



2019 Economic and Insurance Market Conditions

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How Do We Define Success?



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The Disruption Continuum

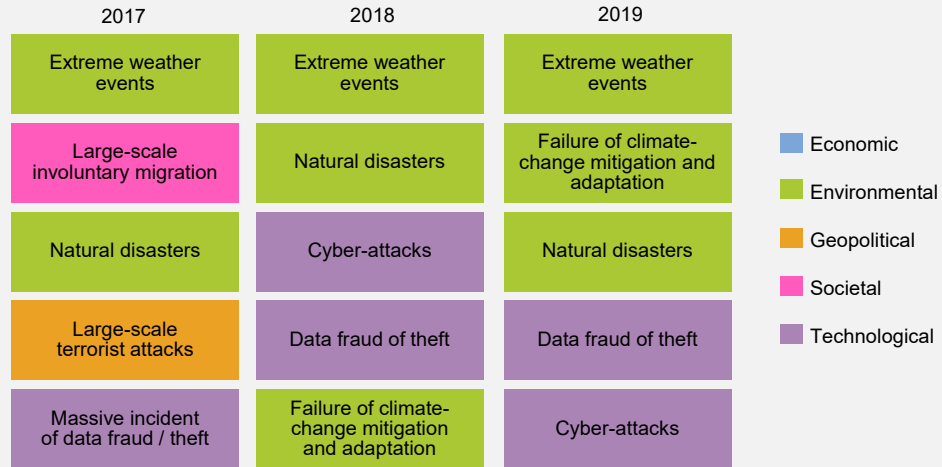


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The Evolving Risk Landscape

Top 5 Global Risks in Terms of Likelihood



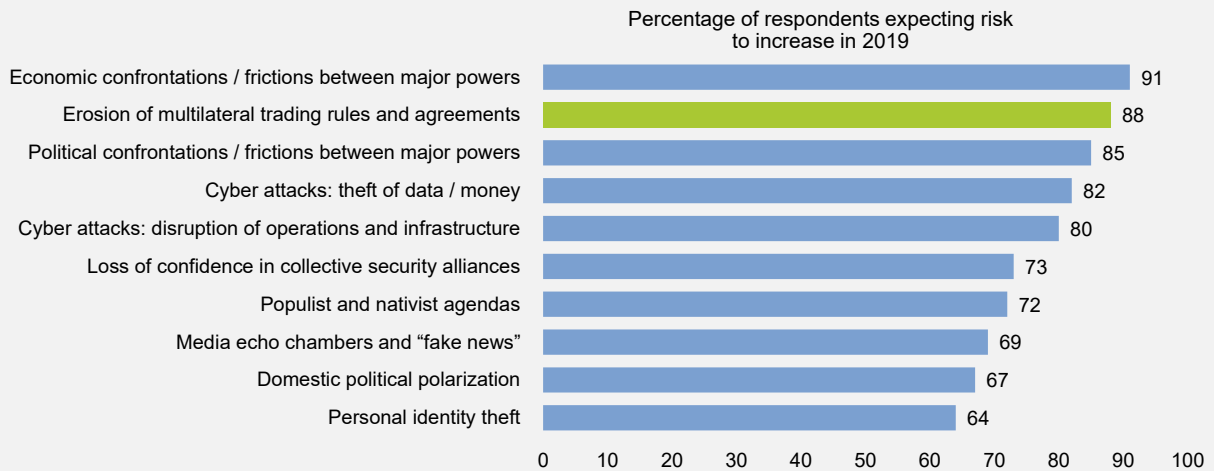
Source: World Economic Forum 2009-2019 Global Risks Report



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Short Term Risk Outlook 2019



Source: World Economic Forum 2009-2019 Global Risks Report



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I.I.I. Mission Statement



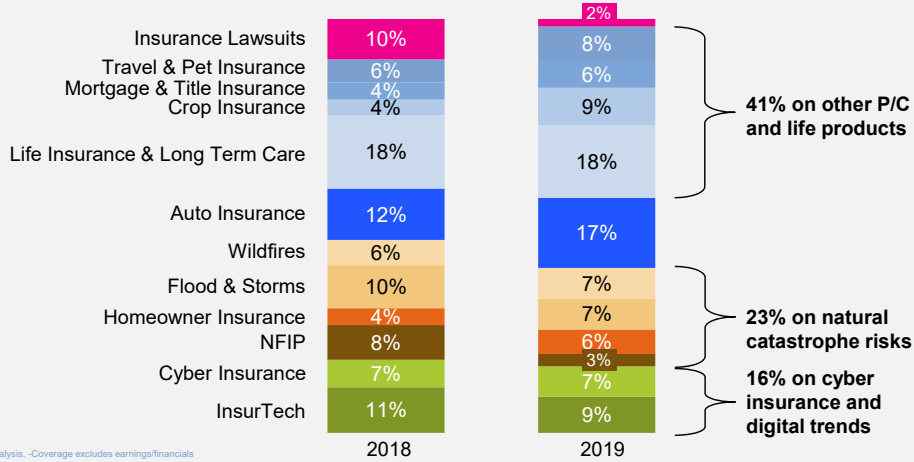
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Insurance Industry News Cycle Is Wide-Ranging, But Centered Around Core Clusters

