



STATE OF THE PUBLIC ENTITY INSURANCE MARKET 2019

January 2019

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



Presentation Overview

- Highlights
- Property/Casualty Industry Performance
- The New Reality – Emerging & Evolving Risks
- Toward the Future

Highlights

2018 is likely to be a 'normal' catastrophe year for the re/insurance industry as overall losses are expected to be in line with the 10-year average of \$50 billion, according to analysts at Peel Hunt.

Losses will be particularly weighted towards Japan in Q3 and the U.S in Q4 due to the impact of Typhoons Jebi and Trami, Hurricanes Florence and Michael, and the California Wildfires.

Key Industry Metrics

- The U.S. property & casualty industry posted a **combined ratio of 96.2%** in the first-half 2018, the lowest three-month combined ratio of the last five years, according to AM Best. The combined ratio for 2017 was 103.7%.
- In the first-half 2018, **Policyholder surplus increased to \$761.1B** It was at a record high of \$750.7B as of 12/31/17.
- Private U.S. property/casualty insurers saw their **net income more than double** to \$34 billion in the first-half 2018, helped by lower catastrophe losses and reserve releases.

Weather extremes, **wildfires**, catastrophic losses and investment earnings remain areas of **concern for insurers**.

Commercial Insurance Prices in the U.S. Accelerated During the Third Quarter

Commercial insurance prices again increased in the third quarter of 2018, according to Willis Towers Watson's most recent Commercial Lines Insurance Pricing Survey (CLIPS) data.

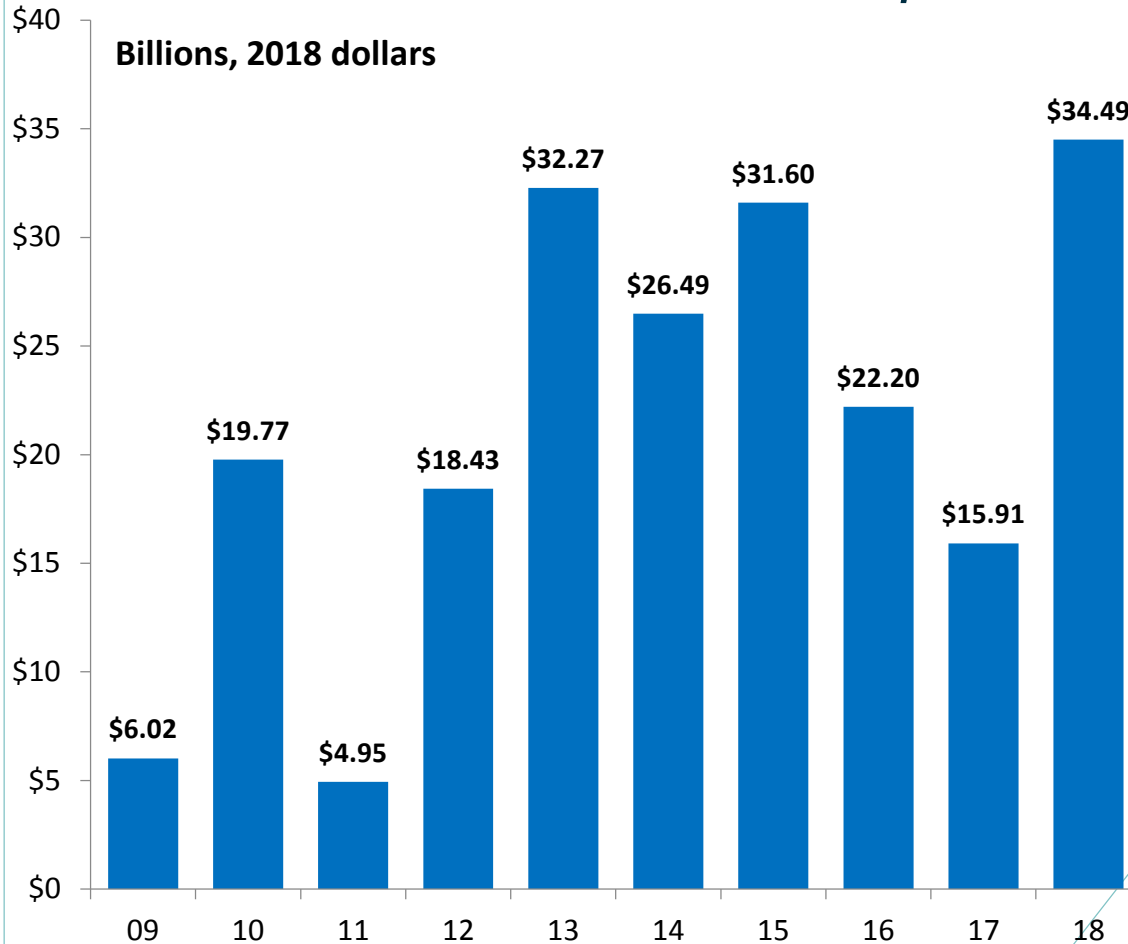
Property, which had been showing small price decreases for much of the recent past, **now indicates increases in the low to mid-single digits** for the fourth consecutive quarter.

The outlier in the results continues to be **commercial auto**, where meaningful price increases are again reported and are **near double digits** for the fourth consecutive quarter.

