

P&C Industry Review and Outlook AASCIF Conference

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Prepared by Ward
Ward is a business unit of Aon plc.

Agenda

- Financial Review and Year-to-Date Comparisons
- People Trends
- Expense Trends
- Digital and Operational Trends
- Summary and Q&A

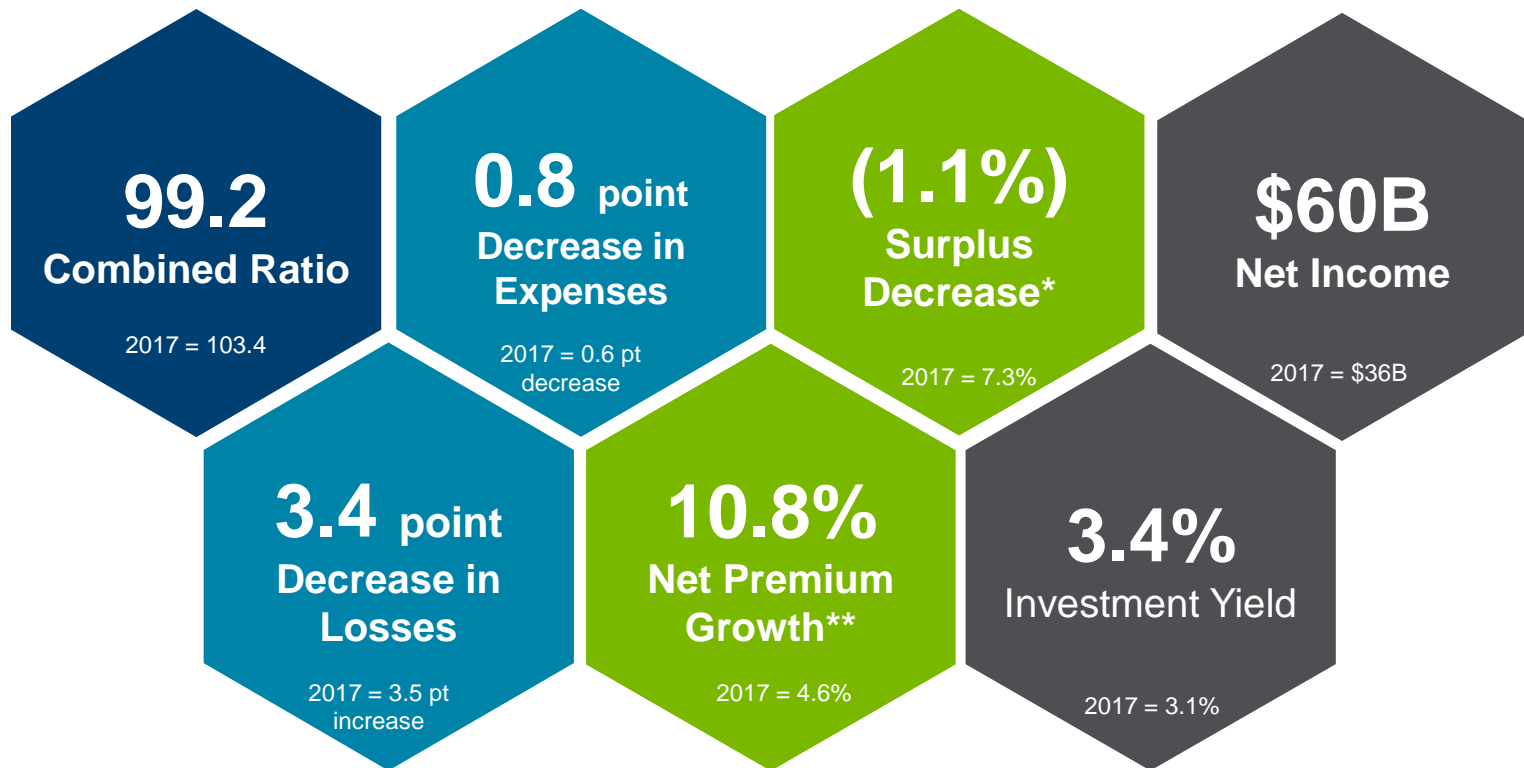


Key issues identified by insurance executives are summarized in the following major themes:

-

Market Observations

2018 was impacted favorably by lower catastrophe losses (\$43.3B vs. \$49.5B), strong premium growth, and favorable reserve development (\$13B).

