



State of the Public Entity Insurance Market & Evolving Risks

ACCEL Board of Directors

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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

Natural catastrophe insured losses totaled **\$42 billion** globally during the **first six months of 2021**, says Swiss Re Institute's preliminary sigma estimates. Insured losses this year are **above** the previous **ten-year average** of **\$33 billion** and are the **second-highest** on record for a first-half period after 2011.

U.S. **Wildfires**, Storms, and '**Social Inflation**' continue to create intense pressure on insurers, 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 **challenging insurance marketplace**.

Winter storm Uri caused an estimated **USD \$15 billion insured losses** in the U.S., the **highest ever recorded for this peril** in the country.

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

Key Industry Metrics



- Insurers' **combined ratio** was **96.9%** for **H1 2021**; improving from prior year by 2.9%.
- **Policyholder surplus** rose **7.2%** from year end 2020 to \$972.4B.
- **Net underwriting income** for **H1 2021** increased **27.9%** from the prior period; as a 5.4% growth in net earned premiums and **55.3% decline in policyholder dividends offset the increases in incurred losses and loss adjustment and underwriting expenses.**

Signs point to a healthy, yet unsettled, insurance market, due to the unknowns of **COVID-19 Variants, weather extremes**, sea level rise, **wildfires**, catastrophic losses, **social inflation** and **investment earnings**. All remain areas of **concern for insurers**.



Property/Casualty Industry Performance

Q2 2021 U.S. commercial insurance prices continued increasing but at a lower pace

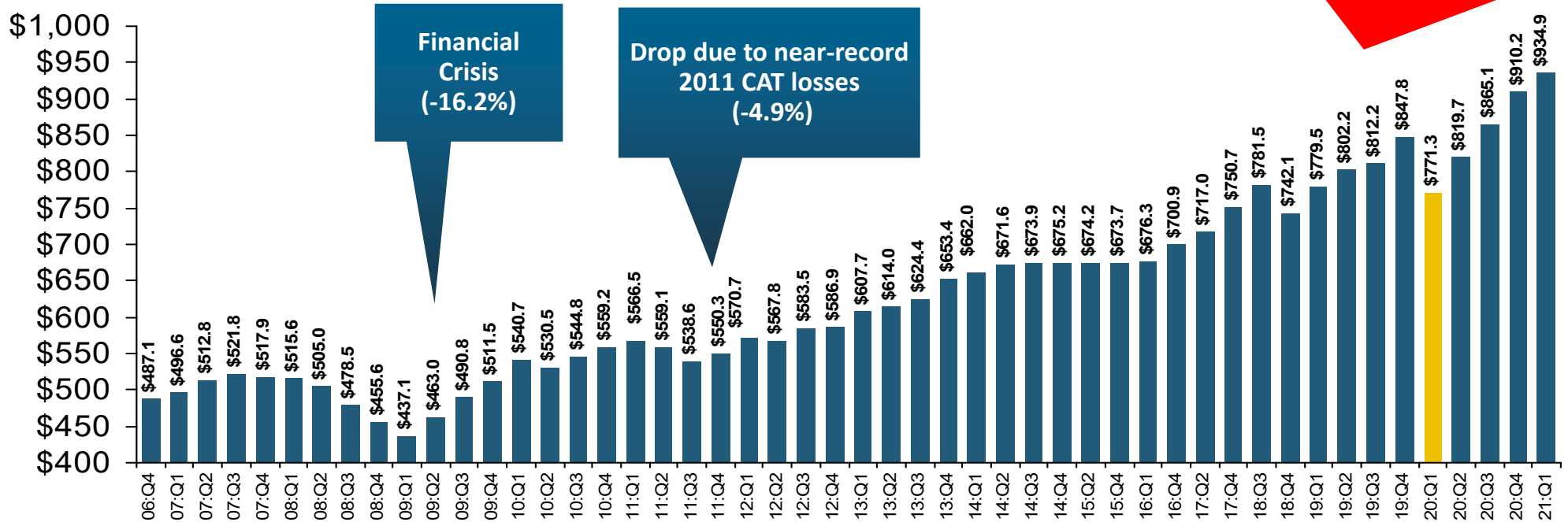
Data for nearly **all lines** indicated **significant price increases** in the second quarter.

The **largest price increase** still comes from **excess/umbrella liability** which saw **significantly accelerating prices** over the previous six quarters.

Commercial auto saw reported price increases near or above double digits for the fifteenth consecutive quarter, while **property coverage accelerated again** and saw **above double digit increases** for the ninth consecutive quarter.

