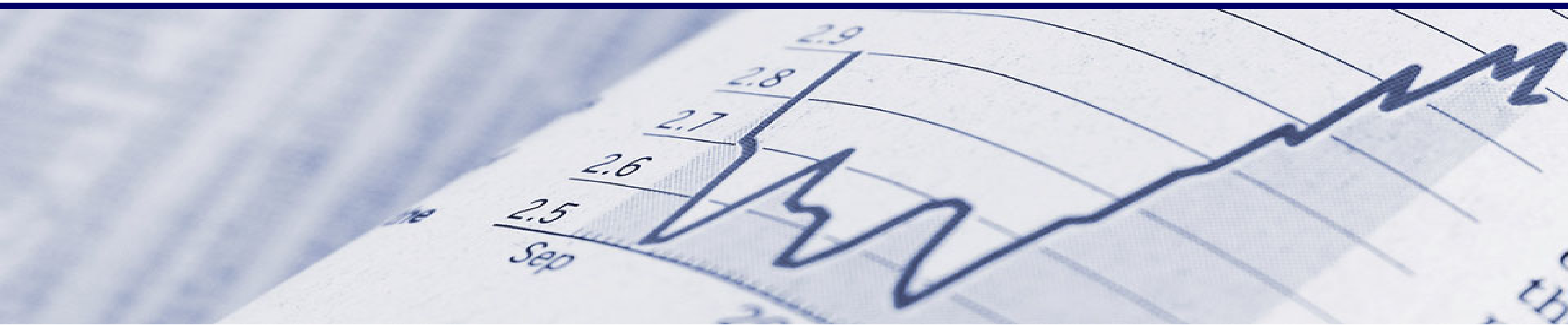
RIMS 2019

The search for stability in an unpredictable environment



MARKET ENVIRONMENT
An evolving landscape

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BROKER CONSOLIDATION

- Major Global Broker acquisition and integration
- Material shift in composition of Cluster Groups
- Continued strategic acquisition of smaller, independent broking entities
- Continuing acquisition of strategic and major teams within segments

CHANGES IN BUSINESS PRACTICE

- Increased use of contested Platforms & Facilities
- Increase in market discussions around Captives, Integrated & ART structures
- Retraction of capacity in some areas of Underwriting Agencies outside of niche and very specialist areas
- Insurance market investing in technology to create efficiencies & improve broker / customer experience – SME and Mid Market

REGULATORY & LEGAL ENVIRONMENT

- Hayne Royal Commission and associated regulatory actions reinforcing strong focus on consumer outcomes
- Government/ASIC review to be conducted by 2021 will challenge the traditional broker commission structure
- NIBA has already responded by commissioning a report from Deloitte to provide evidence of the role and value of brokers
- Class Action environment continues

INSURANCE CARRIER INFLUENCE

- Carrier uncertainty remains with remediation of portfolio's, scaling back of capacity or complete withdrawal from certain lines and markets
- Lloyd's capacity management structure impacting overseas business and MGA support
- Overall much less focus on top line growth versus return to profit

MARKET DIRECTION

Capacity contracting whilst rates are increasing

	Rate	Retention	Capacity	
Property	15-20%	Increasing	Tightening	Property rates accelerating in high hazard grade risks such as EPS and Waste Rate increases to offset attritional loss experience on general book Line sizes more circumspect versus 2018 and prior
Casualty	5-10%	Flat	Flat	Rate increases in line with claims inflation prediction plus deficit of prior years Not traditionally productive of large or CAT losses Worker to Worker legislative environment remains a concern
Financial Lines	25%+	Increasing	Tightening	Side C D&O affected by continuous disclosure rules and class action environment Construction PI has seen severe loss activity particularly in large contractor space Cyber and Social Engineering exposures – Will they remain insurable?

