

INSURANCE

Florida League

Summit

of Cities



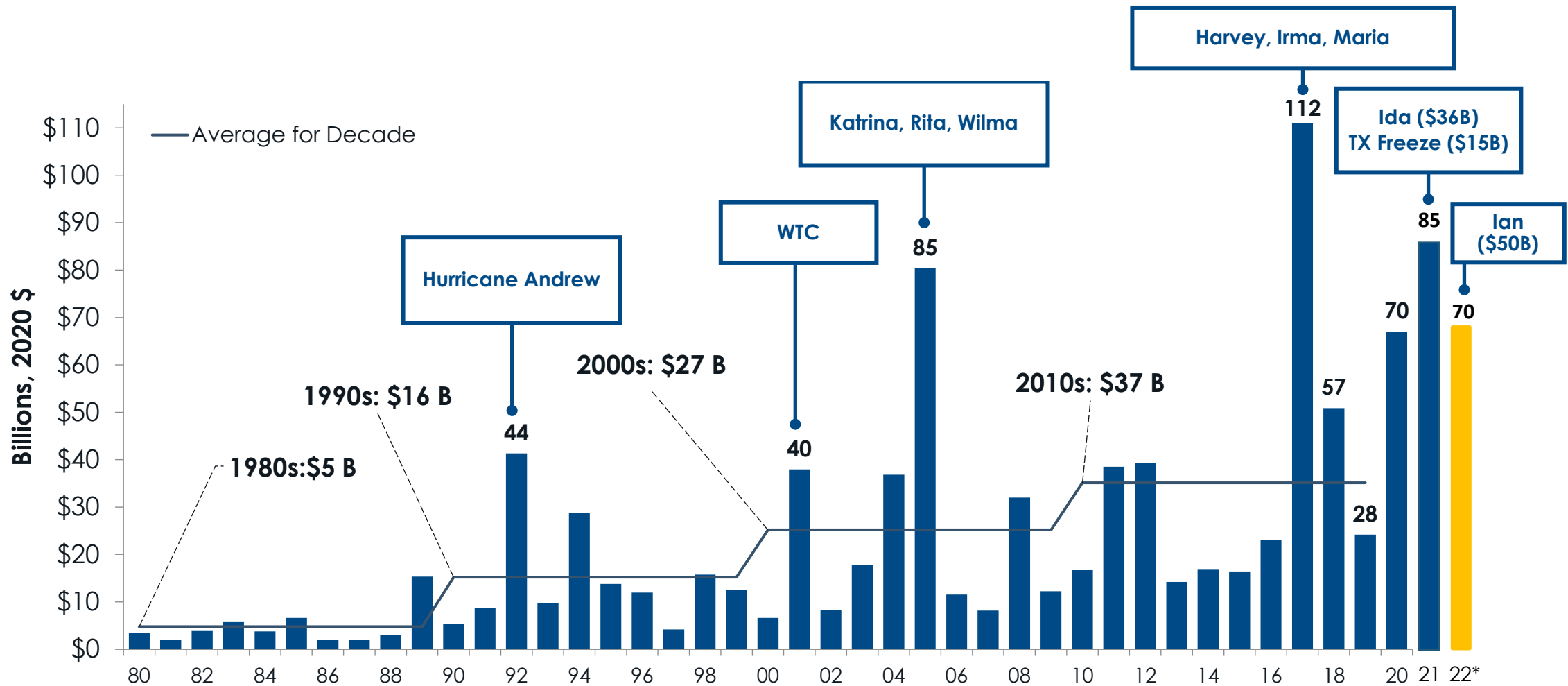
The background features several overlapping geometric shapes. On the left, there are blue shapes, including a large triangle pointing right and a smaller one pointing left. On the right, there is a large blue triangle pointing left. In the center, there are grey shapes, including a triangle pointing down and another pointing up. The text is centered in the white space between these shapes.

Property Market Conditions

Discussion Topics

- Property Insurance Market Overview
 - U.S. and Global Insured Catastrophe Losses
 - Treaty and Retro Market Impact
 - Soft Market to Hard Market Insurance Cycle
 - The Florida Factor
- The Impact of Inflation
- What to Watch For
- What's Next?

