Workers Compensation in the Age of Trump

Trends, Challenges and Opportunities

Newport, RI
August 16, 2017

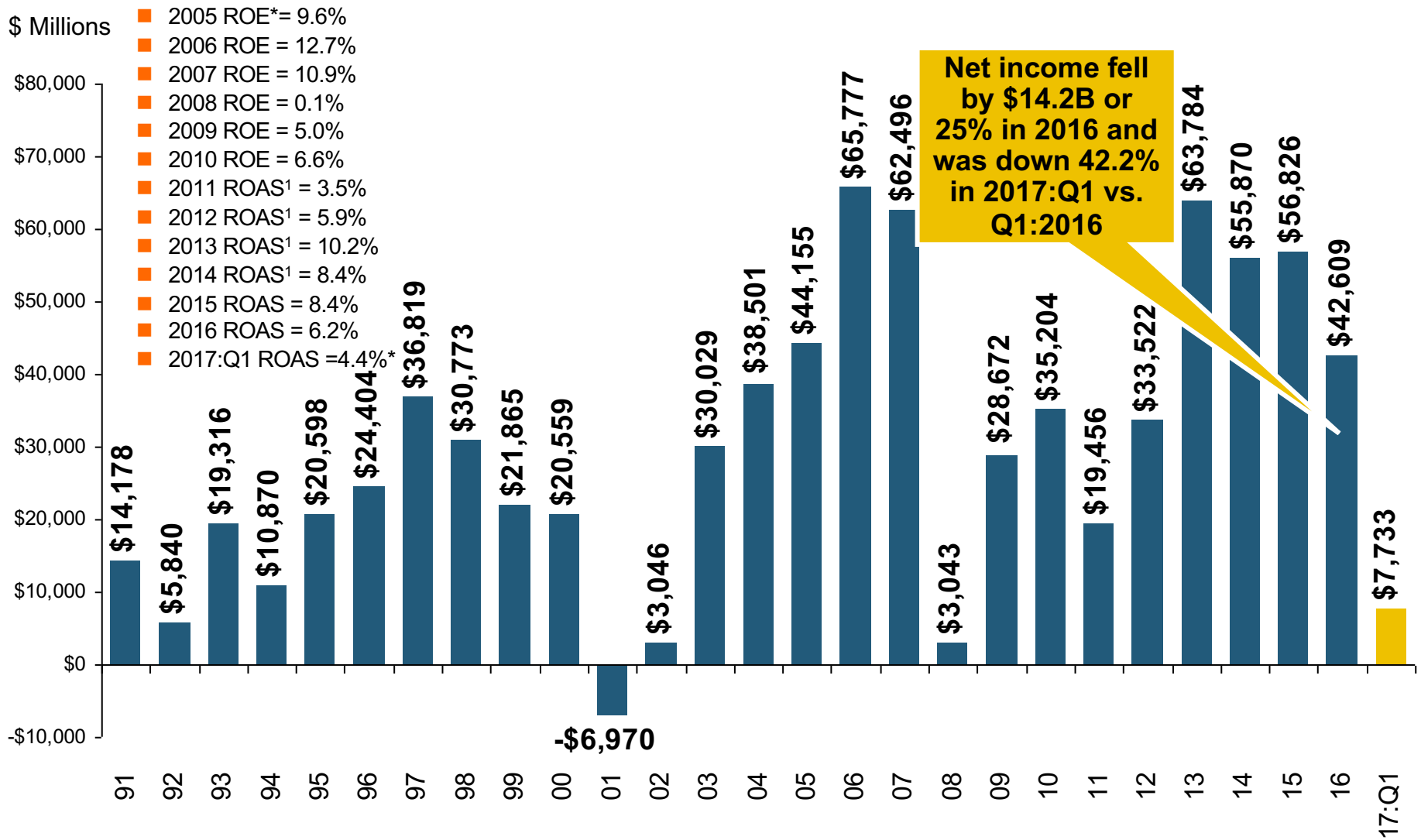
Robert P. Hartwig, Ph.D., CPCU ♦
Clinical Associate Professor of Finance ♦ Darla Moore School of Business
University of South Carolina and

UNIVERSITY OF
SOUTH CAROLINA
Darla Moore School of Business

P/C Insurance Financial Update: An Overview and Outlook

Profitability, Growth, Investments

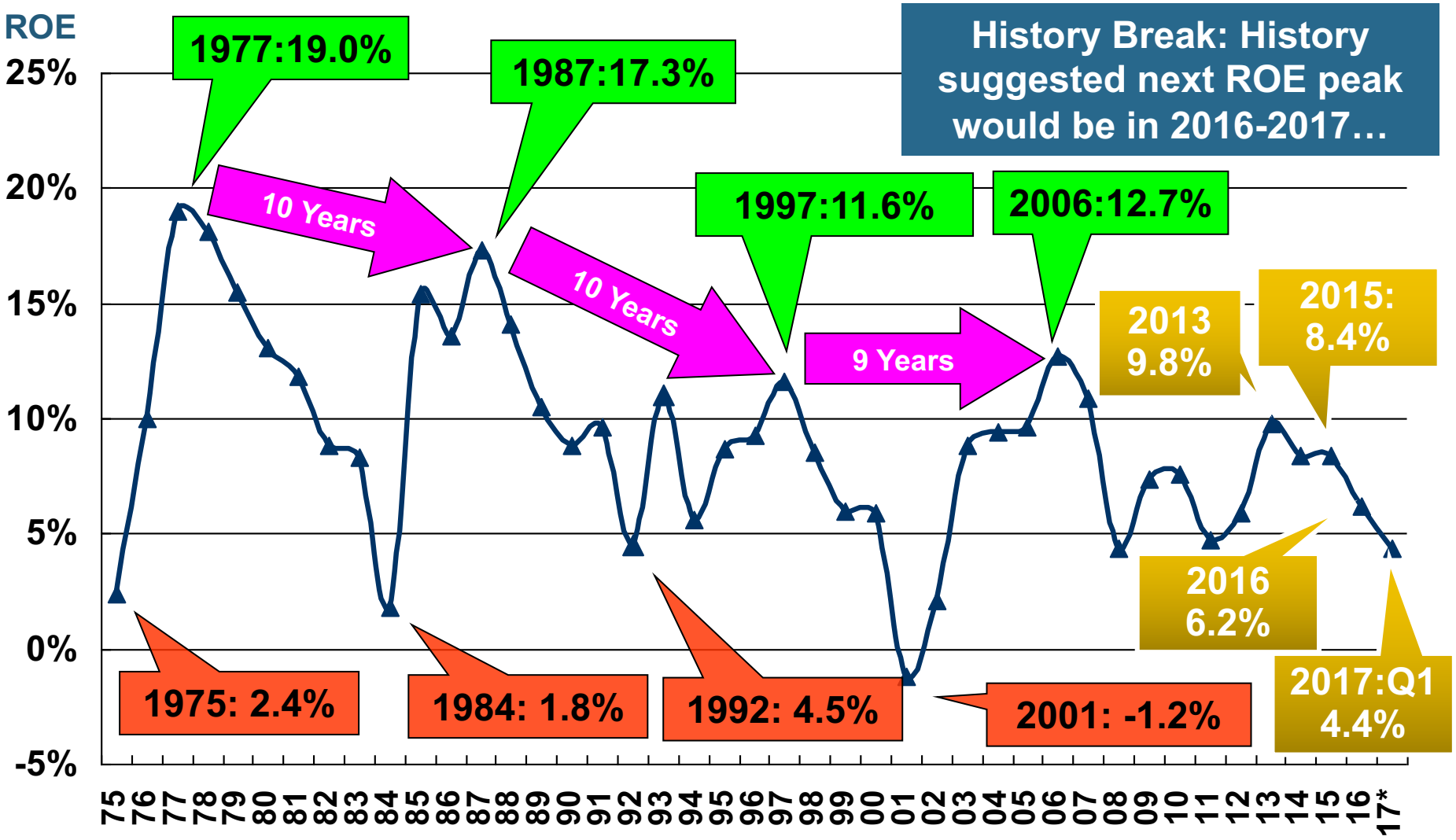
P/C Industry Net Income After Taxes 1991–2017:Q1



•ROE figures are GAAP; [1]Return 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; 2016E is annualized figure based actual figure through Q3 of $31.8B.

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

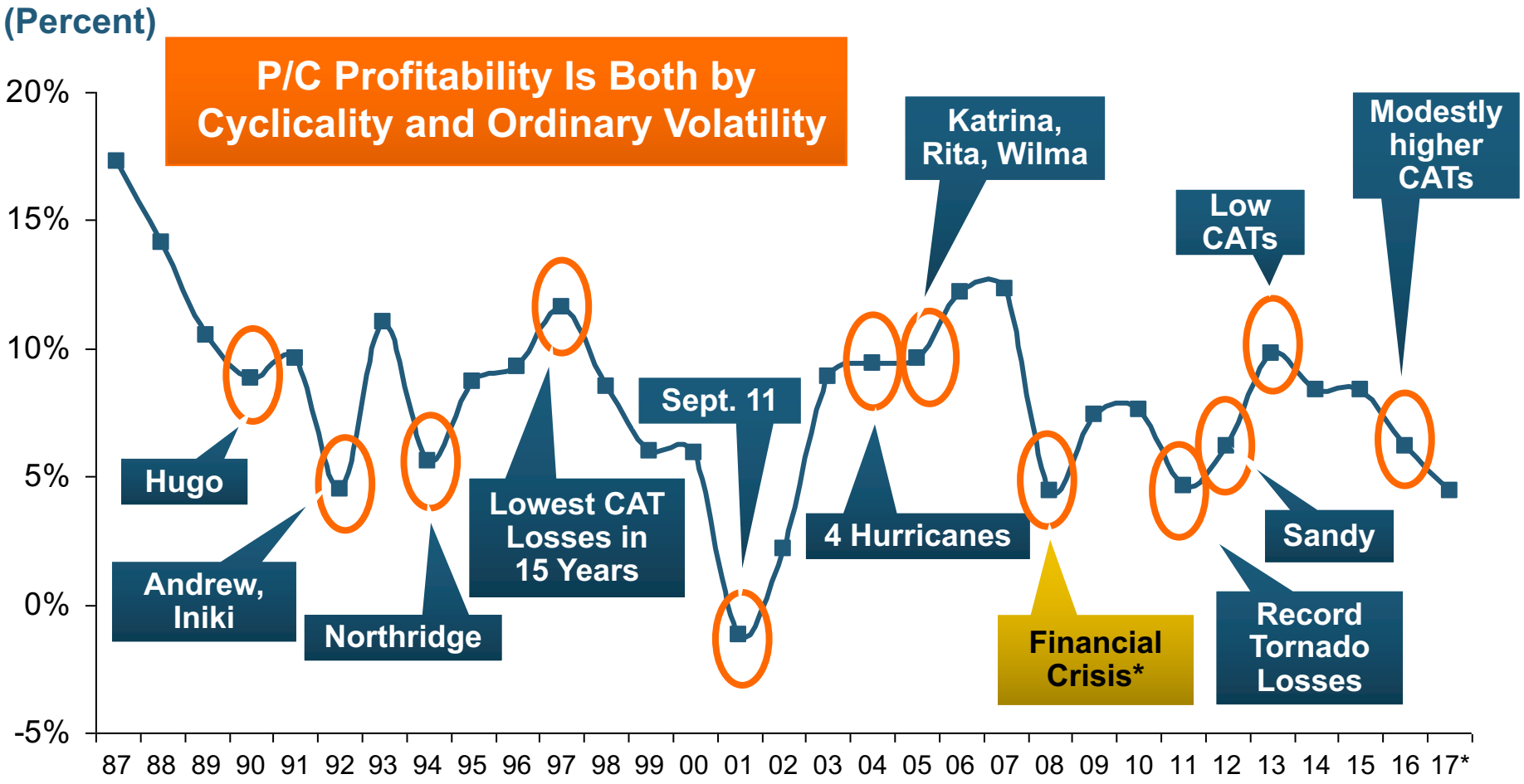
Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2017:Q1



*As of Q1:2017; Profitability = P/C insurer ROEs. 2011-16 figures are estimates based on ROAS data. Note: Data for 2008-2014 exclude mortgage and financial guaranty insurers.

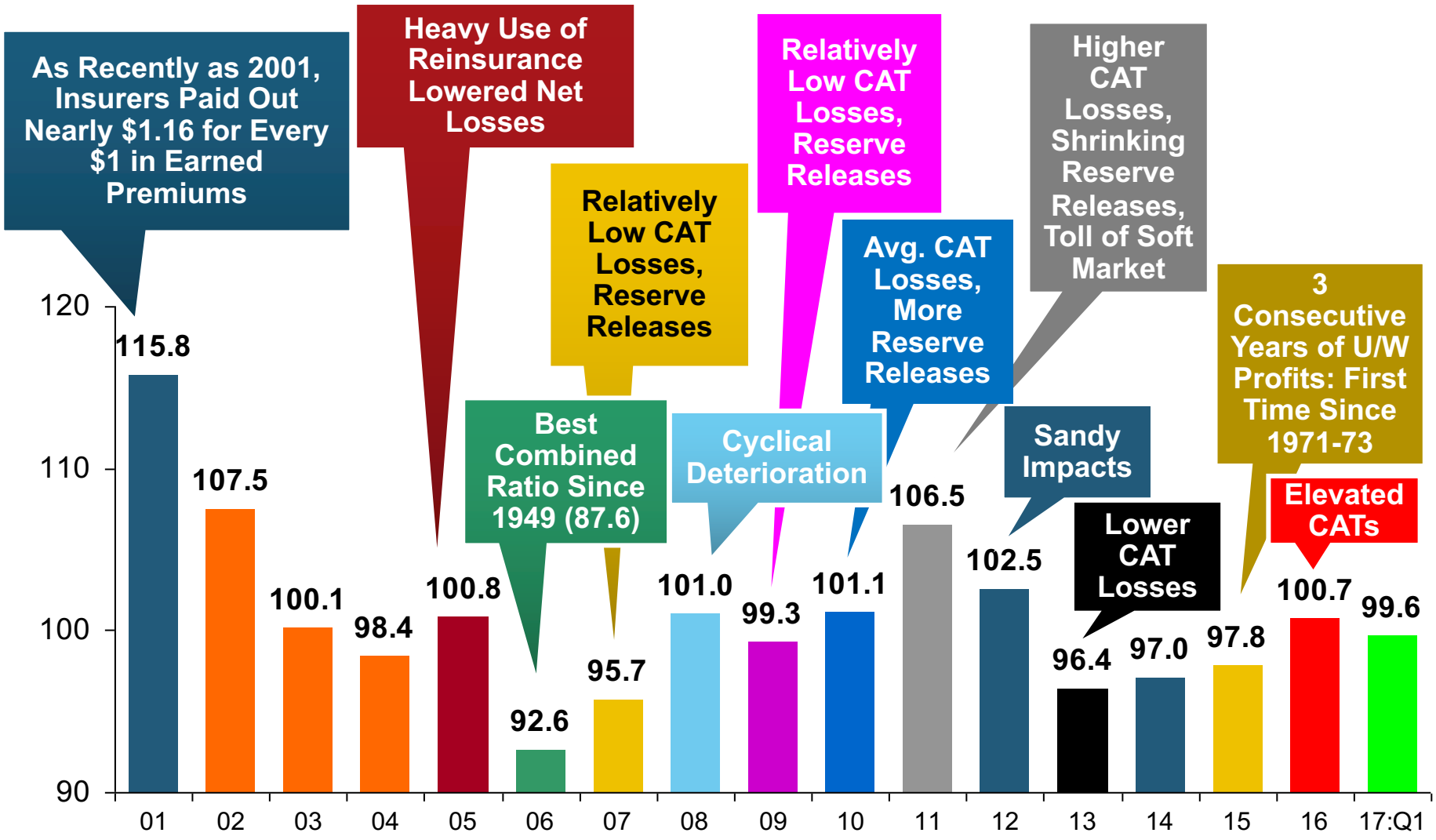
Source: Insurance Information Institute; NAIC, ISO, A.M. Best, Conning

ROE: Property/Casualty Insurance by Major Event, 1987–2017:Q1



* Through 2017:Q1. Excludes Mortgage & Financial Guarantee in 2008 – 2014.
Sources: ISO, *Fortune*; Insurance Information Institute.

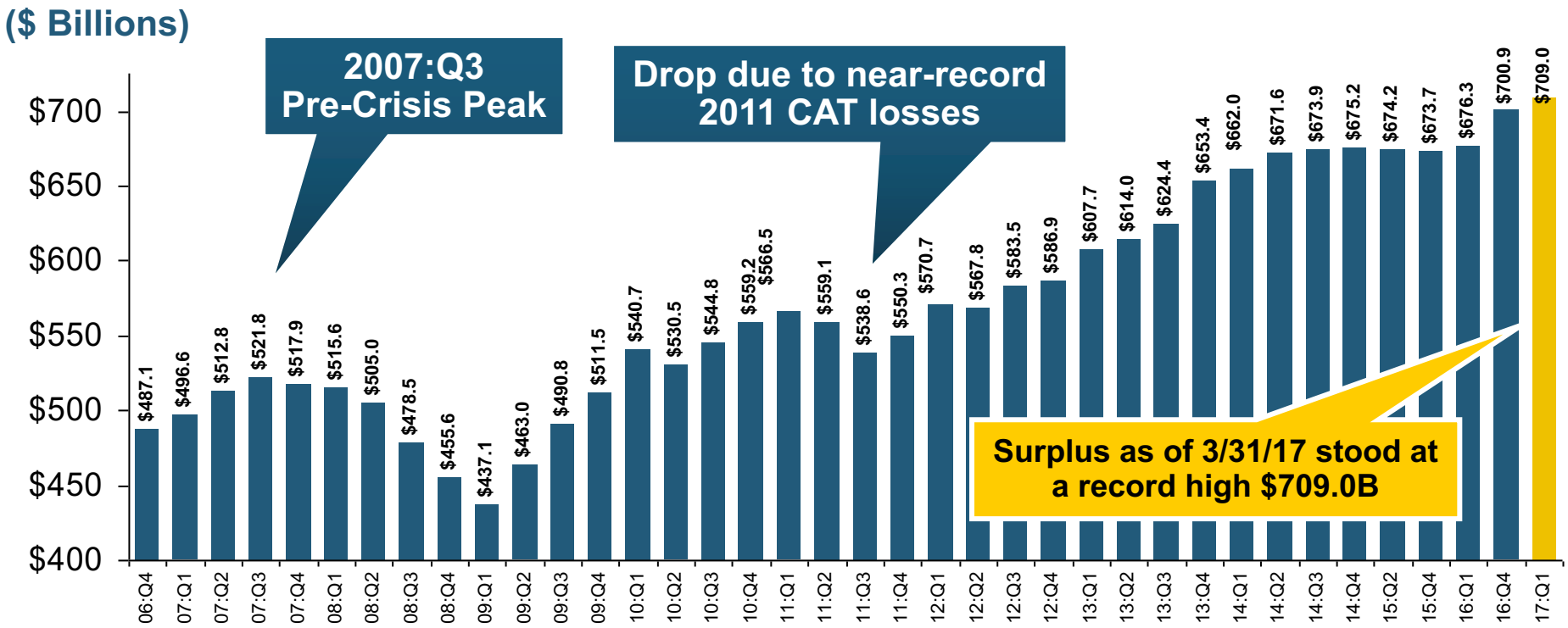
P/C Insurance Industry Combined Ratio, 2001–2017:Q1*



* 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.

Policyholder Surplus, 2006:Q4–2017:Q1



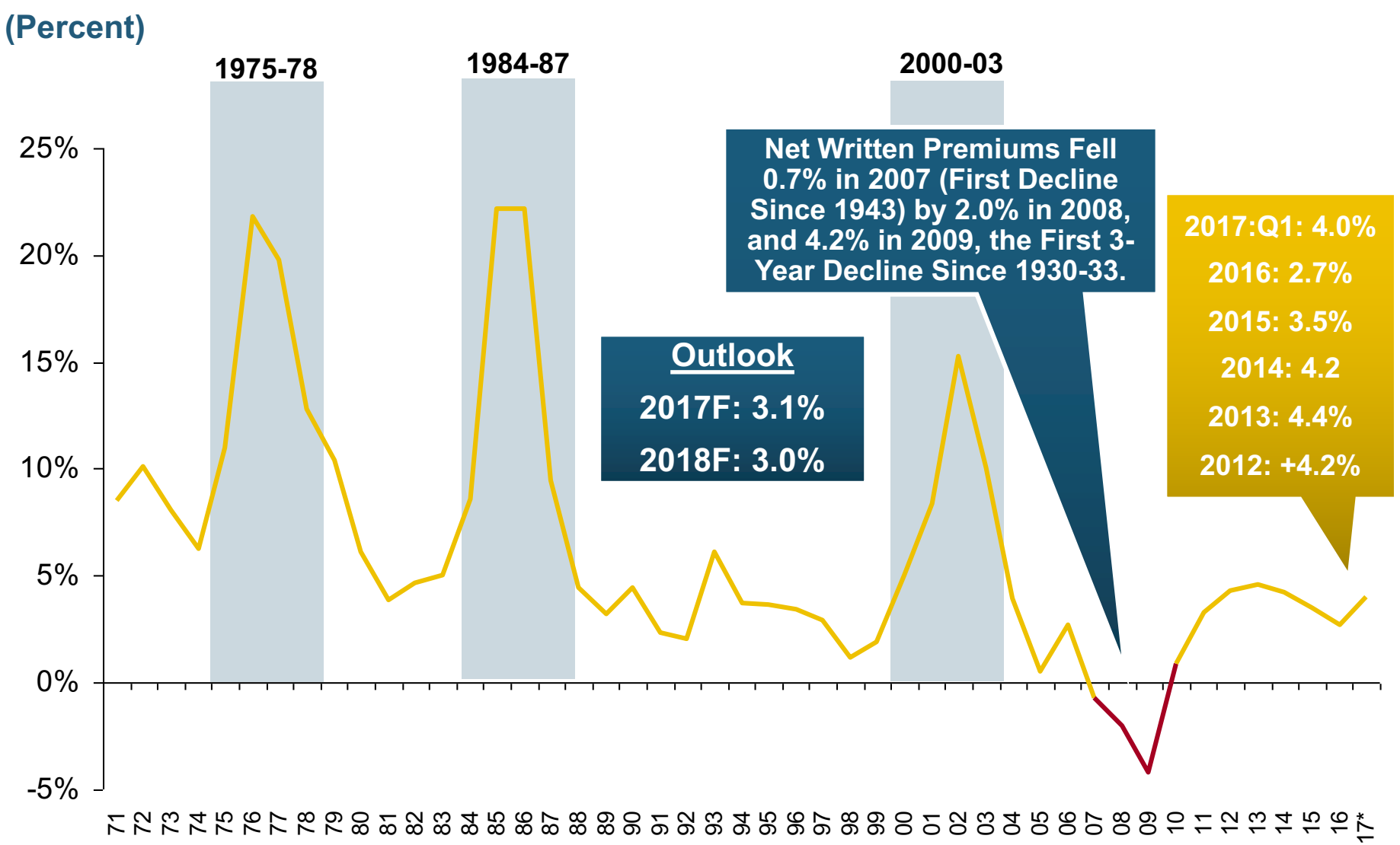
The industry now has $1 of surplus for every $0.76 of NPW, close to the strongest claims-paying status in its history.

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 2017 in very strong financial condition.

Sources: ISO, A.M .Best.

Net Premium Growth (All P/C Lines): Annual Change, 1971—2017:Q1

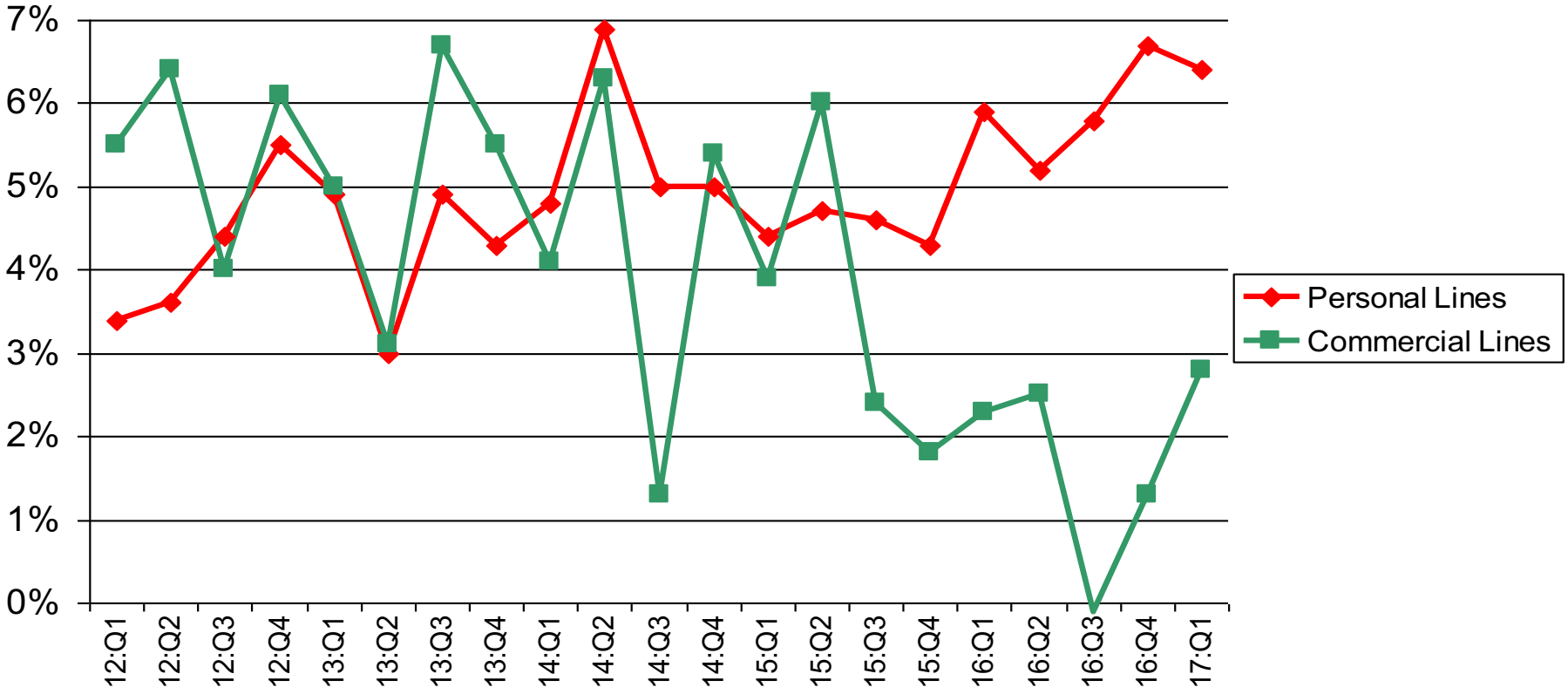


*Q1:2017 over Q1:2016. Shaded areas denote "hard market" periods

Sources: A.M. Best (1971-2013), ISO (2014-16).

Y-o-Y Growth Rates, Direct Premiums Written, Commercial vs. Personal Lines,

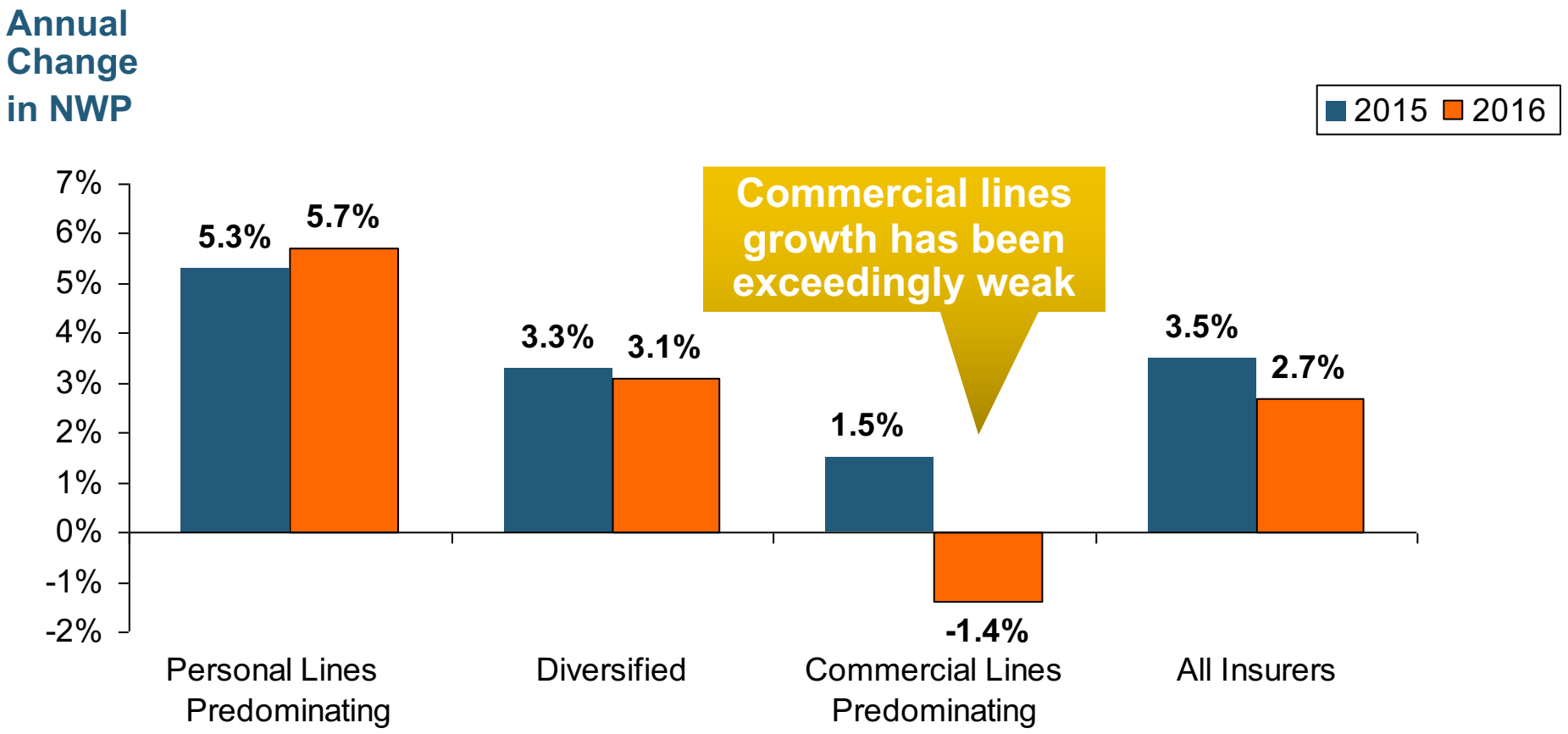
2012:Q4 - 2017:Q1



Since 2014, personal lines Direct Premiums Written have generally grown faster than commercial lines DPW, and that growth has been less volatile.

Sources: NAIC, via SNL Financial; ISO; Insurance Information Institute calculations.

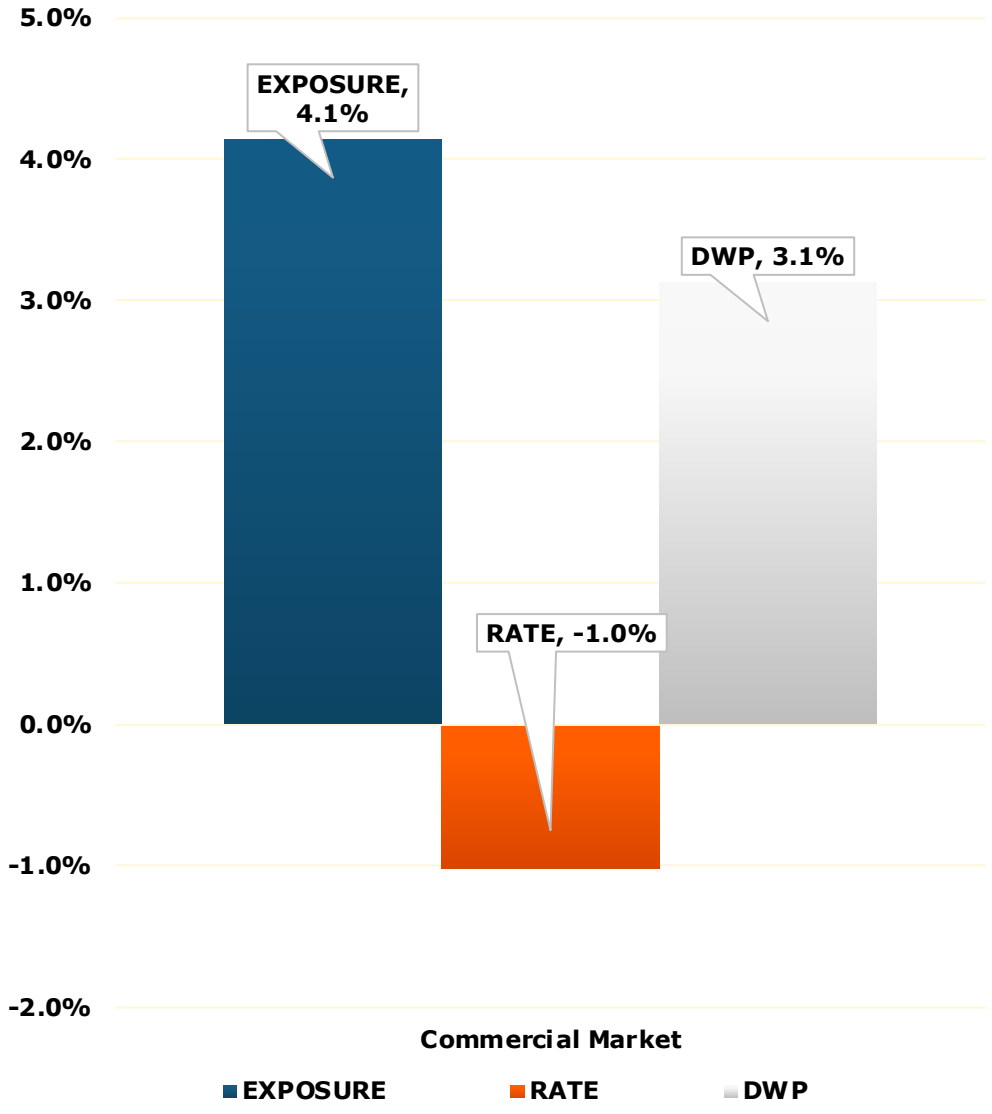
2016 Growth in Net Written Premium: Personal vs. Commercial



The divergence in growth between personal and commercial lines is large and is expanding rapidly

Source: ISO.

