

REGULATING PROPERTY INSURANCE IN NEW MEXICO

Reinsurance Perspective – Jake Clark

State of New Mexico Legislative Finance Committee
Socorro, NM

July 15, 2024

A business of Marsh McLennan

Who We Are

Marsh McLennan at a Glance

Succeeding Together

We are in business to expand what's possible for our clients and each other.

Accelerating Impact

We embrace change and create enduring client value.

Advancing Good

We strive to serve the greater good.


Change is our work. For us, it's always about what comes next.

Today our clients have new and increasingly complex challenges, transcending institutional experience, business units, and competitive arenas. Our unique value comes from having the talent, the scope, and the scale to change what is possible.



 Clients in more than **130 countries**

 **85,000+** colleagues globally

 Combined annual revenue of **\$23B+**

 One of the **Fortune 200 companies**

 **150-year history** of leadership and innovation

Mid-Year Reinsurance Market Landscape

A Market in Transition to the Benefit of Buyers



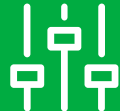
Mid-year renewals reflected a transitioning reinsurance market meeting demand in a dynamic trading environment



USD +51B

Significant Insured Losses
1H 2024*

*preliminary loss estimate is expected to increase



While placements were completed with **adequate capacity**, individual risk factors heavily influenced outcomes.



Differentiation Key for Casualty

Differentiating client portfolios is key to achieving optimal reinsurance outcomes

- **Limits management** – Highlight judicious limit utilization over time
- **Portfolio composition** – Showcase any shifts that drive reduced volatility
- **Underwriting appetite changes** – Show the impact of shifts in risk selection on results
- **Rate change achieved** – Emphasize compounded impact of positive rate change
- **Portfolio performance** – Ensure client-specific assumptions are used in reinsurer pricing



Guy Carpenter US Property Catastrophe Rate-on-Line (ROL) Index increased by an estimated 1.2% year-on-year. A decrease from the index value on January 1, outcomes were impacted by decreased pricing at mid-year with stable retentions.



The total outstanding notional amount of cat bonds is at an all-time high of more than

