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Quarterly P/C industry snapshot: Third quarter 2018

Information and analysis provided by the
Insurance Information Institute

2018-2020 overview: The insurance industry and the economy

P/C insurance markets

- 2018 combined ratios for catastrophe-affected lines of business will likely improve (due to reversion to the mean). Personal auto and commercial auto likely will be closer to 100.
- There is no sign of a hard market in 2018, but premium in both personal and commercial lines will likely continue to rise.

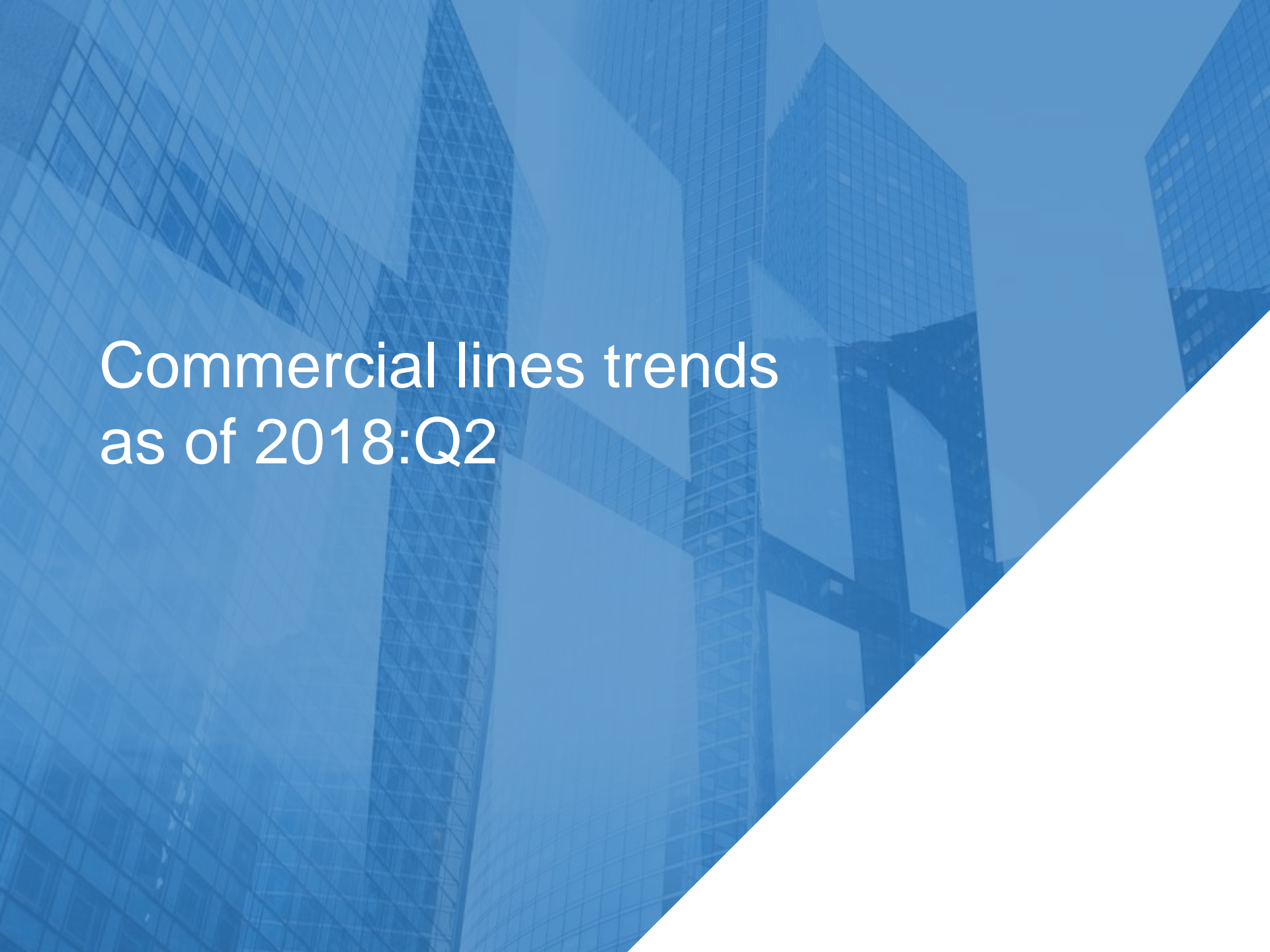
Financial markets

- In the U.S., short-term interest rates are finally rising, and this is expected to continue. Long-term rates are finally rising, too.
- Although bond yields anticipate inflation continuing to be near 2% for five or more years, more direct measures see prices rising closer to 3%, with wages and prices in some sectors rising faster.

The U.S. economy

- Real GDP growth has shown unexpected strength in recent calendar quarters. Both personal consumption (+4.9%) and business nonresidential fixed investment (7.1%) are rising, heralding a growing exposure base.
- This is the second longest expansion since WWII, and many forecasters say it will become the longest when it persists into July 2019. There are virtually no signs of another recession.

