



Marsh Captive Upside: 20/20/20 Webcast Series Session 6

August 14, 2020



Marsh Captive Upside: 20/20/20 Series Agenda and Speakers

- Property Market Update and Captive Options.
- D&O Market Update and Potential Captive Utilization.
- What's Coming?



Sarah Downey
D&O Product Leader,
Marsh's FINPRO Practice



Michael Rouse
US Property Practice Leader,
Marsh



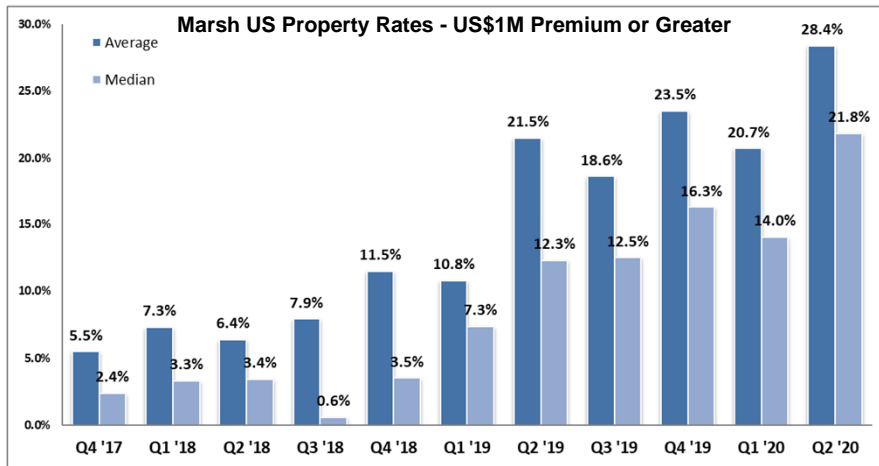
Michael Serricchio
Americas Sales Leader,
Marsh Captive Solutions

Property Market Update

Property Market Update

What We Are Seeing

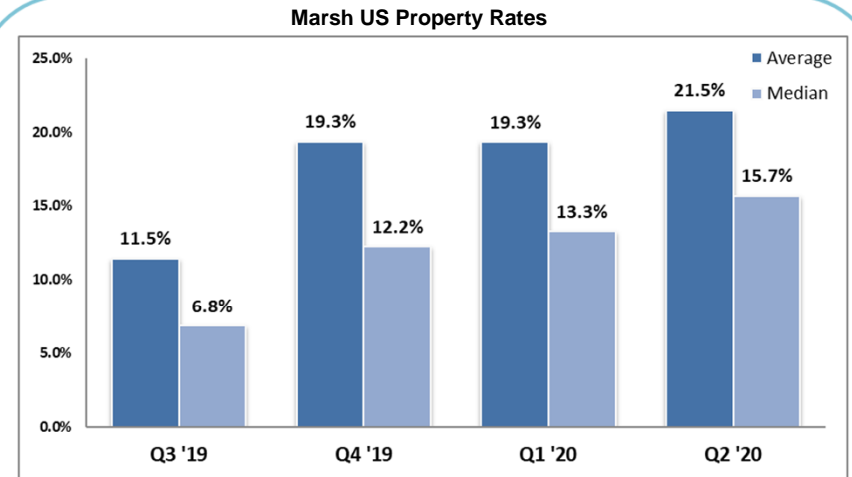
- How did we get to this point in the market?
- The COVID-19 impact.
- 2020 severe weather events and riot and civil commotion losses.
- Mid-year reinsurance headwinds.
- 2020 hurricane season.
- Will rate increases alone lead to profits for underwriters?



Methodology: Rate changes outside of -60% to 250% range are excluded, all other renewals are included.