U.S. Inflation-Adjusted Catastrophe Losses



*2022 total is estimated figure through Q3

Source: Insurance Information Institute

Average Insured Loss per Year
 1980-2021: \$23.8 Billion
 2012-2021: \$44.1 Billion

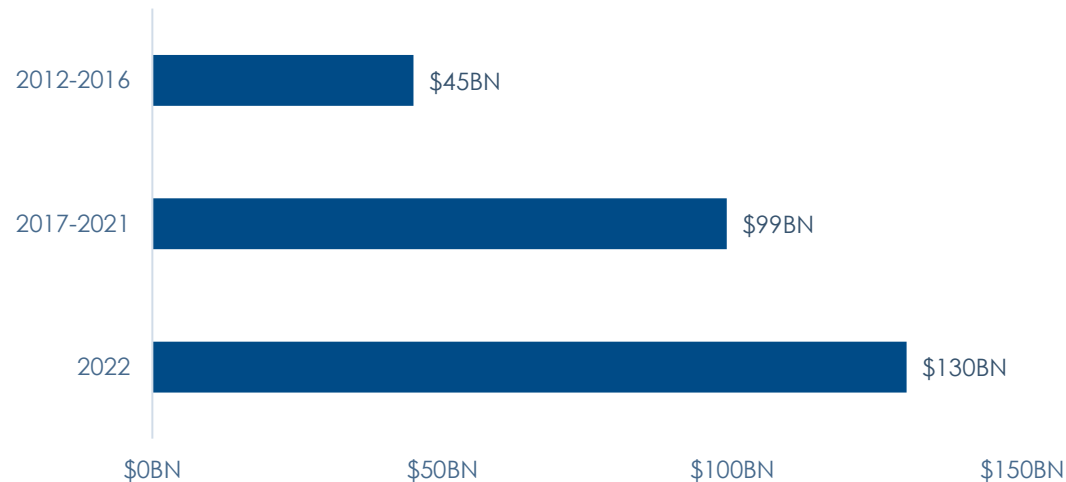
The 2020s are off to an ominous start with \$76B in average annual insured losses

Global Insured Catastrophe Losses

Structural changes, catastrophic losses and a capital shortfall for reinsurers set the stage for precipitous increases in insurance costs in 2023 and beyond.

