



Association of Governmental Risk Pools (AGRiP) Governance Conference 2022

Turning the Page on 2021:
What Will Impact your 2022 Reinsurance Renewals?

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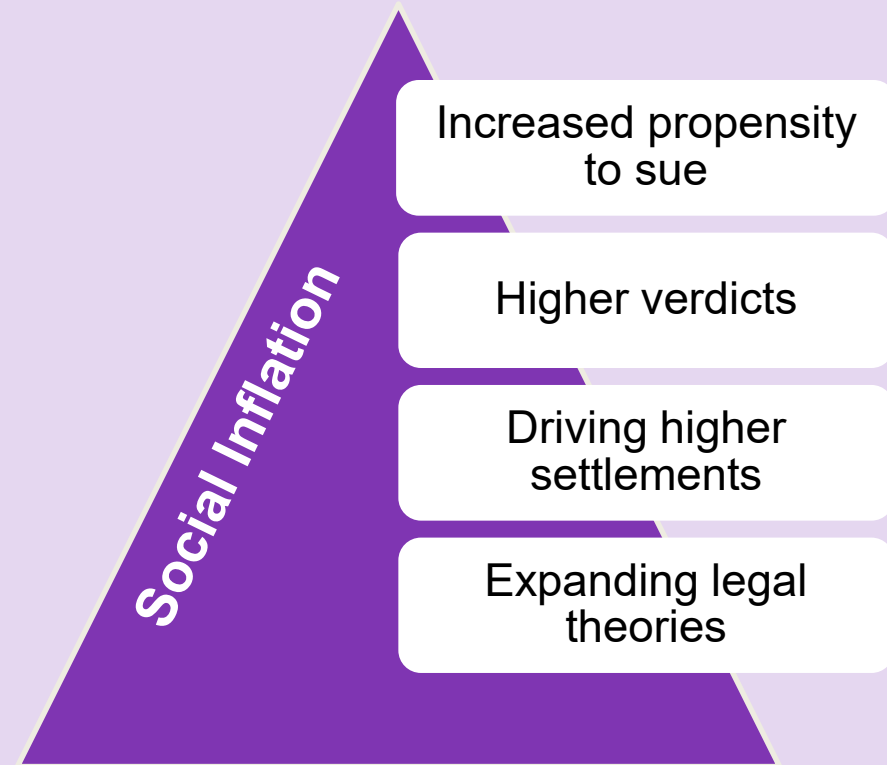
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Introduction – Looking Back to go Forward

- **The five years leading up to January 1, 2017 were generally kind to the insurance industry;** in spite of a challenging 2017 the industry ended the year with \$1 of surplus for every 73 cents of net written premium

Challenge 1 – Social Inflation

What is social inflation?



Social inflation is different than “normal” inflation

“Normal” inflation causes a more steady increase in values across all claims

Social inflation can cause a dramatic shift in the likelihood and size of large claims

Likelihood of higher claims changes behaviors for both plaintiffs and defendants

Social inflation is alive and well and affecting more than public entity exposures



Jury awards \$125 million to disabled worker discharged by Walmart

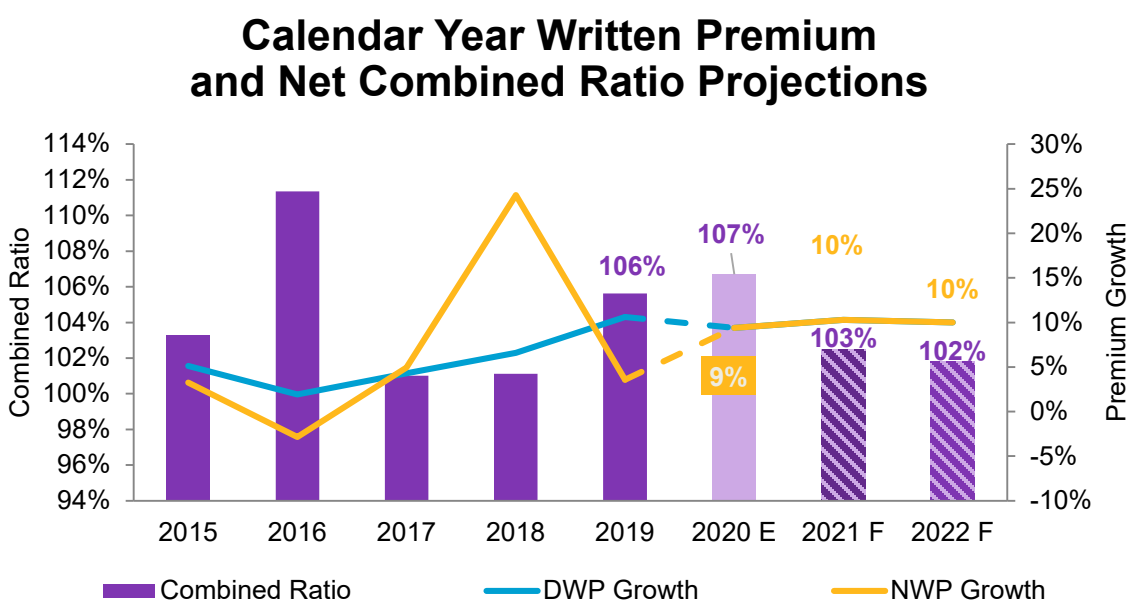
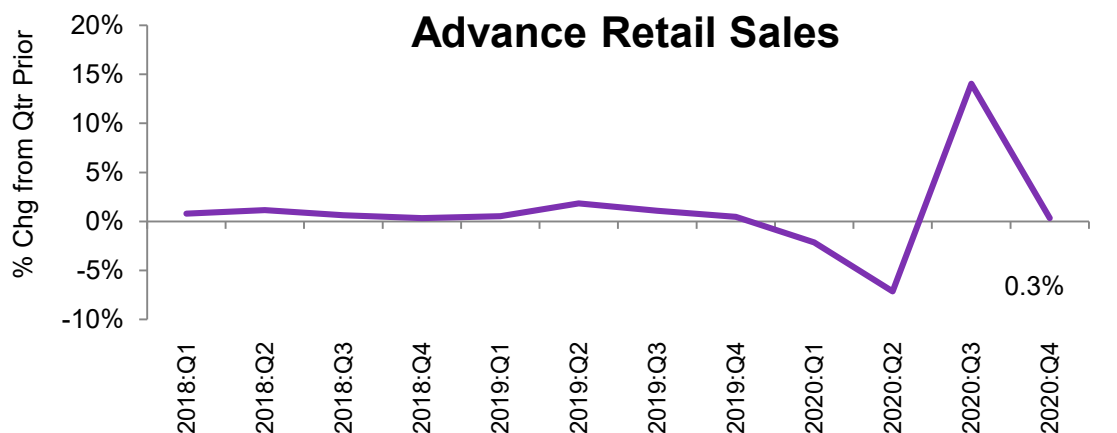
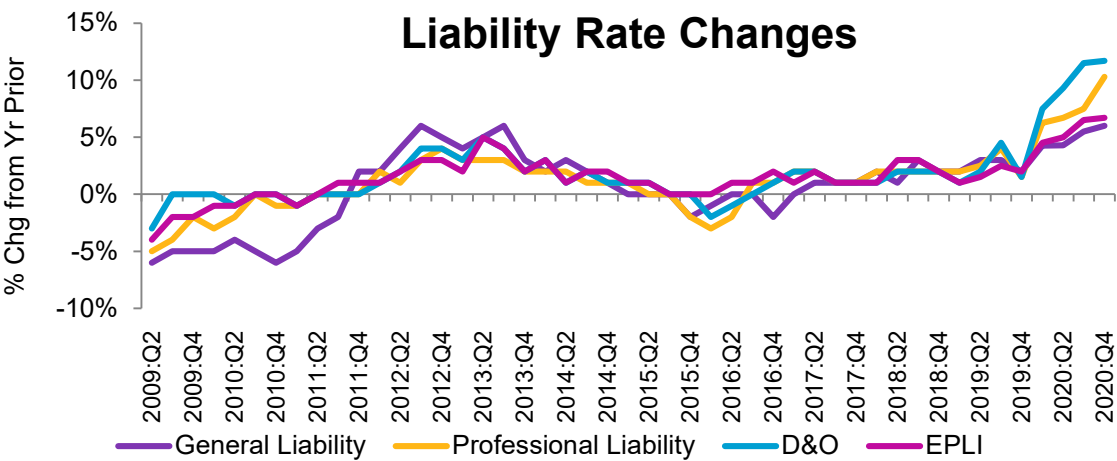
Washington state jury awards \$185 million to three teachers for brain damage caused by PCBs in schools

Georgia jury awards \$200 million to family of 7-year-old boy who died in a boating accident

