to attract capacity seeking portfolio diversification away from property classes
- Less clear whether more recent accident years can develop as favorably due to the following:
 - Economics in long tail classes emerge over time and at wide variance to initial estimates
 - Soft market has taken its toll on both pricing and coverage
 - Significant changes in technology and in societal attitudes to health and safety have favorably impacted frequency in most classes
 - Low interest rates have moderated the inflationary sensitive components of liability claims
- Shifts in loss distribution are giving rise to an increasing concern amongst (re)insurers over systemic threats (not frequency losses) they face in an increasingly inter-connected global eco-system
- Many (re)insurers examining liability risk quantification to narrow the presumed gap between Property and Liability risk management. The results of this strategic initiative will shape risk appetite and ultimately dictate how insurers internally and/or externally finance their liability risk

Short term market dynamics

- Accident year margin compression has taken its toll over the past several years leading to buyers restructuring their reinsurance programs to reduce ceded margin and better leverage healthy balance sheets by increasing retentions (i.e. reducing use of reinsurance and retaining more net premium)
- This trend appears to have slowed due to increasingly competitive original pricing environment with continued excess supply and static demand for the foreseeable future
- Commercial insurers (primarily) are striving to offer Cyber solutions beyond privacy and loss of data, e.g., protection against loss or loss of control of digital assets; economic impact of these threats can dwarf the impact from physical threats
- Presumed inherent accumulation risk and inter-connectivity of Cyber threats is serving as an inhibitor of capacity and risk appetite; improvements and increased confidence in modeling Cyber PML are needed to unlock capacity in the market

Reinsurance dynamics

- Positive adjustments to reinsurance economics still remain possible
- Most reinsurers are adapting with client-specific (not line of business) strategies; this explicitly assigns an economic value to relationships
- Most clients continue to place a high degree of importance on reinsurer continuity in long tail classes, though some clients have been forced to accept some turnover in counterparty support to secure the economics that they require
- Market capacity remains plentiful and competitive while the amount of rate improvement for buyers has slowed

Commentary by territory

Australia

- Continued softening across most lines of casualty business, with reduced rate of softening on some loss affected treaties
- Treaty breadth of cover remains an important consideration for buyers, along with relaxation of administrative burdens
- Although long term relationships are still considered important and prevail in the majority, both buyers and reinsurers are increasingly prepared to disengage if perceived mutually beneficial terms cannot be realized
- Systemic and accumulation risks continue to be of concern for buyers noting reinsurers' appetite for such risks seem to be broadening

Canada

- Broadly, the Canadian casualty market has continued its run of profitability through 2016
- Reinsurer appetite for casualty-related lines of business remains high as reinsurers seek to balance their overweight property portfolios leading to a favorable impact on the supply/demand dynamic for buyers

Europe — Casualty and Motor

- Stable, with clear signs that the downward pressure on pricing is abating
- Major European leading reinsurers have been more strict on pricing requirements
- Loss affected programs have seen rate increases
- With pricing generally flat, extensions in cover provided under treaties have been possible. Examples include new classes or types of risk being covered or extra reinstatements being added
- Generally flat pricing is seen against developments in the original market which could increase exposure to reinsurers. These include, changes to discount rates, investment returns and development of class actions
- Interest in purchasing and selling broad form clash cover is growing and these can include a wide range of classes including Cyber

France/Belgium — General Third Party Liability and Motor Liability

- France: Excess of loss treaty rates are stable; no increase of the limits, scope of the excess of loss treaties extended to Class Action and Ecological prejudice
- Buyers have continued to reduce the buyback rate and/or move to open mortality tables
- For France as well as Belgium, pricing has been put under pressure due to lower financial return expectations
- In Belgium, the new indicative discount rate table for personal injury awards is likely to be announced in January which has created uncertainty and volatility in pricing

Italy — General Third Party Liability

- More and more interest in evaluating/placing combined MTPL/GTPL programs for cost saving reasons
- Programs almost loss free or only impacted by small/medium losses
- Some additional reinstatement requests due to Solvency II requirements
- Capacity and priorities virtually unaltered

