

**CORONAVIRUS AND BEYOND:
SECULAR FORCES PERMANENTLY
ALTERING THE P/C INDUSTRY**

September 2020

Dowling & Partners
Kyle LaBarre

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ALL INSURANCE, ALL THE TIME

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Private (Re)insurance Investments

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TODAY'S SPEAKER



Kyle LaBarre – Speaker
Dowling & Partners

- Senior Analyst and Partner at Dowling & Partners Securities, LLC.
- Member of the Property and Casualty Insurance Research team since 2006, holding various roles of increasing responsibility over the period.
- Currently, he has publishing analyst responsibilities for a number of (re)insurance companies, predominately U.S. specialty insurance carriers and U.S. / Bermuda reinsurers.



Peter Tomopoulos – Moderator
Deloitte Consulting

- Senior Manager, Deloitte Consulting
- ACAS, MAAA
- New York City-based
- Nearly 25 years of insurance industry actuarial experience

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CORONAVIRUS = A CATASTROPHE UNFOLDING OVER TIME

- Losses Will Spread Across Many Lines
- Many Negatives (Specialty Lines) But Some Positives (Auto)
- Never Really Know The Right Answer

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THE PROPERTY / CASUALTY INDUSTRY COVID-19 INSURED LOSS

Known Knowns
(Lines/Coverages Clearly Impacted)
e.g. Event Cancellation


+

Known Unknowns
(2nd Derivative Impacts)
e.g. Resulting loss from global battles and court responses around BI policy wording and the other liability exposures

+

Unknown Unknowns
(One-off From Left Field)

?



Donald Rumsfeld

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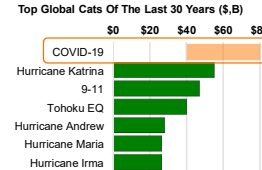
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THE PROPERTY / CASUALTY INDUSTRY COVID-19 INSURED LOSS

Loss "Bucket"	Low \$,B	High \$,B
Property (BI, LAE, etc)		
United States	\$5	\$15
United Kingdom	\$5	\$10
Europe	\$5	\$10
Other Geographies	\$2	\$10
Liability	\$5	\$15
"Specialty Lines"		
Mortgage	\$5	\$10
Event Cancellation	\$5	\$10
Credit / Political Risk	\$5	\$15
Workers' Comp / Other	\$2	\$5
Unknown Unknowns	\$0	\$5

D&P "1st Cut" At Industry "Ultimate" Insured Loss = \$40-80 Billion In April

Top Global Cats Of The Last 30 Years (\$,B)



Source: III, Swiss Re Sigma, D&P Analysis = inflation adjusted insured losses.

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THE PROPERTY / CASUALTY INDUSTRY COVID-19 INSURED LOSS

The Property / Casualty Industry COVID-19 Insured Losses
How Have The Loss 'Buckets' Evolved From Mid-April?

Neutral / Positive Trend

U.S. BI (\$5-15B) = Retroactive coverage less likely. Many co's took "soft" suspensions' approach but surprised by immediate denial.

Credit/ Political Risk (\$5-15B) = Govt backstops may take worst case off table.

Event Cancellation (\$5-10B) = More "known" exposure. Trending "in line".

Still Too Early / Less Clarity

Liability Lines (\$5-15B) = Longer tail lines with little clarity yet. Social inflation isn't gone.

Mortgage (Re)insurance (\$5-10B) = Positive near term trends but long term remains a ?

Unknown Unknowns (\$5-5B)

Negative Trend

Non-U.S. BI / Property (\$2-30B) = Greater prevalence of alternative coverage and even lower policy wording.

Workers Comp / Other (\$2-5B) = Worst case of W/C raised in but still higher than initial expectations + surety/ A&H worse.

D&P Industry 'Ultimate' Insured Loss = \$40-50B

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COVID-19 IS BIGGER THAN "INSURED" LOSSES = ASSET CONCERNS TOO

COVID-19 is likely to be the largest loss to insurers to date

Source: Analysis of Data by Sigma 10000 and All Best Admitted & Environmental Market Segment Report © Liberty

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HIGH-LEVEL VIEW ON NEARER-TERM IMPLICATIONS FOR U/WERS

COVID-19 / Economic Shut Down ... Near Term / 2020 Underwriting Impacts

Vs. Prior Expectations (Assuming No Change In Rate Outlook).

