2018 MID-YEAR INSURANCE MARKET FORECAST

We are now halfway through the year that analysts said would mark the start of a long-anticipated hard market, and the good news is, we are still waiting. As Sentinel predicted earlier this year in the 2018 Market Review and Forecast, the property and casualty market has remained competitive, despite all the talk of market restrictions; has improved underwriting profitability, without a big change in loss ratios; and delivered what carriers were really looking for all along—more premium, without many of the rate increases that were predicted.

As we head into the latter half of 2018, expect to see the industry's continued shift toward a strategic approach that cares less about the transaction of insurance, and more about the tenets of good risk management. These days, your insurance program is based as much on what your business can control, as what it can't. Expect insurers to look competitive on rate, but become more restrictive on terms, limits and conditions. And increasingly, expect more—more service, better value and a differentiated customer experience, as today's commercial insurers are competing for your business like never before.

What does this mean for your company? It means the power of your partnership with Sentinel will come into play more than ever before. It means that, as your risk advisor, we will spend the months ahead in careful planning, innovative thinking and proper positioning of your risk profile. As your risk manager, our expertise will leverage relationships and drive results.

Here now is a closer look at the property and casualty market at the mid-year mark:

Tax Reform

The P&C market celebrated its most profitable quarter in recent years to close Q1 2018. That is thanks to federal tax reform, at least in part. A lower corporate tax rate, coupled with favorable interest rates, helped boost equity two and a half percent, from 5.8 in 2017, to 8.3 in early 2018.

Combined Ratio

The first quarter also saw a promising drop in the combined ratio to 94.8, down from 103.5 at the end of 2017. That's the lowest quarterly combined ratio of the last five years. A reported 15.2 percent increase in net premiums helped drive a healthy decrease in the combined ratio; a profitability measure that contributes mightily to market stability, rates, and other factors.

Competitive Markets

How competitive the property and casualty market is depends largely on where you stand. The most competitive markets right now are regional, followed by local and then national. Global insurers are currently the least competitive; several global brokers are registering slight increases for the first time in three years. Access is equal to opportunity, as your ability to secure the best coverage, rates, and terms depends largely on your risk management firm's access to those markets. Sentinel clients benefit from our firm's access to all markets.

Catastrophic Losses – Property

As unlikely as it might seem, the catastrophe property market is in pretty good shape. This, despite a record setting $80 billion in insured losses from Hurricanes Harvey, Irma and Maria last year. Rates in high-risk areas are up 5-15 percent, as predicted, but will likely come back down in 2019, provided the current hurricane season remains relatively mild as forecast. Policyholder surplus actually grew by 7.5 percent in 2017, owing to the strength of the reinsurance market and a better-than-average year for investments.

Worker's Compensation

The worker's compensation market will remain highly competitive, with insureds continuing to enjoy modest rate reductions throughout 2018. Sentinel is cautioning clients to not be complacent on work comp, however, as the impact of claims today will be realized in a few years' time, when rates are likely to be higher. And, another word of caution relative to worker's compensation when unemployment rates are low, which they are currently, as there is a troubling correlation between the two. Avoid the temptation to hire unqualified, unskilled, or just plain unsuitable workers when there is a shortage of desirable applicants, as that can, and often does, lead to a rise in worker's compensation claims.

