# P/C Insurance in a Post-Pandemic World: *Trends, Challenges and InsurTech Issues*

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# P/C Insurance Overview & Outlook: Outline

- P/C Financial Overview & Outlook Amid the COVID-19 Pandemic
- Catastrophe Loss Trends
- Capital & Capacity
- Investment Market Issues: Volatility Rules and a Newly Hawkish Fed
- The Economy, Insurance and COVID-19: Overview & Outlook
  - Growth, Employment, Inflation…
- Personal & Commercial Lines Overview
- InsurTech Overview: Embedded Insurance, Open Insurance…
- Distribution Trends
- Summary and Q&A

# P/C Insurance Industry: Financial Overview Amid the COVID-19 Pandemic and Economic Uncertainty

## The P/C Insurance Industry Entered and Emerged from the COVID-19 Pandemic from a Position of Financial Strength

***Industry Remains Strong***

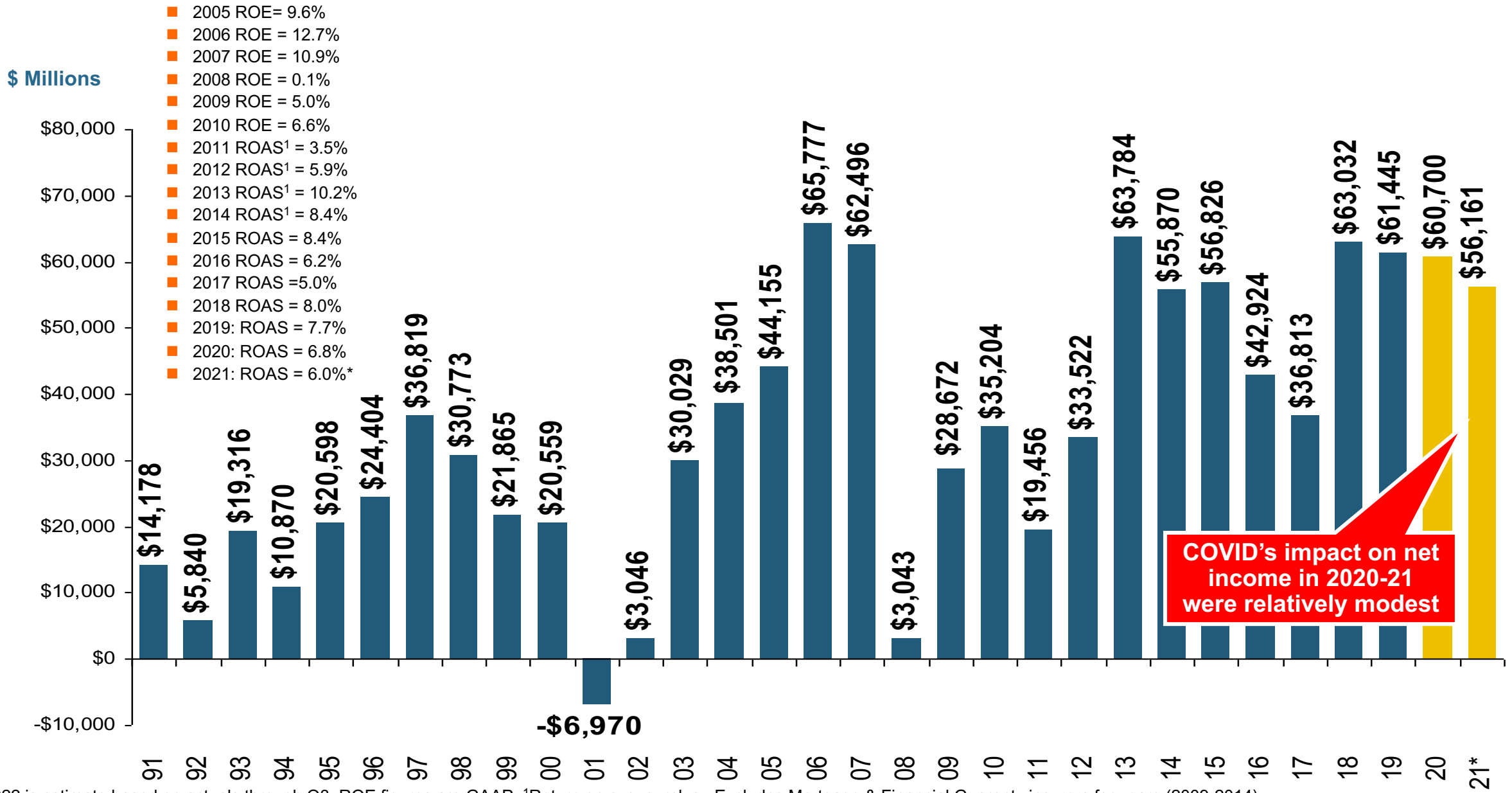


3

# RISK 1:
# Profits and Profitability

## P/C Profitability Is Extremely Volatile and Consistently Lags the Fortune 500

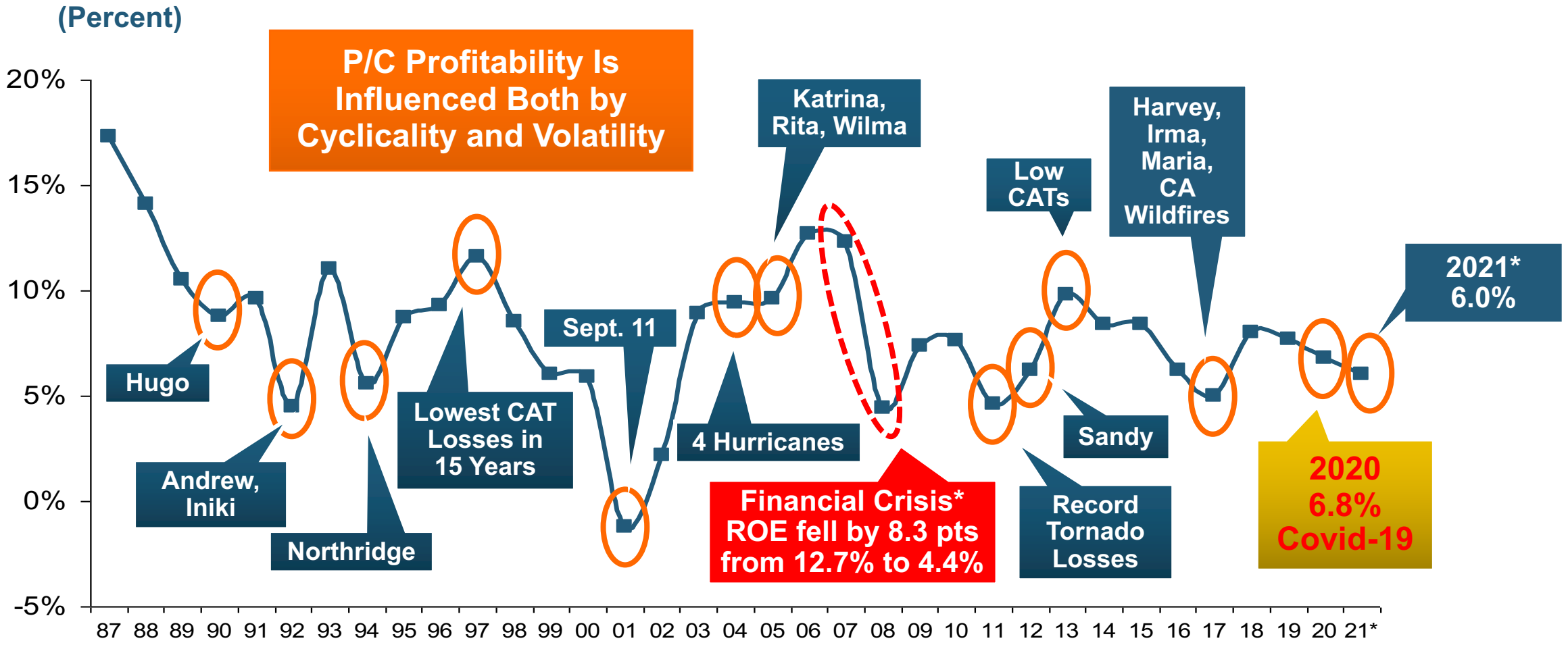
# P/C Industry Net Income After Taxes, 1991–2021E*




*2022 is estimate based on actuals through Q3. ROE figures are GAAP; [1]Return on avg. surplus. Excludes Mortgage & Financial Guaranty insurers for years (2009-2014).

Sources: A.M. Best, ISO, APCIA.

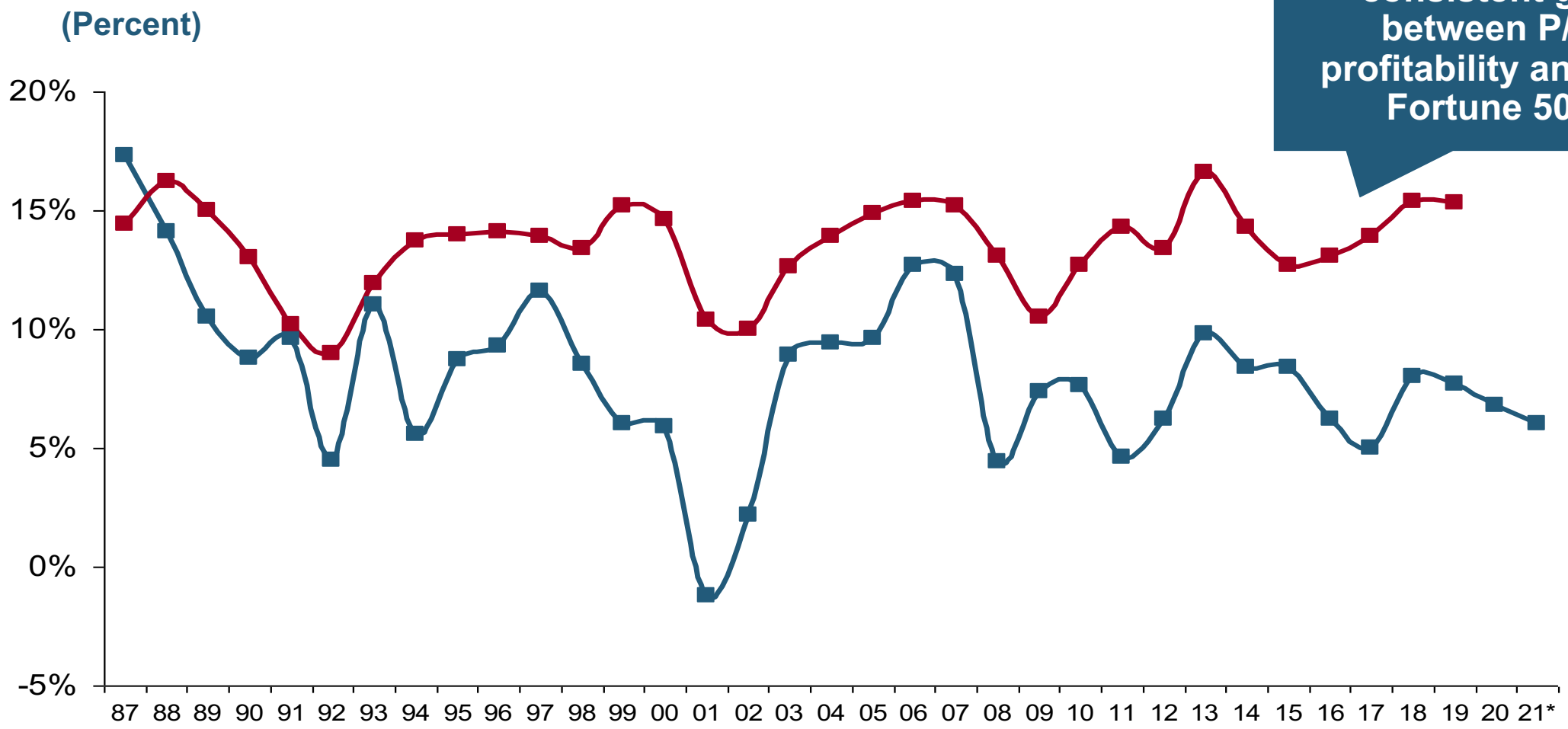
# ROE: Property/Casualty Insurance by Major Event, 1987–2021E*




*Excludes Mortgage & Financial Guarantee in 2008 – 2014. 2021 figure is estimate based on actual of 6.0% through Q3.
Sources: ISO, *Fortune,* APCIA; USC RUM Center.

# ROE: Property/Casualty Insurance vs Fortune All Industry, 1987–2021E*

There is a large and consistent gap between P/C profitability and the Fortune 500



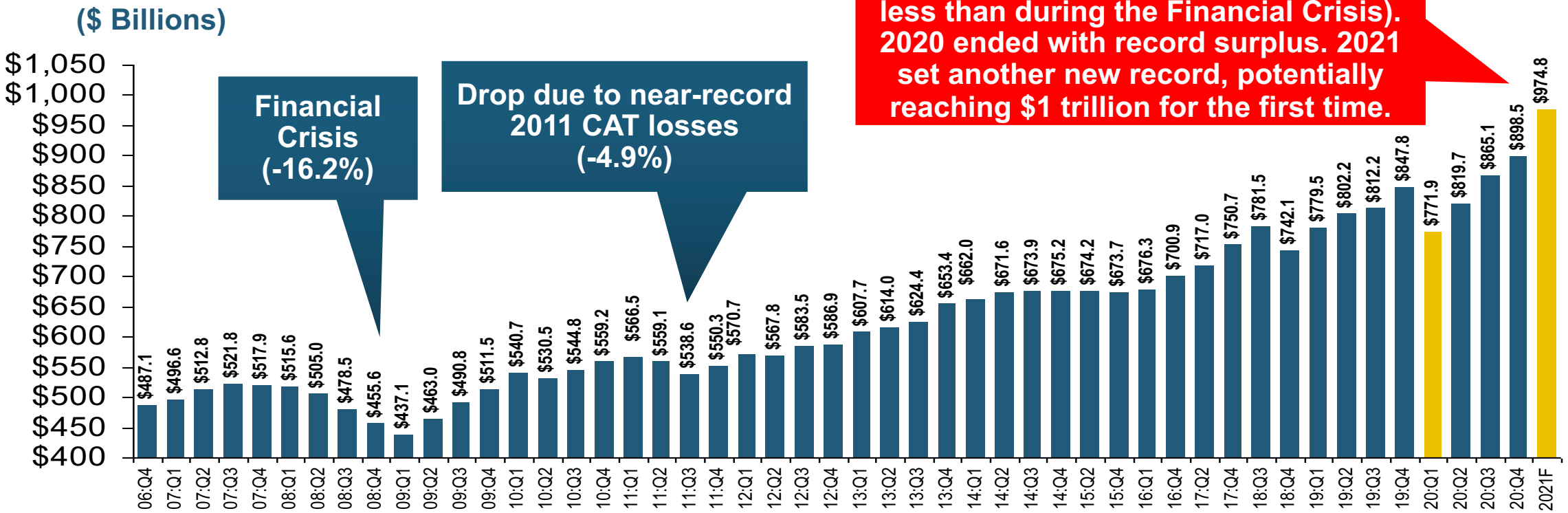

*Excludes Mortgage & Financial Guarantee in 2008 – 2014. 2021 figure is estimate based on actual of 6.0% through Q3.
Sources: ISO, *Fortune,* APCIA; USC RUM Center.

# RISK 2:
# Capital and Capacity

## P/C Insurance: Over or Under Capitalized?

# Policyholder Surplus (Capacity), 2006:Q4–2020:Q4E and 2021F*

The P/C insurance industry entered the COVID-19 pandemic from a position of strength and was able to withstand the 9.0% surplus decline in Q1 2020 (far less than during the Financial Crisis). 2020 ended with record surplus. 2021 set another new record, potentially reaching $1 trillion for the first time.




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.

**Policyholder Surplus is the industry's financial cushion against large insured events, periods of economic stress and financial market volatility. It is also a source of capital to underwrite new risks.**

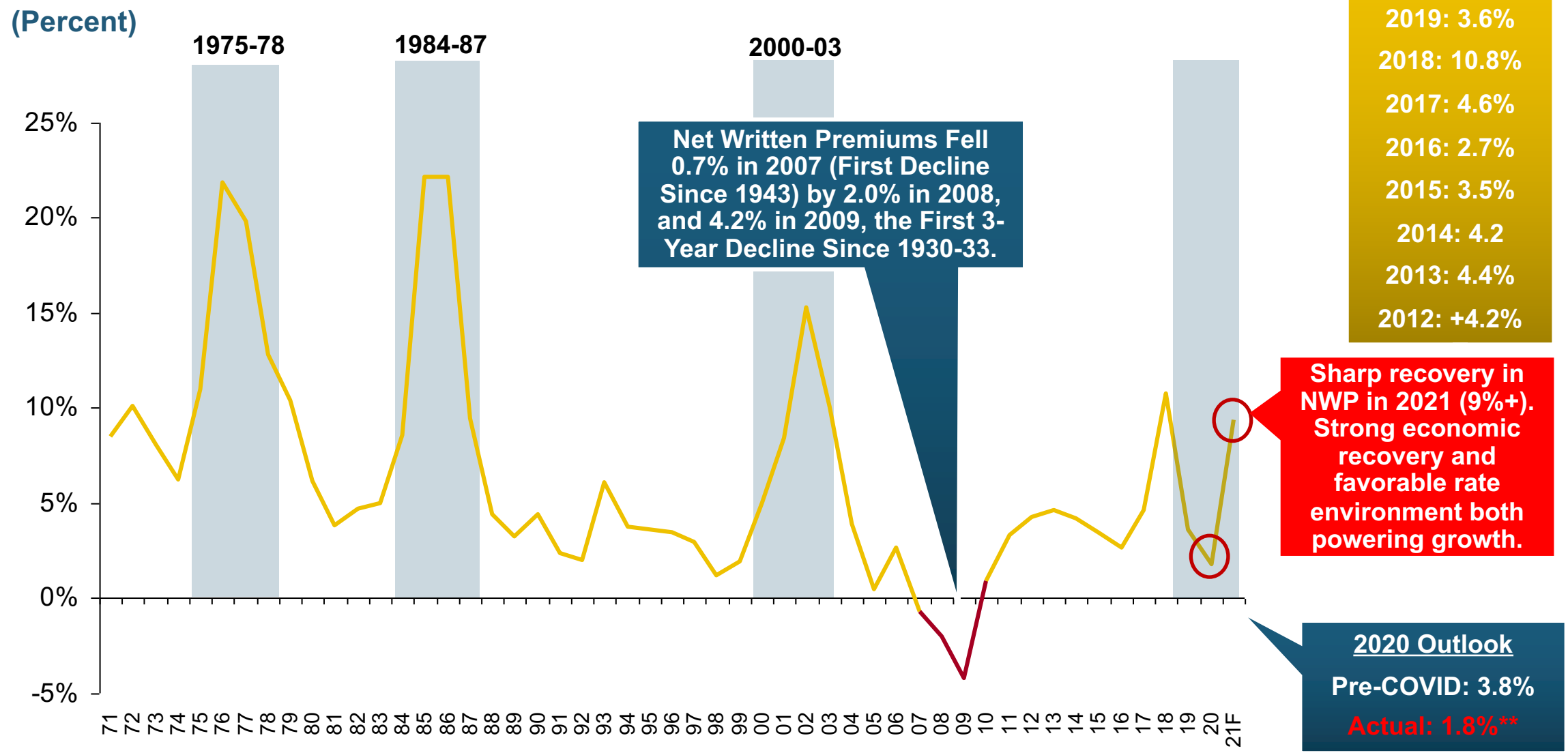
*2021 figure is actual through Q3.

Sources: ISO, A.M .Best; Risk and Uncertainty Management Center, University of South Carolina.

# RISK 3:
# Growth

## Growth Prospects

# Net Written Premium Growth (All P/C Lines): Annual Change, 1971–2021F

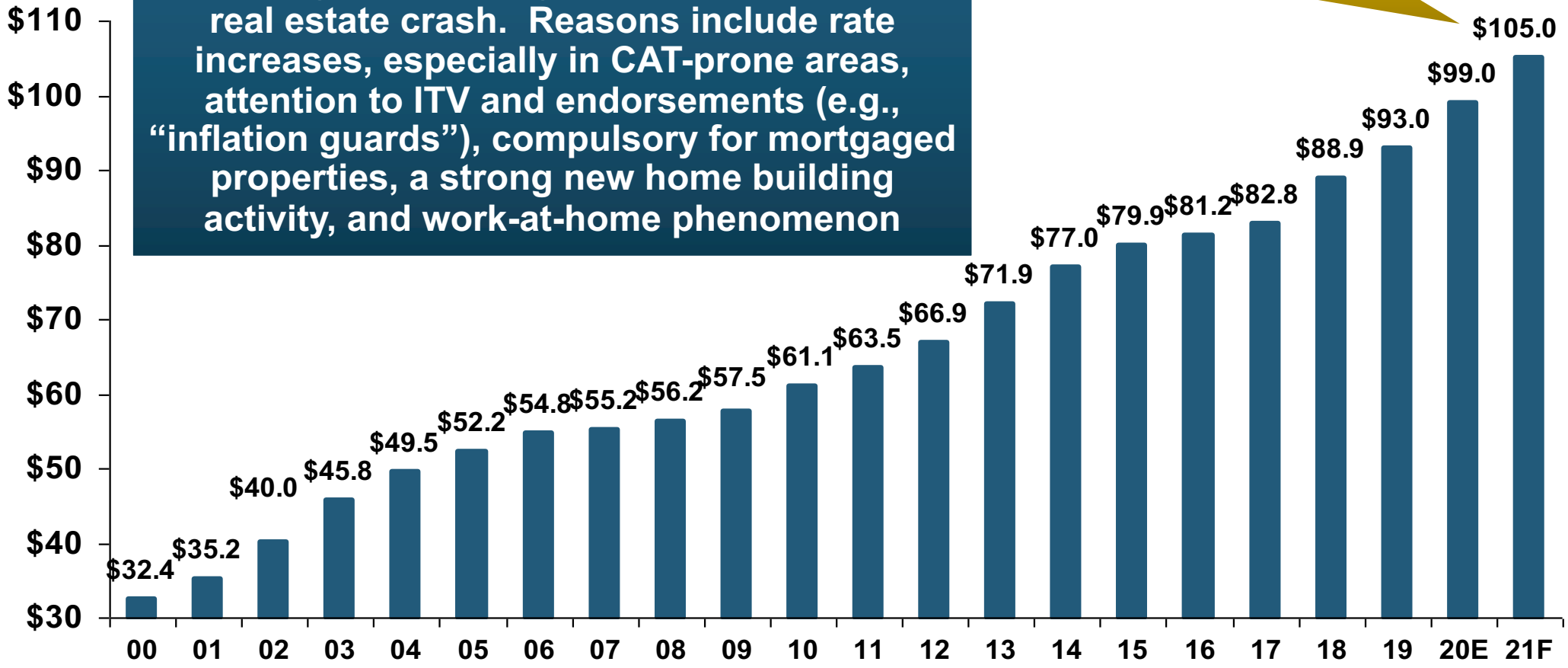



* **Pre/Post-COVID-19 forecast from A.M. Best Review & Preview (Feb. 2020, 2021). NOTE: Shaded areas denote "hard market" periods.
Sources: A.M. Best (1971-2013, 2021F), ISO (2014-19); Risk & Uncertainty Management Center, Univ. of South Carolina

# Homeowners Insurance
# Net Written Premium, 2000–2021F

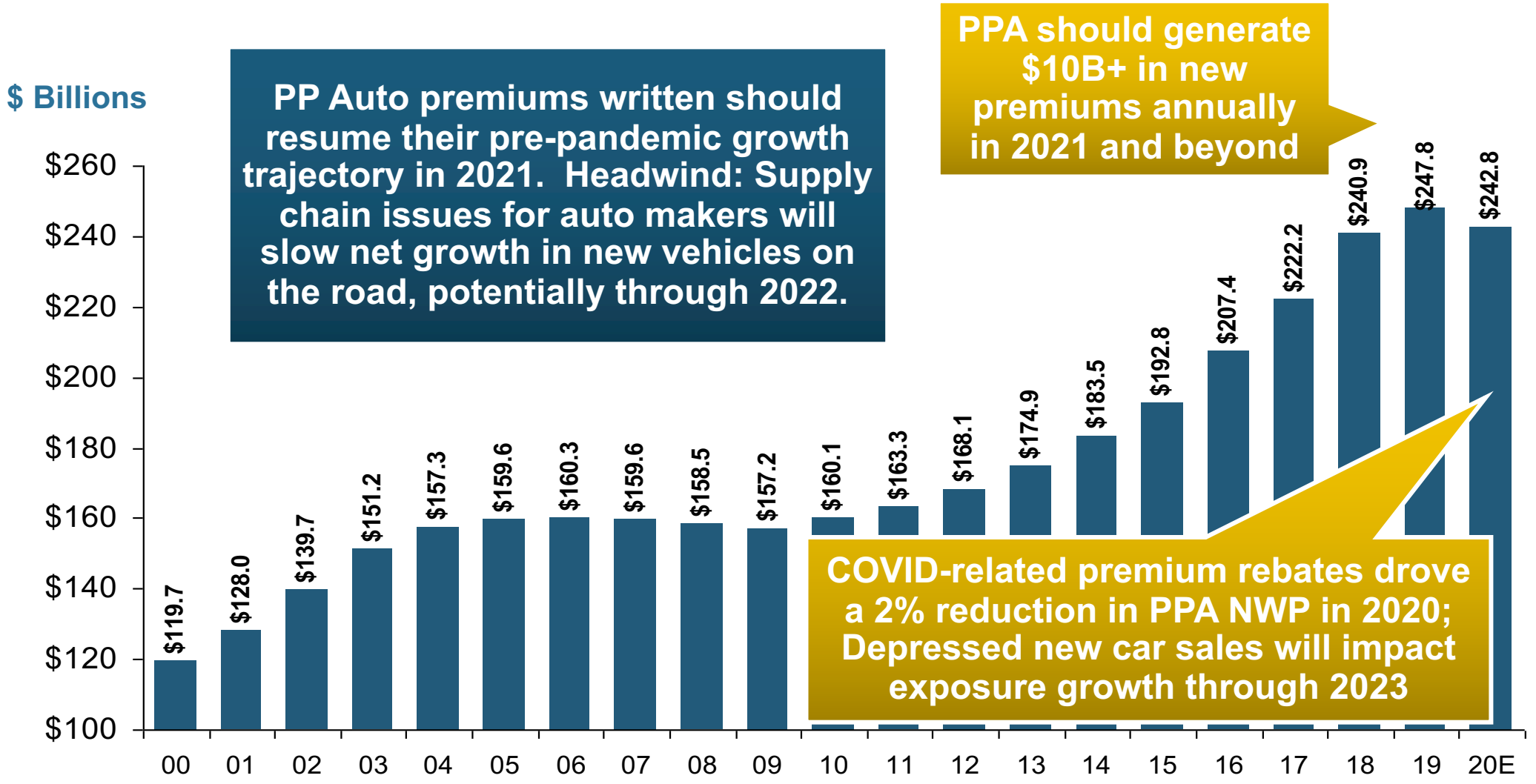
**The Homeowners line will reach $100B in NWP in 2021 for the first time and should generate about $4B - $6B in new premiums annually for the next few years**

**Homeowners insurance NWP more than tripled (+205% from 2000-2020) despite very little unit growth during the financial crisis and real estate crash. Reasons include rate increases, especially in CAT-prone areas, attention to ITV and endorsements (e.g., "inflation guards"), compulsory for mortgaged properties, a strong new home building activity, and work-at-home phenomenon**



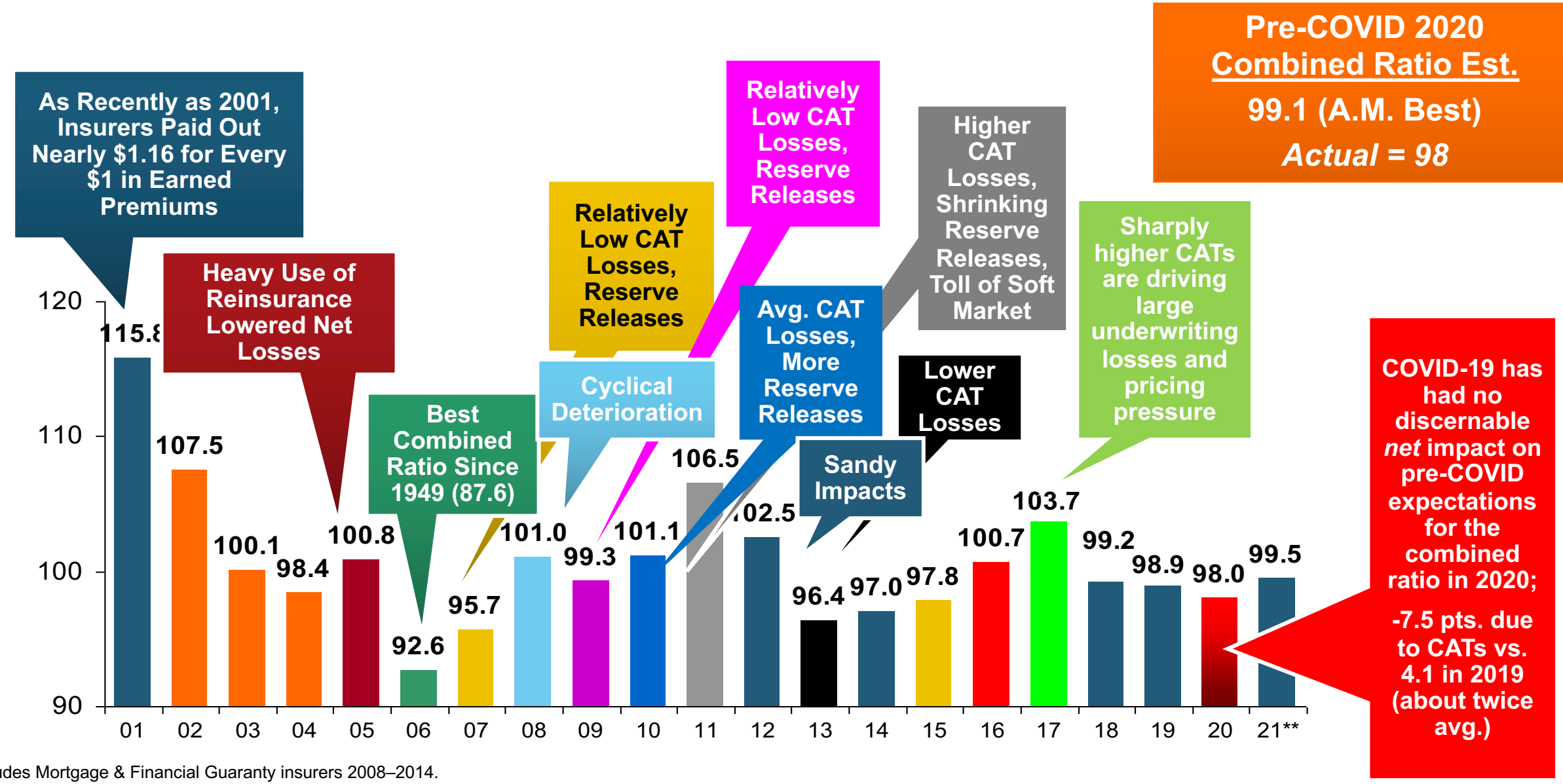

Sources: A.M. Best; USC RUM Center.

