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# Casualty Market Update

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# What is Casualty Insurance?

## **General Liability / Excess Liability**

Insurance purchased by a public power utility for protection against claims from a third party for bodily injury (BI) and property damage (PD) arising out of premises, operations, products, and completed operations; advertising and personal injury (PI) liability.

## **Workers' Compensation / Employers' Liability**

Provides statutory benefits for employees sustaining job-related injury or death through a no-fault system prescribed by state law. Employers' Liability is the legal obligation of an employer to pay damages because of bodily injury by accident or disease, including resulting death, sustained by an employee not covered under the statutory obligation.





# Utility Market Update

- Insurance Trends
- Themes affecting rates/premiums
- Buying Trends
- Program Considerations





# Market Update

- General Liability and Excess Liability are experiencing slight increases in the range of 1-5%. Loss rated accounts are will in excess of this range, especially with mutual carriers.
- Workers' Compensation is the exception to the trend of recent rate corrections. Q1 2018 trended down at -2%.
- Commercial Auto premium is up 7.7% in Q1 2018 which makes this the 27<sup>th</sup> consecutive quarter of increased auto rates.





# Market Dynamics

- Underwriters are demanding more information
- Insurance companies looking to grow premium commensurate with exposure base
- Markets are re-engineering their books of business to obtain the return on investment of deploying the capacity for the premium received
- Underwriting submissions need to be creative to spotlight strengths of the insured





# Commercial vs. Mutual Insurance Markets

A.M. Best Rated A with stable outlook  
\$1.2B premium revenue  
\$5.0B total assets  
Owned by its policyholder-members  
Non-assessable mutual

- Claims roundtable seminars:
- Natural gas case study
  - Contractual risk transfer
- Neuropsychological assessment of brain injuries

Risk assessments  
Workshops  
Webinars  
On-demand videos

- Evolving Utility risks  
Policy Limits Surveys  
Cybersecurity  
ERM in the Energy Industry  
Legal Issues:
- Defending Government Investigations,
  - Records Management Considerations Claims Web Content





# Key Themes Affecting Casualty Insurance

- **Auto Liability:** reaching epidemic proportions
- **\$14B+ in insured wildfire losses; California estimated at \$11B (Insurance Information Institute)**
- Governmental Immunity
- WC Regulation
- Legalization of Marijuana
- Capex in upgrades and fortification of distribution networks
- M&A – both on the capacity provider side and the utility side
- Mutual Assistance
- Aging infrastructure (pole maintenance, cast iron piping, bare wire)
- Drone usage
- Cyber exposure
- Gas in Storage
- Ash Pond Exposure
- Dam exposure





# Auto Liability

Rising frequency of claims and their severity is causing a hardening of this part of the domestic casualty market.