CLIPS indicates ongoing material price reductions for workers compensation, in contrast to all other surveyed lines.

PROPERTY/CASUALTY INDUSTRY PERFORMANCE

Property/Casualty Net Income after Taxes*, 2007-18



▼ In the second quarter of the year, net income varied over the last decade. 2018 had the highest profit in the last 11 years.

▼ Why did profits spike in 2018? Favorable conditions: Earned premiums grew by more than 9%, but claims grew by only 3%.

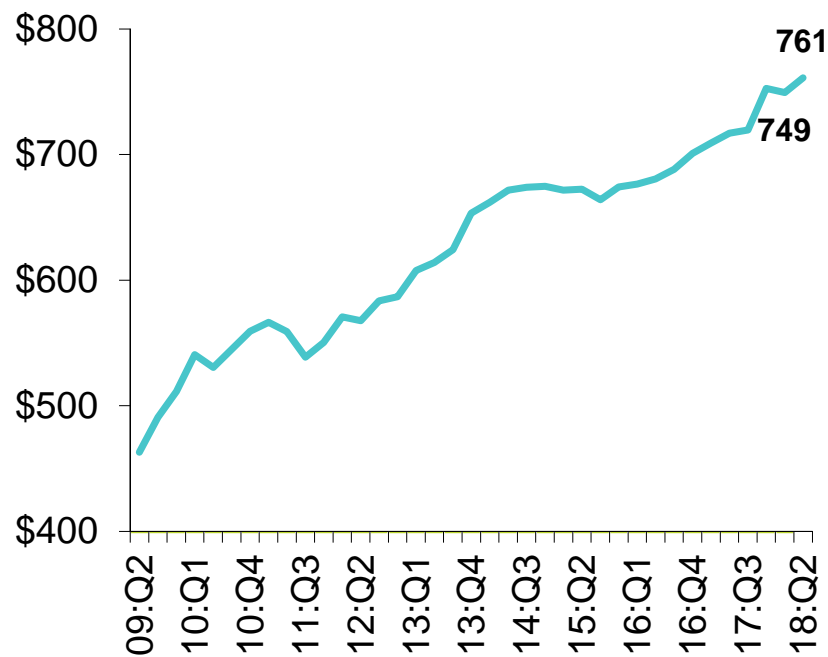
* Through second quarter. Adjusted for inflation using the BLS CPI calculator to 2018 dollars.

Sources: NAIC data, sourced from S&P Global Market Intelligence; Insurance Information Institute.

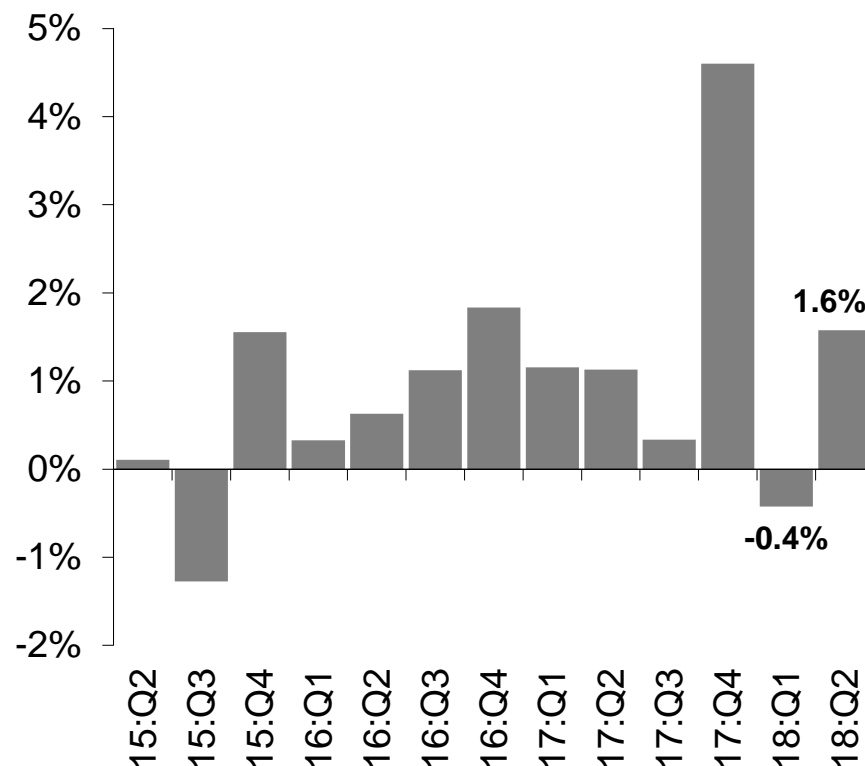
Policyholder Surplus By Quarter

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.

Insurance Industry and Economy Overview 2018 - 2020

P/C insurance markets

- 2018 combined ratios for **catastrophe-affected lines of business will likely improve** (due to reversion to the mean). Personal auto and commercial auto likely will be closer to 100.
- There is no sign of a hard market in 2018, but both personal and commercial lines **premiums will likely continue to rise**.

