

Casualty Market Update

Sean Devlin, CAS Spring Meeting, May 2019



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Polling Questions 1 & 2

Question 1:

What best describes a soft market?

- a) Oversupply of capacity
- b) Rates are decreasing
- c) Loss ratios are elevated

Question 2:

Why is the biggest reason primary soft markets arise?

- a) Capital position of (re)insurers
- b) Underestimation of loss costs
- c) Chasing top line
- d) Cheap reinsurance

The Reinsurance Market

Industry Premiums

Line	Direct	Assumed	Ceded
Private Passenger Auto Liability	148,065	3,618	7,385
Auto Physical Damage	108,008	1,703	3,962
Workers' compensation	56,863	2,731	7,279
Other Liability + Products Liability Occ	49,194	5,162	13,636
Commercial Multiple Peril	41,984	1,995	5,802
Commercial Auto Liability	30,897	1,650	4,250
Other Liability + Products Liability CM	23,979	2,290	4,862
Medical Professional Liability	9,344	488	1,034
Proportional Total		19,638	48,211
Reinsurance - Non-Prop Casualty		6,236	460
Total	468,333	45,513	96,883

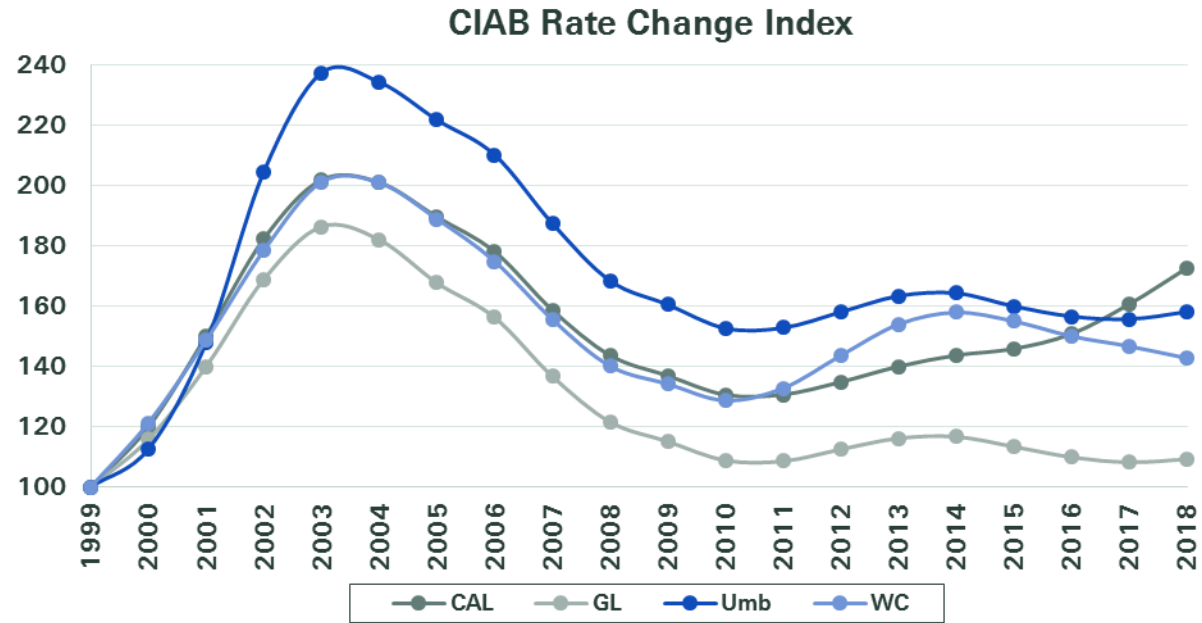
Source: Annual Statement (\$Ms)
Assumed and Ceded are for non-affiliates

