

Willis Re 1st View

Markets Diverge

January 1, 2020

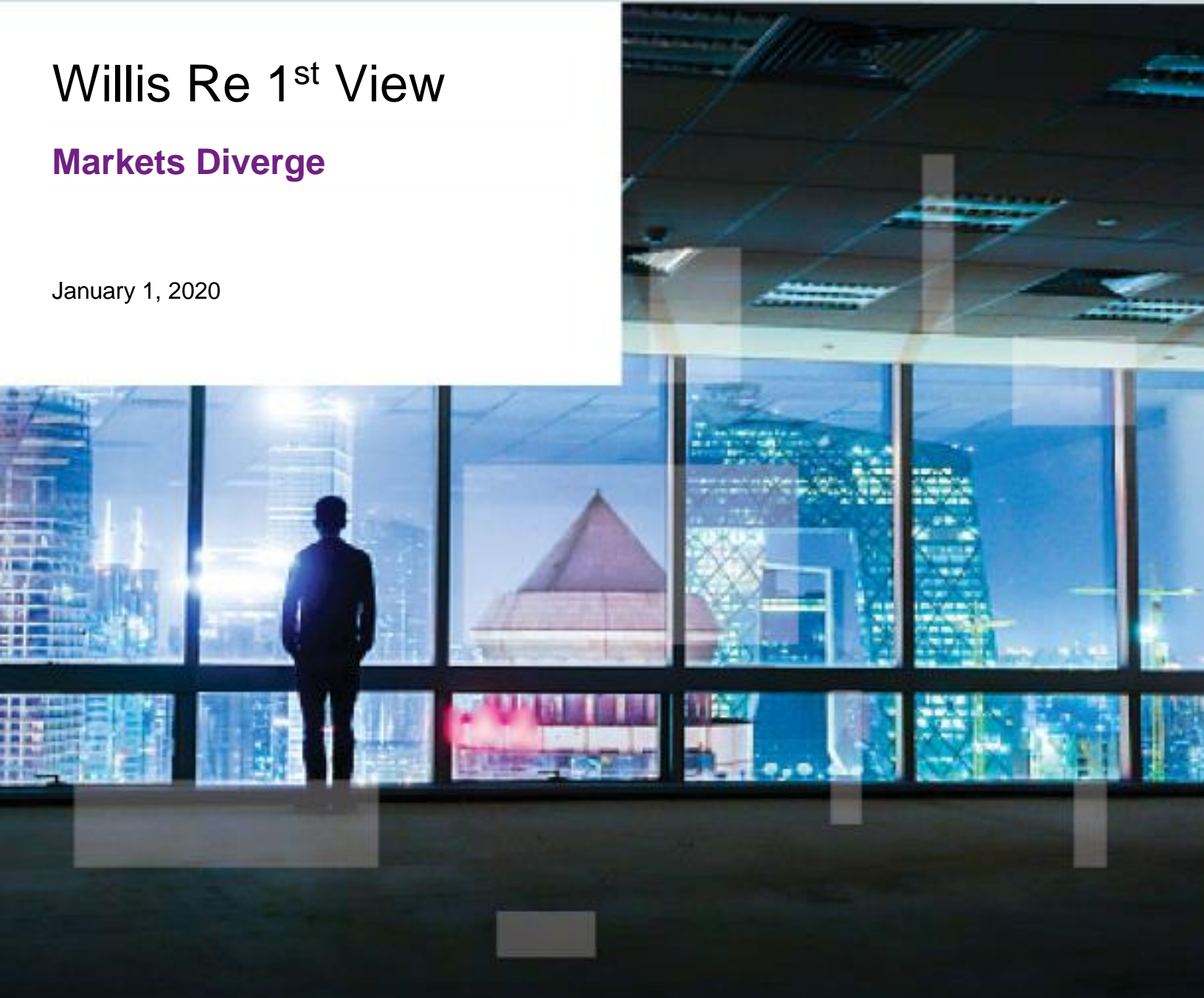


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1st View

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.

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Markets Diverge

The January renewal season concluded later than in previous years, with some placements still not completed at year-end. Reinsurers have been resilient, but much more judicious in how they allocate their capital. Renewals saw significant variation in pricing and capacity depending on the geography, product line, loss record and individual client relationships. This variance resulted in a market demonstrating several views, in both pricing and terms & conditions, with more divergence than at any point in many years.

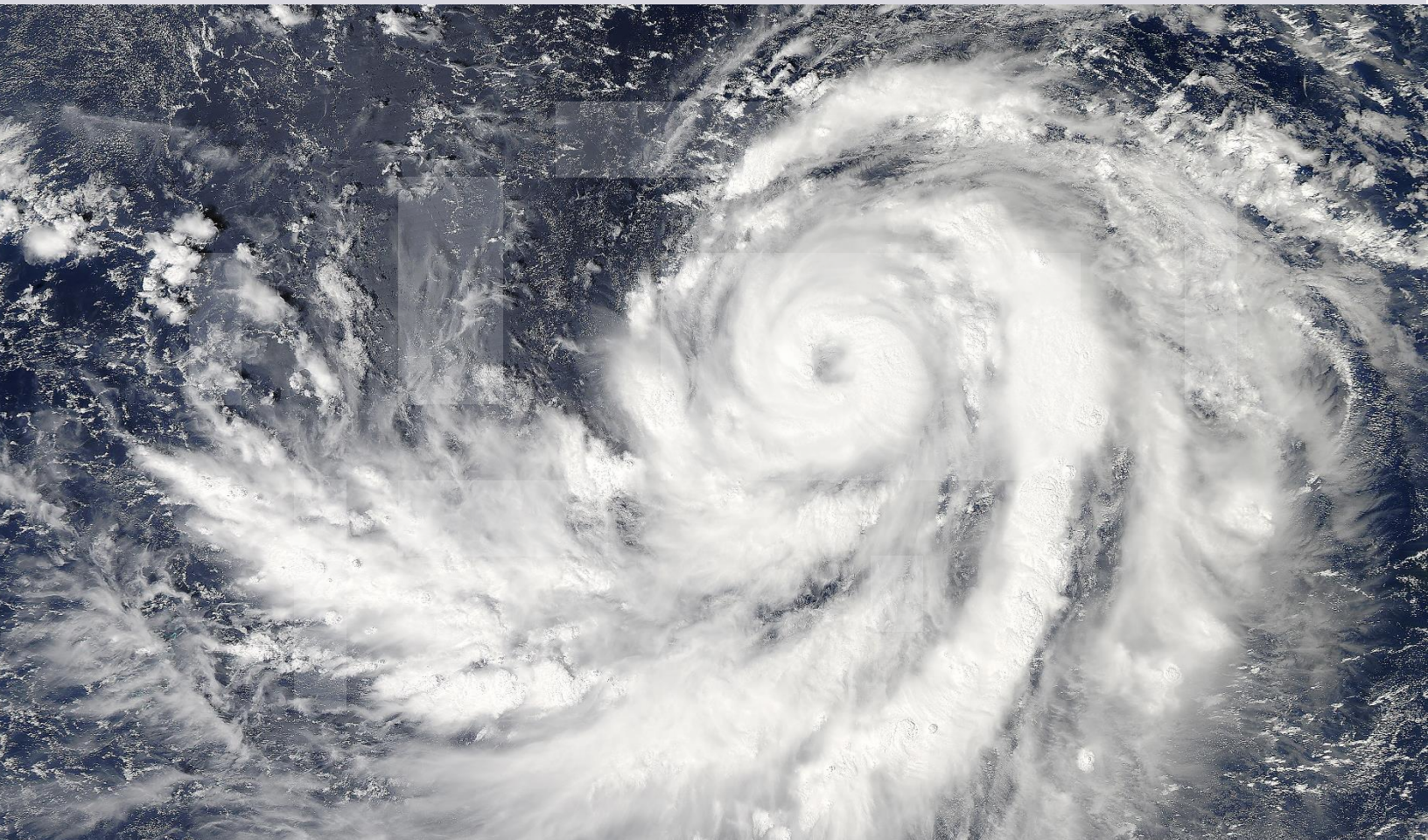
U.S. placements proved more challenging than international renewals, with U.K. motor and some international liability accounts being the exceptions to the rule. Property catastrophe treaty accounts at January 1, most of which were loss free in 2019 and not exposed to loss development (which will be a consideration during April and June renewals), proved less demanding than non-catastrophe-exposed business. While risk-adjusted pricing for the loss free U.S. catastrophe renewals was flat to slightly up, international catastrophe business renewed flat to slightly down.

