



Hawaiian Insurer Panel

November 13, 2019

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Casualty Actuarial Society Annual Meeting

Honolulu, HI – November 11-13, 2019



Martin J. Welch
Chief Executive Officer



Marty Welch

- 40 years P&C experience
- Primarily WC focus
- Trained as an underwriter
- 25 years as corporate officer

Hawaii Employers' Mutual Insurance Company

- Hawaii's largest WC writer
- Competitive Market Insurer
- Statutory Market of Last Resort
- Early adopter of predictive analytics

Two Facts:



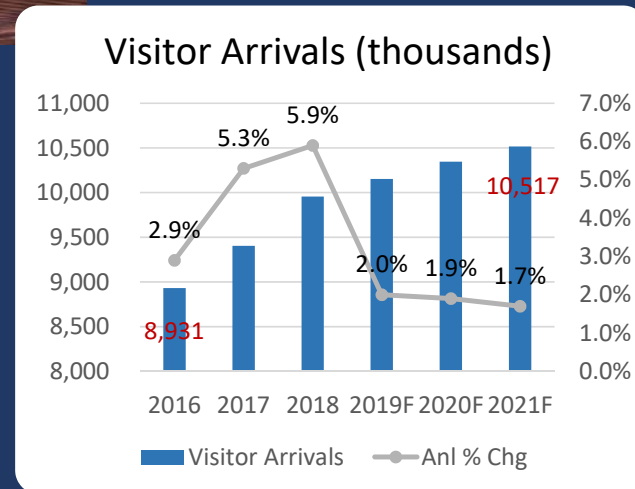
Hawaii has the highest life expectancy of any state in the U.S. (81.5 yrs.)

Hawaii consumes the most SPAM, per capita, of any state in the U.S.



Eat more SPAM and live longer!

Hawaii Economy



Tourism drives our economic engine.

Construction and Development



About 25% of WC exposure.







2012



2019

Government



27.8% of Hawaii's workforce is employed by a government agency (State, Local, Federal).



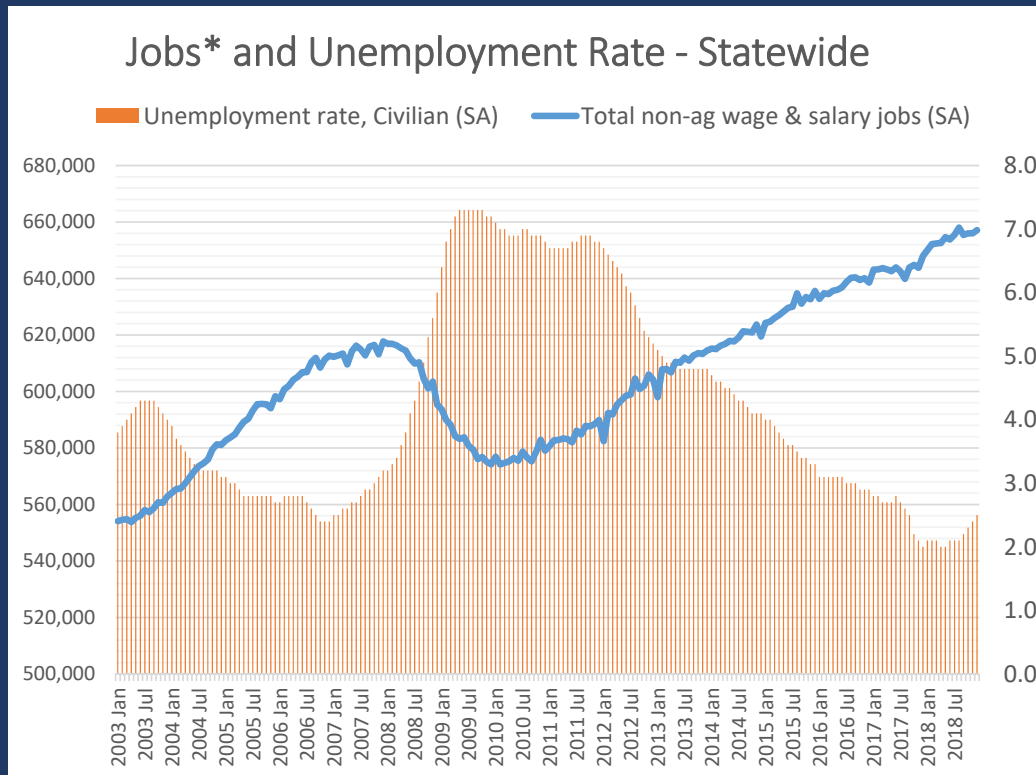
Medical Employment



Over 10% of the
Hawaii economy.



Jobs and Unemployment

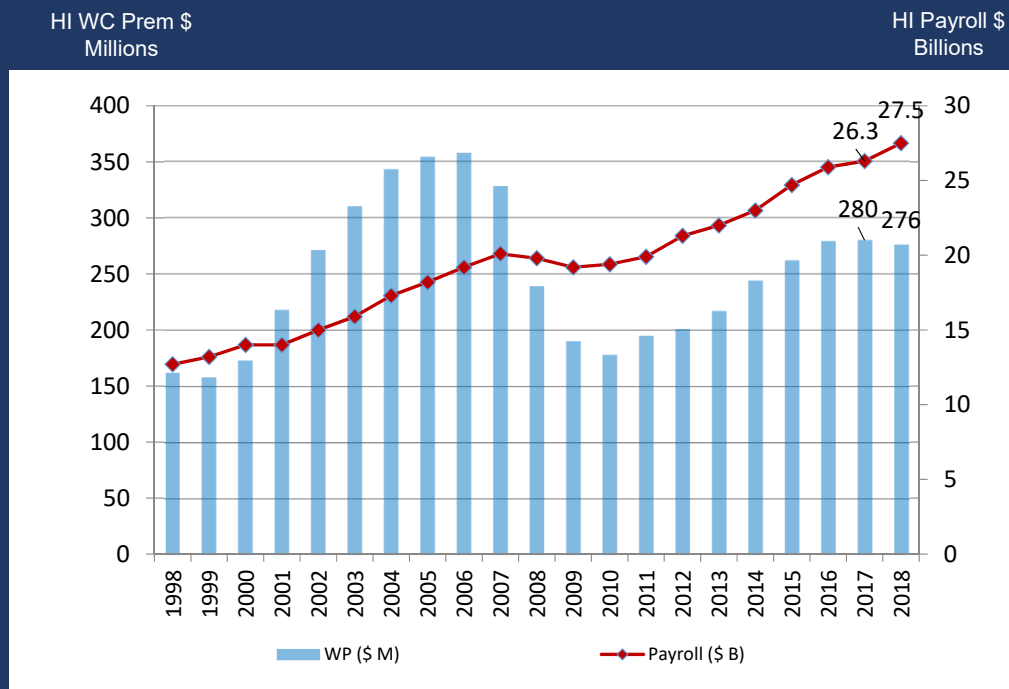


- Hawaii's unemployment rate is historically lower than the national average.
- Unemployment rate has been below 3% since 2016.
- There is literally no skilled labor on the sideline today.