What Gets Ceded

Line/ company	Proportional	Non-Prop
Personal Auto	<ul style="list-style-type: none"> • Much of it is Non-Standard (NSA), despite being vast minority of Industry • NSA is highly leveraged, creating the need for high cession of QS 	<ul style="list-style-type: none"> • Standard/ Preferred • ECO/ XPL
Commercial Auto	<ul style="list-style-type: none"> • Specialist Programs/ MGA Driven 	<ul style="list-style-type: none"> • Some Specialist • Part of Core XOL • High Excess/ Excess on Excess
Other Liability (Occ)	<ul style="list-style-type: none"> • Umbrella • Some Specialist/ MGA 	<ul style="list-style-type: none"> • Working covers • High Excess/ Excess on Excess
WC	<ul style="list-style-type: none"> • Limited to first 500K to 1M 	<ul style="list-style-type: none"> • Working layers to high excess • Cat Covers
Regional Companies	<ul style="list-style-type: none"> • Limited to Umbrella or Whole Account 	<ul style="list-style-type: none"> • Multi-line XOL • Stop-Loss
All companies	<ul style="list-style-type: none"> • Leverage Relief QS, when needed 	<ul style="list-style-type: none"> • Moving to consolidate reinsurance

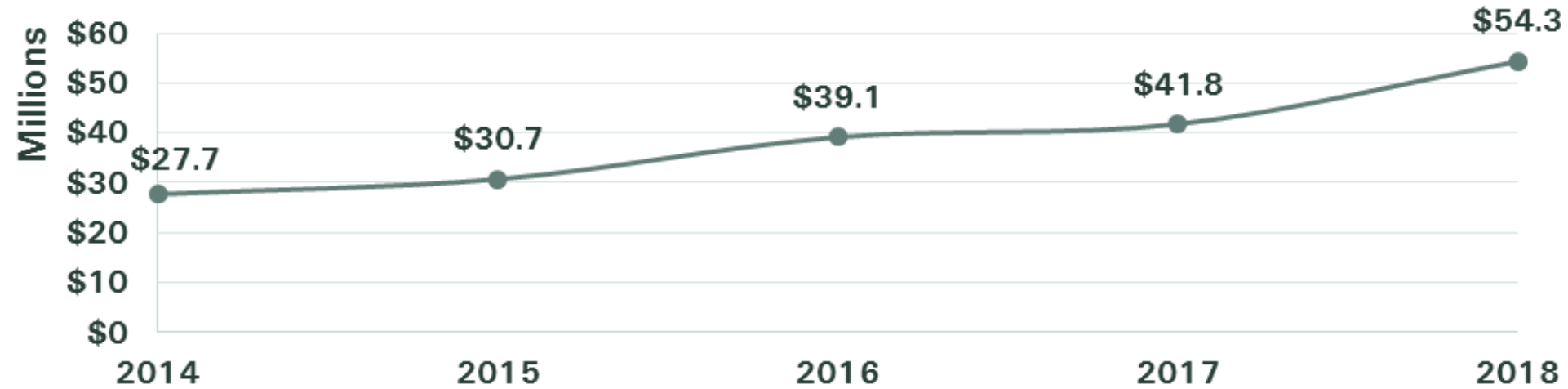
State of the Market

Rate Environment



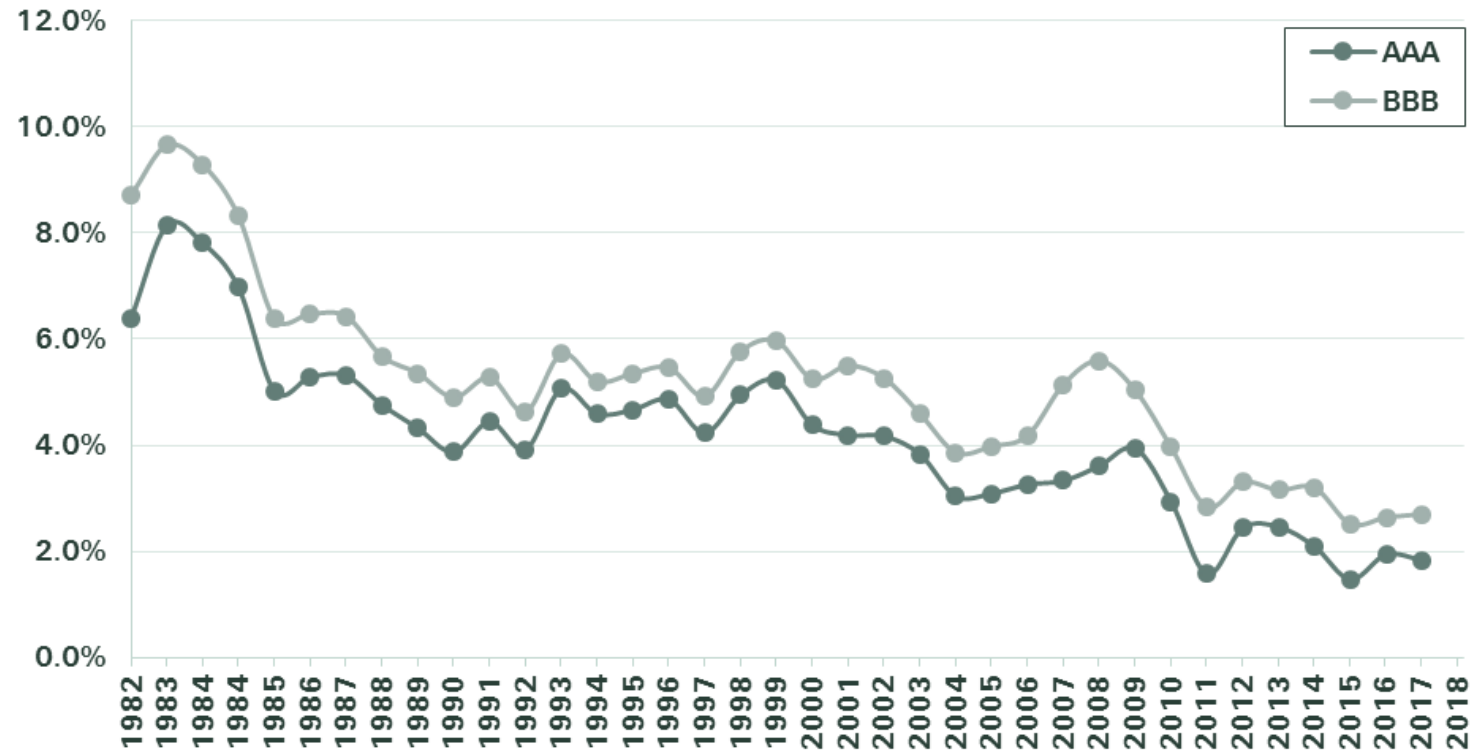
Jury Impact

