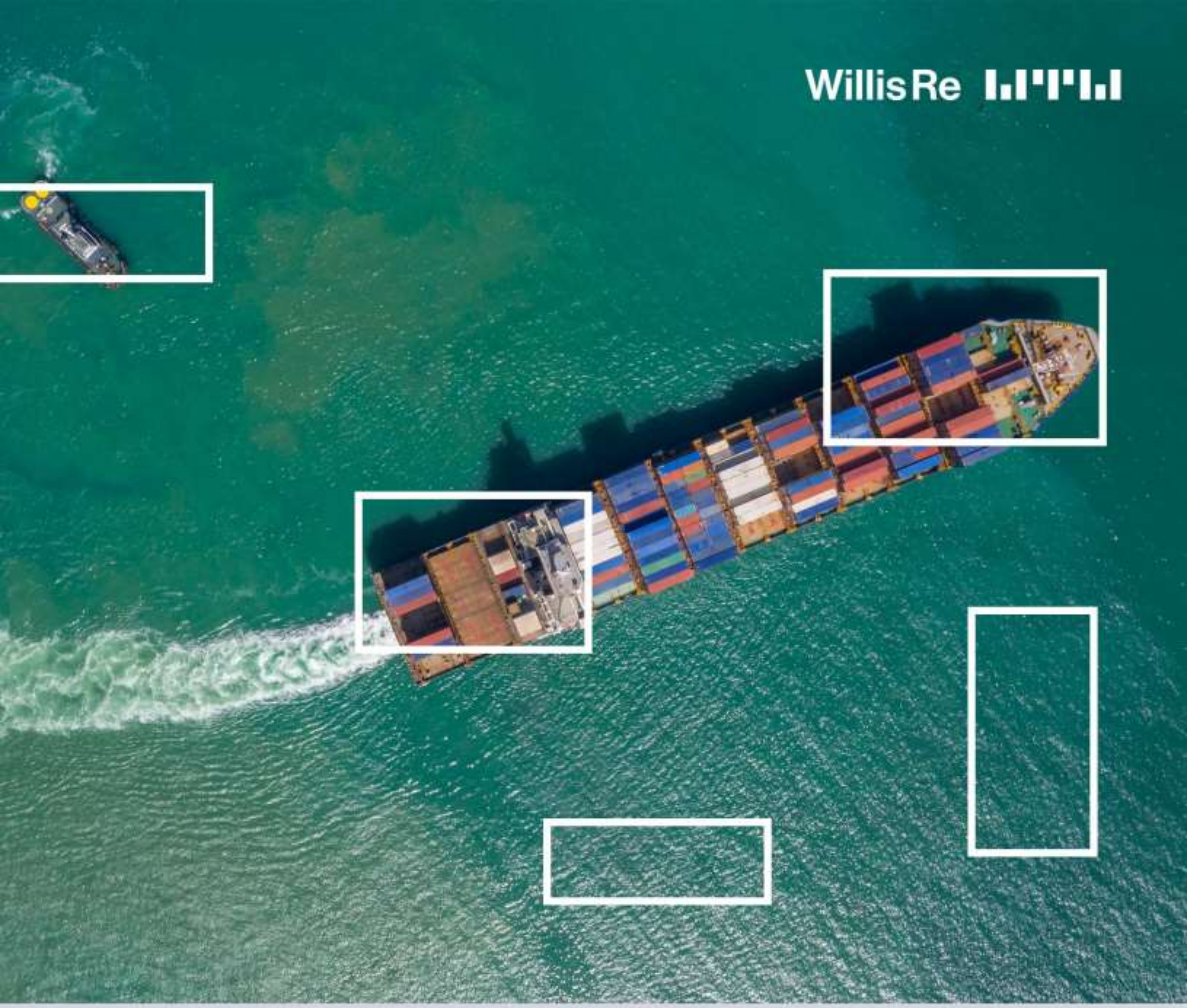

Willis Re 1st View

Emerging Equilibrium

July 1, 2021

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1st View

This thrice yearly publication delivers the very first view on current market conditions at the key reinsurance renewal seasons: 1 January, 1 April and 1 July.

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Emerging Equilibrium

Reinsurers came into the 1.6 and 1.7 renewal periods buoyed by improved Q1 results in terms of both premium volume and combined ratios despite the challenge posed by the severity of Winter Storm Uri. Premium growth came from continued rate increases both on underlying portfolios and improved reinsurance pricing as well as the strong economic recovery being seen in many countries, highlighted most obviously by the ~$2 trillion infrastructure plan in the United States. Inflation related increases in risk free rates also helped to boost investment income.

Against this encouraging background reinsurers were keen to maintain the pricing momentum that they had achieved at the 1.1. and 1.4 renewals and to an extent they were successful, though there are increasing signs of capacity supply outweighing demand.

The desire to increase top line revenue has not yet undermined underwriting discipline and classes of business and portfolios with poor results attracted much less capacity – this was particularly notable in the Florida renewals.