Reinsurers have been resilient, but much more judicious in how they allocate their capital.

Liability accounts faced the most prominent pricing pressure, particularly those programs showing prior-year loss development and risk programs with an increase in loss frequency and/or severity. A further disparity exists between pro-rata placements for long-tail liability business, showing less volatility in year-on-year pricing, and excess of loss renewals – several of which have seen sharp pricing increases as a result of the market view that severity has increased.

Retrocessional property catastrophe business has also shown signs of stress, particularly with aggregate placements. Some re-pricing and re-structuring was necessary in order to secure required capacity, especially where buyers were seeking large limits. Occurrence placements were largely straightforward, especially for those buyers who have maintained consistent long-term counterparty relationships.

Insurance-Linked Securities (ILS) capacity growth broadly stalled during the last 12 months, and in some cases reduced, with collateral trapped from losses emerging in 2019 as well as loss development from prior year events in 2017 and 2018. The impact of the ILS capacity reduction has been most acutely felt on aggregate collateralized retrocession contracts, quota shares/sidecars and lower end pillared products. Non-indemnity and occurrence form 144a cat bond structures are coming back into favour, as they allow a wider range of ILS investors to be accessed, as well as a more liquid structure that appeals to ILS investors. However, a small number of ILS funds showed organic capital growth and could therefore gain access to new retrocessional and specialty business at improved prices along with traditional reinsurer capacity.



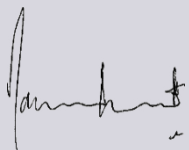
Primary pricing trends have continued to outpace reinsurance pricing movements. This has allowed reinsurers to factor in this positive development thereby reducing pressure to heavily adjust ceding commissions for many pro rata renewals. Some clients, particularly large global insurers, have been willing to retain more risk given the improvement in the underlying business. Other clients have made the transition to excess of loss structures if they were unable to agree satisfactory ceding commission terms with reinsurers.

The upshot of this is a clear divergence in market views on liability. Some reinsurers are openly retreating and cutting back their in-force portfolios while others, who have been more bearish in prior years, are seeing opportunities to capture business and relationships in a rising primary rate environment that is forecast to continue for the next few years. Some reinsurers completely withdrew from writing certain lines of business, most obviously in long-tail lines, irrespective of underlying economic improvements. This was compounded by Lloyd's continued remedial action leading to a few syndicates not trading forward. Furthermore, capacity for managing general agents (MGAs) and other similar structures requiring delegated underwriting authority, including funds at Lloyd's capital, has been squeezed with client and risk selection paramount.

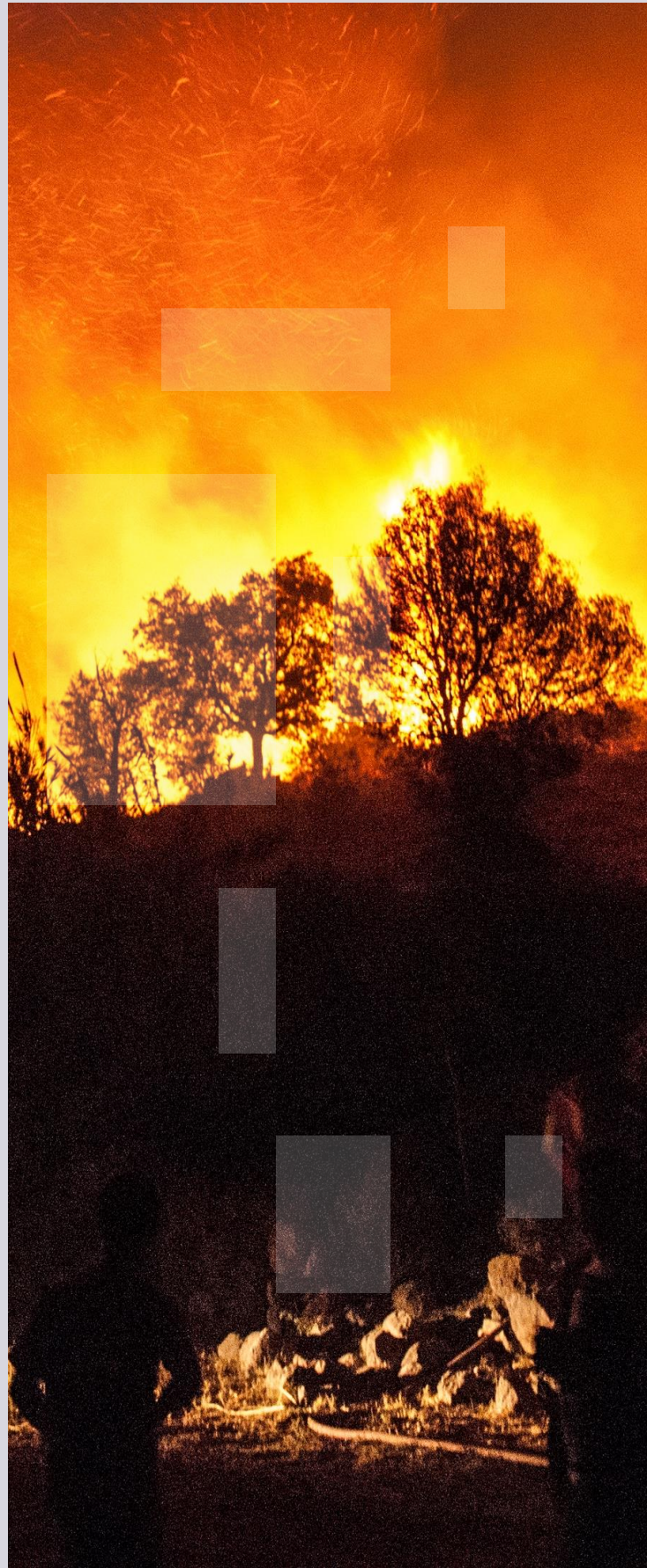
Overall demand for reinsurance has remained strong and, other than retrocession aggregate and some treaty aggregate covers, most buyers have been able to secure the capacity they require albeit at considerably increased prices for some stressed classes of business. Client-centric underwriting by reinsurers was evident, with preferred clients being able to achieve their renewal requirements both in terms of pricing and conditions more easily than those viewed as non-core partners. An understandable outcome of this has been a wide variance in the quoting process which increased the challenge of establishing market clearing prices.

In addition to these pricing and capacity variations, reinsurers seeking to improve their profitability have been looking at more fundamental strategic actions to address perceived under-performance. Merger and acquisition (M&A) activity has been subdued. However, the legacy market continues to grow rapidly as some reinsurers fail to find acceptable M&A options to trade forward, and others move more aggressively to exit certain unprofitable lines.

The renewal period witnessed some difficult negotiations, but the reinsurance market managed to provide its clients with ongoing capacity across most lines of business. The market continues to react in a logical fashion, providing sustainable support for the primary insurance industry, thereby helping to underpin wider market growth.



James Kent, Global CEO, Willis Re
January 1, 2020



Property

International Overview

- Sufficient capacity available for buyers at attractive terms.
- Reinsurers didn't achieve "hoped-for" price increases (on loss free international catastrophe business) given a persistent oversupply for international catastrophe capacities, resulting in flat to moderate risk-adjusted reductions for Asian, Latin American and EMEA renewals.
- Some reduction of catastrophe capacity offered by medium sized retrocession dependent markets. however, this didn't result in placement shortfalls.
- Increased divergence in reinsurer views of risk-adjusted terms and attractiveness of renewal offers.
- Noticeable increase in reinsurers adopting a client centric approach with reinsurers focusing their capacities on renewals vs. new business.
- Clients in the EMEA region argued that the large gap between modelled losses and actual loss experience on European catastrophe programs during the past 30 years needed to be reflected in pricing levels.
- Overall, it was a later than usual renewal cycle; however, once the market had formed, the placement process proved to be orderly and fairly "business as usual" in nature.

