

### Industry Update: Yesterday, Today and Tomorrow

CPCU I-Day Columbia, Missouri September 10, 2019

James Lynch, FCAS MAAA, Chief Actuary

### 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

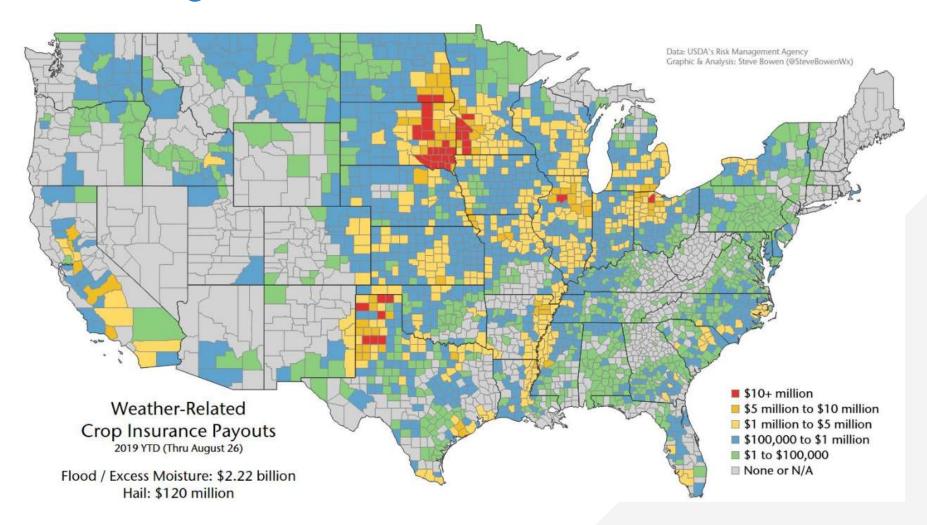


### Insurance and Agriculture





### Protecting America's Farms



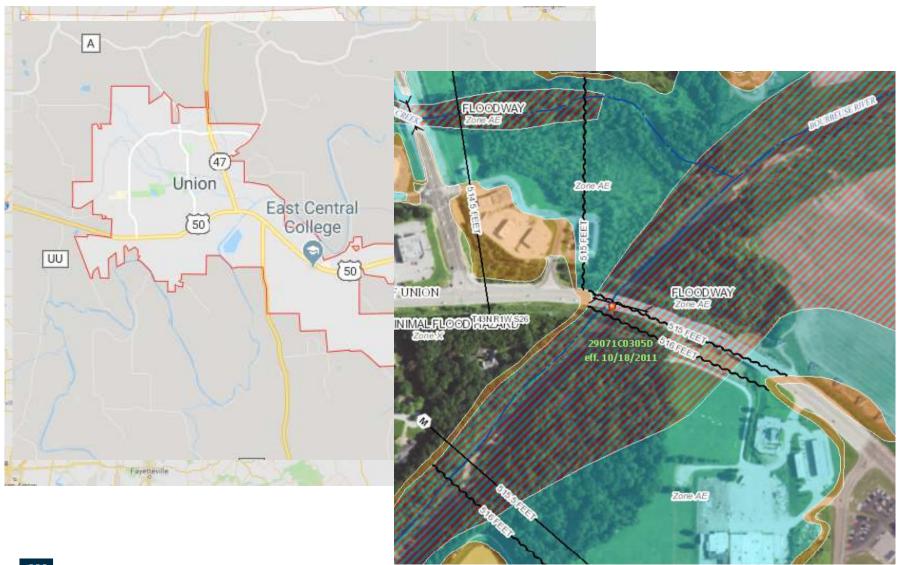


Source: USDA, Aon (Steve Bowen).

### 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



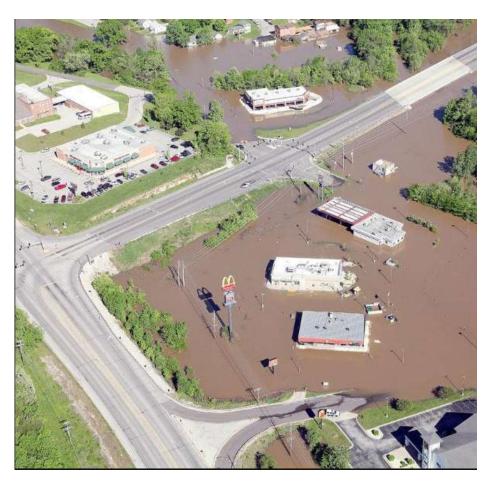
**Bourbeuse River Record Crest** 34.3 feet 12/29/2015



### 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





### Extreme Events: A Troubling Trend

Rank	Date	Event	Cause	Insured Loss (1) (\$ millions)
1	Aug. 2005	Hurricane Katrina	Hurricane	\$41,100
<u>2</u>	Sep. 2017	Hurricane Maria (2)	<u>Hurricane</u>	<u>25,000-30,000</u>
<u>3</u>	Sep. 2017	Hurricane Irma (2)	<u>Hurricane</u>	<u>20,000-25,000</u>
4	Sep. 2001	September 11 Events	Terrorism	18,779
5	Oct. 2012	Hurricane Sandy	Hurricane	18,750
<u>6</u>	Aug. 2017	Hurricane Harvey (2)	<u>Hurricane</u>	<u>16,000-19,000</u>
7	Aug. 1992	Hurricane Andrew	Hurricane	15,500
8	Jan. 1994	Northridge, CA earthquake	Earthquake	12,500
9	Sep. 2008	Hurricane Ike	Hurricane	12,500
10	Oct. 2005	Hurricane Wilma	Hurricane	10,300

<sup>(2)</sup> Insurance Information Institute estimate based on data from catastrophe risk modelers, the Property Claims Services unit of Verisk Analytics, et al.



