Why Rate?
Factors Driving Rate in the Commercial P/C Insurance Industry

Chubb Commercial Market Forum
San Francisco, CA
January 21, 2020

Robert P. Hartwig, Ph.D., CPCU
Clinical Associate Professor of Finance, Risk Management & Insurance
Darla Moore School of Business ♦ University of South Carolina
Robert.Hartwig@moore.sc.edu ♦ 803.777.6782

UNIVERSITY OF
SOUTH CAROLINA
Darla Moore School of Business

The Case for Rate: Outline

- **P/C Financial Overview**
  - History and forecasts
- **Profitability and Growth Trends**
- **Economic Overview & Impacts on the P/C Insurance Industry**
  - Influence on P/C exposure and premium growth
- **Financial Market Performance**
  - Interest rates, pricing and profitability
- **Commercial Lines Performance Overview**
  - Underwriting performance and rate trends, by key line
- **Catastrophe Loss Trends/Reinsurance Market Pressure**
- **Tort/Social Inflation Cyber Pressures**
- **Election Year Update: 2020 Key Political and Regulatory Issues for Insurers**
- **Q&A**

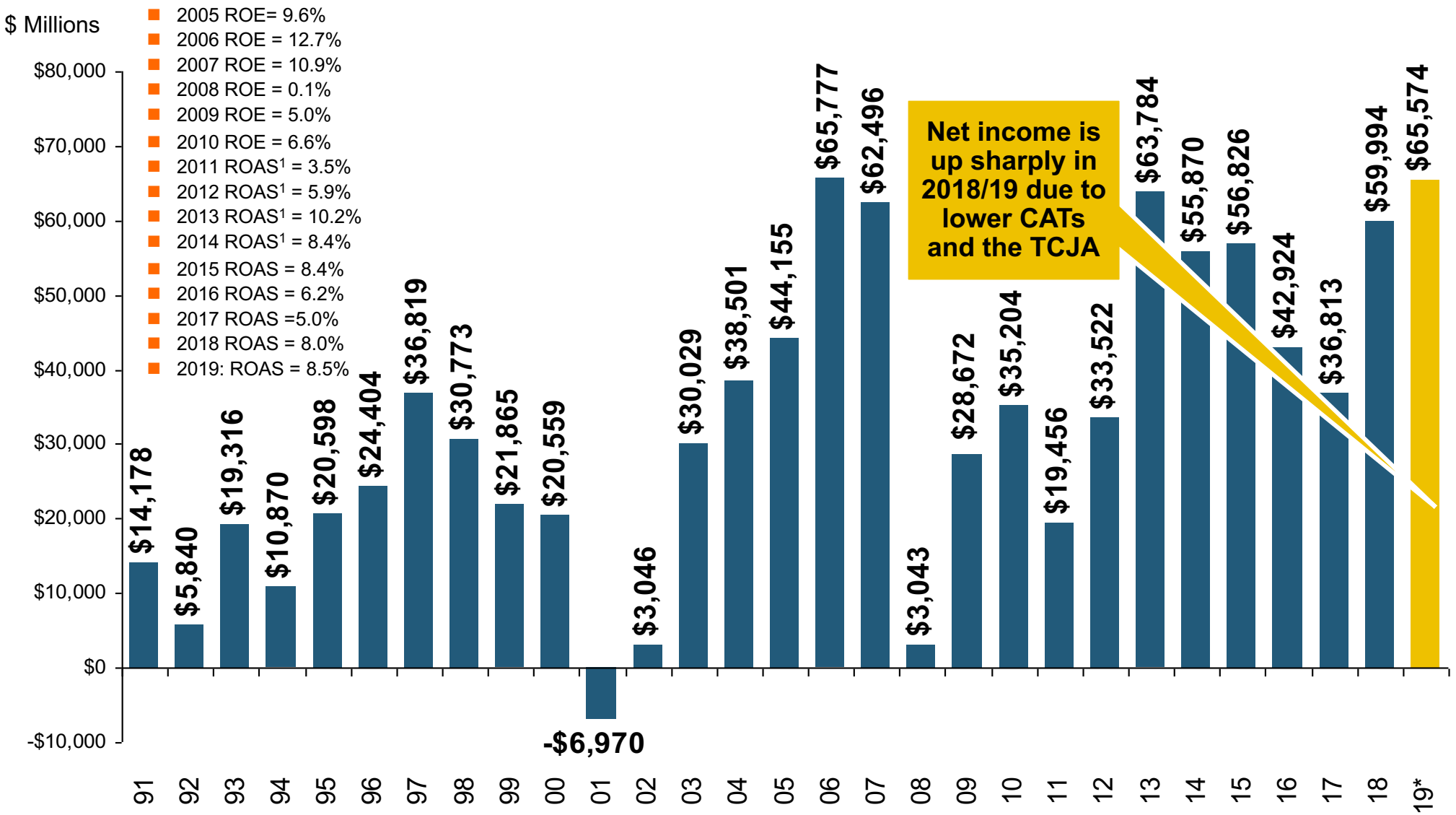
P/C Insurance Industry Financial Overview

CATS, Non-CAT Underwriting Losses Impacted Insurer Balance Sheets

Industry Remains Strong but Continued Strength Requires Improved Profitability

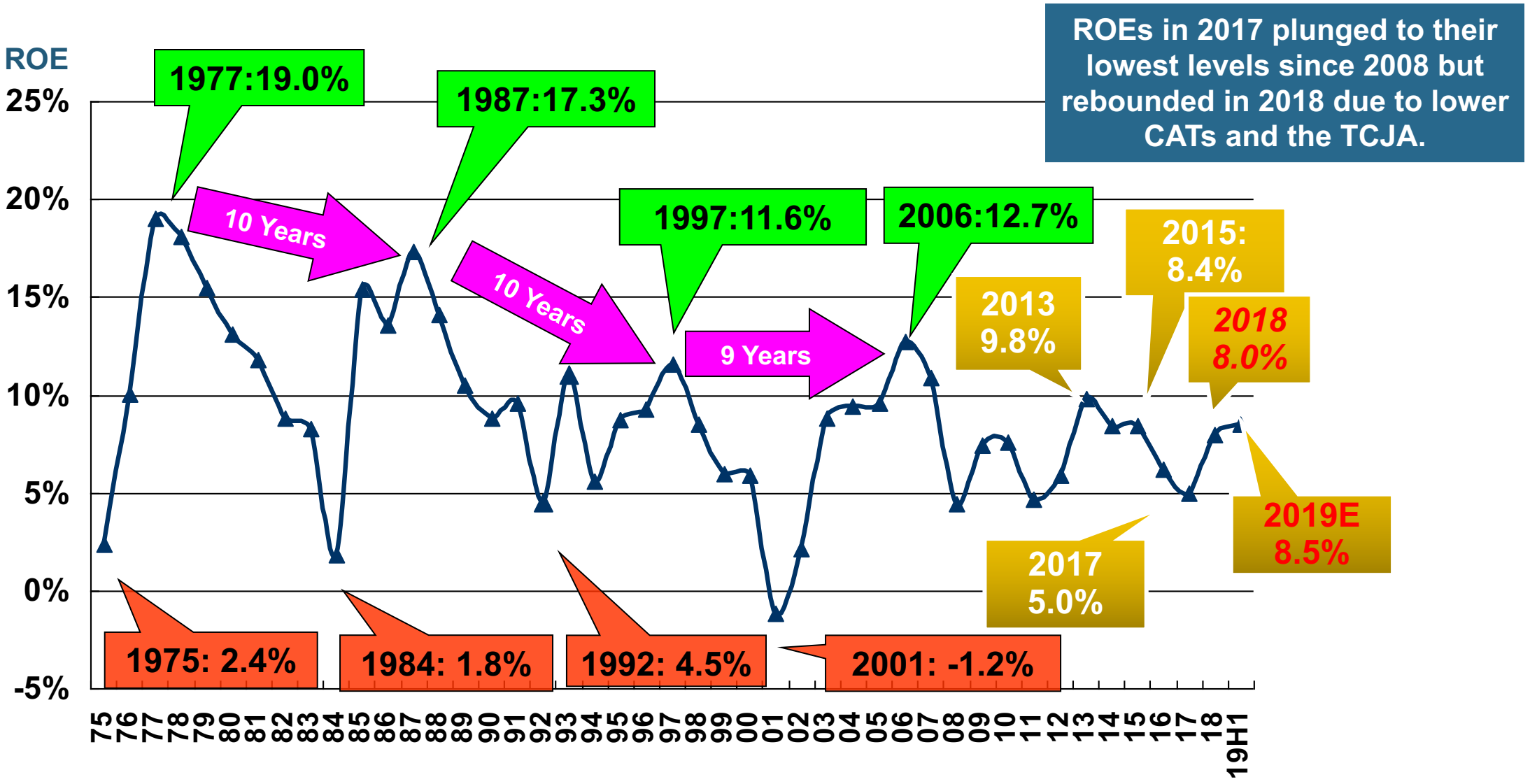
3

P/C Industry Net Income After Taxes, 1991–2019F*



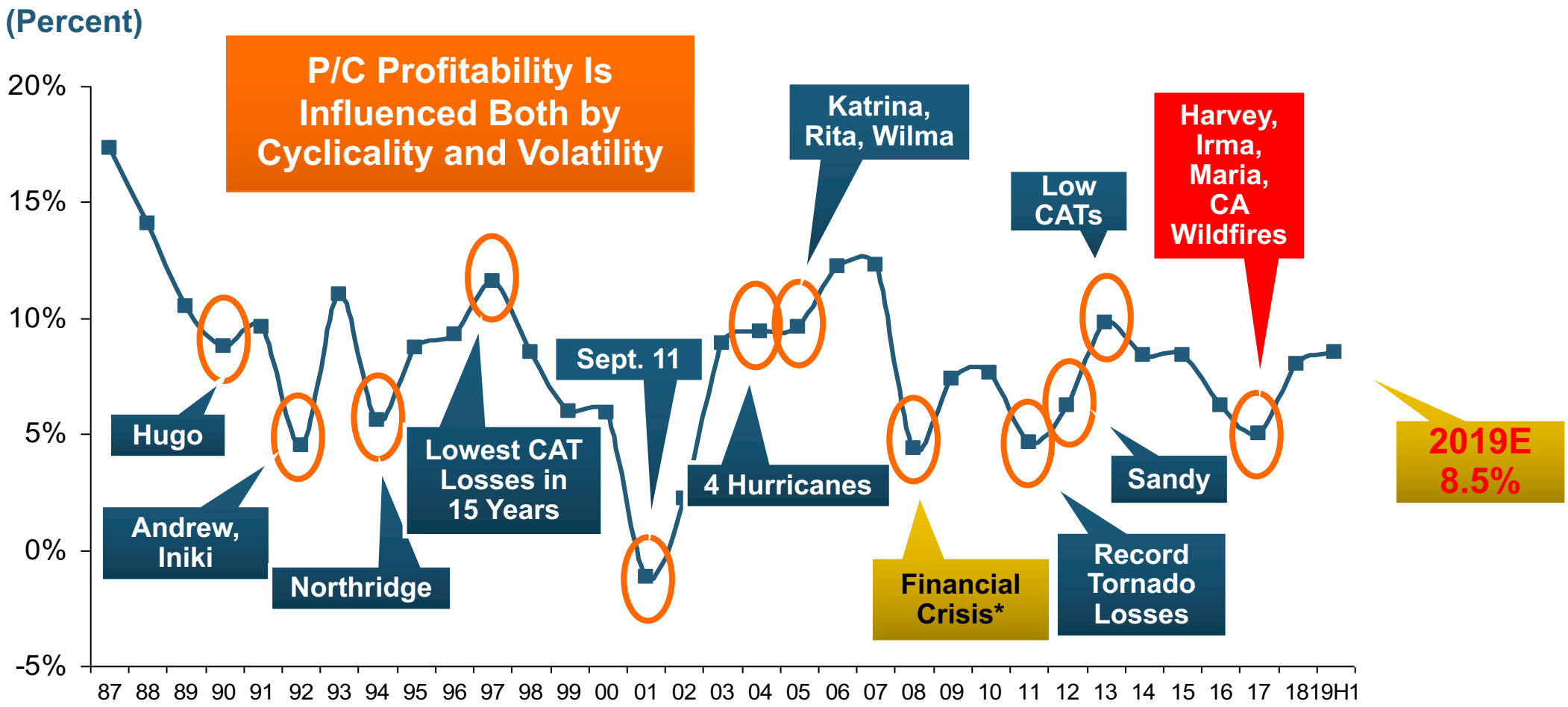
*2019 estimate based on annualized actual 1H:19 figure of $32.787B. ROE figures are GAAP; [1]Return on avg. surplus. Excludes Mortgage & Financial Guaranty insurers for years (2009-2014).
Sources: A.M. Best, ISO.

Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2019E



Profitability = P/C insurer ROEs. 2011-18 figures are estimates based on ROAS data. Note: Data for 2008-2014 exclude mortgage and financial guaranty insurers.
Source: NAIC, ISO, A.M. Best, USC RUM Center.

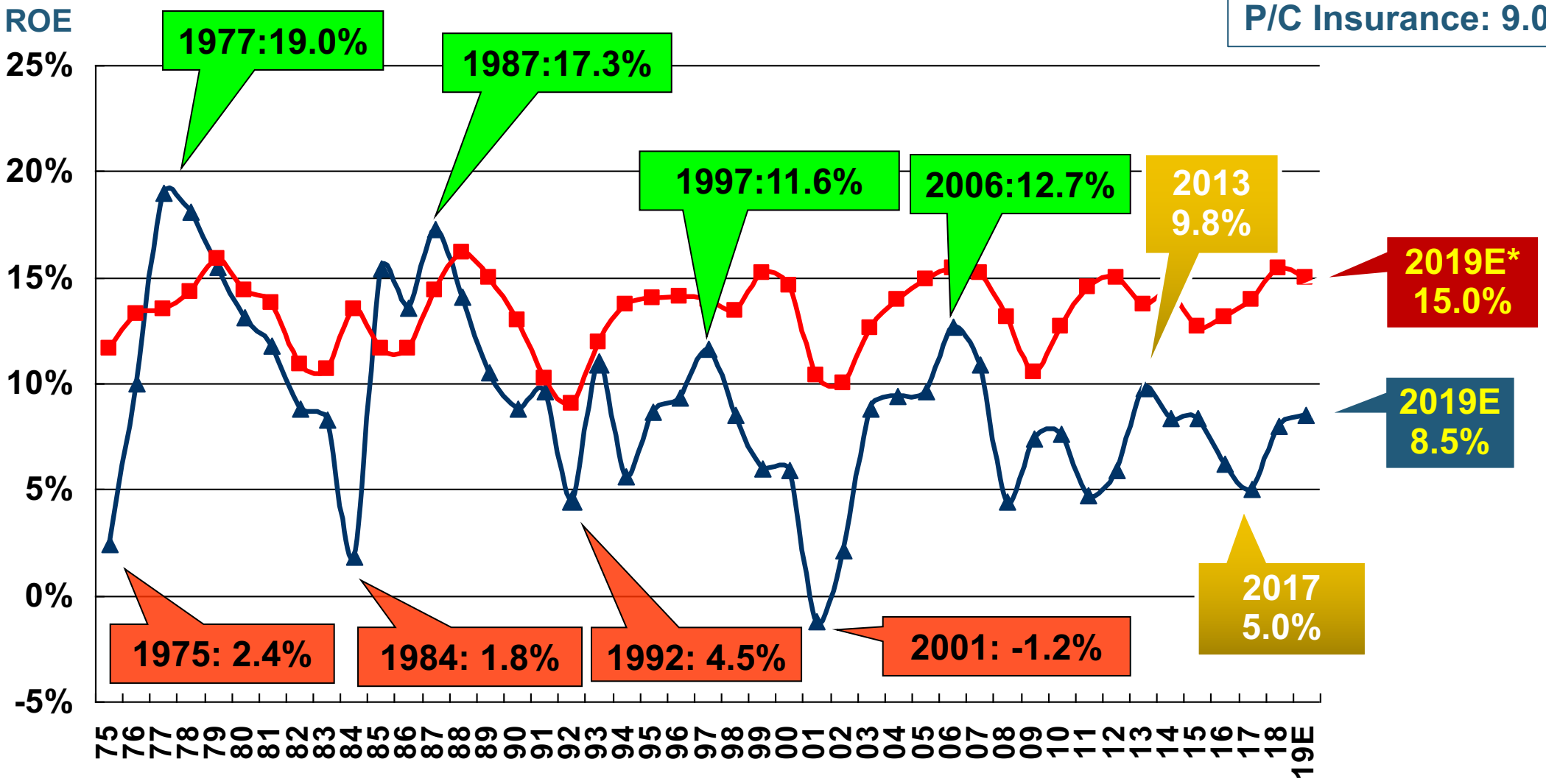
ROE: Property/Casualty Insurance by Major Event, 1987–2019E



*Excludes Mortgage & Financial Guarantee in 2008 – 2014.
Sources: ISO, *Fortune*; A.M. Best (2018E-2019F); USC RUM Center.

P/C Insurance ROE vs. Fortune 500, 1975–2019E*

Average: 1975-2018
Fortune 500: 13.3%
P/C Insurance: 9.0%



*2018 Fortune 500 figure is an estimate.
Profitability = P/C insurer ROEs. 2011-18 figures are estimates based on ROAS data. Note: Data for 2008-2014 exclude mortgage and financial guaranty insurers.
Source: NAIC, ISO, *Fortune*.

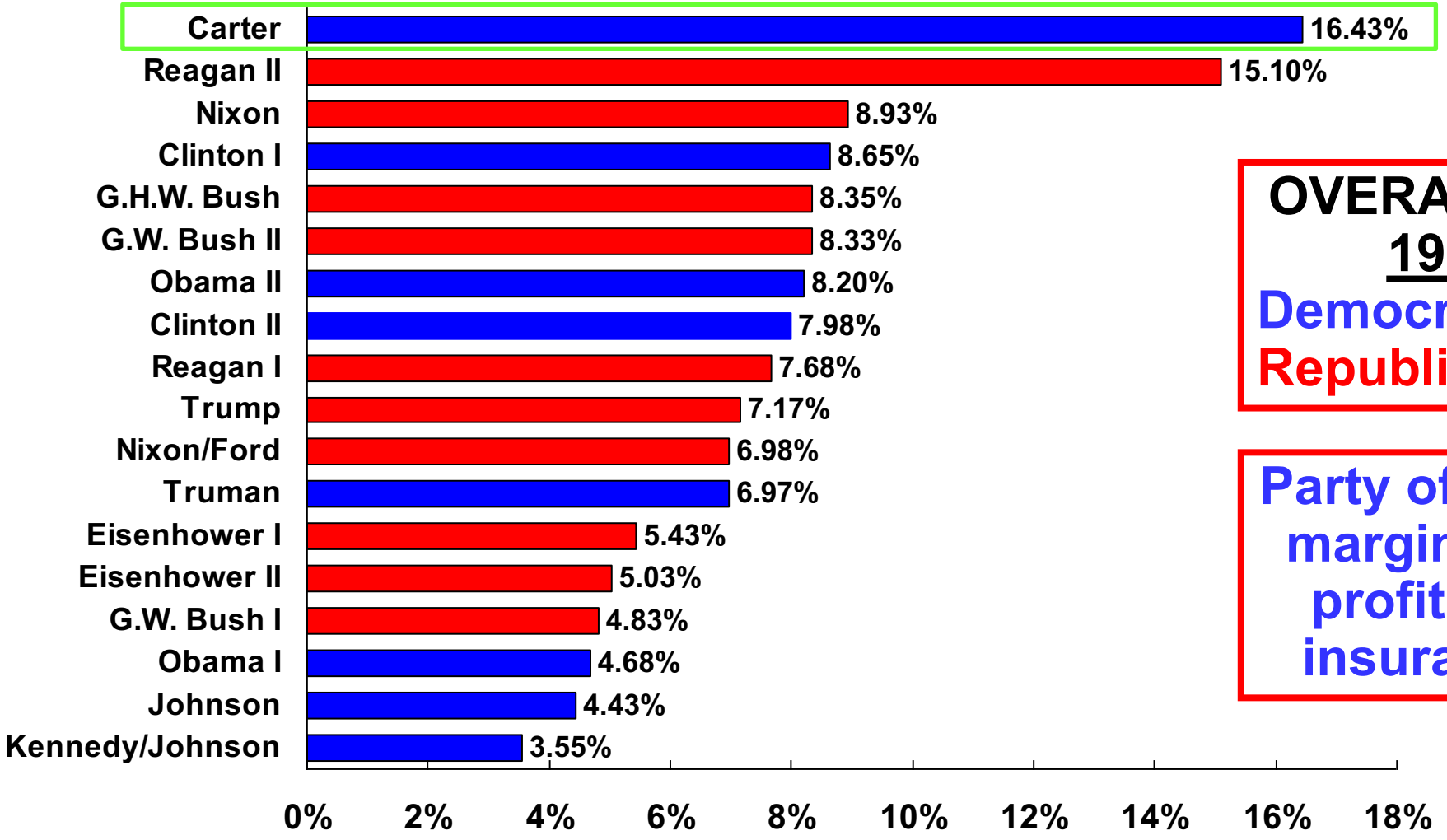
Professor Hartwig's Insurance Quiz!

Q1: Since 1950, under which President was the US P/C insurance industry the most profitable (in terms of ROE)?

Q2: Since 1950, under which political party has the US P/C insurance industry been the most profitable, on average (in terms of ROE)?

8

P/C Insurance Industry ROE by Presidential Administration, 1950-2019*



OVERALL RECORD: 1950-2019*

Democrats 7.61%

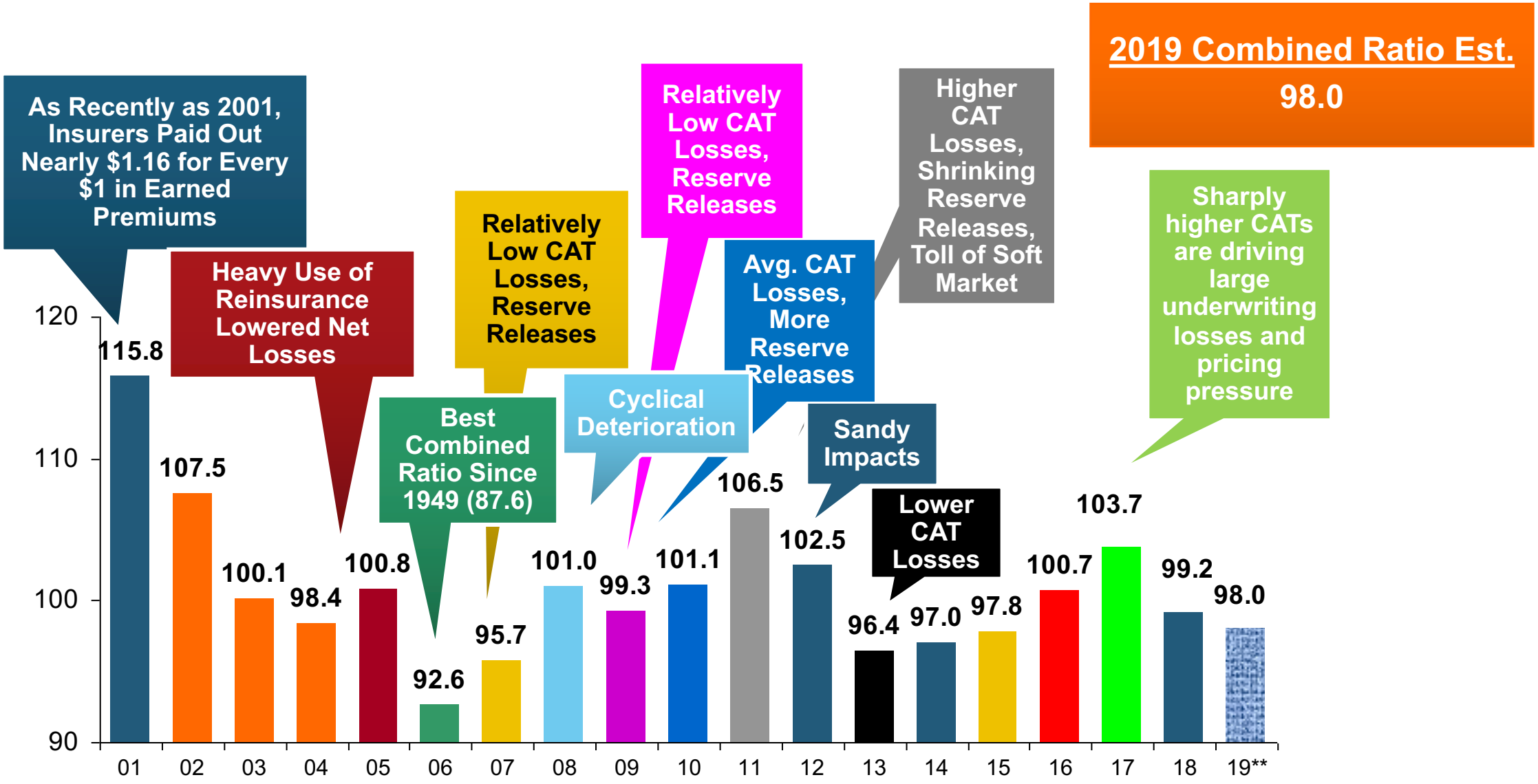
Republicans 7.75%

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: University of South Carolina, Risk and Uncertainty Management Center.

