Quarterly P/C Industry Snapshot

Published April 12, 2019

Information and analysis provided by the Insurance Information Institute

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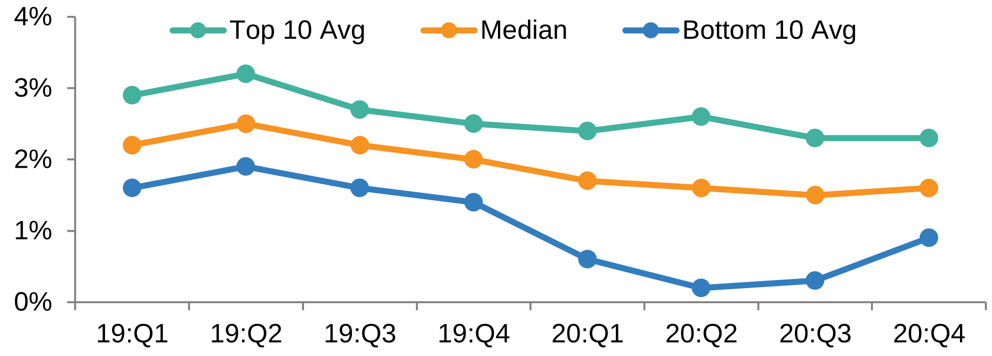
Key Insurance Economic Indicators

The U.S. economy pertinent to the P/C insurance industry

Virtually all of the 53 forecasts underlying this chart see a **coming slowdown** in the economy in the second half of 2019 and throughout 2020.

Premium growth usually follows nominal GDP.

Real GDP Forecasts, Annual Rates



Source: Blue Chip

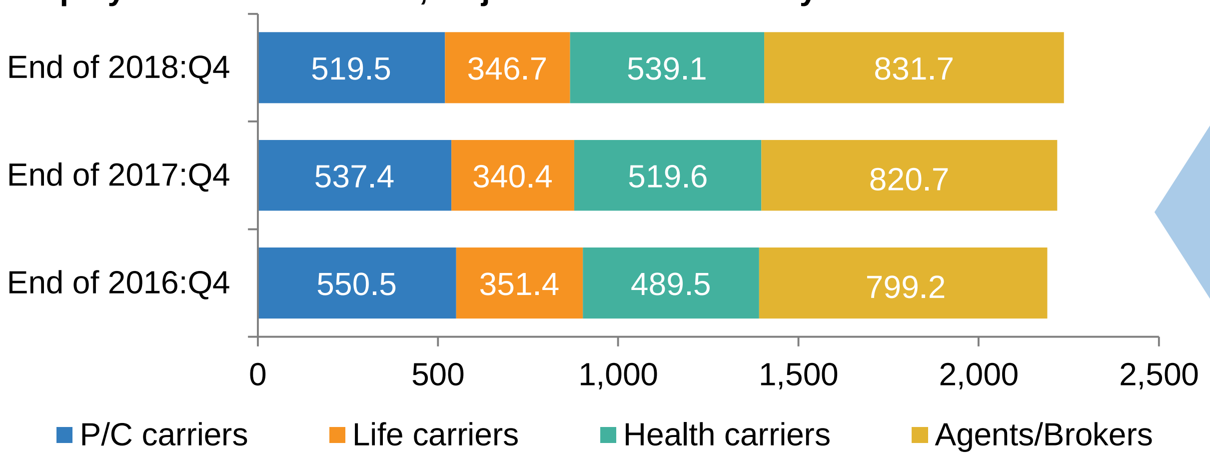
Economic Indicator	Indicator Value (2017:Q4)	Indicator Value (2018:Q4)	Analysis
% change in real GDP (vs. prior quarter)	2.3%	2.2%	As immediate tax cut benefits wear off, recession looming?
Housing Unit Starts (millions of units)	1.26	1.18	Weak due to higher mortgage rates; should pick up in coming years as millennials buy 1st homes
Employment Increase (thousands)	654	700	More workers = more policyholders
Nonresidential Fixed Investment, growth rate	7.2%	8.4%	Businesses are still investing, but lately much of this is driven by oil & gas drilling
Hospital Services Price Increases	3.5%	2.0%	Lowest level in last 20 years
Interest Rates (10-Year US Treasury)	2.8%	2.4%	Falling rates may imply an approaching recession

