

2016 US EDUCATION INSURANCE MARKET UPDATE WEBCAST



WEBCAST DATE: MARCH 22, 2016

Jean Demchak, Paul Sherbine, Mark Turkalo, David Letzelter, Sean Letz

Marsh Panel Overview



Jean Demchak, Managing Director Global Education and Public Entity Practice Leader

Jean has a career-long focus on higher education and the public entity sector with 33 years industry experience and 29 years with Marsh and is the senior relationship officer for all education and public sector accounts. Jean is responsible for identifying and responding to the emerging issues facing schools and public entity clients and developing and customizing specialized services to meet their needs. She serves as liaison with the marketplace as well as key organizations in the higher education industry.

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Agenda

- Introduction/panel overview.
- The market information resources/insurer financial review.
- Casualty market including professional liability update:
 - ✓ Higher education.
 - ✓ Primary and secondary schools.
- Property market update (higher education and primary and secondary).
- Q&A.

Marsh Panel Overview



Paul Sherbine, Managing Director Market Information Group

Paul is the leader of Marsh's Market Information Group and is responsible for the analysis of the insurers Marsh clients utilize worldwide. He assists clients in assessing the relative strengths or weaknesses of various insurers when structuring their program. He also makes oral and written presentations to clients and prospects on the importance and methodology of insurer financial analysis.

Paul has been the featured speaker to industry trade groups and other interested parties on Marsh's Market Information Group and the financial standing of the insurance industry in general. Prior to joining Marsh in 1986, Paul was a financial analyst with A.M. Best Company.

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Marsh Panel Overview



Mark Turkalo, Senior Vice President Marsh Education & Public Entity Placement Leader

Mark is a senior placement specialist exclusively responsible for placement of all new and renewal business for the education sector that includes public and independent K-12 schools, vocational and technical schools, community and state colleges, as well as, private and public higher education institutions.

Responsibilities include insurance risk evaluations for Marsh's education clients as well as determination of the best possible risk transfer mechanisms. His background includes placement public entity specialty industry programs. Prior to joining Marsh in 1993, Mark held several underwriting positions for 10 years, specializing in national accounts, cash flow programs, captives and other risk financing techniques.

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Marsh Panel Overview



David Letzelter, Senior Vice President US Property Practice, Pittsburgh Leader

In his role as Senior Advisor Specialist, David provides clients with advice on program design, marketing and strategy as well as offering guidance on technical aspects of large limit property programs.

Among his areas of expertise are providing solutions for clients in higher education on layered and quota share programs, captive utilization and alternative risk finance. He provides consultation to more than colleges and universities representing over \$125 billion in insured values.

David joined Marsh in 1996 and currently also serves as the Property Practice Leader for the Marsh office in Pittsburgh.

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Marsh Panel Overview



Sean Letz, Assistant Vice President FinPro E&O, Cyber Practice, New York

In his role with the FINPRO Practice in Marsh's New York office, Sean's responsibilities include assisting clients in the areas of cyber, technology E&O, miscellaneous professional liability, and media coverage

Prior to joining Marsh, Sean worked at ACE insurance where he handled a variety of E&O and cyber claims including numerous high severity data breaches. Prior to ACE Sean practiced as a commercial litigation attorney in New York and New Jersey

Sean earned his Juris Doctorate from Rutgers School of Law in Newark, New Jersey. Sean earned his Bachelor of Arts degree, with a dual major in economics and political science, from Rutgers University in New Brunswick, New Jersey.

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The Market Information Resources / Insurer Financial Review

Merger Mania And Shareholder Unrest in 2015 and 2016

Paul Sherbine, Managing Director
Global Market Information Group

2015 US Results A.M. Best Estimates

- Combined ratio of 98%.
- 2.7% increase in net premiums.
- Policyholders' surplus of \$696 billion, up \$4 billion from 2014 .
- Net income of \$60 billion down 5% from prior year period.
- Catastrophes add 4.5 points to combined ratio in 2015 as compared to 5.4 points in 2014.
- Net investment income down \$3 billion to \$51 billion while realized gains fell about \$2 billion to \$11 billion and unrealized capital losses reported of \$21 billion as opposed to gains of \$4 billion in 2014.
- Personal lines Net Premium Written (NPW) up 6% to \$284 billion with commercial lines increasing 3% to \$193 billion.
- Personal lines surplus is about \$289 billion while commercial lines surplus is \$287 billion.