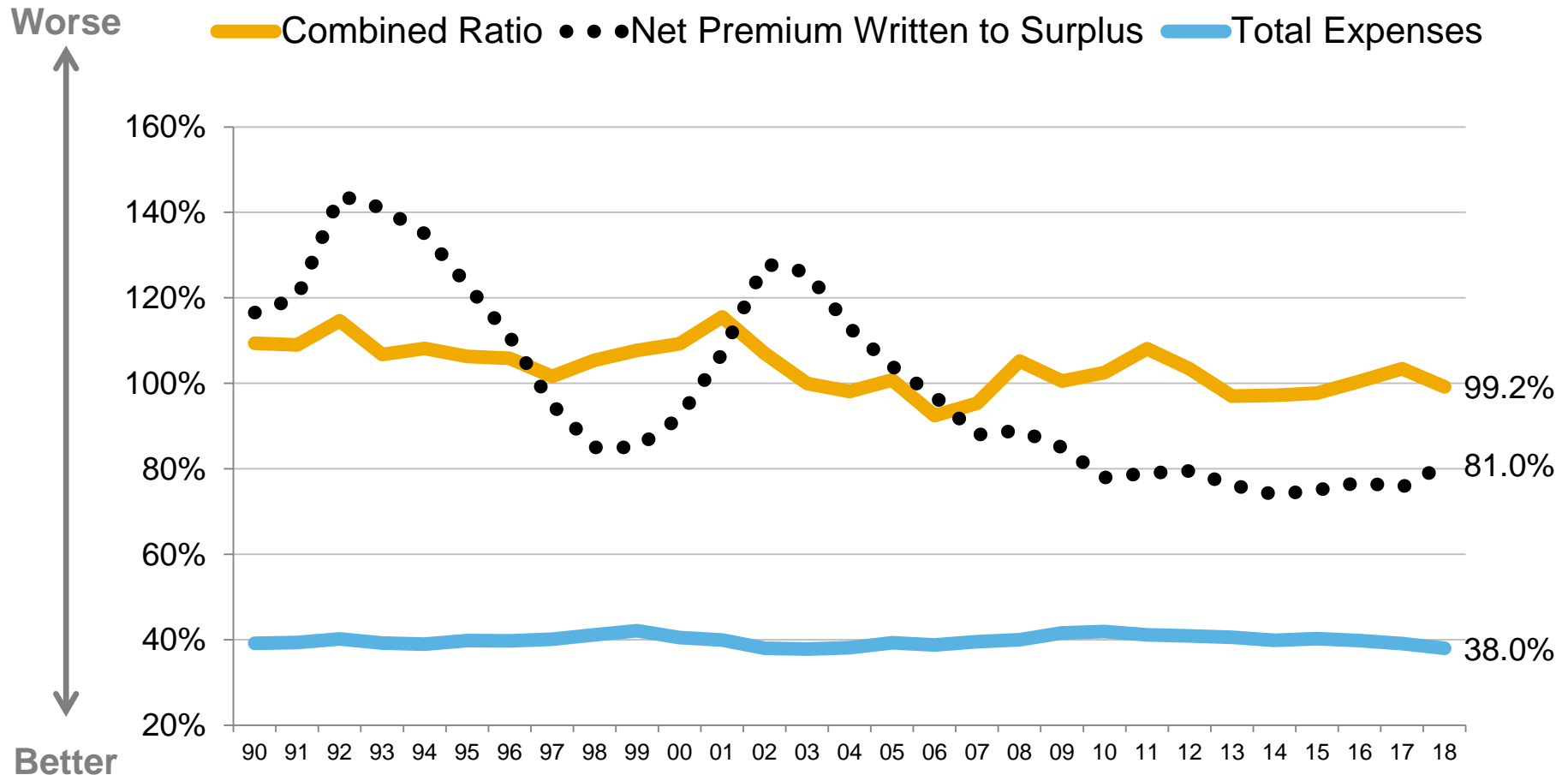


* September 30, 2018 surplus increased 4.1% from yearend 2017

** Direct premium growth was 5.6%

Source: NAIC

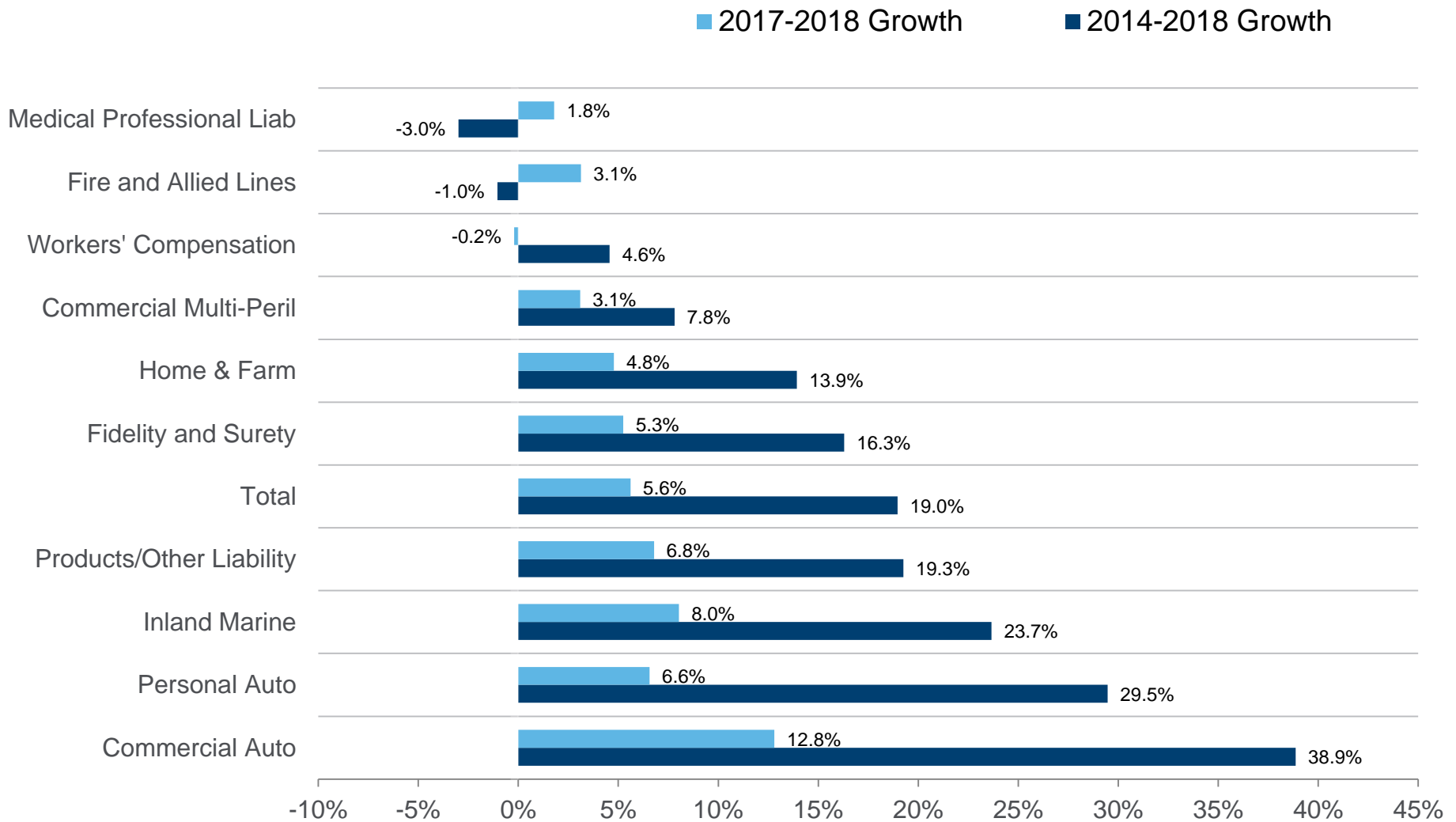
Key Performance Measures - US



- Combined ratio is prior to effect of policyholder dividends
- Expenses include Underwriting, Loss Adjusting and Investment
- Projections are based upon first 3 quarters trends and Q4 projections and do not try to anticipate reserve changes by companies

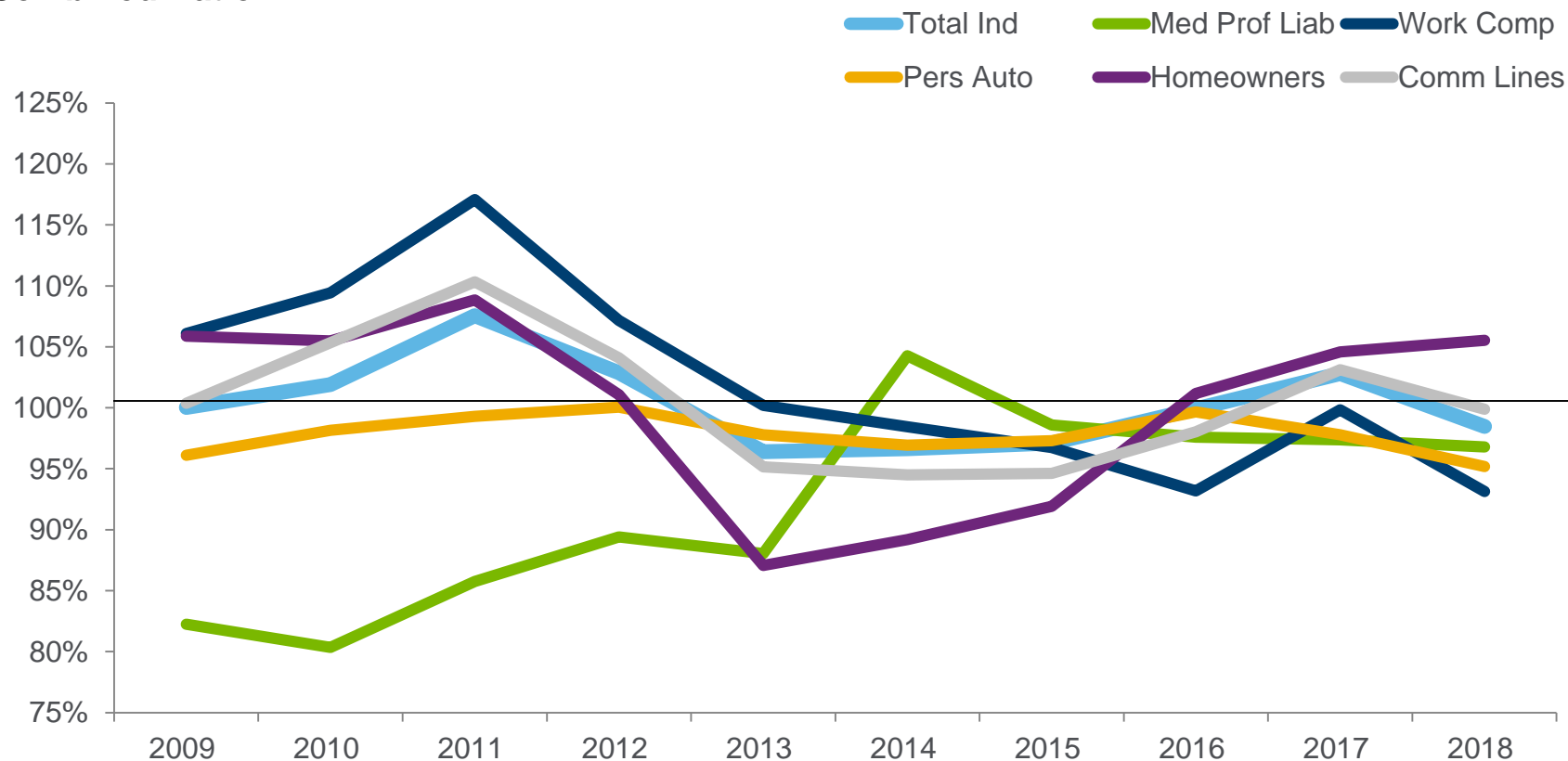
Source: Ward's Results

Direct Premium Growth Trends



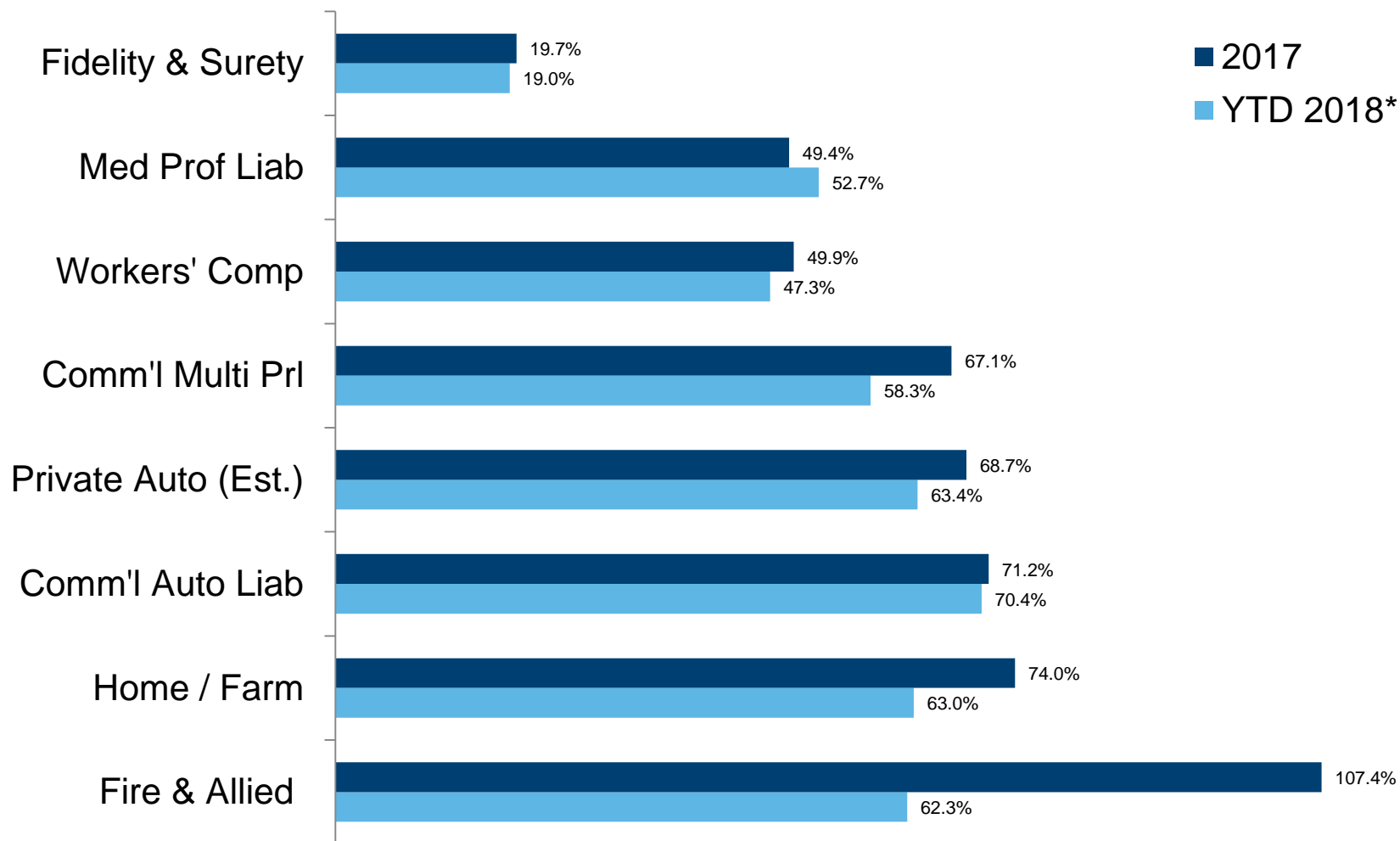
Combined Ratio by Product Benchmark – All Major Lines*