P/C insurance industry

Insurance Industry Indicator	2017	2018*	Analysis
Industry Operating Ratio	94.8	89.8	Lower is better. Improvement largely due to more favorable underwriting results, since investment income is fairly steady
Natural Catastrophe Losses ($ billions)	$102	$50	**Insured losses were over $30 billion in 4 of the 8 years in this decade so far.** Losses in the better years ranged $13 bn to $22 bn
Homeowners Premiums (% change)	2.0%	4.8%	Higher growth driven by exposure growth and expected catastrophe claims
PP Auto Premiums (% change)	7.5%	6.4%	Both frequency and severity growth spiked leading into 2017; frequency now easing off
Commercial Premiums (% change)	3.4%	4.2%	Commercial premiums are expected to weaken as the economy slows
Industry After-Tax Profits ($ billions)	$40.6	$61.1	$20.8 bn u/w loss in 2017 outpaced by $2.7 billion u/w profit in 2018

*Estimated

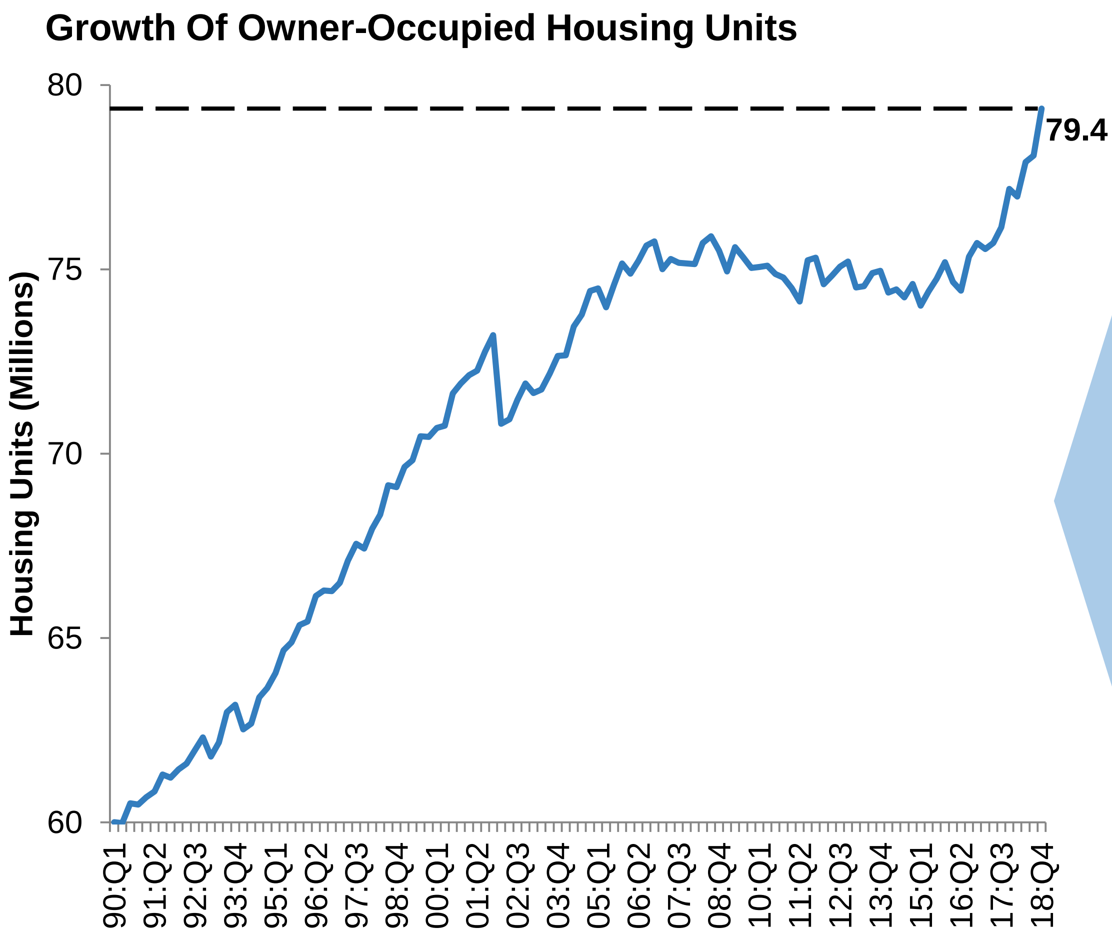
Employment in Thousands, Major Insurance Industry Sectors