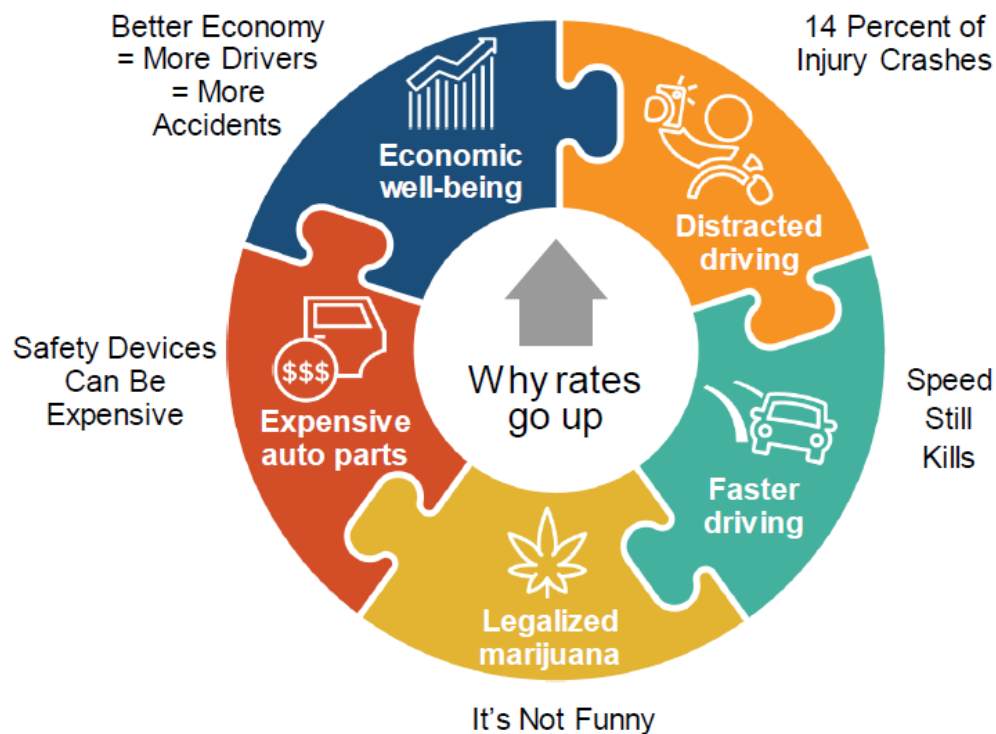
All coverage parts have been affected. This is an increase in loss cost over the past 2 years. Consumer Price Index only rose 3.4% from 2015 to 2017



