



STATE OF THE INSURANCE MARKET 2016

(FROM VARIOUS INDUSTRY SOURCES)

NCCSIF Board of Directors
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Alliant

Presentation Overview

- Highlights
- Property/Casualty Industry Performance
- Impact of Natural Catastrophes
- Data Breaches Have Soared
- El Nino, Flood and You
- Looking Ahead...

Highlights

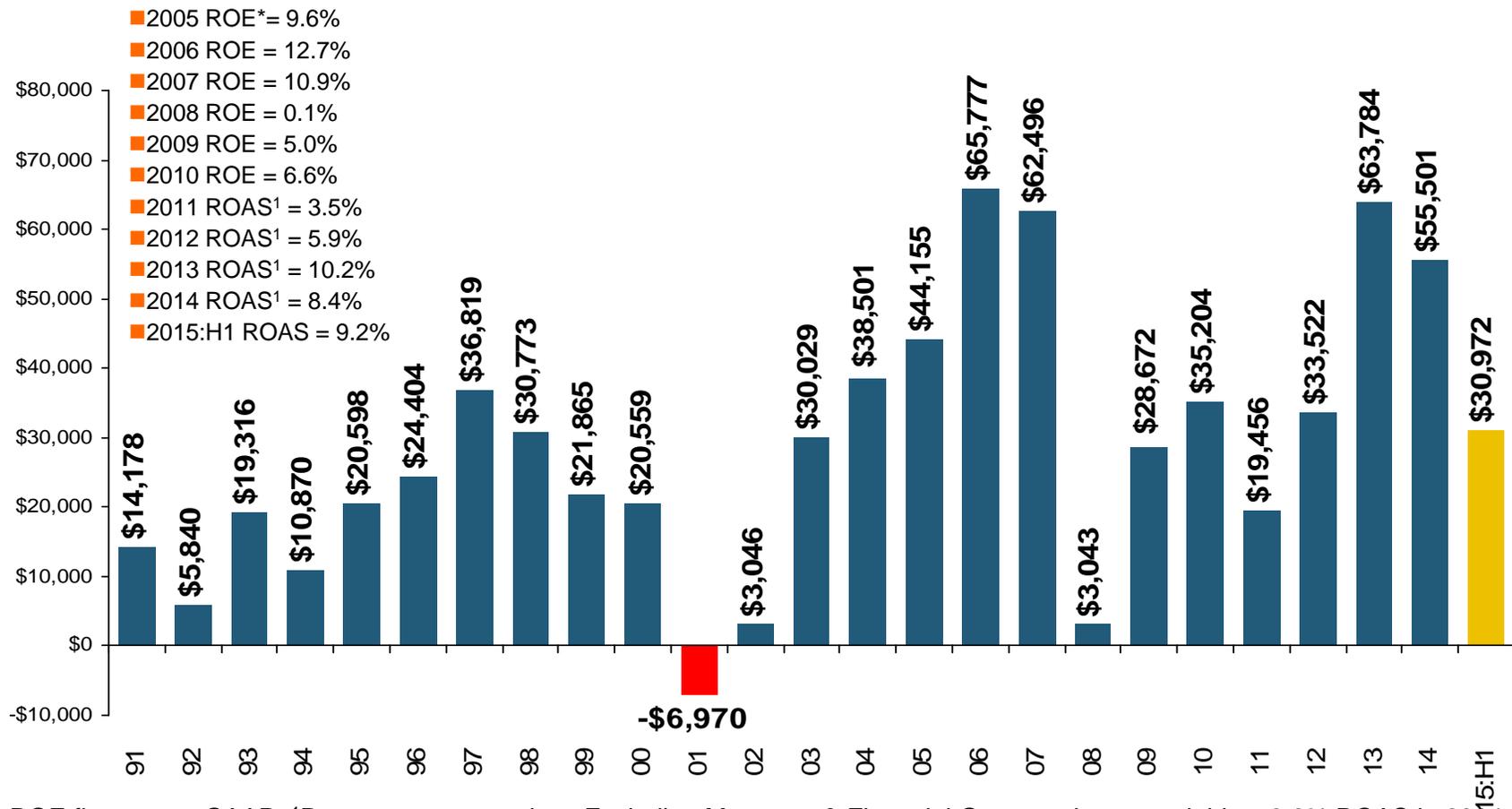
- Global natural disaster losses continue to be well below the average for the past ten years. Insured losses for the first half of 2015 were USD15 billion, down 47 percent from the 10-year average of USD28 billion.
 - P&C combined ratio is 97.6% as of 6/30/15.
 - Policyholder surplus is \$672.4B as of 6/30/15.
 - The WC combined ratio for 2014 was 98%. WC results have improved markedly since 2011.
 - Due to persistently low interest rates, investment income fell in 2012, 2013 and 2014 which could be cause for concern if the industry were to begin experiencing more losses.
- Weather extremes (El Nino, Hurricanes Juquin and Patricia), catastrophic loss and investment earnings are areas of concern for commercial insurance carriers.