Global Insured Catastrophe Losses

Average Annual Losses

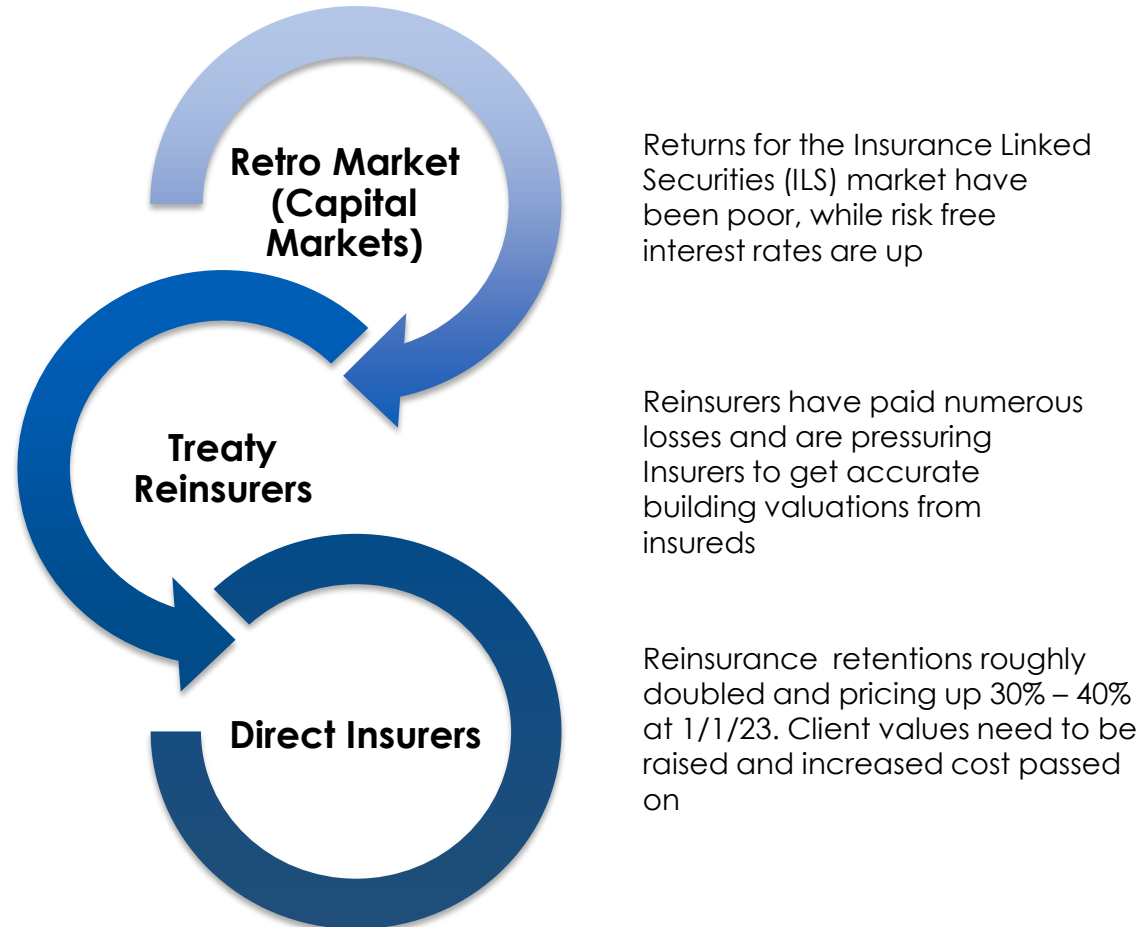


Source: Swiss Re

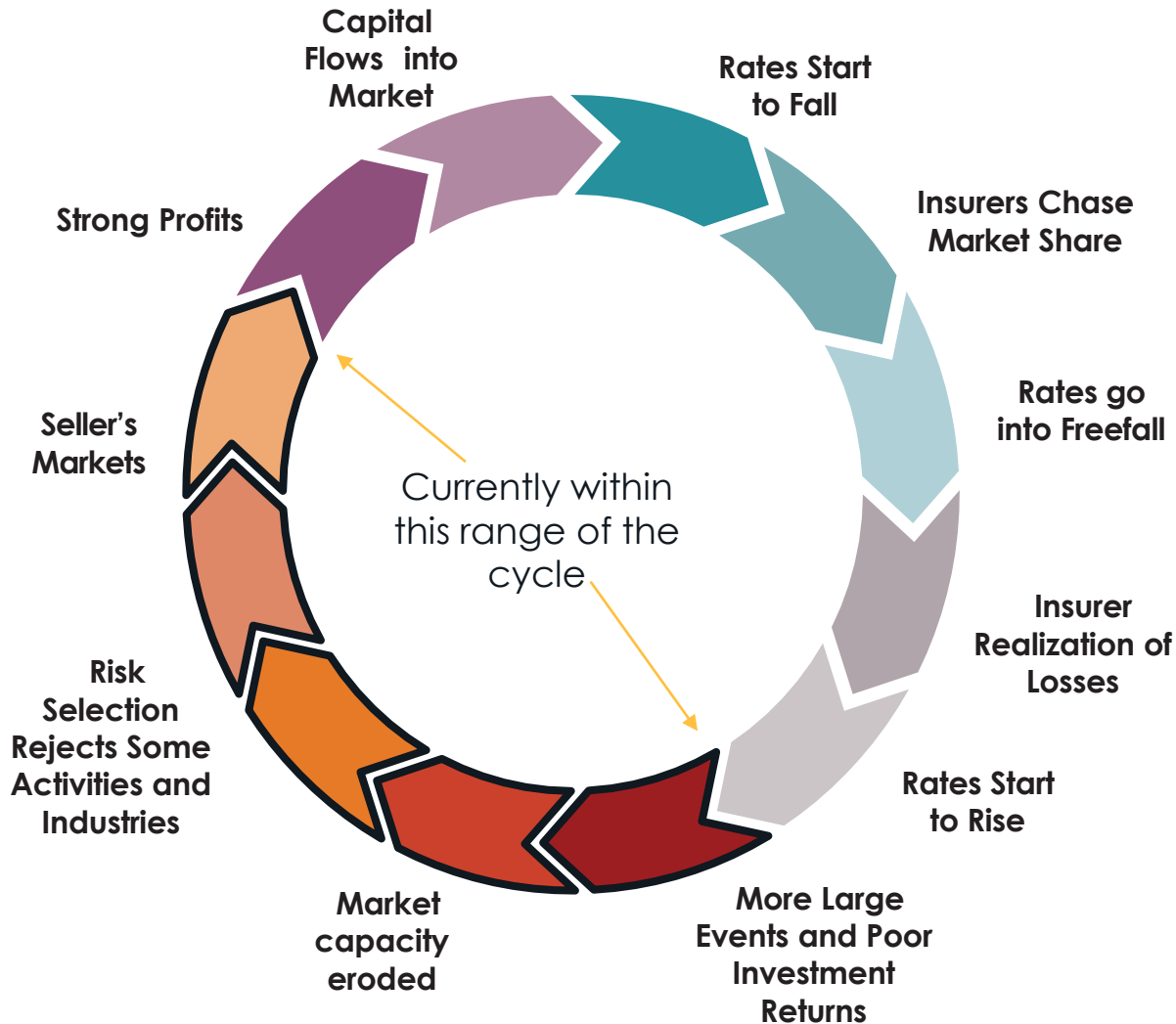
- \$12.5bn - \$15bn shortage in reinsurance capacity
- Reinsurance companies cannot buy enough retro (retrocessional reinsurance) which limits their capacity to the retail market.
- Poor returns
- Reinsurers blaming poor building valuations and unmodeled losses