- Major brokers have reported rate increases for 10 consecutive quarters in the Pacific region.
- Hardening market conditions expected to continue for 12-24 months.
- Insurers focused on profitability and reducing volatility.
- Restricted Capacity in the London Market.
- Increased scrutiny of underwriting submissions with requirement for more granular data.
- Coverage, terms & conditions more restrictive.
- Capacity & competition remains for non-loss affected / desirable risks.

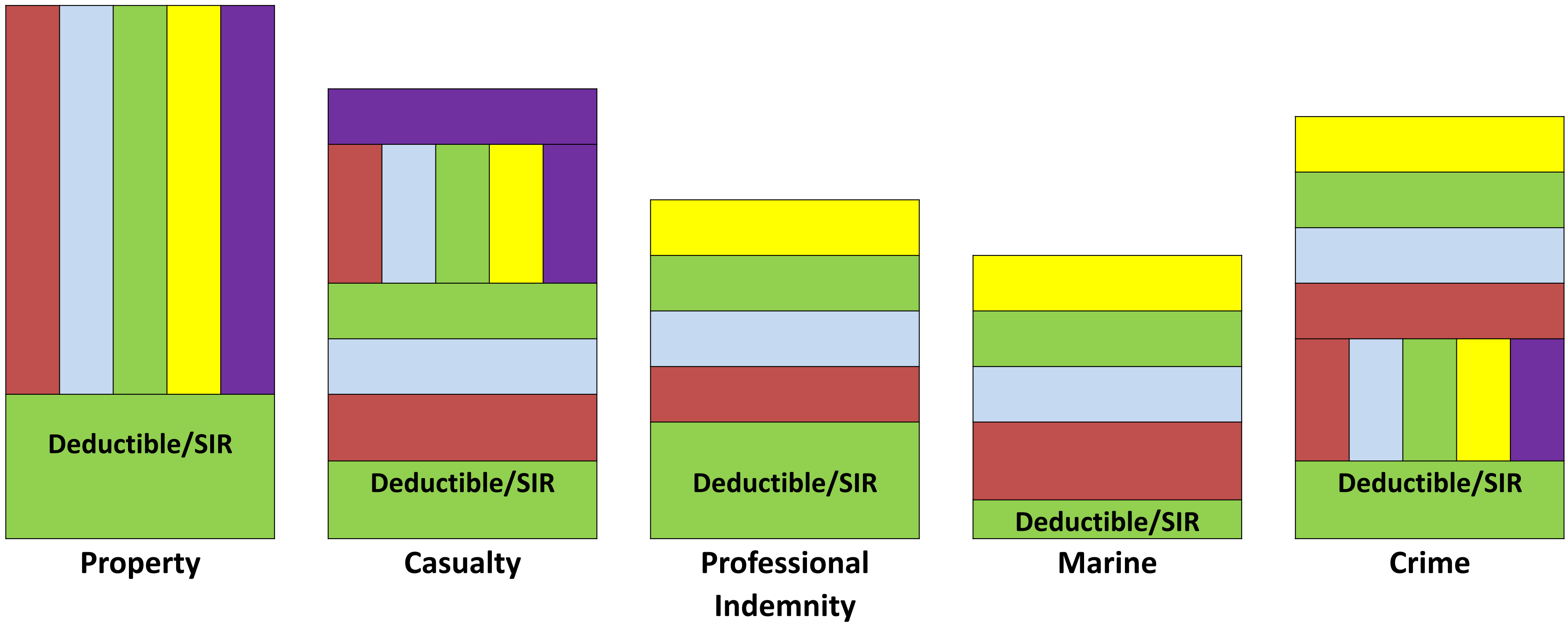
IN THE MARKET

What factors can an insurance buyer control?

