



P/C Underwriting Cycles

**NAIC Center for Insurance Policy and Research
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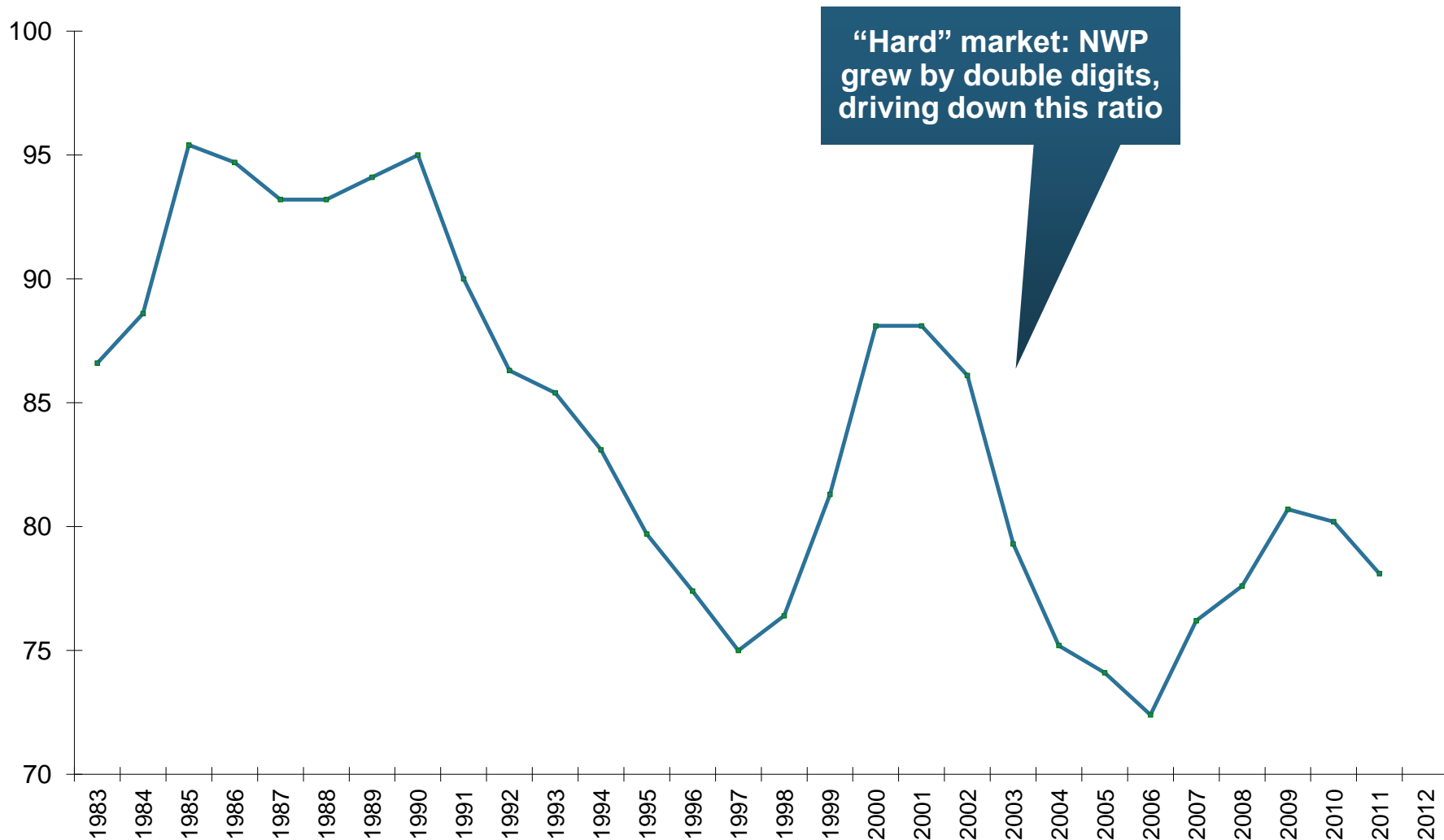
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- **Do P/C Underwriting Results Go in Cycles?**
 - ◆ Differences by Line of Business

- **What Drives These Cycles?**
 - ◆ Claim Trends
 - ◆ Capital/Capacity
 - ◆ Reinsurance Usage
 - ◆ Pricing
 - ◆ Inflation

Do P/C Underwriting Results Go in Cycles?

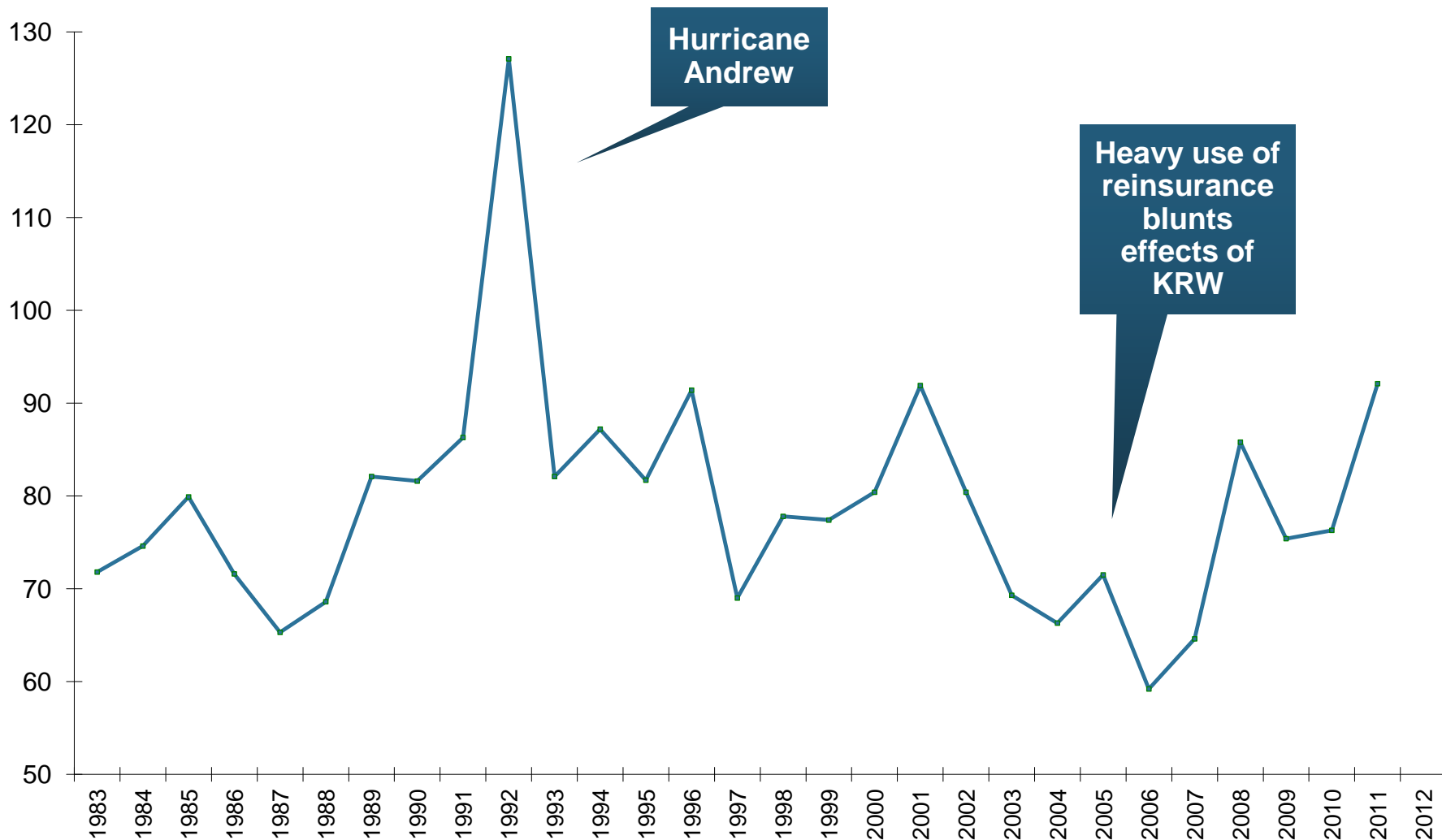
Loss + LAE Ratio*, 1983-2011: Private Passenger Auto Liability Insurance



*to Net Premiums Earned

Sources: A.M.Best, *Aggregates and Averages*, 1993, 2002, 2012; I.I.I.

