



Future-proofing through ILS and Other Reinsurance Products

INCON 2018

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AON
Empower Results®



Introduction to Alternative Capital

Zach Breslin

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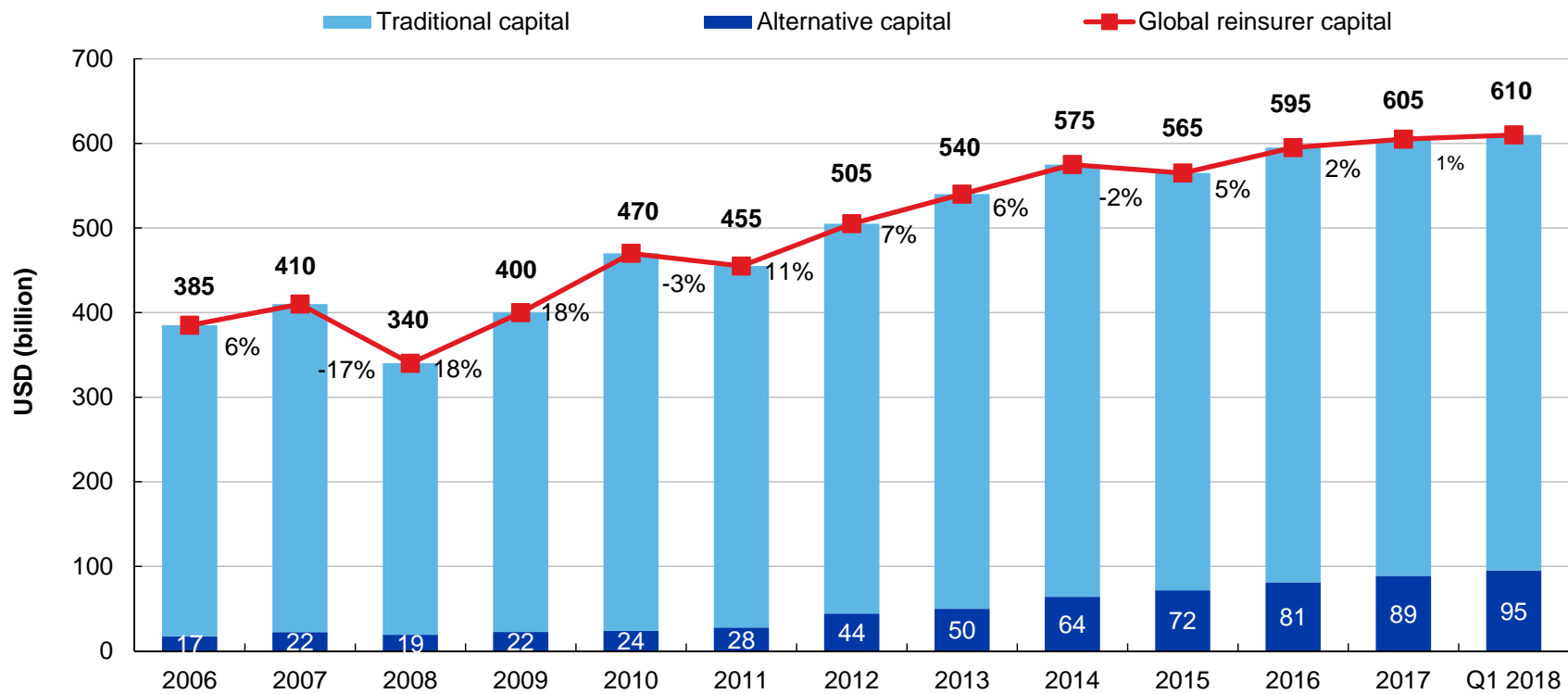


Zach Breslin is a Vice President, Investment Banking at Aon Securities. In this role, Zach is responsible for the origination and structuring of various capital markets re/insurance solutions for Aon's clients, along with assisting clients in third-party capital raising initiatives. Prior to joining Aon Securities, Zach was an Assistant Vice President and Canada Manager for Berkley Offshore Underwriting Managers, a wholly owned subsidiary of W.R. Berkley Corporation, an insurance holding company.

Zach earned a Bachelor of Science degree from Fordham University. Zach currently holds a Series 7 and Series 79 designation from FINRA and a Series 63 designation from NASAA.

Global Alternative Capital Surge Continues

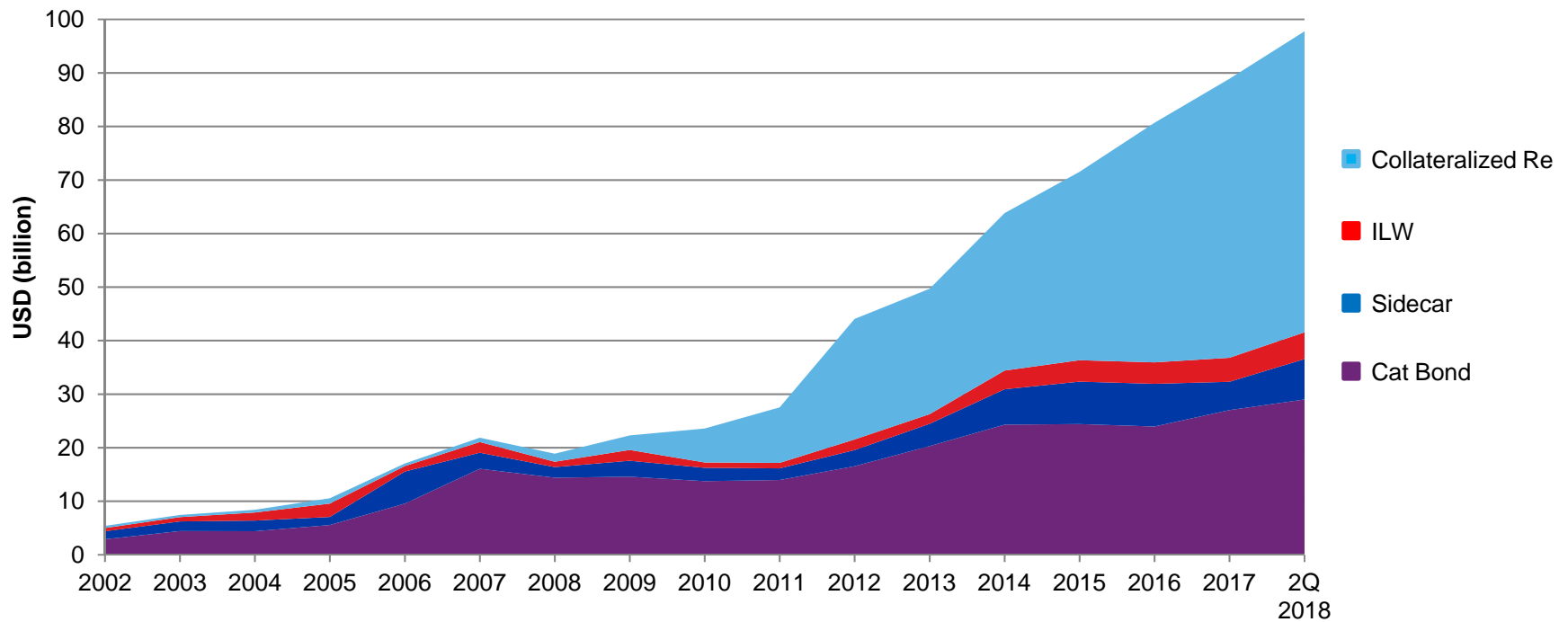
- Global reinsurance capital increased to USD \$610 billion at the end of Q1 2018
- While traditional capital was flat, alternative capital rose 7 percent



