



State of the Insurance Market - July 1 Renewal Expectations

May 2021

Presented by:

Alliant Insurance Services

(THIS INFORMATION HAS BEEN CONSOLIDATED FROM VARIOUS INDUSTRY SOURCES)



Alliant Insurance Services, Inc.

- Alliant is OC San's contracted insurance brokerage firm.
- We are a leader in public entity insurance brokerage nationwide
 - *\$20BB in Premium placed*
 - *5,000 employees*
 - *130 Offices*

Service Team

- Dennis Mulqueeney, Senior Vice President
- Robert Lowe, Vice President
- Rita Carey, Account Manager
- Alicia Cortez, Asst. Account Manager



**Presentation
Overview**

**Commercial Insurance Industry
Performance**

Reflections on COVID

Reasons for Market Change

Renewal Expectations

Questions



Property/Casualty Industry Performance

Key Industry Metrics

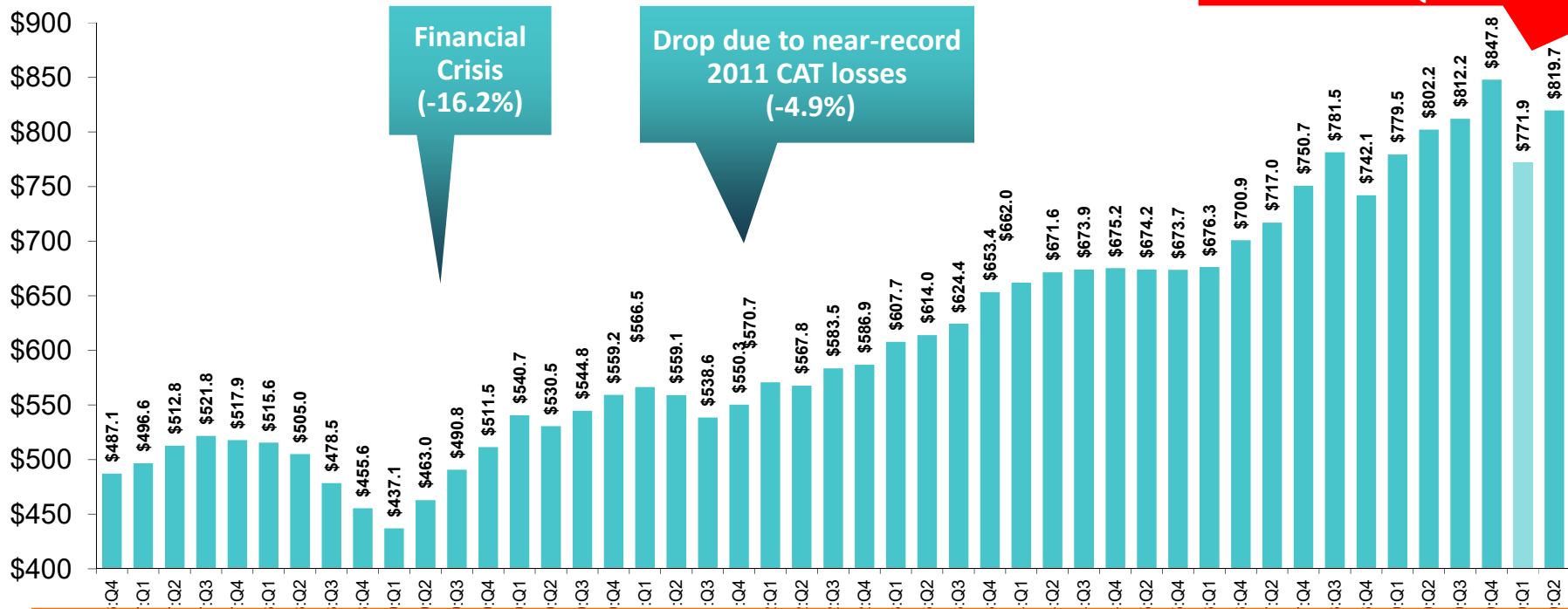


- Insurers' **combined ratio** deteriorated to 100.2% for 2nd Qtr 2020 from 98.9% a year earlier.
- **Policyholder surplus** declined \$22.1 billion in the first half 2020 from an all time high of \$847.8 billion at year end 2019.
- **Net income after taxes** fell to \$24.3 billion in first-half 2020 from \$32.8 billion in first-half 2019.
- Signs point to a healthy, yet very unsettled, insurance market. Unknowns of **COVID-19, weather extremes, sea level rise, wildfires, catastrophic losses, social inflation** and up until very recently, weak **investment earnings**.

Source: A.M. Best, ISO, Verisk, Property Casualty Insurers Association of America (PCI)

Policyholder Surplus (Capacity), 2006:Q4–2020:H1

(\$ Billions)



The P/C insurance industry entered the COVID-19 pandemic from a position strength and was able to withstand the 9.0% surplus decline in Q1 2020

Financial Crisis (-16.2%)

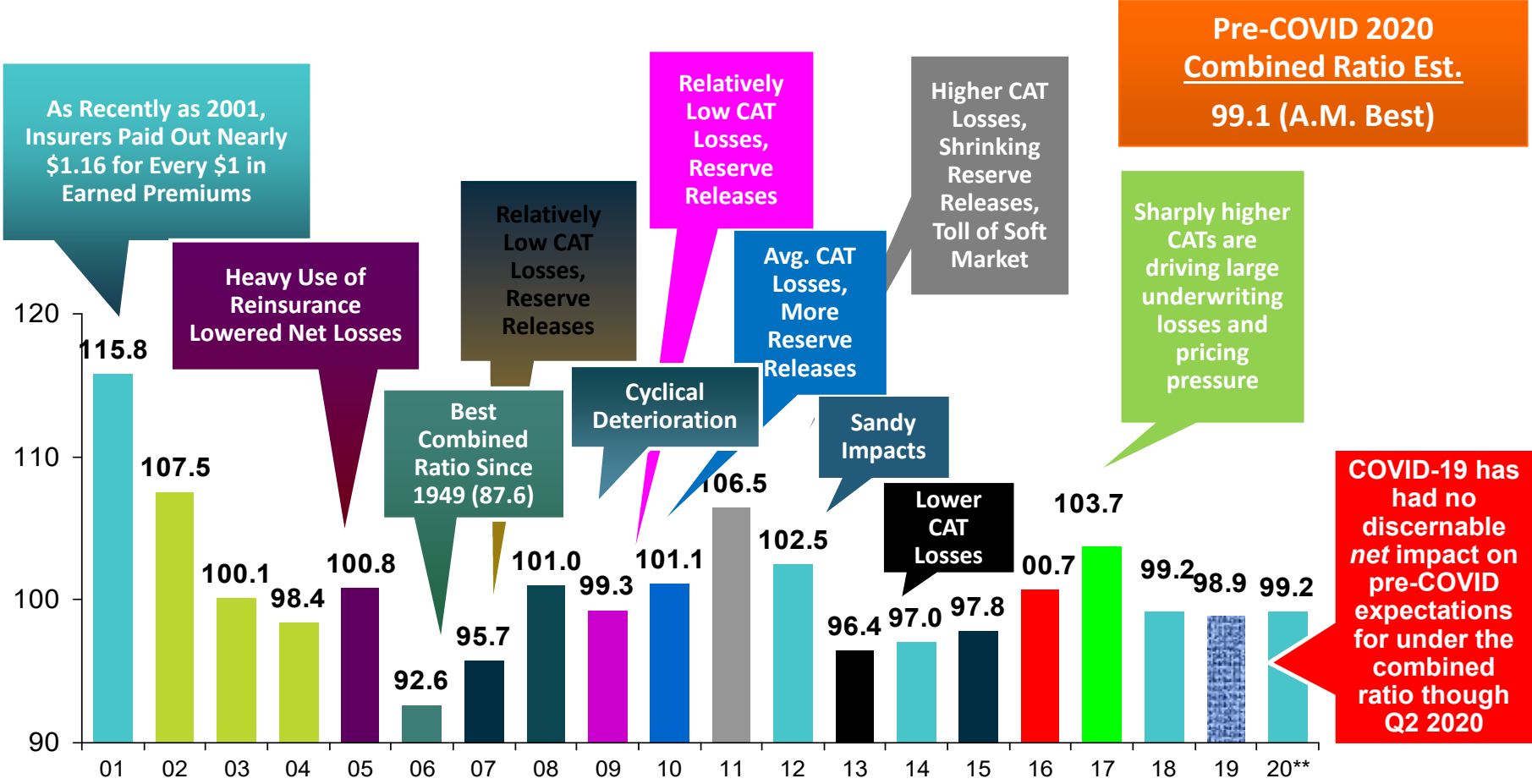
Drop due to near-record 2011 CAT losses (-4.9%)

