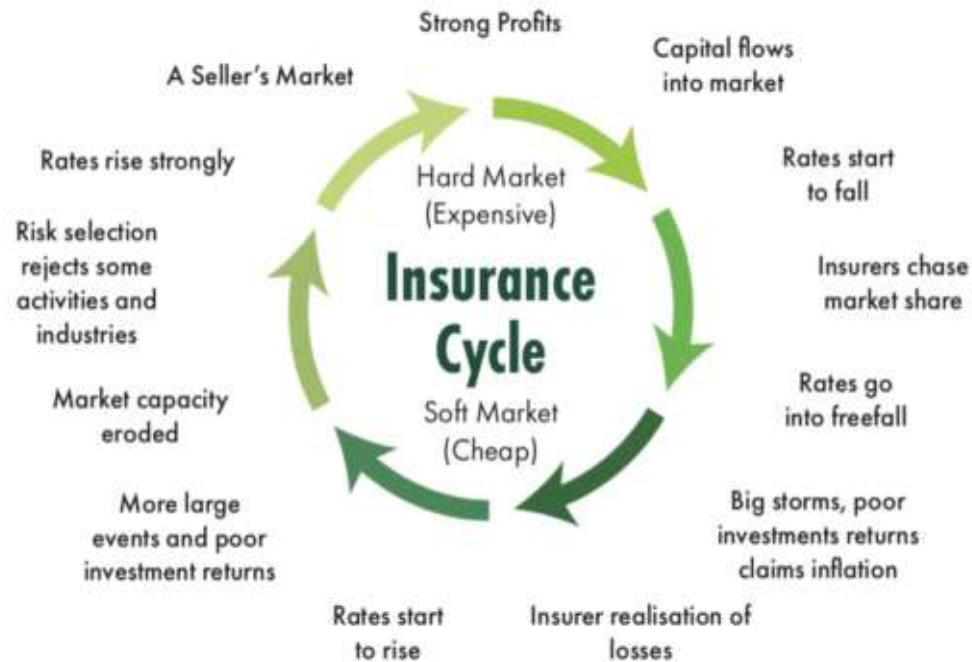


The background of the slide features a low-angle shot of a modern, curved glass skyscraper against a clear blue sky. A large white diagonal shape cuts across the lower-left portion of the image. The Aon logo, consisting of the word 'Aon' in red and 'Empower Results®' in black, is positioned in the lower-right area of the slide.

