

MANAGING EXTREMES

Willis Re

1ST VIEW

Pricing Floor Remains Elusive

1 January 2016

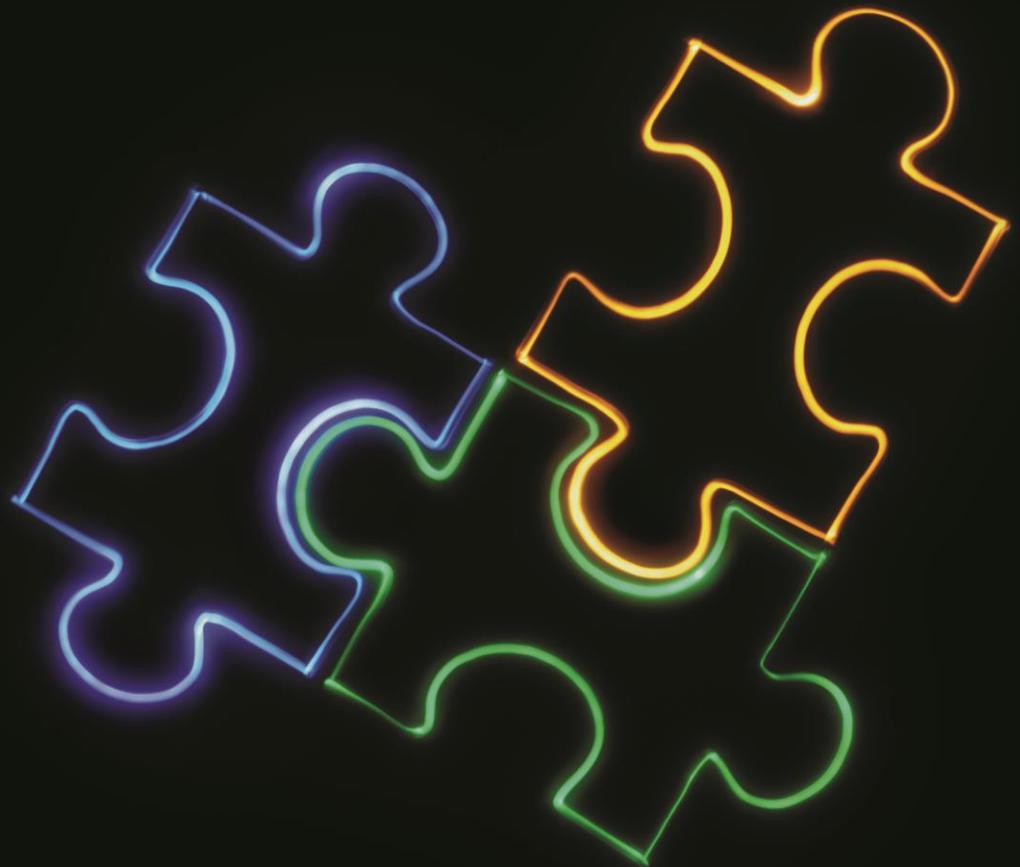


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1st View

This thrice yearly publication delivers the very first view on current market conditions to our readers. In addition to real-time *eVENT Responses*, our clients receive our news brief, *The Daily Willis ReView*, periodic newsletters, white papers and other reports.

Willis Re

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Pricing Floor Remains Elusive

Despite signs of price stabilization in peak property catastrophe zones during the June / July 2015 renewals, the hopeful forecasts for a “softening in the softening” at the January 2016 renewal season have proved illusory in all but a few cases. Buyers have yet again looked to their reinsurer partners for support in terms of reduced prices and broader coverage to help manage their portfolios as original rates have fallen across most markets and classes.

On the other hand, ILS markets have largely taken a more disciplined approach to pricing, given their business models do not allow the same degree of flexibility through diversification as traditional reinsurers. This trend has underpinned the difference in rate reductions between U.S. property catastrophe excess of loss contracts – particularly on the higher layers – compared to those outside the U.S. where the ILS markets have less penetration.

Reinsurers have also faced difficult renewal dynamics in some specialty markets, with large losses and reductions in original rates not proving sufficient to dissuade further capacity from entering either the aviation or energy markets. This is leading to a prolongation of softening rates. As reinsurers continue to diversify their portfolios, MGAs, particularly in U.S. specialty classes, are growing strongly. These offer opportunities for reinsurers to access business that will support the build-out of their specialty incomes, although this comes at the expense of some traditional specialty insurers.

Casualty markets have also not been able to offer reinsurers much relief. An increase in adverse results over a number of non-motor classes is not yet impacting pricing. And despite the increased focus on risk quantification in casualty classes linked to downside risk and capital distress testing, the take-up rate of new products designed to address these issues remains muted. Without some additional external impetus, this is likely to remain the case.

Underpinning these trends, despite signs that some insurers are utilizing rate reductions to buy more reinsurance, some larger companies continue to increase their retentions. While improved risk management is largely driving this trend, it is possible that some potentially misplaced optimism around underwriting results also exists as original rates reduce. The current challenging outlook has prompted rating agencies to reinforce their negative outlook on the entire reinsurance sector.

However, as reinsurers look to close their 2015 accounts, most will report reasonable headline results, albeit with some reduction of Return on Equity (RoE). But looks flatter to deceive. As our Willis Reinsurance Index for the first half of 2015 demonstrated, underlying RoEs of reinsurers within the index are at just 5.1% after adjusting for reserve releases and abnormally low catastrophe losses. 2015’s full year analysis is likely to show further reductions; under reserving issues are starting to appear at both a primary company and reinsurer level, and current year combined ratios in many classes are approaching 100% when adjusted for normal loss patterns.

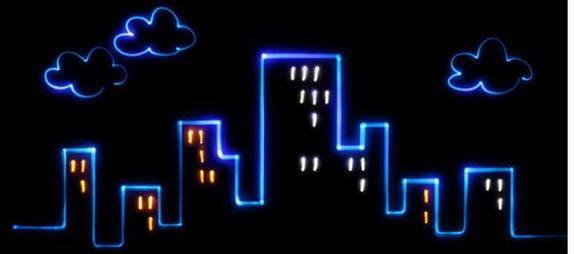
The outlook for investment income also remains tough. As interest rates rise, some commentators are voicing concern that dislocation in the high yield bond market might be seen as a precursor of further turmoil. For most reinsurers, exposure to high yield bonds is modest and manageable, but in any significant market event there are bound to be outliers.