The ongoing improvements in original terms and conditions in several lines of business, which in some cases have now seen multiple renewal cycles of improvement, has started to prompt some buyers to reduce pro-rata cessions and retain more premium by moving to excess of loss structures. This has been most notable in US long-tail lines but is a developing trend in other lines of business which have now reached, or in some cases exceeded, perceived rate adequacy.

Reinsurers frequently had to accept firm order terms below their initial quotes. In most cases there was some year-on-year rate improvement and, other than in stressed areas, placements were comfortably completed. The desire to increase top line revenue has not yet undermined underwriting discipline and classes of business and portfolios with poor results attracted much less capacity – this was particularly notable in the Florida renewals. Similar to 1.1.and 1.4, capacity was constrained for low-level occurrence and aggregate excess of loss covers. ILS markets continued to be buoyant attracting significant interest from investors particularly for well-structured widely syndicated catastrophe bonds which has led to a narrowing of spreads for both US and non-US placements.

The two major current market concerns of inflation and COVID-19 related losses had limited impact on the 1.6 and 1.7 renewals. The slow ongoing development of COVID-19 related losses under many original policies

and the subsequent delayed development of reinsurance losses has showed little change in the last three months. This led to renewals largely not considering COVID-19 losses whose ultimate development still remains unclear. Similarly concerns that reinsurers have about inflation failed to materialize into rating action at 1.7 as buyers were able to successfully argue that the current uptick in inflation is likely to be temporary and will fall away once economies and supply chains fully recover from the pandemic slowdown.

Environmental, Social and Governance (ESG) is rightly taking a more prominent position in the global reinsurance industry's corporate strategy but any concrete action in terms of adjusted underwriting approaches remained limited at 1.7 other than on specific coal and other heavy fossil fuel related facultative reinsurance where a growing number of reinsurers are scaling back their activities or withdrawing from such lines of business.

Overall, the global reinsurance market appears to be moving towards an equilibrium in terms of improvements in terms and conditions. Backed with a resilient and growing capital base, reinsurers are able to face challenges the second half year 2021 may bring with a degree of confidence that they are well positioned to provide the long-term support primary clients expect and need.

James Kent, Global CEO, Willis Re
July 1, 2021

Property

Commentary by Territory

Australia

- An orderly renewal with no material changes to wordings or conditions.
- Consistent with the 1.1 and 1.4 renewals pressure on pricing especially on loss affected layers.
- Some clients raised retentions due to lack of reinsurer appetite for low attachment levels or in response to poor loss experience.
- Appetite for aggregate and lower layers exposed to frequency losses was more discerning and less abundant.
- Standard clauses for Cyber and Contagious Disease such as LMA 5503 and LMA 5410 readily accepted in the market.

Caribbean

- Continued modest original rate increases allowed pro-rata treaties to renew with unchanged commissions.
- Largely loss free year on Per Risk and Cat excess of loss covers led to flat to modest rate increases but, for most buyers, pro-rata treaties remained the key reinsurance purchase
- Communicable Disease Exclusionary language largely settled down and consensus reached.

China

- Capacity was sufficient for Property Risk excess of loss and Cat excess of loss (combined excess of loss in several programs), but pricing was competitive.
- Buyers expected flat or even risk adjusted reductions in pricing but in the end, most firm order terms were close to risk adjusted flat, or small increases.

Latin America

- Despite markets continuing to push for rate increases, capacity remained sufficient with new players entering the regional market.
- Cyber and Communicable Disease exclusions were still under discussion, with many reinsurers requesting standard LMA non-amended clauses.
- Reinsurers were initially quoting rate increases from +5% to +15% on loss affected Per Risk and Cat excess of loss programs.
- These same increases were offset by new reinsurers willing to accept flat pricing, which led to expiring markets reconsidering their quotes and accepting smaller increases.
- Loss free Per Risk and loss free Cat excess of loss contracts renewed mostly flat or with slight increases on a risk adjusted basis.

Middle East

- Plenty of capacity was available for both pro-rata and excess of loss.
- The pro-rata market firmed to some degree with flat renewals on well performing accounts; poor performing accounts saw drops in commission (up to -2.5%) or were restructured depending on how poorly the ceded portfolio had performed.

- Reinsurers were not willing to compete on lead terms on pro-rata treaties.
- Excess of loss (Risk and Cat): Good accounts saw flat to +5% increases while poor performing accounts saw between +5% to +15% increases.
- Regional retrocession accounts saw flat to +5% increases, but poor performing accounts saw between +5% to +15% increases.
- Communicable Disease and Cyber Exclusion Clauses were still at the forefront of discussions.

South Africa

- It has been a benign last two years for Natural Perils Cat losses. However, COVID-19 losses have impacted some programs significantly.
- Those that have been affected saw significant remedial action taken by reinsurers.
- The programs that remain loss free achieved flat to slight risk adjusted reductions.

