PRISM

Public Risk Innovation, Solutions, and Management

February 4, 2025

To: Property Program Members

From: Gina Dean, CEO

Re: Property Market Update

Entering the first quarter of 2025, the PRISM Property Program continues to navigate a property insurance market that, while more stable than in recent years, is still shaped by significant weather-related events across the country including hurricanes and severe convective storms. In addition to industry losses resulting from those types of events, this year, the Program has experienced a notable challenge with a large loss from the Eaton fire in Southern California. Despite this loss, the Program remains strong, and the design has performed as intended, particularly in helping to absorb the primary loss through the self-funded layer. As a result, the primary premium will remain stable, shielding the Program from large premium increases. However, the wildfire loss has brought heightened attention to California wildfire risks for excess underwriters and we anticipate this will factor into renewal pricing.

<u>Insurance Market Background</u>

The property insurance market has undergone a significant shift over the past year and is finally stabilizing from a hard cycle that began in 2017. The hard market cycle was due to large hurricane losses, perpetuated by world events and frequent and large industry losses. In response, PRISM made the strategic decision to retain the primary $10M of the Program, effective March 31, 2022, to better manage pricing and coverage. While PRISM continues to leverage its size and relationships to negotiate favorable terms on the excess layers, we’ve seen an ongoing tightening in the broader insurance market, with particular focus on climate-related risks.

A major contributor to the current market conditions is the continued increase in extreme weather events, including wildfires, winter storms, and floods. For California, wildfires have long been a key concern, and the recent losses from the January 2025 wildfires have underscored the escalating risk. While PRISM’s design has effectively managed these losses, the attention from underwriters on this exposure is expected to intensify in upcoming renewal negotiations.

Excess Capacity Renewal

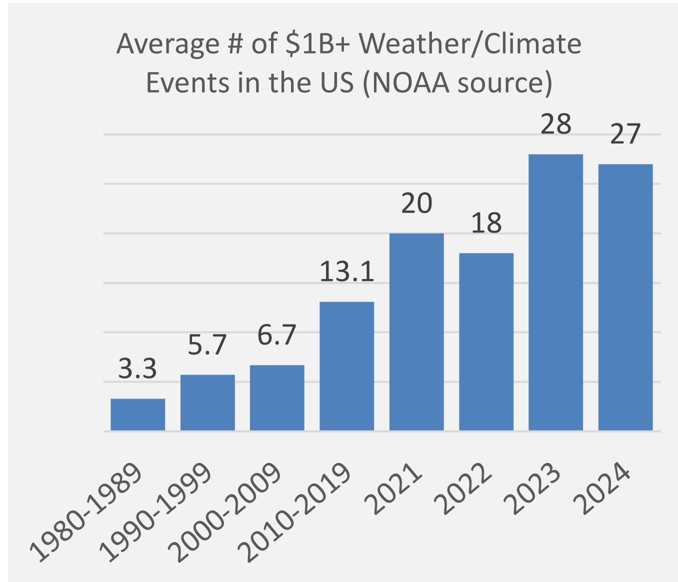
Despite continued severe natural catastrophes at unprecedented levels, 2024 was a profitable year for most carriers. This profitability has resulted in the easing of rate increases and has shifted many carriers into a growth mode, which we have not seen in many years. While excess capacity is expected to be available, rates will definitely increase in excess layers due to the January 2025 wildfires, but will be tempered by a more stable market environment.

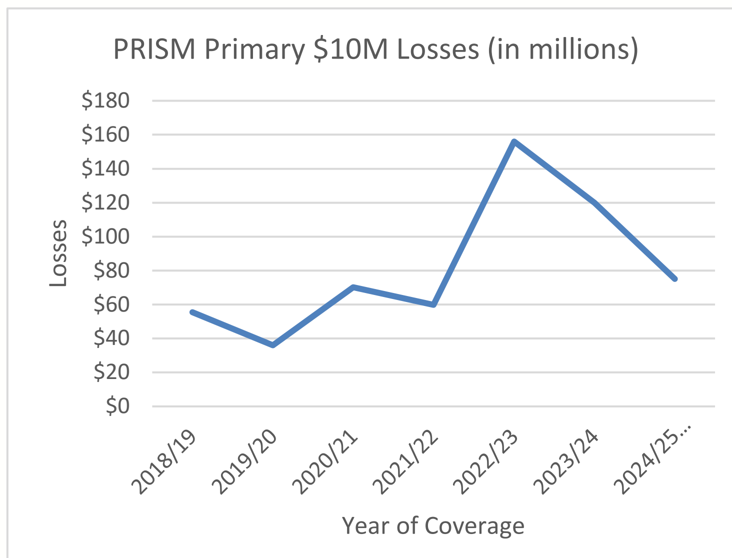
Primary Capacity Renewal

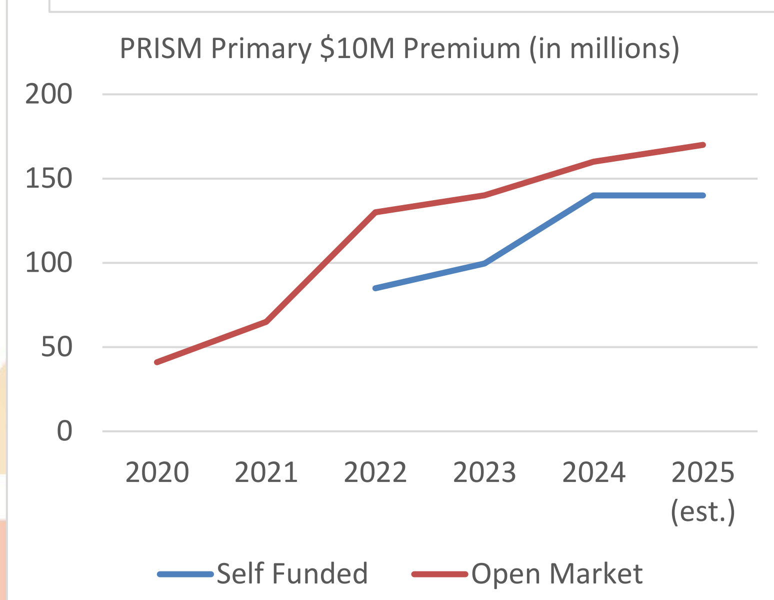
While loss experience for carriers excess of $25M has been minimal except for the recent wildfires, the primary has experienced unprecedented losses. In the 5 years leading up to PRISM self-insuring the primary $10M, the average annual loss trend for this layer was $60M. Since self-insuring the primary $10M layer, losses to this layer have been:

- 2022/23: $156M (approximately $70M of this was due to winter storms)
- 2023/24: $120M
- 2024/25: $71M (estimated to date)

Fortunately, the PRISM exposure is limited by purchase of reinsurance and the exposure is now fully funded. As a result, pricing for this layer is not expected to increase at the upcoming renewal. Prior to 2024/25, the Program subsidized about $40M of member premiums, which eroded the Net Position (often referred to as surplus). The surplus was robust enough to manage these losses and despite suspending the premium subsidy, pricing for this layer of coverage is still well below what the Program or any individual entity would cost in the open marketplace. The move to self-insurance in 22/2023 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. It is estimated that the Program will have saved a total of $135M in premium by self-funding.

In summary, although the PRISM Property Program has had a few difficult years, PRISM's sophistication and robust Net Position has allowed the Program to absorb these significant losses and still 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 members could obtain on their own. PRISM's power is in pooling, and together with the members, the Program will be able to work through the challenges resulting from unforeseen events and continue to provide the lowest cost to members for the foreseeable future.

Gina Dean