

Industry Update: Yesterday, Today and Tomorrow

Central States Actuarial Forum Grinnell, Iowa October 15, 2019

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I.I.I. Mission Statement



How Insurance Drives Economic Growth

Safety/ Security



1. Insurers are financial first responders



2. Insurers are risk mitigators

Economic/ Financial Stability



3. Insurers are capital protectors



5. Insurance sustains the supply chain



4. Insurance is a partner in social policy



6. Insurers are capital infusers

Development



7. Insurers are community builders



8. Insurance enables infrastructure improvements



9. Insurers are innovation catalysts



10.Insurers are credit facilitators

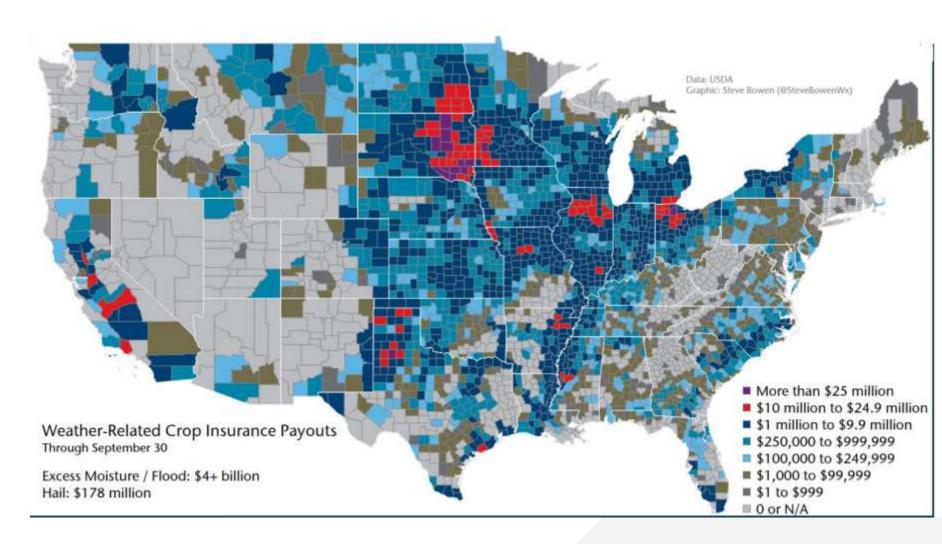


Insurance and Agriculture





Protecting America's Farms



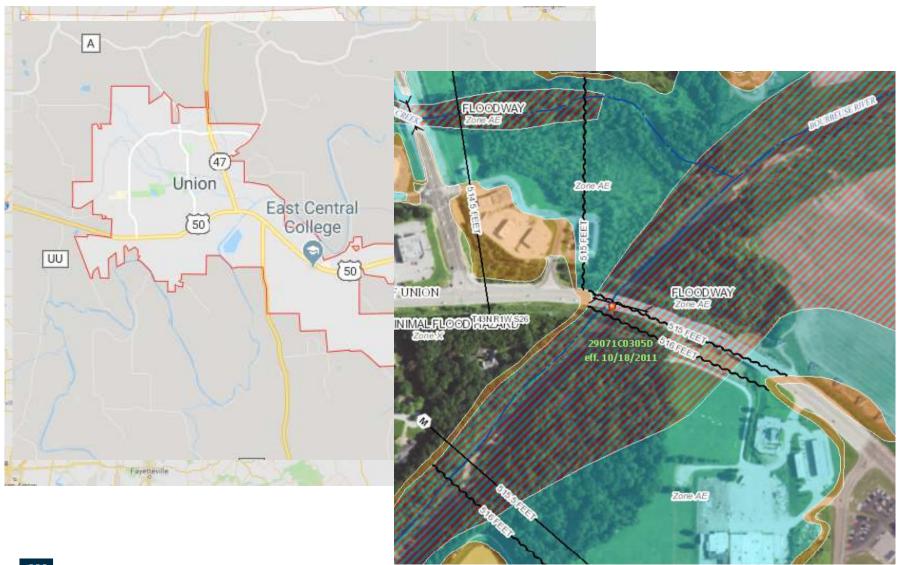


Source: USDA, Aon (Steve Bowen).

Catastrophes

Extreme Weather Threatens Union

A Small Town in Missouri





1982 Union, Missouri, Flood

A Storm for the Ages



Bourbeuse River Record Crest 33.8 feet 12/5/1982

2015 Union, Missouri, Flood

A Storm for the Ages



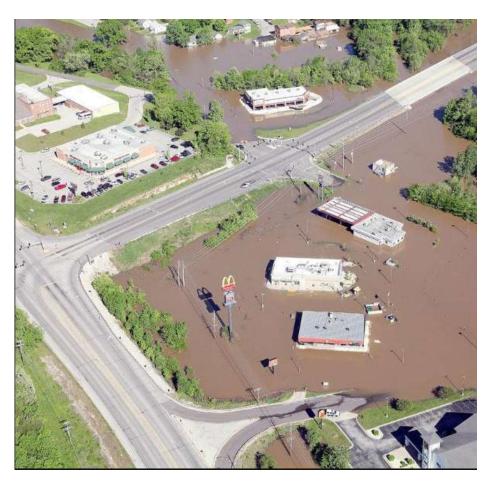
Bourbeuse River Record Crest 34.3 feet 12/29/2015



2017 Union, Missouri, Flood

"Unfortunately, it's a river and Mother Nature. And we can't control her."

Crest
29.4 feet
May 2-3, 2017



	Crest (feet)	Year
1	0.40	1936
2	0.40	1948
3	0.40	1948
4	0.50	1976
5	0.55	2014
6	0.64	2012
7	0.68	2000
8	0.78	2001
9	0.80	1996
10	1.14	2007

