

2017 RISK MANAGEMENT COUNCIL
CHARLESTON, SC

ACCELERATING CHANGE

SEPTEMBER 26-28





Insurance: *Leading Through Disruption*

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I.I.I. Mission Statement



Improving public understanding
of insurance...

...what it does and how it works



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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 Tornadoes Q1/17



Climate Change



Disruption is Everywhere

Catastrophes – Increases in frequency and severity

Man-Made Catastrophes

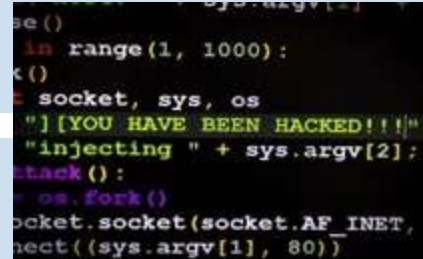
Autos



More cars on road

Distracted driving

Cyber



\$445 million/year

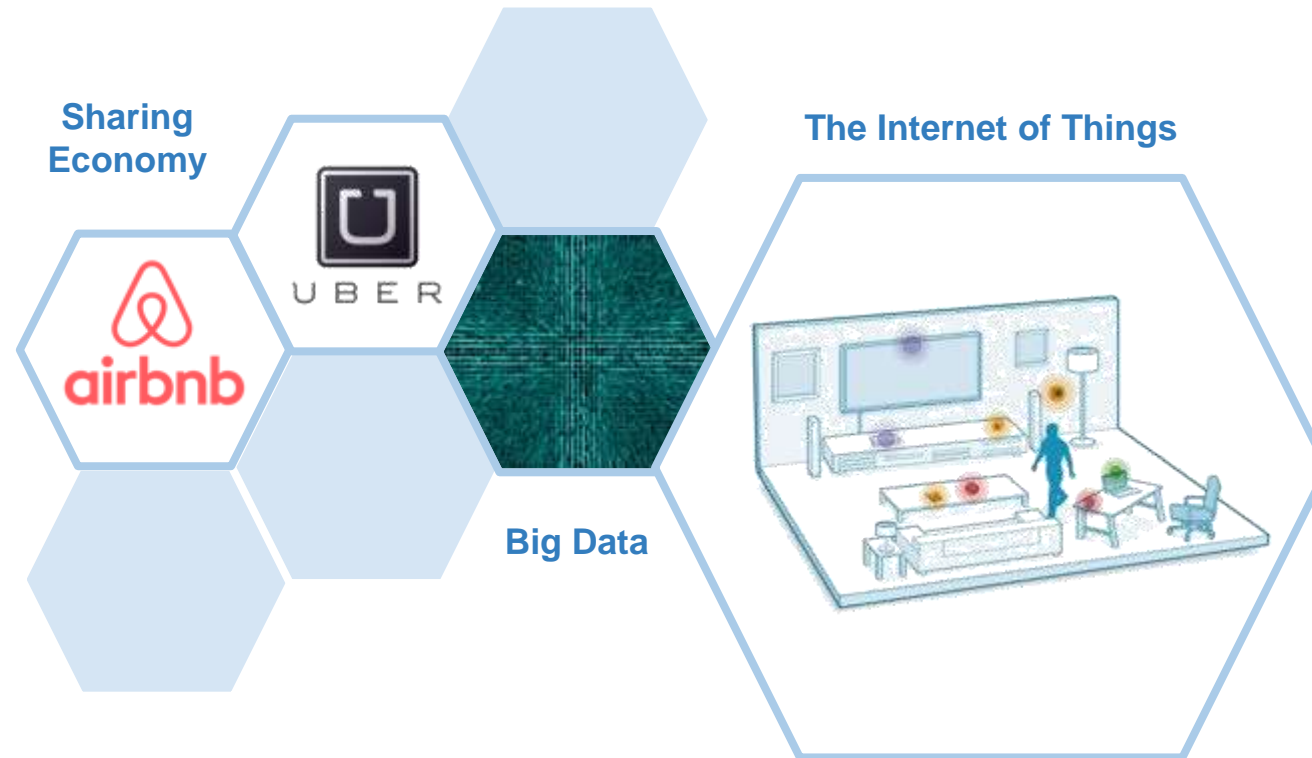
“Induced” Earthquakes



~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...

