

Introduction to Treaty Reinsurance

Marsh Construction

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1. Purpose and parties
2. Types of reinsurance
3. Reinsurance market & typical treaty coverage

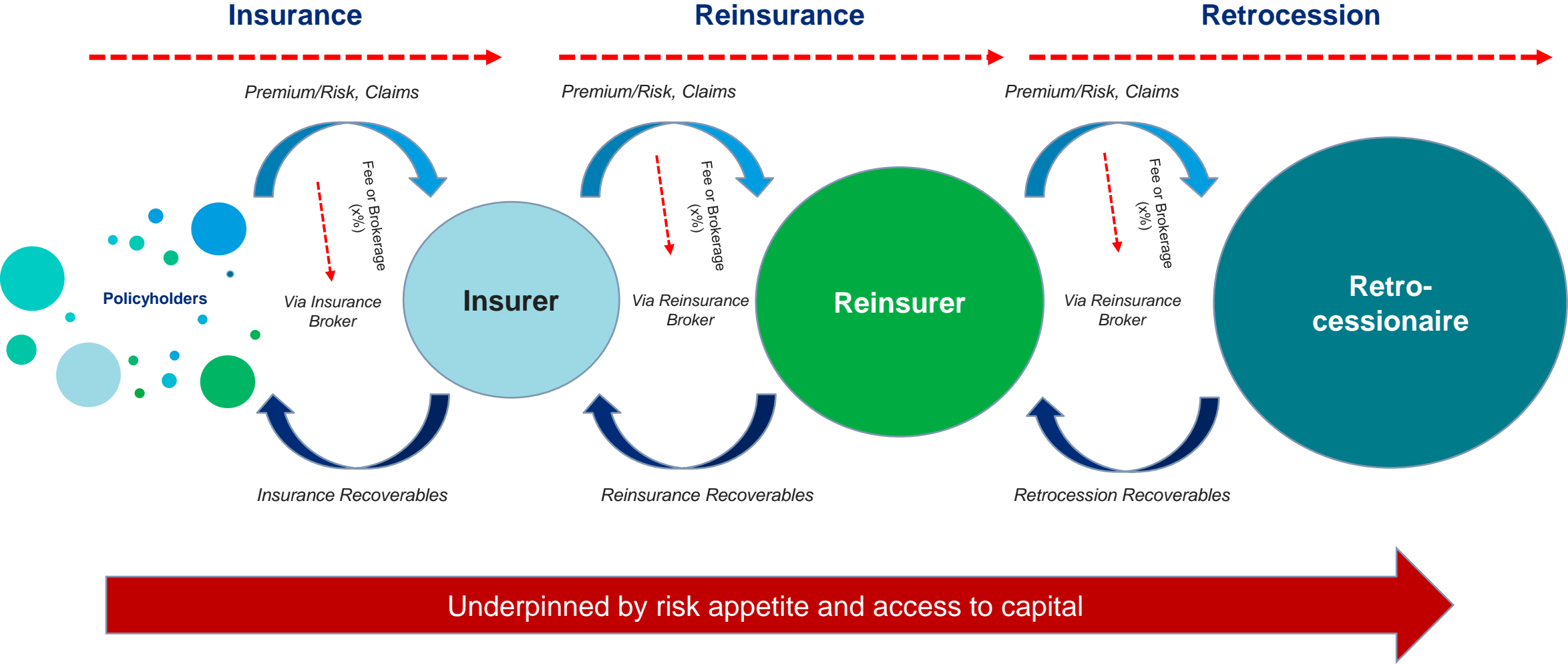
Agenda

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Purpose and parties

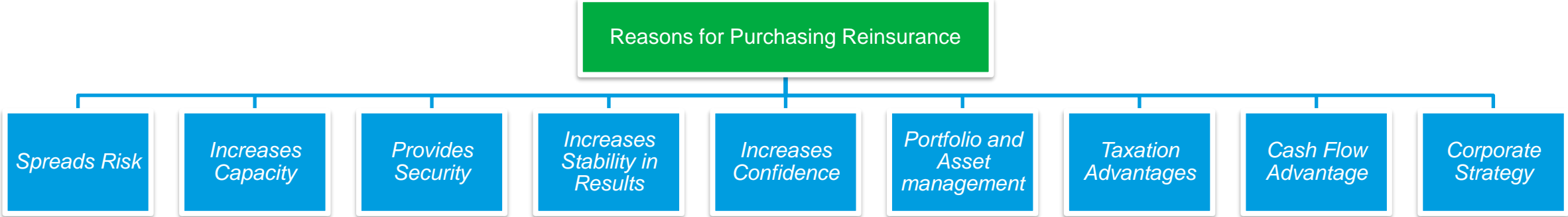
Purpose and parties

Risk transfer / value chain



Purpose and parties

Purpose of buying reinsurance



Purpose and parties

Top 25 World's Largest Reinsurance Groups

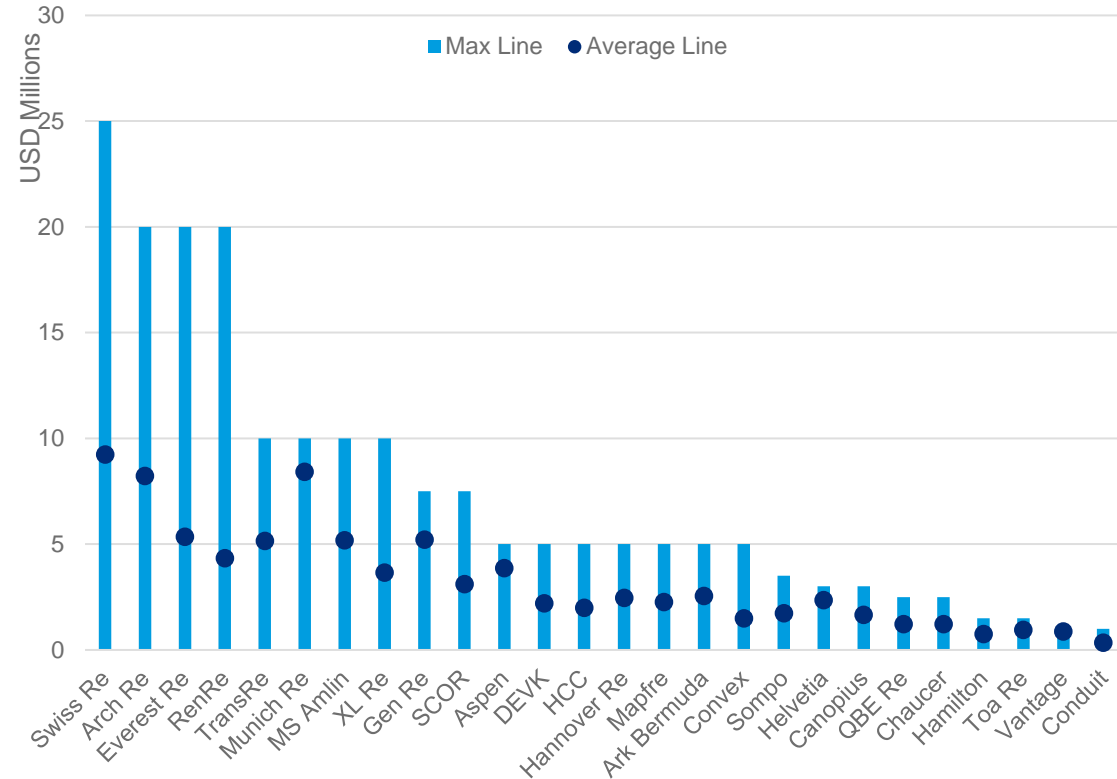
2019 Ranking	Company Name	Domicile	Reinsurance Premiums - Life & Non-Life Gross	Reinsurance Premiums - Non-Life only Gross
1	Swiss Re	Switzerland	\$42,228	\$26,095
2	Munich Re	Germany	\$37,864	\$24,742
3	Hannover Re	Germany	\$25,309	\$16,555
4	SCOR S.E.	Other Europe	\$18,302	\$8,005
5	Berkshire Hathaway Inc.	Americas	\$16,089	\$11,112
6	Lloyd's	London	\$14,978	\$14,978
7	China Re	Asia-Pac	\$13,161	\$5,218
8	Reinsurance Group of America	Americas	\$12,150	N/A
9	Great West Lifeco	Americas	\$10,149	N/A
10	PartnerRe	Bermuda	\$7,285	\$5,792
11	Korean Re	Asia-Pac	\$6,963	\$6,157
12	General Insurance Corporation of India	Asia-Pac	\$6,862	\$6,735
13	Everest Re	Bermuda	\$6,356	\$6,356
14	XL Bermuda Ltd. (AXA)	Bermuda	\$5,010	\$5,010
15	Transatlantic Holdings	Americas	\$4,946	\$4,946