Policyholder Surplus is the industry's financial cushion against large losses, and periods of economic stress/market volatility. It is also a source of capital to underwrite new risks.

Sources: ISO, A.M .Best; Risk and Uncertainty Management Center, University of South Carolina.



P/C Insurance Industry Combined Ratio, 2001–2020:H1*



*Excludes Mortgage & Financial Guaranty insurers 2008--2014.

**First Half 2020.

Sources: A.M. Best, ISO (2014-2019).

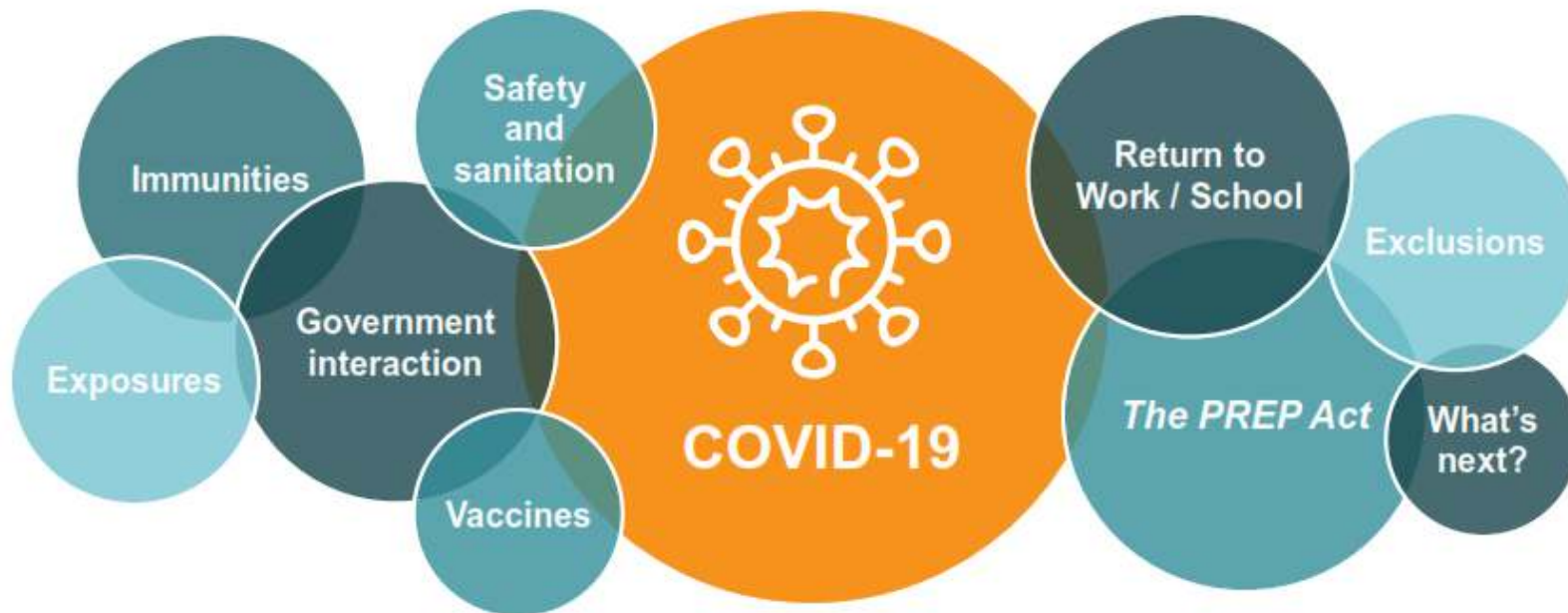




COVID and the Impact of the Natural World on Insurance



Impact of the Pandemic



Viral Outbreaks Are Not An Insurable Risk

Economic Losses from Pandemics

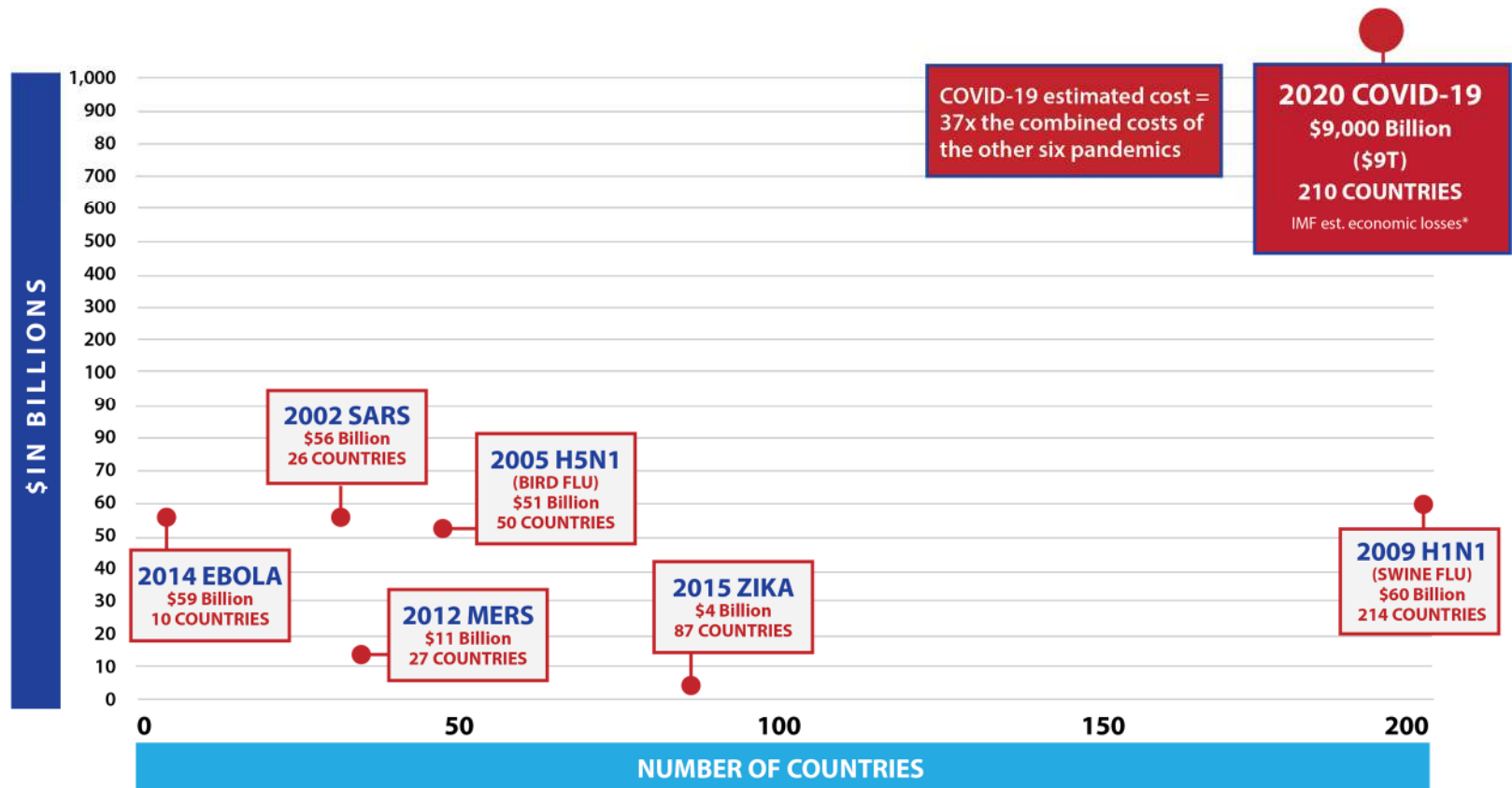
Pandemics are frequent, severe, and widespread (7 pandemics with multi-billion\$ economic losses in just the last 18 years)