United Kingdom

- 1.7's are weighted towards personal lines portfolios, so there were fewer potential COVID-19 loss impacted programs than at 1.1.
- Consequently, overall rate movements appeared a little more muted than 1.1.
- Quoting had less divergence than 1.1 unless there were significant portfolio and / or structural changes.
- Reinsurers continued to push for increases to retentions on Cat and Risk excess of loss treaties which they perceived have a low modelled attachment point relative to peers.
- Similar to 2020, 2021 is proving to be a better year from a single risk loss perspective with ongoing signs of positive primary rate momentum in areas of commercial business.
- Communicable Disease and Silent Cyber exclusionary language were incorporated into contracts with some modification to standard clauses.
- Capacity remains strong with solid appetite from incumbent and new reinsurers.

United States – Florida

- Overall demand for reinsurance capacity was reduced as many companies looked to right size portfolios and reduce reinsurance costs.
- Reinsurers, many of whom had culled their portfolios in 2019 and 2020, looked to maintain their capacity and, in some instances, grow. Supply was also influenced by new reinsurer entrants and FL focused catastrophe bond issuances.
- The resulting impact of these two market forces resulted in a highly differentiated market based on quality of cedant, historical performance, and current buying needs.
- Capacity for mid and upper layers was plentiful as most reinsurers looked to shift up in programs, muting rate momentum experienced in 2020.
- Lower layers, below the Florida Hurricane Catastrophe Fund (FHCF), experienced the most significant rate movements with average increases in the +10% to +30% range with some significant outliers.
- More focus was put on rate than terms and conditions in the traditional market.
- Spreads in the ILS market tightened relative to 2020 issuance, highlighting strong investor appetite and new inflows to the market.
- There was a common theme of upsizing and pricing at the low end of guidance.
- FL focused issuance from primary insurers topped $2.425 billion in the first half of the year.

United States – Nationwide

- On excess of loss Catastrophe programs, capacity has shifted up in towers to move away from attritional losses, making the top end of programs competitively priced and leading some clients to institute higher excess of loss retentions.
- Lloyd's reinsurers were specifically moving away from lower attaching cat and working Per Risk layers.
- New reinsurance markets were more abundant on programs, as top line pressure continues throughout the year.
- Following Winter Storm Uri, reinsurers continued to scrutinize non-peak perils (wildfire, winter storm and severe storm), especially on lower attaching catastrophe layers.
- Per Risk layers were under pressure on price and terms given the increases in frequency and severity of recent industry losses.
- In the shared and layered space, buyers have continued to reduce limits. Therefore, Per Risk layers saw reductions in exposure but reinsurers were hesitant to quote commensurate reductions in price.
- Cat excess of loss placements were completed below the average quote, with some layers being placed below lowest quote.
- Quota shares saw pressure on ceding commissions due to elevated loss ratios in 2020, but some programs renewed at expiring or slight increases in ceding commission due to original rate increases and prospective loss ratio improvements.