Commercial Insurance Prices Increase 1% in the Second Quarter

- Commercial insurance prices increased in aggregate at a modest pace (1%) during the second quarter of 2015, according to the latest *Commercial Lines Insurance Pricing Survey (CLIPS)*.
- Directors and officers, and commercial property reported small price decreases, while workers compensation pricing was nearly flat; in fact, results show a very slight decrease.
- The largest price increases reported were in the commercial auto line, followed by employment practices liability (EPL).
- Price increases for most lines surveyed were in the low single digits, having moderated further during the second quarter. Commercial property data indicated no rate change for two consecutive quarters, following a slight price decrease two quarters ago.
- Loss ratio improved by 1% in 2015 accident-year-to-date data relative to the same period 2014.

Source: Towers Watson Commercial Lines Insurance Pricing Survey

Property/Casualty Industry Net Income After Taxes, 1991–2015:H1 (\$Millions)



• ROE figures are GAAP; ¹Return 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.

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

Property/Casualty Insurance Industry Investment Income 2000–2015E¹

(\$ Billions)



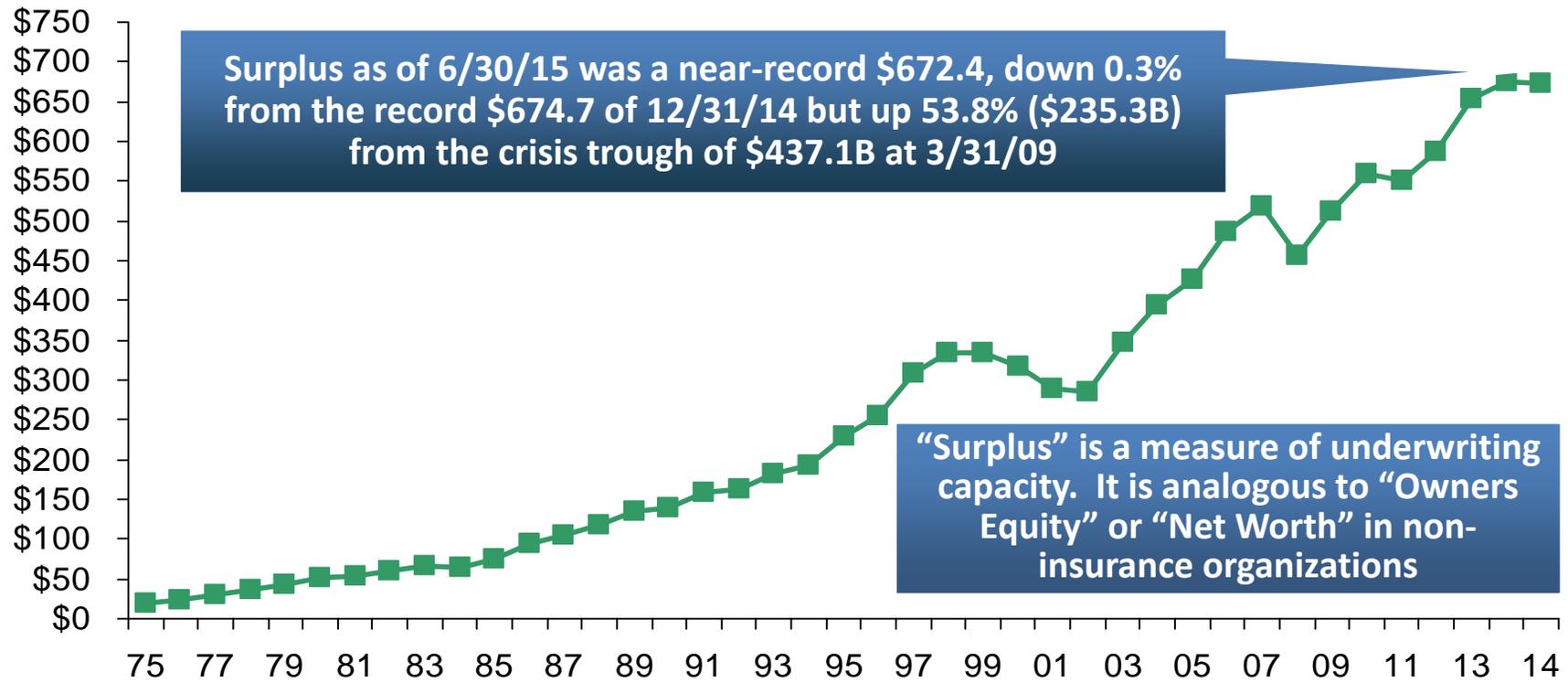
Due to persistently low interest rates, investment income fell in 2012, 2013 and 2014.

