The Workplace of Tomorrow

The "On-Demand" Economy and Implications for Workers Compensation

NCCI Annual Issues Symposium

Orlando, FL

May 14, 2015

Download at www.iii.org/presentations

Robert P. Hartwig, Ph.D., CPCU, President & Economist

Insurance Information Institute ♦ 110 William Street ♦ New York, NY 10038

Tel: 212.346.5520 ♦ Cell: 917.453.1885 ♦ bobh@iii.org ♦ www.iii.org

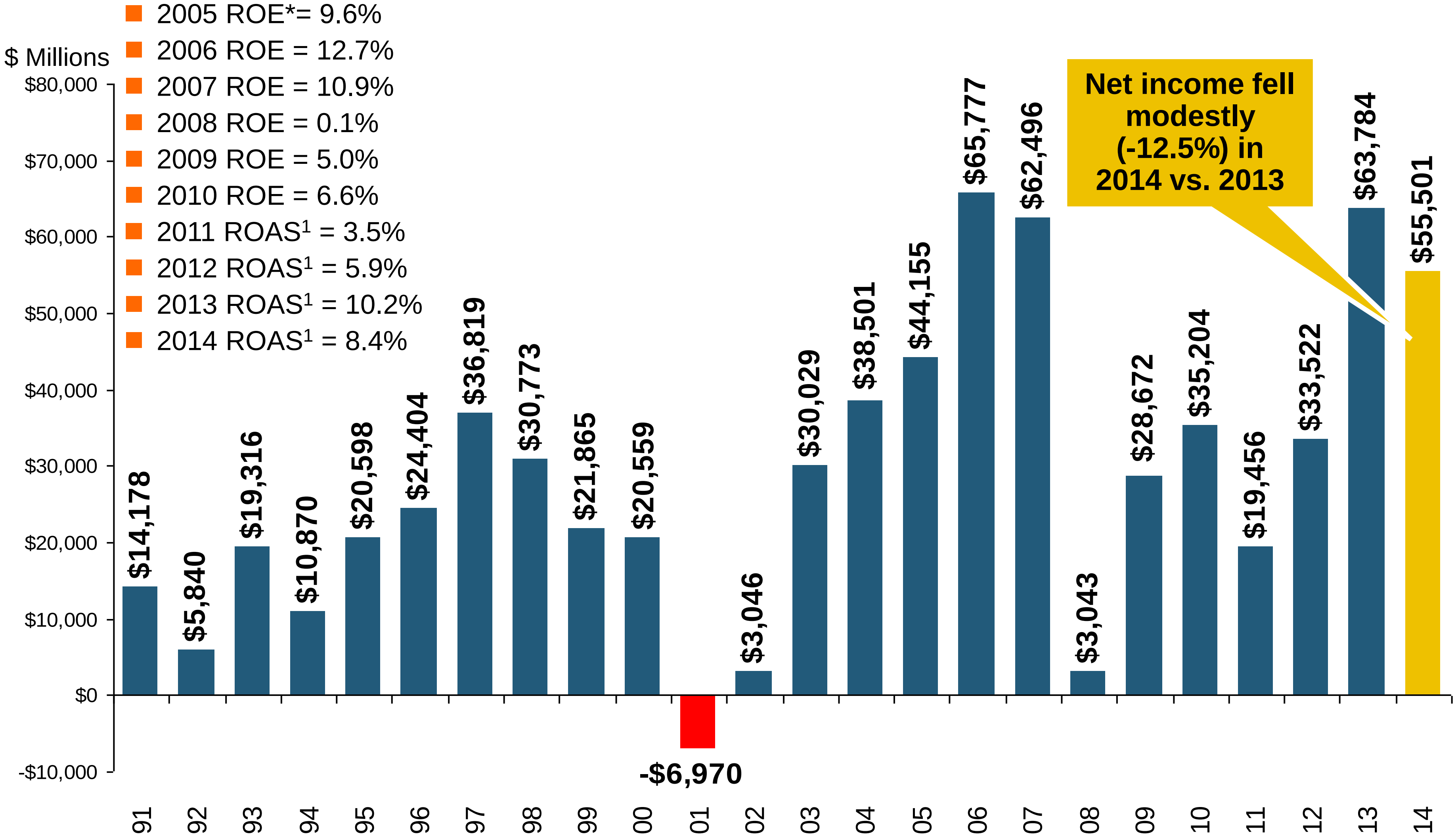
P/C Insurance Industry Financial Overview

2014: Second-Best Year in the Post-Crisis Era

Modest CATs, Strong Markets

Workers Comp Improvement Helped Too

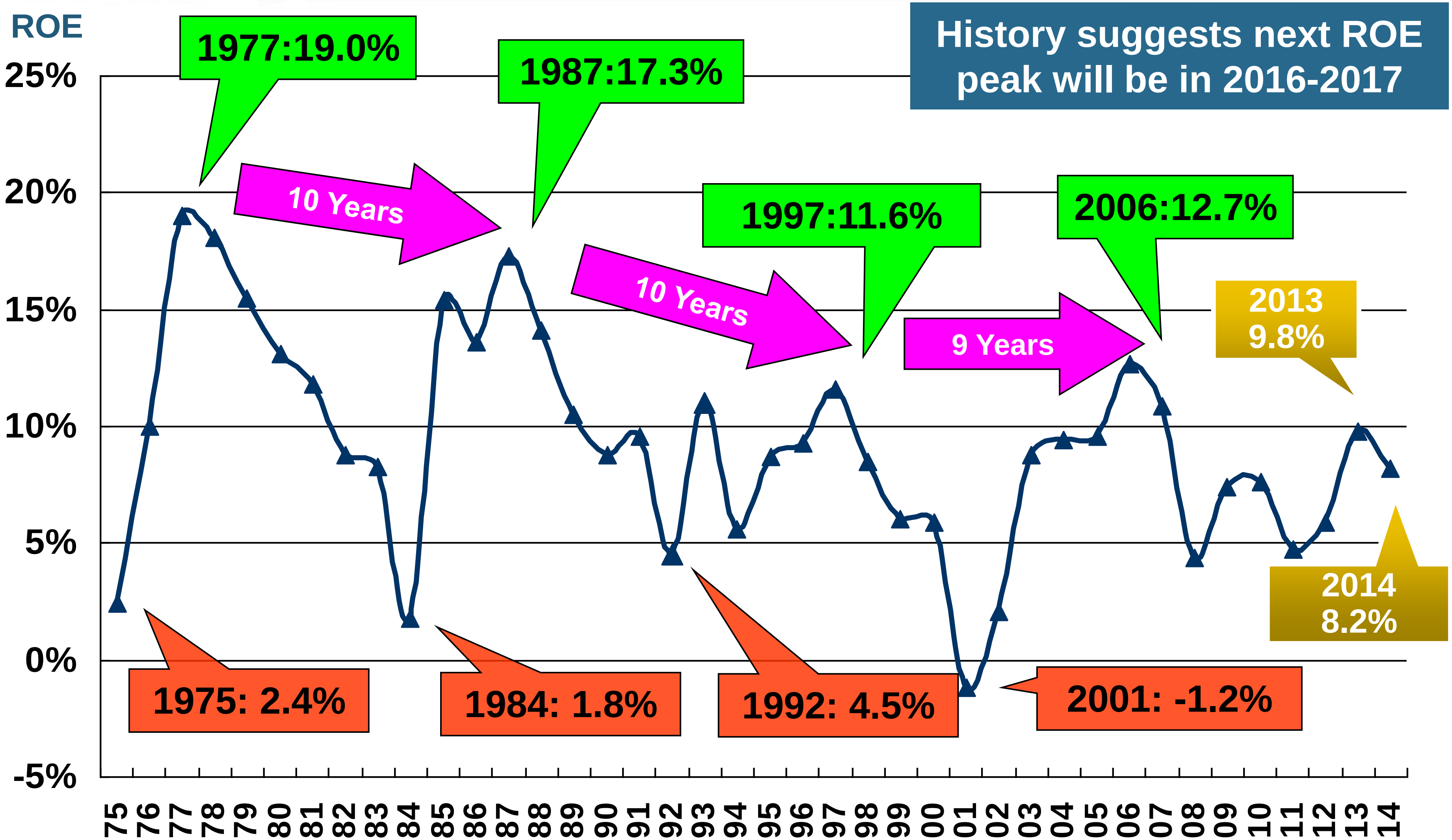
P/C Industry Net Income After Taxes 1991–2014



•ROE figures are GAAP; [1]Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 8.2% ROAS in 2014, 9.8% ROAS in 2013, 6.2% ROAS in 2012, 4.7% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009.

Sources: A.M. Best, ISO; Insurance Information Institute

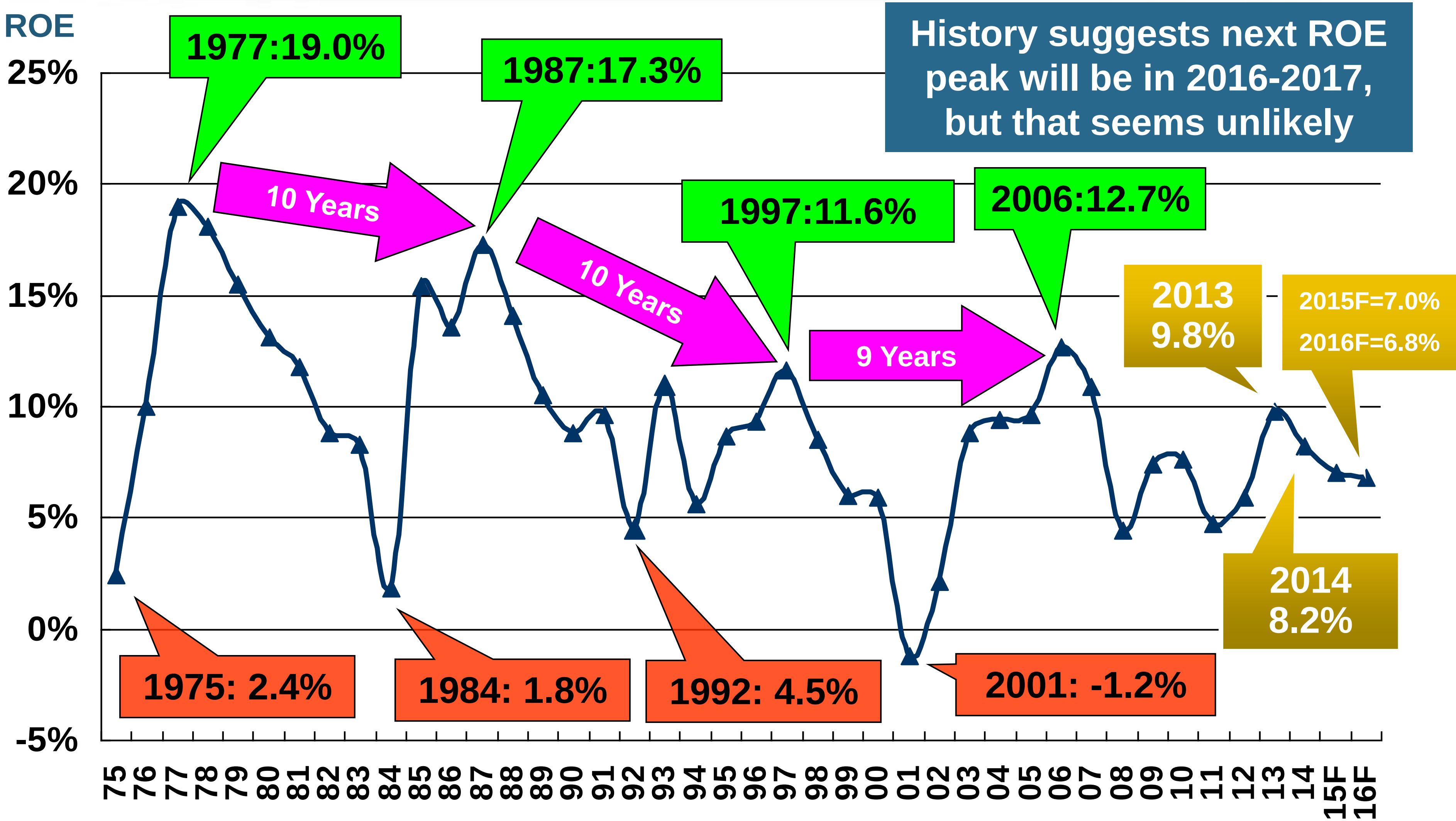
Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2014*



*Profitability = P/C insurer ROEs. 2011-14 figures are estimates based on ROAS data. Note: Data for 2008-2014 exclude mortgage and financial guaranty insurers.

Source: Insurance Information Institute; NAIC, ISO, A.M. Best.

Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2016F

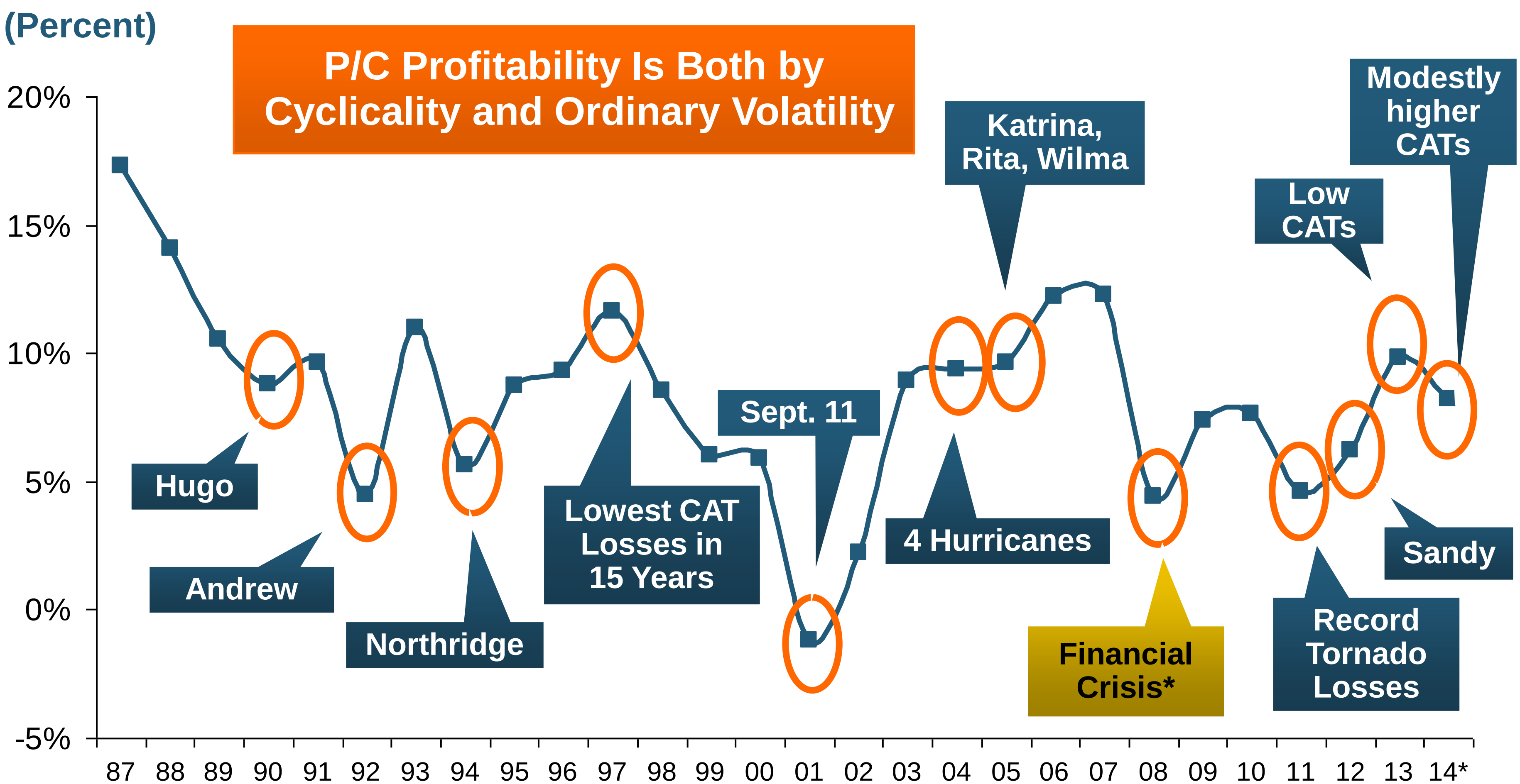


*Profitability = P/C insurer ROEs. 2011-14 figures are estimates based on ROAS data. Note: Data for 2008-2014 exclude mortgage and financial guaranty insurers.

Source: Insurance Information Institute; NAIC, ISO, A.M. Best, Conning

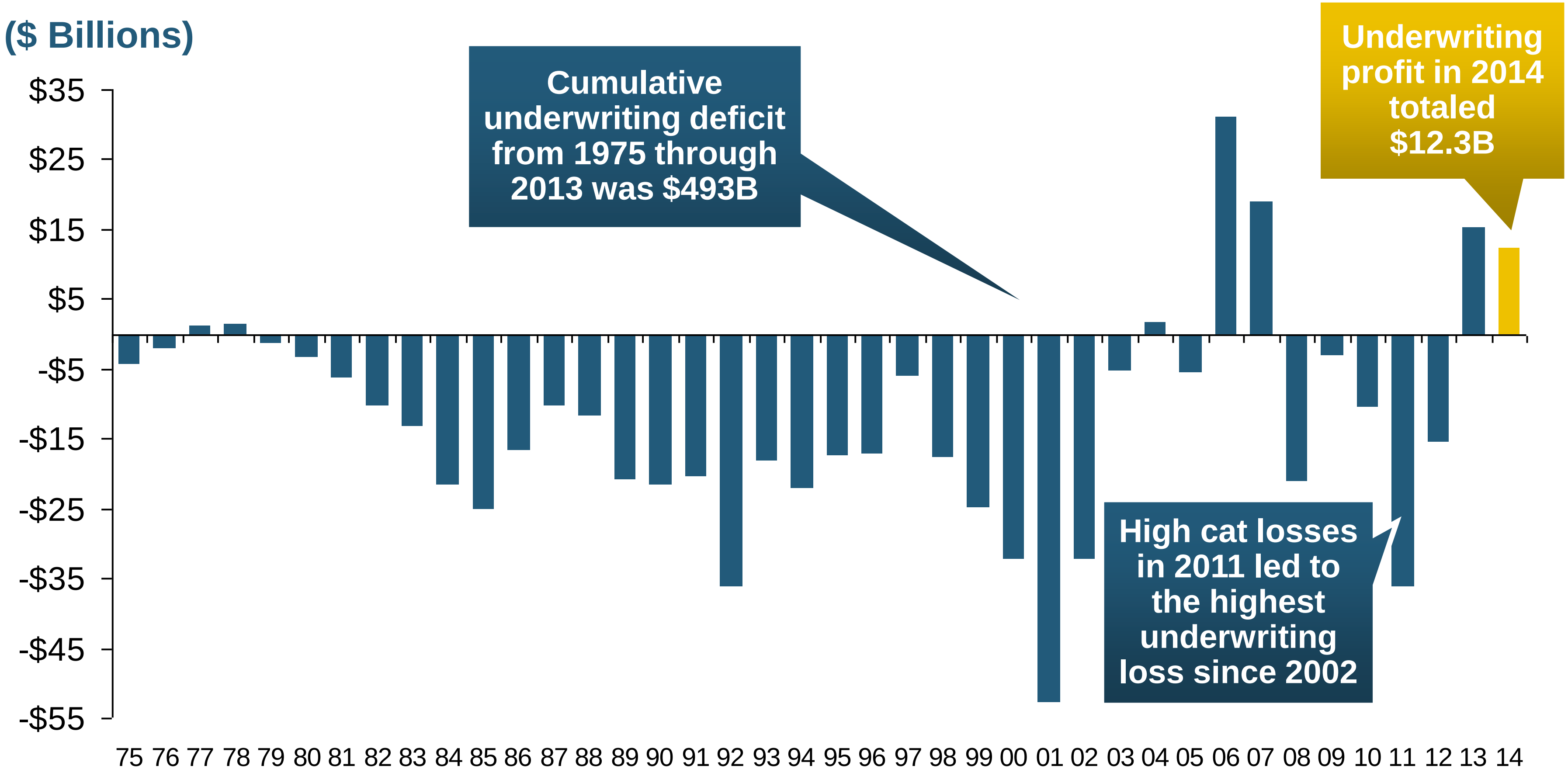
ROE: Property/Casualty Insurance by Major Event, 1987–2014

INSURANCE INFORMATION INSTITUTE



* Excludes Mortgage & Financial Guarantee in 2008 – 2014.
Sources: ISO, *Fortune*; Insurance Information Institute.

Underwriting Gain (Loss) 1975–2014*

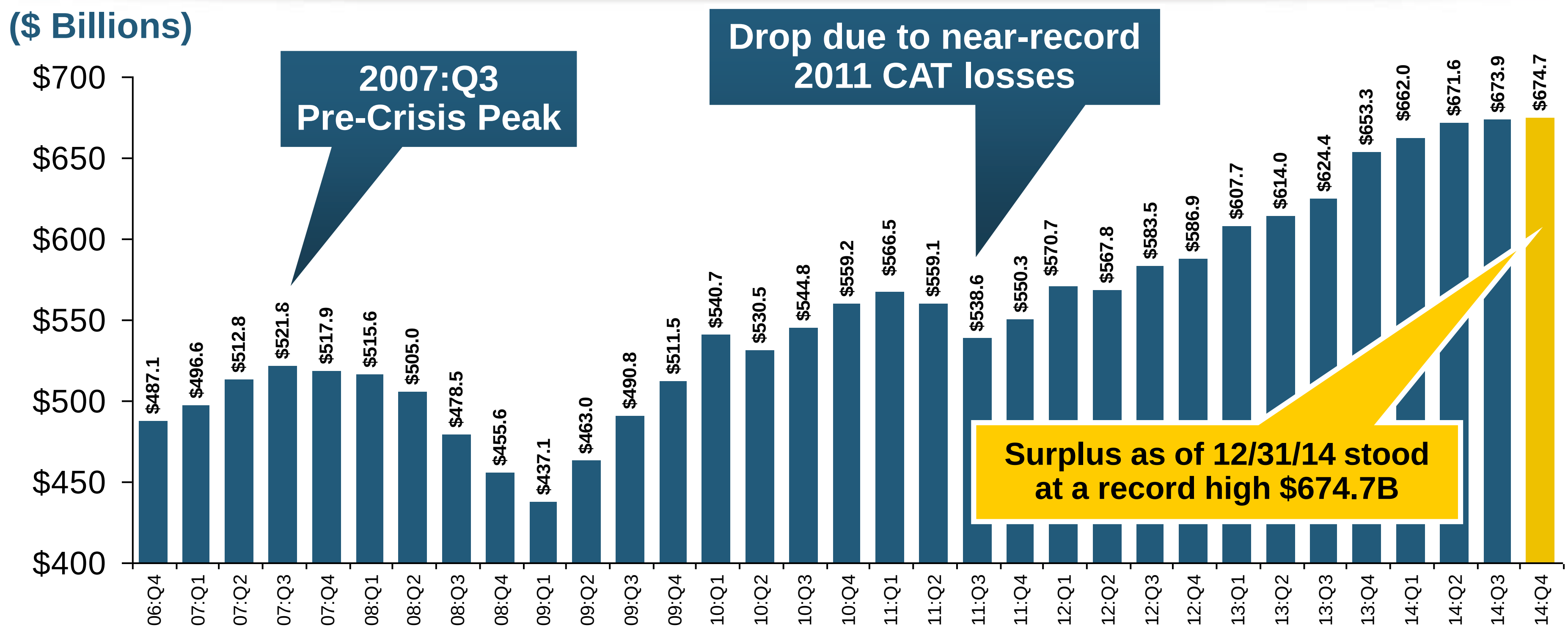


Large Underwriting Losses Are *NOT* Sustainable in Current Investment Environment

* Includes mortgage and financial guaranty insurers in all years.

Sources: A.M. Best, ISO; Insurance Information Institute.

Policyholder Surplus, 2006:Q4–2014:Q4



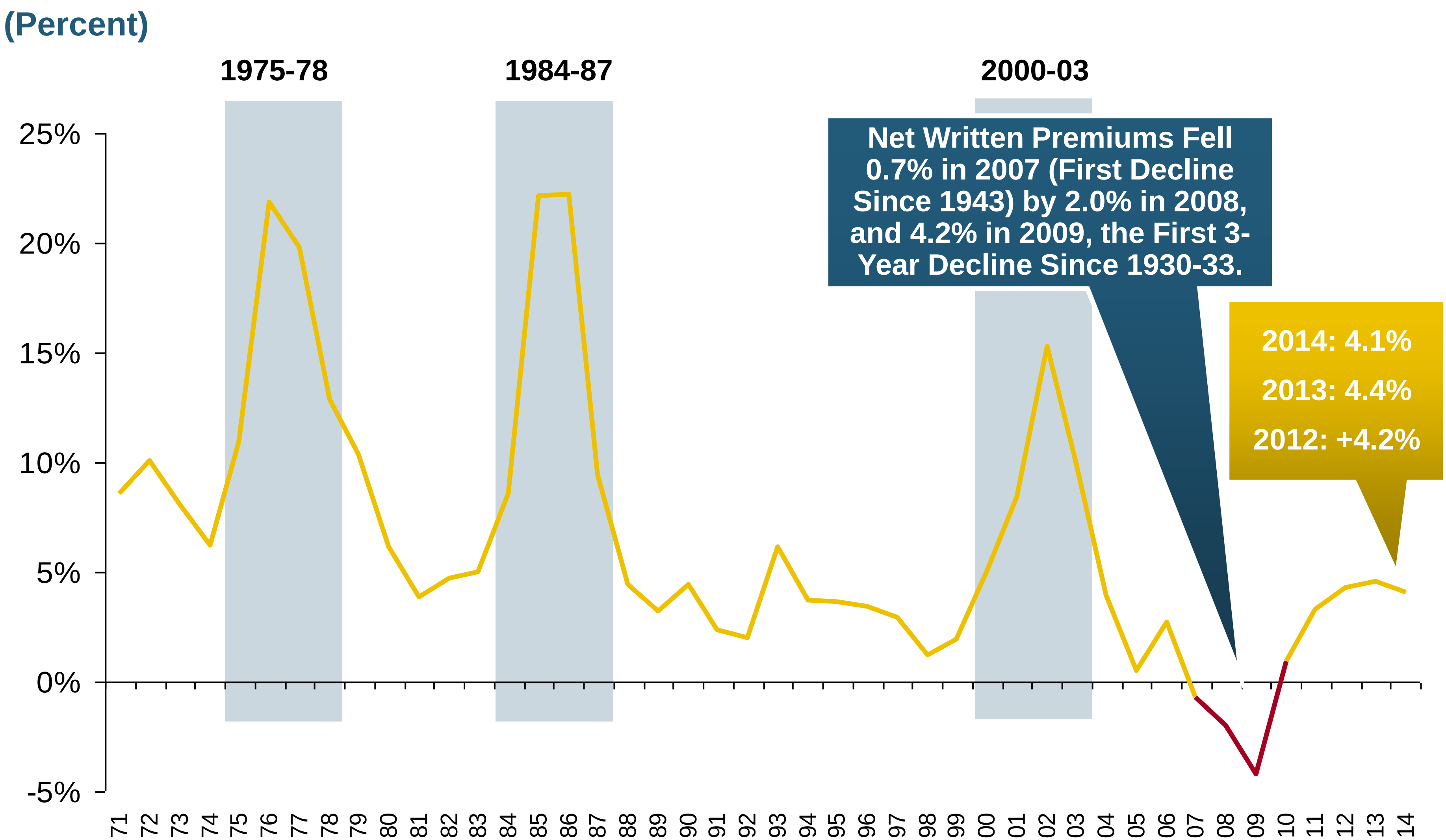
The industry now has $1 of surplus for every $0.74 of NPW, close to the strongest claims-paying status in its history.

2010:Q1 data includes $22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business .

The P/C insurance industry entered 2015 in very strong financial condition.

Sources: ISO, A.M .Best.

Net Premium Growth (All P/C Lines): Annual Change, 1971—2014

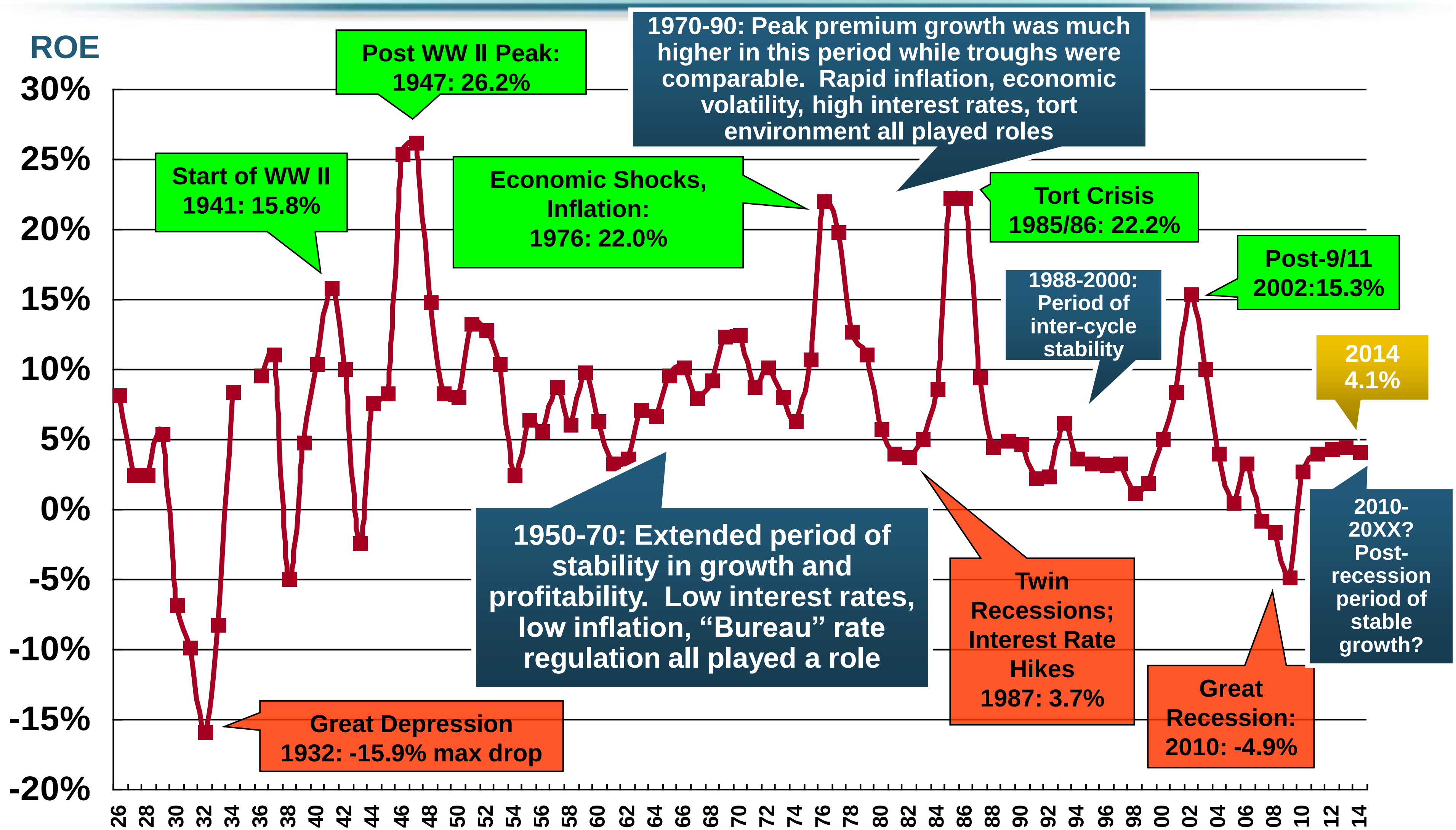


Shaded areas denote "hard market" periods

Sources: A.M. Best (1971-2013), ISO (2014), Insurance Information Institute.

