



Insurance State of ▶ the Market

September 2023

Agenda

- ▶ Introductions
- ▶ Role of insurance broker
- ▶ Insurance 101
- ▶ State of the Insurance Market Today
- ▶ Questions

Introductions

- ▶ Derek Hammond
 - ▶ CFO, Flaherty & Collins Properties
- ▶ Neil Heider
 - ▶ Risk Management Consultant, MJ Insurance
- ▶ Nicole Zack
 - ▶ Agent, Commercial Compliance Specialist, D&M Insurance Solutions
- ▶ Ryan Flanagan
 - ▶ Executive Vice President, Heffernan Insurance Brokers
- ▶ Pete Romano
 - ▶ National Real Estate Practice Leader, Lockton Companies

Insurance 101 – stabilized properties

- ▶ Types of Coverage
 - ▶ Property & Business Interruption/Loss of Rents
 - ▶ General Liability

Insurance 101 – stabilized properties

- ▶ Factors Impacting Premiums
 - ▶ Quality of Data
 - ▶ Replacement Cost Value
 - ▶ Capturing relevant data - i.e. roof replacement
 - ▶ Timeliness of information
 - ▶ Location
 - ▶ Size (# of buildings, # of stories, etc)
 - ▶ Sprinklered vs non-sprinklered
 - ▶ Construction Type

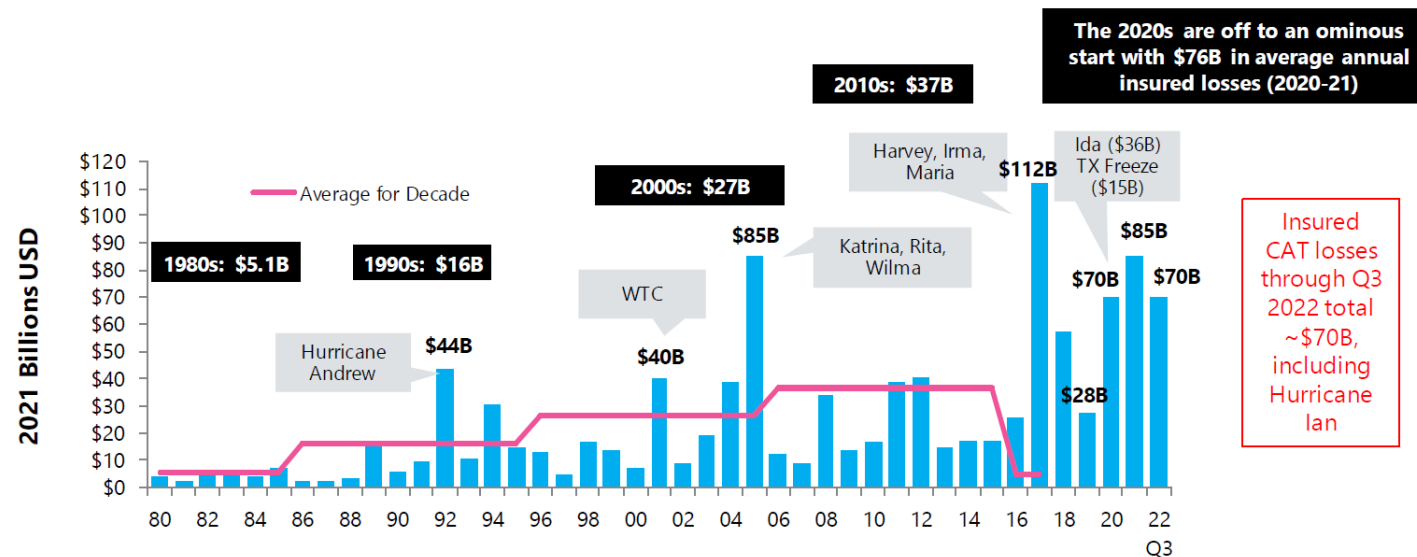
Insurance 101 – stabilized properties

- ▶ Premiums: Function of Total Insured Value (TIV) x Rate
 - ▶ How is rate determined?
 - ▶ Replacement Value - relevant with inflation today
 - ▶ Business Interruption/Loss of Rents
 - ▶ Anticipated gross rents vs NOI
 - ▶ 12 months vs 18 months
 - ▶ Valuation Change + rate change = premium increase

