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2019 US EDUCATION INSURANCE MARKET UPDATE WEBCAST

March 20, 2019

Jean Demchak, Paul Sherbine, Mark Turkalo, David Letzelter, Ken Simek

MARSH & McLENNAN COMPANIES

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 over 35 years of industry experience. She has been with Marsh for 32 years 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 with key organizations in the higher education industry.

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Agenda

- Introduction/panel overview.
- Market information resources/insurer financial review.
- Casualty market, including professional liability update:
  - Higher education.
  - Primary and secondary schools.
- Property market update:
  - Higher education.
  - Primary and secondary schools.
- Employee benefit market update.
- Q&A.

Marsh Panel Overview

Paul Sherbine, Managing Director
Market Information Group

As leader of Marsh's Market Information Group, Paul is responsible for the analysis of the insurers Marsh clients use worldwide. He assists clients in assessing the relative strengths or weaknesses of various insurers when structuring their programs. In addition, he 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
Education and Public Entity Placement Leader

Mark is a senior placement specialist in charge of placing all new and renewal business for the education sector, including public and independent K-12 schools, vocational and technical schools, community and state colleges, and private and public higher education institutions.

Mark's 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 of 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

As a senior property advisor, David provides clients with advice on program design, marketing, and strategy as well as guidance on technical aspects of large-limit property programs.

Among David's areas of expertise is finding solutions for clients in higher education on layered and quota share programs, captive use, and alternative risk finance. In addition, his consultation with colleges and universities represents more than $120 billion in insured values.

David joined Marsh in 1996 and currently also serves as the property practice leader for the Marsh's Pittsburgh office.

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Marsh Panel Overview

Ken Simek, Partner
Mercer Consulting

Ken is a partner in Mercer's Chicago office and has been with Mercer for more than 20 years. He has more than 25 years of substantial consulting and engagement management experience in human resources strategy, compensation strategy and design, benefits strategy, benefits administration and process, human resources technologies, and benefits outsourcing.

As leader of Mercer's higher education industry practice, Ken is responsible for coordinating, managing, and leading client and market strategy and consulting services for all of Mercer's more than 400 higher education clients. Ken also spearheads a private university networking group consisting of 10 institutions that meets throughout the year to analyze issues and share information.

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2018 US Industry Results, AIG Turnaround Continues and Pushing Profitability in the UK

Paul Sherbine

2018 US Results

- Combined ratio of 101.5%.
- 9% increase in net premiums, to $630 billion.
- Underwriting loss of $12 billion, down from about $25 billion in losses in 2017.
- Policyholders' surplus fell 0.5%, to $768 billion from year end 2017.
- Net income of $44 billion, up 26% from prior year period.
- Catastrophes add 6.2 points, to combined ratio in 2018 as compared to 9.7 points in 2017.
- Net investment income increased 11%, to $55 billion.
- Net premium leverage of industry- remains under 1:1. Plenty of capital available.

2018 Results

- Premium volume boosted by recent tax law change, resulting in more premium staying in US instead of being ceded offshore.
- Cat losses, while down year over year, still impactful on industry results. Best expects Cat losses to decline in 2019, to $31 billion.
- Rising earned premium outstripped incurred losses, resulting in improved combined ratio. Cat loss reduction mostly takes credit as favorable reserve development declines. Best expects this downward trend to continue and is concerned with adverse development appearing this year.
- Strong investment income offset by decline in -realized capital gains of $6 billion, to $9.7billion.
- Strong net income growth partially offset by $13 billion in unrealized capital gains and $32 billion in stockholder dividends.
- Still, despite 4Q catastrophes, net income in 2018 higher than loss in 2017 and $42 billion in 2016, but well below those reported in 2013, 2014, and 2015.
- Most expectations are for rate increases in 2019.

AIG 2018 results

- AIG reported a net loss of $622 million in 4Q as opposed to a $6.7 billion loss in 4Q 2017.Catastrophe losses of $798 million and adverse reserve development on financial lines business of $365 million, and a $700 million reduction in investment income, were the main causes of the loss.
- For the full year AIG reported $6 million loss as opposed to a $6.7 billion loss in 2017. Net investment income of $12.5 billion was $1.7 billion below that of 2017 as 4Q market decline affected income.
- Premium volume was $30.6 billion, down $760 million from the prior year.
- The group continues to reduce volatility and risk in their premium portfolio resulting in lower premium volume.
- North America PC premium fell $2 billion to $11 billion with reductions in casualty, commercial property, D&O and program business, as AIG reduces volatility and maintains pricing discipline.