Nat Cats, Auto, Tech/Innovation Continue As Biggest P/C Drivers

US Media Coverage On Insurance Topics In 2018 & 2019



*Source: Quid, HPS Analysis. -Coverage excludes earnings/financials

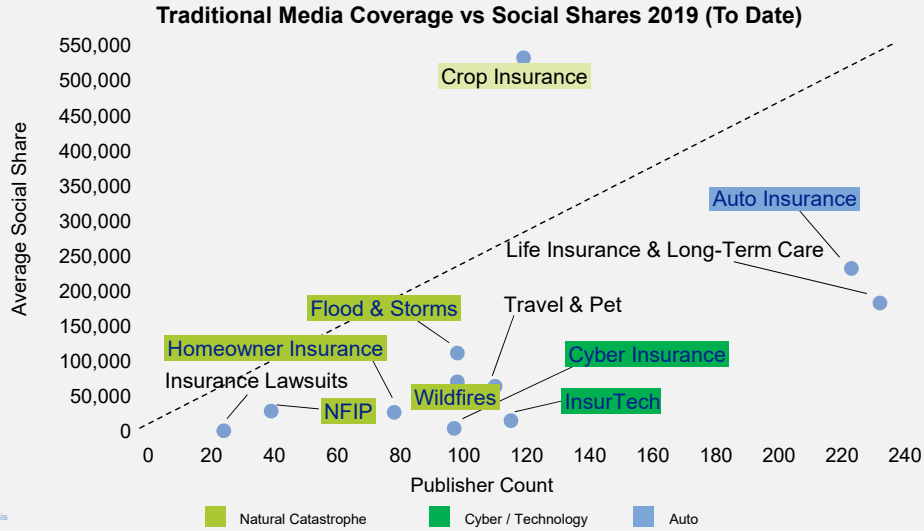


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Social Media: "Sharing Is Caring"

Crop Is Outlier with Flood-Tariffs Combo – Pushing Down Nat Cats

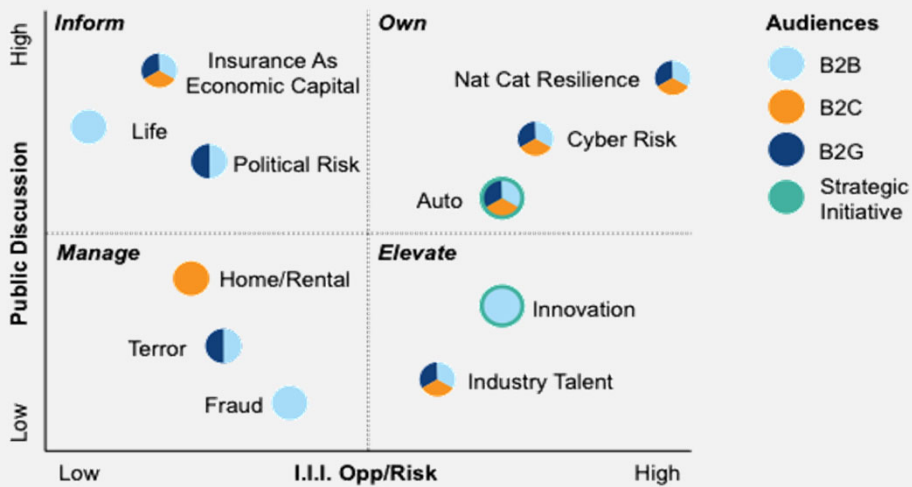


Source: Quid, HPS Analysis



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Our Priorities In 2019 Continue To Reflect Where Industry & Customer Conversations Are Focused



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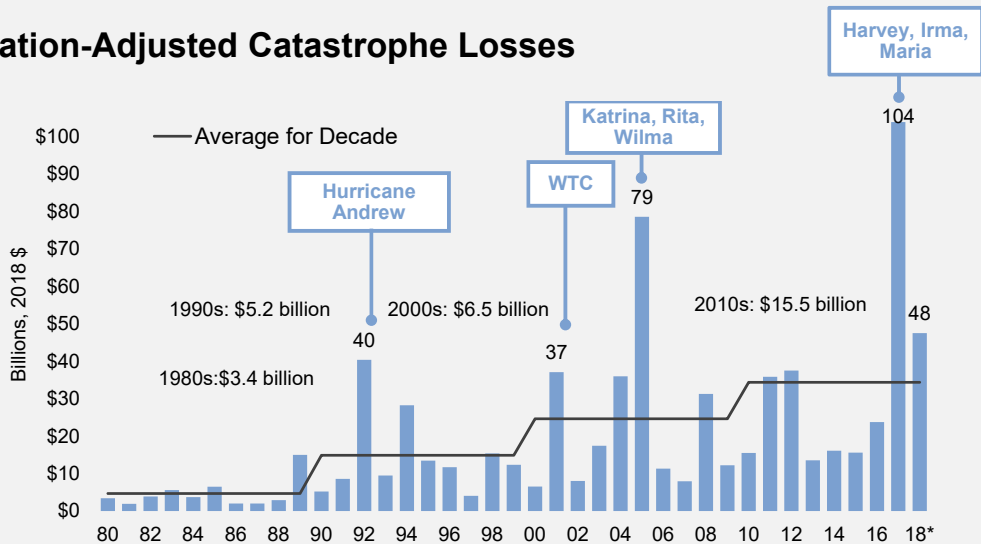
Insurance Industry Economic Trends



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US Inflation-Adjusted Catastrophe Losses



2018 – Third worst year for US Insured catastrophe losses
Average insured loss per year for 1980-2018 is \$19.3 billion

*2018: Inflation-adjusted estimate, subject to change. 2010s is average of 2010 to 2018. All losses are Direct. Sources: Property Claims Service, a Verisk Analytics business; Insurance Information Institute.