Italy — Motor Liability

- Increased frequency of large losses in the range of €2 million/€3 million
- At least four big market losses (€4 million/€6 million), driven by third party losses involving younger claimants
- Deductibles remained almost unaltered despite reinsurers' attempts to attract buyers with more appealing pricing on alternatives with higher attachment points
- Bulk of large loss reserves seem robust and stable
- Low investment yields have reduced reinsurers' discount for long tail business with upward pricing revision in some cases

Korea

- Capacity remains abundant for all Casualty lines as historical performance remains good
- Sizable risk adjusted reductions achieved across the market
- Original motor pricing increased following amendments to local pricing regulations

Lloyd's and London Market

- Theoretical capacity/supply still exceeds demand however new reinsurance capacity has largely stabilized
- Growing interest and new entrants in niche markets such as Cyber, Clash, and Retro
- After multiple years of overall risk adjusted rate decreases, pricing is stabilizing
 - Quota Share ceding commissions stabilizing with fewer increases than flat renewals
 - Excess of Loss pricing more in line with underlying exposure movements
- The main driver of the price and capacity stabilization is greater scrutiny on risk selection and accumulation as a result of prominent market losses i.e., Husky Energy
- Reinsurers are looking to manage down overall accumulation within their portfolios leading to an increased demand for clash and retro covers
- Risk selection has resulted in some reinsurers walking away from programs if they cannot achieve adequacy in margin
- Best in class portfolios with long-standing, proven track records continue to be differentiated and can achieve coverage and pricing improvements

U.K. — Motor Liability

- Stabilizing environment on Periodic Payment Orders brought calmer excess of loss market and attracted potential new entrants
- Most insurers were able to show meaningful increases in original pricing further enhancing renewal prospects
- Reinsurers expressed concerns that depressed yields on safe assets such as government bonds needed to be reflected in increased excess of loss pricing
- The late decision of the U.K. government to review the Ogden discount rate table for personal injury awards in early 2017 introduced further uncertainty into the pricing environment
- Reinsurers broadly prepared to modify contract language to reflect the provisions of the 2015 Insurance Act and the Duty of Fair Presentation though some inconsistency in buyers' approaches observed
- Sliding scale commissions on pro rata treaties contracted

United States — General Third Party Liability

- There is still abundant reinsurance capacity
- Reinsurers are starting to push back on historically broad soft-market terms, but most placements renewed flat
- Reinsurers appear to be most concerned about portfolios with auto-exposed lead excess and umbrella business

United States — Healthcare

- Profitability of U.S. Healthcare liability insurance has narrowed although remains favorable overall
- Claims frequency is stabilizing at levels half those from a decade earlier while indemnity severity trends remain near 0%
- Premium volume for the Medical Professional Liability lines of business continues to moderate due to improved claims experience and competitive market conditions
- Reserve releases have reduced over the past two years although are expected to persist barring a significant change in claim trends
- Reinsurance terms have largely adjusted to reflect the improved claims environment; movements higher or lower are driven by individual account performance.
- Reinsurer support remains strong and capacity plentiful

United States — Motor Liability

- Personal auto claims frequency and severity remain elevated; there are many reasons for this including good economy, low gas prices, and distracted driving due to mobile technology
- Personal and commercial auto carriers have been increasing rates to combat the uptick in loss activity
- Pro rata reinsurance terms remain favorable for buyers but there is mounting downward pressure on ceding commissions, especially on poor performing programs
- Excess of loss reinsurance rates varied, with directional changes depending on individual program loss activity
- Commercial auto reinsurance remains challenging for higher hazard classes while lighter duty operations are viewed more favorably

United States — Professional Liability

- Cyber and transactional risk continue to drive growth for insurers, and as a result, there have been a number of new reinsurance purchases in these lines
- Directors & Officers and Errors & Omissions treaties mostly renewed flat
- Increasingly common to see turnover on reinsurance panels to maintain current terms