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

*2015 figure is estimated based on annualized data through Q2.

US Policyholder Surplus: 1975–2015:Q2*

(\$ Billions)

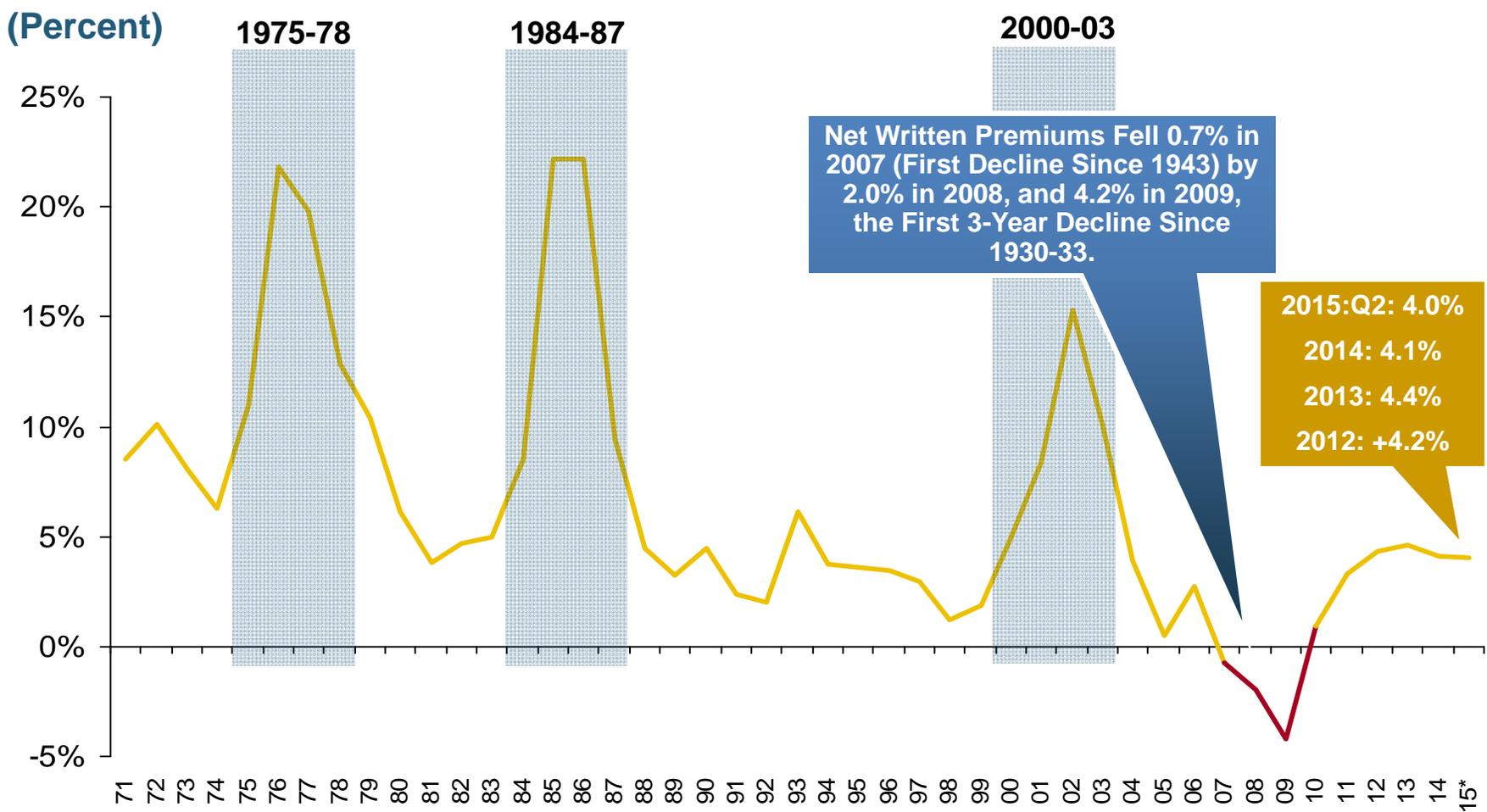


The Premium-to-Surplus Ratio Stood at \$0.76:\$1 as of 6/30/15, a Near Record Low (at Least in Recent History)

* As of 6/30/15.

Source: A.M. Best, ISO, Insurance Information Institute.