Key Lines Of Business	Written Premiums	Aggregate Losses	Loss Ratio (AY)	Combined Ratio (AY)
U.S. Commercial Lines				
Workers Comp	8%	↓	↑	↑
Cml /CMP Property	10%	↓	↑	↑
GL/Product/ CMP Liab	11%	↓	↑	↑
Mgmt/Prof Liab /Cyber	4%	↓	↑	↑
Cml Auto	6%	↓	↓	↓
Med Mal	1%	—	↑	↑
U.S. Personal Lines				
Auto	36%	↓	↓	↓
Homeowners	15%	↓	—	—
SUBTOTAL U.S.	91%	↓	—/↓	—
Other				
XOL Reinsurance	↓	↑	↑	↑
Lloyd's / Specialty lines / Trade Credit	— / ↓	↑	↑	↑
Surety	↓	—	↑	↑

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BUSINESS INTERRUPTION IS THE KEY "KNOWN UNKNOWN"

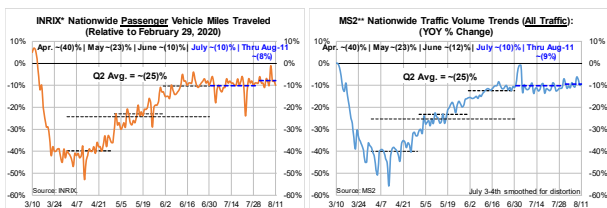
- **Business Interruption (BI)** remains the biggest "known unknown" due to the historical success of the plaintiff's bar with some novel coverage arguments / success in expanding coverage.
- The U.S. standard ("ISO") wording is strong. Any challenge / reversal would violate contract law. This will be a long / drawn out battle with the P/C industry already logging some important "wins."
- International situation is less clear (currently) = several "test cases." UK most closely watched.
- The insurance industry simply cannot cover the loss.... a fact lawmakers must understand or risk bankrupting an industry that is key to economic viability. APCAIA (trade body) estimated monthly losses for small businesses of \$220-383B vs. surplus of \$800B for corresponding insurers.

Downing & Perlines

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AUTO (PERSONAL & COMMERCIAL) ARE THE LINES BENEFITTING MOST



Downing & Perlines

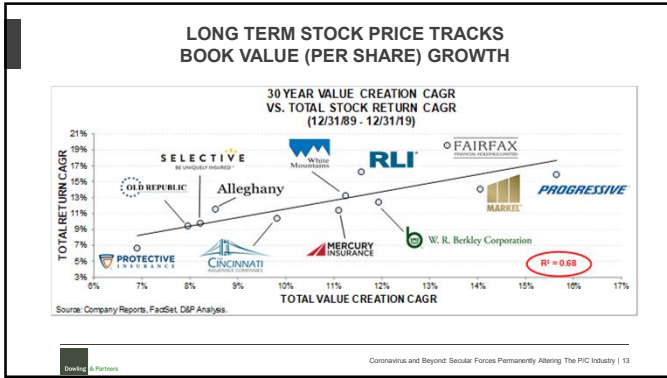
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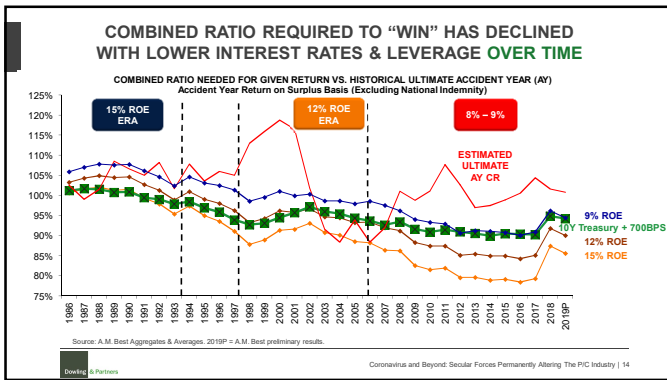
LONGER TERM TRENDS SETTING THE STAGE ...

