



STATE OF THE INSURANCE MARKET 2017

*(THIS INFORMATION HAS BEEN CONSOLIDATED
FROM VARIOUS INDUSTRY SOURCES)*

ACCEL

December 16, 2016

Presented by: ***Mike Simmons &
Conor Boughey***

Alliant Insurance Services

Alliant

- Highlights
- Property/Casualty Industry Performance
- Impact of Natural Catastrophes
- Data Breaches Continue to Soar
- Evolving Risks
 - Flood, Police Actions, Drones, Self-Driving Cars, and Business Interruption
- Looking Ahead...

- For the first half of 2016, Global catastrophic (**CAT**) losses are at their highest level since 2011; global economic losses reached \$98 billion, with global insured losses at \$30 billion, still slightly below their 10-year averages of \$112 billion and \$31 billion respectively. However, **the losses were slightly above the longer-term averages of \$84 billion and \$24 billion dating back to 2000.**
 - The P&C Combined Ratio has deteriorated to 100% as of 9/14/16 per A.M. Best
 - Policyholder surplus is \$676.3B as of 03/31/16.
 - The **WC Combined Ratio for 2015 is projected at 94%**. Workers' comp results began to improve in 2012. Underwriting results deteriorated markedly from 2007-2011 and were the worst they had been in a decade.
 - Due to persistently low interest rates, investment income fell in 2012, 2013 and 2014 but showed a small (1.9%) increase in 2015—another drop in 2016 seems likely.
- Weather extremes (Tropical Storm Hermine, Flooding in Louisiana & Texas), catastrophic losses and investment earnings are areas of concern for carriers.

Commercial Insurance Prices Nearly Flat in the First Quarter



- **Commercial insurance prices were down slightly** during the first quarter of 2016, according to Towers Watson's most recent Commercial Lines Insurance Pricing Survey (CLIPS) data.

- Consistent with Q4 2015, **three lines of coverage reported modest price decreases**:
 - Workers Compensation,
 - Commercial Property,
 - and Directors and Officers

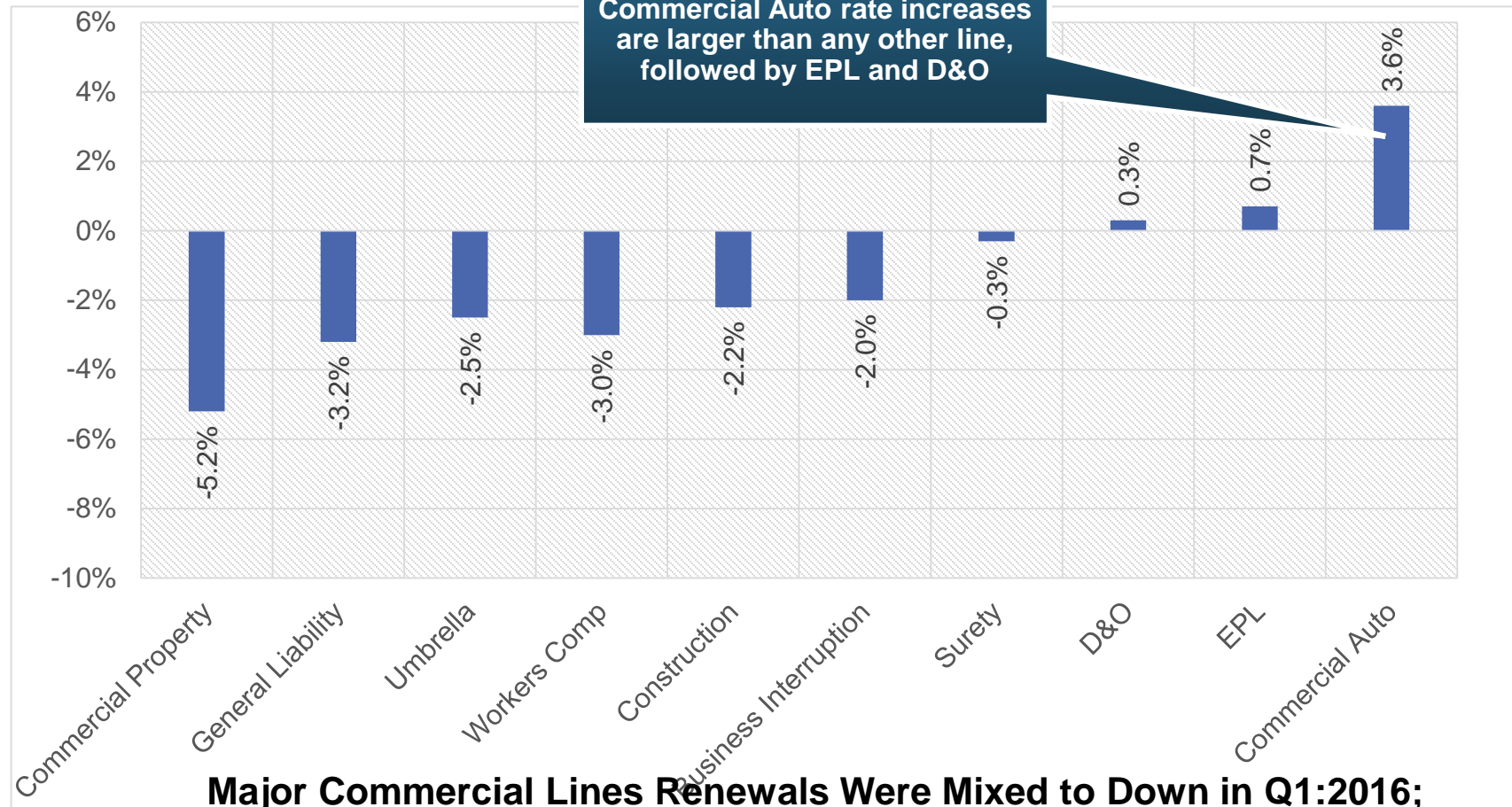
- The outlier in the results continues to be **commercial auto, where price increases continue** to be reported and have even mildly accelerated over the past three quarters. Price changes for most other lines fell in the low single digits.