The Urge To Merge

- Flat operating results in last few years, due to low interest rates, lack of major catastrophes , and significant capital in industry causing competitive underwriting.
- Capital markets in reinsurance industry straining commercial reinsurers growth prospects.
- Continued extra capacity results in merger mania.
- Reinsurer size now a bigger factor. \$1 billion to \$6 billion book value now considered too small by some.
- Find a partner or leave the dance. AIG shut down their reinsurance arm, AIG Re.

What Started as an Uptick Becomes a Wave

- Alterra/Markel
- Renaissance Re/ Platinum
- Sompo/Canopus
- Validus/Western World
- Tokio/Philadelphia and Safety National
- Not big names that would grab you

Now it Gets Interesting

- XI/Catlin
- Fairfax/Brit
- Ironshore/Fosun
- Exor/Partnerre
- Endurance/Montpelier
- Tokio/Houston Casualty
- ACE/Chubb the big kahuna/game changer
- Mitsui/Amlin

Points of Interest

- These new mergers are not force fed but opportunities.
- Eight mergers totaled \$58 billion in purchase price.
- Chubb could very well have stayed the course , as could Ironshore or Houston, They chose growth and stable management with assets to help them grow.
- Mergers will be global. China and Japan looking for growth outside their region.US is prime for more of these.
- XL/Catlin- Ace/Chubb, Mitsui/Amlin complimentary groups creating synergies across the globe.

Deeper Dive- ACE/Chubb

- \$28.6 billion purchase price is a mix of cash (\$9 billion) stock (\$13.9 billion) and debt (\$5.3 billion).
- \$650 million in run rate expense efficiencies by 2018.
- Combined group will be fourth largest global insurer by book value at \$46 billion. #2 commercial lines insurer in US by Direct Premium Written (DPW).
- Business mix 66% North America, 33% International
- High net worth business greatly expanded through merger.
- Deal approved by shareholders October 22nd.
- CEO of ACE believes merger will take years to finalize operationally.

Deeper Dive -- XL Catlin

- \$4.1 billion purchase price is a mix of cash (\$2.3 billion) stock (\$1.8 billion).
- Deal closed May 2015.
- Expected cost efficiencies around \$250 million.
- Expected to be global leader in specialty lines and major source of Lloyd's capacity.
- Top 8 global reinsurer.
- Ratings affirmed following acquisition by all rating agencies.

Who Wins and Who Loses?

- Following Chubb/ACE deal, it looks like everyone is in play.
- Global expansion or market share moves, in addition to expansion of product has been key drivers for retail insurers.
- Some choose to go it alone, Travelers is a good example, not in the global move and has significant size in US.
- Smaller carriers need to have a plan stockholders like or someone will make their decision for them.
- Even larger insurers with global footprint being pushed by activist shareholders *AIG-Icahn*.
- Poor results cancel some deals - Zurich Royal Sun Alliance (RSA).

AIG Results Not Impressing Investors

- Prior to reporting 3Q results Carl Icahn demands a break up of AIG.
- 3Q results for AIG disappointing, fueling more criticism of management.
- PC results continue to lag competitors. CR of 102.7% versus industry average of 97%.
- Continued premium volume reductions while industry posts 4% increases.
- Stock is trading at 30% discount to book value while competitors trade at a premium.
- While mortgage operations post increase in profits, other areas also report decline in income.

Management's Response To Break Up Begins

- CEO states break up has been reviewed and not pursued.
- Tax benefits would be lost in divestiture and are in excess of \$5 billion.
- Rating agencies give group \$5 billion capital enhancement due to diversified revenue sources.
- Announce downsizing of senior management, 25% of top managers to leave.
- CFO, head of commercial insurance, chief risk officer and senior levels in all lines globally removed.
- Icahn still wants break up. In January 2016 AIG gives update.

January 26th Investor Presentation Announcements

- Returning \$25 billion of capital to shareholders over next two years.
- Initial Public Offering (IPO) of 19.95% of mortgage insurance operations.
- Sale of AIG Advisor Group
- Separating legacy assets and liabilities into new portfolio to show improvement in current underwriting operations.
- Reduce expenses \$1.6 billion in next two years.
- Operating model reorganization.
- Improve Commercial PC loss ratio by 6 points in two years.
- Targeted 9% consolidated Return On Equity (ROE) in 2017 and over 10% in active operations.