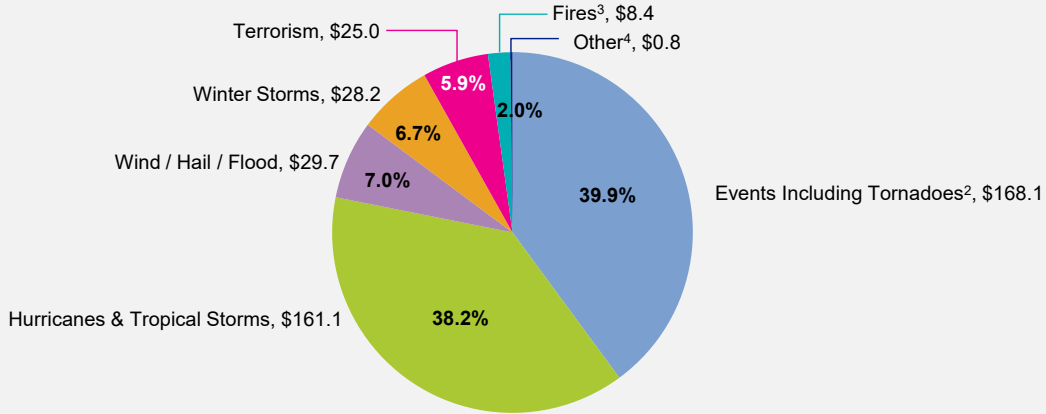
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Inflation Adjusted US Catastrophe Losses by Cause of Loss

1997 – 2016¹

\$ Million



(1) Adjusted for inflation through 2016 by ISO using the GDP implicit price deflator. Excludes catastrophes causing direct losses less than \$25 million in 1997 dollars. Does not include flood damage covered by the federally administered National Flood Insurance Program.
 (2) Includes other wind, hail, and/or flood losses associated with catastrophes involving tornadoes.
 (3) Includes wildland fires.
 (4) Includes losses from civil disorders, water damage, utility service disruptions, and any workers compensation catastrophes generating losses in excess of PCS's threshold after adjusting for inflation.

Source: Property Claim Services (PCS)[®], a unit of ISO[®], a Verisk Analytics[®] business.

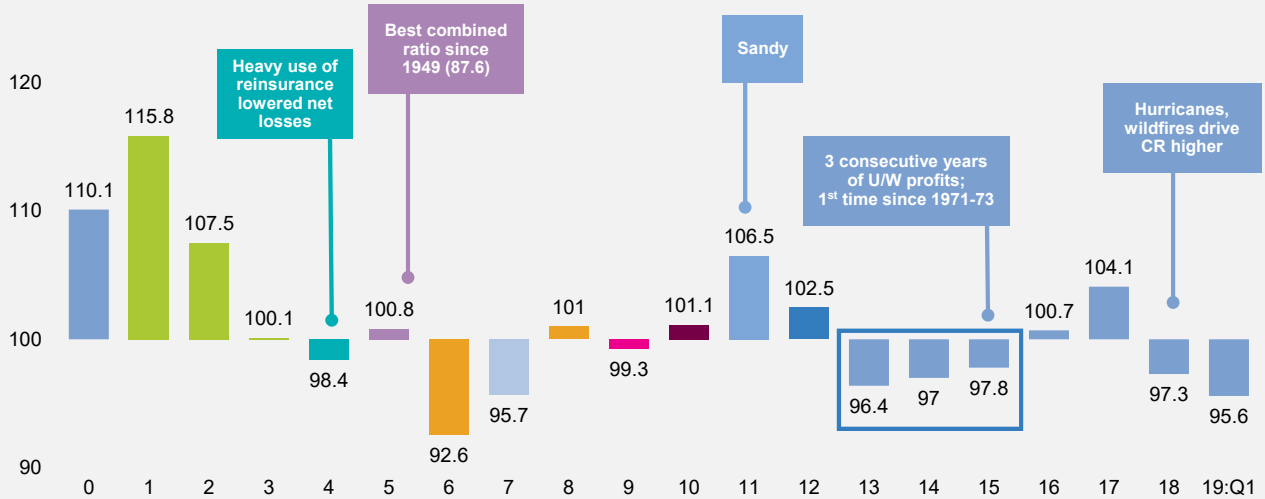


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P/C Insurance Industry Combined Ratio

2000 – 2018*



* Excludes Mortgage & Financial Guaranty insurers 2008-2014. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.1, 2012=103.2, 2013=96.1, 2014=97.0.
 Sources: A.M. Best; ISO, a Verisk Analytics company; I.I. estimate for 2018.

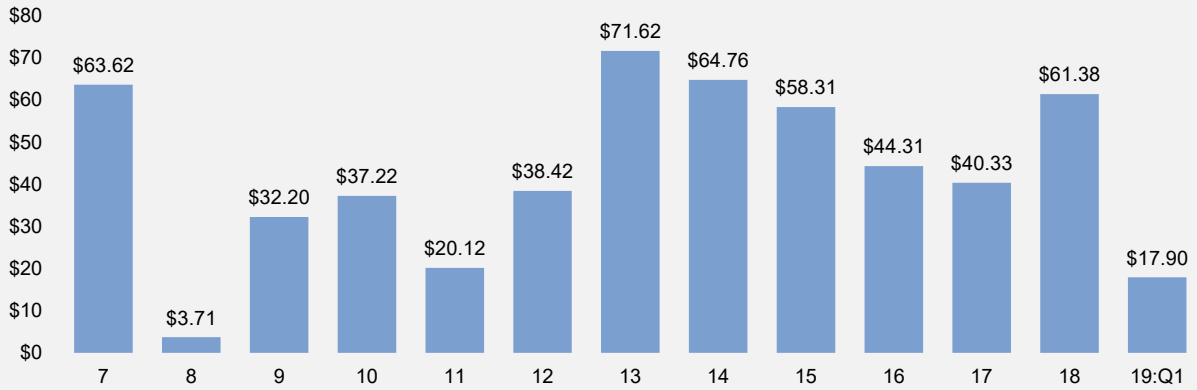


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P/C industry Net Income After Taxes

\$ Billions, 2018



Catastrophes drove earnings down in 2017, continuing a four-year slide in inflation-adjusted profits

Adjusted for inflation using the BLS CPI calculator, to 2018 dollars.
Sources: NAIC data, sourced from S&P Global Market Intelligence; Insurance Information Institute.