Source: Towers Watson Commercial Lines Insurance Pricing Survey

Change in Commercial Rate Renewals, by Line: 2016:Q1



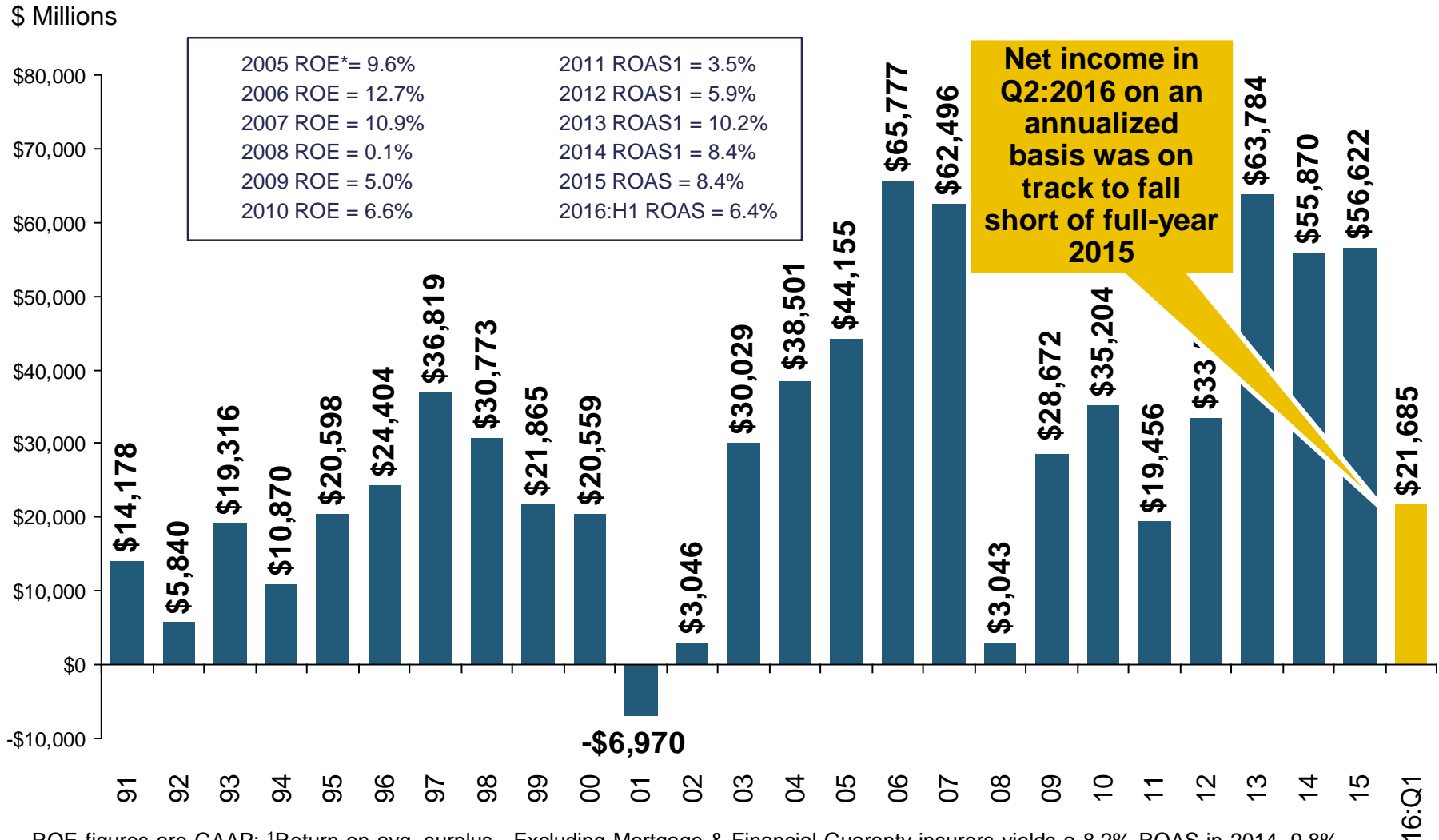
Percentage Change (%)



Major Commercial Lines Renewals Were Mixed to Down in Q1:2016; EPL, D&O and Commercial Auto Saw Gains

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 and Brokers; Insurance Information Institute

P/C Industry Net Income After Taxes 1991–2016:Q2 (Millions)



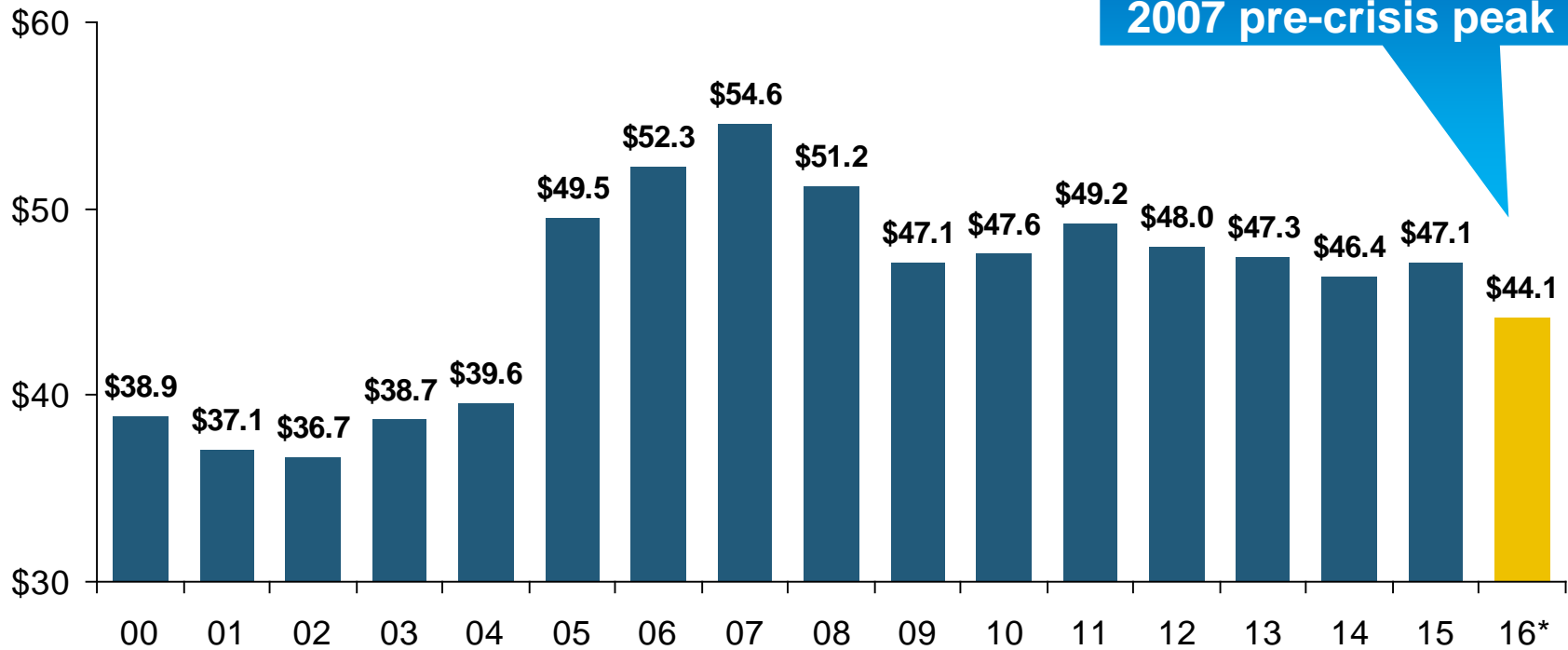
ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 8.2% ROAS in 2014, 9.8% ROAS in 2013, 6.2% ROAS in 2012, 4.7% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009; 2015E is annualized figure based actual figure through Q3 of \$44.0

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

Property/Casualty Insurance Industry Investment Income: 2000–2016:Q2¹



(\$ Billions)



Investment earnings are still below their 2007 pre-crisis peak

Due to persistently low interest rates, investment income fell in 2012, 2013 and 2014 but showed a small (1.9%) increase in 2015—another drop in 2016 seems likely