State of the Insurance Market Today

- ▶ How did we get here?
 - ▶ CAT Losses
 - ▶ Pressure on insurance carriers meeting solid returns
 - ▶ Reinsurance Supply and Demand Imbalance

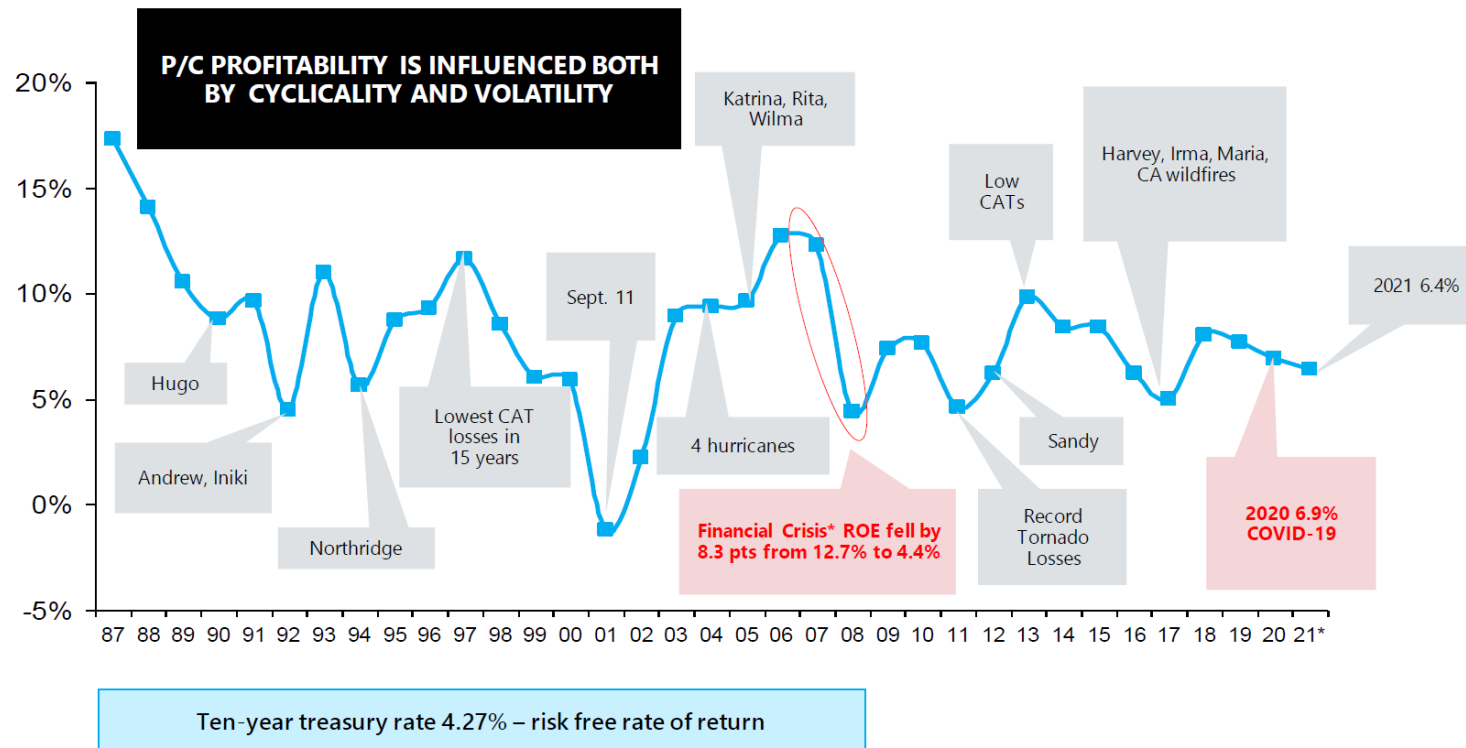
U.S. inflation-adjusted insured CAT losses: 1980-2022: Q3*



*Stated in 2021 dollars except 2022:Q3 (2022 dollars).

