I.I.I. quarterly P/C industry snapshot:
First quarter 2018

Information and analysis provided by the Insurance Information Institute
2018-2020 Overview: The insurance industry and the economy

P/C insurance markets

• Ample (excess?) capital continues to spur competition.

• Rates are firming in most markets, except auto, where loss costs continue to force rates higher.

• 2018 Combined Ratio will vary by line of business but will likely be close to 100, except Personal Auto & Commercial Auto (108) and Workers Comp (95).

• Exposures will grow with the economy.

Financial markets

• Interest rates are finally rising. Projections for rate increases have gotten more modest.

• By most measures, annual inflation remains below 2 percent; the bond market suggests that could continue for five or more years.

• Carriers are giving alternative investments – ETFs, equities, real estate – a close look.

The U.S. economy

• Real GDP growth has shown unexpected strength in recent calendar quarters, but doubts persist that it can continue at a 3 percent real rate.

• Unemployment rates suggest we are near full employment but other measures indicate some slack remains.

• This is the second longest expansion since WWII, but there are no signs of a future recession.
Commercial lines trends: 2018:Q1
Business investments predict commercial property premium growth

% change from same quarter, prior year

Investment in structures, equipment, and software is expected to grow at least partly due to the provisions of the Tax Cuts and Jobs Act.

*Commercial property direct premiums written (fire, allied lines, CMP, inland marine, burglary and theft); business fixed investment (structures, equipment, and software).

Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

Sources: https://fred.stlouisfed.org/series/PNFI#0; National Bureau of Economic Research (recession dates); Insurance Information Institute.
As hiring goes, exposures follow

At the end of 2017, employment in the three industries that are the heart of workers composition exposure was not quite back yet to the level reached before the Great Recession.

Price changes* for hospital care affect claims for many lines of business

For the past 5 years, price changes ranged from 3%-6%.

Over the last two decades, prices for hospital care rose, on average, several percentage points faster than inflation generally.

*Percentage change from same month in prior year; through February 2018; seasonally adjusted.
Personal lines trends: 2018:Q1
Driving patterns predict claim frequency

Billions of miles driven in prior year

Overall collision claims per 100 insured vehicles

Miles driven
Collision claim frequency
Recession

The only force that could derail this relationship would be a sharp and persistent rise in the cost of gasoline.

Sources: Federal Highway Administration; Rolling four-quarter average frequency from Fast Track Monitoring System; Insurance Institute for Highway Safety; Insurance Information Institute.
To rent or to buy?

Since 2004 the number of renter-occupied housing units has grown by about 10.5 million units (+34%), but there has been no growth in the number of owner-occupied housing units in 12 years. Did this streak end in 2017?

Sources: U.S. Census Bureau at [http://www.census.gov/housing/hvs/data/histtabs.html](http://www.census.gov/housing/hvs/data/histtabs.html), Table 8; Insurance Information Institute.
Economic and financial trends: 2018:Q1
In the first three quarters of the year, net income varied. 2017 was the fourth lowest profit in the last 11 years.

*Through third quarter. Adjusted for inflation using the BLS CPI calculator, to 2017 dollars.
Sources: NAIC data, sourced from S&P Global Market Intelligence; Insurance Information Institute.
Key sources of P/C insurer profits

Data are before taxes and exclude extraordinary items.
Sources: NAIC data, sourced from S&P Global Market Intelligence; Insurance Information Institute.
Sources of investment gains

Net investment income has been steady, but realized capital gains/losses have been quite variable.

Through third quarter.
Sources: NAIC data, sourced from S&P Global Market Intelligence; Insurance Information Institute.
Top investment-grade bond yields have ranged from 3.8% to 4.0% for the last 3 years. 2017:Q3 was 3.65%. These yields probably won’t rise much above 4.5% through 2018.

Note: Recession indicated by gray shaded column.
Sources: https://fred.stlouisfed.org/series/AAA#0; National Bureau of Economic Research (recession dates); Insurance Information Institute.
Change* in the core** Consumer Price Index

Over the last decade, prices tracked by the Core CPI have generally risen about 2% per year.

*Monthly, year-over-year, through February 2018. Seasonally adjusted. **CPI less food and energy.
Quarterly Industry Snapshot

Federal Tax Cuts and the Insurance Industry
How Much Does the Industry Pay?
(Federal and Foreign Income Tax, Excluding Capital Gains)

$ Billions

Sources: NAIC data, sourced from S&P Global market Intelligence; I.I.I. Calculations.
What Rate Has the Industry Paid?