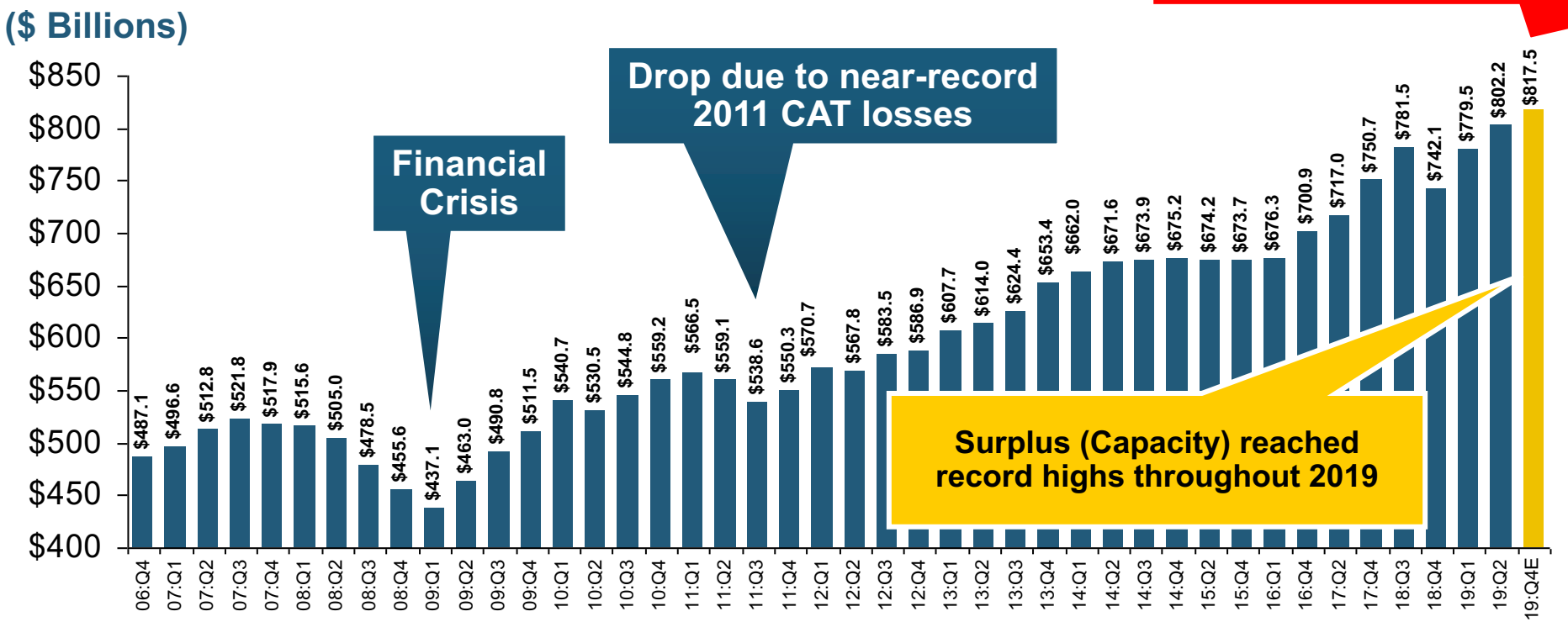
P/C Insurance Industry Combined Ratio, 2001–2019E*



* Excludes Mortgage & Financial Guaranty insurers 2008--2014.
**Actual through H1 2019 was 97.3
Sources: A.M. Best, ISO (2014-2019).

Policyholder Surplus (Capacity), 2006:Q4–2019:Q4E

A sharp recovery in asset prices pushed surplus to a new record high in 2019, surpassing $800B for the first time ever



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 abundance of capacity/Capital does not mean that markets will ignore deteriorating underwriting performance

Sources: ISO, A.M .Best; 2019E from Center for Risk and Uncertainty Management, University of South Carolina, based on actual $802.2B through 6/3019.

Net Premium Growth (All P/C Lines): Annual Change, 1971—2019F

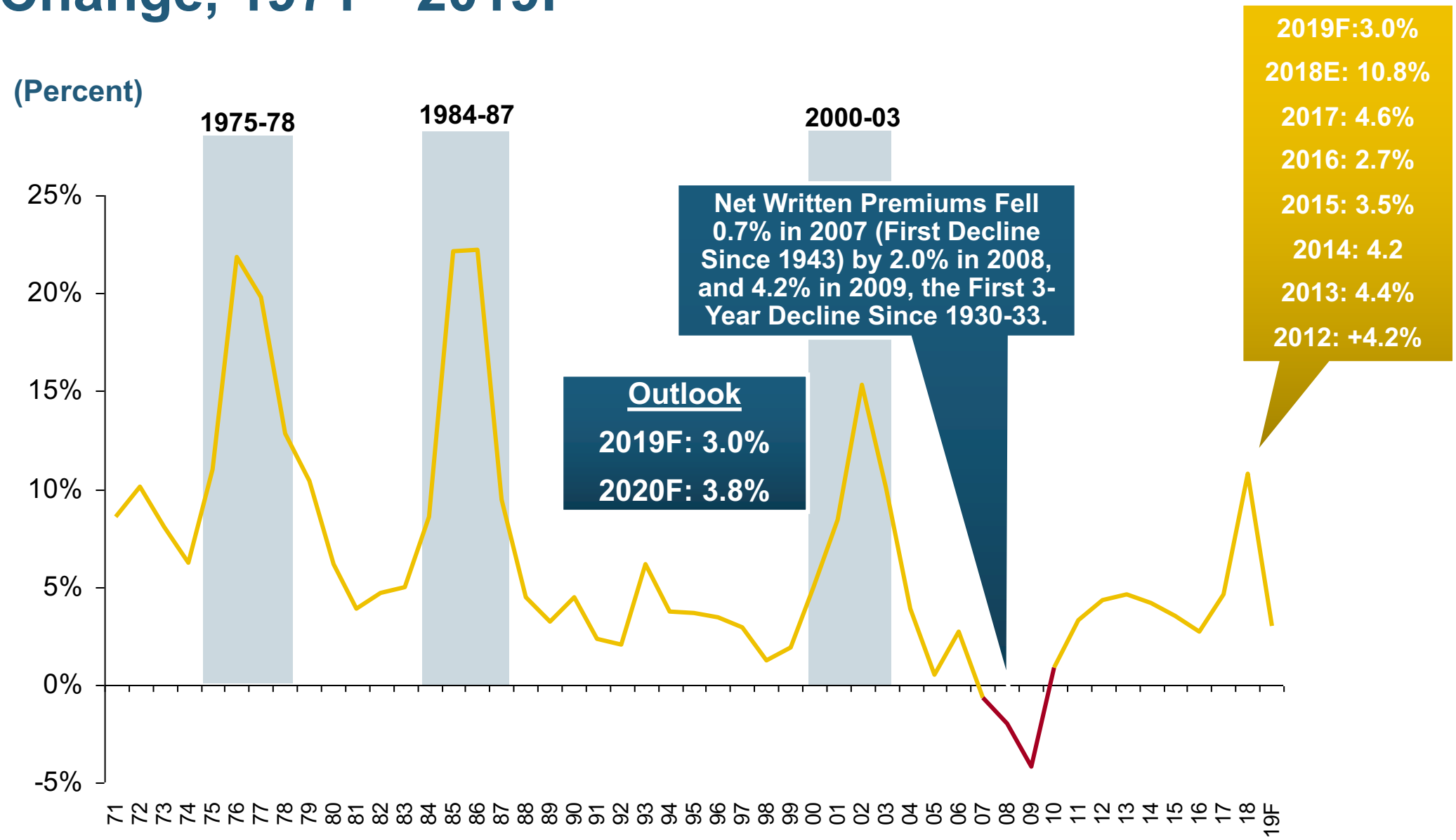
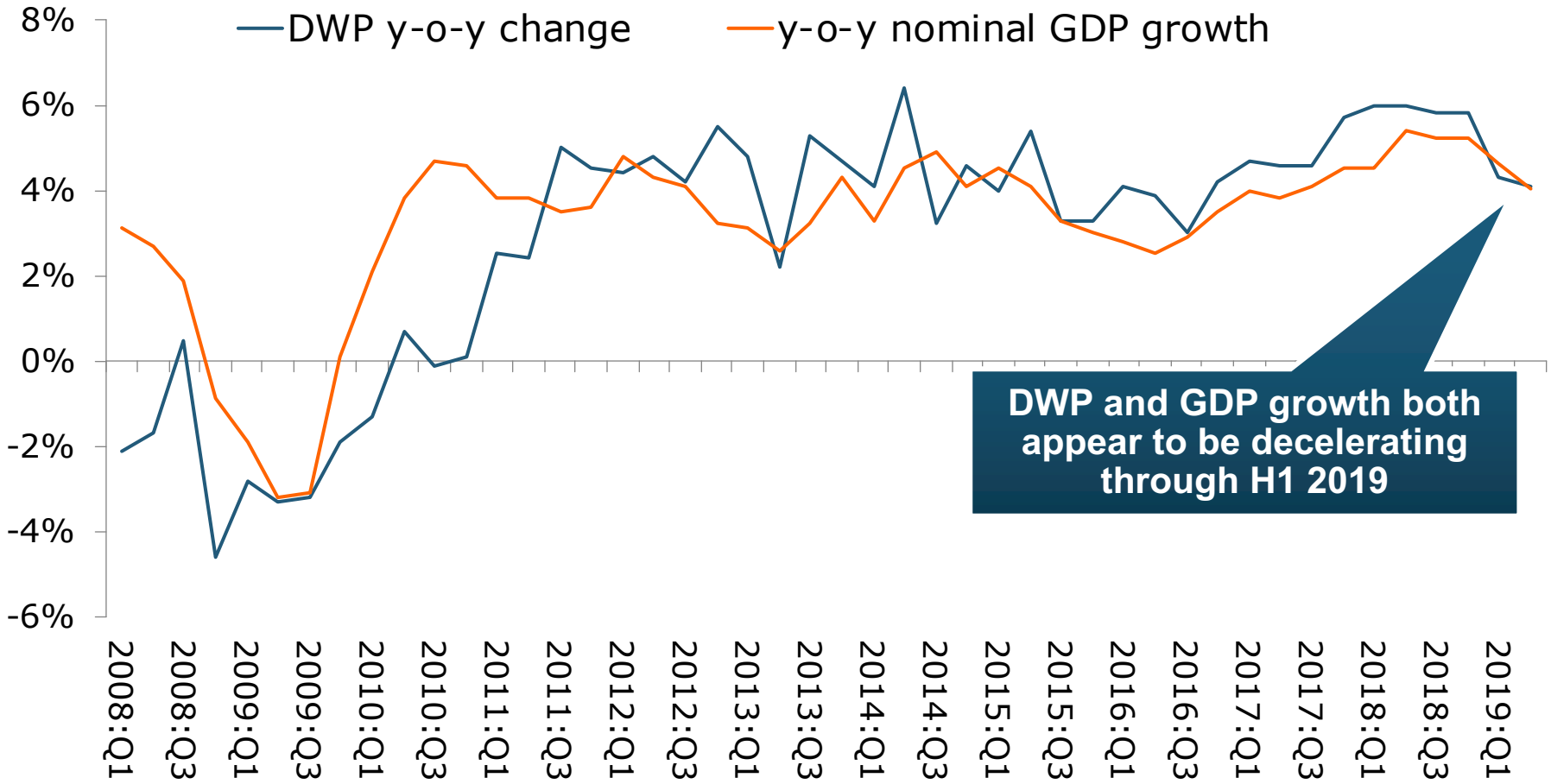


*Figure is actual 2018:9M vs. 2017:9M change adjusted for affects of the TCJA of 2017. Shaded areas denote “hard market” periods
Sources: A.M. Best (1971-2013, 2020F), ISO (2014-19); Risk & Uncertainty Management Center, Univ. of South Carolina estimate for 2019.

The Economy Drives P/C Insurance Industry Premiums: 2006:Q1–2019:Q2

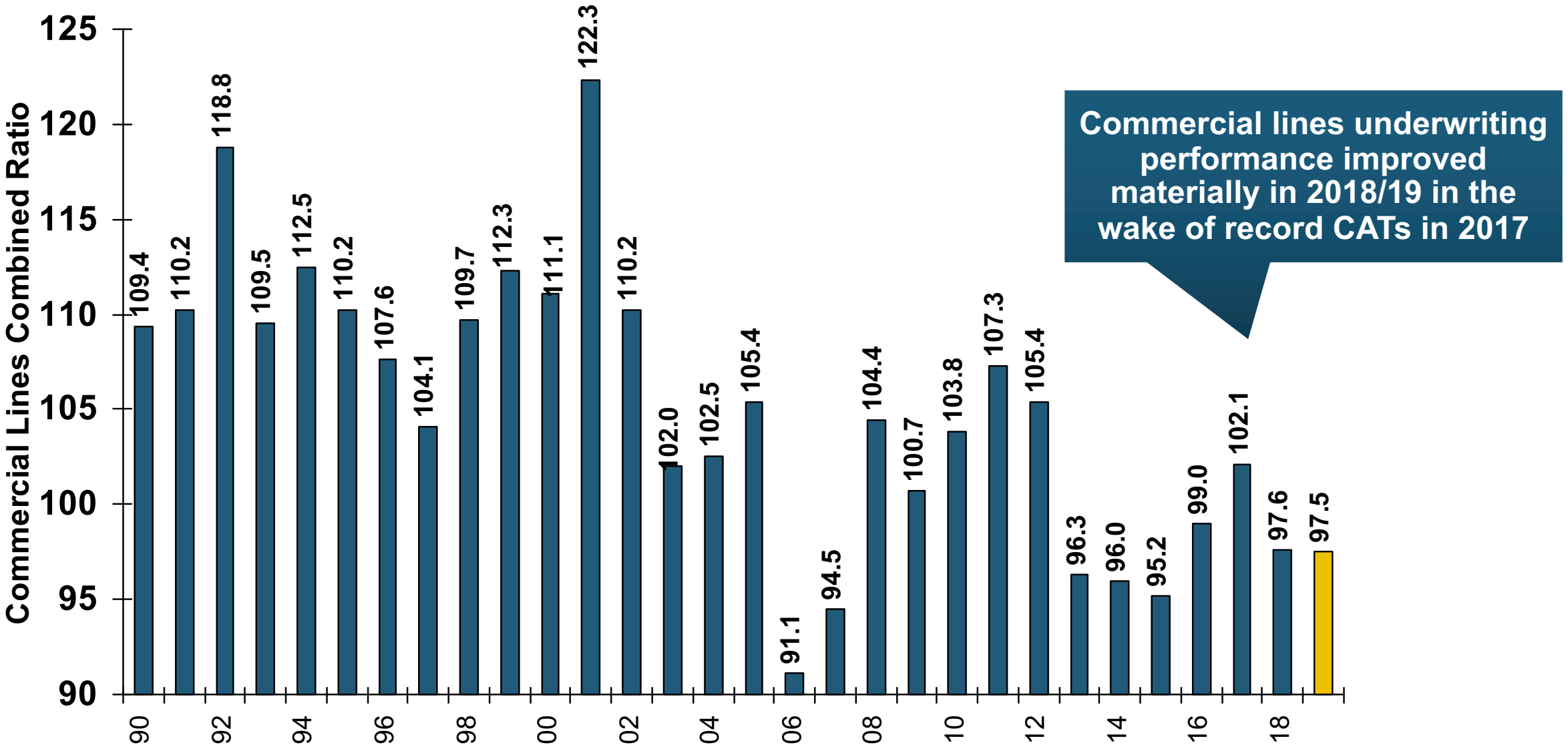
Direct Premium Growth (All P/C Lines) vs. Nominal GDP: Quarterly Y-o-Y Pct. Change



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

Sources: SNL Financial; U.S. Commerce Dept., Bureau of Economic Analysis; ISO; I.I.I.; Risk and Uncertainty Management Center, University of South Carolina.

Commercial Lines Combined Ratio, 1990-2019F*



*2007-2012 figures exclude mortgage and financial guaranty segments.
Source: A.M. Best (1990-2018). Risk and Uncertainty Management Center, Univ. of South Carolina (2019F).

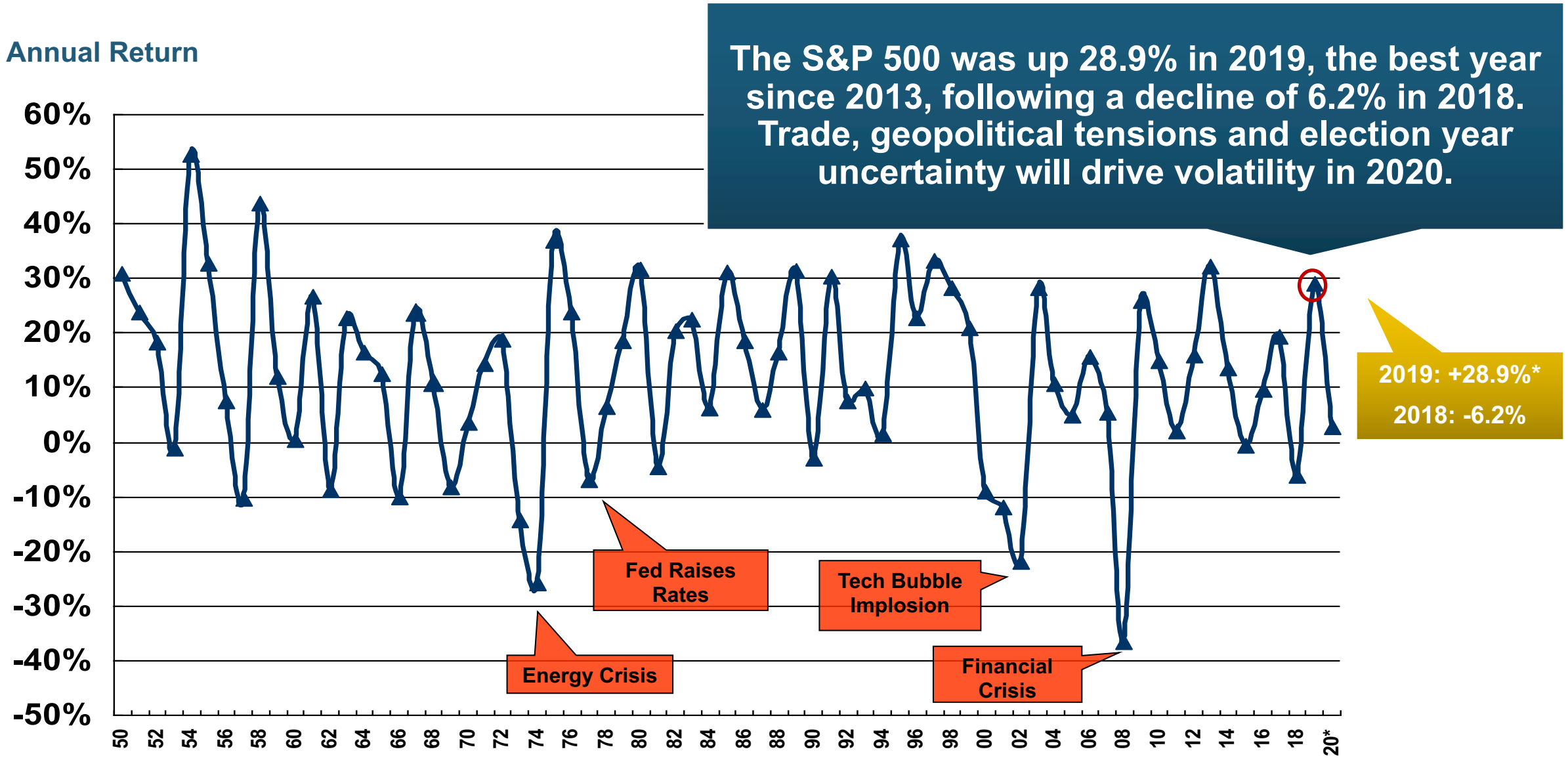
INVESTMENTS: THE NEW REALITY

Investment Performance Is a Key Driver of Insurer Profitability

The Fed's New Dovish Turn, Oval Office Pressure Don't Bode Well for Insurers

Obstacles to Growing Investment Earnings Are Mounting

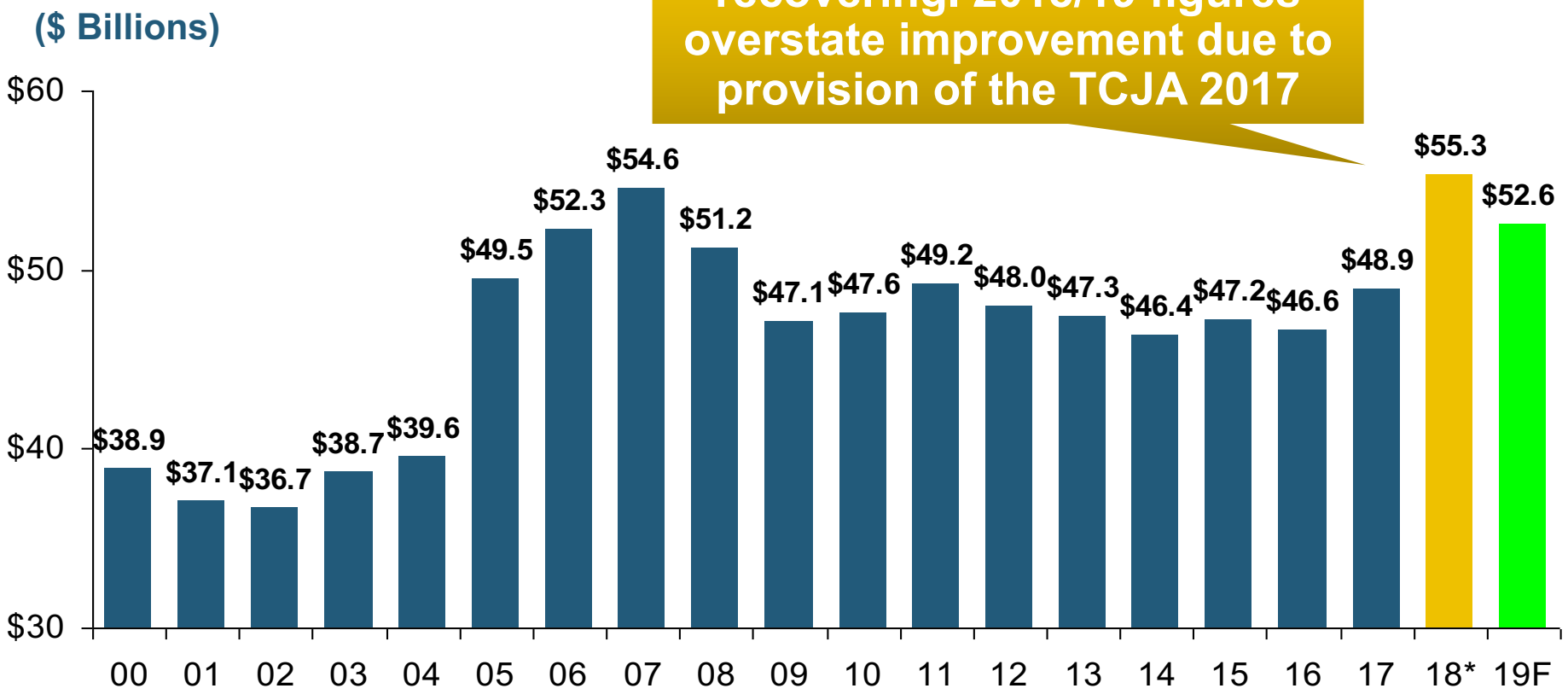
S&P 500 Index Returns, 1950–2020*



,
*Through Jan. 20, 2020.
Source: NYU Stern School of Business: http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html; Center for Risk and Uncertainty Management, University of South Carolina

Property/Casualty Insurance Industry Investment Income: 2000–2019E

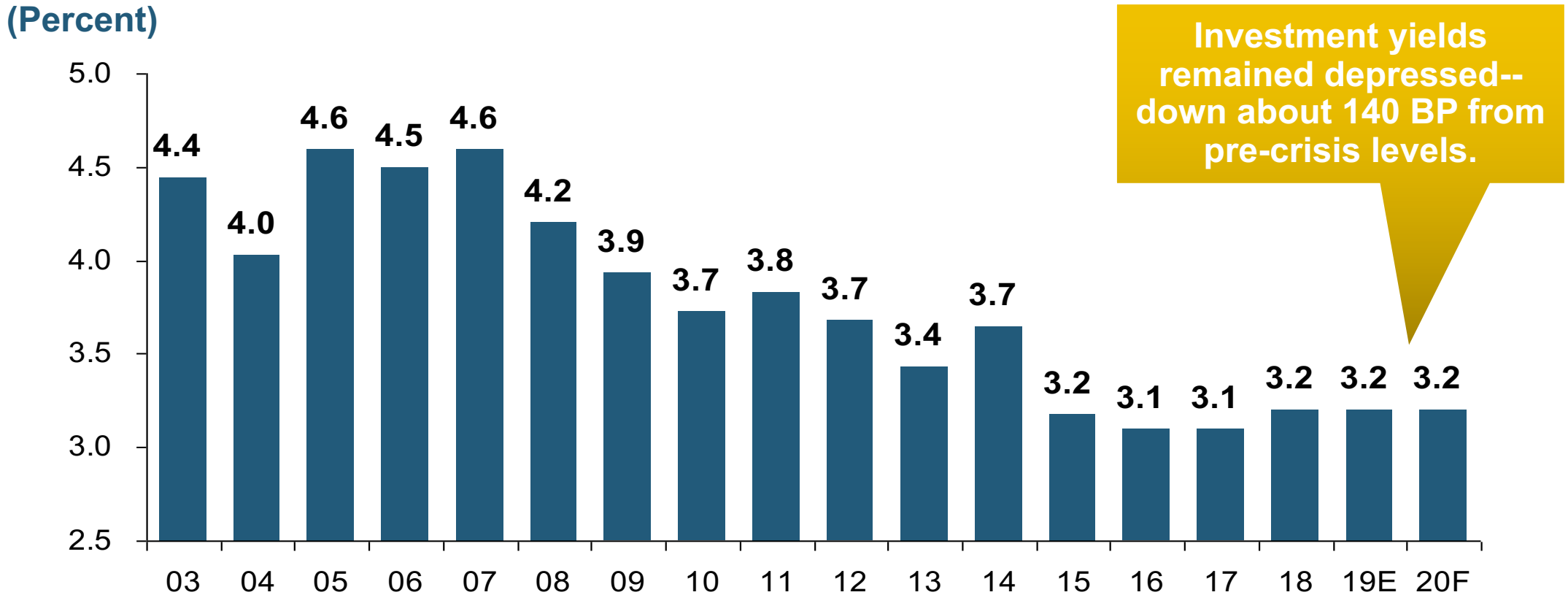
Investment income is slowly recovering. 2018/19 figures overstate improvement due to provision of the TCJA 2017



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. Gains in 2018-19 are overstated due to the TCJA 2017.

*2018-19 figures are distorted by provisions of the TCJA of 2017.
**Estimate based on annualized H1 actual figure of $13.158B. Figure is likely also distorted by the TCJA of 2017.
[1] Investment gains consist primarily of interest and stock dividends. Sources: ISO; University of South Carolina, Center for Risk and Uncertainty Management.

Net Investment Yield on Property/Casualty Insurance Invested Assets, 2007–2020F*



The yield on invested assets remains low relative to pre-crisis yields. Fed rate increases beginning in late 2015 through 2018 halted the slide in yields, but rate cuts in 2019 will preclude future gains

Sources: NAIC data, sourced from S&P Global Market Intelligence; 2017-19 figures are from ISO. 2020F is from the Risk and Uncertainty Management Center, Univ. of South Carolina.

Professor Hartwig's Insurance Quiz #2!