16	RenaissanceRe	Bermuda	\$4,808	\$4,808
17	MS&AD	Asia-Pac	\$4,188	\$4,188
18	MAPFRE RE	Other Europe	\$3,313	\$2,716
19	AXIS Capital	Bermuda	\$3,223	\$3,223
20	R+V Versicherung AG	Germany	\$3,160	\$3,160
21	Arch Capital Group	Bermuda	\$3,078	\$3,078
22	Toa Re	Asia-Pac	\$2,878	\$2,878
23	Generali	Other Europe	\$2,646	\$1,093
24	Sompo	Asia-Pac	\$2,441	\$2,441
25	IRB - Brasil	Other	\$2,114	\$2,114

Ranked by unaffiliated gross premiums written in 2019 (USD Millions)

Construction & Builders Risk Reinsurers

Reinsurer	Lead/Follow	Office Location	Normal Max Line Size
Swiss Re	Lead	Zurich	25,000,000
Arch Re	Follow	Bermuda	20,000,000
Everest Re	Lead	London	20,000,000
RenRe	Lead	Zurich	20,000,000
TransRe	Follow	London	10,000,000
Munich Re	Follow	Munich	10,000,000
MS Amlin	Lead	Zurich	10,000,000
XL Re	Lead	Zurich	10,000,000
Gen Re	Lead	London	7,500,000
SCOR	Lead	Zurich	7,500,000
Aspen	Follow	London	5,000,000
DEVK	Follow	Zurich	5,000,000
HCC	Follow	London	5,000,000
Hannover Re	Lead	Hannover	5,000,000
Mapfre	Follow	London	5,000,000
Ark Bermuda	Follow	Bermuda	5,000,000
Convex	Follow	London	5,000,000
Sompo	Follow	Zurich	3,500,000
Helvetia	Follow	Zurich	3,000,000
Canopus	Lead	London	3,000,000
QBE Re	Follow	London	2,500,000
Chaucer	Follow	London	2,500,000
Hamilton	Follow	Bermuda	1,500,000
Toa Re	Follow	Zurich	1,500,000
Vantage	Follow	Bermuda	1,000,000
Conduit	Follow	Bermuda	1,000,000