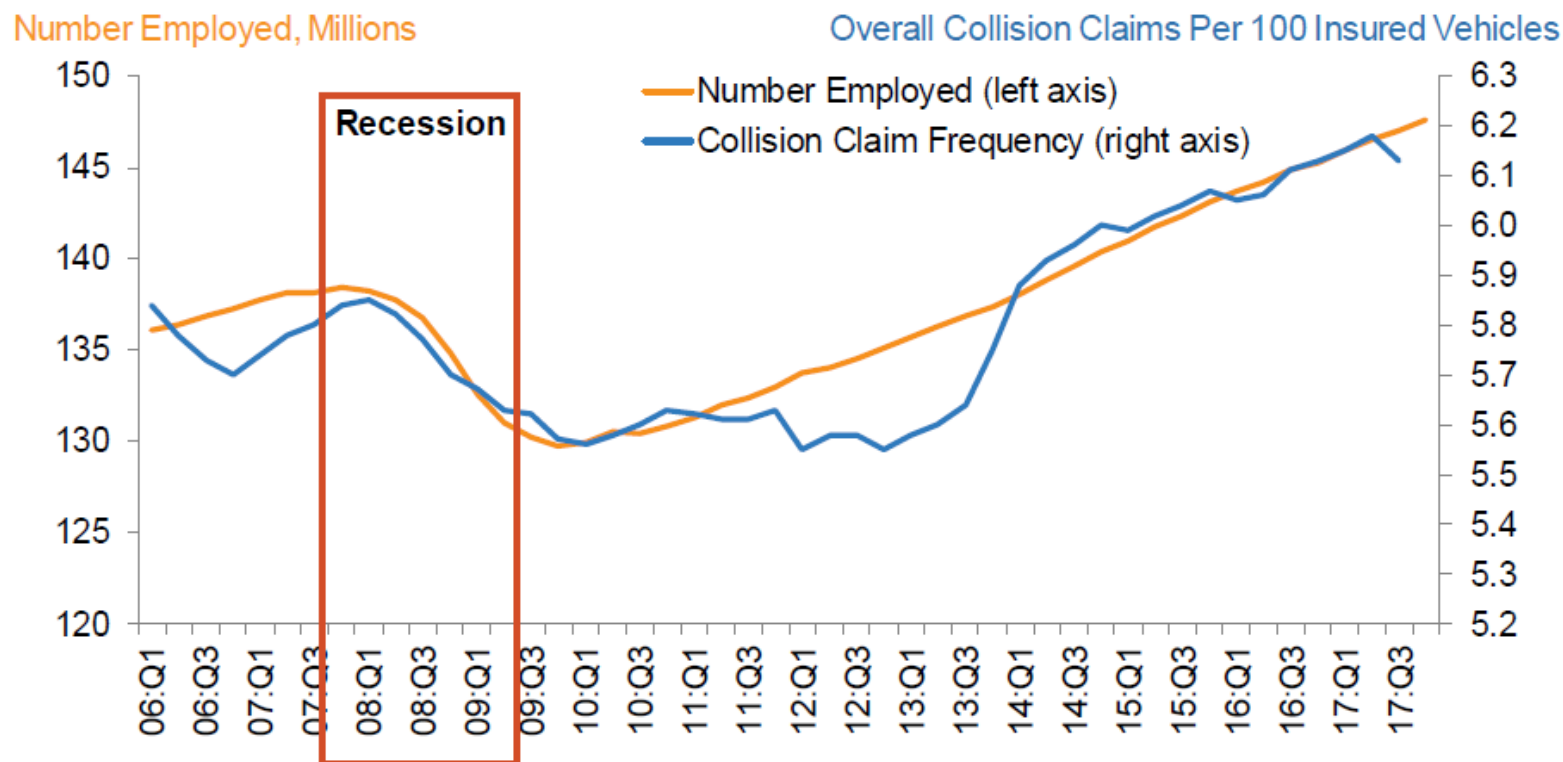
Source: Fast Track Monitoring System

# Auto Liability

What is driving these trends according to the Insurance Information Institute? Americans are driving more! More miles driven is directly correlated to rate of incident.



# Auto Liability



Source: IHS, Bureau of Labor Statistics, and Fast Track Monitoring System



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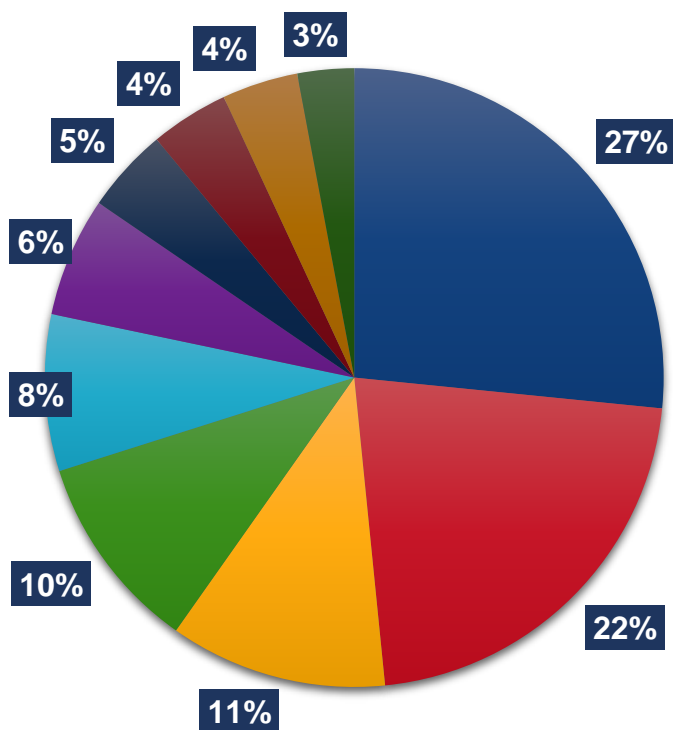
# WC Update

- Highly Competitive casualty segment
- Commercial carriers and mutual offerings available
- Focus on right sizing deductible/retention to align with safety programs, risk appetite, and collateral demands
- Review performance of Third Party Administrator and adjuster staff with internal stakeholders experience
- Markets more interested in a “real” opportunity than a mass marketing
- AEGIS can write Excess WC or provide a fronted guaranteed cost program through their alliance partner, Everest.
- Starr, AIG, Liberty Mutual, Chubb, Travelers, Hartford, Zurich, Swiss and Arch are all competing domestically with aggressive targets for new business in 2018



