Premium Cost Forecast

NSW Electricity Networks Pty Ltd

November 2021

Empower Results®

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Executive Summary

Purpose

NSW Electricity Networks Pty Ltd ("TransGrid") has requested Aon Risk Solutions ("Aon") to provide an independent forecast of their insurance premiums for the 2024-28 regulatory period.

The purpose and scope of the engagement is to forecast premiums for regulated assets for the electricity transmission business; which involves forecasting TransGrid-wide premiums and then allocating a share to the electricity transmission business. Aon has developed this forecast for the 2024-28 regulatory period, which is explained and set out in this report. This forecast reflects Aon's expert view of what TransGrid can reasonably expect in relation to its insurance premium costs given Aon's understanding and knowledge of TransGrid's specific circumstances and the likely insurance market conditions which will apply in the 2024-28 regulatory period.

Aon has relied upon the latest insurance costs incurred by TransGrid as the base cost of its forecast as actual costs represent the most recent insurance pricing for the specific risk profile of TransGrid. This information alongside analysis from insurance line broking specialists, industry data, research and anticipated changes in TransGrid's exposures has been used to arrive at the forecasted insurance costs contained in this report.

[redacted]

Ref	Category	Description	Key Drivers	Related Sections
1	Insurance market driven increases	Ancillary insurance line increases	Minor insurance lines including Motor, Marine Transit, Corporate Travel, Group Journey, Contractors Pollution Liability and Contract Works has been forecasted based on insurance market trends and analysis from brokers specialising in each insurance line. The analysis forecasts premium increases in all business lines with the exception of Motor, Marine Transit, Corporate Travel, and Group Journey due to hardening insurance markets.	3.2.4 4.4.3
2		ISR insurance rate increase	Insurers in the Australian market are expected to recover profitability from reporting losses on ISR portfolios since 2017. The low investment return environment with cash rates sitting at 0.10%, compared to 4.75% at the end of June 2011 increases the likelihood of higher premium as they have no other means for countering these losses. [redacted] Given these conditions, the ISR premiums are forecast to increase [redacted] and [redacted] in 2023 and 2024, before increasing at [redacted] in 2025 and [redacted] p.a. for the remainder of the forecasted period as insurers stabilise their profitability.	3.2.1 3.2.2 3.2.3 4.2.5 4.2.6 4.2.7
3	TransGrid exposure growth	Increase in ISR exposure	Growth in TransGrid declared asset values between [redacted] and [redacted] p.a. from 2024 to 2028, at an average of [redacted].	4.2.3
4	Insurance market driven increases	Financial & Professional insurance lines increases	Financial & Professional insurance lines including Directors & Officers (D&O), Professional Indemnity (PI), Crime, Employment Practices Liability (EPL), Statutory Liability, Workplace Health and Safety (WHS) [redacted] have been forecasted based on insurance market trends and analysis from brokers specialising in each insurance line. [redacted] are forecasted to experience the most significant increases with average annual changes of [redacted] respectively. This is due to the economic conditions deteriorating over the past year, and a hardening market being the norm for the foreseeable future for the financial lines risk classes. [redacted] These forecast market rate increases have been based on the analysis from TransGrid's financial lines brokers which included a review of the insurer panel as well as market trends to date.	4.3.3 4.3.4
5		General Liability insurance rate increases	Insurer capacity and reserves for liability programmes has been reduced with the increasing severity and frequency of natural catastrophic events. Specifically, in Australia, major bushfires alone between 2015 and 2021 had accounted for $3.0B in losses, and major floods at $2.8B in losses within the same timeframe. The impact of these losses and the run on reserves is forcing insurers to withdraw cost-effective coverage from organisations in order to replenish reserves and improve profitability. The pressure to increase premiums is compounded with uncertainty over the liability impacts that will drive further losses from COVID-19. Given these conditions, liability premiums are forecast to increase [redacted] and [redacted] between 2023 and 2025, before increasing at [redacted] and	3.2.1 3.2.4 4.1.3 4.1.4 4.1.5 4.1.6

Ref	Category	Description	Key Drivers	Related Sections
			[redacted] p.a. for the remainder of the forecasted period as insurer profitability is expected to correct and stabilise.	

Forecast Summary of Results

The table below sets out Aon's insurance premium forecast for TransGrid's electricity transmission business for the 2024-28 regulatory period. Values have been adjusted from a policy year basis to align with the financial year, ending 30-June.

[redacted]

The approach to determine this forecast was to estimate exposure growth and premium rate growth for the 2024-28 regulatory period. Using this information, base premiums for the 2024-28 regulatory period could be estimated. Statutory charges and assessments unique to the line of insurance were then applied to these base premiums. Total costs were calculated and then allocated to the relevant financial year using a straight monthly pro-rata approach.

Details of the premium calculations and all assumptions made are outlined in the following sections of the report.

1. Background & Approach

1.1 Background

NSW Electricity Networks Pty Ltd ("TransGrid") has requested Aon Risk Solutions ("Aon") to provide an independent forecast of their insurance premiums for the 2024-28 regulatory period.

The purpose and scope of the engagement is to forecast premiums for regulated assets for the electricity transmission business; which involves forecasting TransGrid-wide premiums and then allocating a share to the electricity transmission business.

Aon has developed a forecast for the 2024-28 regulatory period, which is explained and set out in this report. This forecast reflects Aon's expert view of what TransGrid can reasonably expect in relation to its insurance premium costs given Aon's understanding and knowledge of TransGrid's specific circumstances and the likely insurance market conditions which will apply up to and through the 2024-28 regulatory period. Aon has relied upon the latest insurance costs incurred by TransGrid as the base cost of this forecast as actual costs represent the most accurate and reliable starting point for developing a forecast.

1.2 Scope of Services

The scope of services for this submission is to provide an independent forecast of TransGrid's insurance premiums for the 2024-28 regulatory period.

For each major class of insurable risk, we will outline:

- The systematic drivers impacting each insurance class;
- Review of historical premium cost and circumstances that have influenced any changes over the current regulatory period;
- A premium forecast for the 2024-28 regulatory period, including:
  - The quantification method employed, including forecast changes to exposure and premium rates;
  - All the assumptions and data relied upon in undertaking the quantification, including where the assumptions and data have been sourced from;
- Aon's independent assessment of future insurance premiums.

1.3 Non-Regulated Costs

Aon assumes that the costs allocated to TransGrid relate to the regulated part of the electricity transmission business. This assumption is derived from the regulated vs. non-regulated asset split provided by TransGrid, where specific costs allocated to TransGrid are utilised as the total regulated assets for the electricity transmission business.

This approach is consistent with the approach used in determining the unregulated portion of the transmission business for the 2019-23 Transmission regulatory period, as approved by the AER.

Aon notes that the AER's final decision in relation to insurance premiums does influence (up or down) the allocation of costs to the electricity transmission business, and that this will have an equal and opposite impact on the other part of the business.

1.4 Methodology & Approach

	1. Scope of insurance lines and relative materiality	2. Specialist broker insurance line by line analysis and research	3. Model insurance line by line premium forecast	4. Document findings and collate supporting fact base
Objective	High level scoping of major and minor risks classes.	Assess market conditions and outlook on insured risk premiums and factors that will influence the forecast premiums.	Determine the base premiums for insured risks and forecast base premiums over the regulatory period.	Summary of premium forecast for the upcoming regulatory period, key drivers and supporting evidence.
Key Activities	▪ Review of existing program and agree threshold for major and minor risk classes. ▪ Major risks will be forecasted separately, while minor risks will be analysed in aggregate.	▪ Estimate changes to exposures and premium rates over the regulatory control period. ▪ Aon's independent assessment of future insurance premium(s). ▪ The current drivers of the premiums including state of the current insurance market (both locally and globally) and factors impacting on pricing and capacity. ▪ A review of the historical premium costs and circumstances that have influenced any changes over the current regulatory period.	▪ Analyse and breakdown of the current program to determine base premium costs and associated statutory charge for all selected risk categories. ▪ Forecast exposure information relevant to the regulatory period (separating between regulated and non-regulated entities). ▪ Any proposed limit or deductible changes (if any) to insurance program over the upcoming regulatory period. ▪ Forecast base premium over the regulatory control period. ▪ Calculate statutory and other charges using the base premium over the regulatory control period.	▪ Describes and justifies the methodologies used to derive those estimates, including any information provided by TransGrid that the expert relied upon. ▪ References supporting materials including research and analysis from specialists and relevant publications
Outputs	Major and minor risks scoped for forecasting.	Key drivers behind the annual premium changes forecasted to occur during the upcoming regulatory period.	Base costs calculated to enable forecast and calculated annual base premiums estimated over the regulatory control period	Agreed final premium cost forecast, outputs and findings.

1.5 References

The following data was relied upon in determining historical and forecast insurance premiums:

Client Sourced Data

1 7-Year Exposure Forecast values as calculated for the 2022-2028 as provided by NSW Electricity Networks Pty Ltd, current as at 26 July 2021

Aon Internal Data and Bespoke Analysis

2 NSW Electricity Networks Pty Ltd historical insurance premium summary sheet, reconciled with actual invoices

[redacted]

5 Aon Risk Services Australia Limited, 2021. NSW Electricity Networks Pty Ltd Bushfire Liability Report. Australia: Aon Re.

6 Aon Risk Services Australia Limited, 2019. NSW Electricity Networks Pty Ltd Bushfire Liability Report. Australia: Aon Re.

Aon Market Research Reports

7 Aon plc, 2021. Aon Global Market Insights Q1 2021. London: Aon. Retrieved from https://insights.aon.com/global-market-insights-q1-2021/global-market-insights-cover/

8 Aon plc, 2020. Industrial Special Risk and General Liability Insurance Market Insights Australia Q2 2020. Australia: Aon. Retrieved from https://aoninsights.com.au/isr-gl-insurance-market-insights/

9 Aon plc, 2021. Cyber Insurance Market Insights Q2 2021. Australia: Aon. Retrieved from https://aoninsights.com.au/cyber-insurance-market-insights-q1-2021/

10 Aon plc, 2021. Global Market Insights Q2 2021. London: Aon. Retrieved from https://insights.aon.com/global-market-insights-q2-2021/global-market-insights-cover/

11 Aon plc, 2020. Weather, Climate & Catastrophe Insight: 2020 Annual Report. London: Aon. Retrieved from https://www.aon.com/global-weather-catastrophe-natural-disasters-costs-climate-change-2020-annual-report/index.html

12 ICA Historical Catastrophe List. (2021). Retrieved from https://insurancecouncil.com.au/industry-members/data-hub/

13 Limiting Temperature Rise to 1.5°. (2021). Intergovernmental Panel on Climate Change. Retrieved from https://www.climatecouncil.org.au/wp-content/uploads/2018/10/CC-IPCC-report-1.pdf

14 Aon plc, 2021. Cyber 2020 & 2021 Incidents Claims. London: Aon.

2. Summary of Results

2.1 Forecast Summary

The table below provides a breakdown of TransGrid's regulated business insurance premium forecast by the most material insurance lines for the 2024-28 regulatory period. It is necessary to forecast values for 2023 to bridge to the regulatory period, thus they are included below to explain the transition to the 2024-2028 premium levels.

[redacted]

Refer to Section 4 and Appendix 1 for further details.

2.2 Premium Driver Tree

	Risk Class	Key TransGrid Drivers	Key Insurance Market Drivers
TransGrid 2024-28 Forecast Premium [redacted]	**General Liability** [redacted]	▪ [redacted] ▪ [redacted]	▪ Reduction of available capacity from insurers in the market ▪ Correction of insurer profitability from Increasing combined ratios ▪ Uncertainty from the liability impacts from COVID-19
	Industrial Special Risks (ISR) [redacted]	▪ [redacted] ▪ [redacted]	▪ Australian insurers withdrawing capacity after claims worsen during 2020 ▪ Correction of insurer profitability from Increasing combined ratios ▪ Pricing pressure to recover investment losses during COVID-19 pandemic
	Financial & Professional [redacted]	▪ [redacted]	▪ Reduction of available capacity from insurers in the market. ▪ Correction of insurer profitability from increasing combined ratios. ▪ Uncertainty from the liability impacts from COVID-19. ▪ D&O, EPL: Pricing pressure from tightening market conditions. ▪ Increasing frequency and severity of global Cyber claims.
	Ancillary (All Other) [redacted]	▪ [redacted] ▪ [redacted]	▪ Contract Works: Reduction in insurer appetite for civil, pipeline and utility projects. ▪ Stable, low severity lines: actual costs can be accurately estimated so minimal risk of shifts in market participants and/or capacity.

References

1. Aon plc, 2021. Global Market Insights Q2 2021. London: Aon. Retrieved from https://insights.aon.com/global-market-insights-q2-2021/global-market-insights-cover/.
2. Aon plc, 2021. Aon Global Market Insights Q1 2021. London: Aon. Retrieved from https://insights.aon.com/global-market-insights-q1-2021/global-market-insights-cover/.
3. Aon plc, 2021. Global Market Insights Q2 2021. London: Aon. Retrieved from https://insights.aon.com/global-market-insights-q2-2021/global-market-insights-cover/.
4. Aon plc, 2021. Cyber Insurance Market Insights Q2 2021. Australia: Aon. Retrieved from https://aoninsights.com.au/cyber-insurance-market-insights-q1-2021/.

3. Overview of Market Drivers for Insurance Costs

The following sections of the report outlines key concepts of the insurance market, which provides insightful context to the premium cost forecast for TransGrid. This includes an explanation of insurance cycles and expands on the current hard market conditions of increasing premiums, as well as the soft market conditions which typically characterised by the reduction of premiums and greater availability of insurance capacity. The current hard market factors impacting insurers and their insured premiums are expanded on in Section 4 of the report.

3.1 Insurance Cycles

The insurance market can be characterised by cyclical periods of expansion and contraction impacting the pricing of premiums, availability of coverage and general capacity insurers are able to offer to insureds. A typical insurance cycle can last between two and ten years and are defined as either soft or hard market cycles. The insurance market at the time of putting together this premium forecast, has been continuing to operate under hard market conditions over the past 10 years, including the current and prior regulatory periods.

The following table demonstrates the insurance market dynamics by region as at Q2 2021, it is reflective of the hard market conditions as many insurers globally try to recover from the economic impact of the preceding years. The market has seen 11-30% rate increases across APAC, with overall conditions in Australia described as ‘challenging’. Also, in Australia and from an insurer perspective capacity is constrained, underwriting scrutiny aggressive and there is little improvement in terms with limits decreasing, deductibles up and restriction in coverage across most risks.

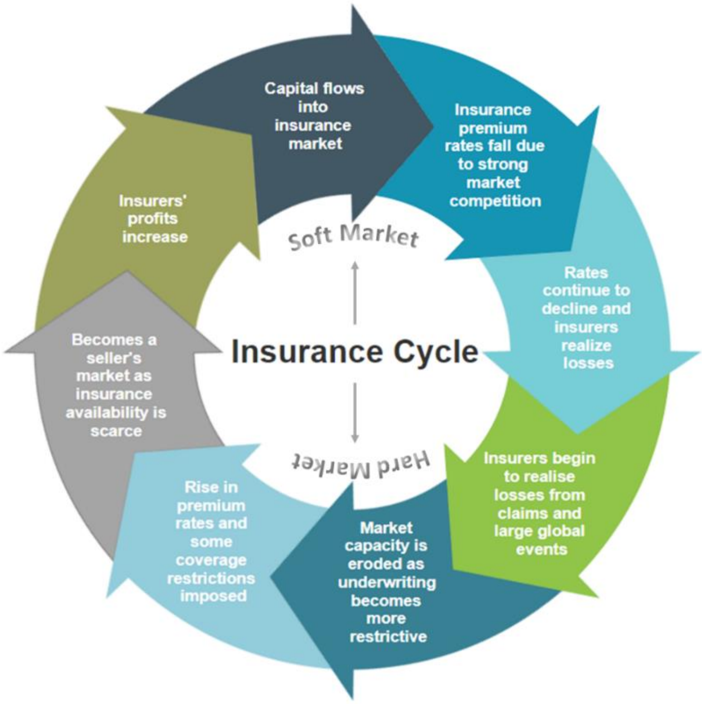
Insurance Market Key Region Dynamics – Q2 2021 Summary

**Source: Aon Global Market Insights, Aon (Q2 2021)*

The unusual macroeconomic conditions of globally low interest rates and increasing claims is driving expectations for an extended period of hardening conditions going into the regulatory forecast period between 2024 and 2028. The impact on organisations varies with their insured risk profile and the local as well as global market considerations, which have been analysed in detail in section 4 of this report. The sections below provide an overview of conditions and insurance pricing that are associate with soft and hard insurance market cycles.

3.1.1 Soft Insurance Market Conditions

A soft insurance market cycle is characterised by insurers focused on building profitability and vigorous competition from their peers. This drives lower insurance premiums, broader coverage, relaxed underwriting criteria and a general increase in capacity. Businesses seeking insurance during soft market conditions will find that they are able to obtain much better coverage for their insurable risks, with higher limits and lower deductibles not being uncommon. However, the continual rate reductions and increased risk assumption cannot continue perpetually, with consideration for insurer's bottom lines. Insurers realise a profit largely from a combination of investment income and policy premiums, the balance between low premium rates and increasing claims activity will eventually reach an inflection point for insurers when their bottom line can no longer sustain incoming losses and it is at this point that we will see a gradual 'hardening' of the market.



3.1.2 Hard Insurance Market Conditions

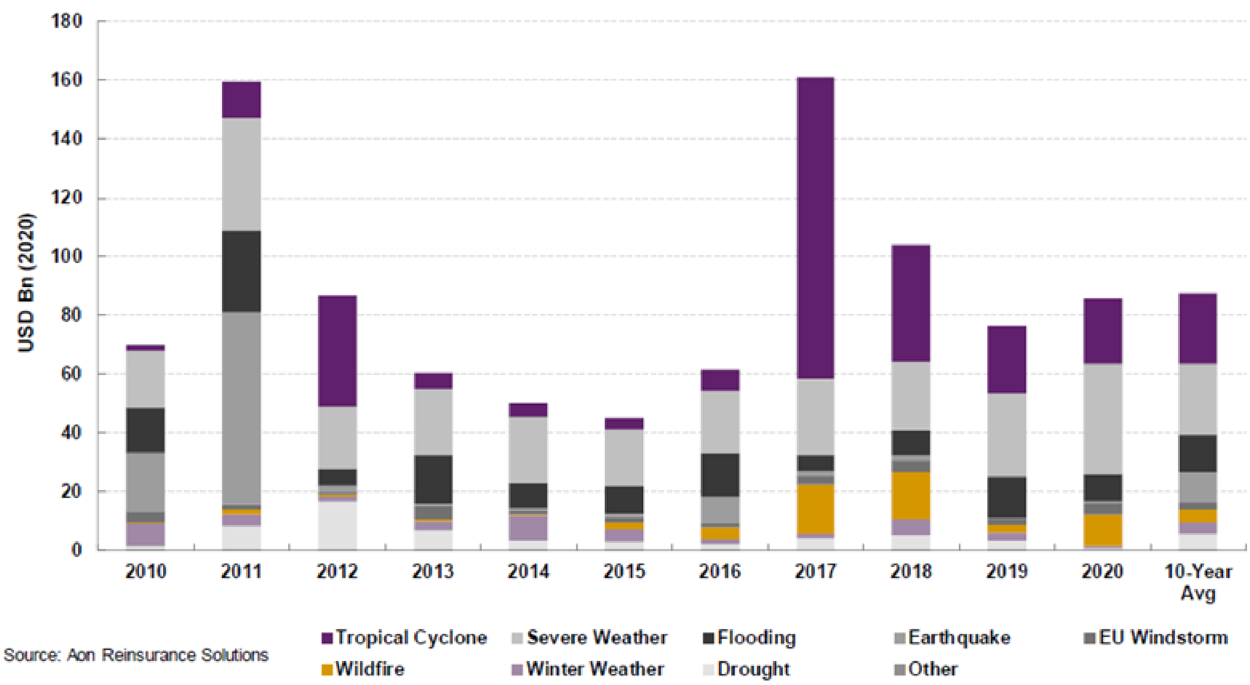
In the event of market hardenings, global and business losses lead to a surge in claims activity and this drives less capitalised insurers out of the market as their business profitability declines. This decline in the market means that the insurance space is less saturated and limited market capacity drives underwriters to become more stringent in their underwriting criteria and process. A business seeking insurance coverage during a hard or hardening market will likely experience much more unfavourable programs with lower rates and higher premiums, compared to their historical policies. The contracting capacity that insurers offer during these times can often be so limited that many clients often must consider alternative program structures, involving multiple insurance carriers or instruments to maintain their existing limits. Insurers hold a very pessimistic view in hard market times as their risk tolerance greatly contracts, and they try to align insurance prices with the current and future losses they expect to sustain.

3.2 Factors Driving the Current Hard Market

3.2.1 Increasing Frequency and Severity of Loss Events

The residual effects from large natural disasters and general economic decline have seen many insurers sustain large losses in most off lines of business, with some more heavily affected than others. The sheer volume of natural disasters within the last 10 years and the compounding effect of the COVID-19 pandemic has seen the insurance sector sustain a soaring amount of losses and underwriters scrambling to recover their books. The chart below displays the estimated total losses from natural catastrophes globally, with 2011 and 2017 seeing peak losses totalling close to $160bn USD. The cumulative impact of these losses sustained average out to a yearly loss amount of just under $90bn USD, with severe weather and tropical cyclones attributing to a large majority of the losses.

Global Insured Natural Catastrophe Losses



** Source: Market Update, H1 2021*

The variety, frequency and severity of natural disasters as well as inherent unpredictable nature are all factors that contribute to the unique nature that it creates for insurers and the wider community. Insurance plays a large role in providing financial loss protection for policyholders, so when large scale events such as natural disasters occur, there is significant compensatory payments made which increases pricing pressure for future renewals.

The table below summarises the most severe natural event losses globally.

2021 Costliest Events – 1H Billion-Dollar Insured Loss Events (USD bn)

Date	Event	Location	Deaths	Insured Loss (USD)
February 12-20	Polar Vortex / Extended Freeze	United States	217	15 billion
June 17-25	Severe Weather	Western & Central Europe	7	3.4 billion
Feb-13	Fukushima Earthquake	Japan	1	2.5 billion
April 27 – May 2	Severe Weather	United States	0	2.5 billion
March 24-26	Severe Weather	United States	6	1.3 billion
April 15-16	Severe Weather	United States	0	1.1 billion
June 17-21	Severe Weather	United States	1	1.1 billion
June 24-July 1	Severe Weather	United States	2	1.1 billion
June 28-30	Severe Weather	Central Europe	1	1.1 billion
March 27-29	Severe Weather	United States	8	1.0 billion

** Source: Aon Global Catastrophe Recap, First Half of 2021*

The first half of 2021 saw at least 10 separate billion-dollar events that occurred, all but one of which were weather-related. Severe convective storms generated USD 6 billion in total events in the United States alone, while two events occurred in Europe within a two-week span in late June. The costliest event, by far, was the Polar Vortex-induced prolonged period of extreme cold in the United States. This event was expected to continue showing loss development for months to come. Many insurers in the Australian market operate globally and thereby also impacted by these losses as global insurers evolve their underwriting practises.

Specifically, in Australia, the March 2021 storms and severe flooding of the country's south coast, leaving thousands of residents in distress and damaged property. Communities which were previously devastated by severe droughts and bushfires were disrupted by this latest natural disaster. It is also estimated that during the 2015-2021 bushfires, damages totalling up to $3.0B were realised, alongside $2.8B losses seen in flood damage during the same period.