*Jobs exclude agriculture sector jobs

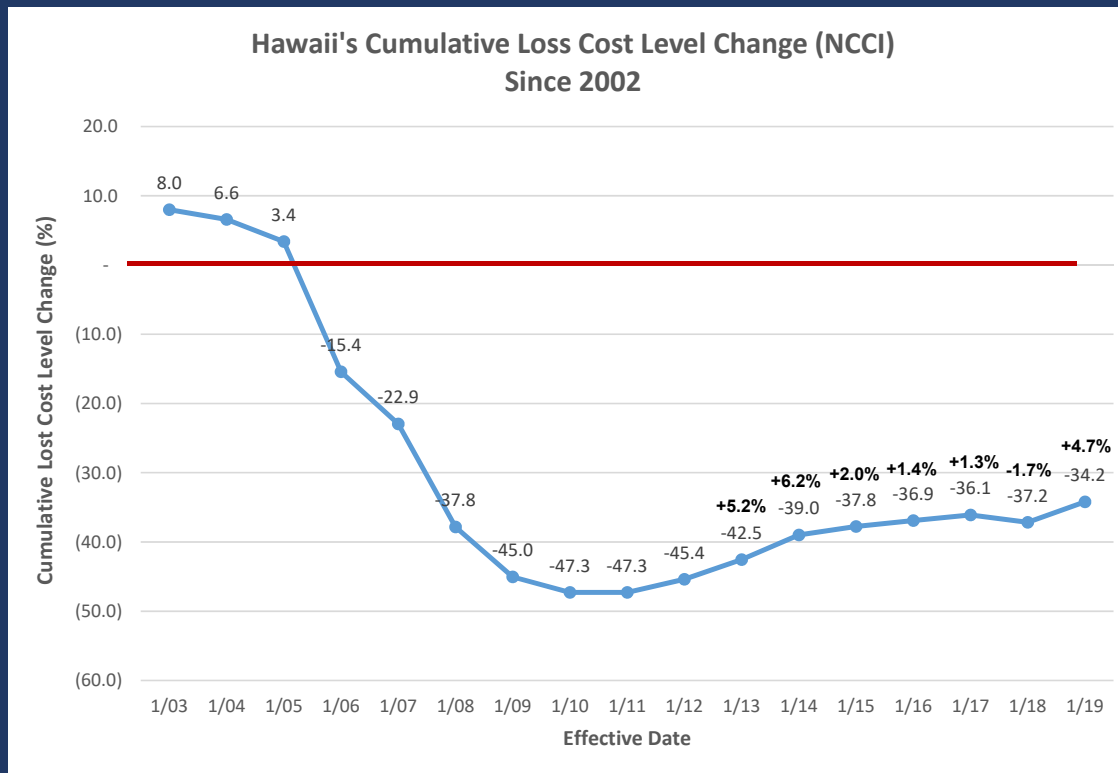
Data source: Department of Business, Economic Development & Tourism (Date Warehouse)

HI Workers' Compensation Premium and Payroll



- 2018 HI payroll increased by 4.6% vs prior year.
- 2018 WC premiums decreased by 1.4% vs prior year.
- Economic growth steady; WC premium tracks closely with loss costs adjustment.

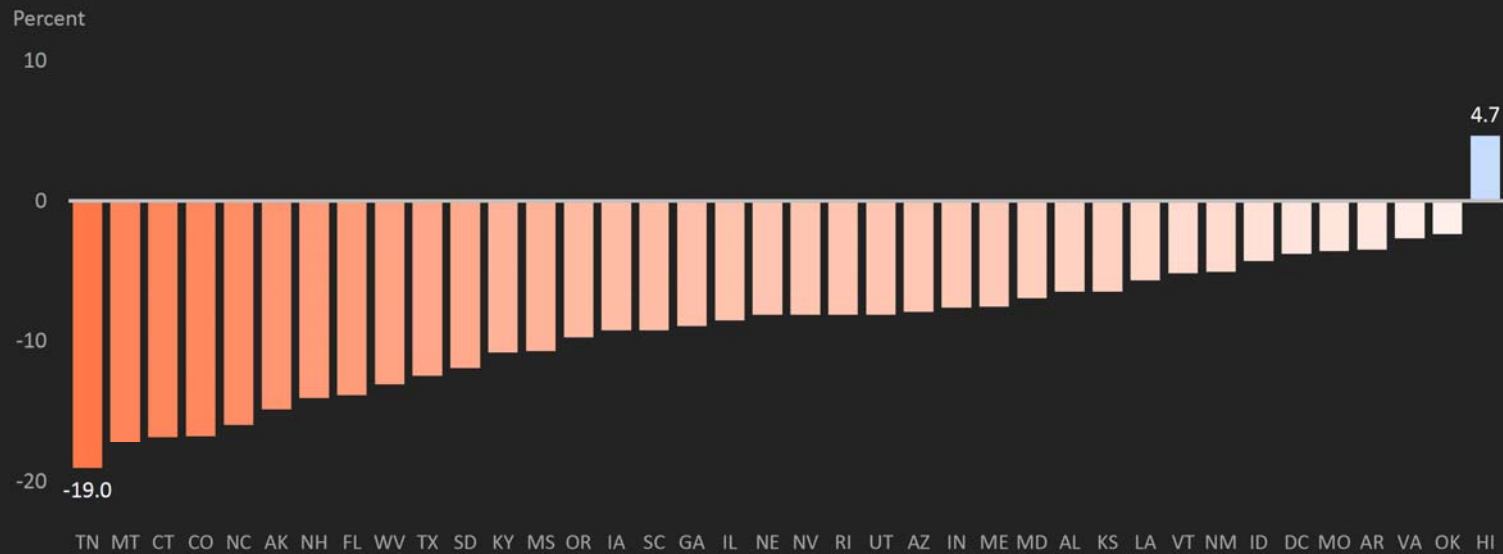
Loss Cost Cumulative Change



- 2019 NCCI loss cost increase = 4.7%.
- Hawaii was the only NCCI state with an approved overall voluntary loss cost level increase for 2019.
- Hang onto your hat for 2020...

Most Recent Changes in Bureau Premium Level

Voluntary Market, Excludes Law-Only Filings



Premium level changes in advisory rates, loss costs, and rating values, as of 5/3/2019, as filed by the applicable rating organization, relative to those previously approved
 IN and NC are filed in cooperation with state rating bureaus

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AIS
2019

Hawaii Workers' Comp Trends

- Hawaii Workers' Compensation market overview.
 - Premium volume has stabilized.
 - Industry combined ratio increased last year.
 - Indemnity and medical severity has been on the rise.
 - Frequency has been declining to stable...
- Medical costs comprise 47% of Hawaii's loss cost dollar.
 - Hawaii is the only remaining state with medical cost dollars less than indemnity loss dollars. (Countrywide avg. is 58% medical.)
- WC market competition is relatively orderly – only minor shifts in market share.

WC Issues:

- Extremely low unemployment presents a labor problem of a different kind:



Lack of Skilled Labor

- Job vacancies put more pressure on those working.
- Employers may fill positions with lower-skilled, less experienced workers.
- Will this increase loss frequency and/or severity?
- Such trends are not obvious...yet.