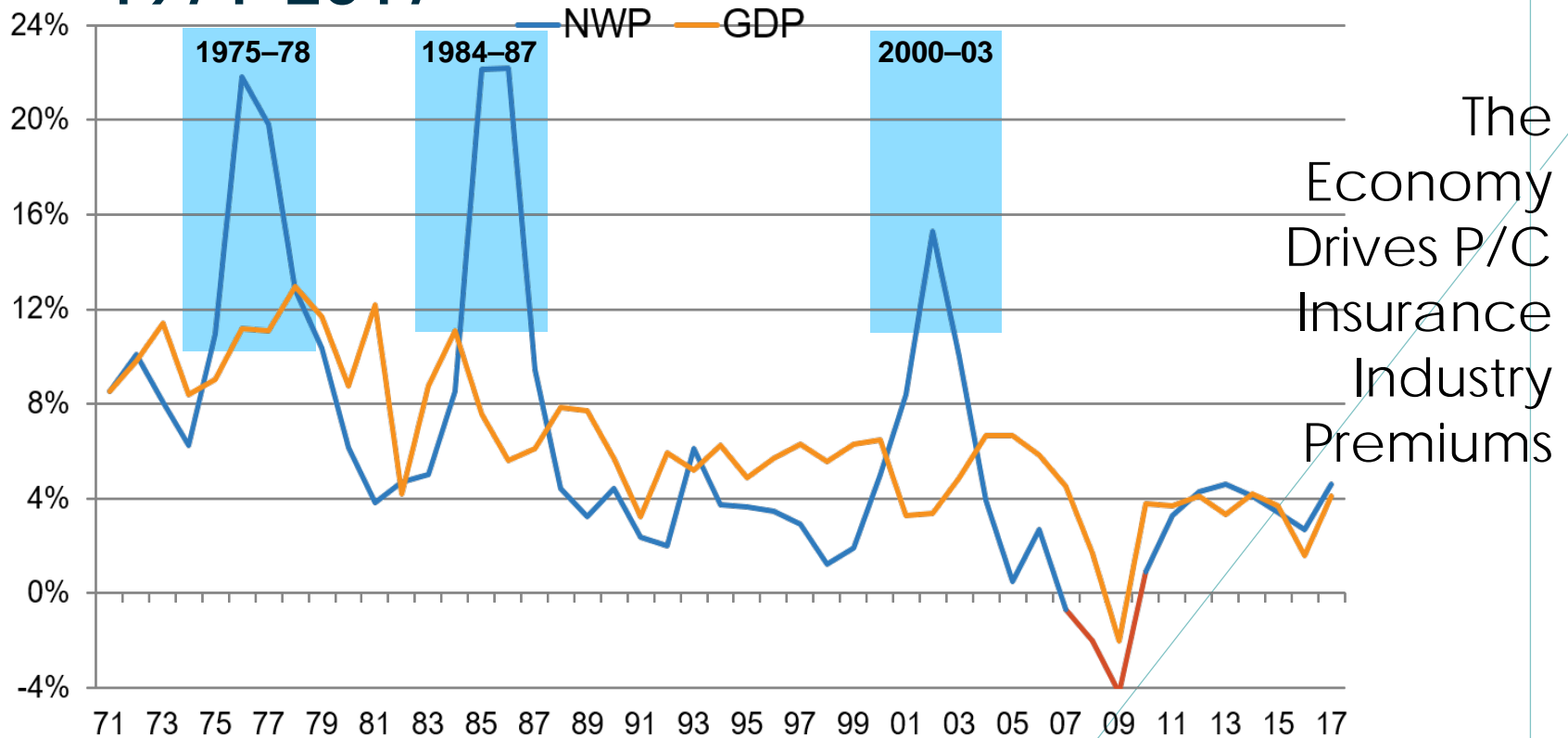
Financial markets

- In the U.S., **short-term interest rates** are finally **rising**, and this is expected to continue. Long-term rates have not changed as much, so the **yield curve is flatter**.
- Although bond yields anticipate inflation continuing to be near 2% for five or more years, more direct measures see **prices rising closer to 3%**, with prices in some sectors (lately, e.g., lumber) rising much faster.

The U.S. economy

- **Real GDP growth has shown unexpected strength** in recent calendar quarters. Both personal consumption (+4.7%) and business nonresidential fixed investment (8.1%) are rising, heralding a **growing insured exposure base**.
- This is the **second longest expansion since WWII**, and many forecasters say it will become the longest when it persists into July 2019. There are **virtually no signs of another recession**.