P/C Insurance Is A "Simple" Business In Theory, But Very Difficult To Execute Well

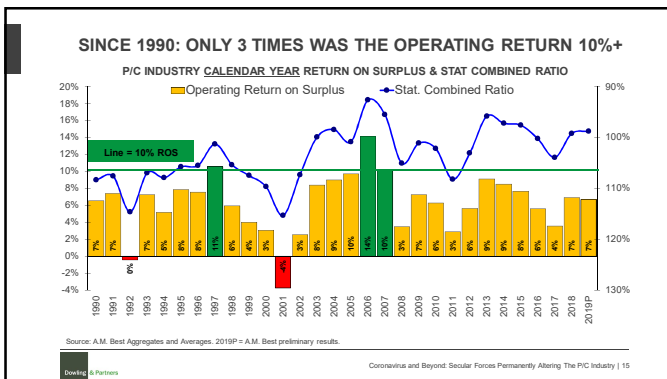
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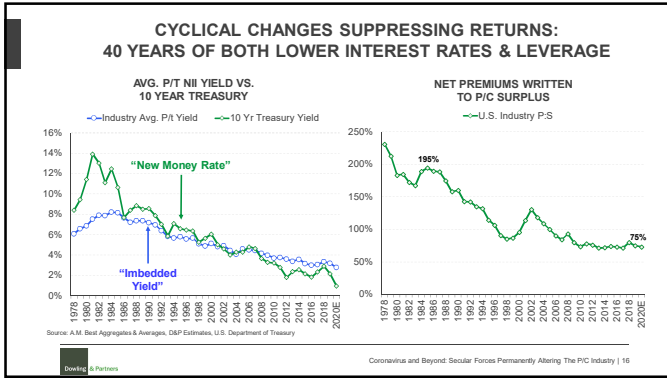
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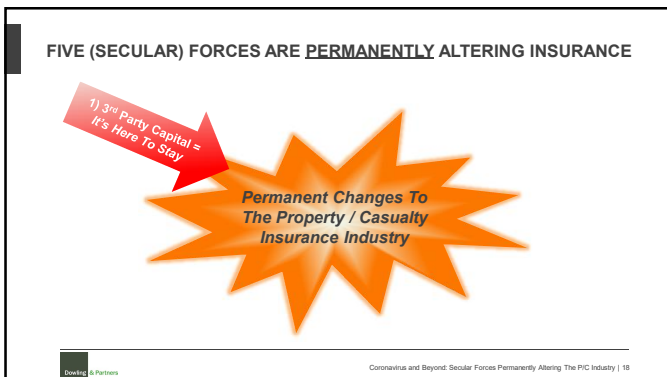
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**FIVE SECULAR FORCES
PERMANENTLY ALTERING
P/C (RE)INSURANCE**

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**ILS TOOK 15+ YEARS TO DISRUPT PRICING...
...BUT THE 2012 "TIPPING POINT" ALTERED SUPPLY/DEMAND**

June 1996

Risk Financing NEWSLETTER

USAA Subsidizes Early "Cat Bond" Market

J.P. Morgan Vice Chairman, Roberto Mendoza Refers To Cat Bonds As, "An Eloquent Solution In Search Of Demand"

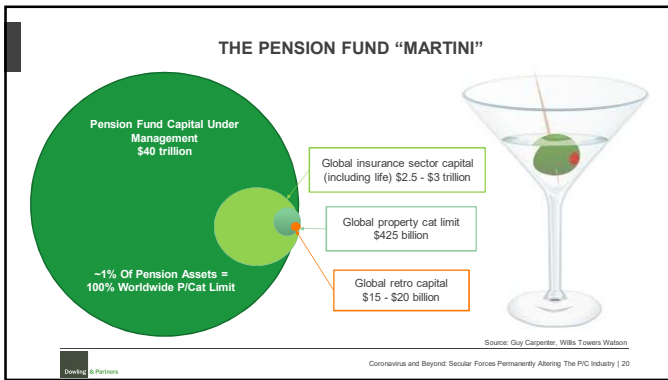
Ajit Jain Conducts Guerilla War Against Cat Bonds = Underprices/Kills Large CEA Transaction

Absolute & Relative Performance Of ILS Market In 2008-2010 Financial Crisis Was Very Strong

June 1, 2012 = "The Tipping Point" = Price Takers Become Price Makers In Property Cat In Florida