P/C carrier employment is falling, life employment is flat, growing slowly, health employment growing strongly, **agent employment is up steadily.**

A Deeper Dive

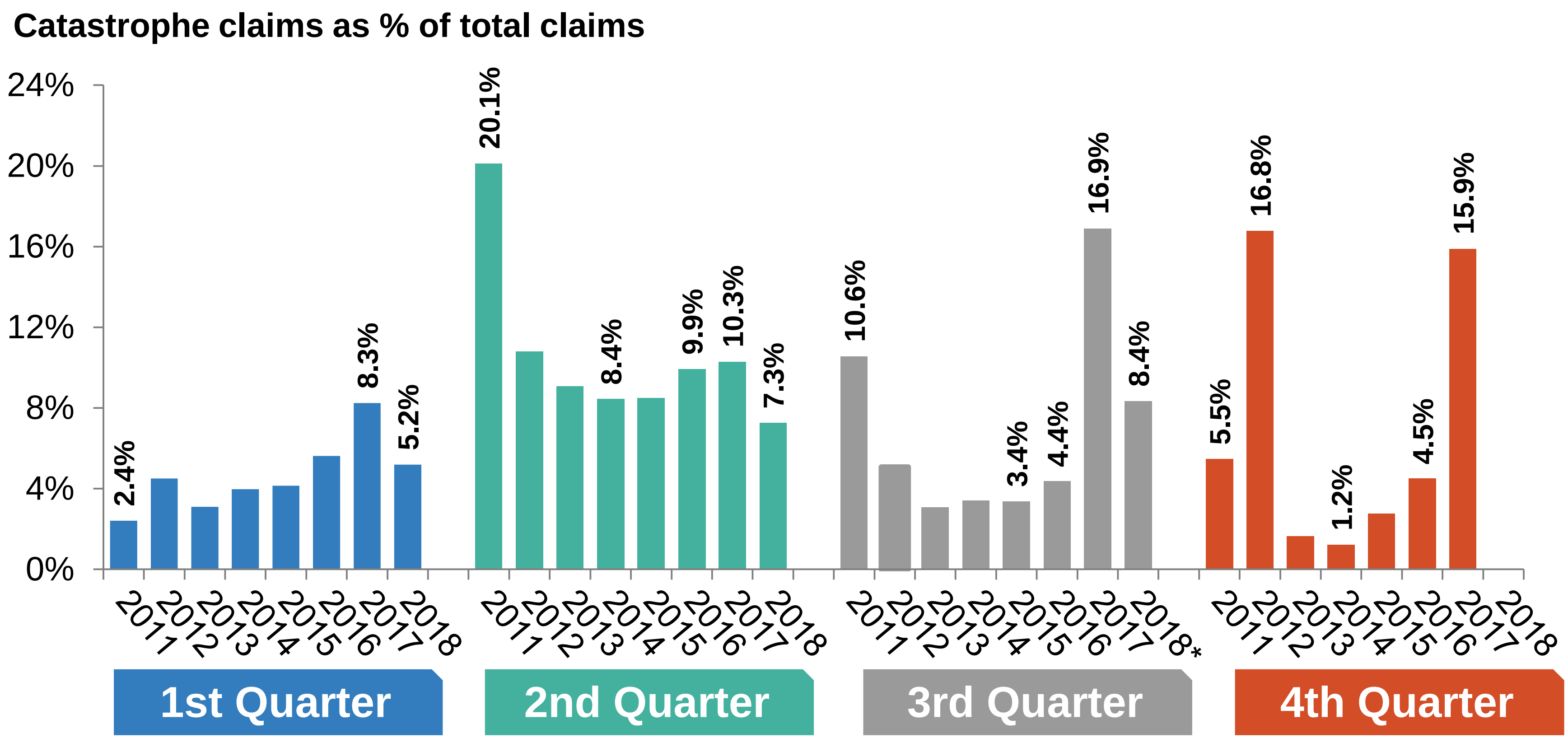
The HO exposure base is rising again



- From 1990 to 2004, the number of owner-occupied housing units grew by ~15 million units.
- From 2005-2016, there was no growth in the number of owner-occupied housing units. The HO exposure base was flat.
- This streak appears to have ended in 2017. The number of owner-occupied homes is rising again—up over 4 million homes in just two years. **This is good news for homeowners insurance premium growth.**

Sources: U.S. Census Bureau at http://www.census.gov/housing/hvs/data/histtabs.html, Table 8; Insurance Information Institute.