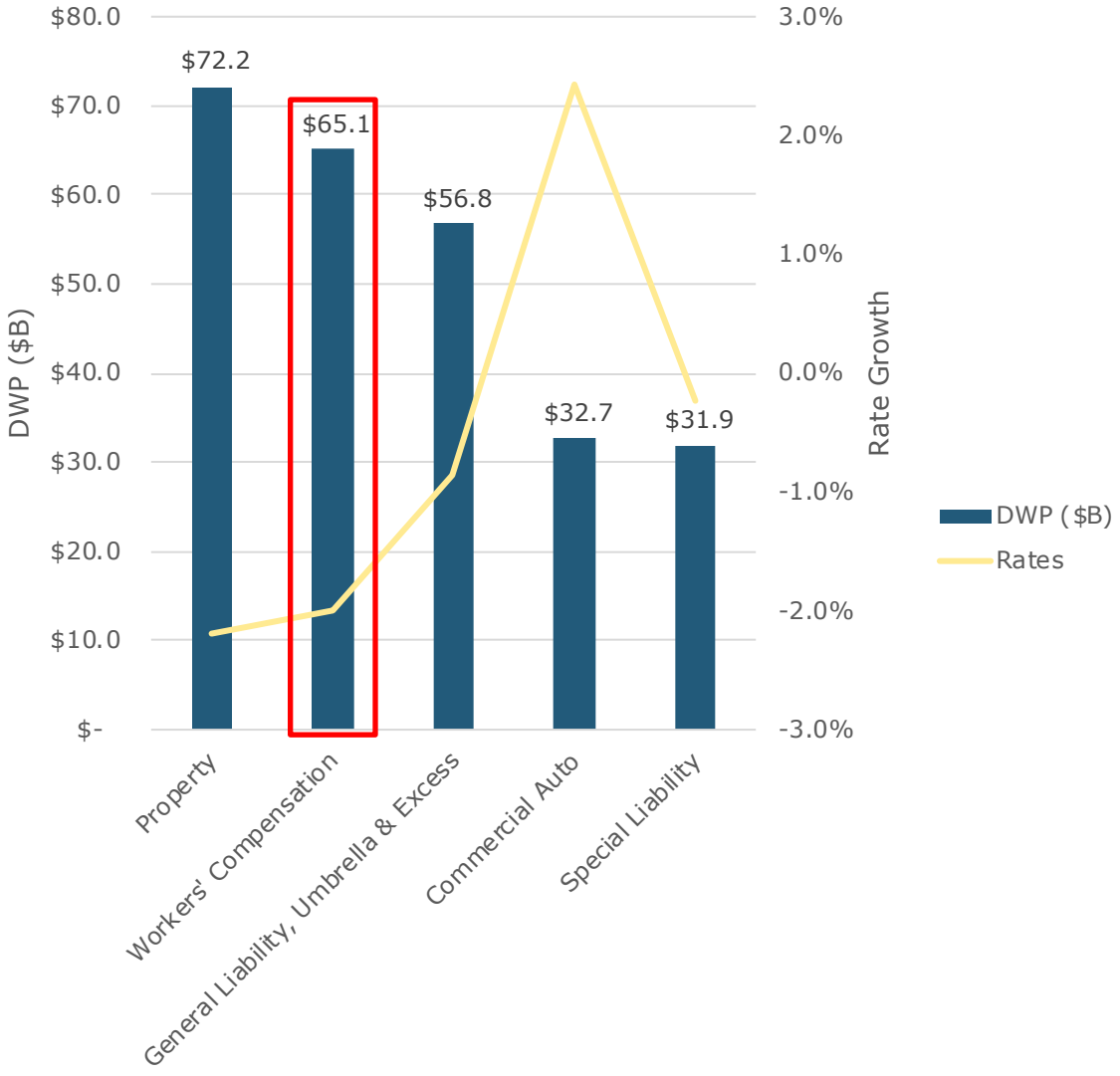
2016: Components of Commercial DWP Growth



- Direct Written Premium (DWP) in US lines covered by ISO MarketStance grew 3.1 percent in 2016
- Soft market conditions counteracted moderate 4.1 percent exposure growth
- Anecdotal evidence: insureds spent rate reductions on new/broader coverages (CIAB, 2017).

Source: Verisk Insurance Solutions.

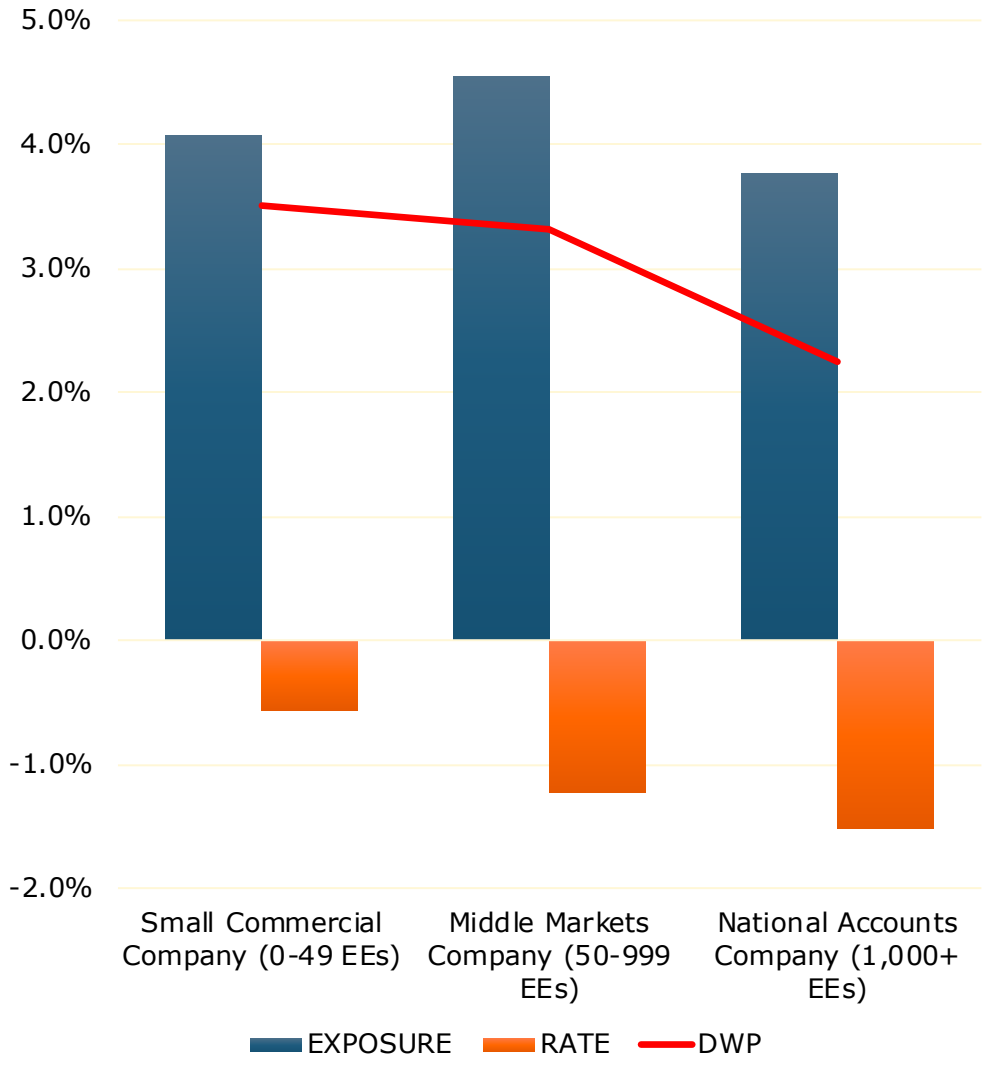
2016 Commercial Market Composition, Rates by Coverage



- **Over 50 percent of 2016 premium volumes were under strong negative rate pressure**
- **Commercial auto, specialty lines under less pressure**

Source: Verisk Insurance Solutions.

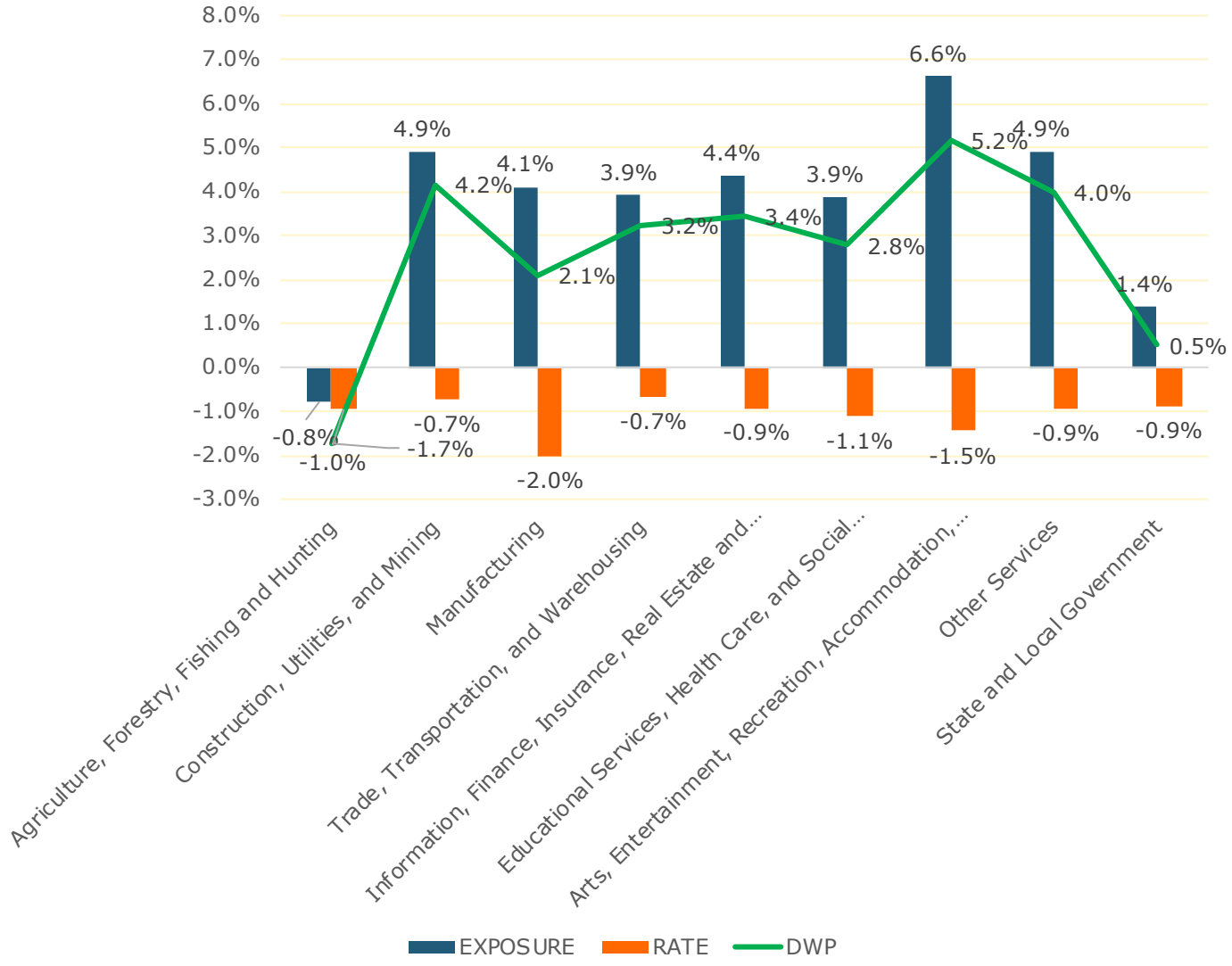
2016 Commercial Market Growth by Size Segment



- **Small commercial, middle markets DWP growth in 2016 outpaced the market**
- **2016 soft market conditions strongly correlated with account size**

Source: Verisk Insurance Solutions.

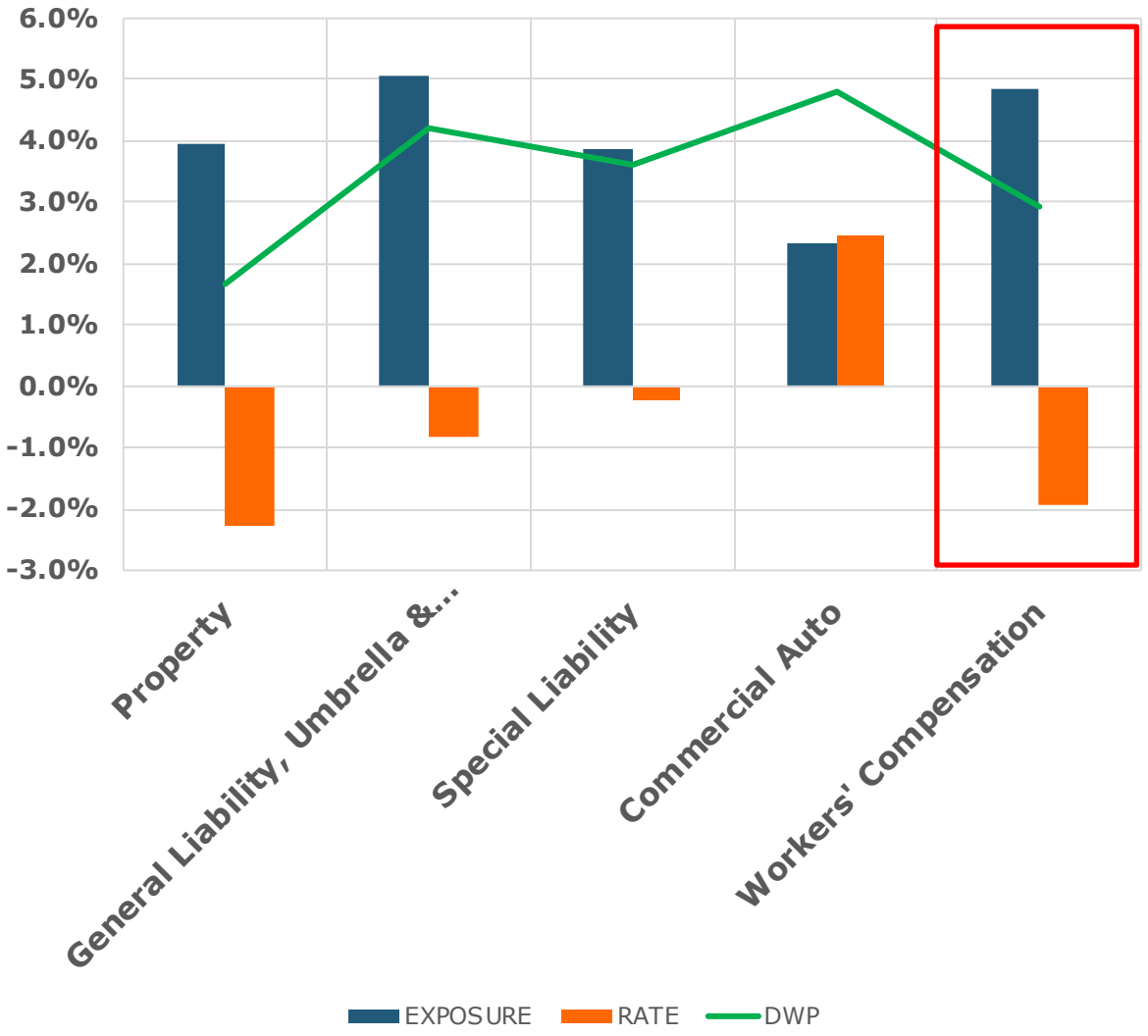
2016 Commercial Market Growth by Industry



- Entertainment, hotel/motel, and other services DWP grew robustly, driven by exposures
- Agriculture and related accounts pressured by shrinking exposures and soft markets
- Soft market conditions were a strong head-wind in manufacturing

Source: Verisk Insurance Solutions.

2016 Commercial Market Growth by Coverage



- Commercial auto rates increased as carriers reacted to ongoing challenges
- ***Property, Workers' Compensation under most severe rate pressures***
- Umbrella, excess, specialty lines liability growth may have reflected trading price for quantity (i.e. demand elasticity)

Source: Verisk Insurance Solutions.

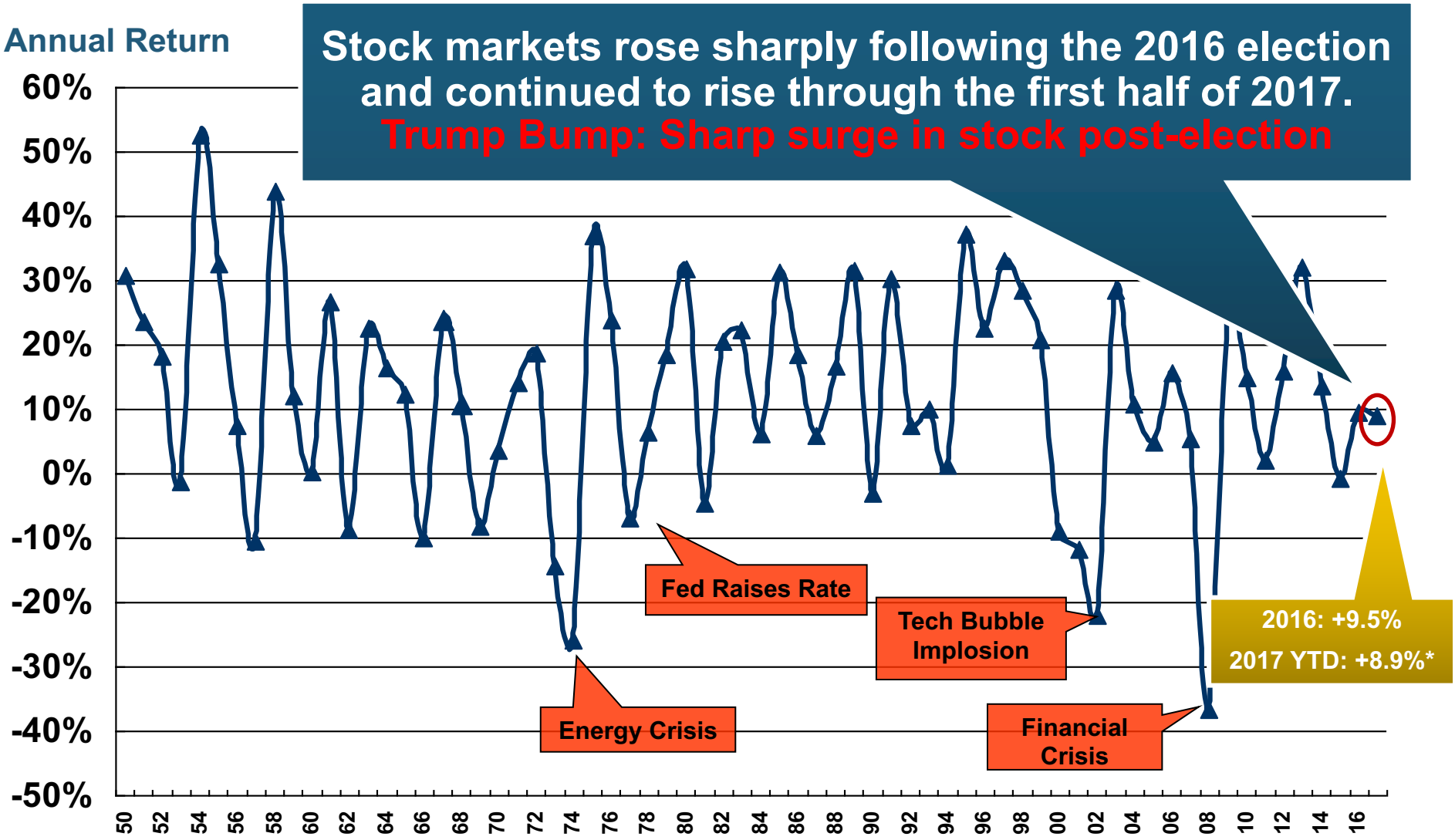
INVESTMENTS: THE NEW REALITY

Investment Performance is a Key Driver of Insurer Profitability

The "Trump Bump" Has Lifted Stock Markets and Interest Rates

Will the Gains Help Insurers?

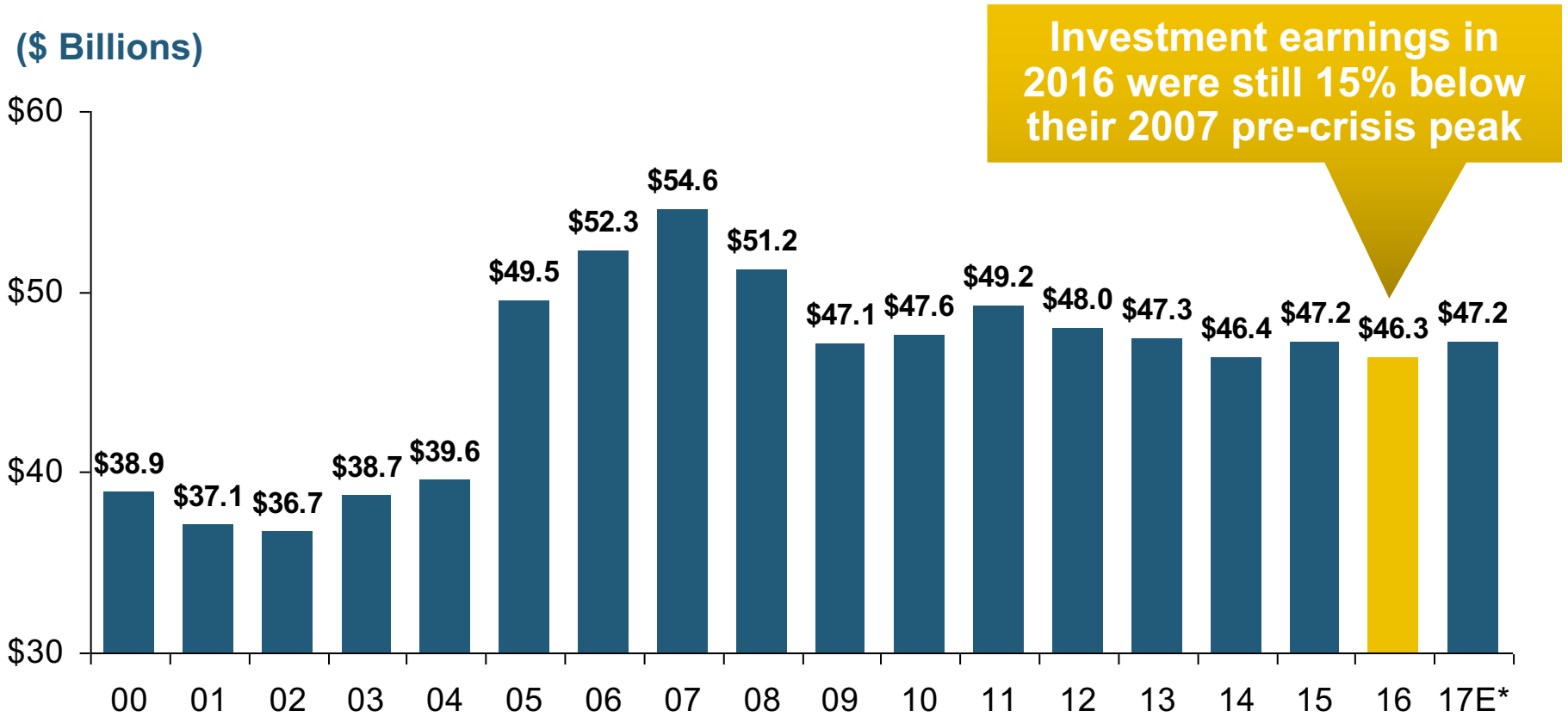
S&P 500 Index Returns, 1950 – 2017*



*Through August 10, 2017.

Source: NYU Stern School of Business: http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html Ins. Info. Inst.

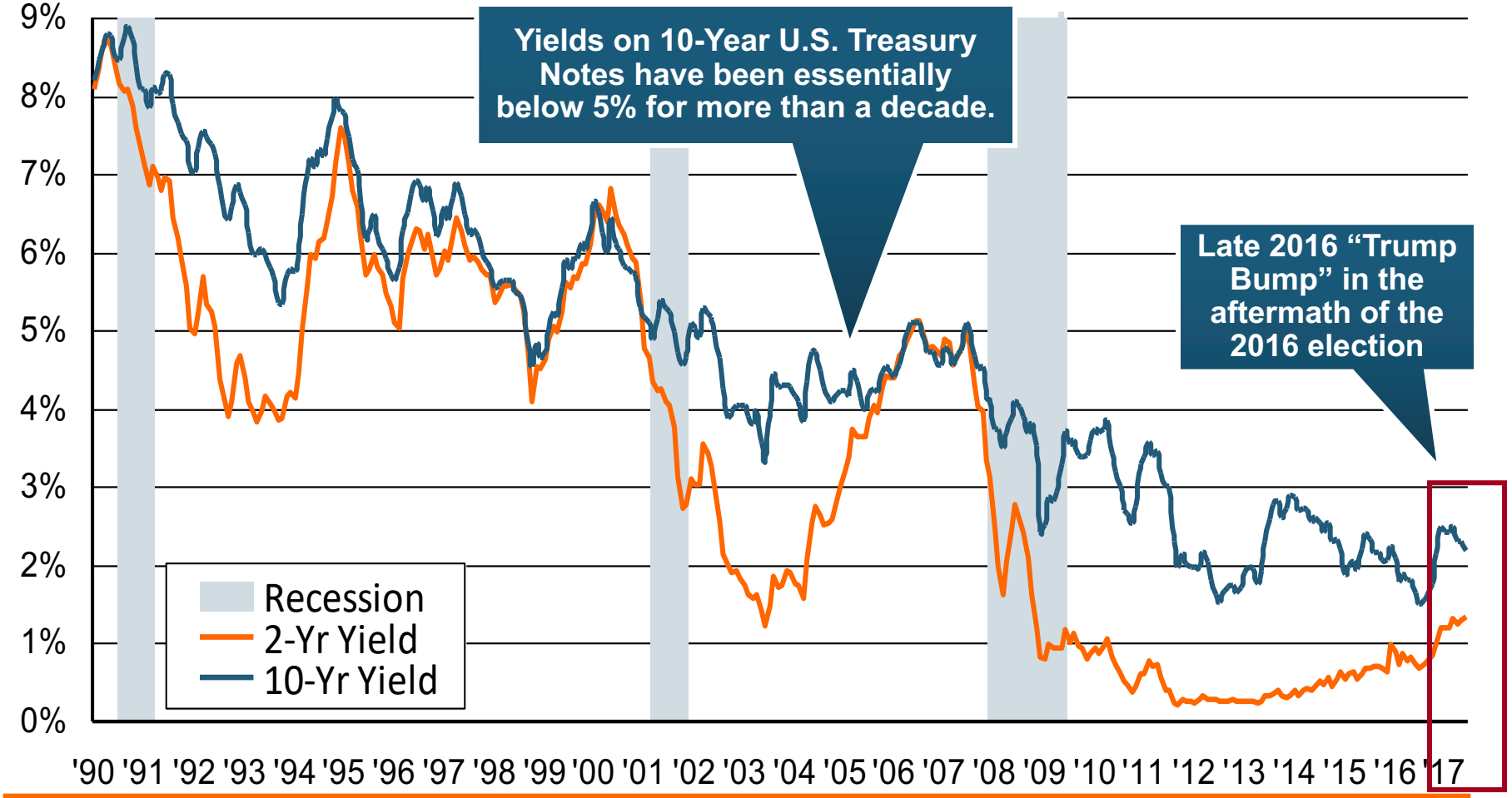
Property/Casualty Insurance Industry Investment Income: 2000–2017E*



Due to persistently low interest rates, investment income fell in 2012, 2013 and 2014 but showed a small (1.7%) increase in 2015—though 2016 experienced another decline.

[1] Investment gains consist primarily of interest and stock dividends. Sources: ISO; Insurance Information Institute.
*2017 estimate based on annualized $11.805B actual figure for Q1:2017.

U.S. Treasury Security Yields: A Long Downward Trend, 1990–2017*

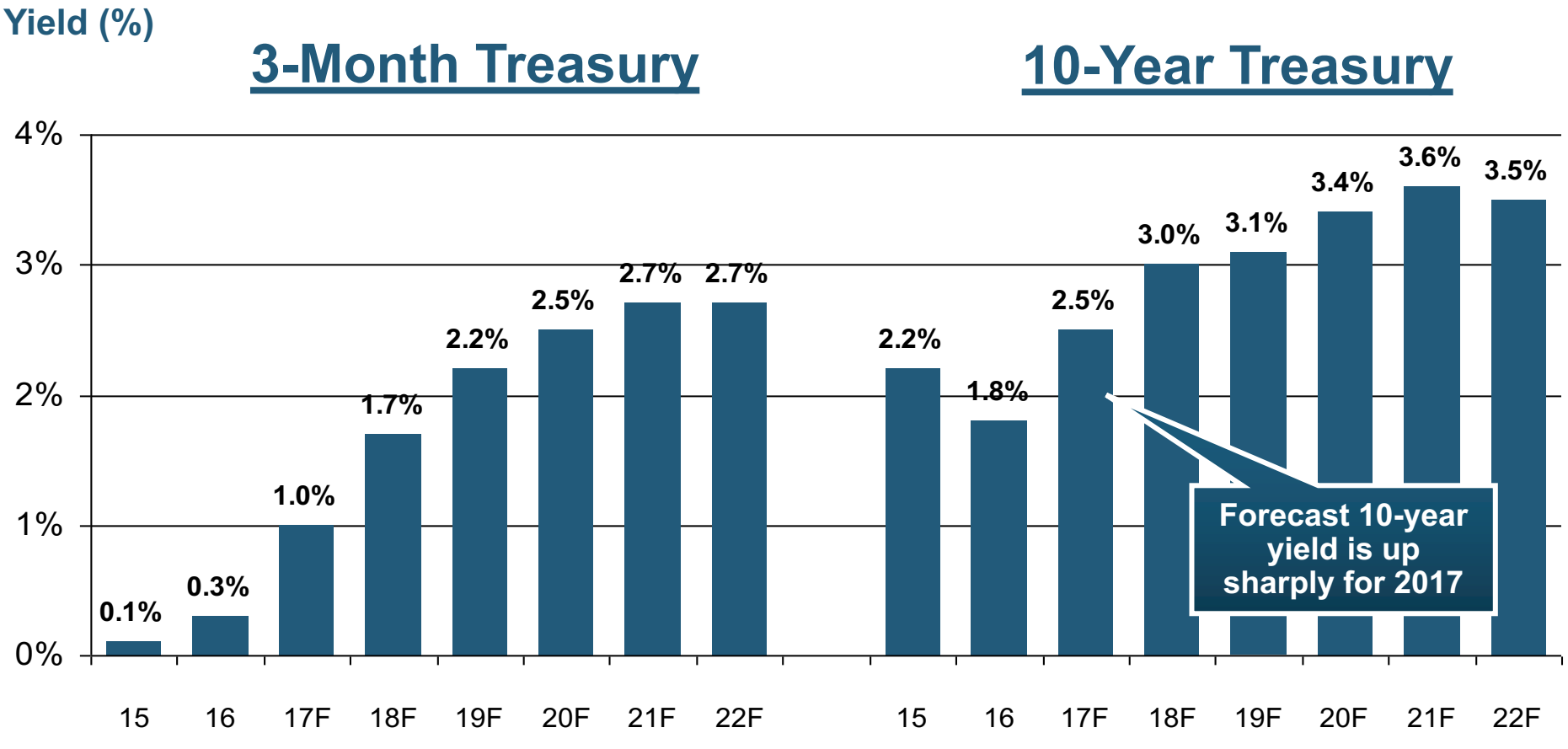


Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, constant maturity, nominal rates, through June 2017.

Sources: Federal Reserve Bank at http://www.federalreserve.gov/releases/h15/data.htm. National Bureau of Economic Research (recession dates); Insurance Information Institute.

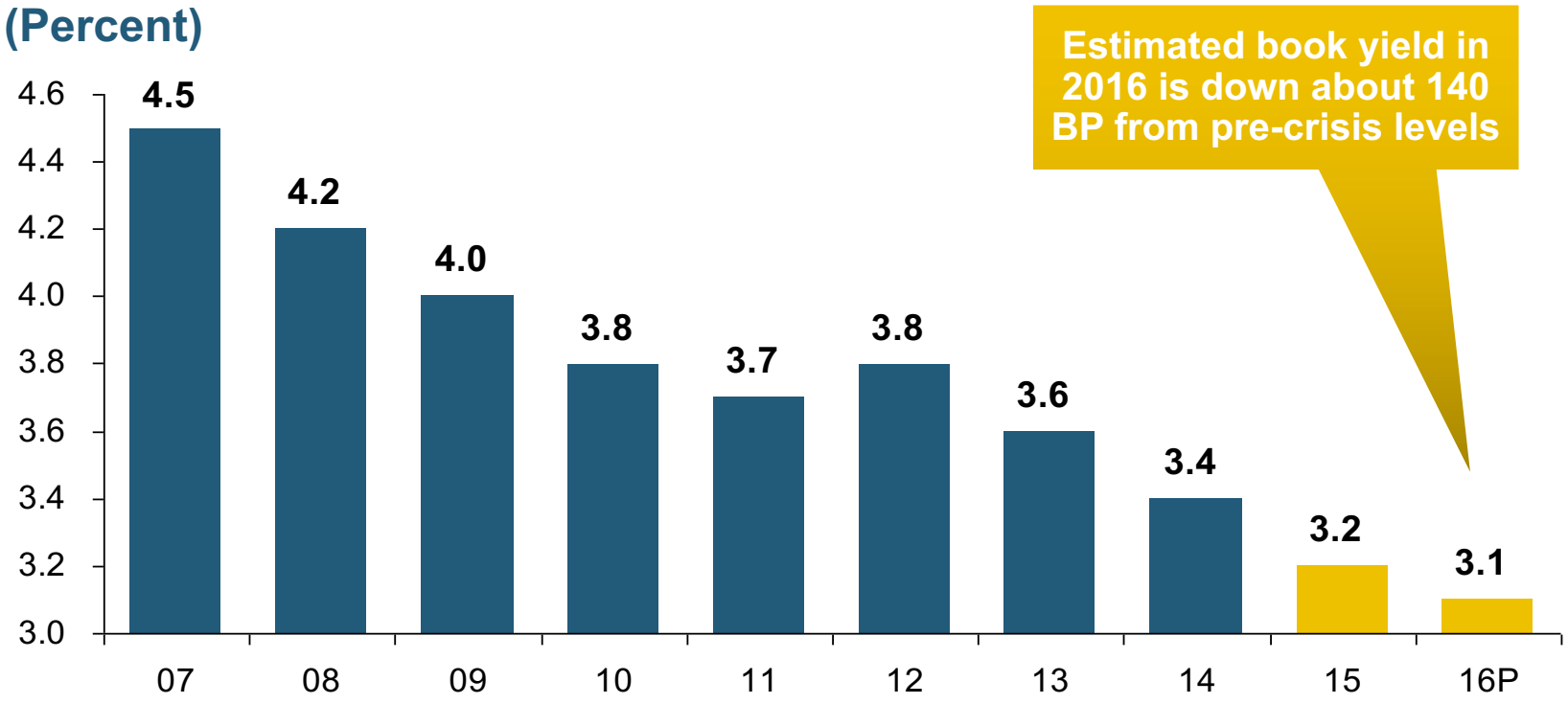
Interest Rate Forecasts: 2016 – 2021F



A full normalization of interest rates is unlikely until the early 2020s, more than a decade after the onset of the financial crisis.