WC Issues:

- Erosion of WC law and benefit payments.
 - Not via legislation.
 - Liberal judicial decisions.
 - Pulawa – “medically needed.”
 - Panoke – “presumption.”
 - Expanded rulings at DLIR hearings.
 - Rationalization of medically needed.
 - Medical fee schedule is being viewed as a guide.
 - Hearing officer shortage; inexperienced; next generation.
- Rate making mechanics will correct this situation.
 - Time lag.
 - Brewing political battle.

WC Issues (cont.):

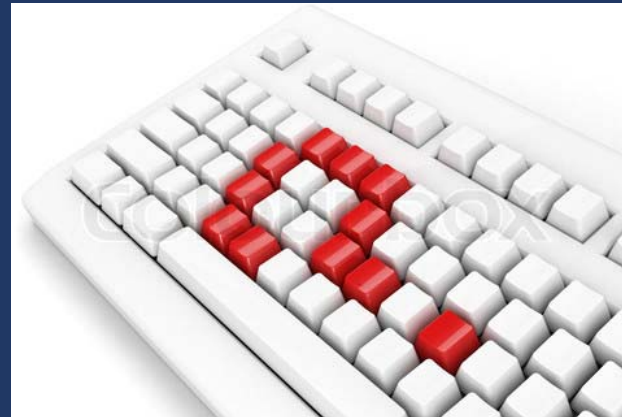


- Medical Cannabis
 - Legal in Hawaii; still prohibited under Federal law.
 - Cannabinoid products are not currently reimbursable under Hawaii WC law.
 - Employers are struggling with employee drug testing standards.



- Little or no impact on WC claims to date.

Questions?





Pre-Event

- Kilauea volcano erupted on January 3, 1983
 - Over the next 3 years, lava fountains built a spatter cone later named Pu'u Oo
 - Dozens of homes destroyed and insurers withdrew coverage from the area
 - The eruption continued into 2018 but no significant insured losses since the late 1980's





Pre-Event

- Hawaii Property Insurance Association (HPIA)
 - Enacted in 1991 to cover exposures in lava zones 1 & 2 (most exposed areas) on the Big Island
 - Maximum coverage is \$350,000 for a single-family residence
 - Does not currently insure against losses caused by Hurricane
- Until 2018, HPIA had not incurred a catastrophic lava flow loss

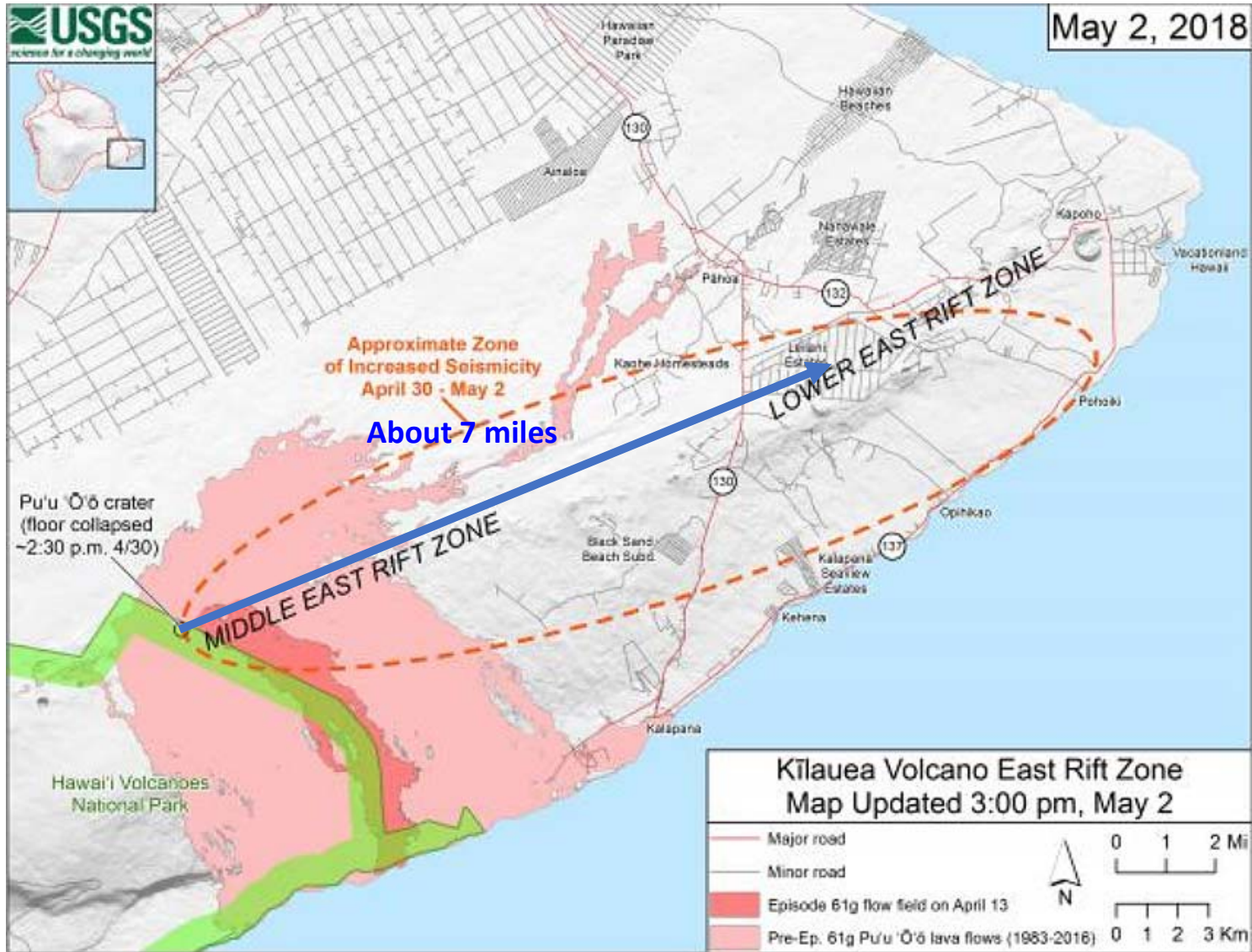




Pre-Event

- Beginning in the late 2000's, the private insurance market begins writing in lava zones 1 and 2
- Surplus lines insurers also very active
- HPIA market share dwindles to less than \$1.7 million in premium
- Reinsurance very inexpensive