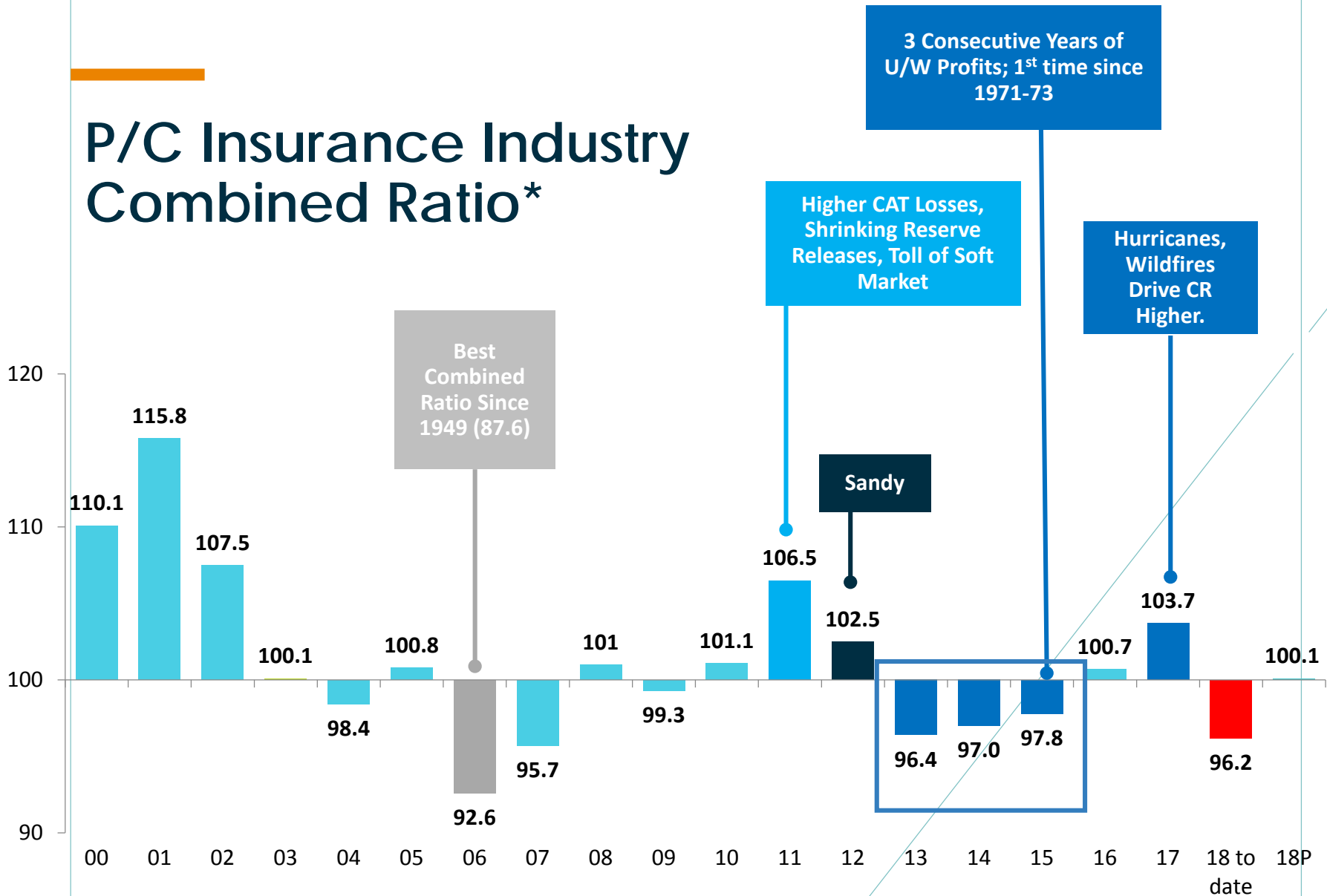
P/C Net Premium Growth vs. Nominal GDP 1971-2017



Except for the three “hard markets” in this 47-year period - 1976–77, 1985–86, and 2001–03 - Net Written Premiums track Nominal GDP — not year by year but recently fairly well.

Sources: A.M. Best (1971-2013), ISO (2014-17); U.S. Commerce Dept., Bureau of Economic Analysis; I.I.I.
Shaded areas denote “hard market” periods

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.

THE NEW REALITY

10 Emerging Risks Affecting Public Entities



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.

Click here to access the interactive version:

<http://riskandinsurance.com/10-emerging-risks-affecting-public-entities/>

Data Breaches & Cyber Security

Most data breaches are the result of weak or overused passwords...

**PASSWORDS ARE LIKE
UNDERPANTS**



Change them often, keep them private and never share them with anyone.

Enough said?

IMPACT OF NATURAL CATASTROPHES

2017 - a Record Year for Catastrophic Losses

Natural Disasters have greater impacts due to increased concentration of exposures on the coasts and fire-prone areas.

Cyber risks grow as we become more interconnected.