The deterioration of the environment notwithstanding, M&A continues unabated. Asian-sourced capital is helping to drive valuations, as are buyers looking to buy scale and market relevance as deals drive yet more deals. The current high valuations are increasing the inherent risk in M&A transactions. This should give potential acquirers without very clear strategic targets and strong nerves even more reason to proceed carefully, but many remain confident.

Amidst this challenging environment, two positive developments stand out. First, the recent announcement by Lloyd’s that it plans to launch a trading index to help stimulate the development of a secondary trading market and “attract the interest of the wider capital markets.” Second, the announcement by Mark Carney, Governor of the Bank of England and Chairman of the Financial Stability Board, that an industry-led task force has been formed. Chaired by former New York City Mayor, Michael Bloomberg, it will develop company disclosures for investors to assess physical, liability and transitional risks from climate change and related policies. Quantification and disclosure of insurance risk has helped to drive reinsurance demand for the last 25 years. Hopefully these new initiatives will do the same for the global business community: drive demand.



John Cavanagh, Global CEO, Willis Re



Property – territory and comments

Asia

- Ample capacity for all programs
- For loss free programs, pricing has softened in the range of 10% to 15%
- Certain cedents have purchased additional capacity which has meant that the premium spend in monetary terms has increased albeit in an environment of risk adjusted discounts
- Pro rata treaty terms and conditions have largely been as expiring although reinsurers have looked to adjust commissions from flat to sliding scale or amend loss participation clauses on poorly performing contracts
- Single risk losses have put pressure on pricing in certain territories although the largely benign natural catastrophe environment for Asia has balanced out per risk losses
- We are starting to see signs of increased interest in buying additional coverage with some buyers looking to reinvest premium savings to protect earnings as margins are compressed

Australia

- Soft market conditions continue for mid to upper layers of catastrophe programs
- Lower layers exposed to attritional natural perils reinsurance have seen firmer pricing, following significant loss activity in the last 12 to 18 months
- Plentiful ILS capacity available, however this capacity is very selective given the generally soft market conditions
- Minimum Rates on Line (ROLs) reducing to reflect reduced capital costs

Canada

- Benign Property catastrophe and Property per risk reinsurance environments in 2015
- It is anticipated that Canadian Property reinsurers will generate sub 80% combined ratios
- First residential “water insurance” policies launched by insurers, offering an overland flood endorsement to traditional sewer back-up protection. In-turn, this optional flood coverage has been extended to in-force reinsurance treaties
- Alternative capital continues to offer buyers access to competitive reinsurance capacity
- Top layer Property catastrophe ROLs range between 1.7% and 2.0%

Caribbean

- More business shifting to pro rata from excess of loss

Central & Eastern Europe

- Heavy frequency of risk losses with some significant large losses
- Risk excess of loss capacity increased up to 20%, with buyers leaving their retentions unchanged
- Risk pricing stable or increased depending on loss experience
- There are a limited number of larger pure CEE Property catastrophe programs placed, creating heavy competition amongst reinsurers to maintain or increase shares
- Minimum catastrophe ROL close to 1%, with best terms achieved for layers specifically limited to one named peril, e.g., earthquake
- ILS markets displayed an increased appetite to participate on medium-sized and larger CEE programs
- A softening of regulations in Poland opened up the market to reinsurers from certain non-E.U. territories from 1 January 2016, namely Switzerland, Japan and Bermuda

China

- The reinsurance market continues to be very competitive in China
- Risk adjusted reductions expected by buyers and achieved without significant market pushback
- The impact of the Tianjin explosion has been absorbed disproportionately among insurers
- China Risk Orientated Solvency System (C-ROSS) is to be implemented in 2016; in response to this, with regards to overseas reinsurers, Collateralization clauses have been widely introduced

Colombia

- More Colombian catastrophe capacity is covered under multi-territorial covers
- There is an increasing lack of stand-alone covers
- Pro rata remains a key reinsurance structure for some key companies
- Work is intensifying towards a change in regulation as regards catastrophe purchase on a modelled basis as opposed to the current fixed percentage of aggregates methodology
- New entrants into the local insurance market include Zurich and Berkley Group
- New laws requiring the tendering of mortgage-related accounts on collective policies has seen some hitherto “captive” accounts change hands

Europe-wide

- Early expectations of a more moderate market vanished early in the renewal season
- Continuing softening for loss-free programs throughout the renewal season amidst plentiful capacity
- Previous “rules of thumb” top-layer minimum ROLs disappeared for wind and non-wind covers
- ILS markets have succeeded in deploying more capital, predominately in lower layers rather than more remote higher layers
- Significant support for flagship placements but greater spread of appetite between “technically driven” and opportunistic “market share” seeking reinsurers
- Solvency II implementation impacted buying behavior but didn’t dominate the renewal

France

- Soft market is still very much on the 2016 renewal agenda
- Capacity still high; ILS markets entered into the market to a limited extent
- Larger reinsurers were not the ones pushing prices down
- Solvency II and/or internal model outputs led to some small additional capacity purchases
- Some new reinsurers came late in the renewal process offering fresh capacity

Germany

- Market softened for loss-free programs beyond initially expected levels
- Renewals more challenging for loss affected programs
- Some reinsurers being more price disciplined, starting to reduce shares or exiting programs
- ILS markets showing greater presence and appetite, deploying an increasing amount of capital primarily through fronting arrangements
- Top-layer minimum ROLs falling below historical levels
- Few structural adjustments due to Solvency II (many implemented the year before)

Indonesia

- Revised Property tariff effective 30th June 2015, including discounted rates for risks between USD 100 million and USD 300 million
- Property risks with values exceeding USD 1 billion for groups of companies are now being priced in the international market
- Additional proportional Property capacity available
- New regulations on minimum retentions per risk by class of business and increased local priority cessions effective 1 January 2016

- Local reinsurance companies have increased their acceptances for 2016 taking up the minimum local priority cessions

