

Insurance Conference on Financial Reporting

Market Update

November 14, 2017

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FLORIDA PRIMARY MARKET STATUS

FINANCIAL REPORT CARD – RESIDENTIAL

Florida market – Q2 2017 Financials* (GC FL Composite)

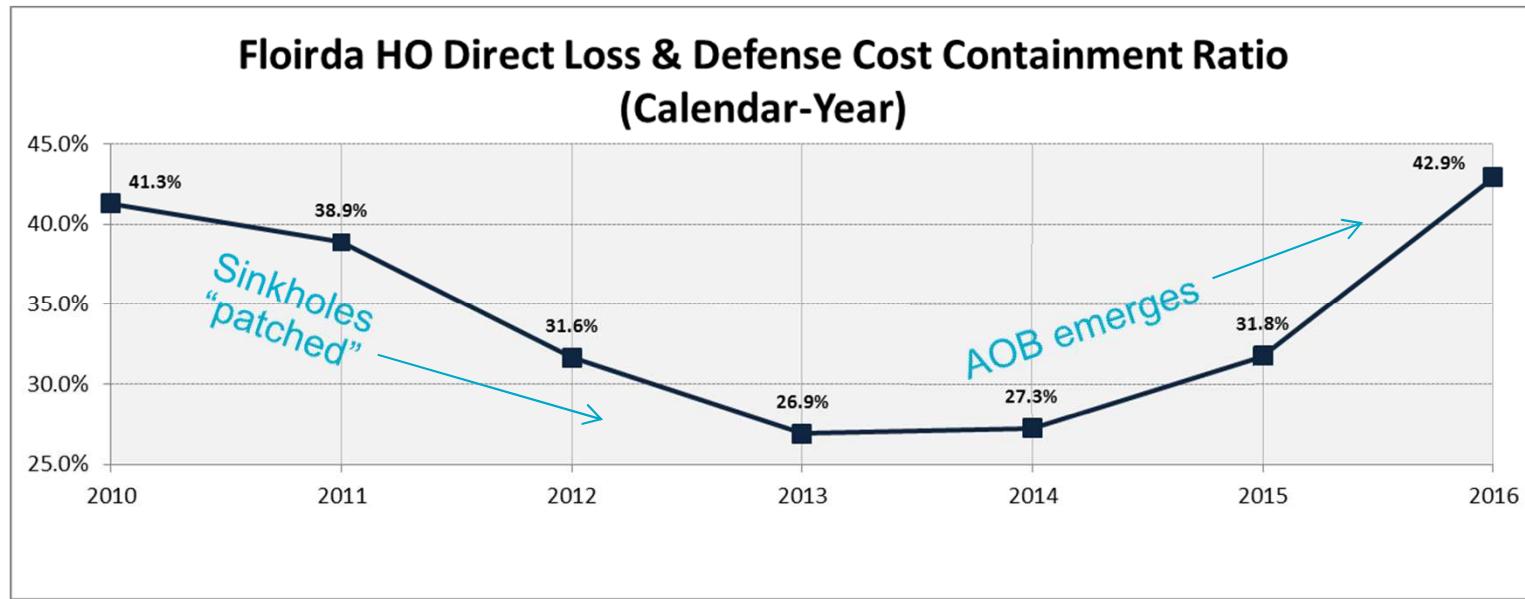


Market Observations

- PHS = \$49m decrease from \$13.3b compared to Q1 2017
- Net Income = Down by \$38m from \$267m from Q2 2016
- Most insurers reporting net losses YTD with a few insurers reporting positive results
 - Company A = \$113m
 - Company B = \$43m
 - Company C = \$14m
- Direct Pure Loss Ratio = Increased to 36.5% from 32.8% from Q2 2016
- Impact of Hurricane Irma will be reflected in Q3 2017 results
- DWP on the rise

*From NAIC via SNL

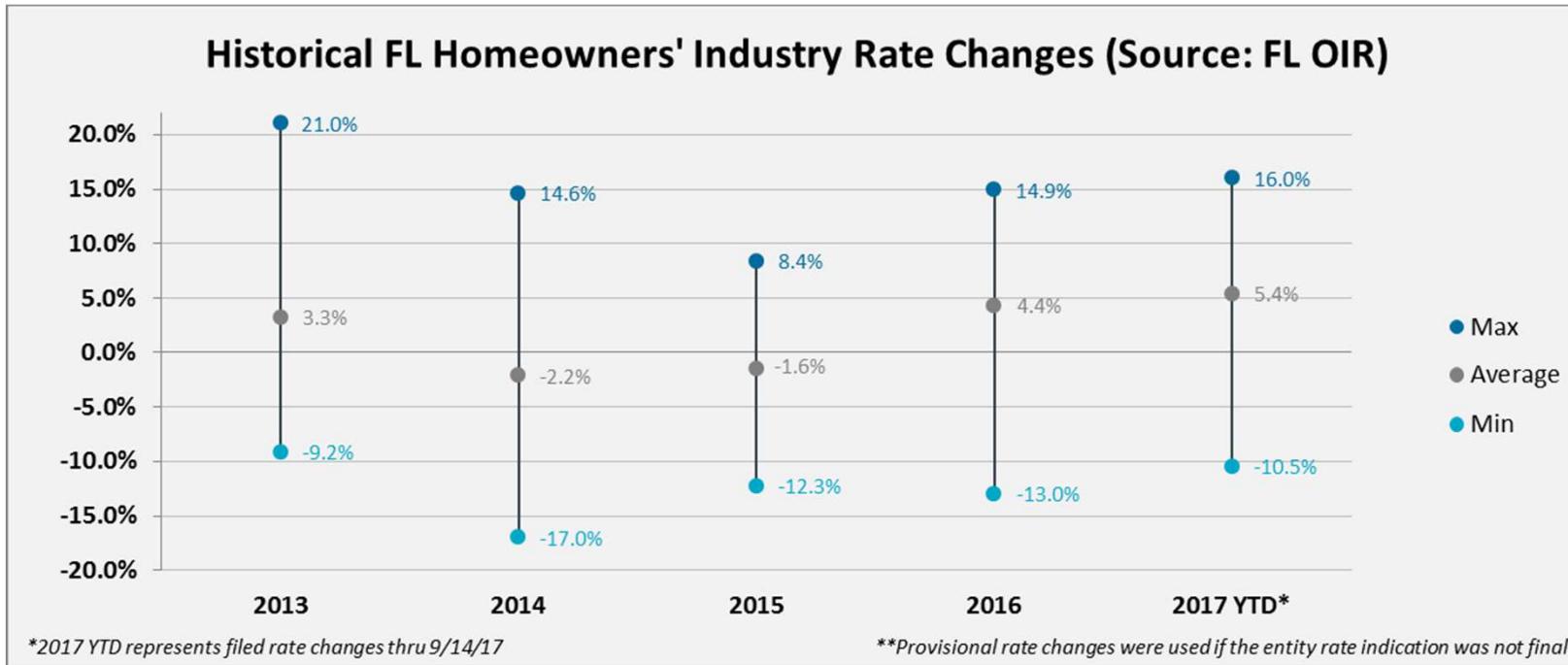
FLORIDA HO DIRECT LOSS EXPERIENCE – HISTORICAL*



- Results have been on a roller coaster ride over the last 7-years
 - Sinkhole patch helped lower industry direct loss ratio to low point in 2013
 - AOB emerges as newest industry non-cat catastrophe adversary impacting results in 2015
 - 2016 results also impacted by Hurricane Matthew/Hermine
 - Year-end 2017 Industry results expected to continue to climb upwards

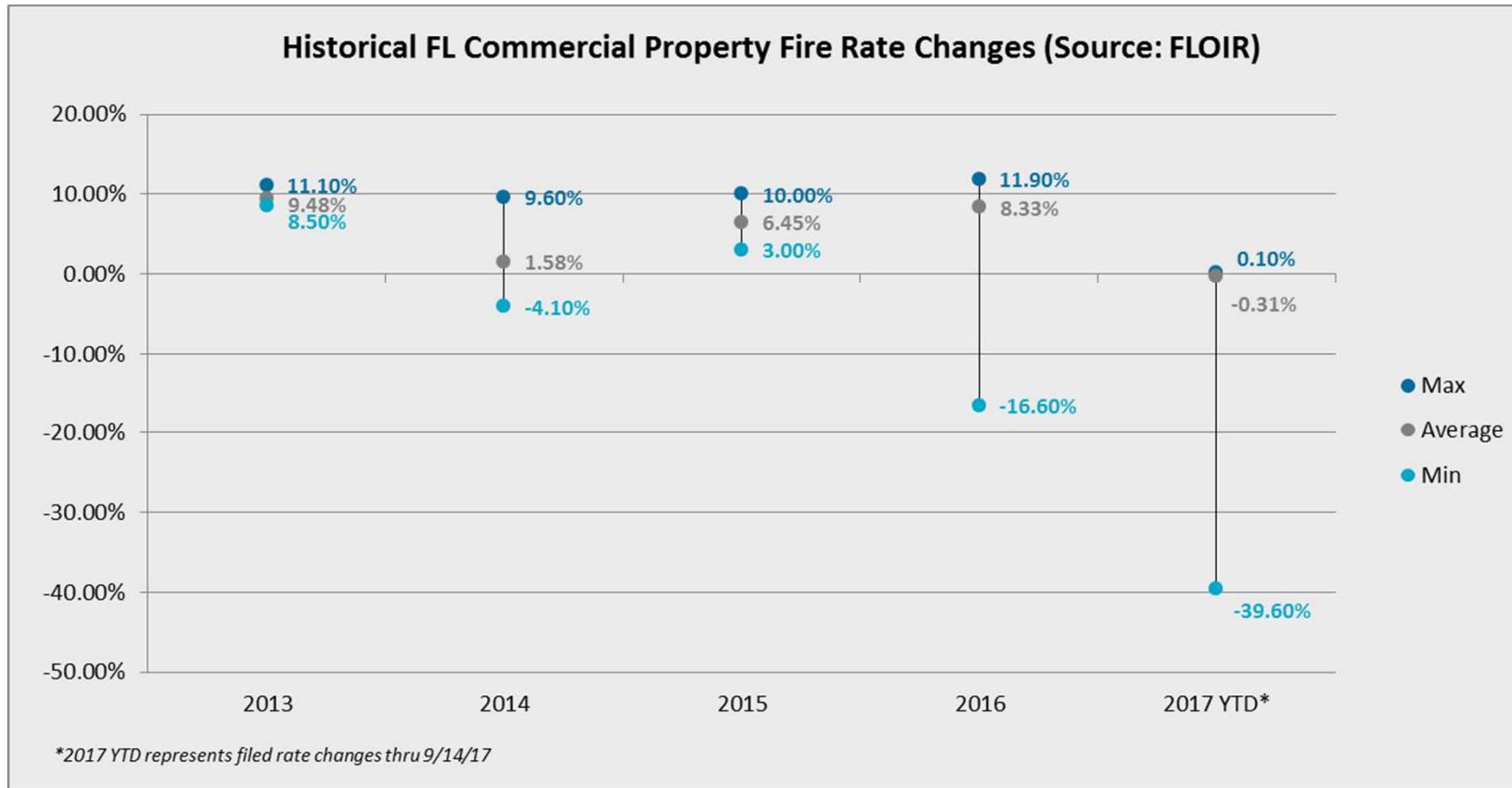
*From NAIC via SNL

FLORIDA HOMEOWNERS RATE CHANGES*



- Notable rate changes approved in 2017
 - Company A = 16% (filed for 14.5%)
 - Company B = 13.5% (filed for 11.7%)
 - Company C = 12% filed
 - Company D = 11.4% (filed for 11.4%)
 - Company E = 10% (filed for 10%)
- Improved primary rating environment expected in 2017+