Reinsurer Max & Average Shares on Construction Treaties



- Some names will be familiar to you – companies can write C&E Insurance and Treaty Reinsurance
- Line sizes from Treaty Reinsurers are typically small (\$5-10m on a PML basis) – but they deploy that across a range of Insurers in the C&E space
- Reinsurers will write a mix of Global and local business. Developing a blended portfolio of treaty clients (in order to avoid clash) is key for them

Construction Casualty Treaty Markets

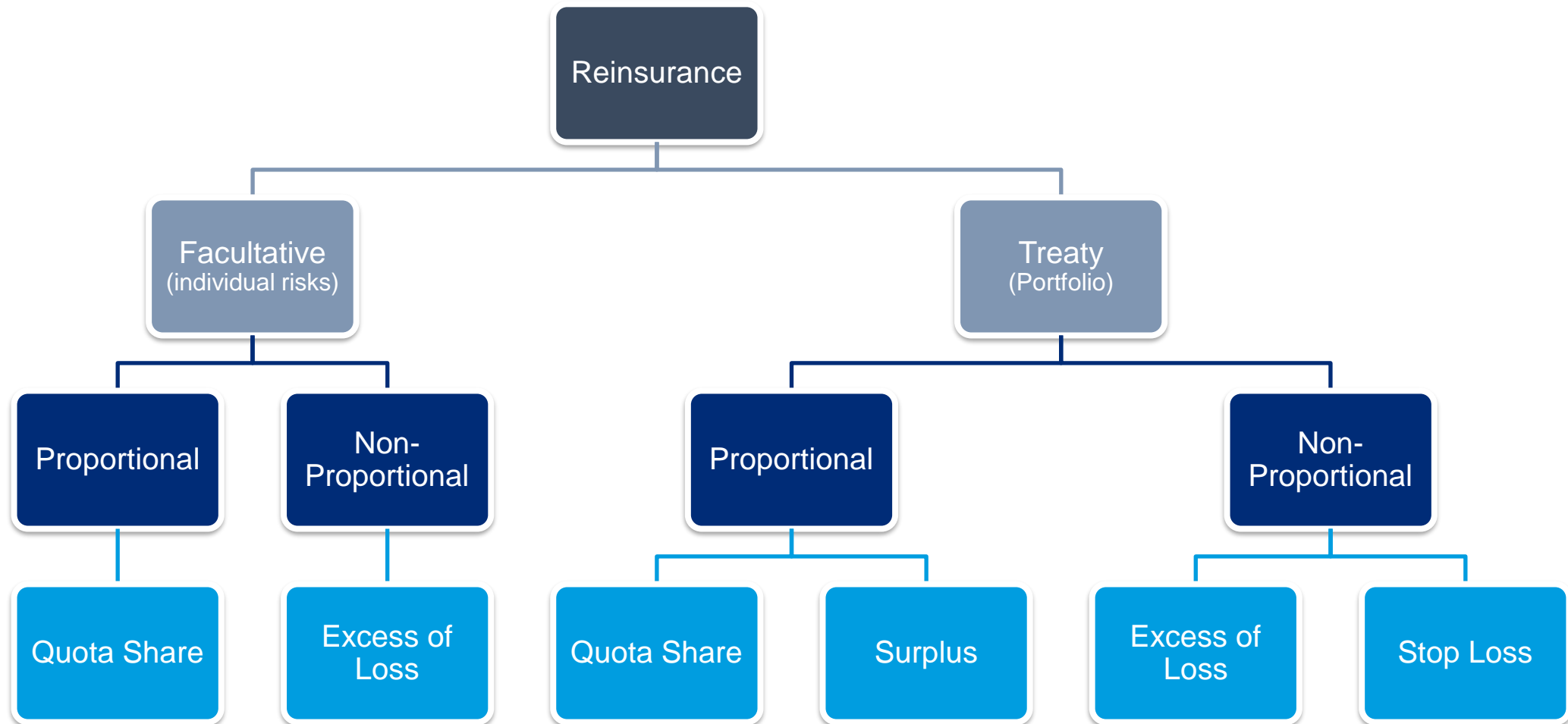
- Treaty reinsurance market has capacity for Casualty Construction
 - Broader appetite and capacity for Excess Casualty
 - More limited appetite for primary construction
 - Reinsurance capacity comes from US, Bermuda, and London markets
 - Relatively limited appetite for new construction reinsurance opportunities
- Allied World Re
 - Chubb Tempest Re
 - Ambridge
 - Aspen Re
 - AXA XL Re
 - Axis Re
 - Berkley Re
 - Brit (Bermuda)
 - Chaucer (Bermuda)
 - Cincinnati Re
 - Conduit Re
 - Convex
 - Sompo Re
 - Everest Re
 - Greenlight Re
 - Hamilton Re
 - Hannover Re
 - Liberty Mutual Re
 - Lloyd's of London (multiple syndicates)
 - Markel Re
 - MS Re
 - Munich Re
 - Navigators Re
 - Odyssey Re
 - PartnerRe
 - QBE Re
 - Renaissance Re
 - Ryan Re
 - Safety National Re
 - Scor Re
 - Swiss Re
 - Toa Re
 - TransRe
 - Waypoint

