



## Confessions of a Future Risk Predictor

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October 20, 2023

Ohio PRIMA  
Fawcett Center - Columbus, OH  
1:30 – 2:30pm



# Background



- › Public Entity focused
- › 11 years handling pools and stand-alone programs
- › Work with entities across the country
- › Involved with PRIMA, GFOA, ICMA, AGRIP
- › Live in Columbus, OH

# Today's Focus: Future Risks



- › Areas of concern expressed by public entities nationwide
- › What insurance carriers are fearful of
- › What public entities can expect in the future
- › How to mitigate these risks

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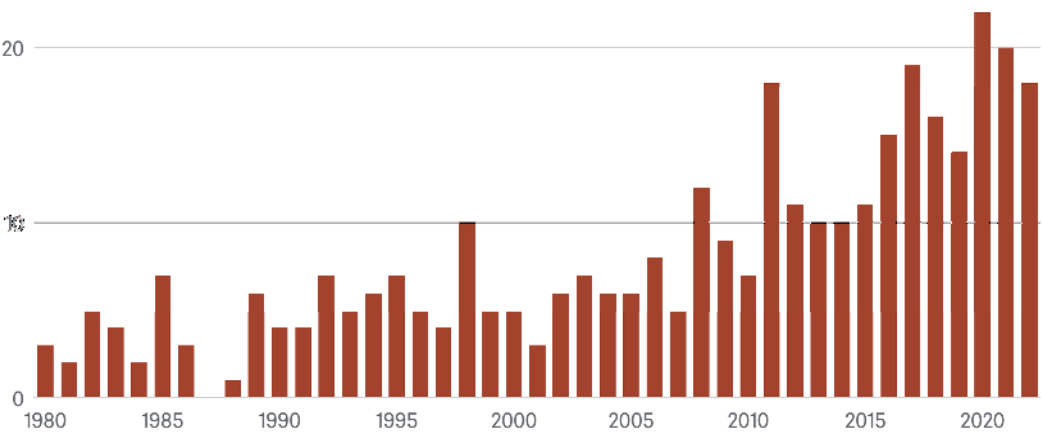
# Risk #1: Climate Change



# Climate Change

## Billion-Dollar Disasters Are Becoming More Common

Number of disasters affecting the United States that caused \$1 billion or more in damage



Source: National Oceanic and Atmospheric Administration.