Q: All else equal, when interest rates fall, the price of insurance:

a. Will generally fall

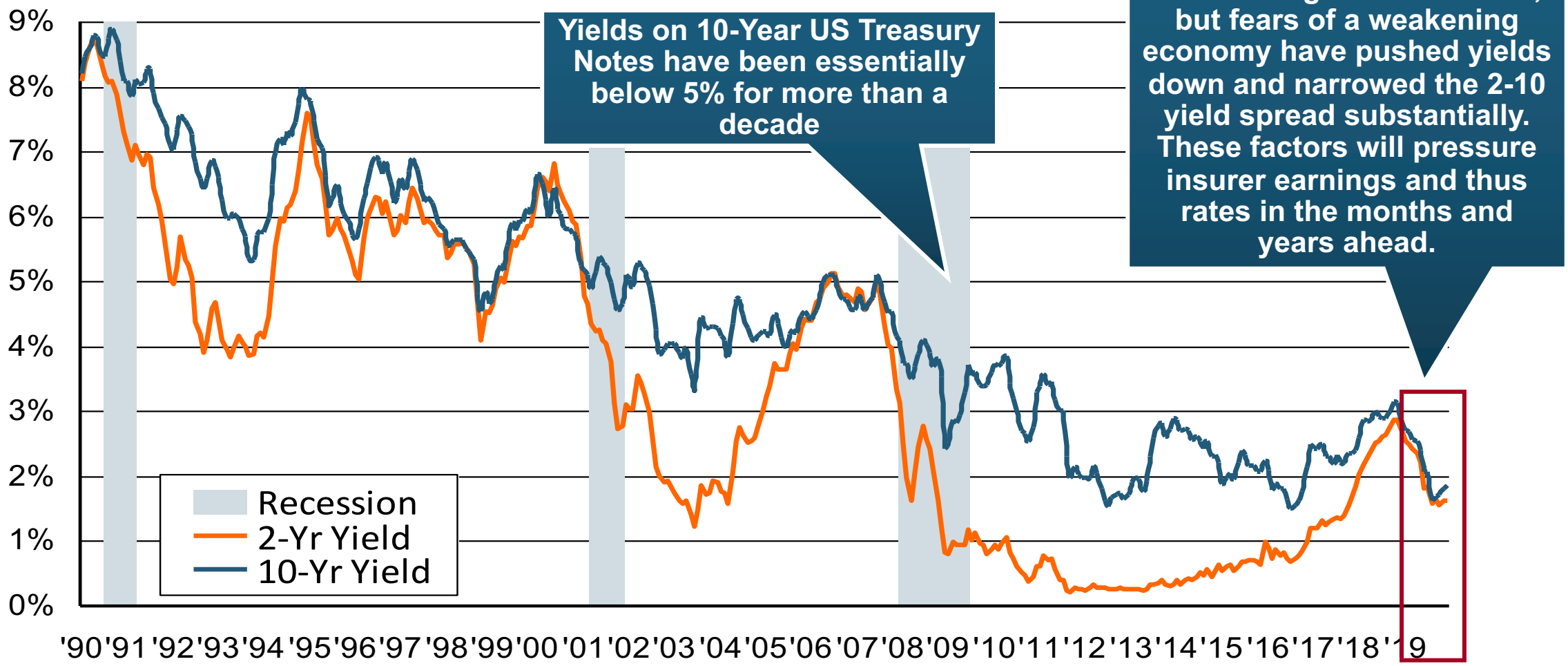
b. Will generally rise

c. Will likely remain approximately unchanged

d. There is no meaningful correlation between interest rates and insurance pricing

26

US Treasury Security Yields: A Long Downward Trend, 1990–2019*

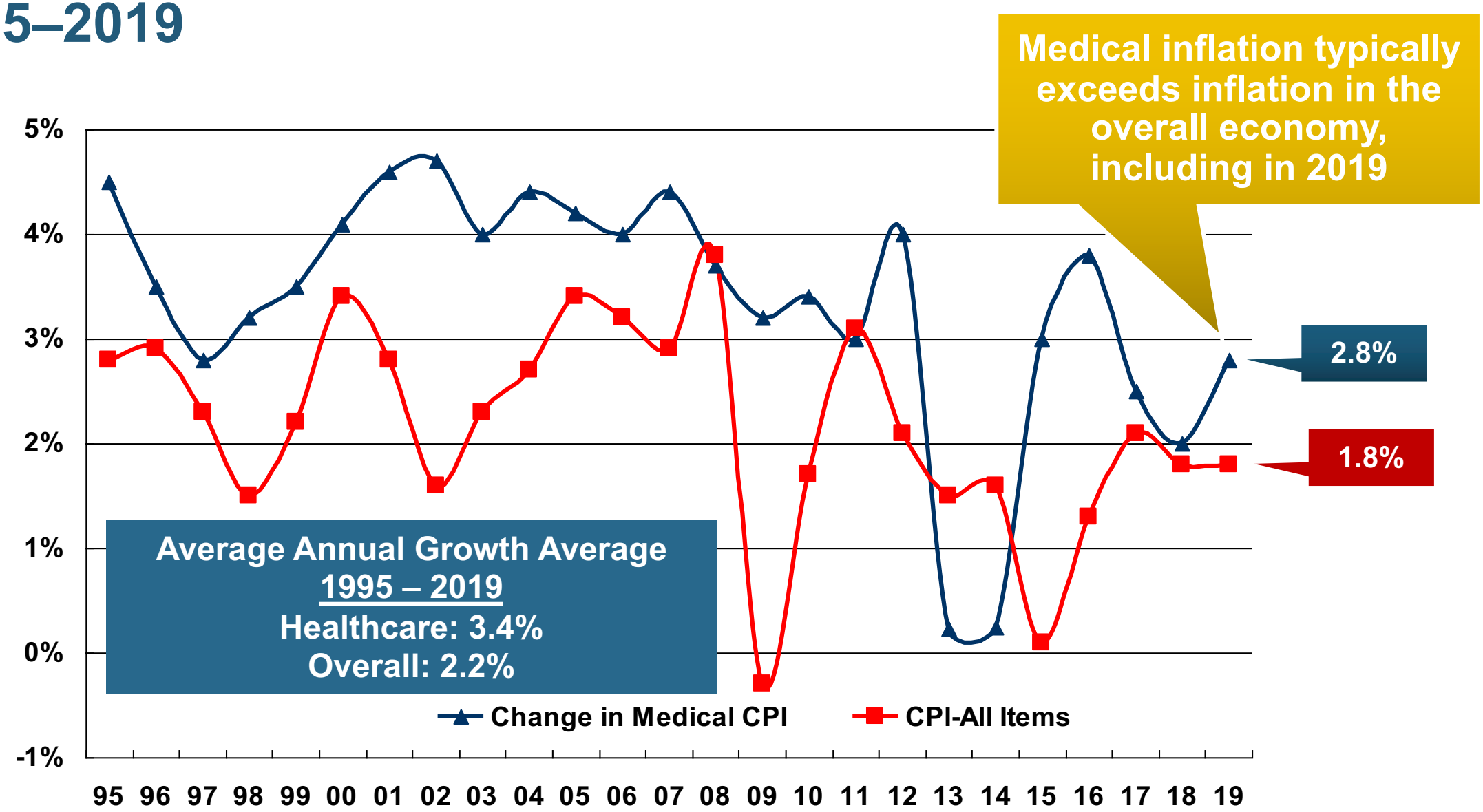


Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, constant maturity, nominal rates, through Dec. 2019.

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

Medical Cost Inflation vs. Overall CPI, 1995–2019



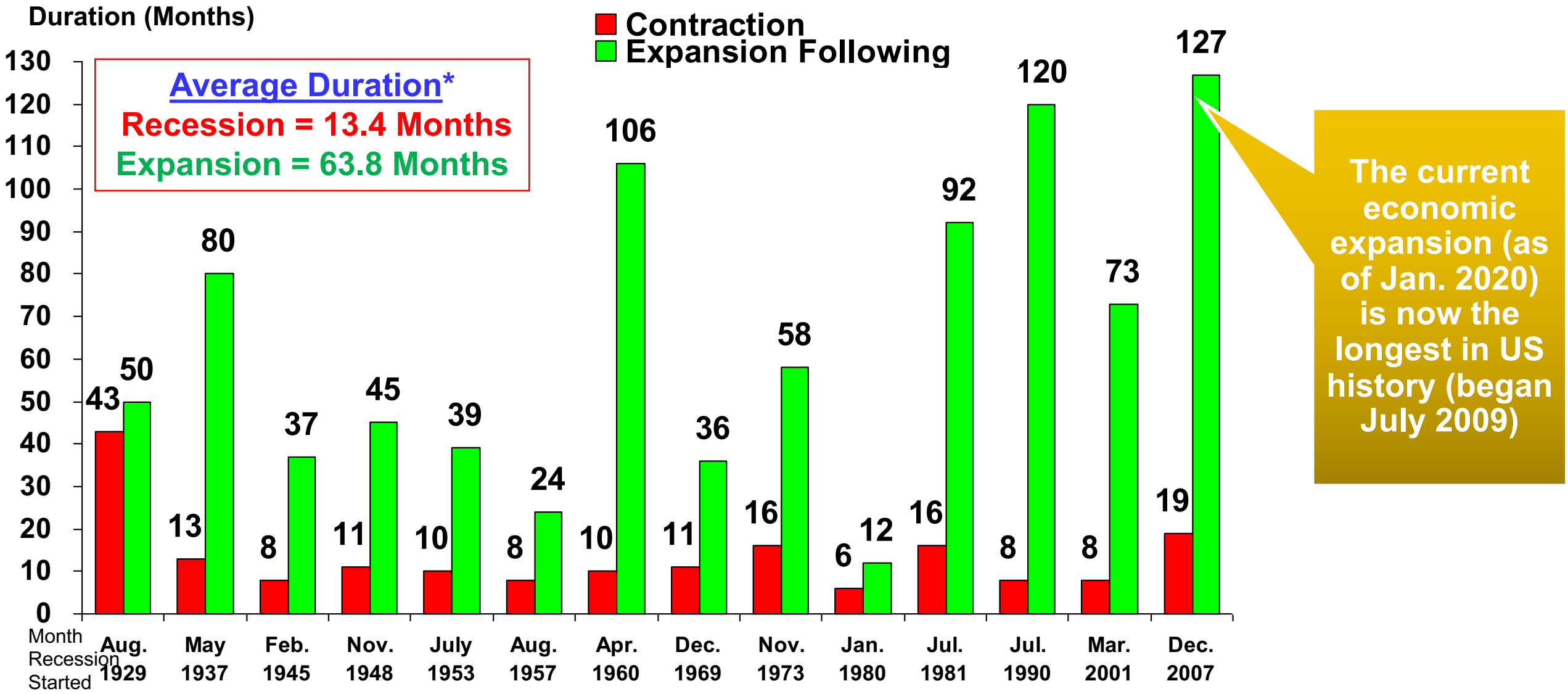
Sources: US Bureau of Labor Statistics.

THE ECONOMY

The Strength of the Economy Has Always Influenced Growth in Insurers' Exposure Base Across Most Lines

The Links Between the Economy and the P/C Insurance Industry Are Strengthening

Length of US Business Cycles, 1929-Present*



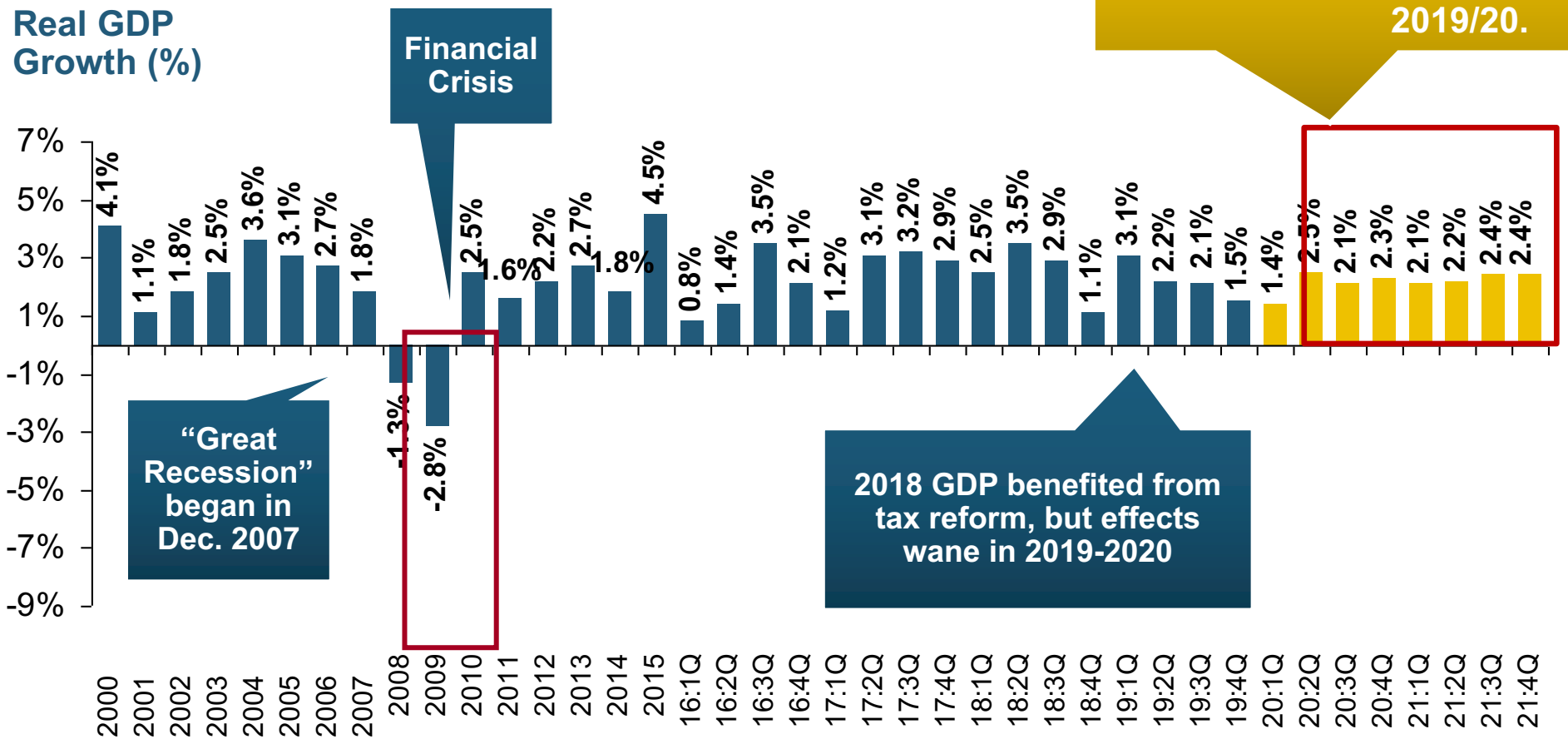
The current economic expansion (as of Jan. 2020) is now the longest in US history (began July 2009)

* As of Jan. 2020, inclusive

Sources: National Bureau of Economic Research; Risk and Uncertainty Management Center, University of South Carolina.

US Real GDP Growth*

Tax cuts help jolt growth from early 2018 to Q1 2019, but effects eventually waned. Trade war, weaker global growth are adversely affecting US GDP growth in 2019/20.



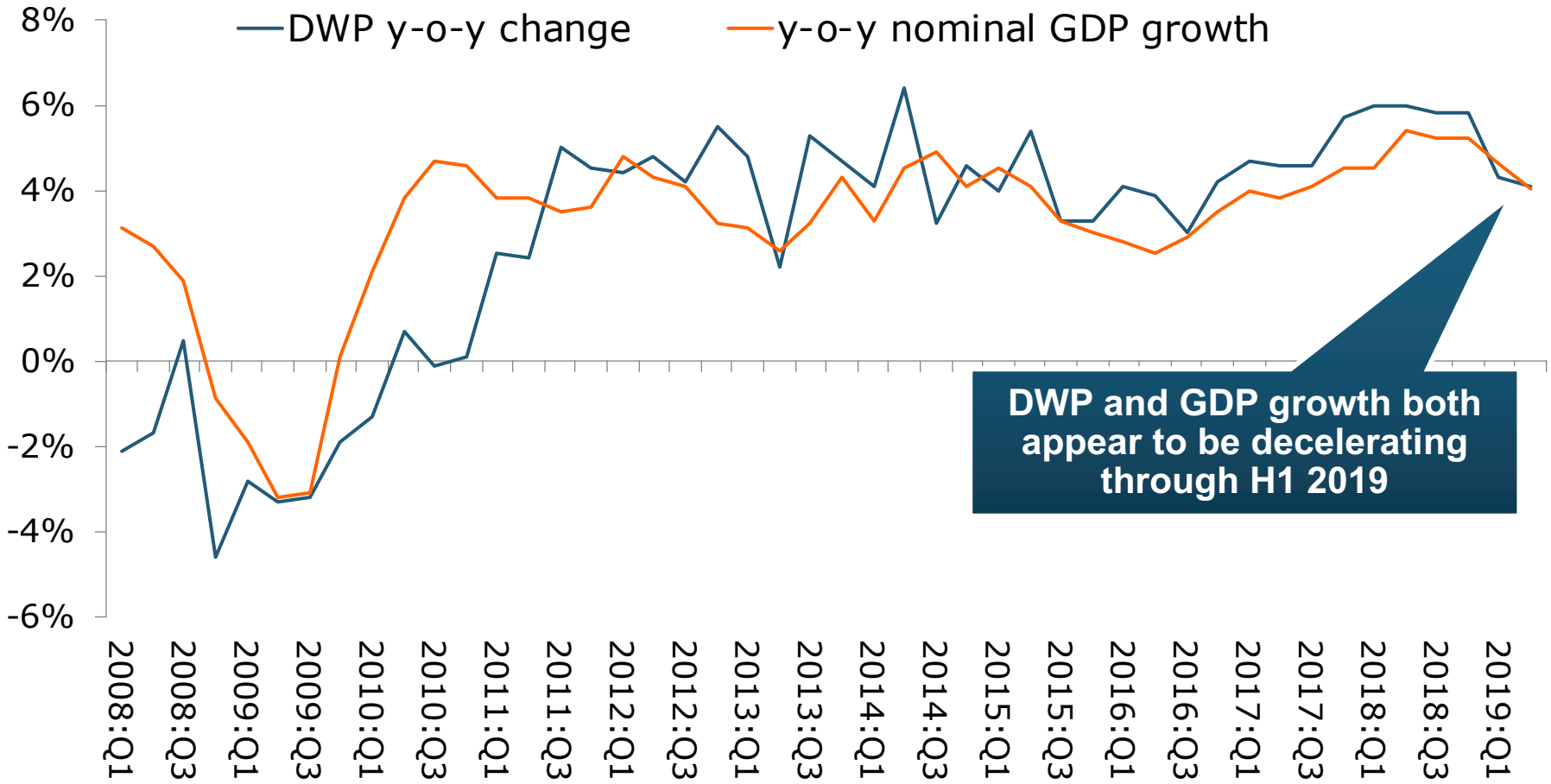
Demand for Insurance Should Increase in 2019 as GDP Growth Continues at a Steady Pace and Gradually Benefits the Economy Broadly

* Estimates/Forecasts from Wells Fargo Securities.

Source: US Department of Commerce, Wells Fargo Securities 12/19; Center for Risk and Uncertainty Management, University of South Carolina.

The Economy Drives P/C Insurance Industry Premiums: 2006:Q1–2019:Q2

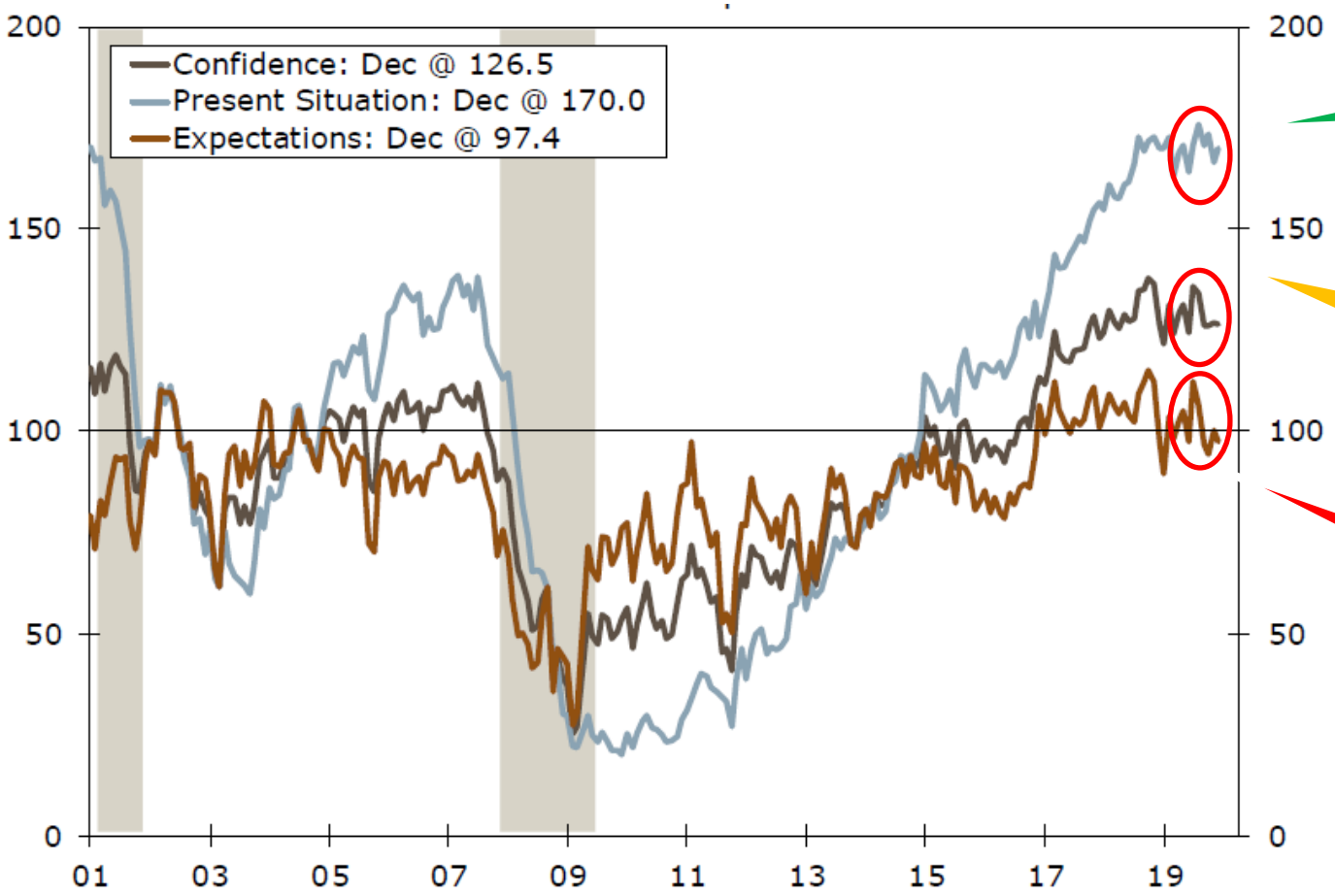
Direct Premium Growth (All P/C Lines) vs. Nominal GDP: Quarterly Y-o-Y Pct. Change



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

Sources: SNL Financial; U.S. Commerce Dept., Bureau of Economic Analysis; ISO; I.I.I.; Risk and Uncertainty Management Center, University of South Carolina.

Consumer Confidence Index: Jan. 1987– Dec. 2019



Extremely strong labor market conditions are buoying consumer confidence related to their Present Situation

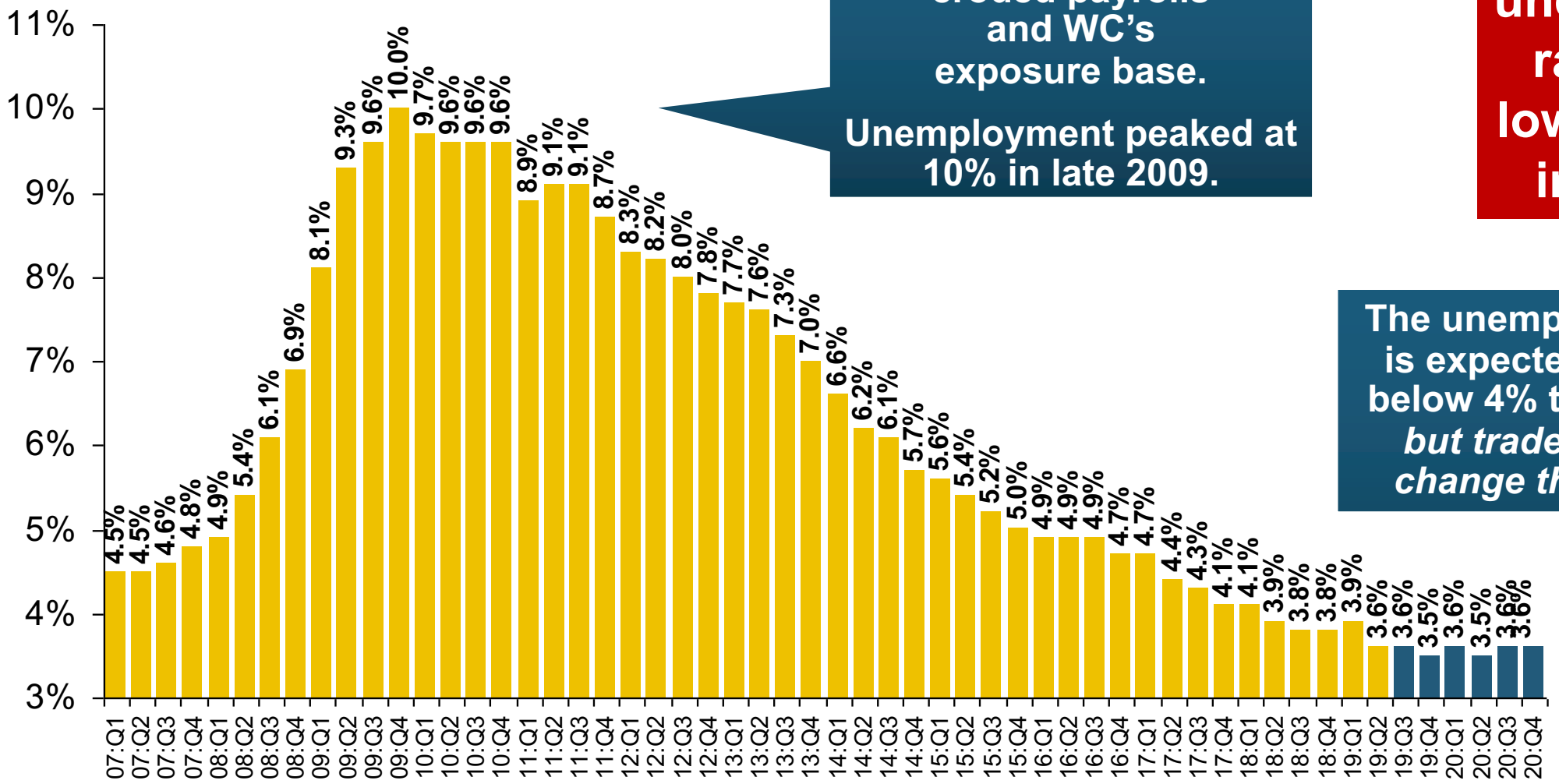
Consumer Confidence Index remains strong but has generally dropped in recent months. Mounting trade tensions have taken a toll on expectations

Consumer Expectations have been adversely impacted by trade turmoil, home price affordability

Outlook: Consumer confidence was shaken by financial volatility in late 2018/early 2019—but rebounded quickly. Consumers remain 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 growth of insurable exposures. Mounting trade tensions are a major threat to consumer confidence.