Combined Ratio



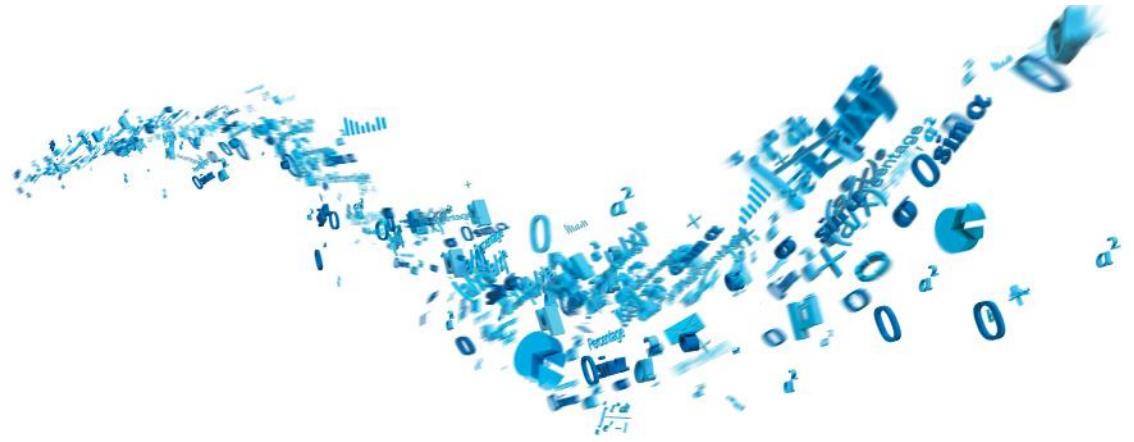
* Data reflects results of companies with at least 50% of premium generated by primary line of business

Loss Ratio Improvement Across Most Major Lines



* Measures direct losses as % of direct premiums earned through Q3 2018 relative to Q3 2017.

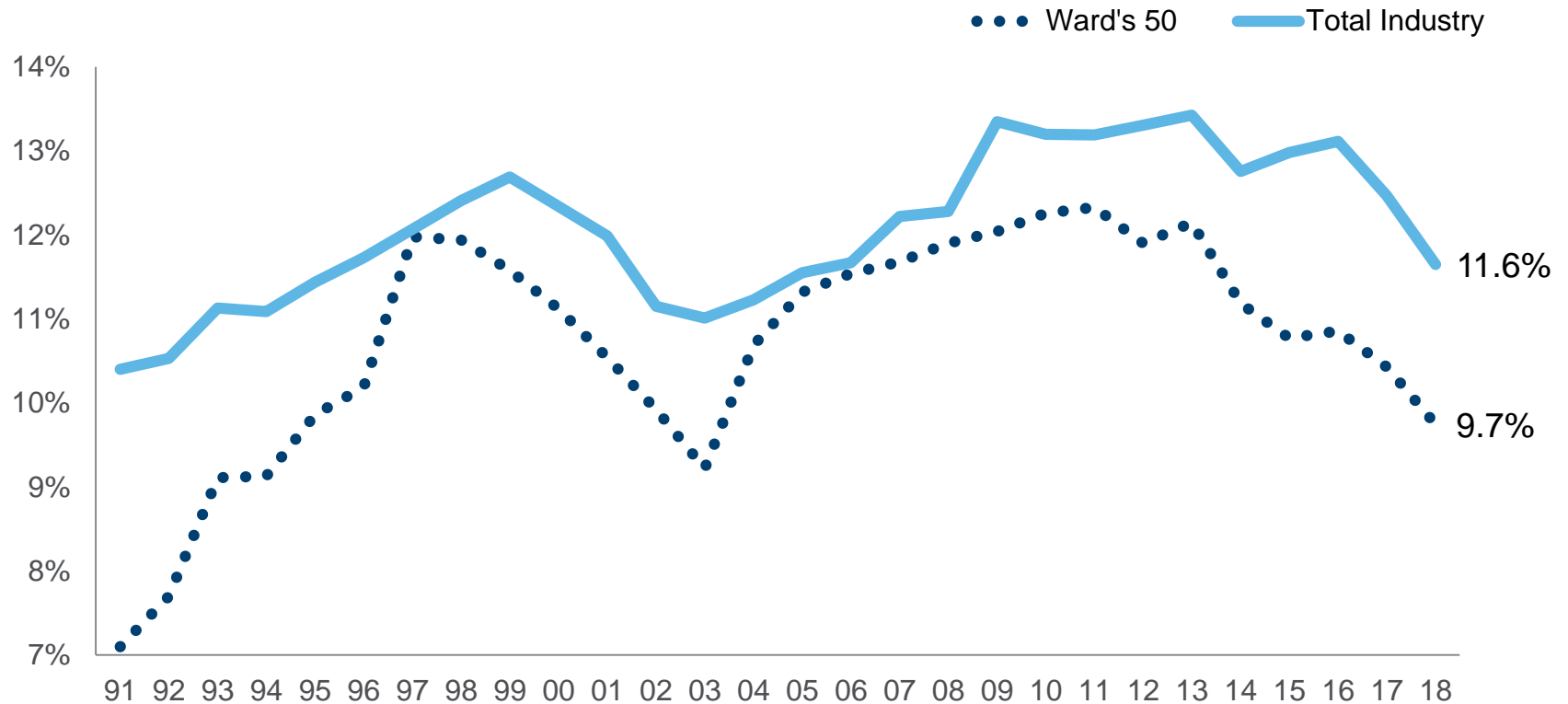
Source: SNL Financial



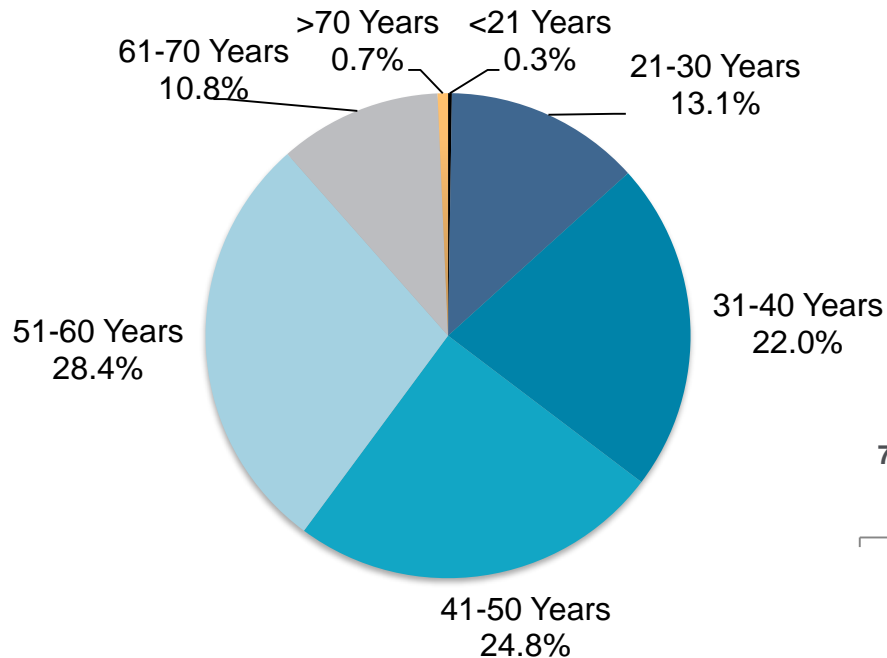
People Trends

Employee Costs Lowered in 2018

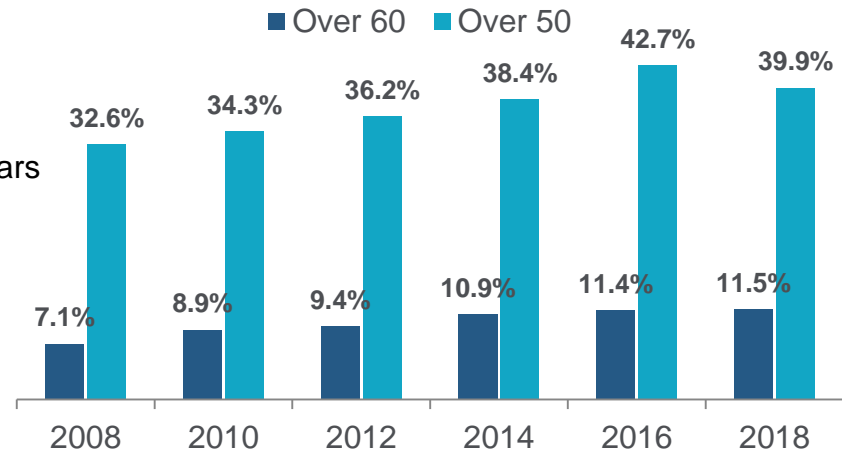
Salaries & Benefits as % of Net Premiums Written



