

Reinsurance Market Overview & Capital Strategies for Captives

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Discussion Topics

1. Reinsurance Market Overview

- Macro Level Trends
- Property Reinsurance Market Update
- Casualty Reinsurance Market Update
- Group Captive Reinsurance Renewal Outcomes

2. Capital Strategies for Captives

- Traditional Reinsurance Solutions
- Retrospective Reinsurance Solutions
- Structured Risk Example
- Corporate Usage of Insurance Linked Securities (ILS)

MACRO TRENDS



Macro-Economic Factors

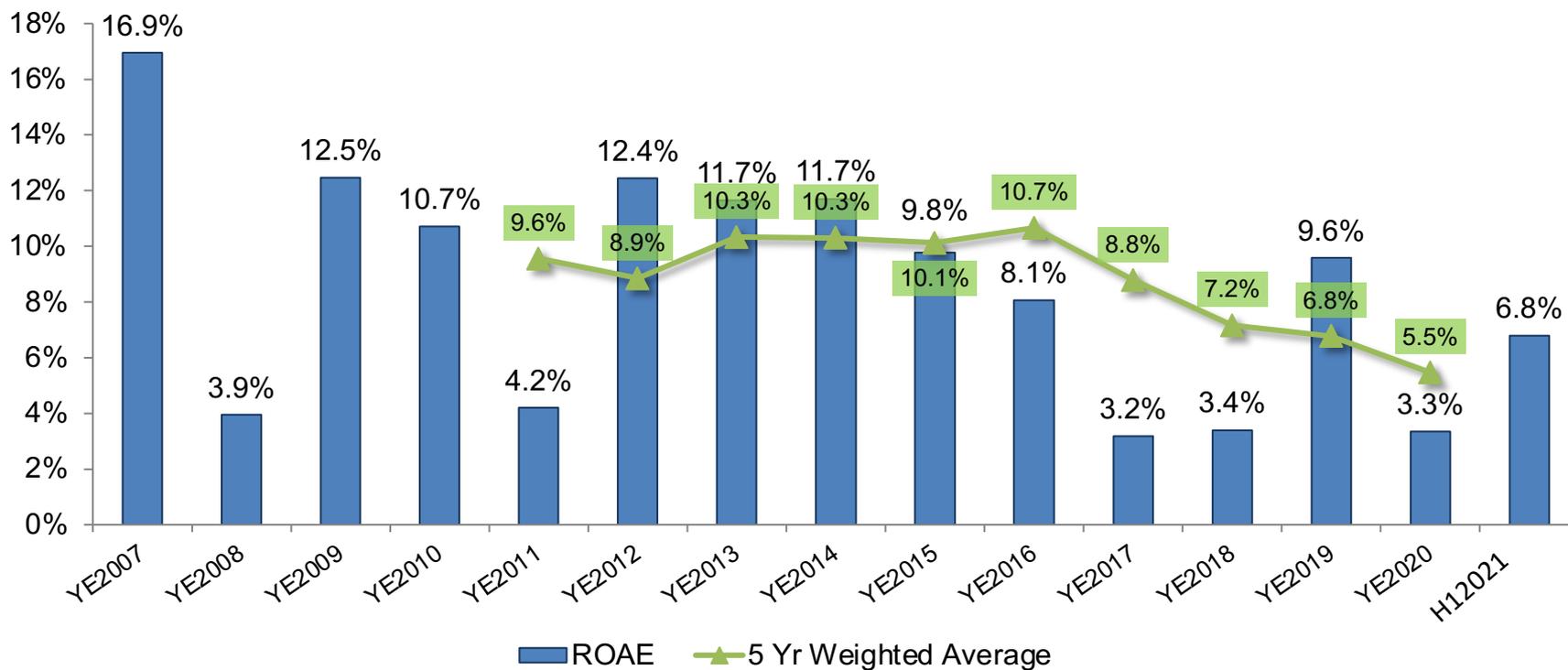
- Ample deployable capital to support growth
- Vaccine rollouts and lifting of government restrictions
- Primary rate improvement
- Recovering economy

Drivers Of Confidence

- Inflation outlook Interest rates
- End of government stimulus programs
- Emerging risk of cyber
- Increased social inflation