Sources: Blue Chip Economic Indicators (7/17 for 2017 and 2018; for 2019-2021 11/16 issue); Insurance Info. Institute.

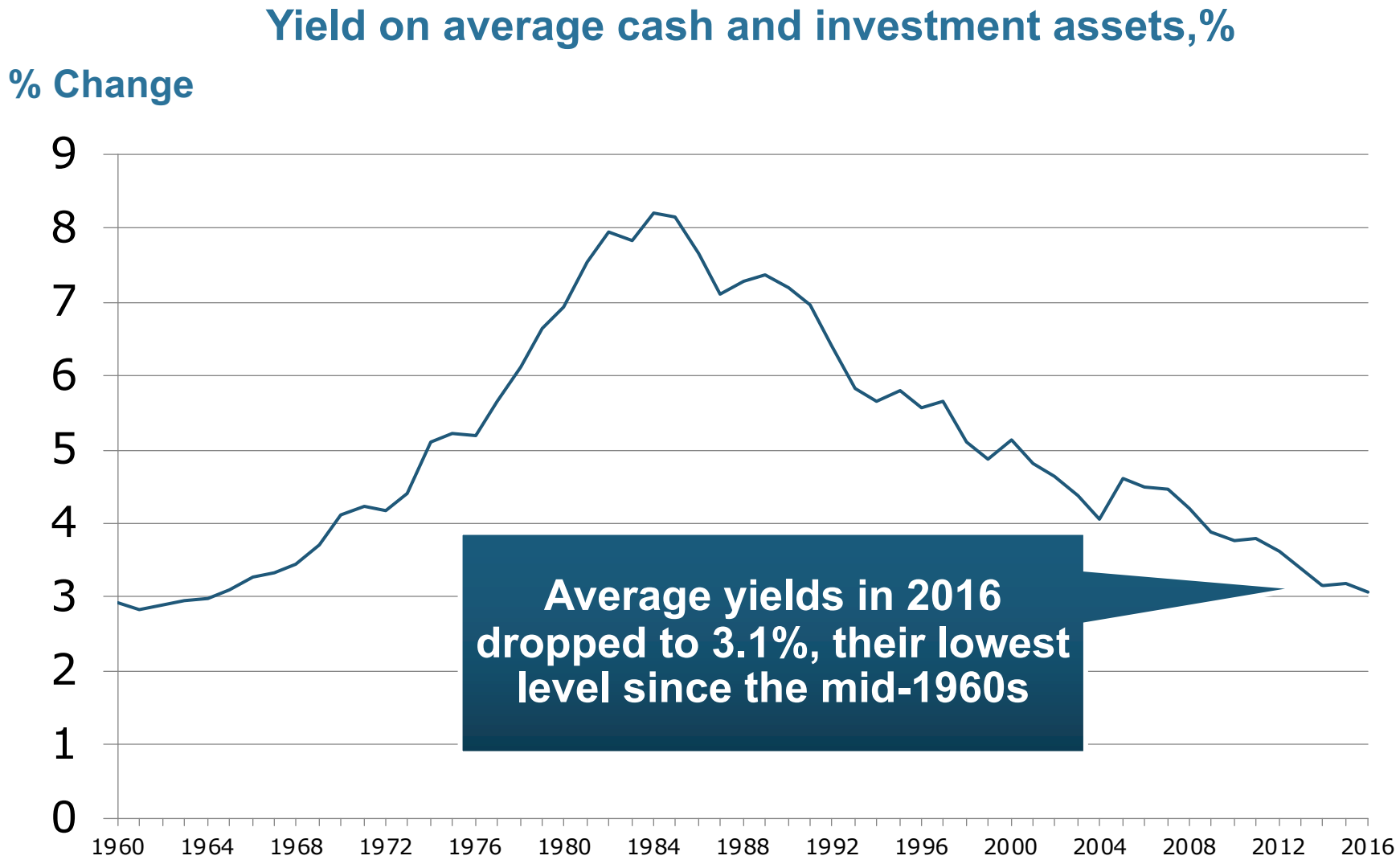
Net Investment Yield on Property/ Casualty Insurance Invested Assets, 2007–2016P*



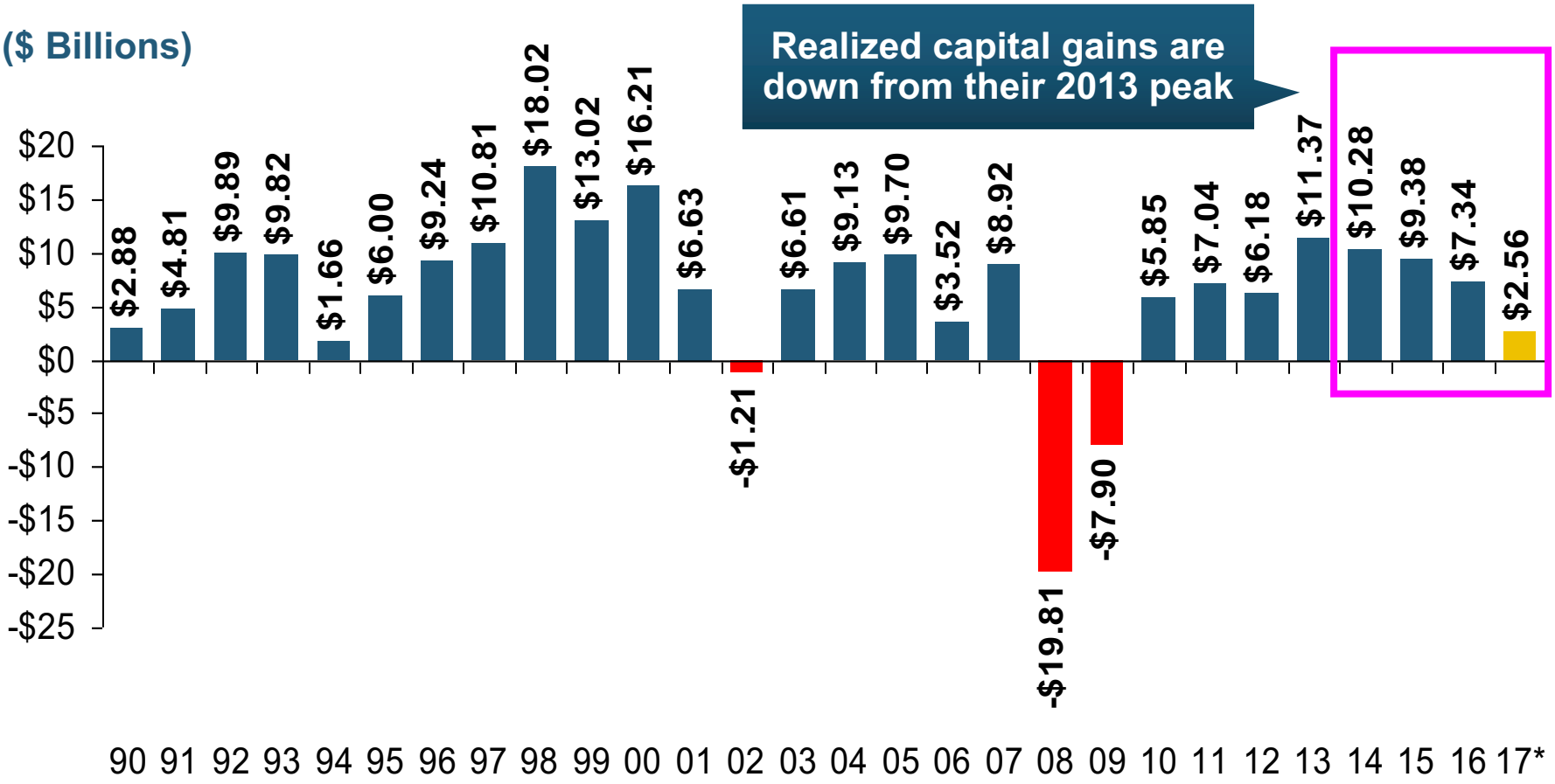
The yield on invested assets remains low relative to pre-crisis yields. The Fed's plan to raise interest rates in beginning in late 2015 has pushed up some yields, albeit quite modestly.

Sources: A.M. Best; 2015-2016 figures from ISO Insurance Solutions; Insurance Information Institute

P/C Insurer Investment Yields: Lowest in Half a Century



P/C Insurer Net Realized Capital Gains/Losses, 1990-2017:Q1



Insurers Posted Net Realized Capital Gains in 2010 - 2016 Following Two Years of Realized Losses During the Financial Crisis. Realized Capital Losses Were a Primary Cause of 2008/2009's Large Drop in Profits and ROE.

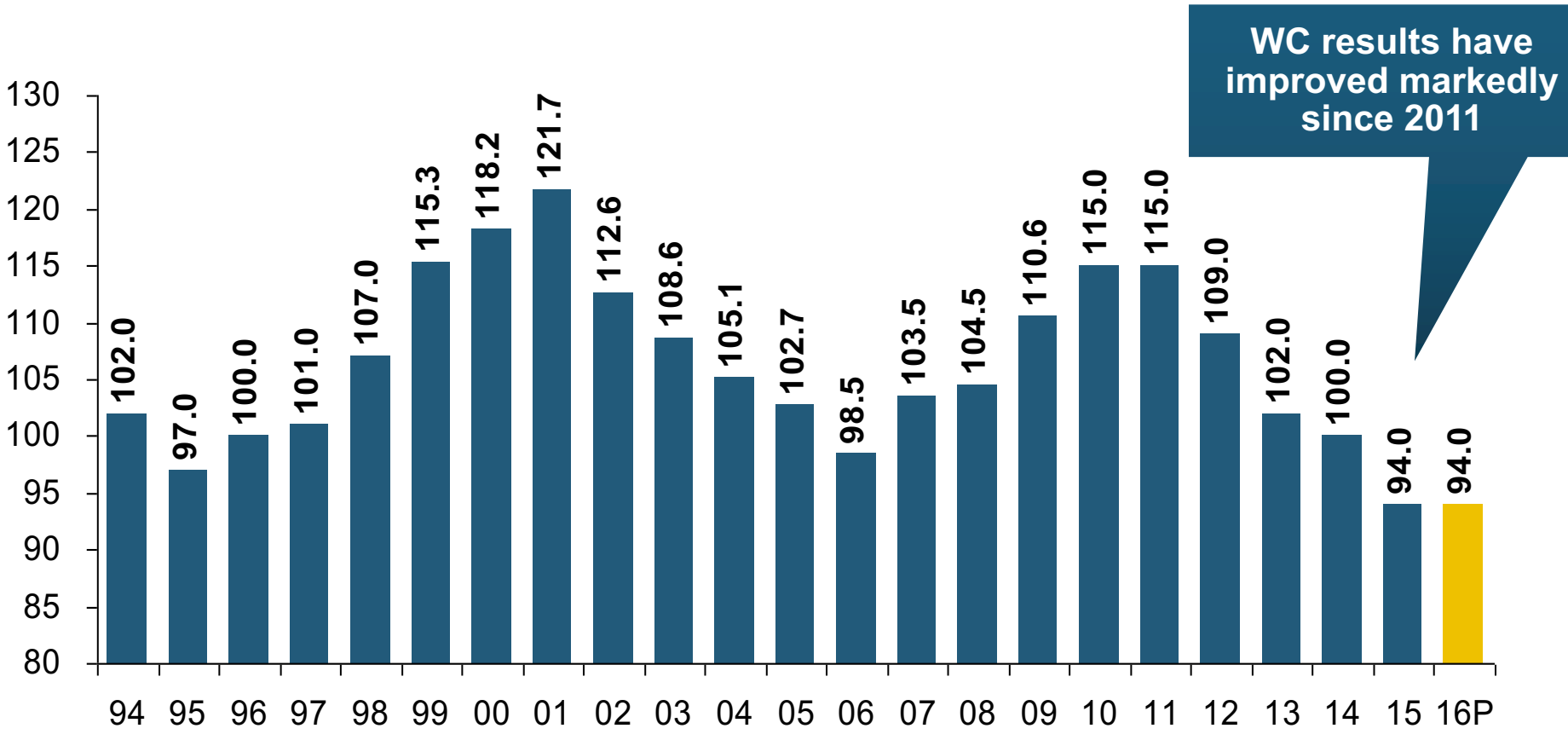
*Figure is through Q1:2017
Sources: A.M. Best, ISO; Insurance Information Institute.

Workers Compensation Operating Environment

Workers Comp Results Have Improved Substantially in Recent Years

Can Gains Be Maintained?

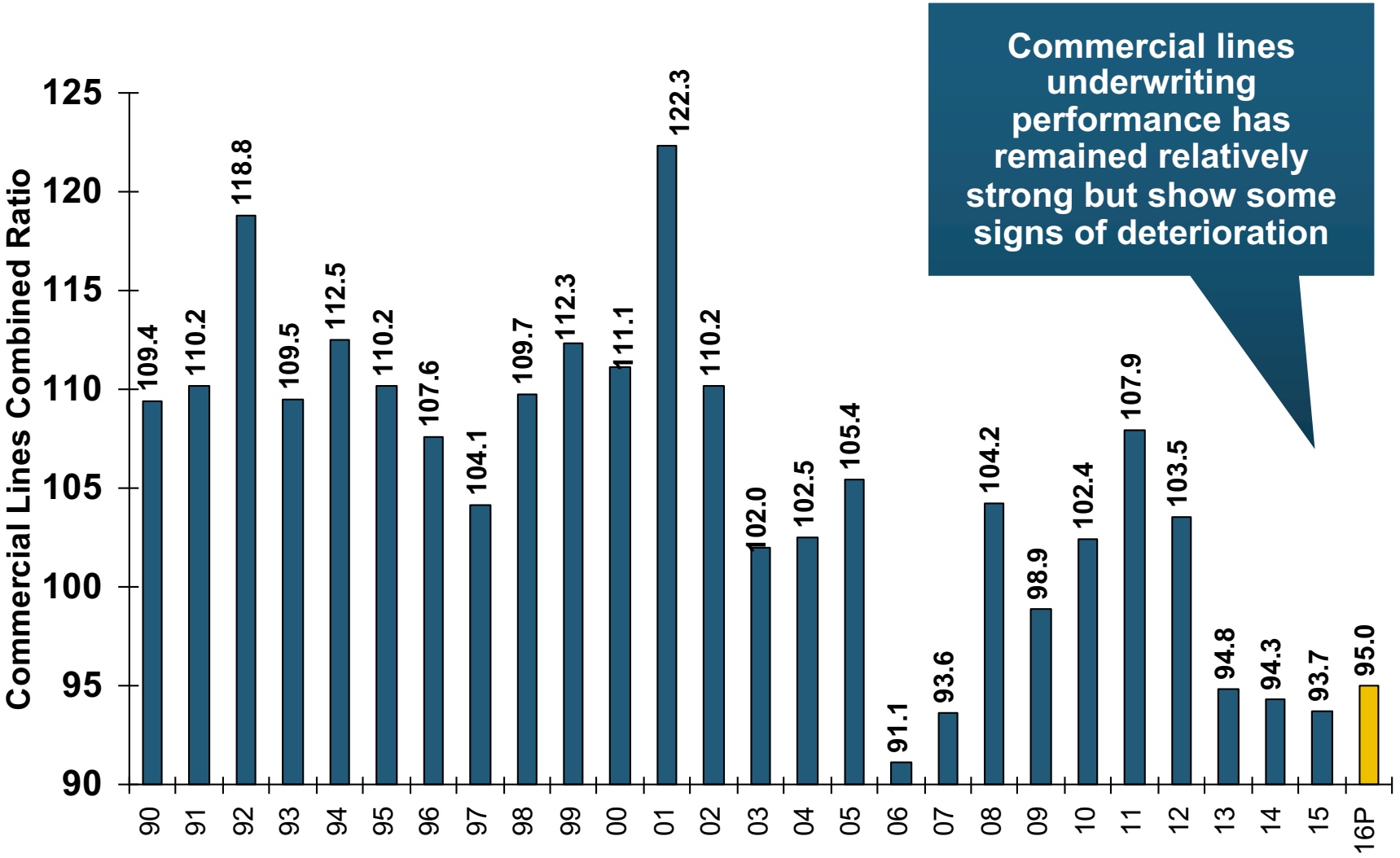
Workers Compensation Combined Ratio: 1994–2016P



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.

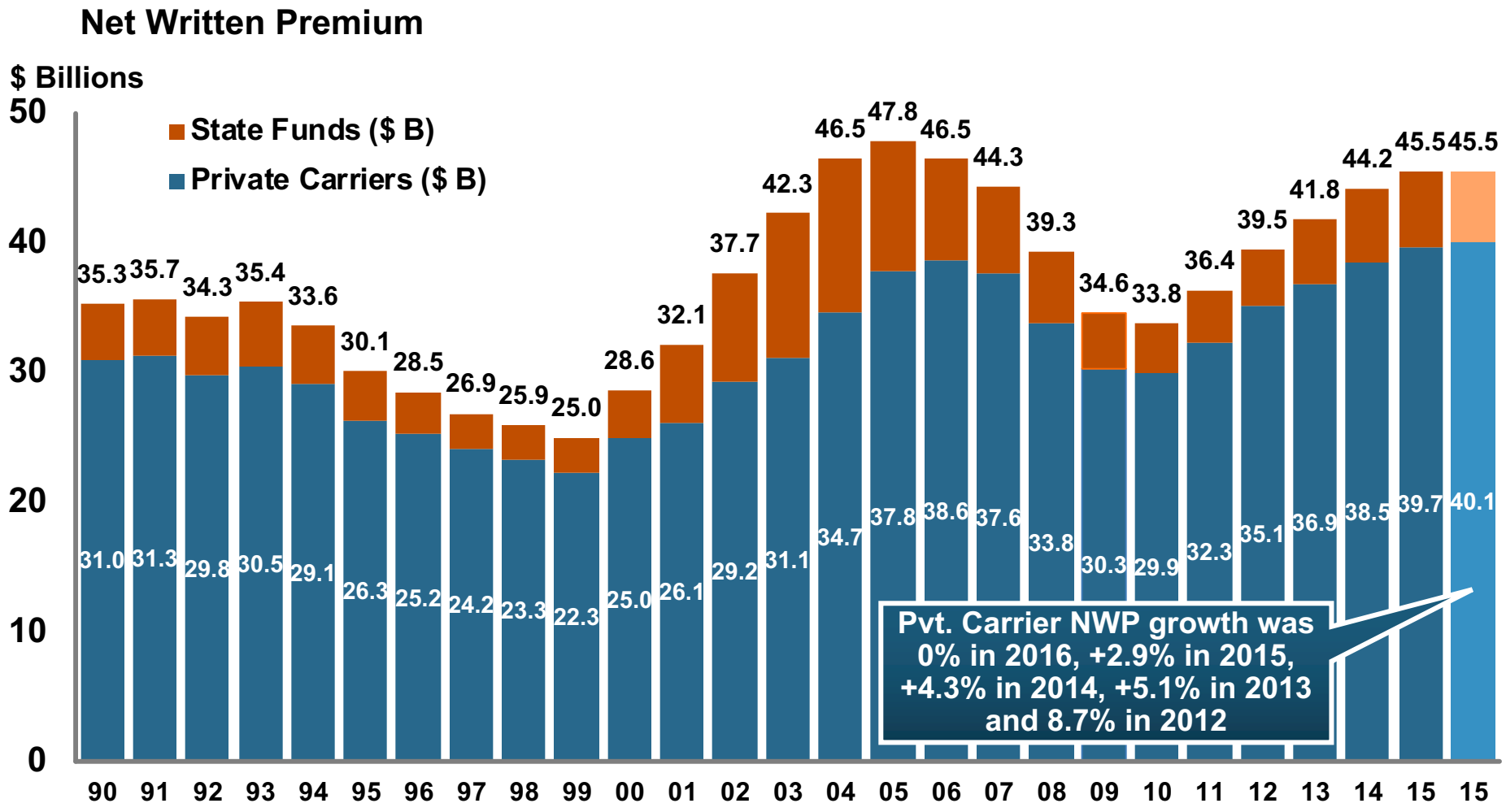
Sources: A.M. Best (1994-2009); NCCI (2010-2016P) and are for private carriers only..

Commercial Lines Combined Ratio, 1990-2016P



*2007-2012 figures exclude mortgage and financial guaranty segments.
Source: A.M. Best (1990-2015).

Workers Compensation Premium: Flat in 2016 After 5 Years of Increase



p Preliminary

Source: NCCI from Annual Statement Data.
Includes state insurance fund data for the following states: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT.
Each calendar year total for State Funds includes all funds operating as a state fund that year.

Workers Compensation Components of Written Premium Change, 2015 to 2016

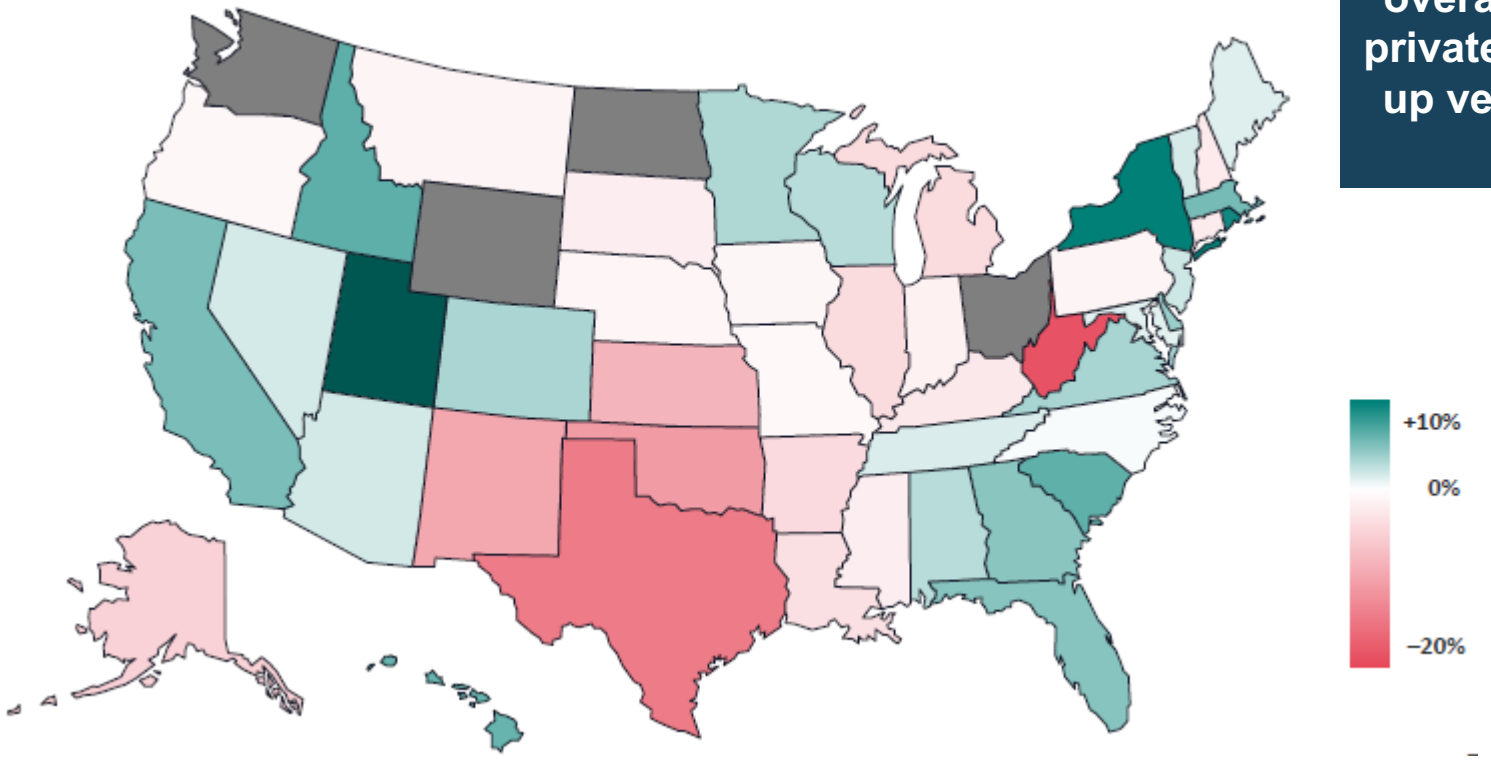
Written Premium Change from 2015 to 2016	
Net Written Premium—Countrywide	**+0.0%**
Direct Written Premium—Countrywide	**+0.0%**
Components of DWP Change for NCCI States	
Change in Carrier Estimated Payroll	+4.0%
Change in Bureau Loss Cost and Mix	-2.7%
Carrier Discounting	-1.4%
State Fund Converting to Private Carrier	+1.0%
Other Factors	-0.8%
Combined Effect	**+0.0%**

Growth is now almost entirely payroll driven

Sources: Countrywide: Annual Statement data.
NCCI States: Annual Statement Statutory Page 14 for all states where NCCI provides ratemaking services.
Components: NCCI Policy data.

2016 Workers Compensation Direct Written Premium Growth, by State*

PRIVATE CARRIERS: Overall 2016 Growth = +1.0%

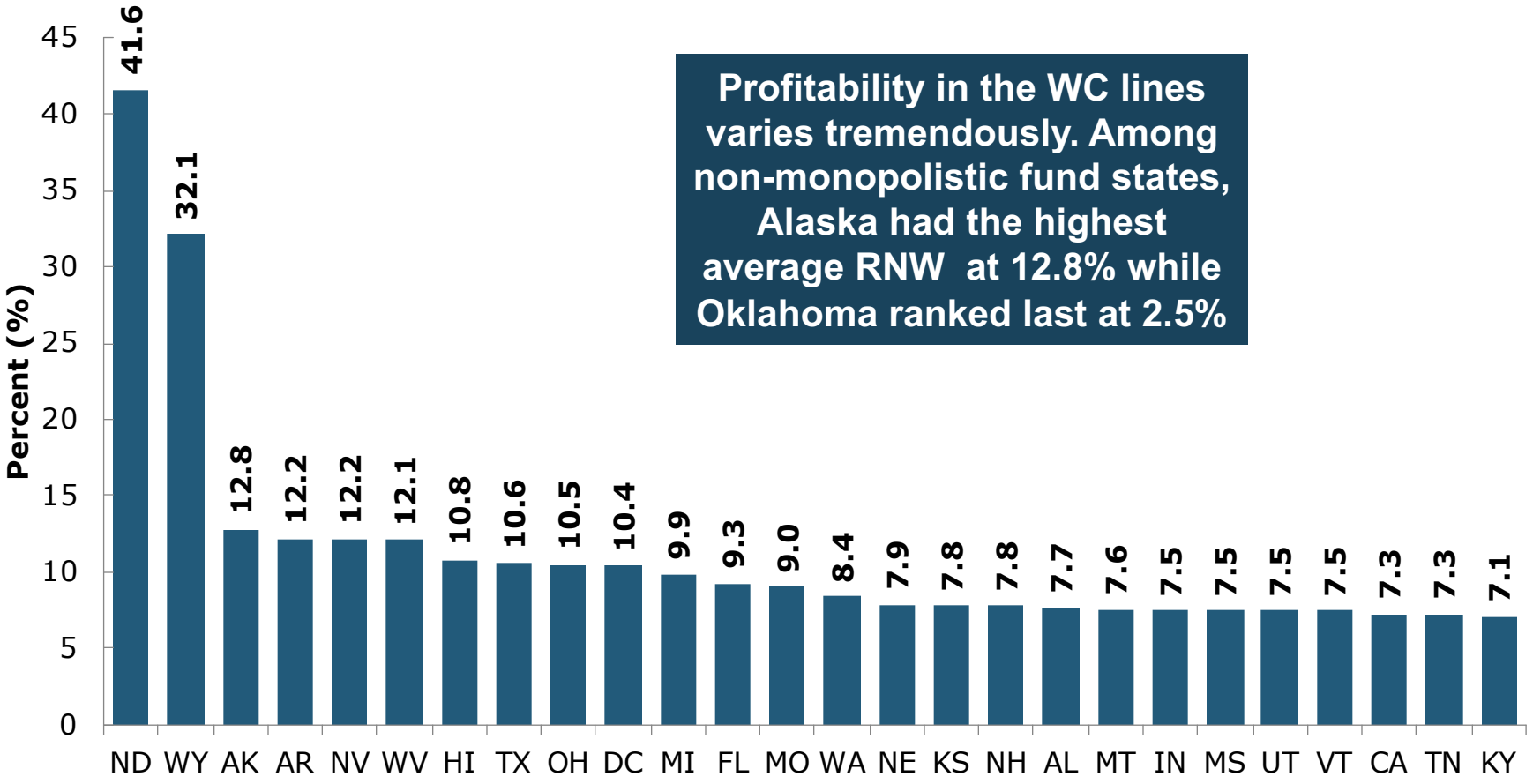


While growth rates varied widely, overall growth for private carriers was up very slightly in 2016

*Excludes monopolistic fund states (in gray): OH, ND, WA and WY.

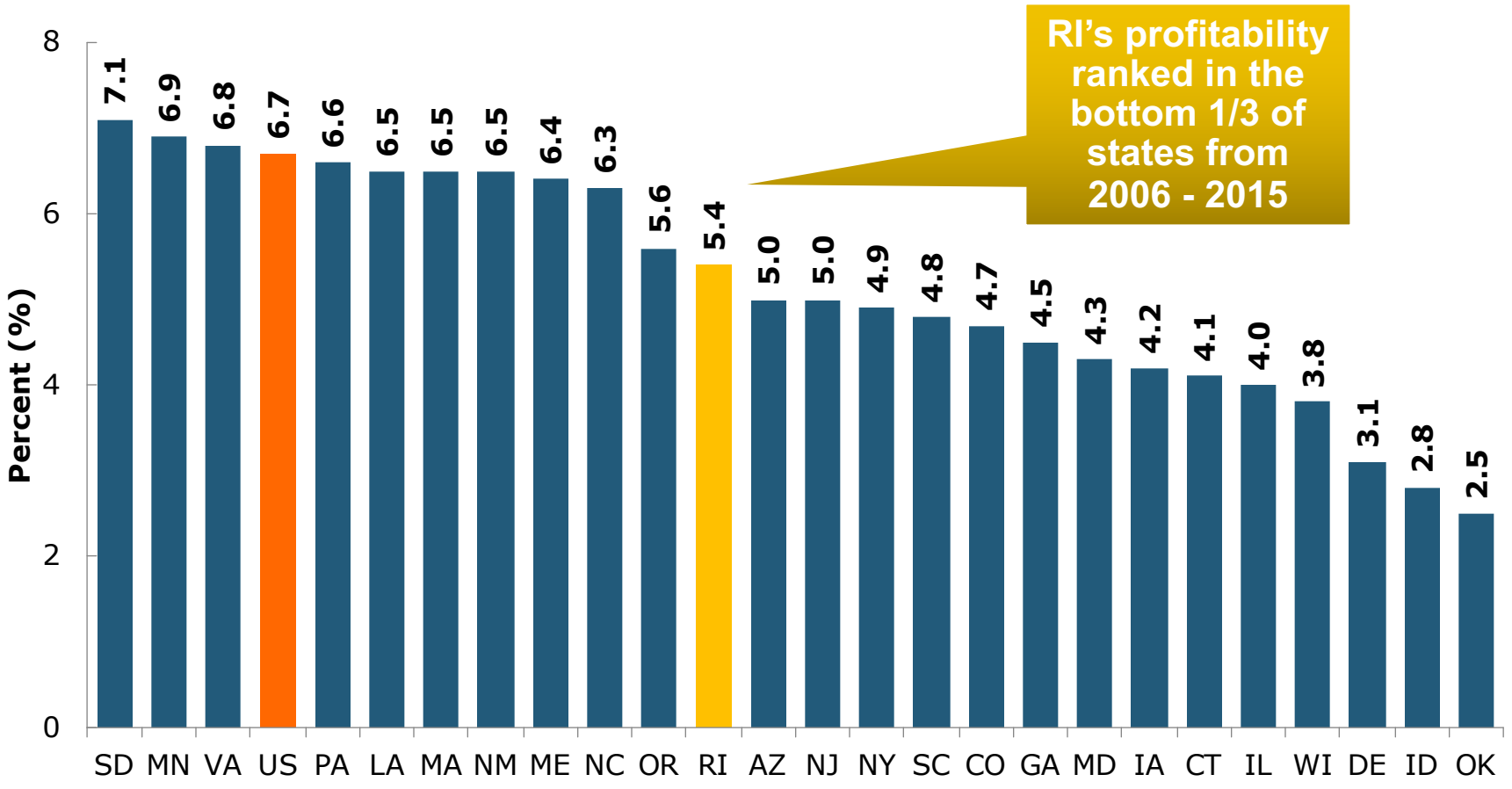
Source: NCCI.