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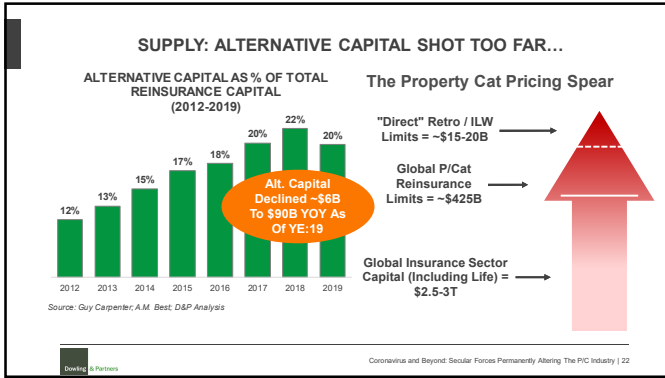
IF YOU CAN'T BEAT THEM, OWN THEM = TOP ILS FUND MANAGERS

ILS Manager	Approximate AUM (\$B)	Participation in No-Box ILS?	AUM Trend	(Re)insurer or CEA Box	ILS Manager	Approximate AUM (\$B)	Participation in No-Box ILS?	AUM Trend	Rating Source Attribution
Renaissance	~\$118	Significant (Corporate Finance)	▲	Renaissance	SECURIS	\$5.5	Yes	▼	
JP Morgan	\$8.5	Negligible	▼	MARIL	Lloyds	\$5.5	Yes	Flat	MS&AD
CREDIT SUISSE	\$7.2	Limited	▼		ALPHACAT	\$1.3	Significant	▲	AIG
D&P	\$6.6	Negligible	▼			\$1.1	Yes (Corporate Cat Assets)	▼	
BERNSTEIN CAPITAL	\$6.0	Limited (C&A Business)	▲		AEGELUS	\$1.0	Significant	▲	

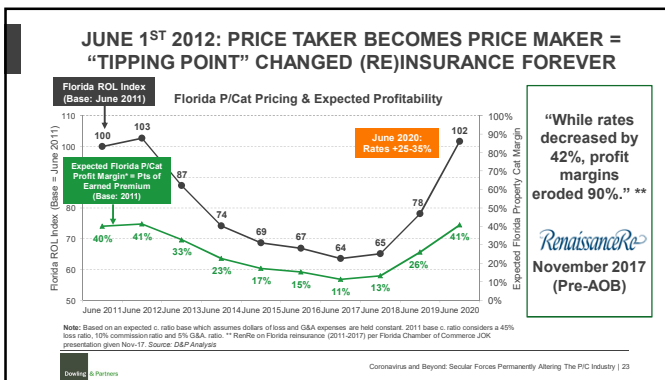
Latest available AUM figures shown. Source: Artemis, D&P Analysis

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- ### NEW SOURCES OF CAPITAL: WHY SHOULD WE CARE ?
- Capital Markets Size/Potential Dwarfs Traditional (Re)Insurance Markets
 - Lower Return Threshold (Risk Free + 200-300 Basis Points)
 - Places "Ceiling" On Global P/Cat Pricing Post-"Tipping Point" (2012)
 - Accelerates "Unbundling" Of Traditional (Re)insurance Product Offering
 - Expansion Into Other Reinsurance/Primary Markets Will Accelerate
- Biggest Threat To Long-Term Growth = "Who Keeps The Tail"?**
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FIVE (SECULAR) FORCES ARE PERMANENTLY ALTERING INSURANCE

1) 3rd Party Capital = It's Here To Stay

2) Evolution of Ajit Jain / Berkshire Hathaway

Permanent Changes To The Property / Casualty Insurance Industry

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BERKSHIRE HATHAWAY DISINTERMEDIATED AS THE "GO TO" LARGE CAPACITY MARKET ("MEGA CAT") BY INVESTORS (ILS)

Berkshire Hathaway 1990s **ILS Markets 2020**

Allstate **Allstate**

CEA CALIFORNIA EARTHQUAKE AUTHORITY **CEA CALIFORNIA EARTHQUAKE AUTHORITY**

CITIZENS PROPERTY INSURANCE CORPORATION **CITIZENS PROPERTY INSURANCE CORPORATION**

Biggest Loser

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AJIT MOVES TO THE "FRONT OF THE BUS"

Primary ← **XOL / Retro Writer**

Berkshire Hathaway Specialty Insurance **DiBERK THREE** A BERNKSHIRE HATHAWAY COMPANY

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AJIT JAIN: PREPARED TO CRUSH PRICING IN ANY IMPROVING MARKET

"Whack A Mole"

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METAMORPHOSIS OF AJIT JAIN: WHY SHOULD WE CARE ?

