



**INSURANCE
INFORMATION**
INSTITUTE

Geopolitics & Insurance

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Economic Uncertainty

Global Growth...

*Since **2008** we've had the **longest period of stagnation** in trade growth 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

Globalization

Geopolitical Polarization

Rise of the Far Right

Regional Tensions

Global Trends Impacting Domestic Market



Regulatory Trends

"Conduct of Business"

Capital/Solvency

Dodd-Frank

China Rising

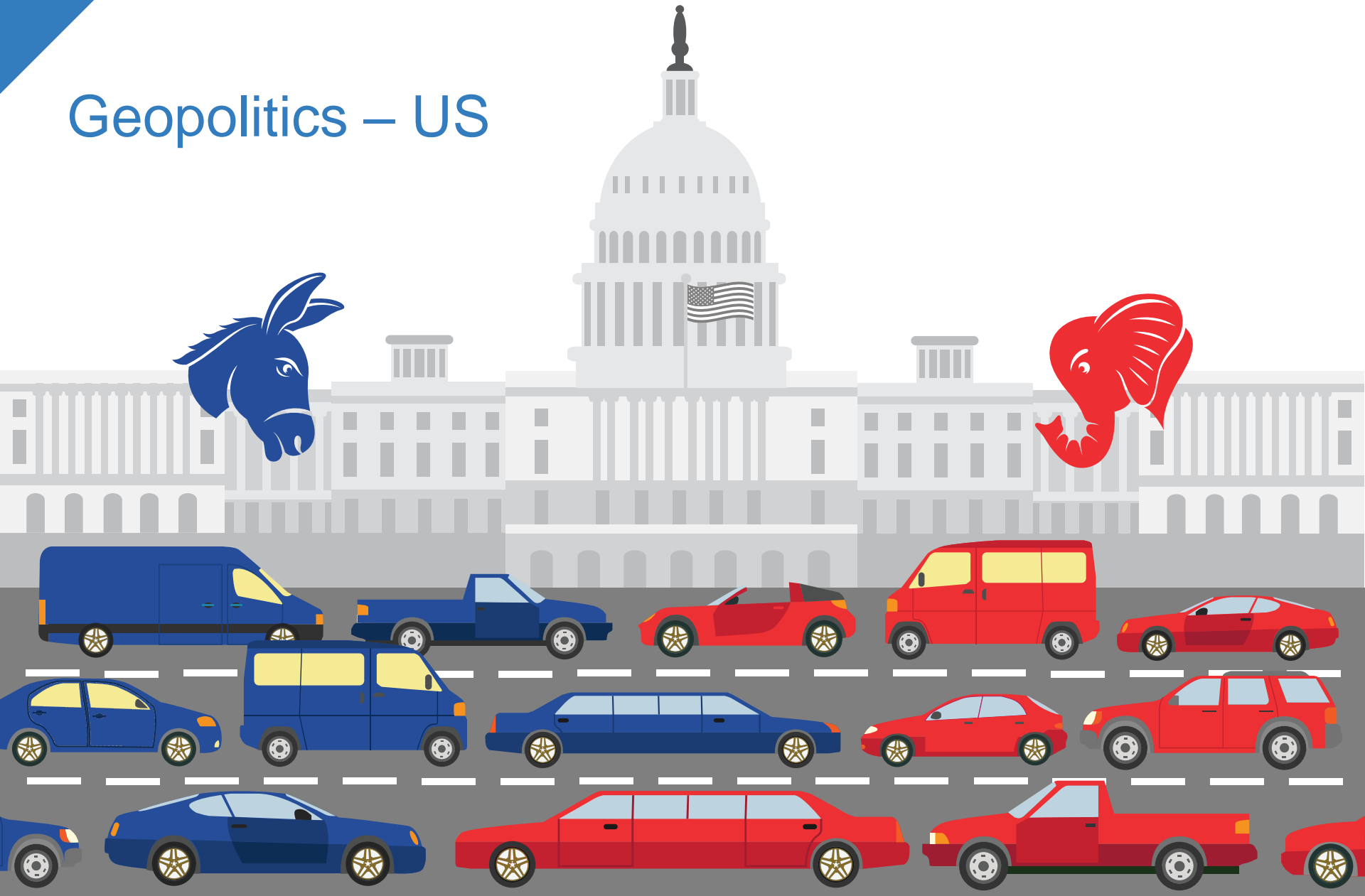
HK\$7.1B*

HK\$16.9B*



* Mainland purchases of insurance and related investment policies in the three months ended June 2016 vs. June 2015