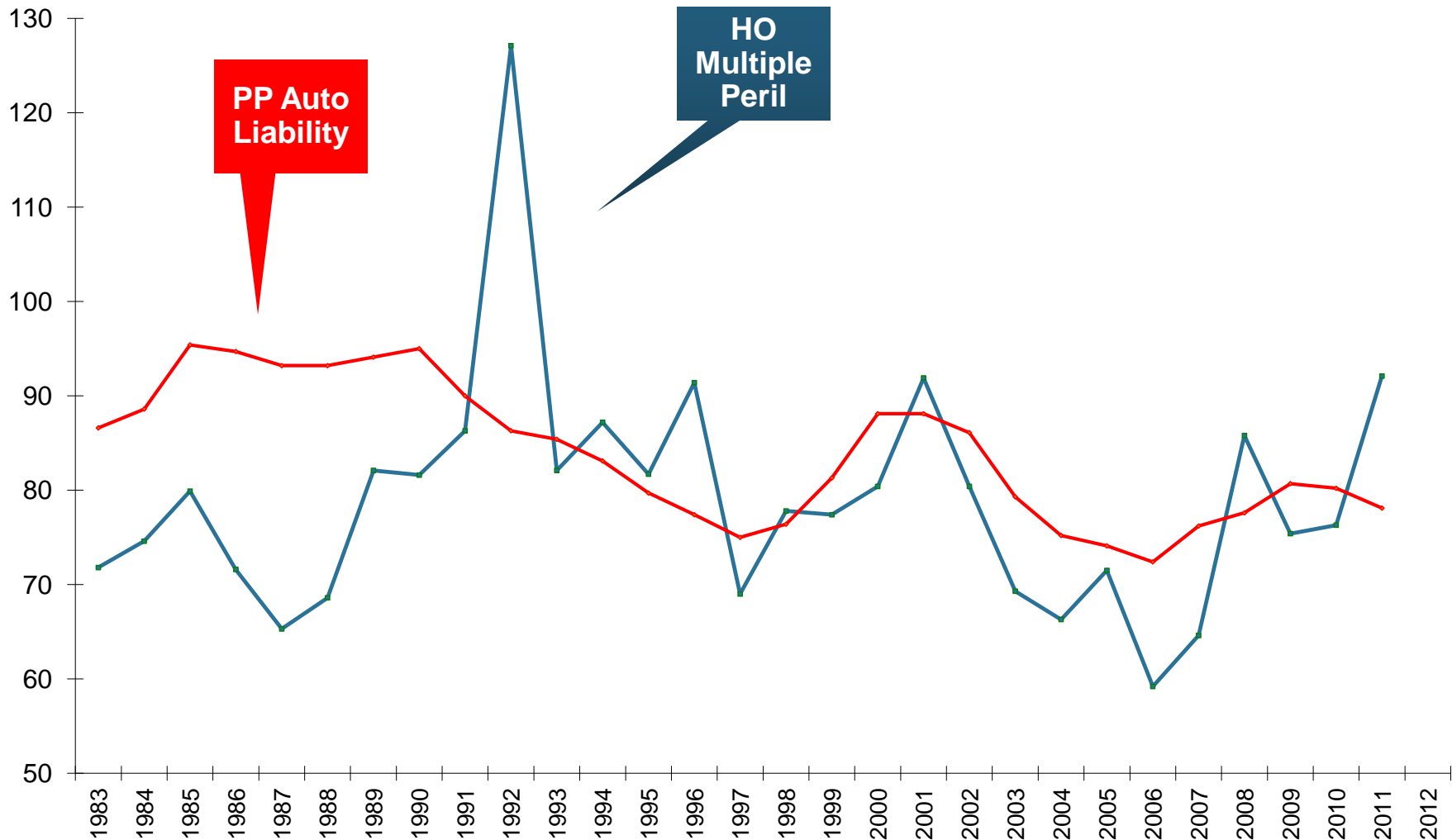
Loss + LAE Ratio*, 1983-2011: Homeowners Insurance



*to Net Premiums Earned

Sources: A.M. Best, *Aggregates and Averages*, 1993, 2002, 2012; I.I.I.

PP Auto & HO Insurance Loss + LAE Ratio*, 1983-2011



*to Net Premiums Earned

Sources: A.M.Best, *Aggregates and Averages*, 1993, 2002, 2012; I.I.I.

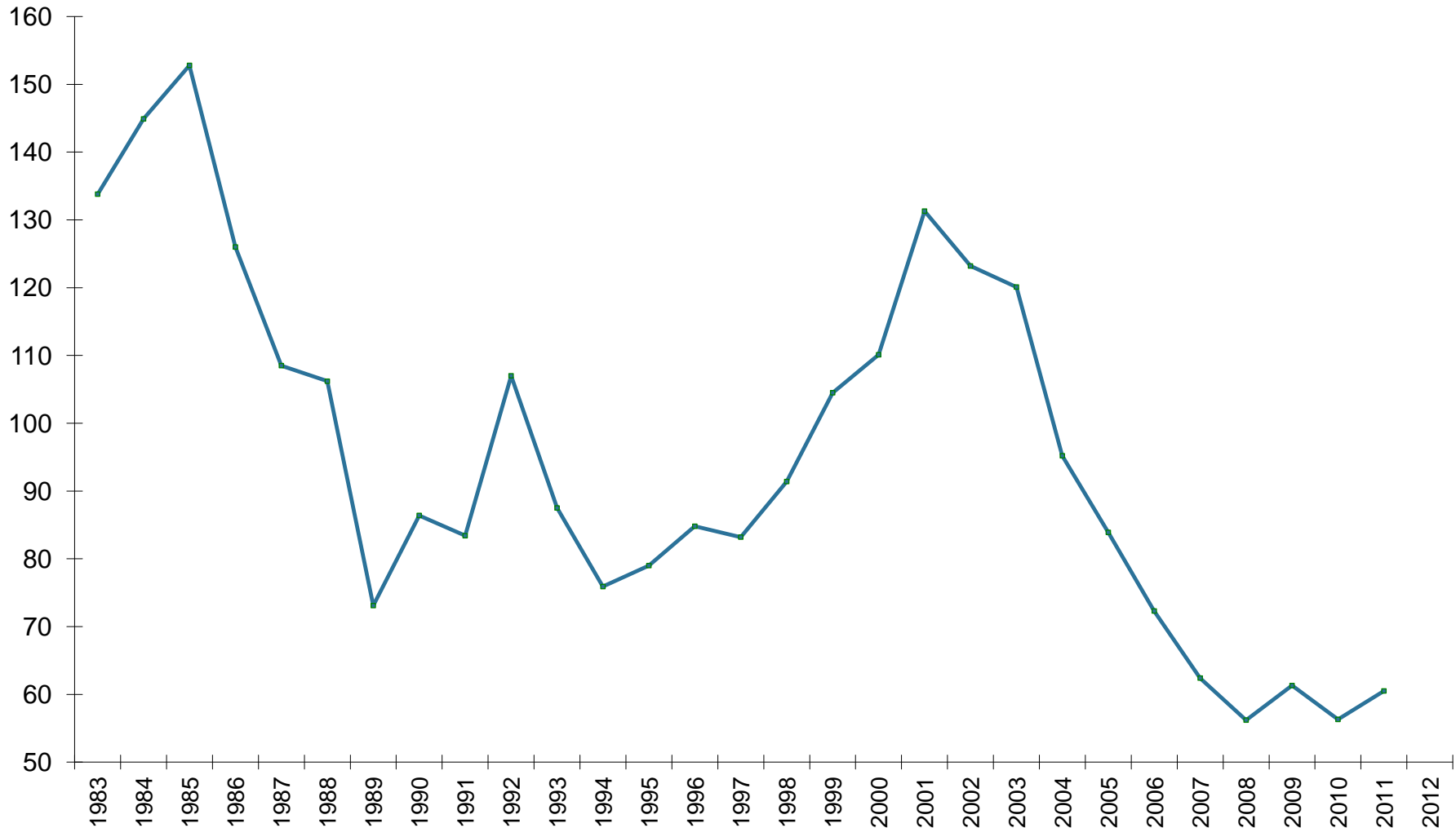
Loss + LAE Ratio*, 1983-2011: Workers Compensation Insurance



*to Net Premiums Earned

Sources: A.M.Best, *Aggregates and Averages*, 1993, 2002, 2012; I.I.I.