For Reference

2005 Katrina
\$58 Billion

2001 9/11
\$48 Billion

(insured losses)



*Sources: APCA using published reports, including IMF, World Bank, Learnbonds.com; APCA adjustment to 2020 USD



Property Insurance Update

22 Separate Billion Dollar Loss Events in 2020



- 22 events with insured losses > \$1B Record
- 71 designated PCS CAT events Record
- 30 named storms, including 10 HU/TS events Record
- 17 wildfire events Record

Source: NOAA National Centers for Environmental Information



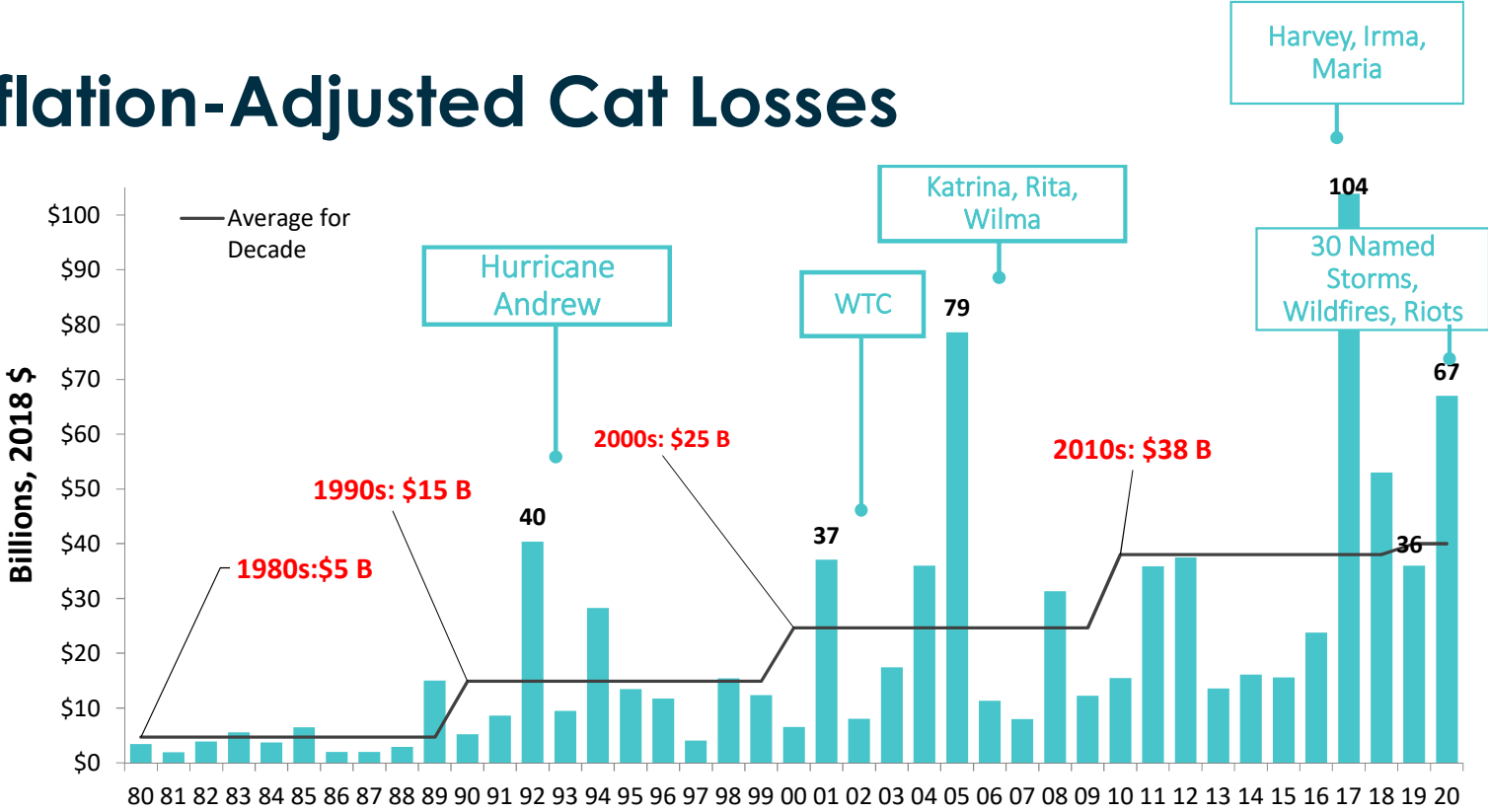
2020 Hurricane Season

The extremely active 2020 Atlantic hurricane season closed with a **record-breaking 30 named storms** and 12 that made land fall in the continental United States.

Expectations for 2021 remain high.