(Effective Federal and Foreign Income Tax Rates, Excluding Capital Gains)*

*Income taxes as a percent of net income after dividends to policyholders and after capital gains taxes.
Sources: NAIC data, sourced from S&P Global market Intelligence.
## Tax Reform’s Effects: Across All Corporations

*Green* numbers indicate tax reductions for taxpayers; *Red* numbers indicate tax increases.

<table>
<thead>
<tr>
<th>Affecting Corporations Generally</th>
<th>2018-2027 ($ Billions)</th>
<th>As a % of a Decade of Profits*</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>21% corporate tax rate (down from 35%)</td>
<td>$1,348.5</td>
<td>6.1%</td>
<td>This could enable insurers to use tax savings for increased capacity.</td>
</tr>
<tr>
<td>Repeal of corporate Alternative Minimum Tax (AMT)</td>
<td>$40.3</td>
<td>0.2%</td>
<td>Likely few insurers will benefit from this change.</td>
</tr>
<tr>
<td>Deduction for dividends received by domestic corporations from certain foreign corporations</td>
<td>$223.6</td>
<td>1.0%</td>
<td>This is part of the transition to a territorial system of taxation.</td>
</tr>
<tr>
<td>Treatment of deferred foreign income upon transition to territorial tax system</td>
<td>$338.8</td>
<td>1.5%</td>
<td>This new provision will affect only companies with offshore operations. Insurers with only domestic operations will not be affected.</td>
</tr>
<tr>
<td>Current-year inclusion of global intangible low-taxed income (GILTI)</td>
<td>$112.4</td>
<td>0.5%</td>
<td>The tax applies to global insurance income, net of income from “tangible” sources</td>
</tr>
<tr>
<td>Base erosion and anti-abuse tax (BEAT)</td>
<td>$149.6</td>
<td>0.7%</td>
<td>This new provision will affect only companies with affiliated offshore operations (might apply to US parents with offshore subsidiaries).</td>
</tr>
</tbody>
</table>

*Projected cumulative profits for 2018-2027 = $22,273.6 billion. Projection = average profits for 2007-2016, growing by assumed nominal GDP growth of 5% per year. Source of amount of forecast tax changes: Joint Committee on Taxation, JCX-67-17, published December 18, 2017.*
## Tax Reform’s Effects: Property/Casualty Insurers

Green numbers indicate tax reductions for taxpayers; Red numbers indicate tax increases.

<table>
<thead>
<tr>
<th>Affecting P/C Insurers</th>
<th>2018-2027 ($ Billions)</th>
<th>As a % of a Decade of Profits*</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Modification of discounting rules for loss reserves</td>
<td>$13.2</td>
<td>2.2%</td>
<td>This provision likely increases taxable income by adopting a discount rate for loss reserves that is expected to be higher than rates used previously. Also significantly lengthens the discount period for loss reserves for long-tailed lines (from 10 to 24 years).</td>
</tr>
<tr>
<td>Modification of proration rules</td>
<td>$2.1</td>
<td>0.4%</td>
<td>This will reduce deductions for some tax-exempt income and some dividends-received income, thereby increasing taxable income. Could affect investment allocation decisions.</td>
</tr>
</tbody>
</table>

## Tax Reform’s Effects: Life Insurers

Green numbers indicate tax reductions for taxpayers; Red numbers indicate tax increases.

<table>
<thead>
<tr>
<th>Affecting Life Insurers</th>
<th>2018-2027 ($ Billions)</th>
<th>As a % of a Decade of Profits*</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computation of life insurance reserves</td>
<td>$15.2</td>
<td>4.5%</td>
<td>Calculation simplified; expected to affect reserves for term and universal life to a greater extent than whole life or annuities.</td>
</tr>
<tr>
<td>Capitalization of certain policy acquisition expenses</td>
<td>$7.2</td>
<td>2.1%</td>
<td>This increases both the capitalization of acquisition expenses and requires amortizing them over a longer period. This reduces deductions and raises taxable income.</td>
</tr>
<tr>
<td>Changes in a company's basis for computing reserves</td>
<td>$1.2</td>
<td>0.4%</td>
<td>Shortens the period of amortization of effect of change in method of calculating reserves.</td>
</tr>
<tr>
<td>Modification of proration rules affecting investment income that is channeled to policyholders</td>
<td>$0.6</td>
<td>0.2%</td>
<td>Simplifies calculation of the Dividends-Received and tax-exempt-interest deduction. Might affect investment allocation decisions.</td>
</tr>
</tbody>
</table>

*Projected cumulative profits for 2018-2027 = $337.1 billion. Projection = average profits for 2007-2016, growing by assumed nominal GDP growth of 5% per year.  
Source of amount of forecast tax changes: Joint Committee on Taxation, JCX-67-17, published December 18, 2017.
Quarterly industry snapshot

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