Source: The Conference Board; Wells Fargo Research.

US Unemployment Rate Forecast: 2007:Q1–2020:Q4



Rising unemployment eroded payrolls and WC's exposure base.

Unemployment peaked at 10% in late 2009.

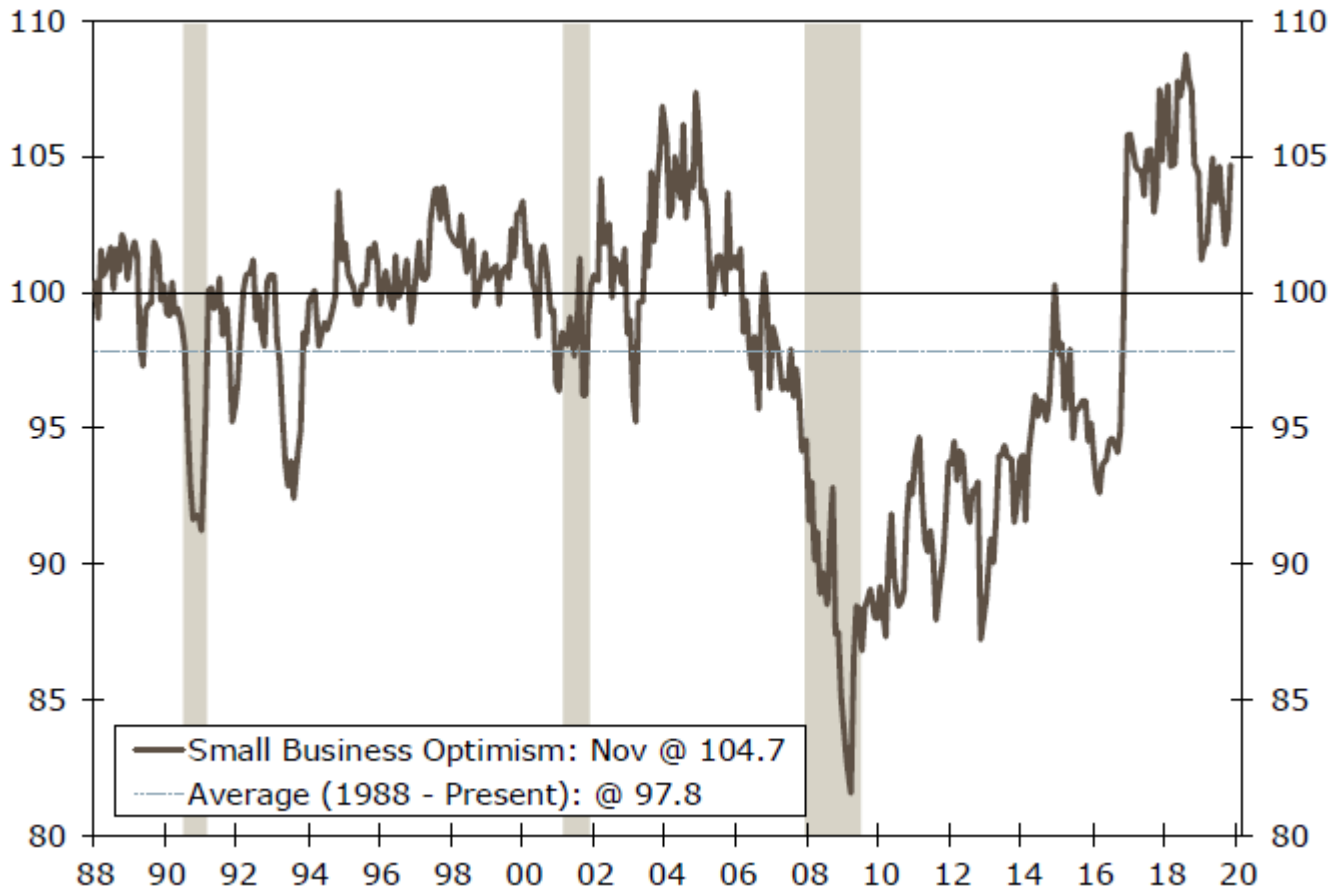
At 3.5%, the unemployment rate is at its lowest reading in 50 years.

The unemployment rate is expected to remain below 4% through 2021 ***but trade war could change this outlook.***

* = actual; = forecasts

Sources: US Bureau of Labor Statistics; Wells Fargo Securities (12/19 edition); Risk and Uncertainty Management Center, University of South Carolina.

NFIB Small Business Optimism Index: Jan. 1988–Nov. 2019



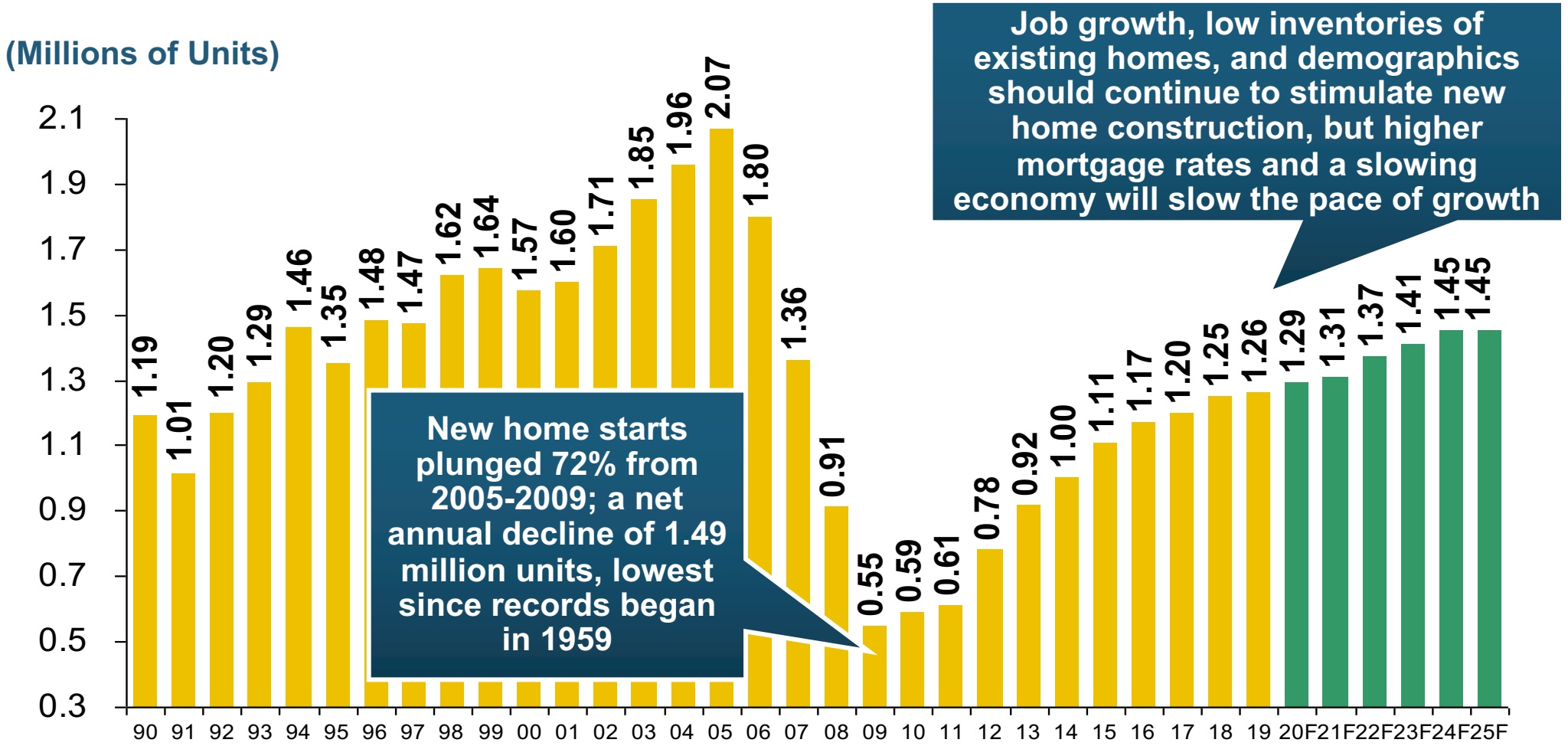
Small Business Optimism weakened in 2019 on fears of greater economic uncertainty (esp. trade war fears). Tax reform, reduced regulations and strong sales have driven investment, hiring and exposures.

Outlook: Small businesses are cautiously optimistic about the future

Trade wars and associated uncertainty introduced significant uncertainty in to the markets in 2019

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

New Private Housing Starts, 1990-2025F



Insurers 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; Wells Fargo Securities (12/19 for 2020-21F), Blue Chip Economic Indicators (3/19 for 2022-25F); University. of South Carolina, Center for Risk and Uncertainty Management..

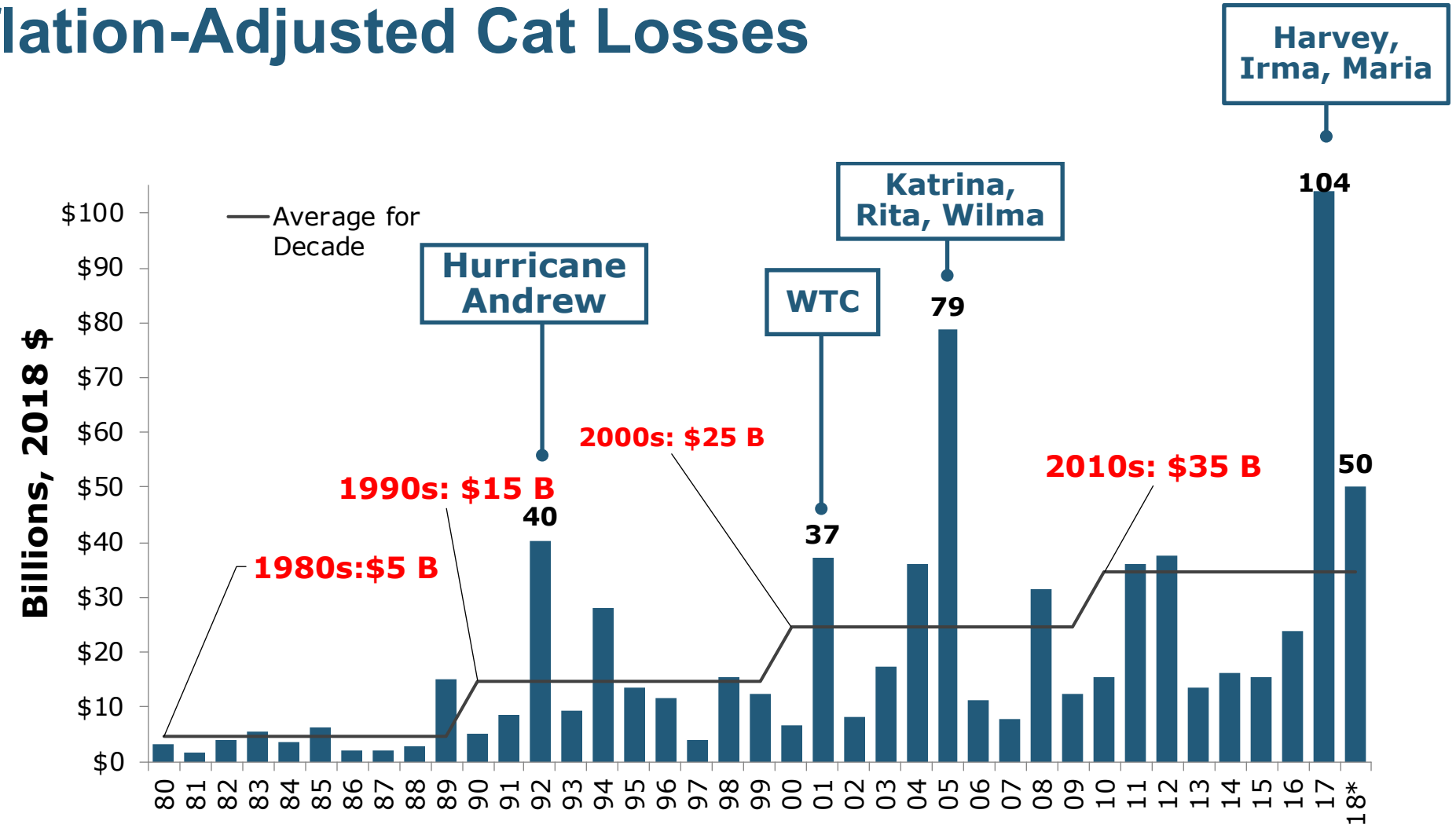
Catastrophe Loss Update: *Major Driver of Rate Pressure*

CAT Losses for the Decade Just Ended Were Up Materially—Costliest Ever

Primary, Reinsurance and Retro Markets All Impacted and Are Pressuring Rates

44

U.S. Inflation-Adjusted Cat Losses



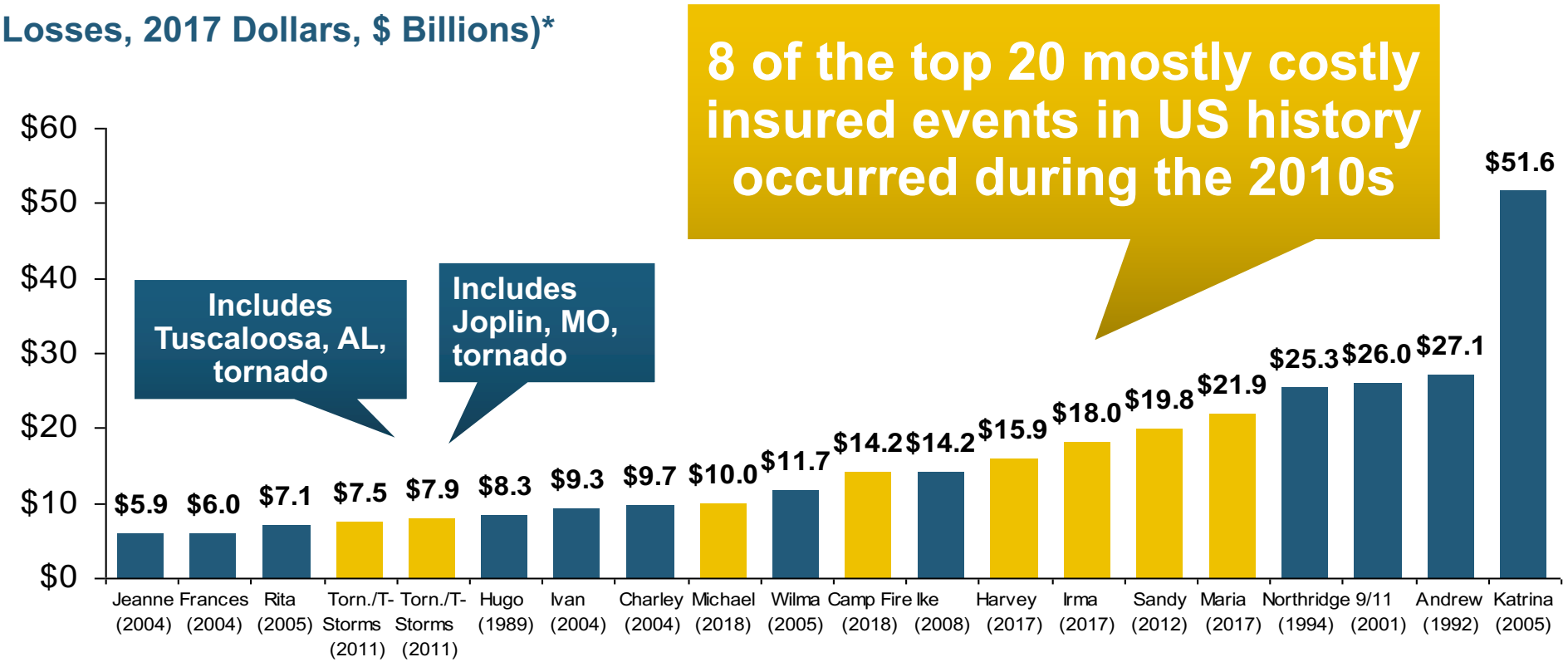
2018 – Third worst year for U.S. Insured Catastrophe Losses.
Average Insured Loss per Year for 1980-2018 is $19.3 B.

*2018: Inflation-adjusted estimate, subject to change. 2010s is average of 2010 to 2018.

Sources: Property Claims Service, a Verisk Analytics business; Insurance Information Institute.

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

(Insured Losses, 2017 Dollars, $ Billions)*



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

*Estimated.

Sources: PCS, RMS, Karen Clark & Co; USC Center for Risk and Uncertainty Management adjustments to 2017 dollars using the CPI.

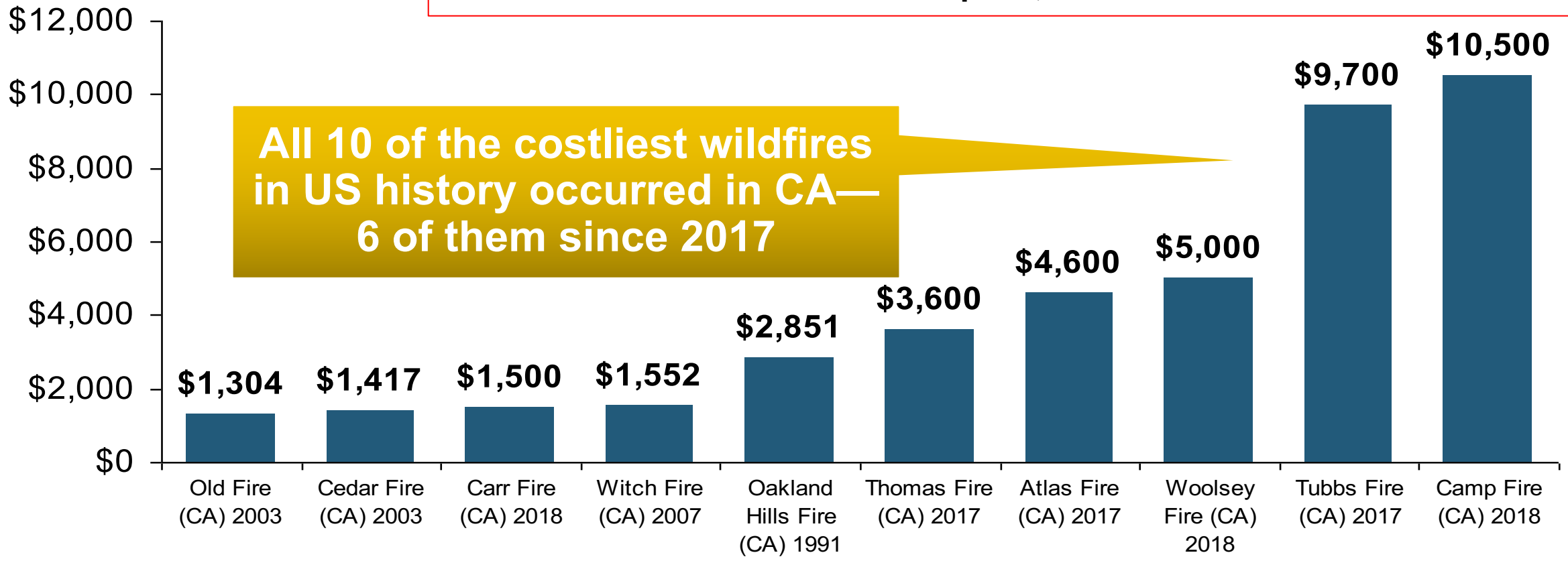
Top 10 Costliest Wildland Fires in US through 2018, by Insured Loss

THE WALL STREET JOURNAL.

PG&E Reaches $11 Billion Settlement with Insurers over Deadly Wildfires

Sept.19, 2019

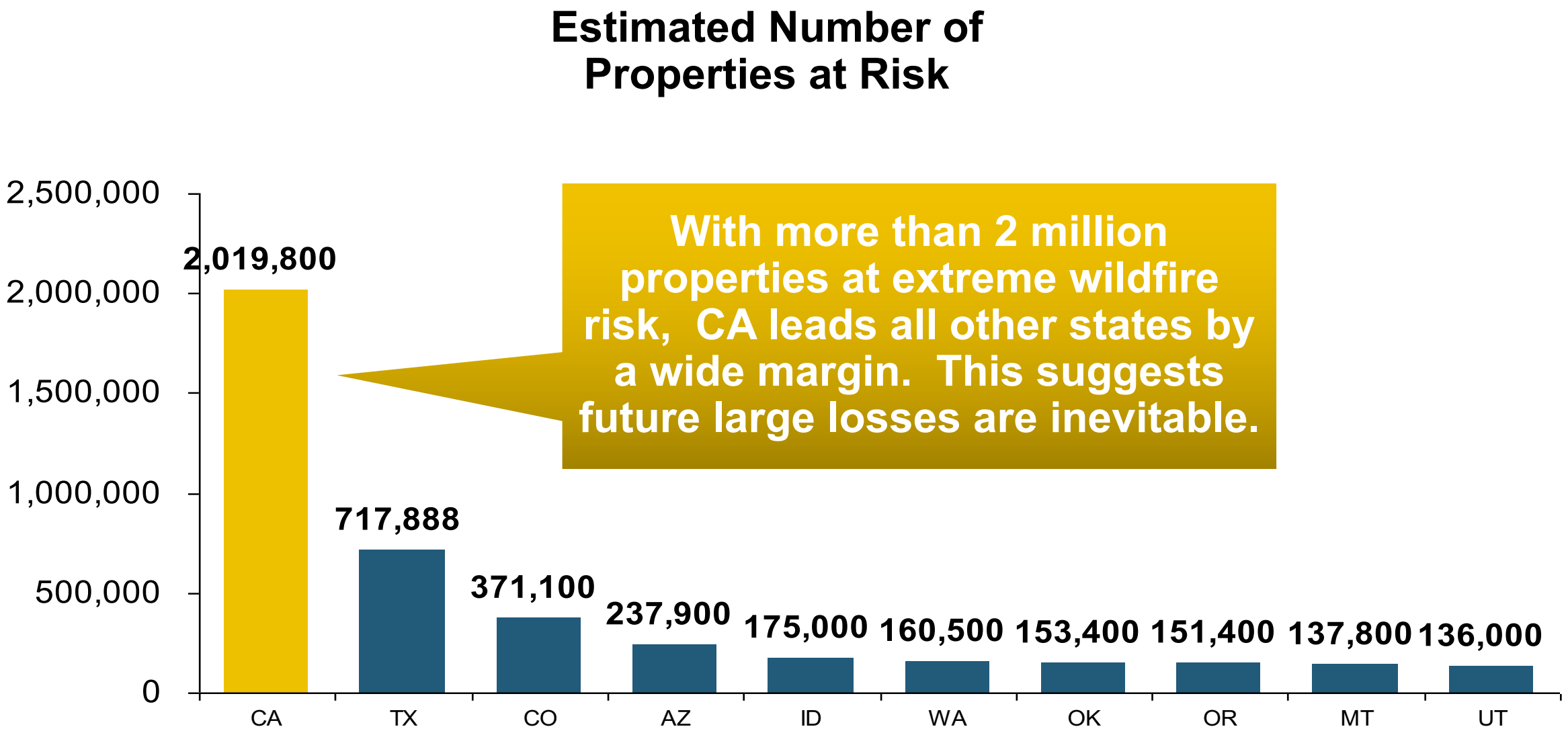
(Insured Losses, 2018 Dollars, $ Mill)*



.

Sources: PCS/Verisk.

Top 10 States at High to Extreme Wildfire Risk, 2019*

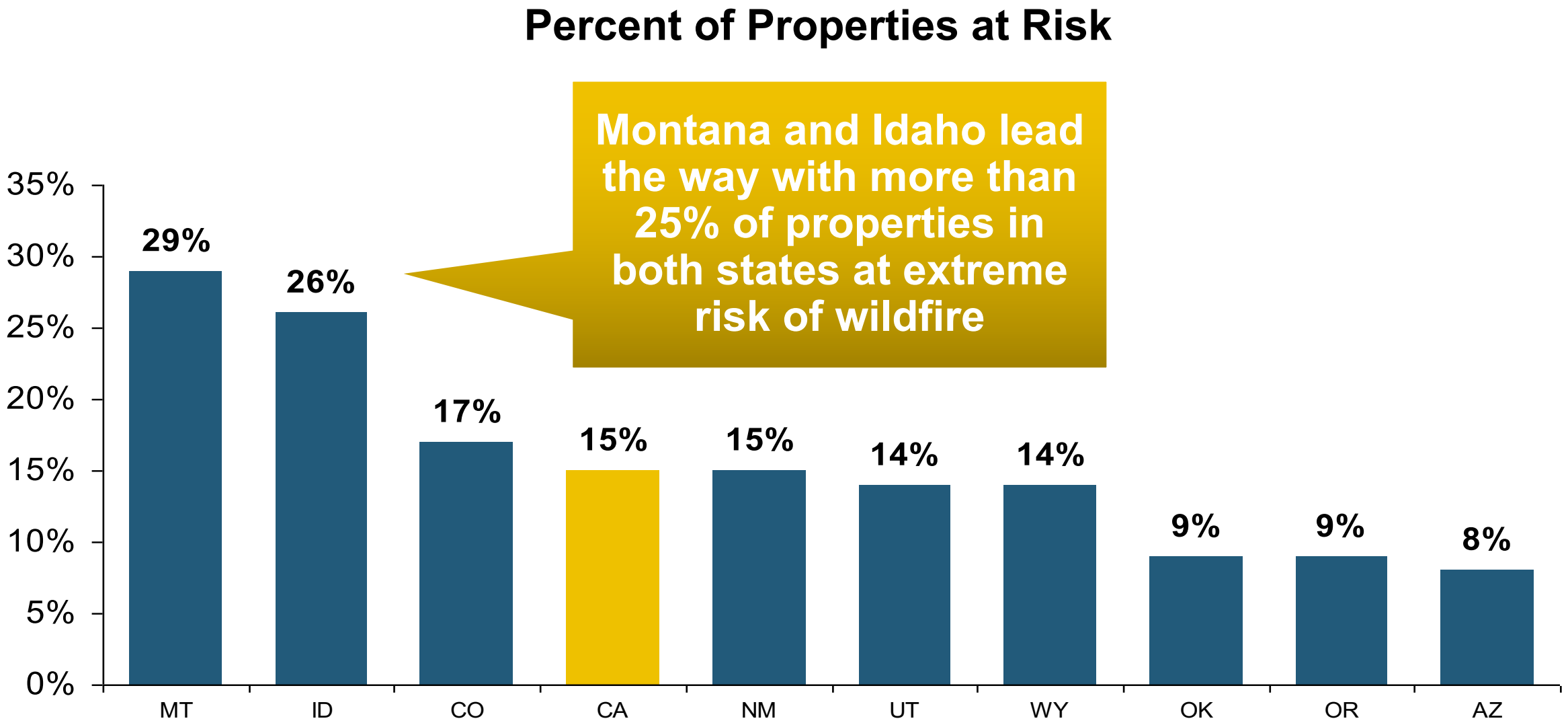


.

