



February 2, 2023

To: Property Program Members

From: Gina Dean, CEO

Re: Property Program & Market Update

Better Together - It's still a good time to be in a JPA!

As the property insurance market continues to deliver challenging renewal terms, conditions, and pricing, there is no better time to be a part of PRISM's Property Program. In 2022, the Property Committee chose to retain the primary \$10M layer which allows us to have more control over renewal pricing. Although we are still subject to market pricing in the excess layers, we continue to lean on our size, sophistication, and extremely long-term strategic relationships with carriers to obtain better renewals than would be offered to a stand-alone entity.

As many of you know, the market has been in an unprecedented hard cycle since 2017. Previous updates on the property insurance market have focused on the frequent and severe natural catastrophes around the world, the restricted terms and conditions offered by carriers due to lack of profitability, and inflation. Our full descriptions of the history with these challenges can be found in previous memos on the PRISM website.

More recently, there have been two new factors contributing to the market remaining in this challenging cycle. First, treaty reinsurance pricing has significantly increased. Treaty reinsurance is purchased by nearly all carriers and protects them from claims at their company's level. The rising cost of treaty reinsurance will be passed along to insureds and is expected to impact excess pricing at the PRISM renewal. Secondly, severe winter storms across the country, including California, have led carriers to pause on providing renewal pricing until the severity of losses can be determined. Current estimates of the losses to the industry from California alone is over one billion dollars.

We continue to be hopeful that an easier market is in our future, but in the meantime, PRISM will leverage the surplus within the Program and the flexibility of being a pool to provide a Property Program renewal that is superior to what members would achieve individually in the open market.

Frequently Asked Questions regarding the Property Program:

- **How do losses of others (in the market and in the Program) affect me?**
 - At the market level, large industry-wide losses influence carrier profitability and the general market environment. These catastrophic events generally increase pricing in the market; however, the severe increases are targeted towards those who experienced losses. For example, Hurricane Ian is estimated to result in over \$50 billion of losses to the insurance industry. While this event has perpetuated a challenging market, we are told by underwriters that insureds in Florida can expect 200% rate increases in some instances which is much greater than the expected pricing increases in the PRISM Property Program. In fact, we are told that the frequency and severity of hurricanes in the southeast is causing many carriers to shift natural catastrophe capacity away from wind and towards earthquake which is in our favor.
 - At a Program level, PRISM believes that equity amongst the members is paramount. Each member's coverages, exposures, and loss experience are considered when renewal pricing is offered. Members who have maintained a favorable loss ratio benefit from lower renewal rate increases in the Program than those that have experienced losses. Members with losses benefit from the security of receiving a renewal offering while still achieving renewals more favorable than they would be able to obtain in the open market.
- **Why self-insure the primary layer?** The flexibility of a JPA allowed the Property Committee to consider all options and the best possible program structures to combat the effects of the increased rates offered by carriers. Self-insuring the primary layer of the Program allows PRISM to take control of the primary portion of the program and create a substantial cost savings.
 - **How much will this minimize an increase in rates?** Public entities with natural catastrophe exposure in California can expect pricing increases of 35% – 70% in the open market. PRISM's pool layer, on average, will renew with an estimated flat to 5% rate increase, which translates to an overall Program rate increase of 10% to 20%.
 - **Is there additional risk in self-insuring the primary pool layer?** PRISM will continue to accept risk for up to \$10M per occurrence, per Tower; however, this risk is mitigated by stop loss protection and a strong net position.

- **What advantages does PRISM have over a stand-alone open market placement?**
 - **PRISM's Property Program size is an advantage.** A positive for PRISM members is that the size of the Property Program creates stability and offers economies of scale that could not be realized without being in a large pool. Because of its size, we can leverage the volume of capacity we purchase at the excess levels to benefit all Program members.
 - **Relationship advantages.** PRISM has long-standing relationships with carriers worldwide, which result in better renewal offerings. In recent meetings, two different underwriters noted that PRISM is their longest-standing client, and that is recognized in the amount of capacity offered by those carriers as well as in their pricing. Working together, in good times and challenging times, will result in a more favorable result in the long-term.
 - **Accurate Values.** For over 30 years, PRISM has been proactive about ensuring accurate values are reported by each member through frequent appraisals and annual trending. This historic attention to values has benefited the Program by gaining carrier's confidence which results in better pricing. Within the industry, if carriers do not feel comfortable that values are adequately managed, additional cost is added to account for potentially inaccurate values. Additionally, regular assessment provides stability by avoiding large increases when infrequent appraisals are performed. In some cases outside of PRISM, we are hearing of insureds needing to increase values by 70% which results in massive premium increases.
 - **PRISM ARC (our Captive).** PRISM has always been proactive in managing the Property Program and our approach to making funding decisions. We are one of the few self-insurance groups in the nation that have the size required to form our own captive insurance company. The captive is used to benefit from the increased opportunities for investment income and expanding coverage available within the Program.
 - **Pools have an advantage in challenging markets.** If we have learned from history, we know that JPAs (self-insurance pools) have benefited members in turbulent markets. All members benefit from our flexibility, economies of scale, our leverage in the insurance markets, and our sharing of best practices to help manage risk.

What Can You Do?

PRISM Risk Control wants you to know that you are not alone while managing the multitude of risks facing your agency. Our team of specialists is here to help, whether by providing direct consultation or connecting you with one of our trusted partners. Regardless of the topic, we encourage you to reach out to the Risk Control team for assistance with your organization's risk management challenges.

We would also like to call your attention to a few services and resources we think you should be taking advantage of:

- PRISM has a grant program designed to help members of the Property Program address property related risks. Members are eligible for up to \$25,000 in matching funds for qualifying expenses. The Property Committee has increased the total grant funds available to approximately \$420,000 for the 2022/23 year. Please reach out to [Risk Control](#) with any inquiries.
- Vacant building related losses have been frequent and costly for PRISM members over the last few years. To assist members in managing this exposure, Risk Control created [best practices](#) for managing vacant buildings. The best practices document also contains a handy checklist for vacant building inspection.
- Membership in PRISM's Property Program includes [appraisal services](#) provided by Alliant Insurance Services every 5 years for properties valued above \$1M and every 10 years for properties valued above \$250k.