Catastrophe claims, by season

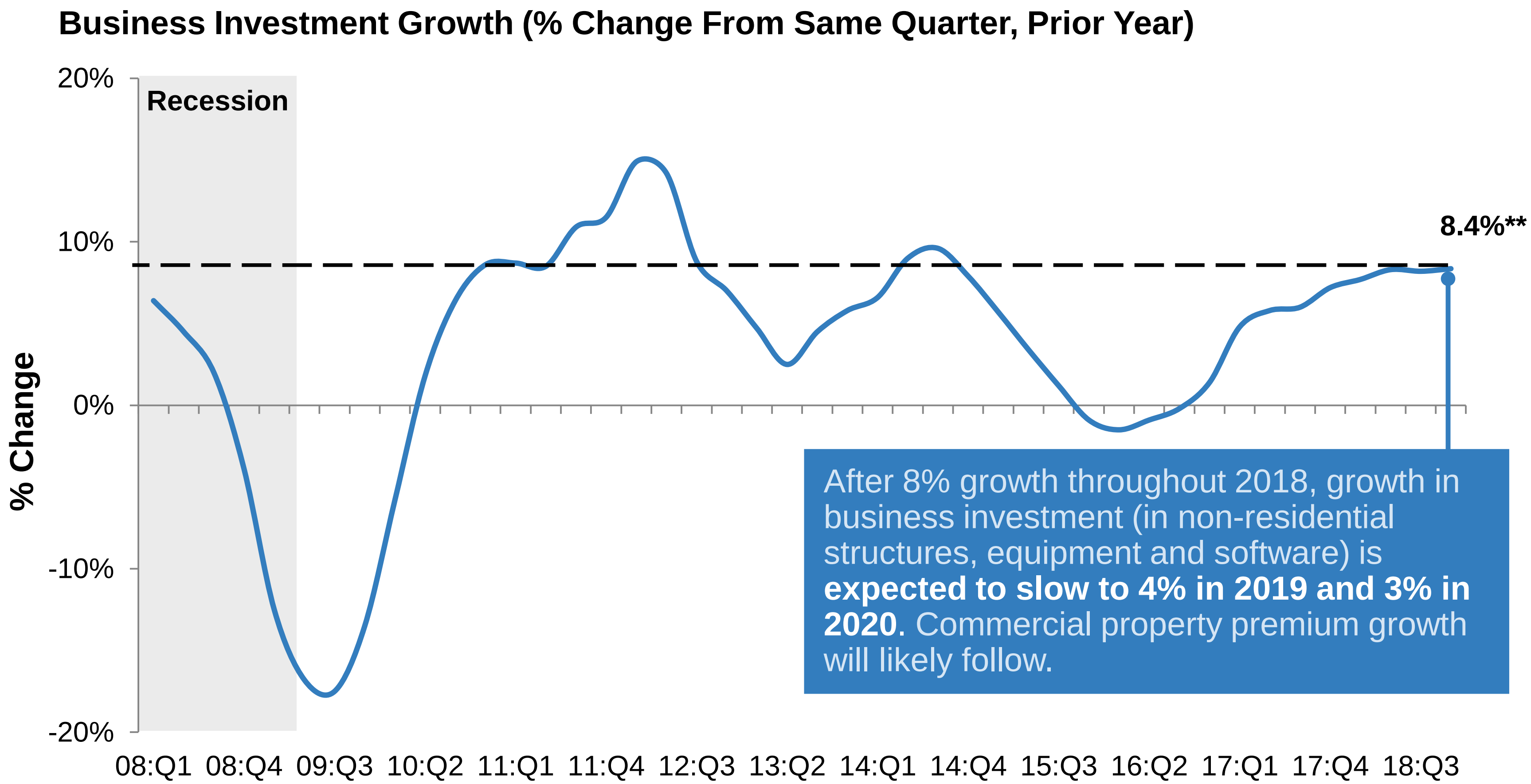


2017 was the worst winter, the second worst spring, the worst summer, and the second-worst fall.

*Preliminary; much of Q4 may be re-estimation of Harvey, Irma, Maria claims. Losses are net of reinsurance but include Loss Adjustment Expenses.

Sources: ISO PCS; Insurance Information Institute calculations.