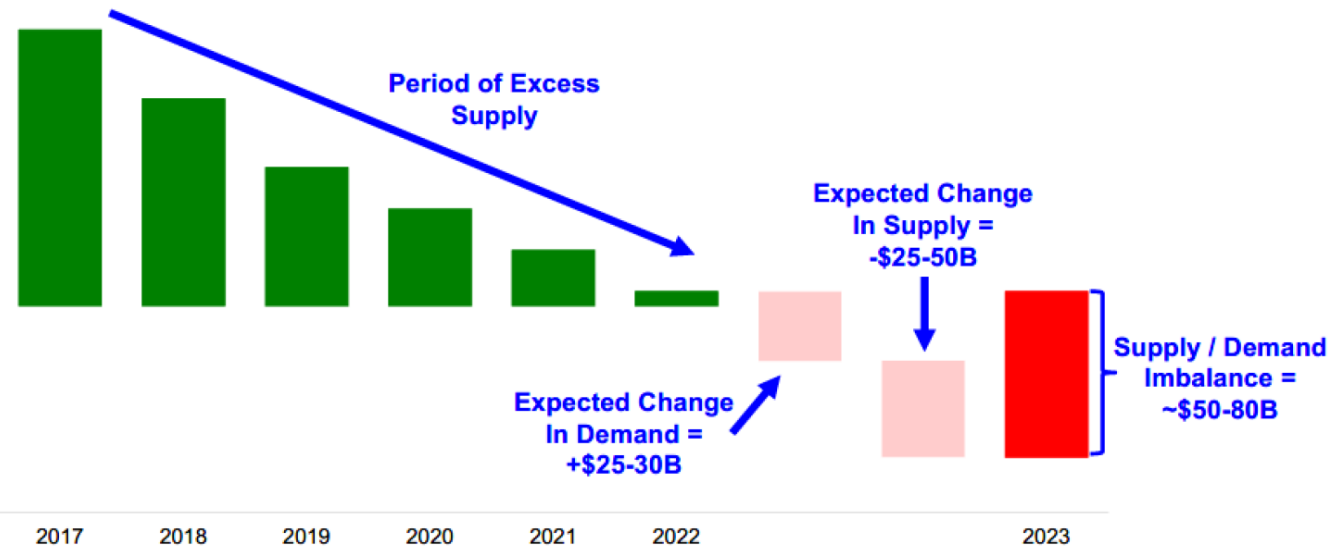
Sources: Property Claims Service, a Verisk Analytics business (1980-2019); 2020-21 figures from Munich Re; 2023 YTD data from Aon; Insurance Information Institute; University of South Carolina, Risk & Uncertainty Management Center.

*ROE: Property/ casualty insurance by major event, 1987–2021**
S&P500 Average ROE 13% vs. Insurance Industry of 6.5%



Reinsurance supply and demand imbalance

Reinsurance is “**Insurance for Insurance Companies**”. It protects insurance companies from very high claims that could impact their capital base and/or solvency. By ceding risk to a reinsurer, an insurer reduces their net liability on individual risk and catastrophe protection.



Higher reinsurance attachment points have caused primary insurers to pay more losses.

State of the Insurance Market Today

- ▶ Exclusions from carriers
 - ▶ Earthquake
 - ▶ Flood
 - ▶ Wind/Hail
 - ▶ General Liability
 - ▶ Assault & Battery
 - ▶ Weapons

State of the Insurance Market Today

- ▶ Alternative program structures to consider:
 - ▶ Property Plus Aggregate
 - ▶ Split Program
 - ▶ Structured Program
 - ▶ Self-Insurance Program (With Front and/or Captive)
 - ▶ Alternative CAT Strategies

Top alternative program structures

PROPERTY PLUS AGGREGATE

- An aggregated deductible that sits above the per occurrence deductible.
- Provides additional risk taking, lower premium with balance sheet protection given that it is an aggregated deductible
- Provides financial upside in "good" loss years.