*As of Sept. 2019.

Sources: Verisk Wildfire Risk Analytics.

Top 10 States at High to Extreme Wildfire Risk, 2019*



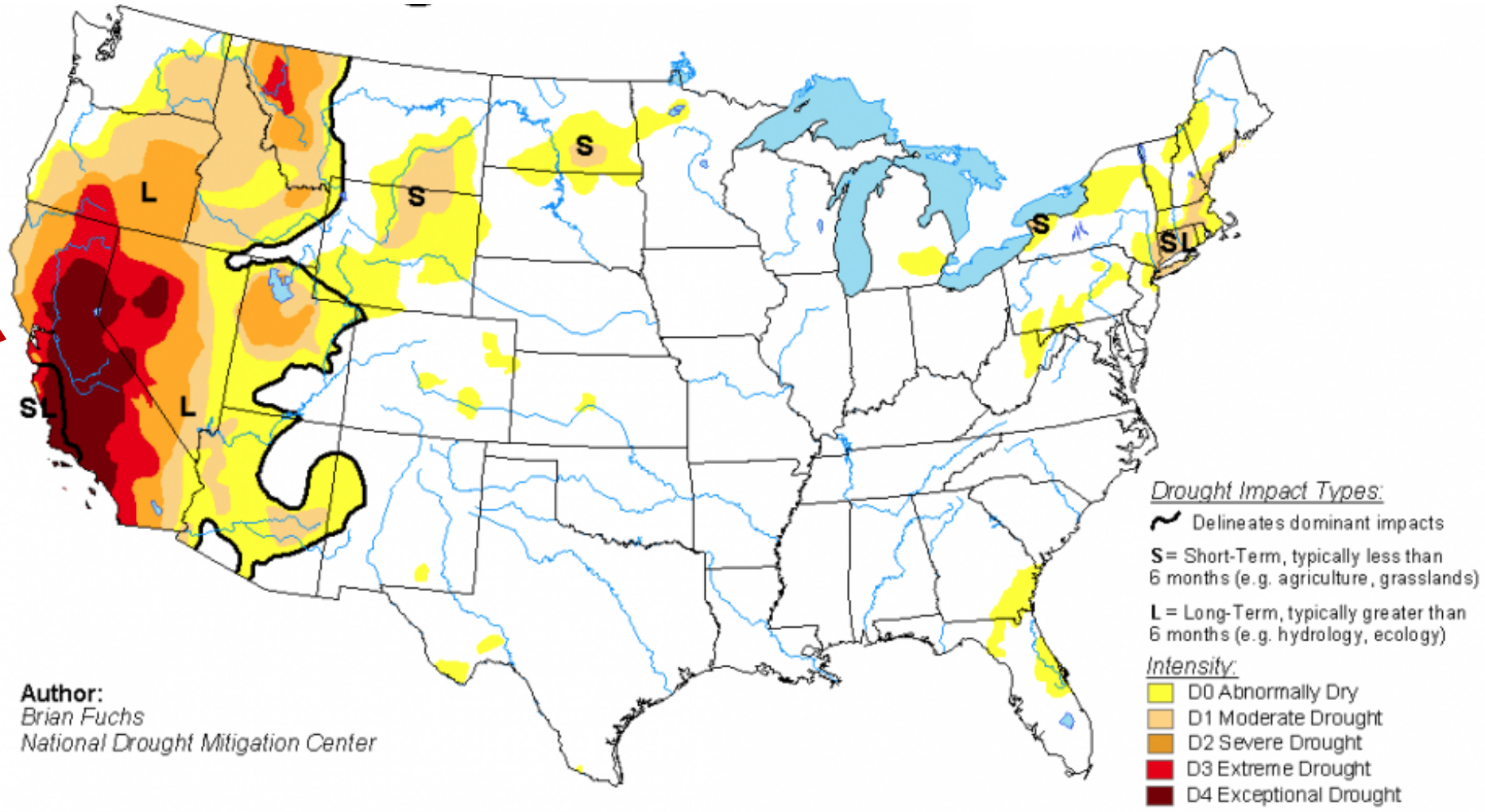
.

*As of Sept. 2019.

Sources: Verisk Wildfire Risk Analytics.

US Drought Monitor (as of January 12, 2020)

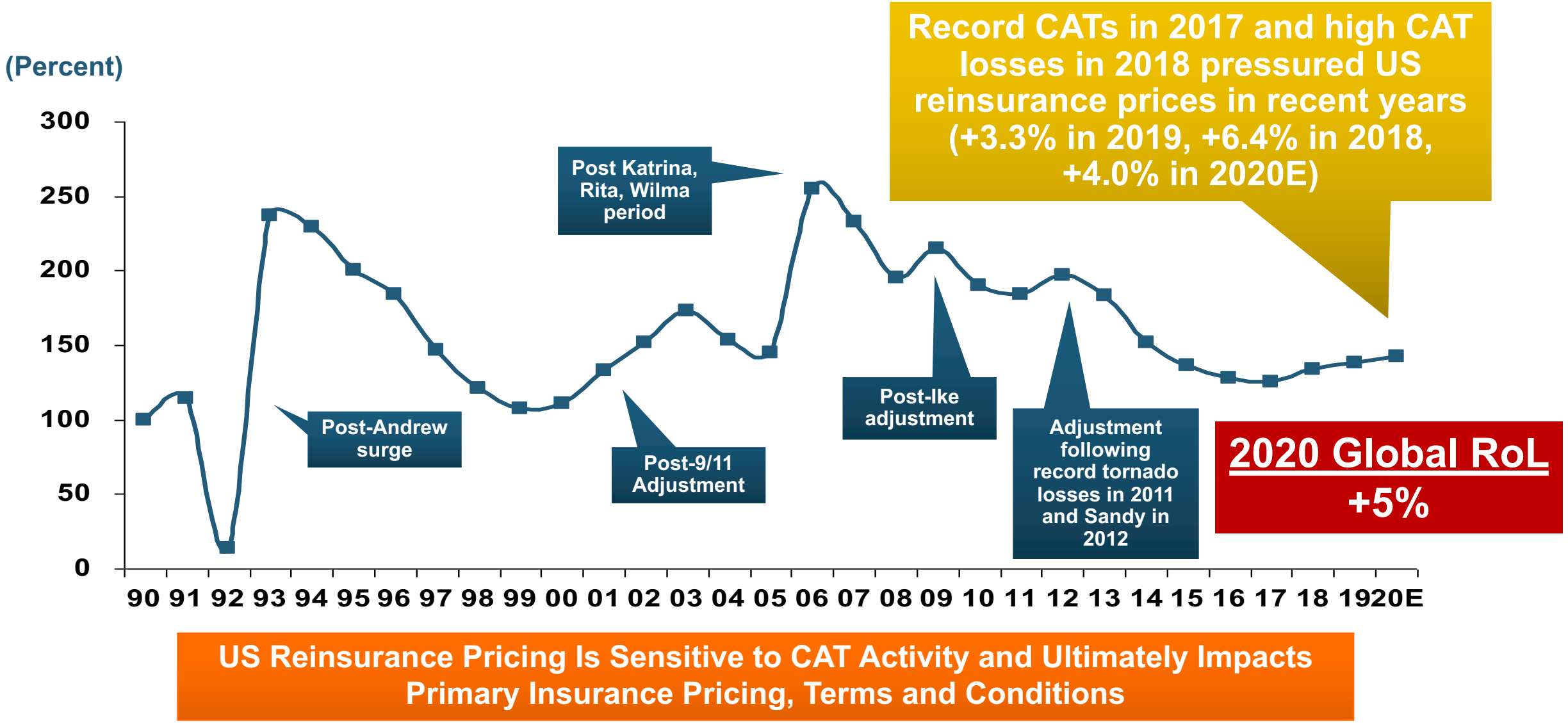
Extreme and Exceptional drought conditions persist throughout much of the West, especially in CA



*Risk adjusted.

Source: NOAA accessed 1/17/20 at: https://www.ncdc.noaa.gov/file/january-12-2016-us-drought-monitor-mappng

US Property Catastrophe Rate-on-Line Index: 1990 – 2020E*

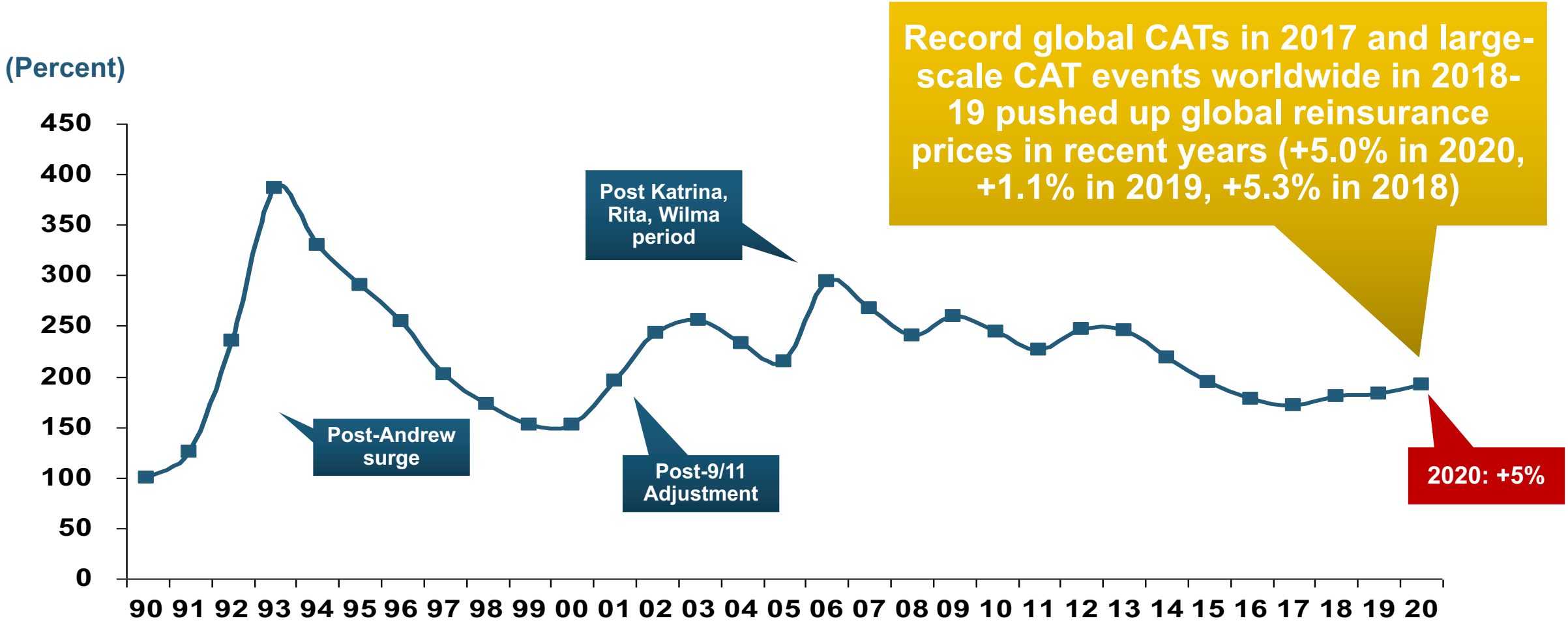


US Reinsurance Pricing Is Sensitive to CAT Activity and Ultimately Impacts Primary Insurance Pricing, Terms and Conditions

*As of January 1 each year.

Source: Guy Carpenter; Artimes.bm accessed at: http://www.artemis.bm/us-property-cat-rate-on-line-index

Global Property Catastrophe Rate-on-Line Index: 1990 – 2020*



Record global CATs in 2017 and large-scale CAT events worldwide in 2018-19 pushed up global reinsurance prices in recent years (+5.0% in 2020, +1.1% in 2019, +5.3% in 2018)

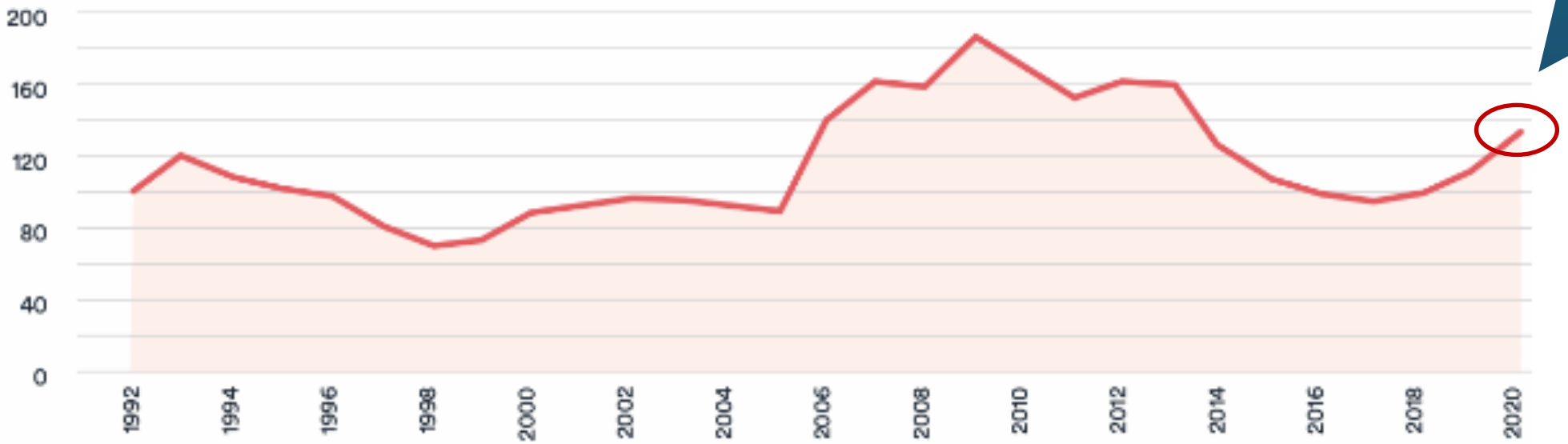
Global Reinsurance Pricing Is Sensitive to CAT Activity and Ultimately Impacts Primary Insurance Pricing, Terms and Conditions. ILS Market Conditions Have an Increasing Influence as Well.

*As of January 1 each year.

Source: Guy Carpenter; Artimes.bm accessed at: https://www.artemis.bm/global-property-cat-rate-on-line-index/

Non-Marine Retrocessional CAT Excess-of-Loss Index, 1992 – 2020*

Index: 1992 = 100



Average XoL Rate on Line up ~ 20% in 2020. Factors driving increase include reduced availability of capital, ILS losses, trapped collateral

*Risk adjusted.

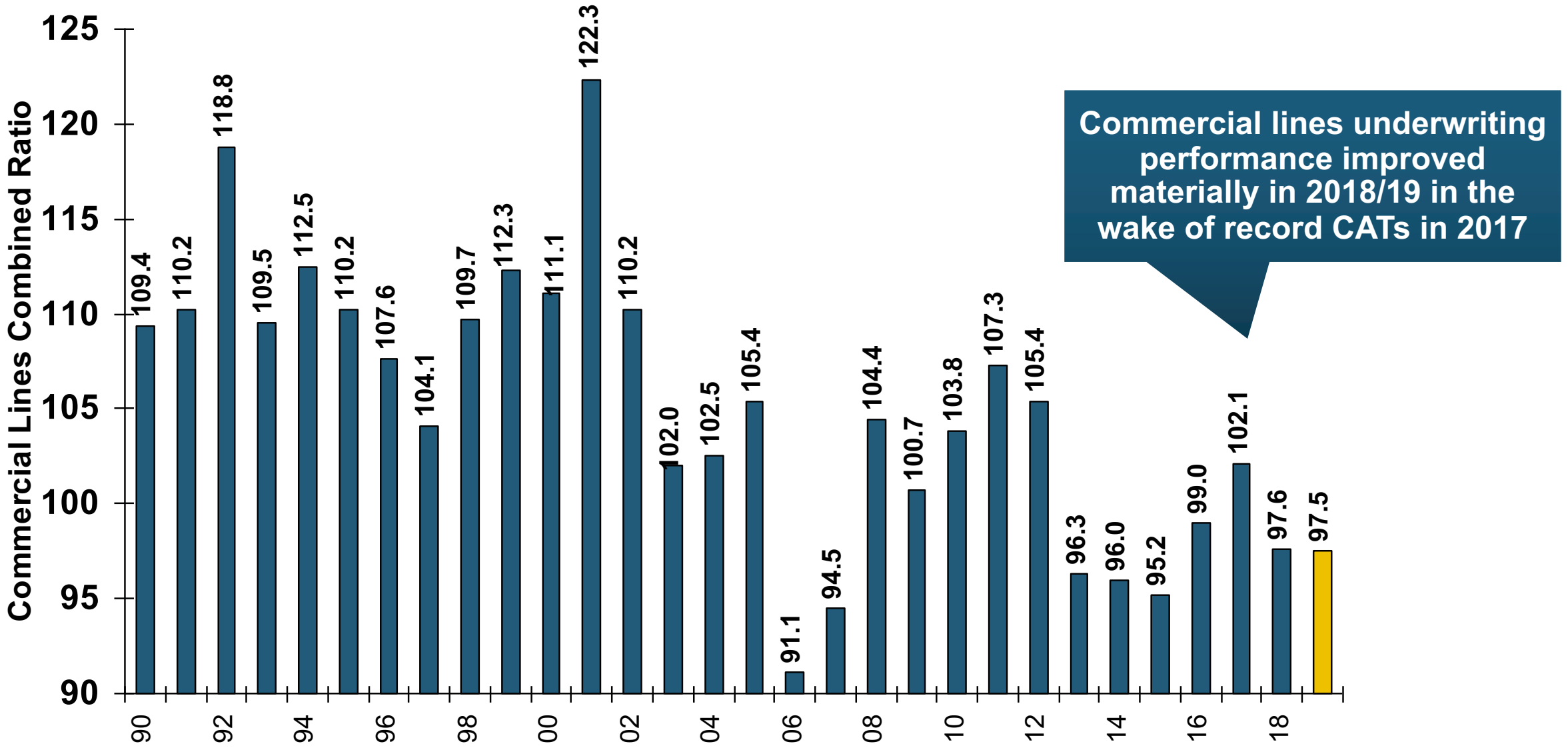
Source: Hyperion X via Artemis.bm accesses 1/12/20 at: https://www.artemis.bm/news/retrocession-rates-up-as-much-as-40-in-january-renewals-hyperion-x/

Commercial Lines Growth, Underwriting Performance & Pricing Cyclicality

Pricing Pressures Are Intense but Rational

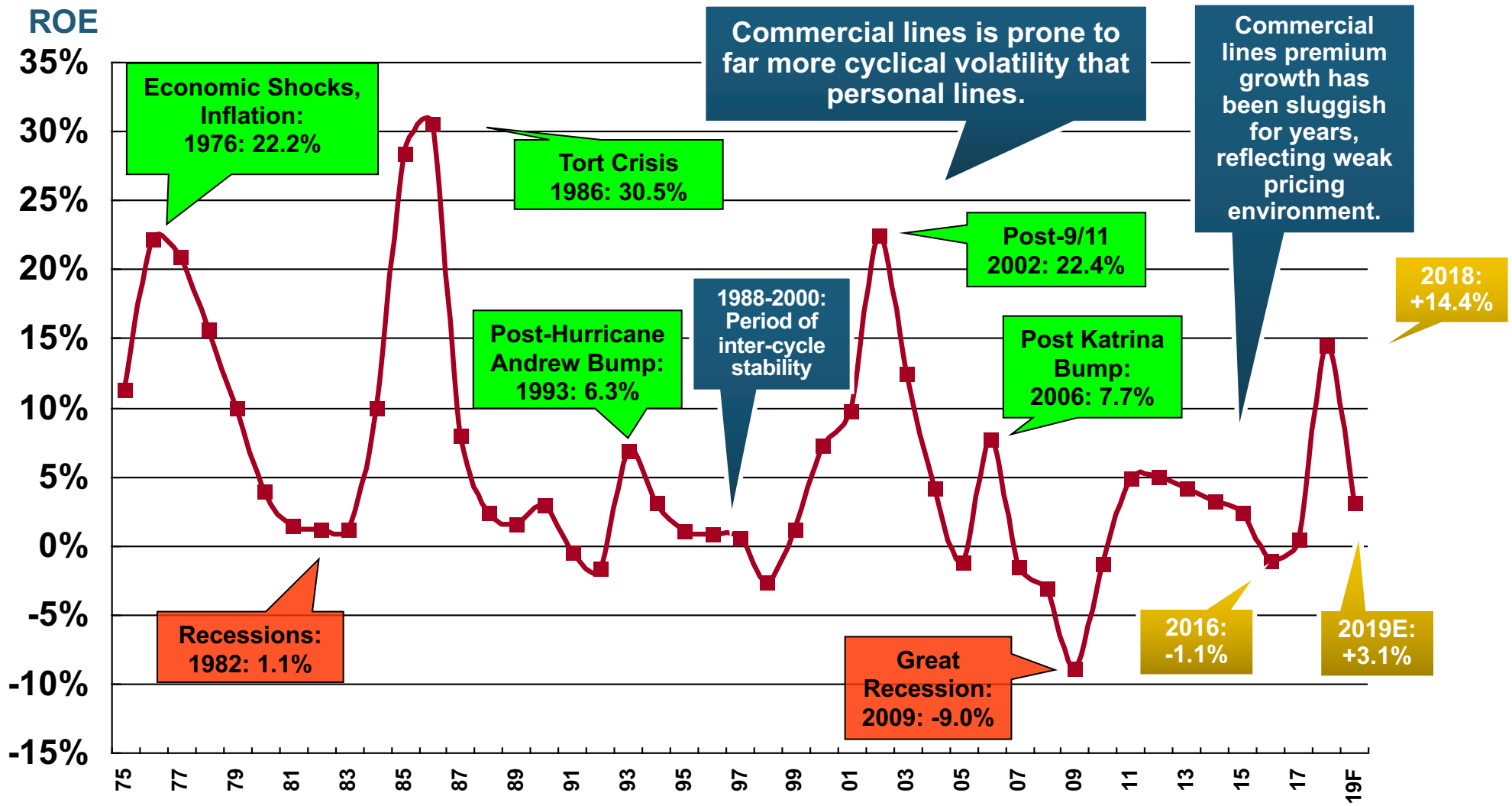
59

Commercial Lines Combined Ratio, 1990-2019F*



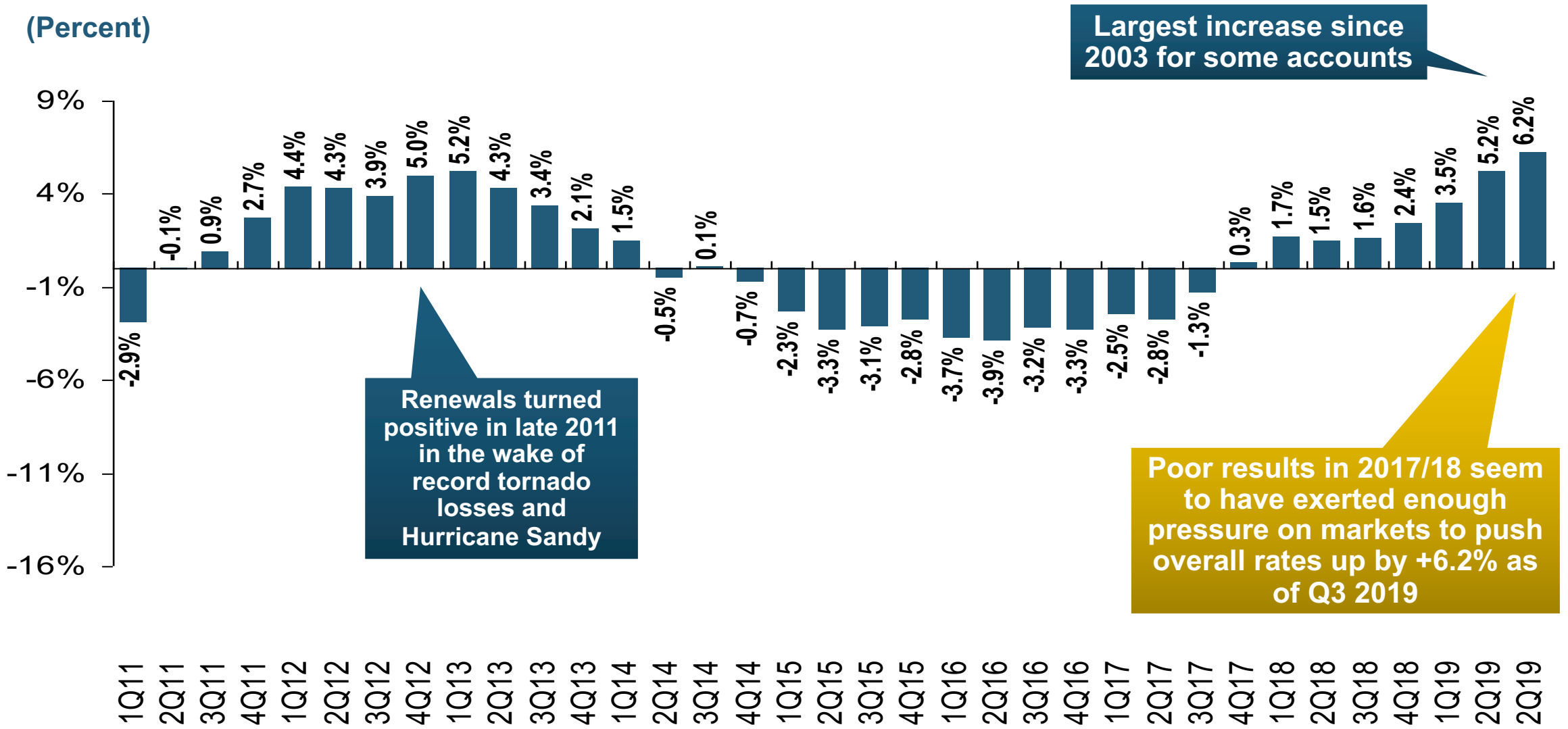
*2007-2012 figures exclude mortgage and financial guaranty segments.
Source: A.M. Best (1990-2018). Risk and Uncertainty Management Center, Univ. of South Carolina (2019F).