Florida jury awards \$1.0 billion for two trucking accidents

Source: Assured Research, LLC

Liability coverages are heating up in recent years



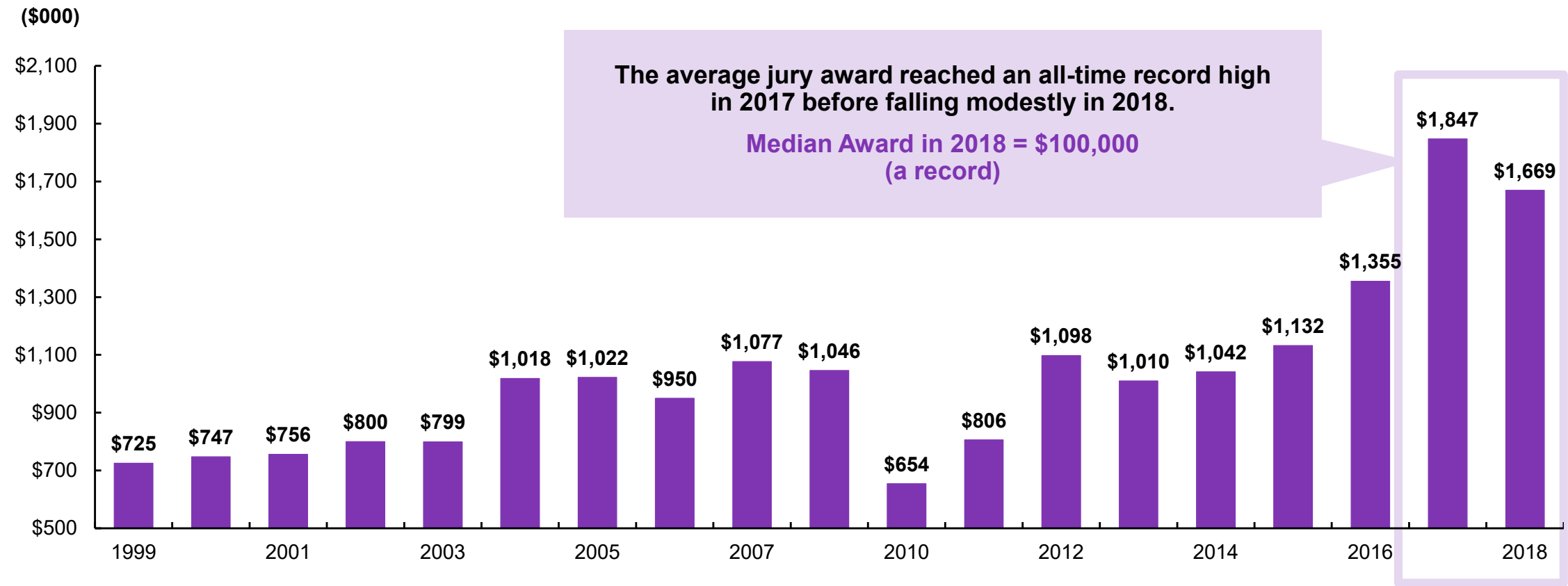
2020/2021 Commentary

- Social inflation has been expanding from commercial auto to other liability lines, but rate increases will improve results.
- Pandemic liability will affect results.

Watch for: Continued rate increases, especially in lines whose rates run hot and cold, like D&O.

Data sources: NAIC data sourced through S&P Global Market Intelligence, MarketScout, Blue Chip Economic Indicators, Congressional Budget Office, PCS, Aon, Munich Re, Energy Information Agency, FRED (Federal Reserve Bank of St. Louis). Analysis: Insurance Information Institute, Milliman.

Average Jury Awards, 1999 – 2018 (latest available)



Source: Jury Verdict Research; *Current Award Trends in Personal Injury* (59th Edition), Thomson Reuters; Risk and Uncertainty Management Center, Univ. of South Carolina.

The perfect storm of emerging situations is resulting in large claims

- ✓ Societal Trends & Juries
- ✓ Plaintiff Attorneys
- ✓ Third Party Funding

Societal trends and juries are more plaintiff friendly

According to a Gallup poll, **38%** of people experience feelings of anger during the day**

44% of millennial respondents would award more money if the defendant is a large corporation

45% of jurors admit sympathy affects their attitudes about a lawsuit

72% of all respondents said if a case makes it to the courtroom, they assume it has some merit



Wealth and income inequality gaps, already wide, have been made worse by the pandemic

61% of survey respondents say there's too much income inequality*

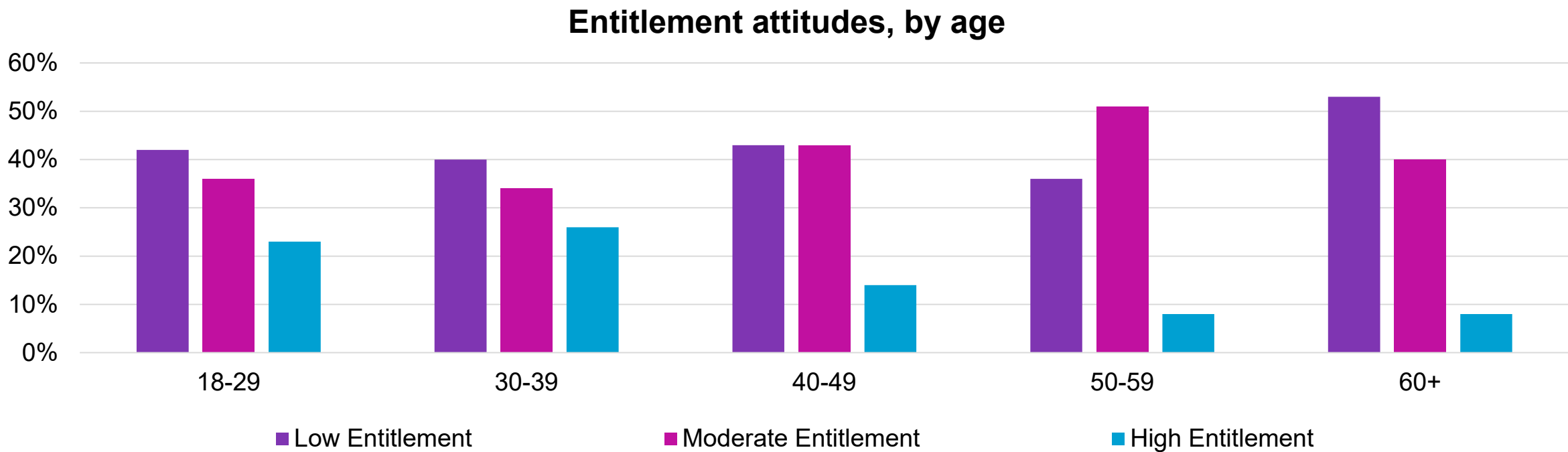
67% say economic system requires major changes to address income inequality*

69% of millennials would award medical bills even if the defendant is not at fault

* Pew Research Center
**Gallup, Global Emotions Survey, various years

The entitlement sentiment differs by age

*I honestly feel I'm more deserving than others. I deserve more things in my life.
People like me deserve an extra break now and then.*



Plaintiff attorneys are focusing their efforts

Highly collaborative and regularly share information and strategies with one another

- Applaud each other's success – “a rising tide lifts all boats”

Experts at calculating astronomical economic and non-economic damages

Dramatically increased their advertising efforts:

- Number of attorney lawsuit ads has tripled in the last decade
- About \$1 billion spent in advertising in 2019
- Social media enables targeted marketing to specific likely plaintiffs
- Amass as many plaintiffs as possible, valid or not, to overwhelm companies and create pressure to settle

For many lines of coverage, defense costs are a significant portion of incurred loss

Defense Costs and Cost Containment Expenses as Percent of Incurred Losses, 2017 - 2019

Liability	2017		2018		2019	
	Amount	As a percent of Incurred losses	Amount	As a percent of Incurred losses	Amount	As a percent of Incurred losses
Product liability	\$645,190	68.6%	\$861,155	66.4%	\$668,304	50.4%
Medical professional liability	1,660,939	43.7	1,690,271	41.8	1,891,994	40.5
Other liability	3,778,162	38.2	3,966,294	35.0	4,421,983	35.7
Commercial multiple peril ²	2,117,223	34.8	2,276,023	31.2	2,529,989	32.8
Workers compensation	2,956,635	13.6	3,065,540	14.3	2,783,923	13.2
Commercial auto liability	1,746,182	11.2	1,823,716	10.2	2,123,461	10.4
Private passenger auto liability	5,380,006	5.9	6,007,796	6.5	6,573,122	6.8
All liability lines	\$18,284,337	12.3%	\$19,690,795	12.7%	\$20,992,776	12.8%

Defense-related costs can be as high as 50% of incurred loss

Source: NAIC data sourced from S&P Global Intelligence, Insurance Information Institute.

Third party financing is a more recent challenge in this area

Specialty Finance Firms are “Game Changers”

“We are a game changer for contingency fee law firms. We help give them the confidence to be able to go into negotiations and reject low settlement offers.”

Tina Burns, VP of Advocate Capital, Inc., speaking on a promotional video found on their website.

Advocate Capital (and peers) are specialty finance firms that provide ‘working capital’ to contingency fee law firms.

Source: Assured Research, LLC

Challenge 2 – Law Enforcement Liability

Law Enforcement Liability (LEL) – now and then

What **hasn't** changed?

**LEL is a constantly
evolving risk**

What **has** changed?

- Price and capacity
- LEL loss drivers go beyond false arrest claims
- LEL claims are becoming more costly
- The renewal process is becoming more complex, particularly for reinsurance renewals

Law enforcement liability presents a series of unique challenges

Law enforcement liability is a growing concern for public entities

- 1,021 people were shot and killed by police in 2020
- 963 people were fatally shot by police in 2016
- Roughly two-thirds of all police killings occur outside the largest 100 cities

Law enforcement liability costs are rising generally

Fatalities are not just an urban issue

The Floyd settlement of \$27 million (one of the largest on record) may be a clue about where this coverage could be headed

- Larger settlements could be a sign of a shift in public sentiment

Mental illness plays a role in about a quarter of the incidents

A trend in recent years is evolving public attitudes toward police

- Juries are more willing to hand down significant verdicts when police do wrong
- A 2020 national survey finds that nearly two-thirds of Americans support eliminating qualified immunity so police officers can be sued for misconduct



