THE RT PROPERTY COMMITMENT

"As the volume of submissions continues to increase, the experienced RT Property team has been fortified and remains steadfast in supporting our trading partners. We understand this requires advanced renewal planning to deliver an innovative strategy on each renewal to achieve favorable results.

Combined with broad market access, advanced modeling techniques, and complete access to a dedicated claims team, the RT Property team remains ready to accept all challenges in the current market.

An important ad campaign developed early for RT was 'Out Think. Out Work. Out Execute. Repeat.' This sentiment continues to stand for all that we embody within our firm. RT Property will also 'Out Hustle' to deliver for all!" says *Brenda (Ballard) Austenfeld, Managing Director and President of RT's National Property Practice.*

Greyson C. Richardson
Vice President
Atlanta Property Division
5565 Glenridge Connector
Suite 550
Atlanta, GA 30342
(678) 497-0276

JUNE 2020

US PROPERTY INSURANCE OUTLOOK

Impact of the Coronavirus Pandemic (COVID-19)

Despite the significant health challenges and severe global economic impact resulting from the coronavirus pandemic (COVID-19), the insurance industry continues to maintain a critical role in the economy, commerce and the daily lives of most people around the world. June 1, 2020 marked the first major renewal date since the onset of the pandemic, confirming COVID-19's exacerbating effects on an already firming market. Insurers, in RT's experience, are reevaluating their risk profiles and tightening their terms and conditions, particularly around communicable disease exclusions and business interruption loss triggers. As the first systemic, pathogen-based catastrophe to impact the market in nearly 20 years, we can expect to see a long-term development of losses as claims manifest themselves differently. Preliminary Q1 losses due to COVID-19 are estimated to be $9 - $10.3 billion, based on a June 3rd report published by Marsh & McLennan.

Nevertheless, the June 1st renewal date proved that the industry remains well positioned to support the insurance needs of the business community. Offsetting factors resultant of the pandemic, such as decreasing auto claims while under lockdown, rate increases across the industry, risk sensitivity from previous years of above-average losses, and increased demand for reinsurance, are all acting to counterbalance the effects of COVID-19. Looking back, the property market has been tested in times of crisis through Hurricane Andrew in 1992, the 9/11 terrorist attacks in 2001, Hurricane Katrina in 2005 and Superstorm Sandy in 2012 - and each time adjusting quickly to meet the immediate and future needs of our clients. RT Specialty and Ryan Specialty Group will continue to closely monitor all of the evolving insurance, regulatory and legal landscapes around COVID-19.

MARKET OVERVIEW

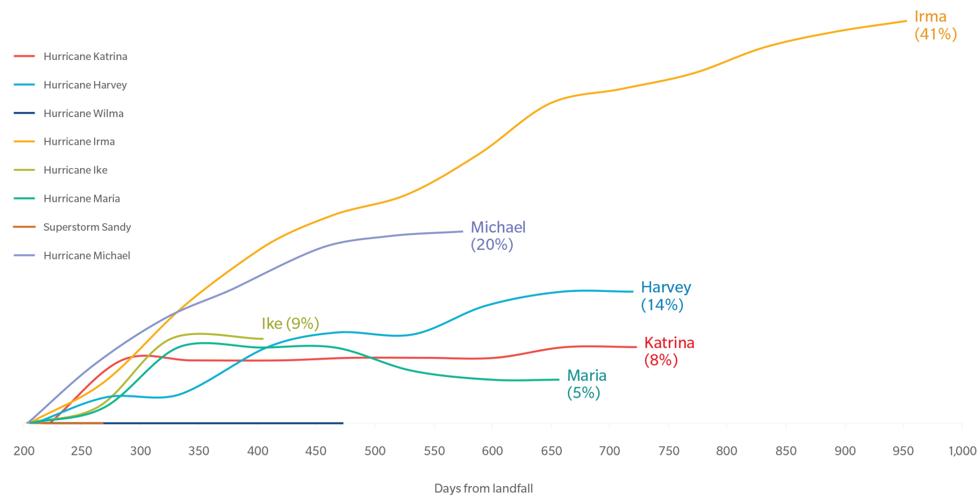
The commercial property insurance market continues at a tightening pace as we approach the mid-year July 1 renewal date. Overall, renewals through the first half of 2020 are best summarized by rising insurance rates, reduced capacity offerings and implementation of stricter terms and conditions. All classes of business are feeling the effects of a hardening property market. However, renewal terms and pricing can vary significantly for any individual account depending upon specific exposures and loss activity.

