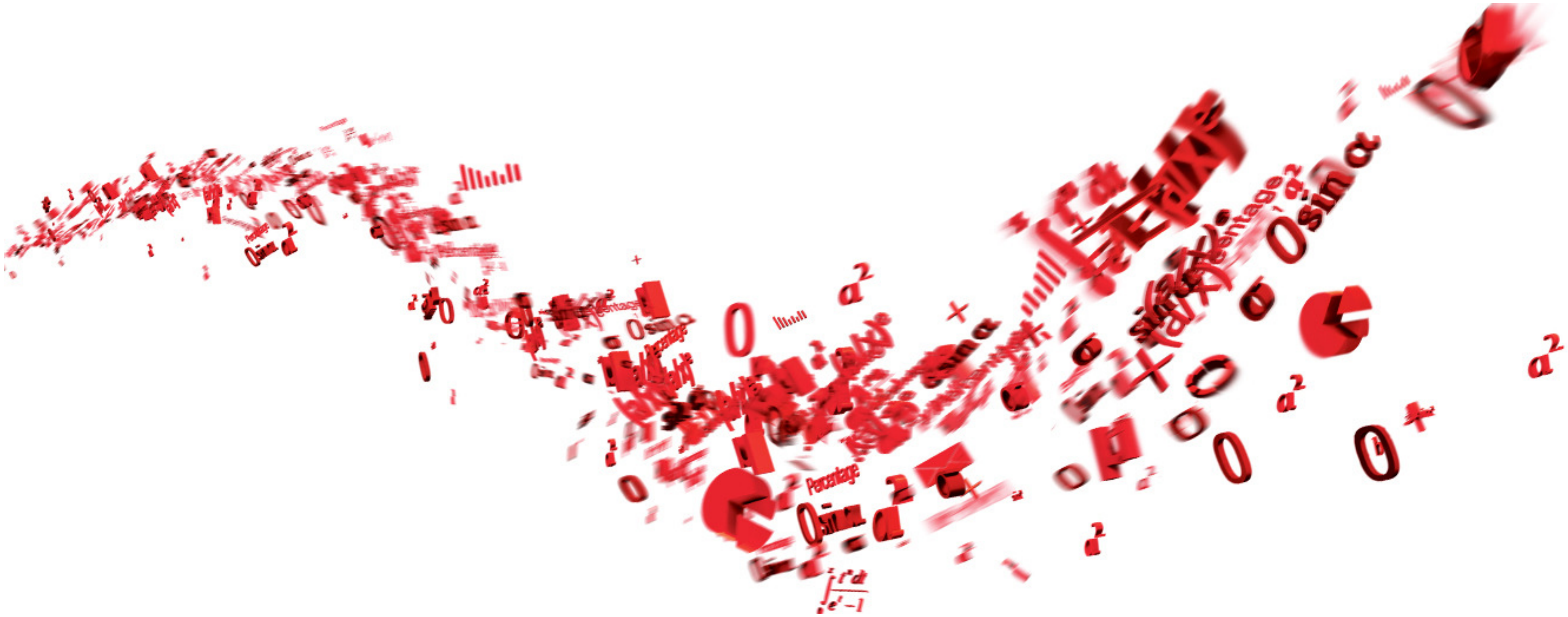

Insurance renewals 2016 – A broker's view

Herman Kerremans – Managing Director/Chief Broking Officer Aon Belgium sprl

19 November 2015

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Introduction

How to get the best deal ?

How can I get the best price?

Coverage and insured limits ? UW Process?

Future market trends ?

