



State of the Public Entity Insurance Market & Emerging Risks

January 2021

Presented by:

Marcus Beverly

(THIS INFORMATION HAS BEEN CONSOLIDATED FROM VARIOUS INDUSTRY SOURCES)



**Presentation
Overview**

Highlights

**Property/Casualty Industry
Performance**

The New Reality – Evolving Risks

Toward the Future



Highlights

Swiss Re Institute estimates USD 83 billion global insured catastrophe losses in 2020, the fifth-costliest on record. The insurance industry covered 45% of global economic losses in 2020, above the ten-year-average of 37%.

U.S. Wildfires, Storms, Civil Disorders and 'Social Inflation' have created intense pressure on insurers in North America, causing insured losses in the billions, and while COVID - 19 has of course added new types of losses to the mix, more so, it has created additional uncertainty which is adding to an already difficult insurance marketplace.

Social inflation, years of high losses, aggressive litigation trends, and adverse results are driving the higher prices and tighter capacity in the excess casualty insurance space.

Source: A.M. Best, ISO, Verisk, Property Casualty Insurers Association of America (PCI)

Key Industry Metrics



- Insurers' **combined ratio** deteriorated to 100.2% for 2nd Qtr 2020 from 98.9% a year earlier.
- **Policyholder surplus** declined \$22.1 billion in the first half 2020 from an all time high of \$847.8 billion at year end 2019.
- **Net income after taxes** fell to \$24.3 billion in first-half 2020 from \$32.8 billion in first-half 2019.
- Signs point to a healthy, yet unsettled, insurance market, due to the unknowns of **COVID-19, weather extremes**, sea level rise, **wildfires**, catastrophic losses, **social inflation** and **investment earnings**. All remain areas of **concern for insurers**.

Source: A.M. Best, ISO, Verisk, Property Casualty Insurers Association of America (PCI)



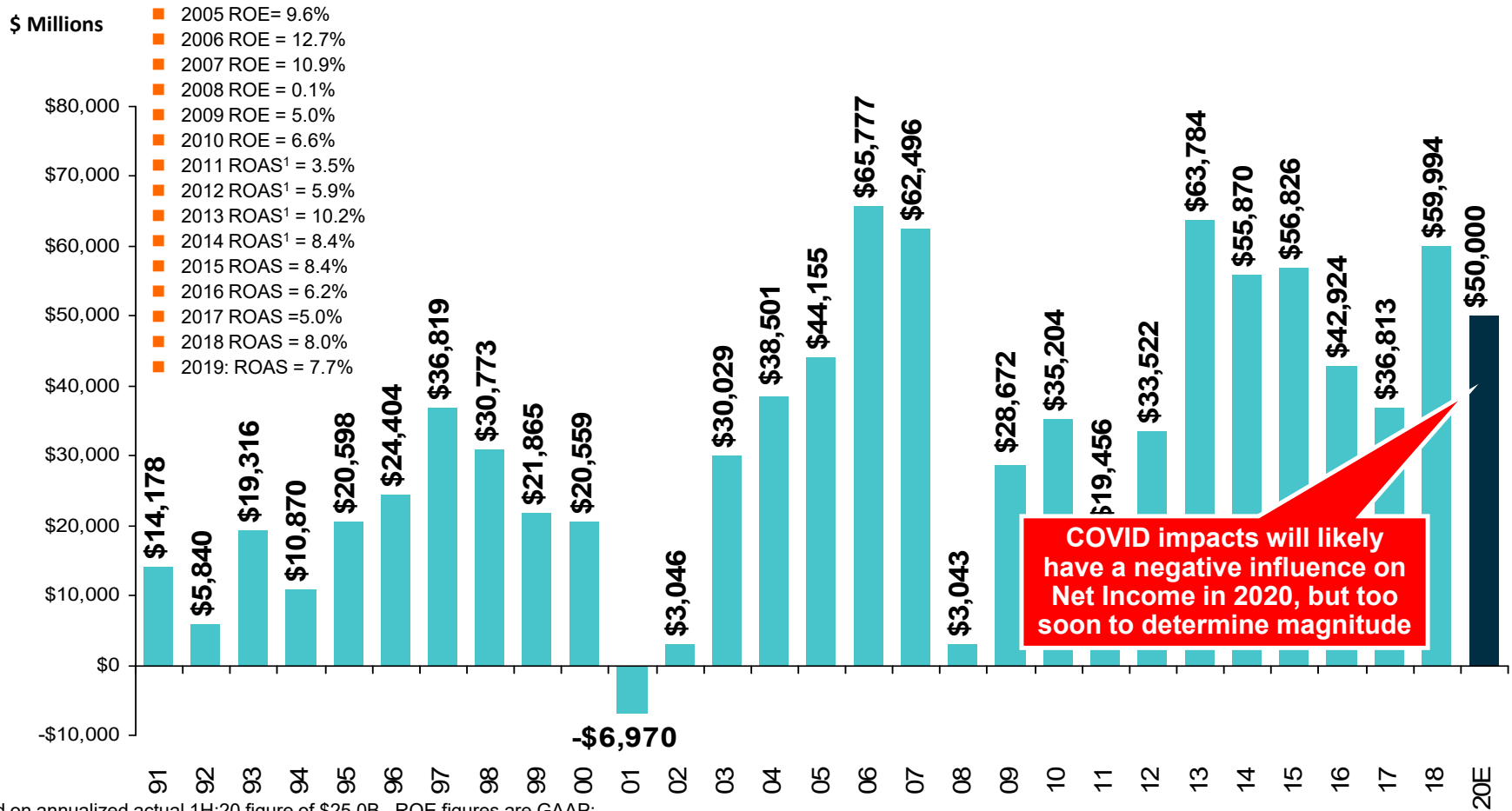
Property/Casualty Industry Performance

U.S. commercial insurance prices again grew significantly in the third quarter of 2020

Prices for nearly all lines were consistent with the **increases** from the prior quarter survey. **Excess/umbrella liability** and directors and officers liability reported the largest price increases; commercial auto showed increases near or above double digits for the 12th consecutive quarter.

The outlier continues to be workers compensation, which indicated modest price reductions, though they have tempered for the last seven quarters. Price changes differed by account sizes with small accounts more muted, mid-market accounts **near double digits** and large accounts **well into double digits**.

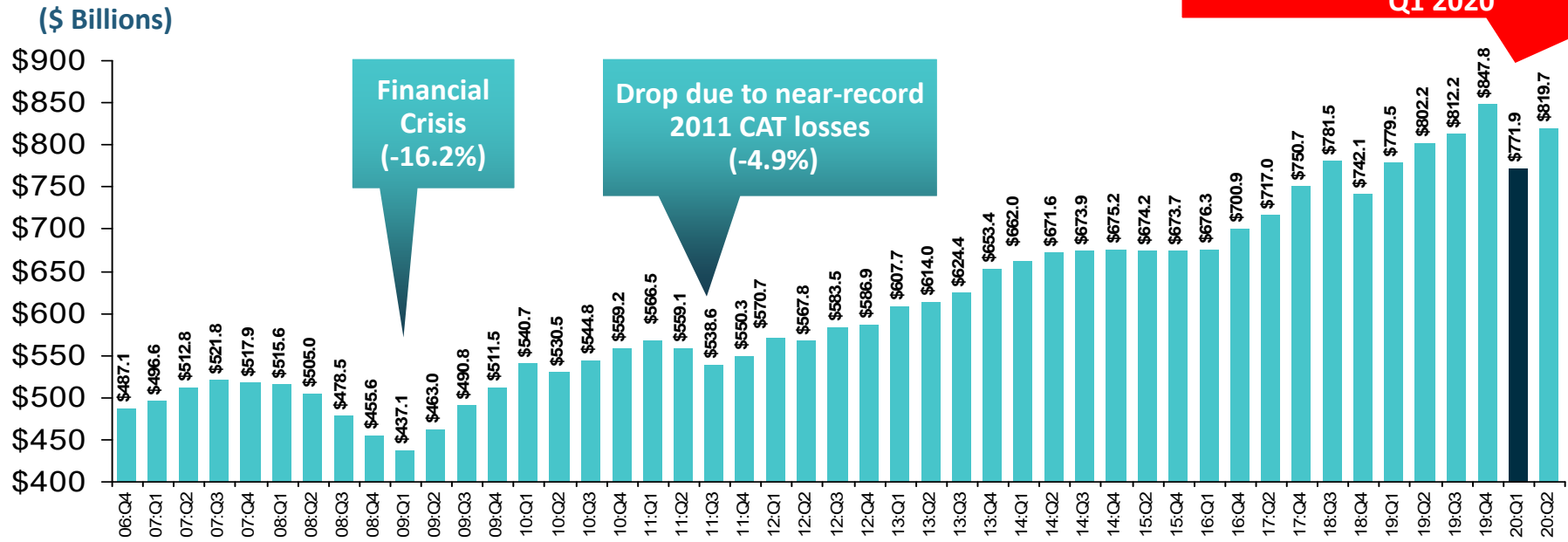
P/C Industry Net Income After Taxes, 1991–2020E*



*2020 estimate based on annualized actual 1H:20 figure of \$25.0B. ROE figures are GAAP;
¹Return on avg. surplus. Excludes Mortgage & Financial Guaranty insurers for years (2009-2014).
 Sources: A.M. Best, ISO.

