STATE OF THE LONDON MARKET

Q4 2020

THB

AmWINS Group, Inc.

LLOYD’S Q4 UPDATE

LLOYD'S Q4 UPDATE

Source: Insurance Insider

- Lloyd's have recently announced that almost all the business and capital plans that have been signed off will result in an aggregate growth of 8.5% for 2021. Furthermore, John Neal stated that Lloyd's "has achieved rate increases for five consecutive years – something I haven't seen during my time in the market".

- Sources have suggested that the overall market rate expectations for 2021 are around the 10%-12% mark, although rate estimations tend to be conservative during the business planning season. Neal said he expected the Lloyd's market to write up to $15bn of new business, a figure which compares with a £12bn-£13bn ($15.6bn and $16.9bn) new business range the CEO previously gave, and takes into account the substantial circa 30% churn on the market's £36bn starting position, as well as net new business.

- Lloyd's aims to generate £800mn ($1bn) of market-wide cost savings through the modernisation processes set out in Blueprint Two, a two-year change programme focusing on open market and delegated authority business. Lloyd's said the £800mn of savings is an aggregation of what managing agents, brokers and business partners will save combined, with the expected saving understood to skew roughly two-thirds to the brokers. This is equivalent to a roughly 3% in reduction in operating costs and will be achieved through greater efficiency, reduced bureaucracy and automation.

- The Lloyd's market has shown remarkable resilience around changing its broking and underwriting environment almost overnight through the COVID-19 pandemic and one beneficiary to this has been the accelerated growth of electronic placement in London. A cautious return to face-to-face negotiation is currently taking place although the general consensus is that many of the changes that have taken place will remain for good.

LLOYD’S Q4 UPDATE

Source: Insurance Insider

- The prospect of syndicates moving parts of their business outside of Lloyd’s to allow them to take advantage of market conditions remains and several syndicates are currently reviewing their options around this, depending on the results of the Lloyd’s performance review. The ambition of many London carriers to take advantage of market conditions is certainly evident and they want to make it clear that they are very much ‘’open for business’’.

- Many heavyweight Lloyd’s players have recently announced fresh capital raises, including Canopius, Ark, Hiscox, Beazley and Lancashire, adding over USD 2bn combined. Renaissance Re is seeking to raise USD 900m in their biggest equity raise for many years.

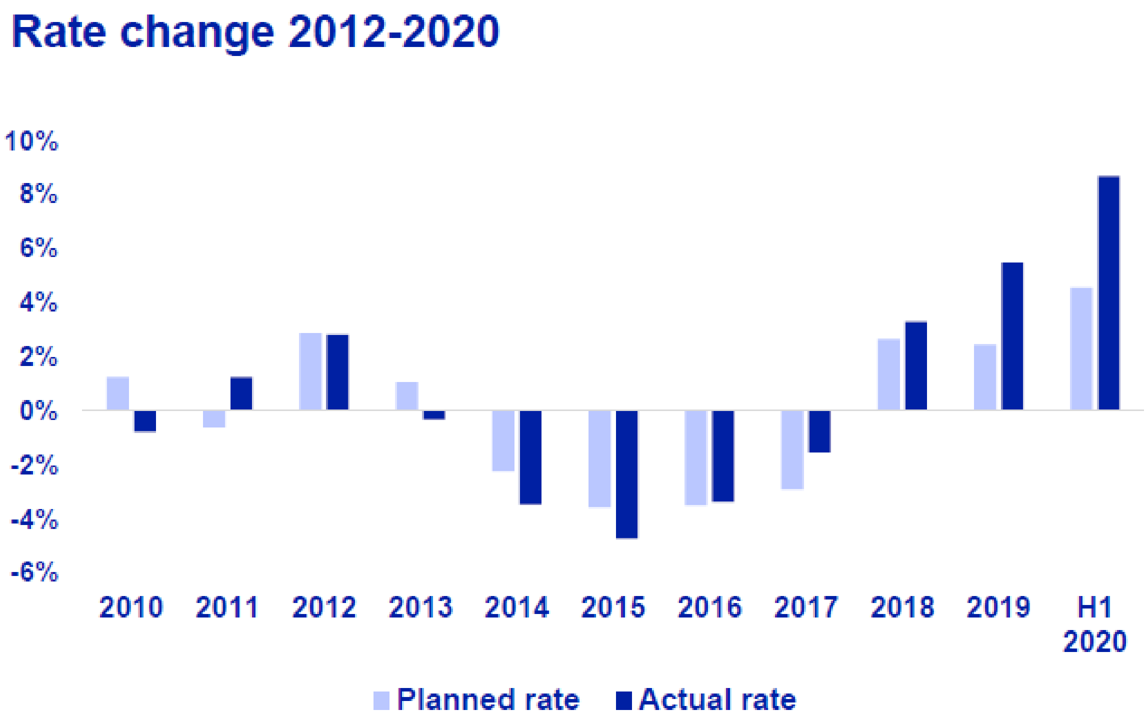
- Lloyd’s made an overall loss of £0.4bn in H1 2020, driven by COVID-19 claims of £2.4bn, contributing 18.7% to combined ratio of 110.4%. Excluding COVID-19 claims, the combined ratio has shown substantial improvement at 91.7%, down from 98.8% in H1 2019.

