Willis Re 1st View

Contrasting Realities

January 1, 2019

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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: January 1, April 1 and July 1. In addition to real-time eVENT Responses, our clients receive our daily news brief, *The Willis ReView*, as well as our global industry reports:

The Reinsurance Market Report is a biannual publication providing in-depth analysis of the size and performance of the reinsurance market. Analysis is based on the Willis Reinsurance Index group of companies. The report is issued in April covering full year results, and September covering half year results.

The Global Risk Appetite Report outlines the findings from our global survey of over 250 insurance companies worldwide. The report gives insight into global reinsurance and purchasing trends.

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Contrasting Realities

In the immediate aftermath of the major losses in 2017, many observers felt that the measured reaction of the reinsurance market was a clear sign of a changing structure and maturity; others, meanwhile, more cautiously suggested that time was needed to properly assess the impact of the 2017 events. The first half of 2018 produced a modest level of natural catastrophe losses at USD20 billion, well below the 10-year average. Unfortunately, the second half has seen losses exceed the 10-year average, with insured catastrophe losses for the full year 2018 well in excess of USD70 billion. 2017 loss creep, notably from Hurricanes Irma and Maria, and an increase in large losses from non-catastrophe risks has further impacted results, exposing the continued marginal returns in a number of lines and the struggle to achieve sustainable profits.

The ILS market is facing a more comprehensive test, as higher returns post-2017 losses did not materialize as anticipated.

Unlike prior cycles where reinsurance informed primary market pricing some primary lines are seeing significantly larger rate increases than is the case with treaty reinsurance business. Adjustments to many carriers' portfolios, which started to be initiated 12 months ago, have taken on an increased urgency with a number pulling out of unprofitable lines completely or seeking to implement more aggressive rate improvements on underperforming lines. The well-publicized actions of Lloyd's targeting the bottom decile performers have gained widespread publicity but, in reality, this response is in line with less public actions by others.

The Insurance-Linked Securities (ILS) market is facing a more comprehensive test as higher returns post- 2017 losses did not materialize as anticipated. Furthermore, additional capital has been trapped from the aforementioned loss creep. While most of the 2018 losses have emanated from well-known perils such as U.S. Hurricane, Japan Wind, Flood and Earthquake, the secondary peril of Wildfire has again generated substantial losses. Some ILS products, most noticeably aggregate catastrophe and retro covers, have performed poorly for investors, thereby resulting in less available capital— although this is balanced by other ILS products that have continued to deliver acceptable returns. The variation of individual ILS funds' exposures to different product types is starting to impact the ability of many funds to attract new investors. However, as outlined in our recent Willis Towers Watson Global ILS survey, this is likely to be a challenge that the industry overcomes, as the long-term interest in ILS, particularly from pension fund managers seeking diversification, remains robust.

When releasing our Global ILS survey, we highlighted a growing divergence in the intent of (re)insurers to utilize ILS capacity and that the trust language supporting collateral will need to continue to evolve to match client expectations on the "promise to pay" as well as supporting a developing ILS product demand. The funds with longstanding and successful track records, consistent and well-regarded management teams, and flexible trust language and/or fronting agreements are the ones best equipped for success. Renaissance Re's recent announcement of a new rated vehicle matching pension fund capital shows that ILS investor interest remains as the market continues to evolve to match client needs and demand.

January 1, 2019, placements have highlighted the gap between pricing for accounts with peak peril exposures and/or poor loss records, and those with good loss records and/or non-peak exposures. The quality of the client counterparty is a significant factor in risk selection by many reinsurers. Notably, European property catastrophe renewals that benefit both from good loss records and a disciplined early renewal process have been able to achieve some risk-adjusted rate reductions, and similarly in the U.S., reinsurers' support for the "preferred" clients is evident in relatively muted renewal pricing on non-loss-impacted business. Buyers who delayed their approach to market in the hope of achieving better prices have found that, for the first time in a number of years, this tactic has not been successful. As 2019 pricing unfolds, the mid-year renewals may help to answer the longstanding question over how much impact the retro market has on first-tier reinsurance property catastrophe pricing levels.

Within this changing market there have been instances of substantial increases in the premium volumes being ceded by large primary carriers who are reversing recent strategies to increase retentions, most notably with some new large pro rata cessions particularly for long-tail lines. For reinsurers, the terms of some of these treaties are proving more favorable with lower ceding commissions, mainly driven by technical pricing corrections following deteriorating loss experience, enhanced by a dynamic of original rates moving upward. For buyers, the continuing attraction of the reinsurance market is clear: The financial strength and client-centric flexibility of major reinsurers is key to risk management strategies as buyers consolidate long-term partnerships to achieve the goal of dampening earnings volatility.

James Kent, Global CEO, Willis Re
January 1, 2019

Property

Commentary grouped by territory

Asia

- Pricing competition remains robust across Asia. Loss-free programs are seeing risk-adjusted pricing between -2.5% and -10%. A number of programs are showing slip premium reductions.
- No shortage in excess of loss capacity, even for programs that are priced below indicated modeled technical prices.
- Proportional pricing is firmer across the region, with the exception of China, where commission increases have been sought and achieved in a number of high profile placements.
- Catastrophe event limits now range from 1 x risk limit/treaty capacity to up to 5/6 x risk limit/treaty capacity, depending on territory. The average event limits fall around 2.5 x risk limit/treaty capacity.
- Major reinsurers continuing to display segmentation discipline across their client base.

Australia

- Most reinsurers are taking a client-by-client approach, with a focus on supporting key relationships. Differences in cedants' historical buying philosophies are being recognized by reinsurers.
- Risk selection and portfolio management are important considerations, and those clients with demonstrably better portfolios and greater transparency are able to achieve more positive reinsurance outcomes.
- Reinsurer pricing pressure on loss affected layers.
- Some reinsurers looking to grow relationships with key clients, others starting to reduce capacity where rates are perceived to be inadequate. Overall, plentiful capacity remains available.