FLORIDA COMMERCIAL RES RATE CHANGES*



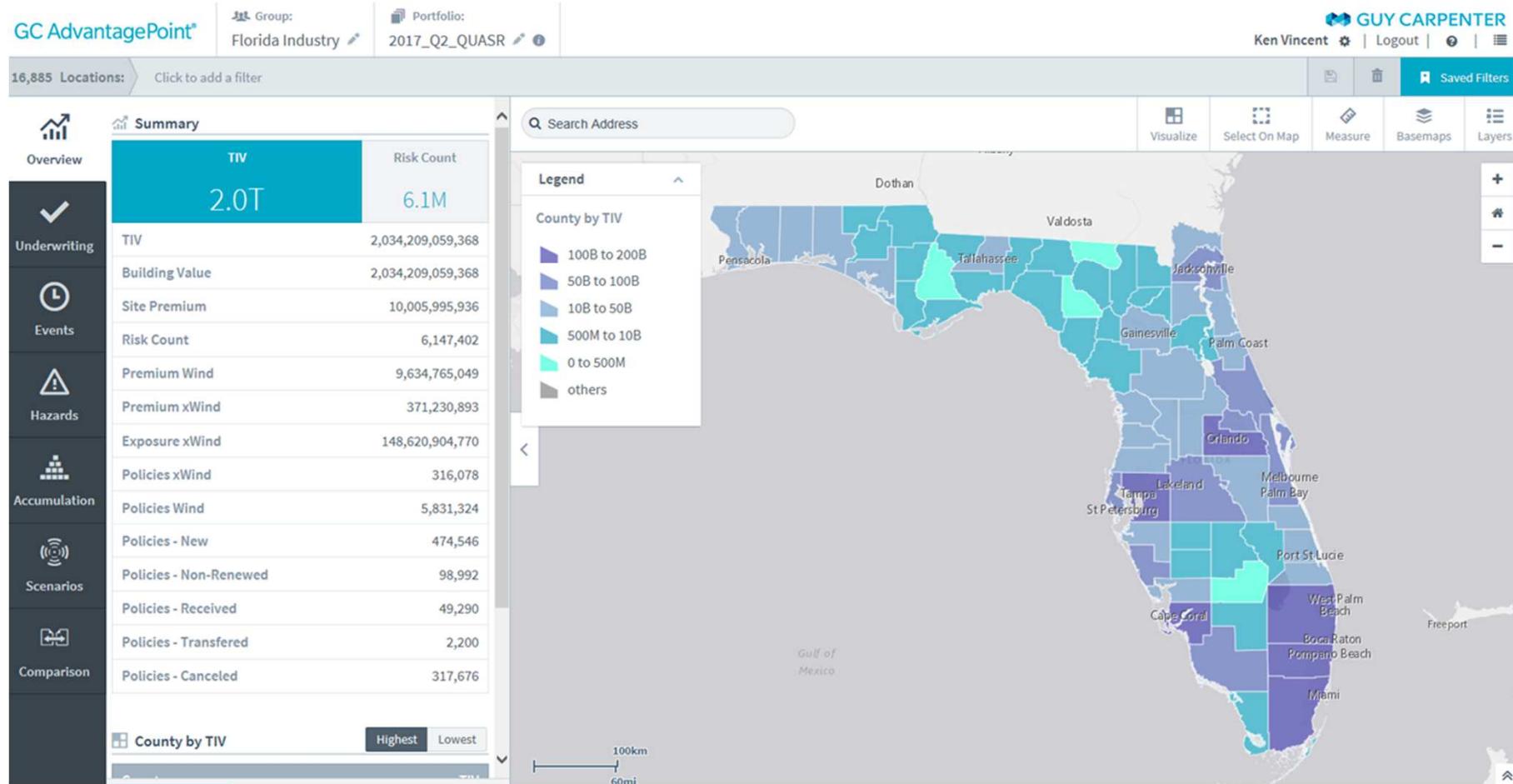
- Notable rate changes approved in 2017
 - Company A = -39.6%
 - Company B = +0.06%
- Commercial Residential lines remain highly competitive

Hurricane Irma

Emergency Declaration - Suspension of Certain Rules and Statutes

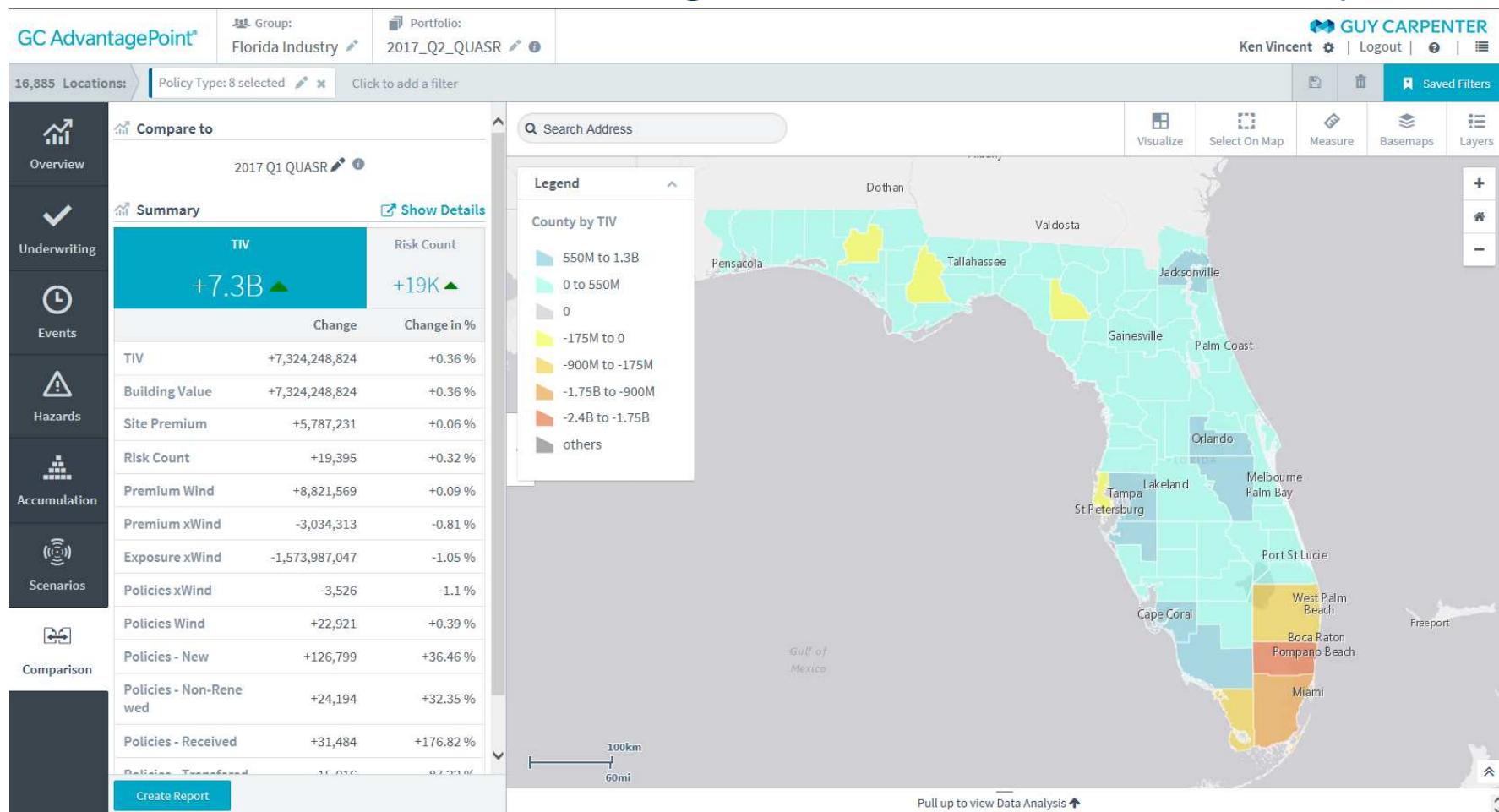
- Deemers and Limitations on “use and file”
 - The deemer period tolled starting on the date of the declaration and ending 90 days after (December 3)
 - “File and use filings” suspended for 90 days
 - Use and file rate changes not yet approved will need to be filed and subject to OIR approval prior to implementation
- Limitations on Cancellations and Nonrenewals
 - An insurer may not cancel or nonrenew a policy that is damaged as a result of Hurricane Irma.
 - Cancellation or nonrenewal may happen 90 days after the property has been repaired.
- Extension of Grace Periods
- Miscellaneous Provisions
 - Necessity of the facilitation of efficient payments of claims utilizing the latest technological advances

Florida Exposure Q2 2017* by County – Industry



- \$2T TIV, 6.1m risks, and \$10b of premium for admitted market (excludes State Farm):
 - Top Counties: 1) Tri-County at ~\$500b; 2) Orange at \$126b; 3) Hillsborough at \$120b
 - Residential LOB's: 1) HO at \$1.6T; 2) Other Personal at \$306b; 3) Comm'l at \$152b

Florida Exposure Change Q1 to Q2* – Industry



- Increases in \$7.3b of TIV, 19k risks, and \$5.8m premium comparing Q1 to Q2 2017:
 - Top TIV growth = 1) Collier at \$1.3b; 2) Lee at \$1b; 3) Hillsborough at \$860m
 - Top TIV decreases = 1) Tri-County at \$4.3b, 2) Monroe at \$281m, & 3) Pinellas at \$8m
 - LOB TIV changes = 1) HO at \$9.6; 2) Other Personal at \$2.9b; 3) **Comm'l at -\$5.2b**

