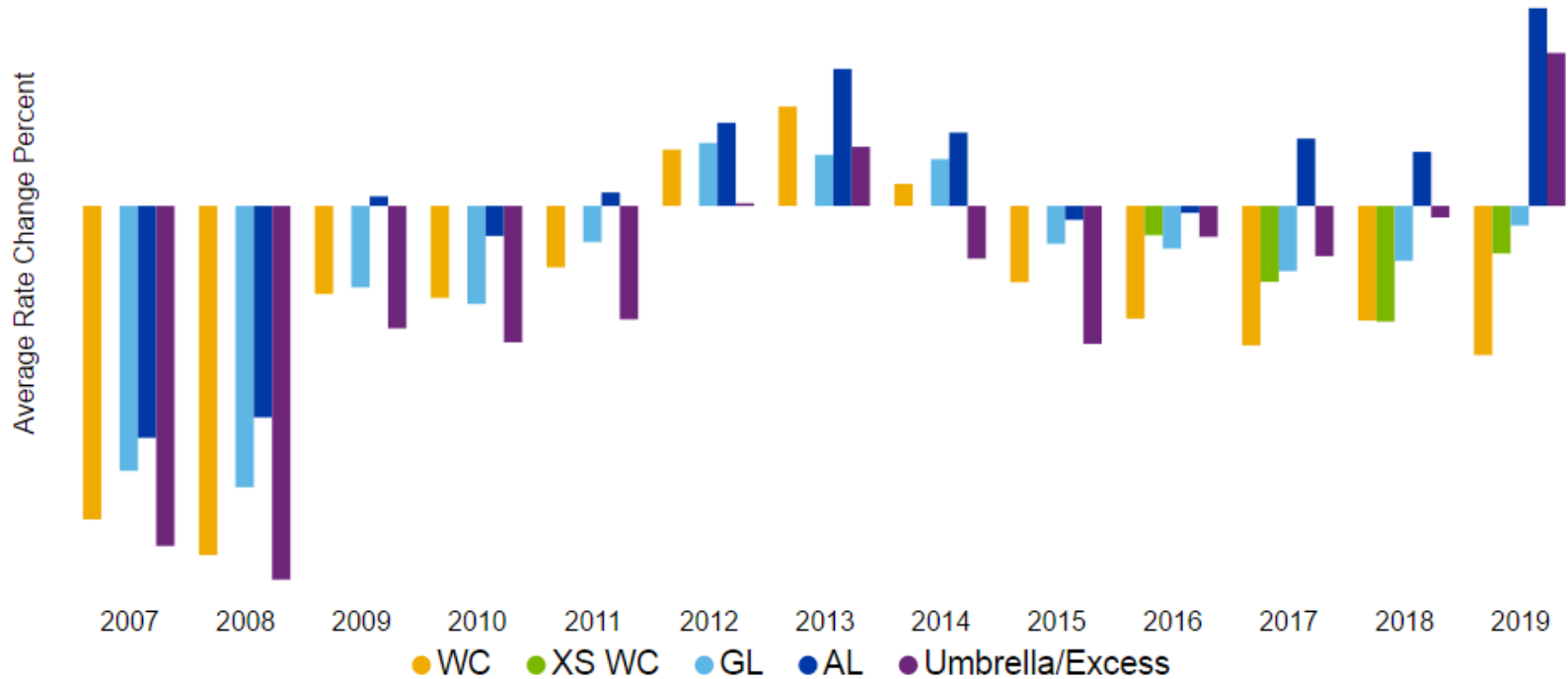


Property & Casualty Market Overview

October 24, 2019

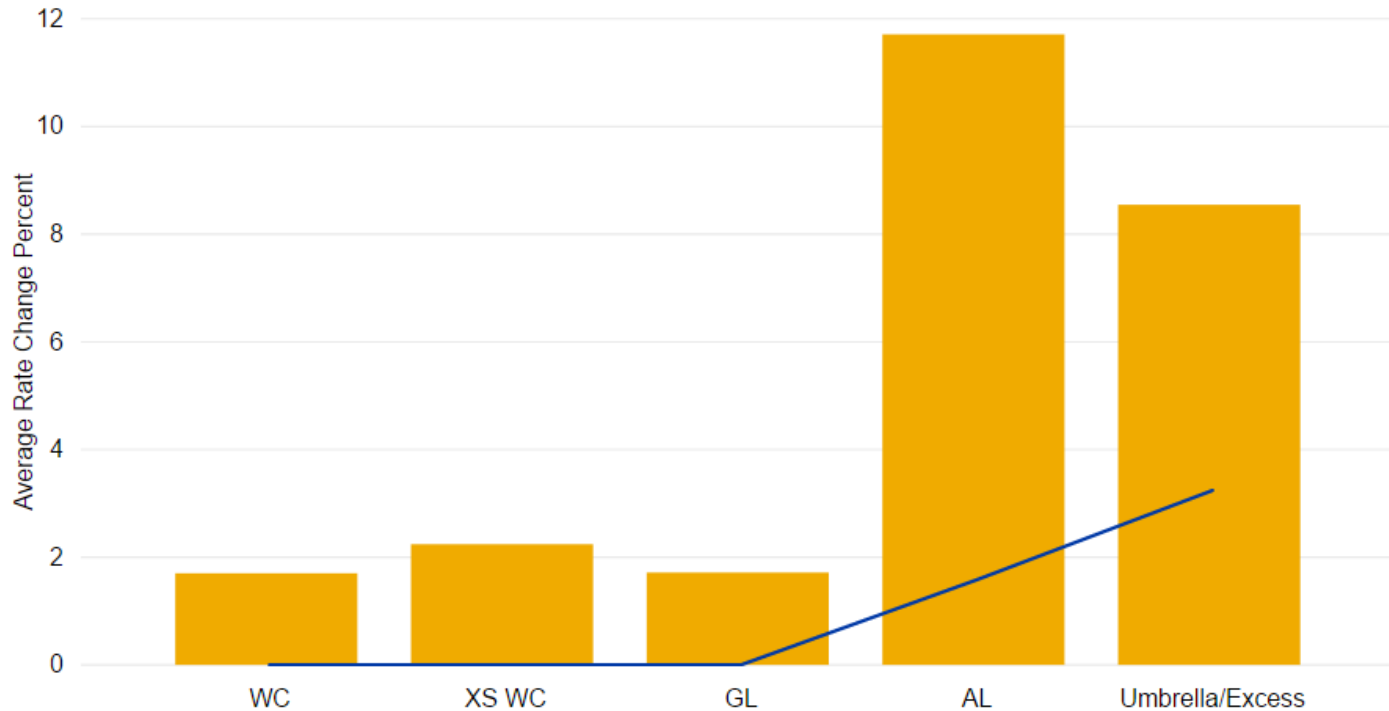
National Casualty Average Rate Change History



- Reflects year-over-year rate change by line of business for Aon's National Casualty / complex casualty clients since Q1 2007
- 2019 results reflect aggregate changes through Q2 2019
- Total Tower is a combination of the Lead Umbrella and the Excess Liability Layers