Commentary grouped by territory

Asia

- Risk-adjusted reductions common across the region, but fewer programs have reducing slip premiums.
- Proportional terms and conditions not noticeably hardening, commissions holding.
- Increasingly segmented approach taken by reinsurers, pricing differentials often very significant.
- Increased appetite, flexibility and creativity in structured solutions, increased number of reinsurers offering terms.
- Increased interest and engagement in catastrophe model evaluation.

Austria

- There were significant snow pressure losses in Austria during 2019, which affected the lower layers of several catastrophe programs.
- Appetite for Austrian catastrophe business remained similar to previous years.
- Reinsurers still sought Austrian short-tail business as diversification, and new reinsurer subsidiaries in Zurich sought to participate in some programs.

- Risk-adjusted reductions were seen for most loss-free catastrophe programs, with loss-affected programs renewed at terms closer to risk-adjusted flat.
- The majority of programs were placed with stable reinsurer panels.

Australia

- Overall adequate supply of capacity for Australia and New Zealand programs as they represent a diversifying exposure for global reinsurers.
- Continued reinsurer pricing pressure on loss affected layers, with buyers experiencing some reinsurer panel turnover.
- Buyers focusing on driving efficiency in purchase, looking to expand both vertical and horizontal protections.
- Major reinsurers are continuing to segment their client base and are seeking to grow key client relationships.

Canada

- The primary market is experiencing hardening across all major property lines.
- Commercial and strata business lines are seeing +20% rate increases, driven by both recent years' underwriting experience and segmented supply shortages, particularly from Lloyd's syndicates.
- Following a benign loss year, risk-adjusted catastrophe reinsurance pricing remained in-line with 2019 renewals.
- For per risk placements, single-risk losses have continued to adversely impact lower layers.
- Reinsurance pricing continued to firm on loss-affected layers of programs. Pricing of loss-free per risk layers remained flat year-on-year.

Caribbean

- Hurricane Dorian loss is estimated to be between \$2 billion to \$3 billion.
- Original rate increases are expected only in the Bahamas following Dorian; the rest of the Caribbean, including Puerto Rico, are seeing generally flat renewal pricing.
- There continues to be more supply than demand for reinsurance capacity; however, the capacity gap is closing.
- Clash with the U.S. is influencing how reinsurers deploy their capacity in the region.

Central & Eastern Europe

- Catastrophe placements continue with downward pricing trend. However, reinsurers were more disciplined compared to previous years.
- Property risk placements dependent on program performance. Some saw large rate increases, some remain stable.
- Limited ILS participation at the renewal, mostly owing to strict pricing conditions in the traditional market.

China

- Primary rates remain at a low level and treaty loss ratios remain high.

- Pro-rata final terms improved to benefit reinsurers, but placements are more difficult.
- Onshore reinsurers grew on whole account cessions, while offshore reinsurers withdrew participations.
- Excess of loss treaty pricing still challenging with less active quoting markets, but placements smoothly achieved at final terms.

France

- Property catastrophe excess of loss continued to experience risk-adjusted reductions with an average of -2.5%, but with more premium on the slip, reflecting growth in underlying portfolios.
- Although several per risk treaties have been impacted, reinsurers' appetite remained strong in this sector of the market.
- Aggregate structures have proven to be more difficult due to losses in recent years; across renewals, these often had to be restructured (i.e. cedants taking higher retention) and re-priced with significant premium increases.
- Cat bond investors interest remains strong for French Wind with favorable pricing conditions – as illustrated by Covéa's sponsored Hexagon II - a EUR \$120 million French windstorm cat bond.
- Very small participation of ILS funds at the renewal, as pricing considered challenging, even on a fronted basis.
- In the aggregate, France saw fewer over placements on property catastrophe programs year-on-year.

Germany

- Increased buyer demand for per event and aggregate reinsurance capacity, driven by underlying economic growth and the primary market witnessing an increase in take-up of elemental perils.
- Most German programs saw another loss free natural catastrophe year, but some renewals were influenced by the severe hail storm which hit Munich in June.

- The imminent arrival of Brexit was not a topic, as German buyers adjusted their panels last year if required.
- Reinsurers still sought German short-tail business to diversify their portfolios. New players offered additional reinsurance capacity.
- Focus of reinsurers was on “risk-adjusted flat” price movement. With catastrophe renewals firmed up at flat to moderate reductions, only a few stricter reinsurers reduced their shares or came off, slightly reducing over placement levels.
- Apart from newcomers, little appetite from most established markets to grow their market share.
- ILS fund renewal behavior stable, participating only on a few programs on a fronted basis.

Indonesia

- Continued appetite for Indonesian business, especially for excess of loss programs, led to further rate reductions across all lines of business.
- Overseas reinsurers are cautious with pro-rata treaties due to deterioration in results.
- Even programs which experienced losses or loss creep from 2018 events saw risk-adjusted reductions.
- Overall, continued soft market conditions in Indonesia across all programs.

Italy

- Catastrophe renewals drove the overall property and casualty placement trends; non-peak/non-modeled perils were the key driver of renewals.
- 2019 was characterized by abnormal frequency and severity of natural catastrophe events (i.e. atmospheric events). This follows the 2018 year, which was already affected by frequency events.
- More buyers sought combined risk/event programs.
- Buyers looked to purchase increased capacity due to the increase in their

underlying exposures; retention levels were mostly unchanged.

- Smaller reinsurers gained market share, taking advantage of some larger reinsurers showing outlying discipline and not being as flexible.
- This led to a wider range of quotations being received, with less instances of oversubscribed programs.
- Aggregate excess of loss renewals were under pressure due to recent loss activity.
- Clients and reinsurers successfully adopted a more diligent approach in an effort to align all parties’ interests and to find more sustainable solutions.
- Very small participation of ILS funds at this renewal as pricing was challenging for funds even on a fronted basis.

Latin America

- Chilean riots are expected to generate a market loss of \$2 billion to \$2.5 billion, affecting many proportional programs and lower layers of catastrophe excess of loss programs.
- Loss occurrence definitions for riots have been inconsistent across the market, both in terms of hours clauses and geographical scope.
- These events have created further tightening of Chilean capacity, with some reinsurers reducing their exposures for 2020.
- Other South American countries have experienced strike, riot and civil commotion events, but to a lesser scale than with Chilean business.
- Reinsurers’ appetite for political risk in the region is undergoing a thorough review, subject to underwriting changes implemented by insurance companies across the region.
- Latin America is observing a risk-adjusted flat renewal on loss free programs, while loss affected property programs are seeing rate increases up to +15%.

Middle East

- Pro rata treaties conditions have remained largely flat. There have been some relaxing of wording restrictions, but the financial terms have largely remained unchanged.
- Volume has been the key driver. Cedants with large volumes have managed to achieve increased capacities in some instances.
- Loss free excess of loss covers have seen -5% to -7.5% discounts despite initial attempts by the reinsurers to increase prices.
- Loss affected excess of loss covers have seen risk-adjusted price increase of approximately +5%.

Netherlands

- No large catastrophe losses in 2019 and, as such clients, pushed for reductions; however, reinsurers were not always willing to offer these.
- Reduced support for programs with risk-adjusted reductions, with reinsurers either reducing their shares or declining.
- On loss-free per risk programs, cedants achieved rate reductions with expiring markets.

Nordic Countries

- The Nordic region enjoyed another year of without major weather-related events.
- The benign natural catastrophe period (since approximately 2013), together with the region being a diversifier for reinsurer portfolios, meant that appetite for Nordic property reinsurance remained high.
- Catastrophe programs saw stable support from long-standing markets, with additional capacity from some new entrants.
- Due to high supply and positive results, catastrophe renewals ended up on average around -3.5% risk-adjusted down. Only a few reinsurers decided to downsize or pull out, as the pressure on retrocession prices led to a reduction in their margins.
- 2019 saw a continuation of medium-sized risk losses and deterioration from previous

years' losses impacting per risk treaties, which has led to a more diverse view of appropriate pricing level and modest price increases on many programs.