Policyholder Surplus (Capacity), 2006:Q4–2021:Q1

(\$ Billions)



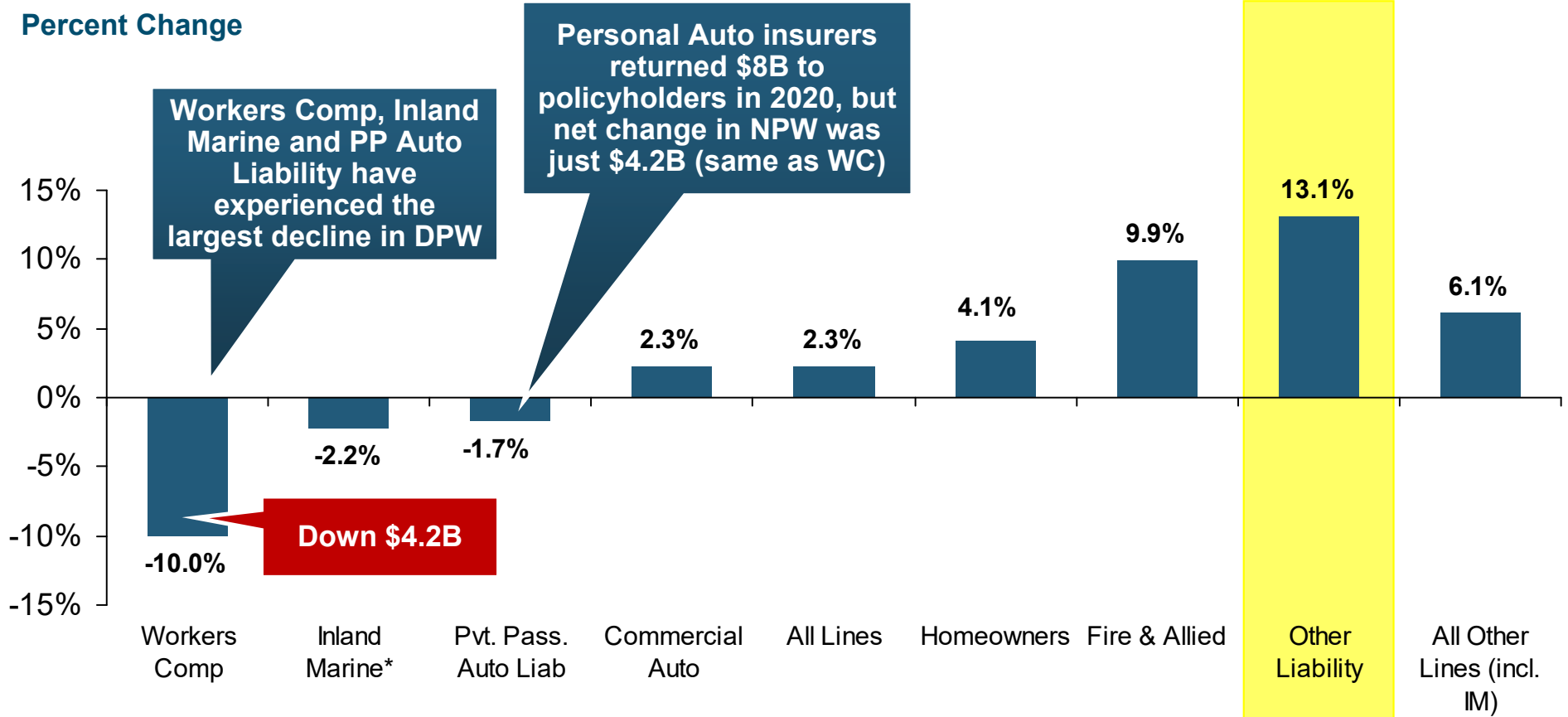
The P/C insurance industry entered the COVID-19 pandemic from a position of strength and was able to withstand the 9.0% surplus decline in Q1 2020 (far less than during the Financial Crisis).
2020 ended with record surplus of \$910B. (+7.4%)

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.