Italy

- Small / medium companies have purchased more catastrophe capacity in order to meet Solvency II requirements
- 2015 EPIs have not been reached, general difficulty to grow on all lines of business
- Most catastrophe excess of loss programs were impacted to a modest extent by the March weather losses in Tuscany
- Following reinsurers were penalized compared to leaders

Korea

- Another catastrophe free year led to further price reductions
- Increased frequency and severity of major fire losses resulted in risk excess of loss and pro rata treaty terms coming under pressure
- To mitigate price increases, some clients increased retentions
- Loss Participation / Corridors and Sliding Scale of Commission were introduced to maintain reinsurers' support on some pro rata treaties

Latin America

- Consolidation within the region continues, although not only at multinational level; for example, RSA is in the process of selling its regional network to a South American financial group
- Capacity for catastrophe excess of loss business continues to outstrip demand but with a deceleration in price reductions being noticed
- Insurance penetration in many countries continues to grow but at a slower pace than the reinsurance market can offer capacity for
- Reinsurers looking to grow in the region are most successful when offering products beyond just standard catastrophe excess of loss
- Pro rata has become more placeable owing to the softer reinsurance market conditions

Middle East and North Africa

- For risk excess of loss covers pricing is down 5% and capacity is up around 15% to 20% due to new entrants into the market providing additional capacity
- Catastrophe is down 7.5% to 10%, capacity up 15% again due to new entrants
- Pro rata terms remain largely unchanged across most programs, capacity is up from new entrants in the region of 10% to 15%

Netherlands

- There was abundant capacity in the market with many reinsurers seeking to increase share despite reducing prices
- Cedents using the soft market to purchase more cover and better conditions
- Pro rata property is stable

Nordic Countries

- Several minor losses occurred across the Nordic region, but nothing that touched main catastrophe programs, hence core catastrophe programs remained loss free during 2015
- Several larger risk losses during the year impacted per risk and fire pro rata treaties
- Movements towards prepaid reinstatements on some excess of loss programs
- Yet another year of abundant capacity where many reinsurers chose to identify their key strategic partners and accept the cycle
- Proportional reinsurance is still being purchased – but not for capital / solvency reasons as many expected only a year ago; Nordic Property and Casualty companies on the whole remain well capitalized under Solvency II
- Reinsurers' appetite for proportional reinsurance mirrors the strong performance of the direct market in recent years; reinsurers demand for proportional reinsurance premium remains high

Philippines

- Pro rata treaties accepting natural catastrophe, with restrictions, saw limited capacity
- No new restrictions for catastrophe excess of loss contracts with coverage broadly as expiring

Switzerland

- Oversupply of capacity for Swiss clients continues, resulting in a further softening for loss free programs
- Swiss business sought after due to diversifying benefit, although reinsurers focused primarily on renewing existing portfolio rather than writing new business
- Placement panels relatively stable and less actively evolving than in other European territories
- Increasing demand for earthquake reinsurance

Turkey

- Pro rata contracts were stable and finalized quickly; some interest from new reinsurers
- For catastrophe excess of loss, the market is fairly soft but placement ease dependent on client
- Many placements were oversubscribed but unbalanced across the program; higher layers placed with greater ease than lower layers
- Generally aggregates stable or reduced due to the weakening of the Turkish Lira against the Euro

United Kingdom

- Continuing reductions in risk adjusted price across all treaties
- After another loss free catastrophe year, the accuracy of catastrophe modelling numbers subject to greater scrutiny, especially by buyers
- Some resistance to the larger price reductions was apparent from a handful of major reinsurers (e.g., only supporting “core” clients, offering signed capacity only); client relationship approach is therefore important because there is enough capacity available on most treaties, even those with larger reductions
- Impact of minimum premiums under Solvency II became a discussion point, but buyers views on usefulness of reducing them varied
- Risk excess of loss contracts often saw coverage improvements as well as changes in price

United States – Nationwide

- Lack of catastrophe loss activity and abundant capital have driven the softening market in recent years
- Following several years of compound price reductions, risk adjusted rate reductions continue for catastrophe reinsurance but have slowed from prior years
- Higher ROL layers obtained bigger decreases with the most noticeable slowdown in price reductions for top end tail protection layers at lower ROL
- Some increased demand for catastrophe protection which is expected to continue throughout 2016 as changes to A.M. Best’s BCAR methodology becomes better understood by buyers
- Multi-year coverage remains available and is now largely standard across most large catastrophe programs
- Coverage enhancements including terrorism and expanded hours clauses continue to get market support

Venezuela

- Some programs have been extended in order to achieve the correct structure for the changing economic environment
- Inflation remains a key factor affecting the insurance sector
- Catastrophe excess of loss business is still relatively straight-forward to place
- Risk-exposed business requires much more detailed information in order to be placed
- Nearly all contracts are now based on a pre-agreed fixed rate of exchange basis owing to the Central Bank's ability to pay state-subsidized reinsurance dollars having all but dried up

Vietnam

- Buyers continue to rely on proportional treaties coupled with excess of loss protections on their net retentions
- Numerous proportional treaties affected by poor results, which in turn is driving commission reductions, reduced capacity and additional underwriting restrictions for high hazard risks
- Increased use of Loss Participation Clauses and Sliding Scale commissions on proportional treaties given poor results
- Excess of loss treaties continue to be covering both risk and catastrophe; limited structural changes for 2016