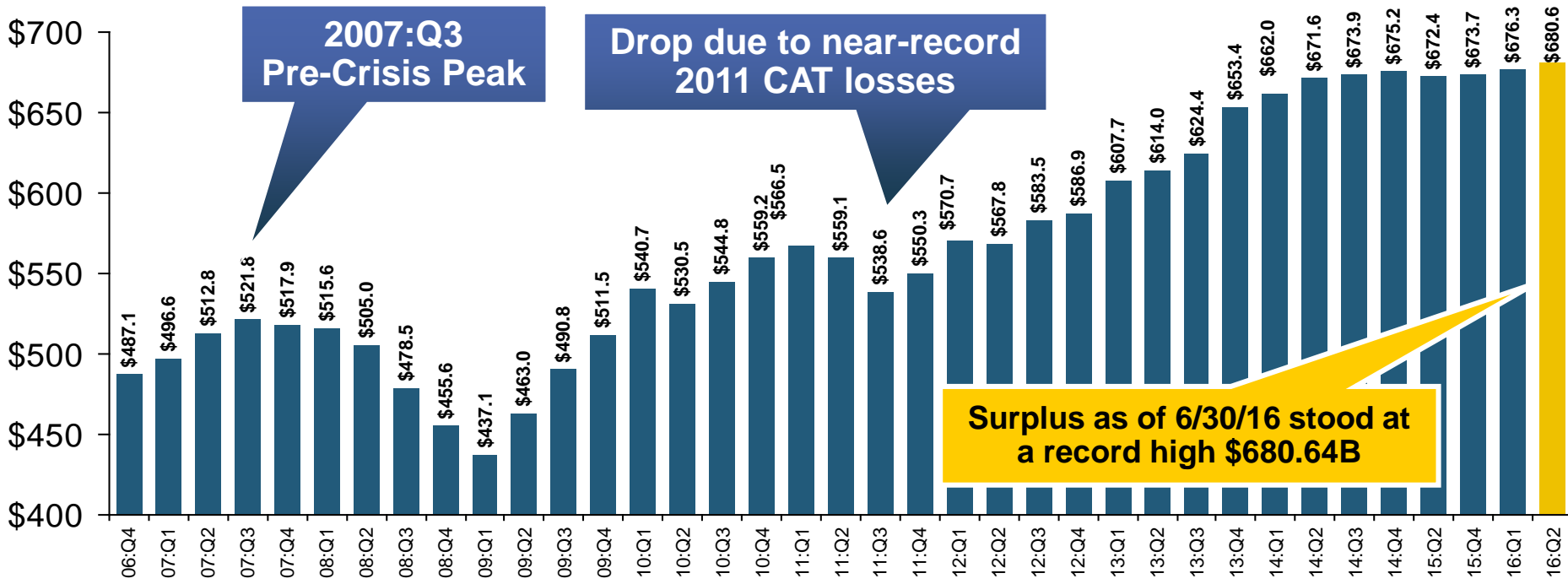
*Annualized figure based on actual Q2:2016 net investment income earned of \$22.067B.

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

Policyholder Surplus, 2006:Q4 – 2016:Q2



(\$ Billions)



The industry now has \$1 of surplus for every \$0.76 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.

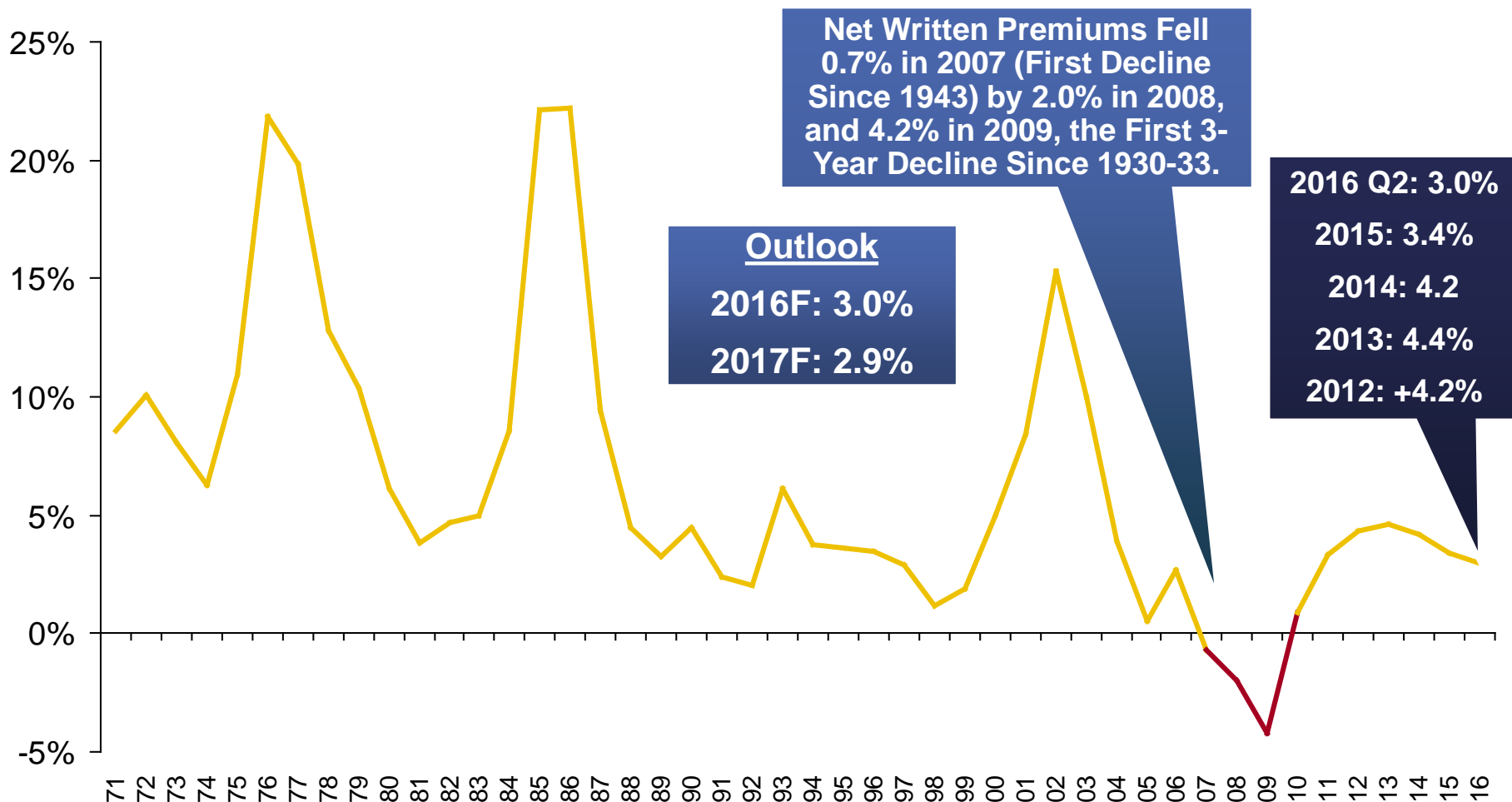
The P/C insurance industry entered 2016 in very strong financial condition.

Sources: ISO, A.M .Best.