WC Return on Net Worth, 2006-2015 Average Highest 25 States



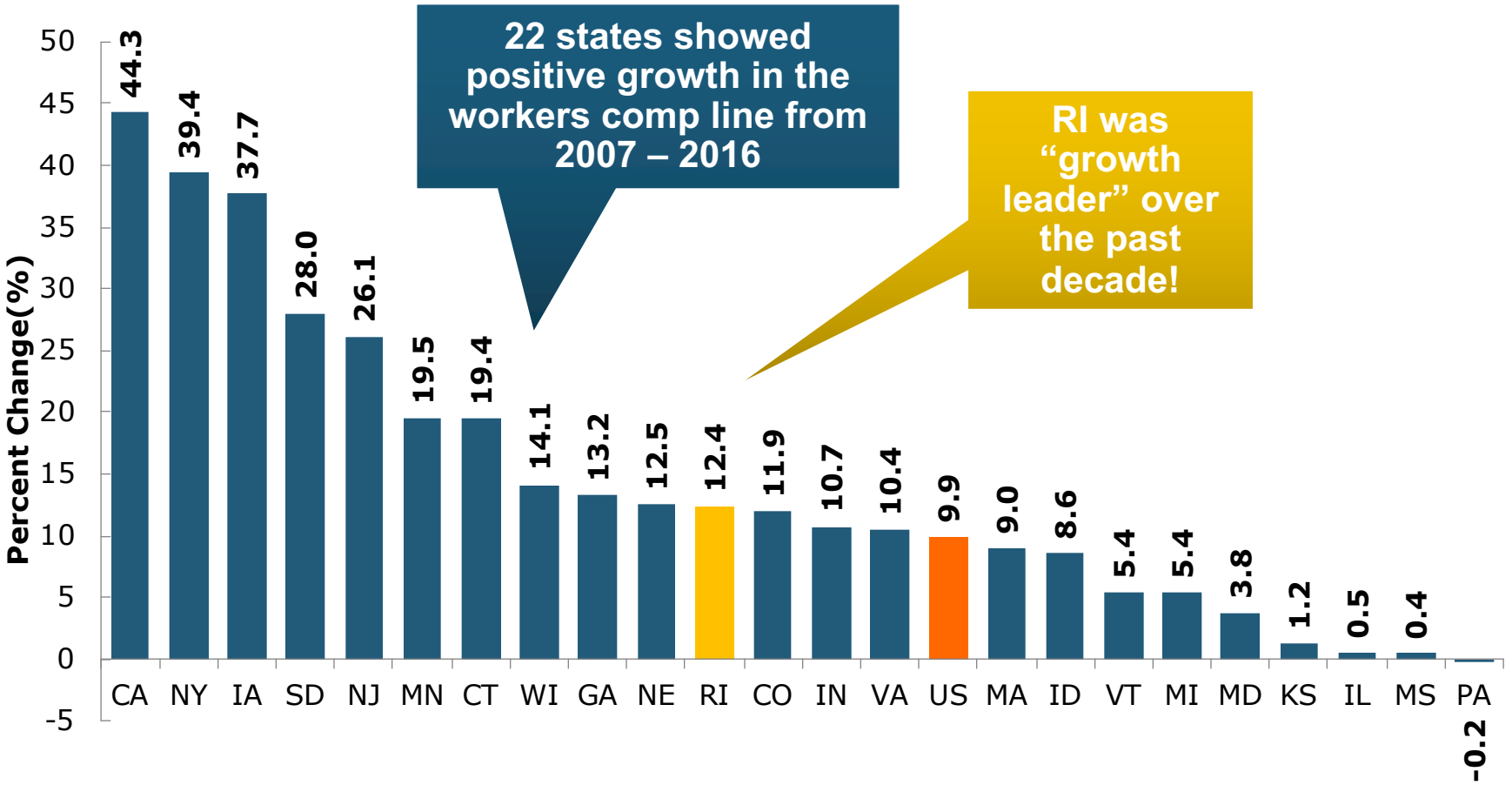
Source: NAIC data, sourced from S&P Global Market Intelligence, Insurance Information Institute.

WC Return on Net Worth, 2006-2015 Average
Lowest 25 States



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

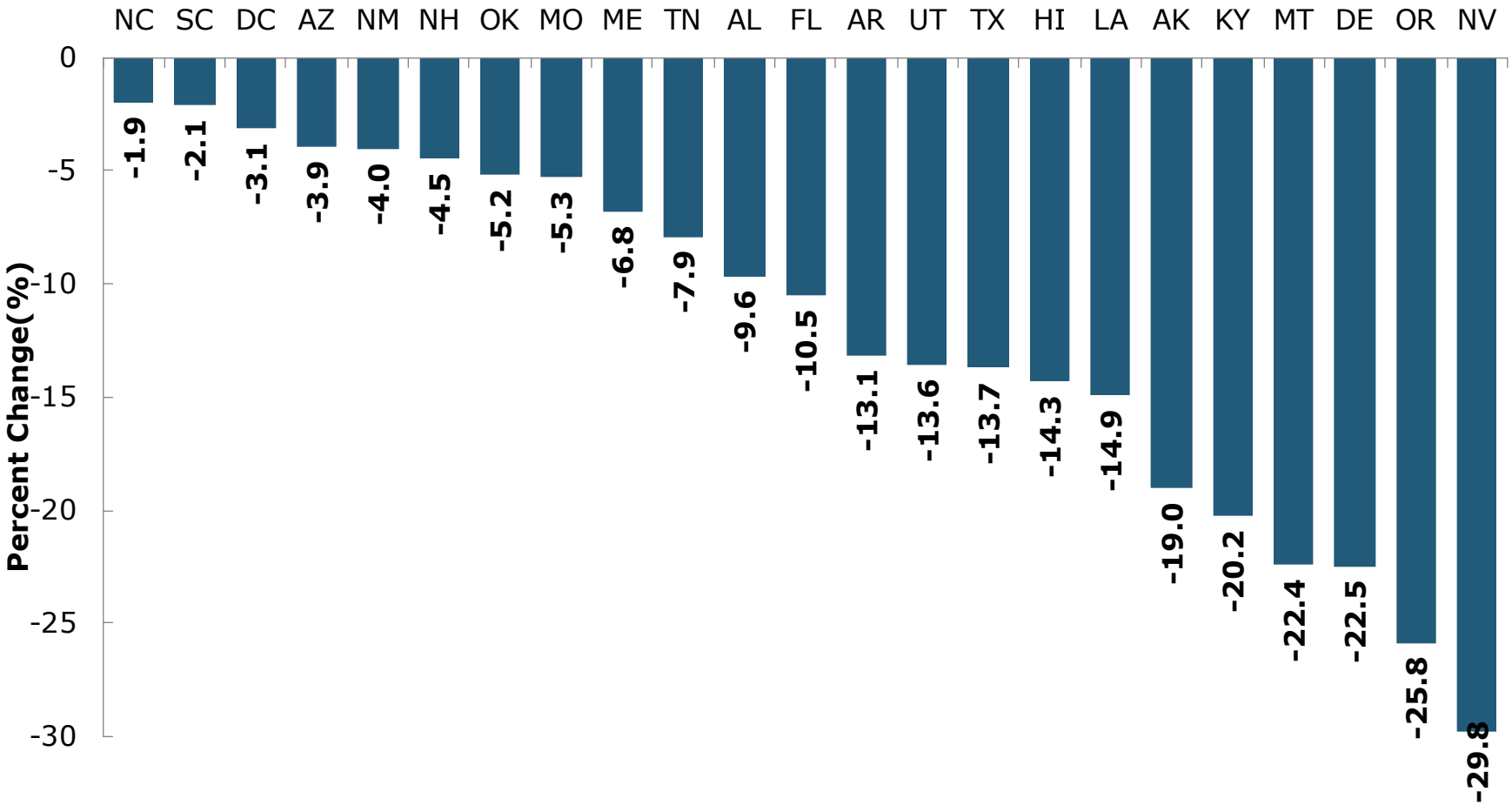
Direct Premiums Written Growth: WC
Percent Change by State, 2007-2016*
Highest States



*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period

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

Direct Premiums Written Growth: WC Percent Change by State, 2007-2016* Lowest States

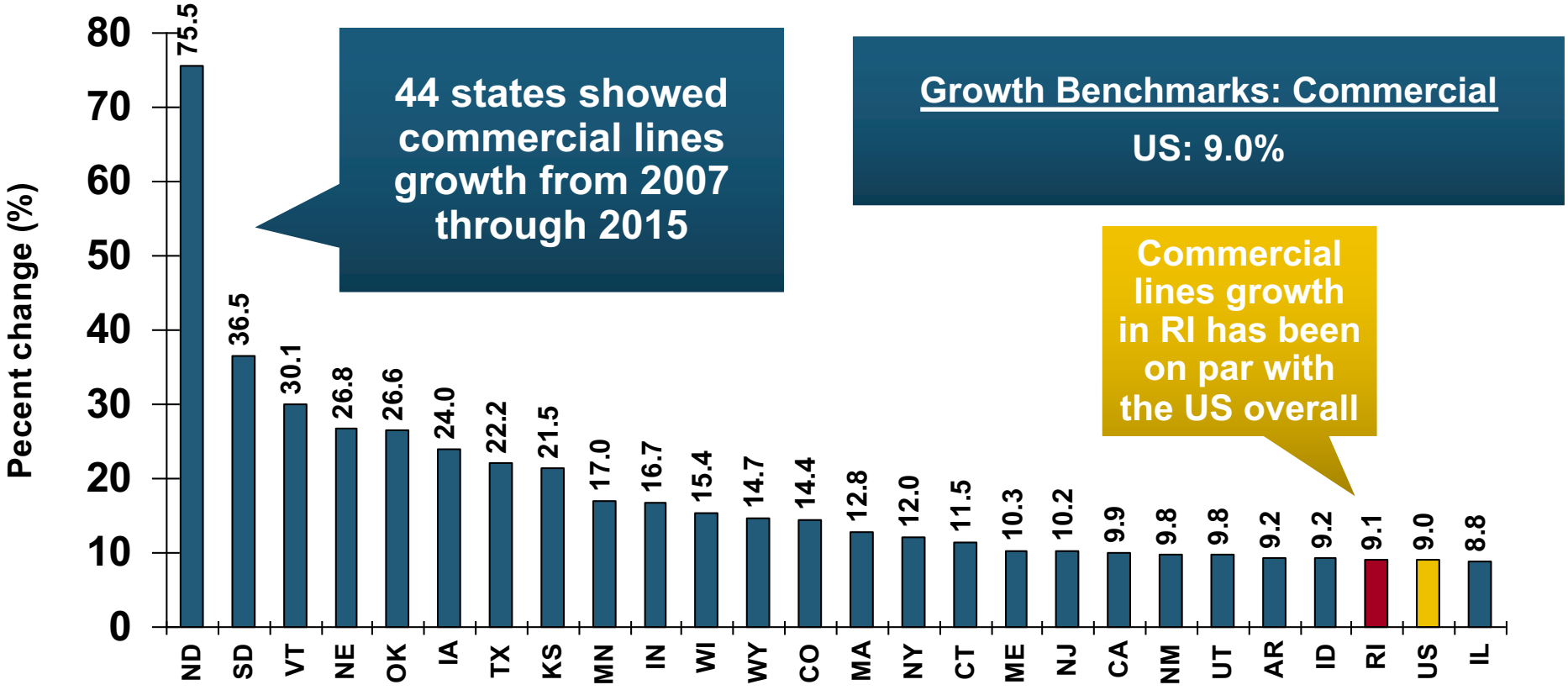


Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period

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

Direct Premiums Written: Comm. Lines Percent Change by State, 2007-2015

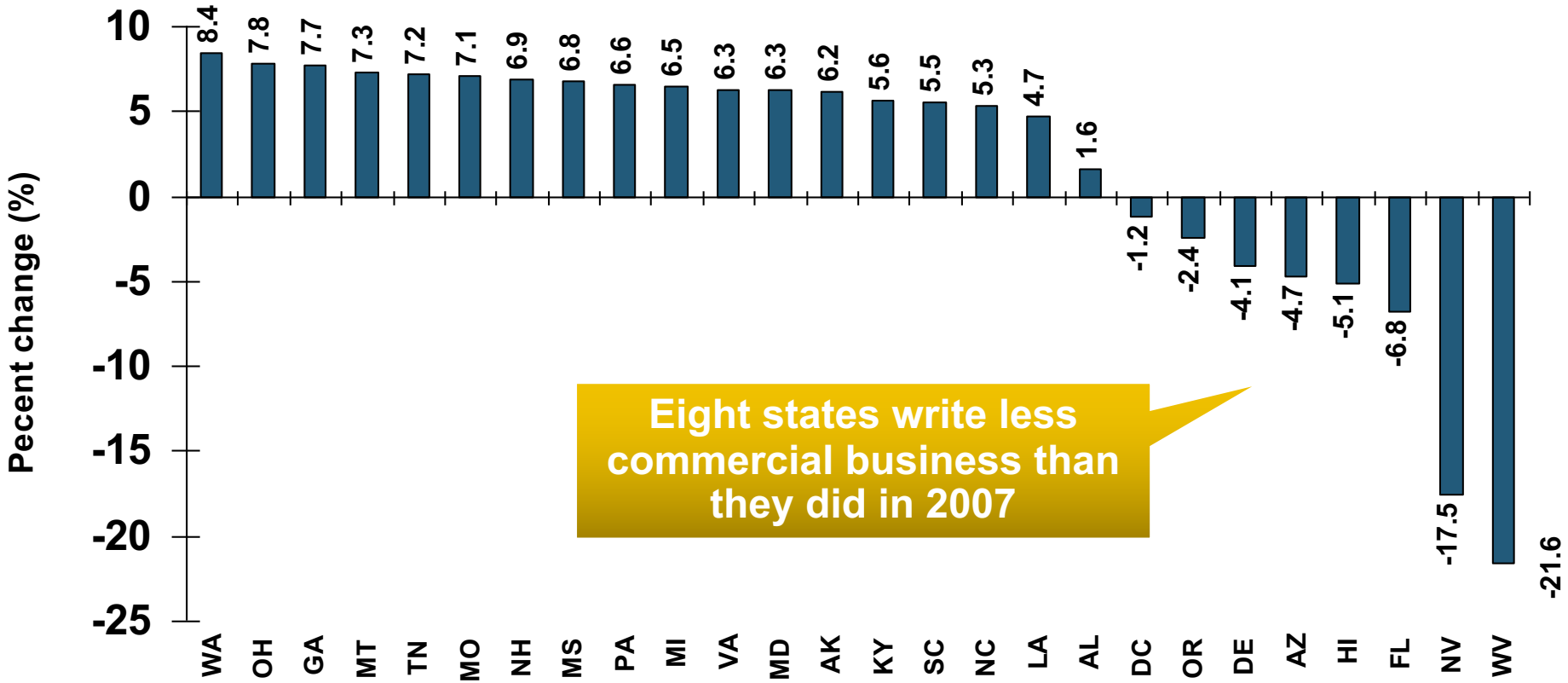
Top 25 States



Sources: NAIC via SNL Financial; Insurance Information Institute.

Direct Premiums Written: Comm. Lines Percent Change by State, 2007-2015

Bottom 25 States

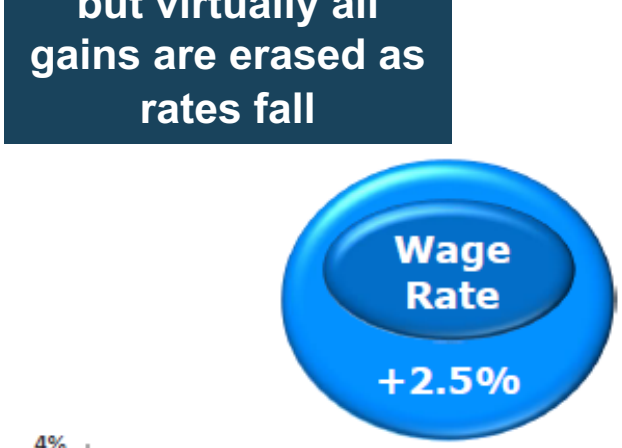


Sources: NAIC via SNL Financial; Insurance Information Institute.

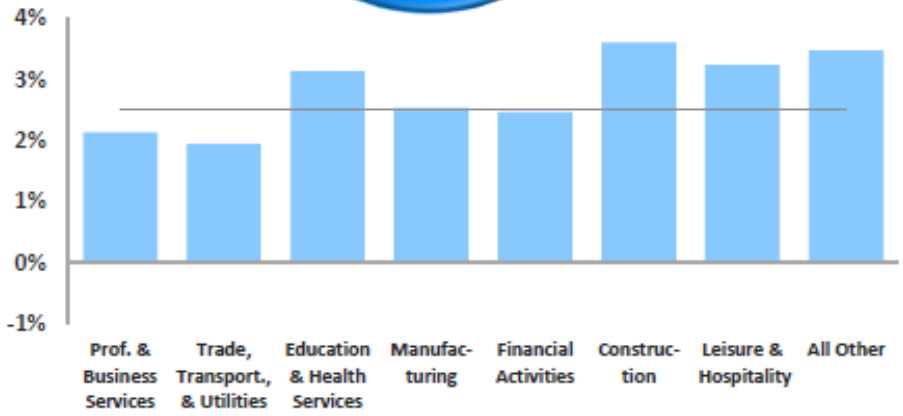
2016 Components of WC Payroll Exposure, by Industry

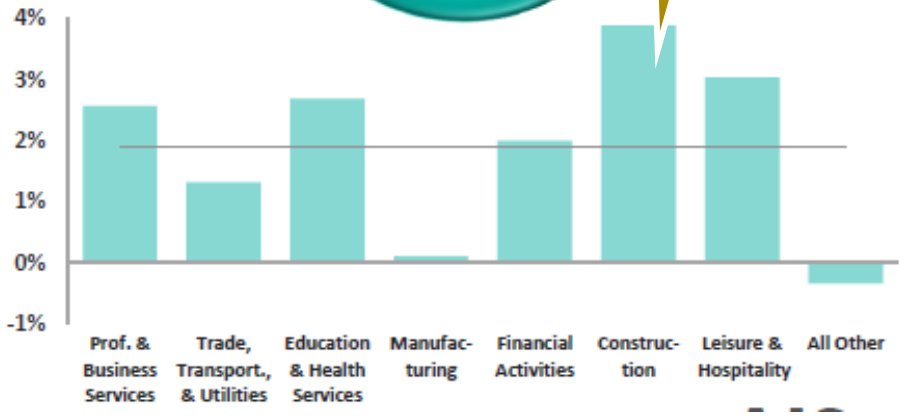
WC is the most direct beneficiary of expanding payrolls, but virtually all gains are erased as rates fall

Forecast Change 2015-2016



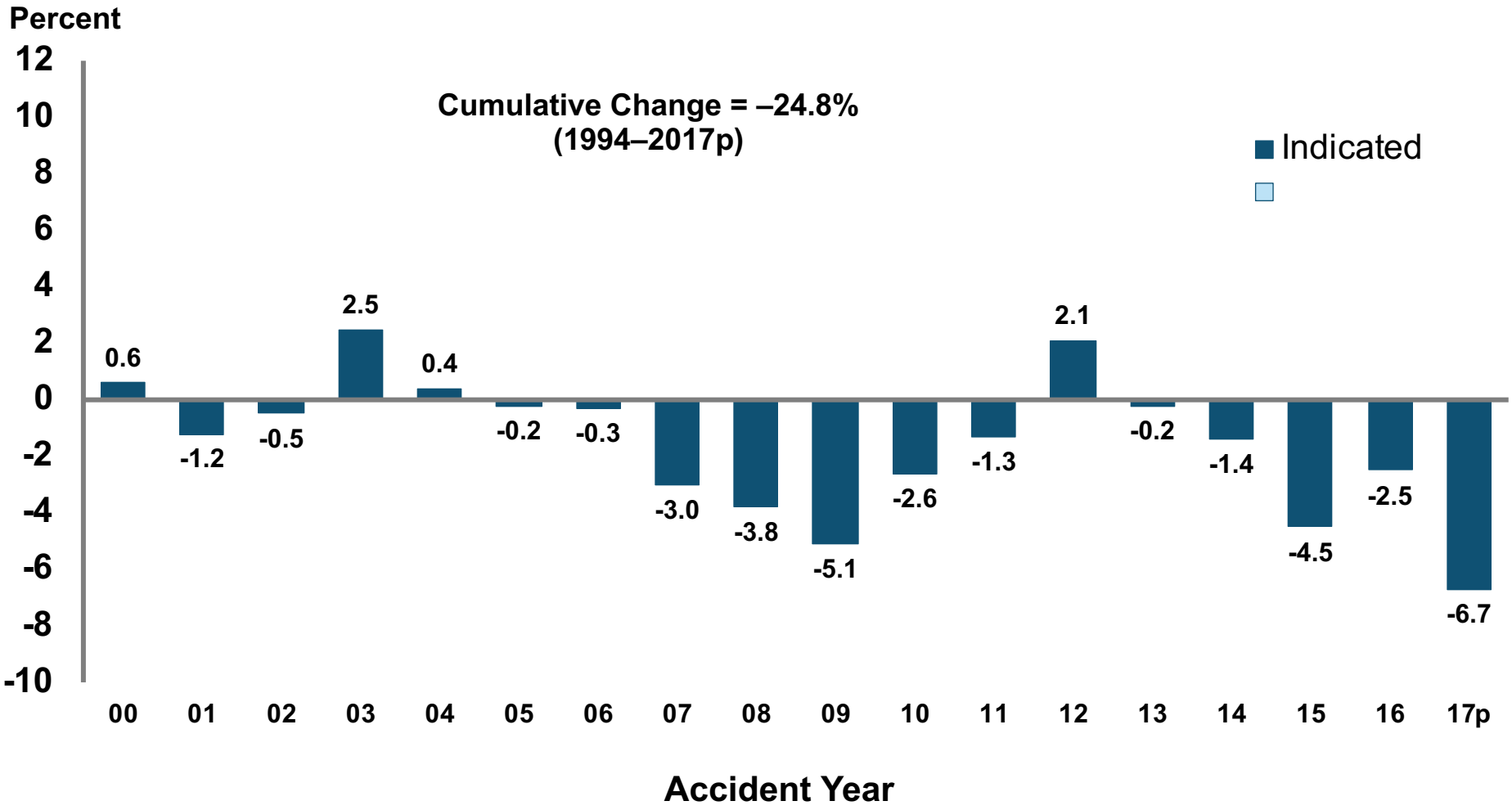
Construction leads in wage and employment gains





Source: Moody's Analytics, NCCI.

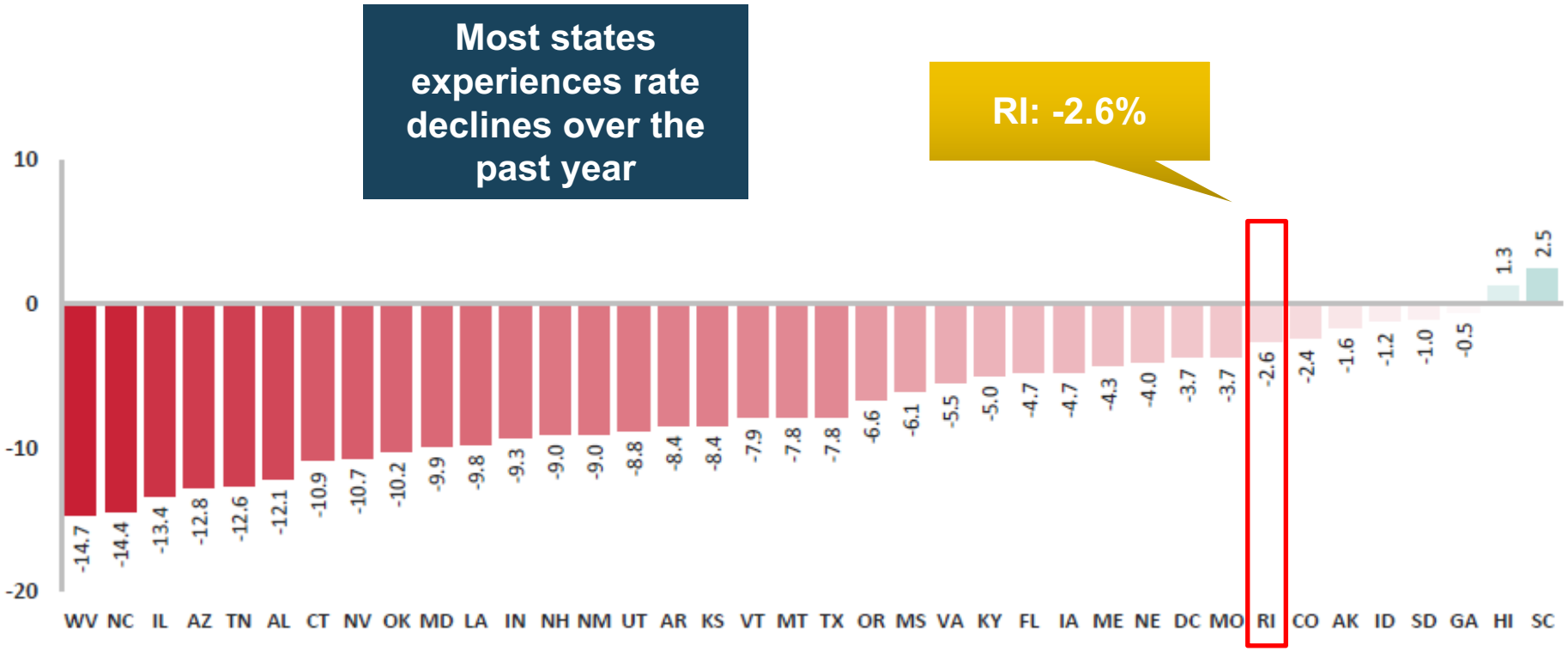
Workers Comp Approved Changes in Bureau Premium Level, 2000-2017p



Note: Bureau premium level charges reflect approved changes in advisory rates, loss costs, assigned risk rates relative to those approved in NCCI states only IN and NC are filed in cooperation with state rating bureaus.
2017p: Preliminary based on data valued as of 5/12/2017.
Source: NCCI

Most Recent WC Approved Changes in Bureau Premium Level, by Industry

By Effective Year for NCCI States

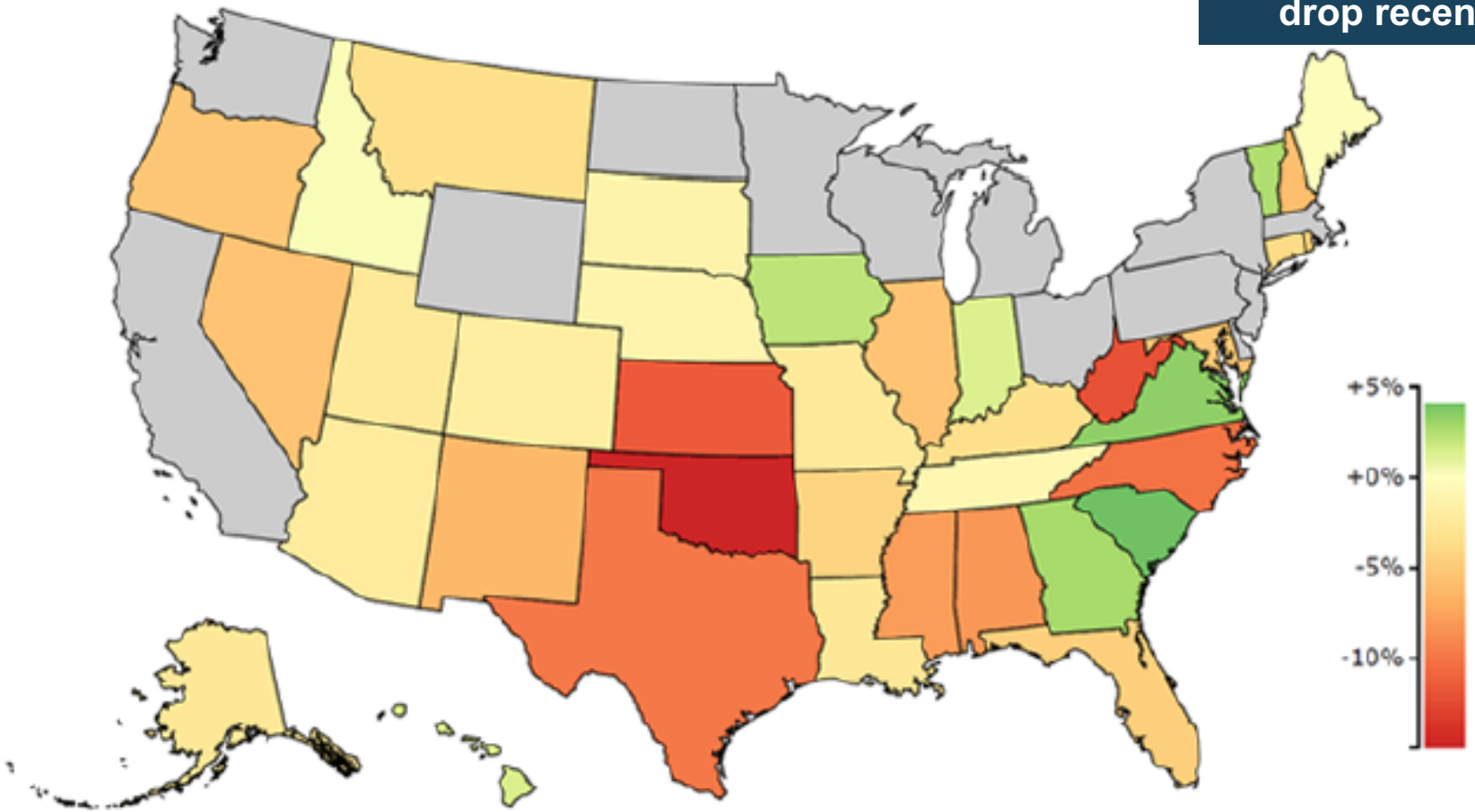


Note: Bureau premium level charges reflect approved changes in advisory rates, loss costs, assigned risk rates relative to those approved in NCCI states only IN and NC are filed in cooperation with state rating bureaus.
2017p: Preliminary based on data valued as of 5/12/2017.
Source: NCCI

WC Approved or Filed and Pending Change in NCCI Premium Level by State*

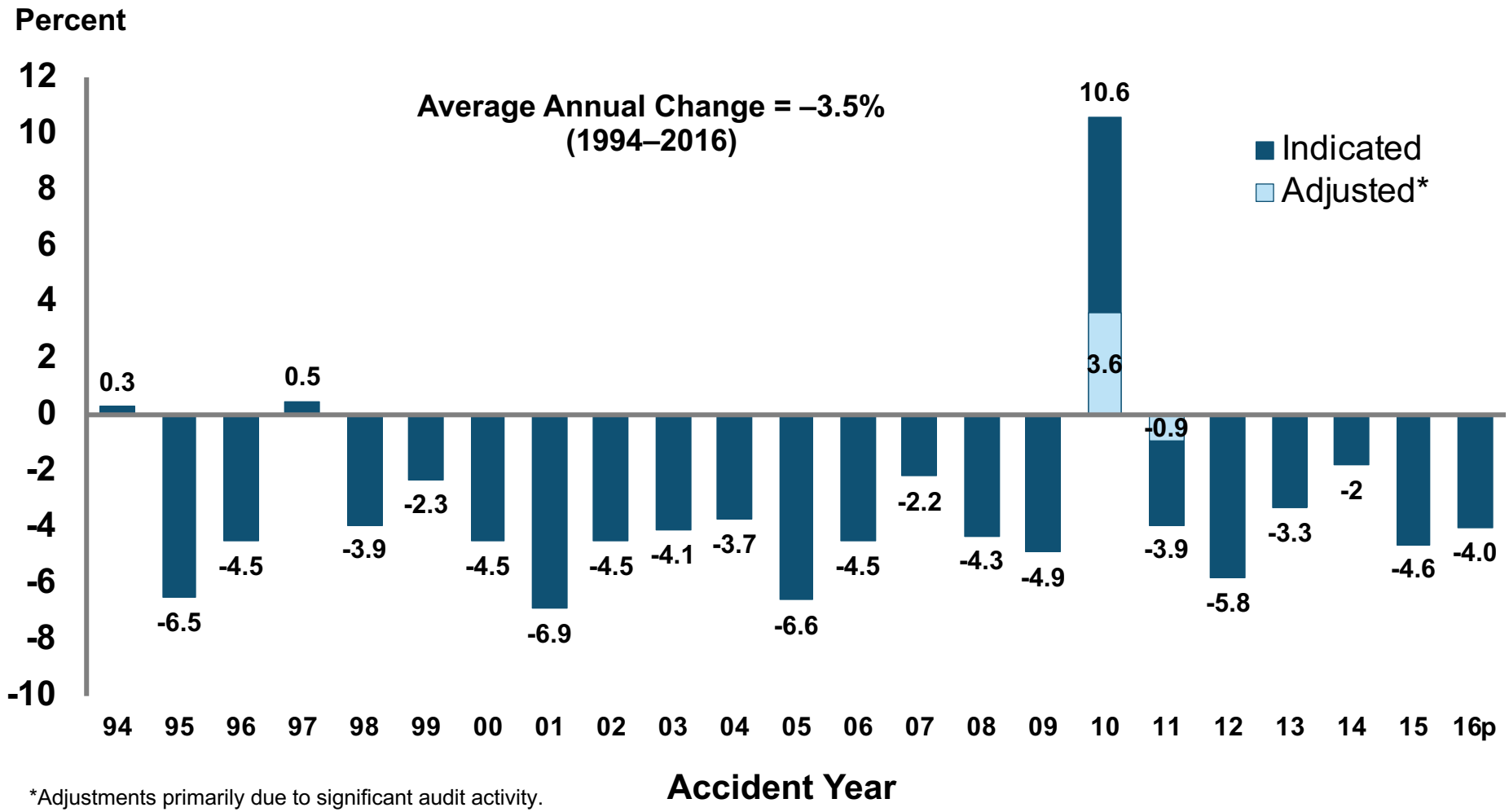
Latest Change for Voluntary Market

Many states have seen rates rates drop recently



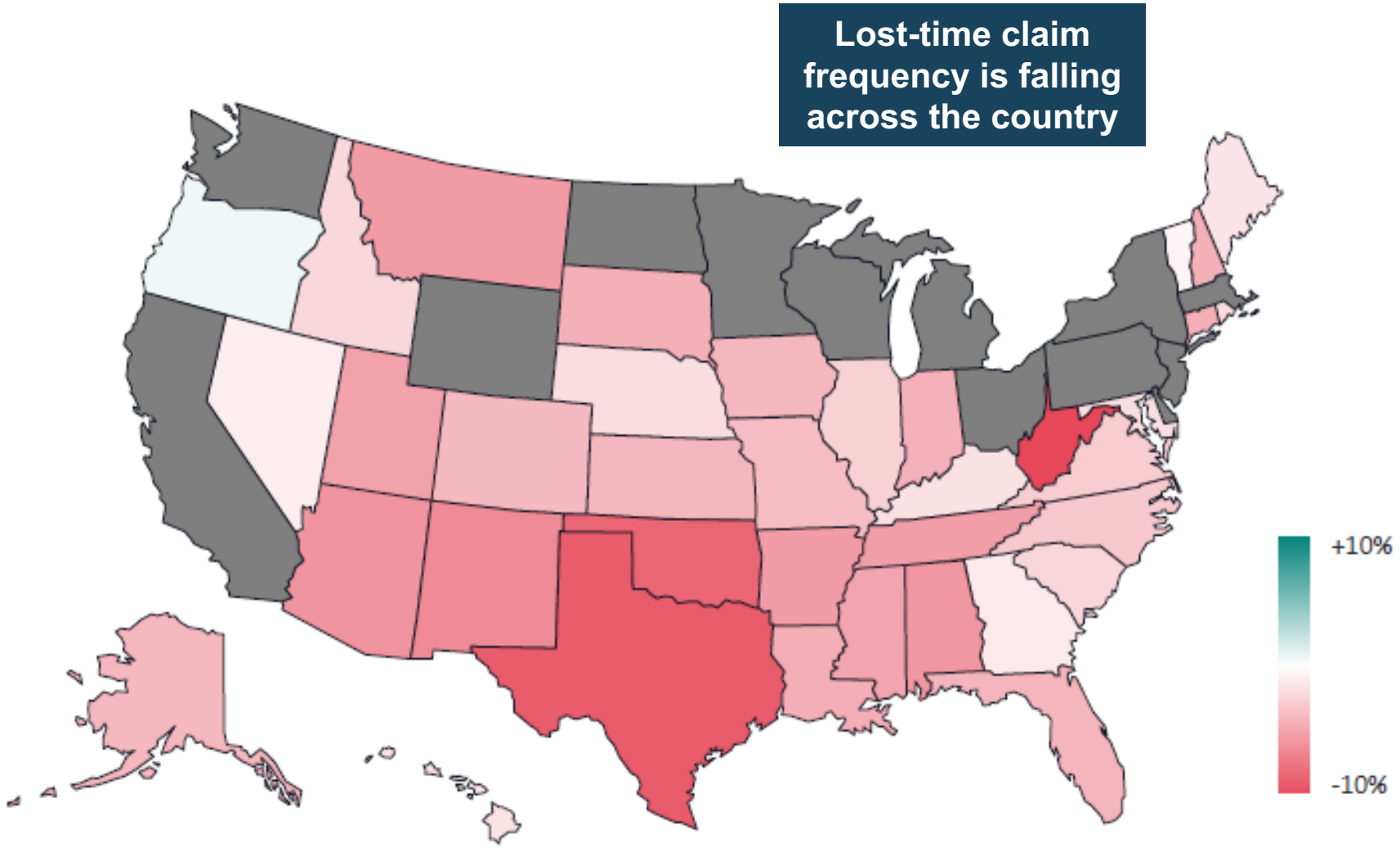
*As of 4/15/16. Excludes monopolistic fund states (in gray): OH, ND, WA and WY.
Source: NCCI.