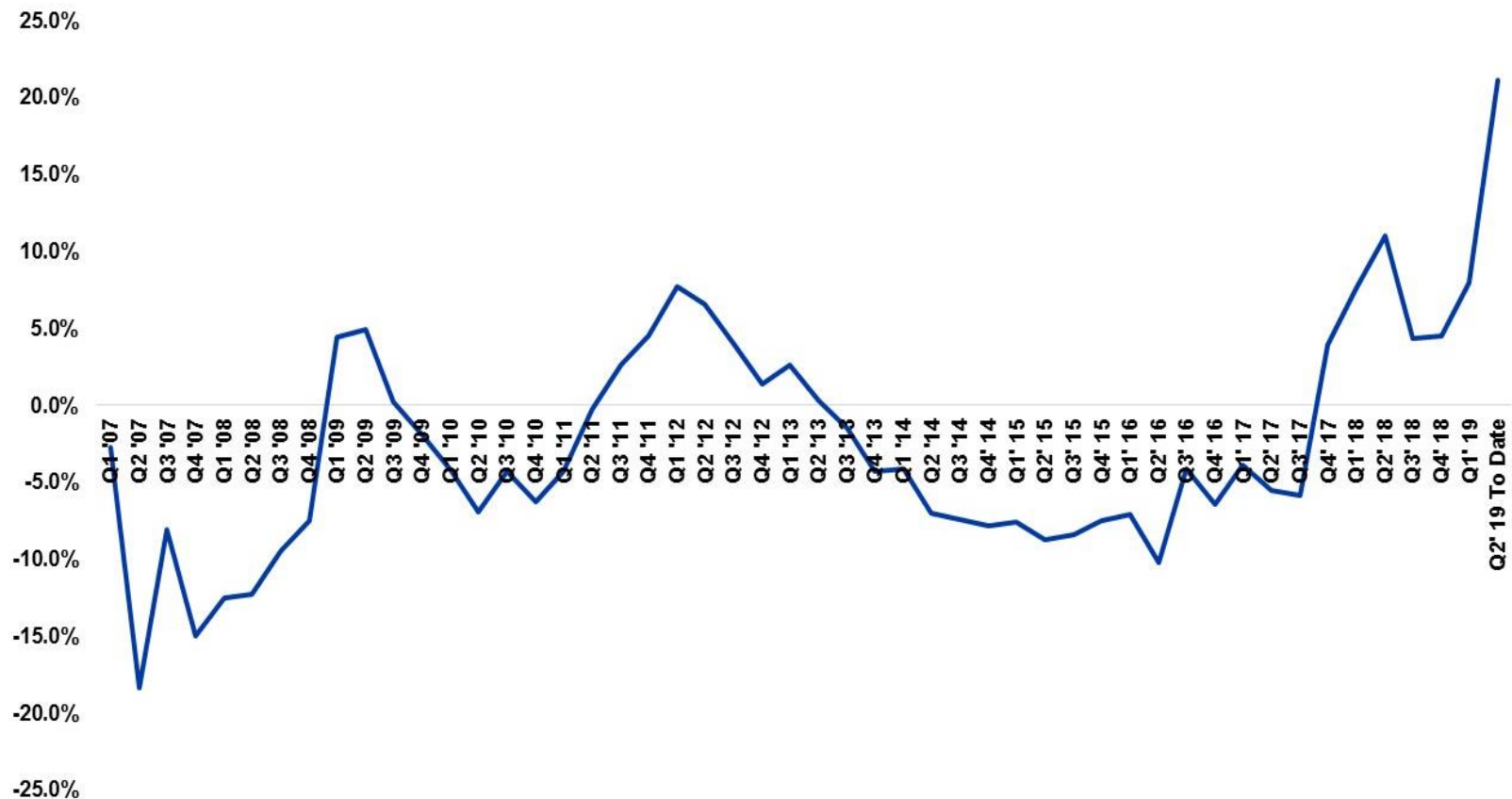
Q2 2019

Year-over-Year Rate Change Summary by Product



- **Orange boxes represent 'Average'; Blue line represent 'Median'**
- *Reflects year-over-year rate change by line of business for Aon's National Casualty / complex casualty clients*
- *Auto rates have spiked up dramatically to over 10%; however, median is still less than 2%*
- *Umbrella/excess rates have shown a sharp upward movement since Q3 18; however, median is still less than 5%*

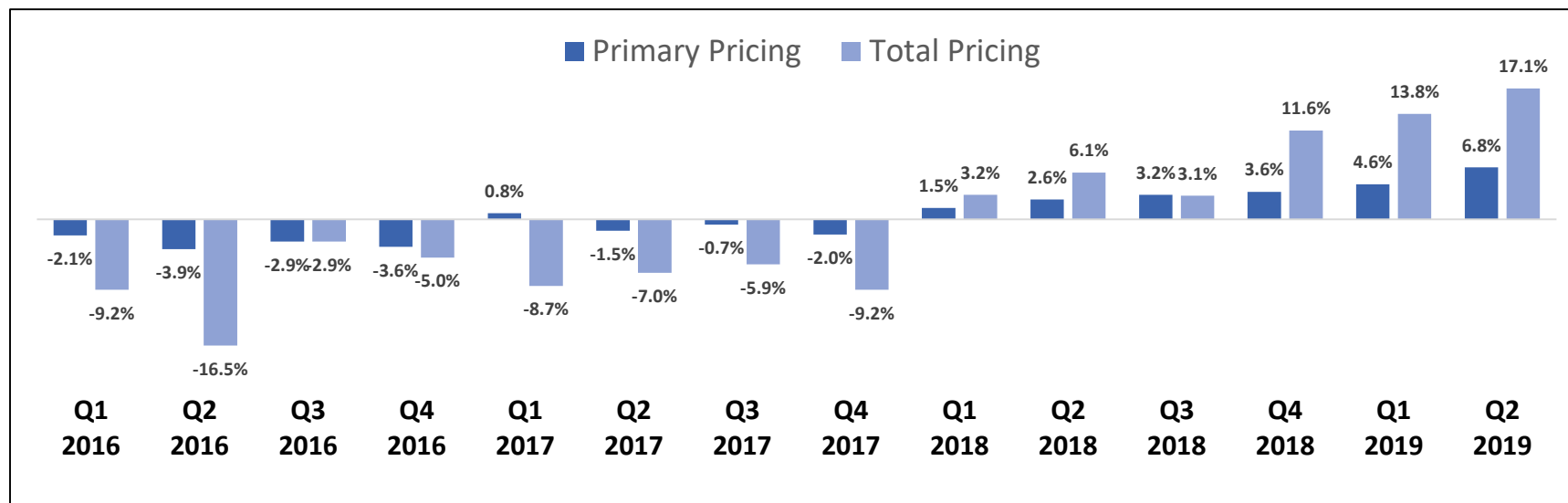
Property – Quarterly Year-Over-Year Change In Average Rate