- Pro rata treaty results in the region have been mixed, with an especially noticeable and continuing trend of increasing mid-sized property claims.
- Appetite for proportional business is markedly lower, with downwards pressure on commission terms.
- Very limited participation of ILS investors, although rated balance sheets for ILS funds are starting to garner some interest in the region.

Turkey

- Reversal of historic trend saw Turkish Lira strengthen, prompting higher limit demand for Euro-denominated property excess of loss programs.
- Increased spend provided some price relief to buyers with overall risk-adjusted movement flat, following two consecutive years of increases.
- Proportional property treaties saw little evidence of increased support despite projected improvement in underlying earthquake rates following implementation of new seismic hazard map.
- Launch of state reinsurer Turk Re introduced significant new proportional capacity to the market.

United Kingdom

- Pricing was broadly risk-adjusted flat, with some modest reductions across the market after another year of benign natural catastrophe loss experience.
- Greater divergence in reinsurer views this year, driven by recent international natural catastrophe losses, increased retrocession costs and various catastrophe model adjustments impacting some reinsurers more than others.
- Some greater resistance to broadening of non-monetary terms and conditions (catastrophe and risk).

- Risk excess of loss market continues to be more challenging than the natural catastrophe, albeit more nuanced by client portfolio. Increased spend in this market is driven by continued loss experience and/or growing exposure.

underlying market hardening, with investors seemingly requiring a greater risk-adjusted margin relative to prior year issuances.

United States

- While capacity was anticipated to be impacted, owing to trapped ILS capital and a lack of retrocession availability, capital supply was still sufficient to meet demand. Significant retrocession providers returned to the market in the last two weeks.
- Cedants with growing portfolios benefited from headline reinsurance premium increases, which helped alleviate risk-adjusted pricing pressure; conversely, those with reducing portfolios found it harder to achieve commensurate pricing decreases.
- Market clearing prices for smaller capacity programs were generally less than for those seeking to place significant limits.
- Minimum rates on line at the top end of catastrophe programs remained stable.
- While per risk pricing was driven by individual program performance, that market proved harder than the catastrophe market, which continued to be driven adequate capacity.
- With some Lloyd's syndicates going into run off and others taking firmer positions on rate increases, the London market authorized capacity decreased; however, this decrease was replaced by new capital and a strong supply from existing markets.
- Regional cedants continued to exhibit strong demand for aggregate covers despite pricing pressures due to loss experience. Aggregate capacity was provided by reinsurers as part of a broader client-centric trading relationship.
- In Q4 2019, the cat bond market saw two repeat sponsors (USAA and CEA) seek ILS coverage for North American Property risks. These transactions revealed an

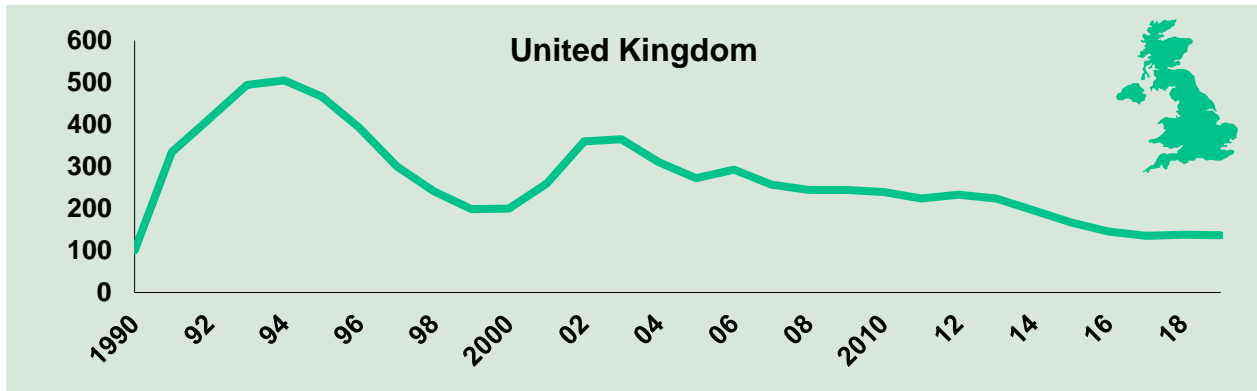
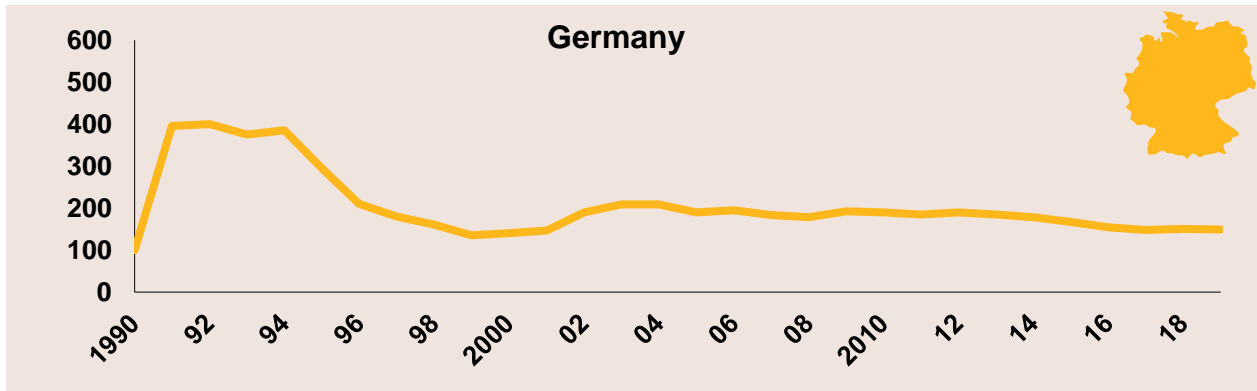
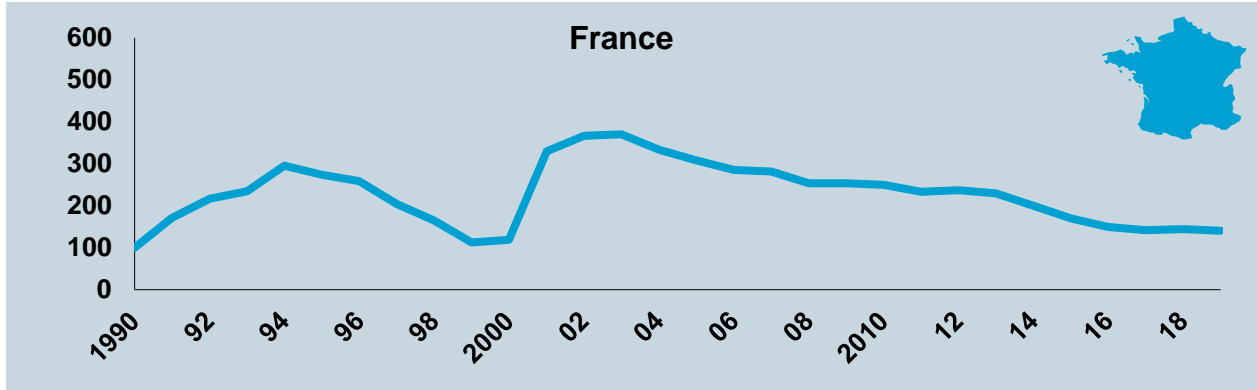
Property rate movements