AIG 2018 results

- The group continues to reduce gross and net limits in their PC operations.
- Property gross limits were reduced to $750 million from $2.5 billion while net limits were down from $611 million in 2017 to a range of $5 million to $50 million for 2019.
- Casualty gross limits were reduced to $100 million from $250 million while net limits were also reduced significantly.
- They also purchased a worldwide occurrence and aggregate covers for both North American and international property risks.
- Continued building of new management across PC operations in 2018.
- All due to the fact the issues at AIG were according to their CEO “Deeper and more pervasive than I originally anticipated…”
- They still expect to report a combined ratio below 100 on 2019 placements.

Lloyds is Taking a Hard Line on Poor Performing Syndicates

- After recording a large loss in 2017 due to massive catastrophe losses, management is taking hard look at individual syndicates.
- Lloyds targeted the 20 worst performing syndicates to improve results by line or get out of the line of business.
- For their 2019 business plan, if a syndicate cannot show how they will improve, they must exit the line.
- Lloyds is also targeting worst performing lines of coverage across market.
- Worst performing lines include US open market property, cargo, yacht, aviation war, pro rata property ,overseas motor, and non-US professional indemnity.
- The eight worst performing lines have a collective combined ratio 20% higher than other lines.
- Most profitable was US property cat excess of loss, terrorism, offshore energy property.

Many Syndicates Already Pulling Out of Lines

- Starstone exits property D&F.
- Ms Amlin shut down its India branch.
- Ergo closed its industrial UK book.
- Tokio Marin Kiln closed property and construction lines.
- Aspen pulled out of aviation, hull, and international professional indemnity.
- Hanover sold Chaucer to China Re.
- Liberty sold Pembroke to Hamilton group in 2019.
- Hiscox exiting warranty and indemnity market and cut their capacity.
- AWAC ceased M&A lines.

Casualty Education Market Update

Mark Turkalo

Education Segments

- Colleges and Universities.
  - Public.
  - Private.
  - Doctoral Research Institutions.
  - Consortia.
- Primary and Secondary.
  - Public K-12 School Districts.
  - Independent Schools.
- Other Educational Services.
  - For-Profit Institutions.
  - Education-Related Human/Social Services.
  - Charter Schools.
  - Vocational Schools.
  - Technical Schools.

Higher Education

- Overall, market capacity is erratic and underwriting is conservative.
- Continuing trends of frequency of severe liability claims continue: Sexual abuse, sexual assault, excess force in law enforcement, athletics/traumatic brain injury, hazing, drownings, wrongful death, Title IX, and automobile.
- Increased underwriting due diligence: Concern regarding athletics and concussion management, sexual assault/abuse/misconduct claim activity, use of drones, autonomous vehicles, and student transportation.
- Internship/externship programs, student volunteers, EMTs and professional services (financial, legal, architecture, engineering programs).
- Student professional coverage – not always included in umbrella.
- Carriers have increased focus on risk management protocol with regard to sexual abuse coverage.
- Sexual assault and molestation liability (SAML) and traumatic brain injury/chronic traumatic encephalopathy (TBI/CTE) – occurrence or claims made.

Higher Education

- Drones: Expansion to provide coverage for unmanned aerial vehicles (UAV) less than 55 lbs. for other than educational/research purposes with no sublimit on the excess.
- Tuition reimbursement insurance.
- Student discrimination.
- Immunity caps and statute of limitations.
- Increased attention to enterprise risk management (ERM).
- Markets willing to manuscript coverage.
- Emergency preparedness and crisis response: Coverage triggers differ among carriers (number of days to report) and some only cover violent events (and exclude sexual abuse).
- Exclusive benchmarking:
  Education Public Entity Data Base System (*EPEDS).*

Higher Education

- Transportation service providers - MVR reviews.
- Study abroad programs growing with increased litigious legal environment.
- International travel:
  – Local underlying policies difference-in-conditions (DIC) / difference-in-liability (DIL) capacity.
  – Chaperones, host families (background checks).
  – Defense base act.
  – The United States Longshore and Harbor Workers Compensation Act (USL&H): research vessels.
- Excess workers' compensation rates have stabilized; two-year rate commitments and policies are available.
- Excess capacity is available, but at a cost.
- What is the "cost of capacity"?