- ❑ Lower Return Threshold Given "Total Return" Model For "Float" Generated
- ❑ No Fear Of "Channel Conflict" & Mindset To "Do A GEICO" In Commercial Lines = Direct
- ❑ At Over 20% Of Industry Surplus & Under Levered: "Whack A Mole" When Pricing Improves
- ❑ New Emphasis On Primary Commercial Lines = Moves Toward "Front Of The Bus"

A Powerful (Negative) Force On Overall Industry Pricing

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FIVE (SECULAR) FORCES ARE PERMANENTLY ALTERING INSURANCE

Permanent Changes To The Property / Casualty Insurance Industry

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WHAT'S EXPECTED TO DRIVE THE PREMIUM DECLINE?

- ❑ Expansion Of Advanced / Autonomous Cars = 90% Fewer Accidents?
- ❑ More Transportation via Rideshare Options (e.g. Uber, Lyft, etc.)
- ❑ Auto Manufacturers Bundle Insurance At The Point Of Sale (The "All In" Subscription Purchase) = Wholesale Replaces Retail Product

Personal Auto = Largest Individual U.S. Line

Line of Business	Percentage
Personal Auto	40%
All Other Civil Lines	33%
Homeowners	15%
Workers' Comp	7%
Commercial Auto	5%

2019 U.S. Net Premiums Written; Source: SNL

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DECLINE OF "WHEELS" PREMIUMS: WHY SHOULD WE CARE ?

- ❑ Reduction Of Premium = Significant Expense Pressure For Underwriters
- ❑ Where Will The Capital Currently Supporting "Wheels" Premium Go?
- ❑ Restructures Personal Lines Buying Patterns = Homeowners Will Be King
- ❑ Permits New Competitors To Emerge?

"Net it will be bad for the auto insurance industry over time if autonomous cars become a big part of the fleet."

Warren Buffett, May 2018

"We Envision A World Where U.S. Personal Auto Premiums Decline To < 10% of U.S. Industry Premiums In My Lifetime."

VJD, Dowling & Partners, September 2013

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FIVE (SECULAR) FORCES ARE PERMANENTLY ALTERING INSURANCE

Permanent Changes To The Property / Casualty Insurance Industry

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BROKER CONSOLIDATION = "POWER" OVER UNDERWRITERS

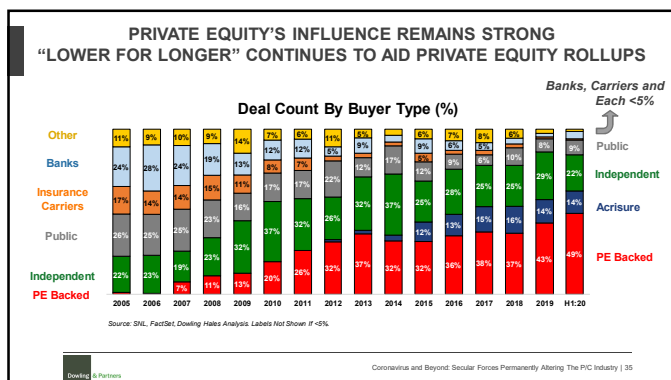
TOP 20 GLOBAL INTERMEDIARIES

1999-2019				2019			
Rank	Broker	U.S. Mkt. Sh.	Ownership	Rank	Broker	U.S. Mkt. Sh.	Ownership
1	Marsh McLennan	\$2.9 27%	Public (NYSE)	1	Marsh & McLennan	\$20.1 31%	Public (NYSE)
2	Alexander & Alexander	\$1.2 14%	Private	2	Aon PLC	\$17.0 26%	Public (NYSE)
3	Sedgwick Group	\$1.0 12%	Private	3	Willis Towers Watson	\$11.0 17%	Public (NYSE)
4	Johnson & Higgins	\$0.8 9%	Private	4	Arthur J. Gallagher	\$9.0 14%	Private Equity
5	Compton & Black	\$0.5 5%	Private	5	Halo International	\$2.4 4%	Public (NYSE)
6	Willis Faber	\$0.5 5%	Private	6	Brown & Brown	\$2.1 3%	Bank / Public
7	Frank S. Hall	\$0.4 4%	Private	7	Taxi	\$1.9 3%	Private
8	Rollins Burdick Hunter	\$0.3 3%	Private	8	Lockton	\$1.9 3%	Private
9	Meyer	\$0.3 3%	Private	9	USI Insurance Svcs	\$1.9 3%	PE/Management
10	Jardine Insurance Brokers	\$0.2 3%	Private	10	Assurance LLC	\$1.8 3%	Private Equity
TOP 10				TOP 10			
\$7.7 86%				\$15.2 85%			