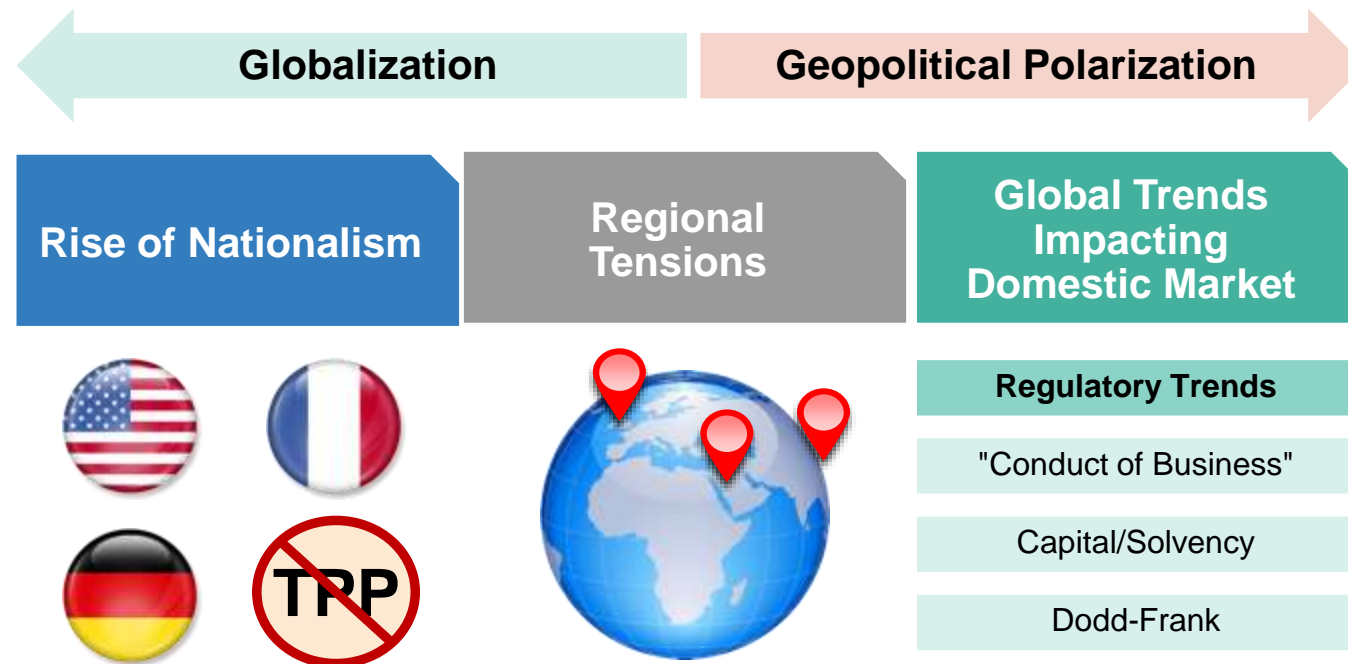
GDP
1.6%

**Investment
Growth**

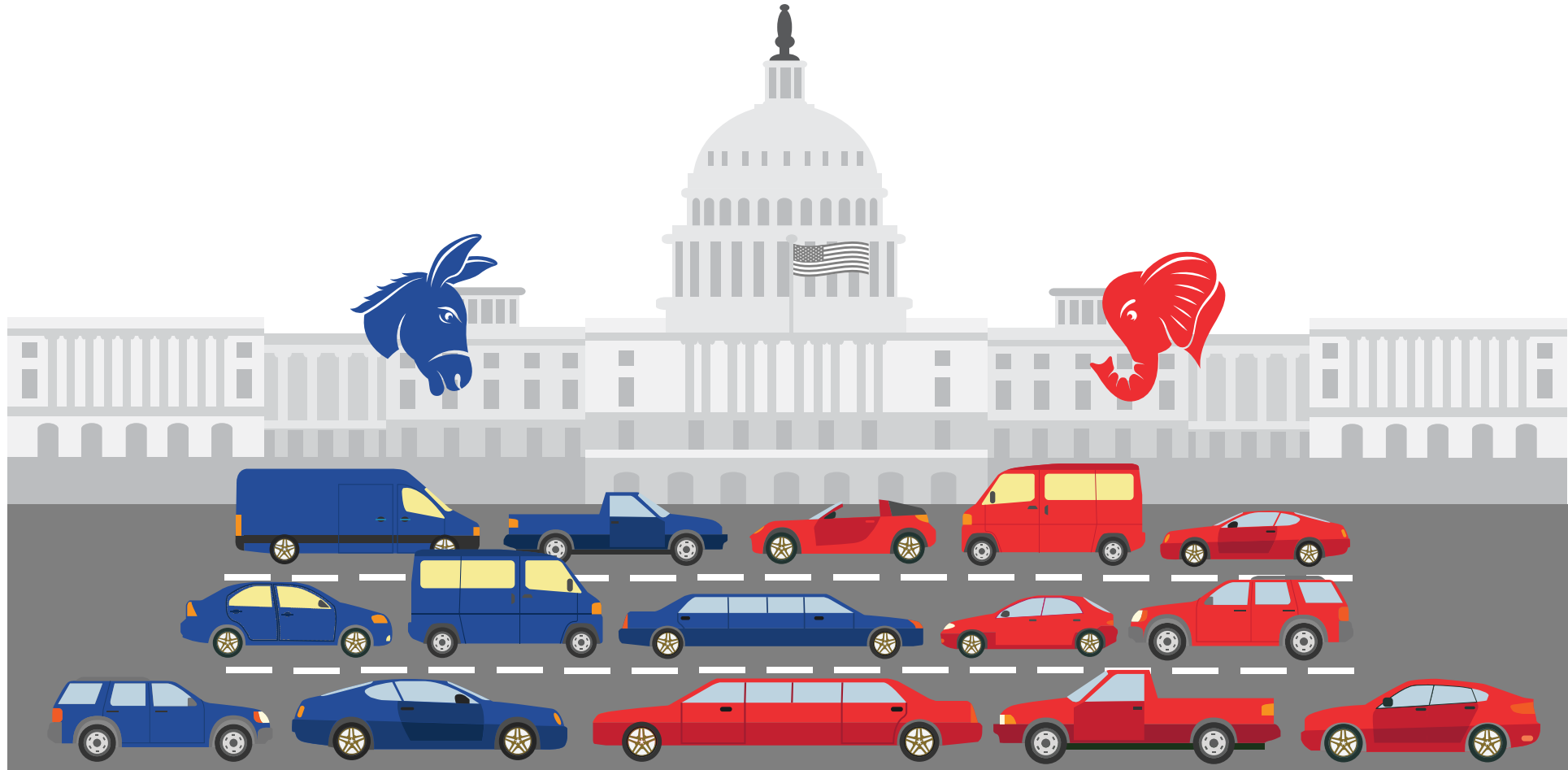


...Monetary vs. Fiscal Policy

- ♦ **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

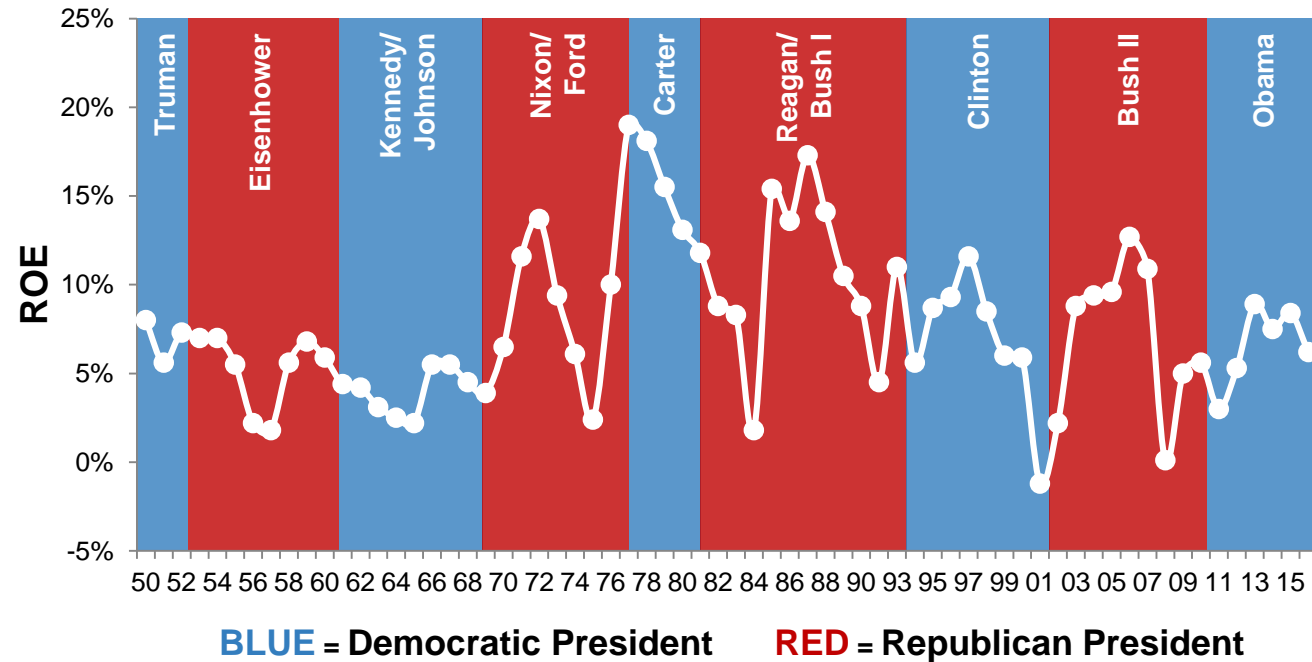


Geopolitics – US



P/C Insurance Industry ROE by Presidential Party Affiliation

1950-2016*

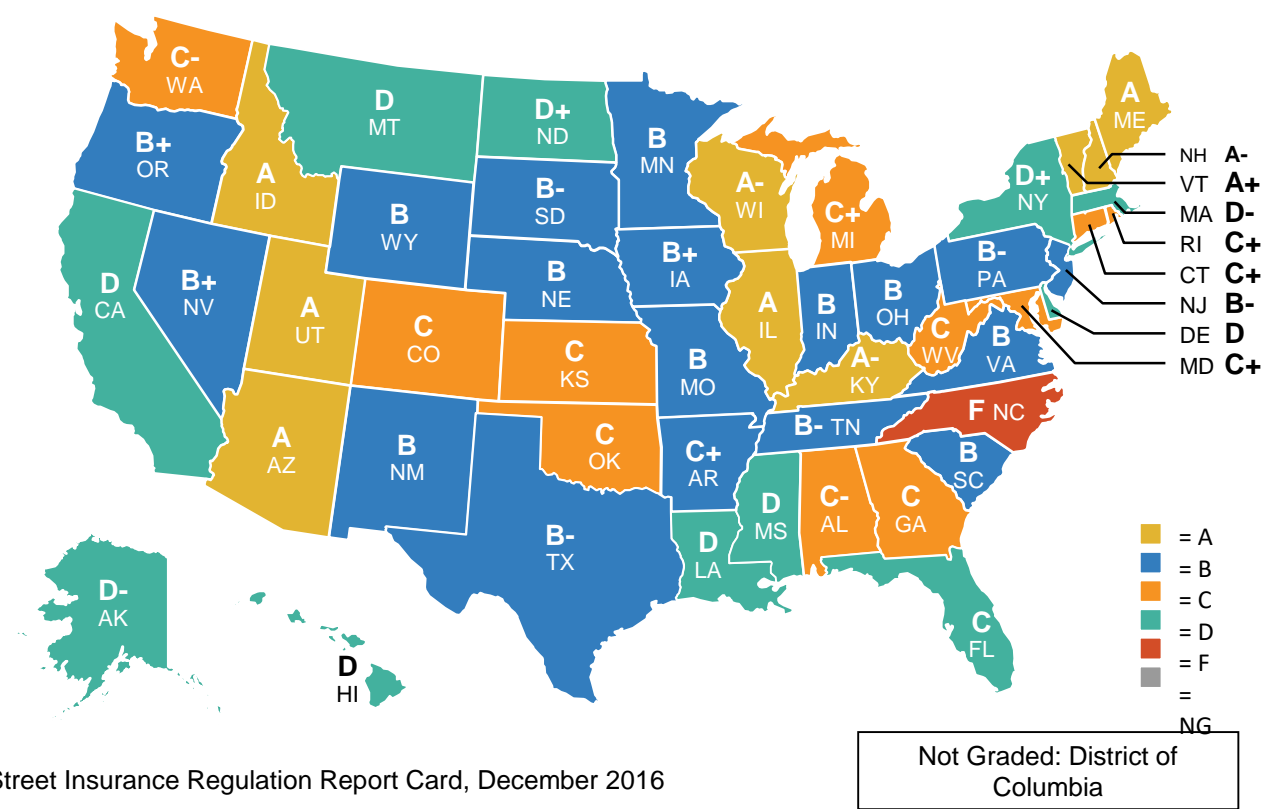


*2016 data is through Q3.

Source: Insurance Information Institute

But State Politics Drives Insurance

And Every State is Different

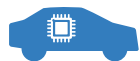


Source: R Street Insurance Regulation Report Card, December 2016



State of Insurance

Top Issues



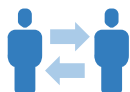
Autonomous Vehicles



P2P insurance



Cybersecurity



Sharing Economy



Workers Comp Regulation



Politics



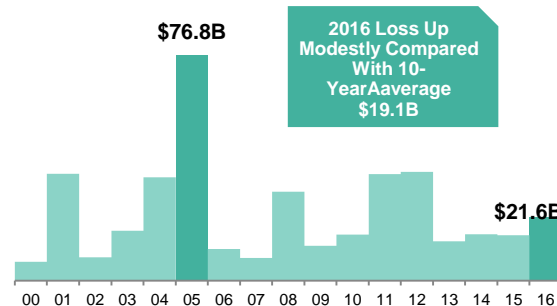
Overcapitalization (Reinsurance)

Catastrophe Costs

P/C Payouts / Property Losses¹

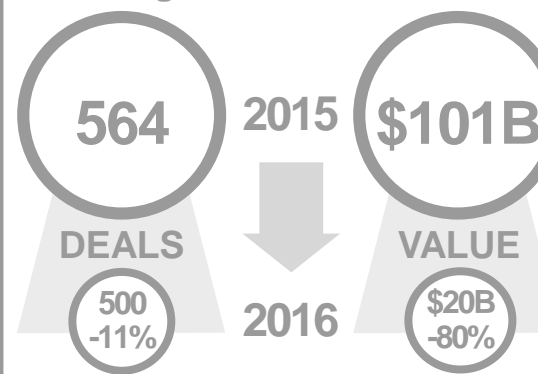


U.S. Insured Cat Losses



Consolidation/M&A

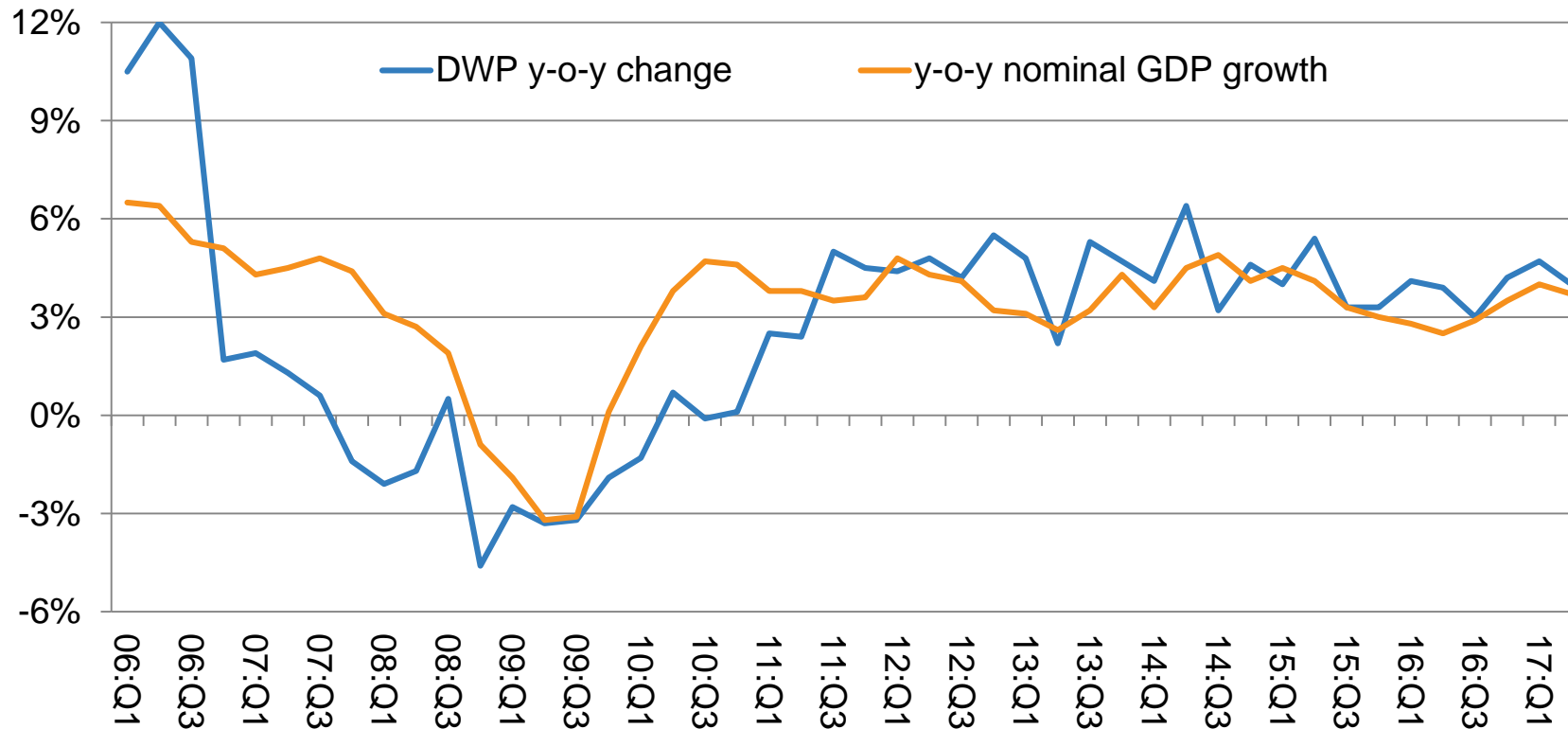
Insurance-related Deals Involving U.S. Firms²



