



**INSURANCE  
INFORMATION**  
INSTITUTE

# Insurance: Leading Through Disruption

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## I.I.I. Mission Statement

An aerial photograph of a dense urban skyline, likely New York City, featuring numerous skyscrapers and a river in the background. The image is used as a background for the mission statement text.

Improving public understanding  
of insurance...

...what it does and how it works

Disruption is Everywhere

# Disruption is Everywhere

Catastrophes – Increases in frequency and severity

## Natural Catastrophes

### Water

2016 Flood Loss  
6x Greater



### Fire

2015: Record  
Year



### Wind

8 of 10 costliest since  
2004

367 TORNADOS Q1/17



### Climate Change



# Disruption is Everywhere

Catastrophes – Increases in frequency and severity

## Man-Made Catastrophes

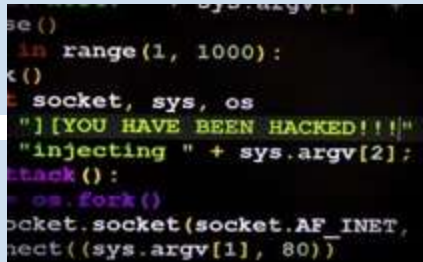
### Autos



More cars on road

Distracted driving

### Cyber



\$445 million/year

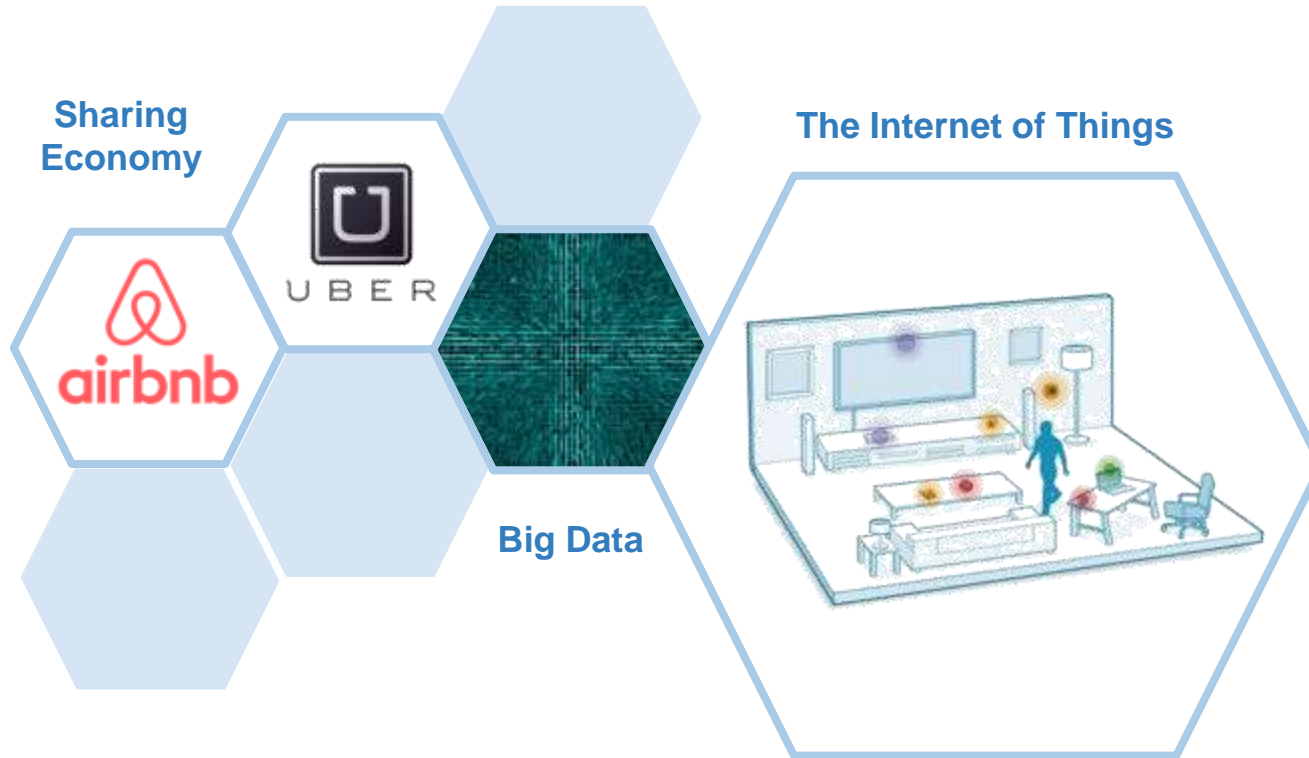
### “Induced” Earthquakes



~950 3.0+

60% in OK

# Technology / Digitalization



# Economic Uncertainty

## Global Growth...

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



## US Growth...

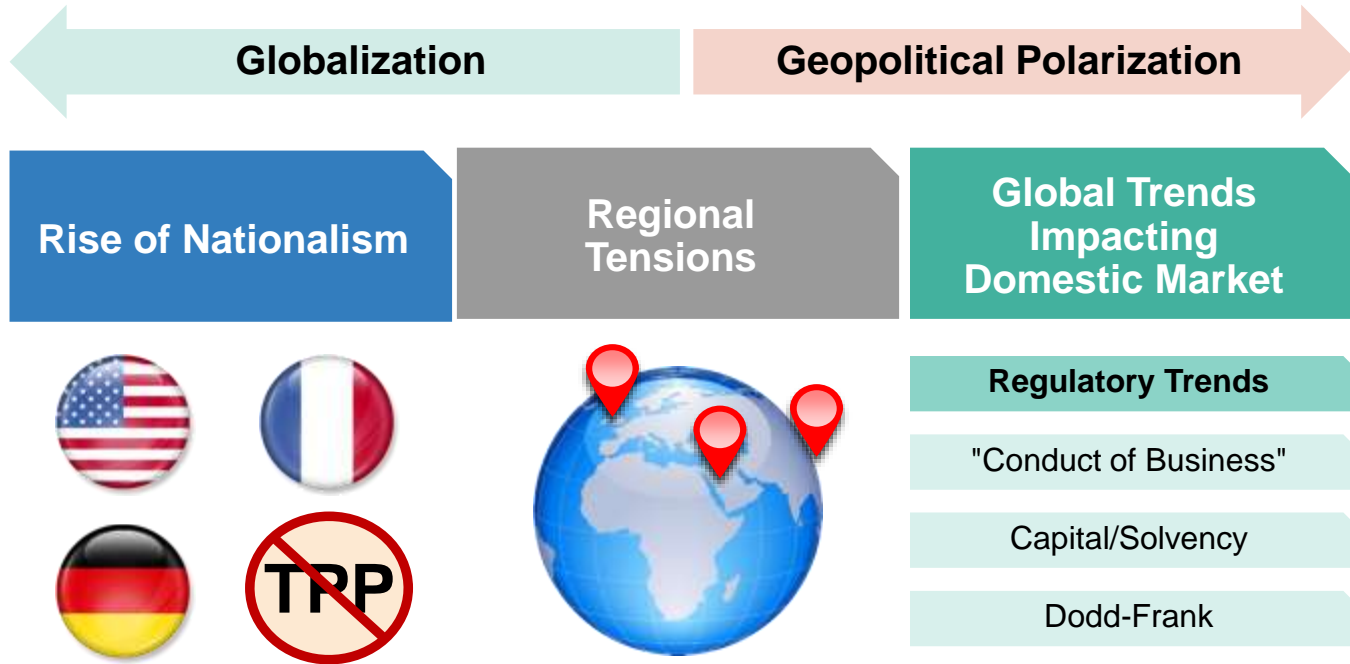


Investment  
Growth



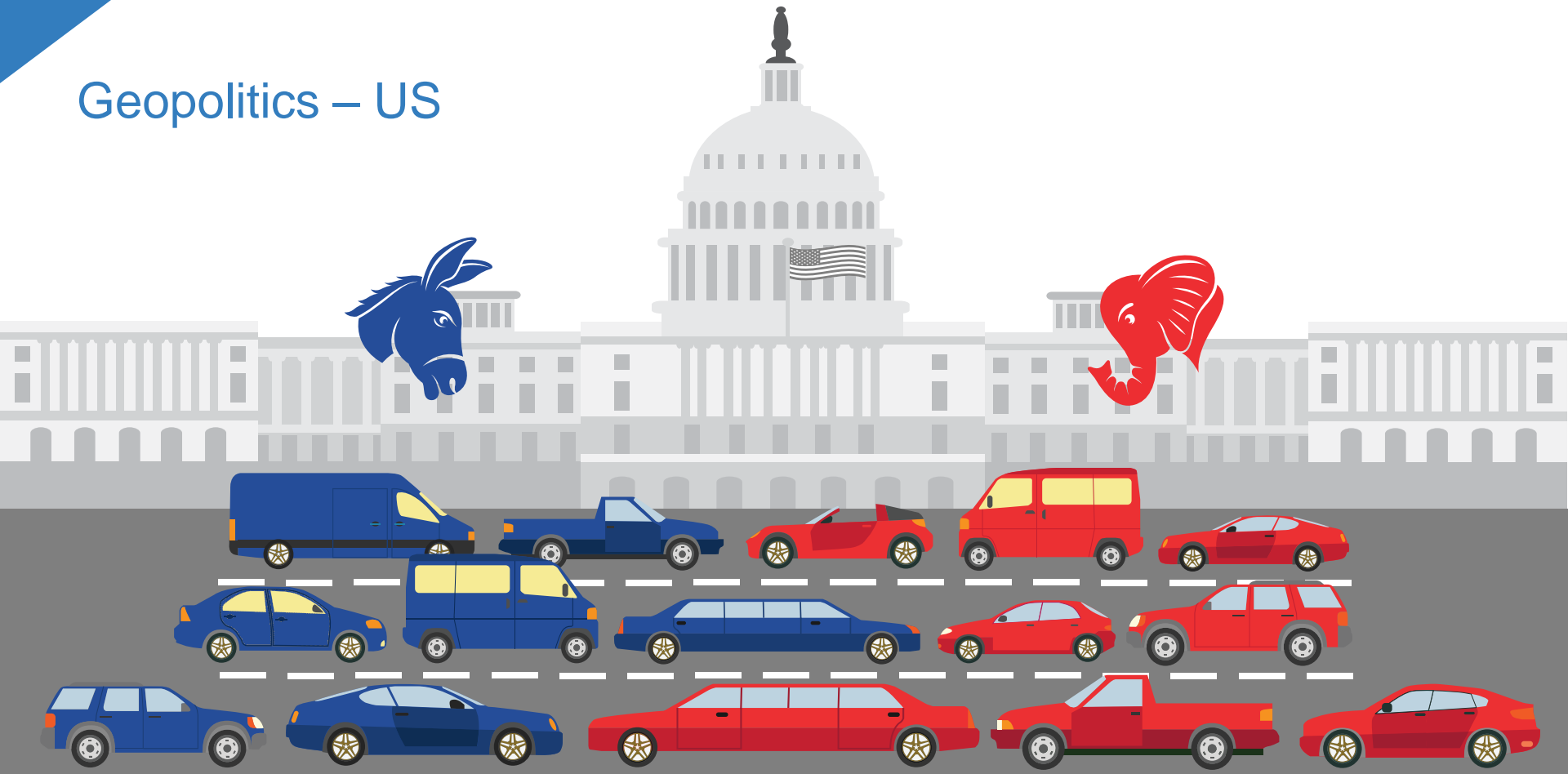
## ...Monetary vs. Fiscal Policy

- ♦ **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



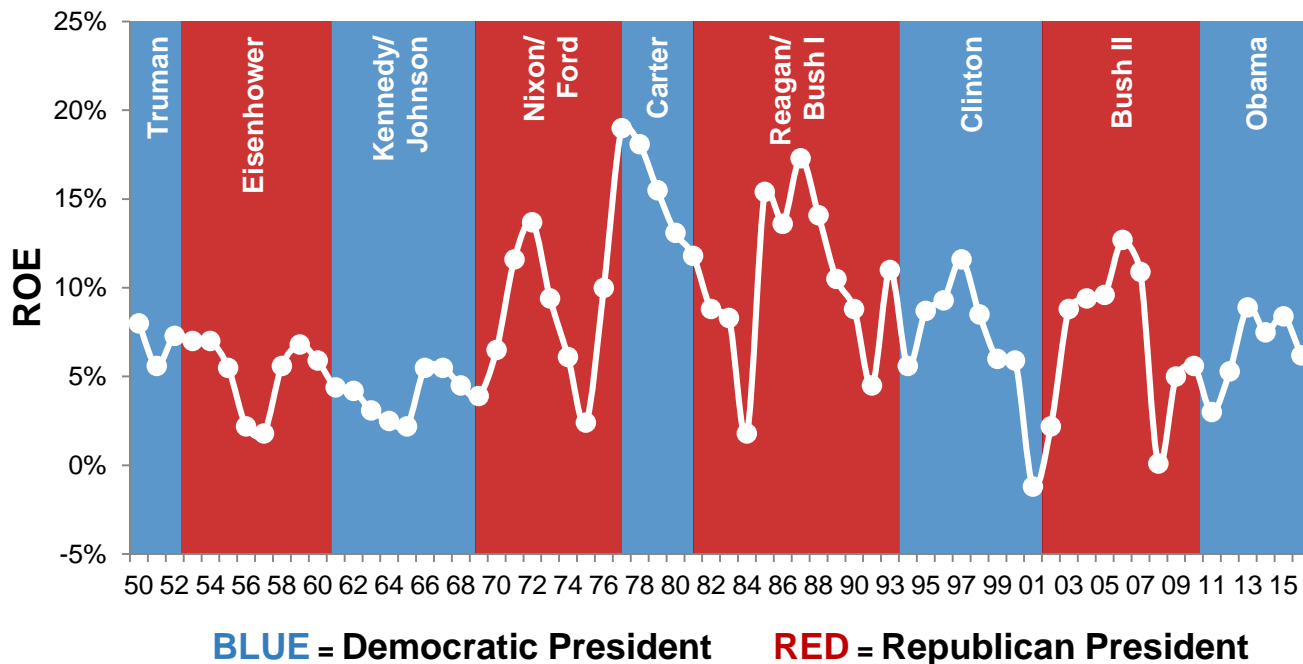


# Geopolitics – US



# P/C Insurance Industry ROE by Presidential Party Affiliation

1950-2016\*

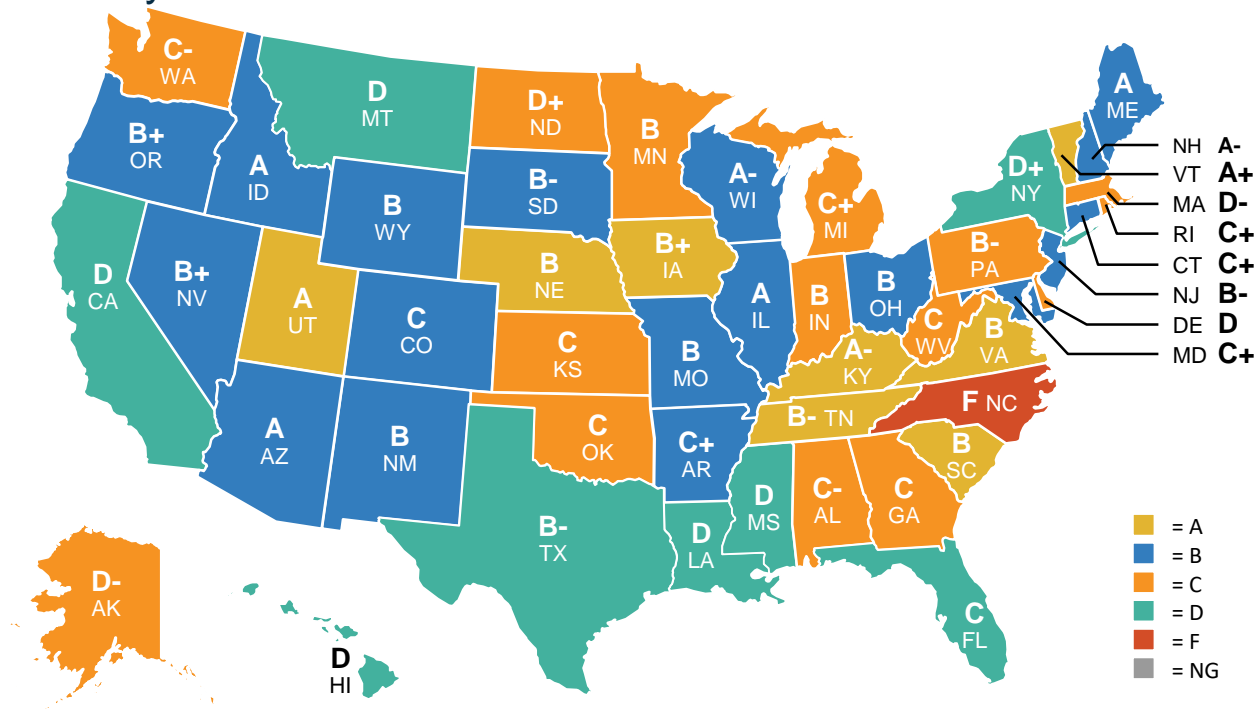


\*2016 data is through Q3.

Source: Insurance Information Institute