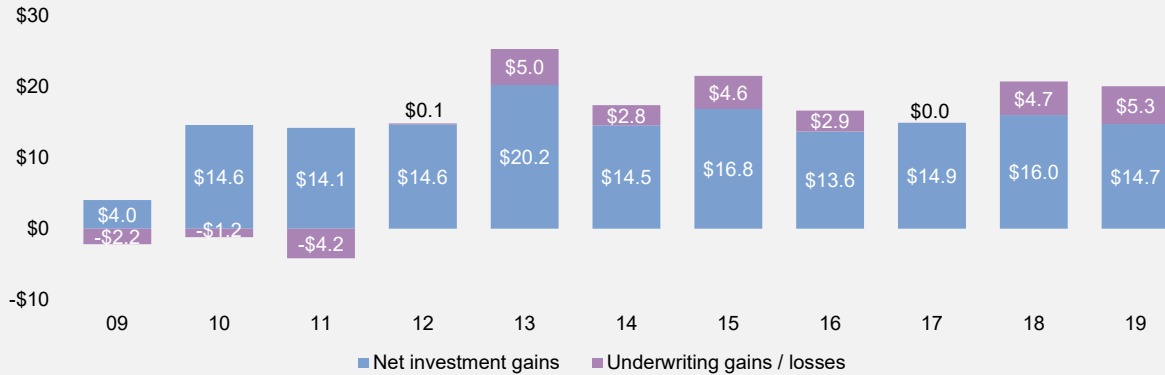


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Key Sources of P/C Insurer Profits

\$ Billions



Strong capital gains; underwriting result lifted profits

Through first quarter. Data are before taxes and exclude extraordinary items.
Source: NAIC data, sourced from S&P Global Market Intelligence.

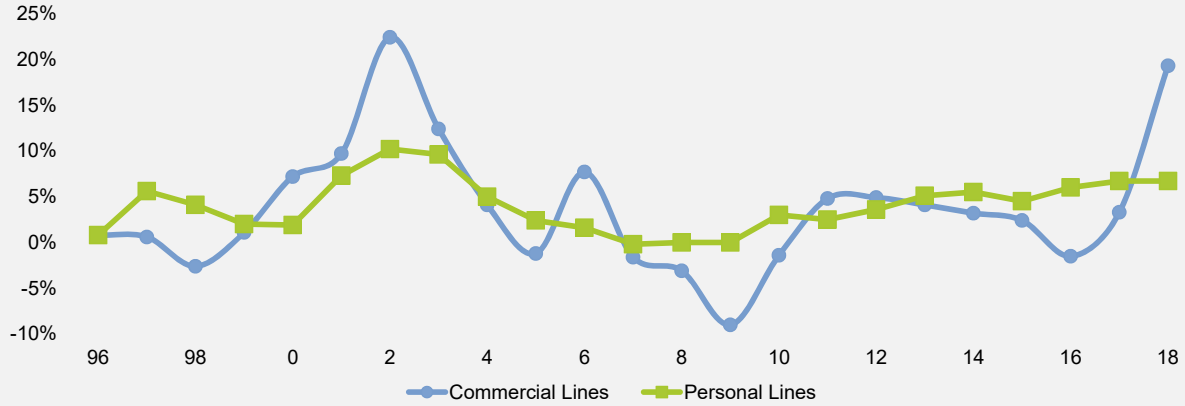


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Commercial & Personal Lines NPW Growth

1996-2018



Commercial lines prone to much more cyclical volatility than personal lines

Note: Data include state funds beginning in 1998. Sources: A.M. Best, Insurance Information Institute.

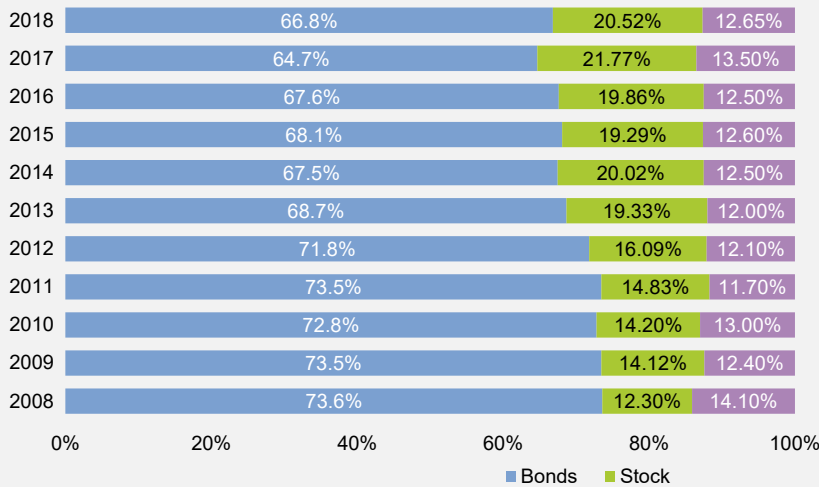


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The Changing Mix of Invested Assets, P/C Industry

2008-2017



- From 2008 to 2017, P/C portfolios shifted out of bonds (74% of invested assets in 2008 to 65% in 2017) into common stock (up from 12% to 22%)
- The US economy now hovers near full employment, but a slowdown is widely expected, so an increase in bond holdings—a defensive position—is understandable

Sources: NAIC data, sourced from S&P Global Market Intelligence; Insurance Information Institute.

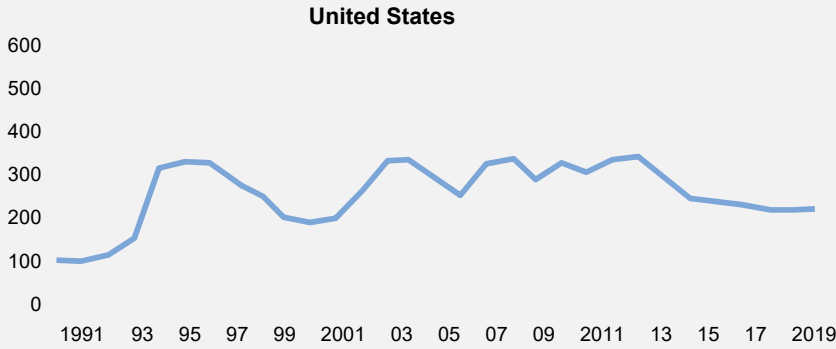


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Catastrophes are Impacting Reinsurance Rates