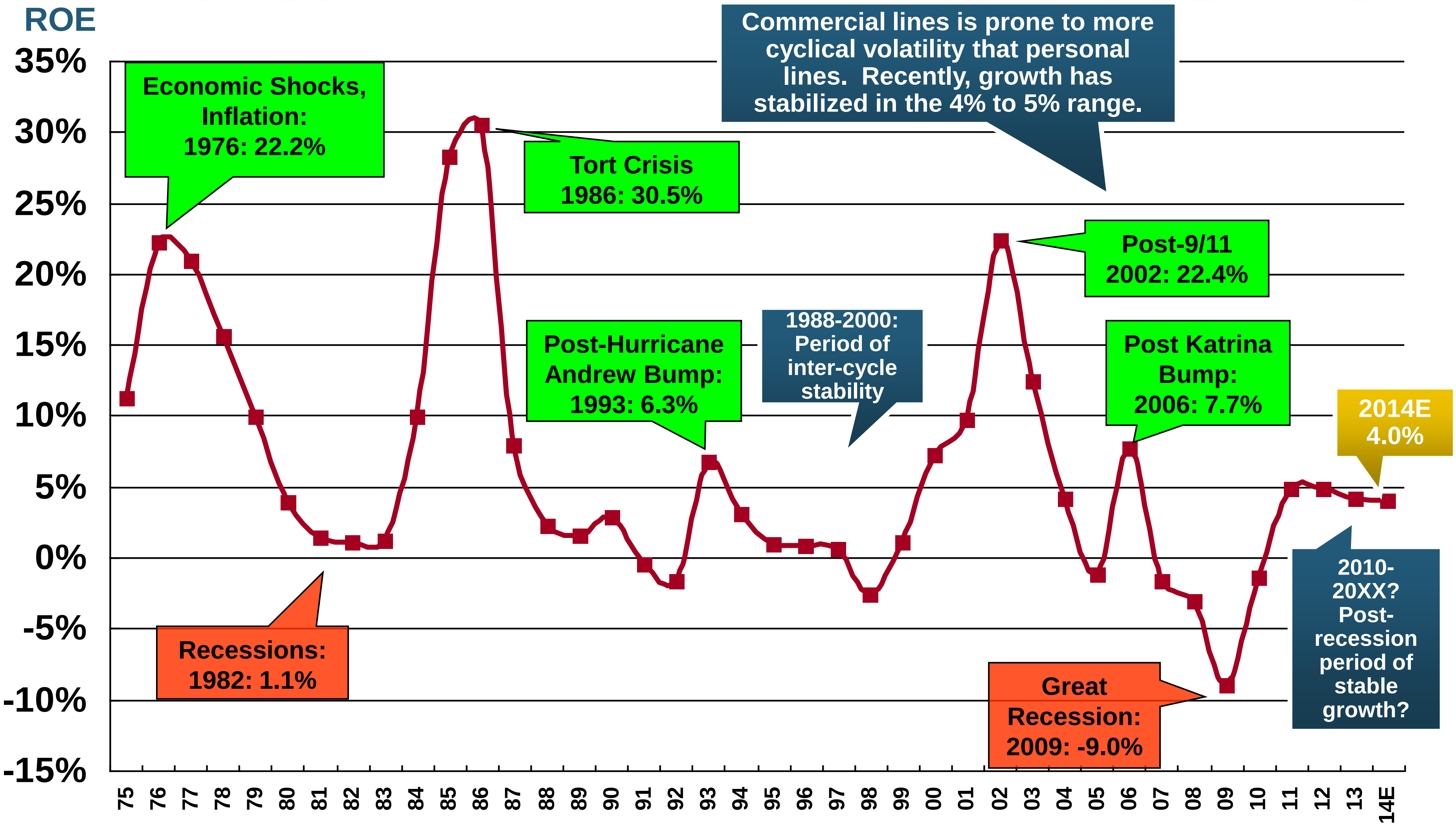
NPW Premium Growth: Peaks & Troughs in the P/C Insurance Industry, 1926 – 2014

INSURANCE INFORMATION INSTITUTE



Note: Data through 1934 are based on stock companies only. Data include state funds beginning in 1998.
Source: A.M. Best; Insurance Information Institute.

Commercial Lines NPW Premium Growth: 1975 – 2014E



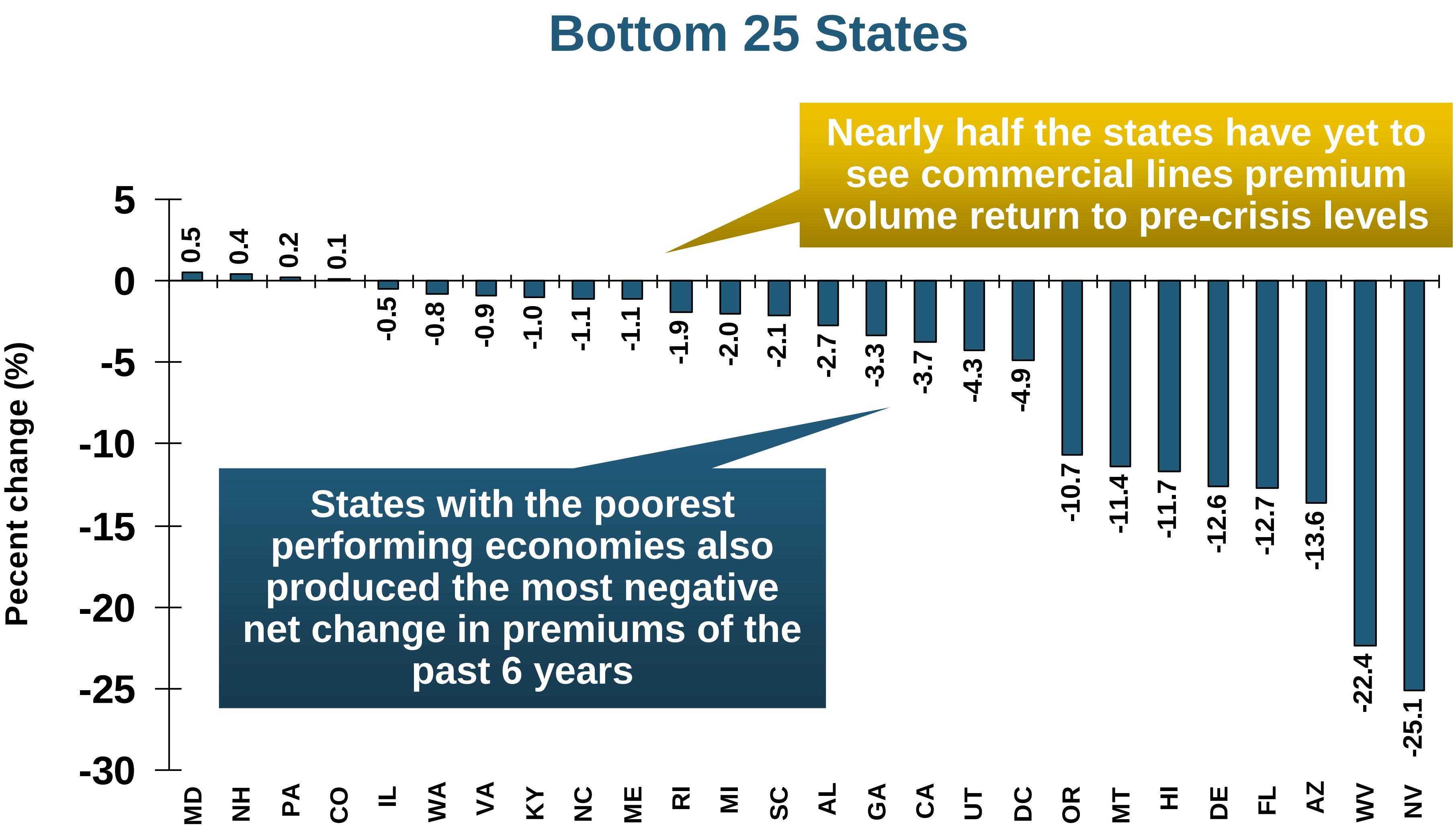
Note: Data include state funds beginning in 1998.
Source: A.M. Best; Insurance Information Institute.

Direct Premiums Written: Comm. Lines Percent Change by State, 2007-2013

INSURANCE INFORMATION INSTITUTE

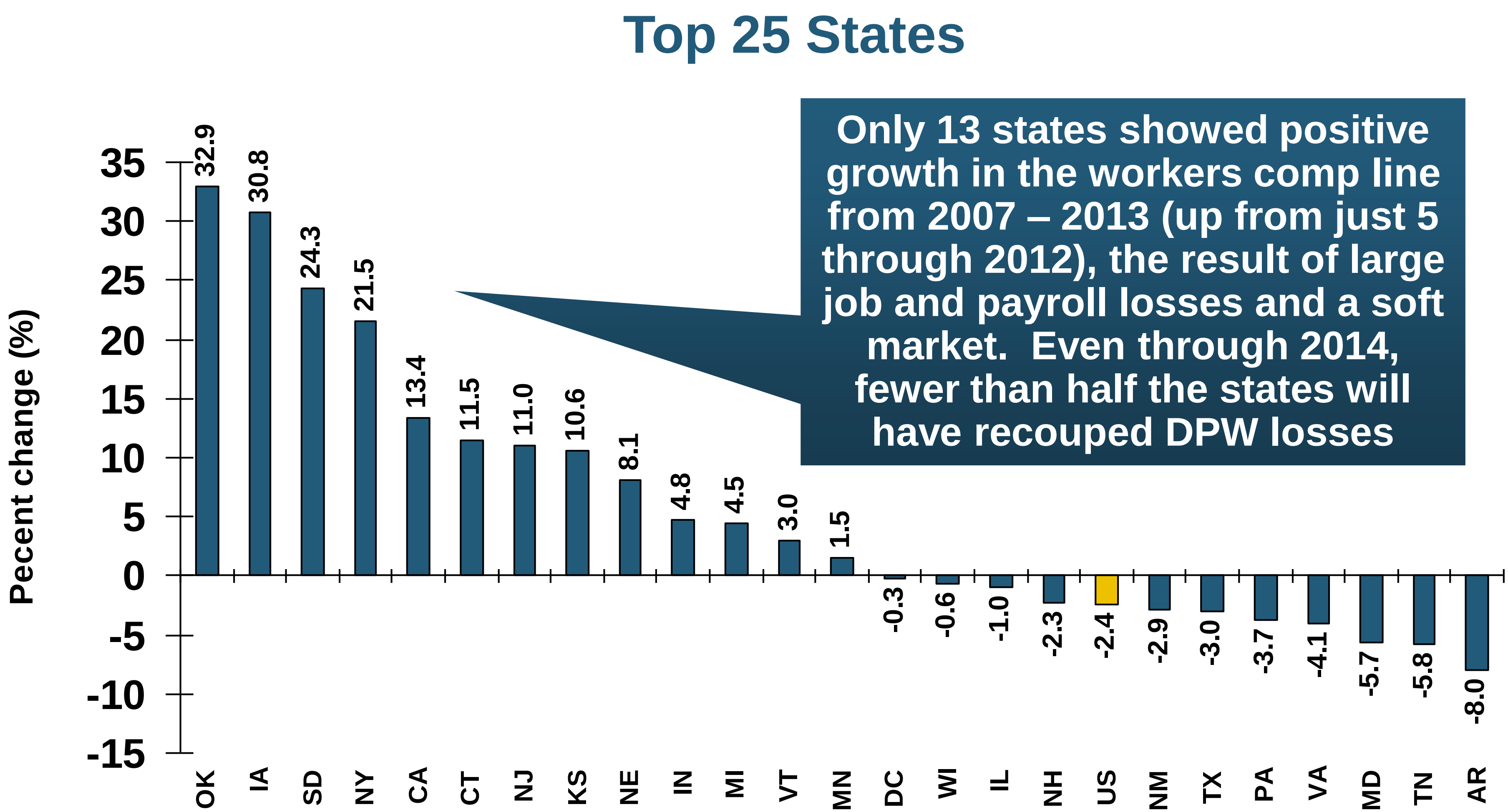
Sources: SNL Financial LLC.; Insurance Information Institute.

Direct Premiums Written: Comm. Lines Percent Change by State, 2007-2013



Sources: SNL Financial LLC.; Insurance Information Institute.

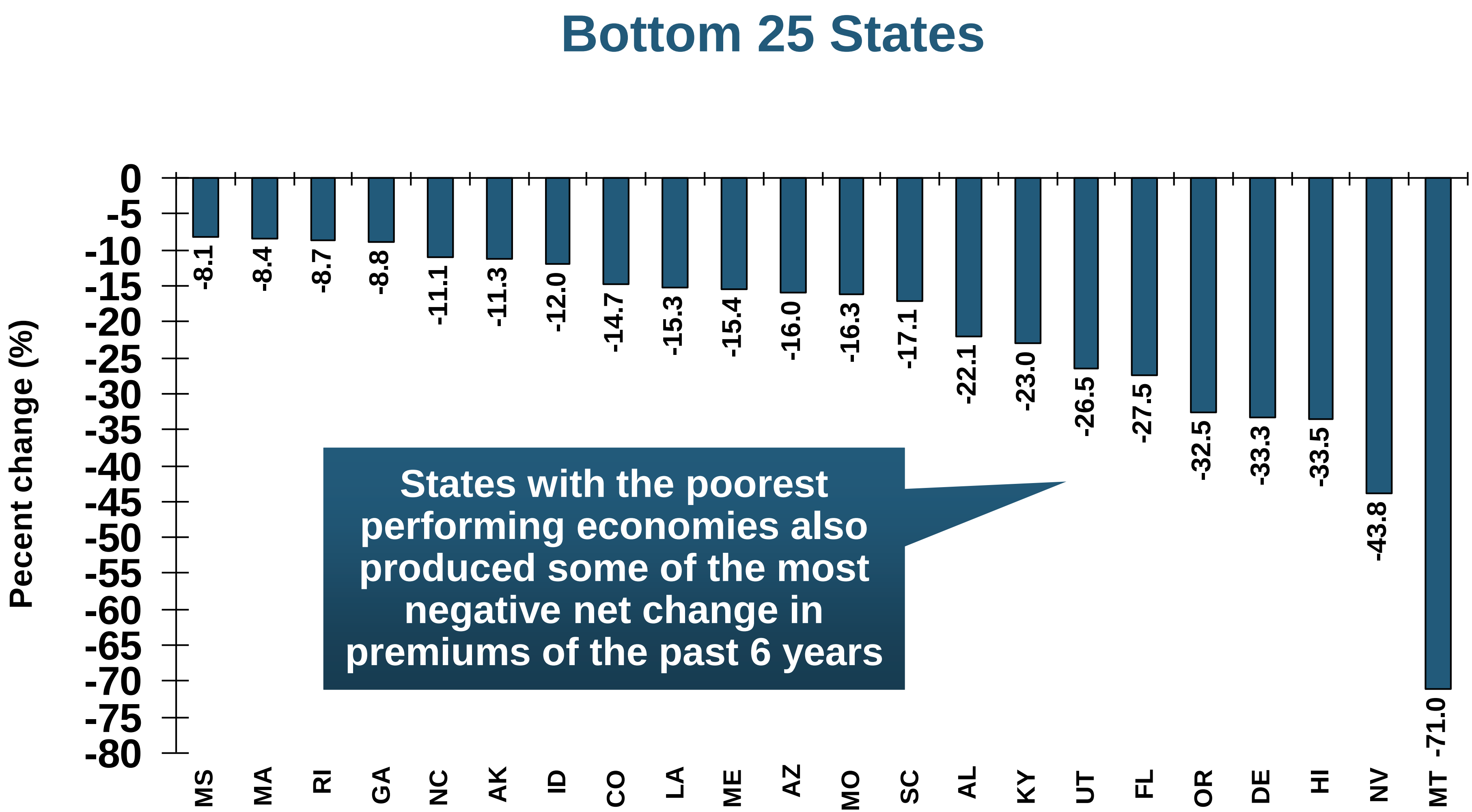
Direct Premiums Written: Workers' Comp Percent Change by State, 2007-2013*



*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: Worker's Comp Percent Change by State, 2007-2013*



*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

Sources: SNL Financial LC.; Insurance Information Institute.

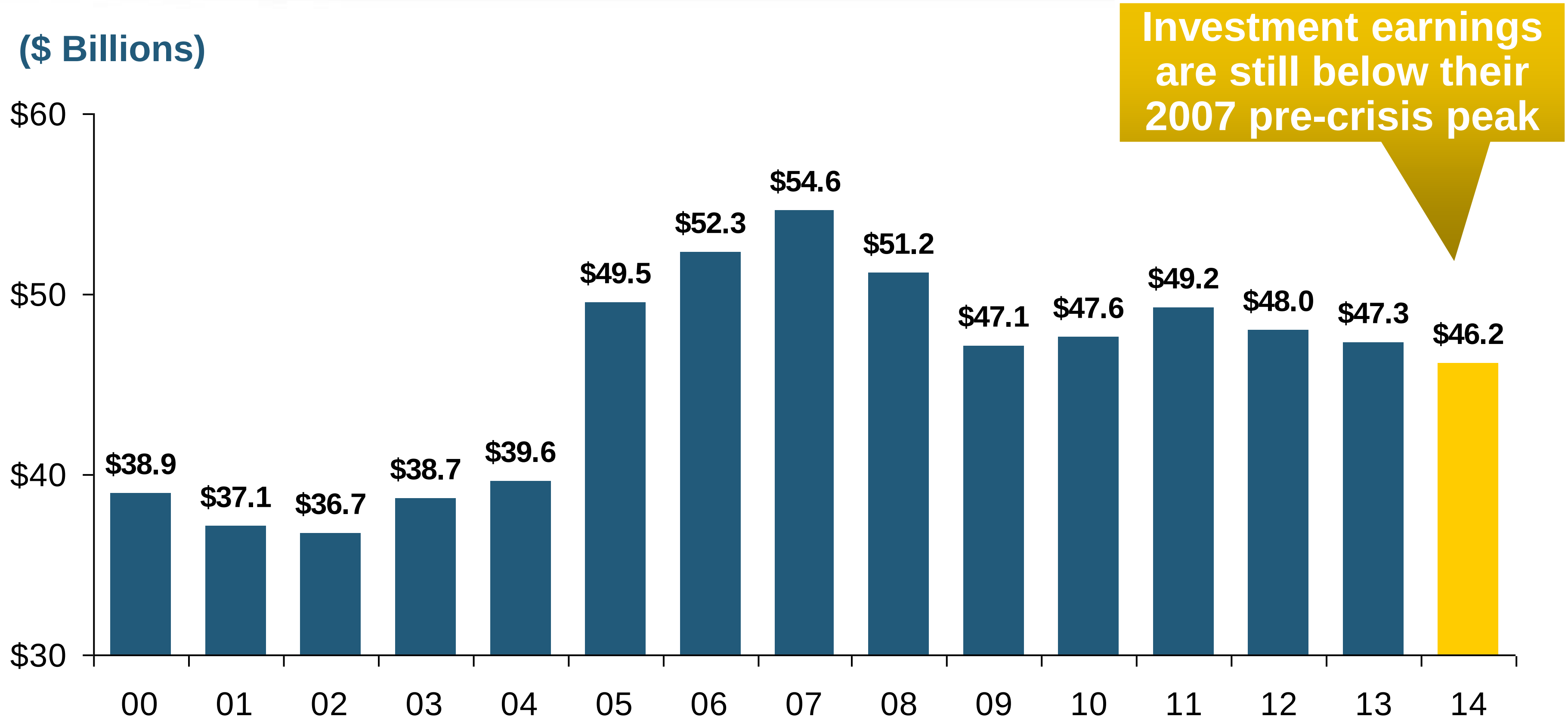
INVESTMENTS: THE NEW REALITY

Investment Performance is a Key Driver of Profitability

Low Yields Have an Especially Large Influence on Profitability of Long-Tailed Lines Like WC

Property/Casualty Insurance Industry Investment Income: 2000–2014[1]

INSURANCE INFORMATION INSTITUTE



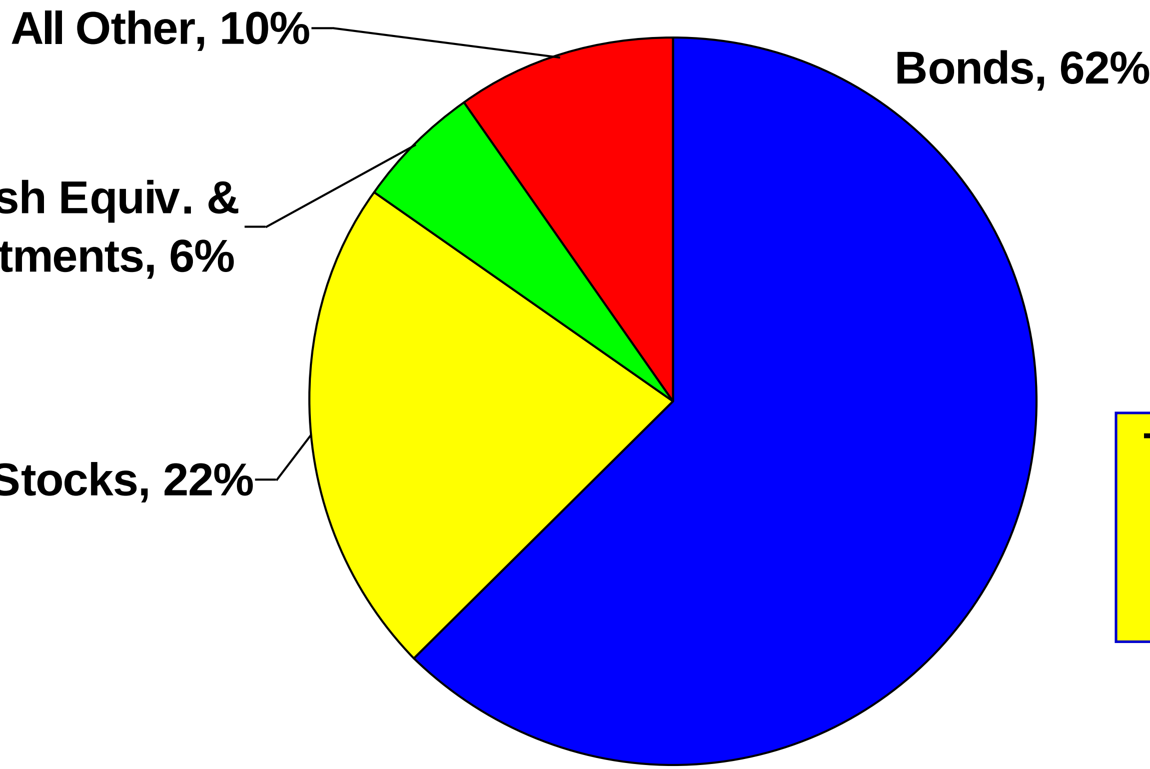
Due to persistently low interest rates, investment income fell in 2012, 2013 and 2014.

[1] Investment gains consist primarily of interest and stock dividends.
*Sources: ISO; Insurance Information Institute.

Distribution of Invested Assets: P/C Insurance Industry, 2013

INSURANCE INFORMATION INSTITUTE

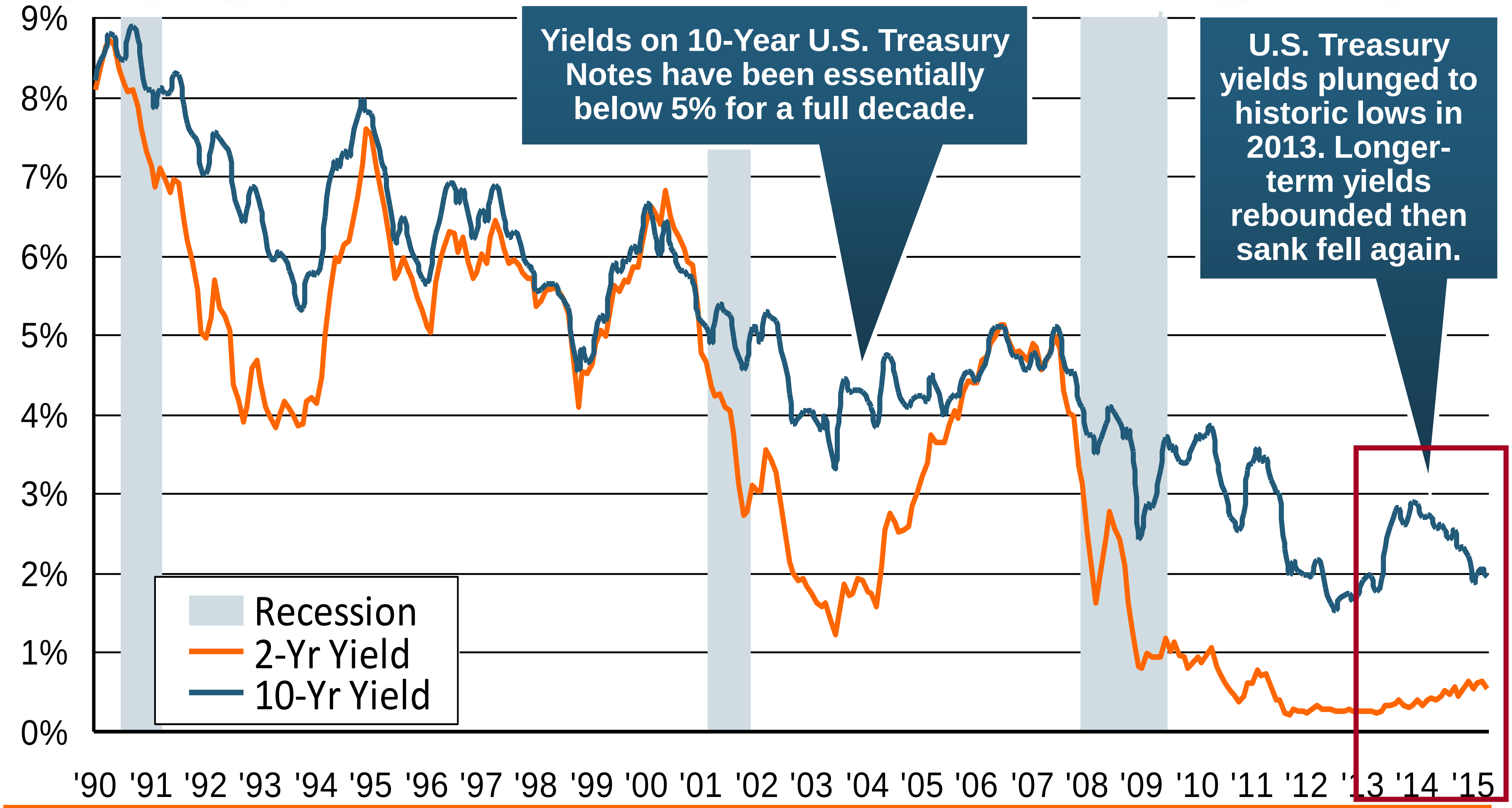
$ Billions



Total Invested Assets = ***$1.5 Trillion***

Source: Insurance Information Institute *Fact Book 2015,* A.M. Best.

U.S. Treasury Security Yields: A Long Downward Trend, 1990–2015*



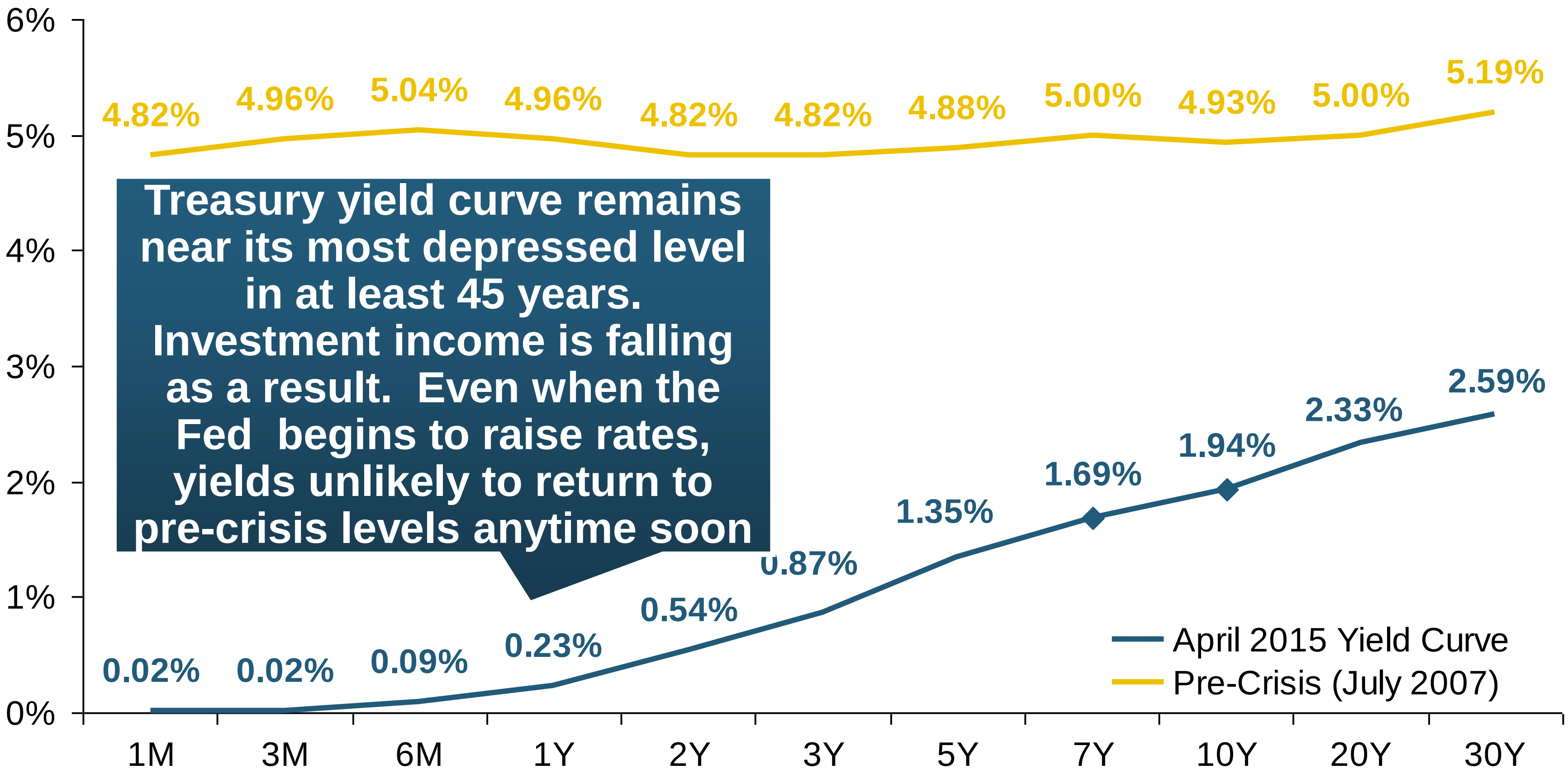
Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, constant maturity, nominal rates, through April 2015.