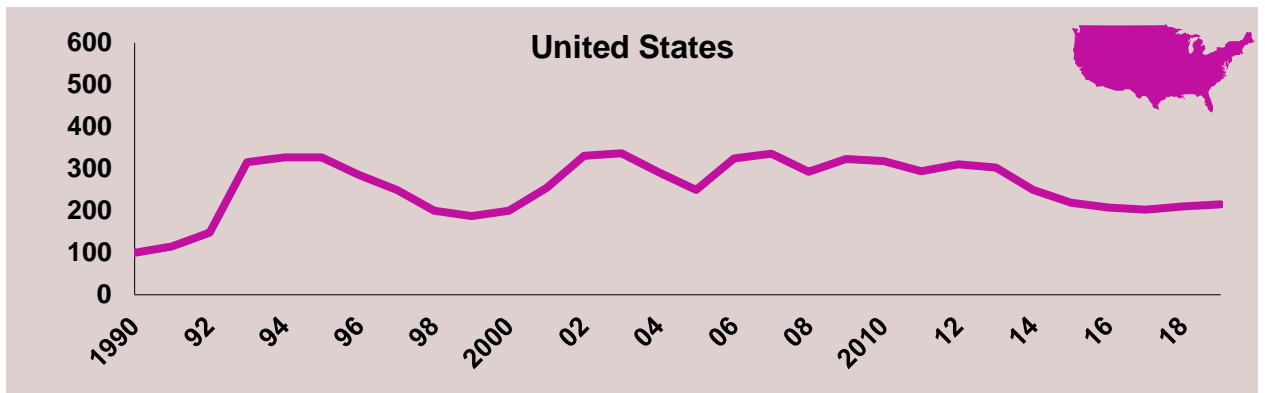
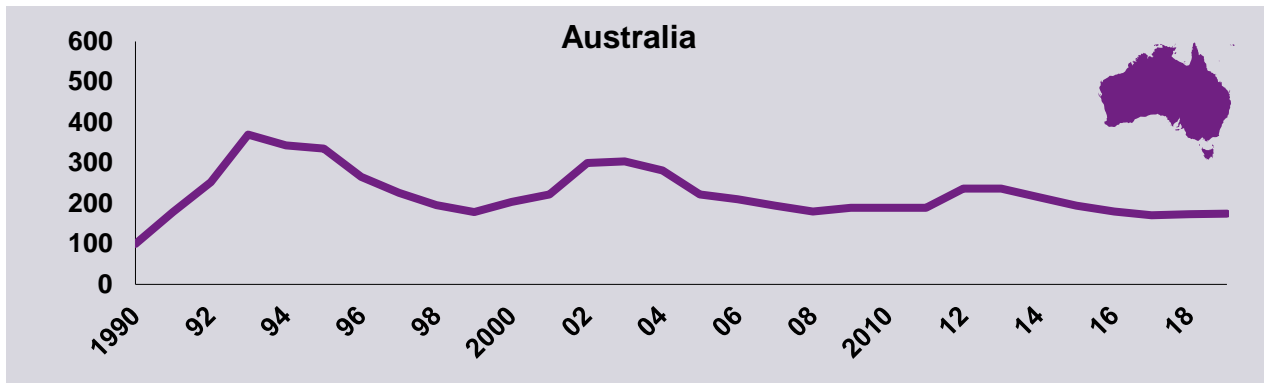
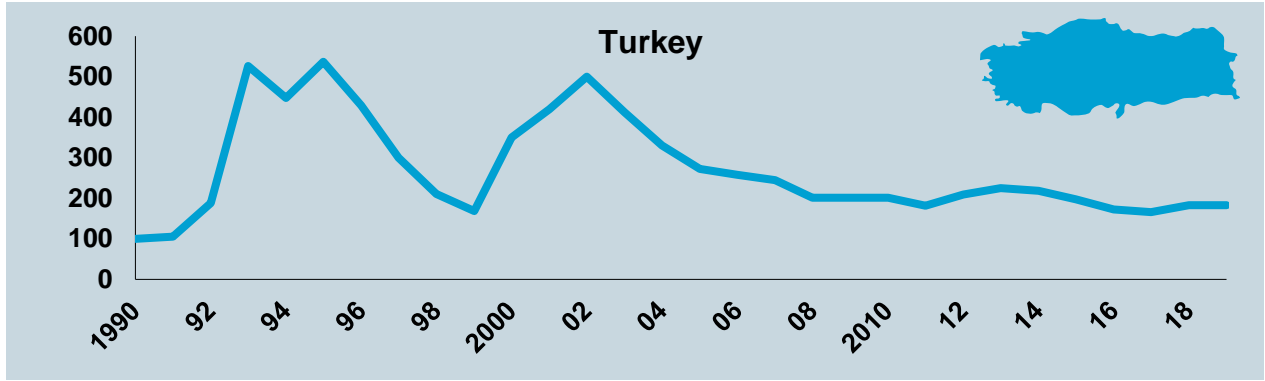
Territory	Pro rata commission	Risk loss free % change	Risk loss hit % change	Catastrophe loss free % change	Catastrophe loss hit % change
Asia	0%	-5% to -2.5%	N/A	-7.5% to -2.5%	N/A
Australia	N/A	0% to +2.5%	+2.5% to +5%	0% to -2%	Varies
Austria	-1% to 0%	N/A	N/A	-7% to 0%	0% to +2%
Canada	-3% to +1.5%	0% to +10%	+10% to +40%	0% to +5%	+5% to +10%
Caribbean	0%	0%	+5% to +10%	0% to +5%	+5% to +15%
Central & Eastern Europe	N/A	-2.5% to 0%	+5% to +20%	-5% to -2.5%	+2.5% to +7.5%
China	-2% to 0%	0% to +10%	N/A	-3%	-8% to +6%
France	N/A	-5% to 0%	+5% to +15%	-5% to 0%	+3% to +10%
Germany	-1% to 0%	-2% to 0%	N/A	-3.5% to 0%	+2.5% to +7.5%
Italy	N/A	-2% to +5%	-1% to +15%	-3.5% to 0%	0% to +10%
Indonesia	0% to +2.5%	-12.5% to -7.5%	-10% to -5%	-12.5% to -7.5%	-10% to -5%
Latin America	0%	0%	+5% to +10%	0% to +5%	+5% to +15%
Middle East	0%	-5% to -7.5%	0% to +5%	-5% to -7.5%	0% to +5%
Netherlands	0% to +2.5%	-5% to 0%	0% to +10%	-5% to 0%	N/A
Nordic Countries	N/A	-0%	0% to +10%	-5% to 0%	N/A
Taiwan	N/A	-5% to +5%	-2.5% to +7.5%	-5% to +5%	N/A
Turkey	0%	0%	N/A	-5% to +5%	N/A
United Kingdom	N/A	0%	+5% to +10%	-2.5% to 0%	N/A
United States	-2.5% to 0%	0% to +10%	+10% to +50%	0% to +5%	+10% to +20%

Note: Movements are risk-adjusted.

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.