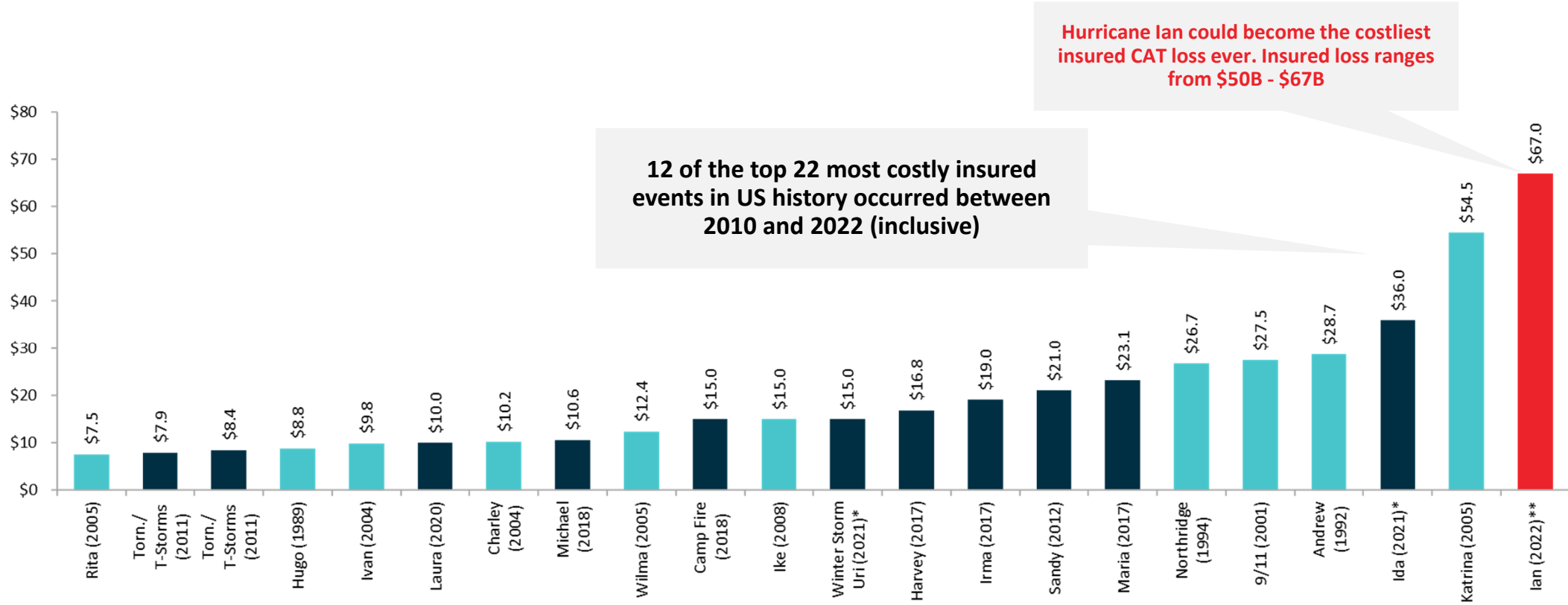
COUNCIL OF  
FOREIGN  
RELATIONS

- › Insured Cat Losses are increasing at an alarming rate – Nearly 700% since the 1980s
- › Average insured losses:  
1980-2011 = \$23.8B  
2012-2022 = \$44.1B

Sources: NAIC data sourced through S&P Global Intelligence; Insurance Information Institute.

# Climate Change

## Top 22 Most Costly Disasters in U.S. History—Hurricane Ian Overtakes Katrina?











18 of the 22 Most Expensive Insurance Events in US History Have Occurred Since 2004.

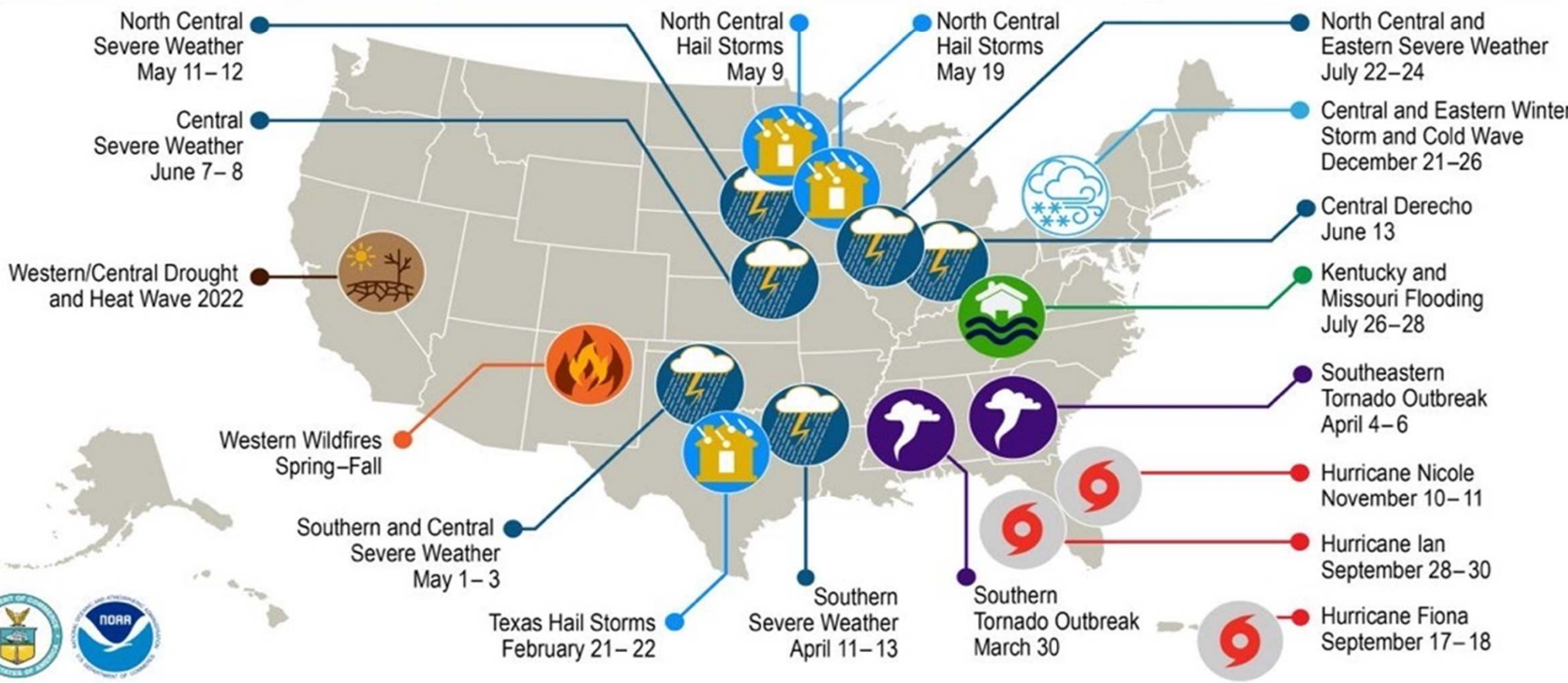
\*2021 dollars; \*\*2022 dollars (RMS private insurer estimate as of 10/10/22).  
 Sources: PCS, RMS, Aon, Karen Clark & Co; USC Center for Risk and Uncertainty Management adjustments to 2020 dollars using the CPI.