Rates

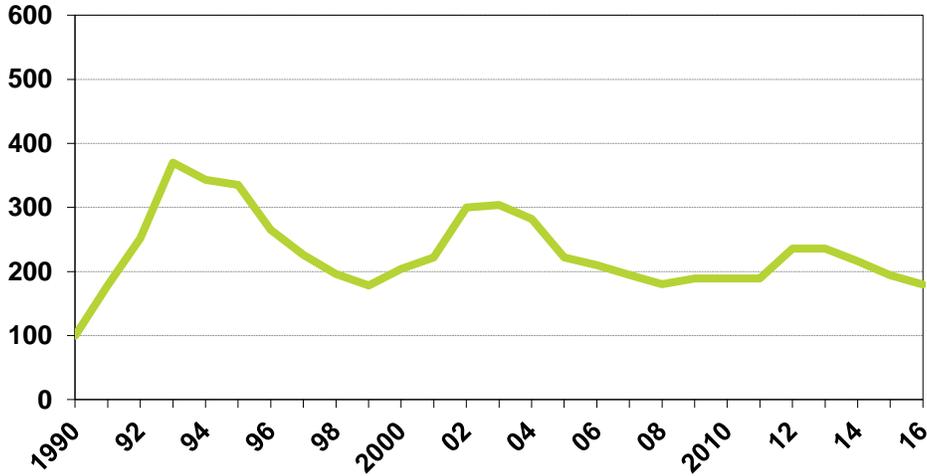
Property rates						
Territory	Pro rata commission	Risk loss free % change	Risk loss hit % change	Catastrophe loss free % change	Catastrophe loss hit % change	
Australia	0% to +1.5%	-5% to -12.5%	Varies	-5% to -10%	0% to +5%	
Canada	+4%	-5% to -10%	0%	-5% to -10%	0%	
Caribbean	+1%	-8% to -10%	0% to +5%	-8% to -12%	N/A	
Central & Eastern Europe	N/A	0% to +10%	+10% to +30%	0% to -10%	0% to +5%	
China	-2.5% to +0.5%	0% to -10%	+15% to +35%	-5% to -30%	-5% to +20%	
Colombia	0% to +1.5%	0% to -15%	0% to +15%	-5% to -12.5%	N/A	
Europe-wide	+2.5%	-5% to -15%	N/A	-5% to -12.5%	0% to -2.5%	
France	N/A	-3% to -10%	N/A	-5% to -12.5%	0% to -3%	
Germany	0% to +2.5%	-5% to -15%	N/A	-5% to -10%	0% to -2.5%	
Indonesia	0% to +2.5%	-5% to -15%	0% to -5%	0% to -15%	N/A	
Italy	N/A	-10%	-5% to -10%	-10% to -15%	-5% to -10%	
Korea	-3% to +1%	-5% to -7.5%	+5% to +10%	-10% to -15%	N/A	
Latin America	0% to +1.5%	0% to -15%	0% to +15%	-3% to -12.5%	N/A	
Middle East and North Africa	0% to +2%	-10%	0% to -5%	-12%	N/A	
Netherlands	0%	-5% to -7.5%	0% to +5%	-7.5% to -12.5%	N/A	
Nordic Countries	0% to +2.5%	-5% to -10%	0% to +5%	-5% to -10%	N/A	
Philippines	0%	-5% to -10%	N/A	-10% to -15%	N/A	
Spain	0%	-1%	0%	N/A	N/A	
Switzerland	N/A	0% to -10%	N/A	-3% to -10%	N/A	
Taiwan	N/A	-10% to -15%	-5%	-10% to -20%	N/A	
Turkey	0%	-10%	N/A	-10% to -15%	N/A	
U.K.	N/A	-10% to -15%	0% to -10%	-10% to -15%	N/A	
U.S.– Nationwide	+1% to +2%	-2.5% to -7.5%	-5% to +5%	-2.5% to -7.5%	N/A	
Venezuela	0% to +1%	0% to +15%	+10% to +25%	0% to -5%	N/A	
Vietnam	0% to -5%	0% to -15%	0% to +20%	0% to -5%	N/A	

Note: Movements are risk-adjusted.

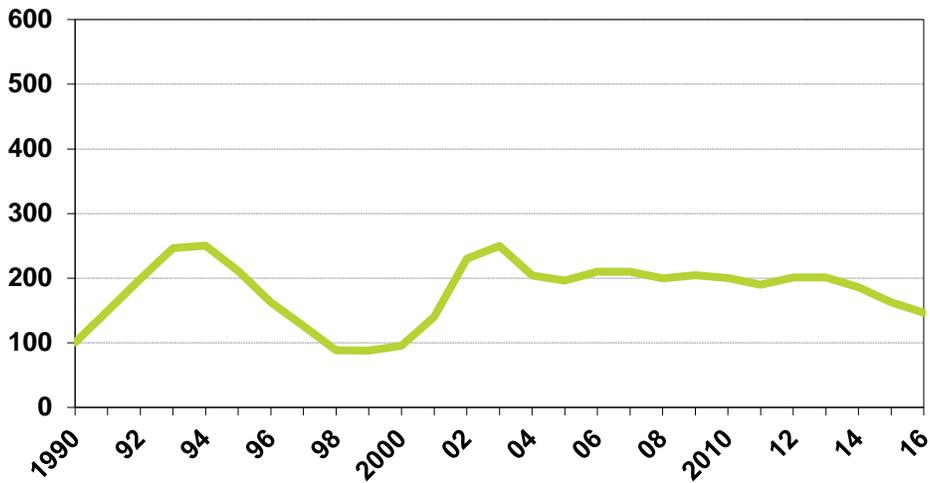
Property catastrophe pricing trends

The charts on these pages display estimated year over year Property catastrophe rate movement, using 100 in 1990 as a baseline.