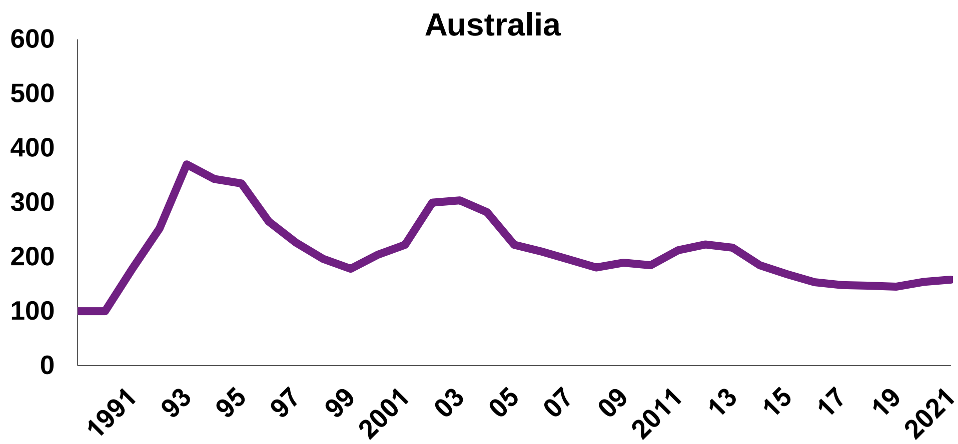
Property Rate Movements

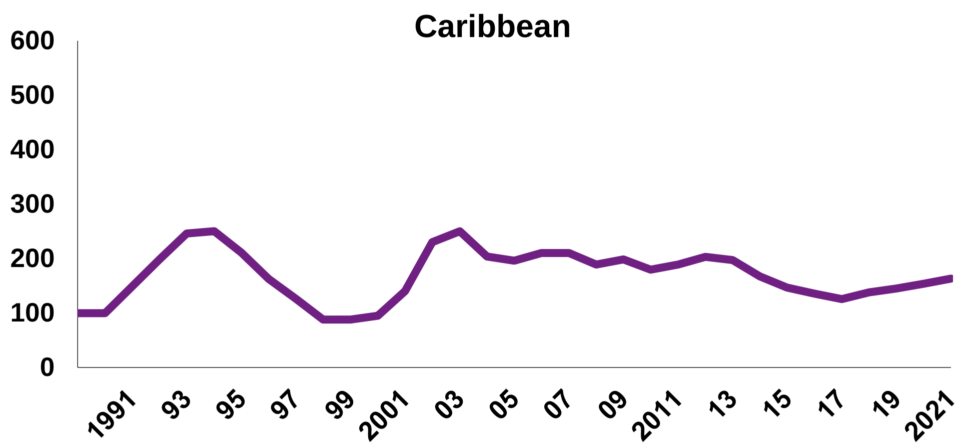
Territory	Pro-rata commission	Risk loss free % change	Risk loss hit % change	Catastrophe loss free % change	Catastrophe loss hit % change
Australia	N/A	0% to +5%	+5% to +15%	0% to +5%	+10% to +25%
Caribbean	0%	0% to +5%	+5% to +10%	+5 to +7.5%	N/A
China	N/A	+1% to +6.5%	N/A	0% to +10%	N/A
Latin America	0%	0% to +4%	+5% to +12%	0% to +8%	+5% to +15%
Middle East	-2.5% to 0%	0% to +5%	+5% to +15%	0% to +5%	+5% to +15%
South Africa	0%	0%	various	-5% to 0%	various
United Kingdom	N/A	+2.5% to +5%	N/A	0% to +3%	N/A
United States - Florida	-3% to 0%	-5% to +5%	+5% to +15%	-5% to +5%	+10% to +30%
United States - Nationwide	-1% to +1%	+2.5% to +15%	+10 to +20%	0 to +10%	+10 to +25%

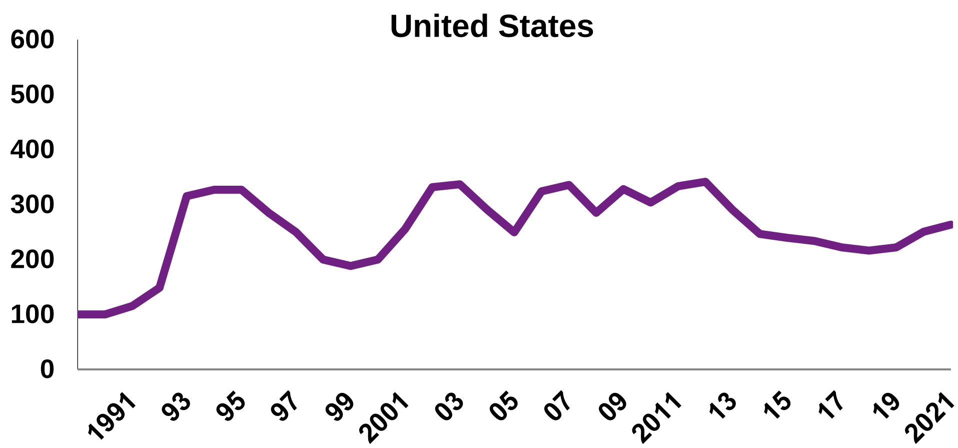
Note: Movements are risk adjusted.

Property Catastrophe Pricing Trends

The charts on these pages display estimated year-over-year property catastrophe rate movement, using 100 in 1990 as a baseline.







Casualty

Commentary Grouped by Territory

Australia

- Rates have maintained an upward trajectory as reinsurers continued to close the perceived gap between achieved premium and their view of technical premium. This was especially true for loss affected business or accounts with lower retentions.
- Rate increases have been further impacted by poor investment returns, especially on particular long tail treaties.
- Firm order rates were often still below reinsurers aspirational quotations.
- Reinsurers continued to be more selective and reduced shares or lapsed business they saw as unprofitable; however, this did not translate into an absence of capacity.
- The trend of reinsurers seeking deeper understanding of underlying risk also continued. This was especially true for risks exposed to silent cyber and to a slightly lesser extent, COVID-19.
- Silent cyber continues to pose challenges for casualty with little homogeneity in approach amongst buyers or reinsurers. Inflexible reinsurers have sometimes found themselves at a distinct disadvantage.

Global – Cyber

- Ransomware losses have reinforced the ever-changing threat vectors in the Cyber class, undermining confidence in downside risk metrics and COVID-19 has reinforced concerns about the systemic nature of cyber threats.
- The market has experienced continuous and rapid hardening since Q1 2021 with many carriers also seeking to reduce exposure to ransomware via either sub-limits or co-insurance.
- Already constrained capacity has been further limited and increasingly selective given the struggle of quantifying downside risk correlation impacts for insurers seeking to hedge risk and reinsurers being asked to assume it.
- Consequently, demand for reinsurance remains significant for quota share and/or Cat protection (Aggregate Stop Loss).
- Aggregate Stop Loss remains attractive to buyers as means of protecting tail risk however reduced capacity and increased demand has driven pricing for such covers up +30% to +40%.

