

Risk and Insurance - An Overview

CLRS Virtual Conference
September 2020
Pete Miller, CPCU



The Institutes®
RISK & INSURANCE
KNOWLEDGE GROUP

Agenda

Overview of Risk and Insurance

Goal:

Give you two things to think about as you attend the rest of the CLRS conference

Agenda Items

- ▶ The Institutes –SWWC?
- ▶ Economic Conditions and COVID Impact
- ▶ Role of Actuaries
- ▶ Insuretech Investment
- ▶ Data
- ▶ Questions



Who am I?



Pete Miller, CPCU **President/CEO The Institutes**

- Been in the industry for about 30 years
- Started as a database programmer with CIGNA P/C
- Been the CEO of the Institutes for about 14 years
- Get to see lots of the industry b/c of job



Who are the Institutes?



The Institutes' Affiliates:



The Institutes®
CPCU Society



The Institutes®
Griffith Foundation



The Institutes
RiskStream Collaborative™



The Institutes

Overview of Risk and Insurance

Vision:

At The Institutes, we provide educational support, resources and leading research to help those in risk management and insurance better serve the public.

Factoids

- ▶ Not-for-Profit
- ▶ Board of Trustees
 - 45 CEOs - mostly
 - Control about 70% of P/C
- ▶ reach about 90% of industry
- ▶ Domestic and global
- ▶ Many industry alliances



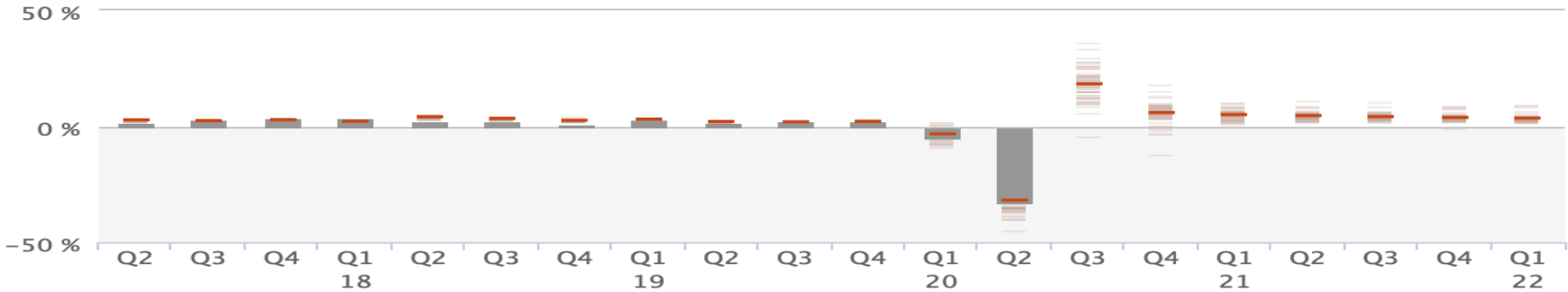
Economic Overview



Up Until March Pretty good

GDP (quarterly)

Actual
 Estimates
 7 yr.
5 yr.
3 yr.



GDP (quarterly)

Actual (Q2 2020) <b style="font-size: 1.2em;">-32.9%		Projected: Q3 2020 <b style="font-size: 1.2em; color: green;">18.3% ▲		Projected: Q4 2020 <b style="font-size: 1.2em;">5.9%		Projected: Q1 2021 <b style="font-size: 1.2em;">5.0%	◀ ▶
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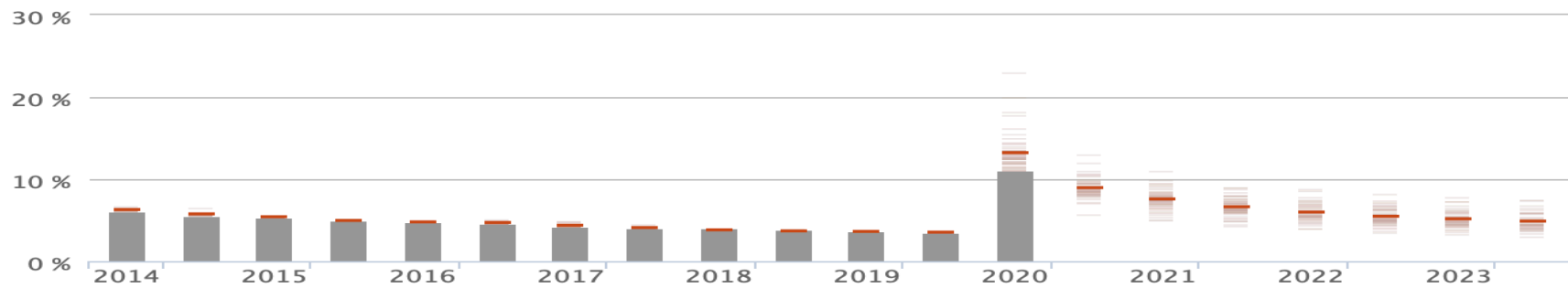
Source: Wall Street Journal



Up Until March Pretty good

Unemployment

Actual Estimates 10 yr. 5 yr.