Workers Compensation Lost-Time Claim Frequency Declined in 2016



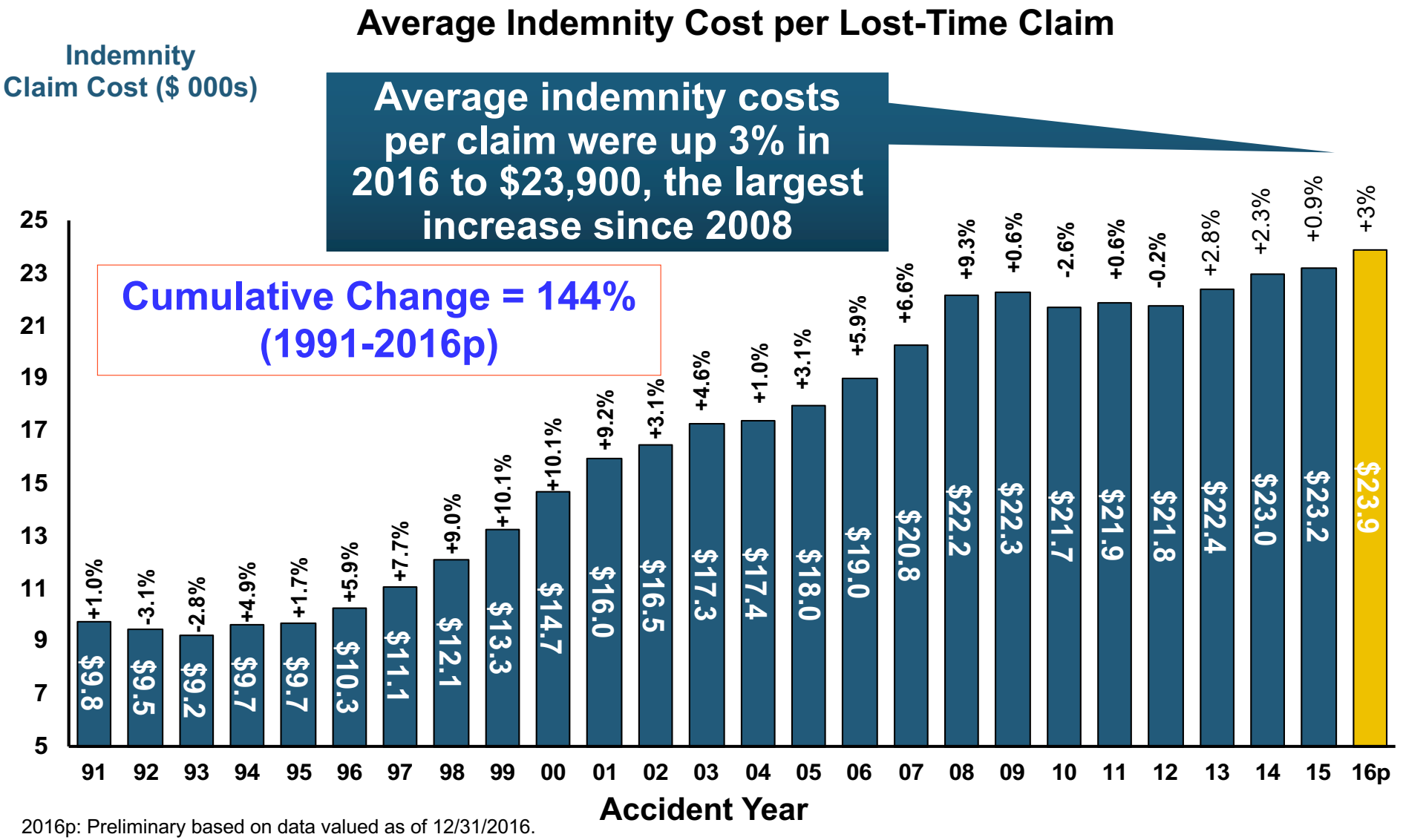
*Adjustments primarily due to significant audit activity.
2016p: Preliminary based on data valued as of 12/31/2016.
Source: NCCI Financial Call data, developed to ultimate and adjusted to current wage an voluntary loss cost level; Excludes high deductible policies; 1994-2014: Based on data through 12/31/14. Data for all states where NCCI provides ratemaking services, excluding WV.
Frequency is the number of lost-time claims per $1M pure premium at current wage and voluntary loss cost level

WC Lost-Time Claim Frequency: Average Annual Change 2011-2015



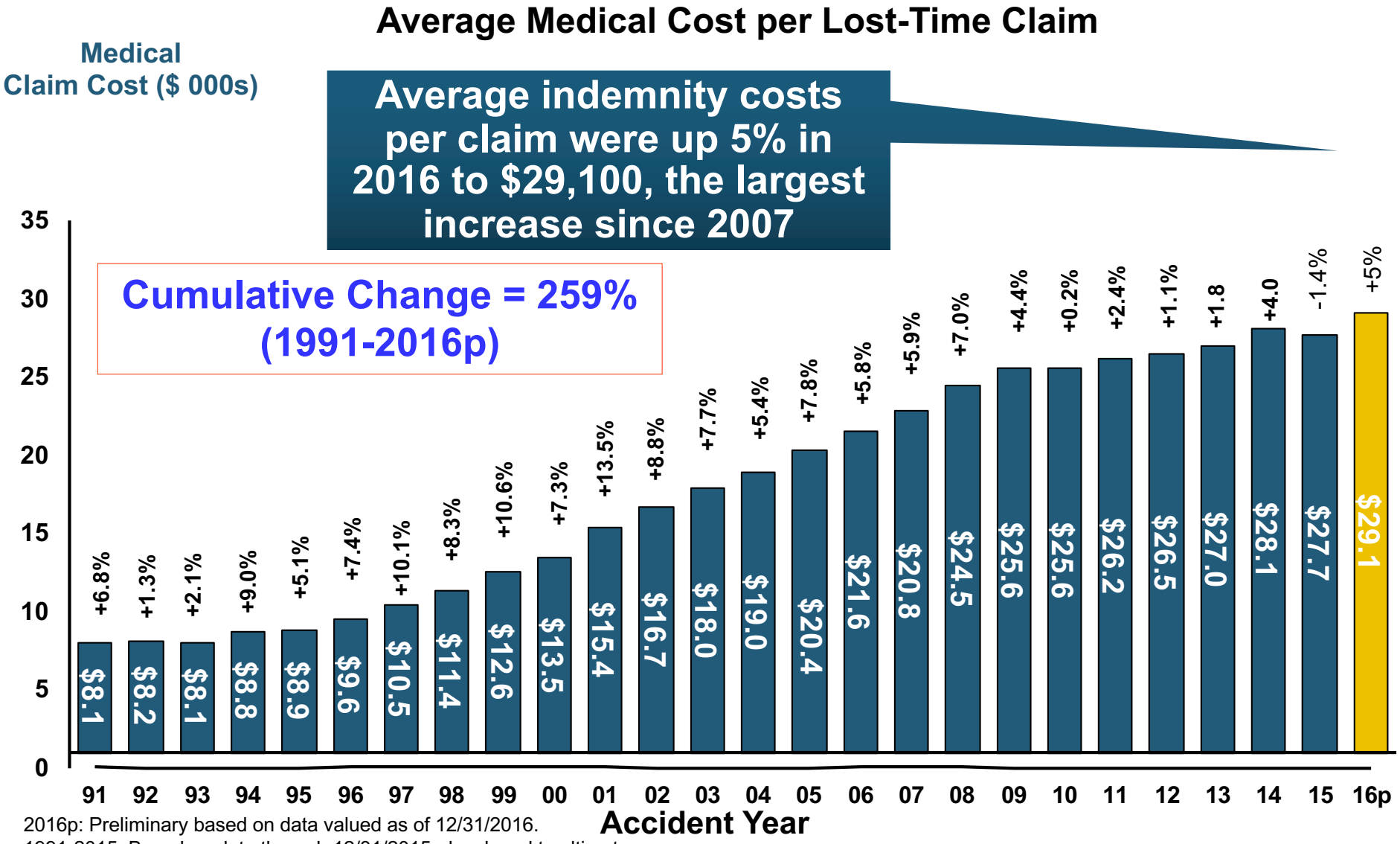
Source: NCCI's Financial Call data, developed to ultimate, premium adjusted to current wage and voluntary pure premium level, excludes high deductible policies. Based on data through 12/31/15 an for states in which NCCI provides ratemaking services.

Workers Comp Indemnity Claim Costs: Sharper Increase in 2016



2016p: Preliminary based on data valued as of 12/31/2016.
1991-2015: Based on data through 12/31/2015, developed to ultimate
Based on the states where NCCI provides ratemaking services including state funds, excluding WV; Excludes high deductible policies.

Workers Comp Medical Claim Costs: 2016 Was Sharpest Increase Since 2007

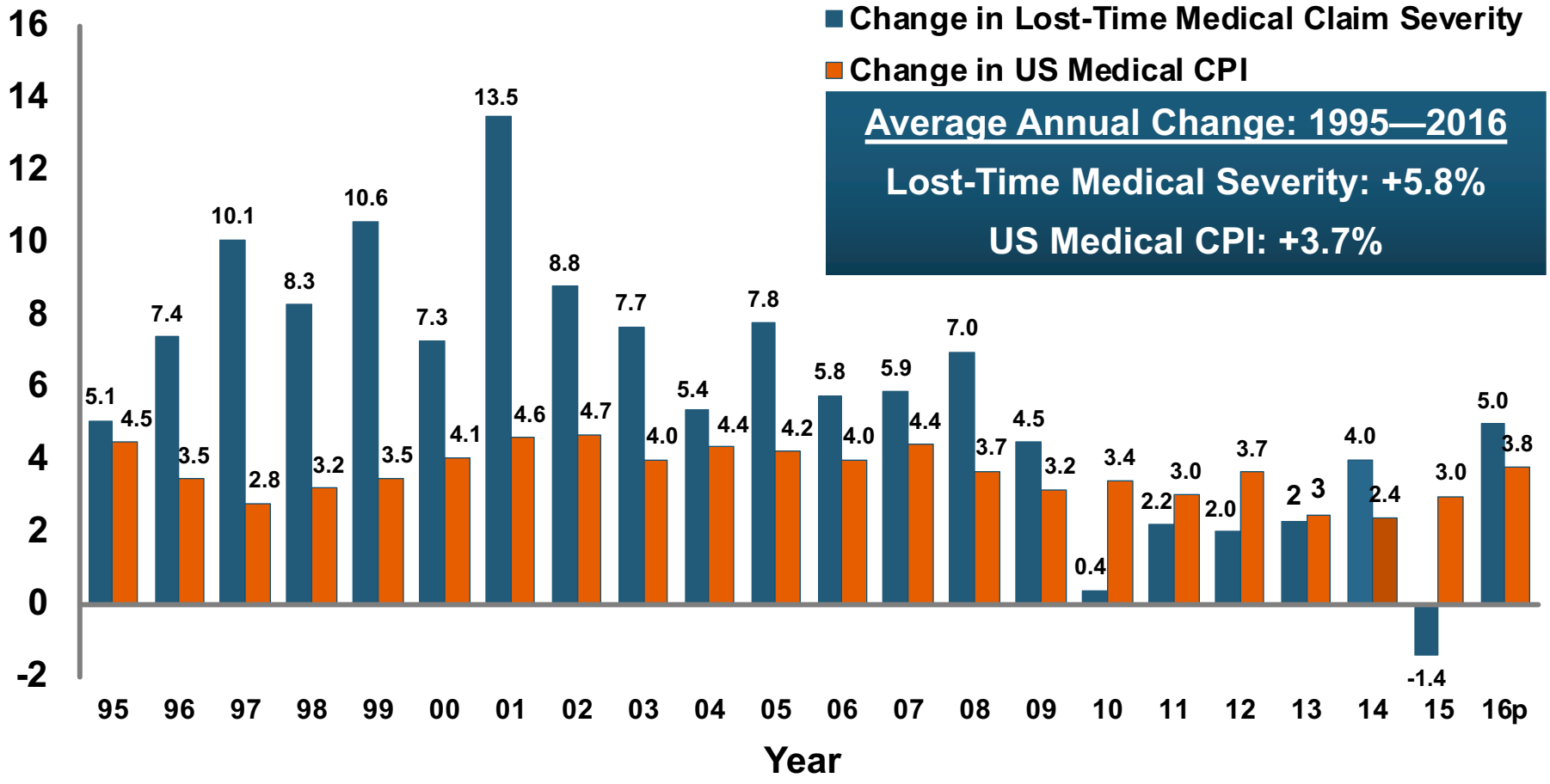


2016p: Preliminary based on data valued as of 12/31/2016.
1991-2015: Based on data through 12/31/2015, developed to ultimate
Based on the states where NCCI provides ratemaking services including state funds, excluding WV; Excludes high deductible policies.

Workers Compensation
Change in Medical Severity

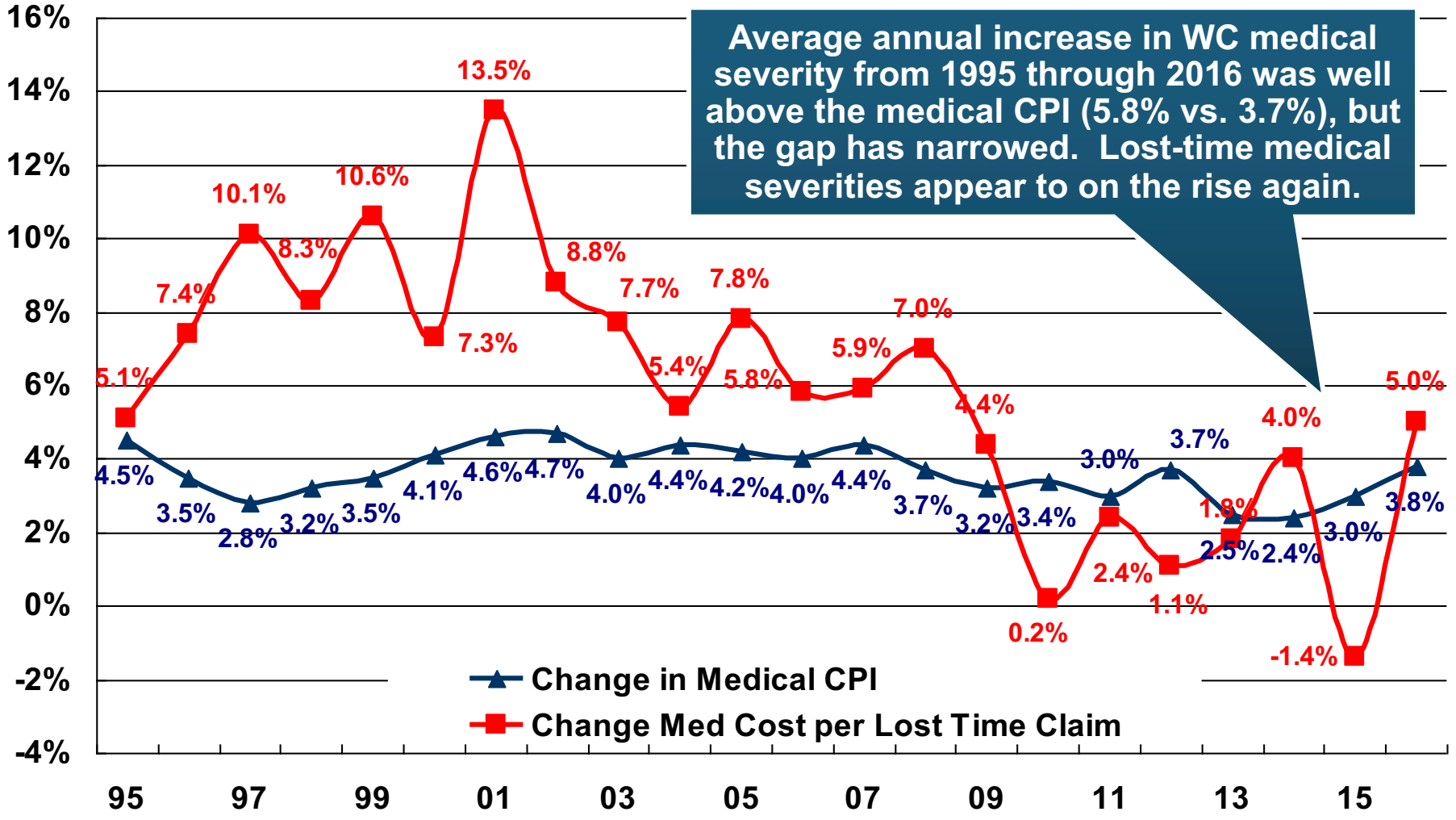
Comparison to Change in Medical Consumer Price Index (CPI)

Percent Change



2016p: Preliminary based on data valued as of 12/31/2016.
Sources: Severity: 1995-2015: Based on data through 12/31/2015, developed to ultimate
Based on the states where NCCI provides ratemaking services including state funds, excluding WV; Excludes high deductible policies.
US Medical CPI: US Bureau of Labor Statistics.

WC Medical Severity Generally Outpaces the Medical CPI Rate, 1995 – 2016p

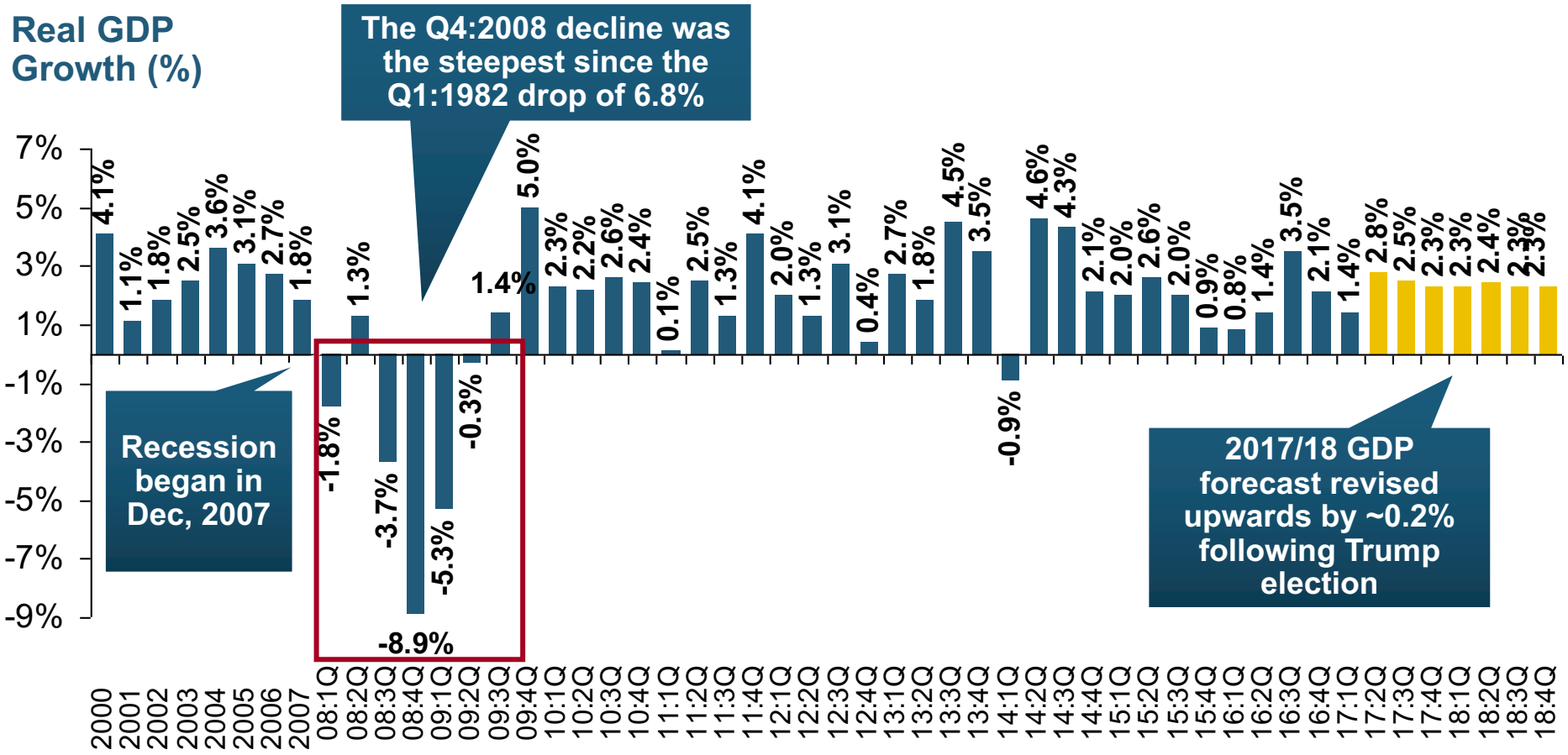


Sources: Med CPI from US Bureau of Labor Statistics, WC med severity from NCCI based on NCCI states.

THE ECONOMY

The Strength of the Economy Will Greatly Influence Insurer Exposure Base Across Most Lines, Especially Workers Compensation

US Real GDP Growth*

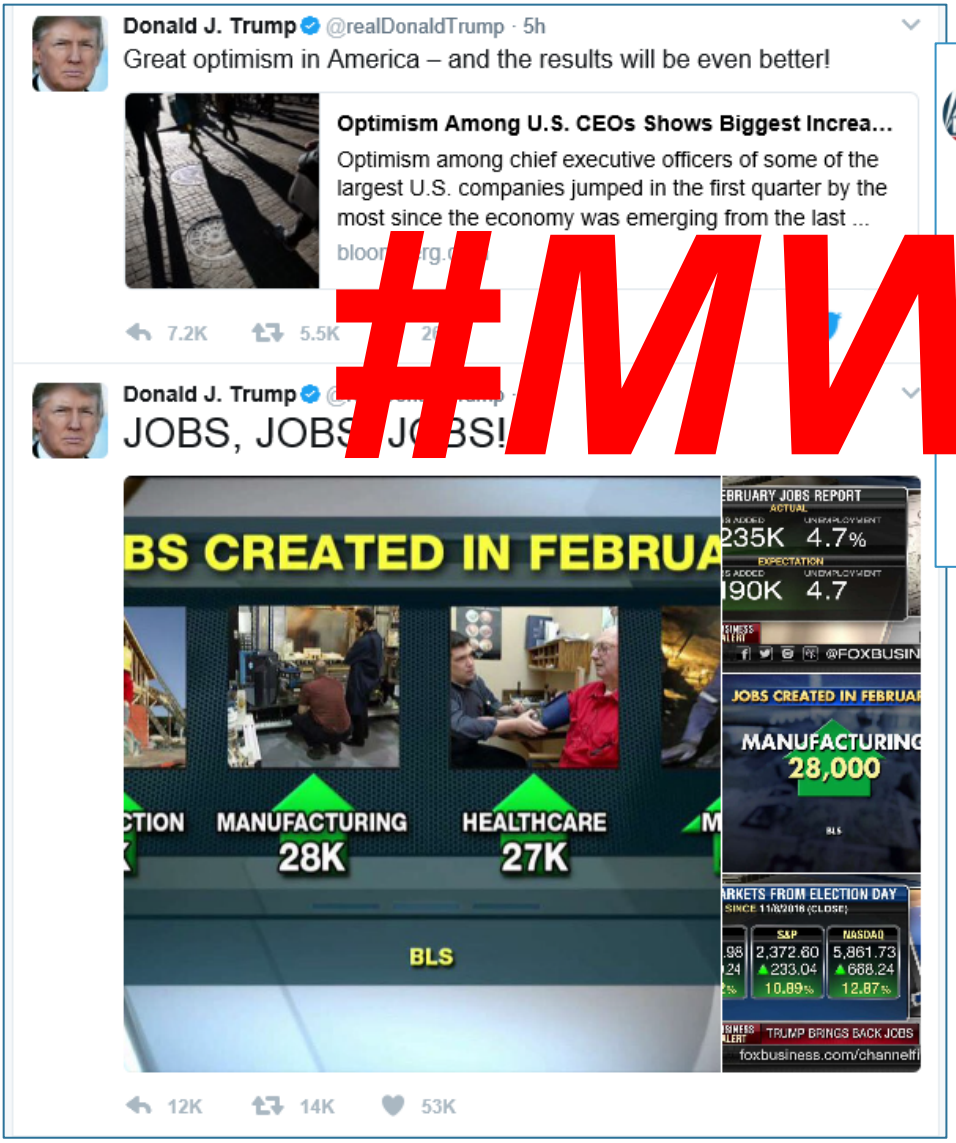


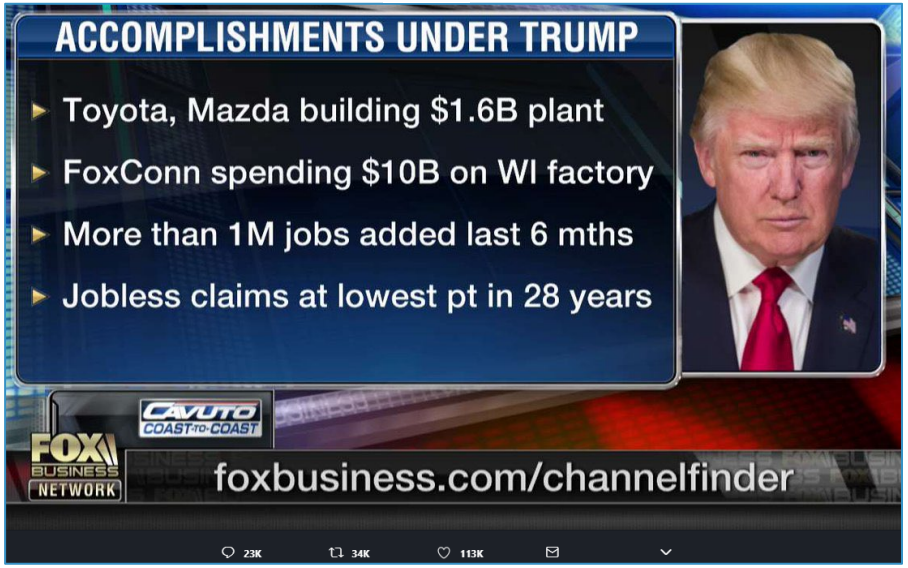
Demand for Insurance Should Increase in 2017-18 as GDP Growth Continues at a Steady, Albeit Moderate Pace and Gradually Benefits the Economy Broadly

* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 7/17; Insurance Information Institute.

Animal Spirits: Unleashed from the Oval Office?



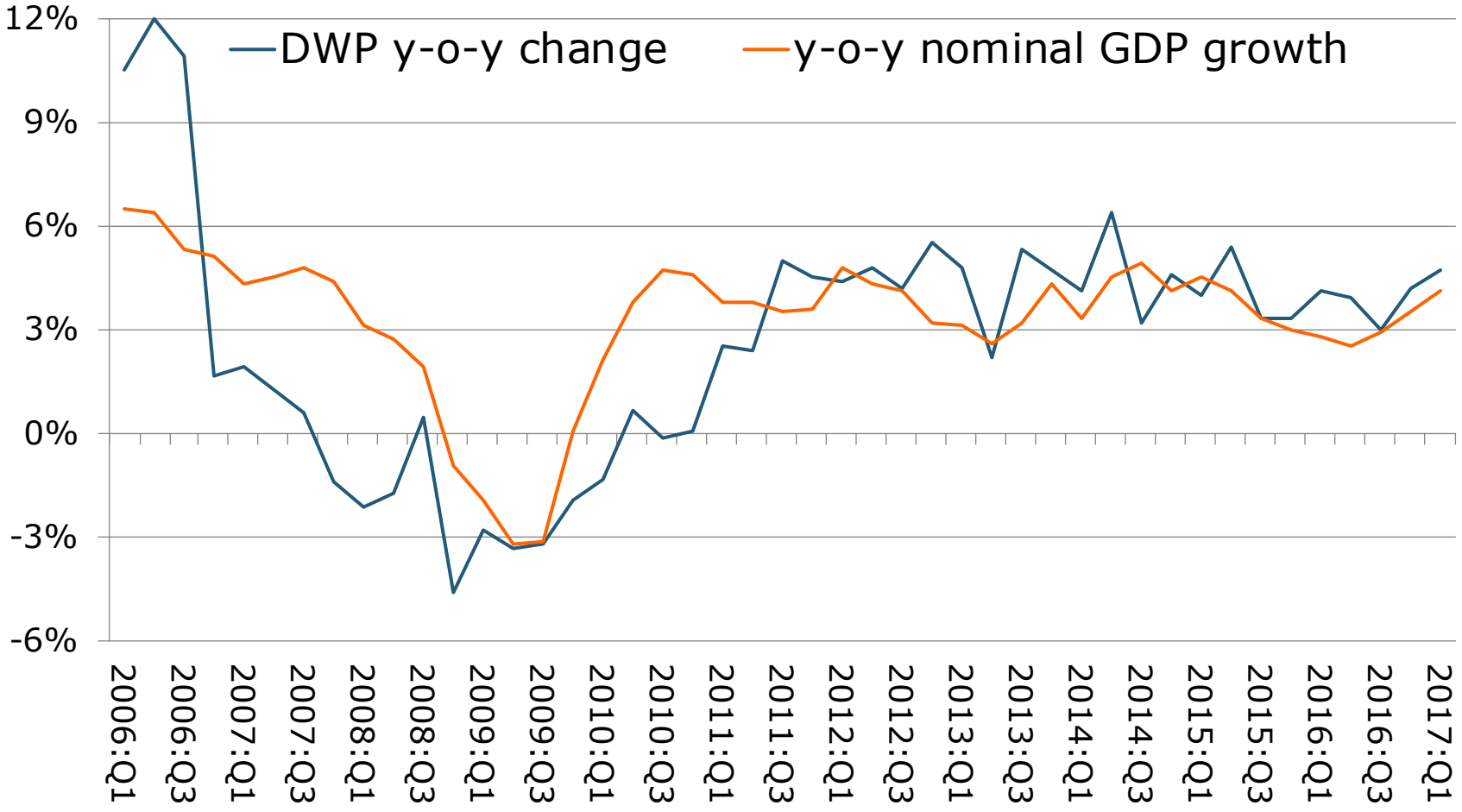


#MWCGA

Source: https://twitter.com/realDonaldTrump

The Economy Drives P/C Insurance Industry Premiums:

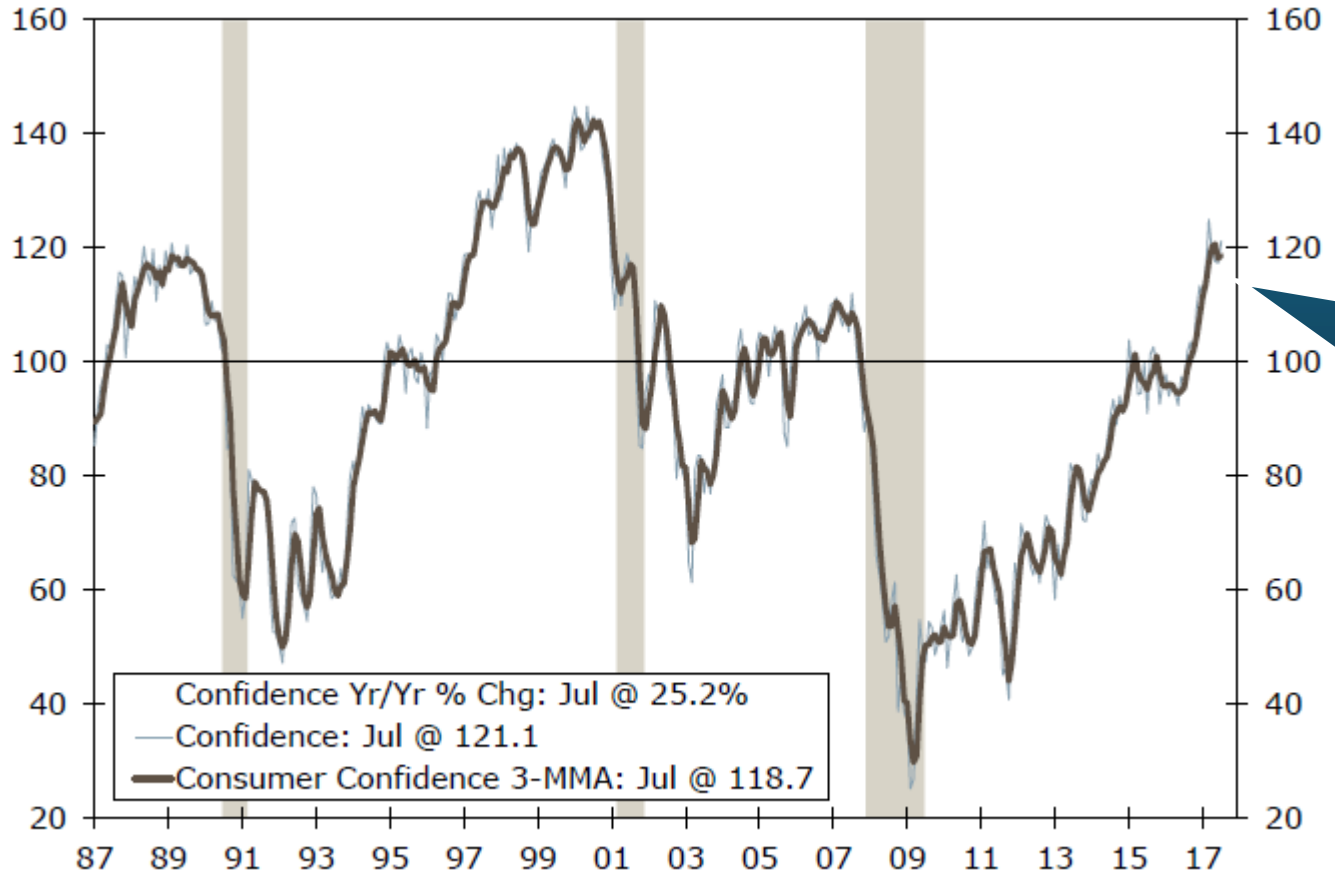
Direct Premium Growth (All P/C Lines) vs. Nominal GDP: Quarterly Y-o-Y Pct. Change



Direct Written Premiums track Nominal GDP—not quarter by quarter but overall fairly well.