Underwriting sources estimated rate increases have reached a level of 20+% on average for renewals earlier this year. Using an average, estimates do not account for the large variances of renewal pricing that exist in the market over this same period. For specific accounts, premium increases have been much higher and fall more into the 40% to 60% range and exceed 100% in selective cases. These accounts typically have challenging exposures and poor loss history. Others fall into what underwriters seem to consider undesirable classes of business. Examples include, but are not limited to, habitational real estate, hospitality, food related accounts, recyclers, wood products, frame builder's risk and certain manufacturing.

As we move into the season for mid-year renewals, additional drivers are fueling the tightening property market. Underwriters continue to closely manage capacity deployment. This is especially true for some U.S. domestic carriers. Reduced capacity offerings from these markets, who have historically provided single-carrier solutions, now require brokers to restructure placements with multiple carriers in primary and excess layers in order to achieve target capacity. London-based capacity continues to re-enter the property market as they sense a greater opportunity to invest capital into the market and achieve higher pricing levels. As a result, many property placements are moving away from ground-up structures to multi-layer quota-share placements with higher premiums and more restrictive terms and conditions.

The developing uncertainty of COVID-19 is creating another potential driver for rate increases for the remainder of 2020 and into 2021. At this time, in RT's experience, the predominant focus in the insurance market's response to the coronavirus pandemic is

Figure 1: Claims Development for Costly North Atlantic Hurricanes — 2000 to 2018



Source: This graphic uses data from Property Claim Services (PCS) to show the development of claims (in percentage terms) for a selection of U.S. hurricanes since 2000, starting at 200 days past-landfall. All incurred a total insured cost in the United States of more than USD 10 billion. Guy Carpenter, PCS

an increased emphasis by underwriters to reevaluate and request changes to manuscript negotiated policy language. There is a shift in the market to move towards standardized wordings and away from manuscript forms seen in softer markets. Significant underwriting focus has been seen on recent renewals in respects to the definition of "occurrence" and to more clearly define policy triggers for recovery of business interruption losses. It may be beneficial for agents and brokers to encourage their insureds to take proactive steps early in the submission and marketing stages to adequately address these concerns and negotiate alternatives prior to the renewal date.

Carriers are, in RT's experience, reviewing retention levels and increasing deductibles, both on an account specific basis and more broadly on certain classes of business. The primary driver is an increase in frequency and severity of attritional losses over recent years. This is especially pertinent on certain classes of business such as habitational (multi-family) and other real estate related industry segments. Beginning in 2018, there has been a steady reduction in the number of carriers providing deductible drop-down offerings. Alternatives such as structured self-funding or captive utilization will continue to be of interest to insureds looking to achieve lower deductibles.

Additional factors impacting the tightening commercial property market include "loss creep" and "valuations." A recent report published by Guy Carpenter illustrates claims development for costly Atlantic Hurricanes, with Hurricane Irma having the highest increase at 41% over an approximate two-year period. *See Figure 1.*