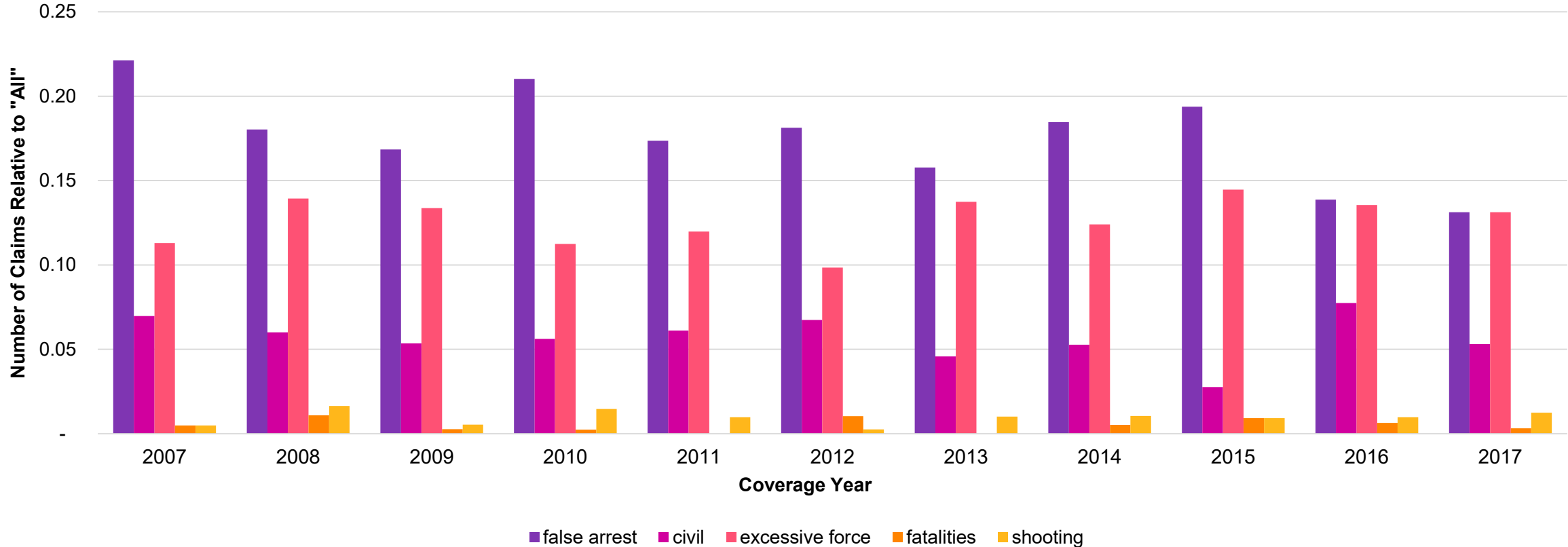
A sample of claim types for large law enforcement liability claims shows some common themes



<https://wordart.com/edit/gm0ca5m9x4e7>

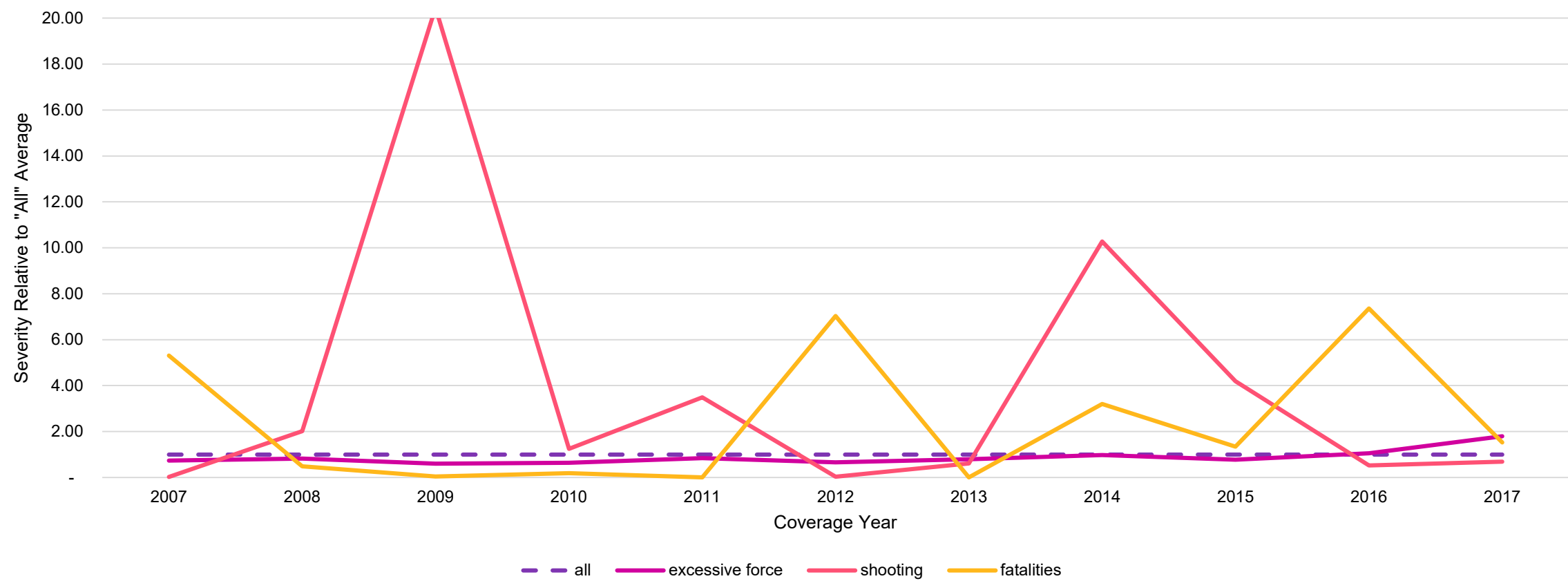
The more prevalent law enforcement liability claim allegations are false arrest and excessive force

Comparison of Claim Type Counts
by Law Enforcement Liability Claim Allegation

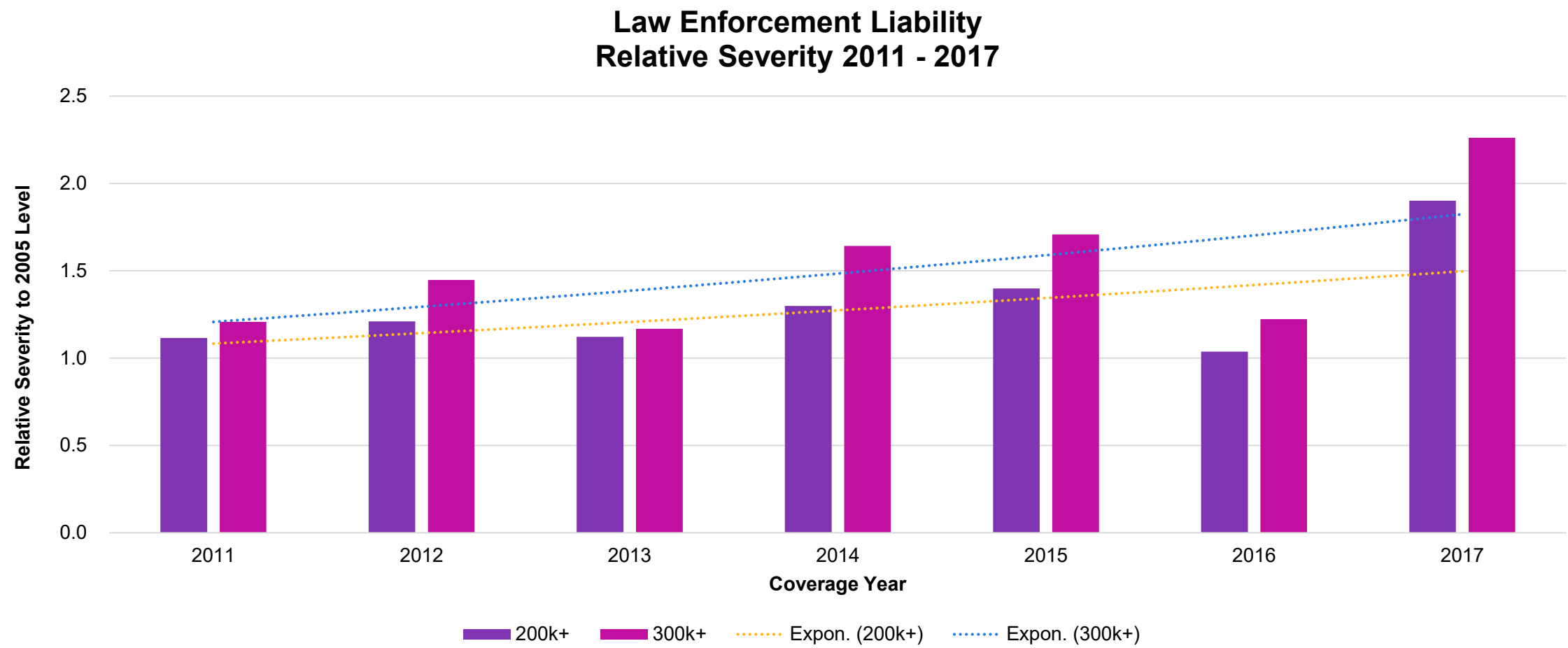


Certain law enforcement liability claim types (shooting and fatalities) can be more costly

Comparison of Relative Severities
by Law Enforcement Liability Claim Allegation



The trend in law enforcement liability claims is steeper for larger claim values



Some recent examples of settlement & verdicts (<https://www.brewingtonlaw.com/>)

\$8.43 Million

- Excessive force, false imprisonment, unlawful entry, trespass and punitive damages by police

\$7.75 million

- Civil Rights and wrongful death action brought by the family of deceased

\$2.25 million

- Wrongful death case against police for the shooting death of family member

\$1.12 Million

- In compensatory damages for the violation of civil rights of a woman who was falsely arrested, humiliated and physically abused for her political views

Law Enforcement Liability: Implications for pools in 2022 and beyond



- The number and severity of law enforcement liability verdicts and settlements since 2015 through 2021 around the country has created pressure on rate levels
- Pools will need to monitor this exposure going into 2022
- There will likely be continued pressure on retentions

