

CORAL GABLES INSURANCE & RISK MANAGEMENT ADVISORY BOARD

Minutes of February 11, 2019 – 8:00am

427 Biltmore Way – 2nd Floor Large Conference Room

MEMBERS	J	F	M	A	M	J	J	A	S	O	N	D	APPOINTED BY
	19	19	19	19	19	19	19	19	19	19	19	19	
Gary Reshefsky													Mayor Raul Valdes-Fauli
Jose Soto													Vice-Mayor Frank Quesada
James Blough													Commissioner Pat Keon
Juan C. Diaz Padron													Commissioner Vincent Lago
Patricia Fuller													Commissioner Michael Mena

STAFF:

Raquel Elejabarrieta, Director Office of Labor Relations & Risk Mgt
 David Ruiz, Risk Manager

A = Absent
 E = Excused Absence
 P = Present
 - = No meeting
 * = New Board Member

GUESTS:

Mr. Tony Abella – Arthur J. Gallagher & Co.
 Ms. Maria Perez – Arthur J. Gallagher & Co.

PUBLIC GUEST:

None

RECORDING SECRETARY:

Eglys Hernandez, Administrative Assistant

OPENING:

The Chairperson, Juan C. Diaz Padron, opened the meeting. Meeting was called to order at 8:10am. Quorum was reached.

MINUTES APPROVAL:

November 5, 2018

Motion by: Mr. Reshefsky / 2nd Mr. Blough / All approved unanimously

SECRETARY’S REPORT: None

BOARD MEMBERS REPORTS: None

NEW BUSINESS:

Insurance Renewal – Presentation by Arthur J. Gallagher

Maria Perez of Arthur J. Gallagher & Co. (“AJG”) distributed and presented the preliminary renewal indications for policy period May 1, 2019 - 2020 (Exhibit 1). Ms. Perez advised of a current change in the London property market place and of some shifting going on from London market to domestic market.

Renewal Timeline Reviewed:

Review of expected time line. Ms. Elejabarrieta stated goal is to present the insurance package renewal for Commission approval at first commission meeting in April 2019. Firm quotes would be available for the next Insurance Advisory Board Meeting which is currently scheduled for March 11, 2019.

Property Insurance Premiums Reviewed:

Ms. Perez advised due to hardening of market the initial preliminary property rate indications received from carriers are showing an increase in insurance premiums from 9% to 12%. However, AJG is working towards obtaining an increase closer to 9%. Ms. Perez stated there are various markets which are being explored. Ms. Perez stated in order to be able to purchase property insurance in the London market, you required to have a resident London broker which for AJG is Alesco. Ms. Perez provided an article (Exhibit 2) by Alesco which addresses US Property Market – London Update as well as another article (Exhibit 3) U.S Insured Catastrophe Losses.

Mr. Diaz-Padron asked what has been the experience of claims submitted regarding past storms. Ms. Elejabarrieta stated there has not been any issue and that a \$2.5 million dollar insurance claim was filed and that the City has received a \$750,000.00 advance payment from the insurance carrier. Ms. Perez stated that the advance received can be used towards the cost of a project manager.

Mr. Reshefsky addressed page six “large locations at risk” list and asked if there were any hurricane insurance claims at these locations. Ms. Elejabarrieta advised there was a claim at City Hall and also at the Public Safety building. Mr. Reshefsky asked if it could be possible to go forth without wind storm for the Public Safety Building. Ms. Elejabarrieta stated that building was sold and that the contract would have to be reviewed in regards to how building has to be turned over to buyer.

Mr. Reshefsky asked AJG if they are predicting a 12% increase this year. Ms. Perez advised that this would be the maximum increase. Ms. Perez stated that the renewal would contain the same deductible and limits.

Mr. Bough asked if builders risk for the new building and fire station on Dixie Highway / Rivera has been added. Mr. Abella advised City did not purchase such insurance as it was purchased by contractor. Parking garages were also discussed.

Highest Value Locations – Page Six:

Ms. Perez stated that the City is currently purchasing named windstorm coverage for \$50,000,000 per occurrence and purchasing full limits for all other perils. Ms. Perez stated during preliminary

discussions with Ms. Elejabarrieta, perhaps City may want to reconsider purchasing full limits on all other perils based on the value of the garages as well as other properties mentioned on page six. Ms. Perez stated since no building is worth over \$50,000,000 the City can purchase a \$50,000,000 policy which includes all name storms and all perils per occurrence limits. Mr. Soto explained that Ms. Perez is suggesting to get rid of second excess property and add AOP to primary.

Ms. Perez advised that they are looking into shifting approximately 25% capacity from London to domestic markets; however feels that London needs to continue to serve as lead in order to keep within rate change stated.

Additional discussions was conducted regarding excess Workers Compensation, Boiler Machinery, ADD Sports, FEMA, flood insurance, pump stations, outside markets, active shooter coverage to be quoted and Biltmore (specifically golf course). Board requested a review of Venetian Pool claims as well as review of Biltmore contract once again regarding golf course coverage in place.