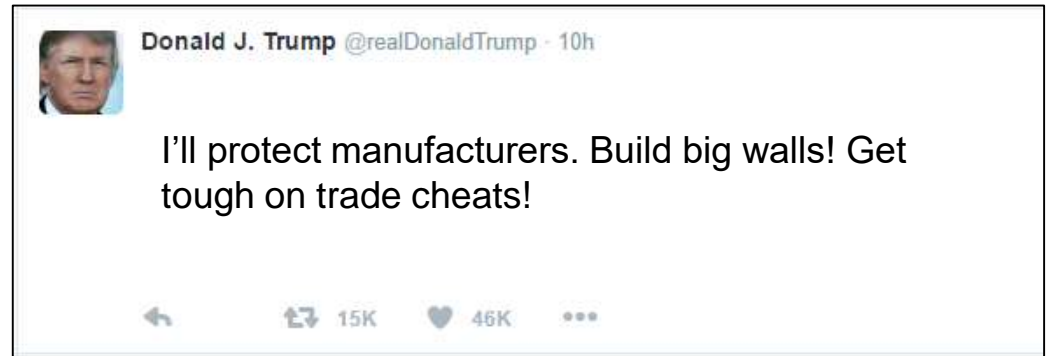
Geopolitics – US



Clinton vs. Trump: The Alternative Twitterverse*

▲ The Economy

- ◆ Will Congress pass tax plans?
- ◆ Higher Deficits
- ◆ Interest Rates Higher?



▲ Trade

- ◆ A little protectionist or a lot



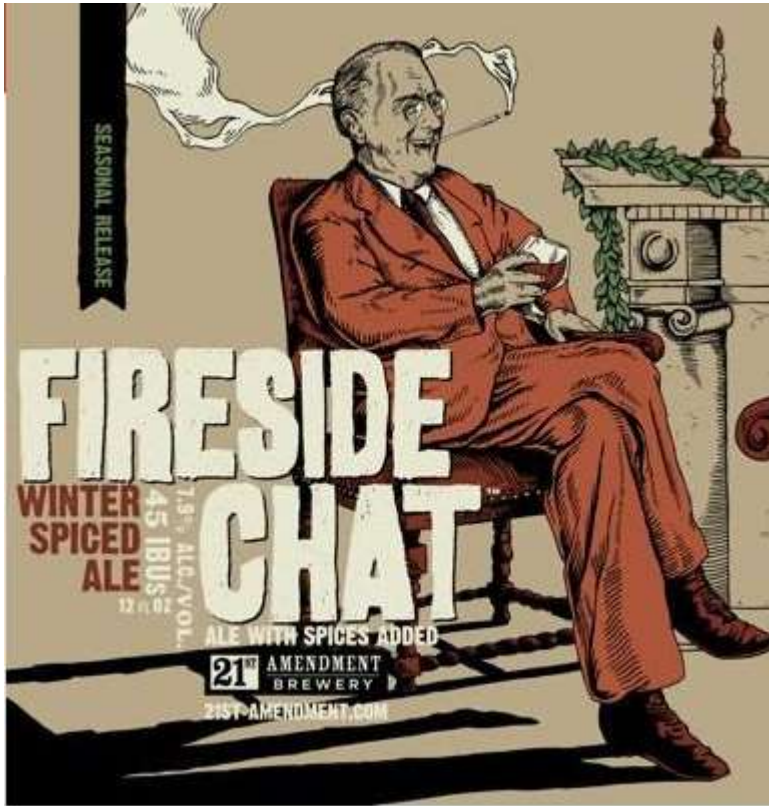
▲ Judges/Tort Reform

- ◆ Court Relatively Friendly to Business
- ◆ Could Appoint Four



The Return of the 'Bully Pulpit'

Bypassing the Media to Effect Policy



Next?