Challenge 3 - Property

Property – now and then

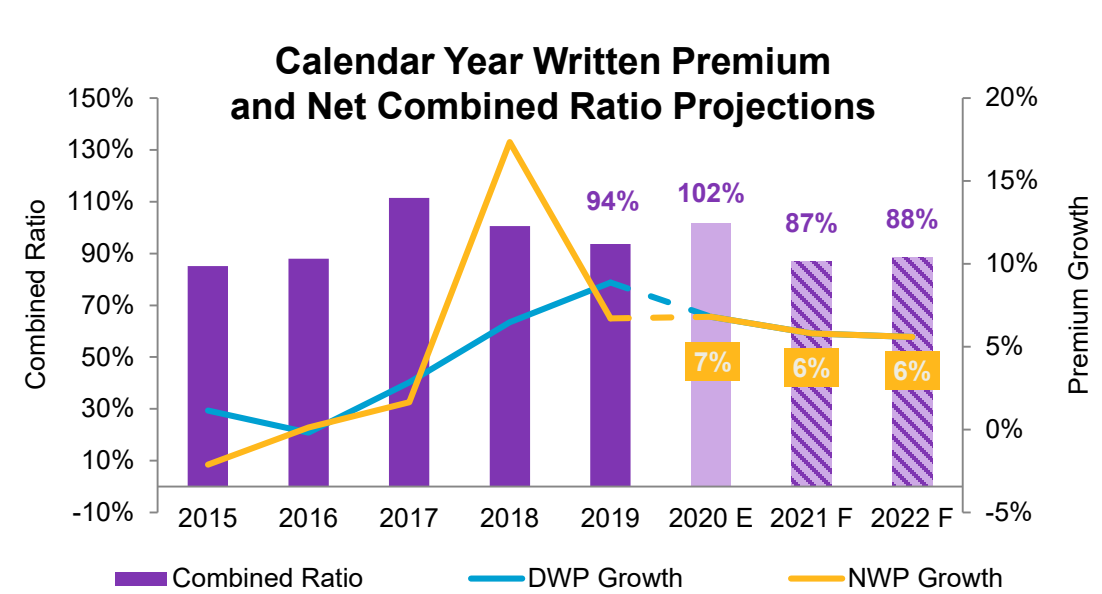
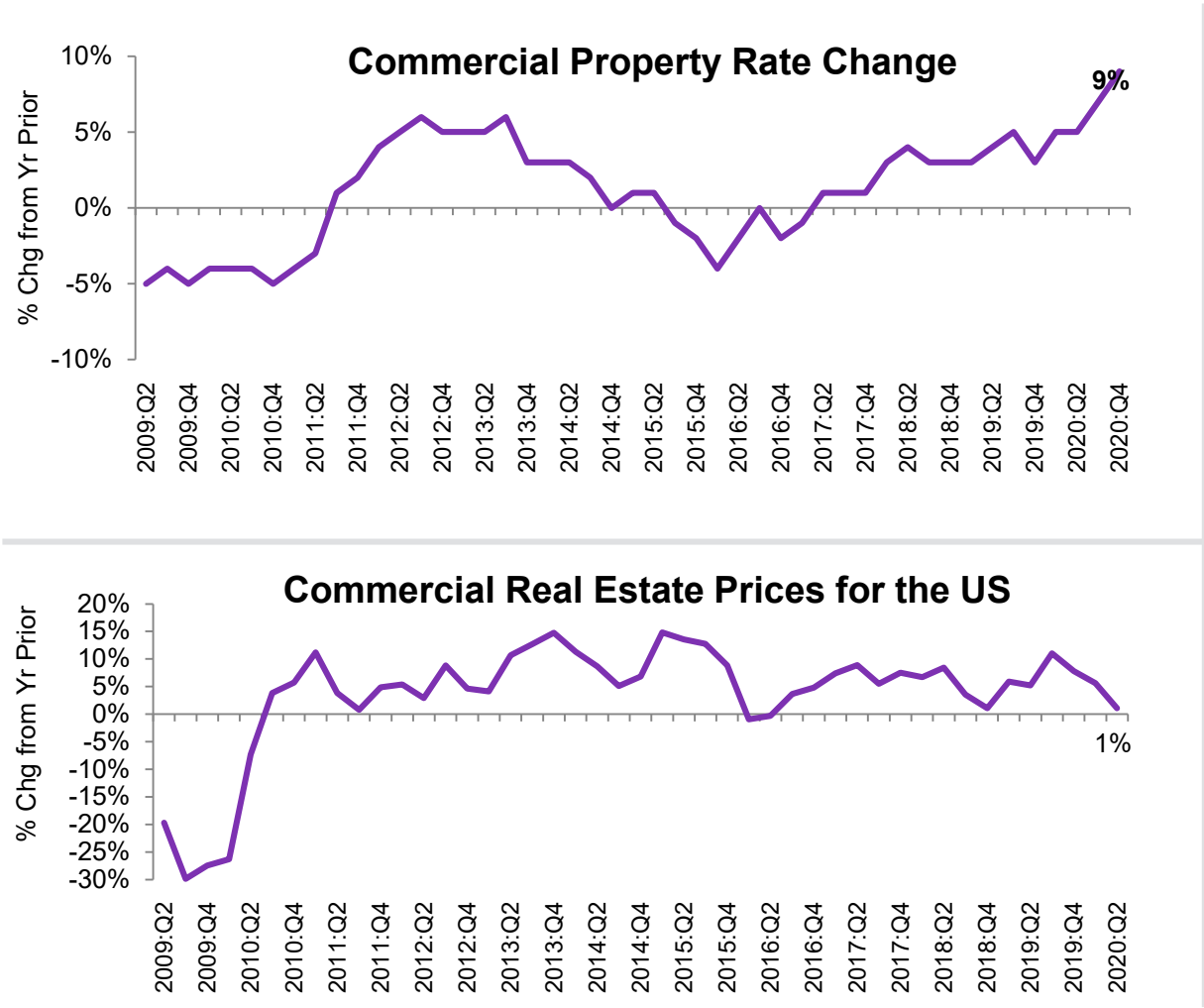
What **hasn't** changed?

Property is a constantly evolving risk, and weather catastrophes are still a large threat

What **has** changed?

- Price and capacity
- There are more problematic and severe property loss drivers beyond hurricanes (wildfires, derechos, convective storms, freezes)
- The timing of the renewal process is dragging, particularly for reinsurance renewals
- Potentially there are impacts due to climate change

Current State of the Property Market – Overview



2020/2021 Commentary

- Not just hurricanes – wildfires, derechos, tornadoes made it a record for number of cat events.
- Hard market brightens results – if cats stay calm.

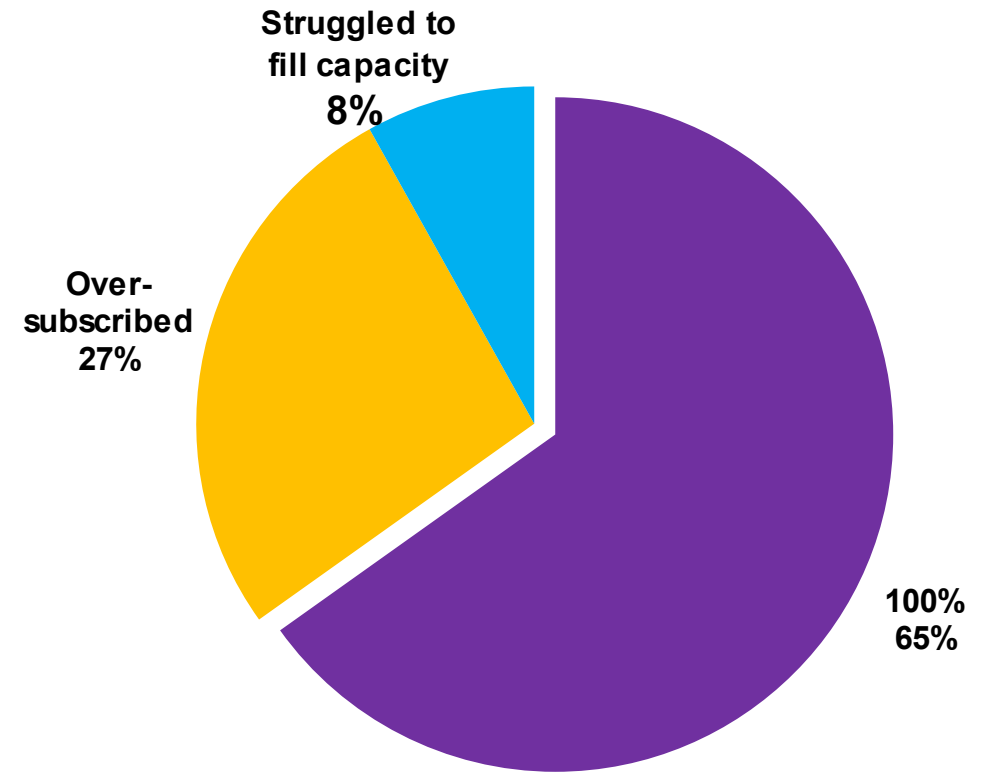
Watch for: Vacancies could slowly rise as businesses adjust their need for space in the new flexible workplace.

Data sources: NAIC data sourced through S&P Global Market Intelligence, MarketScout, Blue Chip Economic Indicators, Congressional Budget Office, PCS, Aon, Munich Re, Energy Information Agency, FRED (Federal Reserve Bank of St. Louis). Analysis: Insurance Information Institute, Milliman.