COVID's Impact on NPW Growth for Largest P/C Lines: 2020

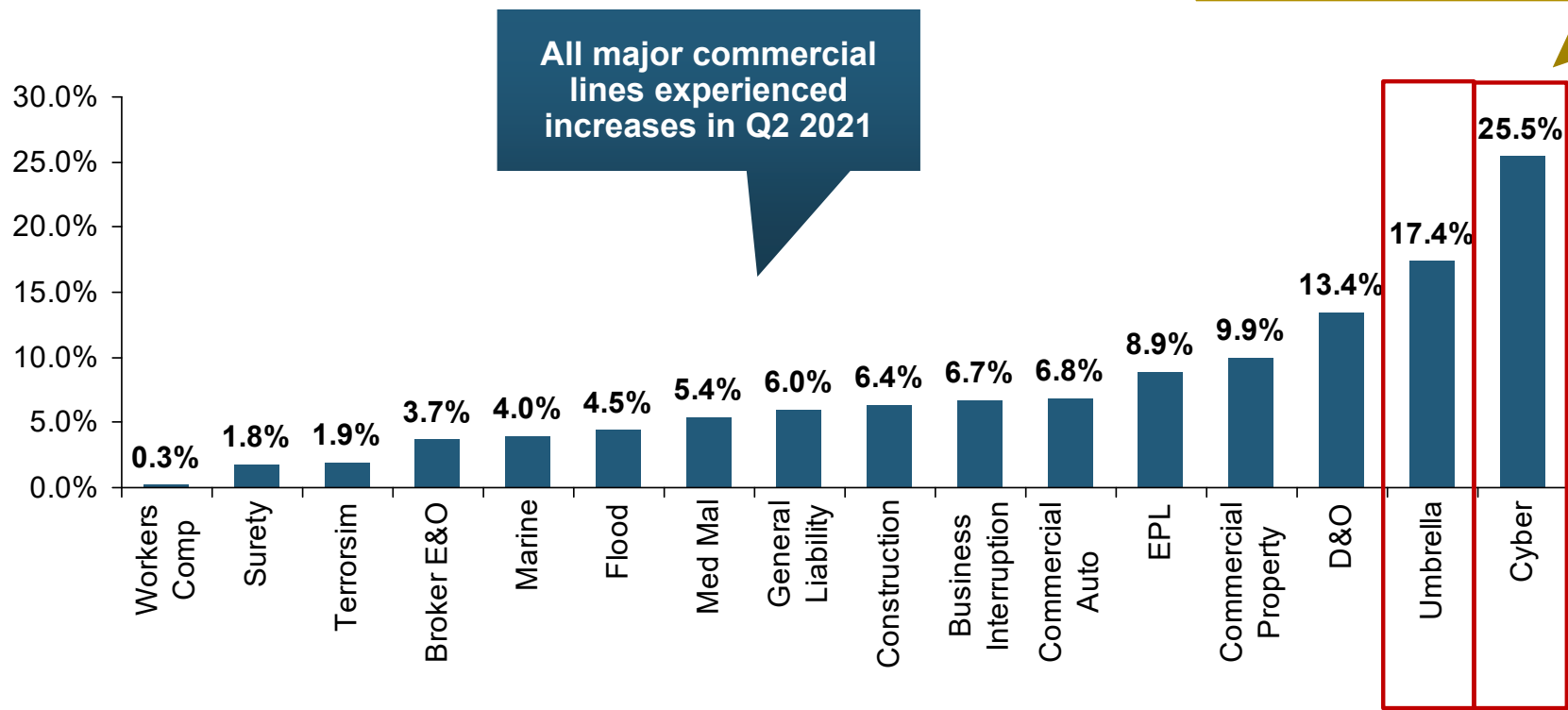


*Inland Marine figure is DPW though first 9-months of 2020 (A.M. Best).

Sources: NAIC Annual Statement data, NCCI; Risk and Uncertainty Management Center, Univ. of South Carolina.

Change in Commercial Rate Renewals, by Line: 2021:Q2

Percentage Change (%)