Source: Insurance Information Institute, catastrophe risk modelers, The Property Claim Services® (PCS®) unit of ISO®, a Verisk Analytics® company, et al.

<sup>(1)</sup> Dollars when occurred.

### Insurance Leading Throughout History

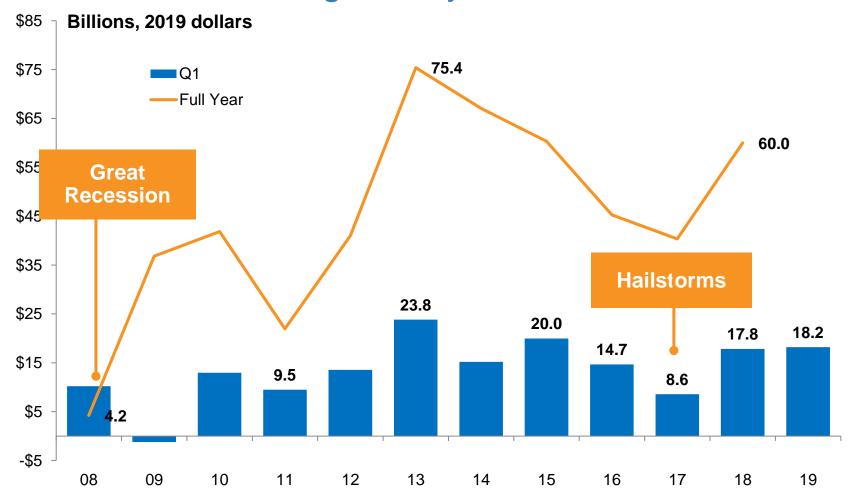




### Yesterday: Industry Results

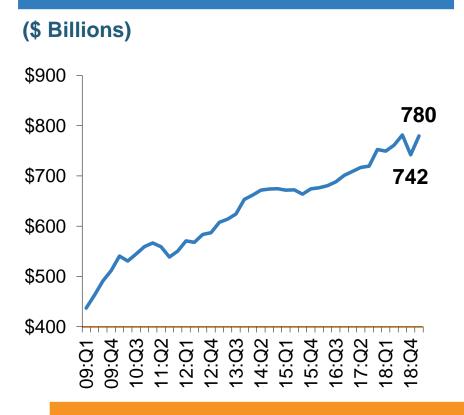
Higher Rates, Moderating Claim Rates Buoy Results