Higher Education: Key Coverage and Issues to Consider

- Lead Umbrella Capacity:
  - Fewer markets provide more than $10 million.
  - United Educators (UE): $40 million liability, Educators Legal: $40 million.
- SAML and TBI/CTE: What is the future?
  - Chubb, Lexington, Navigators: Excluding TBI/CTE and requiring minimum attachment points on excess.
  - More carriers starting to exclude SAML.
- Decline of the for-profit market segment: Trump administration scales back regulations.
- More marketing? More questions.

Other Education Risks: Market Concerns

- Alcohol / binge drinking.
- Active shooter.
- Agricultural products.
- Autonomous vehicles.
- Campus construction risk.
- Background screenings.
- Campus violence, crisis communications, and disaster planning.
- E-Risk (cyber/network security liability).
- Daycare centers on campus.
- Environmental.
- Healthcare clinics.
- Minors on campus.
- Pandemic.
- Protests on campus.
- Off Campus housing.
- Vehicle operations (15-passenger vans) and fleet safety.
- Sanctuary campuses.
- Student rights (FERPA).
- Summer camps.

Higher Education Indicators

- **General liability:** Rates continue to increase due to severity, averaging in the mid single- to sometimes low double-digit range. Exposure from athletics, student assaults, Title IX , 15-passenger van-related accidents, date rapes, fan violence, excessive force by police, pool-related fatalities, suicides, sexual abuse, hazing, and violent acts on and off campus continue to rise.
- **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 from United Educators remains mandatory and all institutions are required to complete concussion awareness training or education programs for coaches, athletic trainers, and medical staff.
- **SAML:** Claims stemming from childcare operations, summer sport camps, campus housing, fraternities, sororities, and athletics continue to discourage many insurers from offering these essential coverages in the primary, lead, and excess layers. UE has expanded their application with more detailed questions. Monoline coverage is available on a limited basis.
- **Educators legal liability (T&O, E&O and EPL)**: After a few years of stabilization, claims in the nonprofit education segments are increasing in severity; retentions and pricing may need to adjusted. Title IX, discrimination and reverse discrimination, harassment, and failure to promote - claim development continues. Court cases are pending for special education needs and transgender accommodation.

Insurance/Reinsurance Marketplace

- AIG.
- Allianz.
- Allied World.
- Arch.
- ARGO/Trident.
- Aspen.
- **AXA XL.**
- AXIS.
- Beazley.
- Berkley.
- Berkshire.
- Brit.
- Chubb.
- Church Mutual.
- CNA.
- Crum & Forster.
- Genesis.
- Great American.
- GuideOne.
- Hanover.
- Hartford.
- Hiscox.
- **Liberty/LIU/Ironshore.**
- Lloyds syndicates.
- Markel (WSI).
- Midlands.
- Midwest Employers.
- Munich Re.
- Navigators.
- Old Republic.
- One Beacon.
- Philadelphia.
- PMA.
- QBE.
- Safety National.
- Sentry.
- Sompo.
- Starstone.
- Swiss Re.
- Travelers.
- United Educators.
- **Westchester.**
- Zenith.
- Zurich.

Higher Education Rates

- General liability: 5% to 15% increase.
- Automobile liability: 3% to 10% increase.
- Workers' compensation: Flat to 10% increase.
- Excess workers' compensation: Flat to 7% increase.
- Educators legal liability: 5% to 9% increase.
- Lead umbrella: 5% to 15% increase.
- Excess umbrella: 5% to 10% increase.

Primary and Secondary Education

- More erratic and remains firm.
- More alternative risk solutions.
- Integrated programs and pools dominate public K-12.
- Guaranteed cost options available.
- Capacity available up to $10 million.
- Budget restrictions, reduction in staff = various results.
- Overall poor underwriting experience = volatility.

