PRISM
Public Risk Innovation, Solutions, and Management

February 28, 2024

To: Property Program Members

From: Gina Dean, CEO

Re: Property Market Update

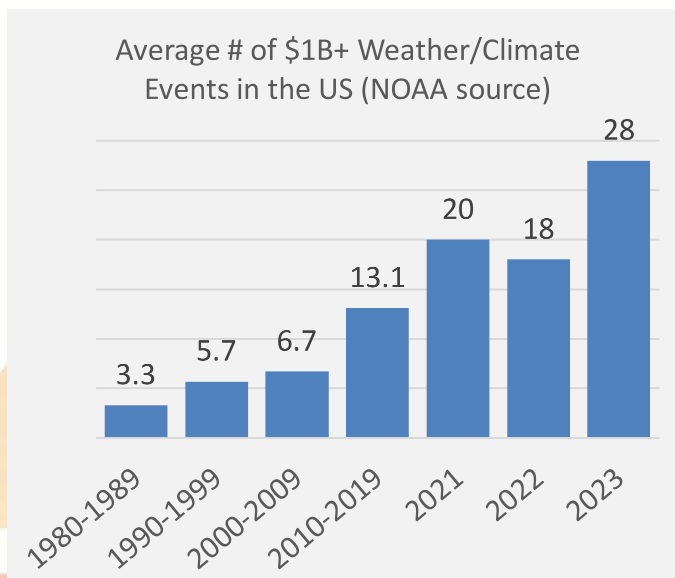
A tale of two renewals – Primary and Excess

As we close out Q1 of 2024, it comes with a bit of mixed news for the PRISM Property Program. For the first time in about 7 years, we are experiencing a more stable property insurance market keen on growth. At the same time, PRISM has experienced unprecedented losses within the Program, primarily from winter storms. These conflicting scenarios are leading to a disjointed renewal with quite different expectations in the self-funded primary layer versus the excess carrier renewals.

Insurance Market Background

Following large insurance industry losses from Hurricanes Harvey, Irma, and Maria (HIM) in 2017, the property insurance market exited the soft cycle and became particularly challenging. Over the next 7 years, as the industry continued to experience more frequent and severe natural catastrophe events, carriers have heavily restricted terms and conditions while increasing pricing and deductibles. To have more control over pricing and coverage, PRISM's Property Committee chose to retain the primary $10M of the Program effective 3/31/22. 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 available to a stand-alone risk.

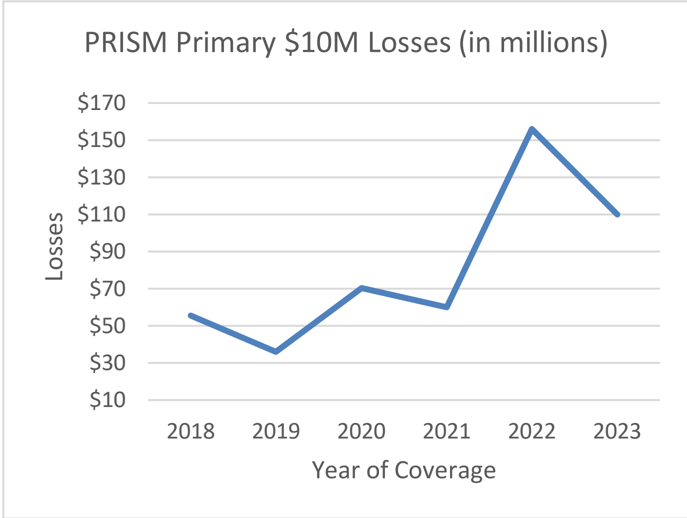
A major factor currently impacting the insurance market is an increase in the frequency and severity of weather and climate events. This includes freezing, significant rain events, and tornadoes that primarily occur outside of California, but also includes exposures that impact PRISM and other California public entities. Since 2017, increased frequency and severity of wildfires have concerned underwriters; however, in the last two years the severe winter storms, often referred to as atmospheric rivers, have become the newest catastrophe exposure within our state.



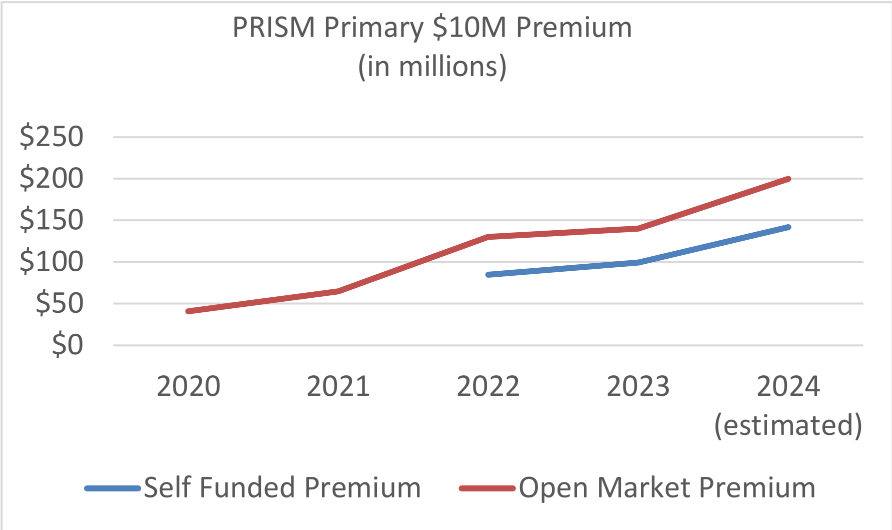
Excess Capacity Renewal

Despite an increase of natural catastrophes, 2023 was a profitable year for most carriers. This profitability has resulted in easing of rate increases and has also shifted many carriers into a mode of growth, which we have not seen in more than 7 years. As a result, we expect that carriers on the Program excess of $25M that have had little or no loss experience within the Program will offer very favorable renewal pricing.