United States — Workers' Compensation

- The working layers (typically below \$10 million attachment points) are actuarially priced based on experience and exposure; at January 1, this market was relatively stable, with some pricing increases if there is increased loss development
- The catastrophe market is priced based on capacity charges that are largely benchmarked against modeled catastrophe output and has continued to soften throughout 2016 and through the January 1st renewals; the softening has moderated somewhat compared to recent years
- From a buyers standpoint, companies are stratifying their catastrophe programs with multi-year contracts in order to increase program stability should there be a market moving event

Casualty rate movements

Territory	Pro rata commission	XL — No loss emergence % change	XL — With loss emergence % change
Australia	N/A	-5% to -12.5%	0% to -5%
Canada	0% to +5%	-10% to -15%	-5% to +5%
Europe — Casualty and Motor	0% to -5%	0% to -3%	0% to +15%
France	N/A	0% to +5% (France and Belgium)	+5% (France) +10% to +15% (Belgium)
Italy — GL/EL/PL	N/A	-5% to -10%	-5%
Italy — Motor	N/A	-5%	-5% to +5%
Korea	0%	-15%	N/A
Lloyd's and London Market	0%	0% to -5%	0% to +5%
Netherlands — Motor	N/A	0% to -2.5%	N/A
South Africa —GTPL and Professional Liability	0%	0%	0%
United Kingdom — Motor Liability	0%	0% to -5%	0% to +5%
United States —GTPL	-1% to +1%	0% to -2.5%	0% to +5%
United States — Motor Liability	-3% to +1%	0% to -5%	+5% to +15%
United States — Professional Liability	0%	-5%	+5%
United States — Workers' Compensation	0% to -2%	Working layer: 0% Catastrophe layers: -5% to -8%	Working layers: +5% to +8% Catastrophe layers: N/A

Note: Movements are risk adjusted

Territory	Pro rata commission	Risk loss free % change	Risk loss hit % change	Catastrophe loss free % change	Catastrophe loss hit % change
United States — Healthcare	0% to +2%	0% to -5%	0% to +5%	N/A	N/A

Note: Movements are risk adjusted

Specialty

Commentary by line of business

Aerospace

- The aviation market continues to show growth in both fleet values and passenger numbers
- The direct airline market continues to soften, however Q4 renewals for major airlines suggest there may be some resolve from following markets; differentials between lead and following market terms are converging and in some instances following markets are achieving better than lead terms
- The general aviation and aerospace sectors continue to suffer from sustained overcapacity and reductions are in the region of 20%-30%
- Reinsurance market capacity is still in abundance, and most programs have achieved reductions of 10% after consideration of exposure movement, but the lack of large losses means that the reinsurance market continues to be profitable
- From a coverage perspective Q4 developments have seen a broadening of 'Grounding' and 'War Liability' cover in the excess of loss market

Engineering

- Surfeit of capacity available for Specialist Engineering and Construction reinsurance programs
- New market entrants keen to build up their portfolios
- Major resistance to improvements in treaty terms
- Quota share remains key capacity driver for Construction accounts
- Buyers are driving reinsurer categorization

Global — Trade Credit

- No significant change in reinsurance capacity
- Increased claims activity, mainly from emerging markets

Marine and Energy

- All clients continue to be differentiated by reinsurers based on their loss history, incomes, exposures and portfolio make up
- Capacity remains plentiful for most classes of business and products, although the continued decline in income is bringing pro rata treaties under increased scrutiny
- 1 January 2017 placements were firm ordered later than in recent years

Non-Marine Retrocession — Global

- Pricing stabilizing with the emergence of a pricing floor
- Limited new entrants but additional capacity for tail risk
- Non-modelled losses continue to surprise both reinsurers and retrocessionaires
- Attritional losses have used up buyers' catastrophe budgets therefore no longer a buffer for mid-sized catastrophe events

Personal Accident/Life Catastrophe — Global

- There is an abundance of capacity
- New capital continues to consider entering the class
- Seen as a diversifying class for many writers
- No major catastrophe insured loss of life event for the last 15 years driving the softening of rates