Loss Reserve Strengthening Announced for P/C Group

- Fourth quarter strengthening of \$3.6 billion pre-tax following review of reserve position.
- \$1.3 billion in increases for 2004 and prior accident years.
- \$2.3 billion for 2005-2014 accident years.
- Primary culprits are US and Canada casualty and financial lines.
- \$3 billion in capital contributed to PC insurers for loss reserves.
- Announced exiting certain lines of business and targeting certain clients based on losses and amount of lines of business with client.

Rating Agency Reactions

- Moody's lowers financial strength rating on PC group to A2 from A1 with stable outlook due to reserve additions being outside expectations.
- A.M. Best puts A rating on watch with negative implications citing size of reserve additions and difficulty in estimating reserves going forward.
- S&P affirms A+ rating on PC operations with stable outlook as capital adequacy reduction still in line with A+ rating.
- Best expects to finalize rating after meeting with management and reviewing year end results.

Zurich Also Misses Mark on 3Q results

- \$275 million loss on Tianjin explosion, larger than all other losses reported by industry.
- Cancels merger with Royal Sun Alliance (RSA).
- Operating loss in 3Q for general insurance of \$200 million as most competitors post profits.
- General insurance combined ratio of 109% as opposed to industry's 97%.
- Underperforming portfolios include US auto, construction and Global property and liability.
- Following results S&P and Best affirm ratings but Best changes outlook to negative.

Zurich's Action Plan

- Exiting underperforming portfolios.
- Optimize reinsurance to reduce volatility.
- Further rate tiering.
- Expense reductions.
- US CEO removed.
- Global CEO announces he will step down. CFO replaces CEO.
- Actions in US include exiting coverages, reducing offered limits top clients.
- Significant layoffs in UK.
- Announce \$1 billion acquisition of US Crop insurer.

In 2016 More Bad News

- On January 20th Zurich gave preliminary update on 4th quarter 2105 results.
- Zurich expects to record an operating loss of \$100 million in the 4th quarter.
- This is the result of losses of \$275 million related to three storms in the UK and Ireland which caused heavy rainfall and flooding in North England, Scotland and Ireland.
- They also continue to experience high current accident year losses in credit, surety and property impacting their Global Corporate and European divisions.
- Zurich has accelerated cost savings target for 2016 to \$300 million which will result in 4th quarter charge of \$475 million.
- Zurich will also take an impairment charge of \$230 million on German Life goodwill.

Some Good News

- On January 26th Zurich announced the appointment of Mario Greco as the CEO of the group effective May 1st.
- Greco replaces the interim CEO and Martin Senn who stepped down as CEO in December 2015.
- Greco spearheaded a turnaround at Generali which has also experienced losses and Sovereign risk exposure to its Italian bond portfolio.
- Generali recently reported its best results in 7 quarters in June 2015.

What Does This Mean in 2016?

- Program reviews of merging players on your programs.
- Be prepared for underwriters leaving and going to a new insurer.
- Layoffs at merged companies and AIG and Zurich will result in opportunities for new players to enter new markets.
- Investor pressure on insurers will not disappear.
- Effects will not be over in one or two years but in several.
- This should continue well into 2016.

Casualty Education Market Update

**Mark Turkalo, Senior Vice President
Marsh's Education & Public Entity Practices**

Casualty Market Update

Education Segments.

- Colleges and Universities.
 - Public.
 - Private.

- Primary and Secondary.
 - Public K-12.
 - Independent.

- Educational Services .
 - For-Profit Institutions.
 - Charter Schools.
 - Vocational Schools.

Casualty Market Update - Higher Education

General Condition:

- Stable and competitive: focusing on core coverages in the primary and umbrella layer.
- Disciplined underwriting: concerned about athletic concussion management, use of drones, law enforcement and sexual assault claim activity.
- More carriers interested: Beazley, Brit, Chubb(ACE), Endurance, Ironshore, Hartford, Philadelphia, Wright Specialty (Catlin/XL).
- More replacement capacity is available.
- Increased attention to ERM.

Casualty Market Update - Higher Education

General Conditions – *continued.*

- Claim severity – sexual assault, drowning, wrongful death.
- Options – lower retentions and aggregates.
- Focus on registered student organizations, fraternities & sororities, special events on and off campus.
- More willingness to manuscript coverage.
- Emergency preparedness.
- Crisis response management.
- Study abroad programs.

Casualty Market Update - Higher Education Indicators

General Liability rates will continue to increase, averaging in the flat to 7% range. Athletics, student assaults related to Title IX , 15-passenger van related accidents, date rapes, fan violence, excessive force by police, pool related fatalities, suicides, sexual abuse and violent acts on and off campus continues to rise.