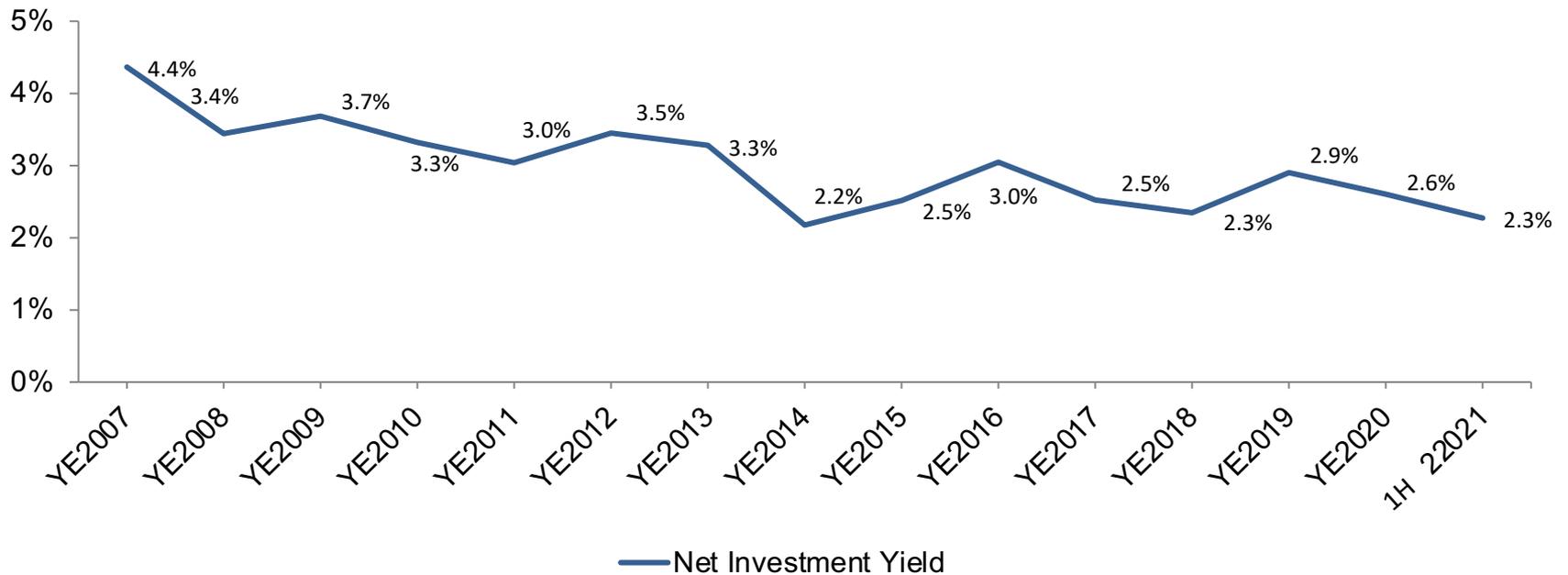
Drivers of Uncertainty

Drivers of Uncertainty - Reinsurers' Results have been Volatile Over Time



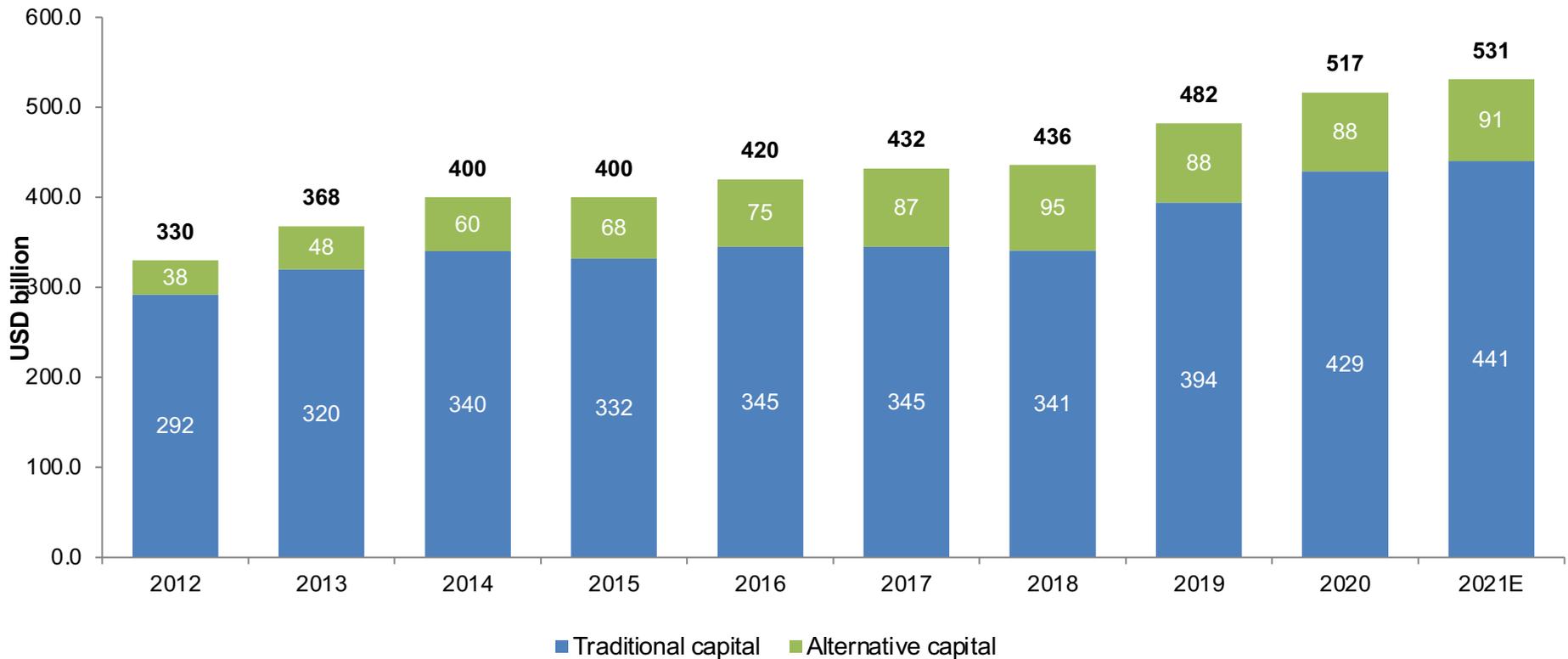
5-Year Weighted Average ROAE on a Declining Trend. The Weighted Average 1H 2021 ROAE is 6.8%, compared to a 5-year Weighted Average at 2020 YE of 5.5%