Commercial property premiums* grow as private non-residential fixed investment does



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

Data are seasonally adjusted annual rates.

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

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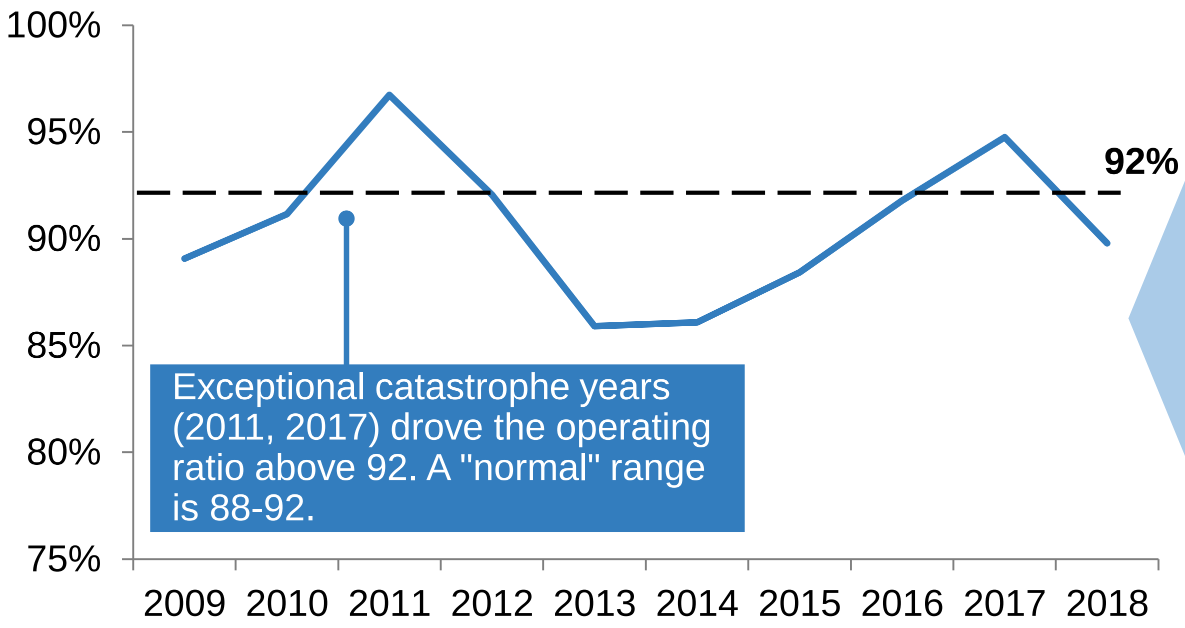
P/C industry operating ratio, 2009-2018