D&O Market Update—Change in Pricing—Primary vs. Total Premium

Quarterly Change in D&O Pricing: Q1 2016–Q2 2019

Primary – Same Clients Year Over Year



■ Observations to date (as of 10/7/2019):

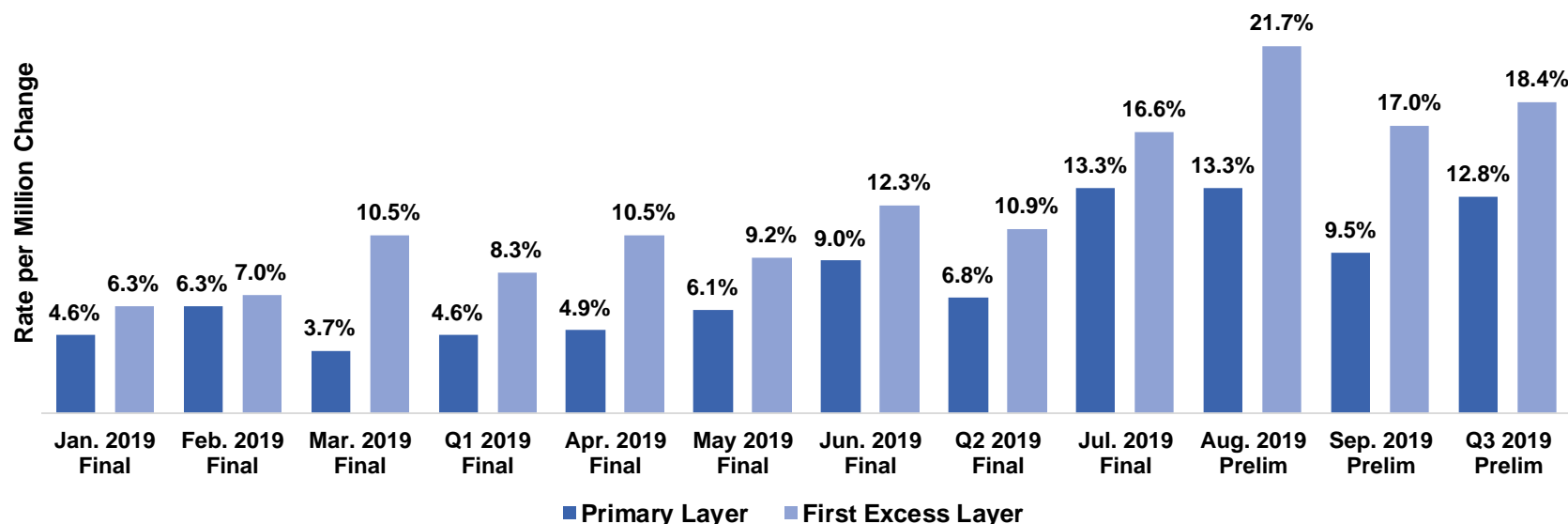
- Total pricing has been consistently more volatile over time than primary pricing
- 80% of clients saw a primary increase in the 2nd quarter
- Only 3% of clients saw a decrease on the primary layer in the 2nd quarter, the lowest amount in any quarter over the last 7+ years.

Source: Aon FSG Quarterly D&O Pricing Index FY2018 & Q2 2019

D&O Market Update—Change in Pricing—Primary vs. 1st Excess Premium

Monthly D&O Pricing Changes

Average Year-over-Year Change (Same Clients in both periods – Primary & 1st Excess Layer Only)



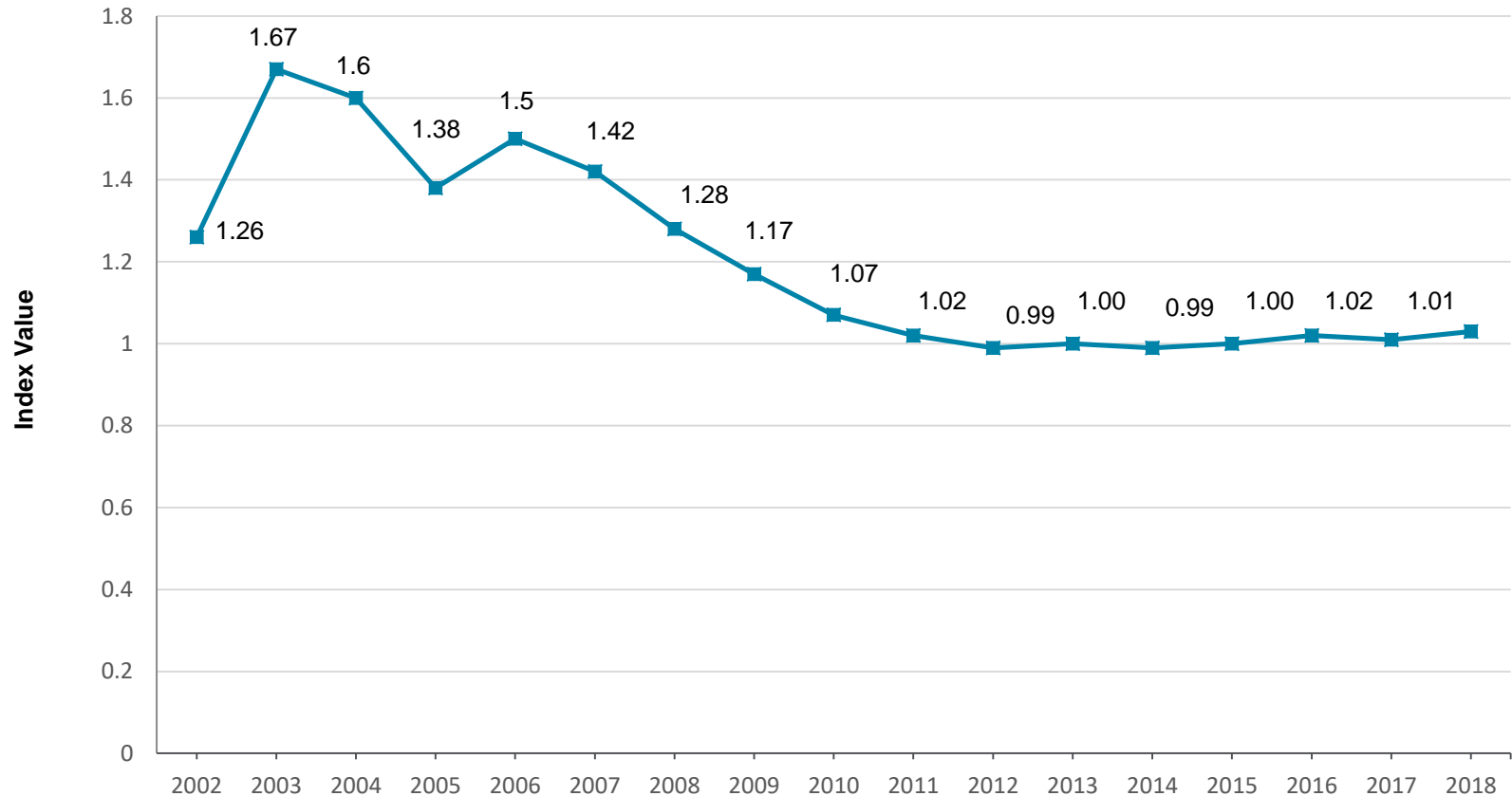
■ Observations to date (as of 10/9/2019):