Sources: Federal Reserve Bank at http://www.federalreserve.gov/releases/h15/data.htm. National Bureau of Economic Research (recession dates); Insurance Information Institute.

Treasury Yield Curves: Pre-Crisis (July 2007) vs. April 2015

INSURANCE INFORMATION INSTITUTE

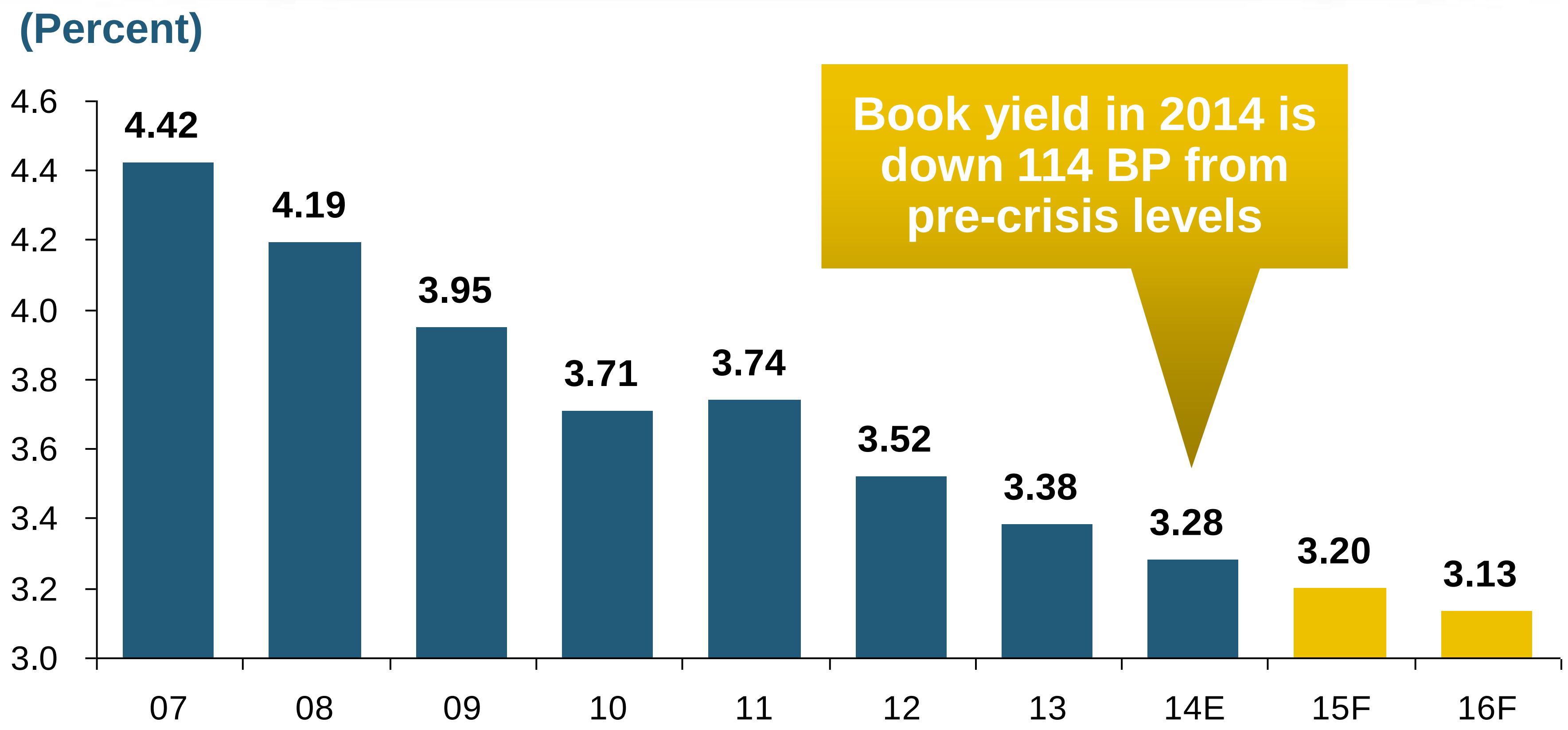


Treasury yield curve remains near its most depressed level in at least 45 years. Investment income is falling as a result. Even when the Fed begins to raise rates, yields unlikely to return to pre-crisis levels anytime soon

The Fed Is Actively is Signaling that it Is Like to Begin to Raise Rates But No Sooner than June and Probably Later

Source: Federal Reserve Board of Governors; Insurance Information Institute.

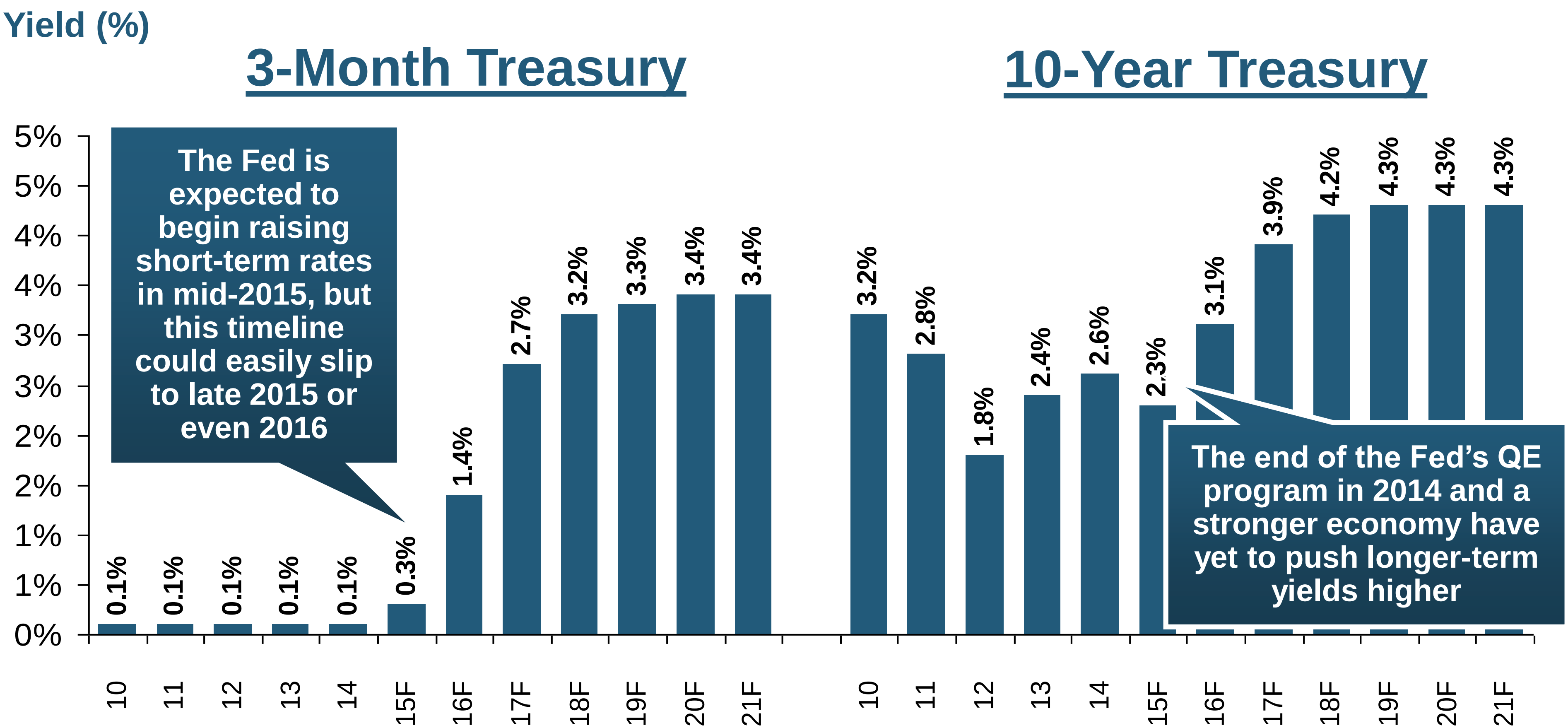
Book Yield on Property/Casualty Insurance Invested Assets, 2007–2016F



The yield on invested assets continues to decline as returns on maturing bonds generally still exceed new money yields. The end of the Fed's QE program in Oct. 2014 should allow some increase in longer maturities while short term interest rate increases are unlikely until mid-to-late 2015

Sources: Conning.

Interest Rate Forecasts: 2015 – 2021

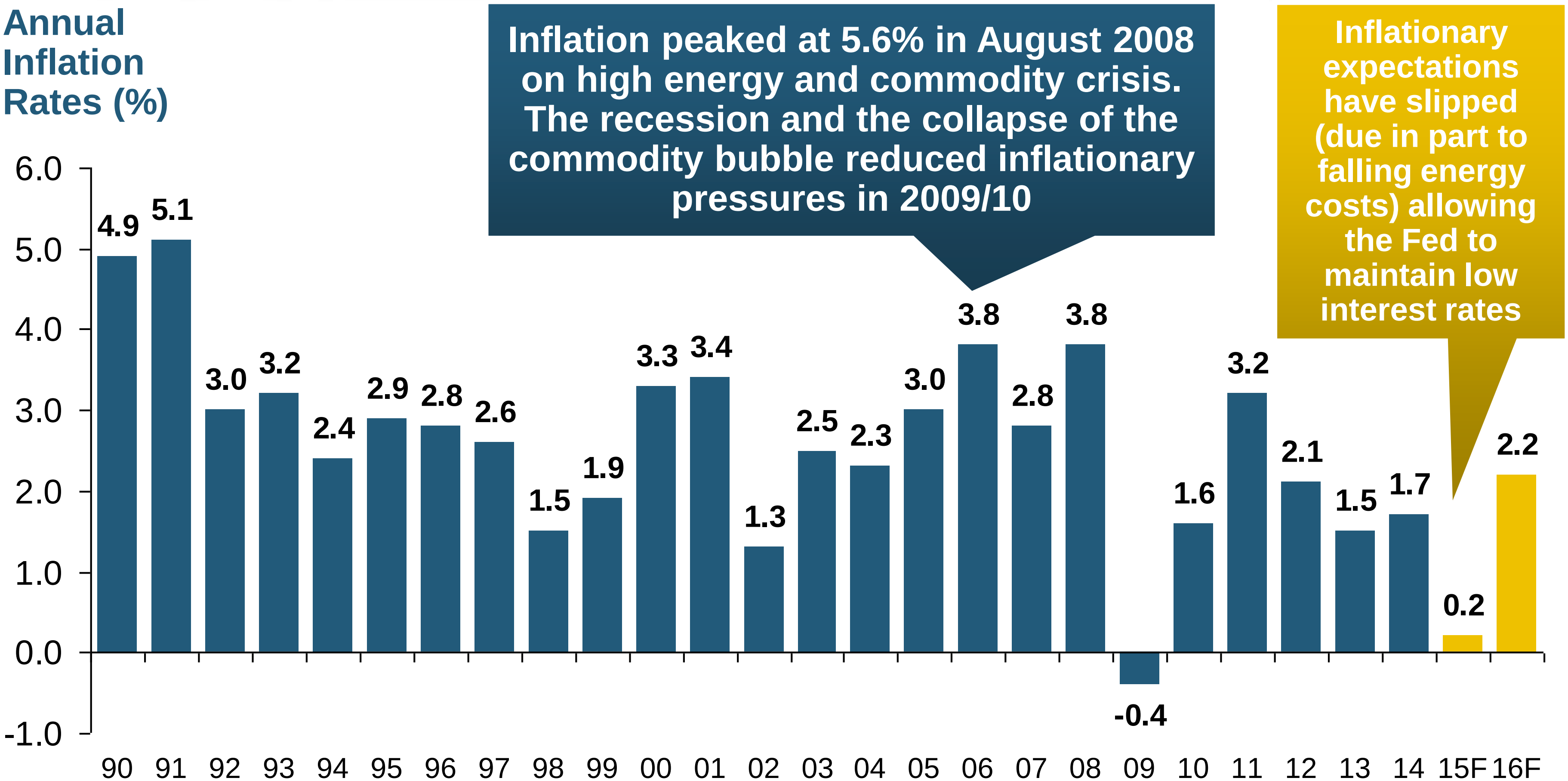


A Full Normalization of Interest Rates Is Unlikely Until 2018 or Later, More than a Decade After the Onset of the Financial Crisis

Sources: Federal Reserve Board of Governors (historical); Blue Chip Economic Indicators (4/15 for 2015 and 2016; for 2017-2021 3/15 issue); Insurance Info. Institute.

Annual Inflation Rates, (CPI-U, %), 1990–2016F

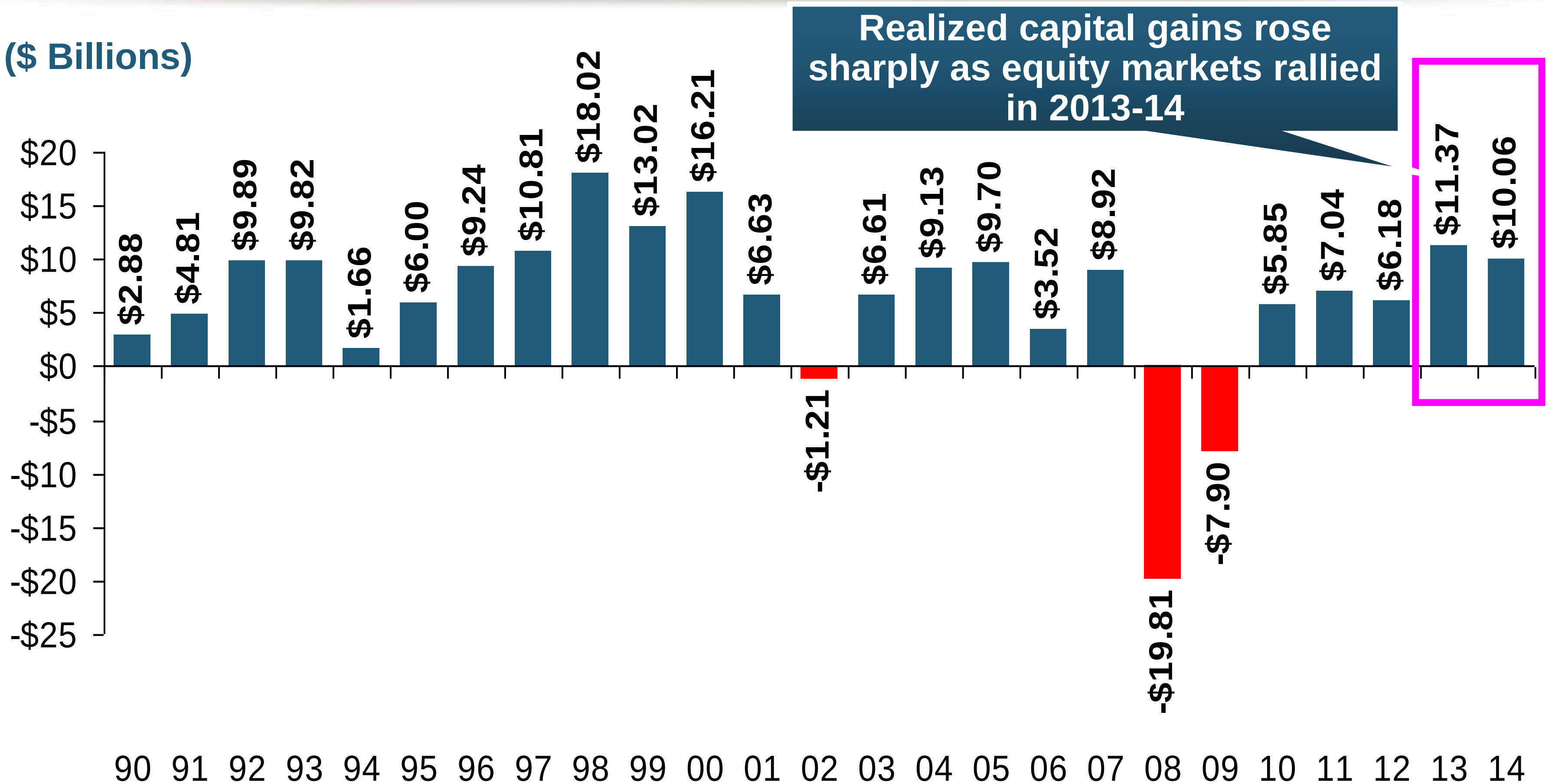
INSURANCE INFORMATION INSTITUTE



Slack in the U.S. economy and falling energy prices suggests that inflationary pressures should remain subdued for an extended period of times

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators, 5/15 (forecasts).

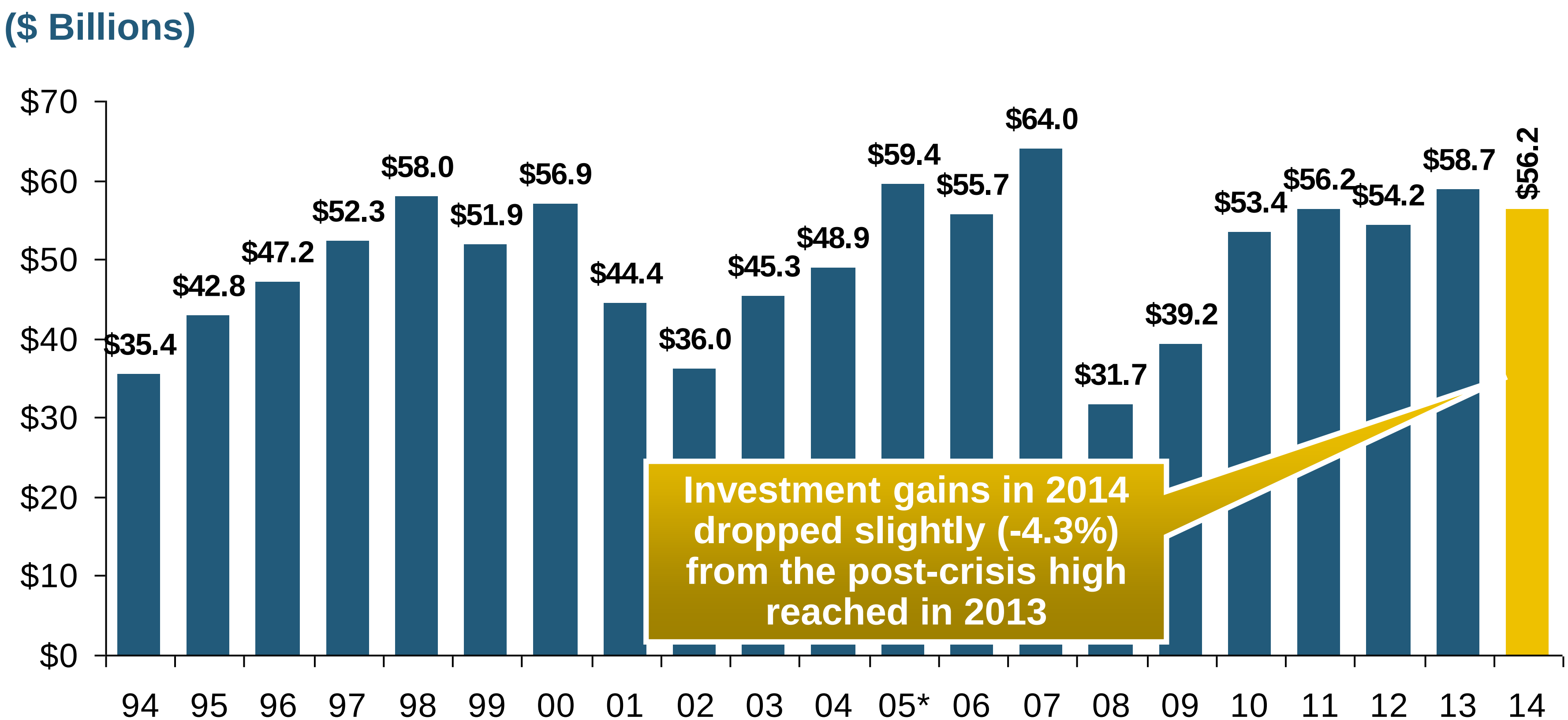
P/C Insurer Net Realized Capital Gains/Losses, 1990-2014



Insurers Posted Net Realized Capital Gains in 2010 - 2014 Following Two Years of Realized Losses During the Financial Crisis. Realized Capital Losses Were a Primary Cause of 2008/2009's Large Drop in Profits and ROE

Sources: A.M. Best, ISO, Insurance Information Institute.

Property/Casualty Insurance Industry Investment Gain: 1994–2014[1]

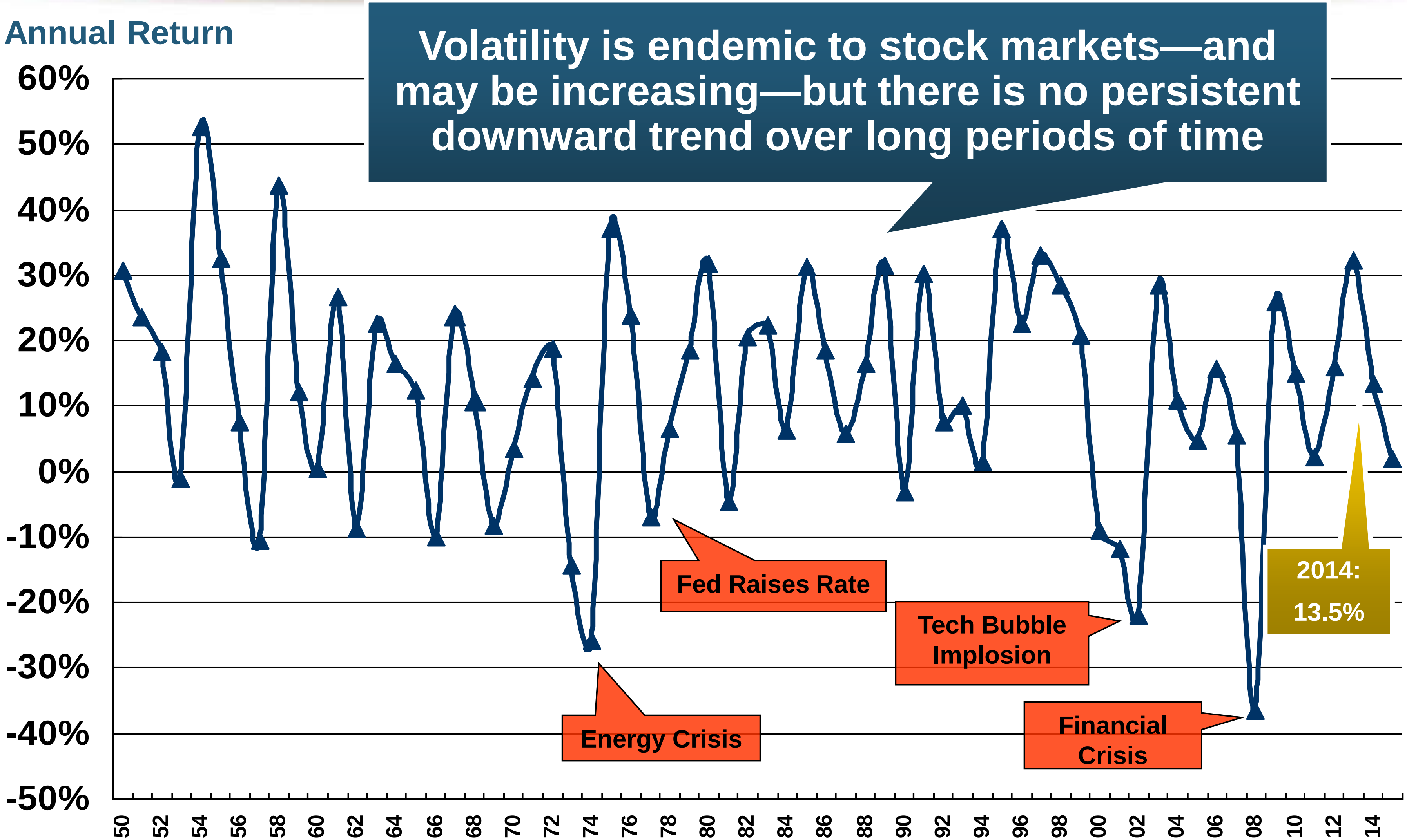


Total Investment Gains Were Relatively Flat in 2014 as Low Interest Rates Pressured Investment Income but Realized Capital Gains Remained Robust

[1] Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.
* 2005 figure includes special one-time dividend of $3.2B;
Sources: ISO; Insurance Information Institute.

S&P 500 Index Returns, 1950 – 2015*

INSURANCE INFORMATION INSTITUTE



*Through May 12, 2015.

Source: NYU Stern School of Business: http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html Ins. Info. Inst.

INSURANCE INFORMATION INSTITUTE

2015

Non-Financial Challenges and Criticisms of Workers Comp

A Number of Issues Have Stirred Interest in Workers Compensation in the First Part of 2015

Challenges Raised in the Workers Comp Line

INSURANCE INFORMATION INSTITUTE

- **Opt Out Legislation:** Coalition of large employers is aggressively pushing for legislation that would allow them to forego purchasing WC coverage in favor of creating their own programs while also seeking to specify the criteria for claiming and the size of benefits
  - Allowed in TX for many years and passed in OK in 2014
  - Failed in TN in 2015; Lobbying in AL, FL, GA, NC, SC
- **Challenges to Exclusive Remedy:** Assertion that after reforms in several states the WC “Grand Bargain” has been breached and that benefits are now insufficient
  - Objective of trial lawyers is to tap into the tort system

Recent Challenges Raised in the Workers Comp Line

INSURANCE INFORMATION INSTITUTE

- **ProPublica/NPR Attack Series: "*The Demolition of Workers Comp*" (Published in March 2015)**
- **Thesis: WC benefits have been hollowed out and that workers were often no longer well served by the system**
  - **Claims 33 states watered down benefits under the guise of reform**
- **Series relied on a number of anecdotal cases of claimants who believed they were adversely impacted**
- **I.I.I. made forceful rebuttal focusing on:**
  - **Magnitude of insurer payouts to injured workers**
  - **Material improvements in workplace safety, in part due to WC incentives**
  - **Benefits of cost controls without compromising outcomes**

http://www.iii.org/article/a-letter-to-the-editor-about-workers-compensation

ProPublica/NPR Attack on Workers Compensation

INSURANCE INFORMATION INSTITUTE

- In March 2015, ProPublica/NPR published a series entitled “The Demolition of Workers Comp”
- Thesis: WC benefits have been hollowed out and that workers were often no longer well served by the system
- Series relied on a number of anecdotal cases of claimants who believed they were adversely impacted
- Claims 33 states have watered down benefits under the guise of “reform”
- I.I.I. made forceful rebuttal, demonstrating that:
  - Insurers spend $40B+ each year treating injured workers
  - Workplace is materially safer, in part due to WC incentives
  - Application of managed care to WC reduces cost with no adverse impact on outcome (“blank check” unsustainable)

INSURANCE INFORMATION INSTITUTE

INSERT WNBC PROPUBLICA VIDEO HERE

Labor Markets Trends:
Recovery Continues in 2015

2014

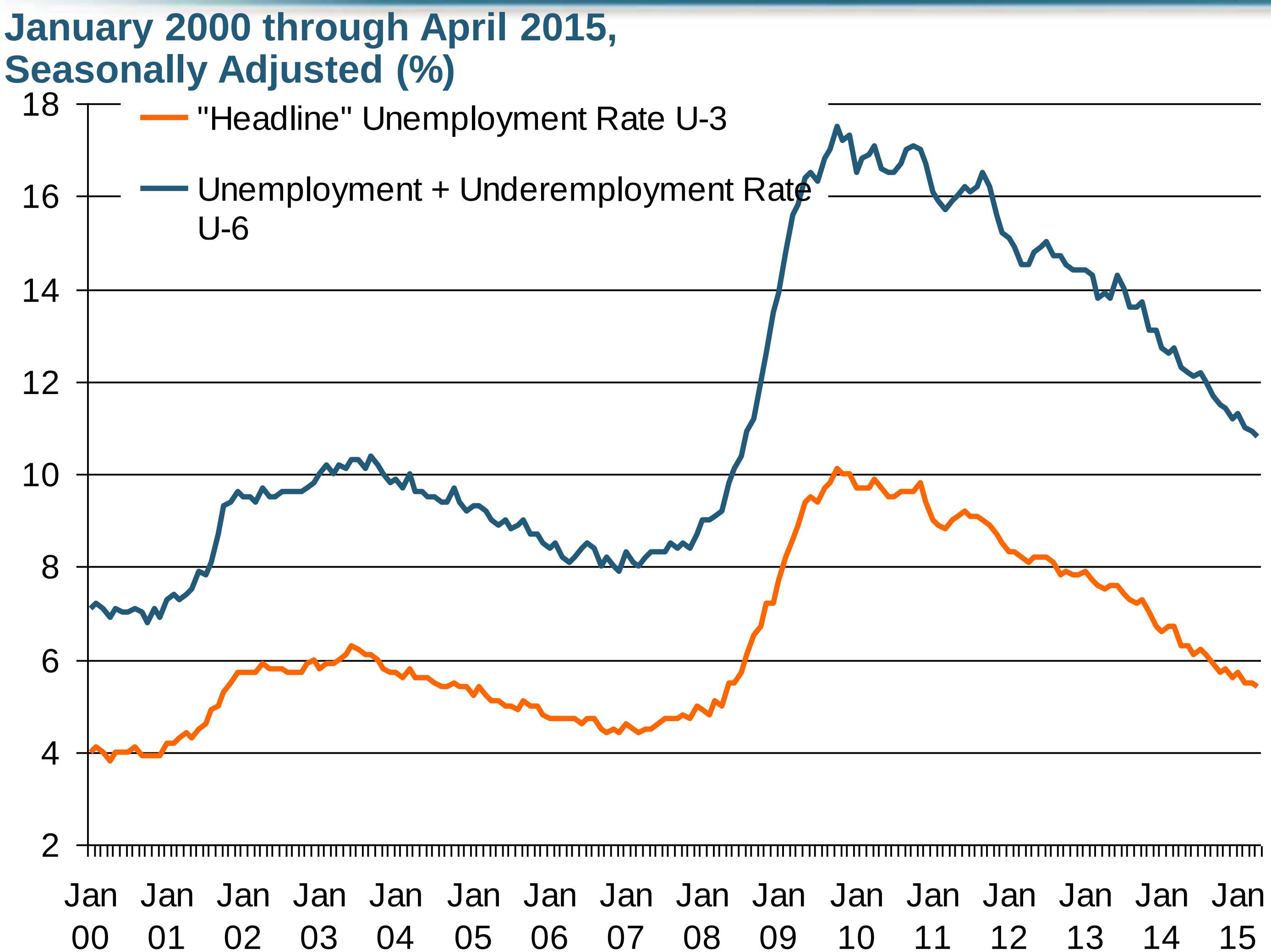
Largest Increase in Jobs Since 1997

Unemployment Rate Fell to Lowest Level Since 2008

Payrolls Expanded to Record High

Unemployment and Underemployment Rates: Still Too High, But Falling

INSURANCE INFORMATION INSTITUTE



U-6 soared from 8.0% in March 2007 to 17.5% in October 2009; Stood at 10.8% in Apr. 2015. 8% to 10% is "normal."

