Lynch Market Update

3rd Quarter 2017

Lynch
Insurance Brokers

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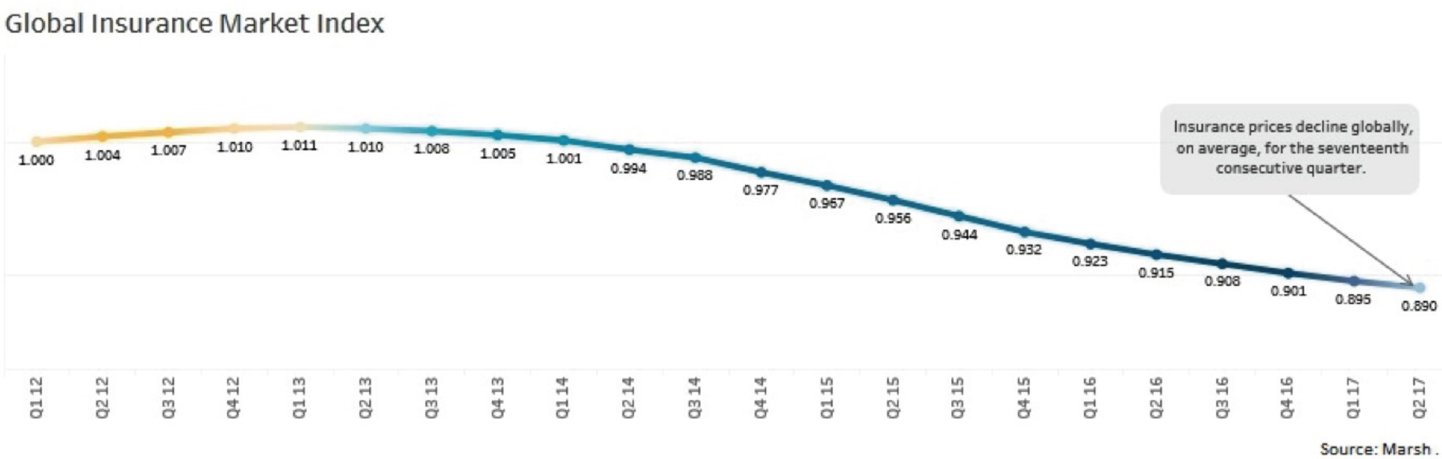
MARSH & McLENNAN COMPANIES

Market Responds to Hurricane Irma and Maria

After seventeen consecutive quarters of competition and falling property insurance rates the market has responded to the potential effects of Hurricanes Irma and Maria on the Caribbean region.



Reinsurers have met for their annual Monte Carlo conference and one of the key topics was the fallout from the active hurricane season. In September we witnessed a historically active season and massive destruction as many Caribbean neighbours were affected by direct impacts from major Hurricanes Irma and Maria.

The preliminary indications coming from the international markets are that these events will affect (re)insurer performance. According to insurer rating agency AM Best there will be an underwriting loss on the year due to the events. This is due to years of competition which has the markets struggling with falling prices and margins. However, reports are that the damages are not so severe as to significantly erode the capital base of the insurance market, threaten solvency of the key players, or create a major market shifting event. It is projected that the Property & Casualty policyholder surplus was about US$717 billion in the US market and another US$38 billion at Lloyds alone, so it is certain that the market remains well capitalized and functions freely. Substantive capacity and competition will remain into 2018.

What could be the potential cost? The estimates on insured losses hitting the market are varying and inconsistent. Some reports place the cost as high as US$95 billion however according to a recent report Munich Re placed the potential costs between US$20 to $30 billion, AIR Worldwide stated that they could be as high as US$40 billion. As we move forward and the losses are assessed and become clear the markets will settle on an informed position.

What this means for our regional Property & Casualty Renewals

All insurers have been consistent in their concern that some level of rate increases will be required. The view coming from the regional market is that there will be a high probability of increases on property insurance primarily between 15-30%. Some reinsurers are pressing local carriers for rates back to 2013 levels. The degree of change will vary from risk to risk and territory to territory, largely driven by insured's exposures and account experience.

We think that the initial estimates are a knee jerk reaction. The loss assessment process is complex and still in its infancy, with many territories still gathering data and costs. This leaves regional insurers in a phase of uncertainty. Insurers do not know the full financial impact of the losses on their annual results, further they are still negotiating their treaties with reinsurers that mostly renew in January 2018.

As a result of this uncertainty, the previously declining market trend will stop and rates will now hold steady across all lines of business. At a minimum you can expect a flat renewal through end of 2017, with a certain uptick in Property rates as we head into 2018. All other classes of business will likely experience flat to marginal increases at renewal into 2018.

What can certainly be determined is that insurance pricing will not continue its downward trend after years of property rate decreases. Regional insurers will seek to return to positive underwriting performance and strengthen their balance sheets to ensure their stability and security for insureds in the event of another future catastrophic event. We believe that the freely functioning market and competition will keep the rate increases balanced.

What action should you take.

Our job as your risk advisor and advocate is to negotiate with insurer markets, drive competition and keep the process fair and transparent. There are many options that you can consider to maintain your insurance premiums in check. To position yourself for the market changes:

- Start your renewal process early with your broker, this will allow time to analyse and improve on options.

- Differentiate your account in the market by presenting as much information as possible including positive underwriting factors such as risk improvements undertaken and any reduction in losses over the last few years.

- Review alternative programmes structures, limits, deductible levels and coverage options. Work with your broker to weigh the cost/benefit of different approaches.

- If your broker deems it necessary, discuss tender options to the insurance market to leverage the competition for the most competitive deal. However, note that the insurer that you have the existing relationship with may be best positioned to assist you in managing the hard market. Certain carriers may be more competitive on price, yet not offer the same level of service or support. Your broker will advise you and ensure that you are seeing the whole picture.

Business owners who have proactively managed their risks, controlled losses and manage exposures will be best positioned to handle the hardening market. We will work with you and help you navigate the shifting market and ensure the best outcome for you.

Making the next, right decision for the future of your business takes Experience + Insight + Foresight.
This is what we bring to the table.

Lynch
Insurance Brokers

When it comes to risk we don’t take chances.
We are your Trusted Risk Advisor.

About Lynch

Lynch Insurance Brokers Ltd. is a risk advisory and insurance services firm. Our mission is solving our client's key risk concerns and in so doing make them more successful. We are an Associate company of Marsh Ltd., and are able to leverage their international expertise and market access to deliver innovative thinking to addressing our client's risk and insurance needs.

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To learn more about the benefits of a relationship with Lynch Insurance Brokers, please contact us.

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