Net Premium Growth (All P/C Lines): Annual Change, 1971 — 2016:Q2

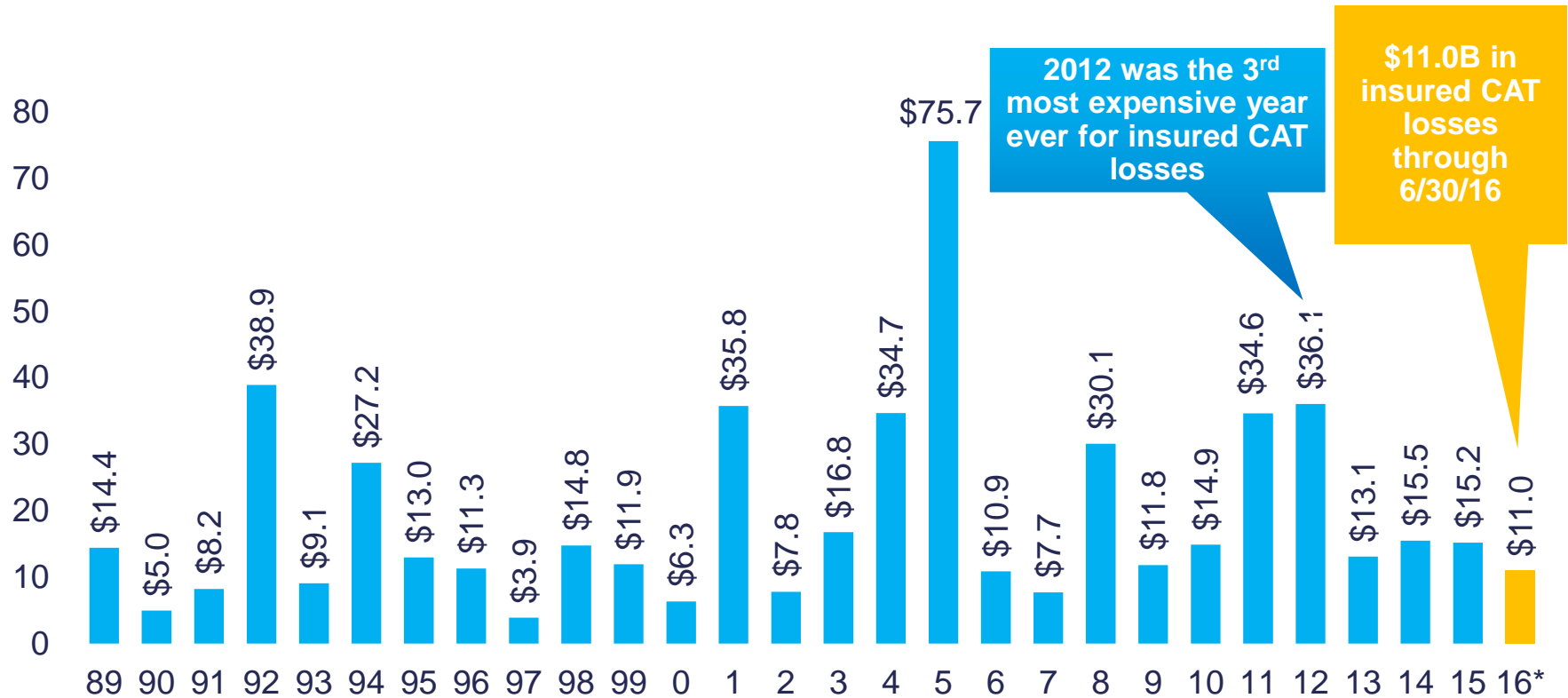


(Percent)



Shaded areas denote "hard market" periods
Sources: A.M. Best (1971-2013), ISO (2014-15).

U.S. Insured Catastrophe Losses



2013/14/15 were welcome respites from 2011/12, among the costliest years for insured disaster losses in us history. 2016 is off to a costlier start.

*Through 6/30/16. 2016 figure stated in 2016 dollars.

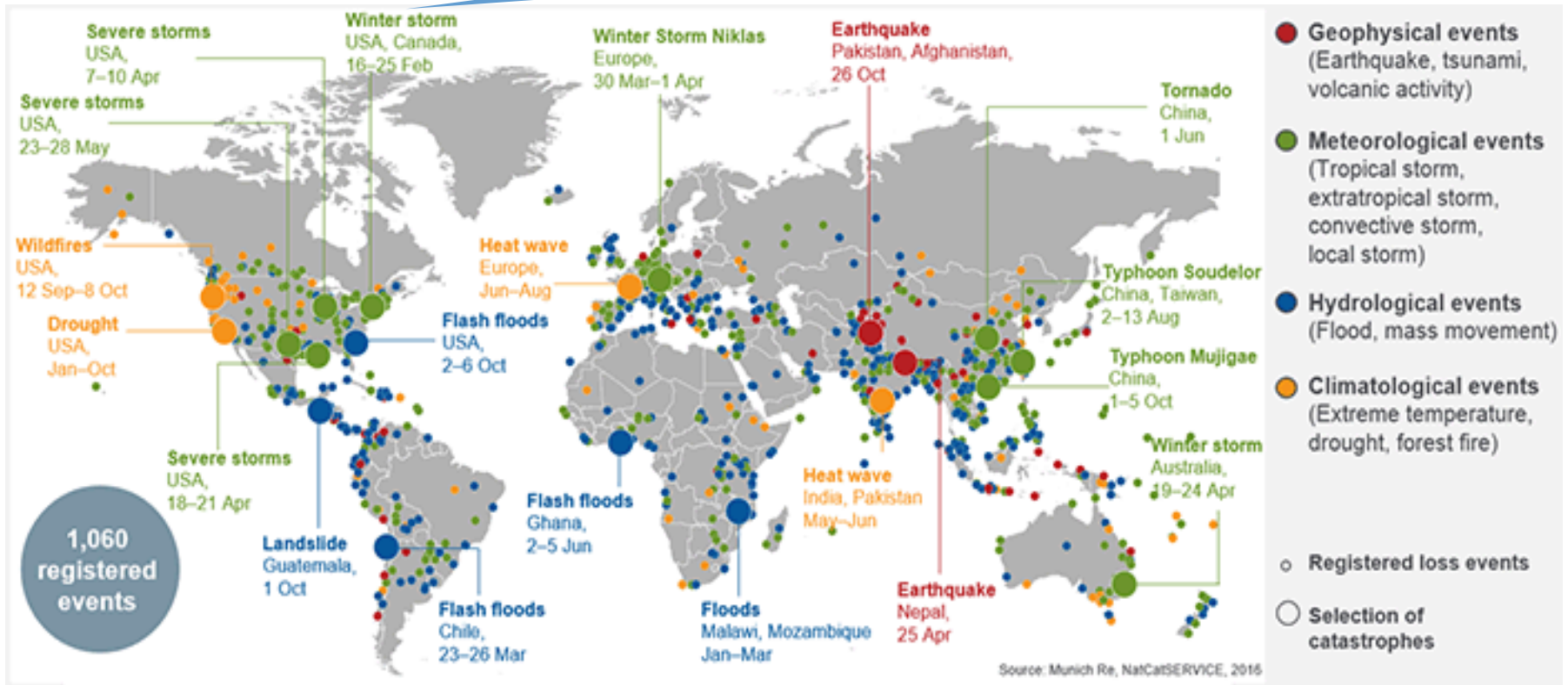
Note: 2001 figure includes \$20.3B for 9/11 losses reported through 12/31/01 (\$25.9B 2011 dollars). Includes only business and personal property claims, business interruption and auto claims.

Non-prop/BI losses = \$12.2B (\$15.6B in 2011 dollars.)

Sources: Property Claims Service/ISO; Insurance Information Institute

Loss Events Worldwide 2015

Global insured CAT losses totaled \$27 billion in 2015, 21% below the \$31 billion average over the past 30 years (1985-2014, adj. for inflation)



Source: © 2016 Munich Re, Geo Risks Research, NatCatSERVICE. As of March 2016.

