



INSURANCE
INFORMATION
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Insurance Market Trends and More

James Lynch
chief actuary

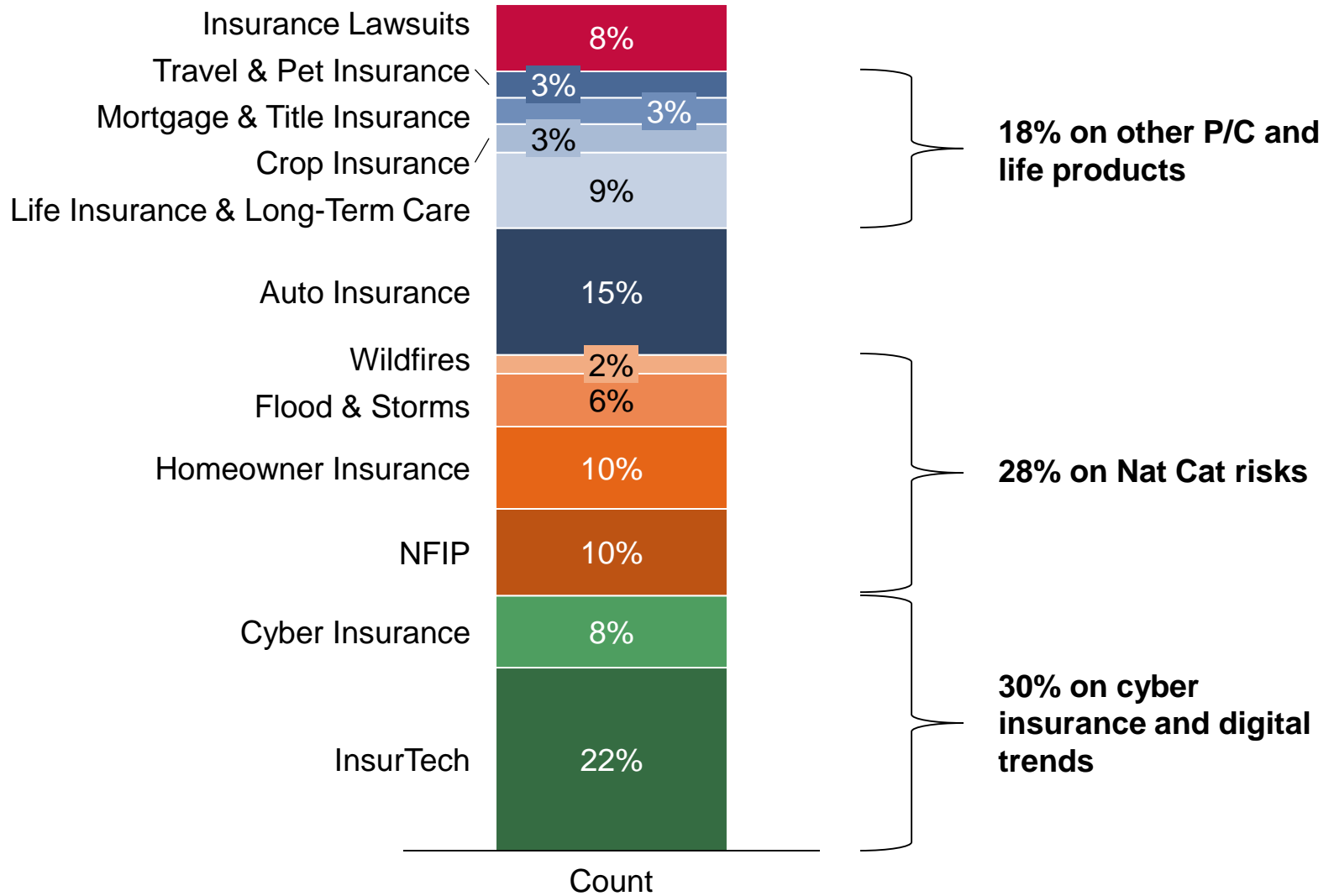
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I.I.I. Mission Statement

Improving public understanding
of insurance...

...what it does and how it works.

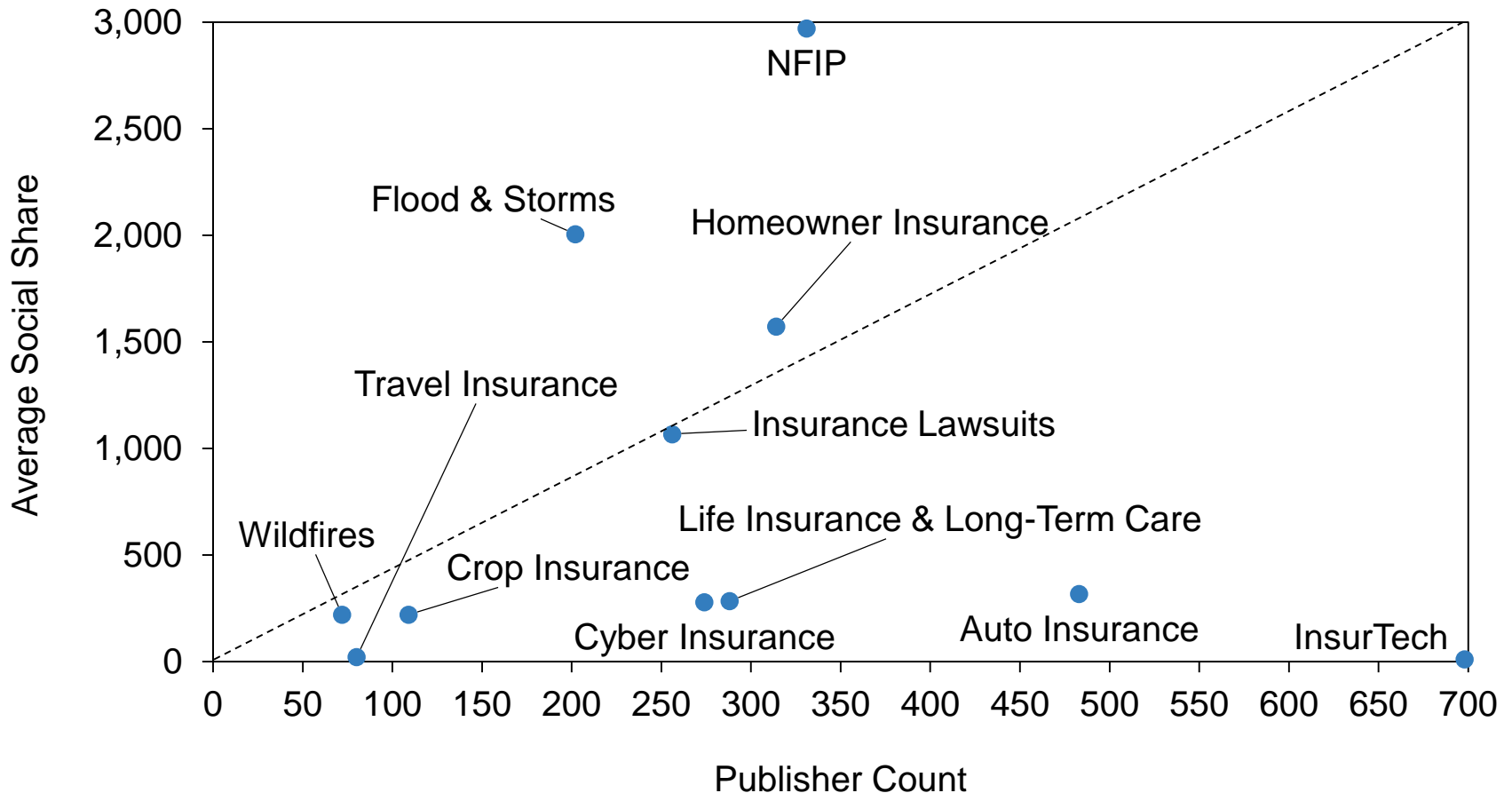
Over The Past 18 Months, However, Insurance Coverage Has Focused On...



Source: Quid, HPS Analysis, Excludes Health Insurance And Company Performance

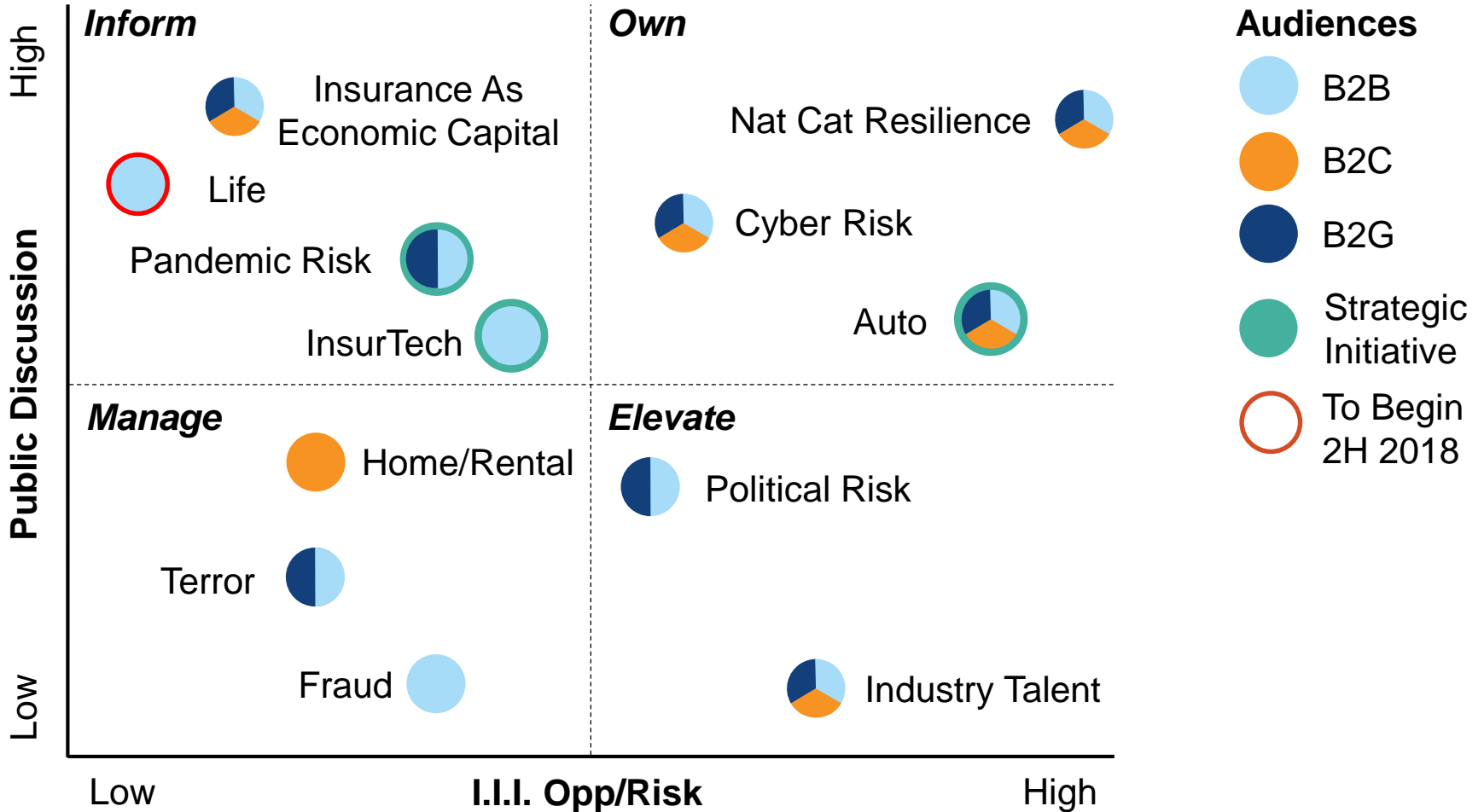
Social Media Focuses More On NatCat Than Cyber, Auto and InsurTech

Traditional Media Coverage vs Social Shares



2018 I.I.I. Issue Focus Areas

Mapping Where Our Issues Stand As We Approach Q3



Disruptive Forces in the World – The New Norm

Catastrophes



Economics

Geopolitical

Technology

Catastrophes



Flooding events spurred 73% of federal disaster declarations



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



\$14B insured wildfire losses; California estimated ~\$11B



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



Auto: Reaching epidemic proportions

Cyber: Risk continuing to increase

Economics



Strengthening
Fundamentals:

All OECD economies
growing – 1st in 10 yrs.



