

# Workers Compensation in the Age of Trump *Trends, Challenges and Opportunities*

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University of South Carolina



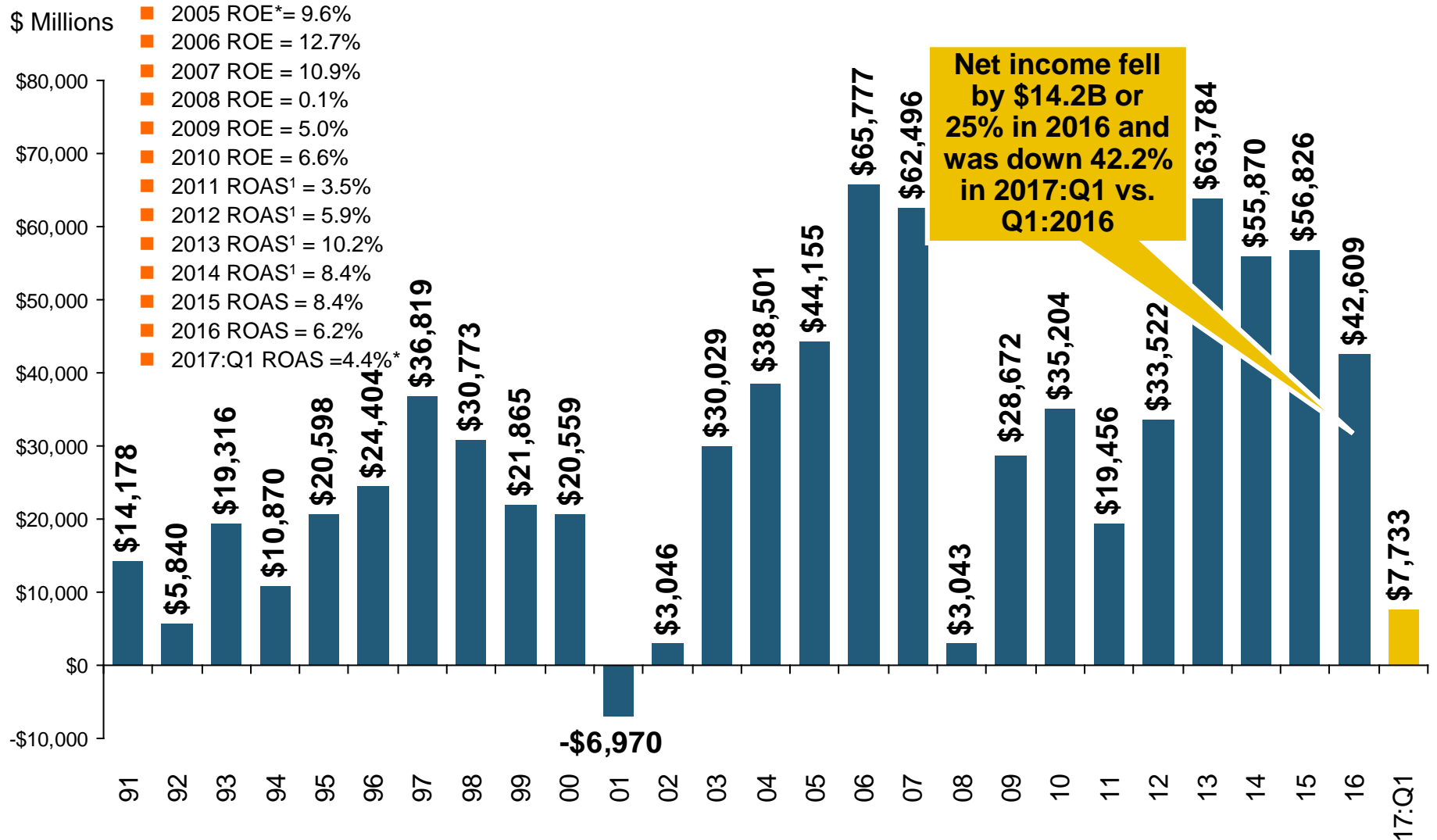
UNIVERSITY OF  
**SOUTH CAROLINA**

Darla Moore School of Business

# **P/C Insurance Financial Update: An Overview and Outlook**

## **Profitability, Growth, Investments**

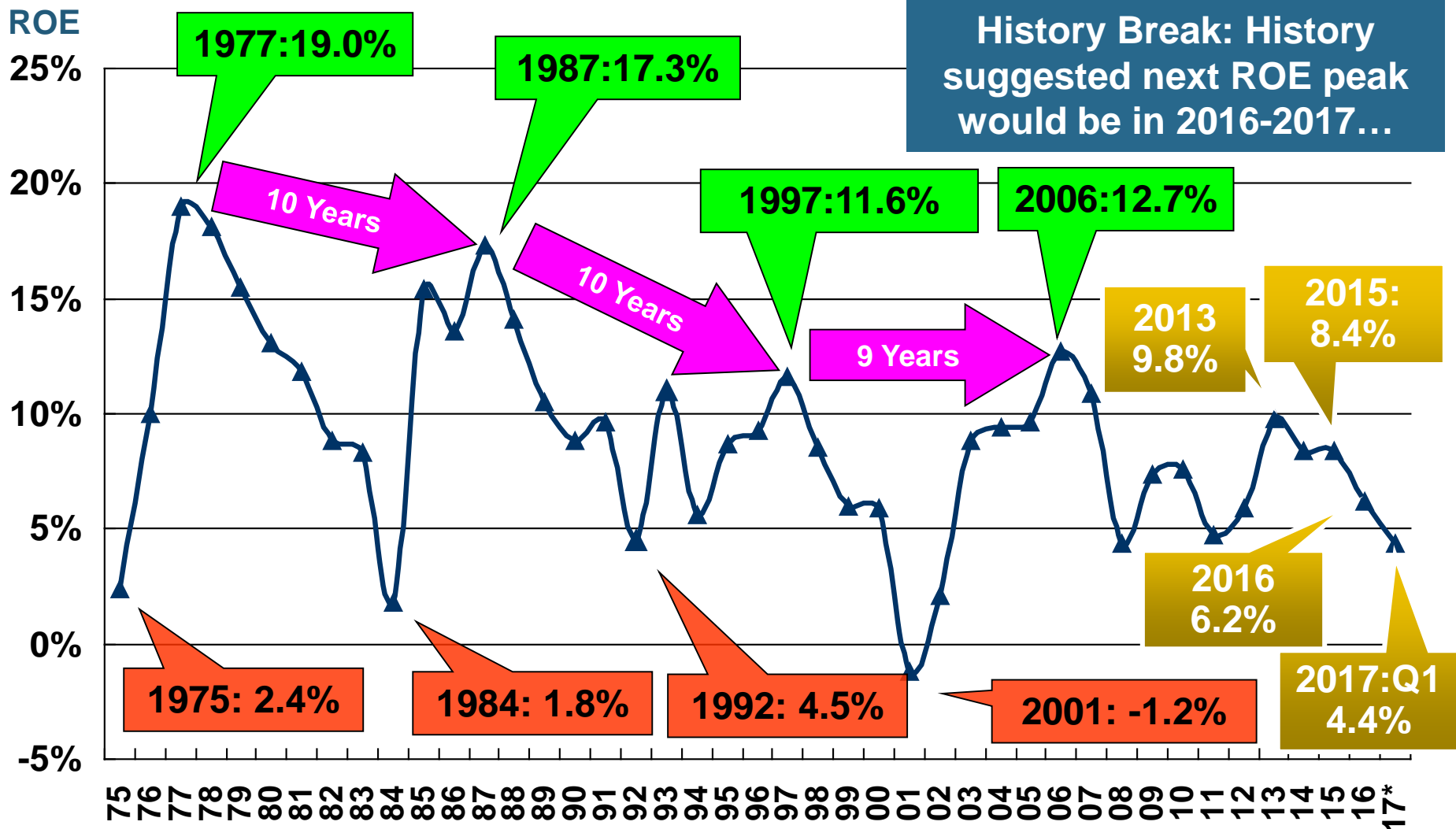
# P/C Industry Net Income After Taxes 1991–2017:Q1



\*ROE figures are GAAP; <sup>1</sup>Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 8.2% ROAS in 2014, 9.8% ROAS in 2013, 6.2% ROAS in 2012, 4.7% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009; 2016E is annualized figure based actual figure through Q3 of \$31.8B.

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

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

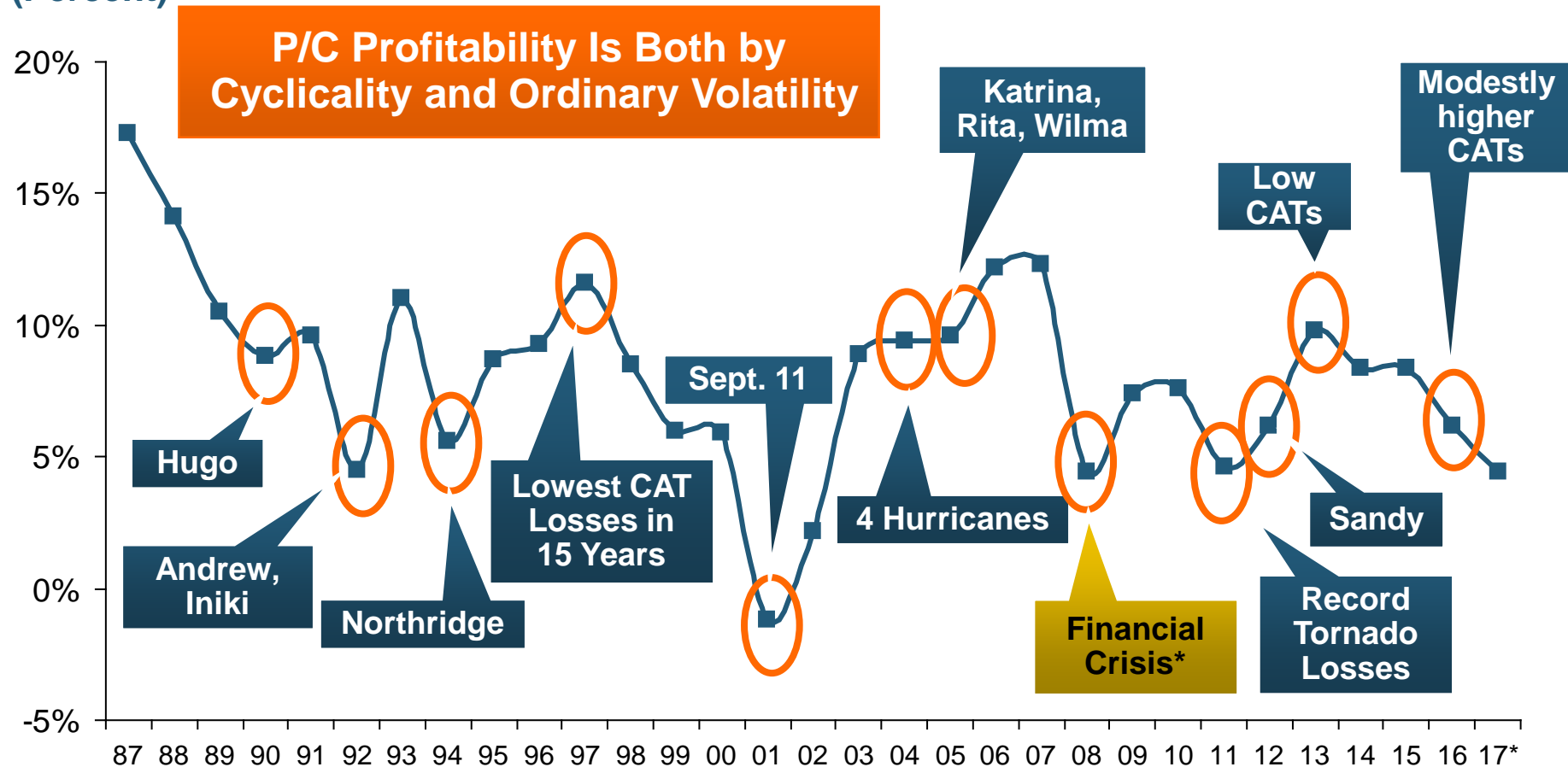


\*As of Q1:2017; Profitability = P/C insurer ROEs. 2011-16 figures are estimates based on ROAS data. Note: Data for 2008-2014 exclude mortgage and financial guaranty insurers.

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

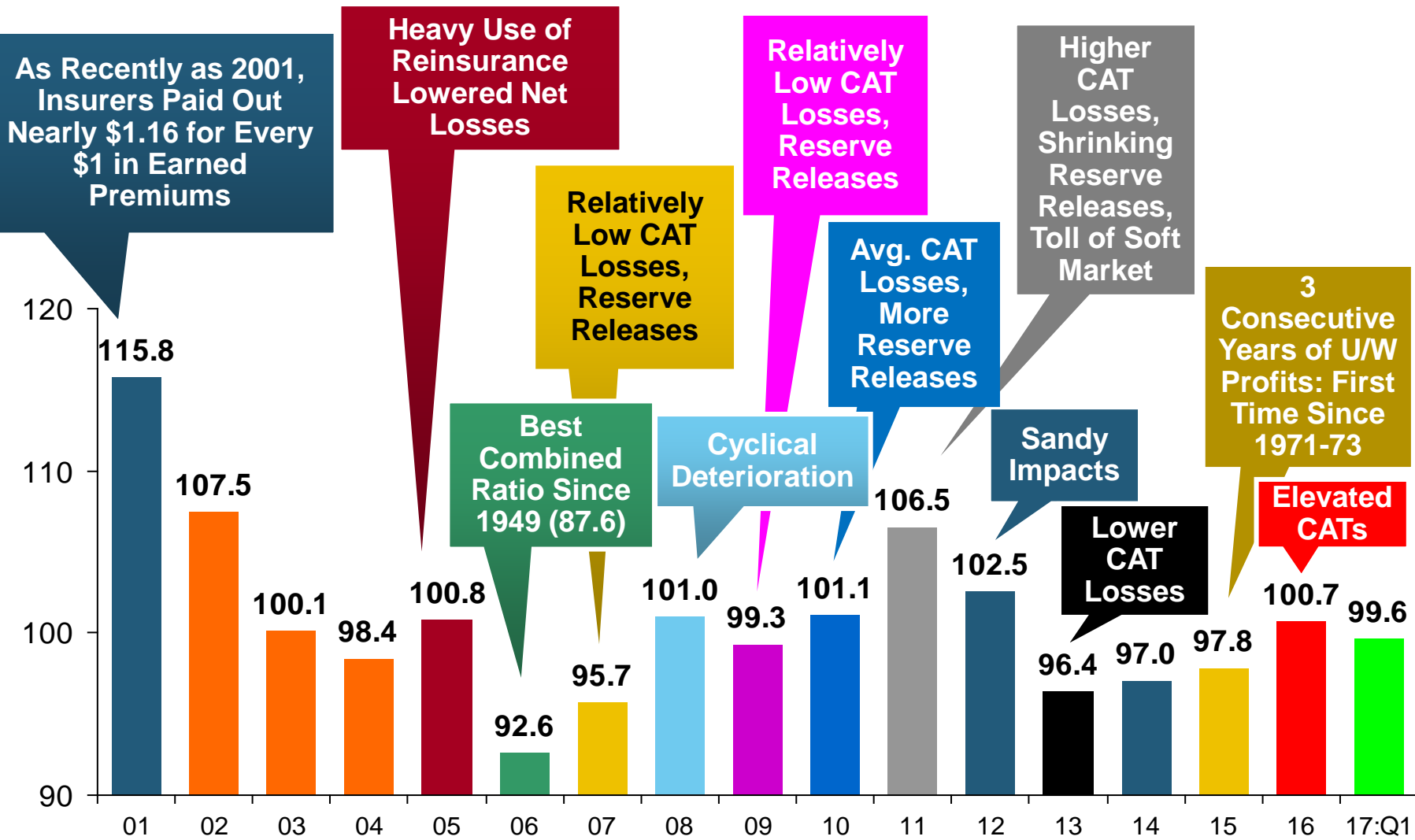
# ROE: Property/Casualty Insurance by Major Event, 1987–2017:Q1

(Percent)



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

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

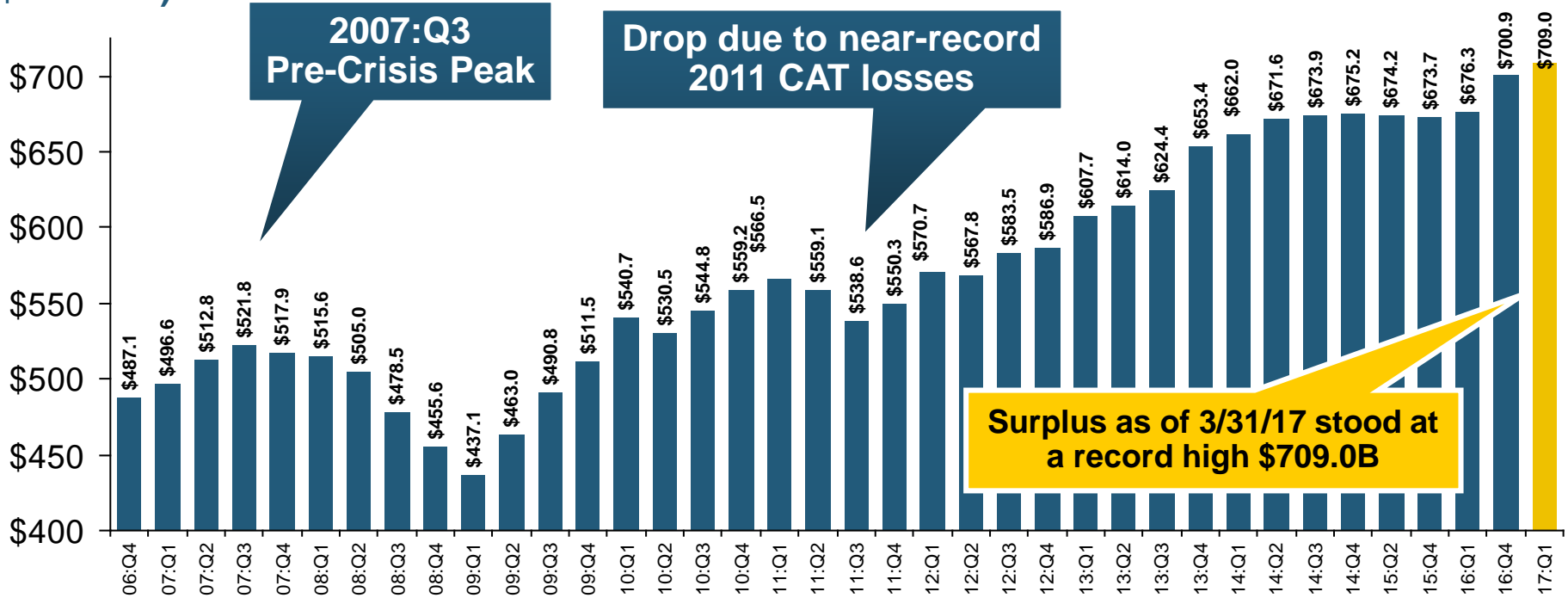


\* Excludes Mortgage & Financial Guaranty insurers 2008--2014. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.1; 2012:=103.2; 2013: = 96.1; 2014: = 97.0.

Sources: A.M. Best, ISO (2014-2015); Figure for 2010-2013 is from A.M. Best P&C Review and Preview, Feb. 16, 2016.

# Policyholder Surplus, 2006:Q4–2017:Q1

(\$ Billions)



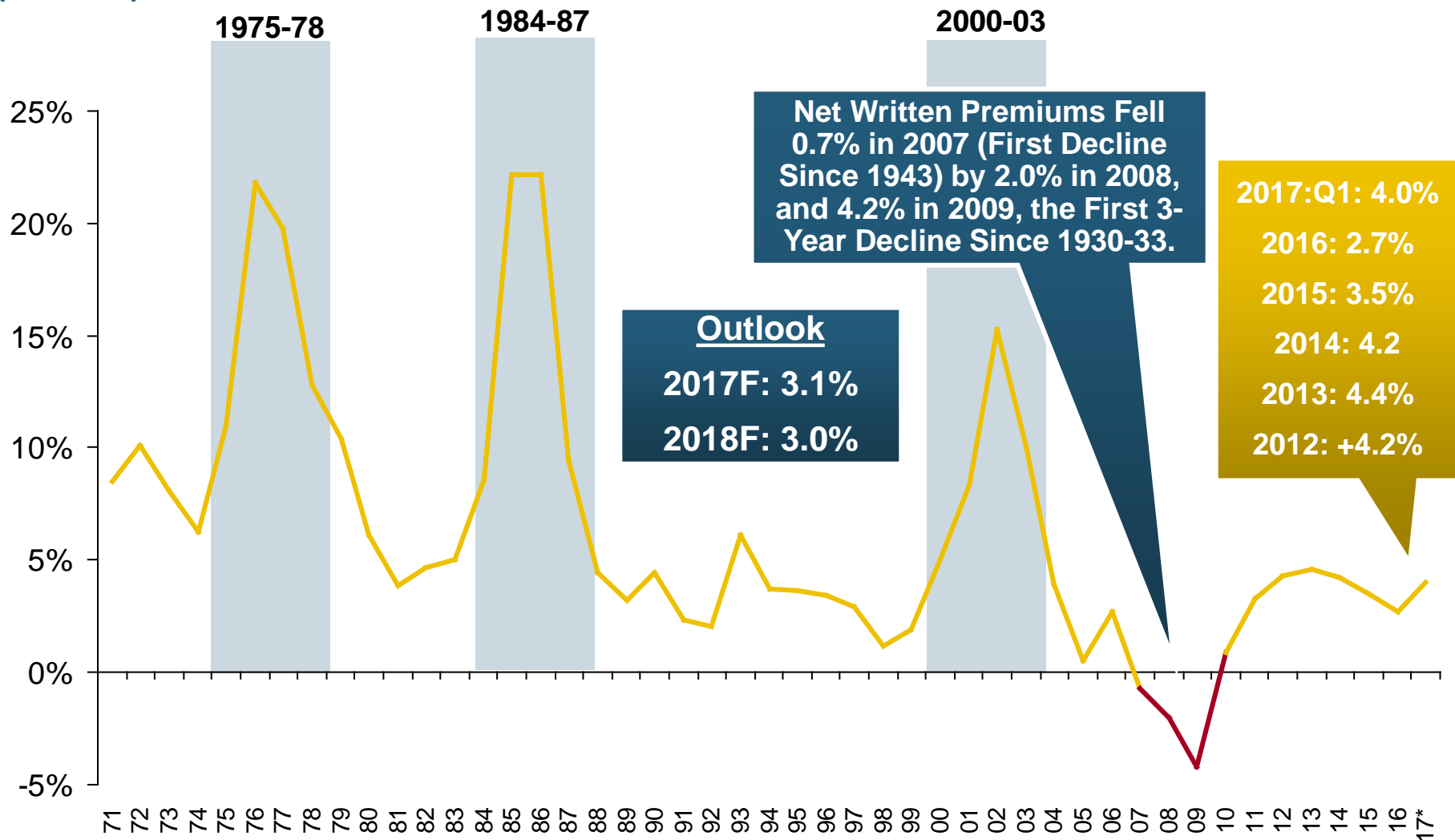
**The industry now has \$1 of surplus for every \$0.76 of NPW, close to the strongest claims-paying status in its history.**

2010:Q1 data includes \$22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business.

**The P/C insurance industry entered 2017 in very strong financial condition.**

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

(Percent)



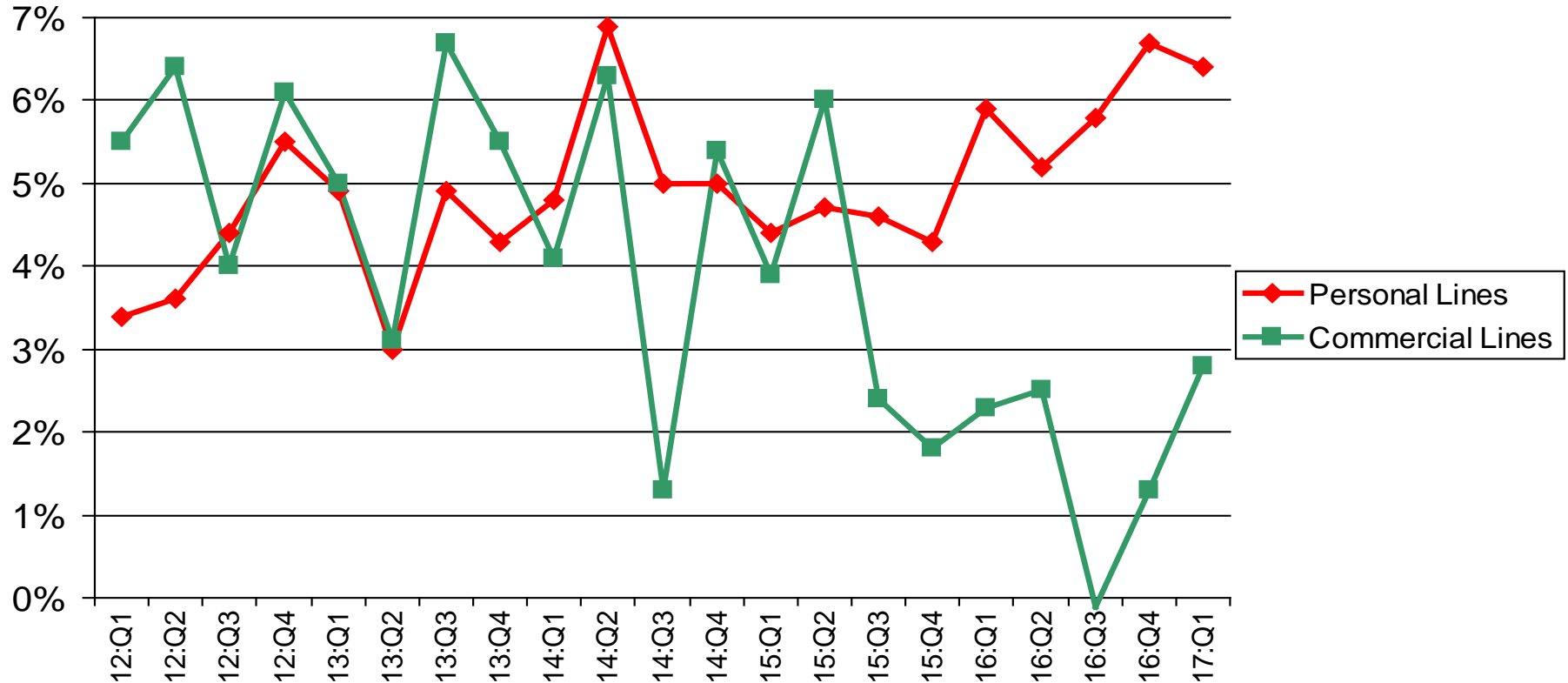
\*Q1:2017 over Q1:2016. Shaded areas denote "hard market" periods

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



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

## 2012:Q4 - 2017:Q1



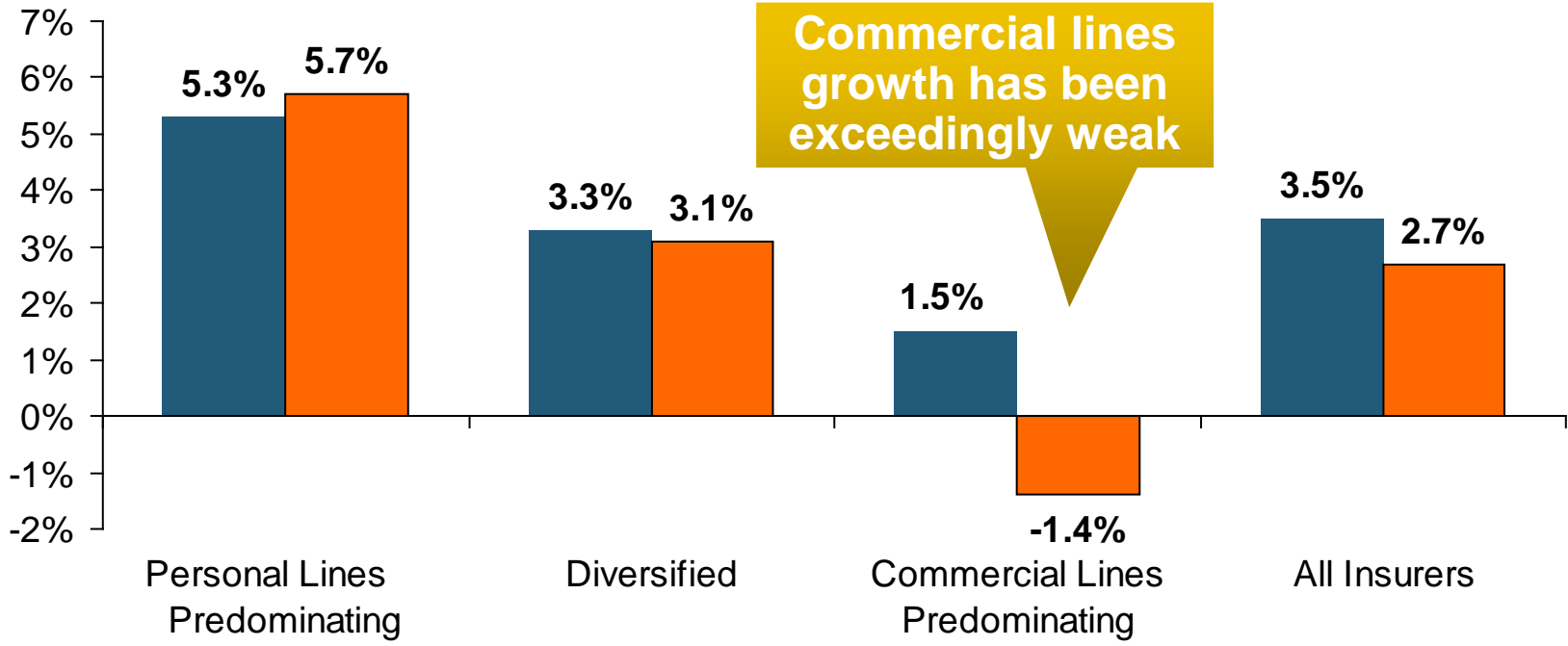
**Since 2014, personal lines Direct Premiums Written have generally grown faster than commercial lines DPW, and that growth has been less volatile.**