# Climate Change

## Major U.S Losses in 2022

### U.S. 2022 Billion-Dollar Weather and Climate Disasters

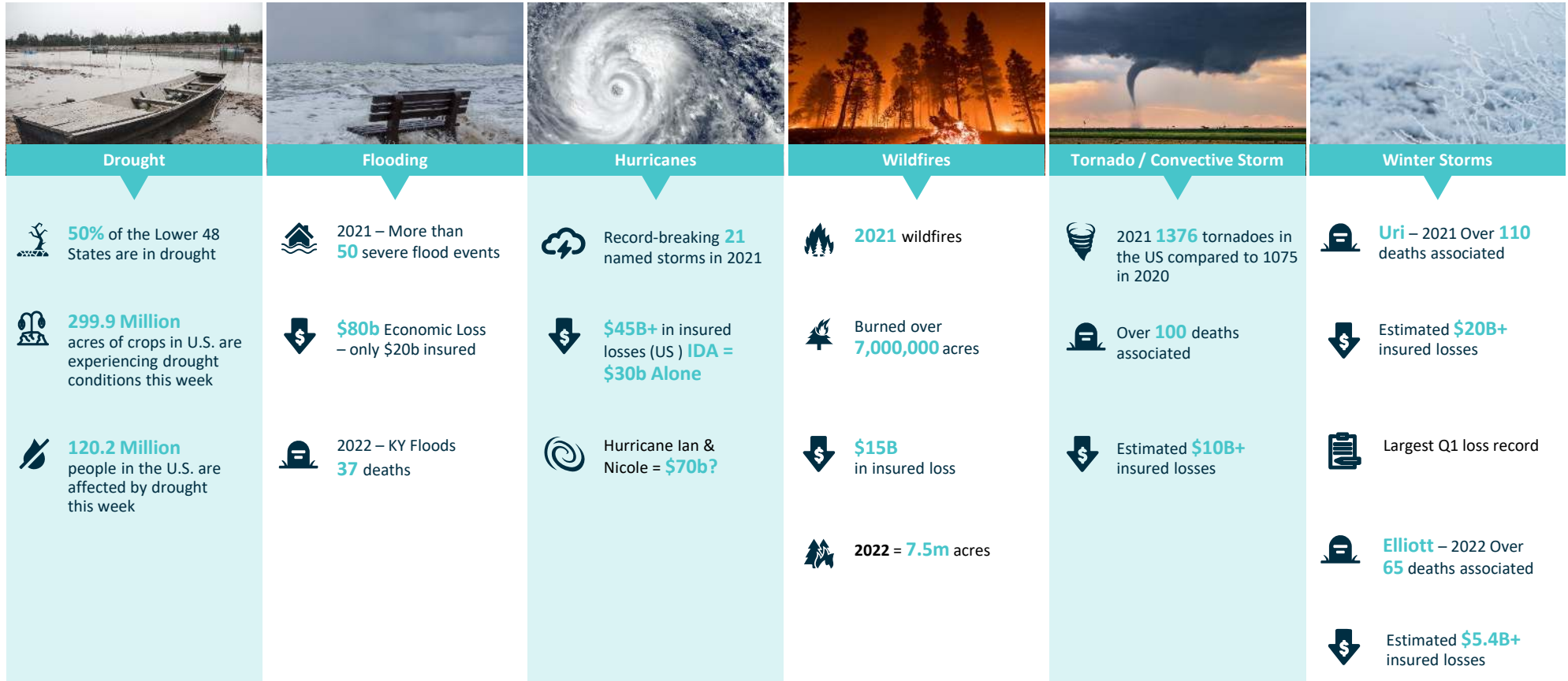
-  Drought/Heat Wave
-  Flooding
-  Hail
-  Hurricane
-  Severe Weather
-  Tornado Outbreak
-  Wildfire
-  Winter Storm/Cold Wave



