Notes from Meeting at Lloyds of London
February 15-18, 2016

Background
Ken Cummings, Chair Emergency Fire Cost Committee, Hancock Forest Management; Travis Medema, ODF Eastern Oregon Area Director; Jeff Friesen, Willis Towers Watson of Oregon; Todd Scharff, DAS Risk Consultant and Doug Decker, Oregon State Forester, traveled to London in February 2016 to meet met with our Willis-Towers-Watson team of brokers and with more than a dozen underwriters. We traveled with several objectives:

1. To describe Oregon's firefighting capability, the 2015 fire season, and continuous improvement process;

2. To describe our preparedness levels, current weather and potential positive impacts to the 2016 fire season, and as a result to seek reduced premium and/or deductible amounts for the 2016 fire season;

3. To discuss and develop the details of a parametric insurance product that could diversify our overall financial risk.

4. To strengthen the working relationship with Lloyds, learn more about the business, and keep a business relationship in place for the future.

Themes
Following multiple days of back-to-back visits with underwriters; a detailed meeting with the lead underwriter; a site-visit to the Lloyds marketplace; and a workshop with the broker team, we offer the following observations:

A. **Importance of the visit in terms of a continuing business relationship.** Almost every underwriter expressed appreciation for our personal visit to Lloyds for this third year after the two total loss years and now a year with no losses, saying that it sent a positive message to them that we are "in it for the long term."

B. **Recognition of current attachment point (deductible).** The fact that we accepted the $50 million deductible in the 2015 policy after the two total loss years earned respect. One underwriter told us that signaled Oregon understands the insurance business and again, is in it for the long term.

C. **High degree of weather analysis, but inconclusive result.** Each of the underwriters explained how their experts and analysts had invested significant time and energy seeking a correlation between weather factors and fire starts, but were unable to detect a pattern or model that would help them calculate risk going forward. This was not a fatal flaw, just an interesting and challenging aspect of our portfolio, making our personal communication of our firefighting capabilities important in building their confidence in taking the risk.

D. **We represent an unusual and sought after risk portfolio.** Because our policy insures against fire *cost* as opposed to a more traditional catastrophic loss, underwriters are not required by law to maintain the same level of high liquidity with us, which gives them a greater (more desirable) range of options. Because their world revolves entirely around understanding and working within the odds of a loss, they are also intrigued with how difficult it is to rate or game the odds of our loss. "You are weird and wonderful" said one underwriter.

E. **Insight for us into a changing insurance industry.** There has been major consolidation through mergers and acquisitions in the insurance industry (driven by a desire for profit-taking), with only two of the original Lloyds syndicates we have traditionally worked with remaining "locally owned" and independent. We met with multiple underwriters who had been acquired during the last year by the same mega corporation. One of the potential impacts of this trend is that larger organizations may insist on more of a modeled approach to managing risk, which will take the decision out of the hands of the locally knowledgeable underwriters we have been working with. The reality is that new multi-national owners may apply a single formula to accepting risk and that clients who don't fit nicely in that formula would be evaluated by owners who don't understand our business and how we manage risk. This is mostly an awareness item for the future and helpful for us to be knowledgeable about this as we work with the underwriters.

F. **Interest in a multi-year policy.** This did not come up with every underwriter, but when it did, everyone we spoke to was open about structuring a multi-year policy. There seemed a good level of flexibility about how to do this relative to both the policy and the payment. An example could be $75 MM total loss (cumulative) over a three year period (essentially the attachment point with policy on top of that) , with the associated premium spread over the three year period paying 1/3 annually.

G. **Greater awareness about the complete and coordinated system.** Many of the underwriters appreciated the ability to better understand how we operate, the strategic nature of severity and the investments we make in readiness and in improving the system. I explained that each of the underwriters is also an important part of the complete and coordinated system off managing risk. We received multiple questions about cost collection and underwriters seemed impressed with our record on investigation and collection.

H. **Opening opportunities with new underwriters.** We met with nine new underwriters and all were interested in our business. Our broker explained that after last fire season we were "over-subscribed," which means we had more underwriters than we needed. In the long term this is a positive for us.

I. **Strong interest in parametric policy.** We spent almost two hours with special Willis unit that focuses on parametrics and refined the parameters and overall approach. Julian Roberts is preparing a detailed summary of that discussion, but in short, we clarified that we are trying to manage the risk associated with the deductible (for now), not necessarily every fire that happens during a drought period. As a result, the factors we discussed as multiple layers that would need to be in place to trigger a claim could be: 1) some specific and defined percentage of the fire burning on ODF jurisdiction; 2) fire size more than X,000 acres; 3) a non-FEMA fire.

Recommendation about future visits

Spending time with our broker and underwriters is always helpful and validates our interest in maintaining a long-term relationship. It could be that—depending on what kind of fire season we have—we set ourselves up on an every-other-year type of visit and/or possible teleconference meeting/presentations during the off years. In the next few years careful consideration should be given to personally visit with markets if we were to have losses more than 25 percent of policy value. We would recommend that a delegation visit in that case.