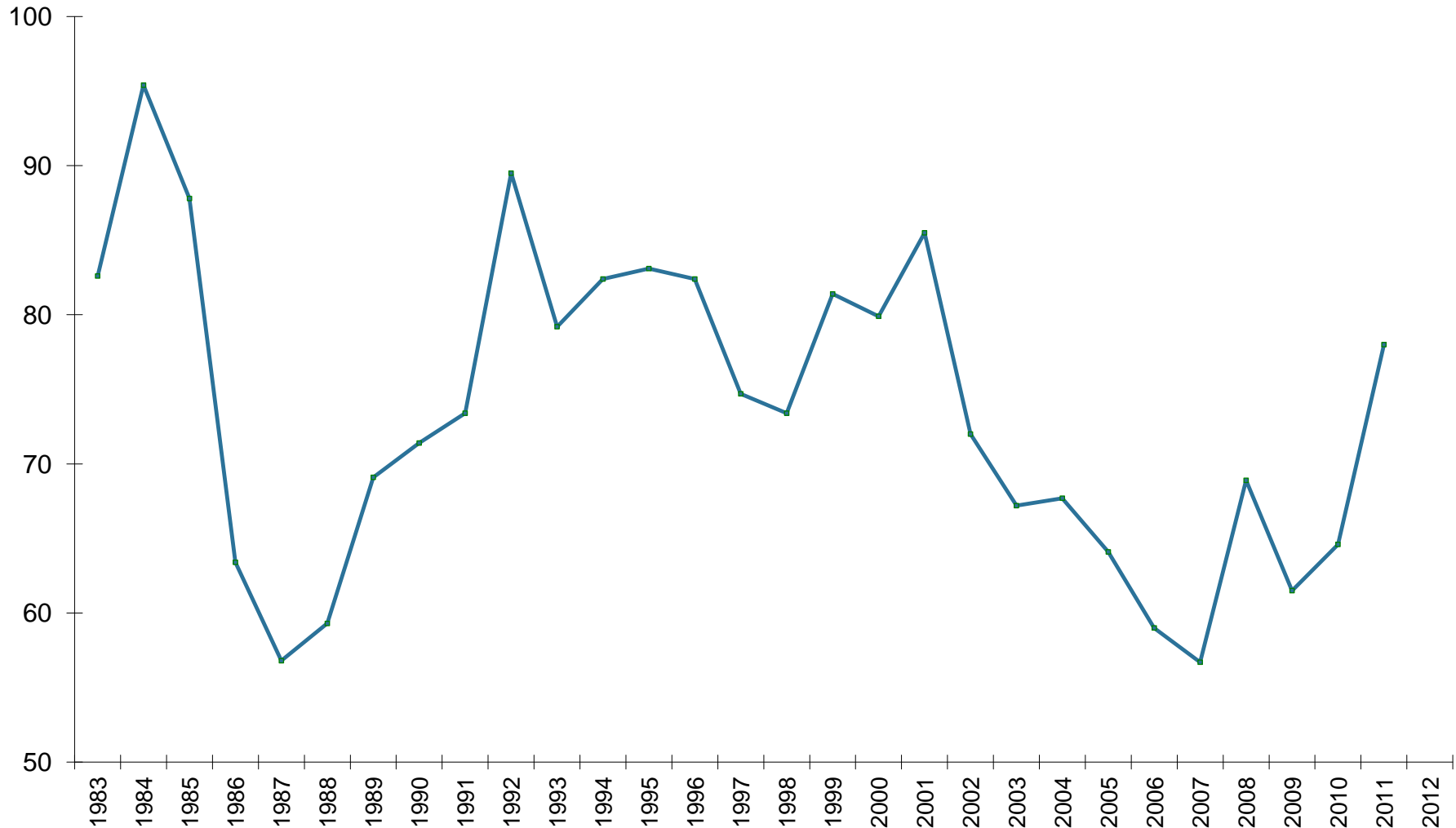
Loss + LAE Ratio*, 1983-2011: Medical Malpractice Insurance



*to Net Premiums Earned

Sources: A.M.Best, *Aggregates and Averages*, 1993, 2002, 2012; I.I.I.

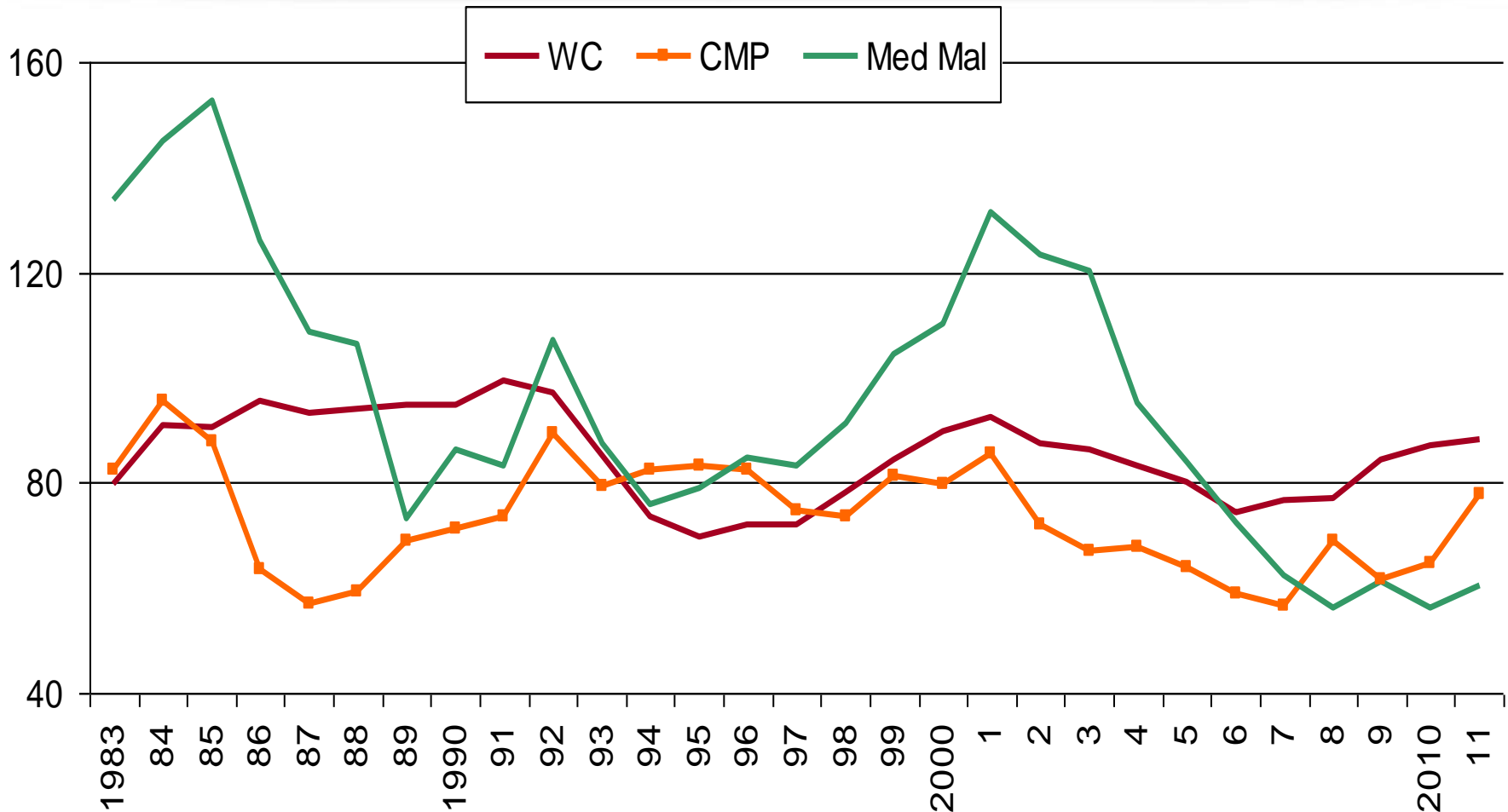
Loss + LAE Ratio*, 1983-2011: Commercial Multiple Peril Insurance