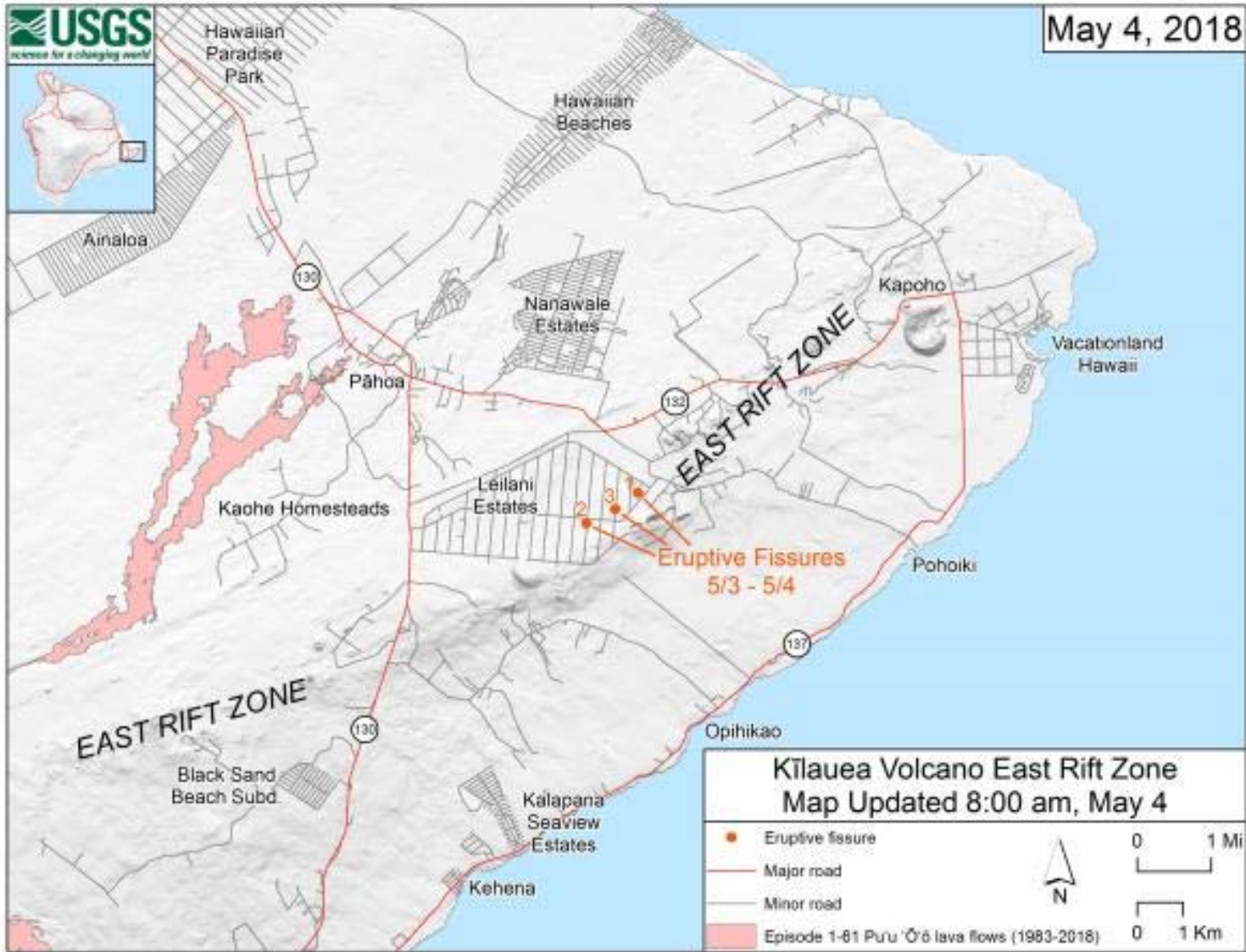
The Event

- On April 30, 2018, the Pu'u Oo crater floor and lava lake collapsed, and the lava flowed underground through the east rift zone
- As many as 240 earthquakes occurred on May 2, 2018
- On May 3, a fissure opened in Leilani Estates
- By August 9, 24 fissures had opened and over 700 homes were destroyed
- Fissure 8 opened on the evening of May 5

