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

# 2016 Growth in Net Written Premium: Personal vs. Commercial

Annual Change in NWP

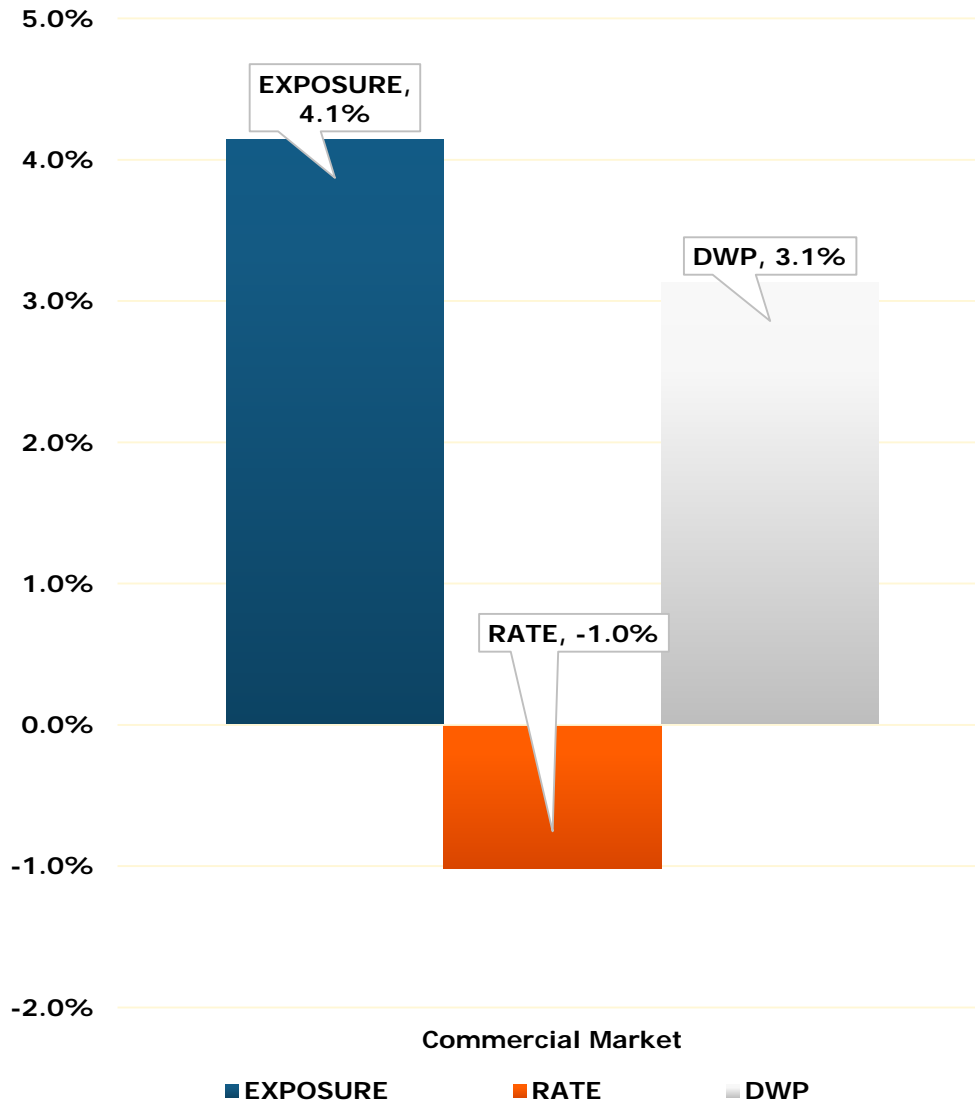
■ 2015 ■ 2016



Commercial lines growth has been exceedingly weak

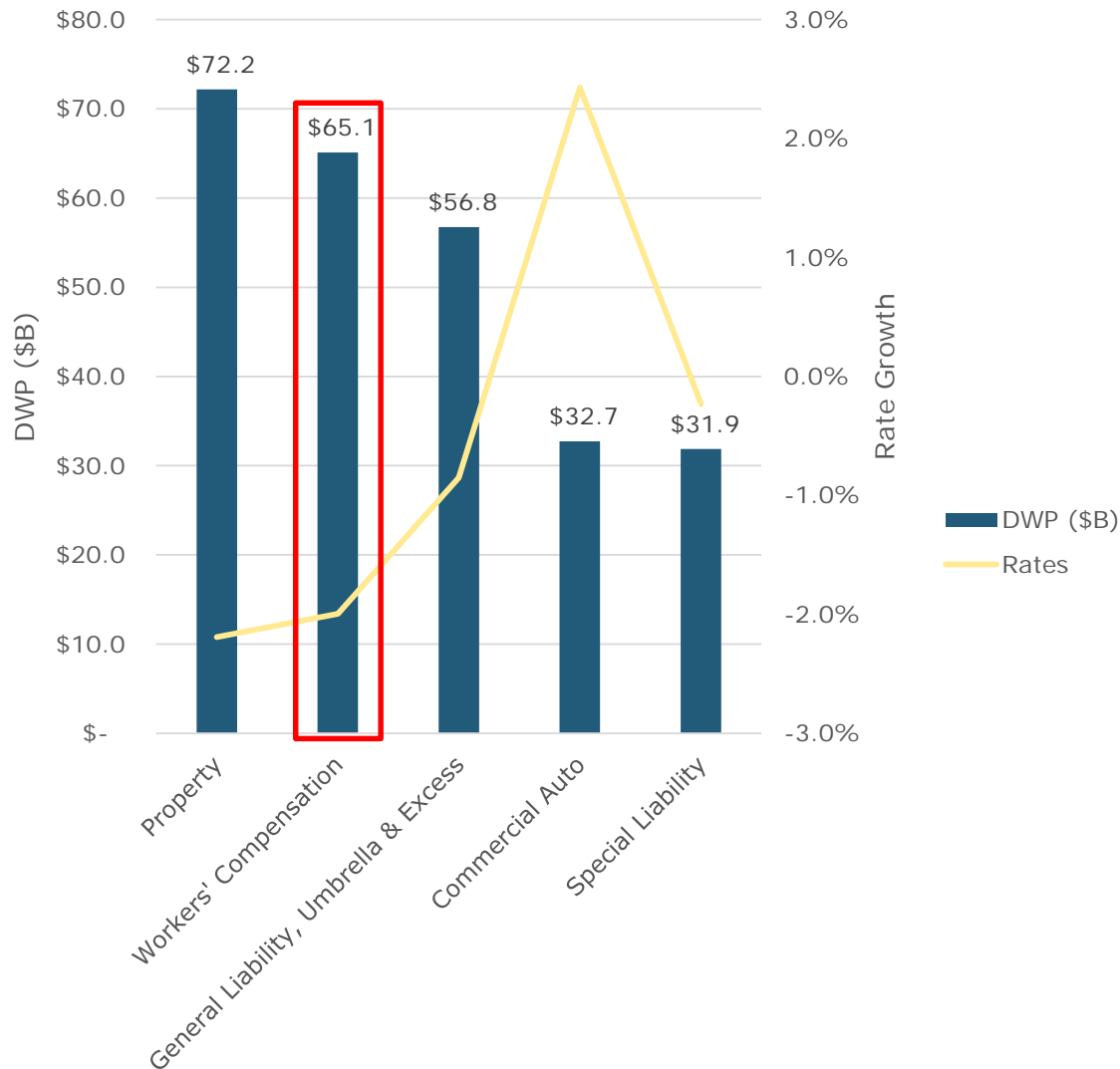
The divergence in growth between personal and commercial lines is large and is expanding rapidly

# 2016: Components of Commercial DWP Growth



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

# 2016 Commercial Market Composition, Rates by Coverage

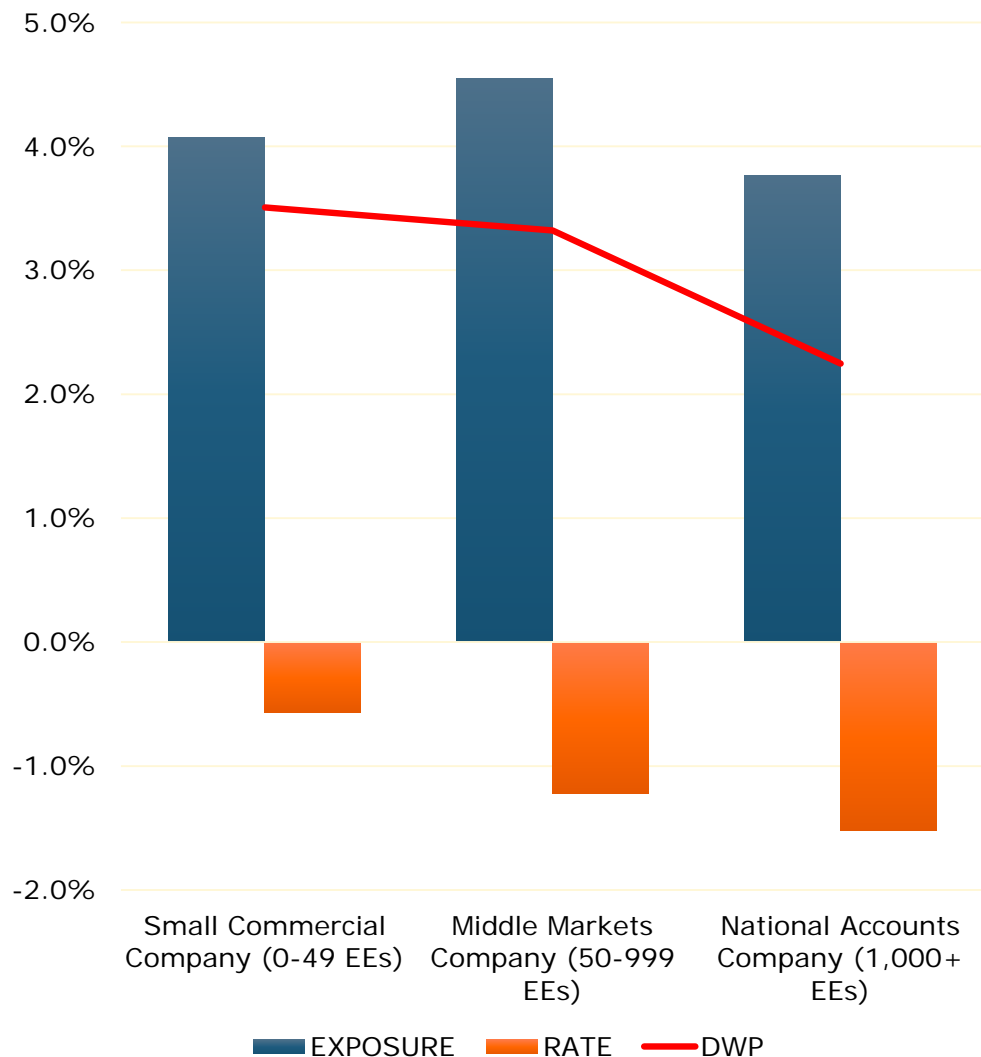


Over 50 percent of 2016 premium volumes were under strong negative rate pressure

Commercial auto, specialty lines under less pressure



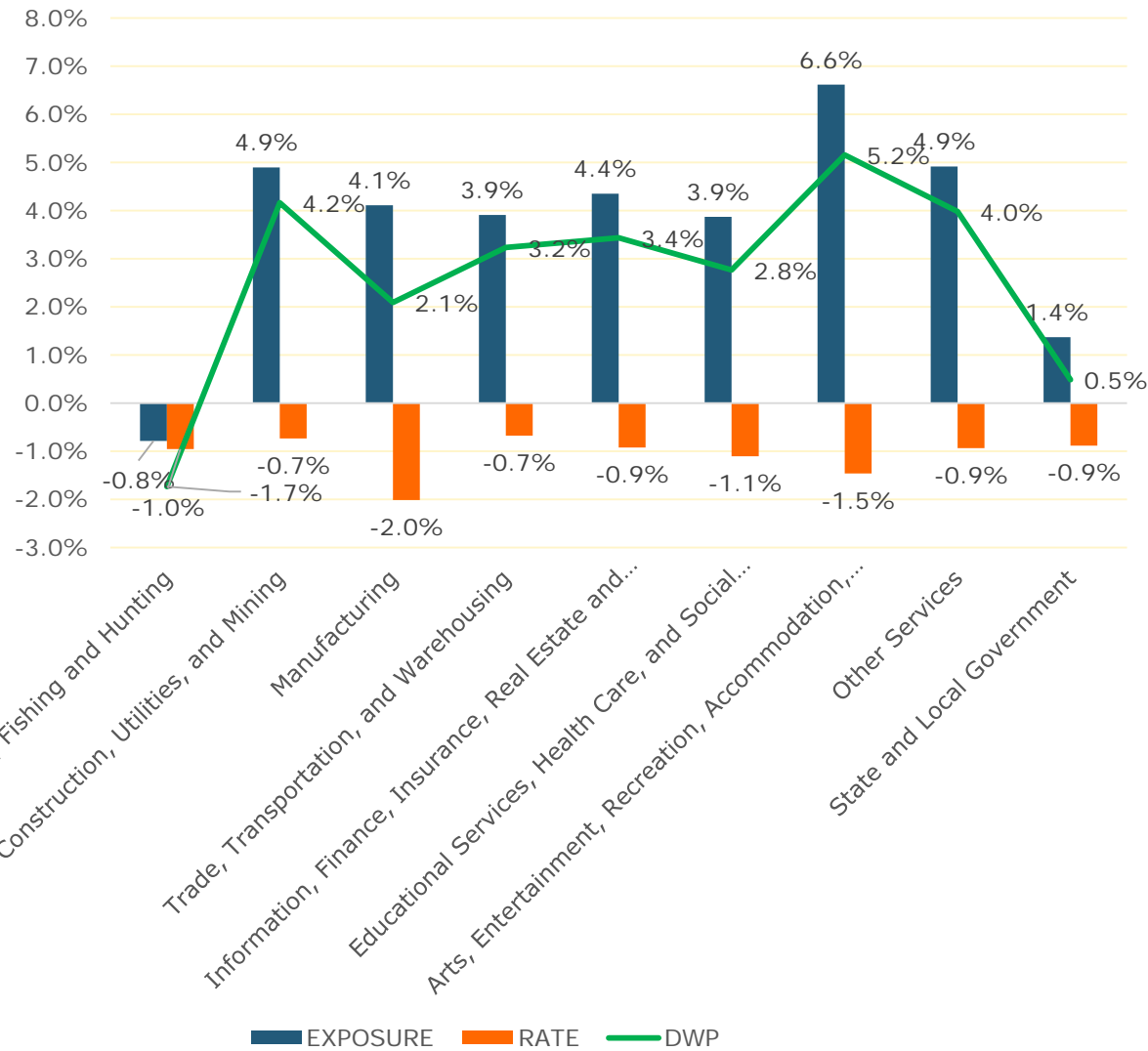
# 2016 Commercial Market Growth by Size Segment



**Small commercial, middle markets DWP growth in 2016 outpaced the market**

**2016 soft market conditions strongly correlated with account size**

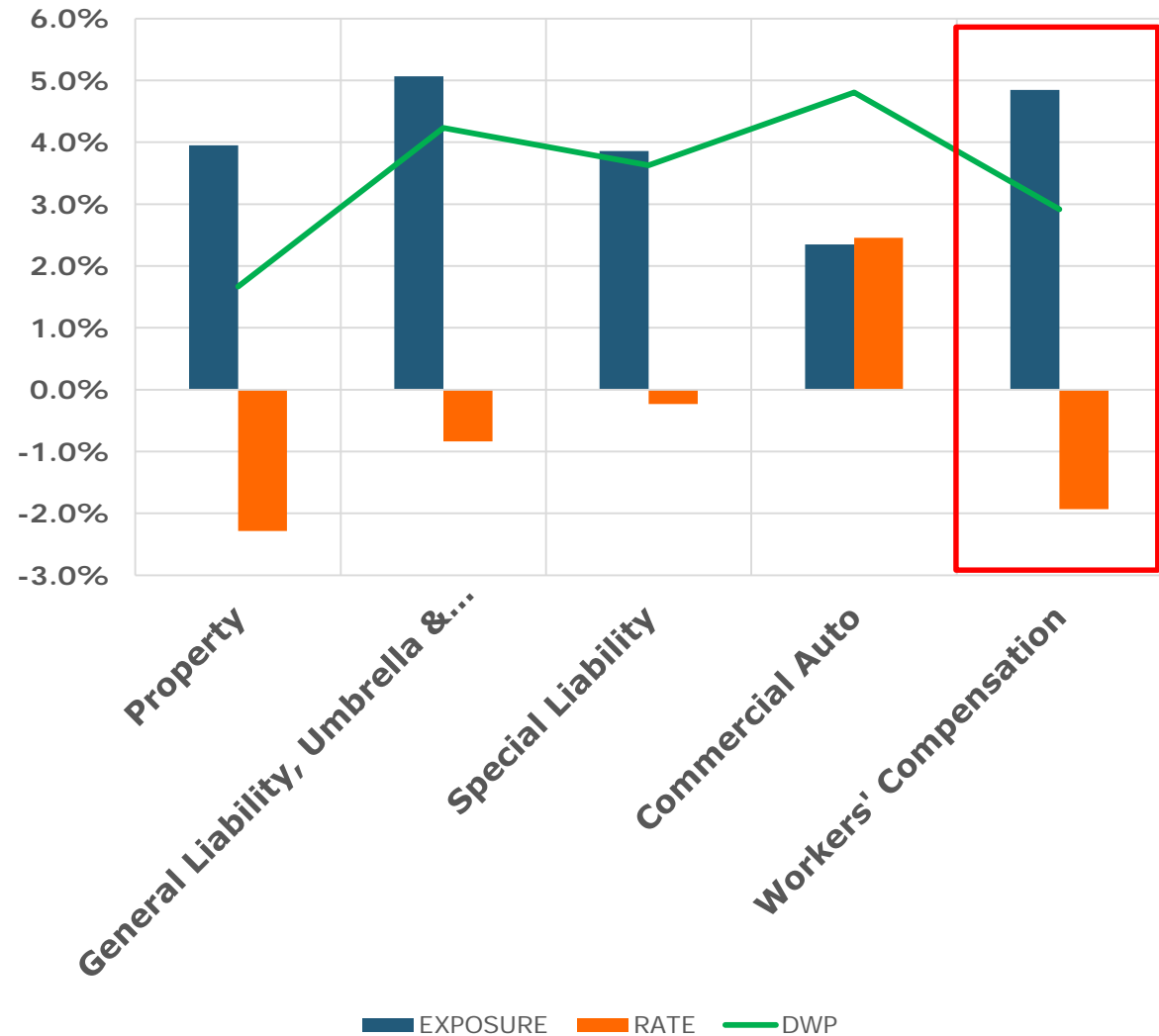
# 2016 Commercial Market Growth by Industry



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



# 2016 Commercial Market Growth by Coverage



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

# INVESTMENTS: THE NEW REALITY

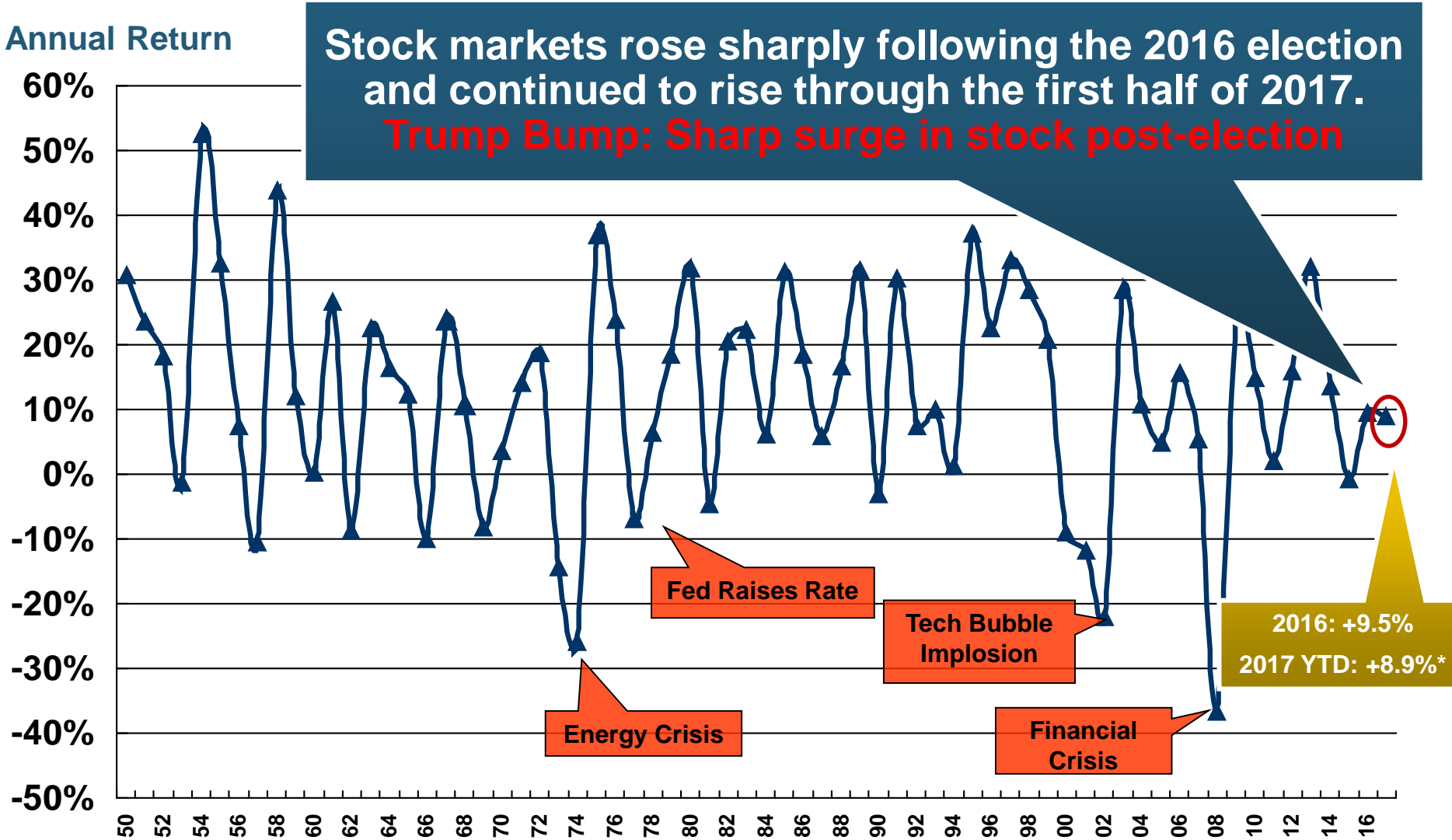
**Investment Performance is a Key  
Driver of Insurer Profitability**

***The “Trump Bump” Has Lifted  
Stock Markets and Interest Rates***

***Will the Gains Help Insurers?***



# S&P 500 Index Returns, 1950 – 2017\*

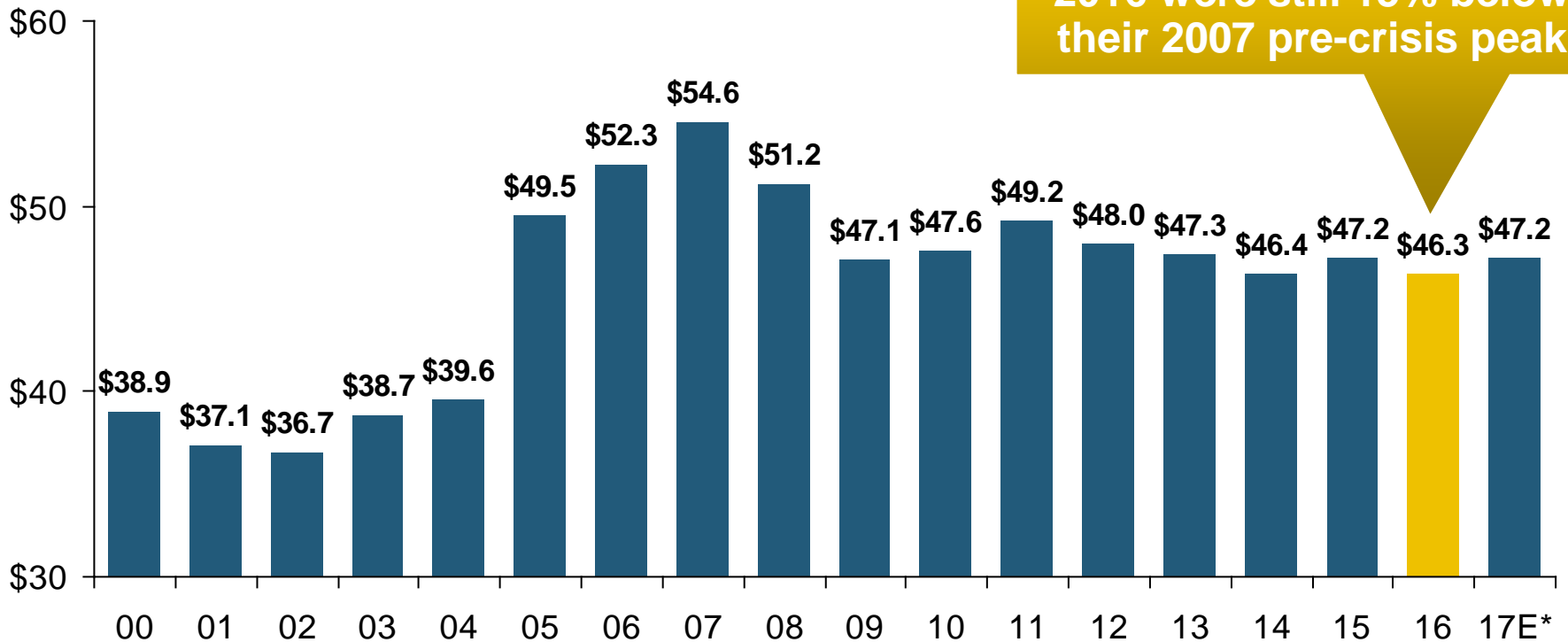


\*Through August 10, 2017.

Source: NYU Stern School of Business: [http://pages.stern.nyu.edu/~adamodar/New\\_Home\\_Page/datafile/histretSP.html](http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html) Ins. Info. Inst.

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

(\$ Billions)

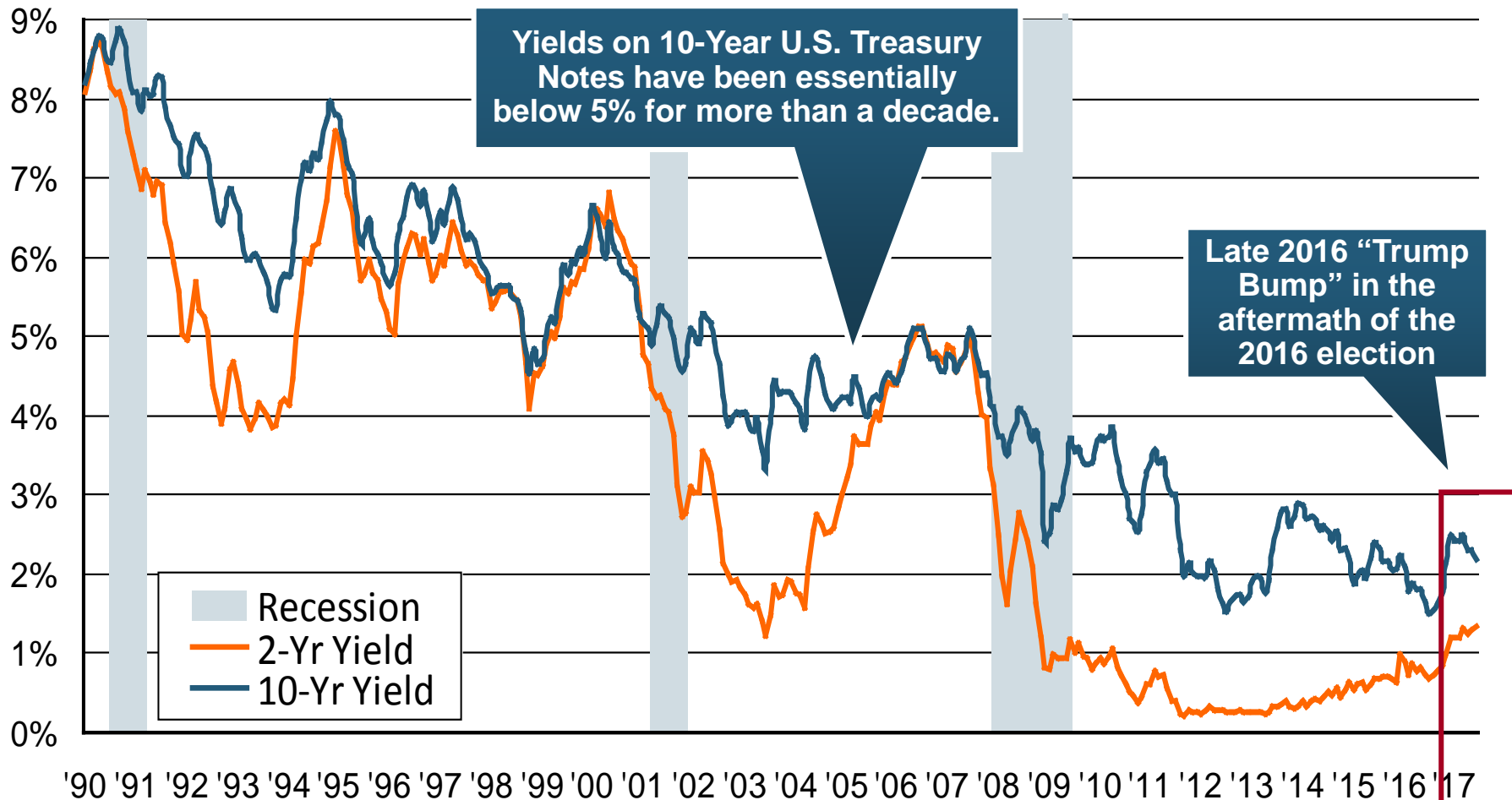


Due to persistently low interest rates, investment income fell in 2012, 2013 and 2014 but showed a small (1.7%) increase in 2015—though 2016 experienced another decline.

<sup>1</sup> Investment gains consist primarily of interest and stock dividends. Sources: ISO; Insurance Information Institute.

\*2017 estimate based on annualized \$11.805B actual figure for Q1:2017.

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



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

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

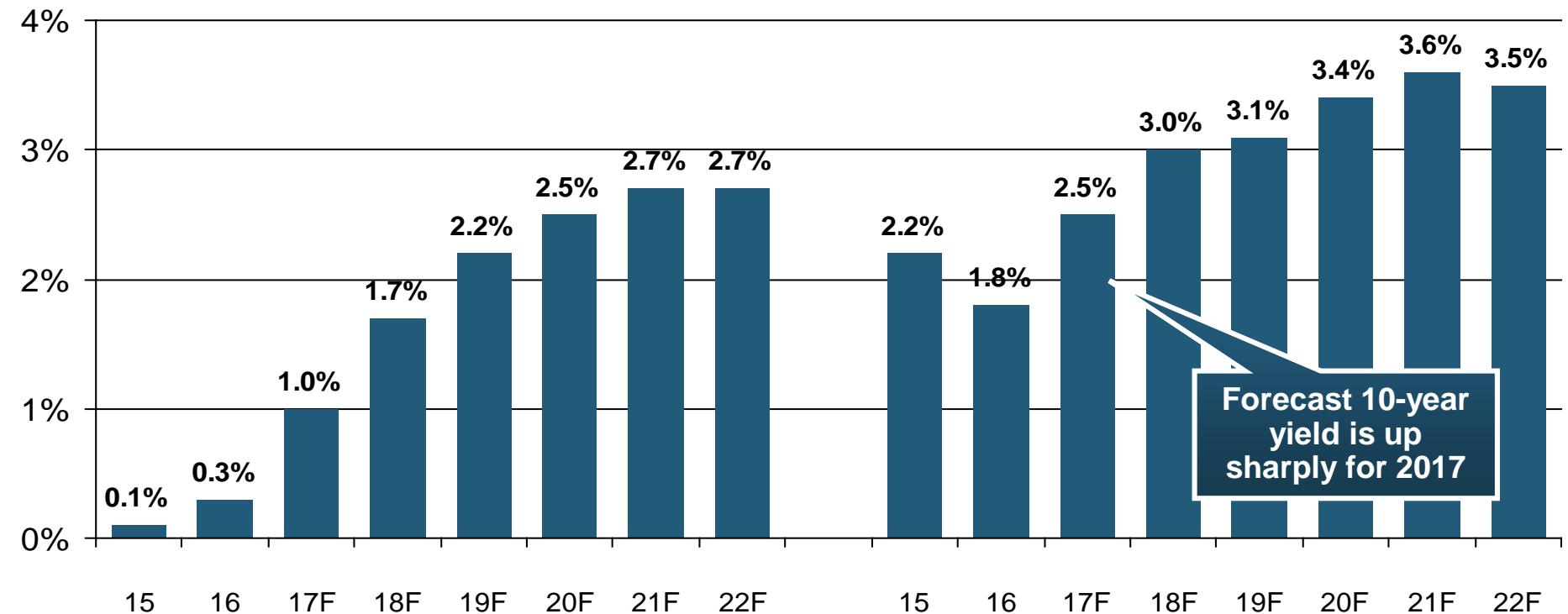
Sources: Federal Reserve Bank at <http://www.federalreserve.gov/releases/h15/data.htm>. National Bureau of Economic Research (recession dates); Insurance Information Institute.