*to Net Premiums Earned

Sources: A.M.Best, *Aggregates and Averages*, 1993, 2002, 2012; I.I.I. calculations.

WC, CMP, Med Mal: Loss + LAE Ratio*, 1983-2011



The underwriting cycles vary by line of business and are loosely “in sync” with each other.

*to Net Premiums Earned
Sources: A.M.Best, *Aggregates and Averages*, 1993, 2002, 2012; I.I.I. calculations.

Cycles, Cycles (Nearly) Everywhere

Cycle Length in Years*

■ Netherlands	12.0	■ Austria	None
■ Malaysia	12.0	■ Denmark	None
■ France	10.2	■ S. Korea	None
■ Singapore	7.8	■ Taiwan	None
■ United States	7.4		
■ Japan	7.1		
■ Canada	5.8		
■ Spain	5.7		
■ Australia	5.2		
■ Italy	4.8		

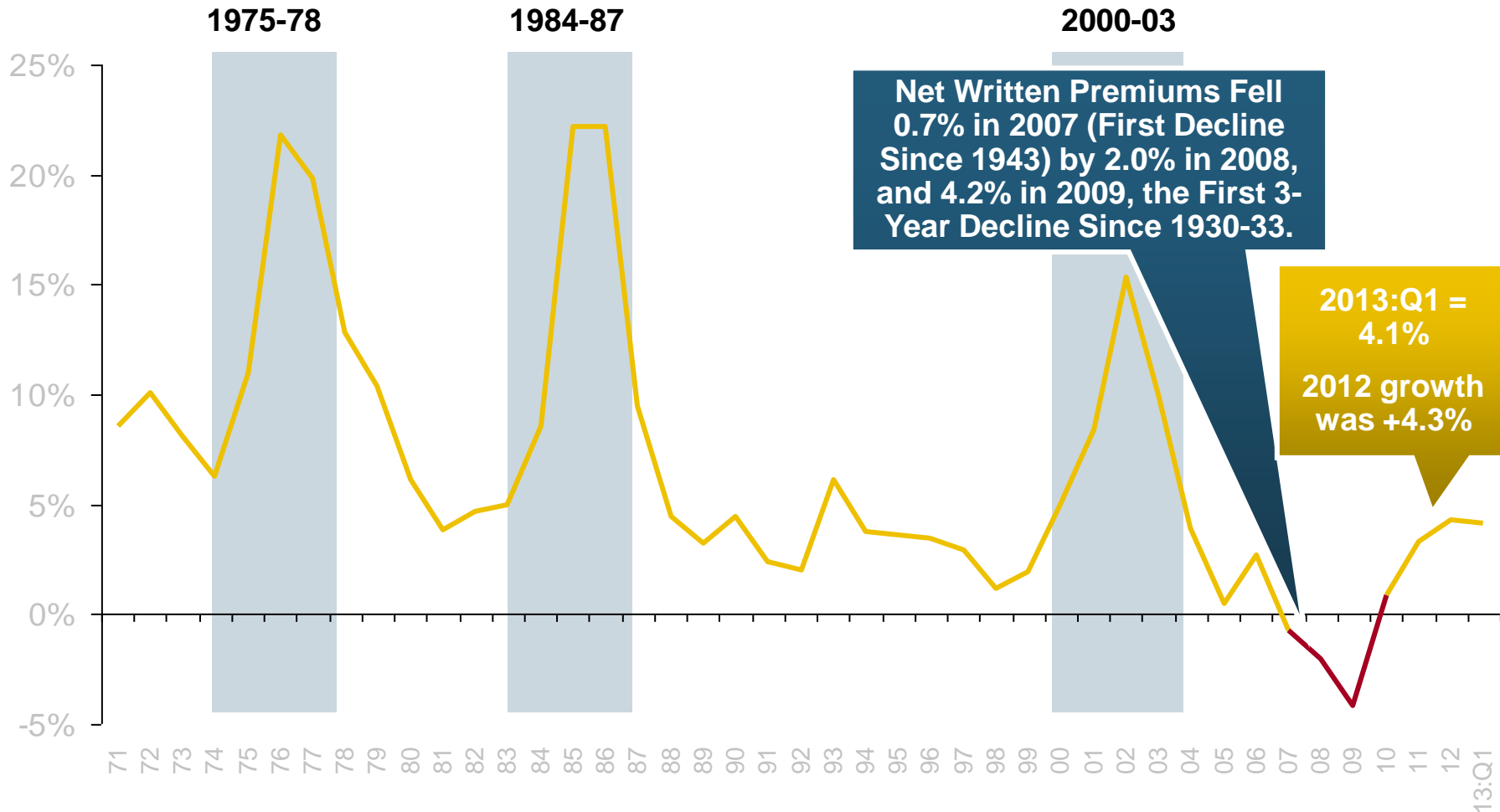
*Lamm-Tenant/Weiss study based on data for 1965 through 1987; Chen/Wong/Lee study based on data for 1970-1995.

Sources: J. Lamm-Tenant and M. Weiss, "International Insurance Cycles: Rational Expectations/Institutional Intervention, *Journal of Risk and Insurance*, September 1997; R. Chen, K. Wong and H. Lee, "Underwriting Cycles in Asia," *JRI*, March 1999.