- Lloyd’s remains well capitalised to meet its COVID-19 obligations and other claims activities.

LLOYD'S Q4 UPDATE

Source: Lloyd's

- Lloyd's has experienced positive rate momentum throughout 2020 and has experienced it's eleventh consecutive quarter of positive rate movement with rate increases exceeding plan each month.



ON YOUR TEAM.

PROPERTY

PROPERTY

- Profitability for many of the property syndicates and company markets in 2020 has been dented by exposure to COVID-19 claims (or at least the costs of defending these claims) and then recently by Hurricanes Laura and Sally in particular.
- Significant increase in submissions continues to flow to the London market as clients still look to market their accounts more widely - and this trend is expected to continue into 2021.
- This increased submission volume in E&S property is allowing underwriters to be more selective in their risk selection and as a result the quality of presentations is becoming more essential than ever.
- Larger loss limits and quota share placements are becoming harder to renew and in many cases are being replaced with layered and shared deals involving multiple carriers.
- Appetites are varying widely and can change rapidly so providing pricing indications prior to placement completion is becoming harder to do accurately.
- London still has a strong appetite for primary and first buffer business, however interest for excess layers has been increasing as the pricing environment increases.
- It would appear double-digit growth will be permitted for the majority of syndicates who write property, however this will include changes in the overall rating environment.

PROPERTY

- Open market portfolios are likely to be the greater beneficiaries of any income allocation, however we expect the majority of binder portfolios will be allowed some of this increase and to absorb expected rate increases as well.
- As has become consistent over the last few years, Lloyd's is still targeting reductions in syndicates expense ratios, hence commissions are being widely reviewed.
- Understandably, expectations around rate increases vary considerably in view of who is being asked (and who is asking the question) however low double-digit growth is likely to be anticipated in most syndicates property 2021 plans. To note, this will be an average to achieve throughout the year so will vary from account to account. Syndicate reinsurance pricing at year end will also play a large part in what gets passed on to their front end pricing.
- Although there was significant tightening of coverage forms during the last 12 months, we expect this trend will continue especially around coverages and sublimits. Pandemic exclusions should be widely anticipated and we anticipate more standalone products for this coverage to emerge in 2021.
- SRCC cover is being closely reviewed on a case by case basis by many London, European and Bermudan markets - especially for retail focused insureds and municipalities - and frequently this has become a significant point of negotiation during the placement process (in many cases centred around deductibles and sublimits).
- There has not been a significant number of new MGA's entering the property space in 2020 as many appear to have struggled to find new adequately rated capacity - however new recent entrants include Rokstone and our own THB-backed MGA Unicorn has recently expanded its offering with a new Property Specialty division.

PROPERTY

- Fidelis Insurance entered into a significant quota share arrangement with Berkshire Hathaway in September this year and have become a significant open market writer over the last 18 months. We expect this to continue and grow into 2021.