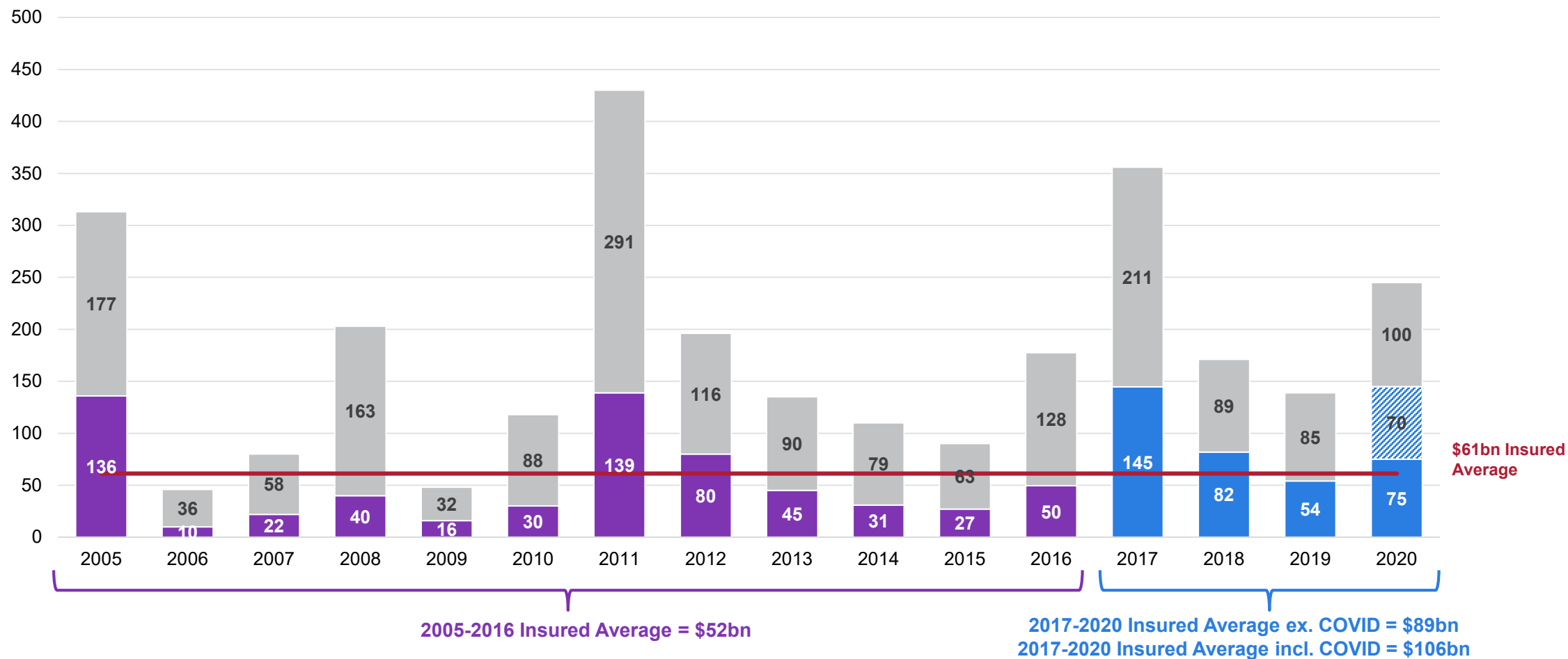
Property: 2021 conditions are easing

- As property conditions begin to see signs of easing, there are continued challenges and inconsistencies in rate versus the average.
- Budgetary expectations may fluctuate based on availability of capacity, underwriting guidelines and market conditions.
- Market dynamics are impacting certain carriers as well as certain classes of business disproportionately.
- While property reinsurance rating may have peaked at the end of 2020 at +25%, the increases in 2021 are expected to be around +10%
- Capacity is returning to the table

2021 Renewal Capacity Overview



Historical Property Catastrophe Losses



- 2020 was an active loss year even when excluding impact of Covid-19
- 2020 will rank as one of the costliest years for the industry since 1970, with severe convective storm activity in the US expected to result in record annual costs for the peril

The property market is impacted by the increasing trend of high-cost disasters

2020 was a historic year of extremes, the US had 22 separate billion-dollar weather/climate disasters.

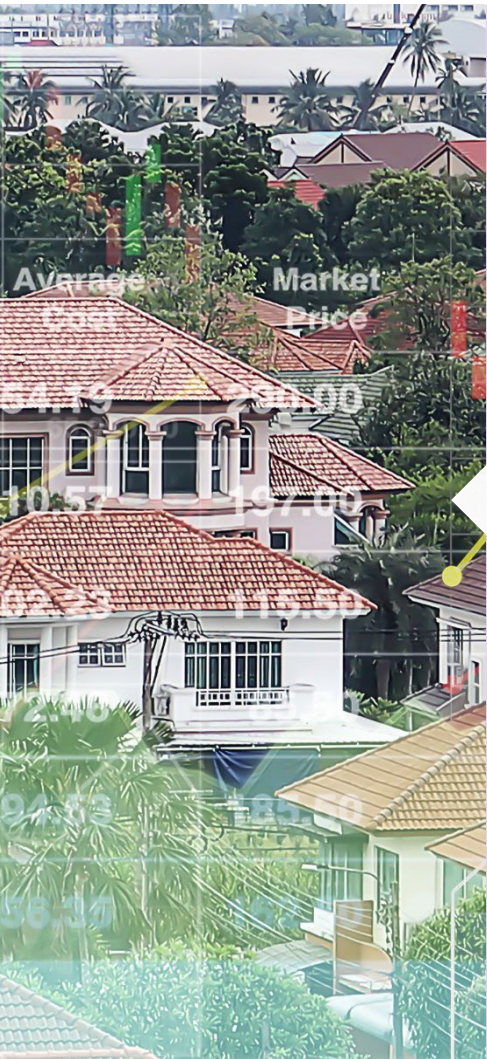
- Extreme events account for the majority (>80%) of the damage from all recorded U.S. weather and climate events (NCEI; Munich Re).
- These events are becoming an increasingly larger percentage of the total damage costs from weather-related events at all scales and loss levels.
- 2020 is the sixth consecutive year (2015-2020) in which 10 or more-billion-dollar weather and climate disaster events have impacted the United States.

2020 was a record-shattering year of billion-dollar events; 4 th -highest annual costs (\$95.0 billion)		
	Annual average cost	Average events per year
• 1980-2020	\$45.7 billion	7.0
• 2011-2020	\$89.0 billion	13.5
• 2016-2020	\$121.3 billion	16.2

NOAA

These estimates do not reflect the total cost of U.S. weather and climate disasters, only those associated with events in excess of \$1 billion in damages. (Source: NOAA)

Property: Implications for 2022 and beyond for pools



Despite the losses in 2020 and 2021, **the marketplace has been generally been able to respond.**

Property rates are expected to go up but location and experience matters.

The recent hard market for **commercial property insurance** could be letting up.

Challenge 4 – Me-too and Other Professional Liability Claim Implications

Me –too – or more broadly sexual abuse and molestation (SAM) – now and then

What **hasn't** changed?

**SAM is a constantly
evolving risk**

What **has** changed?

- The "climate"
- Reviver laws
- Carriers' appetite for the risk

The me-too issue burst into the public eye in 2017

Initial exposure was concentrated in the entertainment and media industries, with accusations ranging from inappropriate comments to physical assaults

- Impact on commercial industry muted due to coverage form, exclusions and/or statutes of limitations
- Initially more of a D&O exposure

Reviver laws changed that picture

- Coverage form and exclusions may not provide protections
- Reduce the “benefit” of statutes of limitations
- Wide variation by state – key differentiators are window and lookback period

Creates the potential for exposure across all professional lines, some of which are written on an occurrence form



The impact of reviver laws has been significant

Enactment of these statutes led to a wave of lawsuits and bankruptcy filings

Legal costs vary significantly

Bankruptcy filings do not necessarily preclude victim compensation

The Archdiocese of Minneapolis and St. Paul created a \$210M settlement fund while the Boy Scouts of America will have over \$1B in restitution

- Larger settlements could be a sign of a shift in public sentiment

The impact is broader than just direct abuse

Public entities are not immune; for example, the City of Boston settled two discrimination cases for \$2M in 2020

Me-too issue: Implications for pools in 2022 and beyond



- **Rates for EPL/POL will face upward pressure and coverage exclusions**
 - And these lines will be challenged by COVID-19 considerations as well
- **History may not be predictive of future emergence**
- **Pools may need to choose between their members and their surplus**
- **The exposure has contagion characteristics**
 - There is an opportunity for member education and legal assistance/consultation

Challenge 5 – Commercial Auto

Commercial Auto– now and then

What **hasn't** changed?