Traumatic Brain Injury (TBI) exposure will continue to be underwritten separately and given more scrutiny by all markets regarding intercollegiate football and other sports. A supplemental warranty application is mandatory and all institutions are required to complete a concussion awareness training or education programs for coaches, athletic trainers and medical staff.

Sexual molestation claims stemming from childcare operations, summer sport camps, campus housing, fraternities, and athletics continue to discourage many insurers from offering these essential coverages in the primary or lead umbrellas. Monoline coverage is available on a limited basis.

Casualty Market Update - Higher Education

Indicators *(continued)*:

Drones (UAV) are being redefined by the FAA and carriers are revising policy wording to clarify and provide some coverage grant in this area but the focus remains on educational and research activities.

Educators Legal Liability (T&O, E&O and EPL) insurance remains competitive for the education segment but claim development continues. Rates will average from flat to a 5% increase range.

Cyber exclusions from ISO are addressing BI and PD arising out of access or disclosure of confidential or personal information. These type of damages were not intended to be covered under a standard GL policy as data breaches and certain data related liability should be more appropriately covered under a stand alone cyber policy.

Excess Workers Compensation market remains tight however large rate increases have diminished. Ten years of loss experience is still required and increased retentions are still being considered. More multi-year agreements are becoming available to signal a potential softening environment.

Casualty Market Update - Higher Education

General Conditions.

- Internship programs, student volunteers and professional services.
- Summer sports camps.
- Transportation service providers.
- International travel:
 - local underlying / DIC capacity.
 - Chaperones.
 - Defense Base Act.
- Benchmarking:
 - Experience / Exposure / Expiring rate = Expectations

Casualty Market Update - Higher Education

Rates.

- General Liability: Flat to 7% increase.
- Automobile Liability: 5% decrease to 5% increase.
- Workers Comp: 5% decrease to 5% increase.
- Excess Workers Comp: Flat to 15% increase.
- Educators Legal Liability: Flat to 2% increase.
- Lead Umbrella: Flat to 10% increase.
- Excess Umbrella: Flat to 5% increase.
- Foreign Package: Flat to 5% increase.

Casualty Market Update - Primary & Secondary Education

General Conditions.

- Stable and competitive.
- More carriers interested: Allied, Brit, Genesis, Liberty, Munich, Old Republic, Philadelphia, Scottsdale, Travelers, Wright Specialty (Catlin/XL), United Educators, Zurich (Glatfelter).
- Integrated programs and pools dominate public K-12.
- Guaranteed cost options.
- Capacity available up to \$10 million.
- Budget restrictions – results.
- Overall poor underwriting experience – volatility.

Casualty Market Update - Primary & Secondary Education

Rates.

- General Liability: Flat to 5% increase.
- Automobile Liability: 5% increase to 5% decrease.
- Law Enforcement Liability: Flat to 10% increase.
- School Board Legal Liability: Flat.
- Lead Umbrella: Flat to 10% increase.
 - Become acquainted with alternative forms and coverage.

Property Education Market Update

**David Letzelter, Senior Vice President
Marsh's Property Practice**

Property Market Conditions

General Conditions

- 2015 – 4th straight year of benign CAT losses.
- Rate decreases were the norm.
- Underwriting discipline.
- Insurers competing aggressively.
- New capacity.

FIGURE 1

Global Natural Catastrophe Insured Losses – 2015

Losses adjusted to inflation based on country CPI

Year	Losses (\$millions)
2015	\$27,000
2014	\$31,000
10Yr Avg. (2005-14)	\$56,000