# WC Update

## Top 10 Causes of Large WC Claims



- Overexertion With Outside Source
- Fall on Same Level
- Fall to Lower Level
- Struck By Object or Equip.
- Overexertion / Bodily Reactions
- Roadway Incidents
- Slip or Trip Without Fall
- Caught In/Compressed by Equip./Object
- Struck Against Object or Equip.
- Repetitive Motion





# Liability Buying Trends for Public Power Utilities

- 8 utilities benchmarked:
  - Min: \$35M
  - Max: > \$250M
  - Avg: \$100M+
- Removing 2 largest
  - Min: \$35M
  - Max: >\$100M
  - Avg: \$68M





# Buying Trends for Public Power Utilities

- 50% of the sample utilities include Employment Practices Liability Insurance (“EPLI”) within AEGIS placement
- Average retention/Self-Insured Retention (“SIR”) of \$1,500,000 per occurrence





# Wildfire Liability

## Carrier Requests:

- Seeking additional information such as population density, geographic location of assets, and capex spend for upgrading equipment
- Actuarial modeling for Probable Maximum Losses and Aggregate Annual Losses (CoreLogic, Swiss Re Cat Net, RMSi, RMS)
- Detailed description of transmission lines – length, voltage, location

## Carrier Reactions:

- Reducing capacity – up to \$500M witnessed on a single program
- Increasing pricing – some on a “take it or leave it” basis
- Exiting the marketplace
- Apollo – no new capacity
- AIG – max of \$25M

Some markets imposing a California exclusion (which ones?)







# Governmental Immunity

- Across the board – review state constitutions and case law in your jurisdiction
- Governmental functions vs. proprietary functions
  - In most states a public utility is categorized as a proprietary function
- Different levels of court have different opinion
- Different levels of personnel within each utility have a different opinion





# AEGIS Update

- 2017 Results: Overall combined ratio of 91%
- Surplus increased from \$1.370 Billion to \$1.56 Billion the highest surplus ever achieved
- Bill Hillman is now CUO and actively involved in large account negotiations
- Pushing for inflationary increases (3-5%), while each account underwritten on its own merits
- Offering up to \$50 Million per occurrence/\$100 Million Aggregate with possible \$70 million per occurrence/\$140 million aggregate for select members
- “A” rating from A.M. Best and Fitch with S&P awarding a rating of “A-”
- AEGIS bought Sompo’s book of Forced Outage/Contingent Outage that allows for expanded offerings from the industry mutual.
- Announced Member Loyalty Credit Pool
  - Eligible for members purchasing four of six specified coverages in a given year- Excess Liability, D&O, Property, Cyber, Workers Compensation or Generation Outage
  - Credit equal to 20% of the sum of all products’ continuity and premium credits.
  - Credit issued as a check rather a credit against future premiums, after the 2018-19 credit period.





# EIM Update

- A.M. Best rating remains A (Excellent) with “stable” outlook
- 2017 Highlights
  - Policyholder surplus grew to \$1.169B
  - Net Combined Loss Ratio 67%
- EIM paid a \$40MM distribution to policy holders in March 2018, up from \$25MM in 2017
- Underwriting focus remains consistent with AEGIS – focus on dated, unprotected, cast iron piping and Wildfire exposures
- Looking for flat to small inflationary increases across the book
- EIM now offering to attach at \$25MM for some risks - gas and large exposures remain difficult at this attachment
  - AEGIS credit to reduce limit may not be sufficient
- Willing to offer a 3 year rate guarantee, with caveats for loss history, acquisitions, etc.
- Mixed response to AEGIS offering of additional limit and the EIM attachment point. They would prefer not to reduce their pricing if they are pushed up by \$15MM (from \$35MM attachment to \$50MM), but have agreed to review on a case by case basis
- Compare ratio of AEGIS:EIM





# International Market Update

London/European markets remain interested in energy business and have been strong competitors to Bermuda in some cases

- 2017 was a tough market for insurers/reinsurers globally following significant CAT losses in the US and internationally, however London and European markets remain stable in the US power and utility liability sector

