



Adapting to an Ever-Changing and Risky World of Tort Liability

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Robert P. Hartwig, Ph.D., CPCU, President & Economist

Insurance Information Institute ♦ 110 William Street ♦ New York, NY 10038

Tel: 212.346.5520 ♦ Cell: 917.453.1885 ♦ bobh@iii.org ♦ www.iii.org

How Big Are Liability Insurance Markets in Major Economies?

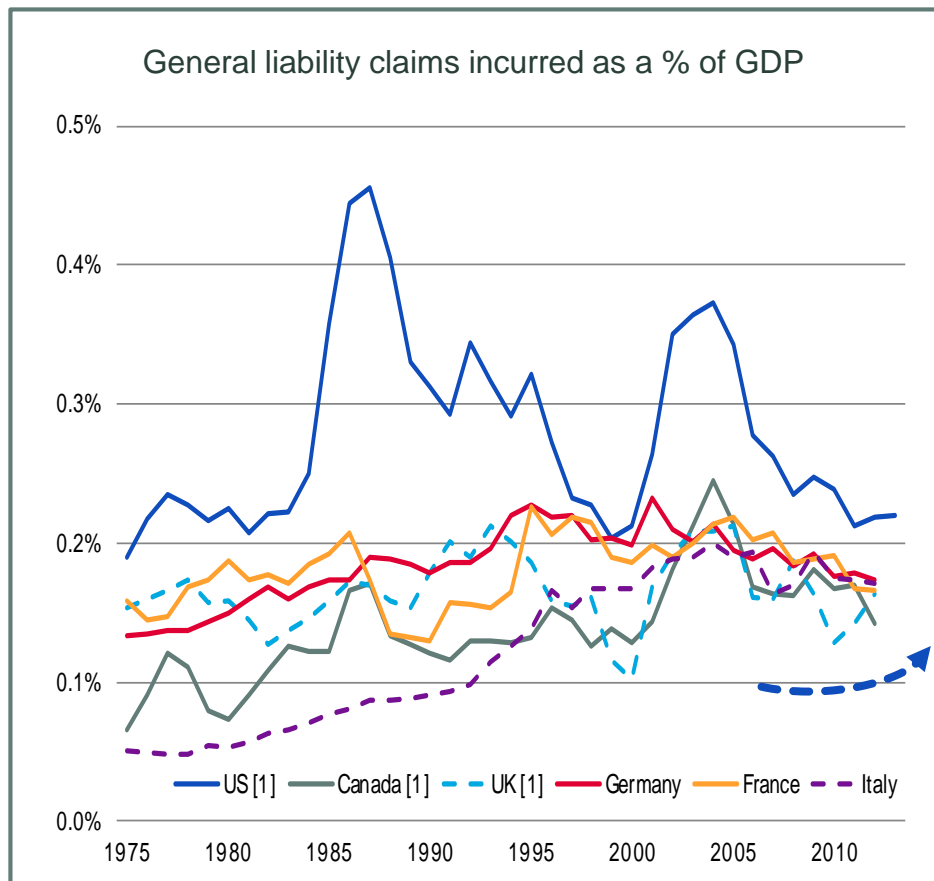
Rank		Premiums & GDP (USD billions)			Percentage Shares	
		Liability	Total Non-Life	GDP	Liability/Total Non-Life	Liability/ GDP
1	US	84.0	531.2	16'802	15.8%	0.50%
2	UK	9.9	99.2	2'521	10.0%	0.39%
3	Germany	7.8	90.4	3'713	8.7%	0.21%
4	France	6.8	83.1	2'750	8.2%	0.25%
5	Japan	6.0	81.0	4'964	7.3%	0.12%
6	Canada	5.2	50.5	1'823	10.3%	0.29%
7	Italy	5.0	47.6	2'073	10.6%	0.24%
8	Australia	4.8	32.7	1'506	14.8%	0.32%
9	China	3.5	105.5	9'345	3.3%	0.04%
10	Spain	2.2	31.0	1'361	7.0%	0.16%
Top 10		135	1'150	46'900	11.8%	0.29%
World		160	1'550	61'700	10.3%	0.26%

The US and UK have the highest shares of liability premiums relative to GDP

Liability premiums in China account for a much smaller share of GDP

Liability insurance premiums totaled \$160 billion in 2013, accounting for 0.26% of global GDP. This also equates to 10% of global non-life premiums and 23% of global commercial lines premiums