First Half 2016 Cat Losses by Type

- Severe Thunderstorms Lead the Way

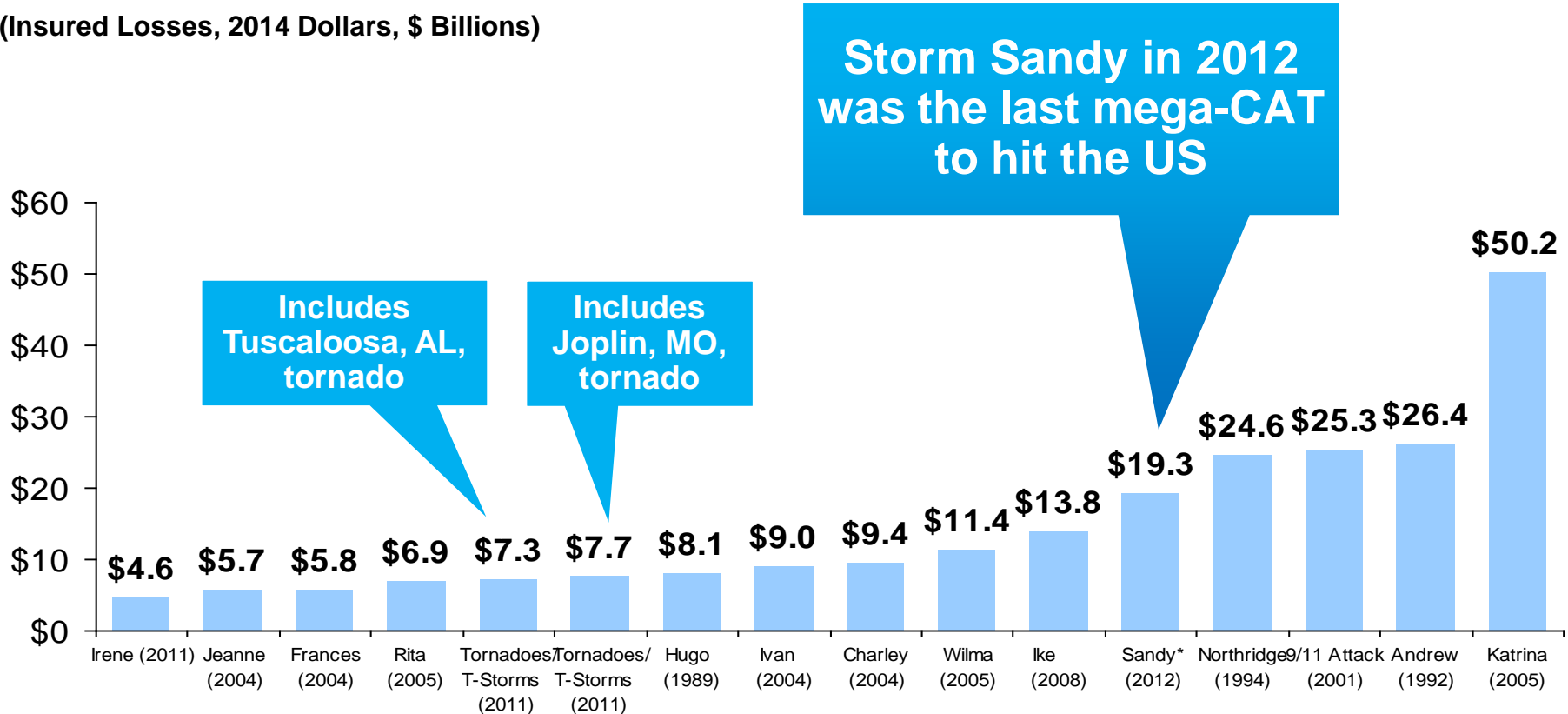


As of July 12, 2016	Number of Events	Fatalities	Estimated Overall Losses (US \$million)	Estimated Insured Losses (US \$million)*
Severe Thunderstorm	21	25	11,600	8,500
Winter Storms & Cold Waves	8	55	2,300	1,500
Flood, Flash Flood	60	3,300	3,300	1,000
Earthquake & Geophysical	-	-	-	-
Tropical Cyclone	-	-	-	-
Wildfire, Heat Waves & Drought (ongoing drought conditions without loss estimation for half the year)	5	10	200	Minor Losses
Totals	94	3,390	17,400	11,000

Top 16 Most Costly Disasters in U.S. History—Katrina Still Ranks #1



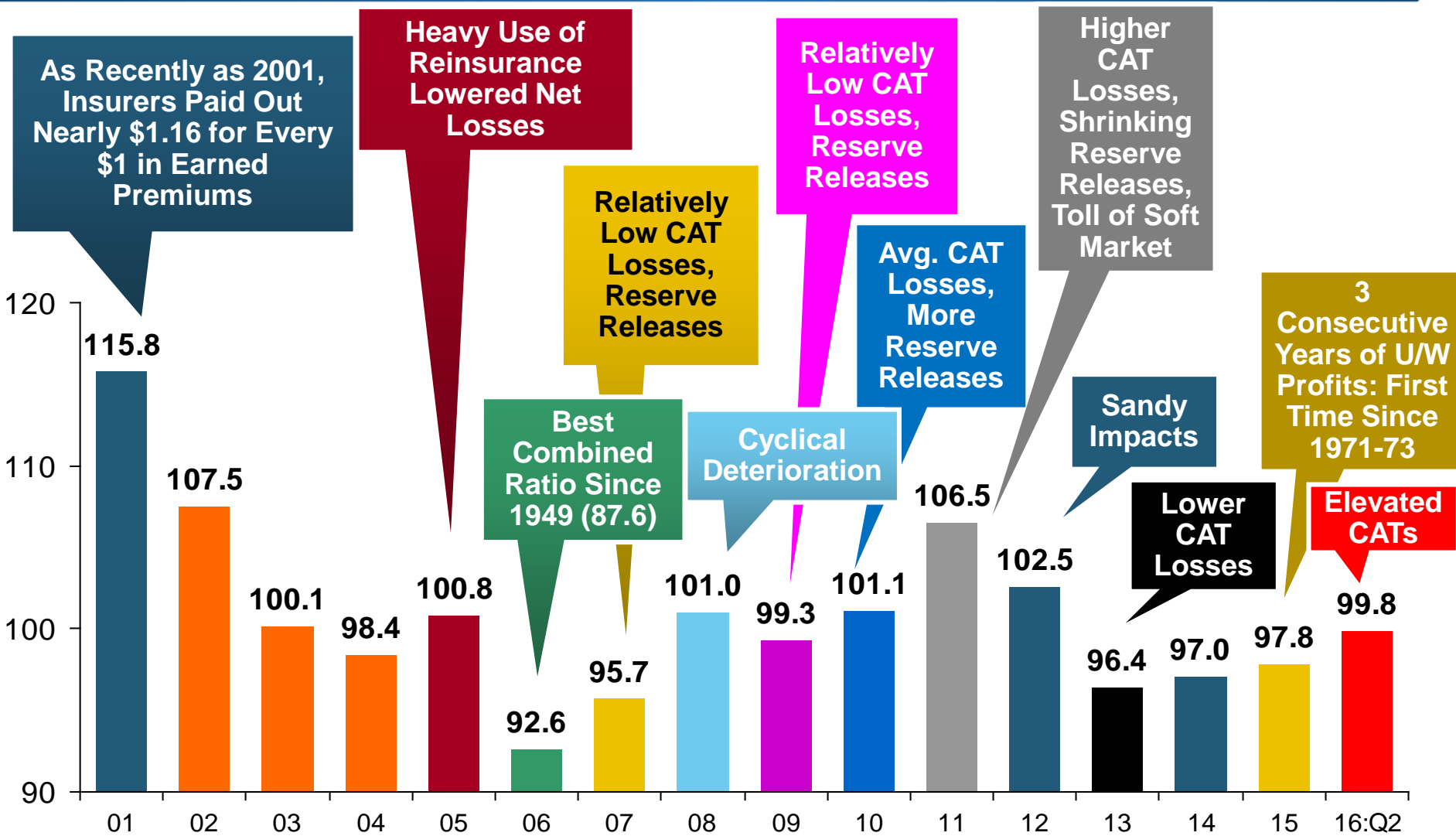
(Insured Losses, 2014 Dollars, \$ Billions)



