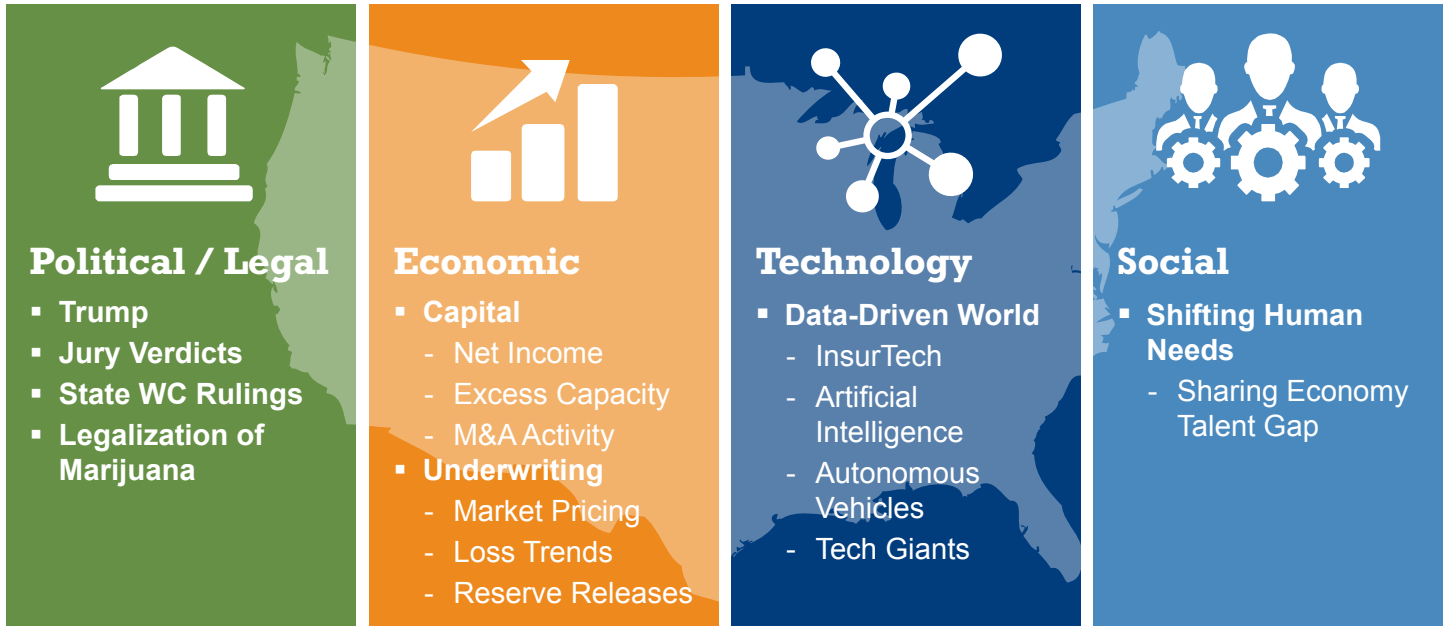


# Managing Risk in a Changing Landscape



# Managing Risk in a Changing Landscape



PAGE 3

## Political and Legal

- Trump
- Jury Verdicts
- State WC Rulings
- Legalization of Marijuana

PAGE 4

## Economic

- Capital
  - Net Income
  - Excess Capacity
  - M&A Activity
- Underwriting
  - Market Pricing
  - Loss Trends
  - Reserve Releases

PAGE 5

## Technology and Social

- Data-Driven World
  - InsurTech
  - Artificial Intelligence
  - Autonomous Vehicles
  - Tech Giants
- Shifting Human Needs
  - Sharing Economy Talent Gap

PAGE 6-8

**Liberty Mutual at a Glance**

PAGE 9

**Helping Meet All Your Needs**

# Political and Legal



## Jury Verdicts are Becoming Nuclear

- Cases going to trial are resulting in higher paid costs<sup>1</sup>
- Median settlement size outpacing Inflation
- Six trucking accidents settled with damages > \$10 million in 2016<sup>1</sup>
- Corporations more likely to be defendants<sup>2</sup>