General Liability Claims Incurred as a Percent of GDP



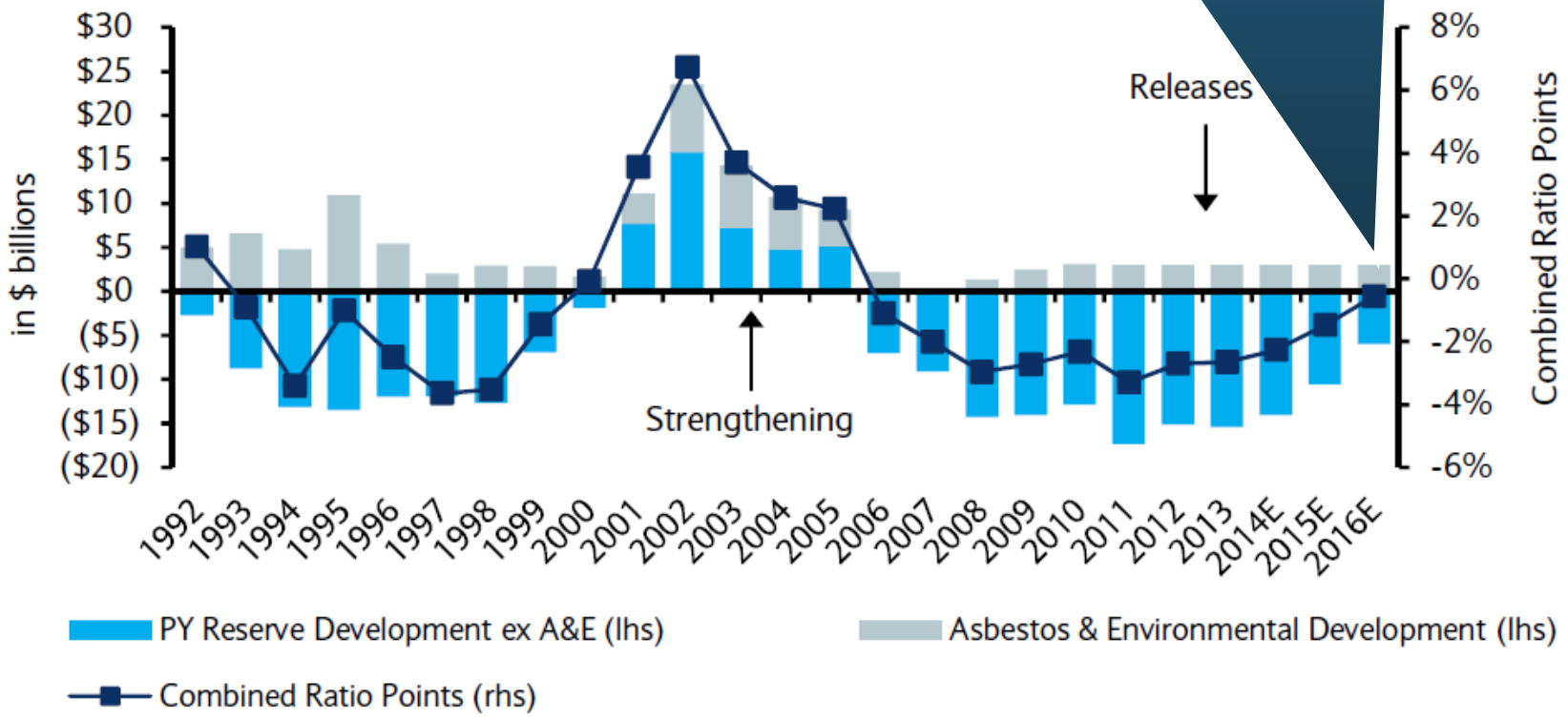
Question as to what will happen when the current period of reserve releases runs its course

- Traditionally, liability claims grow faster than GDP.
- The decline in claims began in 2004 and was revealed by a turn in the reserves cycle. Improved safety reduced the frequency of claims.
- After 2008, underlying claims trends slowed down due to the global recession.
- The question is whether economic drivers of claims costs have begun to accelerate in the US and some other countries.
- If historical trends re-emerge, then claims trends are likely to rise with stronger economic growth and at a pace greater than that of overall GDP

US Non-Life Insurance Loss Reserve Development, 1992 – 2016E*

Reserve Change

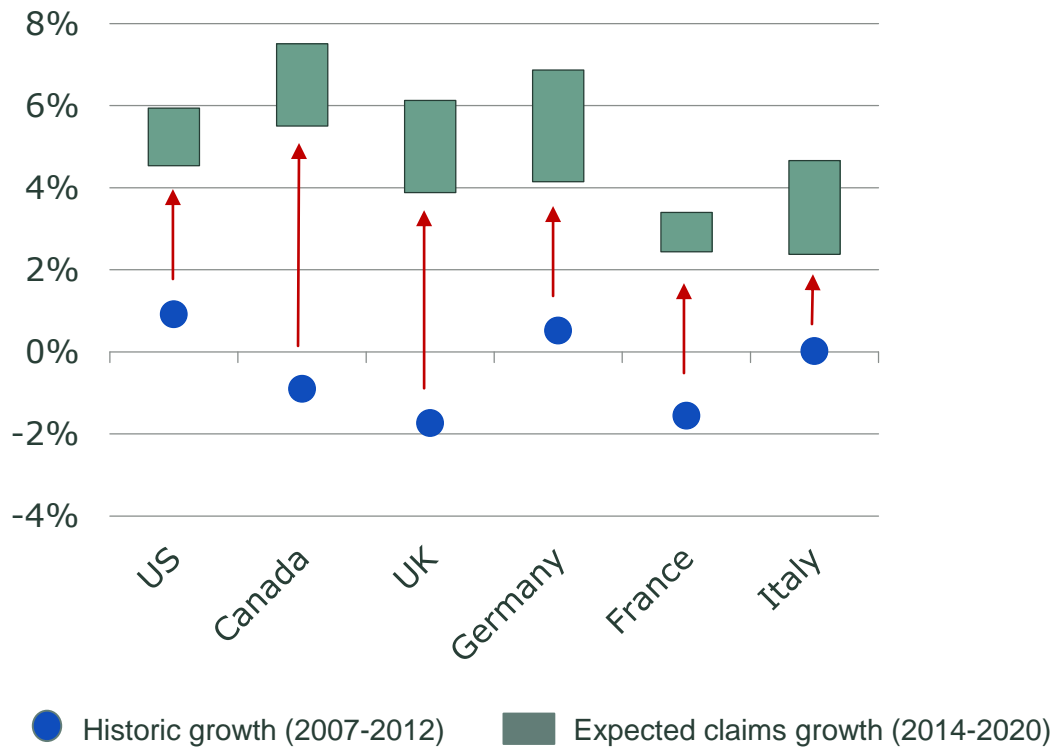
Reserve releases are expected to gradually taper off, but will continue to benefit the bottom line and combined ratio through at least 2016



Source: A.M. Best; Barclays research for estimates.