Source: Marsh PlaceMAP

MARSH

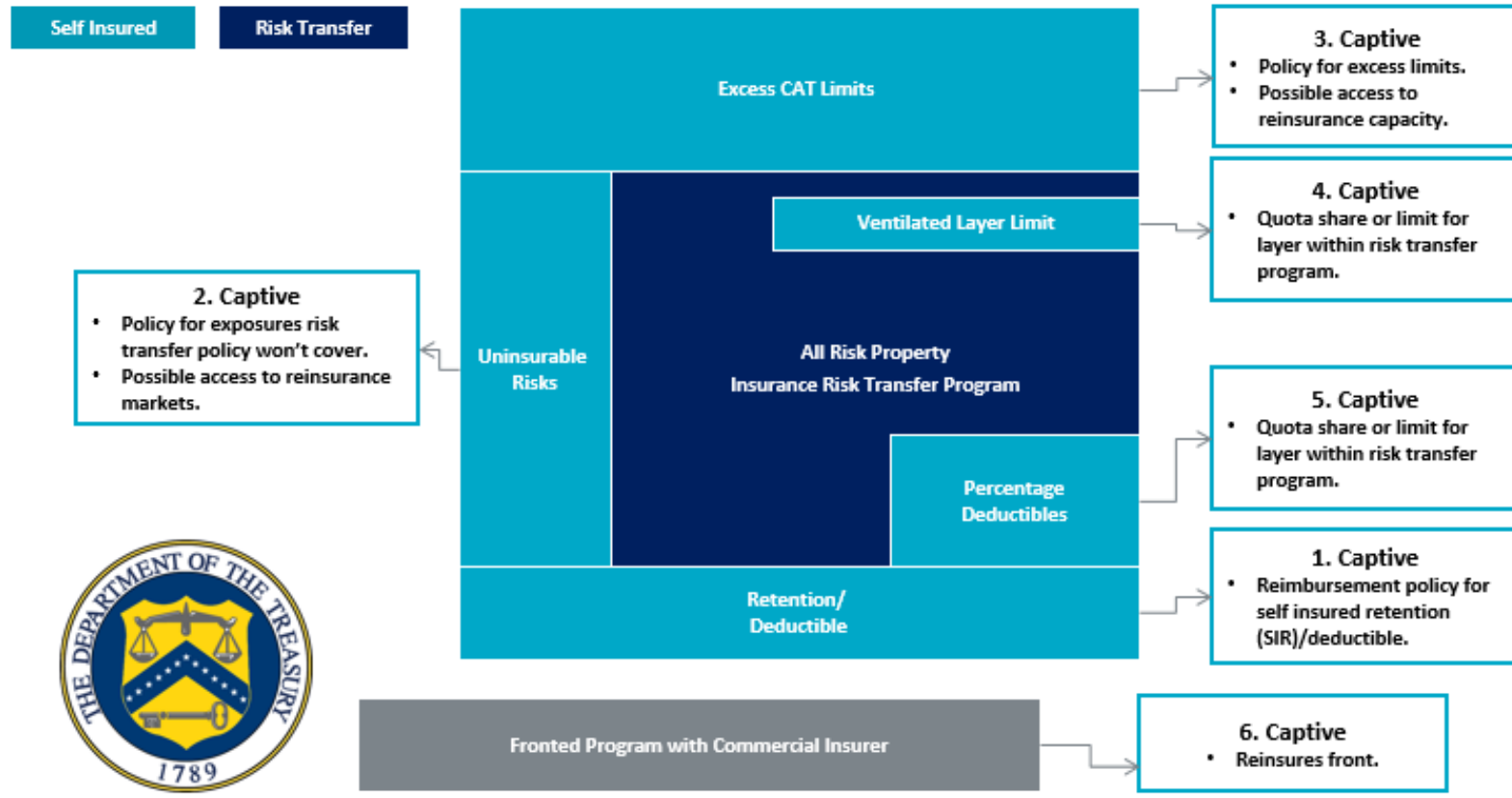


Methodology: Rate changes outside of -60% to 250% range are excluded, all other renewals are included.

Source: Marsh PlaceMAP

- Terms and conditions are being scrutinized more than ever.
- Non-physical damage time element.
- Universal exclusions for any form of virus or communicable disease.
- Emergence of exclusions for riot and civil commotion.
- Certain industries are facing much tougher market conditions.
- How long will this last?
- The power of your captive!