Source: Company financial statements, Aon Benfield Analytics, Aon Securities Inc.

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Alternative Capital Fuels Competitive (Re)insurance Market



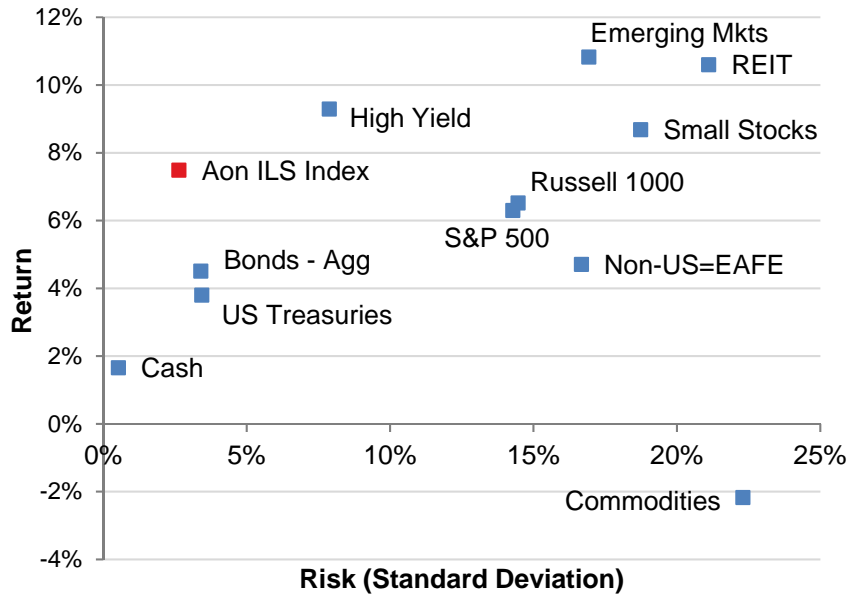
Alternative Capital Motivations

- Cedents utilize both alternative and traditional capacity to create competition among markets
 - Catastrophe bonds help lower costs of capital and to diversify their reinsurance panel
 - Sidecars help expand footprints and grow key segments
 - Collateralized reinsurance works alongside traditional reinsurance placements
 - Third party capital management helps generate significant fee income

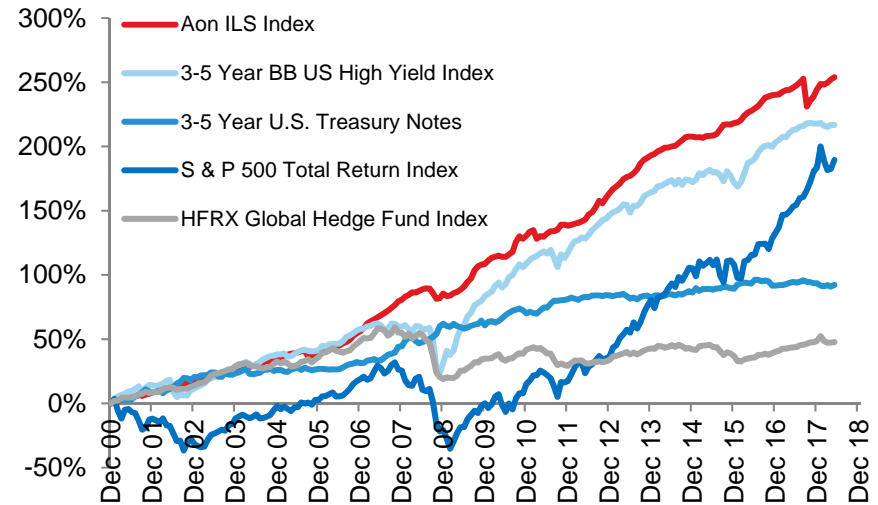
Catastrophe Risk vs. Other Asset Classes

- Investing in ILS has historically provided a high return per unit of risk taken compared to competing asset classes
- The Aon ILS Index outperformed competing asset classes through stable performance over the past 18 years

High Historical Returns with Relatively Low Volatility¹























Strong, Stable Performance over Time



¹Source: Bloomberg L.P., Aon Securities Inc.: Data from 12/31/2000 – 5/31/2018

Top 10 ILS Funds by Manager Type

As of March 31, 2018

Independent ILS Managers Sources risks through open (re)insurance markets				Reinsurer Backed ILS Managers Sources risks through reinsurance partner and open reinsurance market			
Manager	Domicile	AuM (USD M)		Manager	Domicile	AuM (USD M)	
 Nephila Capital	Bermuda	13,884		 Markel / Cat Co	Bermuda	6,100	
 Credit Suisse	Switzerland	9,000		 Leadenhall	UK	5,000	
 Stone Ridge	US	6,720		 AlphaCat (Validus)	Bermuda	3,660	
 Securis	UK	6,500		 RenRe Managers	Bermuda	3,429	
 LGT Capital Management	Switzerland	6,000		 Aeolus Re	Bermuda	3,000	
 Fermat Capital Management	US	5,828		 SCOR Investment Partners	France	1,445	
 Elementum Advisors	US	3,397		 Kiskadee (Hiscox)	Bermuda	1,250	
 Shroders	Switzerland	3,040		 Mt. Logan Re (Everest)	Bermuda	1,028	
 Pioneer	US	1,900		 Pillar Capital (TransRe)	Bermuda	643	
 Twelve Capital	Switzerland	1,800		 Kinesis (Lancashire)	Bermuda	400	
	Total	58,069			Total	25,955	

On Aug. 31, 2018, Markel announced that it will acquire Nephila Holdings Ltd. in an all-cash transaction. Subject to regulatory approvals and customary closing conditions, Markel expects the transaction to close in the fourth quarter of 2018