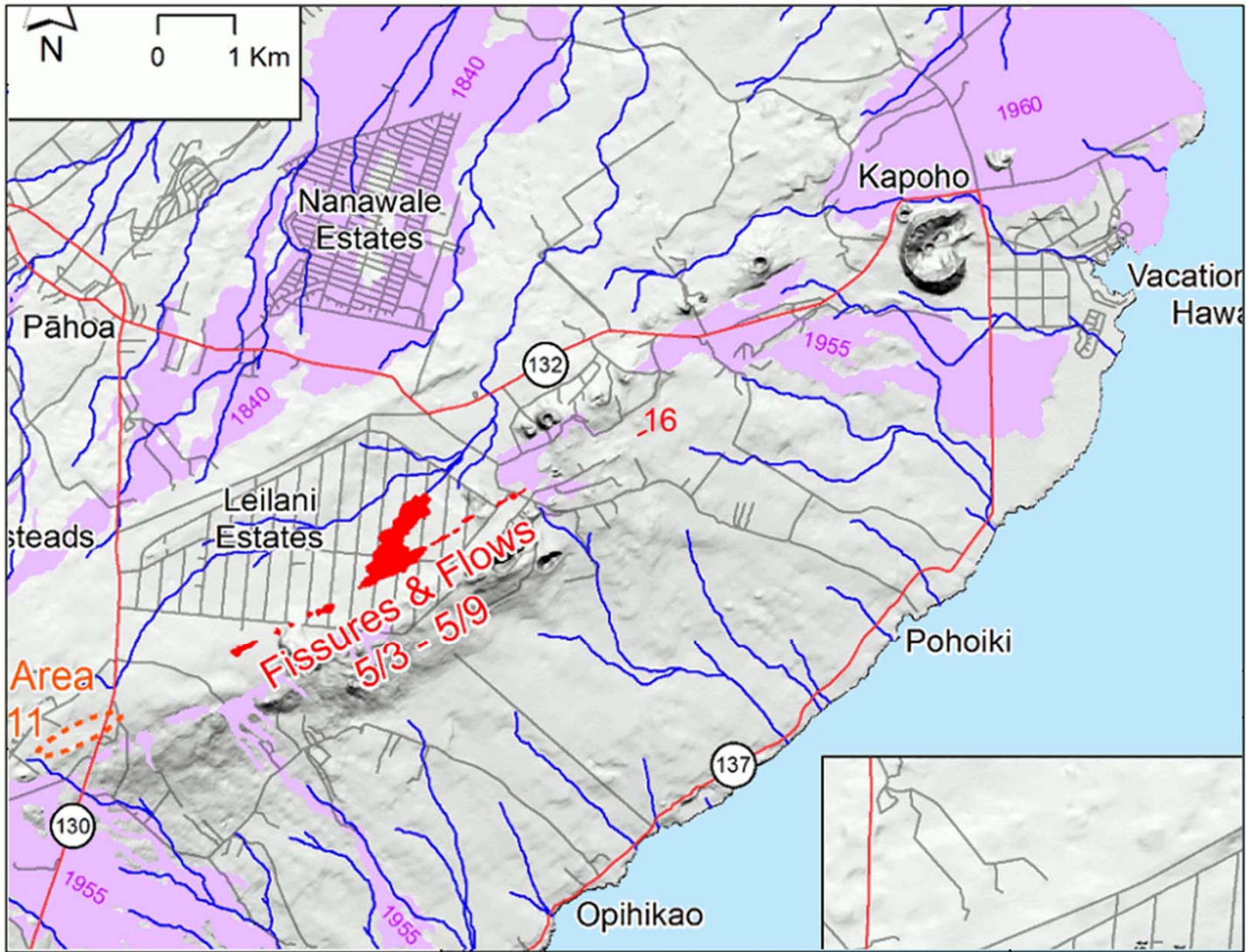




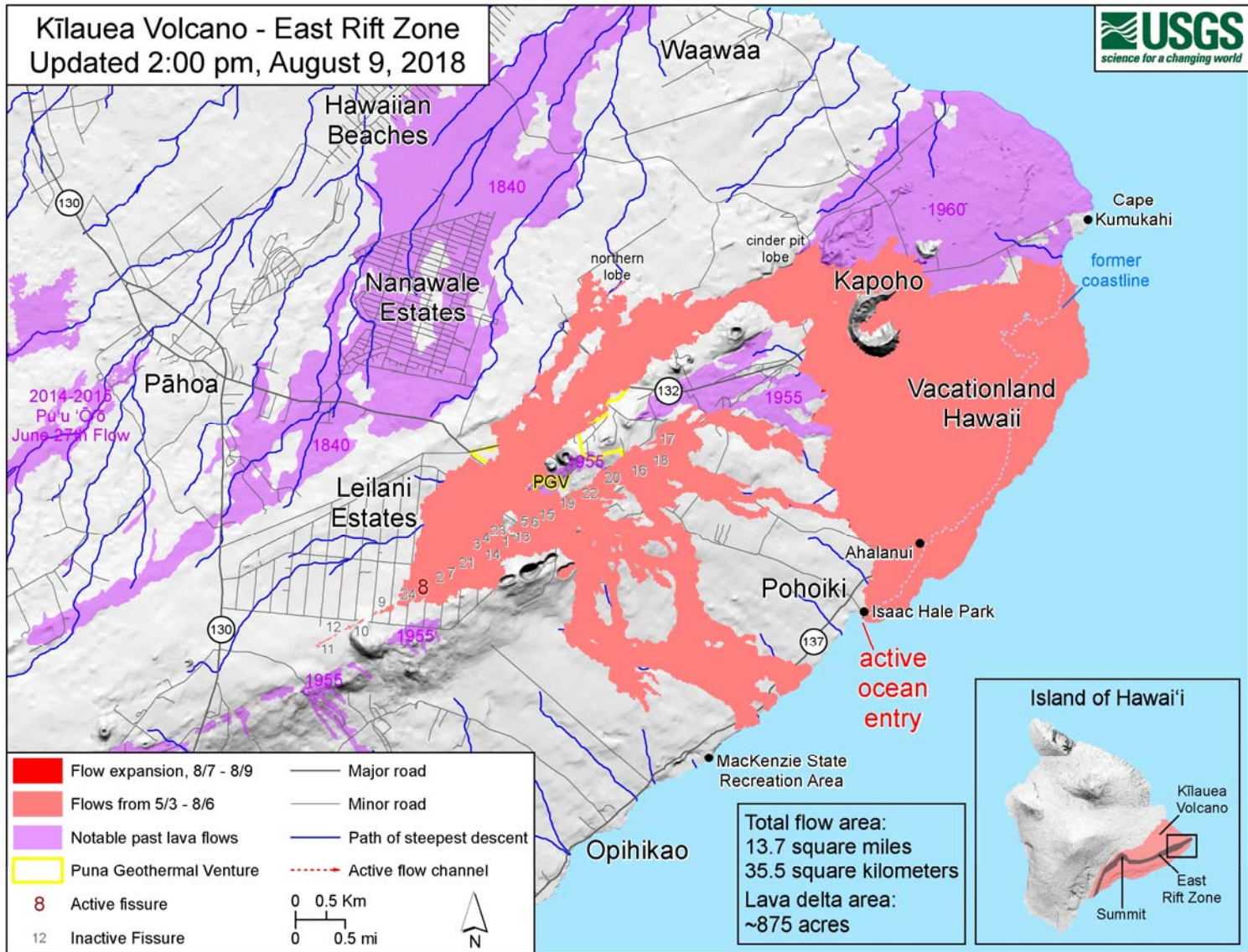








Kīlauea Volcano - East Rift Zone
 Updated 2:00 pm, August 9, 2018



Total flow area:
 13.7 square miles
 35.5 square kilometers
Lava delta area:
 ~875 acres













Claims Issues

- Fire was the easy part
- No property damage, no coverage, right??
- Loss of use as access blocked by hardened lava
- Damage caused by acid rain, the “constructive total loss” for a house
- Where do you rebuild?





Reinsurer Reactions

- Stayed on treaty but increased rate
- Honored all claims even though some losses were not what were expected
- Said they enjoy evaluating the exposure since it is so unusual
- Best guess: they will enjoy it a lot less if there's another flow





Actuarial Issues





Reserving

- Loss triangles are meaningless
- Very small number of claims excluding the 2018 lava flow
- Statistical methods not useful
- Unusual & unprecedented nature of claims
- Actuarial judgment & ranges





Ratemaking

- There are multiple “right” methods
- There are just as many “wrong” methods
- Political issues since the program was enacted to serve a specific public need
- Closest analogy is the NFIP, but that program has lots of credible data





Ratemaking

- Very small (~\$2 million) premium volume
- Servicing expenses about 30%
- Reinsurance premium roughly equal to written premium
- Need to fund reinsurance retention
- Reasonable complement of credibility





Ratemaking

- Non-lava claims historically minimal
- Trend estimate?
- What is a reasonable return period to fund reinsurance retention?
 - No modeling information
 - Very few historical data points
- Regulator acceptance