### Are Insurers Making Money?

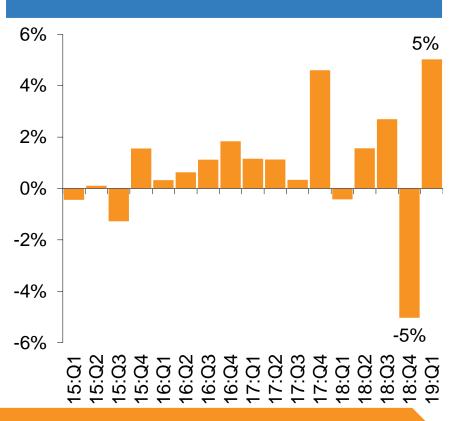


### Is the Industry Strong?

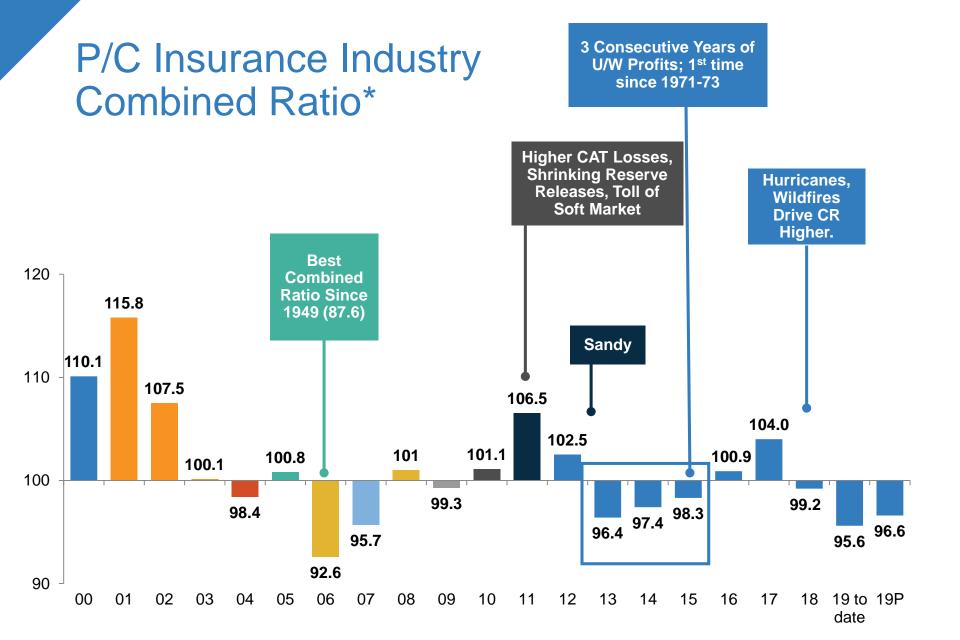
#### **Amount of Surplus**

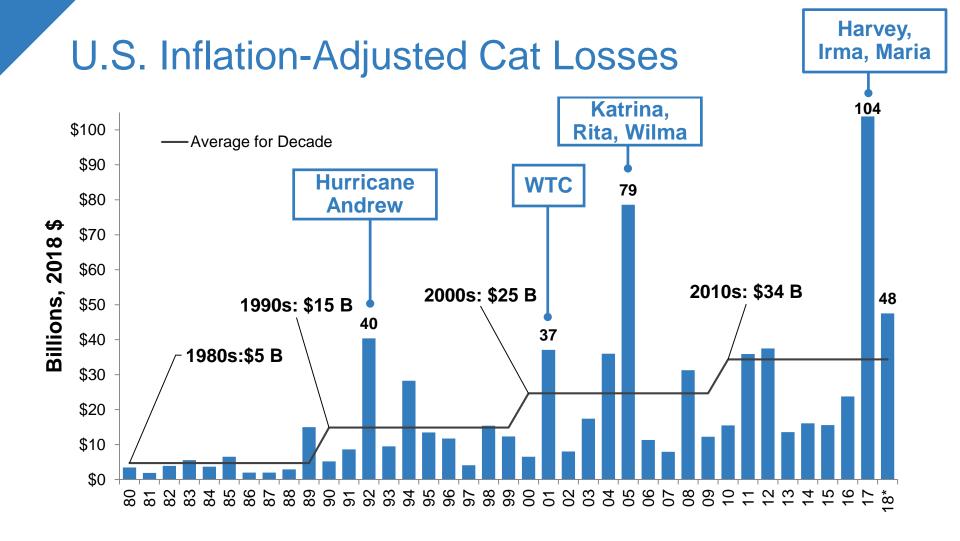


#### **Change from Prior Quarter**



Stock Market Dip Explains Q4 2018 Drop. Q1 Recovery Explains Increase \$0.78 Premium per \$1 Surplus.

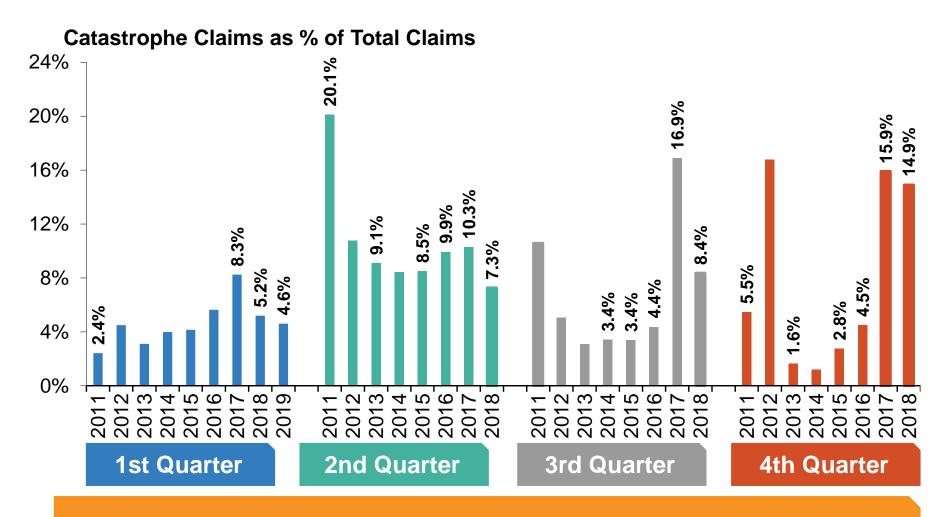




2018 – Third worst year for U.S. Insured Catastrophe Losses. Average Insured Loss per Year for 1980-2018 is \$19.3 B.



### Catastrophe Claims, by Season

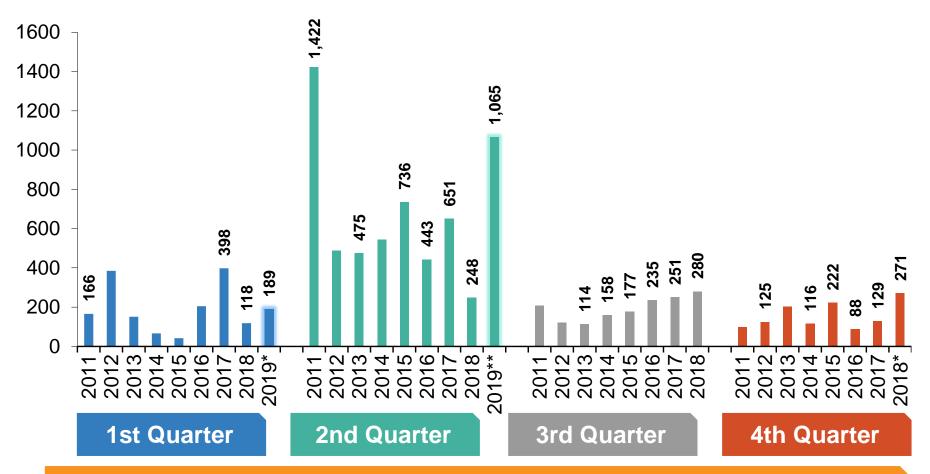


Catastrophe Claims Hit Hardest in Second and Third Quarters.