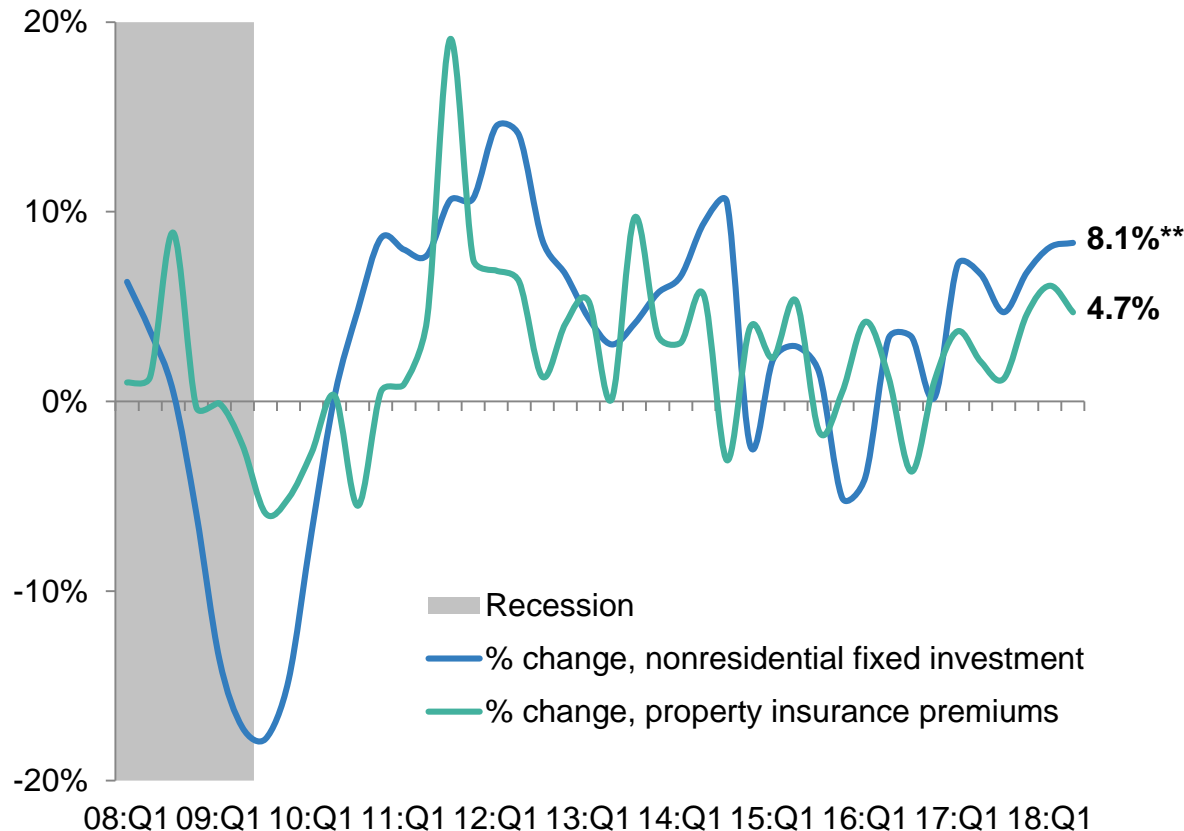




Commercial lines trends as of 2018:Q2

Property premiums* grow as investment does

% change from same quarter, prior year



- ▼ Investment in structures, equipment and software is expected to grow at least partly due to provisions in the Tax Cuts and Jobs Act.
- ▼ Premiums for commercial property insurance should grow nicely due to an expanding exposure base.

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

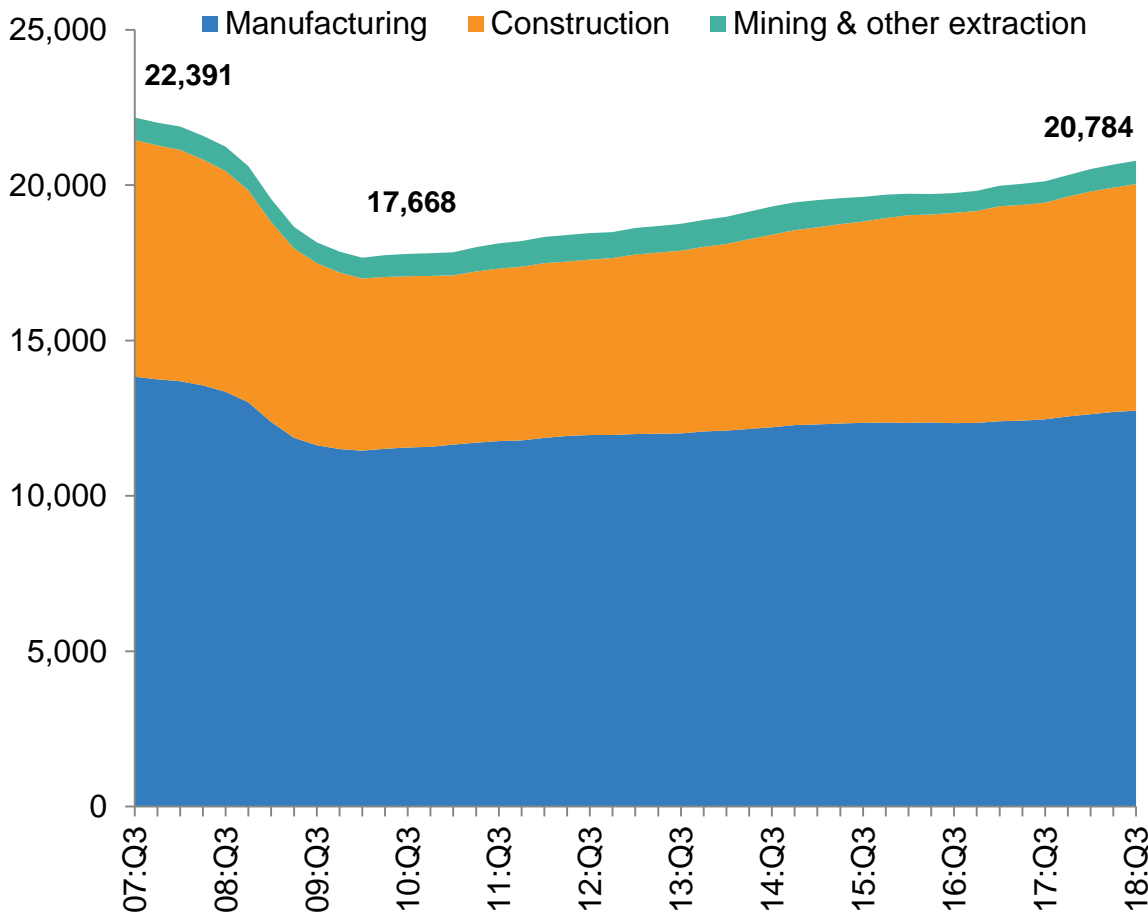
Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

Sources: <https://fred.stlouisfed.org/series/PNFI#0>; National Bureau of Economic Research (recession dates); Insurance Information Institute.