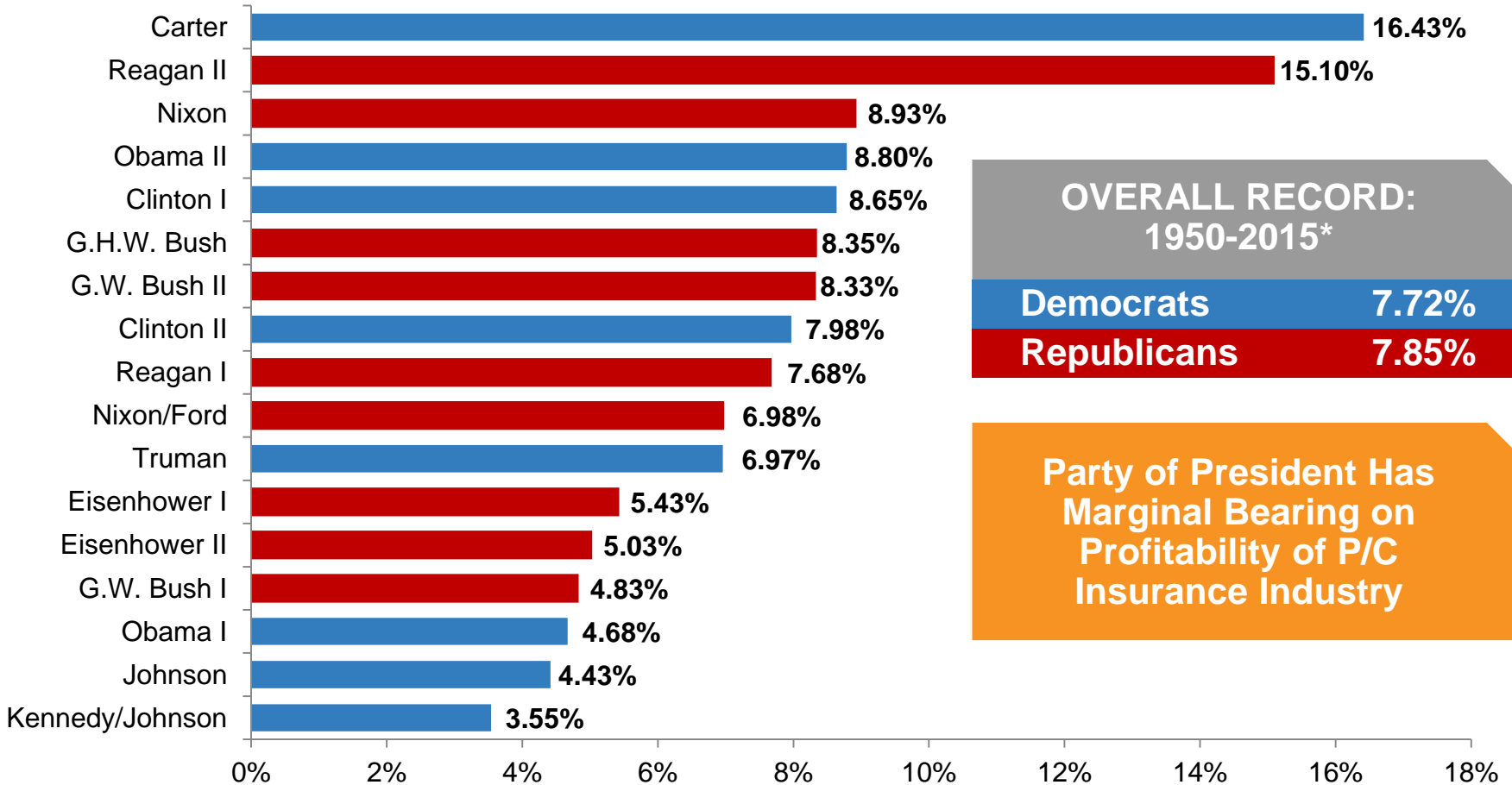


Profitability & Politics

How Is Profitability Affected by
the President's Political Party?