<sup>\*</sup> Preliminary, much of Q4 may be re-estimation of Harvey, Irma, Maria claims. Losses are net of reinsurance but include Loss Adjustment Expenses Sources: ISO PCS; Insurance Information Institute calculations.

### Tornadoes by Quarter



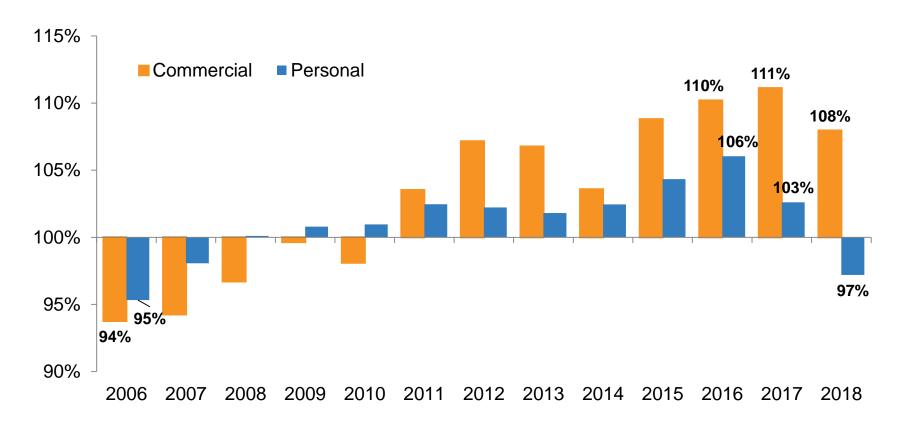
2019 Second Quarter: Tornado Season – Anticipated Second Most In Past Nine Years

Source: http://www.spc.noaa.gov/climo/online/monthly/newm.html.



<sup>\*</sup> Preliminary Version of Final Counts. \*\* Incomplete June Data

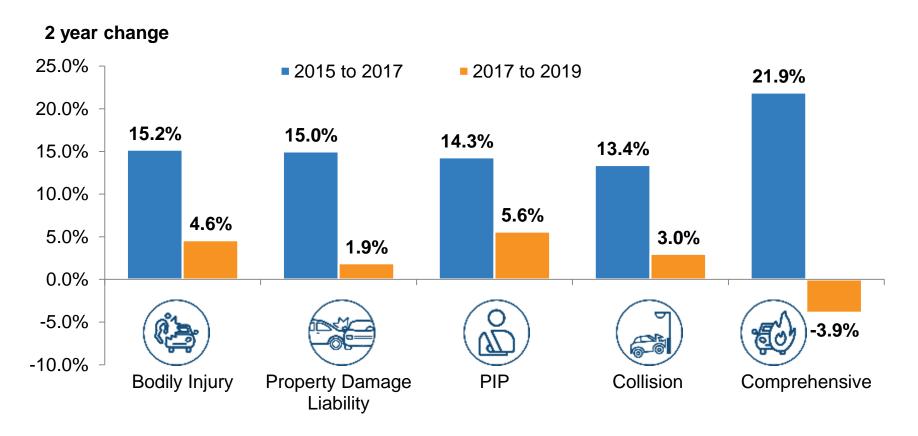
### **Auto Net Combined Ratio**



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



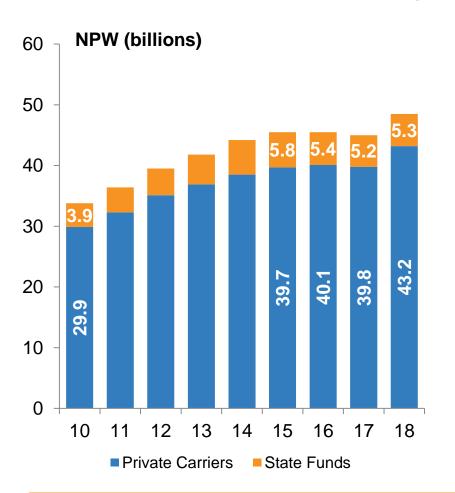
### Loss Costs Have Tapered Off the Past 2 Years

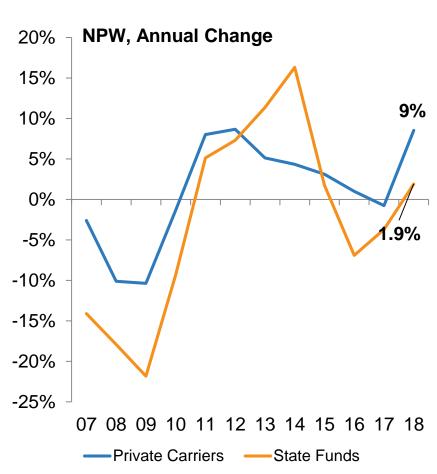


After Several Years of Steep Increases the Cost of Accidents has Tapered Off. Consumer Prices Overall Rose 6.6 Percent from 2016 to 2018.