Canada

- 2018 property business in Canada was impacted primarily by frequency-driven losses; these losses are mainly attributable to wildfire and wind events across Western Canada.
- In general, per risk programs have experienced adverse results in 2018; particularly lower layers of programs. Reinsurance pricing is fragmented and dependent upon the experience of individual programs and layers of programs.
- Property catastrophe program results varied by cedant. Reinsurance programs experiencing losses were largely attributable to wind and wildfire events across Western Canada.
- Driven by ample capacity, property catastrophe reinsurance pricing has been generally stable year-over-year.
- Gross of reinsurance, industry combined ratios for property lines are expected to exceed 100% in 2018.

Caribbean

- Original rates have increased in loss affected territories to varying degrees.
- Original rates in loss-free territories have stabilized and decreased in some cases.
- There is more reinsurer turnover on programs as reinsurers are prepared to walk away or pull back capacity on programs they perceived as uneconomical; however, there is still enough capacity to make up the shortfalls.
- There has been material adverse development of Hurricane Maria claims in Puerto Rico.
- In general, programs are renewing at risk-adjusted flat rates; however, programs with 2017 catastrophe losses are under pressure for further increases.

Central and Eastern Europe

- Catastrophe placements continued with a downward pricing trend.
- Plentiful supply of capacity from reinsurers worldwide. Central and Eastern Europe are still seen as a diversifying opportunity for number of reinsurers.
- Per risk placements were dependent on loss experience: Loss-free placements generally popular with soft pricing, loss-impacted programs more challenging.
- Pro rata programs continued with stable conditions.

China

- Generally, cedants achieved increases in commission on their property treaties.
- Reinsurers reduced their capacity on lower catastrophe excess of loss layers.
- Clients are becoming more sensitive to reinsurers' financial security ratings.
- No new reinsurers were set up in China this year and domestic capacity remains stable.
- Reinsurers showing more focus on their own profitability.

Europe-wide

- Given the benign 2018 European catastrophe year, pressure on rates reemerged and gradually built up since the Monte Carlo Rendezvous in early September.
- 3rd/4th quarter 2018 international cat losses didn't impact European catastrophe pricing
- Brexit uncertainties impacted placements and resulted in a marginal shift of reinsurer panels, with Lloyd's losing market share in some limited cases.
- Retro market disruptions and trapped collateral played no visible role in reinsurers' capacities provided and pricing offered.
- Numerous reinsurers of all sizes deliberately positioned themselves for growth in European Natural Catastrophe, readjusting their more moderate risk appetites for this class from 12 months ago.

France

- Compared with last year, the market has adjusted its approach, showing increased appetite/more capacity early in the renewal process; very few reinsurers have decreased their written capacity.
- Quotes have been very close to the final terms compared to last year.
- Tier one reinsurers have been clearly more present this year than last year offering increased capacity and also entering new programs.
- Brexit a real concern for many clients asking UK based reinsurers for their "plan B" in the EU.
- Per risk programs have been affected by numerous losses, with experience rate-based quoting leading to risk-adjusted increases.

Germany

- Noticeably increased reinsurer appetite for German business — non-U.K. reinsurers actively tried to gain from Brexit uncertainties and offered increased lines.
- Due to local regulation, the impact of Brexit was felt more substantially in Germany than in other territories with significant capacity moved away from UK based reinsurers
- Windstorm Friederike, a January 2018 catastrophe loss, hit some cat programs, but mainly remained within the first layers. Reinsurers' results thus mostly balanced or still positive.
- Still a soft market environment for Germany.
- After a benign 2017, 2018 saw a return of significant risk losses — insurers were affected unequally, some suffered severe losses with reinsurance programs responding.

Indonesia

- There is no shortage of capacity in the market as reinsurers look to grow their Indonesian portfolios.
- Soft market conditions remain, with risk-adjusted reductions being given even on loss affected programs.
- Original market profitability remains a concern following the recent losses, although rate changes are expected along with capping of acquisition costs to help address the underlying profitability issue.

Italy

- Catastrophe programs are generally loss free, but there is increasing concern from reinsurers following the series of atmospheric events, which occurred in October/November 2018.
- 2017 atmospheric events were advised last year before and during the renewal, more official figures released showed a deteriorating trend.
- Retention levels were generally unchanged, but substantially more capacity at the top end of programs purchased for Solvency 2 purposes (about Euro 1.5 billion estimated at market level).
- Underlying exposure growth drove increased reinsurance premium spend, even if risk-adjusted reductions were substantial.
- Aggressive cedants' behavior resulted in reduced over-placements.
- More natural catastrophe quota shares in the market for Solvency 2 purposes and increased selling of natural policies (especially for residential segment).
- Most risk programs are loss-affected this year.
- A major insurer's renewal was influenced by the Genoa Bridge loss, potentially the largest property risk loss in the Italian market.
- Increased per risk retention levels driven by loss activity and overall program sustainability.

Korea

- Competition for Korean business remains strong with plenty of capacity available.
- Risk-adjusted reductions seen across the board on all classes of business.
- Even where leadership changes have occurred, placement was smooth.
- No meaningful change to contractual conditions and/or exclusions.

Latin America

- Generally flat renewal with some instances of minor risk-adjusted reductions.
- Chilean Mortgage Catastrophe programs are the exception, ranging between high single-digit to double-digit increases dependent on capacity need.
- Some markets have reduced their Latin America capacity, but there is still enough capacity generally available.
- Regulatory changes in Colombia with regard to catastrophe models effective January 2019 have resulted in some different buying strategies.