Tepid monetary policies;
keeping interest rates at
historical lows — moving
slow...



Fiscal policies, i.e. tax
reform and deregulation
surfacing.

Geopolitical



Rise in Nationalism: Brexit,
U.S. – Populist vote in
Europe tripled since 2000*.



Political gridlock in
Congress, with 2018
election lurking.



“Major conflict threat
greatest since WWII” – US
Intelligence Report to
Congress

* Source: Harvard University, Tony Blair Institute

Technology



Robotics
Artificial Intelligence

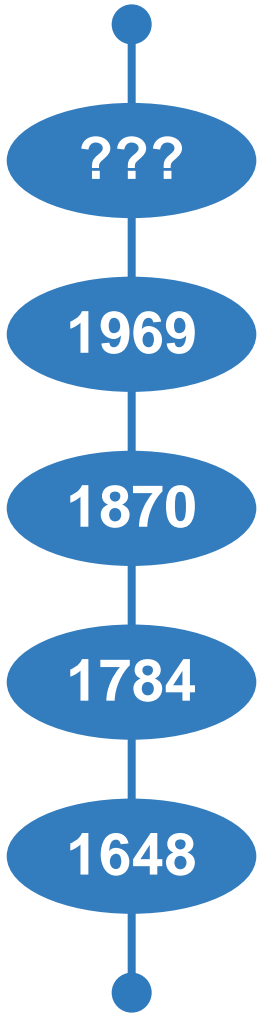


“The Fourth Industrial
Revolution”
Cyber meets Physical



Big Data
Internet of Things
Social Economy

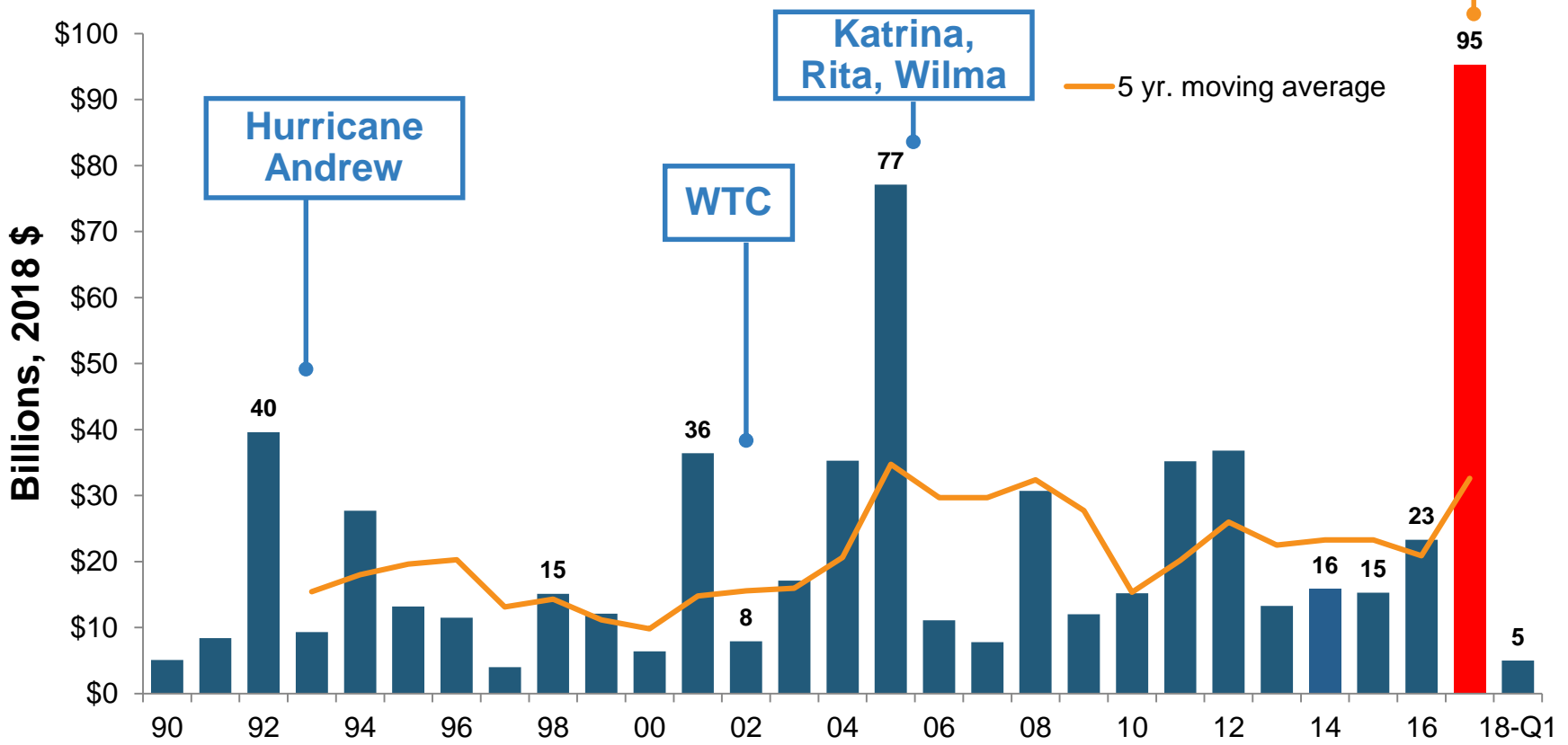
Insurance Leading Throughout History



Cyber-Physical Systems

Insurance Industry Economic Trends

U.S. Insured Catastrophe Losses



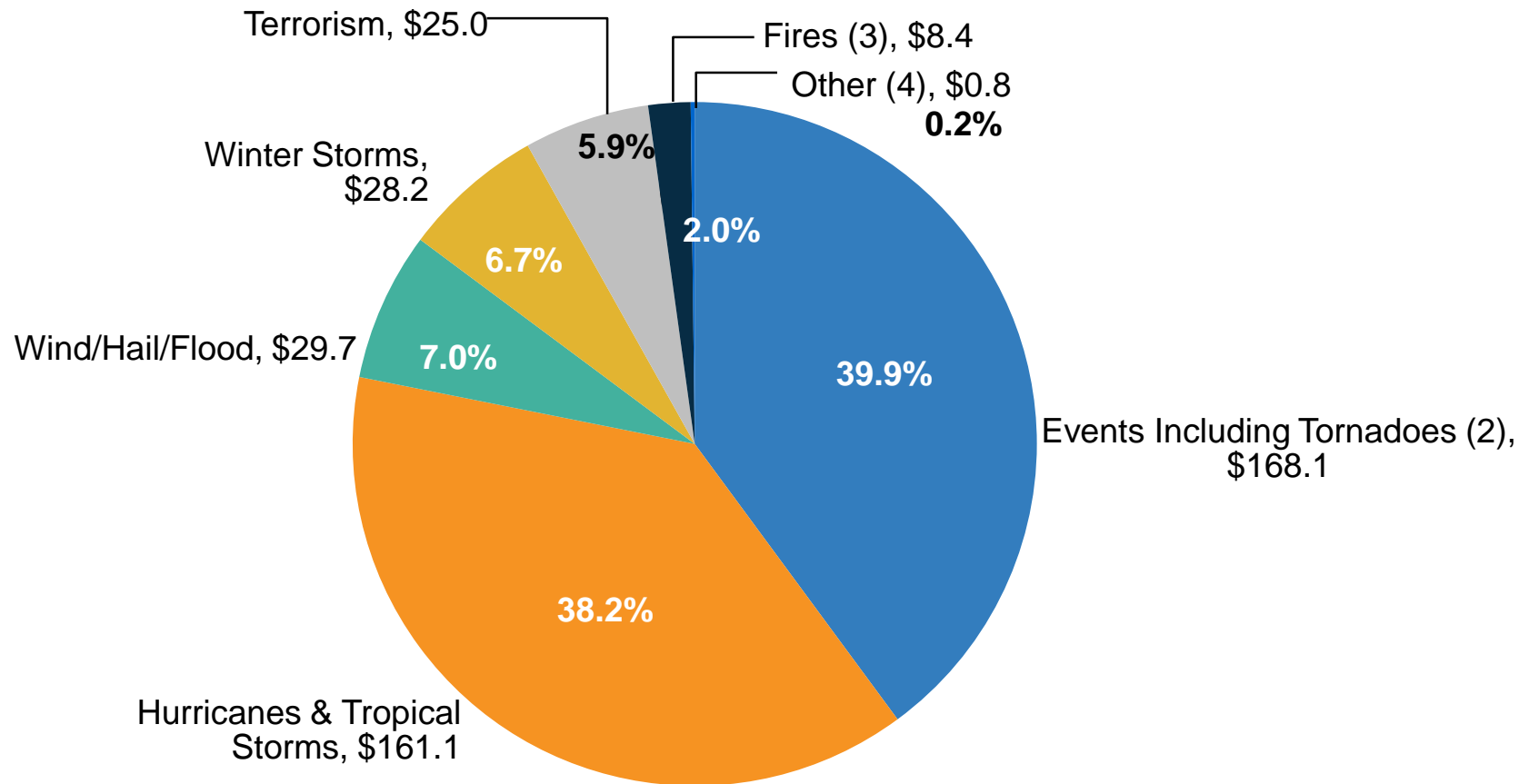
2017 – Worst Ever for U.S. Insured Catastrophe Losses. Average Insured Loss per Year for 1989-2017 is \$22.4 B.

*2017: Inflation-adjusted PCS estimate, subject to change.

Sources: Property Claims Service, a Verisk Analytics business; Insurance Information Institute.



Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1997–2016¹



(1) Adjusted for inflation through 2016 by ISO using the GDP implicit price deflator. Excludes catastrophes causing direct losses less than \$25 million in 1997 dollars. Does not include flood damage covered by the federally administered National Flood Insurance Program.

(2) Includes other wind, hail, and/or flood losses associated with catastrophes involving tornadoes.