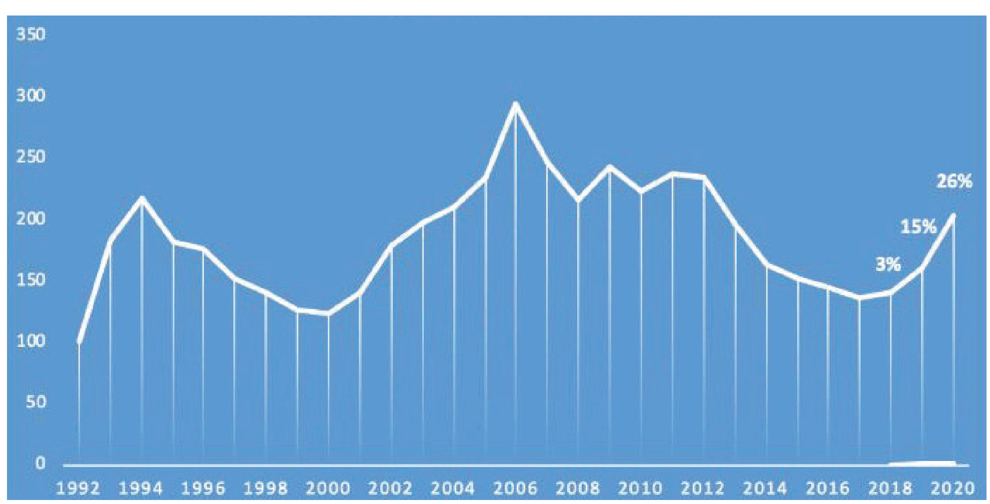
The debate surrounding replacement cost and years of stagnant valuation figures contribute to the significant number of the commercial property claims still unresolved. Underreported replacement cost values continues to be a key issue for the industry as a whole. Over the last year, the insurance-to-value topic has been under increased scrutiny. It is common for underwriters to challenge the methodology being used to calculate replacement cost figures. This results in markets adjusting the rating basis to achieve adequate pricing for the perceived exposure, refusing to offer blanket limits, or declining to participate on the risk altogether.

CATASTROPHE ACTIVITY

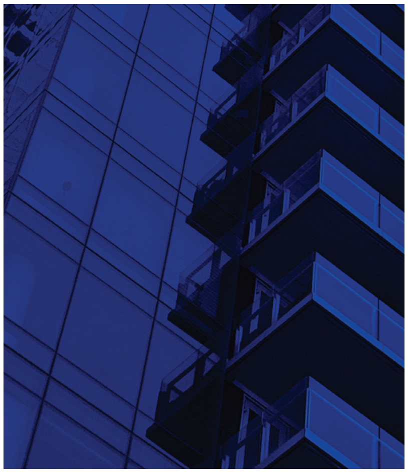
The most recent data from Colorado State University anticipates that the 2020 Atlantic basin hurricane season, starting June 1, is to have "well above-average normal activity". Predictions include 16 named tropical storms will form, nine of which are predicted to develop into hurricanes. An average season typically has 12 tropical storms, six of which are hurricanes. In 2019, there were 18 named storms, six of which were hurricanes.

Just two days into the 2020 Atlantic hurricane season, Tropical Storm Cristobal was churning in the Gulf of Mexico. It was the third Atlantic storm powerful enough to get a name this season; no other year on record has seen three named Atlantic storms so early. On average, the third storm forms around August 13, according to AccuWeather.

Figure 2: Hyperion X Property-Catastrophe Reinsurance Rate-On-Line Index at June 1st (Average of Pricing, Risk-Adjusted)



Source: https://www.reinsurancene.ws/property-catastrophe-reinsurance-rates-rise-26-at-june-1st-hyperion-x/