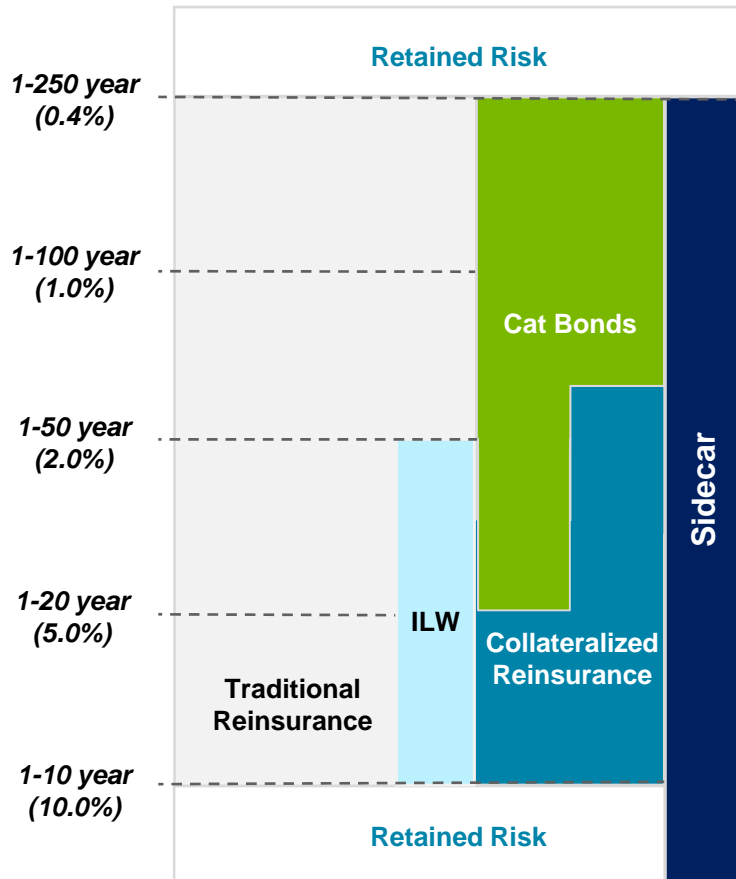
Source: Company financial statements, industry publications

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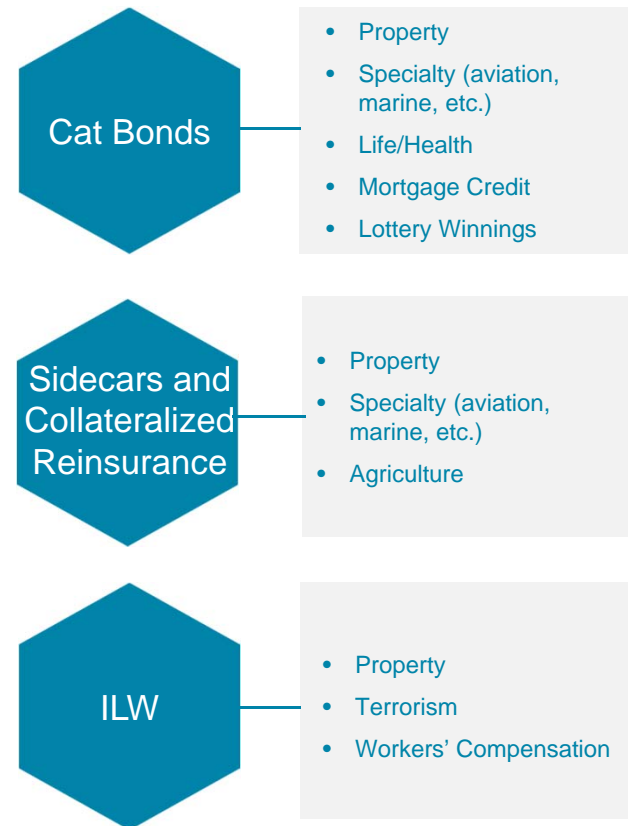
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Alternative Capital Solutions in the Reinsurance Tower