Unemployment

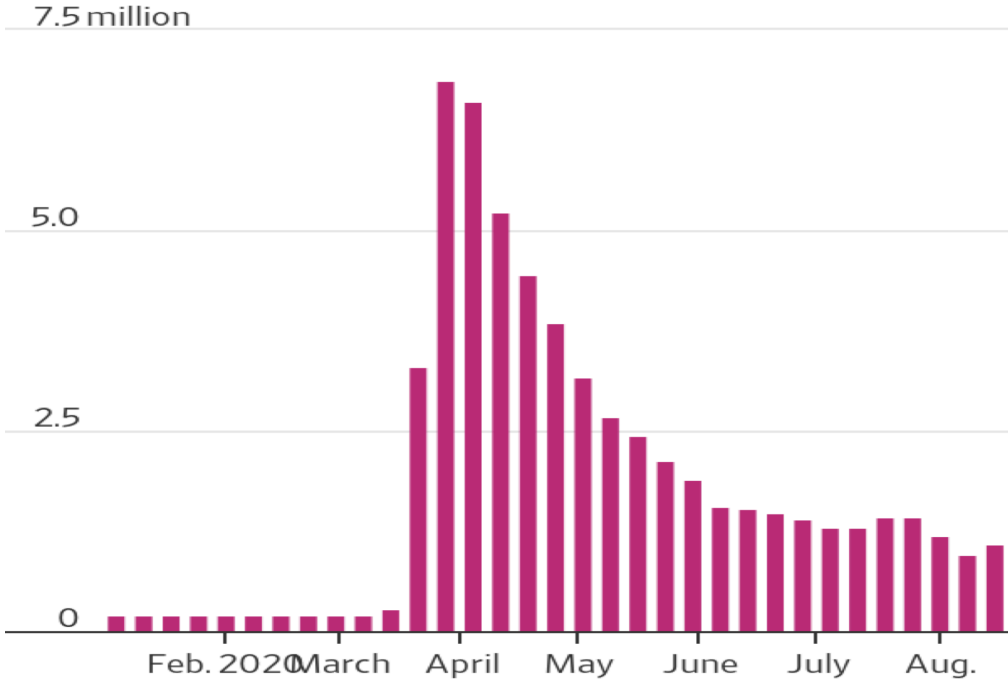


Source: Wall Street Journal



Unemployment Claims

Initial claims for unemployment insurance



Note: Seasonally adjusted
Source: Labor Department

Source: Wall Street Journal

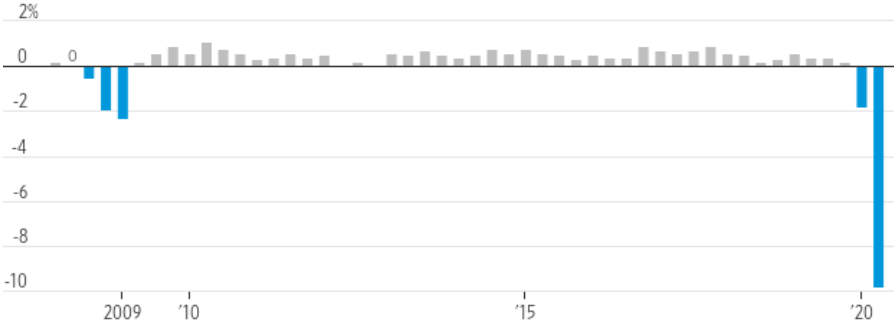


Not Just the US

Record Contraction

The combined economic output of the Organization for Economic Cooperation and Development's 37 members fell much more sharply in the three months through June than it did during the global financial crisis.

Change from the previous quarter in OECD members' GDP



Note: Seasonally adjusted
Source: OECD

Source: Wall Street Journal

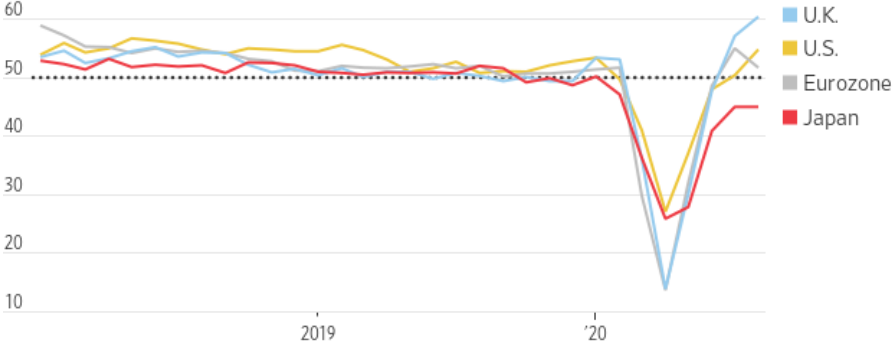


Uneven recovery across OECD

Mixed Recovery

Composite output indexes, which reflect activity across the manufacturing and service sectors, showed mixed fortunes across major economies in August.

Composite purchasing managers output indexes



Note: Readings below 50 indicate contraction, above, expansion.
Sources: IHS Markit (Eurozone, U.S.); IHS Markit/CIPS (U.K.); au Jibun Bank (Japan)