# But State Politics Drives Insurance

And Every State is Different



Source: R Street Insurance Regulation Report Card, December 2016



# Insurance Industry Snapshot

# State of Insurance

## Top Issues



Autonomous Vehicles



P2P insurance



\*\*\*\*

Cybersecurity



Sharing Economy



Workers Comp Regulation



Politics



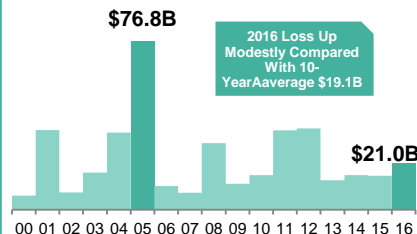
Overcapitalization (Reinsurance)

## Catastrophe Costs

### P/C Payouts / Property Losses<sup>1</sup>

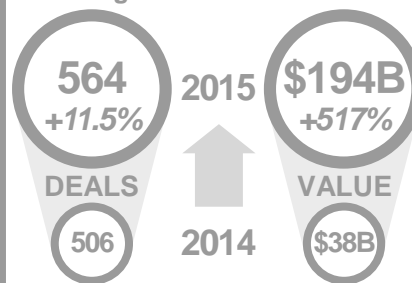


### U.S. Insured Cat Losses



## Consolidation/M&A

### Insurance-related Deals Involving U.S. Firms<sup>2</sup>



SOMPO HOLDINGS  
(JAPAN)

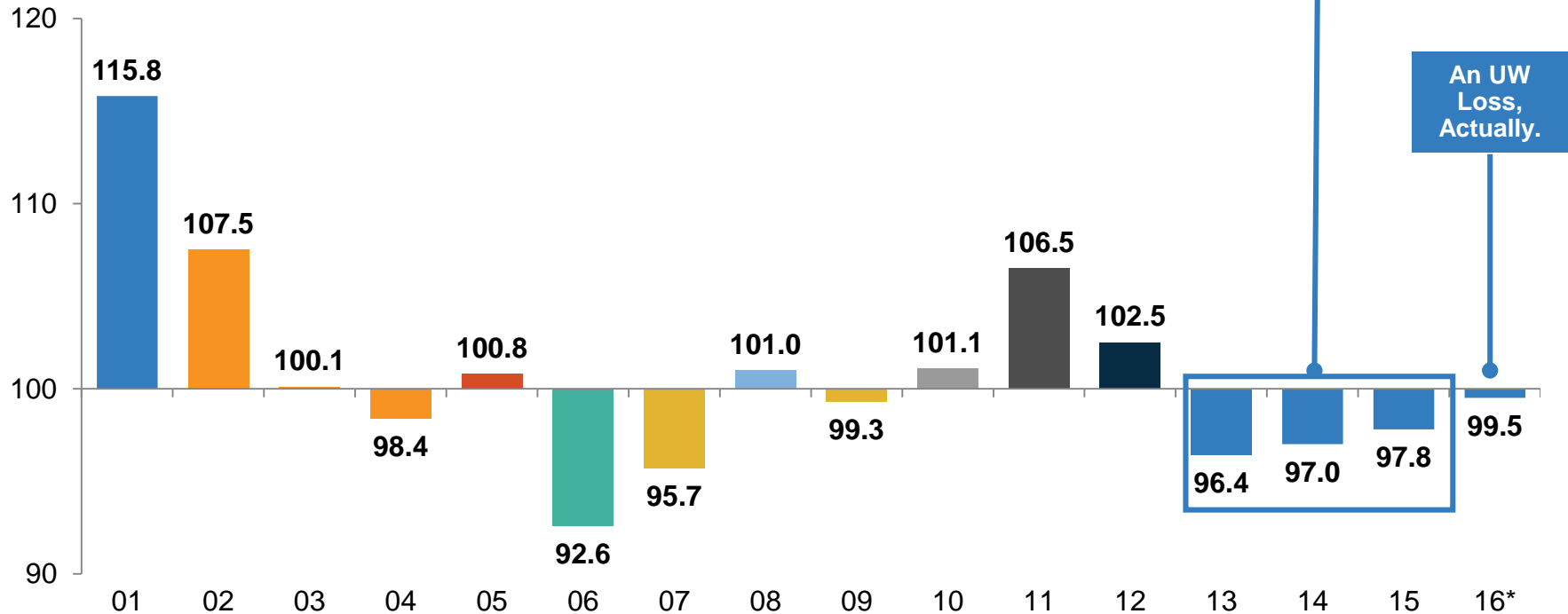
\$6.3B

Endurance  
TOYERBAS OLYMPIA  
(BERMUDA)



84 pending or completed M&As involving U.S. insurance companies (2016)<sup>3</sup>