The Homeowners Insurance Market in **Hawaii** for *Hurricane* & All Other Perils

Jeffrey R Grimmer, FCAS

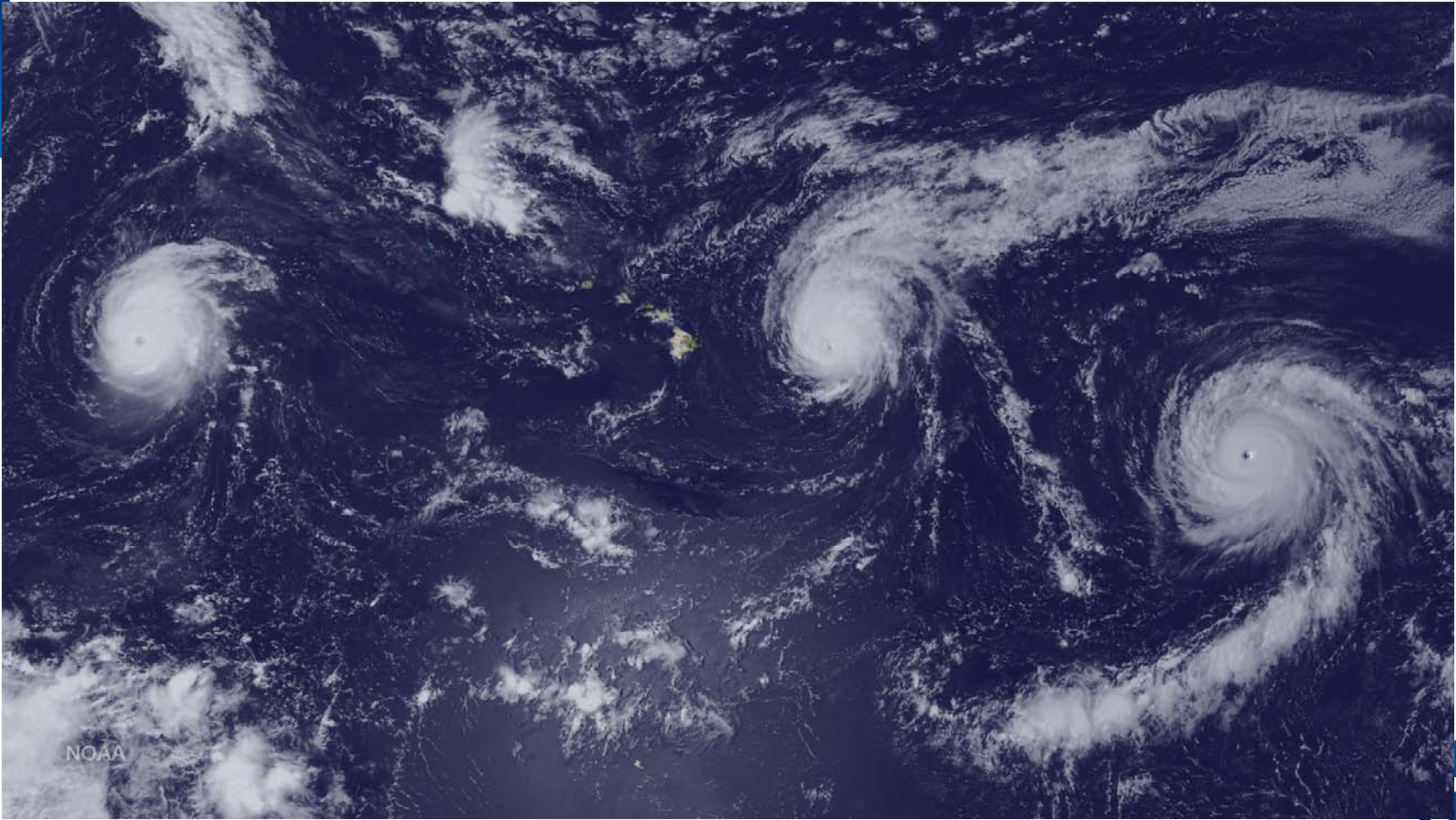
VP & Treasurer

First Insurance Co. of Hawaii

a member of the **Tokio Marine Group**

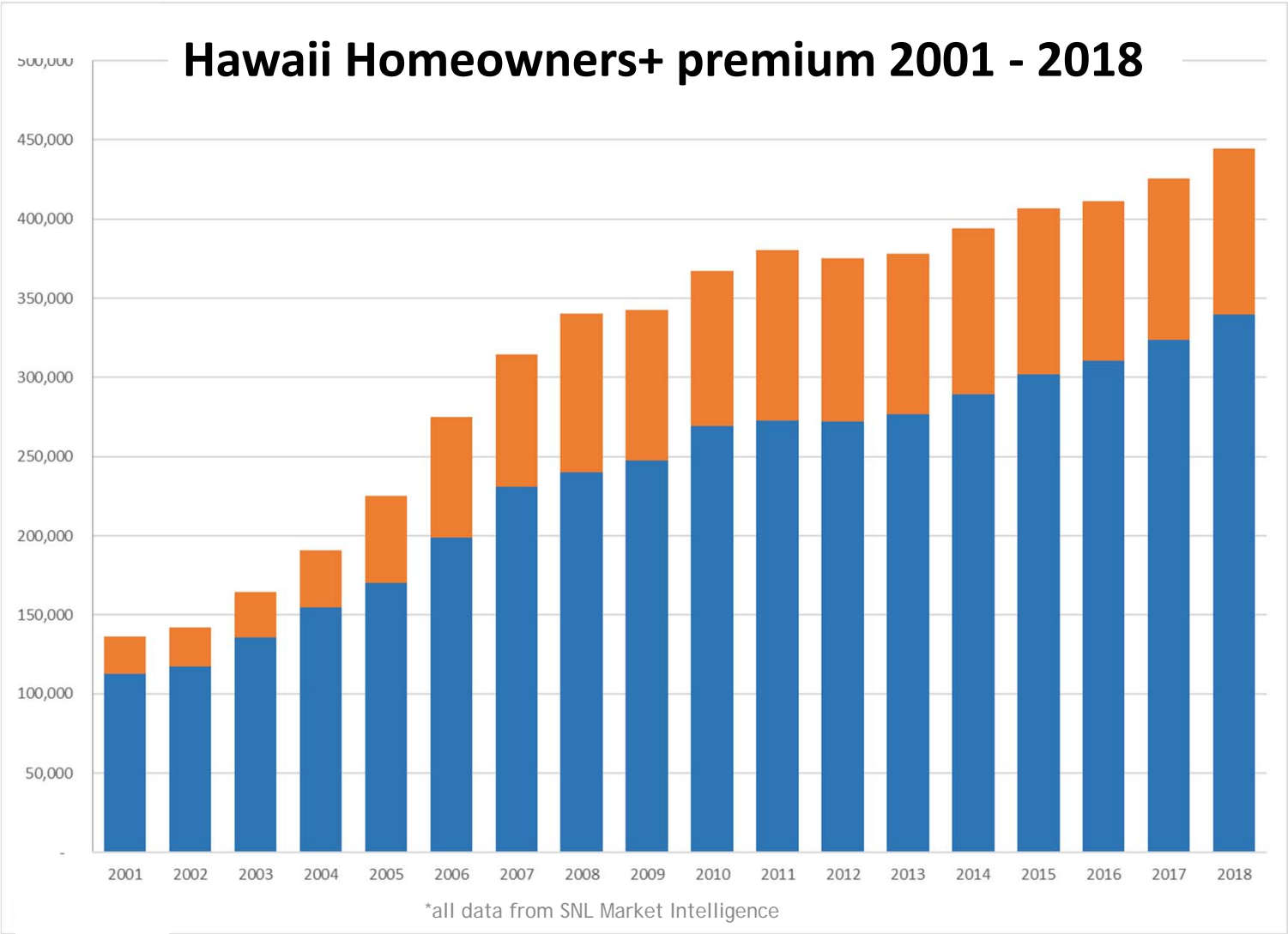
CAS Annual Meeting (Waikiki – 2019)