Primary and Secondary Education

Rates:

- General liability: 5% to 10% increase.
- Automobile liability: 3% to 9% increase.
- Law Enforcement liability: 5% to 10% increase.
- School board legal liability: 3% to 9% increase.
- Lead umbrella: 5% to 10% increase.

Key Points / Conclusion:

- Higher retentions may be needed.
- Become acquainted with alternative forms and coverage.
- Balance the value drivers between coverage, capacity, and price.

Property Education Market Update

David Letzelter

Property Market Conditions

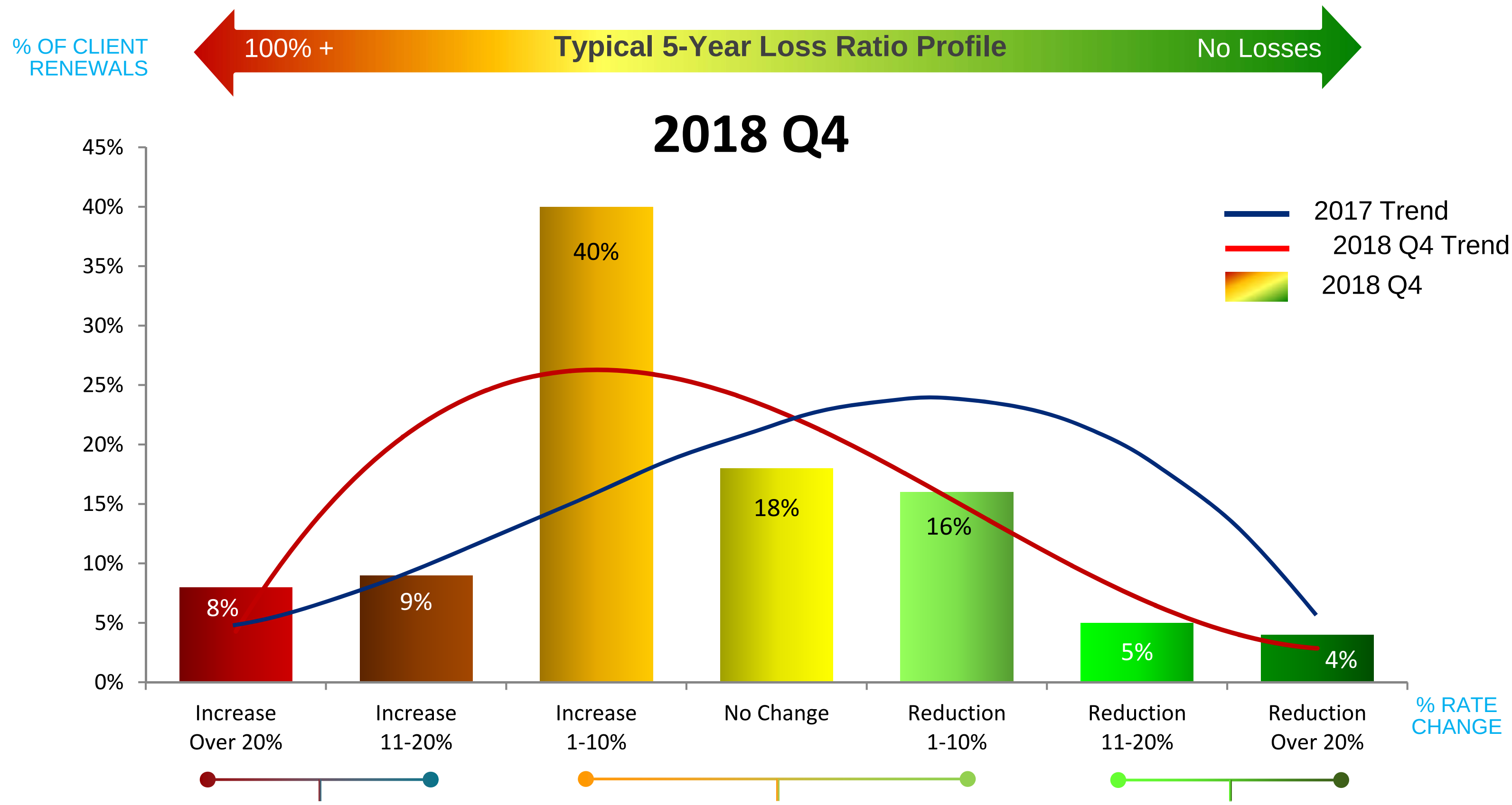
PROPERTY MARKET AT A GLANCE

- Record CAT losses in 2017 increased insurer's resolve in 2018 to set CAT pricing levels necessary to achieve their expected return on capital.
- Underwriters are not willing to utilize CAT premium to subsidize accounts with high attritional loss activity.
- Insurers are keenly focused and committed to reestablishing underwriting profitability.
- Despite the rate movement seen since Q4 2017, most insurers indicate that rates remain inadequate for their property portfolios.
- In exceptional situations, certain industries and insureds are experiencing "hard market" type renewals.
- A number of small capacity insurers are putting their property books into run-off.

Q4 2018 Highlights

- The rate trend in Q4 2018 moved further to the left (rate increases) relative to the 2017 FY trend (in blue).
- 57% of companies saw rate increases in the fourth quarter, with the most prevalent change being an increase between 1% to 10%.
- 18% of companies saw no change in rate for their Q4 renewal.
- 25% of companies achieved rate decreases at renewal.
- Average rate changes:
  - All companies: +3.6%
  - Non-CAT: +2.2%
  - Moderate-CAT: +5.6%
  - Heavy-CAT: +4.0%
- Terrorism coverage was purchased by 63% of clients.

U.S. Property Rate Change – 2018 Q4



Significant INCREASE Examples

- Clients with adverse attritional loss history.
- Insureds with significant CAT exposure and/or 2017 CAT losses.
- Traditionally challenging risks – e.g., frame, hospitality.

Nominal Change Examples

- Insureds with favored occupancies and historical pricing adequacy.
- Placements with minimal CAT exposure.
- Quota-share and layered programs with a surplus capacity competing on them.

Significant DECREASE Examples

- Single insurer placements with multiple insurers quoting.
- Programs that have not been marketed in many years.
- Special situations – e.g., large loss coming off the 5-yr record; large increase in values.

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. Data excludes rate changes greater than +250% or less than -60%.