Cyclicalality in Premiums, Reserves, and Profits

Net Premium Growth: Annual Change, 1971—2013:Q1

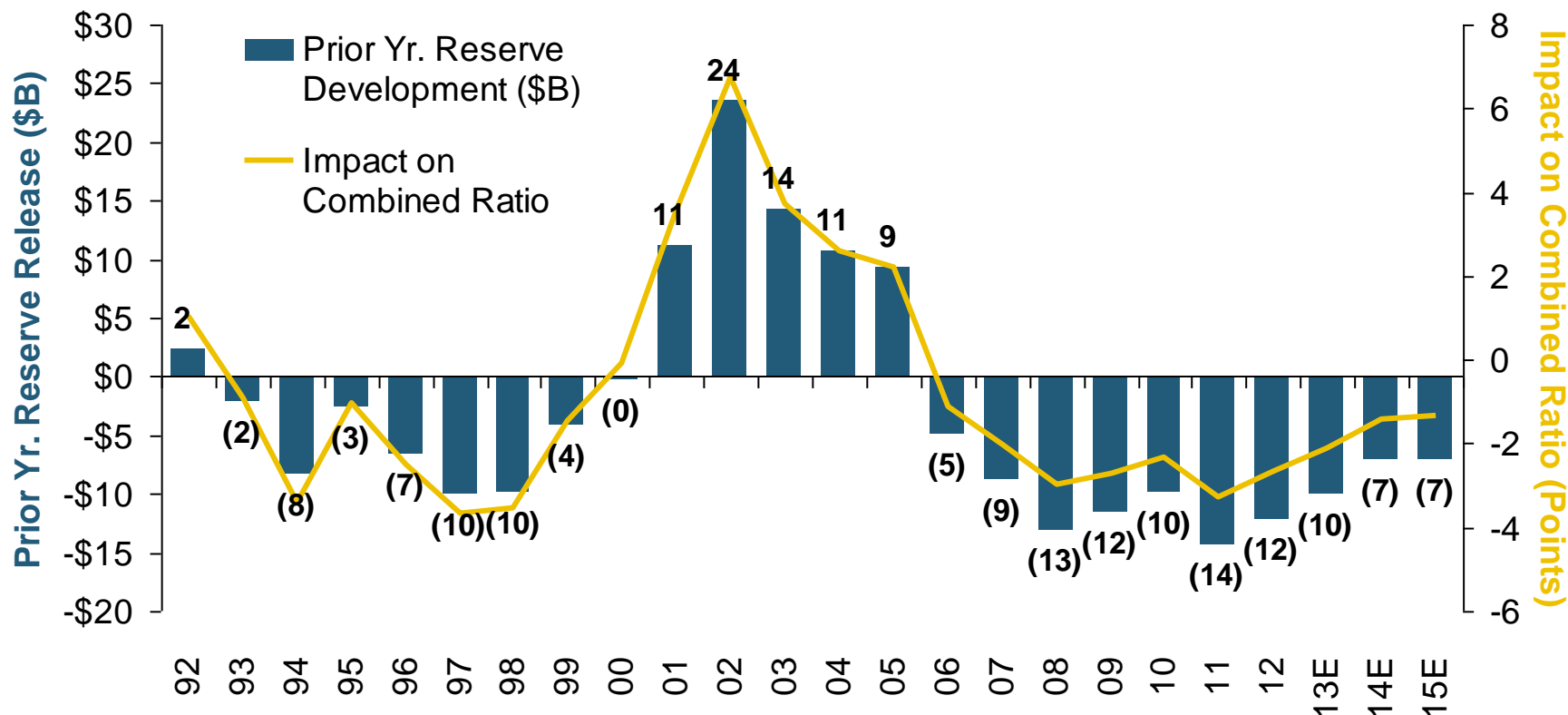
(Percent)



Shaded areas denote “hard market” periods

Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute.

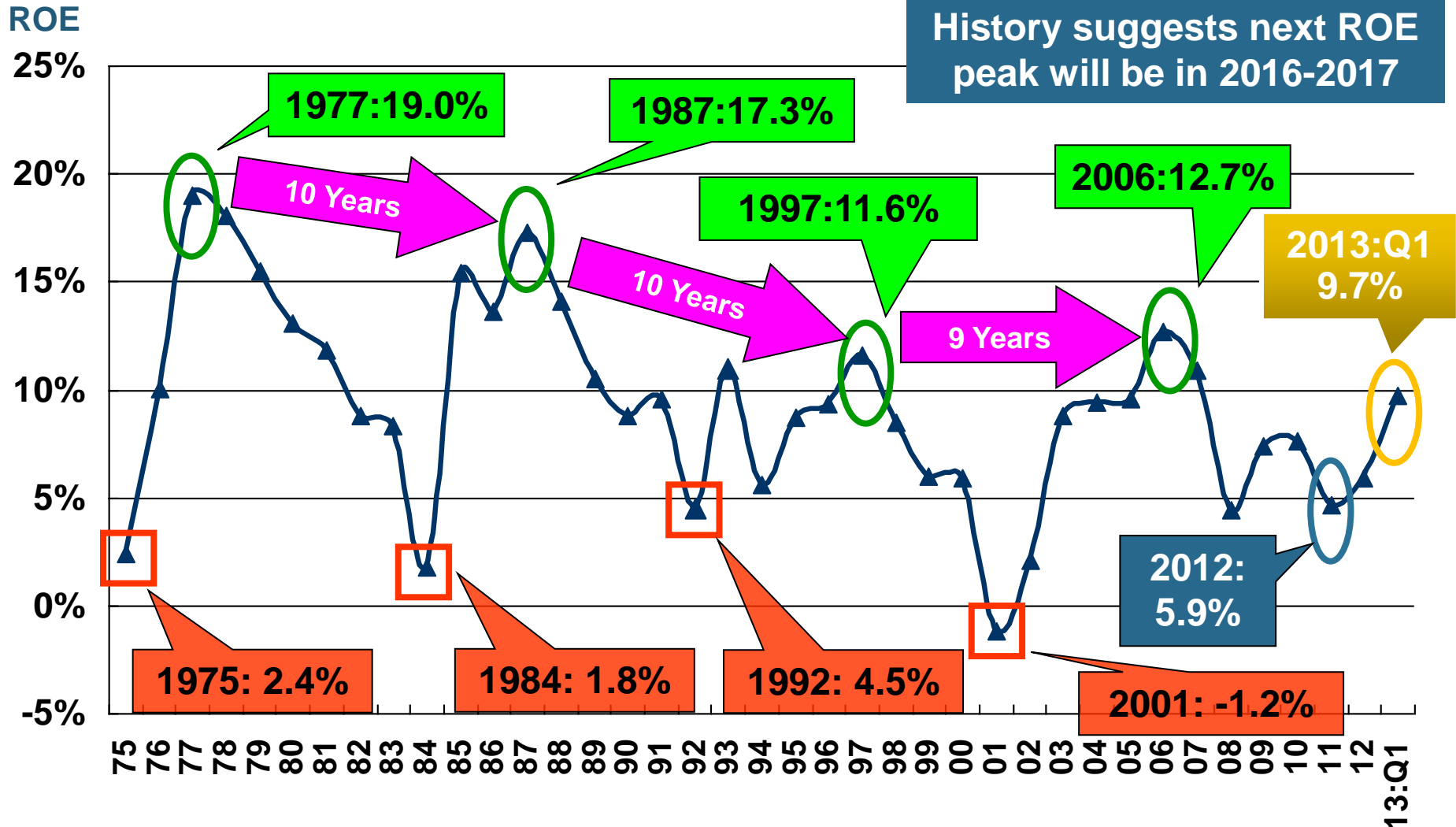
P/C Reserve Development, 1992–2015E



Note: 2005 reserve development excludes a \$6 billion loss portfolio transfer between American Re and Munich Re. Including this transaction, total prior year adverse development in 2005 was \$7 billion. The data from 2000 and subsequent years excludes development from financial guaranty and mortgage insurance.

Sources: A.M. Best, ISO, Barclays Research (estimates).

Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2013:Q1*



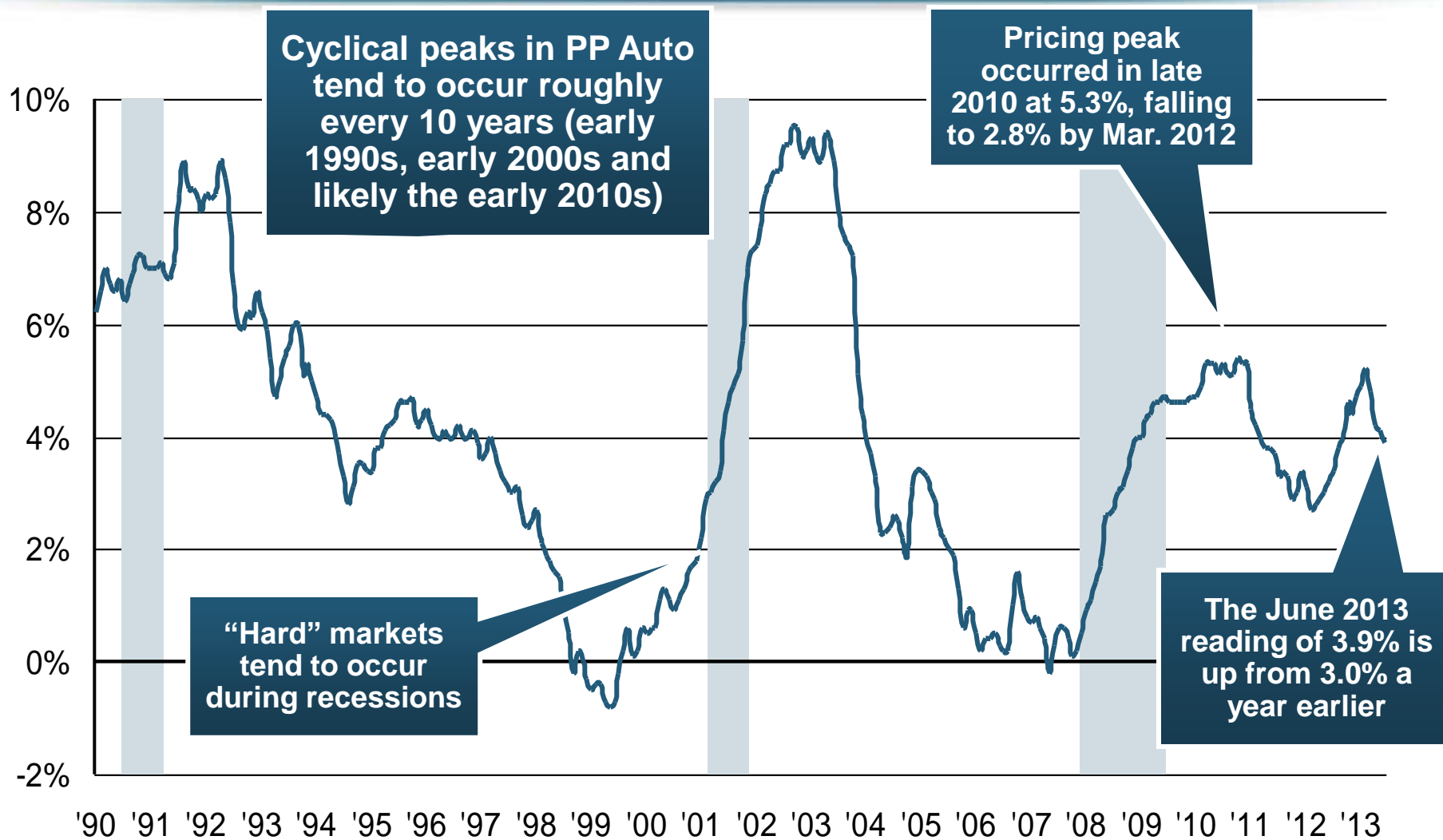
*Profitability = P/C insurer ROEs. 2011-13 figures are estimates based on ROAS data. Note: Data for 2008-2013 exclude mortgage and financial guaranty insurers.

Source: Insurance Information Institute; NAIC, ISO, A.M. Best.

What Drives These Cycles?

- Claim Trends
- Capital/Capacity
- Reinsurance Usage
- Pricing
- Inflation

Monthly Change* in Auto Insurance Prices, 1991–2013*



*Percentage change from same month in prior year; through June 2013; seasonally adjusted

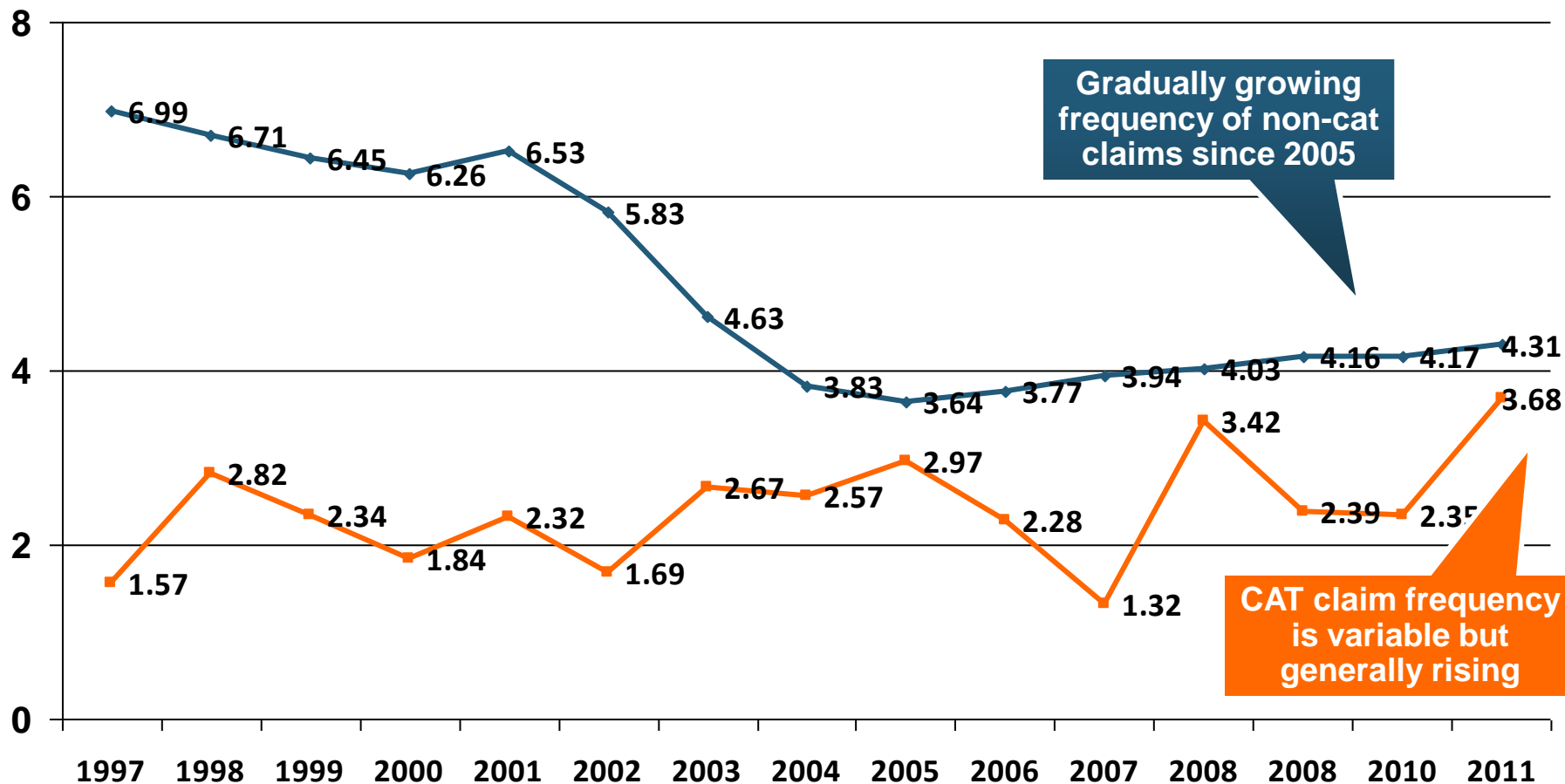
Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