FL Exposure Change Q1 to Q2* – Industry Comm'l Res

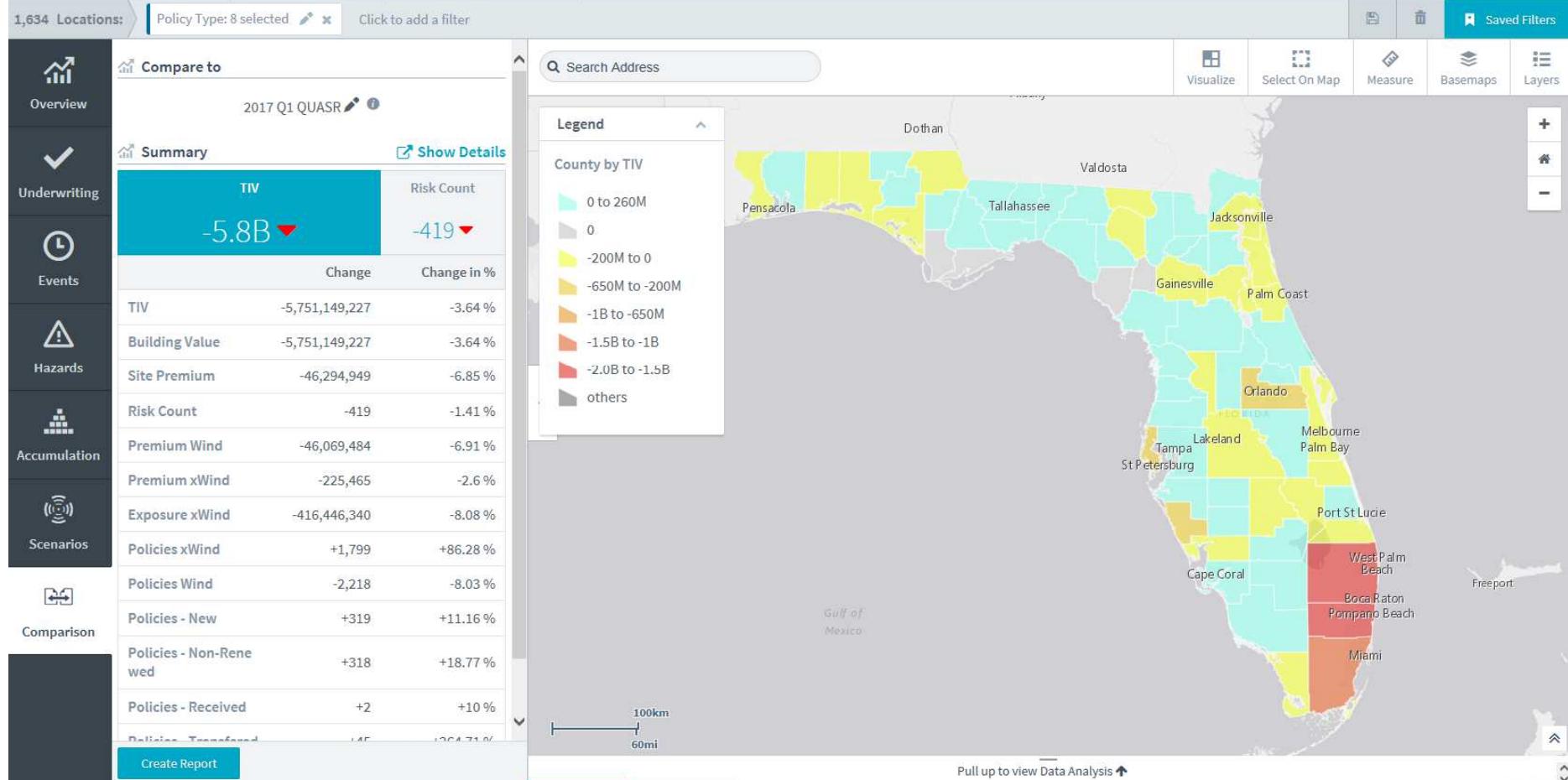
GC AdvantagePoint*

Group:
Florida Industry

Portfolio:
2017_Q2_QUASR

GUY CARPENTER

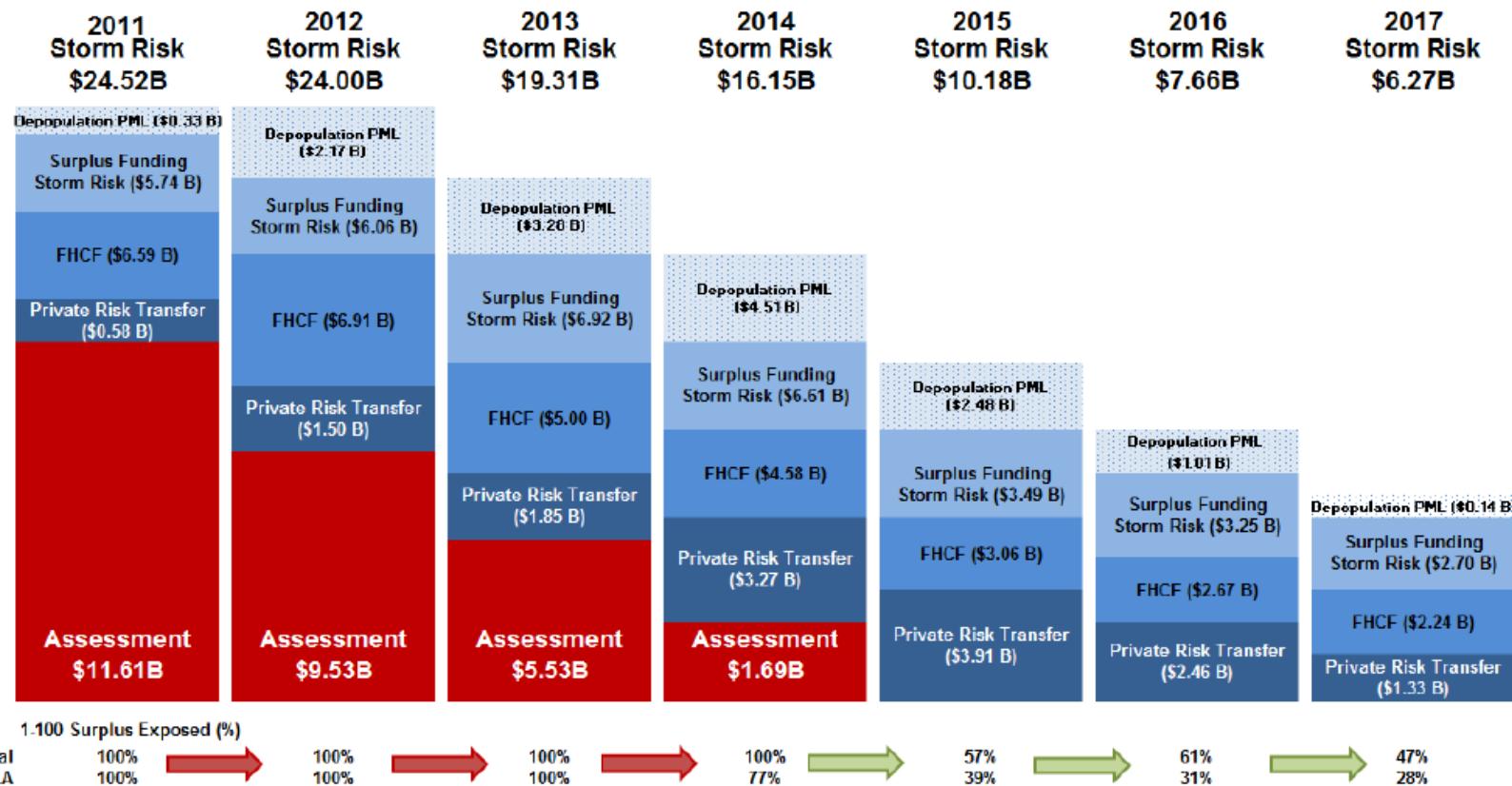
Ken Vincent | Logout | 



- Total Industry TIV is over \$152b:
 - Down \$5.2b from Q1 2017 & \$11b since Year-End 2016
- Where is the business going?

FLORIDA RESIDUAL MARKET STATUS

- Citizens Property Insurance Corp*
 - Hurricane Irma projected modeled loss \$1.2b (\$193m FHCF recovery)
 - \$7.4b of surplus less \$1.0b Irma net loss = \$6.4b remaining surplus



*Source: "Citizens Property Insurance Corporation: Hurricane Irma Preparation and Response" by Barry Gilway and Christine Ashburn

FLORIDA RESIDUAL MARKET STATUS

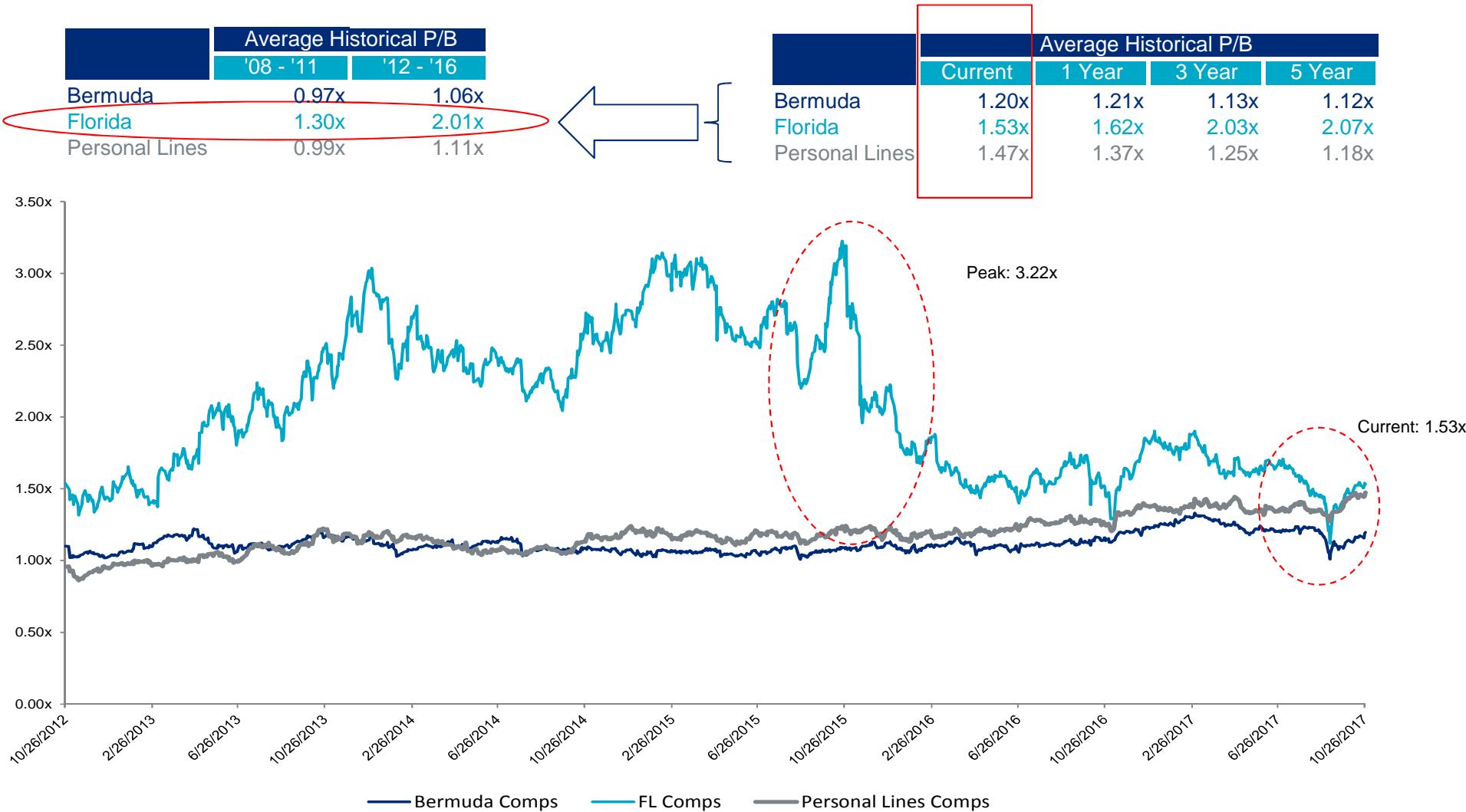
- Florida Hurricane Catastrophe Fund (FHCF)*
 - Irma loss range of \$3b - \$6b
 - Point estimate of \$5.1b
 - 2017 maximum potential liability of the FHCF is \$17 billion
 - Total liquid resources of \$18.7 billion (\$1.7b above max liability)
 - \$15b projected year-end fund balance
 - \$1b of reinsurance
 - \$2.7b of pre-event bonding
 - Proposed legislative changes to the FHCF in the works



^{*}Public sources & October 2017 Claims-Paying Capacity Report from FHCF via Raymond James

Overview of the Florida Market

Historical Price to Book Multiples of Public Company Composites



Source: SNL Financial as of 10/30/2017.

Bermuda Comps include RenaissanceRe and Validus

Florida Comps include Universal, Heritage, United, HCI, and Federated

Personal Lines Comps include Infinity, Safety, EMC, and Donegal

FLORIDA DOMESTIC M&A ACTIVITY Consolidation

Announced M&A (Florida involvement)



Prepared
Investors Group



Risk Based Capital (RBC) Update

- The NAIC has adopted a Catastrophe Risk Charge (Rcat) into the RBC calculation beginning with year-end reporting 2017
 - Rcat includes catastrophe risk charges for ceded hurricane and earthquake exposures
 - Specifically, includes a 4.8 percent contingent credit risk factor to the 100yr events ceded amounts recoverable
 - Excludes **FHCF**, federal insurance programs and cessions to subsidiaries and affiliates which have zero credit risk charge
- Also adopted an Operational Risk charge that will be implemented with year-end reporting
 - However the risk charge will be a zero percent load to the total RBC amount for 2017, effectively deferring implementation until 2018

FLORIDA MARKET STATUS - SUMMARY

- Admitted carriers operating results
 - Operating results
 - Stressors = attritional and CAT losses, potential reinsurance price increases & competition
 - Favorable = primary rate increases and geographic diversification
 - Wide range of expected combined ratios 95% - 140%
 - Capitalization stressors = Low capitalization levels, access to capital, & NAIC RBC changes
- Growth potential exists in personal residential
- Residual market assessment risk appears remote
- Additional M&A activity is expected