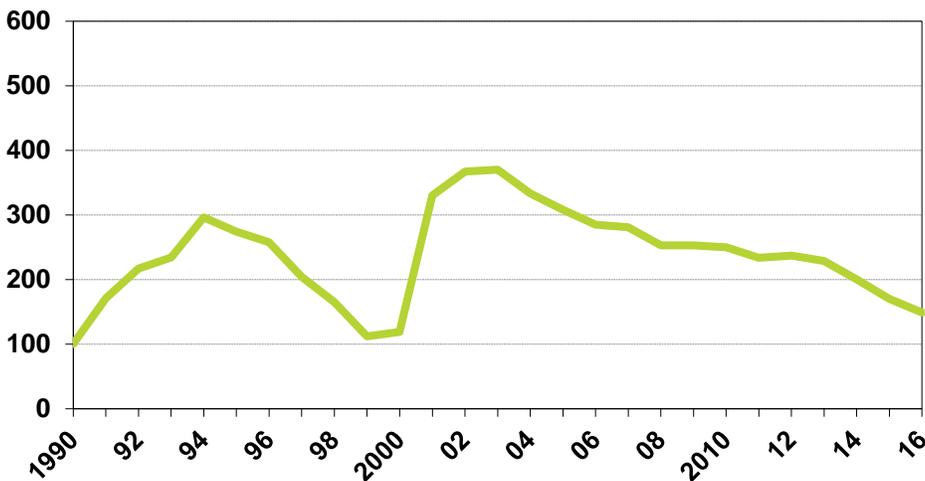
Australia



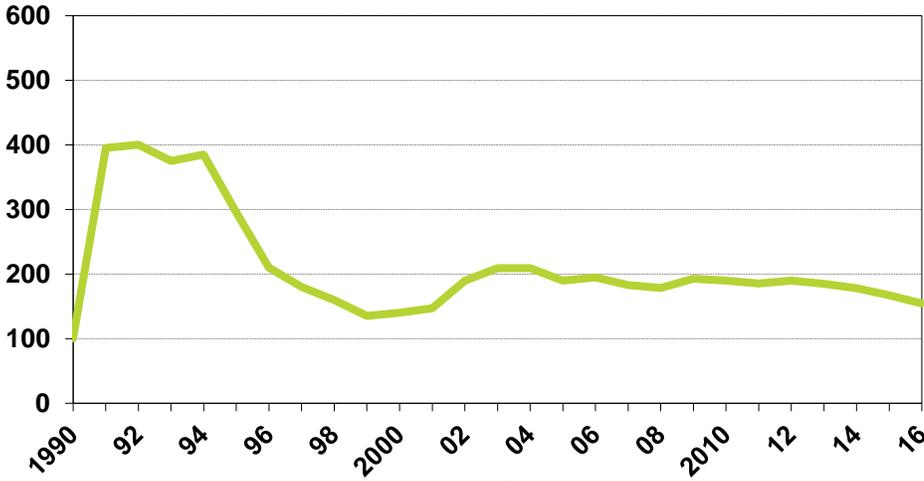
Caribbean



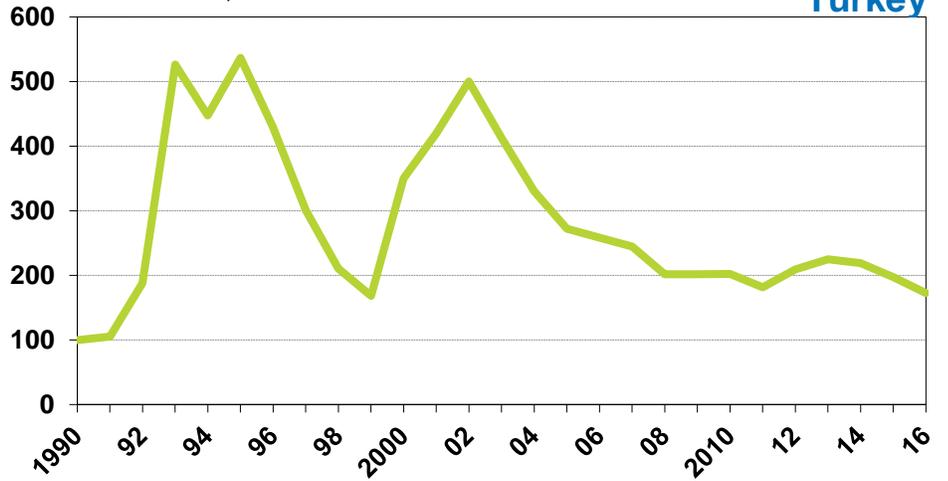
France



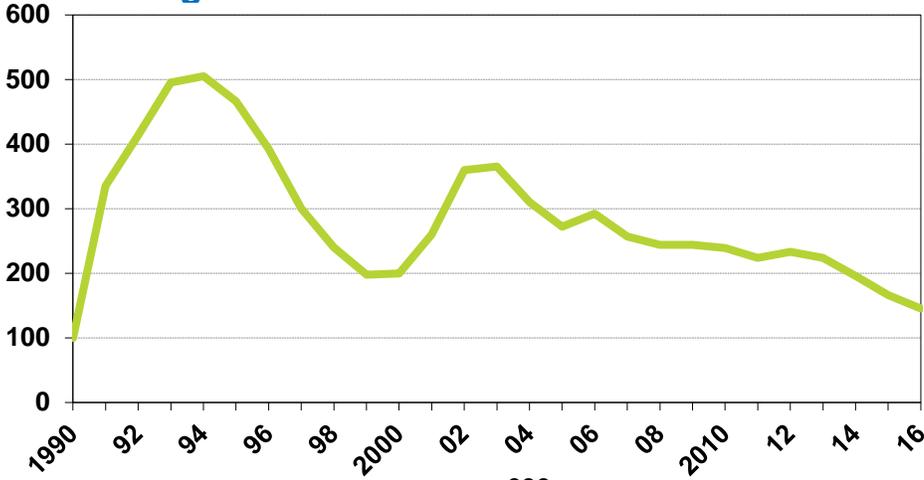
Germany



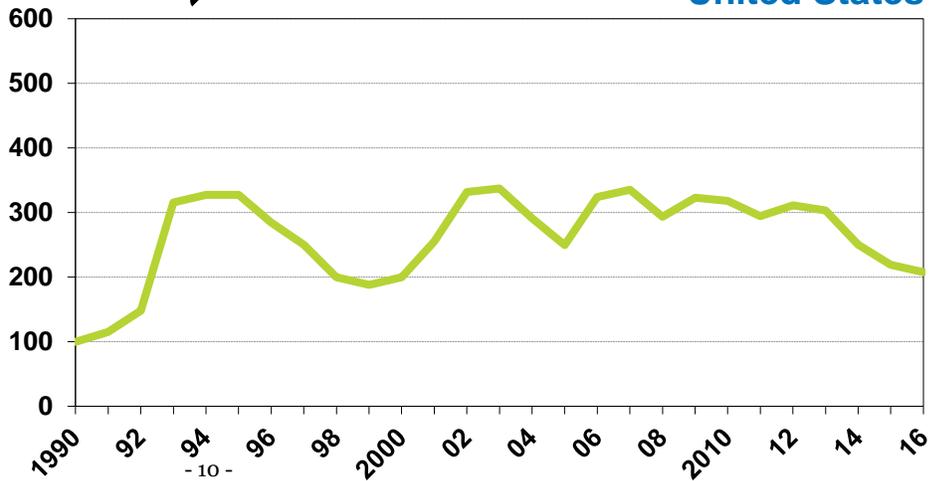
Turkey



United Kingdom



United States





Casualty – territory and comments

Overview

Long term market trends

- Increased focus on risk quantification in Casualty classes as stakeholders focus on downside risk and capital stress testing
- Consolidation of individual reinsurance silos into smaller or even single placements continues as buyers seek to reclaim the inherent economic diversification benefits from a multi class portfolio into their reinsurance strategy
- While strategic forces remain geo-centric (U.S. vs. International) and class specific (Motor classes versus General Third Party Liability and Financial lines) capacity in all lines remains plentiful with an expanding universe of reinsurers seeking to enter Casualty classes
- Prior accident-year releases continue to bolster calendar year reported results that are generally favorable despite pockets of adverse development in some classes
- Thoughtful management of long term trading relationships in most classes and territories with both parties attune to the long tail nature of casualty business and the need for appropriate counter party guide

Short term market dynamics

- An increasing prevalence of adverse results emerging across one or more accident years in Non-motor classes are not yet having a material impact on pricing even when capacity withdraws only to be replaced by existing markets
- Motor classes showing some signs of localized stress but more generally market is rediscovering its broader appetite to support motor programs
- Margin compression in the face of challenging primary market conditions amplified by low investment returns leading to some re-evaluation of corporate risk appetite by some buyers leading to:
 - Reduced appetite to increase retentions
 - Indicative signs of net de-risking notably in Non-motor classes with several instances of new transactions. In some circumstances a complete underwriting exit depending on the class of business
 - Increasing interest in quota share as buyers lock in favorable “fixed for variable” economics

Reinsurance dynamics

- Several instances of premium income estimates proving to have been optimistic
- Plentiful reinsurance capacity in most Casualty classes and most territories which exceeds demand, adding to downward pressure on original pricing
- Widening divergence of pricing from quoting reinsurers, with newer entrants markedly more competitive
- Both quota share and excess of loss terms and conditions continue to improve as broader “exclusion lite” coverage easier to obtain
- Increased interest in Clash and systemic products but likely to remain muted until industry risk quantification improves and explicit capital / regulatory benefits emerge
- Non-U.S. clients examining non-price aspects, e.g., impact of indexation clauses, which paradoxically do not apply on U.S. placements
- Many reinsurers increasingly looking to (ex U.S.) Motor reinsurance to balance lost income from other classes, where supply-demand dynamics considered less challenging.

Australia

- Increased competition and reduced demand is seemingly front of mind for many reinsurers; the Casualty market continues to soften as reinsurers demonstrate an ongoing tolerance to support downward pressure on rates
- “Uprisking” versus “Downpricing”: In addition to reduced rates, coverage expanded to provide increased value along with a relaxation of treaty conditions to reduce ongoing administrative burden