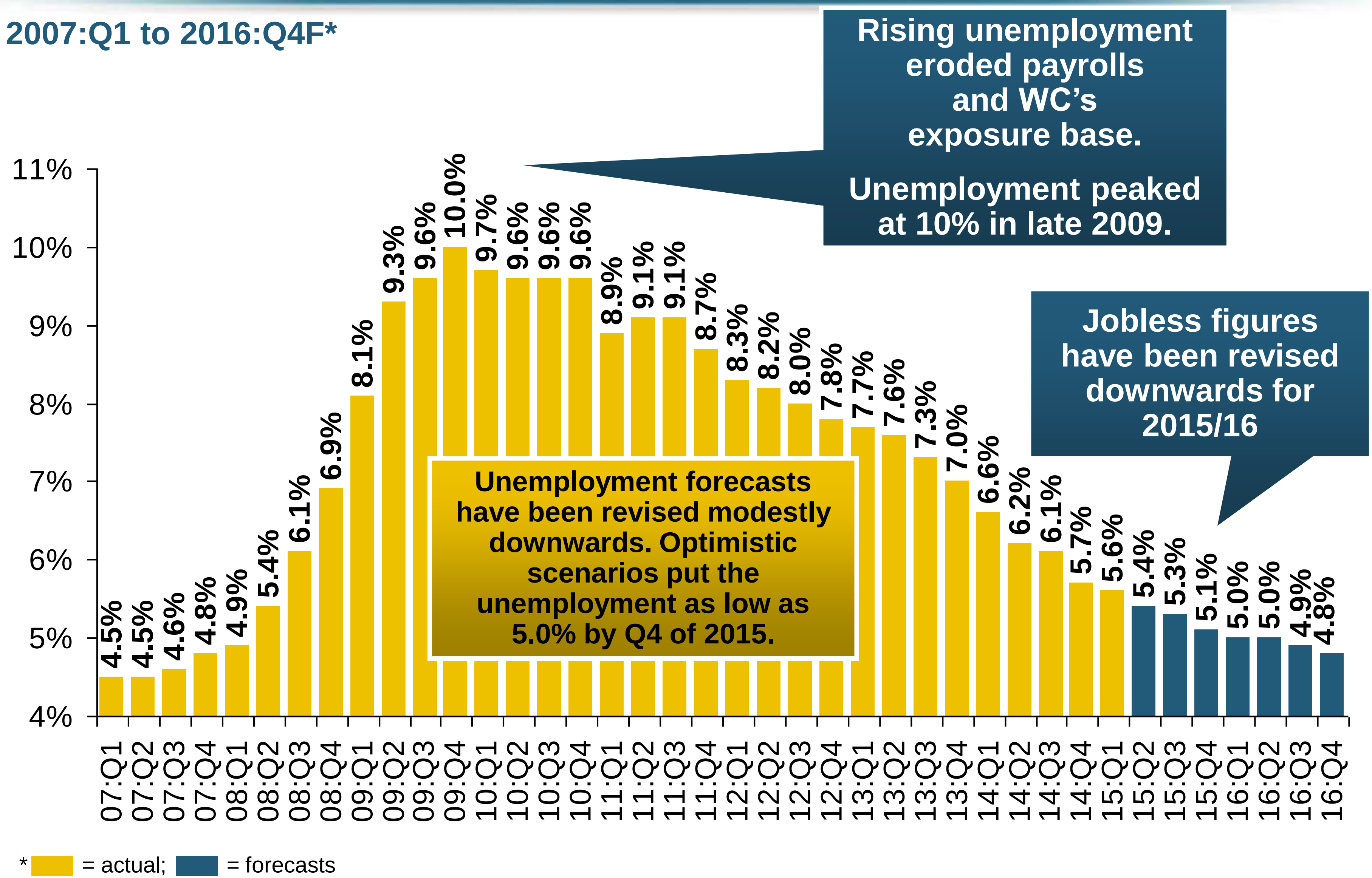
"Headline" unemployment was 5.4% in Apr. 2015. 4.5% to 5.5% is "normal."

Stubbornly high unemployment and underemployment constrain overall economic growth, but the job market is continuing to improve.

Source: US Bureau of Labor Statistics; Insurance Information Institute.

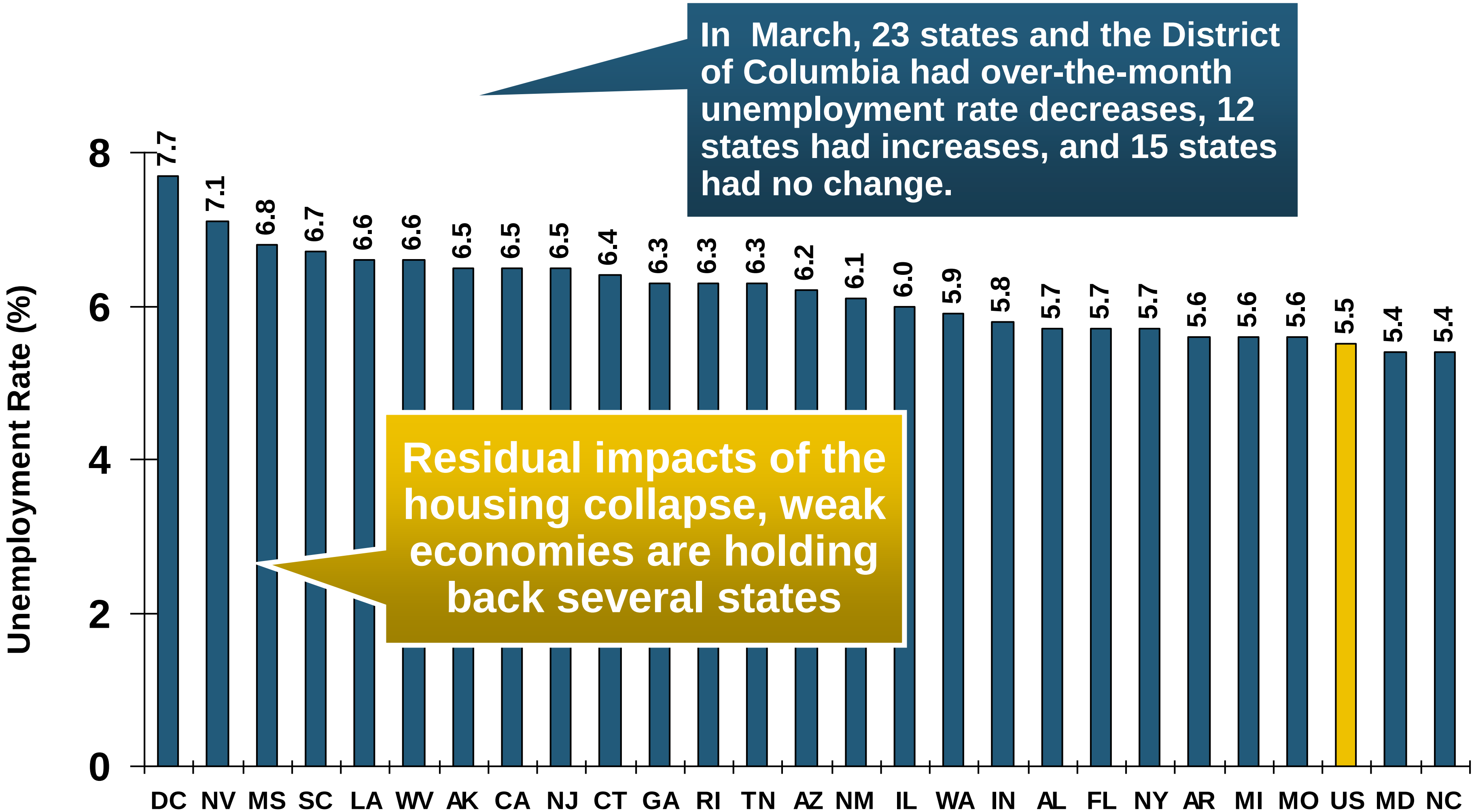
US Unemployment Rate Forecast

INSURANCE INFORMATION INSTITUTE



Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (5/15 edition); Insurance Information Institute.

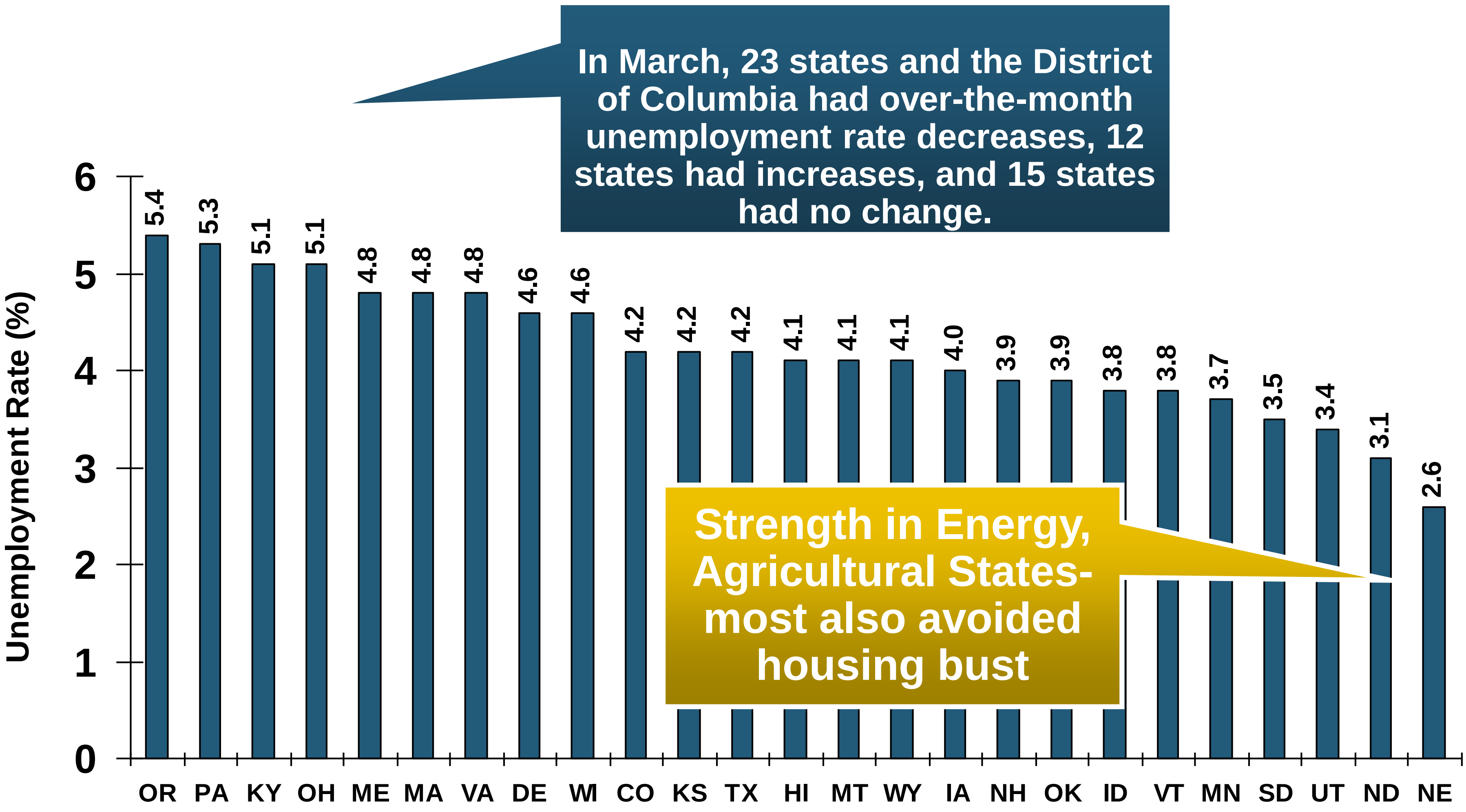
Unemployment Rates by State, March 2015: Highest 25 States*



*Provisional figures for March 2015, seasonally adjusted.

Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Unemployment Rates by State, March 2015: Lowest 25 States*

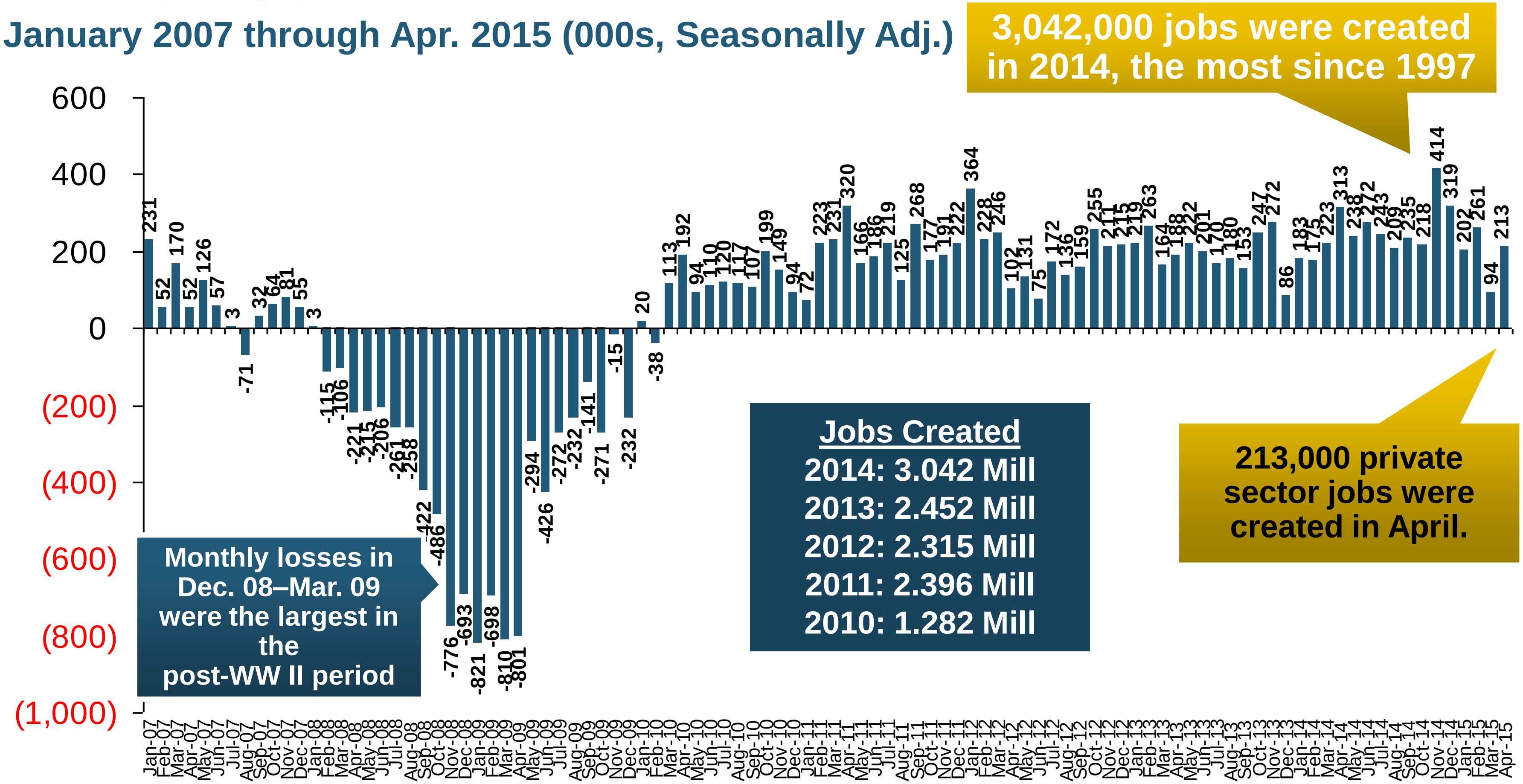


*Provisional figures for March 2015, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Monthly Change in Private Employment

INSURANCE INFORMATION INSTITUTE

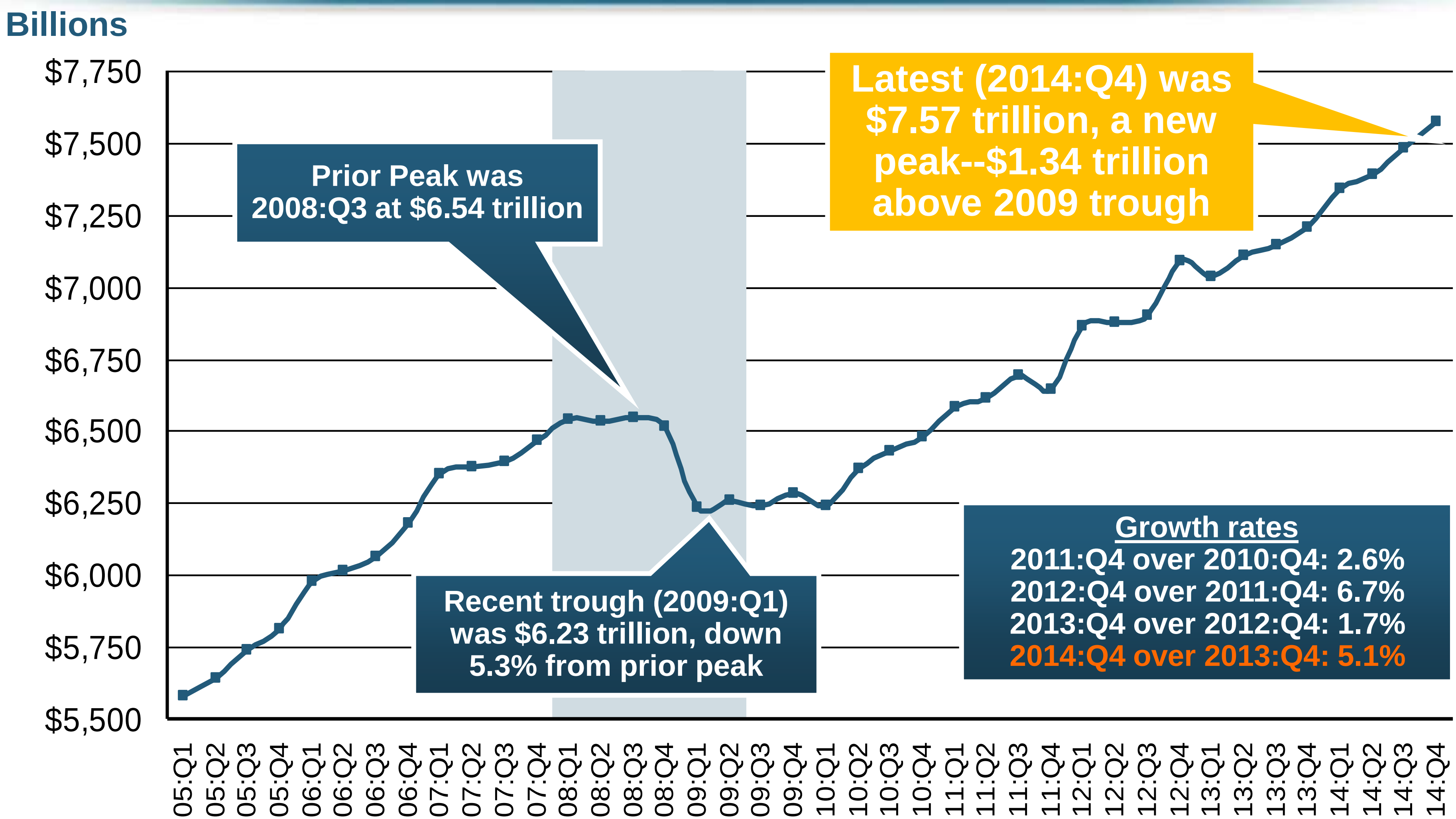
January 2007 through Apr. 2015 (000s, Seasonally Adj.)



Private Employers Added 11.97 Million Jobs Since Jan. 2010 After Having Shed 5.01 Million Jobs in 2009 and 3.76 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

Source: US Bureau of Labor Statistics: http://www.bls.gov/ces/home.htm; Insurance Information Institute

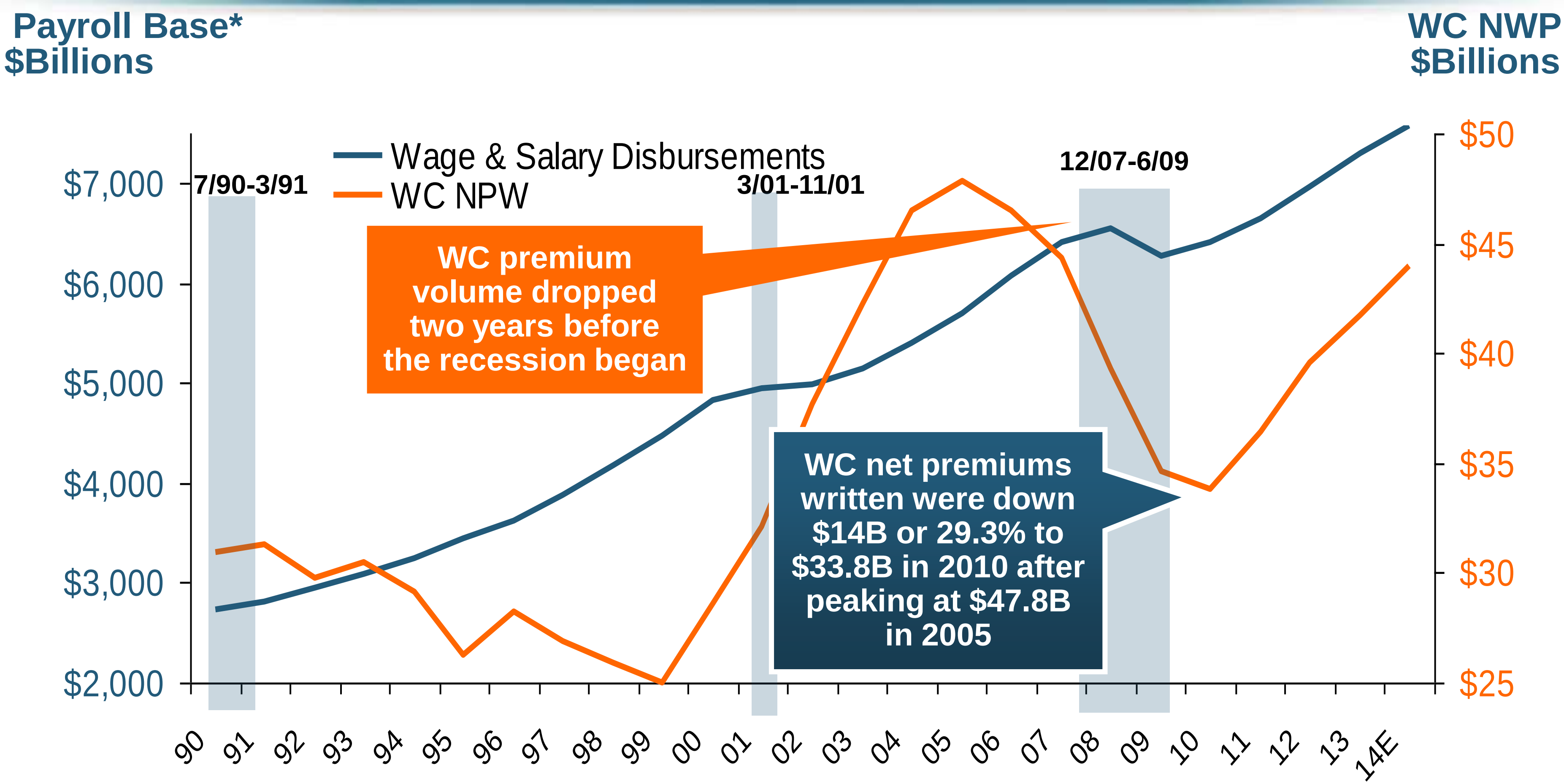
Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2014:Q4



Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

Sources: http://research.stlouisfed.org/fred2/series/WASCUR; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Payroll vs. Workers Comp Net Written Premiums, 1990-2014P



Continued Payroll Growth and Rate Gains Suggest WC NWP Will Grow Again in 2015

*Private employment; Shaded areas indicate recessions. WC premiums for 2014 are I.I.I. estimates..

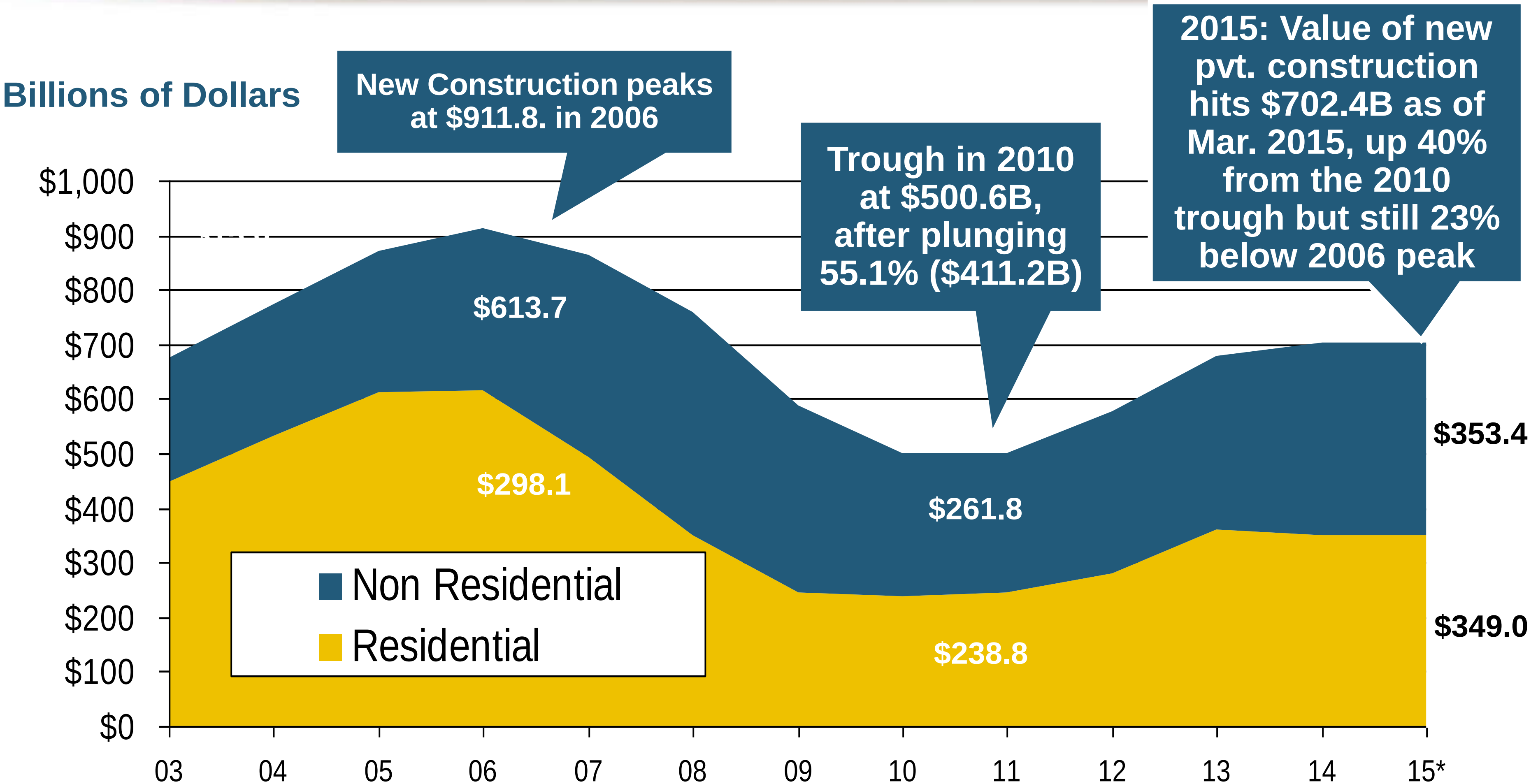
Sources: NBER (recessions); Federal Reserve Bank of St. Louis at http://research.stlouisfed.org/fred2/series/WASCUR ; NCCI; I.I.I.