Source: NOAA *This map denotes the approximate location for each of the 18 separate billion-dollar weather and climate disasters that impacted the United States in 2022.*

# Climate Change

## Recent CAT Losses

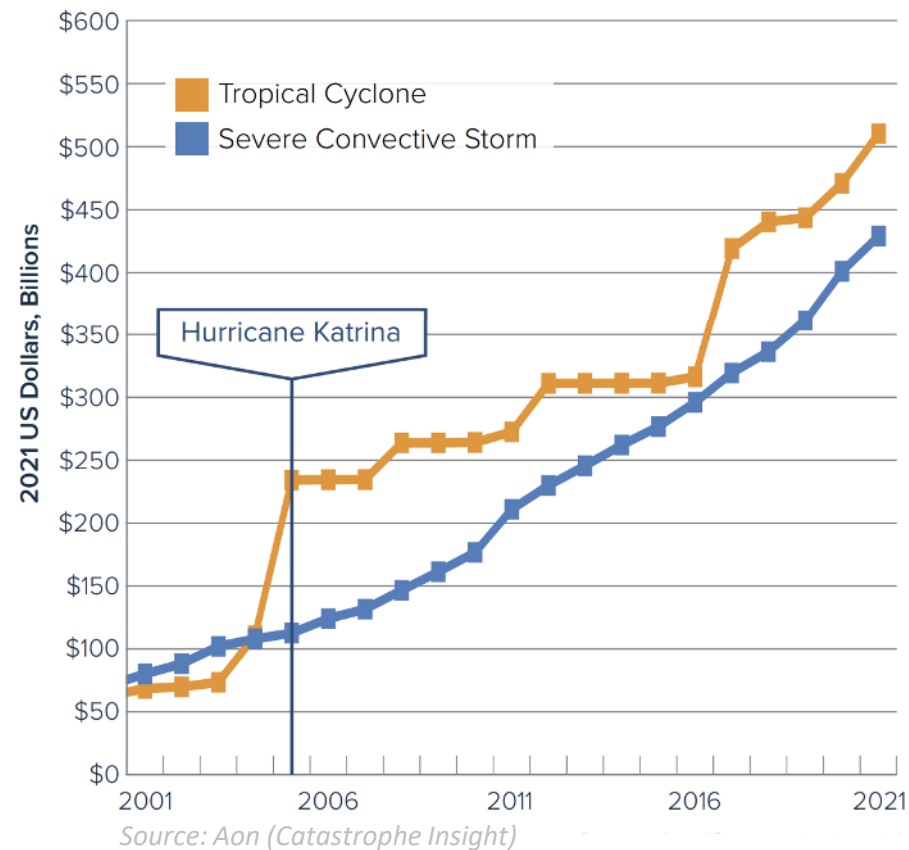




# Climate Change

## Convective Storm, Hurricane Losses Rise in Parallel

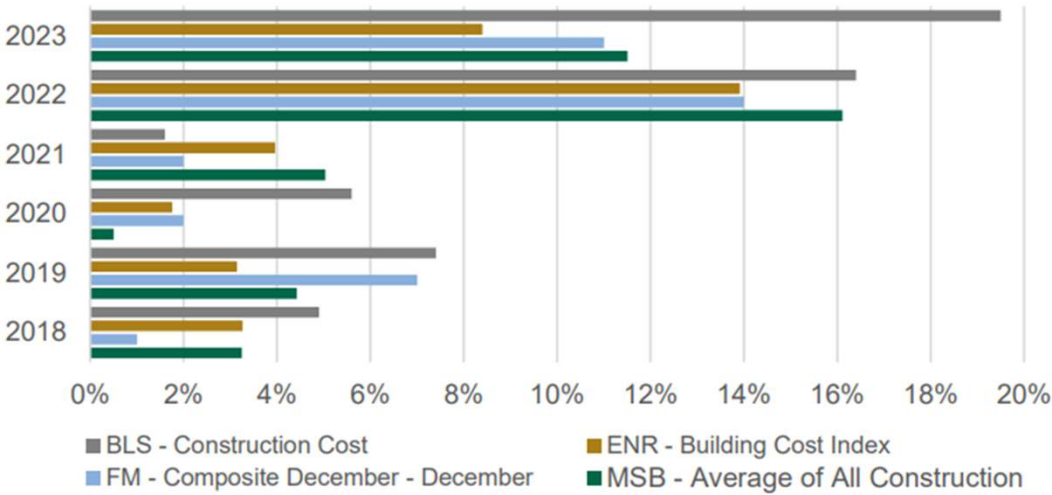
Cumulative Insured Losses, 2001-2021 YTD



