Insurance Leading Through Disruption

Sean Kevelighan
Chief Executive Officer

March 10, 2021
We are the trusted source of unique, data-driven insights on insurance…

……to inform and empower consumers.
The Disruption Continuum

Catastrophes
COVID
Economics
INSURANCE
Geopolitical
Social Unrest
Technology
A New Milestone for Measuring Success

Economic Growth  Community Well-Being  Capital Protections  Resilience  Fairness & Equality
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
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
Insurance & Economic Leadership

Sustainable Business Model

2010

Bank Failures: 157

Insurance Impairments¹: 4

Policyholder Surplus:

$876B ~

End Q3/20

Strong Jobs Pool/Provider

2.8M Employed

Need to Fill 400K+ by 2022²

Economic Growth Promoter/Facilitator

$630B

3.0% US GDP³

Premium Taxes Paid⁴ $23.6B

Muni Bond Investment⁵ $500B

Charity/Volunteerism⁶ $280M

Stepping Up
America's Insurers: for Customers, Communities and Employees

The insurance industry is applying forward-thinking solutions to take care of its customers, communities and employees during the COVID-19 crisis

<table>
<thead>
<tr>
<th>Customers</th>
<th>Community</th>
<th>Employees</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auto insurers have returned $14 billion so far to customers' pockets around the country through premium relief</td>
<td>Insurers have pledged more than an estimated $280 million (according to III/Insurance Industry Charitable Foundation) in donations to national and local organizations fighting this pandemic on the frontlines</td>
<td>Employing more than 2.8 million Americans, Insurers are taking care of their employees—many pledging no layoffs during the ongoing crisis</td>
<td>Insurers are implementing innovative solutions to carry out daily operations while respecting social distancing</td>
</tr>
</tbody>
</table>
FAIR Campaign Provided a Credible, Uniform Industry Voice Amid Increased Scrutiny

- The "Future of American Insurance & Reinsurance (FAIR)" campaign, launched during a pivotal week of increased scrutiny for the industry, has been critical in the business interruption debate.
- FAIR's platform has grown to include a collection of valuable digital assets, presenting key messaging in a digestible manner to stakeholders via various channels (e.g., website, outreach, social media, digital campaigns).
FAIR Campaign Educated Media and Created Positive Media Coverage for Insurers

- Through education and outreach to reporters, FAIR has been able to better contain spikes in negative coverage on pandemic-related business interruption lawsuits.
- FAIR campaign also prompted a steady stream of content highlighting favorable court rulings for insurers and advocating for government-led solutions to pandemic insurance.
- Given the decrease in BI coverage volume, FAIR will transition to other emerging industry issues in 2021.

Source: Meltwater
Economy Drives P/C Insurance Industry Premiums:
Direct Premium Growth (all P/C lines) vs. Nominal GDP: Quarterly YOY Pct. Change

Economic Environment: Negative

Sources: NAIC data sourced through S&P Global Intelligence; Federal Reserve Bank of St. Louis (FRED); Insurance Information Institute.
Net Written Premium Growth
2010-2020 Yearly as of Q3 (all P/C lines)

premium growth: neutral

Sources: NAIC data sourced through S&P Global Intelligence; Insurance Information Institute.
Combined Ratio
2001-2020 Yearly as of Q3 (all P/C lines)

- **Combined Ratio:** Neutral
- **Data through Q3**
- **Sources:** NAIC data sourced through S&P Global Intelligence; Insurance Information Institute.

- **Heavy Use of Reinsurance Lowered Net Losses.**
- **Best Combined Ratio Since 1949 (87.6):**
- **Higher CAT Losses, Shrinking Reserve Releases, Toll of Soft Market:**
- **Sandy:**
- **Hurricanes, Wildfires Drive CR Higher.**
- **3 Consecutive Years of U/W Profits; 1st time since 1971-73:**

Graph showing yearly combined ratios from 2001 to 2020 with key events and trends.
Key Sources of P/C Insurer Profits

$ Billions

Net investment gains  Underwriting gains/losses

Through third quarter. Not adjusted for inflation.
Data are before taxes and exclude extraordinary items.
Source: NAIC data, sourced from S&P Global Market Intelligence.