### Workers Comp: Soft Market Offsetting Exposure Growth



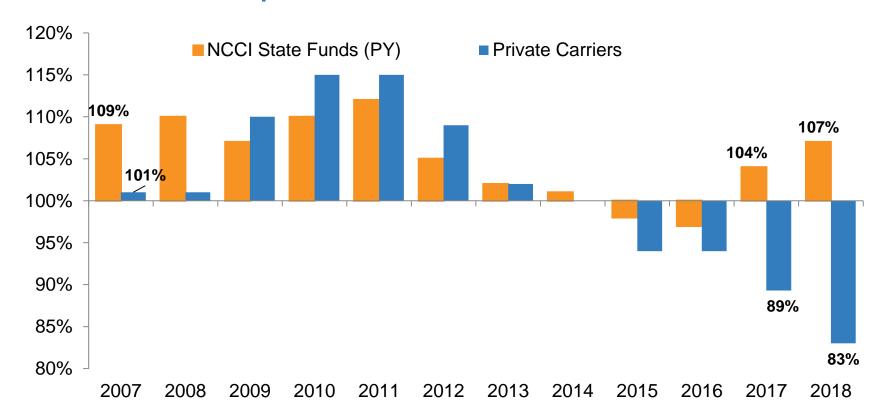


**Private Carriers: Tax Law Changes Boosted Net Premiums.** 



Source: NCCI.

### Workers Comp Net Combined Ratio



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



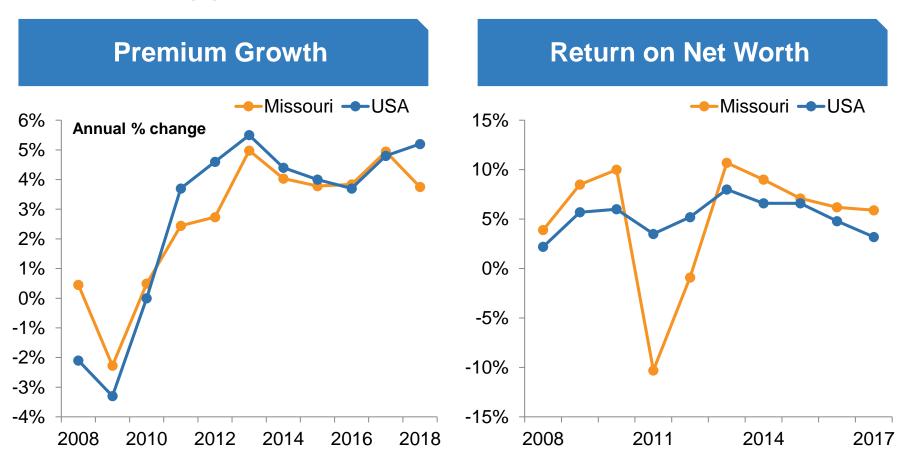
Source: NCCI...

### Focus on Missouri

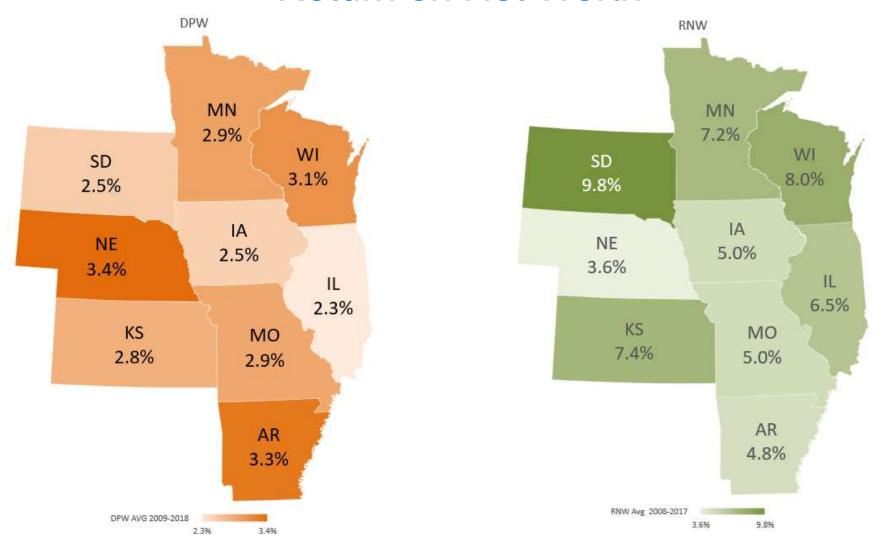
Growth and Profitability

## Return on Net Worth and Direct Premiums Written All Lines

Missouri vs. USA



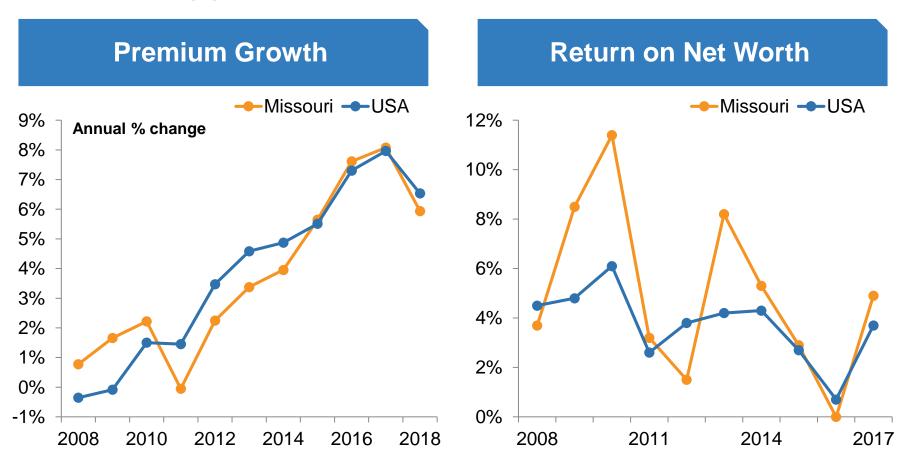
## All Lines: 10-Year Average DPW Growth and Return on Net Worth





