State of the Insurance Industry: 21st Century Resilience

The Importance of Insurance and Risk Mitigation in the Future of Cities and Towns

Lloyd’s Day
Fullerton, California
October 2, 2018
I.I.I. Mission Statement

Improving public understanding of insurance...

...what it does and how it works
The State of the Industry

Powerful Builders and Leaders
P/C industry net income after taxes

Billions, 2018 dollars

Profits Doubled from a Year Ago – Best First Half Since 2013.

Through second quarter. Adjusted for inflation using the BLS CPI calculator.
Sources: NAIC data, sourced from S&P Global Market Intelligence; Insurance Information Institute.
P/C Insurance Industry Combined Ratio*

Through Q2.


Direct Premium Growth, Annual Change

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

All data through second quarter.
SOURCES: NAIC data sourced through S&P Global Intelligence, Bureau of Economic Affairs, Insurance Information Institute.
Policyholder Surplus By Quarter

Amount of Surplus

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Surplus ($ Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>09:Q2</td>
<td>749</td>
</tr>
<tr>
<td>10:Q1</td>
<td>749</td>
</tr>
<tr>
<td>10:Q4</td>
<td>749</td>
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<tr>
<td>11:Q3</td>
<td>749</td>
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<tr>
<td>12:Q2</td>
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<tr>
<td>13:Q1</td>
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<td>13:Q4</td>
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<td>14:Q3</td>
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<tr>
<td>15:Q2</td>
<td>749</td>
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<tr>
<td>16:Q1</td>
<td>749</td>
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<tr>
<td>16:Q4</td>
<td>749</td>
</tr>
<tr>
<td>17:Q3</td>
<td>749</td>
</tr>
<tr>
<td>18:Q2</td>
<td>749</td>
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</tbody>
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Change from Prior Quarter

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Change from Prior Quarter</th>
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</thead>
<tbody>
<tr>
<td>15:Q2</td>
<td>-2%</td>
</tr>
<tr>
<td>15:Q3</td>
<td>-1%</td>
</tr>
<tr>
<td>15:Q4</td>
<td>0%</td>
</tr>
<tr>
<td>16:Q1</td>
<td>1%</td>
</tr>
<tr>
<td>16:Q2</td>
<td>2%</td>
</tr>
<tr>
<td>16:Q3</td>
<td>3%</td>
</tr>
<tr>
<td>16:Q4</td>
<td>4%</td>
</tr>
<tr>
<td>17:Q1</td>
<td>5%</td>
</tr>
<tr>
<td>17:Q2</td>
<td>-0.4%</td>
</tr>
<tr>
<td>17:Q3</td>
<td>1.6%</td>
</tr>
<tr>
<td>17:Q4</td>
<td>-0.4%</td>
</tr>
<tr>
<td>18:Q1</td>
<td>-0.4%</td>
</tr>
<tr>
<td>18:Q2</td>
<td>-0.4%</td>
</tr>
</tbody>
</table>

Tax Law Increased Surplus at Year-End 2017 and Makes Surplus Growth a Bit More Volatile. $1.30 Surplus per $1 Premium.

Sources: ISO, A.M. Best.
10 Key Ways 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
4. Insurance is a partner in social policy
5. Insurance sustains the supply chain
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
The State of Resilience

A Case Study: Flood Risk
1982 Union, Missouri, Flood
A Storm for the Ages

Bourbeuse River
Record Crest
33.8 feet
12/5/1982

Source: Fox2News.com, @BoxxRadio.
2015 Union, Missouri, Flood
A Storm for the Ages

Sources: CBSnews.com; fox2news.com

Bourbeuse River
Record Crest
34.3 feet
12/29/2019
2017: A Record Year Of Catastrophe Losses

Flooding events spurred 73% of federal disaster declarations

Thunderstorm related losses 2nd highest ever in U.S.

$14 billion insured wildfire losses; California damage estimated ~$11 billion

N.A. hurricane season record-breaking insured & economic losses; disasters affected >25 million Americans

Cyber: Risk continuing to increase
Auto: Reaching epidemic proportions
A Confluence Of Disruptive Forces Continue To Impact Traditional Global Market Dynamics

- Catastrophes
- Economics
- Geopolitical
- Technology
The Insurance Coverage Gap Cost Consumers An Estimated $1.3 Trillion From 2005-2015

- Over the last decade, more than 70 percent of all catastrophes losses worldwide were uninsured.

- Flooding is not covered by standard homeowners insurance or commercial insurance policies, making it one of the largest uninsured risks for consumers.

Source: Swiss Re; Wikimedia Commons; DOD
NFIP Payouts To The Small Group Of Americans With Flood Insurance Have Skyrocketed

78% Of NFIP's Payouts Have Occurred In The Last 13 Years

Source: FEMA NFIP
Coverage Gaps Have Serious Consequences For American Families And Businesses

88% Of American Households Lack Flood Insurance

Major Populations Without Flood Insurance (%):

- Texas: 80%
- Florida: 60%
- Puerto Rico: 99%

Source: McKinsey; FEMA NFIP
Building Resilience

How Insurance Can Help
## (Re)insurance Products

<table>
<thead>
<tr>
<th>Private Industry</th>
<th>Case Studies</th>
</tr>
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<tbody>
<tr>
<td><strong>FEMA Reinsurance</strong></td>
<td>Through a $150 million purchase of private reinsurance products, FEMA was able to recover approximately $1 billion, or an eighth of its total 2017 loses.</td>
</tr>
<tr>
<td><strong>NFIP NatCat Bonds</strong></td>
<td>By issuing new natural catastrophe bonds geared towards institutional investors, the NFIP can bring an estimated $500 million of additional reinsurance coverage.</td>
</tr>
<tr>
<td><strong>Private Market Flood Products</strong></td>
<td>During 2017, the private flood insurance market added 50 new carriers. Direct private flood insurance premiums written reached $630 million, an increase of $217 million over 2016.</td>
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The Power of Marketing

ENGINE TROUBLES
THAT'S MAYHEM

State Farm

Allstate

Nationwide

is on your side

#DoubleCheck
Education & Analysis
Actuaries Climate Index – Measuring Weather Extremes

**Seasonal Five-Year** Moving Average, United States

Index Measures Frequency of Extreme Events (Heat, Drought, Wind, Rain, Sea Level) Vs. 1961-1990 Average

Source: Actuaries Climate Index, http://actuariesclimateindex.org/home/
Future Cities
Lloyd’s Initiative

To Improve Resilience

- Prevent Failure
- Expedite Recovery
- Transform Performance

Source: Lloyd’s/Arup, “Future Cities: Building Infrastructure Resilience”
We Must Overcome Political Gridlock
Economic and Actuarially Sound Action Is Needed To Adapt Policies To The Realities Of 21st Century Natural Catastrophes

“All Politics Is Local”
Thank you!
www.iii.org