2019: Union, Missouri, Embraces Resilience

Community Hardening

Dickey Bub Berm



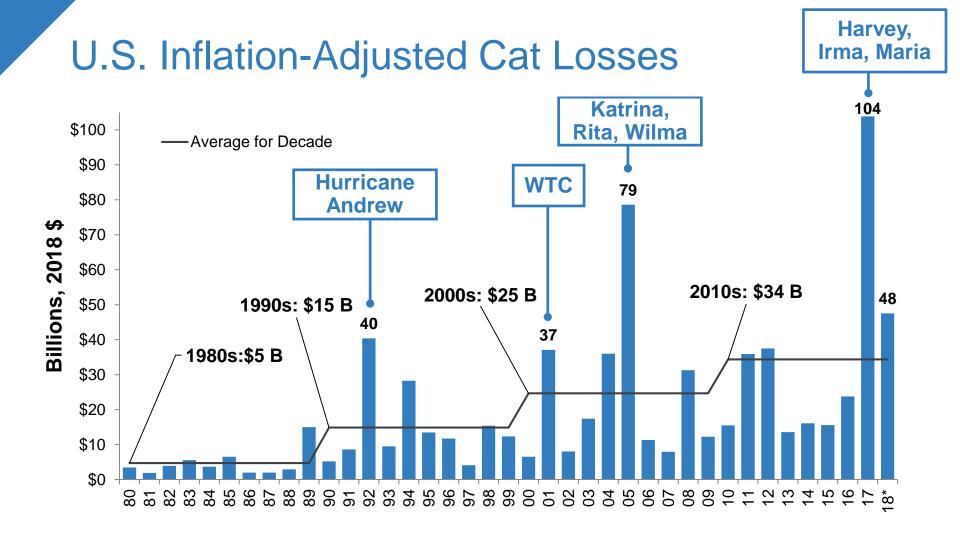
Shopping on One Side



Park on the Other







2018 – Third worst year for U.S. Insured Catastrophe Losses. Average Insured Loss per Year for 1980-2018 is \$19.3 B.



Insurance Leading Throughout History

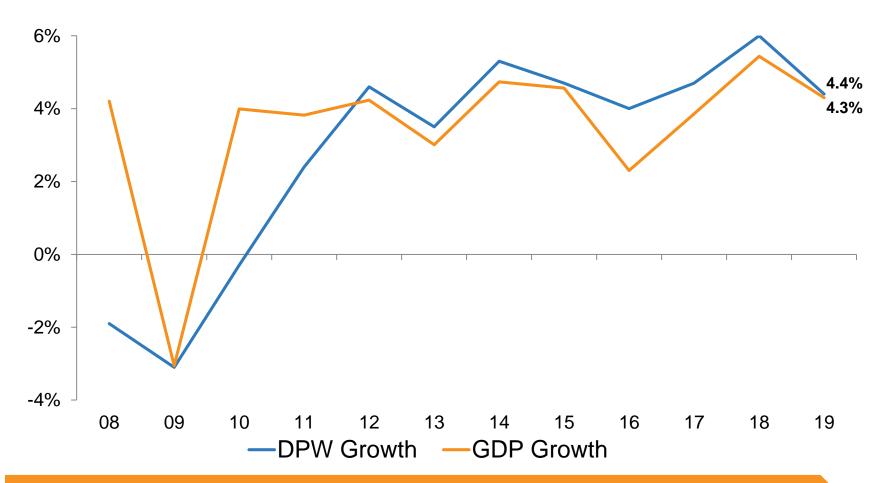




Yesterday: Industry Results

Higher Rates, Moderating Claim Rates Buoy Results

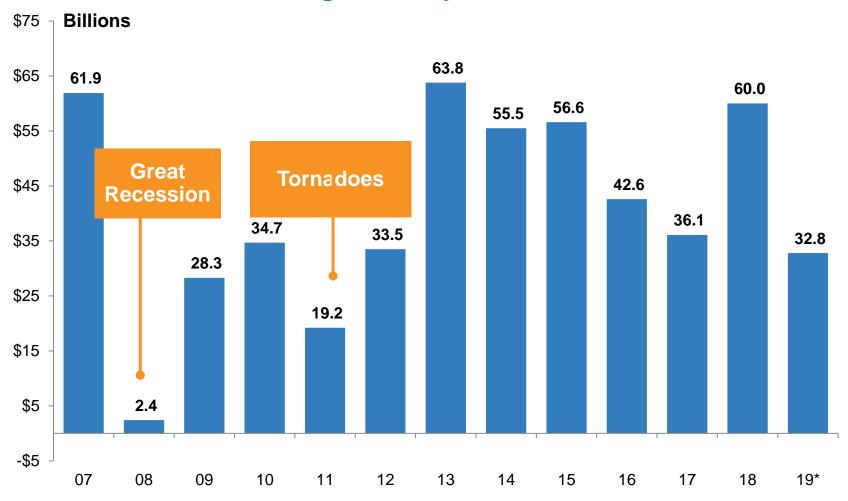
Are Insurers Growing?



Rising Auto Rates Driving Premium Growth - \$337B at Second Quarter.



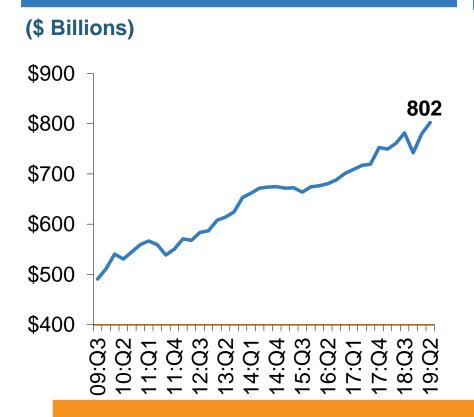
Are Insurers Making Money?