25 pending or completed M&As involving U.S. insurance companies (2017)³

The Economy Drives P/C Insurance Industry Premiums

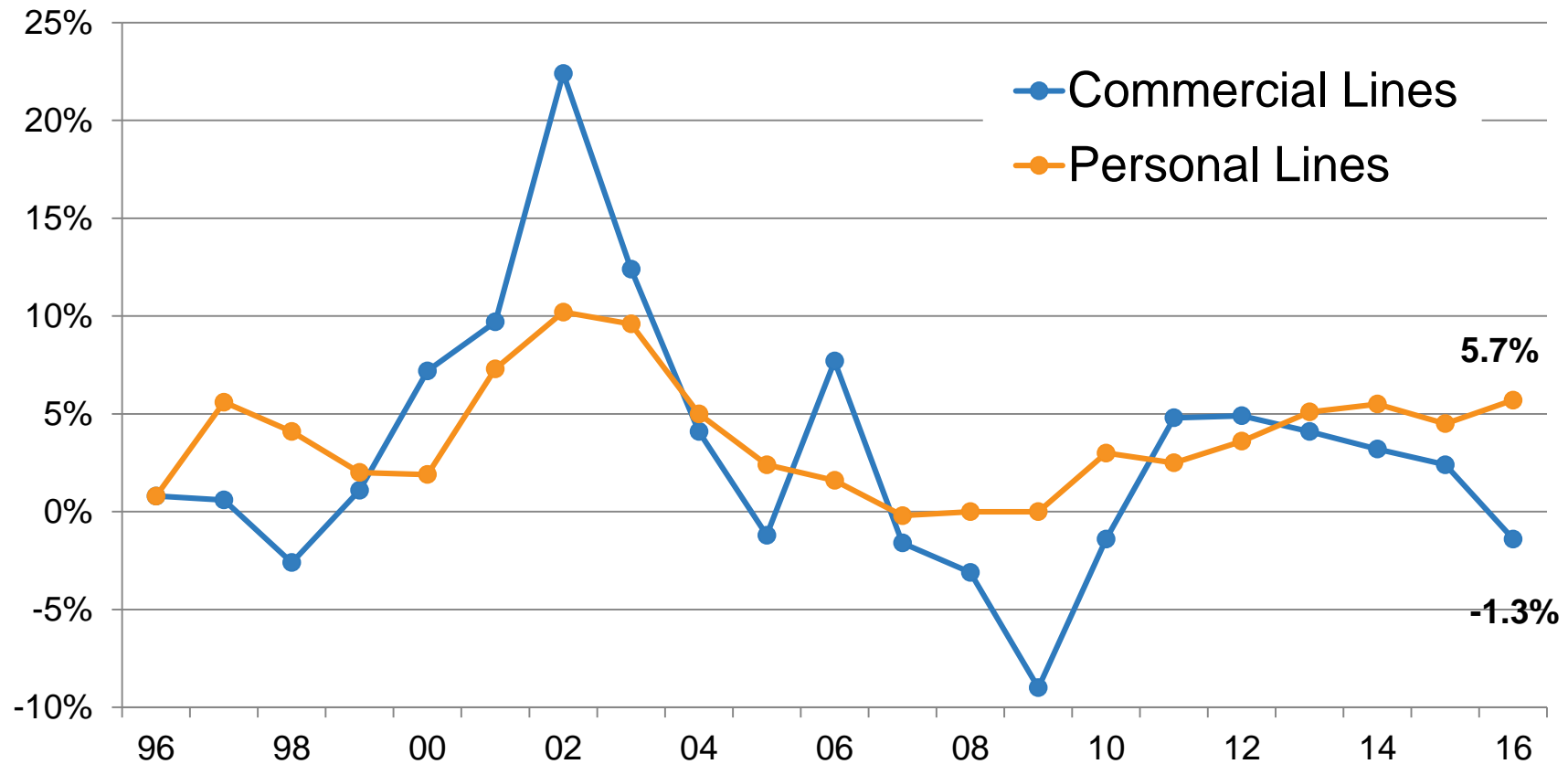
Direct Premium Growth (All P/C Lines) vs. Nominal GDP



**Direct written premiums track nominal GDP—
not quarter by quarter but overall fairly well.**



Commercial & Personal Lines NPW Growth

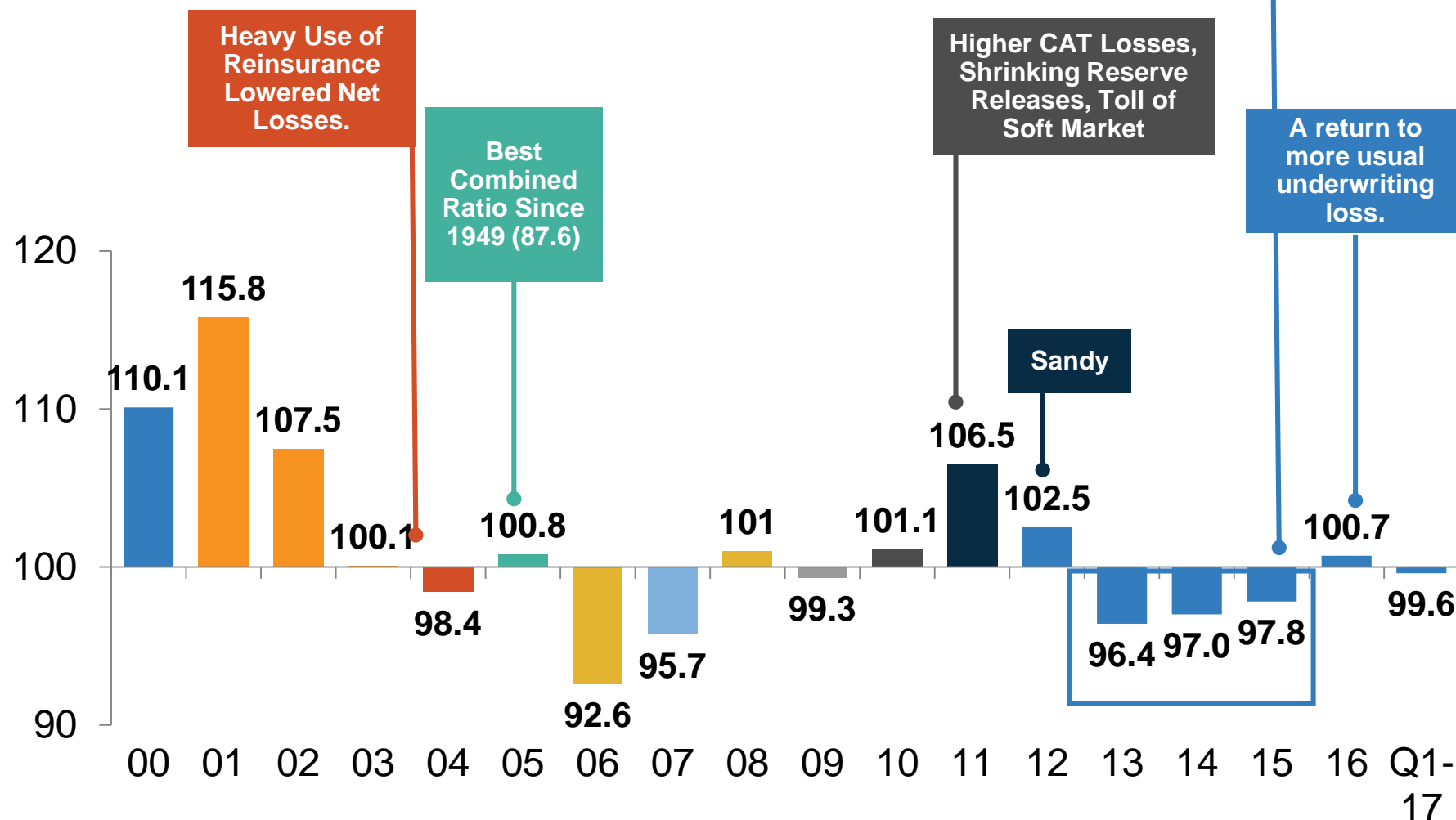


Commercial lines is prone to much more cyclical volatility than personal lines.



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

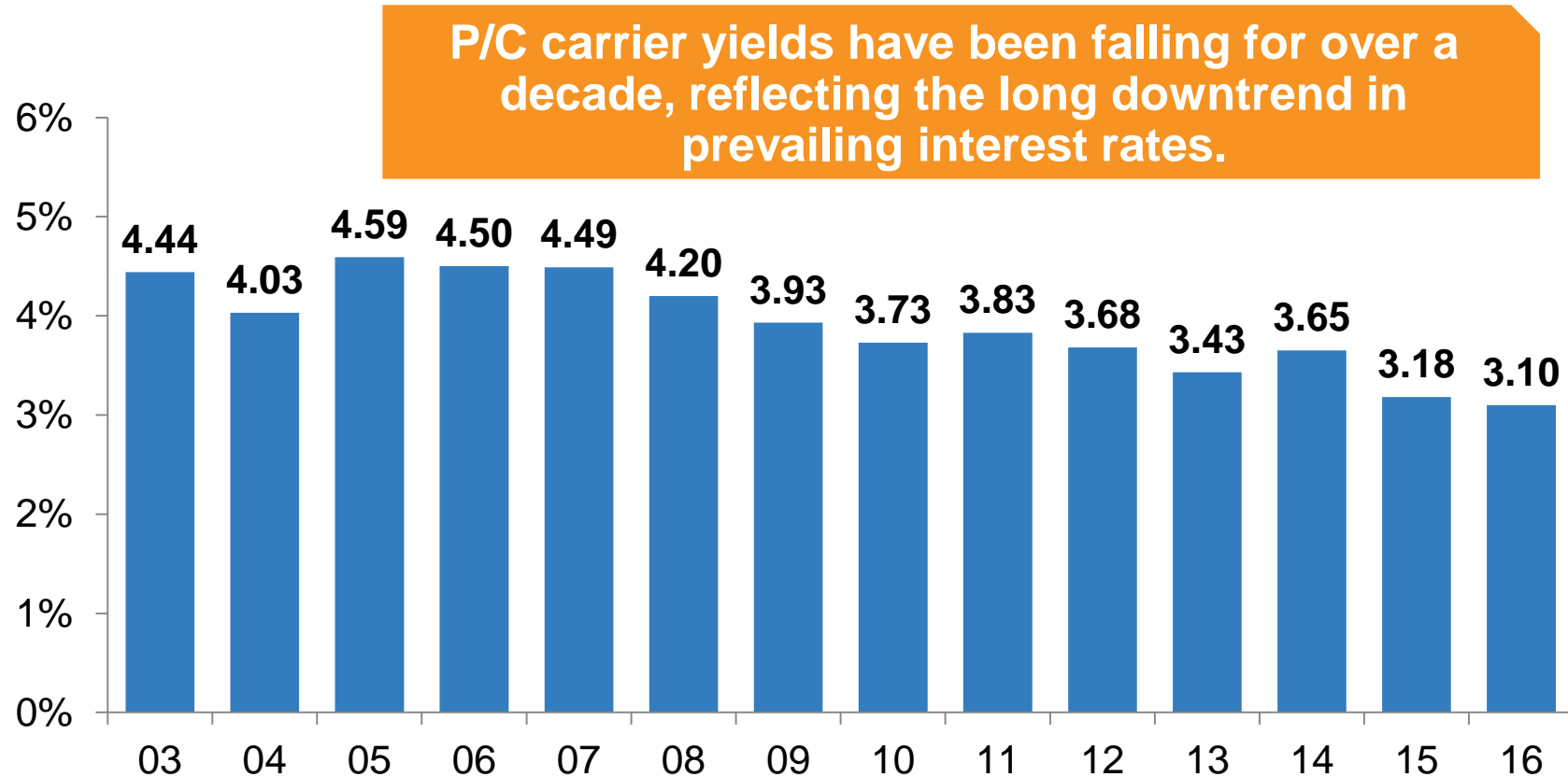
P/C Insurance Industry Combined Ratio, 2000-2017*



*Excludes Mortgage & Financial Guaranty insurers 2008-2014.
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; I.I.I.