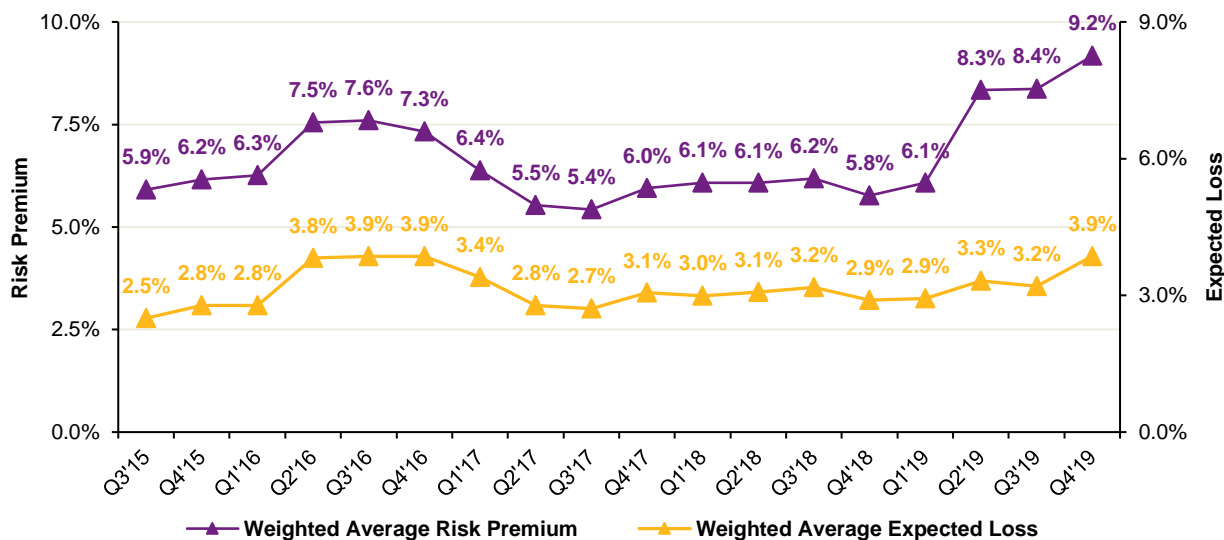




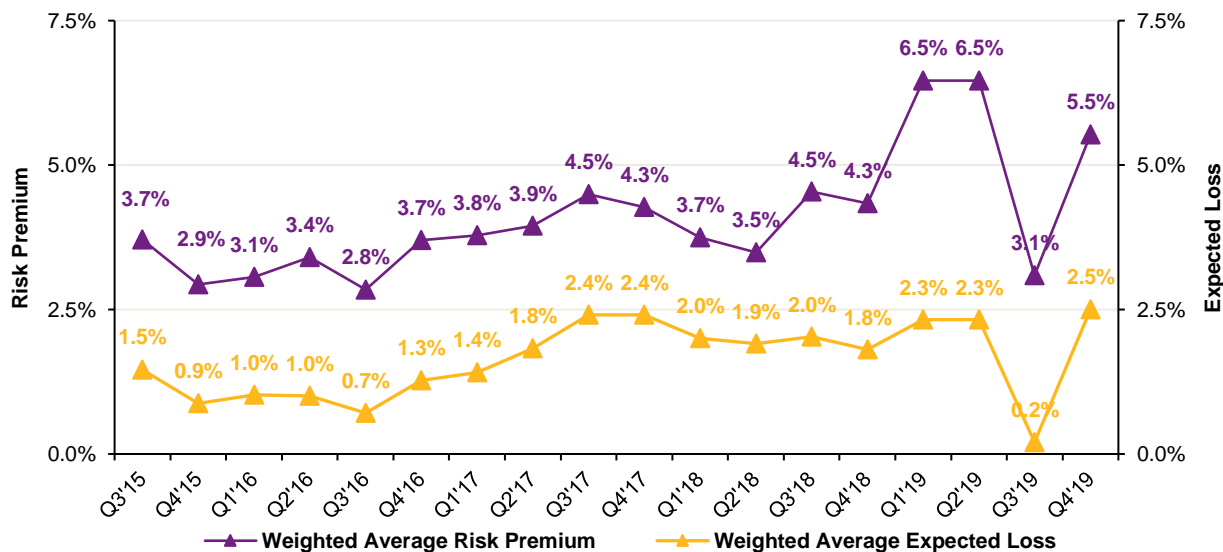
ILS Update

ILS markets have a prominent influence in the retrocession market participating on a collateralized basis in excess of loss form, proportional form (sidecars) and/or via direct client participation through reinsurer managed ILS funds. End investors allocating to ILS are reviewing their allocations in the space, following disappointing performances in 2018 and 2019. The charts set out below show the changes in the average risk premium and expected loss for both U.S. wind and non-U.S. wind publicly traded cat bonds, along with the capacity development of the cat bond market, and a comparison of the yield on cat bonds as against two other comparable investment classes.

Quarterly long-term U.S. wind exposed weighted average risk premium and expected loss



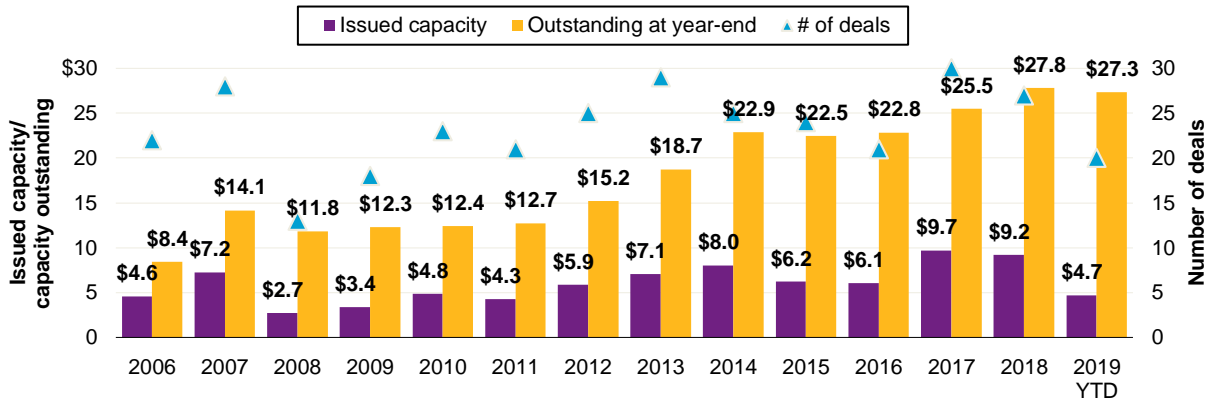
Quarterly long-term non-U.S. wind exposed weighted average risk premium and expected loss¹



Source: Willis Re Securities Transaction Database as of 12/31/2019. Aggregate data excludes private ILS deals. LTM = Last 12 months. Aggregate data are for primary issuance and do not reflect secondary trading.

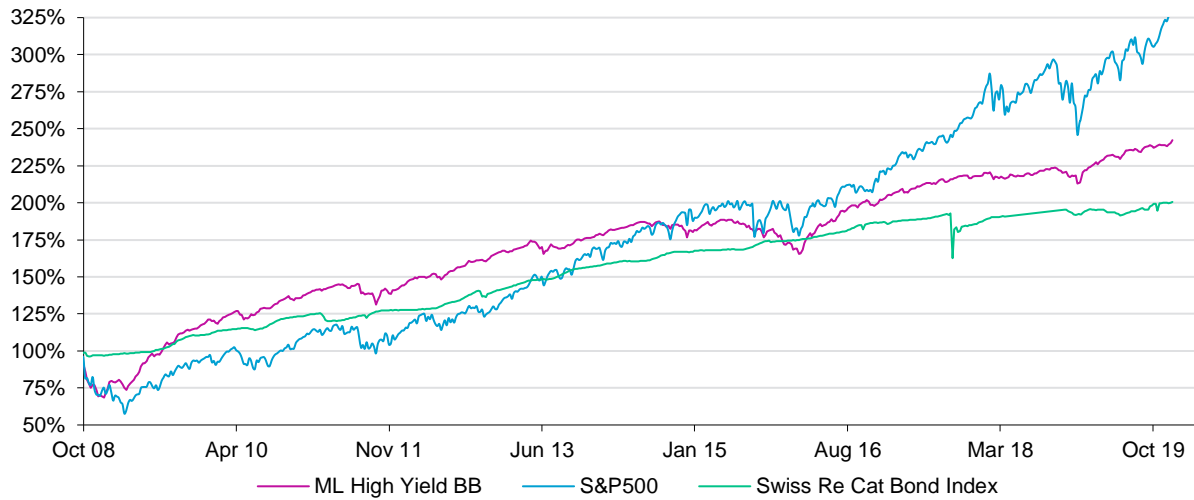
¹ Note that the sharp decline in Q3 2019 expected loss and risk premium is caused by a lack of non-U.S. wind issuances since Q4 2018. Of those that were issued, size, expected loss and spread were relatively low, causing the drop-off in measurement.