Middle East

- Capacity from regional reinsurers has been a major issue during this renewal.
- Pro Rata Treaty conditions have seen limited improvement for cedants who have been producing stable margins over a period.
- Excess of loss pricing has once again come under pressure and cedants have achieved reductions.
- The Direct & Facultative market in the region has seen major movements with capacity withdrawing. Pricing movements in the underlying Direct & Facultative market for property classes have witnessed substantial increases for large risks where placements are capacity driven.

Netherlands

- Windstorm Friederike affected some catastrophe programs but had very limited impact on rating levels.
- On loss-free programs, further reductions were achieved.
- On loss-affected programs, new capacity was keen to offer shares to take up any shortfall in existing reinsurers reducing their participations
- In view of growth of underlying portfolios, many cedants increased the limits of their programs buying additional top layers.

Nordic Countries

- Following a turbulent 2017 in terms of global natural catastrophe losses, and despite several global natural catastrophe losses in 2018, the appetite for Nordic property reinsurance remained very high.
- AIR released a new model version, which impacted some markets' view of risk and, consequently, appetite for the Nordic region.
- Following the slight price increases of 2018, the 2019 renewal was back to a negative trend and this, together with uncertainty around retro capacity and pricing, led a few reinsurers to downsize or pull out.
- As there were no major weather-related events across the Nordic region, catastrophe programs largely remained loss free and prices ended up around -4.5% risk-adjusted.
- Another year of many midsize risk losses that impacted property per risk and pro rata treaties have led to a more diverse view of appropriate pricing levels.
- Reinsurers' continued appetite for proportional reinsurance mirrors the strong performance of the primary market in recent years. Demand is reducing, however, and cedant focus is shifting away from capacity requirement towards capital management.

Switzerland

- Swiss clients communicated clearly at Baden-Baden what their expectations were for the coming renewal. Timing was very similar to the year before.
- Reinsurer interest in Swiss business remains high and unchanged from previous years; no sign of reduction in capacity available for cedants.
- 2018 was another loss-free year Swiss buyers.
- Cedants again sought increased levels of earthquake reinsurance for 2019. Some reinsurers now no longer able to offer additional aggregate capacity for this peril.

Turkey

- Gradual trend of weakening Turkish lira accelerated in mid-2018 causing some redundancy of Euro limit and punitive minimum deposit premiums.
- 2019 market purchase (in Euros) significantly reduced, but firm pricing continued from 2018.
- Late-developing 2017 hail claim impacted lower layer pricing. Partially offset by real (in local currency) attachment points rising.
- Proportional renewals stable despite given income expressed in local currency and limits in Euros.

United Kingdom

- Trends and themes broadly consistent with 12 months ago.
- Capacity remains abundant, although some reinsurers are showing less flexibility where reliant on retro.
- Most favorable terms are typically reserved for those that are showing growth in exposure and premium income.
- Purchasing behavior generally stable, but there is increased focus on earnings protection, with some cedants buying more low layer catastrophe, risk and/or aggregate limit.
- Despite rate reductions on risk excess of loss programs, reinsurers showed a greater focus on the performance of commercial portfolios.

United States — Nationwide

- Dislocation in the ILS and retro markets contributed towards the lateness of the U.S. renewal season.
- Reinsurers quoted substantial increases for loss affected layers, although select programs completed with much smaller increases.
- Some reinsurers, particularly in London, non-renewed business with risk-adjusted rate decreases; however, capacity remains abundant and programs were completed with a turnover in the reinsurance panel.
- Programs affected by wildfires are seeing the largest increases, as reinsurers are recognizing the importance of what had till now been considered an ancillary peril in many programs. Wildfire occurrence definitions have also become a focal point of negotiations.

Vietnam

- Proportional reinsurance continues to dominate in Vietnam.
- Poorer performing treaties received lower reinsurance commissions.

- Major leaders tried to introduce loss participation clauses, but were met with heavy resistance from cedants.
- Some changes in leaders but following capacity remained intact.