Policyholder Surplus (Capacity), 2006:Q4–2020:H1

The P/C insurance industry entered the COVID-19 pandemic from a position strength and was able to withstand the 9.0% surplus decline in Q1 2020



Financial Crisis (-16.2%)

Drop due to near-record 2011 CAT losses (-4.9%)

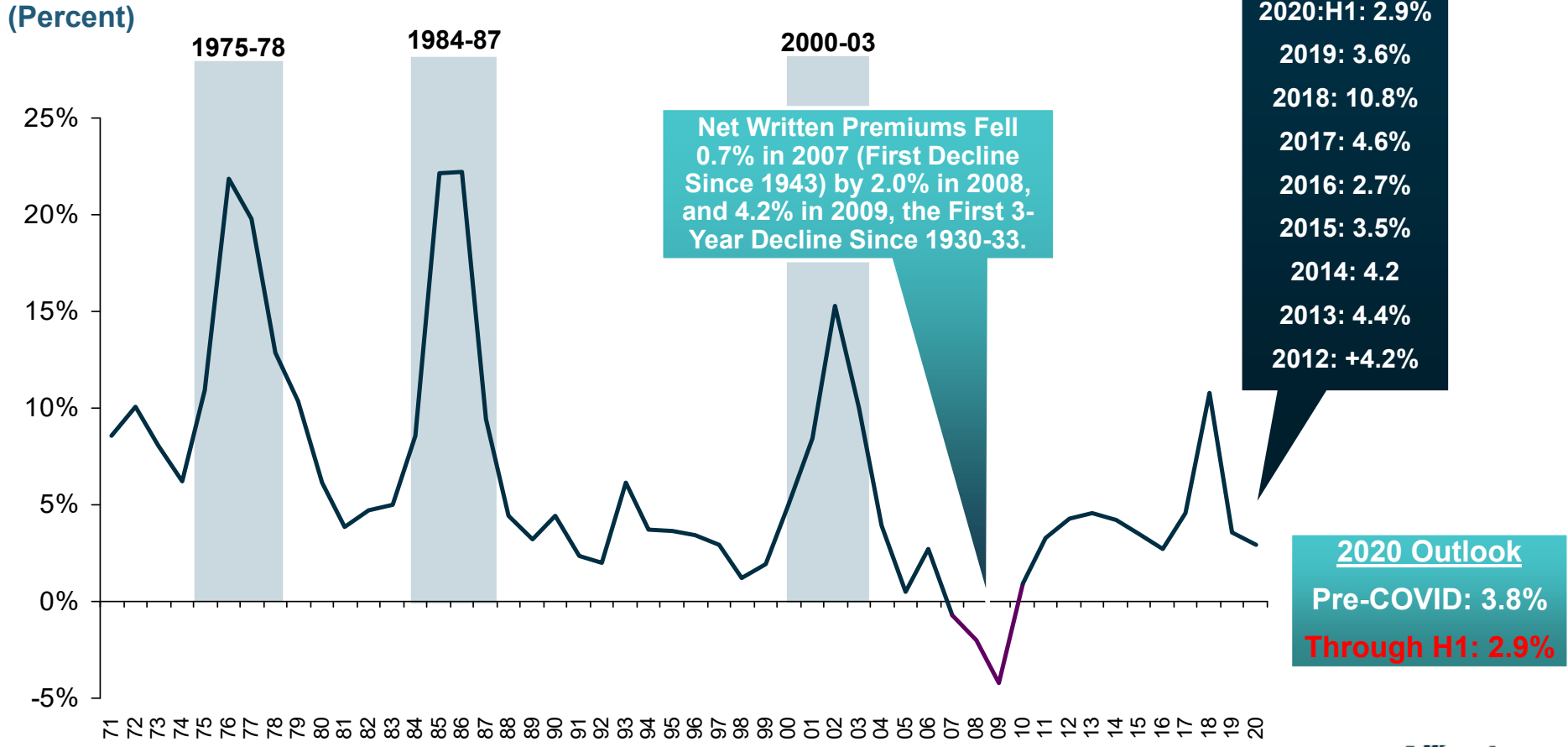
2010:Q1 data includes \$22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business.

Policyholder Surplus is the industry's financial cushion against large insured events, periods of economic stress and financial market volatility. It is also a source of capital to underwrite new risks.

Sources: ISO, A.M. Best; Risk and Uncertainty Management Center, University of South Carolina.



Net Premium Growth (All P/C Lines): Annual Change, 1971—2020:H1



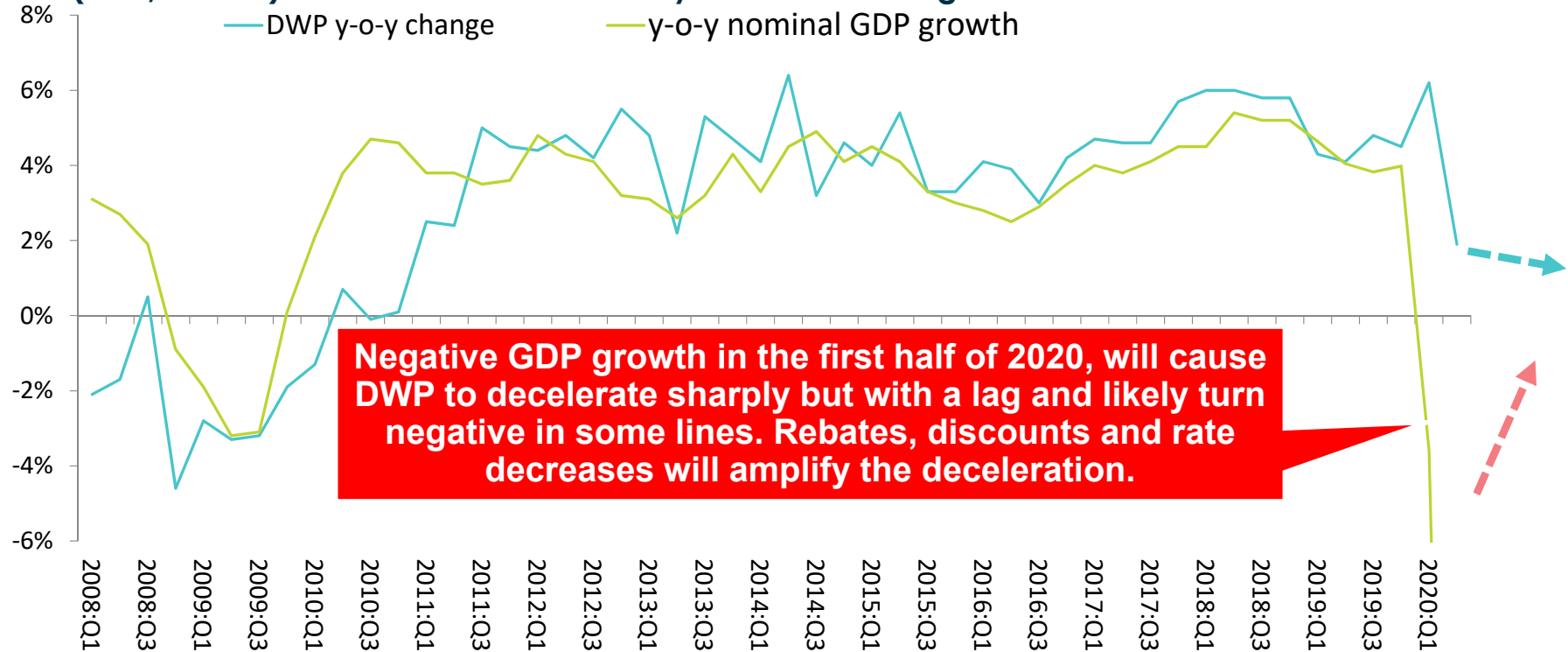
*Pre-COVID-19 forecast from A.M. Best Review & Preview (Feb. 2020). NOTE: Shaded areas denote "hard market" periods
Sources: A.M. Best (1971-2013, 2020F), ISO (2014-19); Risk & Uncertainty Management Center, Univ. of South Carolina.