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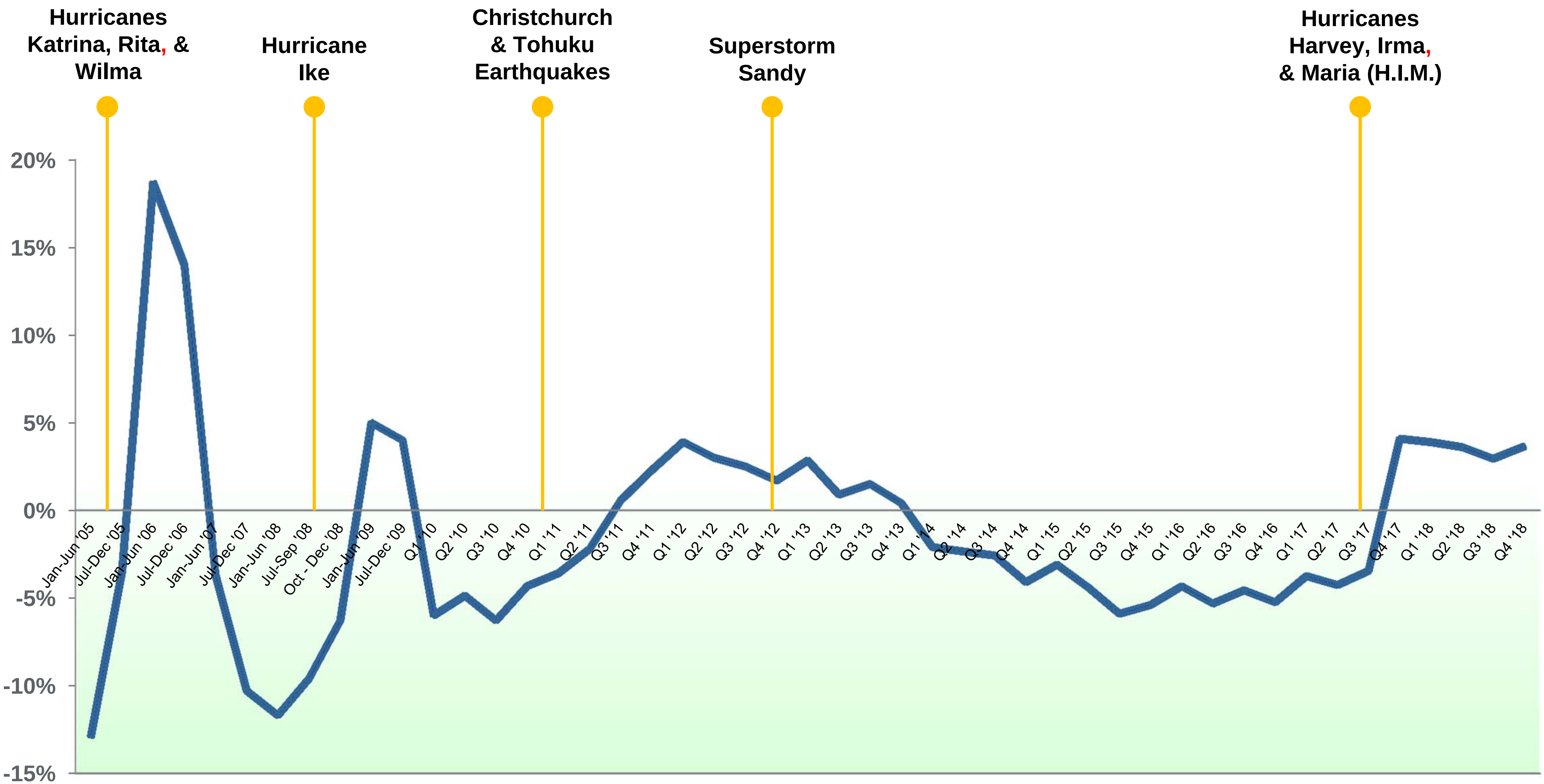
Average Property Rate Changes (All Industries)



U.S. Property Market Update

- Soft-market conditions prevailed prior to September 2017.
- Hurricanes Harvey, Irma, and Maria ("H.I.M.") contributed to a record year for natural catastrophe insured losses – $140B according to Munich Re.
- Emerging catastrophe exposures.
- 2018 "death by a thousand cuts".
- Market direction changed in 2018 and that reversion has continued so far in 2019.
- Focus now is on underwriting profitability.

Market Commentary

- AIG.
- FM Global / Affiliated FM.
- Zurich.
- Travelers.
- AXA XL.
- Chubb.
- Others.

What to Expect

- Underwriters to maintain a disciplined approach.
- Increased scrutiny around the following:
  - → All flood coverage, including high hazard (SFHA/100 year flood zones) flood limits.
  - → High hazard (SFHA/100 year flood zones) flood deductibles.
  - → Named windstorm.
  - → Definitions of catastrophic perils.
  - → Convective storm and/or tornado/hail deductibles.
  - → Definition of occurrence.
  - → Cyber coverage afforded in property programs.

Additional Considerations

- Flood risk is being closely scrutinized by underwriters.
- Underwriters are reviewing catastrophe deductibles for areas with higher hazard exposure.
- Programs with attritional loss activity will be more challenged than in prior years.
- Midwest convective storm model results may influence pricing and terms.
- Quality of data submitted for underwriting remains a focal point.
- January 2019 treaty renewal results better than projected by some.
- Influence of alternative capital remains steadfast.
  → Marsh Alternus.
- Very few insurers are considering multiyear policies at this time.