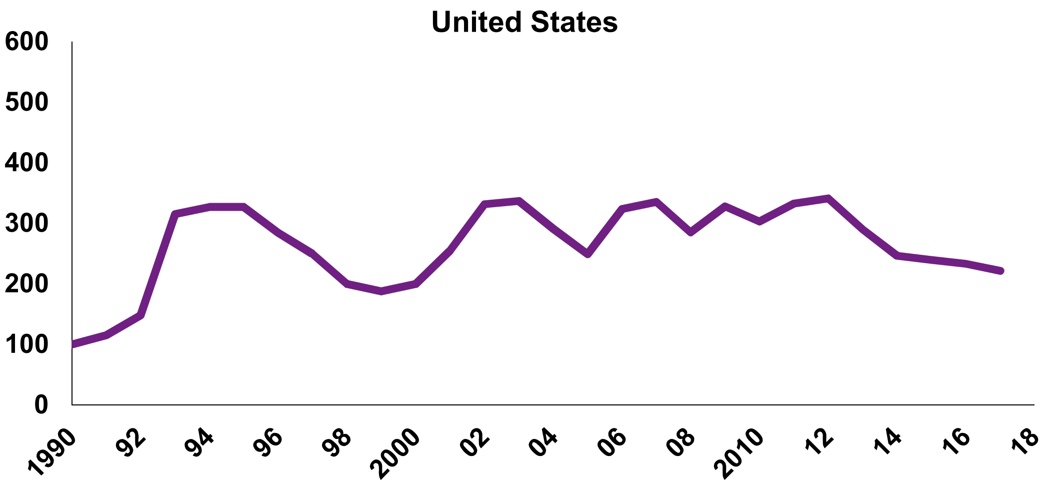
Property rate movements

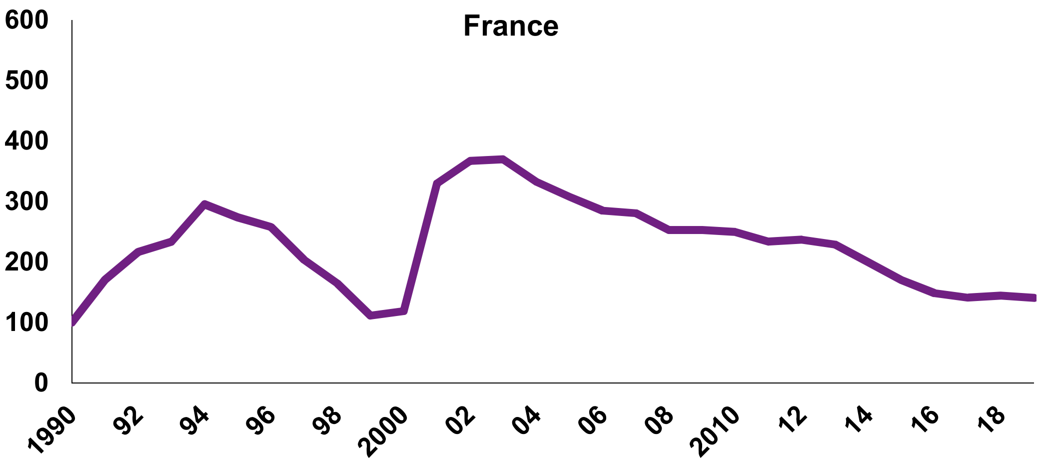
Territory	Pro rata commission	Risk loss free % change	Risk loss hit % change	Catastrophe loss free % change	Catastrophe loss hit % change
Asia	-1% to 0%	-10% to -2.5%	0% to +2.5%	-10% to -2.5%	0% to +2.5%
Australia	Varies	-1% to 0%	Varies	-1% to 0%	Varies
Canada	-2.5% to +5%	-5% to 0%	+5% to +10%	-2.5% to 0%	+5% to +10%
Caribbean	0%	-5% to 0%	0% to +5%	0%	0% to +10%
Central and Eastern Europe	-1% to +1%	-6% to -2.5%	+2.5% to +7.5%	-7.5% to -2.5%	N/A
China	-2% to +1.5%	-10% to 0%	Varies	-10% to -5%	-10% to +10%
Europe	N/A	-5% to 0%	0% to +10%	-5% to 0%	N/A
France	N/A	-3% to 0%	+5% to +20%	-5% to 0%	N/A
Germany	0% to +1%	-5% to 0%	Varies	-5% to -2.5%	-2.5% to 0%
Indonesia	-2% to +2.5%	N/A	-6% to -3%	N/A	-3%
Italy	N/A	-5% to 0%	-5% to +5%	-15% to -5%	-5% to +5%
Korea	N/A	-10% to -5%	N/A	-15% to -5%	N/A
Latin America	0%	-5% to 0%	0% to +10%	-5% to 0%	N/A
Netherlands	-0.5% to +0.5%	-5% to 0%	+5% to +10%	-5% to -2.5%	-5% to 0%
Nordic Countries	Varies	Varies	Varies	-6% to -3%	N/A
Switzerland	N/A	-5% to 0%	0% to +5%	-4% to 0%	N/A
Taiwan	N/A	-5% to 0%	-2% to +10%	-10% to -5%	N/A
Turkey	0%	0%	N/A	0% to +10%	0% to +20%
United Kingdom	N/A	-5% to 0%	0% to +10%	-7.5% to -2.5%	-2.5% to 0%
United States — Nationwide	-10% to 0%	-2.5% to 0%	0% to +10%	-2.5% to +5%	+5% to +20%
Vietnam	-3% to 0%	-15% to -7.5%	N/A	-15% to -7.5%	N/A

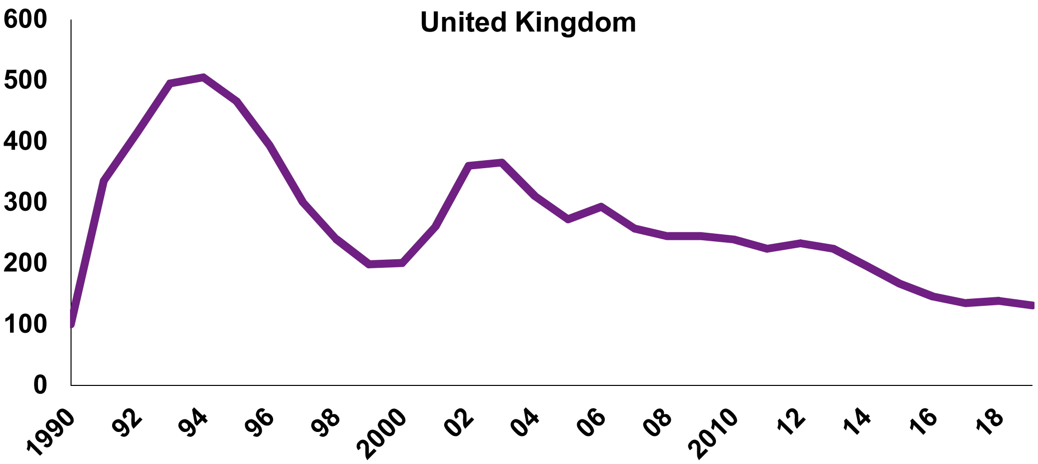
Note: Movements are risk adjusted.

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.