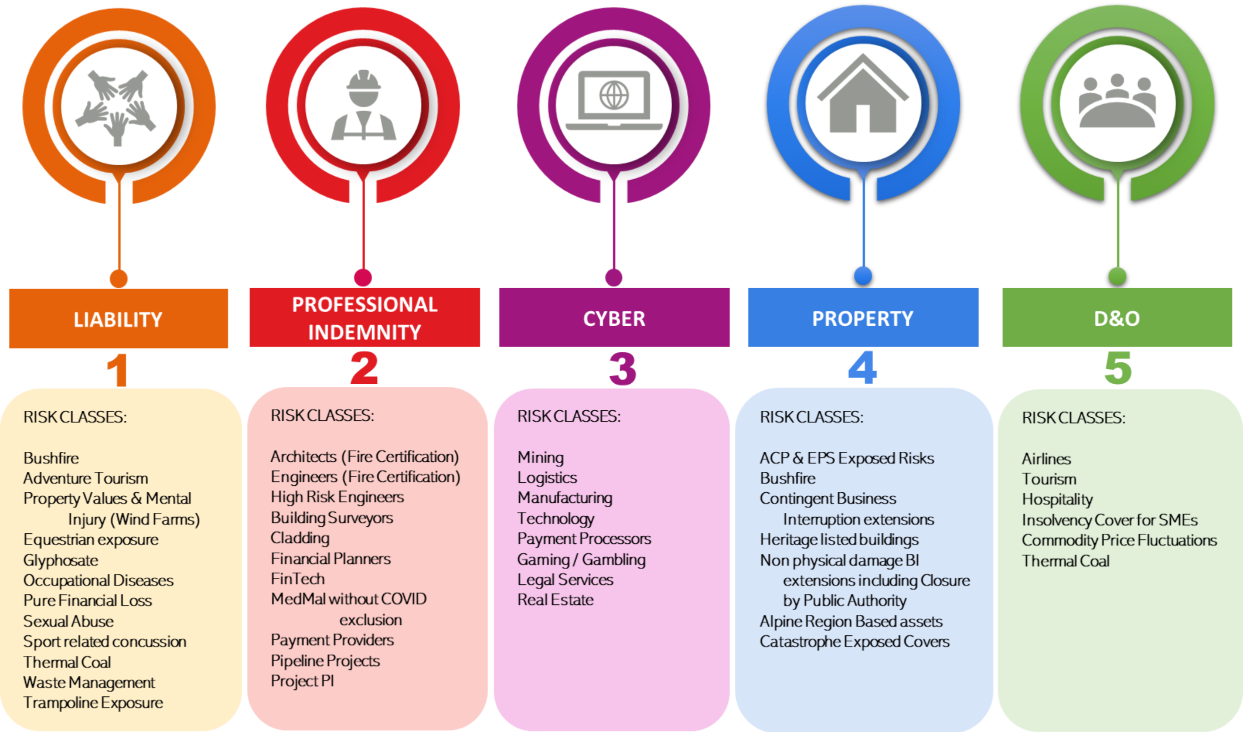
3.2.2 Low Investment Returns

The competitive push during soft market cycles lead to a deficit in premium inflow for insurance companies as they compete through offering low rates. Consequently, there is heavier reliance on investment return income as means to make a profit in the company. However, the onset of the COVID-19 pandemic last year and the proceeding recession that resulted was described to be the worst global economic crisis that happened since the 1930s great depression, severely impacted equity market returns. The global economic slowdown from the pandemic and lockdowns saw a rapid increase in unemployment across almost all working sectors, and was a direct onset of the stock market crash in March 2020 where major indices saw massive drops of 20-30% and interests rates sitting at an all-time low. This largescale economic downturn and resulting plummet on Return on Equity (ROE) has been one of the big driving factors leading insurer premium increases across industries, as they try to recoup losses in their haemorrhaging books.

3.2.3 Challenges in Accessing Insurance Capacity

Lack of access to capacity is a problem often seen as one of the characterisations of a hard market cycle. The large losses that are suddenly being realised by many insurers and increasing pressure from shareholders to receive a return on profitability means that many unprofitable carriers and syndicates exit the insurance market, leaving little capacity to write risks for the remaining carriers. This is especially an issue for hard-to-place risks and industries which are too risky for an insurer's appetite. In these instances, risks that were initially deemed insurable may see massive spikes in their premium rates, complete withdrawal from renewal on policy expiry. As the insurance companies try to repair their balance sheet, constrained capacity and high premiums seem to be on the rise.

Distressed Risk Classes & Industries

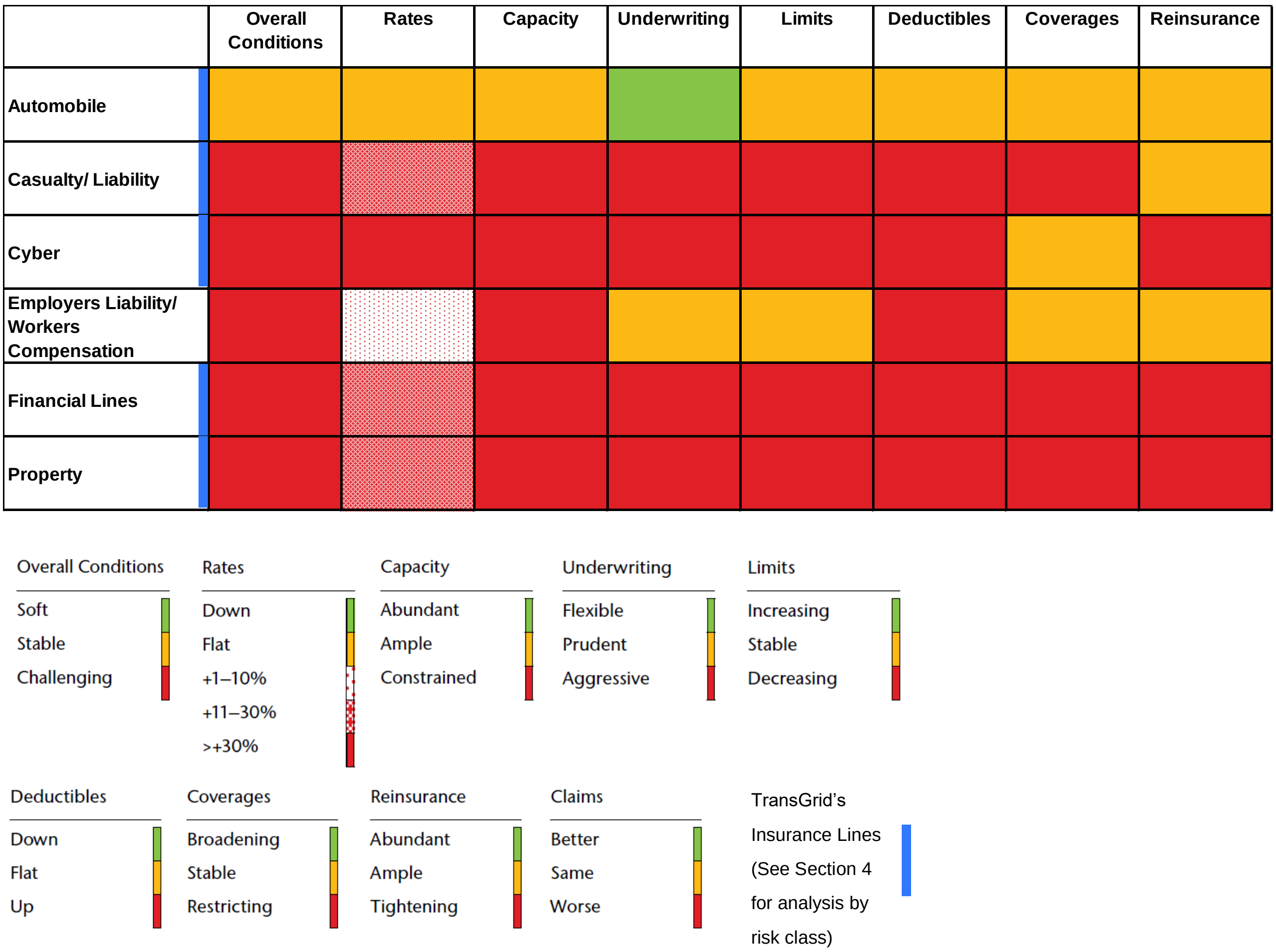


** Source: Market Update, H1 2021*

3.2.4 Hard Market Impacts on Different Risk Classes

The insurance market globally and in Australia are facing hard market conditions that are reflected within policy terms and pricing offered by underwriters. The challenges many insureds face when seeking coverage will differ depending on the affected risk class and how able the market is to recover losses and offer suitable terms. The below heatmap shows the current conditions and constraints on the general Australian insurance market product offerings. Section 4 of this report can be referred to for a more in-depth analysis by risk class, it will discuss the current market dynamics and its effects on TransGrid's forecasted insurance portfolio.

Australia Key Products Updates – Summary as at Q2 2021



**Source: Aon Global Market Insights, Aon (Q2 2021)*

Automobile: Given the short tail nature of the risk, insurers have been undertaking remediation work for the past 18 months and so the automobile class of risks is the only area where insurer focus is on portfolio growth. Underwriting is flexible, along with flat to modest pricing increases as rates are expected to flatten for the remainder of the coming year.

Casualty/Liability: Although the casualty and liability lines saw an improvement in net underwriting combined ratios, insurers continue to prioritise profitability with substantial rate increases being imposed. There is also a large focus on tightening of terms due to historical claims losses and the long tail nature of claims within this risk class. Minimum deductibles are being imposed in challenging sectors such as retail and worker-to-worker risk exposed businesses, and overall deductible increases for remaining sectors unaffected by minimum deductible impositions. Capacity of underwriting ability is expected to continue contracting with more endorsements being added to further restrict cover.

Cyber: There are growing number of claims and incidences within the cyber sector, causing the market to significantly harden. Underwriting scrutiny is high; organizations are expected to demonstrate security measures and cyber preparedness in detail. Capacity contracted significantly in the latter part of Q2 2021 as insurers proactively reduced line sizes. Coverages are generally stable, although a few insurers are applying across-the-board restrictions. Insurers are broadly requiring deductible increases. This is an area that will likely become far more challenging in the near term as insurers focus their appetite for capacity deployment in a more challenged macro environment.

Employers Liability/Workers Compensation: The focus for insurers is on book profitability and there is little appetite to write risks for large accounts, many under-performing client portfolios are seeking renewals with their incumbent as there is little appetite for the rest of the market to write new risks, as selection criteria becomes more stringent. Premiums increases are to be expected, and while insurers are offering expiring deductibles on nearly all placements, they are often priced such that insureds are heavily incentivized to increase their retention.

Financial Lines: Large and complex risks are continuing to experience a difficult environment as insurers remain focused on portfolio remediation, although rate increases are lower than their high points over the past two years. Underwriting remains highly subject to home office mandates. Capacity remains tight although new market entrants are expected to shift this dynamic. Coverage restrictions related to silent cyber, financial mismanagement and infectious diseases are being applied. Some insureds are revaluating their own risk tolerance and opting for higher deductibles as a measure to offset rising premiums

Property: Insurer focus is on portfolio remediation in this risk class, the more challenging risks are subject to significant price increases and constrained capacity. There is a widening gap between insurers rating renewals and new business, with remarketing of programs becoming more attractive to buyers in the market. Coverage is also a key area of focus, with various clausal mandates excluding cover from renewing policies, including disease cover exclusions.

4. Analysis by Risk Class

4.1 Liability

4.1.1 Overview

General Liability insurance provides TransGrid with cover for third party personal injury, property damage and financial loss. These losses vary according to the nature of the business, [redacted] For improved insight into loss drivers, liability claims are typically analysed according to the following categories:

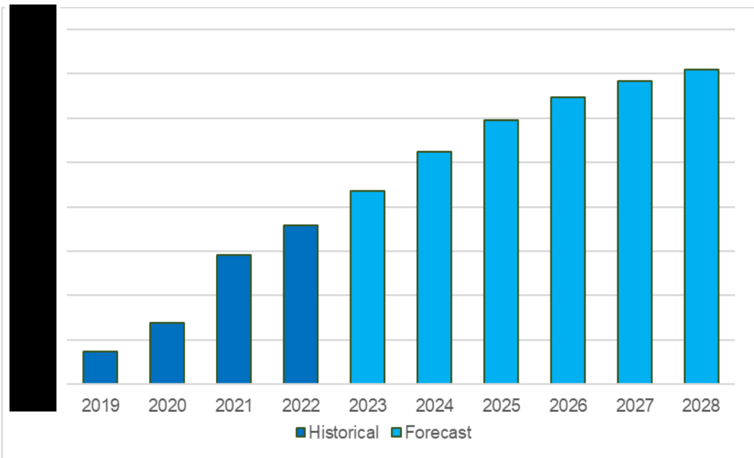
- **Attritional losses,** which are of high frequency and low severity and include one-off third-party personal injury, property damage or financial loss. [redacted]
- **Catastrophic losses,** which are high severity albeit rare are typically linked to a major event, such as a bushfire or major unplanned outage. [redacted]

Attritional losses do not have a material impact on annual premium changes. These losses are inherently stable in aggregate year to year and are already priced into the insurance premium in the primary layer. For these reasons, Catastrophic losses are a focus of underwriters when considering premiums and applying limits and sub limits in the programme is a method of managing exposure to these high-severity claims

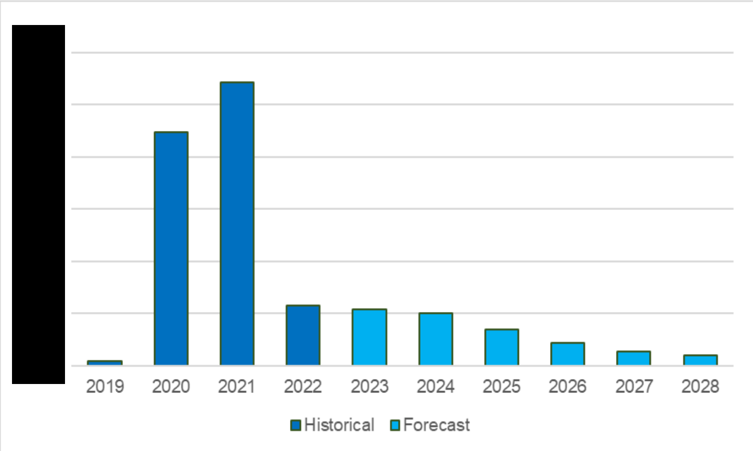
4.1.2 Forecast Summary

Premiums are forecasted to rise by an average of [redacted] over the forecast period, reaching [redacted] for the 2027/28 renewal. The most significant increase is forecast in 2023 at [redacted] followed by [redacted] in 2024, [redacted] in 2025, [redacted] in 2026, before stabilising in years 2027 and 2028 at [redacted] and [redacted] respectively. This represents an average increase of [redacted] p.a. during the regulatory period, with a total forecast premium spend of [redacted] for the regulatory period. This [redacted] p.a. reflects slower rate of increase when compared to the [redacted] average p.a. increase in the current regulatory period ending in 2022/23.

Forecasted General Liability Premium 2023-2028



Premium Movements (%) 2019-2028



The forecasted period incorporates average rate increases above [redacted] experienced during the 2019/20 and 2020/21 renewal periods which had coincided with bushfire liability claims, specifically the 2018 PG&E Camp Fire blaze, among others, being factored into renewal pricing. See 4.1.6 for further discussion of the impact of Bushfire events on premium rates.

In respect to the viability TransGrid's current limits, a Bushfire Liability quantification exercise was conducted by Aon Re that modelled the potential bushfire liability impacts along the TransGrid network. Catastrophe loss models and the national G-NAF address database were used to quantify the specific sections along the existing TransGrid network that have the greatest financial loss potential from severe bushfires (financial loss to property as well as subsequent injuries and fatalities). Using the outputs of this modelling, the top ten hotspots along the TransGrid network were identified. Realistic bushfire disaster scenarios were then developed in these areas of highest financial loss potential to quantify the expected financial losses under each bushfire scenario. TransGrid's potential liability under each bushfire scenario was also estimated. All these results were overlayed with the impact of climate change in future years.

[redacted]

[redacted]

4.1.3 Reduction of Available Capacity from Insurers in the Market

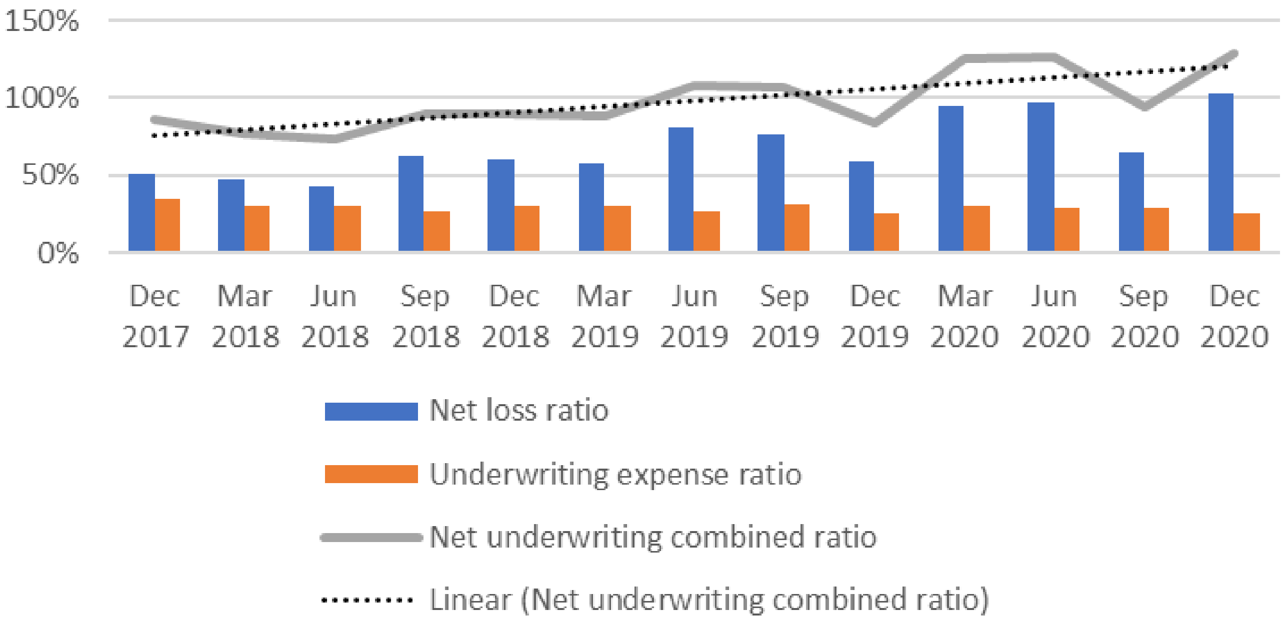
Insurer reserves have been gradually eroding due to higher than anticipated claims as evidenced by the over 100% combined ratios in the graph provided under section 4.1.4. This has been largely driven by the increasing frequency and severity of natural catastrophic events such as the Australian bushfires. For example, the Insurance Council of Australia had identified 4 major bushfires between 2000 and 2004, with a total loss estimated at $456M. During 2015 and 2021, the number of major bushfires has increased to 17 with a total estimated loss of $3.0B, and major flood events at $2.8B in losses within the same timeframe. Other measures insurers are applying include policy exclusions to limit the impact from large losses. Insurers are expected to continue to respond to these large losses by reducing the availability of cost-effective capacity from the market until reserves are replenished.

4.1.4 Correction of Insurer Profitability from Increasing Combined Ratios

Performance metrics used by insurers include the net underwriting combined ratio made up of the underwriting expense ratio, which represents the costs of underwriting as a ratio of gross written premium and net loss ratio, which represents total underwriting losses as ratio of gross written premium. A combined ratio above 100% demonstrates losses above premiums collected by insurers and during this period, insurers are operating in an underwriting loss, which is corrected through increases in premiums through higher rates.

Published APRA data shows Liability combined ratios have been operating at an underwriting loss throughout 2020 except for the September quarter which reported very low profitability with a combined ratio at 94%. During the December 2020 quarter the combined ratio peaked at 129%. These sustained results are expected to drive insurers to raise their Liability premiums to improve underwriting profits. The low investment return environment from historically low interest rates is expected to continue as insurers are unable to improve their profitability from investment management income.

Public & Products Liability – General Insurers' Quarterly Underwriting Performance



** Source: Market Update, H1 2021.*

4.1.5 Uncertainty from the Liability Impacts from COVID-19

At the time of producing this forecast, insurers are still grappling with the impact for COVID-19 on liability claims and the profitability of their respective portfolios. Many insurers are putting in place specific exclusions for COVID-19 and no longer offering Communicable Disease cover to limit their exposure to large losses. The sustained uncertainty increases pressure on premiums as insurers seek to build reserves for potential future claims. [redacted] the sustained uncertainty from COVID-19 going into the forecast period is expected to have an adverse impact on Liability insurance premiums and considered as part of the increase in insurance rates.

4.1.6 Uncertainty from Bushfire Events

[redacted] insurance is priced considering the exposure to catastrophic events, of which bushfire is now one, as there are large individual bushfire losses and a large variance in total losses year to year.

A second consideration influencing premium rate movement is the increasing severity and frequency of fires due to climate change. Climate change is making weather patterns more extreme: hotter summers and colder winters, less instances of rain but heavier rainfall when storms do occur. These more extreme rainfall patterns paired with the heightened heat it is extending the dry season and drought conditions, especially in New South Wales [Ref IPCC pp. 10]. This creates additional fuel load in existing fire-prone areas in addition to making entirely new geographic areas vulnerable. The change in climate also decreases the time it is safe to complete backburn operations. This means it is more difficult to adequately prepare land in New South Wales for worsening conditions. Lastly, the extension of the annual fire seasons in both Australia and the United States has created an overlap in the seasons, so equipment and personal sharing arrangements between governments that kept firefighting costs reasonable are now limited. As the trend of longer seasons continues governments will be increasingly constrained in their ability to share resources and the costs of tackling fires will increase, also factored into forecasted increased premiums via premium rates and fire levies.

As a third driver and mentioned above, there are several recent high-profile fires where a utility company has been found to be at-fault. One example is the 2018 Camp Fire in California which was ignited by a defective electric transmission line owned by the Pacific Gas & Electric (PG&E) utility company. While both the legislative and regulatory environment governing electricity utility operators in United States and Australia may differ, the sheer extent of the losses in USA has influenced the attitude of underwriters writing bushfire risk in Australia.

From a market standpoint, the domestic and global appetite to insure the bushfire peril is declining. [redacted]

From a purely technical pricing standpoint, as recent large losses are incorporated into carriers' pricing studies metrics such as base rates (expected loss per unit of exposure), increased limit factor curves, and risk/profit loads will increase. This results in higher premiums across all tower layers.

From a broader, exposure management perspective, a generally hotter planet with longer dry seasons due to climate change means an increased number of fires are expected in all regions, in all years for the foreseeable future. Any sort of geographic diversification benefit that offset or justified taking on substantial limits is evaporating if not already gone. This lack of diversification by way of increased event correlation, specifically no "good years" in the United States to offset "bad years" in Australia, reduces insurer and reinsurer appetite.

An additional consideration is that if carriers purchase, or begin to purchase, reinsurance to reduce their exposure via transferring the risk to reinsurers, the price of these reinsurance policies is passed through to TransGrid via a higher premium.

Carriers monitor loss ratios and are subject to profitability standards, and simply see bushfire exposures as a volatile risk and are thus reducing their exposure to it by restricting capacity. Given basic supply and demand mechanics it is becoming more expensive to place the same insurance limits and complete hundred-million-dollar towers. The carriers who remain are aware that they are operating in a space where competition is thinning, and thus have an advantage to push for higher, albeit not unjustified, rates.

As shown in 4.1.2, in the later regulatory years annual premium increases are forecast at [redacted] and [redacted] as the market stabilises with awareness and modelling becoming more established, which creates more acceptance for taking on the risk and confidence in successfully managing book exposure.

It should be noted that these forecasts assume ***that there is no Australian bushfire caused by a utility company during the regulatory period***; such an event would cause a market failure from the volume of insurers that would cease offering coverage for the peril. In the event of a market failure limits would need to be sourced at much higher rates, making the general liability premium cost projections in this report too low. TransGrid may also be compelled to purchase lower levels of cover, which again would not align with the premium cost projections in this report.

4.1.7 Insurance Premium Forecast Calculations

[redacted]

Please refer to Appendix A1.2 for further details.