Some Expect Higher Claim Cost Growth to Resume in Post-Crisis Era

Range of Expected Liability Claims Growth (2014-20) vs historic growth (2007-12)

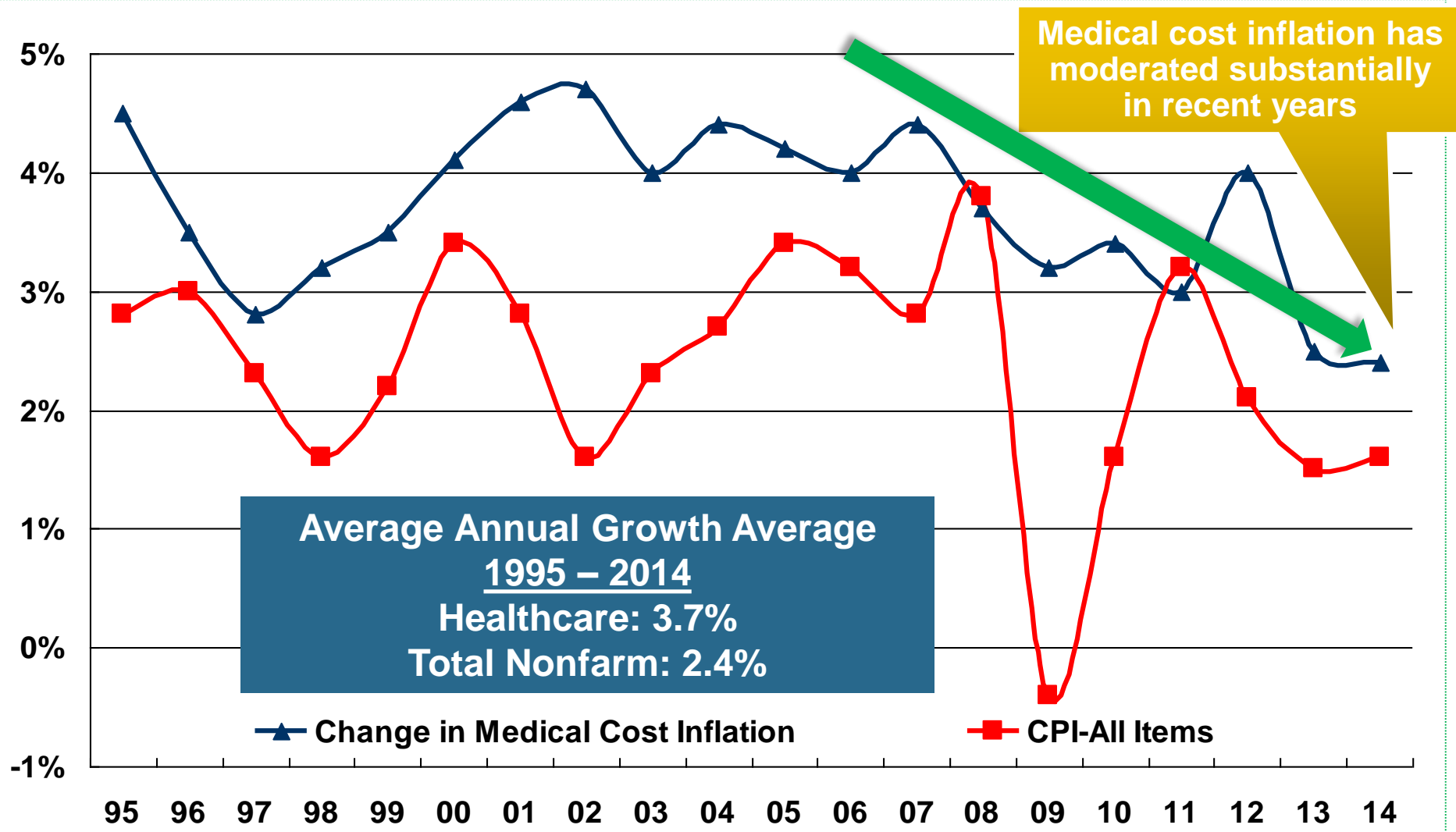


- US, Canada, and the UK have the highest GDP forecasts; France and Italy the lowest.
- The UK and France have historically shown low growth of claims in relation to GDP.
- Canada and Germany have historically high correlations of claims growth to wage and CPI inflation.

Post-Crisis Question: Will Long-Run Pre-Crisis (1975-2007) Growth Trends Re-Emerge?

- Liability claims *grew faster than the general economy* (measured by GDP)
 - ◆ Prior to the financial crisis (1975-2007), general liability claims rose roughly 1% for every 1% rise in GDP in the UK and France and 1.4% in Canada and Italy. The US and Germany ranked in between.
 - ◆ This was also substantially faster than CPI inflation
 - In the US, for example, general liability claims rose 1.9% for every 1% rise in CPI
- Multi-year trends in claims growth are **correlated with:**
 - ◆ **Medical expenditure growth (highly)** in the US
 - ◆ **Consumer price and wage inflation** in European countries