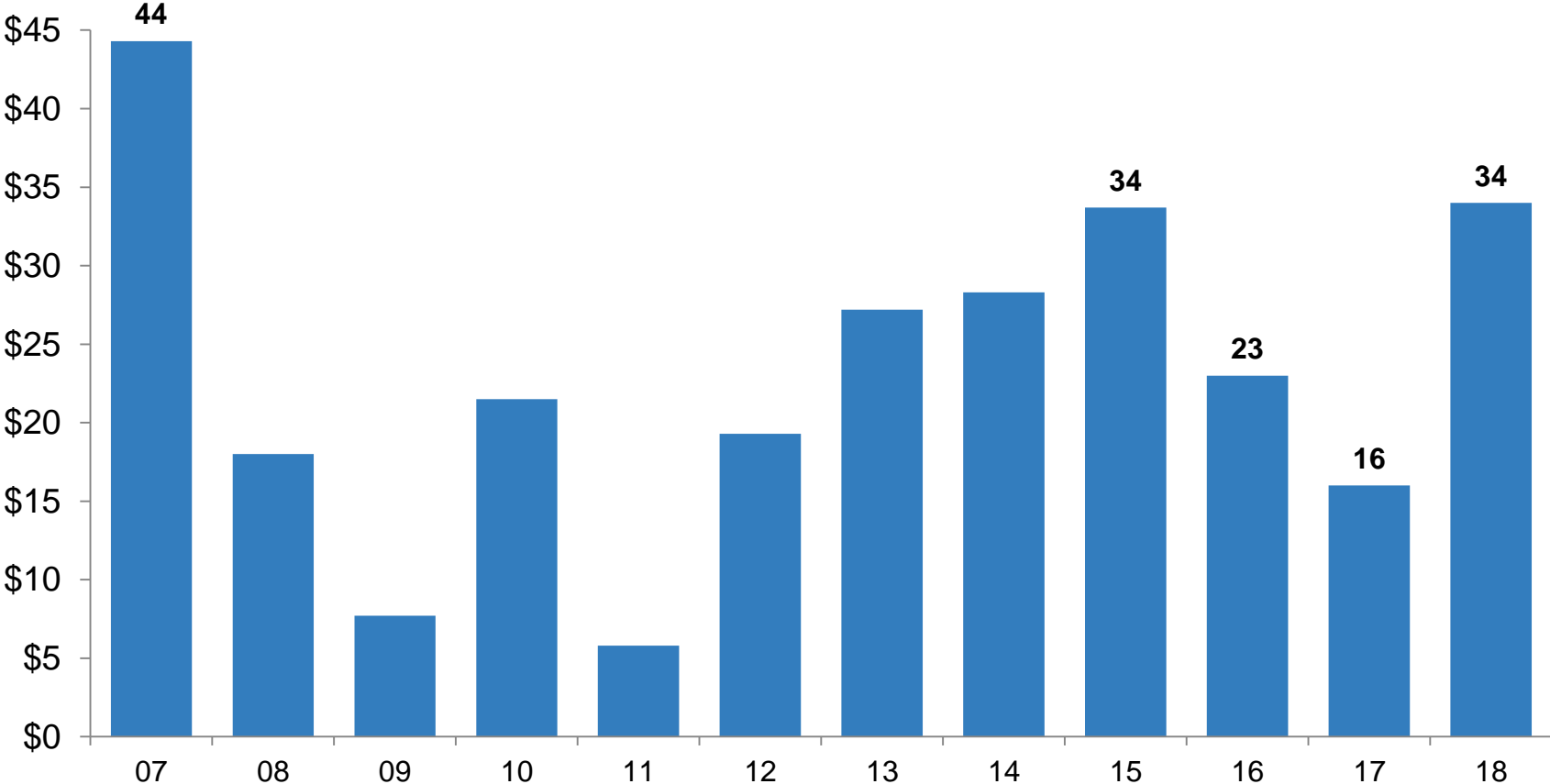
(3) Includes wildland fires.

(4) Includes losses from civil disorders, water damage, utility service disruptions, and any workers compensation catastrophes generating losses in excess of PCS's threshold after adjusting for inflation.



P/C Industry Net Income After Taxes*, First Half of Year

Billions, 2018 dollars

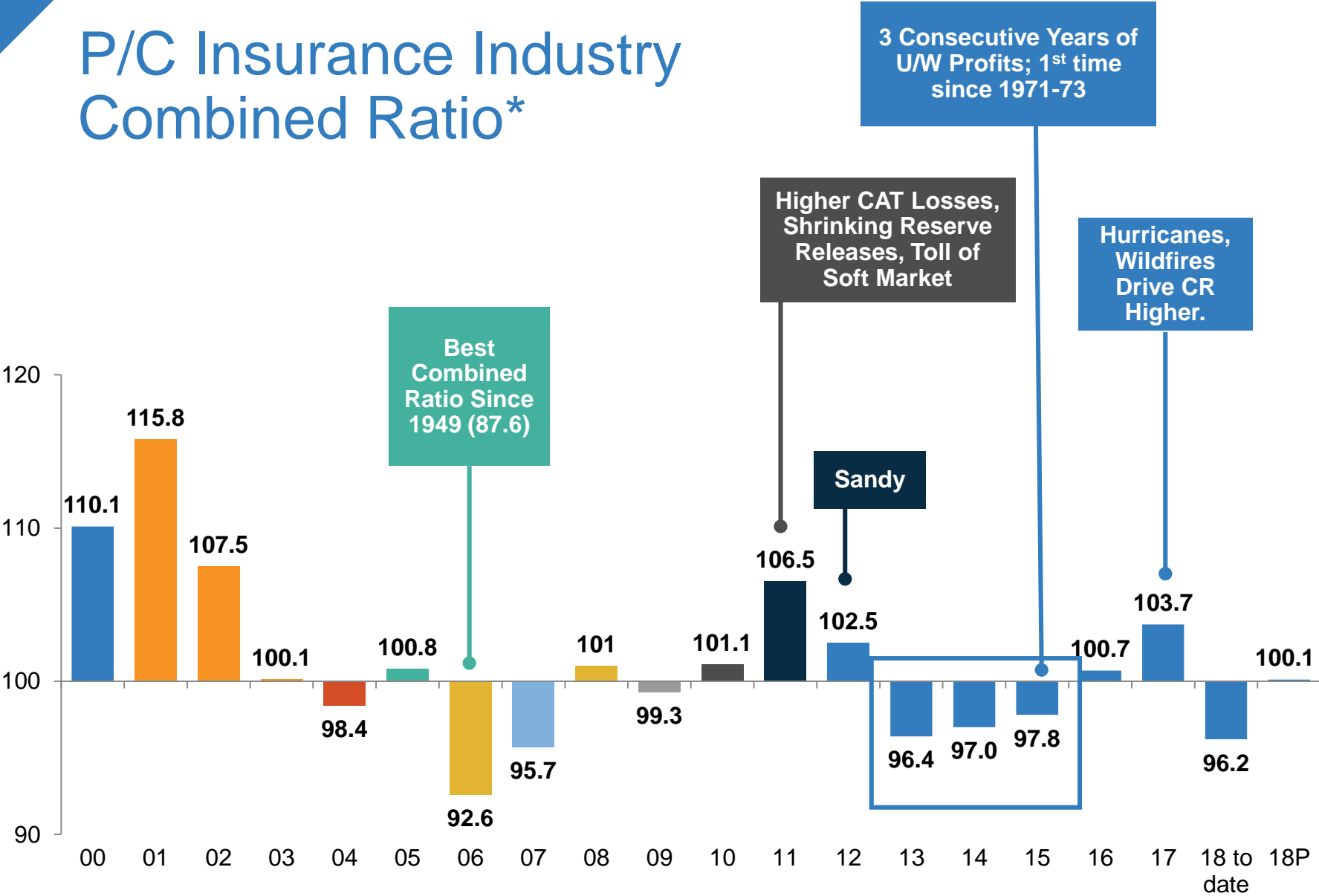


Industry Income Doubled in the First Half of 2018 vs. a Year Ago.



*adjusted for inflation using the BLS CPI calculator, to 2018 dollars
Sources: ISO, a Verisk Analytics company; Insurance Information Institute.

P/C Insurance Industry Combined Ratio*



Through Q2.

*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.

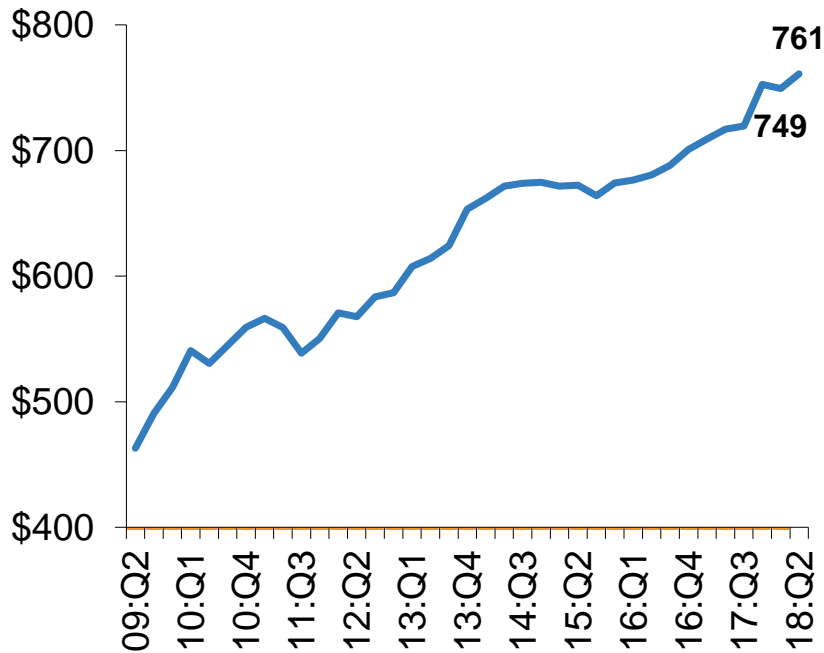
Sources: A.M. Best; ISO, a Verisk Analytics company; I.I.I. projection for 2018.