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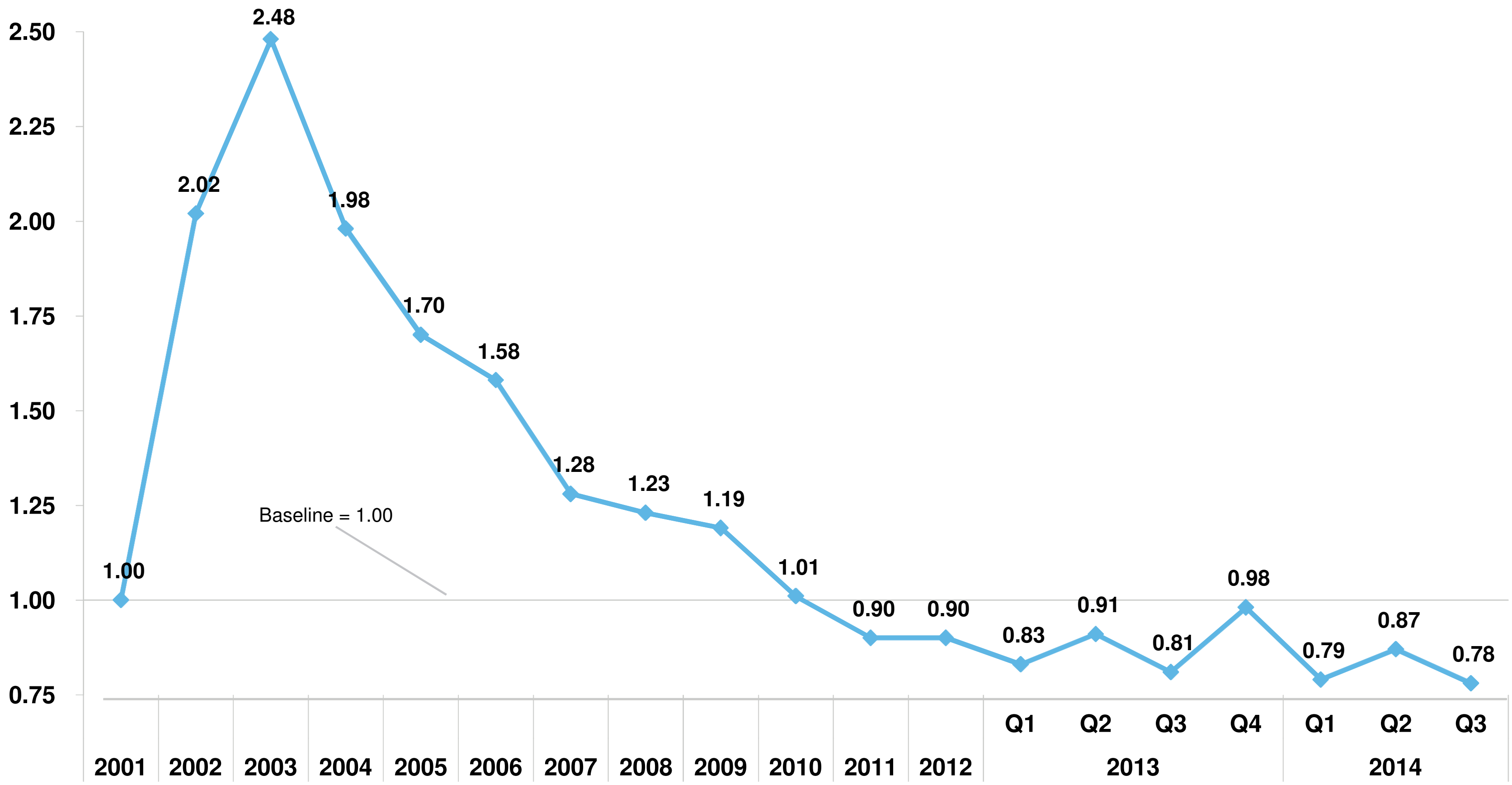
Soft market versus hard market: some history

- **2000-2001:**
  - Hard market in the aftermath of the internet bubble (2000) and 9/11 (2001).
- **2003-2004:**
  - Start of soft market, decline of premiums for all LOB’s.
- **2008:**
  - Financial crisis had limited impact,
  - Except financial lines for FI’s (e.g. D&O, PI)
- **2011-2012:**
  - Some premium increases (mainly in PD) due to:
    - Economic downturn/sovereign debt crisis/low interest rates resulting in very low investment income for insurers,
    - Natural disasters paid by insurers up to 116 BN US$ in 2011 ...
- **2013 - Today:**
  - Soft market due to strong reinsurance supply and less catastrophic losses since 2012 …