An Aging Workforce



Percent of Employees By Age Over Time
Overall Benchmark



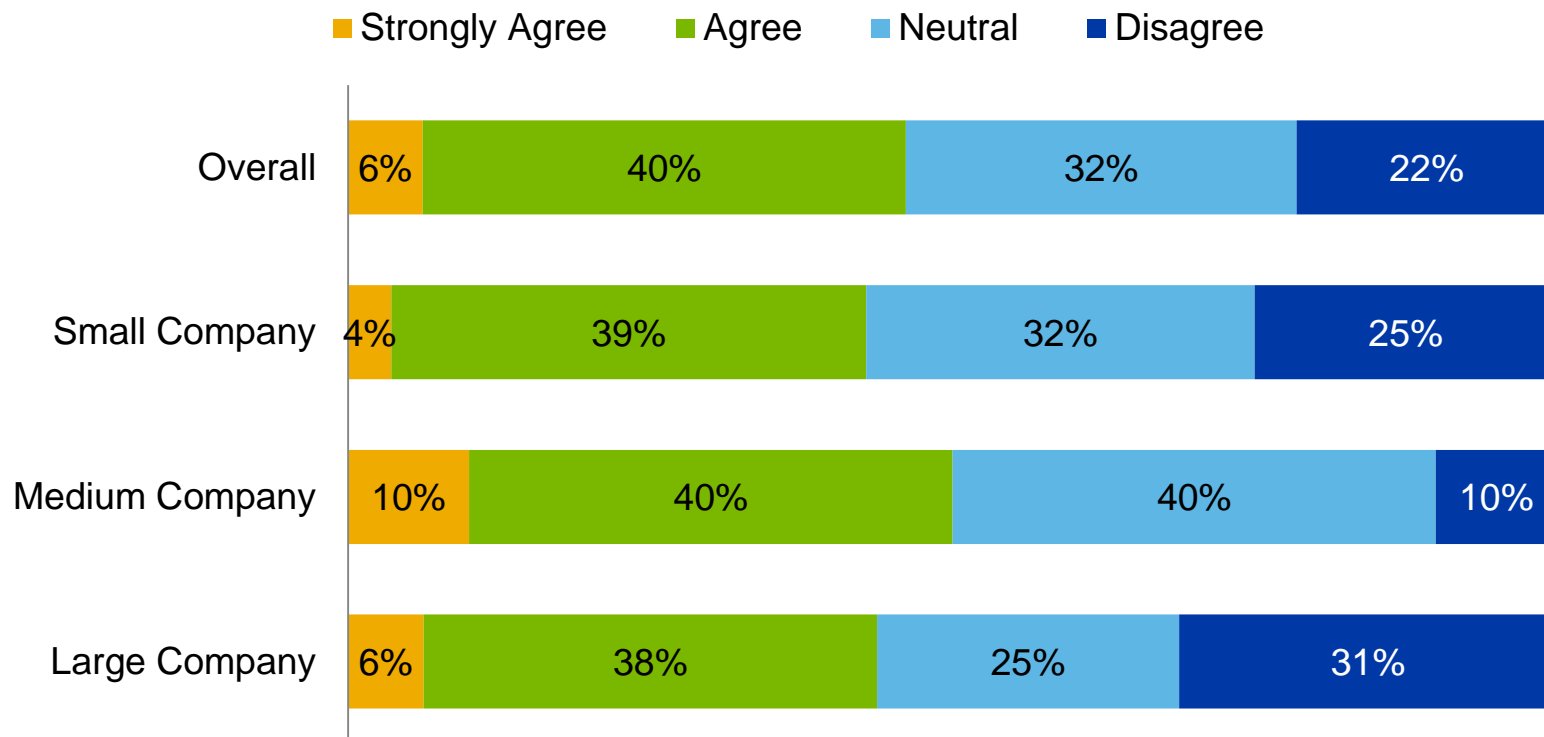
Key Points

- Employees continue to work longer than historical retirement age.
- 65% of employees are over 40.
- 51-60 years declined 9% from 2016 to 2018.

Source: Ward HR and Employee Benefits Practices Study, 2018

Company View on Succession Planning

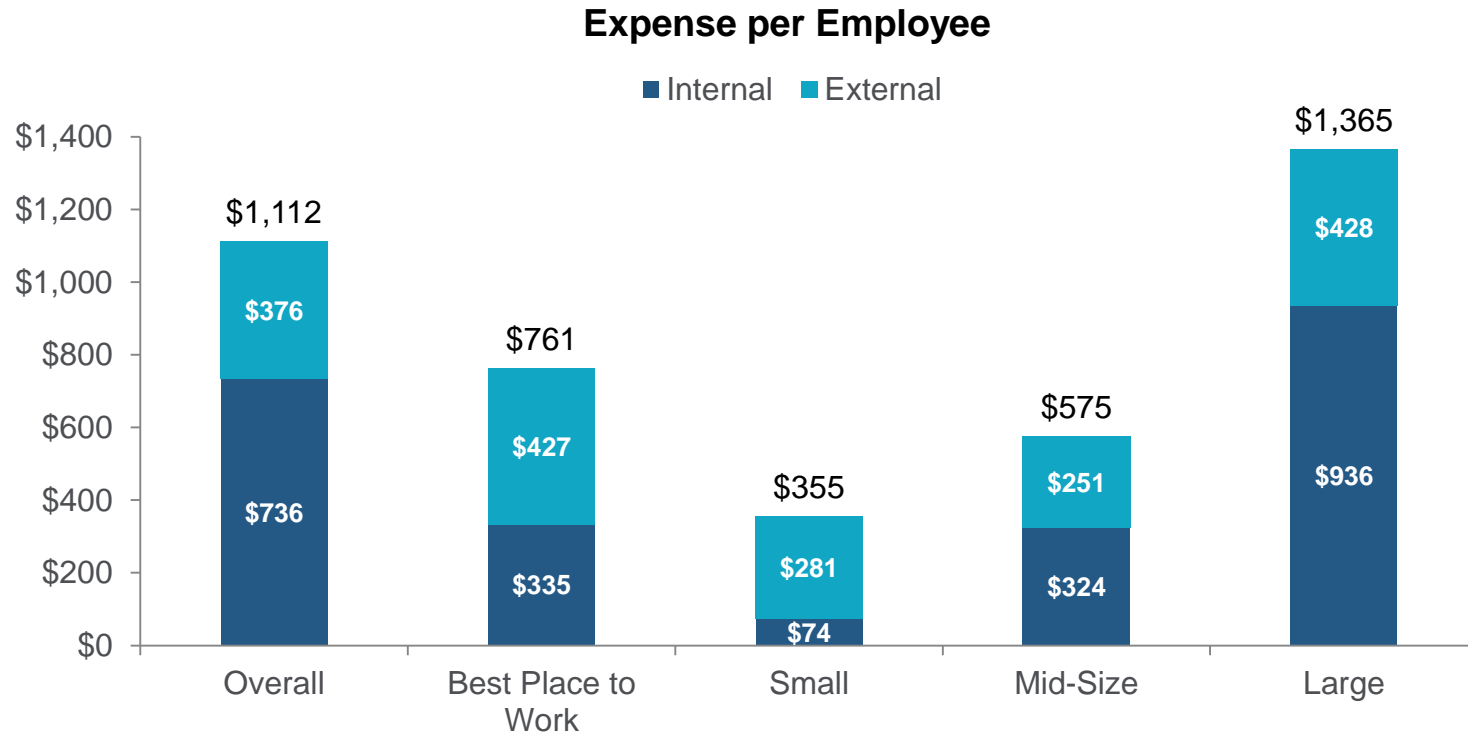
“My company has effectively managed and executed succession planning”



- Succession Planning was the second most popular answer when asking carriers about their top 3 concerns their HR organization is facing

Source: Ward HR and Employee Benefits Practices Study, 2018

HR Led Training and Development



- HR led training and development costs have **increased 83% from \$606** in 2015.

Source: Ward HR and Employee Benefits Practices Study, 2018

But the Workforce of the Future is Evolving

- Company needs are evolving, requiring proficiency in new areas like cognitive flexibility, critical thinking, and complex problem solving coupled with strong technical knowledge
- This is driving strong demand and premium pay for talent in the following roles:



Business Planning and Intelligence

- Strategic Planning
- Business Intelligence
- Product Portfolio and Management



Data and Analysis

- Machine Learning/AI
- Data Science and Modeling
- Data Management
- Privacy and Governance