Drivers of Uncertainty - Profitability Headwinds



Low Investment Yields have remained a persistent headwind for global reinsurers

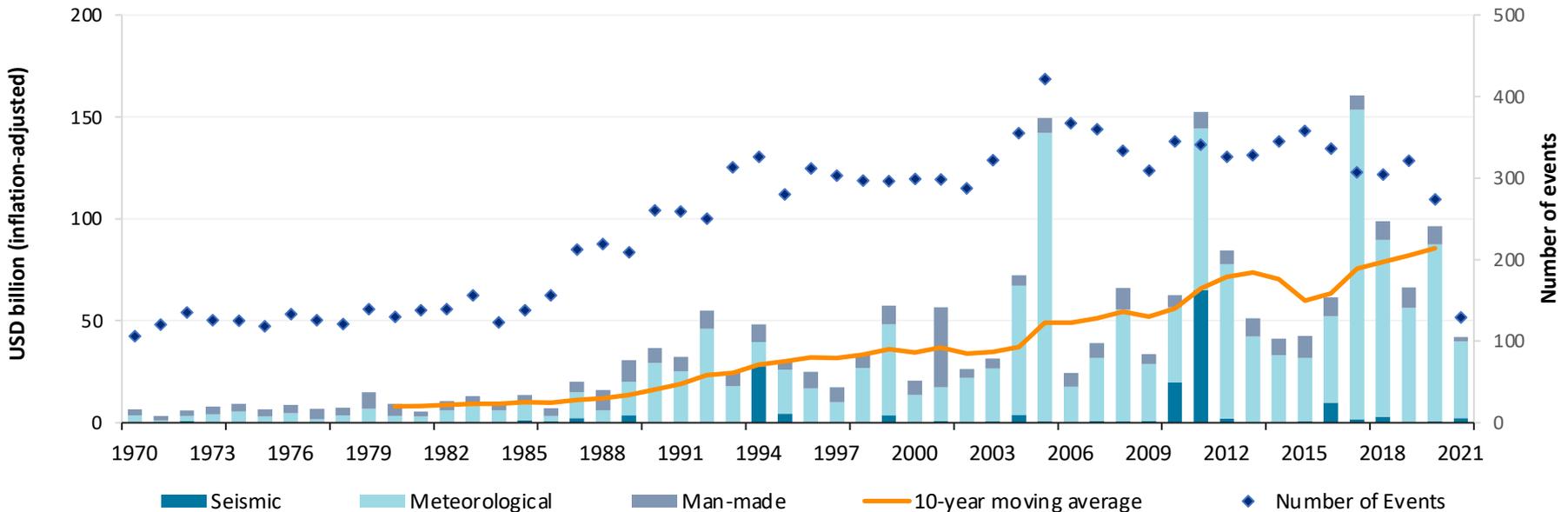
Drivers of Confidence - Capital Levels Show Resiliency of the Industry