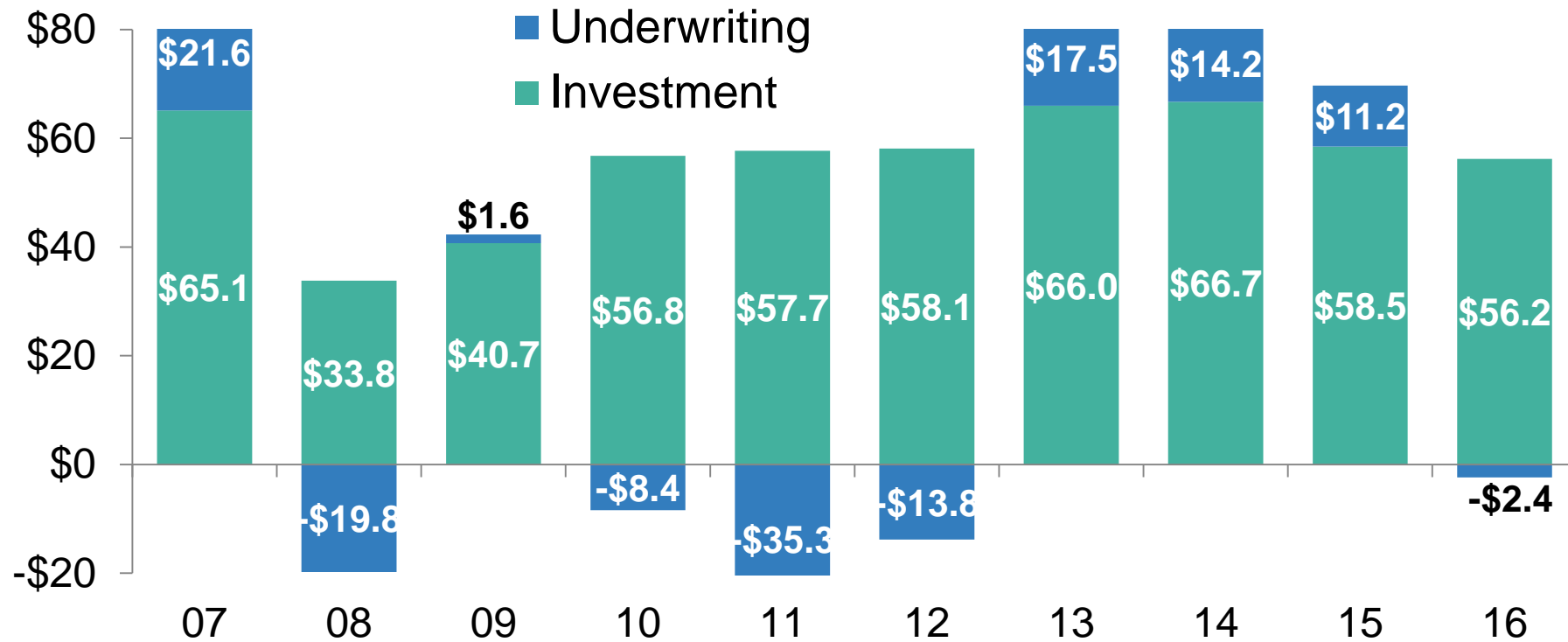
P/C Insurer Portfolio Yields, 2003-2016



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.



Sources of P/C Insurer Profits, 2007-2016



Insurer gains from investments vary from year to year (they plunged in 2008-09) but in the last decade, excluding the effect of the Great Recession, ranged between \$55 billion and \$65 billion each year. In contrast, net underwriting gains have not exceeded \$21 billion in any year and were actual losses in five of the 10 years.



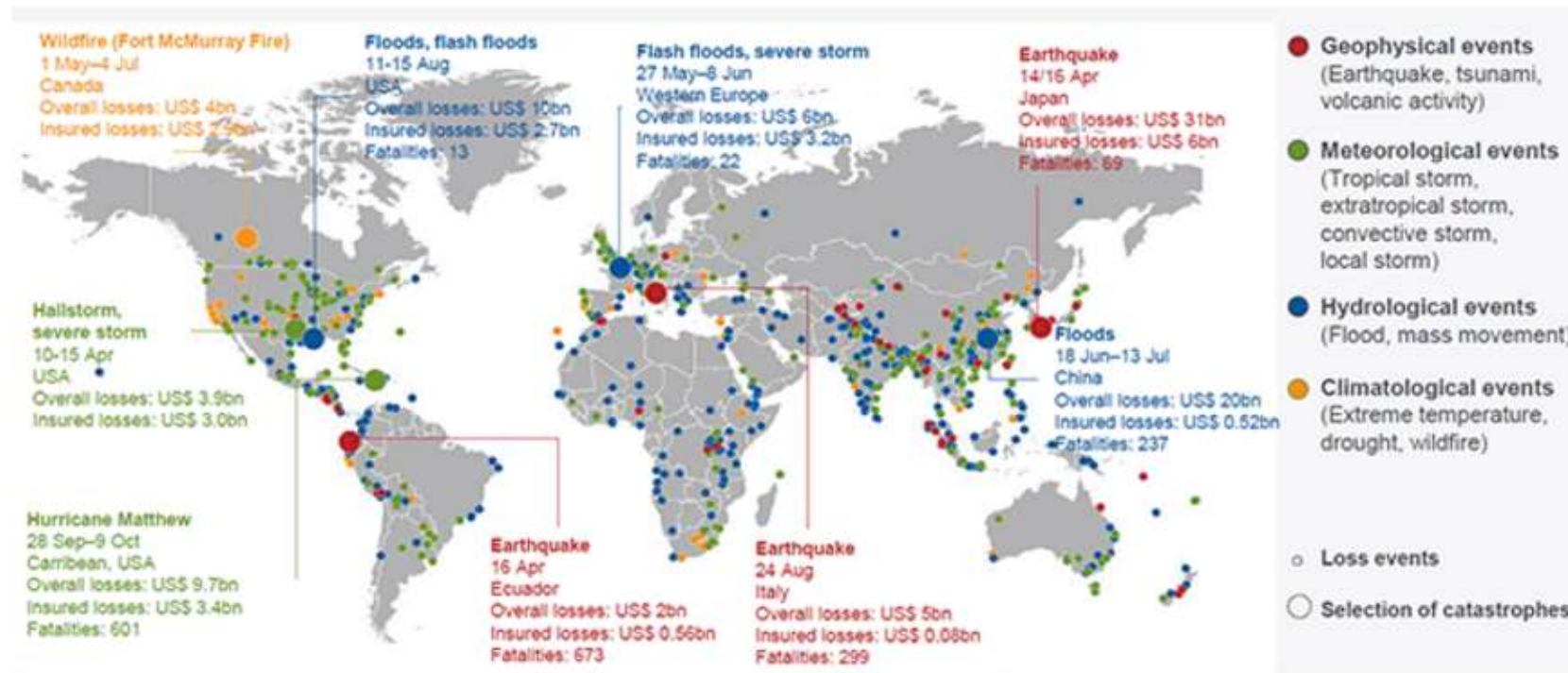
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CATASTROPHE CHANGE