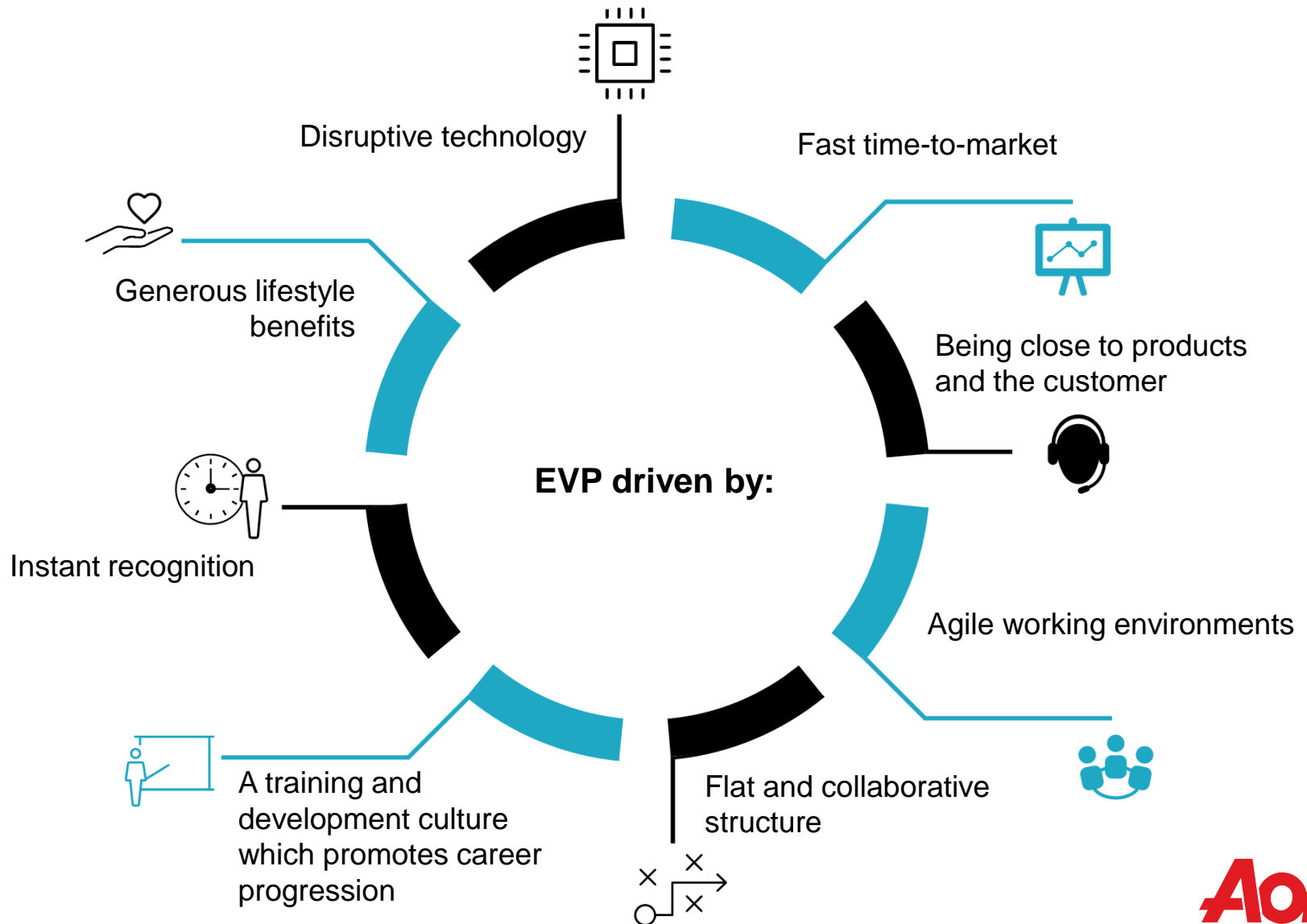


Engineering

- Cybersecurity
- Software Engineering and Development
- Network and Cloud
- E-Commerce and Web Portal

Source: Radford US Compensation Totals, 2012 to 2017, PEW Research Center, WEF

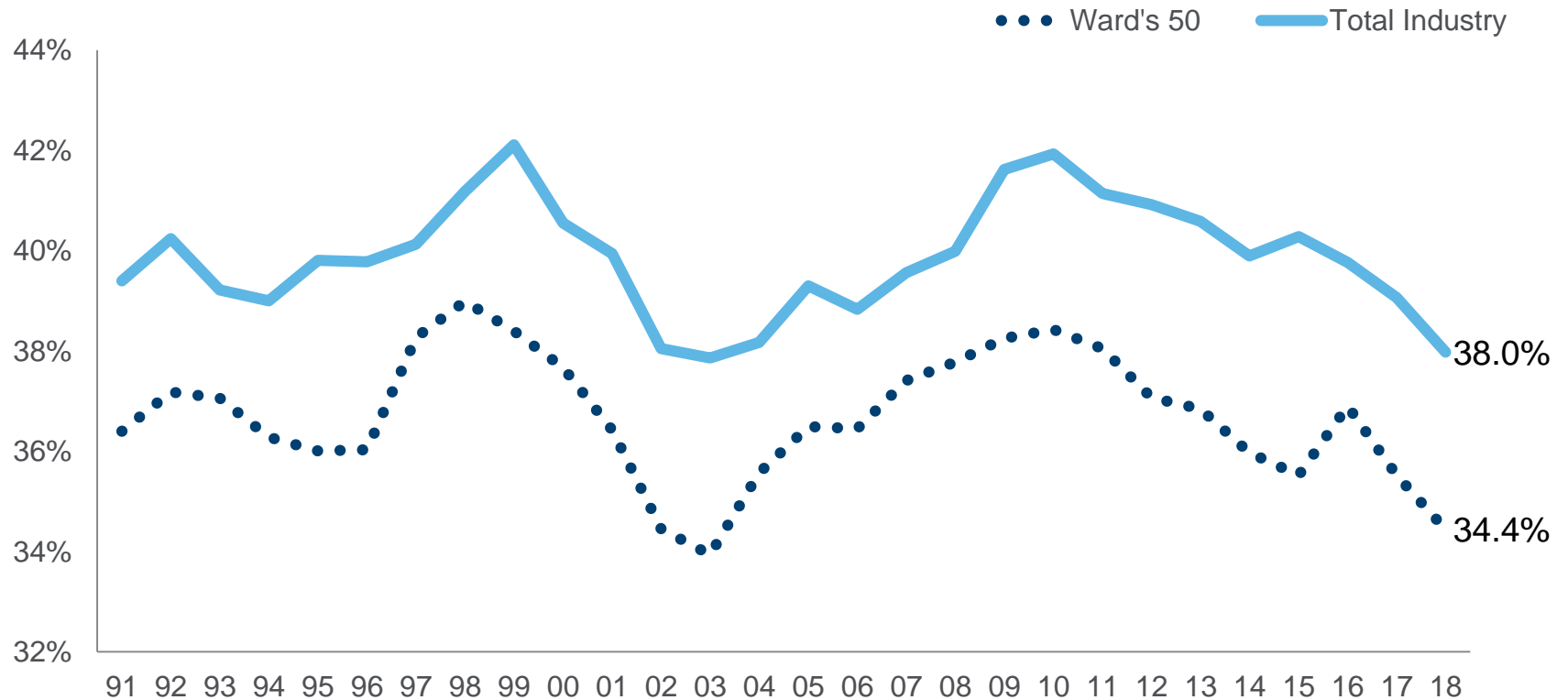
Rewards are just one piece of the Employment Value Proposition





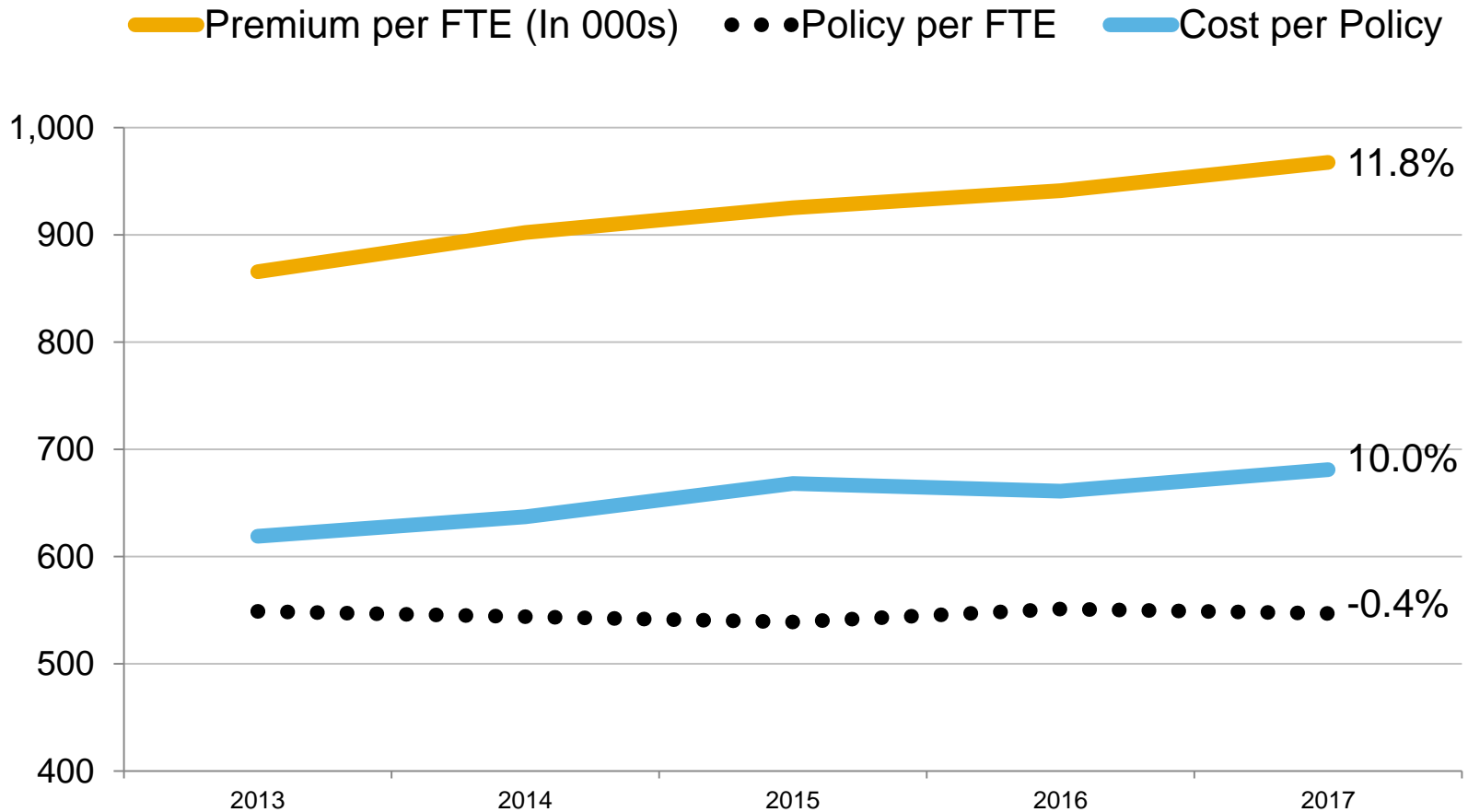
Expenses Continue to Improve

Total Expenses as % of Net Premiums Written



* Expenses include Underwriting, Loss Adjusting and Investment Expenses

Are Insurance Companies More Productive Now?