US Medical Cost Inflation vs. Overall Consumer Price Index (CPI), 1995 – 2014*



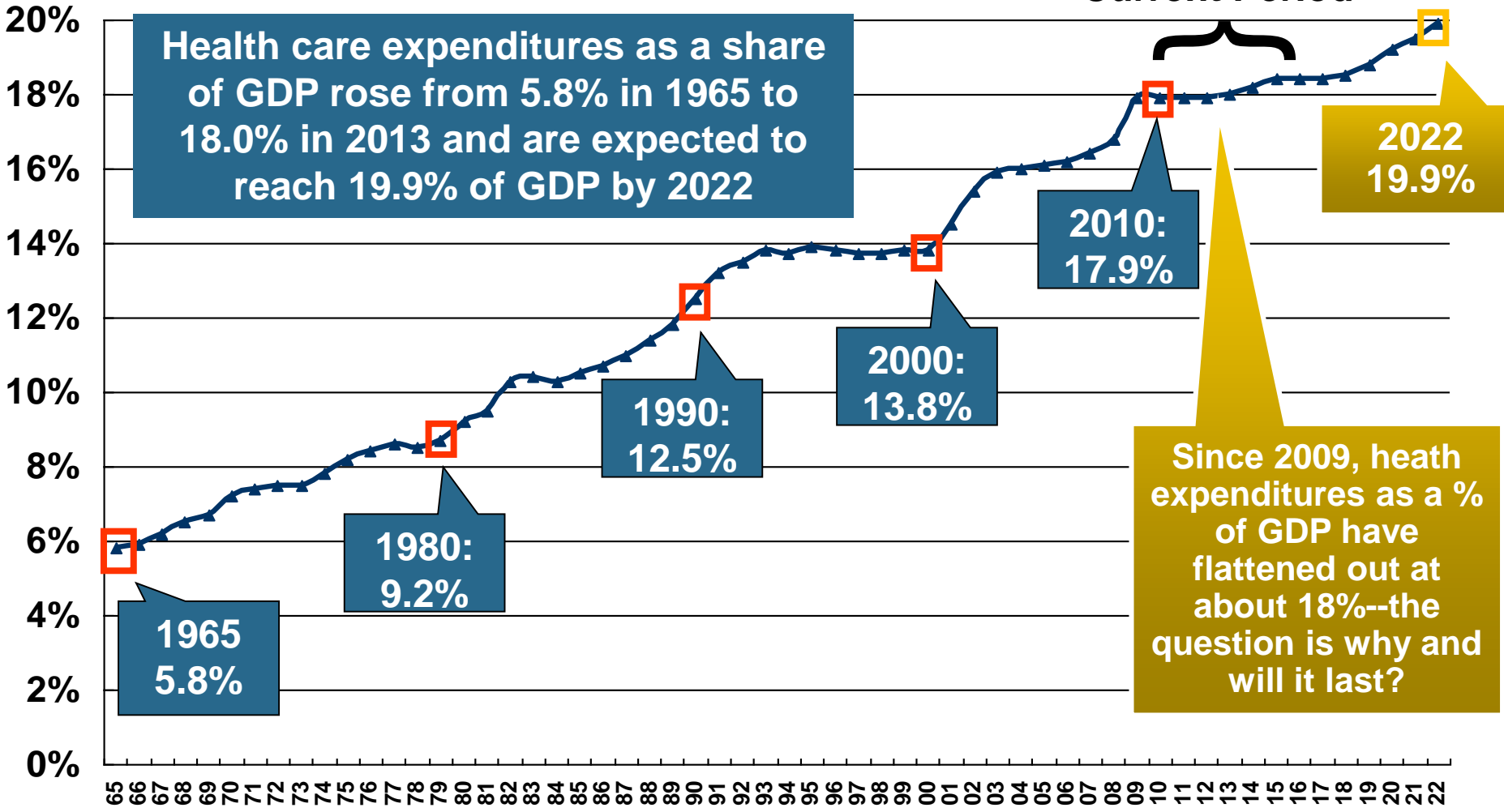
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

US National Health Care Expenditures as a Share of GDP, 1965 – 2022F*

% of GDP

Health care expenditures as a share of GDP rose from 5.8% in 1965 to 18.0% in 2013 and are expected to reach 19.9% of GDP by 2022

Current Period



Since 2009, health expenditures as a % of GDP have flattened out at about 18%--the question is why and will it last?

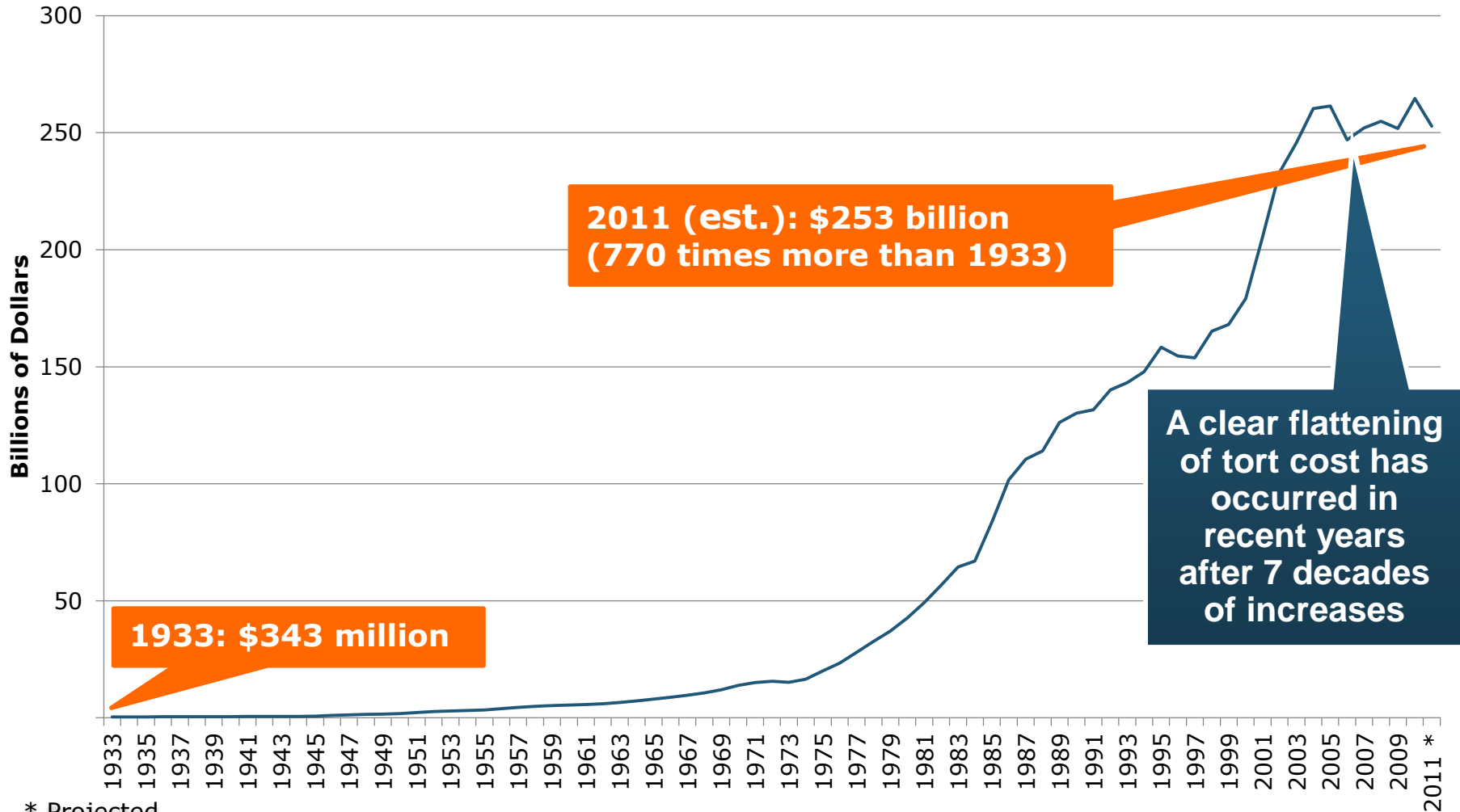
Sources: Centers for Medicare & Medicaid Services, Office of the Actuary at <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsProjected.html> accessed 3/14/14; Insurance Information Institute.