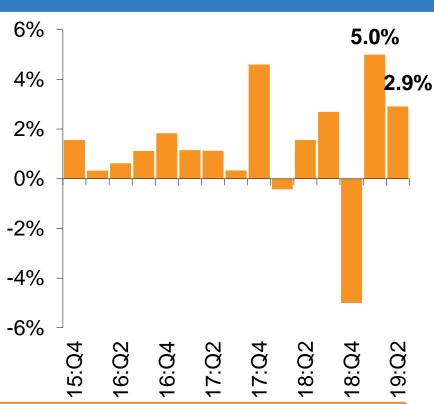


Policyholder Surplus By Quarter



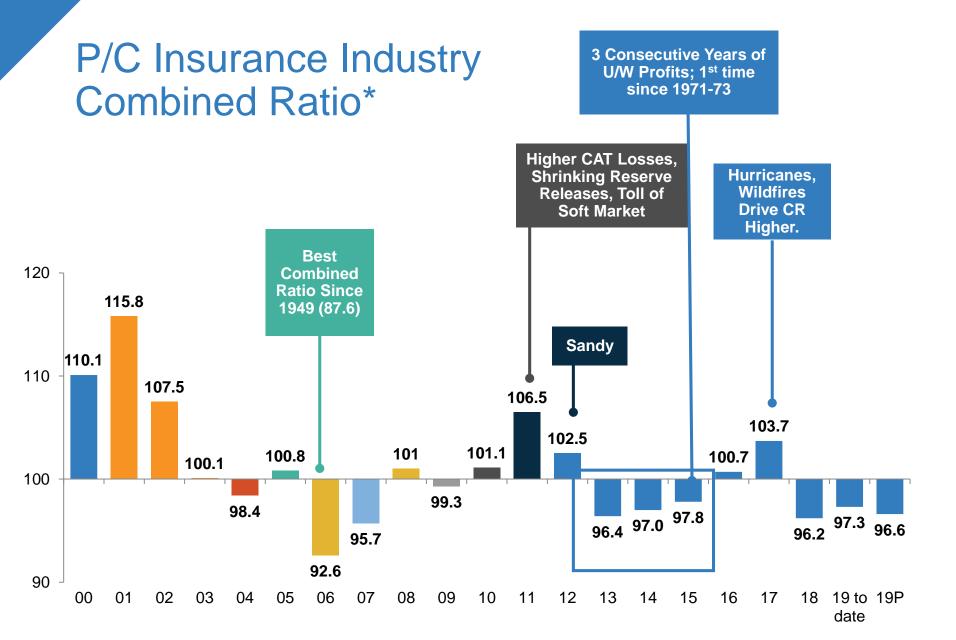


Change from Prior Quarter



Surplus Has Rebounded from Q4 Decline Caused by Stocks. 78 Cents of Premium per Dollar of Surplus.

Sources: ISO, A.M .Best.



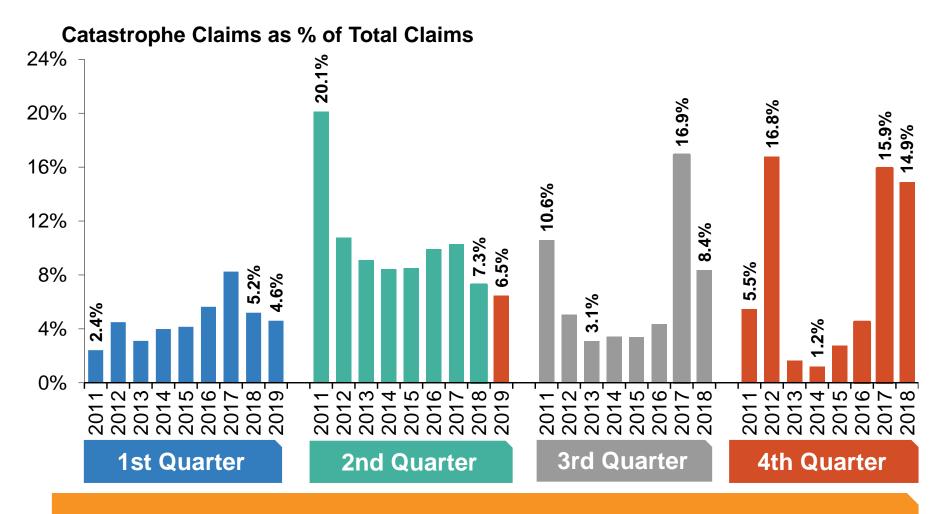
Through Q2.

*Excludes Mortgage & Financial Guaranty insurers 2008-2014.

| Luding M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.1; 2012:=103.2; 2013: = 96.1; 2014: = 97.0.

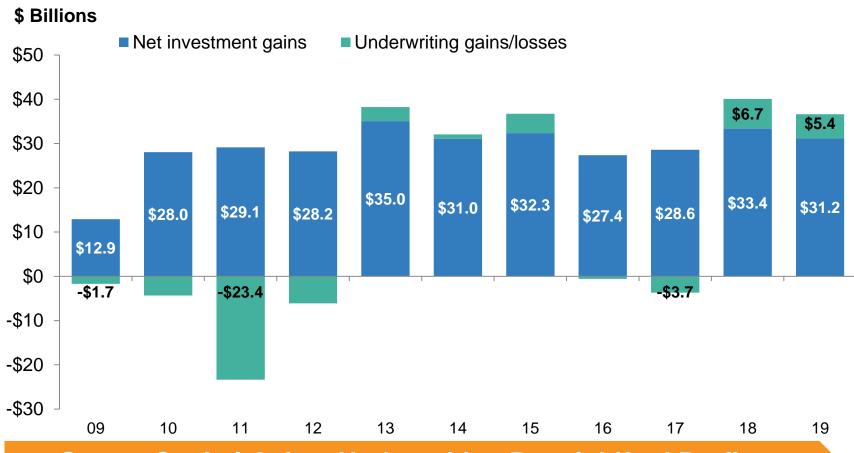
| Luding M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.1; 2012:=103.2; 2013: = 96.1; 2014: = 97.0.

Catastrophe Claims, by Season



Catastrophe Claims Hit Hardest in Second and Third Quarters.

Key sources of P/C insurer profits



Strong Capital Gains, Underwriting Result Lifted Profits.

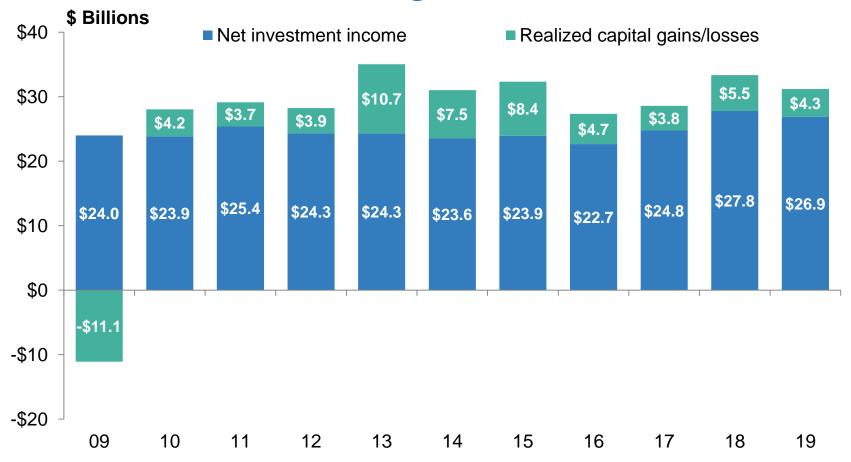
Through second quarter. Not adjusted for inflation.

Data are before taxes and exclude extraordinary items.

Source: NAIC data, sourced from S&P Global Market Intelligence.