# Private Passenger Auto Insurance Net Written Premium, 2000–2020




Sources: A.M. Best (1990-2020E); USC RUM (2021F).

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

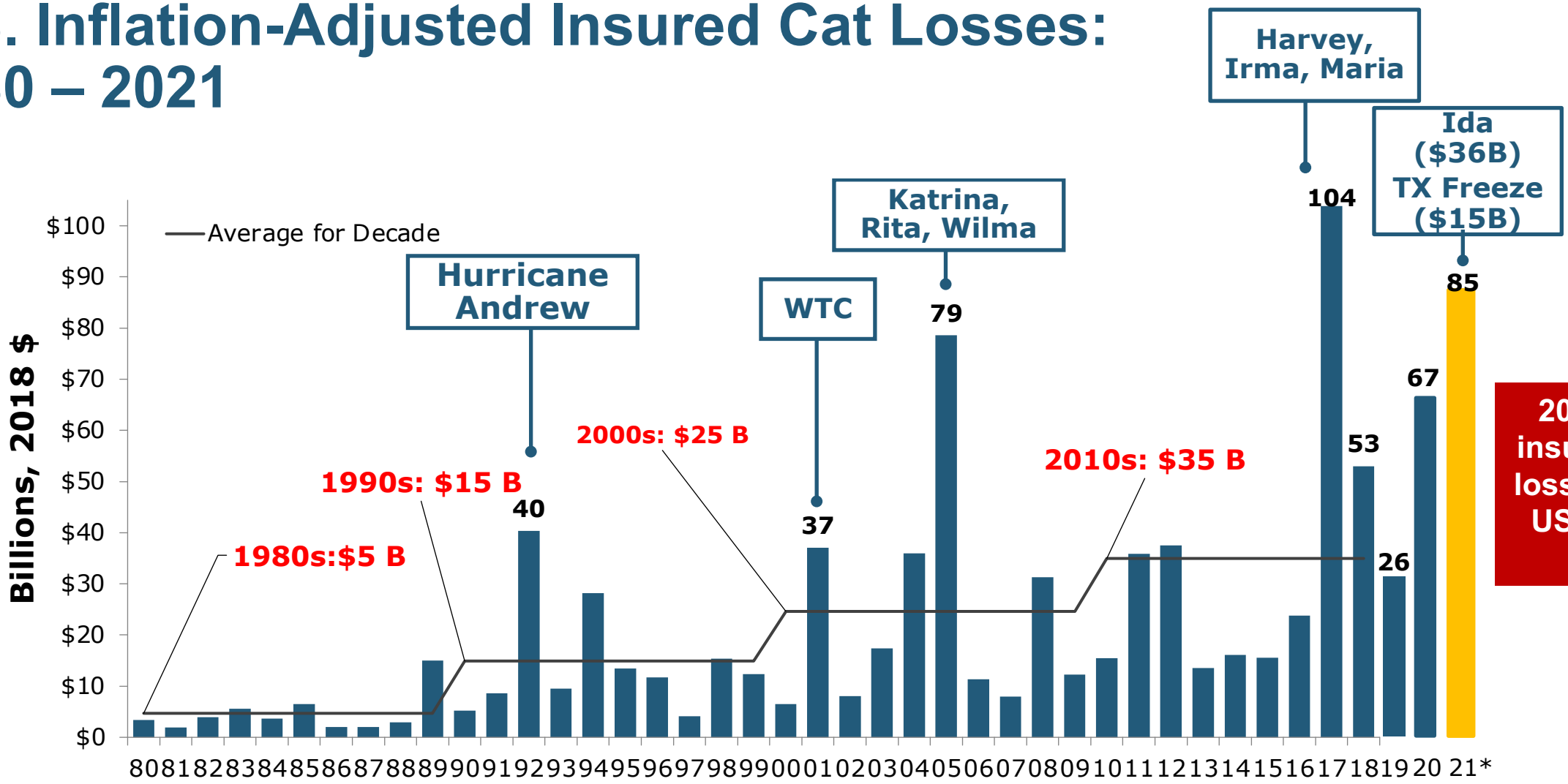



*Excludes Mortgage & Financial Guaranty insurers 2008–2014.
**2021 figure is 9-month actual = 99.5. (Q3 figure was 104.5)
Sources: A.M. Best, ISO (2014-2019).

# RISK 4:
# Catastrophe Loss Trends

## The Rise in CAT Losses Shows No Signs of Easing

# U.S. Inflation-Adjusted Insured Cat Losses: 1980 – 2021




**2021 CAT insured CAT losses in the US totaled $85B**

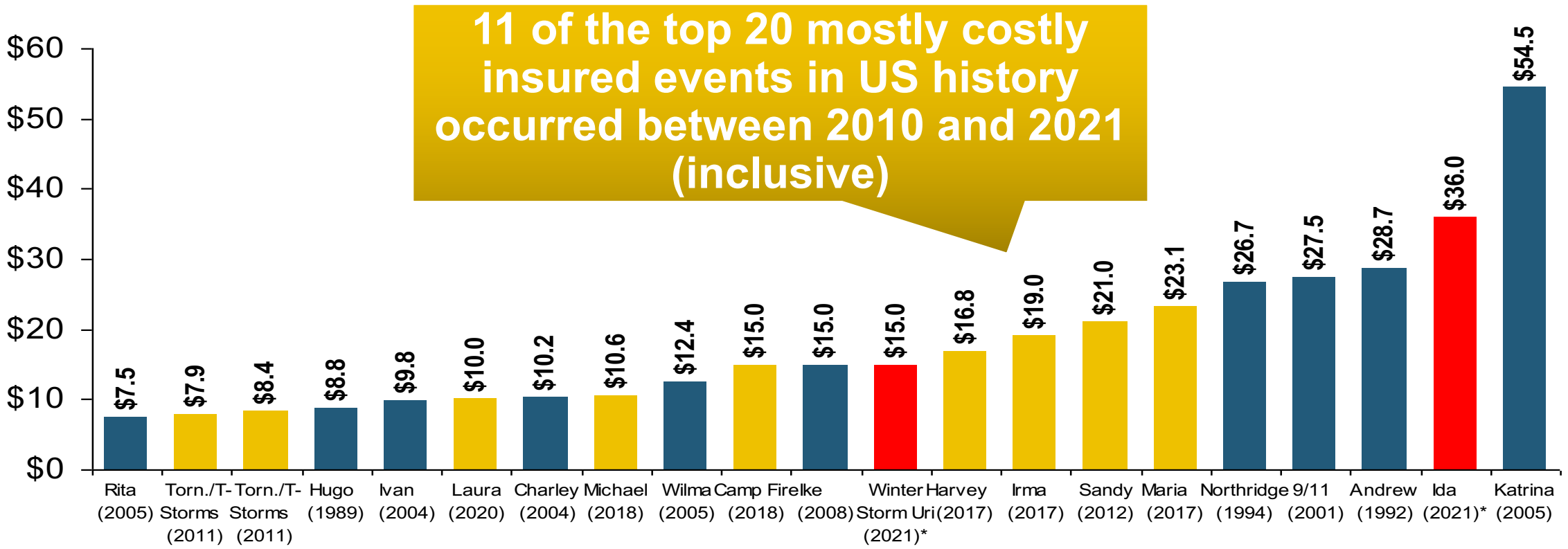
**Average Insured Loss per Year for 1980-2020 is $22.2 Billion**

**The 2020s are off to an ominous start with $76B in average annual insured losses**

Sources: Property Claims Service, a Verisk Analytics business (1980-2019); 2020 and 2021 figures from Munich Re; Insurance Information Institute; University of South Carolina, Risk & Uncertainty Management Center.

# Top 21 Most Costly Disasters in U.S. History—Katrina Still Ranks #1

(Insured Losses, 2020 Dollars, $ Billions)




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

*Estimated (in 2021 dollars)

Sources: PCS, RMS, Aon, Karen Clark & Co; USC Center for Risk and Uncertainty Management adjustments to 2020 dollars using the CPI.

# Potential Impacts of COVID-19 on *LOSSES* in 2020, by Key Line

| Line | Estimated Loss Impact |
|---|---|
| Workers Compensation | $0.2B - $92B ***(depends on severity of pandemic and "presumption" determination)*** |
| Business Interruption & Contingency | $2B - $22B (US); $1.1B - $13.9B (UK) |
| General Liability* | $0.7B to $27B loss across US & Bermuda markets |
| Personal/Comm. Motor | $26B - $57B reduction in personal auto and $4.2B - $9.4B commercial (US); $1 - $7B overall reduction in UK |
| Mortgage | $0 - $1.7B loss across US & Bermuda markets |
| D&O | $0.6 - $4.0 loss across US & Bermuda markets |
| Marine/Aviation/Transport | $0.3B-$1.3B reduction (US); $0.6 - $1.1B (UK) |

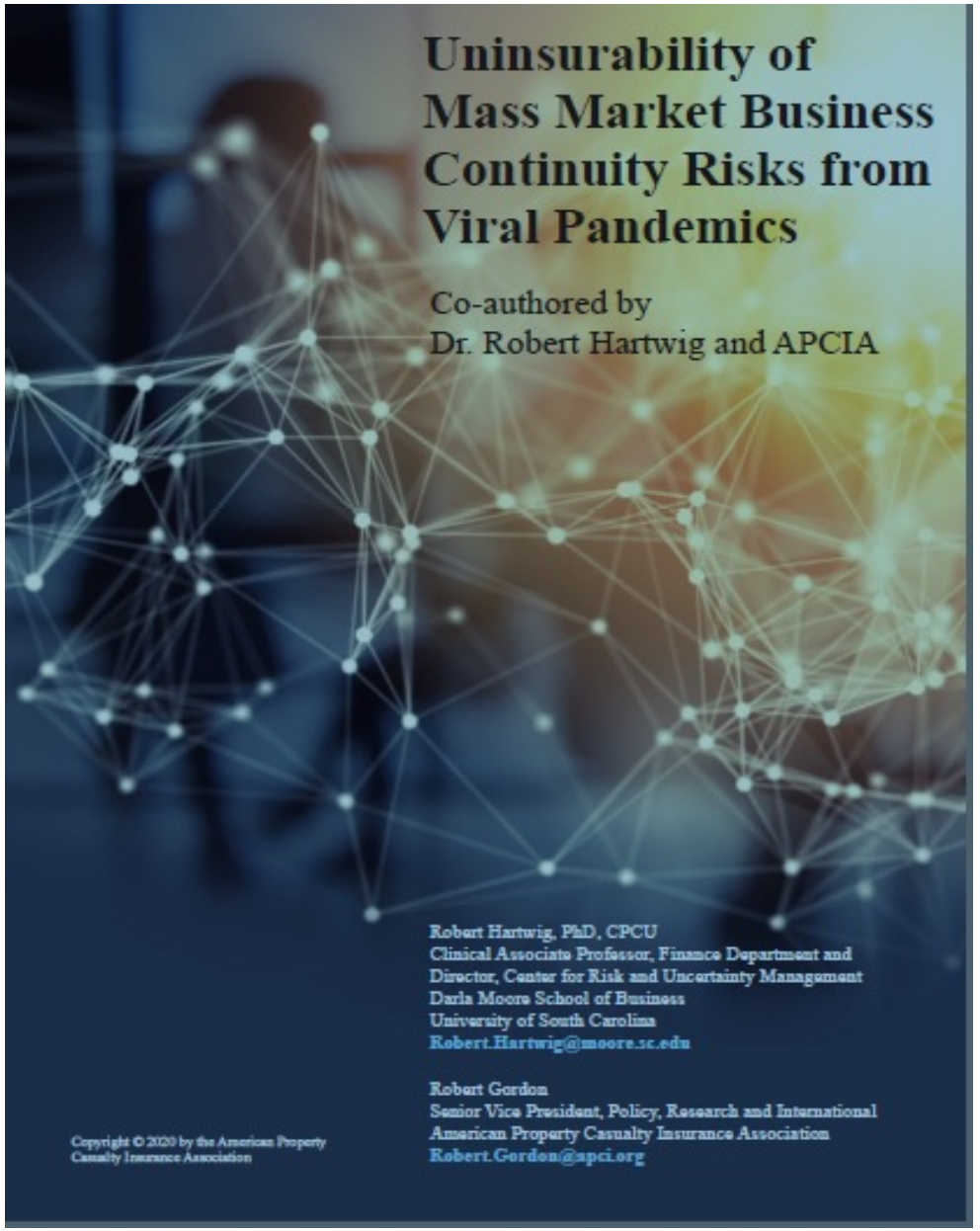
APRIL/MAY 2020 ESTIMATES

*Includes nursing home professional liability.

Source: Derived from Willis Towers Watson, *Scenario Analysis of COVID-19 Pandemic* (Fig.11, 14), May 2020. and other sources; Risk and Uncertainty Management Center, University of South Carolina.

# Paper on Insurability of Pandemic Risk

- Large scale business continuity risks from pandemics are generally note insurable in the private sector
- Business continuity risks are largely undiversifiable within private insurance markets and are highly correlated with other risks (e.g., investment risks)
- Large scale business continuity losses pose a potentially systemic risk to the industry and overall economy
- Import role for government




Download at: https://www.uscriskcenter.com/wp-content/uploads/2020/05/Uninsurability-of-Pandemic-Risk-White-Paper-Hartwig-APCIA-FINAL-WORD.pdf

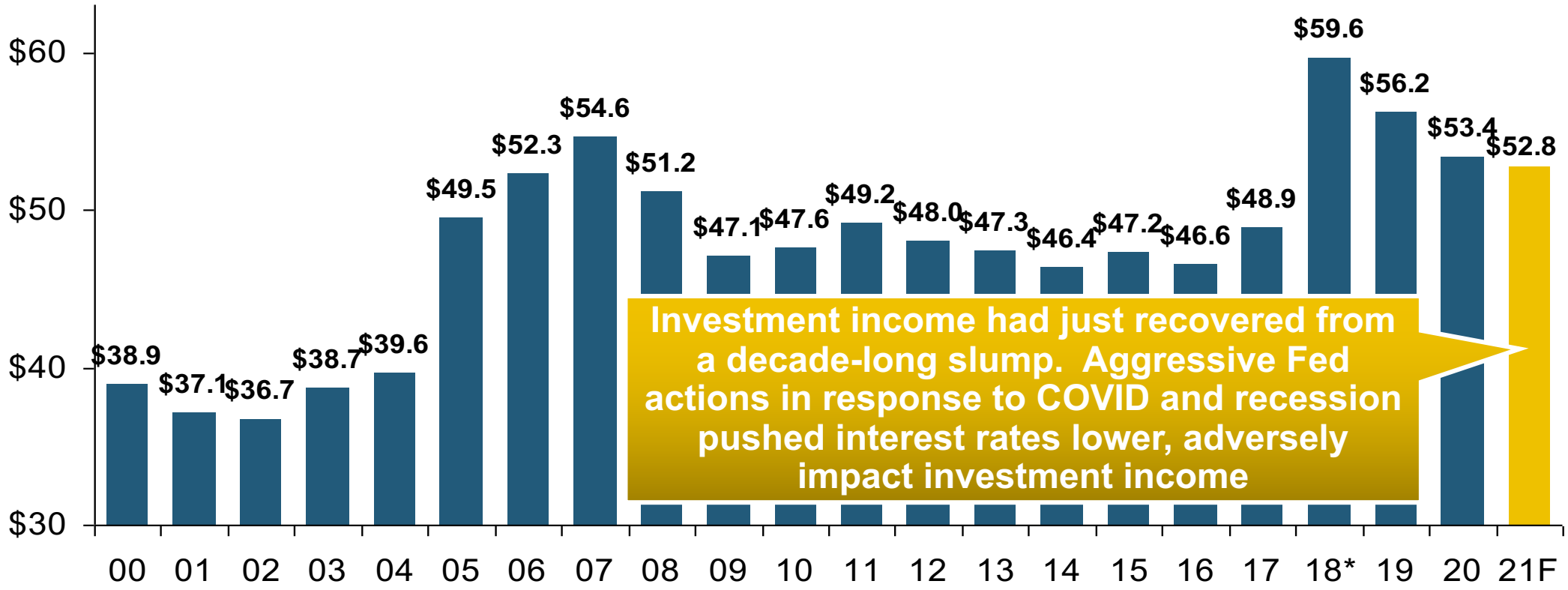
# RISK 5:
# Investments

## Investment Performance Is a Key Driver of Insurer Profitability

## Dove to Hawk: How Will and Aggressive Fed Impact Insurer Portfolios?

# Property/Casualty Insurance Industry Investment Income: 2000–2021F

($ Billions)

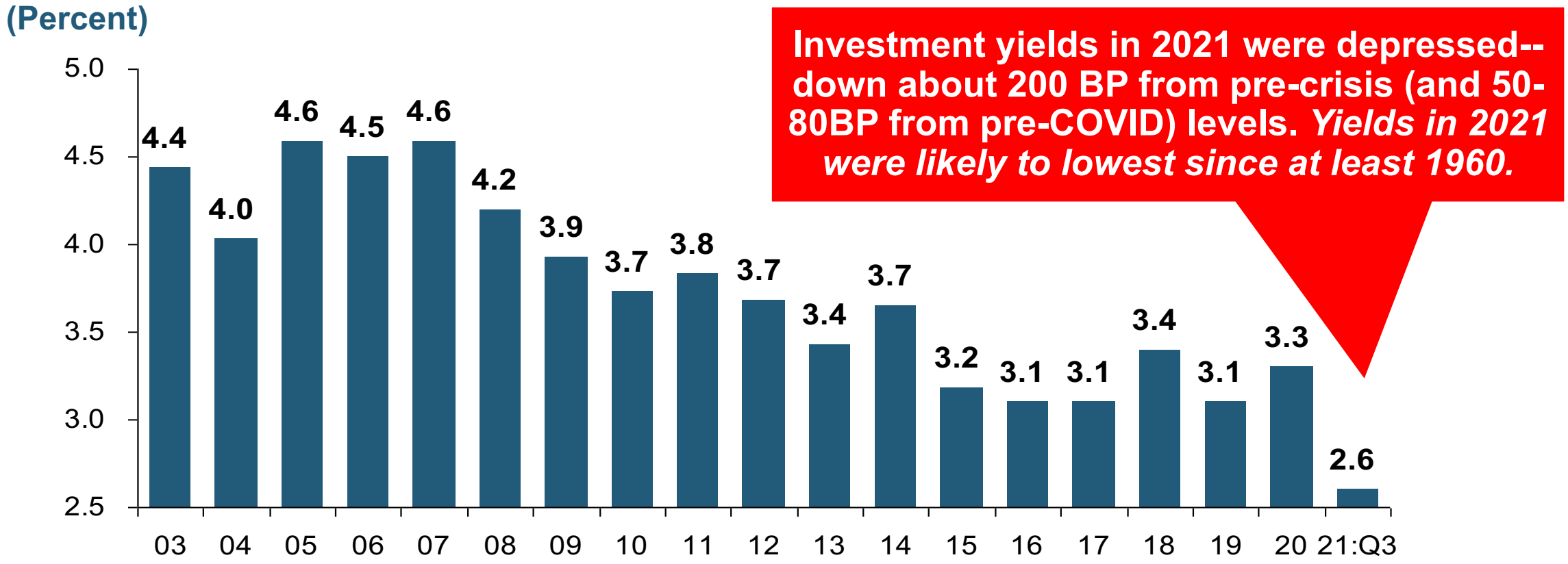



**Due to persistently low interest rates, investment income remained below pre-crisis levels for a decade. Lower interest rates during COVID drove investment income down once again. Fed rate hikes in 2022 could reverse this trend.**

*2021 figure is anualized YTD 9M actual figure of $39.564B. 2018-19 figures are distorted by provisions of the TCJA of 2017. Increase reflects such items as dividends from foreign subsidiaries.

[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, 2007–2021:Q3



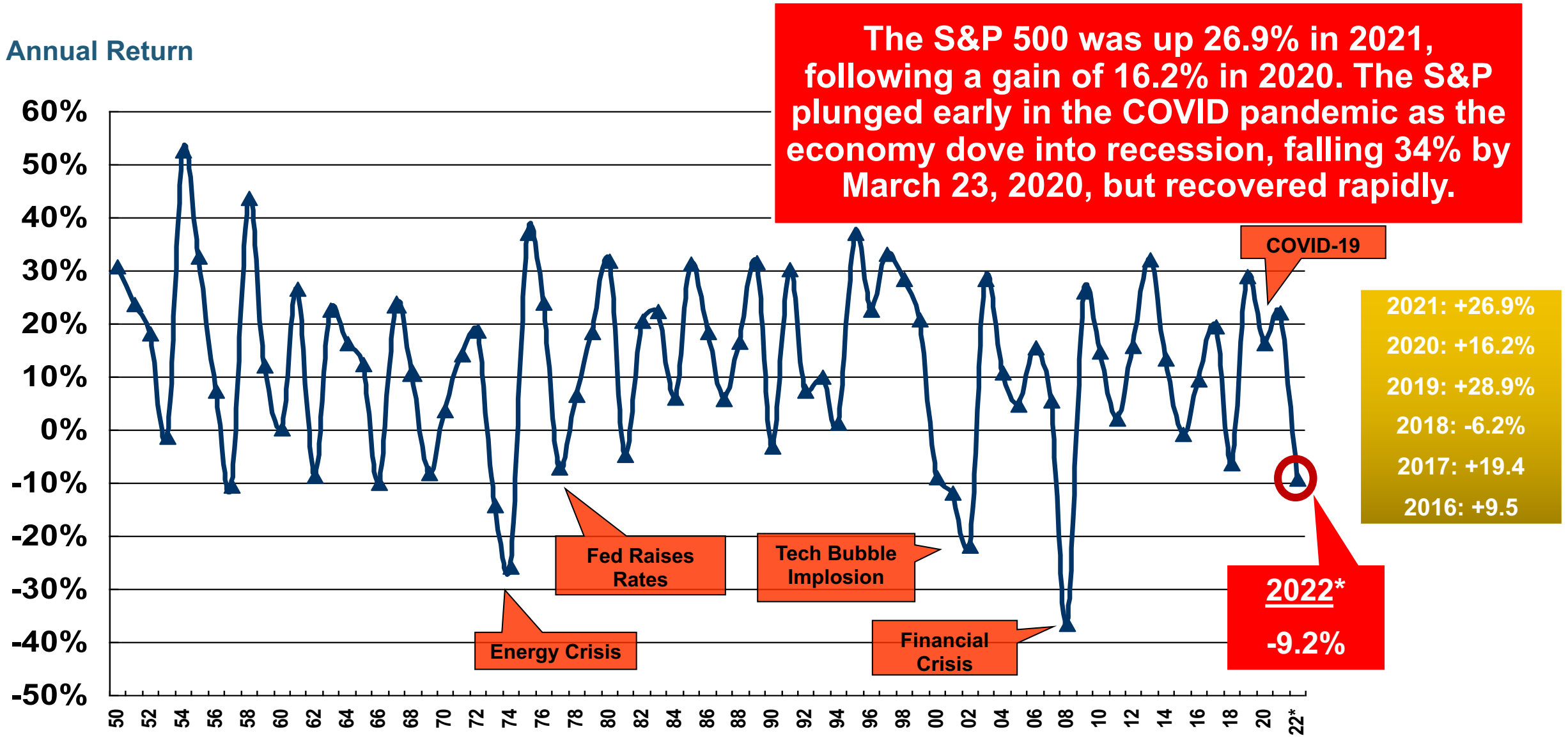

**Investment yields in 2021 were depressed--down about 200 BP from pre-crisis (and 50-80BP from pre-COVID) levels. *Yields in 2021 were likely to lowest since at least 1960.***

**The yield on invested assets remains depressed relative to pre-financial crisis and pre-COVID yields. Fed rate hikes in 2022 should begin to slowly lift yields.**

**Average: 1960-2019 = 4.9%**
**Low: 2.8% (1961)**
**High: 8.2% (1984/85)**

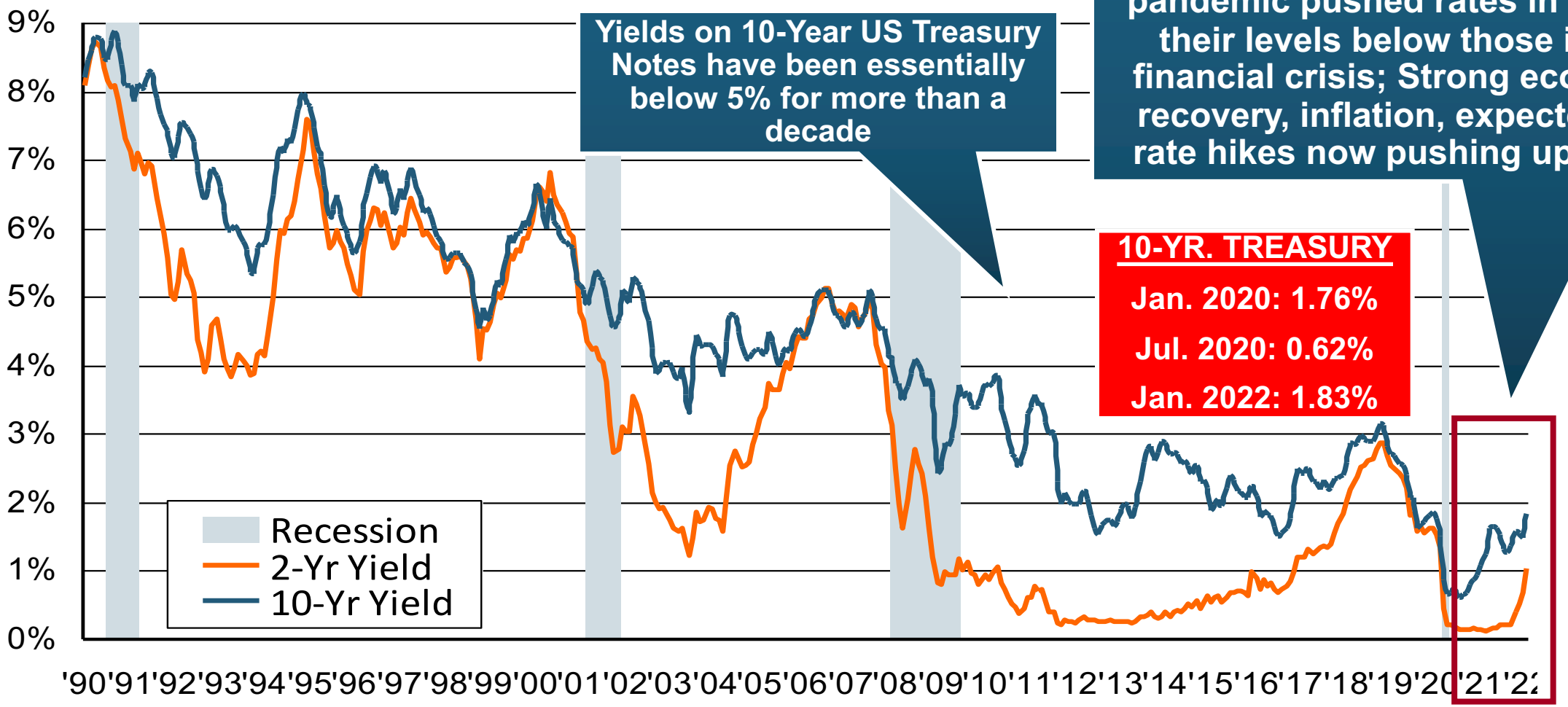
Sources: NAIC data, sourced from S&P Global Market Intelligence; 2017-19 figures are from ISO. 2020-21 data from the APCIA. Risk and Uncertainty Management Center, Univ. of South Carolina.