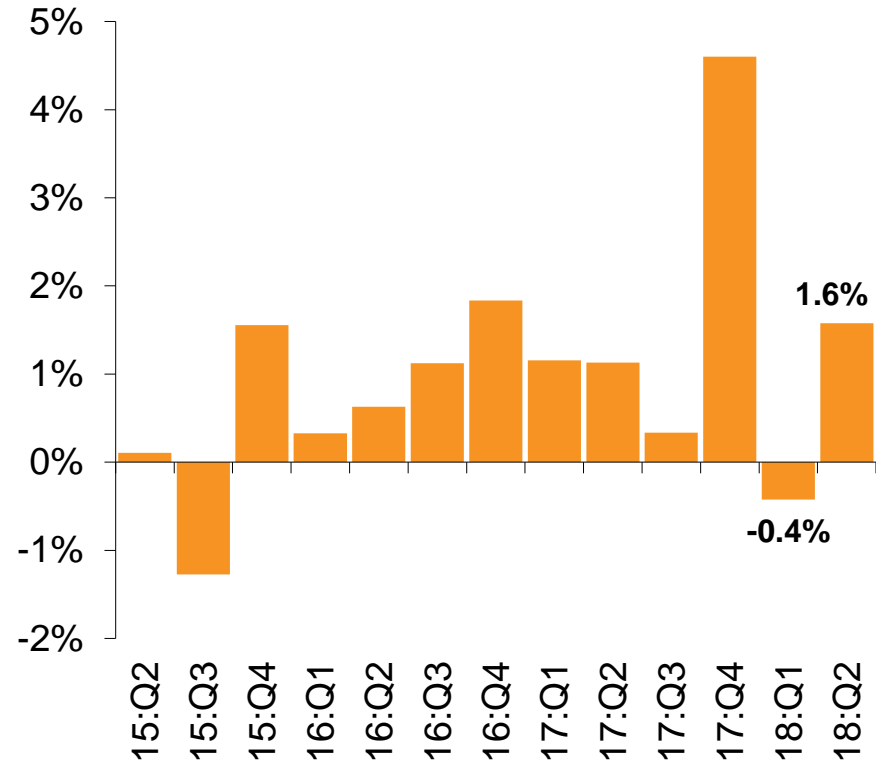
Policyholder Surplus By Quarter

Amount of Surplus

Billions



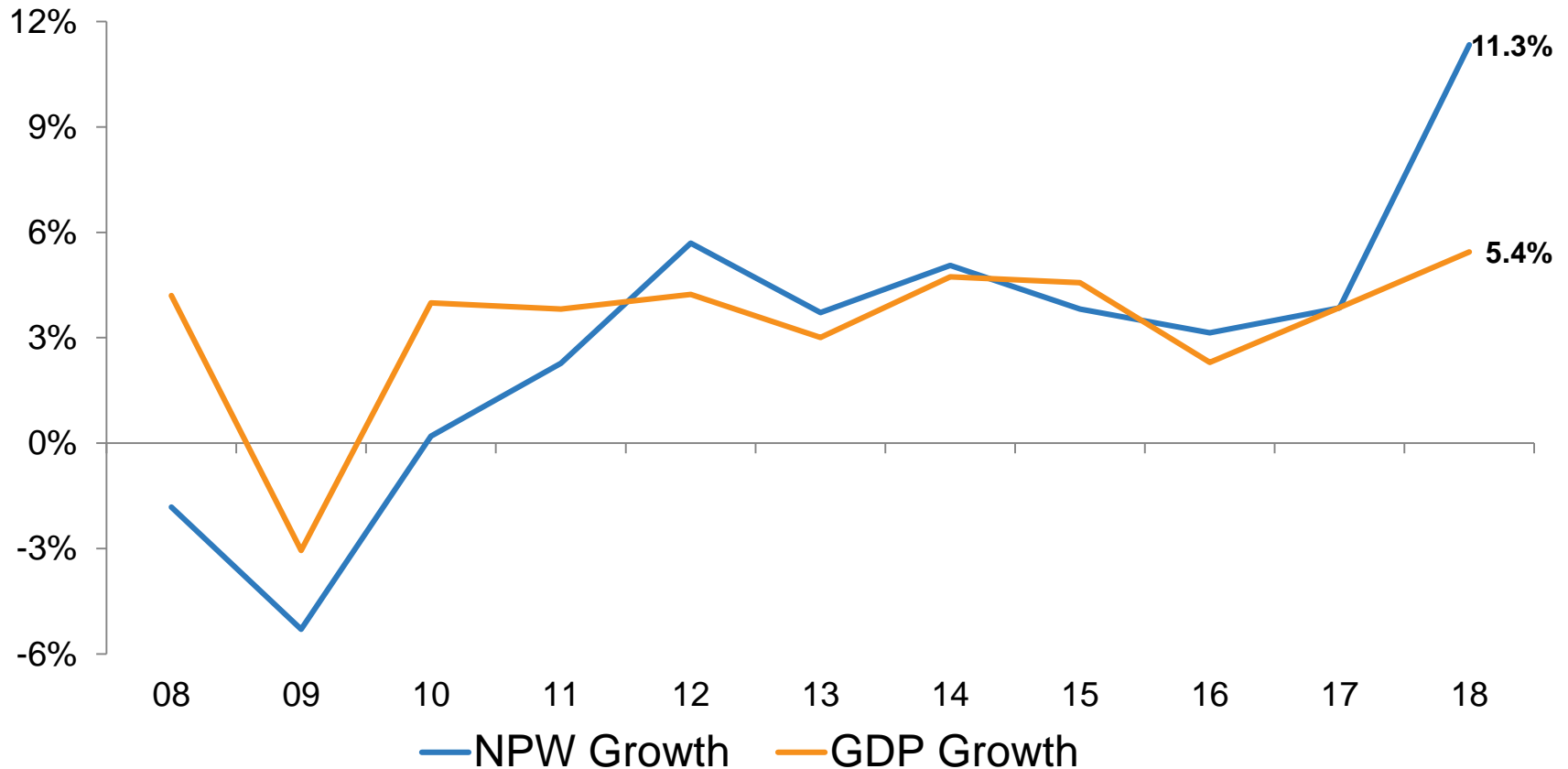
Change from Prior Quarter



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



Net Premium Growth, Annual Change



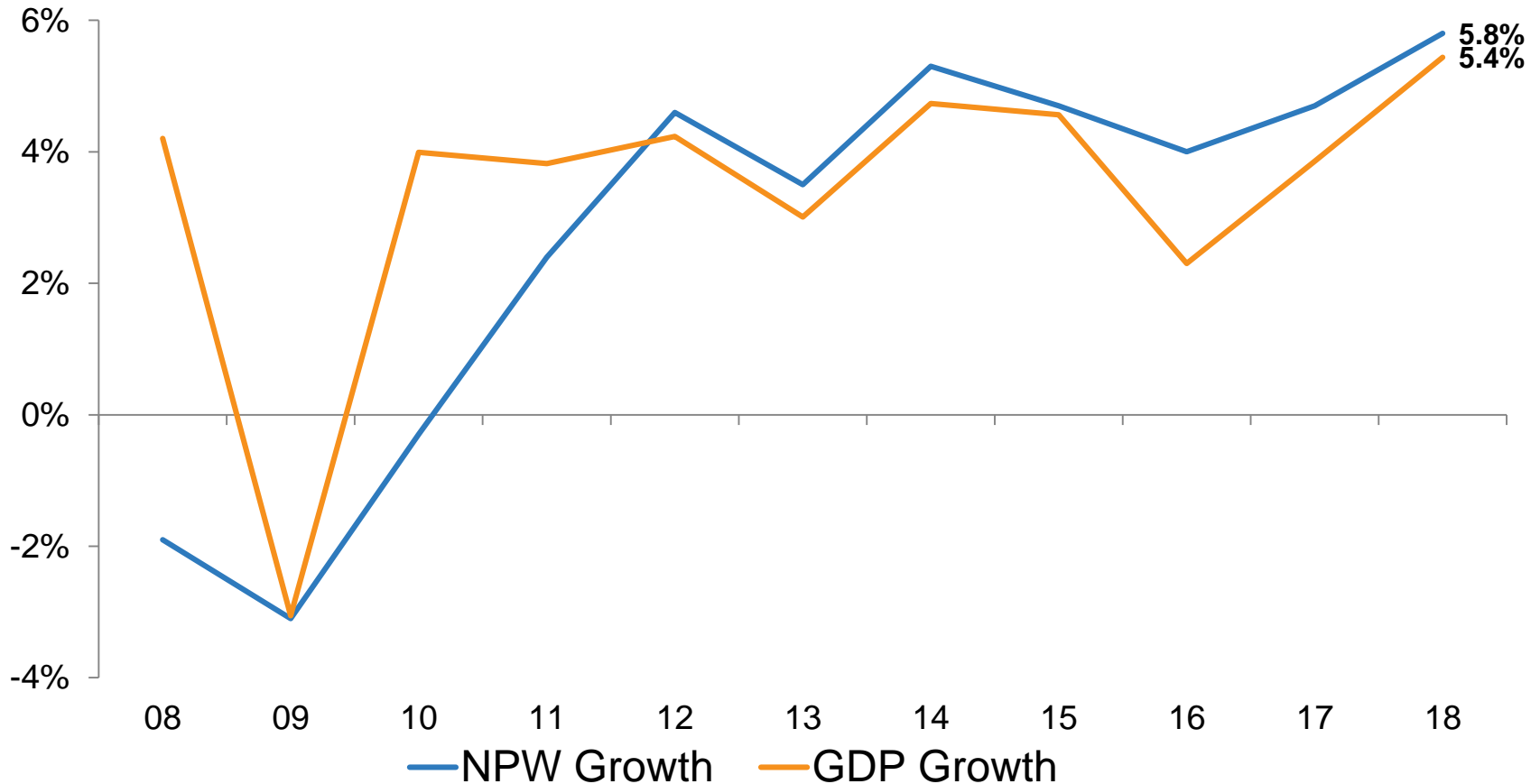
Tax Reform Led to Spike in Net Written Premium in 2018 - \$314B at Second Quarter.



All data through second quarter.

SOURCES: NAIC data sourced through S&P Global Intelligence, Bureau of Economic Affairs, Insurance Information Institute.

Direct Premium Growth, Annual Change



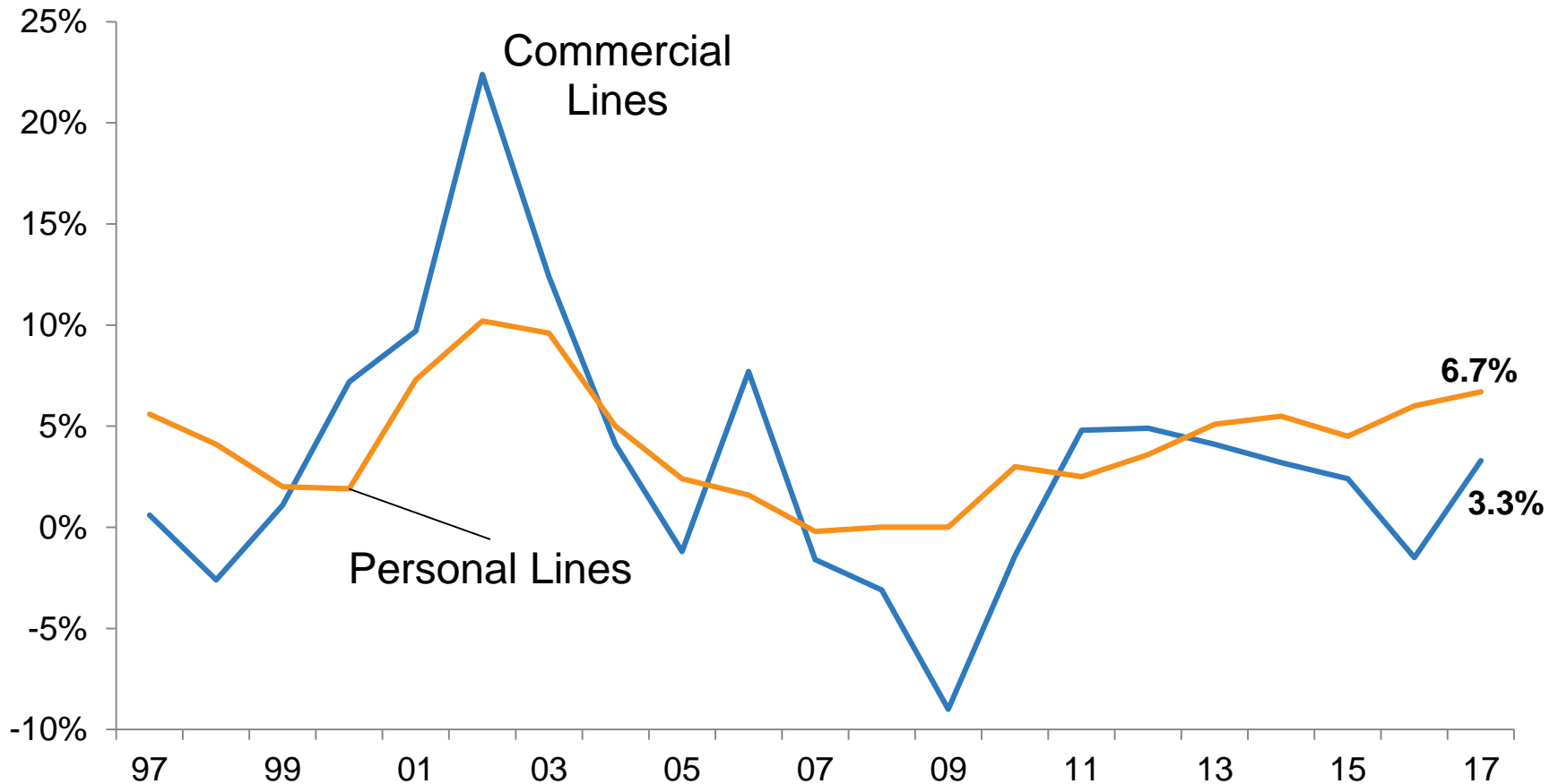
Rising Auto Rates Driving Premium Growth - \$337B at Second Quarter.



All data through second quarter.

SOURCES: NAIC data sourced through S&P Global Intelligence, Bureau of Economic Affairs, Insurance Information Institute.

Commercial & Personal Lines NPW Growth



Commercial Lines is Prone to Much More Cyclical Volatility Than Personal Lines.