Illustrative Reinsurance Tower

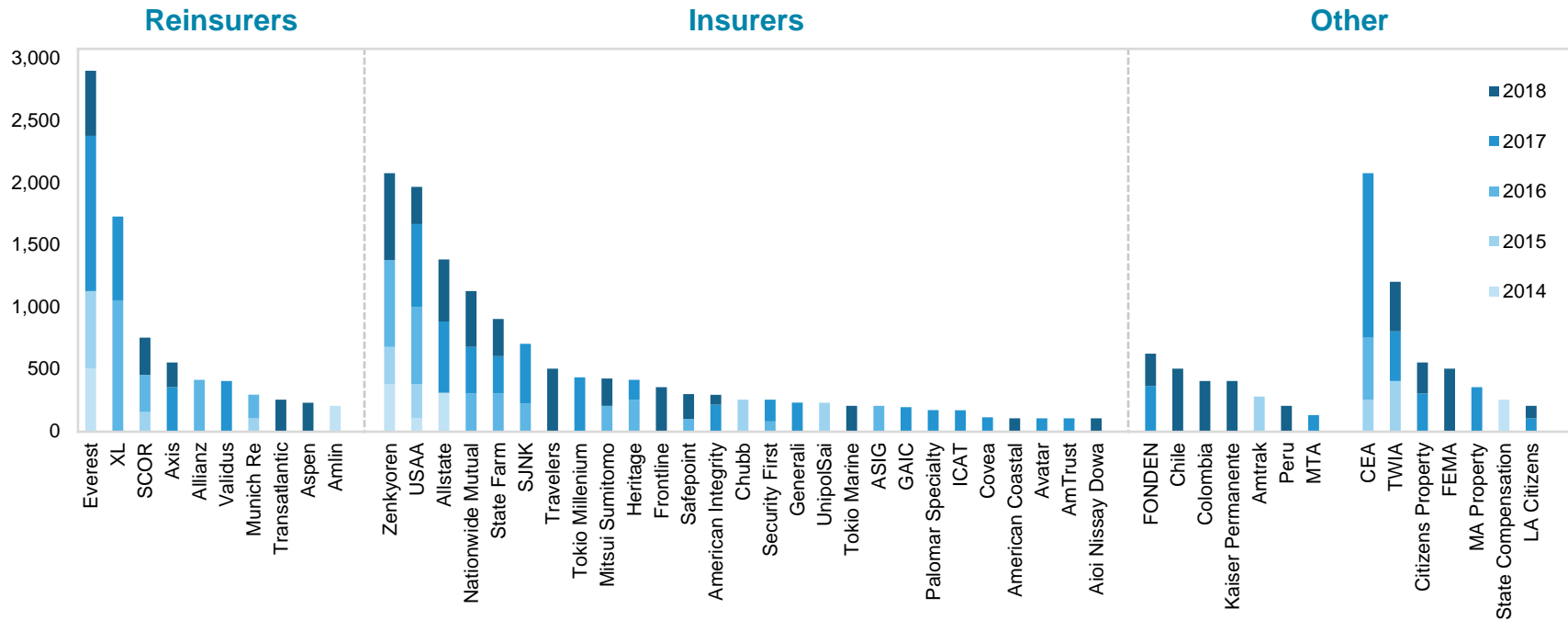


Products and Typical Risks Covered



Outstanding Property Bonds by Sponsor

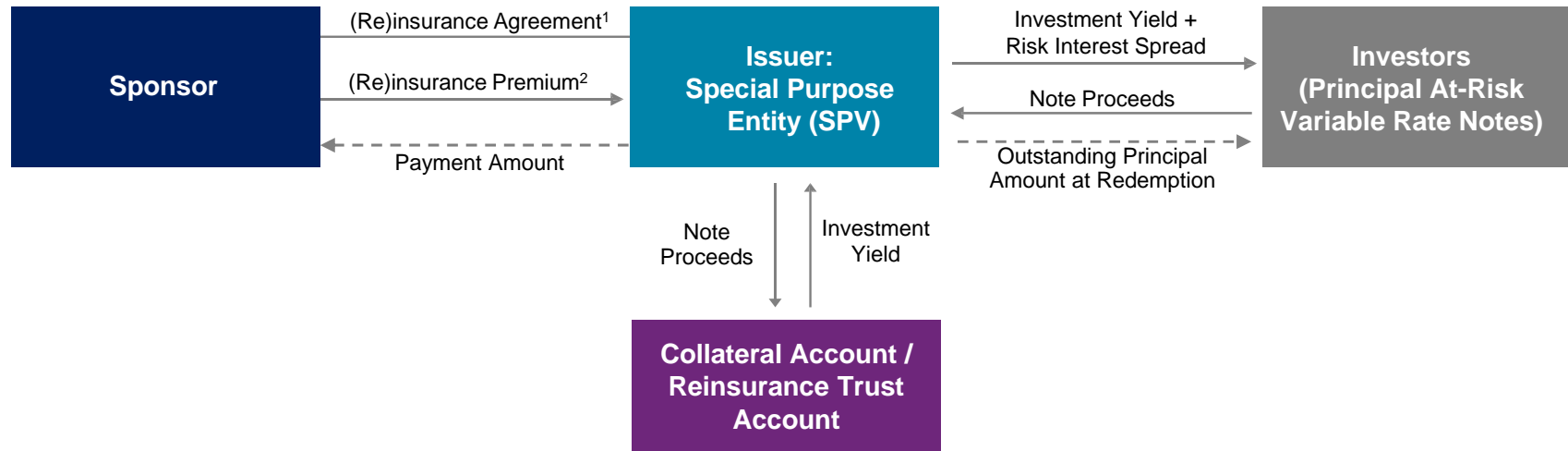
As of August 31, 2018



ILS Issuance remains robust

- In total, just below \$3.4 billion of bonds were issued during Q1 of 2018, a new high-water mark for first quarter issuance tallies, and far exceeds the 2016 and 2017 first quarter issuance volumes with each at approximately \$2 billion
- The second quarter of 2018 more than matched first quarter issuance volume, as both new and repeat sponsors continue to look toward the capital markets for capacity

Typical Catastrophe Bond Structure



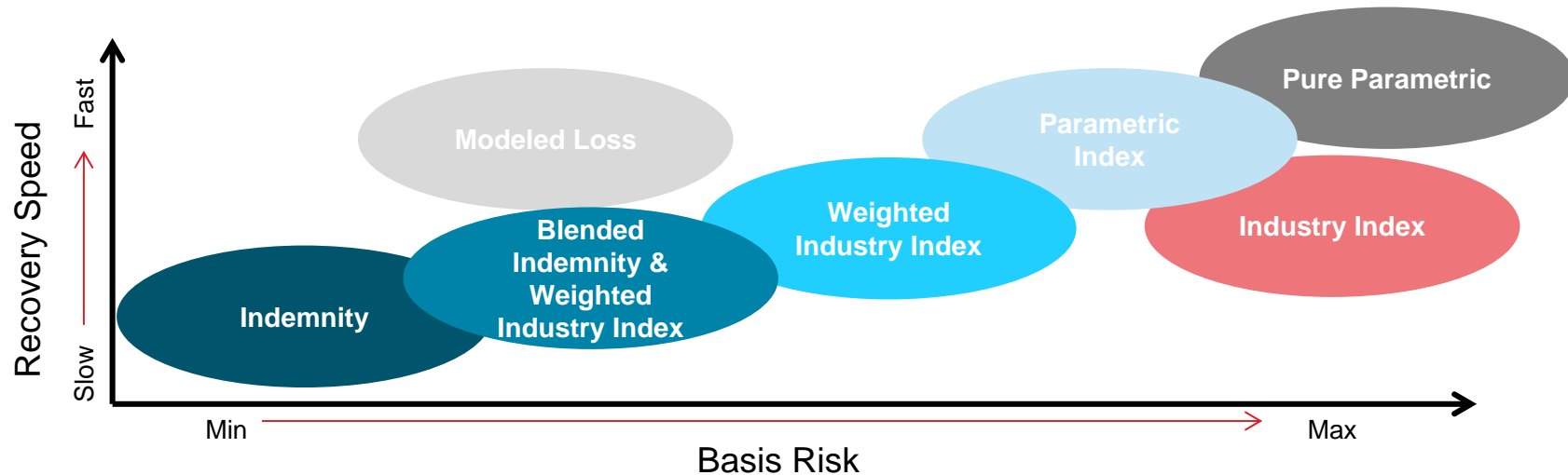
Process

- An off balance sheet Special Purpose vehicle (“SPV”) is created to issue the notes
- Proceeds from the issuance are placed into a collateral account or reinsurance trust account for the benefit of the sponsor
- Proceeds in the collateral trust are invested to earn an investment yield less spread/expenses
- The SPV enters into a reinsurance agreement/contract with the sponsor
- The sponsor pays a premium to investors as consideration for the risk transfer capacity
- If the bond’s recovery mechanism is triggered, the SPV foregoes the obligation to pay the interest or principal amount

¹ Risk Transfer Contract if utilizing a derivative structure

² Risk Transfer Premium if utilizing a derivative structure

Catastrophe Bond Recovery Mechanism Options



Indemnity
<ul style="list-style-type: none"> Minimal basis risk (similar to traditional insurance) Requires significant disclosure of underlying book of business Price maybe dependent on quality of underlying exposure data Recast modeled losses for historical events should be aligned with the sponsor's actual losses Full development of losses may delay recovery