Example of soft market conditions & market cycle: Aon's D&O Index

- **Q1 2002 – Q3 2014 | Base year: 2001 = 1.00**



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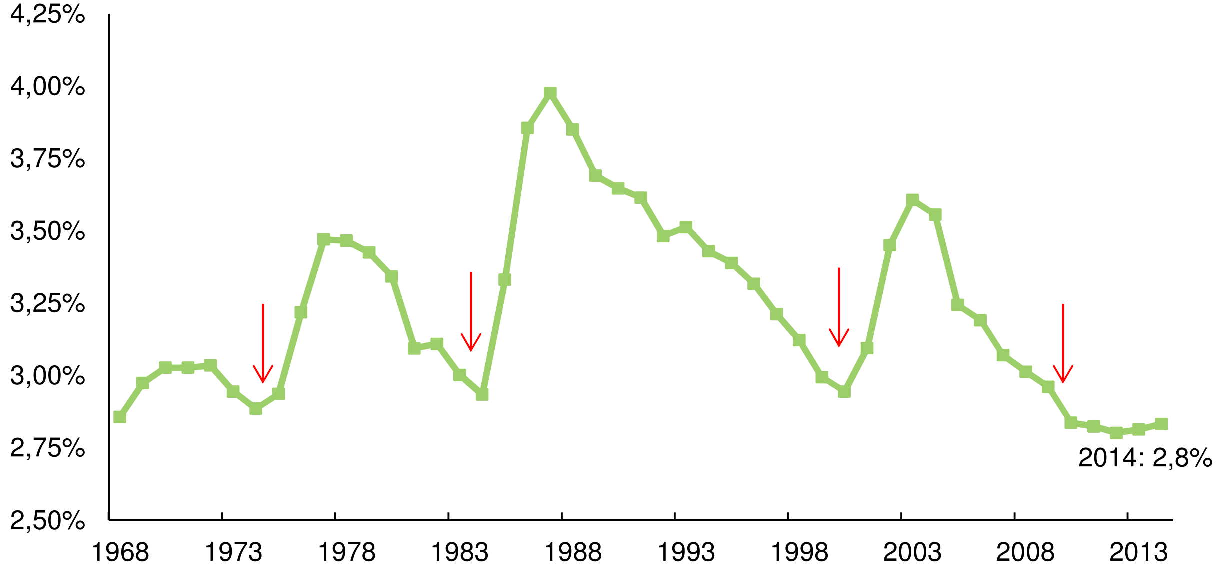
Evolution Net Written Premium (NWP) - Gross Domestic Product (GDP)

- Prior to 2010, dips in the ratio of NWP to GDP of below 3 percent was the start of a market turn.
- But … since 2010, this ratio has remained below 3 percent for 5 consecutive years.



Source: Aon Benfield Analytics

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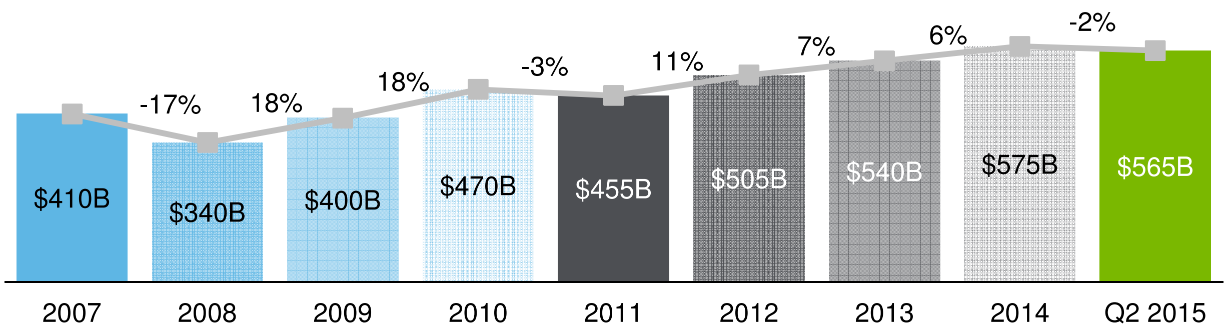
Reinsurer capital supply remains high

- Global reinsurance capital totalled US$ 565 Bn at June 30, 2015, a reduction of 2 percent since YE 2014.
- Alternative investor's share remains high (hedge/pension funds, PE).
- The decline was a reflection of two major factors:
  – The strengthening of the US$ which resulted in a reduction of capital on conversion from other currencies, and
  – The impact of (modest) rising interest rates on bonds (yield).