12 of the 16 Most Expensive Events in US History Have Occurred Since 2004

Sources: PCS; Insurance Information Institute inflation adjustments to 2014 dollars using the CPI.

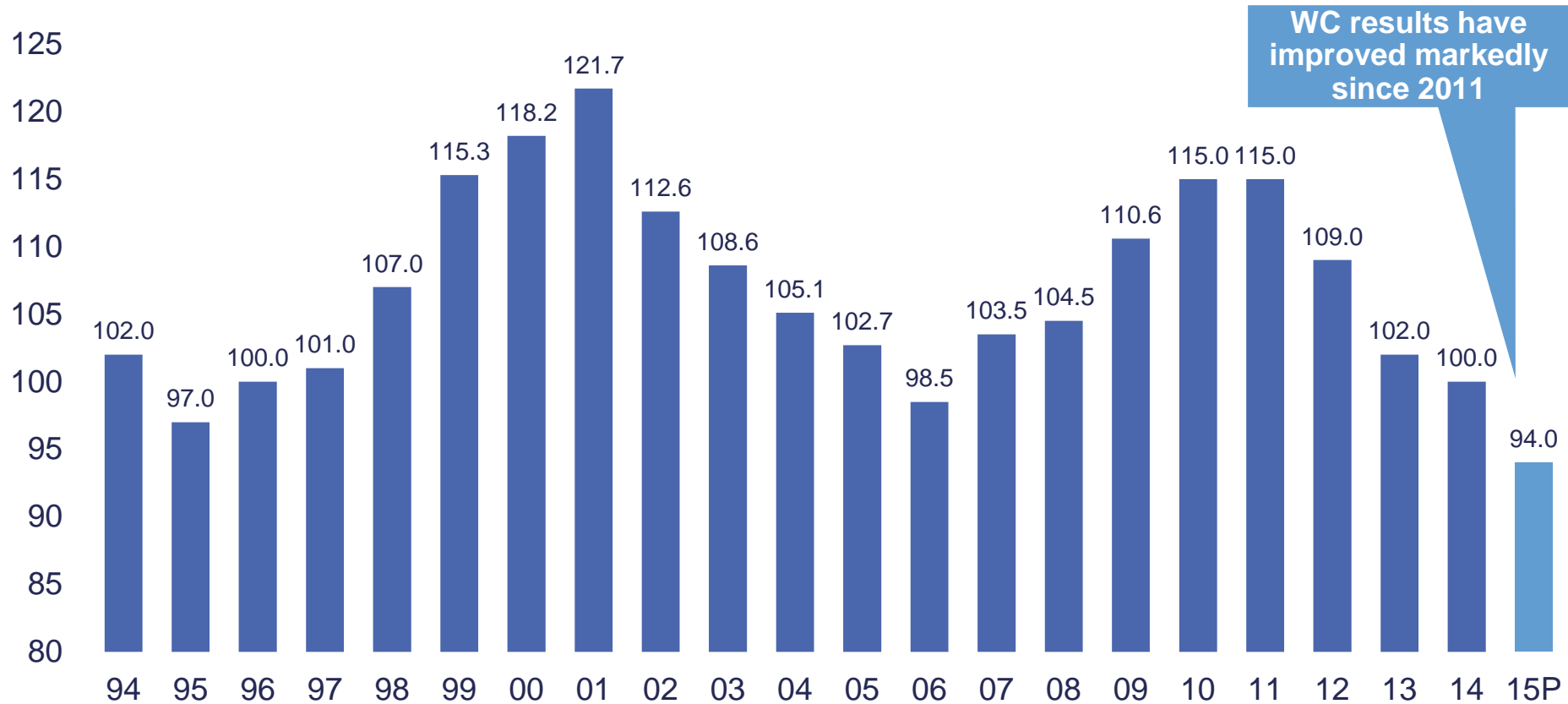
P/C Insurance Industry Combined Ratio 2001–2016:Q2*



* 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 (2014-2015); Figure for 2010-2013 is from A.M. Best P&C Review and Preview, Feb. 16, 2016.

Workers Compensation Combined Ratio: 1994 – 2015P



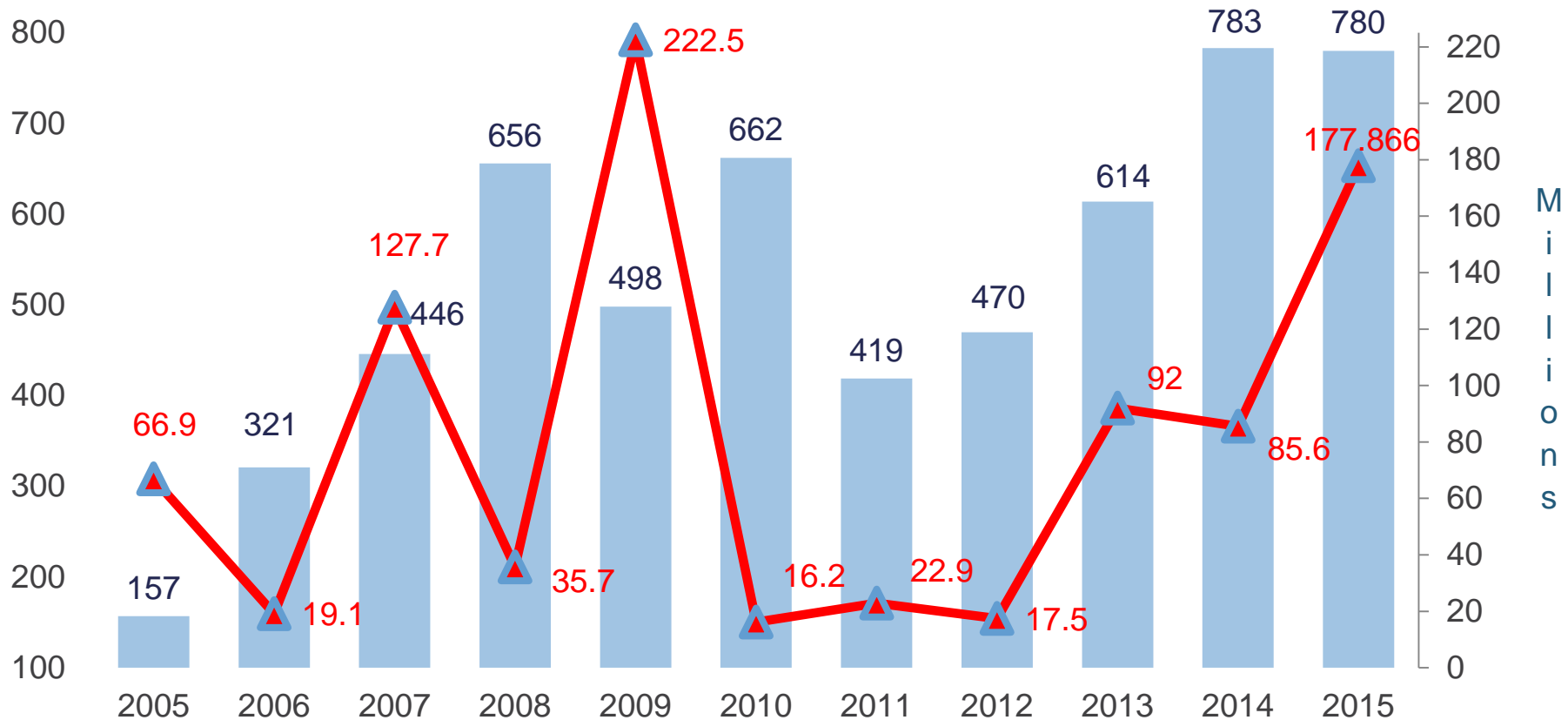
Workers' comp results began to improve in 2012. Underwriting results deteriorated markedly from 2007-2010/11 and were the worst they had been in a decade.