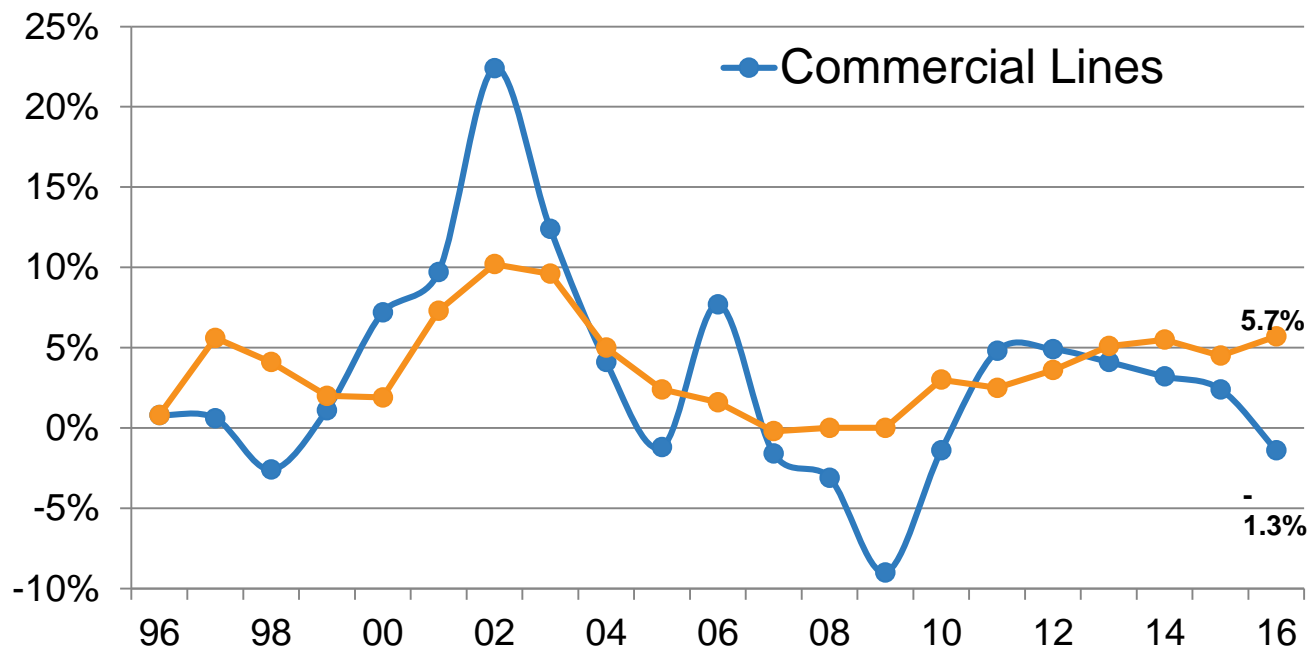
# P/C Insurance Industry Combined Ratio, 2001-2016\*



\*Excludes Mortgage & Financial Guaranty insurers 2008-2014. 2016 is first nine months  
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; 2010-2015E is from A.M. Best P&C Review and Preview, February 16, 2016.



# Commercial & Personal Lines NPW Growth: 1996-2016



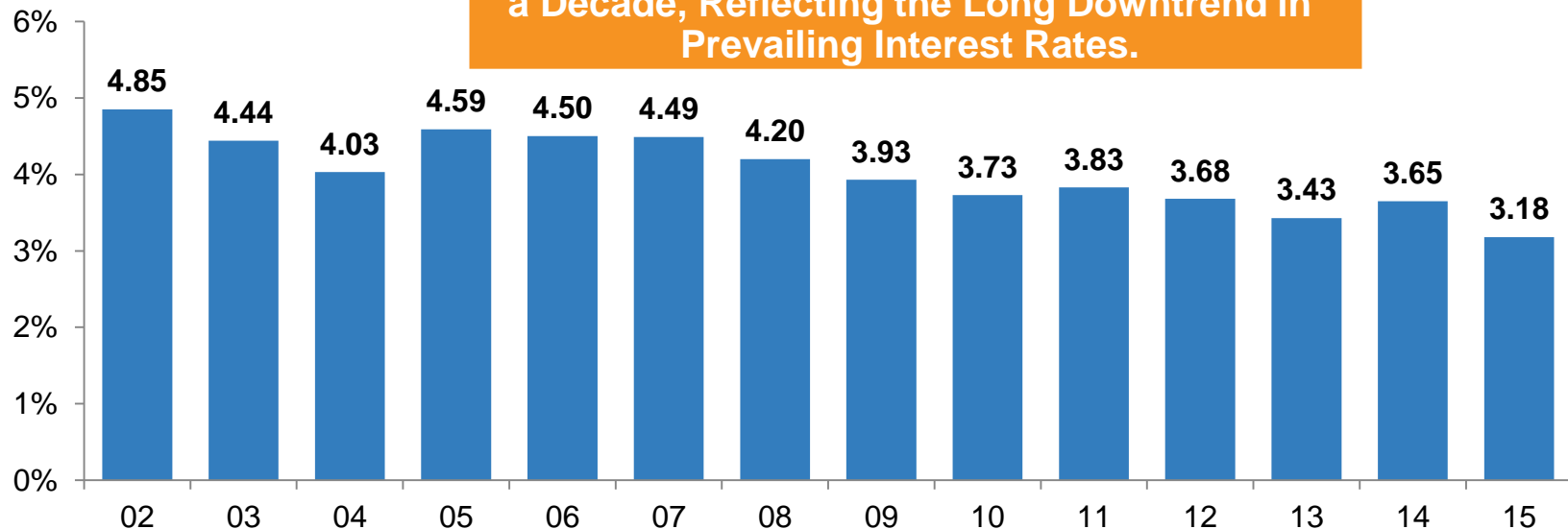
**Commercial Lines is Prone to  
Much More Cyclical Volatility Than Personal Lines.**



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

# P/C Insurer Portfolio Yields, 2002-2015

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



**Even as Prevailing Rates Rise in the Next Few Years, Portfolio Yields Are Unlikely to Rise Quickly, Since Low Yields of Recent Years Are “Baked In” to Future Returns.**

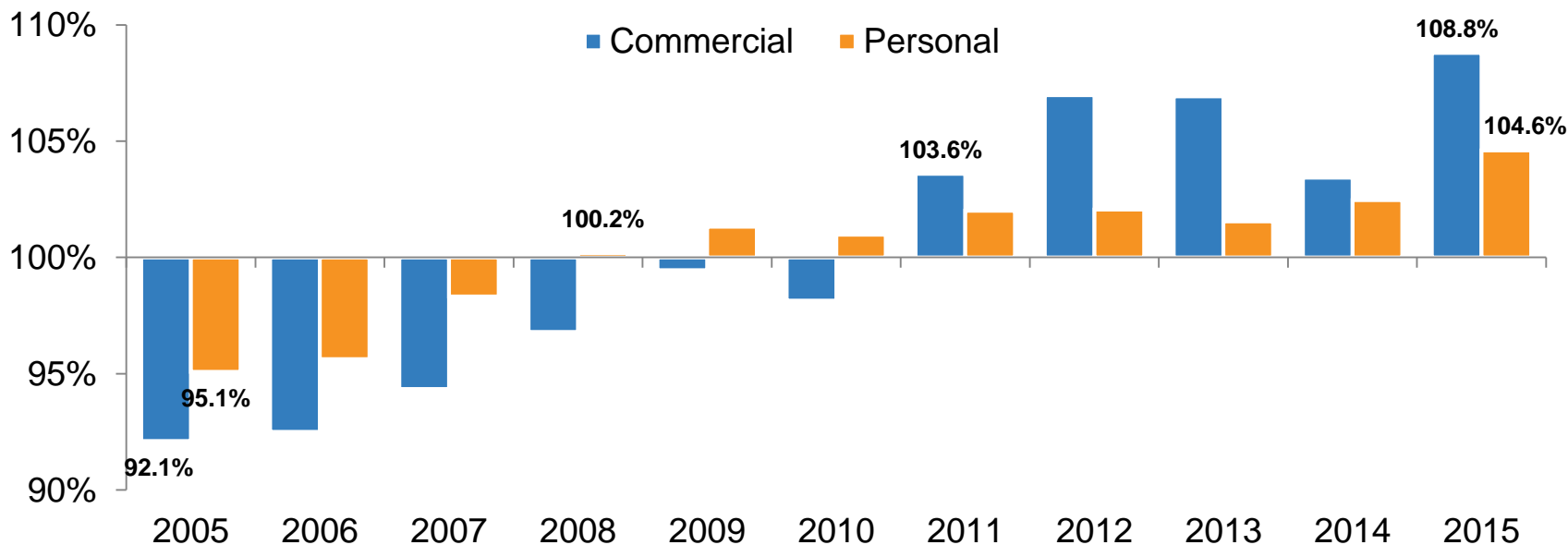




# Rising Auto Costs

A force to be reckoned with...