# Interest Rate Forecasts: 2016 – 2021F

Yield (%)

## 3-Month Treasury

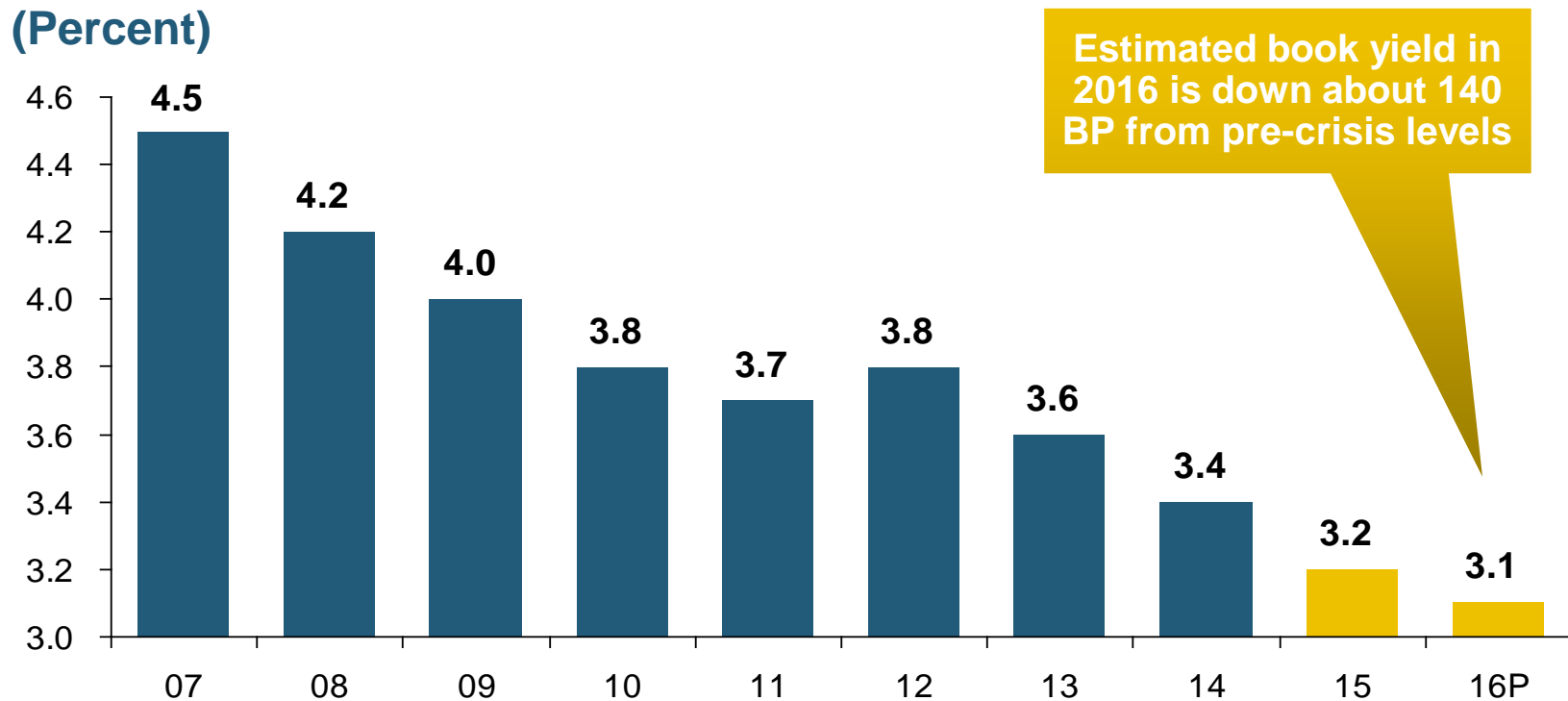
## 10-Year Treasury



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

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

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



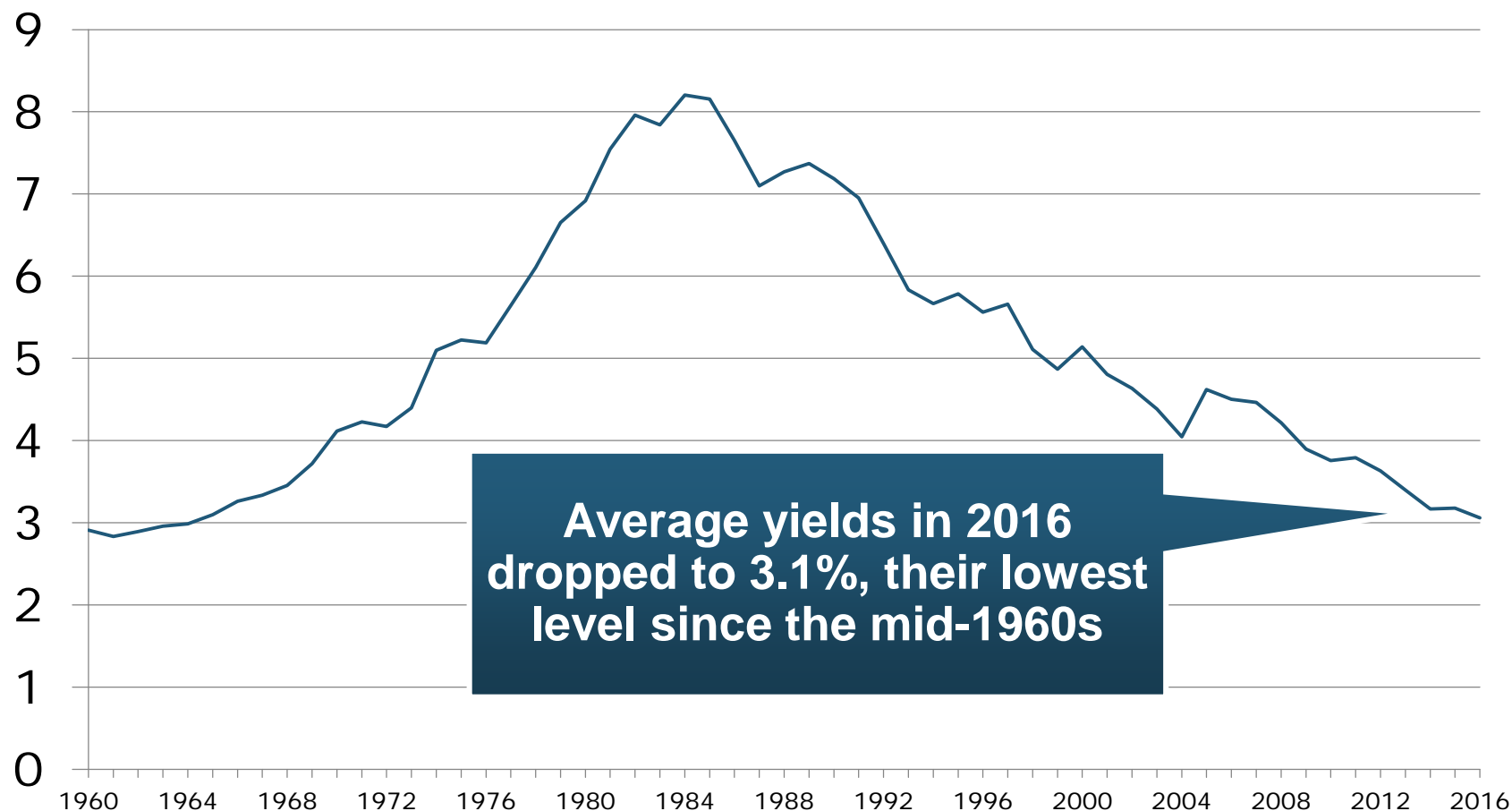
The yield on invested assets remains low relative to pre-crisis yields. The Fed's plan to raise interest rates in beginning in late 2015 has pushed up some yields, albeit quite modestly.



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

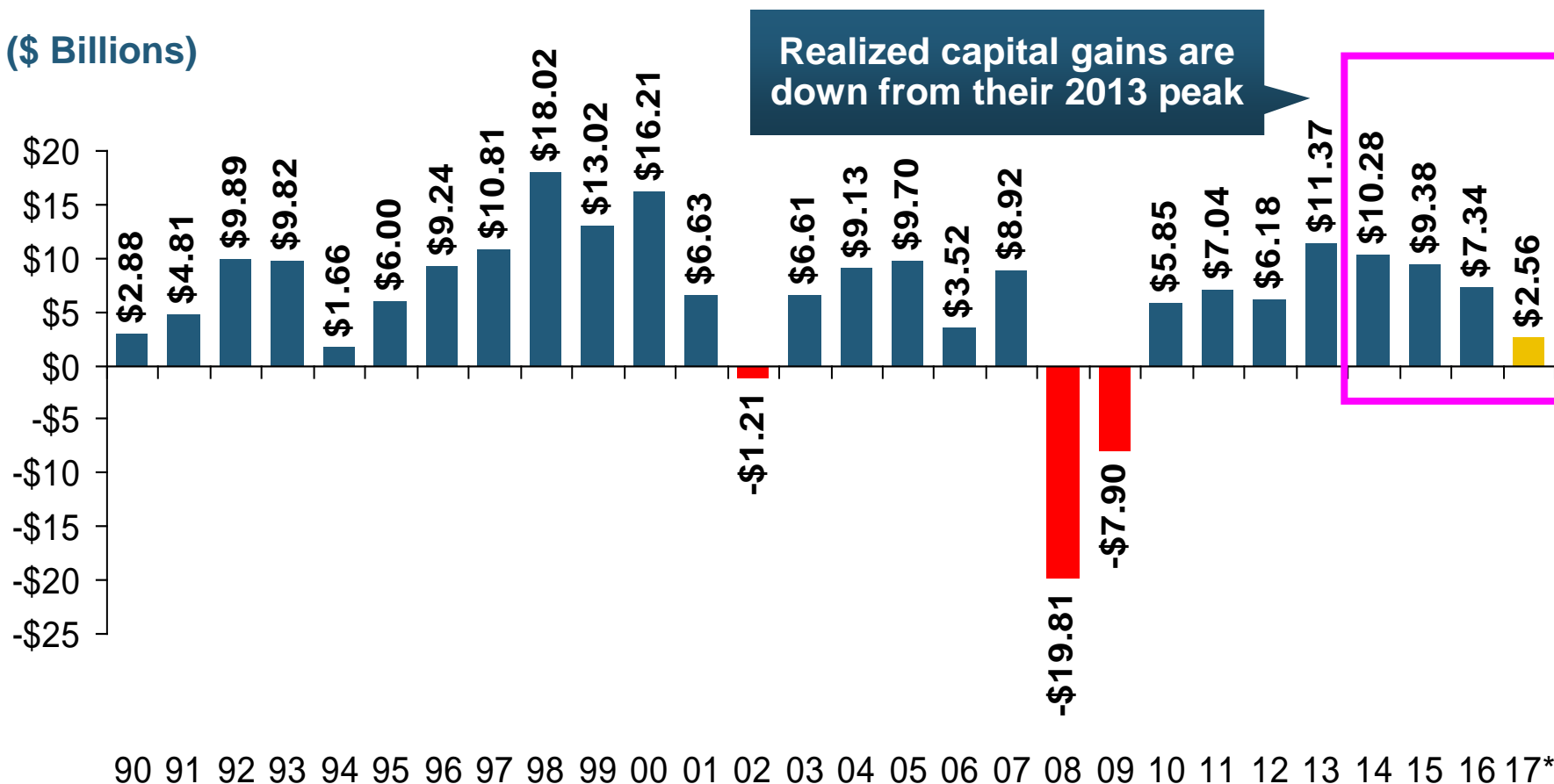
Yield on average cash and investment assets, %

% Change



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

(\$ Billions)



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

\*Figure is through Q1:2017

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

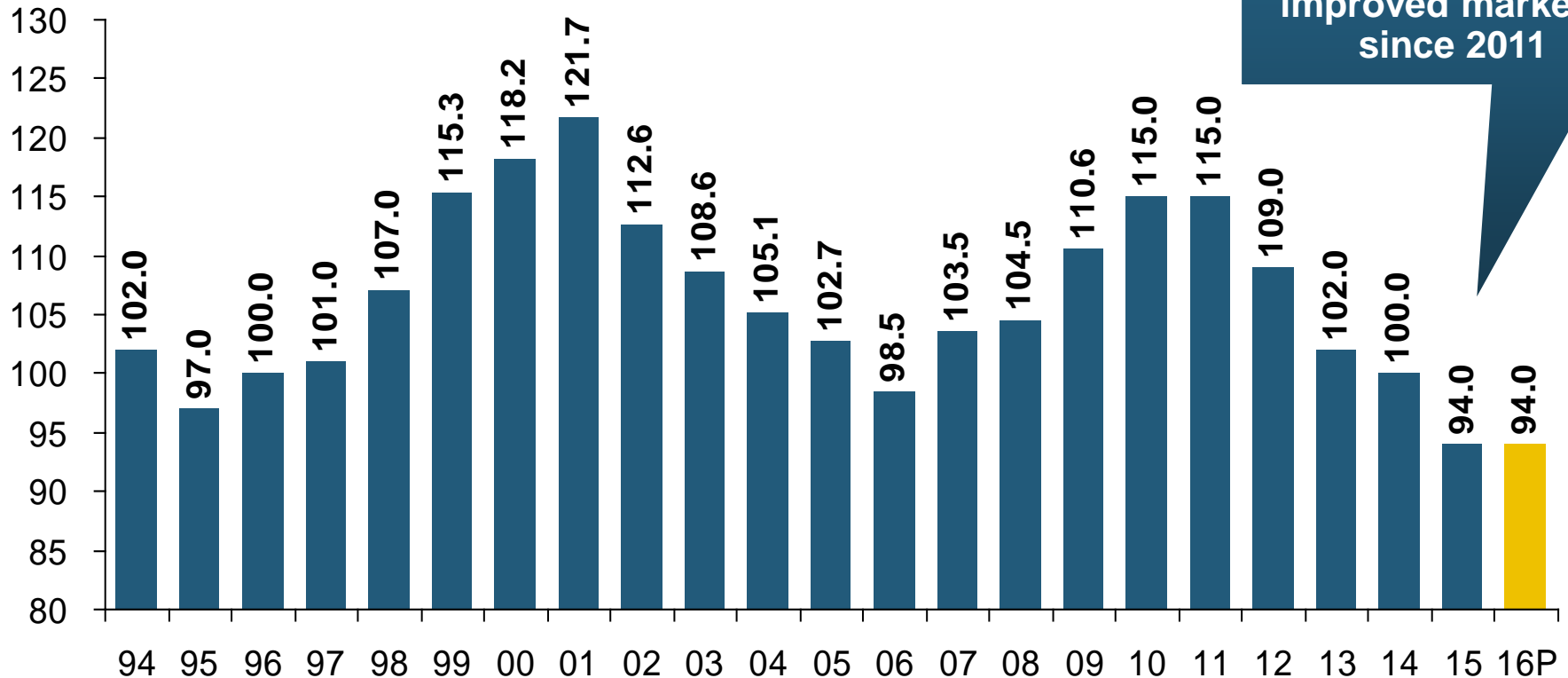
# Workers Compensation Operating Environment

**Workers Comp Results Have Improved  
Substantially in Recent Years**

***Can Gains Be Maintained?***

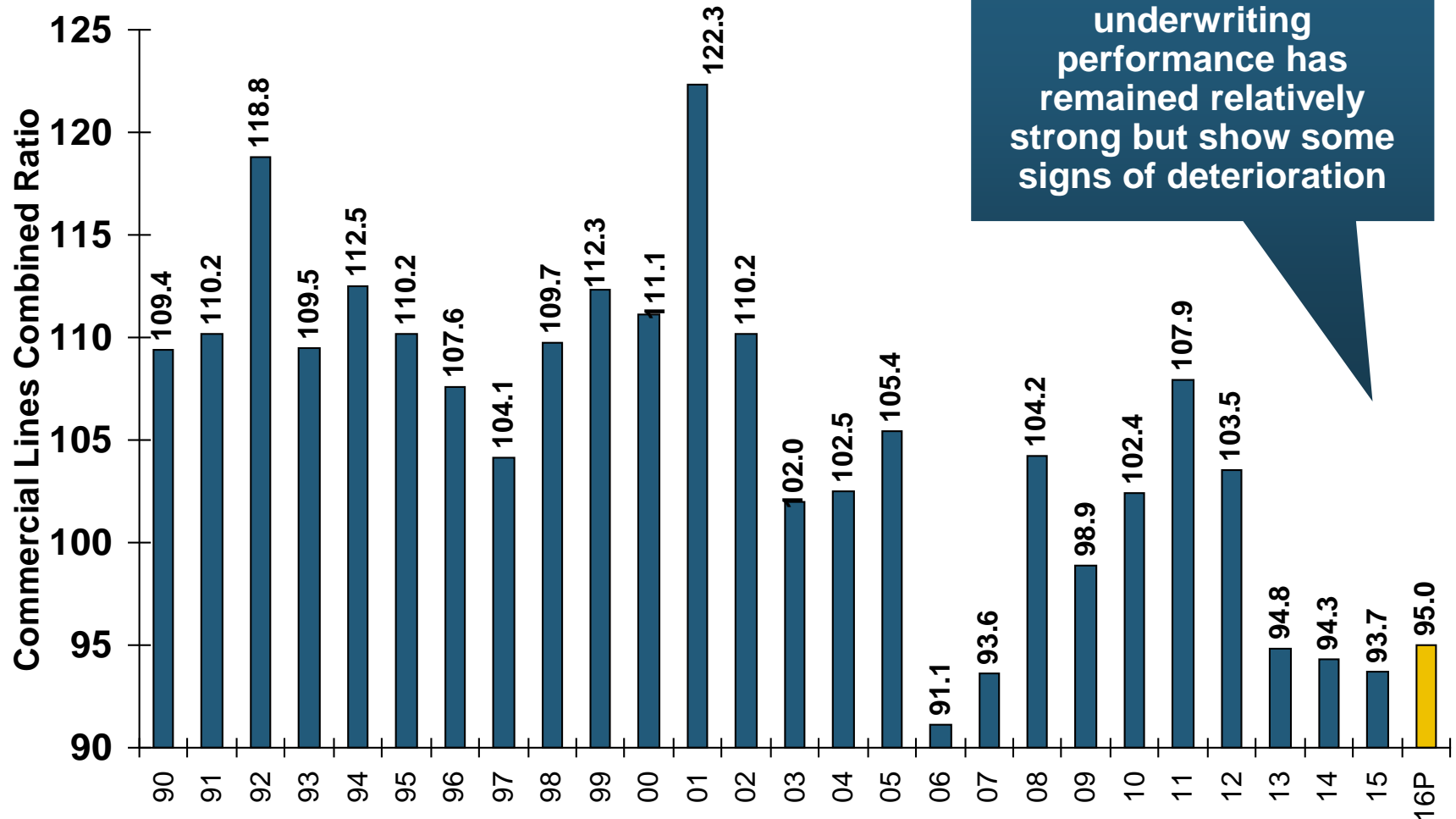


# Workers Compensation Combined Ratio: 1994–2016P



**Workers Comp Results Began to Improve in 2012. Underwriting Results Deteriorated Markedly from 2007-2010/11 and Were the Worst They Had Been in a Decade.**

# Commercial Lines Combined Ratio, 1990-2016P

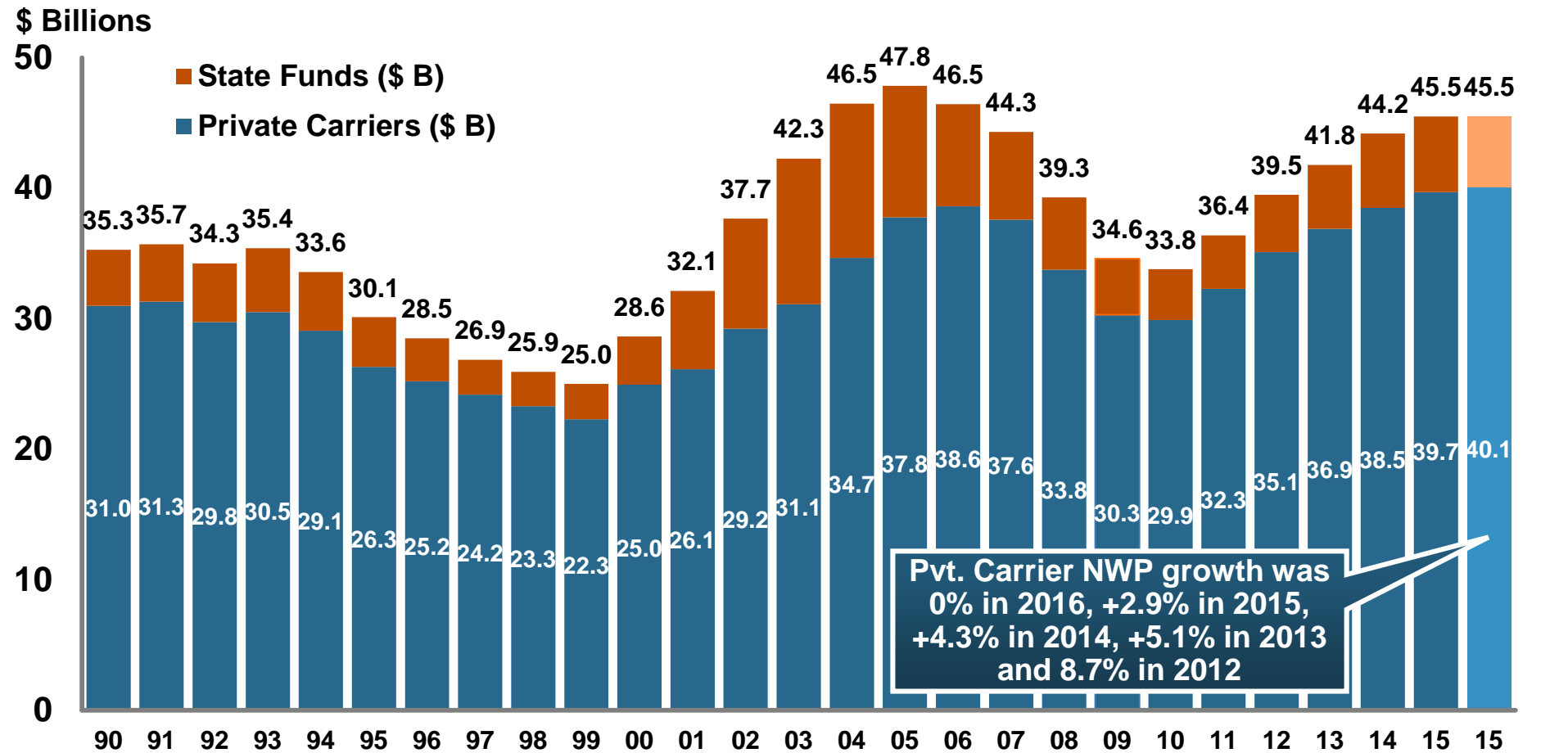


\*2007-2012 figures exclude mortgage and financial guaranty segments.

Source: A.M. Best (1990-2015).

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

## Net Written Premium



p Preliminary

Source: NCCI from Annual Statement Data.

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

# Workers Compensation Components of Written Premium Change, 2015 to 2016

## Written Premium Change from 2015 to 2016

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

**Growth is now almost entirely payroll driven**

Sources: Countrywide: Annual Statement data.

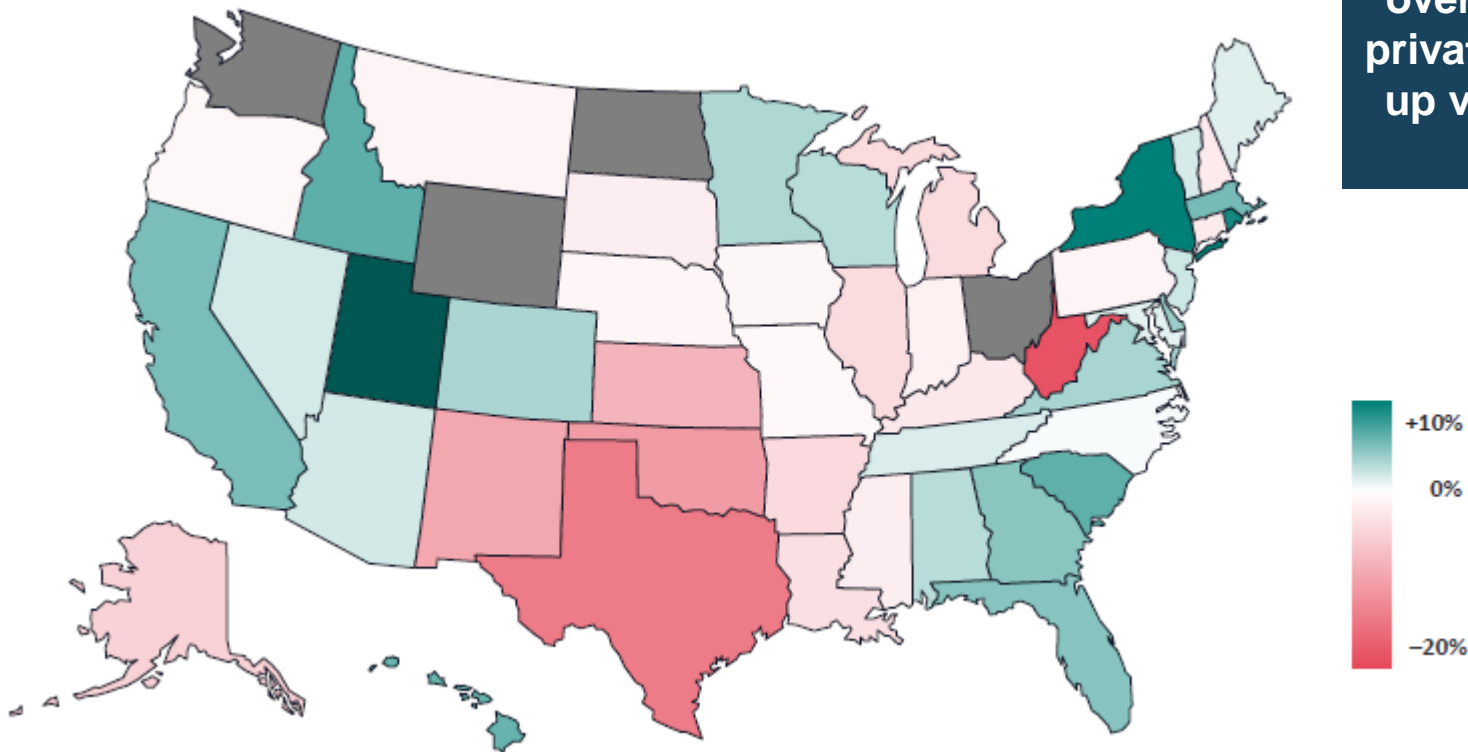
NCCI States: Annual Statement Statutory Page 14 for all states where NCCI provides ratemaking services.

Components: NCCI Policy data.

# 2016 Workers Compensation Direct Written Premium Growth, by State\*

PRIVATE CARRIERS: Overall 2016 Growth = +1.0%

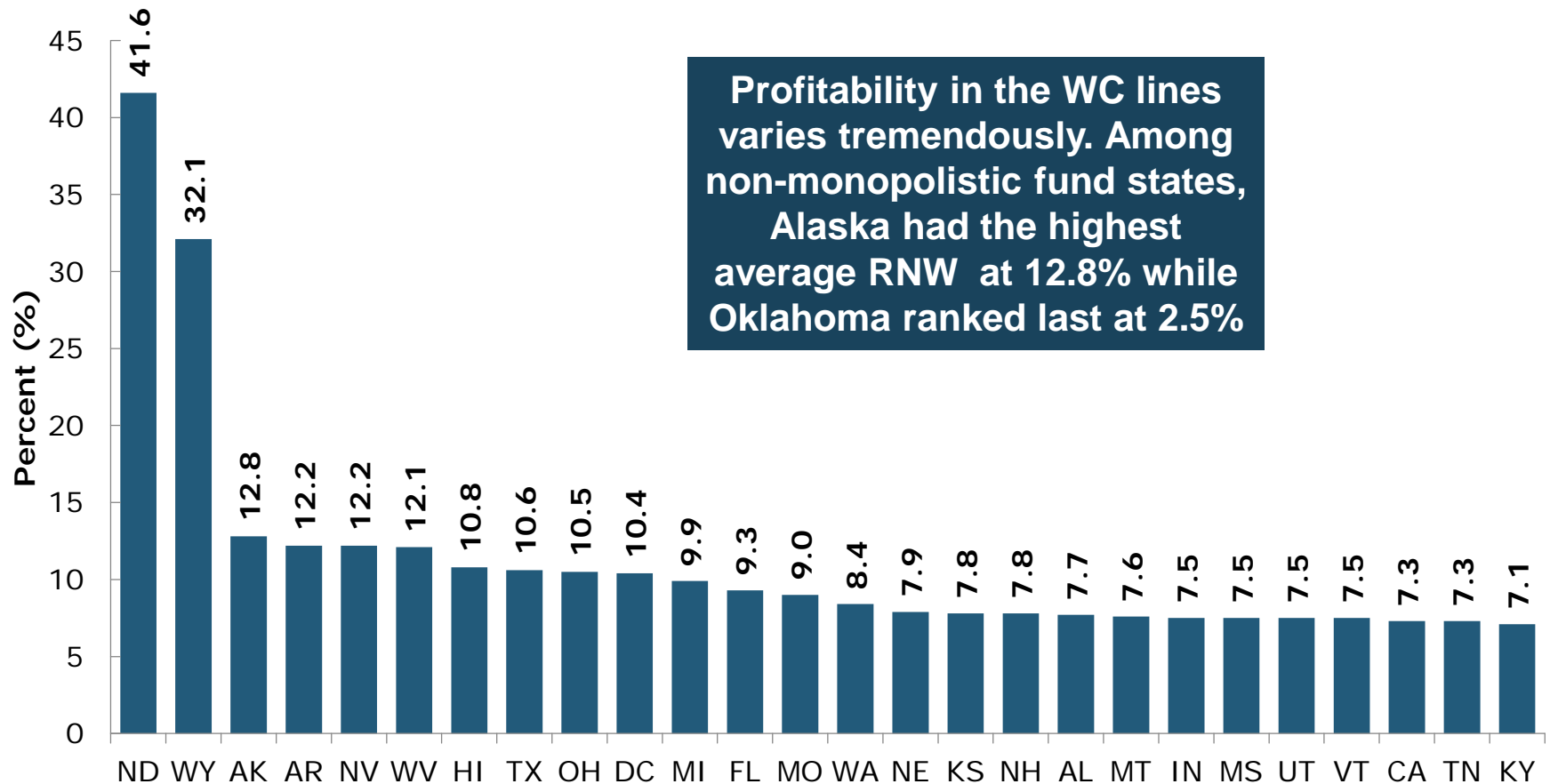
While growth rates varied widely, overall growth for private carriers was up very slightly in 2016



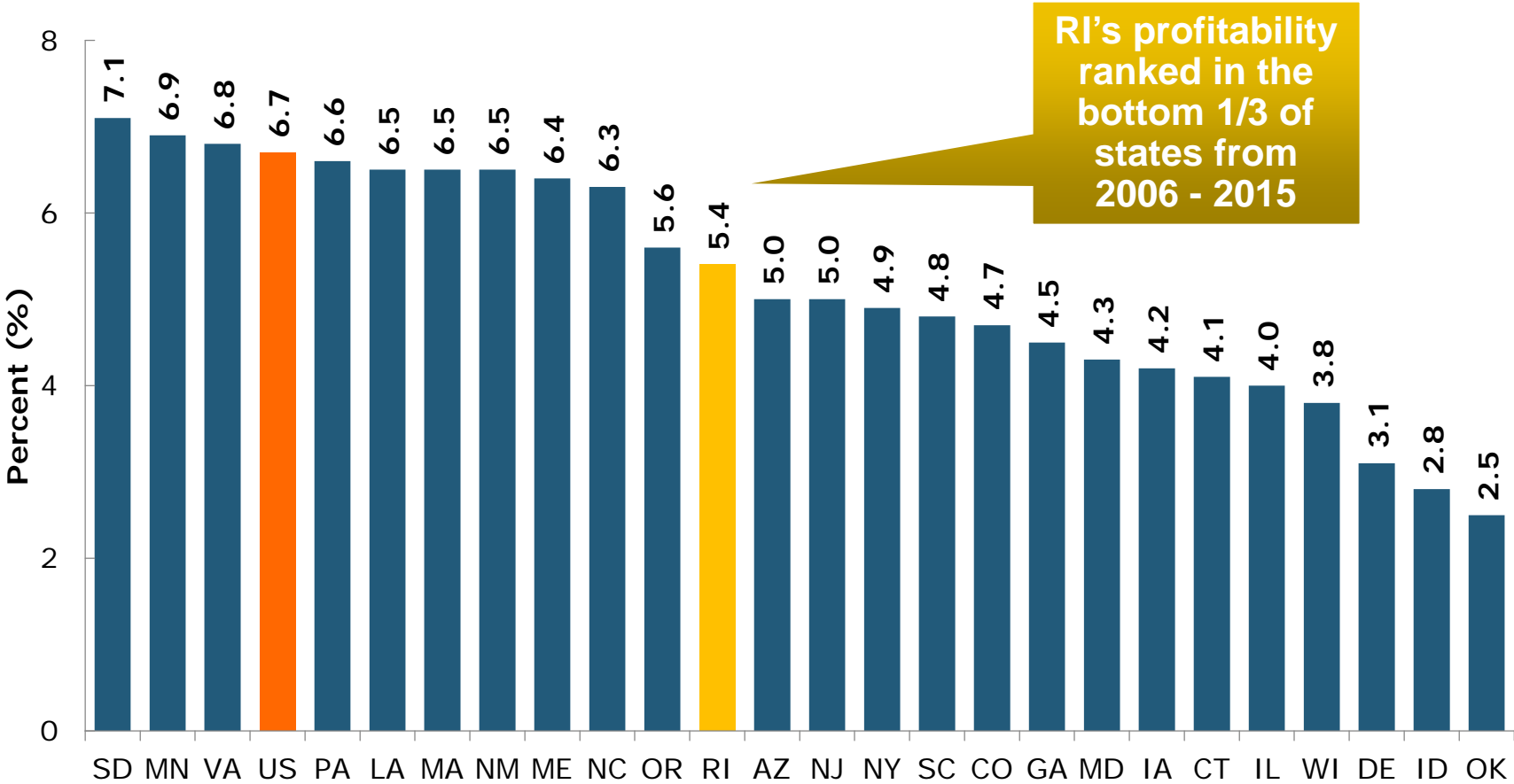
\*Excludes monopolistic fund states (in gray): OH, ND, WA and WY.