RFP Process Review

Mr. Diaz-Padron requested that selection of insurance broker be discussed and that the City go out to RFP. Mr. Diaz-Padron stated that his recommendation that the City go out to RFP is not because AJG is not meeting the level requirements that the City or Board has but because feels that the Board has a duty to assure the best process is being put out to public in order to make it as competitive as possible in best interest to the City and tax payers. Mr. Diaz-Padron stated that since he became a member of the Board in 2010, at which time AJG was selected, he believes the City has not gone out to RFP.

Ms. Elejabarrieta provided the history of the City's RFP process for insurance broker services. She advised that for the insurance renewal period of 2009-2010, the City used AON to procure property insurance for an annual fee of \$60,000 and used AJG to procure the City's public entity package and excess insurance for a fee of \$125,000. Ms. Elejabarrieta stated that for the renewal period of 2010-2011 AON procured the City's property, sports liability and sports medical insurances coverages for \$60,000 and AJG procured the City's public entity, excess liability, ADD, bonds, storage and crime for \$125,000. Ms. Elejabarrieta stated that for year 2011-2012 AON's contract was canceled for convenience since AJG came in and stated that in addition to procuring the City's public entity and excess liability insurance, they would also procure the City's property insurance and not charge an additional fee, which meant a savings to the City of \$60,000. Ms. Elejabarrieta stated that the City went out to RFP in 2015 where AJG was the only one to respond. Ms. Elejabarrieta advised that in past the Board has inferred that there were was only one response to the RFP because the City's minimum requirements were too high/restrictive. However, after a careful review of the minimum requirements of the RFP (Exhibit 4), the City's requirements are not high/restrictive and are in keeping with other governmental agencies.

Mr. Reshefsky stated that in 2015 he sat as part of selection committee regarding the Insurance Broker RFP and voted to terminate the RFP in place at the time and start over because there was only one response. However, the City Manager requested that the committee rescore the RFP and determine whether the respondent (AJG) complied with the minimum requirements. The committee determined that AJG complied with the minimum requirements, and AJG was awarded the contract. Mr. Reshefsky stated that his concern was that the same RFP continued to be utilized and wanted to look into restructuring the process. Mr. Reshefsky stated he feels it would be

important for the City to have a bit more flexibility of how it could buy each of the coverages from renewal to renewal periods perhaps through a RFQ or a short list of brokers. Mr. Diaz-Padron stated that he would like to have more than one broker in place and then the brokers would compete to bring back to the City the best proposal. Ms. Elejabarrieta stated that for the property renewal, the City can only have one broker as the market will not provide quotes to more than one broker on behalf of the same client. Mr. Diaz-Padron asked if the current wording on RFP is preventing small agencies from competing. Ms. Elejabarrieta stated when taking into consideration value of coverage that the City requires, the City should not be conducting business with small agencies that do not have the expertise of dealing with such large insurance proposals. Mr. Reshefsky feels if RFP is to remain same, it would be best to allow for staff to speak with other groups which may not meet all current qualifications but may be able to provide great services. Mr. Diaz-Padron stated purpose of this discussion and transparency is to assure City receives best possible service at competitive rates.

Ms. Elejabarrieta advised that at this time, it is best to renew the contract with AJG. Once the insurance renewal process for 2019-2020 is complete, the City will look into going out to RFP. If the City goes out to RFP and selects another broker, the contract with AJG may be terminated.

Ms. Elejabarrieta advised that next meeting regarding renewal will be March 11, 2019, and if it is necessary another meeting can take place thereafter. Mr. Reshefsky asked if renewal of contract with AJG could be one year instead of two years. Ms. Elejabarrieta stated that current contract is for a two year renewal and there is a termination for convenience clause. Ms. Elejabarrieta stated that on next meeting of March 11, 2019 discussion of renewal for one year extension or two will be placed on agenda.

MEETING ADJORNED: 9:50am

EXHIBIT 1



City of Coral Gables

2801 Salzedo Street
Coral Gables, FL 33134

Preliminary Renewal Indications May 1, 2019 – 2020

Arthur J Gallagher Risk Management Services, Inc.

Maria Perez | Area Senior Vice President
Maria_Perez@ajg.com | 305.639.3136
Antonio Abella Sr. | Area Senior Vice President
Tony_Abella_Sr@ajg.com | 305.639.3102
February 5th, 2019



Gallagher

Insurance | Risk Management | Consulting

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Your Team

Your Gallagher team is a true partner. We have the expertise to understand your business and we're here to service and stay alongside you, every step of the way.