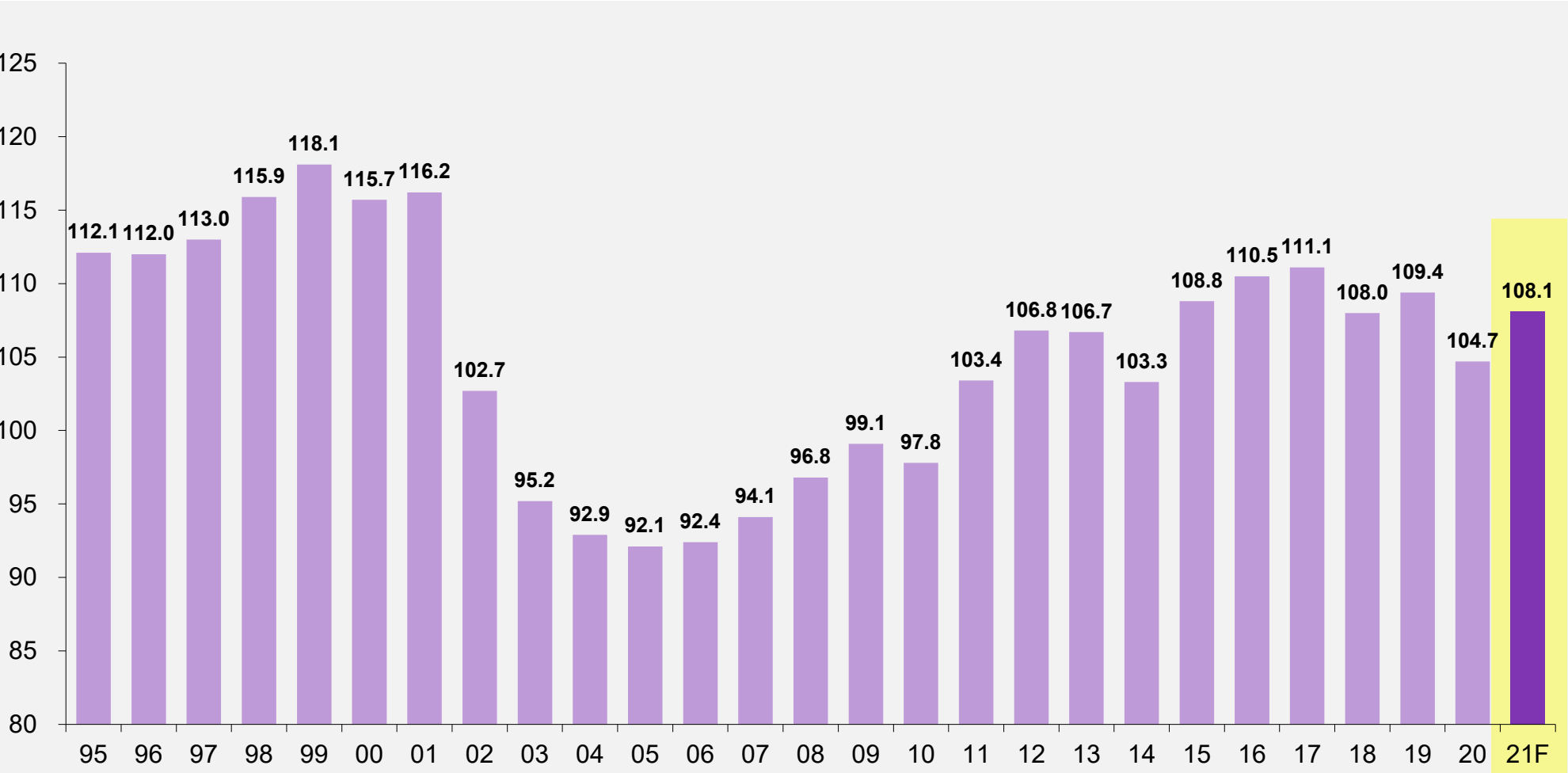
Industry results continue to be adverse, driven by a variety of external factors

What **has** changed?

- Price and capacity
- Social inflation is becoming more impactful
- Covid-19 complicates the interpretation of recent years' results



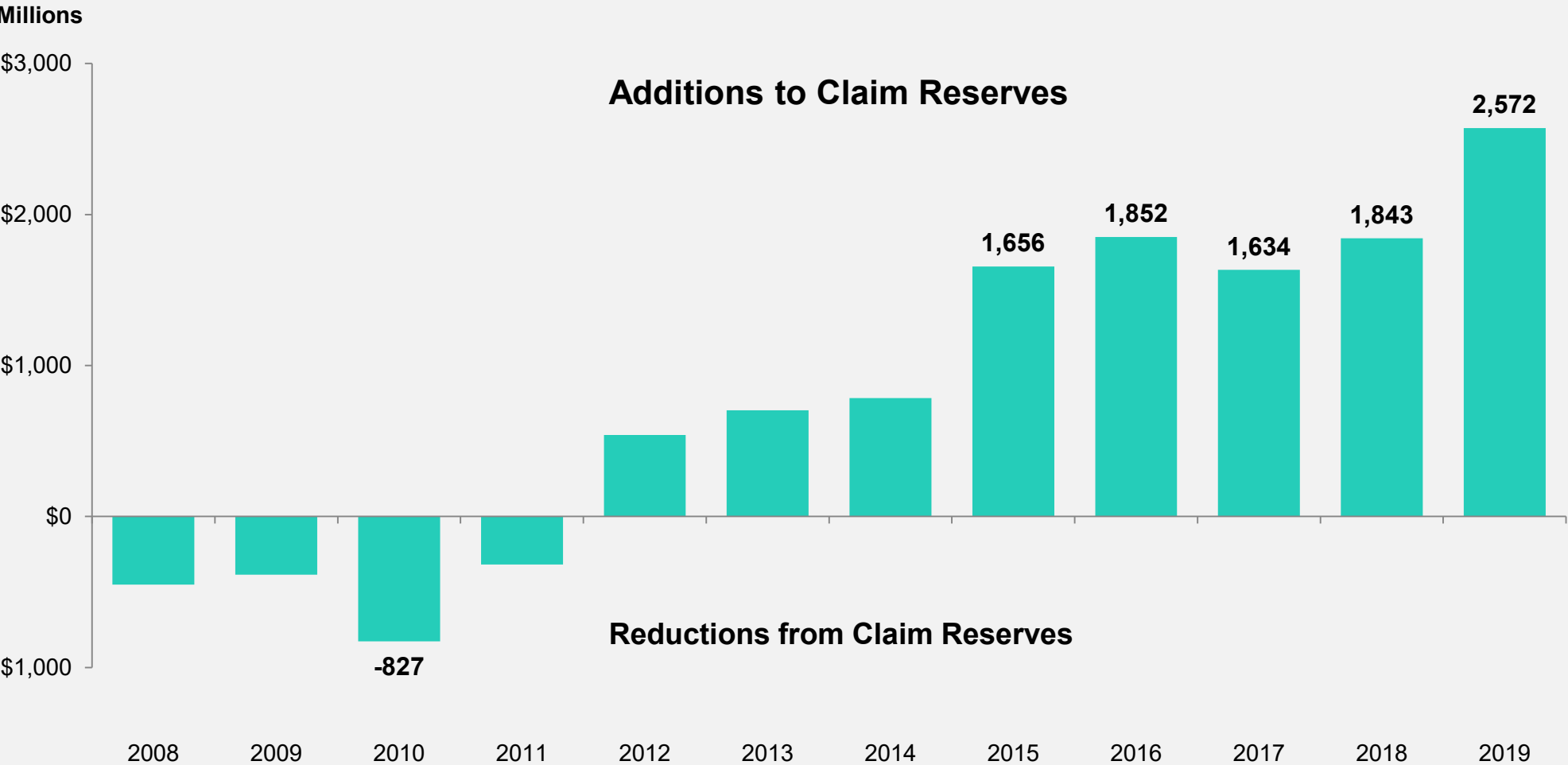
Commercial auto trends have been unfavorable for the last decade



Source: Carrier Management

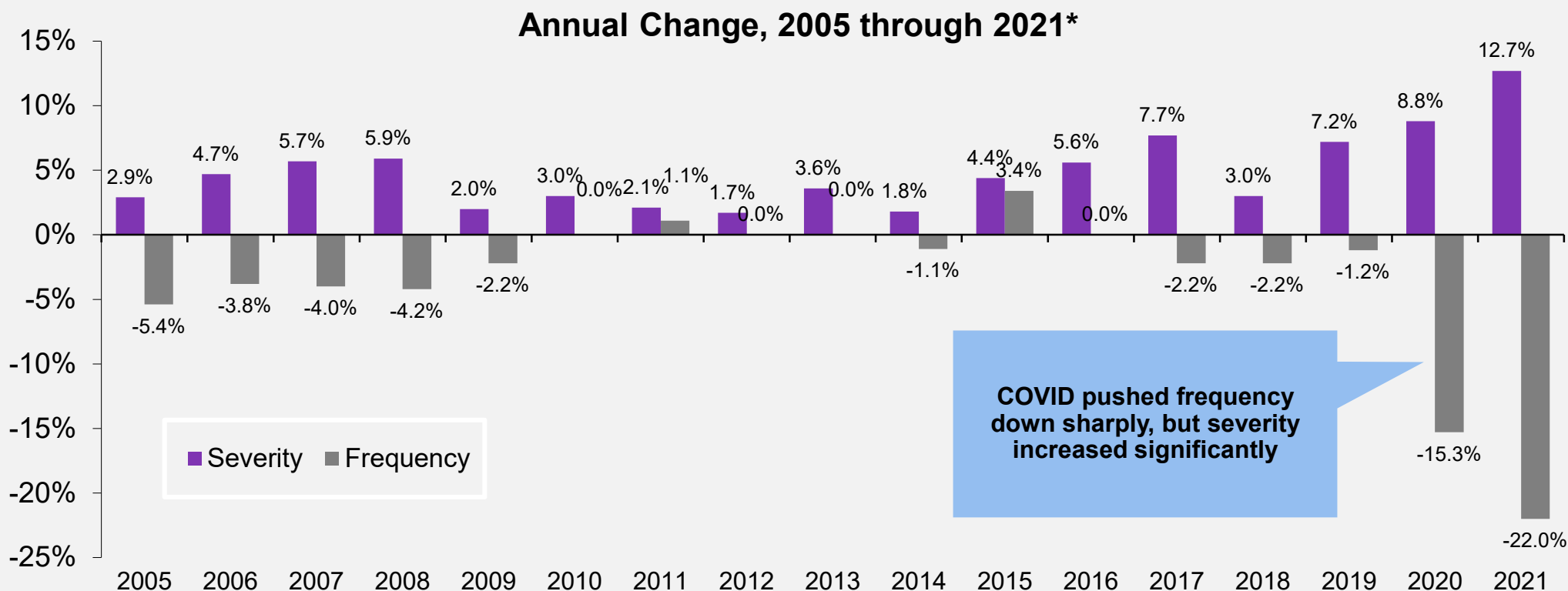
The toll of social inflation is becoming large in recent years

Reserve Development, Commercial Auto Liability



Sources: NAIC data sourced from S&P Market Intelligence; Insurance Information Institute.