4.2 Industrial Special Risks (ISR)

4.2.1 Overview

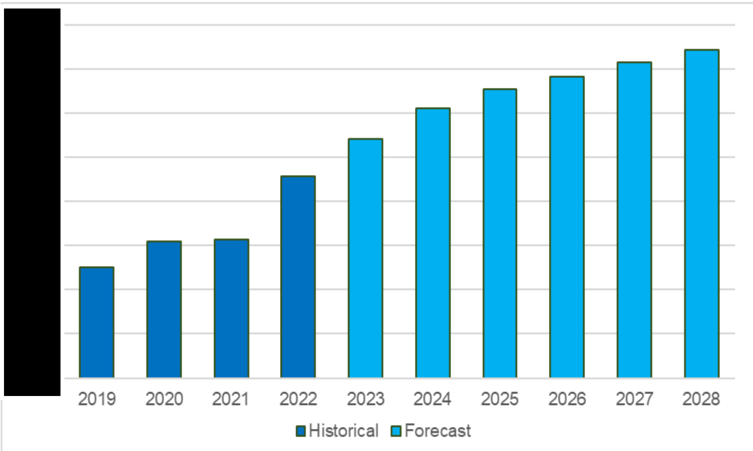
Industrial Special Risks ("ISR") insurance provides TransGrid with cover for damage to assets declared within the policy, which largely include substations, terminal stations and any other non-network assets declared under the policy. Key consideration for insurers when providing and pricing premiums for coverage include the risk related to high severity and low frequency catastrophic events. [redacted]

The ISR forecast has considered several sources, [redacted] Furthermore, external market pressures to increase premiums are considered linked to the reducing profitability of ISR insurance and the need to replenish reserves due to increasing claims, aggravated by the current low investment return environment. The sections below detail the forecast and these underlying drivers.

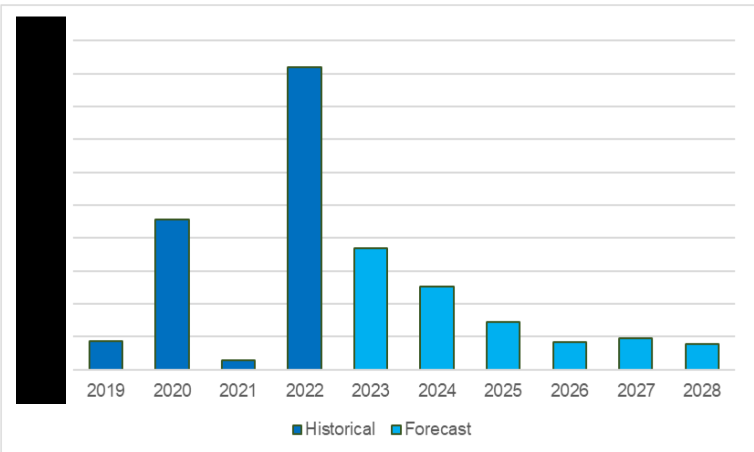
4.2.2 Forecast Summary

Premiums are forecasted to rise by an average of [redacted]. over the forecasted period. This reflects slower rate of increase, when compared to the [redacted] actual increase in the current renewal period for 2021/22, when adjusted to a financial year basis. The main driver for the increase is recent claim activity, as there were major generator losses that occurred in Australia, New Zealand and South Africa this year (4.2.4).

Forecasted ISR Premiums for 2023-2028



Premium Movements (%) 2019-2028



Headwinds of the generator claims making their way into rates will see pricing increase more than the typical [redacted] annual average in 2023, as well as in regulatory years 2024 and 2025. TransGrid has a favourable reputation in the market and is thus well placed to benefit from the market softening in 2026 and see minimal [redacted] annual premium increases through the end of the regulatory period, conditional on sustaining minimal property claims activity.

4.2.3 Projected Increases in Declared Asset Values

TransGrid has forecasted growth between [redacted] and [redacted] per annum over the forecast period to account for the increasing value of regulated assets covered for material damage. Material damage cover insures a business owner against loss or damage to physical assets including buildings, contents, plant and equipment, fit-out and stock. These increases represent an increase in exposure under the ISR policy and will drive up premiums as the exposure for which Insurers are providing coverage grows.

4.2.4 Power Generator Losses

Power utilities will face difficult, high premium renewals for the next two to three years as several large energy losses are factored into underwriter accept/reject decisions and operational class rates used in pricing. This has been observed in the market and will impact TransGrid as they operate in the power sector.

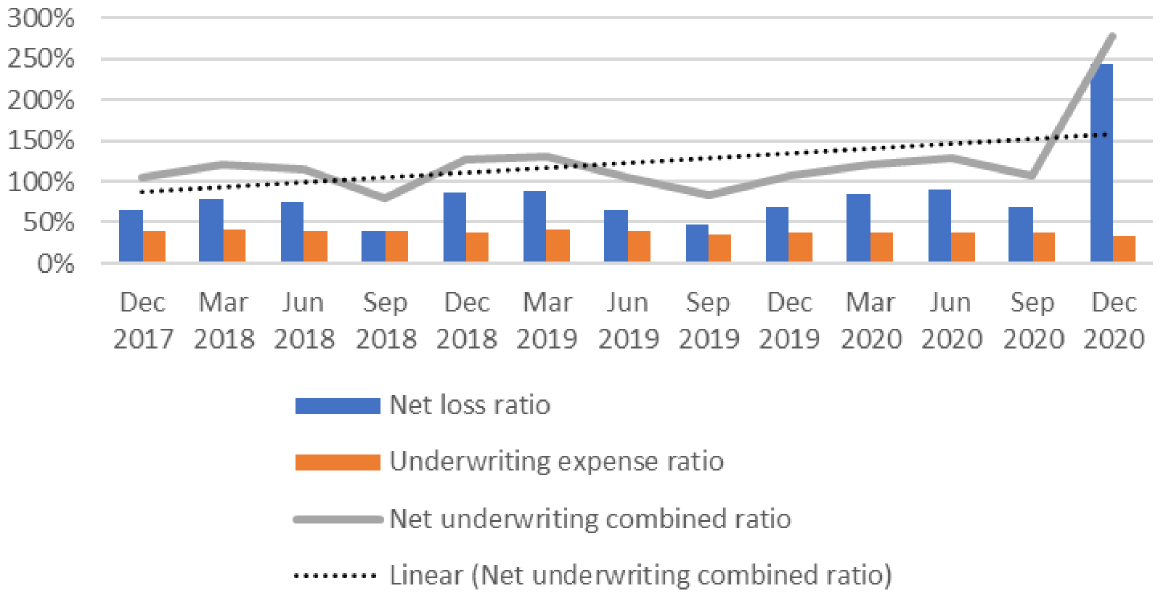
The recent losses include Callide coal fired plant explosion (Australia, May 2021), Kawerau geothermal mechanical fault (New Zealand, June 2021), Medupi coal plant explosion (South Africa, August 2021), and the Calpine USA gas fired generator event (United States of America, June 2021). There will always be an appetite for substations, however, so headwinds from the losses will be lessened by this steady market.

4.2.5 Correction of Insurer Profitability from Increasing Combined Ratios

Performance metrics used by insurers include the net underwriting combined ratio that is made up of the underwriting expense ratio, which represents the costs of underwriting as a ratio of gross written premium and net loss ratio, which represents total underwriting losses as a ratio of gross written premium. A combined ratio above 100% demonstrates losses above premiums collected by insurers, which on a portfolio level is unsustainable for insurers unless they are able to justify this position with high investment returns from the premiums collected. In the absence of significant investment income, insurers would increase the premiums to correct these underwriting losses.

Published APRA data shows Fire and ISR combined ratio to have spiked at 278%, with the net loss ratio showing losses alone being paid out at almost two and half times the premiums collected. Furthermore, only two quarters have recorded a combined ratio of less than 100% since December 2017. These results are expected to drive pressure to increase premiums over the forecasted period to improve their profitability and recover losses.

Fire & ISR – General Insurers' Quarterly Underwriting Performance 2017 – 2020



** Source: Market Update, H1 2021.*

4.2.6 Australian Insurers Withdrawing Capacity After Claims Worsen During 2020

Recent increases in insurance claims has also restricted capacity for insurers as their reserves need to be replenished and greater amounts need to be reserved to ensure adequate coverage for ISR policies with the increased losses experienced. The Australian market, [redacted] during 2021 renewals to date have been able to provide limited capacity for additional and new demands. Furthermore, this has also seen the introduction of tighter policy terms and conditions.

Quantitative analysis of TransGrid's existing property limit undertaken by Aon indicates that the modelled outcomes of the loss scenarios compare favourably against [redacted] Accordingly, our forecast assumes a [redacted] requirement and has included [redacted]

4.2.7 Pricing Pressure to Recover from Low Investment Returns

Published APRA General Insurance statistics has estimated $81M investment losses for the insurance industry during the first quarter of 2020, when volatility from the COVID-19 pandemic started to impact the market. The continued economic uncertainty from COVID-19 and the sustained current historic low interest rate environment has placed even greater pressure on insurers to make a underwriting profit (see section 4.2.5). For example, the current RBA cash rate sits at 0.10%, compared to 4.75% at the end of June 2011. These conditions expected to continue during the forecasted period and places more pressure for insurers to make underwriting profits through increasing premiums as they are unable to source investment returns.

4.2.8 Insurance Premium Forecast Calculations

[redacted]

Please refer to Appendix A1.3 for further details.

4.3 Financial & Professional Lines

4.3.1 Overview

TransGrid purchases the following financial and professional lines insurance coverages:

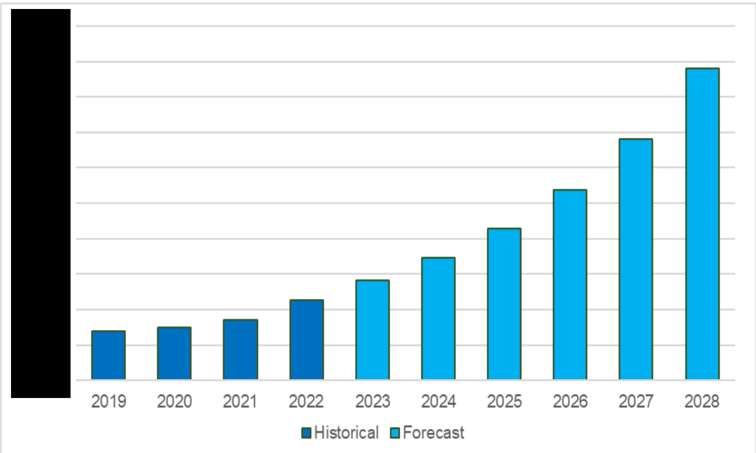
- [redacted]
- **Crime**, covering employee theft;
- **Employment Practices Liability (EPL)**, protecting TransGrid from employees alleging discrimination, unfair dismissal, sexual harassment and bullying;
- **Professional Indemnity**, protecting TransGrid against claims for alleged negligence and breach of duty;
- [redacted]
- **Statutory Liability & Workplace Health & Safety (WHS)**, covering fines, penalties and defence costs if TransGrid employees are liable for breaching legislation;
- [redacted]

[redacted] have been identified and having the largest increases in premium. Furthermore, external market pressures to increase premiums are considered linked to the economic conditions deteriorating over the past year, and a hardening market being the norm for the foreseeable future for the financial lines risk classes. These forecast market rate increases have been based on the analyses from [redacted] brokers which included a review of the insurer panel as well as market trends to date. The sections below detail the forecast and these underlying drivers.

4.3.2 Forecast Summary

Total Financial & Professional ("F&P") lines premiums are forecasted to rise by an average of [redacted] p.a. over the regulatory period to reach [redacted] at the 2027/28 renewal. [redacted] premiums are the main driver and forecasted to rise year on year by an average of [redacted], from [redacted] to [redacted], to total [redacted] over 2024-2028. The [redacted] assumed in the forecast is based on the latest renewal which maintains a [redacted] limit. While high, [redacted] is on par with the market and is expected to persist as the landscape deteriorates further. Premium rate changes as high as [redacted] have been seen for other energy companies in Australia in 2021, so [redacted] represents a realistic best estimate.

Forecasted Premiums 2023-2028



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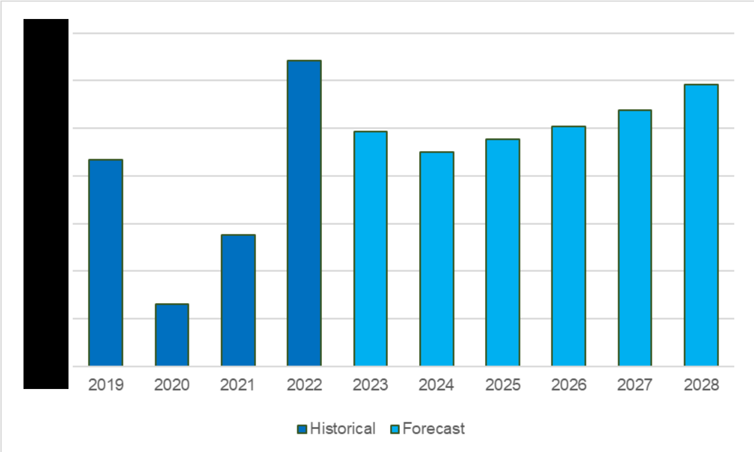
Premium Movements (%) 2019-2028



[redacted]

In the later years of the regulatory period [redacted] becomes over [redacted] of the premium spend, so it is influencing the increasing annual changes seen in the chart on the left. As shown, the largest annual percentage increase is likely to be that experienced in the 2021/22 renewal when the market is correcting for [redacted], [redacted], and [redacted] mispricing, as well as restricting capacity on [redacted] which drives up demand and thus also increases the price. [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

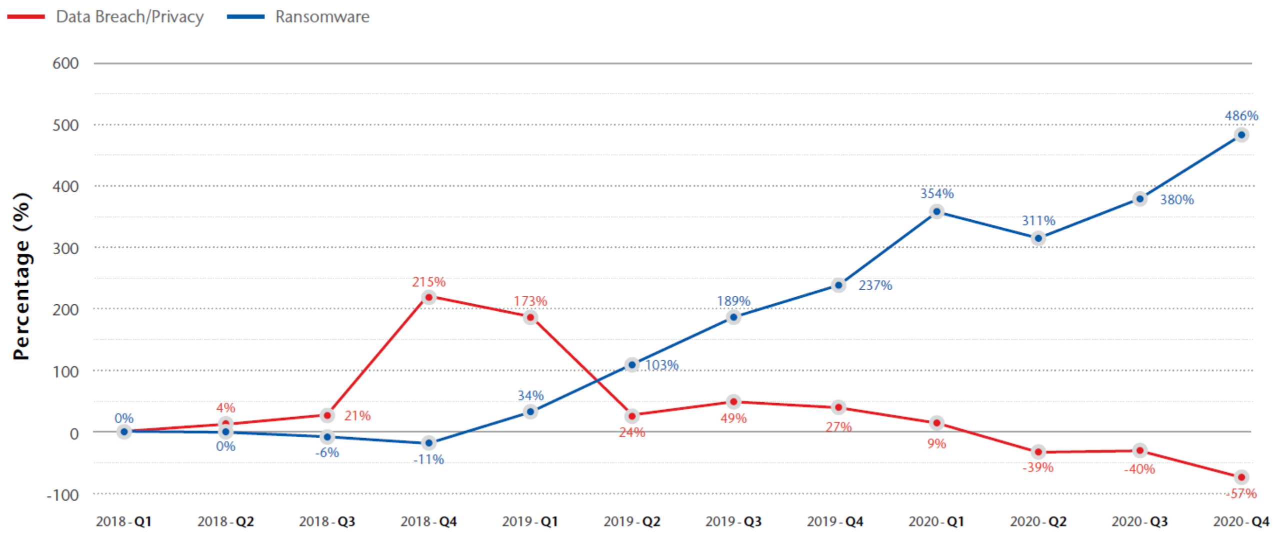
[redacted]

[redacted]

4.3.3.1 Escalating Ransomware Attacks

The Aon Cyber insurance market update has projected the global market for insurance to grow from $5.5B at the end of 2018 to $20B by the end of 2025. The trajectory has been driven by the uplift by at least 20% of ransomware attacks since Q1 2020, which has continued throughout 2021. The financial consequences of these attacks are also estimated to have become ten times more severe only ten months prior to this period.

Data Breach vs Ransomware Attacks, 2018-2020



**Source: Risk Based Security, analysis by Aon. Data as at 5 January 2021; Ransomware payment per Coveware Ransomware Report as of 14 November 2020*

The impact of this growing frequency and severity of losses has been a sharp increase in demand for Cyber insurance as organisations are becoming more aware of the potential for Cyber related events occurring. At the same time the increase in severity is increasing limits required by organisations as well as the reserves insurers need to maintain to pay out future claims. These conditions places pressure on Cyber insurance rates to increase while demand allows insurers to improve their profitability by being selective over the organisations and the risks they underwrite as well as the exclusions stipulated in their policies.

4.3.3.2 Targeting of Critical Infrastructure Assets

[redacted] Many of these attacks are not made known to the public, however the most recent reference includes the Colonial Pipeline which provides 45% of the oil consumed in the east cost of the United States. [redacted]

Additional examples of cyber-attacks on public and infrastructure entities, with a narrower focus to Australia in 2020 and 2021 include:

- **Public Sector:** Australian Universities (multiple), NT Health, UnitingCare, Australian Defence Dept, NSW State Transit.
- **Telecommunications**: Optus.

[redacted]

[redacted]

4.3.3.3 Additional Cyber Liability Considerations

Cyber-attacks are a relatively new peril which translates to unstable pricing due to lack of historical data and a continually evolving risk landscape. The lack of historical data leads pricing to be reactive to recent loss years and potentially market driven. The evolving landscape of the peril, for example the technology behind attacks constantly changing, generates a high level of underwriting caution and thus conservative pricing manifesting in higher annual premiums. As mentioned above, these are also driving carriers to experiment with appetite strategies, reduce capacity, and differentiate greatly among industries. (see 4.3.4)

Regarding appetite, carriers are experimenting with treating Cyber as an ancillary coverage, that is, not participating in the Cyber tower unless they have placed insurance on a major line for the insured. An example of this would be a carrier not being willing to participate in a company's Cyber Liability tower unless it is also in the General Liability tower. Unconventional appetite strategies lead to unpredictable pricing as long-term strategies and partnerships, which stabilise year-on-year pricing, are not in place.

Lastly, capacity has been withdrawn from the Cyber market, and this decrease in supply works to increase the demand, and thus the price that can be charged, and renewing the same total tower limit becomes increasingly difficult. [redacted]

4.3.4 Hardening in the Financial Lines Insurance Market

With economic conditions deteriorating over the past year, and a hardening market (see section 3) being the norm for the foreseeable future, increases have been budgeted in the range of [redacted] and [redacted] for the financial lines risk classes (i.e. [redacted], EPL and PI risk) depending on the organisations risk profile and exposure. These are subject to change should market conditions recover.

These are subject to change should market conditions recover. The forecast has included premium increases for [redacted] and EPL at [redacted] for the 2024 renewal, then [redacted] increases in premiums in the remainder of the regulatory period. Premium increases are not likely to decrease below [redacted] since carriers have historically under-priced these coverages and are wary of repeating the same mistake. Similarly, the PI premium change in 2024 is forecasted to be [redacted], then falls to [redacted] for 2025 and 2026, then [redacted] for 2027 and 2028. These forecast market rate increases have been based on the analyses from TransGrid's financial lines brokers. It should be noted that these are best estimates, and pricing is highly depended on market events so subject to much higher, as market events are often well publicised and a large dollar amount, as with the case of Side C class action lawsuits.

4.3.5 Crime

[redacted] TransGrid's crime insurance protects the organisation from the loss of money, securities, inventory or other property resulting from fraudulent events. Typical crime insurance claims involve employee dishonesty, embezzlement, forgery, robbery, funds transfer fraud, counterfeiting and other criminal acts. The policy provides coverage in the following scenarios:

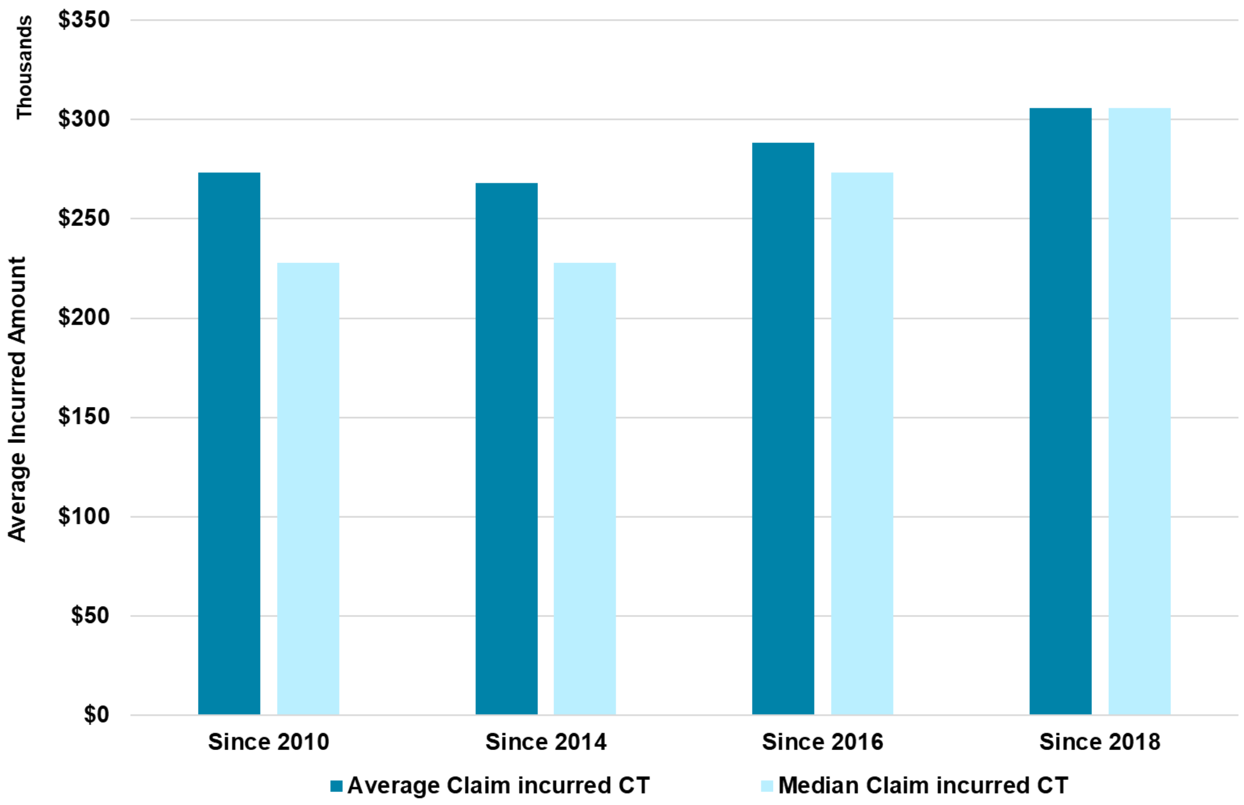
- Direct loss from dishonest or fraudulent acts committed by employees or third parties;
- Loss of money, securities or property whether on the organization's premises or in transit;
- Forgery of negotiable instruments such as cheques; and
- Computer crime including funds transfer fraud.

Analysis of Aon proprietary premium data and insights gathered from insurers during the 2022 placements has identified pricing pressure from increasing claims and expectations of a spike in claims from limited controls being applied during the COVID-19 remote working environments. Furthermore, the limited number of insurers participating in the Australian Crime market will limit options to seek out capacity and constrain these increases in premiums. The forecasted premium assumes a peak increase of [redacted] during 2023 and then gradually reducing premium increases by [redacted] year on year as market conditions correct.