CONSTRUCTION, MANUFACTURING & ENERGY OUTLOOK

Key Sectors Critical to the Economy and the P/C Insurance Industry

Value of New Private Construction: Residential & Nonresidential, 2003-2015*

INSURANCE INFORMATION INSTITUTE

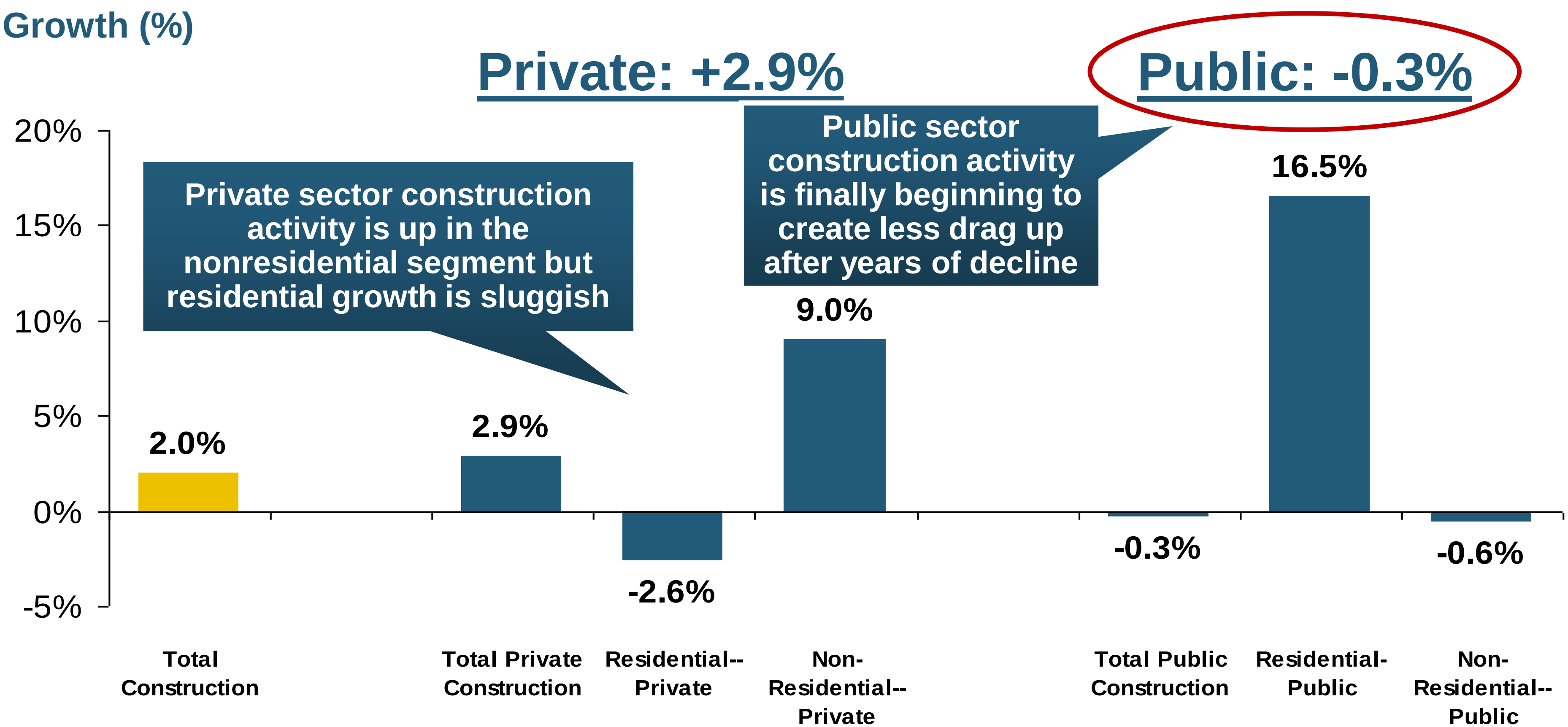


Private Construction Activity Is Moving in a Positive Direction though Remains Well Below Pre-Crisis Peak; Residential Dominates

*2015 figure is a seasonally adjusted annual rate as of March.

Sources: US Department of Commerce http://www.census.gov/construction/c30/c30index.html ; Insurance Information Institute.

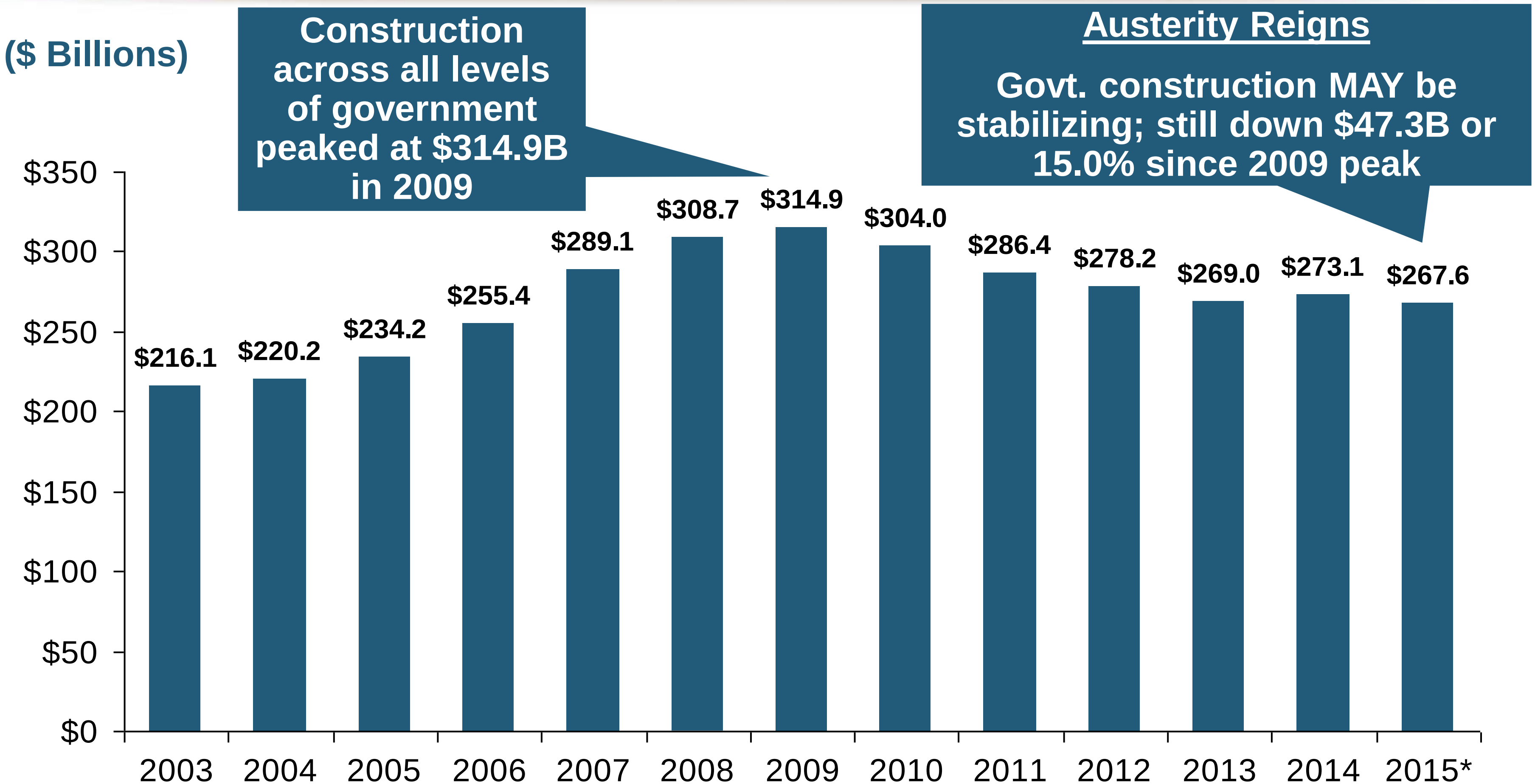
Value of Construction Put in Place, March 2015 vs. March 2014*



Overall Construction Activity is Up, But Growth In the Private Sector Slowed in Late 2014 While Picking Up in the State/Local Sector Government Sector as Budget Woes Ease in Some Jurisdictions

*seasonally adjusted
Source: U.S. Census Bureau, http://www.census.gov/construction/c30/c30index.html ; Insurance Information Institute.

Value of New Federal, State and Local Government Construction: 2003-2015*

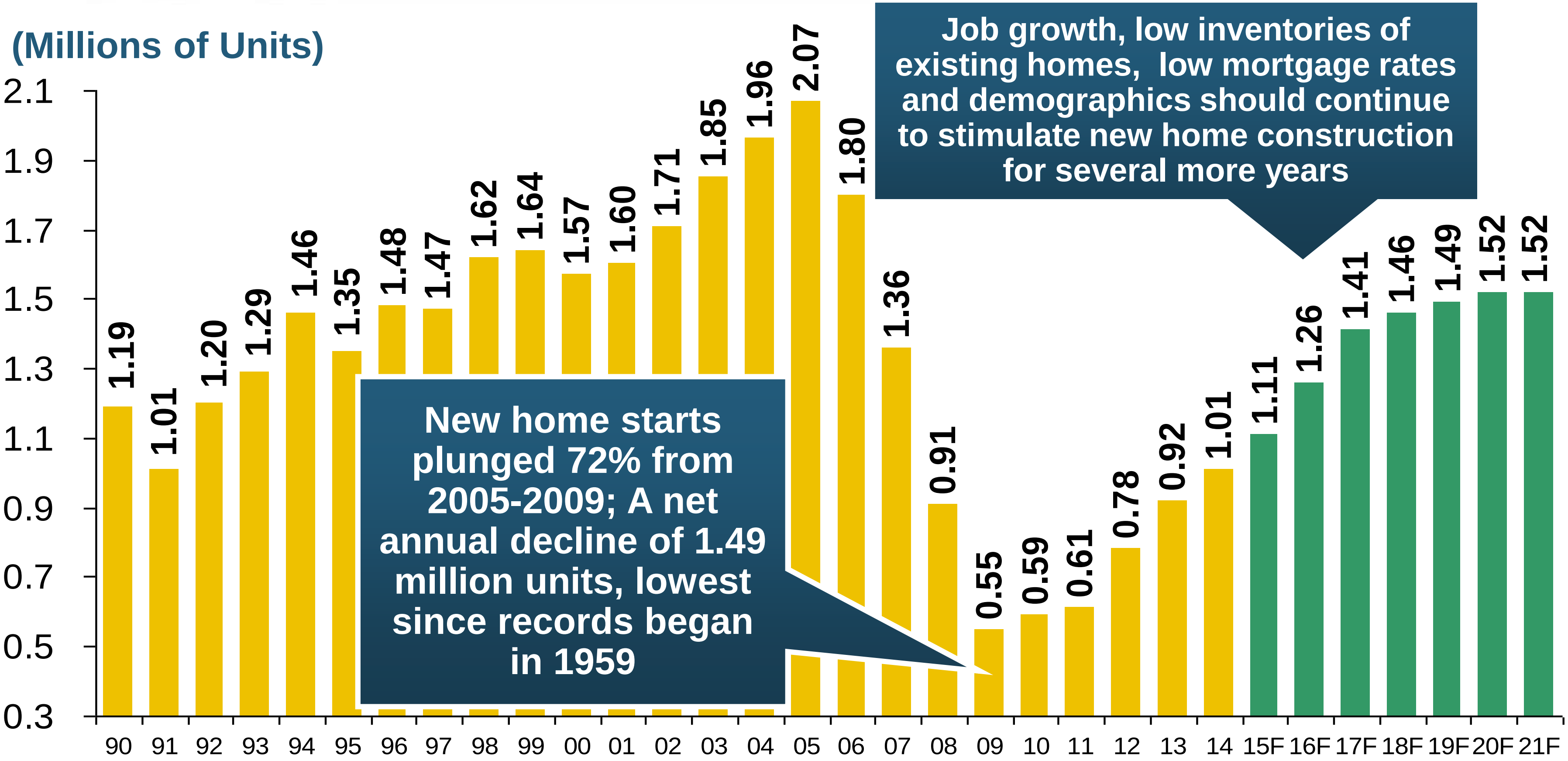


Government Construction Spending Peaked in 2009, Helped by Stimulus Spending, but Contracted As State/Local Governments Grappled with Deficits and Federal Sequestration

*2015 figure is a seasonally adjusted annual rate as of March; http://www.census.gov/construction/c30/historical_data.html

Sources: US Department of Commerce; Insurance Information Institute.

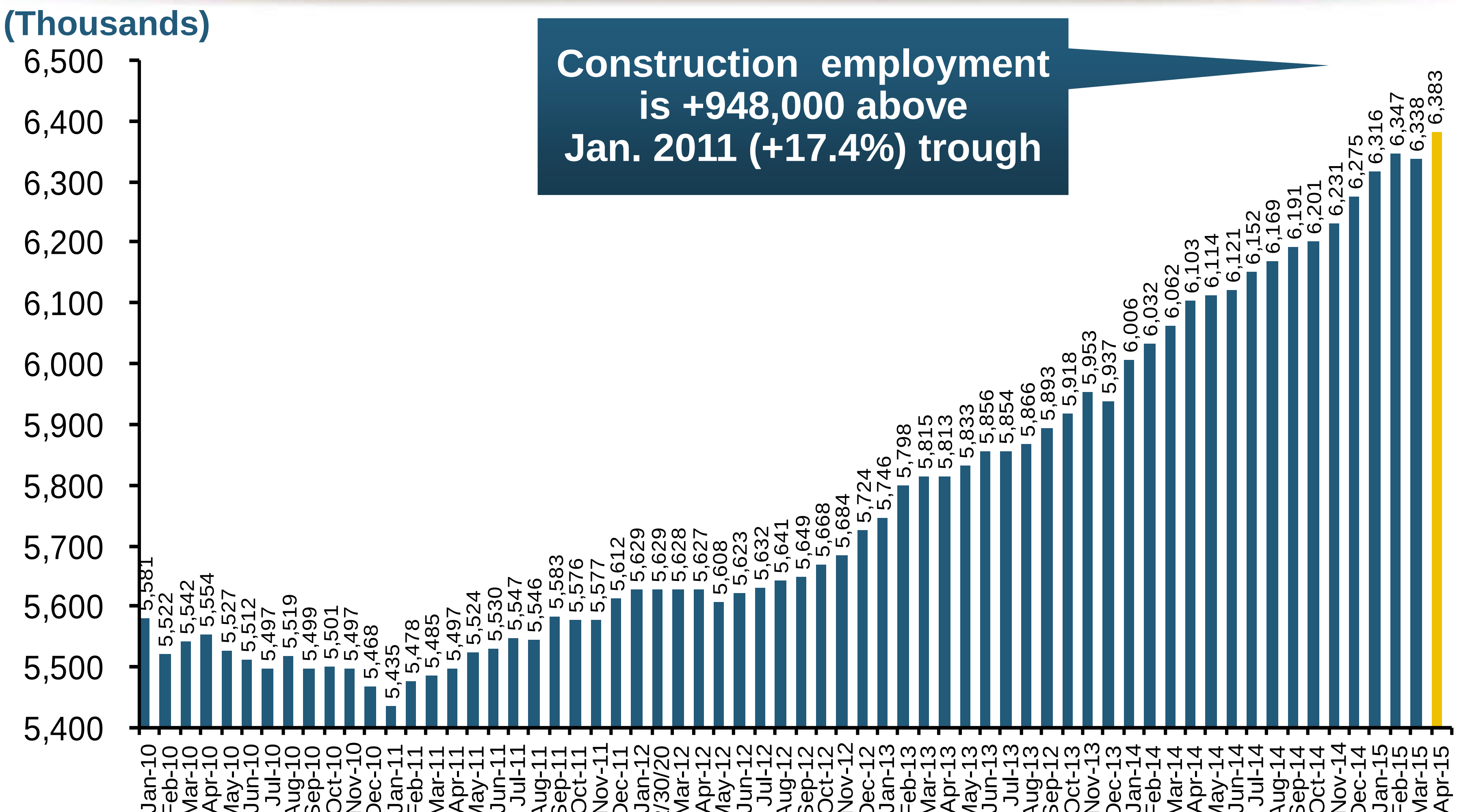
New Private Housing Starts, 1990-2021F



Insurers Are Continue to See Meaningful Exposure Growth in the Wake of the "Great Recession" Associated with Home Construction: Construction Risk Exposure, Surety, Commercial Auto; Potent Driver of Workers Comp Exposure

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (5/15 and 3/15); Insurance Information Institute.

Construction Employment, Jan. 2010—April 2015*

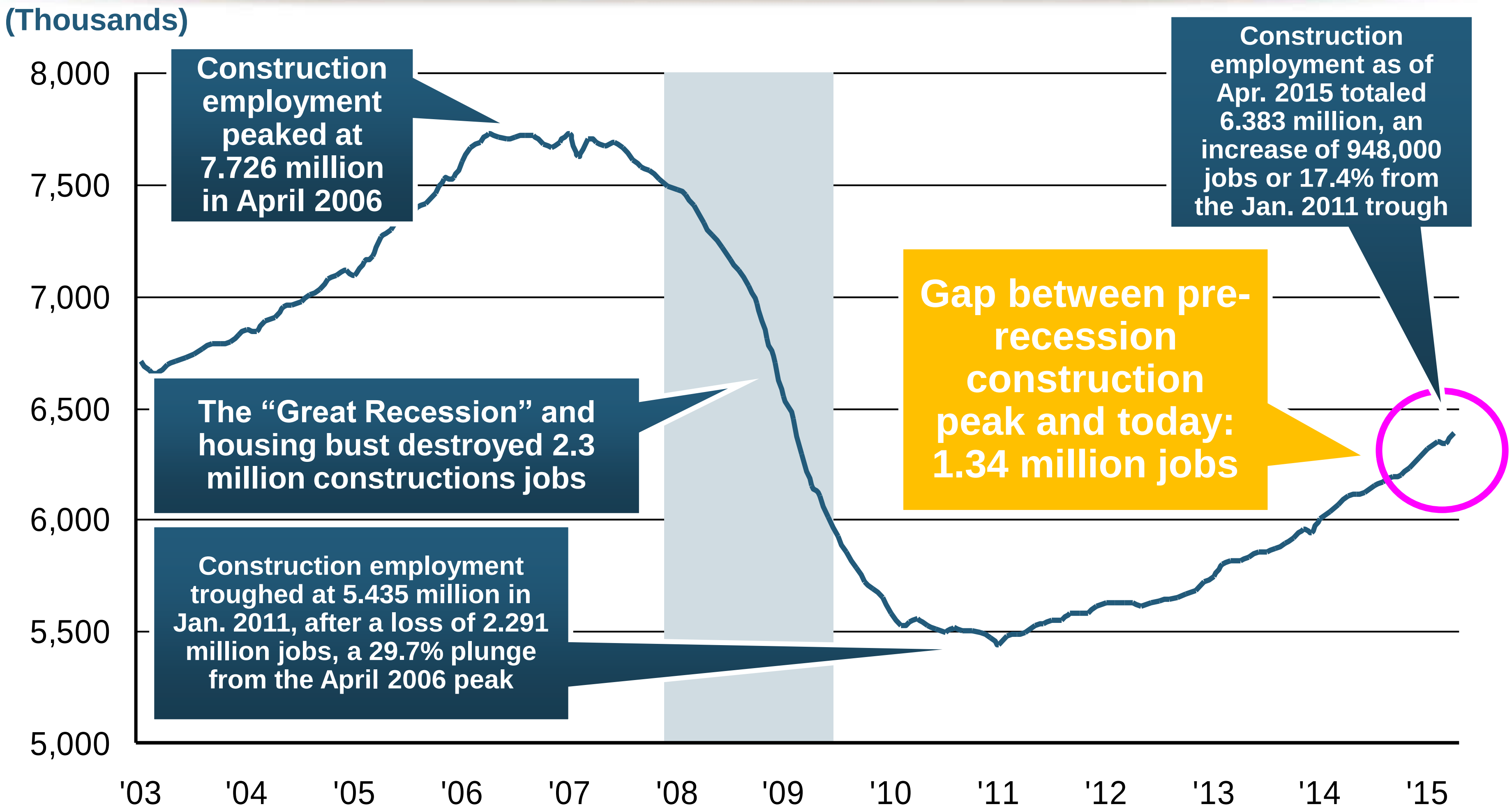


Construction and manufacturing employment constitute 1/3 of all WC payroll exposure.

*Seasonally adjusted.

Sources: US Bureau of Labor Statistics at http://data.bls.gov; Insurance Information Institute.

Construction Employment, Jan. 2003–April 2015



The Construction Sector Was a Growth Leader in 2014 as the Housing Market, Private Investment and Govt. Spending Recover. WC Insurers Will Benefit.

Note: Recession indicated by gray shaded column.

Sources: U.S. Bureau of Labor Statistics; Insurance Information Institute.

INSURANCE INFORMATION INSTITUTE

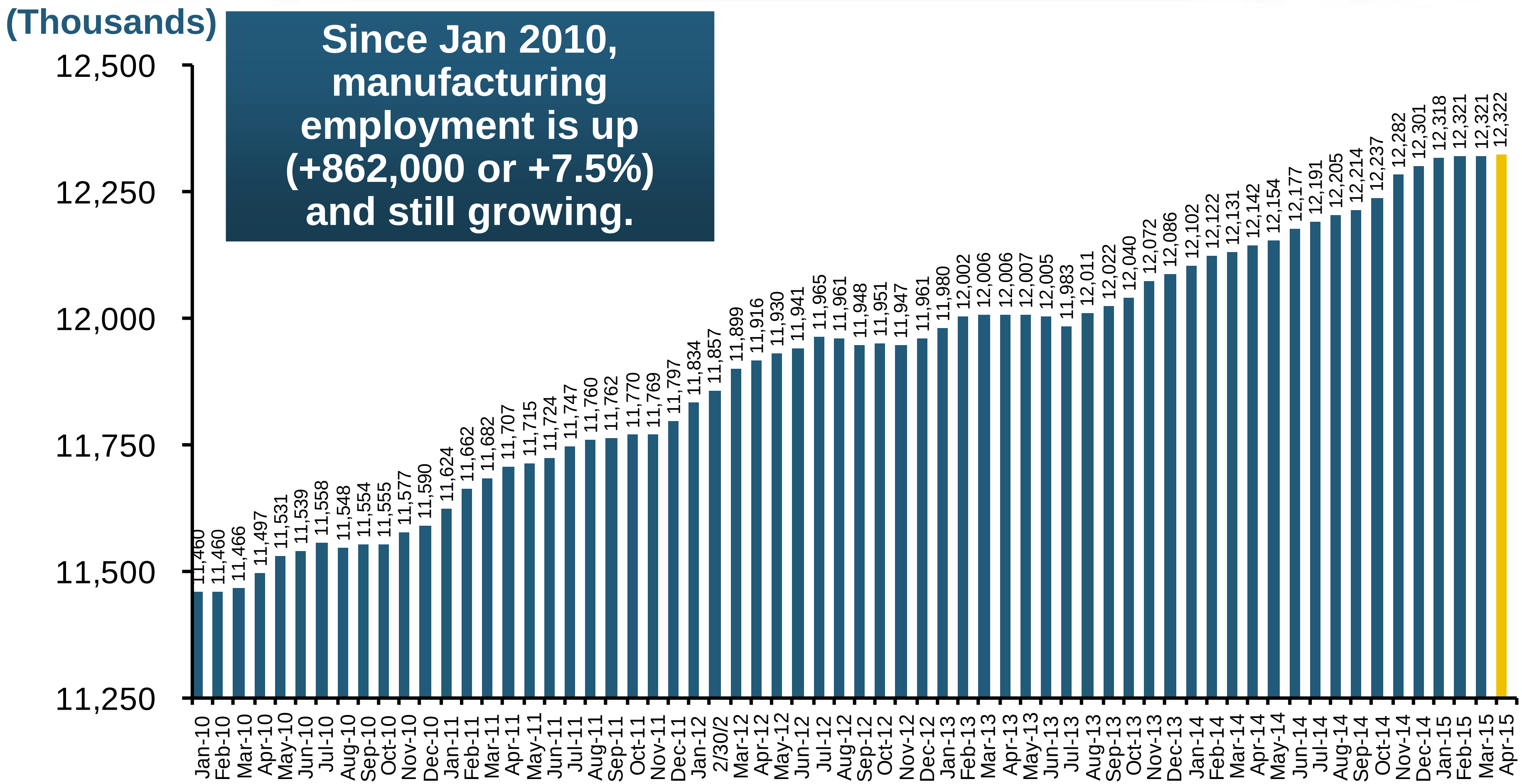
MANUFACTURING SECTOR

A Potent Driver of Jobs, Workers Comp Payroll Exposure

America's Manufacturing Renaissance Has Hit a Rough Patch with the High Dollar and Collapse in Oil Prices

Manufacturing Employment, Jan. 2010—April 2015*

INSURANCE INFORMATION INSTITUTE

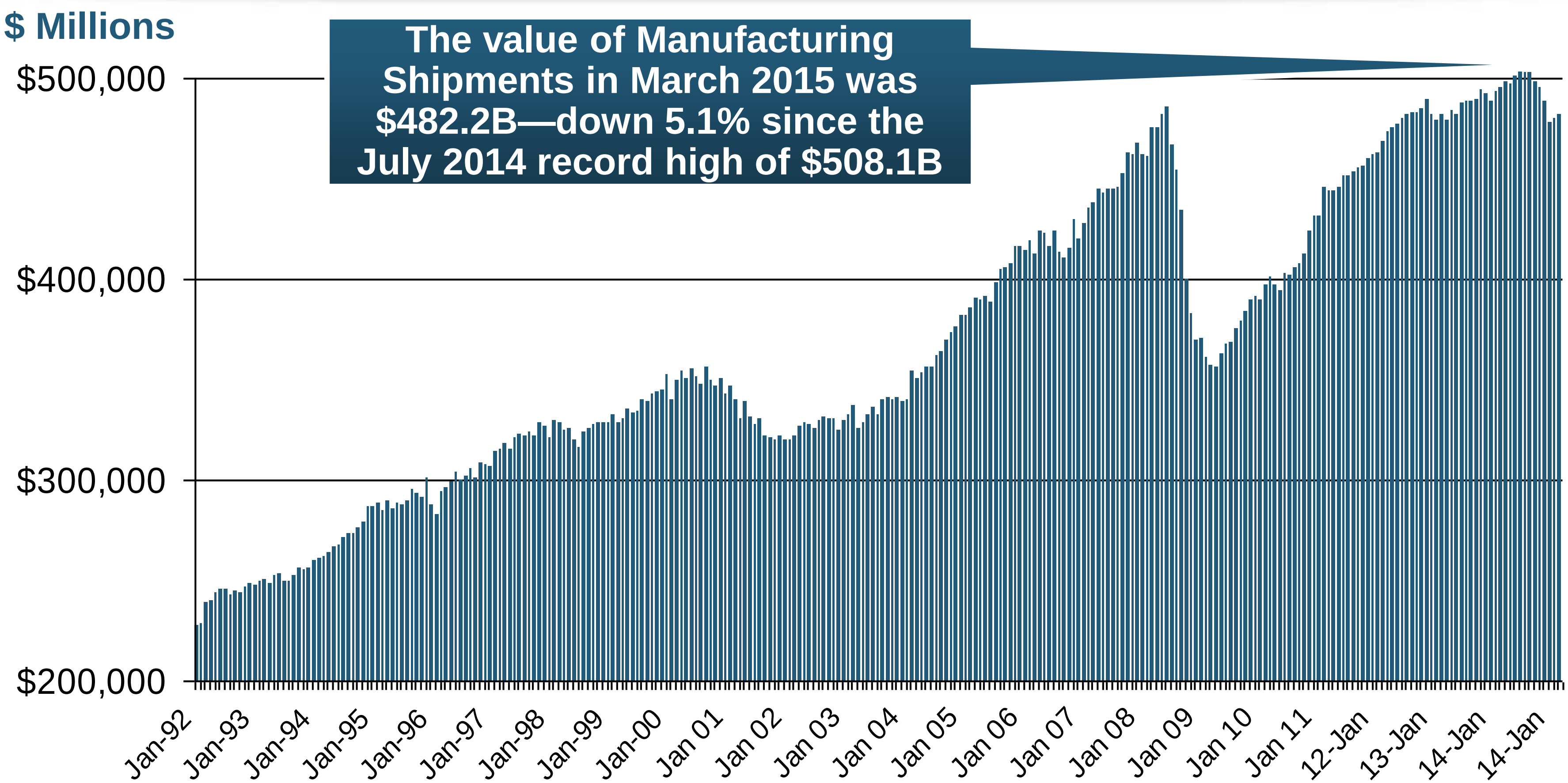


Manufacturing employment is a surprising source of strength in the economy. Employment in the sector is at a multi-year high.

*Seasonally adjusted.

Sources: US Bureau of Labor Statistics at http://data.bls.gov; Insurance Information Institute.

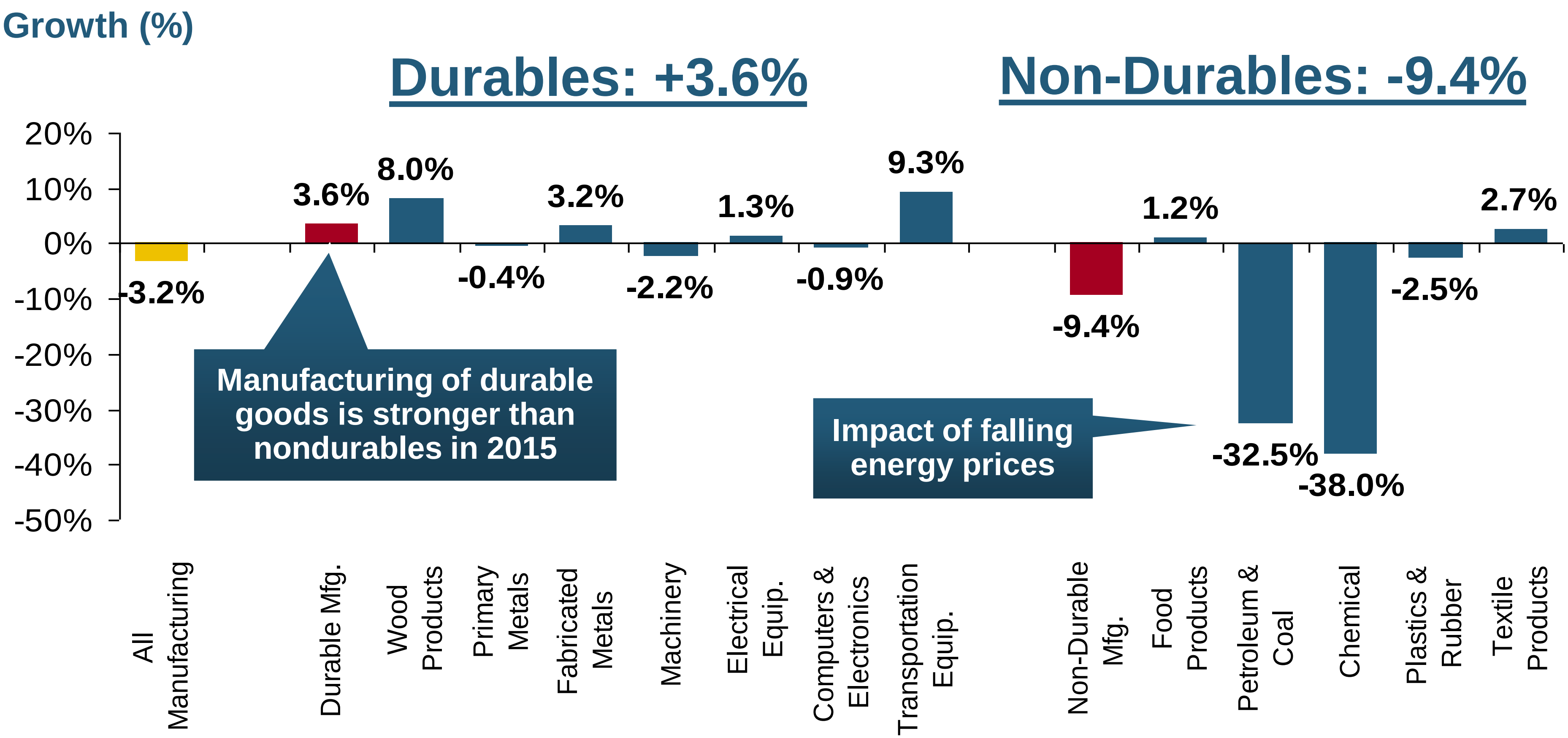
Dollar Value* of Manufacturers' Shipments Monthly, Jan. 1992—March 2015



Monthly shipments in March 2015 are similar to pre-crisis (July 2008) peak but has declined in recent months due to the strong US dollar and weakness abroad. Manufacturing is energy-intensive and growth leads to gains in many commercial exposures: WC, Commercial Auto, Marine, Property, and various Liability Coverages.