# Aon - AIDA Market Presentation 6<sup>th</sup> July

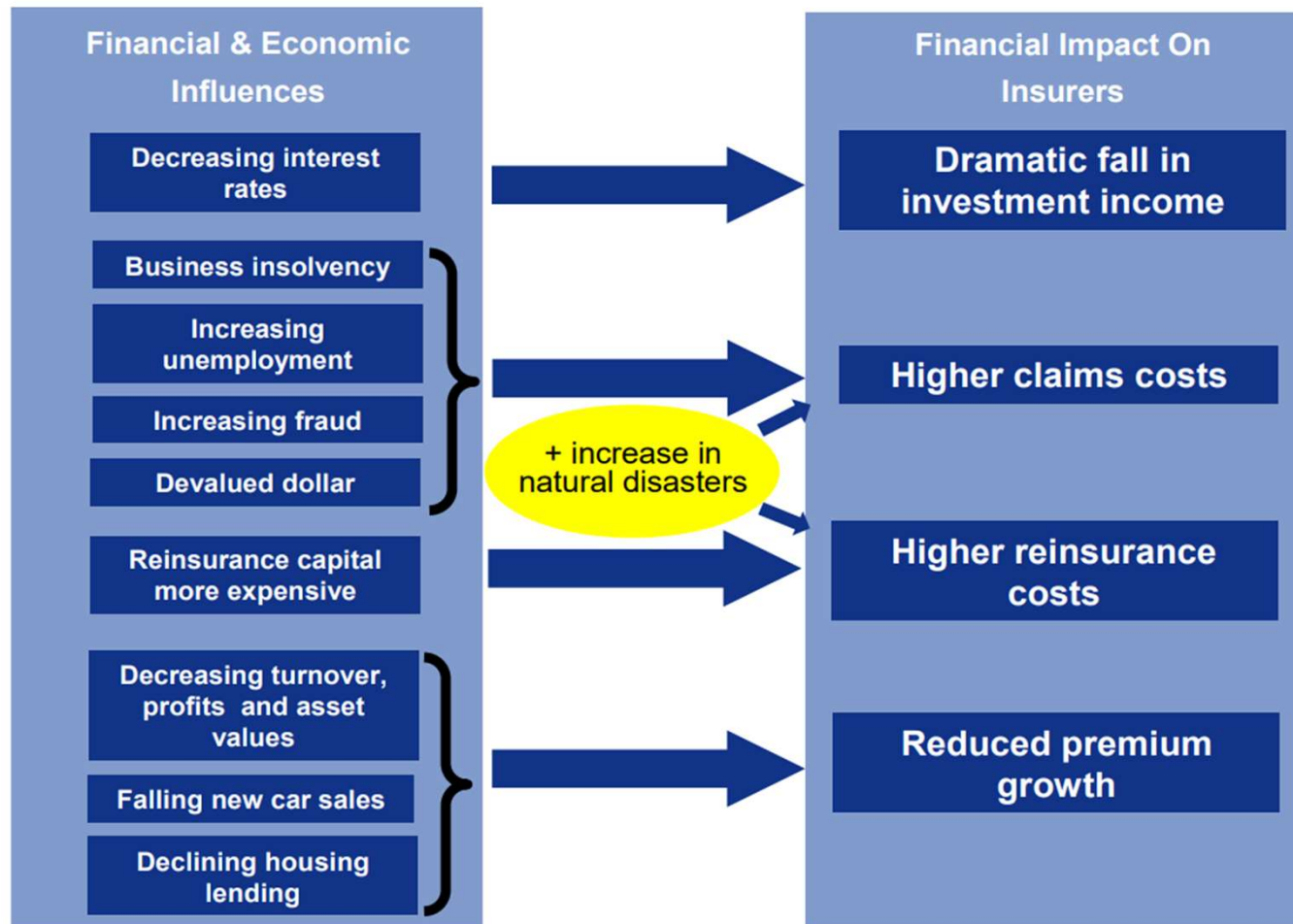
Paul Ducat  
Aon Re - Australia

## The Insurance Market landscape 2020



- Where are we in the Insurance Cycle?
- Hardening or Softening market?
- Profitable or Unprofitable
- Regulatory framework – safe guards helping stabilise market / clients
- Capital Moving ( or about to) in or Out of the market?
- Lloyds Decile 10

## Insurance Cycle



\*2008 presentation on market cycle – are QE and COVID disruption to normal cycle

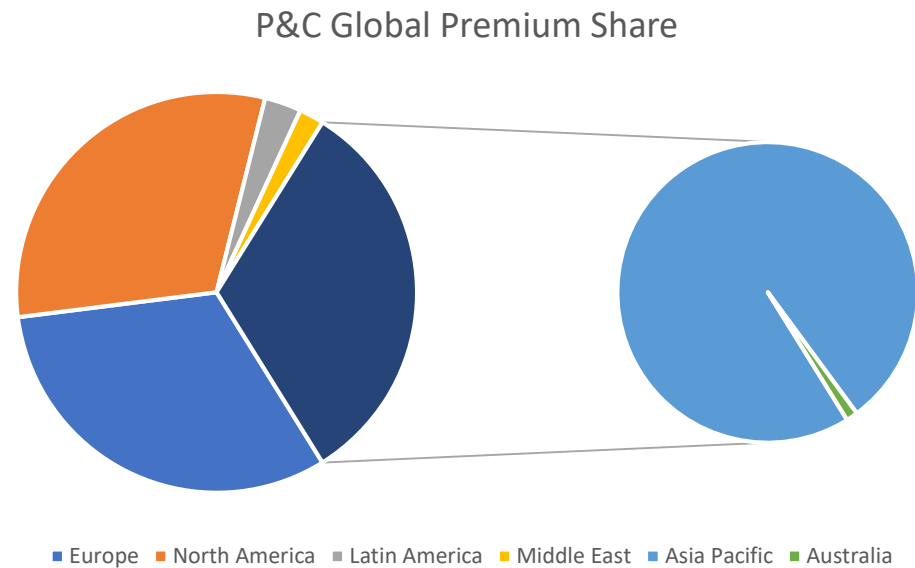
# Insurance Cycle

---

- The previous slide isn't from the current hard market cycle but the previous advice Aon presented to clients during the GFC.
- We can see that some of the triggers for a hard market cycle are certainly on track but others clearly are not there or are in fact in the opposite direction – why?
- Could COVID or previous QE stimulus be affecting and even prolonging capital movement in or out of the cycle?
- Finity Consulting Australia – 2020 Optima Marketing report provides some insights in how (re) insurers might be being affected in:
  - Premium Revenue Generation
  - Operational Cost Management
  - Business Environment Management
  - Capital & Solvency ManagementAll of which affect Company (Insurer) Value
- How many of these are actually also affecting end client company values? How much contingency for a wave of change in Business company value, unemployment etc as contingencies affecting Financial & Economic Influences has to be added into the equation?