- Convex has also recently announced a major capital raise and sources suggest it could take the (re)insurers equity base up to the USD 3bn it initially targeted. As clarity around COVID-19 exposures to property policies become more clear, we anticipate that they will grow their appetite accordingly.

- Ki insurance – the first fully digital and algorithmically driven Lloyd's syndicate – has launched for policies incepting in 2021 and is partnered with the BRIT syndicate, offering follow capacity behind their participation and other designated leaders. They have just finalised a substantial premium cross class deal with THB.

- In the US binder space, new entrants are anticipated early in the New Year and recent start up Satinwood will be writing business from 1/1 focusing on Lloyd's rated capacity to US and Canadian coverholders.

PROFESSIONAL & FINANCIAL LINES

PROFESSIONAL & FINANCIAL LINES

U.S. Financial Institutions Update

- The market continues to harden. Income/capacity restrictions for the remainder of 2020 exacerbate the situation with some markets unable to write any new business until 2021.
- Conversely there are other markets who are hungry for new business. This volatility in sporadic availability of capacity is pushing the pricing upwards but we are seeing plenty of new business and securing orders.
- As a general rule we are seeing markets reduce capacity exposure on any one risks, scrutiny over deductible/retentions and a push to reduce commission levels.
- The markets are and can afford to be selective, deploying capacity on opportunities where they can secure a decent rate.
- The broker/dealer arena is a little challenging with one or two markets withdrawing due to general claims activity.
- The appetite for Investment Management risks is healthy although the markets are tending to shy way from anything with heavy Real Estate focus.
- There is a constant flow of Mortgage Bankers/Brokers risks which we are placing under our in-house binding authority.

PROFESSIONAL & FINANCIAL LINES

D&O Update

- We have entered a truly hard market with carriers exiting the class, others not considering new business and those who remain being very selective.
- This has resulted in significant increases in premiums, reductions in line sizes and on primary policies, increased retentions.
- The toughest areas are companies having Initial Public Offerings (IPO's) and those which have had public offerings (IPO's and secondary offerings) in the past three years, which are now open to possible state court actions following the judgement in the Cyan, Inc. case.
- Other hard hit areas are pharmaceutical companies, foreign companies that are listed on a US Stock Exchange, and those with financial difficulties.
- This has resulted in a significant increase in the submission flow on public company accounts in London.
- New business is concentrated on those opportunities where incumbent carriers are reducing capacity or non-renewing. There is little interest in undercutting current carriers renewal terms.

PROFESSIONAL & FINANCIAL LINES

E&O Update

A&E/Contractor

- The market is maintaining rate within the A&E and contractor sector, and we are seeing a greater number of excess opportunities than before. Underwriters are looking more closely at managing their overall aggregate exposures.

- Residential exposure still is a problem area, but contractors are seeing a broad appetite base. Contractors has been our largest growth area over the past couple of years.

Manufacturing E&O

- With a limited number of markets operating in this space and the purchase being contractually driven, rates are holding in line with revenues and underwriters are maintaining their appetite. We are currently working with underwriters to evolve the product to keep up with our client’s needs.

Miscellaneous

- We see an array of miscellaneous risks and our markets are very interested in exploring these outlying risks.

PROFESSIONAL & FINANCIAL LINES

Medical Malpractice

- Long term care (LTC) coverage has seen the largest rate increase. The market has dramatically hardened over the past 12 months with underwriters reviewing their appetite, however major players have entered back into the LTC space.

Allied Medical Malpractice

- The market is very challenged in this class which is having a significant influence on pricing.

PROFESSIONAL & FINANCIAL LINES

Cyber Update

- The cyber market seems to be hardening on an almost daily basis which is largely due to an increase in the frequency and severity of ransomware losses.

- This hardening market is manifesting itself as follows:
  - Increase in prices and retentions
  - Reduction in some sub-limits (social engineering etc.)
  - Closer Underwriting scrutiny on each risk particularly in regards to ransomware
  - Managing (reducing) their limits on any particular risk
  - Reviewing (increasing) the ILF's on excess programs

- Amlin has withdrawn from the cyber market.