RECENT INDUSTRY WIND CATASTROPHES

Hurricane Harvey Timeline of Events – US Impact

First Watch Issued

August 23 11AM EDT
First U.S. hurricane watch issued by the NHC



First Landfall

August 25: Cat 4
Between Port Aransas and Port O'Connor Texas



Second Landfall

August 26: Cat 3
Northeastern shore of Copano Bay Texas



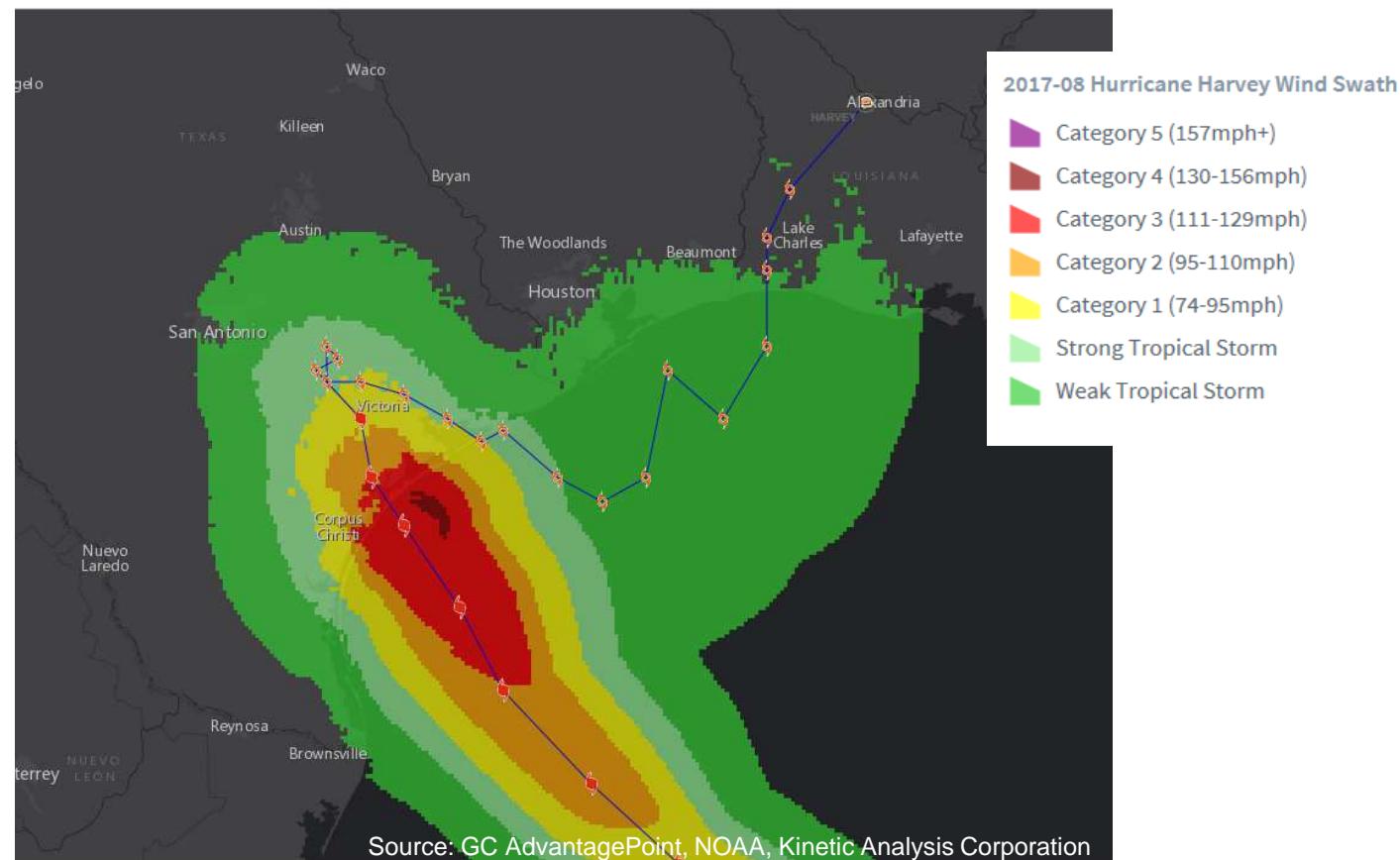
Third Landfall

August 30: Tropical Storm
West of Cameron, Louisiana

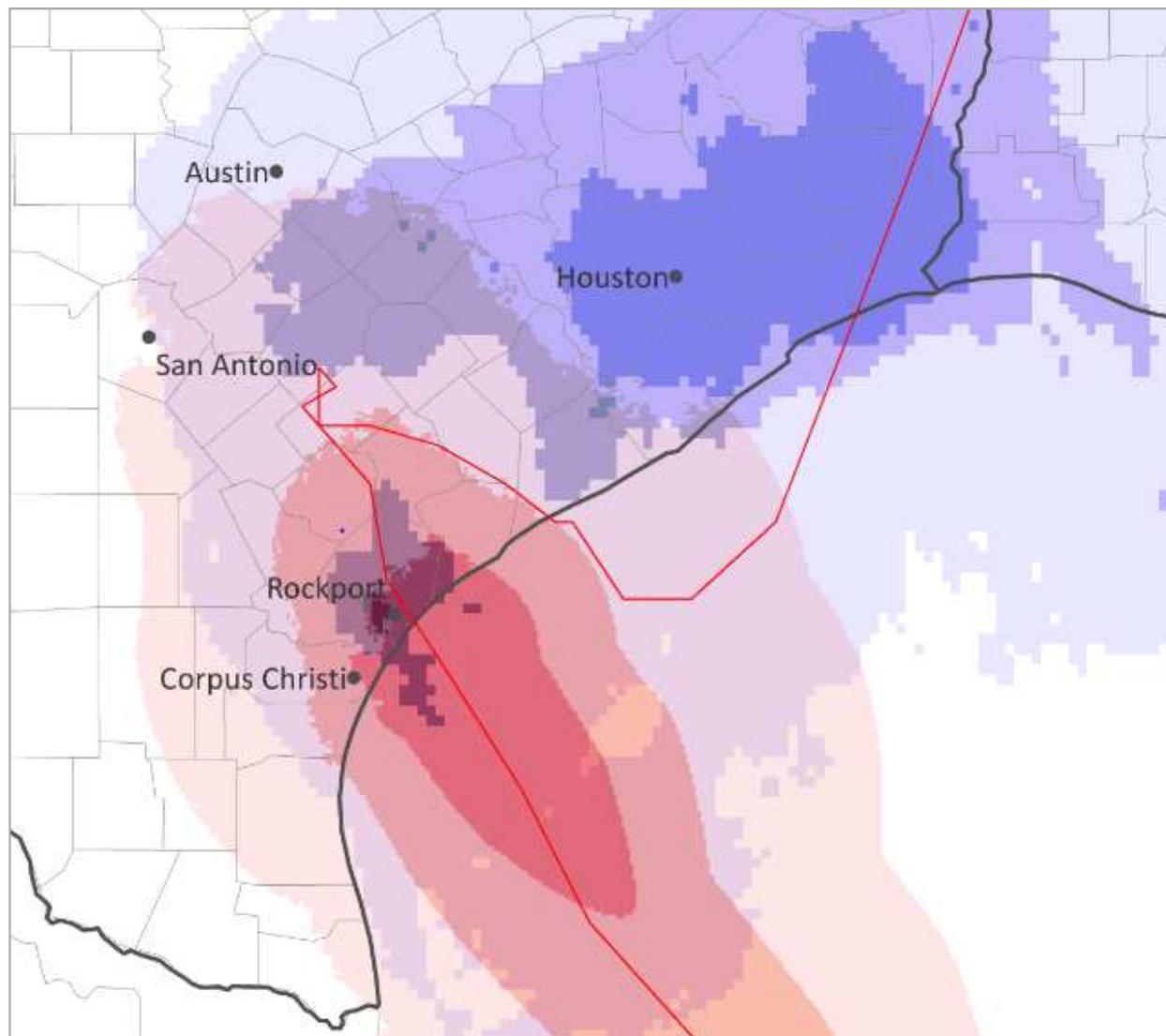


Advisories Expire

August 30 8PM EDT
All Harvey advisories issued by the NHC expire

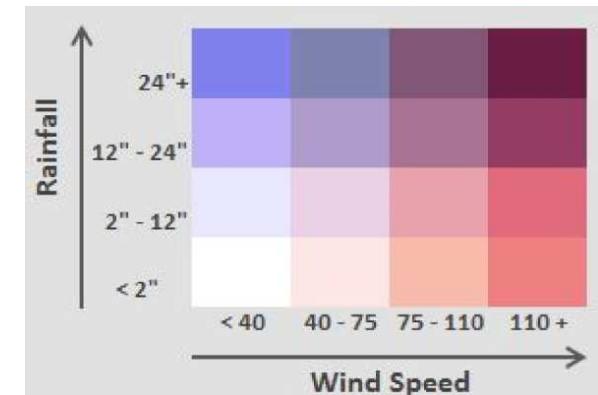


Hurricane Harvey Wind and Water



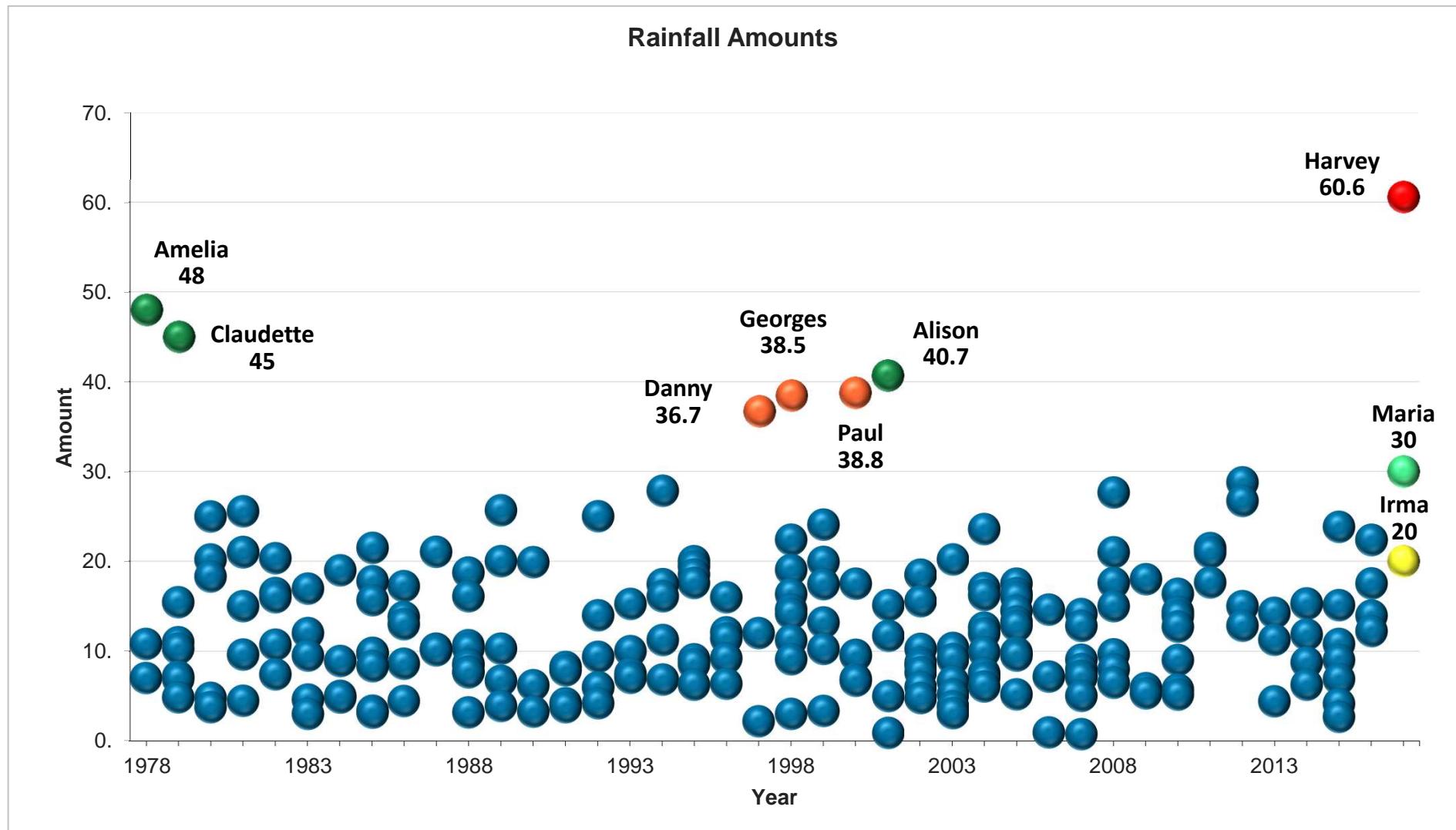
SOURCE: National Weather Service, Kinetic Analysis Corporation, GC AdvantagePoint

- Overlay of the wind speed (red) and rainfall (blue)
- There is a clear wind area, a clear rain area, and a small area intense in both:
 - Corpus Christi: Heavy wind; light rain
 - Houston: Light wind; heavy rain
 - Rockport: Heavy wind; heavy rain



Hurricane Harvey's Heaviest Rains Were Historic

US Tropical Cyclones Total Max Rainfall (inches)