4.3.5.1 Increasing Non-FI Financial Crime Claims

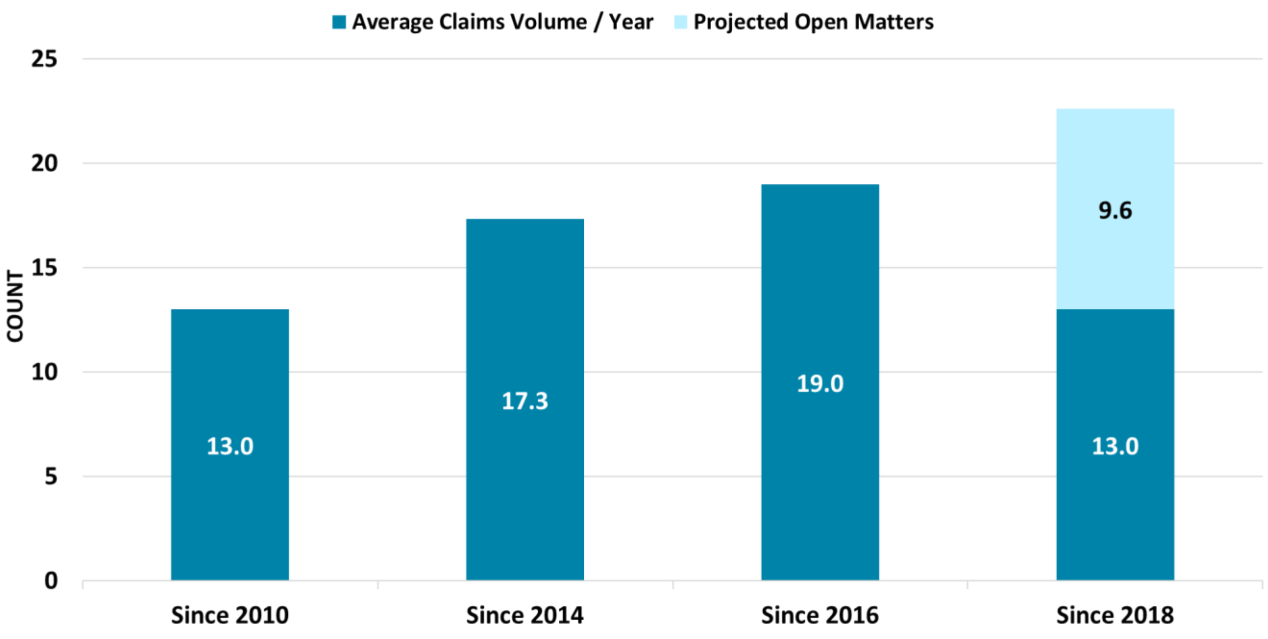
Financial crime policies traditionally provide coverage once a loss is discovered regardless of when the loss event took place. This requires insurers to price premiums for incurred but not recorded claims that they assume financial responsibility over when providing coverage. There is an established increasing trend in financial crime claims amongst Non-Financial Institutions (Non-FIs) going into the COVID-19 pandemic, with the average and median incurred amount per claim trending upwards over time, and median claim quantum since 2018 increasing by approximately [redacted] compared to median quantum since 2010. Similarly, there is continued upward trend in the average number of claims per year over time, with [redacted] p.a. since 2010 versus a projected [redacted] p.a. since 2018. These trends have underwriters adjusting their pricing to ensure underwriting profit margins are maintained.

Average & Median Claim Incurred Amounts (Non-FI)



** Source: Aon analysis based on Internal Claims Data for period 2010-2020*

Average Non FI Claims & Open Incidences Volume Per Year



** Source: Aon analysis based on Internal Claims Data for period 2010-2020*

4.3.5.2 Anticipated Higher Claims During COVID-19 Remote Working

Insurer appetite to underwrite commercial crime insurance is falling as market conditions continue to tighten and underwriters anticipate significant growth in claims in the coming years from the widespread remote work arrangements. These conditions will continue to put pressure on insurers to increase their premiums to maintain their portfolio profitability. The KPMG COVID-19 Fraud Survey (2020) supports this view with 42% of executives reporting their ability to conduct investigations into fraud and corruption was inhibited by COVID-19. Furthermore, 27% of executives reported they had to delay their fraud corruption prevention programs due to the impacts of COVID-19.

4.3.6 Insurance Premium Forecast Calculations

[redacted]

Please refer to Appendix A1.4 for further details.

4.4 Ancillary Lines

4.4.1 Overview

The risk classes included in this section Motor, Marine Transit, Corporate Travel, Group Journey, Contract Works and Contractors Pollution Liability. [redacted] These insurance lines provide coverage for the following:

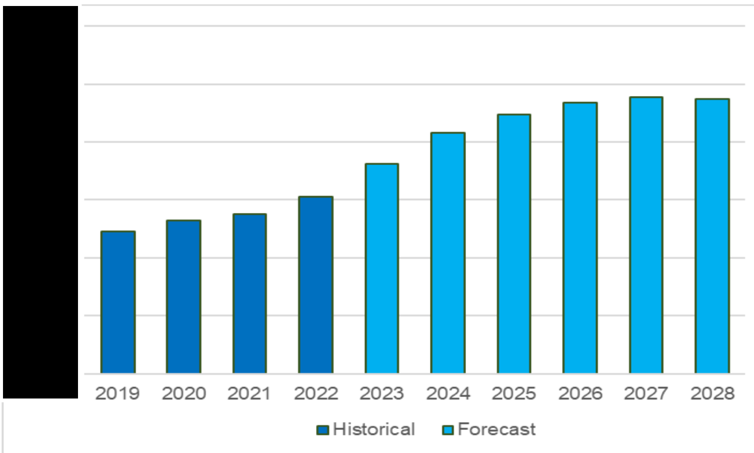
- **Motor**, covering the repair or replacement of vehicles in covered events;
- **Marine Transit**, covering loss or damage to gods in transit;
- **Corporate Travel,** provides protection for TransGrid's employees travelling intrastate, interstate and abroad for business;
- **Group Journey**, covering employees on their route to and from their place of employment;
- **Contract Works – Material Damage**, covering physical loss and damage to contracts works during construction;
- **Contract Works – Liability**, covering third-party liability during construction;
- **Contractors Pollution Liability**, covering third-party liability for bodily injury, property damage, clean-up, and related defence costs as a result of pollution conditions.

Furthermore, external market pressures to increase premiums are considered linked to the economic conditions deteriorating over the past year, and a hardening-to-stable market being the norm for the foreseeable future. These forecast market rate increases have been based on discussions with TransGrid's brokers, including a review of the insurer panel as well as market trends to date. The sections below detail the forecast and these underlying drivers.

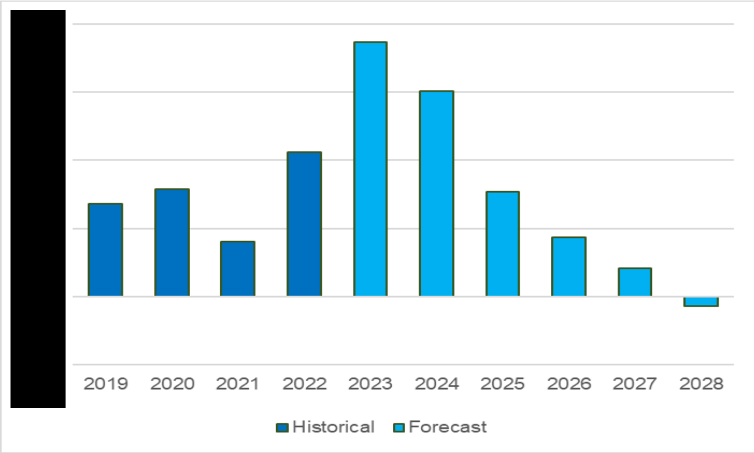
4.4.2 Forecast Summary

Total premiums are forecasted to rise by an average of [redacted] p.a. from [redacted] in 2024 to [redacted] in 2028. This is a lower rate of increase compared to the [redacted] actual increase in 2021/22 and the [redacted] increase for 2022/23 and is on par with the single digit increases in 2018/19 and 2019/20. Majority of the premium volume throughout the historical and projected period are from the Motor and Contracts Works policies, making up [redacted] and [redacted] of ancillary premium, respectively

Forecasted Premiums 2023-2028



Premium Movements (%) 2019-2028



The high premium movements seen in years 2022-2024 are due to [redacted] pricing corrections; the line was previously under-priced and exposure to project failures and natural catastrophes is now being recognised. Additionally, after 2022 [redacted] are no longer offsetting the increase in other lines.

The chart to the left illustrates the annual premium movements, demonstrating that the average [redacted] p.a. increase cited above is composed of a downward trend. This average is lower than the [redacted] p.a. average increase over the 2019-2023 regulatory period.

4.4.3 Drivers of Premium Rates

The ancillary lines have stable coverage arrangements, so after an initial increase [redacted], premiums are forecast to remain level with [redacted] annual percentage premium increases during the last four years of the regulatory period. [redacted]

A driver of the pricing stability of the other lines, including Motor, Marine and Travel, is their frequency-driven claims profile. With high frequency lines insurers can estimate expected book losses in a year more accurately than is possible with high-severity and catastrophic lines, since aggregate annual losses have a lower variance between years. Given this relative predictability, no issues in purchasing coverage at current limits, whether created by capacity restrictions or insurers exiting the market as a reaction to volatility and/or previous mis-pricings, are foreseen. [redacted]

4.4.4 Insurance Premium Forecast Calculations

[redacted]

Please refer to Appendix A1.5 for further details.

Appendix 1 – Insurance Premium Forecast

A1.1 Insurance Premium Forecast – Summary

A1.2 Insurance Premium Forecast – General Liability

A1.3 Insurance Premium Forecast – Industrial Special Risks

A1.4 Insurance Premium Forecast – Financial & Professional Lines

A1.5 Insurance Premium Forecast – Ancillary Lines

A1.1 Insurance Premium Forecast - Summary

[redacted]

A1.2 Insurance Premium Forecast - General Liability (including Bushfire)

[redacted]

A1.3 Insurance Premium Forecast - Industrial Special Risks (ISR)

[redacted]

A1.4 Insurance Premium Forecast - Financial & Professional Lines

[redacted]

A1.5 Insurance Premium Forecast - Ancillary Lines

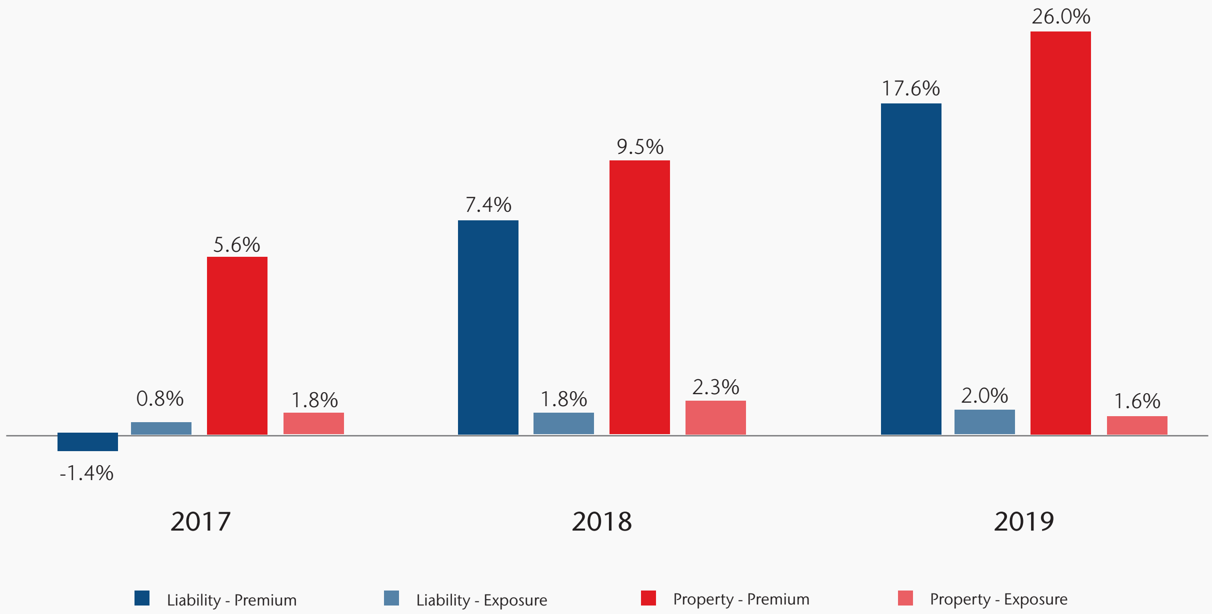
[redacted]

Appendix 2 – Rethinking Risk Transfer in a Tightening Insurance Market

Rethinking Risk Transfer in a Tightening Insurance Market

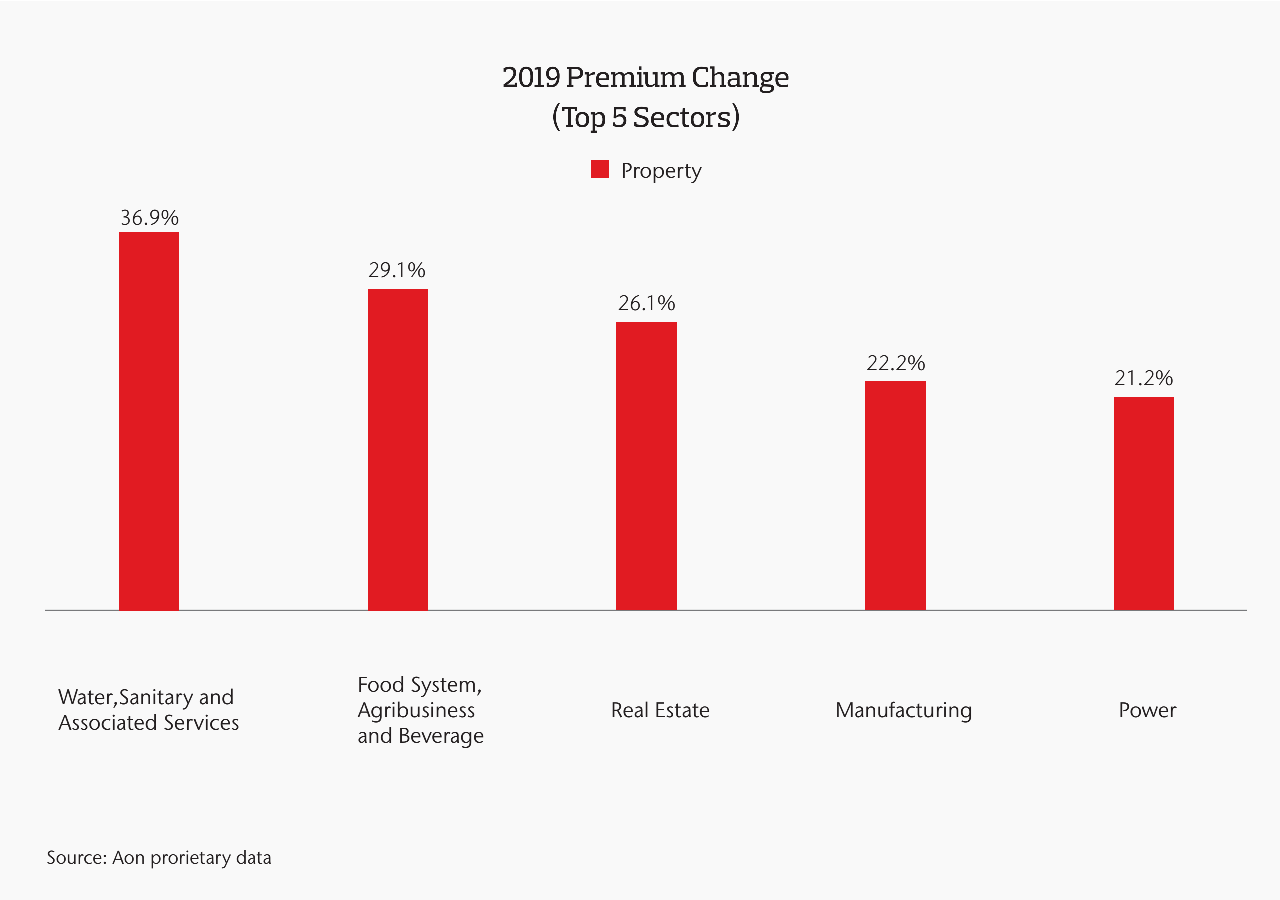
Australia has shown above 10% increases in rates across the majority of its insurance business lines according to Aon Global Market Insights – Q4,2019. In the current insurance market, carriers are seeking to replenish their returns after being hit by a string of natural disasters, including the recent bushfires. Historically low investment income mainly driven by low interest rates is set to continue following the current global COVID-19 pandemic, and this trend has prompted many organisations to rethink their risk transfer strategy using data and analytics.

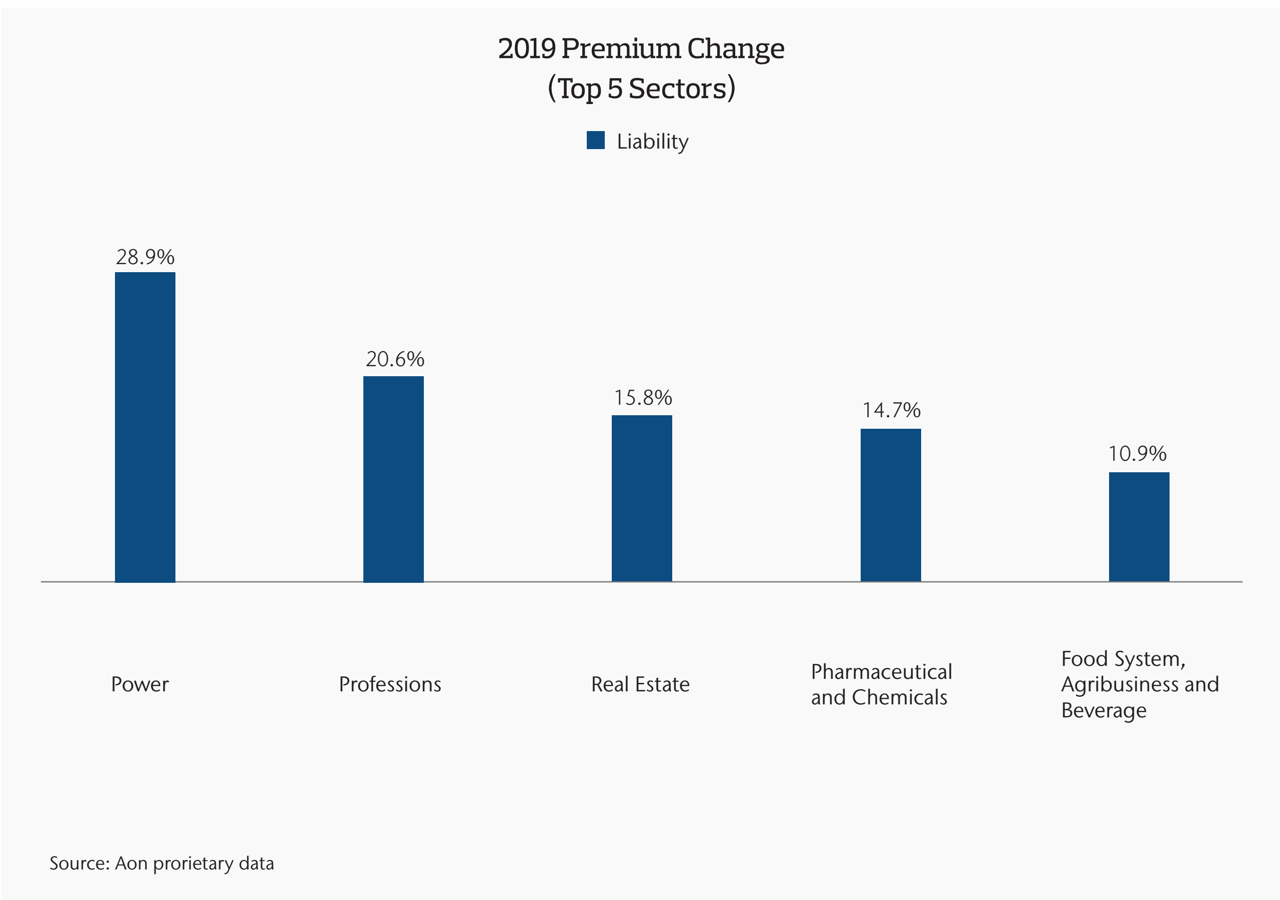
Australia since 2017 has seen consistent year on year premium growth amongst property and liability insurance lines



Source: Aon prorietary data

A study using Aon proprietary data of organisations with the largest premiums (greater than $500,000 for Property and $250,000 for Liability) show premium increases of 26% for property and 18% for liability business lines during 2019 while exposures remained relatively flat since 2016. The trend has accelerated over three consecutive years with property insurance premiums increasing by 5.6% in 2017, 9.5% in 2018 and 26% in 2019. Liability premiums are following the same trend with a lag time of one year, where premiums increased by 7.4% during 2018 and by 17.6% in 2019. These trends are likely to continue from 2020 until insurance carrier returns stabilise or underlying market conditions and trends in global events change significantly. These conditions set the context for carriers exercising underwriting discipline in specific sectors, when looking to improve their underwriting profitability. For example, the Power sector has seen premium increases across both property (21.2%) and liability (28.9%) due to the increased frequency and severity of losses both locally and globally. Bushfires continue to remain top of mind with significantly restricted capacity in Australia. This landscape is no different on a global stage with the California wildfires providing a reference case, where infrastructure operated by Pacific Gas and Electric Company caused 17 out of the 24 major wildfires in 2018.


2019 Premium Change
(Top 5 Sectors)
Property
36.9%
29.1%
26.1%
22.2%
21.2%
Water,Sanitary and Associated Services
Food System, Agribusiness and Beverage
Real Estate
Manufacturing
Power
Source: Aon proprietary data


2019 Premium Change
(Top 5 Sectors)
Liability
28.9%
20.6%
15.8%
14.7%
10.9%
Power
Professions
Real Estate
Pharmaceutical and Chemicals
Food System, Agribusiness and Beverage
Source: Aon proprietary data

Organisations are responding to the market

To help navigate the current market conditions, Aon has been working with an increasing number of clients to develop strategies that are supported by data and analytics. Although there has been no one-size-fits-all solution, below is an overview of some of the key options that Aon has been assisting organisations in implementing.

1. **Review existing insurance programme structure**

   Organisations can seek to reduce the impact from premium increases by risk retention strategies such as adjusting deductibles, coverage limits and annual aggregates. Although this results in the retention of greater risk by organisations, an insurance programme can be designed through the considered analysis, for example, of loss histories where available or actuarial quantification methods where there is no data. This will enable the design of an optimal structure that sits within an organisation's risk appetite.

2. **Consider alternative risk transfer strategies**

   There are several alternative options (including Captives, Protected Cells and Member Protection Funds) available to organisations that balance traditional insurance and reinsurance with methods of self-funding. The benefits of implementing these various alternative risk transfer vehicles depend on the circumstances of the individual organisation that can be modelled and quantified with the appropriate due diligence.

3. **Demonstrate a better risk profile to the market**

   The market pricing of risk is mainly based on each carrier's loss experience from their respective portfolios. This may be to the disadvantage of organisations with better risk profiles who end up facing the same premium increases as those that have been subjected to large losses. These organisations can use data and modelling to differentiate their profile to the market and navigate through the current market conditions.

Contact your client manager early before your renewal

Organisations anticipating a difficult renewal and are considering their long-term risk transfer strategy should contact their Aon client manager, who can work through viable options specific to their needs. In addition, performing the appropriate analytical due diligence and gaining consensus over a strategy takes time – initiating these processes too late may limit an organisation's options and leave them vulnerable to the tightening insurance market.

We're here as your trusted adviser:

Contact your Aon representative to discuss options for renewal.

[redacted]

Appendix 3 – Market Insights

Attachment 1 – Aon Market Update H1, 2021

Attachment 2 – Aon Global Market Insights Q1, 2021 (Extract)

Market Update H1 2021

Empower Results®

A macro perspective – key trends

1 Orderly 1/1 reinsurance renewals

- Despite ongoing uncertainty around final COVID-19 losses, major 1/1 reinsurance renewals largely orderly with a strong focus on terms and conditions (infectious disease and cyber covers)
- Global (re)insurer capital largely stable year over year, with over USD23bn of new capital raised in 2020, >75% of which went to incumbent market players gearing up for increasingly favourable direct market conditions

2 'Average' natural catastrophe loss year

- APAC natural catastrophe losses for 2020 below 10 year average, disproportionately high US cat losses (storm, cyclone and wildfire events)
- Secondary catastrophe perils (hail, storm, bushfire) very problematic for insurers, particularly in Australia

3 Social inflation pressures expected to resume

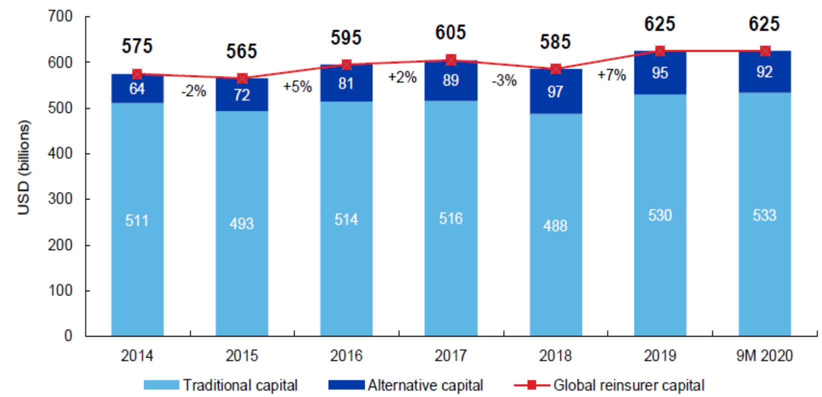
- Still a major concern for insurers, however COVID-19 has slowed or stopped courts in 2020, dampening its' overall effect.
- Insurers expect this to pick up pace as global economy continues to re-open.