## Net Combined Ratio, 2005-2015



**Loss Ratios Have Been Rising for a Decade.  
2015 Return on Net Worth is Likely Close to Zero or Negative.**



Source: National Association of Insurance Commissioners data, sourced from S&P Global Market Intelligence; Insurance Information Institute.

# Double Digit Loss Costs

## Auto Insurance

### Increase in Loss Costs, 2014:Q4–2016:Q4



Bodily Injury

14.2%



Property  
Damage

15.3%



Personal Injury  
Protection

14.2%



Collision

13.6%

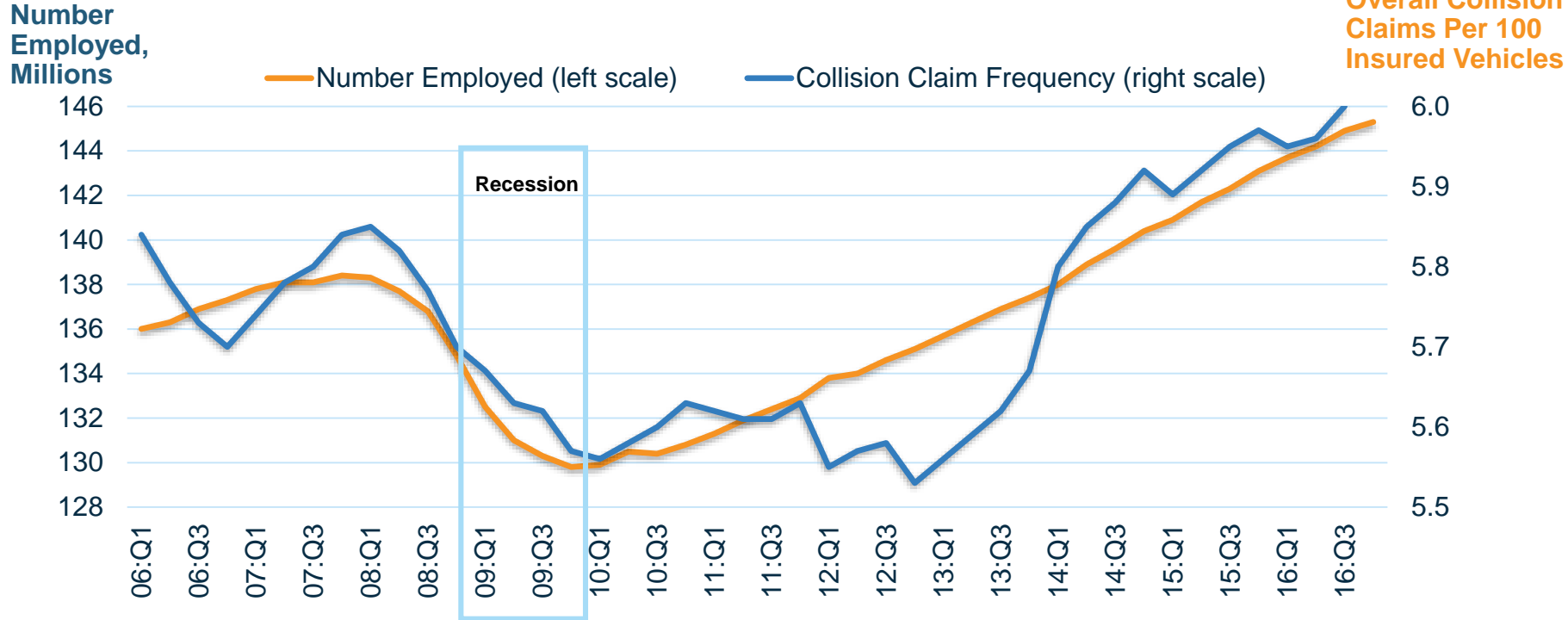


Comprehensive

20.7%

**From 2014 to 2016, the cost of accidents has risen dramatically. By contrast, consumer prices overall rose 3.9 percent during 2014 and 2015.**

# More People Working and Driving => More Collisions, 2006–2016

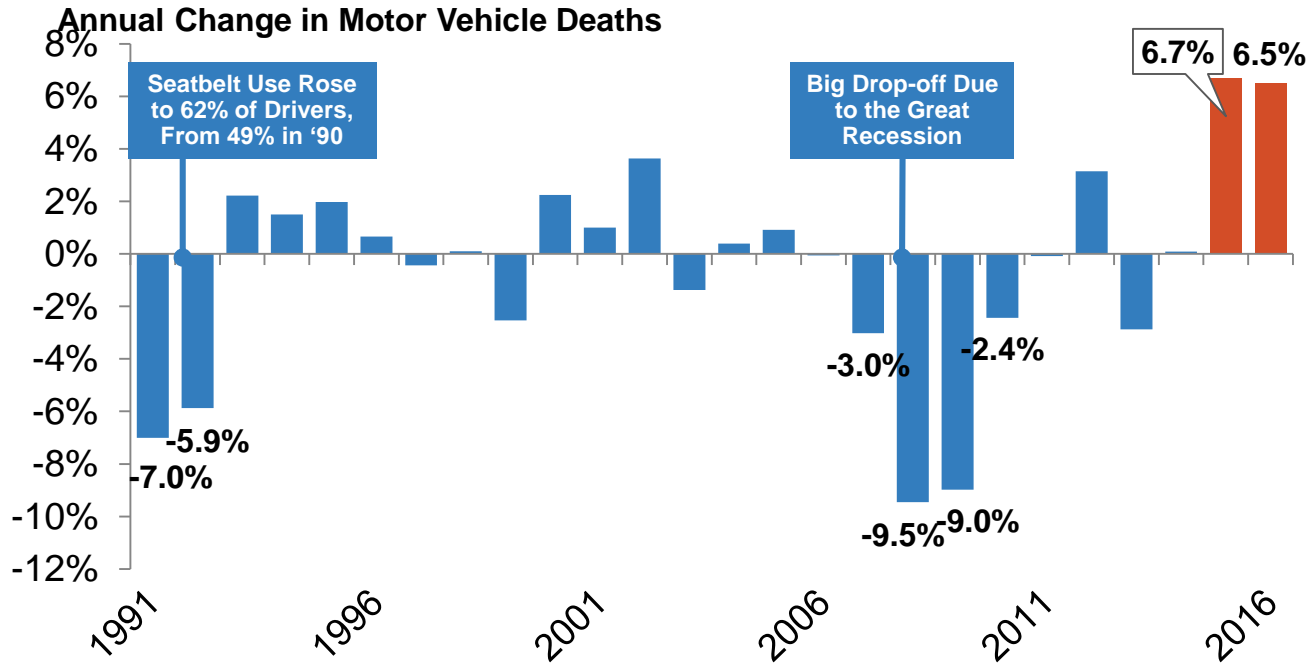


**When people are out of work, they drive less. When they get jobs, they drive to work, helping drive claim frequency higher.**

Sources: Seasonally Adjusted Employed at end of each quarter, from Bureau of Labor Statistics; Rolling Four-Qtr Avg. Frequency from Insurance Services Office; Insurance Information Institute.