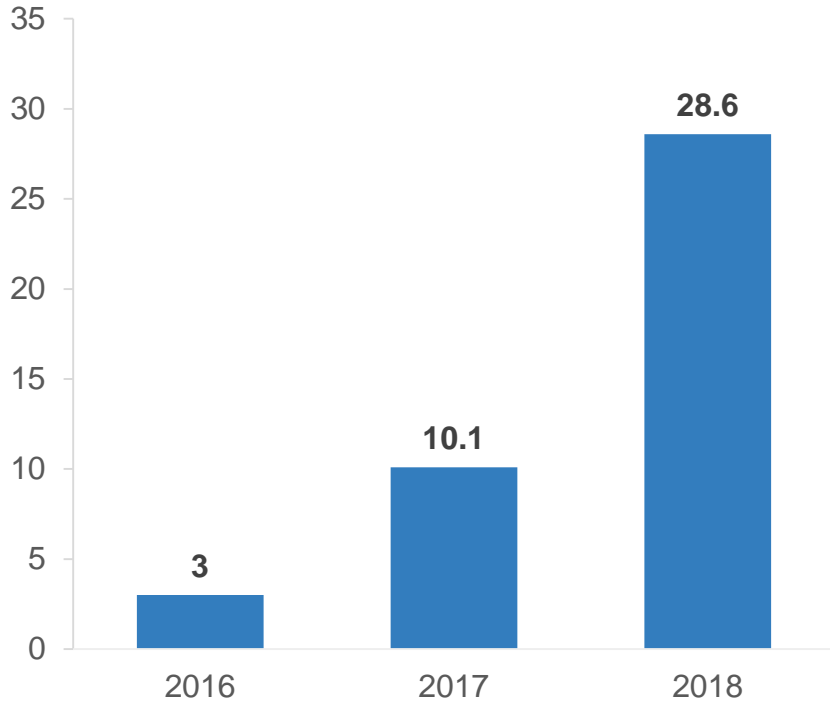
Note: Data include state funds beginning in 1998.
Sources: A.M. Best; Insurance Information Institute.

Consolidation/M&A

Booming Among Agents & Brokers

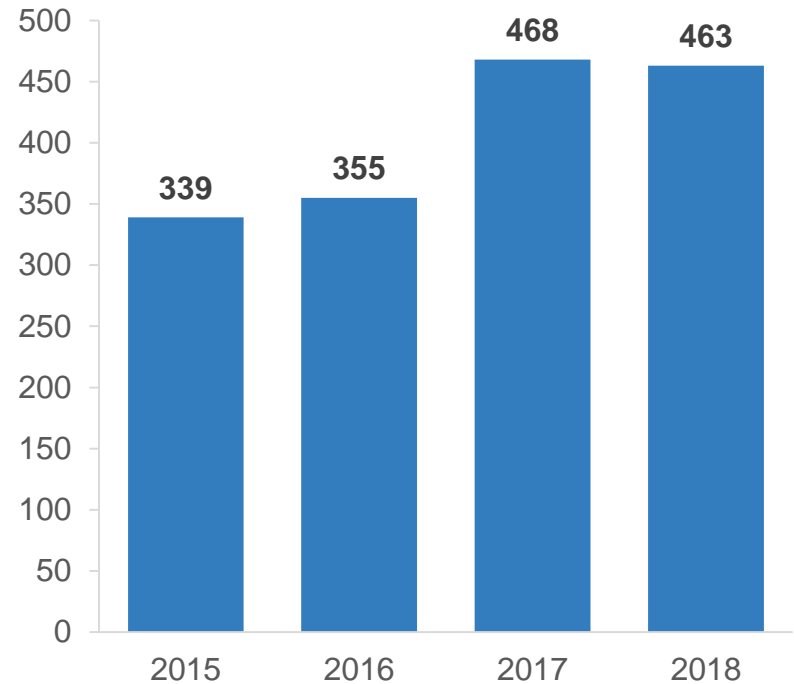
Mega-Deals Drive Value

\$ Volume Through Q2



Agencies Drive Volume

Number of Deals Through Q3



Sources: PriceWaterhouseCoopers, Optis Partners.



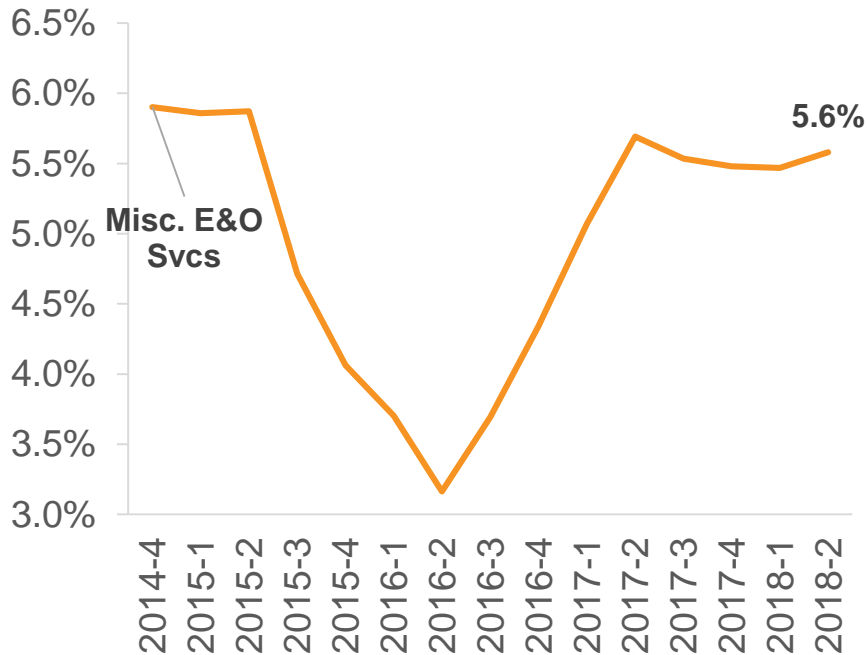
Commercial Lines Trends

Drivers of E&O Exposures

Revenues Top \$7 Trillion This Year

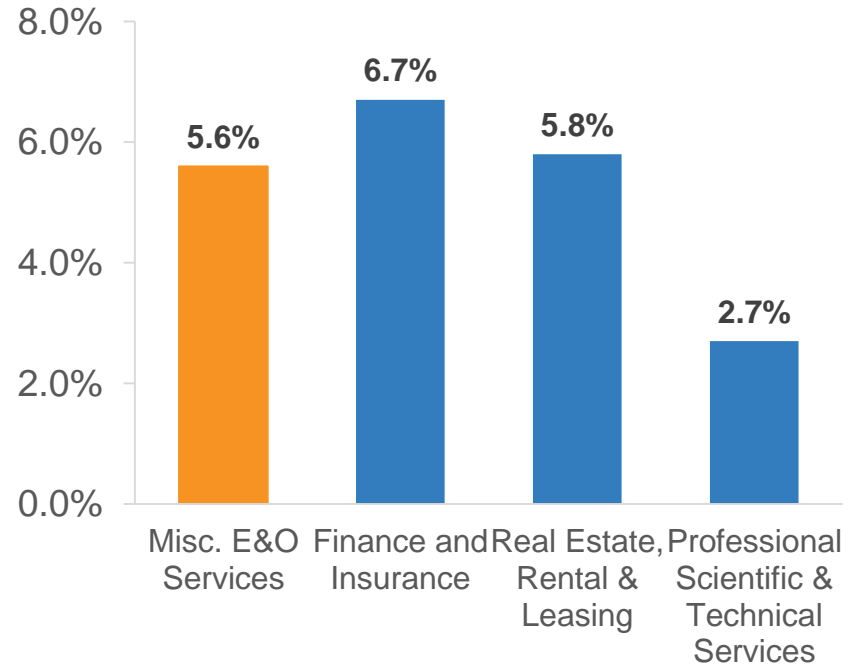
Exposure Growth Climbs

Growth in Annual Revenue



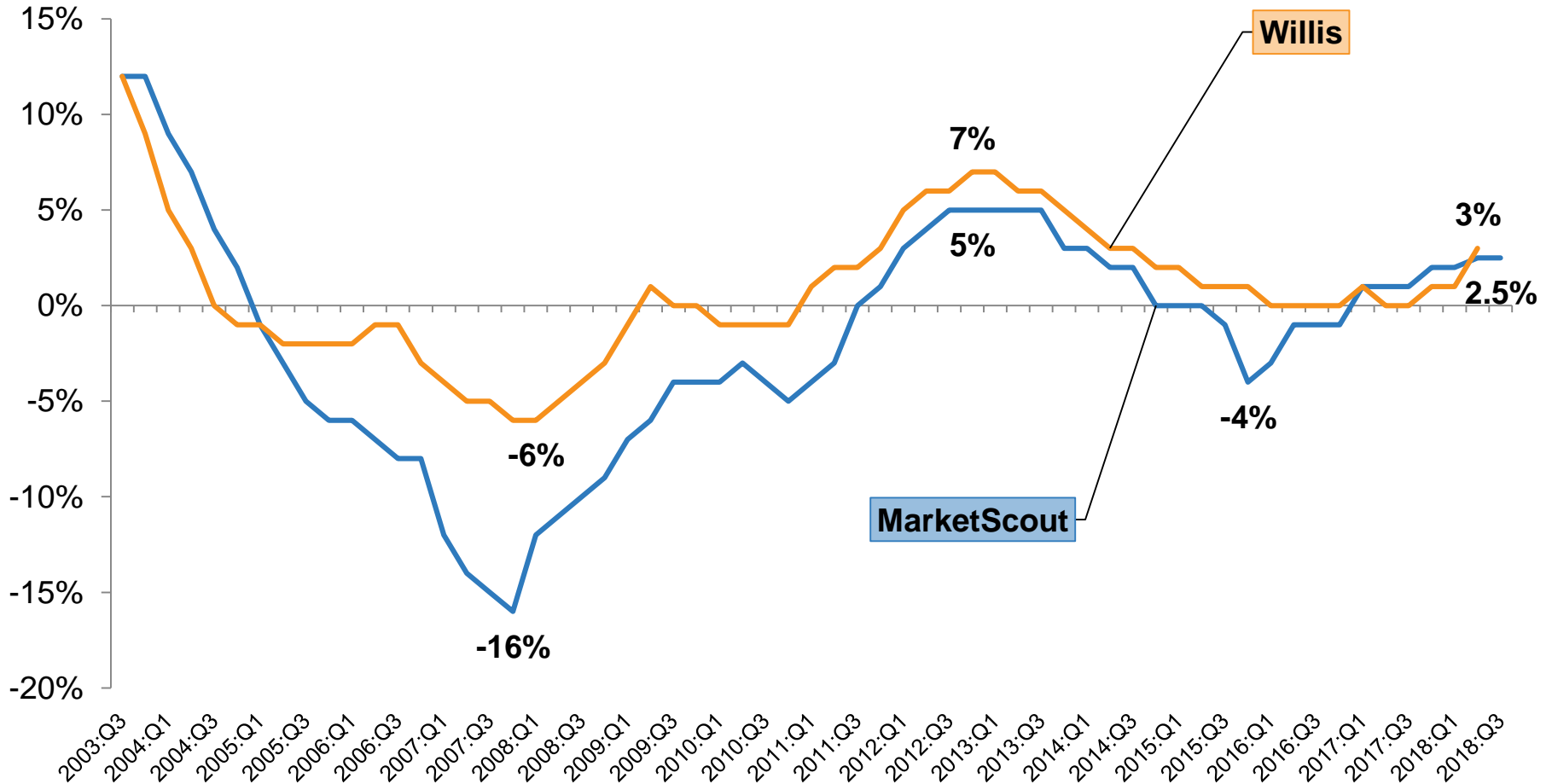
By Type of Service

Growth in Annual Revenue, Q2 2018



Miscellaneous E&O Services: Finance & Insurance; Real Estate, Rental & Leasing; Professional, Scientific & Technical Services.
Sources: [U.S. Census Bureau Quarterly Services Survey](#), Insurance Information Institute.