Sources: A.M. Best (1994-2009); NCCI (2010-2015P) and are for private carriers only; Insurance Information Institute.

Data Breaches 2005-2015, by Number of Breaches and Records Exposed



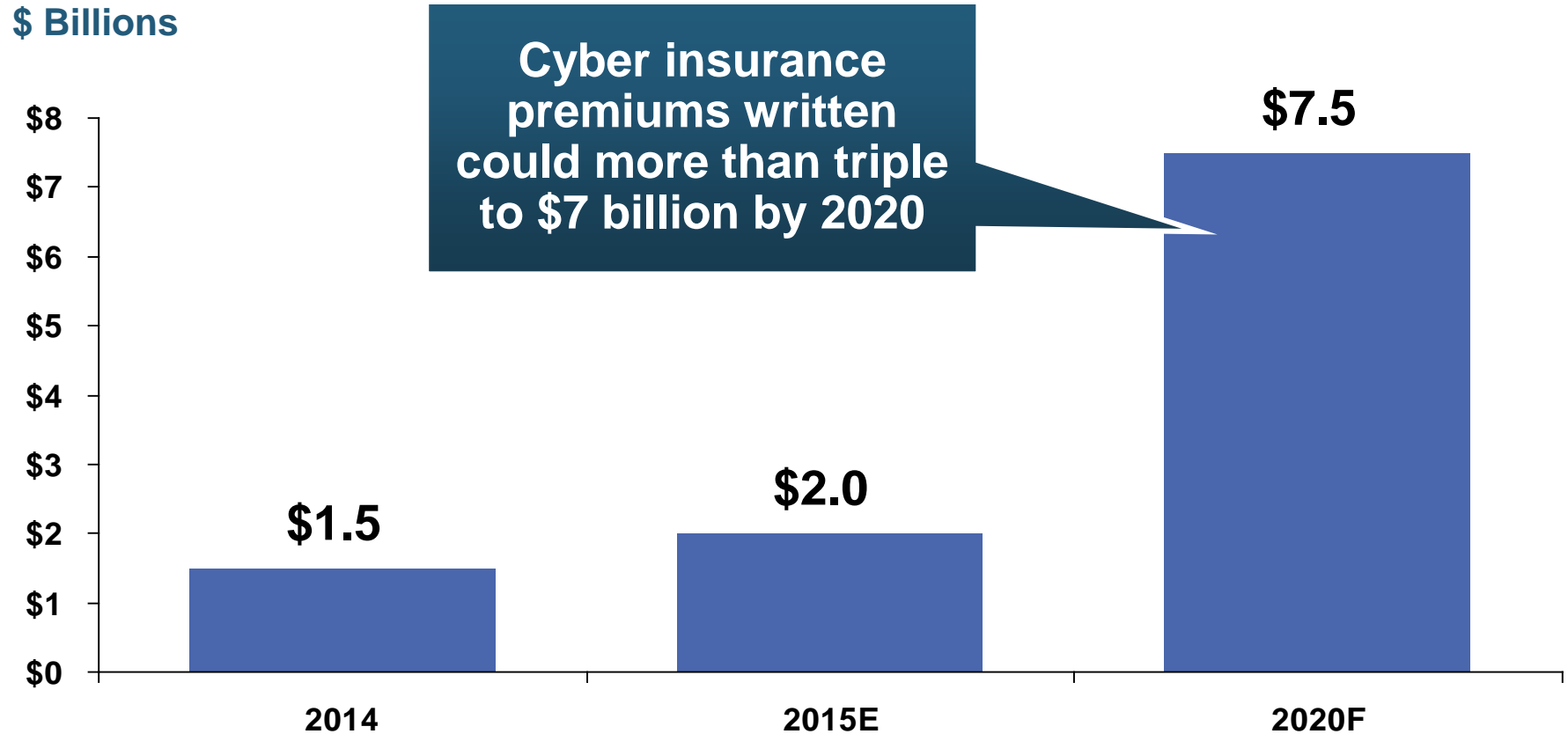
Data Breaches/Millions of Records Exposed



The total number of data breaches (+27.5%) hit a record high of 783 in 2014, exposing 85.6 million records. Through June 30, this year has seen 117.6 million records exposed in 400 breaches.*