Parametric / Parametric Index
<ul style="list-style-type: none"> Sponsor retains basis risk No disclosure of underlying book of business Accelerated claims payment following an event that triggers the recovery Basis risk can be reduced with specific weight factors based on sponsor's exposures

Modeled Loss
<ul style="list-style-type: none"> Basis risk can be minimized Limited disclosure of underlying book of business Flexibility to change notional portfolio to reflect changes in underlying exposures over time Accelerated claims payment following an event that triggers the recovery

Industry Index / Weighted Industry Index
<ul style="list-style-type: none"> Sponsor retains basis risk No disclosure of underlying book of business PCS (US) industry loss estimates well accepted by investors; many bonds have now been based on PERILS (Europe) Full development of losses may delay recovery Basis risk can be reduced with weighting based on sponsor's exposures

Issuance Considerations from a Sponsor's Perspective

Benefits

- Provides multi-year fixed-price protection
- Collateralized limit to minimize counter-party credit risk
- Additional / diversifying source of risk transfer capacity
- Creates competition of risk transfer capacity
- May lower the cost of risk transfer over time
- Ability to use non-indemnity recovery structures

Considerations

- Lack of reinstatement
- Basis risk present if non-indemnity recovery mechanics used
- Coverage limited to specified perils
- Upfront transaction costs
- Final commutation - long term development tail risk



ILS and Florida

2018 Cat Bond Market Update

Competitive Market Environment

- 2018 began with an exciting first quarter marked by record level issuance volume, new entrants to markets and strong support from investors
- Catastrophe bond issuance in 2018 YTD stands at \$8.9 billion across 24 transactions – including a new record for a first quarter issuance of \$3.4 billion that easily surpassed the 2016 and 2017 issuance volumes of approximately \$2.2 billion

Continued Capital Redeployment

- Maturing property catastrophe bonds, totaling \$4.37 billion during Q1 & Q2, were not only easily replaced, but also significantly expanded, bringing the market to a new high of \$28.9 billion of catastrophe bonds on-risk as of August 4, 2018
- With approximately \$3.15 billion of property cat notional amount maturing from Q3 2018 through Q1 2019, Aon Securities believes investors will continue to redeploy this capital, along with additional capital raised, leading to the continued availability of capacity at competitive rates and terms

Select Transaction Highlights

- A monumental \$1.4 billion cat bond on behalf of the World Bank, brought emergency funding and disaster support following an earthquake to four Latin American countries – Chile, Colombia, Mexico, and Peru
- Allstate secured terms among the broadest in the cat bond market, covering not only peak perils, but also severe weather, fires, and other perils, consistent with their traditional placement
- FloodSmart Re Ltd. 2018-1 brought a new beneficiary to the market, in FEMA/NFIP, along with coverage for a new stand-alone peril, being flood resulting from Named Storms

Property Cat Bond Market Review

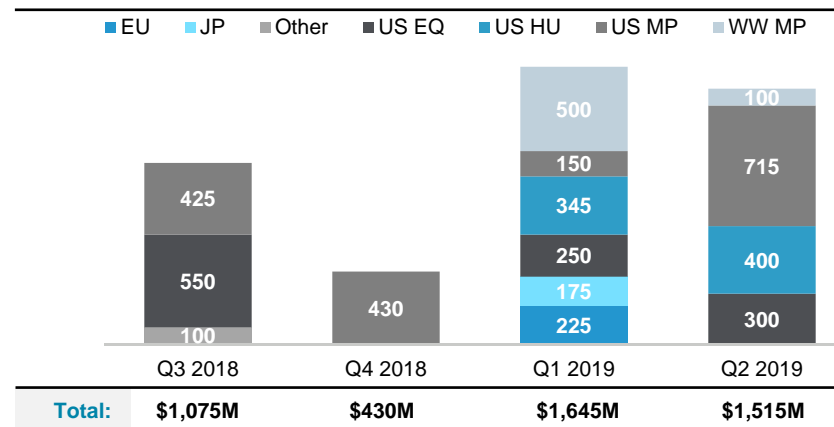
As of August 31, 2018

Property Cat Bond Metrics

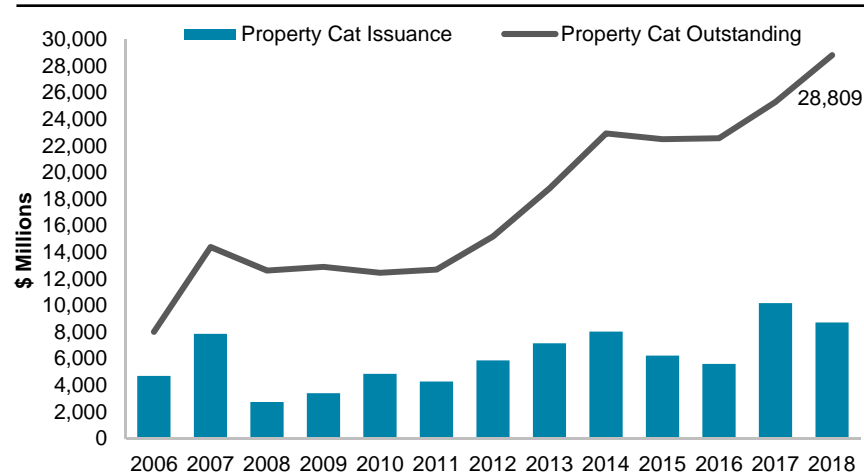
2018			
Completed Issuances	Sponsors	Issuance Volume	Average Deal Size
24	29	\$8.9	\$363