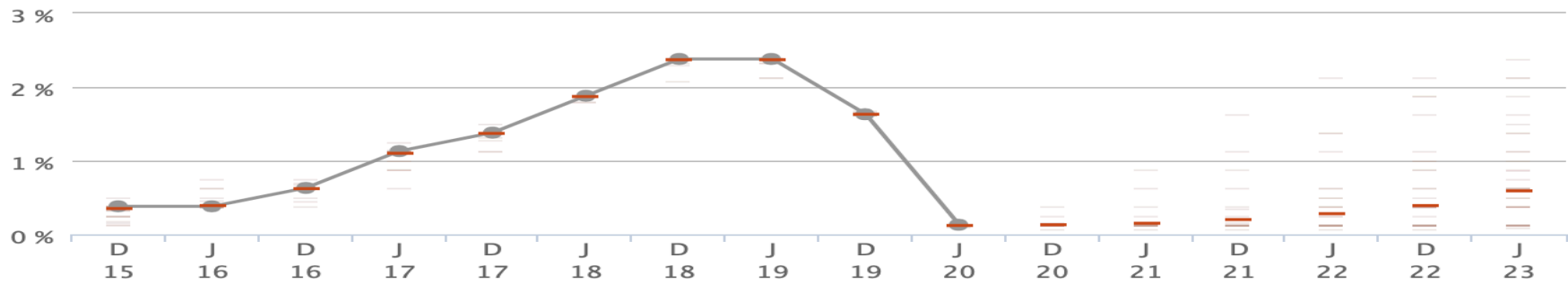
Source: Wall Street Journal



Cost of Money

Federal Funds Rate

Actual
 Estimates
 12 yr.
8 yr.
4 yr.



Federal Funds Rate

Actual (Jun. 2020)

0.13%



Projected: Dec. 2020

0.13% ▲



Projected: Jun. 2021

0.15%



Projected: Dec. 2021

0.20%



Source: Wall Street Journal



Big news – Don't bet on interest rates rising

Fed Approves Shift on Inflation Goal, Ushering In Longer Era of Low Rates

Chairman Jerome Powell says central bank has changed how it views trade-off between lower unemployment and higher inflation

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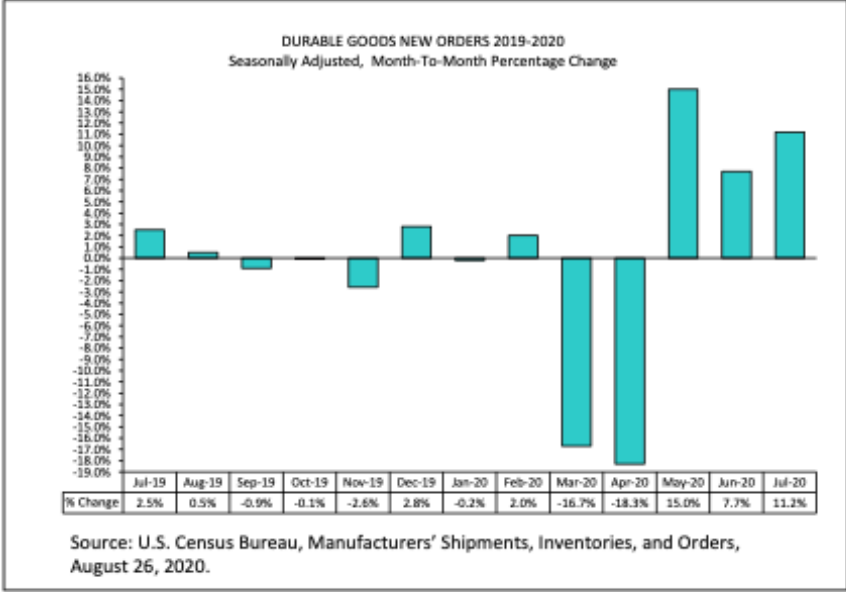
Some good news – Durable Goods orders