U.S. Inflation-Adjusted Cat Losses



Average Insured Loss for Last Decade is \$40B. 2021 Started with off badly with \$18BB from Winer Storm Uri (Tx. Freeze)

Sources: Property Claims Service, a Verisk Analytics business; Insurance Information Institute.

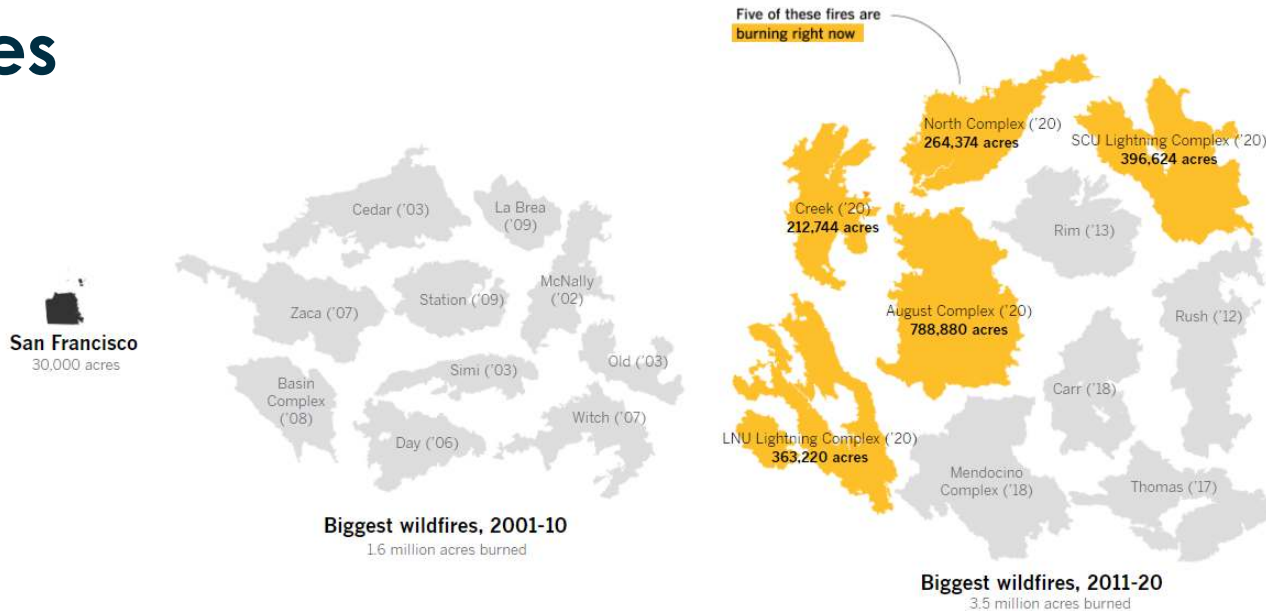


Wildfires



The 2020 season was a record-setting one for the state of California and the United States as a whole. NIFC reported that as of Nov. 27 there were 52,113 wildfires that had burned 8,889,297 acres in 2020. This is approximately 2.3 million more acres burned than the 10-year average and almost double the acreage burned in the 2019 season.

Wildfires



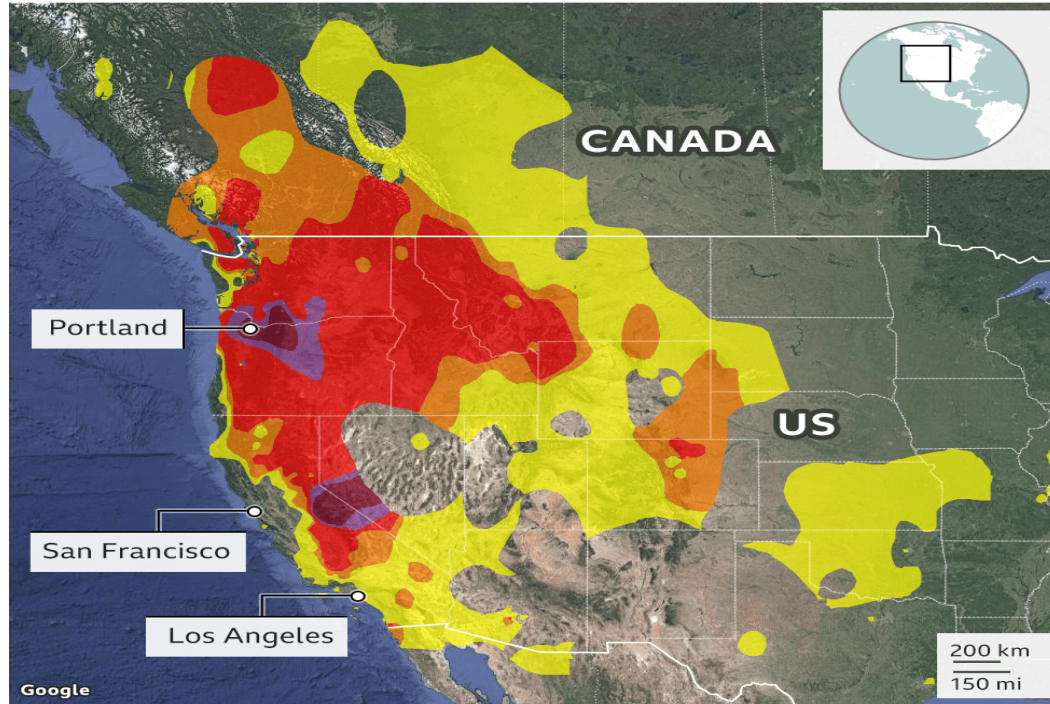
Record-breaking wildfires are occurring more often. Eight of the 10 largest fires in California history have burned in the past decade. On Sept. 9, the massive August Complex became the largest fire in the state's history.

Taken together, they dwarf the 10 biggest fires from the decade before.

Source: Los Angeles Times

Wildfires

Worst air quality on record for US West Coast



Air Quality Index: levels of pollution including particulate matter

- Moderate 51-100
- Unhealthy for sensitive groups 101-150
- Unhealthy 151 - 200
- Very unhealthy 201-300
- Hazardous 300 -500