Team Leaders

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Tara Morrone

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Claims Management

Scott Clark

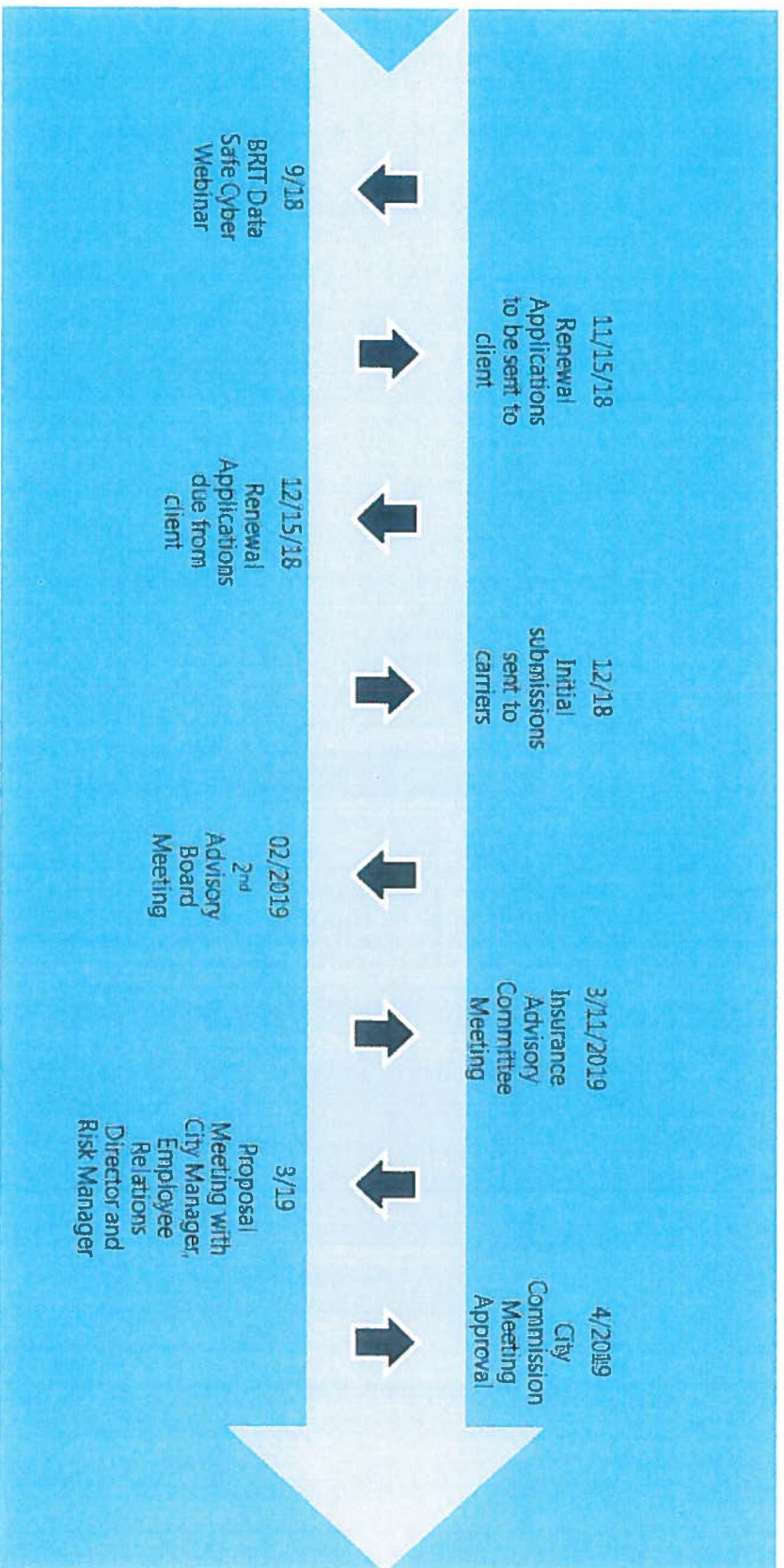
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Renewal Timeline