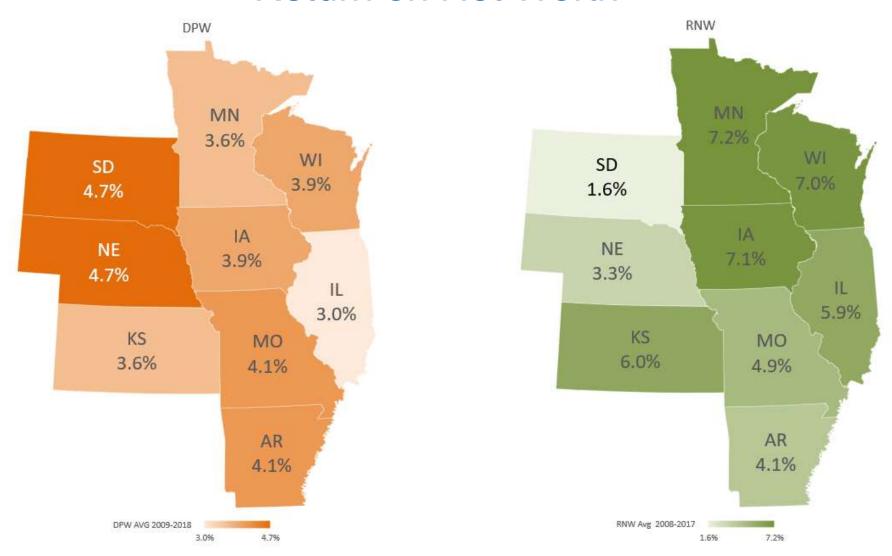
## Return on Net Worth and Direct Premiums Written PP Auto

Missouri vs. USA





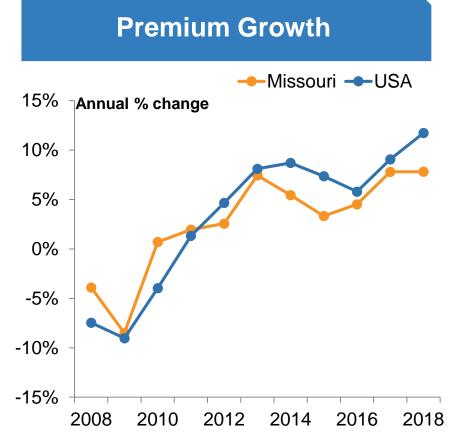
## PP Auto: 10-Year Average DPW Growth and Return on Net Worth



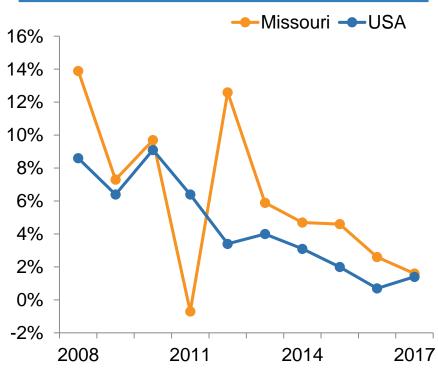


## Return on Net Worth and Direct Premiums Written Commercial Auto

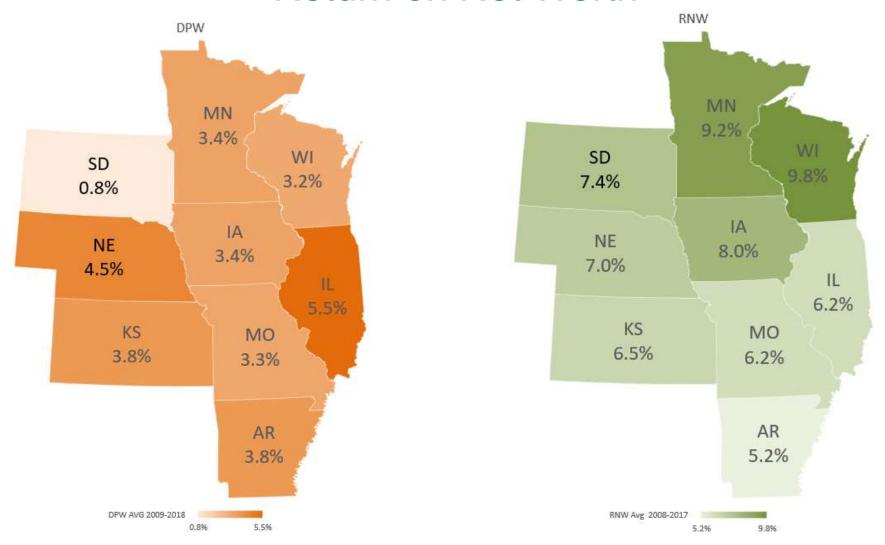
Missouri vs. USA



#### **Return on Net Worth**



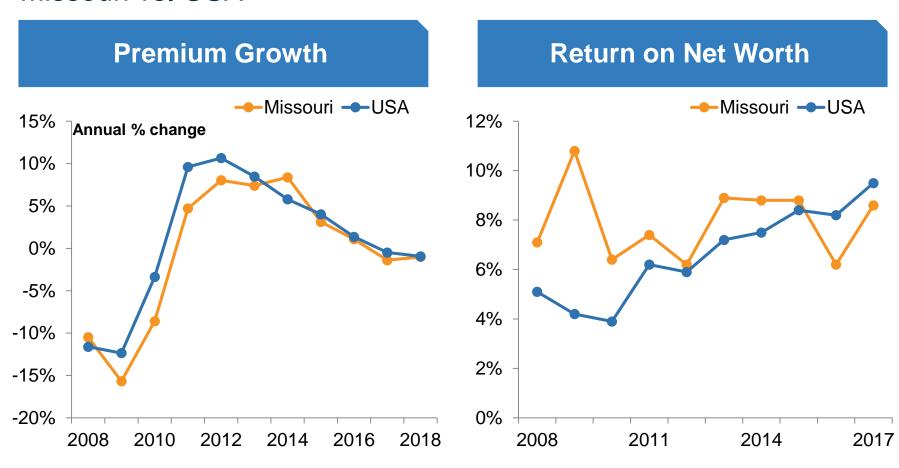
## Comm. Auto: 10-Year Average DPW Growth and Return on Net Worth