- First excess layer pricing trends are showing larger increases than the primary layer suggesting that the market is correcting for prior years of soft rates
- The market continues to deteriorate at a rapid pace throughout 2019 with an apparent acceleration in the second half of the year

Source: Aon FSG Quarterly D&O Pricing Index & preliminary 3rd Q to date

EPL – Annual Pricing Index

Annual Index of EPL Pricing
2002 – 2018 | BASE YEAR 2001

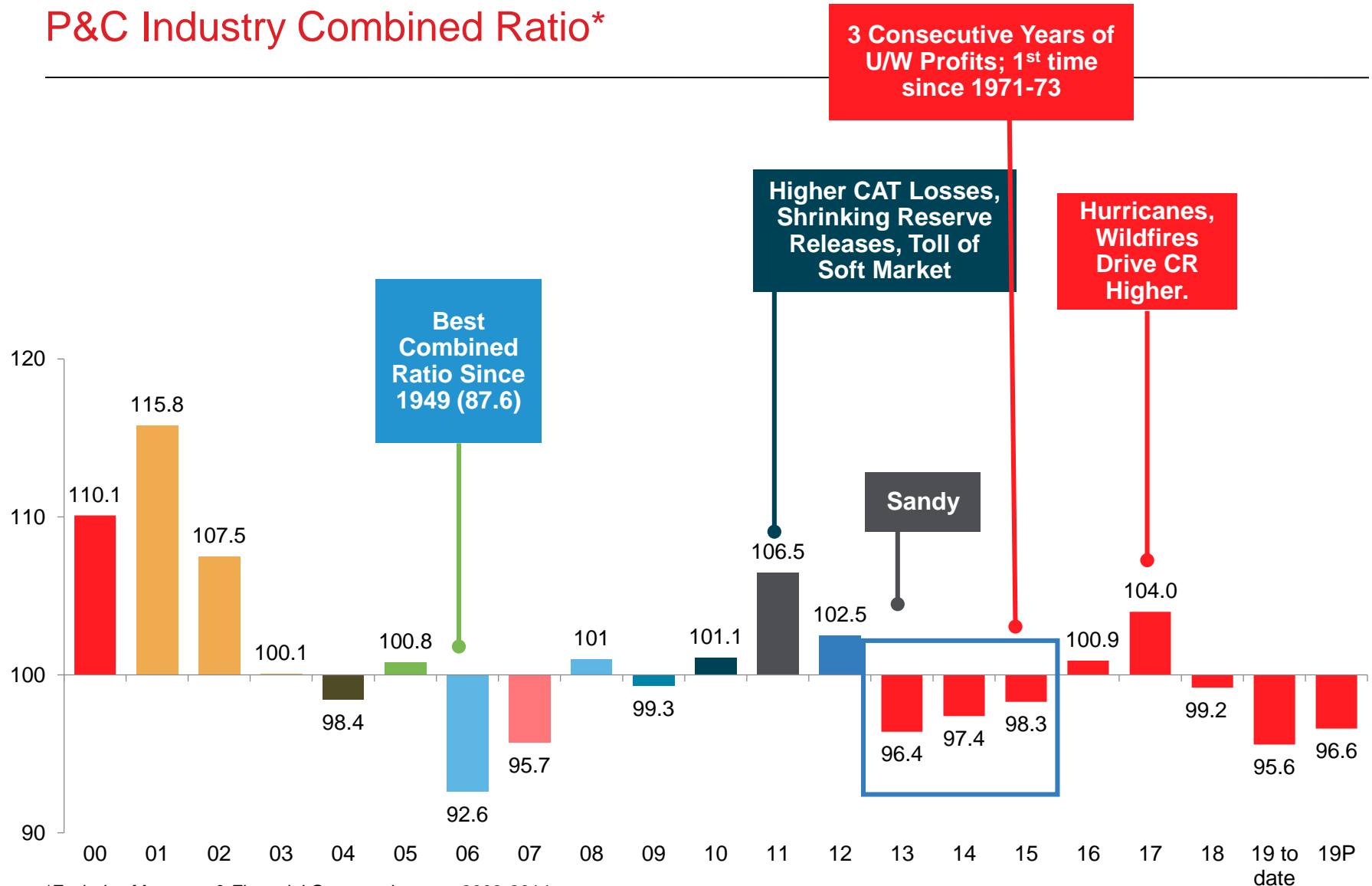


EPLI Pricing Index	
Annual	+ .02
2018	1.03
2017	1.01

Beyond Pricing...

- Insurers are reducing capacity offered
 - Limits & sublimits
- Retentions/umbrella attachment points are being pushed upwards
- Certain classes of business are being “walked away from”
- Coverage terms and conditions are being reviewed by underwriters