Net Premium Growth: Annual Change, 1971—2015:Q2

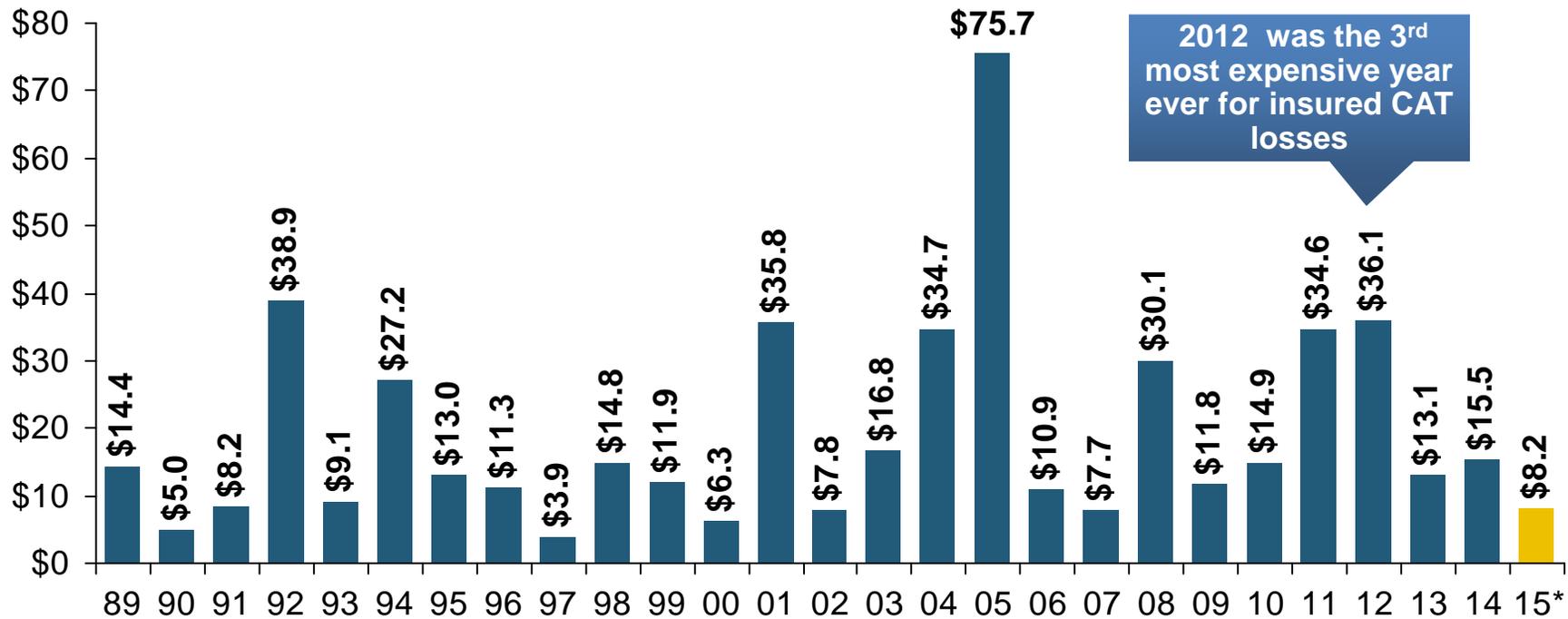


Net Written Premiums Fell 0.7% in 2007 (First Decline Since 1943) by 2.0% in 2008, and 4.2% in 2009, the First 3-Year Decline Since 1930-33.

2015:Q2: 4.0%
 2014: 4.1%
 2013: 4.4%
 2012: +4.2%

U.S. Insured Catastrophe Losses

(\$ Billions, \$ 2014)



2012 was the 3rd most expensive year ever for insured CAT losses

2013/14 Were Welcome Respite from 2011/12, among the Costliest Years for Insured Disaster Losses in US History. Longer-term Trend is for more—not fewer—Costly Events