Source: NCCI.

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



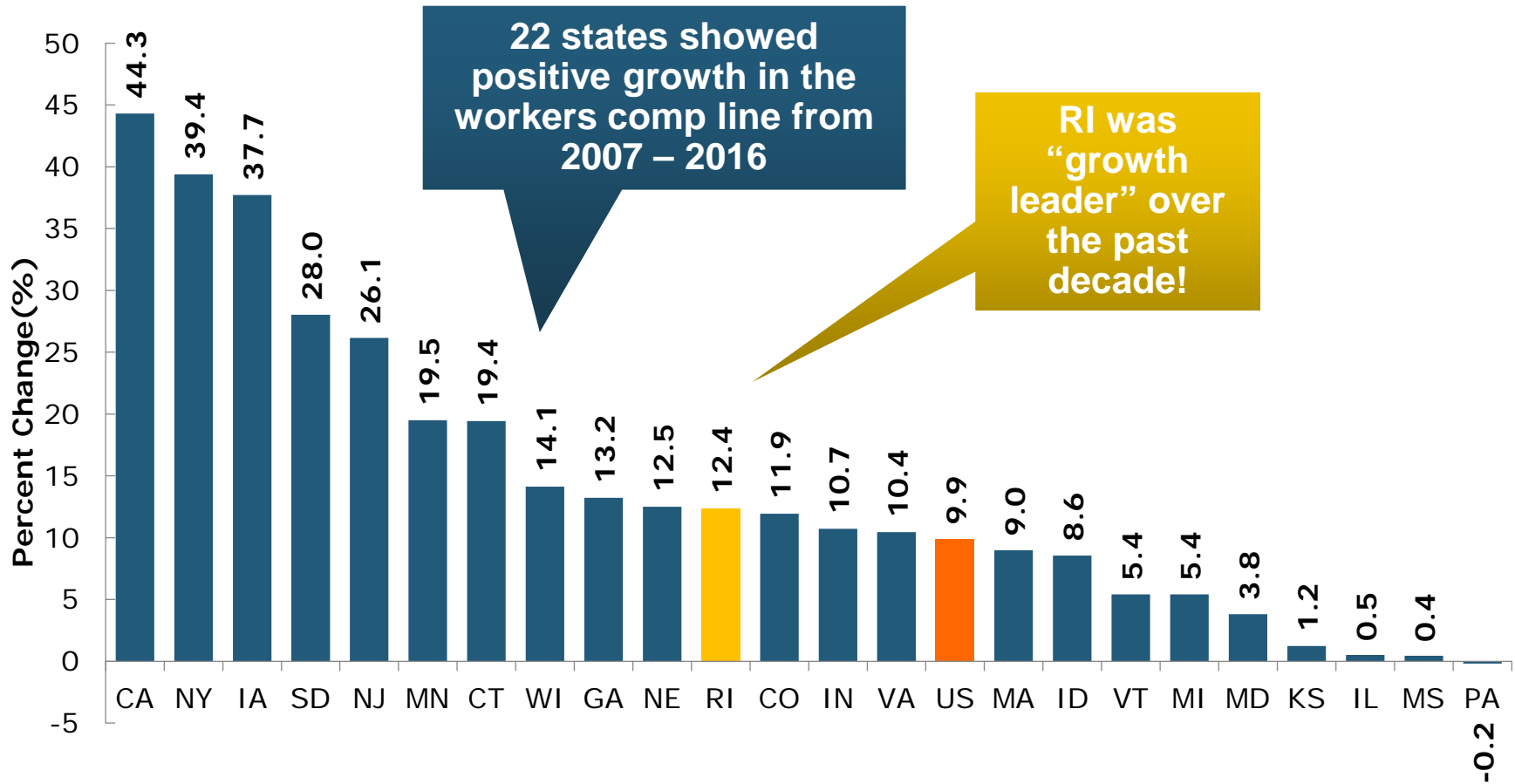
# WC Return on Net Worth, 2006-2015 Average Lowest 25 States



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

# Direct Premiums Written Growth: WC Percent Change by State, 2007-2016\*

## Highest States



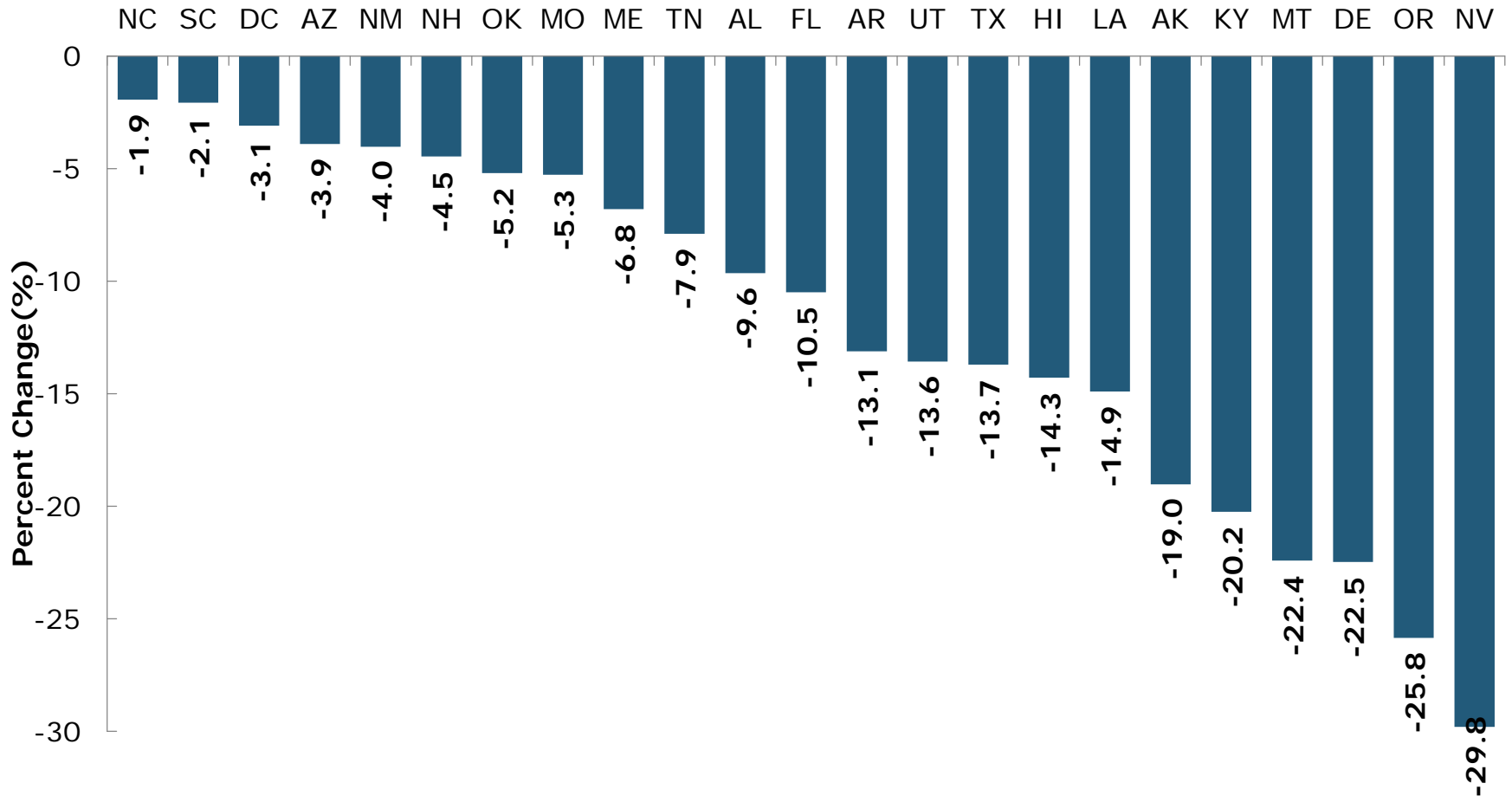
\*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period

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



# Direct Premiums Written Growth: WC Percent Change by State, 2007-2016\*

## Lowest States

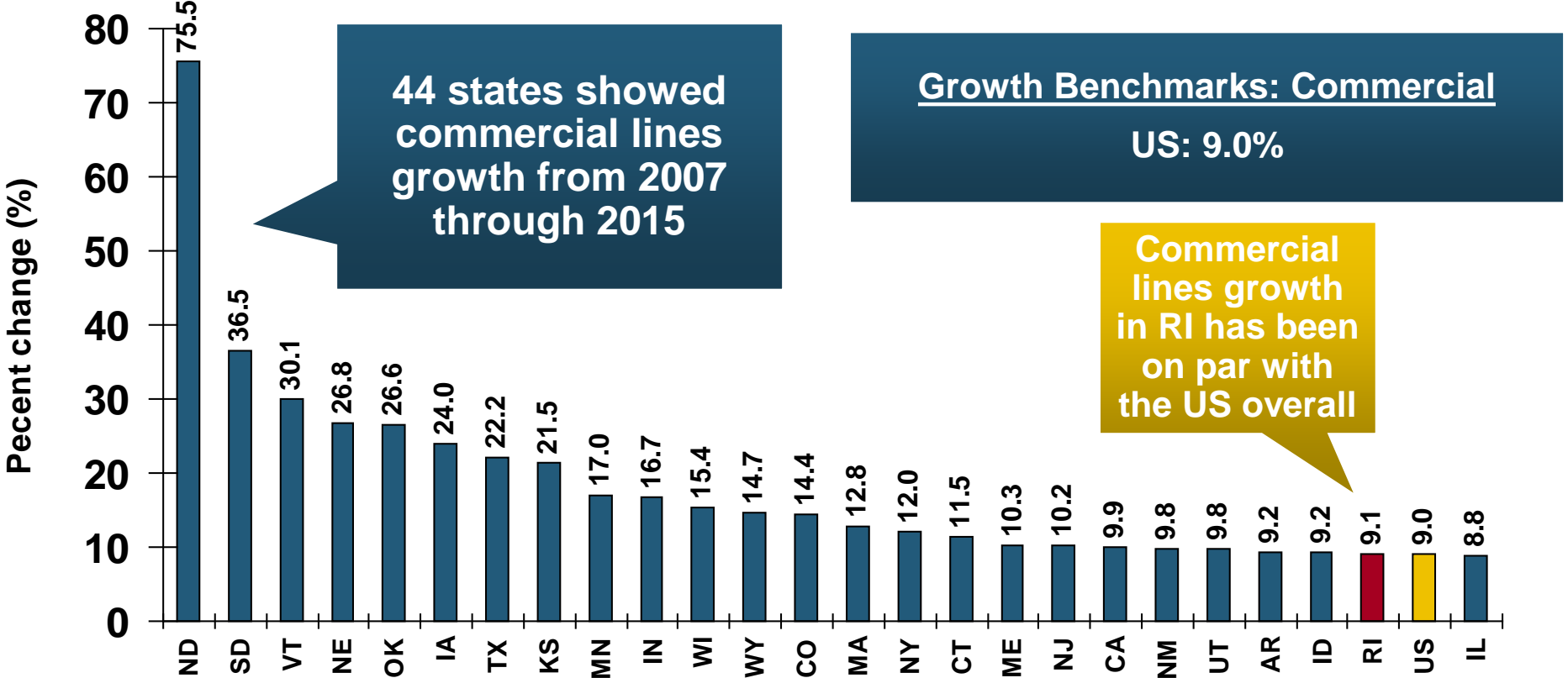


Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period

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

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

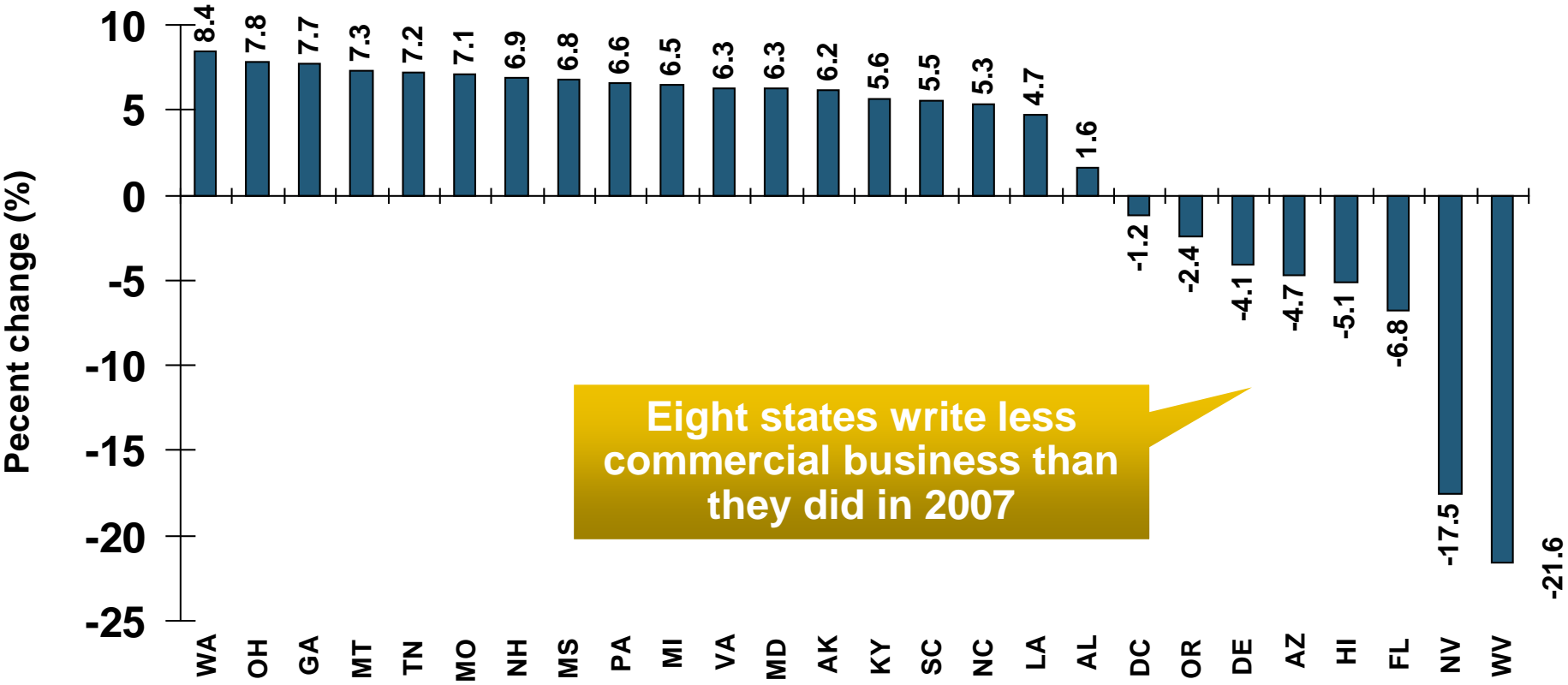
## Top 25 States



Sources: NAIC via SNL Financial; Insurance Information Institute.

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

## Bottom 25 States



Sources: NAIC via SNL Financial; Insurance Information Institute.

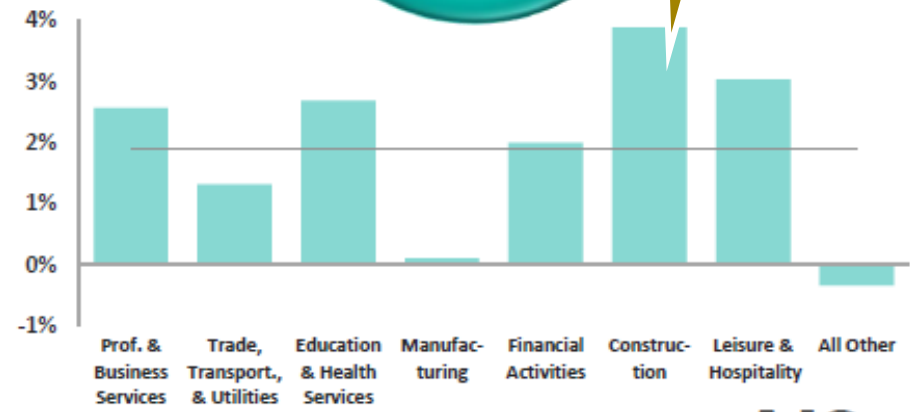
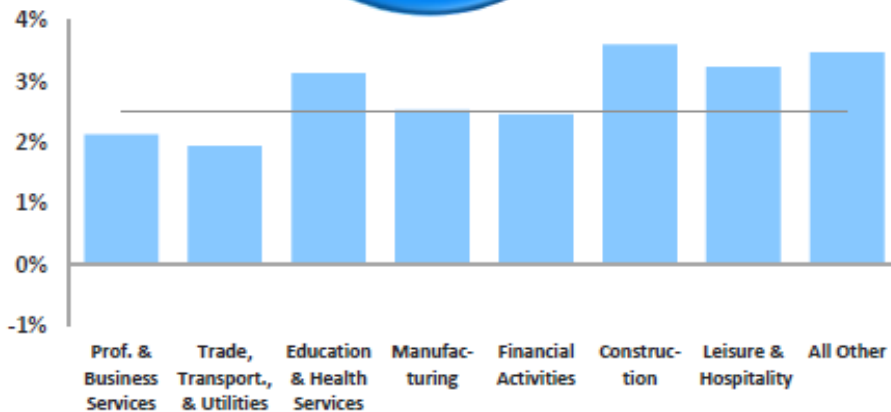
# 2016 Components of WC Payroll Exposure, by Industry

## Forecast Change 2015-2016

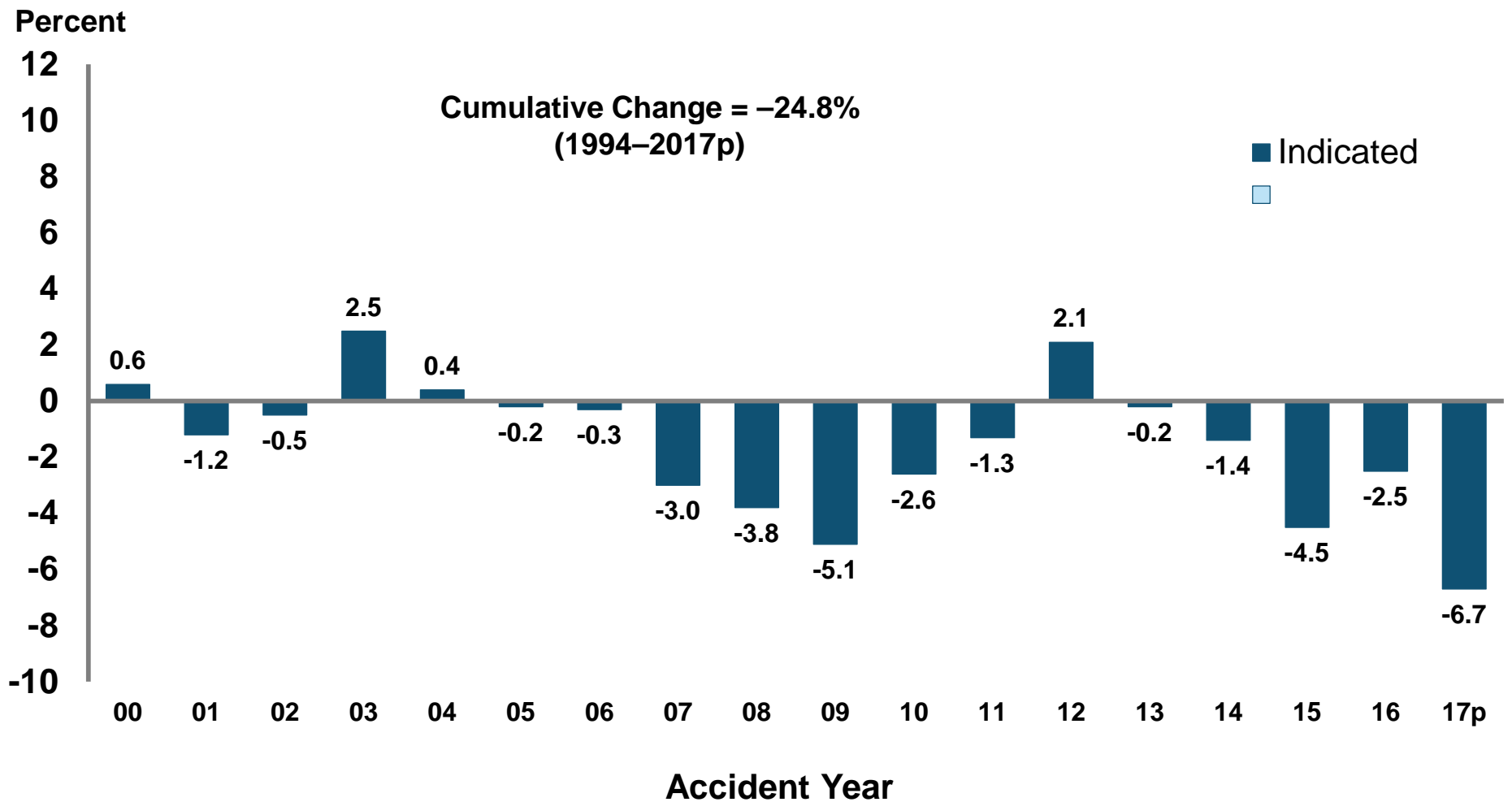
WC is the most direct beneficiary of expanding payrolls, but virtually all gains are erased as rates fall



Construction leads in wage and employment gains



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



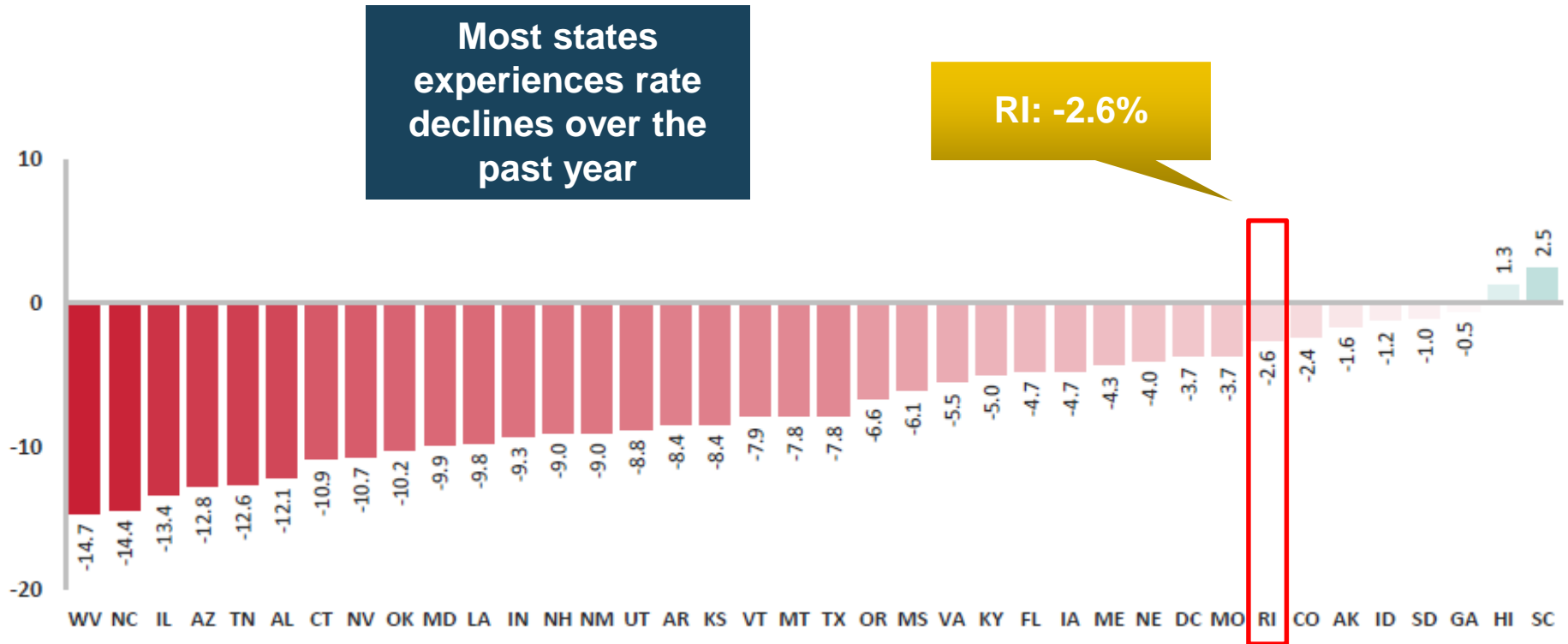
Note: Bureau premium level charges reflect approved changes in advisory rates, loss costs, assigned risk rates relative to those approved in NCCI states only IN and NC are filed in cooperation with state rating bureaus.

2017p: Preliminary based on data valued as of 5/12/2017.

Source: NCCI

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

By Effective Year for NCCI States



Note: Bureau premium level charges reflect approved changes in advisory rates, loss costs, assigned risk rates relative to those approved in NCCI states only IN and NC are filed in cooperation with state rating bureaus.

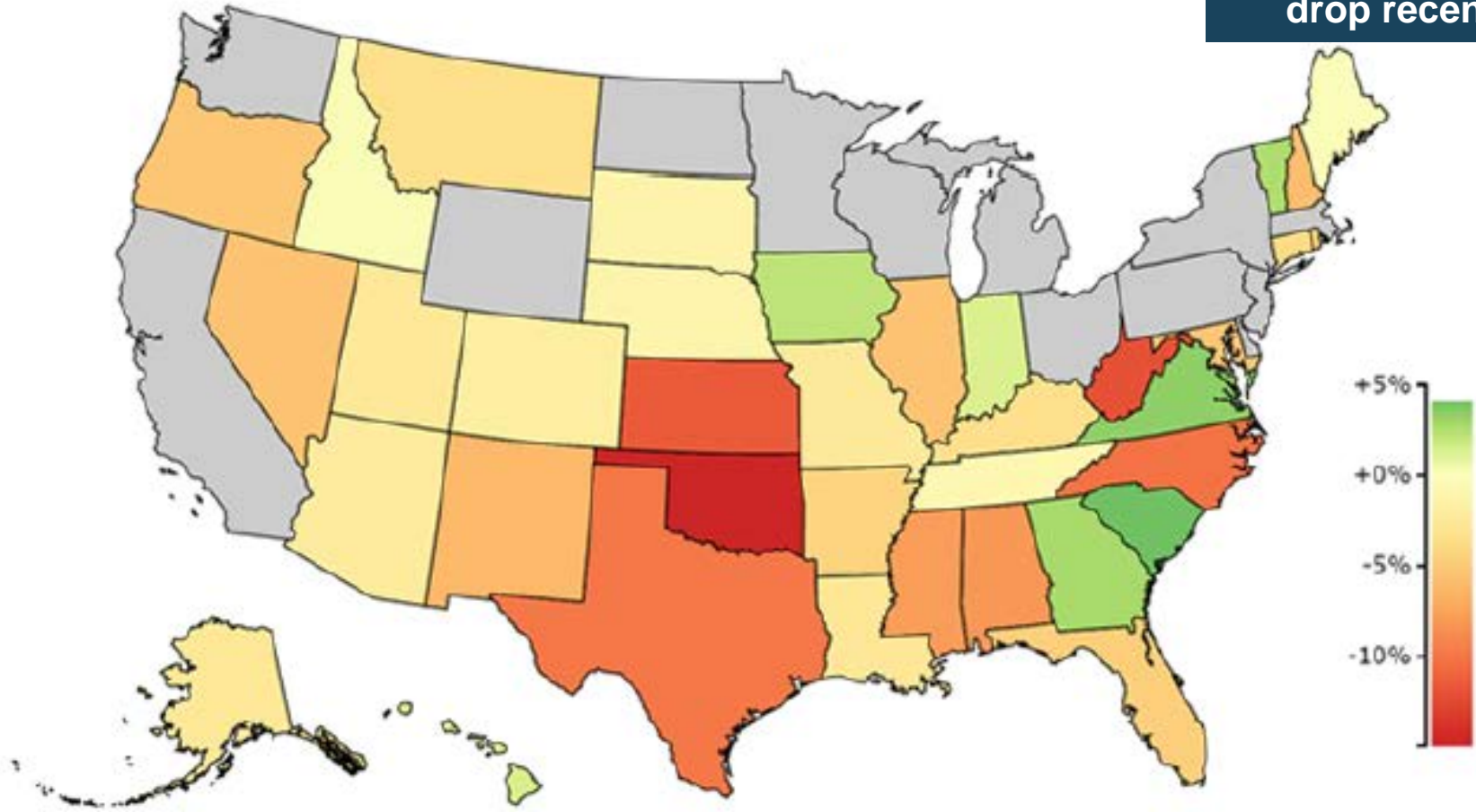
2017p: Preliminary based on data valued as of 5/12/2017.

Source: NCCI

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

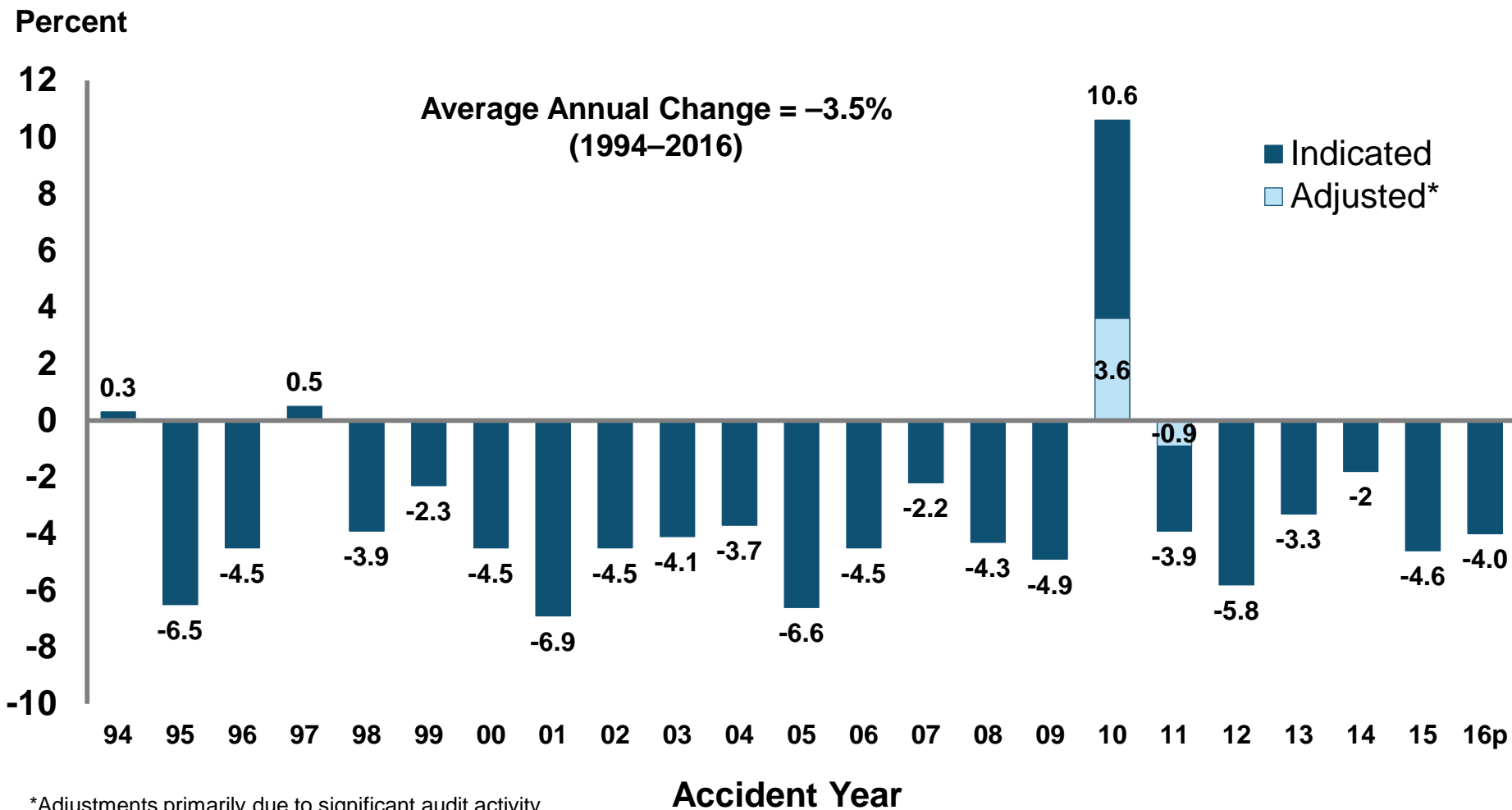
Latest Change for Voluntary Market

Many states have seen rates drop recently



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

# Workers Compensation Lost-Time Claim Frequency Declined in 2016



\*Adjustments primarily due to significant audit activity.