Natural Catastrophe Losses Totaled \$175 Billion, Up From \$103 Billion in 2015

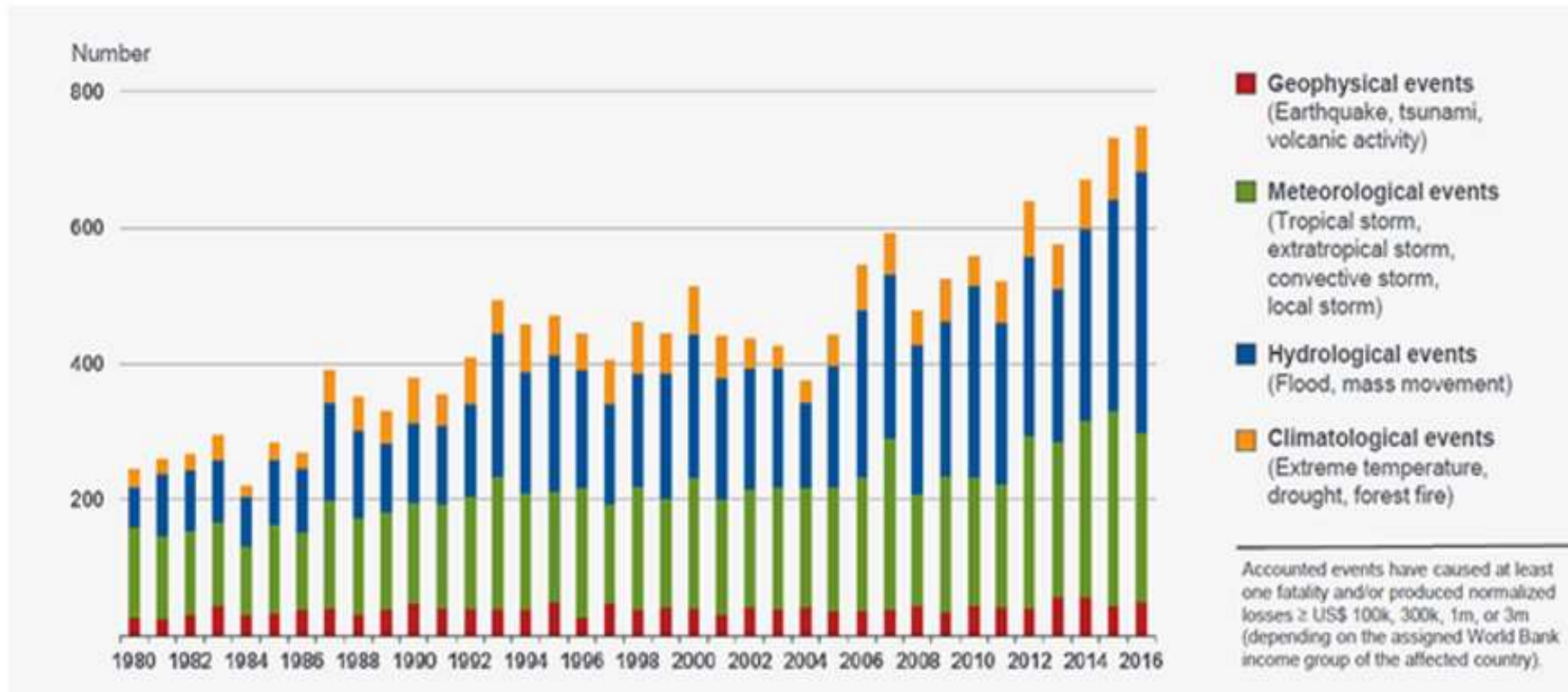
World Natural Catastrophes, 2016



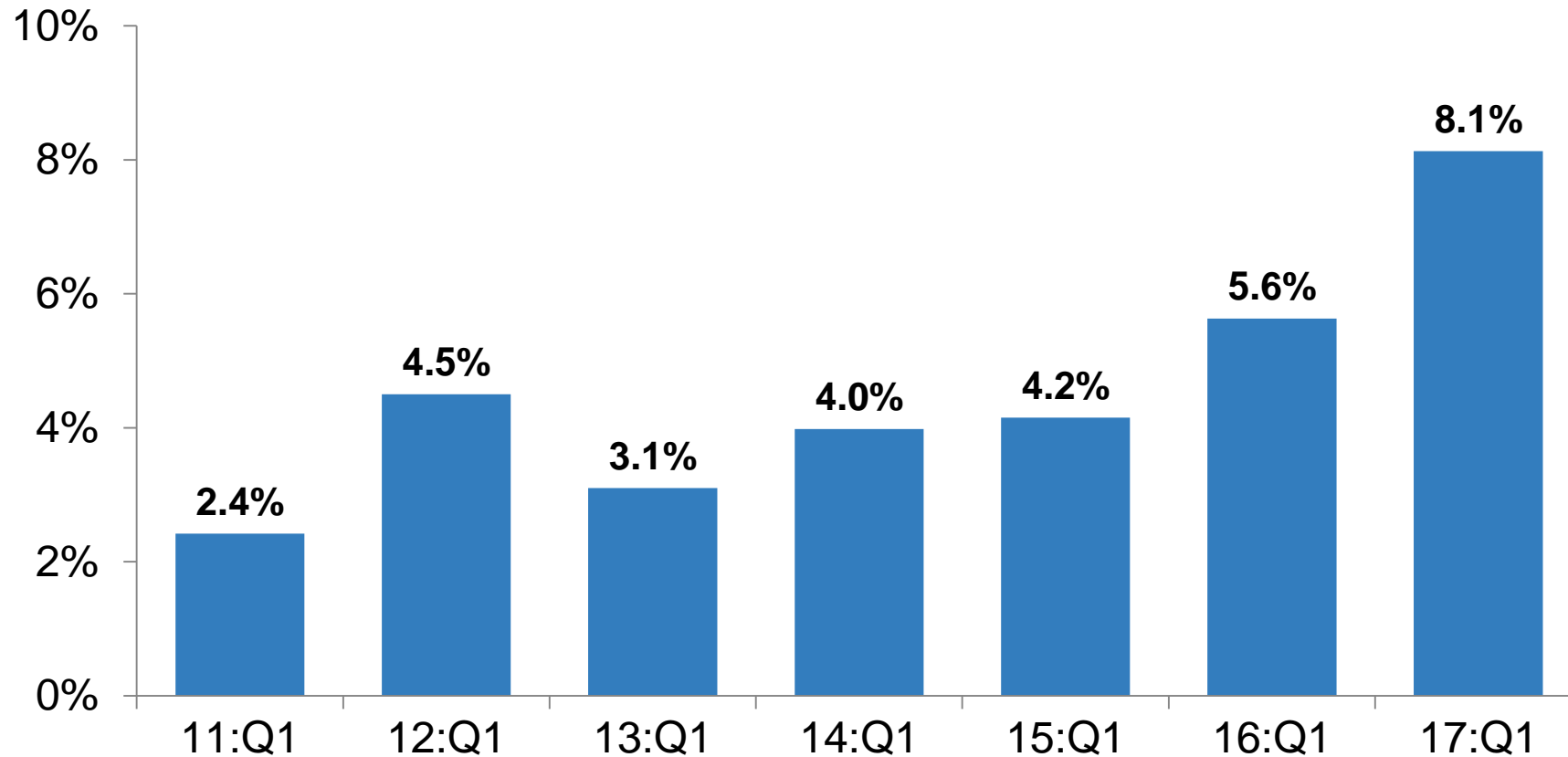
The Frequency of Extreme Weather Events Is Rising

Number of World Natural Catastrophes, 1980-2016

(Number of relevant events by peril)



CAT Claims as a Percent of Total Claims*, First Quarter, 2011-2017



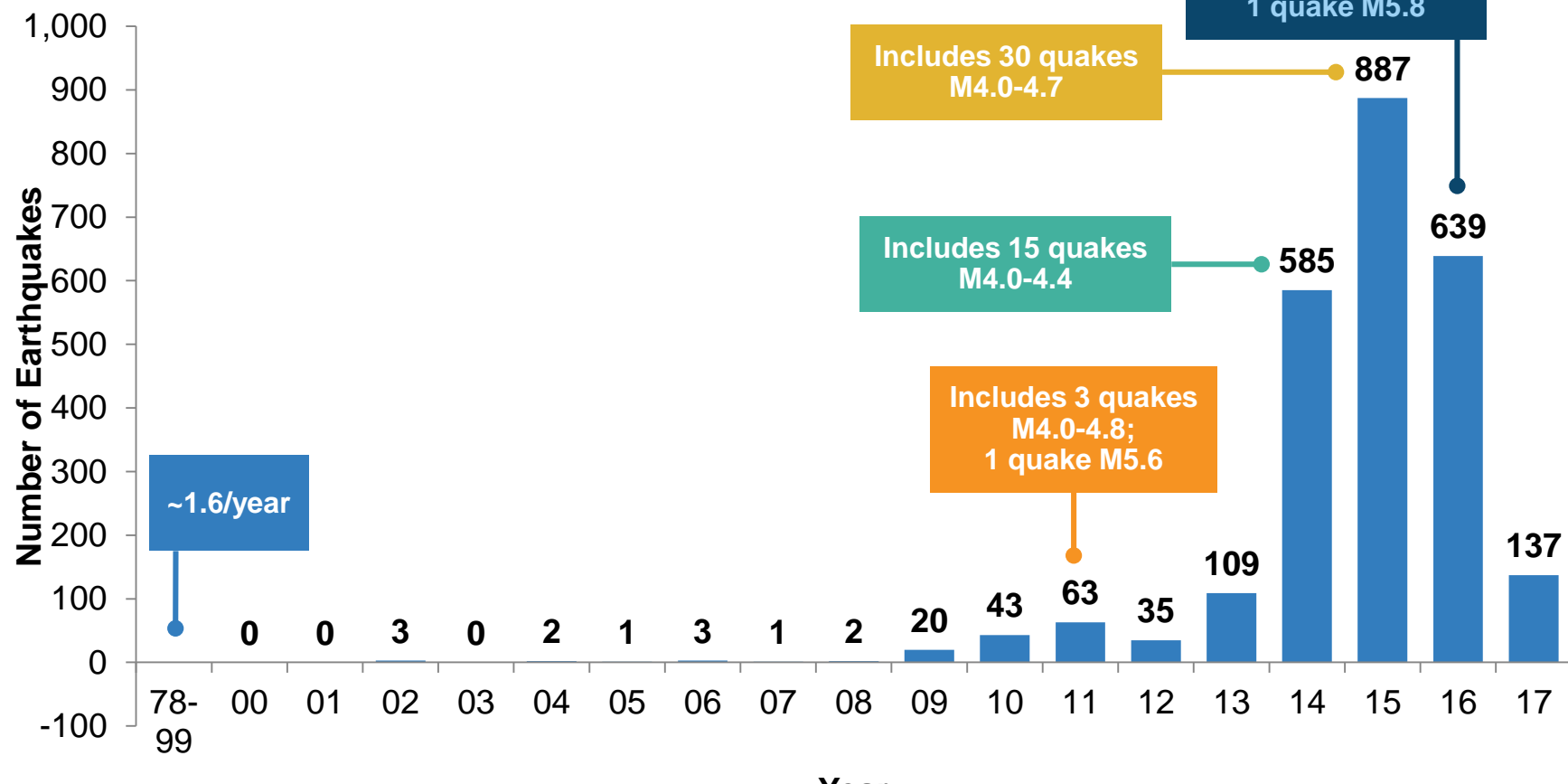
CAT claims are normally a small part of total claims in the first quarter, but that wasn't true in 2017. Moreover, although it's a small sample, the trend seems to be rising.



*Net of reinsurance and including Loss Adjustment Expenses
Sources: ISO PCS; Insurance Information Institute calculations.