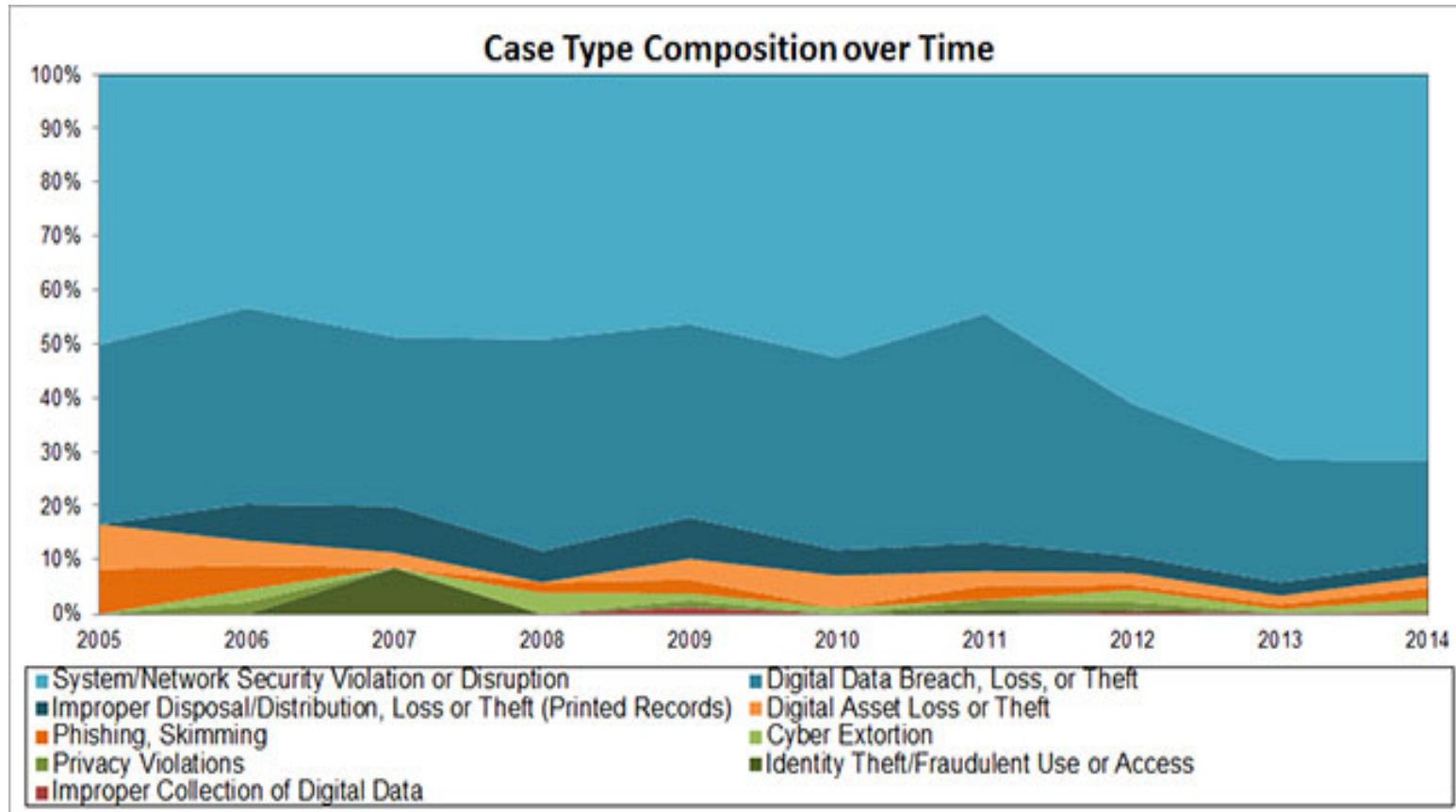
Source: Identity Theft Resource Center,
<http://www.idtheftcenter.org/images/breach/ITRCBreachReport2015.pdf>
 *2007-2012 figures exclude mortgage and financial guaranty segments.

Estimated Cyber Insurance Premiums Written, 2014 – 2020F



Source: Advisen (2014 est.); PWC (2015, 2020); Insurance Information Institute.

Cyber business interruption cases increase 52%



Of all the cyber-related business interruption cases tracked by Advisen’s Loss Insight database, “system/network security violation or disruptions” (in light blue) clearly constitutes the largest percentage. This is followed by “digital data breach, loss or theft.” The smaller slivers deserve some attention, as a case-type category such as cyber extortion is on the rise as is phishing.

Flood Risks



Louisiana, August 2016

... Continue To Expect the Unexpected



Officer-Involved Police Shootings

Per The Washington Post, nearly 1,000 people were shot dead by police in the nation in 2015.....



- Broadly speaking, the use of force by law enforcement officers becomes necessary, and is permitted under specific circumstances, such as in self-defense or in defense of another individual or group.
- There is no single, universally agreed-upon definition of use of force. The International Association of Chiefs of Police has described use of force as the "**amount of effort required by police to compel compliance by an unwilling subject**" [\[1\]](#)
- Officers receive guidance from their individual agencies, but there is no universal set of rules that governs when officers should use force and how much.
- Officer training with fire arms is less one would anticipate, and overall Officer training is likely one key answer to mitigate problems.

[1] International Association of the Chiefs of Police, *Police Use of Force in America, 2001* (pdf, 88 pages), Alexandria, Virginia, 2001. [exit notice].

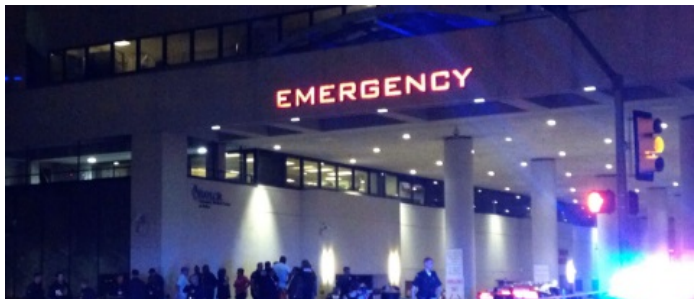
896

people have been shot and killed
by police to date in 2016.....
keeping pace with last year.

This count from *The Washington Post* is based on news reports, public records, social media and other sources.

What about Peace Officers.....

- When officers respond to a call, they have no idea what to expect.....



1. No two situations are the same, nor are any two officers. In a potentially threatening situation, officers quickly tailor their response and apply force, as necessary.
2. Situational awareness is essential; officers are trained to judge when a crisis requires the use of force to regain control of a situation. Time becomes the key variable in determining when an officer chooses to use force.

It's a Bird, It's a Plane

GoPro has just released its Karma Camera Drone.

It automatically follows you and captures your adventure from above.



- An unmanned aircraft system (UAS) or drone, is an aircraft without a human pilot onboard – instead, the UAS is controlled from an operator on the ground.
(Definition from Federal Aviation Administration)
- The FAA's recently announced rules for commercial operation of small Unmanned Aircraft Systems (UAS or drones), set to take effect later this year, provide long-awaited guidance to drone operators and manufacturers and open the floodgates of opportunity to many businesses that hope to utilize drone technology in various ways in coming years.



Numerous companies are currently developing businesses focused around the transportation or delivery of products or objects by drones.



Google's Alphabet has teamed up with Chipotle, and is currently testing delivery of burritos on a college campus.

Autonomous Vehicles are coming soon!



Ford Motor Company Executive Chairman William Ford puts it this way: “In the next few years smart cars will be doing things you can hardly imagine today.”

Accordingly, Ford is “changing the way the world moves. We are rapidly becoming both an auto company and a mobility company The mobility revolution is here.”

Benefits

- Nearly No Error
- Eases Congestion
- Eases Parking Woes
- Potential for New Design
- Potential for More Powerful Vehicles

Drawbacks

- Expensive
- Potential for Technology To Go Wrong
- Licensing Infrastructure Not Yet In Place
- Potential for Greater Pollution
- Potential Loss of Privacy

What is BI?

Business Interruption provides coverage for loss of business, services or rental income resulting directly from the physical damage of an insured property. Includes tax revenue interruption and tuition income.

Why it is important to you

Public Entities looking for ways to generate revenue

- Recycled Water Sales
- Solar Energy
- Recreational Activities – sports parks & camps
- Habitation (Tenancy) Risks

1. Expectations are that **rates will remain flat to slightly down into 2017** - barring an increase in claims severity and/or any industry changing events (*i.e. hurricane, new legislation, court decisions, insurer insolvency*).
2. Some lines of coverage will see modest decreases, while others such as law **enforcement liability, flood, commercial automobile liability and employment practices liability (EPL)** may see **price increases**.

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Thank You

*Please contact us if you would
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Questions?

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