4 Investment returns continuing to stagnate

- Poor insurer investment returns in current economic environment driving a dual balance sheet shock to insurers (Australian insurers investment income for the quarter ended December 2020 was down 19% compared to the September 2020 quarter – APRA).

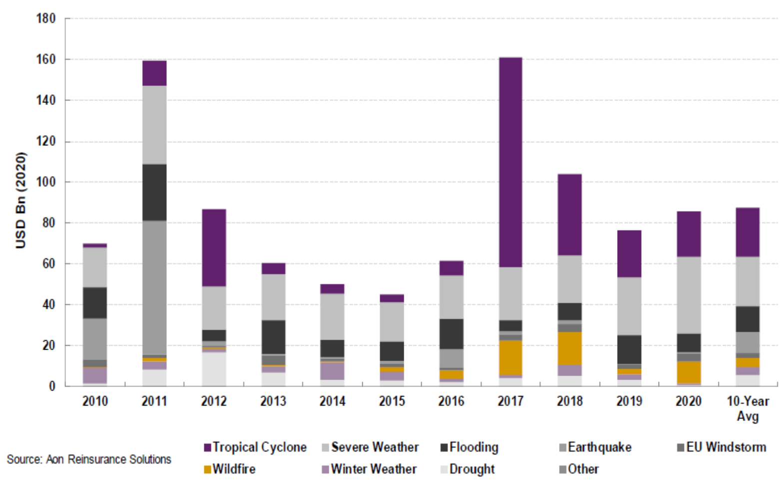
The 18 largest global (re)insurers forming part of Aon's Reinsurance Aggregate (ARA) have recorded an average combined ratio of 101% and return on equity of 5% in the past 5 years.

Global (re)insurance capital



Sources: Company financial statements / Aon Business Intelligence / Aon Securities Inc.

Global insured natural catastrophe losses



Source: Aon Reinsurance Solutions

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Lloyd’s of London update

Ex-COVID-19 Results Positive

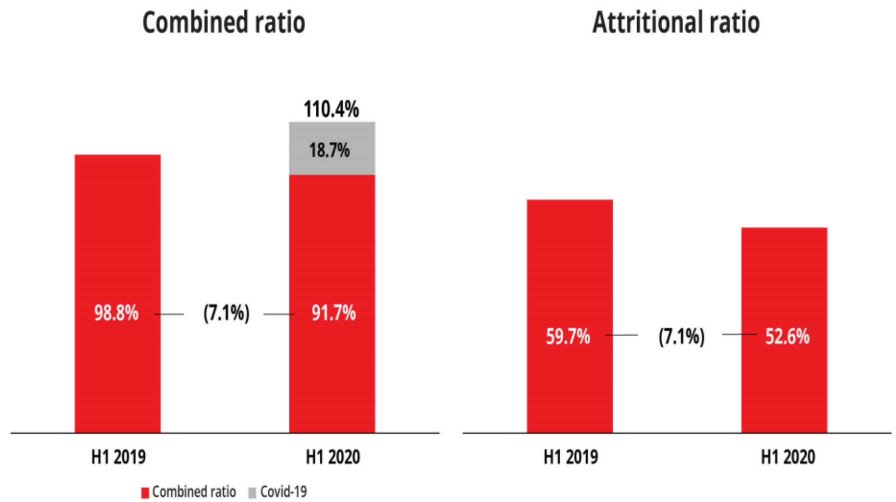
- The most recently published H1 2020 results showed an overall loss of £0.4bn, driven by COVID-19 claims of £2.4bn, contributing 18.7% to a **combined ratio of 110.4%**
- Excluding COVID-19 claims, the combined ratio has shown substantial improvement at 91.7%, down from 98.8% in H1 2019
- Despite the apparent improvement, property, casualty and reinsurance segments all posted notable losses of US$1bn+, £386mn (triple on last year) & £256m respectively

Investment Returns still Poor

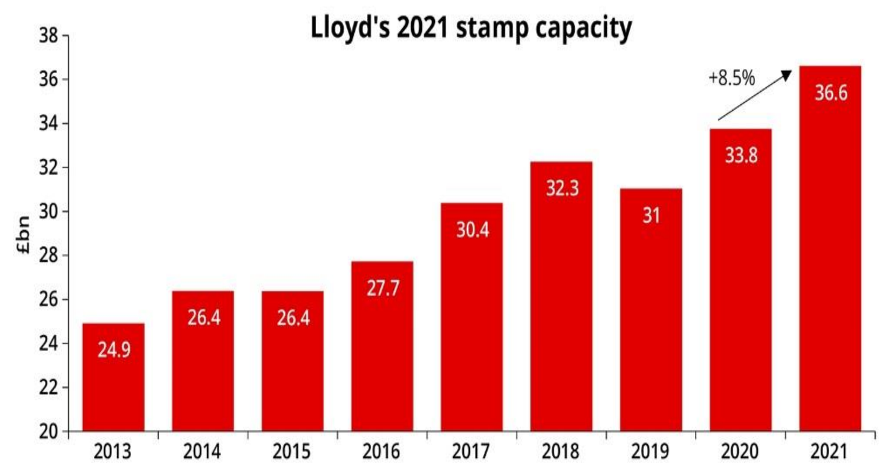
- Net investment income fell 59% in H1 2020
- With circa 60% of Lloyd's profits driven long-term by investment performance, the market is set to face an earnings headwind that will require lost returns to be made up through improved underwriting performance

2021 Outlook

- The work over the past three years (Decile reviews) is starting to bear fruit in an underlying basis, however continued performance continues to be number one priority.
- Only the first and second quartiles have been granted stamp capacity growth, other quartiles must continue to reduce in 2021 (as determined in the previous Lloyd’s Decile review)
- We will continue to see prudent capacity deployment and continued push for rate growth across all lines



Source: Lloyd's



Source: Insurance Insider

Distressed Risk Classes & Industries

1 LIABILITY

RISK CLASSES:

- Bushfire
- Adventure Tourism
- Property Values & Mental Injury (Wind Farms)
- Equestrian exposure
- Glyphosate
- Occupational Diseases
- Pure Financial Loss
- Sexual Abuse
- Sport related concussion
- Thermal Coal
- Waste Management
- Trampoline Exposure

2 PROFESSIONAL INDEMNITY

RISK CLASSES:

- Architects (Fire Certification)
- Engineers (Fire Certification)
- High Risk Engineers
- Building Surveyors
- Cladding
- Financial Planners
- FinTech
- MedMal without COVID exclusion
- Payment Providers
- Pipeline Projects
- Project PI

3 CYBER

RISK CLASSES:

- Mining
- Logistics
- Manufacturing
- Technology
- Payment Processors
- Gaming / Gambling
- Legal Services
- Real Estate

4 PROPERTY

RISK CLASSES:

- ACP & EPS Exposed Risks
- Bushfire
- Contingent Business Interruption extensions
- Heritage listed buildings
- Non physical damage BI extensions including Closure by Public Authority
- Alpine Region Based assets
- Catastrophe Exposed Covers

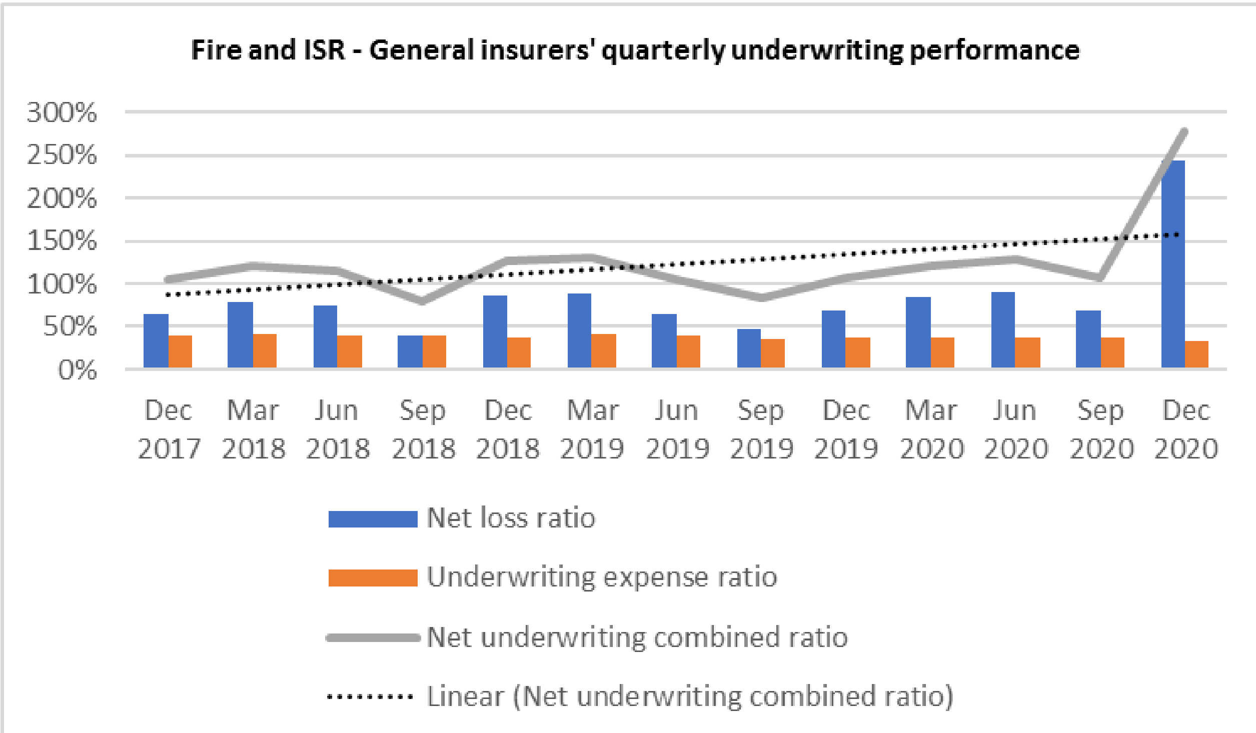
5 D&O

RISK CLASSES:

- Airlines
- Tourism
- Hospitality
- Insolvency Cover for SMEs
- Commodity Price Fluctuations
- Thermal Coal

Property/ISR – Australian general insurers' underwriting performance

- December 2020 quarter net underwriting combined ratio and eye-watering 278% (source APRA), driven by increased provisions for COVID related BI claims, alongside storm events and long tail reserve strengthening
- Despite successive quarters of sustained underwriting discipline, pushing pricing and narrowing coverage terms and conditions, the combined ratio trend for the Fire and ISR risk code still trends in the wrong direction.
- Only two quarters have recorded a combined ratio of <100% since December 2017.



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Australian ISR/Property Market – H1 2021

Category	Outlook	Commentary
Pricing	Up	• Minimum *rate* increases starting at 20-25%, but significantly worse for accounts with poor loss experience, Nat-Cat exposure, high risk occupancy, poor risk management practices and those well under technical rating • Opportunistic facultative reinsurance pricing driving direct insurer costs • Variable rating across insurer panel becoming more common with new capacity entering at technical rating (not necessarily incumbent lead pricing). Split pricing almost inevitable
Limits	Down	• Policy limits and sub-limits being used as to manage pricing, capacity and potential volatility • Revision of over-inflated (sub)limits a particular focus – especially business interruption coverage extensions • Nat-Cat aggregates being imposed to manage exposure (Flood, Cyclone/Windstorm, Hail)
Retentions	Up	• Push for increased retentions - particularly on accounts with attritional loss activity/natural catastrophe exposure • Imposed Nat-Cat deductibles are the norm • Clients not affected by these factors trading retention to manage premium rate increases – but retention increases have to be *sizeable* to make a material difference
Coverage	Down	• Terms and conditions under pressure especially around cyber and business interruption coverage extensions (CBI, customers and suppliers, general area damage, infectious disease exclusions being mandated etc.) • Co-insurance provisions being pushed in the absence of independent valuations or valuations not completed in the last three years
Capacity	Down	• Compressed capacity - line sizes reducing in general to manage losses and exposure • Capacity for protected EPS, ACP, and Nat-Cat exposures extremely limited and only available at a premium • Still almost no appetite for unprotected EPS • Insurers also walking away from entire portfolios and industries e.g.: wineries • Certain risks continue to struggle to secure 100% capacity
Claims	Up	• Costly global Nat-Cat years in 2017-2019 (USD 320bn+ insured losses) • 2020 Nat-Cat losses were around the long-term average • A sustained period of below-average losses is needed to drive property profitability • Significant uncertainty remains about impact of COVID-19 on claims in the market

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Hard Market Derogations: Property

Communicable Disease Exclusions

- COVID 19 has resulted in rapid changes to insurer positions
- Positions range from offering no Communicable Disease cover, to limited cover based on several variants (e.g.: LMA5393, LMA5397)
- This position will continue to evolve

Silent Cyber

- Insurers are continuing to ensure that affirmative language is used in property policies to adequately cater for silent cyber exposures
- Risk profiling exercises to understand the extent of cyber exposure is critical – particularly around resultant damage arising from a cyber event
- LMA5400 and LMA5401 are two common clauses that insurers are mandating

Hard Market Derogations: Property

Non-damage Business Interruption

- Traditional ISR coverage provides Business Interruption where an event does not cause property damage but leads to a loss of gross revenue/profit

- Common examples:
    - Prevention of Access
    - Port Blockage
    - General Area Damage
    - Property in the Vicinity of Customers and Suppliers

- Because the exposure is so difficult to model, insurers are becoming reluctant to provide the extent of cover that has been provided previously and in many cases, this cover is being removed or re-underwritten
    - Km radius limits are being tightened considerably
    - Port Blockage limits etc. are reducing
    - Limits are being provided any one event and in the annual aggerate

Hard Market Derogations: Other Matters

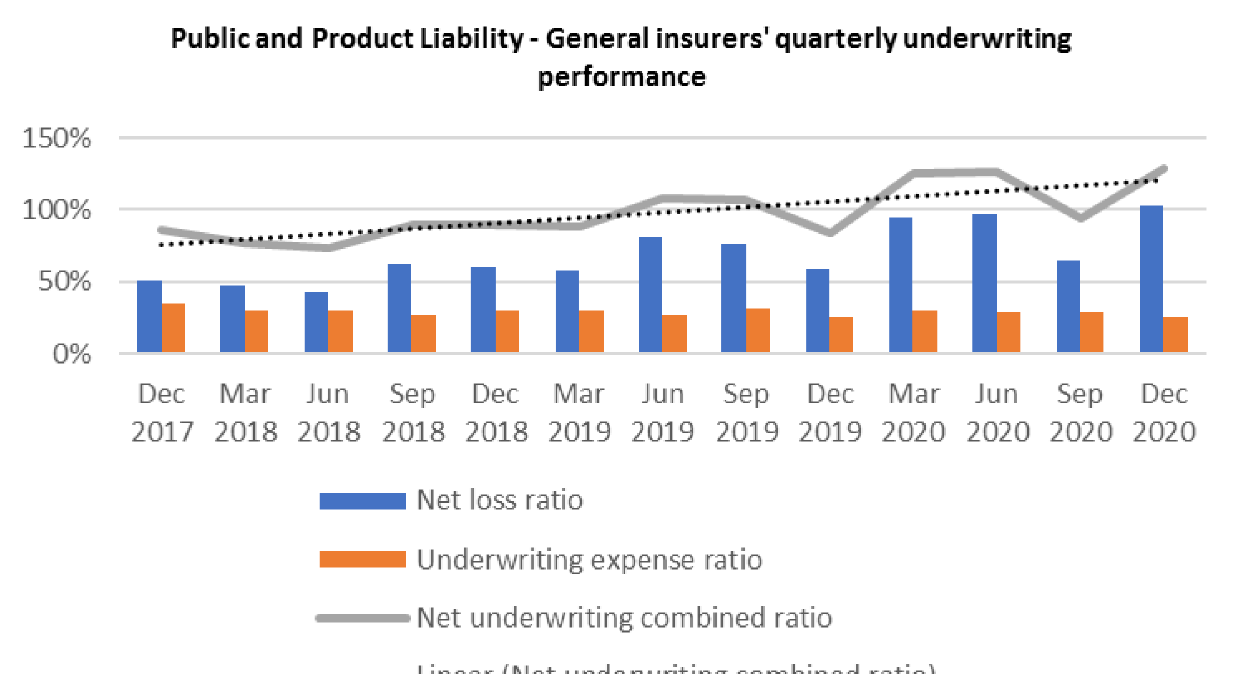
- In some cases, insurers are exiting certain industries and/or will no longer underwrite certain risks – local and global portfolio remediation
- Derogations can take the form of reduced capacity or increased costs to the Insured:
  - Increased Deductible / Excess / SIR
  - Application of Aggregate Limits
  - Application of sub-limits (E.G. – Convective Storm, Hail, Flood etc) – some markets are choosing to manage their risk via the imposition of sub-limits, rather than the application of blanket exclusions.
  - Availability of existing policy Limits
- Client Risk Mitigation and Loss Control
  - Clients are facing increased requirements to provide certain information, and/or carry out certain tasks and remediation actions, in order to access insurance coverage
  - Early engagement with the market is critical to understand insurer positions
  - Talk to Aon Global Risk Consulting (AGRC)
  - Think back to renewal last year – what information were you missing? Get ahead!

General Liability Market Update

- December 2020 quarter net underwriting combined ratios have soured to 129% compared to a September quarter of 94% (source APRA). This is being driven heavily by the rising costs of insurance claims resulting from factors such as increasing litigation, broader definitions of liability, more plaintiff-friendly legal decisions and larger compensatory jury awards.

- Markets are still emphasizing a large focus on underwriting for profit instead of growth as the combined ratio continues to trend negatively and rates are being increased across portfolios to cater for back year losses.

- Whilst the quarter has deteriorated significantly, the year December to December 2020 is still performing poorly at a net combined ratio of 118%.



Source: APRA

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Australian Casualty Market – H1 2021

Category	Outlook	Commentary
Pricing	↑	• Markets are pushing rate increase "across the book". Minimum pricing on excess layers is also being reviewed in line with cost of capital requirements and increased treaty rates from 1/1 renewals. • Accounts that are running unprofitably or poorly rated may see sharp increases in premium or higher deductibles in order to recover losses that have been sustained over a number of years. • Proportionate premium increases should be expected in line with increased turnover/exposure as the liability market continues to build momentum and improve portfolio quality and profit. • Insurer new business appetite and capacity still remains strong for accounts with a clean loss history, albeit significant dollar savings are not necessarily achievable on expiring premium.
Limits	→	• Insured's are not considering cutting limits as the savings do not currently outweigh the benefits.
Retentions	↗	• Deductible increases may apply to trending loss areas as well as minimum deductibles being applied to certain business sectors such as in the retail space and worker to worker risk exposed businesses. • Higher self-insured retention including aggregate deductibles may be traded off against premium increases.
Coverage	↘	• Markets are reviewing wordings with a particular focus on 'non-traditional' GL coverages such as Professional Indemnity, Pure Financial Loss & aviation exposures. Markets are also reviewing their position in relation to cyber & data risks and introducing restrictions. Some markets will provide limited writebacks. • Manuscript wordings should be reviewed and if appropriate "bargaining chips" may be traded for premium relief. • Problem areas continue to include sexual misconduct, bushfire liability, frequency exposed business, large worker to worker risk and mining, especially thermal coal and tailings dam exposures. Insurers are also looking at contractual liability and asking questions around indemnities and hold harmless clauses. • Insurers are reviewing coverage in respect to Covid19; we are seeing exclusions applied for certain risks & industries
Capacity	↘	• Local markets are reviewing limits with some insurers such as AIG, AXA XL, Vero, Chubb & Zurich reducing capacity where more than $50m is provided in total limits. All insurers are focussing on limit management and in some cases reducing deployed limits below $50m and requiring ventilation when layering. • It is possible that Insurance Companies may also move capital allocated to liability to more profitable short tail business lines. Additional capacity available via sidecar solutions such as Aon Client Treaty will provide strategic options and support.
Claims	↑	• Loss tails will continue to develop and insurers will want to remain ahead of the curve. They will carefully monitor any potential lags and undeveloped losses even if they are on a prior insurer's loss run. Insurers are reviewing claims history over a minimum 5 year period and preferably to up 10 years. • Bushfire, sexual abuse and worker to worker/contractor losses are being closely monitored and managed.

Hard Market Derogations: General Liability

Communicable Disease Exclusions

- The impact of COVID-19 is still widely unknown on the direct Casualty market
- Positions range from offering no Communicable Disease cover (LMA5396), COVID-19 Specific exclusions (LMA5391 & LMA5395), or no exclusions at all depending on individual risk circumstances and risk management/mitigation
- Rumour of Communicable Disease exclusions being introduced to all treaty renewals at 1/1 which could possibly result in non-negotiable LMA5396 style exclusions for all and every client as Insurers will not want to take this exposure on a net basis

Silent Cyber

- In accordance with Lloyd's cyber strategy – all London insurers are including a cyber exclusion with limited writeback language
- Where applied, local markets are seeking to follow suit but it varies from risk to risk. There is a particular focus on the power/energy sector with regards to this exclusion
- Some local markets such as Chubb, AIG & BHSI have their own iterations of a 'cyber'/data exclusion and are applying to most if not all risks
- There is no common LMA form as it stands, however, the team in the GBC London have consistently been using the same clause

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Hard Market Derogations: General Liability

Diminution of Property Values / Mental Injury in relation to Wind Farms

- A recent class action around a wind farm has caused particular strife in the market and has led to some insurers introducing exclusionary language around wind farms which varies on the following:

  *Notwithstanding any provision or extension to the contrary, this policy excludes any and all claims and associated defence costs relating directly or indirectly to nuisance, Diminution of Property Values, Mental Injury or Mental Anguish in **respect of wind farms***

Occupational Diseases / Silica / Refractory Ceramic Fibres

- Markets are paying closer attention to occupational diseases (black lung with respect to coal mining) as well as silica / polychlorinated biphenyls (PCBs) exposures
- Recent class actions have lead to a number of clients with exposure to silica seeing blanket exclusions within the market which is a non-negotiable position

Glyphosate

- A significant issue in the liability market depending upon the level of exposure, especially if that exposure is in the USA
- The much publicized claims against Monsanto in the USA has caused tension in the market both locally and globally which has lead to blanket exclusions for glyphosate style exposures
- Potentially some writebacks available with respect to exclusions only applying to the carcinogenic effects of glyphosate rather than blanket bodily injury exclusions but only where the exposure is negligible or deemed to be extremely low.

Hard Market Derogations: General Liability

Professional Indemnity

- A number of class actions have arisen in the market under GL wordings with specific PI sections that the market had not taken into account. Any exposure within the market is being carefully reviewed with direction from management to either exclude or wind coverage back
- Of particular focus are writebacks within PI exclusions of GL wordings which are being removed
- Sub-limits are also being reviewed in wordings and in some cases being reduced to circa $10m – very different to full policy limits within a softer market

Pure Financial Loss / Failure to Supply

- Some markets such as Chubb are no longer providing Pure Financial Loss cover and are specifically tying this back to a bodily injury/property damage trigger
- In general a number of other markets are looking to reduce their exposures and will now only provide sub-limits as opposed to full policy limits/coverage

Sexual Abuse

- We are seeing reducing/extremely limited availability of capacity for this exposure within the market as Insurers are not looking to add sexual abuse exposure to their portfolios and in some cases excluding absolutely

Sports Related Concussion

- Specifically linked to risks exposed in the sporting world, Underwriters are paying particular attention to this exposure
- Extremely limited capacity is available, with most insurers looking to specifically exclude and/or provide exclusionary language around participant to participant exposures

Aon Global Market Insights Q1 2021

Insights from Aon's thought leaders powered by proprietary data and cutting-edge data science

REPORT EXTRACT

Aon

Global Market Overview

Global Market Overview

Key Themes

The market remains challenging; however, there are early signs that the pricing trajectory may be moderating as:

- Insurer growth goals have taken the place of a prolonged period of portfolio remediation.
- COVID-19 losses have not materialized as expected.
- New capacity continues to flow into the market.