2016p: Preliminary based on data valued as of 12/31/2016.

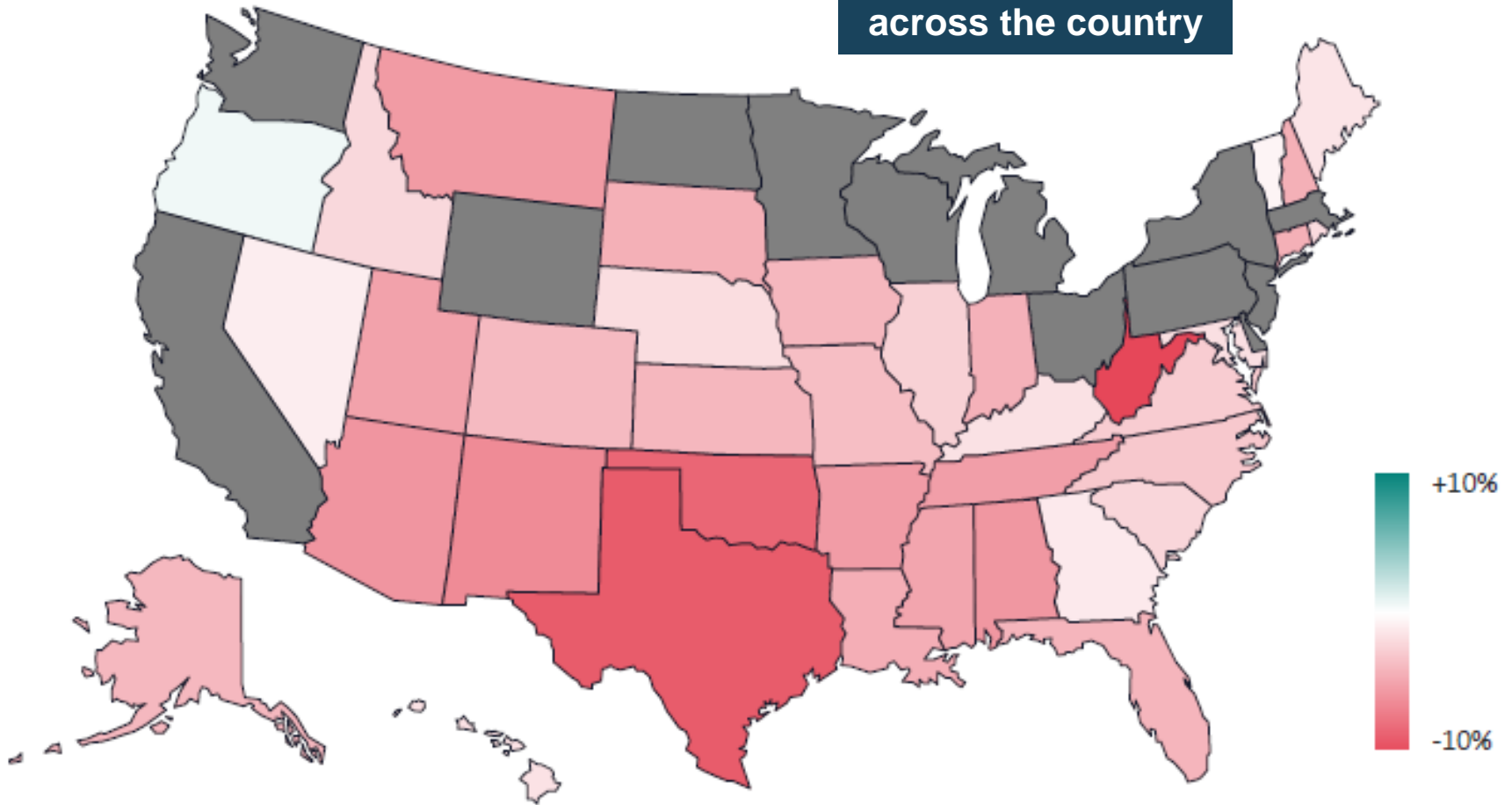
Source: NCCI Financial Call data, developed to ultimate and adjusted to current wage and voluntary loss cost level; Excludes high deductible policies; 1994-2014: Based on data through 12/31/14. Data for all states where NCCI provides ratemaking services, excluding WV.

Frequency is the number of lost-time claims per \$1M pure premium at current wage and voluntary loss cost level



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

Lost-time claim  
frequency is falling  
across the country



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

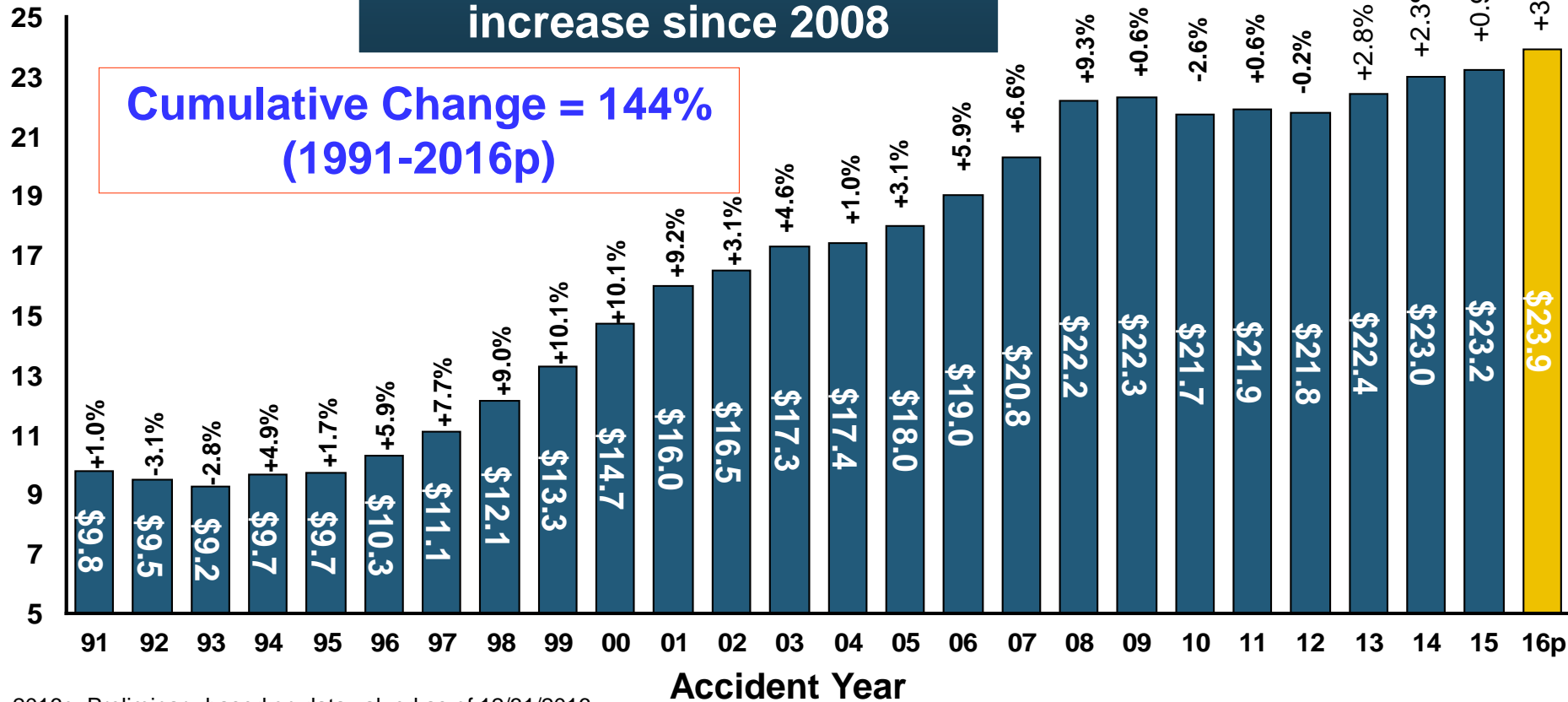
# Workers Comp Indemnity Claim Costs: Sharper Increase in 2016

## Average Indemnity Cost per Lost-Time Claim

Indemnity Claim Cost (\$ 000s)

Average indemnity costs per claim were up 3% in 2016 to \$23,900, the largest increase since 2008

Cumulative Change = 144% (1991-2016p)



2016p: Preliminary based on data valued as of 12/31/2016.

1991-2015: Based on data through 12/31/2015, developed to ultimate

Based on the states where NCCI provides ratemaking services including state funds, excluding WV; Excludes high deductible policies.

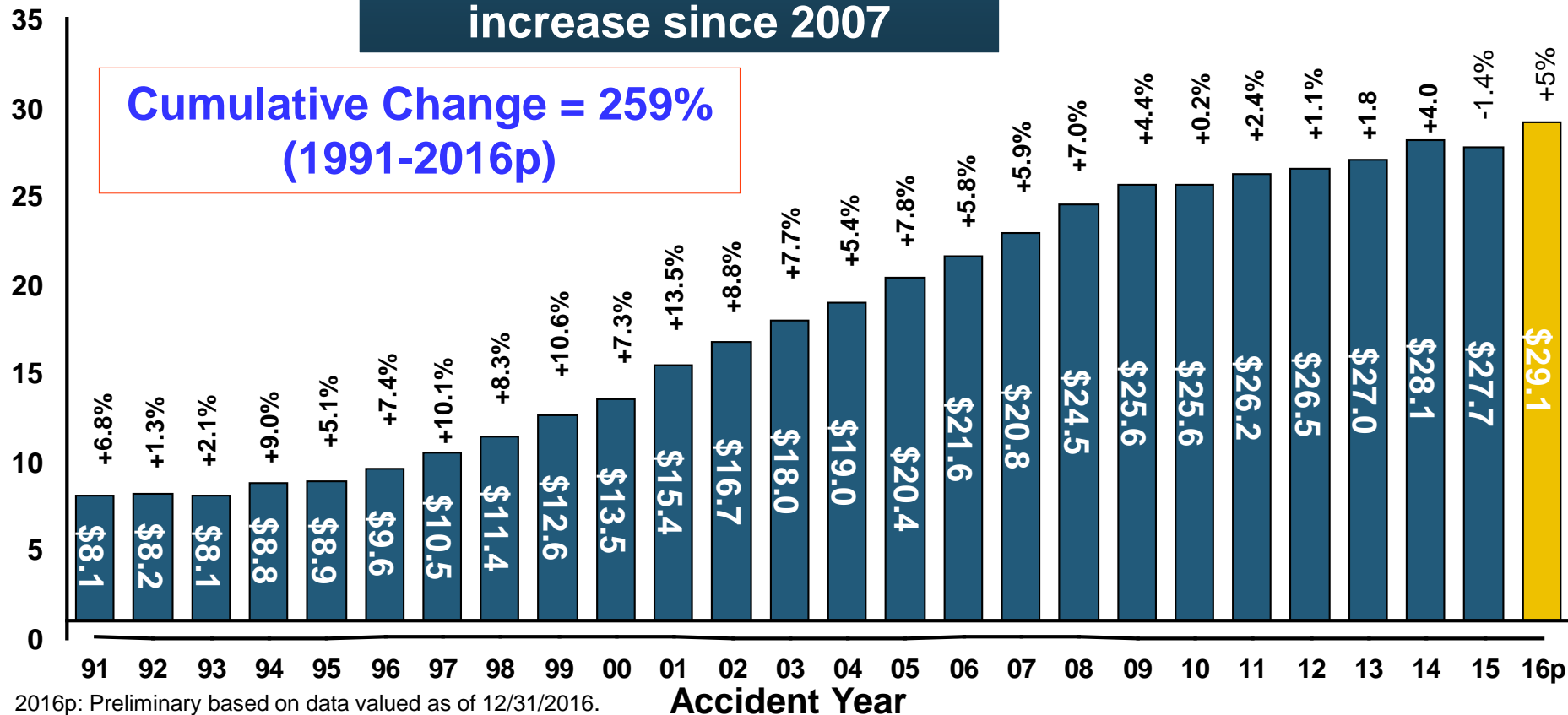
# Workers Comp Medical Claim Costs: 2016 Was Sharpest Increase Since 2007

## Average Medical Cost per Lost-Time Claim

Medical Claim Cost (\$ 000s)

Average indemnity costs per claim were up 5% in 2016 to \$29,100, the largest increase since 2007

Cumulative Change = 259% (1991-2016p)



2016p: Preliminary based on data valued as of 12/31/2016.

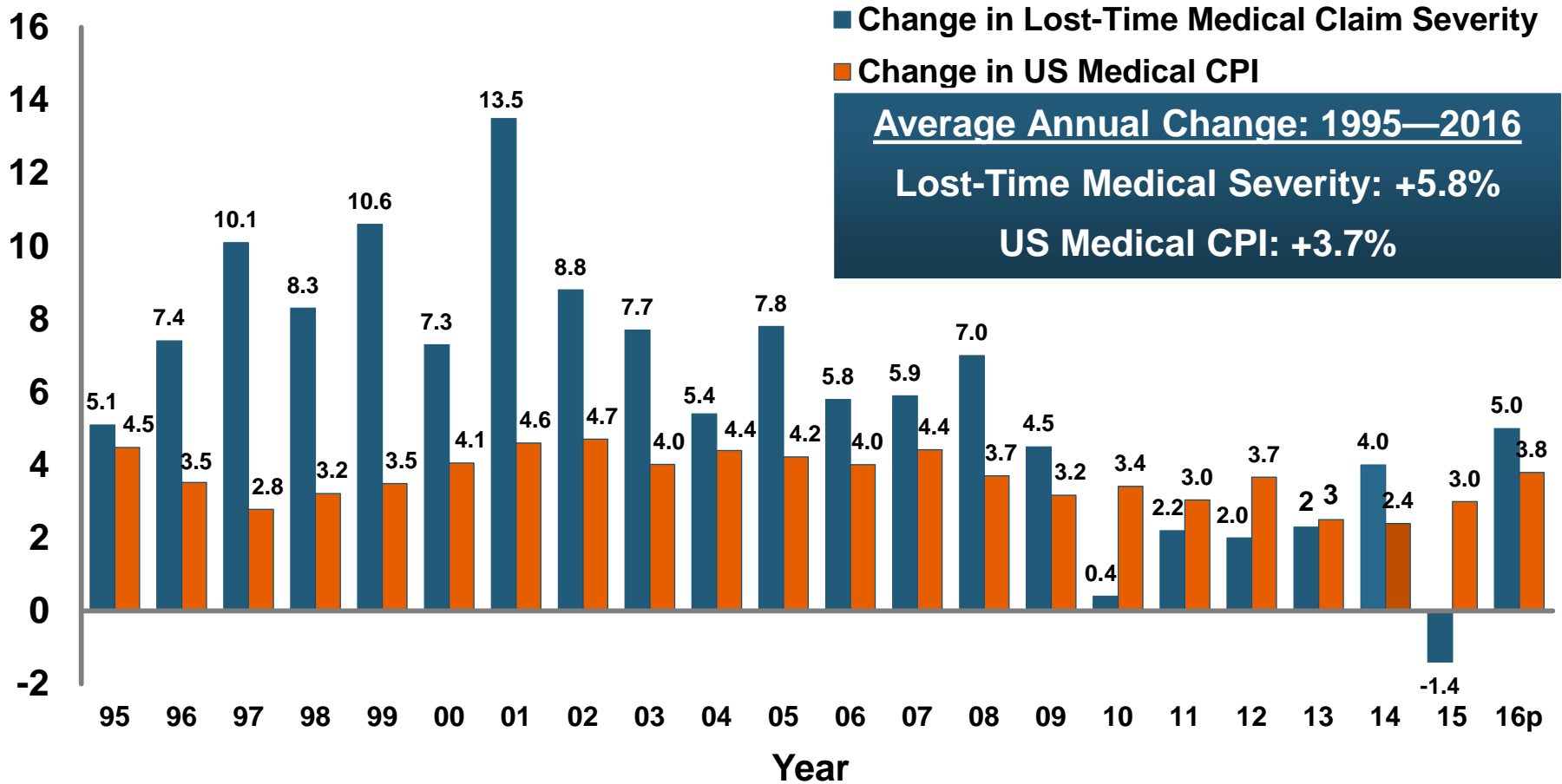
1991-2015: Based on data through 12/31/2015, developed to ultimate

Based on the states where NCCI provides ratemaking services including state funds, excluding WV; Excludes high deductible policies.

# Workers Compensation Change in Medical Severity

Comparison to Change in Medical Consumer Price Index (CPI)

Percent Change



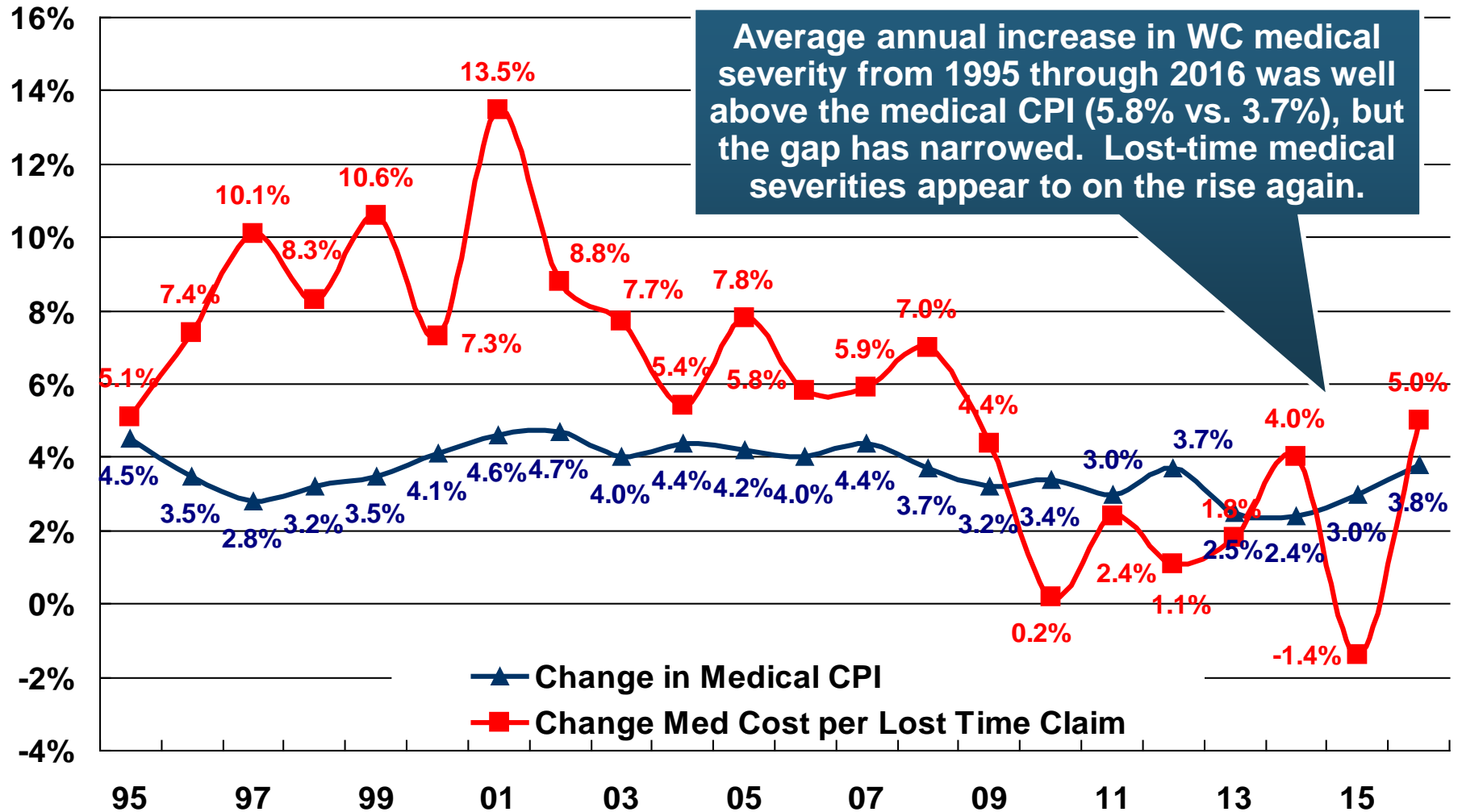
2016p: Preliminary based on data valued as of 12/31/2016.

Sources: Severity: 1995-2015: Based on data through 12/31/2015, developed to ultimate

Based on the states where NCCI provides ratemaking services including state funds, excluding WV; Excludes high deductible policies.

US Medical CPI: US Bureau of Labor Statistics.

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



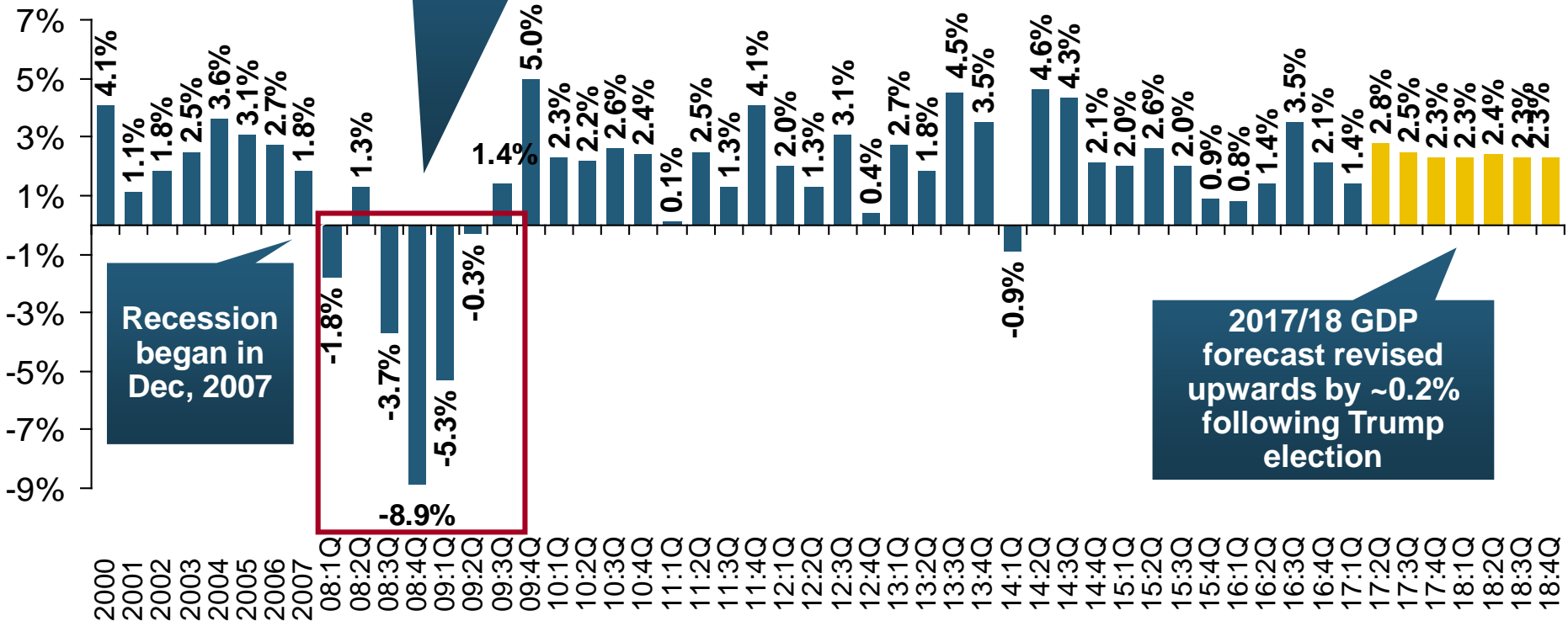
Sources: Med CPI from US Bureau of Labor Statistics, WC med severity from NCCI based on NCCI states.

# THE ECONOMY

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

# US Real GDP Growth\*

Real GDP Growth (%)



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

\* Estimates/Forecasts from Blue Chip Economic Indicators.

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

# Animal Spirits: Unleashed from the Oval Office?

# #MWC GA



Donald J. Trump [@realDonaldTrump](#) · 5h

Great optimism in America – and the results will be even better!



### Optimism Among U.S. CEOs Shows Biggest Increa...

Optimism among chief executive officers of some of the largest U.S. companies jumped in the first quarter by the most since the economy was emerging from the last ...

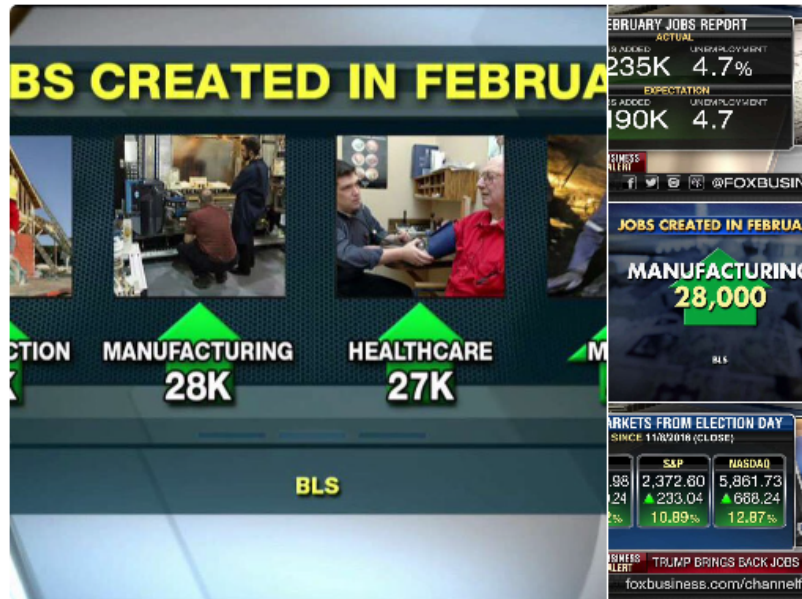
[bloomi...g.co](#)

7.2K 5.5K 26K



Donald J. Trump [@realDonaldTrump](#)

JOBS, JOBS, JOBS!



12K 14K 53K

Donald J. Trump Retweeted



Fox News [@FoxNews](#) · Aug 4

More than 1 million jobs added since @POTUS took office. [bit.ly/2ffker3](#)



6.7K 11K 35K

### ACCOMPLISHMENTS UNDER TRUMP

- ▶ Toyota, Mazda building \$1.6B plant
- ▶ FoxConn spending \$10B on WI factory
- ▶ More than 1M jobs added last 6 mths
- ▶ Jobless claims at lowest pt in 28 years

**FOX BUSINESS NETWORK**

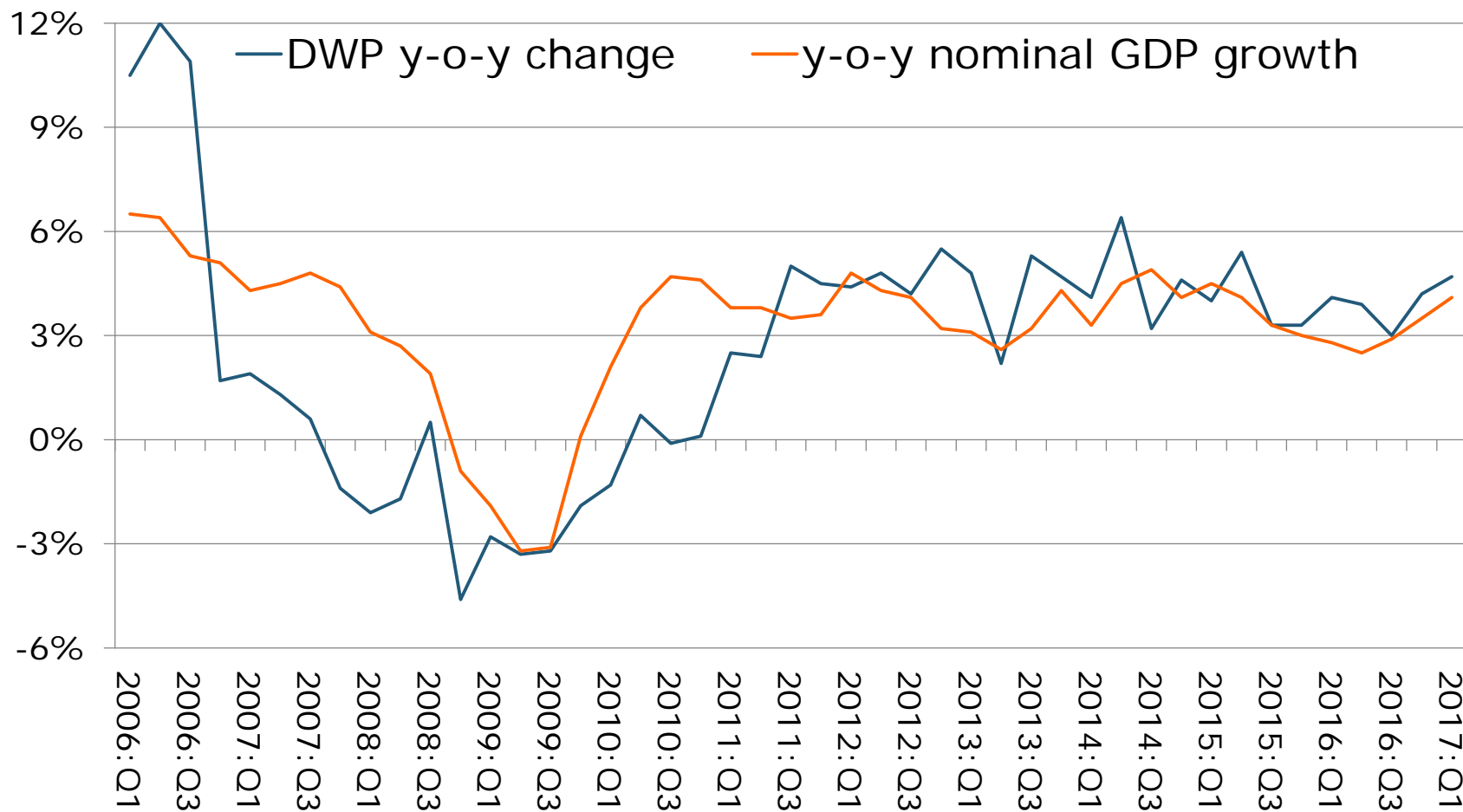
[foxbusiness.com/channelfinder](#)