US Tort Cost Trends: 1933-Current Era

**Examination of Long-Term
Escalation of Tort Costs and
Evidence of a “Bending” in the
Cost Curve**

Tort Costs: Rising for Eight Decades

Growth in Tort Costs, Current (Nominal) Dollars, 1933-2011

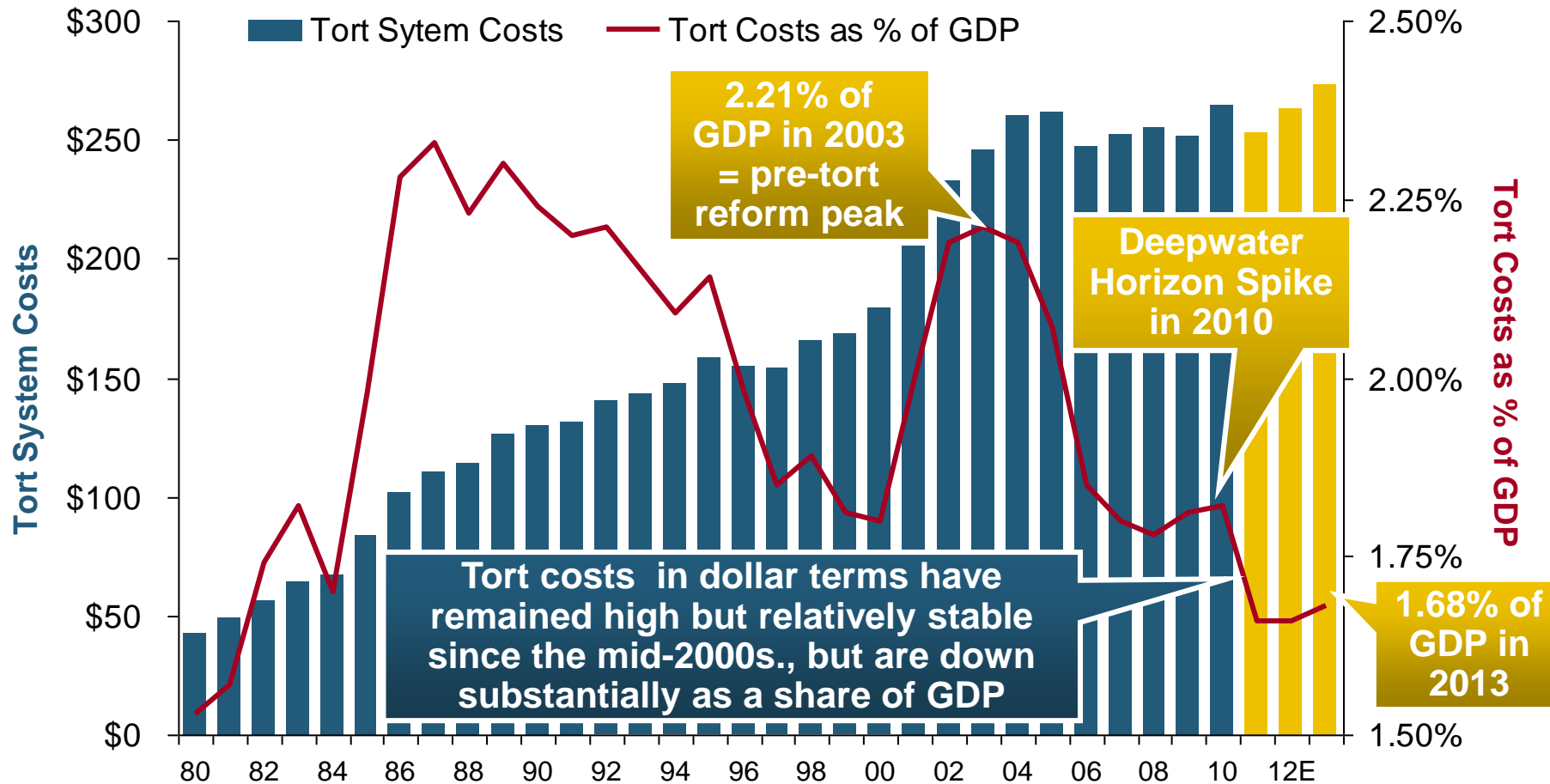


* Projected

Sources: *Trends in Tort Costs*, Towers Watson; Insurance Information Institute.