- Despite all the above, we are still seeing many opportunities and London remains an excellent market for the following cyber accounts:
  - Large towers - up to around $250m -$300m in capacity (albeit they generally take longer to build now as underwriters are typically reducing their line sizes)
  - Cheap excess capacity ($3k per million) through the various London MGAs
  - Small primary accounts through various MGA's

PROFESSIONAL & FINANCIAL LINES

U.S. EPL Update

- The market is hardening with income/capacity restrictions in place for the remainder of 2020.
- Some industries are no longer considered – Restaurants, Hotels, Retail & Leisure.
- Large rate increases are in place to prepare for an impending recession.
- Managing limits, increasing retentions and reduction in commission.
- Claims are increasing and becoming more costly, with expected increases in claims with impending recession and BLM movement.
- COVID-19 Discrimination Exclusion are being added to most risks.

U.S. SML (Sexual Misconduct & Molestation) Update

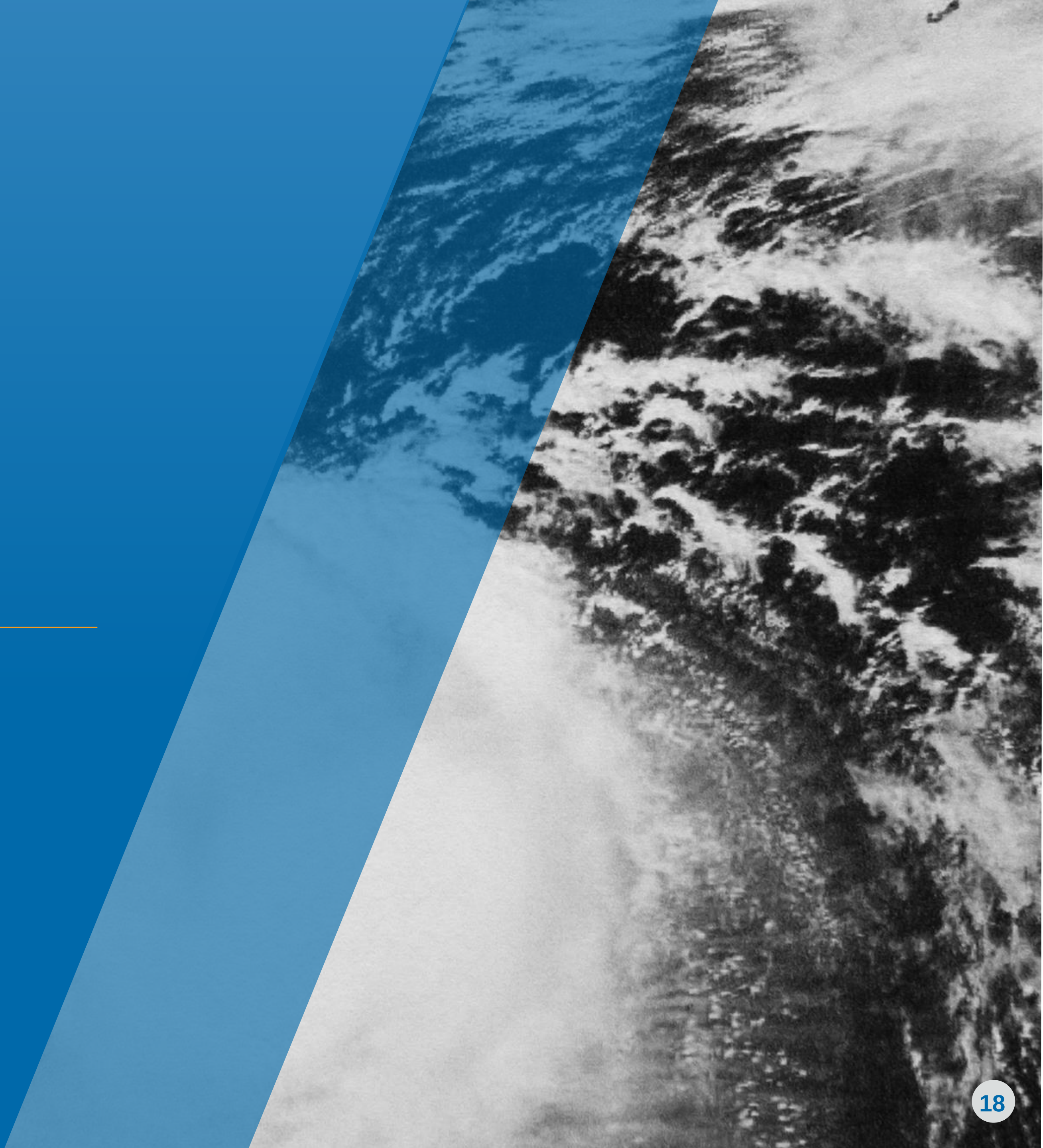
- The number of submissions received has increased due to contractual requirements.
- A consortium has been set up in London to provide $10m limits and additional $5m limit with an excess market.
- Both primary and excess can sit excess of package policies.
- Rates continues to be steady with only minimal rate increases on renewals to charge for additional year of retro.