Non-life catastrophe bond capacity issued and outstanding by year²



Source: Willis Re Securities Transaction Database as of 12/31/2019. Aggregate data excludes private ILS deals.
² All issuance amounts reported in or converted to USD on date of issuance. Outstanding amounts adjusted for actual principal losses

Historic yield



Casualty

Commentary by territory

Australia

- Overall, Australia saw a stable renewal, with broad consistency in program structures and adequate renewal capacity available.
- Renewals with significant claims activity or adverse loss development saw some rate increases, however, long-term partnerships were considered important to buyers and most reinsurers.
- Changing appetites at Lloyd's saw some turnover in panel members, however, replacement capacity was readily available from aspirational reinsurers.
- Improved focus on the quantification of systemic and accumulation exposures, meant casualty catastrophe remained an important discussion point for buyers.

Canada — Motor Liability / Personal Accident / General Third-Party Liability

- Many general third-party liability treaties are ancillary to traditional property treaties and have generally remained profitable for (re)insurers.
- Reinsurer appetite for casualty-related lines of business remained generally stable as reinsurers sought to balance property portfolio exposures.
- Increased dislocation in some individual reinsurers' positioning on long-tail casualty business.
- Reinsurance pricing increasingly dependent upon individual buyer experience.
- Similar to property lines, specialty casualty business with loss emergence experienced rate increases of +10%.

China — General Third-Party Liability / Employers' Liability / Professional Liability

- Casualty lines are among the fastest growing classes in China.
- Capacity surged as reinsurers tried to diversify beyond property business.
- Buyers looked for more competitive quotes, with more flexibility on terms and conditions.

Europe — Motor Liability / General Third-Party Liability / Employers' Liability / Professional Liability

- Reinsurers continued to raise concerns about negative interest rates, poor investment returns, reducing discount rates and the impact these all have on pricing calculations for long-tail accounts.
- Reinsurers used the well-publicized issues affecting the North American casualty market to justify a firmer approach, particularly in those countries showing increases in frequency and severity.
- Some reinsurers have reduced their appetite and even withdrawn from some segments of the business, but placements were still completed assisted to some degree by the growth in appetite from Asian reinsurers who are now established in Europe.
- Emerging improvements in original insurance rates meant reinsurance pricing continued to improve organically.
- Firm order terms were generally flat to up slightly on a risk-adjusted basis.

France — Motor Liability / General Third-Party Liability

- The average increase for final terms was +5% risk-adjusted.
- The low interest rate environment has reinforced the importance of technical profitability.
- The potential change of the French law in motor liability has caused significant wording discussions, but renewals concluded with no major changes in coverage.

Italy — Motor Liability/General Third-Party Liability

- Combined general third-party liability /motor liability programs were more frequently seen.
- Reinsurers expressed some concerns about negative yield curve and the impact on pricing.
- As with general third-party liability renewals, retention levels remained largely unchanged.
- For general third-party liability, some legislative changes with effects in 2020 (class action, law 31/2019) under attention, but with nil impact on price movements.
- Retention levels remained largely unchanged.

Lloyd's and London Market — General Third-Party Liability / Employers' Liability / Professional Liability / Healthcare

- Overall capacity in the London market has meaningfully reduced as reinsurers scale back casualty portfolios in the midst of prior year deterioration.
- Some shift in appetite from excess of loss to pro rata as reinsurers look to catch original rate improvement.
- Excess of loss pricing was highly volatile, with United States-exposed programs seeing the most significant rate increases.
- Capacity for transactional liability (such as warranty and indemnity, tax, etc.) has

retracted considerably for 2020 given concerns of aggregation and price erosion.

Netherlands — Motor Liability

- The reinsurance market seems to maintain a less favourable view on Dutch motor business, particularly for excess of loss programs with low retentions.
- Pro rata commissions were driven by the performance individual portfolios, not by a market view.
- The reinsurance market's reducing appetite was also noticeable due to the market being more hesitant to support new business/programs.

United Kingdom — Motor Liability

- Revision of the Ogden rate during Q3 2019 (from -0.75% to -0.25%) disappointed excess of loss reinsurers, who had been anticipating a move to a broadly positive number. This led to a market-wide re-pricing to address the discrepancy between previous modeling assumptions (generally 0% or marginally positive) and the new reality.
- Ogden's impact was exacerbated by a continued poor investment environment, with reinsurers emphasizing the need for pricing improvements on long-tail lines to counter the lack of return on their investment funds.
- Considerable divergence in excess of loss rate movements reflecting the wide range of retentions and individual portfolio circumstances, which, given the leveraged impact of severity, impacts lower layers less than higher layers.
- Counterintuitively, given the stabilizing claims settlement environment, there has been little influx of new capacity, a pattern that strengthened the hands of the incumbent markets.
- Buying patterns have not shifted materially in consequence of this, but

some examples where higher paying lower layers have been jettisoned or reduced.

United States — Healthcare Liability

- The medical professional liability reinsurance industry has tightened over the course of the year, although ample capacity remains committed to the sector.
- Reinsurance pricing remained responsive to underlying rate changes and program loss experience.
- In cases where underlying rate levels have kept pace with perceived loss trends and development, reinsurance pricing remained stable.
- Where large losses have emerged or underlying rate levels have not kept pace with perceived loss trends, reinsurance pricing increased commensurately.
- Large losses in the medical professional liability industry have resulted in an increased focus on excess limit pricing and premium balance.
- Common loss and systemic loss exposures also in focus.

United States — General Third-Party Liability

- Insurance pricing continues to firm, with accelerating rate increases in the second half of 2019 in most classes. This pricing was influenced by prior year development, a low interest rate environment, and increased severity in several segments.
- Reinsurers are observing prior year development on many historical treaties, which therefore put increased pressure on terms; the low interest rate environment added further pressure on terms as reinsurers sought to improve their margins.
- Client differentiation still existed, with varying reinsurance pricing.

- Some leading reinsurers pulled back, while other reinsurers who had waited out the soft market started to offer more capacity, taking advantage of improved pricing on the original business while avoiding the prior year claims.
- Despite mega settlements and “social inflation” getting a lot of media attention, market trend selection proved to be more nuanced.
- Treaties with historical London support saw capacity constraints with participants unable to exploit improved pricing dynamics.

United States — Motor Liability

- Primary carriers continue to push for rate increases to offset rising loss trends.
- Continued downward pressure on ceding commissions.
- Excess of loss rates under pressure depending on loss experience; capacity remains stable.
- Reinsurers remain cautiously optimistic on primary pricing trends but serious concerns remain over adverse development from prior years.

United States — Professional Liability

- Observed development in recent policy years put pressure on quota share terms during quoting phase, but final placements generally renewed flat or within a point of expiring terms.
- Pressure on terms was offset by significant rate increases in the underlying business, particularly for directors and officers liability business, and for the potential opportunity this provides for 2020.
- Excess of loss covers did not have the same broad pressure as pro rata treaties; these programs are much more dependent on individual loss dynamics.
- Some turnover in participating markets as several new markets entered/re-entered the professional liability market.

United States Workers' Compensation

- The working layer capacity is single-life exposed and pricing has tightened in response to decreasing primary pricing as well as modest increases in the frequency of large losses.
- Increased pricing was more evident excess of \$10 million attachment points or with increased loss experience.
- The catastrophe market has stiffened, with little bending on rates on line.

Casualty rate movements

Territory	Pro rata commission	XL - no loss emergence % change	XL - with loss emergence % change
Australia	N/A	0%	0% to +10%
Canada	-2% to +1%	0% to +5%	+5% to +10%
China	N/A	-20% to 0%	-12% to +12%
Europe	N/A	0% to +7.5%	+5% to +10%
France	N/A	+3% to +10%	+10% to +25%
Germany	N/A	0% to +1%	N/A
Italy - General Third-Party Liability	N/A	-3% to 0%	0% to +10%
Italy - Motor Liability	N/A	-3% to 0%	0% to +5%
Lloyd's and London Market	-2% to 0%	0% to +5%	+5% to +20%
Netherlands – Motor Liability	0% to +2.5%	-2.5% to +2.5%	0% to +5%
United Kingdom – Motor Liability	0%	N/A	+5% to +35%
United States - General Third-Party Liability	-2% to 0%	0% to +25%	+15% to +30%
United States - Motor Liability	-3% to 0%	0% to +5%	+5% to +15%
United States - Professional Liability	-1% to +1%	-5% to 0%	0% to +10%

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 Liability	-3% to 0%	0% to +4%	+5% to +20%	+0% to +10%	+10% to +30%
United States Workers' Compensation	-1%	+2% to +5%	+5% to +10%	0%	N/A

Note: Movements are risk-adjusted.