Treaty and Retro Market Impact

Structural changes, catastrophic losses and a capital shortfall for reinsurers set the stage for precipitous increases in insurance costs in 2023 and beyond.



Soft Market to Hard Market Insurance Cycle



Insurance is Cyclical

Cycles usually span a number of years.
We are currently in what is known as a **'Hard Market'**

A Hard Market is when there's high demand for insurance coverage and a low appetite to insure. During a hard market, rates are high and coverage is difficult to find.

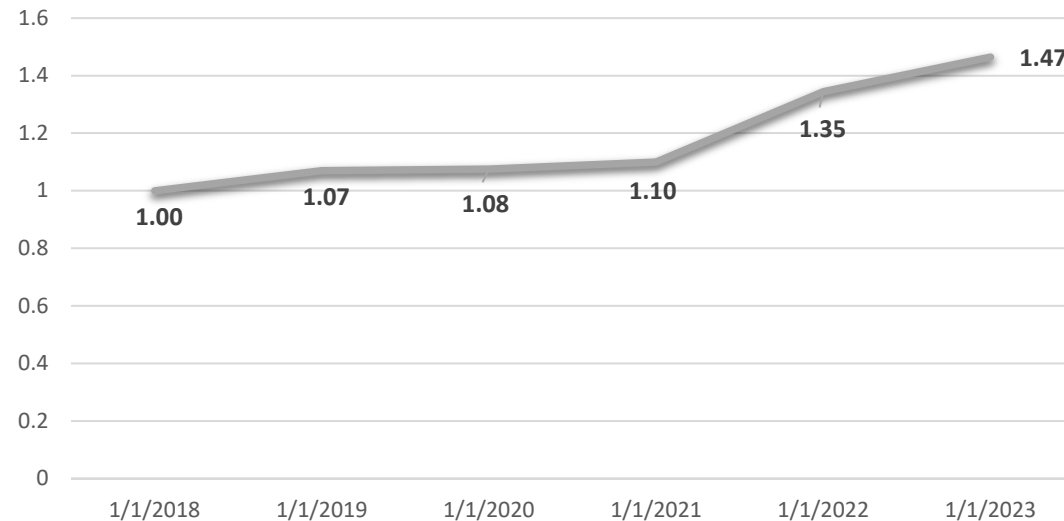
A Soft Market is when insurance is readily available. Rates are stable or falling because of healthy competition in the market.

