Insurance Leading Through Disruption

Litigation Management Symposium
October 21 | Virtual

#CLMSymposium
We are the trusted source of unique, data-driven insights on insurance…

……to inform and empower consumers.
The Disruption Continuum

- Catastrophes
- COVID
- Economics
- Geopolitical
- Social Unrest
- Technology

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A New Milestone for Measuring Success

- Economic Growth
- Community Well-being
- Capital Protections
- Resilience
- Fairness & Equality

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America's Insurers: Stepping Up for Customers, Communities, and Employees

The insurance Industry is Applying Forward-thinking Solutions to Take Care of Its Customers, Communities, and Employees During the COVID-19 Crisis

<table>
<thead>
<tr>
<th>Customers</th>
<th>Community</th>
<th>Employees</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auto insurers have returned $14 billion so far to customers' pockets around the country through premium relief</td>
<td>Insurers have pledged more than an estimated $280 million (according to III/Insurance Industry Charitable Foundation) in donations to the national and local organizations fighting this pandemic on the frontlines</td>
<td>Employing more than 2.8 million Americans, Insurers are taking care of their employees—many pledging no layoffs during the ongoing crisis</td>
<td>Insurers are implementing innovative solutions to carrying out daily operations while respecting social distancing</td>
</tr>
</tbody>
</table>
Underwriting Trends
COVID-19’s Impact

Unprecedented Spread of Loss, Deterioration of Exposure

Potential Loss Impact

<table>
<thead>
<tr>
<th>Category</th>
<th>Loss Estimates (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Workers Compensation</td>
<td>0.2</td>
</tr>
<tr>
<td>Political risk, credit,</td>
<td>0.8</td>
</tr>
<tr>
<td>mortgage</td>
<td>1.7</td>
</tr>
<tr>
<td>GL</td>
<td>7.0</td>
</tr>
<tr>
<td>EPLI</td>
<td>0.3</td>
</tr>
<tr>
<td>D&amp;O</td>
<td>0.6</td>
</tr>
<tr>
<td>BI</td>
<td>2.0</td>
</tr>
<tr>
<td>Total</td>
<td>92.0</td>
</tr>
</tbody>
</table>

Exposure Impact

- $14B auto premium
- Employment related exposures (GL, WC)

Investment

- Volatile stocks, bond yields plunging
- Lloyd’s estimate: $96B in investment losses

Loss estimates range from $30B (≈ bad hurricane) to $140B (2-3 Katrinas)

Industry Outlook

Commercial Lines Rate Change

Calendar Year Written Premium and Net Combined Ratio Projections

Growth in Nominal GDP (Real GDP + Inflation)

2020 Commentary

Overall premium projected to be flat. Underwriting result deteriorates.

- Pandemic and recession reduce exposure in personal auto, several commercial lines.
- Rate increases make up for lower exposures somewhat.
- Tremendous uncertainty due to pandemic’s impact on several lines.
- We assume normal cat year, despite bleak hurricane forecast.

Data sources: NAIC data sourced through S&P Global Market Intelligence, MarketScout, Blue Chip Economic Indicators, Congressional Budget Office, PCS, Aon, Munich Re, Energy Information Agency, FRED (Federal Reserve Bank of St. Louis).
Analysis: Insurance Information Institute, Milliman.
U.S. Inflation-Adjusted Insured Cat Losses

2019 Was a Relatively Mild Year; 2020 Faces Pandemic, Above-average Hurricane Forecast

*Aon estimate through April. 2010s is average of 2010 to 2019. All losses are Direct.
Sources: Property Claims Service, a Verisk Analytics business; Aon; Insurance Information Institute.
Financial Trends
Key Sources of P/C Insurer Profits

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

Steady Investment Gains, Good Underwriting Results Lifted Profits in Most Years

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

**Amount of Surplus ($ Billions)**

- 463 (09/Q2)
- 772 (15/Q4)
- 848 (13/Q1)
- 830 (12/Q4)

**Change from Prior Quarter**

- 12:Q2 to 13:Q1: -10%
- 13:Q1 to 13:Q4: -8%
- 13:Q4 to 14:Q3: -6%
- 14:Q3 to 15:Q2: -4%
- 15:Q2 to 16:Q1: -2%
- 16:Q1 to 16:Q4: 0%
- 16:Q4 to 17:Q1: 2%
- 17:Q1 to 17:Q4: 4%
- 17:Q4 to 18:Q1: 6%
- 18:Q1 to 18:Q4: 8%
- 18:Q4 to 19:Q1: 10%
- 19:Q1 to 19:Q4: 8%
- 19:Q4 to 20:Q1: -9%
- 20:Q1 to 20:Q2: 8%

Surplus Has Rebounded from Q1 Decline Caused by Unrealized Capital Losses (Stock Declines).