Median Severity - Top 50 Verdicts



Investment Environment

"Real" Investment Grade Corporate Bond Yield



Commercial Auto Liability - Results

Acc Year	Net Loss+DCCE Ratio									
	12	24	36	48	60	72	84	96	108	120
2009	62.7%	60.5%	60.4%	60.2%	60.2%	60.0%	60.0%	59.8%	59.7%	59.8%
2010	64.7%	64.9%	66.0%	66.8%	67.6%	67.8%	67.6%	67.5%	67.4%	
2011	65.6%	68.3%	70.1%	71.1%	72.5%	72.6%	72.5%	72.6%		
2012	66.1%	68.2%	69.8%	71.9%	72.7%	72.8%	72.8%			
2013	65.6%	67.2%	70.6%	72.9%	73.7%	73.7%				
2014	65.2%	68.3%	71.5%	73.3%	74.6%					
2015	66.0%	69.9%	72.7%	74.8%						
2016	69.2%	72.2%	75.3%							
2017	70.6%	72.9%								
2018	69.5%									

Acc Year	Deviation from 12 Month Estimate								
	24	36	48	60	72	84	96	108	120
2009	-2.2%	-2.3%	-2.5%	-2.5%	-2.6%	-2.7%	-2.9%	-2.9%	-2.9%
2010	0.2%	1.3%	2.2%	3.0%	3.2%	2.9%	2.8%	2.7%	
2011	2.7%	4.5%	5.5%	6.9%	7.0%	6.9%	7.0%		
2012	2.1%	3.7%	5.7%	6.6%	6.7%	6.7%			
2013	1.6%	5.0%	7.3%	8.1%	8.1%				
2014	3.2%	6.3%	8.2%	9.4%					
2015	3.8%	6.7%	8.8%						
2016	3.0%	6.0%							
2017	2.3%								

Polling Questions 3 & 4

Question 3:

Why are loss ratios currently eventually elevated in Commercial Auto?

- a) Rates were lowered
- b) Changes in driver behavior
- c) Changes in the economy

Question 4:

What auto frequency do you expect for 2019-21?