United States – General Third-Party Liability

- Reinsurer appetite for Primary and Excess Liability continues to expand and has been largely fueled by persistent rate increases and improvements in terms and conditions in the original market.
- Capacity for quota share and excess of loss remains strong although, similar to 1.1 dynamics, preference remains towards quota share as reinsurers are seeking to align themselves with performance improvements in cedants portfolios.
- Quota share ceding commissions modestly improved, driven by more optimistic views of prospective Loss Ratios, increased competition and reduced placement orders.
- More cedants have introduced and/or expanded excess of loss placements to

manage performance volatility. While COVID-19 thus far has not materially impacted Liability portfolios, cedants remain concerned about loss trends, nuclear verdicts and general severity threats thus incorporating protection against them.

- Since 1.1, Reinsurers have hardened their positions on some key exposures such as Cyber and Wildfire and as a default will generally look to exclude such exposure unless they are fully comfortable with cedants underwriting strategy. COVID-19 exclusions are still being proposed on a case by case basis although reinsurers are more willing to follow cedants underwriting approach on Communicable Disease as opposed to outright exclusions.

United States – Healthcare Liability

- Capacity has contracted within both the primary and reinsurance markets, but adequate capacity remained generally available.
- The continuum of contraction in the primary market varies broadly by specific sub segment, with Physicians seeing the least contraction, moving up the scale to Miscellaneous Facilities, then Hospitals, and finally Senior Care (Nursing Homes) seeing the most contraction. Inverse to this is the impact of rate, with all sub segments seeing rate increases, but Senior Care (Nursing Homes) seeing the largest rate increases (up to +50% or more) and then ranging down to Hospitals (up to +25%), Other Facilities (up to +20%) and Physicians (as low as mid-single digit increases).
- Reinsurer margin requirements increased noticeably on excess of loss structures as the continued impact of social inflation/severity continues to emerge - with trend factors being a key discussion driver in all renewals.
- COVID-19 has created an odd "pause" in the claim cycle, which has created uncertainty as to when and what the post COVID-19 "normal" will be once elective medical procedures and court system capacity gets back up to pre-pandemic levels.
- Reinsurance layers and structures providing "catastrophic" coverage such as Awards Made and Common Loss recoveries have been under the greatest pressure as reinsurance capacity for these coverages and limits decreased, and pricing requirements (minimum Rates on Line) increased.

United States – Motor Liability

- Risk, Cat and pro-rata capacity was still abundant for private passenger auto with a handful of new reinsurers entering the space.
- Commercial Auto and, in particular, long haul trucking continued to struggle to attract new reinsurance capacity.
- Overall, trends are returning to pre-pandemic levels and we are seeing growing concerns on the impact of inflation (i.e. increase in vehicle repair costs, etc).
- As a result of the drastic reduction in vehicle collisions during the pandemic, commercial auto, as an industry, performed profitably.

United States – Professional Liability

- There was significant market appetite from both incumbent and new reinsurers for pro-rata Professional Lines business and particularly for Public D&O given strong underlying improvements in terms and conditions.
- While the market is expecting continued prior year development, most

(Re)insurers are seeking to take advantage of the strong environment and reduced limit requirements in the current market via expanded pro-rata participations.

- Reinsurance capacity has grown substantially from incumbents, reinsurers coming “off the bench” and new market entrants.
- The abundant capacity was challenged by the modest reduction in some quota share placement orders and/or inclusion of Risk excess of loss in reinsurance programs.
- E&O has largely “stayed the course” in the US, achieving rate and reducing limits in underlying business, but to a lesser degree than D&O, broadly warranted by experience.
- Resultant treaty economics improved for most but not all cedants, the determinants seem to be primarily driven by adverse loss experience and/or challenges in articulating improvements in forward looking loss ratios.
- For top quartile performers, many of whom increased retentions on their D&O portfolios, ceding commissions have exceeded historic highs with the majority of cedants achieving multi-point increases.
- The excess of loss market was generally stable with slightly higher margin requirements.

United States - Workers’ Compensation

- The WC market is beginning to emerge from its pandemic induced uncertainty with less reported COVID-19 loss impact than many had feared. Nonetheless, market participants are watchful as future employment patterns settle into our new normal.
- The Workers' Compensation reinsurance market is two distinct sectors. The single life exposed working layer market and the multi-claimant exposed catastrophe market.
- Working layer pricing continued to trend upward, despite a model revision by the dominant rating agency, NCCI, which indicated declines in expected losses to these layers. This apparent disconnect reflects continued tight capacity.
- On the higher attaching catastrophe layers, reinsurers quoted slightly higher rates on line, but they generally supported firm order terms at expiring prices.
- Contract terms tightened with respect to Pandemic related Communicable Disease exposures. Working layer capacity is available without a sublimit or exclusion on this exposure, but some key reinsurers are now introducing these limitations. On catastrophe layers, there is capacity supporting aggregation of sudden/accidental Communicable Disease claims.
- Otherwise, the pricing, capacity and coverage trends we saw with the January 1 renewals have continued with at July 1.