Source: Munich Re

Property Market Conditions

The Magic Formula

Lower than
Expected
CAT Losses



Improved
Underwriting
Profit



Lower
Reinsurance
Costs



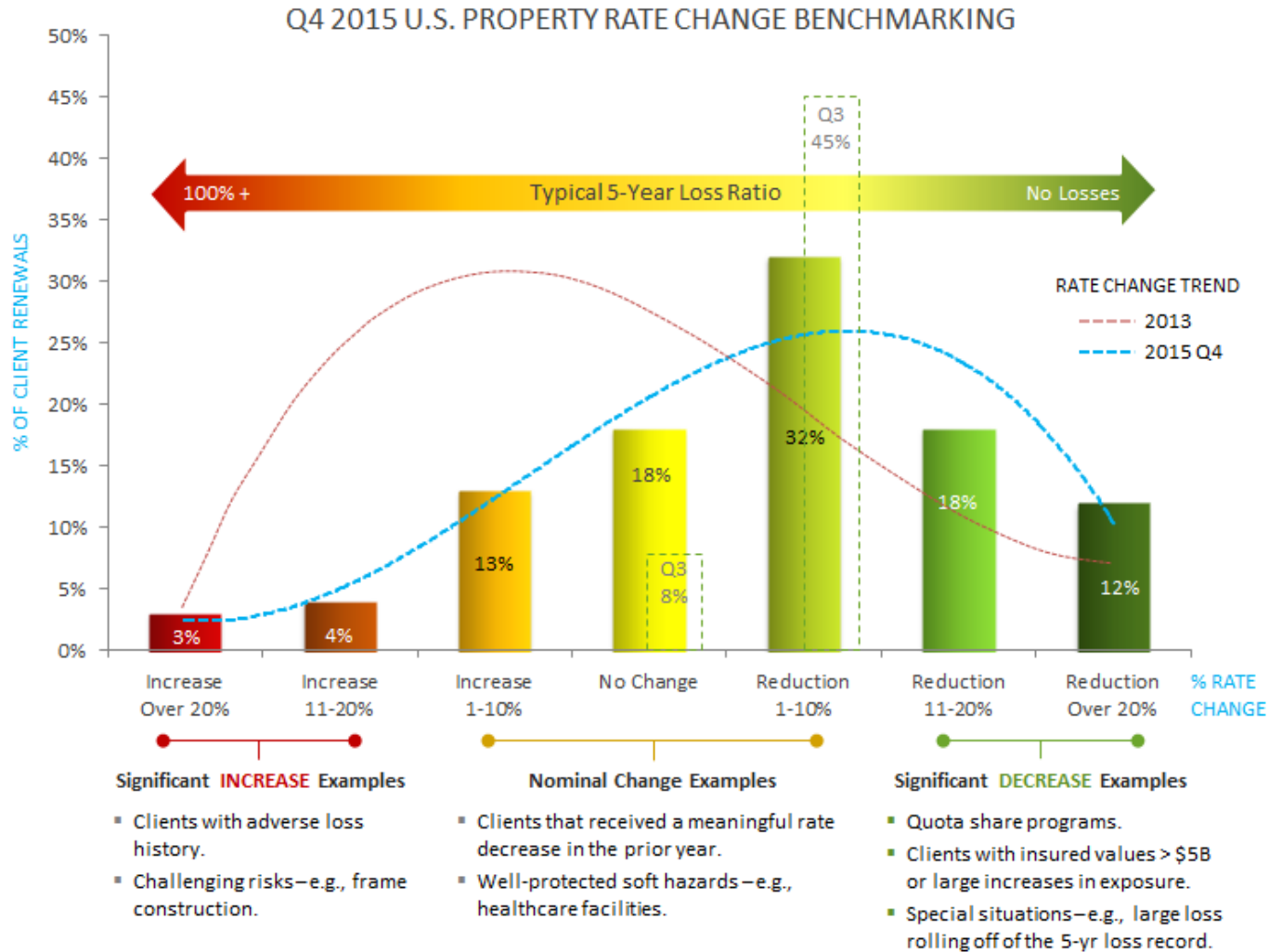
Better
Terms &
Conditions

SAMPLE PROPERTY INSURER BUDGET

Component	Budget %	Budget \$	Actual	Net Chg
Gross Written Premium	100%	\$100M	\$100M	-
"Fire" Losses	35%	(\$35M)	(\$35M)	-
CAT Losses	30%	(\$30M)	(\$12M)	\$18M
Reinsurance	10%	(\$10M)	(\$8M)	\$2M
Other Expenses	21%	(\$21M)	(\$21M)	-
Profit	4%	\$4M	\$24M	\$20M