Source: Individual company reports, Aon Benfield Analytics

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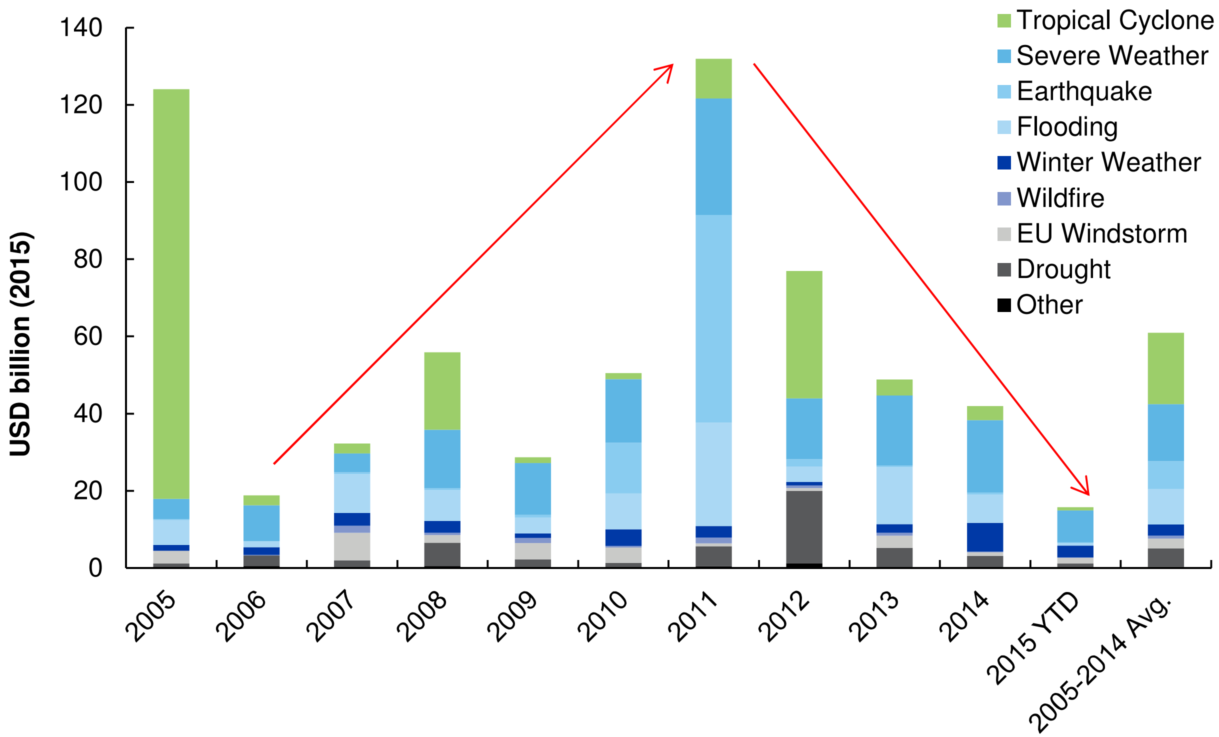
Global catastrophe losses remain low

- YTD (Q1/Q2) insured losses of US$ 16 Bn represent just 26 percent of the US$ 61 Bn annually averaged since 2005
- Chinese Tianjin explosion is estimated at 3,3 Bn US$ …



Source: Aon Benfield Analytics

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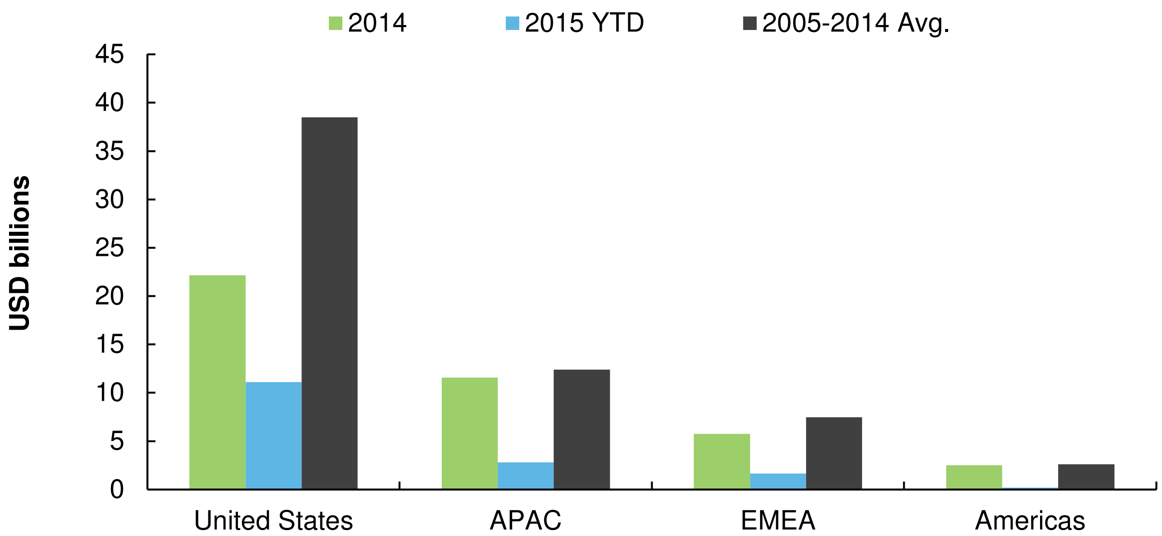
2015 YTD Insured losses compared to annual average by region