P/C Insurance Industry ROE by Presidential Administration

1950-2015*

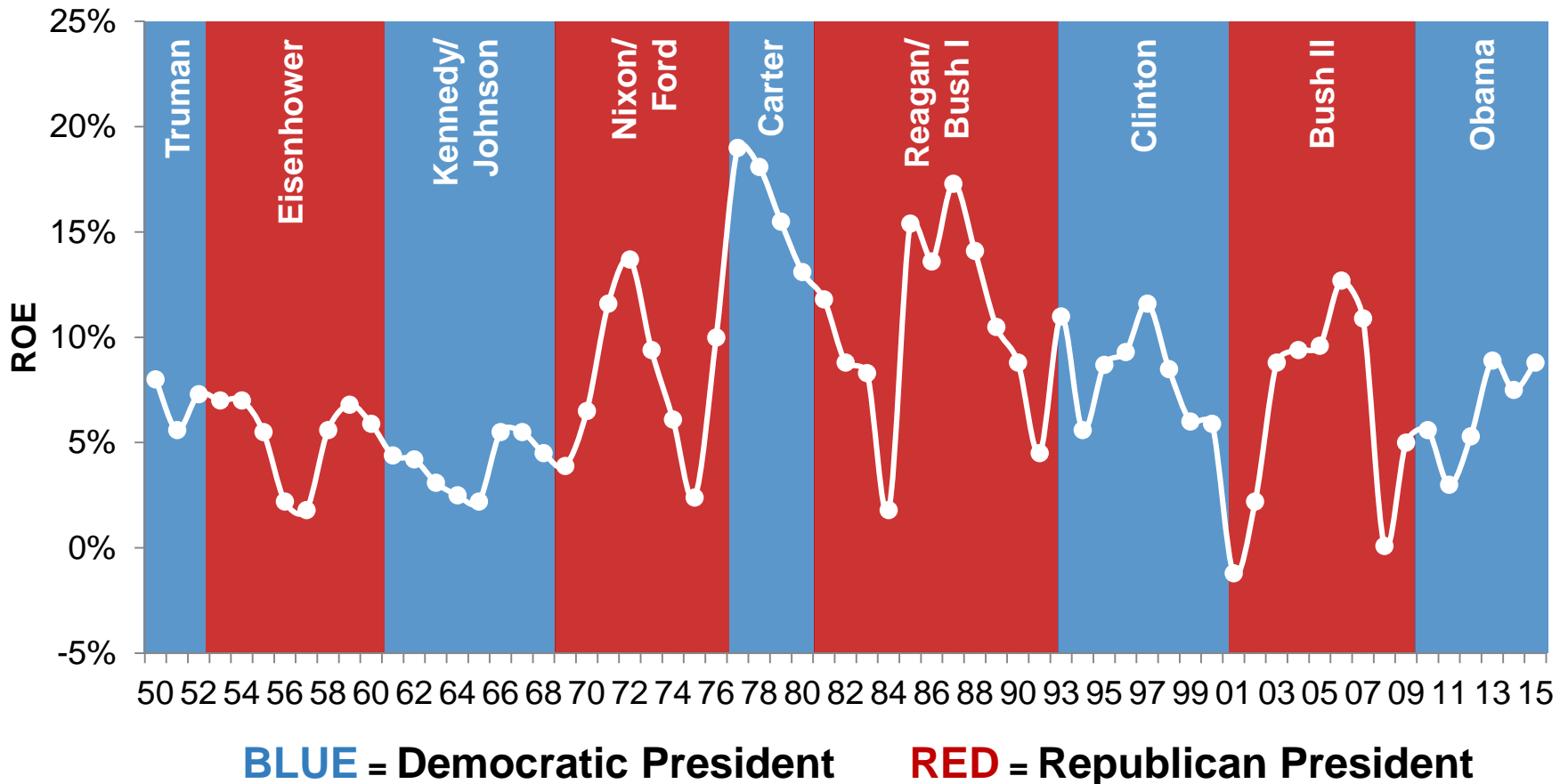


*Truman administration ROE of 6.97% based on 3 years only, 1950-52;.
Source: Insurance Information Institute