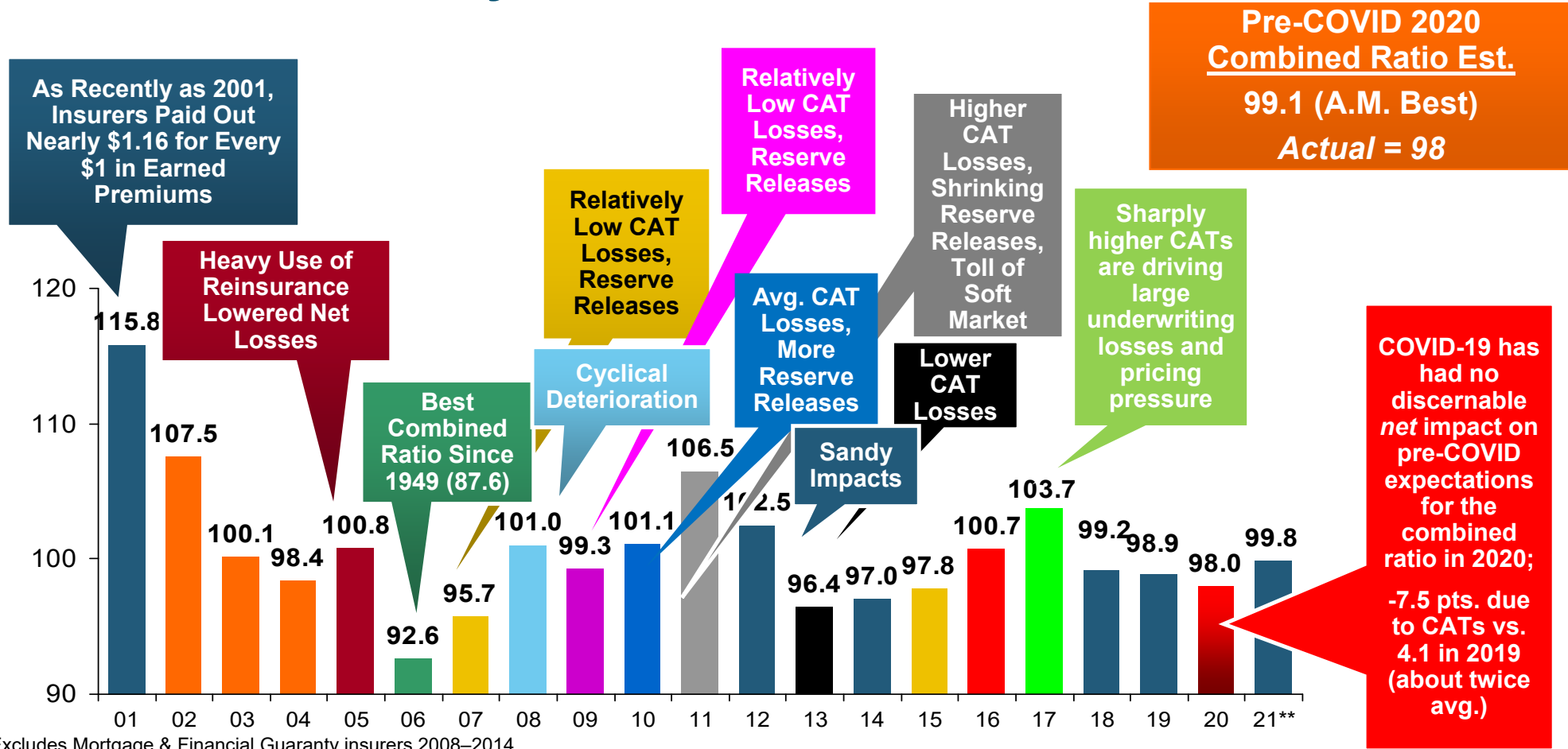


Cyber is seeing record increase, in response to major breaches in 2020 and 2021, overtaking Commercial Umbrella

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; USC Center for Risk and Uncertainty Management.



P/C Insurance Industry Combined Ratio, 2001-2021F**



*Excludes Mortgage & Financial Guaranty insurers 2008-2014.

**2021 forecast from A.M. Best Review and Preview (Feb. 2021).

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



Take Aways

- **California has unique challenges, underwriting scrutiny due to continued liability loss development.**
- **Policyholder surplus** continues to rebound from an initial dip related to COVID-19 and has **rebounded to historic highs**. Signifies overall market health.
- COVID-19 claim impacts are not fully developed, but clearly adversely impact society, financial institutions and insurance markets. ***Inflationary trends arise.***
- ***Combine ratio remains close to 100 despite increased rates, leading to financial and underwriting pressure to continue increasing rates.***

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

Natural Disasters in 2021 Second-Costliest on record*

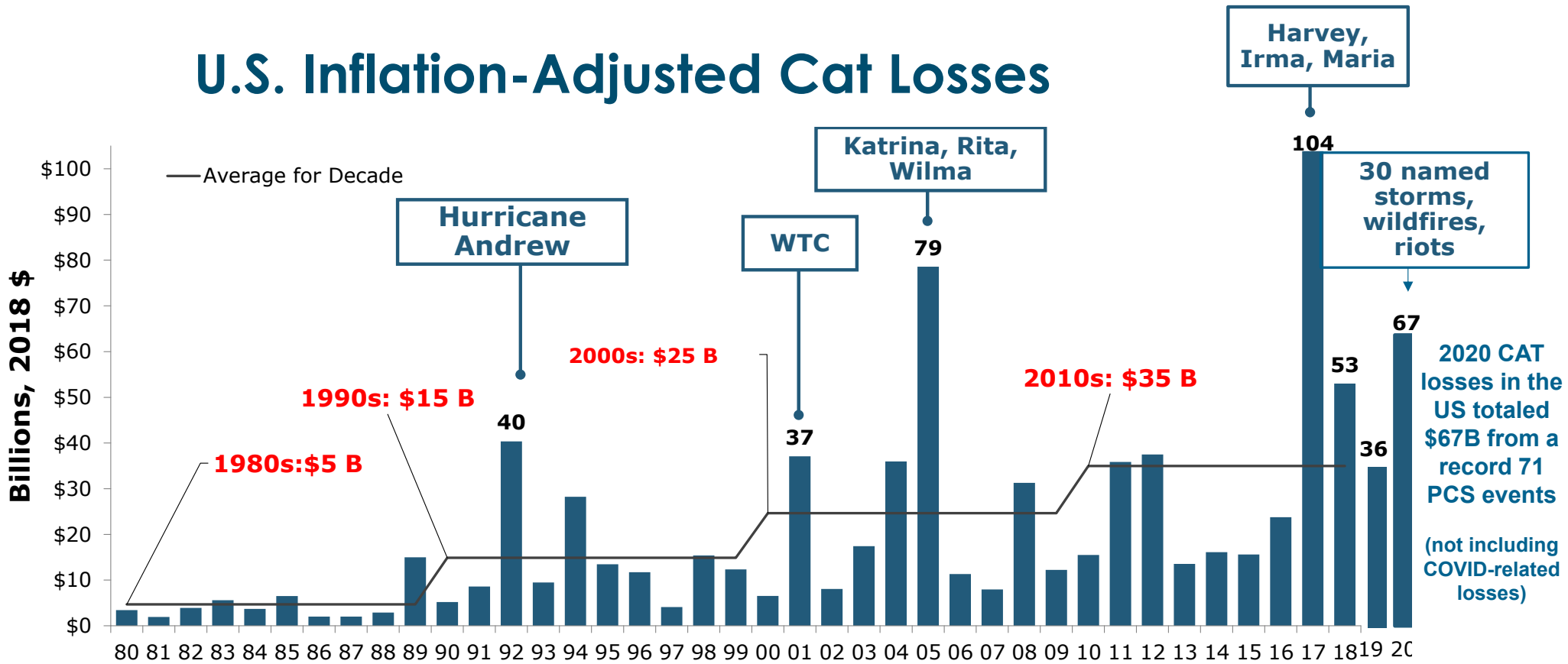
Roughly \$120 billion of the \$280 billion of losses caused by natural disasters in 2021 were insured, Munich Re said Monday.