- Operating ratio = combined ratio (losses plus expenses as a percent of earned premiums) minus net investment income as a percent of earned premiums.
- Operating ratio includes all insurance and investment operations except taxes and capital gains and losses.
- The lower the ratio, the better.

Other P/C Industry Metrics

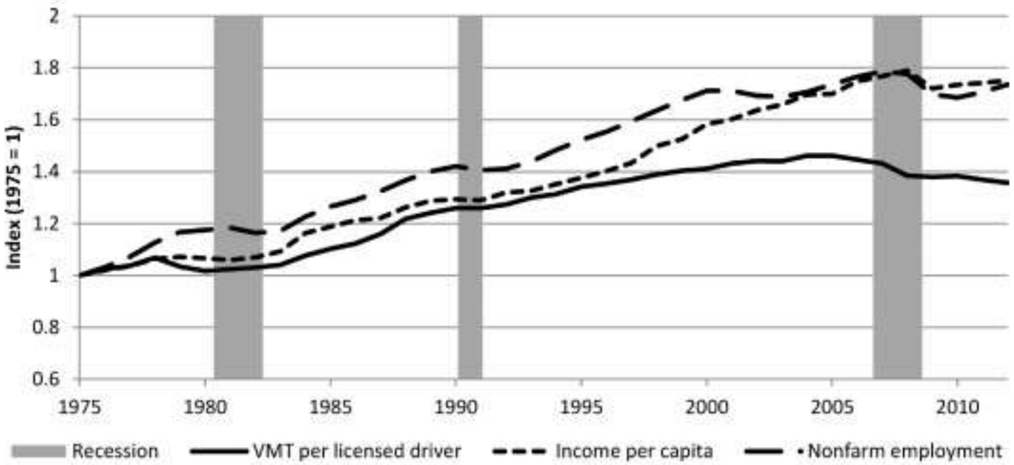
Insurance Industry Indicators	2017	2018	Analysis
Direct Premiums Written	4.75%	4.87%	Generally follows nominal (not inflation-adjusted) GDP growth.
Combined Ratio	103.9	99.3	**Lower is better; the industry profited from insurance operations in 2018.**
Net Yield on Invested Assets	3.03%	3.35%	Interest rates are expected to decline in 2019 and 2020.

Sources: AM Best; S&P Global: Insurance Information Institute.

Special Topic:
Predicting Vehicle Travel

What drives VMT [vehicle miles traveled]?

Figure 1: VMT, Income, and Employment Trends



Source: Data are from EIA (2014).
Notes: Vehicle miles traveled (VMT) includes light-duty vehicles. All data series are normalized to one in 1975. Shaded areas indicate National Bureau of Economic Research recession periods.

"Changes in demographics and economic characteristics, rather than changes in household driving habits, largely explain changes in VMT [vehicle miles traveled] between 1995 and 2015."