Rank	Broker	U.S. Mkt. Sh.	Ownership
11	C. E. Heath	\$0.2 2%	Private Equity
12	Arthur J. Gallagher	\$0.2 2%	Private Equity
13	Baird Clarkson PLC	\$0.2 2%	Private Equity
14	Hogg Group PLC	\$0.2 2%	Private Equity
15	Faegre & Jenkins	\$0.1 1%	Public (NYSE)
16	Jauch & Hubener	\$0.1 1%	PE/Management
17	Hudig Langelands Group	\$0.1 1%	Private Equity
18	Great George SA	\$0.1 1%	Private Equity
19	Sedarcian	\$0.1 1%	Private Equity
20	Willis Tower & Watson	\$0.1 1%	Public (NASDAQ)
TOP 20		\$9.0 100%	\$15.0 100%

Source: A.M. Best, "Market Share" Reports

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BILLION DOLLAR BROKERS INCREASINGLY DOMINATE = LEVERAGE

Hales \$1B+ U.S. Agents & Brokers

Rank	Company	2018 U.S. Revenue (\$B)	2019 U.S. Revenue (\$B)	% Chg	Ownership Type
1	Marsh & McLennan	\$7,219	\$7,840	8.6%	Public
2	Aon PLC	\$4,677	\$5,016	7.2%	Public
3	Willis Towers Watson	\$3,970	\$4,370	10.1%	Public
4	Arthur J. Gallagher	\$3,631	\$4,063	11.9%	Public
5	Brown & Brown	\$1,999	\$2,385	19.3%	Public
6	BB&T Insurance	\$1,958	\$2,215	13.1%	Public
7	USI Insurance Svcs	\$1,795	\$1,894	5.5%	Private Equity
8	Halo International	\$1,865	\$1,865	10.1%	Private Equity
9	Acrisure LLC	\$1,336	\$1,782	33.4%	PE/Management
10	Alliant Insurance Svcs	\$1,351	\$1,585	17.3%	Private Equity
11	AssuredPartners	\$1,223	\$1,429	16.9%	Private Equity
12	Lockton	\$1,300	\$1,400	7.7%	Private
13	NFP Corp.	\$1,170	\$1,335	14.1%	Private Equity
Total U.S. Revenue		\$33,313	\$37,168	11.6%	

Rising "Share" For \$1B+ Brokers (\$, B)

Year	Sub-\$1B	\$1B+ Share
2010	\$23	\$23
2011	\$26	\$26
2012	\$28	\$28
2013	\$29	\$29
2014	\$30	\$30
2015	\$31	\$31
2016	\$32	\$32
2017	\$33	\$33
2018	\$38	\$38
2019	\$47	\$47

Copyright: Hales Top 100 Brokers & Agents (2019 & 2018), Business Insurance, Public Sources
Table Source: Dowling Halles proprietary survey, Company Reports

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CONSOLIDATION OF BROKERS: WHY SHOULD WE CARE ?

- ❑ Accelerate Disintermediation Of Traditional (Re)Insurers
- ❑ Accelerate Growth Of Alternative/New Sources Of Risk Capital
- ❑ Lowers Overall Profitability Of Risk Assumption

“He Who Controls The Customer Wins”

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FIVE (SECLAR) FORCES ARE PERMANENTLY ALTERING INSURANCE

**Permanent Changes To
The Property / Casualty
Insurance Industry**

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DOWLING & PARTNERS 2014 INSURTECH VIEW ...

**“The Existing Commercial Distribution
And Underwriting Cost Base Is
Unsustainable Long-term And The
Industry Is At Significant Risk of
Disruption from Outside Players.”**

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4 P/C INSURTECHS HAVE REACHED "UNICORN" STATUS (\$1B+ VALUATION)

- ❑ In "Tech World," Valuations Are Based On Growth Potential And Total Addressable Market "TAM"... Rather Than Earnings
- ❑ **Next Insurance** Became 1st Cml Lines Focused Insurtech To Reach \$1B Valuation
- ❑ Joins Personal Lines Focused **Hippo, Lemonade** and **Root**

Insurtech Unicorn Club

Company	Valuation	Date
ROOT	\$1B	Aug - 18
Hippo	\$1B	Jul - 19
NEXT	\$1B	Sept - 19
Lemonade	\$2B	Apr - 19
ROOT	\$3B	Oct - 19
Hippo	\$3B	Oct - 19
Lemonade	\$4B	Jul - 20

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TRADITIONAL AGENTS WILL REMAIN PART OF CML LINES DISRUPTION...