- a) -2% or less/ year
- b) -1%-2%/year
- c) Less than 1% change either way
- d) -1%-2%/year
- e) 2% or more/ year

Polling Question 5

Question 5:

How do rate changes compare to loss trend for Commercial Auto?

- a) Rate changes $>$ loss trend
- b) Rate changes $=$ loss trend
- c) Rate changes $<$ loss trend

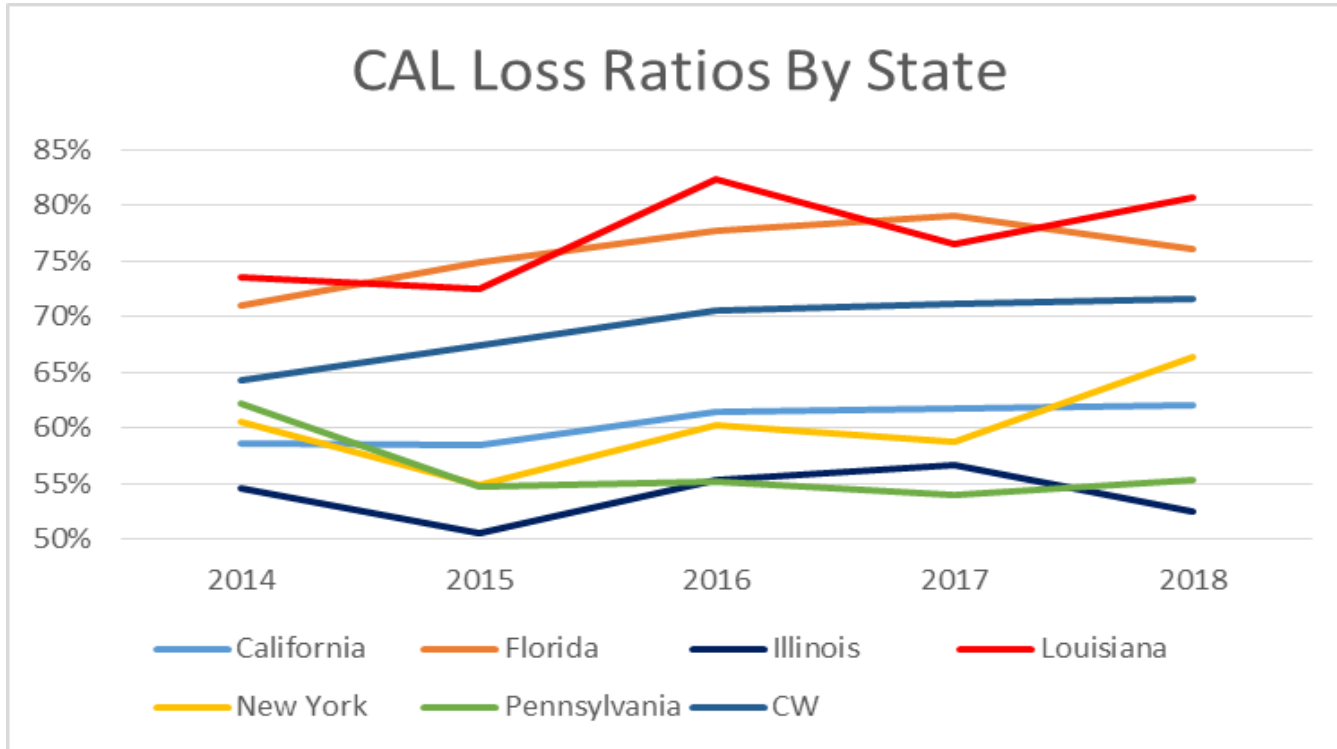
Commercial Auto Liability – Adverse Development

Significant Adverse Development this decade

- Long term mean selections at 12 months
- Frequency misestimated
 - Long-term negative trend negated by
 - Driver quality
 - Distracted driving
 - Economic impacts
 - Gas prices
- Severity Misestimated
 - Jury Verdicts