As hiring goes, exposures follow

(000) at quarter-end

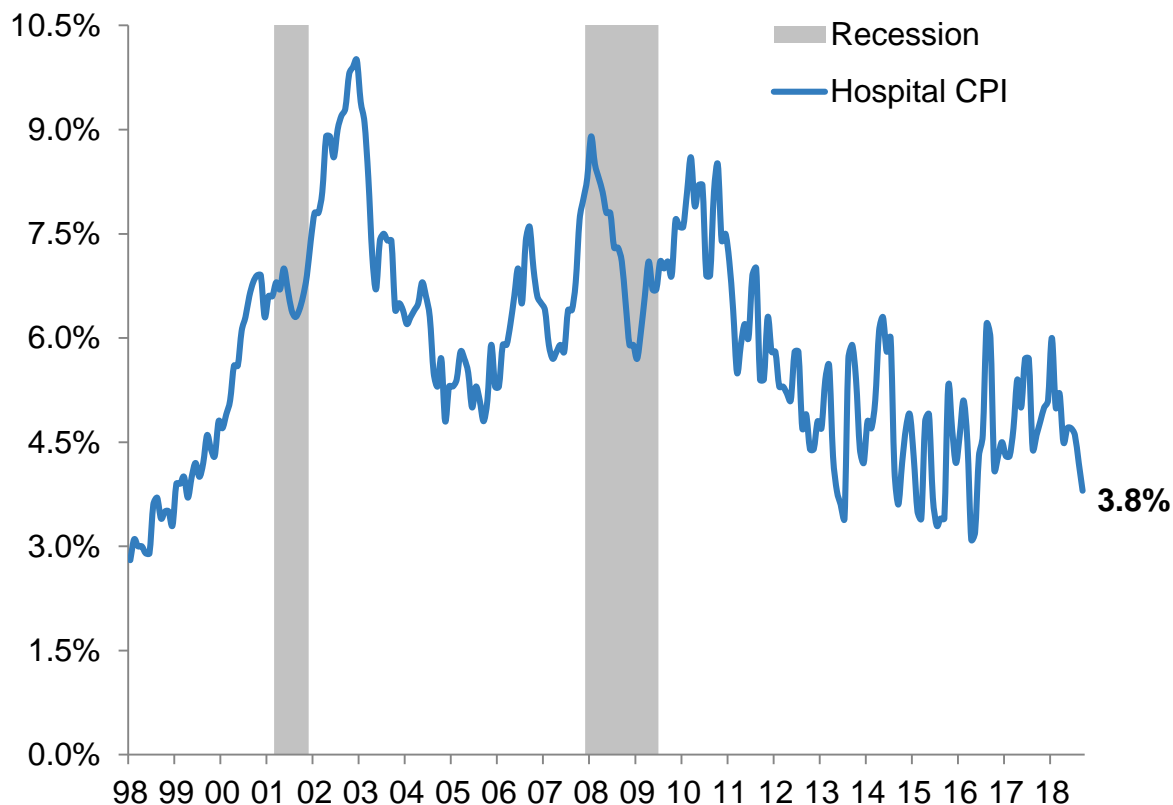


- ▼ Of these industries, construction is enjoying the fastest growth. This is expected to continue for at least the short-term.
- ▼ At the end of 2018:Q3, employment in these three industries that are the heart of workers composition exposure, at 20.8 million, was not quite back to the level reached before the Great Recession.



Hospital costs forecast injury costs

Price change




- ▼ For the past five years, prices for hospital services grew more moderately than before, lately at rates ranging between 3% and 6%.
- ▼ Even with these more modest increases, prices for hospital care rose on average several percentage points faster than inflation generally.



*Percentage change from same month in prior year through September 2018; seasonally adjusted.

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

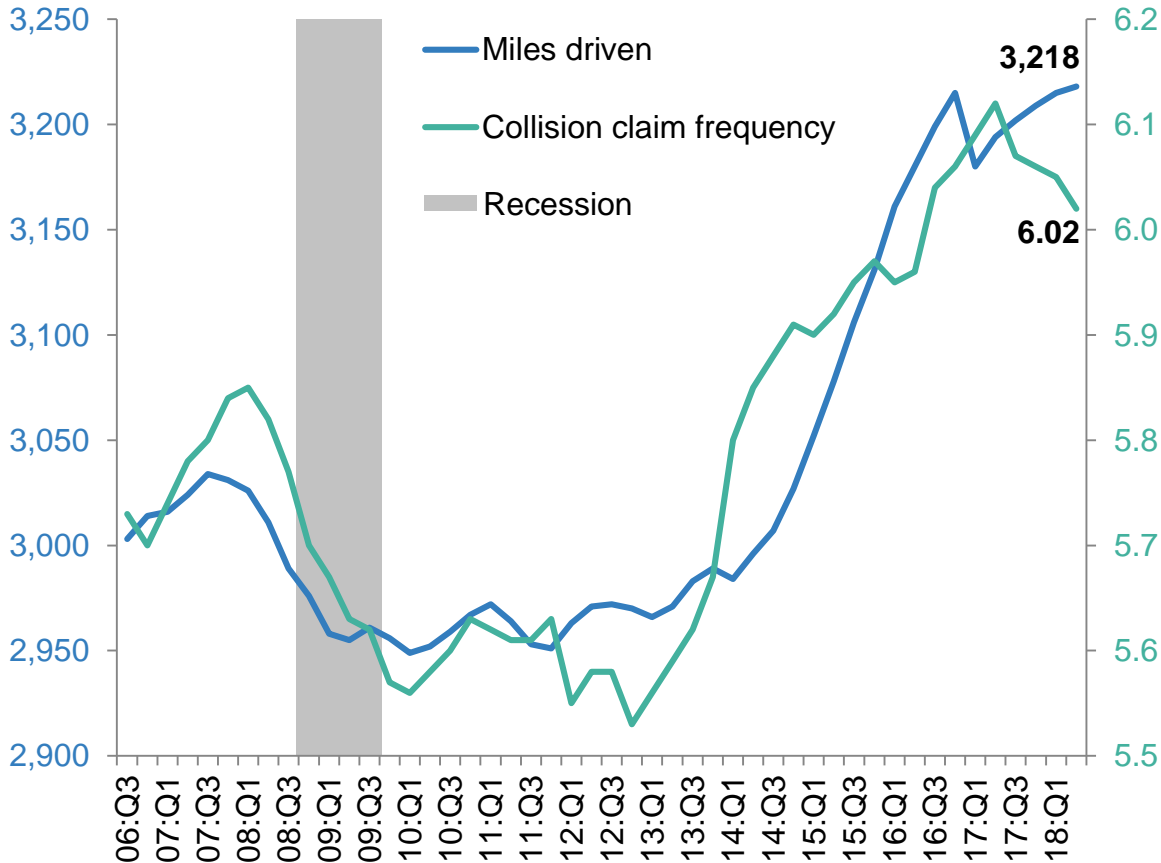


Personal lines trends
as of 2018:Q2

Driving patterns predict claim frequency

Billions of miles driven in prior year

Overall collision claims per 100 insured vehicles



- ▼ The sharp rise in collision frequency in 2014-2016 appears to have peaked in the last year. However, claim severity will likely continue to rise as 2018 will see another 17 million new cars on the road.
- ▼ The only force that could derail the relationship between miles driven and frequency would be a sharp and persistent rise in the cost of gasoline.