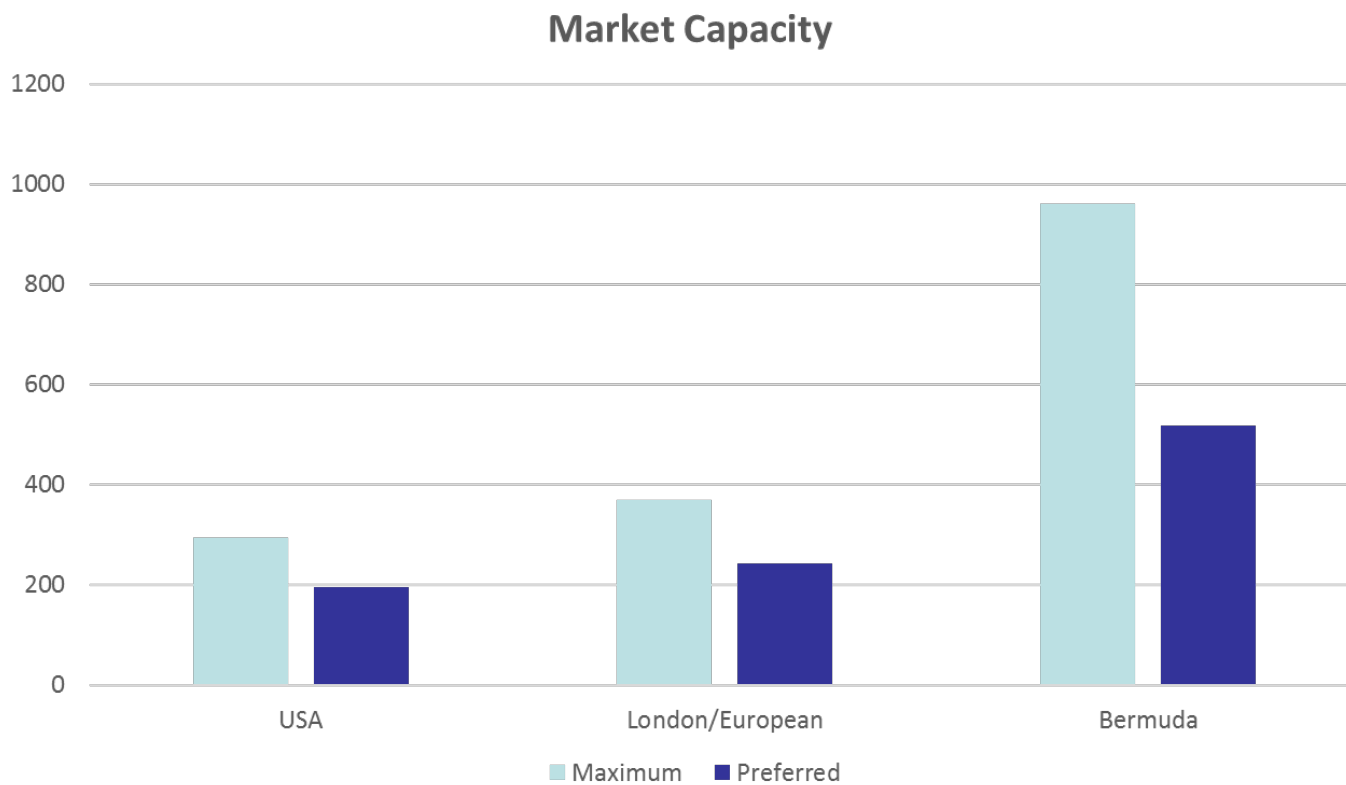
Bermuda markets remain strong with total capacity in excess of \$900M

- Market under pressure, pricing is stable and largely driven by underlying layers

Category	Market Response
Wildfire	Given wildfire loss experience, anticipate additional scrutiny of processes employed by the utility to manage this exposure. Vegetation Management protocols, tree trimming, and monitoring protocols and contracts (Limitations of Liability and Indemnification with 3 <sup>rd</sup> party providers).
Dams	Carriers will appreciate as much information as is available including latest surveys and reports, in addition to very comprehensive slides included in market presentations.
Drones	Update around involvement, procedures, corporate stance, intentions, and view towards use of drone technology.
Cyber	Review and articulate the utilities coordinated approach to cyber security, any investment into assessment and testing, response planning, and risk transfer programs established.
Change in Appetite	Reductions in capacity for California wildfire.