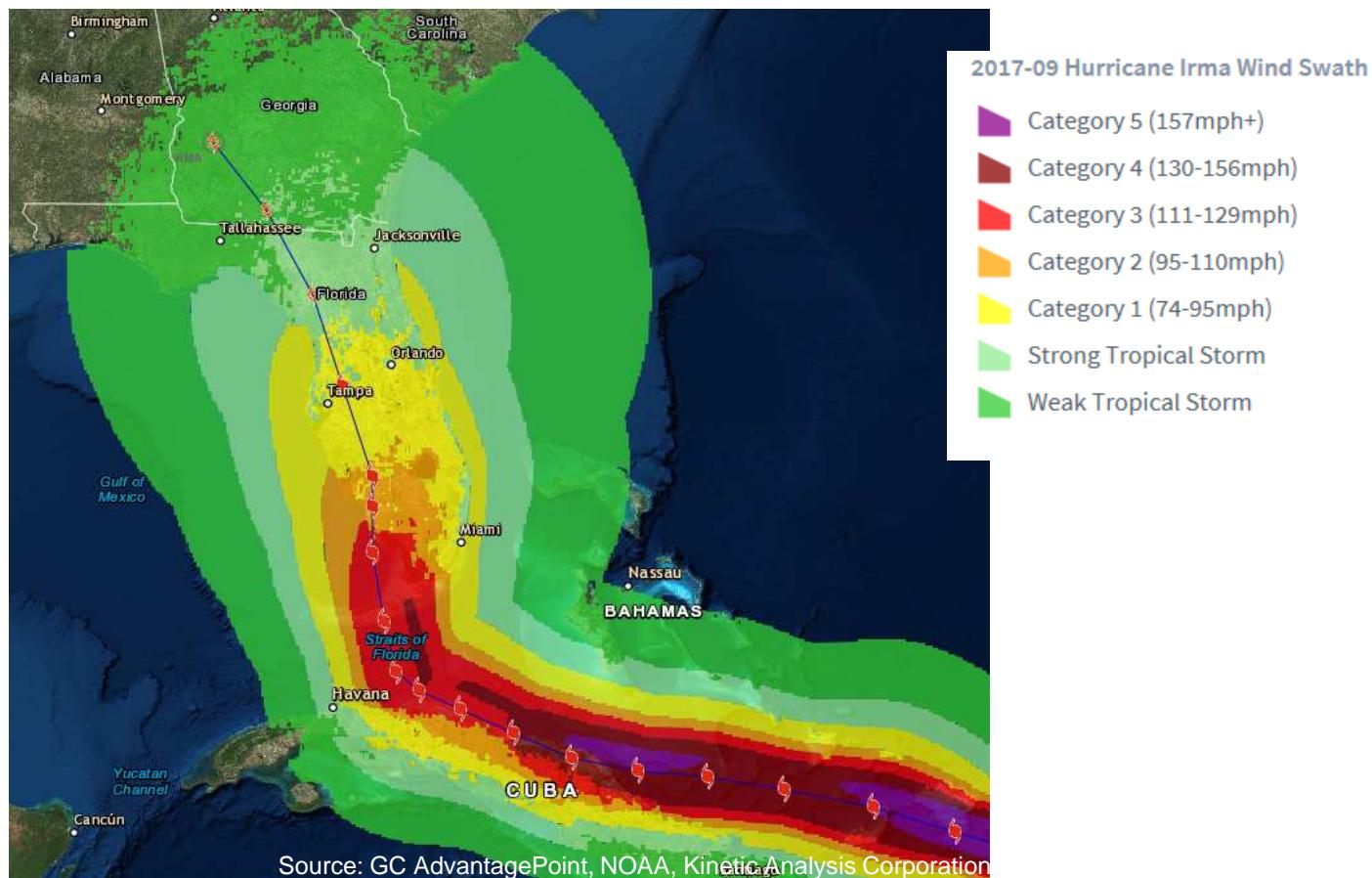
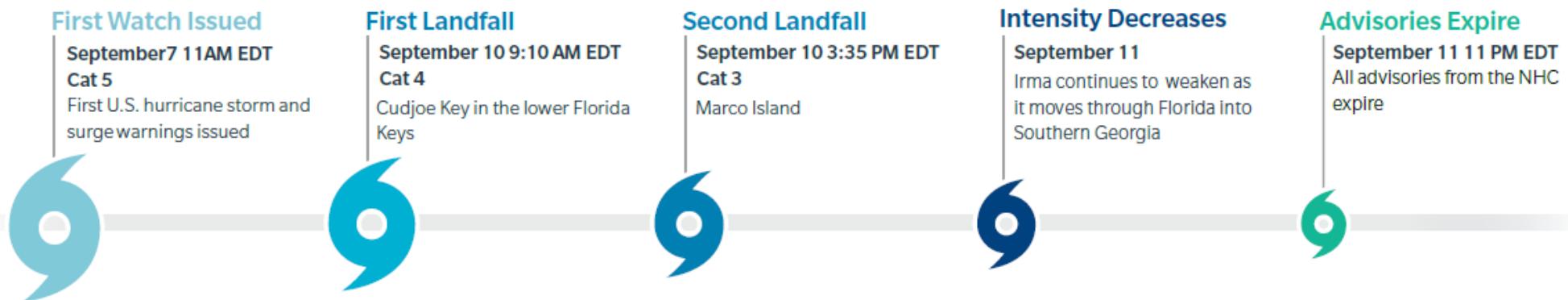
Source: National Oceanic and Atmospheric Administration

Hurricane Harvey and Irma based on official weather station readings and Maria estimates based on local observations

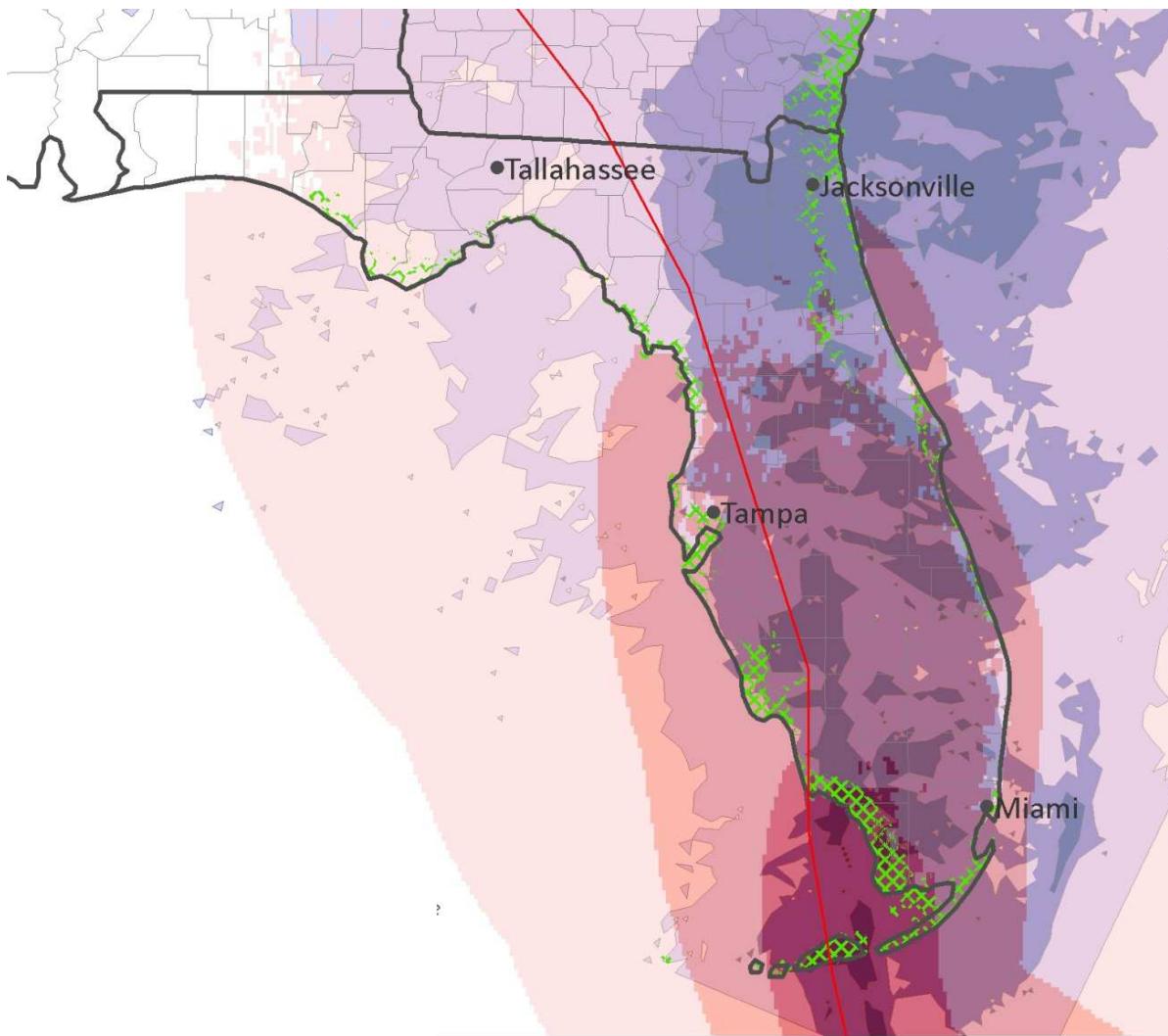
Hurricane Harvey Storm Facts

- Hurricane Harvey made US landfall as a cat 4 between Port Aransas and Port O'Connor, Texas
- First major hurricane to make US landfall since Wilma (2005) and the first cat 4 to hit Texas since 1961
- After moving inland, Harvey remained nearly stationary over southeast Texas for an unusually long period of time, producing unprecedented rainfall totals for a tropical cyclone
 - Rain from Harvey is in a class of its own. The storm unloaded over 60 inches of rain east of Houston, the greatest amount ever recorded in the Lower 48 states from a single hurricane or tropical storm.
 - That amount of rain is a staggering number when compared to the rainfall seen from other deadly storms:
 - **Katrina:** 17" max rainfall
 - **Andrew:** 7" max rainfall (Florida), 12" max rainfall (Louisiana)
 - **Sandy:** 13" max rainfall
 - **Irene:** 16" max rainfall
 - **Hazel:** 12" max rainfall (8"+ in Toronto)

Hurricane Irma Timeline of Events – US Impact

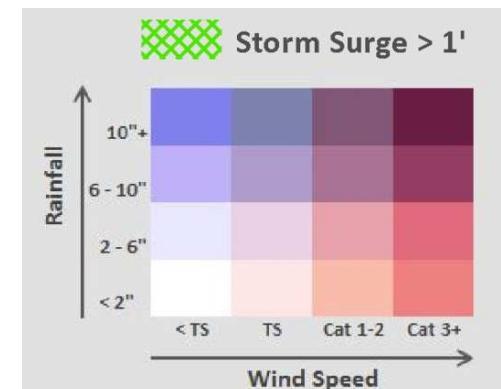


Hurricane Irma Wind and Water



SOURCE: National Weather Service, Kinetic Analysis Corporation, KatRisk, GC AdvantagePoint

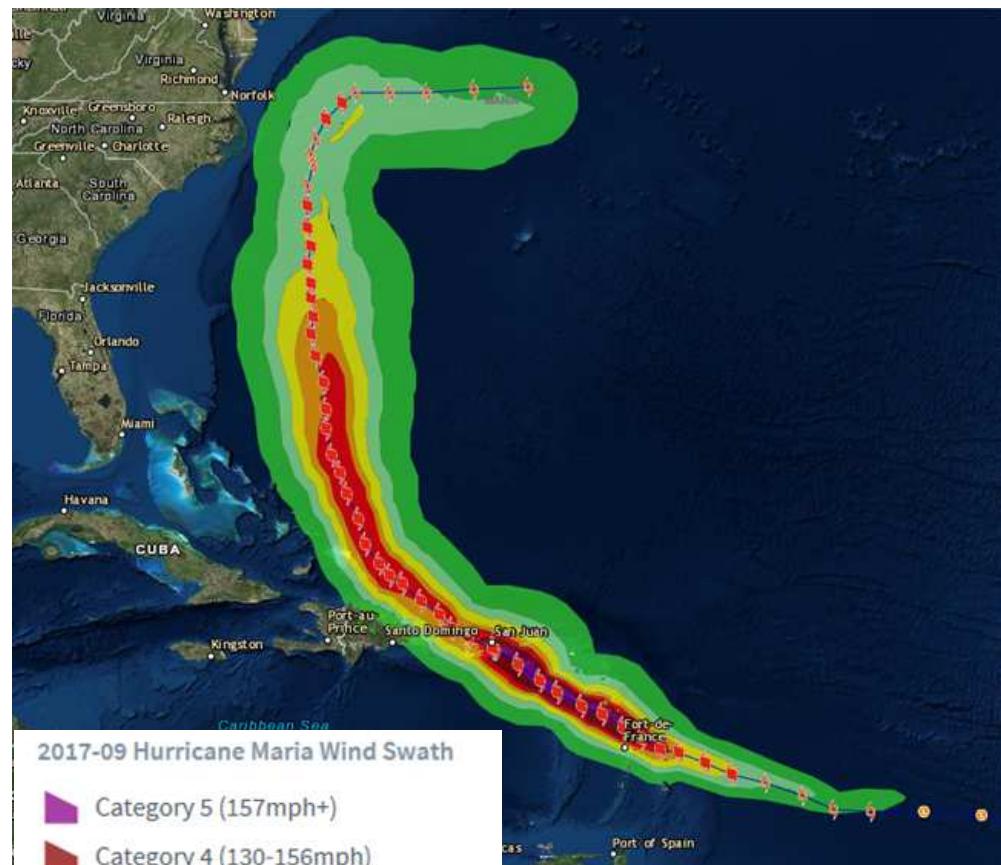
- This map overlays the wind speed (red), the rainfall (blue), and storm surge (green)
- Heaviest rainfall: **15.91"** (Ft. Pierce/St. Lucie County Intl. Airport)
- Strongest wind: **142 mph** (2 mi ENE of Naples)
- Highest water levels were reported in Jacksonville and Savannah, Georgia