# Severity: Driving Fatalities Are Rising



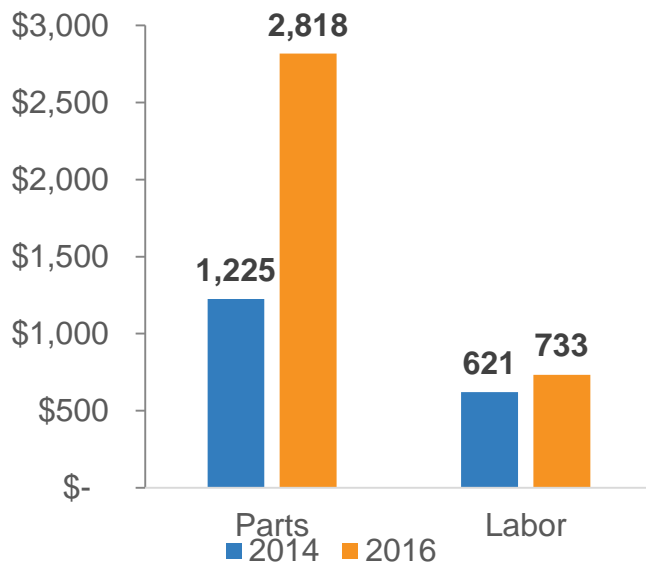
**Driving Has Been Getting Safer for Decades, But Recent Trend is Discouraging—38,300 Deaths in 2015.**



# Fixing a Bumper

... On an Entry-Level Luxury Car (~\$35K)

## 2014 Cost vs. 2016 Cost



## What Has Changed?

	2014	2016
Grille: Distance Sensor	\$0	\$2,818
Headlamp Assembly	394	918
Mechanical Labor	0	108

## Fewer Accidents, Higher Costs

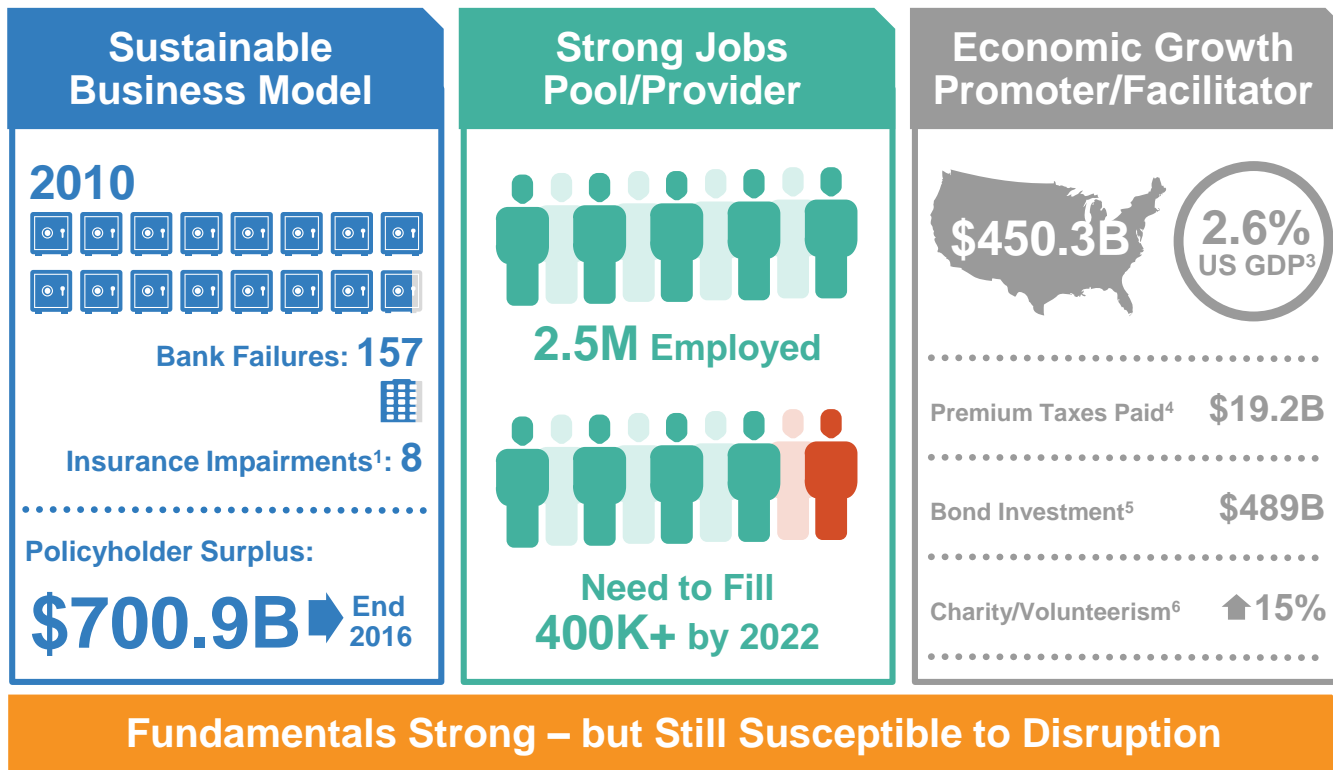
- ▲ Parts: 130% Higher
- ▲ Labor: 18% Higher
- ▲ Total cost: \$1,705 higher



2016 vehicle has LED headlights and adaptive cruise control.  
Source: Liberty Mutual Insurance.

# Insurance: Leading Through Disruption

# Insurance Leadership

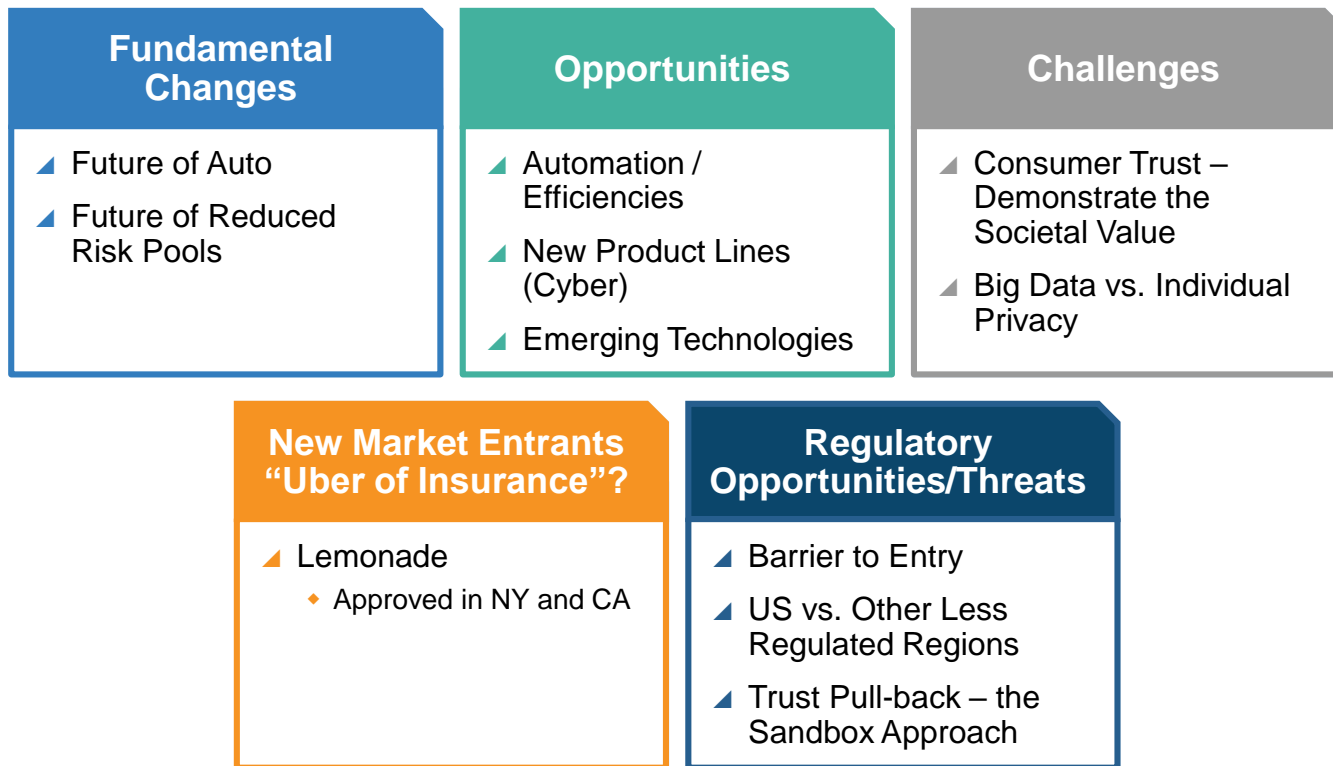


1. Life/Health and P/C Insurance' 2. PC 360 <http://www.propertycasualty360.com/2013/04/17/insurance-industry-crisis-400000-positions-to-fill?slreturn=1476304299>; 3. U.S. Bureau of Economic Analysis. 2014; 4. U.S. Department of Commerce, 2015; 5. Federal Reserve, 2015; 6. 2011–2014, Insurance Industry Charitable Foundation.



