Property/Casualty 2017: An Overview of the Industry

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The P/C Insurance Industry: Financial Update & Outlook

Higher Cats Create Slight U/W Loss
P/C Industry Net Income After Taxes* 1997-2016

The median profit for this 20-year period is about $40 billion.

ROAS: 6.2% (8.4% in 2014, 2015)

*adjusted for inflation using the BLS CPI calculator, to 2016 dollars
Sources: A.M. Best; ISO, a Verisk Analytics company; Insurance Information Institute.
Policyholder Surplus, Quarterly, 2006:Q4–2016:Q4

($ Billions)

2007:Q3 Pre-Crisis Peak

Drop due to near-record 2011 CAT losses

Surplus as of 12/31/16 stood at $700.9B

Surplus grew by 4.0% over 12/31/2015

The industry now has $1 of surplus for every $0.75 of NPW, 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 2017 in very strong financial condition.

Sources: ISO, A.M. Best.

Premium Growth Has Followed Economic Growth, Inflation.

Commercial & Personal Lines NPW Growth: 1996-2016

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

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

- Commercial Lines
- Personal Lines
Investments

Investment Performance is a Key Driver of Profitability
Depressed Yields Will Necessarily Influence Underwriting & Pricing
P/C Carrier Yields Have Been Falling for Over a Decade, Reflecting the Long Downtrend in Prevailing Interest Rates.

Sources: NAIC data, sourced from S&P Global Market Intelligence; ISO, a Verisk Analytics company; Insurance Information Institute.
Virtually all of the 53 forecasts in the Blue Chip survey expect continual increases in the yield of long-term bonds in 2017-18.

Sources: Blue Chip Economic Indicators (6/10); CNBC.com (June 10 yield); Insurance Information Institute.

Falling yields means less investment income, putting upward pressure on rates.

As long as new money rates are below the rates of maturing bonds, the portfolio yield will continue to sink.

p: Preliminary
Sources: NCCI, ISO, a Verisk Analytics company, U.S. Treasury (5-year note as proxy for new money yield for 2016); Insurance Information Institute.
Underwriting Performance
P/C Insurance Industry Combined Ratio, 2001-2016*


Sources: A.M. Best; ISO, a Verisk Analytics company; I.I.I.
U.S. Insured Catastrophe Losses, 1989-2016
($ billions, 2016 dollars)

2013/14/15 Were Welcome Respites from 2011/12, Which Were Among the Costliest Years for Insured Disaster Losses in U.S. History. Longer-term Trend is for More – Not Fewer – Costly Events.

*2016 estimate is subject to change
Note: 2001 figure includes $20.3B for 9/11 losses reported through 12/31/01 ($25.9B 2011 dollars). Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = $12.2B ($15.6B in 2011 dollars).
Sources: Property Claims Service, a Verisk Analytics business; Insurance Information Institute.
Billion-Dollar Events

Events with economic costs greater than $1 billion.
Billion-Dollar Events

Event statistics are added according to the date on which they ended. Statistics valid as of April 6, 2017.

Events with economic losses greater than $1 billion, adjusted for inflation.
P/C Direct Written Premium by Line

(Billions of Dollars)

<table>
<thead>
<tr>
<th>LOB</th>
<th>2015</th>
<th>2016</th>
<th>% Chg From Year Earlier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Auto</td>
<td>199.9</td>
<td>214.6</td>
<td>7.3%</td>
</tr>
<tr>
<td>Homeowners</td>
<td>93.3</td>
<td>95.7</td>
<td>2.5%</td>
</tr>
<tr>
<td>GL (incl Products)</td>
<td>65.7</td>
<td>66.9</td>
<td>1.9%</td>
</tr>
<tr>
<td>WC</td>
<td>57.6</td>
<td>58.5</td>
<td>1.6%</td>
</tr>
<tr>
<td>Fire &amp; Allied Lines</td>
<td>42.2</td>
<td>40.6</td>
<td>-4.0%</td>
</tr>
<tr>
<td>CMP</td>
<td>39.7</td>
<td>39.9</td>
<td>0.6%</td>
</tr>
<tr>
<td>Comm Auto</td>
<td>31.3</td>
<td>33.1</td>
<td>5.5%</td>
</tr>
<tr>
<td>Other</td>
<td>61.9</td>
<td>63.0</td>
<td>1.8%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>591.8</strong></td>
<td><strong>612.3</strong></td>
<td><strong>3.5%</strong></td>
</tr>
</tbody>
</table>

Sources: NAIC Data, sourced from S&P Global Market Intelligence, Insurance Information Institute.
### P/C Direct Incurred LR by Line

(Billions of Dollars)