The Florida Factor

- Florida is perennially the most challenging catastrophe risk zone in the world
- Hurricane Ian (estimated \$50B insured loss) was final major event to push the market into true hard market territory
- Insurers are reducing their capacity and raising rates more significantly in Florida
- Some insurers have exited writing any Florida business
- Property catastrophe treaty reinsurance pricing increased dramatically at January 1
- Relief for Florida insurance/reinsurance buyers is unlikely to be immediate
 - Impact of legislative reforms will not emerge before mid-year and capacity providers remain cautious

The Impact of Inflation

- Inflation has reached multi-decade highs, with the cost of labor, construction materials and transportation rising sharply in recent years
- Insurers hyper-focused on accurate replacement cost valuations given recent inflationary trends



Source: FM Global

- A building constructed for \$1M five years ago would cost roughly \$1.47M to build today

What to Watch For

- Extreme discipline in capacity deployment by insurers
- Dramatic rate and premium increases
- Wind coverage sub-limits
- Higher Wind deductibles
 - 5% now the minimum standard across entire state
 - 10%+ deductibles are possible
- Shared Limits
 - More programs with multiple insureds sharing a loss limit
- Use of alternative risk transfer
 - Catastrophe bonds
 - Parametric insurance
 - Industry Loss Warranties

What to Watch For

- Valuation restrictions – insurers now expect insureds to report accurate replacement cost values
- If not, insurers will likely quote with restrictive terms including
 - Coinsurance
 - Occurrence Limit of Liability Endorsement (OLLE)
 - Margin Clause
- Blanket limits are not a given

What's Next?

- It could very well get worse before it gets better
- June 1 and July 1 reinsurance treaties – mainly for U.S. carriers
- Inflation persists, however the rate of inflation has slowed
- Hopefully Florida insurance legislation attracts more insurance capital to Florida
- Frequency and severity of “Secondary” catastrophe perils (tornadoes, hail storms, winter storms) could determine when the market will turn
- 2023 hurricane season
 - Do not expect El Niño to save the day
 - Sea surface temperatures continue to be elevated