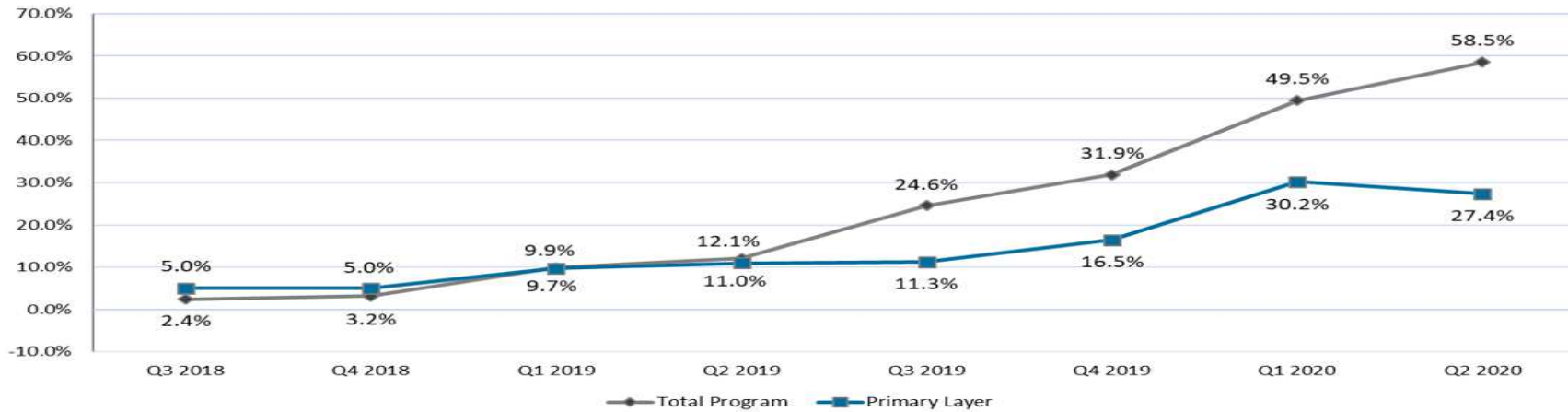
Potential Captive Opportunities



D&O Market Update

D&O Market: Overview of Traditional Rate Analysis Changes at Renewal US Publicly Traded Clients

Average Historical Rate (Price per Million) Changes D&O and Side A-only Programs

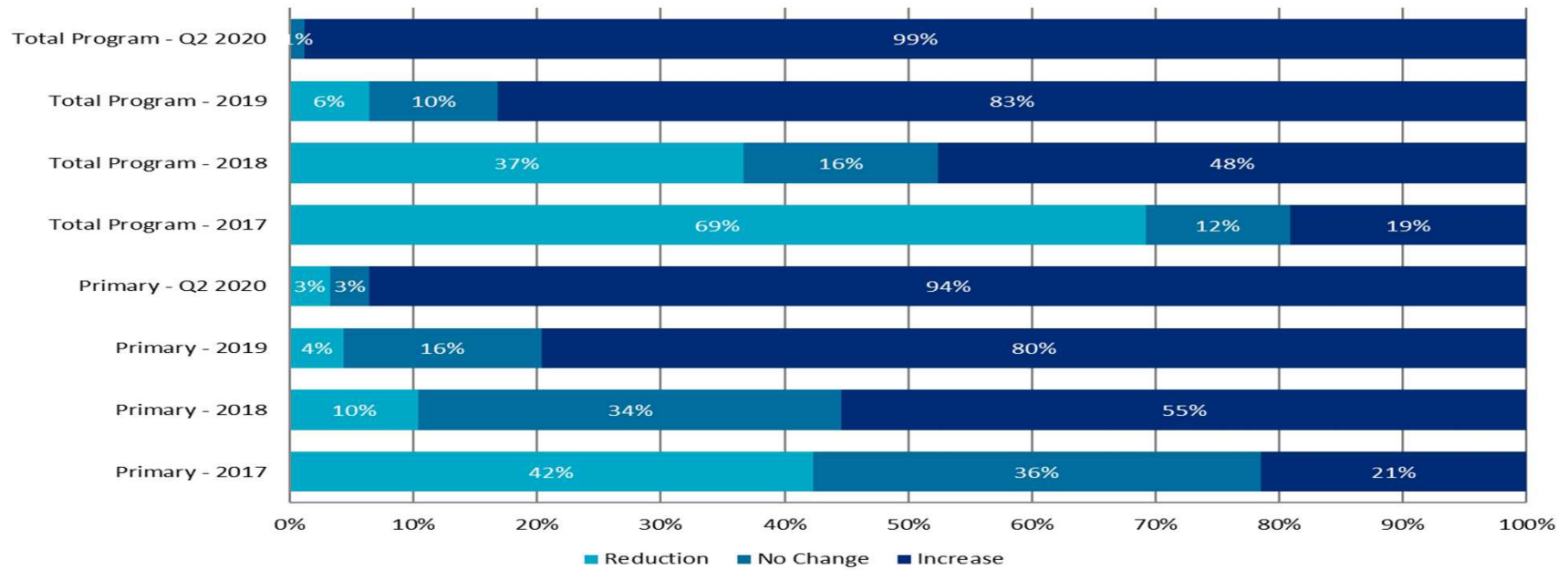


Note layer structure changes are not contemplated in the price per million analyses. In addition, 2019 rate changes outside of -50% - +250% range are excluded, all other renewals are included.

Source: Marsh's FINPRO practice benchmarking data.