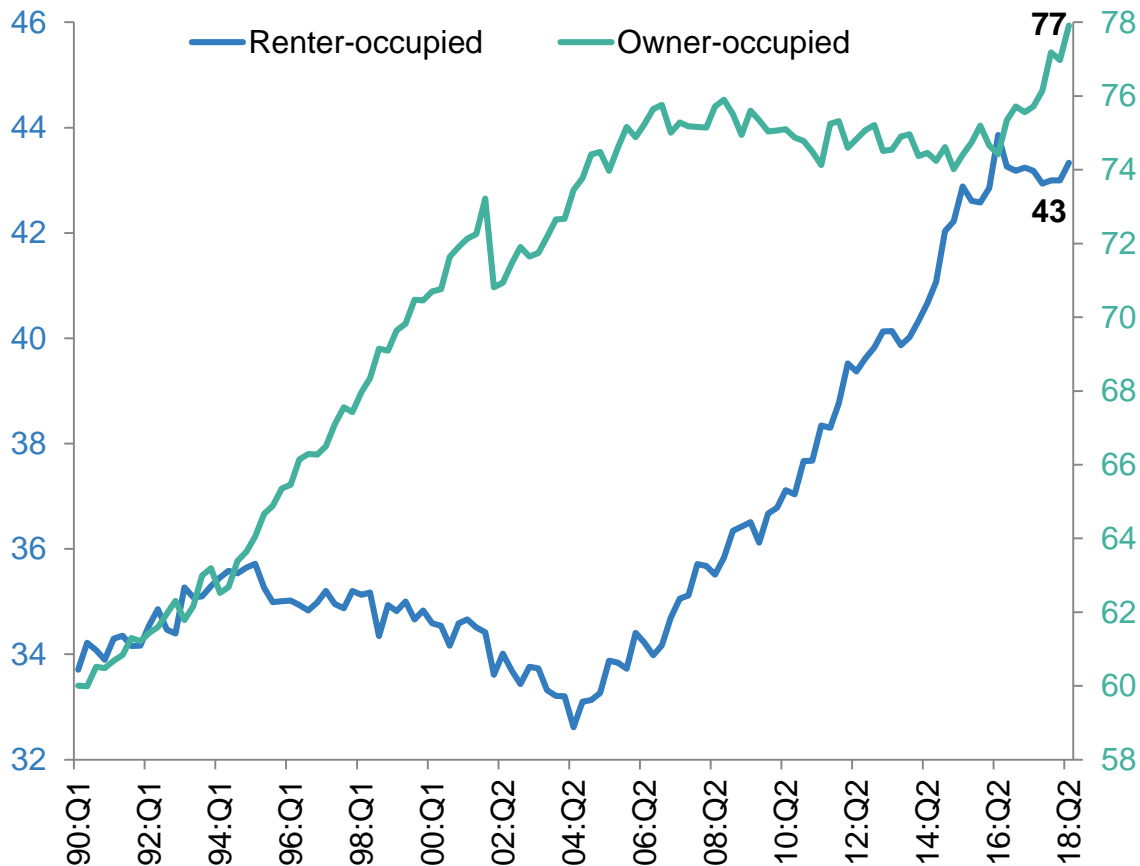


Sources: [Federal Highway Administration](#); Rolling four-quarter average frequency from Fast Track Monitoring System; Insurance Institute for Highway Safety; Insurance Information Institute.

To rent or to buy?


Millions of renter-occupied housing units

Millions of owner-occupied housing units



▼ From 2004 to 2016:Q4, the number of renter-occupied housing units grew by about 10.5 million units (+34%), but there was no growth in the number of owner-occupied housing units for 12 years. This streak appears to have ended in 2016:Q4. This is good news for homeowners insurance premium growth.





Economic and financial trends as of 2018:Q2

P/C industry net income after taxes*

Billions, 2018 dollars



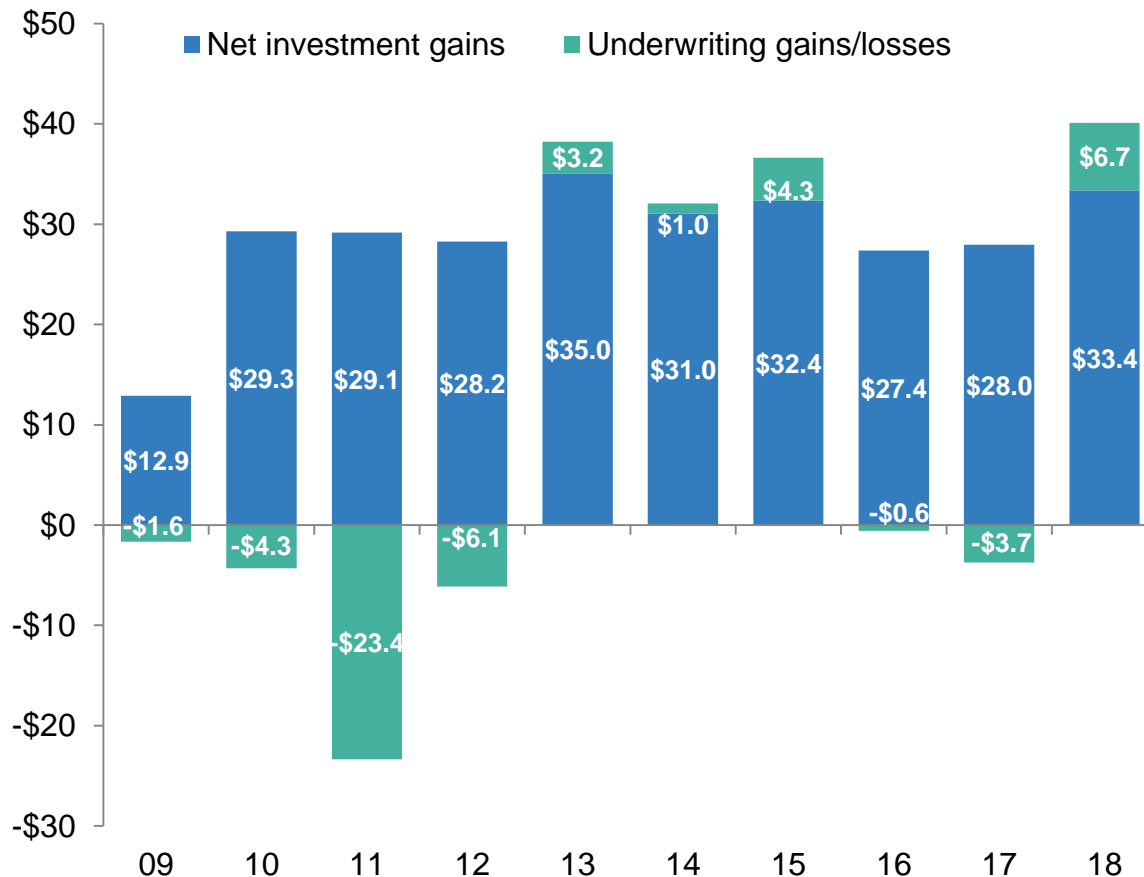
- ▶ In the second quarter of the year, net income varied over the last decade. 2018 had the highest profit in the last 11 years.
- ▶ Why did profits spike in 2018? Favorable conditions: Earned premiums grew by more than 9%, but claims grew by only 3%.