Casualty Rate Movements

Territory	Pro-rata commission	XL - no loss emergence % change	XL - with loss emergence % change
Australia	-2.5% to -5%	+3% to +7.5%	+5% to +15%
Global - Cyber	-2% to -3.5%	+15% to +40%	+25% to +40%
United States - General Third-Party Liability	0% to +2%	0% to +10%	+5% to +25%
United States - Healthcare Liability	0%	0% to +10%	+15% to +25%
United States - Motor Liability	-3% to +2%	0% to +7.5%	+5% to +15%
United States - Professional Liability	+1.5% to +3.0%	0% to +5%	+5% to +20%

Note: Movements are risk adjusted.

Territory	Pro-rata commission	Risk loss free % change	Risk loss hit % change	Catastrophe loss free % change	Catastrophe loss hit % change
United States Workers' Compensation	N/A	+5% to +15%	+10% to +20%	0% to +5%	N/A

Note: Movements are risk adjusted
For Workers' Compensation, risk layers are working layers that include single claimant coverage, are actuarially priced, and are based on both exposure and experience; catastrophe layers, which commonly require two or more claimants in the same loss occurrence, are primarily priced based on capacity charges.

Specialty

Commentary by Line of Business

Capital Markets

- The momentum that was initiated in the cat bond market throughout the second half of 2020 and continued through Q1 2021 has been firmly consolidated in Q2 2021.
- Around $6 billion of cat bond capacity has been issued in Q2 2021, making it the second most active Q2 in terms of cat bond capacity issuance in the last ten years.
- The level of non-life capacity issued in Q2 2021 alone outstrips the level of capacity issued across the whole of 2019.
- Significant inflows of investor capacity into the ILS space has not only driven the previously mentioned notable capacity issuance but has also resulted in margins narrowing and new cedants entering the space.
- This momentum is expected to continue throughout the remainder of 2021, ensuring that the 1 January 2022 renewals will provide a good opportunity for continued expansion of the cat bond market.

Global — Marine

- Reinsurance market appetite for most classes of Marine continued to be buoyant, encouraged by the positive rating environment in primary markets.
- Whilst some of this primary pricing momentum appears to be slowing, the positive large and attritional loss environment has generated further reasons for optimism. High profile container vessel claims like Ever Given or One Apus are well diversified so that they don't put a strain on individual programs or treaties.
- As a result, reinsurance market capacity continues to significantly exceed demand, encouraging Global and International cedants to explore new purchases to address continuing concerns around volatility.
- This is taking the form of both new pro-rata treaties and increased excess of loss protection.
- Reinsurance market pricing showed signs of suffering from the excess capacity, with the rate of increase slowing since 1 January.
- Coverage continued to be challenging, with a wide spectrum of write-backs in respect of Communicable Disease and continuing inconsistency in respect of Cyber.

Global — Non-Marine Retrocession

- The supply and demand dynamics identified towards the tail end of 2020 have carried through into the mid-year renewals with capacity largely adequate to meet buyer requirements.
- No significant change in terms and conditions as coverage items were addressed last renewal.
- There has been a continued migration of capacity towards rated balance sheets largely prompted by the uncertainty surrounding the longer tail nature of COVID-19 related claims activity.
- Buyers behavior has remained largely unchanged from previous renewals with gross underwriting initiatives becoming more commonplace to address portfolio volatility.

- Winter Storm Uri has had a varied impact on reinsurer balance sheets, in many cases eroding the budgeted attritional Cat Loss Ratio for the year.
- Buyers continue to utilize a variety of indexed link products to address their Capital requirements with the Cat bond and ILW markets continuing to soften from what was seen at 1 January, with investor demand high for named peril transactions.

Global — Personal Accident / Life Catastrophe

- Continued to see rate increases, with more significant increases on risk excess of loss (up +20%) compared to the catastrophe excess of loss (up +10%).
- No change in pro-rata capacity observed.
- Pressure on commissions on direct side of business – binders, for example, was seen with -5% minimum.
- The market has continued to harden over multiple renewal periods with a reduction in the number of carriers.

Global – Political Risk

- The comments made at 1 January remain true, i.e. the insurance market continued to expand through new entrants; losses expected from COVID-19 and the slump in oil price haven't materialized to the extent first feared but concerns around the uncertain economic outlook remain; and previous “abundance” of reinsurance capacity saw a significant dilution for 2021.
- These, coupled with limited quoting market options, have caused the hardening in terms and conditions for reinsurance renewals seen at 1.1 to continue, despite the absence of significant COVID-19 loss development and improved insurance terms and conditions.
- Capacity remained limited. Although placements are successfully completed, reinsurer signed lines are often close to or as per their written lines.

