Insurance Industry and Business Landscape Post Election

James Lynch, Chief Actuary
Insurance Information Institute • 110 William Street • New York, NY 10038
212.346.5533 • jamesl@iii.org • www.iii.org
Disruption is Everywhere
Disruption is Everywhere
Catastrophes – Increases in frequency and severity

Natural Catastrophes

- Climate Change
- Earthquake
- Wind
- Water
Economic Uncertainty

Global Growth...

*Since 2008 we’ve had the longest period of relative trade stagnation since World War II...

US Growth...

GDP 1.6

Investment Growth

...Monetary vs. Fiscal Policy

- **Monetary**: Low interest rates mean insurers are struggling to meet interest rate guarantees for life insurance and annuities must diversify their investment portfolios

- **Fiscal**: Supply-side debate heating up, i.e., tax reform

* The Peterson Institute for International Economics
* Mainland purchases of insurance and related investment policies in the nine months ended September 2016 surged to a record high.
Geopolitics – US
The ‘Bully Pulpit’ Evolution
Trump has potential to change the game...

@USTreasSec where is #TaxReform? Get R done!
@USAG #Waterboarding will #MakeAmericaGreat!
Does It Matter?
P/C Insurance Industry ROE by Presidential Party Affiliation
1950-2016*

*2016 data is through Q3.
Source: Insurance Information Institute
Affordable Care Act
Going …. Going ….. Maybe Not Going Anywhere
Workers Comp Private Carrier Combined Ratio, 2001-2016*

*Projected.
### Rates by Line & Account Size, Q4 2016

#### By Account Size

<table>
<thead>
<tr>
<th>Size</th>
<th>Down &gt; 10%</th>
<th>Down 1-10%</th>
<th>No Change</th>
<th>Up 1-10%</th>
<th>Up &gt; 10%</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small (&lt;25K)</td>
<td>4.49%</td>
<td>38.20%</td>
<td>29.22%</td>
<td>21.35%</td>
<td>1.12%</td>
<td>5.62%</td>
</tr>
<tr>
<td>Medium (25-100K)</td>
<td>6.74%</td>
<td>62.92%</td>
<td>21.35%</td>
<td>7.87%</td>
<td>0.00%</td>
<td>1.12%</td>
</tr>
<tr>
<td>Large (100K+)</td>
<td>15.73%</td>
<td>55.06%</td>
<td>19.10%</td>
<td>4.49%</td>
<td>0.00%</td>
<td>5.62%</td>
</tr>
</tbody>
</table>

#### By Line of Business

<table>
<thead>
<tr>
<th>Line of Business</th>
<th>Down &gt; 10%</th>
<th>Down 1-10%</th>
<th>No Change</th>
<th>Up 1-10%</th>
<th>Up &gt; 10%</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Auto</td>
<td>1.14%</td>
<td>5.68%</td>
<td>13.64%</td>
<td>68.18%</td>
<td>10.22%</td>
<td>1.14%</td>
</tr>
<tr>
<td>Commercial Property</td>
<td>15.90%</td>
<td>47.73%</td>
<td>22.73%</td>
<td>9.09%</td>
<td>0.00%</td>
<td>4.55%</td>
</tr>
<tr>
<td>Cyber</td>
<td>2.27%</td>
<td>19.32%</td>
<td>61.36%</td>
<td>6.82%</td>
<td>1.14%</td>
<td>9.09%</td>
</tr>
<tr>
<td>D&amp;O</td>
<td>2.35%</td>
<td>17.65%</td>
<td>49.41%</td>
<td>23.53%</td>
<td>1.18%</td>
<td>5.88%</td>
</tr>
<tr>
<td>General Liability</td>
<td>1.15%</td>
<td>55.17%</td>
<td>34.48%</td>
<td>5.75%</td>
<td>0.00%</td>
<td>3.45%</td>
</tr>
<tr>
<td>Terrorism</td>
<td>2.30%</td>
<td>12.64%</td>
<td>57.47%</td>
<td>4.60%</td>
<td>0.00%</td>
<td>22.99%</td>
</tr>
<tr>
<td>Umbrella</td>
<td>0.00%</td>
<td>45.45%</td>
<td>35.23%</td>
<td>17.05%</td>
<td>0.00%</td>
<td>2.27%</td>
</tr>
<tr>
<td>Workers Compensation</td>
<td>7.95%</td>
<td>52.27%</td>
<td>25.00%</td>
<td>10.24%</td>
<td>2.27%</td>
<td>2.27%</td>
</tr>
</tbody>
</table>

Rate Changes Can Vary Significantly Within States, Lines of Business or Individual Markets.

P/C Insurer Portfolio Yields, 2002-2016

(Yield on Invested Assets)

P/C Carrier Yields Have Been Falling for Over a Decade, Reflecting the Long Downtrend in Prevailing Interest Rates.

Sources: NAIC data, sourced from S&P Global Market Intelligence; ISO, a Verisk Analytics company; Insurance Information Institute.
Virtually all of the 53 forecasts in the Blue Chip survey expect continual increases in the yield of long-term bonds in 2017-18.

Sources: Blue Chip Economic Indicators (3/13); Insurance Information Institute
Falling yields means less investment income, putting upward pressure on rates.

As long as new money rates are below the rates of maturing bonds, the portfolio yield will continue to sink.

p: Preliminary
Sources: NCCI, ISO, a Verisk Analytics company, U.S. Treasury (5-year note as proxy for new money yield); Insurance Information Institute.
But State Politics Drives Insurance
And Every State is Different

Source: R Street Insurance Regulation Report Card, December 2016

Not Graded: District of Columbia
Republicans Control Most States . . .
In The November Election They Lost One Legislature Overall

Seven chambers flipped control after the November 2016 elections.

Medical Marijuana
Comp Caught in the Middle

Opioid Alternative?

https://www.nap.edu/catalog/24625/the-health-effects-of-cannabis-and-cannabinoids-the-current-state
Medical Marijuana
Comp Caught in the Middle

Congressional Cannabis Caucus

Rohrbacher (CA)
Bluemenauer (OR)
Young (AK)
Polis (CO)
Summary

- Political leaders face a complex disruptive environment.
- Monetary and fiscal forces, though at odds, are likely to drive interest rates higher, affecting workers comp and other long-tailed lines.
- Comp finds itself in the crosshairs in important issues, especially the federal-state divide on marijuana use.
I.I.I. Mission Statement

Improving public understanding of insurance...

...what it does and how it works
Thank You!