September 2017

"There is little doubt that the entire insurance process will be direct and online in the future. **There will no longer be the need for a mediator (in this case, an agent) between the insurance provider and the customer**, as this online system will enable the customer to buy, maintain and handle claims all in one place."

- Guy Goldstein, **Next** Co-Founder and CEO

September 2019

"We recognize that some business owners prefer to work with an **agent**, so in order to ensure that our product is available to all businesses we launched Next for Agents."

- Guy Goldstein, **Next** Co-Founder and CEO

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LEADING P/C INSURERS CHANGE TO MEET INSURTECH CHALLENGE

TRAVELERS	CHUBB	PROGRESSIVE
Moves From "Agent Centric" To Multi-Distribution Model	Targets 7 Small Business Questions By Year-end 2019	Expands To Non-Wheel Direct Commercial Offering
<p>"[Small business] is a premium and long-term strategic focus for us. ... It's important to ensure that we're positioned to serve the customer's needs and from where they choose to engage with us."</p> <p>-- CEO Alan Schnitzer, April 2017</p>	<p>"For Chubb, over the next fifteen months, it's a top priority to answer about seven questions: How can we just scrape the surface of data that is publicly available. We don't need to be a public company. We'll ask you questions, what's your name, what's your address - and we'll be able to figure out the rest."</p> <p>-- Chubb CEO Evan Greenberg on CNBC's "Mad Money", July 2018</p>	<p>"We have ambitious plans to add additional partner carriers to small business insurance coverage over the next year as we continue to build the light digital-native insurance shop for busy small business owners." "We are aspiring to move into a broader offering on our own paper as well."</p> <p>-- Tricia Griffith, Q3-18 Letter To Shareholders, October 2018</p>
Slow Going In U.S.	Did Not Meet Year-end Deadline	Expanded To Direct

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DOWLING & PARTNERS CURRENT INSURTECH VIEW ...

Insurtech Is B.S.! = Spreadsheet Was Bigger Impact

- Talk of "Disruption" (2014-17) Largely Replaced By Insurtech Startups Desire For Cooperation/Enabling With Existing Industry Participants = Co-Opt Insurtech Startups.
- Insurtech Accelerates Disintermediation Of Traditional (Re)Insurers Functions As "SaaS" Enables/Accelerates A Larger Trend = 3rd Party Services "By The Drink."
- Existing Players Not Providing Better/Faster/Cheaper Products & Services Plus Improved Customer Service Will Become M&A Roadkill.
- The Winners Of The Future Will Emerge Largely From Existing Players Who Embrace Significant Change In Customer Experience & Industry-Wide Expense Efficiency.

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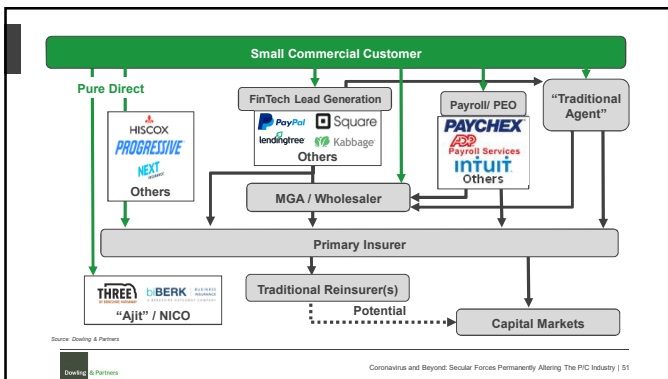
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TECHNOLOGY & CAPITAL CHANGES = NEW BUSINESS MODELS

TARIFF RATINGS	MULTI-LINE ERA	"SPECIALIST"	START-UP (RE)INSURERS	NEW MODELS FOR DISTRIBUTION AND RISK ASSUMPTION
Pre-1950s	1950 - 1965	1965 - 1985	1985 - 2010	Cloud Computing, Big Data, Direct Distribution, Sophisticated Algorithms


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BILL GATES COULD HAVE BEEN SPEAKING TO THE INSURANCE INDUSTRY ...