- Much greater awareness of systemic risk, with insurers and reinsurers alike focusing greater attention to measurement and potential transfer of Casualty catastrophe exposures across all lines of business - particular focus on Cyber Liability which continues to grow
- Long term relationships are still valued by both clients and reinsurers, driven by long tail nature of claims and generally supportive reinsurers

Canada

- Driven by strong insurance and reinsurance underwriting results, the Canadian Casualty market has continued to soften through 2015
- Automobile Casualty and General Liability reinsurance retentions continue to trend higher on the back of rising minimum capital (MCT) ratios being realized by Canadian cedents
- Cyber risk and other emerging coverages are creating new opportunities
- Uber, Telematics and autonomous vehicles are requiring insurers to rethink traditional automobile liability underwriting assumptions and exposures
- Specialty Casualty classes are leveraging the competitive landscape and purchasing more reinsurance coverage
- Once favorable reserve and IBNR adjustments continue to diminish year-over-year

Europe – General Third Party Liability and Motor

- Reinsurance capacity remains abundant but purchasers remain loyal to existing partners, providing terms are acceptable
- Terms and conditions have been improved on some cases, for example, Index Clauses pushed out to SIC 20%, Acts in Force clauses removed, and Hours Clauses extended on A&H/WCA covers
- Some movement towards combining placements of related classes, such as Motor and Liability, potentially as a step towards wider multi-class placements
- Some signs of traditional European lead markets resisting further softening by declining or reducing shares.
- Newly consolidated reinsurers very keen to maintain shares by offering good terms and leadership role

France

- Lowering the discount rate for annuity purchases on MGTPL treaties allowed buyers to obtain better conditions while maintaining their reinsurance budgets
- Broader introduction of a 0% cap for the interest rate on deposits

Italy – Motor

- EPI 2015 not reached, general difficulty to grow on all lines of business
- Quota shares for Solvency II capital management optimization switched to more standard sub-debt or intra-group financing

Korea

- Capacity remains abundant for all Casualty lines in Korea as historical performance remains very good
- Risk adjusted reductions across the market this renewal
- Emergence of new Casualty lines such as Personal Information Leakage Liability and Information and Network Technology E&O Liability

United Kingdom – Motor

- Market dislocation over recent years has been largely driven by reinsurer concerns about how to price for Periodic Payment Orders (PPO) exposures, and worries over escalation in the number of such awards. Recent data suggests that PPO numbers have stabilized on a year-on-year basis, and may even be reducing. This improvement in the claims environment has produced a stabilizing reinsurance market, with existing participants happy to maintain their involvements, and new markets starting to show interest in the class. Reinsurer enthusiasm is also bolstered by improving pricing of the original business.
- Negotiations for U.K. Motor excess of loss renewals have generally started out at around flat to small increases, but it has been feasible to achieve significantly better renewal terms than this, especially where it has been possible to generate meaningful competition with the introduction of new capacity. Overall, it has been common to see final terms achieved which represent improvements on expiring for buyers as compared to 2015.
- Reinsurers have been, to different degrees, flexible in assisting U.K. insurers with the new Solvency II provisions in respect of recognizing reinsurance premiums, and some relaxation in minimum premiums has been achievable.