Commercial Lines NPW Premium Growth: 1975 – 2019F



Note: Data include state funds beginning in 1998.
Source: A.M. Best; Insurance Information Institute; Univ. of South Carolina Center for Risk and Uncertainty Management, ISO.

CIAB: Average Commercial Rate Change, All Lines, 2011:Q1–2019:Q3*

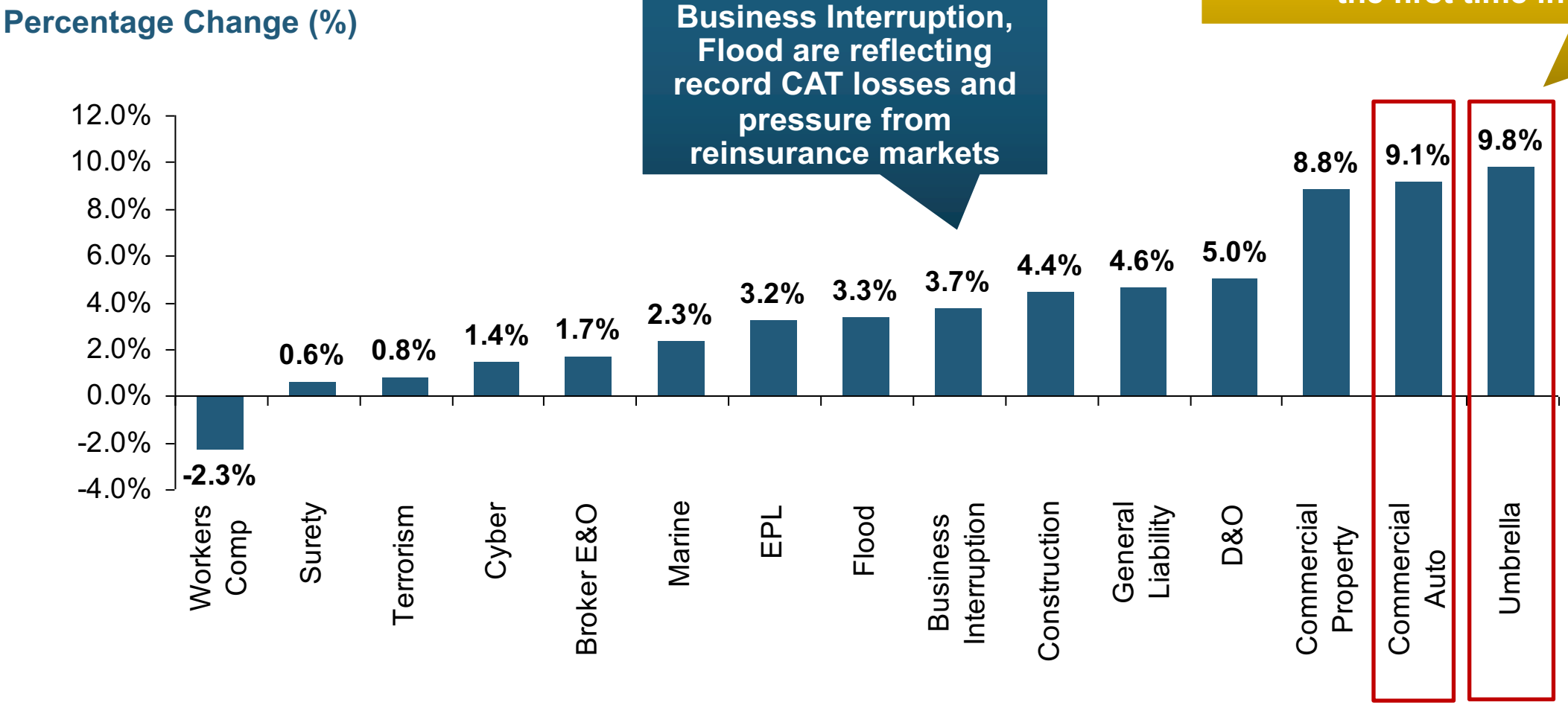


*Latest available.
Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents & Brokers; Center for Risk and Uncertainty Management, Univ. of South Carolina.

Change in Commercial Rate Renewals, by Line: 2019:Q3

Umbrella now leads all major commercial lines in terms of rate gains, exceeding Commercial Auto and CP for the first time in Q3 2019

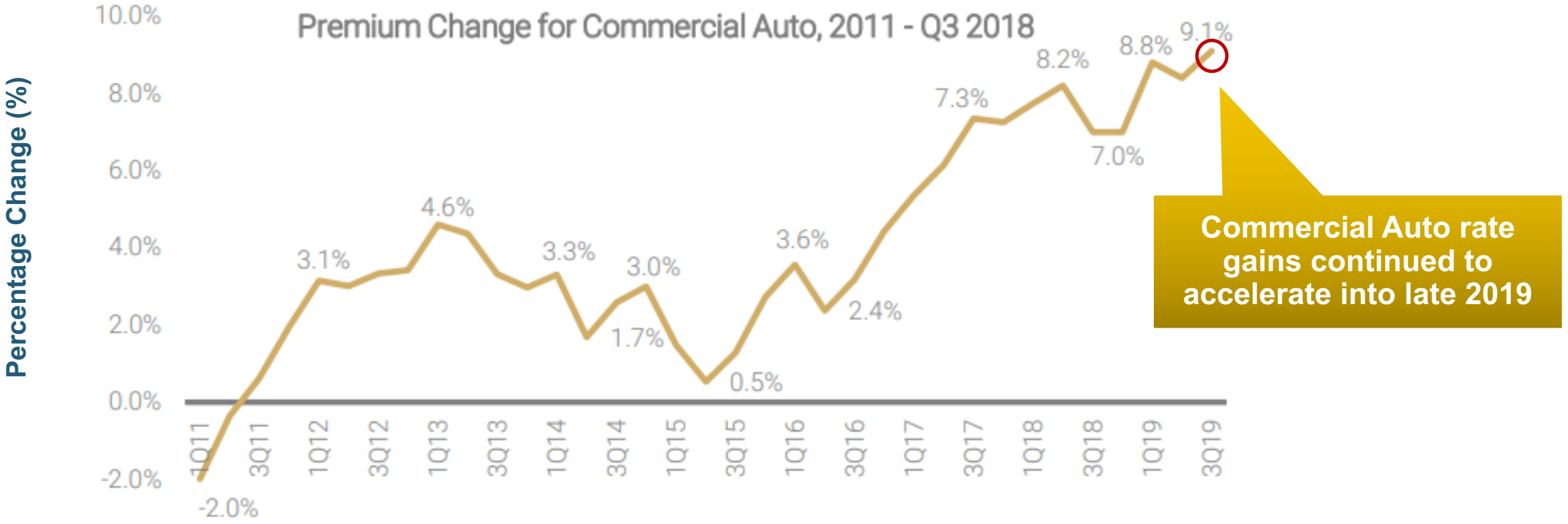
Commercial Property, Business Interruption, Flood are reflecting record CAT losses and pressure from reinsurance markets



Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.

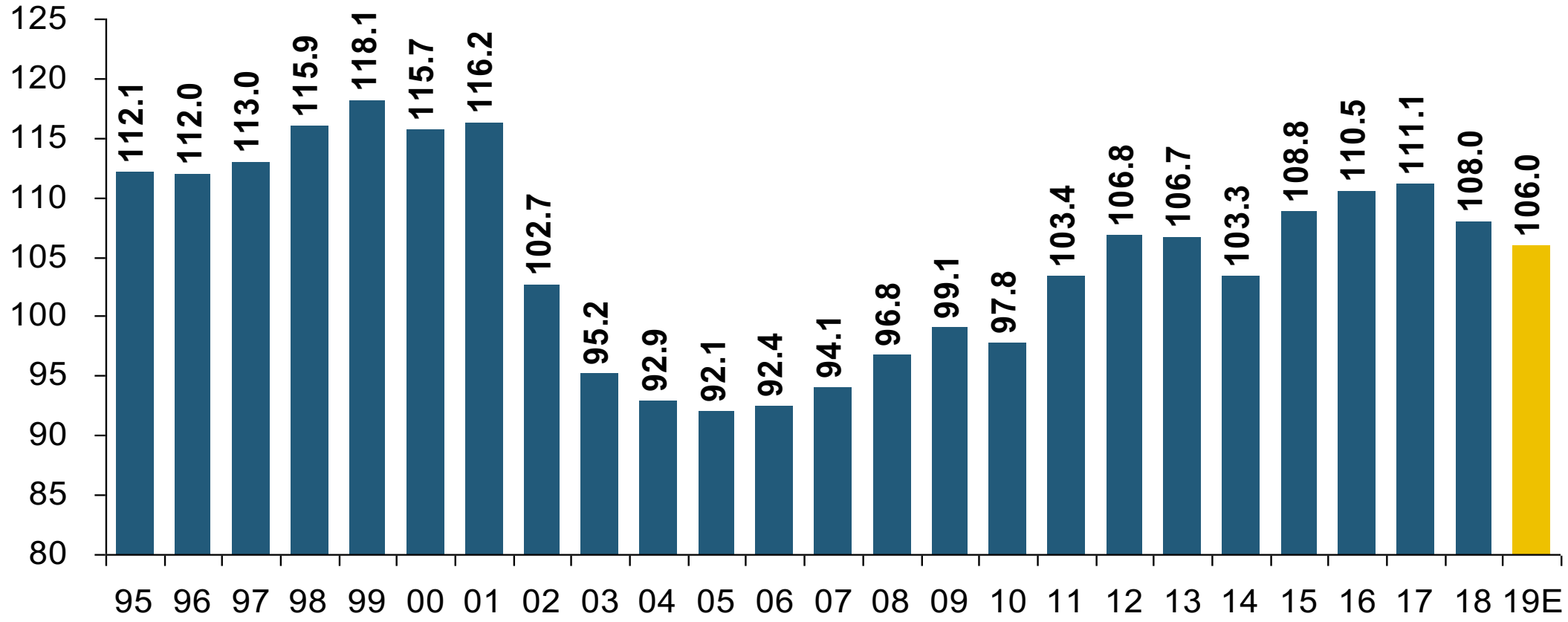
Source: Council of Insurance Agents and Brokers; USC Center for Risk and Uncertainty Management.

Change in Commercial Auto Rate Renewals: 2011:Q1 to 2019:Q3



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; Barclay's Capital.

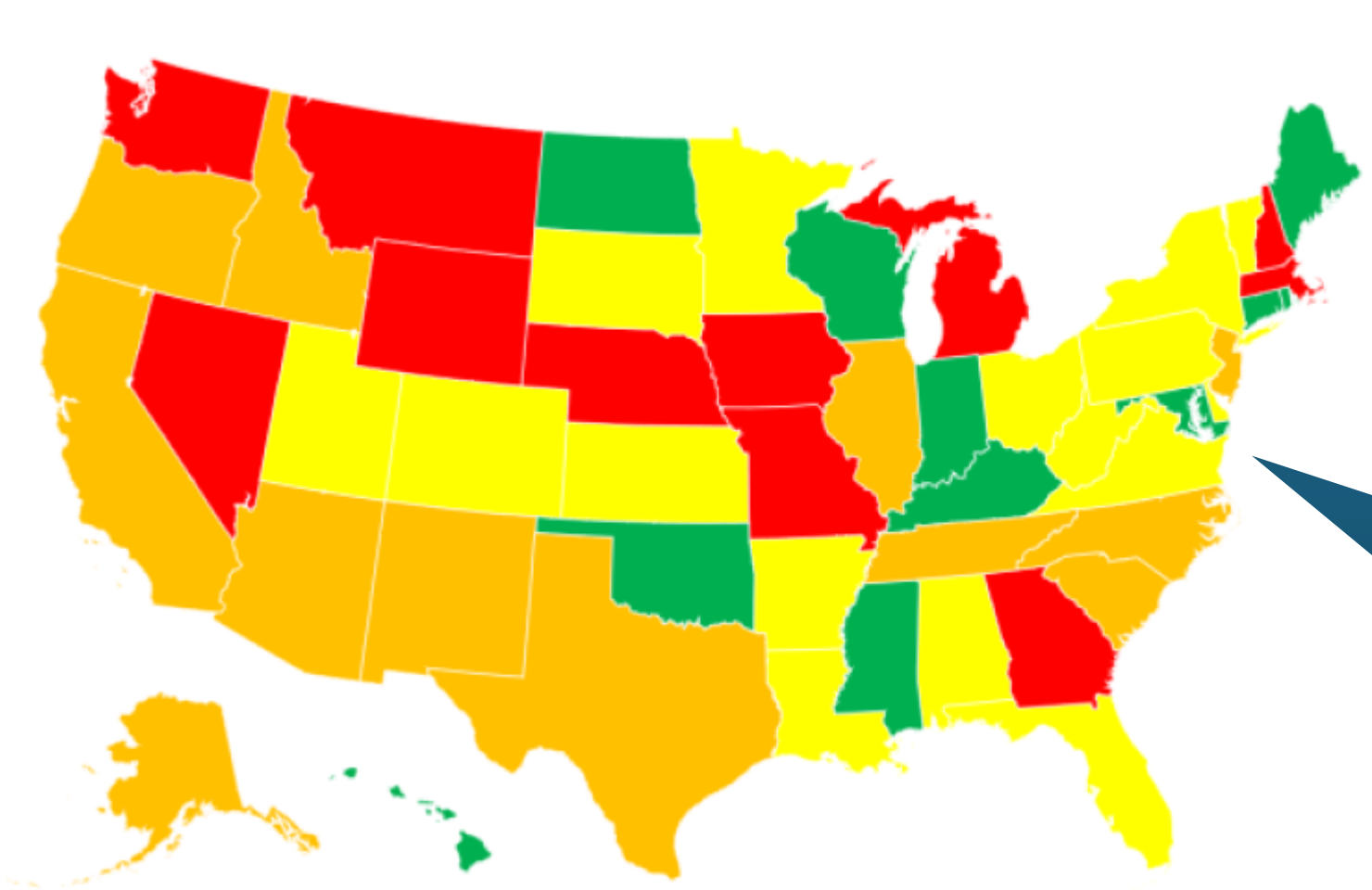
Commercial Auto Combined Ratio: 1993–2019E



Commercial Auto Results Are Challenged as Rate Gains Have Yet to Fully Offset Adverse Frequency and Severity Trends

Sources: A.M. Best (1990-2018); Center for Risk and Uncertainty Management, University of South Carolina (2019E).

Commercial Auto Liability:
(Direct L/R Avg. 2017/18 – Direct L/R 2014/14)

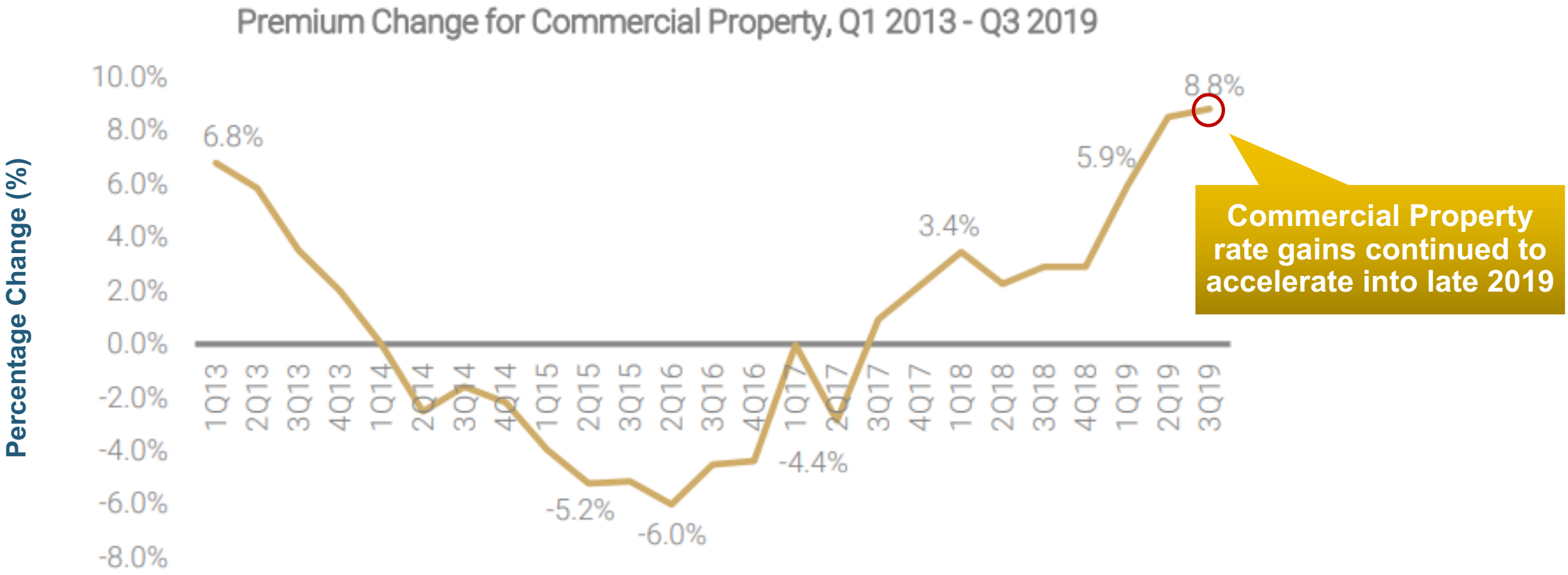


Median Deterioration = 5 pts

39 out of the 50 states experiences a deterioration in their Commercial Auto Liability loss ration in recent years—11 of them with deteriorations of 10+ points

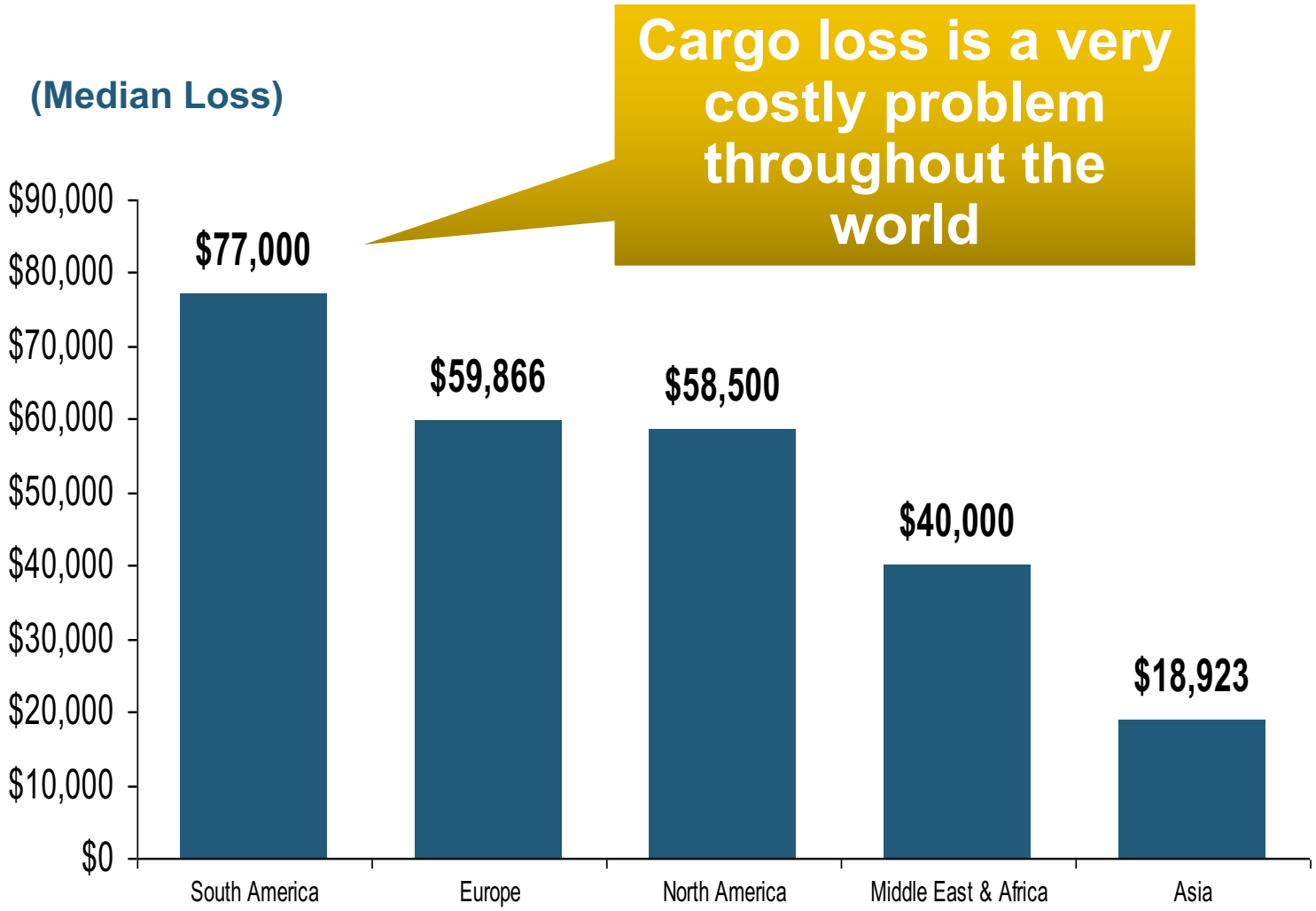
Source: S&P Global, Assured Research; Center for Risk and Uncertainty Management, Univ. of South Carolina.

Change in Commercial Property Rate Renewals: 2011:Q1 to 2019:Q3



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; Barclay's Capital.

Median Cargo Loss by Region, 2018



Key Cargo Concerns

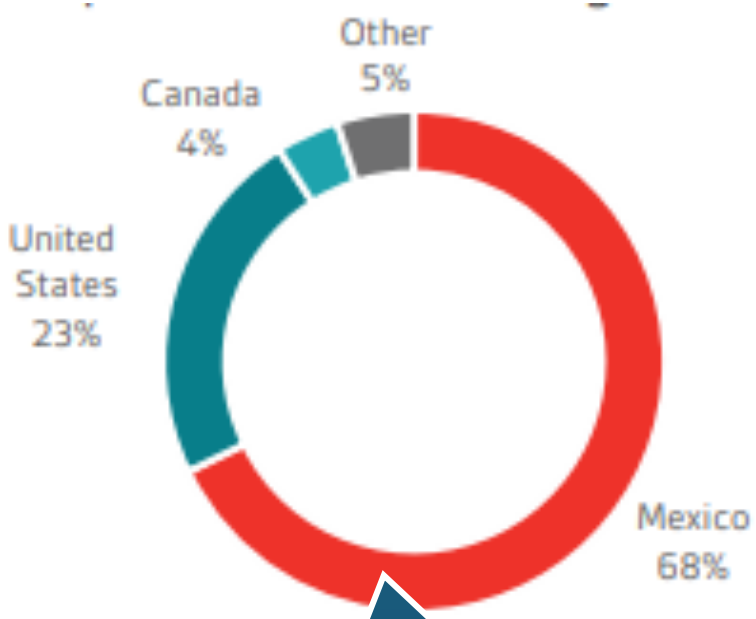
- Increasing frequency/severity of cargo claims over past several years…
- …Coupled with shrinkage of capacity in US and London markets
- Price/capacity impact on highly exposed catastrophic storage risks and certain scrutinized industries such as pharma/life science, food & beverage, autos

.
Source: BSI & TT Cargo Club Theft Annual Report (2018) accessed at: https://www.ttclub.com/fileadmin/uploads/tt-club/Documents/TT_Club___BSI_Cargo_Theft_Report_2018.pdf

.
Source: Willis Towers Watson, *Insurance Market Realties 2020*

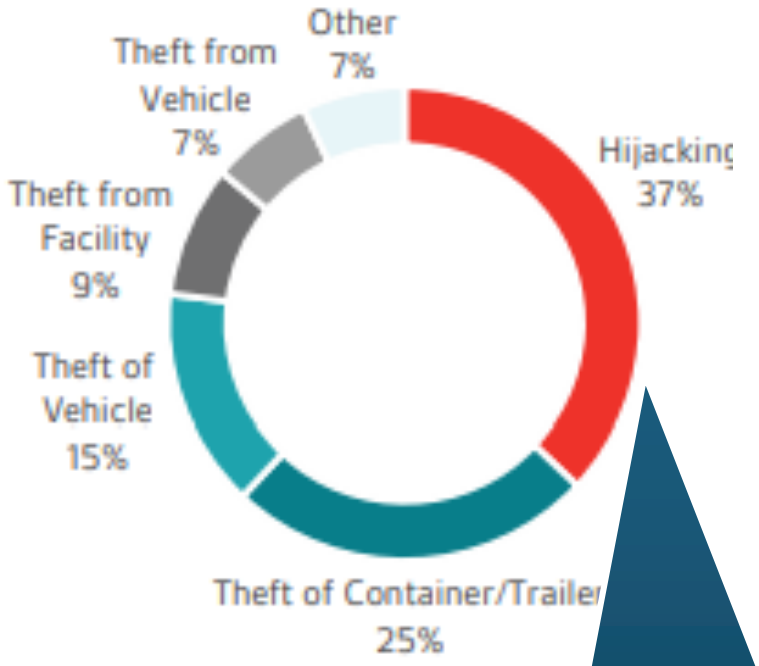
Cargo Loss in North America, 2018

Cargo Theft by Country



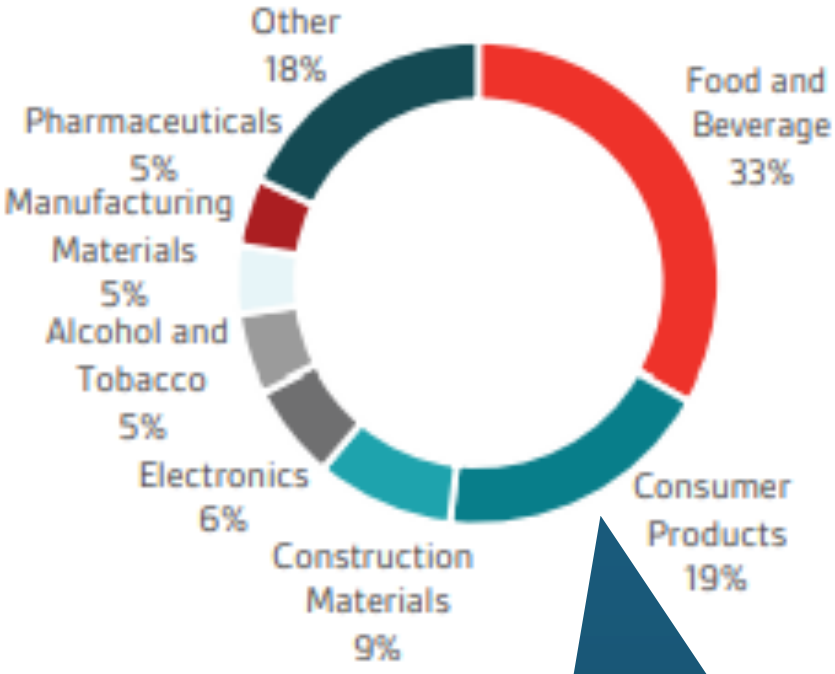
2/3 of cargo thefts in North America occur in Mexico

Cargo Theft by Type



Hijackings are common in MX; Theft of vehicle most common in US, Canada

Cargo Theft by Commodity Stolen



Ordinary food, beverage and consumer products are the leading theft categories in NA; Pharma theft is rising

.