Sources: SNL Financial; U.S. Commerce Dept., Bureau of Economic Analysis; I.I.I.

Consumer Confidence Index: Jan. 1987 – July 2017

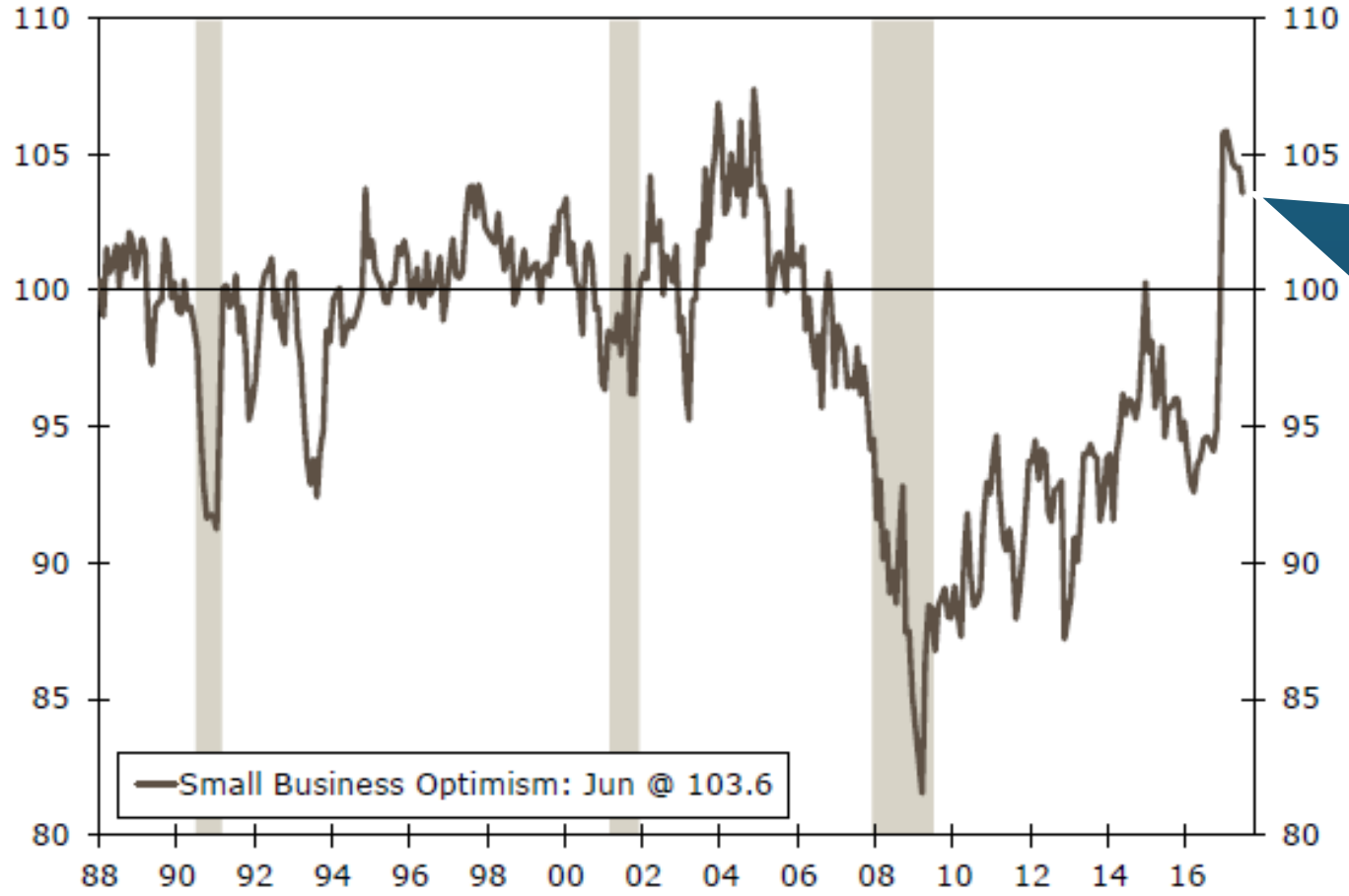


The Conference Board's Consumer Confidence Index stood at 121.7 in July, close to its post-recession high

Outlook: Consumers are optimistic about the future, which is consistent with expectations for stronger economic growth (consumers account for nearly 70% of all spending in the economy). Should positively influence business investment.

Source: The Conference Board; Wells Fargo Research.

NFIB Small Business Optimism Index: Jan. 1988 – June 2017

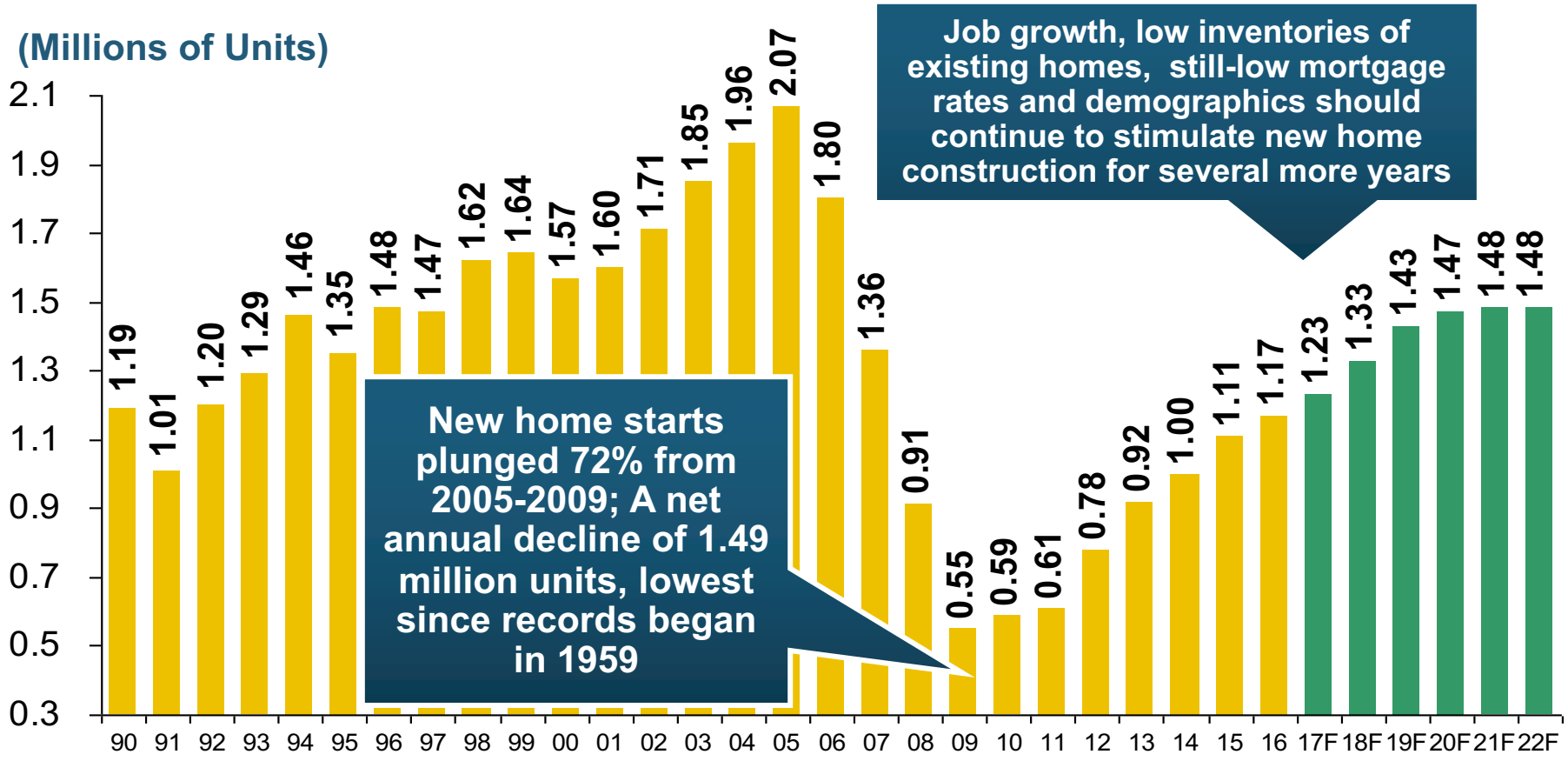


The NFIB's Index of Small Business Optimism remains near recent highs, but slipped in June as hopes for significant regulatory and tax reform fade

Outlook: Small businesses are much more optimistic about the future

Source: National Federal of Independent Business; Wells Fargo Research.

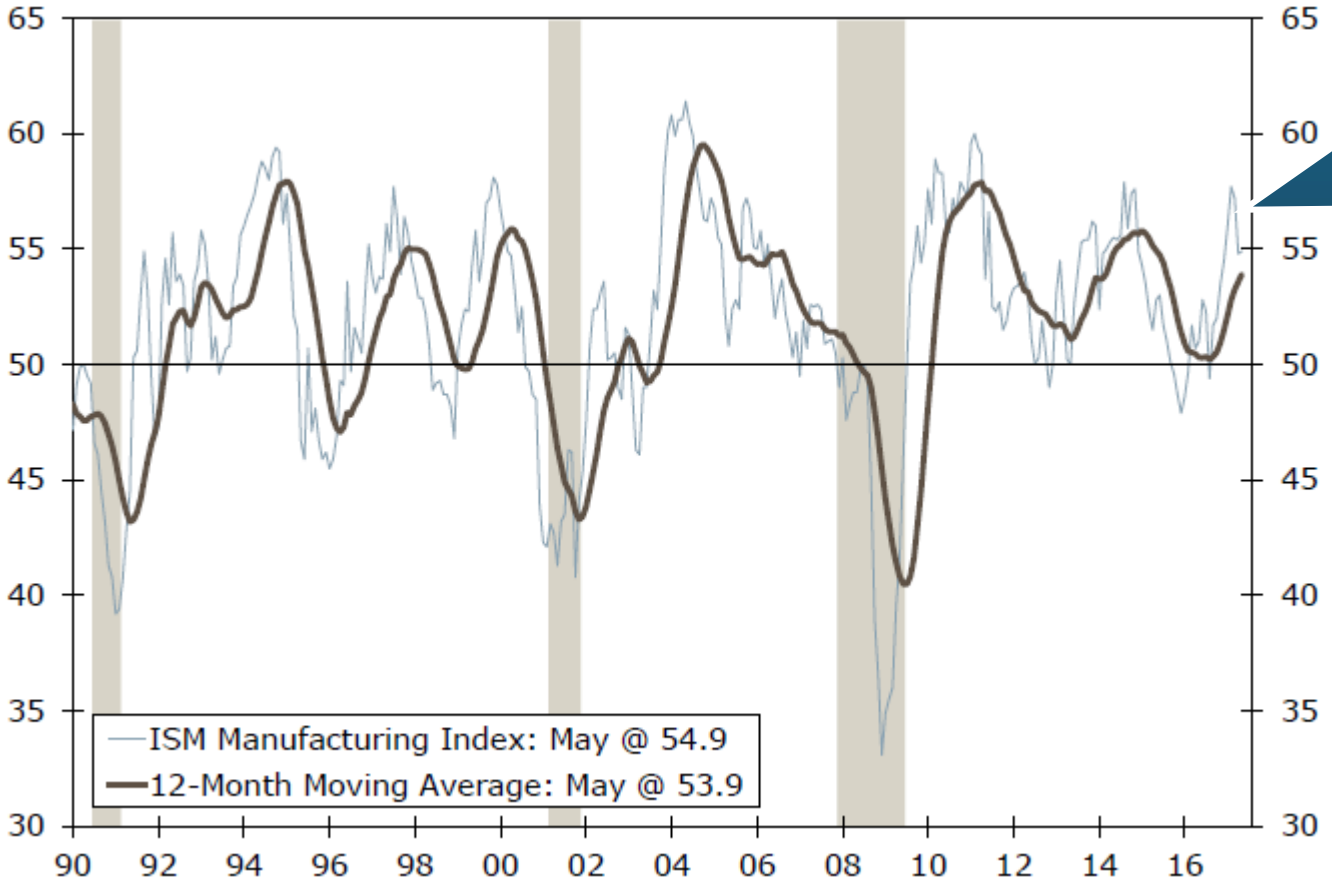
New Private Housing Starts, 1990-2022F



Insurers Are Continue to See Meaningful Exposure Growth in the Wake of the "Great Recession" Associated with Home Construction: Construction Risk Exposure, Surety, Commercial Auto; Potent Driver of Workers Comp Exposure

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (6/17 for 2017-18; 10/16 for 2018-22F; Insurance Information Institute.

ISM Manufacturing Index: Jan. 1990 – May 2017



The ISM Manufacturing Index stood at 54.9 as of May 2017, down from recent highs but still solidly in growth mode

Outlook: Modest strength (1-4 years). Will benefit from Trump policies, but employment as a share of US employment will continue to shrink due to automation.

Source: Institute of Supply Management; Wells Fargo Research.

THE LABOR MARKET

The Labor Market Drives WC Exposures—Strength Is (Mostly) Great News for WC Insurers

US Unemployment Rate Forecast

2007:Q1 to 2018:Q4F*

Rising unemployment eroded payrolls and WC's exposure base.

Unemployment peaked at 10% in late 2009.

Rhode Island Labor Market Facts

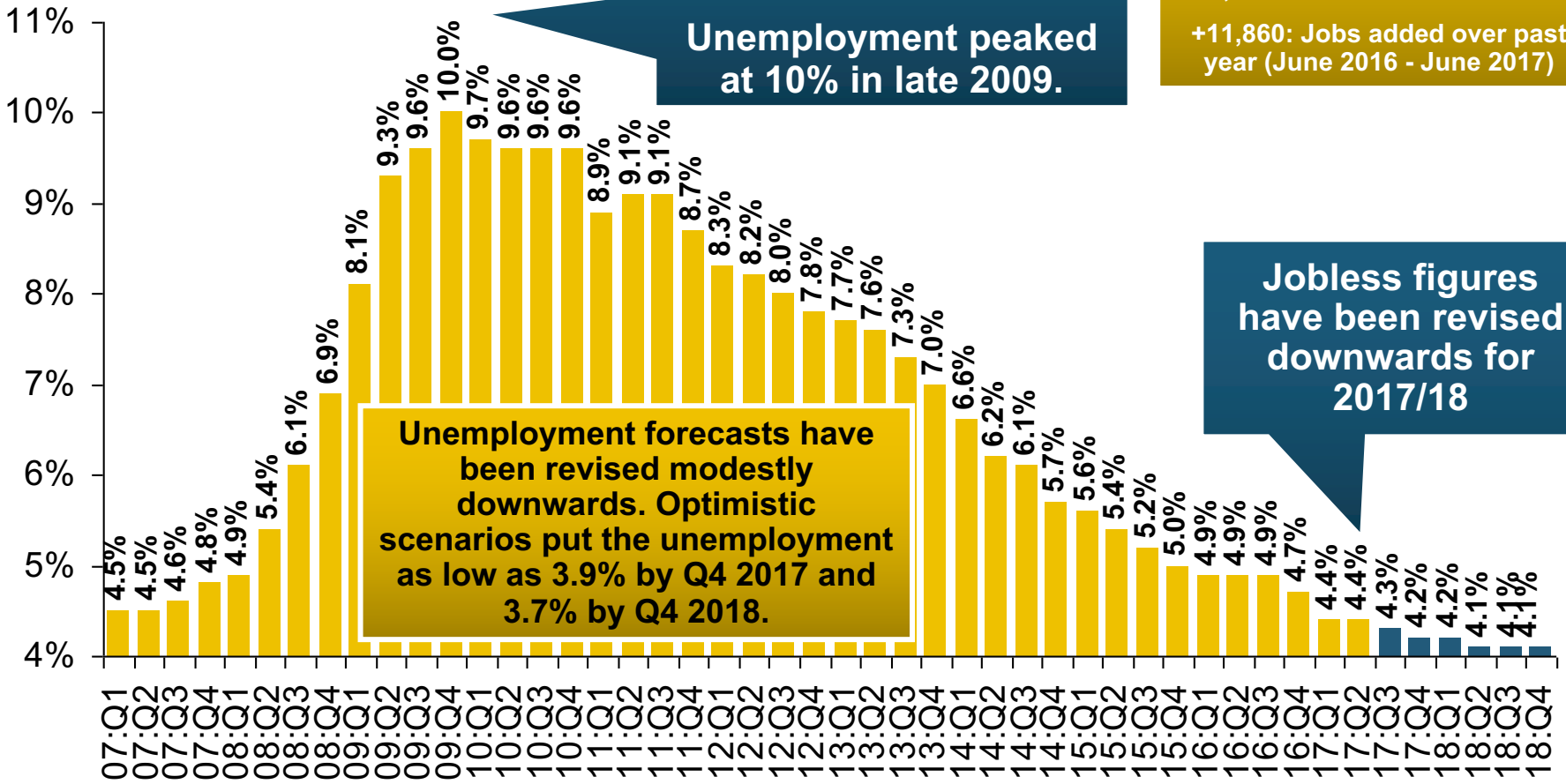
Unemployment Rate: 4.3% (6/17)

Cyclical Peak: 12.2% (1/10)

Employment: 661,501 (6/17) (highest since 12/07)

+56,764: Jobs added since 12/10

+11,860: Jobs added over past year (June 2016 - June 2017)



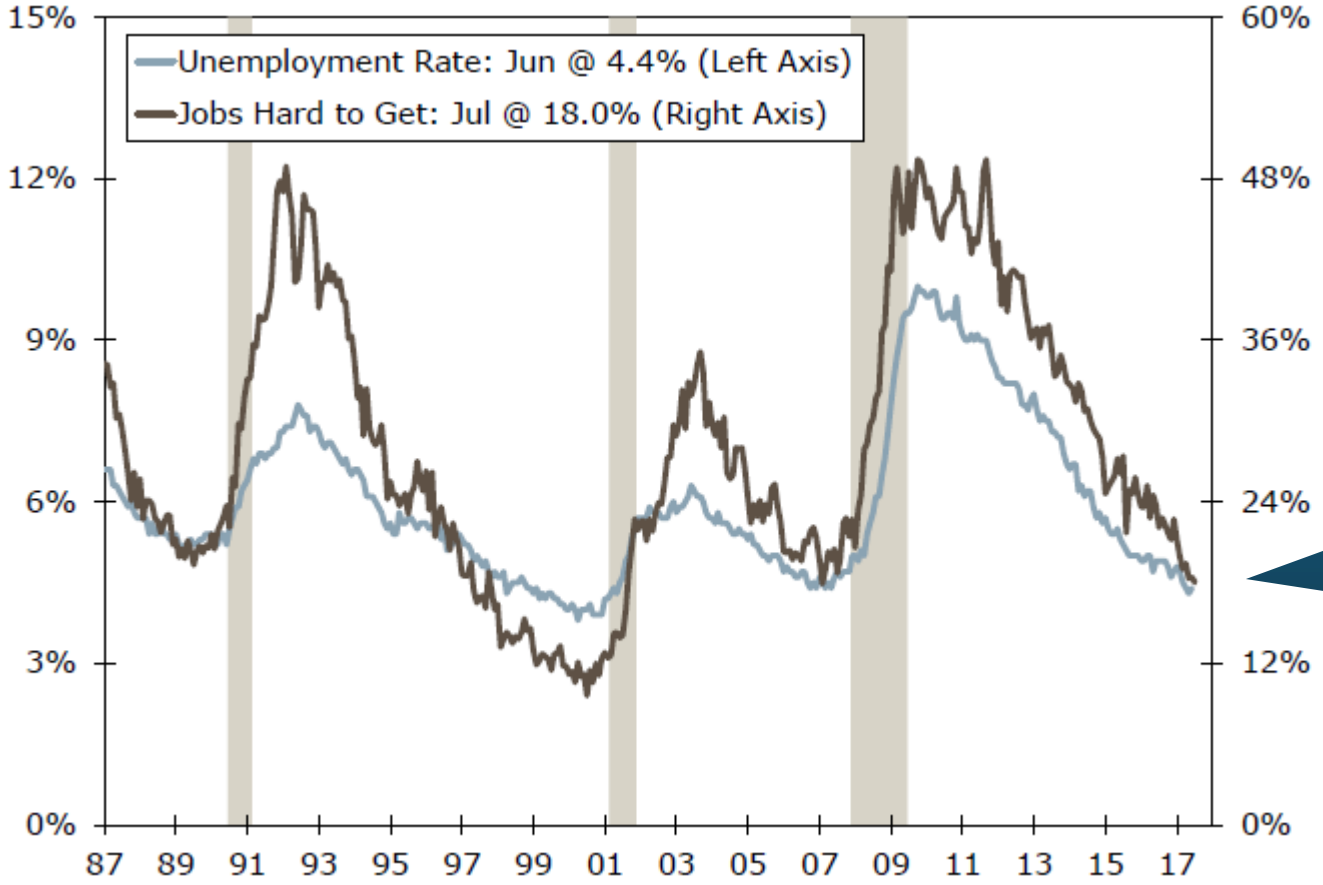
Unemployment forecasts have been revised modestly downwards. Optimistic scenarios put the unemployment as low as 3.9% by Q4 2017 and 3.7% by Q4 2018.

Jobless figures have been revised downwards for 2017/18

* = actual; = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (7/17 edition); Insurance Information Institute.

Jobs "Hard to Get" vs. Unemployment Rate: 1987 – June 2017

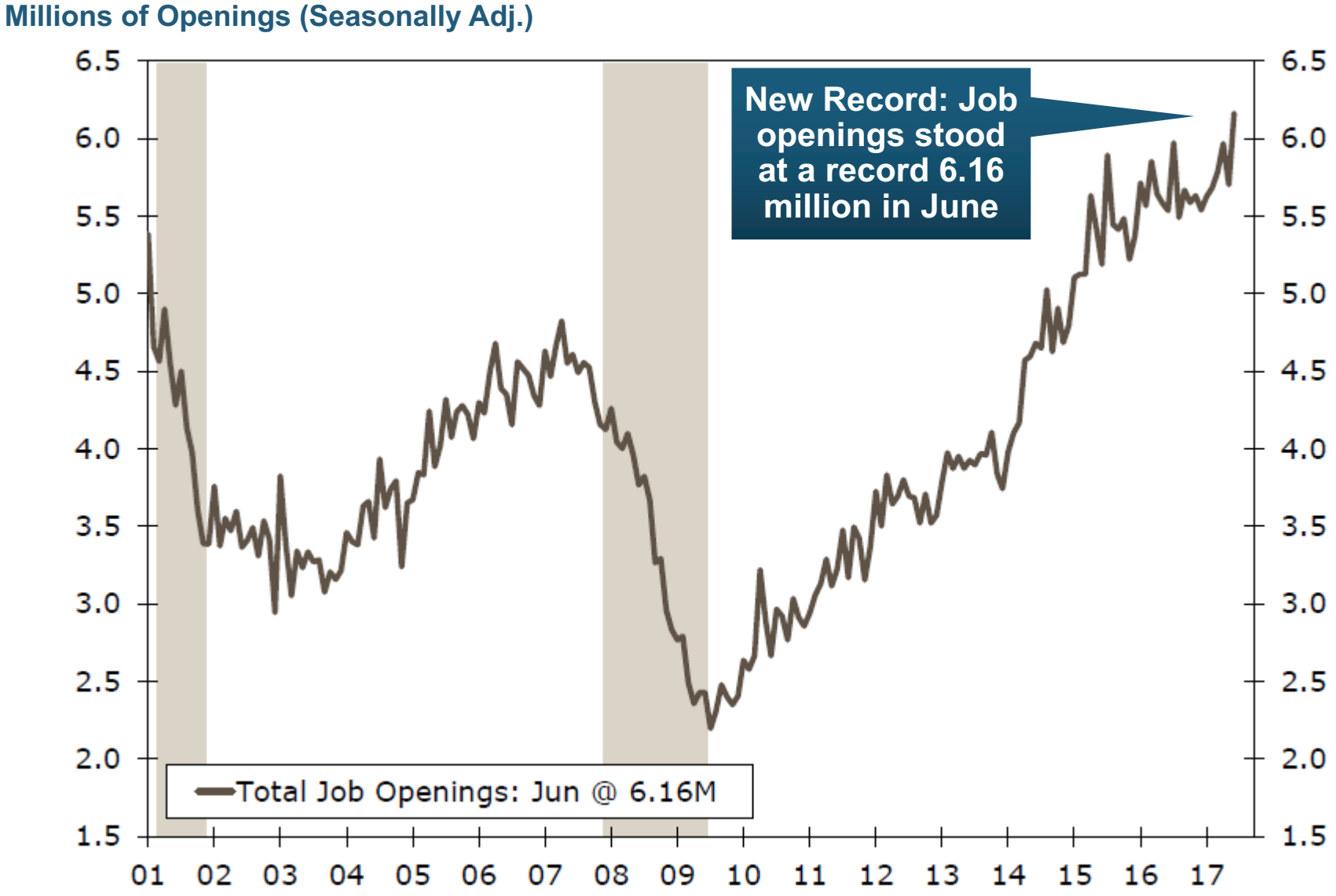


Workers now believe jobs are easier to get than at any time since the Great Recession

Embolded workers make seek become more aggressive in seeking raises, increase wage pressure

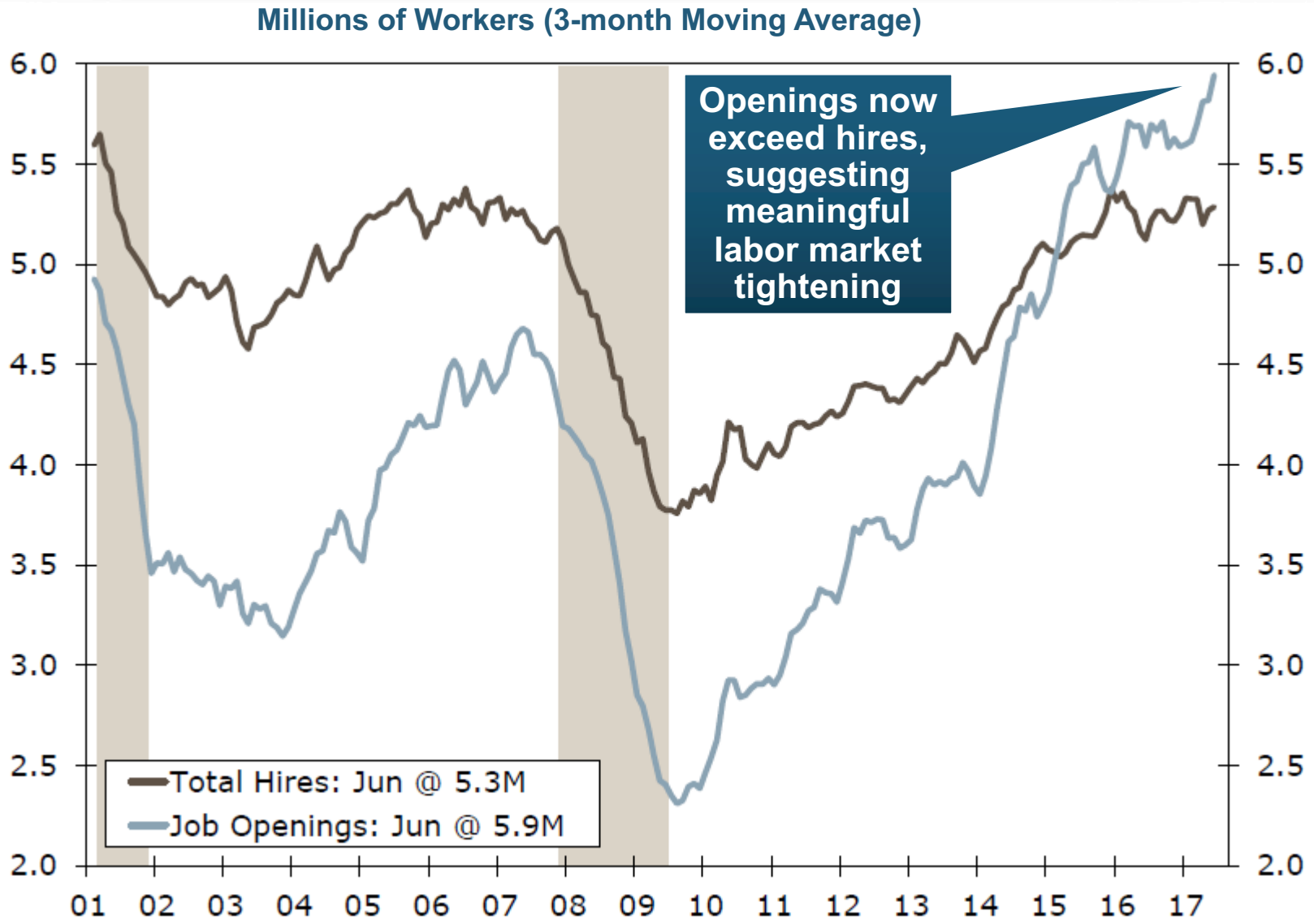
Source: The Conference Board; Wells Fargo Research.

Job Openings: 2001 – June 2017



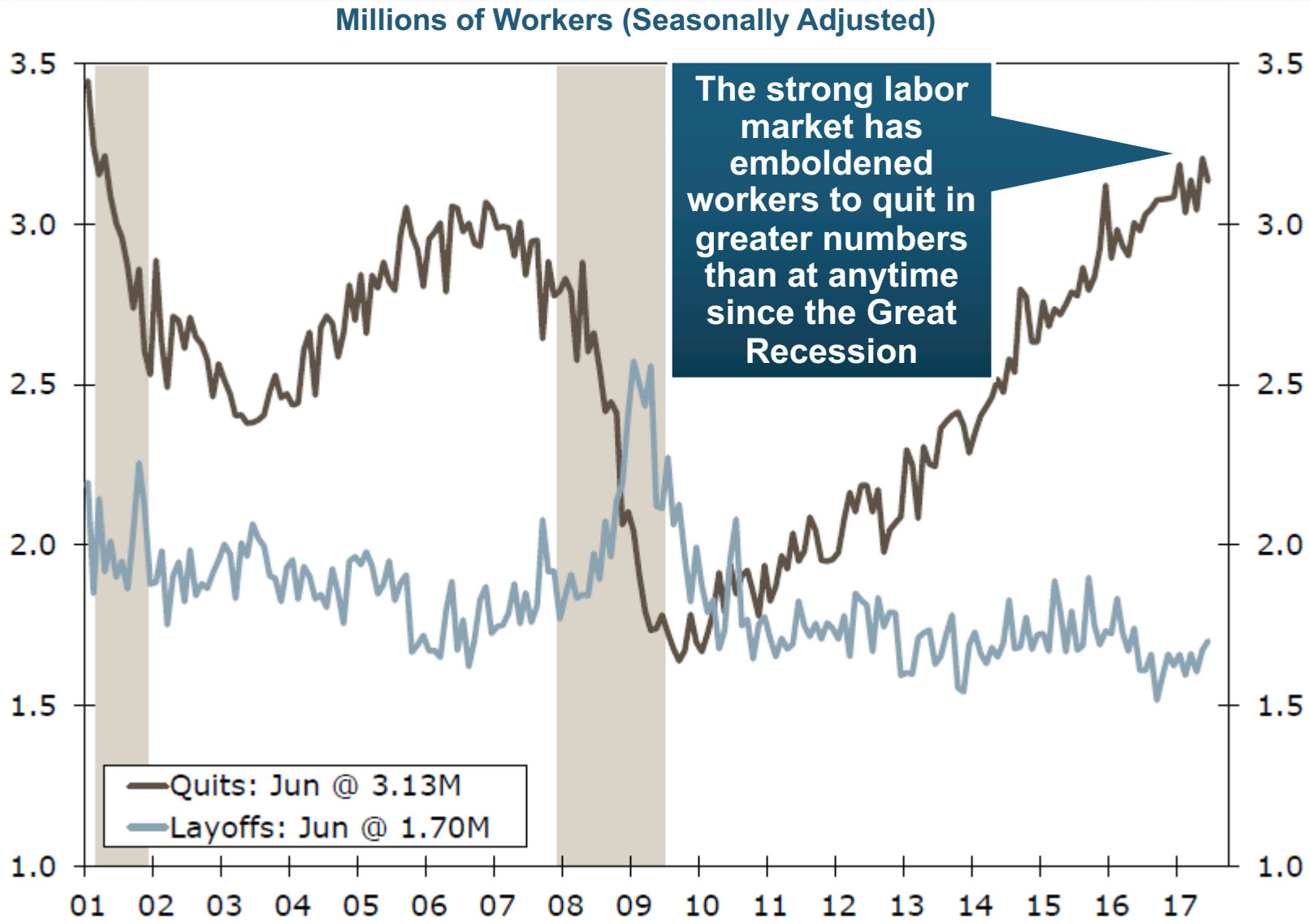
Source: US Department of Labor; Wells Fargo Research.