Source: Ward CEO Benchmarking



Commercial Lines – Key Considerations



**WC premium soft line,
frequency still trending
downward**



**Processing and
automation: small
commercial fast follower
to personal lines**



**Compressing quote to
issue duration, days to
minutes on small CL**

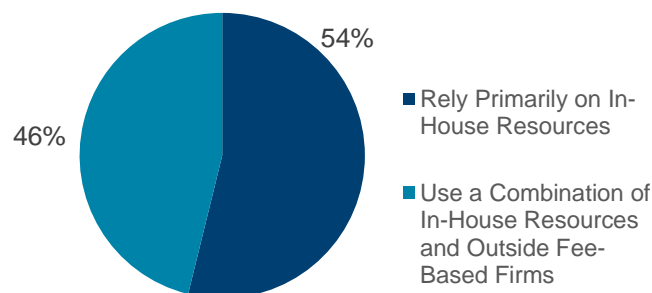


**Product and state
expansion: cyber, E&O,
assisted living, etc.**

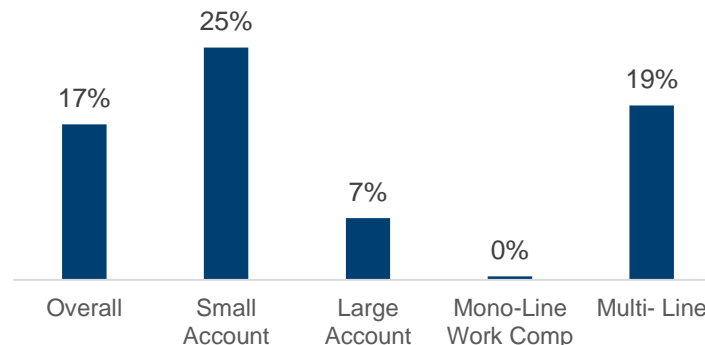


**Automating certificate
requests**

Operational Loss Control Philosophy



Loss Control Visits Conducted by External Resources as a % of Total Visits

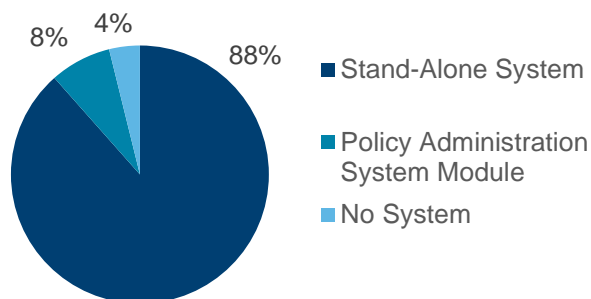


Analysis and Commentary

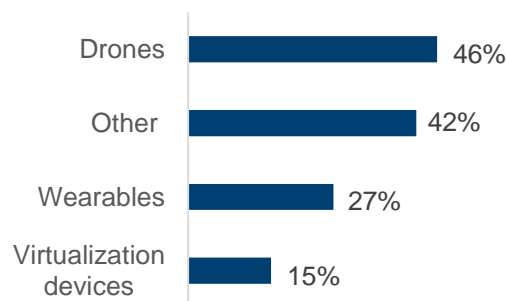
- No carriers completely outsourced their loss control work, but a larger number of carriers used a mix of in-house and outside resources. 46% of respondents used a mixed approach, which was a sizeable increase from 29% in 2011.
- Large account carriers were more likely to rely primarily on in-house resources at 69%, compared to small account carriers at 38%.
- Mono-line workers compensation carriers relied exclusively on internal resources for the handling of their loss control visits. This can be explained due to a lower geographic footprint. (Mono-line work comp carriers operated in 14 states on average compared to the multi-line carriers that operate in 24 states).

Risk Management / Loss Control

Loss Control Technology



New Technology Investment

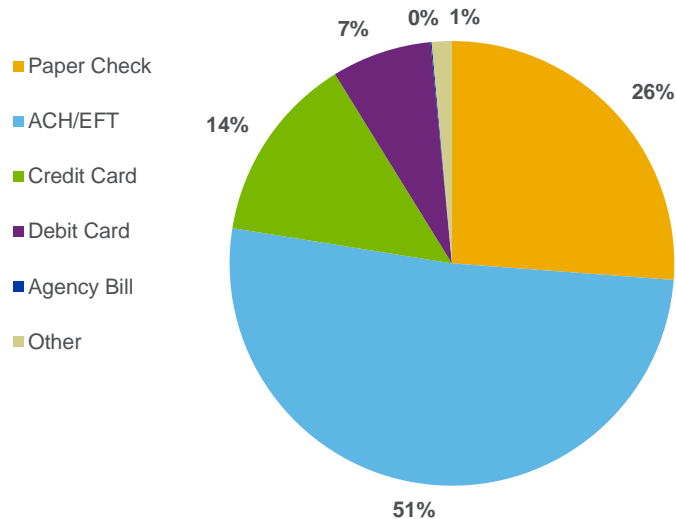


Analysis and Commentary

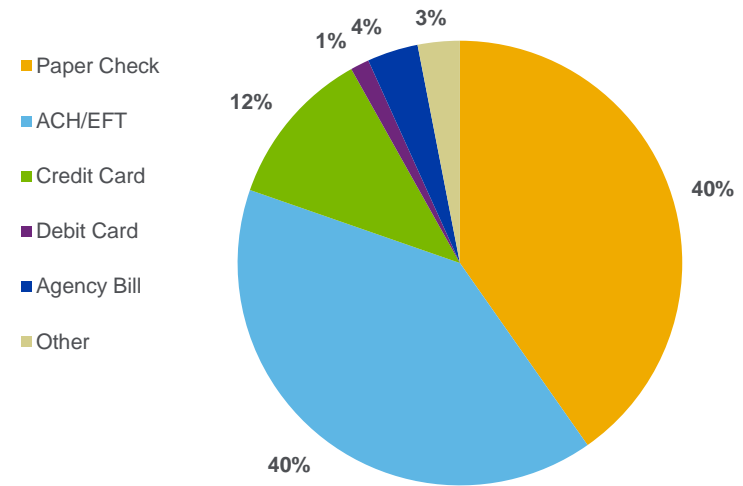
- Only 4% of carriers indicated that they did not have a loss control system. 88% of carriers have a stand-alone loss control system, which was a significant increase from 67% in 2011.
- 73% of carriers' loss control systems did not automatically identify accounts requiring loss control visits.
- Of the carriers that have automated assignments, 56% of total assignments were automated.
- There are several new technologies carriers are investing in. Drones are the most prominent new technology with 46% of carriers making investments.
- Out of the carriers responding with "Other", the most common answers for new technologies were telematics and sensors.

Billing Becoming More Automated

**Personal Lines Payment Form
Distribution – Transaction Count**
Overall Benchmark



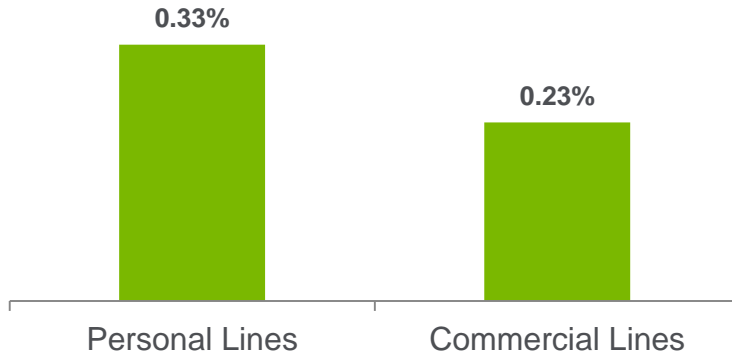
**Commercial Lines Payment Form
Distribution – Transaction Count**
Overall Benchmark



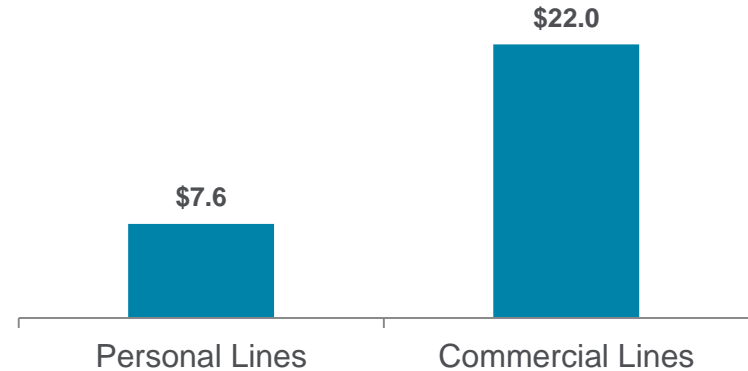
- Credit/Debit card usage represented 21% of personal lines transactions in 2016 and 13% of commercial lines transactions in 2016.
- 95% of carriers had an increase in credit card usage for commercial lines, with credit card payments increasing 75% from 2014 to 2016, on average.
- 91% of carriers had an increased in credit card usage for personal lines, with credit card payments increasing 26% from 2014 to 2016, on average.