Severity is the Driver of Bodily Injury Results

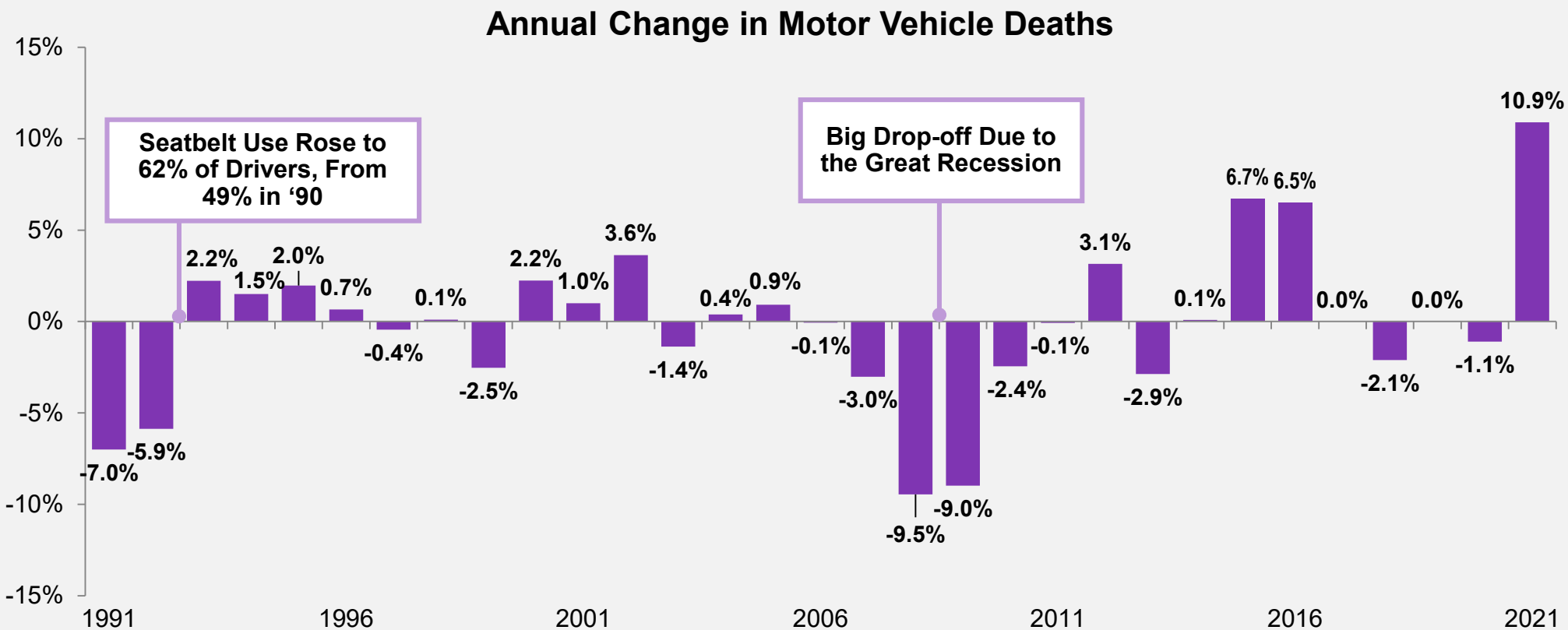


Frequency trend will not return to pre-COVID trajectory until at least 2022

*2021 figure is for the 4 quarters ending 2021:Q2.

Source: ISO/PCI *Fast Track* data; Center for Risk and Uncertainty Management, Univ. of South Carolina.

Severity: Driving fatalities are rising



Driving has been getting safer for decades, but recent trend is discouraging – 40,000 deaths annually in the more recent years

Sources: National Safety Council, Insurance Information Institute presentation dated November 7, 2017.

Severity trends are driven by the collision of a number of external factors



Distraction – a contributing factor to 9% of fatal crashes during 2019. While we think of this as texting, talking, surfing the net – there's more - grooming, children, pets, eating...

Impairment – it's not only alcohol - NHTSA data shows the percentage of fatally injured drivers testing positive for drugs rose from 25% in 2007 to 42% in 2016, with marijuana presence doubled in this time frame.



What's in the car – 40% of the value of a new car purchased in 2020 was accounted for by electronics according to Car & Driver Magazine.

And while we're not just replacing a bumper anymore, that bumper isn't cheap nor is the labor to install it.



Demographics is impacting the transportation industry; over half of today's experienced drivers are over age 45, while over 20% are over 55. The industry is not attracting enough younger drivers to meet the demand.

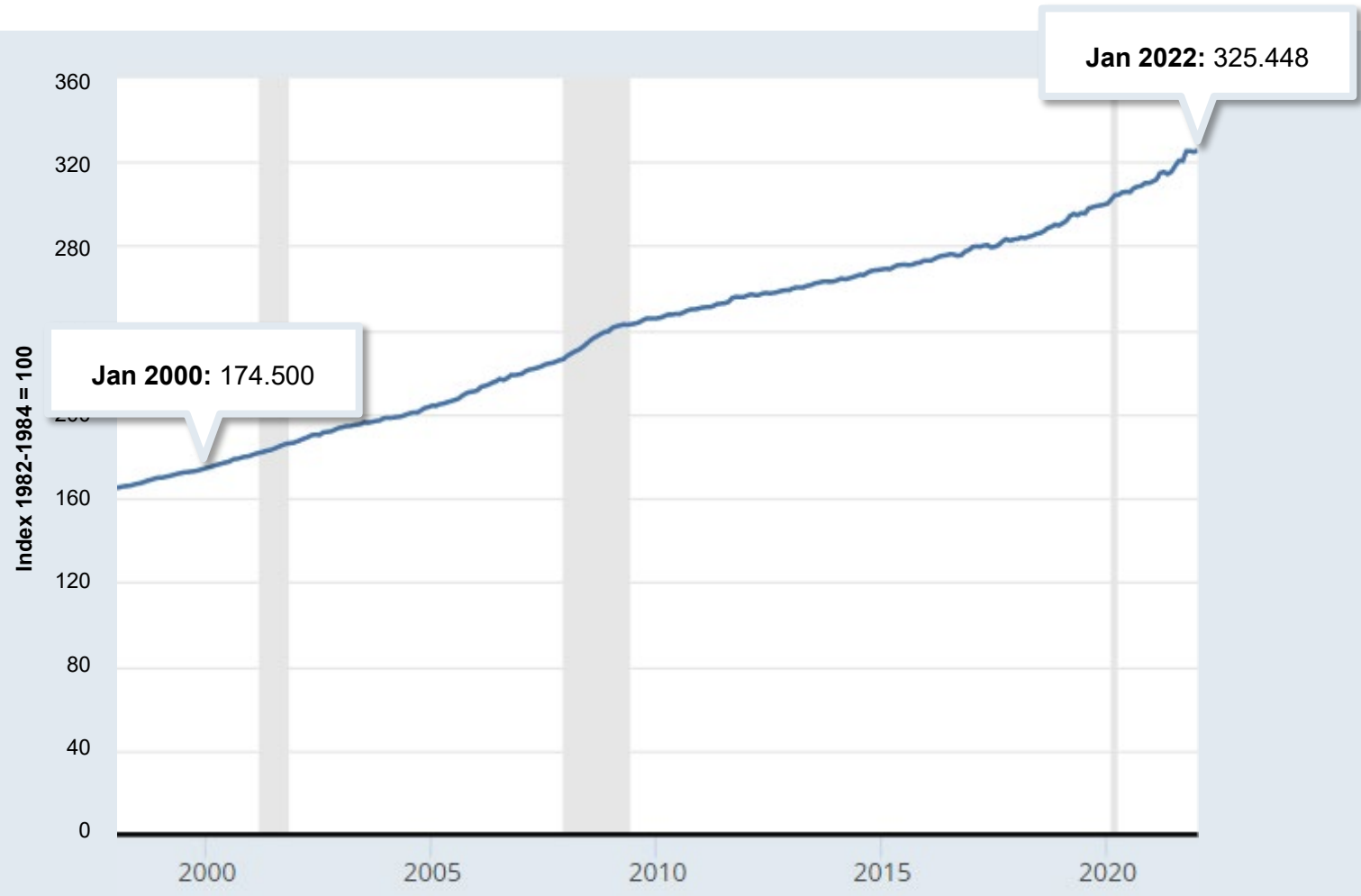
CPI Auto Repair – Urban Areas



Consumer Price Index for All Urban Consumers:
Motor Vehicle Maintenance and Repair in
U.S. City Average

■ Shaded areas indicate U.S. recessions

Source: U.S. Bureau of Labor Statistics
fred.stlouisfed.org



Commercial Auto: Implications for pools in 2022 and beyond



- **Rates will continue to increase**
- **“Environmental” factors create additional challenges**
 - Ride sharing
 - Vehicle mix
 - Tech-enabled and autonomous vehicles
 - Demographics
 - Driver shortages
 - Decaying infrastructure
 - Third-party litigation financing
 - Social inflation
 - Nuclear verdicts and catastrophic liability losses garnering significant punitive awards
 - Consumption patterns (home deliveries)
- **Member education and training can be a mitigator**

Source: Business Insurance; and rate change projection from WTW industry analysis.