United States – General Third Party Liability

- The market is still competitive, but stabilizing
- Ceding commission increases are slowing
- "Loss free" excess of loss contracts still under pricing pressure
- Industry view of auto severity starting to impact umbrella contracts
- Interest in creative and alternative structures

United States – Motor

- Claims frequency is up for nearly all carriers writing personal auto; this is driven by macro-level factors such as an improving economy, low gas prices, record-level new auto sales, and distracted driving due to mobile technology
- Uptick in losses has slowed or halted improvements in reinsurance terms of both pro rata and excess of loss programs; individual program's loss experience is still the biggest pricing factor
- Carrier and MGA consolidation in the personal auto market continues with distribution being a key consideration; many mono-line auto writers looking for "companion" stand-alone homeowners product to reduce channel conflicts
- Personal line auto insurers are increasingly utilizing third party pricing and segmentation tools, accumulation management software, and reinsurance brokers expertise for profitability analysis to hone original rate levels
- Personal line auto pro-rata and excess reinsurance remains a core line for many reinsurers looking for low volatility and predictable experience; focus has been on core clients with proven track record of success
- Commercial auto continues to be challenging class of business; primary rate increases attempt to mitigate issues such as reduced diesel fuel cost and an aging workforce which has led to increased frequency and severity of loss

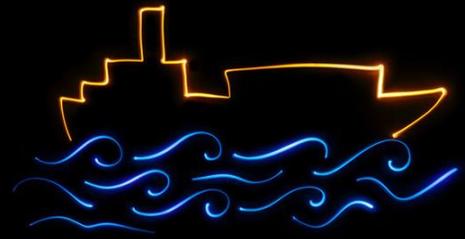
United States – Professional Liability

- Market remains favorable for reinsurance buyers
- Trend towards consolidation by line and geography into a single global excess of loss program continues
- Several major carriers are purchasing new treaties, which is a reversal of the trend over the last several years which has seen carriers increase retentions or drop programs altogether

Rates

Casualty rates			
Territory	Pro rata commission	XL – No loss emergence % change	XL – With loss emergence % change
Australia	0%	-5% to -10%	0% to -5%
Canada – General Third Party Liability	+4%	-10%	0% to -5%
Europe – General Third Party Liability	-5% to +2.5%	0% to -10%	0% to +10%
Europe – Motor	-5% to +2.5%	0% to -10%	0% to +10%
France	N/A	-5%	0%
Italy	N/A	-3% to -10%	-3% to -10%
Italy – Motor	N/A	-5% to -15%	-5% to -15%
Korea	0%	-10% to -20%	N/A
Nordic Countries	-5% to +5%	0% to -10%	0% to +10%
U.K. – Motor	Varies	0% to -10%	0%
U.S. – General Third Party Liability	0% to +1.5%	0% to -10%	0% to +7.5%
U.S. – Motor	-4% to +2%	-5% to -10%	+5% to +20%
U.S. – Professional Liability	0% to +3%	0% to -10%	-5% to +5%

Note: Movements are risk-adjusted.



Specialties – line of business and comments

Aerospace

- The direct aviation insurance market continues to soften at an alarming rate; risk-adjusted reductions in excess of 20% have become commonplace
- A number of high profile losses in 2014 and 2015 have largely fallen within insurers' reinsurance retentions and the attritional loss record continues to rise, meaning increased difficulty in producing a pure underwriting profit
- The reinsurance market also currently favors buyers, with excess of loss pricing reductions of around 10% to 15% depending on loss record
- The softening trend is largely driven by intense competition for premium income and increasing pressure from insurers who require sufficient savings to offset the soft direct market conditions; while the reinsurance market is offering substantial reductions, per our comments above, reinsurance pricing has not softened as much as the direct market
- Buying trends have also changed in recent years; ceded reinsurance departments are increasingly looking to retain more in order to spend less, either via increased monetary retentions or through co-reinsurances; purchasing of corporate whole account covers is also taking business away from the traditional aviation reinsurance market, further increasing competition for the remaining orders
- Aviation retrocessional business remains somewhat more stable, although the excellent loss record in recent years and the shrinking premium funds available for reinsurers to spend continues to put pressure on pricing; premium rates have therefore reduced by approximately 10% in this segment

Engineering

- Large market capacity available for specialist Engineering and Construction RI programs
- New RI sector entrants are fighting to build up their portfolios
- Improvements in terms and conditions (pro rata / excess of loss) for all placements
- Proportional RI remains the core vehicle for Engineering and Construction covers
- Bigger push from clients for excess of loss Risks Attaching During placements on net accounts
- Clients bolstered by cumulative volume of construction estimated to reach USD 212 trillion over the period to 2030 with USD 77.8 trillion in emerging Asia

Global – Trade Credit

- Continuing good performance by major credit insurers, despite increasing claims activity in emerging markets
- Quota share commissions for major insurers at new historic high levels
- Strong appetite from reinsurers despite shrinking margins
- Threatening market loss: Abengoa (Spain)

Marine

- The Energy market faces continued softening exacerbated by surplus capacity, falling commodity prices, down turn in E&P with many units now laid up and reduced construction activity, despite a spate of recent losses (Pemex, Chevron Big Foot, BW Offshore, Troll etc.)
- Clients failing to meet their EPIs amidst the continuing market softening, particularly in the Energy market, resulting in increased demand for proportional business as excess of loss minimum premiums become penal in some cases
- Tianjin loss amounts still unclear
- Clients continuing to be underwritten based on their individual merits with large reductions available in some cases, although clients that have suffered losses have faced a more challenging renewal
- Once terms have been agreed, following markets' capacity continues to be abundant, with signing-down on over placements a continued challenge

Non-Marine Retrocession

- Still softening but less so than in previous years
- Some clients are reducing their exposure to ILS funds, preferring traditional markets
- Limited new entrants and new capacity
- More clients reverting to occurrence structures over aggregate

Personal Accident / Life Catastrophe

- Abundance of capacity and appetite for the class continues
- On catastrophe covers, evidence that longstanding market leaders have reached "walk away" pricing, but aggressive competition remains with new capacity entering the market
- Facultative market: no sign of reduced appetite and rates continue to be aggressive
- Retrocession buyers have been able to obtain modest rate reductions of 5% or broader coverage; some buyers have opted for increased retentions versus others who have preferred to purchase wider cover at unchanged prices

