ATTACHMENT “4”

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February 3, 2021

To: Property Program Members

From: Gina Dean, CEO

Re: State of the Property Market

As many of you are aware, the current property insurance market is challenging. I want to take this opportunity to provide some background information on the state of the market and the status of the PRISM Property Program. I have also attached talking points and a one-page information sheet that we hope you will find useful in communicating this reality to the stakeholders within your organization.

Background

Prior to 2017, the property insurance market was in a "soft" market cycle that allowed consumers to take advantage of extremely competitive pricing and expanded terms and conditions. However, beginning in 2017, increases in attritional losses along with historically severe catastrophe claims resulted in carriers collecting insufficient premium to cover the surging claims. In addition, these events have impacted the market's surplus, capacity, and available reinsurance, pushing the industry into a hardening cycle for consumers.

In 2020, PRISM had its highest incurred property claims in the Program's history with about $77M of losses reported as of January 1, 2021, as compared to an average of $46M over the last five years. Higher than normal claims can largely be attributed to the wildfires within California, which account for almost 60% of the loss dollars. At the same time, the market continued to sustain significant catastrophe losses along with the additional challenges brought on by the COVID-19 pandemic, and civil unrest. The increased reinsurance costs, aggressive litigation trends, and adverse claim development trends have further aggravated the property market. Carriers have become risk adverse, offering up restricted capacity at increased pricing. Unlike previous hard market cycles, there is not significant new capital entering the market, which would provide the competition needed in order to soften the market.

PRISM's Renewal Strategy

PRISM has always been, and continues to be, proactive in managing the Property Program, which continues to be one of the largest public entity property placements worldwide. Currently, the Program has 110 members and approximately $80B in total insured values. We have increased marketing efforts in order to secure the best possible outcome for the upcoming Property Program renewal. Additionally, we leverage the sophistication of the Program to explore unique ways in which the captive and the pool layer(s) can improve capacity and pricing within the Program.

The Property Program is currently structured with an aggregated pool and primary insured layer, above which excess layers of coverage are placed. Exposure is allocated among separate "towers" to diversify the risk geographically and by building type. The unique structure of the Program and its risk sharing features have afforded members higher loss limits, reduced costs, and coverage stability.

Because of the model we have built, our Property Program will fare better than the market and certainly better than for public agencies trying to endure a hard market on their own. However, members should still expect rates to increase based on the trends, capacity within the industry, and the Property Program's experience last year.

If we have learned from history, we know that joint powers authorities (self-insurance pooling) have been the answer to turbulent markets. By staying the course, we will all benefit from our economies of scale, our partnership with markets, and our sharing of best practices to help manage risk.

Talking Points for the Property Market

- **Industry catastrophe loss experience.** The property market has been challenging for the last several years as the industry has experienced unprecedented losses including the devastating wildfires that have impacted California.

  - Worldwide, 2017 was the worst year for natural catastrophe losses in history. The main driver of this was losses associated with Hurricanes Harvey, Irma, and Maria (HIM). Insured losses for these hurricanes exceeded $100 Billion dollars.

  - 2018 was the third most costly year for natural catastrophe losses in history. Losses spanned many different types of catastrophes including hurricanes, wildfires, severe flooding in the Midwest, and increased frequency and severity of convective storms (hail and tornado). California and the PRISM Property Program have experienced unprecedented wildfire activity. In the last several years, we have seen the largest, deadliest, and costliest wildfires in our state's history. Seven of the largest wildfires in our history have occurred in the last 3 years.
    - Largest fire: August Complex Fire, August 2020 – over 1,000,000 acres burned. Total insured losses for the Northern California wildfires of 2020 are currently estimated at $5 - $9 Billion.
    - Deadliest fire: Camp fire, November 2018 – nearly 19,000 structures destroyed and 85 lives lost. Total insured losses are estimated at $10.2 Billion dollars.
    - Costliest fire(s): In the last three years, the top five most destructive California wildfires have occurred: Camp Fire, Tubbs Fire, Woolsey Fire, Atlas Fire, and Thomas Fire. Total insured losses associated with these fires is expected to exceed $30 Billion dollars.

  - 2020 was the fifth costliest on record for insured catastrophe losses and is currently estimated at $83 Billion in insured losses. This is in addition to the COVID-19 pandemic, unprecedented civil unrest, and adverse loss development.