# S&P 500 Index Returns, 1950–2022*




,
*Through Jan. 28, 2022.
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.

# US Treasury Security Yields: A Long Downward Trend, 1990–2022*

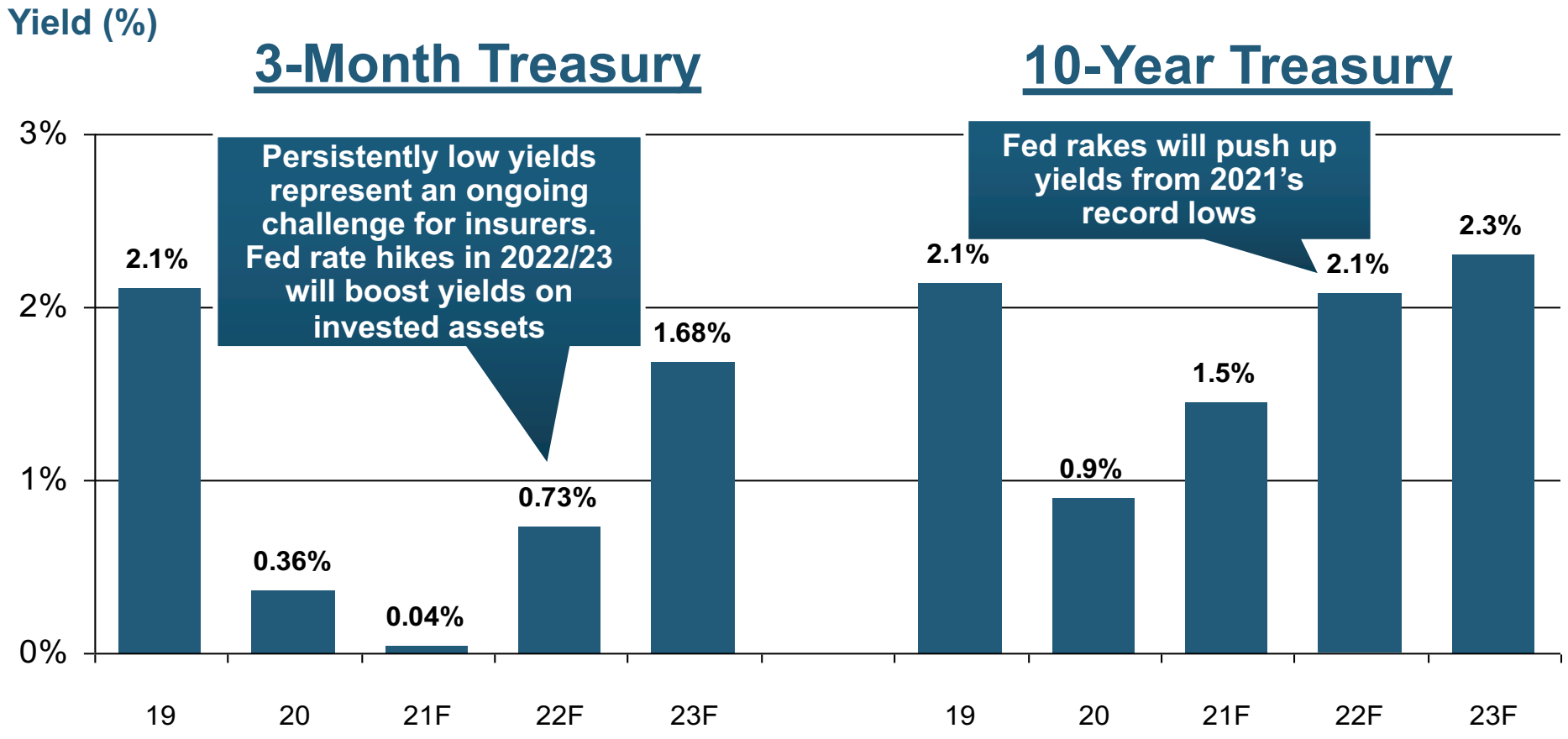



**Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for many years to come.**

*Monthly, constant maturity, nominal rates, through Jan. 2022.

Sources: Federal Reserve Bank at http://www.federalreserve.gov/releases/h15/data.htm. National Bureau of Economic Research (recession dates); Risk and Uncertainty Management Center, University of South Carolina.

# Interest Rate Forecasts: 2019 – 2023F




**Short-term rates remain severely depressed with little change expected through 2023 (based on current Fed messaging). Longer-term yields are expected to drift up a bit as the Fed initiates tapering as well modestly higher inflationary expectations**

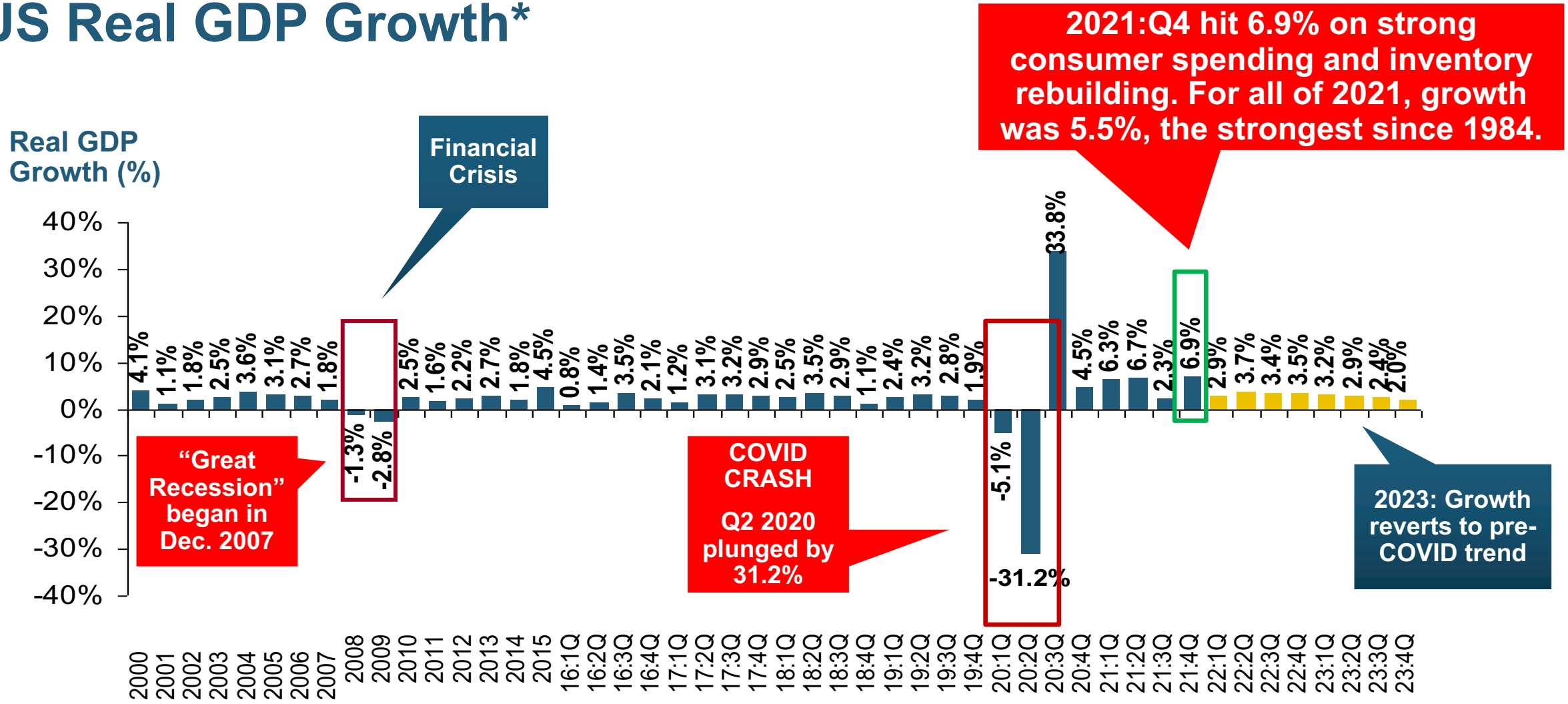
Sources: Wells Fargo Securities (1/22); Risk and Uncertainty Management Center, University of South Carolina.

# RISK 6:
# The Economy

**The Strength of the Economy Has Always Influenced Growth in Insurers' Exposure Base Across Most Lines—Including During the COVID-19 Pandemic**

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

# US Real GDP Growth*

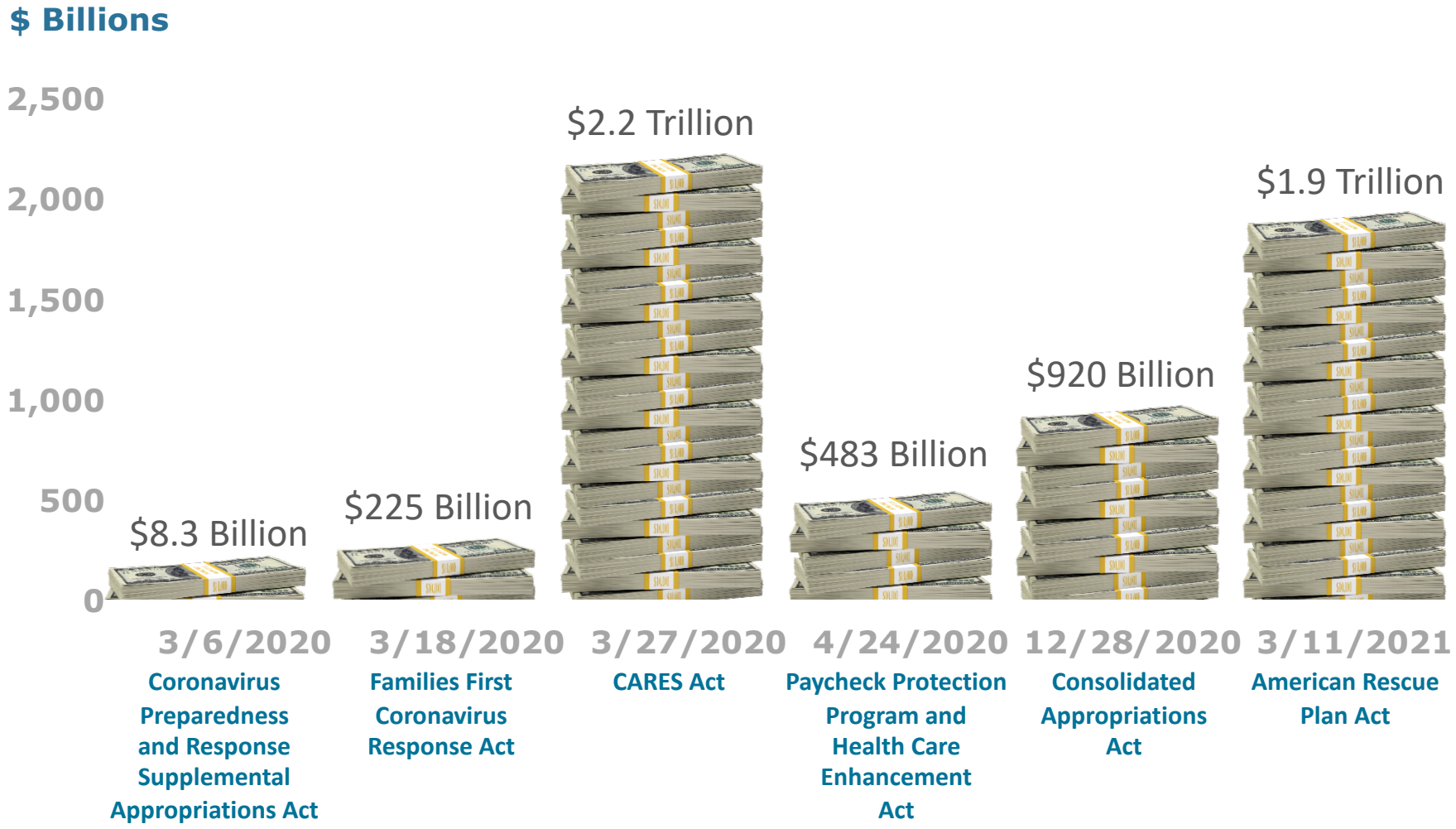



**GDP Recovered to Q4 2019 Level in Q1 2021. Demand for Insurance Increasing Materially in 2021/22—Particularly in Economically Sensitive Commercially Lines Such as WC**

* Estimates/Forecasts from Wells Fargo Securities.

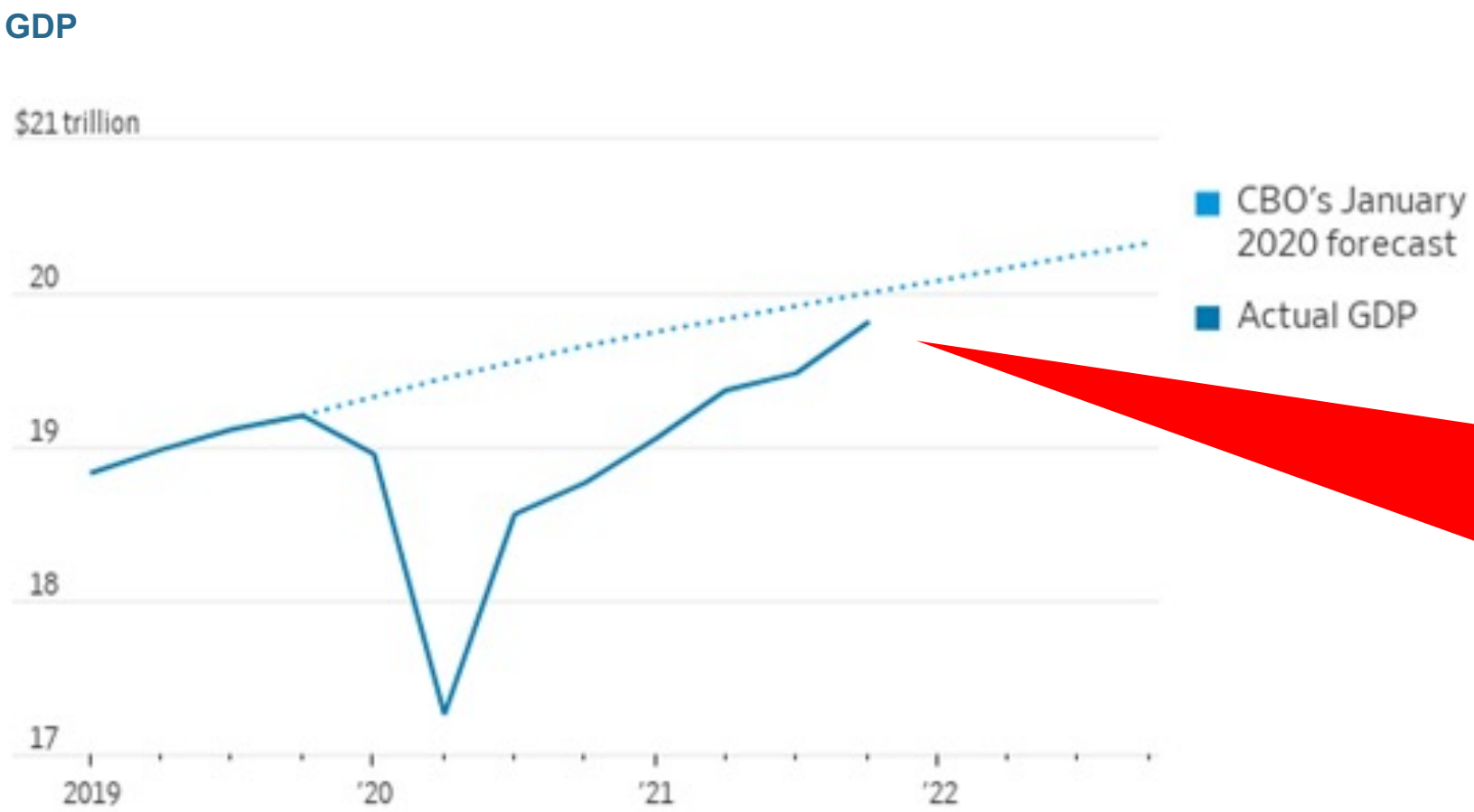
Source: US Department of Commerce, Wells Fargo Securities 1/22; Center for Risk and Uncertainty Management, University of South Carolina.

# COVID-19 Stimulus Plans




**To date, Congress has passed 6 COVID-19 relief bills, providing as much as $5.7 trillion in assistance**

# Closing the Gap: Actual GDP vs. Pre-Covid Projections*

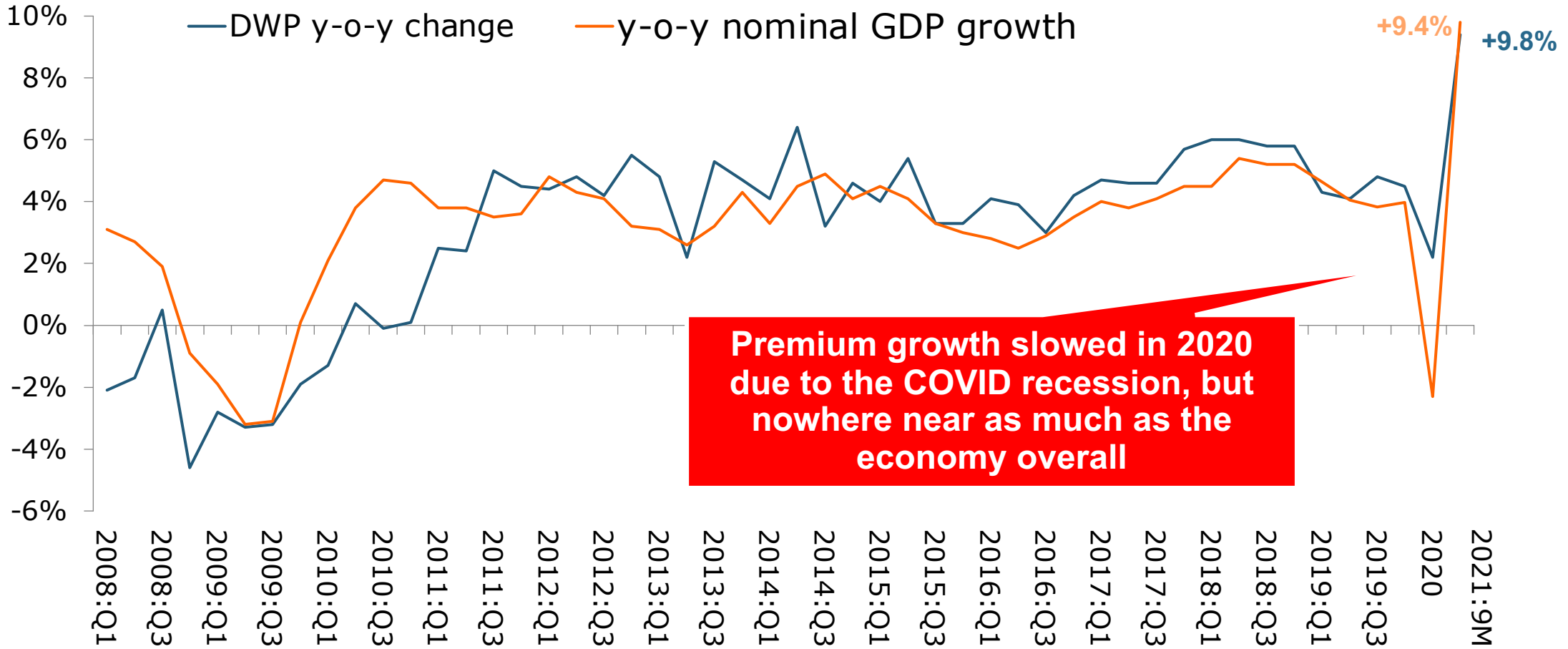



**With 5.5% real growth in 2021, the strongest since 1984, actual GDP is closing in on where it was expected to be even without the pandemic. The trajectory of recovery in early 2022 will slow due to Omicron, but should recover in Q2/Q3**

*Inflation-adjusted quarterly GDP at annual rates. Comparison uses pre-Covid January 2020 CBO projections vs, actuals.
Source: Wall Street Journal from U.S. Department of Commerce; University of South Carolina Risk and Uncertainty Management Center.

# The Economy Drives P/C Insurance Industry Premiums: 2006:Q1–2021:9M*

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



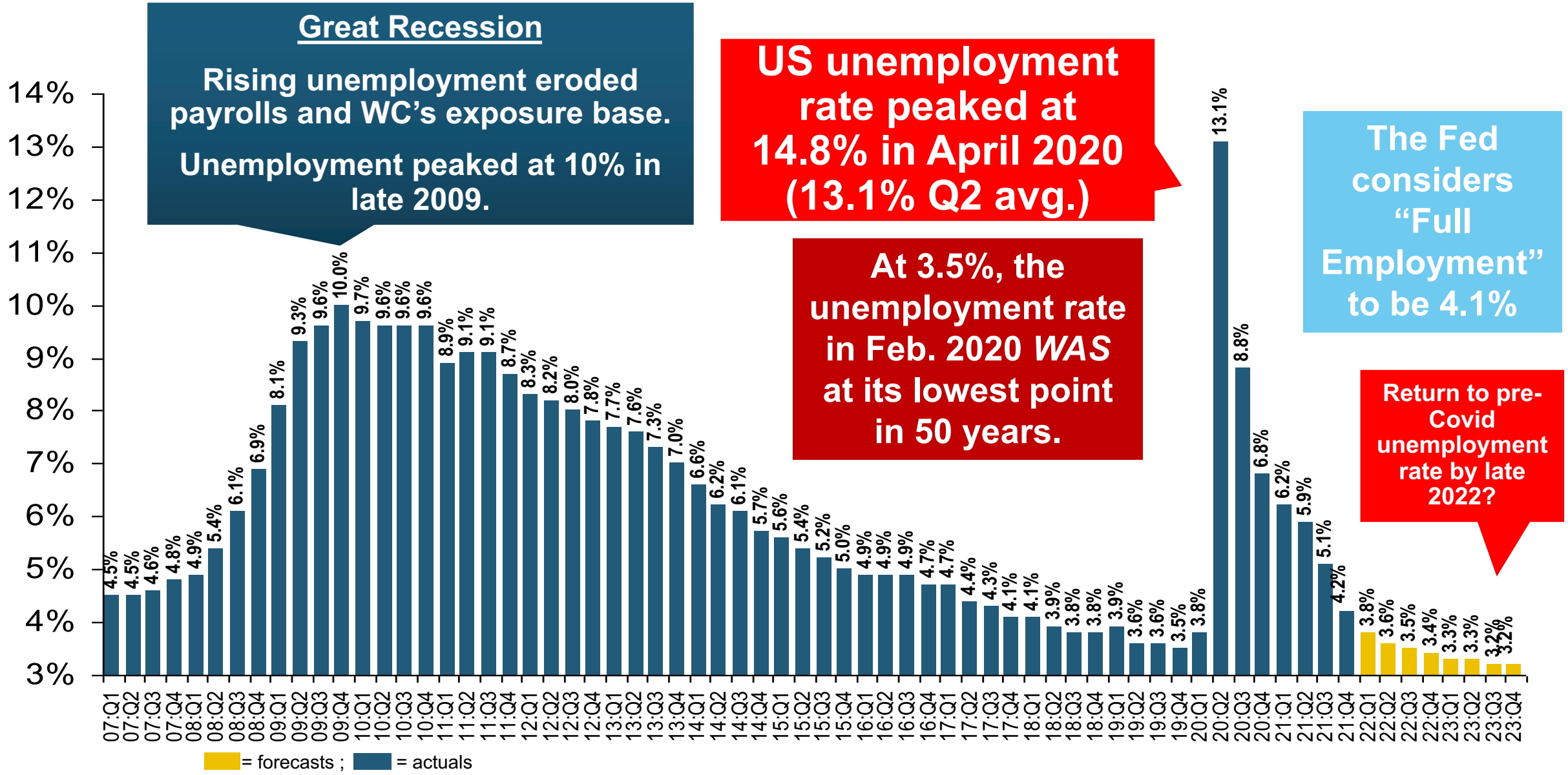

**Premium growth slowed in 2020 due to the COVID recession, but nowhere near as much as the economy overall**

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

*2020 figure is annual.

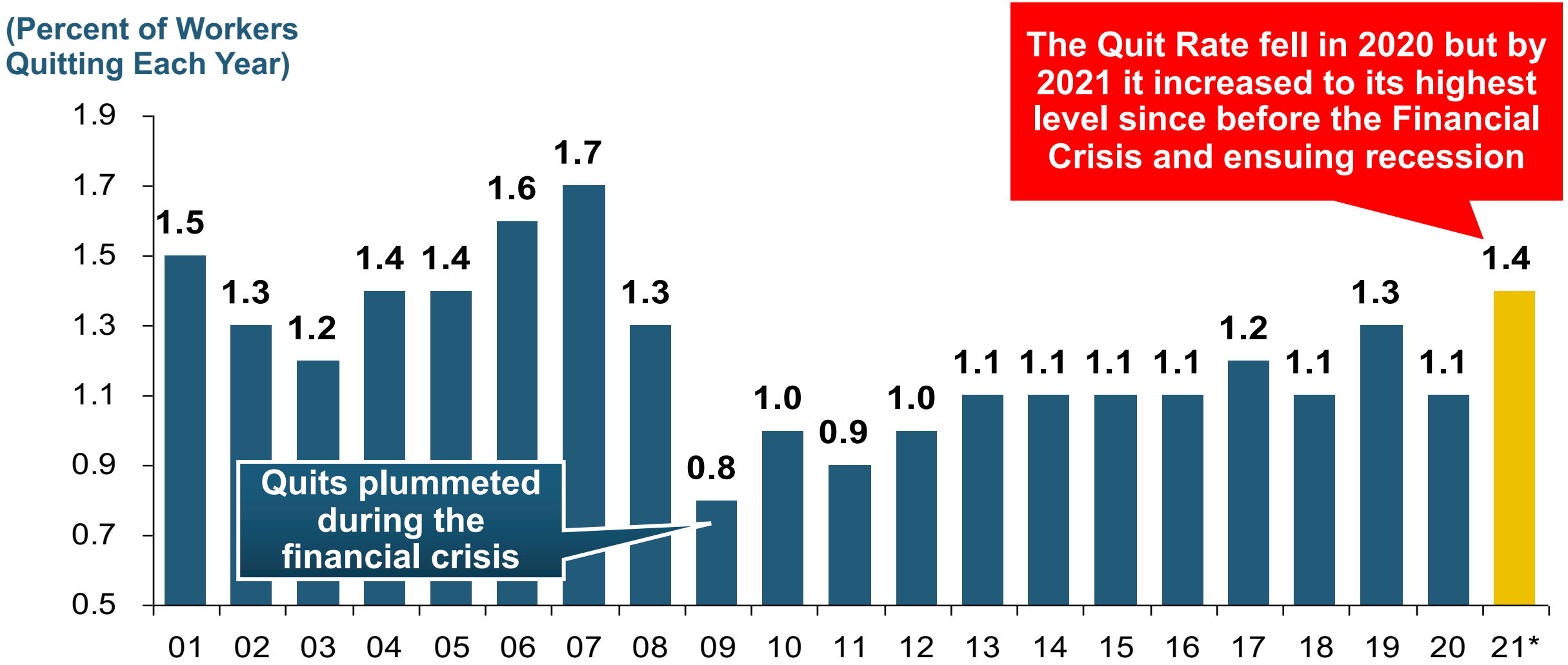
Sources: SNL Financial; U.S. Commerce Dept., Bureau of Economic Analysis; ISO; I.I.I.; Risk and Uncertainty Management Center, University of South Carolina.