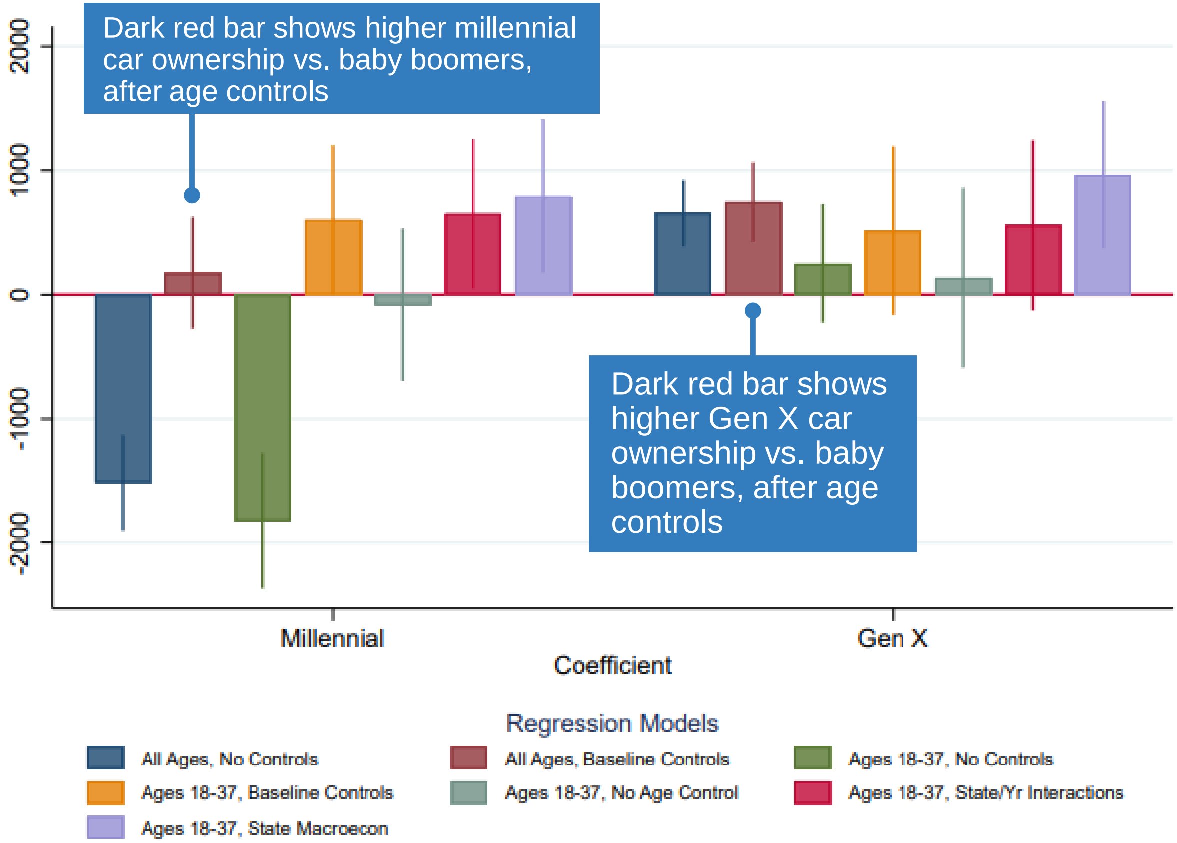
- "The increase in the number of workers per household after 2010 explains the increase in VMT per household in the 2010s."
- This suggests that, over the next decade:
  - "Future VMT will reflect the offsetting contributions of rising income, which increases VMT, and the aging population, which reduces VMT."
  - "We predict **average annual VMT growth of about 0.9 percent** between 2015 and 2025."

Source: Benjamin Leard, Joshua Linn, and Clayton Munnings, "Explaining the Evolution of Passenger Vehicle Miles Traveled in the United States," *The Energy Journal*, Vol. 40, No. 1, pp. 25-54.

What about Millennials? Aren't they shunning car ownership and travel?

Not when apples-to-apples comparisons are made.