# The Economy Drives P/C Insurance

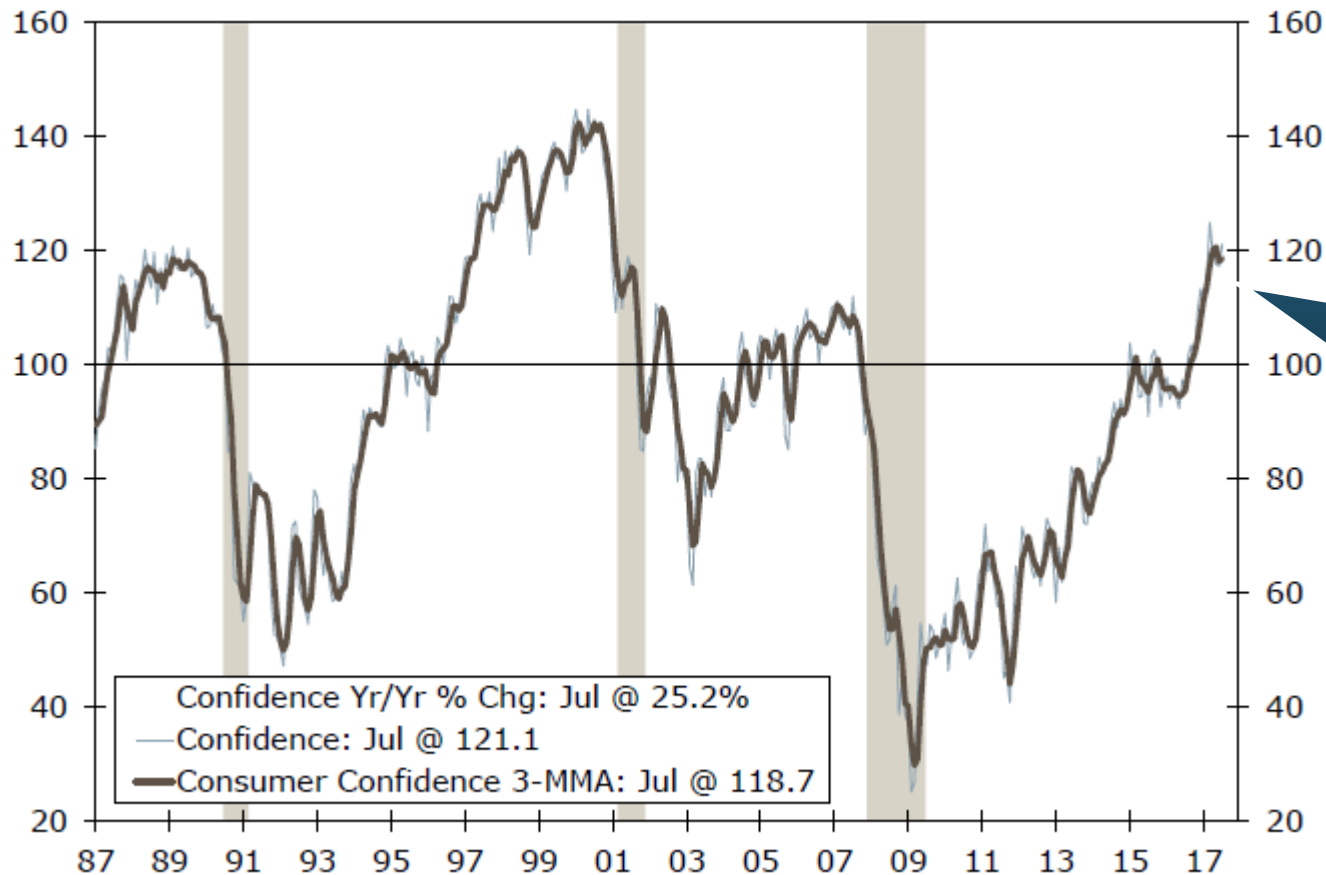
## Industry Premiums:

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



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

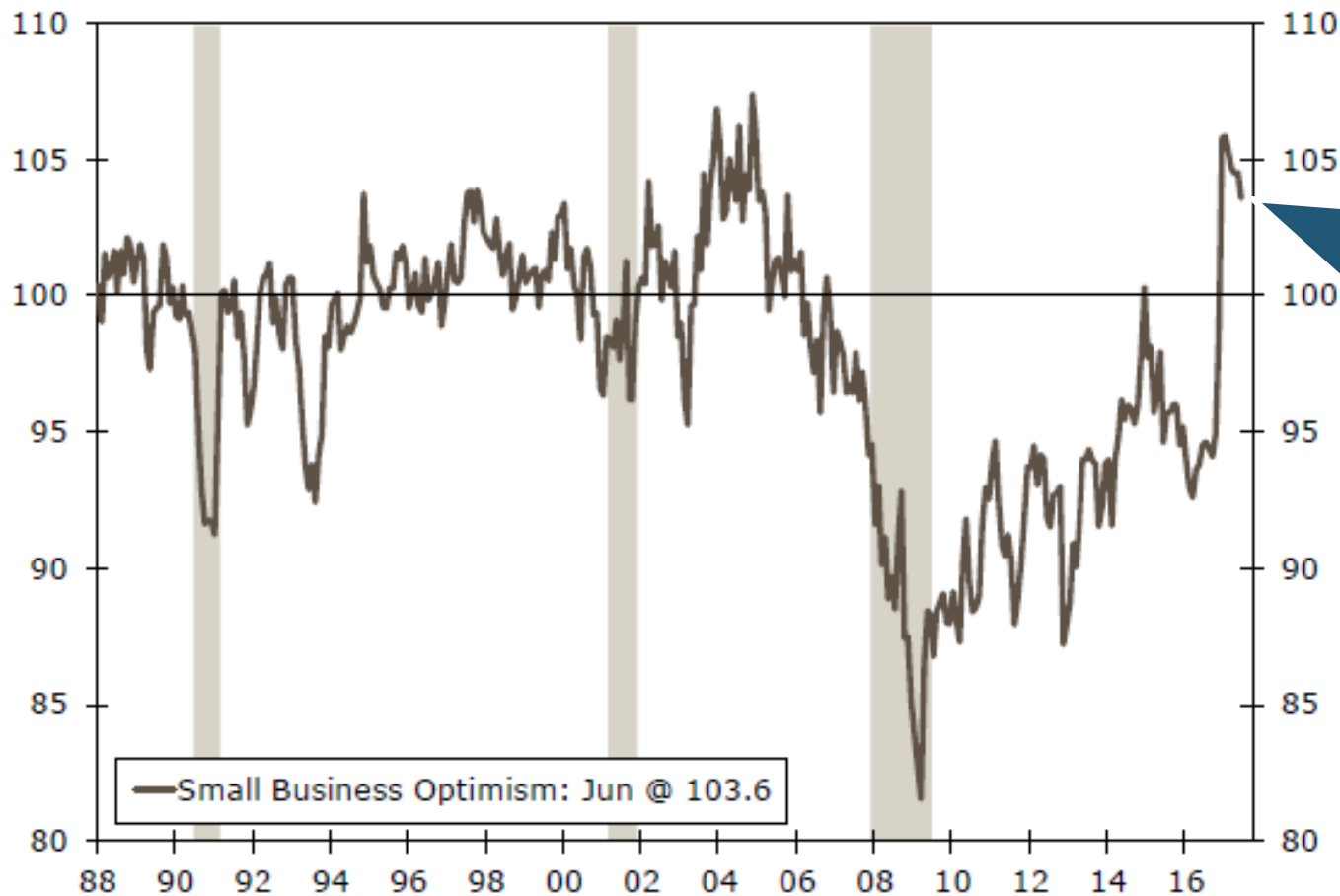
# Consumer Confidence Index: Jan. 1987 – July 2017



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

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

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

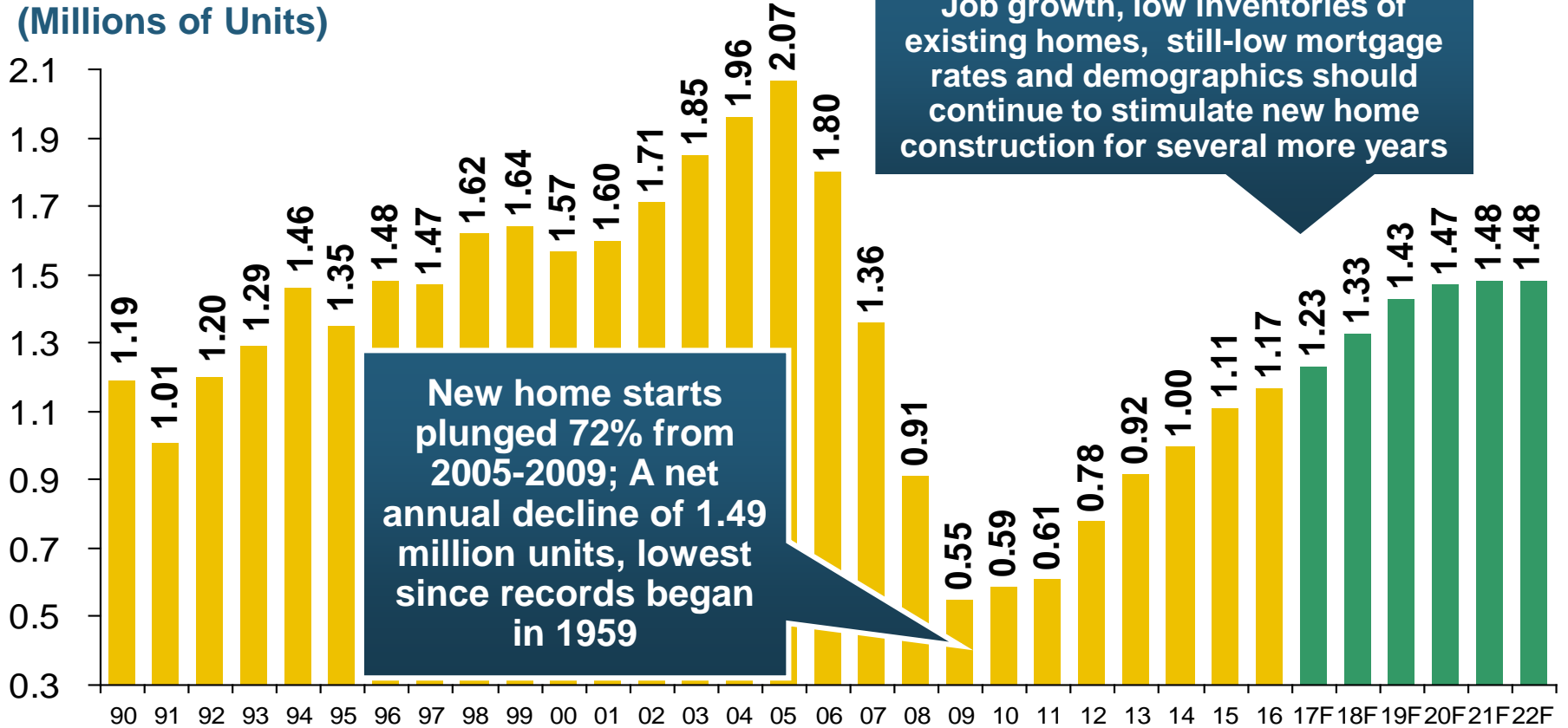


The NFIB's Index of Small Business Optimism remains near recent highs, but slipped in June as hopes for significant regulatory and tax reform fade

**Outlook: Small businesses are much more optimistic about the future**

# New Private Housing Starts, 1990-2022F

(Millions of Units)



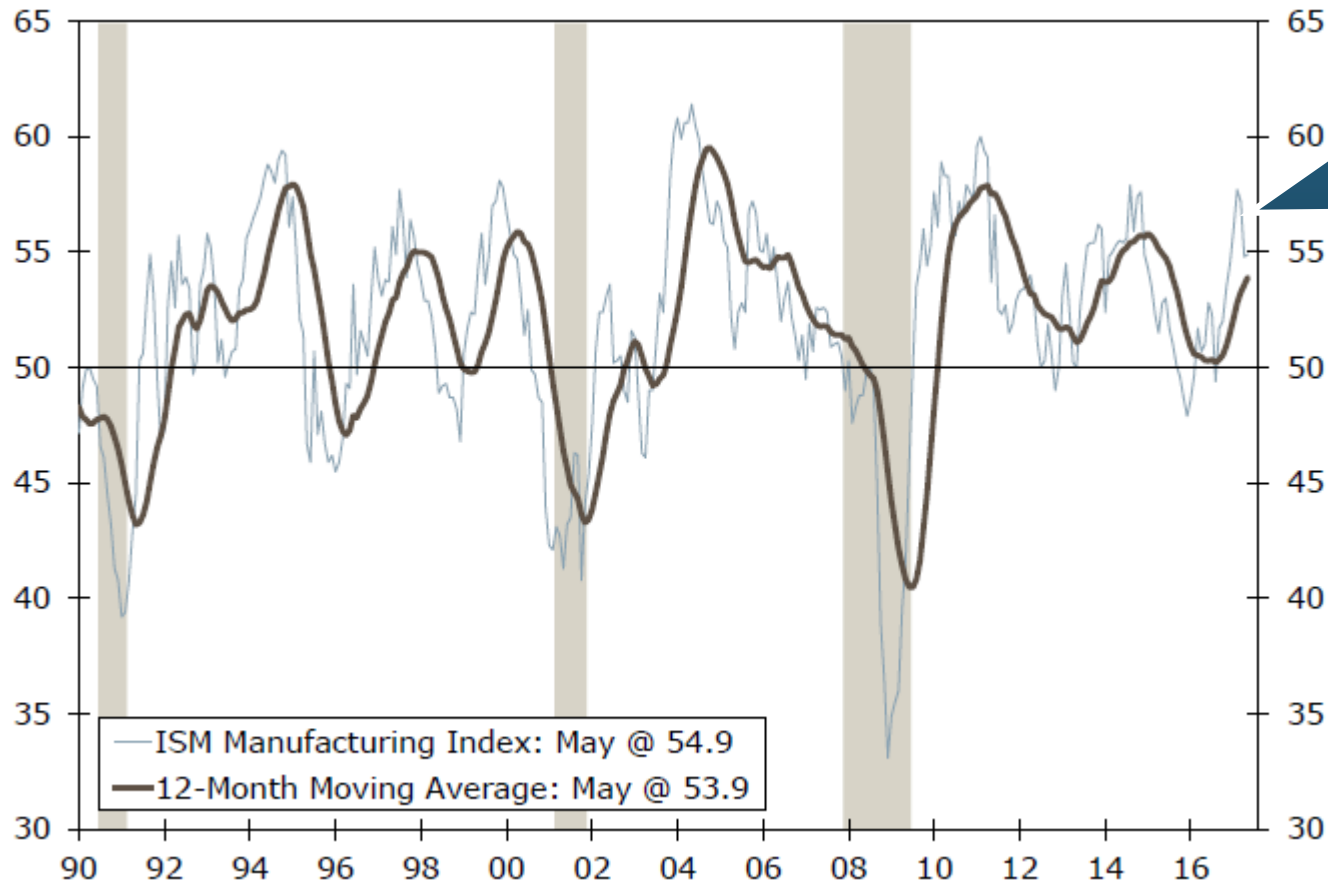
Job growth, low inventories of existing homes, still-low mortgage rates and demographics should continue to stimulate new home construction for several more years

New home starts plunged 72% from 2005-2009; A net annual decline of 1.49 million units, lowest since records began in 1959

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

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

# ISM Manufacturing Index: Jan. 1990 – May 2017



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

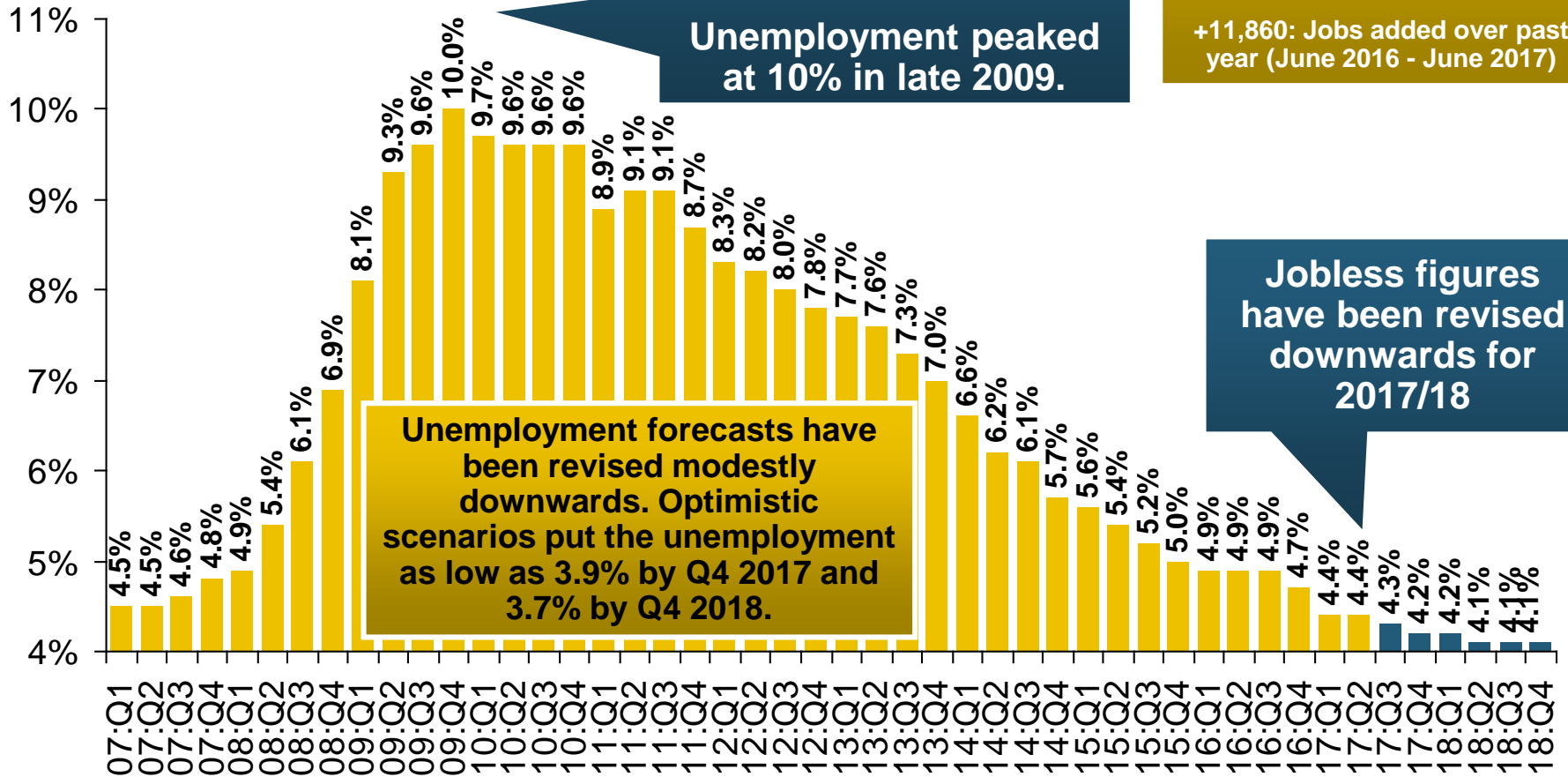
**Outlook: Modest strength (1-4 years). Will benefit from Trump policies, but employment as a share of US employment will continue to shrink due to automation.**

# THE LABOR MARKET

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

# US Unemployment Rate Forecast

2007:Q1 to 2018:Q4F\*



**Rhode Island Labor Market Facts**

Unemployment Rate: 4.3% (6/17)

Cyclical Peak: 12.2% (1/10)

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

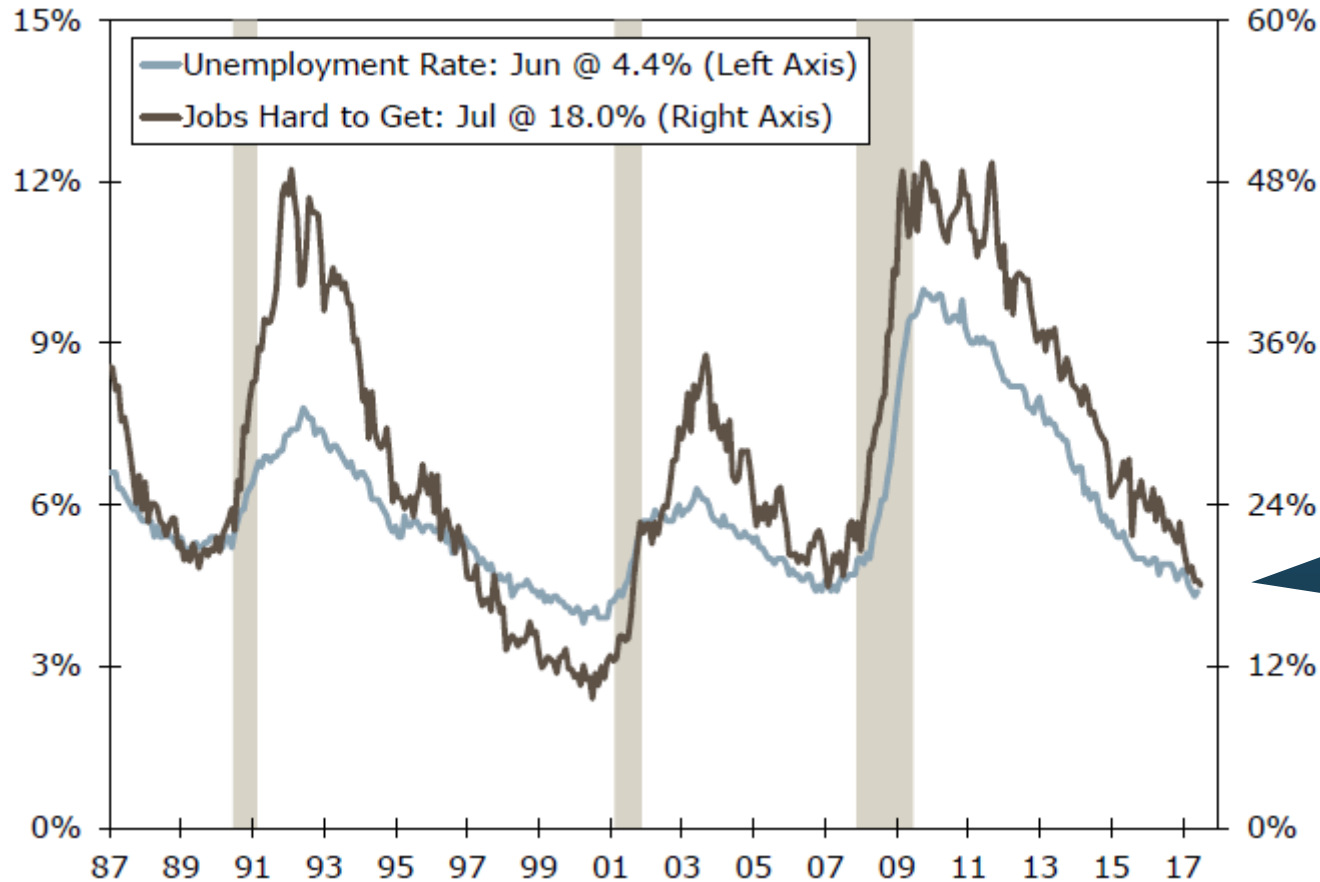
+56,764: Jobs added since 12/10

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

\* ■ = actual; ■ = forecasts

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

# Jobs “Hard to Get” vs. Unemployment Rate: 1987 – June 2017



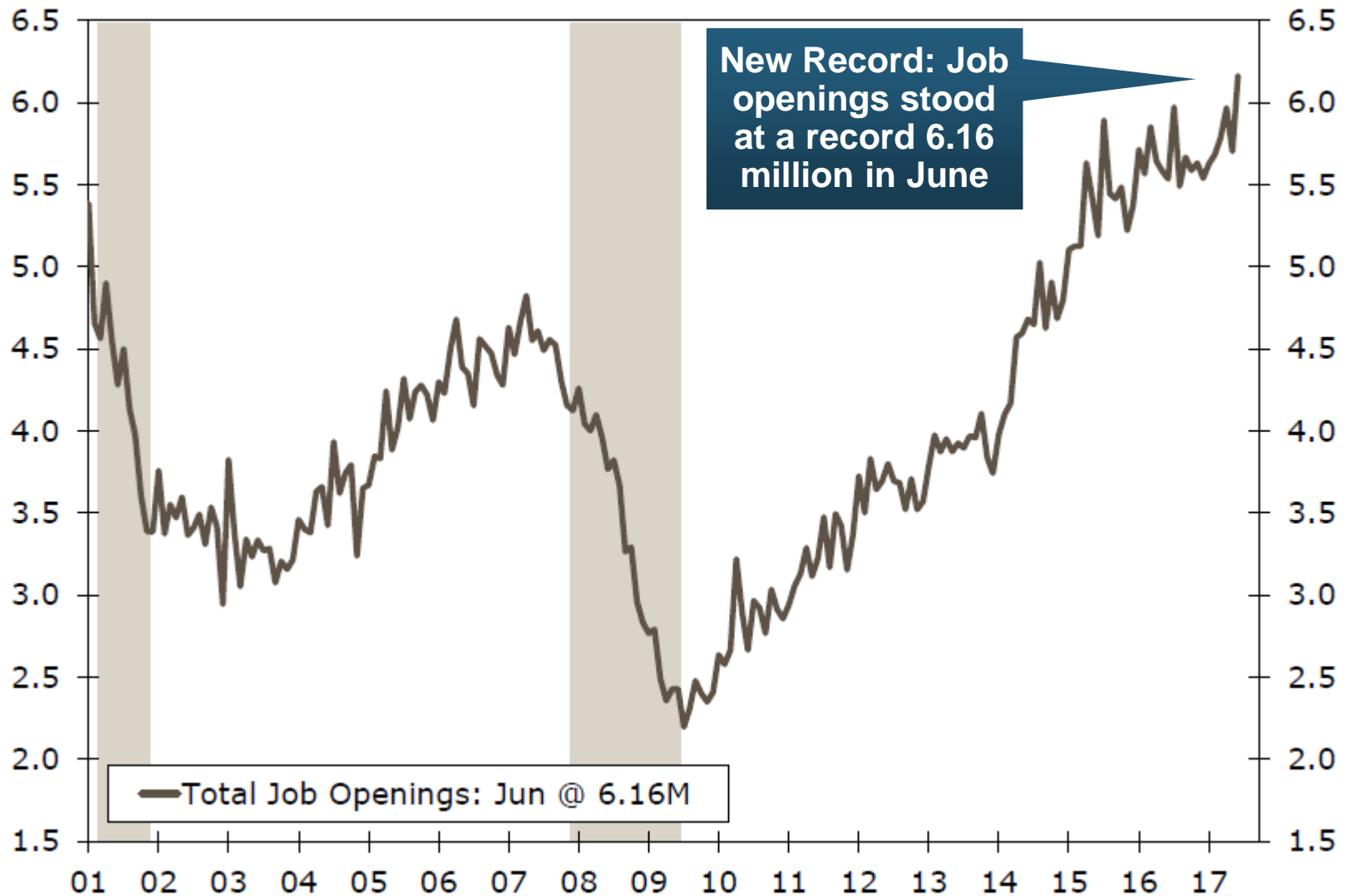
Workers now believe jobs are easier to get than at any time since the Great Recession

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



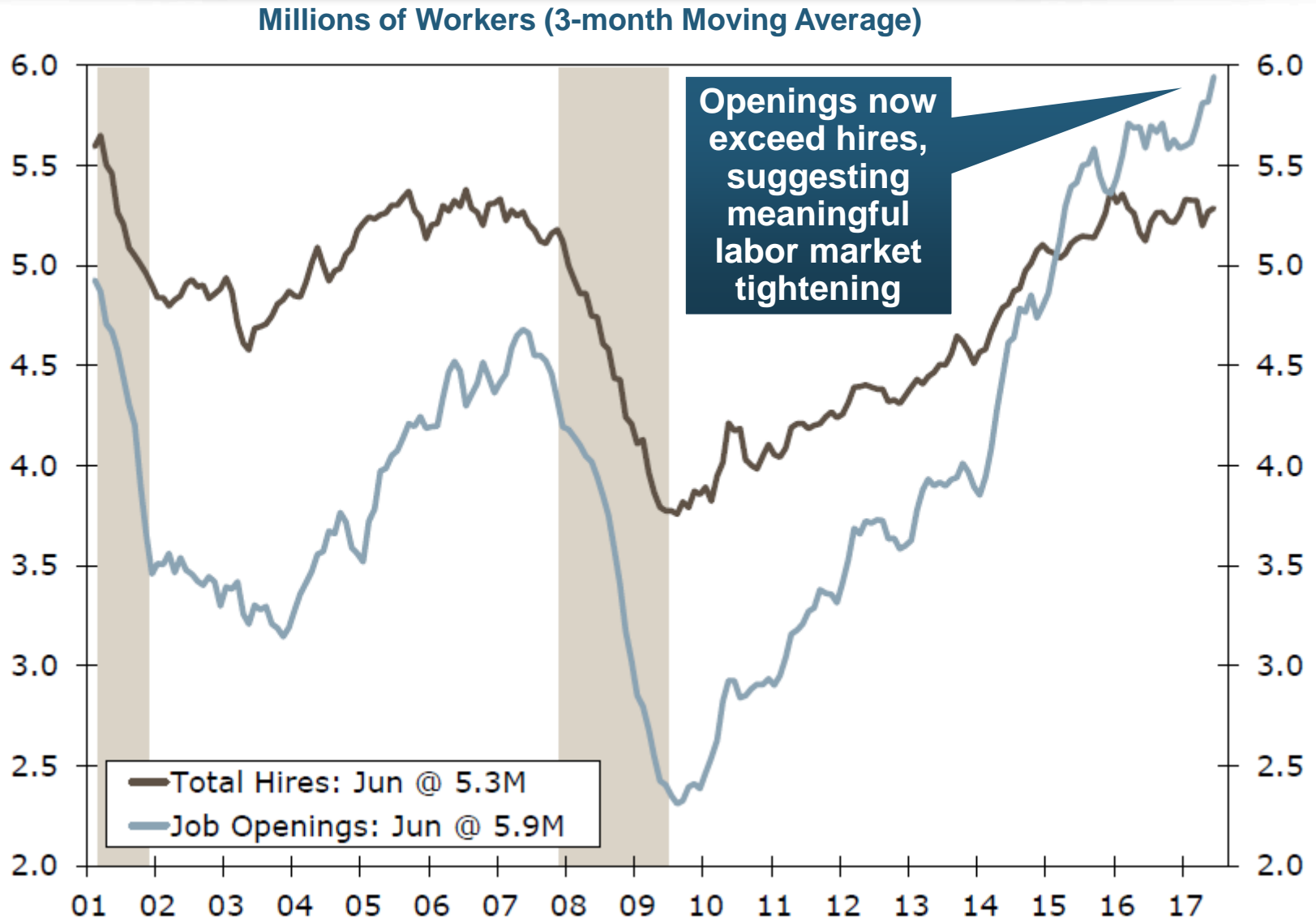
# Job Openings: 2001 – June 2017

Millions of Openings (Seasonally Adj.)



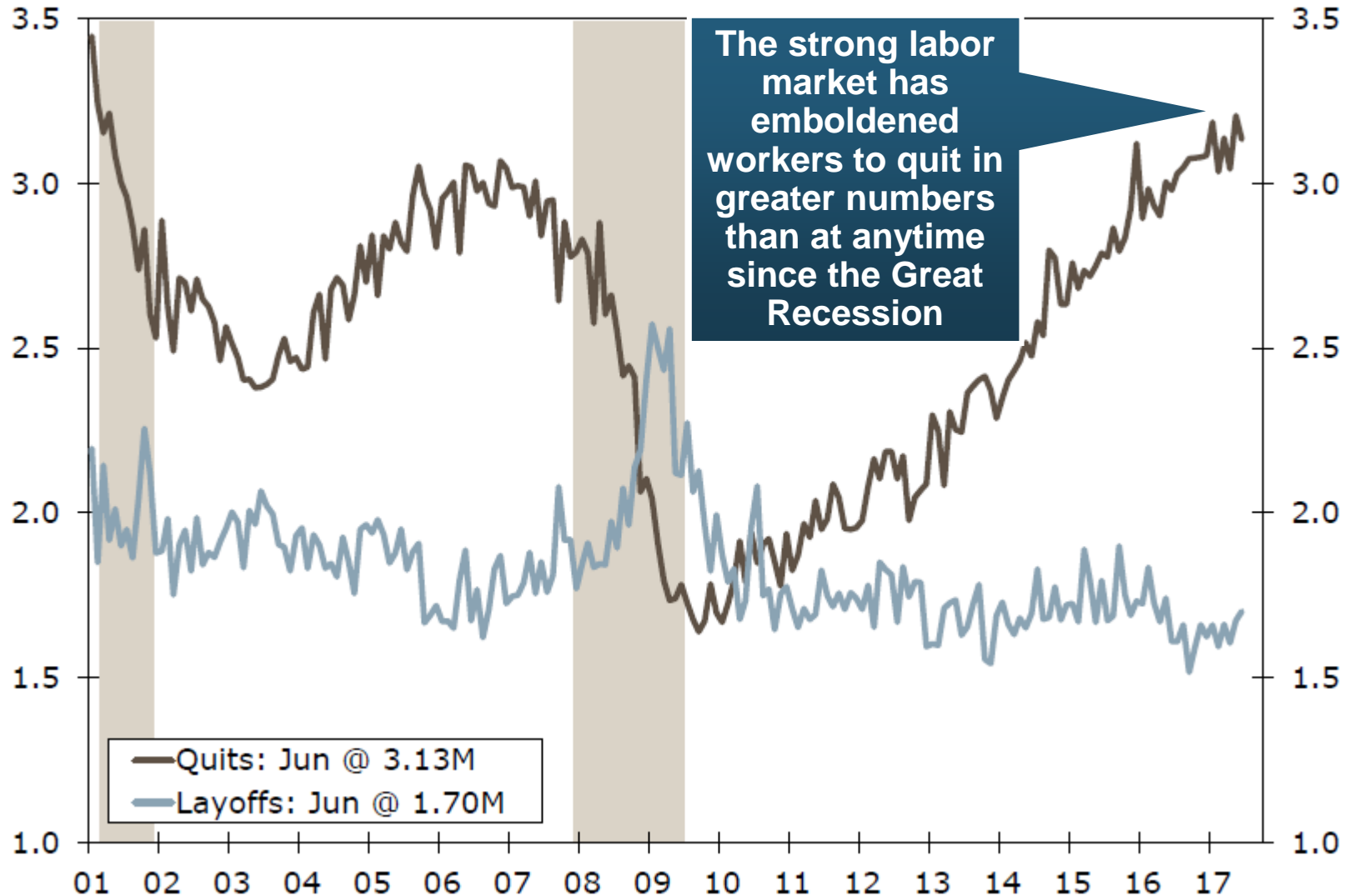
Source: US Department of Labor; Wells Fargo Research.