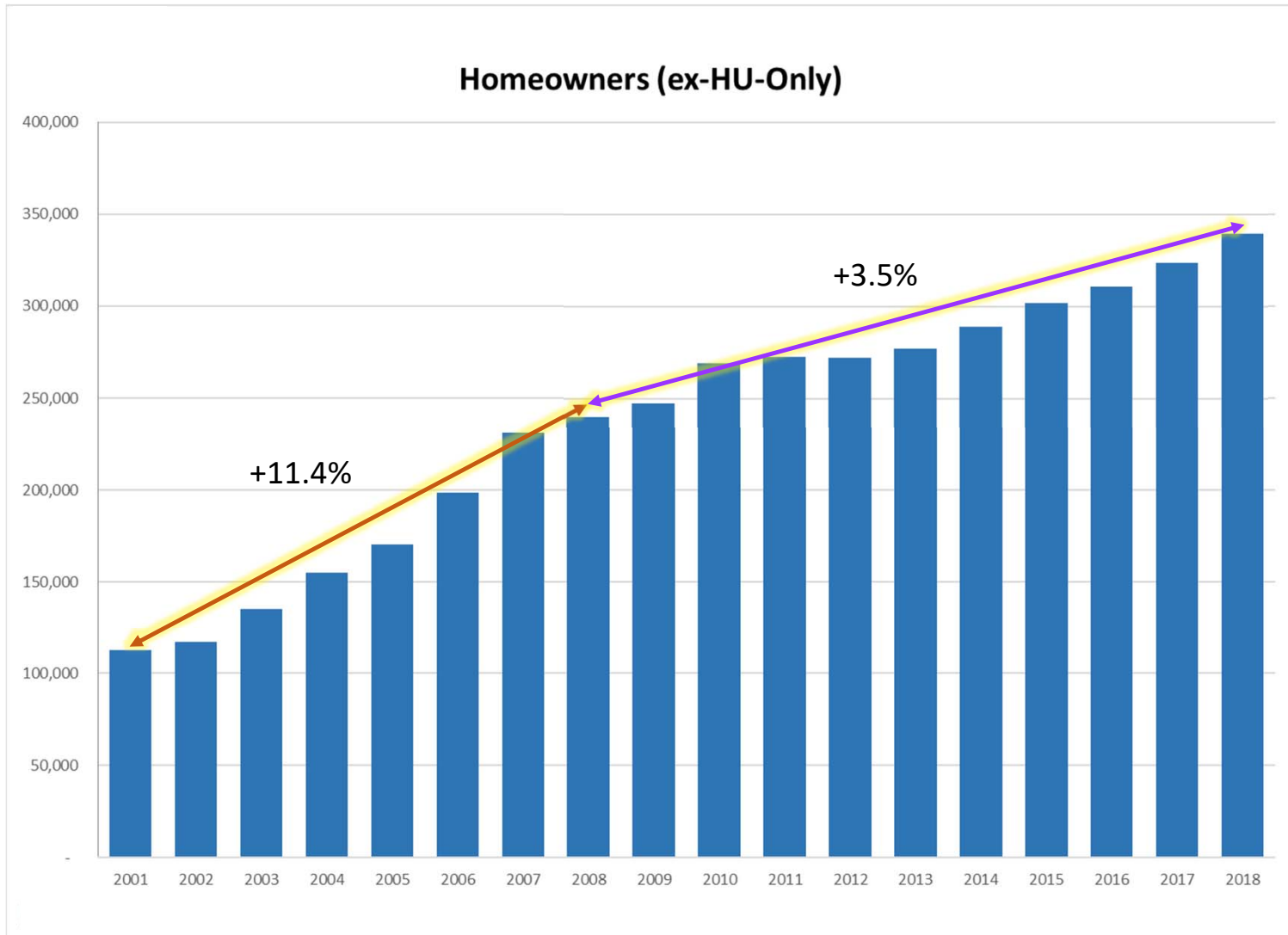


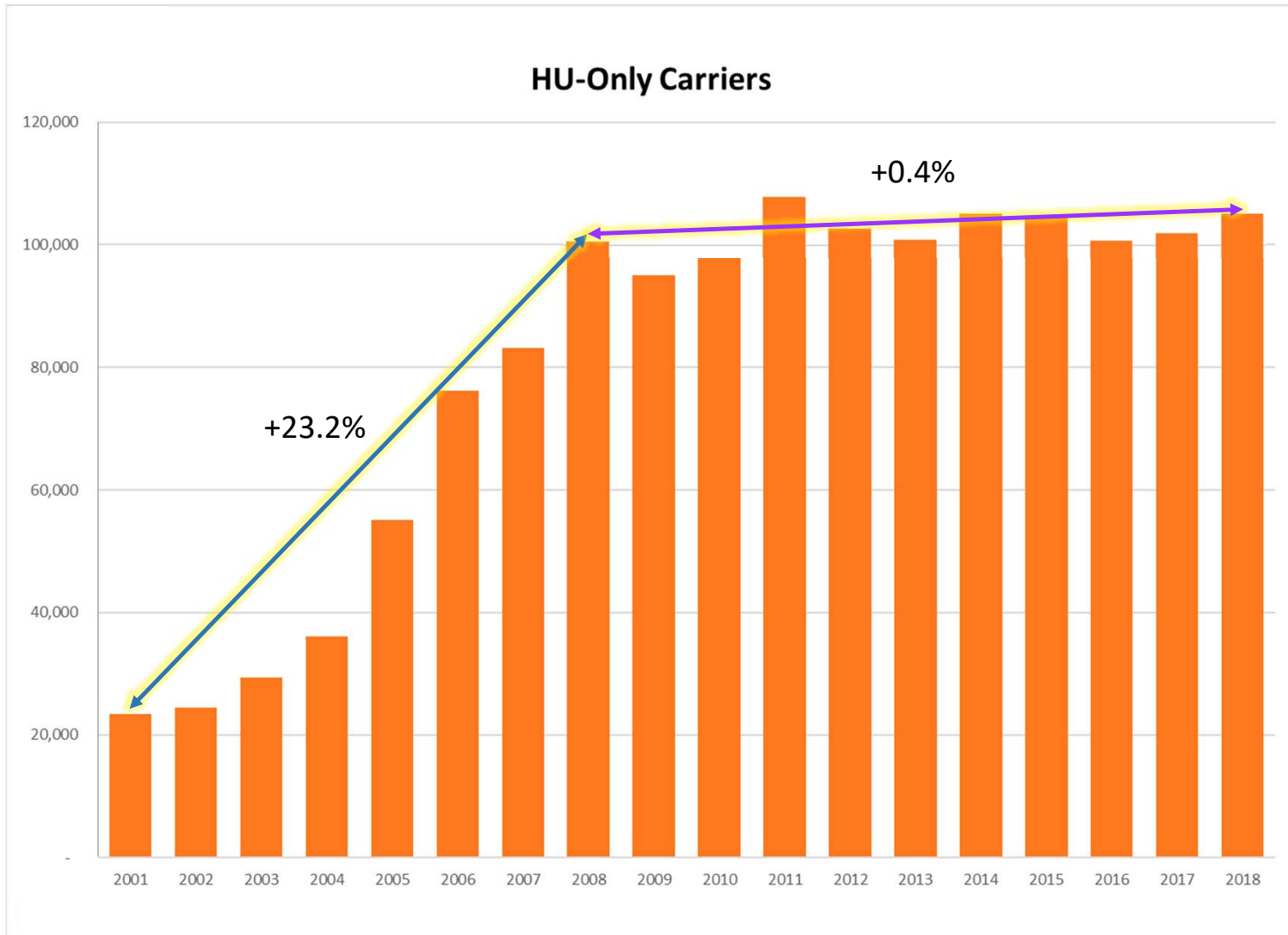




Hawaii Homeowners+ premium 2001 - 2018





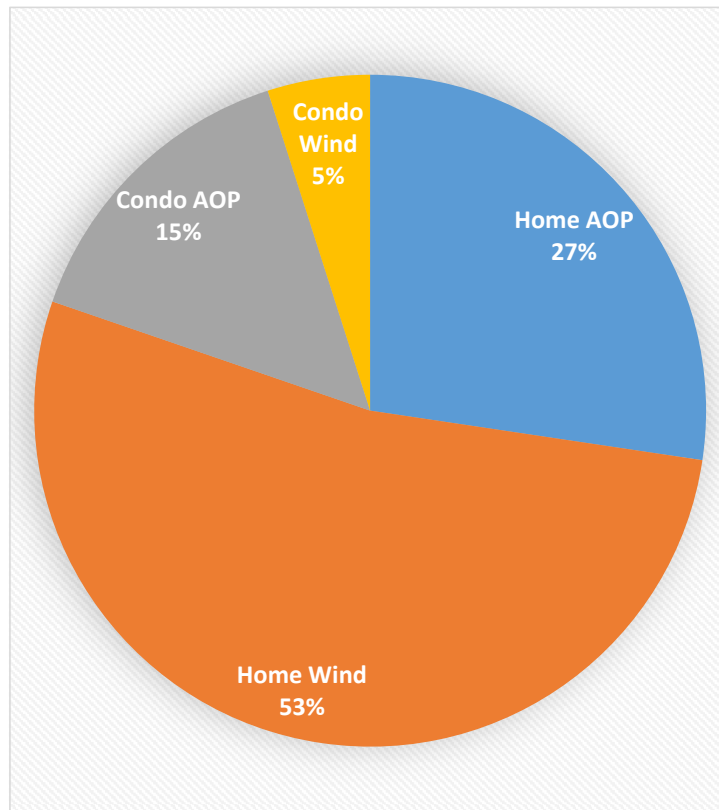


Total Market (Reasonable) Assumptions

- HU premium is 2/3rds of "Home" premium
- HU premium is 1/4th of "Condo" premium
- Total premium is 80% from "Home" segment

Results:

- Total HU Premium is 58% of the market; AOP is 42%
- HU-only carriers write 41% of the Hurricane premium in the market





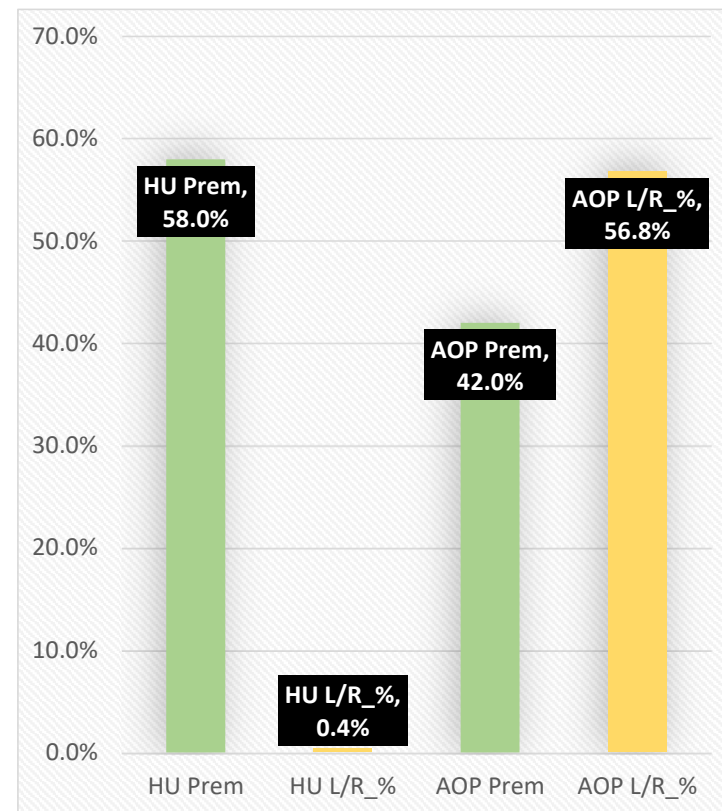
Total Market (Reasonable) Assumptions

Loss Ratio Facts:

- Total loss ratio is 24.2% (last 10 years)
- HU-only loss ratio is 0.5% (last 10 years)

Results:

- Based on previous slide's assumptions, therefore the AOP loss ratio is 56.8%





Guessing Game: who's writing HU-only, ex-HU, or a combination of both?

	Entity Name	HO DWP (10yr)	HO LR_ % (10yr)
1	State Farm (SNL P&C Group)	1,132,951	22%
2	Zephyr Insurance Co.	650,282	0%
3	USAA (SNL P&C Group)	300,783	24%
4	First Insurance Co. of HI Ltd. (SNL P&C Subgroup)	300,174	60%
5	Allstate Insurance Companies (SNL P&C Subgroup)	215,085	57%
6	Centauri Insurance (SNL P&C Group)	170,357	0%
7	Island Insurance Companies (SNL P&C Group)	138,989	31%
8	DB Insurance Co. Ltd. (SNL P&C Group)	134,536	26%
9	GNW Holding Inc. (SNL P&C Subgroup)	120,783	23%