The Economy Drives P/C Insurance Industry Premiums: 2006:Q1–2020:Q2*

Direct Premium

Growth (All P/C Lines) vs. Nominal GDP: Quarterly Y-o-Y Pct. Change



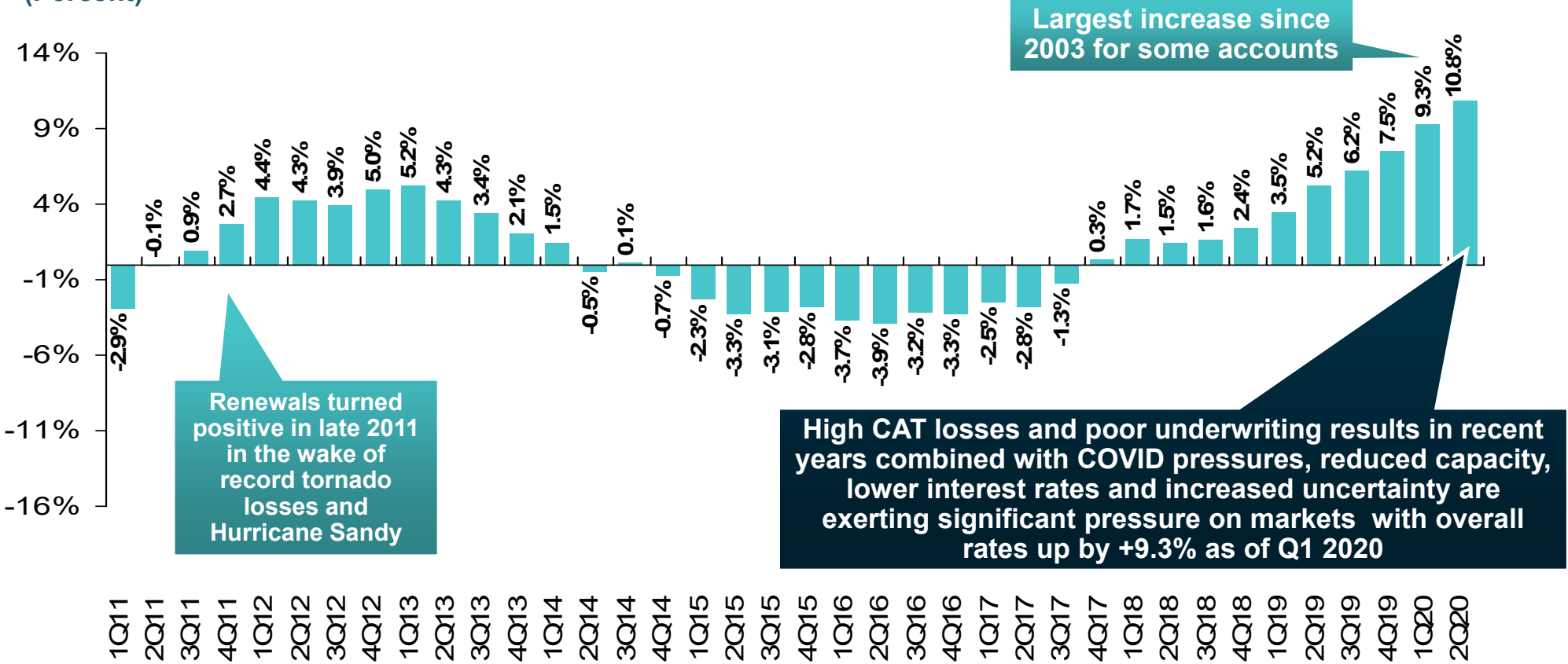
Direct written premiums track nominal GDP fairly tightly over time, suggesting the P/C insurance industry's growth prospects inextricably linked to economic performance.



Sources: S&P, Financial, U.S. Commerce Dept., Bureau of Economic Analysis, ISG, I.I.I., Risk and Uncertainty Management Center, University of South Carolina.

CIAB: Average Commercial Rate Change, All Lines, 2011:Q1–2020:Q2*

(Percent)

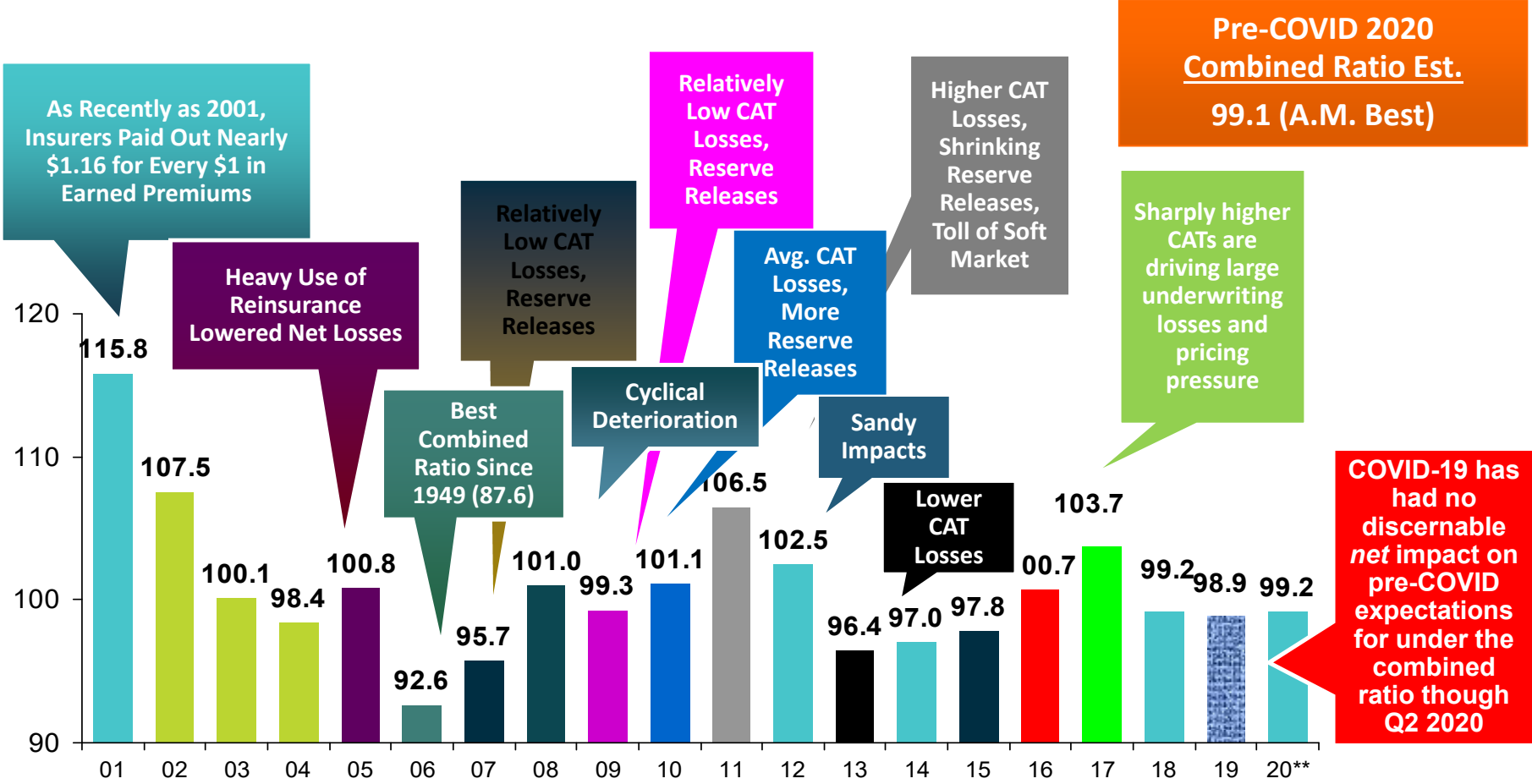


*Latest available.

Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
 Source: Council of Insurance Agents & Brokers; Center for Risk and Uncertainty Management, Univ. of South Carolina.



P/C Insurance Industry Combined Ratio, 2001–2020:H1*



*Excludes Mortgage & Financial Guaranty insurers 2008--2014.

**First Half 2020.

Sources: A.M. Best, ISO (2014-2019).



Viral Outbreaks Are Not An Insurable Risk

Economic Losses from Pandemics

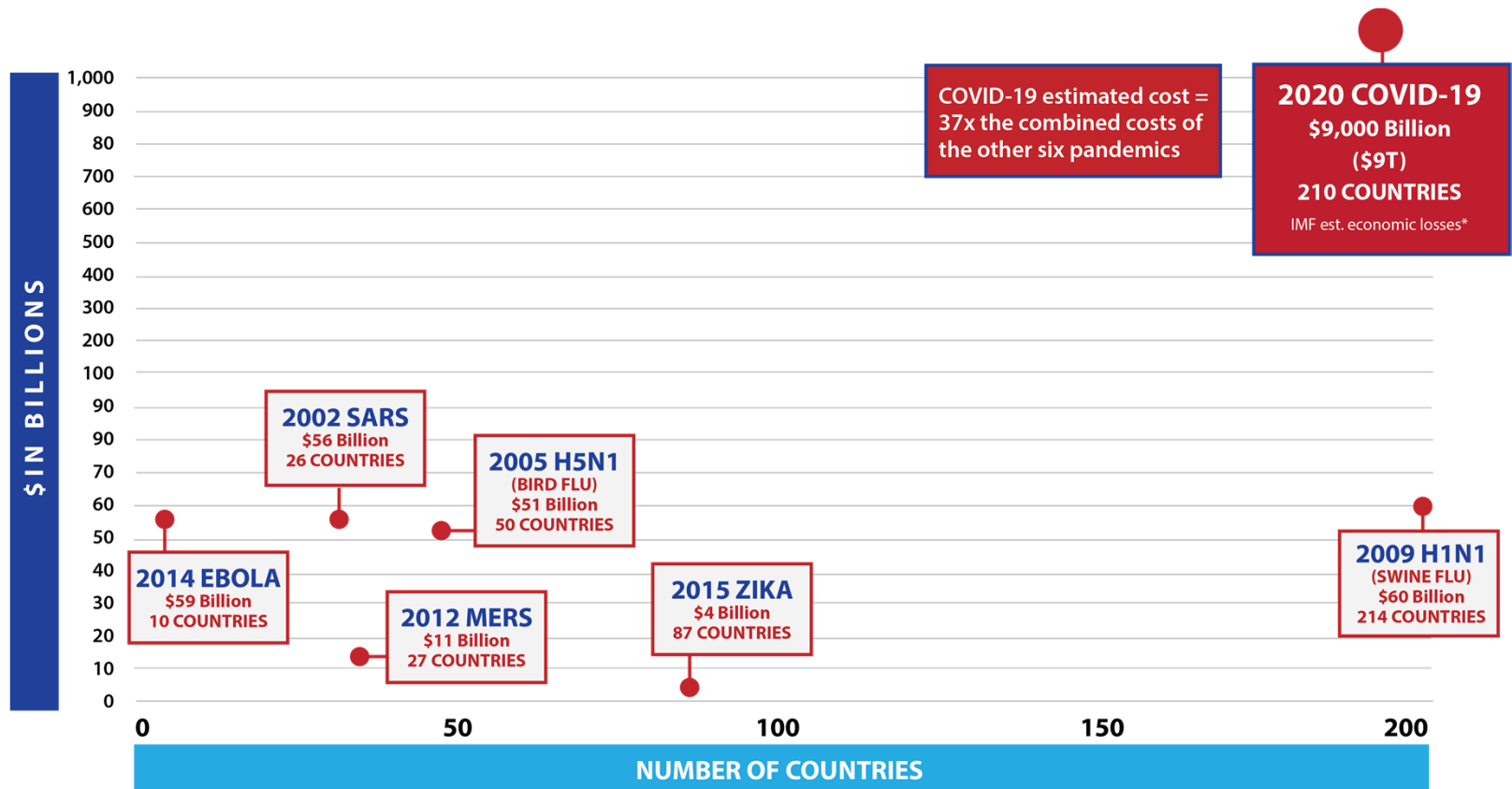
Pandemics are frequent, severe, and widespread (7 pandemics with multi-billion\$ economic losses in just the last 18 years)

For Reference

2005 Katrina
\$58 Billion

2001 9/11
\$48 Billion

(insured losses)



*Sources: APCA using published reports, including IMF, World Bank, Learnbonds.com; APCA adjustment to 2020 USD



Take Aways

- Policyholder surplus deteriorated, but remains strong. Q2 shows the financial rebound in the investment markets, and does not reflect wildfire/hurricane season (Q3/Q4).
- COVID-19 impacts are not fully developed, but clearly adversely impact society, financial institutions and insurance markets.
- ***Due to market pressures and underwriting concerns, pricing continues to increase in most areas.***
- California has unique challenges, underwriting scrutiny due to continued loss development.

An aerial photograph of a river meandering through a lush, dense green forest. The river flows from the top right towards the bottom right, forming a large loop. In the center of the loop, there is a prominent grassy clearing. The surrounding forest is thick and vibrant green, with some taller trees visible. The lighting suggests a bright day, with some shadows cast across the forest floor.

Impact of Natural Catastrophes

World Natural Catastrophes, 2020 1st Half

Losses from natural disasters
in the first half of 2020

US\$ **68** bn



Some 40% of the losses insured

US\$ **27** bn

Many severe thunderstorms
in North America

US\$ **27** bn
(thereof insured: US\$ 20bn)



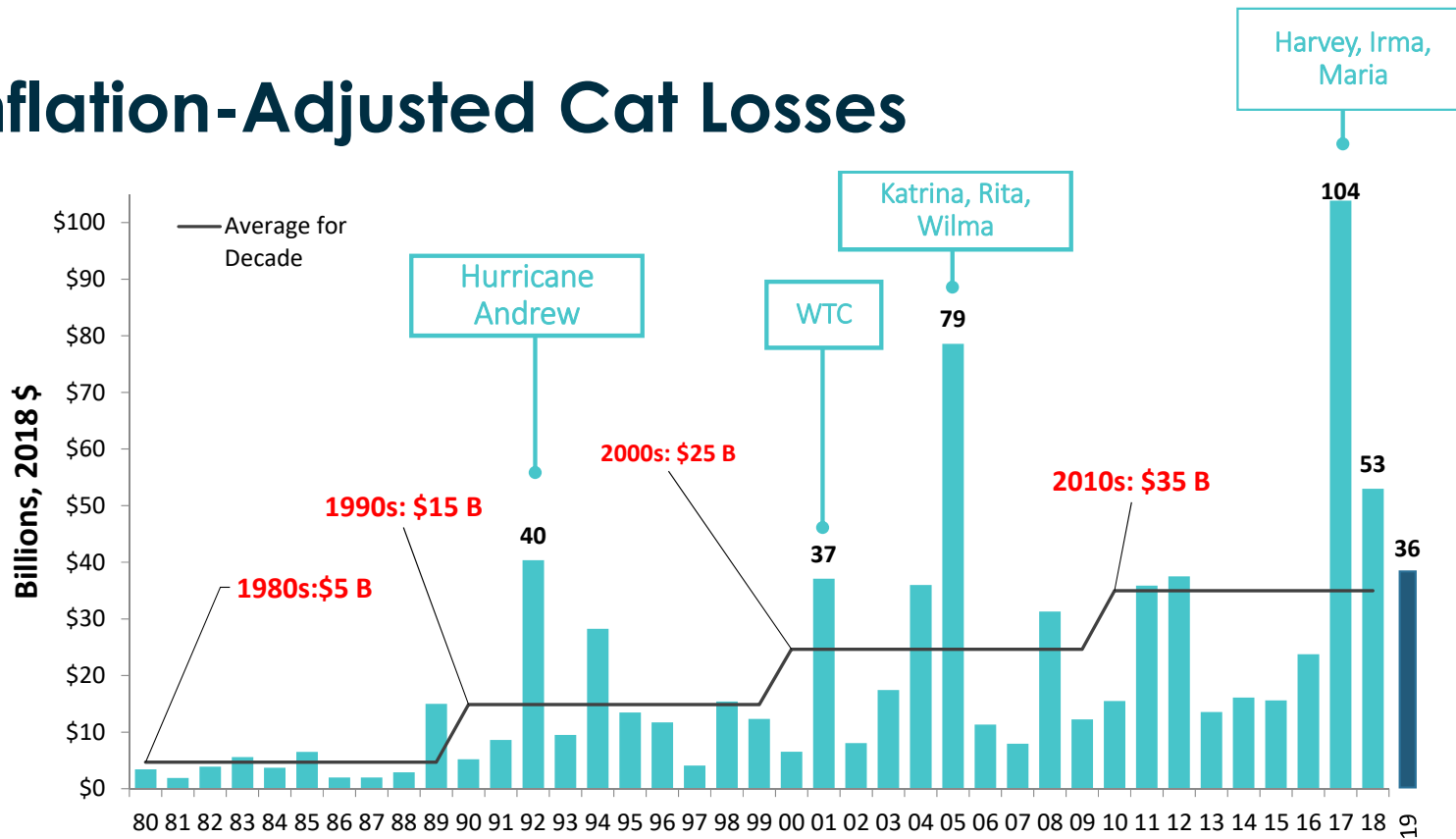
Cyclone Amphan in India - One of the
most expensive cyclones in the region