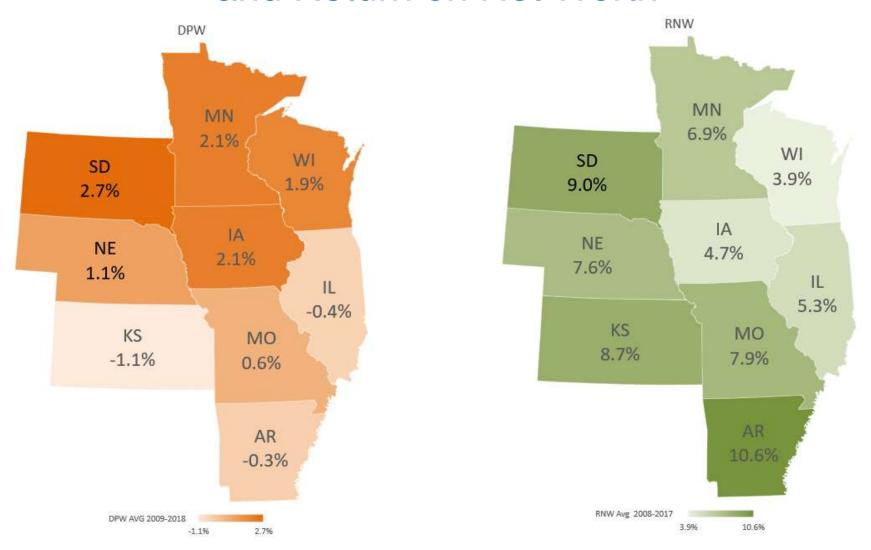
## Return on Net Worth and Direct Premiums Written Workers Comp

Missouri vs. USA





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





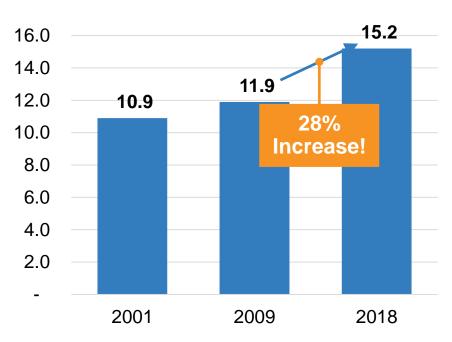
Today: Emerging Issues

### Auto Repair: Complexity Grows

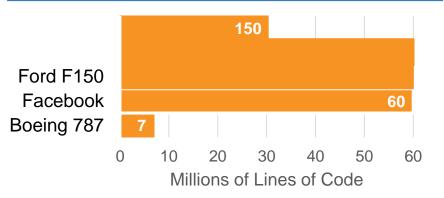
#### More Cool Stuff to Fix

## 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.

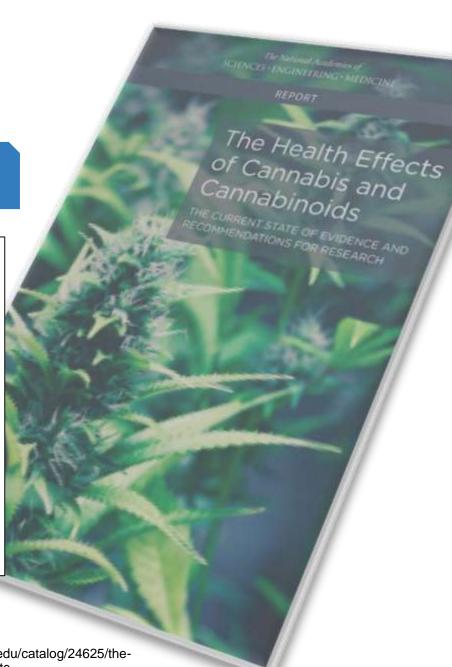
SOURCES: "2019 Crash Course." CCC Information Services; Ford Motor Co.;