Credit Card Practices

Credit Card Expense as a % of Total DPW

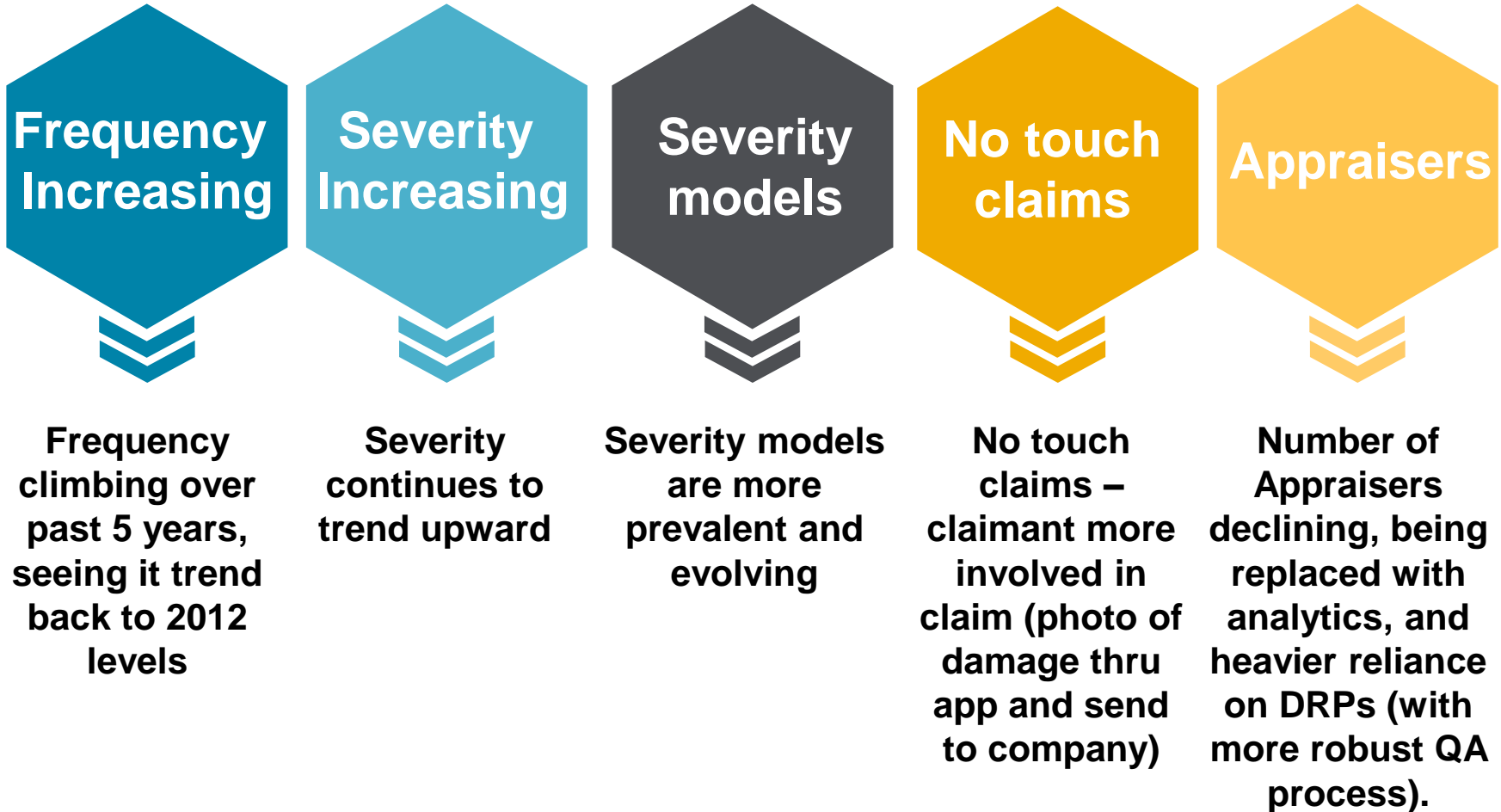


Credit Card Expense per Credit Card Transaction



- 100% of carriers accept credit cards for personal lines payments, while 83% accept it for commercial lines payments.
- Credit/Debit card usage increased from 14% of personal lines transactions in 2013 to 21% in 2016, while commercial lines usage increased from 8% to 13%.
- The average merchant fee was 1.66% for personal lines and 1.54% for commercial lines.
- 95% of carriers have seen credit card usage increase for commercial lines, at a rate of 75% from 2014 to 2016.
- 91% of carriers have seen credit card usage increase for personal lines, at a rate of 26% from 2014 to 2016.
- Debit card transactions are less expensive than credit card transactions, with an average merchant fee of 1.08% for personal lines and 1.09% for commercial lines.

Claims – Key Trends





IT Challenges (or Opportunities) in Building for the Future

Operational Process and Capabilities

Cyber Risk:
managing security
and data privacy

*Not just an IT issue anymore
Vulnerabilities on the rise with IOT*

Insurance traditionally
slower to change

Agility will be crucial

Integrating digital
operating model
with existing
physical networks

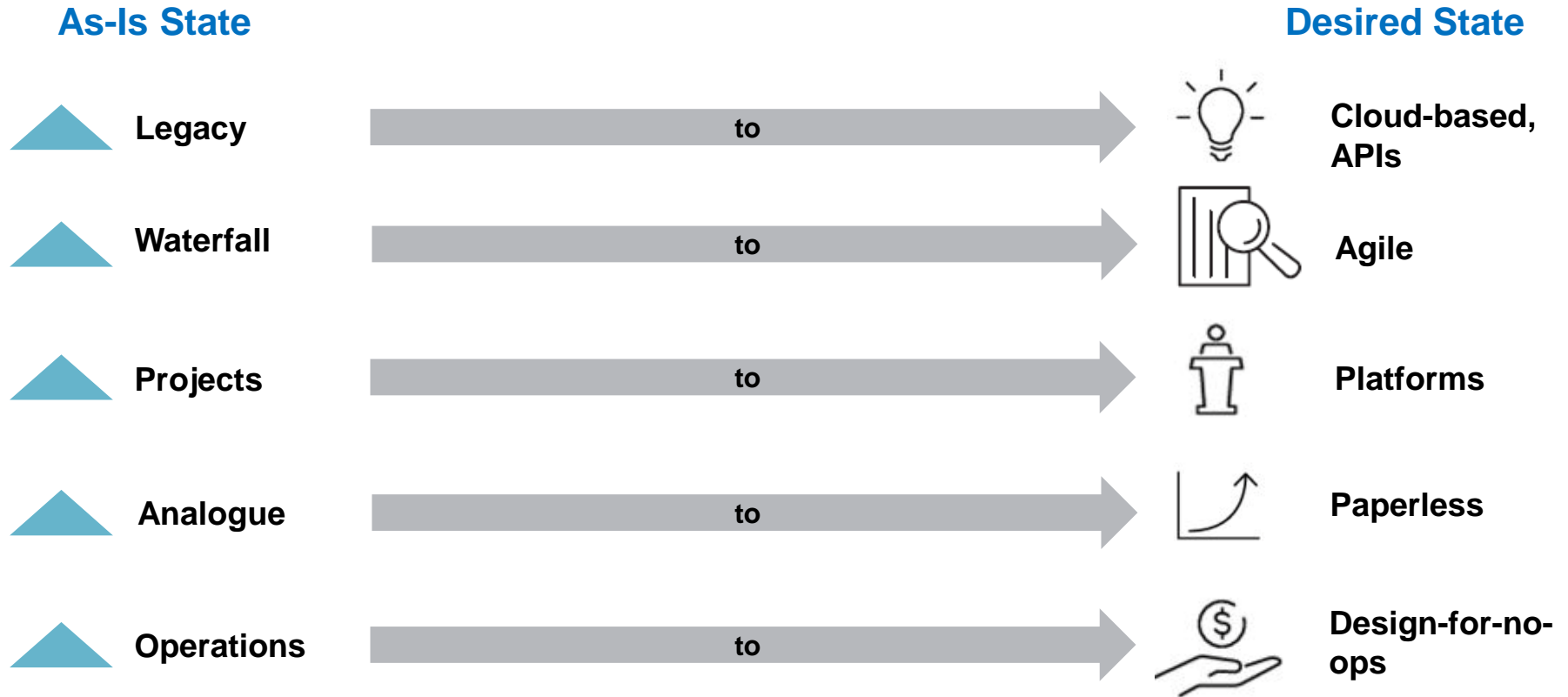
Simplify

Mastering big data

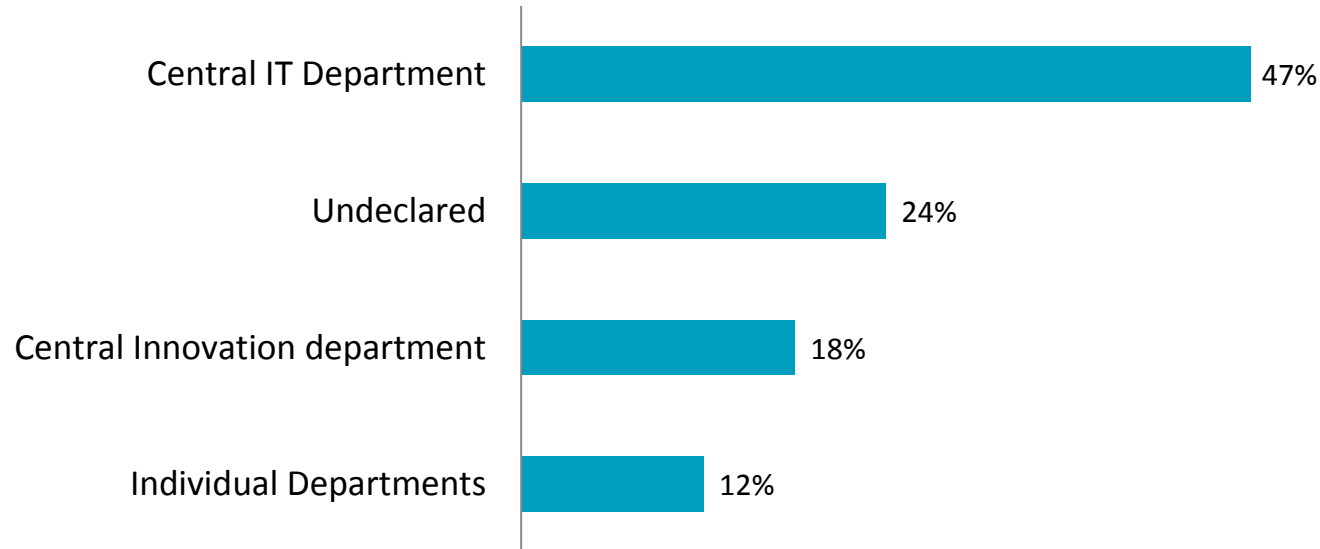
Keeping pace with new
technology and trends