PROFESSIONAL & FINANCIAL LINES

Specie Update

- The Specie market still has in excess of $1bn capacity.
- There have been a number of changes in key underwriters within the Specie market that will likely lead to increased capacity, particularly in the Fine Art and Excess SIPC areas.
- Underwriters are trying to drive up rates but it is still possible to renew on an expiring basis, subject to no changes in exposures or loss experience.

CASUALTY



CASUALTY

- The Casualty market has continued to harden throughout 2020, there's no doubt that 2020 has seen pricing accelerate far quicker than it has previously. However, it's not just this year, it has been happening for a quite a few consecutive quarters. Nuclear verdicts, social inflation and prior-year loss deterioration are all fey factors for the hardening market.

- Sources pegged 2020 price increases on US GL at around 15%-30%. The increases in US primary GL are beginning to mirror the more significant rate rises in excess liability, in which rates have surged amidst significant limit compression. Excess liability pricing is more volatile than primary GL as rates on line tend to be lower, but the reaction in GL is starting to become clear. London underwriters cited social inflation and ever-increasing jury awards as a significant factor in price increases in the US. "On an accident year and calendar year basis, over the last eight years, GL was about breakeven at best," a Lloyd's underwriting source said "GL is basically underwater in the US. The last four years have been so under-priced and that is why increases are so large."

- Excess Casualty markets are no longer willing to deploy the $25mm limits that were the mainstay of the soft market, with lead limits falling to $10mm in 2019 and now $5mm layers in 2020. A Lloyd's underwriting source said "the number of non-renewed accounts had risen this year, as underwriters feel the pressure to get their loss ratio under control. Re-underwriting efforts by carriers have helped sustain rate rises, with some underwriters surprised to find clients accepting hefty rate rises, having little other options due to the tightening of capacity".

- The markets are, and can, afford to be selective, deploying capacity on opportunities where they can secure a decent rate on line.

CASUALTY

- COVID-19 has strengthened underwriters’ already robust case for further rate increases, significant pandemic losses are not expected to show in GL lines and are more likely to impact results long-term via a recognition of frequency benefits.

- The market appetite has remained consistent throughout 2020. New business is concentrated on those opportunities where incumbent carriers are reducing capacity or non-renewing.

- *New capacity* - Arcadian Risk Capital has launched as a new underwriting operation based in Bermuda that will underwrite excess casualty. The new company will be led by John Boylan, a 30-year veteran of the insurance industry with AIG, XL and Markel. Further details to follow.

- *New capacity* Bowhead Specialty are another new entrant within the Casualty arena, both Jeff Saunders and Don Roberts have joined Bowhead after leaving Navigators earlier in the year. The new business segment at Bowhead will write excess casualty risks through wholesale distribution channels and has capacity of up to $15mn per risk.