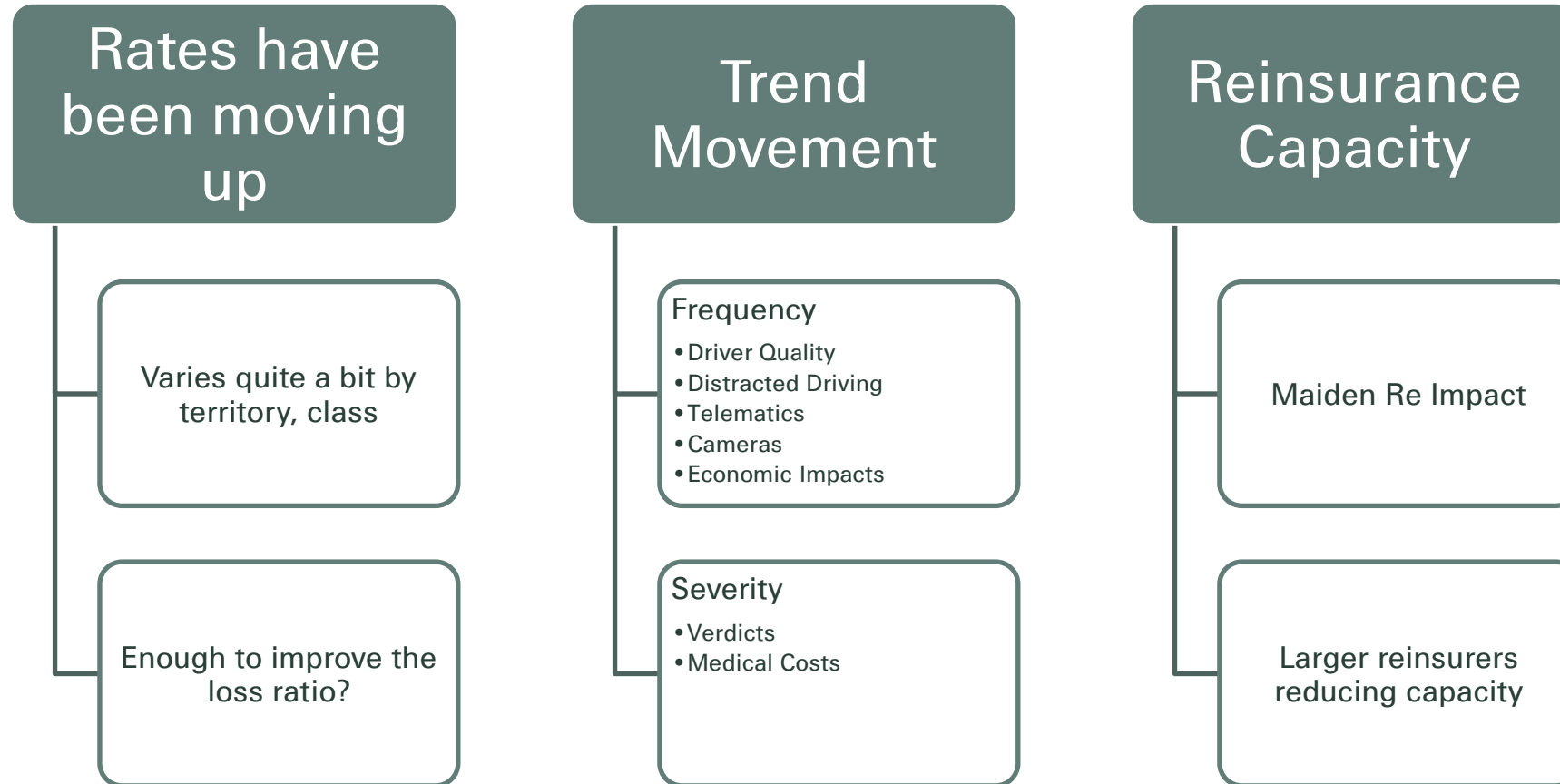
Commercial Auto Liability - Results



Large Differences :
Can also be seen by segment

Source: Page 19 annual Statement – Direct Pure Loss Ratios

Commercial Auto Liability - Market



Personal Auto Liability - Results

Acc Year	Net Loss+DCCE Ratio									
	12	24	36	48	60	72	84	96	108	120
2009	72.9%	71.9%	71.2%	70.7%	70.4%	70.4%	70.5%	70.4%	70.4%	70.4%
2010	73.5%	72.5%	71.6%	71.5%	71.4%	71.4%	71.3%	71.3%	71.2%	
2011	72.1%	70.8%	70.8%	70.7%	70.6%	70.5%	70.5%	70.5%		
2012	71.4%	70.8%	70.6%	70.6%	70.5%	70.4%	70.4%			
2013	72.4%	72.3%	72.4%	72.5%	72.3%	72.1%				
2014	65.8%	66.1%	66.4%	66.4%	66.2%					
2015	72.8%	74.5%	75.0%	75.1%						
2016	75.1%	75.7%	76.0%							
2017	72.3%	71.7%								
2018	69.4%									