DURABLE GOODS – NEW ORDERS

JULY 2020	\$230.7 billion	+11.2%°
JUNE 2020 (revised)	\$207.5 billion	+7.7%°

Next release: September 25, 2020

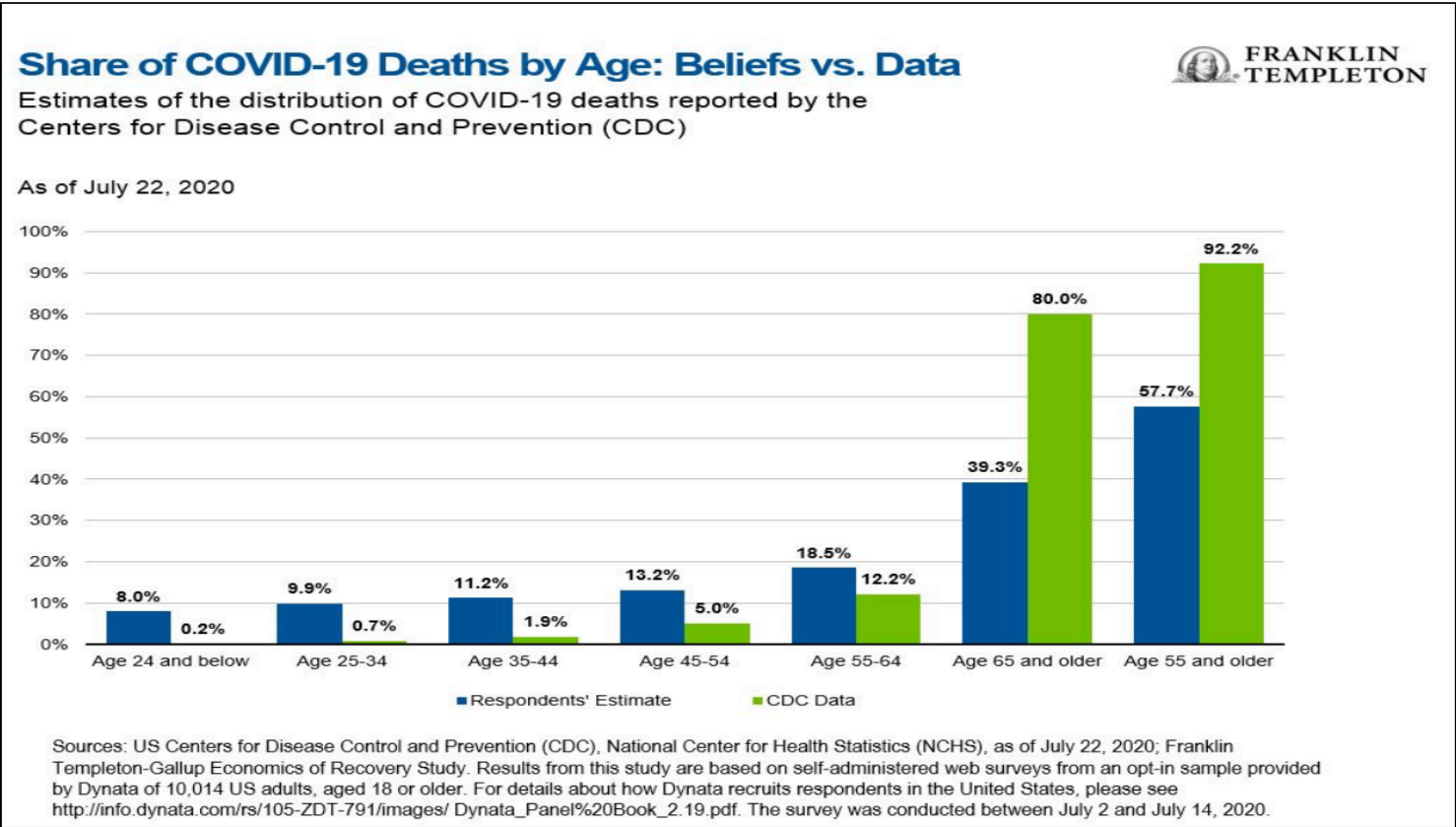
Data adjusted for seasonal variation but not for price changes.
 *Statistical significance is not measurable for this survey. The Manufacturers' Shipments, Inventories, and Orders estimates are not based on a probability sample, so the sampling error of these estimates cannot be measured nor can the confidence intervals be computed.
 Source: U.S. Census Bureau, Manufacturers' Shipments, Inventories and Orders, August 26, 2020.



Source: U.S Department of Commerce



Misperceptions and economic impact

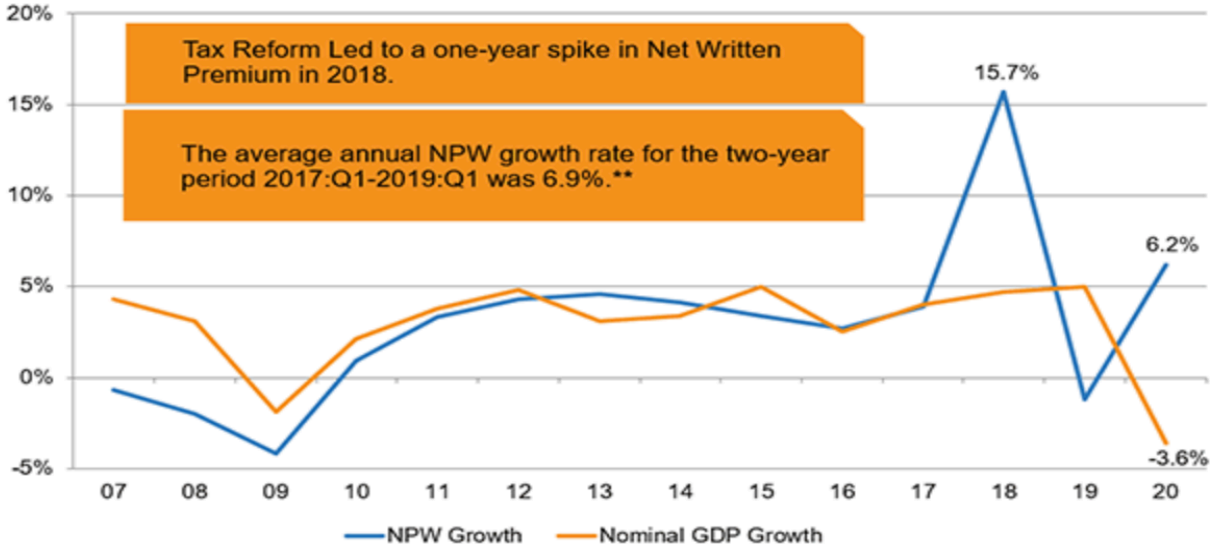


P/C Financial Overview



So What... Who Cares?