Lower investment income means UW income has to grow.
Net Income After Taxes
2010-2020 Yearly as of Q3

Net Income After Tax: Positive

Sources: NAIC data sourced through S&P Global Intelligence; Insurance Information Institute.
Policyholder Surplus: Positive

2007-2020 Quarterly

($ Billions)

Surplus as of 9/30/20 stood at $875.6B, an all-time high

2007:Q3 Pre-Crisis Peak

Drop in 2011 due to very large CAT losses

Drop in 2018 due to unrealized investment losses

Policyholder Surplus: Positive

Sources: NAIC data sourced through S&P Global Intelligence; Insurance Information Institute.
Industry Outlook

**2021 Commentary**

Healthy premium growth this year thanks to recovery and hard market

- Interest rates will stay low, pressuring rates and the need for underwriting profits.
- Uncertainty from COVID will continue to put pressure on rates.
- We assume an average year for cats.

Data sources: NAIC data sourced through S&P Global Market Intelligence, MarketScout, Blue Chip Economic Indicators, Congressional Budget Office, PCS, Aon, Munich Re, Energy Information Agency, FRED (Federal Reserve Bank of St. Louis).

Analysis: Insurance Information Institute, Milliman.
**Homeowners**

**PPI for Homeowners Insurance**

- Graph showing percentage change from year prior from 2017 to 2021.
- The graph indicates a steady increase from 2017 to 2020, peaking at 1.5% in 2019.

**Thousands of New Privately-Owned Housing Units**

- Graph showing thousands of new privately-owned housing units from 2019 to 2020.
- The number increases from 1,669 in 2019 to 1,669 in 2020.

**Calendar Year Written Premium and Net Combined Ratio Projections**

- Bar chart showing projections for combined ratio and premium growth from 2015 to 2022.
- Key points:
  - 2019: Combined Ratio 99%, Premium Growth 5%
  - 2020E: Combined Ratio 104%, Premium Growth 5%
  - 2021F: Combined Ratio 100%, Premium Growth 5%
  - 2022F: Combined Ratio 100%, Premium Growth 5%

**2020/2021 Commentary**

- Minimal impact from pandemic, recession
- Multiple small- to medium-sized cats hurt 2020 results

**Watch for:**

An early take: La Niña portends above-average hurricane season.

---

Data sources: NAIC data sourced through S&P Global Market Intelligence, MarketScout, Blue Chip Economic Indicators, Congressional Budget Office, PCS, Aon, Munich Re, Energy Information Agency, FRED (Federal Reserve Bank of St. Louis).

Analysis: Insurance Information Institute, Milliman.
Personal Auto

YTD Vehicle Miles Traveled Through December

Total Vehicle Sales

Calendar Year Written Premium and Net Combined Ratio Projections

2020/2021 Commentary

- Excellent 2020 results from changes in driving patterns.
- Premium growth and underwriting results will return to normal.

Watch for:
Interest remains high in telematics; will post-pandemic stay-at-homes drive more near home?

Data sources: NAIC data sourced through S&P Global Market Intelligence, MarketScout, Blue Chip Economic Indicators, Congressional Budget Office, PCS, Aon, Munich Re, Energy Information Agency, FRED (Federal Reserve Bank of St. Louis).
Analysis: Insurance Information Institute, Milliman.
Commercial Auto

Commercial Auto Rate Changes

% Chg from Yr Prior

4 Week Moving Average US Distillate Fuel Oil (Diesel) Supplied

% Chg from Yr Prior

Calendar Year Written Premium and Net Combined Ratio Projections

% Chg from Yr Prior

2020/2021 Commentary

• Q2-Q3 close in on underwriting profits!
• Line was hard-hit by fall in exposures but will bounce back in 2021.

Watch for:
Were Q2/Q3 a fluke?