- All regions of the globe have sustained below average insured losses in 2015
- Q3 of the year is typically the period when the highest volume of insured catastrophe losses occurs but this seems not yet the case this year ..



Source: Aon Benfield Analytics

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What could change the insurance cycle from a soft to a hard market?

- **Large (natural) catastrophes** over 100 US$ Bn a year ...?
- **Financial crisis/economic downturn:**
  - China / Asia? Greece?
  - Stock market crash?
- **Health pandemic:** Asian flu?
- **Geopolitical situation:**
  - Global conflict?
  - Ukraine war?
  - Religious War?
- **Severe Terrorist (Cyber)Attack**
- Change of **interest rate policies** of Central Banks: FED, ECB, ..

Soft market: how to get the best out of it? How can your broker help? (1)

- **Low insurance premiums:**
  - A soft market features significant premium decreases because of too much competition/appetite … we are living in a typical buyers' market ..

- **Do you want the best price, or just a "better pricing"?**
  - The best price is not necessarily the best deal ...
  - How important are long term relationships for you?
  - Is the coverage or wording the same?
  - What additional services are provided?
    - A cheap price might reduce the level of additional services, e.g. risk engineering services, claims services, etc.

- **Long Term Agreements (LTA):**
  - It is now the time to lock into longer terms deals!
  - Prepare yourself for a market hardening ...
  - However, not possible for all LOB's ...
  - Exit clauses in LTA's remain tricky ...
    - Losses,
    - Loss of R/I support….

Soft market: how to get the best out of it? How can your broker help? (2)

- **Broader Coverage or Additional Risk Transfer:**
  - A soft market allows you to get more coverage for same or lower price:
    - Exclusions buy-back or full deletion, wording improvements,
    - Extensions of coverage,
    - Lower deductibles,
    - Higher insured limits.
  - Impact on pricing:
    - Nil for wording improvements,
    - Limited impact for all the rest.
  - ***"Pocket your saving or use it for the purchase of broader or more coverage."***
    - Discuss with your broker/advisor best possible options / optimal solutions.

Soft market: how to get the best out of it? How can your broker help? (3)

- **Specific “broader coverage” topics:**

  - Non-Physical Damage Business Interruption:
    - Cyber related,
    - Power Outage,
    - Supply chain, etc..

  - Cyber insurance:
    - Especially First Party losses,
    - Third Party claims often already insured in PI … ?
      - Media Liability?
      - Data Breach, Leakage?
      - Network interruption?

  - Terrorism:
    - Cheap capacity but for how long?

  - Additional Services:
    - Business Continuity Planning,
    - Crisis Management Services.

Soft market: how to get the best out of it? How can your broker help? (4)

- **Reduced underwriting criteria/underwriting info**
  - A soft market features reduced underwriting requirements:
    - Less “underwriting” in the sense of risk analysis by the insurer, and/or
    - Less underwriting information required.
  - Looks like a good thing for everybody?
    - Smoother renewal process?
    - Easier placements?
    - Less work for everybody?
  - No problem at all if the insurer has an easier, less stringent underwriting process. That’s his call…
  - But providing less underwriting information to the insurers might come back to you as a “boomerang” in case of loss or claim:
    - Legal requirements regarding providing risk related information to the insurer,
    - Misrepresentation,
    - No or reduced indemnity ...

Soft market: use of a captive

Captives are i.m.o. not to be used in a soft market as a **tool for more risk retention**:

- Capacity is very cheap
- Risk transfer to the insurance market makes more sense
- E.g.:
  - Deductible in PD from 100,000 euro to 1,000,000 resulting in 100,000 euro premium reduction …