2017			
Completed Issuances	Sponsors	Issuance Volume (B)	Average Deal Size (M)
35	30	\$10.7	\$305

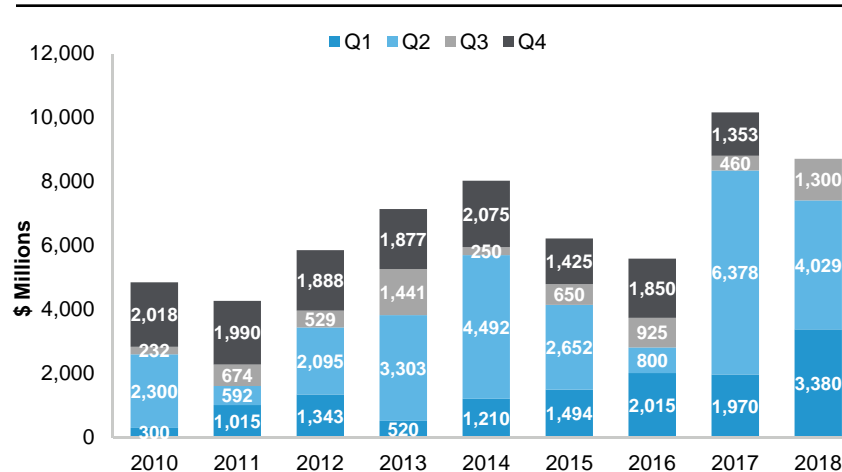
Property Cat Bond Maturities by Quarter



Property Cat Bond Issuance and Outstanding by Year



Property Cat Bond Issuance by Quarter



* Denotes Aon Securities Inc. transactions

Florida Private Market Update



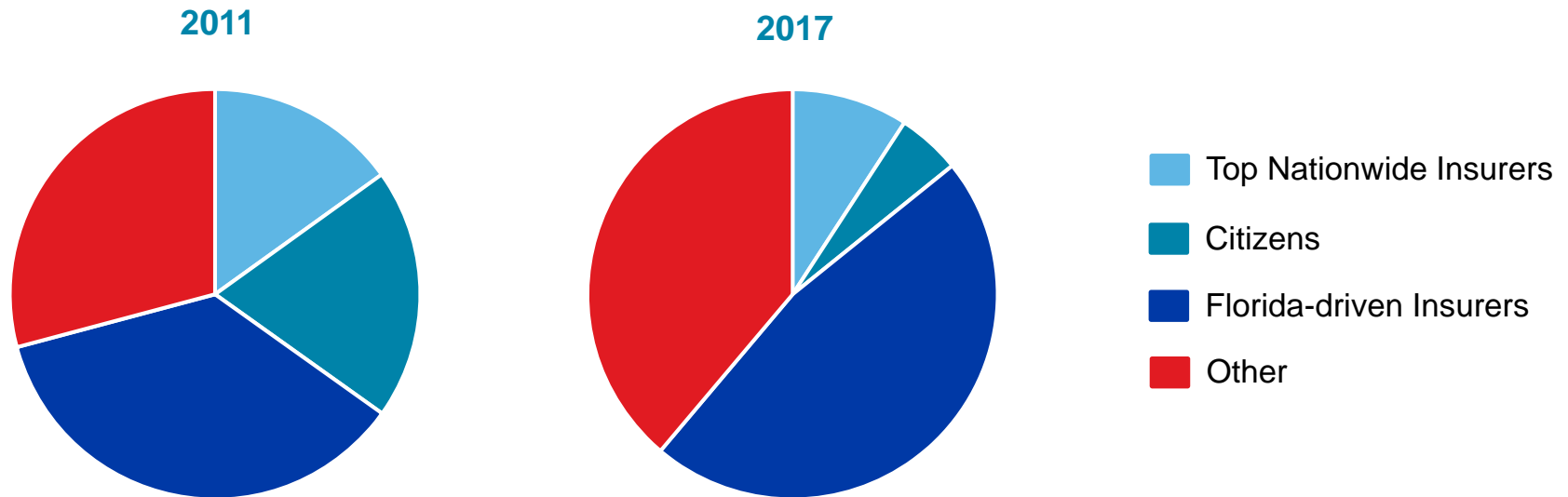
More than 75 percent of Citizens market share has been returned to the private market for homeowners insurance since 2011



Florida-driven companies (those with 80 percent of premium in Florida homeowners residential) have increased market share from nearly 36 percent to 47 percent in 2017



At the same time, PHS for the like for like group increased by over 150 percent to dramatically improve the financial position of those insurers

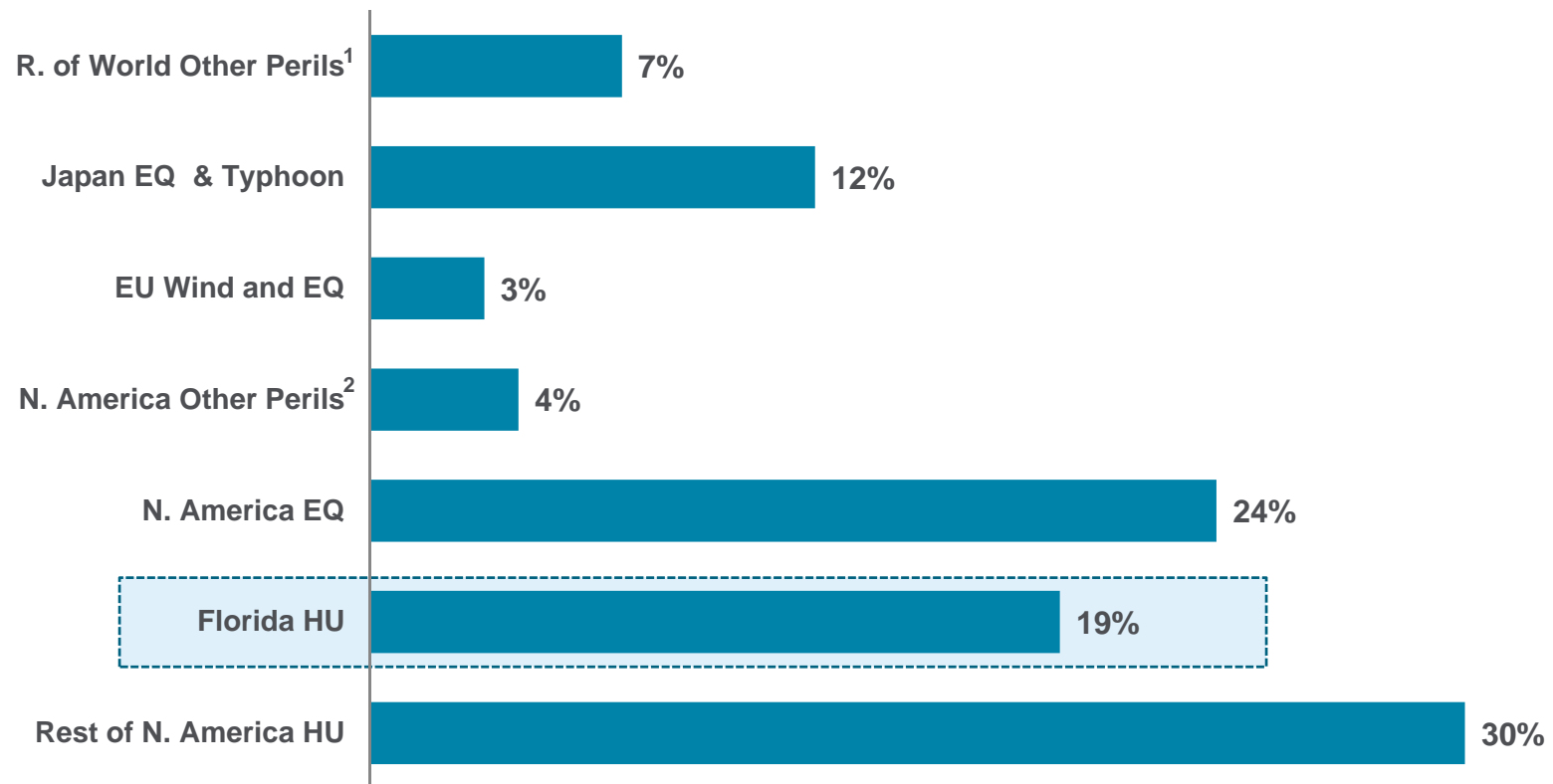


Source: Company financial statements, Aon Benfield Analytics, Aon Securities Inc.
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Region / Peril Contribution of Outstanding Property Cat Bonds