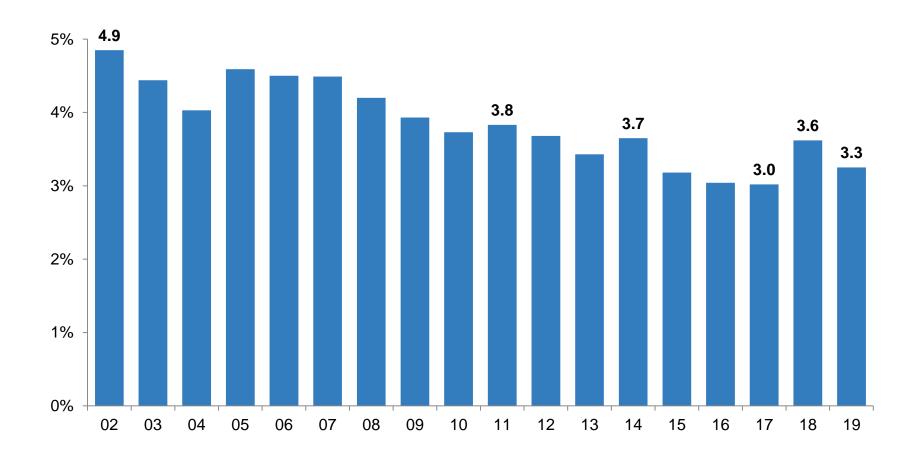


Sources of investment gains



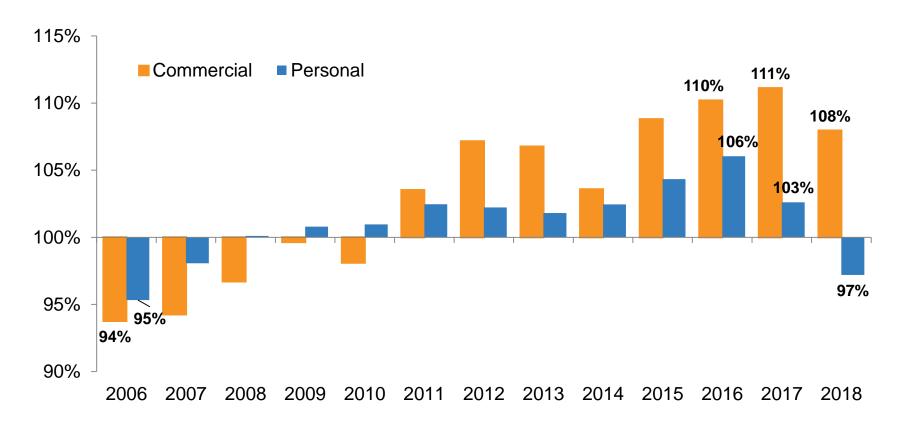
Investment Gains Running Behind of 2018 So Far.

P/C Insurer Portfolio Yields



Yields Have Been Under 4 Percent Since 2009.

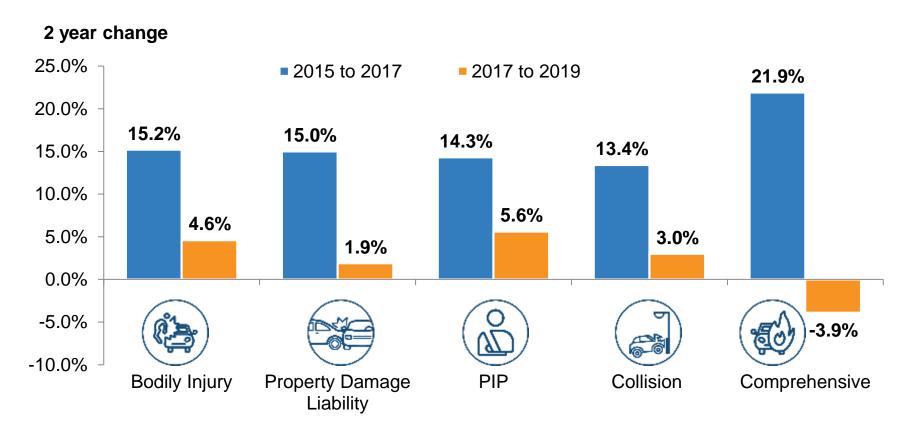
Auto Net Combined Ratio



Personal Auto Has Returned to Underwriting Profitability. In Commercial Auto the Fever May Have Broken.



Loss Costs Have Tapered Off the Past 2 Years



After Several Years of Steep Increases the Cost of Accidents has Tapered Off. Consumer Prices Overall Rose 6.6 Percent from 2016 to 2018.

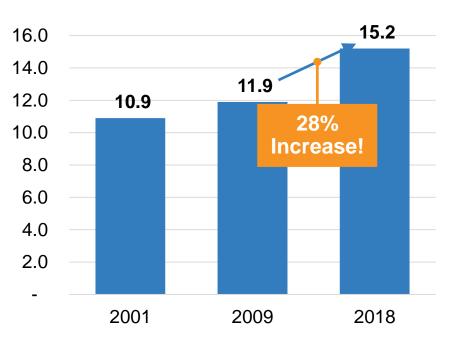


Auto Repair: Complexity Grows

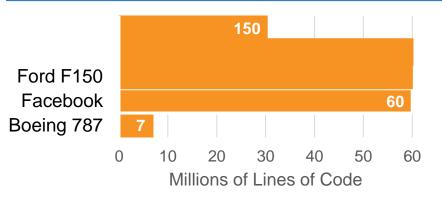
More Cool Stuff to Fix

More Parts, More Labor: Higher Costs

Parts/Collision Claim on Current Year Car



Electronics Add to Cost, Complexity



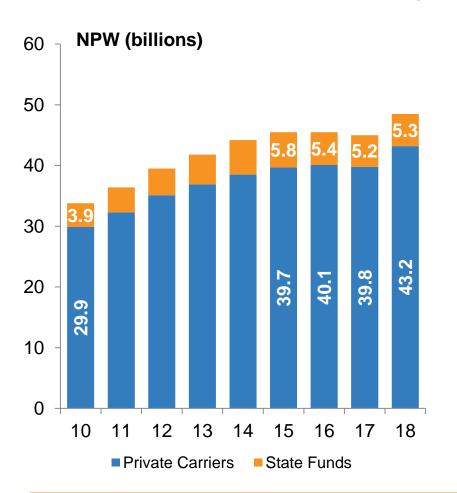
- ✓ Electronics: 40-50% of cost of vehicle
 - Pre-repair scan: \$63
 - Post-repair scan: \$93
 - Calibration labor: sublet at \$150
 - OEM: 98% of camera/sensors

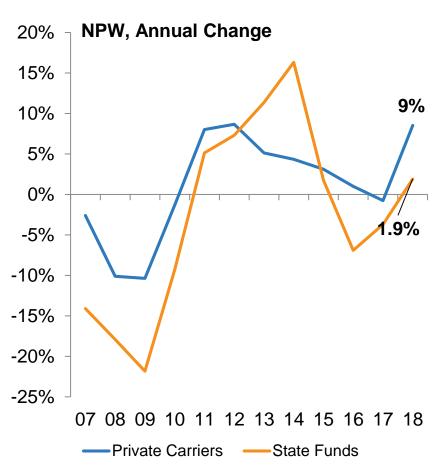


^{*} Property Damage Only.