US\$ **11.5** bn



© Munich Re NatCatSERVICE

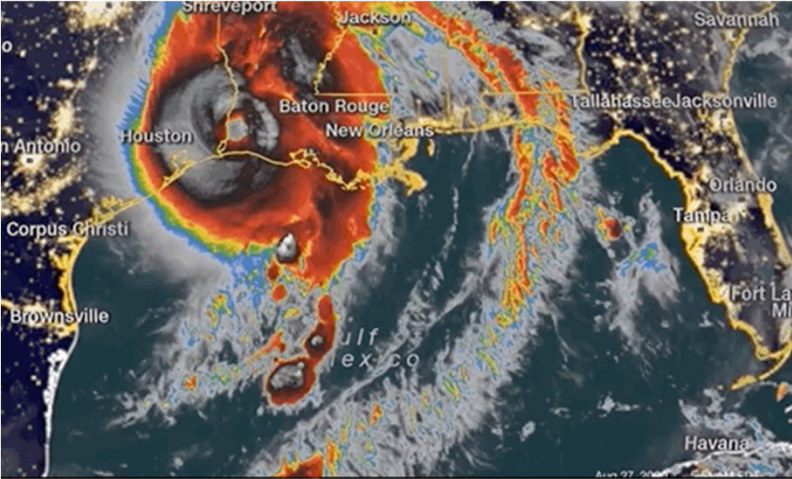
U.S. Inflation-Adjusted Cat Losses



2018 – Third worst year for U.S. Insured Catastrophe Losses. Average Insured Loss per Year for 1980-2019 is \$19.8 B.

Hurricanes

Potential threats from hurricanes include powerful winds, heavy rainfall, storm surges, coastal and inland flooding, rip currents, tornadoes, and landslides.



**Hurricane Laura affecting Gulf Coast
August 2020**

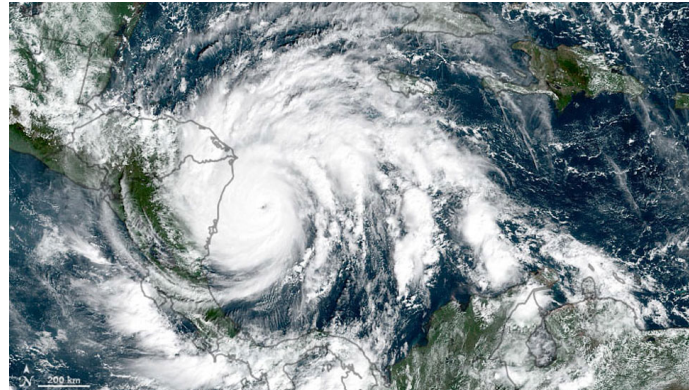


**Hurricane Dorian affecting Bahamas & Eastern Seaboard
September 2019**

2020 Hurricane Season

Record-breaking Atlantic hurricane season draws to an end

The extremely active 2020 Atlantic hurricane season closed with a **record-breaking 30 named storms** and 12 landfalling storms in the continental United States.



Hurricanes



2020 Atlantic Tropical Cyclone Names

Arthur	Hanna	Omar	Alpha	Iota	Rho
Bertha	Isaias	Paulette	Beta	Kappa	Sigma
Cristobal	Josephine	Rene	Gamma	Lambda	Tau
Dolly	Kyle	Sally	Delta	Mu	Upsilon
Edouard	Laura	Teddy	Epsilon	Nu	Phi
Fay	Mario	Vicky	Zeta	Xi	Chi
Gonzalo	Nana	Wilfred	Eta	Omicron	Psi
			Theta	Pi	Omega

Be prepared: Visit hurricanes.gov and follow @NWS and @NHC_Atlantic on Twitter.

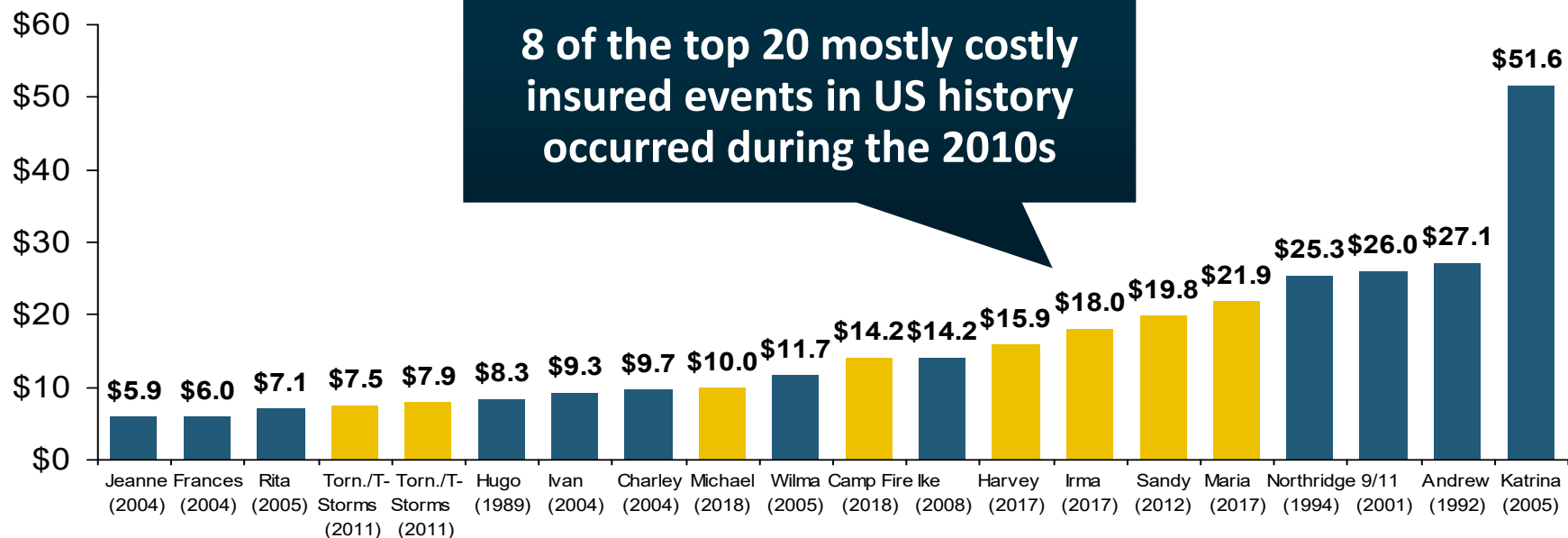
11/24/20

Top 20 Most Costly Disasters in U.S. History—Katrina Still Ranks #1

(Insured Losses, 2017 Dollars, \$ Billions)*

COVID-19 insured property losses remain highly uncertain, but could easily make the top 10

8 of the top 20 most costly insured events in US history occurred during the 2010s



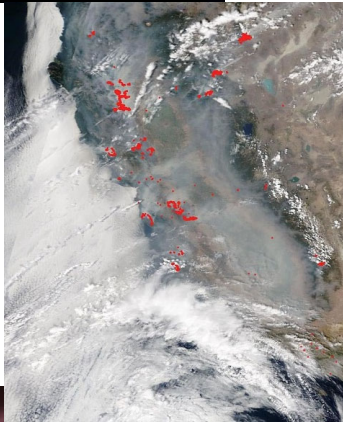
17 of the 20 Most Expensive Insurance Events in US History Have Occurred Since 2004

*Estimated.