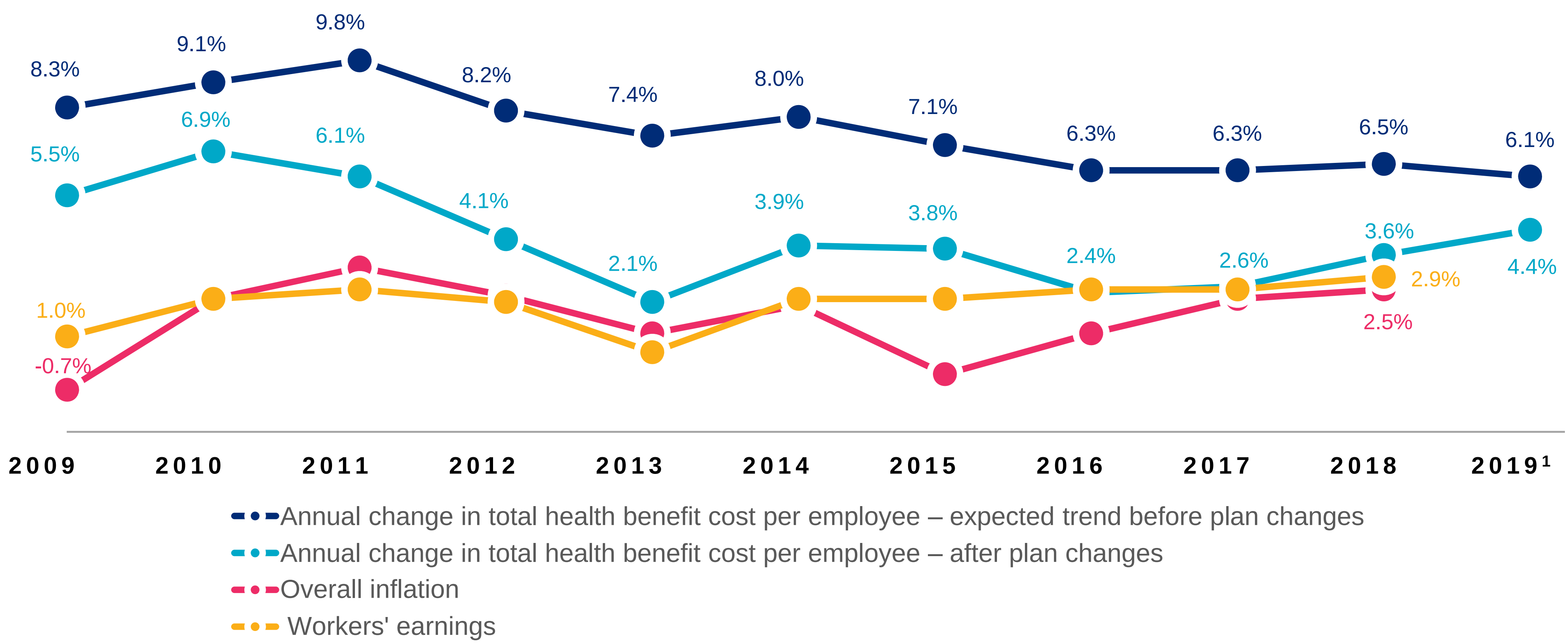
How to Prepare

- Start the renewal process early.
- Consider marketing programs that are not on a long-term agreement.
- Review past five years historic renewal experience.
- Enhance quality of underwriting data.
- Use CAT modeling (RMS 17.0) where meaningful natural catastrophe hazard exists.
- Continue monitoring market conditions.
- Review alternative program solutions.

Health and Benefits
Today's Environment / Key Market Trends

Ken Simek, Mercer

Today's Environment
Healthcare Costs Continue to Outpace US Inflation



1. Projected
Source: Mercer's National Survey of Employer-Sponsored Health Plans; Bureau of Labor Statistics, Consumer Price Index, U.S. City Average of Annual Inflation (April to April) 1993-2017; Bureau of Labor Statistics, Seasonally Adjusted Weekly Earnings from the Current Employment Statistics Survey (April to April) 1993-2017.

Today's Environment
Key Market Trends

CAPITALIZING ON CHANGE

DRIVING ENGAGEMENT

IMPACTING SOCIAL FACTORS

FOCUSING ON PHARMACY

Today's Environment
Key Market Trend: Capitalizing on Change

Understand the carrier landscape, prepare to capitalize and take action accordingly

TODAY'S REALITY

aetna + CVS pharmacy

OPTUM + DaVita

HUMANA + Kindred Healthcare

Cigna + EXPRESS SCRIPTS

amazon + BERKSHIRE HATHAWAY INC. + JPMORGAN CHASE & CO.