### Cannabis & Insurance

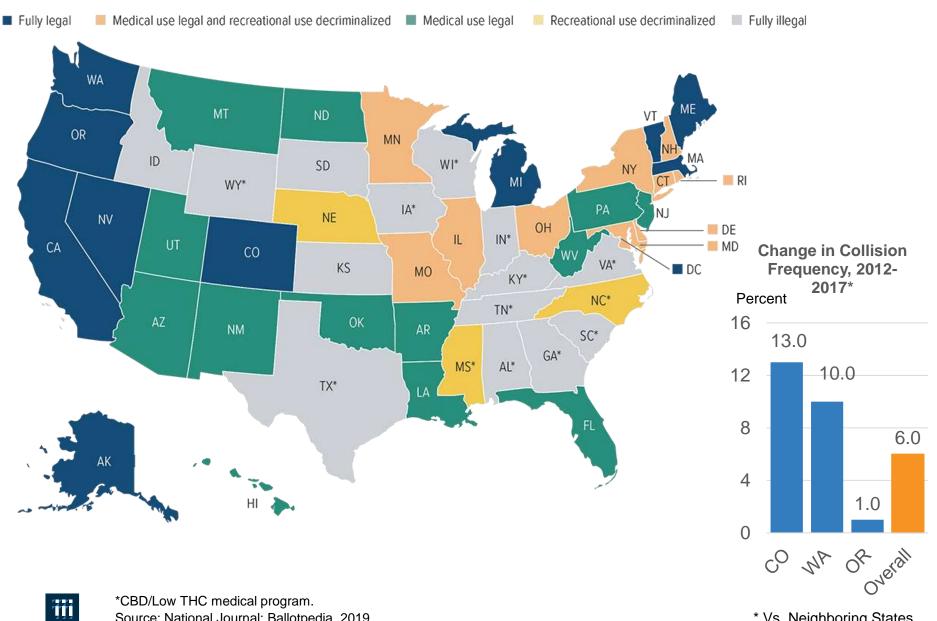
#### The Science

#### **Review of Literature**

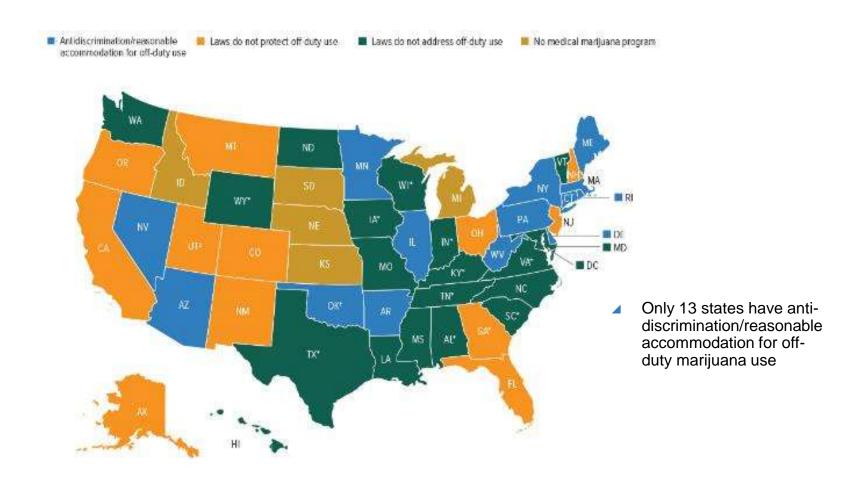
- Conclusive evidence
  - Improves the lot of adults in chronic pain.
- Substantial evidence
  - Increases the risk of motor vehicle crashes.



### Current marijuana laws by state



### 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.

### Is Medical Marijuana Covered by Comp?

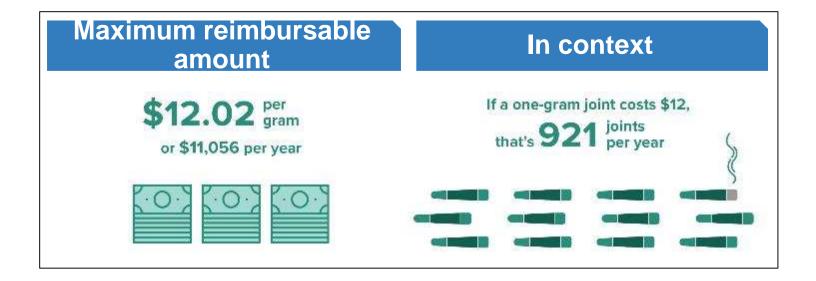
- Reimbursable in a handful of states
- Unclear whether reimbursable in many states
- Reimbursement not required
- Reimbursement prohibited or ineligible



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 Marijuana<sup>1</sup>





### Reimbursement Complications

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



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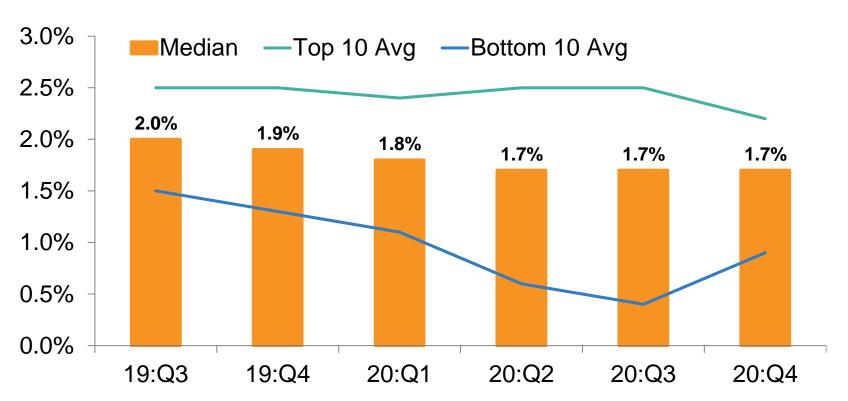


### **Tomorrow**

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.** 





### Summary

- Insurance Industry Leads Through Disruption
- Missouri Results Resemble the Rest of USA
- 2019 Results Promising, With Long-Awaited Improvement in Auto Lines and Workers Comp Setting Records
- ▲ Emerging Issues: Marijuana, Auto Repair Costs
- ▲ Economic Growth Steady How Long Will it Last?





# Thank you for your time and your attention!