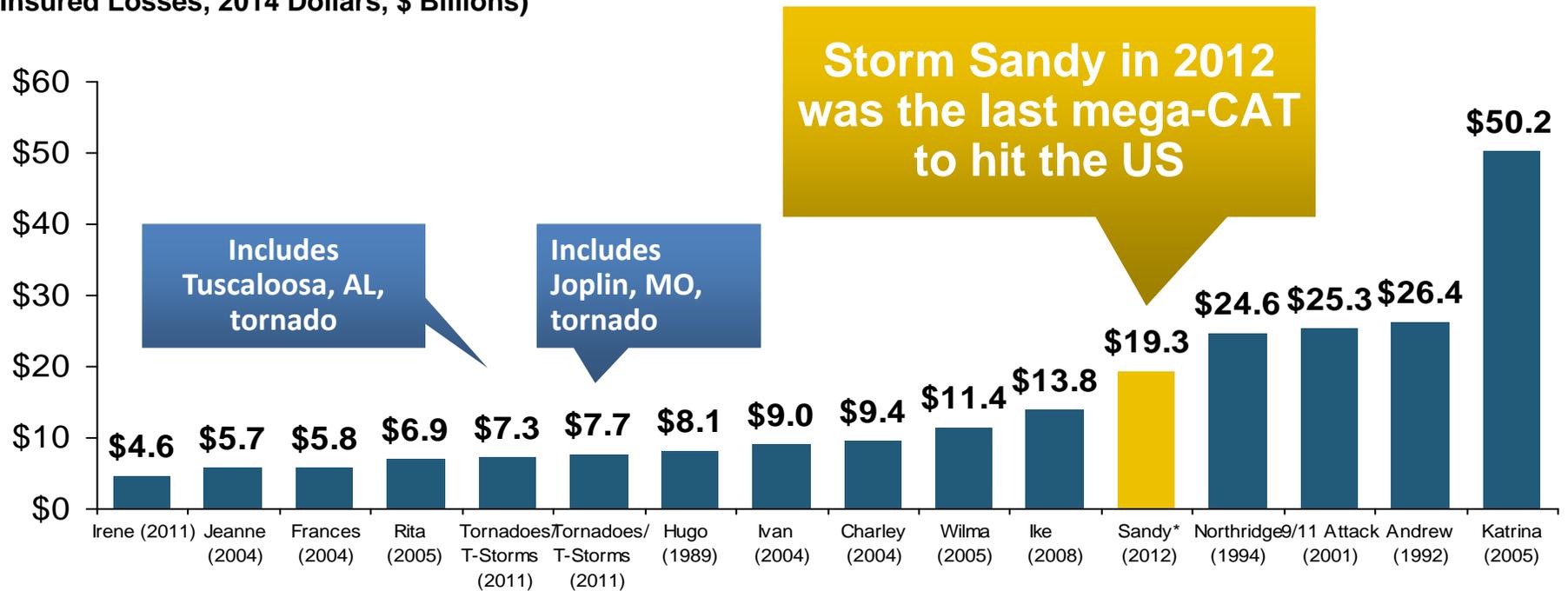
\$8.2B in insured CAT losses though 6/30/15, up slightly from \$7.3B in 2014

*Through 6/30/15 in 2015 dollars.

Note: 2001 figure includes \$20.3B for 9/11 losses reported through 12/31/01 (\$25.9B 2011 dollars). Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = \$12.2B (\$15.6B in 2011 dollars.) Sources: Property Claims Service/ISO; AonBenfield Insurance Information Institute.

Top 16 Most Costly Disasters in U.S. History—Katrina Still Ranks #1

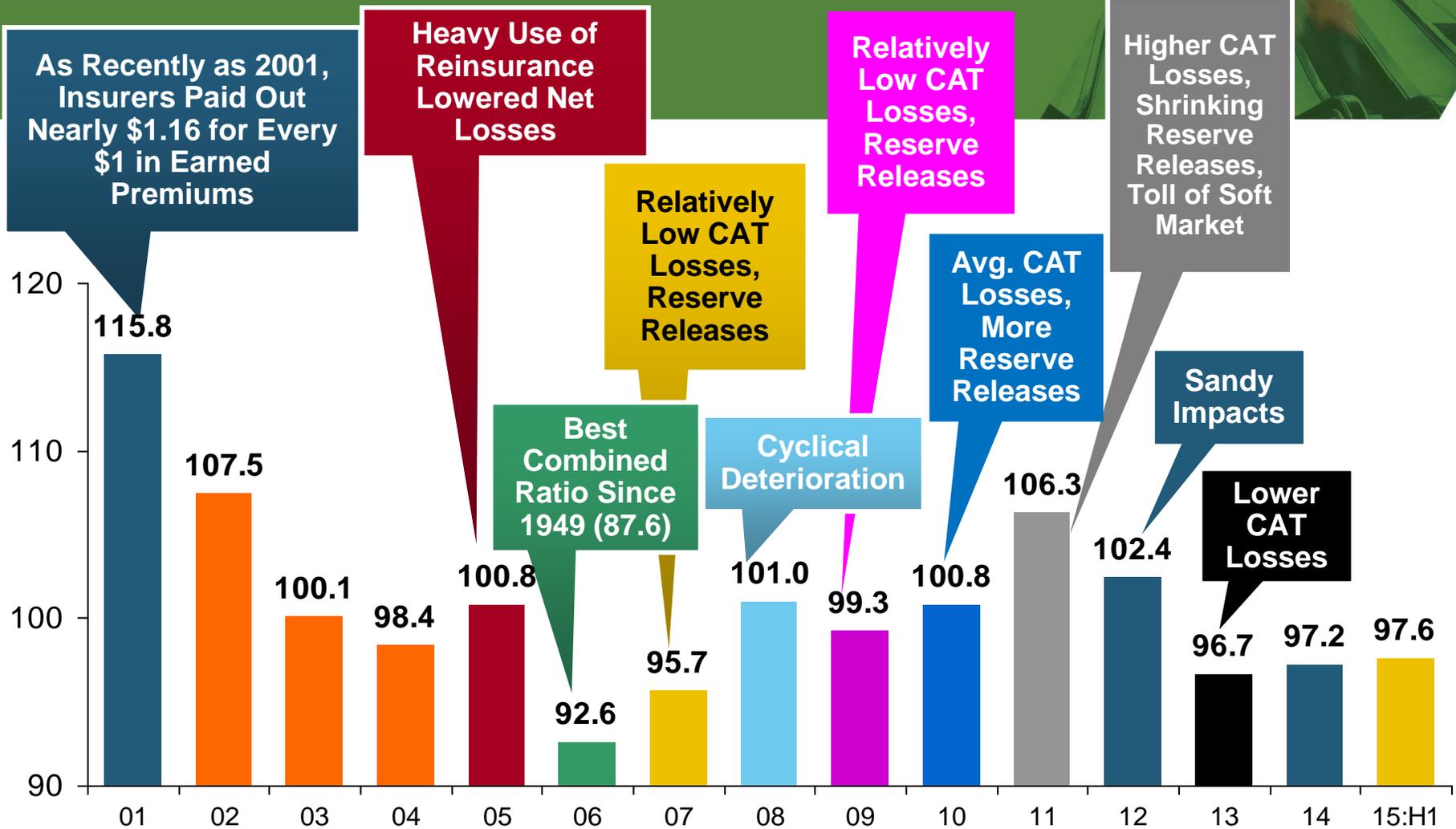
(Insured Losses, 2014 Dollars, \$ Billions)