Flooding events spurred 73% of federal disaster declarations



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



\$14 billion insured wildfire losses; California damage estimated ~\$11 billion



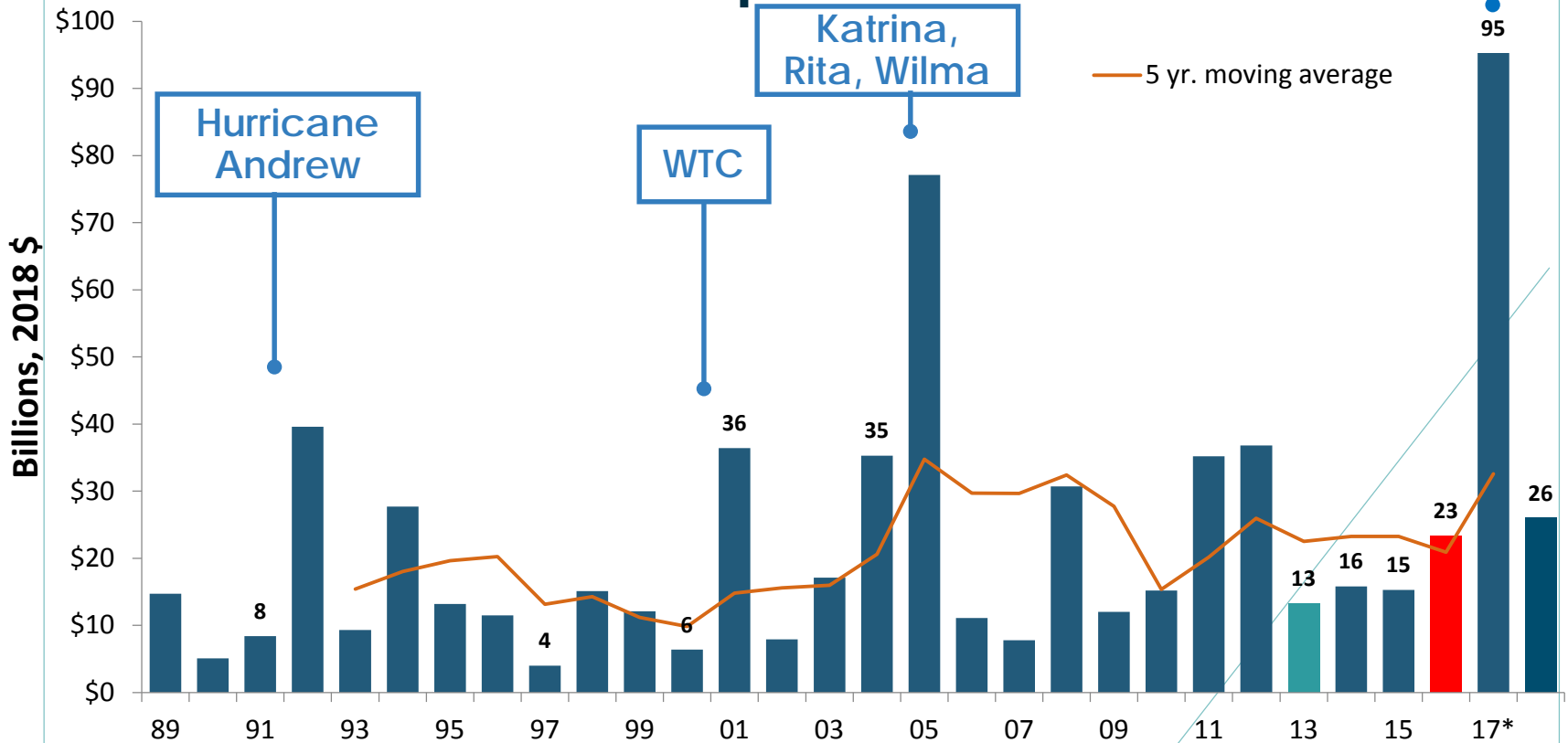
N.A. hurricane season record-breaking insured & economic losses; disasters affected >25 million Americans