Acc Year	Deviation from 12 Month Estimate									
	24	36	48	60	72	84	96	108	120	
2009	-1.0%	-1.7%	-2.2%	-2.5%	-2.5%	-2.4%	-2.5%	-2.5%	-2.5%	
2010	-1.0%	-1.8%	-1.9%	-2.1%	-2.1%	-2.2%	-2.2%	-2.2%	-2.2%	
2011	-1.3%	-1.3%	-1.4%	-1.5%	-1.6%	-1.5%	-1.6%			
2012	-0.7%	-0.8%	-0.9%	-1.0%	-1.0%	-1.1%				
2013	-0.1%	0.0%	0.0%	-0.2%	-0.3%					
2014	0.3%	0.6%	0.6%	0.4%						
2015	1.7%	2.2%	2.2%							
2016	0.7%	0.9%								
2017	-0.6%									

Polling Question 6

Question 6:

How do rate changes compare to loss trend for Personal Auto?

- a) Rate changes $>$ loss trend
- b) Rate changes $=$ loss trend
- c) Rate changes $<$ loss trend

Personal Auto Liability

Standard/Preferred dominated by large sophisticated carriers

- Progressive, GEICO, State Farm, Allstate write ~50% of market
- Top 10 writers have ~70% of market
- Typically don't buy reinsurance

Brief miss in trends – frequency driven

- Frequency
 - Distracted driving
 - Gas prices
 - Economic impacts
- Severity
 - Verdicts
 - Medical costs

Non-standard Impact

- Rapid growth of segment;
 - Unemployment rate decrease
 - Gas Prices decrease

Non-Standard Auto Market Differences

Has not turned an underwriting profit in over a decade

- Fees are much larger part of income (5-6% vs 1%)
- Smaller less sophisticated companies

Adverse Development

- Much more pronounced
- Existed since 2010
- Much higher miss in loss ratios
- Generally less sophisticated

Rate changes

- Have typically been much higher
- Less impact due to adverse selection
- Price sensitive buyers
- Lower Retention ratios

Geographic mix

- Top 3 states are 50% of book (CA, TX, FL)

Trends

- May differ from standard (different mix, limits involved, geography)

Other Liability Claims Made - Results

Net Loss+DCCE Ratio

Acc Year	12	24	36	48	60	72	84	96	108	120
2009	70.6%	72.1%	72.7%	73.0%	73.4%	73.1%	73.0%	73.2%	73.3%	73.3%
2010	70.4%	70.4%	69.7%	67.7%	65.9%	65.8%	65.0%	65.1%	65.0%	
2011	71.1%	71.1%	71.5%	70.6%	70.5%	70.2%	70.3%	69.7%		
2012	69.5%	70.2%	69.7%	70.6%	70.5%	70.8%	70.3%			
2013	65.9%	65.8%	65.3%	63.8%	62.1%	60.7%				
2014	63.6%	63.6%	64.9%	63.5%	62.3%					
2015	62.5%	63.4%	62.9%	61.2%						
2016	62.4%	66.1%	67.7%							
2017	64.8%	64.8%								
2018	62.9%									

Deviation from 12 Month Estimate

Acc Year	24	36	48	60	72	84	96	108	120
2009	1.6%	2.2%	2.4%	2.9%	2.5%	2.4%	2.6%	2.7%	2.7%
2010	0.1%	-0.7%	-2.6%	-4.4%	-4.6%	-5.3%	-5.3%	-5.3%	
2011	0.0%	0.4%	-0.5%	-0.6%	-0.8%	-0.8%	-1.4%		
2012	0.8%	0.2%	1.1%	1.0%	1.3%	0.8%			
2013	-0.1%	-0.6%	-2.1%	-3.8%	-5.2%				
2014	0.0%	1.3%	0.0%	-1.3%					
2015	0.9%	0.4%	-1.3%						
2016	3.7%	5.3%							
2017	0.0%								