* Seasonally adjusted; Data published May 4, 2015.
Source: U.S. Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders,* http://www.census.gov/manufacturing/m3/

Manufacturing Growth for Selected Sectors, 2015 vs. 2014*

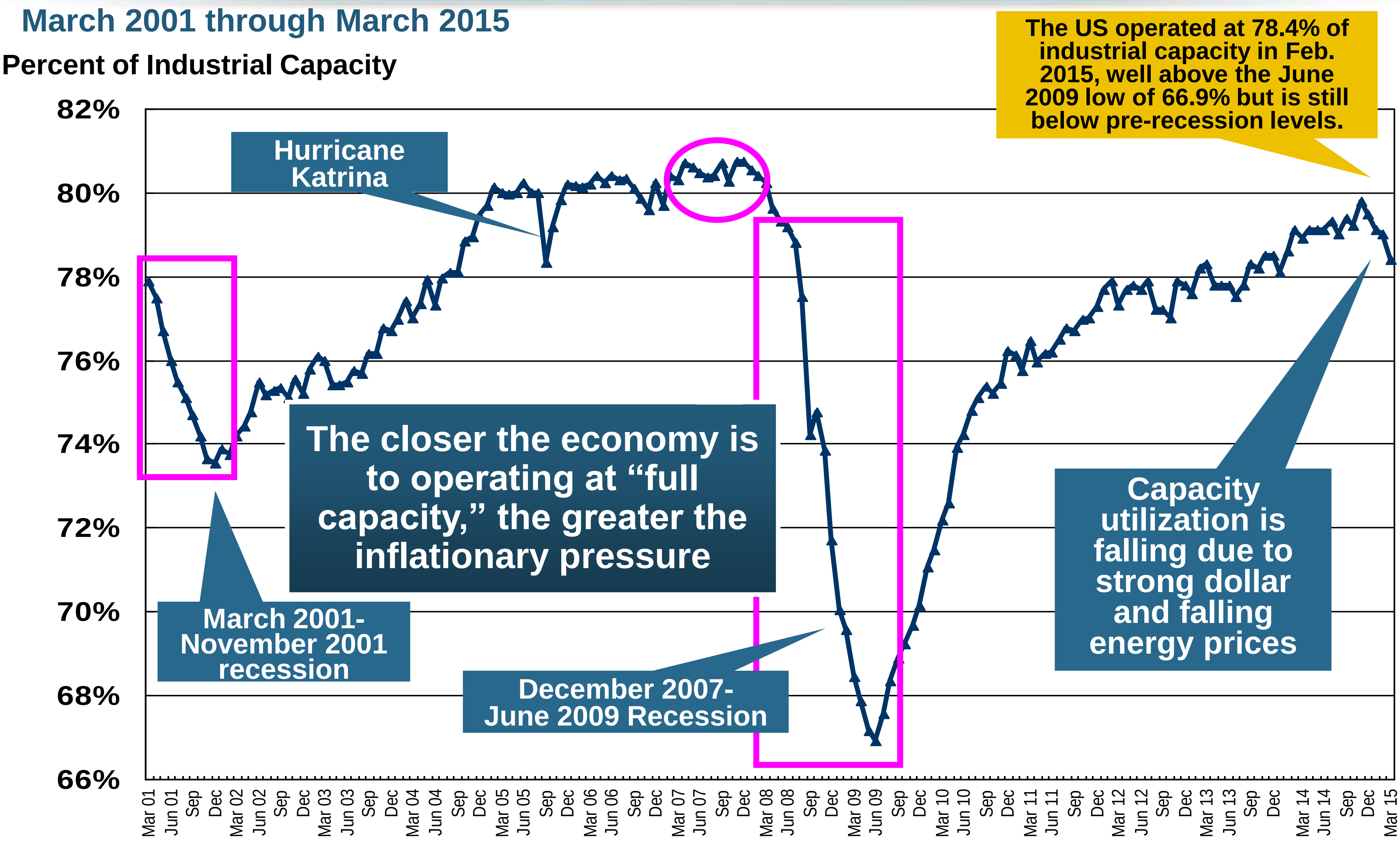


Manufacturing Is Expanding in Many Sectors But Declining Energy Prices Are Dragging Down Industry Figures. Continued Gortwh Across a Number of Sectors that Will Contribute to Growth in Insurable Exposures Including: WC, Commercial Property, Commercial Auto and Many Liability Coverages

*Seasonally adjusted; Date are YTD comparing data through March 2015 to the same period in 2014.
Source: U.S. Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders,* http://www.census.gov/manufacturing/m3/

Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures

INSURANCE INFORMATION INSTITUTE



Source: Federal Reserve Board statistical releases at http://www.federalreserve.gov/releases/g17/Current/default.htm.

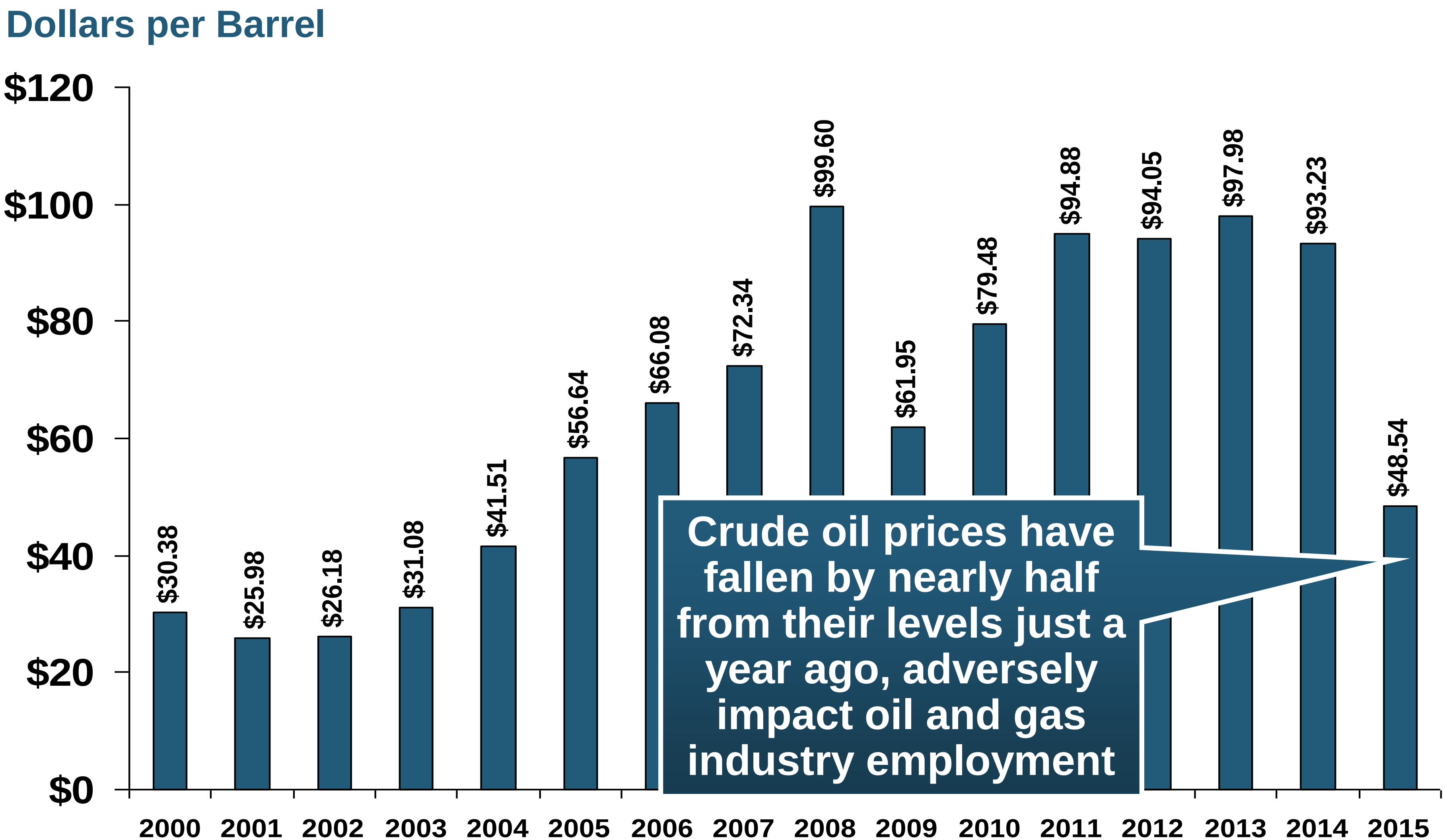
INSURANCE INFORMATION INSTITUTE

ENERGY SECTOR

America's Energy Boom Has Been a Strong Driver of the Economic Recovery, but Prices Are Falling

Workers Comp Have Benefited from the Energy Boom, But Exposures Will Suffer as Energy Prices Swoon

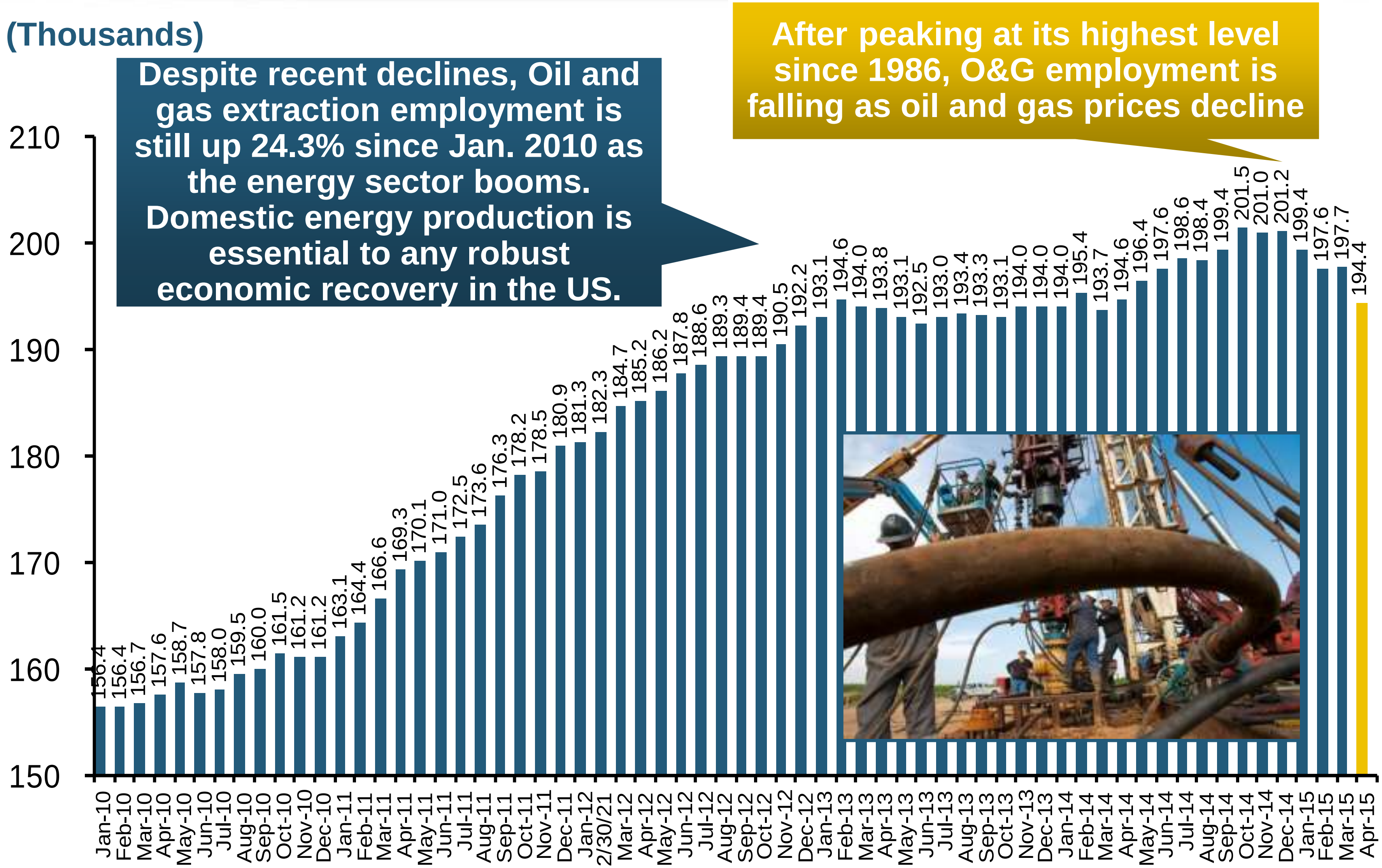
Price of Crude Oil (West Texas Intermediate), 2000 – 2015*



*Through March 2015.

Source: Energy Information Administration; Insurance Information Institute.

Oil & Gas Extraction Employment, Jan. 2010—April 2015*

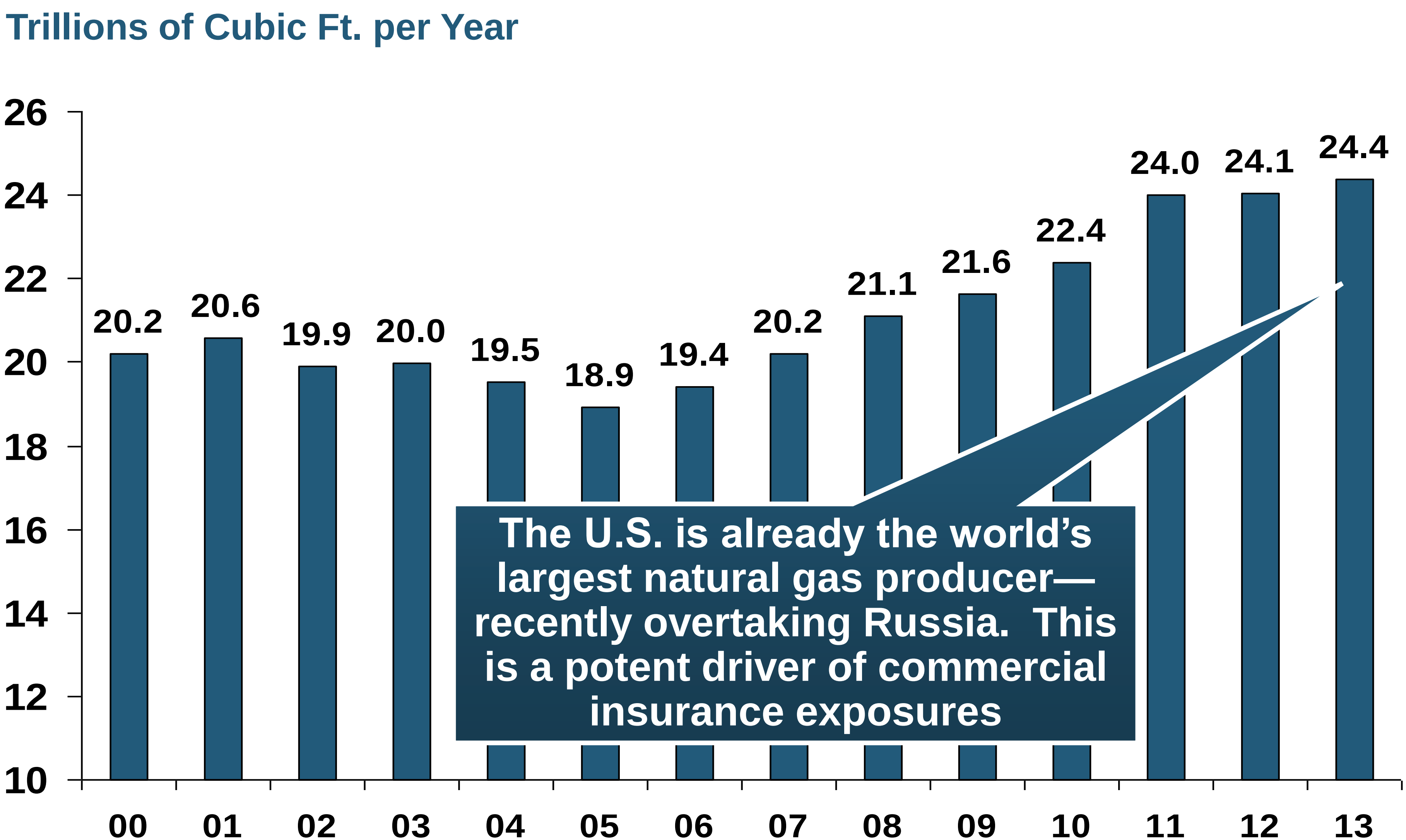


*Seasonally adjusted

Sources: US Bureau of Labor Statistics at http://data.bls.gov; Insurance Information Institute.

U.S. Natural Gas Production, 2000-2013

INSURANCE INFORMATION INSTITUTE



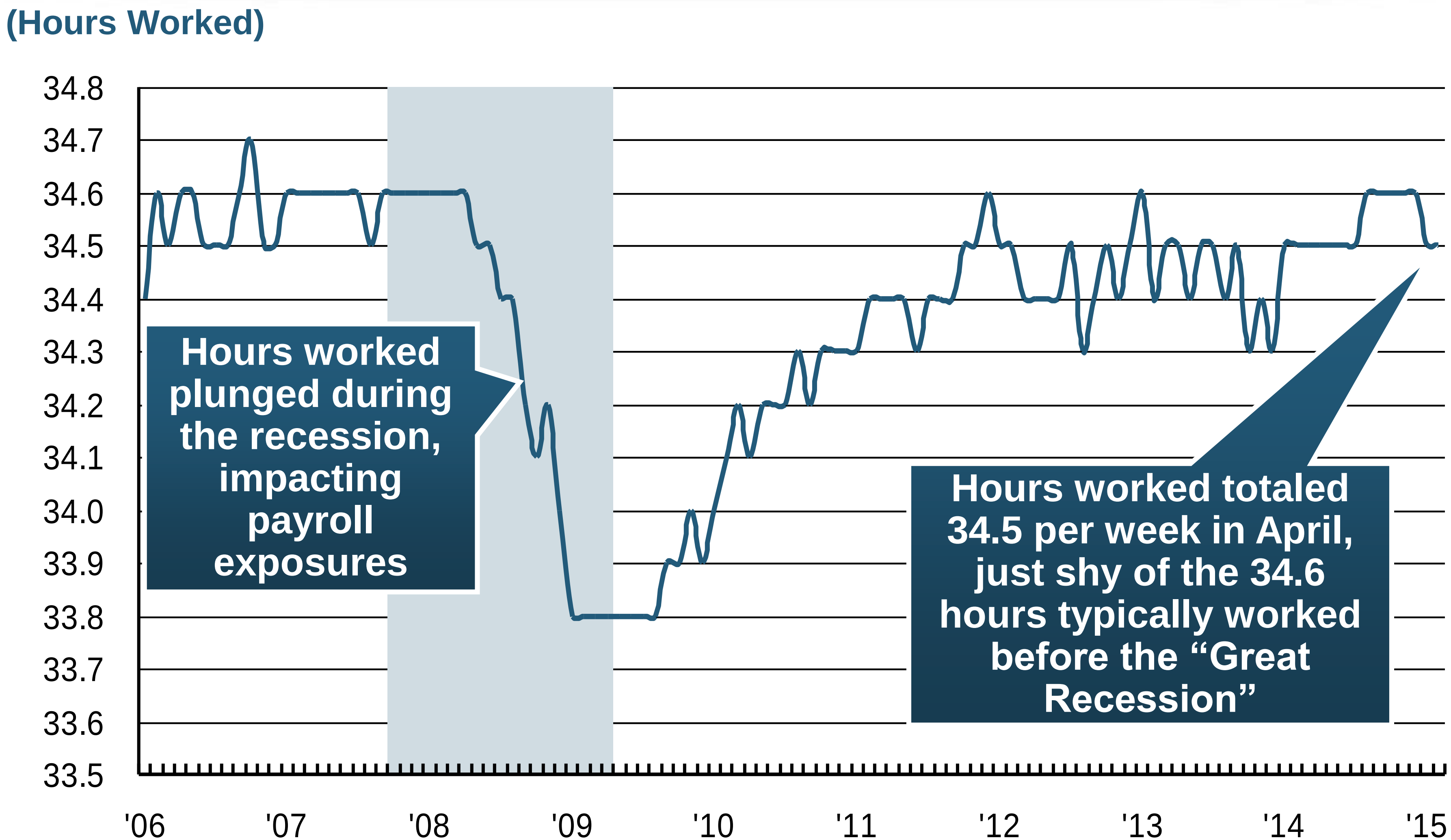
Source: Energy Information Administration, *Short-Term Energy Outlook* (April 2015) , Insurance Information Institute.

INSURANCE INFORMATION INSTITUTE

POSITIVE LABOR MARKET DEVELOPMENTS

Key Factors Driving Workers Compensation Exposure

Average Weekly Hours of All Private Workers, Mar. 2006—April 2015

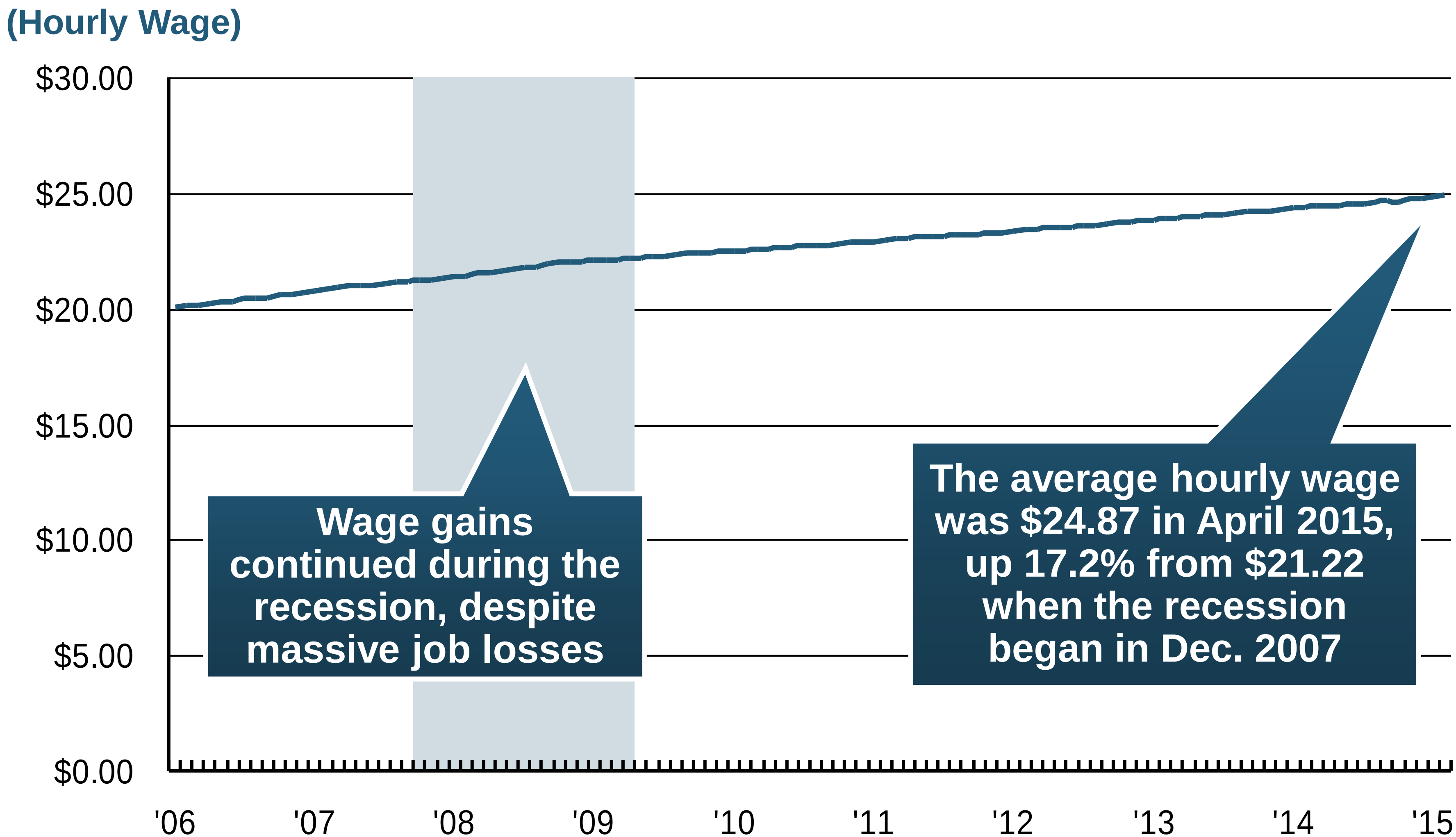


*Seasonally adjusted

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics at http://www.bls.gov/data/#employment; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Average Hourly Wage of All Private Workers, Mar. 2006—April 2015



*Seasonally adjusted

Note: Recessions indicated by gray shaded columns.

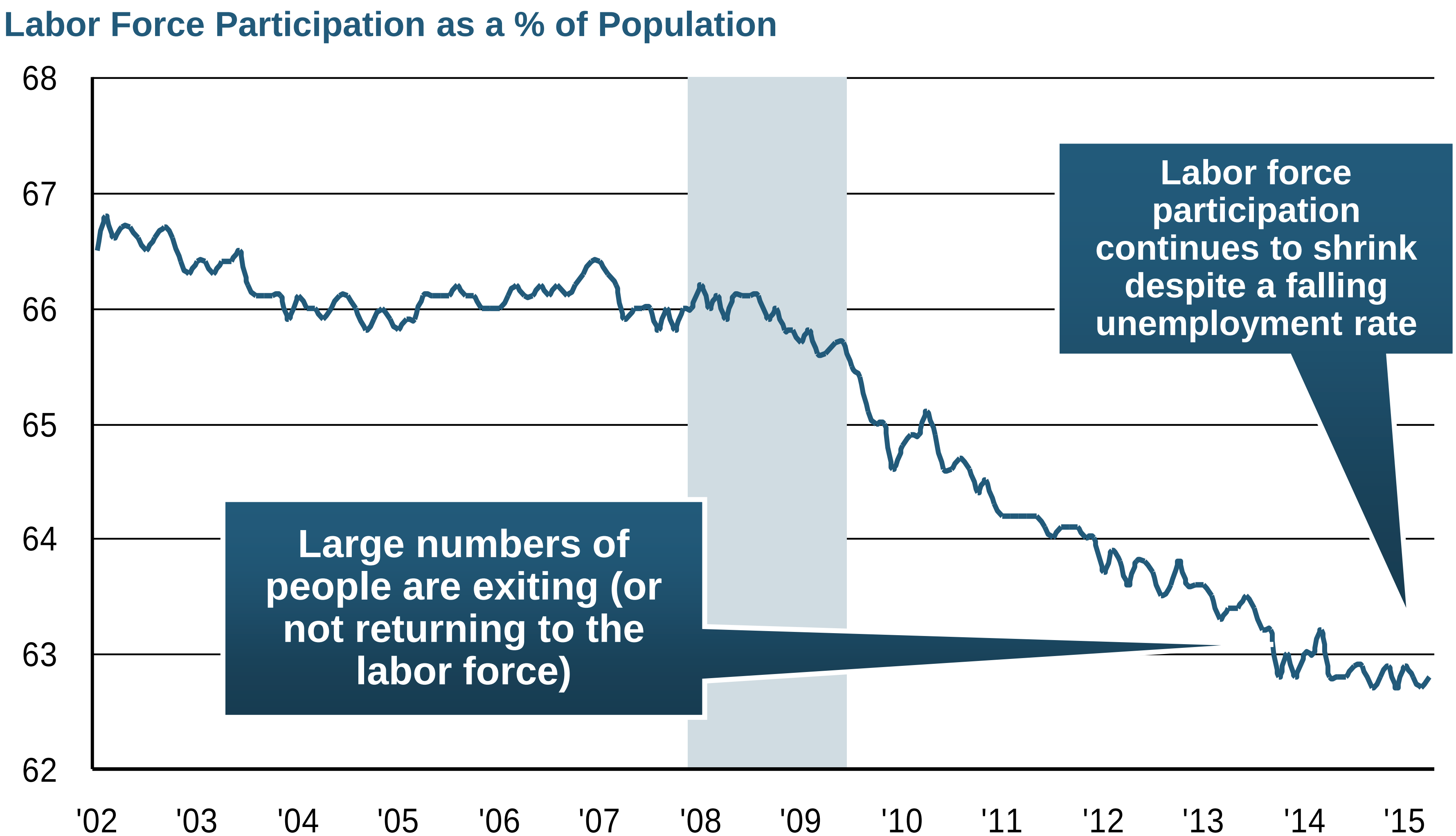
Sources: US Bureau of Labor Statistics at http://www.bls.gov/data/#employment; National Bureau of Economic Research (recession dates); Insurance Information Institute.

ADVERSE LONG-TERM LABOR MARKET DEVELOPMENTS

Key Factors Harming Workers Compensation Exposure and the Overall Economy

Labor Force Participation Rate, Jan. 2002—April 2015*

INSURANCE INFORMATION INSTITUTE



*Defined as the percentage of working age persons in the population who are employed or actively seeking work.

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics at http://www.bls.gov/data/; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Number of "Discouraged Workers," Jan. 2002—April 2015

INSURANCE INFORMATION INSTITUTE

In recent good times, the number of discouraged workers ranged from 200,000-400,000 (1995-2000) or from 300,000-500,000 (2002-2007).

Notes: Recessions indicated by gray shaded columns. Data are seasonally adjusted.

Sources: Bureau of Labor Statistics http://www.bls.gov/news.release/empsit.a.htm ; NBER (recession dates); Ins. Info. Inst.

The "On-Demand" (Sharing) Economy

The On-Demand Economy Will Transform the American Workforce and the P/C Insurance Industry Too

Labor on Demand: Huge Implications for the US Economy, Workers & Insurers

INSURANCE INFORMATION INSTITUTE


THE WALL STREET JOURNAL.

There's an Uber for Everything Now

Apps do your chores: shopping, parking, cooking, cleaning, packing, shipping and more

Will YOUR job be reduced to an app?