Commercial Lines Rate Change



'Material' Increases in Auto, Property, Umbrella; Q2 Increases > Q1 Increases

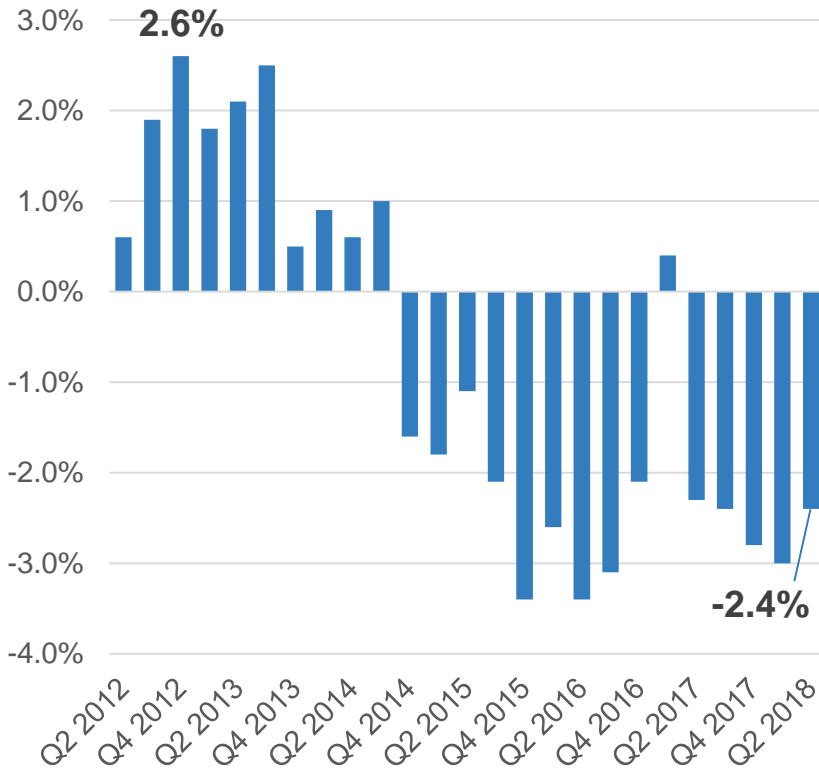


Sources: Willis Towers Watson, MarketScout.

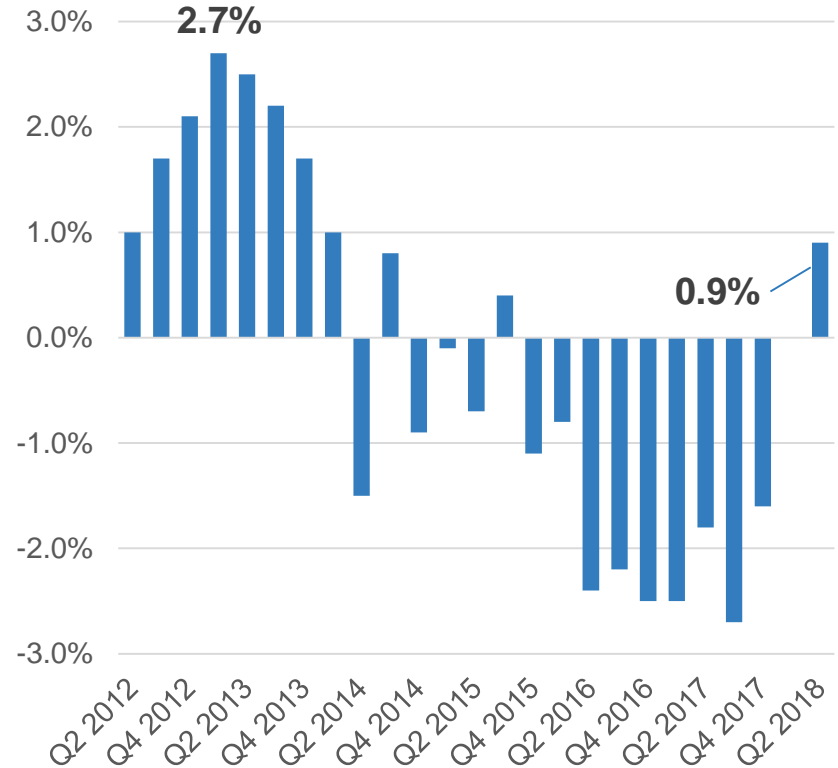
Liability Rate Changes

Slight Softening, Though Local Markets Vary

U.S. Casualty



U.S. Financial and Prof Liab

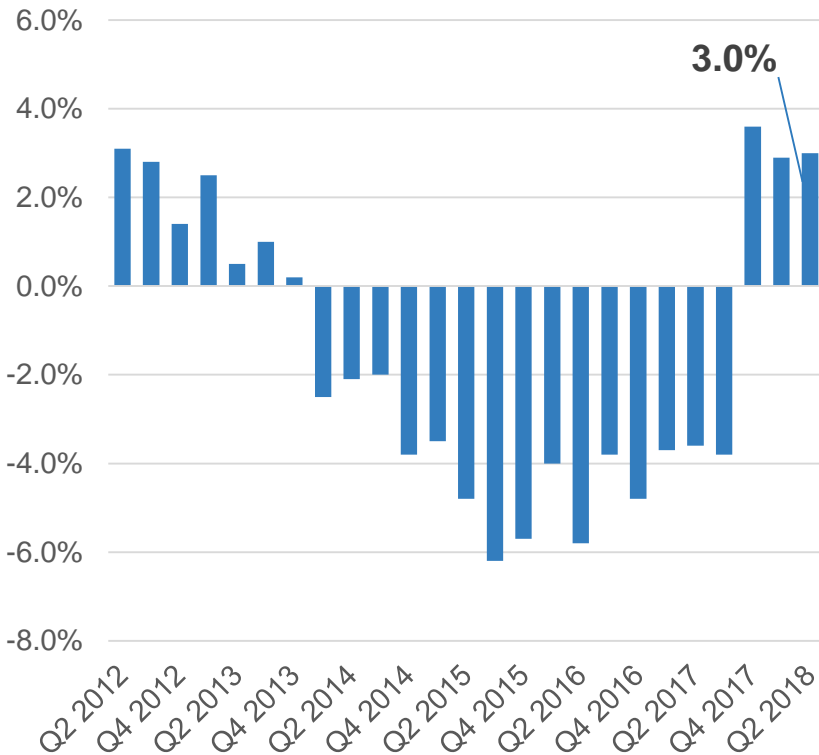


SOURCE: Marsh Insurance Market Index.

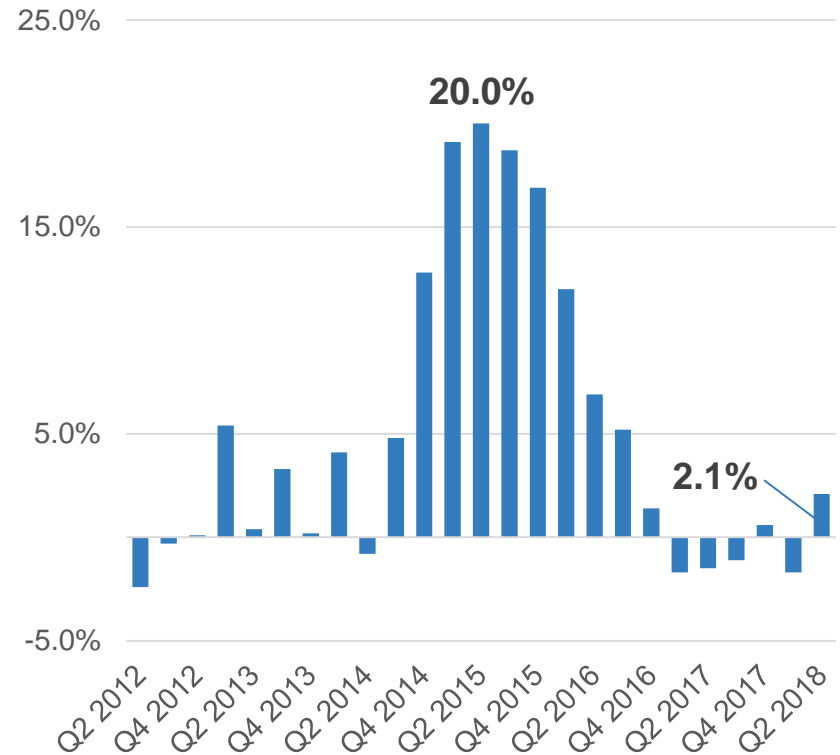
Property/Cyber Rate Changes

A Flat Market, Though Local Markets Vary

U.S. Property



U.S. Cyber



SOURCE: Marsh Insurance Market Index.