Estimated year-over-year property catastrophe rate movement, using 100 in 1990 as a baseline



- Recent smaller catastrophe losses from perils not fully modeled and continuing loss-creep from larger events are impacting the market
- Mid-year reinsurance renewal rates increased 25 percent (not shown on chart)

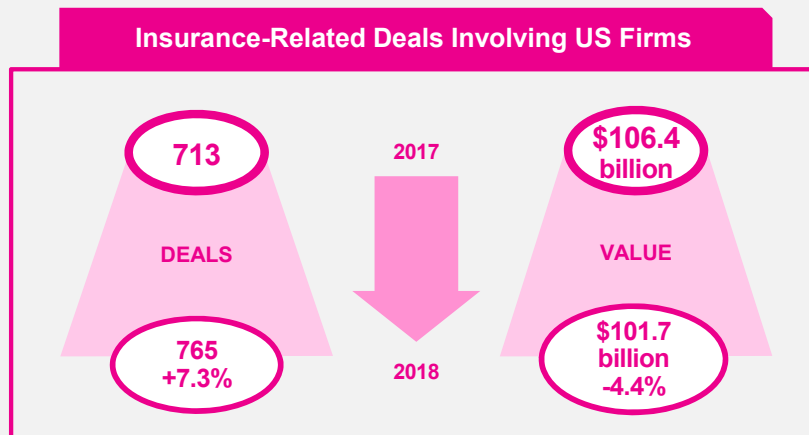
Source: Willis Re 1st View A Discerning Market, July 1, 2019



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Consolidation / M&A



Source: Conning Research & Consulting Inc. analysis
 Note: Includes transactions where a U.S. firm was the acquirer and/or the target. Include property/ casualty, life/annuity, health and managed care and distribution and services companies.



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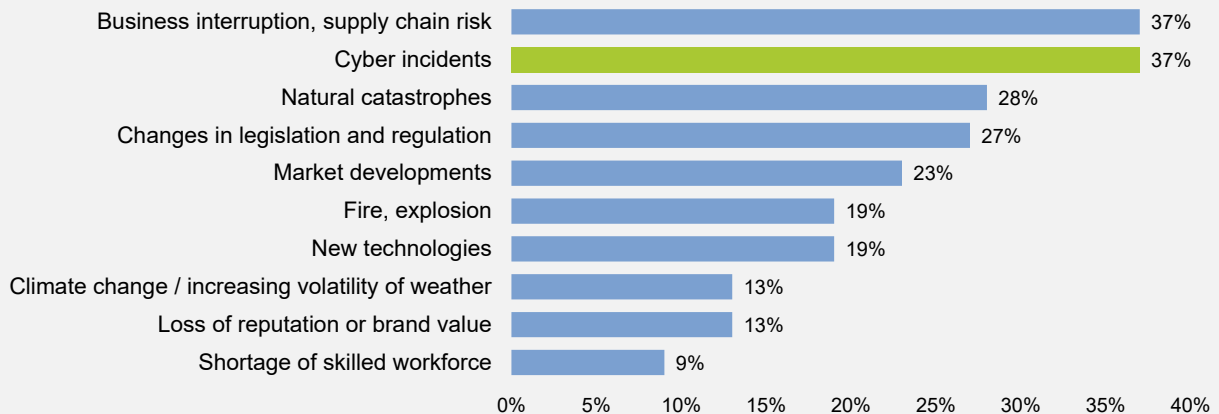
Cyber Insurance



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Cyber Attacks – Ties for No. 1 Global Risk



Source: Allianz Risk Barometer on Business Risks 2019; Source: Deloitte LLP



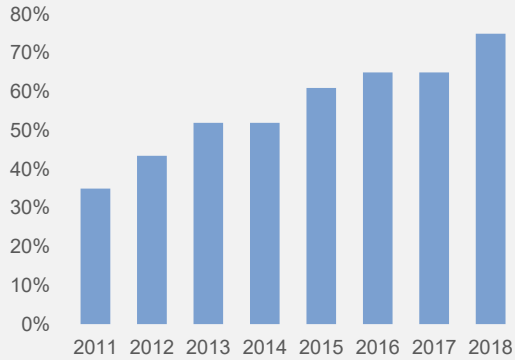
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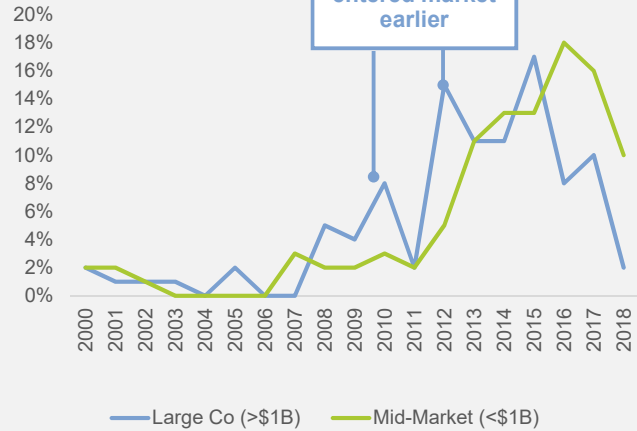
Cyber Take-Up Rate Climbing, Approaching Peak

Q: Does your company currently purchase cybersecurity insurance?

Percentage Answering 'Yes'



Year First Purchased



Source: Zurich and Advisen, Information Security and Cyber Risk Management Survey, 2018. Data as of August 2018.