*"We always **overestimate the change** that will occur in the **next two years** and **underestimate the change** that will occur in the **next ten**. Don't let yourself be lulled into inaction."*

- The Road Ahead, Viking Penguin, 1995

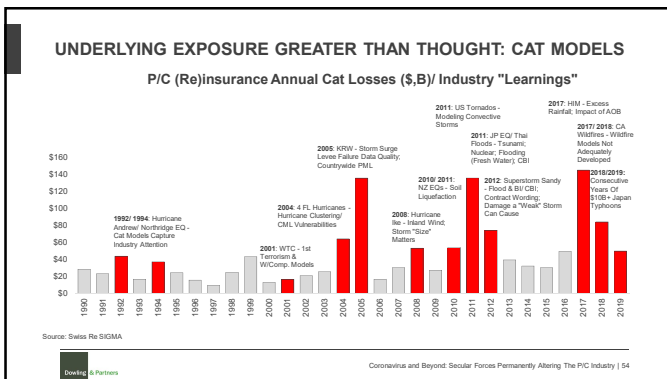
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THE PRICING ENVIRONMENT

Rates Were Moving Pre-COVID-19 ... Uncertainty Accelerating In The COVID-19 World, Tipping Some Markets "Hard"

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SOCIAL INFLATION IS STILL THERE THOUGH WITH A LIKELY TEMPORARY BENEFIT DUE TO COVID-19 CONDITIONS

- Increase In Plaintiff Activity:** Rate of attorney involvement was up, but now many more want to settle; Plaintiffs want cash now.
- Plaintiff's Bar Is Increasingly Well Funded:** Litigation funding has spread to many different types of suits, but it is an "asset class" for investors and one that must compete with other alternatives.
- Jury Makeup and Millennials "Social Responsibility" Views:** "Now there are *exogenous forces...that are affecting these loss trends such as millennials on juries and litigation financing*, which seems to be an increasing factor in terms of prolonging the life and the cost of claims." (Liberty Mutual).
- Attorneys Are Leveraging Tech / Sharing Data:** "...the other things that the plaintiff attorneys are doing is *leveraging technology to share tactics on how to approach claims, sharing information on various insurance carriers and their practices so as to be able to more effectively leverage the insurers.*" (Old Republic).

Now Courts Are Closed And Suddenly All Trends Have Shifted

2019 U.S. Loss Reserve Mix By Estimated Inflation Type

Inflation Type	Percentage
Economic Inflation	35%
Medical	13%
Wages	13%
COG S	22%
Other	2%

Source: Statutory Statements, D&P Analysis

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U.S. RATES HAVE INCREASED, BUT SO HAS UNCERTAINTY

CIAB: Average Premium Rate Changes By Major Line Of Business

Source: GNB, D&P Analysis

AmWINS E&S Pricing History - All Lines

Source: AmWINS

There Are Clearly Capacity Shortages In Particular Lines Of Business, While Workers Comp Has Served To Offset Somewhat, Given Favorable Results.

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GLOBALLY ACROSS ALL COMMERCIAL LINES ...

Global Insurance Market Index

Source: Marsh Global Ins Market Index
Note: Q1'20 index is a preliminary rating. Marsh's rate changes.

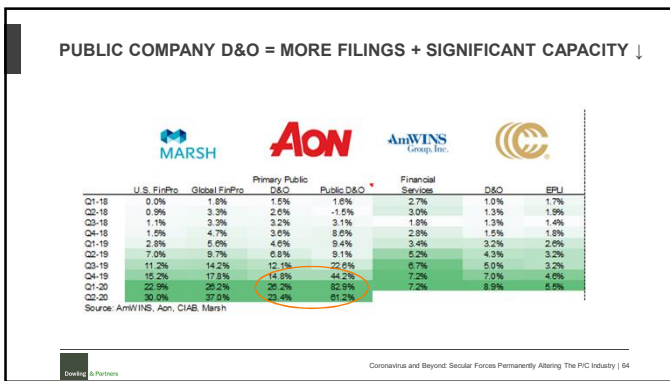
Marsh Global Insurance Market Index Components (Global)

Source: Marsh Global Ins Market Index

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QUESTIONS?

Please send any feedback, comments or questions to kyle@dowling.com

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