Dedicated reinsurance sector capital continues to remain strong and stable

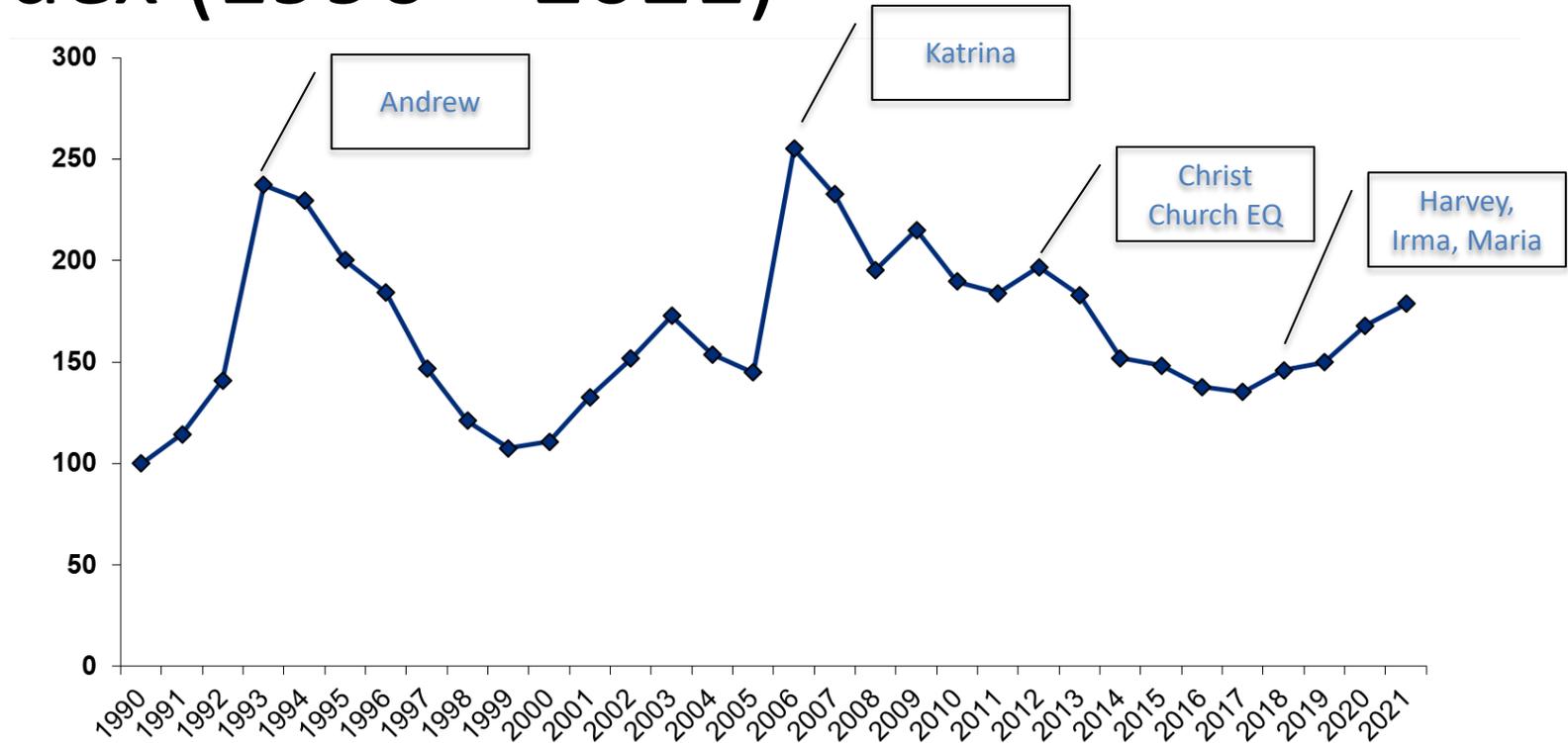
PROPERTY REINSURANCE MARKET UPDATE

Insured Catastrophe Losses (1970 - 2021)