# Insurance Disruption

Technology / Digitalization

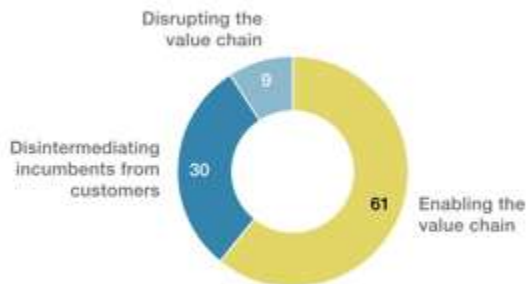


# InsurTech Disruption: Threat or Opportunity?

Automation efficiencies can have powerful impact on industry

Only 9 percent of insurtechs aim to oust incumbents.

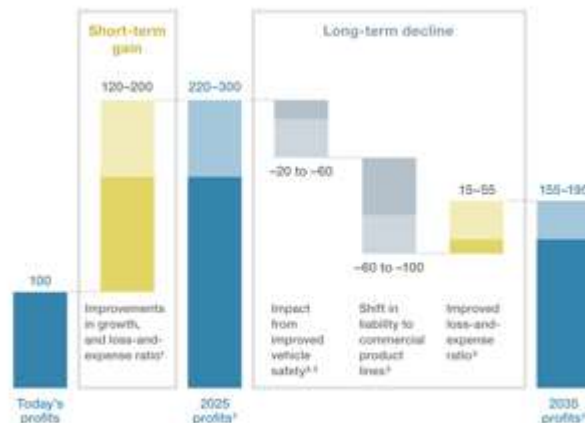
Focus of insurtechs in the insurance value chain,<sup>1</sup> %



<sup>1</sup>Insurtechs are insurance businesses, usually start-ups, that use technologically innovative apps, processes, or business models; 2016 data based on some 500 commercially well-known cases.

McKinsey & Company | Source: Panorama by McKinsey

Future profits as a % of today's profits, digitizing the business, auto-insurance example

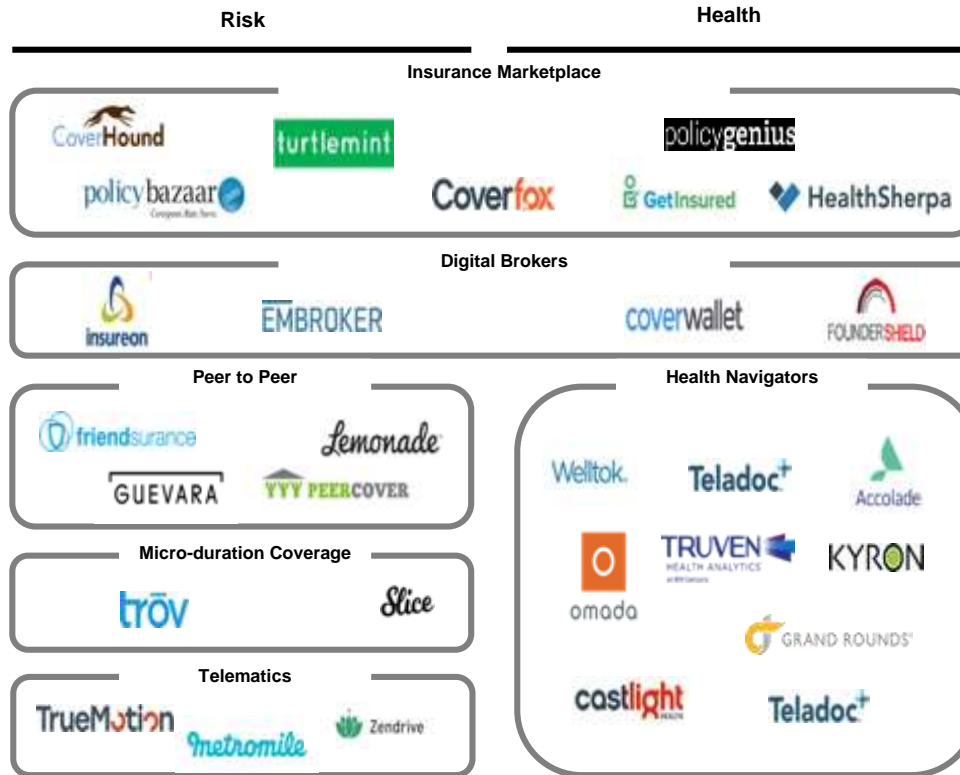


<sup>1</sup>Assumes improvements of 3-5 percentage points in loss ratio, 2-4 percentage points in operating expenses, and 5-8 percentage points in direct-sales conversions.

<sup>2</sup>Includes impact of semi- and fully autonomous vehicles.

<sup>3</sup>Assumes a 25% reduction in premiums as a result of telematics and sensors and a 50% risk transfer to commercial product liability.

# InsurTech Startups Have Broad Range... BUT...



## ...With Broad Incumbent Support

metromile



\$205M

CoverHound



\$57M

ONE, INC.



\$37M

poliogenius



\$21M

Slice



\$4M

Note: Total funding

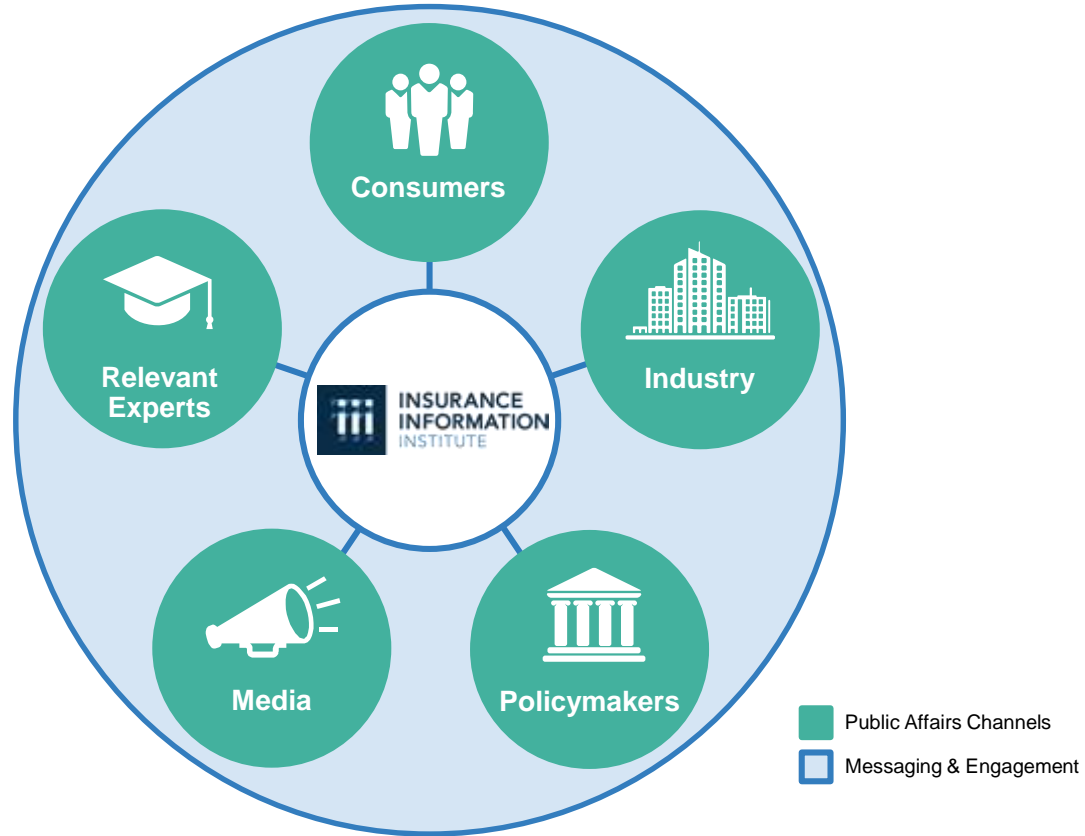
# Successful Digital Transformation → Holistic Approach