# US Unemployment Rate Forecast: 2007:Q1–2023:Q4



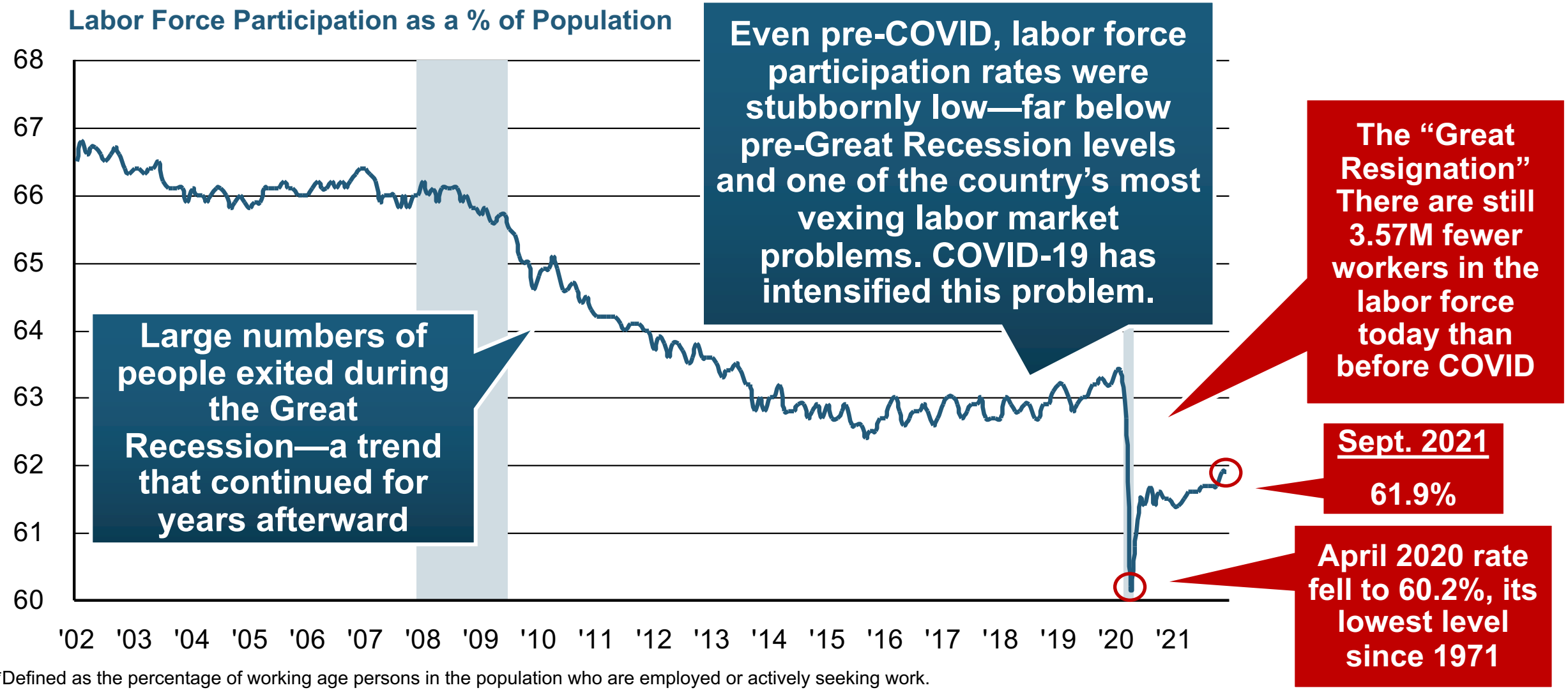

Sources: US Bureau of Labor Statistics; Wells Fargo Securities (1/22 edition); Risk and Uncertainty Management Center, University of South Carolina.

# Quit Rate in Finance and Insurance: 2001 – 2021*




*2021 figure is based on data through Nov. 2021.
Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

# Labor Force Participation Rate, Jan. 2002–Dec. 2021*

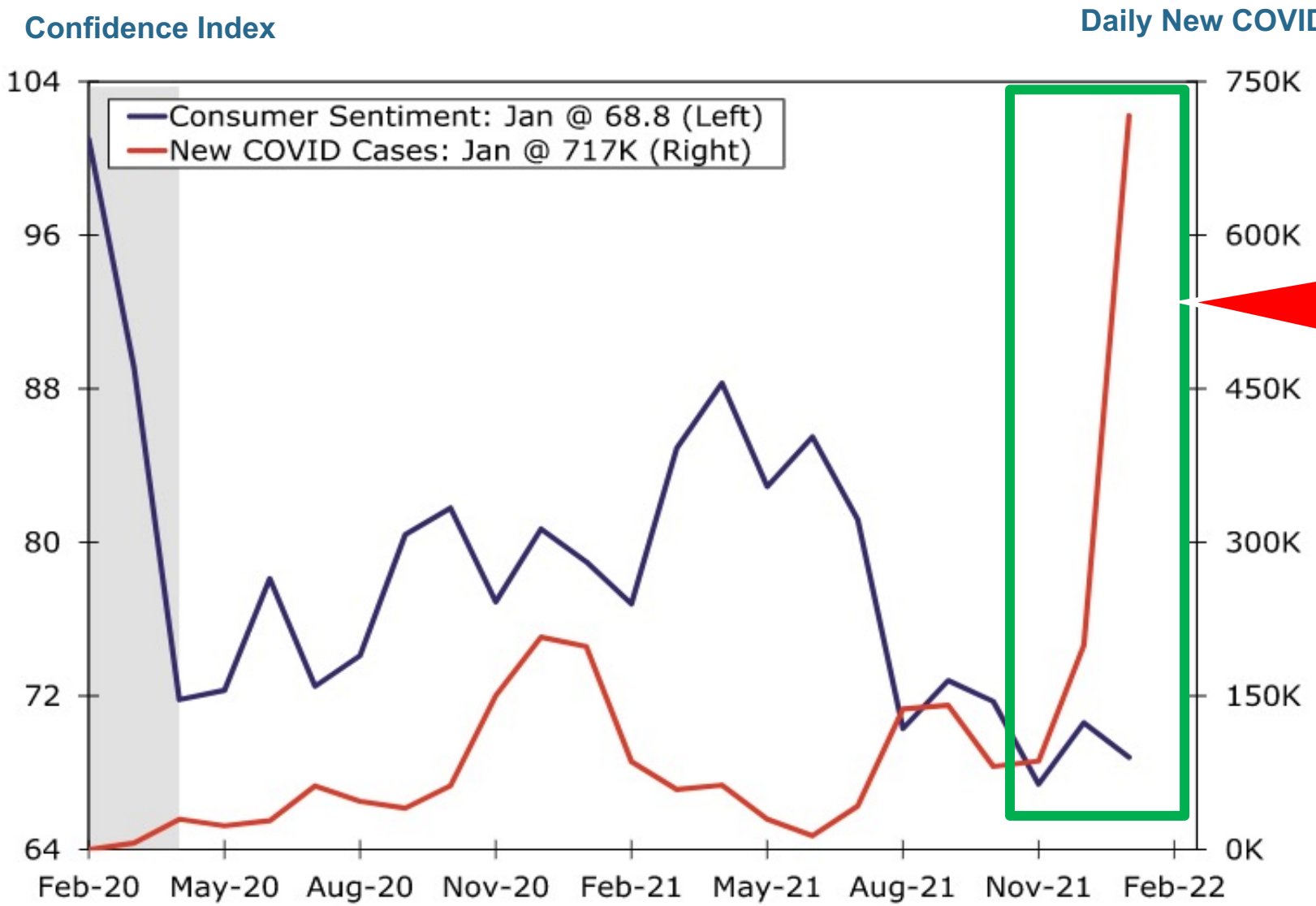



*Defined as the percentage of working age persons in the population who are employed or actively seeking work.

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); Center for Risk and Uncertainty Management, University of South Carolina.

# Consumer Sentiment vs. COVID Cases, Jan. 2020 – Jan. 2022




**The surge in cases from the COVID Omicron variant, along with inflation and geopolitical concerns have pushed Consumer Sentiment down, but the effect is not as large as with Delta**

Source: University of Michigan, Bloomberg, Wells Fargo Securities; University of South Carolina Risk and Uncertainty Management Center.

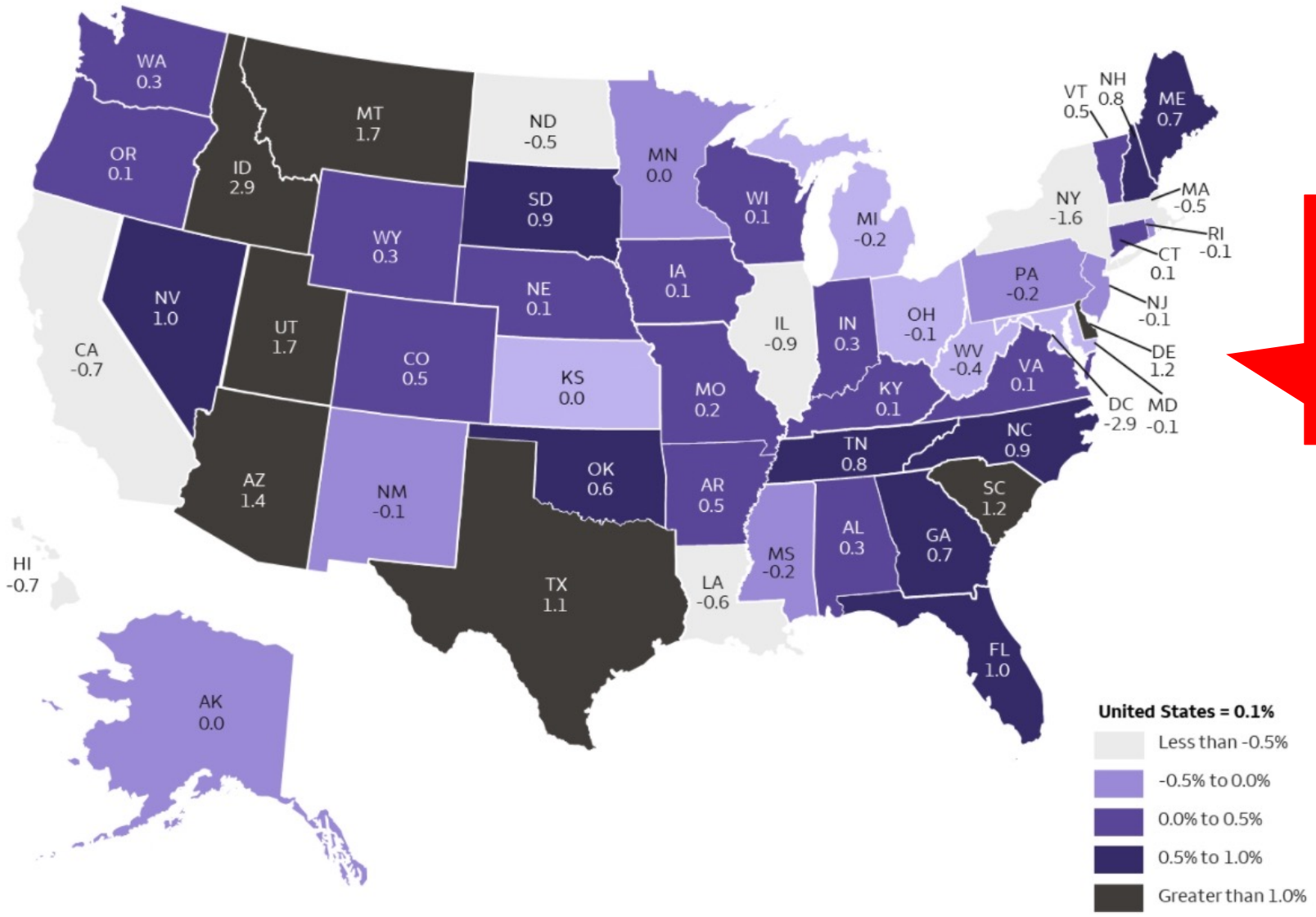
# Population Change by State, July 2020–July 2021 (U.S.: 0.1%)

## Top 5

| | |
|---|---|
| ID | 2.9% |
| MT | 1.7% |
| UT | 1.7% |
| AZ | 1.4% |
| SC | 1.2% |

## Bottom 5

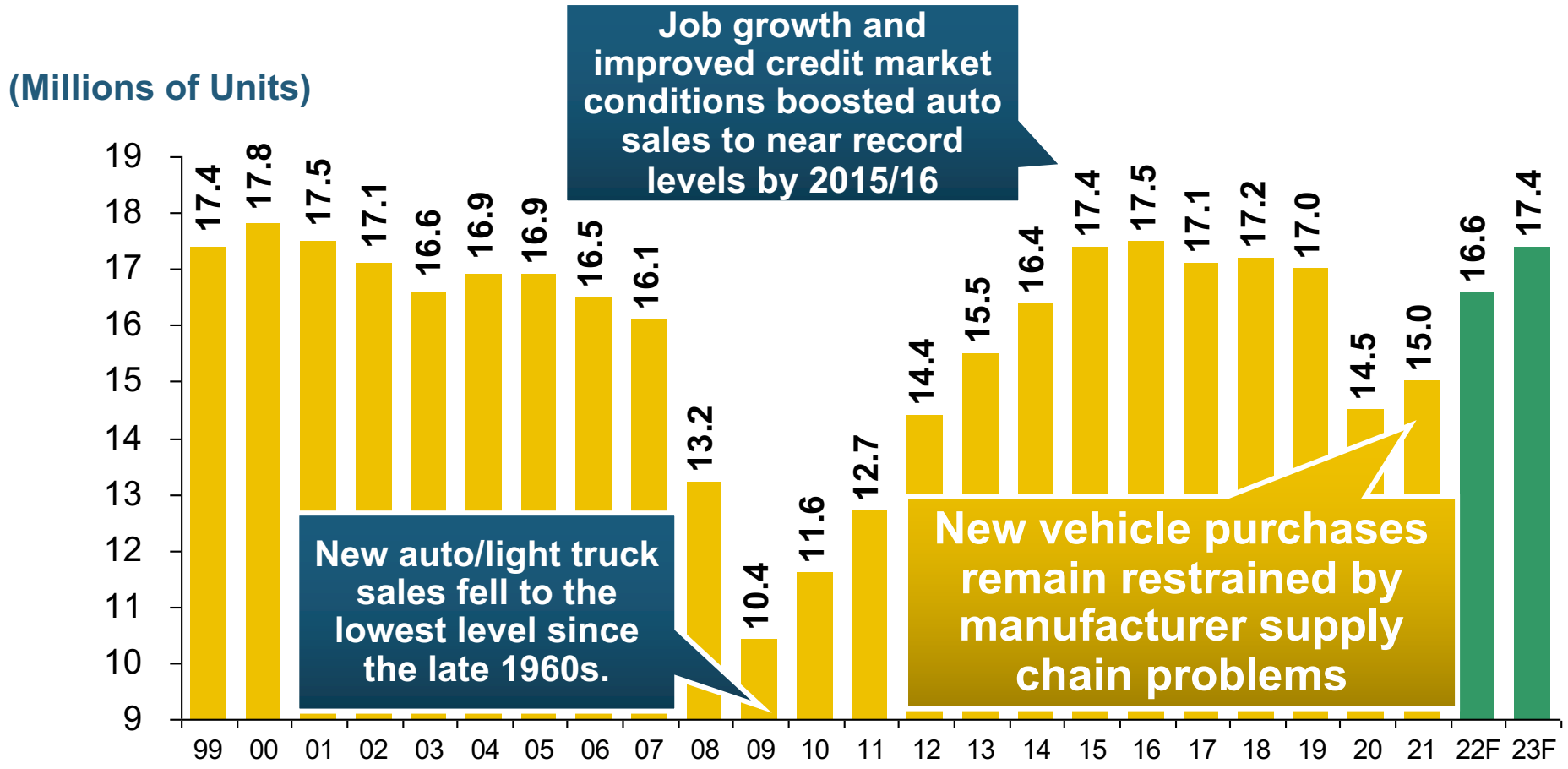
| | |
|---|---|
| NY | -1.6% |
| IL | -0.9% |
| CA | -0.7% |
| HI | -0.7% |
| LA | -0.6% |




**Population growth is a driver of growth insurance demand and insurable exposure. Demographic trends in the Northeast are generally weak**

Source: U.S. Census Bureau, Dec. 2021 estimates, www.census.gov/popest; Wells Fargo Securities; Risk an Uncertainty Management Center, University of South Carolina.

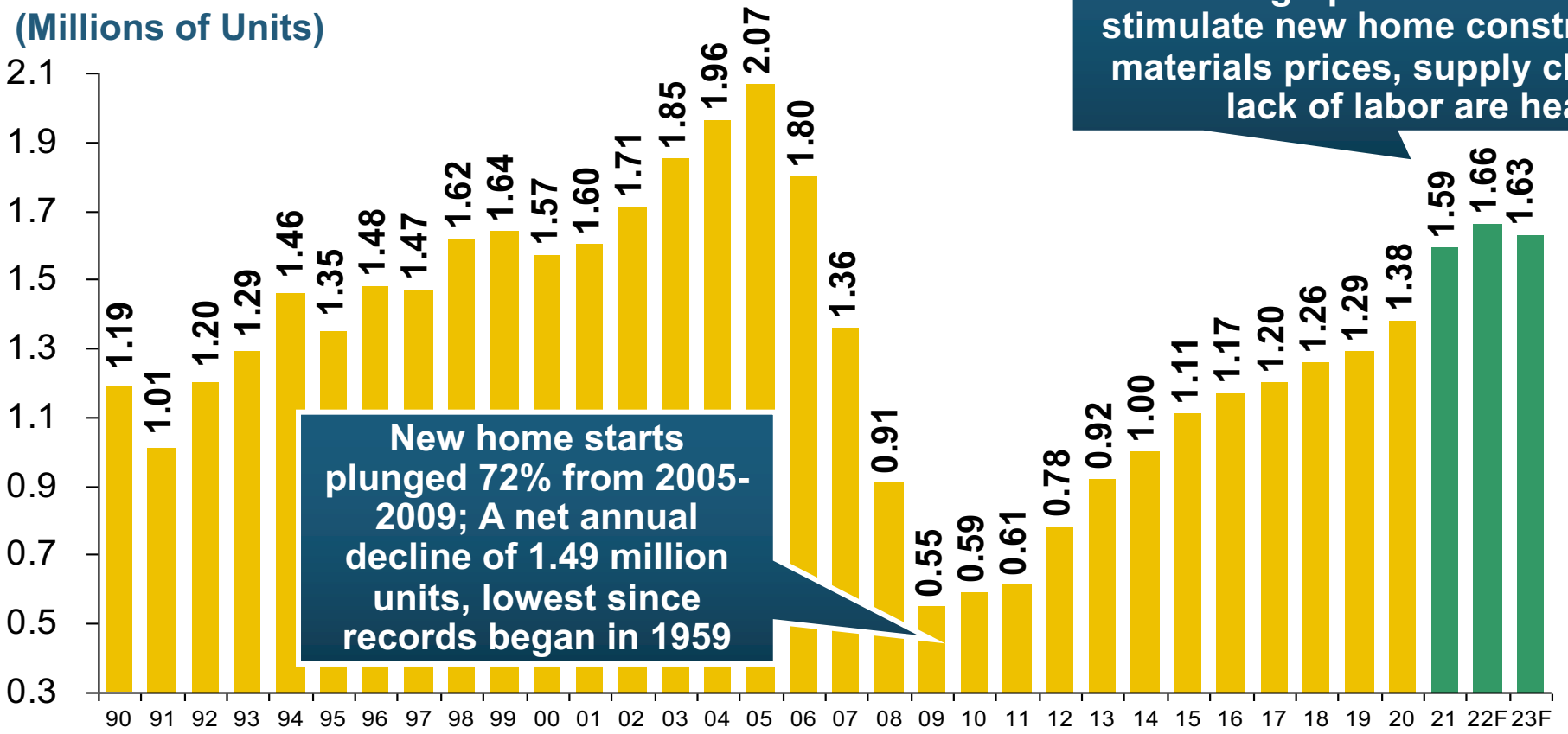
# Auto/Light Truck Sales, 1999-2023F




**Yearly car/light truck sales remain below pre-COVID levels. Auto manufacturer supply chain issues are expected to linger well in to 2022. PP Auto premium might grow by 3.5% - 5%.**

Source: U.S. Department of Commerce; Wells Fargo Securities (1/22 for 2021-22); Univ. of South Carolina, Center for Risk and Uncertainty Management..

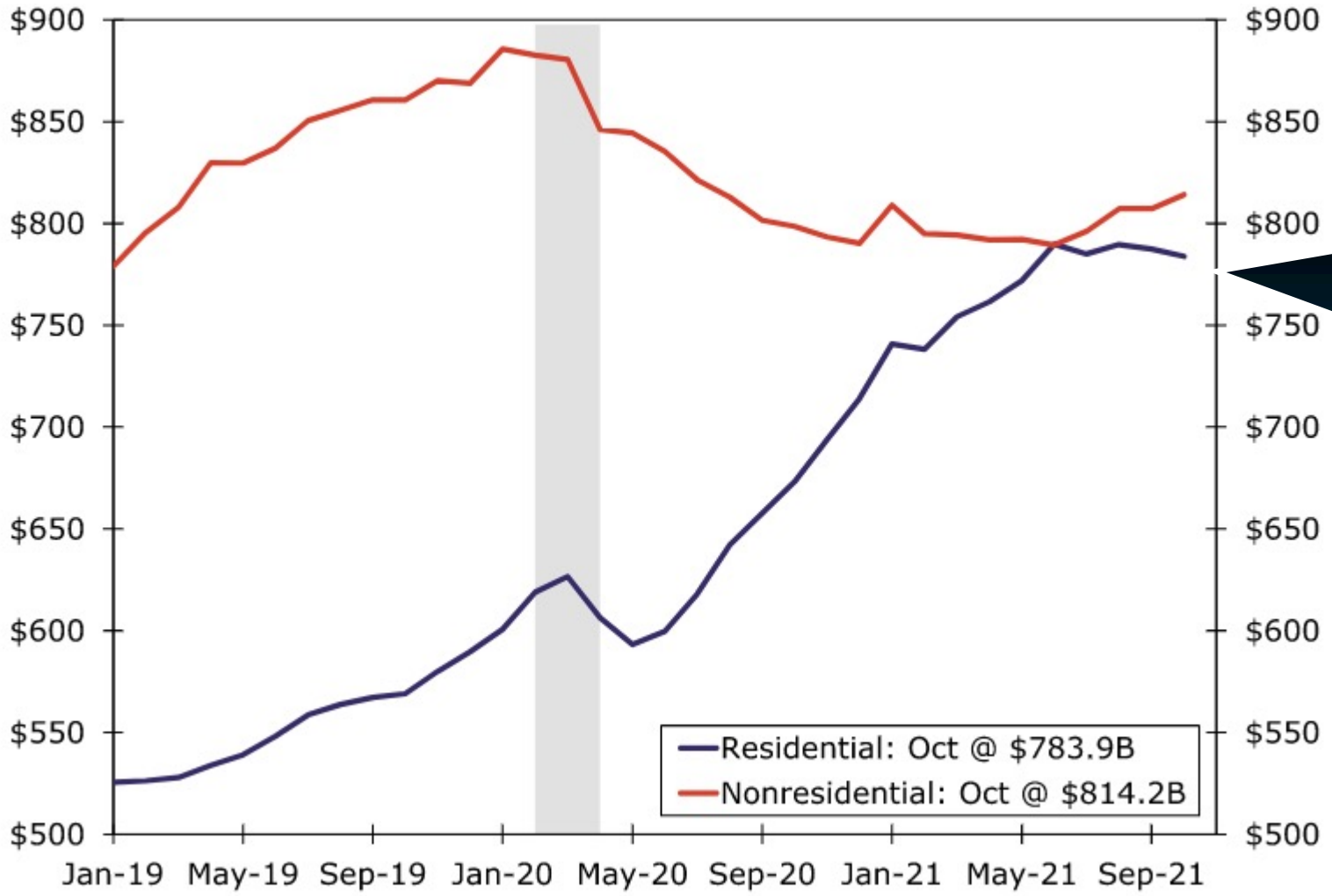
# New Private Housing Starts, 1990-2023F




**Insurers Are Continue to See Meaningful Exposure Growth in the Homeowners Line as well as Lines 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 (1/22 for 2021-23); Univ. of South Carolina, Center for Risk and Uncertainty Management..

# Private Residential Construction, Jan. 2003 – Nov. 2021*
## ($ Billions, Seasonally Adjusted Annual Rate)



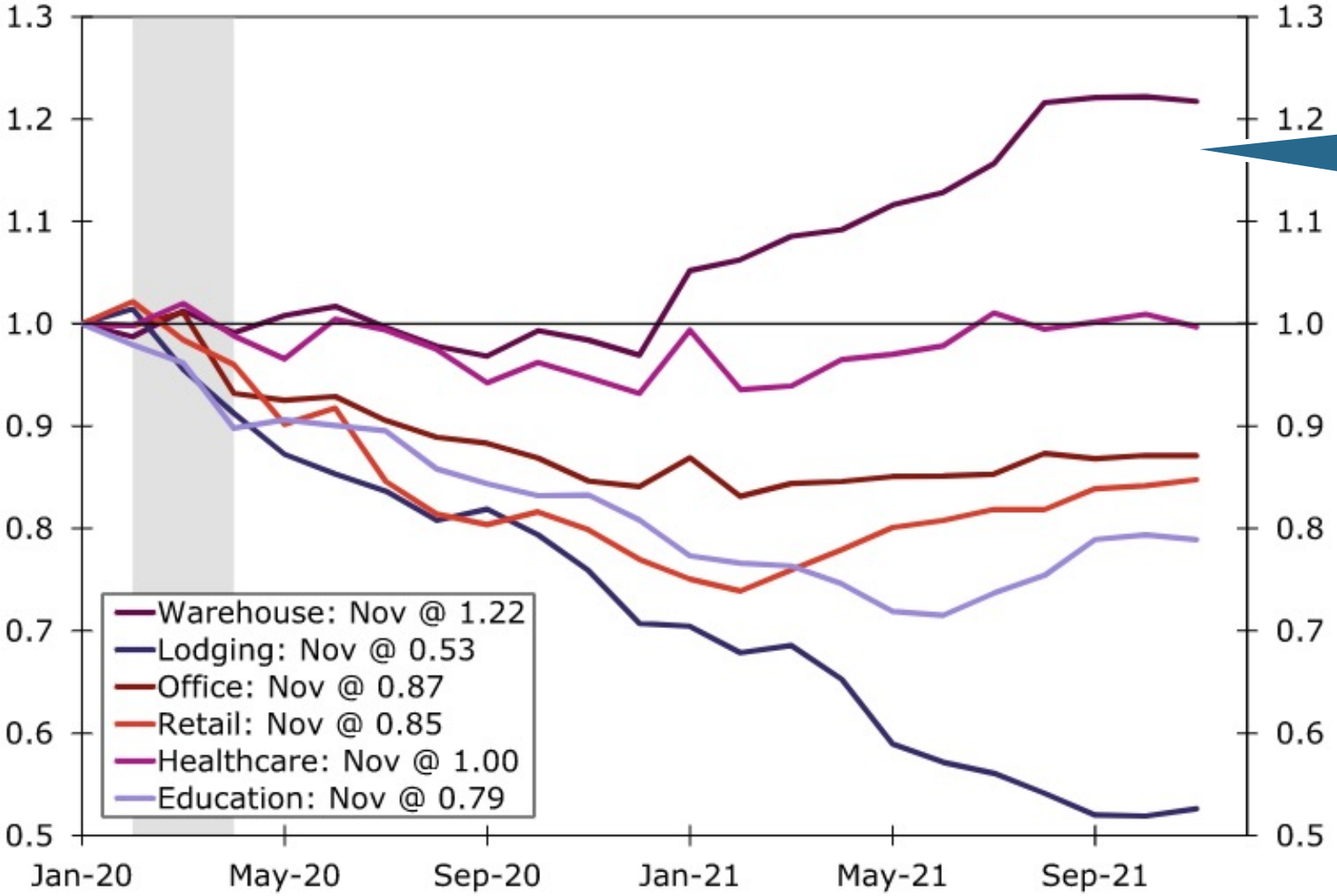

**The value of Residential Construction has skyrockted during the pandemic and is up ~30% from its pre-COVID peak.**

**Nonresidential Construction is down about 8% relative to pre-COVID levels**

*Latest available.

Sources: US Department of Commerce; Wells Fargo Securities (1/22); Risk and Uncertainty Management Center, University of South Carolina.

# Nonresidential Construction Index,
## Jan. 2020 – Nov. 2021* (Jan. 2020 = 100)




**With the exception of warehousing and healthcare, private nonresidential construction is generally falling**

*Latest available. C = Commercial, I = Institutional.

Sources: US Department of Commerce; Wells Fargo Securities (1/22); Risk and Uncertainty Management Center, University of South Carolina.