2

Types of Reinsurance

Types of reinsurance

Treaty vs Facultative

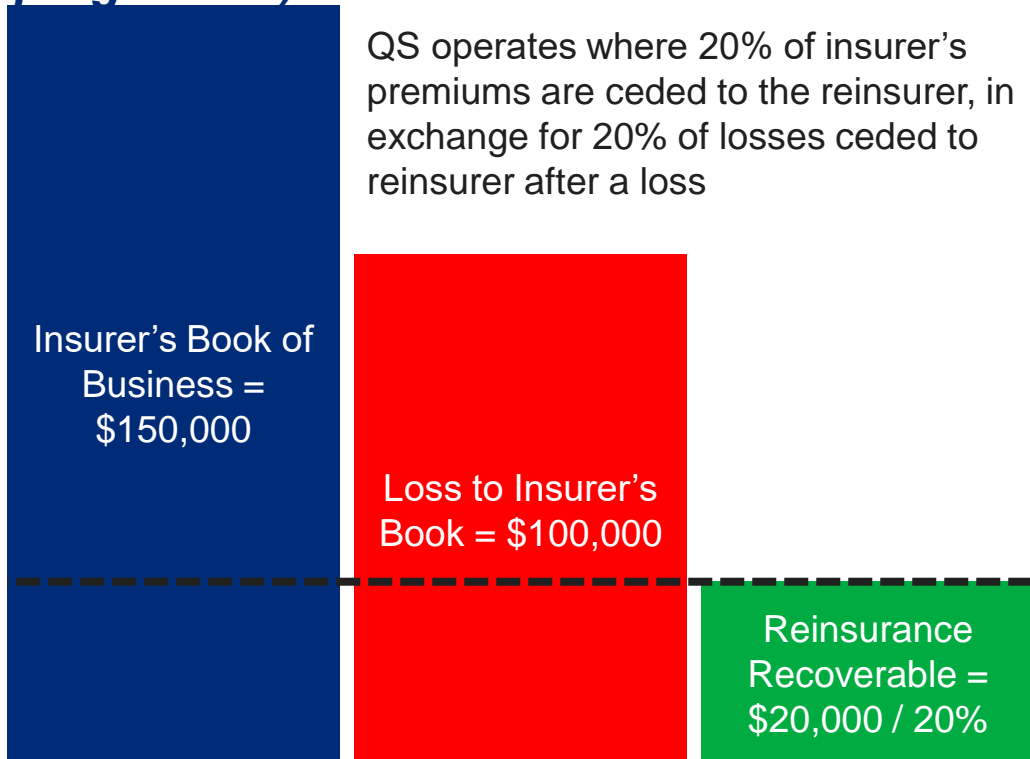


Types of Reinsurance

Proportional vs Non – Proportional Reinsurance Examples

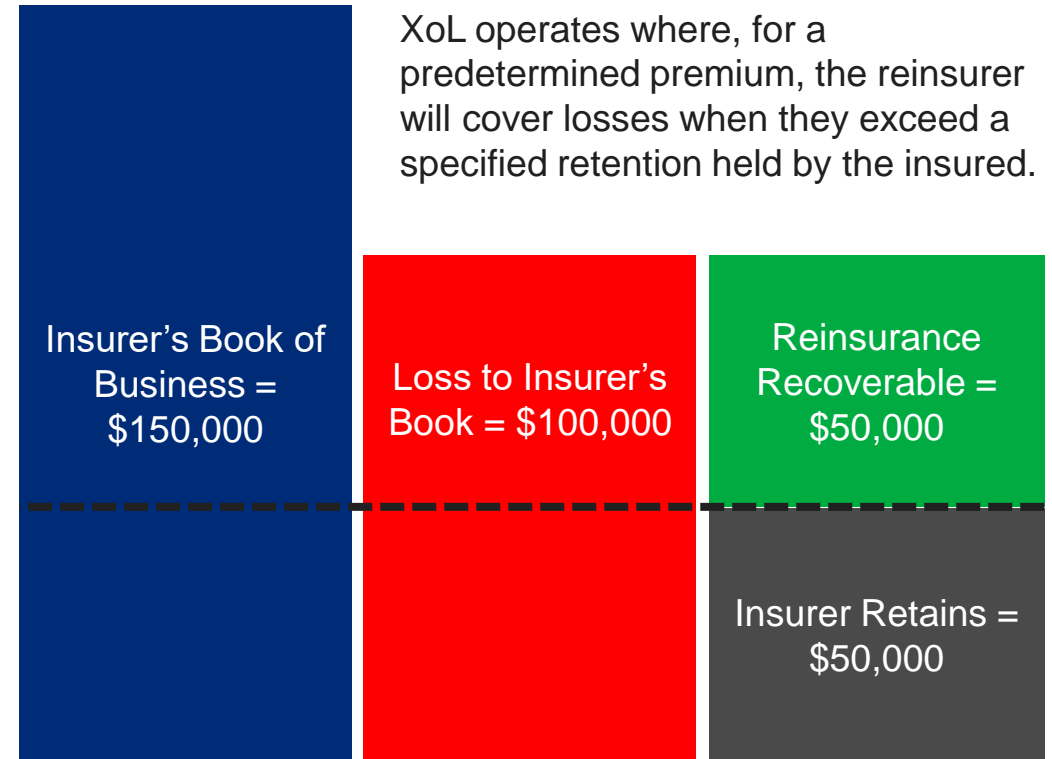
Proportional Reinsurance

For example, with a 20% Quota Share (*your programme*)