<table>
<thead>
<tr>
<th>LOB</th>
<th>2015</th>
<th>2016</th>
<th>Pt Chg From Year Earlier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Auto</td>
<td>68%</td>
<td>73%</td>
<td>4</td>
</tr>
<tr>
<td>Homeowners</td>
<td>50%</td>
<td>53%</td>
<td>3</td>
</tr>
<tr>
<td>GL (incl Products)</td>
<td>56%</td>
<td>60%</td>
<td>4</td>
</tr>
<tr>
<td>WC</td>
<td>57%</td>
<td>55%</td>
<td>(3)</td>
</tr>
<tr>
<td>Fire &amp; Allied Lines</td>
<td>46%</td>
<td>54%</td>
<td>8</td>
</tr>
<tr>
<td>CMP</td>
<td>45%</td>
<td>51%</td>
<td>6</td>
</tr>
<tr>
<td>Comm Auto</td>
<td>66%</td>
<td>69%</td>
<td>3</td>
</tr>
<tr>
<td>Other</td>
<td>43%</td>
<td>46%</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>57%</td>
<td>60%</td>
<td>4</td>
</tr>
</tbody>
</table>

Auto Costs, Cats Drive Loss Ratios Higher.

Sources: NAIC Data, sourced from S&P Global Market Intelligence, Insurance Information Institute.
Commercial Lines Rates
Rate Changes
Rates Soft/Flat, Especially in Reinsurance

U.S. Commercial Thru Q4 2016

Global Reinsurance January Renewals

Rate Changes by LOB Thru Q4 2016
Slight Softening, Though Local Markets Vary

U.S. Casualty

-2.1%

U.S. Property

-4.8%

U.S. Financial and Prof Liab

-2.5%

U.S. Cyber

20.0%

1.4%

SOURCE: Marsh Insurance Market Index, Q4 2016
## Commercial Rates (Pacific NW), Q1 2017

### By Account Size

<table>
<thead>
<tr>
<th>Size</th>
<th>Down &gt; 10%</th>
<th>Down 1-10%</th>
<th>No Change</th>
<th>Up 1-10%</th>
<th>Up &gt; 10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small (&lt;25K)</td>
<td>0%</td>
<td>38%</td>
<td>38%</td>
<td>15%</td>
<td>0%</td>
</tr>
<tr>
<td>Medium (25-100K)</td>
<td>0%</td>
<td>36%</td>
<td>43%</td>
<td>14%</td>
<td>0%</td>
</tr>
<tr>
<td>Large (100K+)</td>
<td>15%</td>
<td>46%</td>
<td>23%</td>
<td>8%</td>
<td>0%</td>
</tr>
</tbody>
</table>

### By Line of Business

<table>
<thead>
<tr>
<th>Business</th>
<th>Down &gt; 10%</th>
<th>Down 1-10%</th>
<th>No Change</th>
<th>Up 1-10%</th>
<th>Up &gt; 10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Auto</td>
<td>0%</td>
<td>7%</td>
<td>14%</td>
<td>43%</td>
<td>29%</td>
</tr>
<tr>
<td>Commercial Property</td>
<td>0%</td>
<td>50%</td>
<td>36%</td>
<td>14%</td>
<td>0%</td>
</tr>
<tr>
<td>Cyber</td>
<td>7%</td>
<td>43%</td>
<td>43%</td>
<td>7%</td>
<td>0%</td>
</tr>
<tr>
<td>D&amp;O</td>
<td>0%</td>
<td>15%</td>
<td>62%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>General Liability</td>
<td>0%</td>
<td>36%</td>
<td>64%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Terrorism</td>
<td>0%</td>
<td>0%</td>
<td>77%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Umbrella</td>
<td>0%</td>
<td>14%</td>
<td>57%</td>
<td>14%</td>
<td>7%</td>
</tr>
<tr>
<td>Workers Compensation</td>
<td>0%</td>
<td>43%</td>
<td>50%</td>
<td>7%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Rate Changes Can Vary Significantly Within States, Lines of Business or Individual Markets.

Politics

Divisions Make Progress Difficult
Disruption is Everywhere
Catastrophes – Increases in frequency and severity

Natural Catastrophes

- Climate Change
- Earthquake
- Wind
- Water
- Fire
Disruption is Everywhere
Catastrophes – Increases in frequency and severity

Man-Made Catastrophes

Cyber

Autos
Globalization

Rise of Nationalism

Regional Tensions

Geopolitical Polarization

Global Trends Impacting Domestic Market

- "Conduct of Business"
- Capital/Solvency
- Dodd-Frank

Regulatory Trends

* Mainland purchases of insurance and related investment policies in the nine months ended September 2016 surged to a record high.
**Economic Uncertainty**

**Global Growth...**

*Since 2008 we've had the longest period of relative trade stagnation since World War II...*

**US Growth...**

- **GDP 1.6**
- **Investment Growth**

**...Monetary vs. Fiscal Policy**

- **Monetary:** Low interest rates mean insurers are struggling to meet interest rate guarantees for life insurance and annuities must diversify their investment portfolios.