78 Cents of Premium per Dollar of Surplus.

Sources: ISO, A.M. Best, Insurance Information Institute.
Employment in Major Subsectors of the Insurance Industry: A Surprise

Over the Last Two Years, All Four Major Insurance Industry Subsectors Have Grown Employment Despite the Recession That Began in February 2020

Data are seasonally adjusted

Sources: BLS; Triple-I
COVID-19

Economic and Cultural Impacts: An Industry’s Response
Global Pandemics Are Uninsurable

Economic Impact of 9/11
Global Pandemics Are Uninsurable

Economic Impact of Coronavirus
Regardless of Scenario, Retroactive Attempts to Include Pandemics in BI Causes Bankruptcy

Monthly Costs of Retroactive Changes to SME BI Policies

Retroactive BI Scenarios

1. Virus / Bacteria Exclusion Removal
   - Higher
   - Median
   - Lower

2. Expanded BI to All SMEs
   - Higher
   - Median
   - Lower

Key Assumptions
- Scenario 1: 40% take-up rate
- Scenario 2: 100% take-up rate
- Loss basis: Compensation, profits, adjustment costs 7 days waiting period
- Retained loss of 10% of total loss

Median estimates are model-driven. The higher and lower estimates assume a standard distribution for BI losses anchored in the mode-driven median loss estimates.
The Surge in Business Interruption Media Coverage Created an Opportunity for Triple-I to Serve as Industry Voice and Educator

Count of Stories Mentioning Business Interruption Insurance & COVID-19

Source: Meltwater

<table>
<thead>
<tr>
<th>Month</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>February</td>
<td>834</td>
</tr>
<tr>
<td>March</td>
<td>7,730</td>
</tr>
<tr>
<td>April</td>
<td>7,610</td>
</tr>
<tr>
<td>May</td>
<td>6,910</td>
</tr>
<tr>
<td>June</td>
<td>3,180</td>
</tr>
<tr>
<td>July</td>
<td>5,000</td>
</tr>
<tr>
<td>August</td>
<td>4,210</td>
</tr>
</tbody>
</table>

Source: Meltwater

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With Increased Attention and Scrutiny on Industry, Triple-I Identified the Need to Launch an Industry

The ‘Future of American Insurance & Reinsurance’ campaign launched in May and has served as a source of education and information surrounding pivotal industry activity, including Congressional hearings, White House roundtables, state legislation, and media stories.

With a separate website and public presences, this campaign provides the Triple-I with a separate platform and voice.

The campaign will take on overarching industry issues and emphasize its essential role in supporting and rebuilding communities in these uncertain times.

www.fairinsure.org
FAIR Guiding Principles: A Defined Perspective on Potential Policy Solutions

Given their universal scope, pandemics are largely uninsurable. Therefore, only the government has the financial capacity to provide the relief small and large businesses need to weather this crisis.

Proposed solutions must:

- Maintain the federal government as a primary provider of relief, reflecting the reality that pandemic risks are not privately insurable.
- Provide widely accessible relief payments to businesses in a fast and efficient manner once a pandemic is declared by the government, with minimal chance of abuse.
- Protect businesses from losses, and incentivize businesses to retain employees, without jeopardizing insurers' existing commitments.
Objective

Drive **behavioral change** to help people and communities better manage risk and become more resilient.
Strategies

Create a resilience movement giving households and communities a stake in risk mitigation

Educate and empower stakeholders about protection gaps and their impact on their recovery

Fast-track the use of cost effective tools to drive risk mitigation, transfer and retention
Action Partners

- Triple-I Members
- Carriers, Reinsurers and Brokers
- Insurance Trade Associations
- Non-Profits and Foundations
- Regulators
- Academia
Fairness and Equality
# Employed Persons by Occupation, Sex, Race, and Hispanic or Latino Ethnicity, 2019

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Total Employed (in 000s)</th>
<th>% of Total Employed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Women</td>
</tr>
<tr>
<td>Total, 16 Years and Over</td>
<td>157,538</td>
<td>47.0%</td>
</tr>
<tr>
<td>Business and Financial Operations Occupations</td>
<td>7,996</td>
<td>54.0%</td>
</tr>
<tr>
<td>Insurance Sales Agents</td>
<td>595</td>
<td>50.6%</td>
</tr>
<tr>
<td>Claims Adjusters, Appraisers, Examiners, and Investigators</td>
<td>318</td>
<td>62.1%</td>
</tr>
<tr>
<td>Insurance Claims and Policy Processing Clerks</td>
<td>269</td>
<td>81.7%</td>
</tr>
<tr>
<td>Insurance Underwriters</td>
<td>105</td>
<td>51.1%</td>
</tr>
<tr>
<td>Actuaries</td>
<td>33</td>
<td>N/A</td>
</tr>
</tbody>
</table>

The Industry is More Diverse and Inclusive Than It Was 20 Years Ago, But Women, People of Color and Other Minority Groups Are Still Significantly Underrepresented at Senior Levels

Source: Bureau of Labor Statistics
Solutions?

• The NAIC's newly formed committee on race and insurance will address practices that potentially disadvantage minorities – the industry will engage with the NAIC to review the recommended steps.
Working in Tandem to Overcome Unprecedented Challenges

The insurance industry is proud of its continued success in these areas—in large part because this success is built on a foundation of working in close partnership with consumers and regulators.
Thank you!

www.iii.org