Induced Earthquakes

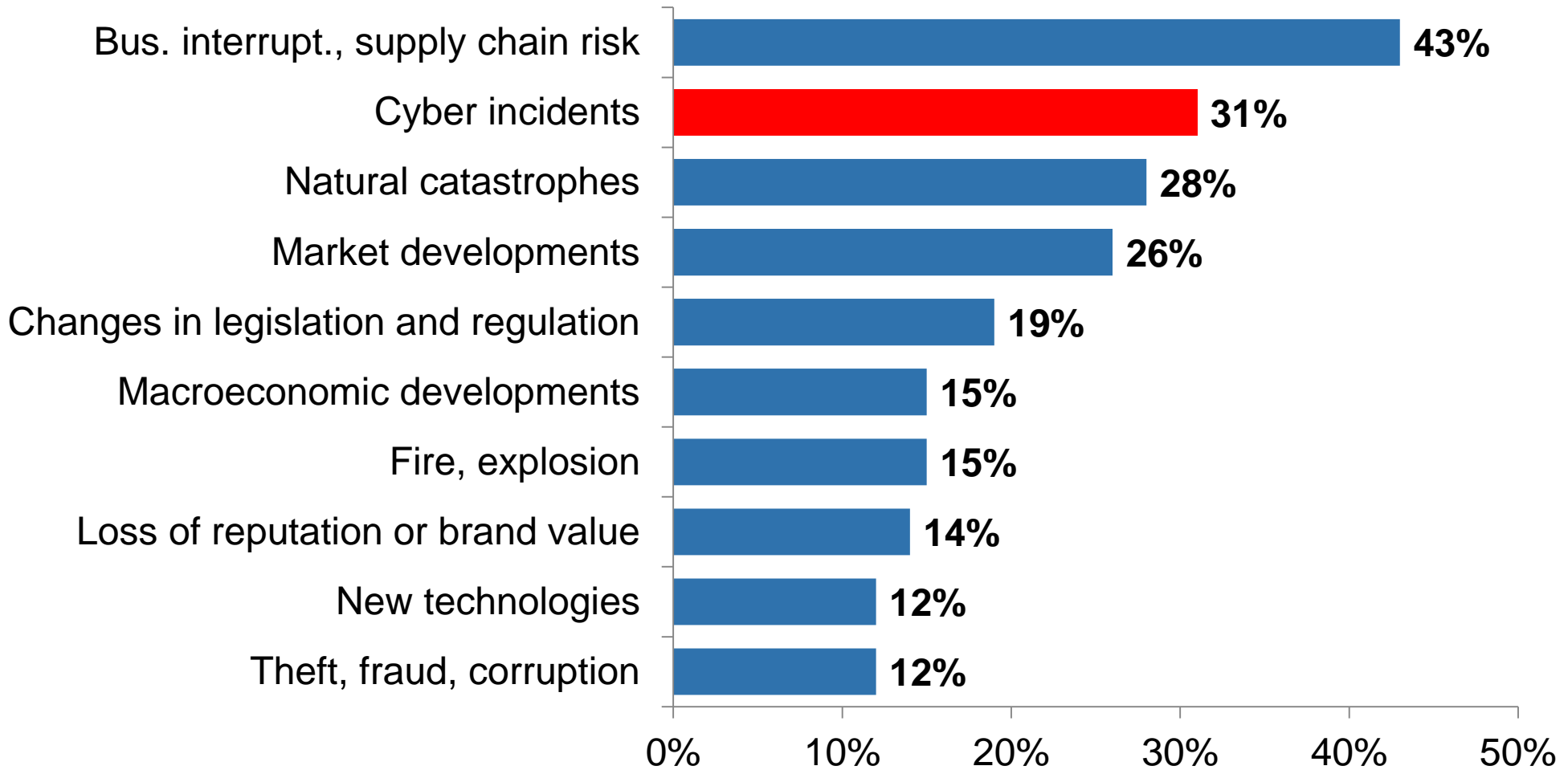
Oklahoma Earthquakes Magnitude 3.0 and Greater



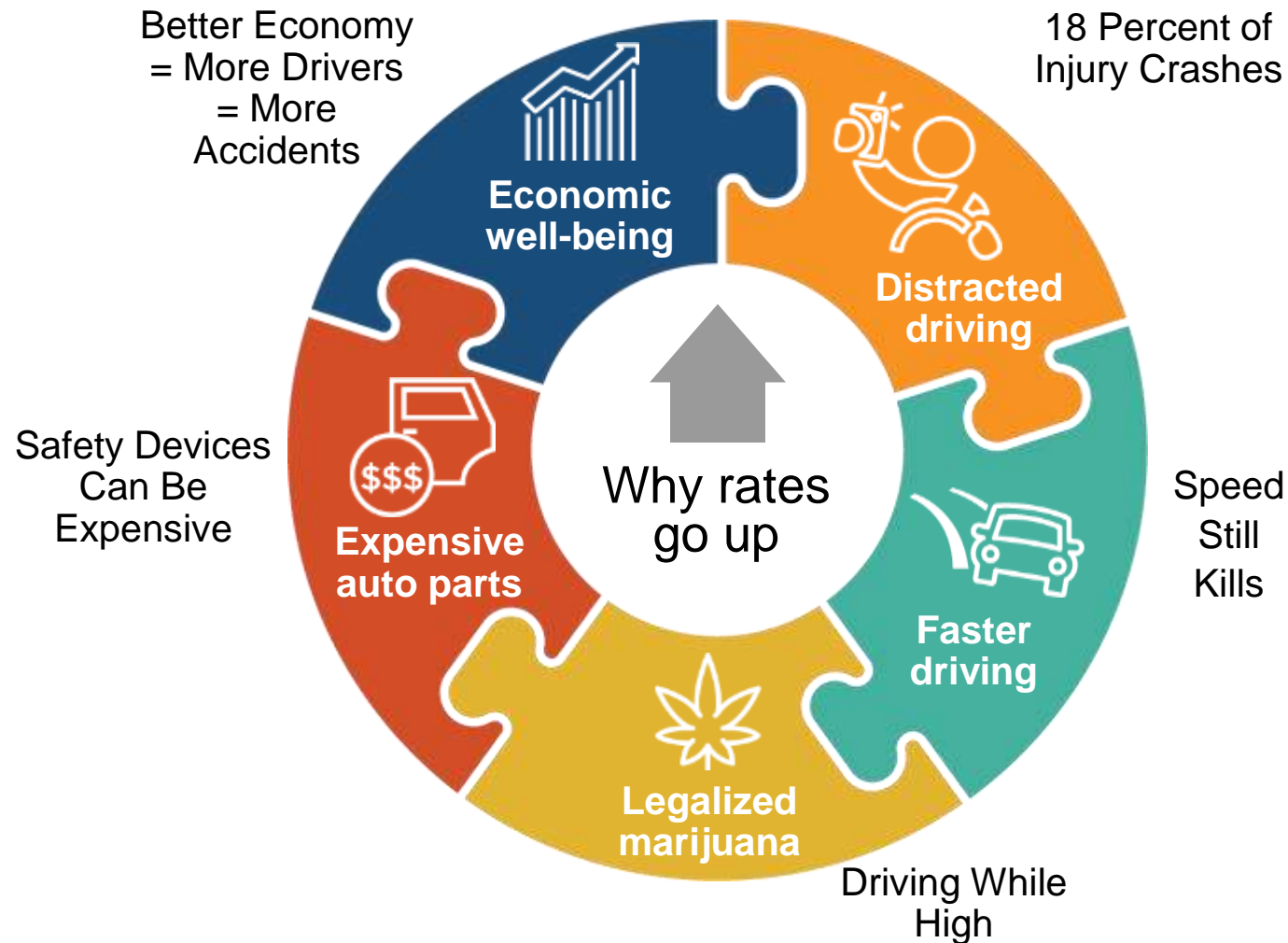
Earthquake insurance take-up rates increased by over 300 percent from 2006 to 2015 in Oklahoma.



Cyber Attacks – No. 2 Global Risk



Road Safety



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INSURANCE AND THE FOURTH INDUSTRIAL REVOLUTION



Insurance Disruption Technology / Digitalization

Fundamental Changes

- ▲ Future of Auto
- ▲ Future of Reduced Risk Pools

Opportunities

- ▲ Automation / Efficiencies
- ▲ New Product Lines (Cyber)
- ▲ Emerging Technologies

Challenges

- ▲ Consumer Trust – Demonstrate the Societal Value
- ▲ Big Data vs. Individual Privacy

New Market Entrants “Uber of Insurance”?

- ▲ Lemonade
 - ◆ Offered in CA, IL, NJ, NY

Regulatory Opportunities/Threats

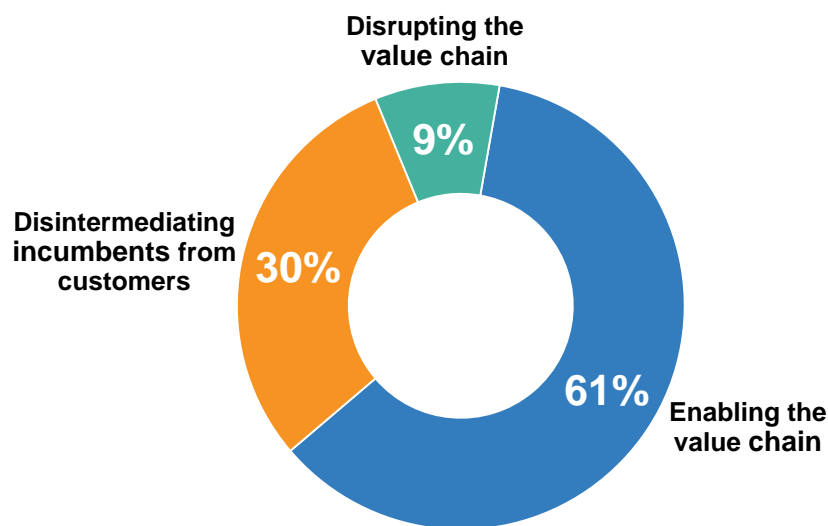
- ▲ Barrier to Entry
- ▲ US vs. Other Less Regulated Regions
- ▲ Trust Pull-back – the Sandbox Approach

InsurTech Disruption: Threat or Opportunity?

Automation efficiencies can have powerful impact on industry

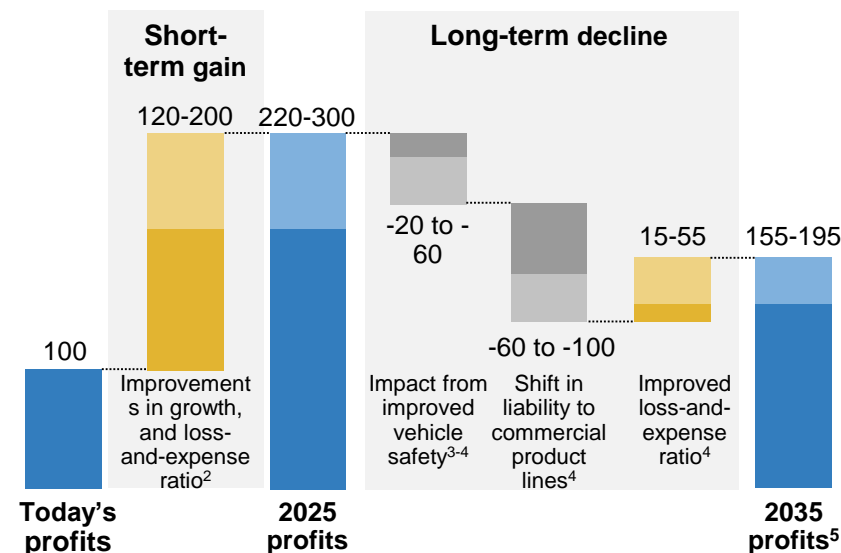
Focus of InsurTech in the insurance value chain¹, %