Specialty Rate Movements

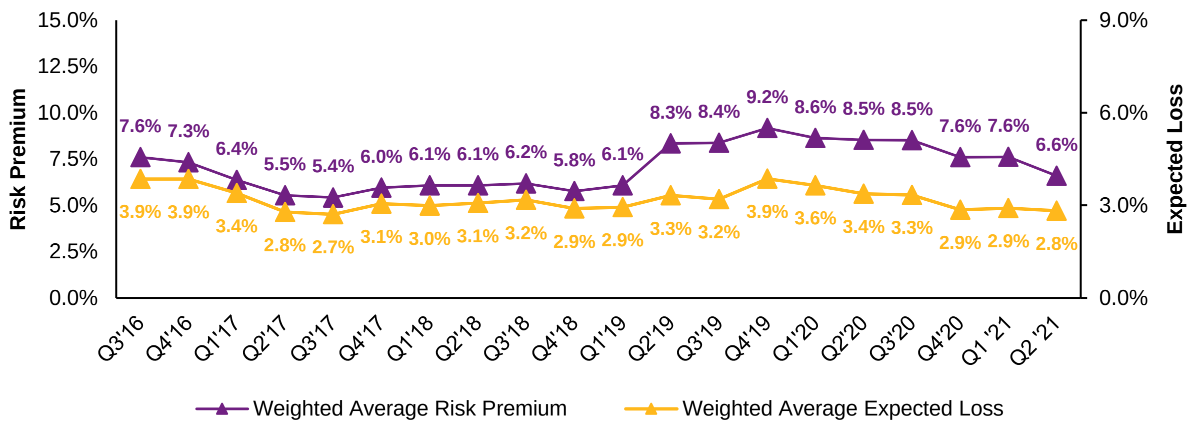
Territory	Pro-rata commission	Risk loss free % change	Risk loss hit % change	Catastrophe loss free % change	Catastrophe loss hit % change
Non-Marine Retrocession	-2.5% to 0%	+10% to +15%	+15% to +25%	0%	+5% to +10%
Personal Accident / Life Catastrophe	0%	+20%	+50%	+10%	up to +100%
Political Risk	-2% to -1%	+10% to +15%	+15% to +20%	N/A	N/A

Note: Movements are risk adjusted.

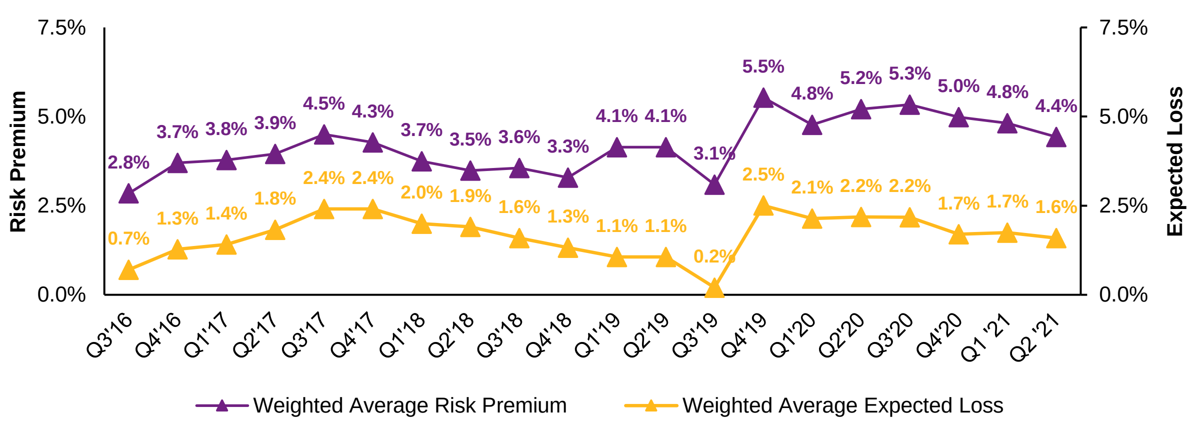
ILS Update

The charts below show the changes in the average risk premium and expected loss for both U.S. wind and non-U.S. wind publicly traded Cat bonds, along with the capacity development of the Cat bond market, and a comparison of the yield on Cat bonds as against two other comparable investment classes.