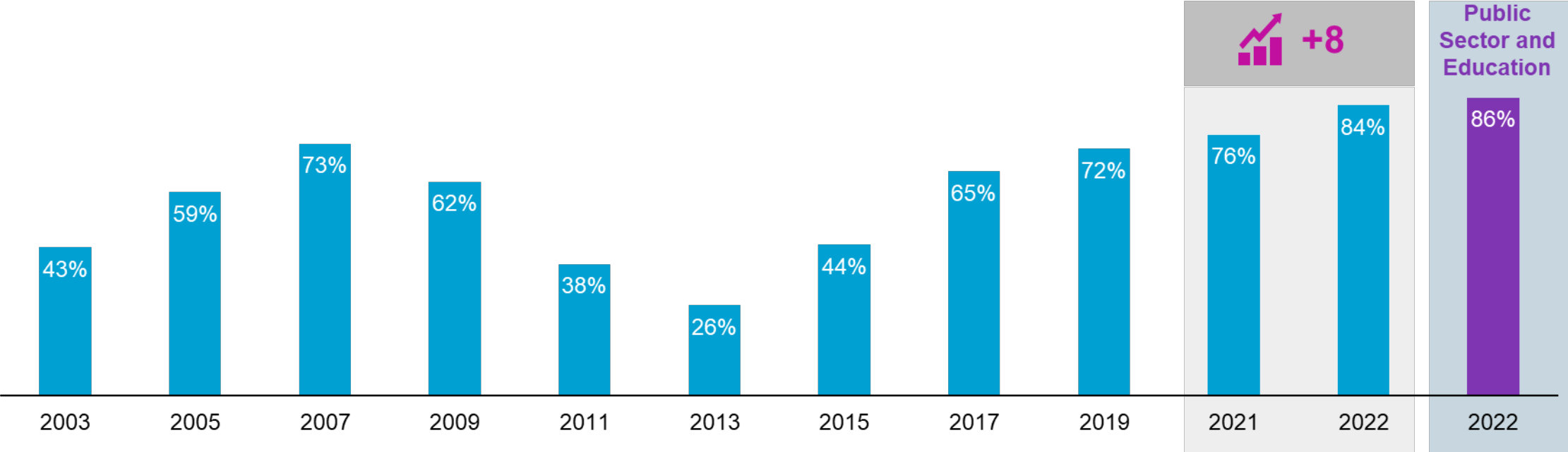
FLC Insurance Summit

- May 18, 2023



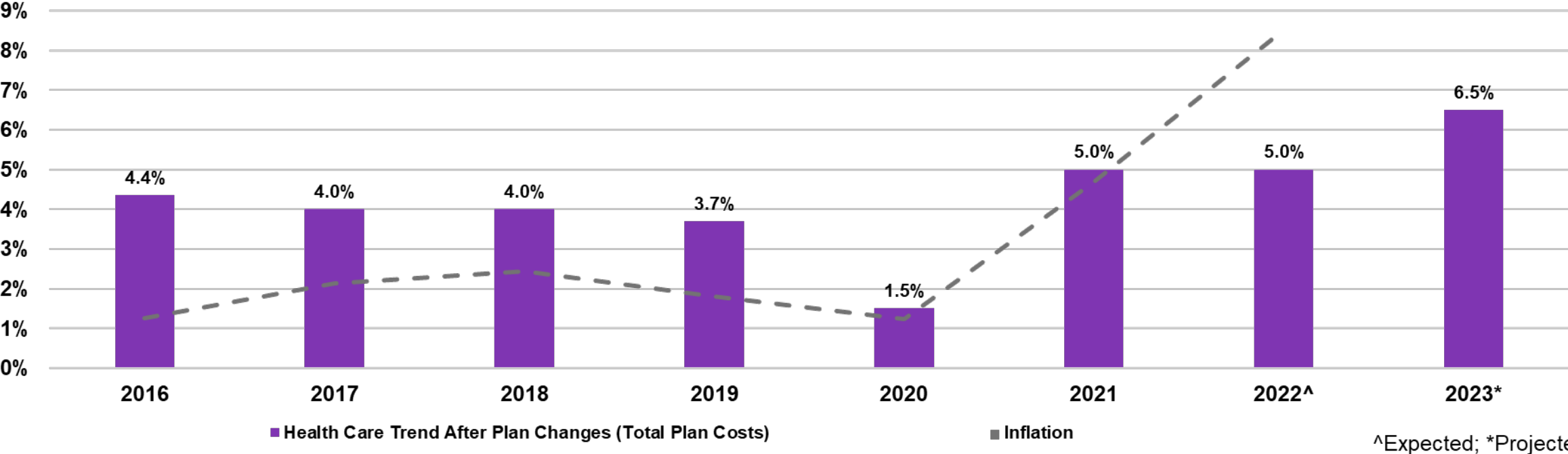
Employer confidence in sponsoring healthcare benefits over the next ten years is at its highest point in two decades

How confident are you that your organization will continue to sponsor healthcare benefits to active employees in ten years? (% of "Very confident")



Sample: Companies with at least 1,000 employees.
 Note: High Confidence represents responses of "Very confident". Years 2003-2016 are based on prior years of the TW Survey.
 Source: 2022 Emerging Trends in Healthcare Survey, United States

Sharp increases in inflation and market forces driving projected rise in healthcare costs



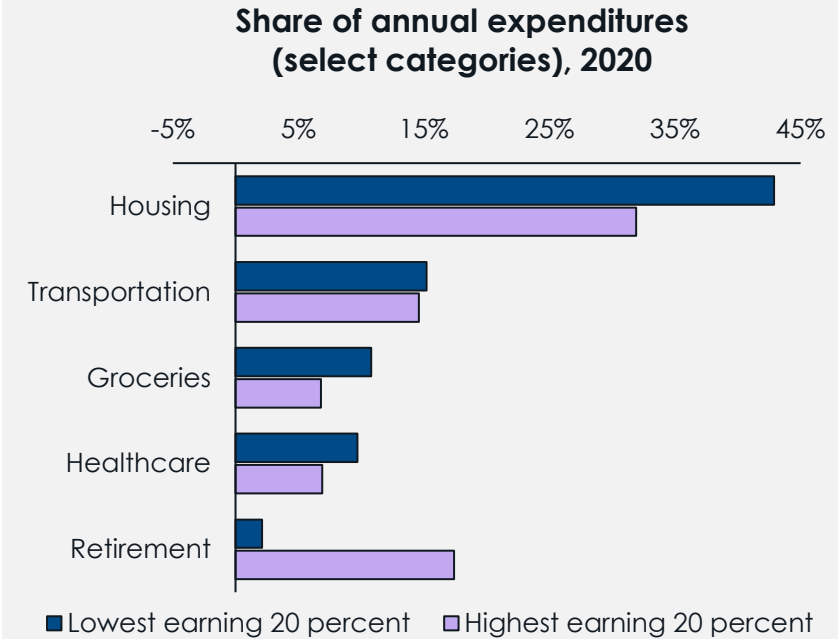
Note: Percentages of healthcare trend are **median** numbers
 Sample: Companies with at least 1,000 employees.
 Sources: WTW 2022 Best Practices in Healthcare Survey; Bureau of Labor Statistics, CPI-U, CES.