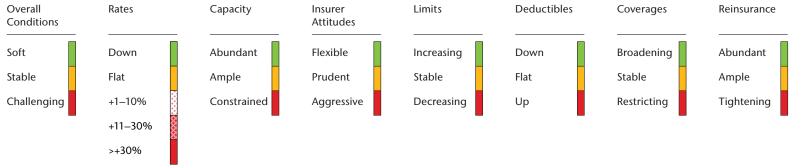
As economies rebound in 2021 with the rollout of COVID-19 vaccines, traditional risk and exposure variables are likely to normalize while these key longer-term issues gain relevance in insurer appetite and rating models:

- Environmental, Social and Governance issues (i.e., Inclusion & Diversity, Climate Change).
- Supply chain resilience and the increased focus on local sourcing of strategically important manufacturing and goods.
- The increase in frequency and severity of weather related events.
- Special Purpose Acquisition Companies.

Navigating Today's Environment: Solutions to Consider

- Leveraging industry data and analytics, Aon develops portfolio solutions — like the Aon Client Treaty — to help reduce volatility in rate and coverage and to harness market capacity for the benefit of clients.
- Through a collaboration with insurtech firm, Parsyl, Aon has introduced an innovative, transparent All-Risk Marine Cargo solution with temperature excursion coverage and a claims payment commitment, which leverages a combination of sensor data and analytics to report in real-time doses that fall outside the manufacturer's temperature specifications while being transported or stored. This track-and-trace solution enhances risk management, informs logistics decisions when temperature excursions have been identified to minimize the risk of wasted vaccines, and enables timely claims payments.
- As organizations shift their focus from premium spend to Total Cost Of Risk (TCOR), tools such as Aon's Risk Financing Decision Platform become evermore impactful in determining optimal program structure by using complex claims simulations to model potential outcomes. This allows organizations to better understand the benefits of retaining more to create savings while minimizing volatility.

Global Market Overview



North America

- Following a prolonged period of escalated pricing caused by myriad factors including rising loss costs and low interest rates, there are signs that more moderate conditions are emerging and are expected to continue throughout the year as new capacity flows in.
- Changes in insurer leadership have led to strategic and operational shifts. Notable observations include more rigorous and centralized underwriting, heightened claims scrutiny, and changes in appetite. Starting early and providing detailed information is more important than ever.

Latin America

- Uncertainty remains high due to continued increases in COVID-19 cases and restrictions, and the market remains challenged by ongoing insurer profitability issues. The local reinsurance market is rewriting some books of business which could further constrain capacity.
- The underwriting process is becoming more stringent and underwriter attitudes remain somewhat conservative. More risks are being referred to central teams, which is leading to delays and creating complexity.

EMEA

- While conditions remain challenging, there is a notable shift toward profitable growth and conditions are beginning to moderate in pockets.
- Underwriting and pricing is evolving. Pricing models such as pay-as-you-drive, pay-how-you drive, price-per-minute (or kilometer), etc. are becoming more common. Underwriters are becoming less flexible and risk management / control measures are often a prerequisite for offering favorable terms.

Asia Pacific

- Some insurers have rebalanced their portfolios and are looking to grow again while others continue to focus on remediation and a return to profitability. For some buyers perceived as more attractive to the market, a growing gap is starting to develop between renewal pricing from an incumbent insurer looking at portfolio remediation and a new insurer looking at the risk with fresh eyes.
- Newly proposed language related to silent cyber, infectious disease and contingent business interruption is at the heart of many negotiations, as questions arise related to specific language versus intent.

Global Claims Trends

Global Claims Trends

Q1 2021 Trends

	Co-insurer Interactions	Coverage Acceptance	Quantum Acceptance	Speed of Payment	Use of External Counsel
APAC					
EMEA					
LATAM					
North America					
Global Broking Center					

Better

Same

Worse

Claims Management & Advocacy

Each element of the claims process is important in securing appropriate outcomes for clients — from the initial report of loss, through the administration phase, quantification support, and ultimately the advocacy that may be required to bring about resolution. Information requests can be perceived as onerous, and timelines can become challenging. Communication amongst all parties is key, and the involvement of experienced advocates with technical, commercial and project management skill sets from the outset is becoming an absolute requirement in most lines of business, and in most geographies.

Relationships Matter

Trust and integrity are as important in the claims arena as technical and legal expertise. Relationships that have been built over time have proven to be essential through the COVID period, with all stakeholders working in remote environments. The time to build a relationship is before the claim, not during a contentious situation. Aon's connectivity with major insurers, adjusters and others is differentiating and is an essential contributor to the results we continue to deliver for clients.

Meaningful Insights

Aon continues to focus on sharing claims performance insights with insurers to actively raise claim issues early and address emerging negative trends. Insurers who have managed the economics and staffing challenges related to COVID-19 have an opportunity to significantly outperform those who have struggled to adapt and respond, therefore reflecting a differentiated value to current and prospective insureds.

A Path Forward

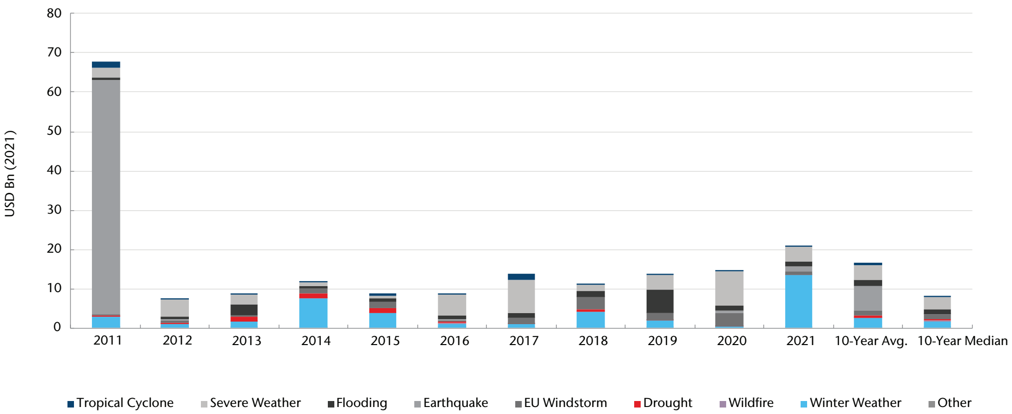
Recognizing the difficulties that exist in the current claims environment, there are key pre-loss actions to counteract the most common concerns moving forward. They include reviewing policy wording for changes at renewal, asking brokers to implement claim coordination clauses / follow-the-leader clauses, considering claims performance when selecting insurers, ensuring awareness of the obligations in a claim situation, and taking an active role in the nomination of adjusters in first party lines.

Global Reinsurance Trends

While a number of regions / clients experienced loss in recent years and will see pricing move commensurate with those results, overall, the reinsurance market continued to have orderly renewals since the start of 2021. The primary theme of most renewals centered around contract terms, particularly for those that renewed prior to the height of the COVID-related contract negotiations in 2020. New capital coming into the market over the last year has helped to stem further dislocation, and reinsurers continue to evaluate new areas for growth, creating a strong offering for insurers.

Global Reinsurance Trends

Q1 Insured Losses by Year by Type



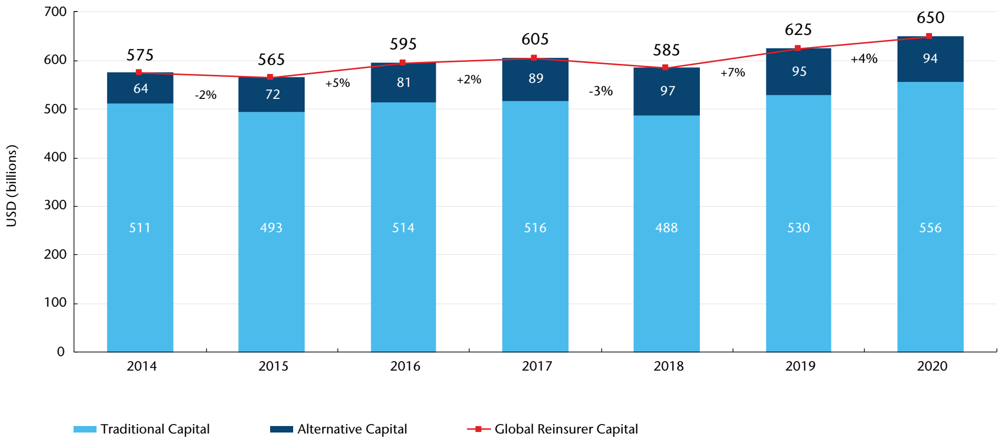
Source: Aon Reinsurance Solutions

Catastrophe Losses: Q1 Loss Driven by US Winter

- Insurers faced nearly USD21 billion in natural disaster losses; the highest Q1 total since 2011, 25 percent above the recent 10-year average (2011-2020) of USD16 billion, and 73 percent higher than the median of USD11 billion.
- More than 80 percent of the insured losses were sustained in the United States. The February Winter Storm insured loss estimates suggest a total of at least USD12 billion, most of which was attributed to impacts in the state of Texas. February 2021 marked the 19th coldest February on record in the contiguous U.S. dating to 1895, and the coldest since 1989.
- APAC incurred more than USD2 billion in insured losses. Much of the current total was attributed an offshore magnitude-7.3 earthquake on February 13. Per the General Insurance Association of Japan (GIAJ), more than 200,000 claims have been filed, with an expected insured loss tally to eventually exceed USD1 billion. Elsewhere in Asia-Pacific, a significant "East Coast Low" prompted major flooding across parts of New South Wales and Queensland in late March. Initial guidance from the Insurance Council of Australia (ICA) cited the value of filed claims reaching nearing AUD600 million (USD465 million).
- Europe recorded more than USD1 billion in industry losses. The continent endured an active windstorm season, though no event resulted in more than USD300 million in payouts. The closest was late January's Windstorm Christoph (USD275 million).

Global Reinsurance Trends

Global Reinsurer Capital



Sources: Company financial statements, Aon Business Intelligence, Aon Securities Inc.

Global Reinsurer Capital: Up Despite a Tough 2020

- The reinsurance market is still well capitalized but is taking some loss from a secondary peril (Winter Storm). Aon estimates that global reinsurer capital had increased to a new high of USD650 billion by the end of 2020 (up 4%), driven by continued capital market recovery, new equity issuance and US dollar depreciation.
- Retained earnings in the reinsurance sector were generally weak in 2020, driven by the impact of COVID-19 on both sides of the balance sheet, coupled with continued high frequency of natural catastrophe activity. However, traditional equity capital had already recovered to pre-pandemic levels by the end of September.
- Year-on-year increase of 4 percent was heavily influenced by depreciation of the US dollar in the fourth quarter, particularly against the Euro (the reporting currency of several large reinsurers). At constant exchange rates, underlying growth was closer to 1 percent, driven by unrealized gains on bonds (relating to reductions in interest rates), a decline in the amount of capital returned to investors (due to the uncertainty caused by the pandemic) and around USD15 billion of new equity issuance.

Global Health Trends

The pandemic has accelerated organizations' recognition of the importance of employee health and wellbeing on the success of their businesses. The concept of workforce resilience is not new, but it is undoubtedly enjoying a new vogue as the pandemic has forced organizations to focus on their key people-related risks, such as employee wellbeing, talent retention, implementing operational improvements and new, innovative working models and technology.

Social restrictions, remote working, and the impact of reduced physical activity, has raised awareness of issues like emotional and social wellbeing, but it is important that as we embrace what emerges next, the focus on employee health, safety and wellbeing is sustained.

Global Health Trends

Market Dynamics

Countries continue to navigate different phases of COVID-19 and uncertainty remains regarding the impact on deferred medical treatments and long-term healthcare. From a pricing perspective, the most volatile line of business continues to be medical insurance. Aon's research has confirmed that 2020 was an unprecedented year, with a widespread reported decrease in employer medical plan utilization as a result of the pandemic and related restrictions. In turn, Aon forecasts that 2021 will observe the lowest Global Average Medical Trend Rate recorded since our research began in 2013, despite expectations that plan utilization will return to more normal levels during 2021 as medical services begin to reopen.

While 2021 will record the lowest global Medical Trend Rate since our reporting began, we continue to see medical costs rising significantly above general inflation. Indeed, we anticipate continued medical plan cost escalation due to factors such as global population aging, overall declining health, poor lifestyle habits, and the increased prevalence of chronic conditions, as these continue to be global phenomena that are further exacerbated by the potential long-term health impacts of pandemic-related deferred treatments and routine checks.

Global Reinsurer Capital

	2021	2020
Global Average Medical Trend Rate [1]	7.2%	8.0%
North America Gross Medical Trend Rate	7.0%	6.4%
APAC Gross Medical Trend Rate	8.0%	8.7%
Europe Gross Medical Trend Rate	5.5%	5.7%
LATAM and Caribbean Gross Medical Trend Rate	8.8%	13.1%
Middle East & Africa Gross Medical Trend Rate	12%	12.2%

[1] 2021 Global Medical Trend Rates Report

People Risk and Claims Cost Drivers

Top conditions driving medical plan costs globally

- Cardiovascular
- Cancer/Tumor Growth
- High Blood Pressure/Hypertension
- Diabetes
- ENT/Lung Disorder Respiratory

Top global risk factors impacting adverse claims experience

- Physical Inactivity
- High Cholesterol
- Poor Stress Management
- Bad Nutrition
- High Blood Pressure

Employers have a crucial role to play in terms of helping employees understand their health risk, encouraging and supporting healthy lifestyle behaviors, and providing access to high-quality healthcare at the right time. Otherwise, they will continue to face the prospect of added organizational costs and employee productivity losses.

Future Focus

Innovative organizations will continue to develop strategies to optimize the management of their medical and other health-related benefit spend, and virtual health will play a much more significant role. However, a more sustainable approach involves proactively addressing the root causes of the issue - the people risk element. Prior to the pandemic more progressive organizations had made the connection between a fit, healthy, engaged workforce and business results, and were not simply focused on managing cost.

The emerging trend of the pandemic should be to accelerate this focus to a new level, particularly as organizations figure out what their reshaped business models look like moving forward. In order to promote workforce durability, organizations need to continue to create an inclusive environment where every employee can have access to support across a range of wellbeing areas, such as physical, emotional, financial, social and work-life balance. Providing access to high quality health care treatment when needed, and supporting individuals with existing health conditions is important, however, it is imperative that there is increased focus on preventative measures and promoting a healthy workforce.

Global Investment Trends

The acceleration of COVID vaccination programs in the developed world, combined with easy monetary policy and more fiscal stimulus, is pushing GDP growth and inflation estimates higher. These changes are reverberating across global markets pushing global bond yields and equities higher.

Global Investment Trends

Macroeconomics

COVID-19 cases pressed higher and eclipsed the 100 million mark globally in January. By the end of the first quarter, recorded cases exceeded 127 million globally, with the U.S. accounting for 23.5% of cases. However, positive developments on the vaccine front have given rise to hopes of sustained economic re-openings, with multiple vaccines being approved in several countries and inoculations gaining traction. By the end of Q1, nearly a third of the US population had received at least one vaccination[1]. The vaccine rollout in Europe faced challenges, with several countries, including Germany, France, Italy, and Spain, suspending the Oxford/AstraZeneca distribution over concerns that the vaccine could cause blood clots, even as the highly transmissible UK variant continued to wreak havoc, forcing most major European countries to (re) impose strict lockdowns.

U.S. GDP moderated from the sharp rise seen in Q3 to 4% for Q4 of 2020 (annualized quarter-over-quarter) and remained down 2.5% year-over-year. In Europe, Germany's economy grew by 0.1% in Q4 2020 while France contracted by 1.3% over the same period. China showed considerable economic strength, reporting GDP of 6.5% in Q4 of 2020; China was the only major economy in the world to record positive economic growth with GDP of 2.3% reported for the year.

As economic conditions are generally improving in 2021 bond yields have substantially risen globally. The long-dated government bond yields of the U.S. and Eurozone increased sharply mid-quarter due to higher reflation expectations and continued to climb throughout March, albeit at a slower pace. The 10-year U.S. treasury yield increased 82 basis points over the quarter to 1.74%.

[1]Ourworldindata.org

Politically, the start of the year for the US was marked by an insurrection at Capitol Hill and the second impeachment trial of former President Trump. However, heightened levels of uncertainty were quenched as Joe Biden was sworn in as the 46th President of the United States and Democrat wins in both Senate runoff elections in Georgia were confirmed. Another $1.9 Trillion stimulus package was passed in the U.S., providing direct payments to Americans, per qualifying levels of income, and extending the federal emergency unemployment benefits program. At the end of the quarter, the Biden administration announced plans for over $2 Trillion in infrastructure spending. While legislative language has not yet been proposed, the outline covers a wide swath of rebuilding projects for neglected structures, such as highways, bridges, and schools, and is calling for initial investment in more progressive themes such as electric vehicles. Another bill focusing more on social issues is expected to be revealed during the second quarter.

Elsewhere, former president of the European Central Bank, Mario Draghi, was sworn in as the 30th Italian prime minister following the failure of negotiations to rebuild a coalition government led by Giuseppe Conte. In the UK, chancellor Rishi Sunak announced a £65bn "spend now, tax later" UK budget to support the economy amid the ongoing pandemic, with a substantial focus on business investment over the next two years. Trade tensions with China escalated throughout the quarter, with the first fray instigated by former President Trump's ban on various Chinese payment and software. Later in the quarter, the EU, US, UK and Canada imposed sanctions for human rights violations on four Chinese officials and a security organization over the treatment of Uyghur Muslims in the Xinjiang region.

Monetary Policy

Monetary policy among major central banks remained accommodative, as the U.S. Federal Reserve (Fed), European Central Bank (ECB), and Bank of Japan (BOJ) kept their policy rates unchanged. The Fed also held to its current pace of asset purchases, while the ECB expanded its bond purchasing program to help curtail negative impacts to economic growth from the rise in bond yields. However, the first sign of possible future monetary policy divergences among developed countries came from the BOJ, which removed its commitment to buy ¥6 Trillion in exchange-traded funds (annually). While the Fed has not expressed concerns over higher bond yields and inflation, it did revise its 2021 growth forecast to 6.5% from 4.2%.

Equities

Global equities ended the quarter higher, backed by further stimulus and positive vaccines developments. The MSCI All Country World Index returned 4.7% for the quarter and 55.3% over the trailing twelve months. The sector rotation into cyclicals continued and value fared better than growth during the quarter. The MSCI All Country World Value Index returned 9.0% and the MSCI All Country World Growth Index returned 0.3%. Over the trailing twelve months, growth has still outperformed value (41.7% to 37.8%), although the margin has narrowed substantially. International equities were positive for the quarter, with the MSCI EAFE up 3.6% and the MSCI Emerging Markets Index up 2.9% but underperformed the US. The S&P500 finished the quarter up 6.2%, bolstered by strong quarterly returns from the Energy (30.9%) and Financials (16.0%) sectors. Within U.S. equities, small caps continued to outperform large cap markets. We continue to prefer equities to government bonds and credit.

Global Investment Trends

Government Bond & Yields

Treasury yields rose across the curve, driven higher by inflation expectations. The largest moves in the Treasury curve were seen in the longer tenors. The 10-year U.S. treasury yield increased 82 basis points over the quarter to 1.74% and the 30-year U.S. treasury yield rose to 2.41%, up 76 basis points during the quarter. However, the 5-year U.S. treasury yield had a sizable increase of 56 basis points and closed the quarter at 0.92%, while the 2-year U.S. treasury yield was largely unchanged. While the rise in yields does improve potential return prospects, we must remember that yields remain low, and that we believe as the world reopens the risks are skewed to higher rather than lower yields. This leads us to believe that returns from government bonds will continue to be hamstrung going forward.

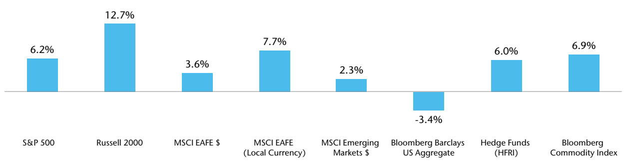
Credit

Credit markets paused from their recent upward trend and ended the quarter in negative territory. The Barclays Global Credit Index returned -3.7% during the quarter and 8.2% over the trailing twelve months. The Barclays Global High Yield Index returned -1.0% for the quarter and 19.5% over the trailing twelve months. We continue to believe that credit is expensive, and that returns will be hampered by low outright yields and compressed credit spreads, rather than a turn in credit conditions.

Commodities

Commodities had a strong quarter as the S&P GSCI Commodity Index returned13.5%. Energy and industrial metals were the main beneficiaries of the reflation theme. WTI crude prices rose 21.9% to $59/barrel at quarter end. The U.S. Dollar appreciated against the Euro, Yen, and Australian Dollar, but depreciated against the Canadian Dollar and Sterling. We no longer expect Dollar weakness to continue into 2021 given US growth upgrades and the larger rise in interest rates relative to other regions. However, mild dollar weakness should resume in 2022. Gold prices fell over the quarter, with the spot price down over 10% to $1,691/oz.

Q1 2021 Performance Summary



Past performance is no guarantee of future results. Indices cannot be invested in directly. Unmanaged index returns assume reinvestment of any and all distributions and do not reflect fees or expenses.

Market data source FactSet

The opinions referenced are as of the date of publication and are subject to change due to changes in the market or economic conditions and may not necessarily come to pass. Information contained herein is for informational purposes only and should not be considered investment advice.

Global Retirement Trends

At the end of 2020, global corporate pension liabilities reached a record year-end total of USD 8 trillion; however, 2020 also saw a record USD120 billion of single-premium pension risk transfer transactions. This record-breaking year was the result of myriad factors including strong asset performance leading to improved funding levels, competitive pricing, keen employer and fiduciary/trustee board interest for removal of risks, and significant (re)insurance market appetite.

A key area of focus is the challenges faced by employers globally in funding their pension plans in the wake of the COVID-19 pandemic. Governments are enacting legislation to provide relief given the importance of retirement plans to support employee retirement outcomes. As one example (see next page), the American Rescue Plan Act of 2021 includes funding relief provisions for U.S. single and multi-employer pensions. The Canadian Federal Budget release on April 19, and European relief packages, have looked to provide pension support as well. It is critical for organizations to understand these provisions and their implications.

Global Retirement Trends

The American Rescue Plan Act of 2021: Observations and Implications for Single and Multi-Employer Plans

The American Rescue Plan (H.R. 1319), was signed by President Biden on March 11, 2021. This bill includes pension funding provisions impacting both single employer and multiemployer plans. Plan sponsors are encouraged to consult with their actuarial contacts for specific guidance, but at a high level here are 5 takeaways to consider for each type of pension plan:

Single employer observations and implications

- The single employer relief includes an extension of interest rate stabilization and shortfall amortization periods. Certain aspects of this relief are permanent and will have a longer-term impact on funding requirements.
- Plan sponsors have multiple options for when these provisions can take effect. The extension of interest rate stabilization is effective in 2020 by default, but it can be deferred to as late as 2022. The extension of shortfall amortizations is effective in 2022 by default, but it can be applied as early as 2019.
- The optimal effective dates for a plan sponsor will depend on plan-specific and sponsor-specific factors. For very underfunded plans, earlier application may result in the greatest reduction in contributions; for moderately well-funded plans, the situation may be more complex. Detailed analysis will be needed to facilitate informed decision-making.
- Decreased interest rate sensitivity of liabilities may have implications for de-risking glide-paths, making hedge path strategies more compelling in a low interest rate environment. In addition, since the new rules reduce contributions, they may slow de-risking progress for plan sponsors taking advantage of the relief. This could lengthen their time horizon for investing and make illiquid and return-seeking assets more attractive.
- The funding relief does not change PBGC premium rates for single employer plans. Employers taking advantage of lower minimum required contributions may face higher variable-rate premiums unless they are at the variable-rate premium cap. This may lead more sponsors to consider contribution strategies other than the minimum. Pension settlement strategies via lump sums and annuity purchases also remain attractive, especially for plans at the cap.

Multiemployer observations and implications

- The multiemployer relief includes changes to reduce minimum contribution requirements in the near term (though this may not translate to contribution reductions for participating employers), a new program to provide assistance to financially troubled plans through 2051, and increased PBGC premiums starting in 2031.
- The financial assistance is funded by a transfer of Federal revenues and does not need to be repaid.
- Many details of how this program will work remain to be clarified through PBGC guidance. Since the financial assistance does not cover benefits payable after 2051, further action may be needed in the future if a troubled plan's financial status does not substantially improve in the interim. The legislation does not include fundamental reform of multiemployer plan funding requirements, so plans' financial conditions could deteriorate in the future
- Contributing employers may want to assess the potential change in their risk exposure as a result of the legislation.
- Companies that were looking to exit a multiemployer plan prior to its projected insolvency, or to avoid potential exposure to mass withdrawal liability, may now have more runway if a plan is eligible for financial assistance.