And that's ***only*** the ***carrier consolidation...***

TOMORROW'S POSSIBILITIES

How will those with **more market leverage** pass savings onto Plan Sponsors?

How will the **vertical integration promise** result in better care delivery and outcomes?

How will new entrants and solutions **focused on technology** lead to a better member experience?

What will be the **next deal**?

Today's Environment
Key Market Trend: Driving Engagement

Go beyond the generational view; use "personas" to better understand employees and improve engagement

TODAY'S REALITY

Multi-generation workforce

With varied health needs:

Individuals With Disabilities

Women's Health

LGBT Community

Road Warriors

Veterans

Race/Ethnicity

Care-givers

Patients Suffering Rare Diseases

Medicare-Eligible Employees

TOMORROW'S POSSIBILITIES

How can we go beyond generations – and **segment the workforce** to better understand their benefit needs & preferences?

How will this help us **"meet people where they are"** – to optimize investments, take advantage of technology and improve engagement?

How can you design an **inclusive benefits program** – to address unique needs of various sub-populations?

Today's Environment
Key Market Trend: Impacting Social Factors

Understand social drivers of health, behaviors, and claims, and work with partners and stakeholders to address

TODAY'S REALITY

Health status and outcomes are impacted by social factors

Debt levels
Language barriers
Discrimination
Average income
Community engagement
Literacy
Safety
Healthcare access
Hunger
Incarceration
Social integration
Housing
Health literacy
Crime & violence
Poverty levels
Local healthcare quality
Transportation
Provider linguistic & cultural competency
Access to healthy food options
Care avoidance

TOMORROW'S POSSIBILITIES

Addressing social factors is becoming a key element of **well-being** strategies – how can we help optimize healthy choices, and what will the long-term impact be?

How will carriers integrate social factors into **care management programs** – and what impact will it make on health status?

How can **community resources** be leveraged – to remove barriers that impede effective care?

Today's Environment
Key Market Trend: Focusing on Pharmacy

Actively manage today's programs, and understand the near and long-term impacts of the evolving market

TODAY'S REALITY

Consolidation in recent years has led to more limited PBM competition.

Specialty medications accounted for 70% of pharmacy cost growth in the US over the past five years.

Specialty pipeline continues to grow – with 40-50 new specialty medications expected to be approved each year.

Traditional rebate model is being challenged by the government and new delivery models.

TOMORROW'S POSSIBILITIES

What if **rebates cease to exist** – how will this impact Plan Sponsors and the pharmacy financial equation?

Specialty drugs impact less than 2% of people, but are expected to be **half of all pharmacy spend** by 2020 – how can these costs be managed?

Life-saving/changing drugs – are there limits to how much a Plan Sponsor should be obligated to pay for a cure?

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Today's Environment
2019 Congressional Health Care Themes

Healthcare will remain a focus – some proposals could advance on a bipartisan basis, but don't expect major changes

WHAT YOU'LL BE HEARING ABOUT

- **ACA Cadillac tax**– Full repeal will continue to be a top priority for employers.
- **ACA employer mandate** – Long odds for repeal, but push may lead to simplified employer reporting.
- **Out-of-network "surprise" medical bills** – Coming legislation could raise employer costs, complicate plan design.
- **HSA reforms** – Employers pursuing legislative strategies to allow pre-deductible coverage of non-preventive services; increase contributions to and flexibility of HSAs.
- **Drug prices** – With ban on "gag clauses" enacted, speeding generics to market may be next; Administration taking regulatory action to address prices.
- **Expand ACA, strengthen regulation of small-group, individual markets** – Increase ACA subsidies, cap out-of-pocket drug costs, fix "family glitch".
- **"Medicare for All", Medicare buy-in, public plan options** – Democrats hoping to build support for some form of single-payer system with hopes of winning back the White House in 2020.

QUESTIONS

*1 For Telephone Questions

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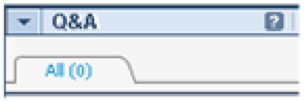
To submit a question while in full-screen mode, use the Q&A button on the bottom right-hand side of your screen.

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



SURVEY REQUEST

We are very interested in your opinion!

We will be circulating a replay link and copies of the slides.

Please remember to take our survey when you receive the follow-up email.