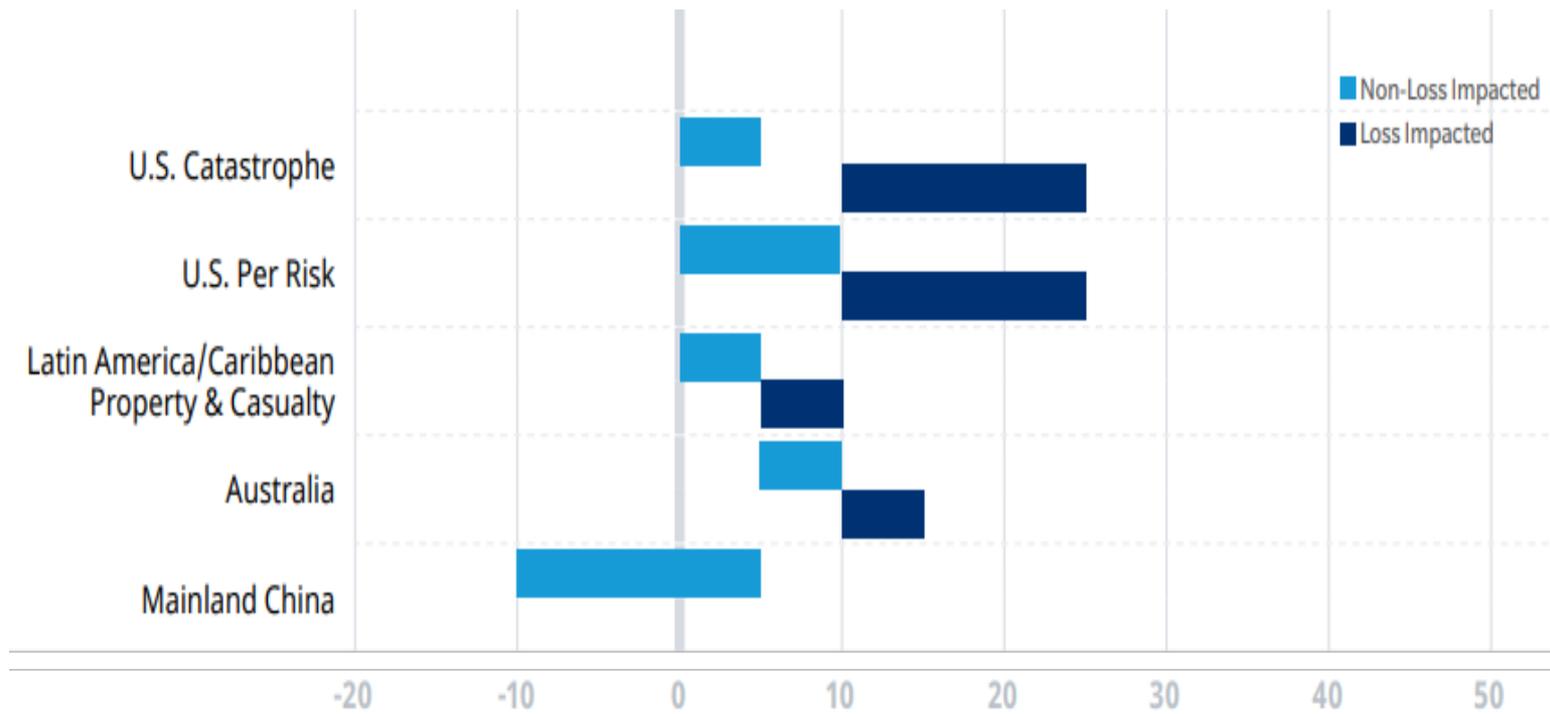
Large loss activity in first half of 2021 was predominantly driven by severe convective storms in the U.S. although IDA losses may push 2021 YTD losses over the historical yearly average

Property Catastrophe US Rate-On-Line Index (1990 – 2021)