## Common Pool approach

| P&C Premium<br>(USD Bn) | Percentage | Region        |
|-------------------------|------------|---------------|
| 1216                    | 32%        | Europe        |
| 1178                    | 31%        | North America |
| 1178                    | 31%        | Asia Pacific  |
| 15                      | 0.39%      | Australia     |
| 114                     | 3%         | Latin America |
| 76                      | 2%         | Middle East   |
| 30                      | 1%         | Africa        |
| 3807                    | 100%       |               |



Global Market – P&C (Non Life Premiums) size approx. gathered from public sources

# Common Pool

---

Adjustment Factors:

Common Pool – Global vs Regional vs Country cycles within economic flow of capital

US: Elections - Economic outlook ( Inflation / Bond ) - ESG

European : Decile 10 - ESG

Redistribution of capital from class to class ( PI to Cyber)

2019 Paid Cyber losses exceeded US\$1.8bn \* more than global premium pool

2020 anticipated losses exceeds \$2.5bn\*\*

2020 Asia Pac region - 3 large full tower losses exceed regional total premium pool alone

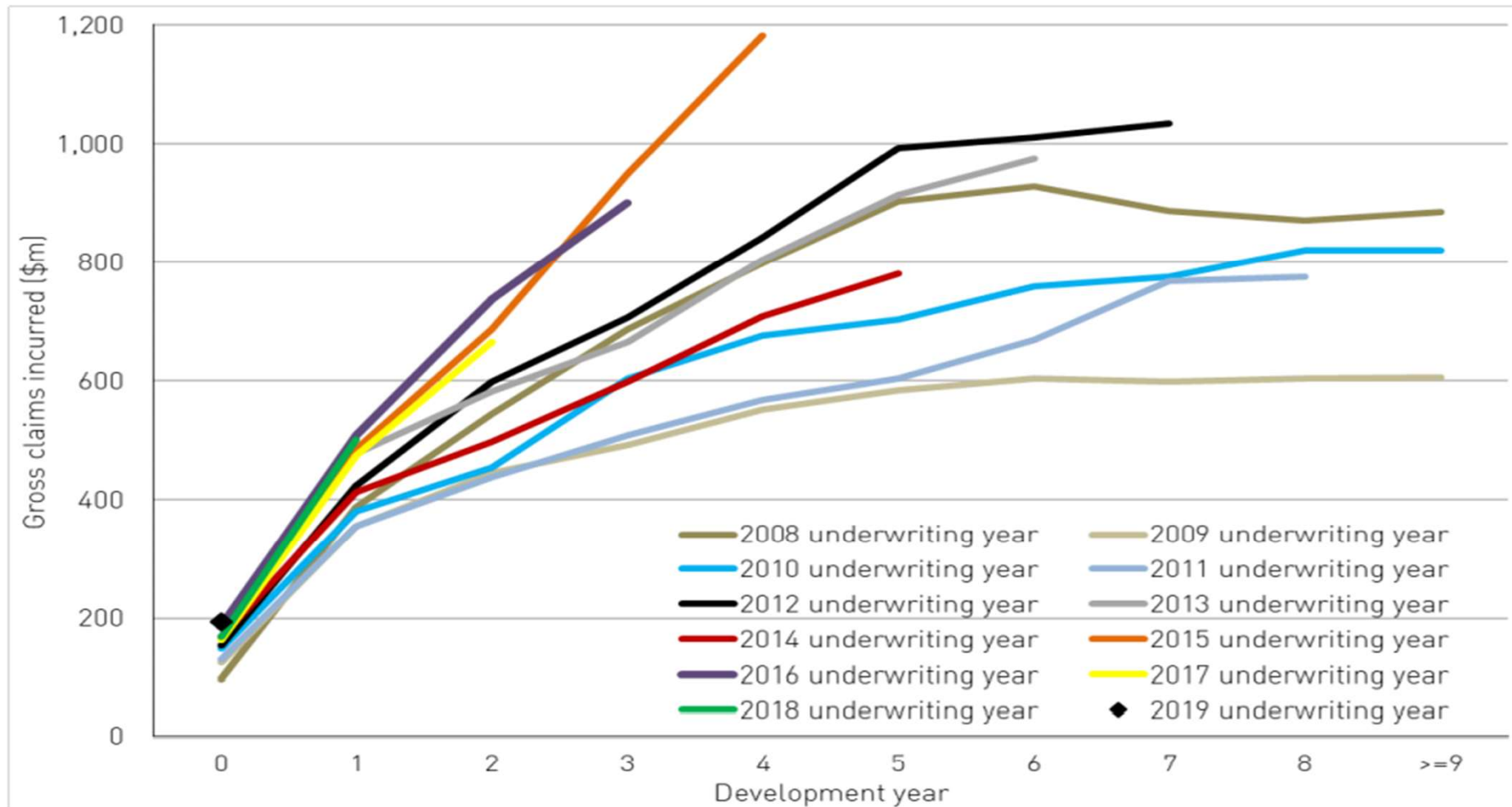
2020 Australia –\$100m + tower loss plus market losses exceed premium pool by significant margin.