Property Market Conditions

Rates



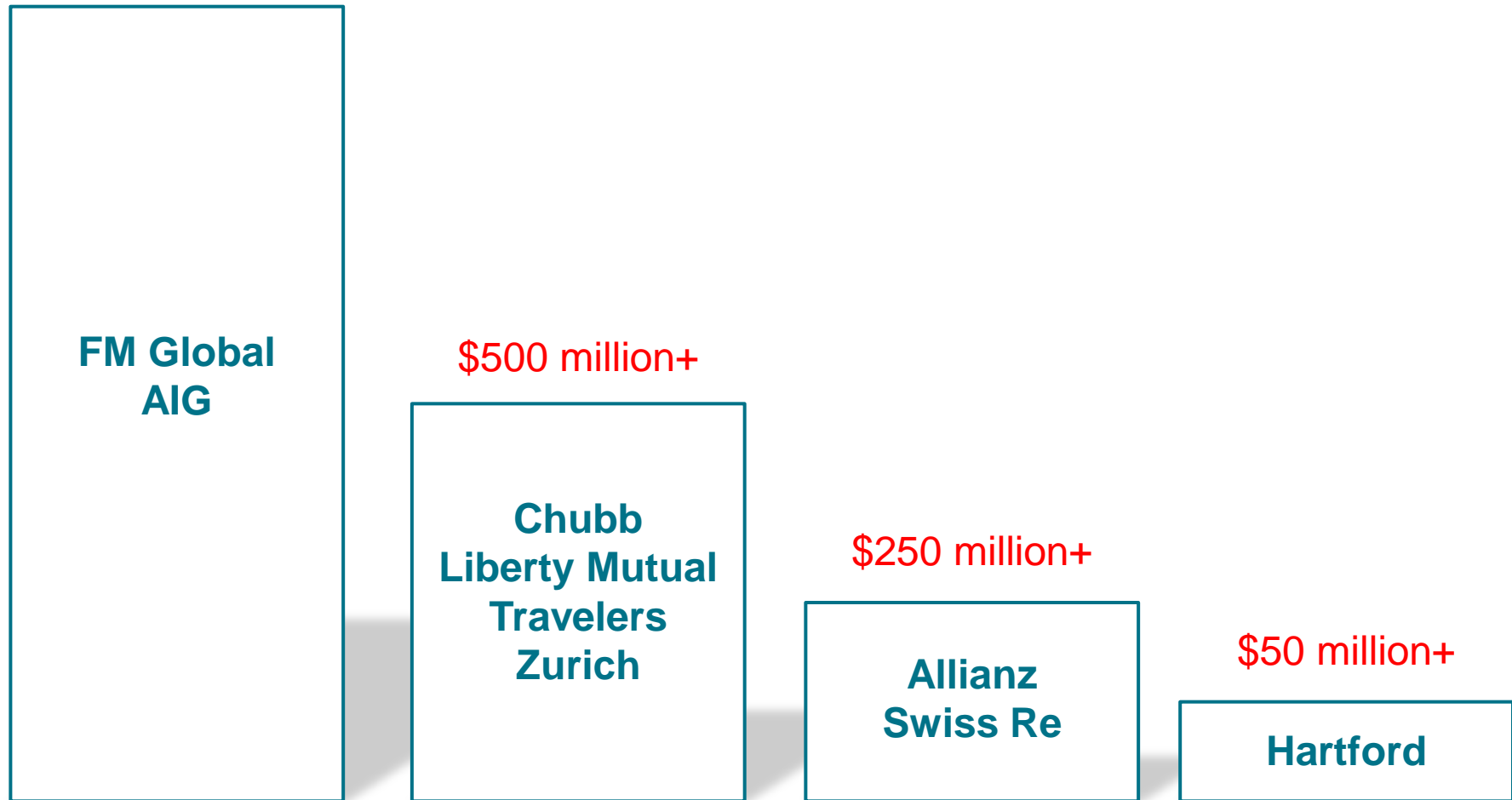
This information includes broad commentary about the property insurance market. Underwriters consider each risk on its own unique merits. Among many factors that may affect an insured's specific outcome are the competitiveness of the current rate, account size, scope of marketing effort, risk quality, data quality, geographic considerations and intangible considerations such as insurer relationships. The data excludes renewals with increased deductibles or less limit from expiring.

Property Market Conditions

Key Insurers for the Education Industry

\$1 billion+

Potential capacity



Property Market Conditions

Expectations for 2016

- Heavy competition.
- Improved terms and conditions.
 - Rates
 - Limits
 - Deductibles (some flexibility)
- Long-term agreements.
- Creativity
- Underwriting discipline.
 - MFLs.
 - Natural catastrophe risk.
 - Values.
 - Business interruption.

Property Market Conditions

Renewal Strategies

- Start early and be timely.
- Prepare a quality submission.
- Tell your story.
- Know your risk.
- Generate competition.

Questions.....



*1 For Telephone Questions

or

To submit a question while in full-screen mode, use the Q&A button on the bottom right-hand side of your screen.



To submit a question while in half-screen mode, use the Q&A tab on the bottom right-hand side of your screen.



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- Did the presentation meet your expectations?
- Did you find it informative?
- What you would like to see covered in future presentations?



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