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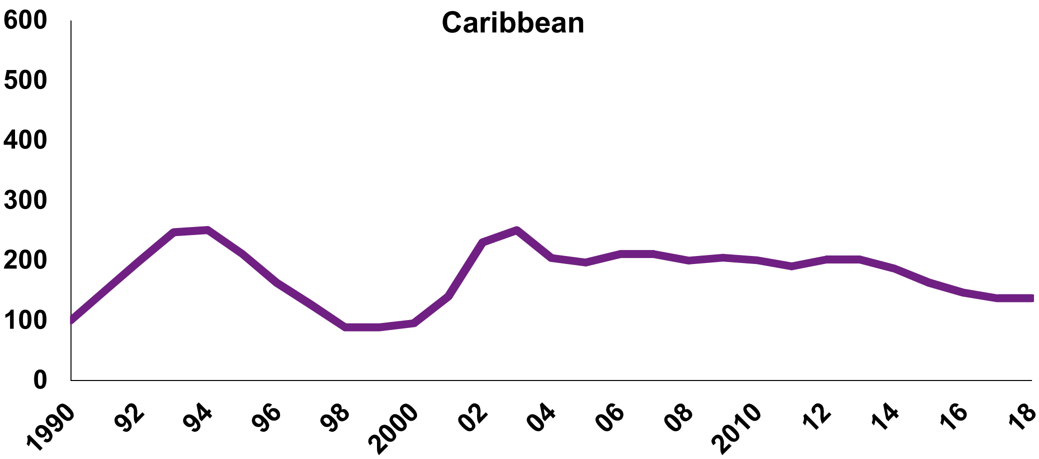
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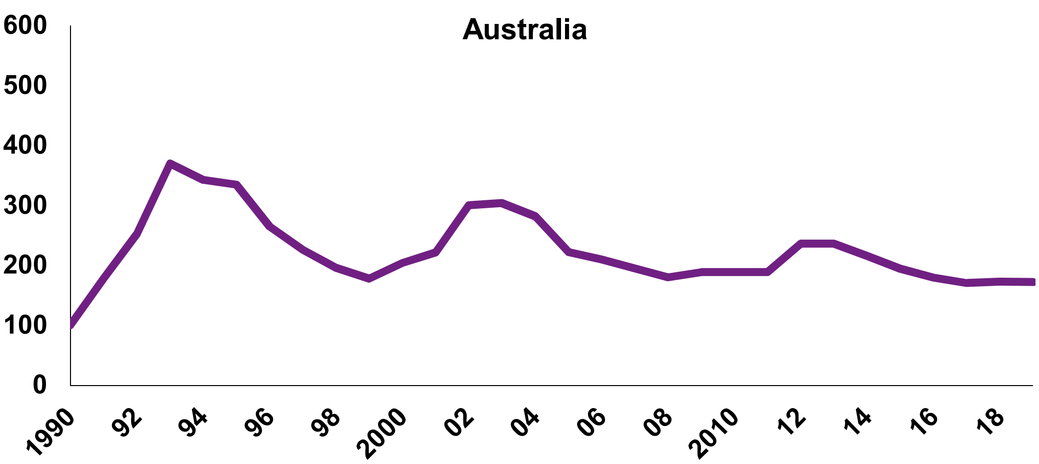
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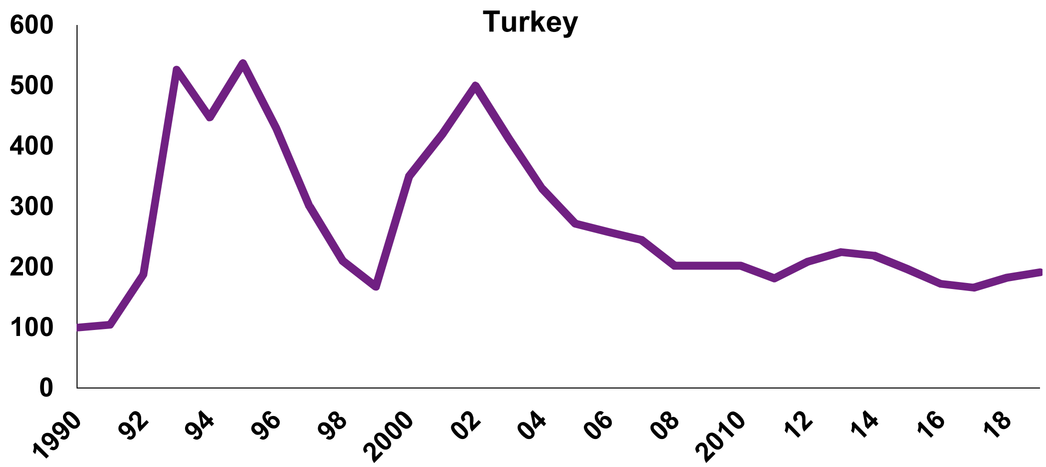
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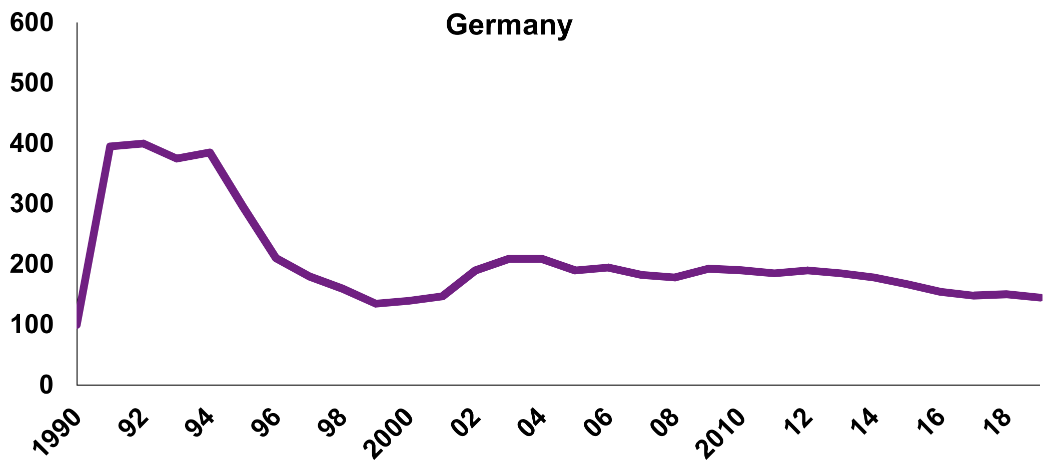
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Casualty

Commentary by territory

Australia

- Most reinsurers were keen to maintain existing relationships and were even able to accommodate flat to very small risk-adjusted rate reductions for well-performing businesses.
- Reinsurers were more prepared to push for rate increases on accounts that suffered loss development; however, abundant casualty capacity kept rate increases broadly contained.
- Some reinsurers demonstrated appetite to grow with key target clients, which more than offset any perceived shrinking of the casualty reinsurance market in London.
- Buyers continued to analyze the casualty systemic and accumulation risks within their portfolios. Reinsurer appetite continues to meet buyer requirements.