P&C Industry Combined Ratio*

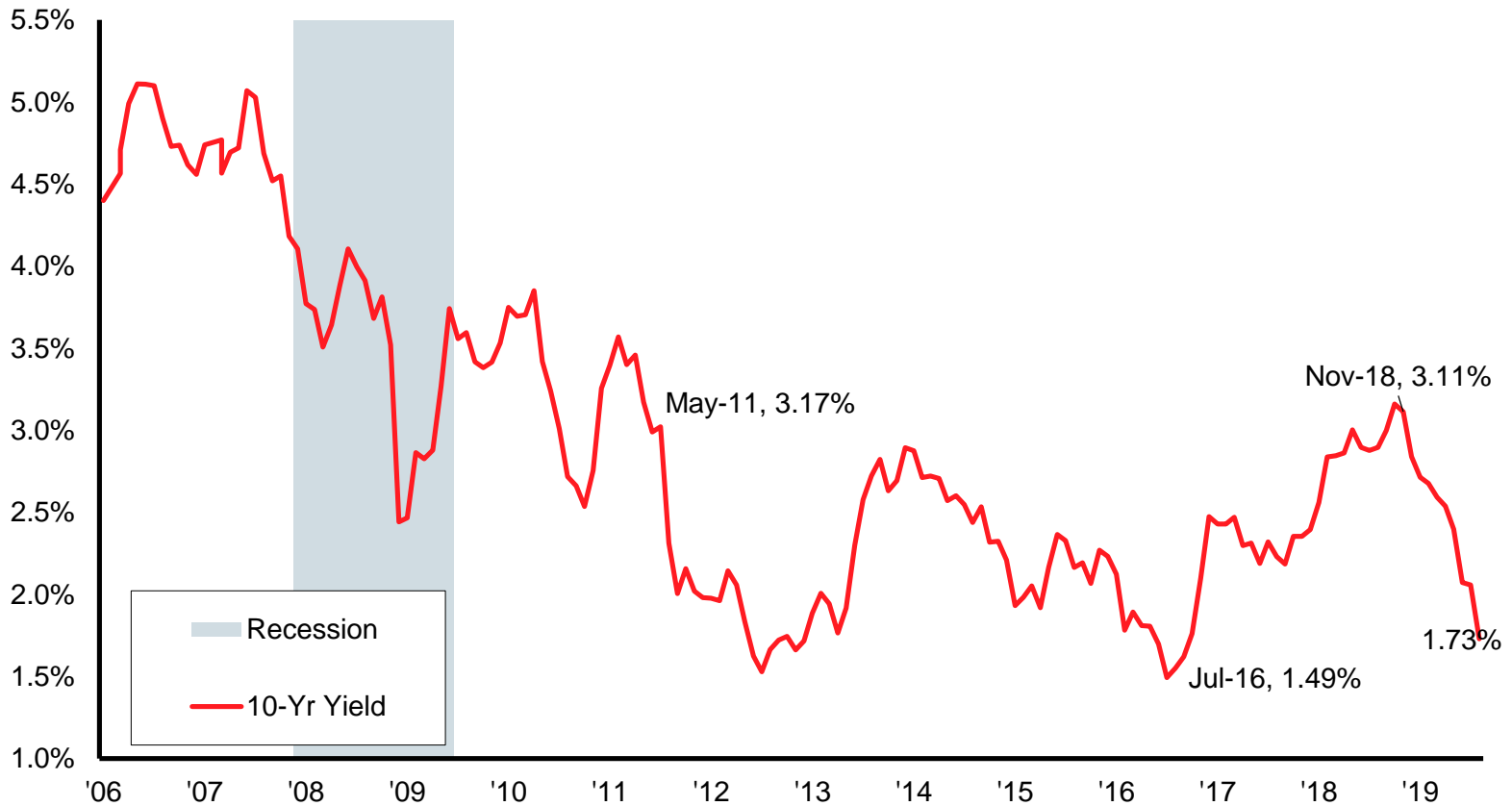


*Excludes Mortgage & Financial Guaranty insurers 2008-2014.

Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.1; 2012=103.2; 2013= 96.1; 2014= 97.0.

Sources: A.M. Best; ISO, a Verisk Analytics company; 2019 based on Q1 data; 2019 projection: Insurance Information Institute.