Sources: PCS, RMS, Karen Clark & Co; USC Center for Risk and Uncertainty Management adjustments to 2017²¹ dollars using the CPI.



Convective Storms

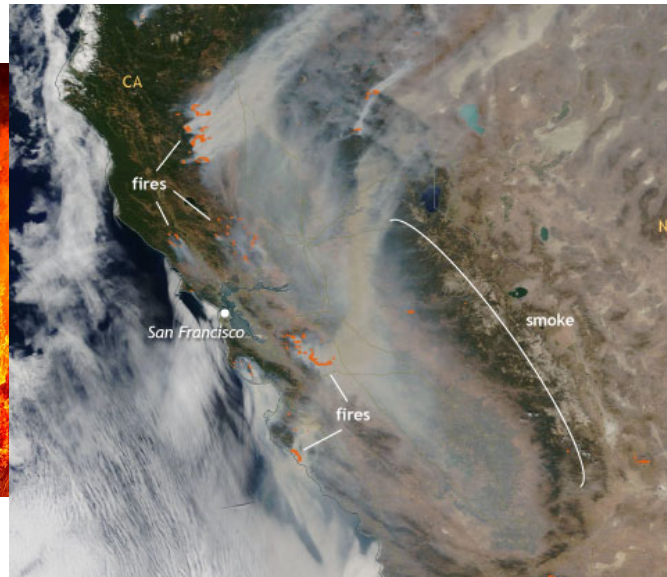


Commonly known as *thunderstorms*, intense heating causes a parcel of moist air to rise from the earth's surface into upper levels of the atmosphere, causing weather hazards such as **lightning, heavy rain, hail, flash flooding and tornadoes.**

This past August, lightning strikes (12,000) from storms like these sparked hundreds of wildfires in California.

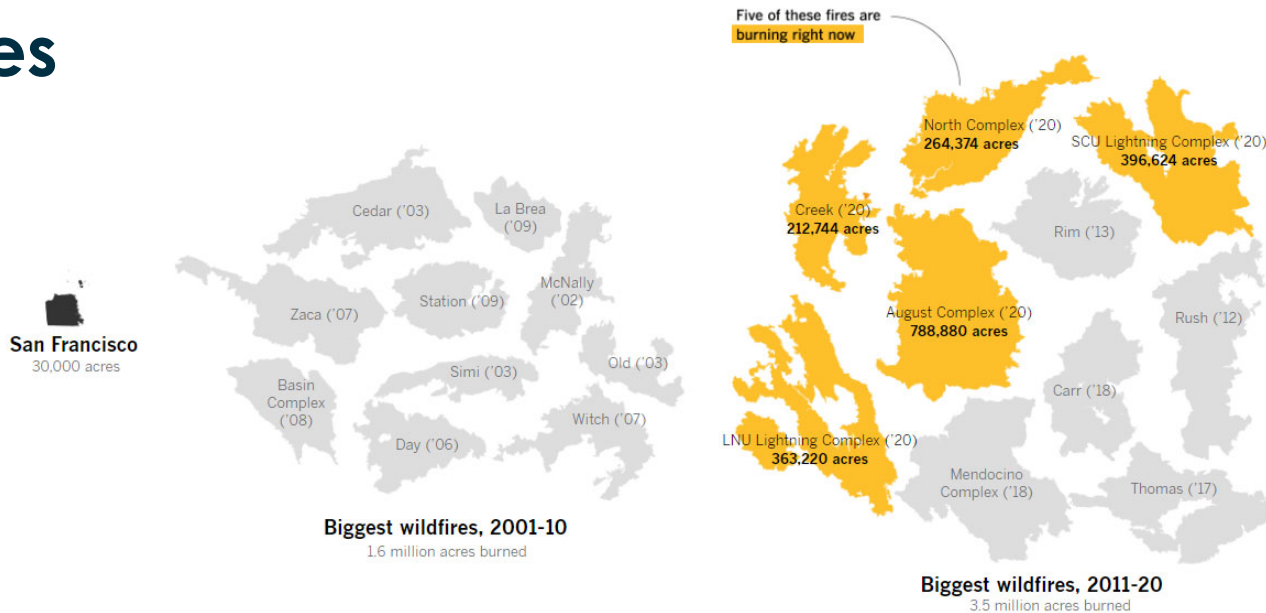
The same month a *derecho* hit Iowa and four other states, causing \$7.5B+ in damage, *most costly thunderstorm in U.S. History.*

Wildfires



The 2020 season was a record-setting one for the state of California and the United States as a whole. NIFC reported that as of Nov. 27 there were 52,113 wildfires that had burned 8,889,297 acres in 2020. This is approximately 2.3 million more acres burned than the 10-year average and almost double the acreage burned in the 2019 season.

Wildfires



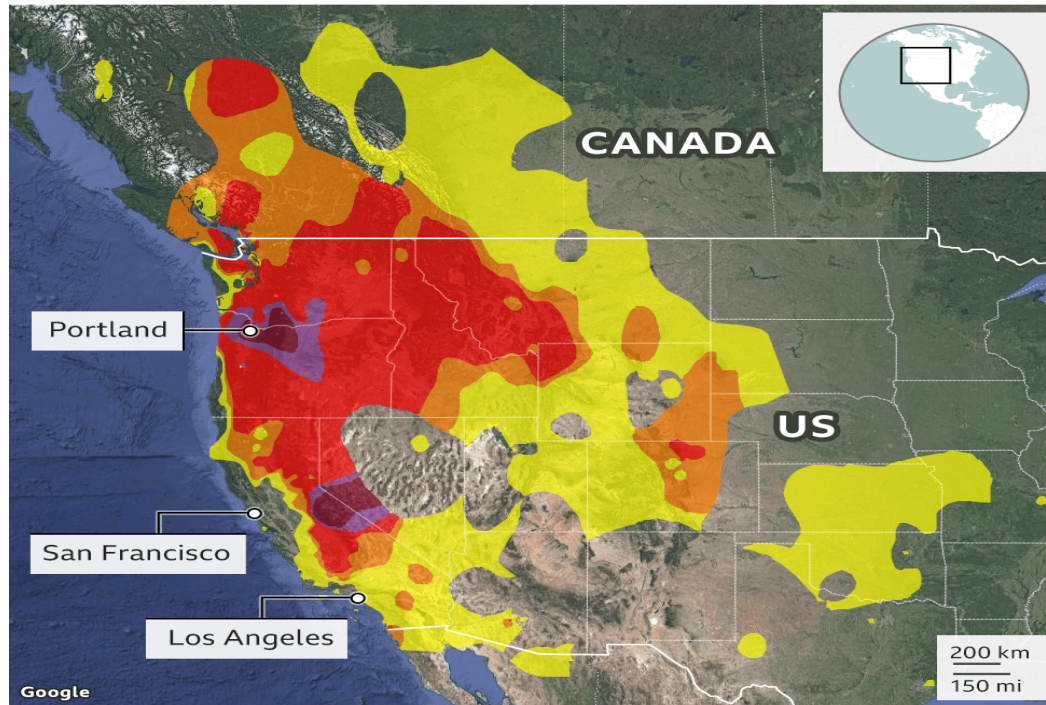
Record-breaking wildfires are occurring more often. Eight of the 10 largest fires in California history have burned in the past decade. On Sept. 9, the massive August Complex became the largest fire in the state's history.