Non – Proportional Reinsurance

i.e. \$100,000 in excess of (xs) \$50,000

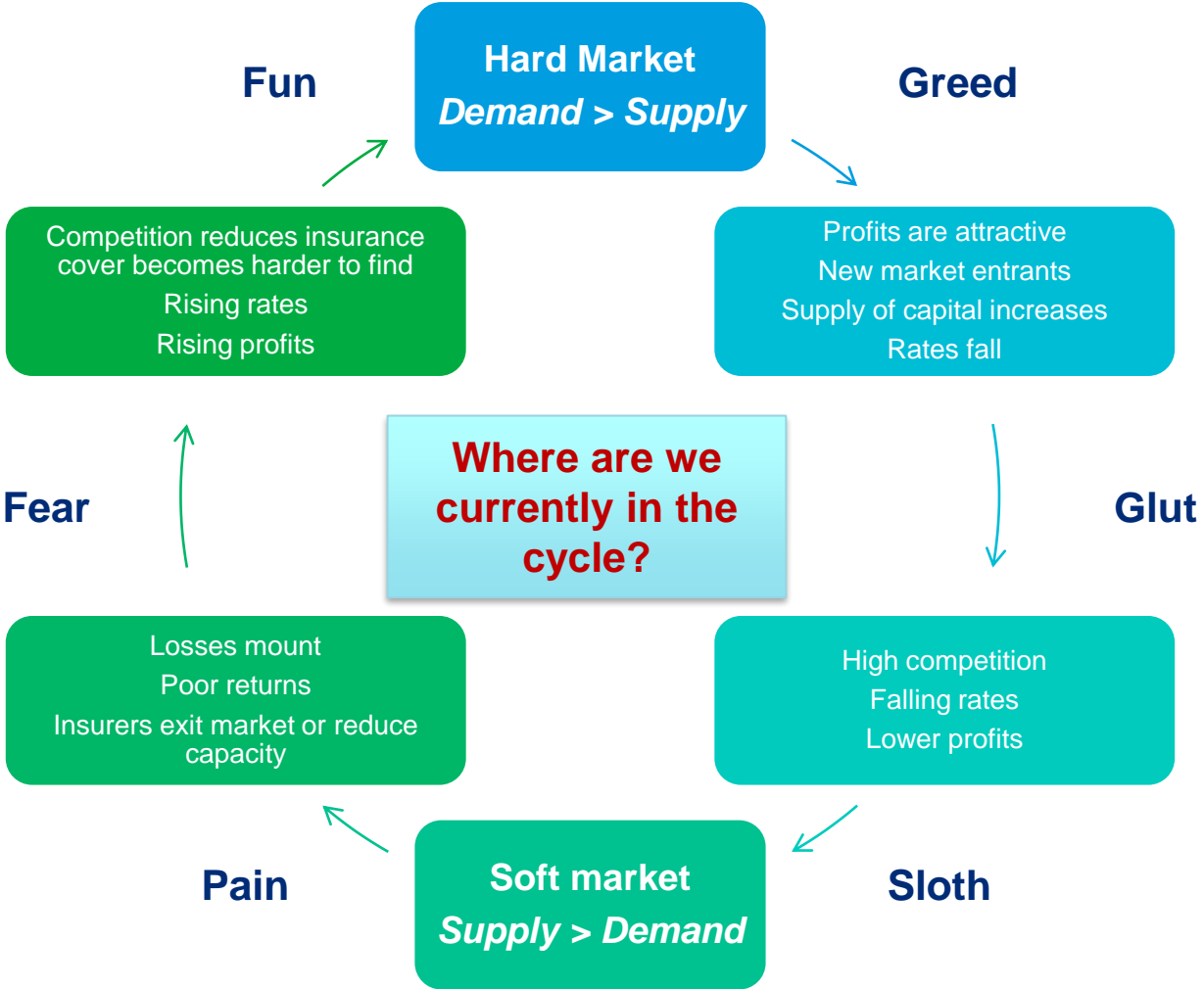


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Reinsurance market and Typical Treaty coverage