Source: AirNow

BBC

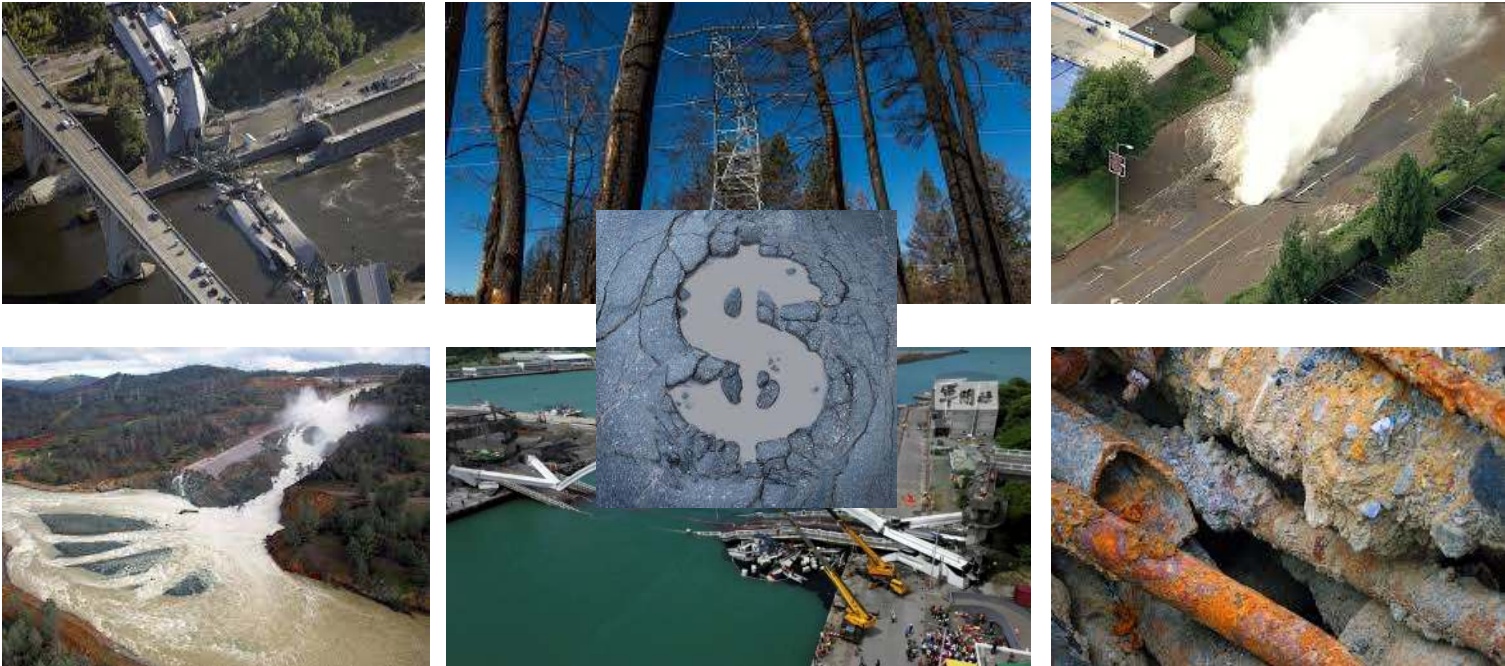
Earthquakes

Not to be overlooked, Earthquakes are inevitable and can happen at any time.

The Economic impact of a California Earthquake will be devastating.



Aging Infrastructure





Casualty Insurance Update

The Impact of the Judicial System on Insurance

Large Public Entity Verdicts/Settlements

- ***Social Inflation***
- ***Erosion of Tort Immunities***
- ***Sexual Abuse and Molestation***
- ***Police Liability***
- ***Litigation Hellholes***
- ***Nuclear Verdicts***
- ***Social Unrest***

Loss Year	Description	Total Paid
2018	Sexual Abuse (Class Action)	\$500,000,000
2017	Sexual Abuse (Class Action)	\$215,000,000
2015	Methane Gas Leak	\$120,000,000
2015	Bus Shelter Collapse (Single Plaintiff)	\$115,000,000
2014	Child Abuse/Foster Care	\$113,400,000
2011	Police Shooting/Wrongful Death	\$97,000,000
2014	Dangerous Condition/Landslide	\$71,500,000
2016	Vehicle Accident/Fire Ambulance	\$65,750,000
2016	Wrongful Death	\$60,000,000
2015	Strip Search (Class Action)	\$53,000,000
2012	Dangerous Condition/Bridge Fire	\$50,000,000
2017	Vehicle Accident/Motorcycle vs Auto	\$46,000,000
2015	Vehicle Accident/Sherriff Vehicle	\$42,000,000
2011	Wrongful Conviction	\$40,000,000
2014	Dangerous Condition/Vehicle Accident	\$32,500,000
2015	Sexual Abuse	\$31,000,000
2016	Dangerous Condition/Vehicle Accident	\$30,000,000





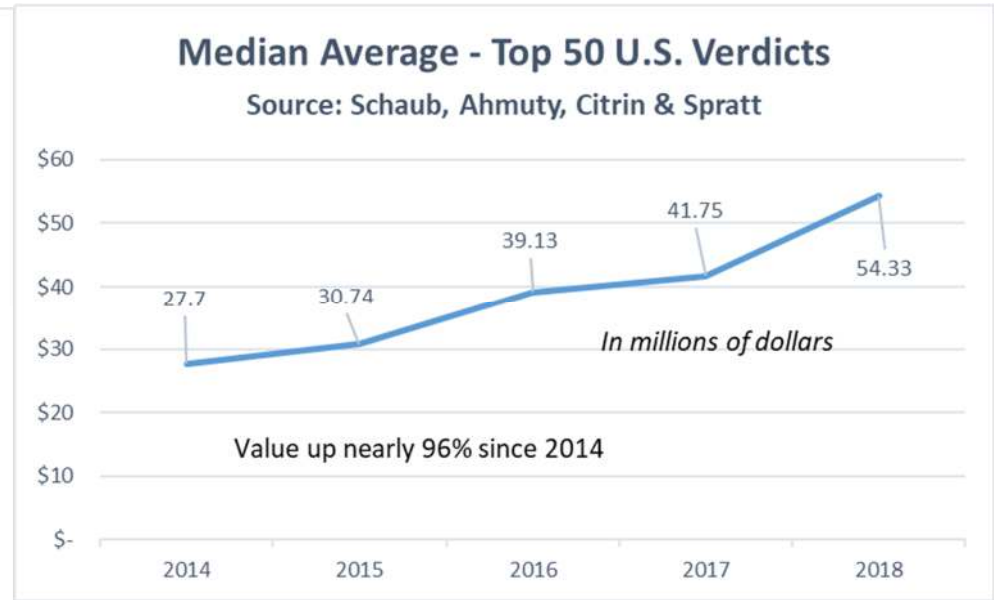
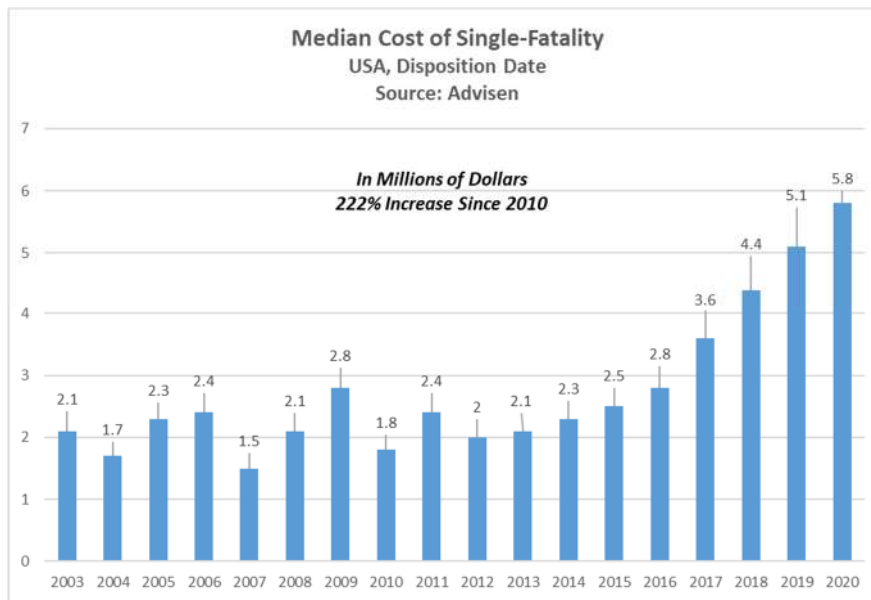
Key Issue for 3rd Party Liability