Figure 3: NHTS VMT regression coefficients by generation



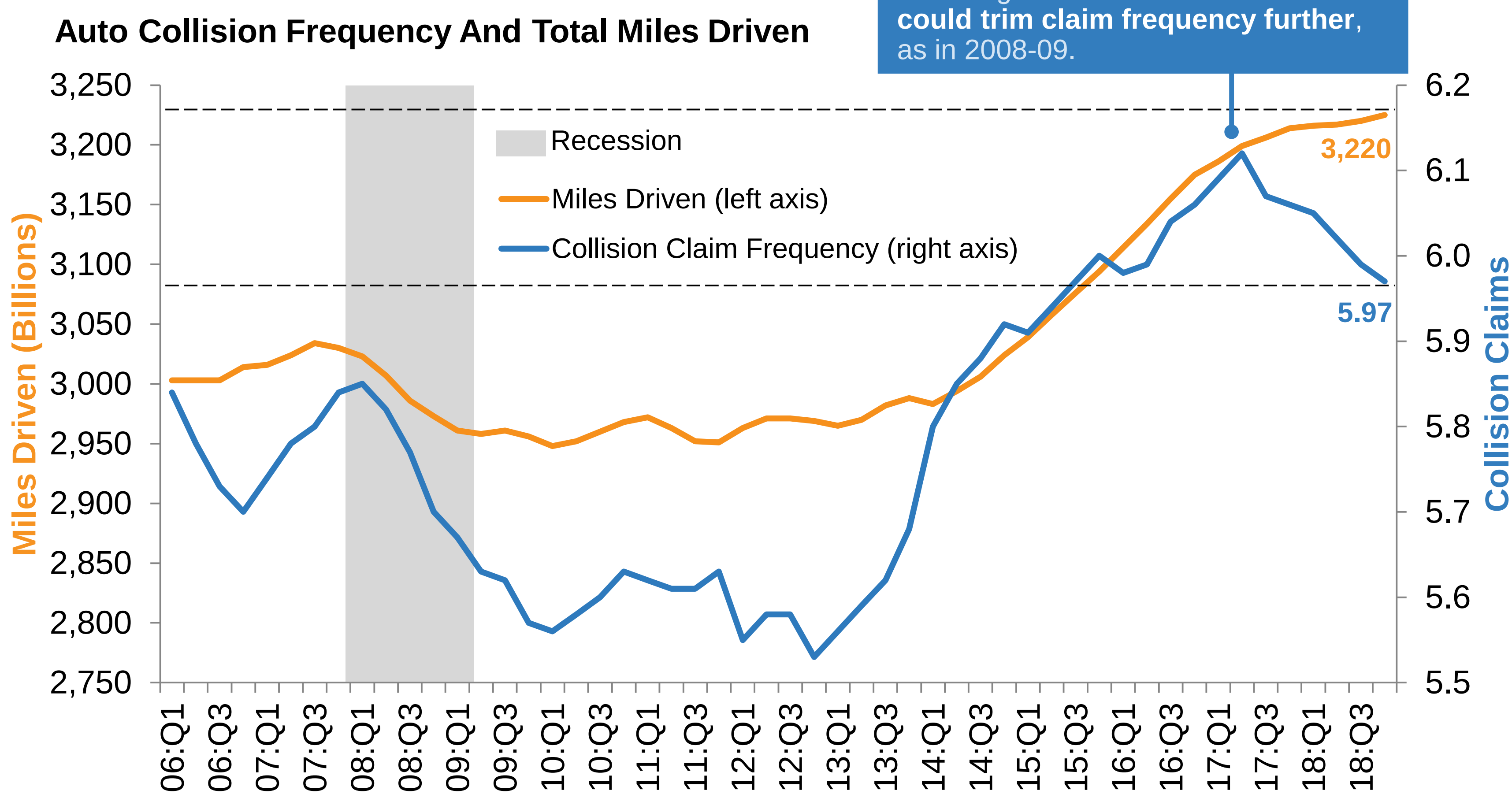
"When millennials and baby boomers with similar demographics are compared to each, **millennials have higher [car] ownership rates and VMT."**

Source: Christopher Knittel and Elizabeth Murphy, "Generational Trends in Vehicle Ownership and Use: Are Millennials Any Different?", NBER Working Paper No. 25674, March 2019.

Usually, more driving means higher auto claim frequency, but lately…

The recent sharp rise in private passenger auto **collision frequency appears to have reversed in 2017.**

The rate of increase in miles driven is flattening. A broad economic slowdown **could trim claim frequency further**, as in 2008-09.



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