Political Risk

- The 2015 insurance market has seen increases in loss activity and the number of monitored situations being reported
- Direct pricing remains under pressure due to an abundance of insurance capacity; despite this, reinsurance capacity remains sufficiently in excess of demand
- Excess of loss pricing is flat to 5% down on unchanged structures
- Terms and conditions for proportional covers are unchanged

U.S. – Healthcare

- Reinsurance capacity for the Healthcare liability line of business remains plentiful and adequately priced
- Reinsurer pricing reflects the favorable claims experience on the original business as well as reinsured layers
- Reinsurance structures and scope of coverage continues to evolve to meet the changing needs of buyers
- Reinsurers are amenable to protect catastrophic loss scenarios
- Ceding commission levels increasingly reflect the profitability of reinsured layers

U.S. – Medical Excess

- Increased capacity and competition in U.S. medical reinsurance market
- Increases in frequency and severity of large medical claims results in upward pressure on excess medical rates
- Excess of USD 2 million per person per year is now a working layer
- Underwriters focus on provider discounts and large claims management
- Large hospital systems entering the insurance business

U.S. – Surety

- Loss-free cedents who demonstrate above average risk selection and portfolio discipline continue to receive the most favorable economic terms; these programs witnessed continued reinsurance rate reductions throughout 2015 and into the 2016 market renewal cycle
- In general, percentage rate reductions for 2016 are trending to the high single to low double digits, with relatively few exceptions; there has also been pressure on terms and conditions with reinsurers' increased willingness to support broader coverage terms
- The market is characterized as very stable with abundant capacity; recent loss experience is well within historical averages and actual returns remain strong; the class remains an attractive investment for new capital seeking further product diversification; the ultimate renewal outcome is influenced by the volume of underwriting capacity currently available
- Most of the “new” capacity is deployed on large, layered excess of loss programs; increased program stretches forces incumbent reinsurers to offer significant increased capacity to maintain market share; reinsurers are willing to deploy their capacity more aggressively than in prior years, spurring heightened competition

Rates

Specialty rates						
Territory	Pro rata commission	Risk loss free % change	Risk loss hit % change	Catastrophe loss free % change	Catastrophe loss hit % change	
Aerospace	+5% to +10%	-10% to -15%	-5% to -10%	-10% to -15%	N/A	
Engineering	+1% to +2%	-10%	-5%	-10%	-5%	
Global – Trade Credit	+1%	-5% to -10%	0%	N/A	N/A	
Non-Marine Retrocession	0%	-5% to -10%	+10% to +15%	-5% to -7.5%	N/A	
Personal Accident / Life Catastrophe	N/A	-2.5% to -5%	N/A	0% to -5%	N/A	
Political Risk	0%	-5%	0%	-5%	0%	
U.S. – Healthcare	0% to +5%	N/A	N/A	N/A	N/A	
U.S. – Medical Excess	0%	-5% to +10%	+5% to +60%	N/A	N/A	

Note: Movements are risk-adjusted.



U.S. Workers' Compensation

- Workers' Compensation working layers include single life exposures, typically experience and exposure priced. Pricing on these layers is significantly impacted by loss development on individual programs. Generally speaking, this market has been stable despite increased National Council on Compensation Insurance excess loss factors.
- Catastrophe capacity is priced based on aggregations of insured employees, which is based on number of employees and geographic locations (i.e., earthquake exposed, terrorism exposed, etc.). 2015 was another year of softening, although the softening in this market slowed considerably from a year ago, pricing was down single digits nevertheless.
- The Nuclear Biological Chemical Radiological (NBCR) catastrophe market softened at a faster rate than the traditional coverages. A year ago, this market had assembled additional capacity. Once TRIA renewed, use of this new capacity was limited. Despite the softening, if ceding companies all bought the same amount of NBCR capacity as traditional capacity, there would be a critical shortage in the industry. TRIA certainly has helped keep this a stable portion of the market.

Rates

Workers' Compensation rates			
Territory	Pro rata commission	Catastrophe XL – % change	Working XL – % change
United States	0%	-3% to -8%	-5% to +5%



Capital Markets

- Sidecars and ILS funds are becoming increasingly important for reinsurers
- Required natural catastrophe risk spreads remain stable for most risk-return combinations
- Minimum required returns increased in quarter
- Projected annualized catastrophe bond issuance for 2015 (all classes including Life, Accident and Health): USD 7.2 billion as compared to USD 8.6 billion in 2014; total outstanding catastrophe bond amount in 2015 USD 24.9 billion versus USD 24.5 billion in 2014
- Investor inflows still exceed outflows in the aggregate and total ILS dedicated capital has increased to USD 70 billion
- Significant excess capital in the industry continues to fuel M&A interest given persistent challenging underwriting conditions. Reinsurers and third party capital providers evaluating opportunities to enter / expand primary market presence.
- For M&A, there is a growing perception that scarcity of attractive targets will continue to increase over time (deals beget deals) driving premium valuations, in both the public and private markets, across sectors and geographies. Mid-market and smaller players evaluating strategic alternatives and potential partners in the midst of consolidation with larger players actively searching for attractive targets. We are in the midst of a seller's market.
- M&A among smaller U.S. personal lines players has been driven by the rating and capital diversification benefits of geographic expansion as well as reinsurance synergies. Strategy has been highlighted by the Florida-focused entities – Heritage's acquisition of Zephyr (Hawaiian-focused wind) and United P&C's acquisition of Interboro Insurance (Long Island, NY-focused homeowners).
- Asian interest in Western-based insurers expected to continue as buyers with abundant cash will continue to seek to deploy capital in well-regulated industries and geographies, while at the same time, export overseas expertise to domestic markets in Asia.
- Re/insurers will continue to develop a compelling value proposition for clients by offering a comprehensive suite of re/insurance solutions. This was evidenced by Markel's trailblazing acquisition of CATCo, representing the first instance of a carrier acquiring a third party capital insurance manager. Third party capital managers can enhance a carrier's ability to better service the reinsurance needs of clients while providing an attractive stream of non-regulated fee-based income.

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