The "On-Demand" World is Not New…

INSURANCE INFORMATION INSTITUTE

Companies like Angie's List (established in 1995 and going online in 1999) have been around for decades

The Geek Squad has been around since 1994…

Peapod sprouted way back in 1989!

Source: Insurance Information Institute.

…But the "On-Demand" World is Exploding as Is the Demand for "On-Tap" Workers

INSURANCE INFORMATION INSTITUTE

Need something done around the house…Click on Handy

Hate doing laundry? Washio will do it for you…

Hate doing just about everything? Taskrabbit will take on virtually all your "tasks"…

Source: Insurance Information Institute.

You Can Live Your Life with the Swipe of a Finger…

Get married…

…Move

…And if it doesn't work out…

Some Players in the On-Demand Economy Have Become Household Names

Rent a place…

…Need a Lyft?

…This ride has taken Wall Street to the stratosphere

On-Demand/Sharing/Peer-to-Peer Economy Impacts Many Lines of Insurance

- **The "On-Demand" Economy is or will impact many segments of the economy important to P/C insurers**
  - **Auto (personal and commercial)**
  - **Homeowners/Renters**
  - **Many Liability Coverages**
  - **Professional Liability**
  - ***Workers Comp***
- **Many unanswered insurance questions**
- **Insurance solutions are increasingly available to fill the many insurance gaps that arise**

INSURANCE INFORMATION INSTITUTE

INSERT AMAZON VIDEO HERE

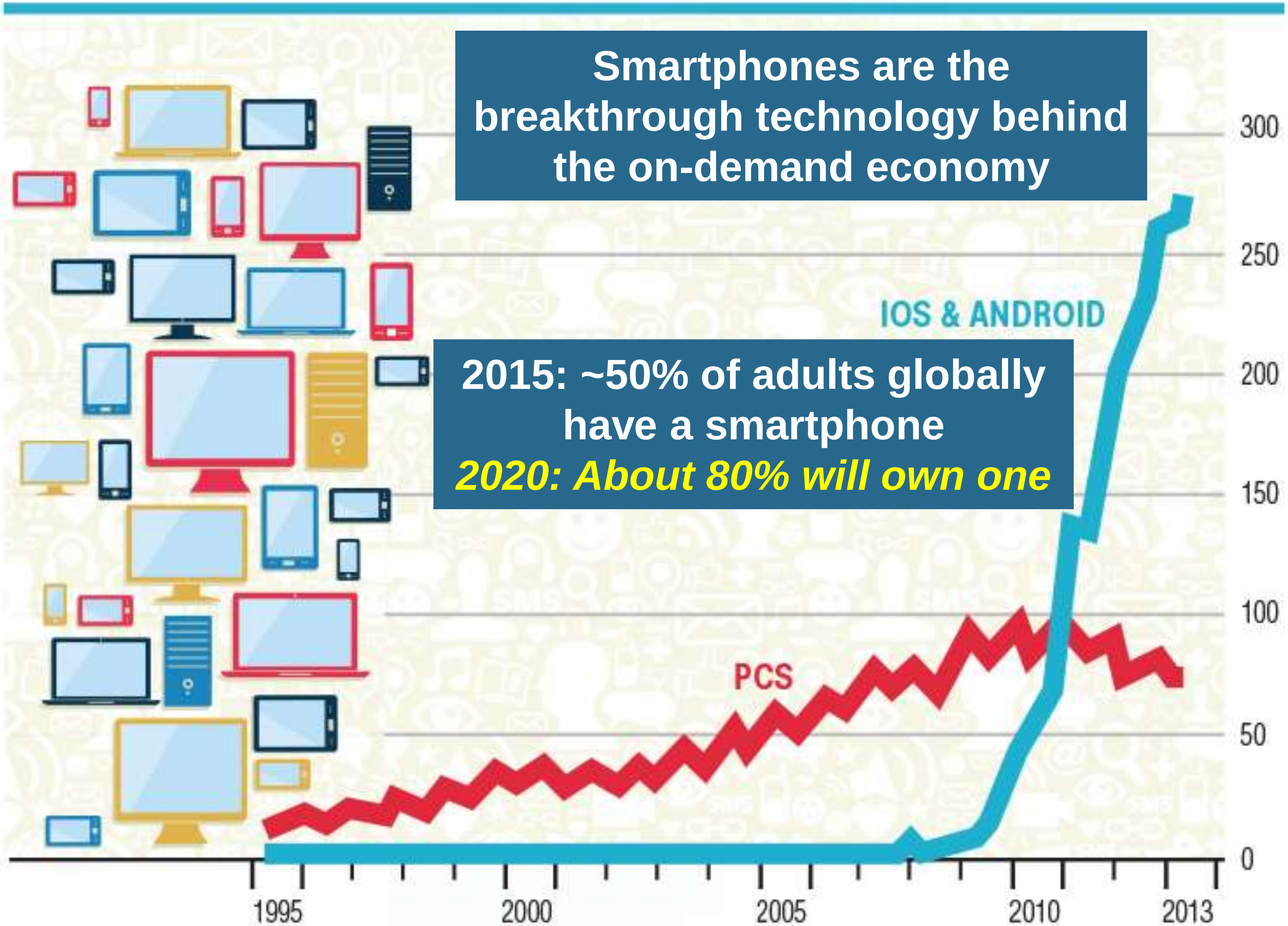
Technology and Employment

What Makes the On-Demand Economy Possible?

Why Does It Matter for Insurers?

CHANGING PLATFORMS:

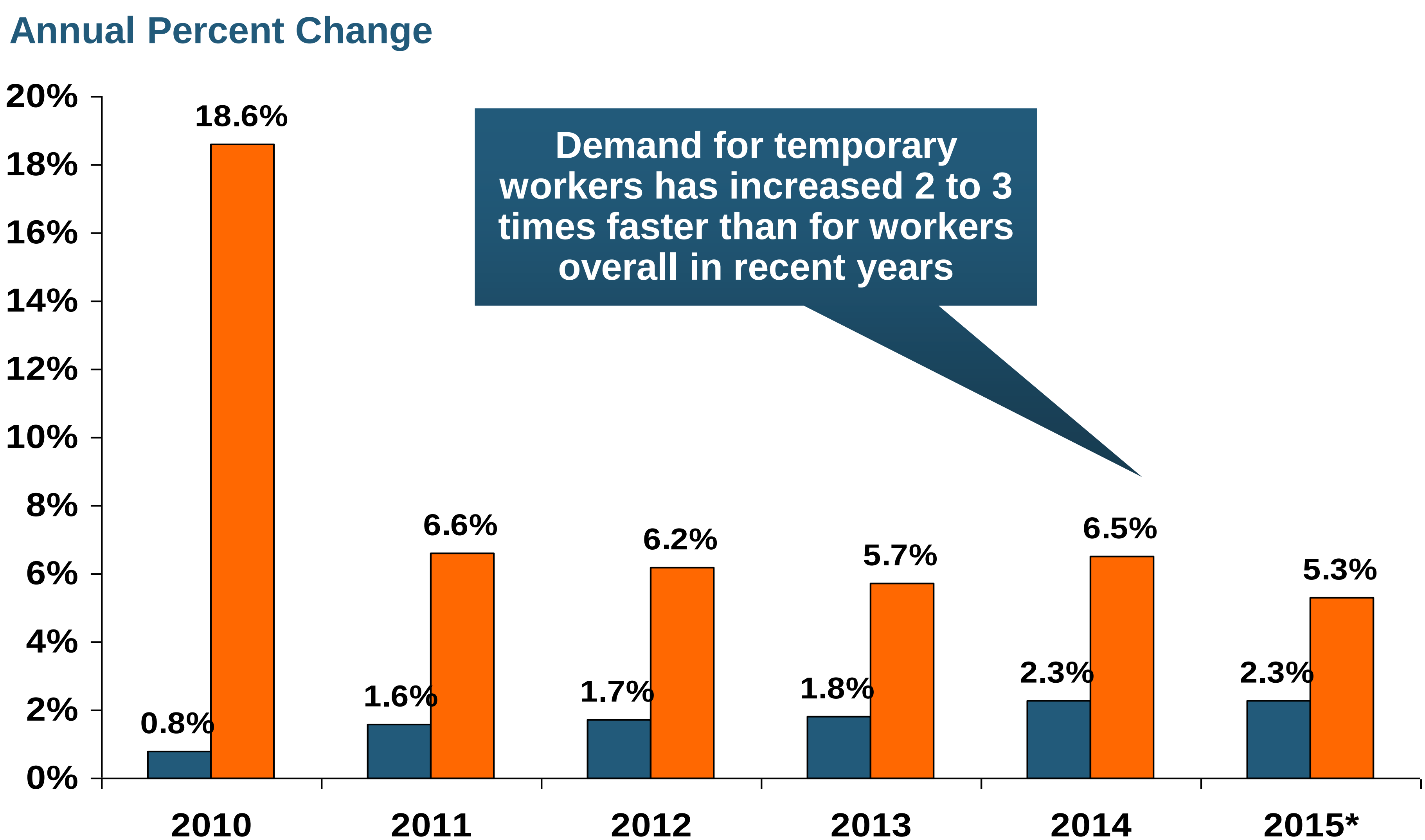
GLOBAL SHIPMENTS OF SMARTPHONES (MILLIONS)



Source: Benedict Evans, Andreessen Horowitz

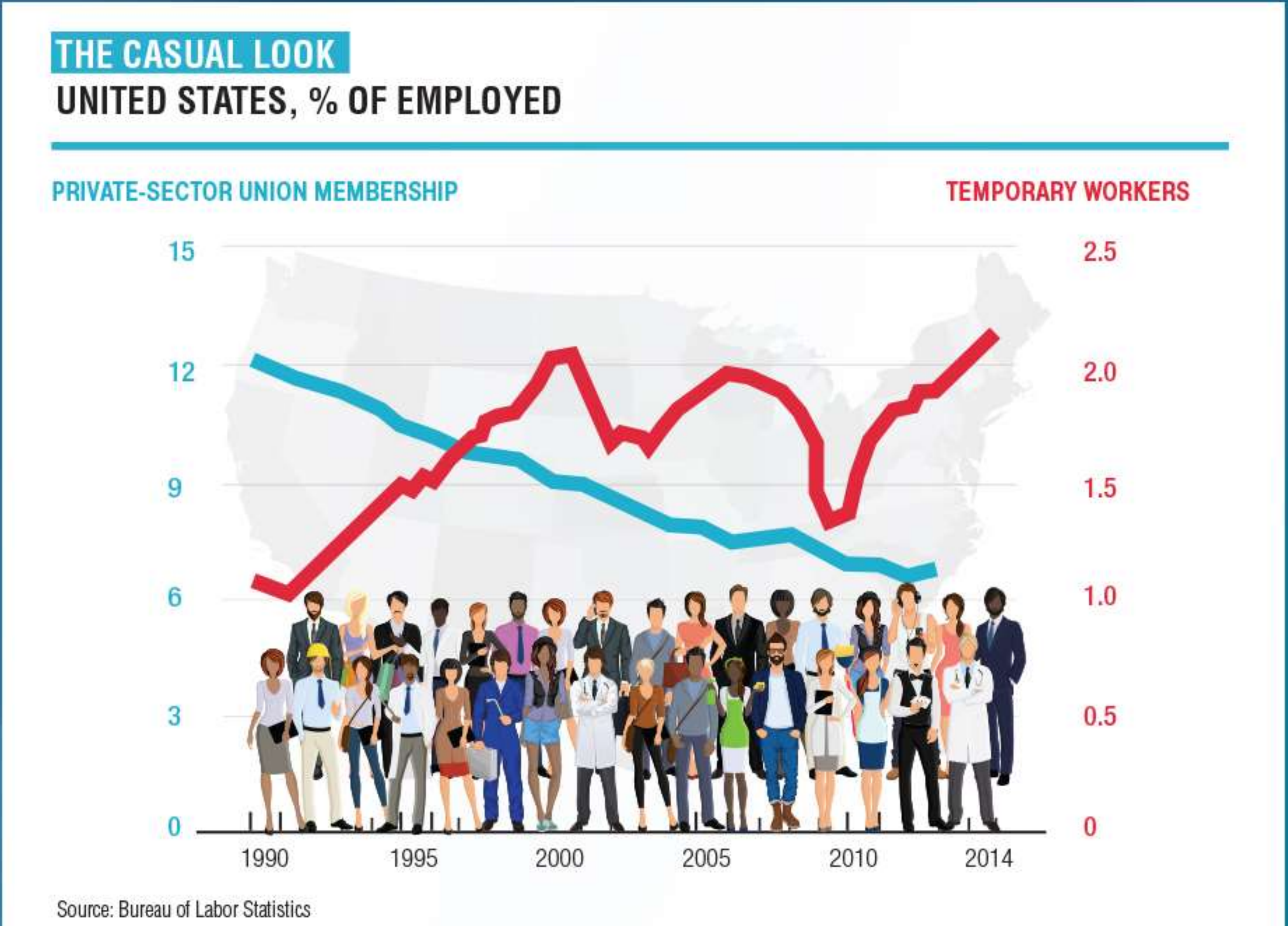
Growth in Temporary Workers vs. All Nonfarm Employment, 2010-2015*

INSURANCE INFORMATION INSTITUTE



*Through March 2015.

Source: US Bureau of Labor Statistics , Insurance Information Institute.


THE CASUAL LOOK
UNITED STATES, % OF EMPLOYED
PRIVATE-SECTOR UNION MEMBERSHIP
TEMPORARY WORKERS
15
12
9
6
3
0
2.5
2.0
1.5
1.0
0.5
0
1990
1995
2000
2005
2010
2014
Source: Bureau of Labor Statistics

The On-Demand Economy and American Workers: What Is Happening?

INSURANCE INFORMATION INSTITUTE

- **Technology is Fundamentally Transforming How Resources are Allocated and Used in the Economy**
- **Labor is No Exception to this Transformation**
- **Technology Offers New Opportunities to Match Labor to Jobs**
  - **Owners of spare capacity (workers with time and skill) can be paired at low cost with those with a demand for that time and skill**
  - **Bringing together labor and those who employ labor is not new**
  - **BUT: Pairing occurs with a speed and breadth never before possible**
- **Witnessing the Demise of the Traditional Understanding of What is Meant by a "Good" Job**
  - **Concept born in the Industrial Age (1880-1980), is eroding**
  - **Disintermediation of the firm as the place where labor, jobs matched**
- **Accelerating Trends that Started with Labor Strife, Globalization and Automation that Began in the 1970s and 1980s**

What's In Store for the American Worker, Labor Force and Workers Comp

INSURANCE INFORMATION INSTITUTE

THE NEW AMERICAN WORKER: Two Schools of Thought

- ***OPTIMISTIC OUTLOOK***
  - **Technology frees workers from the bonds of centralized, hierarchical institutions (the firm)**
  - **Enhanced coordination of "haves" with "needs" that bypass firms as intermediaries**
- **Who Benefits?**
  - **"Flexers": People who value or require flexibility in work arrangements (stay-at-home parents, retirees, students, disabled)**
  - **Professionals: People with portable skills that can be offered through online platforms (semi and high-skilled trades, professional services)**
  - **Unemployed/Underemployed: Offers at least some opportunity to offer and utilize skills and generate income**

Sources: Wall Street Journal; The Economist; Insurance Information Institute research.

What's In Store for the American Worker, Labor Force and Workers Comp

INSURANCE INFORMATION INSTITUTE

- ***PESSIMISTIC OUTLOOK***
  - **On-Demand companies are software-driven marketplaces and position themselves as "*platforms*" rather than "*employers*"**
  - **Enormous valuations (e.g., $40B for Uber on $2B in earnings) reflect the extraction of resources that otherwise would go to benefits, investments in safety, training, etc.**
    - **Uber's valuation was greater than that of 72% of the S&P500 at YE 2014**
    - **Valued more than Delta Airlines, Kraft Foods, CBS, Macy's, Hilton, Aflac…**
  - **Jobs reduced to freelanced, temporary "gigs"**
  - **Low skill workers and those who lack flexibility are left further behind**
  - **Workers treated as independent contractors without intrinsic or basic economic rights**
- **What Is Potentially Lost or Compromised?**
  - **Stability, Retirement Benefits, Sick Pay, Maternity Leave, Overtime**
  - **Health Insurance, Liability Coverage, Workers Comp Coverage**

Sources: Wall Street Journal; The Economist; Fortune; Insurance Information Institute research.

Potential Consequences for Insurers

- On-Demand Platforms Have Struggled with Concepts of Liability
- There Has Been a General Resistance to Assuming Liability or Responsibility Unless Compelled to Do So
- Companies Have Sought to Keep as Much Liability as Possible on the Individual Offering their (Contracted) Labor or Resources
- Minding the Gap
  - Traditional insurance will often not cover a worker engaged in offering labor or resources through these platforms
  - E.g., Auto ins. generally won’t cover you if you while driving for Uber
  - Home ins. won’t cover for other than occasional rentals of property
  - Unless self-procured, on-demand worker (independent contactors) will generally have no workers comp recourse if injured on the job
- Long Legislative and Court Battles Lie Ahead
- Insurance Solutions Becoming More Common

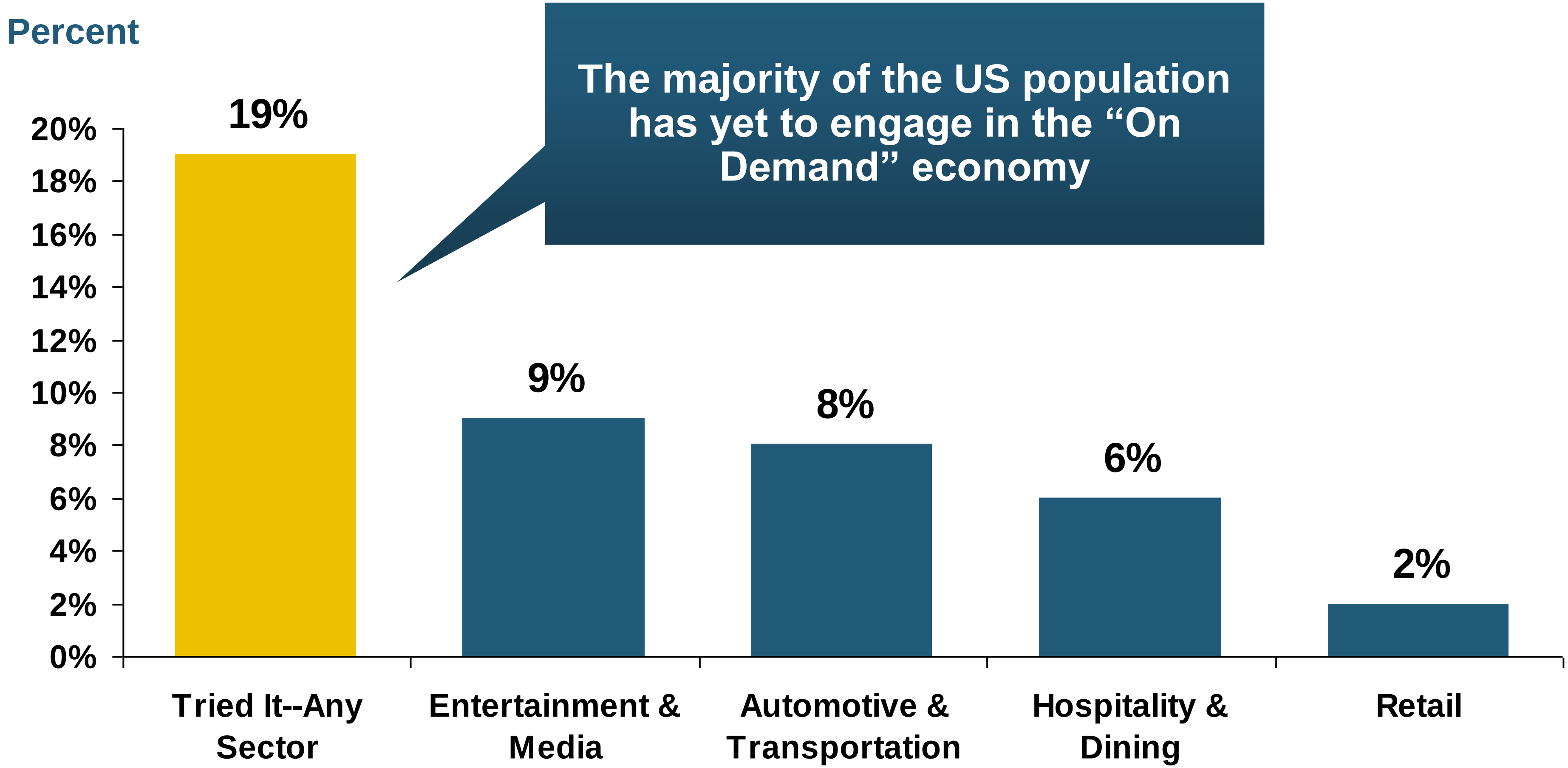
INSURANCE INFORMATION INSTITUTE

On-Demand Workers

Who Are They?

And Who's Driving Demand for Them?

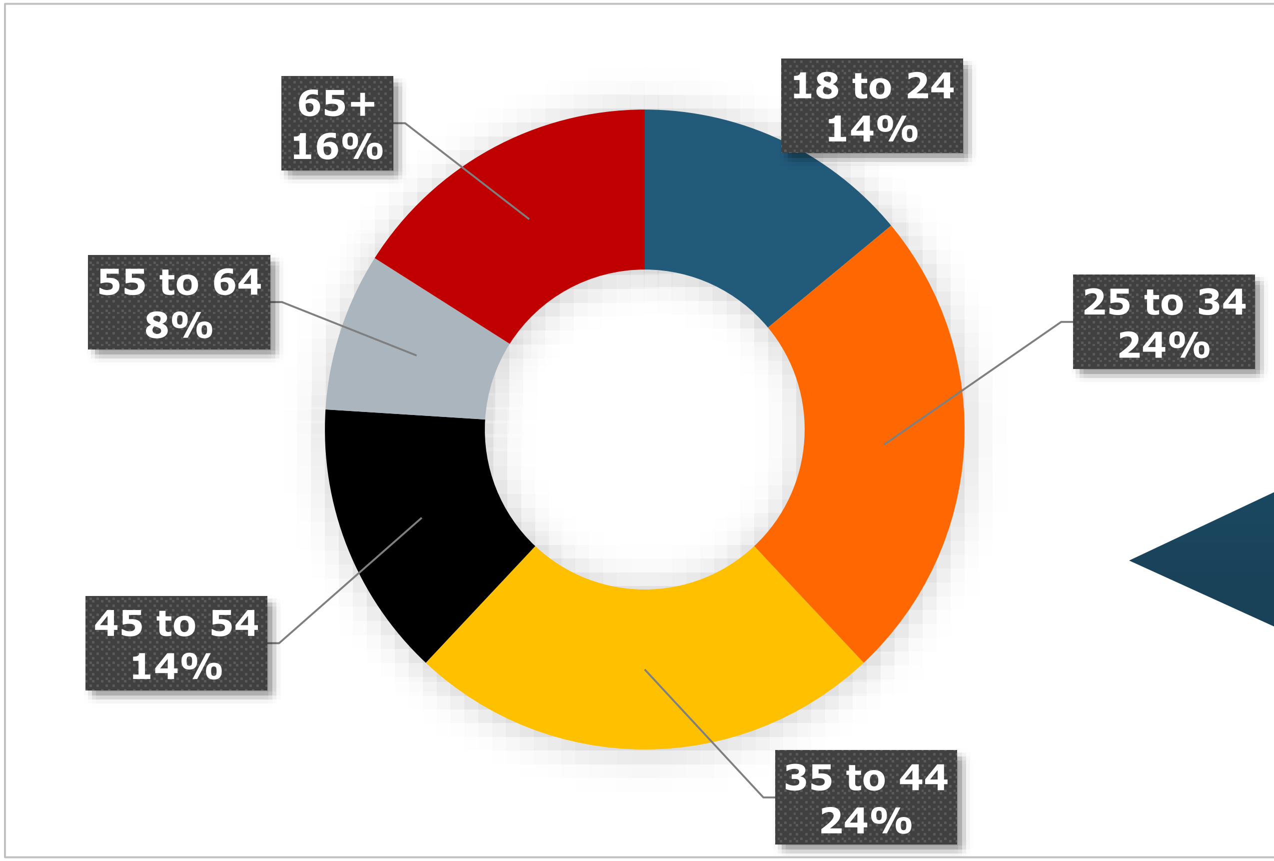
Percent of People Who Have Engaged in an "On Demand/Sharing Economy" Transaction



About 19% of the US population has engaged in an "On Demand/Sharing Economy" Transaction

Sources: PwC survey of 1,000 adults in the U.S., conducted online, December 2014; Insurance Information Institute.

Age of People Who are *Providing* the Sharing/On-Demand Economy

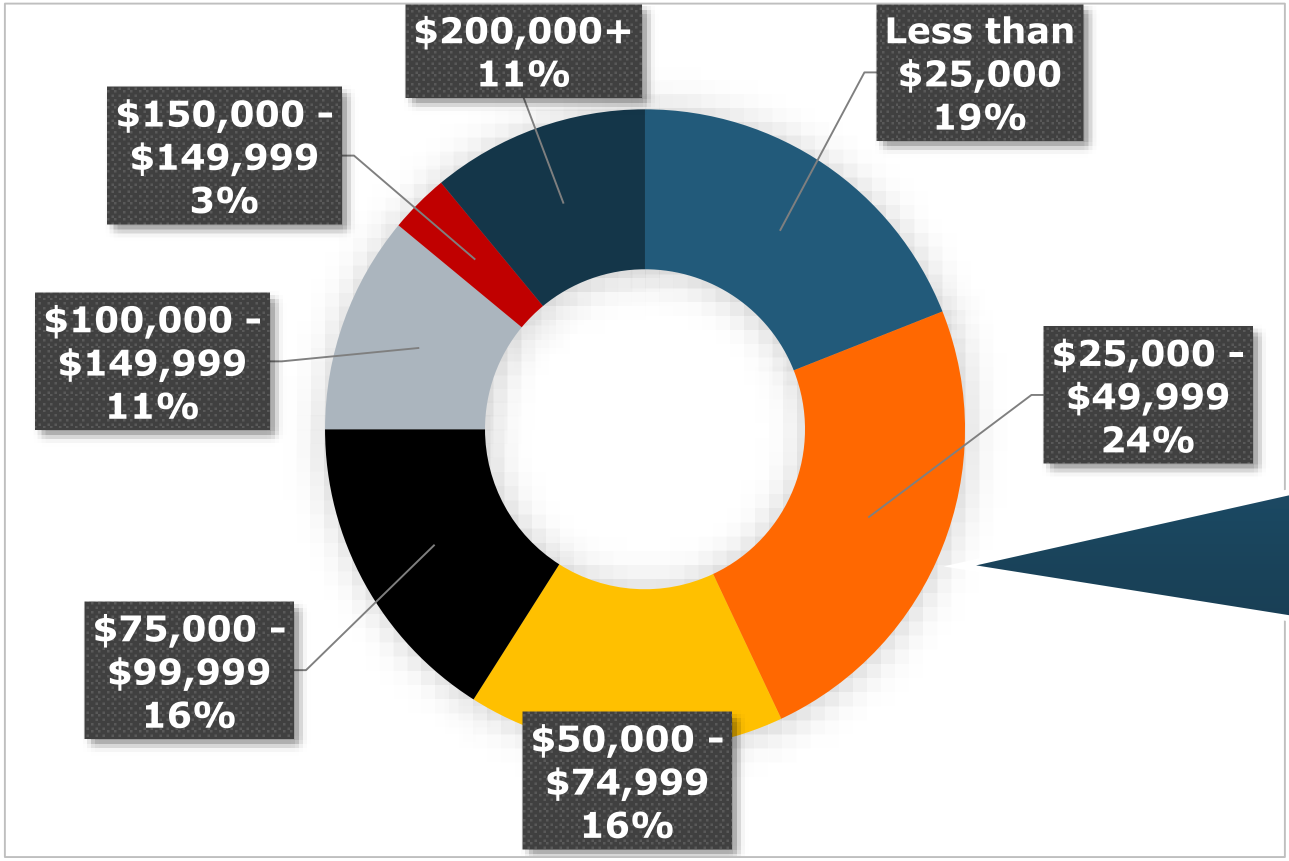


Being a provider of services in the Sharing/On-Demand Economy is attractive to workers in the 25-44 age range (who want flexibility in raising families) as well as seniors age 65+ who see the offering their services on-demand as a way to augment retirement income

About 7% of US population are providers in the Sharing Economy, cutting across age and incomes;
51% of those familiar with the concept could see them selves as providers within the next two years.

Sources: PwC survey of 1,000 adults in the U.S., conducted online, December 2014; Insurance Information Institute.