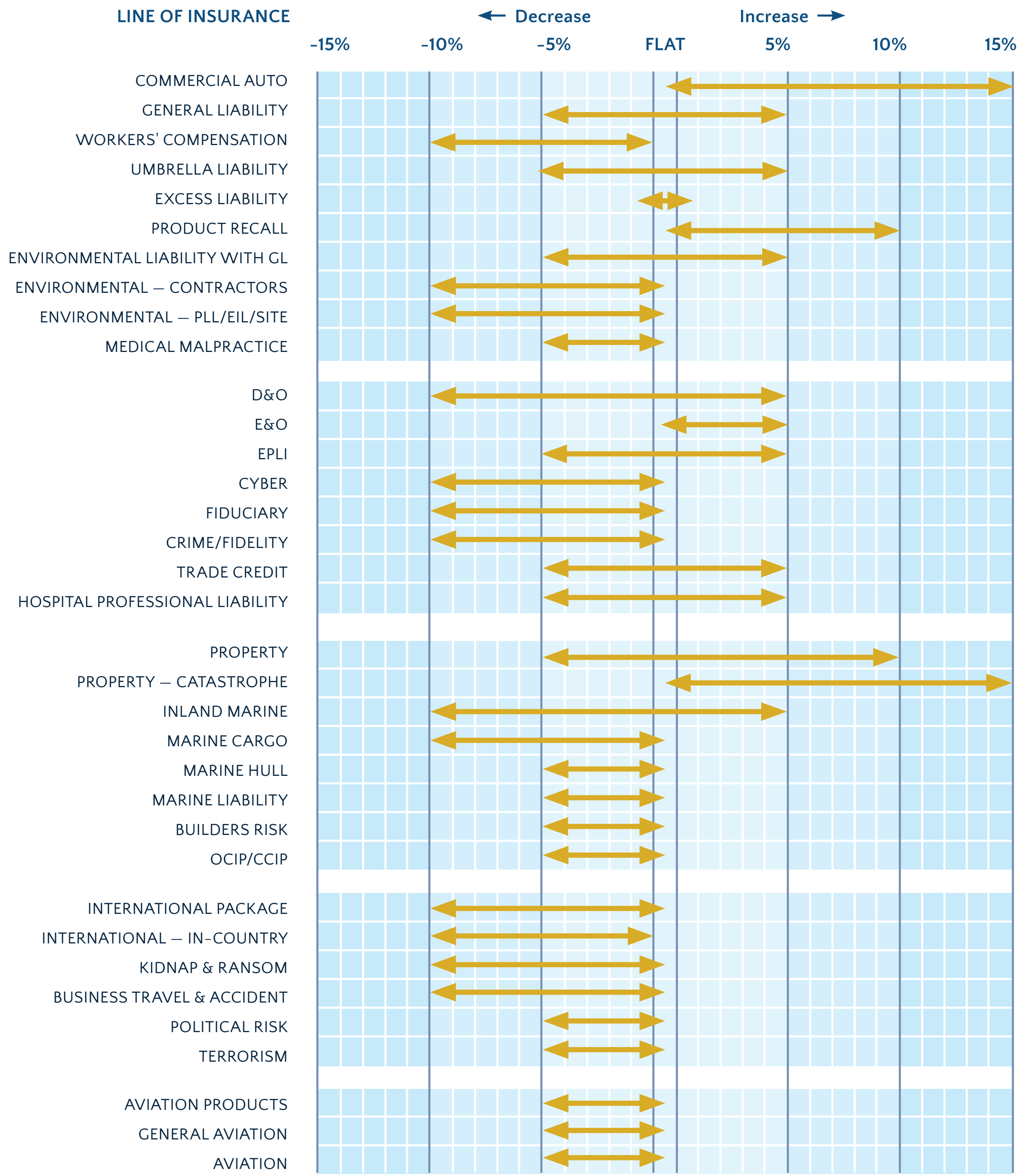
Buyer Beware: Terms and Conditions

Going into 2018, Sentinel predicted that underwriters who were hungry for premium would try to get it with and without raising rates; a prediction that has come to pass. How does an underwriter increase their premium without raising rates? By reducing the value of the policy itself. This, again, is where the Sentinel team goes to work on your behalf, ensuring that limits and retentions are more than sufficient, that deductibles are reasonable, and that coverage-limiting endorsements and restrictions are not imposed.

Cyber

The commercial cyber liability market reached a new milestone in the first quarter with 6.2 billion in written premiums. Businesses are getting the message that cyber insurance is no longer a need to have, but a must have. New specialty lines are arriving on the scene all the time, particularly those to protect against phishing and ransomware. The cost associated with a data breach only continues to rise, so it's important to look at your policy with regard to limits and exclusions. Cyber is a line of coverage that requires routine maintenance—updates and adaptations capable of mitigating ever-evolving threats to your company's data security.

2018 MID-YEAR RATE FORECAST



Sentinel is the Carolinas' premier risk management firm with a reputation for exceptional client experience. Sentinel provides a broad scope of property, casualty, and risk management services for today's global marketplace, for clients nationwide and in more than 150 countries. Our core business is risk mitigation and insurance services, but our greatest endeavor is investing in the success of the clients we represent.

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