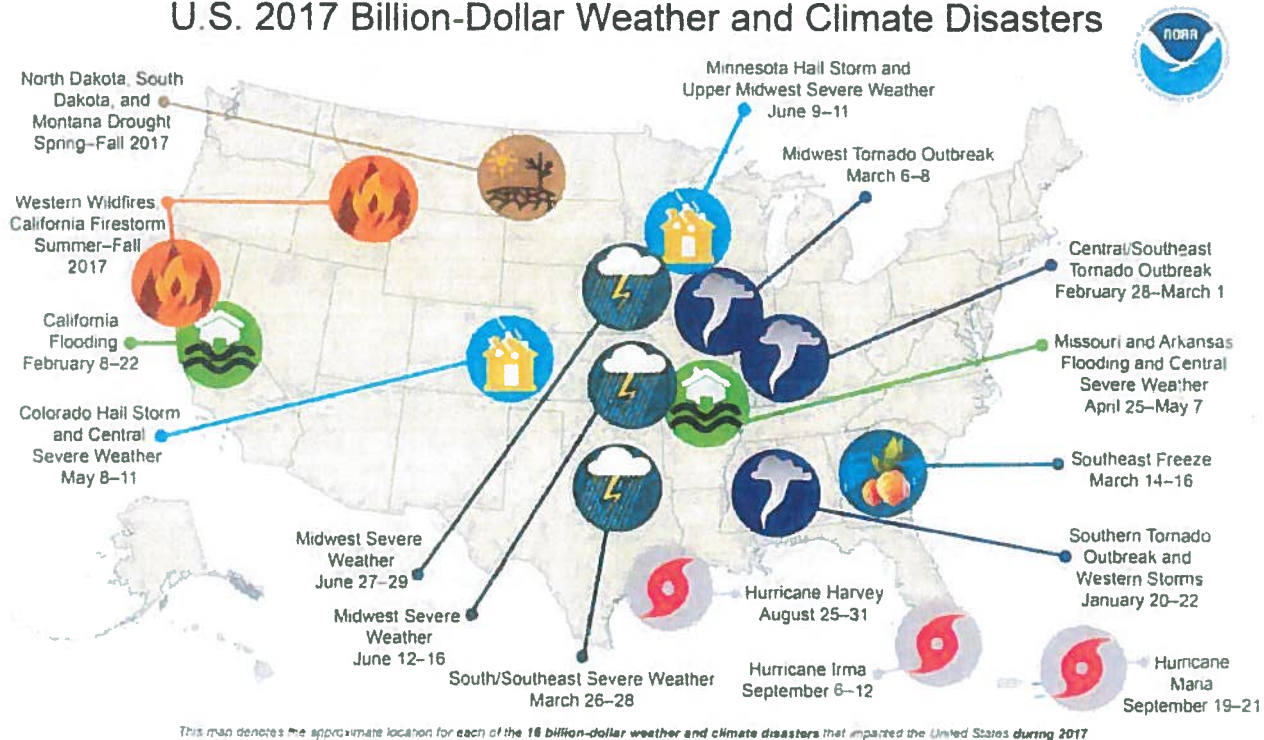
City of Coral Gables

State of the Market

Property Insurance

2017 was a year of property disasters ranging from floods of catastrophic proportion with Harvey to the devastation of Irma and the categorical wipe out of Puerto Rico by Maria. These events (aka "HIM") are projected to have total costs of approximately \$265 Billion or roughly \$100 Billion in insured losses. This doesn't take into account estimates from the Mexico Earthquake within Northern California; the \$1+ Billion wild fire losses in Southern California nor the resultant landslide and flood damage in Montecito. None of these losses begin to account for the human or environmental toll. The chart below captures the sixteen (16) \$1+ Billion losses in the United States for 2017.

U.S. 2017 Billion-Dollar Weather and Climate Disasters



The combined loss ratios for virtually every property insurer are well in excess of 100% with some exceeding 300%. Reinsurers have also been tagged. This is a capital event which is forcing carriers to re-examine their underwriting strategies for catastrophic limits, deductibles and over all approach to underwriting in earthquake, flood, hail and wind prone areas. Rate reductions will be rare and carriers will be underwriting every risk on its own merits with a focus on the particular loss history and the geographic footprint. Those accounts exposed to catastrophic loss conditions (earthquake, fire, flood or wind) might expect to see their deductibles increase and available maximum loss limits reduce



Property Insurance Premiums

RESULTS

Below is a table showing the preliminary rate indications from the property carriers. We have received initial indications ranging from 9-12%. This is due to the hardening market as referenced in the State of the Market above

PROPERTY RATE HISTORY

Layer	2018-2019	2019-2020	Δ%
Primary \$10,000,000	\$0.252	\$0.274-\$0.282	9%-12%
\$15MM xs \$10MM excluding Flood and Earthquake	\$0.106	\$0.119-\$0.115	9%-12%
\$25MM xs \$25MM Named Wind Storm and Tropical Depression	\$0.063	\$0.067	6%
\$228,515,035 xs \$25MM Excluding Flood, Earthquake and Named Windstorm	\$0.022	\$0.023	6%

TOTAL PROPERTY RATE HISTORY

	2012	2013	2014	2015	2016	2017	2018	2019
TIV	\$209,201,816	\$209,201,816	\$213,800,562	\$240,506,569	\$243,201,290	\$242,312,608	\$252,314,816	\$253,966,035
Rate/ \$100	0.5188	0.5603	0.4828	0.416	0.3627	0.4065	0.4419	0.4949*
Rate Δ		8.0%	-13.8%	-13.8%	-12.8%	12.1%	8.7%	12.0%