- Retained amount of Working or Attritional losses
- Application of Business Unit deductibles to drive Group Risk Culture
- Operational risk management and capital spend
- Risk Mitigation using Risk Engineering, benchmarking data and claims insights
- Understanding the portfolio view of total cost of risk and exposures
- Consistency of coverage between Local and Master coverages within Global Programmes
- Negotiate Claims Handling and other service-based activities as required
- Potential to leverage scale and purchasing power

MONO LINE ANNUAL TOWERS

Traditional Insurance Programme



Typical Monoline Annual Insurance Programme

Advantages and disadvantages

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Advantages

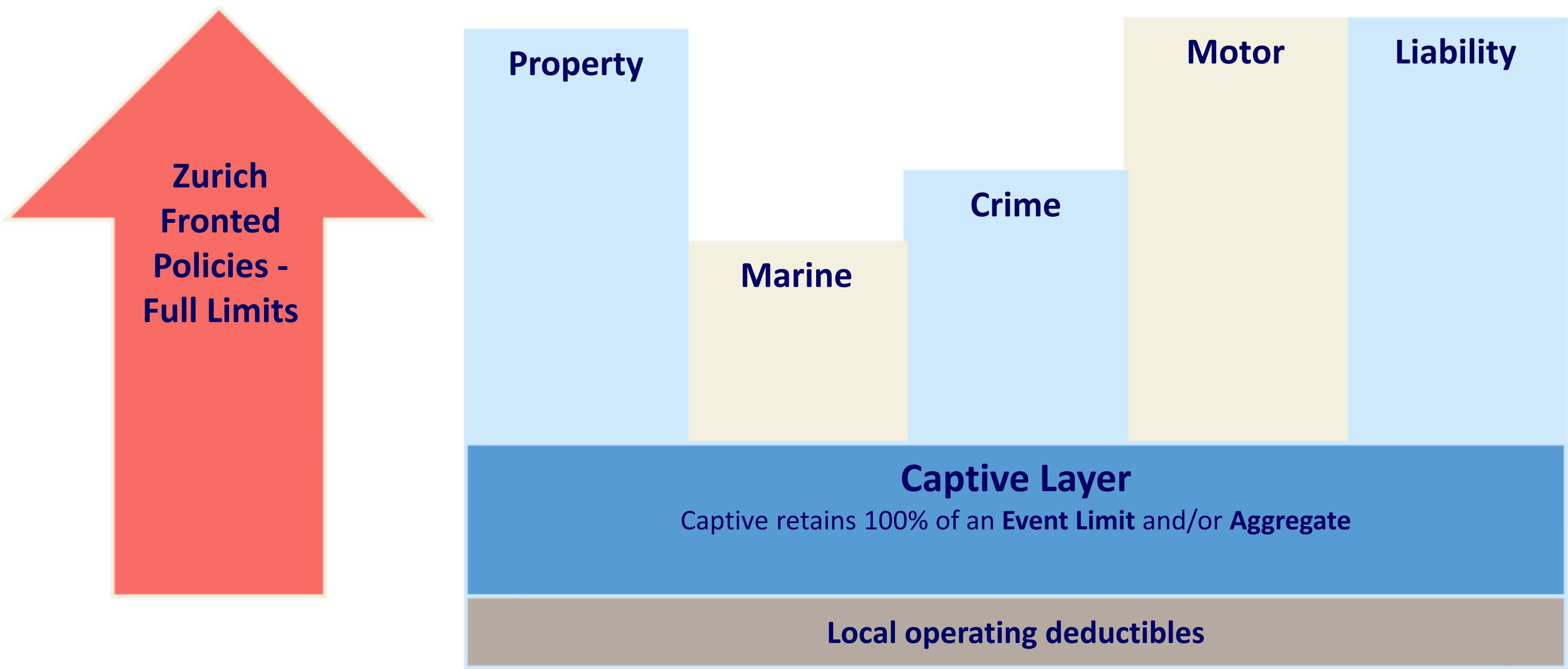
- Allows access to specialist markets and brokers, e.g. Aviation Hull, Cyber and EIL
- Simple structure which is easily understood by businesses
- A good mechanism of risk transfer where Risk Management is harder to control
- Diversity of placement

Disadvantages

- No opportunity to spread retention or limit for non correlating risk
- Annual expectation for full underwriting submission per line, together with market pricing volatility/uncertainty e.g. Property and some Financial Lines currently
- Timing of renewal certainty often out of line with Board or Risk Committee requirements
- Little opportunity to apply a portfolio approach

So what are the alternatives?