10	Liberty Mutual Group Inc. (SNL P&C Subgroup)	101,206	61%
11	RLI (SNL P&C Group)	95,991	27%
12	AXIS (SNL P&C Group)	93,741	3%
13	AIG Property Casualty Inc. (SNL P&C Subgroup)	85,378	20%
14	GeoVera Holdings (SNL P&C Group)	72,808	0%
15	Crum & Forster Holdings Corp. (SNL P&C Subgroup)	49,942	43%
16	Chubb Corporation (SNL P&C Subgroup)	48,932	10%
17	Hartford Fire Insurance (SNL P&C Subgroup)	38,798	42%
18	American Reliable Insurance Co	21,147	24%
19	Universal North America Ins Co	17,407	39%
20	Palomar Specialty Insurance Co	17,336	1%
21	DTRIC Insurance Co. Ltd. (SNL P&C Subgroup)	15,476	59%
22	PURE (SNL P&C Group)	13,120	33%
23	Universal Insurance Holdings Inc. (SNL P&C Group)	13,079	58%
24	Conifer Holdings Inc. (SNL P&C Group)	12,017	1%
25	AIG Property Casualty U.S. Inc (SNL P&C Subgroup)	10,467	181%





Tricky questions

- Is Hurricane-only coverage “Homeowners” or “Allied Lines”?
- To see the real Hurricane risk, you’ll have to look deeper... to reinsurance. How do you do that?
- What will happen after a big event?

Lesson: it is very difficult to understand a market by using Annual Statement data, even if you are very knowledgeable about that market. (*Especially* if you are knowledgeable, don’t fool yourself.)





Mahalo nui loa

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