Reinsurance market

Pricing cycle

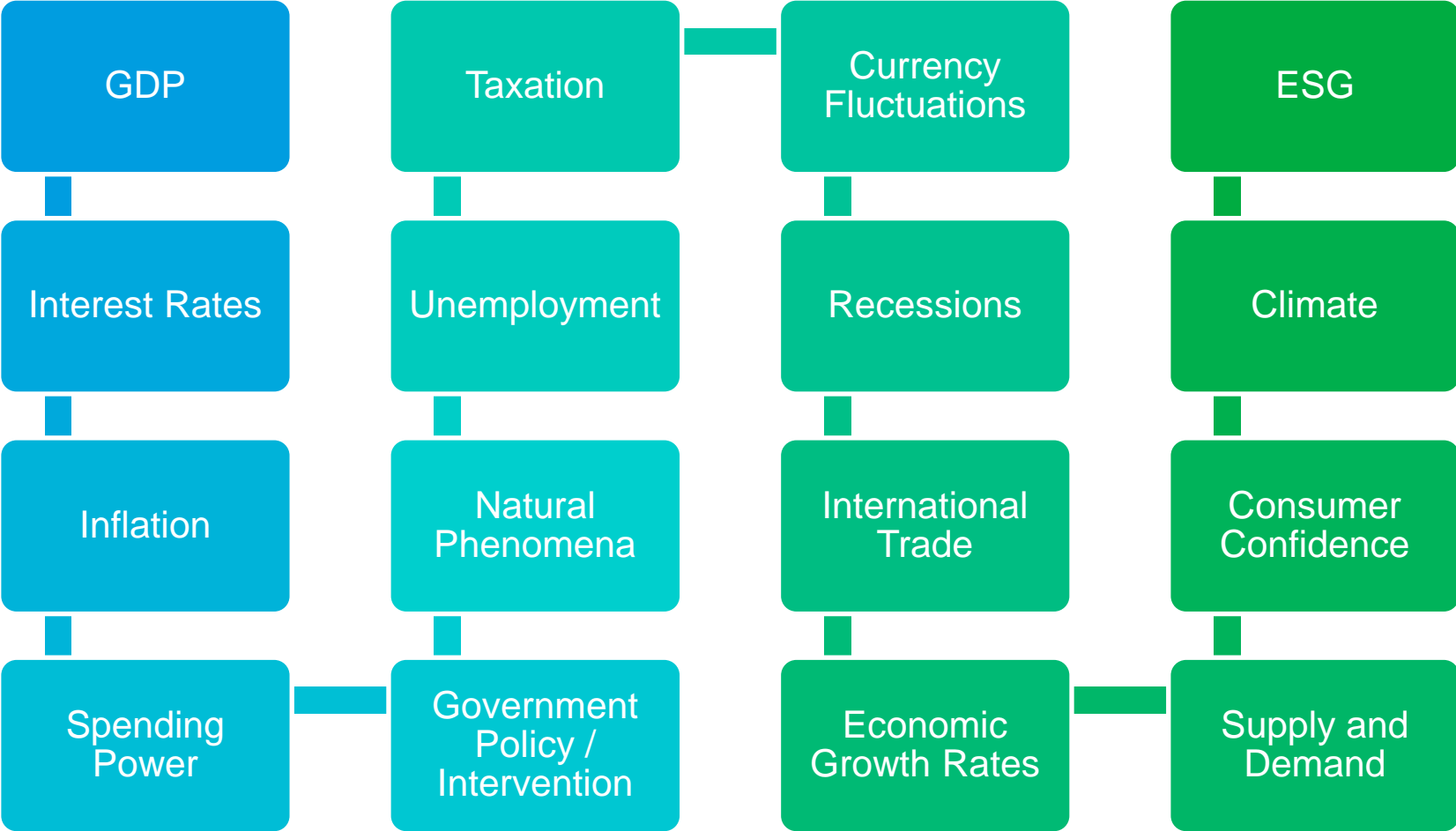


Where are we in the cycle right now?

What factors will influence the hard market conditions in your space?

Reinsurance market

Macro-economics – the treaty world is a global business affected by global issues



Controls and limitations imposed by Reinsurers

- QS Treaty Reinsurance is all about TRUST – especially for Proportional Reinsurance
- It is not easy to secure as Reinsurers are “giving away their pen”
- Reinsurers therefore have some checks and balances in place;
 - some are rigid and contained in the Treaty Contract Wording (covered in the next 2 slides)
 - others are implied and are based on the understanding between parties entering the Contract
- No 2 treaty's are the same – each Insurer will craft their coverage in collaboration with their broker & reinsurers over time
- A Treaty Wording includes;
 1. Limits of Liability per type of risk that can be ceded
 2. An overall maximum Event Limit recoverable in the event of a Loss Occurrence (Hurricane for example)
- Reinsurers have bought into their cedants business plan. Whilst not expressly stated, they expect;
 1. Risks written to be in line with the Underwriting Submission
 2. Meet the deductibles & pricing expectations advised by the cedant
 3. Any changes in the business plan to be quickly shared with reinsurers – transparency is key
 4. A balanced portfolio blending all types of exposure, capacity and period length

Treaty Exclusions DO NOT replace an Insurers Underwriting rules

Construction Property Treaty Exclusions

Common Exclusions

- War
- Terrorism
- Nuclear Radiation exclusion
- General TPL in the US, Canada & Australia
- Asbestos
- Performance Bonds
- Toxic Mould
- Infectious Disease
- Cyber
- Seepage and/or pollution and/or contamination
- Ex-gratia claim payments

Other Exclusions Sometimes Applied

- Projects with periods longer than a specified length
- Timber Frame
- Critical CAT
- Defective Design or Materials
- Underground tunneling works
- Transmission Lines
- Existing Structures under refurbishment / renovation
- Offshore risks
- Risks containing prototypical features
- Customers & Suppliers extensions
- Non-damage extensions
- DSU/ALOP on a stand-alone basis
- Operational Property policies
- Strike, Riot & Civil Commotion