Taken together, they dwarf the 10 biggest fires from the decade before.

Source: Los Angeles Times

Wildfires

Worst air quality on record for US West Coast



Air Quality Index: levels of pollution including particulate matter

- Moderate 51-100
- Unhealthy for sensitive groups 101-150
- Unhealthy 151 - 200
- Very unhealthy 201-300
- Hazardous 300 -500

Source: AirNow

BBC

Earthquakes



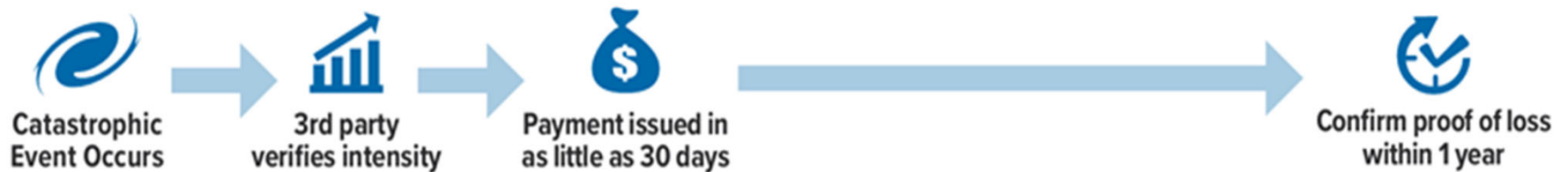
Not to be overlooked, Earthquakes are inevitable and can happen at any time.

Economic impacts of an earthquake can be devastating on first party property, and expected business revenues.



How Parametric Products Benefit Catastrophe-Driven Risk Transfer

PARAMETRIC INSURANCE



INDEMNITY-BASED INSURANCE



Courtesy of the Alternative Risk group at AmWINS.



Take Aways

- Are your emergency response plans in place for wildfire, earthquake and flooding?
- Does your entity have the financial means to rebuild?
- COVID-19 continues to impact all sectors, and economic impacts will continue to build.
- California's exposure to large property losses from wildfire has upended the property market. Fires continue to increase in size and frequency.



The New Normal



We are in unprecedented times.....

- We are in the midst of a pandemic that turned our lives upside down;
- Public trust has eroded;
- Community trust in Law Enforcement at historic lows;
- Social Injustice has caused much angst among citizens and brought about protests pitting groups against each other;

The New Normal Risk Matrix featuring 9 ways businesses could change as a result of COVID-19



Note: The Risk Matrix is produced by the Risk and Insurance® editorial team. Liberty Mutual Insurance is the presenting sponsor and has no responsibility for the content.

10 Critical Risks Shaping The Liability Landscape Today



Note: The Risk Matrix is produced by the Risk and Insurance® editorial team. Liberty Mutual Insurance is the presenting sponsor and has no responsibility for the content.



Hyper-Social Inflation

“Social Inflation is a uniquely American phenomenon because the United States is the only country in the world that routinely uses jury trials for civil cases. Jurors have unconscious biases derived from the culmination of their life experiences.”



Source: Markel Insurance

Texas - \$80M – Trucking accident injuring one person.

Washington - \$123M – Duck Boat accident killing and injuring many.

Georgia - \$280M – Trucking accident killing five people

Alabama - \$152M – Auto accident injuring one person

California - \$2B – Pesticide product allegedly harmed two people

New York - \$56M – Medical accident during surgery injuring one person

Maryland - \$230M – Medical accident during a delivery injuring one person

Pennsylvania - \$8M – Pharmaceutical product led to unwanted side effects in many persons

Georgia - \$125M Living conditions in an apartment building complex resulted in one death

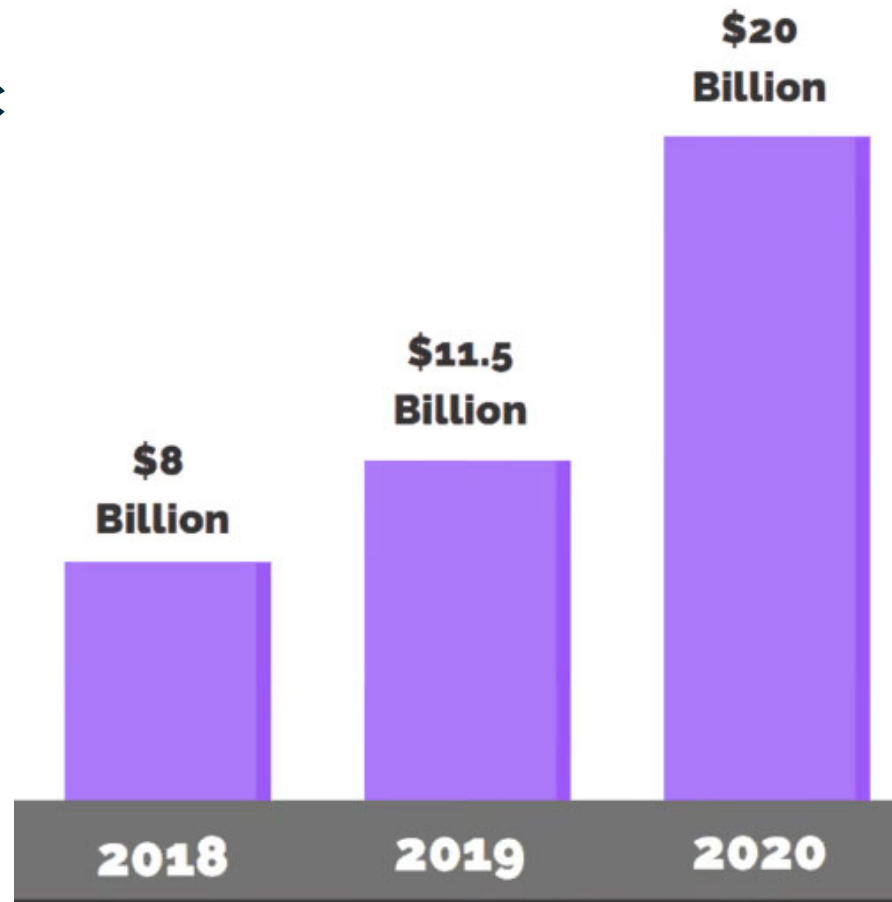
New York - \$110M – Construction accident killing one person.

Large Public Entity Verdicts/Settlements

Loss Year	Description	Total Paid
2018	Sexual Abuse (Class Action)	\$500,000,000
2017	Sexual Abuse (Class Action)	\$215,000,000
2015	Methane Gas Leak	\$120,000,000
2015	Bus Shelter Collapse (Single Plaintiff)	\$115,000,000
2014	Child Abuse/Foster Care	\$113,400,000
2011	Police Shooting/Wrongful Death	\$97,000,000
2014	Dangerous Condition/Landslide	\$71,500,000
2016	Vehicle Accident/Fire Ambulance	\$65,750,000
2016	Wrongful Death	\$60,000,000
2015	Strip Search (Class Action)	\$53,000,000
2012	Dangerous Condition/Bridge Fire	\$50,000,000
2017	Vehicle Accident/Motorcycle vs Auto	\$46,000,000
2015	Vehicle Accident/Sherriff Vehicle	\$42,000,000
2011	Wrongful Conviction	\$40,000,000
2014	Dangerous Condition/Vehicle Accident	\$32,500,000
2015	Sexual Abuse	\$31,000,000
2016	Dangerous Condition/Vehicle Accident	\$30,000,000