P/C Insurance Industry ROE by Presidential Party Affiliation

1950-2015*

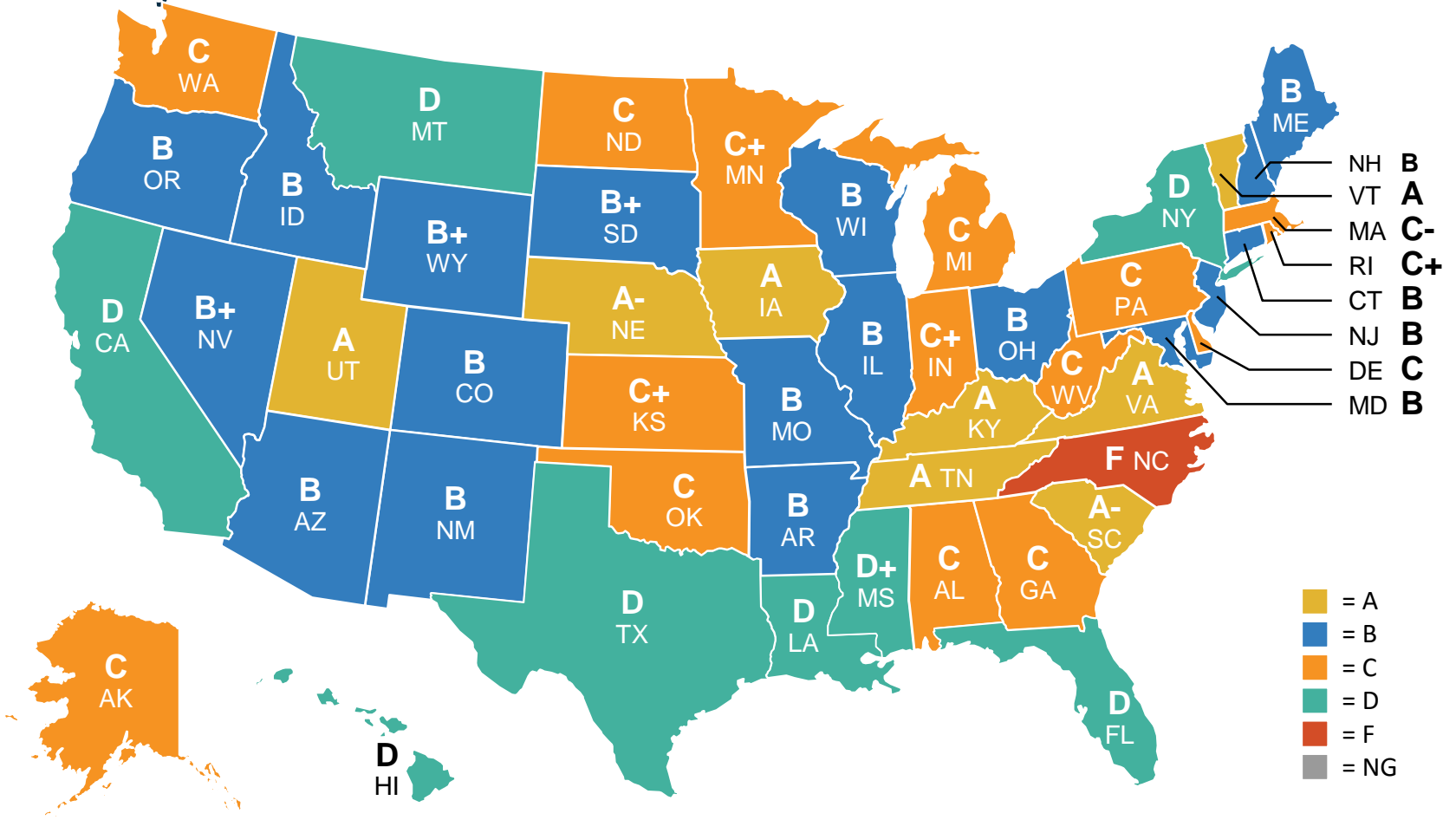


*2015 data is through Q3.