Primary Capacity Renewal



While loss experience for carriers excess of $25M has been minimal, the primary has experienced unprecedented losses. In the 5 years leading up to PRISM self-insuring the primary $10M, the average annual loss trend for this layer was $60M. The first year of PRISM self-insuring the primary $10M layer (2022/23), the Program experienced $156M in losses. Of those losses, $70M was due to winter storms in the last quarter of the program year. Current estimates for the second year (2023/24) are $110M+ of losses. Fortunately, the Program's Net Position (often referred to as surplus) was robust enough to manage these losses. However, the Program also subsidized member premiums to the tune of $40M for the past two years and the reduction in Net Position means the premium subsidy will not be available for the 2024/25 year. Despite discontinuing the premium subsidy, pricing for this layer of coverage is still well below what it would cost the Program or any individual entity in the open marketplace. In 2022/23, the move to self-insurance was necessary due to the open market offering unacceptable pricing, terms, and conditions. As losses have increased, so has the open market pricing. PRISM's retention of the primary $10M layer has shielded members from gaps in coverage, restrictive renewal terms and exorbitant pricing increases.



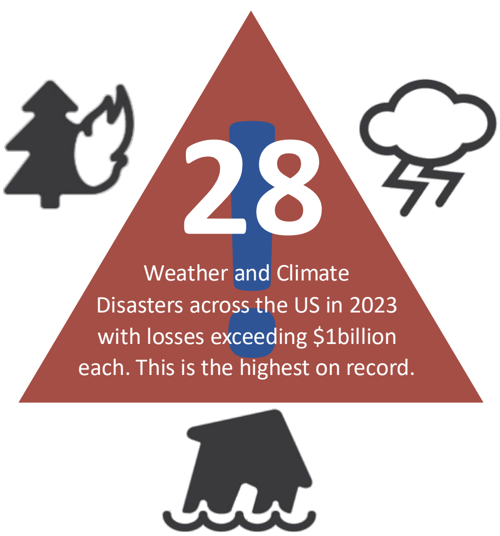
In summary, the PRISM Property Program has had a tough few years. PRISM's sophistication and robust Net Position has allowed the Program to absorb these losses and remain in a positive funding position. In addition, the Program structure has prevented negative loss experience to most of the long-term carrier partners. Finally, PRISM provides members the most comprehensive coverage at a more favorable price than any member could obtain on their own. Our power is in pooling, and together the members will be able to work through the challenges resulting from unforeseen events and continue to provide the lowest cost to members for years to come.

2024 Property Insurance Market Update

A Tale of Two Renewals: Primary and Excess

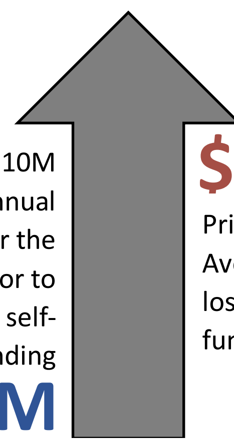
As we close out Q1 of 2024, it comes with a bit of mixed news for the PRISM Property program. For the first time in about 7 years, we are experiencing a more stable property insurance market keen on growth. At the same time, Natural Catastrophes are occurring at unprecedented rates causing PRISM to experience large losses within the program, primarily from winter storms. These two details in combination are leading to a disjointed renewal with quite different expectations in the self-funded primary layer versus the excess which is placed in the open market.

PRISM's Property Program has saved members $85M to date. This savings is projected to increase to at least $140M following the 2024/25 renewal.



Primary $10M Average Annual loss for the 5 years prior to PRISM self-funding

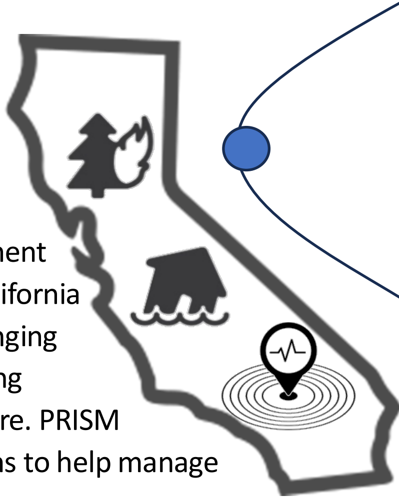
$60M



$133M

Primary $10M Average Annual loss after self-funding

Increased losses to the Primary results in higher open market premium for this layer and also necessitates more conservative funding by PRISM.



Despite a more favorable open market environment in the excess, California has many challenging exposures, making it difficult to insure. PRISM provides solutions to help manage these challenges.

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. This allows for PRISM to absorb losses, provide competitive pricing and offer broad terms and conditions not available in the open market.