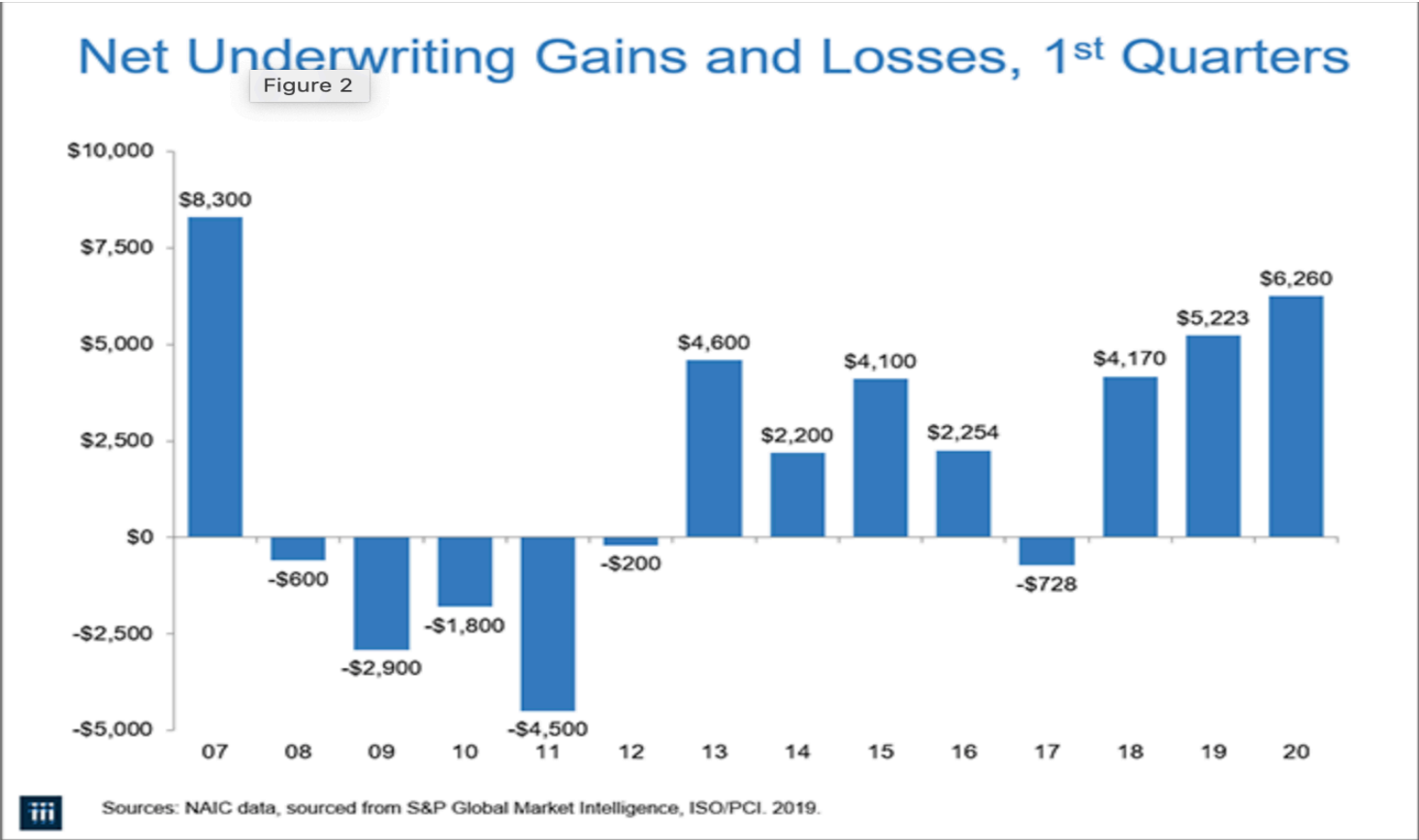
Net Premium Written Growth* vs. Nominal U.S. Economy Growth



**ISO/Verisk estimate
 *Through first quarter.
 SOURCES: A.M. Best (2007-2013), ISO (2014-present), Federal Reserve Bank of St. Louis (FRED), Insurance Information Institute.



How's P/C doing?



Industry Income Statement

First quarter 2020 financial results*

(\$ billions)

Net Written Premiums	\$164.4
Net Earned Premiums	157.7
Incurred Losses (Including loss adjustment expenses and reserve adjustments)	105.4
Expenses	46.0
Policyholder Dividends	<u>0.8</u>
Net Underwriting Gain	6.3
Net Investment Income	13.2
Other Items	0.0
Pre-Tax Operating Gain	19.4
Realized Capital Gains	<u>1.6</u>
Pre-Tax Income	20.6
Taxes	3.0
Net After-Tax Income	\$17.9
Surplus (End of Period)	\$771.9



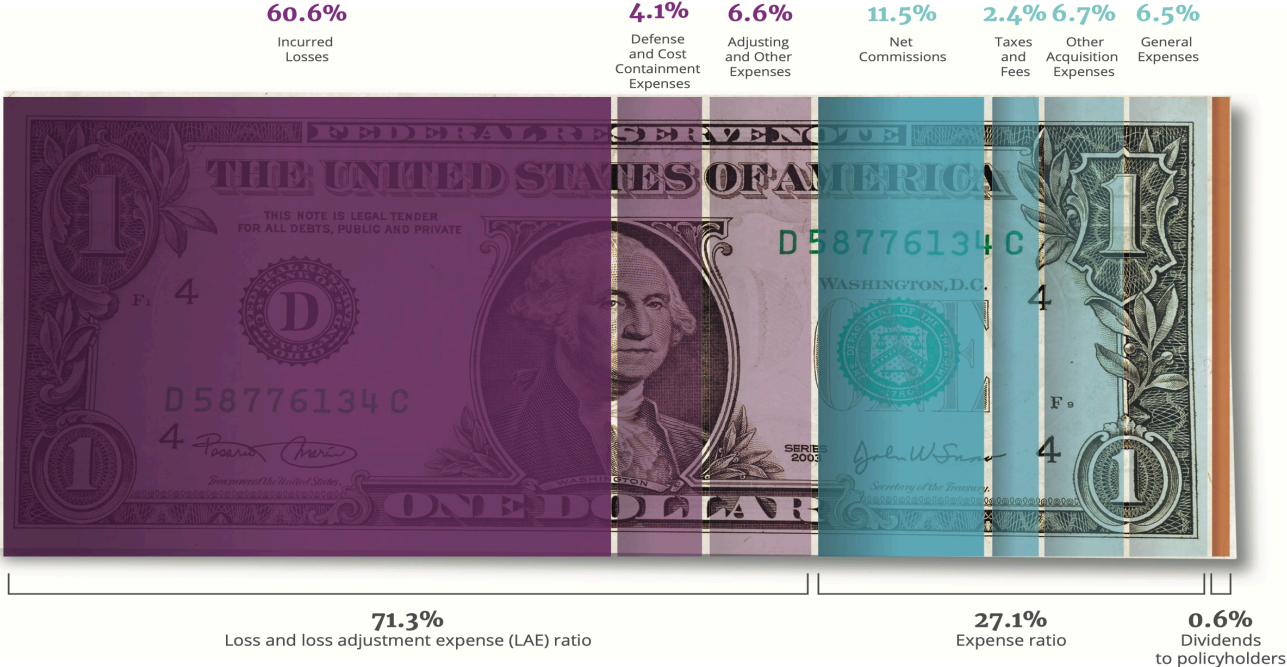
*Figures may not add to totals due to rounding. Calculations in text based on unrounded figures.