# RISK 7:
# INFLATION

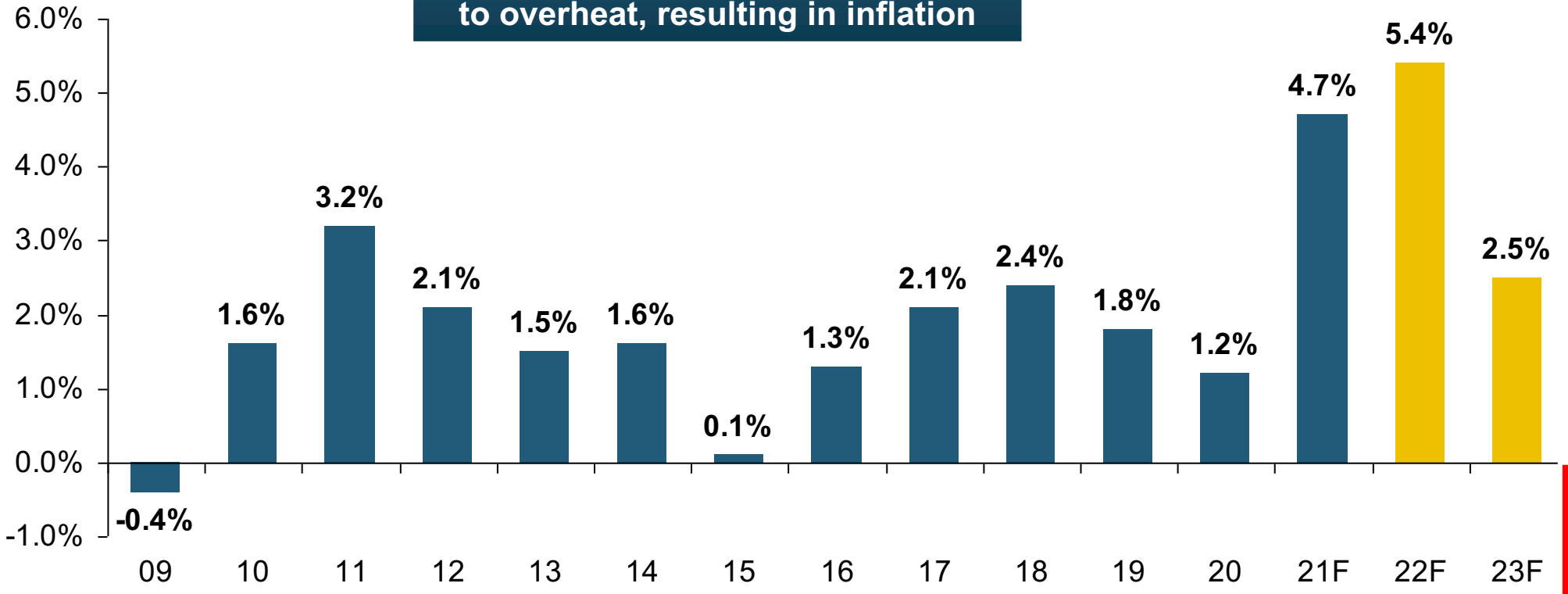
## Claim Inflation Is Here Today

## Rate and Reserve Adequacy Are Concerns if Current Inflationary Trends Persist

# U.S. Inflation Rate: 2009-2023F*

There's a great deal of concern that trillions of dollars of stimulus plus the post-COVID recovery, supply chain disruptions and labor shortages are causing the economy to overheat, resulting in inflation

Inflation accelerated sharply in 2021—accelerating the Fed timetable for rate hikes. Inflation moderate in 2022:H2 and beyond




**Insurer Concerns About Inflation**

**Rate Inadequacy**

**Reserve Inadequacy**

*Annual change in Consumer Price Index for All Urban Consumers (CPI-U).

Source: U.S. Bureau of Labor Statistics; Wells Fargo Securities (1/22); USC Center for Risk and Uncertainty Management.

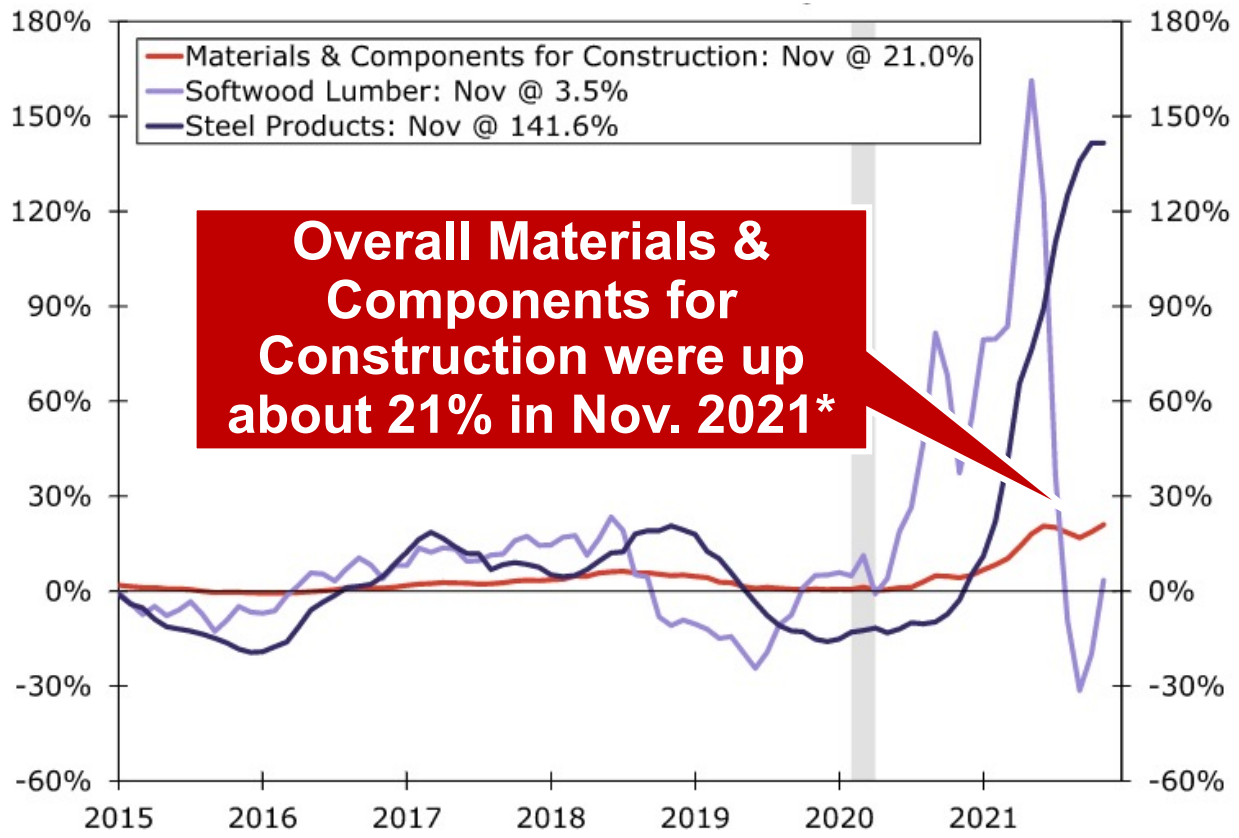
# Crude Oil Prices: Price per Barrel, Jan. 2002 – Jan. 2022 (Inflation Adjusted)

**Crude above $80/bbl—more than quadruple its pandemic low—causing market panic and fueling inflation fears. But this is a price level we've experienced many times before—most recently in 2018—a period of economic growth and falling unemployment**

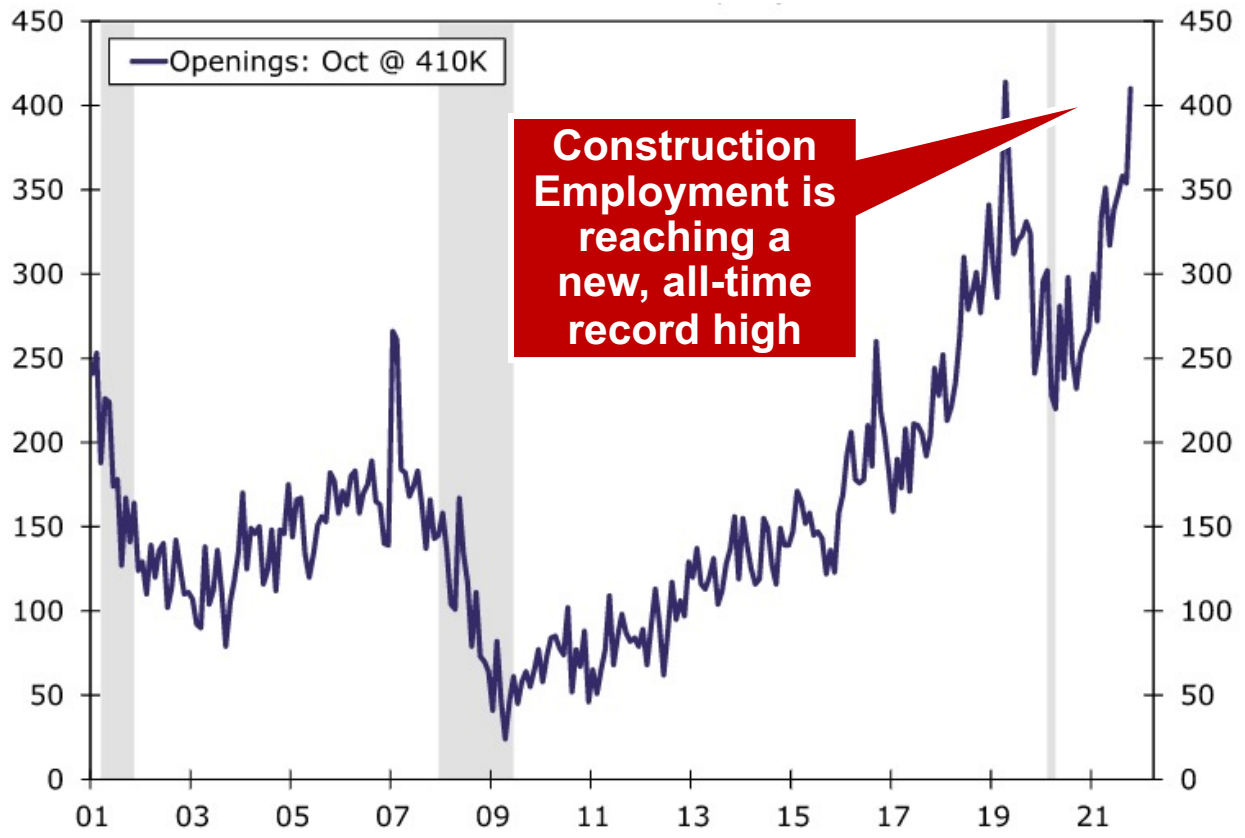
Sources: Macrotrends.net accessed 1/24/22 at: https://www.macrotrends.net/1369/crude-oil-price-history-chart; Risk and Uncertainty Management Center, University of South Carolina.

# PPIs for Construction and Construction Employment

**PPIs: Y-o-Y Percent Change, Jan. 2015 – Nov. 2021***




**Construction Employment, Jan. 2001 – Nov. 2021***




*Latest available.

Sources: US Department of Commerce; Wells Fargo Securities (1/22); Risk and Uncertainty Management Center, University of South Carolina.

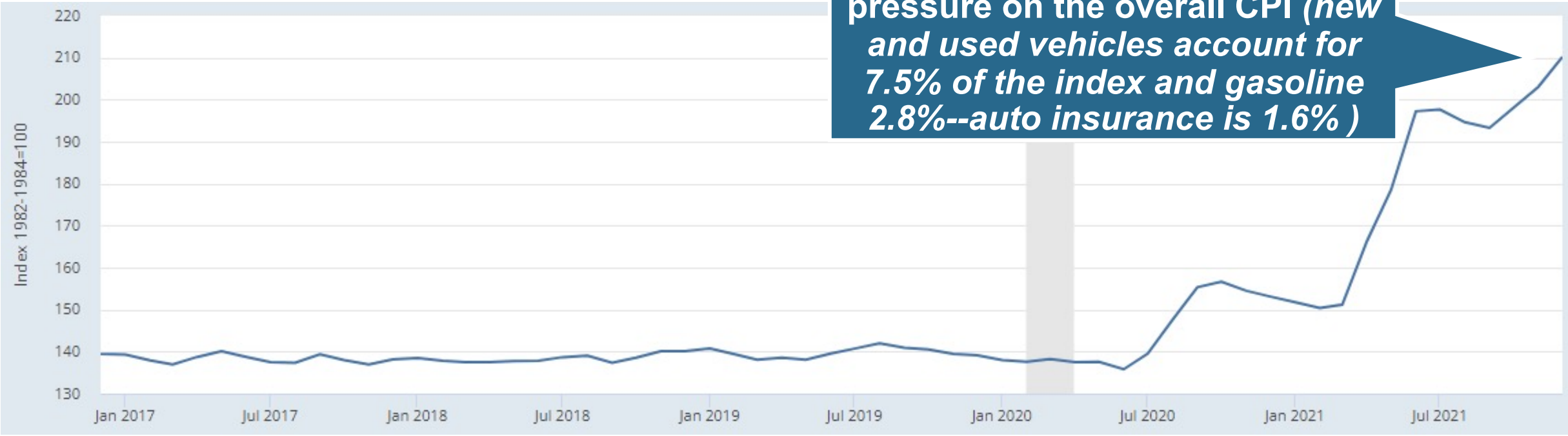
# Producer Price Index: Lumber and Wood Products, Jan. 2020 – Nov. 2021

**Lumber & Wood Product prices surged during the pandemic, peaking in mid-2021 and remain 65% above pre-COVID levels**

Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

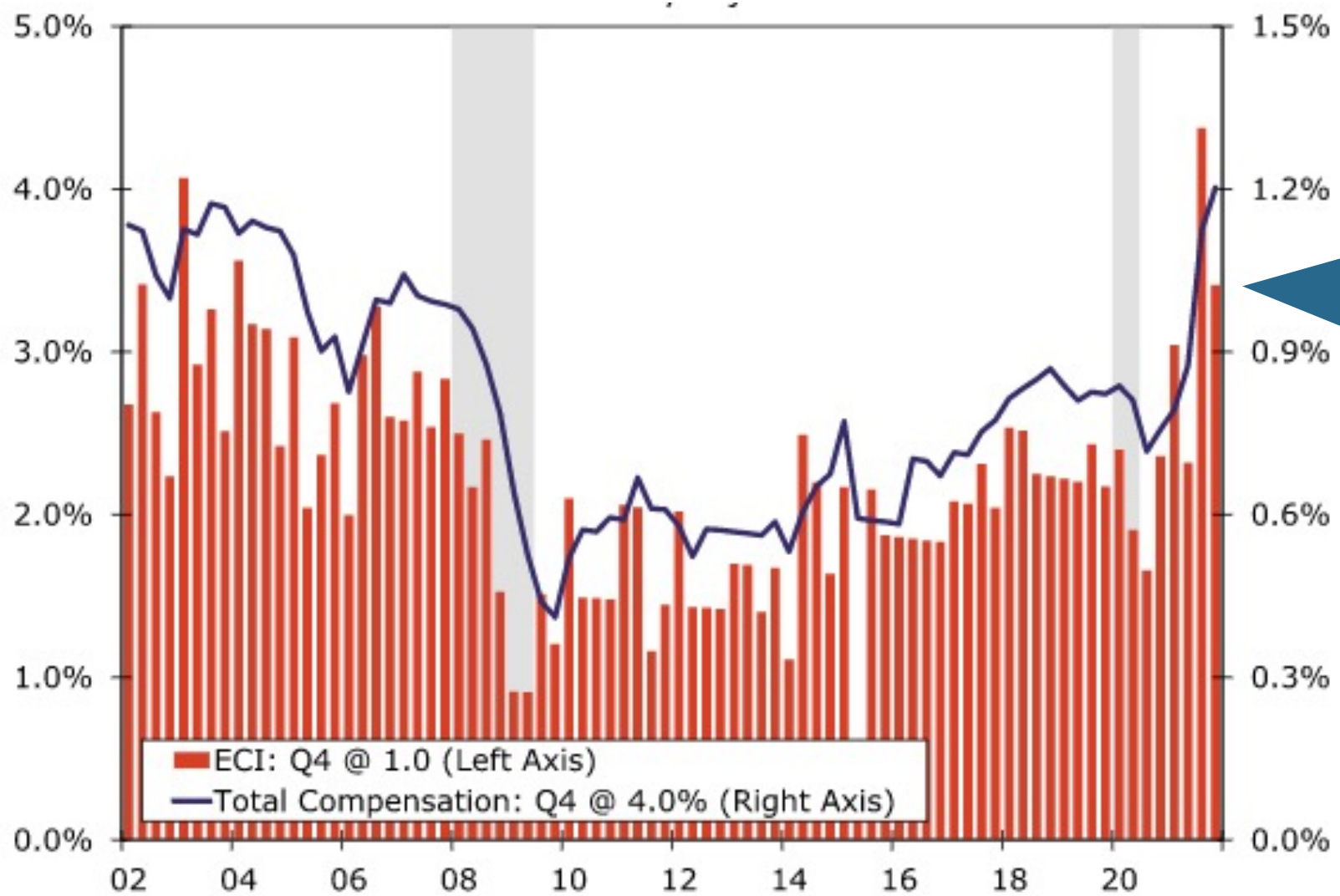
# Price Index Changes for Used Cars & Trucks, Jan. 2017 – Dec. 2021

**New and Used Vehicle prices have surged during the pandemic, +52% since Jan. 2020—putting significant pressure on the overall CPI *(new and used vehicles account for 7.5% of the index and gasoline 2.8%--auto insurance is 1.6% )***




Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

# Employment Cost Index—All Workers
## 2002:Q1 – 2021:Q4




**The ECI was up 1% in Q4:2021 (down from 1.3% in Q3) and up 4% for all of 2021, the highest 1-year gain based on data going back to 2002. Collectively, the data yet don't suggest a "wage-price spiral"**

Sources: US Dept. of Labor; Risk and Uncertainty Management Center, University of South Carolina.

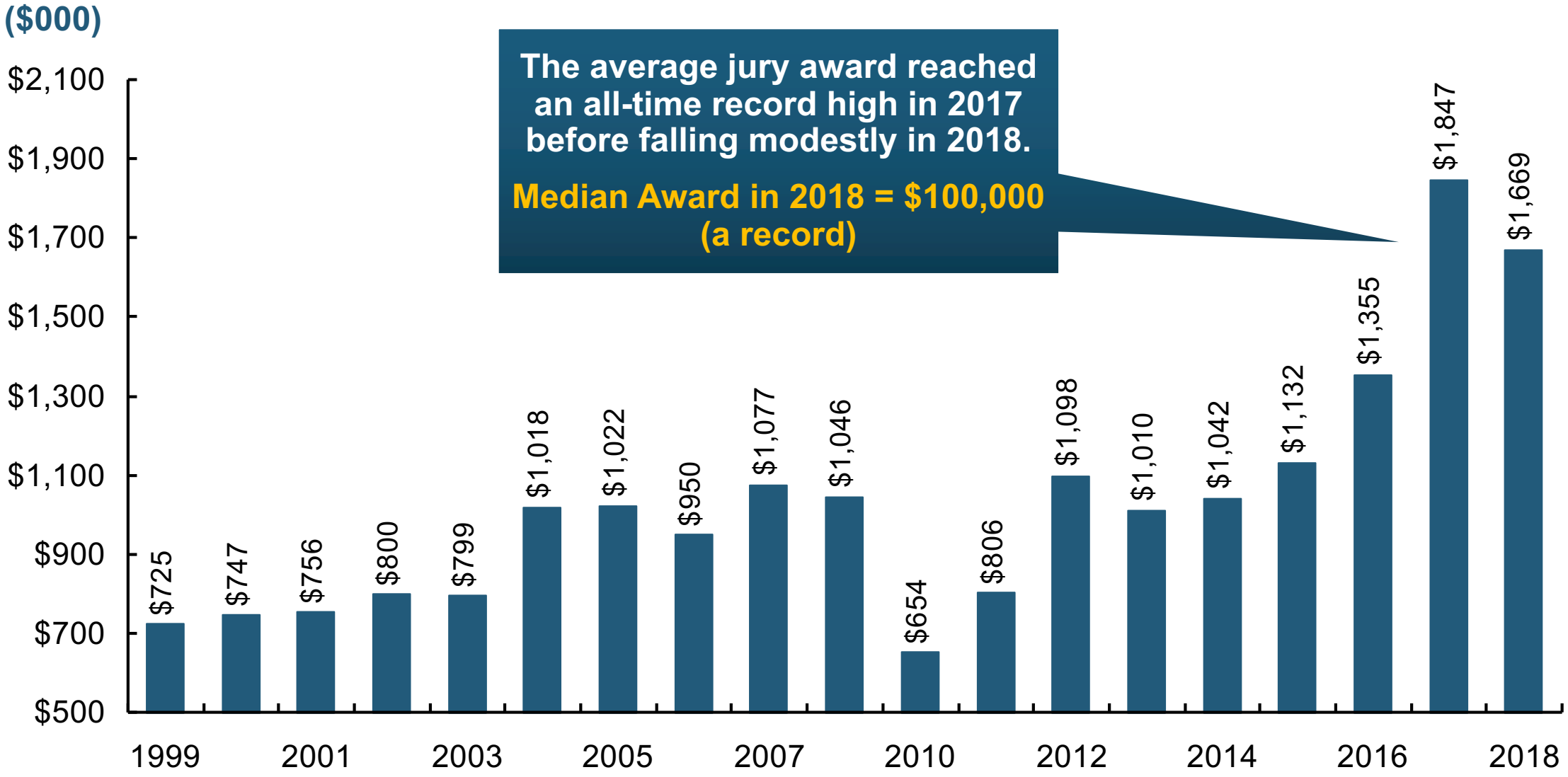
# Social Inflation & Litigation Trends

## Tort Pressures Are Rising



47

# Average Jury Awards, 1999 – 2018 (latest available)




Source: Jury Verdict Research; *Current Award Trends in Personal Injury* (59th Edition), Thomson Reuters; Risk and Uncertainty Management Center, Univ. of South Carolina.

# State of the Personal Lines Market

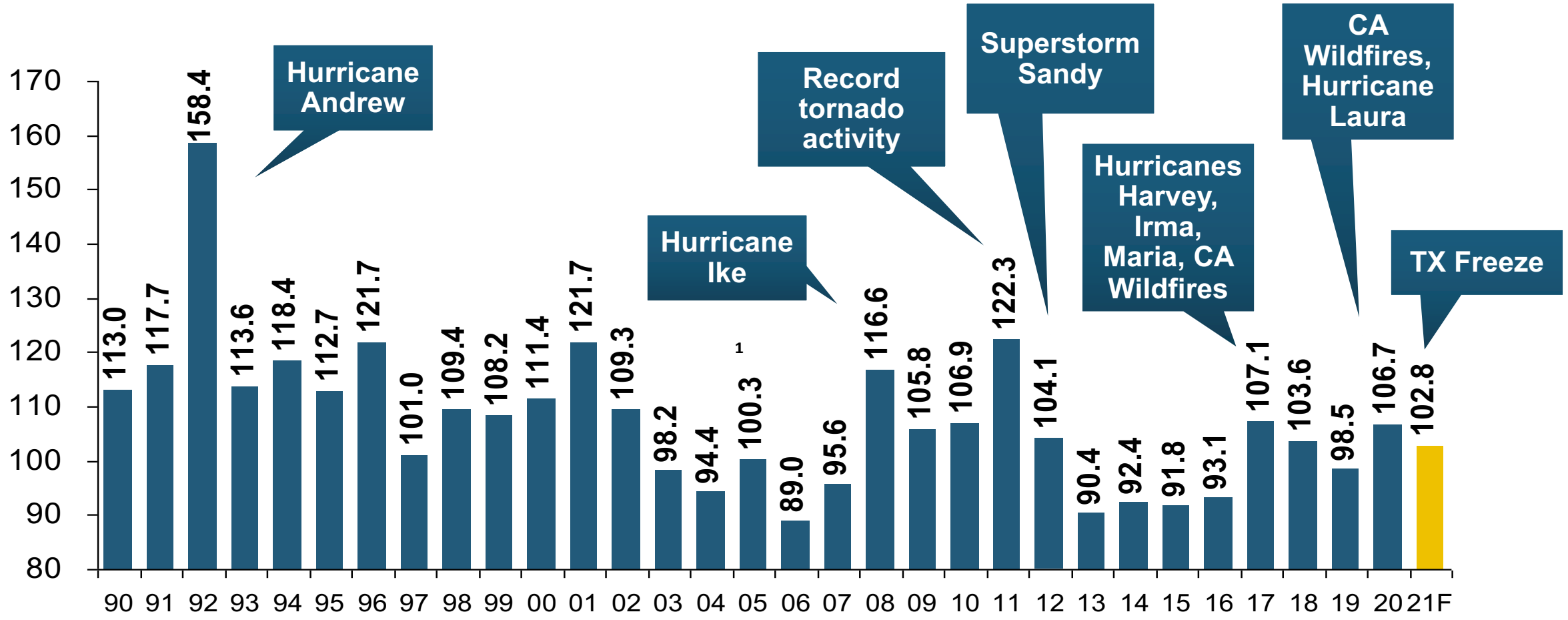
## Auto Frequency and Severity Are an Immediate Challenge

## *Homeowners Significantly Impacted by Heavy CAT Losses*



49

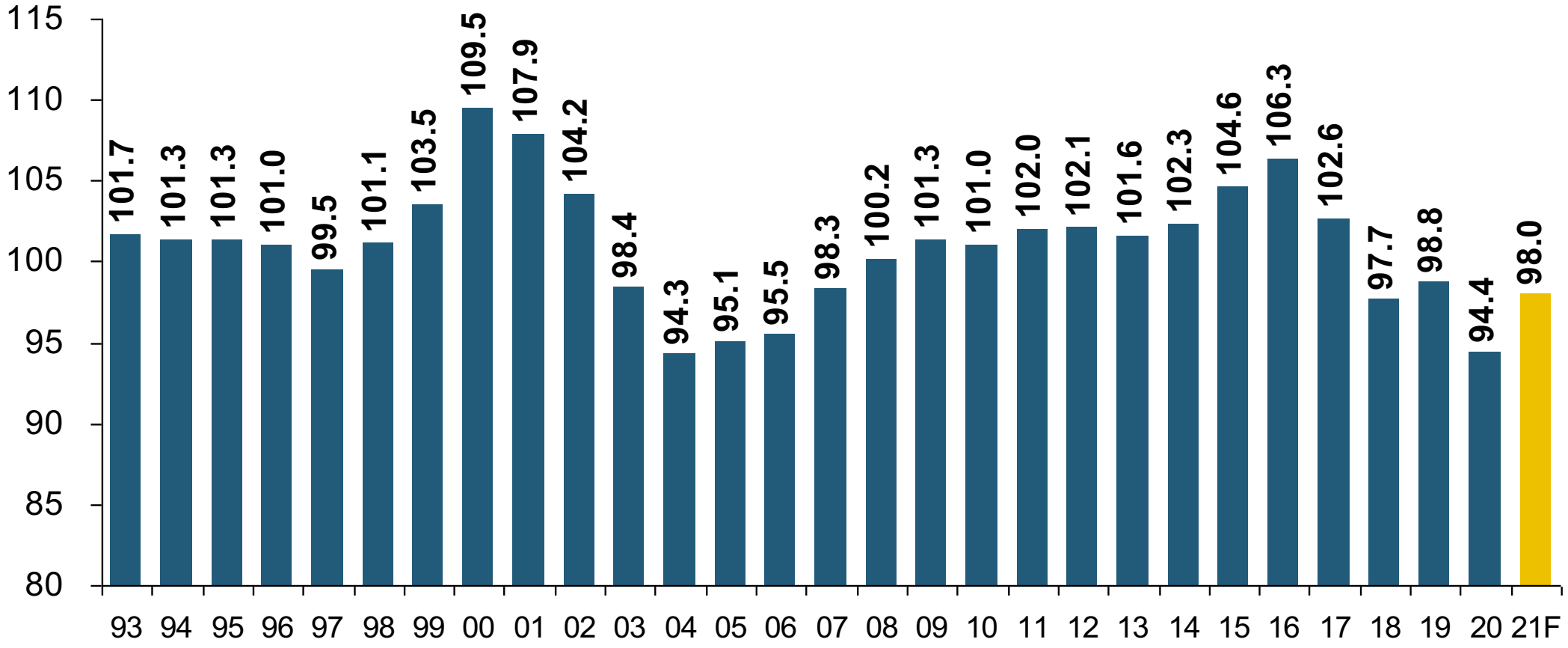
# Homeowners Insurance Combined Ratio: 1990–2021F




**Homeowners Performance Had Improved Markedly Since 2011/12's Large Cat Losses…But Elevated CAT Activity Continues to Adversely Impact Underwriting Performance**

Sources: A.M. Best (1990-2019 and 2021F); Statutory financial data from S&P Global (2020); USC RUM Center.

# Private Passenger Auto Combined Ratio: 1993–2021F




**Private Passenger Auto Underwriting Results Remain Strong. Improvement in 2020 Due Partially to Reduced Claim Frequency During COVID-19 Pandemic**

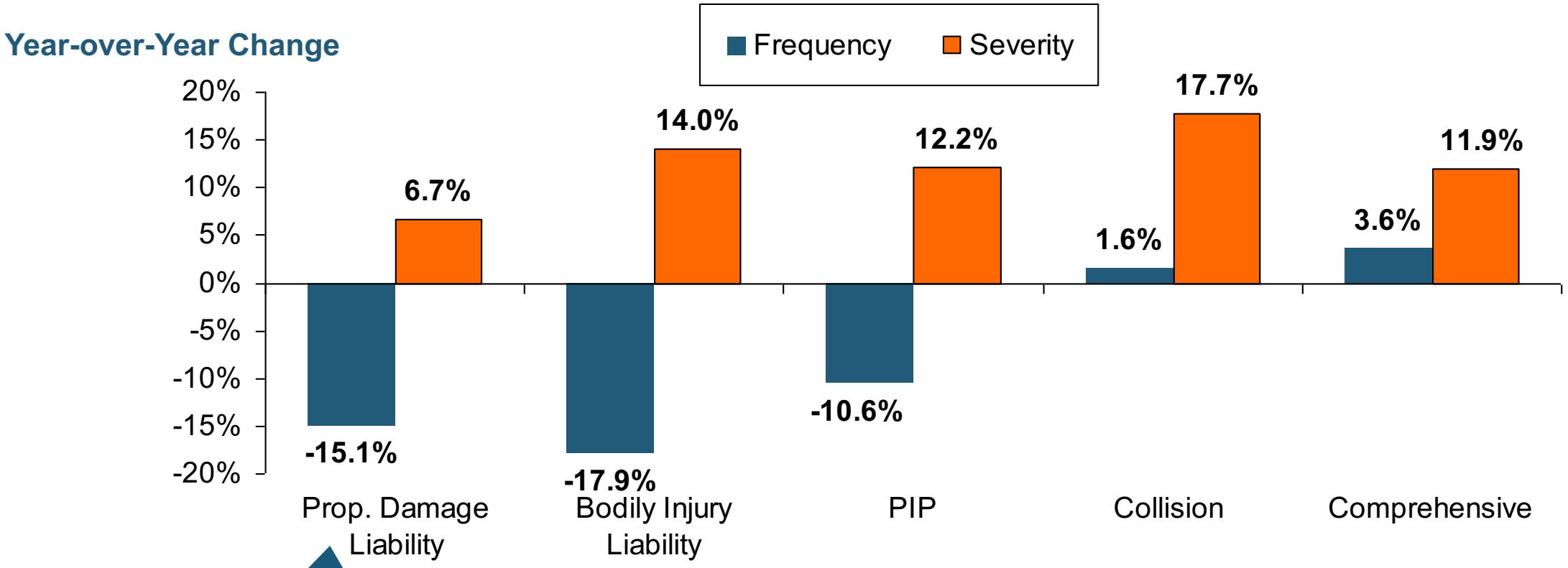
Sources: A.M. Best (1990-2021F); USC RUM Center.