Only nine percent of InsurTechs aim to oust incumbents



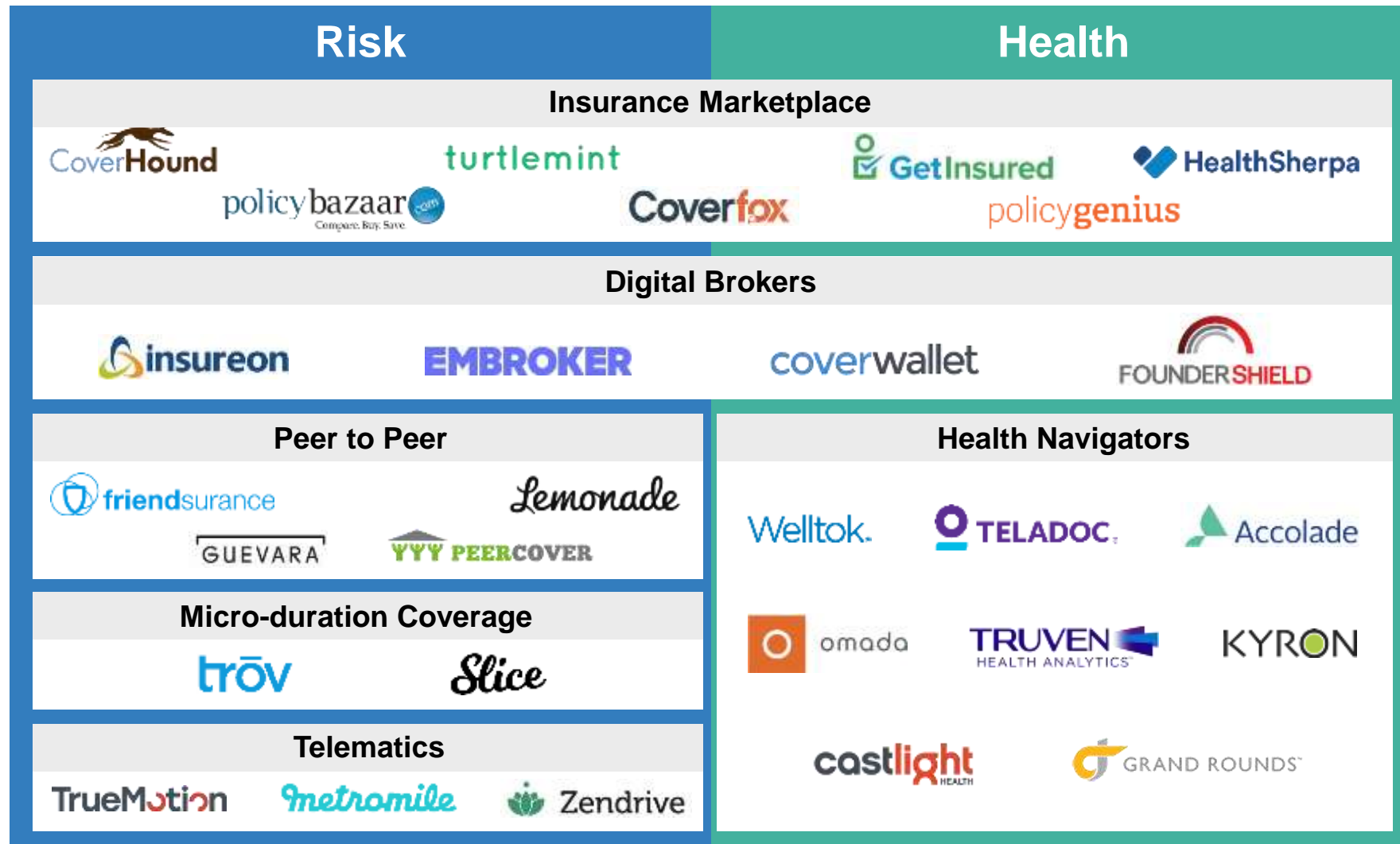
Future profits as a % of today's profits

Digitizing the business, auto insurance example



¹Insurtechs are insurance businesses, usually startups, that use technologically innovative apps, processes, or business models; 2016 data based on some 500 commercially well-known cases. ²Assumes a 3 to 5 percentage point improvement in loss ratio, a 2 to 4 percentage point improvement in operating expenses, and a 6 to 8 percentage point improvement in direct sales conversions. ³Includes growth in investment income as well premiums. Investment income modeled as a flat percentage of premium in each year. ⁴Includes impact of semi- and fully autonomous vehicles. ⁵Assumes a 25 percent reduction in premiums as a result of telematics and sensors and a 50 percent risk transfer to commercial product liability. Source: Panorama by McKinsey; Digital and Auto Insurers Value at Stake Analysis, McKinsey, 2016.

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



...With Broad Incumbent Support

metromile



\$205M

CoverHound



\$57M

ONE, INC.



\$37M

policygenius



\$21M

Slice



\$4M



Note: Total funding.
Source: Aon.

Successful Digital Transformation → Holistic Approach

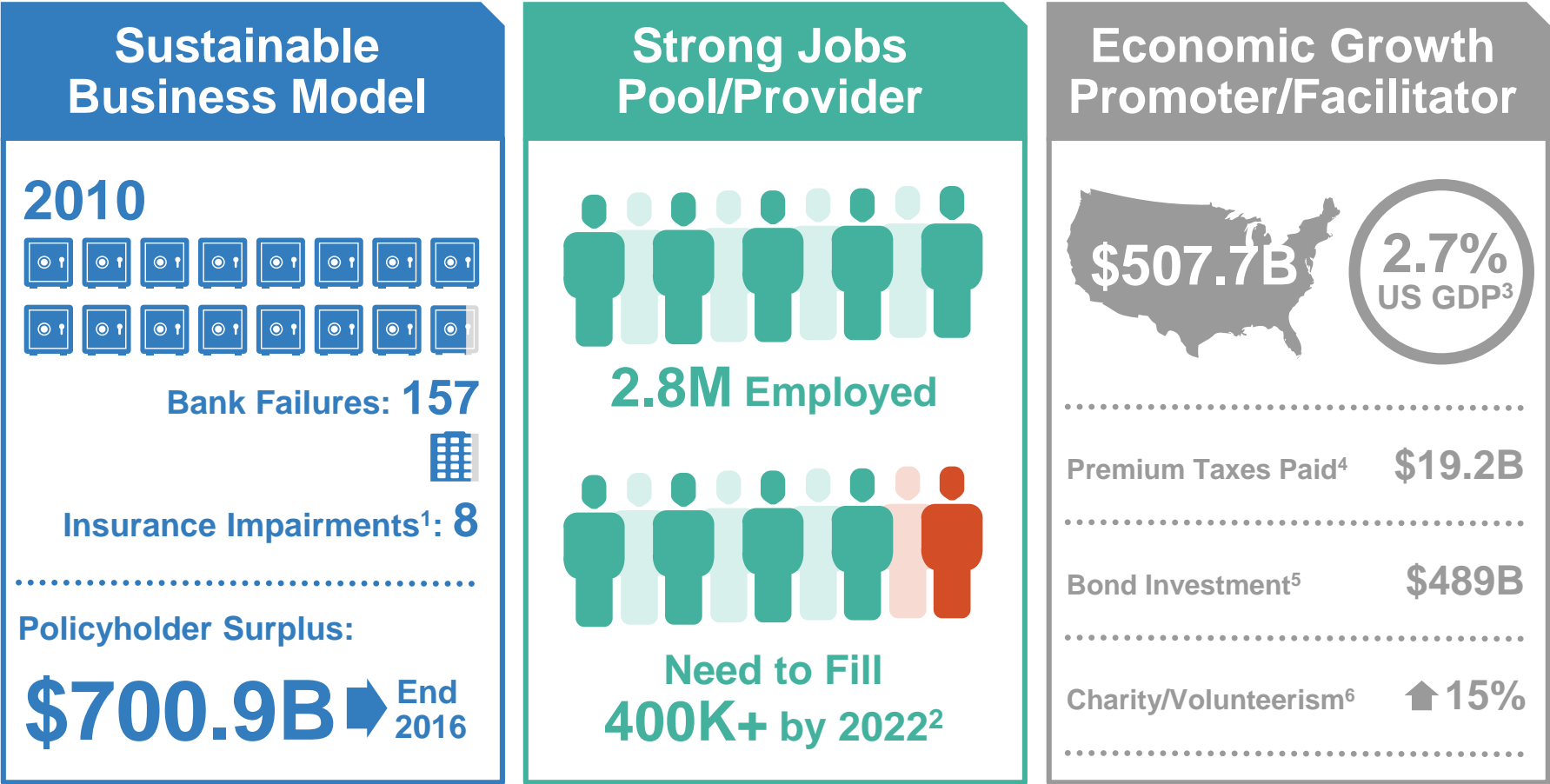


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INSURANCE AND ECONOMIC LEADERSHIP



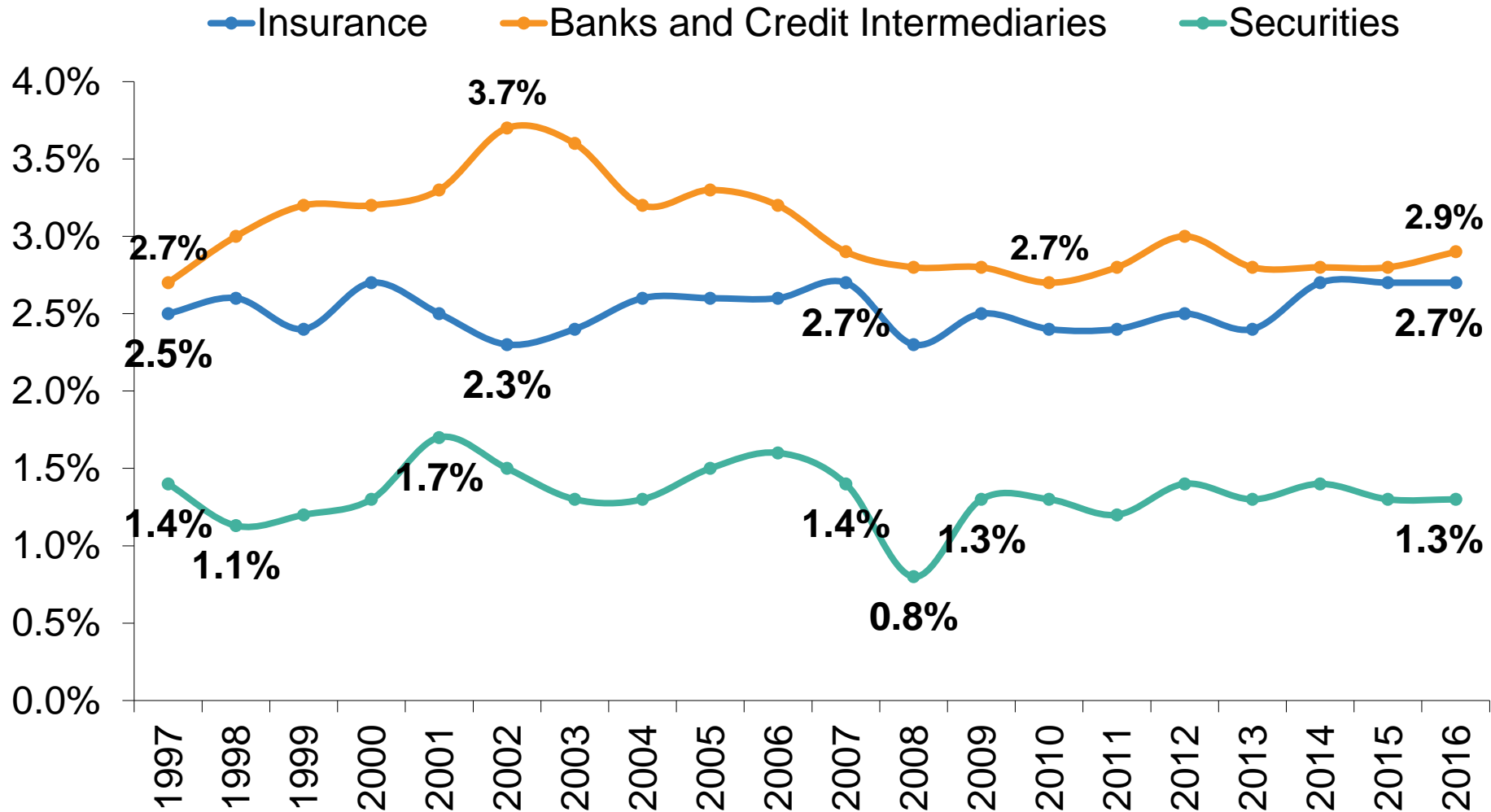
Insurance & Economic Leadership



¹Life/Health and P/C Insurance; ²PC 360 <http://www.propertycasualty360.com/2013/04/17/insurance-industry-crisis-400000-positions-to-fill?slreturn=1476304299>; ³U.S. Bureau of Economic Analysis, 2016; ⁴U.S. Department of Commerce, 2015; ⁵Federal Reserve, 2015; ⁶2011–2014, Insurance Industry Charitable Foundation.