Job Openings and Hires: 2001 – June 2017



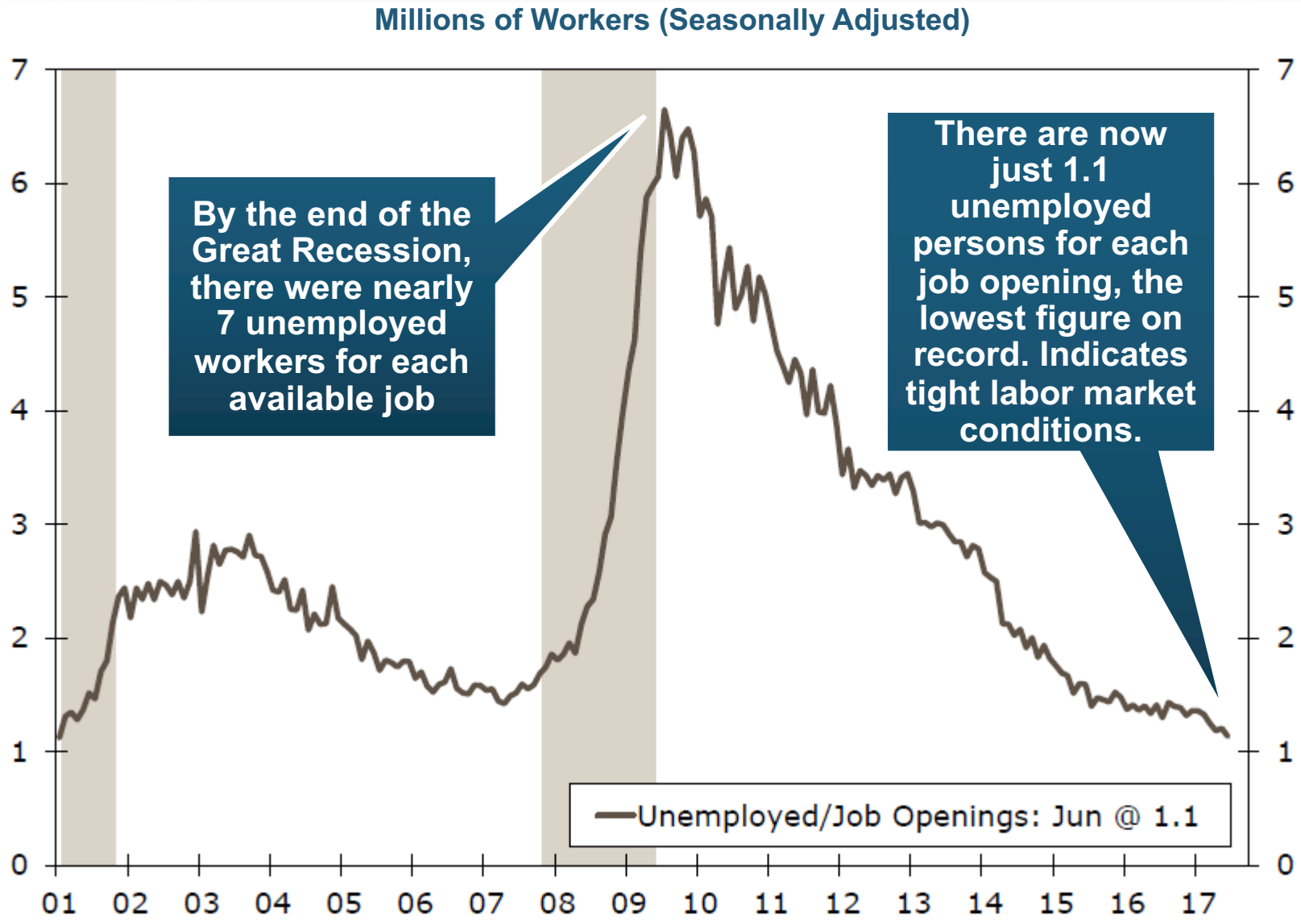
Source: US Department of Labor; Wells Fargo Research.

Quits vs. Layoffs: 2001 – June 2017



Source: US Department of Labor; Wells Fargo Research.

Number of Unemployed Persons Per Every Job Opening: 2001 – June 2017

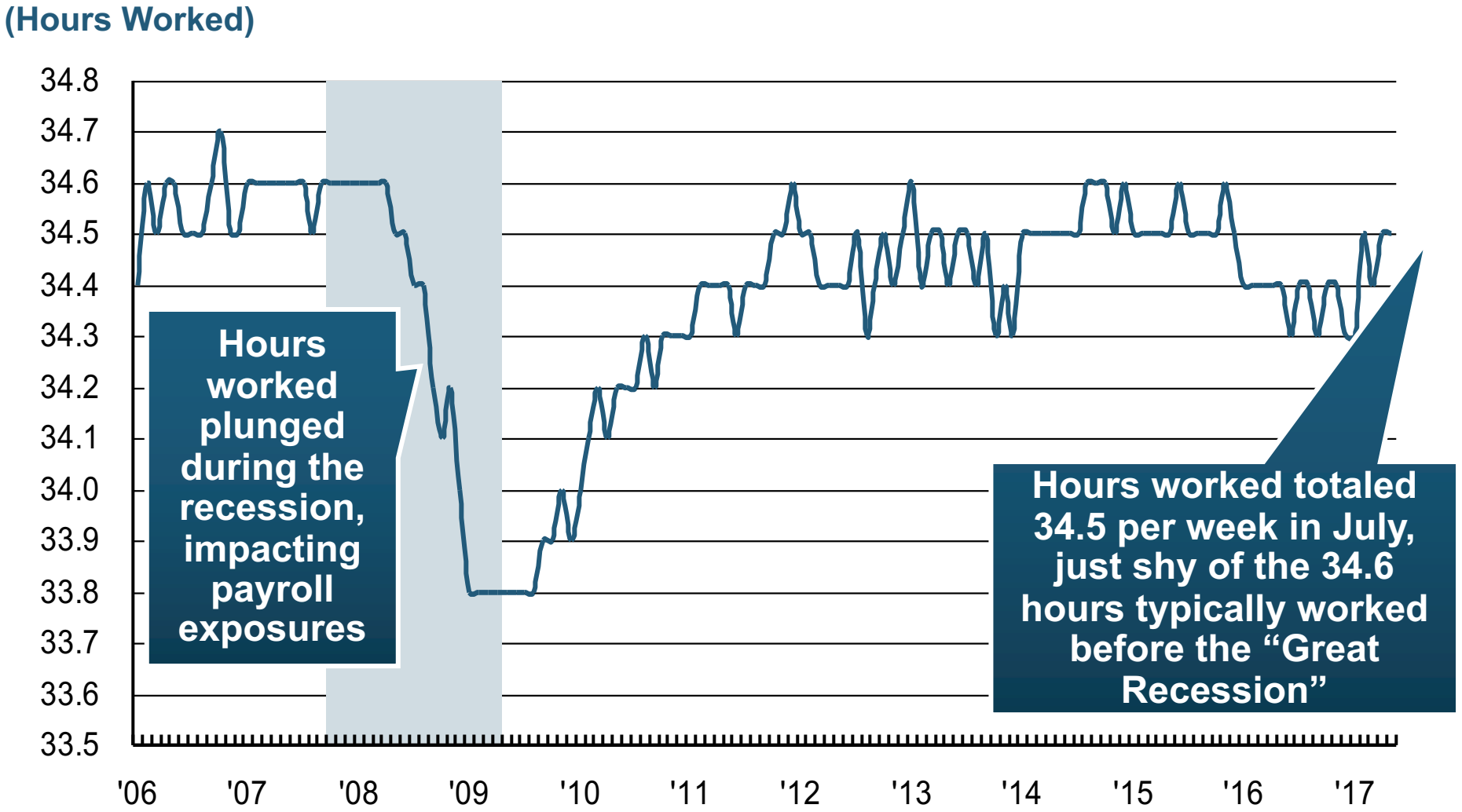


Source: US Department of Labor; Wells Fargo Research.

POSITIVE LABOR MARKET DEVELOPMENTS

Key Factors Driving Workers Compensation Exposure

Average Weekly Hours of All Private Workers, March 2006—July 2017*

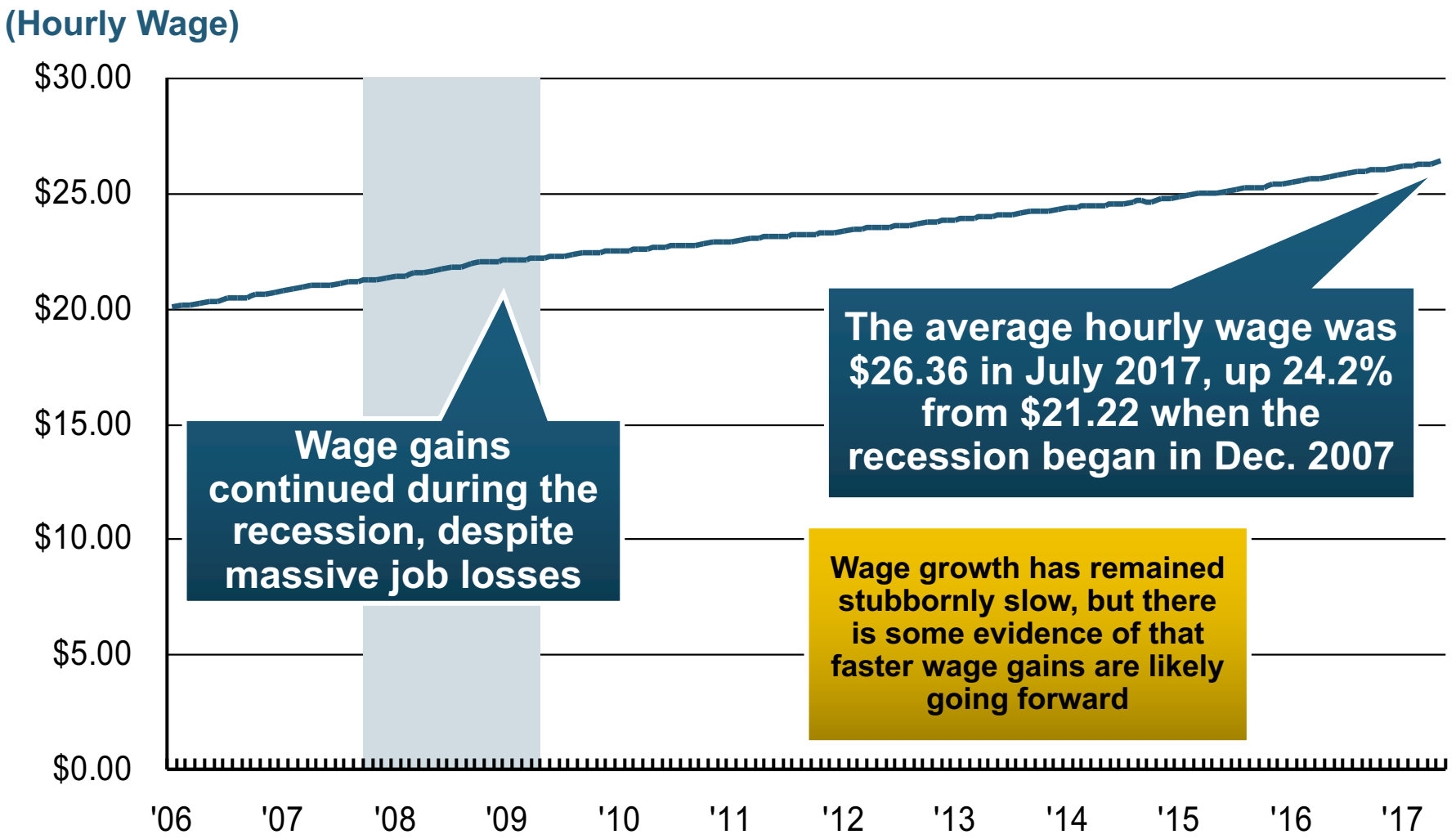


*Seasonally adjusted

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics at http://www.bls.gov/data/#employment; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Average Hourly Wage of All Private Workers, March 2006—July 2017*



*Seasonally adjusted

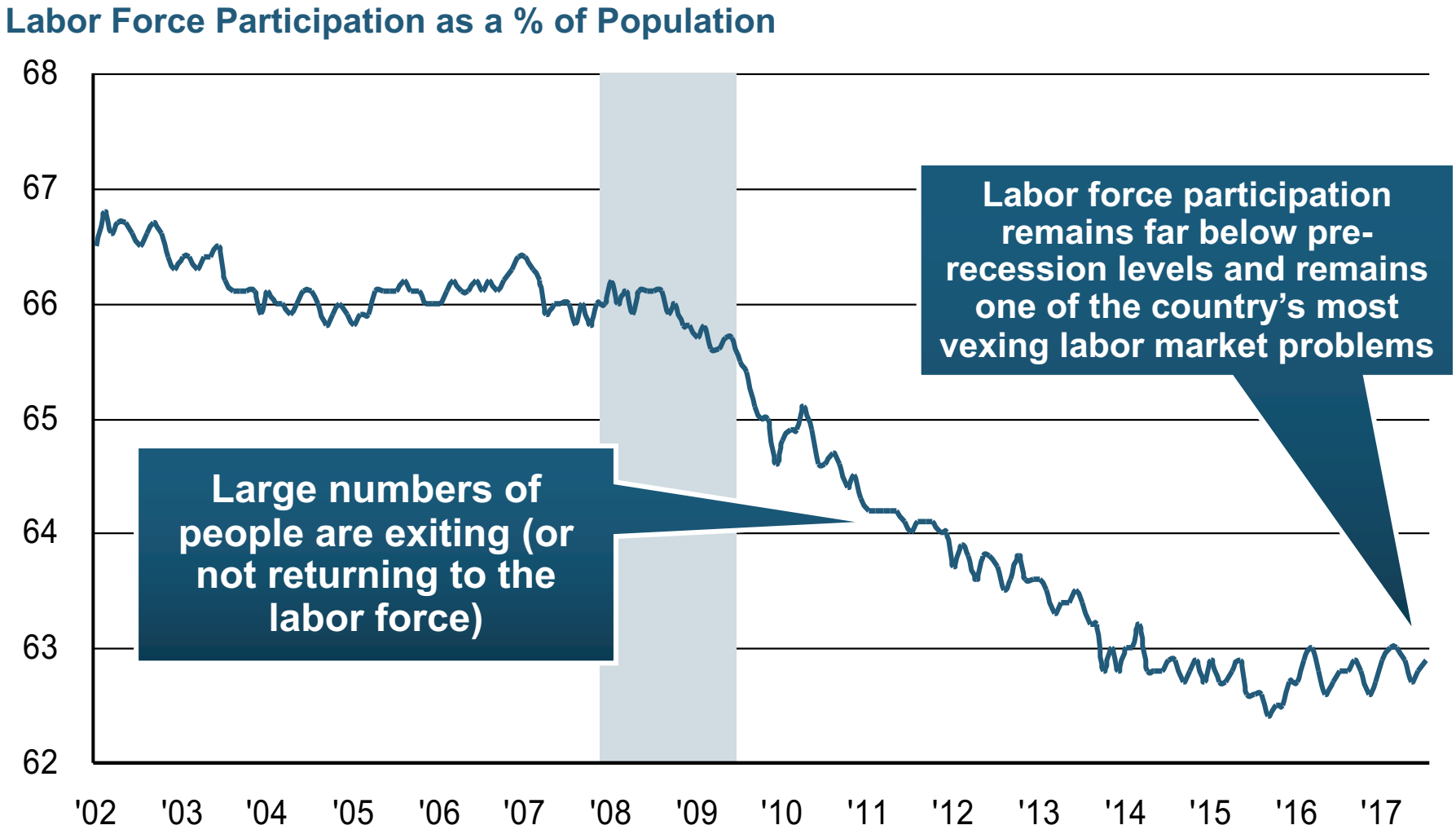
Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics at http://www.bls.gov/data/#employment; National Bureau of Economic Research (recession dates); Insurance Information Institute.

ADVERSE LONG-TERM LABOR MARKET DEVELOPMENTS

Key Factors Harming Workers Compensation Exposure and the Overall Economy

Labor Force Participation Rate, Jan. 2002—July 2017*

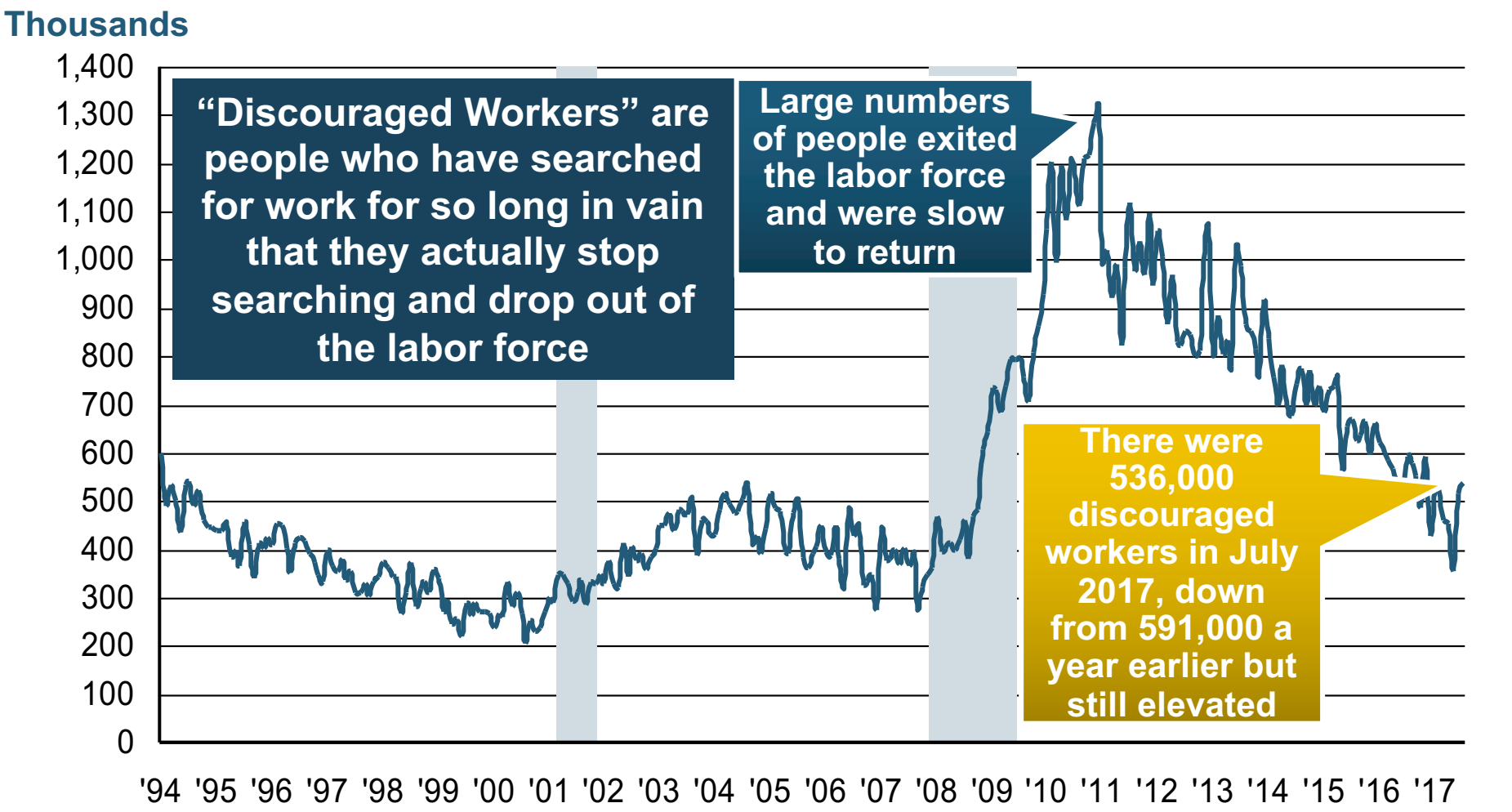


*Defined as the percentage of working age persons in the population who are employed or actively seeking work.

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics at http://www.bls.gov/data/; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Number of "Discouraged Workers," Jan. 2002—July 2017



In recent good times, the number of discouraged workers ranged from 200,000-400,000 (1995-2000) or from 300,000-500,000 (2002-2007).

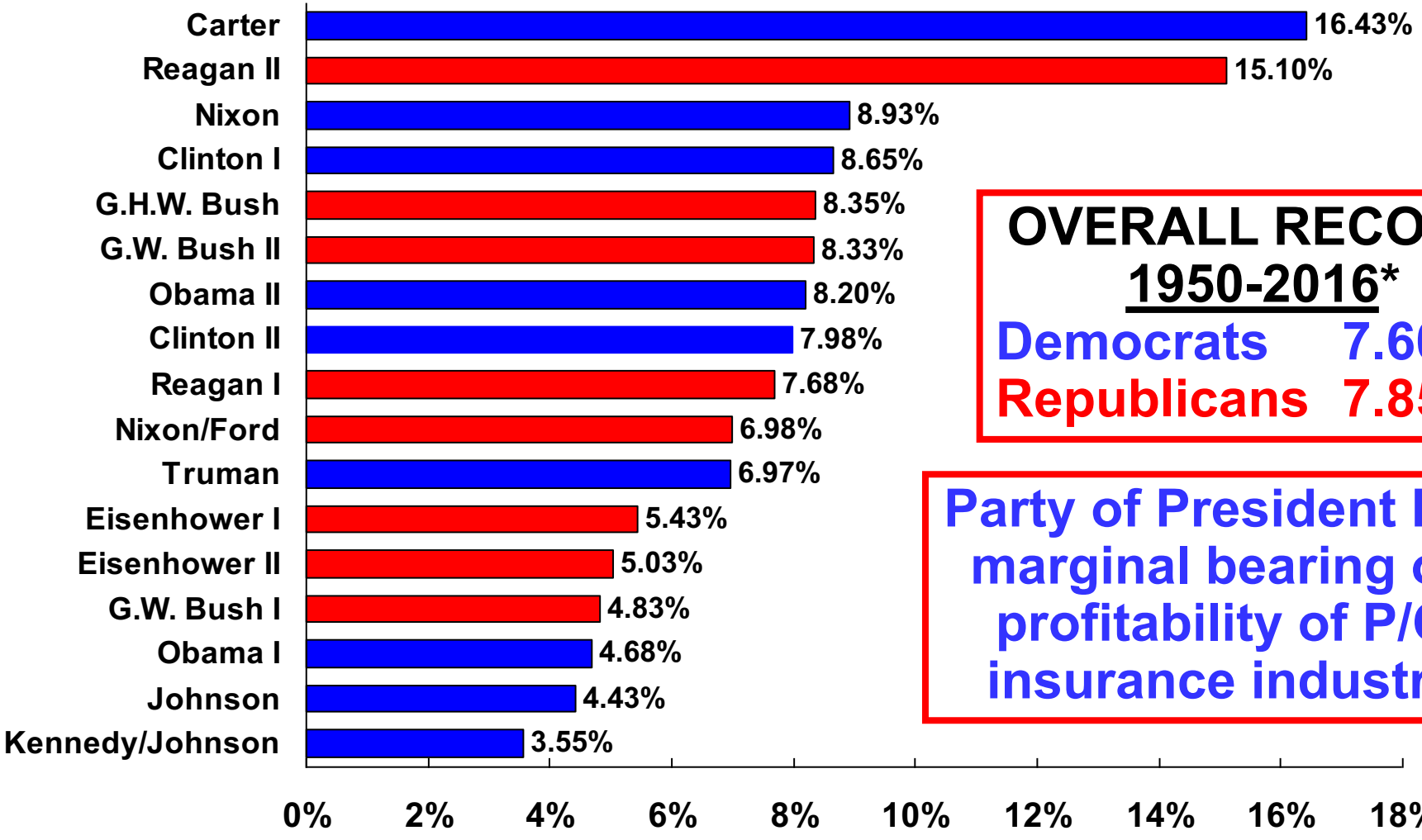
Notes: Recessions indicated by gray shaded columns. Data are seasonally adjusted.

Sources: Bureau of Labor Statistics http://www.bls.gov/news.release/empsit.a.htm ; NBER (recession dates); Ins. Info. Inst.

Profitability & Politics

How Is Profitability Affected by the President's Political Party?

P/C Insurance Industry ROE by Presidential Administration, 1950-2016*



OVERALL RECORD: 1950-2016*

Democrats 7.60%

Republicans 7.85%

Party of President has marginal bearing on profitability of P/C insurance industry

*Truman administration ROE of 6.97% based on 3 years only, 1950-52;.

Source: Insurance Information Institute

Trumponomics, Insurance and Politics

How Might the Trump Presidency Impact the Insurance Industry?

Trumponomics: The Essential Elements

- **5 Elements**
  - Fair Trade
  - Deregulation
  - Tax Reform
  - Infrastructure Investment
  - Immigration Reform/Enforcement
- **NOTE: Unclear what the impact of current political developments will be on Trump's economic agenda**

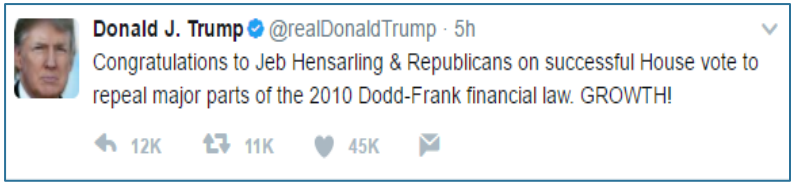
Trump Tax Proposal Implications

- **Move from 7 Federal Brackets to 3: 10, 25 and 35%**
  - High earners also benefit from elimination of ACA taxes
  - Increase standard deduction
  - Eliminate most deductions except for mortgage interest, 401(k) and charitable contributions

- **For Businesses/Business Owners**
  - Lower corporate income taxes to restore international competitiveness on tax rates, perhaps to 15%, but…
  - Adoption of "border adjustments" on imported goods, services and capital;
  - **Insurer Implications**
    - **Lower corporate taxes would directly benefit insurers directly & indirectly through resulting economic stimulus**

Trump Administration: Likely Issues Impacting Insurers

Dodd-Frank



- **TRUMP DODD-FRANK QUOTES**
  - Dodd-Frank is a "*disaster*"
  - Vowed to "*do a big number*" on the Act
- ***NEW:*** **Financial CHOICE Act (June 2017 in House)**
  - Ends authority of the FSOC to designate non-bank SIFIs
    - Likely that MetLife, Prudential and even AIG will see their SIFI designations rescinded
  - Repeal Volker Rule
  - Some loosening of liquidity requirements for well-capitalized financial institutions; Less frequent stress tests
  - Weaken Consumer Financial Protection Bureau
  - NOTE: No mention of FIO, but Office of Financial Research would be eliminated

Trump Administration: Likely Issues Impacting Insurers

Trade

- Has vowed to be tough in (re)negotiating trade deals
- Unlikely there is any stomach in Congress for all out trade wars with Mexico, China or other major trading partners
- A crescendo in protectionist sentiments would be a net negative for all industries, including (re)insurance and financial services in general (and trucking)
- Despite his election rhetoric, Trump is neither a protectionist nor an isolationist
- More localization of supply chains, incl. capital & ins.
- Likely to be hostile to *Corporate Inversions?*
- Treatment of offshore tax havens in future tax reforms will be of interest

Trump Administration: Likely Issues Impacting Insurers

Infrastructure Spending

- Insurance industry could benefit from stepped-up infrastructure spending as promised by Trump
- Competition for federal dollars will be fierce
- Privatization of government infrastructure could provide growth opportunity for commercial insurers
- If infrastructure spending materializes, will benefit all major commercial lines:
  - WC
  - Commercial Property
  - Commercial Liability
  - Surety
  - Commercial Auto

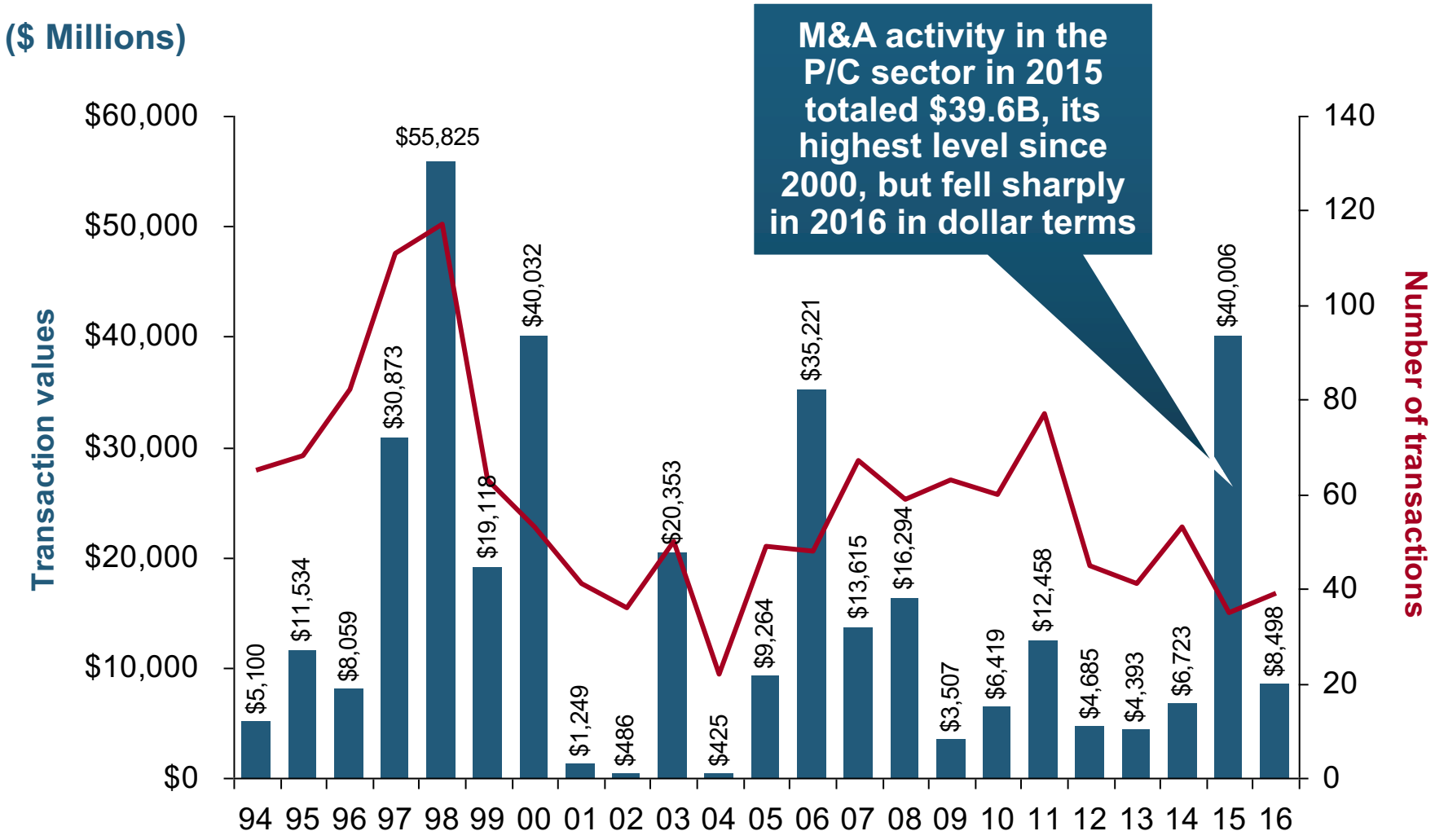
Trump Administration: Likely Issues Impacting P/C Insurers

- **Terrorism & Cyber: Terrorism Risk Insurance Act (TRIA)**
  - **Expires 12/31/2020→Administration views uncertain**
  - **Favors free markets but Trump's NYC real estate experience gave him a front row seat to 9/11's impact's on commercial property insurance markets**
  - **When TRIA expires, Trump will either have just secured his second term as president or will be a lame duck**
  - **Expect some opposition in Congress, assuming both House and Senate remain under Republican control**
- **Cyber: Strong growth for commercial insurers for the indefinite future—barring a major cyber cat**

M&A Trends

Consolidation Among P&C (Re)Insurers and Within Distribution Channels Will Likely Continue

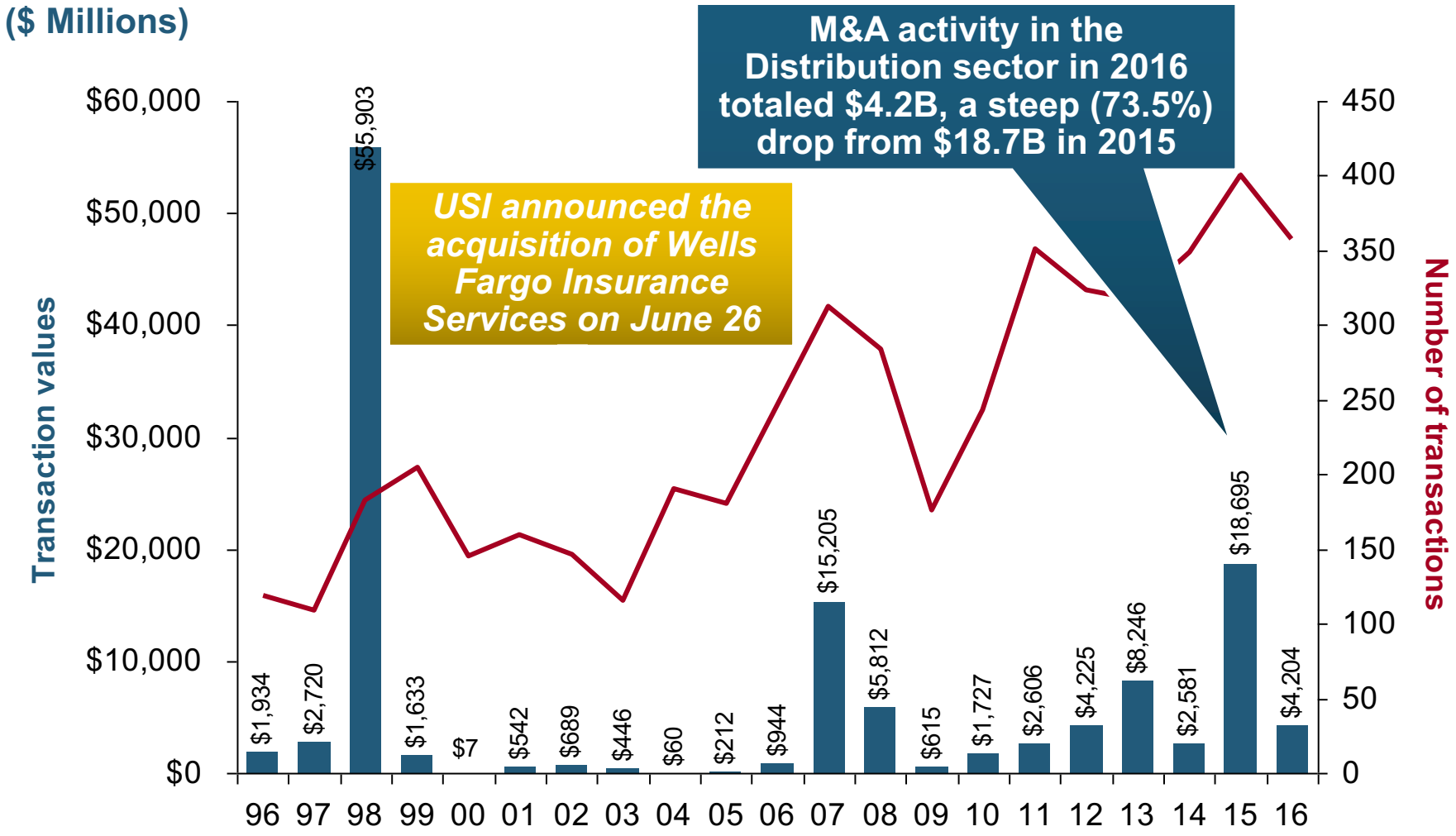
U.S. INSURANCE MERGERS AND ACQUISITIONS, P/C SECTOR, 1994-2016 (1)



(1) Includes transactions where a U.S. company was the acquirer and/or the target.