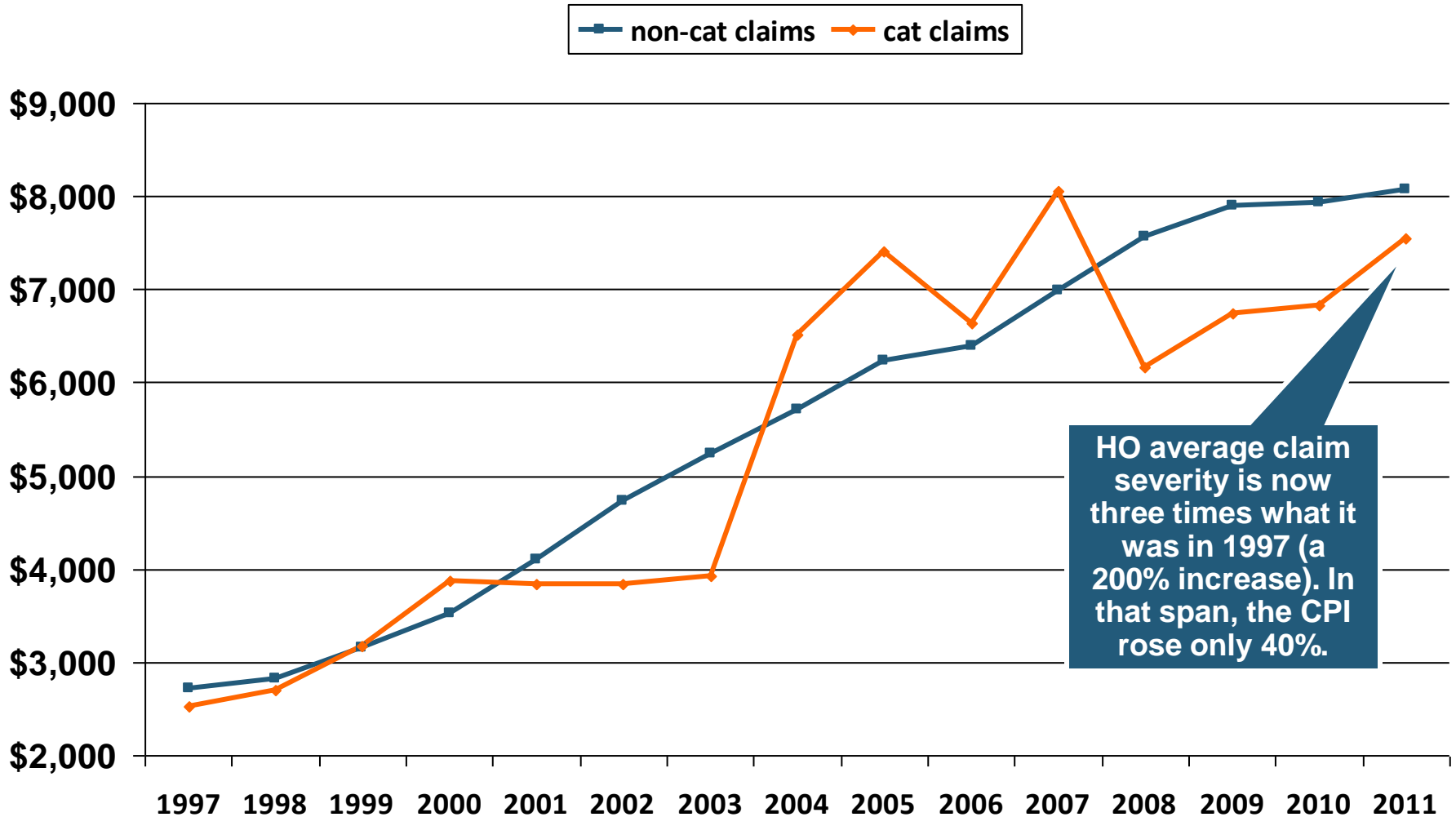
P/C Industry Homeowners Claim Frequency, US, 1997-2011

Claims Paid per
100 Exposures

—■ CAT-related claims
 —◆ Non-CAT-related claims



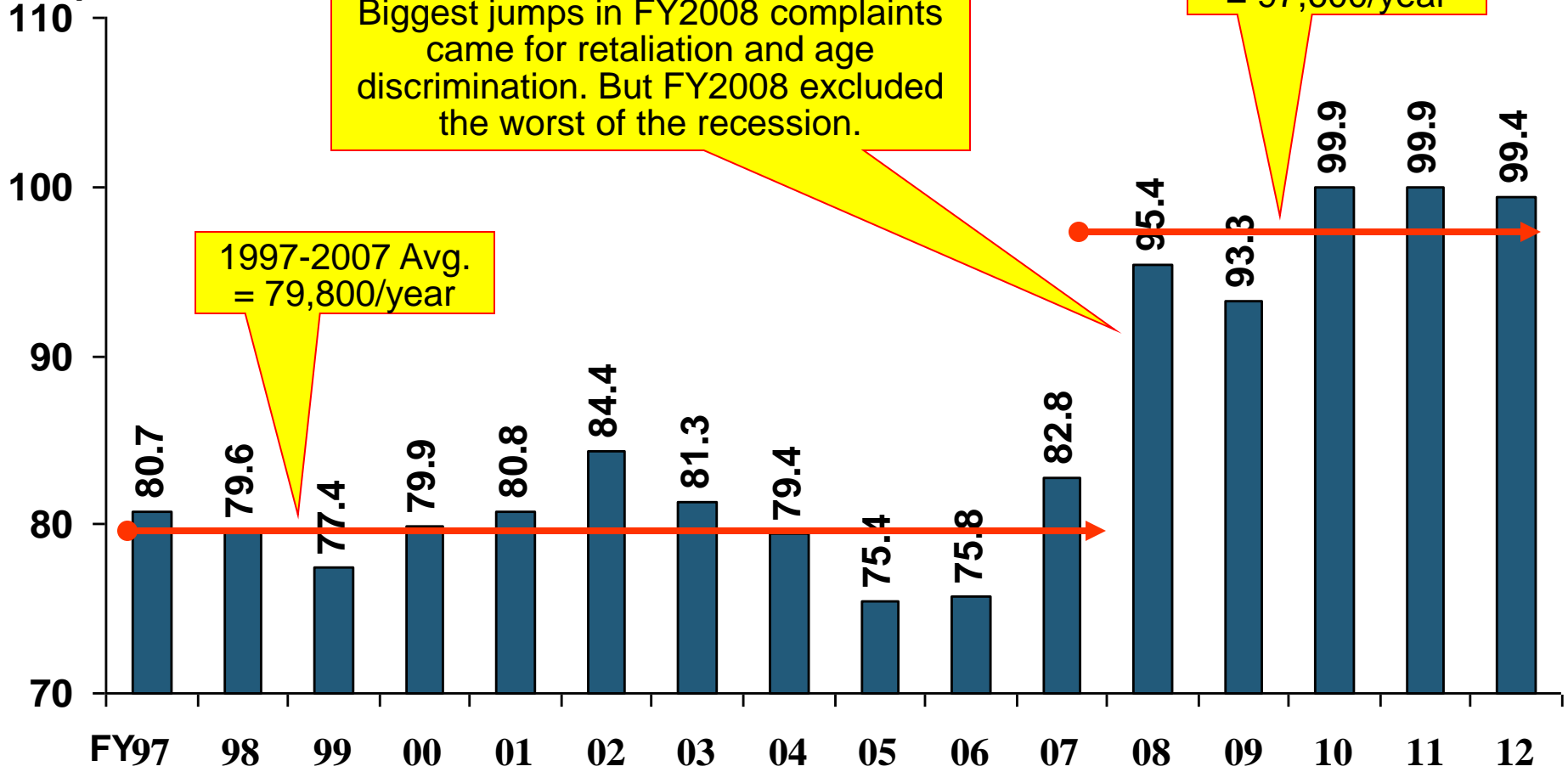
P/C Industry Homeowners Average Claim Severity, 1997-2011



Sources: Insurance Research Council, "Trends in Homeowners Insurance Claims," p. 29, BLS inflation calculator, and Insurance Information Institute