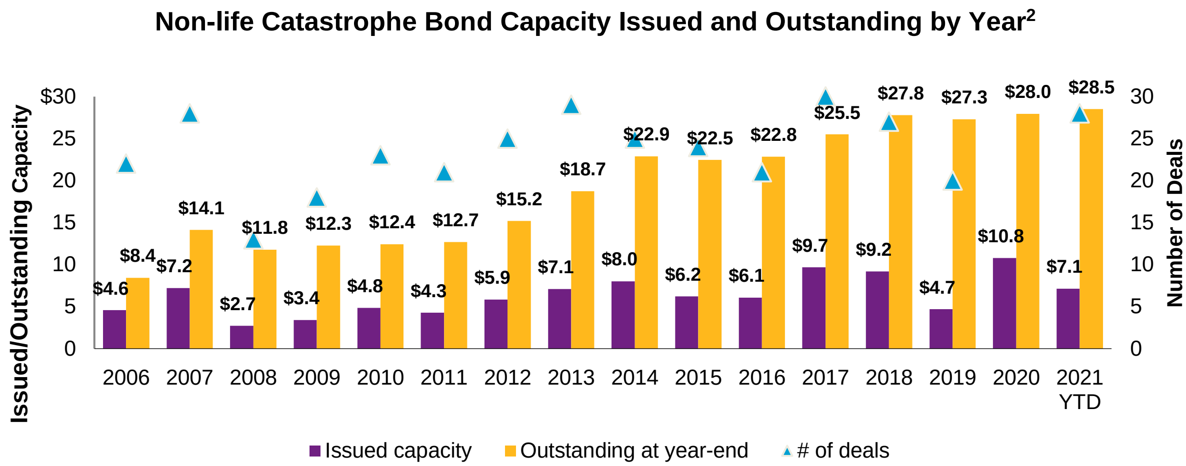
Quarterly Long-term U.S. Wind Exposed Weighted Average Risk Premium and Expected Loss



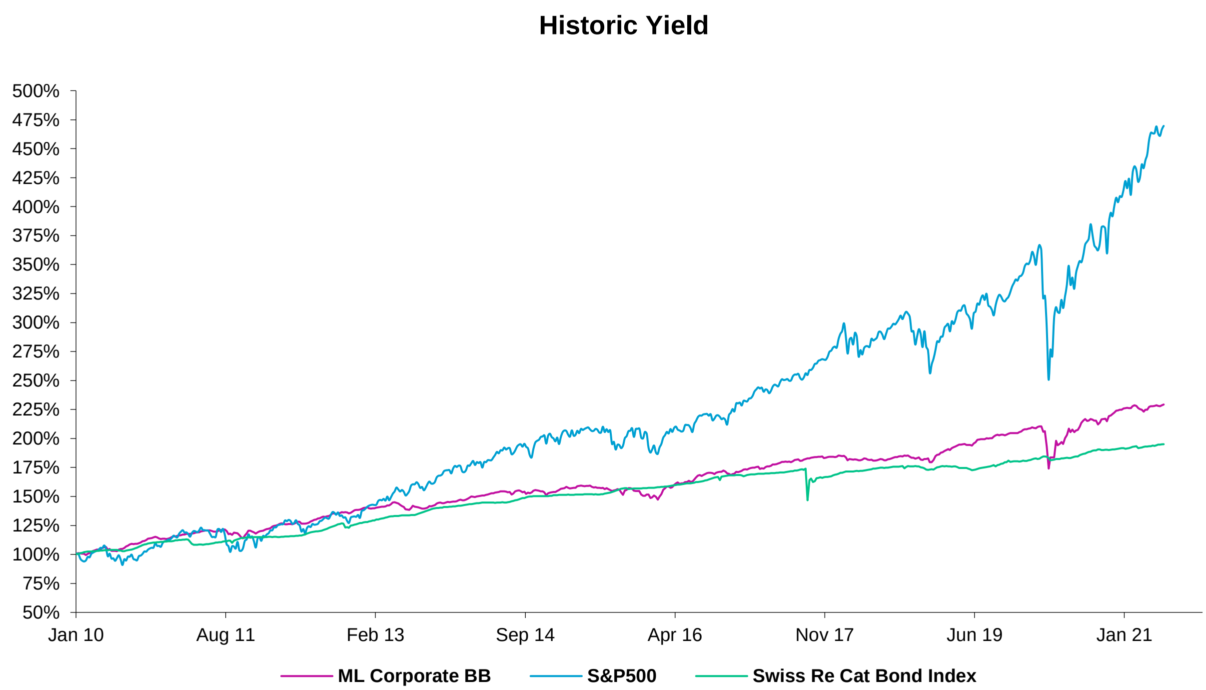
Quarterly Long-term Non-U.S. Wind Exposed Weighted Average Risk Premium and Expected Loss[1]



Source: Willis Re Securities Transaction Database as of 6/30/2021. Aggregate data exclude private ILS deals.
LTM = Last 12 months. Aggregate data are for primary issuance and do not reflect secondary trading.
[1] Note that the sharp decline in Q3 2019 expected loss and risk premium is caused by a lack of non-U.S. wind issuances since Q4 2018. Of those that were issued, size, expected loss and spread were relatively low, causing the drop-off in measurement.



Source: Willis Re Securities Transaction Database as of 7/30/2021. Aggregate data exclude private ILS deals.
[2] All issuance amounts reported in or converted to USD on date of issuance. Outstanding amounts adjusted for actual principal losses.



Global and Local Reinsurance

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