Example: A Cross Class Programme including Captive

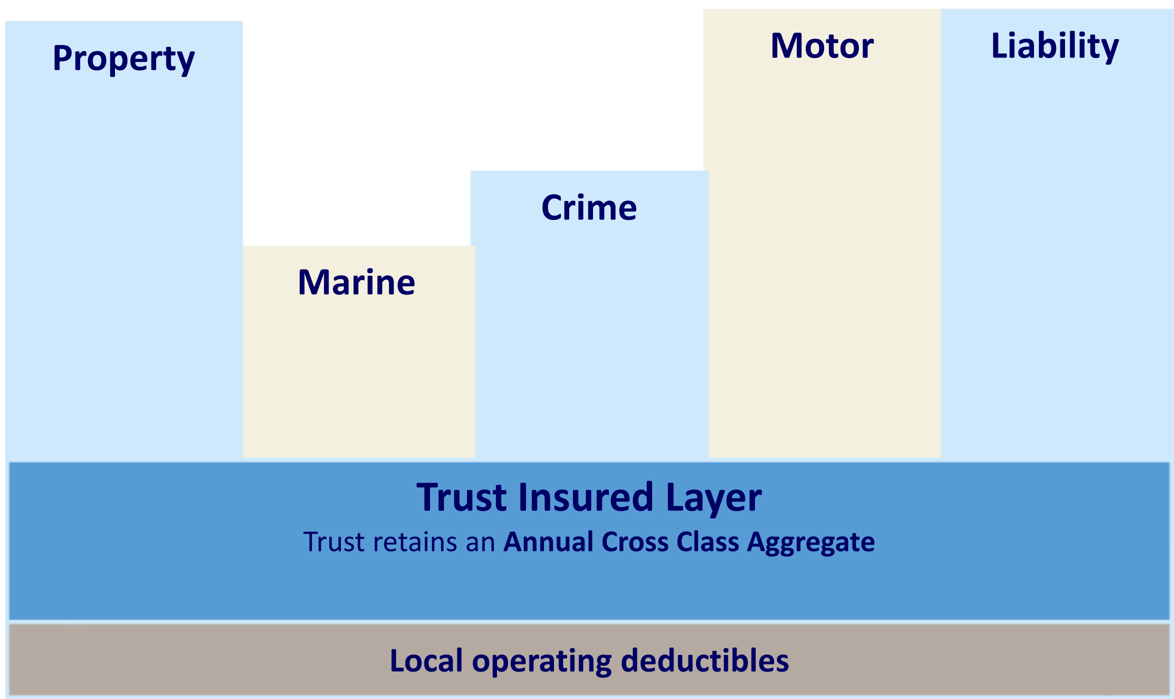


Cross Class Captive Programme…

General Benefits of Cross Class

- Makes use of Risk Diversification by exploiting effect of non/low correlating risks
- Efficient use of captive capacity – no long tail/short tail split
- Maximise retention and smooth exposure across a basket of exposures
- Builds up reserves to increase risk-bearing capacity over time within Captive
- Provides direct access to reinsurance markets to provide flexibility within Captive retentions
- All frequency losses still retained
- Reduction in frictional cost
- Risk Transfer for CAT and very large exposures only
- Long term sustainability
- Only one reinsurance agreement and contract is required

Example: A Cross Class Programme – Discretionary Trust...