The comparatively localized peril of Florida hurricane comprises a significant amount of the overall contribution to expected loss to all outstanding cat bonds



NOTE: Figures may not add to 100% due to rounding

¹ Includes Australia EQ and Tropical Cyclone

² Includes Severe Thunderstorm, Winter Storm & Wildfire

Source: Aon Securities Inc.

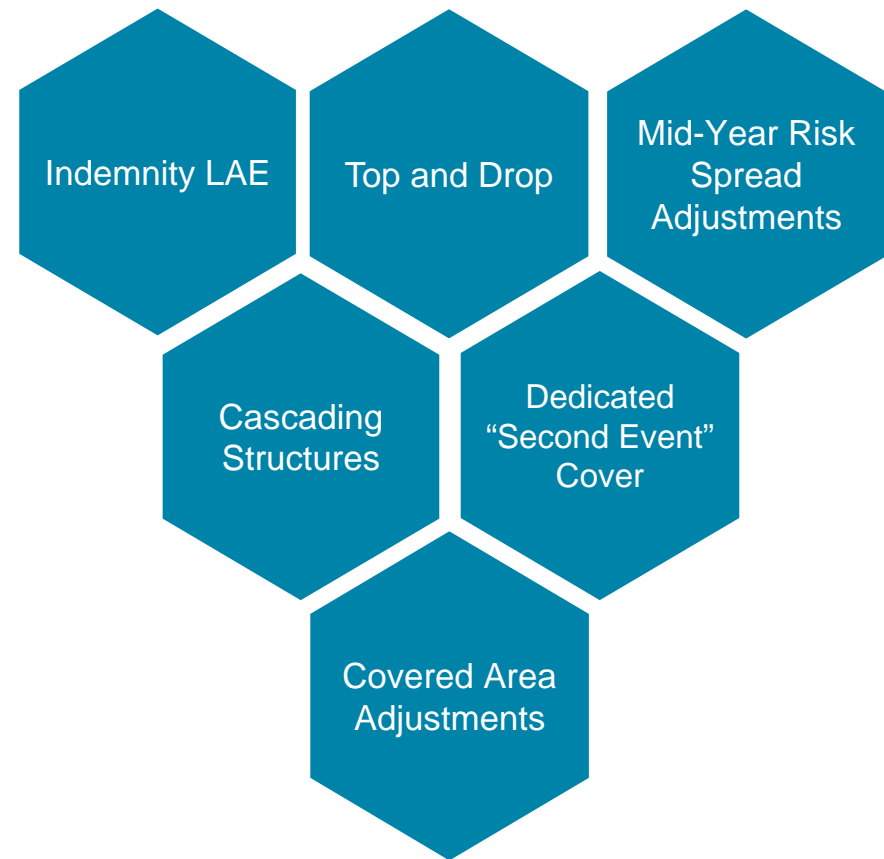
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Continued Evolution of Florida-Driven Catastrophe Bonds

Recent Coverage Enhancements

- The catastrophe bond market continues to witness a further convergence of terms and conditions between traditional reinsurance and catastrophe bond capacity, leading to more uniform (re)insurance programs
- While catastrophe bond's multi-year, fully collateralized nature continues to offer a diversifying capacity source and a reduction in annual reinsurance program pricing volatility, sponsors have recently further customized cat bonds to fit the needs of a Florida-driven insurance company