Source: Insurance Information Institute

But State Politics Drives Insurance

And Every State is Different



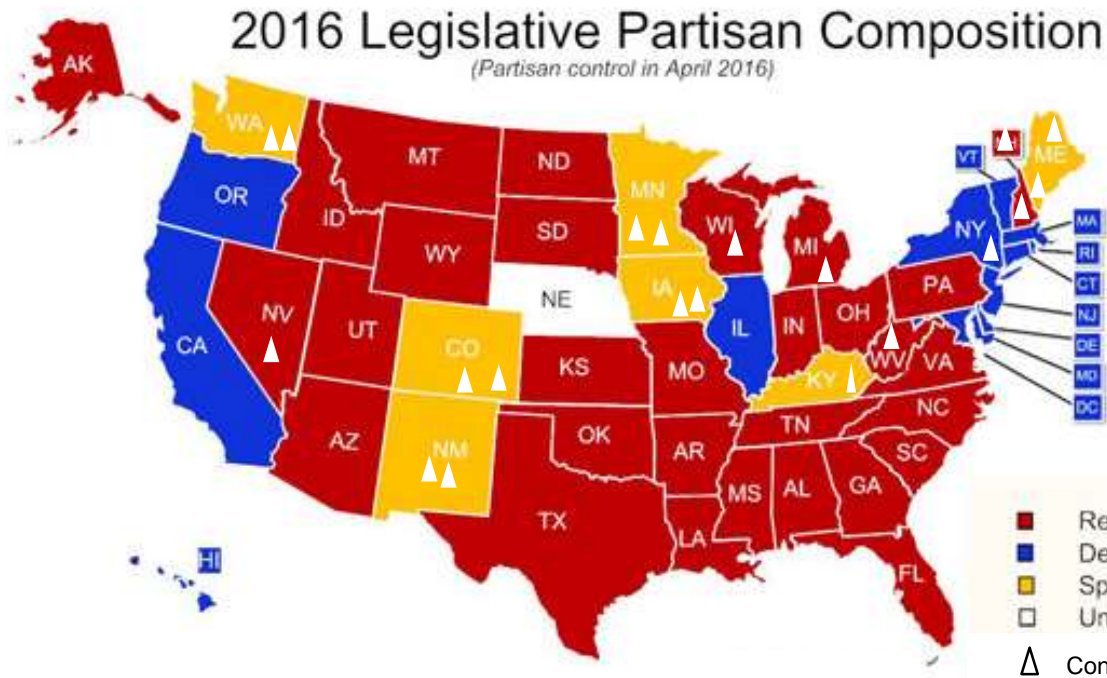
Not Graded: District of Columbia



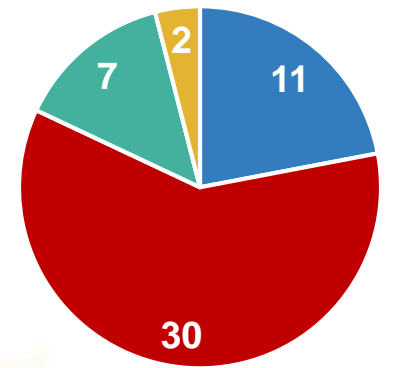
Source: R Street Insurance Regulation Report Card, December 2015

Republicans Control Most States . . .

. . . It is Likely to Remain That Way



Makeup Today



20 Chambers Could Switch – Mainly in States With ‘Split’ Legislatures.

* Nebraska: Unicameral, nonpartisan, Republican dominated. New York: Democratic-majority Senate controlled by Republicans.
Source: National Conference of State Legislatures, Ballotpedia, Insurance Information Institute.

State Races

Governorships

- ▲ D-18; R-31; 1 Independent (AK)
- ▲ 12 States With Elections This Year; Democrats Defend 8
 - ◆ Five Tight Races
 - Dem-held: NH, VT, WV
 - Rep-held: IN, NC

Insurance Commissioner

- ▲ 11 Elected (D-5; R-6)
- ▲ 5 Elections (DE, MT, NC, ND, WA); Incumbent Party Favored

Miscellaneous

- ▲ 9 States Have Marijuana Referendums
 - ◆ (AR Has Two – One Would Let Patients Grow Their Own.)



State Issues

Auto Insurance

Increase in Loss Costs, 2014:Q1–2016:Q1



Bodily Injury

9.6%



Property
Damage

14.7%



Personal Injury
Protection

18.4%



Collision

11.1%



Comprehensive

11.0%

From early 2014 to early 2016, the cost of accidents has risen dramatically. By contrast, consumer prices overall rose 1.7 percent during 2014 and 2015.