US Property Cat ROL Index rose approximately 6% in 2021, though loss impacted layers experienced higher outcomes

Property Reinsurance Mid-Year 2021 Renewal Rate Movements



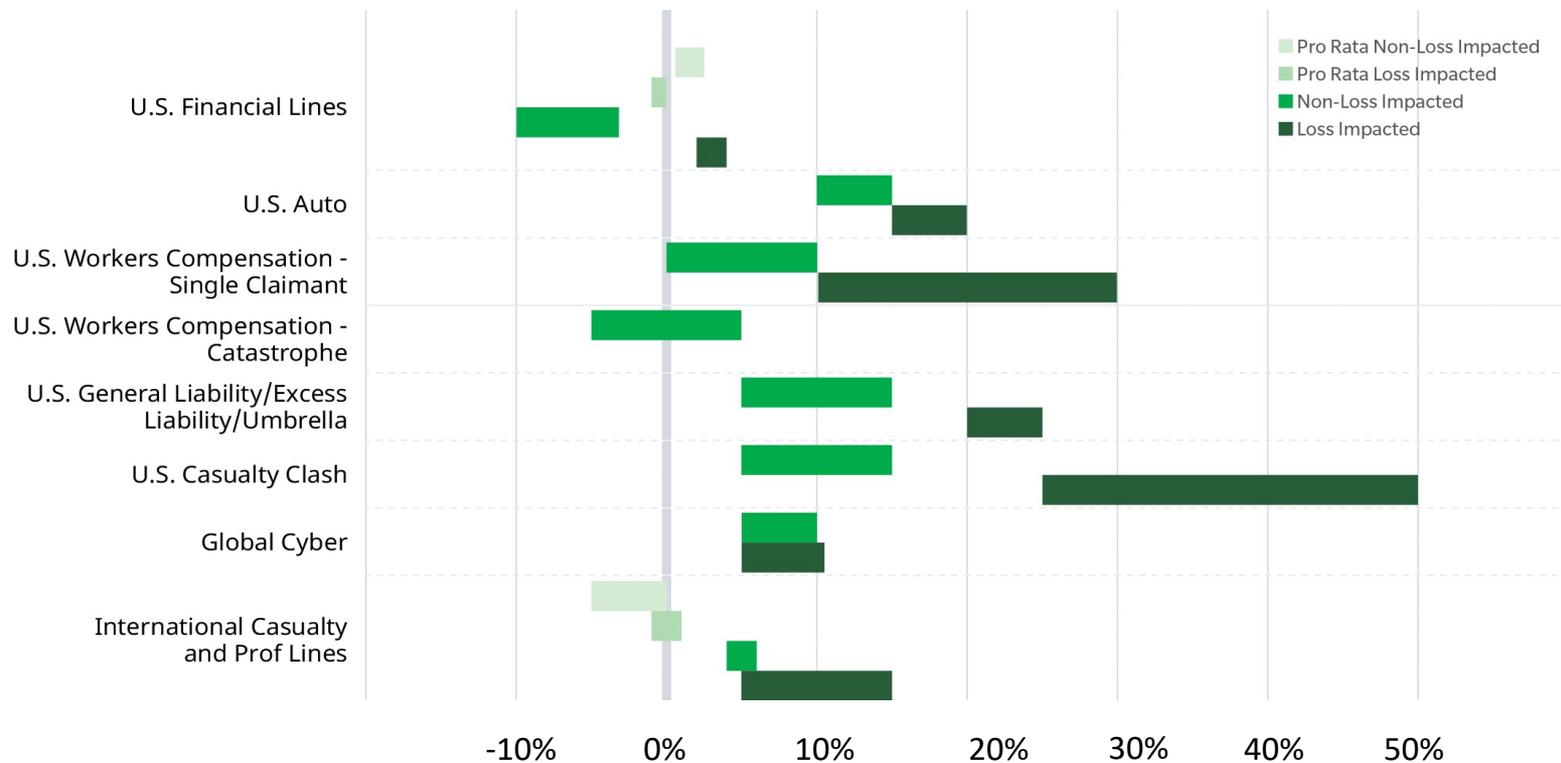
Source: Guy Carpenter

New capacity coming from both start-ups and established reinsurers, with many of the latter seeking to reverse retrenching that occurred in 2020