*Estimate

COMPARISON OF YOUR TOTAL INSURED VALUES

	2018-2019	2019-2020	% Change
Building	\$ 184,883,000	\$ 186,728,000	1%
Contents	\$ 11,395,000	\$ 11,500,000	1%
Vehicles	\$ 17,714,261	\$ 17,714,261	0%
Golf Carts	\$ 488,214	\$ 179,433	-63%
BI	\$ 5,285,000	\$ 5,285,000	0%
EDP	\$ 16,163,341	\$ 16,163,341	0%
EDP EE	\$ 2,000,000	\$ 2,000,000	0%
Account Receivable	\$ 7,400,000	\$ 7,400,000	0%
Fine Arts	\$ 3,500,000	\$ 3,500,000	0%
Valuable Papers	\$ 500,000	\$ 500,000	0%
Pump Stations	Included	Included	
Fountains	Included	Included	
Seawalls & Docks	\$ 2,986,000	\$ 2,986,000	0%
Total	\$ 252,314,816	\$ 253,966,035	1%

Current Premium Summary

Policy Type	2018-2019	2019-2020	Δ%
Package (Brit/Lloyds)	\$605,675	\$603,000	-0.4%
Excess WC	\$188,735	\$184,591	-2%
Property	\$1,115,000	Pending	-
Boiler and Machinery	\$9,636	\$10,703	11%
ADD Business Travel	\$360	Pending	-
ADD Police and Fire	\$12,338	\$12,338	0%
Bond Finance Director	\$1,138	\$1,138	0%
Storage Tank	\$2,900	Pending	-
Crime	\$12,070	Pending	-
Sports Liability	\$21,006	Pending	-
ADD Sports	\$16,006	\$11,627(Preliminary)	-27%
Cyber Liability	\$18,563	\$18,365	-1%
Terrorism Liability	\$10,000	\$10,000	0%
Terrorism Property	\$14,318	\$14,485	1%
Flood	\$7,593	Pending	-

EXCESS WORKERS COMPENSATION RATE HISTORY

	2016	2017	2018	2019
Payrolls	\$61,875,651	\$ 65,044,750	\$74,684,272	\$73,542,192
Premium	\$184,643	\$ 194,100	\$ 188,735	\$ 184,591
Rate per \$100	0.2967	0.2967	0.2510	0.2510
Δ%		0%	-15%	0%

COMPARISON OF LIABILITY EXPOSURES

	2018-2019	2019-2020	% Change
Expenditures	\$ 161,913,702	\$ 200,241,697	24%
# of Employees (FT & PT)	1003	937	-7%
# of Autos	643	581	-10%
EMTs	11	Included below	
Paramedics	121	139	5%
Armed Officers	192	192	0%
Population	50,815	50,815	0%
TIV	\$ 252,314,816	\$ 253,966,035	1%



Program Structure

LARGE LOCATIONS AT RISK

In addition to loss from a catastrophic peril such as a hurricane, there is also concern for a significant loss to a single large building from a peril such as a fire or tornado. Listed below are the City's five largest buildings by total insured value. Please note that surrounding locations may represent additional values at risk.

Building Name	Address	Total Insured Value
Fire and Police / Central Garage	2801 SALZEDO STREET	\$ 36,603,000
Parking Garage 2	220 ARAGON AVENUE	\$ 20,637,000
Parking Garage 6	1 ARAGON AVENUE	\$ 14,730,000
Museum	285 ARAGON AVENUE	\$ 11,678,000
City Hall	405 BILTMORE WAY	\$ 11,201,000