Over the Last Three Decades, Total Tort Costs as a % of GDP Appear Somewhat Cyclical, 1980-2013E

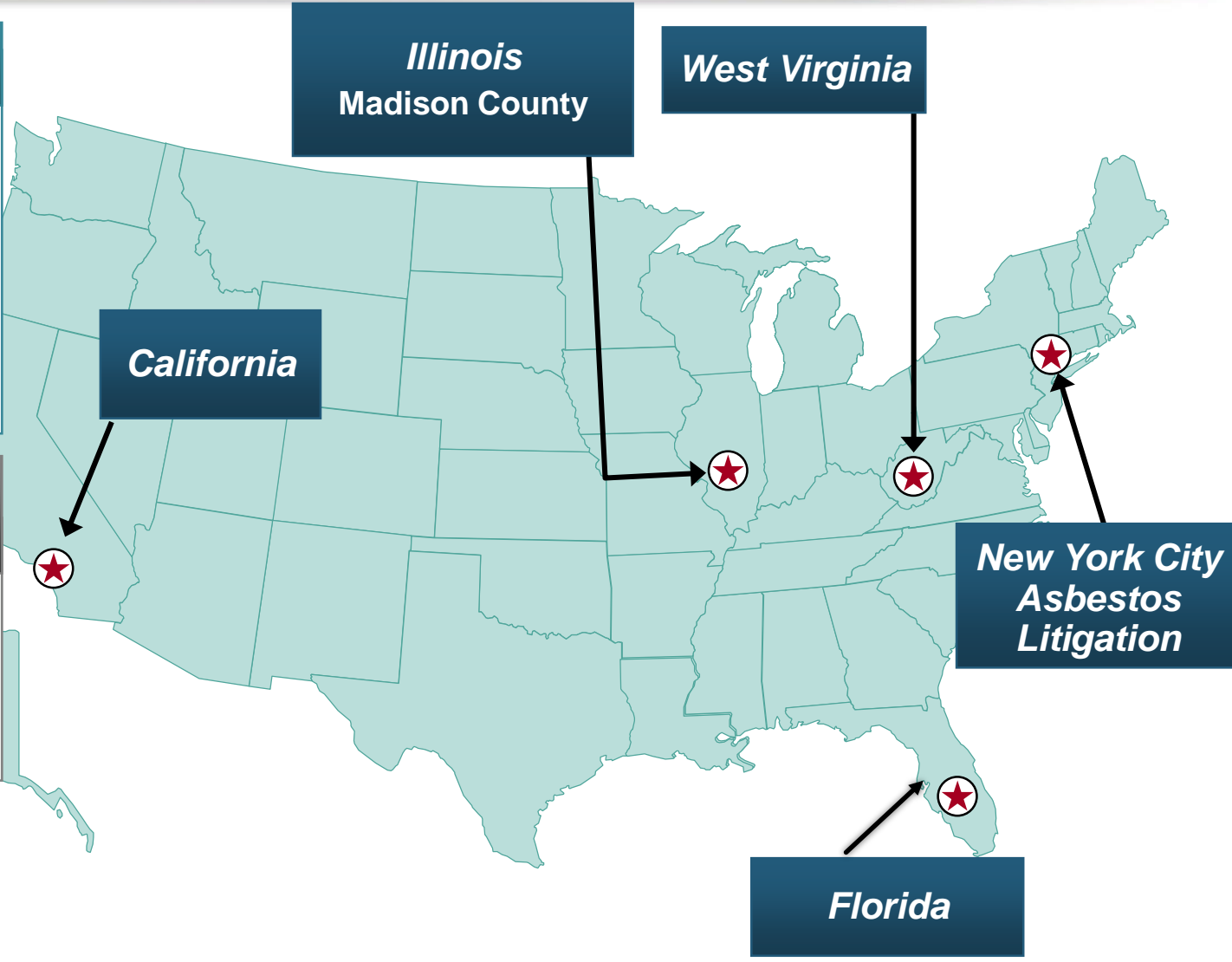
(\$ Billions)



The Nation's Judicial Hellholes: 2014/2015 (Are Now Fewer in Number)

- ### Watch List
- Atlantic County, New Jersey
 - Mississippi Delta
 - Montana
 - Nevada
 - Newport News, Virginia
 - Philadelphia, Pennsylvania