SOURCES: "2019 Crash Course." CCC Information Services; Ford Motor Co.;

Workers Comp: Soft Market Offsetting Exposure Growth



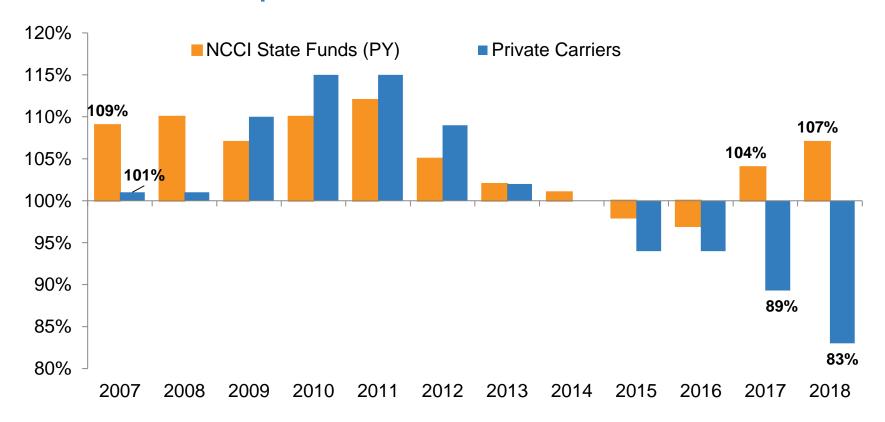


Private Carriers: Tax Law Changes Boosted Net Premiums.



Source: NCCI.

Workers Comp Net Combined Ratio



Favorable Loss Trends Let Private Carriers Post Lowest C.R. Since 1930s.

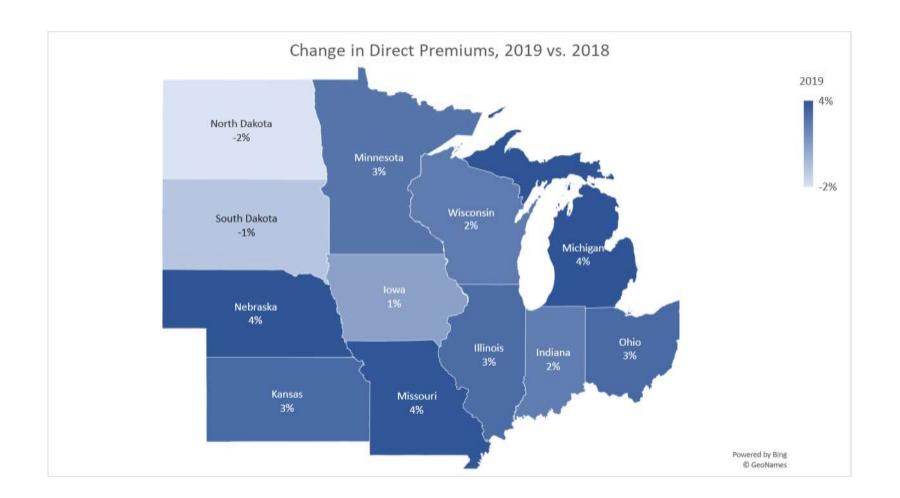


Source: NCCI..