Program Structure

CURRENT 2018-2019 PROGRAM STRUCTURE

Liability	Workers Compensation	Property Including Pumps & Fountains
<p>◆ Carrier: Certain Underwriters at Lloyd's of London</p> <ul style="list-style-type: none"> • General Liability \$650,000 per occurrence Excess Limit: \$4M per Occurrence/\$8M Annual Aggregate Including the following sub-limits(not included in XS limit) <ul style="list-style-type: none"> ✓ Sexual Harassment \$4,650,000 per occurrence \$4,650,000 Annual Aggregate ✓ Sexual Abuse \$4,650,000 per occurrence \$4,650,000 Annual Aggregate • Automobile Liability \$4,650,000 per occurrence • Public Officials \$4,650,000 per occurrence \$5,300,000 Annual Aggregate. Including the following sub-limits: <ul style="list-style-type: none"> ✓ Errors & Omissions* \$4,650,000 per occurrence \$5,300,000 Annual Aggregate ✓ Employment Practice Liability* \$4,650,000 per occurrence \$5,300,000 Annual Aggregate • Employee Benefits Liability* \$4,650,000 per occurrence \$5,300,000 Annual Aggregate • Law Enforcement Activities \$650,000 per Occurrence Excess Limit: \$4M per Occurrence/\$4M Annual Aggregate Including the following sub-limit (not included in excess limit): <ul style="list-style-type: none"> ✓ Sexual Harassment \$4,650,000 per occurrence \$4,650,000 Annual Aggregate ✓ Sexual Abuse \$4,650,000 per occurrence \$4,650,000 Annual Aggregate <p>Premium: \$605,675 + fees and assessments</p> <p>* Claims Made Coverage applies. Refer to policy for applicable Retroactive Date and Limits</p>	<p>◆ Carrier: New York Marine General Insurance Company</p> <p>Excess Workers Compensation</p> <p>Statutory Employers Liability: \$1,000,000 each accident / each employee for disease or cumulative injury Retention: \$1,000,000</p> <p>Premium: \$188,735</p>	<ul style="list-style-type: none"> • Named Windstorm Only \$25MM Excess of \$25MM per Occ. <p>◆ Carrier: Everest Indemnity Insurance Company Limits: \$25,000,000 Premium: \$158,000 + fees and surcharges</p> <ul style="list-style-type: none"> • Second Excess Property Excess of \$25MM per Occ. <p>◆ Carrier: Landmark American Insurance Company Limits: \$227,314,816 Premium: \$55,000 + fees and surcharges</p> <ul style="list-style-type: none"> • First Excess Excess Layer Part of \$15MM Excess of \$10MM per Occ. <p>◆ Carrier: Evanston Insurance Company Limits: \$7,500,000 Premium: \$133,500 + fees and surcharges</p> <p>◆ Carrier: Liberty Insurance Company Limits: \$7,500,000 Premium: \$133,500 + fees and surcharges Total Layer Price: \$239,404 + taxes and fees</p> <ul style="list-style-type: none"> • Primary Property <p>◆ Carrier: Lloyd's of London Limits: Primary \$10,000,000 in any occurrence Premium: \$635,000 + fees and surcharges</p>
<p>SIR Per Occurrence \$350,000</p>	<p>◆ Carrier: Certain Underwriters at Lloyd's of London WC: \$500,000 per occurrence xs \$500,000 Employers Liability \$500,000 xs \$500,000</p> <p>Premium: Included in the Package policy</p>	<p>Deductible:</p> <ul style="list-style-type: none"> • \$50,000 per Occurrence all other perils • 72-hour waiting for Time Element • \$50,000 Earthquake • Flood \$100,000 excess maximum NFIP limit available for Special Flood Hazard Areas (Prefix A or V) • 5% of total insured values affected at per unit subject to \$250,000 per occurrence minimum and a max of \$7,500,000 Flood as a result of Named Windstorm • 5% of the replacement cost value of each unit of insurance as per schedule on file subject to a min deductible of \$250,000 per occurrence and a max of \$7,500,000 per occurrence in respect to Named Windstorm and Hail • \$100,000 per occurrence All Other Windstorm or Hail

Benefits and HR Consulting

Similar to our CORE360™ approach, which focuses on the actual and potential costs that drive total cost of risk, our Benefits and HR consultants focus on more than just placing benefits insurance. They help clients with their total organizational wellbeing and talent risk management.

We would love the opportunity to introduce Gallagher Benefit Services to you to demonstrate the full power of Gallagher to improve your profitability and organizational wellbeing.

Gallagher Better WorksSM

Better. It's something all companies strive for. Better outcomes from better performance. But how do you get there?

You start by building a better workplace. One that attracts, engages and retains top talent at the right cost. That's why the Gallagher Better WorksSM comprehensive approach to organizational wellbeing aligns your people strategy with your overall business goals.

It centers on strategically investing in your people's health, talent, financial wellbeing and career growth at the right cost structures to support a multigenerational workforce. And it utilizes data, helping you gather insights and apply best practices that promote productivity and growth.

As you develop and sustain a wellbeing-centric culture, you'll optimize your annual talent investment and mitigate organizational risk to maximize profitability. Best of all, you'll gain a competitive advantage as a workplace that simply works better.

Because while your best is finite, your better is never finished.

Expertise and Solutions to Help You Optimize Your People Strategy

- 2018 Benefits Strategy and Benchmarking Survey: <https://www.ajg.com/lp/us-benefits-strategy-benchmarking-survey/> and 2017 Best-in-Class Benchmarking Analysis: https://www.ajg.com/lp/best-in-class/?utm_source=Misc&utm_medium=Press_release&utm_campaign=GBS_BIC2017Q4
- Thought leadership across multiple touchpoints through our Human Capital Insights report; visit <https://www.ajg.com/lp/human-capital-insights/> for a copy
- A full spectrum of solutions to help employers to recruit, retain and engage top talent
- Focus on benefits, compensation, retirement, employee communications and workplace culture

Gallagher's team of benefits and HR consultants paired with risk management and insurance consultants can serve your organization as a strategic business partner, uniquely positioned to help you:

- Take a holistic approach to reducing your total cost of risk
- Tackle any risk or challenge from multiple angles taking into account both the human capital and property perspectives



Thank You for Your Business

We have enjoyed our partnership and appreciate the continued time, support and confidence you have placed in us as your risk management team. This past year has been successful as evidenced by your scorecard. Your total cost of risk is being impacted favorably and our strategy for this upcoming renewal continues to focus on ways to improve this positive impact on your profitability. Thank you.