Canada

- Broadly, the Canadian casualty market has continued its run of profitability through 2018.
- Reinsurer appetite for casualty-related lines of business remains favorable as reinsurers seek to balance their largely overweight property portfolios, leading to a favorable impact on the supply / demand dynamic for buyers.
- Any property reinsurance pricing pressure being driven by property losses has not translated into risk-adjusted rate increases to the Canadian casualty market.

China

- Reinsurers have become more cautious on Litigation Property Preservation Liability.
- Clients are becoming more sensitive to reinsurers' financial security ratings.

Europe — Motor Liability and General Liability/Employer Liability/Professional Liability

- In the run up to the renewal season, reinsurers were very firm in their desire to increase pricing on long-tail accounts.
- Once in the renewal season, it became clear that their resolve was not maintained.
- There have been a few reinsurers that have been prepared to walk away, but surplus capacity has meant placements have been completed relatively easily.
- Firm order terms are generally down on a risk-adjusted basis.
- The exceptions seem to be a few regions, territories and lines where loss experience required a market correction, e.g., Central and Eastern Europe, the Netherlands and unlimited layers in France.

France — Motor Liability and General Third Party Liability

- As with most of European territories, France is also showing a modest decrease.
- Some specific unlimited Third Party Motor Liability programs have shown firm order increases up to +5% due to loss deterioration and increased loss frequency.

International — General Liability/Employer Liability/Professional Liability

- Reinsurance capacity levels have remained stable in the International Casualty market outside the London market.
- Demand of Casualty reinsurance has risen as buyers look to rebalance portfolios to optimize capital usage.
- Several new or restructured programs have been purchased over the past 12 months.
- Pricing levels have remained relatively flat, with no major changes in coverage other than a continued push to carve out cyber exposure.

Italy — Motor Liability

- Increased exposure driven by change in minimum regulatory limits.
- Reinsurers paying more attention to tanker, bus and truck exposures.
- Significant oil tanker market loss occurred in August 2018 but remains an insurance event only marginally impacting reinsurance treaties.
- Original rates are now more stable and companies are generally achieving their budgets.
- Start-ups and smaller players are struggling to grow and gain market share.

Italy — General Third Party Liability

- Growing personal lines books.
- Industrial and large commercial exposures are not a loss-making concern to date, with moderate policy limits typical offered.
- Concerns around leading markets in the medical malpractice sector and potential disruption on the horizon.
- Run-off reinsurers very active in the market buying closed books.
- Professional Indemnity: Some cases of limit increase to respond to market offering.
- Directors and Officers books still very limited and in the hands of few specialized players with ad hoc proportional protections.

Korea — Motor Liability

- Pricing competition remained strong.
- Loss-free programs seeing up to -10% risk-adjusted reductions.

Lloyd's and London Market

- Lloyd's profitability review has had an effect on pricing and structuring of London market casualty programs to varying degrees.
- Where business plans have changed significantly, many cedants have chosen to restructure to better align reinsurance programs to their go forward underwriting strategy.
- Overall pricing has moderately risen, however, reinsurers have differentiated pricing of well performing programs by quoting flat or in rare cases risk-adjusted rate decreases.

Middle East

- Renewals for Motor and other casualty classes has been stable with no major movements.

Netherlands

- The reinsurance market is developing a less favorable view on Dutch Motor Third Party Liability business.
- This is caused by negative development on old years, as well as concerns of the low retentions run by numerous Dutch companies.
- However, the degree of adjustment differs significantly between reinsurers and as such the rate increases have been limited.
- Most companies continue to buy one combined treaty for Motor- and General Third Party Liability, with Motor considered the main driver of exposure movements.

United Kingdom — Motor

- Following on from a year of significant pricing increases precipitated by the Ogden rate change in Q1 2017, the U.K. motor market for excess of loss has moved into calmer waters. There has been no further change in the Ogden rate to trigger a revision in reinsurers' pricing approaches, and market pricing sentiment has been coalescing around an assumed discount rate that is positive but still lower than the original starting point of +2.5%.
- Given that the new Ogden discount rate announcement is anticipated in Q2 2019, there has not been a dramatic influx or exit of reinsurance capacity from the excess of loss market, although at least one major reinsurer has significantly reduced their support.
- Cedants have seen excess of loss pricing with a baseline of risk adjusted flat, but pricing is highly dependent on individual portfolio characteristics; most important is loss development, but changes in the composition of the book and the degree of increase in original pricing are also considered.
- Quota share capacity remains in reasonably plentiful supply, with reinsurers focusing on the terms of sliding scale commissions; margins, for the most part, remained flat.

United States — Cyber

- Heightened interest from cedants in coverage for silent cyber.
- Underlying experience remains profitable in absence of systemic loss events.
- Cedants continue to prefer stop loss for transferring systemic exposure given difficulties in defining cyber event.