- › Major loss events are no longer limited to coastal regions
- › The Midwest has become a risky region for property insurers
- › Convective storms have become a leading loss factor in the US
- › In any given year, hail is 60-80% of the damage produced by severe convective storms

# Climate Change

**Construction Cost Trends January Yearly**



[www.cbiz.com/valuation](http://www.cbiz.com/valuation)

- › Inflation is not the only challenge impacting construction costs. While certain material cost increases may have subsided and some supply chain issues have diminished, the construction industry faces significant labor challenges. The shortage of skilled labor, coupled with increasing wages, is extending project completion timelines and impacting the cost of existing projects and new bids

# Climate Change

## Property Reinsurance Rate Movements as of 1/1/23

Territory	Pro rata commission	Risk loss-free % change	Risk loss-hit % change	Catastrophe loss-free % change	Catastrophe loss-hit % change
Australia	-5.0% to -2.5%	+5% to +15%	+15% to +30%	+10% to +20%	+25% to +45%
Canada	-4% to -2%	+10% to +20%	+20% to +35%	+12% to +25%	+20% to +40%
Central & Eastern Europe	-1.5% to 0.0%	+5% to +20%	+20 to +35%	+10% to +30%	+20% to +50%
China	-4% to -1%	+15% to +30%	n/a	+20% to +30%	n/a
Europe	n/a	+20% to +30%	n/a	+25% to +40%	n/a
France, Belgium	n/a	+10% to +20%	+20% to +30%	n/a	+25 to +60%
Germany, Switzerland, and Austria	n/a	+25% to +60%	n/a	+25% to +60%	n/a
Italy	n/a	n/a	+5% to +25%	+7.5% to +20%	+10% to +35%
Indonesia	-2.5% to 0%	+5% to +20%	+30% to +40%	+5% to +20%	+30% to +40%
Korea	-10% to -5%	n/a	+50% to +100%	+15% to +20%	+50% to +100%
Latin America	-7% to 0%	0% to +12%	+10% to +25%	+7% to +35%	+10% to +45%
MENA, South Africa	-3% to 0%	+5% to +10%	+10% to +25%	+15% to +30%	+30% to +50%
Malaysia	-9%	+20% to +25%	+25% to +100%	+20% to +25%	+25% to +100%
Netherlands	-2% to 0%	+2.5% to +17.5%	+7.5% to +25%	+5% to +32.5%	+15% to +45%
Nordic Countries	n/a	+10% to +30%	+15% to +50%	+15% to 30%	+25% to +35%
Turkey	-5%	+20% to +50%	n/a	+20% to +50%	n/a
United Kingdom	n/a	+20 to +25%	+30% to +40%	+20 to +27.5%	n/a
United States	-6% to -3%	+15% to +25%	+35% to + 150%	+25% to +50%	+45% to +100%

Source: Gallagher Re 1st View Report (Jan. 2023) available at: <https://www.ajg.com/gallagher/news-and-insights/2023/january/gallagher-re-first-view-market-turns/>; Risk and Uncertainty Management Center, University of South Carolina.



# Climate Change

## Risk Management tips:

*'A hard insurance market means a high demand for insurance coverage and a reduced supply. Insurance companies use very strict underwriting standards and issue a limited number of policies. Premiums are high, and insurance carriers don't want to negotiate terms.'*

- Appraisals and being insured to value
- Evaluate your current program structure and retention levels
- Navigate the marketplace strategically
- 'Writing your story for the market'
- Clean data
- Prepare your submission and collect renewal information earlier than normal

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## Risk #2: ChatGPT/Artificial Intelligence



# ChatGPT/AI

## PROS & CONS of Using ChatGPT



- ✓ Reduced Time and Effort for Tasks
- ✓ Ease of Use
- ✓ Speed and Efficiency
- ✓ Cost-Effective
- ✓ Personalization
- ✓ Analytics



- ✗ Lack of Emotional Intelligence
- ✗ Limited Context and Knowledge
- ✗ Security Risks
- ✗ Inexperience
- ✗ Technical Glitches

- › In some respects, the Cyber landscape was like the current Property landscape 3 years ago: uncertainty and volatility
- › After years of patience and market correctness, the waves have somewhat settled regarding cyber renewal conditions. However, this is no time for a sigh of relief
- › Cultural shift to language models
- › Opened the door for bad actors

# ChatGPT/AI

## ChatGPT is Used by 100 Million+ Users

OpenAI, a San-Francisco-based artificial intelligence research and deployment company, launched the ChatGPT on November 30, 2022, as a research preview. Taking off the ground, ChatGPT crossed the milestone of **1 million users within five days** of its launch. Sam Altman, the founder of OpenAI, confirmed the same via Twitter.