Legal Disclaimer

Gallagher provides insurance and risk management advice that is tailored to our clients' risk transfer needs. Our review can include evaluation of insurance premium, risk transfer options, finance agreements, insurance limits, indemnification obligations, and contracts to ascertain appropriate coverage. We do emphasize that any risk management advice, insurance analysis, and limited review of contract terms and conditions, is only provided from an insurance/risk management perspective and is NOT legal advice. We do not provide legal advice and always recommend that our clients seek advice from legal counsel to become fully apprised of all legal implications from their business transactions.

Any Challenge. Any Risk. Anywhere in the World.



Grow your business with confidence by protecting your future and ensuring that your employees are securely invested in it. Gallagher's holistic approach keeps your best interests in focus.

GLOBAL REACH. LOCAL PRESENCE.

Founded in
1927

\$4.6B
Total Adjusted Brokerage & Risk Management Revenues (2017)

26,700+
Employees worldwide

700+
Offices in 33 countries

150+
Countries served

4 AREAS OF FOCUS

- Organic growth
- Mergers and acquisitions
- Productivity and quality enhancements
- Unique, team-oriented sales culture

HIGHLY SPECIALIZED DEEP EXPERTISE

- | | | |
|---|--|--|
| Alternative First & Captives
Aviation
Casualty
Commercial Surety & Bonds
Cyber Liability
Entertainment | Environmental
Enterprise Risk Management
Equity Advisors
Funds
Law Firms
Management Liability | Private Client Services
Property
Risk Management
Trade Credit & Political Risk
Insurance |
|---|--|--|

Our Approach to Risk.

CORE360™ Gallagher's proprietary, comprehensive approach that considers 6 cost drivers of a client's risk management program.

16+ INDUSTRY PRACTICES



LEADERS WHERE IT COUNTS

Gallagher Named One of the World's Most Ethical Companies for 2018

The only insurance broker to have received this honor, Gallagher has been named as one of the World's Most Ethical Companies by the Ethisphere™ Institute, a global leader in defining and advancing the standards of ethical business practices, seven years in a row.



SHARED VALUES + PASSION FOR EXCELLENCE = PROMISES DELIVERED

The Gallagher Way
25 tenets that have guided a team-oriented culture for 30+ years

Social Responsibility
Companywide focus on ethical conduct, employee health and welfare, environmental integrity and community service

EXHIBIT 2



US PROPERTY MARKET – LONDON UPDATE

JANUARY 2019

The London property market - sometimes referred to as the 'direct and facultative' (D&F) or 'primary' market - continues to see rate increases in 2019, as insurers seek to return to profitability.

Whilst the treaty reinsurance market is running at a five year net loss ratio (NLR) of 75%¹, the D&F market for the same period is running at a loss ratio average which is comfortably in excess of 100%, with the 2017 net loss ratio at 225%. Despite these being different markets, Alesco has in previous years seen how rate changes are reflective and interlinked - even if the quantum does not sometimes quite match the direction of the rate movement. What clearly is occurring at the present time is that D&F market is generally obtaining greater rate increases than the treaty reinsurance market, as one market is operating in a profitable cycle and the other is not. The 1/1 treaty renewals² saw the treaty market remain relatively stable in terms of pricing and capacity, although those cedant(s)/ reinsured(s) with losses to specific layers have seen increases in their programs for some product lines.

Retro insurance market sees increases influencing reinsurance price increases during 2019

Some carriers also buy an aggregated product from the collateralised part of the 'retro market.' This market experienced back to back losses during the last two years - largely as a result of the 'HIM' hurricane losses in 2017, and the wildfires and other global natural catastrophe ('nat cat') events of 2018. As a result, the collateralised markets currently have a significant part of their capital 'trapped' as they await notification and payment of losses. This market is therefore demanding significant increases, which will likely have an impact for those carriers renewing their treaty reinsurance programs at 1 April and beyond.

¹ NLR for 2014 was 30%, and NLR in 2017 was 140%.

² Treaty renewals occurring on 1st January, or 1/1.



An ongoing hardening of the market

After years of sustained compound rate reductions, in Q4 2017, the market began to harden abruptly, following after the unprecedented series of natural catastrophes which occurred during Q3 2017. For the first time in many years, we saw rate increases for the majority of major client renewals.

Whilst reinsurance cost is one factor that impacts pricing decisions, underwriting performance and profitability is of course a major influencer. After three years of losses, property insurers are now taking remedial measures to adjust their own strategies, with the output of a robust underwriting plan (including actuarial input for 2019) aiming to achieve sustainable profit going forward. This has resulted in greater market selectivity on risks, as some insurers cease to write risks in under-performing classes and territories. Others will be looking for improvements in terms in those same classes and territories.