Investment Income



Worries About Economy Have Sent Investors Into Treasuries

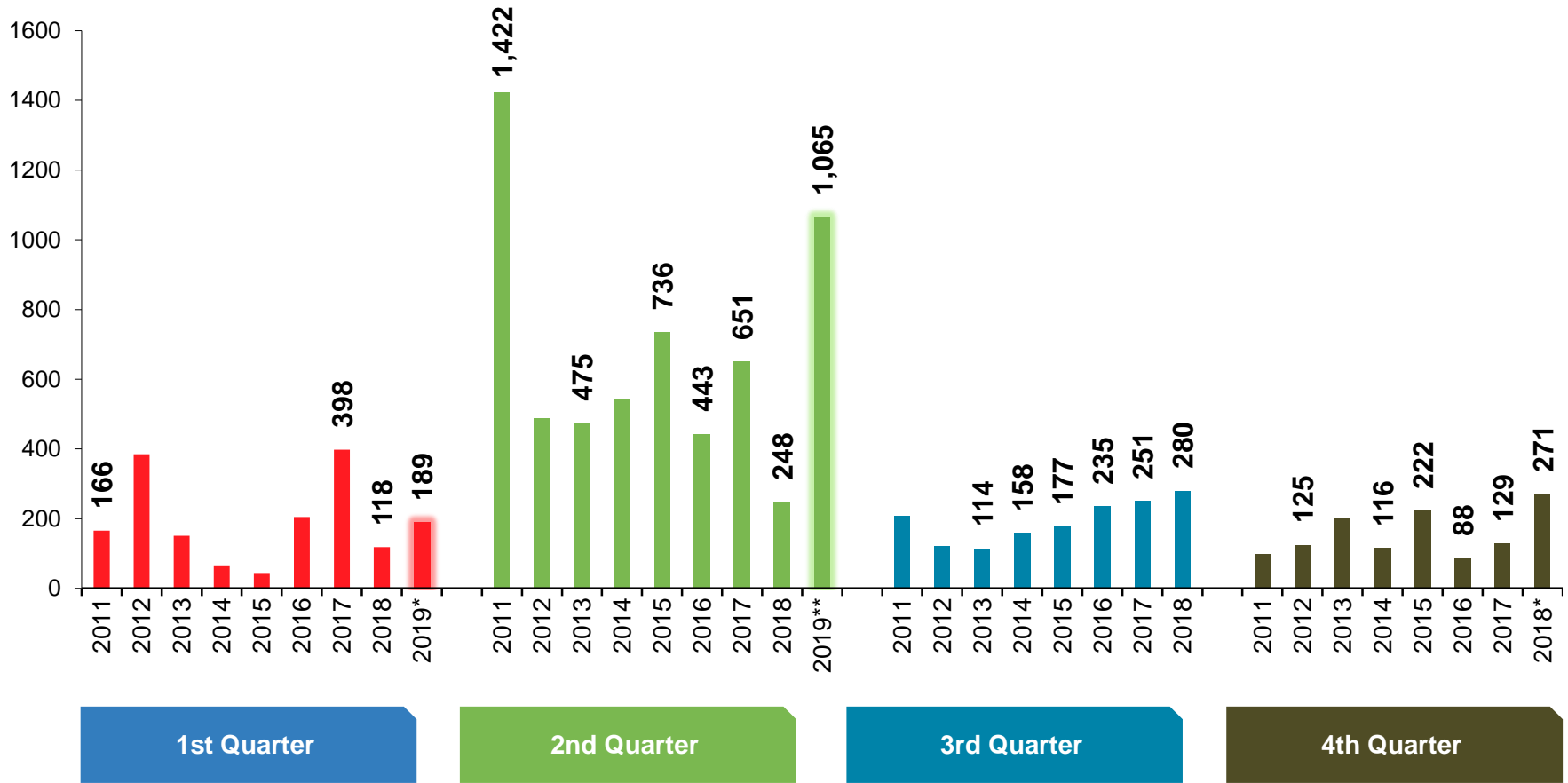
Financial Measures – Selected Insurers

Carrier	Underwriting Metrics						Investment Gains or (Losses)			
	Combined Ratio			ROE			Realized (\$M)		Unrealized (\$M)	
	2018 YE	2017 YE	5 Yr Avg	2018 YE	2017 YE	5 Yr Avg	2019 Q1	2018 YE	2019 Q1	2018 YE
AIG Property Casualty US Insurance Group	121.2%	125.4%	118.8%	-7.1%	-2.1%	1.2%	37	(217)	81	(327)
Chubb U.S. Group of Insurance Companies	84.1%	93.7%	88.1%	18.4%	12.8%	13.9%	(2)	1,552	158	(1,410)
CNA Insurance Companies	110.2%	109.7%	112.1%	7.9%	11.6%	9.2%	(38)	(13)	167	(591)
FM Global Group	138.6%	138.3%	105.7%	-11.0%	10.4%	4.5%	187	750	610	(1,207)
Hartford Insurance Pool	99.1%	101.6%	98.7%	18.4%	0.2%	7.9%	46	39	217	631
Liberty Mutual Insurance Companies	99.4%	109.7%	102.3%	13.5%	-8.3%	3.1%	(69)	406	197	(1,719)
Nationwide Group	108.4%	113.3%	107.9%	-2.1%	0.0%	1.3%	(83)	(28)	238	110
QBE North America Insurance Group	97.5%	106.8%	100.7%	5.7%	-3.3%	2.7%	11	(3)	20	(26)
Sentry Insurance Group	104.2%	104.8%	103.9%	3.8%	10.0%	6.6%	5	(40)	108	(27)
Travelers Group	96.2%	97.2%	92.4%	13.0%	12.4%	15.3%	14	78	21	(66)
XL America Group	107.7%	103.9%	103.4%	-2.6%	-3.8%	1.2%	5	24	8	(42)
Zurich U.S. Pool	98.5%	98.4%	97.9%	5.1%	7.9%	9.8%	21	134	159	(314)

Loss Experience Drivers

- Property
 - Legacy natural catastrophes (flood, hurricane, typhoon, etc.)
 - Newer natural catastrophes (wildfire, convection storm, snow load, etc.)
 - Business interruption & strong economy
 - Supply chain dependency

Tornado Activity



2019 Second Quarter: Tornado Season – Anticipated Second Most In Past Nine Years

* Preliminary Version of Final Counts. ** Incomplete June Data
Source: <http://www.spc.noaa.gov/climo/online/monthly/newm.html>.

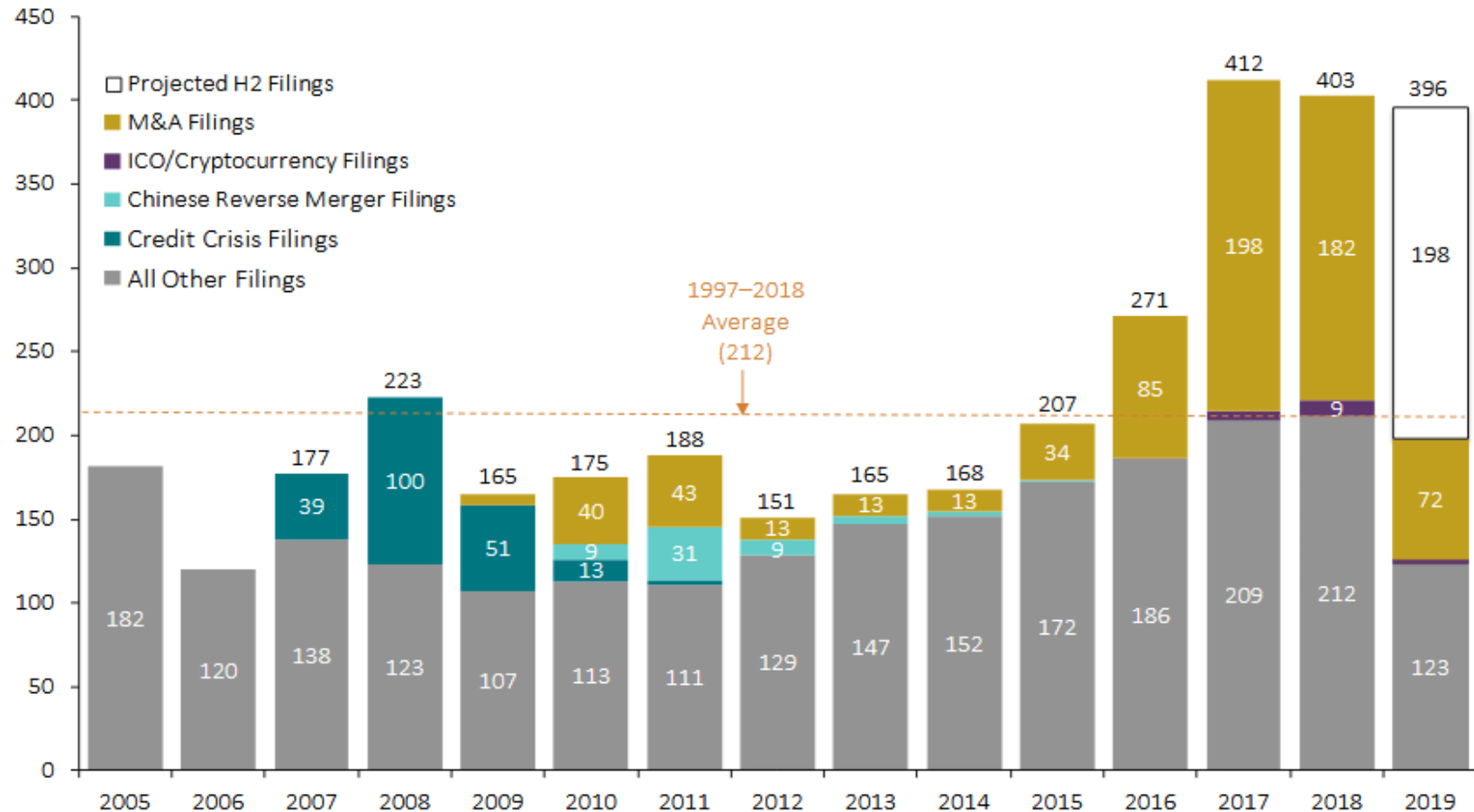
Loss Experience Drivers

- Casualty
 - Exponential jury verdict increase (aka “nuclear verdicts”)
 - Social justice
 - Juror attention span
 - Litigation financing
 - ♦ Push to trial v. early settlement
 - Impact on final amount driven by juror activity and incurred defense expenses
 - Plaintiff v. defense attorney investments
 - Complexity of auto
 - Increased cost to repair
 - Safety & individual impairments