Source: Conning proprietary database.

U.S. INSURANCE MERGERS AND ACQUISITIONS, DISTRIBUTION, 1996-2016 (1)



(1) Includes transactions where a U.S. company was the acquirer and/or the target.

Source: Conning proprietary database.

Drivers of M&A Activity

P/C Insurers	Distribution Segment
Soft Market Conditions/Limited Organic Growth Opportunities: Mostly commercial lines and reinsurance	**Slow Growth:** Acquisition provides surest and fastest path to growth
Expense Ratios: Desire to lower ERs via realization of economies of scale	**Diverse Universe of Buyers:** Agencies, brokerages, MGAs/MGUs, insurers, private equity firms, banks
Interest Rates: Low yields continue to pressure longer-tailed lines but can encourage debt-financed M&A	**Lack of Succession:** Avg. age of an insurance agent is now 59 and rising. Difficulty attracting younger generation of talent.
Capital Management/Valuations: Prevalence of excess capital even after share repurchases; View that M&A may be more accretive to earns than share repurchases	**Scale and Efficiency:** Need/desire to improve efficiency; New InsurTech start-ups active in the distribution segment.

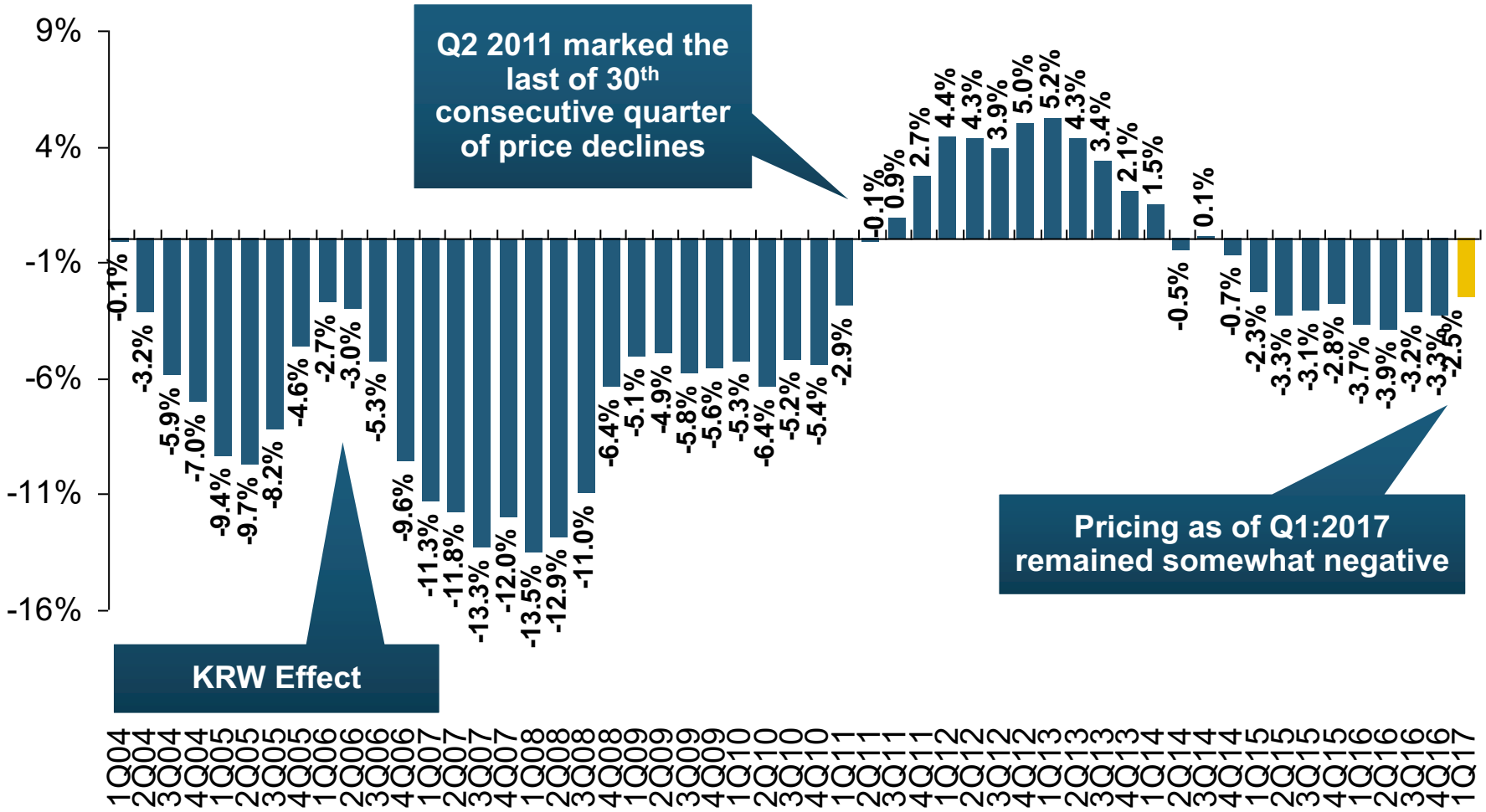
Source: Adapted from Conning "Global Insurance Distribution & Services Sector: Mergers & Acquisitions, 2017.

Commercial Lines Growth and Pricing Trends

Survey Results Suggest Commercial Pricing Has Flattened Out, with Impacts on Growth

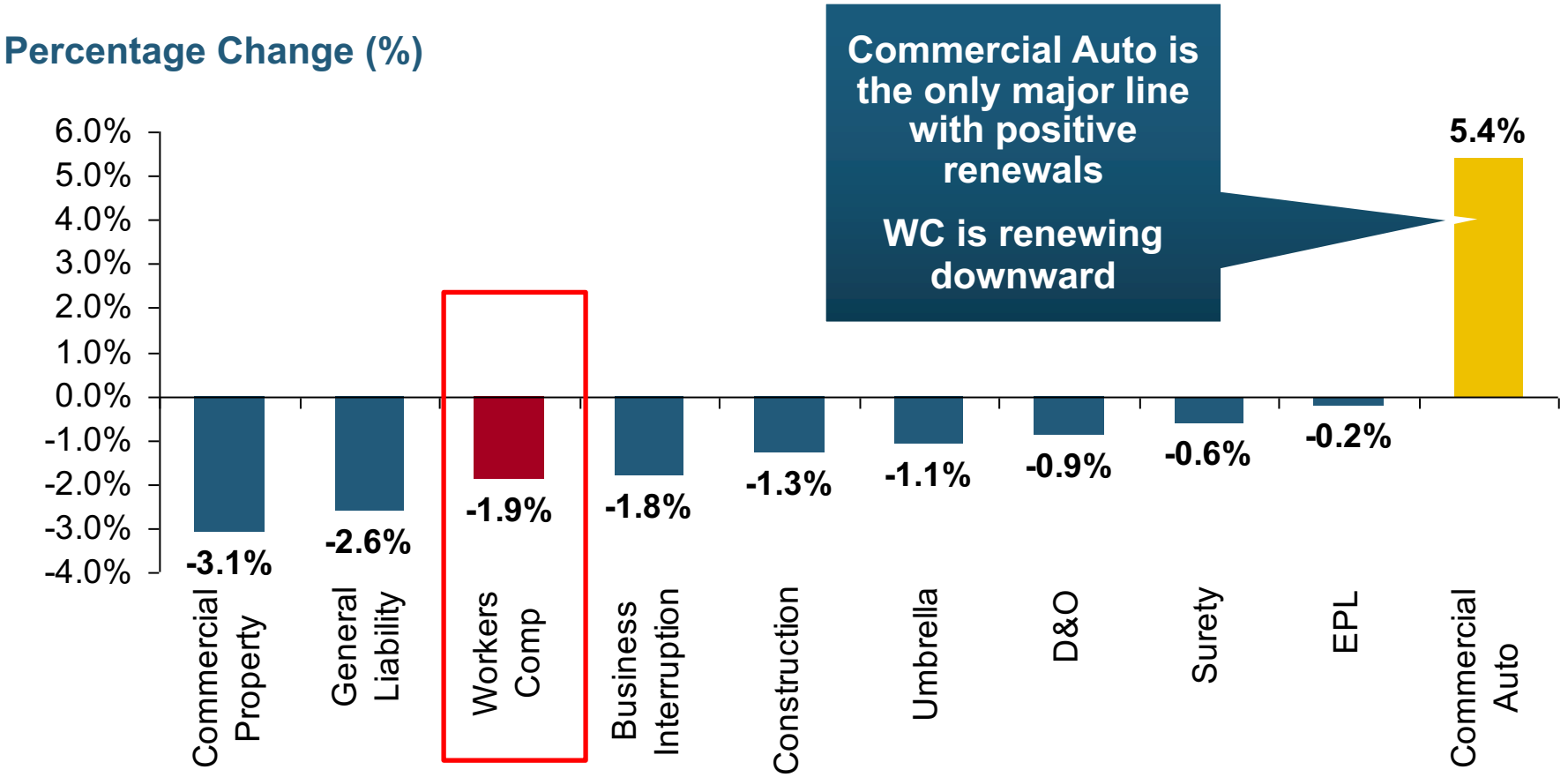
CIAB: Average Commercial Rate Change, All Lines, (1Q:2004–1Q:2017)

(Percent)



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; Insurance Information Institute

Change in Commercial Rate Renewals, by Line: 2017:Q1



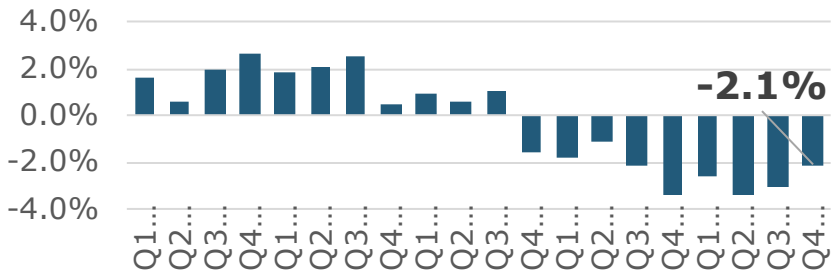
Major Commercial Lines Renewals Were General Down in Q1:2017; Only Commercial Auto Saw Material Gains

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.

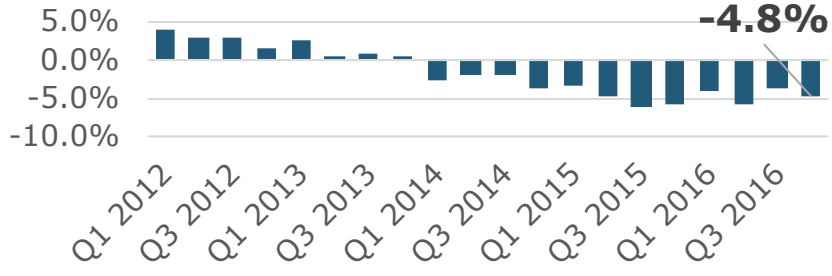
Rate Changes by LOB Thru Q4 2016

Slight Softening, Though Local Markets Vary

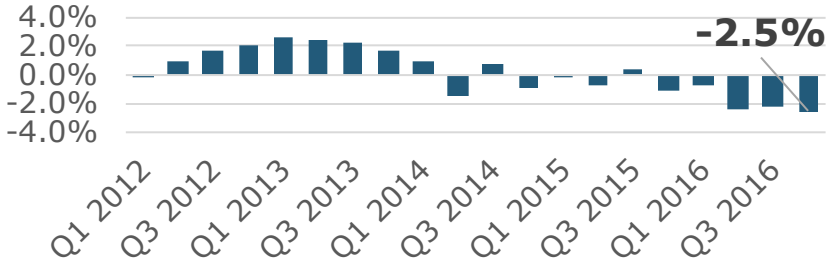
U.S. Casualty



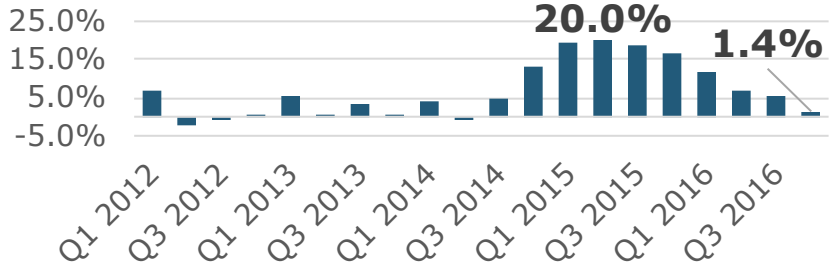
U.S. Property



U.S. Financial and Prof Liab



U.S. Cyber



SOURCE: Marsh Insurance Market Index, Q4 2016

INDUSTRY DISRUPTORS

Technology, Society and the Economy Are All Changing at a Rapid Pace

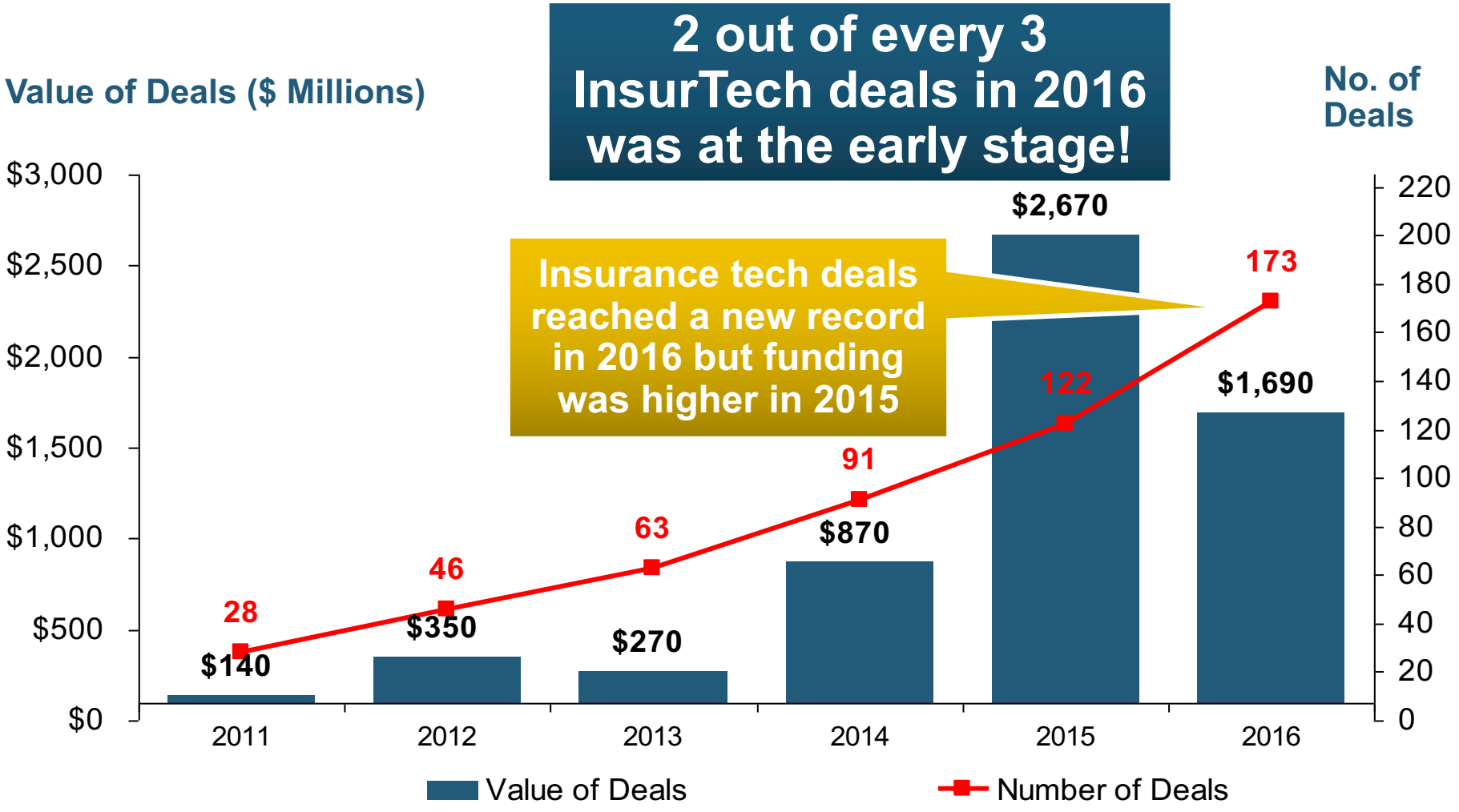
Reality vs. Drinking the Silicon Valley Kool Aid

INSURANCE TECHNOLOGY:
FIN TECH ZEROES IN

Number and Value of Deals Is Increasing

In Search of the Elusive Insurance 'Unicorn'

InsurTech Annual Financing, 2011 – 2016

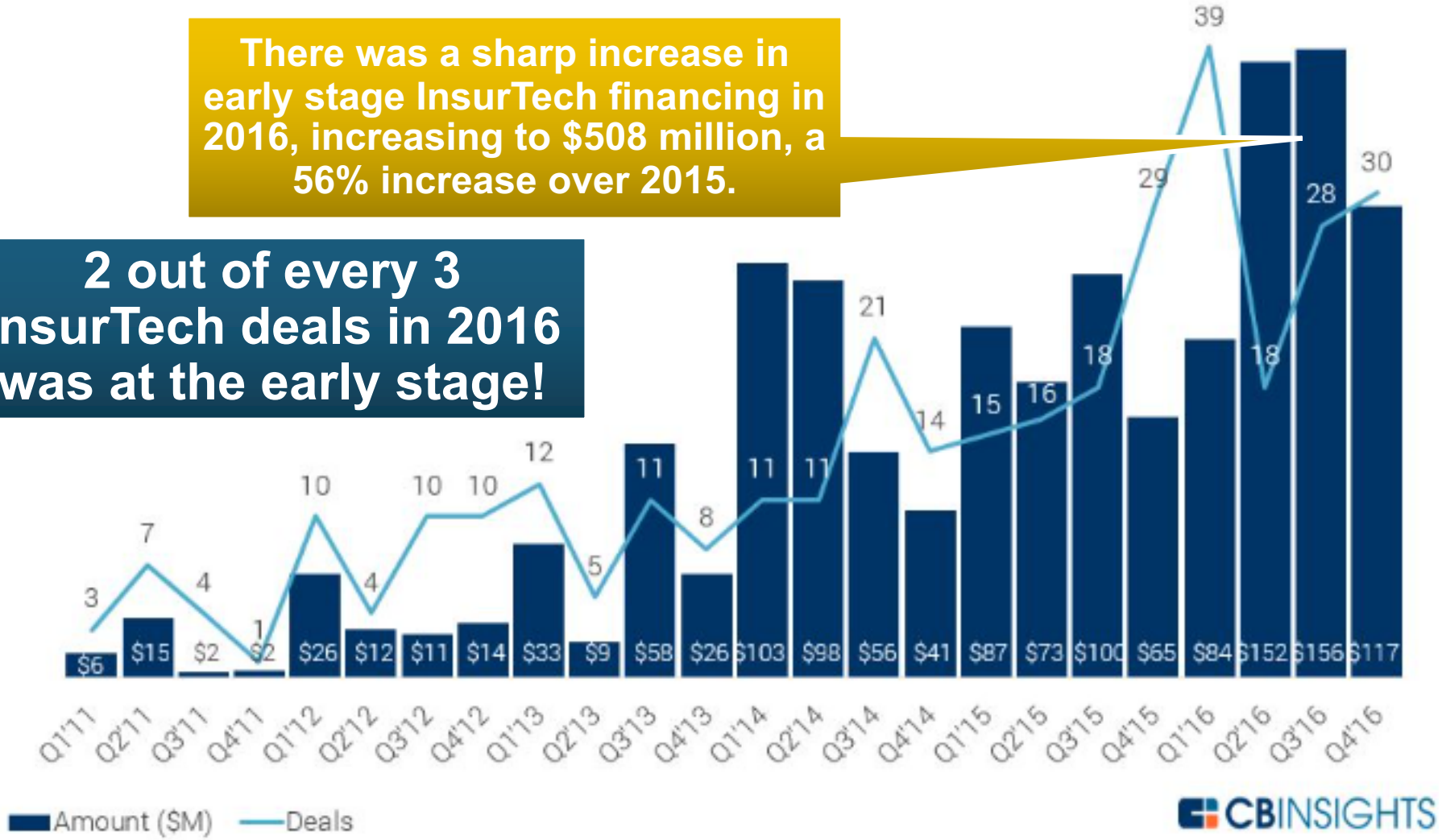


Source: CB Insights at https://www.cbinsights.com/blog/2016-insurance-tech-funding/

Early Stage InsurTech Financing *(Seed/Series A)*, 2011 – 2016

There was a sharp increase in early stage InsurTech financing in 2016, increasing to $508 million, a 56% increase over 2015.

2 out of every 3 InsurTech deals in 2016 was at the early stage!



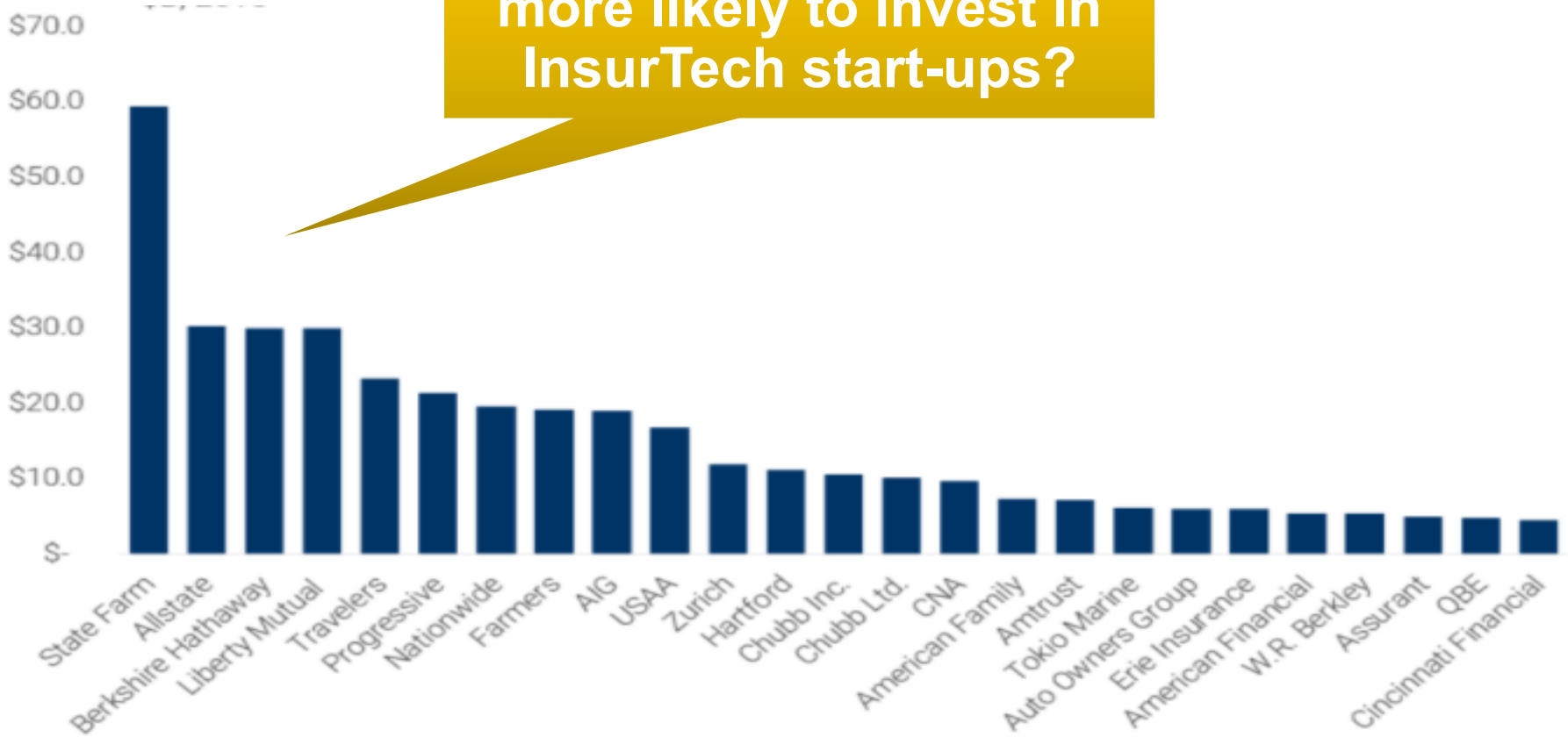
Sources: CB Insights at https://www.cbinsights.com/blog/2016-insurance-tech-funding/

Launches of Insurance Corporate Venture Capital Units, 2015 – 2017 YTD*

VC arms of insurers launched since 2015 have provided more than $500 million in funding

Sources: CB Insights at https://www.cbinsights.com/blog/2016-insurance-tech-funding/ , accessed June 11, 2017.

Top 25 P/C Insurers by Direct Written Premium, 2015

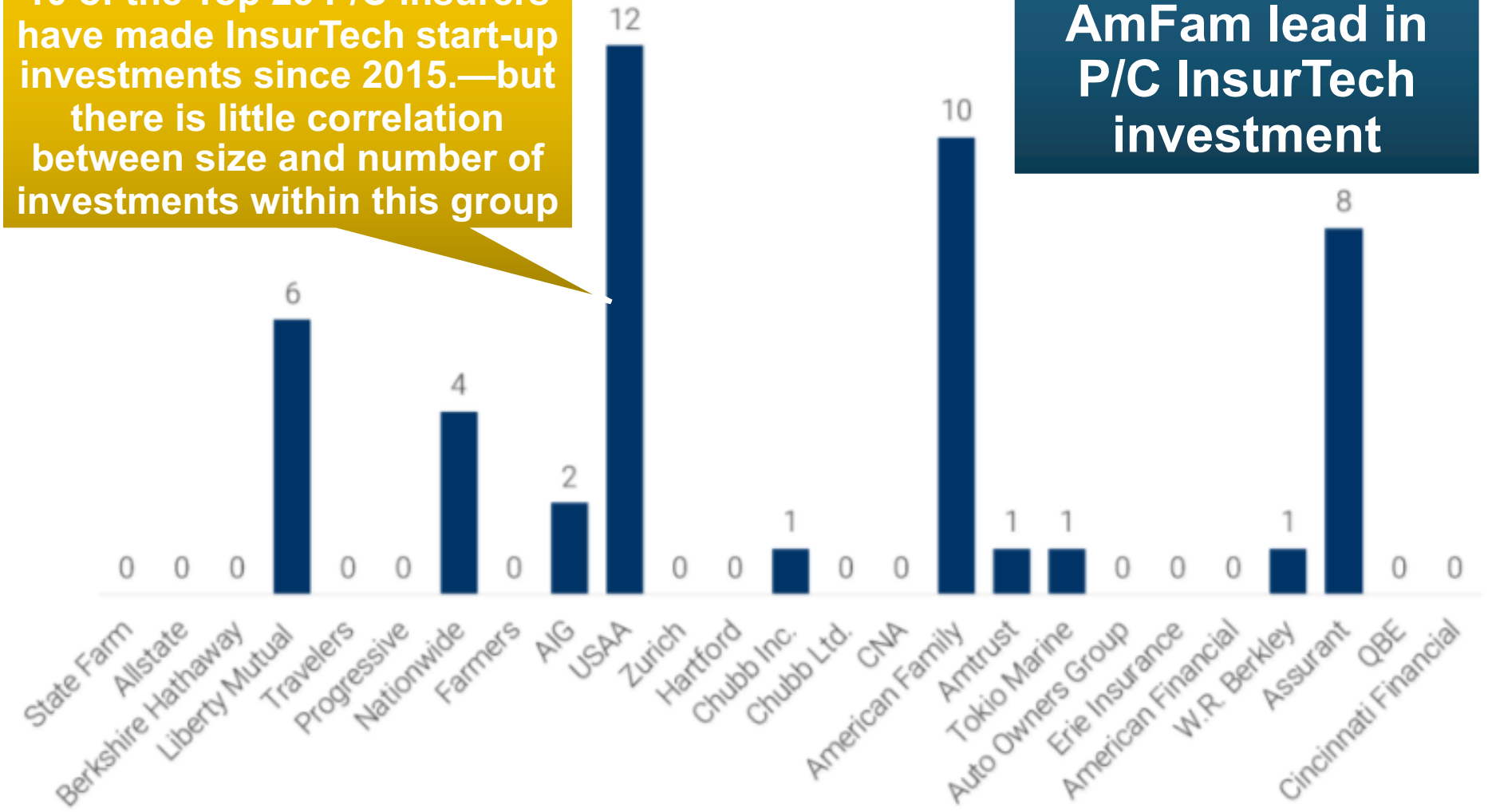


Sources: NAIC from CB Insights at https://www.cbinsights.com/blog/largest-pc-insurers-rank-startup-investments/

Start-Up InsurTech Investments by Top 25 P/C Insurers, 2015 - 2017*

10 of the Top 25 P/C insurers have made InsurTech start-up investments since 2015.—but there is little correlation between size and number of investments within this group

USAA and AmFam lead in P/C InsurTech investment



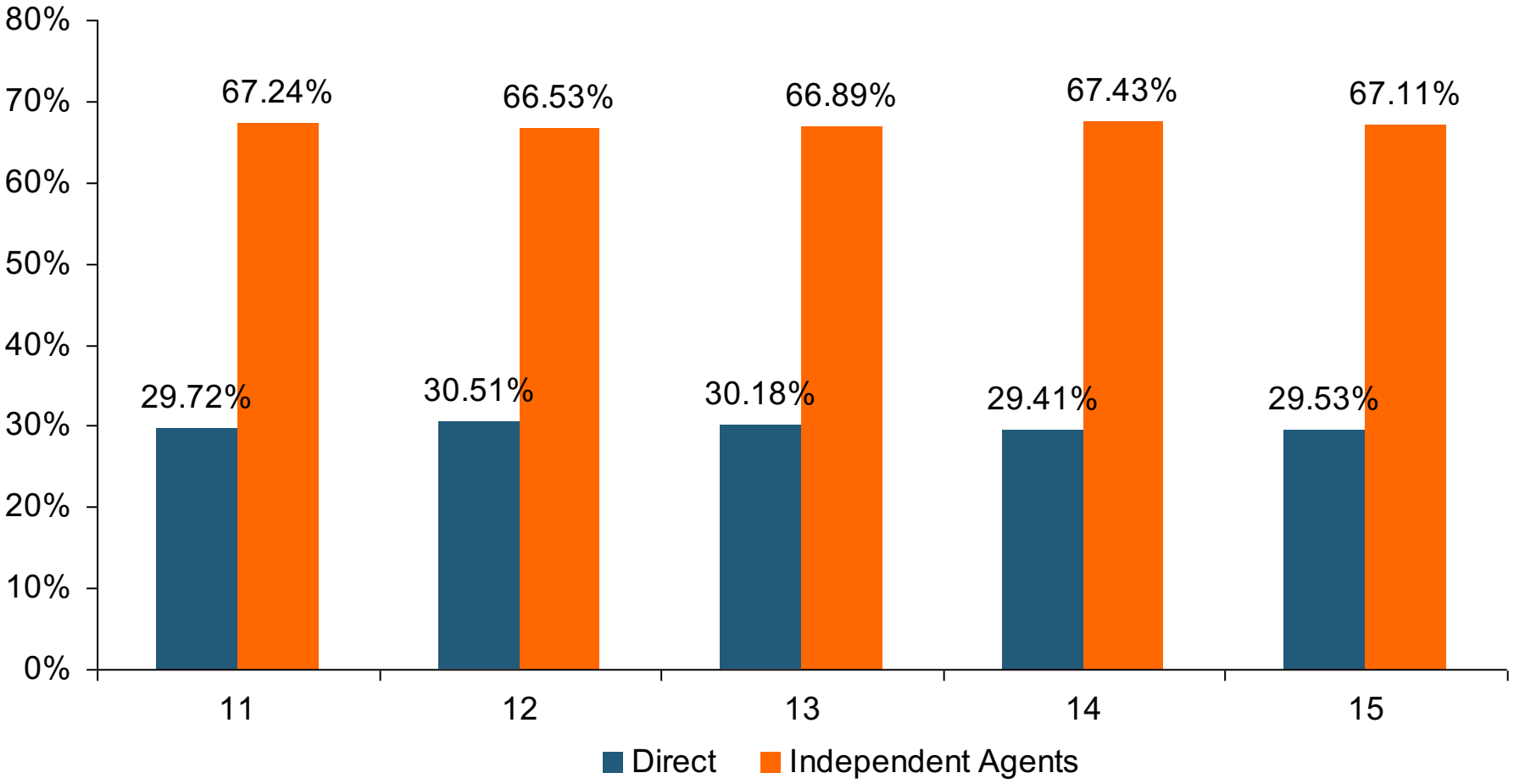
*As of June 23, 2017.

Sources: NAIC from CB Insights at https://www.cbinsights.com/blog/largest-pc-insurers-rank-startup-investments/

Distribution Trends

Distribution by Channel Type Continues to Evolve Around the World

Commercial Lines Distribution Channels, Direct vs. Independent Agents, 2011-2015



Independent agent market share in commercial lines has held steady in recent years

Source: Calculations based on data from A.M. Best.

UNIVERSITY OF
SOUTH CAROLINA
Darla Moore School of Business

Thank you for your time and your attention!

Twitter: twitter.com/bob_hartwig

For a copy of this presentation, email me at robert.hartwig@moore.sc.edu