- **Industry attritional loss experience**. In addition to the large natural catastrophe losses, the size and frequency of "attritional" or non-catastrophe related claims such as fire and water damage has also been growing. This is seen as an industrywide trend and is also taking place within the PRISM Program.

- **Member rates will increase in 2021.** The degree of rate increase to each individual member will vary within an established range dependent upon your entity's claims experience. Member allocation also takes into account the unique exposures of each entity including the types of property being insured and exposure to natural catastrophes.

  Members with minimal or no losses in the last five years can expect to be on the lower end of the range. Those who have experienced claims in the last five years will be on the higher end of the range, but will benefit in the security of being part of a pool. Shopping as an individual entity with large losses is extremely difficult, especially in California.

- **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 are able to leverage the volume of capacity we purchase to benefit all Program members.

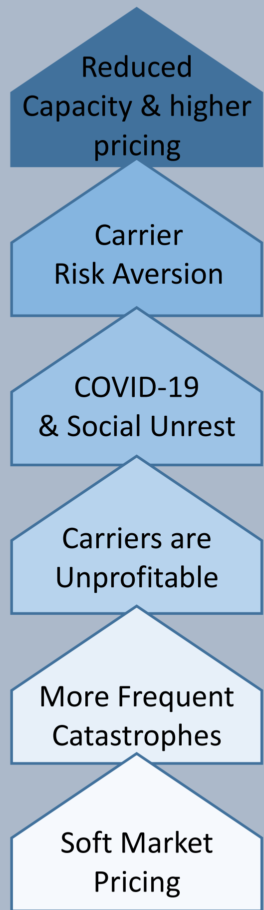
- **Relationship advantages.** PRISM has long-standing relationships with carriers worldwide, which result in better renewal offerings.

- **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 joint powers authorities (self-insurance pooling) have been the answer to turbulent markets. By staying the course, we will all benefit from our economies of scale, our leverage in the insurance markets, and our sharing of best practices to help manage risk.

PROPERTY MARKET OVERVIEW: Hard Times

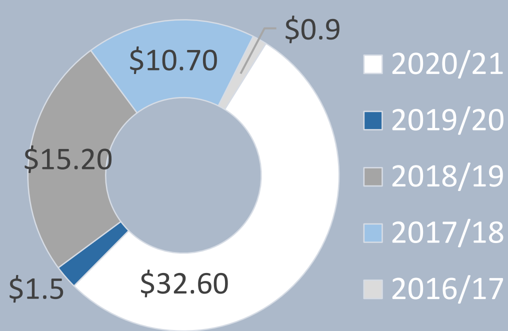
Unprecedented world events, in tandem with carriers not turning a profit, has resulted in the market remaining hard. Prior to 2020, rate increases were largely tied to a soft market correction while factoring in increased attritional loss and adverse catastrophe loss development. In 2020 the pandemic, social unrest, rising reinsurance costs, financial market volatility, global recession, and more frequent and severe catastrophes have greatly exacerbated the situation.



7 The top 7 most destructive wildfires in California have happened in the last 3 years

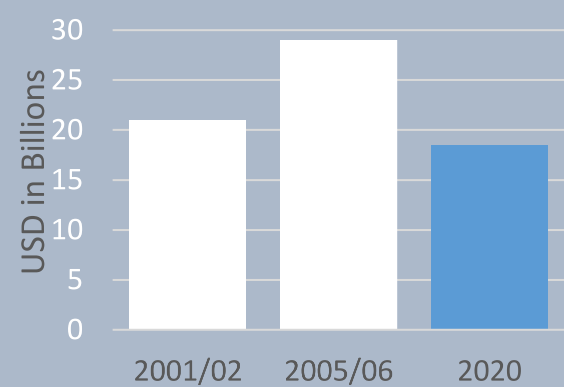
$83B Insured catastrophe losses in 2020, fifth costliest on record

PRISM Wildfire Losses (in millions)



Despite increased wildfire claim activity within the program, no single claim has exceeded the primary layer.

New Capital Raised following shock events



Unlike previous hard markets, restricted capacity offered by carriers is a result of reduced appetite rather than capital reduction. Lack of significant new capital flowing into the market (which would help drive competition) points to a sustained hard market.

PRISM Benefits

- The PRISM Property Program size creates stability and allows for economies of scale.
- PRISM has the benefit of long-standing carrier relationships worldwide which results in better renewal offerings.
- PRISM's proactive approach allows for unique and sophisticated funding solutions through utilization of their captive, PRISM ARC.