United States — Professional Liability

- On quota share renewals, terms ended up flat to down -2%. Reinsurers initially pushed for more significant decreases and settled to lower pricing at the firm order stage.
- Excess of loss pricing continues to remain stable without the same market pressure given that deals are less directly comparable.
- There have been a number of new deals in the market that are typically achieving lower ceding commissions than longstanding deals.Transactional Liability business is the exception and continues to garner superior terms in the market.

United States — General Third Party Liability

- Reinsurance capacity is generally stable on the whole, with increased appetite from certain reinsurers offsetting others' reduced appetite.
- Certain reinsurers are taking the view that increased pricing on original insurance business is outpacing loss trends, meaning that the 2019 accident year will be better than 2018 for the industry.
- Other reinsurers are taking the view that insurance rate increases are barely keeping up with trend, taking a negative view based on a retrospective analysis of older accident years. This perspective shows actual loss emergence above expectations.

United States — Health Care

- Renewal terms on health care liability placements have remained stable on programs that have consistent loss experience year over year.
- Reinsurance pricing has increased on programs where loss experience has deteriorated, although placements have been completed at rate increases less than technical indications suggest.
- Ceding commissions are being scrutinized by reinsurers and have been reduced on loss affected programs.
- General market conditions have proved more challenging than past years, although broad reinsurance support remains for health care liability lines.

United States — Motor Liability

- Primary carriers continue to push rate increases to combat rising frequency and severity trends.
- Personal auto carriers are still experiencing elevated claim frequency likely driven by distracted drivers; bodily injury severity trends are on the rise.
- Downward pressure on ceding commissions where reinsurers' full margins were not earned.
- Excess of loss rates varied depending on individual program loss experience; capacity remains stable.
- Overall, reinsurers' interest in supporting auto (pro rata and excess) continues to rise, driven by primary rate increases.

United States — Workers' Compensation

- We view workers' compensation reinsurance as two distinct markets. These are the working layer market and the catastrophe market.
- The working layer markets are single-life exposed and pricing established by actuarial weighting of exposure and experience rates. Historically, this capacity was up to the first $10 million of limit, although in recent years this is arguably capacity up to $20 million.
- Pricing in the working layer market has increased by single-digits as reinsurers have tried to offset primary rate decreases, but also in response to increased frequency of large claims.
- The catastrophe market has moderately stiffened with reinsurers trying to hold the line on pricing, although the market did experience some decreases.

Casualty rate movements

Territory	Pro rata commission	XL — no loss emergence % change	XL — with loss emergence % change
Australia	0%	-2.5% to 0%	0% to +5%
Canada — Motor Liability	0% to +3%	-10% to -5%	0% to +5%
China	N/A	-25% to -10%	-15% to -5%
Europe	N/A	-5% to 0%	+5% to +15%
France	N/A	-5% to 0%	0% to +10%
International — General Liability/Employer Liability/Professional Liability	-1% to 0%	-2.5% to 0%	+2.5% to +5%
Italy — Motor Liability	N/A	-5% to 0%	0%
Korea — Motor Liability	N/A	-10%	N/A
Lloyd's and London Market	-1% to 0%	0% to +5%	+2.5% to +10%
Netherlands	0% to +0.5%	-5% to +5%	+2.5% to +7.5%
United States — Cyber	0% to +1%	N/A	N/A
United States — General Third Party Liability	-2% to 0%	-3% to +3%	+3% to +10%
United States — Motor Liability	-4% to 0%	0% to +10%	0% to +10%
United States — Professional Liability	-2% to 0%	-5% to 0%	0% to +5%

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 — Health Care	-4% to 0%	0%	+2.5% to +22%	N/A	N/A
United States — Workers' Compensation	-2% to -1%	+3% to +5%	+5% to +10%	-3% to 0%	N/A

Notes: Movements are risk adjusted.

For workers' compensation risk layers are working layers that include single claimant coverage are actuarially priced and based on both exposure and experience; catastrophe layers that commonly require two or more claimants in the same loss occurrence are primarily priced based on capacity charges.

Specialty

Commentary by line of business

Global — Aerospace

- After many years, the direct aviation market is seeing rating improvements on all business lines.
- Rating increases have been particularly evident on the airline account, with even the best performing accounts experiencing single digit increases.
- The General Aviation segment is also experiencing a significant change in direction, following the withdrawal of some markets from the class.
- General excess of loss pricing has again been subject to a very modest degree of risk adjusted softening as capacity supply greatly exceeds buying demand.
- Given the pricing improvements seen within the direct market, buyers are generally benefiting from a reduction in percentage spend.
- Terms and conditions under proportional placements have largely remained unchanged.

Global — Engineering

- In excess of USD 500 million Construction/Erection All Risk capacity has exited the market during the last 12 months.
- Unprecedented loss activity during 2018, including Ituango Hydro at USD1.2 billion: the largest ever construction loss.
- Some global insurers are scaling back their capacity on certain business lines and occupancies.
- Primary market is hardening with 2019 forecast rate increases between +20% and +50%.
- Reinsurance commissions under pressure for loss-affected treaty portfolios.
- Reinsurance capacity is stable to slightly up.

Global — Life, Accident and Health

- Generally, there is a sensible approach from buyers, with low expectations of the type of rate reductions that were seen in prior years.
- Reinsurers are pulling back from medical expense business that has been underperforming.
- U.S. catastrophe and per risk still has an abundance of capacity; however, some reinsurers are tight on California aggregate.
- Lloyd’s business planning has an effect on underlying business.

Global — Marine

- The renewal season was late and placements were bespoke to the needs of each cedant but completed swiftly assuming a fair price.
- Accounts which have performed well achieved reductions, while loss-affected business saw rate increases.
- Signs of increased interest from cedants in aggregate protections.
- There remains considerable and plentiful capacity. In many cases, reinsurers are looking to increase lines in anticipation of an improving marine market both in terms of original rates and other remedial action taken on loss affected lines.