Construction Casualty Treaty Exclusions

Common Exclusions

- War, as excluded in the Company's Policies.
- Asbestos
- Silica
- Lead, as excluded under the Company's Policies.
- Practice policies for crane and scaffolding contractors.
- First Party Property Insurance including inland marine property coverages;
- Professional Liability, when written as such;
- Environmental Impairment Liability, when written as such.
- Seepage and/or pollution and/or contamination, however,
- Mold Liability, as excluded under the Company's Policies.
- Methyl tertiary-butyl ether (MTBE)

Other Exclusions Sometimes Applied

- New York Contracting risks for Primary General Liability Construction Policies. (if non NY Construction in treaty)
- Bridge and Tunnel Contractors
- Railroad operations
- Residential Contractors
 - Sometimes this is limited to defect-specific states (e.g. CO, SC, AR, NV, etc)
- Abatement contractors
- Dam construction
- Onshore or offshore gas or drilling operations, pipelines, wells
- EIFS Contractors
- Pile Driving
- Wrap Ups
- Geotechnical Work
- Pest Control
- Cross Suits
- Seismic Retro-fitting
- Tower Cranes

Additional Casualty Items

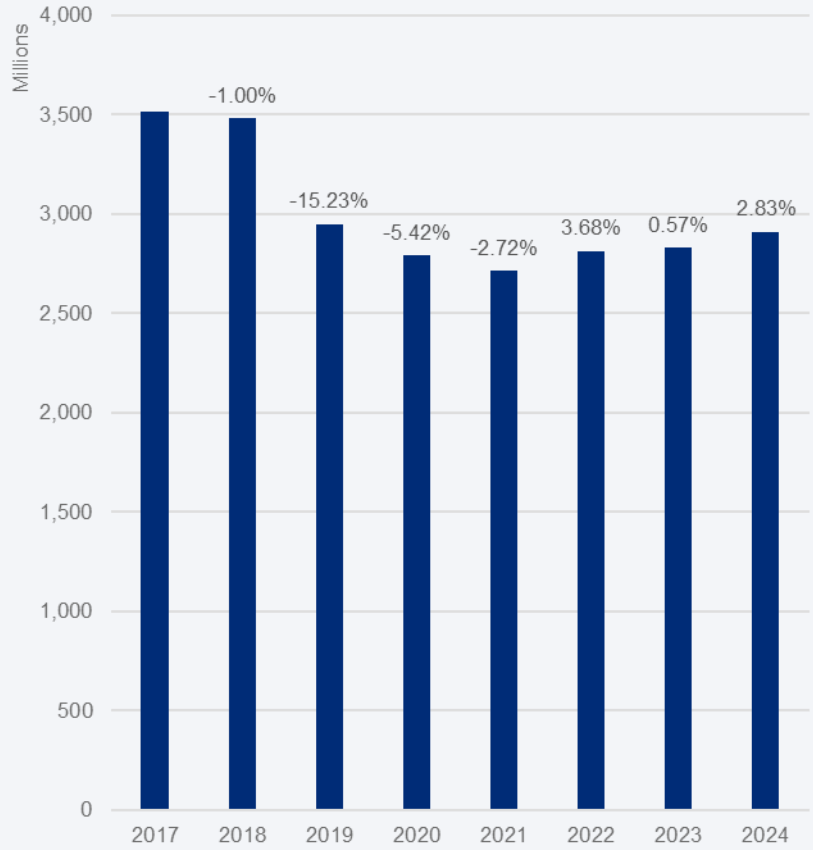
- **Policy Term Extensions on Wraps/Project** – vary treaty-to-treaty from 60 months, 72 months, and longer
 - Reinsurers reviewing these requests focus on:
 - Extension subject to additional premium?
 - Expansion of aggregate limit with extension?
- **Auto:**
 - Various Auto restrictions can apply for Primary Auto and Excess AL
 - Treaty reinsurance applies more to Excess Auto Liability exposure
 - Primary Auto exposure is often retained by insurance companies and ceded partially on a facultative reinsurance basis (e.g. \$1m xs \$1m)
 - Common treaty restrictions / items subject to reinsurer referral:
 - Exposure based on fleet size
 - 3rd-party/for-hire exposure
 - Haz-mat
 - Insureds with large loss history (for Excess, only when Auto Carve Out is in place)