“Social inflation” refers to the alarming increase in the frequency of severe claims due to:

Defendant **mistrust** of business and institutions

Litigation financing

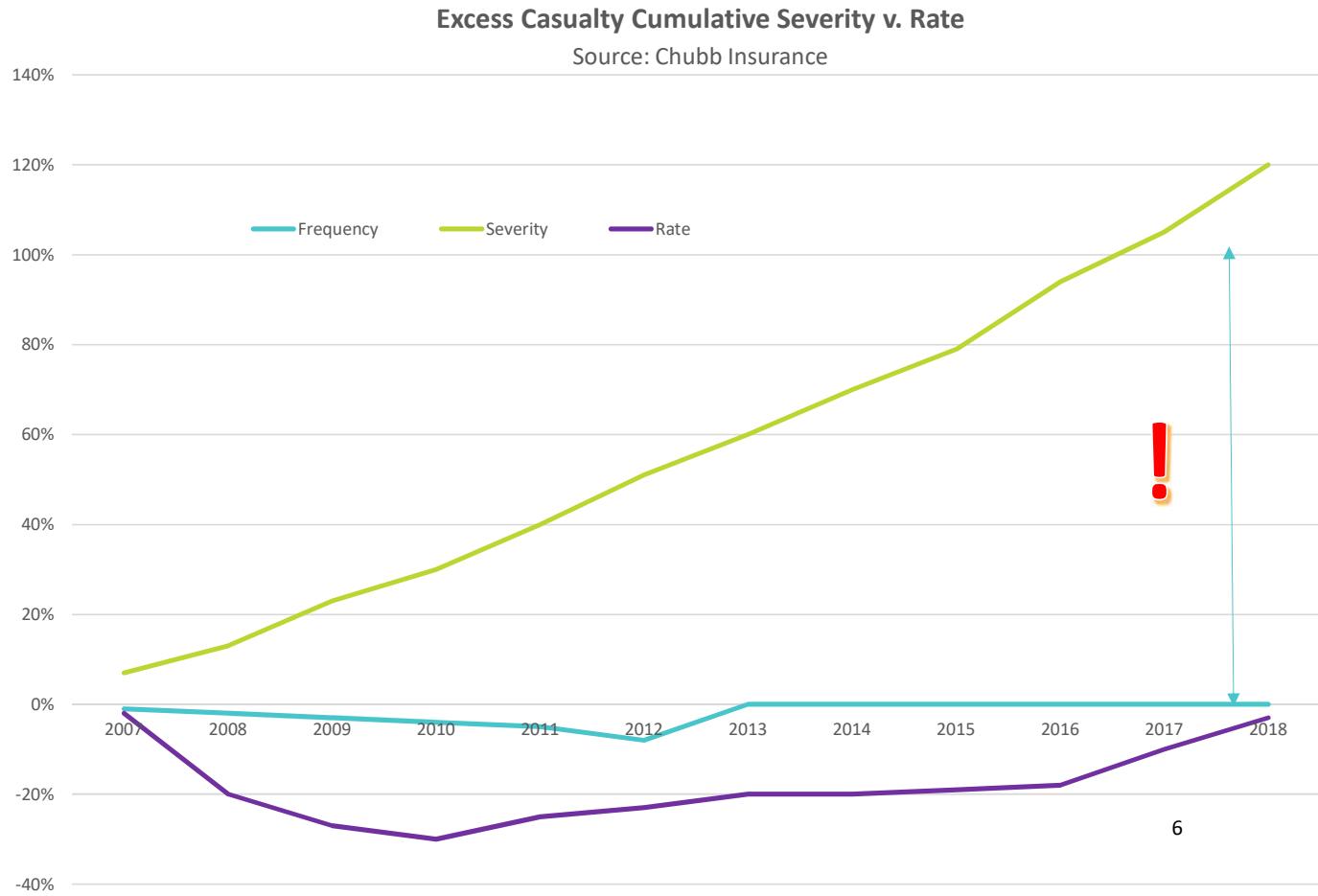
Ubiquity of Social Media – News of large verdicts travels, resetting the expectation of what a reasonable verdict might be





Result...

The *new trend/* phrase is a “frequency of severity”