Cyber: Risk continuing to increase

Auto: Reaching epidemic proportions

U.S. Insured Catastrophe Losses

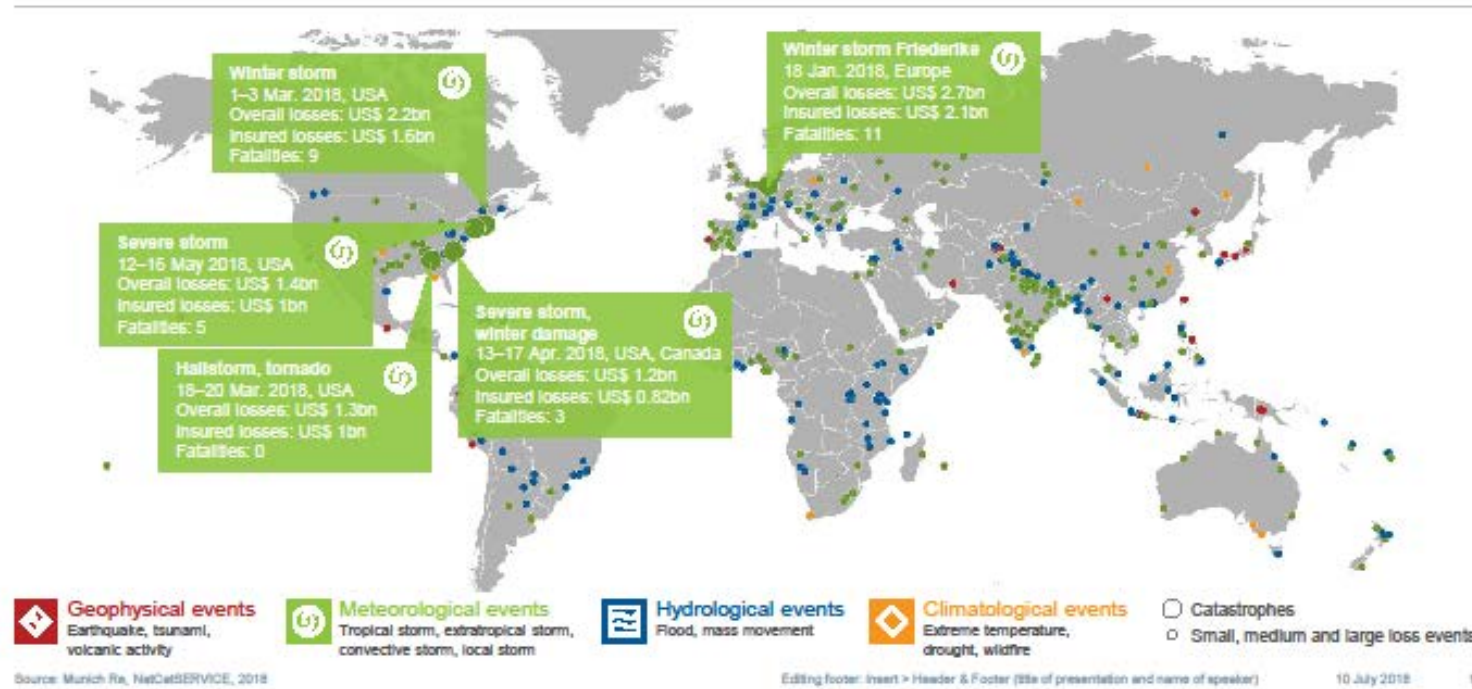


2017 – Worst Ever for U.S. Insured Catastrophe Losses. Average Insured Loss per Year for 1989-2017 is \$22.4 B.

Sources: *2017: Inflation-adjusted PCS estimate, subject to change. **2018: Peel Hunt expectation
Sources: Property Claims Service, a Verisk Analytics business; Insurance Information Institute.

Loss Events Worldwide - First Half 2018

Fewer severe natural disasters
Loss events worldwide in the first half of 2018



Overall Losses From Worldwide Natural Catastrophes in 2017 Totaled \$330 Billion, Up From \$184 Billion in 2016

Source: © 2018 Munich Re, Geo Risks Research, NatCatSERVICE. As of July 2018.



Hurricanes

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

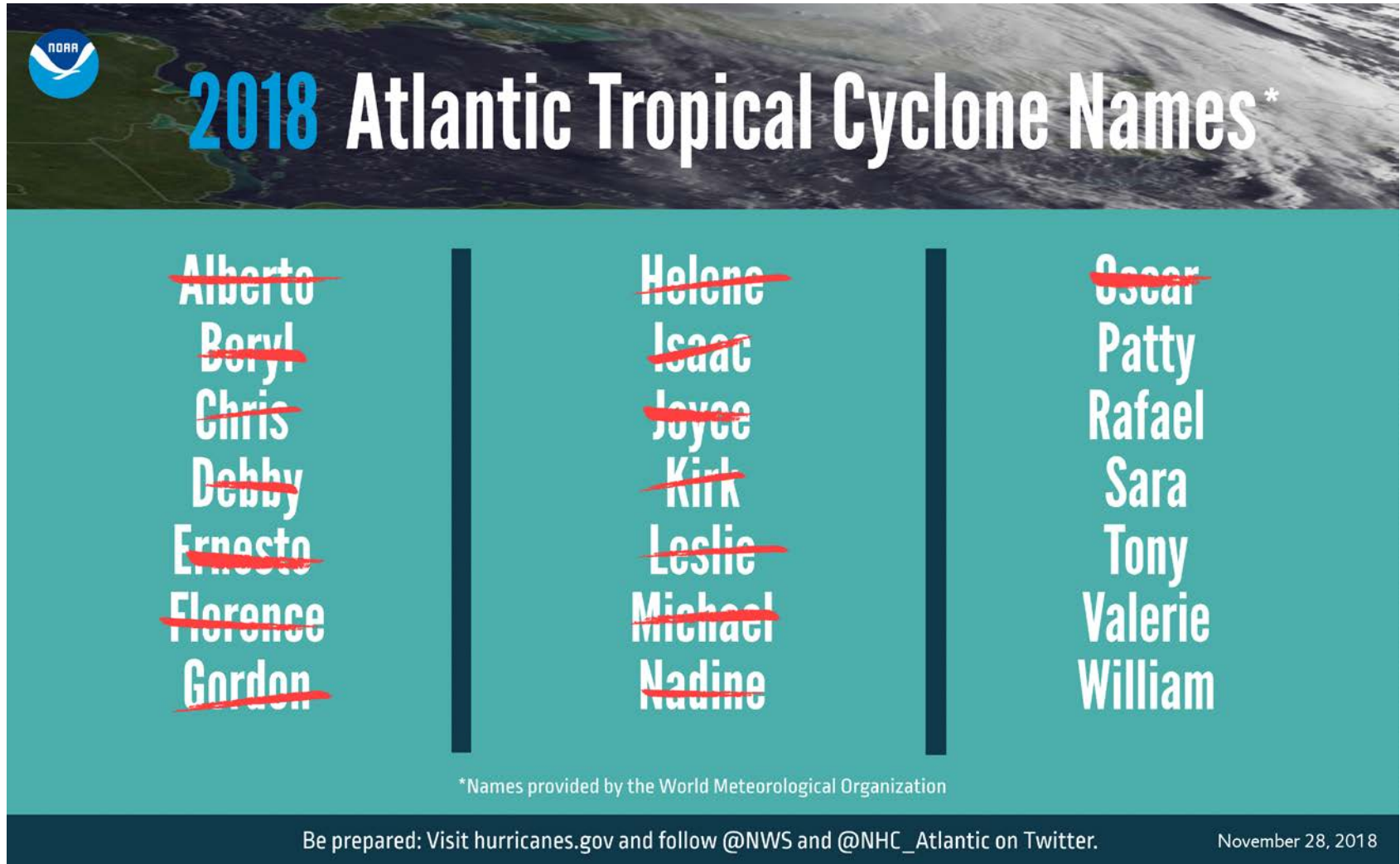




Lessons Learned from 2017 Hurricane Season

- Flood damage is the least understood peril, and yet it is the most common one.
False sense of security in some high-risk areas, and overstated risks in other areas.
- It's not all about homes. Personal autos and business interruption coverage had larger-than-expected losses.
- Trend is for consecutive disasters and increased losses.
- There is a protection gap: Insured vs uninsured losses.
- Proactively addressing risks isn't an option; it's an imperative.
Partnerships, communication, preparedness mindset.