12 of the 16 Most Expensive Events in US History Have Occurred Since 2004

Sources: PCS; Insurance Information Institute inflation adjustments to 2014 dollars using the CPI.

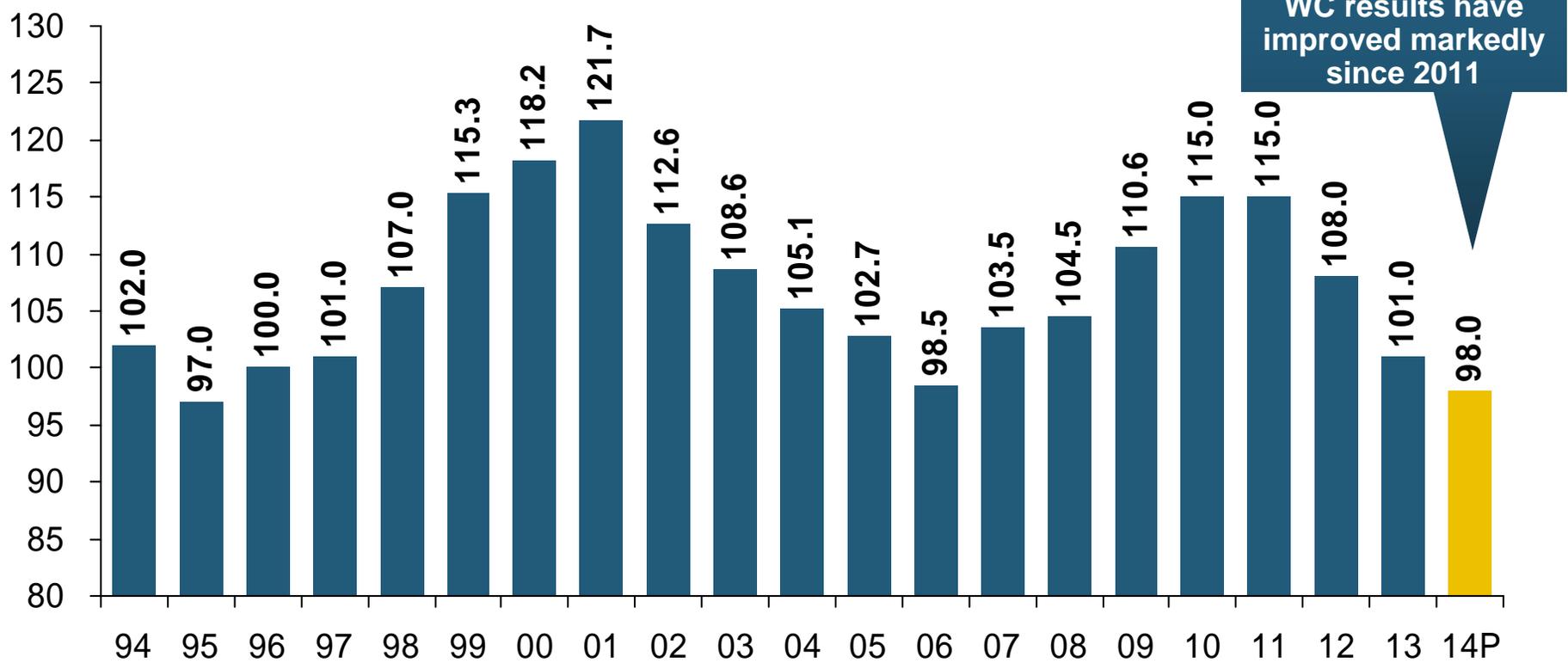
P/C Insurance Industry Combined Ratio, 2001–2015:H1*



* 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.