*Through second quarter. Adjusted for inflation using the BLS CPI calculator to 2018 dollars.
Sources: NAIC data, sourced from S&P Global Market Intelligence; Insurance Information Institute.

Key sources of P/C insurer profits

Billions



- ▼ In the second quarter of 2018, underwriting gains were stronger than any recent prior year.
- ▼ In the second quarter of 2018, investment gains were comparable to or better than most recent first quarters.

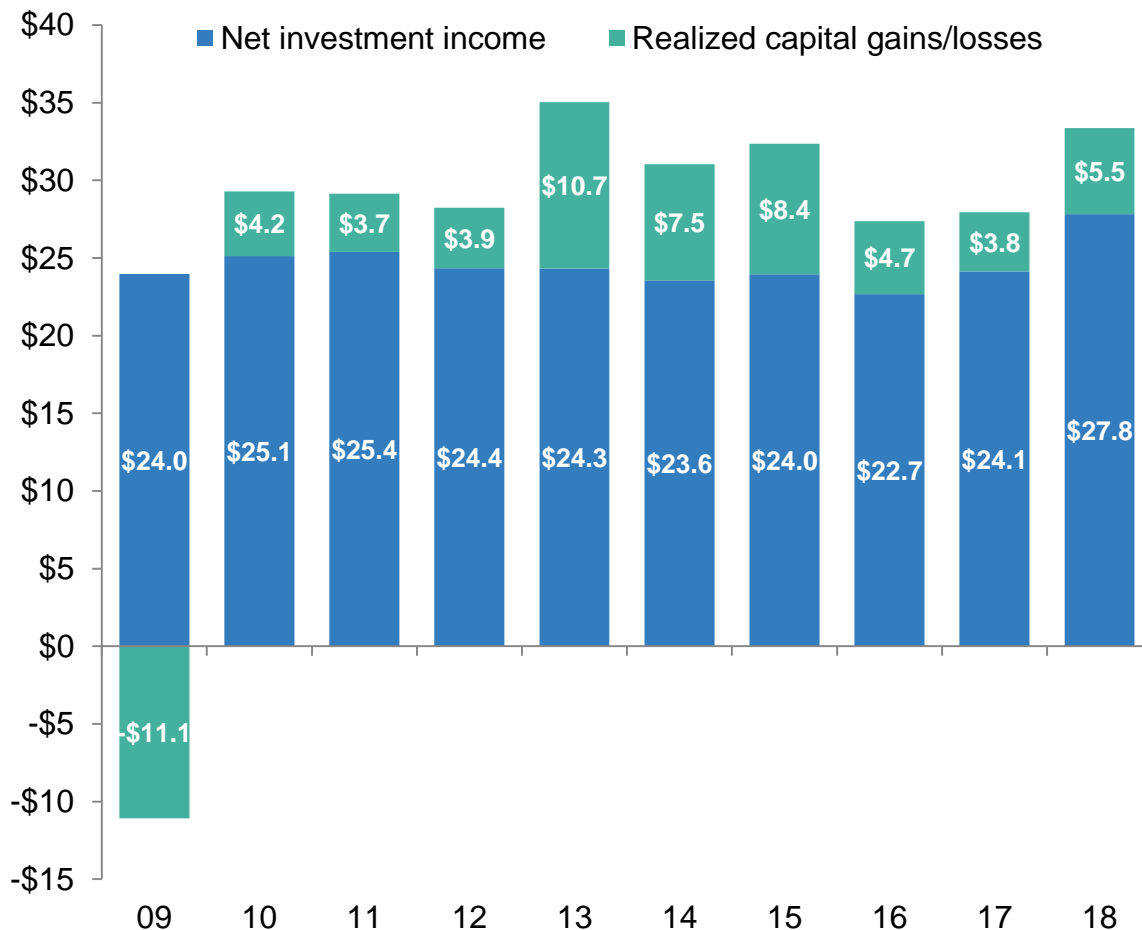


Through second quarter. Data are before taxes and exclude extraordinary items.

Sources: NAIC data, sourced from S&P Global Market Intelligence; Insurance Information Institute.