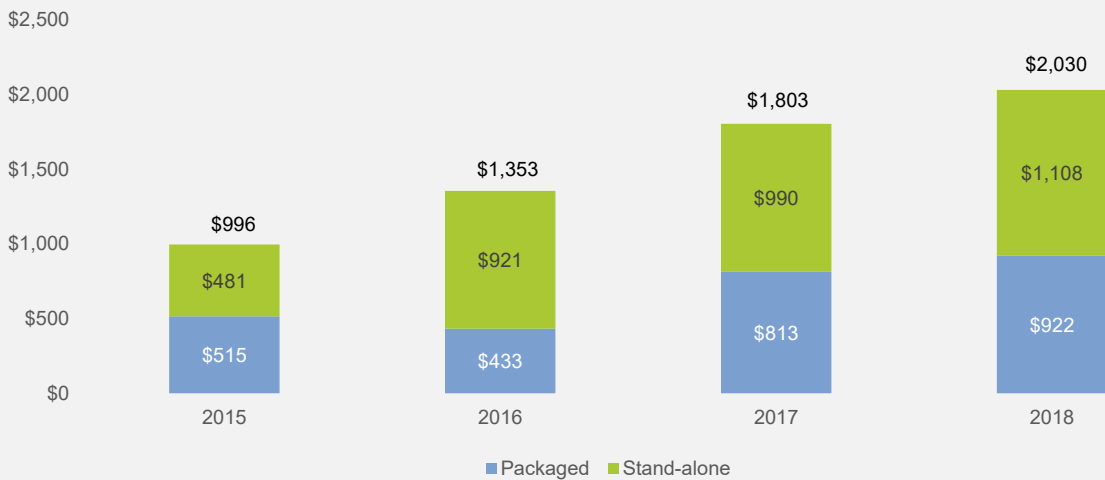


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US Cyber Direct Premiums Written

\$ Millions



Source: AM Best data and research, Cyber Insurers are Profitable Today but Wary of Tomorrow's Risks, June 17, 2019. Data excludes cyber written overseas.

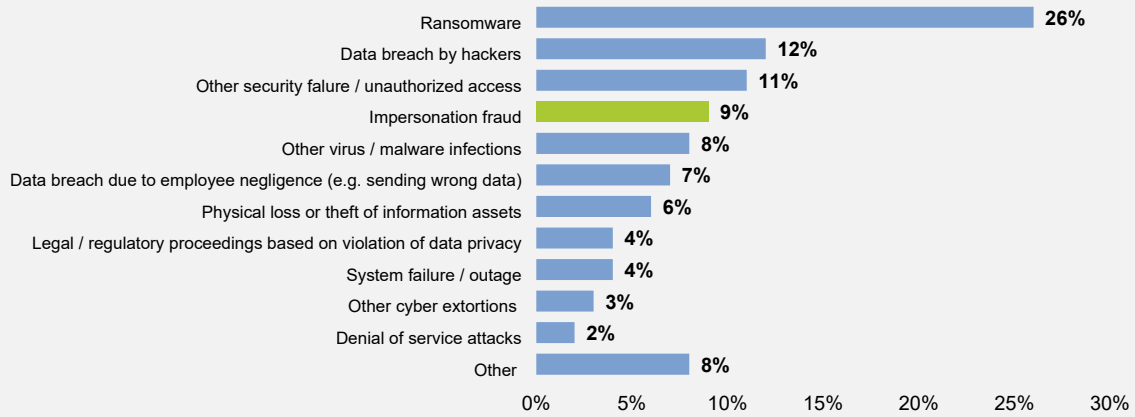


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Cause of Loss

Cyber Claims Received by AIG EMEA (2017) – by Reported Incident



Source: AIG Cyber Claims Study 2018



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Major Difficulties In Writing Cyber Coverage



Complexity of Risk

- Threats are becoming more sophisticated
- Executives, boards, cyber experts, insurers and others struggle to keep up



Lack of Historical Data

- New coverages lack historical data, making pricing difficult
- Several insurers are developing common data requirements



Risk Accumulation

- Cyber attacks could be massive — a 'cyber hurricane' could cause thousands of claims
- Some insurers worry that cyber is too big for private sector to handle alone



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Financial Impact



- There is no market consensus on quantifying measures for financial losses resulting from cyber risk
- The limits sought by insureds — ranging from \$2.5 million to \$50 million — is a helpful proxy

The most common limit is \$30 million



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Excess Liability Limits

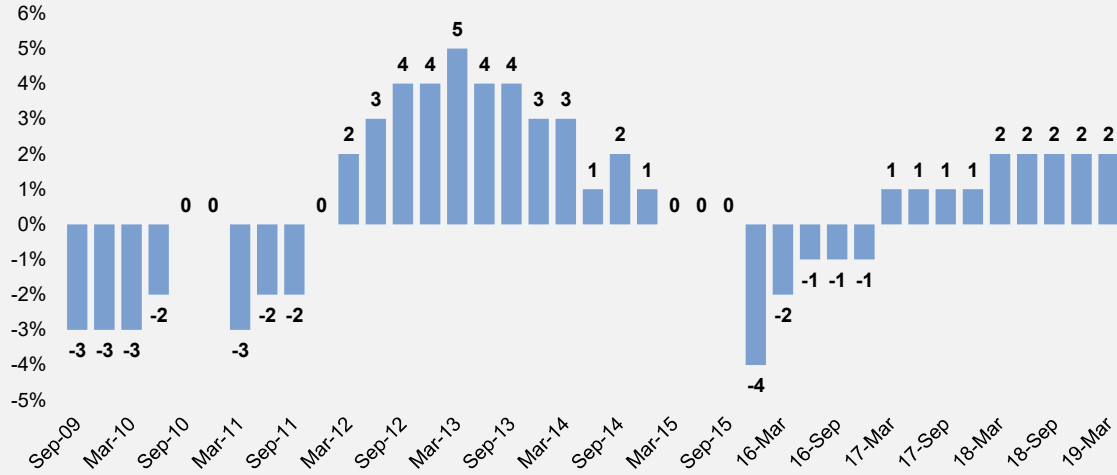


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Umbrella / Excess Rate Change

(vs. Year Earlier)



Sources: MarketScout, Insurance Information Institute.



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Is Excess Liability for Utilities Facing Capacity Concerns Due to Wildfires and Explosions?