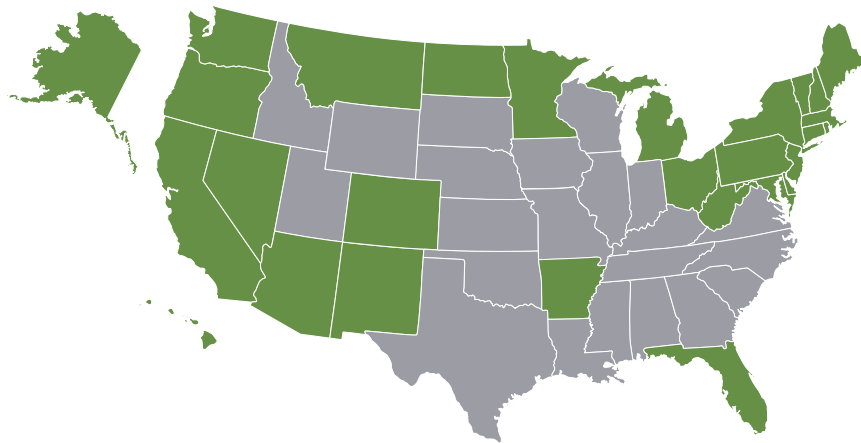


## Legal Changes Impacting the Industry

- Florida removes cap on attorney fees
- Oklahoma opt-out options have been deemed unconstitutional and could delay enforcement in other states
- American Law Institute's proposed changes to the Restatement of the Liability Law could affect the coverage availability and increase premiums for policyholders

## Medical Marijuana Creates Uncertainty

- Recent state rulings require medical marijuana costs to be reimbursed under WC coverage<sup>3</sup>
- A large number of statutes state, implicitly or explicitly, that employers and their insurers are exempt from reimbursement liability — but statutory exception isn't consistently applied or understood



**More than half**  
of the states have legalized  
medical marijuana but it remains  
illegal **at the federal level**

<sup>1</sup> <http://www.rcclaw.com/massive-verdicts-make-insurance-difficult-to-find-for-trucking-companies/>

<sup>2</sup> <https://www.linkedin.com/pulse/nuclear-verdicts-have-insurers-running-from-trucks-zurich-steven-harz>

<sup>3</sup> NCCI 2016 Issues Report

# Economic



## Opposing Market Forces

Low interest rates and rising inflation will continue to challenge the insurance market. This will lead to soft pricing and a high volume of accounts going to market every year.

- Investment income continues to decline with low interest rates
- Yet excess capacity continues to soften commercial lines pricing <sup>4</sup>



## Investment Activity

Insurers are looking for other avenues for growth due to heightened competition from new entrants and extra capital in the markets.

- Merger and acquisition activity provides faster growth in a soft market
- Foreign markets are attracted to the U.S. insurance market
- InsurTech companies are acquisition prospects
- Managing general agents are expanding to provide new avenues for growth and profitability<sup>5</sup>

## Transforming Business Models

These forces lead to new opportunities and new ways of doing business, but also result in failed ventures, capital pressure, and return to hard markets.



## Spiking Auto Loss Trends: A Recent Pressure Point on Profitability

A prevailing soft market coupled with unfavorable loss trends, particularly in auto, is continuing to deteriorate commercial lines profitability.

- **More traffic:** Nationwide, vehicle miles driven increased 3.3 percent year-over-year in the first half of 2016 and is now at an all-time high.<sup>6</sup> More vehicles = higher frequency of crashes.
- **Distracted driving:** One-quarter of crashes involve drivers talking on phones or texting.<sup>7</sup>
- **Increasing crash frequency plus severity:** Rising claims costs typically stem from either increased frequency or severity — but in the case of commercial auto, it's both.<sup>8</sup>
- **Escalating medical costs:** Medical care costs are climbing more than 1.5 times faster than other costs.<sup>9</sup>
- **Inexperienced or undesirable drivers:** A shortage of skilled commercial drivers with good driving records = greater odds for crashes.
- **Rising auto repair costs:** Record U.S. auto sales mean garages are often servicing newer cars with more expensive parts. Even minor repairs can cost big bucks.