# Market Capacity





# Large Losses – Utility Sector

Year	Cause	Location	Estimated Loss Amount
2007	Water from hydroelectric power plant damaged nearby property	USA	\$173 million
2007	Wildfire	USA	\$2.2 billion
2007	Utility company vessel crashed into anchored oil tanker causing spill	China	\$142 million
2007	Wildfire	USA	\$370 million
2008	Impoundment failure	USA	\$1.1 billion
2008	Gas line explosion resulted in fatality and injuries	USA	\$25 million
2009	Explosion at hydroelectric plant with multiple fatalities	Russia	3 <sup>rd</sup> party Unknown
2009	Electrocution caused fatality	USA	\$109 million
2009	Bushfire resulted in multiple fatalities and property damage	Australia	\$379 million
2009	Bushfire resulted in property damage	Australia	\$50 million
2010	Pipeline explosion with multiple fatalities and third party property damage	USA	\$650 million
2010	Natural gas pipeline explosion with multiple fatalities	USA	\$27 million
2012	A natural gas pipeline explosion with multiple injuries and property damage	USA	Pending
2012	Downed power line caused electrocution and resulted in fatality	USA	\$60 million
2013	Tree collapsed causing fatality and multiple injuries	USA	Pending
2013	Gas explosion resulted in fatality and multiple injuries	USA	Pending
2013	Multiple fatalities as a result of electrocution	USA	Pending
2013	Alleged negligence during maintenance resulting in serious injuries	USA	\$22 million
2014	Gas explosion at residential building resulted in multiple fatalities and injuries	USA	\$153 million
2014	Contamination of drinking water	USA	Pending
2014	Home explosion resulted in fatality and multiple injuries	USA	Pending
2014	Alleged negligence resulted in apartment explosion	USA	Pending
2015	Wildfire	USA	\$750 million
2015	Gas leak caused explosion at residence resulting in third party property damage and several injuries	USA	Pending
2015	Natural gas leak resulted in alleged illnesses and mandatory evacuation of a few thousand families	USA	\$717 million
2016	Gas Buildup in apartment basement lead to explosion and fatalities	USA	Pending
2016	Dam / Reservoir spillway release alleged to contribute to the flooding damage of hundreds of homes	USA	Pending

Source: CHUBB 2017 Liability Limit Benchmarks & Large Loss Profile by Industry Sector





# Internal Programs that Influence Premiums

- Safety Culture / Operations and Risk at the same table
- Employee Safety Training
- Current Safety Handbooks and quick access guides for specific scenarios encountered by workforce
- Close Call Communications
- Stop Work Protocol
- Days Away, Restricted Duty, Job Transfer (DART incident per 100 employees) – aggressively manage and incentivize employee base to achieve these results
- Lineman Training
- Fleet Management / Drive Training
- Public Safety Programs – Elementary Schools – Down Wires and Gas Leaks
- Direct Mail / Outreach
- Pole Maintenance
- Bare Open Wire Replacement
- Drought Conditions
- Vegetation Management / Budgeted Spend Annually
- Wire Down Reporting and Response
- Auto Accidents and Frequency
- Drone Usage – in House vs 3<sup>rd</sup> Party
- Cyber / IT Fortification Measures
- Dam Inspections
- Pipeline Rehab Programs – Trenchless Technology
- Asset Integrity Programs – Primary Focus on Replacing Cast Iron
- Red Flag warning for wind/humidity conditions that enhance wildfire likelihood
- Replacing Cast Iron