Household Income: *Providers* of the Sharing/On-Demand Economy



Being a provider of services in the Sharing/On-Demand Economy is particularly attractive to workers with household incomes under $50,000

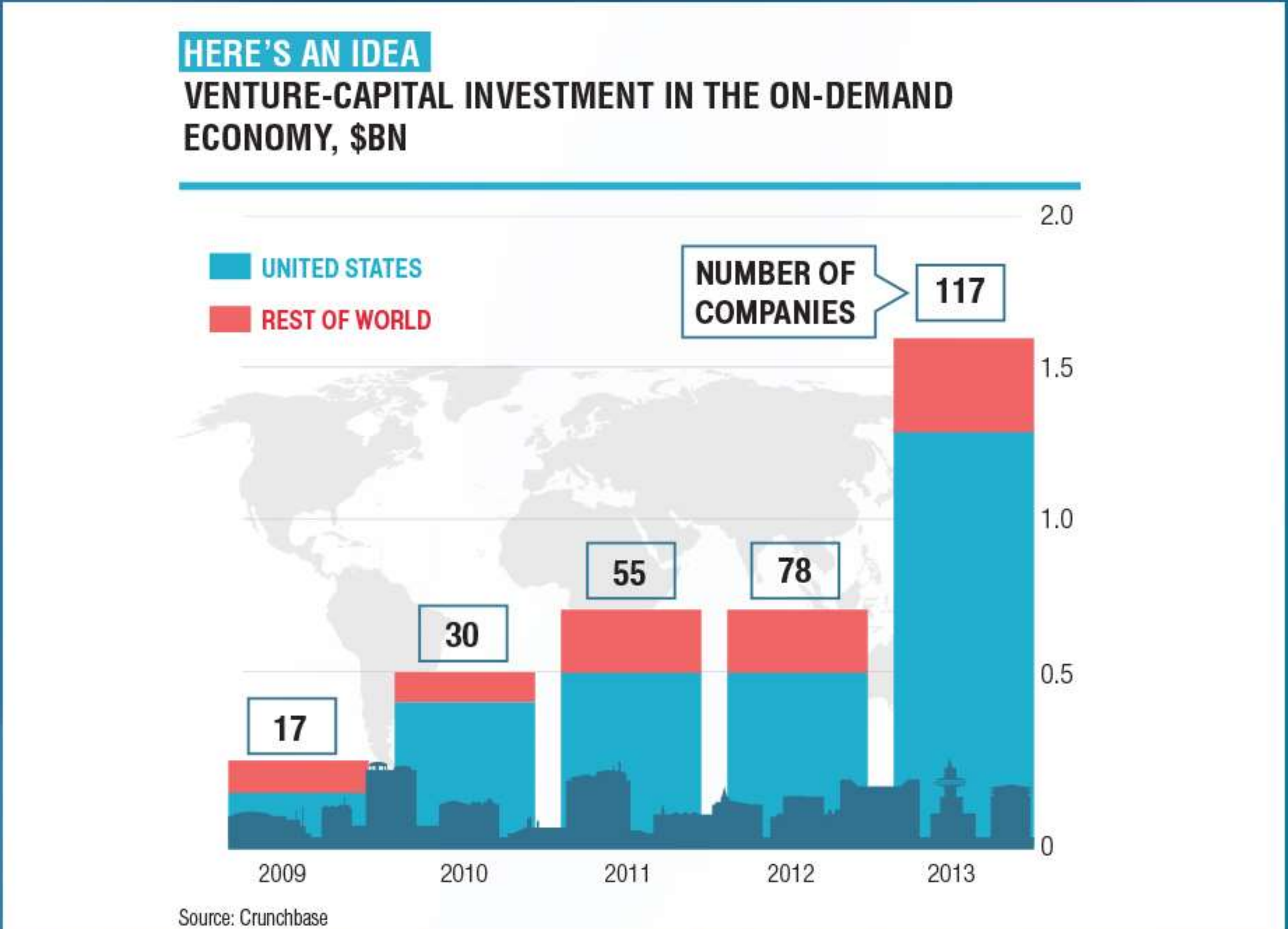
About 7% of US population are providers in the Sharing Economy, cutting across age and incomes;
51% of those familiar with the concept could see them selves as providers within the next two years.

Sources: PwC survey of 1,000 adults in the U.S., conducted online, December 2014; Insurance Information Institute.

The On-Demand Economy and Wall Street

Wall Street Loves the On-Demand Economy

Labor Markets, Insurance Markets Will Be Impacted


HERE'S AN IDEA
VENTURE-CAPITAL INVESTMENT IN THE ON-DEMAND ECONOMY, $BN
UNITED STATES
REST OF WORLD
NUMBER OF COMPANIES
117
17
30
55
78
2.0
1.5
1.0
0.5
0
2009
2010
2011
2012
2013
Source: Crunchbase

INSURANCE INFORMATION INSTITUTE

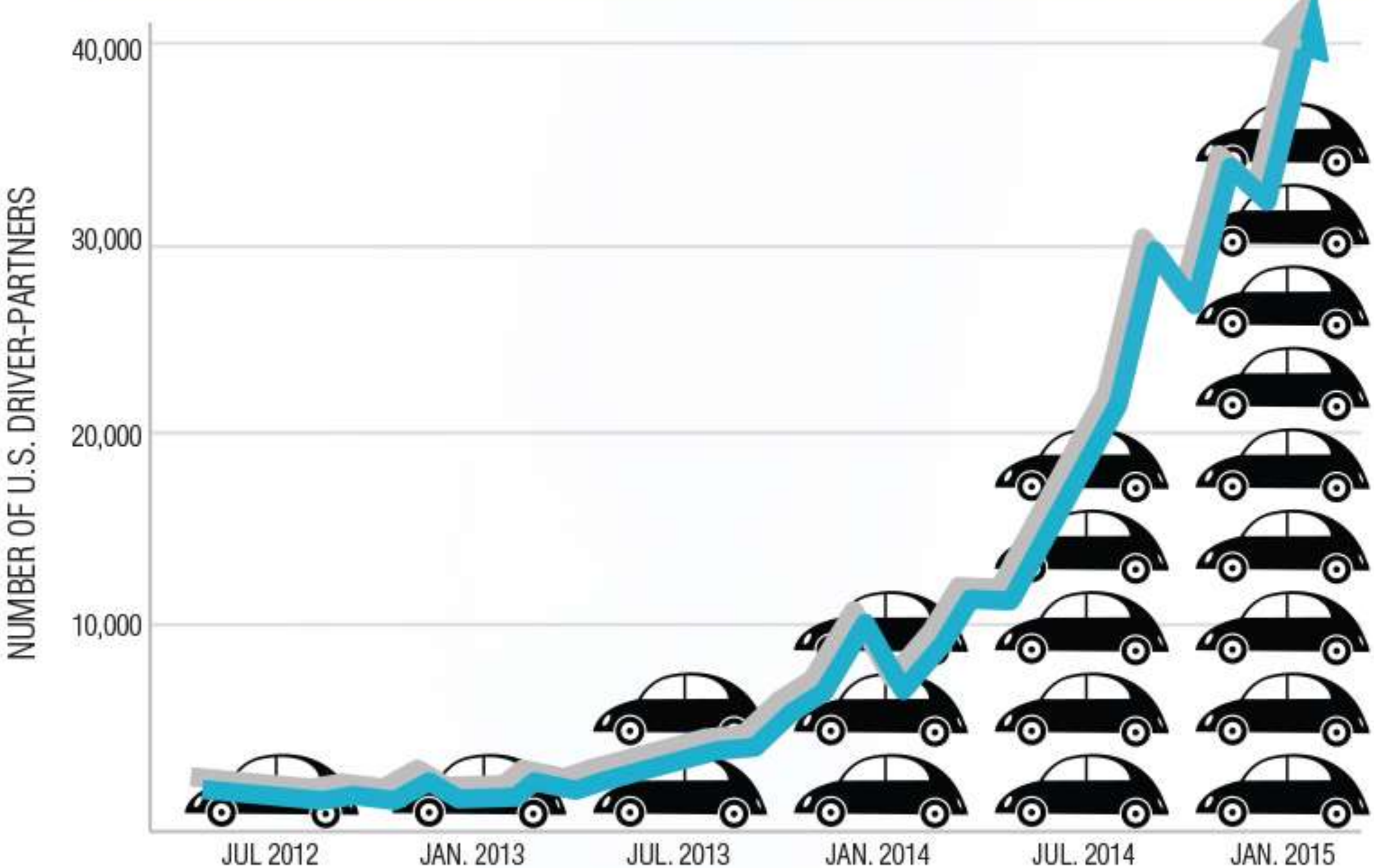
An UBER Case Study

Uber is the Best Known of the On-Demand Companies

Wall Street Loves Uber

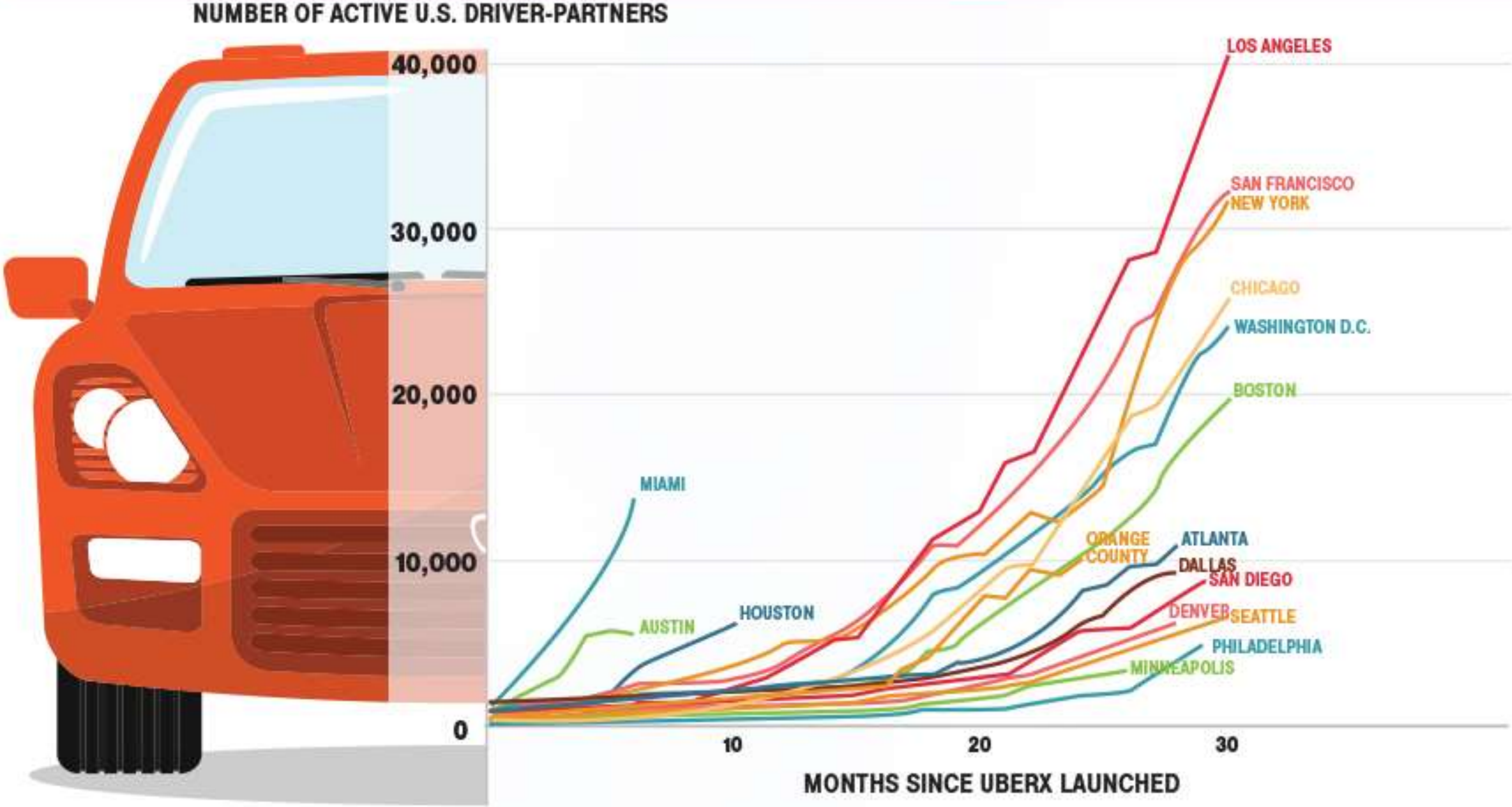
Vested Interests Hate Uber

NUMBER OF NEW DRIVER-PARTNERS STARTING EACH MONTH IN THE UNITED STATES



Note: Figure based on U.S. UberBLACK and uberX driver-partners who have joined since June 2012 (303,985 individuals), based on Uber data.

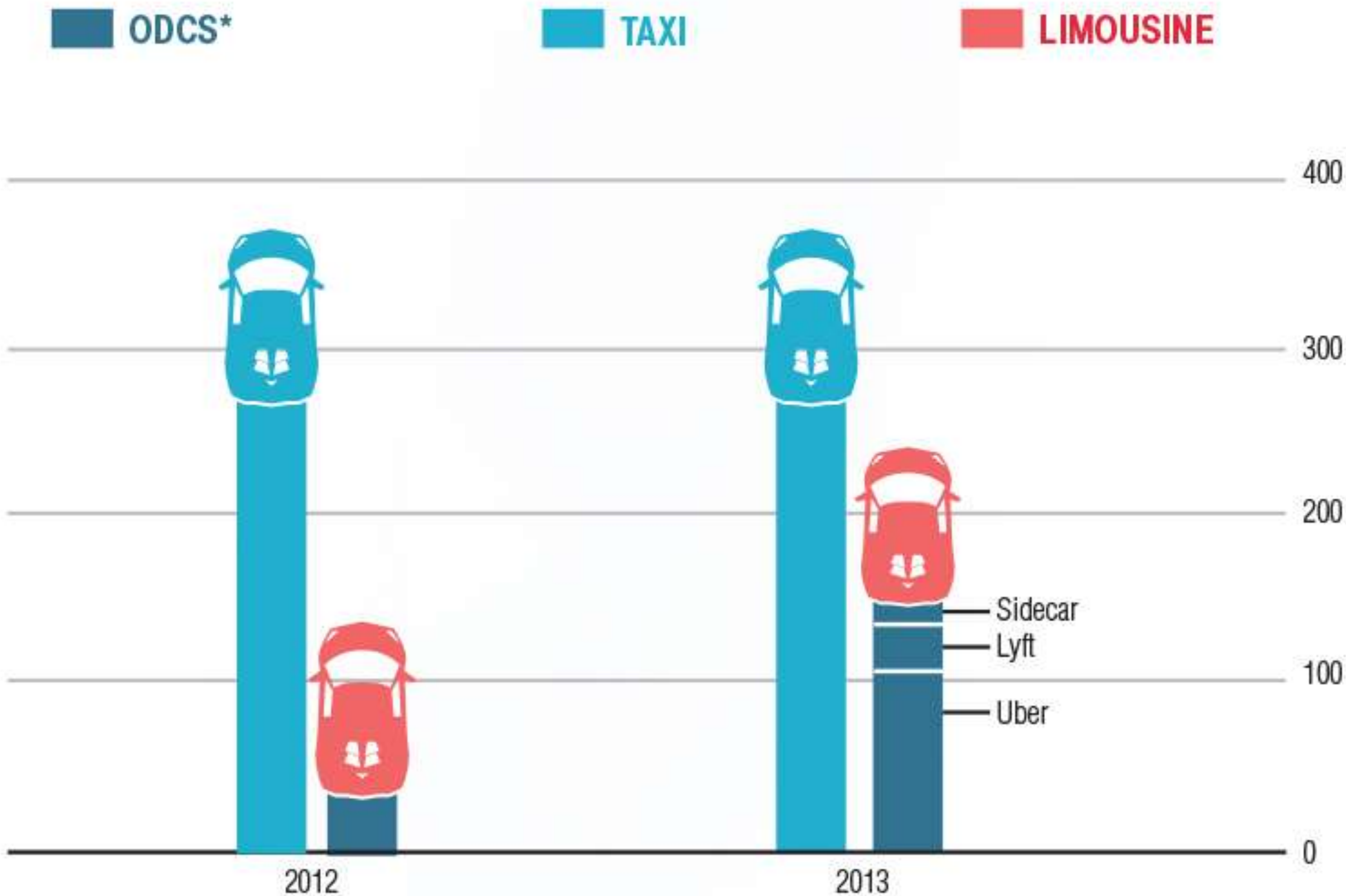
ACTIVE U.S. DRIVER-PARTNERS OVER TIME, BY CITY



Note: Figure reports the number of U.S. UberBLACK and uberX driver-partners making at least one trip in the specified month, indexed to the number of months since Uber began in the city or June 2012, whichever came later.

OVERTAKING

DRIVER-SERVICES MARKET IN SAN FRANCISCO, $M



Source: SFMTA

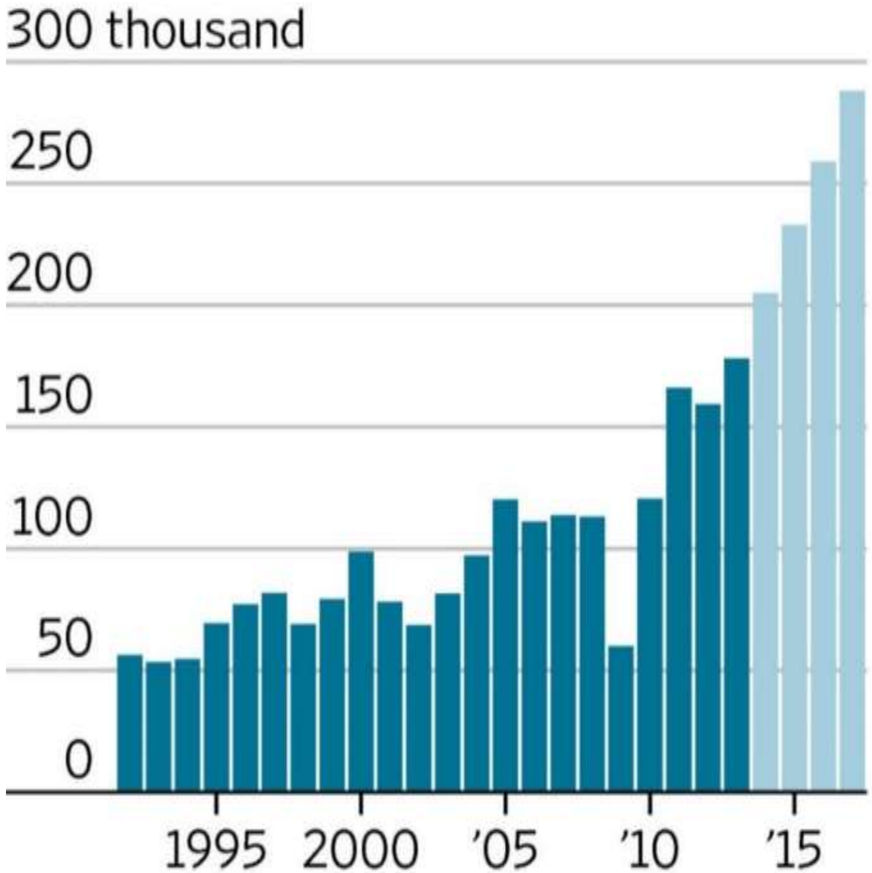
*On-demand cars

Looking Ahead:
Disruptive Forces Rule

Technology's Impacts on the Economy, the Workforce and the Insurance Industry Will Be Significant

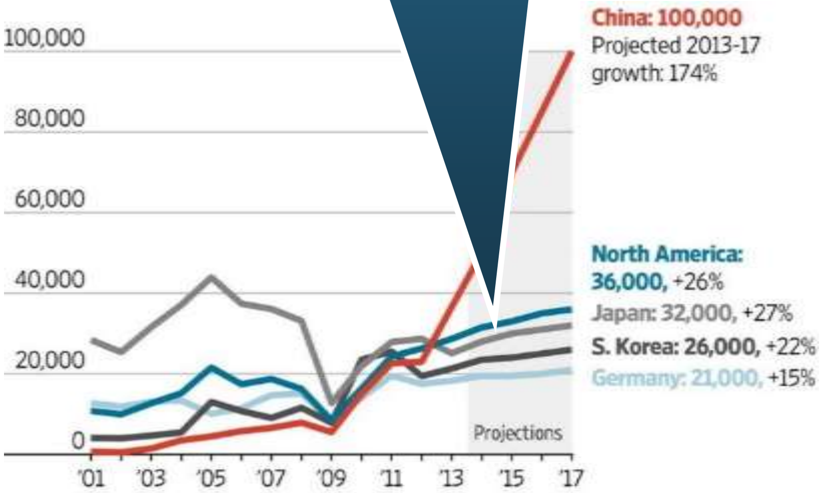
Worldwide Industrial Robot Installations, 1992-2017F

INSURANCE INFORMATION INSTITUTE



Worldwide installations of industrial robots exceeded 200,000 in 2014—a new record and will approach 300,000 by 2017

36,000 installations are expected in North America by 2017

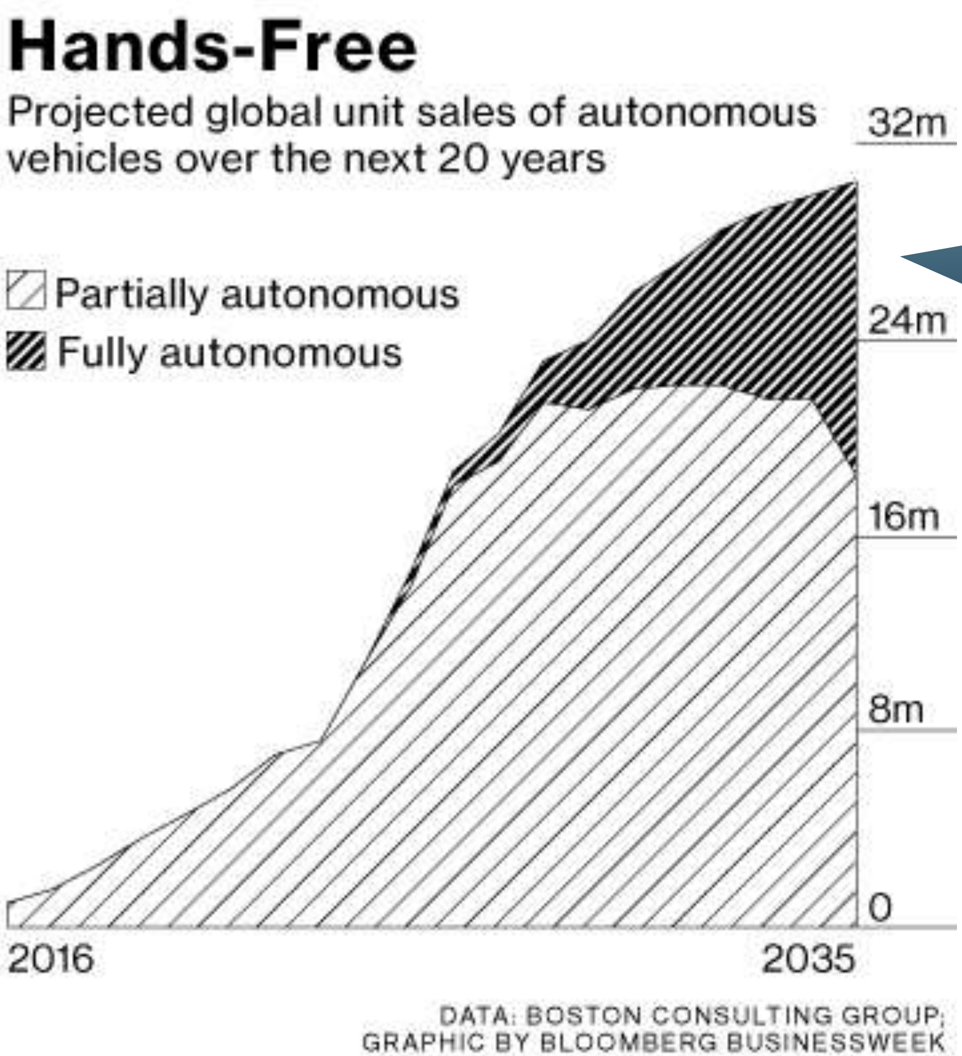


*Estimate.

Sources: *Outlook on World Robotics 2014*, International Federation of Robotics; Insurance Information Institute.

Future Shock: Many More Transformative Technologies Are Around the Corner

INSURANCE INFORMATION INSTITUTE



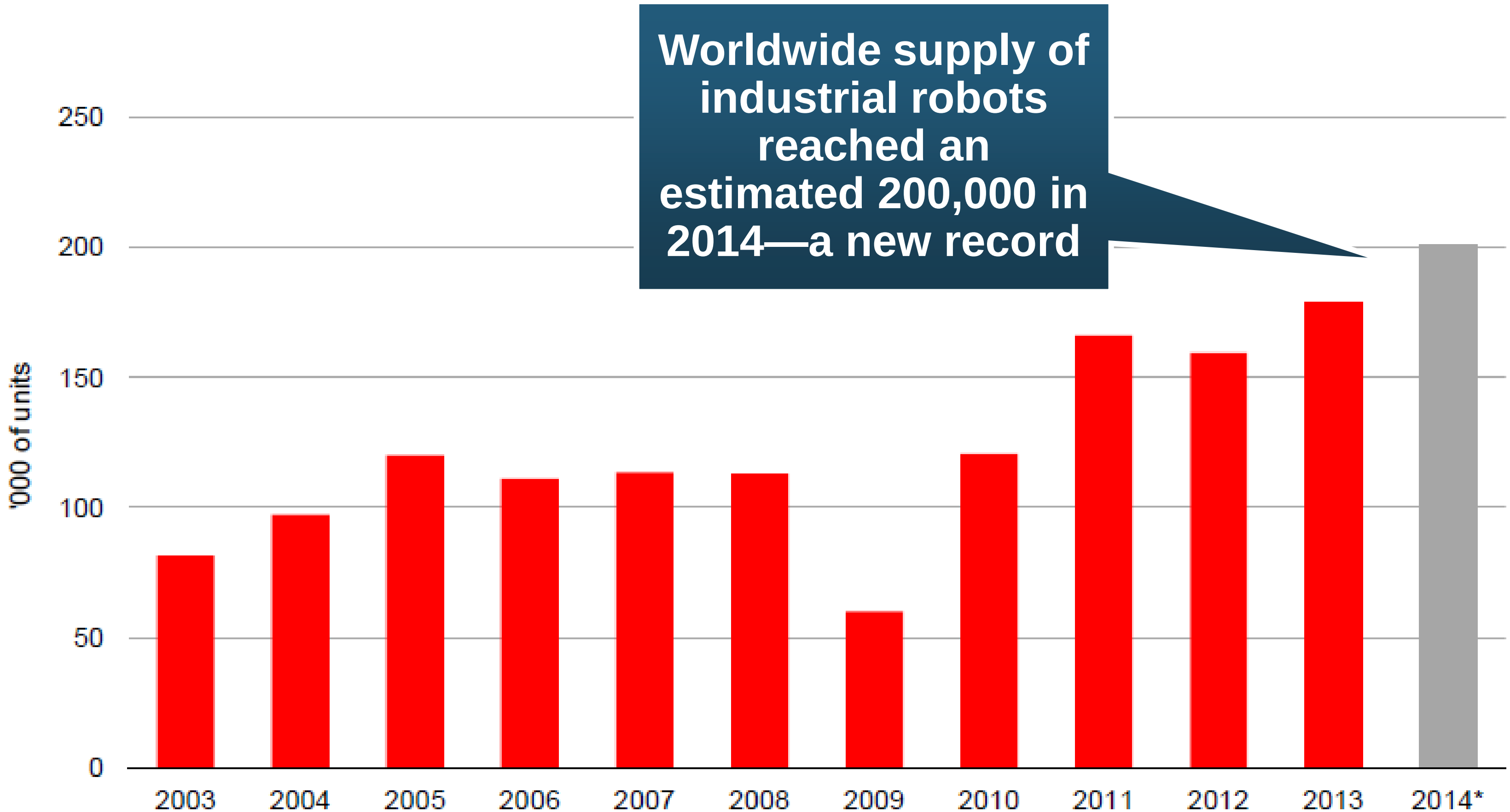
By 2035, it is estimated that 25% of new vehicle sales could be fully autonomous models *(more than 4 million people work in transportation occupations today)*

<u>Up Next</u>

- **Driverless cars**
- **Driverless trucks, trains, planes and ships**
- **Wearable devices**
- **Implantable devices**
- **Artificial intelligence**
- **Advanced robotics**

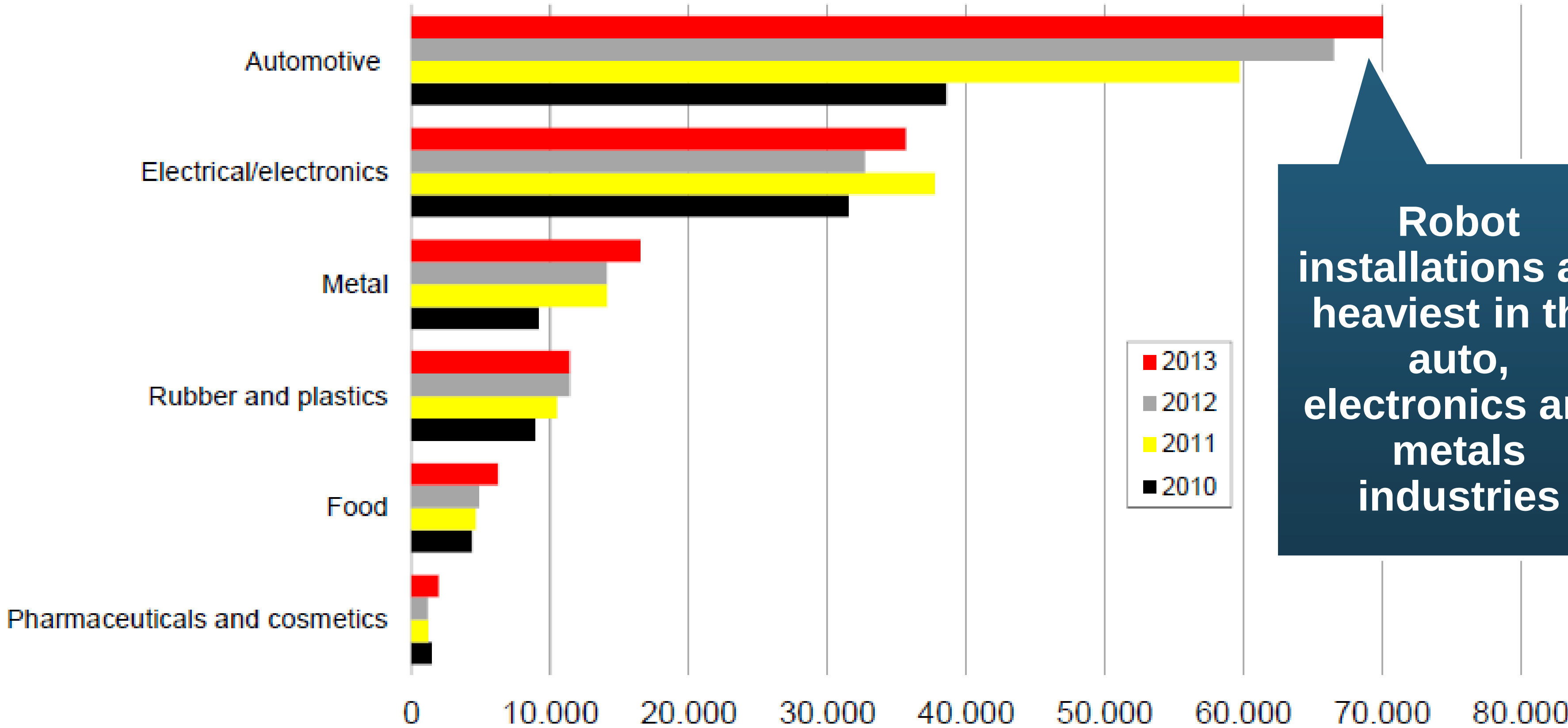
Source: Boston Consulting Group.

Worldwide Annual Supply of Industrial Robots, 2003-2014



*Estimate.
Sources: *Outlook on World Robotics 2014*, International Federation of Robotics; Insurance Information Institute.

Estimated Worldwide Annual Supply of Industrial Robots by Industry, 2010-2013



Robot installations are heaviest in the auto, electronics and metals industries

Sources: *Outlook on World Robotics 2014*, International Federation of Robotics; Insurance Information Institute.

INSURANCE INFORMATION INSTITUTE

Insurance Information Institute Online:

www.iii.org

Thank you for your time and your attention!

Twitter: twitter.com/bob_hartwig

Download at www.iii.org/presentations