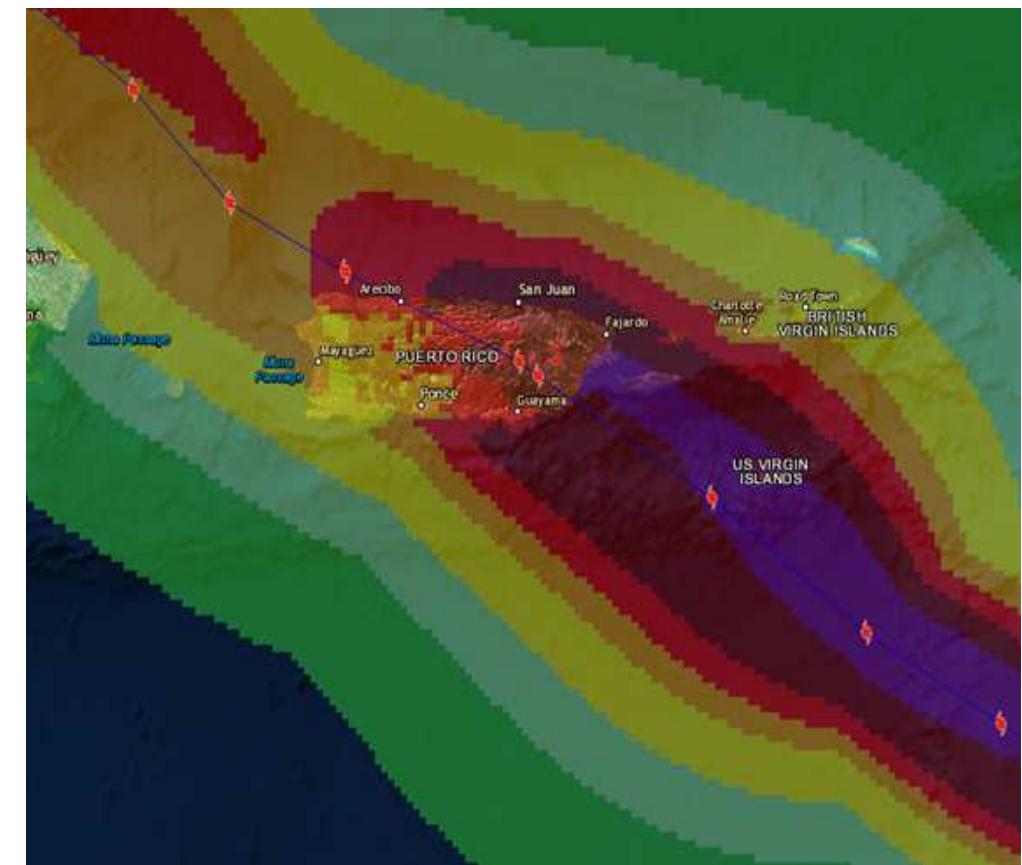
Irma Storm Facts

- Hurricane Irma made US Landfall on Cudjoe Key as a cat 4 and second landfall on Marco Island as a cat 3. The first cat 4 to affect Florida since Charley (2004).
- Irma is the strongest Atlantic hurricane outside of the Caribbean and Gulf of Mexico on record and among the top five strongest Atlantic Basin hurricanes on record.
- Irma maintained 160 knots (185 mph) for 37 hours - the longest at this intensity any cyclone has maintained on record.
- Broad geographic impacts: Charleston, SC experienced the second highest storm surge in their history without being in the direct path of the storm; 8.3 million customers lost power, the largest weather related power-outage in history.
- Although the Atlantic hurricane season officially begins on June 1st, NOAA dubs the roughly eight-week period from late August to early October the "season within the season" – the peak of the Atlantic hurricane season.
 - **Irma:** August 30 to September 11, 2017
 - **Harvey:** August 17 to August 30, 2017
 - **Katrina:** August 23 to August 30, 2005
 - **Andrew:** August 16 to August 28, 1992
 - **Maria:** September 16 to September 27, 2017

Hurricane Maria



- Category 5 (157mph+)
- Category 4 (130-156mph)
- Category 3 (111-129mph)
- Category 2 (95-110mph)
- Category 1 (74-95mph)
- Strong Tropical Storm
- Weak Tropical Storm



SOURCE: GC AdvantagePoint, NOAA, Kinetic Analysis Corporation

Hurricane Maria

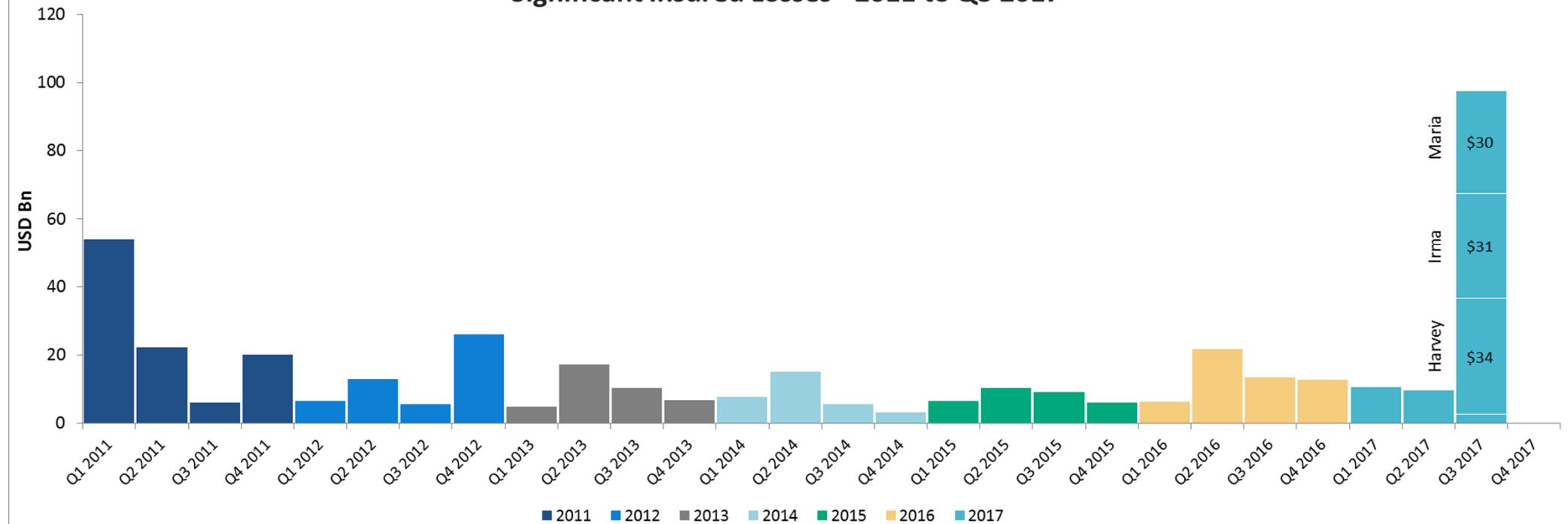
- Maria rapidly intensified on approach to Dominica and became the first category 5 to make landfall on the island on September 18, with maximum sustained winds of 160 mph
- The third major hurricane in a row to threaten the Leeward Islands within two weeks; hurricane Irma caused devastating damage and Jose passed in the very near vicinity
- Maria then strengthened to carry maximum sustained winds of 175 mph and a central pressure of 908 mbar making it the 10th most intense Atlantic hurricane on record*
- The center of Maria made landfall near Yabucoa, Puerto Rico on September 20, with maximum sustained winds of 155 mph, a strong category 4 hurricane
- Radar and surface observing stations were damaged or destroyed during the event; reliable wind and precipitation observations are problematic as a result
 - Rainfall amounts in excess of 15 inches were reported, with unofficial totals well exceeding 30 inches
 - Flood and wind impacts were widespread and severe including areas of complete damage to property and wide-spread infrastructure impacts potentially disrupting communications, water, power and transportation for months
- Maria is the strongest hurricane to affect Puerto Rico since 1928

*In the satellite era

Market Drivers

Global Significant Insured Loss Activity: 2011 – Q3 QTD 2017

Significant Insured Losses - 2011 to Q3 2017



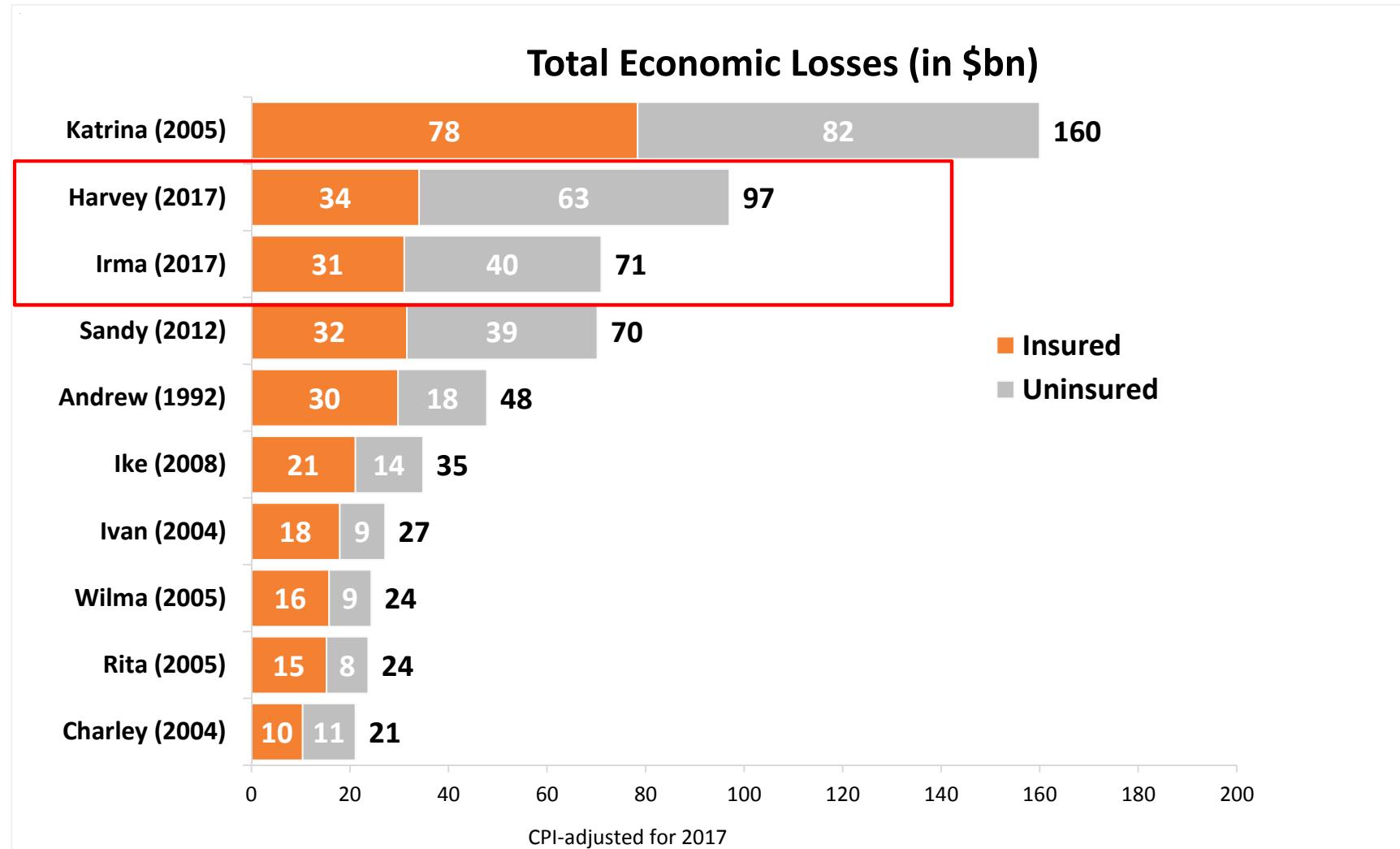
Losses in excess of USD \$100 million; Harvey, Irma, Maria and Sept 19 Mexico
 EQ losses are preliminary estimates subject to significant uncertainty; Does not
 represent any Q4 losses such as Hurricanes Nate and Ophelia and CA wildfires

Source: Press releases, PCS, Perils, GC Business Intelligence

After a very light first half of the year 2017 is projected to generate over \$100 billion of insured loss based on current estimates. Only two other years, 2005 and 2011, have surpassed this mark.