Other Liability Occurrence - Results

Acc Year	Net Loss+DCCE Ratio									
	12	24	36	48	60	72	84	96	108	120
2009	69.1%	68.4%	66.2%	63.9%	62.9%	61.8%	61.0%	61.3%	60.5%	60.4%
2010	68.3%	67.9%	67.9%	66.4%	65.9%	65.3%	65.3%	64.6%	64.4%	
2011	66.9%	66.9%	67.1%	66.9%	66.9%	67.2%	66.6%	66.6%		
2012	64.7%	64.7%	64.1%	64.6%	64.5%	65.0%	64.4%			
2013	62.3%	61.6%	62.4%	63.7%	63.3%	63.5%				
2014	61.7%	61.1%	62.8%	62.0%	62.9%					
2015	61.7%	63.6%	63.1%	64.5%						
2016	63.7%	64.0%	65.1%							
2017	63.2%	65.0%								
2018	64.5%									

Acc Year	Deviation from 12 Month Estimate									
	24	36	48	60	72	84	96	108	120	
2009	-0.7%	-2.9%	-5.2%	-6.1%	-7.3%	-8.0%	-7.8%	-8.6%	-8.7%	
2010	-0.4%	-0.4%	-1.9%	-2.3%	-3.0%	-3.0%	-3.7%	-3.9%		
2011	0.0%	0.1%	0.0%	0.0%	0.3%	-0.4%	-0.4%			
2012	0.0%	-0.6%	-0.1%	-0.2%	0.2%	-0.3%				
2013	-0.7%	0.1%	1.4%	1.1%	1.2%					
2014	-0.6%	1.1%	0.3%	1.2%						
2015	1.9%	1.4%	2.7%							
2016	0.2%	1.4%								
2017	1.8%									

Polling Question 7

Question 7:

How do rate changes compare to loss trend for GL?

- a) Rate changes $>$ loss trend
- b) Rate changes $=$ loss trend
- c) Rate changes $<$ loss trend

Other Liability Occurrence - Results



Umbrella

- Driven by AL results
- GL also an issue with large losses and verdicts



General Liability

- Rates are starting to move up with loss activity

Products Liability - Results

Acc Year	Net Loss+DCCE Ratio									
	12	24	36	48	60	72	84	96	108	120
2009	69.4%	66.3%	66.8%	62.1%	62.1%	59.7%	62.6%	64.4%	65.5%	67.7%
2010	73.4%	75.5%	70.8%	74.9%	75.0%	75.7%	75.9%	76.0%	77.4%	
2011	71.0%	69.7%	72.3%	69.4%	73.0%	72.6%	72.6%	73.6%		
2012	68.8%	67.8%	63.6%	71.5%	61.2%	59.7%	60.0%			
2013	65.4%	60.1%	58.7%	57.2%	54.5%	55.2%				
2014	63.5%	60.0%	56.6%	54.2%	51.9%					
2015	64.3%	59.3%	56.2%	55.3%						
2016	68.4%	67.4%	64.5%							
2017	63.1%	63.2%								
2018	71.0%									

Acc Year	Deviation from 12 Month Estimate									
	24	36	48	60	72	84	96	108	120	
2009	-3.1%	-2.6%	-7.4%	-7.3%	-9.7%	-6.8%	-5.0%	-3.9%	-1.8%	
2010	2.1%	-2.6%	1.5%	1.6%	2.2%	2.5%	2.6%	4.0%		
2011	-1.3%	1.3%	-1.6%	2.1%	1.6%	1.6%	2.6%			
2012	-0.9%	-5.2%	2.7%	-7.6%	-9.1%	-8.8%				
2013	-5.3%	-6.7%	-8.2%	-11.0%	-10.2%					
2014	-3.5%	-6.9%	-9.4%	-11.6%						
2015	-5.0%	-8.0%	-9.0%							
2016	-1.0%	-4.0%								
2017	0.1%									

Polling Question 8

Question 8:

How do rate changes compare to loss trend for Workers' Compensation?