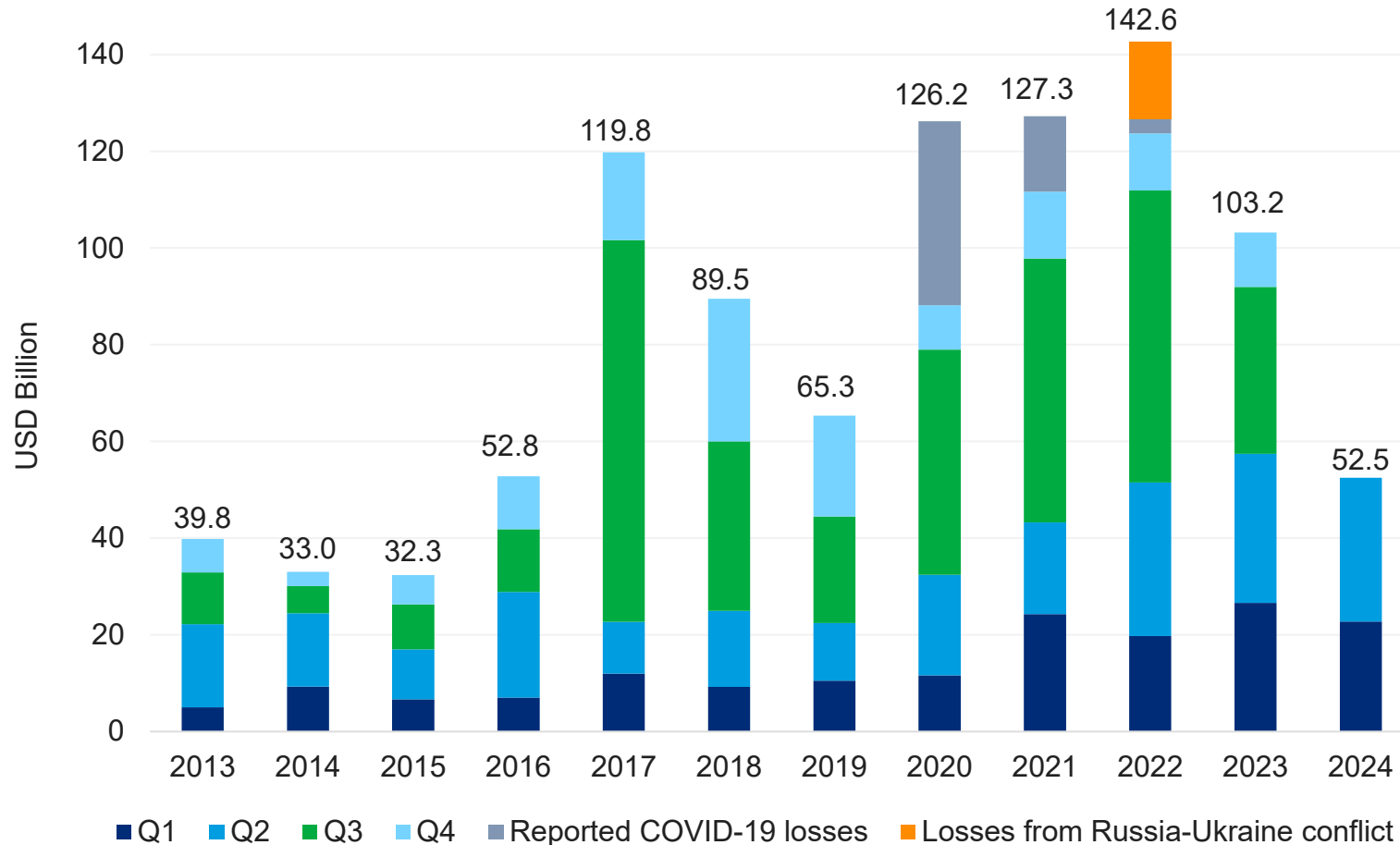
USD 45.2B

The Issues That Are Driving The Market

Global Catastrophic Losses Are A Key, but it goes beyond this



Significant Insured Losses 2013 to 1H 2024



*Significant Insured Losses (Est. losses > \$100M) - Not adjusted for inflation; Source: PCS, PERILS, Verisk, ICA, GC; Losses from Russia and Ukraine conflict, 2024 significant insured loss estimate is updated as of 07/05/2024.

- Losses are a primary driver
 - 5 > \$100B since 2017
 - 2024 loss = \$52B, 14% > 5-yr inflation-adj avrg.
 - Major & secondary perils involved
- But there are Other Drivers:
 - Regulatory Issues
 - Economic Inflation
 - Courts & Social Inflation
 - Cyclical Market Forces

Where Are Our Clients Seeking Help?

Analytics Translate Research to Outcomes



Detailed review of the scientific literature



Modify the catastrophe model to represent future risk



Extract appropriate climate model output

Key Characteristics of Our Adjustments



Include Uncertainty

Output from multiple climate models



Vendor Model Agnostic

Applicable to Verisk, Moody's RMS, GCAT, and internal models



Flexible to Your View of Risk

Choice of time horizon and emission scenario or temperature increase and baseline

Climate Models

The future state of the atmosphere, ocean, and biosphere

Developed by research institutions and universities – Met Office, KNMI, IPSL

GC Adjustments

Climate change view of catastrophic risk

Catastrophe Models

Present-day financial risk from storms, floods, and wildfires

Developed by vendor modeling companies – Verisk, Moody's RMS, Corelogic, JBA, Katrisk

Serve A Broad Range Of Clients holding portfolio risk

Insurers, Reinsurers, Public Entities, & Governments



**Increasing Weather Volatility From Climate Change
Driven by Increasing Frequency and Severity of Events**



**Client Advisory Services
Actuarial, Claim, Contract, Rating Agency**



**Capital & Risk Management Solutions
Risk Transfer (ILS, Traditional)**



Guy Carpenter Services & Solutions

- State-of-the-art emerging risk modeling
- Alternative funding mechanisms (capital raising/investment)
- Risk transfer solutions, including parametric and ILS/cat bonds
- Economic capital modeling
- Captive Insurance Facilities



Residual Market Facilities & Public Entities

- Dedicated teams servicing Residual Market facilities in the US and abroad designed to provide insurance where the voluntary market is insufficient. (catastrophic perils our issues involving systemic risk typically at play)
- Public Entity & pooling clients servicing Educational Institutions & small to medium sized Municipalities.