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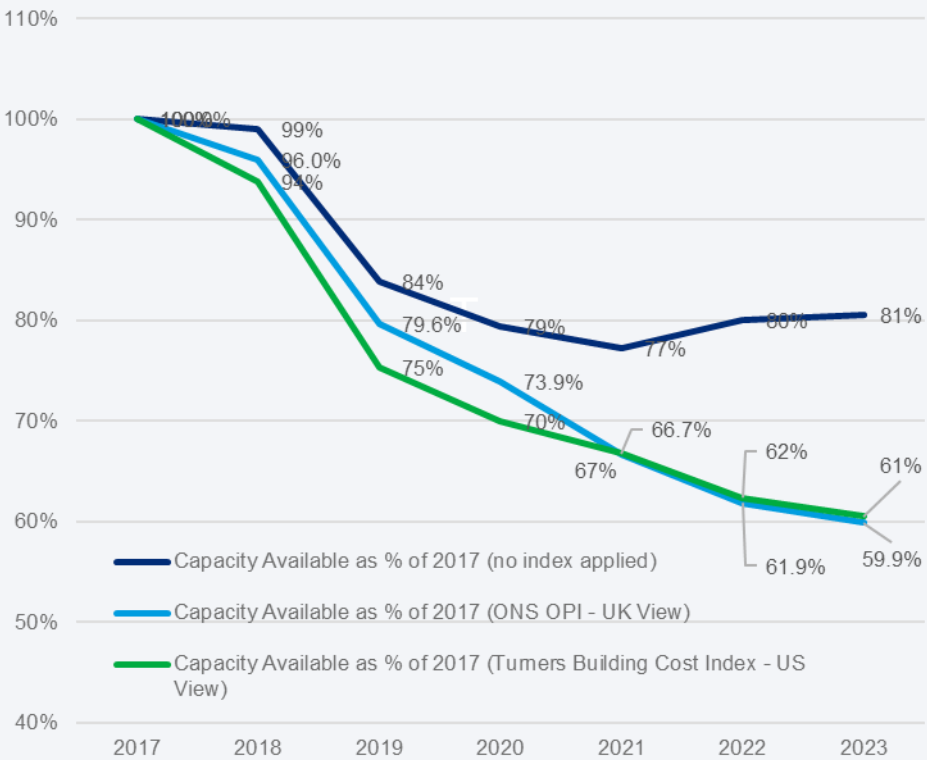
C&E Market Overview - post 1/1/2024 renewal

C&E Insurance Market Capacity | 2024 Update

Market Capacity of Insurer's Writing Global C&E Portfolios



Capacity available as % of 2017 | includes adjusted views based on Construction Cost Indices



2023

Capacity increased by \$30m

Slightly down when adjusted for inflation

Capacity available remains at c.60% of 2017 levels

Existing insurer's generally held capacity levels

2024

Expected to increase by further \$80m produced via new start up capacity

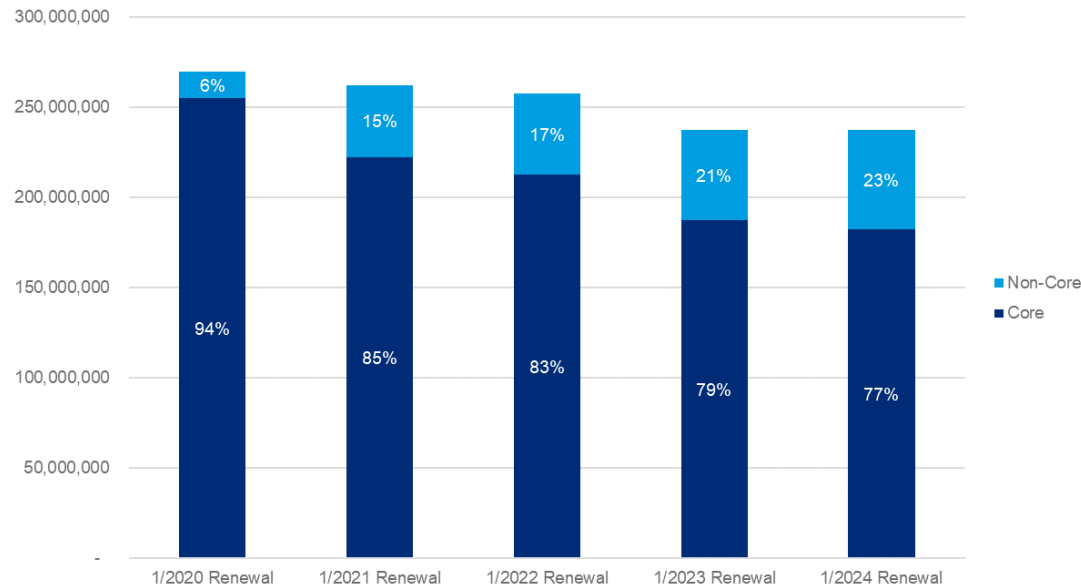
Existing insurer's generally continue to maintain existing capacity

C&E Treaty Renewal Outcomes

1/1/24 Treaty Results

C&E		Specialty Lines (Energy, Marine & Power)	
Gross PML/TSI Limit	▶	▶	
QS Commissions	▲ +1%	▶ -1% to +1%	
QS Cessions	▶/▲ Flat to Up	▶/▲ Downstream up, rest flat	
Event Limits	▶	▶	
XoL Pricing	▼ Flat to -5%	▼ Flat to -5%	
XoL Attachment	▶ Flat	▶ Flat	
Reinsurer Capacity Offered	▲	▲ Leaders stable, follow increased	
General Coverage/Exclusions	▶	▶	

1/1/24 C&E Treaty Capacity Split



- A buoyant reinsurance market hungry for Quota Share premium secured renewals on-plan for most C&E Insurers
- Interest from Reinsurers to support the large global placements
- Excess of Loss programmes renewed at expiring attachment points, with capacity sufficient to meet insurer's needs.
- New start-ups and challenging lines faced difficulties in securing Reinsurer support
- Critical CAT capacity remains a challenge with limited aggregate available
- Majority of capacity continues to be provided by dedicated C&E Reinsurers
- Insurers starting to push towards Sustainable Risk treaties
 - Acknowledging importance of the Energy Transition
 - Consolidation of similar technical risks
 - Allows Insurers to achieve scale across range of technical lines
 - EU taxonomy prompting need for improved risk granularity
- Reinsurers appetite for Transition Risk treaties remains to be seen; C&E Reinsurers, so far, taking a cautious approach



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