The Most Expensive Hurricanes in US History

Insured + uninsured = total economic losses



Sources: Munich Re, Geo Risks Research, NatCat Service, National Centers for Environmental Information, NOAA
Harvey and Irma Sources: Moody's and midpoint of Guy Carpenter insured loss estimate table

Recent Industry Events

Industry Loss Estimate Summary

| | Hurricane Harvey | | | Hurricane Irma | | | Hurricane Maria | | |
|-------------------|------------------|--------|-------|--|------|------|--|------|------|
| | Low | Mid | High | Low | Mid | High | Low | Mid | High |
| AIR | 1.2** | 10.0** | 1.3** | 25.0 | 27.5 | 30.0 | 40.0 | 62.5 | 85.0 |
| RMS* | 25.0 | 30.0 | 35.0 | 15.0 | 22.5 | 30.0 | 15.0 | 22.5 | 30.0 |
| Core Logic | 7.5 | 9.5 | 11.5 | 22.5 | 28.8 | 35.0 | | | |
| KCC | 12.4 | 13.9 | 15.4 | | 18.0 | | | 30.0 | |
| PCS | \$15.9B | | | \$18.0B (\$13.1B FL + \$3.6 USVI) | | | \$21.9B (\$21.5B Puerto Rico) | | |

*Include NFIP losses (est. \$12B)

**Low and High only include wind only. Mid estimates wind and flood

All in \$billions

Source: AIR, RMS, KCC, CoreLogic, PCS, Others

US Property Current Market View

Loss Estimates November 2017

A disconnect currently exists between reported company losses, PCS estimates and overall market assumptions regarding size of losses

IRMA LOSS REVIEW

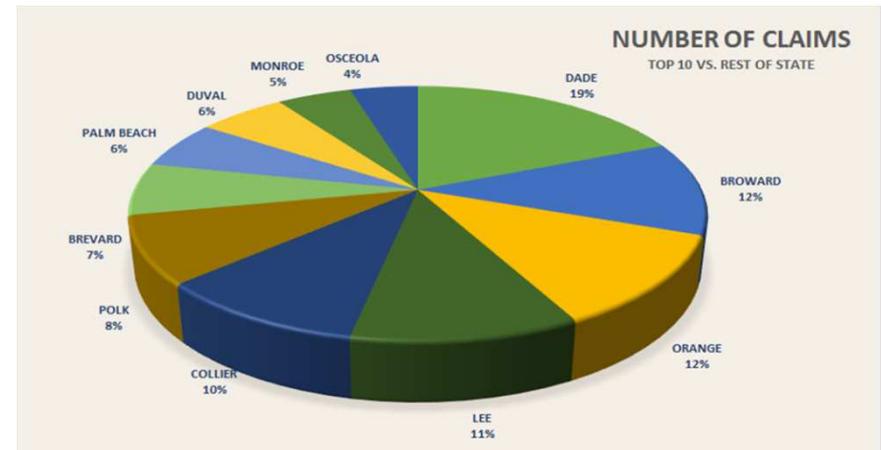
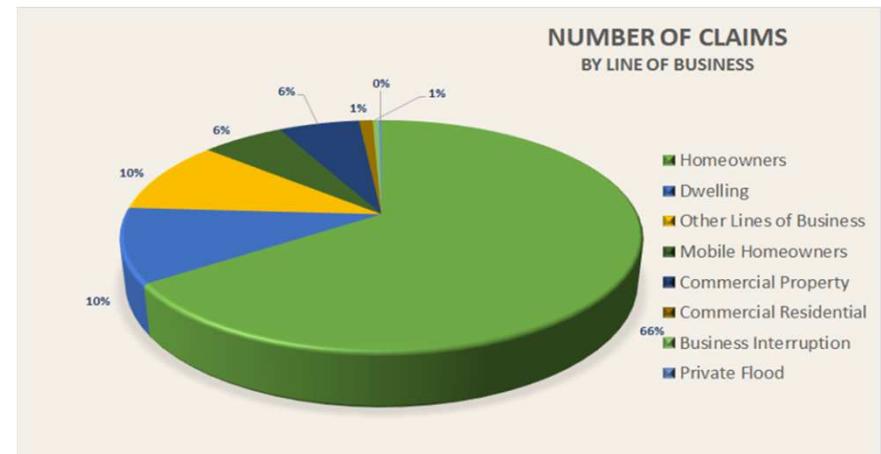
Irma Loss Review – Pre-landfall

Irma Loss Review – Pre-landfall

Irma Loss Review – Pre-landfall

Florida OIR Industry Reported Losses – Hurricane Irma (11/03/17)

- Total estimated incurred loss has reached \$5.556b
 - An slight decrease in total industry incurred loss of 0.2% since 10/27
 - Average loss around \$9k
 - 809k reported claims with 445k closed (55%) of which 181k (22%) closed w/out pay



Irma Loss Review - Summary

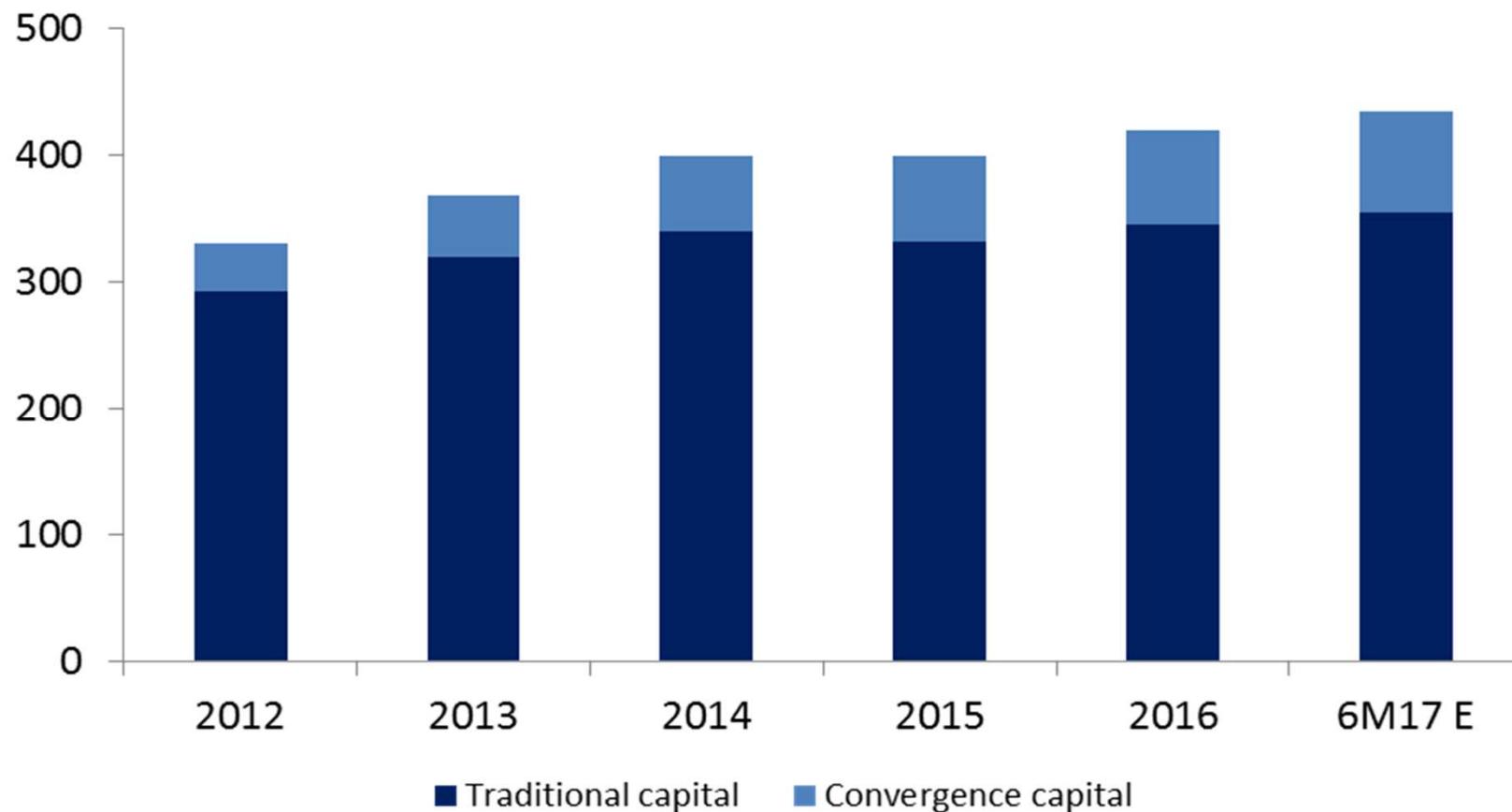
Irma Loss Review - Reinsurer and Accounting Observations

- Reinsurer post-event response = Favorable
 - Reinsurer cash calls resulted in >\$0.5b of cash for GC clients shortly after Irma landfall
 - Some cash advances received before landfall
- Accounting anomalies
 - Reinstatement Premium Protection (RPP) recoveries
 - Trust accounts funded net of deposits = Schedule F implications?
 - LOC's to secure reinsurance recoverables from unauthorized reinsurers at year-end 2017