FLOOD, MORTGAGE IMPAIRMENT & FORCED-PLACED

FLOOD, MORTGAGE IMPAIRMENT & FORCED-PLACED

- THB Special Risks principal facilities were renewed in Q3 2020 with growth available in all areas. Markets were replaced, essentially as a result of internal pressures on minimum premiums and overall binder numbers rather than the performance of the facilities in particular. Majority of syndicates were seeking increased lines. Overall there is still a good appetite for these classes of business.

- The metrics which syndicates are utilising is changing with more in-depth oversight from follow markets. Submission to Quote, Quote to Bind, Renewal Retention and rate change makes up a large part of how the programmes were assessed.

- More problematical is that there is little uniformity of requirement and appetite between one syndicate and another.

- There are pressures to increase rates across the board but to a lesser extent than other classes. Real Estate Investor and Flood business is seeing larger increases and/or more restrictive terms.

- Competition is moving in the same direction and seems to be experiencing a bigger capacity contraction presenting a number of new opportunities, although hit ratios remain consistently below 10%. Opportunities for books of business falling out of closed domestic programs have become more frequent.

- Company markets are becoming a greater viable option on our business lines.

FLOOD, MORTGAGE IMPAIRMENT & FORCED-PLACED

- On Mortgage Impairment and Lender (Forced) Placed Insurance, THB is not seeing its competing facilities increase their rates, placed either in the domestic markets or in Lloyd's.
- Overall risk appetite has remained consistent with adjusted terms to reflect the market wide capacity constraints.

CONSTRUCTION, ENGINEERING & RENEWABLE ENERGY (C&E)

C&E

- The COVID-19 pandemic has had a significant impact on the Construction Market in 2020 as new projects globally have received ongoing delays due to lockdown restrictions.
- This was particularly evident in the second quarter, however in recent weeks and months, the business and flow of submissions has steadily increased as the Construction Sector is making positive strides heading into 2021.
- Period extensions on current policies have also been a key aspect during the pandemic as contract works were put on hold for a significant period of time.
- Overall, construction underwriters in London have been understanding of the unique situation and are extending policies for longer than usual periods.
- The general appetite from the London Market to support International clients remains high.
- The US and London frame rates are currently at a similar level, which allows us to provide significant construction follow line capacity on this type of project.

MARINE & ENERGY

MARINE & ENERGY

MARINE

- Trading conditions remain tough across all Marine lines and we expect this trend to continue into 2021.
- Most syndicates have implemented minimum premiums for their net line ranging from USD 15,000 to USD 25,000 which leads to artificially high pricing as their clients are having to pay for capacity regardless of exposure and good loss records.
- All Marine lines are experiencing minimum 10%-15% rate increases but Cargo stock throughput has been particularly affected with heightened rate increases. For accounts that experience significant premium increases in the last 12 months we are expecting there will still be a push for rate rises in the region of 10-20%.
- Equally, across all lines, underwriters are looking to increase deductibles, tighten conditions and most importantly are expecting quality submissions with full information. Where this is provided, underwriters look far more favourably on the risk.
- New capacity is entering the market to capitalise on rate increases. Notable entrants include Ki, Fidelis, IGI, HCC, Convex and Berkshire Hathaway Specialty Insurance.
- Due to the challenging state of the London market, successful placements require brokers to utilise overseas markets.
- COVID-19 exclusion clauses are being included by all cargo markets as standard practice.

MARINE & ENERGY

- COVID-19 has contributed significantly to the downturn in economic activity which has had an adverse affect across all lines and regions globally.
- In spite of the tightening conditions London still remains a highly relevant player on many classes, specifically those than include catastrophe perils.

ENERGY

- Following a very active Gulf of Mexico hurricane season, the London upstream market has not been significantly impacted with losses. London Market conditions therefore remain consistent to what was seen at the start of the year with underwriters still looking to achieve rate rises of circa 7.5% - 10% on all clean Property / Control of Well renewal business.
- With the combination of low oil prices and the effect of COVID-19 on global demand, it is the smaller insured's being most significantly impacted.
- Conversely, insured's are looking to reduce their premium spend whilst the market is looking to increase rates. A number of markets are now implementing minimum premium levels for their net line (ranging from $10,000 –$25,000). With this capacity often being required to complete placements, smaller insured's are seeing significant rises on their renewal premiums to meet these new minimum premium restrictions.