Loss Experience Drivers

Record Claims Frequency

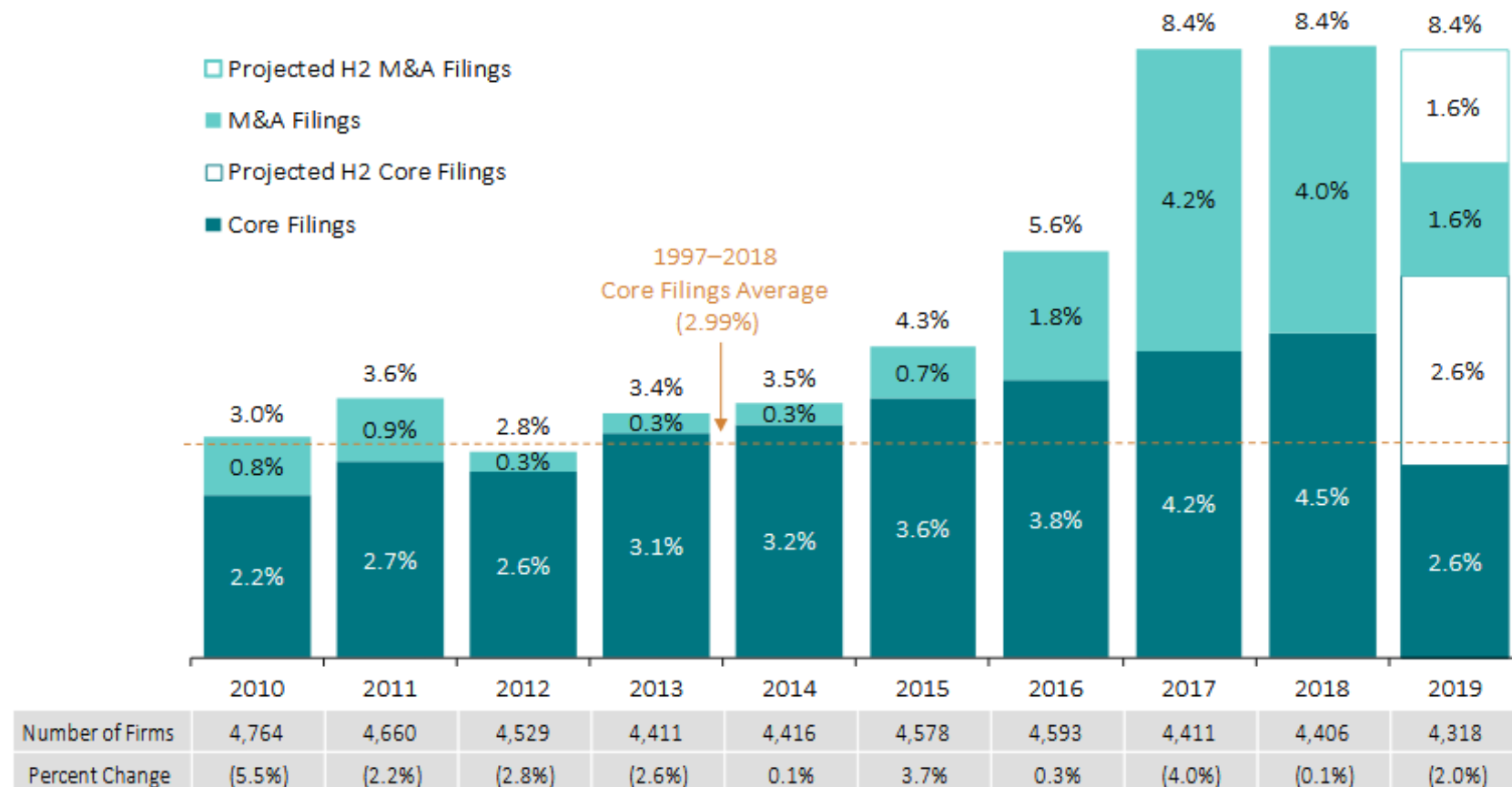
Class Action Filings Index® (CAF Index®) Annual Number of Class Action Filings: 2008 – 2019 1H



Loss Experience Drivers

Rate of Litigation at All-Time Highs

Percentage of U.S. Exchange-Listed Companies Subject to Filings

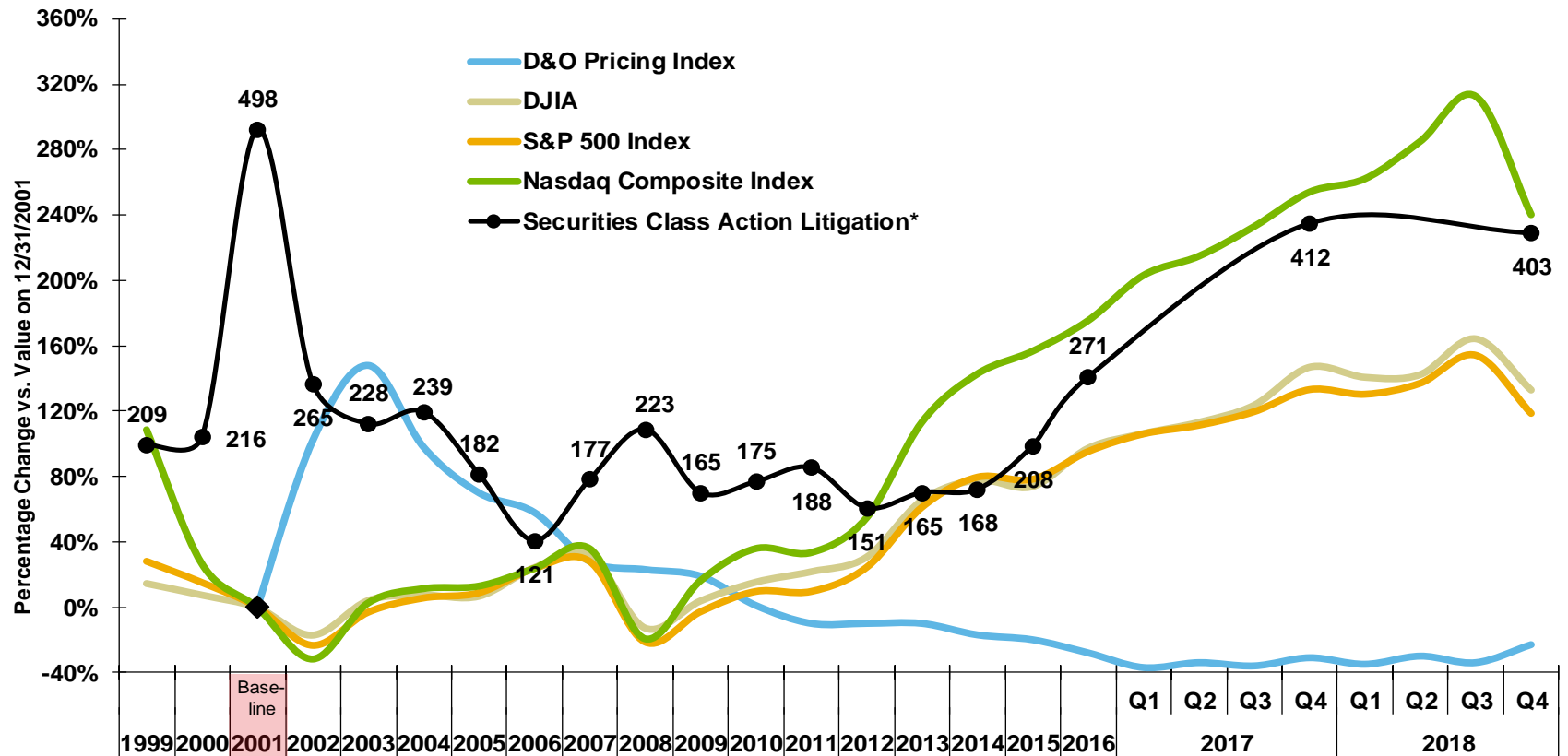


Loss Experience Drivers

Pricing Reached Historical Lows vs. Claims Frequency / Market Growth

D&O Pricing;