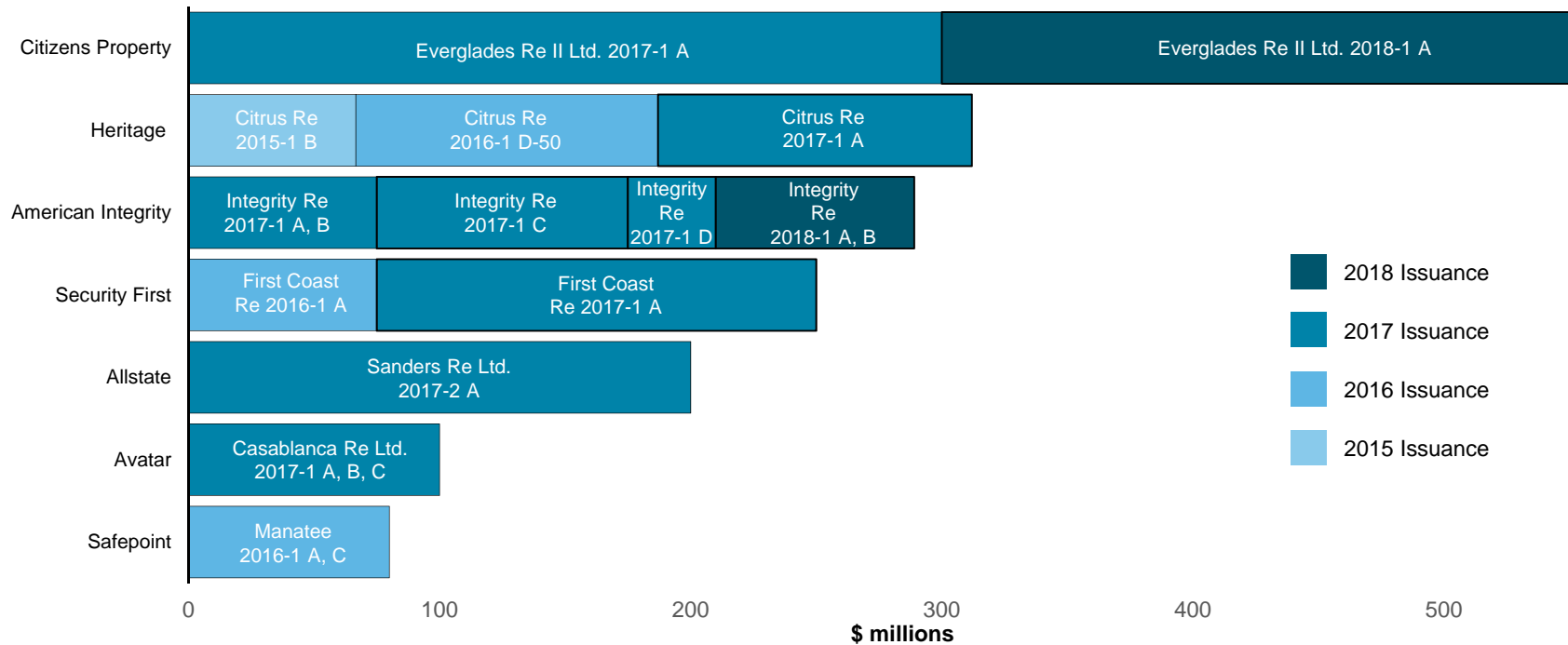


Effect of Hurricane Irma on Florida-Driven Cat Bond Market

	Size (\$m)	Price at Aug 31 '17	Price at Sept 15 '17	Price at Oct 6 '17	Price at Oct 20 '17	Price at Nov 3 '17	Price at Nov 17 '17	Price at Dec 1 '17	Price at Dec 29 '17	Price at Jan 12 '18	Price at Mar 29 '18	Price at June 29 '18	Change in Price Aug. 31 to Sep 15	Change in Price Aug. 31 to Oct 6	Change in Price Aug. 31 to Oct 20	Change in Price Aug. 31 to Nov 3	Change in Price Aug. 31 to Nov 17	Change in Price Aug. 31 to Dec 1	Change in Price Aug. 31 to Dec 29	Change in Price Aug. 31 to Jan 12	Change in Price Aug. 31 to Mar 29	Change in Price Aug. 31 to Jun 29
Everglades Re II 2017	300	102.27	75	85	89.19	93.35	97.12	97.23	98.85	99.41	100.13	100.27	27%	17%	13%	9%	5%	5%	3%	3%	2%	2%
Casablanca Re 2017-1 A	66.95	100.65	97.5	97.52	98.78	99.14	99.13	99.07	100.11	100.56	99.83	100.12	3%	3%	2%	2%	2%	2%	1%	0%	1%	1%
Casablanca Re 2017-1 B	26.3	100.77	85	85	95.19	95.76	95.78	95.72	99.89	100.62	100.6	99.92	16%	16%	6%	5%	5%	5%	1%	0%	0%	1%
Casablanca Re 2017-1 C	6.75	102.08	5	20	50	50	50	60	70.16	70.44	67.5	45	95%	80%	51%	51%	51%	41%	31%	31%	34%	56%
Manatee Re 2016-1 A	75	99.78	97.5	97.59	98.49	99.1	99.13	99.05	100.57	100.68	99.74	99.87	2%	2%	1%	1%	1%	1%	-1%	-1%	0%	0%
Manatee Re 2016-1 C	20	100.82	20	0	0	0	0	0	0	0	0	0	80%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Citrus Re 2017-2 B	35	101.3	25	80	80	85	85	85	85	85.13	0	0	75%	21%	21%	16%	16%	16%	16%	16%	100%	100%
Citrus Re 2017-1 A	125	100.89	80	96.04	96.31	96.5	96.5	96.42	96.2	99.32	90	75	21%	5%	5%	4%	4%	4%	5%	2%	11%	26%
Citrus Re 2016-1 E	100	102.7	30	70	70	70	70	70	80	80.34	25	0	71%	32%	32%	32%	32%	32%	22%	22%	76%	100%
Citrus Re 2016-1 D	150	102.93	75	92.5	96.5	99.18	99.16	99.03	100.25	100.21	100.41	85	27%	10%	6%	4%	4%	4%	3%	3%	2%	17%
Citrus Re 2015-1 B	97.5	101.44	75	92.5	97	99.89	101.28	101.12	101.2	101.03	100	70	26%	9%	4%	2%	0%	0%	0%	0%	1%	31%
Citrus Re 2015-1 C	30	100.89	30	70	70	70	70	70	85	86.33	Extended Maturity		70%	31%	31%	31%	31%	31%	16%	14%	Extended Maturity	
Integrity Re 2017-1 A	72	100.98	75	75	80	80	80	95.35	98.21	99.29	99.22	99.84	26%	26%	21%	21%	21%	6%	3%	2%	2%	1%
Integrity Re 2017-1 B	3	102.06	50	50	50	50	50	85.01	92.5	92.59	93.69	97.8	51%	51%	51%	51%	51%	17%	9%	9%	8%	4%
Integrity Re 2017-1 C	100	101.1	92.5	99.01	98.2	98.34	98.34	99.5	99.32	99.7	98.93	99.67	9%	2%	3%	3%	3%	2%	2%	1%	2%	1%
Integrity Re 2017-1 D	35	101.77	90	97.5	98.12	98.27	98.27	99.33	99.14	99.69	98.87	99.44	12%	4%	4%	3%	3%	2%	3%	2%	3%	2%
First Coast Re 2016	75	101.08	97.5	97.58	98.9	99.08	99.11	99.06	100.55	100.66	99.89	100.61	4%	3%	2%	2%	2%	2%	1%	0%	1%	0%
First Coast Re 2017	175	100.66	95	95.07	96	96.14	96.15	96.67	98.6	98.8	98.09	100.01	6%	6%	5%	4%	4%	4%	2%	2%	3%	1%
Sanders 2017-2	200	100.43	95	98.01	100.28	100.34	100.32	99.88	100.3	100.66	#N/A	#N/A	5%	2%	0%	0%	0%	1%	0%	0%	0%	#N/A

- To date, \$248 million of catastrophe bond notional amount has been paid out due to losses from Irma
- Currently, \$304 million is estimated to be the total catastrophe bond payout across all notes as losses continue to develop

Outstanding Florida Catastrophe Bonds



- By total outstanding limit, these bonds with Florida as the primary covered area represent 6.92% of the property catastrophe bond market
 - This percent decreases, however, when looking at the percent of the dollar value of expected loss from these bonds as compared to the entire market at 6.33%, showing the desire of investors to diversify their portfolios away from peak peril exposure

The ILS Market in Florida: Going Forward



As the ILS market digested the implications from Irma and other 2017 events, ILS continued to demonstrate value to both sponsors and investors alike, with strong demand for more cat bond issuance on both sides



Florida hurricane coverage continues to be one of the cornerstones offered by the ILS market, placing it at the forefront of competitive terms & pricing



The ILS market continues to converge with traditional capacity sources in coverage terms and conditions, leaving Florida-driven sponsors well positioned to continue to customize issuances to the unique dynamics of the Florida insurance market



ILS capacity & market fundamentals remain robust, indicating alternative capital will continue to be a source of competitively priced and innovative reinsurance coverage in the Florida market for the foreseeable future

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