<sup>4</sup> [http://naic.org/documents/topic\\_insurance\\_industry\\_snapshots\\_2016\\_prop\\_cas\\_title\\_ins\\_ind\\_report.pdf](http://naic.org/documents/topic_insurance_industry_snapshots_2016_prop_cas_title_ins_ind_report.pdf)

<sup>5</sup> <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/financial-services/us-fsi-insurance-industry-outlook-infographic-update-2017.pdf>

<sup>6</sup> Federal Highway Administration – Office of Highway Policy Information (OHPI). <https://www.fhwa.dot.gov/pressroom/fhwa1647.cfm>

<sup>7</sup> National Safety Council – Annual Estimate of Cell Phone Crashes 2013. <http://www.nsc.org/DistractedDrivingDocuments/CPK/Attributable-Risk-Summary.pdf>

<sup>8</sup> <http://www.riskandinsurance.com/warning-emerging-frequency-severity-trends-threaten-commercial-auto-policyholders/>

<sup>9</sup> Consumer Price Index – All Urban Consumers, 2006-2012, Bureau of Labor Statistics.

# Technology and Social

## Disruptive Trends

- **Shifting social needs:** emergence of millennials, baby boomers, the sharing economy
- **Data-driven environments:** Internet of Things (IoT), connectedness, advancing technology
- **Changing financial landscape:** excess capital, indebted economy, regulation evolution
- **Evolving global environment:** urbanization, smart cities, geopolitical volatility

## Key Topics:



### Artificial Intelligence (AI)

- AI is among the fastest growing areas of investment — AI and IoT rose 79 percent in 2016 vs. 2015<sup>10</sup>
- Where is AI today? It's already starting to replace jobs



### Autonomous Vehicles

- Substantial impact on premium in the coming years
- Market is shifting from personal to commercial auto
- Estimated 90 percent reduction in annual accident frequency by 2050
- Auto losses projected to fall by approximately 63 percent or \$122 billion by 2050
- Sharing economy will intersect with autonomous vehicles as driverless fleets emerge<sup>11</sup>



### Millennials (aged 18-34)

- Upcoming talent gap
- Becoming a larger proportion of the workforce
- Hold 6.2 jobs by the time they are 27<sup>12</sup>
- 44 percent see the insurance industry as boring<sup>13</sup>
- There will be 400,000 open positions by 2020<sup>14</sup>



### Sharing Economy

- \$335B in revenue by 2025
- 75 percent of Americans have used a shared service<sup>15</sup>

### Transforming Risk:

- Consumer preferences shifting from “ownership” to access or borrowing
- Lack of clarity where coverages begin and end as individuals operate as businesses
- Need for new custom insurance solutions, e.g. Uber ride, Airbnb
- Desire for seamless, integrated insurance experience

### Insurance Implications

#### Workers Compensation

- Status of independent contractors — collateral implications
- Accident and disability — occupational accident
- Attracting and keeping a multi-generational workforce

#### Commercial Auto

- Personal vs. commercial policy limits and terms
- Usage based insurance; time-oriented rates

#### Property

- Different property requirements and different property exposures
- Potential product to support new asset-sharing economy

#### Liability

- Shifting liabilities tied to ownership, roles, and access
- Personal vs. commercial policy limits and terms

<sup>10</sup> <http://fintechinnovationlab.com/wp-content/uploads/2017/05/the-rise-of-insurtech.pdf>

<sup>11</sup> “The Chaotic Middle. The Autonomous Vehicle and Disruption in Automobile Insurance”. KPMG June 2017

<sup>12</sup> <http://www.insurancejournal.com/news/national/2014/04/22/326816.htm>

<sup>13</sup> <http://www.insurancejournal.com/magazines/closingquote/2015/02/09/356340.htm>

<sup>14</sup> U.S. Department of Labor.



# Liberty Mutual at a Glance

Since 1912, Liberty Mutual Insurance has helped people preserve and protect what they earn, build, own, and cherish. Keeping this promise means we are there when our customers need us most.