Focus on Iowa

Growth and Profitability

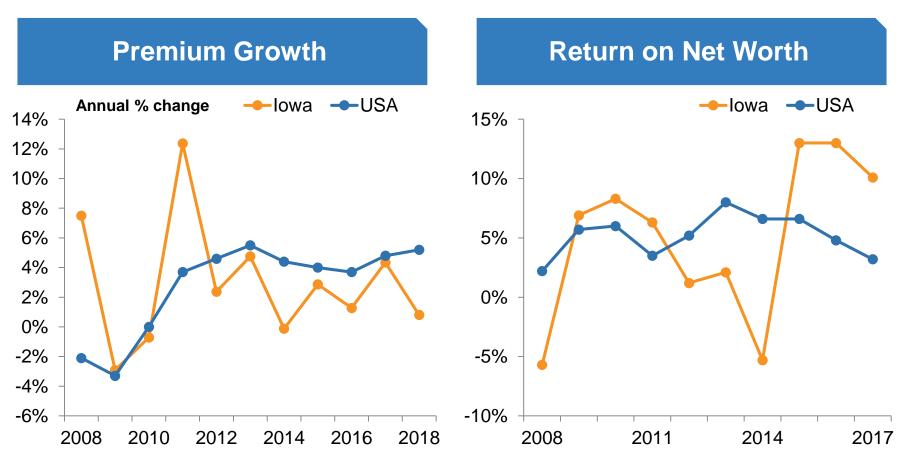
2019: Tepid Growth in the Midwest



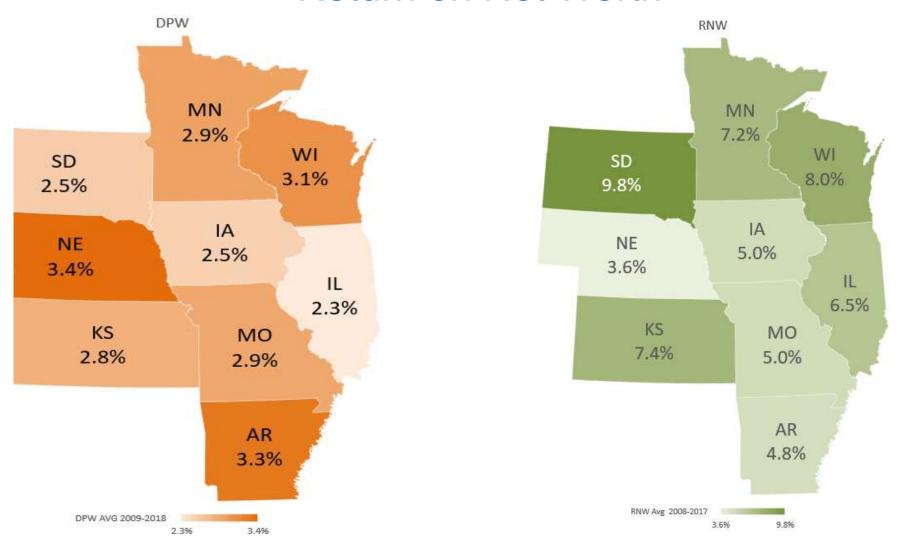


Return on Net Worth and Direct Premiums Written All Lines

Iowa vs. USA



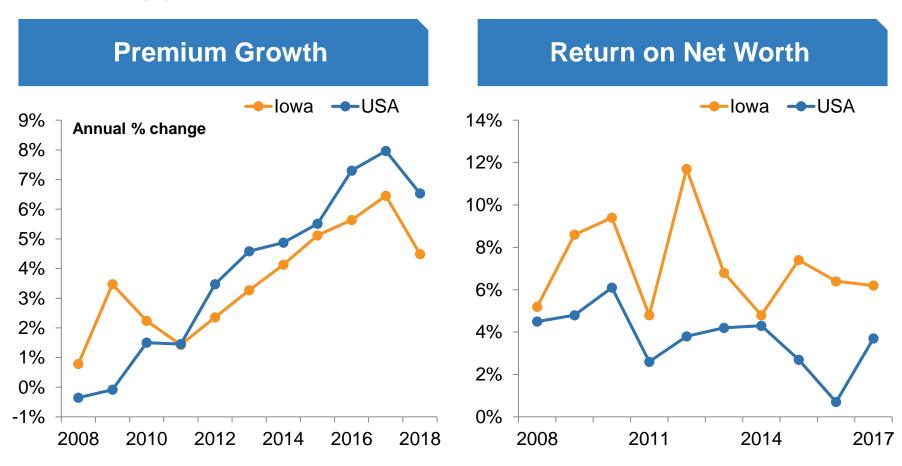
All Lines: 10-Year Average DPW Growth and Return on Net Worth





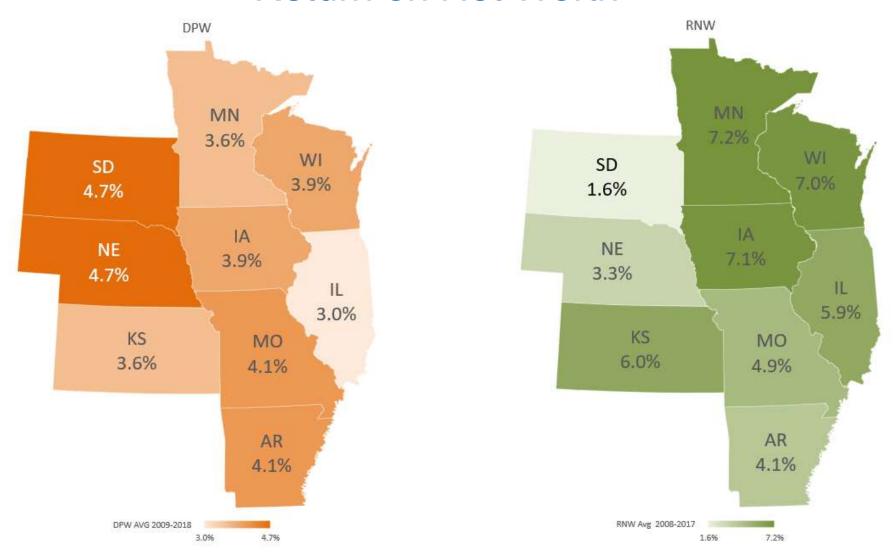
Return on Net Worth and Direct Premiums Written PP Auto

Iowa vs. USA





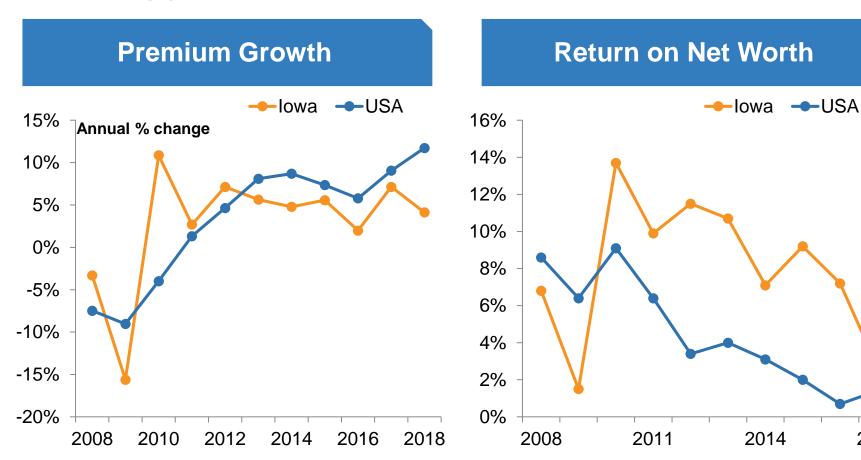
PP Auto: 10-Year Average DPW Growth and Return on Net Worth





Return on Net Worth and Direct Premiums Written Commercial Auto

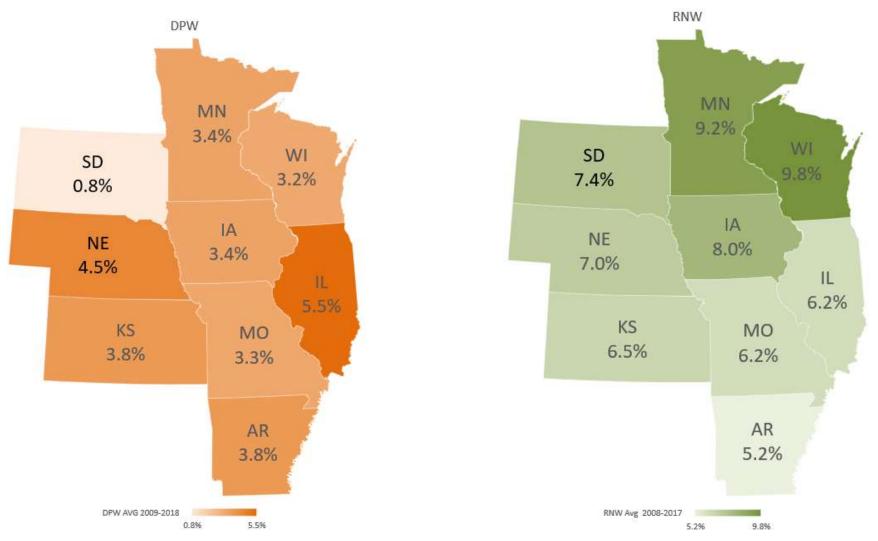
Iowa vs. USA





2017

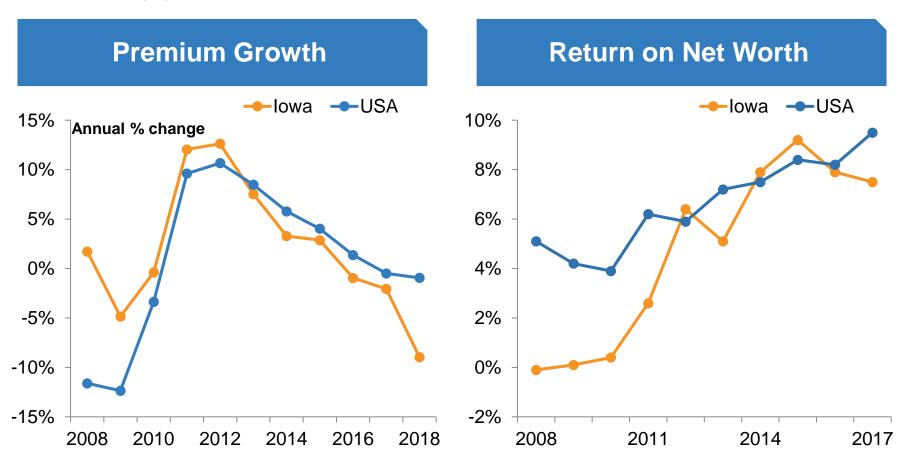
Comm. Auto: 10-Year Average DPW Growth and Return on Net Worth