- **Fiscal:** Supply-side debate heating up, i.e., tax reform.
The Trust Gap

Average of trust in Government, NGOs, Media and Business.
SOURCE: Edelman Trust Barometer, 2017
Stagnation’s Toll

Cumul Chg in Real Avg Income

Death Rates, 45-64

Geopolitics – US
The ‘Bully Pulpit’ Evolution
Trump has potential to change the game…

@USTreasSec where is #TaxReform? Get R done!
@USAG #Waterboarding will #MakeAmericaGreat!
P/C Insurance Industry ROE by Presidential Party Affiliation

1950-2016*

*2016 data is through Q3.
Source: Insurance Information Institute
Federal and State Issues
Affordable Care Act

Going .... Going .... Maybe Not Going Anywhere

2016
But State Politics Drives Insurance
And Every State is Different

Source: R Street Insurance Regulation Report Card, December 2016
Republicans Control Most States . . .
In The November Election They Lost One Legislature Overall

Seven chambers flipped control after the November 2016 elections.

Medical Marijuana
Comp Caught in the Middle

Congressional Cannabis Caucus

Rohrbacher (CA)
Bluemenauer (OR)
Young (AK)
Polis (CO)
Medical Marijuana
Comp Caught in the Middle

Opioid Alternative?

https://www.nap.edu/catalog/24625/the-health-effects-of-cannabis-and-cannabinoids-the-current-state
On the Horizon
Sharing Economy and Disruption
Greatest Threats, Opportunities
Whither Silicon Valley?

**Greatest Opportunity**
- Advanced Analytics: 32%
- Mobile Apps: 19%
- Big Data: 18%
- Tight Value Chain: 12%
- Gig Economy: 6%
- IoT: 6%
- ILS: 4%
- Insurer VC: 2%
- Insurtech: 1%

**Greatest Threat**
- Insurtech: 17%
- Mobile Apps: 16%
- Tight Value Chain: 14%
- ILS: 12%
- Big Data: 10%
- Advanced Analytics: 9%
- Insurer VC: 8%
- Gig Economy: 8%
- IoT: 6%

**Insurance Technology Financing – Change Is Coming**

Investment ($ Millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>140</td>
</tr>
<tr>
<td>2012</td>
<td>350</td>
</tr>
<tr>
<td>2013</td>
<td>270</td>
</tr>
<tr>
<td>2014</td>
<td>870</td>
</tr>
<tr>
<td>2015</td>
<td>2,670</td>
</tr>
<tr>
<td>2016</td>
<td>1,690</td>
</tr>
</tbody>
</table>

**Deals**

- More Than Half This Funding Was in Two Deals (Zenefits/Zhong An)

Investment In Insurance Tech Is Rising. Number of Deals Set A Record Last Year.

**Sources:** CB Insights, Insurance Information Institute.
The (Re)Insurance Value Chain
Where Could Disruption Lie?

Protecting People & Organizations

Brains + Bank Account
Create Policy/Treaty
Market Policy/Treaty
Write Risk
Price Risk
Perform Loss Control
Settle Claims
Improve World

Most Links in the Value Chain Have the Potential to Be Disrupted in Next 10 Years.
Alternative capacity has grown 350% since 2006. It has more than tripled in the past six years.
The Internet
Will It Disrupt Marketing?

- Lead Generators
  - InsWeb, NetQuote, Insurance.com
  - Site allows comparison shopping, sells lead to insurer

- Call Center Agencies
  - SelectQuote, Goji
  - Call center employs agents

- Digital agencies
  - Esurance, Policy Genius
  - Quote and buy online

**But Customers Still Like Agents**

**Did You Compare Prices When Your Auto Policy Was Up for Renewal?**

- Talk to Agent: 50%
- Online: 39%
- By Phone: 37%
- Any Method: 69%
- None of These: 29%
- Don't Know: 1%

Pricing Disruptor: The Fragmented Risk
One-Day Auto Insurance

Pre-register

Register
- Name
- Birthday
- Address
- e-mail address
- Driver’s License No.
- License expiry date

Buy

Input
- License plate No.
- Date of driving

Pay

Premium is added on the monthly mobile phone bill
Loss Control Disruptor
The Internet of Things

Telematics Today

Telematics Tomorrow
Claims Disruptor
Artificial Intelligence + Behavioral Economics

Lemonade

Expenses 20%
Reinsurance 20%
'Rainy Day Fund' 20%
Subject to Giveback 40%

"IT'S NOT OUR MONEY!"
Peer-to-Peer (P2P) Insurance
Taking on the *Entire* Value Chain

**A Typical P2P Model**

- Resembles Mutuals/Reciprocals
- People Join Small Group of Friends to Prefund Deductible or Bear Other Small Risk.
- Leftover Deductible $$ Rolled Forward.
- May Deter Fraud – You Wouldn’t Cheat Your Friends!


**CEO Daniel Schreiber**

- Our Chief Behavioral Officer, Professor Dan Ariely, says that “If you tried to create a system to bring out the worst in humans, it would look a lot like the insurance of today.”

Lemonade’s Model: *Unknown*
Summary

- Higher catastrophe losses caused industry profits to deteriorate.
- Low interest rates continue to dog industry results.
- Commercial rates may be softening.
- Political leaders face a complex, disruptive environment.
Thank you for your time and your attention!

Read our auto [White Paper on Rising Personal Auto Costs at www.iii.org](http://www.iii.org)