Sources of investment gains

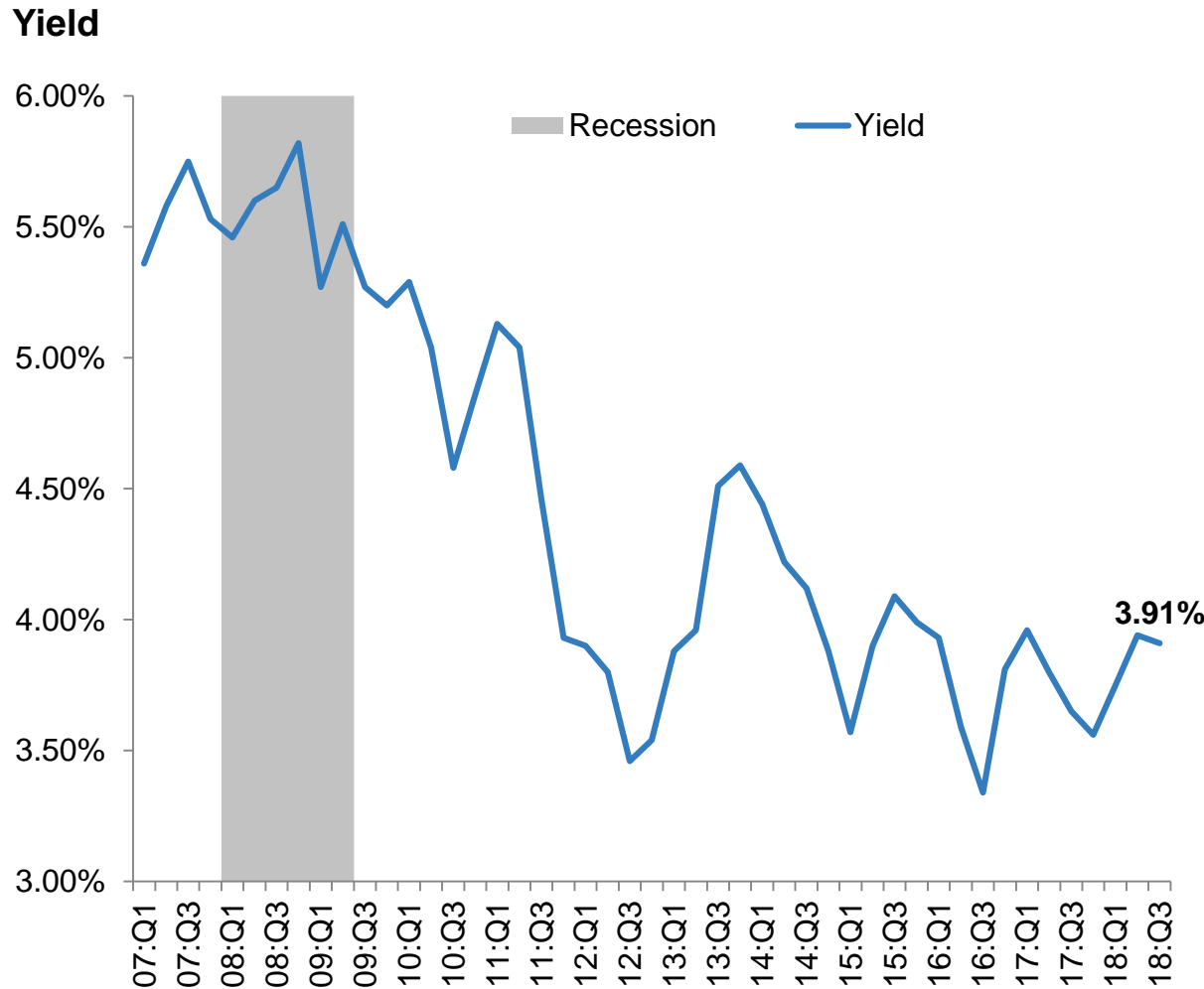
Billions



- ▶ 2018:Q2 had the sixth-highest realized capital gains in the last 10 years.
- ▶ Net investment income in the second calendar quarter of each year has been steady, but realized capital gains/losses have been quite variable.



Bond yields



▼ **Top investment-grade bond yields have ranged from 3.5% to 4.5% for the last three years. These yields probably will not rise much above 5.0% through 2018.**

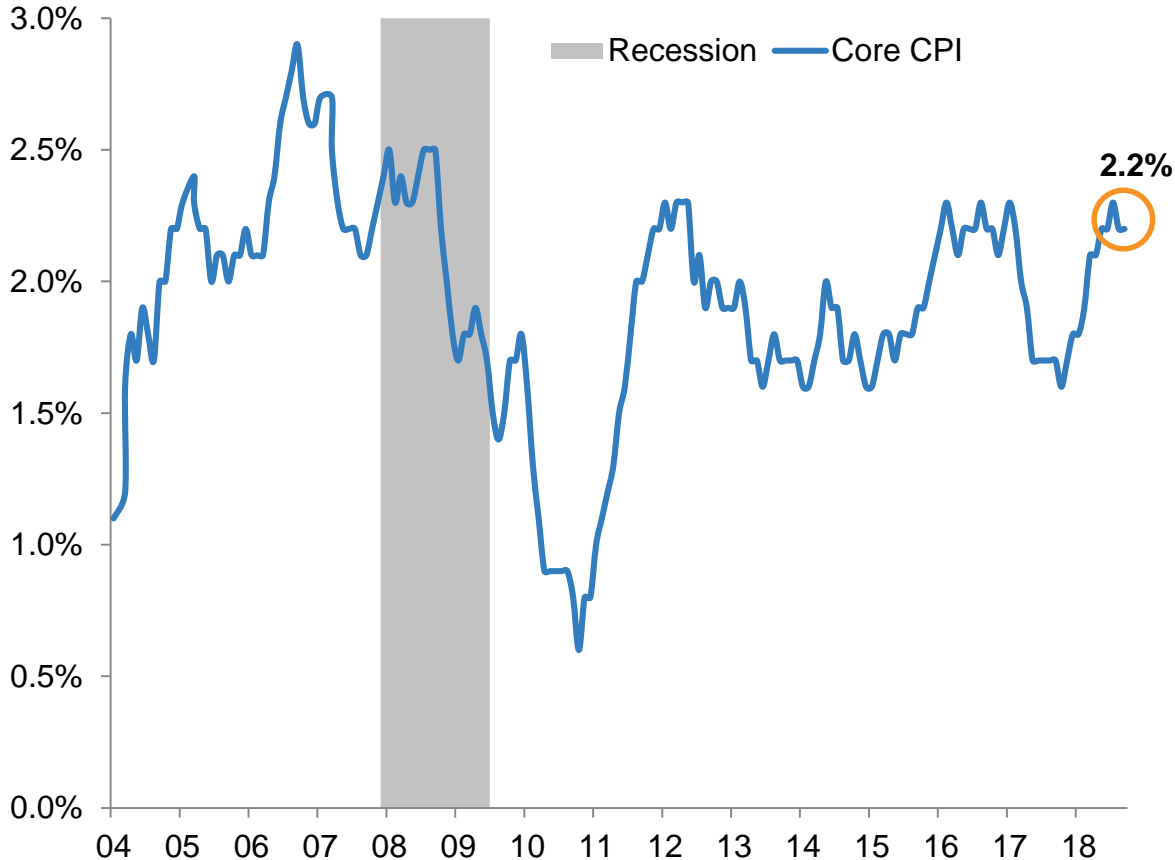
Note: Recession indicated by gray shaded column.

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

Percent change



- ▼ Over the last decade, prices tracked by the core CPI have generally risen about 2% per year.
- ▼ Lately, however, the core CPI has been rising past the 2% mark. With the economy near full employment, higher core CPI rates seem likely in the near future.



*Monthly, year-over-year, through September 2018, seasonally adjusted. **CPI less food and energy.