Uninsured losses exceed global P&C premium pool of USD3trn

Global COVID losses currently exceed US\$25tr @ x 6.5 global premium pool.

\*Hiscox \*\*KPMG

# Common Pool



\*APRA - NCPD

Client Name, Proposal # | Practice Group | Date (##.##.##) | Document # Optional  
Proprietary & Confidential



# Common Pool with Risk vs Reward

---

What happens if your client has a risk that doesn't fit their balance sheet and / or doesn't fit the common pool you have been allocated to?

Where does Bush Fire or D&O risk sit?

Where Does PI especially CPI / SPPI?

What is the view towards risk? Is the Clock going forward, backwards, staying still. Local , Regional & global asset values Is there a bubble / correction in play, what would individual impact be?

Is a current trading loss but retaining cover to live to fight another day correct?

Is there an economic view and does that extend / include Private Housing, Commercial Property & Company Balances sheet ( including the client view towards balance sheet stability and risk retention?)

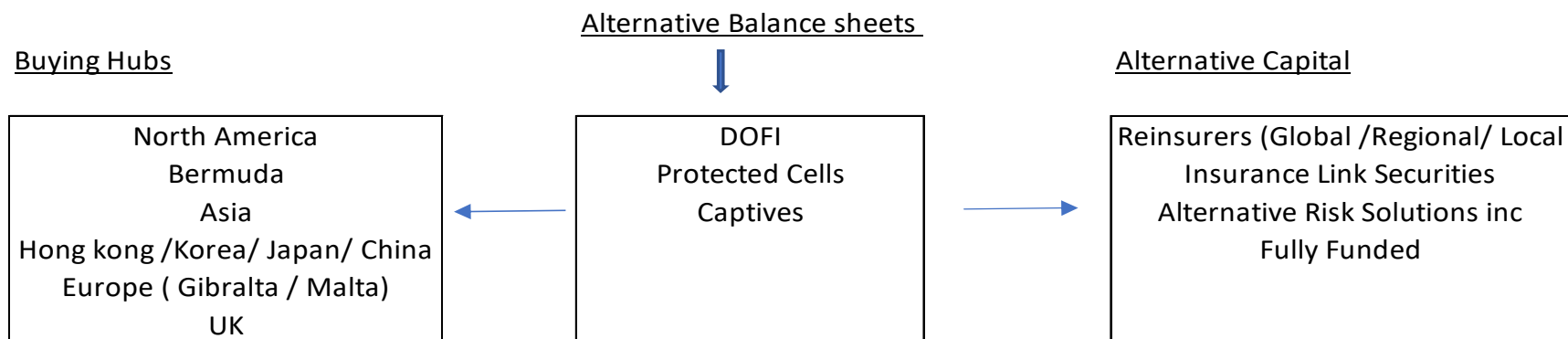


# Common Pool with Risk vs Reward

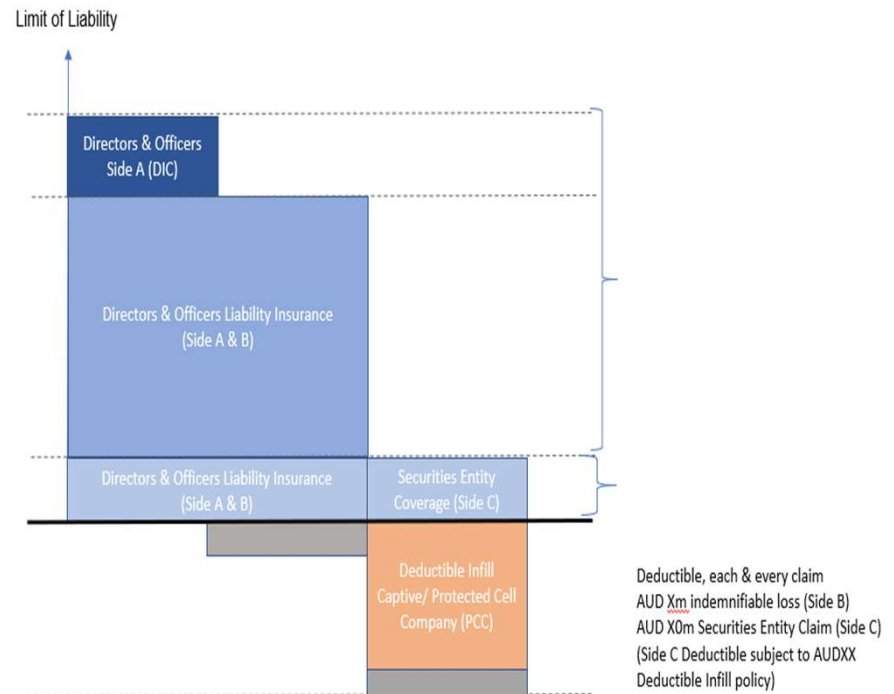
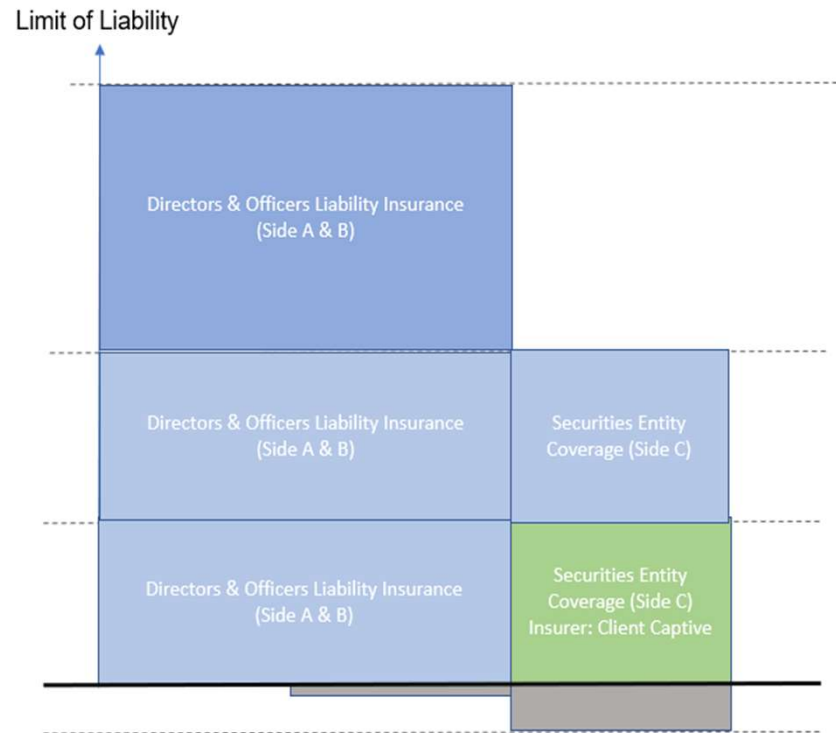
Common Pool Premium 'Components' made up of...

- Burning Costs
- Tech Risk Premium
- Claims Inflation & Handling
- Profit
- Cat Loadings
- Pandemic Loadings
- State / Federal Taxes