# Job Openings and Hires: 2001 – June 2017



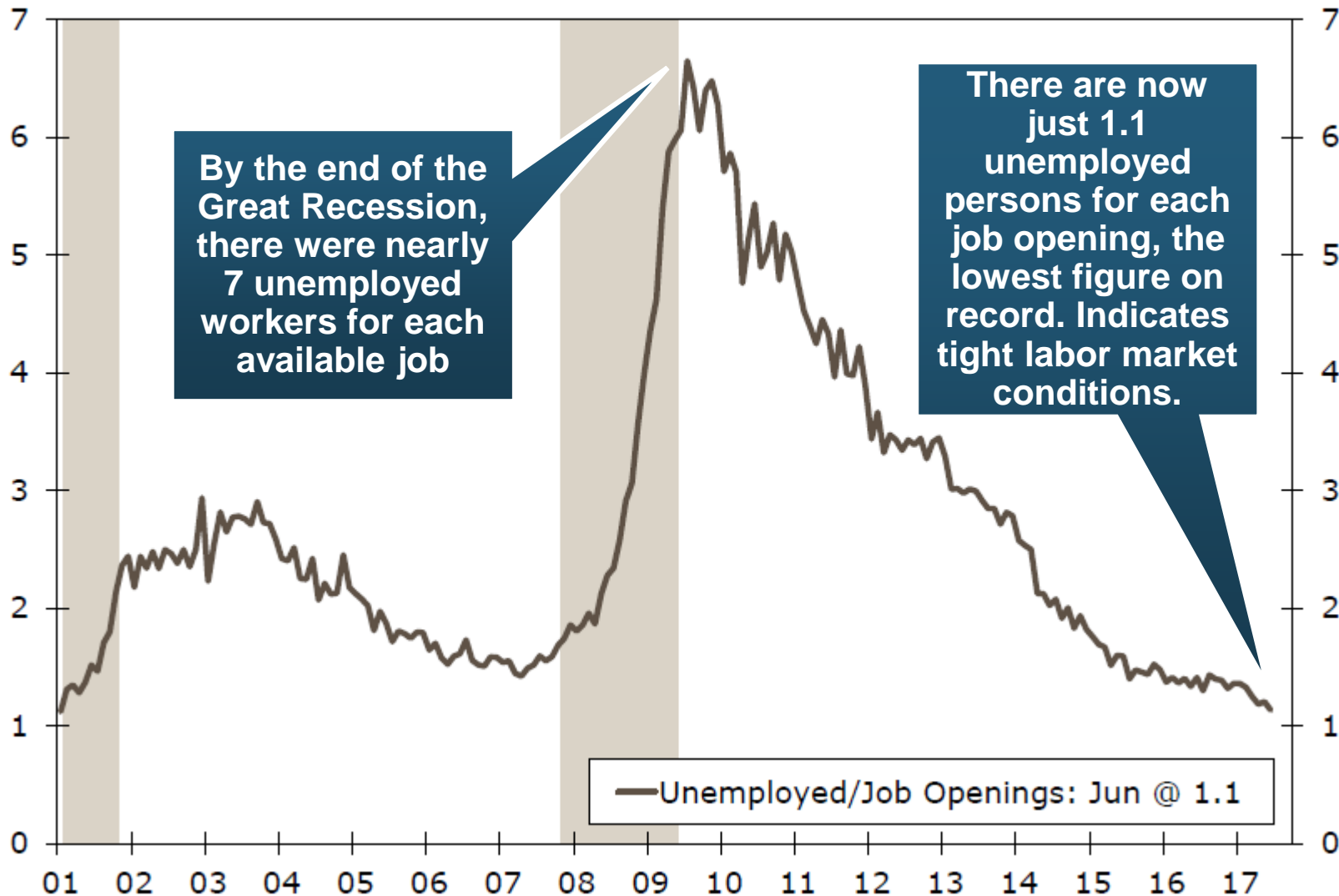
# Quits vs. Layoffs: 2001 – June 2017

Millions of Workers (Seasonally Adjusted)



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

Millions of Workers (Seasonally Adjusted)



By the end of the Great Recession, there were nearly 7 unemployed workers for each available job

There are now just 1.1 unemployed persons for each job opening, the lowest figure on record. Indicates tight labor market conditions.

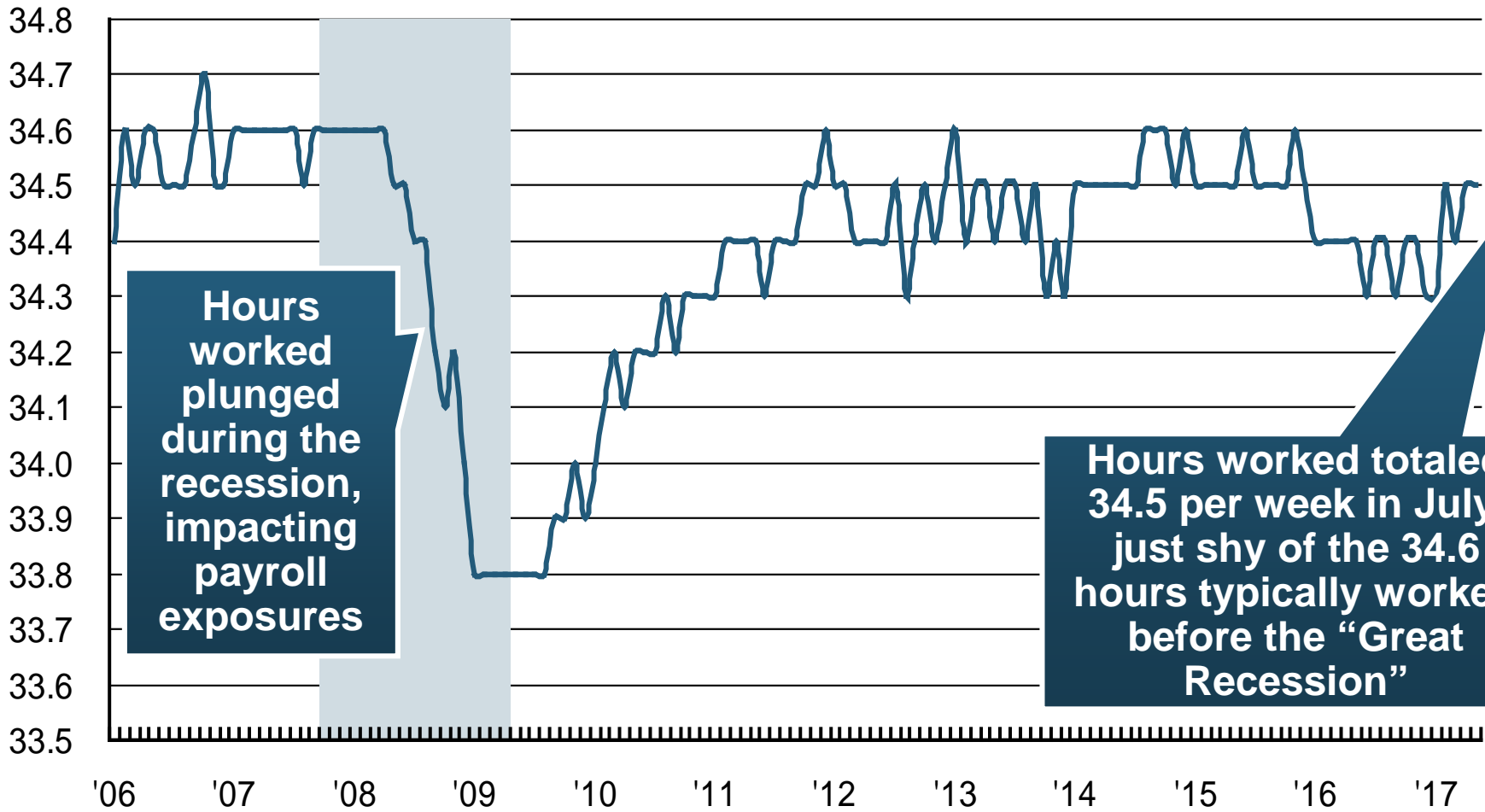
— Unemployed/Job Openings: Jun @ 1.1

# POSITIVE LABOR MARKET DEVELOPMENTS

## Key Factors Driving Workers Compensation Exposure

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

(Hours Worked)



Hours worked plunged during the recession, impacting payroll exposures

Hours worked totaled 34.5 per week in July, just shy of the 34.6 hours typically worked before the “Great Recession”

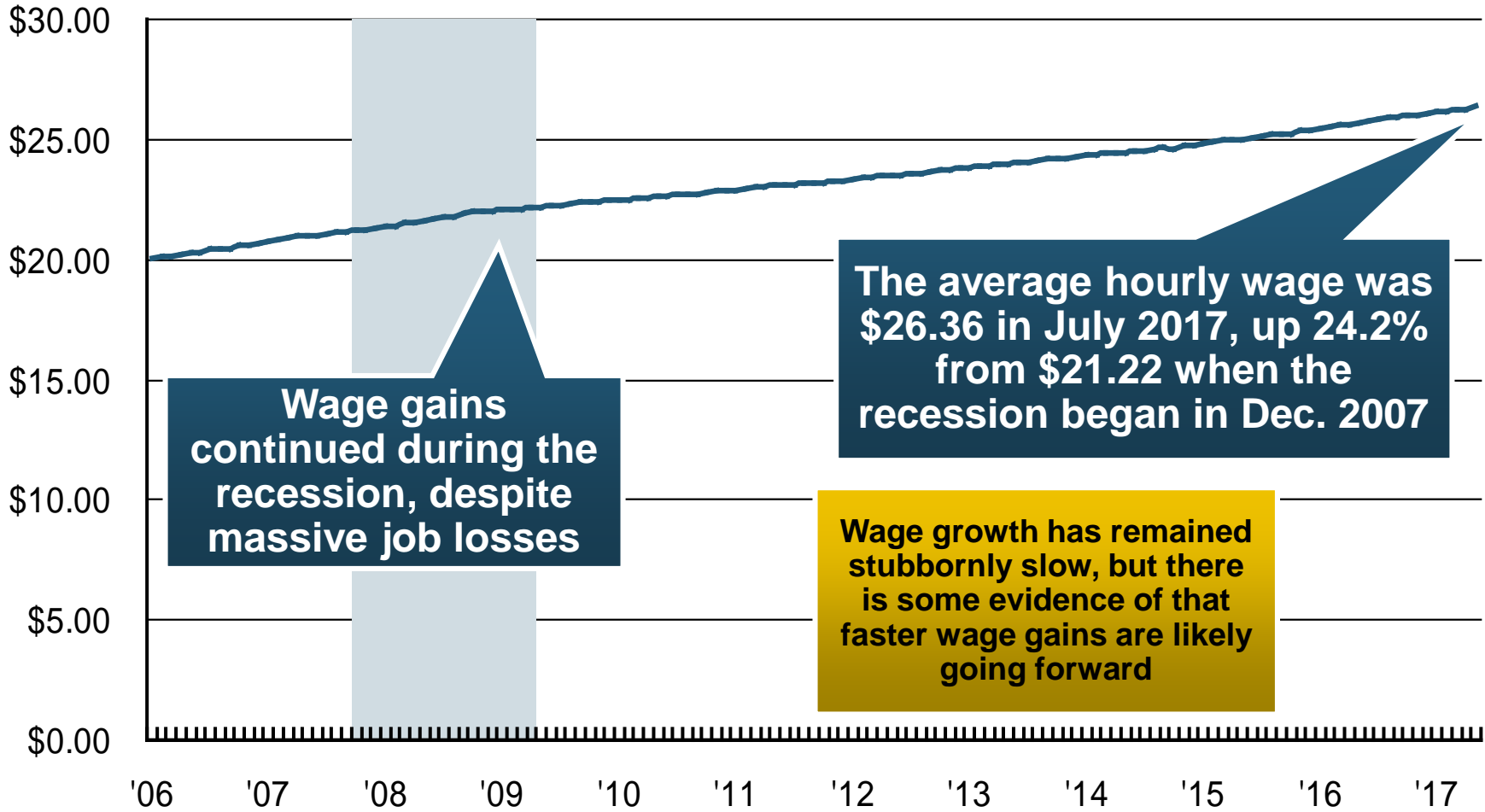
\*Seasonally adjusted

Note: Recessions indicated by gray shaded columns.

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

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

(Hourly Wage)



\*Seasonally adjusted

Note: Recessions indicated by gray shaded columns.

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

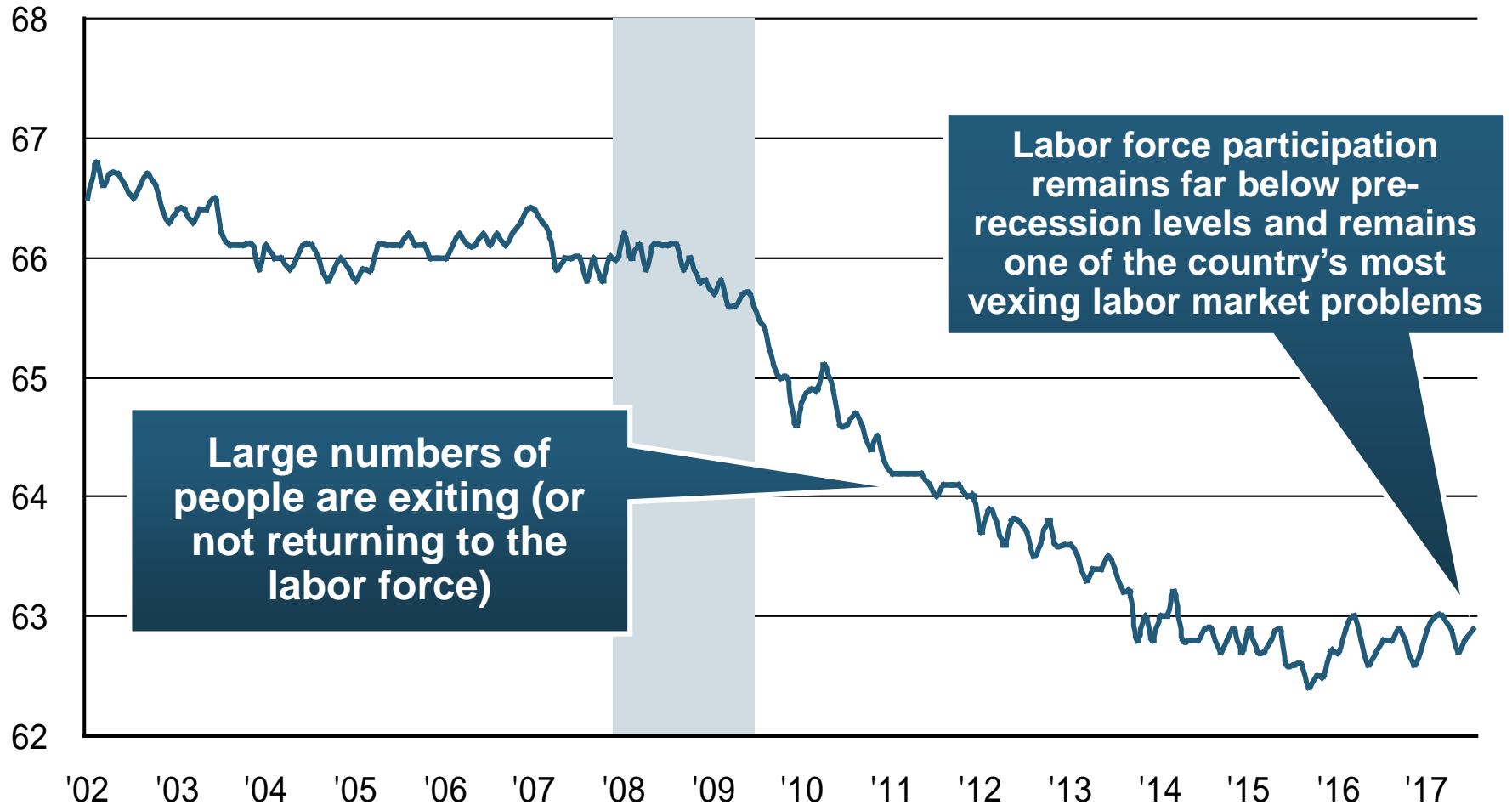
# **ADVERSE LONG-TERM LABOR MARKET DEVELOPMENTS**

**Key Factors Harming Workers  
Compensation Exposure and the  
Overall Economy**



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

Labor Force Participation as a % of Population



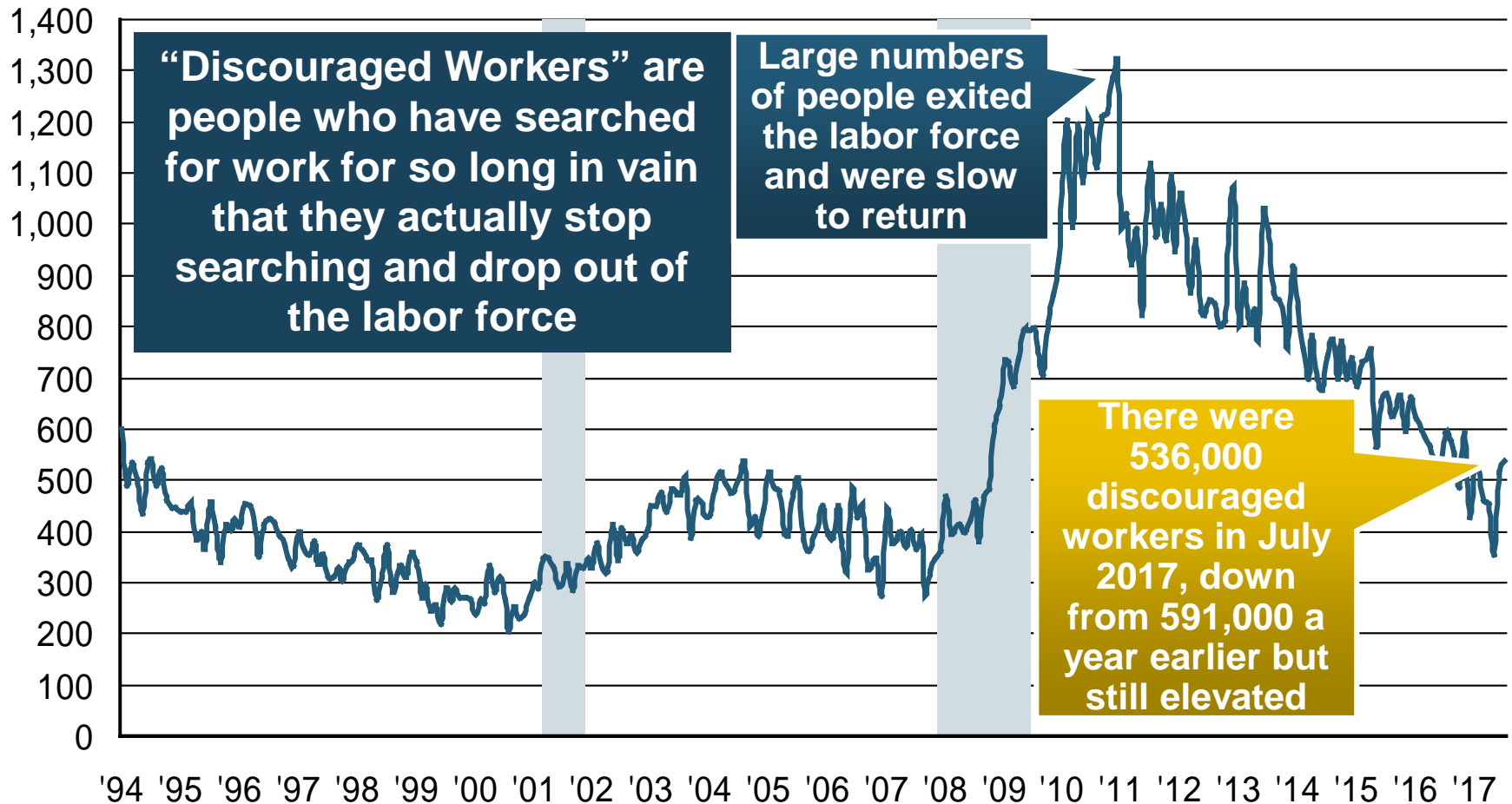
\*Defined as the percentage of working age persons in the population who are employed or actively seeking work.

Note: Recessions indicated by gray shaded columns.

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

# Number of “Discouraged Workers,” Jan. 2002—July 2017

Thousands



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

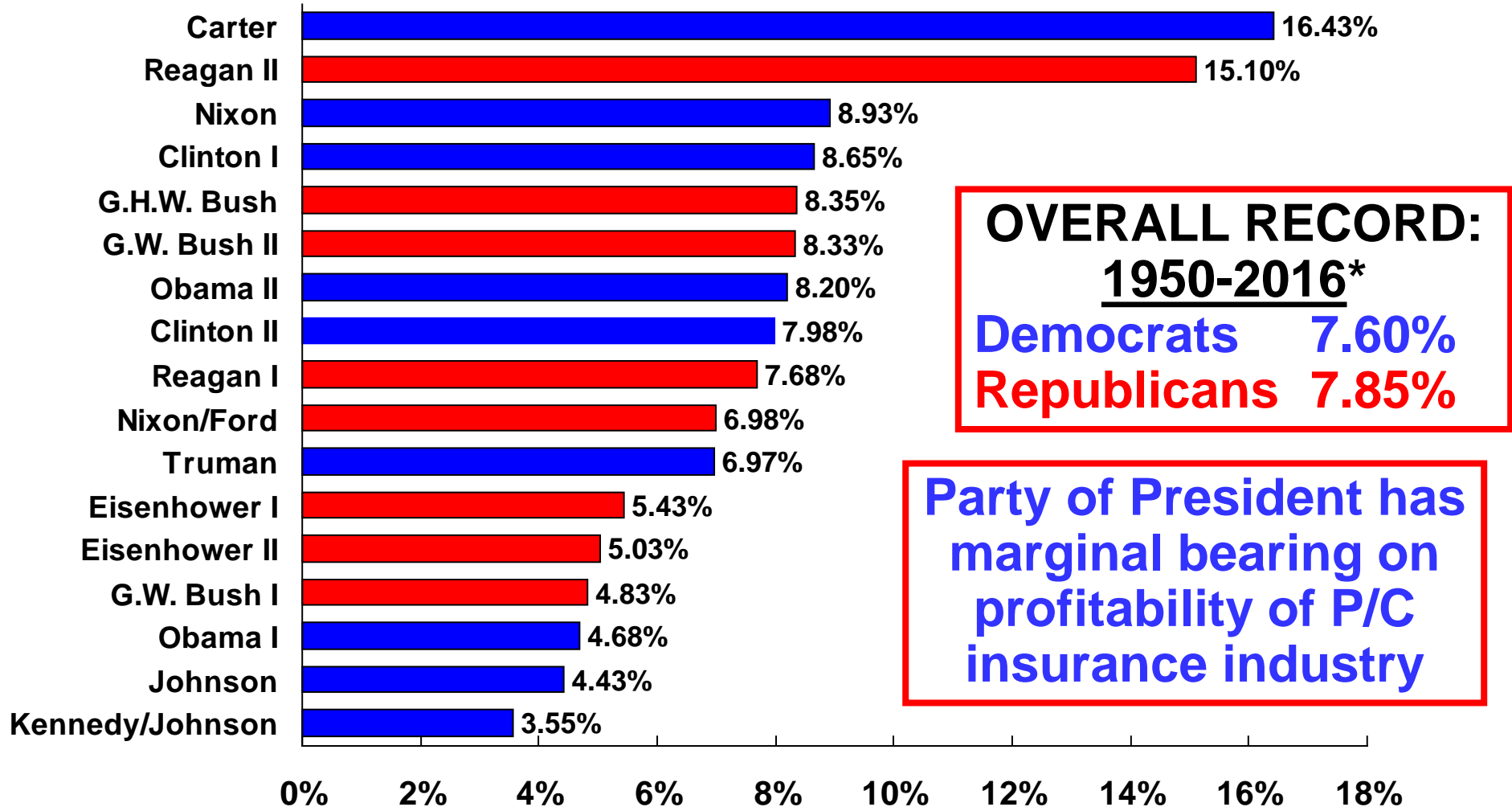
Notes: Recessions indicated by gray shaded columns. Data are seasonally adjusted.

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

# Profitability & Politics

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

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

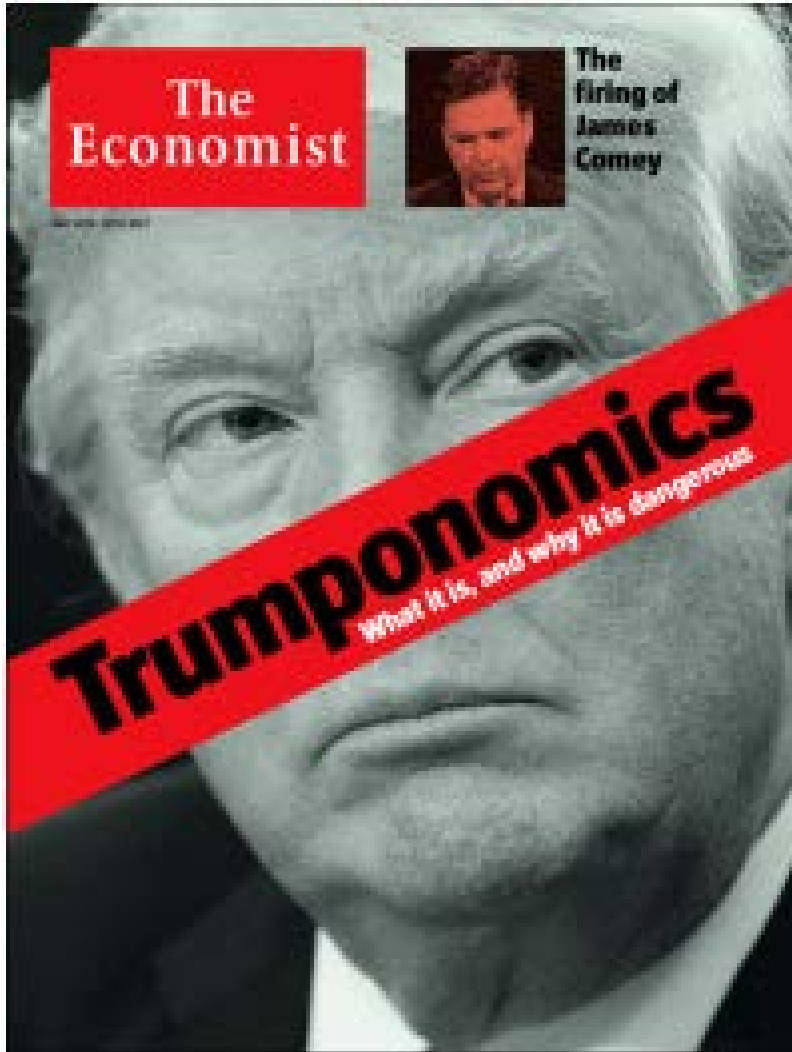


\*Truman administration ROE of 6.97% based on 3 years only, 1950-52;. Source: Insurance Information Institute

# Trumponomics, Insurance and Politics

***How Might the Trump Presidency  
Impact the Insurance Industry?***

# Trumponomics: The Essential Elements



## ■ 5 Elements

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

# Trump Tax Proposal Implications

## ■ Move from 7 Federal Brackets to 3: 10, 25 and 35%

- ◆ High earners also benefit from elimination of ACA taxes
- ◆ Increase standard deduction
- ◆ Eliminate most deductions except for mortgage interest, 401(k) and charitable contributions

## ■ For Businesses/Business Owners

- ◆ Lower corporate income taxes to restore international competitiveness on tax rates, perhaps to 15%, but...
- ◆ Adoption of “border adjustments” on imported goods, services and capital;

### ◆ Insurer Implications

- Lower corporate taxes would directly benefit insurers directly & indirectly through resulting economic stimulus

# Trump Administration: Likely Issues Impacting Insurers

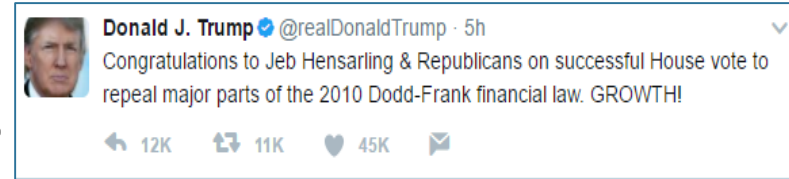
## ■ Dodd-Frank

### ◆ TRUMP DODD-FRANK QUOTES

- Dodd-Frank is a “*disaster*”
- Vowed to “*do a big number*” on the Act

### ◆ **NEW:** Financial CHOICE Act (June 2017 in House)

- Ends authority of the FSOC to designate non-bank SIFIs
  - Likely that MetLife, Prudential and even AIG will see their SIFI designations rescinded
- Repeal Volker Rule
- Some loosening of liquidity requirements for well-capitalized financial institutions; Less frequent stress tests
- Weaken Consumer Financial Protection Bureau
- NOTE: No mention of FIO, but Office of Financial Research would be eliminated





# Trump Administration: Likely Issues Impacting Insurers

## ■ Trade

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

# Trump Administration: Likely Issues Impacting Insurers

## ■ Infrastructure Spending

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



# Trump Administration: Likely Issues Impacting P/C Insurers

## ■ **Terrorism & Cyber: Terrorism Risk Insurance Act (TRIA)**

- ◆ **Expires 12/31/2020→Administration views uncertain**
- ◆ **Favors free markets but Trump's NYC real estate experience gave him a front row seat to 9/11's impact's on commercial property insurance markets**
- ◆ **When TRIA expires, Trump will either have just secured his second term as president or will be a lame duck**
- ◆ **Expect some opposition in Congress, assuming both House and Senate remain under Republican control**