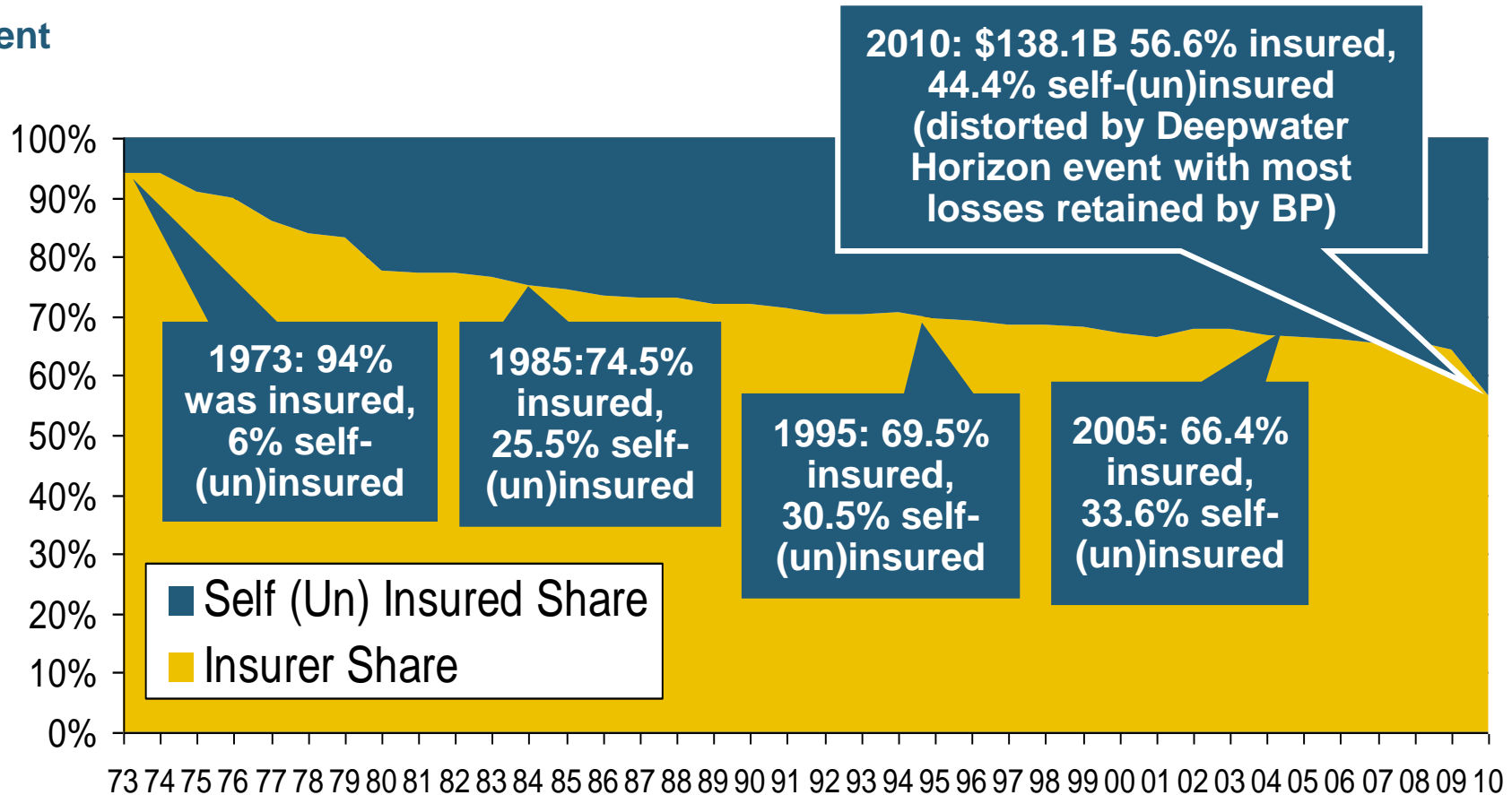
- ### Dishonorable Mention
- AL Supreme Court
 - PA Supreme Court



Source: American Tort Reform Association; Insurance Information Institute

Commercial Lines Tort Costs: Insured vs. Self-(Un)Insured Shares, 1973-2010

Percent



**Commercial Risks Are More Comfortable Retaining Tort Risks.
The Question is Why?**

List of Emerging Risks Future Tort Cost Drivers is Endless

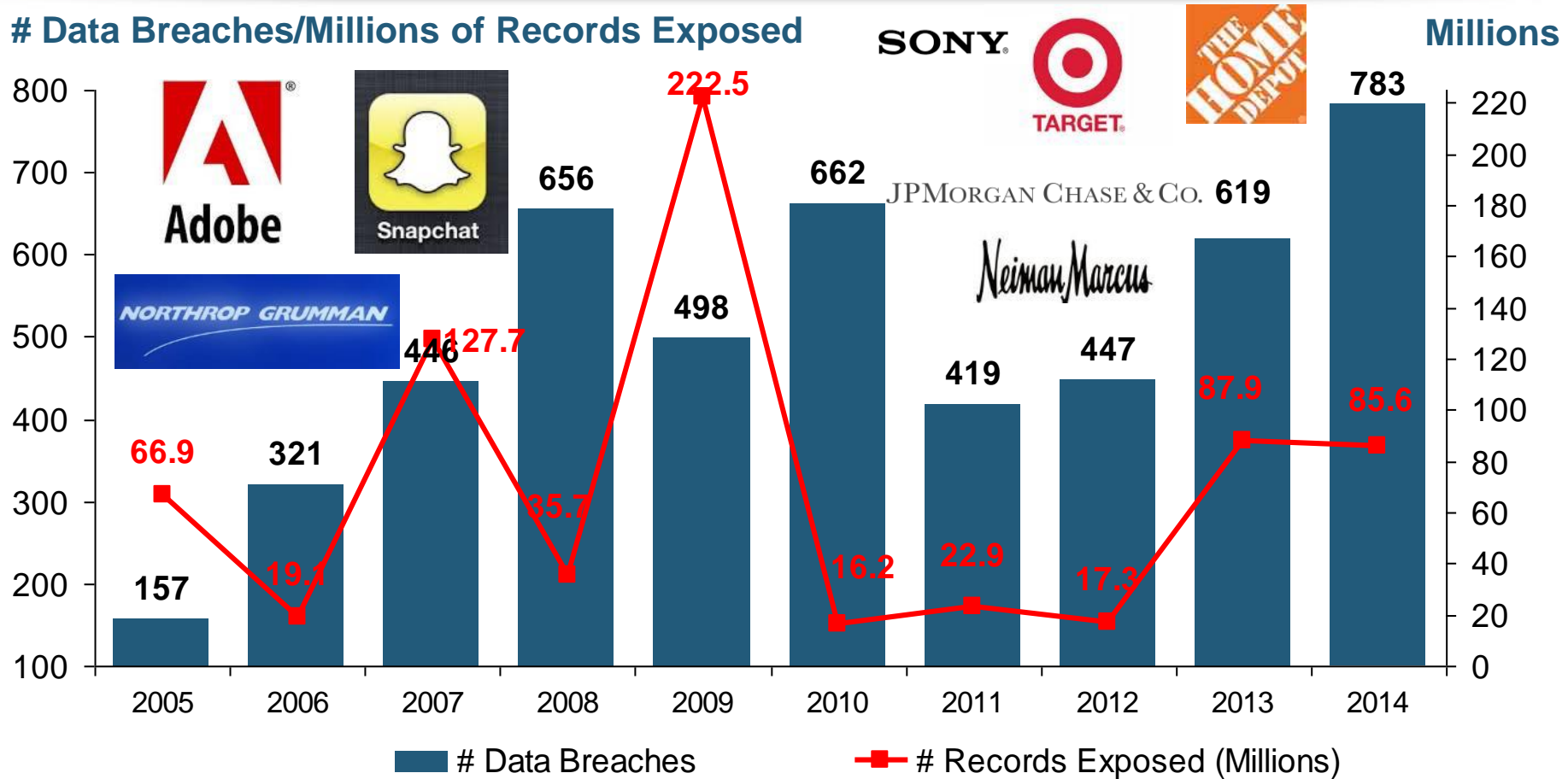
New Risks Emerge Every Day
***Can They Be Contained and
Managed?***

A Few Concerns...