UNIVERSITY OF
SOUTH CAROLINA
Darla Moore School of Business

## Private Passenger Auto Frequency & Severity Trends

# Frequency, Severity and Loss Ratio Trends Are Mixed

# US Personal Auto Claim Frequency Trends Significantly Impacted by COVID but Severities Rise: 12 Months Ending Q3 2021



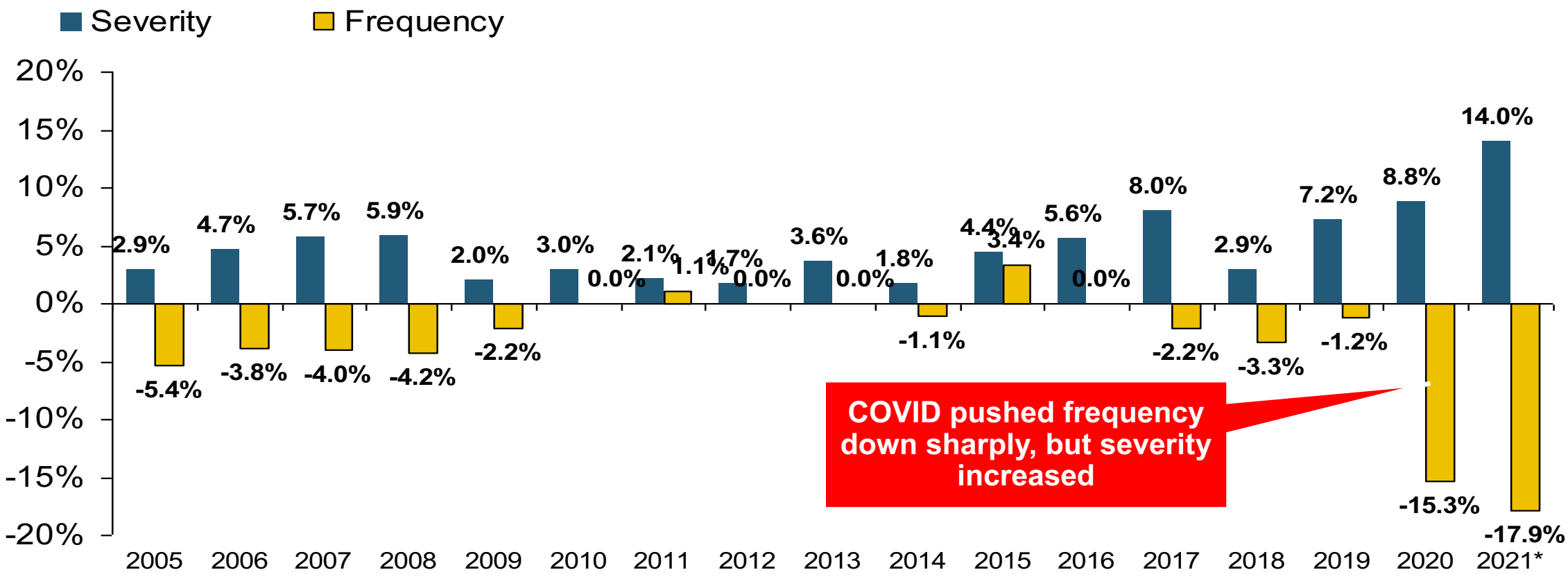

**PD Liability claims plunged by nearly 1/4**

**Auto Claims Fell Sharply During the Pandemic, though Claim Severities Rose Materially; Collision/Comp Frequencies Are Now Positive**

Source: ISO/PCI *Fast Track* data for Q3 2021; Risk and Uncertainty Management Center, Univ. of South Carolina.

# Bodily Injury: Severity Trend Is Up, Frequency Plunge in 2020/21 Due to COVID

## Annual Change, 2005 through 2021*



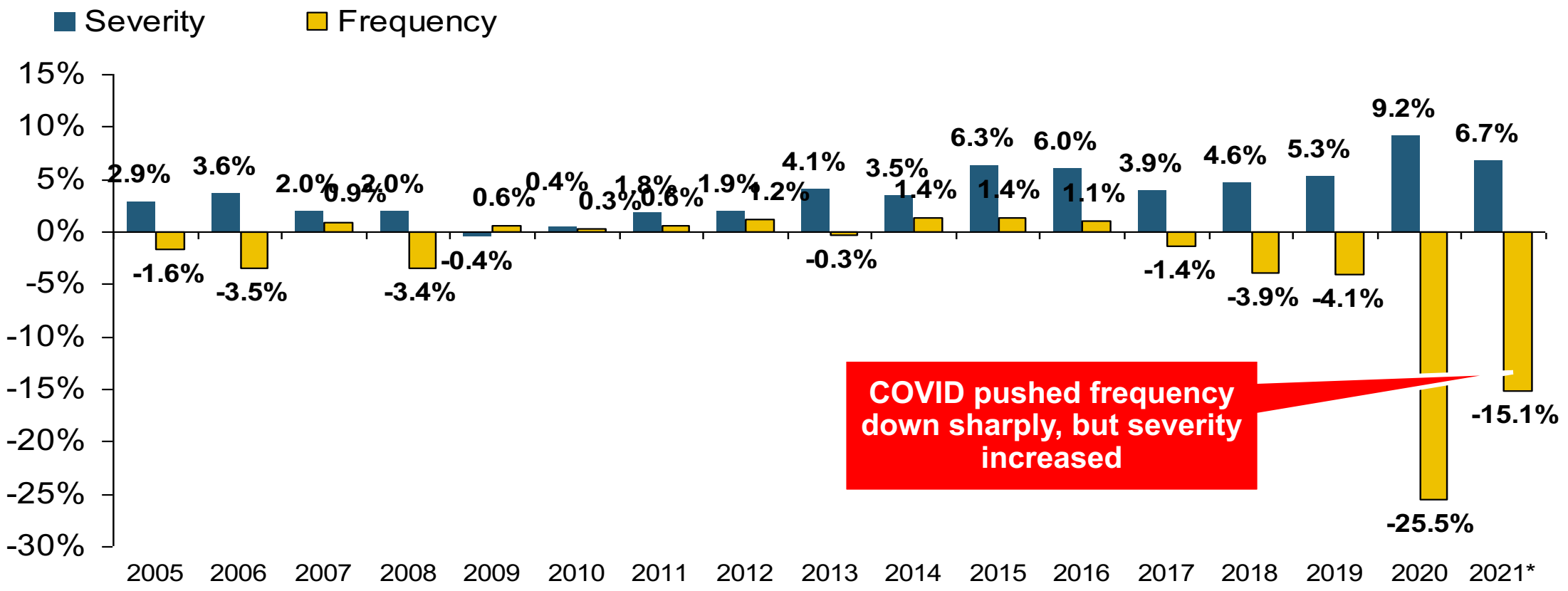

**Frequency trend will not return to pre-COVID trajectory until at least 2022**

*2021 figure is for the 4 quarters ending 2021:Q3.

Source: ISO/PCI *Fast Track* data; Center for Risk and Uncertainty Management, Univ. of South Carolina.

# Property Damage Liability: Severity Trend Is Up, Frequency Plunge in 2020 Due to COVID

## Annual Change, 2005 through 2021*

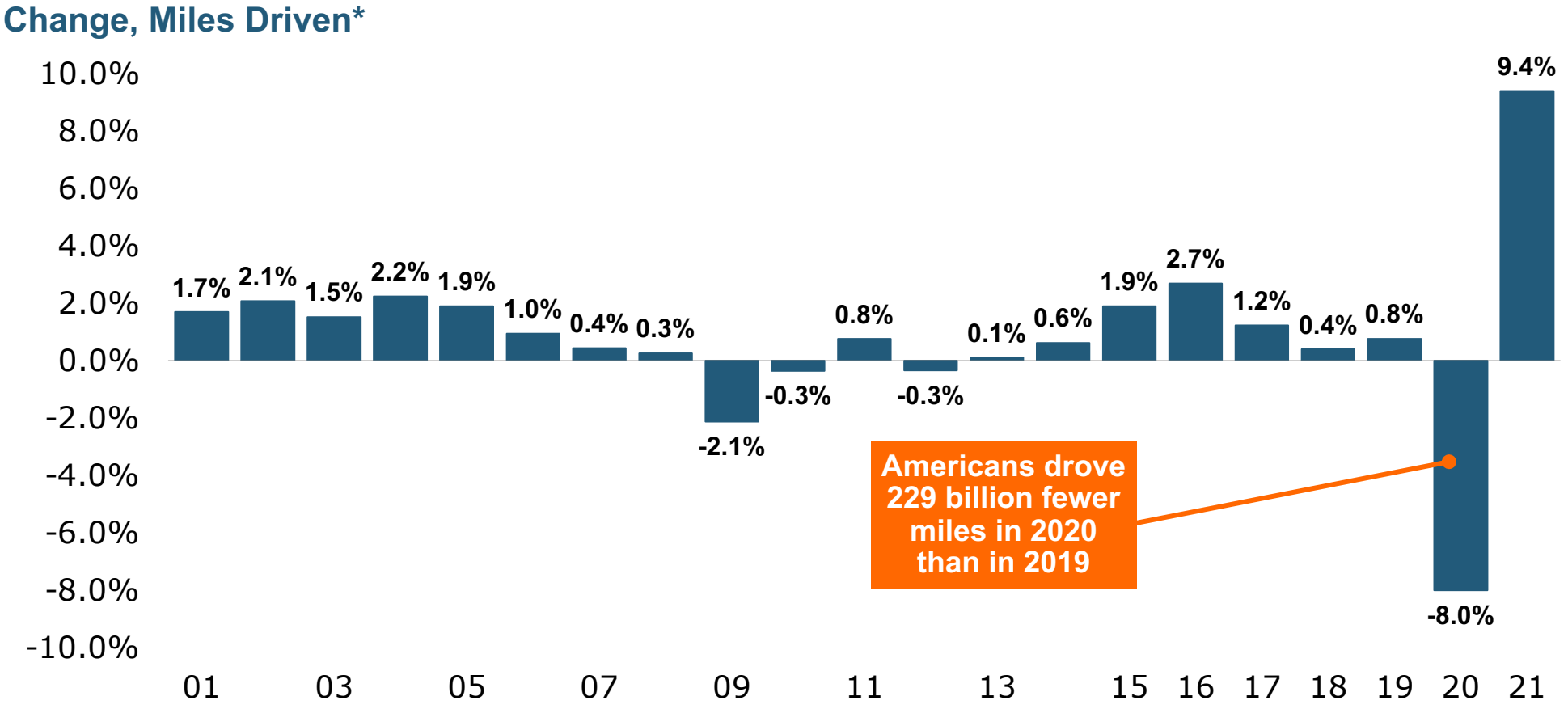



**Frequency trend will not return to pre-COVID trajectory until at least 2022**

*2020 figure is for the 4 quarters ending 2021:Q3.

Source: ISO/PCI *Fast Track* data; Center for Risk and Uncertainty Management, Univ. of South Carolina.

# Miles Driven During the First Half of 2021 Remains Depressed: 2000-2021*




**Tremendous Growth In Miles Driven. The More People Drive, the More Frequently They Get Into Accidents.**

*Moving 12-month total vs. prior year through November 2021.
Sources: Federal Highway Administration; Insurance Information Institute.

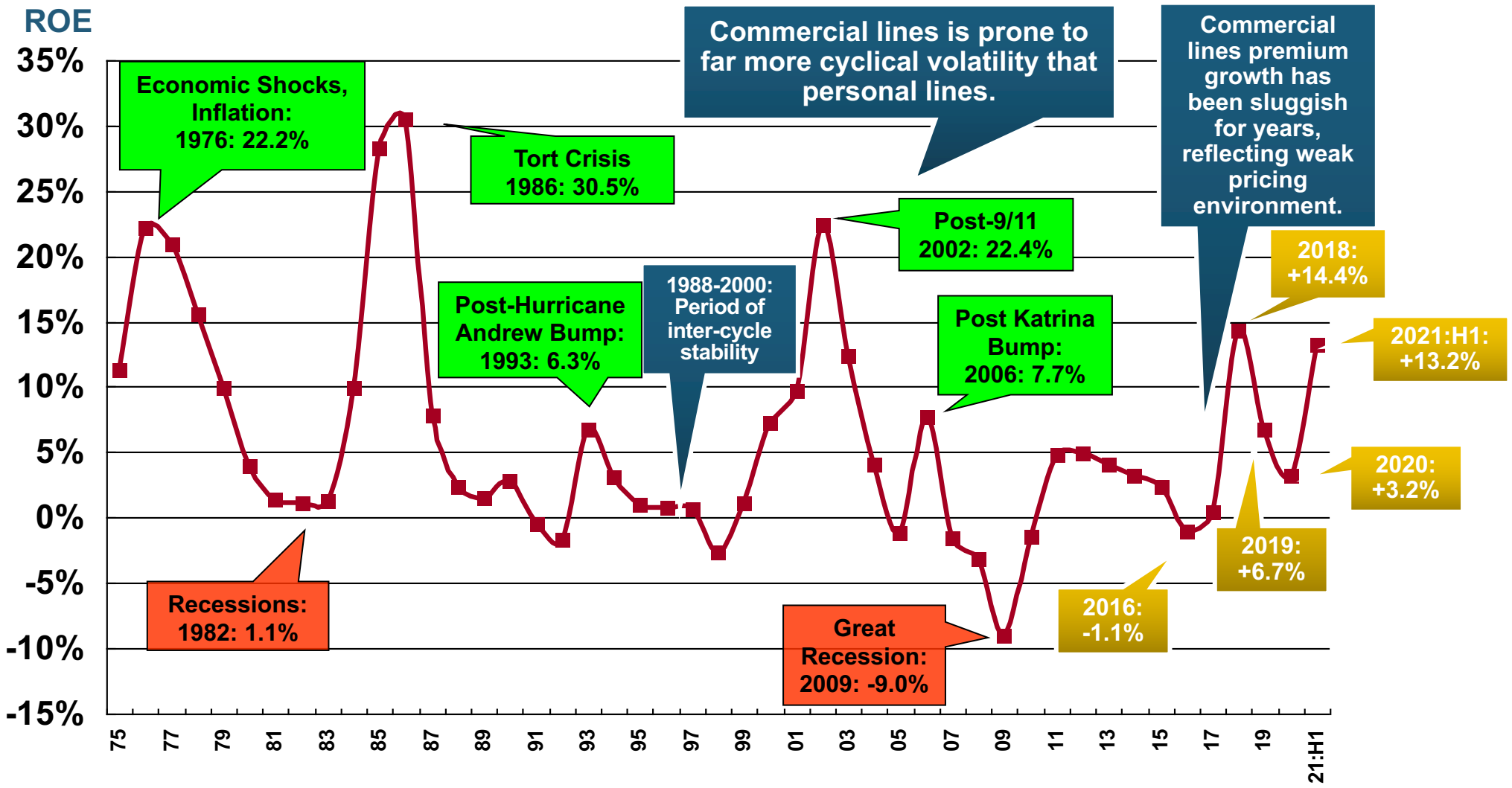
# Commercial Lines Growth, Underwriting Performance & Pricing Cyclicality

## Pricing Pressures Remain



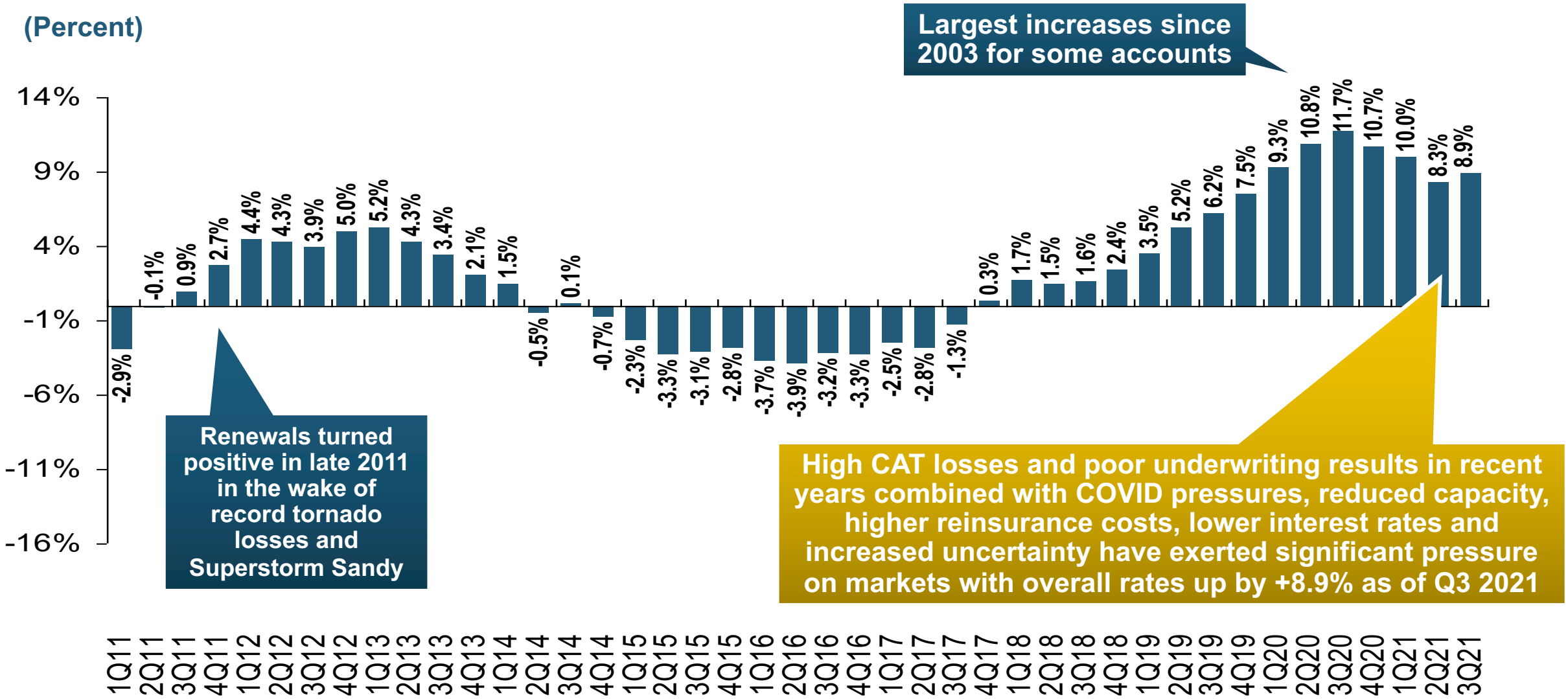
57

# Commercial Lines NPW Premium Growth: 1975 – 2021:H1




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

# CIAB: Average Commercial Rate Change, All Lines, 2011:Q1–2021:Q3*

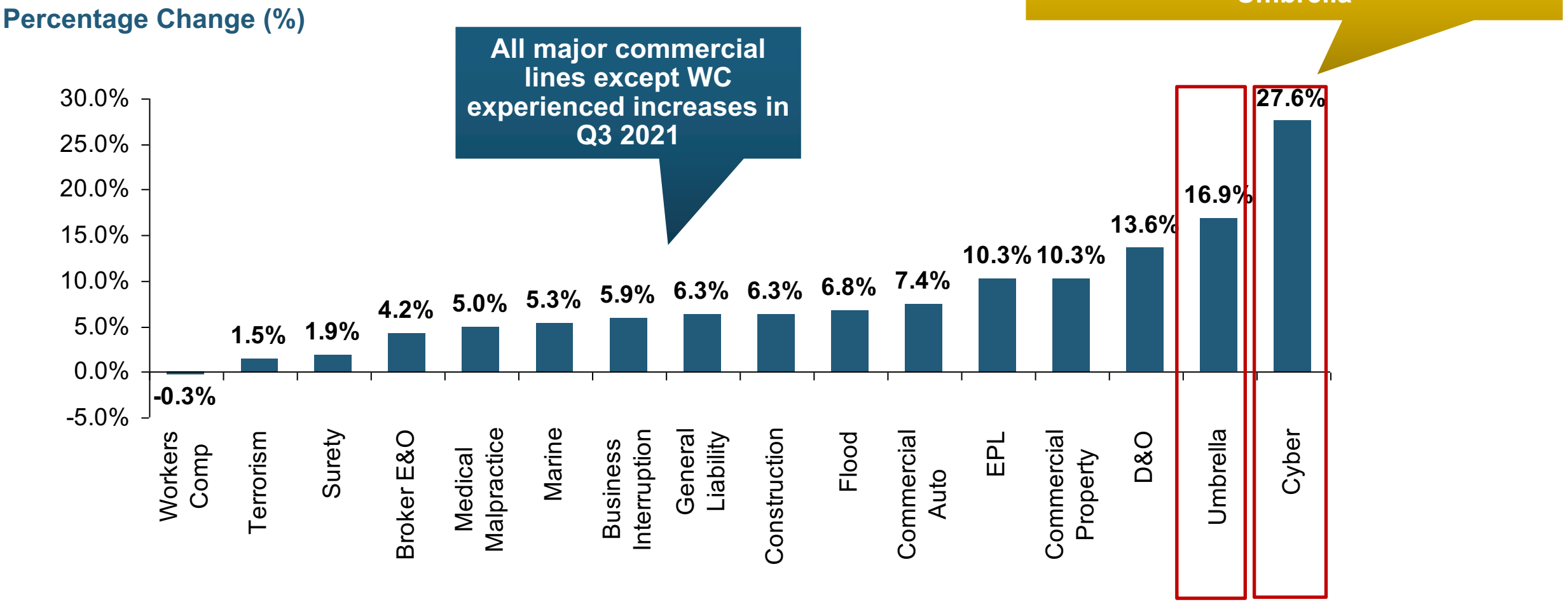



*Latest available.
Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents & Brokers; Center for Risk and Uncertainty Management, Univ. of South Carolina.

# Change in Commercial Rate Renewals, by Line: 2021:Q3

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

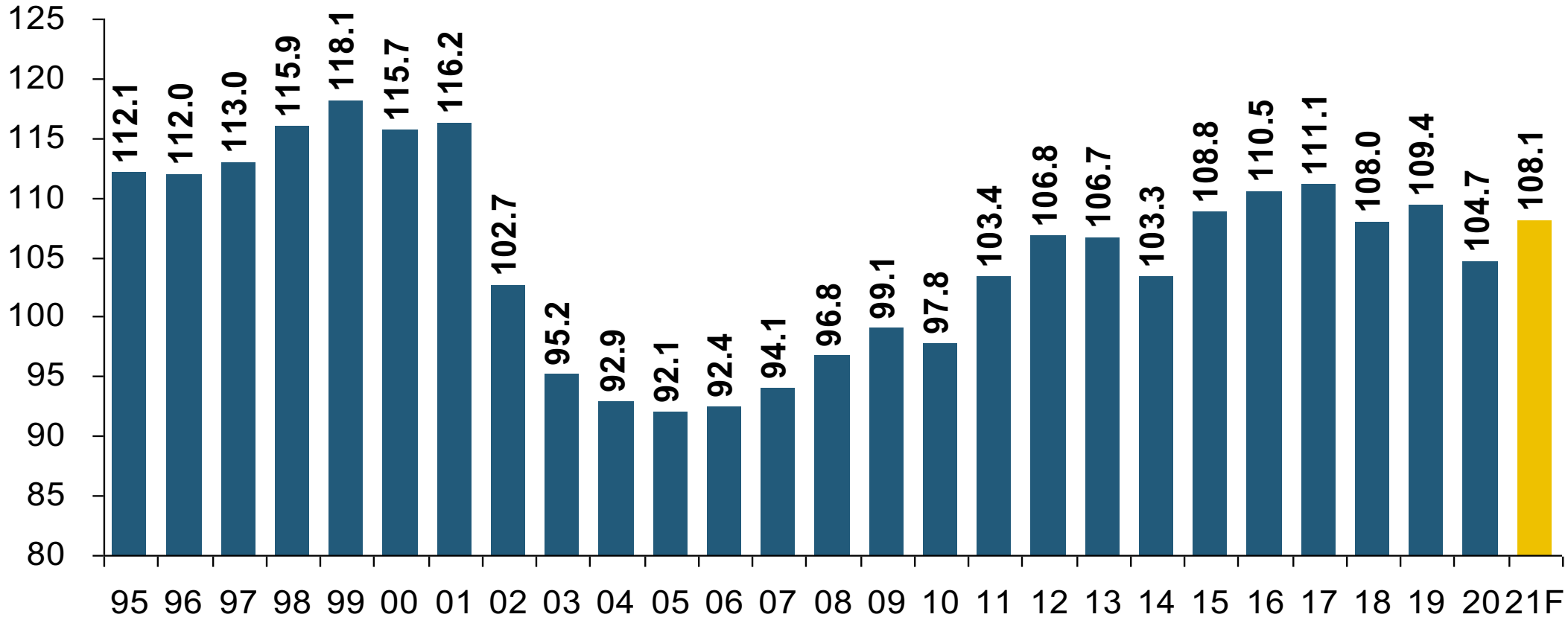
All major commercial lines except WC experienced increases in Q3 2021




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.

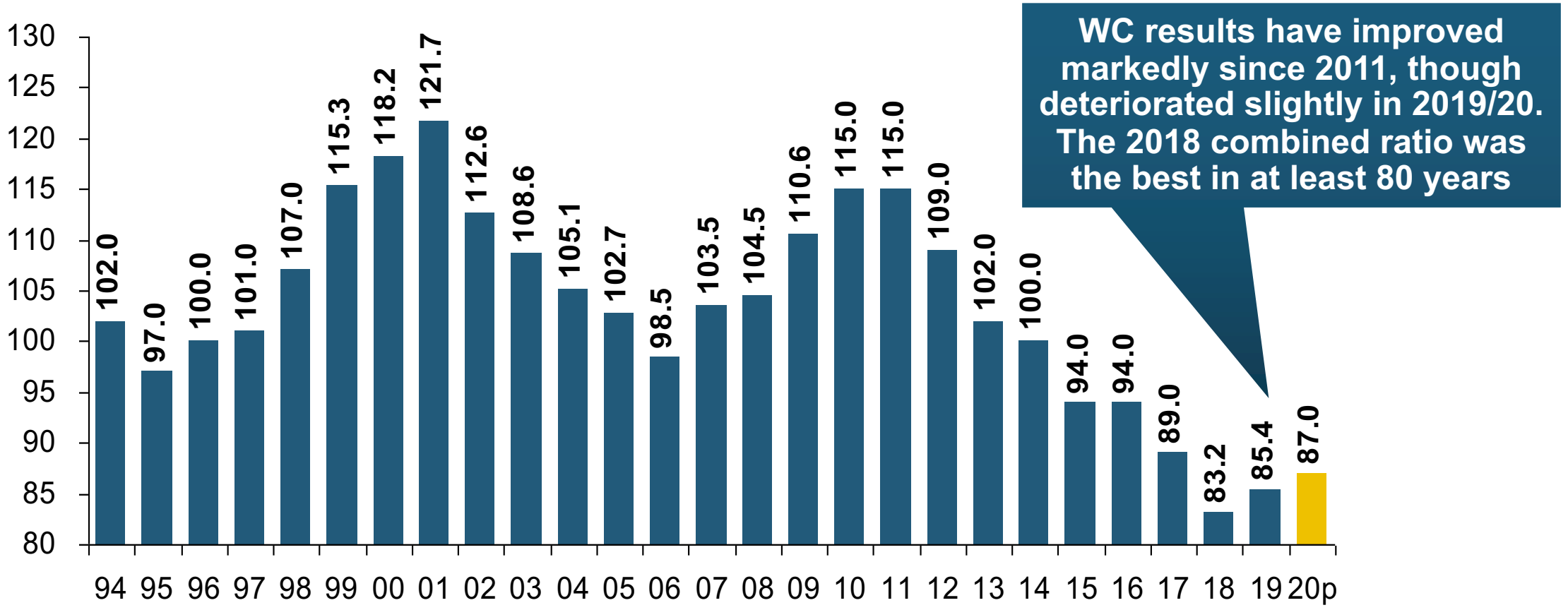
# Commercial Auto Combined Ratio: 1993–2021F




**Commercial Auto Results Are Challenged as Rate Gains Have Yet to Fully Offset Adverse Frequency and Severity Trends; 2020 Improvement Driven in Part by Reduced Claim Frequency During COVID-19 Pandemic**

Sources: A.M. Best (1990-2021F); Center for Risk and Uncertainty Management, University of South Carolina.