Workers' Compensation Combined Ratio: 1994–2014P

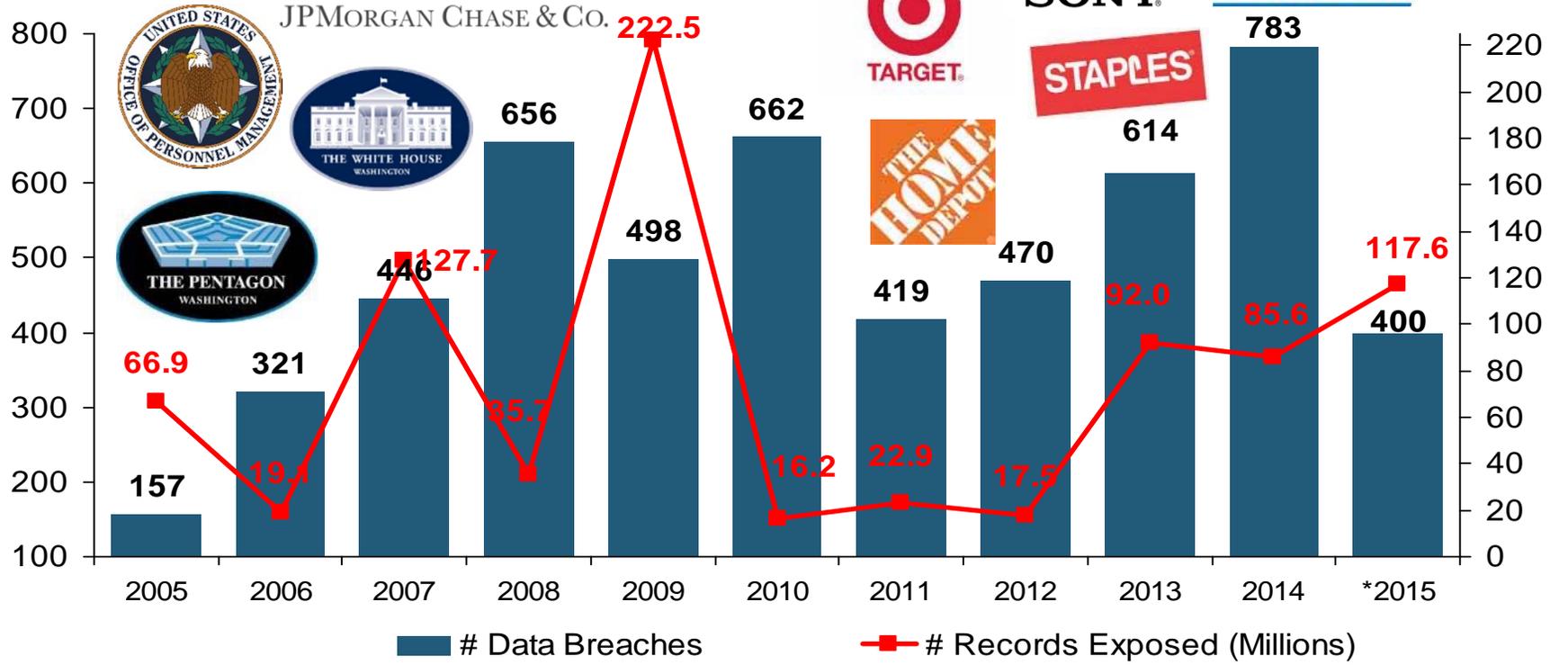


Workers' comp results began to improve in 2012. Underwriting results deteriorated markedly from 2007-2010/11 and were the worst they had been in a decade.

Sources: A.M. Best (1994-2009); NCCI (2010-2014P) and are for private carriers only; Insurance Information Institute.