Sources: BSI & TT Cargo Club Theft Annual Report (2018) accessed at: https://www.ttclub.com/fileadmin/uploads/tt-club/Documents/TT_Club___BSI_Cargo_Theft_Report_2018.pdf

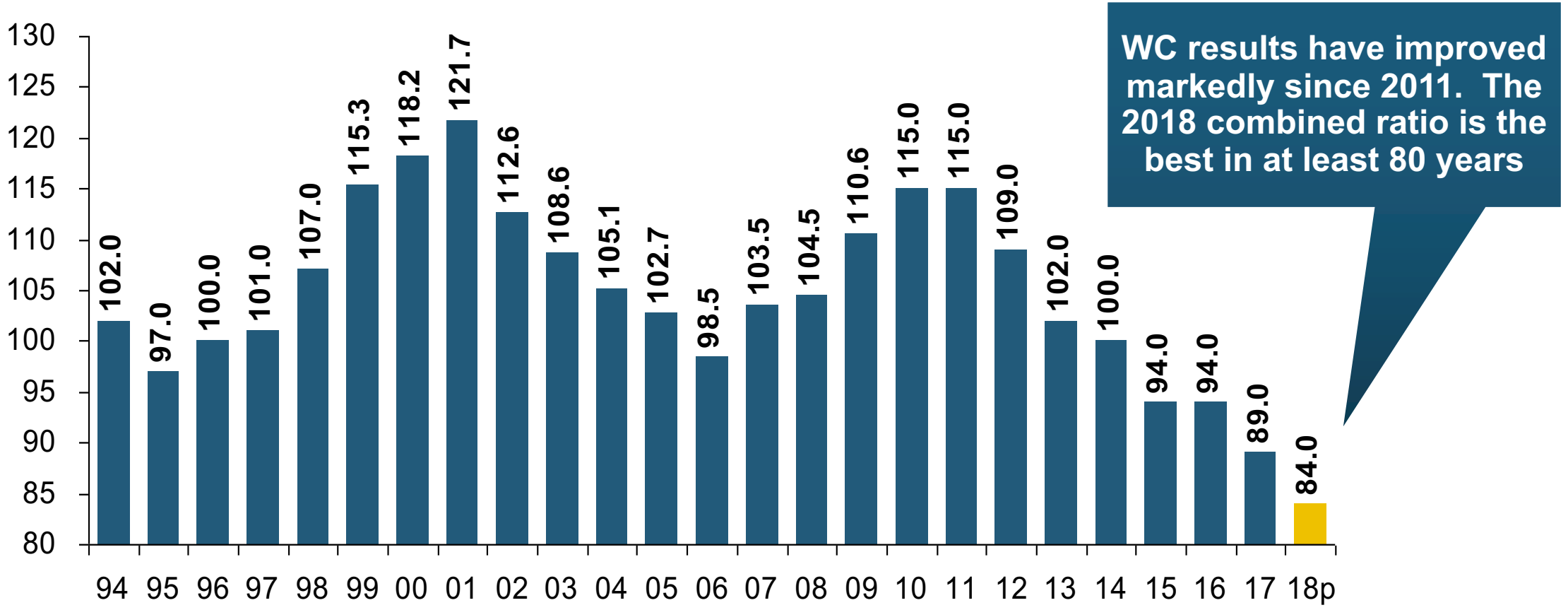
Workers Compensation Operating Environment

Workers Comp Results Have Improved Substantially in Recent Years

Can Gains Be Maintained?

70

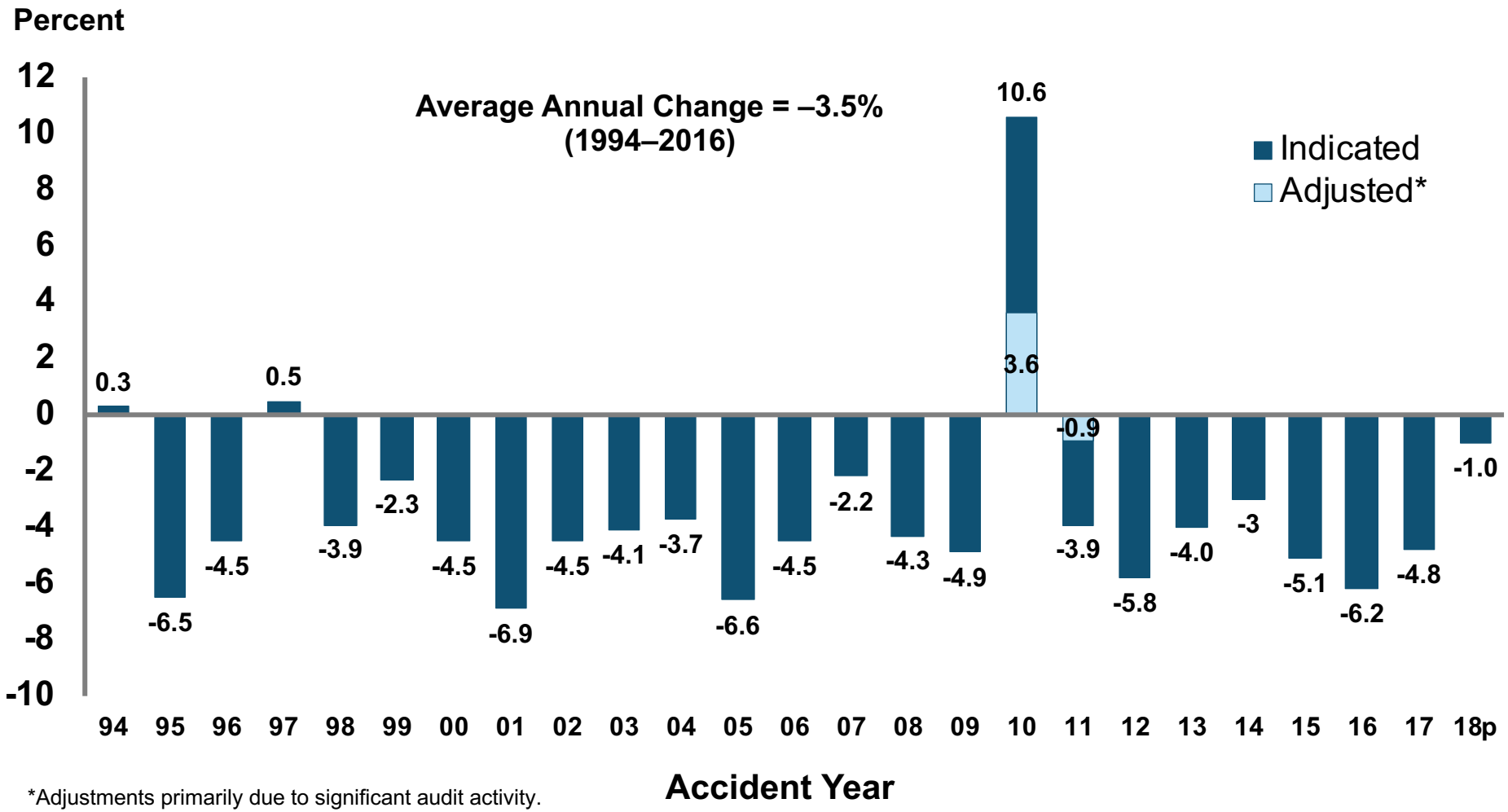
Workers Compensation Combined Ratio: 1994–2018P



Workers Comp Is an Example of a Line that Was Recently Restored to Health Through the Return of Rate Adequacy as Well as Declining Claim Frequency

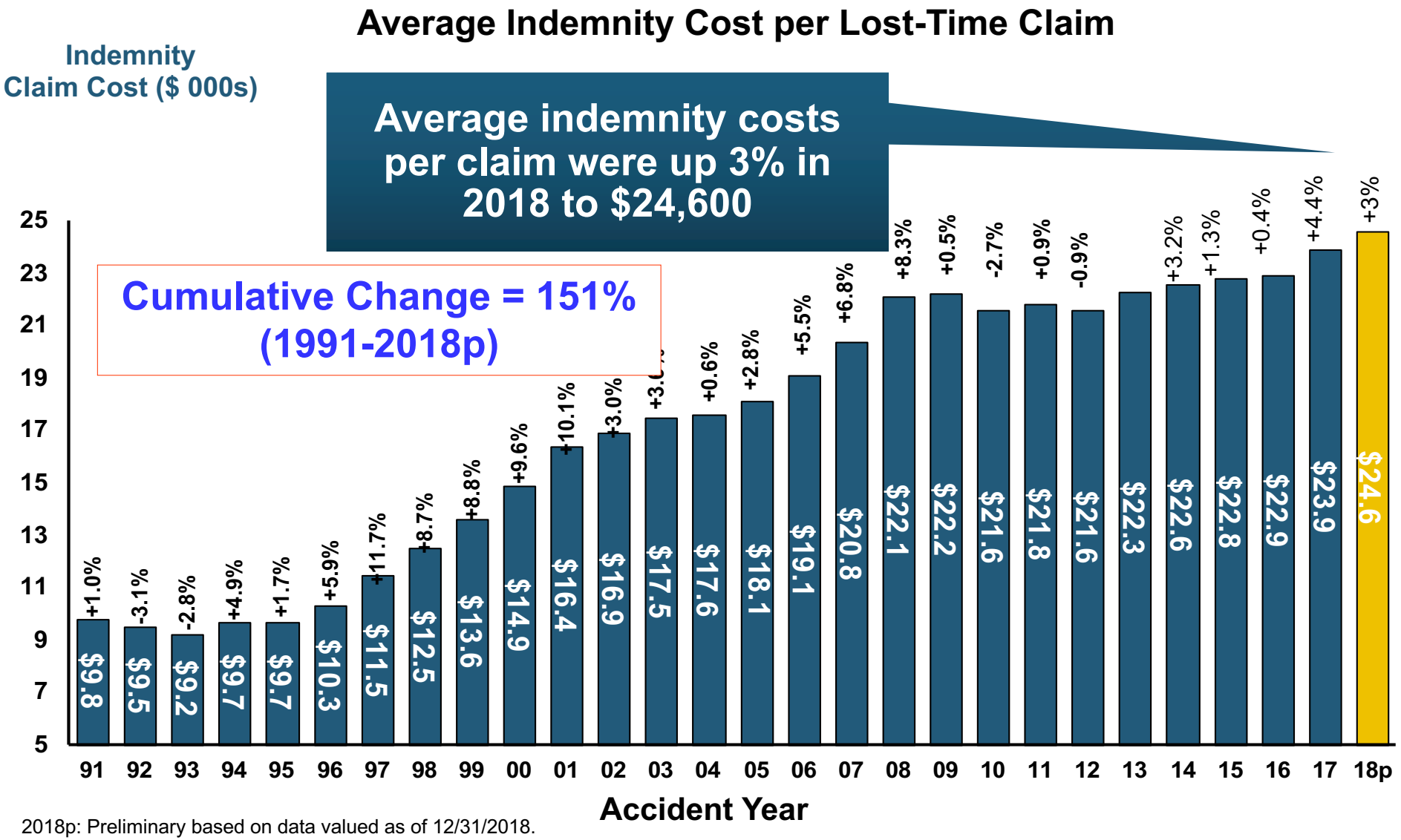
Sources: A.M. Best (1994-2009); NCCI (2010-2018P) and are for private carriers only..

Workers Compensation Lost-Time Claim Frequency Declined Again in 2018



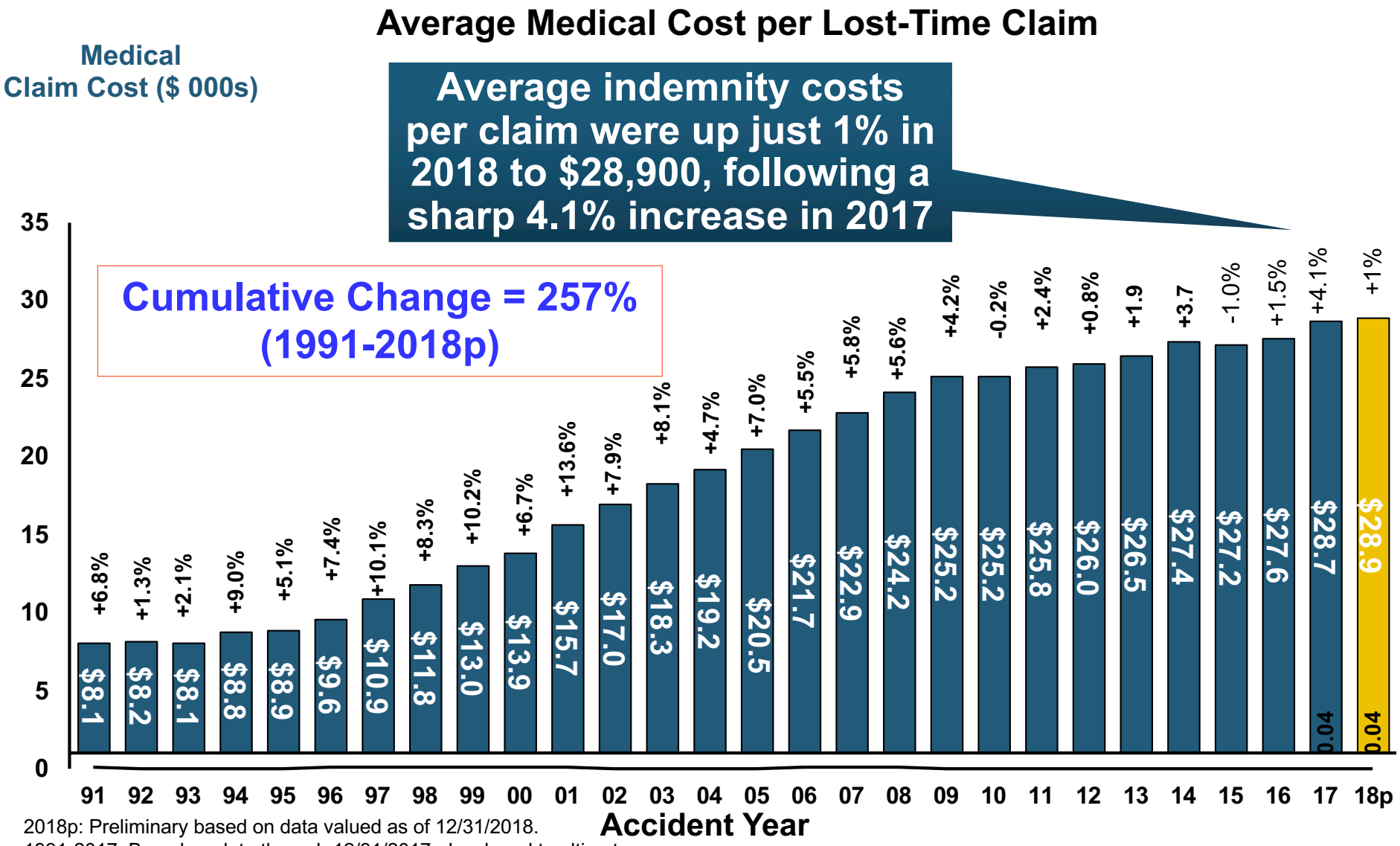
*Adjustments primarily due to significant audit activity.
2017p: Preliminary based on data valued as of 12/31/2017.
Source: NCCI Financial Call data, developed to ultimate and adjusted to current wage an voluntary loss cost level; Excludes high deductible policies; 1994-2017: Based on data through 12/31/17. 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

Workers Comp Indemnity Claim Costs: Sharper Increase in 2018



2018p: Preliminary based on data valued as of 12/31/2018.
1991-2017: Based on data through 12/31/2017, 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: Pace of Increase Decelerated in 2018



2018p: Preliminary based on data valued as of 12/31/2018.
1991-2017: Based on data through 12/31/2017, developed to ultimate
Based on the states where NCCI provides ratemaking services including state funds, excluding WV; Excludes high deductible policies.

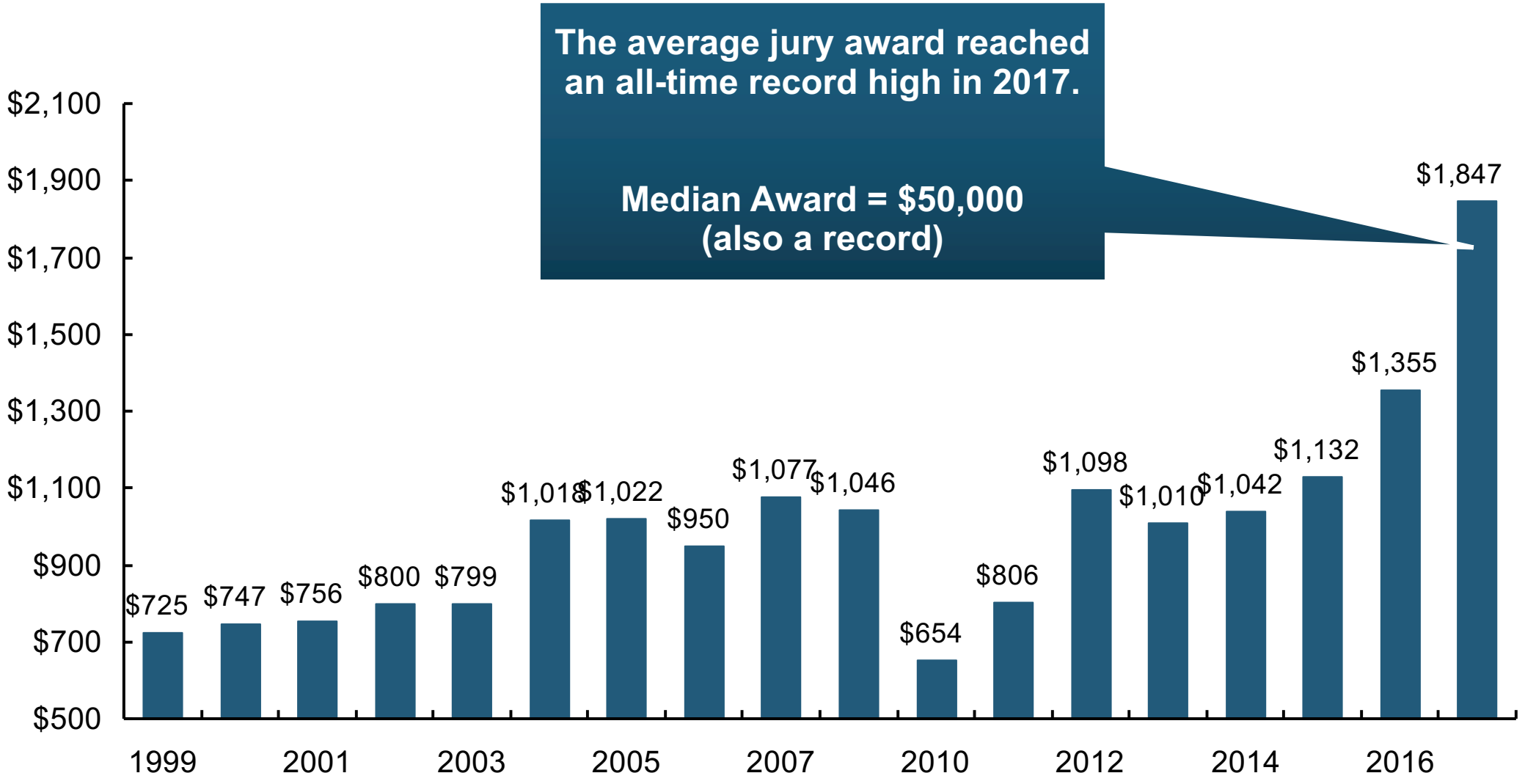
Tort Environment:
The Return of Social Inflation?

Tort Costs Are Under Pressure from a Variety of Different Factors

D&O Line Impacted

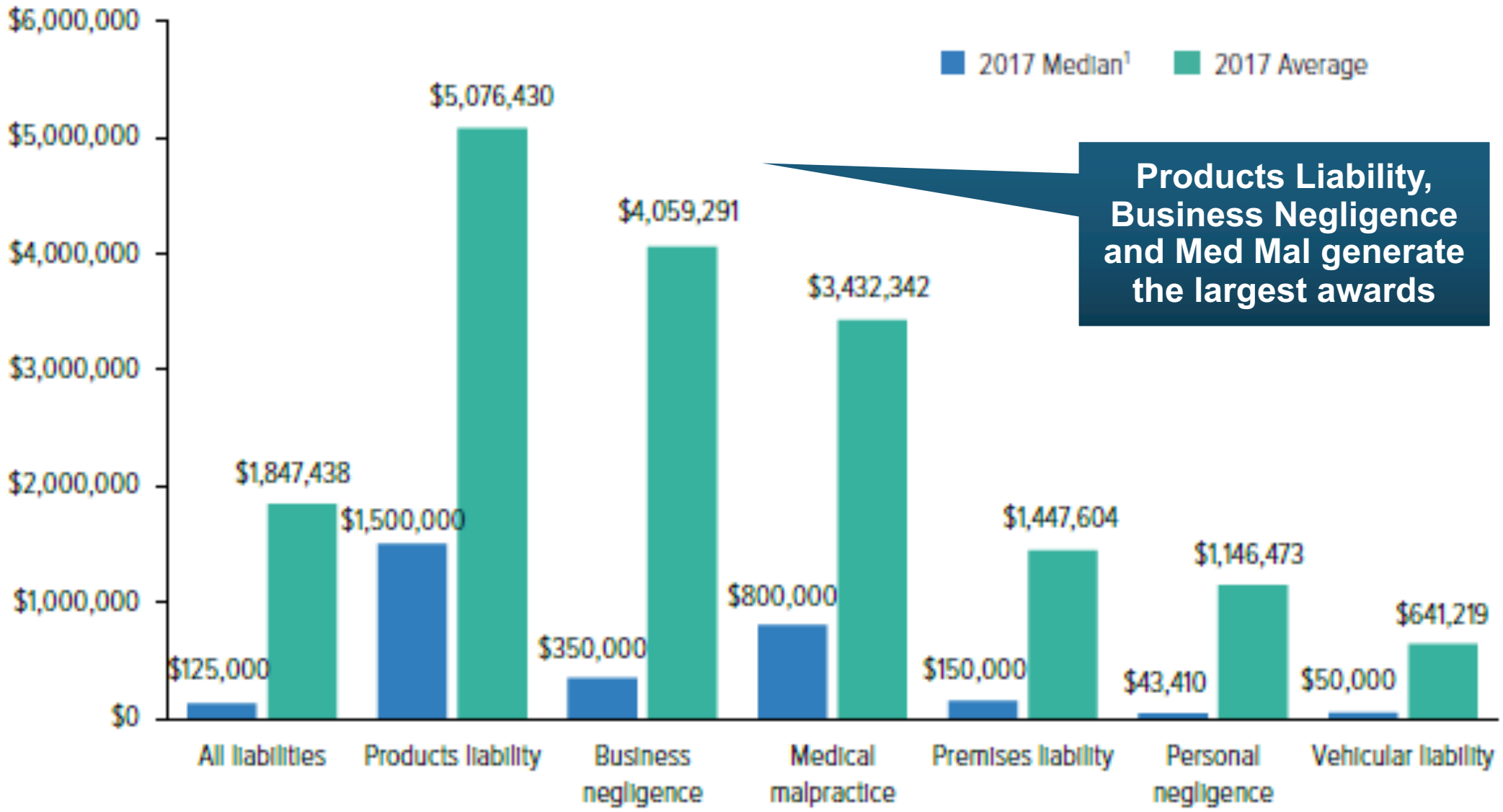
76

Average Jury Awards, 1999 – 2017 (latest available)



Source: Jury Verdict Research; Risk and Uncertainty Management Center, Univ. of South Carolina.

Average Jury Awards, 1999 - 2017



Source: Thompson Reuters, Current Award Trends in Personal Injury (58th ed.); Ins. Info, Inst.; Risk and Uncertainty Management Center, Univ. of South Carolina.