Overall Market Capacity Experiencing Stress. Key Factors Include

- Location
- Market
- Governance
- Capacity



Sources: Aon Risk Solutions



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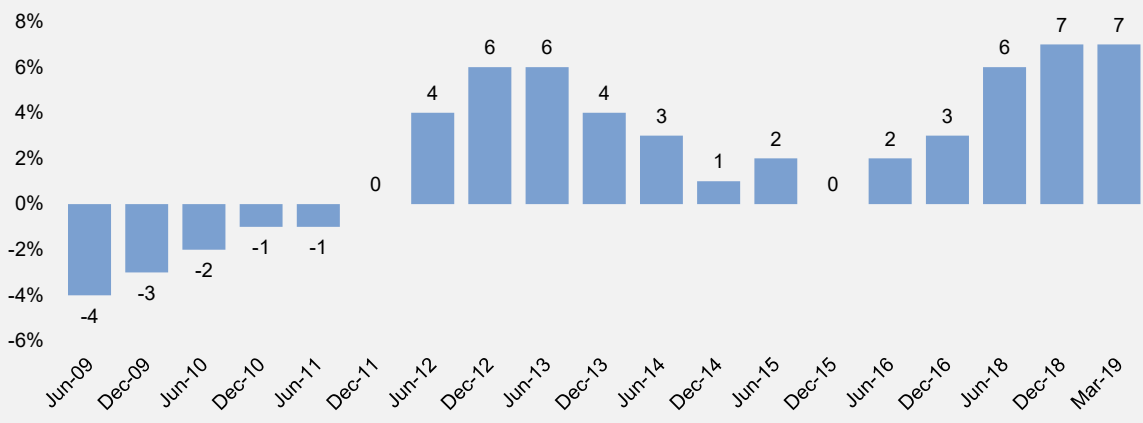
Commercial Auto



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Commercial Auto Rate Change (vs. Year Earlier)



Overall commercial auto rates fell less in soft cycle and have risen more than overall property / casualty market

Sources: MarketScout, Insurance Information Institute.



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Rates Overall

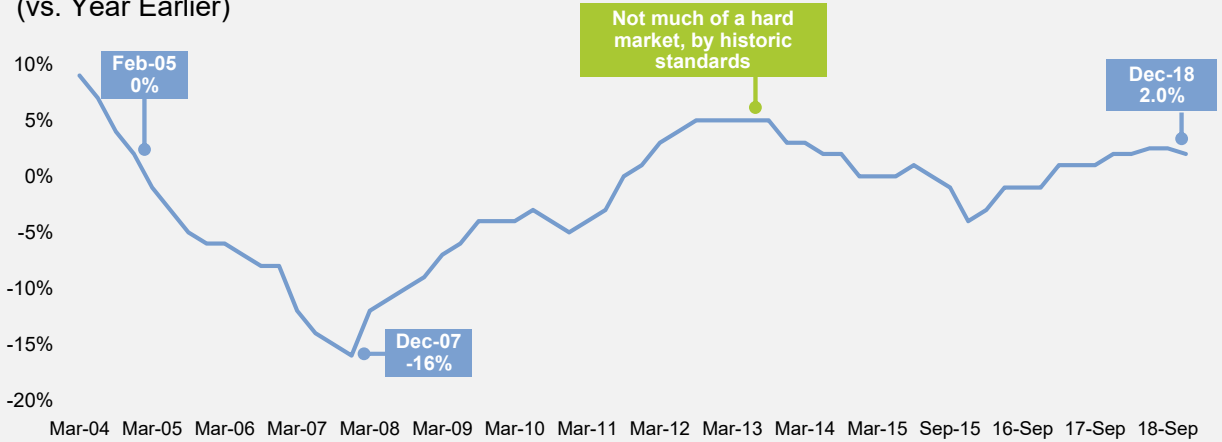


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Commercial Lines Rate Change

(vs. Year Earlier)



Rates are as stable as they've been in 15 years but beginning to show signs of a modest increase

Sources: MarketScout, Insurance Information Institute.



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Diversification of Insurance Products is Now More Important

- Overall market qualified as robust but not hard and adequate capacity
- Across-lines premium increasing about 2% - 3.5% year-over-year; but some lines are higher and some lower
- Across-lines claims have come down over the last three years (but wildfire claims and other natural catastrophes are driving claims faster)
- Extreme weather: multi-year programs easing severity of impact compared to personal lines



Source: J.P. Morgan; Insurance Information Institute



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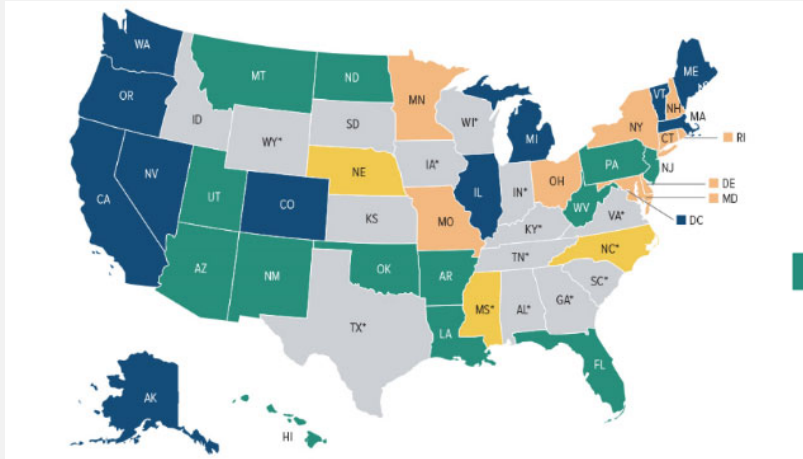
Workers' Compensation and Marijuana Legalization



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Current Marijuana Laws by State



- Fully legal
- Medical use legal and recreational possession decriminalized
- Medical use legal
- Recreational possession decriminalized
- Fully illegal

THC persistence makes it difficult, if not impossible, to determine whether a worker with a positive test was intoxicated at the time of an accident.