Aon retirement consultants globally are available to provide guidance on recent regulatory changes and provisions for pensions. Please contact your Aon team to learn more.

Featured Differentiator

Recognizing that Inclusion & Diversity cannot sit solely within an organization's people team, Aon takes a dual-track approach to Inclusion & Diversity by working with clients to address this topic at both the employee and board level, supporting decisions with our deep data, analytics, and governance expertise.

Featured Differentiator

Aon Inclusion and Diversity Support

Leveraging our expansive team of experienced professionals — including former Institutional Shareholder Services and Glass Lewis leaders — as well as our legal and regulatory corporate governance professionals, Aon partners with public and private companies across the globe to help them navigate their governance risks, taking a balanced and holistic approach that considers not only business goals and strategies but also external industry data, standards, and emerging trends. A key, growing risk relates to the increasing demand for greater transparency and a stronger narrative on corporate and board level actions that progress the I&D strategy. Aon takes a dual-track approach with companies to address this topic at both the board and employee level, and to develop recommendations that are based on robust data, analytics, and governance expertise.

How should Inclusion & Diversity (I&D) be addressed within the boardroom?

Increasingly, boards are being pressured to navigate their own I&D journey by first looking inward, before looking at the broader workforce. Boards, just like companies, are unique. Establishing goals, recognizing where you are on the I&D journey, devising a plan to improve diversity through clear steps over a reasonable amount of time, and then communicating that plan clearly to stakeholders is paramount, and Aon can help, regardless of board size, industry or I&D maturity. By understanding how to navigate and balance the multiple external factors that apply to board diversity and performance, including investor perspectives, listing exchange requirements, and growing regulations, Aon professionals help boards sort through and prioritize short and long-term action items. We assist with board composition and skills assessments, board and committee performance evaluations, as well as with board diversity policy creation and implementation.

What level of oversight should exist, both for the board and c-suite?

There is a growing need and expectation for the board and the C-suite to be knowledgeable on human capital-related topics, such as I&D initiatives and goals for the broader workforce. This includes understanding evolving stakeholder (e.g., employees, shareholders, activists, media, and regulators) expectations and the related risks. Aon helps companies navigate these risks through tailored board and C-suite level education sessions which provide real time intelligence on key I&D trends including those related to oversight, disclosure, peer metrics and goals, litigation risks, and emerging best practices. Many organizations need help implementing targeted changes, including establishing a timeline and milestones, assigning accountability, and tracking progress. Aon's support includes developing tailored I&D dashboards for companies to capture timelines, goals, and progress and efficiently provide visibility to the board and management on a regular cadence.

Want to learn more?

As the role of the Director continues to evolve, risks related to Inclusion & Diversity, ESG, Cyber, Climate Change and other macro-level issues will continue to evolve as well. Aon is positioned to inform client strategies, help them develop plans for change, and support their plan execution, including managing internal and external expectations. Visit Aon's Boardroom Insights Center or contact your Aon Team to learn more about how Aon can help.

COVID-19

With continuous growth in global trade and interconnectivity, it is clear that we can only transition to a new normal together. Virus spread — including new variants — is not contained by geographic borders. We can only gain control of our destiny through a concerted vaccination effort in every part of the world. Approaches and priorities differ, but one theme is prevalent: Vaccine rollouts must accelerate for people to return to health, for employees to return to work, and for businesses to reopen, causing uncertainty to give way to increased business and consumer confidence, and uninterrupted global supply chains to resume.

COVID-19

Lessons Learned from the Pandemic

- Put people first.
- Purpose and social responsibility are key.
- Leadership must be front and center.
- Communicate, communicate, communicate.
- Agility is critical.
- Wellbeing matters.
- It takes a village.

How the World Looks at the Conclusion of Q1

The World Health Organization (WHO), Centers for Disease Control and Prevention (CDC) and other public health organizations agree that COVID-19 Vaccination is the path forward out of the pandemic. With more than 1.08 Billion doses administered across 172 countries as of April 28 20211, the world has administered enough doses to fully vaccinate 7.1% of the global population — the world still has a long way to go.

While the U.S. and some other countries have launched vaccination campaigns that have progressed well in Q1 2021, other countries have struggled with access to vaccines, public health infrastructure fragility and myriad other challenges. Given how interconnected COVID-19 has shown the world to be as respects travel, trade, supply chain risk, and health, financial, and economic impacts, no country is truly safe until every country is safe. We're all in this together, and we have an opportunity to work better together to move to the other side of this pandemic. This is where public/private partnership cooperation can help accelerate the pace, and where the role of employers can become more prominent as part of the solution.

Aon's efforts in Q1 focused on the following areas:

- Monitoring & Responding to New Developments: What We're Watching Now.
- COVID-19 Vaccination Consulting Services for Clients.
- Solutions to the Challenges of Managing a Partially Vaccinated Workforce.
- Understanding COVID Long-haulers: What Employers Need to Know.
- Product Innovation Example: Marine Cargo Track-and-Trace Solution for COVID-19 Vaccine Shipments.
- Solution Innovation Example: Resiliency Assessment.

Continue reading for more information about each of these topics.

Monitoring & Responding to New Developments: What We're Watching Now

The following are examples of developments that could alter the timing of recovery (either positively or negatively) as the world seeks to bring the pandemic to a close:

- India's COVID-19 crisis situation, as well as other hot spots such as Brazil and Mexico.
- New learnings related to Long-Haulers.
- The spread of variants.
- Vaccine supplies, distribution and equity considerations.
- Challenges faced by multinational organizations with employee footprints that span more than one country.

COVID–19

COVID–19 Vaccination Consulting Services for Clients

Aon provides COVID-19 vaccination consulting services and solutions globally. While services are customized to a client's specific needs and employee footprint, they fall into four general categories:

- Thought Leadership and Situation Awareness.
- Planning - tactical framework and logistics assessments based on country/jurisdiction.
- Communications — Assisting in the development of communications strategies. Given the trust that employees have in their employer, employers can play a key role in addressing timely vaccine information and helping employees overcome vaccine hesitancy.
- Execution — In addition to the role of public health and other governmental agencies, many countries allow employers to also play a role. Where it is possible for an employer to do so, we can assist the employer in facilitating execution.

Solutions to the Challenges of Managing a Partially Vaccinated Workforce

While the vaccination rollout is underway, many employers are planning a return to the workplace with an approach that may vary by country (and by jurisdiction within a country), depending on how infection rates are evolving and vaccination rates are progressing. Issues employers face revolve around the challenges of managing a partially vaccinated workforce and include, but are not limited to, questions like these:

- **Should vaccinated employees still be required to:**
  - Wear masks? Socially distance?
  - Be restricted in movements and interactions at the worksite?
- **Should non-vaccinated employees:**
  - Have access to on-site facilities (cafeteria, gym)?
  - Wear masks? Work from home?
  - Access the building without COVID-19 testing?
- **Will proof of recent recovery from COVID-19 be acceptable in lieu of vaccination?**
- **What is the impact on employee relations?**
  - Incentive to get vaccinated?
  - Or resentment of co-workers?
- **What are the legal issues?**
  - Disparate impact on minority employees?
  - Privacy concerns?
- **What are the implications for Facilities, Human Resources, Health & Welfare Plans and other Benefit Programs, Risk Management, (Re)Insurance, Retirement Plans, Investment Plans, other Financial/Operational considerations, ESG planning, etc.?**

Many regulatory, legal, and other factors will impact the answers to these questions. To help employers with a U.S. footprint work through these questions and plan for the challenges and opportunities the vaccination pathway holds, in Q1, Aon's Global COVID-19 Task Force conducted a COVID-19 Vaccination Webinar series. The webinars are recorded for on-demand replay at aon.com/coronavirus.

Links to Aon Webinars

Installment One: New Dawn in COVID-19 Vaccination, Biden Administration Actions and Implications for Distribution New Dawn in COVID-19 Vaccination

Installment Two: Tactical and Logistical Planning for COVID-19 Vaccinations

Installment Three: Managing a Partially Vaccinated Workforce Managing a Partially Vaccinated Workforce

Installment Four: Planning for Return to Travel and Convening

Installment Five: Preparing for Future Risks and Reshaping the Workforce of the Future

COVID-19

Understanding COVID Long-haulers: What Employers Need to Know

As the COVID-19 pandemic continues to unfold globally, reports are emerging of some COVID-19 survivors experiencing longer-term symptoms (lasting more than 3 months) and/or experiencing new neurological symptoms after the acute COVID-19 illness has passed. While extensive scientific research has been ongoing throughout the pandemic as it relates to prevention, risk reduction and treatment of COVID-19, more focus is now being directed toward better understanding the long-term health impacts of this disease and how to treat those who are suffering longer-term symptoms. Aon's special report "Supporting COVID-19 Long Haulers: Anticipating the Needs of Employees in Response to COVID-19" helps employers better understand what is currently known about this condition and the actions they can take to support an employee who is suffering lingering symptoms and/or caring for a family member who is.

Product Innovation Example: Marine Cargo Track-and-Trace Solution for COVID-19 Vaccine Shipments

To support the roll-out of the global vaccine program, Aon has developed an innovative Cargo Track-and-Trace Solution, which delivers timely and transparent insurance coverage for COVID-19 vaccine shipments through a combination of sensor data and analytics. The offering delivers enhanced All-Risk Marine Cargo insurance coverage, with timely payment for doses that fall outside of the temperature specifications while being transported or stored, enabling more effective risk management and claims support. Real-time reporting of any temperature deviation will support the proactive mitigation of future losses and maximize the number of doses administered.

Key Features:

- Up to USD 75 million of coverage, provided by participating insurers, with sub-limits for specific modes of conveyance.
- All-risk cargo insurance coverage with the enhanced temperature deviation coverage.
- 30-day payment commitment in the event of a verified temperature deviation loss, up to USD 10 million.
- Coverage available on a global basis, where approved.
- Available to all parties in the vaccine supply chain, including pharmaceutical firms, government bodies, transportation and logistics companies, distributors, health systems, pharmacy chains and inoculation centers globally.

Aon pledge as respects this Track-and-Trace Solution for COVID-19 Vaccine Shipments: As part of our ongoing efforts to support the global vaccination program, Aon is donating 100% of all Aon revenues earned from this solution in 2021 to a charity dedicated to eradicating the global human and economic toll of the pandemic.

Please see our press release.

Solution Innovation Example: Resiliency Assessment

The Aon Resiliency Assessment is designed to evaluate all aspects of an organization's response to COVID-19, covering 17 areas across risk and human resources. Originally designed as a return-to-work readiness tool, the assessment has been redesigned with a "Future of Work" perspective. Organizations use an electronic survey to record their responses to 130 questions; Aon evaluates the responses and prepares a robust and thorough report which includes a set of recommendations.

The results are reviewed in a debrief meeting with Aon key subject matter experts on topics such as:

- The future of work.
- The future of benefits.
- Other areas that the organization's scores indicated should be discussed further.

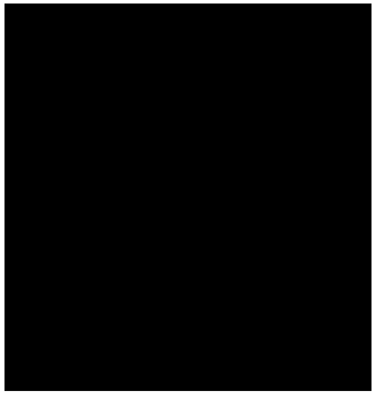
In addition to a discussion of the organization's specific responses, the meeting agenda also includes a review of trends that Aon has seen throughout the assessment process.

Whether the organization is evaluating their COVID-19 related changes already made, determining whether to make those changes permanent, or pausing to re-evaluate a virtual identity and changing real estate footprint, the Resiliency Assessment can meet them where they are in the process. By partnering the right Aon subject matter expert with the client at the right time, Aon can help clients seeking to return their employees to the workplace safely with an eye toward the future.

COVID–19

Charting the Course to the New Better:
Preparing for the next "Grey Swan" event

"Today, clients are justifiably focused on the unprecedented socioeconomic impact of the COVID-19 pandemic, but they are also increasingly aware of other challenges like climate change, supply chain disruption, reimagining and configuring how and where work gets done, and the growing health-wealth gap," said Greg Case, Chief Executive Officer of Aon. "If, and when, a reputation crisis occurs, this research reinforces the importance of promptly acknowledging the seriousness of the event itself but, most importantly, how to translate this understanding into decisive action."



Like their better-known "Black Swan" event cousins, "Grey Swan" events can greatly impact firms; but unlike Black Swans, which seem inconceivable before they happen, Grey Swans are known beforehand. They are long-tail risks, known but thought unlikely — and thus firms have often neglected to invest resources to prepare for them. Aon has collaborated with Pentland Analytics to produce the report, "Respecting the Grey Swan." The report details the impact crises have on reputation and shareholder value and emphasizes the need for organizations to recalibrate their approach to risk and crisis in a highly volatile world.

Unprecedented, Unimagined	Conceivable but neglected	Base Case
Extremely rare, massive impact	Unlikely, major impact	"Normal" expectations
No data → unpredictable	Limited data → patterns and insight	Lots of data → predictable
Hedge / Insure ↔	**Build Resilience** ↔	**Prevent**

The report highlights that Grey Swans require focused attention toward:

- Reimagining the risk landscape through a broader risk assessment.
- Acknowledging the seriousness of impact with a focused investment in risk preparedness and crisis management.
- Translating understanding into action, fostering a responsive and agile culture.

Contact your Aon Team to learn more about Aon's industry-specific solutions:

- Pre-loss consulting services.
- Post-loss claims advocacy.
- Risk transfer solutions.

Geography Trends:
Asia Pacific

Asia Pacific: Regional Landscape

While some parts of the region — like Australia and New Zealand - have returned to minimally restricted pre-COVID norms and activities (including travel), others — like India, Thailand, The Philippines, and South Korea — are experiencing spikes in infection rates as the race to vaccinate accelerates.

Broadly, the region is expected to grow in 2021; optimistic businesses and consumers are driving up forecasts which were higher at the end of Q1 than at the beginning. The cycle of optimism has led to a further surge in house prices with growth levels in some areas at 17-year highs.

Even as the region looks forward to a 2021 rebound, concerns remain. The strained trading relationship with China has led many firms to seek new or more diversified homes for their products. The workplace of the future will have fewer full-time on-site workers, leading employers to explore options such as job re-distribution to offshore, lower-cost regimes and an acceleration of AI solutions. And the COVID variants continue to proliferate...indeed, it is a race between virus and the vaccination.

Asia Pacific: Market Overview

Insurance Market & Key Risks

The market is divided
Some insurers have rebalanced their portfolios and are, once more, focused on growth whilst others continue to focus on remediation and a return to profitability.

Uncertainty remains high
While the end seems to be in sight, the ultimate financial consequences of COVID-19 and related restrictions, as well as their impacts on risks, exposures, and claims, remain difficult to estimate and quantify. All eyes are on FCA Business Interruption test case.

Coverage derogations are a growing concern
Insurers are imposing across-the-board clarifications and exclusions, particularly related to silent cyber, infectious disease and contingent business interruption. Newly proposed language is at the heart of many negotiations with differing insurer legal opinion driving a lack of continuity amongst insurers leading to differing terms and conditions on policies.

The underwriting environment remains difficult
Information requests continue to get ever more detailed. Often insurers are unable to formalize quotes until all requests — for detailed information and compliance with risk control recommendations - are satisfied. This can lead to last minute deviations from expected terms.

Claims Environment

Market trends and COVID issues are challenging the claims environment
The impacts of the hard market have strained insurer financials and COVID-related impact has disrupted operations creating increased uncertainty. These challenges have resulted in a high degree of claims scrutiny, greater reliance on outside coverage counsel, and burdensome information demands. This is creating frustration, testing relationships, and, left unchecked, may lead to unnecessary delays and less favorable claims outcomes.

Re-evaluate cyber needs
Clients should consider the claims management capabilities and philosophies of insurers when structuring programs for this risk, with loss frequency increasing materially

There is a shift in focus on COVID19 related business interruption
Australia has become a focus of the global discussion on this topic with test case activity under way related to Quarantine Act / Biosecurity Act, and broader topics analogous in many ways to those that have previously been subject to the FCA test case in UK.

Tips for Clients

Review your risk transfer strategy
A strategy set a few years ago based on market pricing, coverage availability, capacity deployment, and your then risk profile is likely not optimal today. Pay special attention to supply chain, exposure to natural catastrophe and cyber risk.

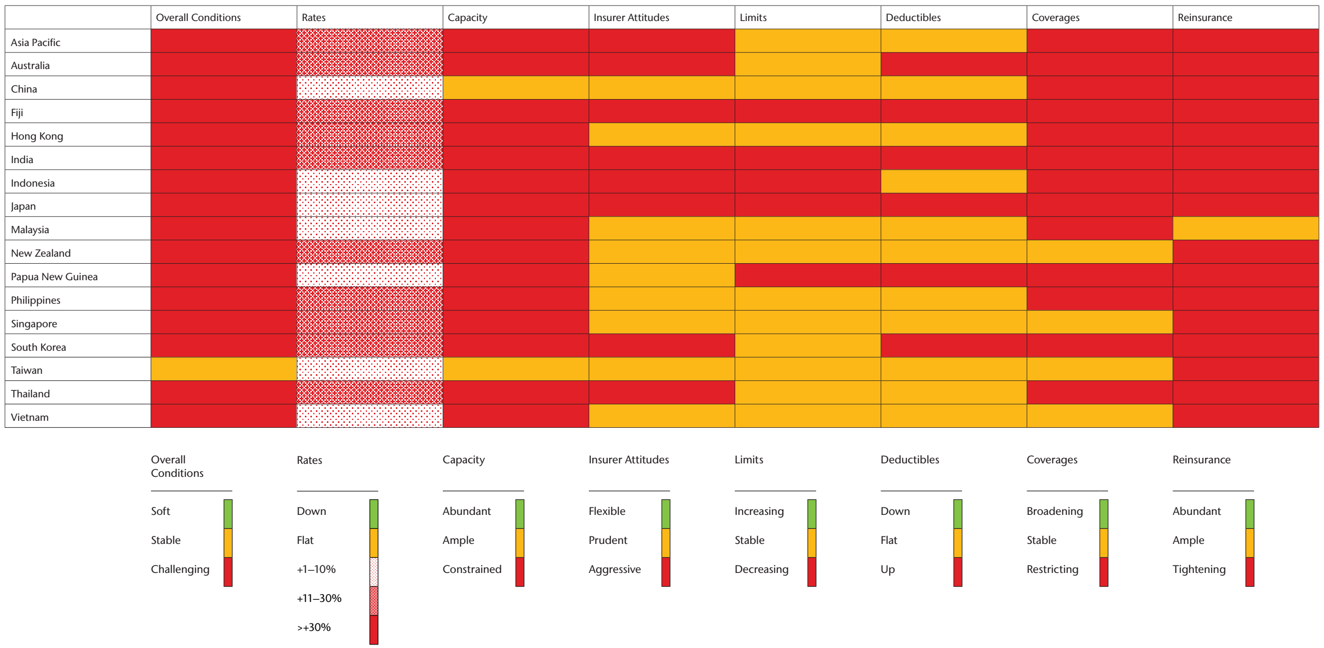
Test your market relationships
Many insurers need to increase their portfolio irrespective of risk quality so an alternative insurer may very well think differently about the pricing of your risk. Be wary; however, as it may well prove only that your current insurer is best placed. Submission quality and understanding the key areas of insurer concern are paramount to favorable outcomes.

Leverage alternatives
Work with your Aon team to explore options to help mitigate rate increases. Weigh deductible options carefully to ensure optimal risk-retention tradeoffs. Consider facility solutions.

Build claims relationships
Consider engaging with insurers and claims service providers pre-loss, to better understand the claims process (in the event of a claim), to agree lines of communication, protocols and expectations, and to form relationships with key claims individuals/teams and decision-makers

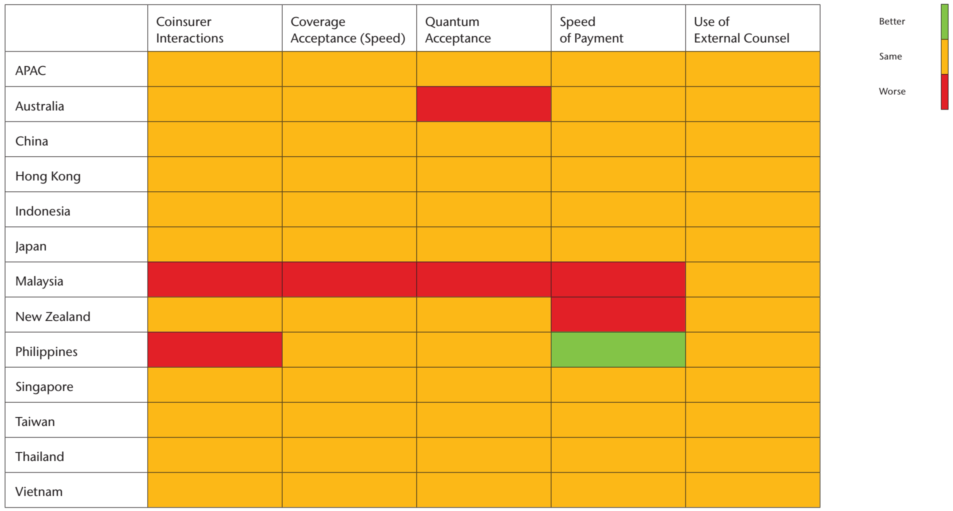
Asia Pacific: Q1 2021 Market and Claims Dynamics

Market Dynamics



Asia Pacific: Q1 2021 Market and Claims Dynamics

Claims Dynamics



Asia Pacific: Q1 2021 Rate Trends

Down | Flat | +1–10% | +11–30% | >+30% | N/A

	Aviation	Business and Personal Services	Construction	Energy	Entertainment and Leisure	Financial Institutions	Food System, Agribusiness and Beverage	Healthcare Services	Manufacturing	Marine	Pharmaceutical and Chemicals	Power	Professions	Public Sector	Real Estate	Retail and Wholesale Trade	Technology and Communications	Transportation and Logistics
All Products	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+1–10%	+11–30%	+11–30%	+11–30%	+11–30%	+1–10%	+11–30%	+1–10%	+11–30%	+11–30%
Automobile	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	Flat	+1–10%
Aviation	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%
Casualty/Liability	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+1–10%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+1–10%	+1–10%	+11–30%
Construction	+11–30%	+11–30%	+11–30%	+1–10%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+1–10%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%
Crisis Management	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%
Cyber	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%
Employers Liability/Workers Compensation	+11–30%	+1–10%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+1–10%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	Flat	+11–30%	>+30%
Financial Lines	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%
Marine	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+1–10%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+1–10%	+11–30%
Products Liability	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	Flat	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%
Professional Indemnity	>+30%	>+30%	>+30%	+11–30%	>+30%	>+30%	>+30%	>+30%	>+30%	>+30%	>+30%	>+30%	+11–30%	>+30%	>+30%	>+30%	>+30%	>+30%
Property	+11–30%	+11–30%	+1–10%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+1–10%	+11–30%	+1–10%	+11–30%	+11–30%	+11–30%	+11–30%	+1–10%	+1–10%	+11–30%
Surety	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	N/A	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%
Trade Credit	+1–10%	+1–10%	+1–10%	+11–30%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+11–30%	+11–30%	+1–10%

Asia Pacific: Featured Industry – Retail & Wholesale Trade

Industry Issues

The retail industry remains highly susceptible to COVID-19 restrictions. As restrictions are being re-introduced in parts of the region, household spending is again decreasing. Non-essential stores, particularly, small businesses, continue to suffer while e-commerce continues to gain significant momentum. Traditional retailers are working to quickly adapt their business models to enable electronic engagement and reduce susceptibility to future restrictions.