CASUALTY REINSURANCE MARKET UPDATE



Casualty Reinsurance Mid-Year 2021 Renewal Rate Movements



Increased loss severity in GL and Auto stemming from “social inflation” / litigation trends drove rates substantially higher for Excess Casualty and Clash contracts

Casualty Group Captive 2021 Renewal Rate Movements

GC's Captive Team has finalized **~2 dozen casualty captive renewals in 2021**

Noticeable **rate pressure driven by GL development** and continued CAL severity trends

Workers' compensation has supported overall program profitability

Retentions and primary/excess limits have been increasing

Overall, rates for these Casualty Captives have **increased by 9.25%, consistent with general casualty reinsurance market rate changes**

CAPITAL STRATEGIES FOR CAPTIVES

Traditional Reinsurance Solutions

1

Treaty Reinsurance

- Access to additional capital providers
- Quota Share or Excess of Loss Arrangements

2

Property Facultative

- Excess Capacity
- Carve out peak perils or critical cat to stabilize results
- Buy-downs to protect net retentions

3

Casualty Facultative

- Excess Capacity
- Buffer layers / ventilation in program
- Generally casualty facultative markets participate down low and capital deployed to fill holes in towers

Retrospective Reinsurance Solutions

Motivations

- ✓ Opportunity cost of carrying reserves
- ✓ Volatile financial / stock markets
- ✓ Social and actual inflation
- ✓ Desire to end exposure to LOB or underwriting year
- ✓ Regulatory risk / changes

Benefits

- ✓ Release of Capital
- ✓ Provides more certainty of results
- ✓ Facilitate exit from lines / classes of business
- ✓ Full legal transfer of risk
- ✓ Facilitates M&A Transactions

Retrospective Reinsurance Market Update



Excess Capital

Significant interest from private equity and other capital providers

Several new entrants – e.g. Marco, Fleming

Increased competition driving more attractive terms for buyers

Shifted Paradigm

Substantial interest from “run-of market” to entertain more traditional types of structures (eg: ADCs and/or LPTs)

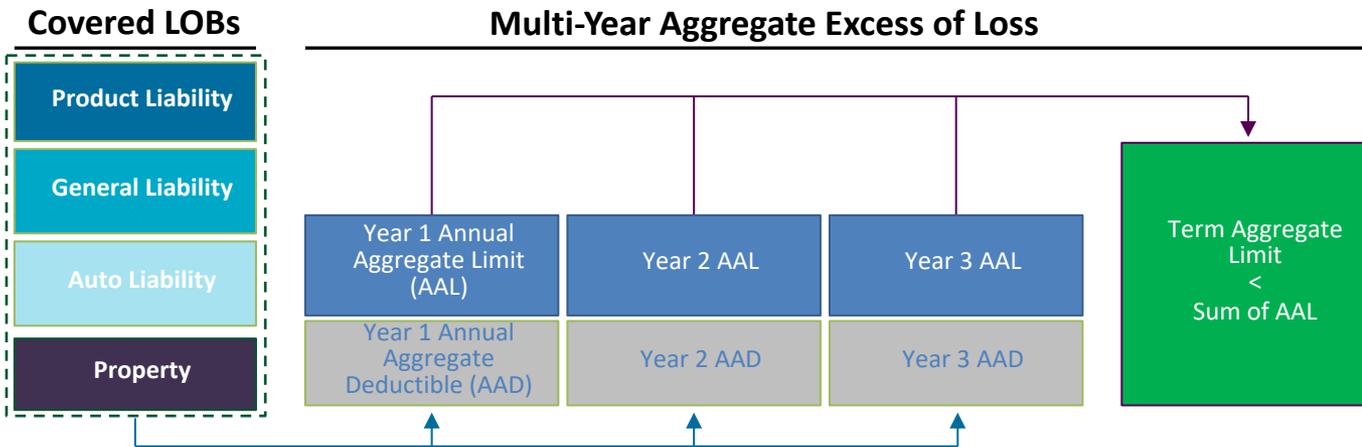
Increased Seller Motivation

Sellers are more motivated today to engage in a legacy transaction to manage market uncertainty and inflation risk

Improving Market Reputation

No longer viewed as a market of last resort, but rather as a tool to adequately manage capital