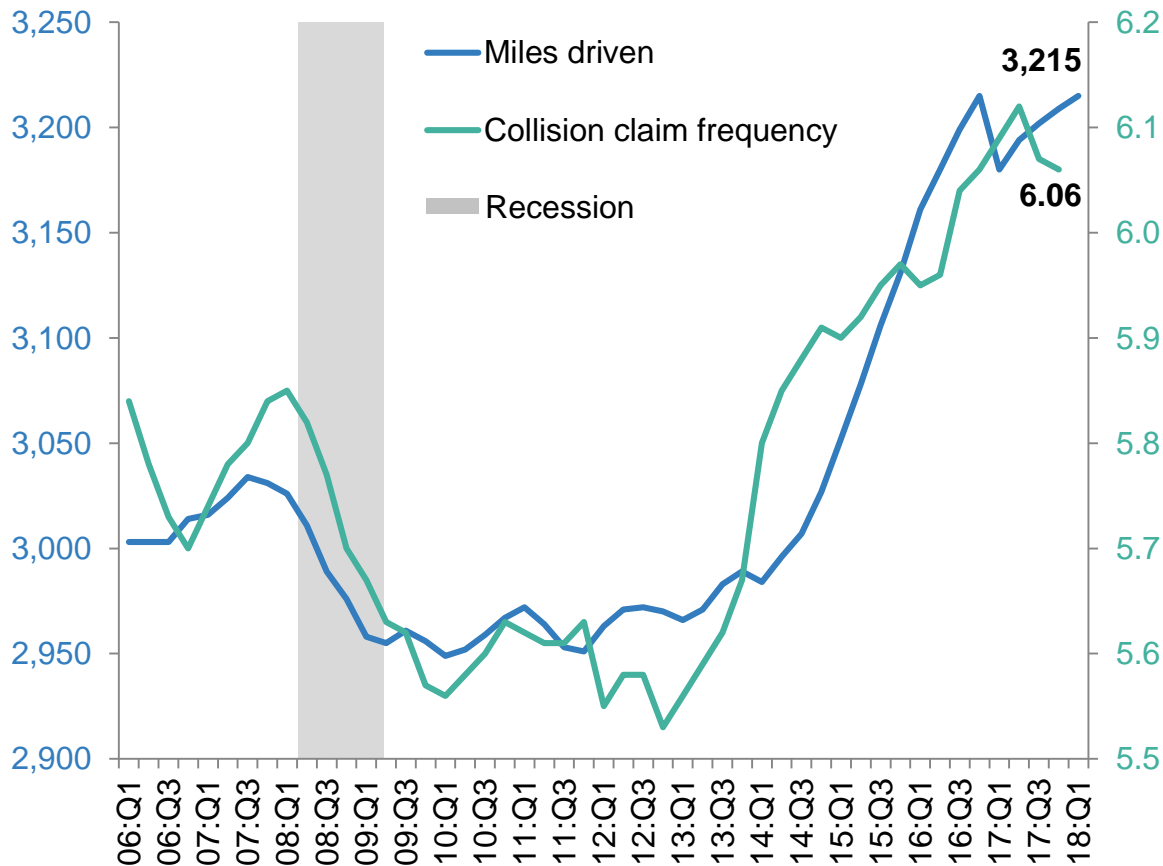


Personal Lines Trends

Driving Patterns Predict Claim Frequency

Billions of miles driven in prior year

Overall collision claims per 100 insured vehicles

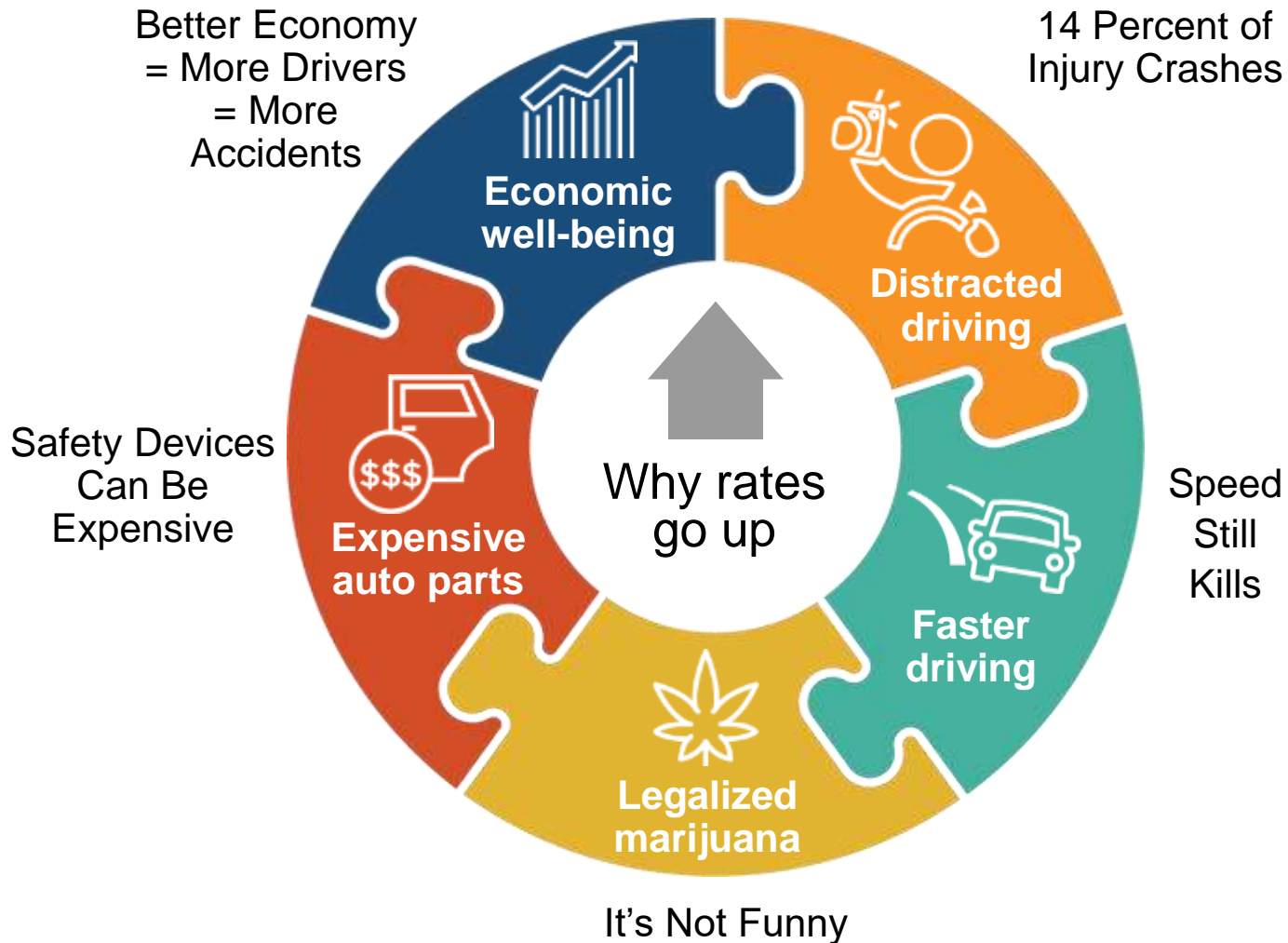


- ▼ The sharp rise in collision frequency in 2014-2016 appears to have peaked in the last year. However, claim severity will likely continue to rise as 2018 will see another 17 million new cars on the road.
- ▼ The only force that could derail the relationship between miles driven and frequency would be a sharp and persistent rise in the cost of gasoline.



Sources: [Federal Highway Administration](#); Rolling four-quarter average frequency from Fast Track Monitoring System; Insurance Institute for Highway Safety; Insurance Information Institute.

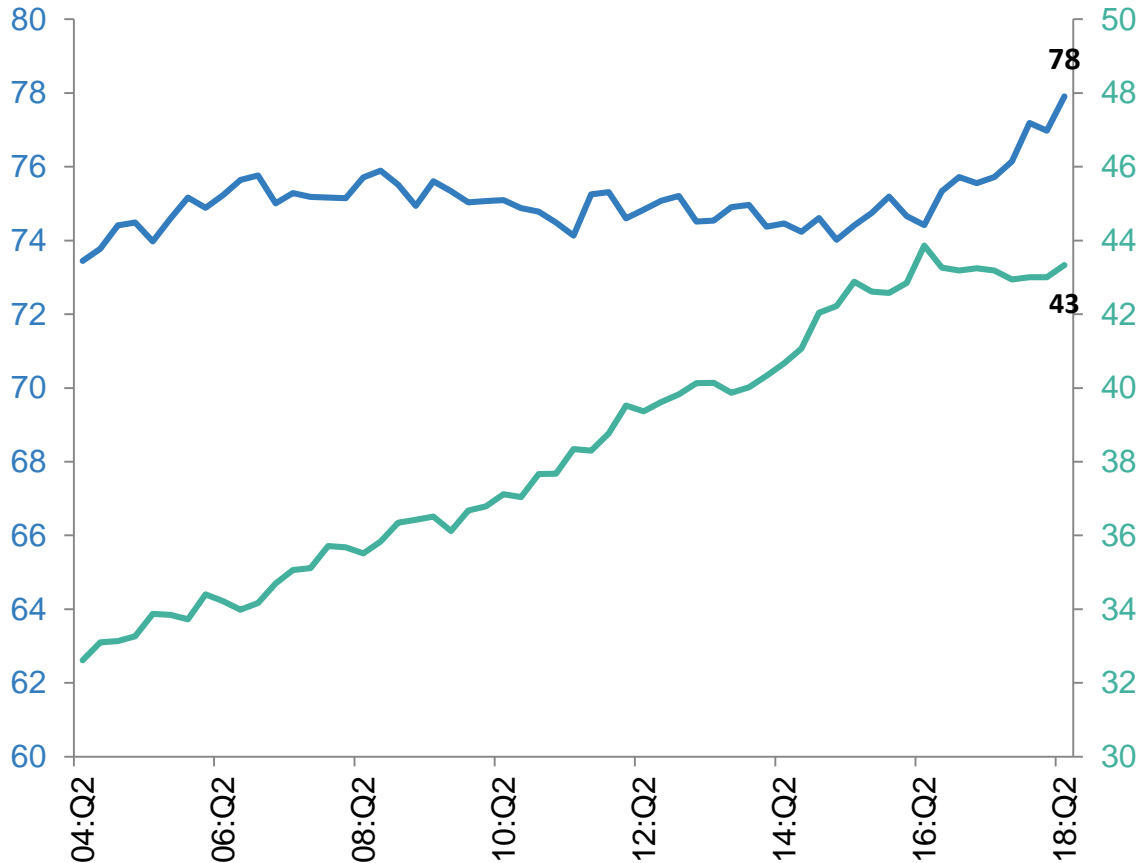
Road Safety



To rent or to buy?

Millions of renter-occupied housing units

Millions of owner-occupied housing units



▼ From 2004 to 2016:Q4, the number of renter-occupied housing units grew by about 10.5 million units (+34%), but there was no growth in the number of owner-occupied housing units for 12 years. This streak appears to have ended in 2016:Q4. This is good news for homeowners insurance premium growth.



Insurance and Innovation

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, GA, IL, NJ, NV, NY, OH, PA, TX

Regulatory Opportunities/Threats

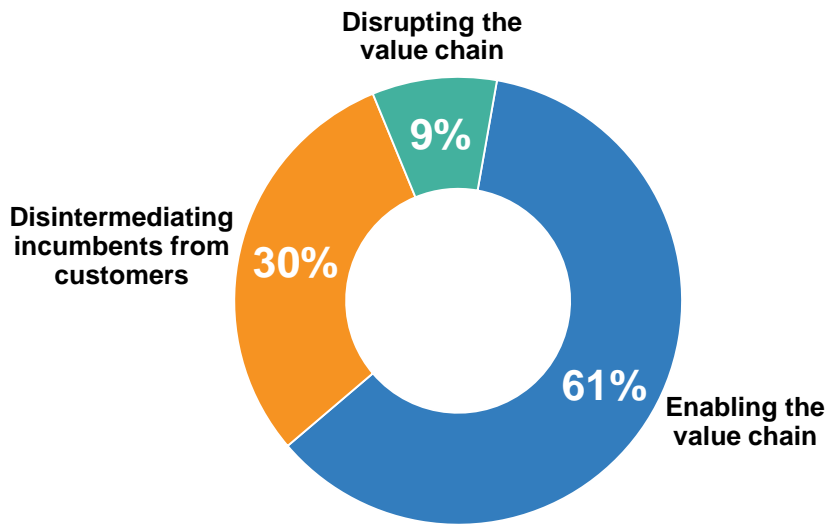
- ▲ Barrier to Entry
- ▲ US vs. Other Less Regulated Regions
- ▲ Trust Pull-back – the Sandbox Approach

InsurTech Disruption: Threat or Opportunity?

Automation efficiencies can have powerful impact on industry

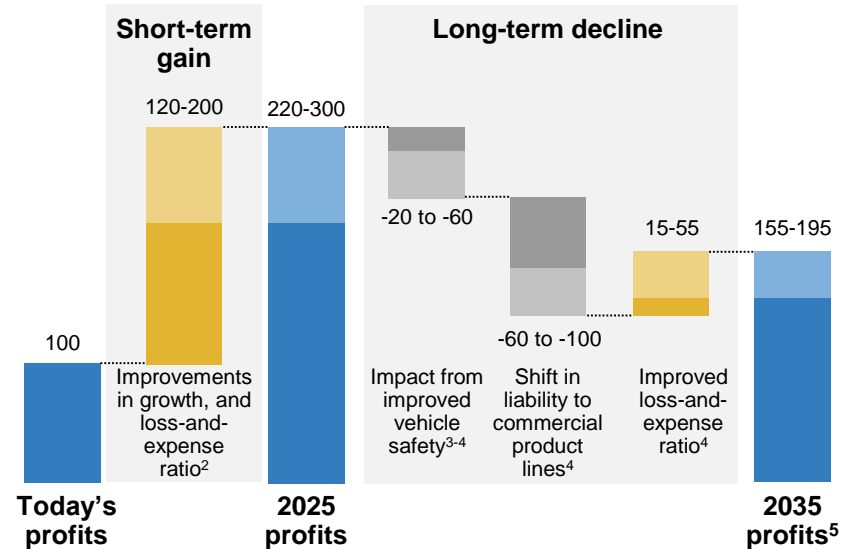
Focus of InsurTech in the insurance value chain¹, %

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...

Risk	Health
Insurance Marketplace	
  	   
Digital Brokers	
 	 
Peer to Peer	Health Navigators
   	  
Micro-duration Coverage	
 	  
Telematics	
  	 



Source: Aon.

...With Broad Incumbent Support







\$205M





\$57M







\$37M









\$21M







\$4M



Note: Total funding.
Source: Aon.