Last year tied 2005 and 2011 as the second-costliest ever for the insurance industry, trailing only 2017's record \$146 billion of inflation-adjusted losses. Overall losses from natural catastrophes in 2021 were the fourth highest on record.

Hurricane Ida was last year's costliest natural disaster, causing overall losses of \$65 billion, with **\$36 billion insured**. **Flash floods** following extreme rainfall in Europe in July caused losses of **\$54 billion**. *The floods were the costliest natural disaster on record in Germany*, Munich Re said.

* Business Insurance 1/10/22

U.S. Inflation-Adjusted Cat Losses



Average Insured Loss per Year for 1980-2020 is \$22.2 Billion

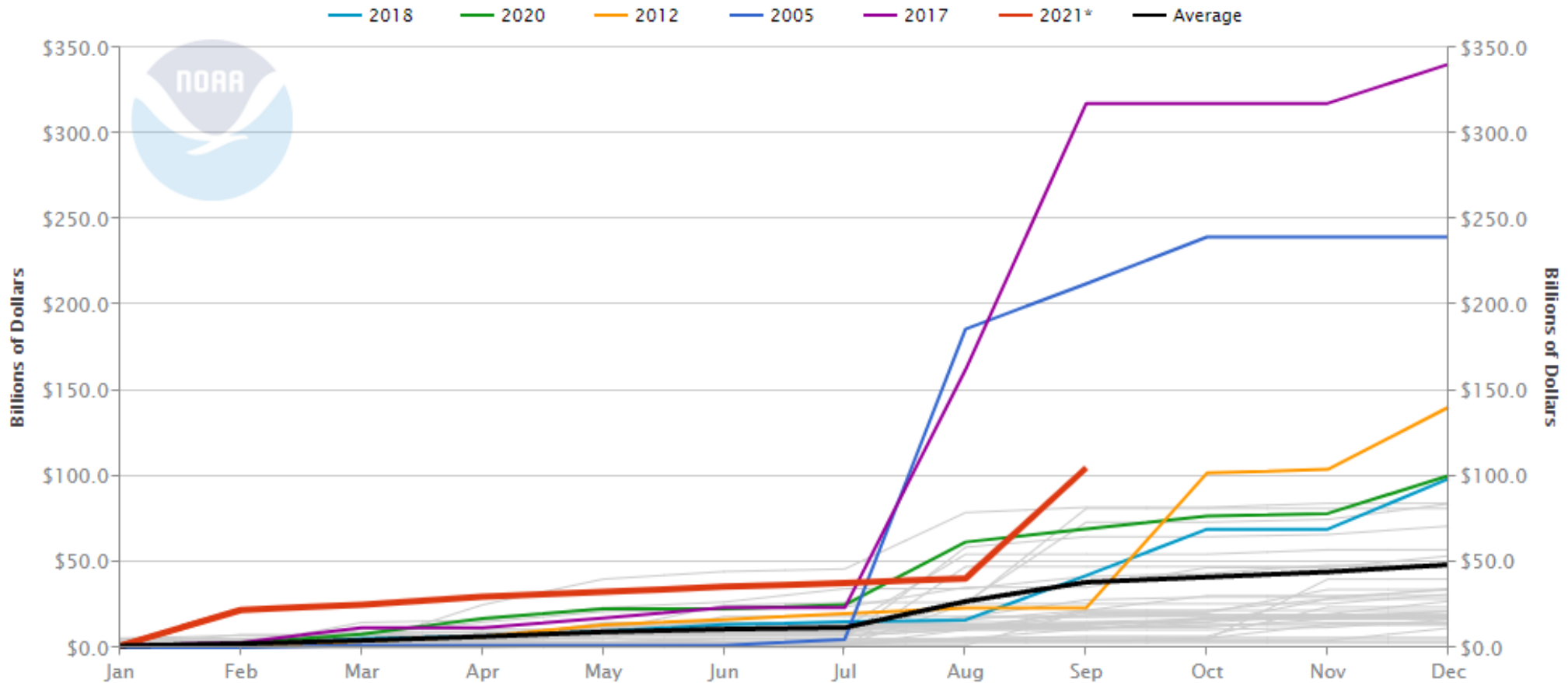
2021 is off to an ominous start with ~\$30B in estimated insured losses through H1 and another ~20B for Ida in Q3

Sources: Property Claims Service, a Verisk Analytics business (1980-2019); 2020 figure from Munich Re; Insurance Information Institute; University of South Carolina, Risk & Uncertainty Management Center.