- Pro-rata contracts in general were renewed at expiring commission levels.
- Impact of Lloyd's review of bottom decile reduced available premium volume from Lloyd's market.

Global — Political Risk

- The claim activity and number of monitored situations being reported in 2018 continues to slow, although there are a number of high-profile circumstances that rely on being successfully restructured to avoid loss.
- As in previous years, there remains an abundance of insurance capacity, but less so than in 2018 with some markets reining in their capacity, resulting in price hardening in certain quarters.
- Despite reinsurance capacity remaining sufficiently in excess of demand, excess of loss pricing for non-loss affected renewals continues to be flat.
- Terms and conditions for proportional covers are broadly unchanged.

Global — Trade Credit

- Reinsurance capacity remains strong and treaty panels are stable, reflecting the generally good results from the trade credit insurers, particularly from the global players.
- A backdrop of global economic uncertainty remains; the US - China trade war and Brexit continue to unsettle the markets. Trade credit insurers will need to remain vigilant throughout 2019.
- The high street retail sector is under considerable pressure from reduced consumer confidence and the continued shift in consumer behavior to purchase online. 2018 has seen a number of insolvencies from this sector and the market are anticipating this will continue.
- Export credit agencies continue the trend of using the private reinsurance market to transfer risk.

Insurance-Linked Securities

- Some ILS Investors have repositioned their portfolios to support renewing investments on a preferred basis.
- The portfolio repositioning has created some selling pressure on cat bonds, especially loss-free "dead cat" bonds with maturities before the 2019 hurricane season.
- 2018 loss activity and adverse development from 2017 has caused some ILS Investors to reprice aggregate and quota share structures.
- Collateral release mechanics and fronting alternatives remain top of mind for investors and cedants with respect to private deals, sidecars, and cat bonds alike.

Non-Marine Retrocession

- The renewal has been challenging with a multitude of issues impacting capacity, pricing and terms.
- Wildfire and Hurricane losses in Q4, deterioration of the Hurricane Irma loss (Q3 2017) and Typhoon Jebi loss (Q2 2018) as well as uncertainty around available capacity pushed the renewal later than usual as cedants and reinsurers sought clarity.
- A further year of trapped funds to cover development of 2018 losses has also impaired inflows of capital and capacity from ILS investors for the 2019 renewals resulting in a capacity crunch in the final stages, particularly on aggregate contracts where reinsurers pushed back with increased pricing, higher deductibles and tighter terms.
- The dynamic between traditional reinsurers and ILS markets continues to evolve. For example, for loss-free aggregate layers where cedants have trapped collateral from ILS incumbents, prices

were higher than for loss-impacted occurrence layers where the traditional reinsurers were the incumbents.
- Dislocation between underlying reinsurance pricing and retrocession pricing has increased further year on year.

United States — Medical Excess

- The Medical Reinsurance market continues to experience increases in both frequency and severity of large medical and pharmaceutical claims.
- Specialty drug costs continue to escalate, with no end in sight and several new specialty drugs being approved by the U.S. Food and Drug Administration each year.
- Insurance carriers are pulling back from the Affordable Care Act and Exchange business due to large losses.
- The medical reinsurance market continues to have sufficient capacity and competition.
- There is continued hardening of excess medical reinsurance rates due to continued large medical and pharmaceutical losses.
- There is anticipated growth in Medicare, Medicaid, Provider Excess and Employer Stop Loss lines of business.

United States — Surety

- Price stabilization remains elusive as downward pressure on terms continued.
- With a few exceptions, programs benefited from flat pricing to notable risk-adjusted rate reductions, with variations driven by individual cedant experience and exposure changes coupled with support from long-standing trading relationships.
- Loss-affected programs were required to make economic concessions in order to achieve desired capacity.
- Level of price increases varied depending on loss expectancy, loss history and tenure of reinsurer relationships. Nevertheless, some loss affected treaties renewed with no real sign of genuine rate movement.
- The market maintained a measured and increasingly differentiated approach by providing significant capacity to preferred customers.
- Incumbent reinsurers, under competitive pressure from newer entrants, sought to protect market share with competitive quotes and significant authorizations.
- Net retentions remained fairly stable with some buyers increasing retentions while others sought to purchase additional vertical capacity.
- Non-economic terms and conditions continued to soften.
- The primary market remains hyper-competitive in all segments of the business.
- The overall U.S. Surety industry continued to report strong results through the third quarter of 2018, despite an increase in loss severity compared to the prior year.
- Loss frequency for reinsurers increased as severity is trending higher.

Specialty rate movements

Territory	Pro rata commission	Risk loss free % change	Risk loss hit % change	Catastrophe loss free % change	Catastrophe loss hit % change
Aerospace	0% to +1%	-5% to 0%	0%	N/A	N/A
Engineering	-2% to 0%	0%	N/A	N/A	N/A
Life, Accident and Health	N/A	-5% to 0%	+10% to +20%	-5% to -0%	N/A
Non-Marine Retrocession	0% to +5%	0% to +10%	+15% to +35%	0% to +15%	+20% to +35%
Political Risk	0%	0%	+5% to +10%	N/A	N/A
Trade Credit	0% to +0.5%	0%	0% to +2.5%	N/A	N/A
United States — Medical Excess	0%	0 to +10%	Varies	N/A	N/A

Note: Movements are risk adjusted.

Global and local reinsurance

Drawing on our network of reinsurance and market experts worldwide, and as part of the wider Willis Towers Watson company, Willis Re offers everything you would look for in a top-tier reinsurance advisor, one that has comprehensive analytics and transactional capabilities, with on-the-ground presence and local understanding. Whether your operations are global, national or local, Willis Re can help you make better reinsurance and capital decisions, access worldwide markets, negotiate optimum terms and boost your business performance.

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