Source: Insurance Information Institute



Premium dollar - is this right?

Where Does Your Premium Dollar Go?



Based on 2018 property-casualty premiums. Totals may not add due to rounding. Data are from Insurance Information Institute, 2020 Insurance Fact Book.

Source: Insurance Information Institute



Role of Actuaries

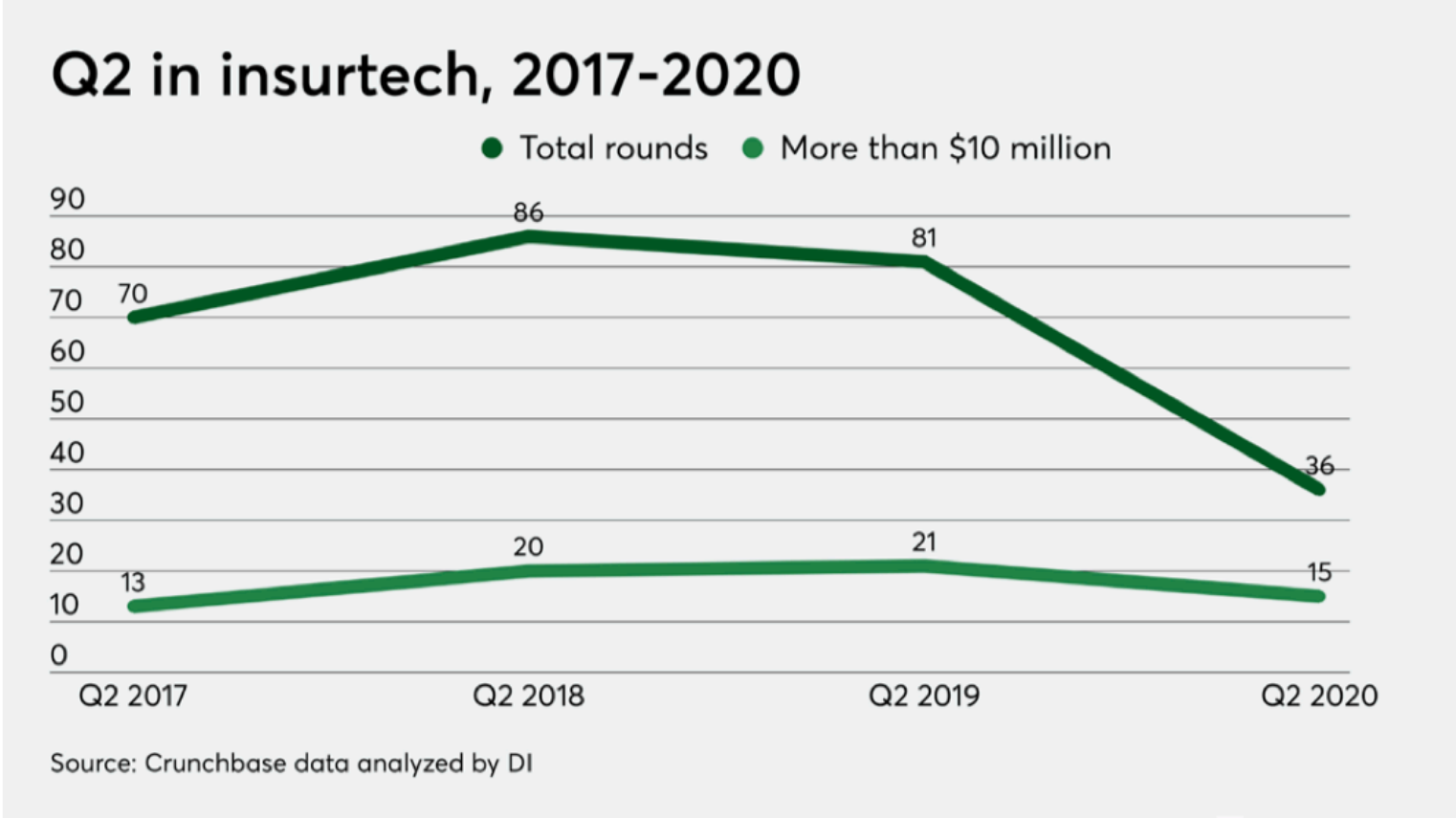


Actuaries – short and longer term

- Traditional roles
 - Primarily pricing and reserving
 - Good and crucial roles
 - Will continue going forward
- Future role?
 - All parts of the organization?
 - Customer acquisition?
 - IT?
 - Data?
- In my opinion, two things to keep an eye on:
 - Insuretech
 - Data