The Ransomware Epidemic

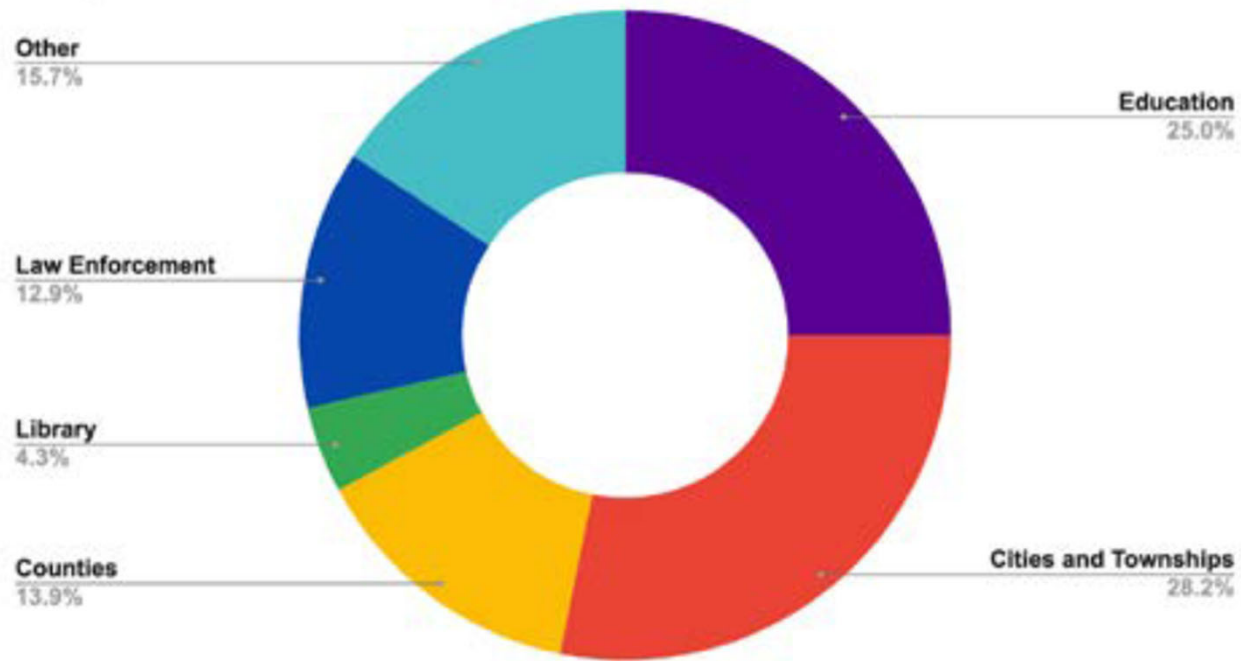
Ransomware surged in recent years, and there is no foreseeable slowdown. All industry segments were impacted. Manufacturing and professional services were particularly hard hit, followed closely by healthcare, education, and **government entities**.



*Estimated global damage from ransomware.

Cyber Attacks on Municipalities

Target Area of Attacks



Evolving: e-Crime – Fraudulent Instruction



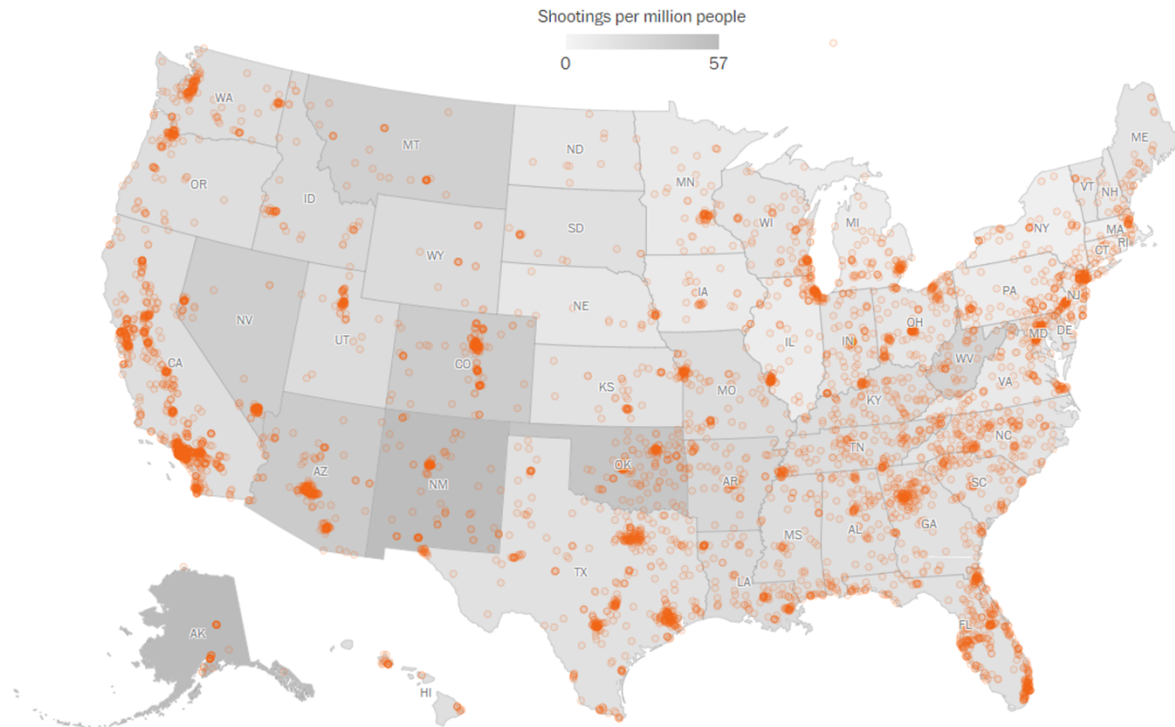
Crime coverage can be extended to cover Wire Transfer Fraud, which is:

- A fraudulent transfer, not authorized by the entity

However, Fraudulent Instruction is different, it is:

- Your employee, in good faith, accidentally authorized a transfer as a result of fraudulent instruction
- This coverage carries a higher retention (\$25k min) and lower limit (\$250,000 typically)
- There is a substantial additional premium to add this coverage, with a supplemental application
Fraudulent Instruction, to the insurance industry, is an "Internal Controls" issue, and applications will focus on safety checks, confirmations, authority levels, etc.
- Cyber policies also cover Impersonation Fraud

Evolving: Officer Involved Shootings 2020



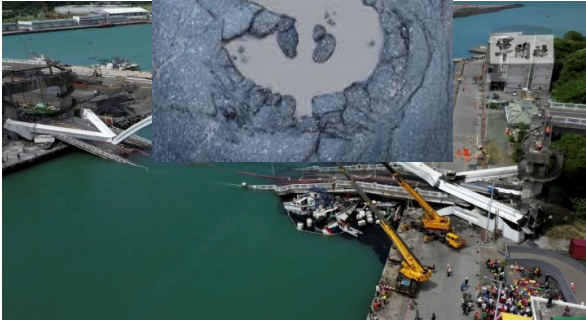
There are 290 shootings with unverified locations that are not shown on the map.

The Washington Post is tracking this national figure best, with 999 in 2019, and 976 in 2020.

Social Unrest – Critical Focus on Law Enforcement



Aging Infrastructure



Homelessness



The image shows three white darts on a target board. The darts are positioned in the center of the target, with their tips pointing towards the bullseye. The target board has concentric circles. The text 'Take Aways' is overlaid on the image.

Take Aways

- Challenges and uncertainties resulting from the ongoing COVID-19 pandemic response.
- Is your entity prepared for further financial insecurity?
- Cyber Security: “Not if, but When” your entity will suffer a data breach. Are you prepared?
- Are law enforcement tactics evolving to meet this moment?



Toward the Future

Looking Ahead – The Market

Liability Market:

- Increasing reserves for Law Enforcement Liability claims.
- SAM claims continue to come forward, high values and potential coverage issues (occurrences, date of loss, coverage exclusions/caps) – insureds' Policies and Procedures increasing focus of underwriting.
- Continued market hardening expected.

Workers Compensation Market:

- Treatment of COVID-19 claims could still impact market significantly.
- Unlike other core coverage lines, WC remains relatively stable.

Property Market:

- Increased scrutiny of client data (SOV, loss runs, COPE, etc.).
- Increased retentions and caps on certain types of exposure (wildfire/SRCC).
- Decreased limits provided by single carriers.
- Premium increases expected.

Parting Thoughts

2020 is behind us... what's next?

- Expect upward pressure on Liability & Property rates.
- Public agencies with a history of or exposure to large verdicts and liability settlements will continue to see increases and the marketplace for coverage will continue to retract.
- Dramatic price increases and reductions in coverage can be expected for Sexual Abuse and Molestation.
- Social Unrest focused on Public Entity infrastructure (City Hall, Police Station, etc.) could dramatically change market if several large urban losses are recorded.



Thank you!

Please contact us if you would like a copy of this presentation.

January 2021