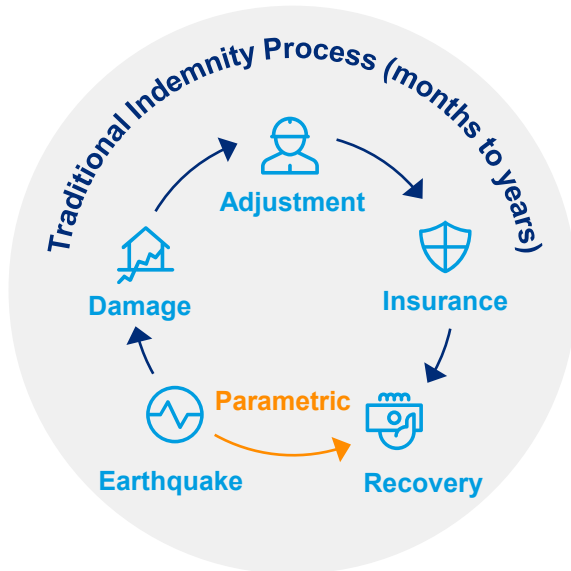
Our experience provides us with a robust set of solutions that match risk with risk-capital

Today's Challenges Demand Innovation

New Approaches Are Required to Address The Challenges of the Day

? What Are Parametric Solutions?

Parametric solutions pay a pre-established amount based on the occurrence of a physical event with certain characteristics obviating the need for a prolonged adjustment process. They can be structured as insurance, reinsurance, derivatives, catastrophe bonds, and other financial vehicles, depending on the regulatory environment.



Community Based Catastrophe Insurance

1. **Risk assessment and risk management advising** – Analyze and quantify the nature and exposure of the risk, identifying protection gaps and vulnerabilities in communities to best design a risk management strategy
2. **Risk transfer solution design** – Scope out and specify covered hazards, geography, and insurance beneficiaries to address the community's specific needs
3. **Solution implementation** – Transfer risk to the (re)insurance market to reduce the burden on public entities and allow for a swift response to help people and local economies boost back
4. **Ongoing support** – Ensure available and accessible funds post-disaster, grow the solution impact by further incentivizing risk mitigation measures, and continually improve community-level risk



Benefits

Parametric solutions offer several benefits when compared to traditional indemnity

1. **Speed of Payment** – Typically paying a few days or weeks after the event
2. **Transparency** – All the conditions for payment are detailed in the contract and based on publicly reported measurements
3. **Versatility** – Payouts can be used freely to cover direct physical damages, business interruption, contingent damages, or any other source of financial disruption
4. **Customization** – Coverage can be designed to guarantee certain payment levels for desired scenarios

GC and our colleagues across MMC provide advisory and analytics support as well as the structuring and implementation of innovative solutions to address the pressing, unique needs of public sector entities.

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This presentation (report, letter) is not intended to be a complete actuarial communication. Upon request, we can prepare one. We are available to respond to questions regarding our analysis.

There are many limitations on actuarial analyses, including uncertainty in the estimates and reliance on data. We will provide additional information regarding these limitations upon request.

As with any actuarial analysis, the results presented herein are subject to significant variability. While these estimates represent our best professional judgment, it is probable that the actual results will differ from those projected. The degree of such variability could be substantial and could be in either direction from our estimates.

The estimated cash flows may vary significantly from amounts actually collected, particularly in the event that a reinsurer is unwilling or unable to perform in accordance with the terms of the reinsurance contract. In performing this analysis, we relied on the company for estimates regarding the submission. We did not perform an independent review of these estimates.