Data sources: NAIC data sourced through S&P Global Market Intelligence, MarketScout, Blue Chip Economic Indicators, Congressional Budget Office, PCS, Aon, Munich Re, Energy Information Agency, FRED (Federal Reserve Bank of St. Louis).
Analysis: Insurance Information Institute, Milliman.
**Commercial Property**

**Commercial Property Rate Change**

- 2009:Q2 to 2020:Q4: % Chg from Yr Prior
- 2009:Q2: 9%
- 2009:Q4: -3%
- 2010:Q2: 30%
- 2010:Q4: 20%
- 2011:Q2: 10%
- 2011:Q4: 0%
- 2012:Q2: 5%
- 2012:Q4: 6%
- 2013:Q2: 6%
- 2013:Q4: 6%
- 2014:Q2: 6%
- 2014:Q4: 6%
- 2015:Q2: 6%
- 2015:Q4: 6%
- 2016:Q2: 6%
- 2016:Q4: 6%
- 2017:Q2: 6%
- 2017:Q4: 6%
- 2018:Q2: 6%
- 2018:Q4: 6%
- 2019:Q2: 6%
- 2019:Q4: 6%
- 2020:Q2: 6%
- 2020:Q4: 6%

**Calendar Year Written Premium and Net Combined Ratio Projections**

- 2015: Premium Growth: 94%
- 2016: Combined Ratio: 102%
- 2017: DWP Growth: 7%
- 2018: NWP Growth: 6%
- 2019: 87%
- 2020: F: 88%
- 2021: E: 0%
- 2022: F: 5%

**2020/2021 Commentary**

- Not just hurricanes – wildfires, derechos, tornadoes made it a record for number of cat events.
- Hard market brightens results – if cats stay calm.

**Watch for:**
Vacancies could slowly rise as businesses adjust their need for space in the new flexible workplace.

---

Data sources: NAIC data sourced through S&P Global Market Intelligence, MarketScout, Blue Chip Economic Indicators, Congressional Budget Office, PCS, Aon, Munich Re, Energy Information Agency, FRED (Federal Reserve Bank of St. Louis).
Analysis: Insurance Information Institute, Milliman.
**General Liability**

**Liability Rate Changes**

![Chart showing Liability Rate Changes]

% Chg from Yr Prior

-10% to 15%


**Advance Retail Sales**

![Chart showing Advance Retail Sales]

% Chg from Qtr Prior

-10% to 20%


**Calendar Year Written Premium and Net Combined Ratio Projections**

![Chart showing Calendar Year Written Premium and Net Combined Ratio Projections]

Combined Ratio

95% to 115%


Premium Growth

-10% to 30%


**2020/2021 Commentary**

- Social inflation has been expanding from commercial auto to this line, but rate increases will improve results.
- Pandemic liability will affect results.

**Watch for:**

Continued rate increases, especially in lines whose rates run hot and cold, like D&O.

---

Data sources: NAIC data sourced through S&P Global Market Intelligence, MarketScout, Blue Chip Economic Indicators, Congressional Budget Office, PCS, Aon, Munich Re, Energy Information Agency, FRED (Federal Reserve Bank of St. Louis).

Analysis: Insurance Information Institute, Milliman.
Workers’ Compensation

Rate Changes

<table>
<thead>
<tr>
<th>Year</th>
<th>% Chg from Yr Prior</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>-12%</td>
</tr>
<tr>
<td>2015</td>
<td>-9%</td>
</tr>
<tr>
<td>2016</td>
<td>-9%</td>
</tr>
<tr>
<td>2017</td>
<td>-9%</td>
</tr>
<tr>
<td>2018</td>
<td>-9%</td>
</tr>
<tr>
<td>2019</td>
<td>-9.7%</td>
</tr>
</tbody>
</table>