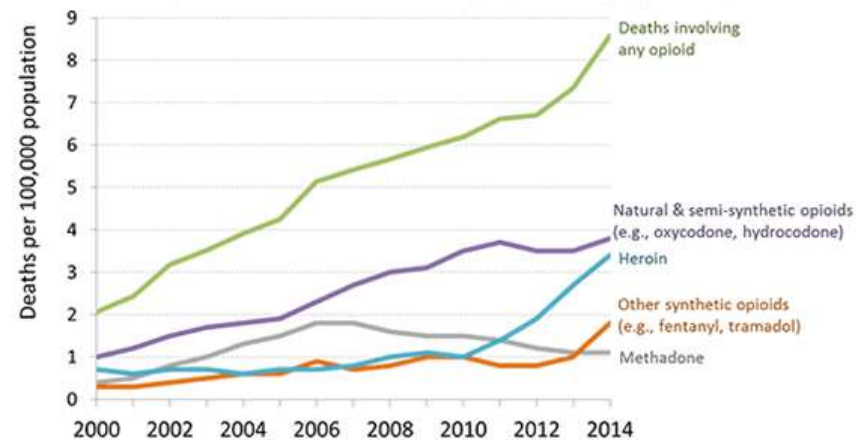
State Issues

Workers Compensation

The Grand Bargain – Still?

- ▲ Opt Out
 - ◆ Big Issue One Year Ago
 - ◆ Oklahoma Law Unconstitutional
- ▲ Department of Labor/ Pro Publica: Benefit Cuts Shifted Injury Costs from Employer
- ▲ Benefit Cuts?
 - ◆ Evidence-Based Guidelines
 - ◆ Outside Medical Reviewers

Opioids

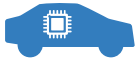


- ▲ Nationwide Epidemic
- ▲ ¼ of Drug Costs in WC Claims
- ▲ 13 States Limiting WC Opioid Prescriptions



State of Insurance

Top Issues



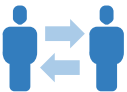
Autonomous Vehicles



P2P insurance



Cybersecurity



Sharing Economy



Workers Comp Regulation



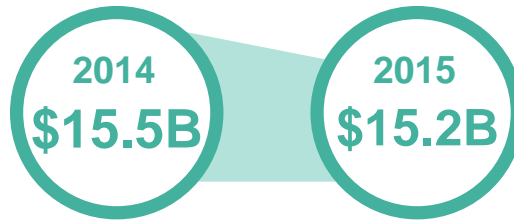
Politics



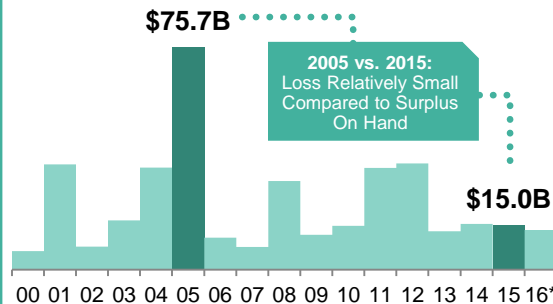
Overcapitalization (Reinsurance)

Catastrophe Costs

P/C Payouts / Property Losses¹

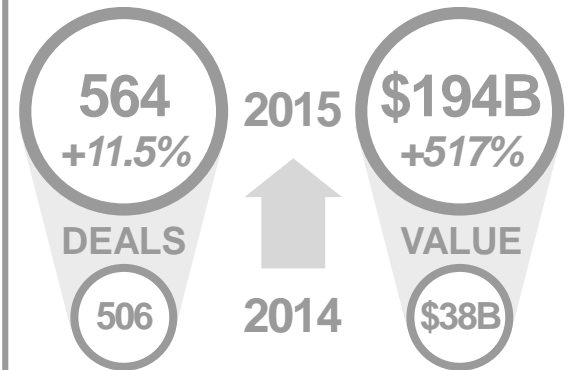


U.S. Insured Cat Losses



Consolidation/M&A

Insurance-related Deals Involving U.S. Firms²



\$6.3B



54 pending or completed M&As involving U.S. insurance companies (2016 YTD)²





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Thank you for your time
and your attention!

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