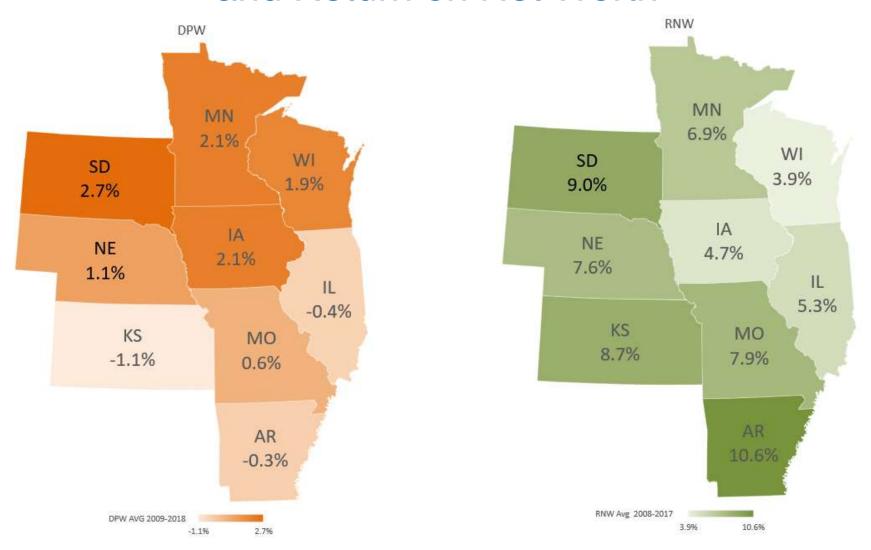
Return on Net Worth and Direct Premiums Written Workers Comp

Iowa vs. USA





Workers Comp: 10-Year Average DPW Growth and Return on Net Worth



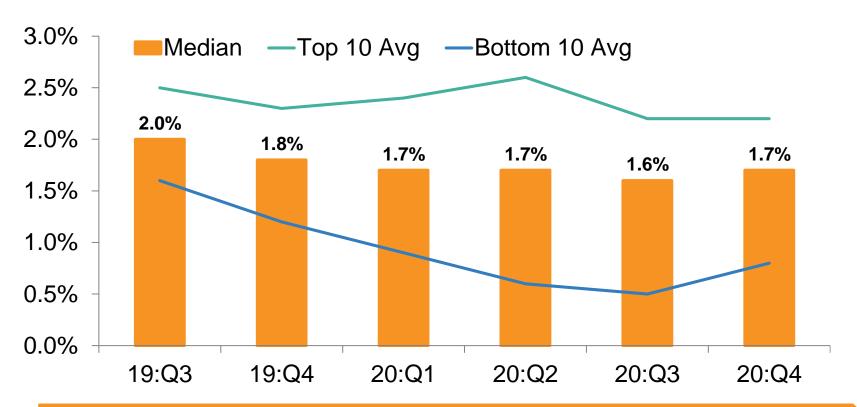


Tomorrow

Is Recession Lurking?

Outlook: The Economy

Real GDP Growth Forecasts



Most Forecasters Predict Slow Growth Through 2020.

A Cloud: Interest Rates



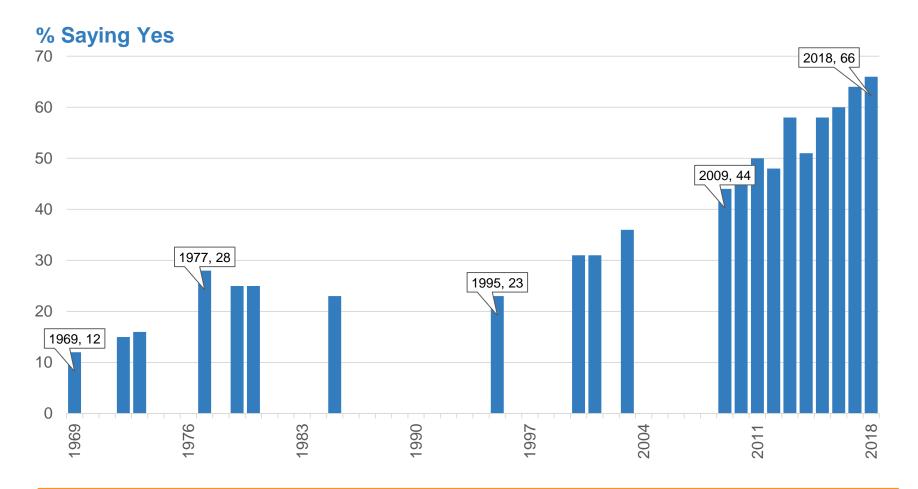
Worries About Economy Have Sent Investors Into Treasuries.





Today: Marijuana and Insurance

Support for Legalization Grows



"Do You Think the Use of Marijuana Should Be Made Legal, Or Not?"