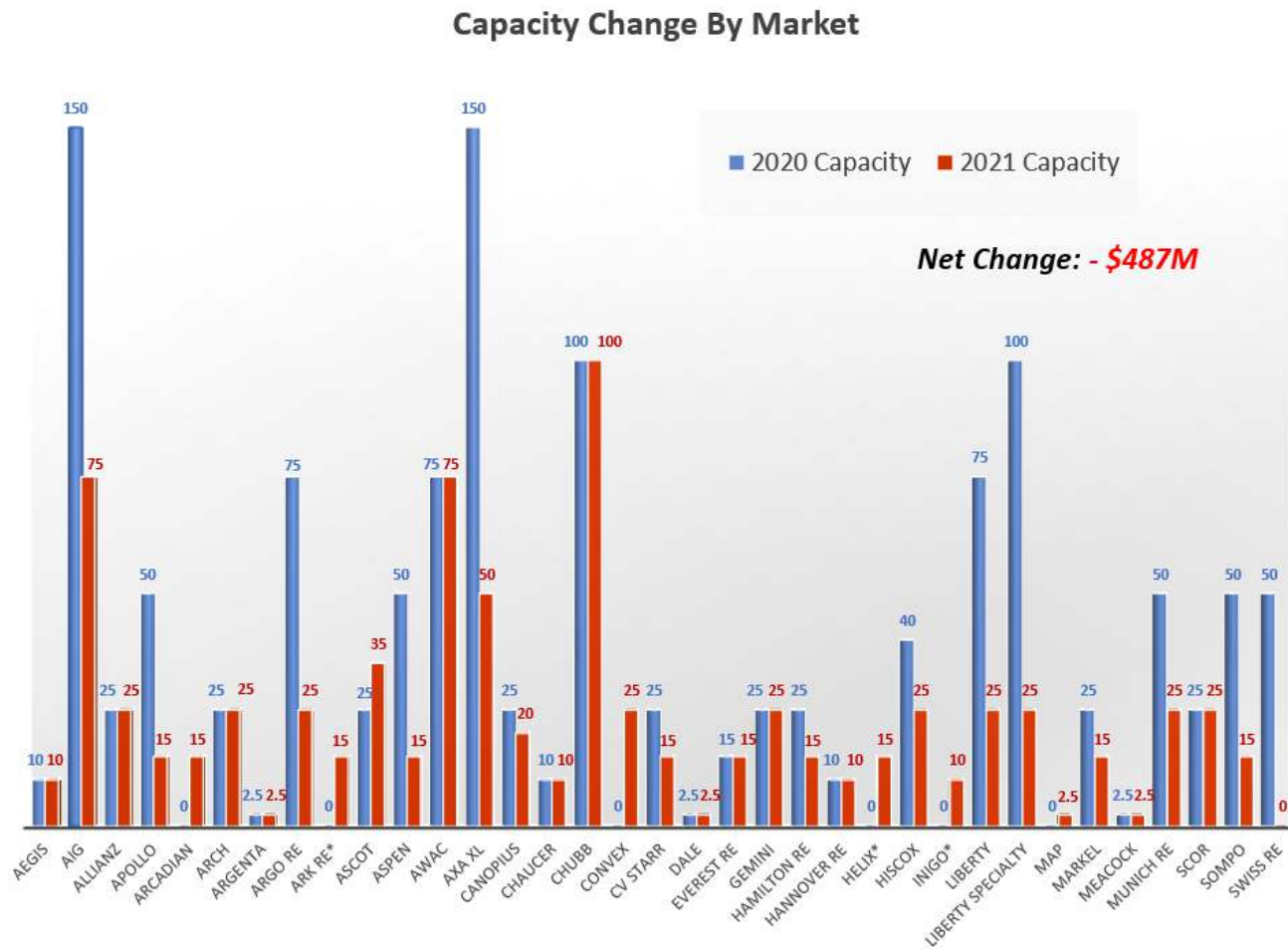


6





Reaction...



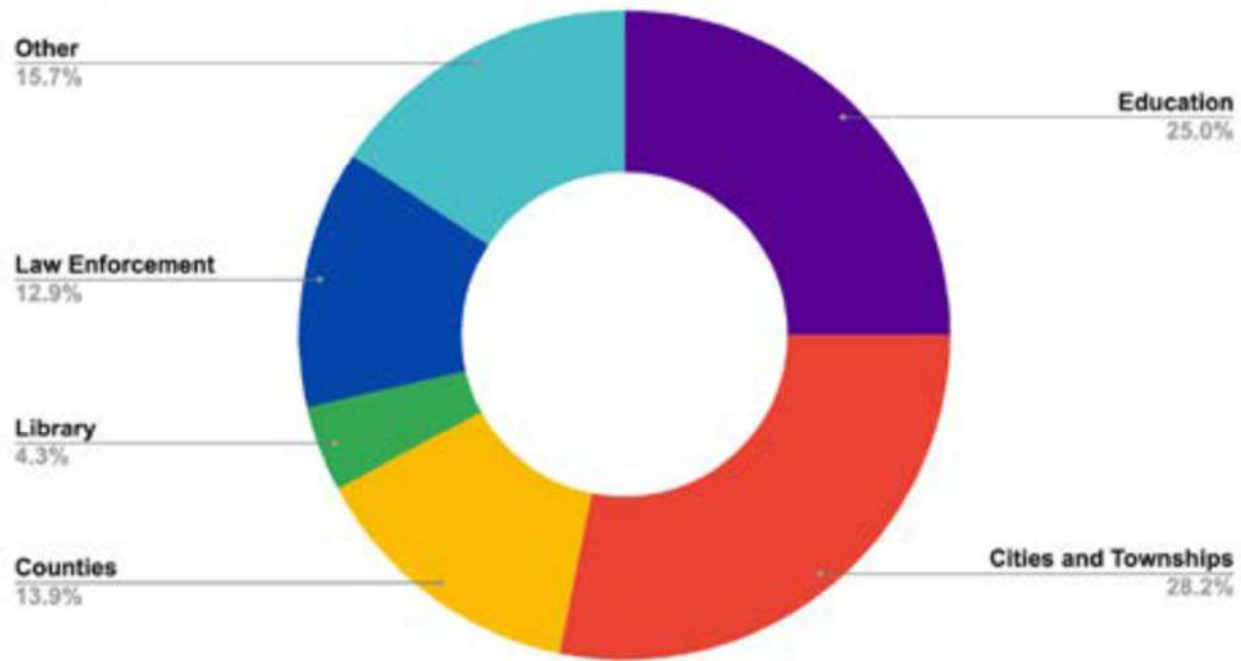
Significant reduction in market capacity through individual efforts by insurers to “de-risk” their portfolios

7



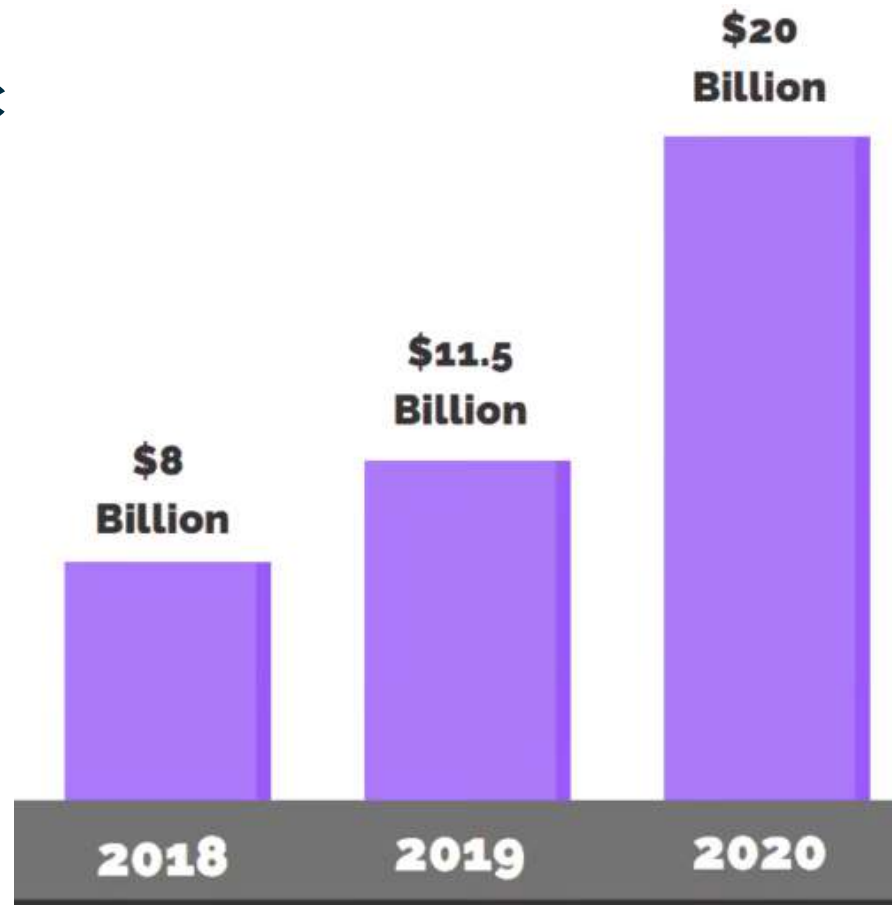
Cyber Attacks on Municipalities

Target Area of Attacks



The Ransomware Epidemic

Ransomware surged in recent years, and there is no foreseeable slowdown. All industry segments were impacted. Manufacturing and professional services were particularly hard hit, followed closely by healthcare, education, and **government entities**.