Insurtech Investment



Overall Investment

WTW – Q2 report

- \$1.56 B over 74 deals
- Q1 was 23% lower than Q1 2019
- Duck Creek - \$230 M
- Oscar Health - \$225 M
- Pie Insurance - \$127 M
- States Title - \$123M

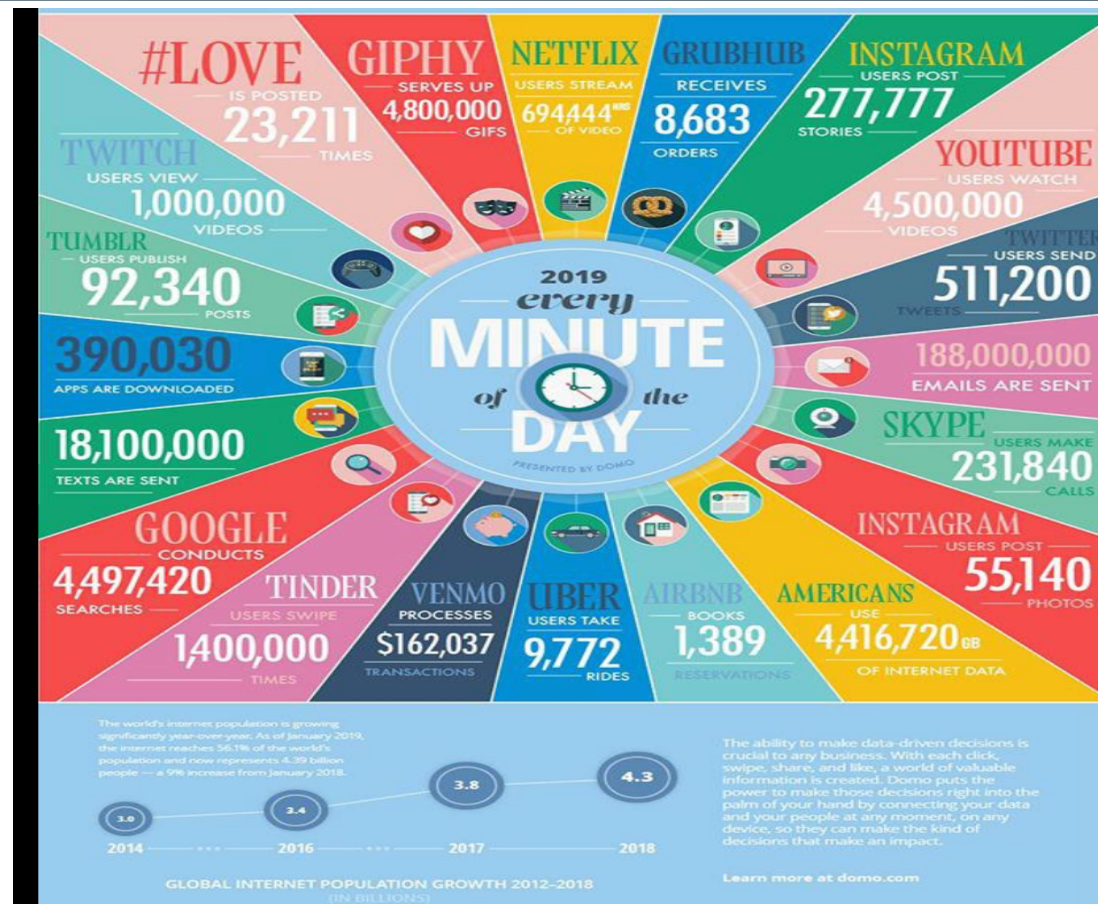
- Lemonade
 - Best IPO 2020 - 140% gain
 - AI driven engine
 - Actuaries?