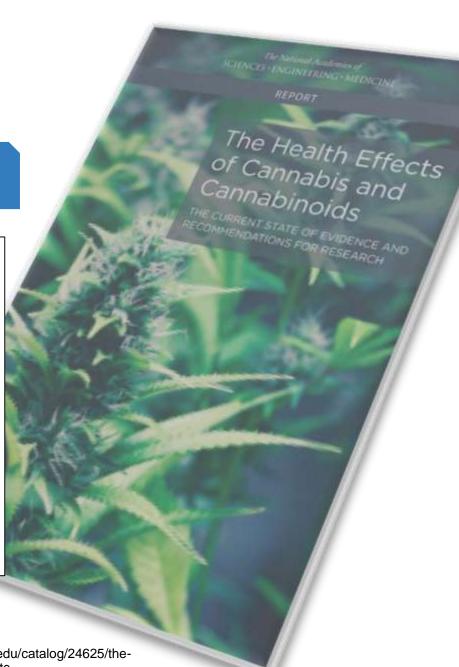


Cannabis & Insurance

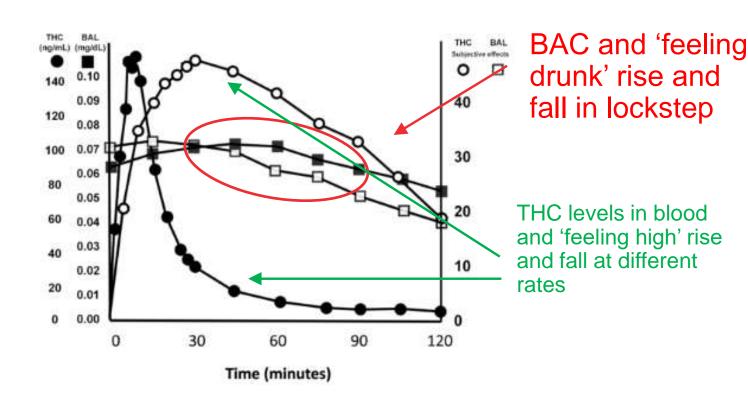
The Science

Review of Literature

- Conclusive evidence
 - Improves the lot of adults in chronic pain.
- Substantial evidence
 - Increases the risk of motor vehicle crashes.

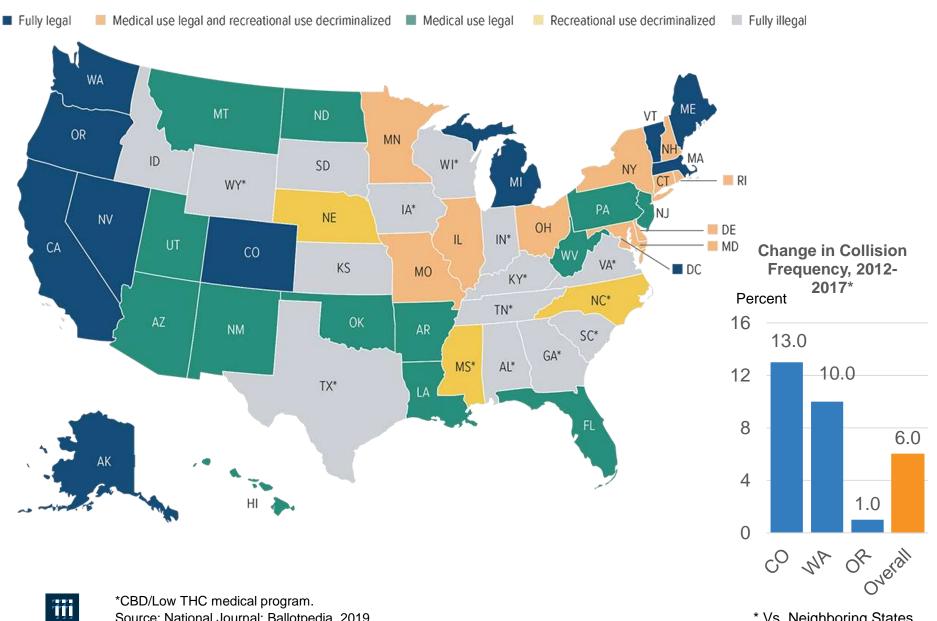


THC Levels not an Accurate Indication of Impairment





Current marijuana laws by state



Is Medical Marijuana Covered by Comp?

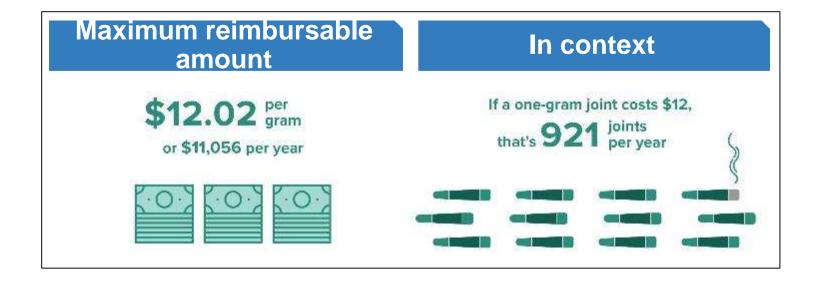
- Reimbursable in a handful of states
- Unclear whether reimbursable in many states
- Reimbursement not required
- Reimbursement prohibited or ineligible



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



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





Reimbursement Complications

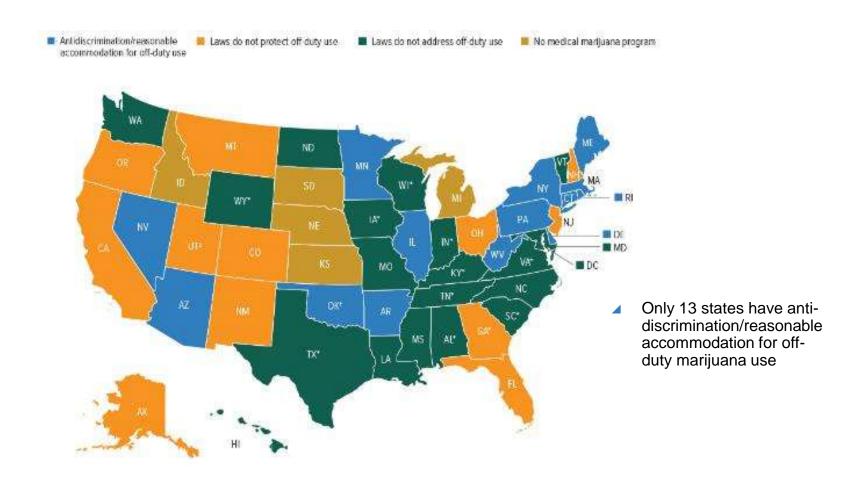
- Cash-only business
- Proper dosages poorly understood, nonstandardized
- No standardized "serving" of marijuana. Potency levels non-standardized
- Expenses can vary widely



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



Workers Comp Issues: Can You Get Fired?





*CBD/Low THC medical program. †Oklahoma has not yet released its final medical marijuana rules. ‡Provides limited protections to state employees.

Source: Insurance Information Institute, 2019.

Summary

- ▲ Insurance Industry Leads Through Disruption
- Iowa Results Resemble the Rest of USA
- 2019 Results Promising, With Long-Awaited Improvement in Auto Lines and Workers Comp Setting Records
- ▲ Economic Growth Steady How Long Will it Last?
- Marijuana: New Challenges for Insurers





Thank you for your time and your attention!