- a) Rate changes $>$ loss trend
- b) Rate changes $=$ loss trend
- c) Rate changes $<$ loss trend

Workers' Compensation - Results

Acc Year	Net Loss+DCCE Ratio										
	12	24	36	48	60	72	84	96	108	120	
2009	74.8%	75.1%	74.8%	75.3%	75.2%	75.0%	74.9%	74.7%	74.1%	73.7%	
2010	77.7%	80.4%	81.1%	81.4%	81.4%	81.3%	81.0%	80.2%	79.6%		
2011	77.9%	78.5%	79.1%	79.1%	79.0%	78.6%	77.8%	77.2%			
2012	75.0%	73.7%	73.2%	70.8%	71.6%	70.6%	69.8%				
2013	70.5%	69.3%	68.2%	67.4%	66.1%	65.0%					
2014	68.0%	66.5%	65.2%	63.5%	61.9%						
2015	66.8%	65.3%	63.2%	61.3%							
2016	65.9%	63.7%	61.3%								
2017	65.7%	63.4%									
2018	64.7%										

Acc Year	Deviation from 12 Month Estimate									
	24	36	48	60	72	84	96	108	120	
2009	0.3%	0.0%	0.5%	0.3%	0.2%	0.0%	-0.1%	-0.7%	-1.1%	
2010	2.7%	3.3%	3.7%	3.7%	3.6%	3.3%	2.5%	1.9%		
2011	0.6%	1.2%	1.2%	1.1%	0.7%	-0.1%	-0.7%			
2012	-1.3%	-1.8%	-4.2%	-3.4%	-4.4%	-5.2%				
2013	-1.2%	-2.3%	-3.1%	-4.5%	-5.5%					
2014	-1.5%	-2.8%	-4.5%	-6.1%						
2015	-1.6%	-3.6%	-5.6%							
2016	-2.2%	-4.5%								
2017	-2.3%									

Workers' Compensation - Results

Frequency changes have been driving results

- Investment in safety with improved economy
- Favorable development
- Rate Decreases

When will this end?

- Economic Impacts to change frequency
- Reserve releases dry up
- Medical inflation can get severe

Polling Question 9

Question 9:

How do you view the casualty reinsurance

- a) Softening
- b) Static
- c) Hardening
- d) Disjointed

Assumed Non-Prop Liability - Results

Net Loss+DCCE Ratio

Acc Year	12	24	36	48	60	72	84	96	108	120
2009	64.7%	67.5%	63.0%	62.4%	62.0%	60.6%	58.3%	56.9%	55.9%	55.2%
2010	63.5%	61.5%	61.0%	59.3%	57.7%	57.0%	55.7%	53.6%	52.8%	
2011	69.1%	70.7%	69.0%	67.7%	65.7%	64.1%	63.5%	62.1%		
2012	61.9%	62.9%	61.9%	63.8%	62.9%	62.7%	61.8%			
2013	62.4%	62.6%	63.7%	61.0%	59.9%	58.9%				
2014	61.1%	61.2%	60.6%	61.6%	60.8%					
2015	64.2%	65.7%	67.4%	69.2%						
2016	73.5%	77.1%	77.2%							
2017	88.5%	84.3%								
2018	86.1%									

Deviation from 12 Month Estimate

Acc Year	24	36	48	60	72	84	96	108	120
2009	2.8%	-1.7%	-2.3%	-2.8%	-4.1%	-6.4%	-7.9%	-8.8%	-9.5%
2010	-1.9%	-2.5%	-4.1%	-5.8%	-6.5%	-7.8%	-9.9%	-10.6%	
2011	1.6%	-0.2%	-1.4%	-3.4%	-5.1%	-5.6%	-7.0%		
2012	1.0%	0.0%	1.9%	1.0%	0.8%	-0.2%			
2013	0.2%	1.3%	-1.5%	-2.5%	-3.5%				
2014	0.2%	-0.4%	0.5%	-0.3%					
2015	1.5%	3.2%	5.0%						
2016	3.6%	3.7%							
2017	-4.2%								

The Reinsurance Market

Proportional

- Commission changes with
 - ELR
 - Margin needed
- Margin changes with required return
- Profitability of account/line
- Investment return
- Market Interest in opportunity can vary the required margin
- Overall will follow the primary market to large degree

Non-proportional

- Large losses over the last 2-3 years show the volatility involved
- Increased prices on lines impacted



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