SPLIT PROGRAM

- Bifurcate program and create multiple towers by occupancy, construction type, geography.

STRUCTURED PROGRAM

- A multi-year and/or multi-line solution designed specifically to address clients' needs by maximizing retained risk, financed risk and risk transfer more efficiently.
- The program provides volatility management and profit sharing for good performance.

SELF-INSURED PROGRAM (WITH FRONT AND/OR CAPTIVE)

- A program where the insured takes a significant self-insured retention using a front or captive to evidence risk transfer.

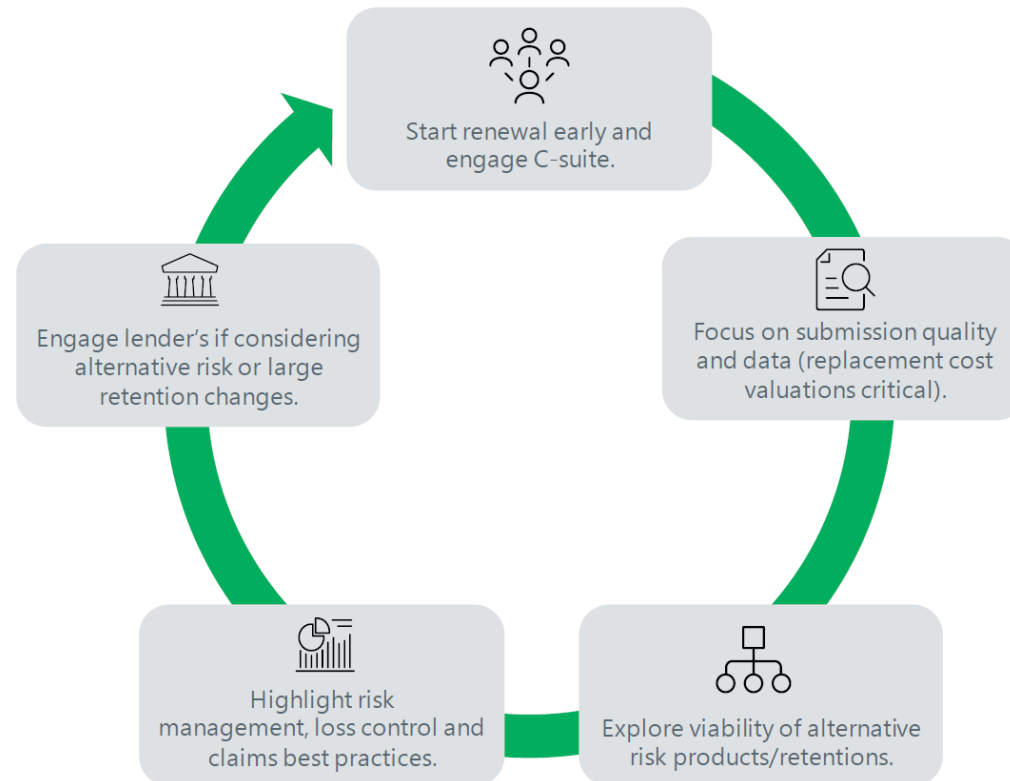
ALTERNATIVE CAT STRATEGIES

- Parametric products are not triggered by loss but rather a defined outcome (e.g., wind speed maintaining 115MPH for 60 seconds)
- Within the property tower or structured standalone to buy-down deductibles or provide capacity

State of the Insurance Market Today

- ▶ Factors Impacting Renewals
 - ▶ Experience with recent renewals
 - ▶ Master policy vs stand-alone
 - ▶ Lender/LPA requirements

How to impact your result



Insurance State of the Market

▶ Questions?