- ✔ **December 2022** – 1 Million
- ✔ **January 2023** – 57 Million
- ✔ **February 2023** – 100 Million
- ✔ **June 2023** – 1.6 Billion

## › Risks involved:

- Inaccurate information/responses
- Sensitive information
- Cyber fraud
- Output bias
- Plagiarism

# ChatGPT/AI

*“The true potential of AI extends far beyond just cutting expenses. The holy grail for businesses, especially in the insurance sector, is the ability to drive top-line growth.”*

– Muddu Sudhakar, Co-founder & CEO, Aisera

- › While insurers have concerns over the associated risk, they also see opportunity
- › AI can be used to gather underwriting data, automate the claims process, review policy information, and compare certain options
- › Generative AI can be taught demographic data to better predict and assess risks





# ChatGPT/AI

## Risk Management tips:

*'The security community should be paying attention not just to the potential risks, but the potential GPT-3 brings'*

- Many organizations have banned the use of ChatGPT (a short-term solution)
- Identify acceptable uses for AI
- Establish and implement AI usage guidelines. Revisit them as AI evolves
- Review third-party contracts and agreements with AI usage in mind
- Monitor and be aware of sensitive information – internal and external
- Fact check AI-generated facts before publishing
- Checking for plagiarism
- Be aware of phishing
- Continuous Cyber security training for your organization

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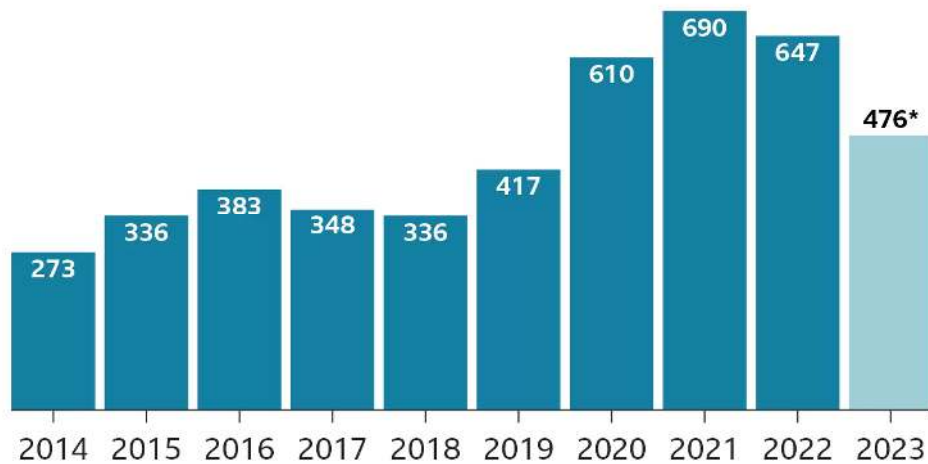
## Risk #3: Violent Events



# Violent Events

## Mass shootings in the US are on the rise

Incidents in which four or more people were killed or injured



\*data up to 28 August

Source: Gun Violence Archive



- › Active assailants continue to threaten businesses, houses of worship, schools, and public events across the United States
- › In addition to injuries and emotional trauma, violent events may inflict:
  - Lasting damage
  - Psychological impact
  - Operational pause/shutdown
  - Negative public image
- › Any organization, regardless of size and location, is a potential target

# Violent Events



- › 1/3 of active shooter events occur at school or a government location
- › Media exposure
- › What happens in a violent event from an insurance standpoint: A story
- › Where does coverage apply?

# Violent Events

## Risk Management tips:

*'The more catastrophic events we're exposed to as a nation, the more impacted we're going to be on a psychological level'*

- Build a crisis/violent event team
- Plan for the unthinkable
- Conduct threat assessments
- Conduct training and drills
- Audit and update regularly
- Consider teaming with a PR firm
- Provide mental health assistance for first responders
- Seek violent acts coverage



# Questions & Open Discussion



# Thank You!



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Way to Manage Risk

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