EEOC Workplace Discrimination Complaints, FY1997-FY2012*

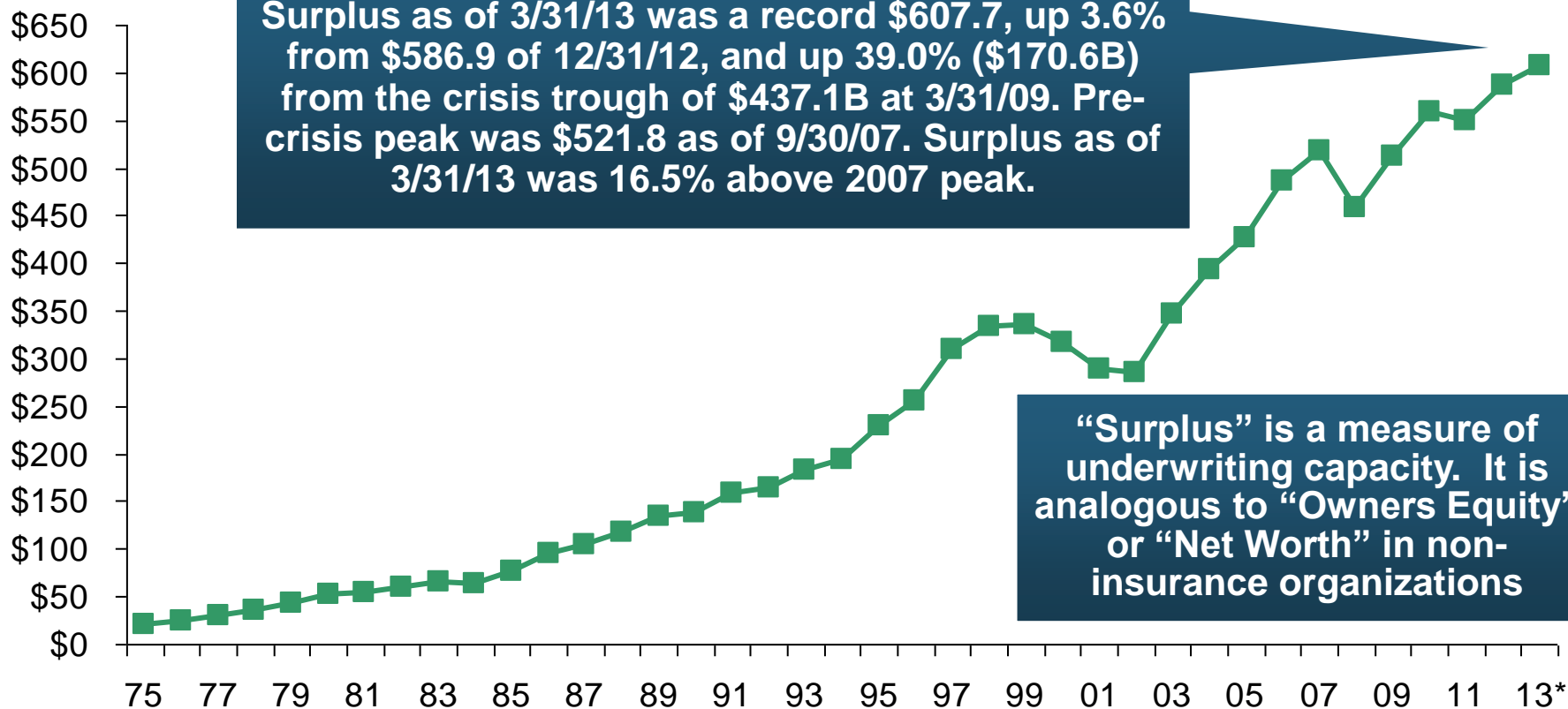
Thousands of
Complaints



*The federal fiscal year runs from Oct 1 of a given year to Sept 30 of the following year. The year is designated by its endpoint. Thus FY2009 covers the period from Oct 1, 2008 through Sept 30, 2009.
Sources: EEOC at <http://www.eeoc.gov/stats/charges.html> ; I.I.I.

US Policyholder Surplus: 1975–2013*

(\$ Billions)



The Premium-to-Surplus Ratio Stood at \$0.77:\$1 as of 3/31/13, A Near Record Low (at Least in Recent History)*

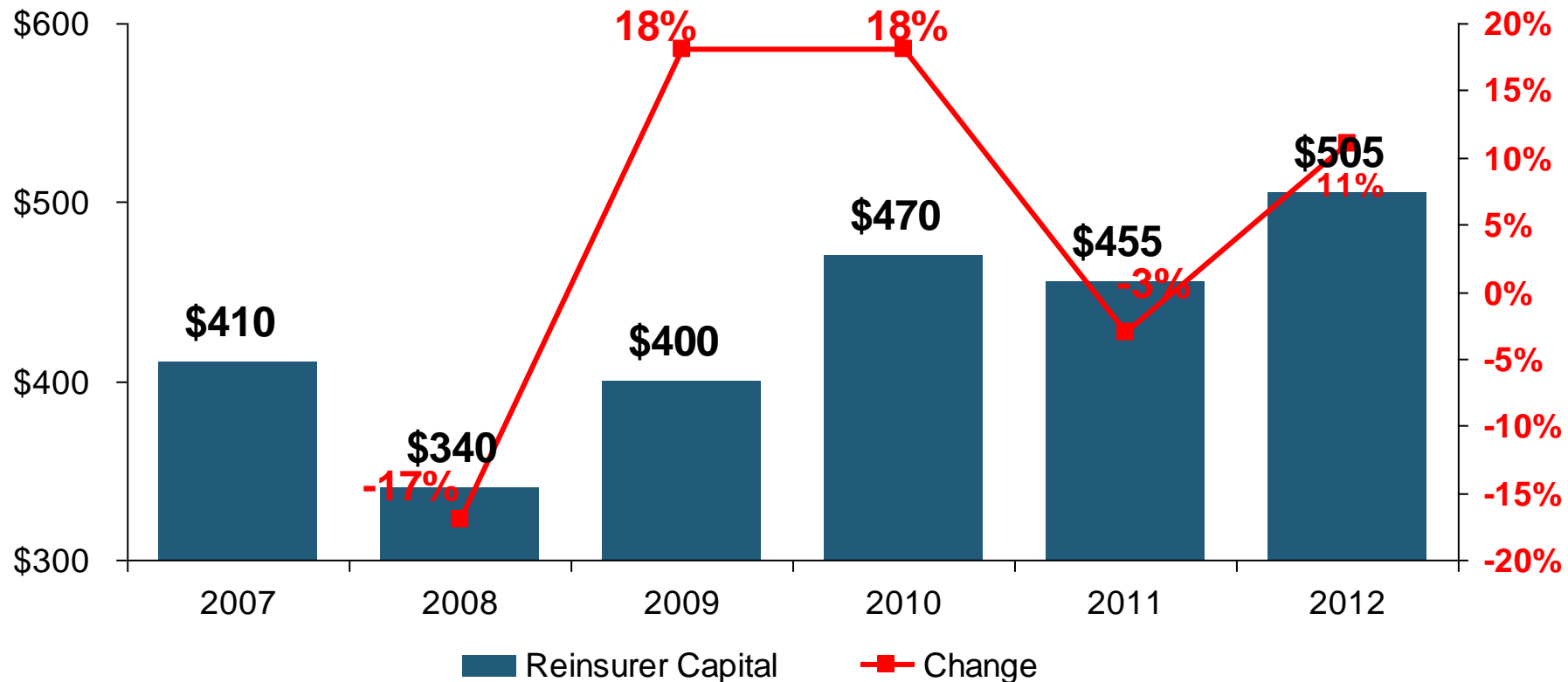
* As of 3/31/13.

Source: A.M. Best, ISO, Insurance Information Institute.

Global Reinsurance Capital, 2007-2012

\$ Billions

% Change



2007-2012 compound average growth rate: 4.3%
High Global Catastrophe Losses Have Had a Modest Adverse Impact on Global Reinsurance Market Capacity

Source: Aon Reinsurance Market Outlook, April 2013 Update from Individual Company and AonBenfield Analytics; Insurance Information Institute.

Other Possible Cycle Drivers

■ Sudden Changes in the Marketplace

- ◆ Such as a wave of mergers, major new entrants, etc.

■ Regulatory Approval Lags

■ Tort System Shocks

■ Investment Shocks

- ◆ Such as massive capital losses due to interest rate spikes, stock market plunge, etc.

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*Thank you for your time
and your attention!*