Cross Class Programme – Discretionary Trust…

General Benefits of Discretionary Trust

- Broad cover specific to each industry protecting risks beyond the scope of traditional cover
- Fund is built using contributions, not premiums
- Discretionary claims decisions
- Members may share in surplus profits
- Rewards for good risk management
- Ability to retain risk without the regulation attached to Captive Insurance solutions

An Integrated Insurance Programme

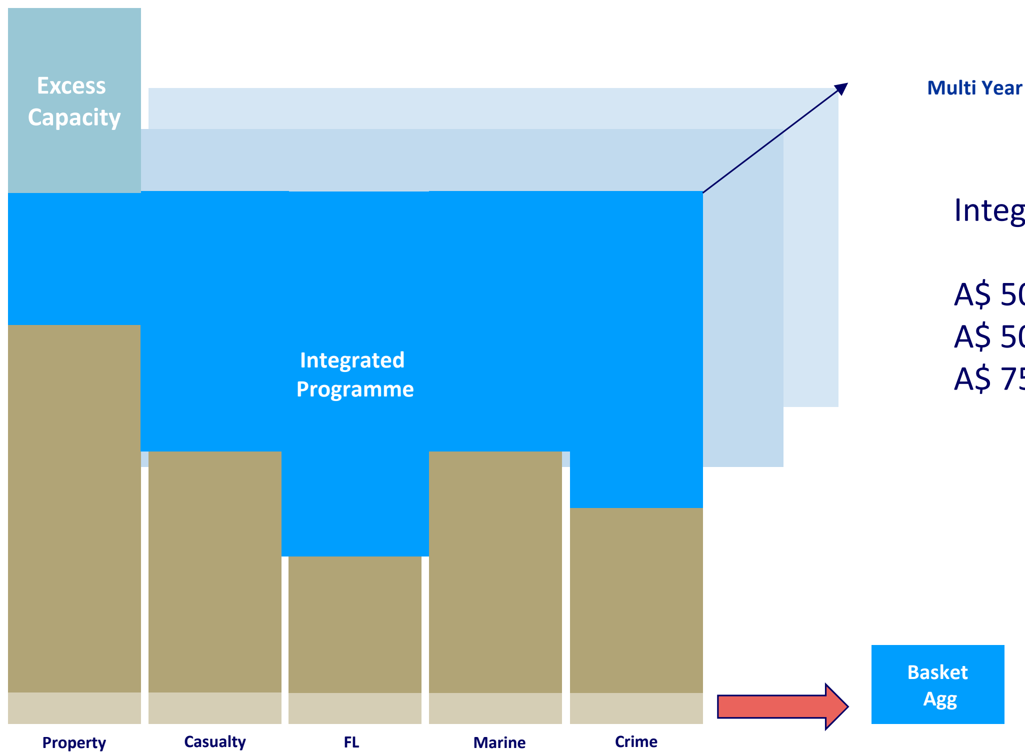
The component parts of an Integrated Programme

Excess Capacity	*Excess coverage above traditional insurance layers and any underlying integrated programme to add any additional capacity still required*
Integrated Programme	*Single contract issued for up to a three-year term with variable limits and ability to cover multiple lines within one structure*
Traditional Insurance	*Variety of traditional coverages*
Self Insured and/or Captive Retention	*Ground up retentions or deductibles which apply as part of risk management programme or first dollar coverage primary policies*

Example: An Integrated Insurance Programme

Defined Event Limit with Annual and Term Aggregates

Multi-year program that allows customers to spread a single block of coverage across multiple lines of business. This example includes a Basket Aggregate Protection for the various retentions