2018 Hurricane Season



The graphic features a satellite image of a hurricane at the top. Below it, the NOAA logo is on the left, and the title "2018 Atlantic Tropical Cyclone Names*" is in large white and blue text. The names are arranged in three columns, with the first two columns having red lines through them. The bottom of the graphic contains a disclaimer and social media information.

2018 Atlantic Tropical Cyclone Names*

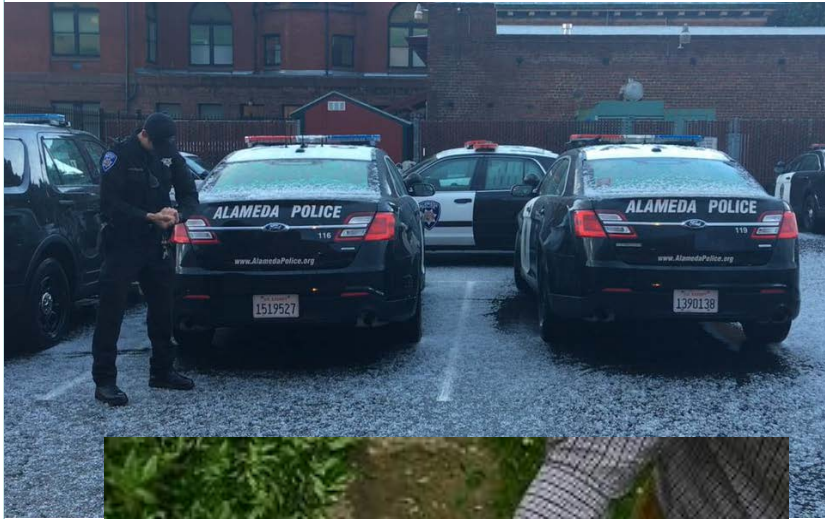
Alberto	Helene	Oscar
Beryl	Isaac	Patty
Chris	Joyce	Rafael
Debby	Kirk	Sara
Ernesto	Leslie	Tony
Florence	Michael	Valerie
Gordon	Nadine	William

*Names provided by the World Meteorological Organization

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

November 28, 2018

Thunderstorms and Hail



Thunderstorms originate when intense heating causes a parcel of moist air to rise from the earth's surface into upper levels of the atmosphere, a process called convection.



Convective Storms

Commonly known as *thunderstorms*, convective storms are the atmospheric phenomenon responsible for weather hazards such as lightning, heavy rain, hail, flash flooding and tornadoes.



Wildfires



On average, more than 100,000 wildfires, also called wildland fires or forest fires, clear 4 million to 5 million acres (1.6 million to 2 million hectares) of land in the U.S. every year. In recent years, wildfires have burned up to 9 million acres (3.6 million hectares) of land.

Major California Wildfires in 2018

Fire Name	Acres	Acres Rank	Structures Damaged/ Destroyed	Destruction Rank	Fatalities Count	Fatalities Rank
Camp	153,336	16	18,804	1	86	1
Woolsey	96,949	--	1,841	7	3	--
Carr	229,651	7	1,604	8	8	14
Mendocino Complex	459,123	1	280	--	1	--

Source: CoreLogic, 2018

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Governor Brown signs wildfire safety bill blasted as PG&E bailout

“The legislation also includes a plan for the state to spend \$1 billion over the next five years to reduce wildfire risk.

The money, \$200 million a year through 2024, will fund grants to fire departments, cities, counties and nonprofit organizations. They will use it to thin brush, cut fuel breaks and reduce fire danger in hundreds of communities around the state in high-risk areas, from the Santa Cruz Mountains and Oakland hills to the Sierra Nevada and Southern California.”

Cal Fire will distribute the money, which will come from California’s greenhouse gas reduction fund. That fund is made up of money that oil refineries, large factories and other polluters pay to buy credits at state auctions, permitting them to emit greenhouse gases.

Other Consequences of Wildfires

The deadliest blaze in California's history is threatening to cause losses **for investors** who purchased the first catastrophe bond designed specifically to cover wildfire risk.

San Francisco utility giant PG&E Corp. sold the \$200 million bond in August to insure against liability from future infernos. Three months later the Camp Fire in Northern California burned more than 18,800 structures and killed at least 85 people.

Investors will suffer significant losses if state investigators determine that PG&E was responsible for the November conflagration. PG&E said in a Nov. 13 filing that it has \$1.4 billion in liability coverage, including the catastrophe bond, and expects to use all of it if found liable for the Camp Fire.

A PG&E spokesman said the utility is participating in the investigation into the fire's cause.

Earthquakes



Rescue workers look at the Yun Tsui building, which is leaning at a precarious angle, in the Taiwanese city of Hualien.