The impact for buyers

The renewal market of 2019 will pose various different challenges for buyers, although much will depend on the precise risk profile and characteristics of the each individual client. Broking-houses with under-performing business are unlikely to be able to obtain the same renewal results as seen in previous years. Those insurance brokers that are likely to be best placed to weather this storm will be those with a diversified portfolio of clients and that have continued to invest in talent since Q4 2017; bolstering teams with senior brokers that are accustomed to dealing with insurance market cycles, and adding headcount to ensure that clients are kept abreast of market changes and delivering quality service. Inevitably, long-term 'core' clients will continue to attract the best terms and capacity.

Top tips for buyers

- Engage with your broking teams early, as insurers switch their underwriting strategies, risks that we previously reviewed and handled quickly may now be referred 'up the chain' to senior underwriters. The renewal process will take longer as a result, so the earlier the process is started, the better.
- With more insurer selectivity in the London and European insurance markets, clients must seek to differentiate their risk as much as possible. Your London market broker can guide you on this; but clear presentation of the risk and timely submission of information will help smooth the renewal process.
- Consider the full breadth of the market and explore all options. While some markets are being more selective than others as they seek to return to profitability, others will be seeking to capitalise on current market conditions and will be seeking to gain market share. Your broker will be able to guide you on the suitability of each carrier.

**FOR MORE INFORMATION,
PLEASE CONTACT:**

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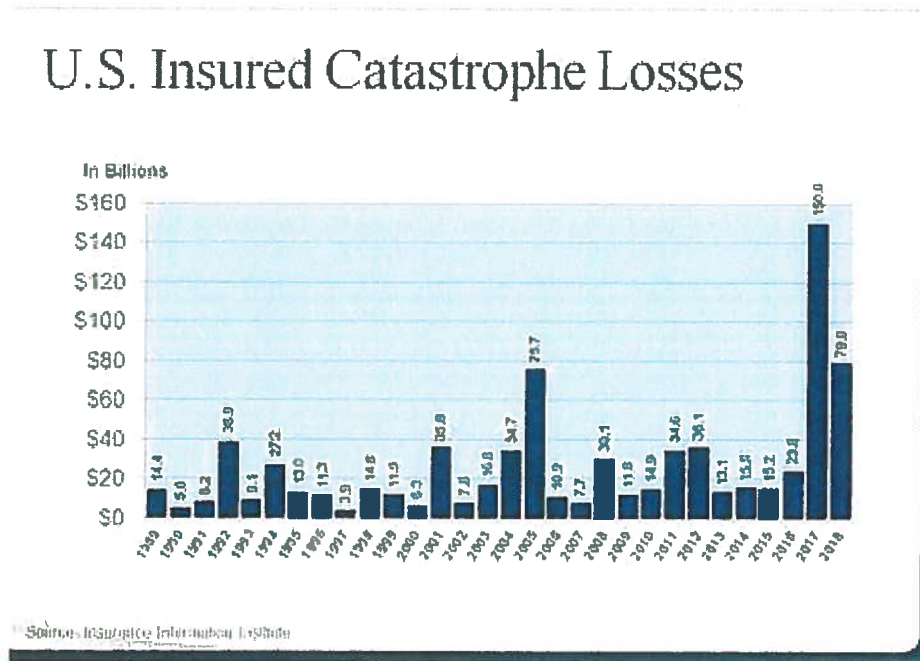
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EXHIBIT 3

On the heels of the costliest year on record for insurers in 2017, with insured loss estimates as high as \$150 billion, 2018 provided the insurance industry with a second consecutive year with higher than average catastrophe loss. The initial insured loss figures for 2018 are projected at \$79 billion, making 2018 the second worst year ever for insured cat losses. Losses from hurricane Florence are estimated to range between \$2 billion and \$5 billion, losses from hurricane Michael are projected between \$6 billion and \$10 billion and the California wildfire losses are estimated at a little over \$15 billion.



Even in light of these loss estimates, initial reinsurance renewals saw only a moderate increase as the brunt of the 2018 losses were being borne by the primary insurers as opposed to the reinsurers. Increases varied and were applied to individual accounts that had losses rather than broadly applied across participants. Modest decreases were still possible on some of the European and Asian/Pacific Rim reinsurance programs that were not impacted by losses. Further reinsurance market hardening is anticipated into the March/April renewal periods, as this is when the majority of the U.S. CAT reinsurance programs typically renew.

We have once again seen some market participants closing down their property teams that were writing US CAT exposed business on a direct basis, as the margins they have been yielding on these books of business have come in below investor's expected yields. We anticipate that we will see other insurers take similar actions if they are unable to get the rate increases that they have targeted. Capacity has not yet demonstrated signs of contraction, as we have seen the Insurance Linked Securities (ILS) market continue to function smoothly, optimistic that risk premiums will improve over the next renewal cycle.