Challenge 6: Cyber Exposure

Cyber exposures – Now and then

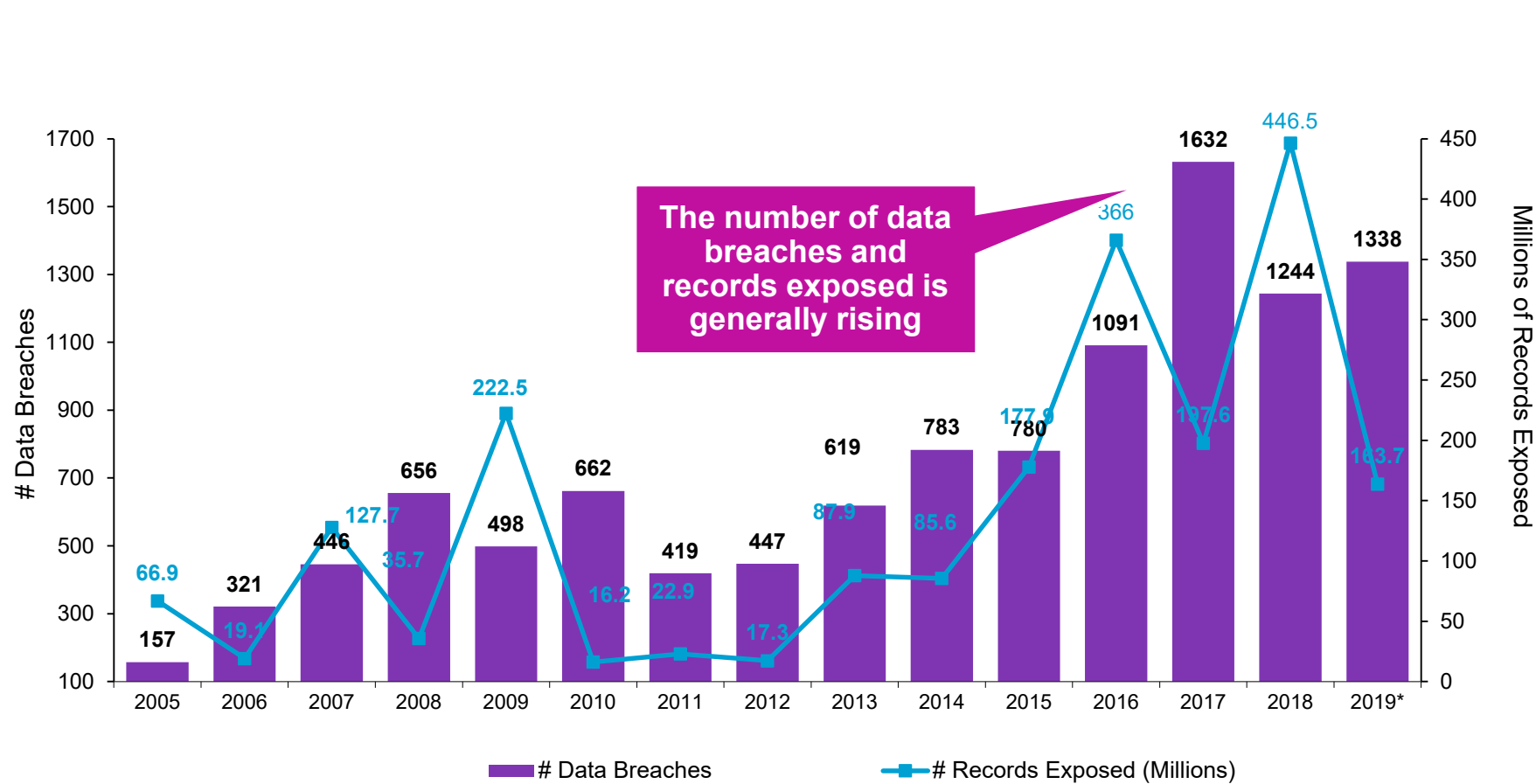
What **hasn't** changed?

Cyber is a constantly evolving risk

What **has** changed?

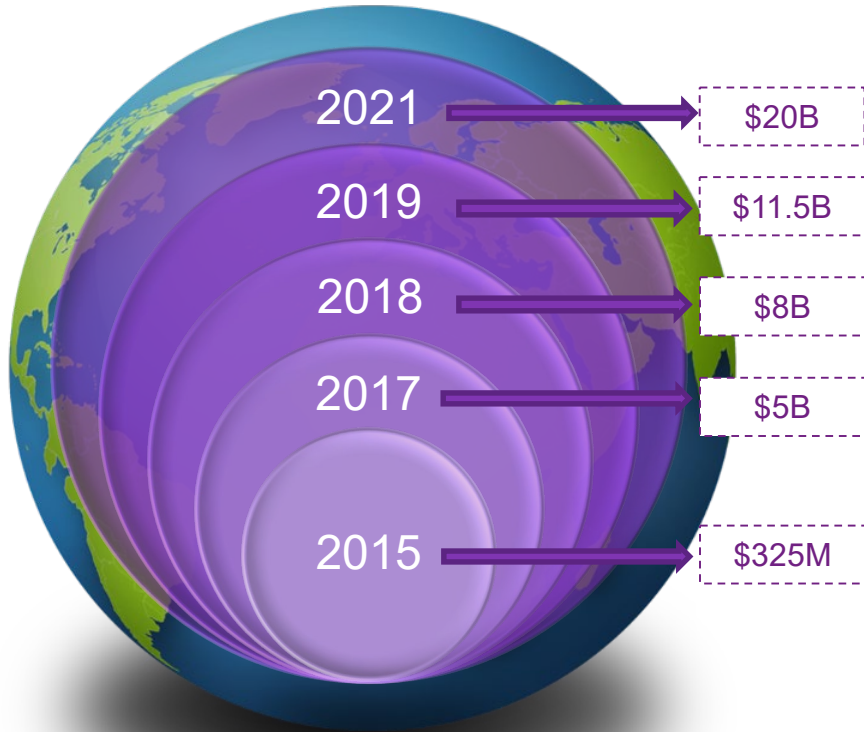
- Price and capacity
- The perception of public entity risk
- The process of the marketing
- The timing of the renewal process
- The impact of ransomware

Data Breaches 2005-2019*, by Number of Breaches and Records Exposed



*Through Nov. 2019.
Source: Identity Theft Resource Center.

The Ransomware Crisis



- According to KnowBe4, Ransomware damages will cost the world over \$20B by 2021, an increase of over 60x over 2015
- Ransomware currently attacks a business every 14 seconds
- New variants of ransomware have proven to destroy backups, steal credentials, expose victims, leak stolen data and threaten the target company's customers
- Approximately 188M ransomware attacks occurred in 2019 alone
- Ransomware is outpacing all other losses with the frequency and severity of claims- insurers are reporting demand increases from 239% to over 400% during the past two years
- Single Ransom payments crossed over the \$30M threshold in late 2020
- 80% of ransomware attacks include data exfiltration threats
- Ransom demand levied against Kaseya is reportedly the largest ever at \$70M
- Recent incidents:
 - Colonial Pipeline (\$4.4M ransom payment)
 - CNA (\$40M ransom payment)
 - JBS (\$11M ransom payment)

Cyber: Implications for pools in 2022 and beyond



- **Capacity is limited and expensive, with rate indications between 50 and 150%**
- **Excess carriers are increasingly not aligned with primary coverages, creating coverage gaps**
- **Carriers have worked hard to reduce their exposure to “silent” cyber**
- **Regulatory changes create additional complications**
 - Expand data owners responsibilities
 - Potentially direct responses to attacks

Challenge 7 - Opioids

Opioids – now and then

What **hasn't** changed?

Opioid use is still a costly and complicated risk

The public has borne the cost of the repercussions

What **has** changed?

- There are more restrictions to the issuance of opioids
- There are many large-scale claims against drug manufacturers
- Public entities have had some success in regaining costs

The impact of opioids in the US goes well beyond insurance

- In **2019**, nearly **50,000 people** in the **United States** died from opioid-involved overdoses
- The misuse of and addiction to opioids is **a serious national crisis that affects public health** as well as social and economic welfare
- Between **8 and 12 percent of people using an opioid** for chronic pain develop an opioid disorder
- According to the U.S. Centers for Disease Control and Prevention, **the economic burden of prescription opioid misuse alone in the US is \$78.5 billion a year**, including the cost of healthcare, lost productivity, addiction treatment and criminal justice involvement



Judicial and legislative decisions are influencing the issue

J&J to pay \$63 million to resolve Nevada opioid case

- Johnson & Johnson recently said it has reached a **\$63 million** settlement to resolve opioid-related claims against the company.

Teva Pharmaceuticals found liable for role in opioid epidemic

- Teva Pharmaceuticals has reached a **\$225 million** agreement with Texas officials to settle claims over the drug maker's role in the state's opioid epidemic. Under the agreement, Teva will pay **\$150 million** over 15 years and provide **\$75 million** worth of naloxone, the generic version of Narcan, over 10 years.

Delaware high court finds no duty to defend opioid lawsuit for Rite Aid's insurer

- Four Chubb Ltd. subsidiaries are not obligated to defend drugstore chain Rite Aid in an opioid lawsuit brought by two Ohio counties, the Delaware Supreme Court ruled.

Drug maker Endo signs \$65M opioid settlement with Florida

- Drug maker Endo International plc agreed to pay up to **\$65 million** to resolve claims by the state of Florida and local governments that the drug maker helped fuel the U.S. opioid epidemic.

Opioids: Implications for pools in 2022 and beyond



- **Opioids are a broad societal issue which needs solutions with scale**
 - There have been improvements in recent years to curb the trajectory of harm
 - Among 38 states with prescription opioid overdose death data, 17 states saw a decline between 2017-18; none experienced a significant increase (Covid may have disrupted this improvement)
- **Pools can help their members manage the impacts from opioid consequences** by strengthening the understanding of the epidemic through better public health surveillance

...To be continued

While hot topics since 2018 have continued to escalate through 2022, many of the same issues continue to present challenges

- **Social inflation** is causing havoc
- **Law enforcement liability** is a serious risk that is becoming more difficult to cover
- **Property rates** have been easing
- **Me-too and SAM exposure** will continue to cause upheaval
- **Auto liability** has been steadily escalating
- **Cyber liability** continues to trend and be a problematic coverage
- **Opioid** epidemic situation is being addressed

Overall, the industry, on an aggregate basis, remains resilient and very well-capitalized. The secondary and tertiary impacts of Covid remain to be determined.

Thank you!

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