Healthcare costs are rising...

Drivers:

		Unit Cost	Utilization
1	Higher overall inflation and increased labor costs	●	
2	Provider consolidation	●	
3	Escalating drug costs	●	
4	Worsening mental health		●
5	Missed preventive and non-emergency care	●	●
6	Aftermath of the pandemic	●	●

...and will further exacerbate the financial stress that low-wage earners are experiencing

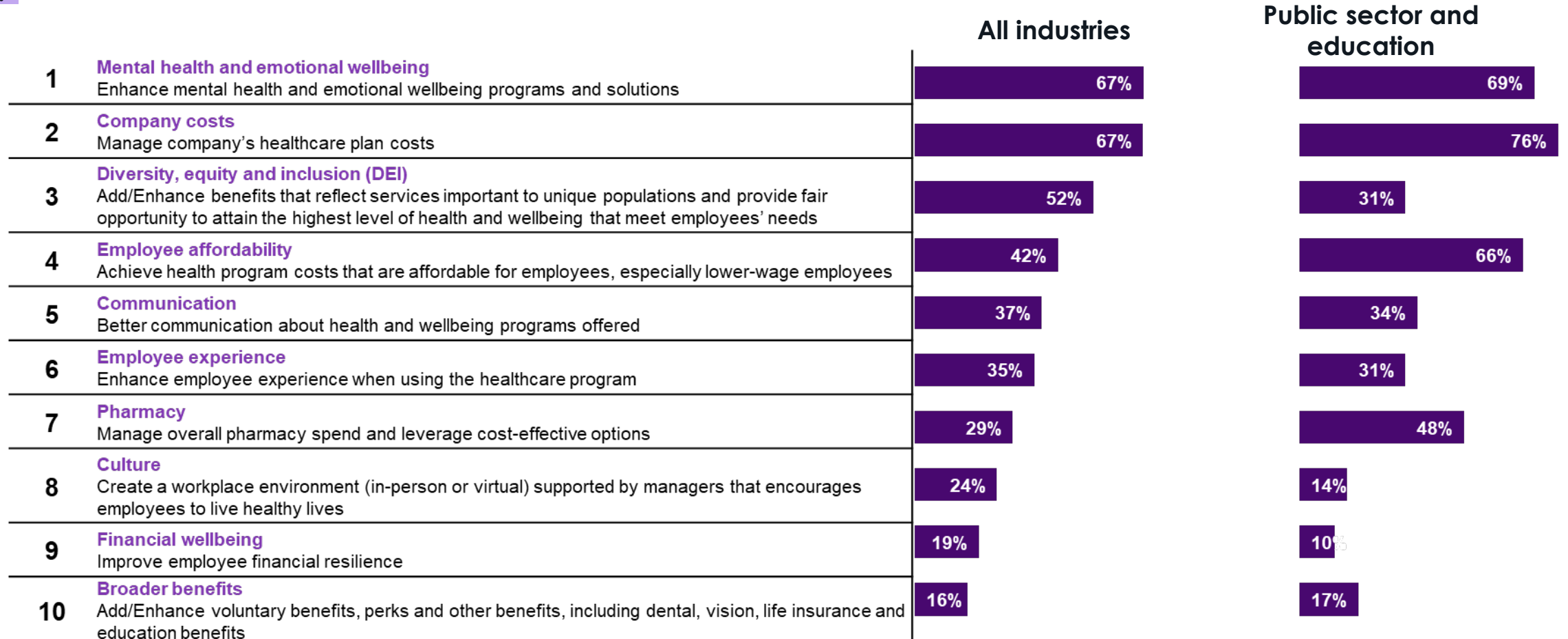


Source: Levin-Scherz, J., [8 reasons why health care cost inflation is likely to escalate](#), *The Hill*, April 2, 2022. Bureau of Labor Statistics.