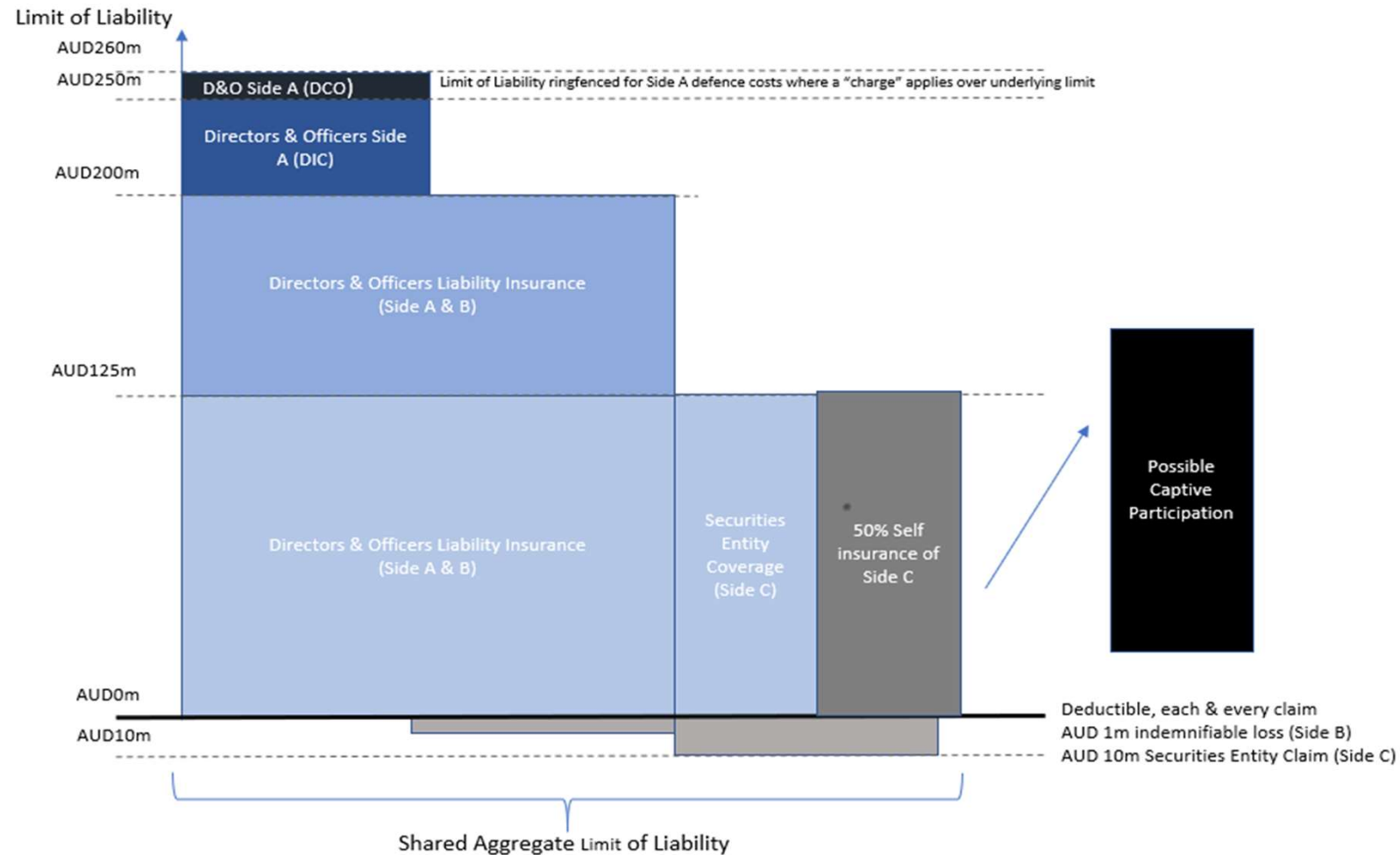
If client disagrees with some of these “wholistic’ pool views and costs, can you decouple from the pool and/or re-engage in another way or forum?



# D&O examples of flexible redirection of capital?



# D&O examples of flexible redirection of capital?



# How much will you suggest a compromise?

---

If your client can't (or shouldn't) retain uninsured risk, how can you increase the supply of capital to areas needed and how?

## THE AUSTRALIAN CONTEXT

- Roughly 10 years to become on shore APRA approved security ( varies in differing global regulators / localities)  
Is a S&P rated company offshore paper (DOFI) acceptable?
- If they are being annually audited by the local regulator ( but only half way through the regulatory application) does that change your view? Does you clients advisors know who intends to invest in the market in the current or next market cycle?
- Will you accept DOFI but with Fitch or AM Moody's rated security as a viable alternative to S&P rated paper?
- Would you accept APRA regulated R/I, but whom expect sophisticated buyers to manger and significantly bear own claims preparation and internal legal representation cost be viable through a captive?
- Does this posse 'Interposed entity' such as that provided under the 199 of the Corps Act a matter for consideration especially for D&O? Can ( and should a potential 'control') be overcome? Does using a PCC or 'temporarily renting' another balance sheet for which the client does not have control help?

# How much will you suggest a compromise?

---

Whilst the cost of capital acquisition varies immensely, the more flexible you can be in your thought process – so can the capital

Thank you for your time listening ..... I now hand back over to Robert to introduce the next speaker Lukas Nazaruk.