The Insurance Industry's Contribution to GDP Now Nearly Equals Banks'



Sources: US Bureau of Economic Analysis; Insurance Information Institute.

Insurance Industry Snapshot: By the Numbers



2.8 million

People in the U.S. employed, in a wide variety of careers, from human resource administrators to public relations managers to financial analysts



\$5.8 trillion

Assets under management at year-end 2016, including \$1.5 trillion for the property/casualty sector and \$3.7 trillion for the life sector



\$508 billion

Contributed to the U.S. gross domestic product in 2016, roughly 2.7% of the whole



\$40.0 billion

Federal and foreign income taxes paid in 2016, plus U.S. premium taxes paid



The Yearly Cash Flow to Rebuild Lives and Property is Substantial

Insurers annually pay over a trillion dollars in claims to rebuild lives, property, and businesses.

In 2016 alone, the industry paid

\$386.4 billion P/C incurred claims (L + LAE)

554.7 Life/Annuity benefits

560.9 Health Insurance benefits

= \$1.502 trillion

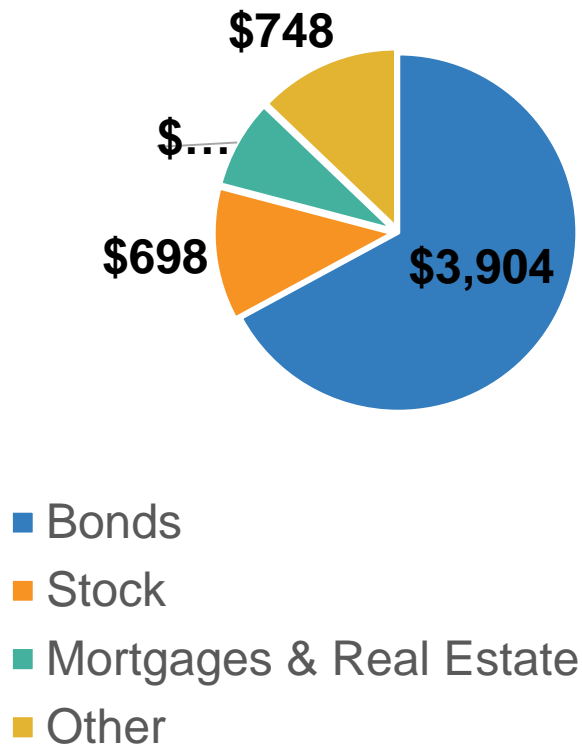
This is equivalent to \$125 billion per month.



Insurers Are Major Investors, 2015

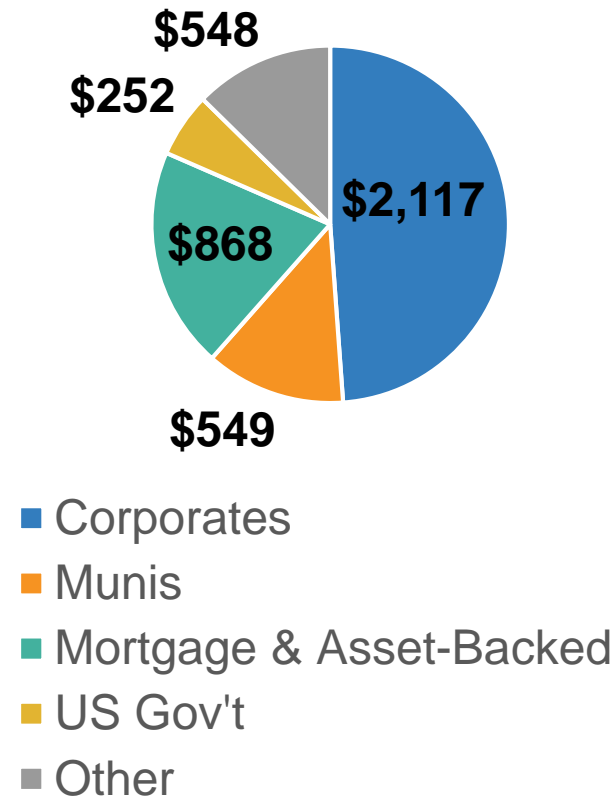
Categories of investments (\$billions)

Total invested assets: \$5.8 trillion

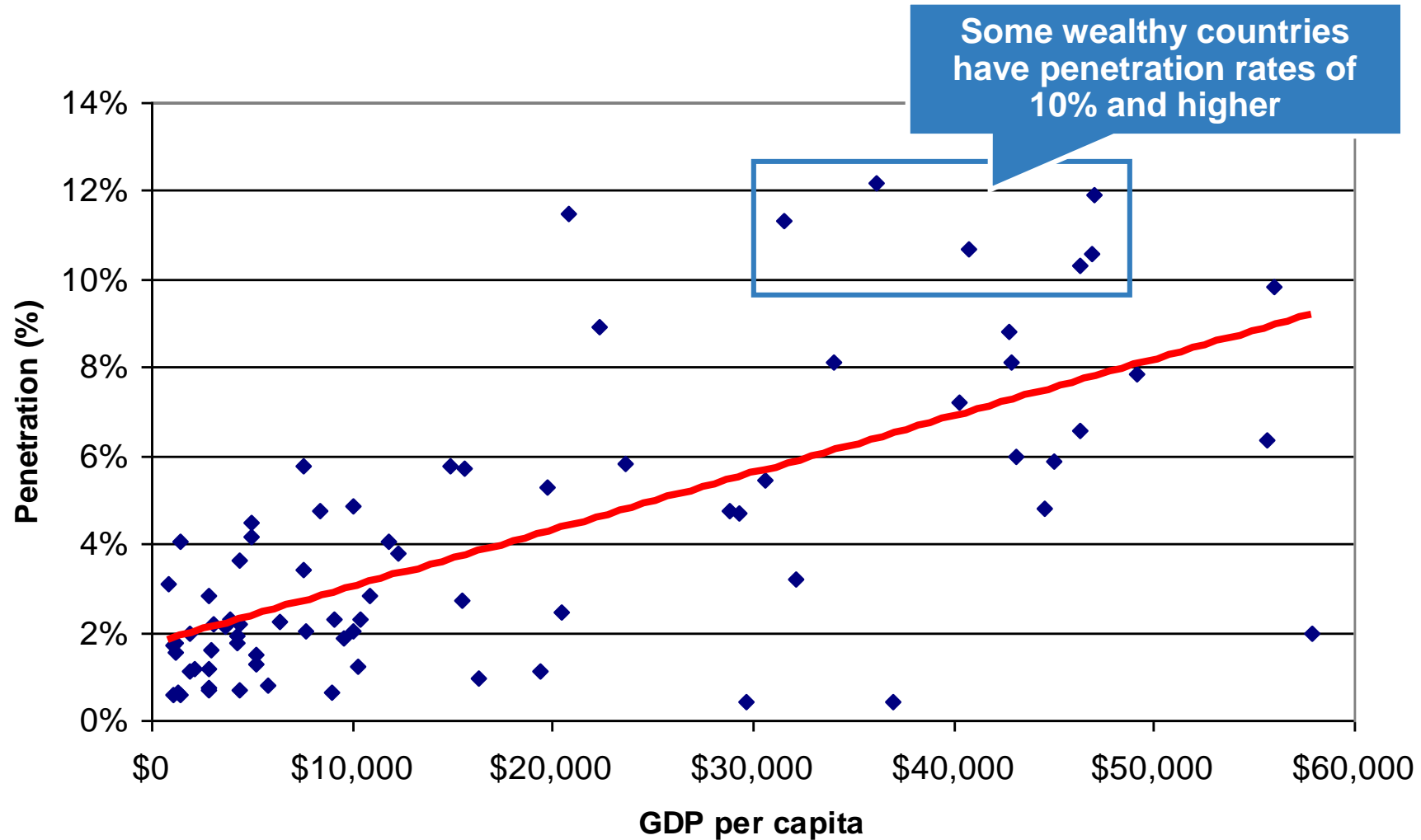


Categories of bonds (\$billions)

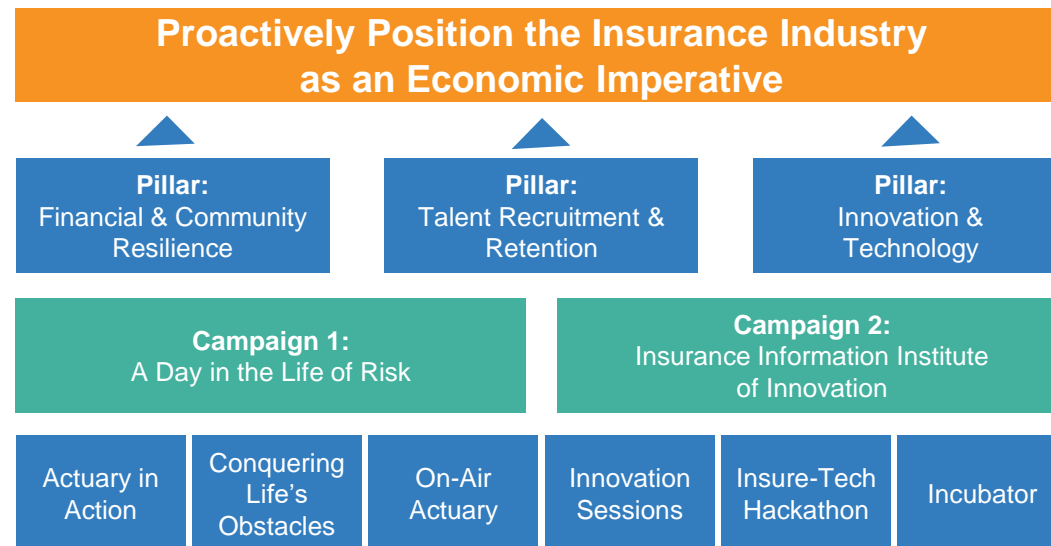
22% of corporate bonds outstanding
15% of municipal bonds outstanding



As Economies Grow Wealthier, Insurance Market Penetration (Premium as % of GDP) Also Grows



I.I.I Proactive Campaigns Framework



Summary

Disruption Causing Insurance Industry Inflection Point

Fundamentals Are Sound for Industry Leading Through Disruption

Opportunity/Risk: Define or Be Defined...



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QUESTIONS