*Estimated global damage from ransomware.



OC San Insurance Program

Overview of OC San's Insurance Program

Liability & Workers Comp.

- Coverage for damages to **third parties** arising out of District negligence or statutory obligations. Includes:
 - General Liability
 - Automobile Liability
 - Marine Liability
 - Cyber Liability
 - Pollution Liability
 - Workers Compensation
 - Public Entity Errors and Omissions
- \$40MM Limit, \$750,000 retention

Property Insurance

- Coverage for Districts' **property** arising from "all risk" perils. Includes:
 - Boiler and Machinery
 - Flood
 - Earthquake
 - Terrorism
 - Hull
 - Other Misc.
- \$800,000,000 in Limits
- Various Sublimits
- \$500,000 deductible, generally

All coverage provided on an "Occurrence" Basis

2021 Renewal Expectations

At expiring limits and deductible structure...

Generally, conservative numbers are delivered at this point in time, but these **may not be conservative enough** in the current environment

Excess Liability	2020	2021	Change - Dollars/Percent	
Limit	40,000,000	40,000,000	-	-
Self-Insured Retention	750,000	750,000	-	-
\$10MM - Great American	366,194	439,433	73,239	20%
\$20MM - Berkley National	256,035	307,242	51,207	20%
Arch \$5MM Part of \$20MM	51,500	61,800	10,300	20%
\$10MM - Great American Custom	81,800	98,160	16,360	20%
Premium	755,529	906,635	151,106	20%
Excess Workers' Comp				
Payroll	73,639,437	79,958,707	6,319,270	9%
Limit	Statutory	Statutory	N/A	N/A
Rate Per \$100	0.28	0.34	0.06	22%
Self-Insured Retention	1,000,000	1,000,000	-	0%
Premium	204,769	271,860	67,091	33%
Property (incl. B&M)				
Values	2,175,238,884	2,222,240,711	47,001,827	2%
A/R Limit	800,000,000	800,000,000	-	0%
Flood Limits	100M/25M	100M/25M	-	0%
A/R Deductible	500,000	500,000	-	0%
Flood Deductible	500,000	500,000	-	0%
Boiler Limit/Deductible	25k/Vrs	25k/Vrs	-	0%
Rate Per \$100	0.05	0.07	0.02	35%
Premium	1,076,439	1,484,593	408,154	38%
Earthquake				
Values	106,186,206	109,091,054	2,904,848	3%
Rate Per \$100	0.09	0.11	0.01	15%
Deductibles	5% \$5MM Min	5% \$5MM Min	N/A	N/A
Premium	98,707	118,166	19,459	20%
Total Premium	2,135,444	2,781,253	645,809	30%



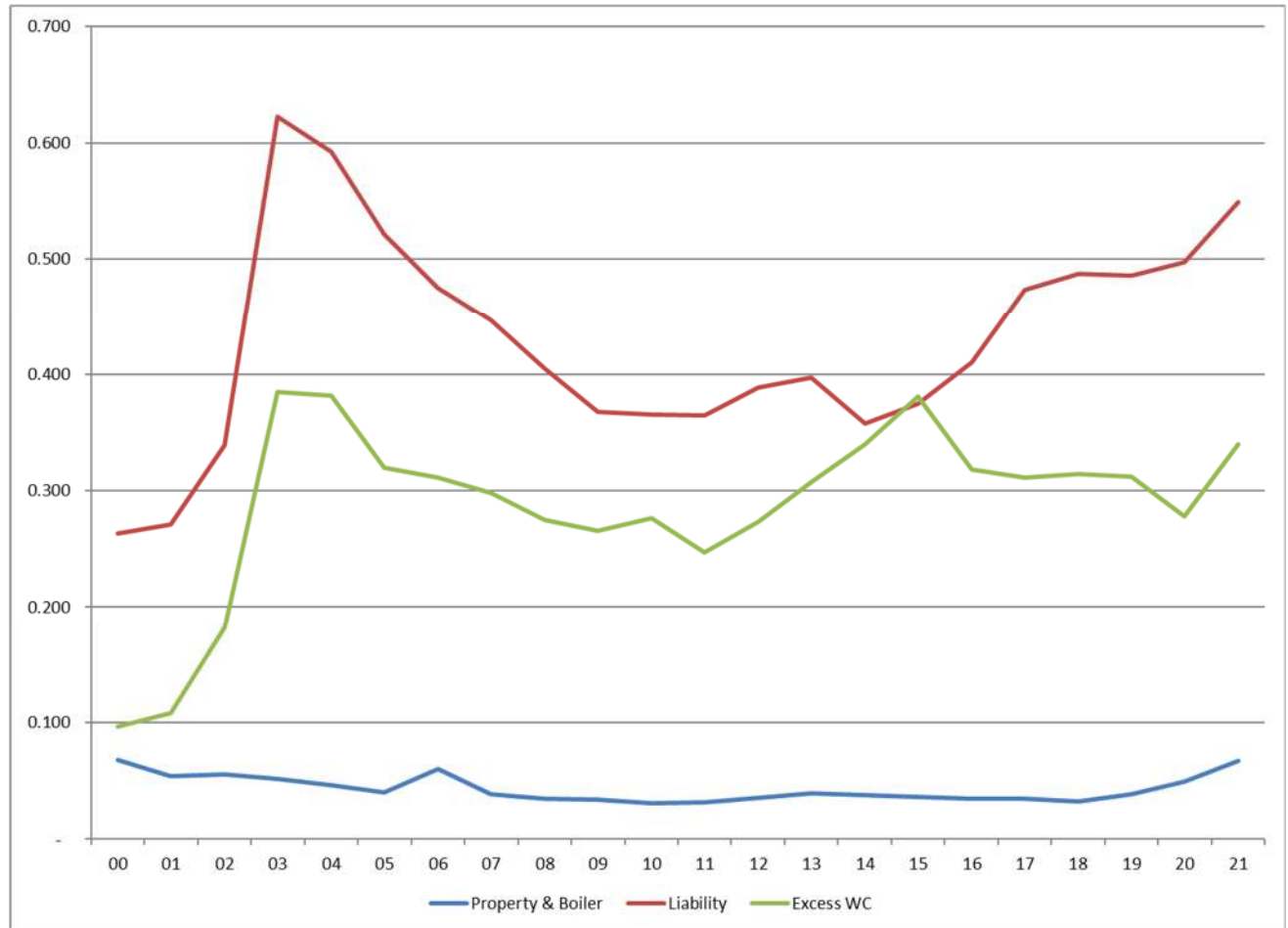
Historical Rates – 2000 to 2021

Per Hundred Dollars of Value/Payroll

Red = General Liability

Green = Workers Comp.

Blue = Property





Questions



Thank you!

Please contact us if you would like a copy of this presentation.

May 2021