*CBC/Low THC medical program. Source: National Journal, Ballotpedia, 2019



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What Do We Know About Workplace Safety in the Age of Legal Marijuana?

Many factors influence impairment onset, intensity, and duration

- Product potency – THC levels
- Method of consumption and type of product
- User characteristics



Marijuana intoxication impairs coordination, memory, associative learning, attention, cognitive flexibility and reaction time.

Source: Insurance Information Institute, Haze of confusion: How employers and insurers are affected by a patchwork of state marijuana laws, June 2019



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Does Workers' Compensation Cover a Workplace Accident in Which the Injured Employee Tested Positive for Marijuana?

- Most states restrict benefits if employee was intoxicated or if intoxication was proximate cause of injury
- Some states limit compensation if employee refuses drug test
- Presumption of positive drug test indicating impairment
- Rebuttable presumption



Recreational marijuana and the workplace

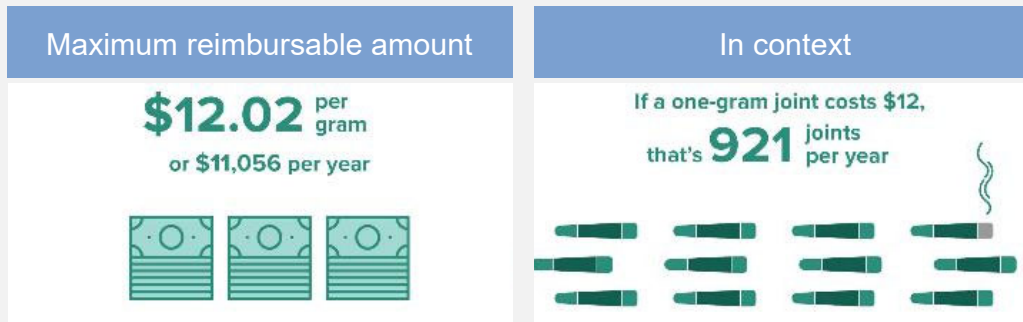
No state protects on-duty recreational marijuana use. State laws will often explicitly state that recreational marijuana laws do not affect an employer's drug-free workplace policy.



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New Mexico is the Only State That Provides a Fee Schedule for Medical Marijuana¹



¹Healthcare Provider Fee Schedule and Billing Instructions, State of New Mexico Workers' Compensation Administration.



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Reimbursement Complications

- Cash-only business
- Proper dosages poorly understood, non-standardized
- No standardized “serving” of marijuana; potency levels non-standardized
- Expenses can vary widely



Many state medical marijuana laws specifically exempt certain entities from the reimbursement requirement, usually health insurance providers.



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The Future of Success: Resilience



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What do these images have in common?

It wasn't the first time...



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**“Those who cannot
remember the past are
condemned to repeat it.”**

George Santayana, *The Life of Reason*, 1905



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Extreme Events: A Troubling Trend

| Rank | Date | Event | Cause | Insured Loss (1) (\$ millions) |
|----------|------------------|------------------------------------|-------------------------|--------------------------------|
| 1 | Aug. 2005 | Hurricane Katrina | Hurricane | \$41,100 |
| 2 | Sep. 2017 | <u>Hurricane Maria (2)</u> | <u>Hurricane</u> | <u>25,000-30,000</u> |
| 3 | Sep. 2017 | <u>Hurricane Irma (2)</u> | <u>Hurricane</u> | <u>20,000-25,000</u> |
| 4 | Sep. 2001 | September 11 Events | Terrorism | 18,779 |
| 5 | Oct. 2012 | Hurricane Sandy | Hurricane | 18,750 |
| 6 | Aug. 2017 | <u>Hurricane Harvey (2)</u> | <u>Hurricane</u> | <u>16,000-19,000</u> |
| 7 | Aug. 1992 | Hurricane Andrew | Hurricane | 15,500 |
| 8 | Jan. 1994 | Northridge, CA earthquake | Earthquake | 12,500 |
| 9 | Sep. 2008 | Hurricane Ike | Hurricane | 12,500 |
| 10 | Oct. 2005 | Hurricane Wilma | Hurricane | 10,300 |

Three of ten worst US catastrophes occurred in 2017

(1) Dollars when occurred.

(2) Insurance Information Institute estimate based on data from catastrophe risk modelers, the Property Claims Services unit of Verisk Analytics, et al.
Source: Insurance Information Institute, catastrophe risk modelers, The Property Claim Services® (PCS®) unit of ISO®, a Verisk Analytics® company, et al.



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Uninformed Consumers → Uninsured

Closing the Coverage Gap is Key Step to Resilient Society

- 2005-2015: \$1.3 trillion in uninsured losses
- 70 percent of catastrophe losses are uninsured



Source: Swiss Re; Wikimedia Commons; DOD



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Insurers Studying Solutions to Extreme Weather

I.I.I., actuaries, and IBHS offering resilience know-how to consumers on how to insure and protect themselves

Proposed I.I.I. white paper

The American Academy of Actuaries Climate Index

Insurance Institute for Business & Home Safety (IBHS) resources

Source: Insurance Information Institute, American Academy of Actuaries Climate Index, Insurance Institute for Business & Home Safety.



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I.I.I. Resilience Project

How prepared is each state for the natural and man-made disasters they are likely to see?

I.I.I. and Aon to share their findings with the industry policy-makers and the general public

Forecasting powered by **AON**
Empower ResultsSM



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Phase 1: Data Visualization Tool

INSURANCE INFORMATION INSTITUTE Resilience Project

HOME DATA VISION ABOUT CONTACT

Data

Understanding the risks – Yesterday and today

Forecast Track Damage & Claims RFP

Select a state or storm from the dropdown button or scroll over a state to see the climatological probability of any state being impacted by a hurricane or major hurricane in 2018.

State: State

n/a

Climatological Probability

% of Hurricanes: n/a

% of Major Hurricanes: n/a

Learn more about the data >

Forecasting powered by **AON** Empower Results®



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Thank you



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