Specialty

Commentary by line of business

Global — Aerospace

- Excess of loss structures remained stable, with a focus of rate increases as Ethiopian Airlines and PT Lion Air loss events are moving long-term average loss ratios of 50% to between 300% and 400%.
- Capacity remained abundant, but reinsurers looked to achieve, and in some instances mandated achieving, major price corrections and payback. Compounding this dynamic, reinsurers exhibited an unwillingness to quote against incumbent leads.
- Polarization of expectation of speed of market change between London and continental/professional reinsurers who have the largest relative share of losses.
- Rates up +15% for clean renewals and up to +70% for loss affected renewals; underlying premium income percentage costings are remaining at manageable levels, with economics improving in some cases.
- For quota share business, major risk treaties have generally underperformed over a 5-year period, but reinsurers are not walking away. Cedants looked to maintain cessions levels and commissions under pressure.
- For retrocession business, capacity remained plentiful and post losses, ultimate net loss covers renewed +15% to +75% for clean to loss affected. Pricing for industry loss warranty / deemed line protections was less reactive due to more stable pricing during soft market.

Global — Cyber

- Uncapped pro rata reinsurance was increasingly difficult to obtain and, where available, generally accompanied by lower ceding commissions.
- An increased prevalence of ransomware losses is having a growing influence on overall profitability of cyber as a class of business.
- Ransomware losses exerted upward pressure on rates; this pressure was counteracted by continued plentiful reinsurance capacity.
- First party coverage concerns have receded, with larger insureds focused on paying property insurance price increases, leaving little spend for cyber.

Global — ILS

- A total of \$1.78 billion of industry index cat bonds were issued in the retrocession space through AXA XL, Everest Re and Swiss Re, owing to the comparatively favorable pricing conditions in the catastrophe bond market compared with traditional retrocession, as well as the relative lack of capacity in the traditional retrocession space.
- Investor discipline ensured that spreads widened, whilst capacity was ultimately delivered. However, the new capacity issued failed to match the expiring cat bonds that are due to mature shortly.
- A few reinsurers tried to aggressively expand their sidecars to increase their underwriting limits due to an anticipated hardening of the reinsurance market in Q1 2020.
- Other sponsors face more challenging renewal conditions as a result of

reduced capacity and trapped collateral in the ILS space.

Global — Engineering

- The construction market has undergone a profound transformation over the last 18 months.
- Unprecedented numbers of large construction losses totaling in excess of USD \$3 billion, including the Ituango Dam loss of USD \$1.43 billion, have impacted the market.
- Large outflow of capacity from the construction direct and facultative market of approximately USD \$1.2 billion PML, or 25% of global capacity.
- Market conditions continue to harden quickly in both the direct and facultative market and with reinsurance capacity providers.
- Reinsurance buying decisions increasingly driven by actuarial and senior management eclipsing underwriters.
- Portfolio de-risking remained a key reinsurance goal. Cedants were keen to renew their proportional covers which fulfill this requirement.

Global — Marine

- Overall, there was a mixed message from reinsurers, with some pushing hard for increases on clean accounts.
- Reinsurers attempted to increase reinsurance rates, however there continued to be an abundance of capacity countering this attempt.
- Reinsurers are full on peak energy assets, and therefore had to allocate their capacity tactically to buyers.
- Reinsurers generally sought to exclude energy and terror from renewals.
- In general, insurers saw a late renewal season.
- Buyers have been looking to reduce their retention and limit volatility.

Global — Non-Marine Retrocession

- Capacity constraints from the ILS market and a tightening of terms from traditional reinsurers resulted in a challenging renewal. In recent years, ILS capacity has been a driving force of retrocession capacity providing significant limit, however this form of capacity is under pressure.
- New fund raising has proved difficult for existing ILS managers and even more so for new ventures, with negative investor sentiment and poor results being the main reasons for lack of new capital coming into the space.
- Combined with another year of loss deterioration from Hurricane Irma, Typhoon Jebi and Hurricane Michael, new 2019 losses from Hurricane Dorian, Typhoon Faxai and Typhoon Hagibis has put further strain on pricing further trapping collateralized capacity.
- Pricing differentiation between traditional occurrence and aggregate structures was apparent, with the latter driving the upper end of rate movements. Several buyers switched some or all their purchases from aggregate to occurrence structures, as reinsurers' appetite for aggregate excess of loss changed significantly with regards to both pricing and attachment level.
- Occurrence form 144a Cat Bond structures were able to gain support from a wider range of ILS markets
- Reinsurers continued to differentiate between clients based on past performance and depth of relationship.
- Dislocation between underlying reinsurance pricing and retrocession pricing continued to widen.

Global — Personal Accident / Life Catastrophe

- Pronounced rate increase on retrocession renewals.
- Slight contraction in London market due to consolidation and certain syndicates pulling out of accident and health business.

Global — Political Risk

- As in previous years, there remains an abundance of headline insurance capacity.
- However, with the continuance of some markets reining in their appetite, M&A activity and insurers exiting the class, actual capacity is down, causing price hardening in some quarters.
- The slowdown in claims seen in recent years has been replaced with an uptick in frequency in 2019.
- This, alongside similar reinsurer appetite tightening and recent exits, has seen reinsurance capacity reduce markedly both in terms of proportional and non-proportional support.

Global — Trade Credit

- Global economic growth is slowing, with trade wars depressing investment.
- In a riskier environment, global trade credit insurers report low loss ratios for 2018 and for 2019 up to Q3 (low 40%^s).
- Multi-year reinsurance programs are providing a measure of stability for both buyers and reinsurers.
- Some reinsurers withdrew from the trade credit reinsurance class following Thomas Cook claims impacting both trade credit and surety markets.
- Reinsurance market appetite generally stable for trade credit, and terms and conditions were flat at renewals.

United States — Surety

- Despite hardening in the broader reinsurance market, loss-free surety programs renewed with pricing flat on a nominal basis, often representing meaningful risk-adjusted rate decreases on programs with growing exposure.
- Reinsurers were resistant to provide rate reductions, although those clients with demonstrably superior portfolios and greater transparency were able to achieve more positive renewal outcomes. Stable pricing and capacity were deployed selectively to provide meaningful lines for market leading companies.
- Although loss-impacted programs experienced meaningful rate increases, reinsurers were challenged in their attempt to drive price broadly across the market. Certain reinsurers, being more price disciplined, reduced shares or exited programs, which did not result in placement disruptions with other reinsurers willing to assume increased market share.
- Buyers have kept retentions unchanged with slight adjustments to limits. Reinsurers were willing to make concessions on non-economic terms and conditions offering support at broader coverage terms.
- Loss severity trends remain a focal point in reinsurer analyses; high profile losses gained significant attention from reinsurers. Segments of the market have signaled a retraction of allocated capacity as they closely scrutinized treaty capacity on leveraged programs.

Specialty rate movements

Territory	Pro rata commission	Risk loss free % change	Risk loss hit % change	Catastrophe loss free % change	Catastrophe loss hit % change
Aerospace	-3% to -1%	+15% to +20%	+25% to +75%	+15% to +20%	+15% to +75%
Cyber	0%	N/A	N/A	N/A	N/A
Engineering	-1.5% to 0%	N/A	N/A	N/A	N/A
Non-Marine Retrocession	-2.5% to 0%	+5% to +15%	+10% to +25%	+5% to +25%	+15% to +35%
Personal Accident / Life Catastrophe	N/A	0%	+10% to +20%	0%	+10% to +20%
Political Risk	0%	0% to +5%	+5% to +10%	N/A	N/A
Trade Credit	0%	0%	N/A	N/A	N/A

Note: Movements are risk-adjusted.

Global and local reinsurance

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