Market Conditions

COVID-19 related restrictions have led to a notable decrease in exposure values and claims, and some insurers are imposing higher rating structures in order to maintain premium levels. However, through successful broker negotiations, well-performing risks are experiencing only modest increases. While capacity is more limited on a per risk basis, the industry remains largely attractive to insurers and as such additional capacity providers are often readily available to fill any gaps created by line size reductions. That said, underwriting scrutiny remains high; insurer requirements for detailed information continue to increase, especially related to COVID-19 safety measures and supply chain management. Strikes Riot and Civil Commotion is more often sub-limited or completely excluded in some parts of the region.

A Look Ahead

In 2021, e-commerce is expected to continue to grow at a double-digit pace. Insurance market conditions will continue to be challenged and a disconnect between an ever more complex client need and a market shift to limit cover in some of these key areas will challenge buyer views on the relevance of the products they purchase. Insurers will need to respond to this challenge.

Asia Pacific: Featured Industry — Construction

Industry Issues
Largely as a result of heightened government investment — particularly in infrastructure projects such as massive railway expansions in China, Japan and Australia — the construction industry continued to grow in 2020, unlike most other industries. Residential construction did experience a slow-down; however, the strong government focus on affordable housing, particularly for developing countries, is leading to significant growth projections for the industry in 2021 and beyond.

Market Conditions
Pricing varies widely based on country and risk profile, with some risks experiencing modest rate increases while other poor performing risks experiencing very significant increases. Across the region, underwriting requirements have become onerous, and guidelines are being applied more stringently, as underwriters remain cautious following poor loss performance across parts of their portfolios. Faced with more information to review, underwriter response times have risen. Capacity is contracting, particularly for hard commodities / steel risks, and underwriting expertise in this space is hard to come by. Coverages are narrowing; Strikes Riots and Civil Commotion, as well as Terrorism, is being excluded or severely limited.

A Look Ahead
As governmental investment continues, long-term growth projections remain strong for the construction industry as a whole. The insurance market is expected to remain challenging, with continued rate increases, coverage pull-backs, and extensive underwriting demands. Insurer focus on Professional Indemnity, Delay in Startup coverage, and Defects Coverage are expected to continue for some time.

Asia Pacific: Featured Industry — Manufacturing

Industry Issues
As economies recover from the pandemic, global trade is surging — and demand for Asian exports is increasing, creating momentum for the manufacturing sector, especially, electronic components, in the region. The region has seen massive growth in output and new orders, despite ongoing supply chain challenges which have driven up prices. The chip shortage for auto exporters continues to be a pain point.

Market Conditions
Insurance market conditions remain modestly challenging as underwriters focus on returning to profitability after poor performance in this class in 2020. Indeed, a large-scale fire in the region has led some insurers to reduce capacity for some manufacturing risks; however, capacity is generally sufficient. Rates are increasing, in most cases only modestly, but more significant increases can be prevalent depending on construction, occupancy and loss performance. Appetite is focused on risk quality and there is a growing disconnect between the poorer performing or higher risk placements and those in the 'sweet spot' of capital providers. Those in the former category will continue to find risk transfer challenging while others will have significantly more options available to them. Insureds should continue to review optimal risk transfer points and, as with many occupancies, by doing so may well be able to drive savings in Total Cost of Risk despite the market conditions.

A Look Ahead
As the world returns to a state of normalcy, global demand for electronics may somewhat ease; however, the manufacturing industry overall is expected to remain strong. The World Trade Organization has raised its trade growth projection to 8% — a notable rebound from the 5.3% contraction in 2020 — and manufacturing will be at the heart of this. Insurance market conditions will remain somewhat challenging but will likely stabilize in 2021, particularly for some of the better performing risks in the manufacturing sector.

Featured Country: Australia Q1 2021 Market Dynamics

Landscape

The economic rebound is now expected to be far better than many predicted following the opening of the States to travel and easing of restrictions. This optimism has led to a further surge in house prices with growth levels in some areas at record highs. Even as the region looks forward to a 2021 rebound, concerns remain. The strained trading relationship with China continues to intensify and has led many firms to seek new or more diversified trading partners.

In March, torrential rain and severe flooding plagued Australia's southeast coast, displacing thousands of residents and damaging property. Communities previously devastated by severe drought and bushfires were ravaged by this latest natural disaster.

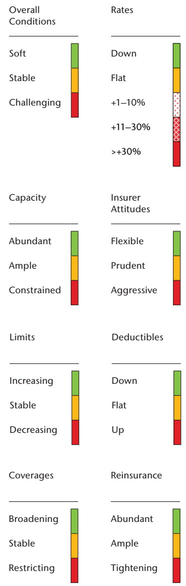
In the insurance market, GWP compared to GDP has been declining year-on-year and despite four years of remediation by insurers in the Australian market, insurers have struggled to meet return-on-equity targets. This has been driven by several factors, including the increased prevalence and scale of natural disasters in the region, increased litigation, and a low interest rate environment. None of these elements are new but the compound effect of multiple years and the universal push by capital providers for correction is driving the need for change.

As insurers await the outcomes of the COVID-19 BI test cases, appetite remains focused. Communicable Disease exclusions are being applied across the board, underwriting authority continues to shift to home office, and underwriting criteria and coverage derogations are increasingly onerous.

Looking ahead, rates will remain at elevated levels, but increases are expected to taper off in some areas as insurer appetite becomes more aligned.

Small to Mid-Sized Client Placements

Large and Complex Client Placements



Featured Country: Australia Q1 2021 Market Dynamics

Featured Products

Casualty/Liability
Driven by rising loss costs caused by increasing litigation, broader definitions of liability, more plaintiff-friendly legal decisions, larger compensatory jury awards, rising reinsurance costs, and insurer focus on profitability, a push for across-the-board rate increases continues, with minimum pricing for excess layers under review. Deductible increases, minimum deductibles and aggregate deductibles may be required for loss-trending areas, certain business sectors, and worker-to-worker risk exposed businesses. Local markets are reviewing limits and some insurers are reducing capacity where more than $50m is provided in total limits. All insurers are focusing on limit management and in some cases requiring ventilation when layering. Insurers are reviewing wordings with a particular focus on 'non-traditional' General Liability coverages such as Professional Indemnity, Pure Financial Loss, and aviation exposures. Insurers are also reviewing their position in relation to cyber & data risks and introducing restrictions. Some insurers will provide limited writebacks. Problem areas continue to include sexual misconduct, bushfire liability, frequency exposed business, large worker-to-worker risk and mining, especially thermal coal and tailings dam exposures. Insurers are also looking at contractual liability and asking questions around indemnities and hold harmless clauses.

Cyber
Rate increases are gaining momentum, as claims frequency and severity increases. Insurers are skilled in the management of claims, and continually improving. All insurers are monitoring capacity; most are offering no more than $10m. Some are looking to provide capacity on a ventilated structure, providing less capacity in individual layers, and possibly maximum capacity over large towers. Insurer appetite has become focused, and insurers are risk selective. As other lines of business reduce or exclude coverage for Cyber, stand-alone policies are becoming commonplace and average limits are increasing.

Employers Liability/Workers Compensation
Citing the complete absence of investment returns as having a material impact on portfolio profitability, insurers remain bottom-line focused, pushing modest rate increases for well-performing risks and more significant increases for under-performing risks — either client-specific or across entire segments. In addition, insurers are seeking increases in retention levels on Excess of Loss cover which is a consequence of increasing claims costs as well as a prolonged period of flat deductibles.

Financial Lines
The moderation of hard market trends is volatile and inconsistent. Preferred risks will see favorable appetite, capacity and coverages, although pricing will remain high. Non-preferred risks, such as in the mining, aviation and financial services sectors, are experiencing a very limited market, a tightening of coverage, and onerous underwriting. Some are considering reductions of Side C D&O limits, or removal of Side C, to mitigate price increases. Insurers are relying more on advice from counsel and less on independent risk analysis. New capacity in the second half of 2021 will supplement reductions in incumbent insurer capacity.

Marine
All product classes continue to experience rate adjustments to stabilize insurer Marine portfolios. London insurers are pushing more aggressive increases than local insurers. Lower rate increases are expected as insurers achieve profitability goals over the next 2-3 cycles. Deductibles are under review and often used as leverage against premium increases. Local capacity is ever more limited due to reinsurance constraints and Australian Insurers remain cautious of portfolio volatility.

Professional Indemnity
There is a continued push for premium increases. Insurers are navigating new exposures related to COVID and anticipating future pandemic-related exposures. There is a high actuarial focus and review of claims performance. Retentions are increasing. Capacity is stable.

Property
Rate increases continue across the board, but the amount of increase varies widely based on location, loss history, construction type, and protection. Capacity is generally sufficient but is more challenged in some areas as insurers look to limit their exposure. The underwriting process has become more onerous and is taking longer. As such, starting the renewal journey early is essential. Program structures are changing, with ever more complex structures required to drive the optimal solution. Up-to-date engineering reports are critical to the underwriting process and insurers are requiring clarity around risk improvements as a prerequisite to providing coverage. As suggested in previous Aon Global Market Insights reports, there is a growing disconnect between 'in appetite' risks and those in more challenged occupancies. This gap continues to grow, and it is predicted that as insurers focus on portfolio increases, in some cases, an alternative insurer may have a very different view about the pricing of a risk.

Surety
Australian Surety guarantees are typically unconditional and provided on-demand. Therefore, the perceived credit risk of a specific business — or an entire sector — has a significant impact on the rate and capacity offered. Strong performing risks are typically experiencing flat pricing and capacity, while less favorable risks are typically experiencing significant rate increases and capacity reductions or withdrawals. Insurer appetite will continue to focus as the full impact of COVID flows through into business financials.

Trade Credit
Poor financials and an increase in insolvencies has kept risk appetite subdued. Premium increases have again risen; however, the market is expected to stabilize from Q2 onward. Poor performing risks will experience pressure to move to higher levels of risk share.

Geography Trends: Global Broking Center

Global Broking Center: Market Overview

Insurance Market & Key Risks

- **Claims activity is driving shifts in appetite and coverage:** Insurers are reducing capacity or withdrawing altogether from some loss-active lines of business / risk types and/or clarifying coverage language, especially related to communicable disease, silent cyber, and business interruption.
- **Signs of pricing stabilization are emerging:** There are early signs of a change in the market. Overall, there is still a firming trend for most classes; however, the trajectory of increase across some classes appears to be declining quarter-on-quarter, particularly for US and International Property, and Marine Cargo.
- **New capacity is entering the market:** Even as some insurers withdraw from poor performing classes and risks, capacity overall is increasing. It is emanating from new sources as well as from current insurers taking advantage of elevated pricing conditions by increasing shares.

Claims Environment

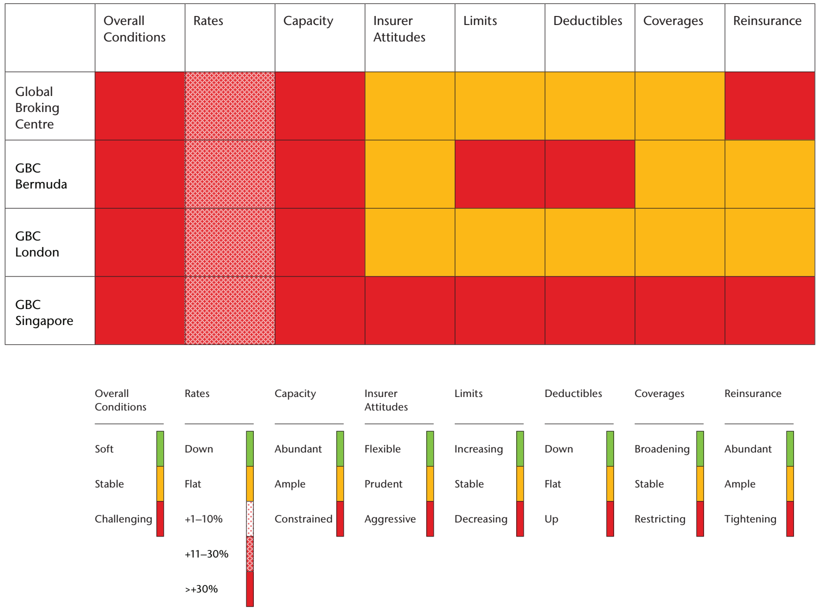
- **Run-off activity is increasing:** There is increased activity in run off companies acquiring books of business from live insurers. The claims philosophy of run off companies is different to that of live companies. They are more disciplined in terms of how they handle claims and less focused on ensuring the maintenance of relationships through claims.
- **Claims volumes are fluctuating:** While some claims activity has slowed due to COVID-19 impacts, there has been an increase in claims activity in the following areas:
  - Marine / Cargo / transit.
  - Financial lines / class actions.
  - Cyber / ransomware.
  - Medical Professional / missed and delayed diagnosis.
  - Property Catastrophe losses (especially emanating from the US).

Tips for Clients

- **Explore alternative solutions:** Traditional and non-traditional options are expanding, and it is increasingly important to explore alternatives such as captives, facilities, MGAs/MGUs, risk financing, and changes to program structures to achieve the best outcomes.
- **Re-review insurance coverages and structures:** Risks, exposures, and risk management strategies have changed. Coverages, limits and deductibles should be carefully considered to ensure they remain appropriate.
- **Start early:** The renewal process is taking longer. There is greater underwriter scrutiny, and more questions are being asked. Give yourself enough time to respond.

Global Broking Center: Q1 2021 Market and Claims Dynamics

Market Dynamics



Global Broking Center: Q1 2021 Market and Claims Dynamics

Claims Dynamics

	Coinsurer Interactions	Coverage Acceptance (Speed)	Quantum Acceptance	Speed of Payment	Use of External Counsel
Global Broking Centre					
GBC Bermuda					
GBC London					
GBC Singapore					

Better

Same

Worse

Global Broking Center: Q1 2021 Rate Trends

Down | Flat | +1–10% | +11–30% | >+30% | N/A

	Aviation	Construction	Energy	Entertainment and Leisure	Financial Institutions	Food System, Agribusiness and Beverage	Healthcare Services	Manufacturing	Marine	Power	Professions	Public Sector	Real Estate	Space	Transportation and Logistics
All Products	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%
Aviation	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%
Casualty/Liability	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%
Construction	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+1–10%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%
Crisis Management	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+1–10%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%
Cyber	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%
Employers Liability/Workers Compensation	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%
Environmental	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%
Financial Lines	>+30%	>+30%	>+30%	>+30%	>+30%	>+30%	>+30%	>+30%	>+30%	>+30%	>+30%	>+30%	>+30%	>+30%	>+30%
Marine	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%
Professional Indemnity	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%
Property	+11–30%	+11–30%	>+30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+1–10%	+11–30%	+11–30%
Space	+1–10%	+1–10%	N/A	+1–10%	+1–10%	N/A	N/A	N/A	N/A	N/A	+1–10%	+1–10%	N/A	+1–10%	N/A
Surety	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%	+1–10%
Trade Credit	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%	+11–30%

Global Broking Center: Featured Industries Q1 2021 Overview

Aviation

The past year has brought a number of challenges for the aviation industry, including COVID-19 which resulted in a massive reduction of passenger numbers and air traffic, and a relatively large number of accidents resulting in passenger fatalities. The industry now awaits decisions as to which governance approaches and restrictions individual countries will implement such as COVID testing requirements and proof of vaccination. These measures will likely affect how insurers assess and price risk profiles. In the meantime, rate increases remain significant, and capacity remains challenged. Claims performance is stable, although there have been some delays in payment, particularly with insurers which have withdrawn from this space.

Construction

Insurer remediation efforts are not only focused on pricing but also on retentions, given the market perception that retentions have not kept pace with growing exposure values and risk profiles. Coverage is generally stable, although most international Professional Indemnity insurers are imposing Cyber exclusions. Very few will agree to affirm Cyber coverage, and those that do are specifically underwriting the Cyber exposure and charging additional premium. Insurer appetite is inconsistent based on exposure type and risk profile and some insurers have specific agendas to de-risk their portfolios. Insurer responsiveness has generally slowed. Market conditions are expected to continue throughout 2021 as insurers remain cautious that the full effects of the pandemic remain unknown.

Energy

The effects of the pandemic and global demand fluctuations have driven a focus on managing volatility. Generally, insurers continue to focus on the accuracy of declared Business Interruption values. Rate increases remain the norm for Downstream risks, although at a much lower rate of increase than experienced in 2020. Gross earnings coverages based on “actual loss sustained” wordings are coming under scrutiny. Insurers have widely introduced BI volatility clauses seeking to cap annual and monthly recoveries to a percentage of declared values. There are Downstream pinch points such as Oilsands, natural catastrophe exposed locations, high aggregation areas, and where significant limits are required by lenders. The Upstream market remains stable overall; however, underwriters are focusing on the accuracy of unit price declarations used for LOPI cover. ESG is increasingly being considered by insurers as a factor in deciding which clients are appropriate partners. Retentions remain stable — although options continue to be sought. There is broad consensus on policy wordings. A new LMA version of the BI Volatility clause (LMA5515) was released in Q4 2020 to clarify earlier versions. Communicable Disease Exclusions are now present on all major programs (LMA 5393 is most common). Looking ahead, a further capacity constriction in specific areas like Arctic Drilling and Oilsands is expected. Energy transition technologies and low net carbon dioxide emitting entities are expected to receive preferential treatment.

Entertainment & Leisure

COVID has had a range of impacts on the different sub-sectors comprising the Entertainment & Leisure industry. There has been little change in the event cancellation landscape. Robust COVID protocols are enabling the TV/Film/Commercials Production sub-sector to continue. Non-appearance risks are minimal as no international touring is expected until late 2021. While the business impacts of COVID have differed, insurance pricing is consistently challenging across the industry at large, with no diminution of rate increase being seen across any Contingency product. Deductible increases have become common — driven by insureds’ premium management efforts rather than insurer demand. A general tightening of policy language continues. Capacity has slightly contracted, and more is expected to leave.

Food System, Agribusiness & Beverage

Price increases generally continue. Capacity is stable, with a focus on adequate retentions and insurer profitability. Insurers are reviewing line sizes on any individual risk and are actively reducing lines when deemed necessary. There is heightened underwriting scrutiny, particularly in the product contamination space. Soft market enhancements have become more challenging to secure, particularly when transitioning to a new insurer.

Marine

There has been some downward pressure on Cargo rates amidst increasing market appetite and capacity, with new entrants — particularly MGAs — coming into the market. While there is still significant capacity for the majority of Hull risks, capacity is being tested on cruise vessels and major construction projects due to values exposed. A two-tiered hull market is emerging. In one tier are insurers with appetite for growth, driving opportunistic underwriting and leading to increased verticalization as a result of a number of factors, including having the ability to write on company platforms, new entrants coming into the space, and greater autonomy to manage and grow the portfolio where underwriting results have been favorable. The second tier reflects those insurers which continue to be challenged by Lloyd’s remediation and who are restricted from adopting a flexible underwriting approach. There is concern that vessel reactivation issues could arise where vessels have been in long term lay up. Coupled with growing mental well being concerns for crew, the market is watching for a potential rise in Hull losses. Reinsurance requirements have led to the application of Communicable Disease Exclusion clauses across all lines. The claims environment is relatively stable but a few notable losses in 2020 has continued to ensure that a softening market is still some way off. Simple, straightforward losses are benefiting from the work from home environment, with underwriters being more available and reviewing electronic claims files in a more timely fashion. Complex losses that require interaction, understanding and discussion have been more problematic and take longer to resolve than they would in the office.

Global Broking Center: Featured Industries Q1 2021 Overview

Power

In the conventional tech power assets space, capacity contractions which started mid-2020 have stabilized, although new players are not entering the market. New renewals capacity is entering; however, and this is leading to hybrid programs with a mixture of Conventional and Renewable assets. There is continued private equity acquisition of aged conventional fleets. Gas Turbine Technology is under scrutiny. GE 'F' units are experiencing material price increases, often combined with deductible increases depending on version. There has been a slight warming to HA technology. LMS 100 is experiencing continued Property Damage losses (versus historical BI outages). Hydro continues to experience losses across the spectrum, with vertical losses in pump storage. In the onshore renewables space, some conventional insurers are branching out into renewables as existing market players reduce line sizes. There is increasing concern over Natural Perils and appetite is reducing further due to reinsurance treaty provisions. In the offshore renewables space, traditional wind markets are pulling back capacity due to losses, but upstream energy markets are starting to enter the market, bringing significant potential capacity at a more sustainable price. DSU wording remains a key concern. In the operational conventional power generation space, following discussions with lead markets regarding 2020 loss ratios, it is expected that insurer appetite will narrow in 2021 and some capacity may withdraw if profitability does not improve.

Professions

Market conditions continue to be challenging. Rates continue to increase. Capacity is limited, requiring some insureds to assume more of their own risks. Underwriters are highly selective on which risks they write. Silent Cyber is an ongoing challenge. Underwriting decision-making and authority is centralizing. Claims frequency is stable, while severity is rising — driven partially by social inflation — with some incurred sums reaching well into Excess layers.

Space

Despite a number of anomalous events which led to several high-severity claims in 2020 and early 2021, there has not been a large uptick in premium rates. While rates remain elevated, competition between insurers for attractive risks, and significant overcapacity, is serving to stabilize the market. While a small number of insurers have withdrawn, citing poor book performance, other players are viewing the market more positively and additional capacity has entered. Currently, the maximum capacity available (theoretical capacity) for space launch risks is approximately USD 970 million, and USD 890 million for in-orbit coverage. Working capacity for launch is currently estimated to be USD 612 million and USD 457 million for in-orbit. (Working capacity represents the maximum capacity the insurance market will actually offer for a best in class launch or in-orbit risk and assumes all markets will underwrite the risk.) While there remains significant differentiation in pricing, technology of greater heritage and reliability continues to attract the strongest demand and preferential premium rates. Insurers are more selective in the programs they are willing to support and depending upon the risk profile are being judicious with their level of support. In the absence of further claims, Aon expects the space insurance market to stabilize and conditions for insurance buyers to improve later in 2021.

Global Broking Center: Featured Products Q1 2021 Overview

Featured Products

Casualty
Underwriters are continuing their Q4 re-underwriting strategies aimed at correcting/resetting for profitability. These strategies include assessing coverages, capacity, triggers, and pricing. The impacts have led to ongoing price increases, particularly on Excess and Umbrella coverages, as well as reduced line sizes, increased co-insurance/shared placements, and more ventilation of layers. More restrictive, standard forms — rather than bespoke policy language — are being offered. Risks experiencing the most challenging environment include mining, thermal coal, energy, bushfire exposed, pipelines, and roofing involving hot torches.

Crisis Management
The increase in claims did not materialize to the extent expected in 2020; instead, relatively modest upticks occurred. However, insurers remain cautious as waivers and requests for payment restructuring agreed last year are due to expire in 2021, and some of these transactions may be subject to claims thereafter. Market appetite has expanded and is more diverse, particularly for Political Risk. Capacity remains sufficient. Three insurers withdrew during 2020 but new entrants have filled the void.

Cyber
Loss frequency and severity has escalated — particularly related to ransomware — and the market has reacted with tighter coverage language as well as continued, significant rate increases. Appetite remains strong, particularly for differentiated risks, as insurer risk selection is becoming more focused. Some established structures are being restructured in order to secure the same total tower limit; larger primary lines are becoming more common. Market conditions are expected to continue throughout 2021.

Financial Lines
Market conditions continue in a similar state as the latter part of 2020, with insurers looking to impose significant rate increases nearly across the board. Retentions are increasing and coverages are restricting. The 'silent cyber' mandate from Lloyd's is currently the most pressing coverage issue, with some insurers attempting to impose exclusions that may impact core cover. Capacity remains a challenge with most insurers continuing to be cautious following a significant reduction in capacity over the past 12 months. Appetite remains focused. The Financial Lines market is expected to remain difficult in the short term, as insurers continue to look for what they believe to be adequate rates and appropriate terms and conditions, following an increase in frequency and severity of losses. Emerging new capacity will bring some relief in the medium term.

Property
While conditions remain challenging for some classes like metals & mining and pulp & paper, there are signs the market is easing off its peak. Capacity remains constrained, although new capacity providers are proving useful to fill some of the more distressed mid-layers that were a major struggle 12 months ago. There is greater scrutiny of manuscript language. Significant new coverage restrictions are not being introduced; however, LMA 5393, LMA 5400 and SRCC exclusionary language for specific regions are now standard. Insurers are showing more flexibility and desire to maintain existing portfolios following a period of significant remediation. Insureds are generally maintaining limits and deductibles, although some deductible increases have been implemented to help offset premium increases at a time when budgets are constrained due to ongoing recovery from COVID-19 impacts.

Key Aon Contacts

[redacted]

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Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

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