Crucial insights and knowledge to move business strategy forward

Understand what it means to Go Digital for your organization



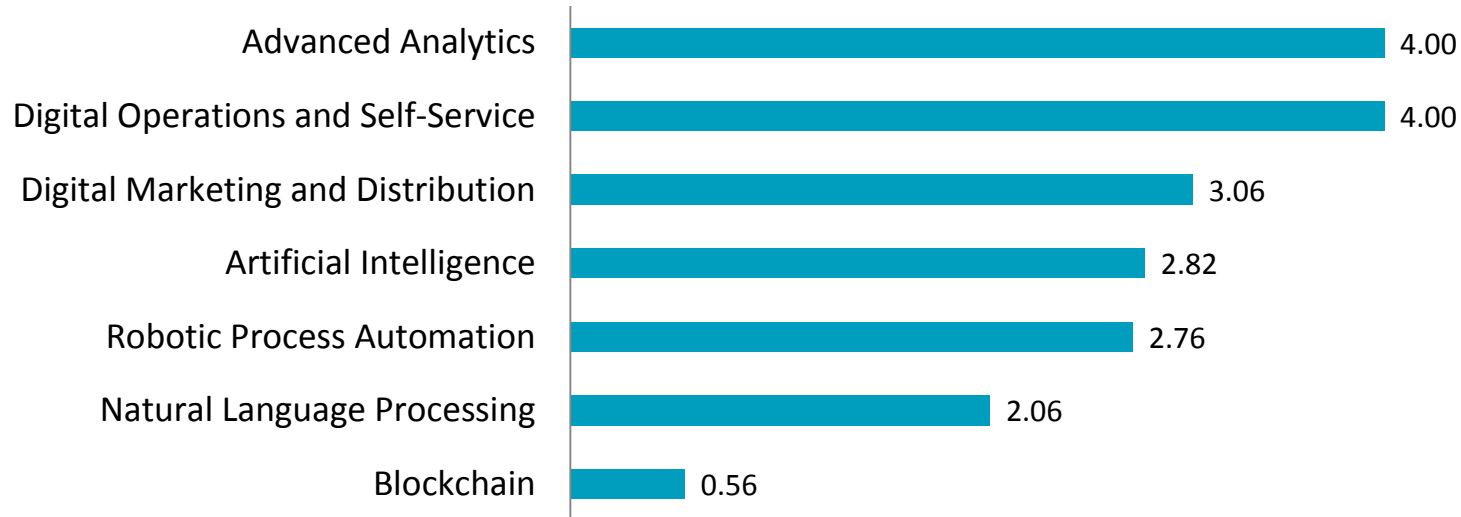
Location of RPA and AI Support Responsibility



Companies seem to favor placing responsibility for AI and RPA maintenance and support within the IT function, rather than in a cross-functional or individual department. However, companies need to pick a strategy and settle on it, as those companies undeclared risk siloing data and delaying projects if they fail to take an integrative approach.

Digital and Innovation

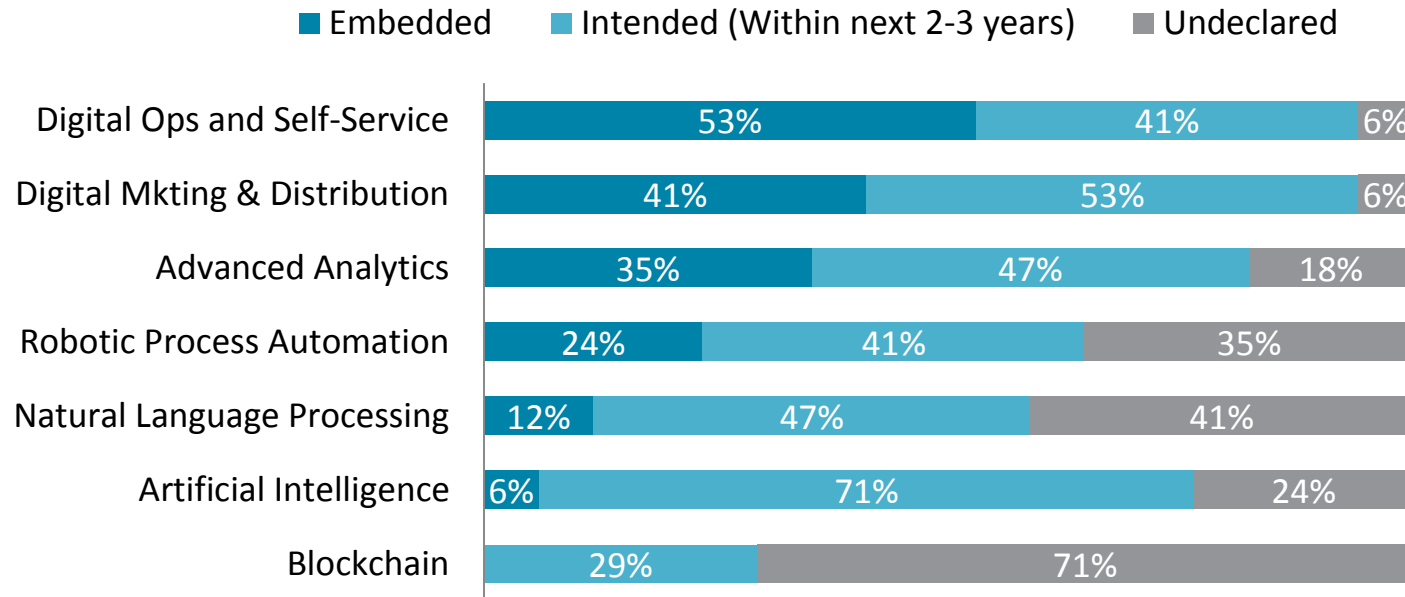
Prioritization of Capability



Top priorities fall into two categories: customer-facing initiatives that improve awareness and accessibility for both existing policyholders and digital prospects and decision-oriented initiatives that offer faster, more effective pricing and operational efficiencies for claims actions and policyholder services.









Digital and Innovation

Capability Development Intentions



Customer interactivity and data-mining appear to be the most obvious sources of implementation to this point, but advanced analytics is leading to not only differentiated offers and pricing but better understanding of customer segments and opportunities. Companies are gradually becoming more proactive in these customer-centric fields but need to continue development to reach true digital maturity.

Cost saving and innovation are driving technology for all employers

	Technology			Impact
 Cost Savings and Efficiency	 Robotics	 Cloud Computing	 Software-as-a-Service (SaaS)	Advantages <ul style="list-style-type: none">▪ Scalability and agility▪ Ease of updating▪ Reduced capital costs Risk <ul style="list-style-type: none">▪ Data security and privacy▪ Process incompatibility▪ Need for upskilling talent
 Innovation and Transformation	 Artificial Intelligence/ Machine Learning			Advantages <ul style="list-style-type: none">▪ Accelerated Innovation▪ Collective info/ analytics▪ Security▪ Error free detection Risk <ul style="list-style-type: none">▪ Unintended bias▪ Need for skills and talent▪ Data vulnerability▪ Need for regulations
	 Blockchain	 Internet of Things (IoT)		

These forces are causing a shift in company priorities

Transform workforce



The convergence of traditional industries with the tech sector has caused firms to put the transformation of their workforce at the **center of their strategy**

Revisit investments



Understanding **new ways of working** in the digital age and which investments to make in people, jobs, and rewards to successfully evolve

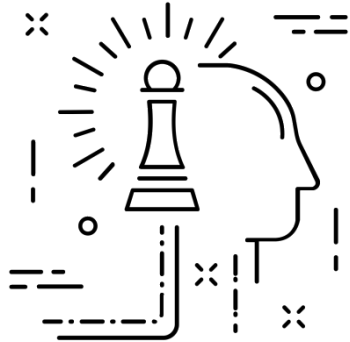
Digital readiness



To survive in the digital future, companies need a fluid structure, an **agile culture** and employees who are 'digitally-ready' to cope with rapidly changing circumstances

Innovation requires different skills and behaviors

Entrepreneurial Mindset



“Being an entrepreneur isn’t really about starting a business, it’s a way of looking at the world.”

Seeing opportunity where others see obstacles,
taking risks when others take refuge.

Michael Bloomberg, Founder, Bloomberg, L.P.

“Welcome to Permanent Beta”

We are all works in progress. Great people, like
great companies, are always evolving. Permanent
beta is a lifelong commitment to continuous growth.

Reid Hoffman, co-founder, LinkedIn

Source: 2018 Radford Talent Pulse Survey, Technology Companies

Behavioral Skills

Top Behavioral Skills Required



Summary and Q&A

- **2018 will be a stronger year for most, but many companies still exposed to CAT losses**
 - Revenue growth was positive and balance sheets remain strong
 - Expect continued tight expense control with selective investments to fund growth and customer experience; some companies have initiated high profile cost reduction
- **Technology investments growing at a greater pace**
 - Replacement of legacy systems have laid the foundation for tomorrow's growth with initially modest efficiency gains
 - Projects will continue in digital innovation supported by analytics and greater customer segmentation
- **The customer is central to more of the strategy**
 - Companies have built formal processes to measure and improve customer experience
 - Further sophistication in segmentation for pricing and digital capabilities will reshape distribution, claims and policy servicing
- **Companies need further investment in human capital and improving skills of staff**
 - Hot skilled positions remain difficult to fill amidst a competitive labor market
 - Compensation structures are changing to reflect market practices
- **The pace of change will continue to accelerate!**
 - Boards and leaders must be prepared to lead through change
 - It is critical to have the right type of talent embedded throughout the company to meet future customer demands and business needs

We're Here to Empower Results

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For more information on Ward solutions, please visit **ward.aon.com**.

About Ward

Ward delivers performance and reward data and advice to insurance companies. Since 1991, we have performed more than 2,500 operational and compensation benchmarking exercises for insurance companies of all sizes, including more than half of the top 100 U.S. carriers. We analyze staff levels, compensation, business practices and expenses for all areas of company operations and help insurers measure results, optimize performance and improve profitability.

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