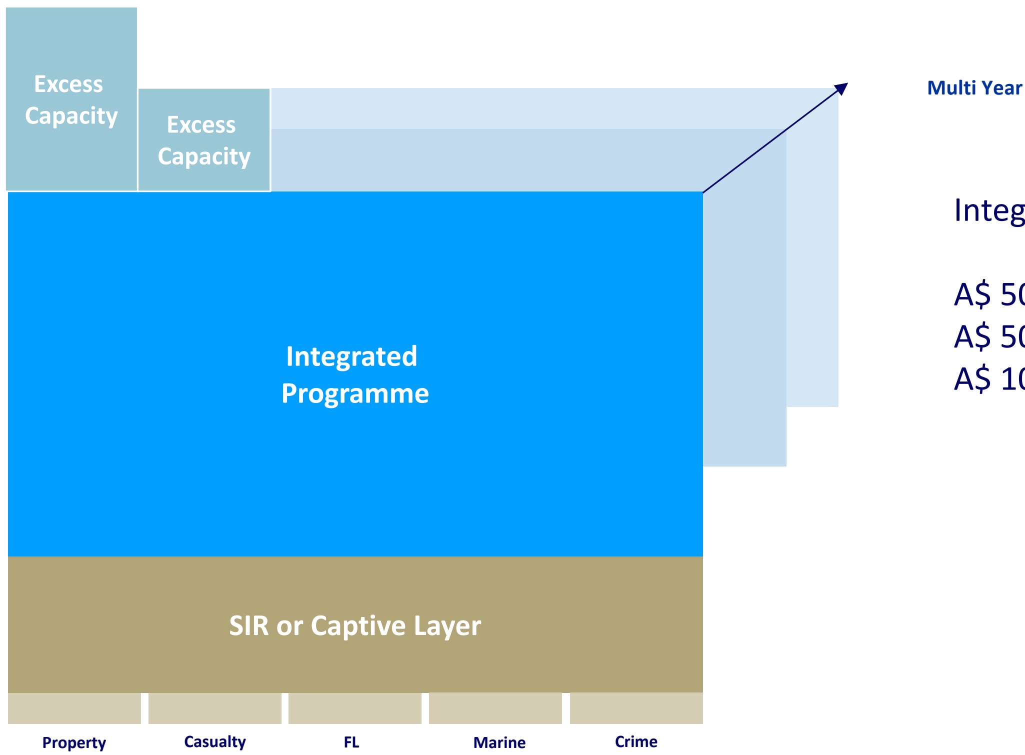
Integrated Limit Example:-

A$ 50m Any One Event
A$ 50m Any One Period
A$ 75m Term Aggregate

Example: An Integrated Insurance Programme

Defined Event Limit with Annual and Term Aggregates

Multi-year program that allows customers to spread a single block of coverage across multiple lines of business. This example sits excess of self insured or Captive coverage only



Integrated Limit Example:-

A$ 50m Any One Event
A$ 50m Any One Period.
A$ 100m Term Aggregate

Integrated Insurance Programme

General Benefits of Integrated Deals

- **Program Annual & Term Aggregate Limit Structure**
  - Applies to the entire program
  - Each LOB will have a separate limits structure subject to the program's Aggregates
  - Relationship between the limit structures are a key component
- **Multiple Year Term**
  - Extended typically over a three-year term, which provides the insured the ability to manage cost over time
- More efficient use of insurance capacity – benefits of non-correlated risks
- Program design entirely linked to your business risk appetite
- Catastrophic limits spread across multiple lines
- Coverage for a myriad of exposures in a single solution – Minimum 2 lines of business required
- Administrative efficiencies
- Optimisation of retentions
- Option to create a Basket Aggregate Protection which helps control the level of customer retained loss in a given period

Which customers would suit a Cross Class or Integrated style deal?

- Long term outlook on Total Cost of Risk
- Strong focus on risk management culture and understanding of risk volatility
- Has a portfolio of non/low correlating risks
- Has critical mass of premium/claims
- Wants to exercise greater control over risk financing and allocation of capacity
- Wants more control on how to place insurance as prices fluctuate during the market cycle
- Defined and clear risk appetite

Key Messages

Cross Class and Integrated insurance programmes are fully bespoke multi-line, multi-year risk transfer solutions best suited to organisations with a sustainable and long-term approach to optimising total cost of risk

They represent a highly customised offering, providing protection for various levels and attachment of risk

- Tripartite relationship programme design and application of insurance capacity
- Deliberate use of traditional products to create and preserve market stability
- Achieve cost benefits through risk financing, retention and transfer to best manage insurance risk over time
- Fully compliant with all accounting and regulatory requirements

Questions?