Four Main Effects on Insurance in the Fourth Industrial Revolution



1. Customer Expectations

- ▲ Amazon raises the bar
- ▲ AI and robotics



2. Product Enhancement

- ▲ More personalized and/or digitally-enhanced
- ▲ Value focus on risk mitigation and resilience



3. Collaborative innovation

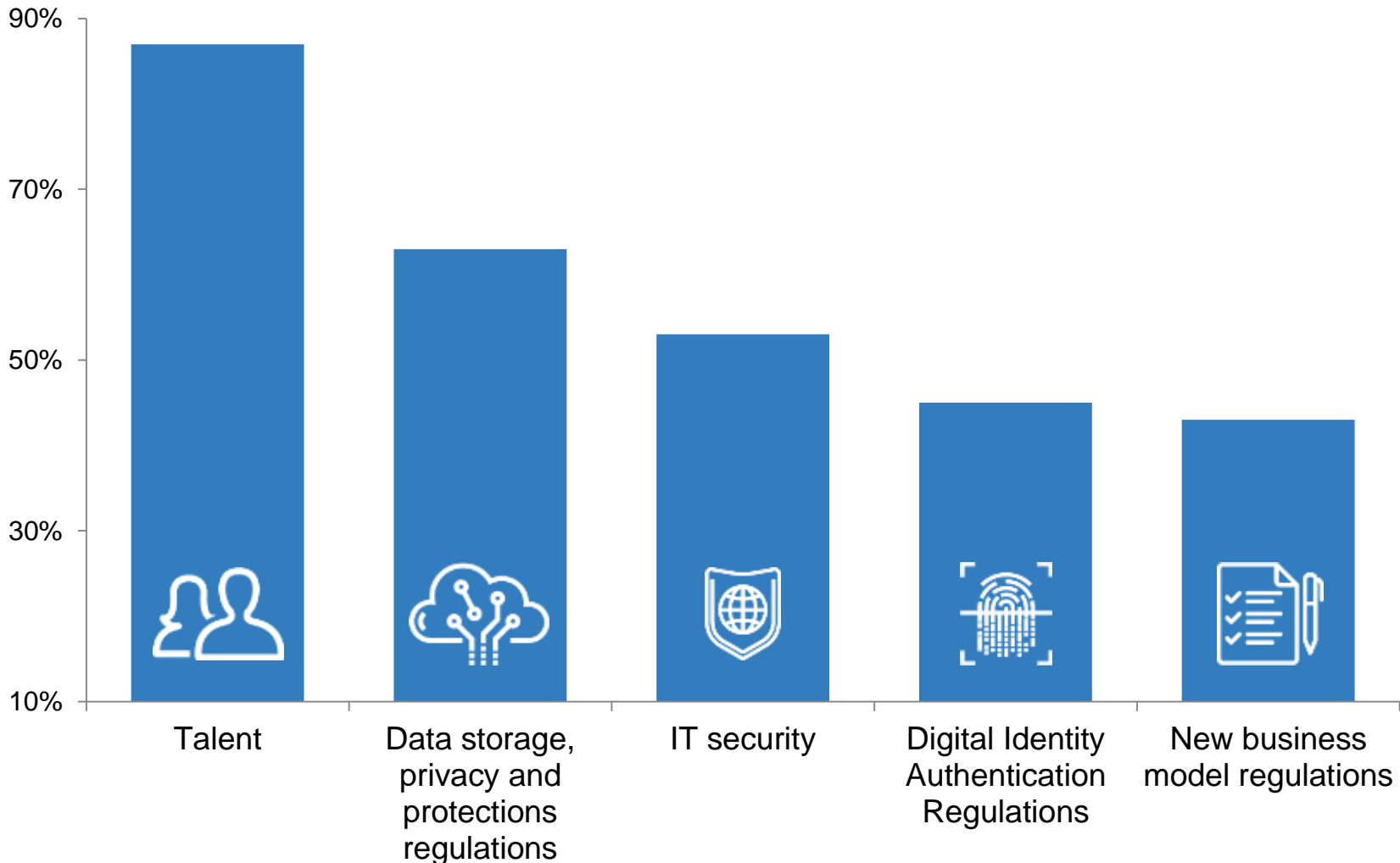
- ▲ Speed of innovation requires new forms of collaboration to keep up




4. Organizational forms

- ▲ Talent, culture, and organizational forms will have to be rethought


Challenges the Insurance Industry Faces in Innovation




Agents Respond – New Agencies:




Use Facebook to keep in touch with customers/prospects (83% vs. 59%).




Include agency website and social media strategies in marketing plan (82% vs. 64% and 83% vs. 53%, respectively).



Strongly agree that agency has seen cost savings by using paperless communication options offered by carriers, as well as by offering them to customers (52% vs. 27% and 50% vs. 27%, respectively).



Strongly agree insureds are just as likely to accept e-documents as paper documents (54% vs. 33%).



Text with clients as a form of communication (62% vs. 41%).

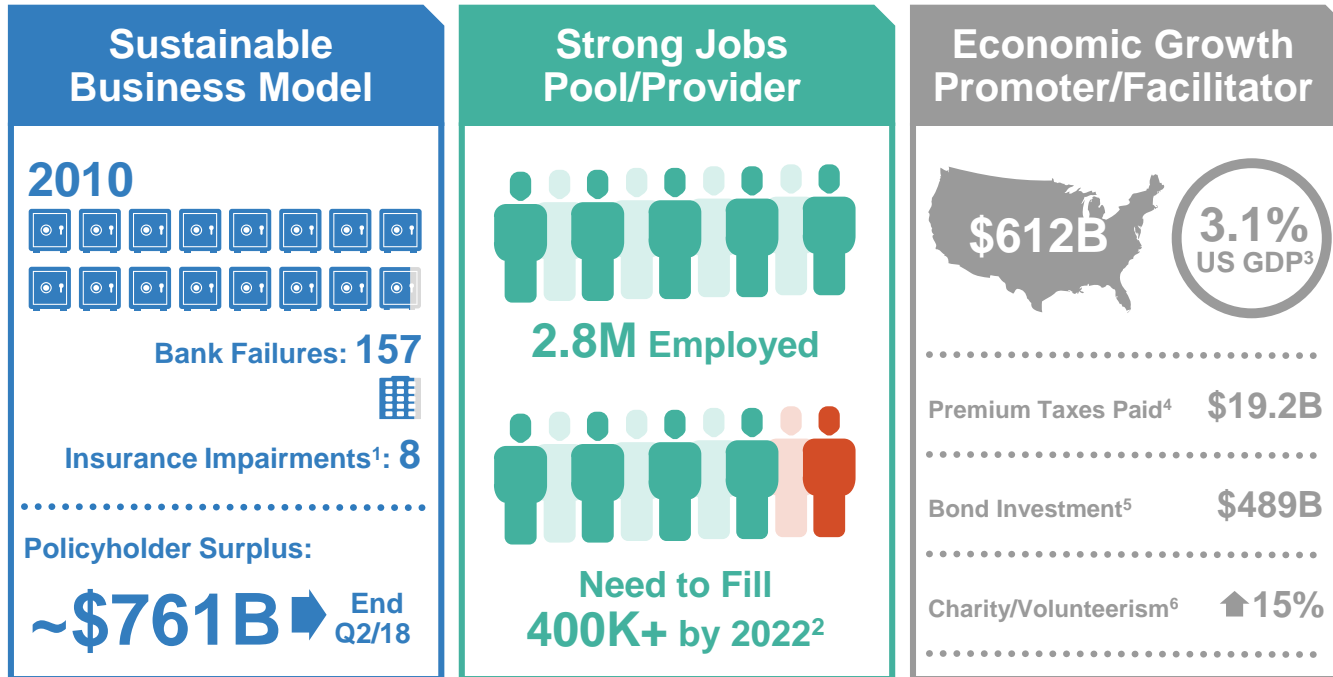


Successful Digital Transformation → Holistic Approach



Insurance Leadership

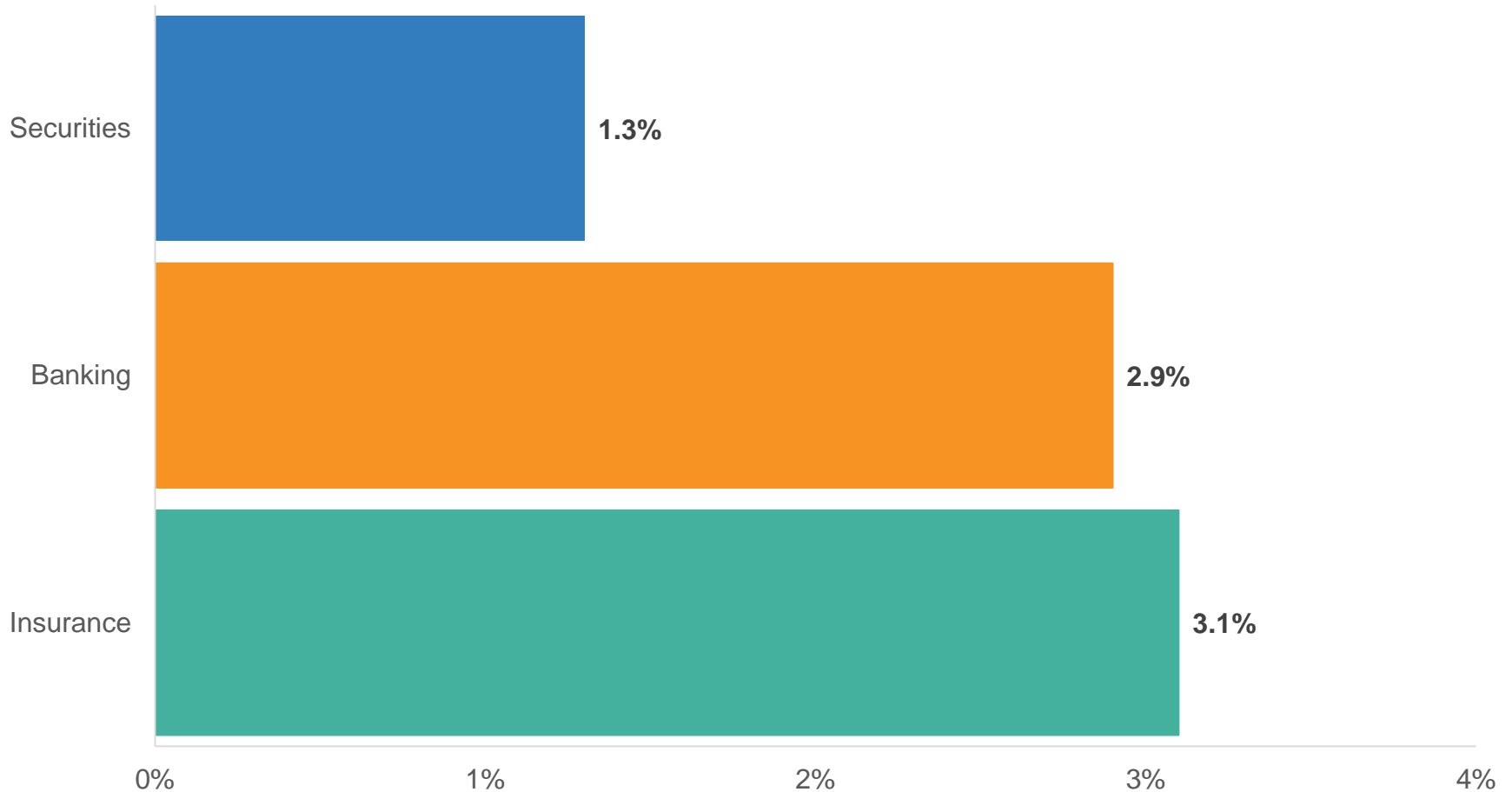
Insurance & Economic Leadership



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, 2017; ⁴U.S. Department of Commerce, 2015; ⁵Federal Reserve, 2015; ⁶2011–2014, Insurance Industry Charitable Foundation.

Insurance: A Critical Factor in the Economy

Contribution to 2017 GDP



Source: US Bureau of Economic Analysis

<https://www.bea.gov/iTable/iTable.cfm?ReqID=51&step=1#reqid=51&step=51&isuri=1&5114=a&5102=5>.

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



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