Data Breaches 2005-2015, by Number of Breaches and Records Exposed

Data Breaches/Millions of Records Exposed



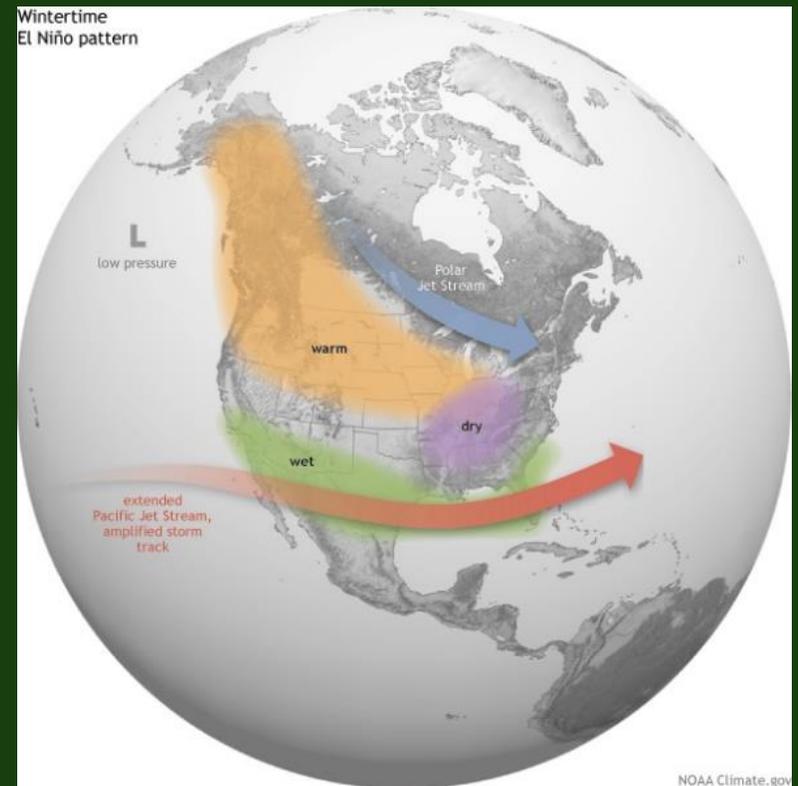
The total number of data breaches (+27.5%) hit a record high of 783 in 2014, exposing 85.6 million records. Through June 30, this year has seen 117.6 million records exposed in 400 breaches.*

*Figures as of June 30, 2015, from the Identity Theft Resource Center, <http://www.idtheftcenter.org/images/breach/ITRCBreachReport2015.pdf>

2015-16 El Niño

Expected U.S. Impacts:

- Cooler and wetter than normal along southern third of nation
- Drier than normal in Pacific Northwest and Ohio River valley; warmer than normal from Alaska to Northern Plains
- Reduced tropical cyclone risk in Atlantic; increased risk in Eastern Pacific and Hawaii.
- Potential for heavy rains, mudslides in California
- Potential for reduced winter tornado outbreaks over south-central U.S. ; increased risk of winter tornadoes over Florida peninsula



What is a flood?

Standard commercial insurance definition:

Flood means, whether natural or manmade, Flood waters, surface water, waves, tide or tidal water, overflow or rupture of a dam, levy, dike, or other surface containment structure, storm surge, the rising, overflowing or breaking of boundaries of natural or manmade bodies of water, or the spray from any of the foregoing, all whether driven by wind or not.

What is a flood?

National Flood Insurance Program's definition:

Flood--A general and temporary condition of partial or complete inundation of 2 or more acres of normally dry land area or of 2 or more properties from:

- Overflow of inland or tidal waters; or
- Unusual and rapid accumulation or runoff of surface waters from any source; or
- Mudflow; or

Collapse or subsidence of land along the shore of a lake or similar body of water as a result of erosion or undermining caused by waves or currents of water exceeding anticipated cyclical levels that result in a flood as defined above.

With Strong El Nino Expected, Do You Buy Flood Insurance?

According to FEMA, floods, including inland flooding, flash floods and seasonal storms, occur in every region of the United States and 90 percent of all natural disasters in the U.S. involve some type of flooding.

Even if you do not live in a high-risk area, it is worth looking into flood insurance as more than 20 percent of all flood insurance claims are filed in low-to-moderate flood-risk areas.

Flood Risk

- Everyone is at risk!
- Here's the deal – If it can rain, it can flood!
- Floods can happen to anyone almost anywhere. They are not limited to coastal areas or to devastating tropical storms – they happen more often in more locations than you may realize.
- Water can damage property in many ways. Do you know what is covered and what isn't?

Flood Risk

Be Prepared...

Have a Flood Emergency Response Plan (“FERP”)

- For Zone A&V exposures, effectively communicating how your agency will respond to a flood can compel underwriters to take a softer approach to specific location-related issues.
- Consider NFIP cover to “buy down” deductibles for flood-exposed property.

Looking Ahead...

Expectations are that rates will remain flat to slightly down into 2016 - barring an increase in claims severity and/or any industry changing events (i.e. hurricane, new legislation, court decisions, insurer insolvency).

Possibly some lines of coverage will see modest decreases (CAT exposed property experiencing 10-15% rate reductions), while others such as commercial automobile liability and employment practices liability (EPL) may continue to see price increases.



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Q&A

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