D&O Market: Overview of Traditional Rate Analysis Changes at Renewal US Publicly Traded Clients

PERCENT OF US PUBLICLY TRADED CLIENTS WITH AGGREGATED QUARTERLY RATE CHANGES
D&O and Side A-Only programs



Source: Marsh's FINPRO practice benchmarking data.

Public Company D&O Market Conditions

LITIGATION AT AN ALL TIME HIGH

- Traditional securities suits.
- Merger objection.
- Derivative actions.
- Event-driven litigation.
- Plaintiffs Bar.
- Cyan Supreme Court decision.
- 862 SEC enforcement actions.
- Whistleblower reports.



YEARS OF
WIDESPREAD
PREMIUM
REDUCTIONS AND
BROADENING
COVERAGE
“Soft market
conditions”



DECLINING
NEW CUSTOMERS

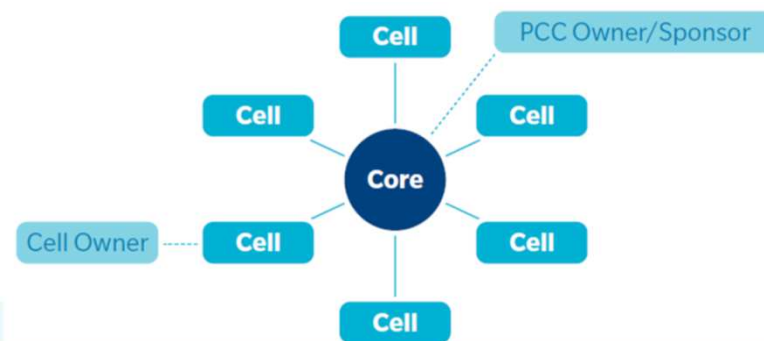


COVID-19 CONCERNS

- Insurance market in panic state trying to ascertain exposure to COVID-19.
- 0% interest rate environment eliminates ability to earn conservative investment income.
- Theory of government intervention escalates fears - potential for severe insurer financial consequences.
- Select client risk profile concerns.
- Insurer worries worsen with combined ratio deterioration.

Captive Participation in the D&O Market

- Captives are a natural option when companies face capacity and pricing challenges.
- Previous abundant capacity, at a low cost, in the market means that captive use for D&O has been limited to date, mainly involving Side B and C coverage.
- Concerns exist that captives are not appropriate for Side A D&O (non-indemnifiable loss) due to the potential for conflicts to arise, questions surrounding bankruptcy remoteness, and potential indemnification issues.
- Though still relatively untested, protected or segregated cell facility (PCC) use could arguably be more arms-length from the company itself and might be a better fit to fund non-indemnifiable loss.



Coming Next
Webcast Session 7 – September 18

Questions or feedback for our next webcast?

Please reach out to Michael Serricchio, michael.serricchio@marsh.com

Want to hear our earlier webcasts again? All prior recordings and slide decks are available on our replay page:
<https://coronavirus.marsh.com/us/en/insights/research-and-briefings/captive-upside-webcast-series.html>

Our Annual Benchmarking Report Is Coming!

Stay tuned for the release and a 20/20/20 dedicated to this release.



Marsh is one of the Marsh & McLennan Companies, together with Guy Carpenter, Mercer, and Oliver Wyman.

This document and any recommendations, analysis, or advice provided by Marsh (collectively, the "Marsh Analysis") are not intended to be taken as advice regarding any individual situation and should not be relied upon as such. The information contained herein is based on sources we believe reliable, but we make no representation or warranty as to its accuracy. Marsh shall have no obligation to update the Marsh Analysis and shall have no liability to you or any other party arising out of this publication or any matter contained herein. Any statements concerning actuarial, tax, accounting, or legal matters are based solely on our experience as insurance brokers and risk consultants and are not to be relied upon as actuarial, tax, accounting, or legal advice, for which you should consult your own professional advisors. Any modeling, analytics, or projections are subject to inherent uncertainty, and the Marsh Analysis could be materially affected if any underlying assumptions, conditions, information, or factors are inaccurate or incomplete or should change. Marsh makes no representation or warranty concerning the application of policy wording or the financial condition or solvency of insurers or reinsurers. Marsh makes no assurances regarding the availability, cost, or terms of insurance coverage. Although Marsh may provide advice and recommendations, all decisions regarding the amount, type or terms of coverage are the ultimate responsibility of the insurance purchaser, who must decide on the specific coverage that is appropriate to its particular circumstances and financial position.

Copyright © 2020 Marsh LLC. All rights reserved. MA20-15997