- **Return of Historical Tort Cost Trends Based on Historical Cost Drivers**
- **Reversal of Current Favorable Loss Development in Casualty Line**
- **Emergence of New Risks**
 - ◆ **Fracking**
 - ◆ **Cyber Risk**
 - ◆ **Autonomous Vehicles**
 - ◆ **GMOs**
 - ◆ **New Generation of Environmental Risks**
 - ◆ **Climate Change Litigation**
- **Reversal/Erosion of Tort Reforms in US**
- **Export of Mass Tort/Class Action/Collective Redress to Europe, Asia**
- **Third-Party Financing of Litigation**
- **Old Issues: Asbestos, Hurricane Katrina, Hurricane Sandy (flood litigation)**

Data Breaches 2005-2014, by Number of Breaches and Records Exposed

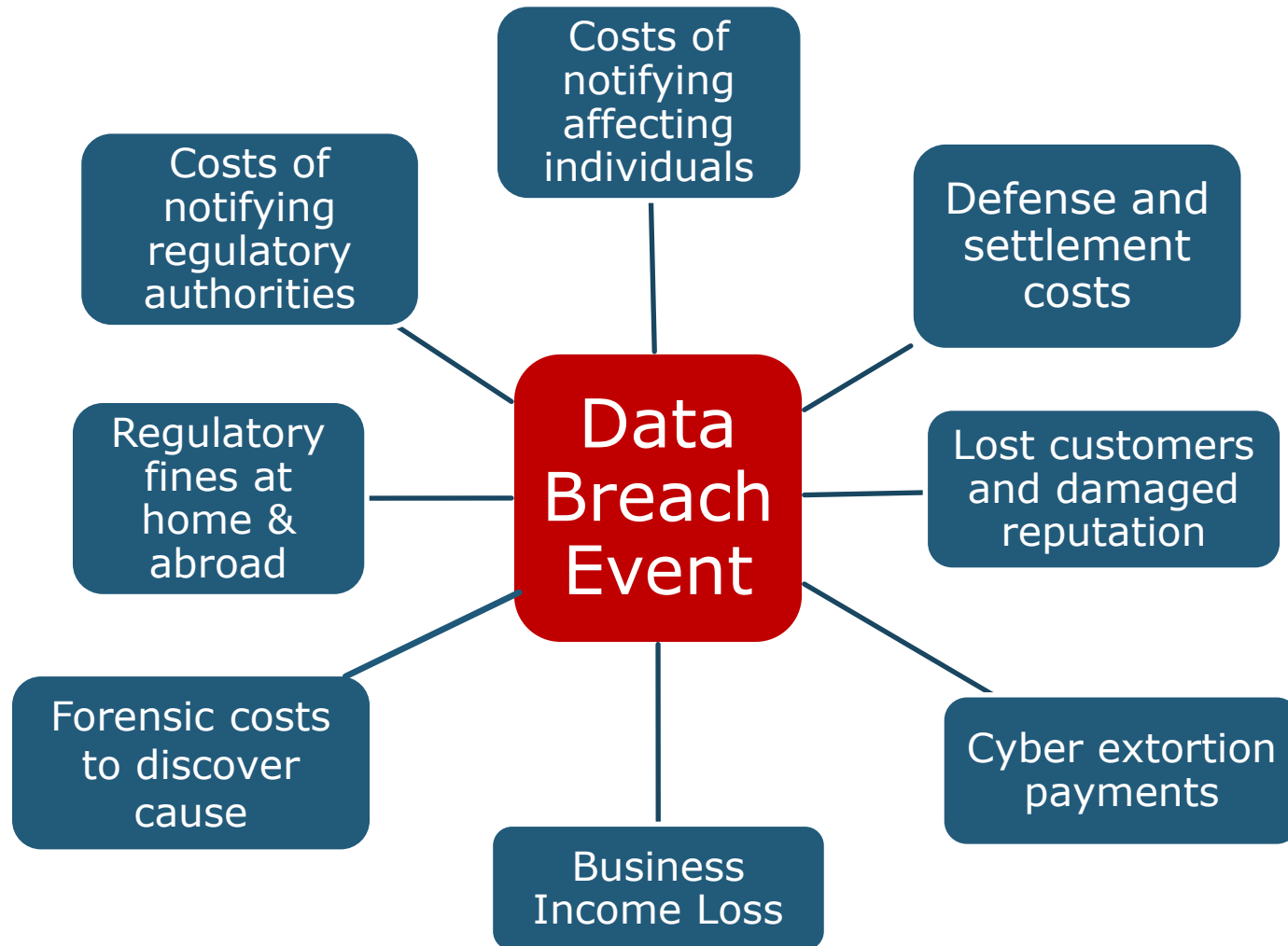
Data Breaches/Millions of Records Exposed



The Total Number of Data Breaches Rose 28% While the Number of Records Exposed Was Relatively Flat (-2.6%)

* 2014 figures as of Jan. 12, 2014 from the ITRC.
Source: Identity Theft Resource Center.

Data/Privacy Breach: Many Potential Costs Can Be Insured



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and your attention!*

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