Data



Data, Data Everywhere

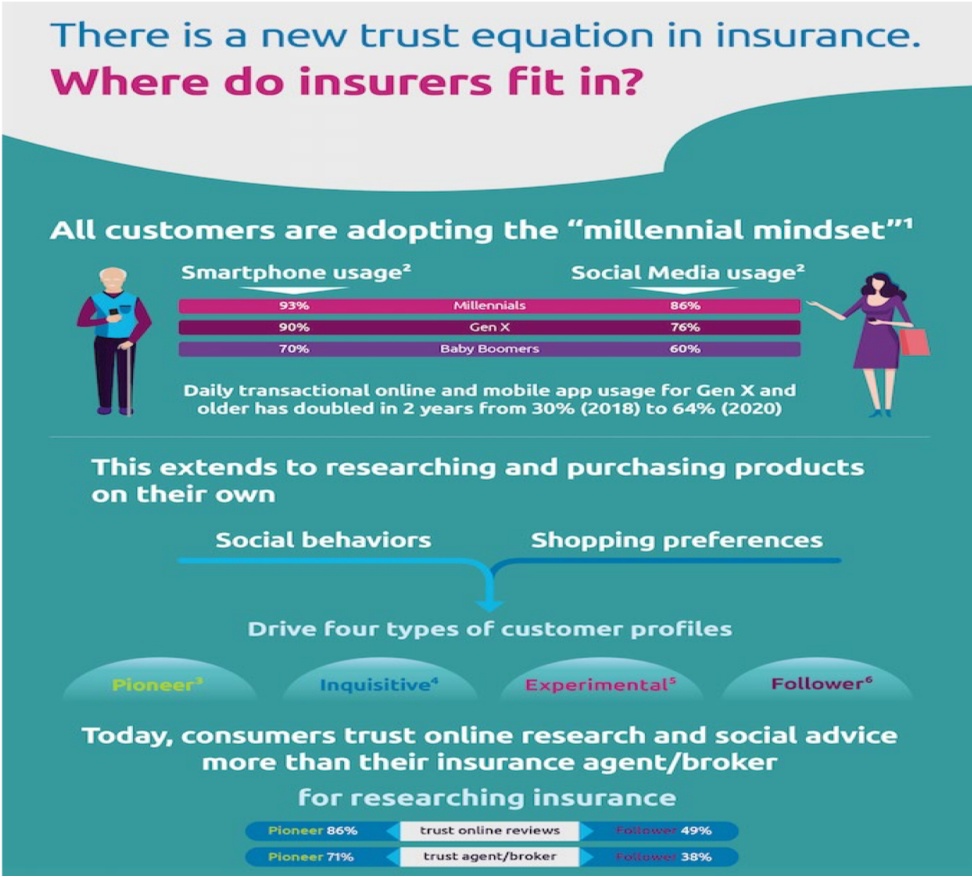


Forbes Magazine,

August 7, 2019



Insurance model



Capgemini Research Institute’s World Insurance Report 2020



Insurers – misaligned purchasing model

Insurers now need to connect with customers via hyper-personalized, experience-led engagement



Currently, insurers aren't fully meeting customer demands

Right Products

More than 50% of customers want hyper-personalized usage-based insurance, but **only half of insurers** offer it

Right Time

Only 25% of insurers say external data tracking is useful
 Only 35% of insurers provide agents with digital tools for determining customer life events

Right Channels

All types of customers prefer insurer's website for purchasing policies but **less than 30% of insurers** think websites and mobile apps effectively drive sales

Seamless omnichannel engagement is essential

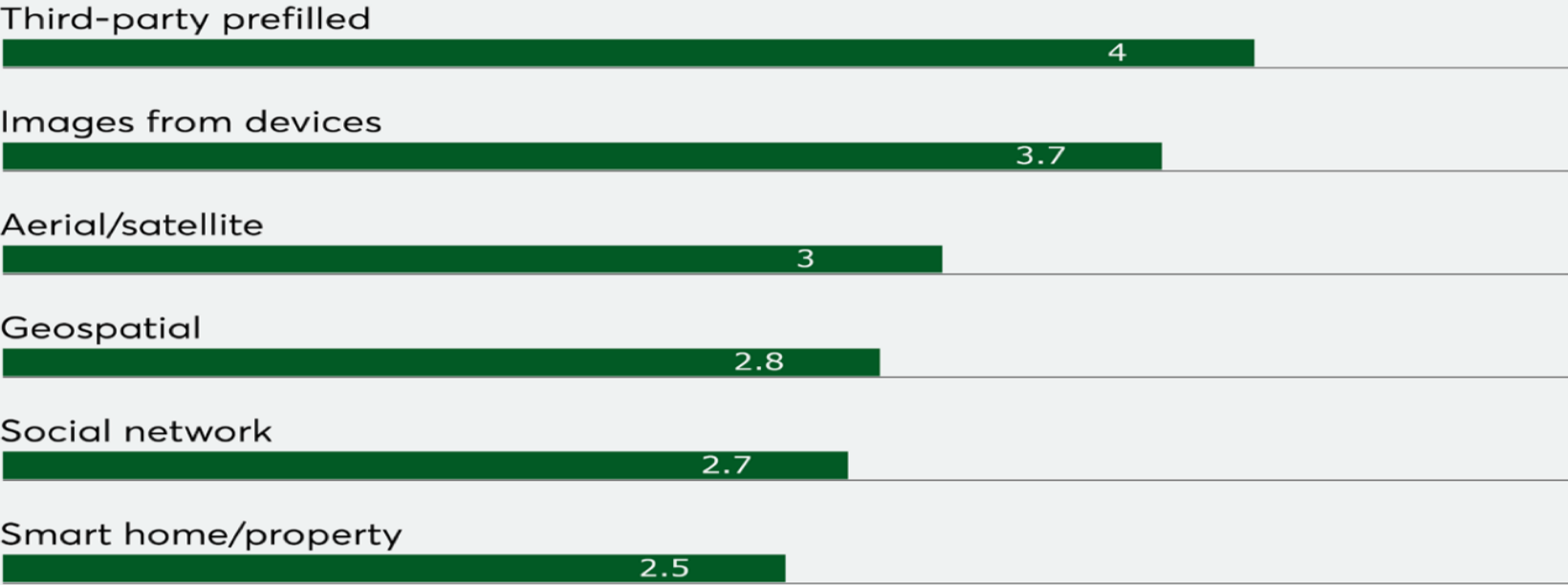
75% of customers willing to switch insurers if seamless policy servicing is not available across all channels



Sources of Data

Insurance data sources ranked by value

Average star rank on five-star scale



Source: Celent



Future Actuary

Pricing

Reserving

PLUS

Data Scientist with Domain Knowledge

Huge opportunity to harness data, with insurance insights, to benefit customers



Thanks!

Questions