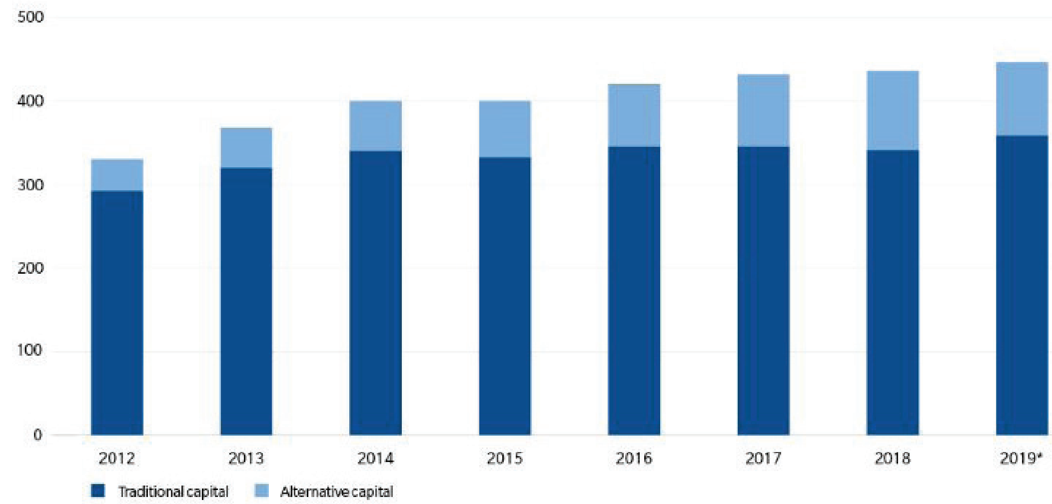


RT PROPERTY ADDED VALUE

During times of crisis, such as now, specific expertise fulfilled by the wholesale distribution channel becomes all the more apparent. The benefit and importance of this channel continues to grow as the market continues to become more complex.

Wholesale brokers and markets are vital partners of the retail broker and risk management team, as often the expanded team creates better opportunity to achieve favorable terms and cost-effective solutions. Partnering with the Surplus Lines community, we continue to highlight the tremendous amount of value added through technical expertise, innovative solutions to complex risks and access to strong and stable surplus lines insurers. This is truly a win-win solution for the Insured.

Figure 3: Estimated Dedicated Reinsurance Sector Capital - 2012 to 2019 in USD Billions



Source: https://www.gccapitalideas.com/2020/02/18/january-1-2020-reinsurance-renewals-a-smooth-transition/

REINSURANCE

Overall, the insurance industry, and specifically reinsurance, remains well capitalized. Based on preliminary estimates calculated by Guy Carpenter and A.M. Best, reports show that dedicated reinsurance capital remains abundant.

The results of the recent reinsurance treaty renewals vary widely across individual programs, with allocated capacity tightening most notably in stressed classes of business. Reports from the major reinsurers indicate capacity will continue to be deployed on a selective basis, and it can be expected renewal rates will continue to rise on the remaining 2020 treaties. Hyperion X, the data analytics unit of Hyperion Insurance Group, tracks pricing trends in the reinsurance renewal market. Its June 1st update noted a 26.1% average risk adjusted rate increase, which is the highest year-on-year increase recorded since 2002, and third highest overall increase since 1992. Refer to Hyperion's recently released Property-Catastrophe Reinsurance Index chart (Figure 2).

Guy Carpenter's latest briefings include comments on the recent impact of the coronavirus and the government mandated lockdowns, and further states "The COVID-19 pandemic has compounded an already firming reinsurance environment, resulting in challenged placements and pronounced property catastrophe pricing increases, particularly in Florida. Typical outcomes were generally within a range of 15 percent and 25 percent. Terms and conditions also tightened, with reinsurers imposing communicable disease exclusions and removing cascading features more broadly."

Primary and excess carriers on the receiving end will look to pass through the additional reinsurance costs to their premiums, or purchase less reinsurance, which results in a reduction in their capacity offerings.

The Insurance-linked securities (ILS) market flattened, and capacity moderately decreased through 2019. The slight decline was a result of catastrophe losses in late 2017 and 2018, which negatively impacted the investors of these alternative capital offerings. (Figure 3)

Overall, the reinsurance industry has responded and adapted well through the coronavirus (COVID-19) crisis. Key treaty renewals and facultative transactions continue to proceed and reach completion.