Six most severe Cat Loss Years on Record (all recent)

1980–2021 Year-to-Date United States Billion-Dollar Disaster Event Cost (CPI-Adjusted)

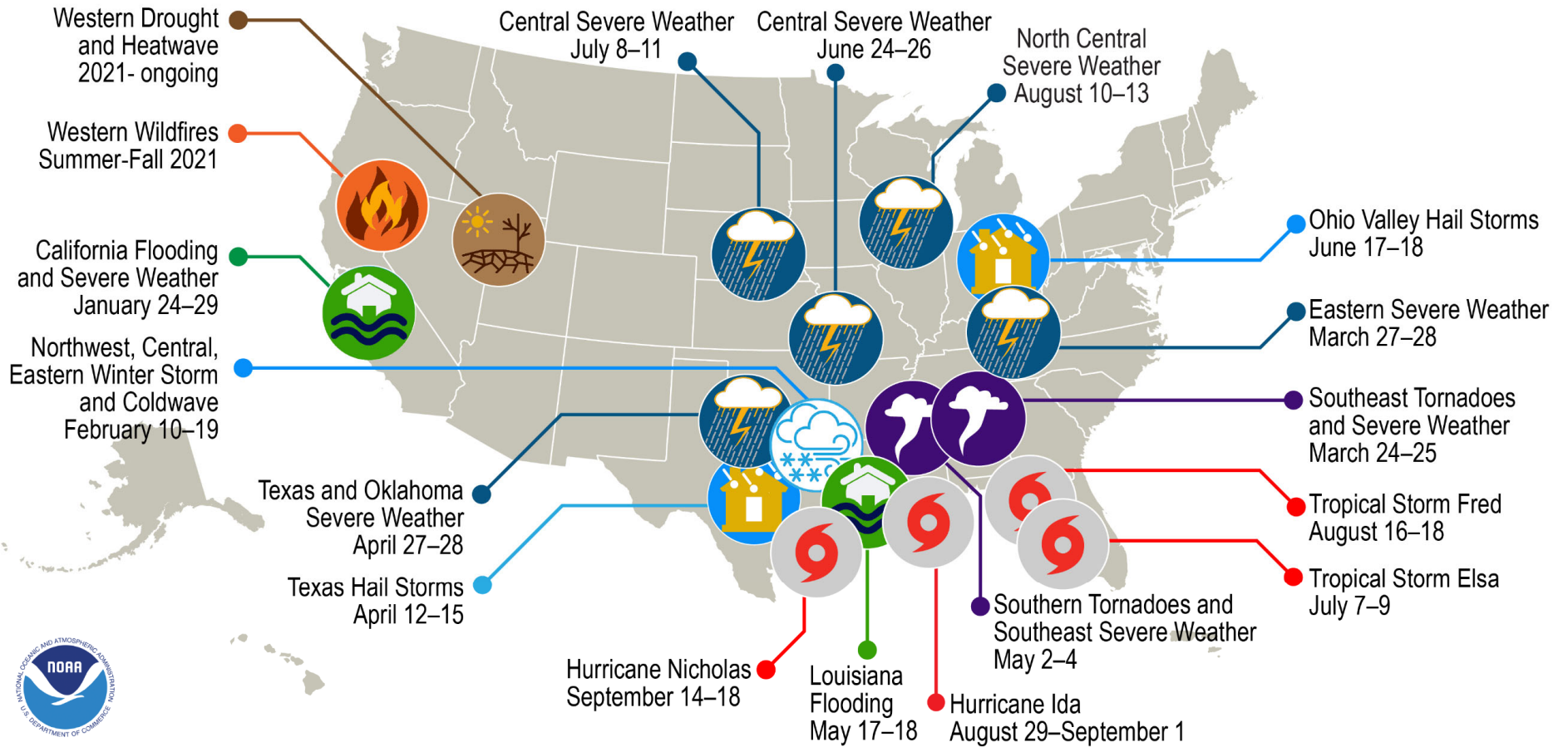


Updated: October 8, 2021

Event statistics are added according to the date on which they end

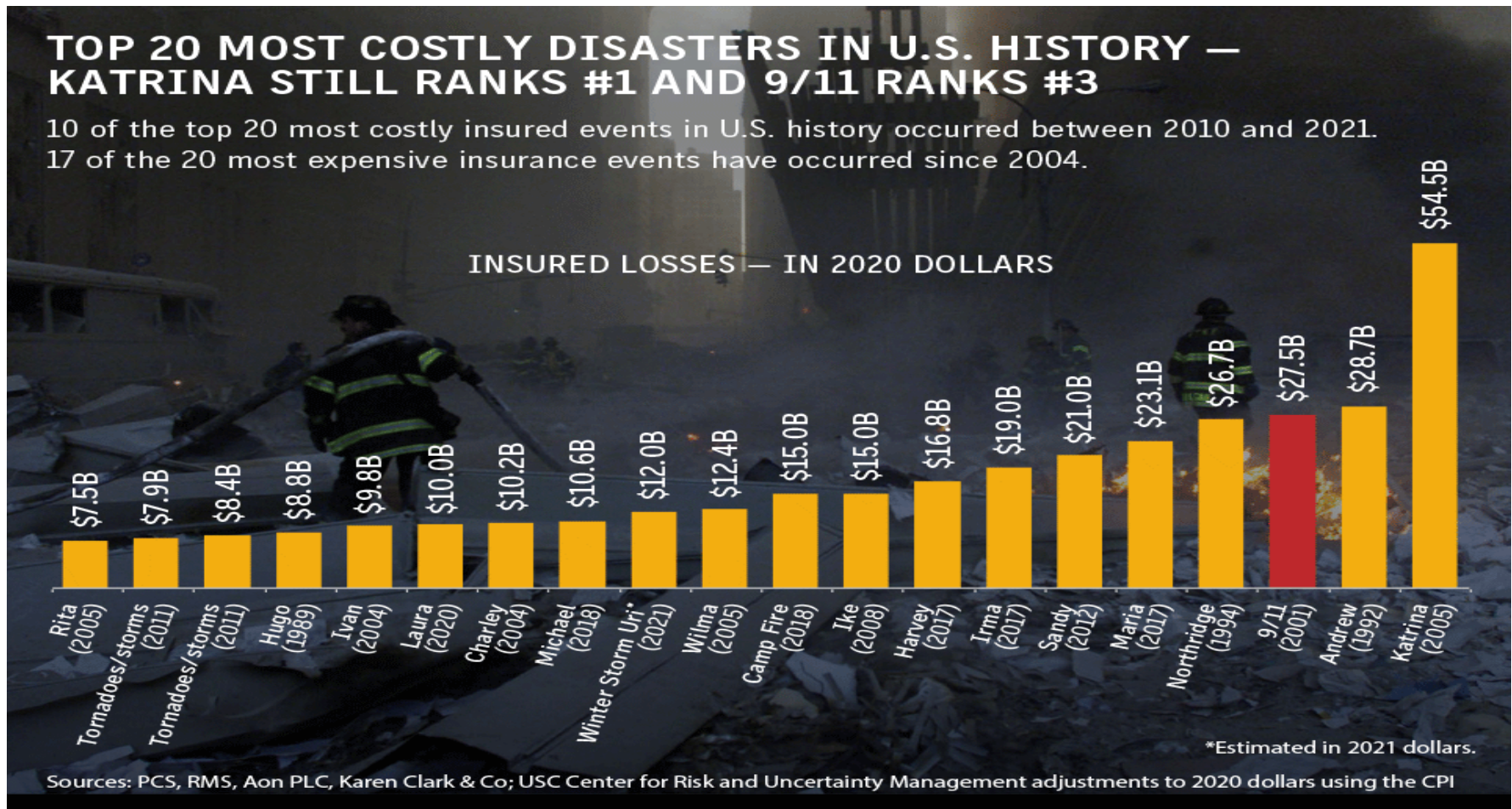
*Costs not included for Western Wildfires (Summer-Fall 2021), Western Drought and Heatwave (2021), Hurricane Nicholas (September 2021)

U.S. 2021 Billion-Dollar Weather and Climate Disasters



This map denotes the approximate location for each of the 18 separate billion-dollar weather and climate disasters that impacted the United States January–September 2021.

Top 20 Most Costly Disasters in U.S. History