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



Snapshot special topic

The outlook for small businesses is bright

Small business optimism index

Index
1986=100



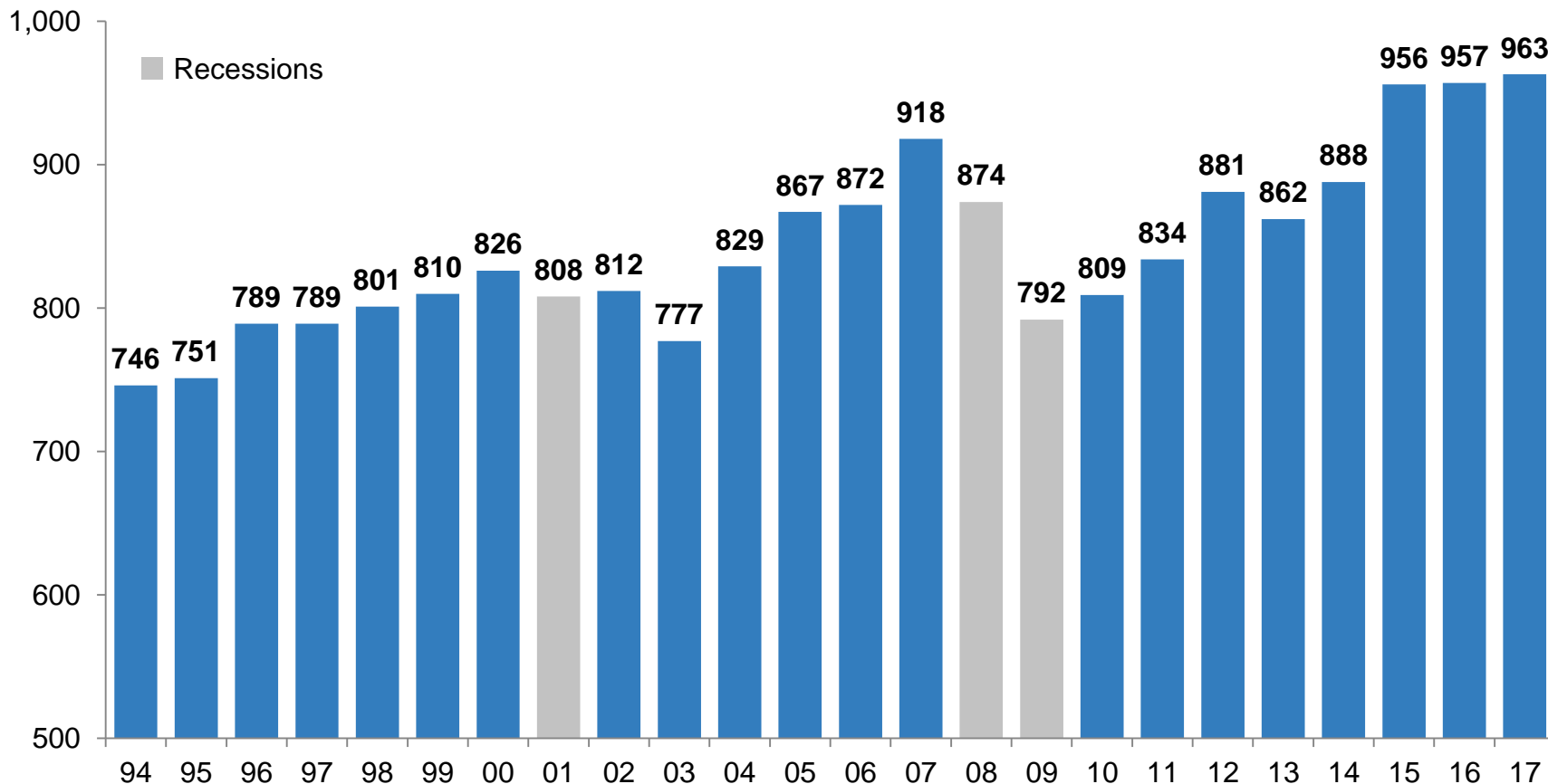
▼ Index is near an all-time high



Data are seasonally adjusted.
Source: NFIB Small Business Economic Trends, September 2018, p. 4; Insurance Information Institute.

Private sector business starts, 1994–2017

Thousands



Data for 2007–2017 posted July 25, 2018, the latest available. Seasonally adjusted.

Sources: Bureau of Labor Statistics, <http://www.bls.gov/news.release/cewbd.t08.htm>. NBER (recession dates).

Small business: Single most important problem, Sept 2018

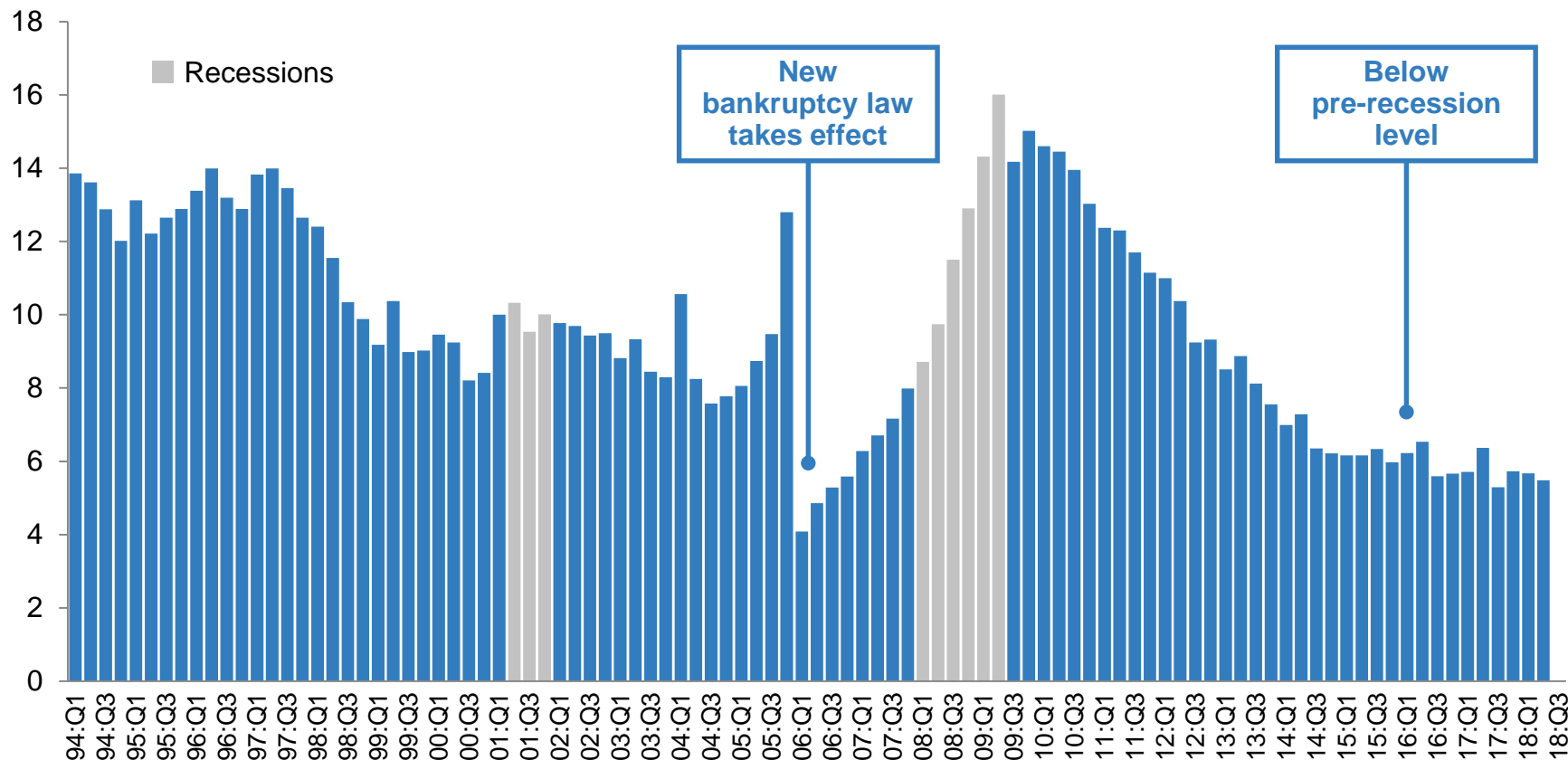
Percent citing problem				
Problem	Current %	% 1 year ago	Highest %	Lowest %
Taxes	17	21	32	8
Inflation	3	2	41	0
Poor sales	5	11	34	2
Financing & interest rates	3	1	37	1
Cost of labor	8	5	9	2
Govt. regulations & “red tape”	14	16	27	4
Competition from large businesses	10	9	14	4
Quality of labor	22	19	25	3
Cost/availability of insurance	10	7	29 2004–06 hard market	4
Other	8	9	31	1