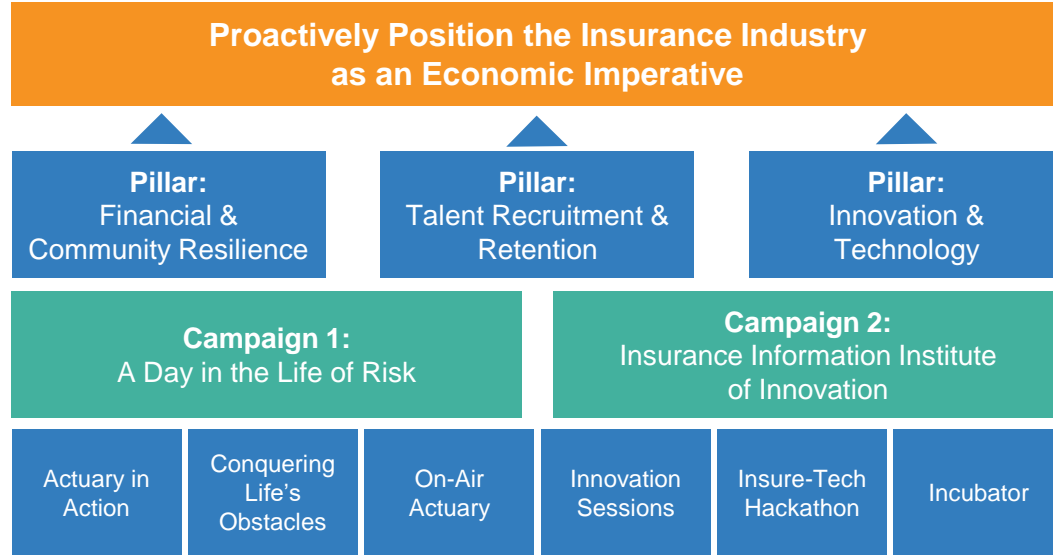


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# “Surround Sound” Approach



# Campaign Framework

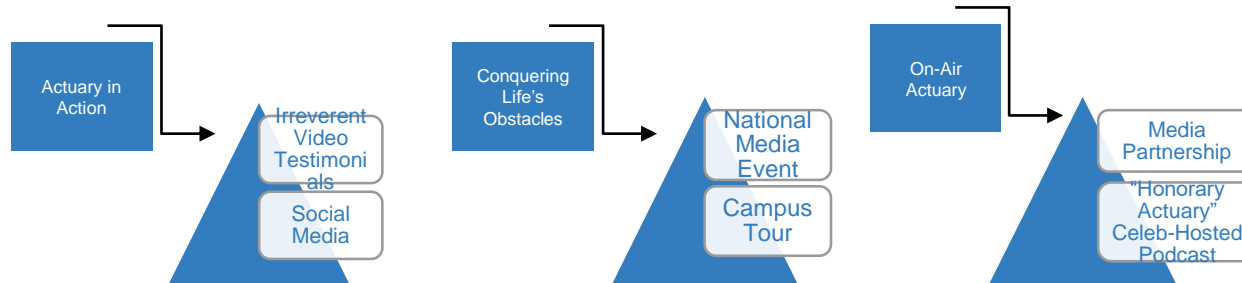




# A Day in the Life of Risk

## ▲ Concept

- ◆ People usually don't understand risk or the economic value of insurance until something bad happens to them or someone they know. They also don't understand the humanity of the insurance industry until they have a live person helping them sort out their situation.
- ◆ The I.I.I. will construct a scalable, multi-tier campaign aimed at building community resilience and talent recruitment that tastefully and authentically raises awareness of the critical importance of insurance by personifying risk and giving it tangible, touchable, and experiential factors.



# A Day in the Life of Risk Conquering Life's Obstacles

## Phase 1

- ▲ Invite press to experience the I.I.I. Obstacle Course as a kick-off event that reintroduces the industry and shakes off outdated insurance sentiments; offer executive interviews on thought leadership and institutional authority.



## Phase 2

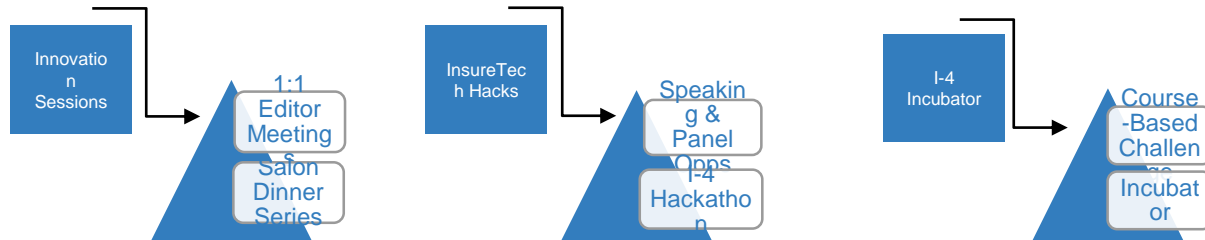
- ▲ Take the show on the road.
  - ◆ Hold events at college campuses nationwide where students can participate in the obstacle course, get information on careers in the industry and learn more about why they need the product at this stage of their life.
  - ◆ Potentially engage celebrity (ex: comedian Chris Hardwick) to host competitive sessions between teams (fraternities, sororities, study groups).



# Insurance Information Institute of Innovation (I-4)

## ▲ Concept

- ◆ Embrace disruption and new technologies to ensure relevance and address potential challenges technology can manifest by launching the I-4 campaign: the Insurance Information Institute of Innovation.
- ◆ It begins with a focus on:
  - Driving conversations around technology and its implications – both positive and negative – to business and personal insurance.
  - Shining a light on the current innovators in the industry while supporting and celebrating new development and technology breakthroughs.
  - Promoting contemporary and technology-focused career opportunities within the insurance industry on college campuses.



# I-4 InsurTech Hacks

## Phase 1

- Participate with informational POV in stories of innovation, such as:
  - ◆ Sharing Economy: Gather members for a “State of the Gig Economy” review and discussion.
  - ◆ entrepreneurs who are just starting their jobs: Partner with leading VCs and incubators to offer webinars and how-to’s for entry into fundraising and how to protect themselves; consider a session at this fall’s TechCrunch Hackathon in SF.

## Phase 2

- i-4 Hackathon: Increase I.I.I.’s presence at these hackathons – like SXSW next spring – by building out an InsurTech track and stacking the judging panel with industry leaders.
  - ◆ Solicit problems/parameters from member companies to solve at the hackathon; drive a discussion around STANDARDS.
  - ◆ Engage universities in each city to participate by inviting engineering students, insurance majors and their professors.
  - ◆ Note that Axis held one at University of Illinois at CU and Zurich Insurance in Germany.



# Summary

**Disruption Causing Insurance Industry Inflection Point**

**Opportunity/Risk: Define or Be Defined...**

**I.I.I. @ Catalyst – Responsiveness to Proactive Driver**



Thank You!

# Insurance: Leading Through Disruption

**Q&A**