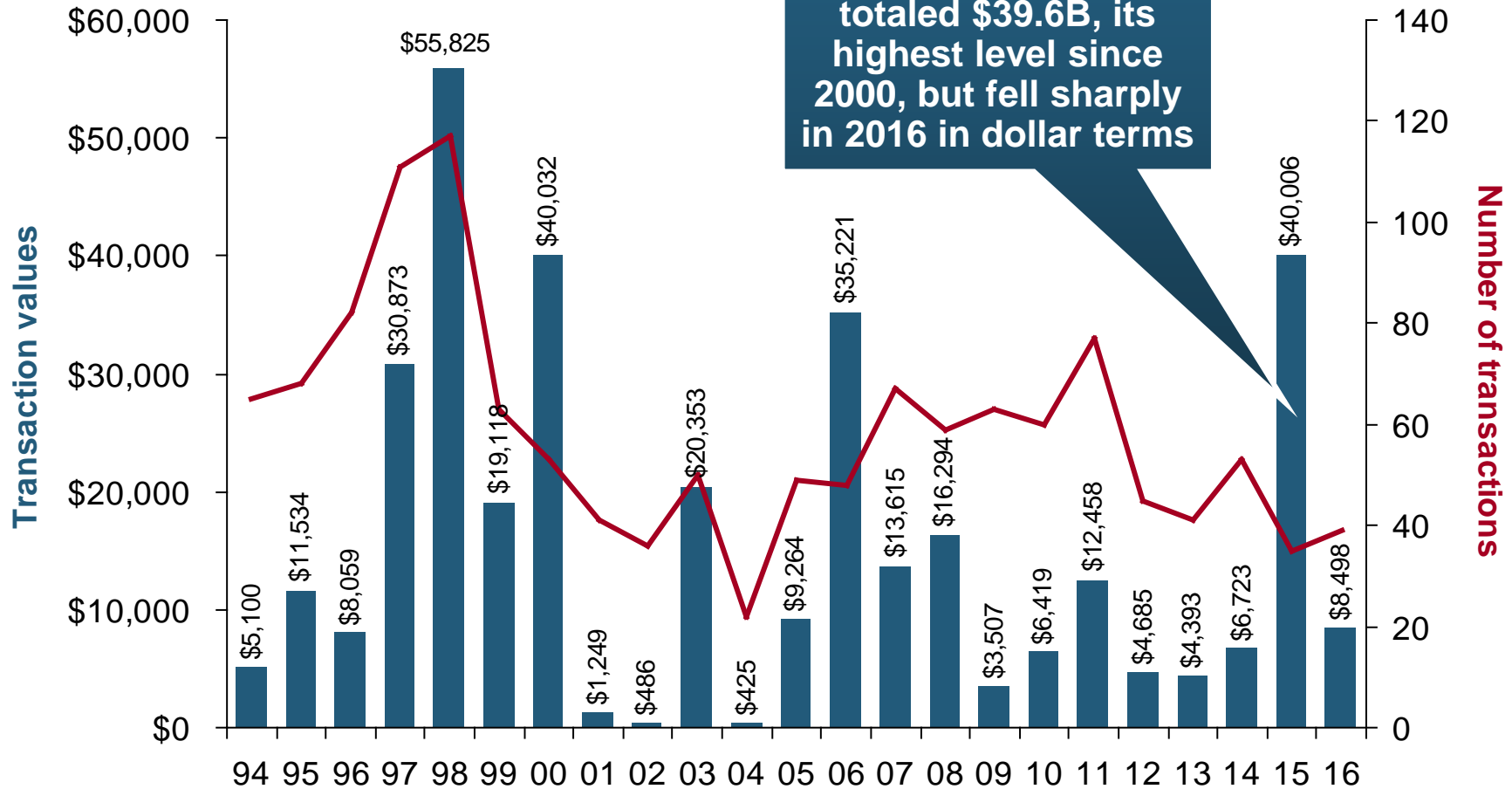
## ■ **Cyber: Strong growth for commercial insurers for the indefinite future—barring a major cyber cat**

# M&A Trends

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

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

(\$ Millions)

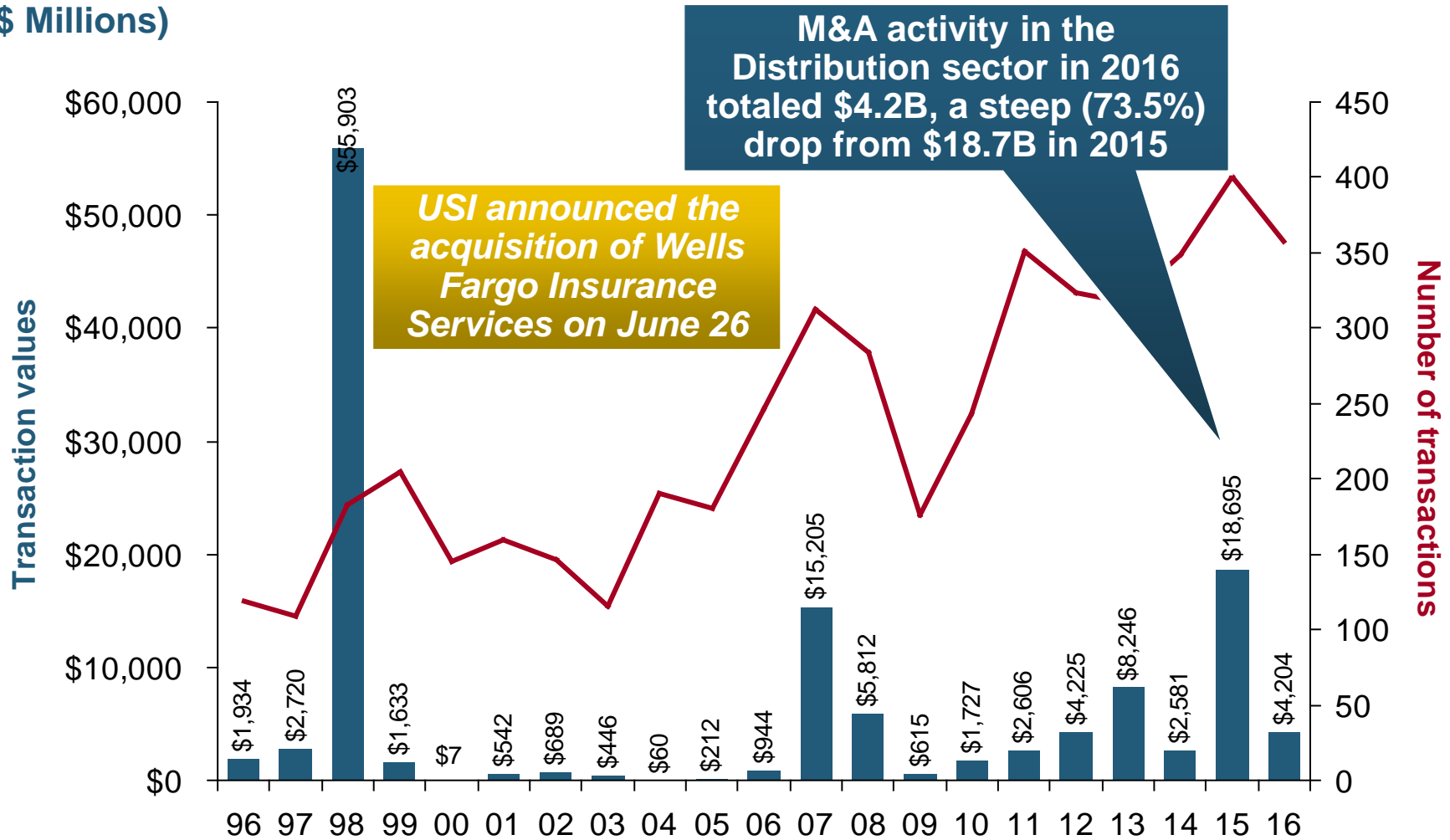


(1) Includes transactions where a U.S. company was the acquirer and/or the target.

Source: Conning proprietary database.

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

(\$ Millions)



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

Source: Conning proprietary database.

# Drivers of M&A Activity

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

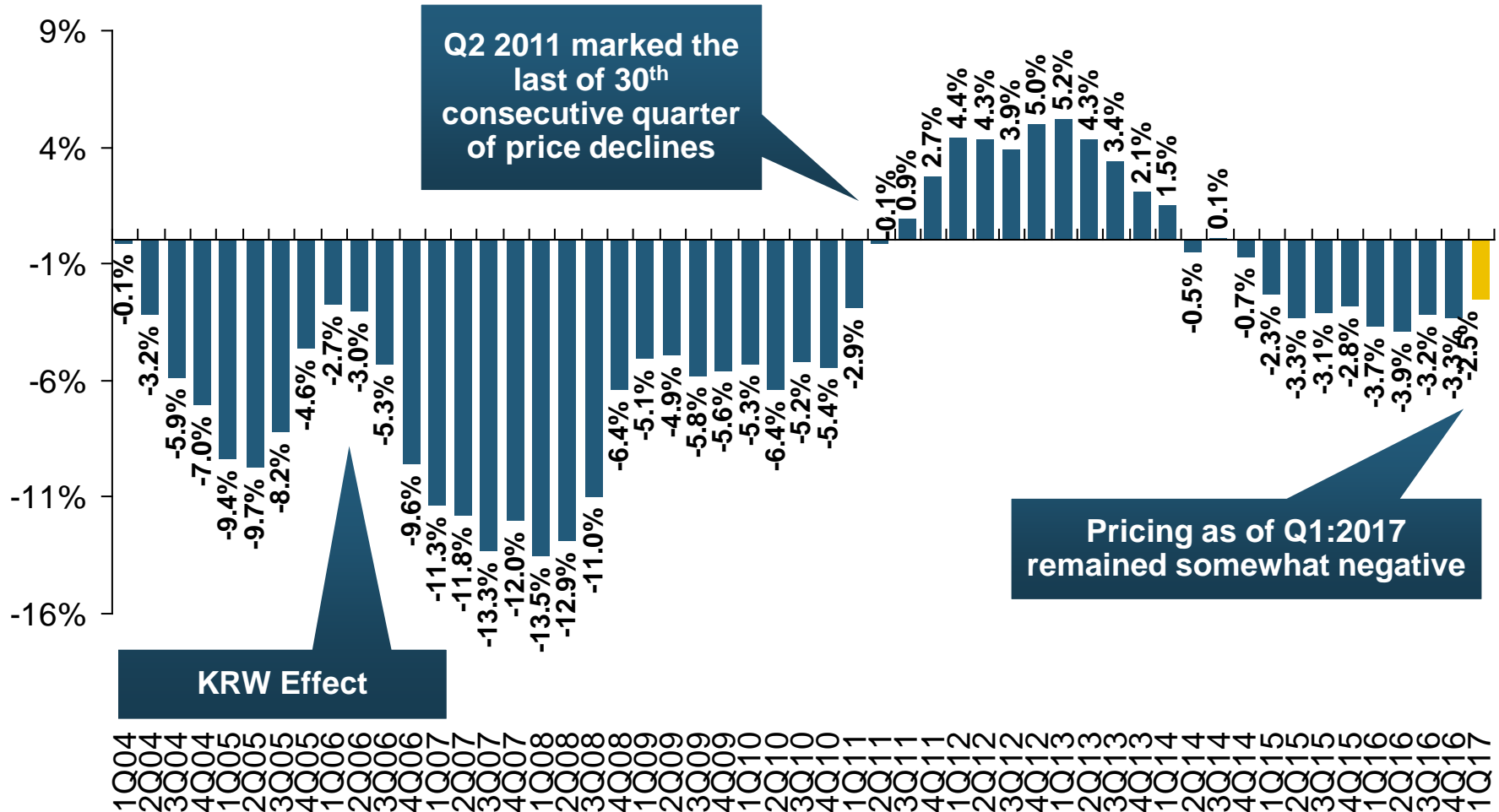
# Commercial Lines Growth and Pricing Trends

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



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

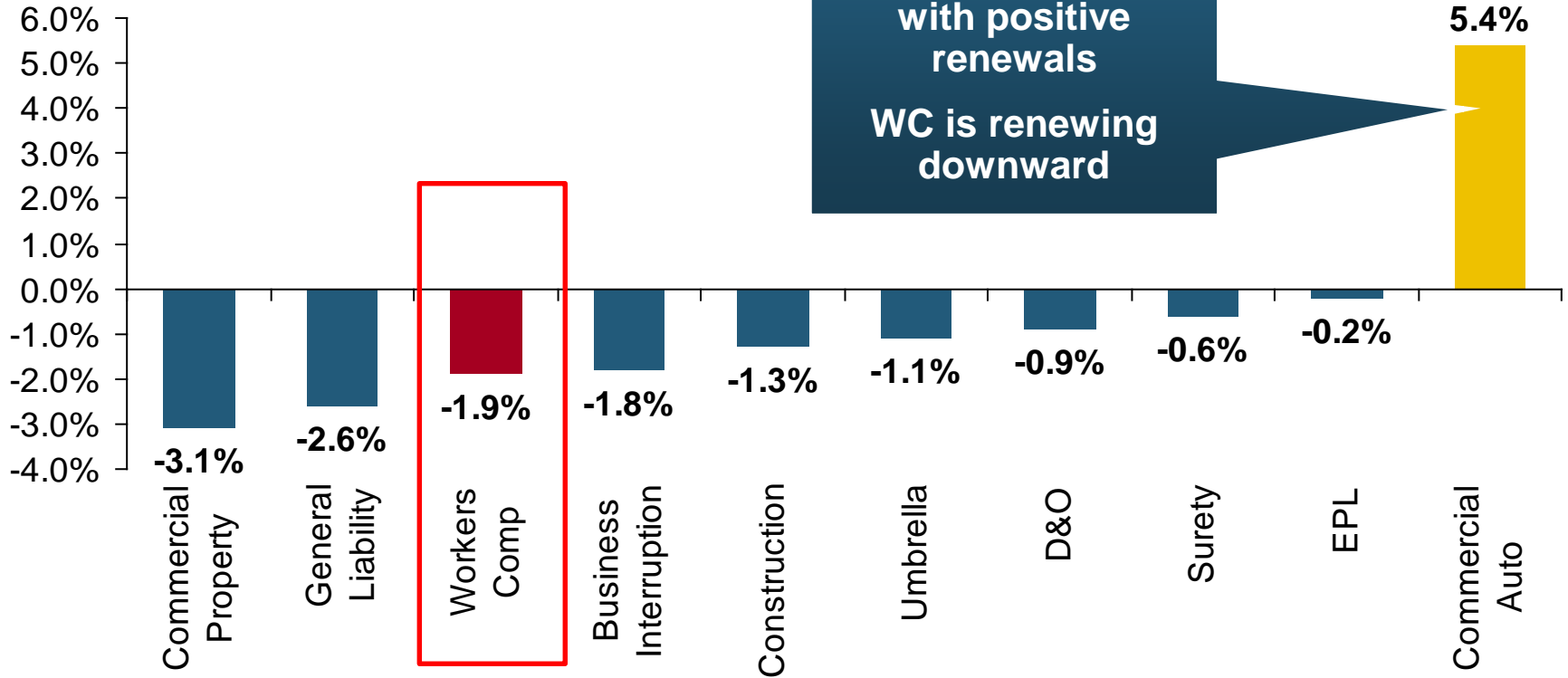
(Percent)



Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.  
 Source: Council of Insurance Agents & Brokers; Insurance Information Institute

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

Percentage Change (%)



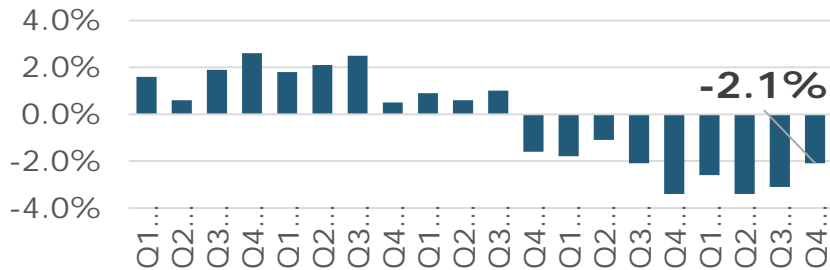
**Major Commercial Lines Renewals Were General Down in Q1:2017; Only Commercial Auto Saw Material Gains**

Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.  
Source: Council of Insurance Agents and Brokers; Insurance Information Institute.

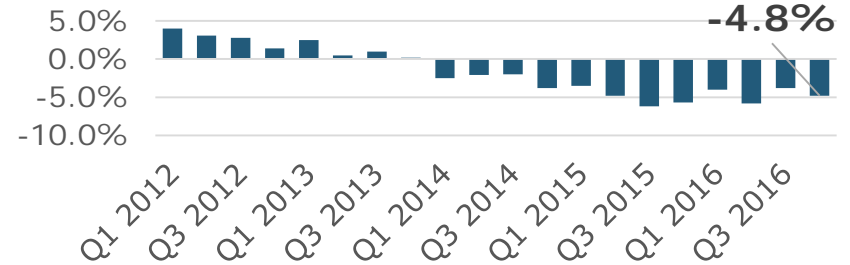
# Rate Changes by LOB Thru Q4 2016

Slight Softening, Though Local Markets Vary

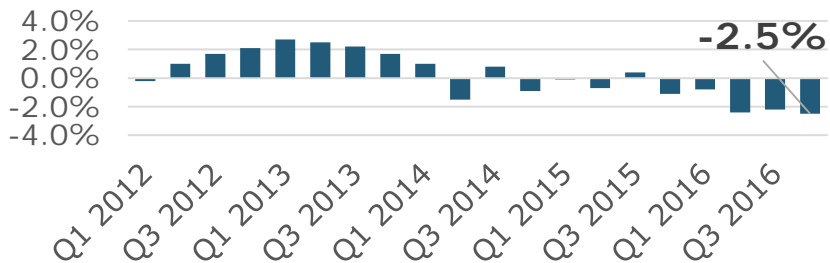
## U.S. Casualty



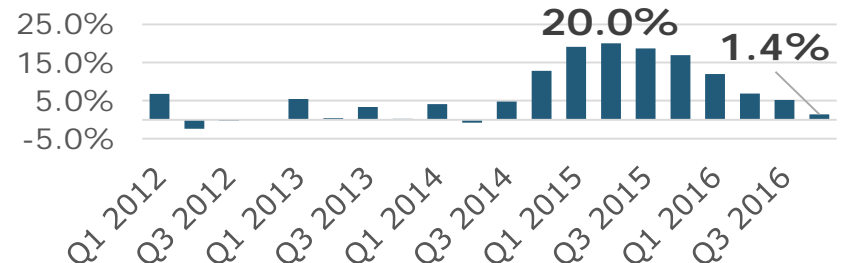
## U.S. Property



## U.S. Financial and Prof Liab



## U.S. Cyber



# INDUSTRY DISRUPTORS

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

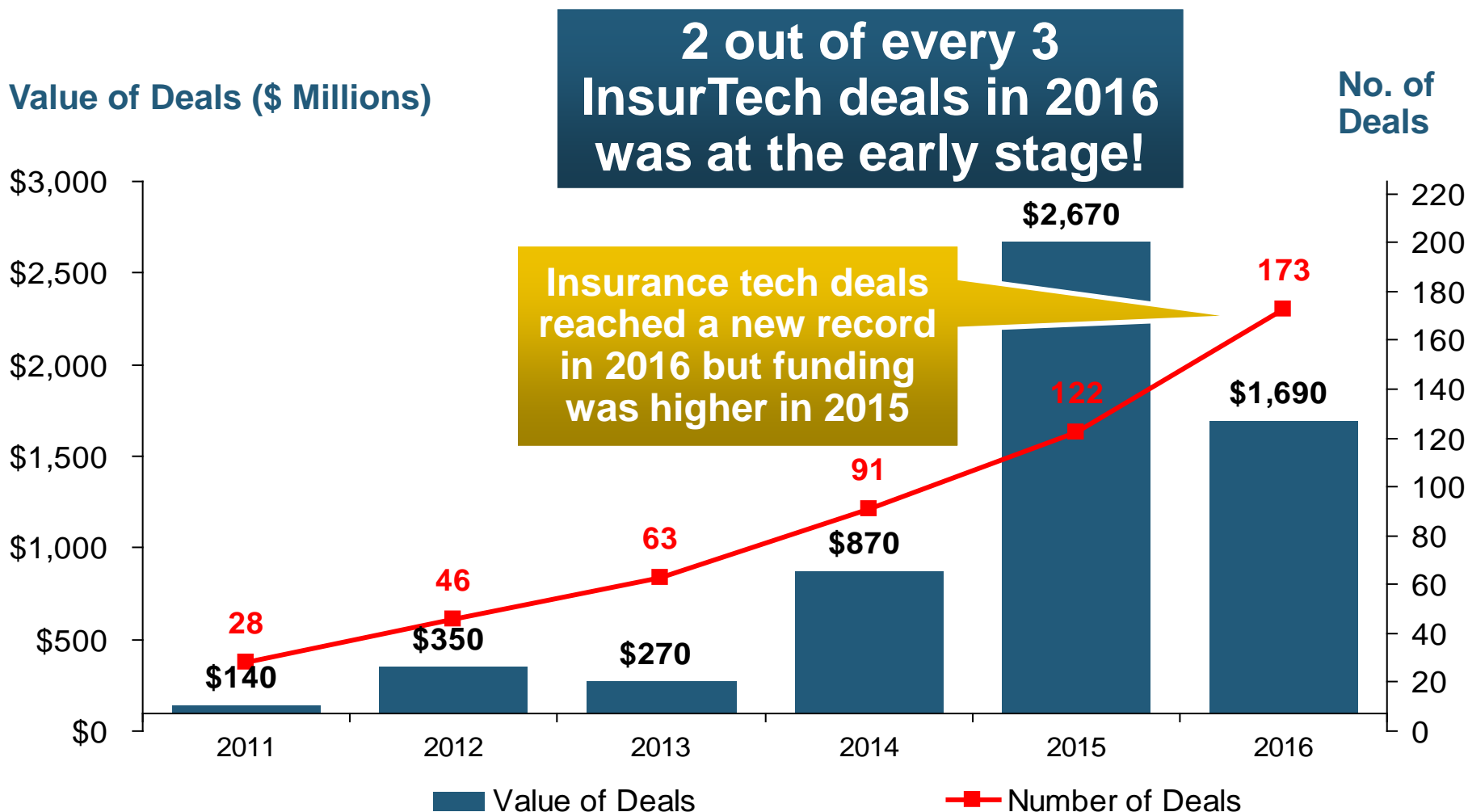
***Reality vs. Drinking the  
Silicon Valley Kool Aid***

# **INSURANCE TECHNOLOGY: *FIN TECH ZEROES IN***

**Number and Value of Deals Is Increasing**

***In Search of the Elusive Insurance 'Unicorn'***

# InsurTech Annual Financing, 2011 – 2016



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

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

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



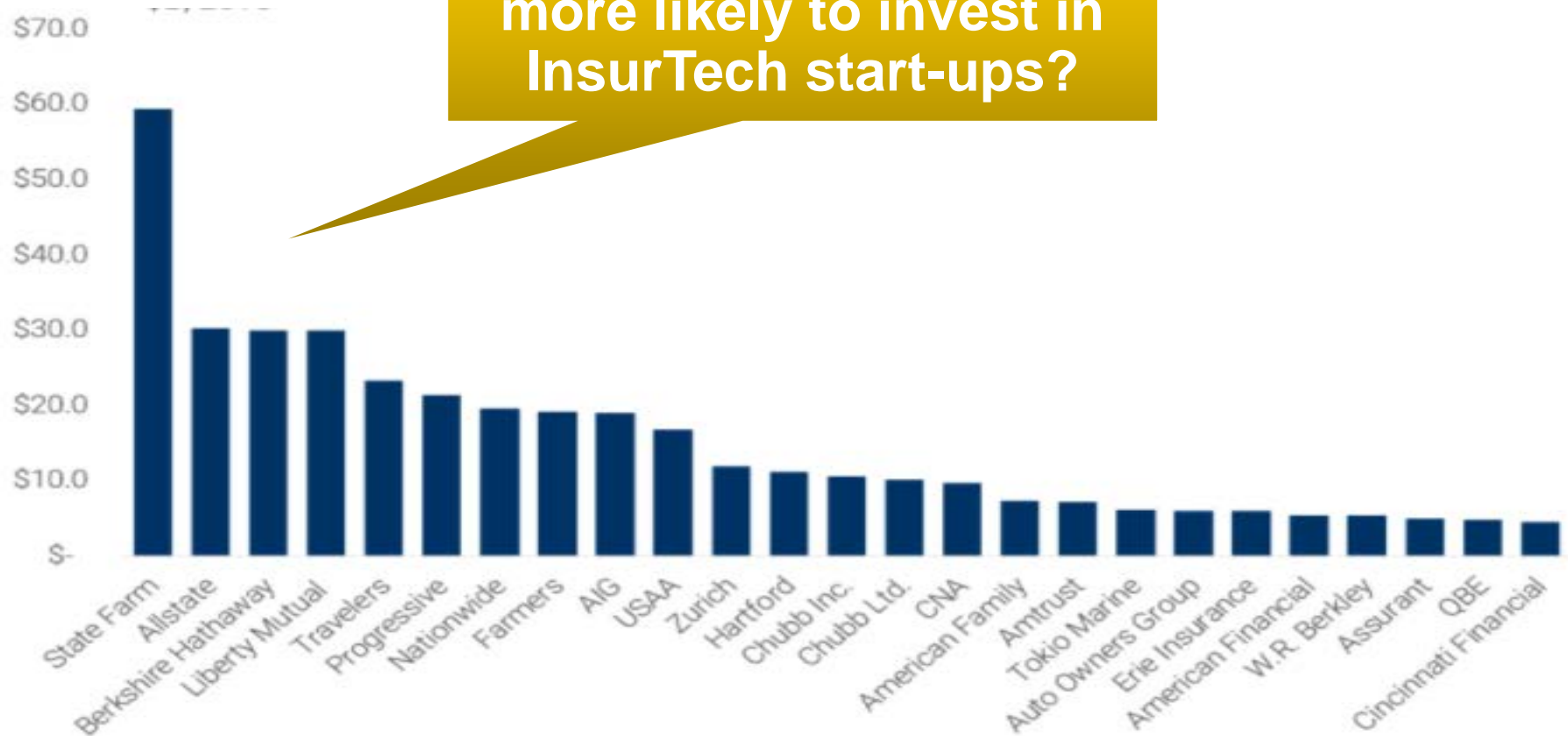
# Launches of Insurance Corporate Venture Capital Units, 2015 – 2017 YTD\*





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

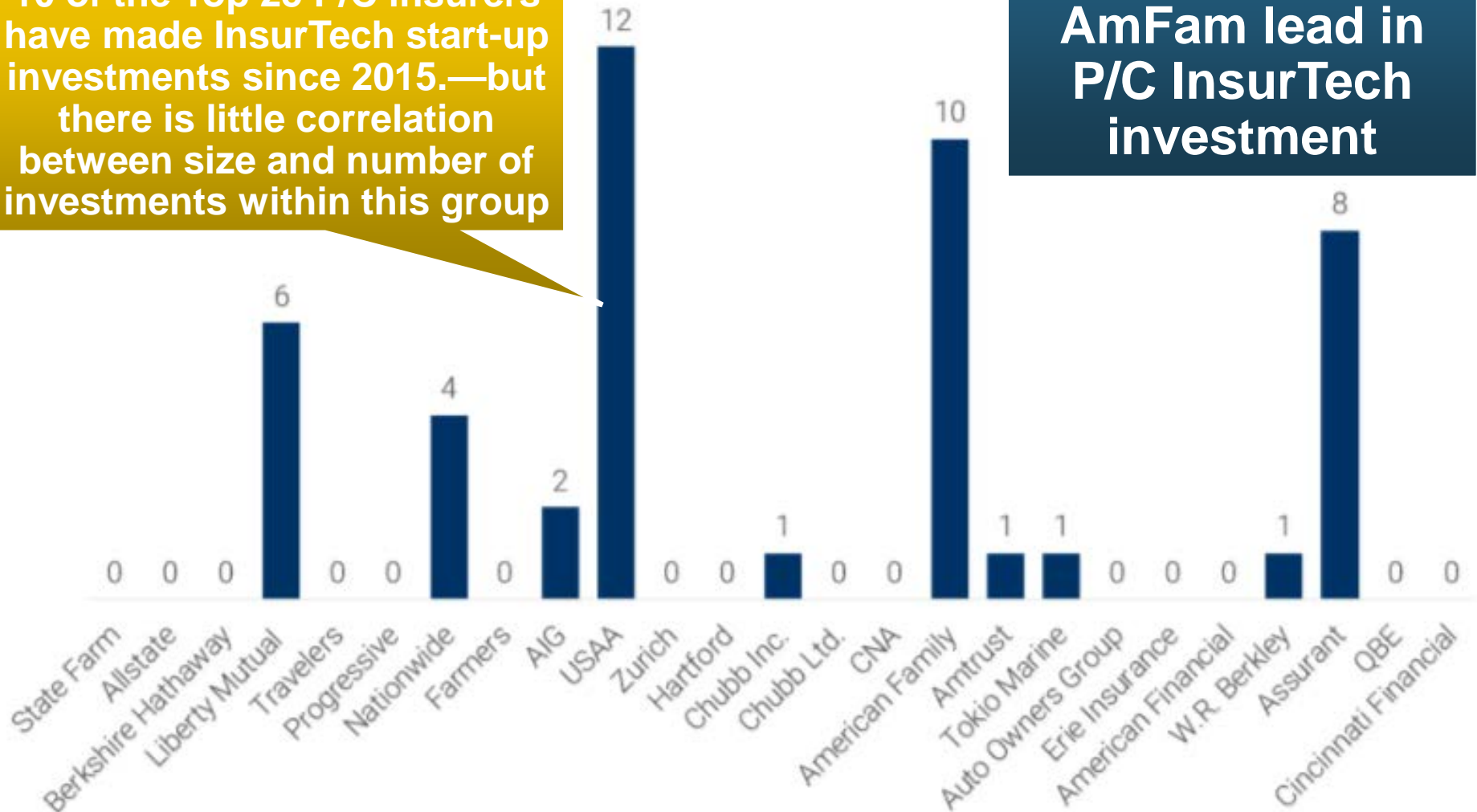
Are large P/C insurers more likely to invest in InsurTech start-ups?



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

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

USAA and AmFam lead in P/C InsurTech investment



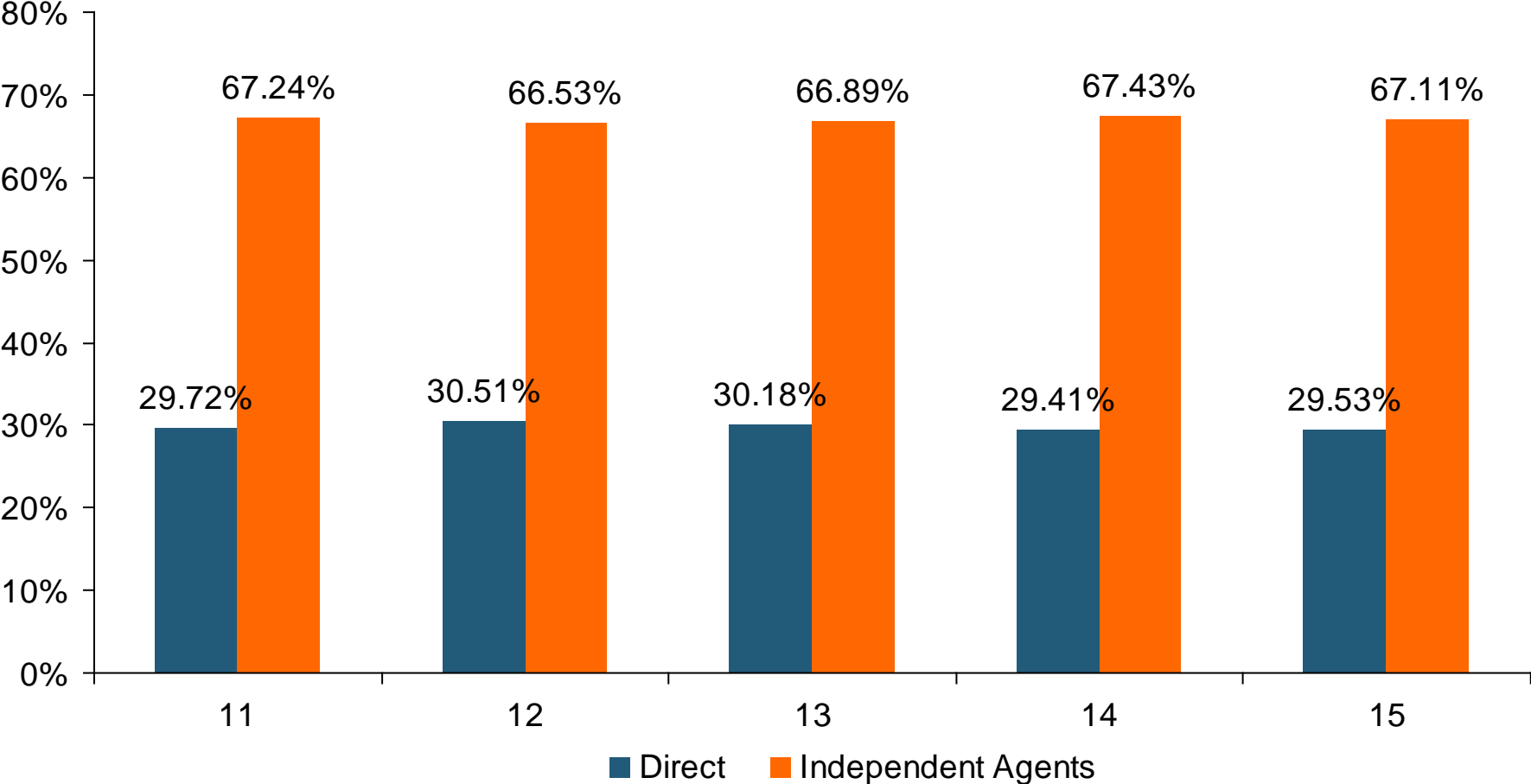
\*As of June 23, 2017.

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

# Distribution Trends

**Distribution by Channel Type  
Continues to Evolve Around  
the World**

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



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

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



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me at [robert.hartwig@moore.sc.edu](mailto:robert.hartwig@moore.sc.edu)***