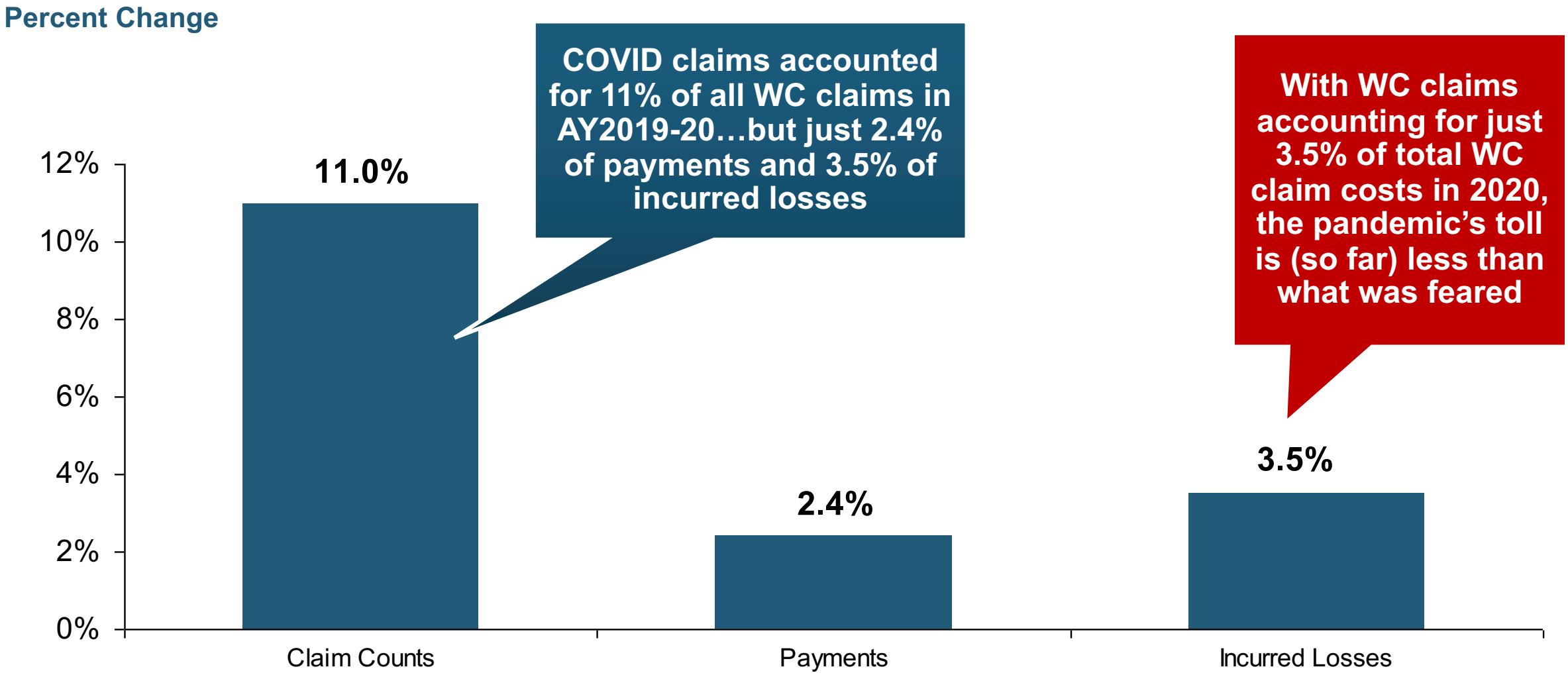
# Workers Compensation Combined Ratio: 1994–2020P




**Workers Comp Results Improved Substantially Over the Past Decade with COVID (So Far) Having Only Modest Impacts on Underwriting Performance**

Sources: A.M. Best (1994-2009); NCCI (2010-2020P) and are for private carriers only..

# COVID-19 Shares of Claim Counts, Payments and Incurred Losses in 2020



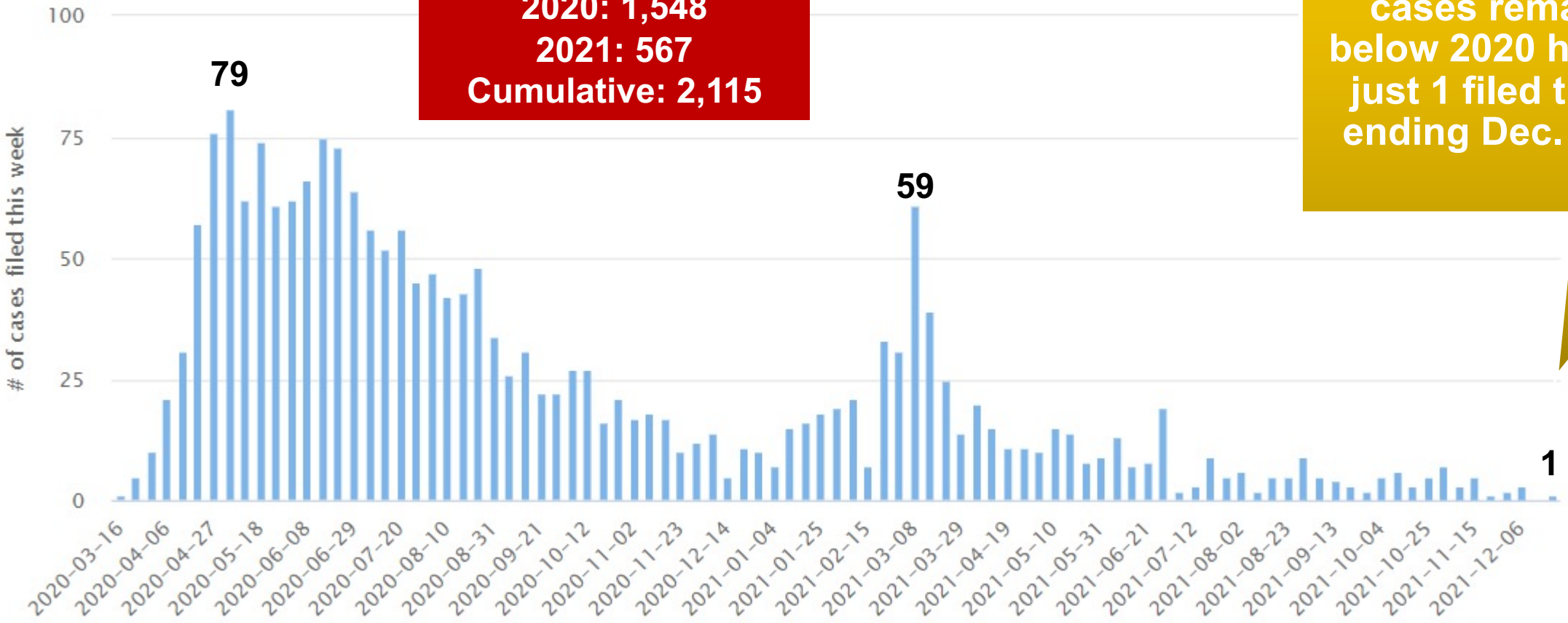

*Data are from 45 jurisdictions (excludes MA, NY, ND, OH, WA and WY

Sources: *Covid-19's Impact on Workers Compensation: A Multi-Bureau Collaboration*, accessed from NCCI at: https://www.ncci.com/Articles/Documents/Insights-COVID19-Impact-on-WC.pdf; Risk and Uncertainty Management Center, Univ. of South Carolina.

# Weekly Number of COVID-Related Lawsuits Filed:

## *(Weeks Ending Mar. 16, 2020 to Dec. 20, 2021) [Latest Available]*

**Totals**
**2020: 1,548**
**2021: 567**
**Cumulative: 2,115**




**The number of new cases remains far below 2020 highs with just 1 filed the week ending Dec. 20, 2021**

Source: Covid Coverage Litigation Tracker, University of Pennsylvania School of Law. Accessed 1/21/22 at: https://cclt.law.upenn.edu

# InsurTechs:
# Risk and Opportunity

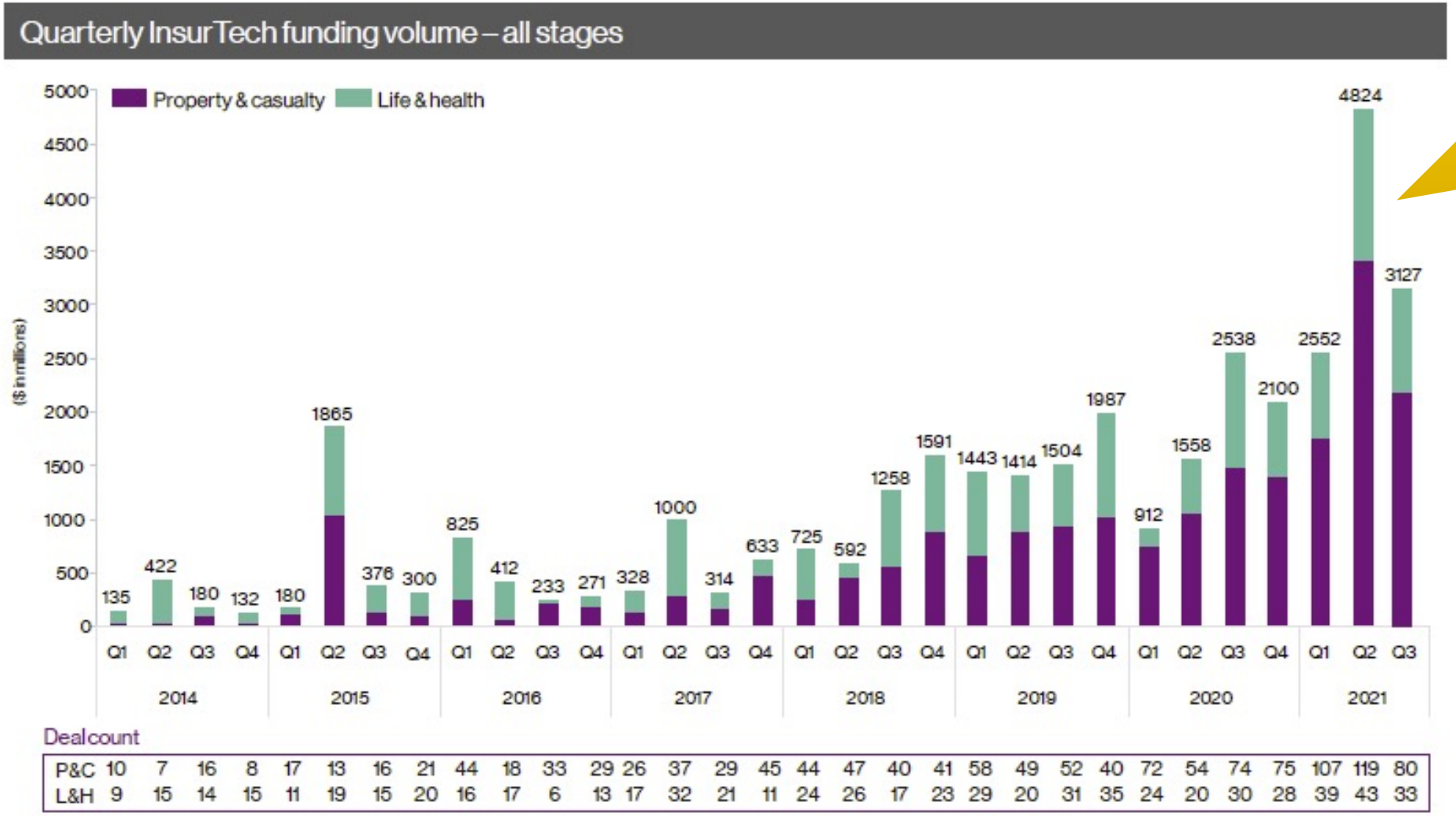
**For Insurers, Technology and Progress Create Both Risk and Rewards**

**Plenty of Reasons to Be Excited…and Skeptical…About InsurTechs…**



65

# Global Quarterly InsurTech Funding & Deal Count, 2014 – 2021:Q3 ($ Mill)

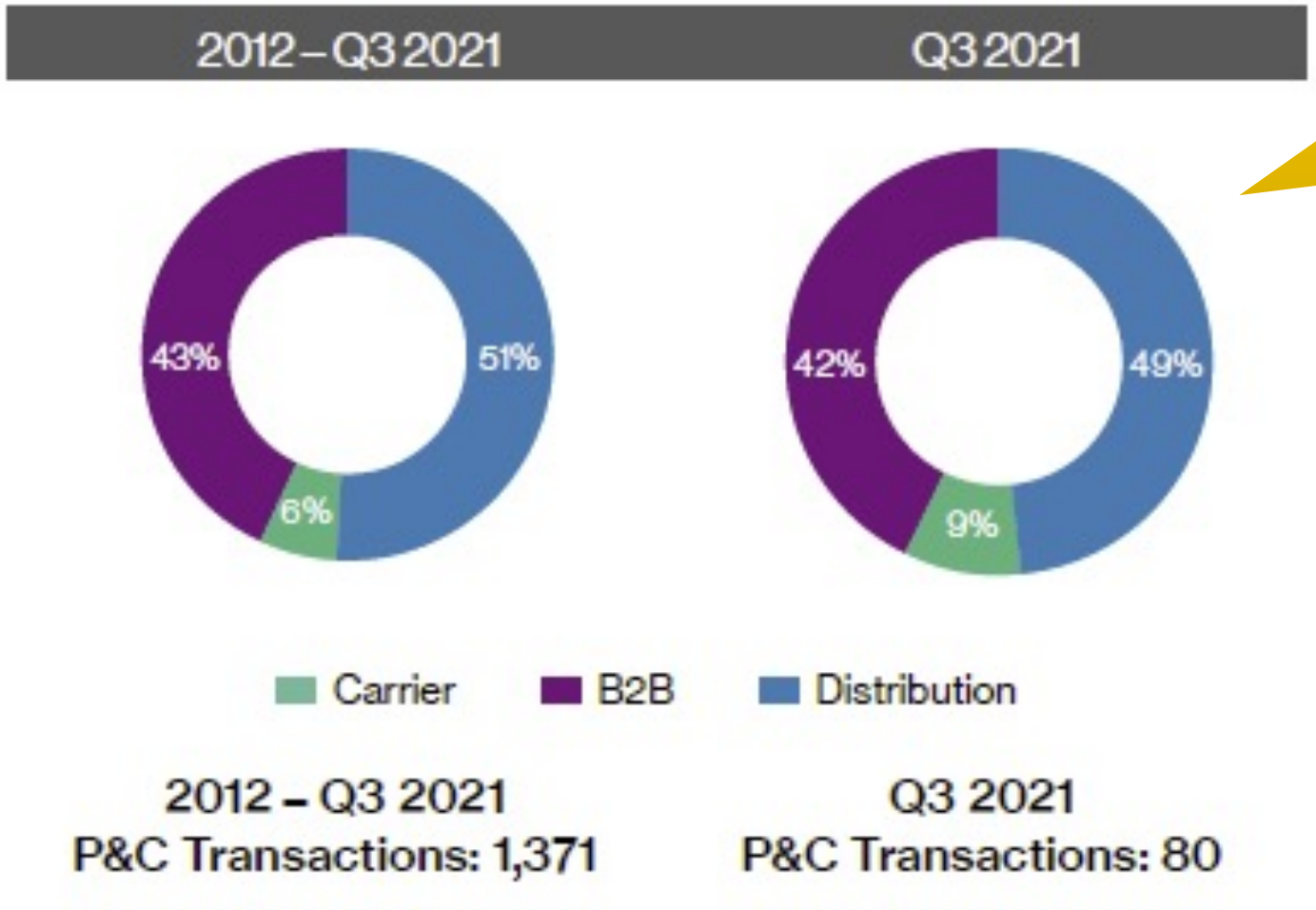



**InsurTech funding reached a new record high in 2020—a trend that seemed likely to continue in 2021.**

**P&C accounts for 70%+ of deals.**

Source: Willis Towers Watson, Q3 2021 InsurTech Report.

# P&C InsurTech Transactions by Subsector, 2012 – 2021:Q3 ($ Mill)




**Distribution still accounts for the majority of InsurTech funding, with B2B nor far behind. Contrary to popular belief, relatively little funding goes to actual insurance start ups (e.g., Lemonade, Root).**

**Many InsurTechs seek to utilize AI, Machine Learning and other advanced analytics to improve many processes:**

- **Underwriting**
- **Claims settlement**
- **Litigation Management**

Source: Willis Towers Watson, Q3 2021 InsurTech Report.

# InsurTech is a Great Thing: But Valuations Are Often Insane

***Carrier Management*: June 21, 2021**

## How to Value an InsurTech

June 21, 2021 by Russ Banham

PRINT EMAIL

**A number of InsurTechs have gone public, seen their share price pop and then crashed. Litigation has resulted in some cases.**

"Virtually all of the InsurTech insurer startups in existence today will fail. They operate in the 'kill zone' of the majors—whatever modest innovations they've developed can be quickly and less expensively replicated by the incumbent insurers."

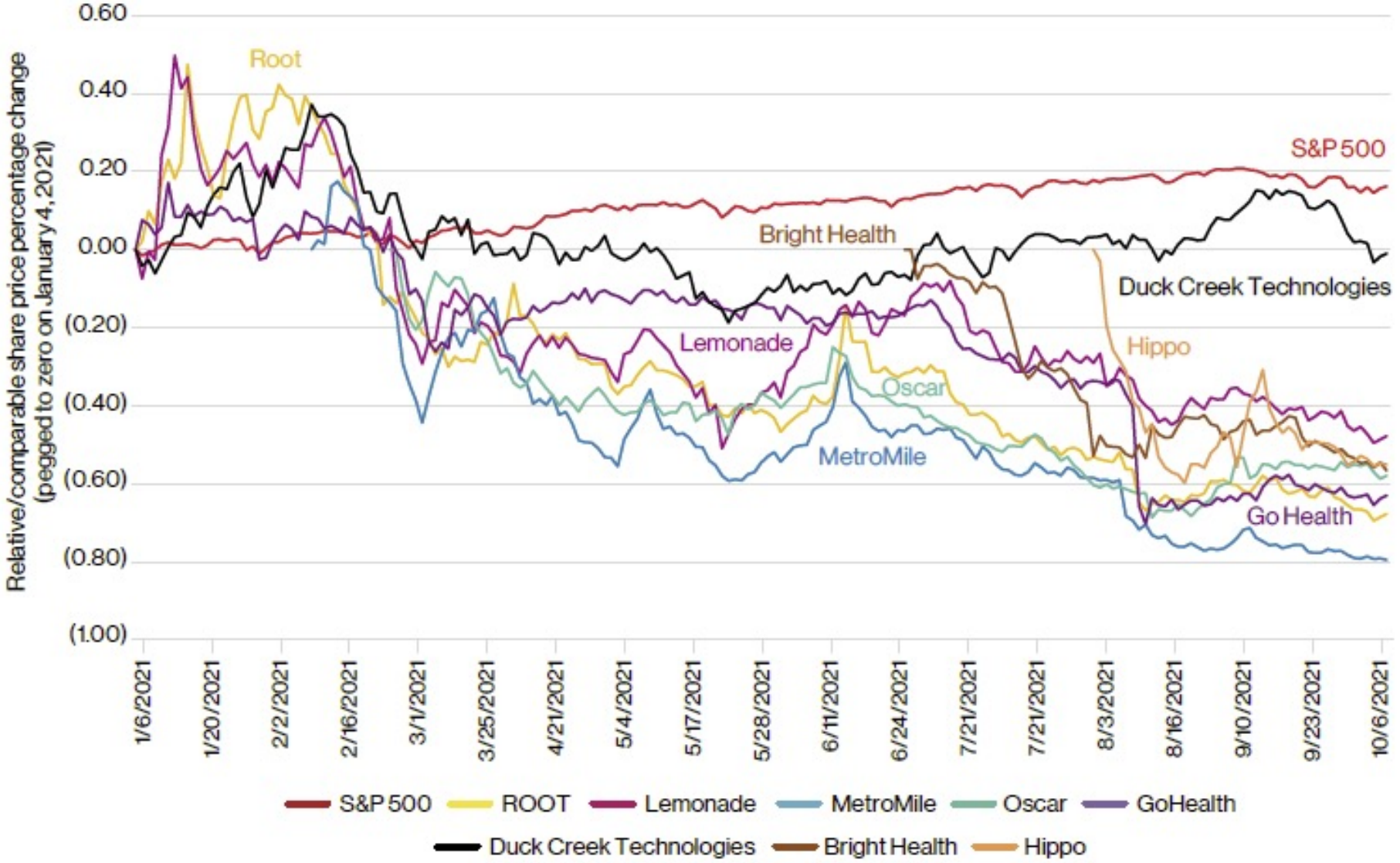
"Investments in most InsurTechs have about the same degree of rational appeal as an investment in Dogecoin."

**POINT: Valuation too often based on "Tech" not "Insur"**

Source: Carrier Management, 6/21/21: https://www.carriermanagement.com/features/2021/06/21/221500.htm?bypass=b16ff6ccedb205aa4d2e24c5533dbfde#

# InsurTech Stock Performance vs S&P 500

***Performance Index with Jan. 1, 2021 = 0)***




**Publicly-traded InsurTechs woefully underperformed the S&P 500 in 2021**

Source: Carrier Management, 6/21/21: https://www.carriermanagement.com/features/2021/06/21/221500.htm?bypass=b16ff6ccedb205aa4d2e24c5533dbfde#

# Comments on InsurTech Valuations

**From an interview I did with S&P Global last week (Jan. 19):**

- Question: 2021 was a record year for insurtech fundraising, already exceeding double digit billions through 9 months by some estimates, was 2021 an anomaly or can insurtech continue its fundraising momentum?

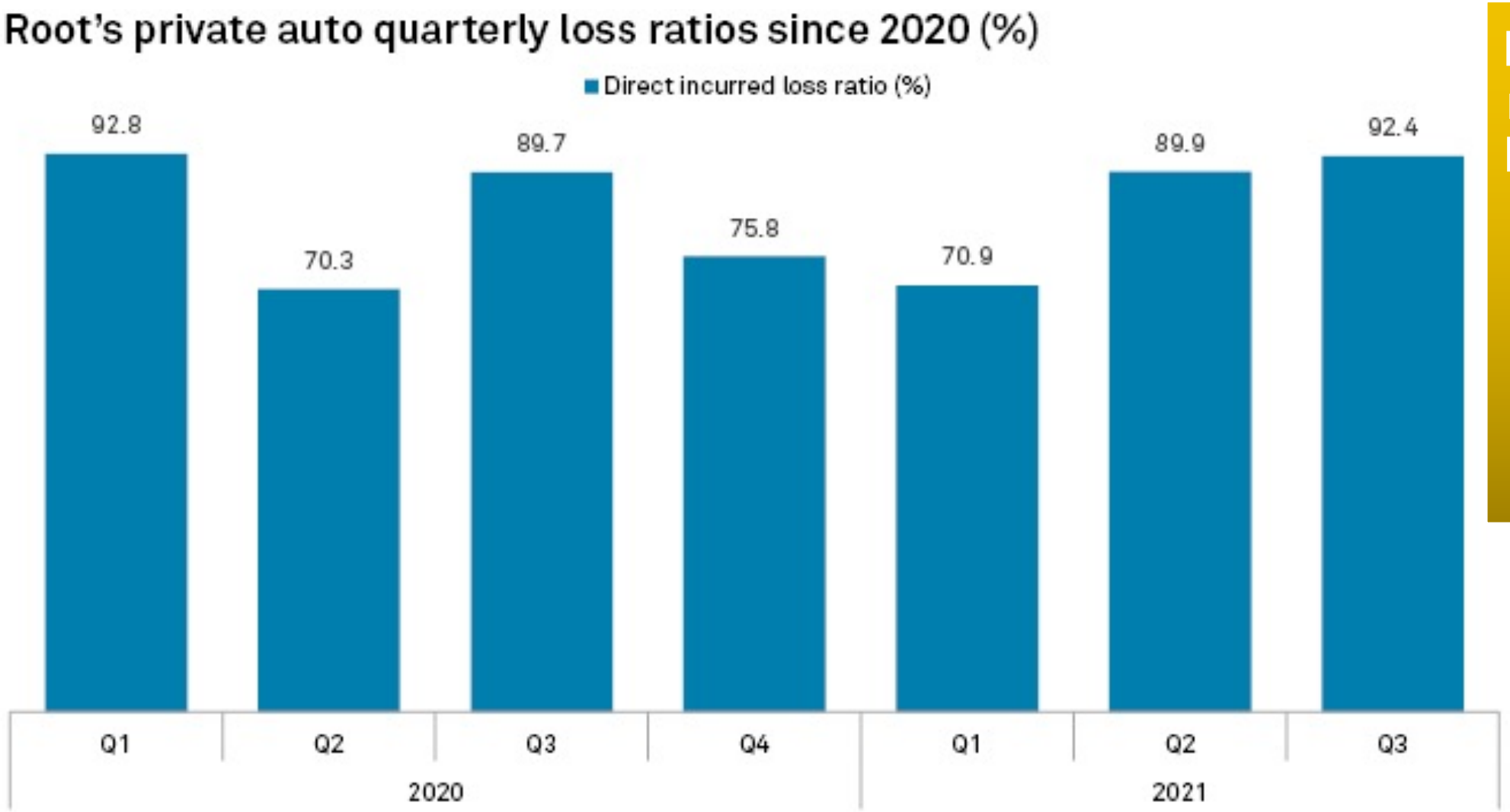
- ***2021 was not anomalous in the sense that total venture capital funding across all industries reached record levels in 2021 in North America and globally. The gains come on the heels of 2020, which was also a recording breaking year despite the COVID-19 pandemic. On the other hand, it should have been patently obvious to anyone and everyone in 2021, that the insurtech space (and indeed valuations for start-ups in many industries) carried insane valuations and that many/most VCs, including insurtechs were in the midst of a bubble at risk of imminent collapse. As stark examples, insurtech darling Lemonade closed yesterday (Jan. 18) at $32.87, down 82.5% from its Jan. 2021 high of $188. Another self-proclaimed insurtech disruptor, Root Insurance, closed at $2.48 on Jan. 18, down 90.8% from its $27 IPO price in Oct. 2020.***

# Case Study:  Root Insurance

**Root's stock price as of Jan. 21, 2022 was down 91.9% from its Oct. 2020 IPO; Announced 300 layoffs in Jan. 2022 (20% of workforce)**

Source: S&P Global Market Intelligence, 1/24/22: https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/underwriting-pricing-woes-lead-to-major-layoffs-at-root-68526278

# Case Study: Root Insurance




**Root's loss ratios remain high, with high policyholder churn rates; Recently announced another overhaul of its pricing model**

Source: S&P Global Market Intelligence, 1/24/22: https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/underwriting-pricing-woes-lead-to-major-layoffs-at-root-68526278

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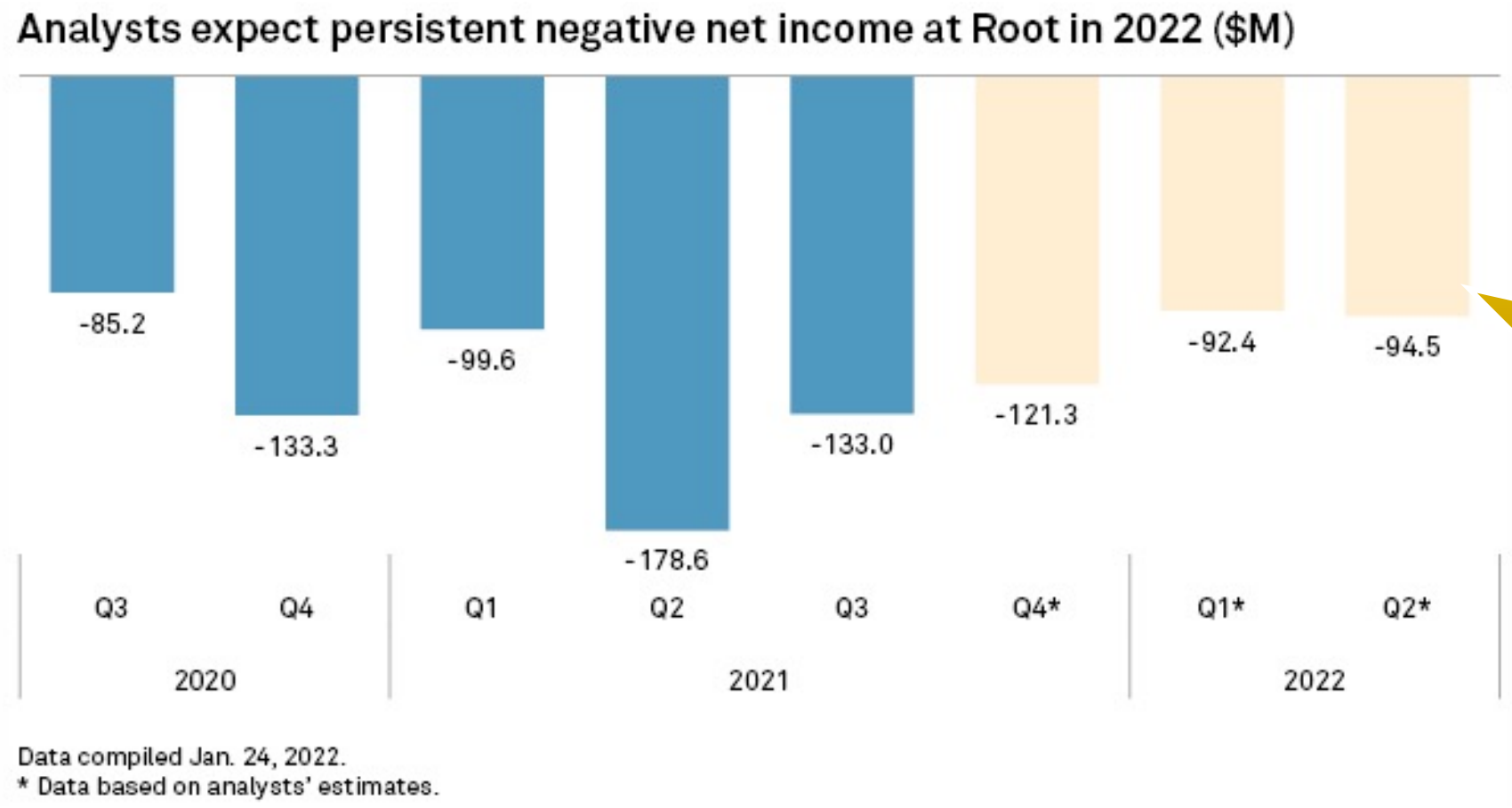



**Root's is loss plagued for the foreseeable future and is burning cash at a rapid rate**

Source: S&P Global Market Intelligence, 1/24/22: https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/underwriting-pricing-woes-lead-to-major-layoffs-at-root-68526278

# SPACs and InsurTechs: Another Sure Sign of Excess

- In July 2020 it was announced that Kin, a direct-to-consumer homeowners insurtech firm, intended to go public via a $1 billion SPAC in combination with Omnichannel Acquisition Corp.
- Deal was expected to close in Q4 2021
- On Jan. 27, 2022, it was announced that the deal has been terminated, citing “unfavorable market conditions”

kin.