Employers struggle with rising costs and affordability challenges while trying to increase investment in mental health



What are your organization's top health and wellbeing priorities over the next three years? (Select at most the top five options)



Source: WTW 2022 Best Practices in Healthcare Survey.

The health care delivery system is transforming at a rapid pace

Nontraditional modalities of healthcare will transform the system



Primary Care

- Primary first models (e.g., Centivo)
- Virtual first models (14 virtual first health plans in 2022)
- Shift towards more Physicians Assistants and broader care teams
- Integration of point solutions



High Performance Networks

- Steerage to high quality providers
- Transition from broad to narrow provider networks
- Cost of care based on provider selected



Precision Medicine

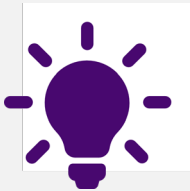
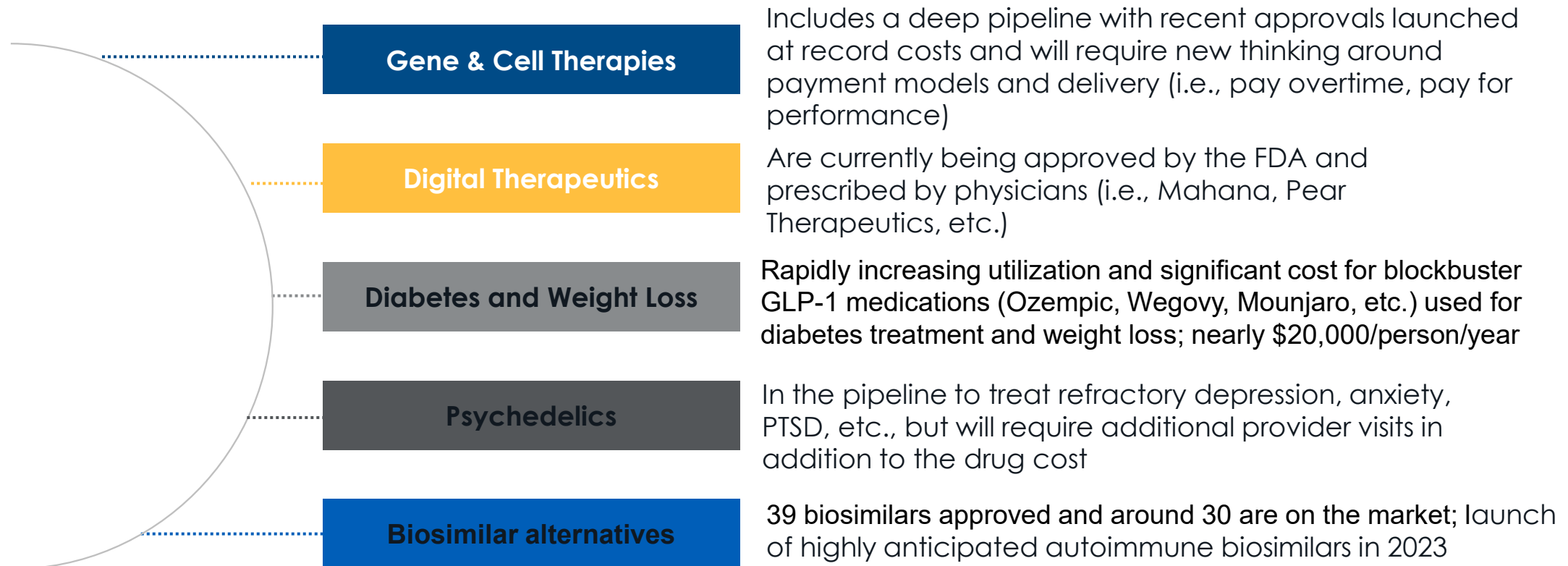
- Genetic testing
- Precise treatment journeys



Population Specific Strategies

- Disease specific (Alfie/Obesity, Oshi/GI)
- Population specific (Folx/LGBTQ+, Hurdle/Black mental health, Midi Health/women in midlife)

Pharmacy evolution



How will employers need to respond?

- Cost transparency, plan design and formulary considerations
- Ensuring the appropriate clinical pathways are followed
- Explore specialty medication programs and channels, including maximizers (i.e., SaveOn, Prudent, Variable Copay, etc.), and site of care options (i.e., medical vs Rx, home vs infusion, etc.)