Take Aways

- Catastrophic events have been occurring with greater intensity and frequency. Insurance markets are reacting with underwriting and pricing changes.
- Risk modeling continues to lead underwriting focus and climate impacts have worsened the outlook for wet and dry lands.
- **California's exposure to catastrophic property losses from wildfire has upended the property market.** Fires continue to increase in size and frequency, a troubling trend.



The New Normal



The Landscape

Insurance Landscape:

1. Markets have contracted
2. Underwriting has become more conservative
3. Variability further challenges the market

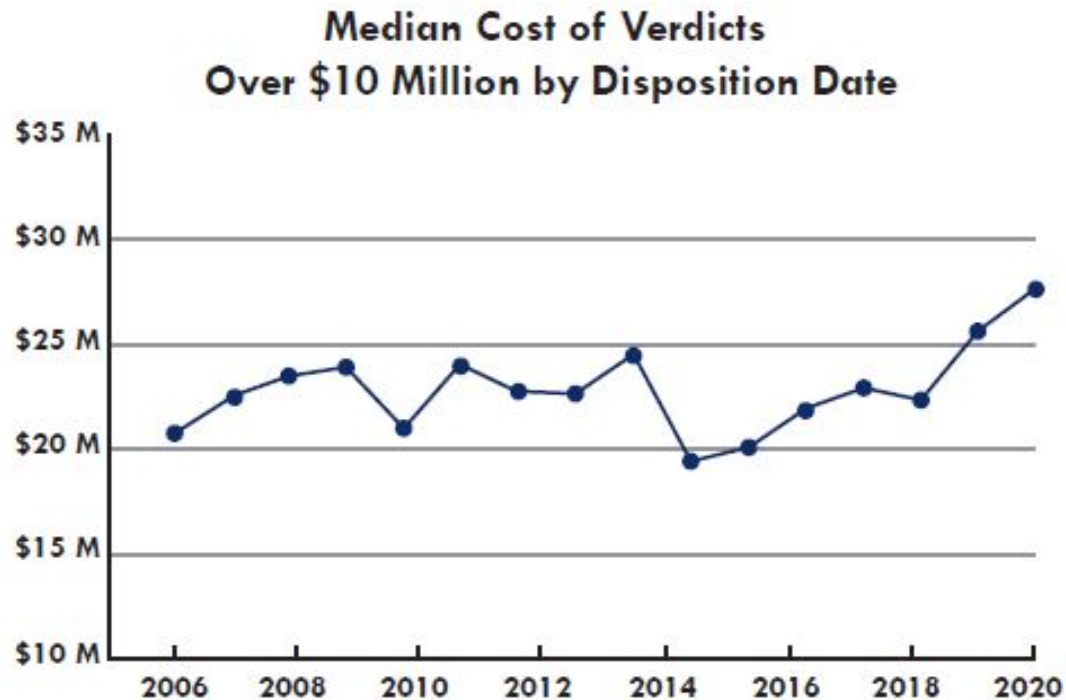
Workforce:

1. Remote work: new normal for many
2. Job mobility
3. Vaccination/pandemic concerns

Society:

1. Polarization
2. Worldwide focus on climate impacts

Social Inflation, a continued trend



From 2015 to 2020, the median cost of a jury award over \$10 million increased by 35%, from \$20 million to \$27 million, according to Advisen's loss database.



Remote Work - 3 Risks of Remote Employees

1. Risk: Disconnected Employee

According to a [Harvard Business Review study](#), remote employees have reported feeling disconnected from their co-workers because of the lack of physical interaction with them. This weakens bonds and lowers trust between colleagues, making collaboration difficult.

Solution: Develop a Check In Schedule

2. Risk: Distracted Employee

Many employers fear that their employees may become less productive if they're not confined to constant, unchanging environment. While there is validity to this concern, there are methods to overcome it.

Solution: Set Your Standards

3. Risk: Dated Employees

Some mobile employees are still using obsolete tech devices when working out of office. This limits the capabilities they have to do their jobs correctly and can inhibit necessary communication between co-workers and superiors.

Solution: Get Updated Technology

Cyber Facts



Cyber ranks as the **top** business concern

Of 1,200 business leaders who participated in a national survey, 59% said they worry some or a great deal about cyber, compared to medical cost inflation (53%) and increasing employee benefit costs (53%).

The results mark a return to the top spot for cyber, which also ranked first in 2019.

Multi-Factor Authentication & Phishing

Multi-Factor Authentication (MFA) adds another layer of protection, in addition to your passwords. It requires that a user provides multiple credentials (factors) to validate his or her identity.

MFA is now commonly a minimum requirement for cyber insurance from most carriers. MFA for remote networks reduces the potential for a network security breach caused by a cracked, lost, or stolen password. MFA for email reduces the potential for access and control of corporate email accounts.

Phishing is an attempt to trick you into providing personal or financial information by pretending to be from a legitimate entity or person.

Usually through emails disguised as legitimate communication from reputable sources (i.e. an employee of your own company).

More than **\$3 billion** has been lost to targeted spear phishing over the past 3 years.

America's Aging Infrastructure Gets C-Minus On Its Report Card



Aviation (D+), Bridges (C), Dams (D), Drinking Water (C-), Hazardous Waste (D+), Inland Waterways (D+), Levees (D), Public Parks (D+), Ports (B-), Rail (B), Roads (D), Schools (D+), Solid Waste (C+), Stormwater (D), Transit (D-), Wastewater (D+) and, my favorite, Energy (C-).

American Society of Civil Engineers



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?
- Aging infrastructure... Who’s footing the bill?



Toward the Future

Liability Renewal Outlook

- **Excess liability market:**
 - Severity trends continue, which gives reason to expect continued hard market conditions with carriers providing lower limit options.
 - Higher excess layers seeking disproportionately high percentage increases.
 - The market has hardened considerably for the past three renewal cycles, and at current premium levels the path forward is unclear and likely account specific (losses).
- **Specific problem areas:**
 - **Aggregate limits** – pools should consider impact to shared risk layers with reinsurance
 - **Attachment point**
 - **Overall capacity** issues when trying to build a large limit program
- **Underwriting focus:**
 - Law Enforcement
 - Sexual Abuse & Molestation
 - Wildfire Liability

Property Renewal Outlook

- Continued scrutiny of client data (SOV, loss runs, COPE, etc.)
 - Building materials
 - Date of construction / building codes
 - Environment
- Values Reporting and Trending
 - **Higher than average trend factors**
 - Labor shortages, material costs, supply chain interruption
- Increased retentions and caps on certain types of exposure
 - Wildfire
 - Silent Cyber
- Market Stabilizing
 - Early signs of premium increases in moderate range

Cyber Renewal Outlook

- Continued Rate Pressure on Cyber placements
 - Premium increases vary by industry segment.
- Push for increased retentions
- **Expect sub-limits**, particularly for ransomware losses
- Underwriting **scrutiny on network security**
 - Minimum standards.
- **Many carriers will no longer write public entities or pools**

Parting Thoughts

The past 18 months have been a wild ride... looking forward

- **Overall the insurance market is in a strong financial position.**
- **California risks face challenges for Liability and Property, and there will be pressure on rates to increase.**
- **Loss leaders will continue to see significant increases and the marketplace for coverage will continue to retract.**
- **Insurance coverage for Sexual Abuse and Molestation will continue to face pricing and coverage pressures.**
- **Police Reforms and Qualified Immunity will have ramifications on the insurance market.**
- **Workers' Compensation remains relatively stable.**



Alliant

Thank you!

Questions?

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

Contacts for Questions:

Marcus.Beverly@alliant.com