Political Risk

- The claims activity and number of monitored situations being reported in 2015 has continued into 2016
- As per 2015, direct pricing remains under pressure due to an abundance of insurance capacity; despite this, reinsurance capacity remained sufficiently in excess of demand
- Excess of loss pricing remained flat
- Terms and conditions for proportional covers were unchanged

United States — Medical Excess

- Medical reinsurance market remains competitive; ample capacity with over 20 reinsurance markets and new entrants
- Continued increase in frequency and severity of large medical claims; excess of \$2 million per person per year is now a working layer
- Adverse risk experienced by carriers that are writing ACA business, both on and off the Exchanges
- Temporary government reinsurance program ends December 31 2016 on ACA business, leaving insurers more exposed
- Trend and leveraged trend increases for January 1, 2017 renewals for accounts with losses
- Continued increase in large medical claims expected due to increases in technology and high cost pharmaceuticals

United States — Surety

- Continued over-capacity in a benign loss environment; capital continues to build and excess capacity remains, however, new participants are entering at a slower pace than experienced in the recent past
- Market softening continues following several years of compounding price reductions; risk adjusted rate reductions continue although their magnitude are less than prior years; any indication of widespread pricing stabilization remains elusive
- With new entrants seeking opportunities to gain a foothold in the market, existing reinsurers continue to focus on maintaining/growing market share despite discussions around lack of pricing adequacy
- Slight expansion in breadth of cover along with a relaxation of treaty conditions, however, the focus during renewal discussions centered around pricing
- Demand for increased top-end capacity remains from a number of buyers in response to further market softening; as for retentions, there does not appear to be a clear consensus with some buyers increasing attachment points and others looking to purchase additional underlying layers

Specialty rate movements

Territory	Pro rata commission	Risk loss free % change	Risk loss hit % change	Catastrophe loss free % change	Catastrophe loss hit % change
Aerospace	0% to +2%	-7.5% to -10%	N/A	-7.5% to -10%	N/A
Engineering	+0.5%	-7.5%	-2.5%	-7.5%	-2.5%
Global — Trade Credit	0% to +1%	0%	+20% to +30%	N/A	N/A
Marine	Varies	Varies	Varies	Varies	Varies
Non-Marine Retrocession	0%	-5% to -10%	0% to +5%	0% to -5%	+7.5% to +10%
Political Risk	0%	0%	0%	0%	0%
United States — Medical Excess	0%	0% to +15%	+10% to +40%	N/A	N/A

Note: Movements are risk adjusted

Capital Markets

ILS and M&A commentary

- Spreads for liquid insurance-linked securities (ILS) such as catastrophe bonds declined by 10% or more in the second half of 2016
- ILS investor appetite for new risks continues to expand, e.g., the recent Horse Capital I motor third party liability deal on behalf of Generali
- Rising "risk free" yields increase attractiveness of U.S. dollar ILS investments
- ILS investors continue to grow assets under management
- Hurricane Matthew proved to be more of a scare than a major loss event for ILS investors
- After a slow start to 2016, M&A activity in the global insurance sector has picked up over the past few months
- Deal volume will still remain well below the record 2014-15 levels, in Europe, for example, YTD 2016 deal volume (for transactions above \$500 million) is \$4.5 billion, versus the \$20 billion+ seen in each of 2014-15
- The most noteworthy recent M&A deals Liberty's acquisition of Ironshore, Fairfax's acquisition of Allied World and Sompo's acquisition of Endurance, demonstrate that scale and global diversification remain highly relevant drivers
- Lack of organic growth is also driving M&A interest as is, in Europe, the implementation of Solvency II
- In Asia, Chinese acquirers continue to show interest in western assets, exemplified by China Oceanwide's purchase of Genworth
- There is also growing interest in run-off markets, both for life and non-life books
- We expect M&A activity to remain at the more buoyant H2 2016 level as we progress into 2017

Note: Capital Markets commentary provided by Willis Capital Markets & Advisory www.willis.com/client_solutions/services/wcma

Global and local reinsurance

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