**75<sup>th</sup>**  
on Fortune 500

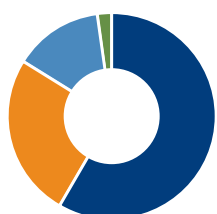
**\$38 billion**  
global revenue

**50,000+**  
employees

**800+**  
offices around  
the world

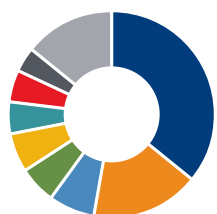
**5<sup>th</sup> largest**  
global P&C  
insurer

## Strategic Business Units



- Global Consumer Markets 59%
- Commercial Insurance 26%
- Global Specialty 14%
- Other 1%

## Significant Lines of Business



- 36% Private Passenger Automobile
- 17% Homeowners
- 7% Specialty Insurance\*
- 6% Commercial Multi-Peril
- 6% Workers Compensation
- 5% Commercial Automobile
- 5% Group Disability and Group Life
- 4% General Liability
- 14% All Other Lines

\*Includes Commercial Insurance and Global Specialty Net Written Premium.



## 2016 “Great Place to Work”

Certified in recognition of our ongoing commitment to create a flexible, diverse, and inclusive workplace that attracts top talent.

## Charitable Giving Programs



\$12.3 million pledged by employees to charities



28,000 employees  
2,000 service projects



\$39 million donated to nonprofits

Together, we help to minimize risk, prevent loss, and prepare our customers for the unknown. And when the unexpected happens, we're committed to providing an exceptional claims experience every time. Our promise to our customers is that we will be there for them when they need us most.

**Tools and resources designed to help your customers protect their people, property, and assets**



**Online:**  
Liberty Mutual SafetyNet™ offers self-service access to the latest research, self-assessment tools, toolkits, OSHA-related materials, training resources, and instructor-led webinars.



**On the Phone:**  
Our responsive Risk Control Consulting Center analyzes safety-related problems, evaluates potential risks, and offers practical solutions and resources over the phone.



**On-Site:**  
For larger policyholders with more complex issues, we offer tailored on-site risk assessments and a comprehensive, custom service plan.

**Deep expertise, active partnership, and better claims outcomes**

From the simplest to the most complex claims, your customers benefit from an experienced team that resolves more than 900,000 property and casualty claims each year. Our claims team is focused on getting your customers back up and running after a loss, protecting their operations and returning their injured workers back to work as soon as medically appropriate.

**Our Claims Principles**

We do  
what's right



We provide  
solutions



We're there when  
we're needed



We make  
things easy



Whether your customers file just one claim every few years, or hundreds each year, every claim matters. A claim represents a risk to your customers' operations, employees, and reputation. When partnering with Liberty Mutual, you can depend on better claims outcomes.





There's no denying that we are at a new and exciting point in our history. The world around us and, consequently, the expectations of our customers, are changing rapidly. Technology is advancing at an exponential rate, transforming the way we live and interact faster than at any point in our history. Yet, in spite of this accelerating pace of change, we continue to thrive thanks to our strong capital position, the strength of our underlying operations, our scale, our talent, and our unwavering focus on customers.

— David Long, Chairman & CEO



# Helping Meet All Your Needs

Liberty Mutual offers accessibility, a broad appetite, deep expertise, and the financial stability of a Fortune 100 global provider.

## Spanning an array of industries....

### Industry Focus

- |                         |                           |               |
|-------------------------|---------------------------|---------------|
| ▪ Construction          | ▪ Hospitality             | ▪ Restaurants |
| ▪ Energy                | ▪ Industrial Equipment    | ▪ Retail      |
| ▪ Food Manufacturing    | ▪ Machinery Manufacturing | ▪ Wholesale   |
| ▪ General Manufacturing | ▪ Public Entity           |               |
| ▪ Healthcare            | ▪ Real Estate             |               |

... let us be your all-lines solution.

### Commercial Insurance Products

- |                       |   |  |
|-----------------------|---|--|
| ▪ Commercial Auto     | ▪ Inland Marine                                 | ▪ Workers Compensation                                       |
| ▪ Equipment Breakdown | ▪ Helmsman Third Party<br>Claims Administration | ▪ Professional Liability and Cyber<br>(through Ironshore)    |
| ▪ Excess Liability    | ▪ Property                                      | ▪ Employee Benefits<br>(provided by Liberty Mutual Benefits) |
| ▪ General Liability   | ▪ Umbrella                                      |  |

For additional information on these trends and our insurance solutions, contact your Liberty Mutual representative.



[libertymutualgroup.com/business](http://libertymutualgroup.com/business)



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