Source: Reinsurance News at: https://www.reinsurancene.ws/kin-and-spac-terminate-planned-merger-amid-unfavourable-market-conditions/

# Open Insurance

## Connecting the Insurance Ecosystem to the World Beyond



75

# Open Insurance:  What Is It?

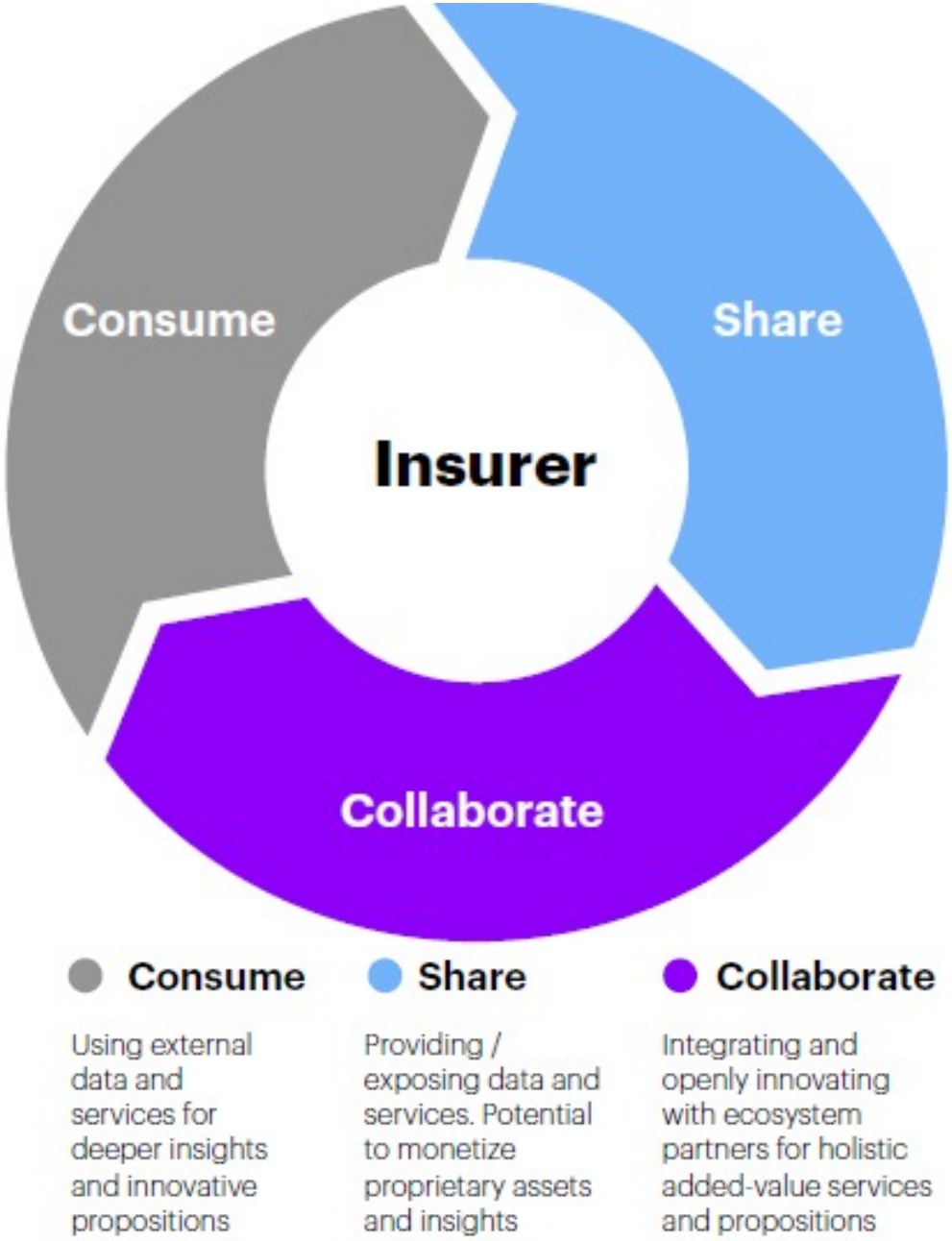
- Open insurance is the practice of insurers sharing and consuming data and services in order to create more appealing value propositions and new revenue streams.
- These data and services are exchanged with third parties both within and beyond the insurance industry
- Data is made externally accessible and openly consumable by means of application programming interfaces (APIs).
- Where relevant, customers authorize their service providers to make their data accessible, in return for which they expect better, more personalized services and experiences.

Source: Accenture. "*Open Insurance: Unlocking Ecosystem Opportunities for Tomorrow's Insurance Industry,*" (2020),

# Open Insurance: 3 Key Elements

**Open insurance refers to the practice of sharing and consuming data and services that span multiple industries, by means of application programming interfaces (APIs) which can be made externally accessible and openly consumable.**

**APIs form a "digital glue," acting as the centerpiece for exchanging data and connecting applications both within the enterprise and across external ecosystem partners or third parties.**




Source: Accenture. "*Open Insurance: Unlocking Ecosystem Opportunities for Tomorrow's Insurance Industry,*" (2020),

# Open Insurance:  Ideal Example/Scenario

- New commercial vehicle involve in an accident
- The insurer had recently added the vehicle to the fleet manager's policy, having automatically received this info from the manufacturer's dealer, with all changes accepted digitally
- Onboard technology immediately alerts owner and performs remote diagnostics of damage, parts need
- All of this info is immediately transmitted to the insurer with approved repair facility alerted; A tow truck and replacement vehicle are dispatched
- Data on weather conditions, telematics data, etc., are used to perform real-time accident reconstruction to develop early understanding of liability
- Once repairs complete, insurer's repairer transmits this info to the manufacture to improve vehicle design, safety, etc.

Source: Accenture. "*Open Insurance: Unlocking Ecosystem Opportunities for Tomorrow's Insurance Industry,*" (2020),

# Use Cases: P/C Examples

| PROPOSITION DEVELOPMENT | CUSTOMER ACQUISITION AND DISTRIBUTION | UNDERWRITING | POLICY ADMINISTRATION AND SERVICING | CLAIMS |
|---|---|---|---|---|
| New forms of usage-based cover e.g. short-term car insurance, on-demand gadget cover, cargo insurance covering specific shipments. | Seamless digital distribution partnerships with a wide range of companies e.g. PFMs, retailers, real estate, automotive, affinity organizations. | Open data speeding up and tailoring quotes e.g. land registry, satellite imagery, mobile phone number. | Satellite / sensor technology providing real-time risk management alerts based on e.g. flood / rainfall. | Parametric travel policies that instantly pay compensation when a flight is delayed for more than 2 hours. |
| Rolling SME contracts, with: monthly premiums aligned to risk and reflecting business changes; dynamic limits and excesses; regular assessments to minimize over/ under insurance. | Platforms aggregating customer insurance holdings and using a suite of insurance and banking APIs to identify:<br>• Areas of over/under insurance<br>• Appropriate | Transferable driver behavior and usage data, combined with e.g. roads travelled, associated accident rates, typical weather conditions, for tailored pricing. | Policy service / administration requests seamlessly handled through 3rd party digital channels. | Telematics or OEM data providing FNOL and instant accident reconstruction data. |

## Some Obstacles to Open Insurance

- **Data privacy and security concerns**
- **Legacy systems**
- **"Traditional mindsets," culture, strategy, etc.**

Source: Accenture. "*Open Insurance: Unlocking Ecosystem Opportunities for Tomorrow's Insurance Industry,*" (2020),

# Embedded Insurance

## Connecting the Insurance Ecosystem to the World Beyond



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# Embedded Insurance:  What Is It?

- Embedded Insurance bundles coverage or protections within the purchase of a product, service, or platform. That means the insurance product is not sold to the customer ad hoc, but is instead provided as a “native” feature. Examples:
  - Car share membership comes with mobility insurance included
  - A new camera is covered for theft and damage right out of the box
  - A platform used to run a small business/gig worker is bundled with professional liability coverage
- Frequently touted as a way to help close the “insurance gap”
- Not new, but there is a proliferation of insurtechs in this space

# Embedded Insurance: Look Familiar?

**Travel insurance option (from Allianz) upon recent purchase of a ticket from American Airlines. The cost of the insurance was equal to 7.2% or the purchase price.**

Allianz

Trip Insurance

( • Required)

ⓘ 67,033 American Airlines customers protected their trip in the last 7 days

**Add Trip Insurance? •**

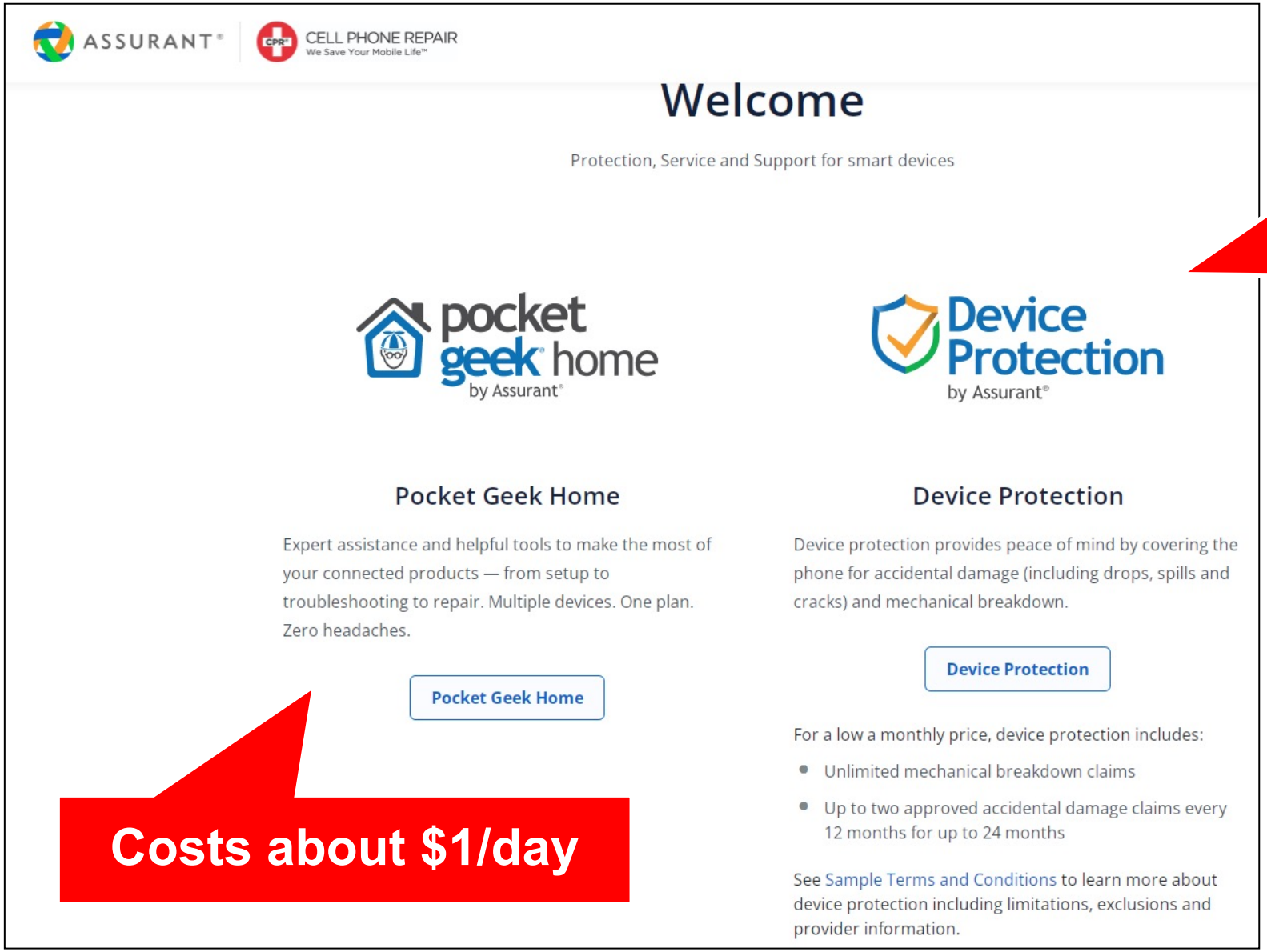
**Yes,** protect my trip for $52.76 per traveler ($105.52 total). ✓ **Recommended**

Includes benefits for covered trip cancellation, trip interruption, travel and baggage delay, baggage protection, 24/7 assistance, and concierge services.

**Get up to 100% cash back for certain expenses due to trip cancellation and interruption, including if you test positive for COVID-19.**

**Your trip to Pittsburgh is not protected.**

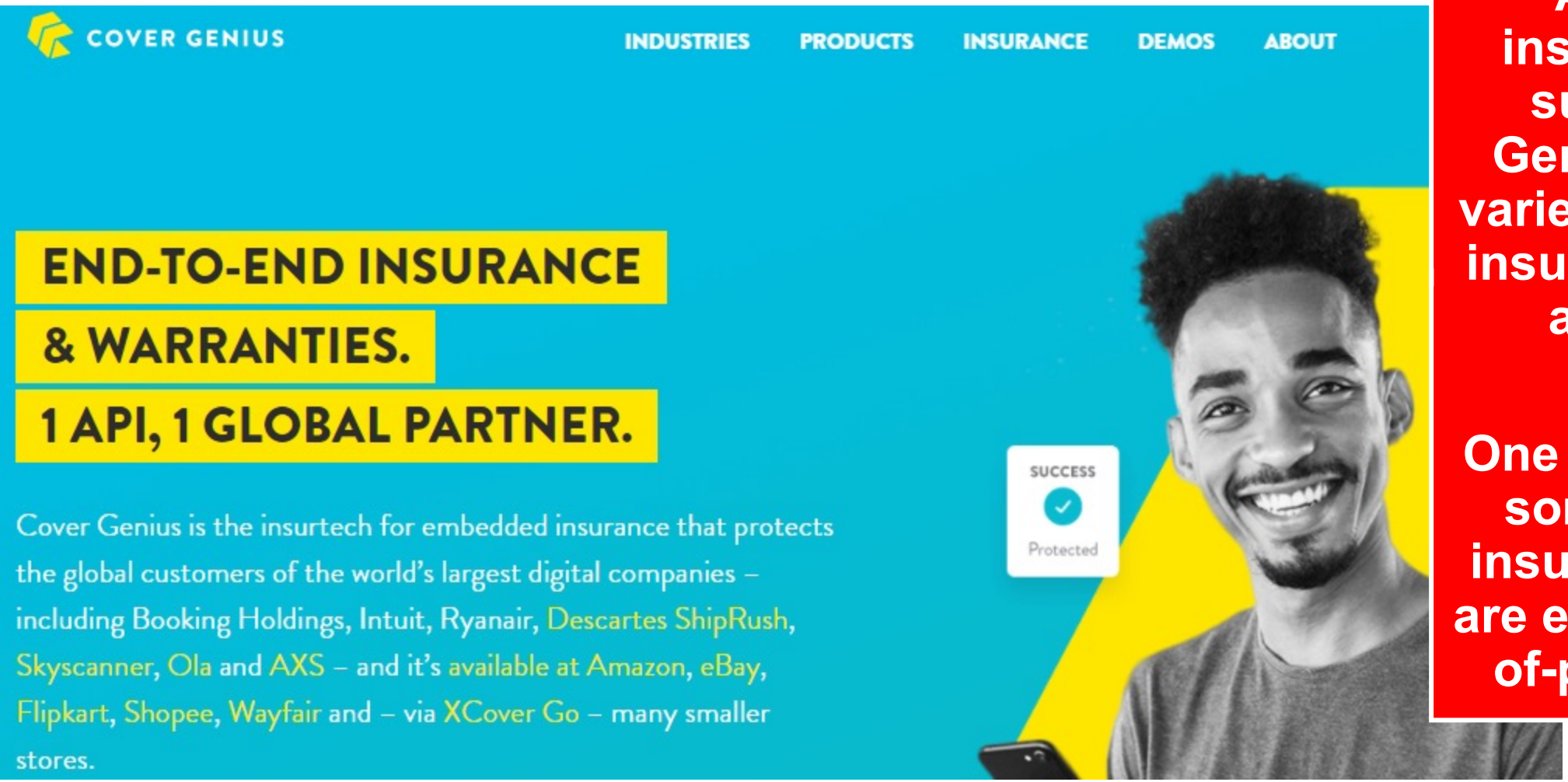
# Embedded Insurance: Device Protection and Services




**Assurant actually owns the CPR Cell Phone Repair chain (acquired in 2019) and offers a suite of device protection packages**

**Costs about $1/day**

# Embedded Insurance: Today




**A number of insurtechs today such as Cover Genius, provide a variety of embedded insurance solutions across many industries**

**One criticism is that some embedded insurance products are expensive, point-of-purchase buys**

# Distribution Trends

## Independent Agents Are Holding their Ground in Commercial Lines

## *Private Equity Funds Are Hungry for Insurance Industry Growth*



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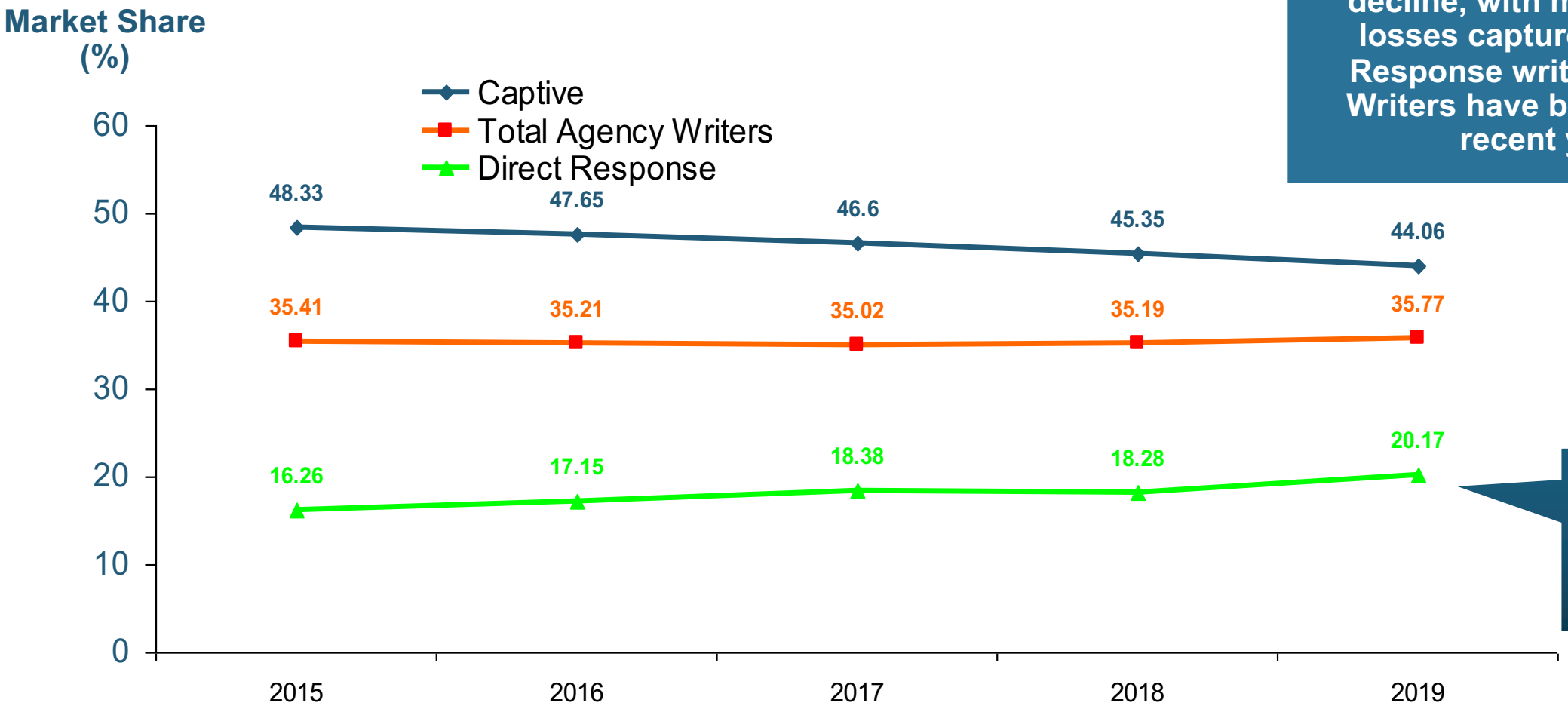
# 5-Year Market Share by Distribution Channel: *Personal Lines*

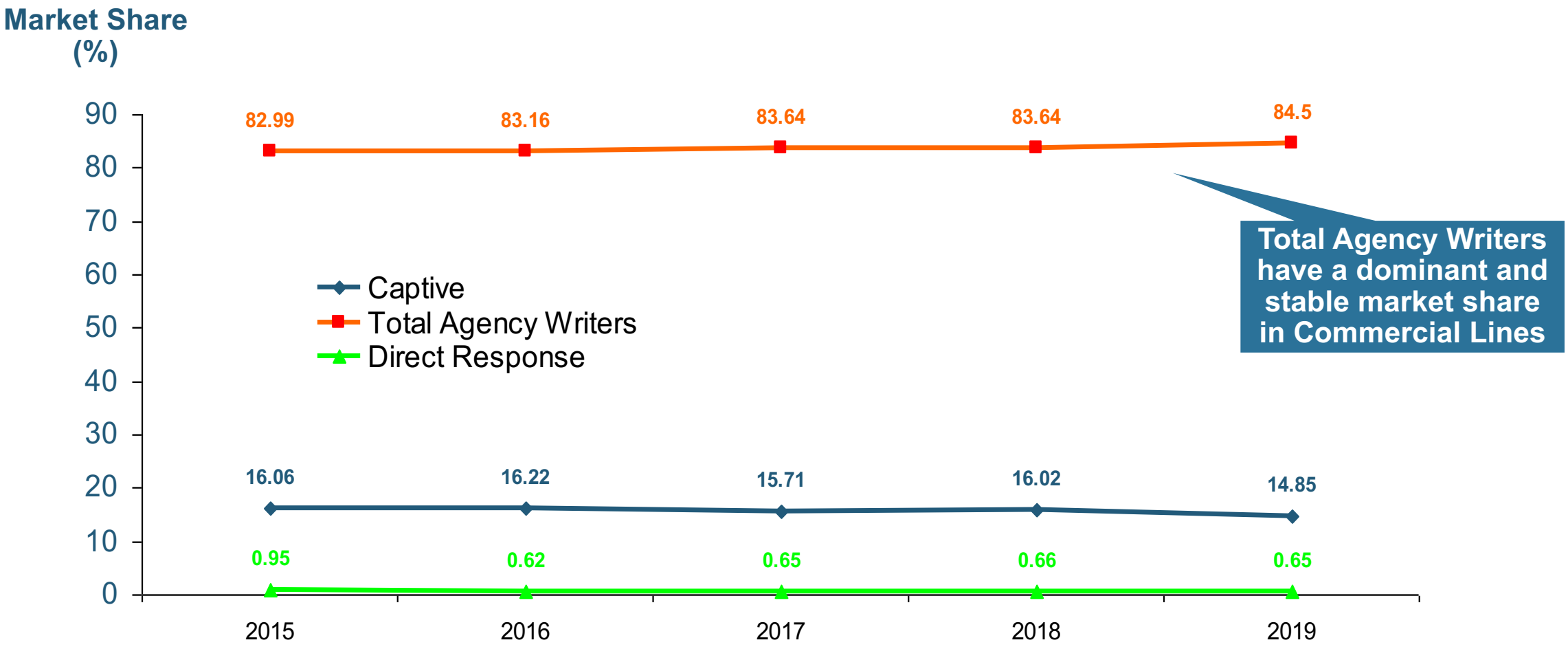
**Captive Agency market share in Personal Lines continues to decline, with most of those losses captured by Direct Response writers. Agency Writers have been stable in recent years**




**Most gains by Direct Response carriers has come at the expense of Captive carriers**

Sources: 2020 Market Share Report, IIABA from A.M. Best data at https://www.independentagent.com/research/SiteAssets/MarketShareReport/default/2020-Market-Share-Report-BasedOn2019Data.pdf; University of South Carolina, Risk and Uncertainty Management Center.

# 5-Year Market Share by Distribution Channel: *Commercial Lines*




Sources: 2020 Market Share Report (latest available), IIABA from A.M. Best data at https://www.independentagent.com/research/SiteAssets/MarketShareReport/default/2020-Market-Share-Report-BasedOn2019Data.pdf; University of South Carolina, Risk and Uncertainty Management Center.

# IA Merger Mania?

- Private Equity are aggressively looking to acquire distribution outlets
  - PE is very aggressive in general esp. in tech space
- These well-funded, cash-rich buyers make it difficult for local IA buyers to compete for an acquisition
- PE buyers place more of an emphasis on short-term RoR (to reward backers) and then the building of longer-term equity to maximize value in a future sale
  - In contrast, local IA acquirers primarily are interested in long-term equity growth and base purchase price primarily on cash flow
- PE investors usually like to see an EBITDA of at least 30%.
- Well-funded buyers are typically paying 2.5x – 3.5x revenues compared to 1.8x to 2.1x for local/smaller buyers
- Numerous other structural differences in the deals
- Rising interest rates, turbulent markets could affect PE in general

Source: Merger & Acquisition State of the Industry, Insurance Journal, 9/6/21, accessed at: https://www.insurancejournal.com/magazines/mag-features/2021/09/06/630183.htm

# Technology: Sales & Distribution

- **69% of insurance consumers ran a search before scheduling an appointment** (Source: LSA)

- **Over 50% of insurance searches are performed on mobile devices**
  - Because so many insurance searches are run on smartphones, calling an agent is more seamless than ever before. (Source: Blue Corona)

- **Mobile queries that contain "insurance near me" have grown by over 100% in the past two years** (Source: Google)
  - Insurance shoppers are placing local searches and researching agents in their area.

- **68% of insurance consumers did not have a specific company in mind when they started searching**
  - Creates opportunity to convert undecided consumers with search ads. (Source: LSA)

# Technology: Sales & Distribution (cont'd)

- **The average conversion rate for an insurance search ad is 5.10%. For an insurance display network ad, it's 1.19%** (Source: WebFX)

- **74% of consumers research insurance purchases online, but only 25% end up making a purchase online** (Source: J.D. Power)
  - Though most insurance consumers start their journey with a search, they prefer to speak to a live agent to make a purchase
  - Almost 75% of customers attempting to purchase insurance online reported problems

- **Only 24% of small and medium businesses purchased their commercial insurance online** (Source: PwC)
  - Businesses also prefer to speak to an agent/broker to make insurance purchases

- **BOTTOM LINE: Agent/broker/rep remains extremely important**

Source: Invoca.com. Accessed 7/25/21 at: https://www.invoca.com/blog/insurance-marketing-statistics

# SUMMARY

- The P/C Insurance Industry Remains Strong, Stable, Sound and Secure
- IA commercial market share is stable
- Worst-Case COVID-19 Scenarios Have Been Averted
- Covid Variants, Snarled Supply Chains, Vaccine Hesitancy Are Slowing the Economic Recovery, though a Second Recession Is Unlikely
  - Most P/C Exposures Restored to Pre-Pandemic Levels by mid-2022
- Asset Price Volatility Will Persist and Low Interest Rates Will Pressure Investment Earnings for Years
- Inflation Surge Will Linger Through late 2022, but will subside
- Many Loss Cost Challenges—Inflation, Supply Chain and  Social Inflation Issues

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