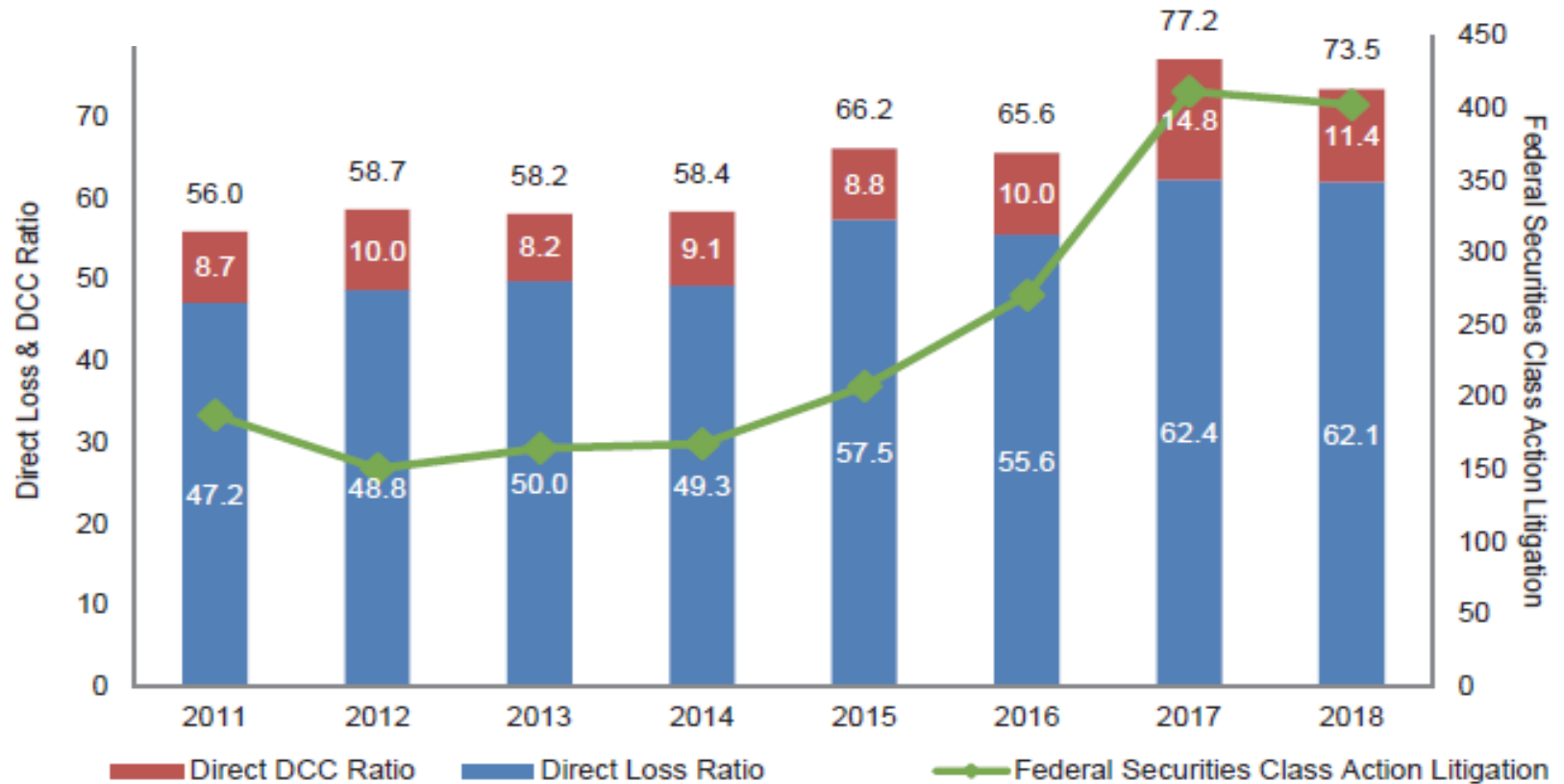
2001– Q4 2018 | Base year: 2001 = 1.00



Loss Experience Drivers

Increasing Insurer Loss Ratios

Direct Loss & Direct DCC* Ratio vs. SCA Litigation



Source: AM Best data and research, Securities Class Action Clearinghouse

Loss Experience Drivers

- Management Liability (Including Cyber)
 - Frequency &/or severity of claims (D&O, EPL, Fiduciary, Crime and Cyber)
 - 1 in 4 privately held companies experienced a D&O loss in the past 3 years
 - Bankruptcy concerns/financial distress
 - M&A activity
 - Excessive fee litigation - 401K Fee
 - ESOP valuation litigation
 - Social engineering activity
 - Phishing - 2,370% increase in losses from such scams in a two year period (FBI PSA)
 - Expansion of definition of “Insured” and “wrongful act”
 - Increase in regulatory cost expense
 - Increase in attorney fees – defense costs
 - Creative plaintiff attorneys
 - Overseas operations

Loss Experience Drivers

- Impact of #MeToo
- The Equal Employment Opportunity Commission (EEOC) filed 66 harassment lawsuits in 2018, including 41 that included allegations of sexual harassment. That reflects more than a 50 percent increase in suits challenging sexual harassment over fiscal year 2017.
- The EEOC recovered nearly \$70 million for the victims of sexual harassment through litigation and administrative enforcement actions in 2018, increased from \$47.5 million in 2017.
- Workplace violence and cyber bullying concerns.

Unique Aspects of Insurance & Emerging Trends

- At the time of underwriting, an insurer's "cost of goods sold" is unknown
- Insurance is supply & demand of contingent capital
 - Impact of historical M&A = fewer insurer choices
- Insurers utilizing data & analytics
 - Forecasting based upon new models (e.g. convection storm)
 - Projecting forward based upon variables beyond historical loss activity only
 - Significant impact on "excess" layers of insurance – focus on ILF

Good News!

- Workers' Compensation
- International Liability

Steps for a Successful Renewal

- Understand your current market's appetite and expectations
 - Indications – secure in writing
- Understand your risk profile
 - Where will insurers have issues/concerns?
 - No historical losses won't necessarily overcome insurer margin pressures
 - Show active risk management has led to positive results vs. "luck"
 - Where do I need to invest?
 - Capital
 - Human resources
 - Risk quantification & definition of organizational risk tolerance
- Start the process early
 - Market submission volume
 - How do I differentiate my risk?
 - Meet with key underwriters
 - Prepare others in the organization
 - HR, Legal, Operations, etc.
- Consider alternative risk finance
 - Group captives & other mechanisms