Structured Reinsurance Example



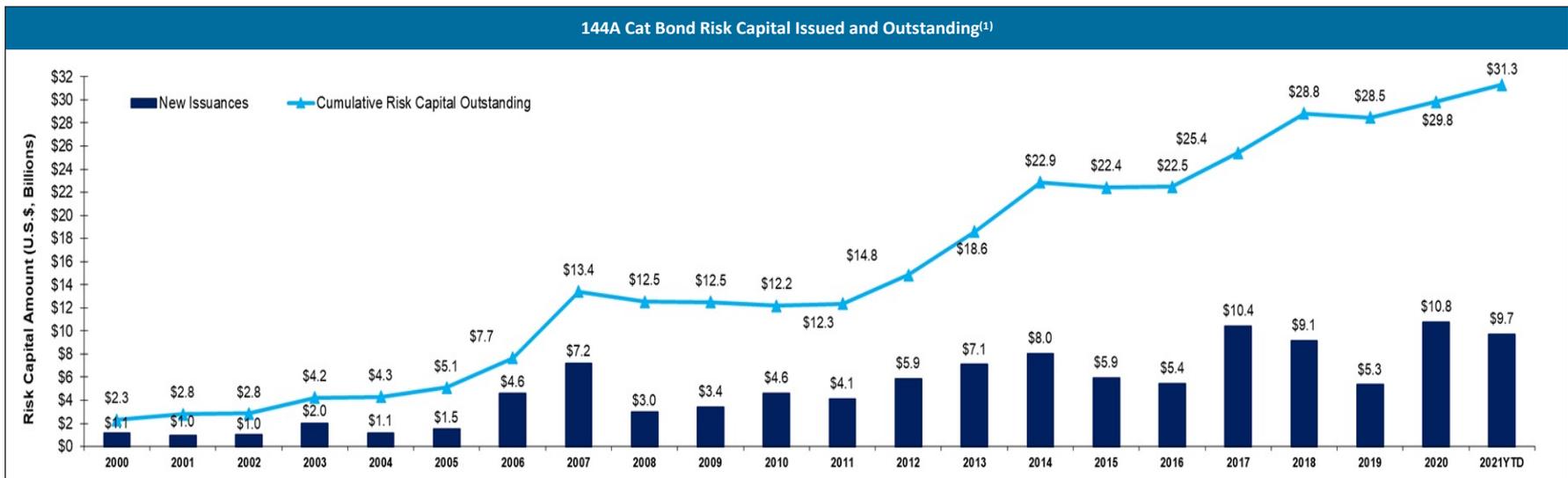
Features

- **Attachment Point:** Above mean expected loss
- **Aggregate limit and aggregate deductible:** determined based on Captive's view of risk and against select KPI's
- **Term Limit:** Typically < Sum of Annual Aggregate Limit

Benefits

- **P&L protection:** Structure designed to protect P&L against high frequency of losses and severity
- **Upside participation:** Excess Premium rebated to captive as profit commission
- **Flexibility:** Limits and deductibles can be altered based on evolving needs

144A Catastrophe Bond Market Update



Broadening corporate interest – Ten issuances since the start of 2020 across seven distinct corporations

Suitability of ILS for Corporate Risk Transfer

| Category | Good Candidate | In Special Circumstances | No |
|---|--|--|---|
| Size | >=\$100m | \$75m - \$100m | <\$75m |
| Executable Size | \$100m - \$1,000m | \$75m - \$200m | N/A |
| Minimum Rate on Line (Net) | >=3% | 2% – 3% for extremely remote events (> 1 in 250 year) | <2% |
| Transaction Expenses | ILS transactions also have transaction costs, which range from 0.35% per annum to 1.00% per annum dependent on deal size, complexity, and involvement of other stakeholders (i.e. transformer) | | |
| Risk Type | Natural catastrophe | Other shock events (i.e. pandemic, terrorism) which can be modeled | Non-event risk |
| Trigger Type | Parametric, modeled loss, indemnity satisfying other criteria | Indemnity satisfying other criteria | Indemnity not satisfying other criteria |
| Exposure Type (for indemnity) | Property | Liability arising from event driven risk | Anything else |
| Claims Development Period (for indemnity) | Less than 5 years | 5-7 depending on “binary” nature of event risk | Greater than 7 years |
| Portfolio Type (for indemnity) | Large collection of small uniform risks | Concentration of large uniform risks | Anything else |



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