Employee Compensation

<table>
<thead>
<tr>
<th>Quarter</th>
<th>% Chg from Yr Prior</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016Q1</td>
<td>6%</td>
</tr>
<tr>
<td>2016Q2</td>
<td>3%</td>
</tr>
<tr>
<td>2016Q3</td>
<td>3%</td>
</tr>
<tr>
<td>2016Q4</td>
<td>3%</td>
</tr>
<tr>
<td>2017Q1</td>
<td>3%</td>
</tr>
<tr>
<td>2017Q2</td>
<td>3%</td>
</tr>
<tr>
<td>2017Q3</td>
<td>3%</td>
</tr>
<tr>
<td>2017Q4</td>
<td>3%</td>
</tr>
<tr>
<td>2018Q1</td>
<td>3%</td>
</tr>
<tr>
<td>2018Q2</td>
<td>3%</td>
</tr>
<tr>
<td>2018Q3</td>
<td>3%</td>
</tr>
<tr>
<td>2018Q4</td>
<td>3%</td>
</tr>
<tr>
<td>2019Q1</td>
<td>3%</td>
</tr>
<tr>
<td>2019Q2</td>
<td>3%</td>
</tr>
<tr>
<td>2019Q3</td>
<td>3%</td>
</tr>
<tr>
<td>2019Q4</td>
<td>3%</td>
</tr>
<tr>
<td>2020Q1</td>
<td>3%</td>
</tr>
<tr>
<td>2020Q2</td>
<td>3%</td>
</tr>
<tr>
<td>2020Q3</td>
<td>3%</td>
</tr>
<tr>
<td>2020Q4</td>
<td>3%</td>
</tr>
</tbody>
</table>

Calendar Year Written Premium and Net Combined Ratio Projections

<table>
<thead>
<tr>
<th>Year</th>
<th>Combined Ratio</th>
<th>DWP Growth</th>
<th>NWP Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>80%</td>
<td>85%</td>
<td>90%</td>
</tr>
<tr>
<td>2016</td>
<td>85%</td>
<td>90%</td>
<td>95%</td>
</tr>
<tr>
<td>2017</td>
<td>90%</td>
<td>95%</td>
<td>100%</td>
</tr>
<tr>
<td>2018</td>
<td>95%</td>
<td>99%</td>
<td>104%</td>
</tr>
<tr>
<td>2019</td>
<td>99%</td>
<td>99%</td>
<td>101%</td>
</tr>
<tr>
<td>2020 E</td>
<td>93%</td>
<td>93%</td>
<td>93%</td>
</tr>
<tr>
<td>2021 F</td>
<td>94%</td>
<td>94%</td>
<td>94%</td>
</tr>
<tr>
<td>2022 F</td>
<td>94%</td>
<td>94%</td>
<td>94%</td>
</tr>
</tbody>
</table>

2020/2021 Commentary

- Through Q4, 2020 results were similar to 2019.
- WC exposures usually recover from recession more slowly than other lines.
- Exposures further depressed by the stay-at-homes who stay at home post pandemic.

Watch for:
Expansion of presumptive claims; long-haul COVID cases. How will the variant coronavirus affect the return to work?

Data sources: NAIC data sourced through S&P Global Market Intelligence, MarketScout, Blue Chip Economic Indicators, Congressional Budget Office, PCS, Aon, Munich Re, Energy Information Agency, FRED (Federal Reserve Bank of St. Louis).
Analysis: Insurance Information Institute, Milliman.
Objective

Drive **behavioral change** to help people and communities better manage risk and become more resilient
Strategies
Create a resilience movement giving households and communities a stake in risk mitigation

Educate and empower stakeholders about protection gaps and their impact on their recovery

Fast-track the use of cost-effective tools to drive risk mitigation, transfer and retention
Action Partners

- Triple-I Members
- Carriers, Reinsurers and Brokers
- Insurance Trade Associations
- Nonprofits and Foundations
- Regulators
- Academia
Resilience Blog

UNCATEGORIZED

Lightning Rounds: Investing in disaster and risk management technology

July 17, 2020 The Insurance Information Institute (Triple-I) yesterday hosted a webinar showcasing technology companies whose products mitigate the impact of severe [...]

HURRICANES

Hurricane Modeling and Forecasting: Marrying Technology to Local Knowledge

FLOODS

Mangroves and Coral Reefs: How Insurance Can Protect the Protectors
Final Thoughts
Thank you!

www.iii.org