MARINE & ENERGY

- Due to the on-going effects of COVID-19 and the continued remote working of the London Market, the placement process continues to take longer than what may have previously been experienced. It is therefore encouraged that all submissions, whether for new or renewal business are sent in a timely manner to ensure adequate time for a full marketing exercise.

- COVID-19 exclusion clauses are now being implemented as standard across all Upstream Energy Placements.

- Greater focus is also being placed on minimum deductible levels for PD placements, in which minimums have been implemented of $25,000.

- There has also been a significant shift in the London Upstream Casualty market, with a substantial reduction in capacity and greater scrutiny being placed on this class of business following a spate of sizeable losses.

- These conditions are particularly prevalent in the Auto-Liability space, where markets that are still willing to write lower down the liability tower are looking to charge rate rises of between 100-200%. However, the appetite is diminishing in London for the higher layers.

U.S. TRANSPORTATION

U.S. TRANSPORTATION

- London domiciled markets for this class are primarily White Oak, MS Amlin, Hiscox, Tokio Marine Kiln & Great Lakes.

- 2020 has seen a significant movement of underwriting personnel; all White Oak underwriting staff have resigned to go to a start-up (Graphite), several Amlin underwriters left to go to White Oak (in addition their Class Leader is now retiring in 6 months due to the changes) and one underwriter at Great Lakes resigned to go to White Oak.

- Submission flow to London continues to be high with a large amount which is ‘distressed’, risks that incumbent domestic carriers are declining to renew.

- London market is seeing constant competition from domestic carriers such as Progressive, Sentry and AIG who are writing the AL with increasing rates and packaging with the Commercial Physical Damage.

- Rates generally however remain high across the class, due primarily to the limited market and the influence of the experienced line writers such as Amlin, White Oak, MAP.

- Although overall premium income is down, underwriting results so far this year have been good as a result far fewer trucks are on the road due to lockdown restrictions.

- With a drop in revenue due to COVID-19, many trucking companies are marketing their insurance to try and save premium dollars. This is resulting in pressure on retention rates however the appetite for new business still remains strong.

AVIATION

AVIATION

- Hard conditions continue in the Aviation market and it is expected this will accelerate into 2021.
- Insurers have continued to apply rate / premium increases throughout 2020, with all business segments / risk types seeing varying % levels.
- Average rate increases for Clean business have been between 15%-20%, while Loss Active risks have seen anywhere in excess of 50%.
- The impact of COVID-19 continues to be felt in the Airline Segment, with Insurers looking to implement 75%-85% minimum premium conditions irrelevant of exposure to offset the loss of income.
- The ongoing “Boeing Loss” continues to deteriorate, with market figures now estimating this at $2bn. With the possibility of exceeding the $2.25b policy limit, this will be the most significant market loss since the events of 9/11.
- The “Boeing Loss” in particular will contribute further to rate / premium increases, with early suggestions indicating average increases for clean business closer to 30%-40% and in excess of 75% for any loss active business.

AVIATION

- Risk appetite and risk capacity evolve constantly, but for smaller General Aviation risks, there is a distinct lack of available capacity.
- There have been further market withdrawals in 2020, with the exiting of StarStone, Antares Syndicate and Trust Re. A negative impact has also been felt from the downgrading of GIC Re, who participate on a number of Aviation market MGA’s.
- Rokstone MGA, Hive Aero and WhiteBear MGA have all entered the market in different segments, but all are taking a very considered approach and not looking to disrupt / challenge the current environment.
- 2020 Q3 has seen a surge of Account movements, with Major Airlines and Manufacturers choosing to renew via new broking houses. As a result of a large number of broker personnel movements in the last 18-24 months and with 50%+ of the world’s Airlines policies due for renewal in Q4, it is expected the trend will continue.

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