It was hit by a 7.1 magnitude earthquake on February 6, 2018, which killed 17 people.

Taiwan sits on an earthquake “**ring of fire**” that also touches California.

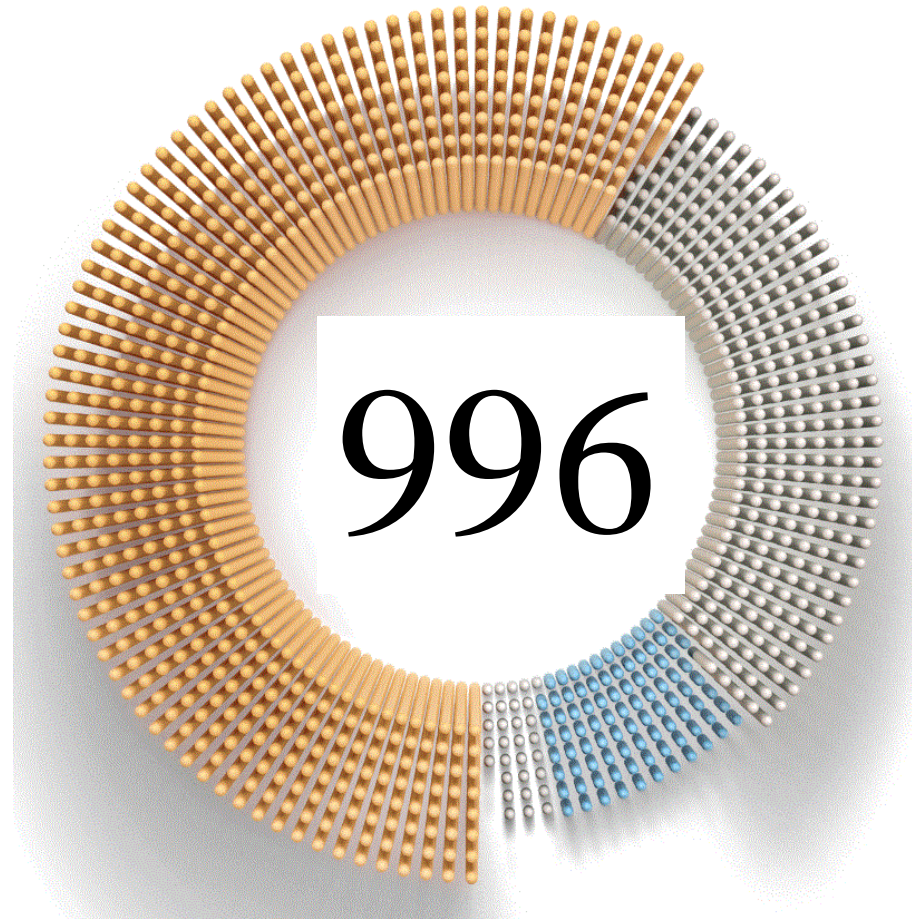
The Alaska Earthquake of Nov 30, 2018

A magnitude (M) 7.0 earthquake struck north of Anchorage, Alaska, on November 30, 2018.

Located along the **Ring of Fire** which sees 81% of the world's largest earthquakes, Alaska is no stranger to earthquakes. Alaska has experienced several of these devastating earthquakes in the past including the M9.2 in 1964 – the largest U.S. earthquake in recorded history.



EVOLVING: Police Shootings



The Washington Post seems to be tracking this national figure best.

EVOLVING: Active Shooter

250 incidents occurred between 2000 and 2017

2,217

Casualties, including killed and wounded (shooters were not included in this total)

799

were killed in 250 incidents

1,418

were wounded in 250 incidents.

Source: Federal Bureau of Investigation, 2017

The United States Department of Homeland Security defines the **active shooter** as "an individual actively engaged in killing or attempting to kill people in a confined and populated area; in most cases, **active shooters** use firearms(s) [sic] and there is no pattern or method to their selection of victims."

EVOLVING: Active Shooter (cont.)

"ALICE" An easy to remember acronym

A lert	Alert is your first notification of danger.
L ockdown	Barricade the room. Prepare to EVACUATE or COUNTER if needed.
I nform	Communicate the violent intruder's location and direction in real time.
C ounter	Create Noise, Movement, Distance and Distraction with the intent of reducing the shooter's ability to shoot accurately. Counter is NOT fighting.
E vacuate	When safe to do so, remove yourself from the danger zone.

The new scourge on our streets...



... Shared Bikes & Electric Scooters!

TOWARD THE FUTURE

Looking Forward 18+ Months . . .

- Drone Deliveries
- Autonomous Ships & Flying Taxis
- Unemployment / Underemployment
- The Internet of Things & Rising Cyber Dependency
- Cyber crimes escalate
- 3D Printing
- Aging Infrastructure Woes
- Rising income and wealth disparity
- Profound social instability

Looking Ahead

Expect upward pressure on property rates: buyers of property insurance should budget conservatively. We could see **rates flat, increases of 10%** with larger increases for insureds with above average losses. Poor performing accounts and classes will experience increased pressure.

General casualty lines of coverage may see modest increases, while others such as law enforcement liability, commercial automobile liability and employment practices liability (EPL) may see higher price increases.



Dramatic price increases and reductions in coverage can be expected for Sexual Abuse and Molestation.

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Thank You

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

Questions?

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