REINSURANCE RENEWALS IMPLICATIONS

Market Environment

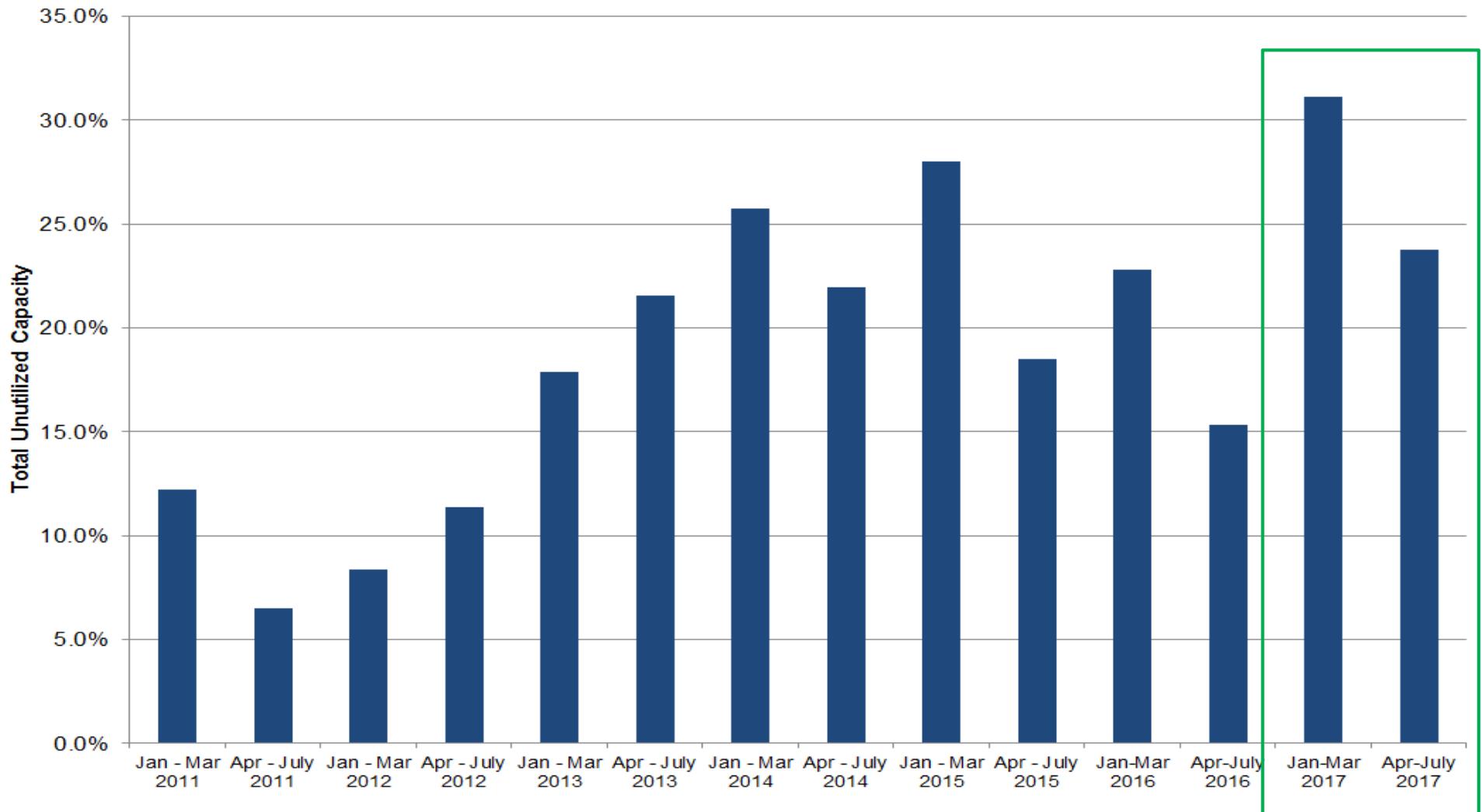
Dedicated Reinsurance Capital



Source: Guy Carpenter, AM Best

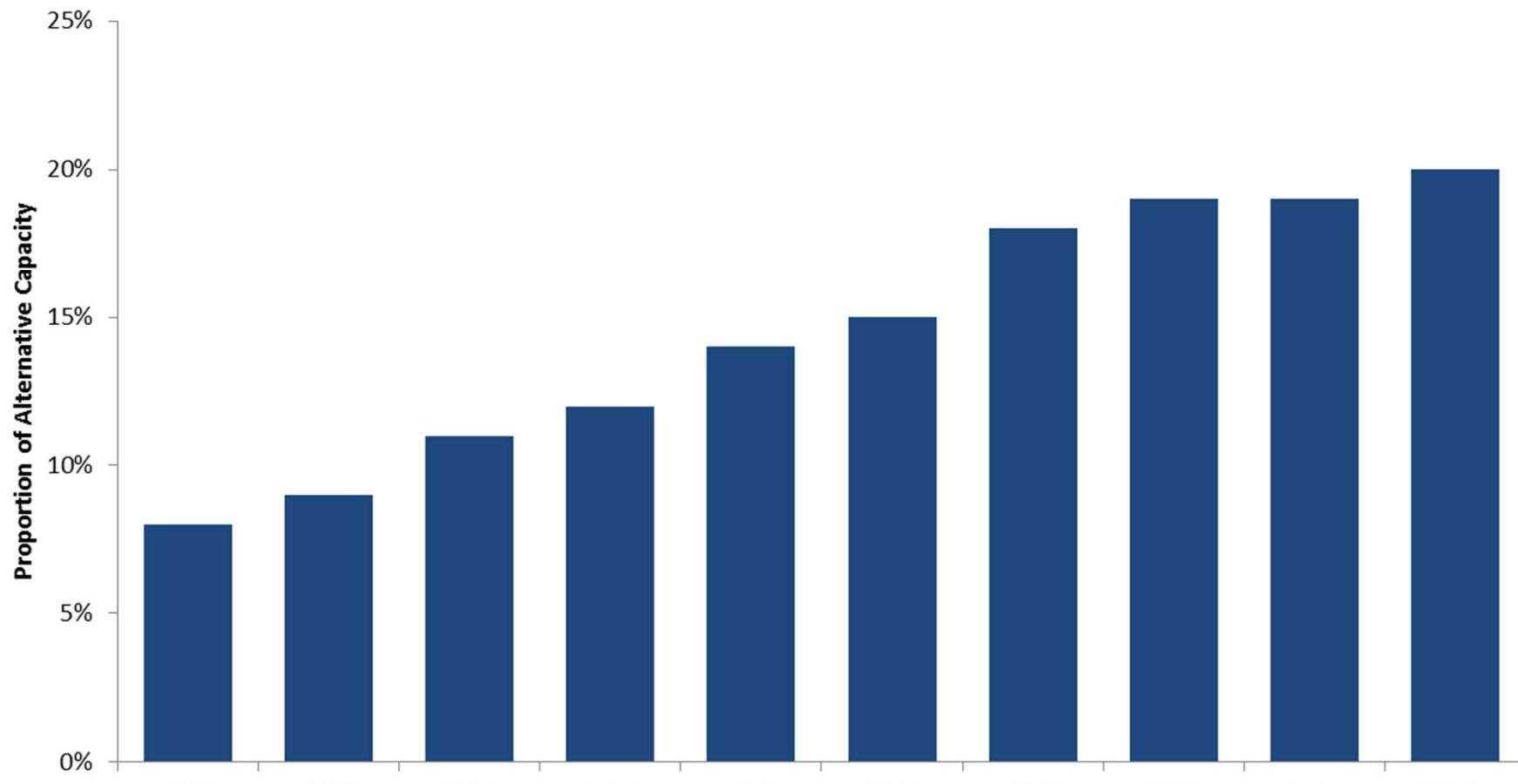
Dedicated reinsurance capital grew another 4% through the first half of 2017 despite continued price decreases

US Property Catastrophe Capacity 2011 – 2017 Excess Capacity



While 2016 excess capacity tightened notably, 2017 rebounded to its highest point for both the Jan-Mar and Apr-July timeframes.

Convergence Capital Participation Convergence Capital as a Percent of Global Catastrophe Limit



*Preliminary

Source: Guy Carpenter

Convergence capital as a percent of global catastrophe limit increased during 2017 to an estimated 20 percent.

US Property Current Market View

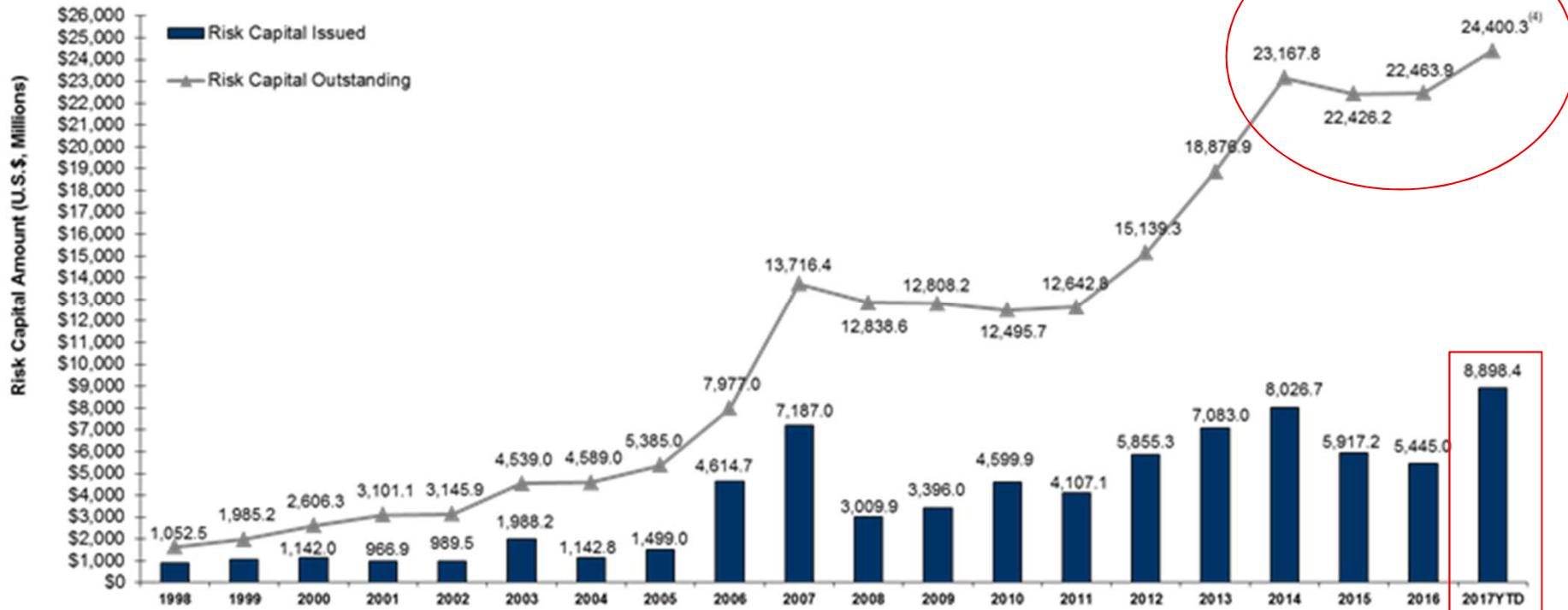
November 2017

Despite continued market softening at mid-year and greater excess capacity and capital growth through the first half of the year, we are now in a potentially market changing loss environment

- Insured catastrophe loss projected to reach > \$100bn for 2017,
 - Only exceeded in two other years (2005 & 2011)
 - 2006 US ROL index increased 76%
 - 2012 US ROL index increased 7%
 - Excess reinsurance capital & liquidity increased significantly since 2005
 - 2017 loss is an accumulation of smaller to mid-sized events
- Current market status:
 - Limited data points around current final placement activity
 - Approximately 20 quoted backup post events
 - Pricing is currently unpredictable with backup covers displaying a wide range of outcomes versus original pricing
 - Expected Cat Bond market losses from HIM and CA Wildfire low relative to outstanding issuance

Market Commentary

HIM impact on ILS market – Cat Bond Only



US Property Current Market View

November 2017

Recent quotes from reinsurers on anticipated Property CAT Reinsurance rate changes

- “...price corrections of between **10 percent and 50 percent** and sometimes more on loss-affected and loss-exposed US property lines”
 - *Bermuda / Lloyds reinsurer*
- “We believe that all lines will be impacted from a pricing and terms and conditions perspective. ... We are starting to see rates on short-tail lines **increasing to double-digit range**, with loss impacted accounts seeing higher increases. ...”
 - *CEO of Bermuda Reinsurer*
- “...predicts **15 to 20 percent** US property catastrophe rate rises at 1.1”
 - *International Reinsurer*

US Property Current Market View

November 2017

- Market likely to be unsettled at January 1 so **communication is critical**
 - Losses may be largely unknown and reinsurers' own retro situation may be unclear
 - The amount of lost and **trapped capital** will create a dynamic where some markets need to reload and investors are looking for price increases to commit new capital
 - Many underwriters (and **inexperienced brokers**) in the US market have never experienced this level of loss and subsequent market response
- Reinsurers are indicating they will take a **client specific, measured approach** but also that they are expecting pricing to increase
 - Reinsurers are starting to test the boundaries of pricing and terms
- Reinsurers are looking to **differentiate clients** who stuck to tight underwriting guidelines, had a well-executed cat management plan and under-sized losses
 - Portfolios that underperformed relative to past representations will face greater scrutiny in the underwriting process
 - Reinsurers interested in **specific details** regarding losses, the claims settlement process, exposure to AOB, & loss adjustment expense percentage

US Property Current Market View

Post-loss Event Analysis

Did storms cause damage as expected?

Modeling firms, insurers, reinsurers and others will be evaluating the expected outcome of the storms versus the actual reality.

Did damage occur as expected, were there segments that generated more or less contribution to loss, any unexpected factors, are adjustments needed?

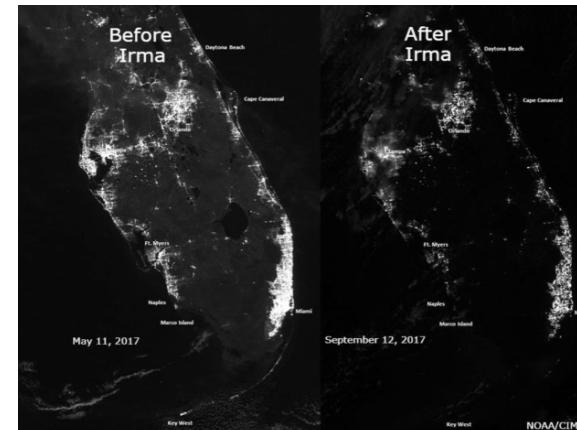


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How did three storms covering very large areas impact outcomes?

With Harvey, Irma and Maria occurring within a month and impacting a significant geographic area, post-disaster recovery resources have been tested.

The impact of the availability of claims adjustors and prolonged power outages are two of the considerations.



How prepared were individual companies?

As reinsurers assess their response to these events, beyond the broader questions of industry lessons learned is the evaluation of how individual companies were impacted.

This assessment may include items such as underwriting evaluation vs actual performance, claims preparedness, composition of portfolio.



QUESTIONS?

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