The Nation's Judicial Hellholes: 2019 – 2020

Watch List

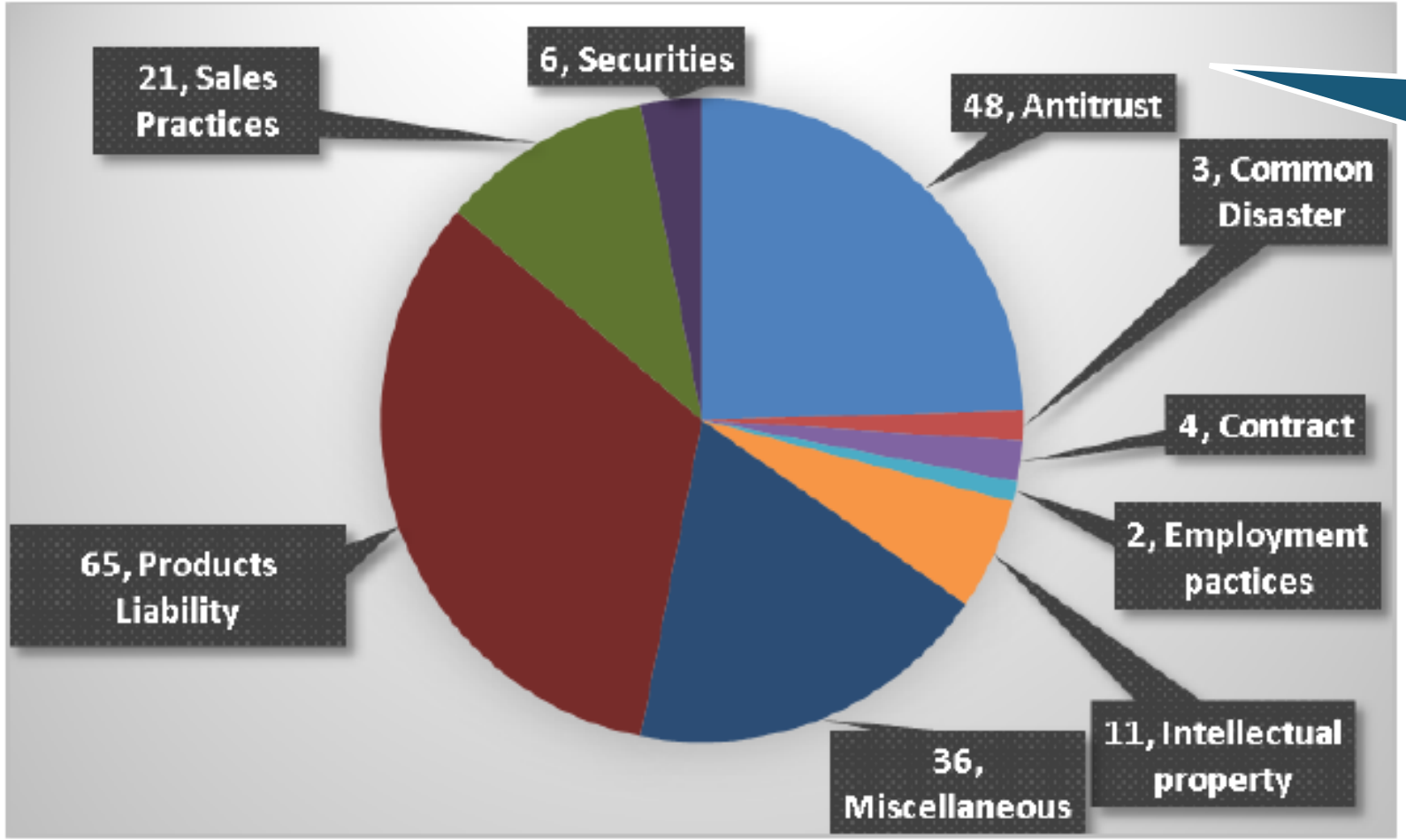
- CO Supreme Court
- Florida
- MD General Assem.
- MT Supreme Court
- PA Supreme Court
- WV Supreme Ct.

Dishonorable Mention

- AK Supreme Court
- KS Supreme Court
- OR Supreme Court

Source: American Tort Reform Association; Risk and Uncertainty Management Center, Univ. of South Carolina.

Multi-District Litigation (MDL), Current Cases, as of Oct. 2019



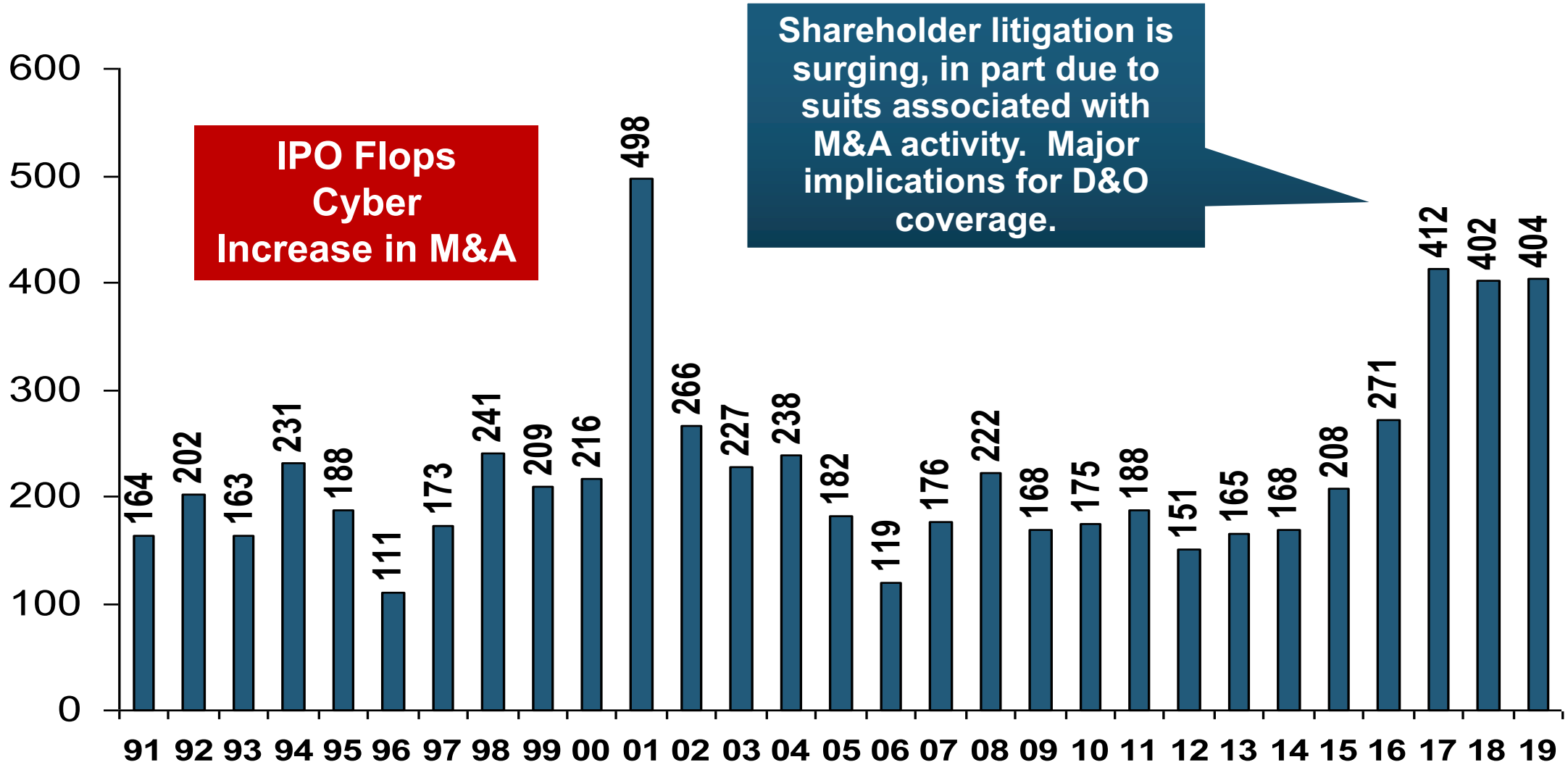
65 out of the 195 current MDL are related to Products Liability, with antitrust coming second at 48 (25%)

Examples

Roundup (Monsanto)
Talcum Powder (J&J)
Opiates (Purdue, etc.)
Deepwater Horizon (BP)
Diesel Deception (VW)

Source: Judicial Panel on Multidistrict Litigation from Assured Research,12/19; Risk and Uncertainty Management Center, Univ. of South Carolina.

Shareholder Class Action Lawsuits*

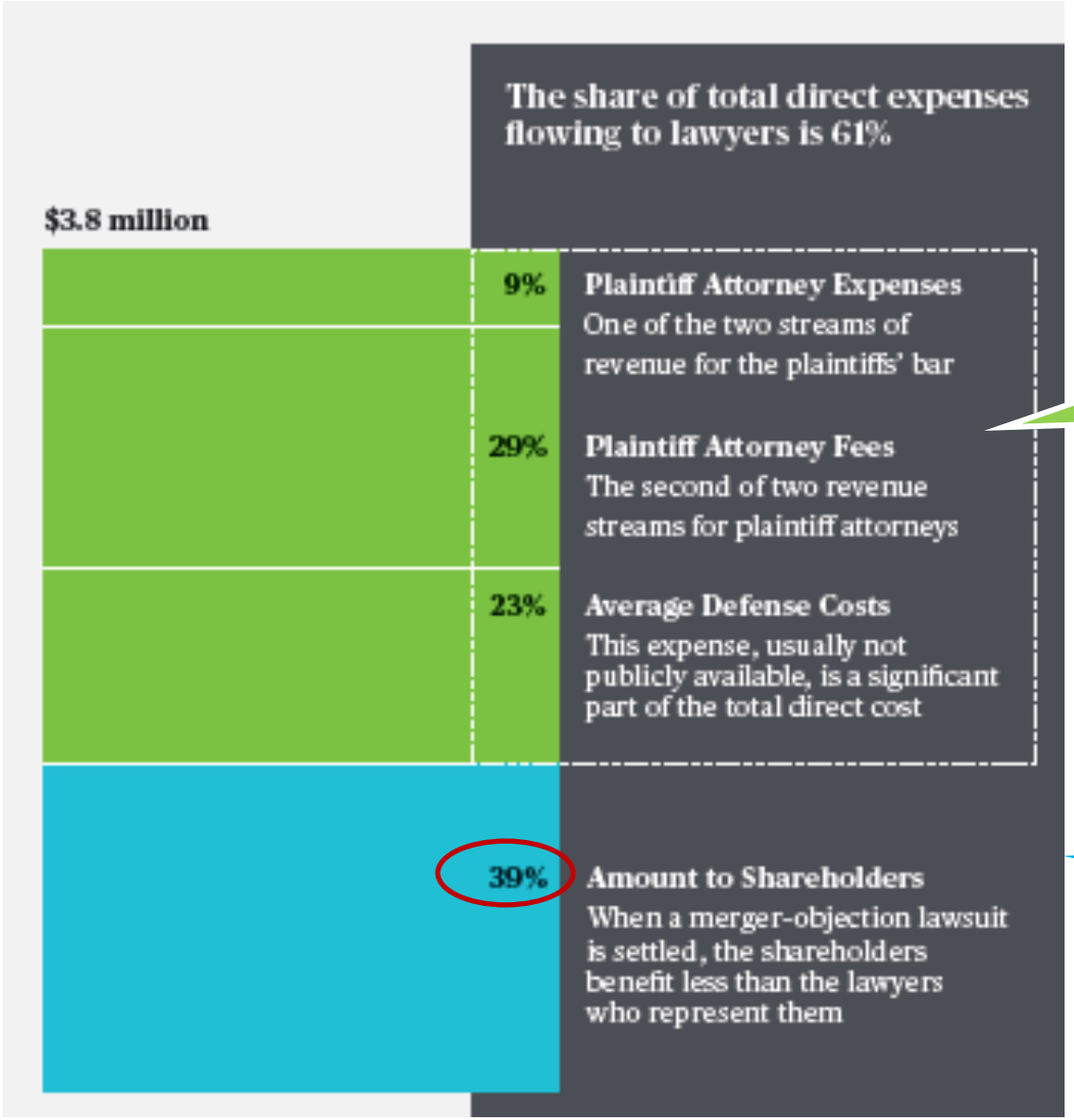


Source: Stanford University School of Law (securities.stanford.edu); Risk and Uncertainty Management Center, Univ. of South Carolina.

Nuisance to Menace: Securities Class Action → D&O Pressure

Source: Chubb: “From Nuisance to Menace: The Rising Tide of Security Class Action Litigation,” June 2019.

Total Direct Cost of Settled Merger Claims, 2012 - 2017



38% of the cost to settle merger-objection lawsuits goes to plaintiff attorney fees and expense while 23% goes toward defense costs

Just 39% of the cost to settle merger-objection lawsuits goes to shareholders

Source: Chubb: "From Nuisance to Menace: The Rising Tide of Security Class Action Litigation," June 2019.

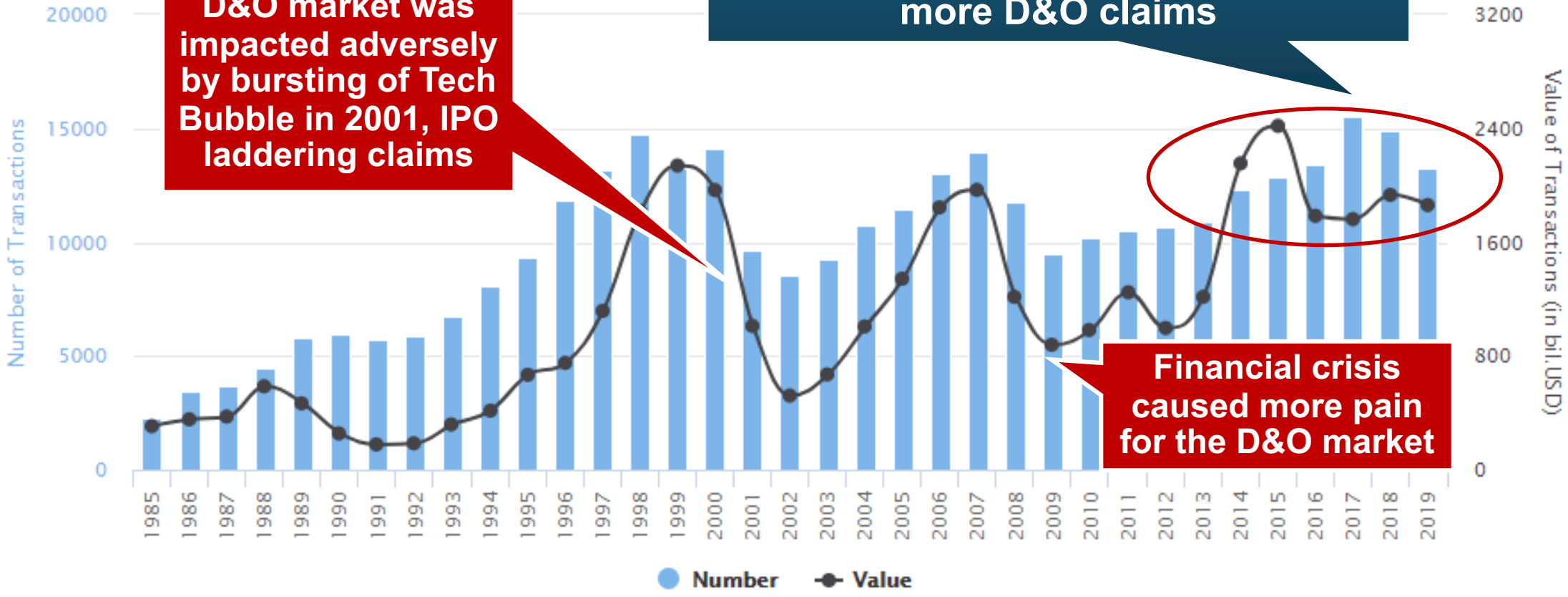
Merger & Acquisition Activity in the US, 1985 - 2019

Index: 1992 = 100

US M&A activity has been at or close to record levels in recent years both in terms of total deal value and number of deals. The result: More securities class action litigation and more D&O claims

D&O market was impacted adversely by bursting of Tech Bubble in 2001, IPO laddering claims

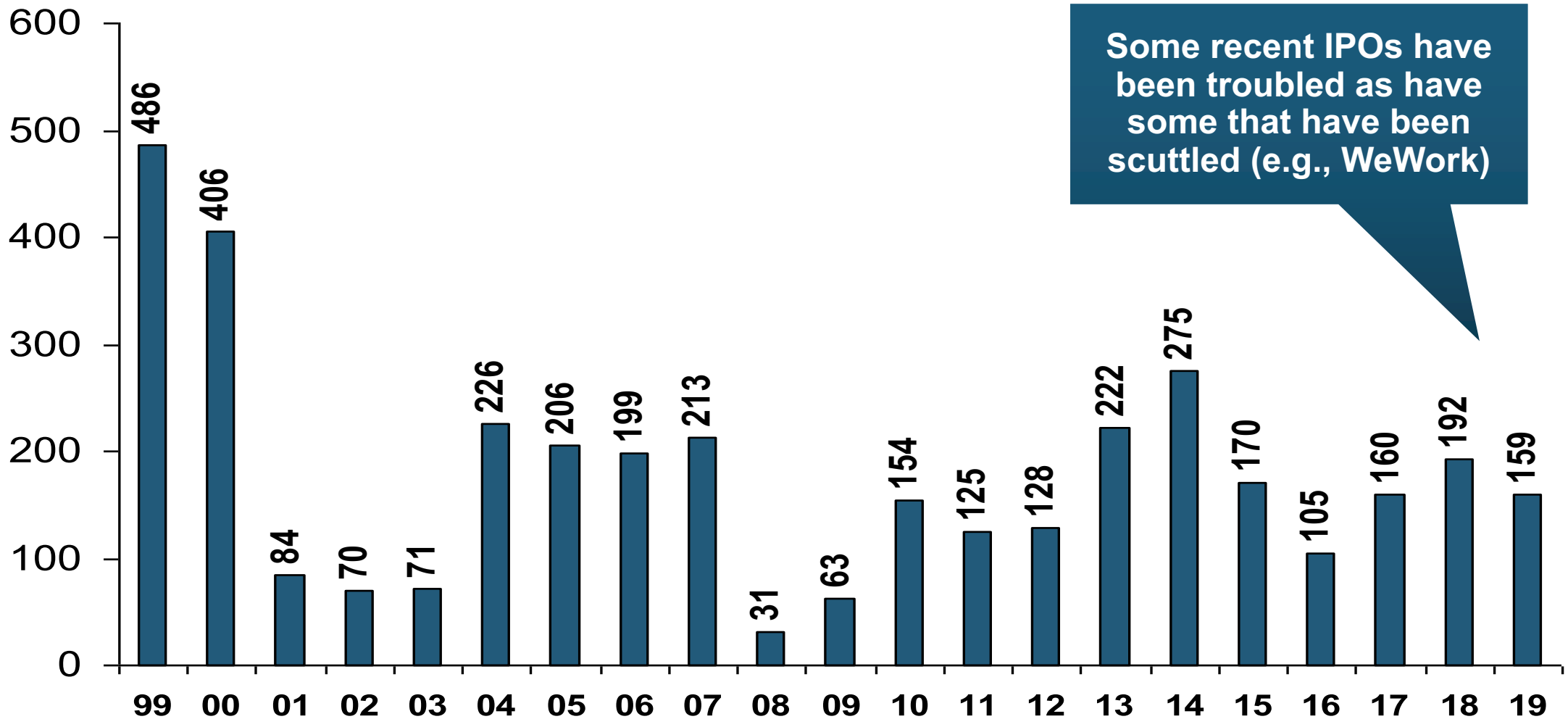
Financial crisis caused more pain for the D&O market



*Risk adjusted.

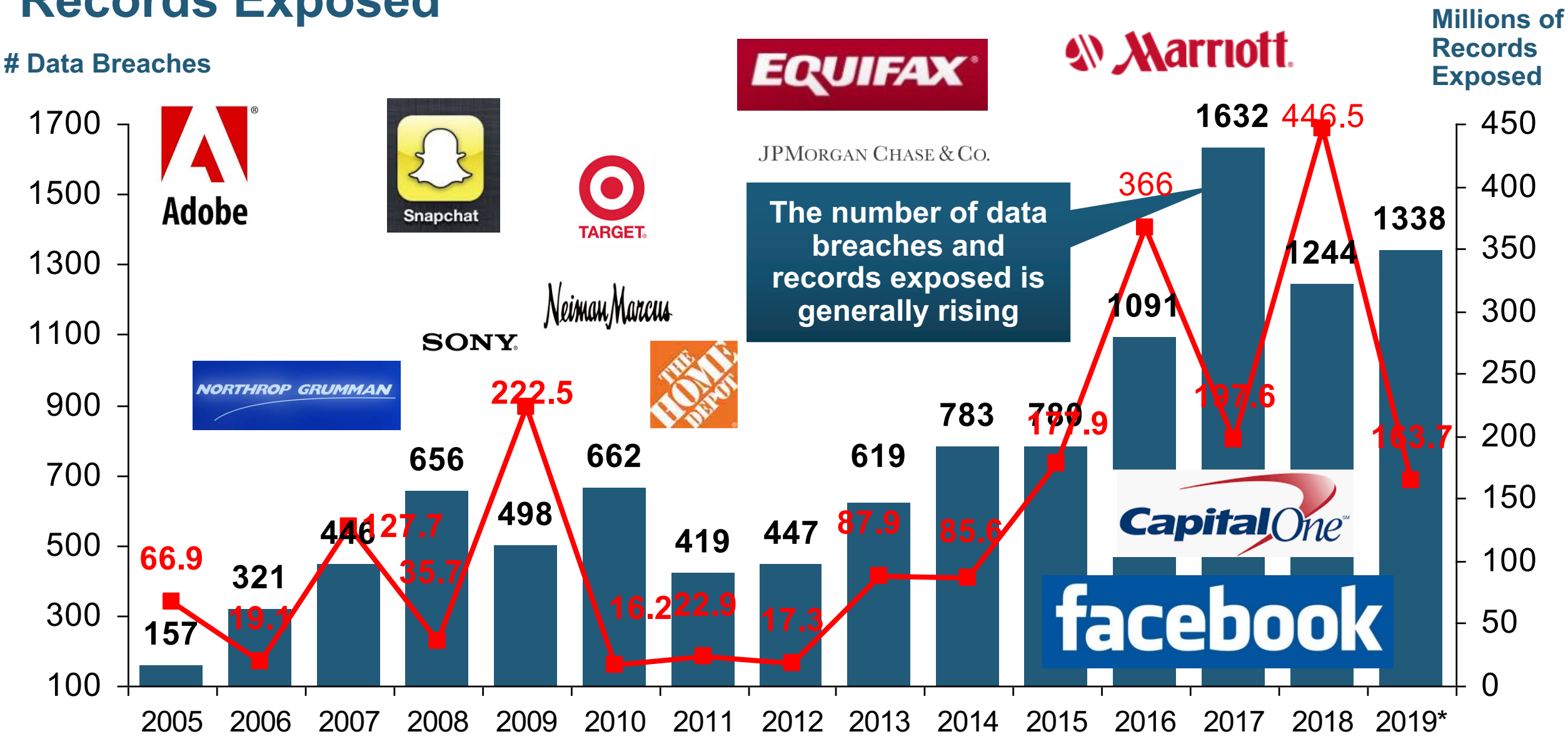
Source: Institute for Mergers, Acquisitions and Alliances (IMAA) accessed 1/19/20 at: https://imaa-institute.org/m-and-a-statistics-countries/.

Number of IPOs in the US, 1999 – 2019



Source: Renaissance Capital; Risk and Uncertainty Management Center, Univ. of South Carolina.

Data Breaches 2005-2019*, by Number of Breaches and Records Exposed



*Through Nov. 2019.
Source: Identity Theft Resource Center.

Political Environment

Politics and Insurance: A Difficult History, A Challenging and Uncertain Future

88

What Will Happen in 2020?

Source: National Association of Mutual Insurance Companies (NAMIC), Jan. 2020.

Insurance Lobbyist View on Outcome of 2020 Election

GOP LED STATUS QUO

White House: Republican
Senate: Republican
House: Democratic
Likelihood: 40 percent

DEMOCRAT DIVIDED GOV

White House: Democrat
Senate: Republican
House: Democrat
Likelihood: 35 percent

DEMOCRAT SWEEP

White House: Democratic
Senate: Democratic
House: Democratic
Likelihood: Five Percent

GOP SWEEP

White House: Republican
Senate: Republican
House: Republican
Likelihood: 20 percent

Source: National Association of Mutual Insurance Companies (NAMIC), Jan. 2020.

Important Legislative Issues Impacting Commercial Insurance Markets

- TRIA Reauthorization
- Cannabis
- Data Privacy
- Torts/Social Inflation (already discussed)

Important Legislative Issues: TRIA

- 7-year “clean” TRIA reauthorization bill introduced in House in October 2019
  - No significant changes to most important program features
  - Includes cyber study
- Passed by House with strong vote of 385 –22 in November
- Senate Banking Cmte. unanimously voted in favor of same 7-year clean TRIA bill
- Outlook looks good for reauthorization to be signed into law well before 12/31/20 expiration date
  - Timeliest reauthorization ever (previous = 2005, 2007, 2015)

Source: National Association of Mutual Insurance Companies (NAMIC), Jan. 2020.

Important Legislative Issues: Cannabis & Insurance

- Insurers would like to play a bigger role in this market…BUT..

- **Controlled Substances Act (CSA) of 1970:** Schedule I classification
  - Cannabis **illegal** at federal level (even if legal at state level)
- Some insurers are compelled to do business with cannabis related businesses
  - States/courts have required this in some states where cannabis is legal; Yet, insurers are technically violating federal law

- Insurers involved are not immune to federal liability (CSA, RICO law)
- **Federal Safe Harbor for Insurers is Needed**
  - **Insurers successfully supported legislation (SAFE and CLAIM Acts) in 2019, but fate of bills in 2020 is uncertain**

Source: National Association of Mutual Insurance Companies (NAMIC), Jan. 2020.

Privacy and Insurance: Key Legislation/Issues Affecting Markets

- Consumer Protection
- Cybersecurity
- Cyber Event/Attack
- National Security
- Identity Theft/Fraud
- Data Security
- Data Privacy
- Data Breach
- Autonomous Vehicles
- Data Portability
- Big Data
- Blockchain
- Cryptography
- Internet of Things (IoT)
- Biometric Data
- Genetic Testing
- Artificial Intelligence
- Cyber Terrorism

Source: Adapted from National Association of Mutual Insurance Companies (NAMIC), Jan. 2020.

Privacy and Insurance: Key Legislation/Issues Affecting Markets

- **Global Data Protection Regulation in EU (GDPR; Effective May 2018)**
  - **Aggressive consumer protection—assertion of "fundamental rights"**
  - **Extraterritorial jurisdiction; Fines up to 4% gross global revenue**

- **California Consumer Privacy Act (CCPA; Effective Jan. 1, 2020)**
  - Establishes data privacy rights for CA residents including rights to access personal data, know what data are being collected, know how data is being used, and prevent the sale of personal data
  - Private right of action, class suits
  - California law setting a de-facto Federal standard that other states are following

CCPA Definition of "Personal Information" is VERY Broad: ***Information that identifies, relates, describes, is capable of being associated with, or could reasonably linked, directly or indirectly, with a particular consumer or household***

Source: National Association of Mutual Insurance Companies (NAMIC), Jan. 2020.

Privacy and Insurance: Key Legislation/Issues Affecting Markets

BEYOND CALIFORNIA…A Pandora's Box of Privacy???

- 17 states introduced legislation similar to California in 2019.
- Many other states passed less controversial laws to create privacy task forces, councils, and studies.
- Nevada and Maine took steps to strengthen privacy regimes with consent measures.
- Washington nearly passed a similar law to California.
- Expect the advancement of many state-level comprehensive privacy bills in 2020
- ***Tech giants now pursuing Federal legislation that would preempt state law***
- ***Many implications for insurers as data collectors and underwriters***

Source: Adapted from National Association of Mutual Insurance Companies (NAMIC), Jan. 2020.

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