Source: NFIB Small Business Economic Trends, September 2018, p. 18; Insurance Information Institute.

Business bankruptcy filings (1994:Q1–2018:Q2)

Thousands

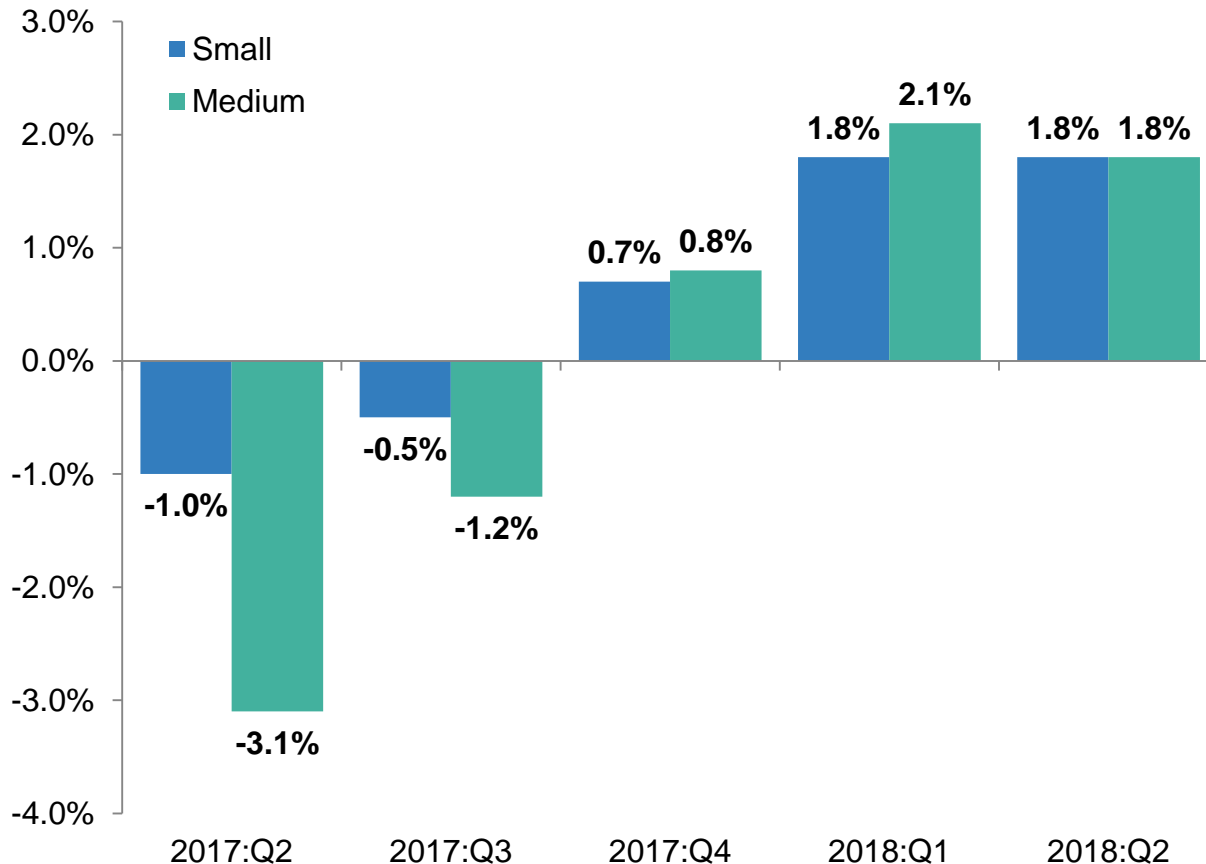


Business bankruptcies in 2014 were below both the Great Recession levels and the 2003:Q3–2005:Q1 period (the best five-quarter stretch in the last 20 years). Bankruptcies restrict exposure growth in all commercial lines.



Sources: U.S. Courts at http://www.uscourts.gov/sites/default/files/statistics_import_dir/0914_f2q.pdf Table F-2; Insurance Information Institute.

Rate change by account size, 2017:Q2–2018:Q2



Small- and medium-sized businesses have experienced modest rate increases lately, following reductions a year ago.



Summary

Outlook for the small business market

▲ **Business owners are optimistic about the present and the near future.**

- ◆ New business starts are at record highs.
- ◆ Bankruptcy filings are unusually low.
- ◆ Taxes and government regulations are the two single largest problems.
- ◆ Cost and quality of labor make it hard to fill job openings.

▲ **Only 10 percent cite the cost and availability of insurance as the single most important problem.**

- ◆ This is slightly above last year and not far above the all-time low.

▲ **Commercial insurance rates are rising modestly.**



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