



**INSURANCE
INFORMATION**
INSTITUTE

P/C Industry Overview and Outlook

Buckeye Actuarial Continuing Education
October 19, 2018

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I.I.I. Mission Statement

Improving public understanding
of insurance...

...what it does and how it works

10 Key Ways Insurance Drives Economic Growth

Safety/ Security



1. Insurers are financial first responders



2. Insurers are risk mitigators

Economic/ Financial Stability



3. Insurers are capital protectors



4. Insurance is a partner in social policy



5. Insurance sustains the supply chain



6. Insurers are capital infusers

Development



7. Insurers are community builders



8. Insurance enables infrastructure improvements



9. Insurers are innovation catalysts

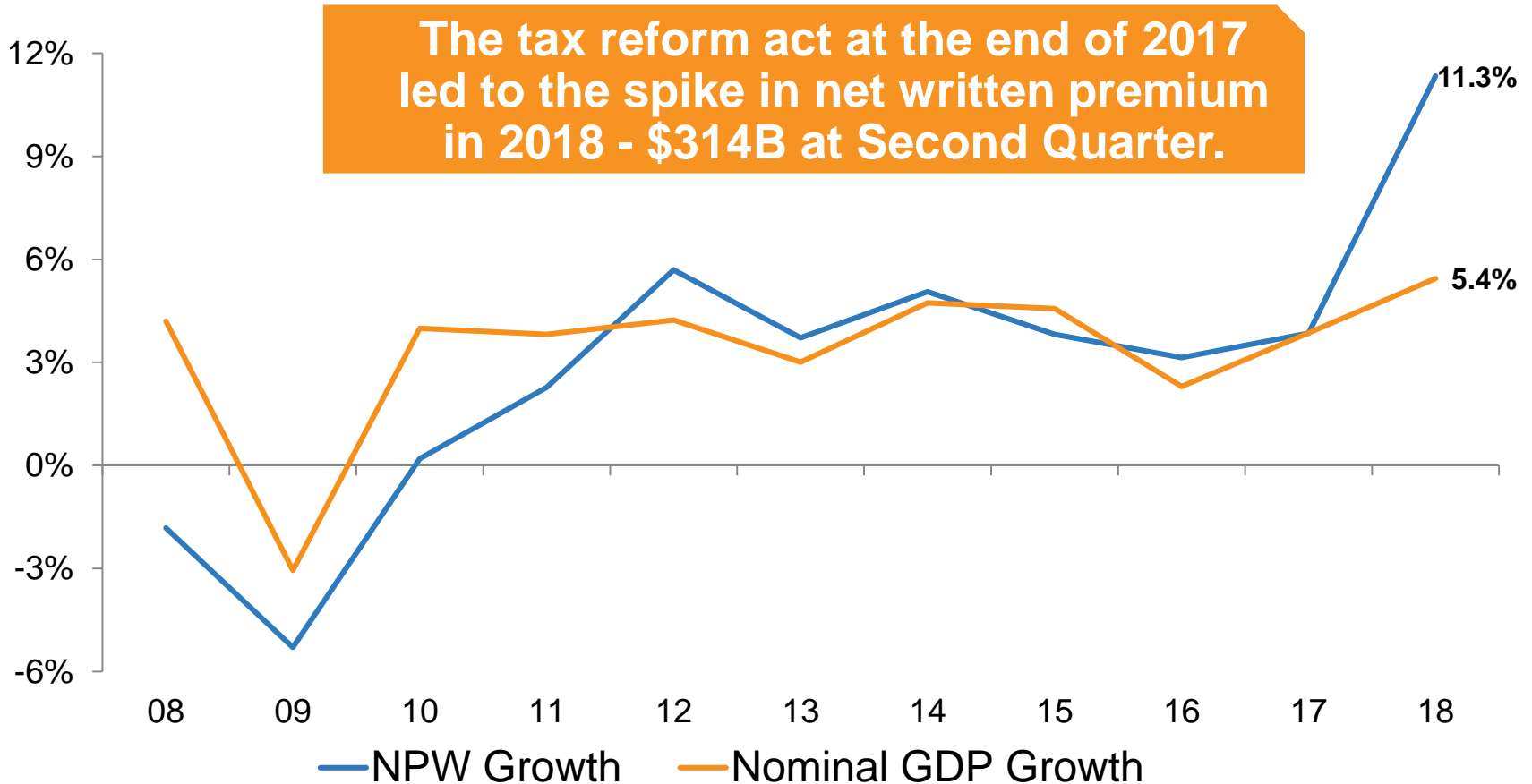


10. Insurers are credit facilitators

Financial Results

Light, Favorable Winds Buoy Results

Net Premium Growth, Annual Change



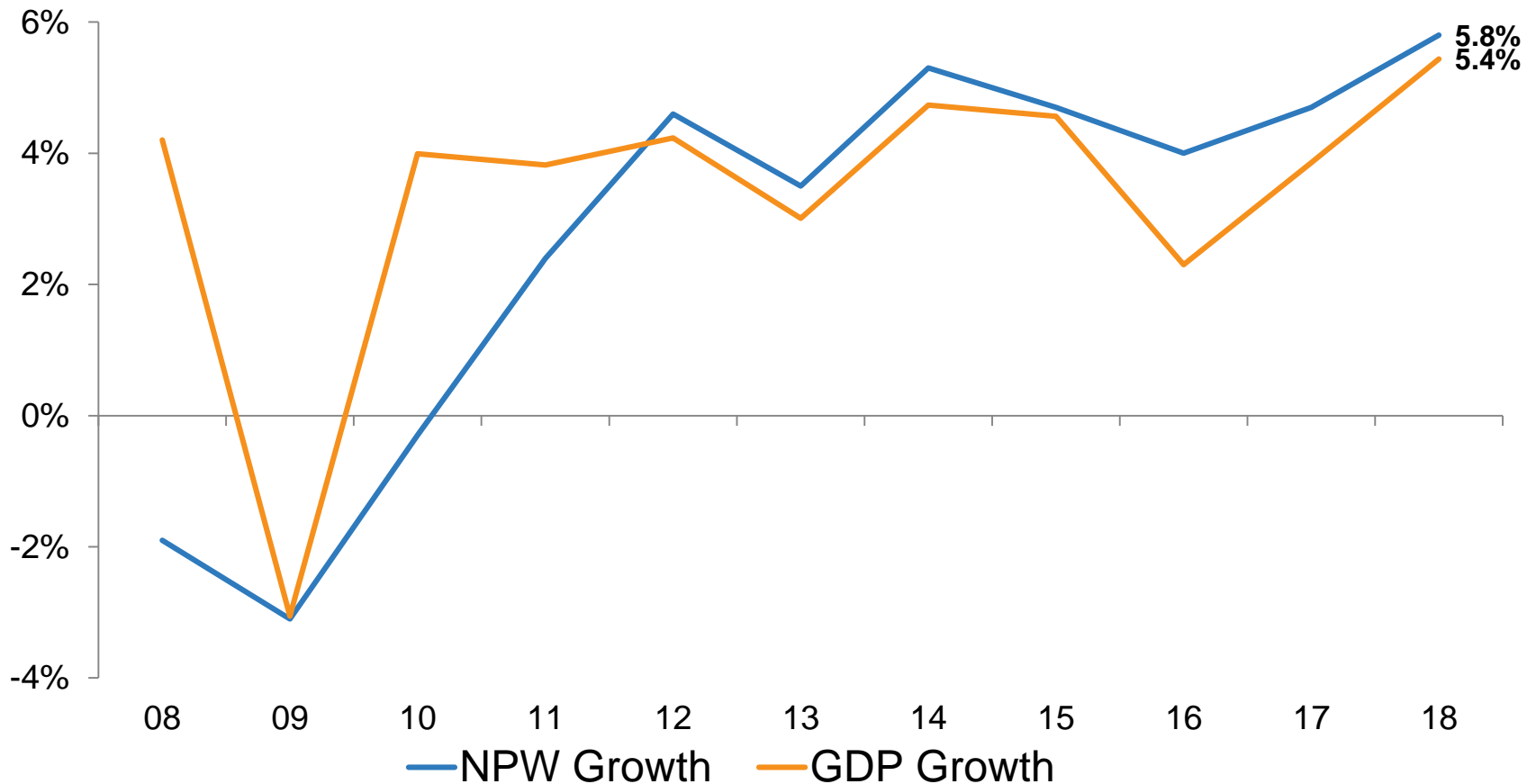
As a general rule, net written premium growth tracks nominal GDP growth.



All data through second quarter.

SOURCES: NAIC data sourced through S&P Global Intelligence, Bureau of Economic Affairs, Insurance Information Institute.

Direct Premium Growth, Annual Change



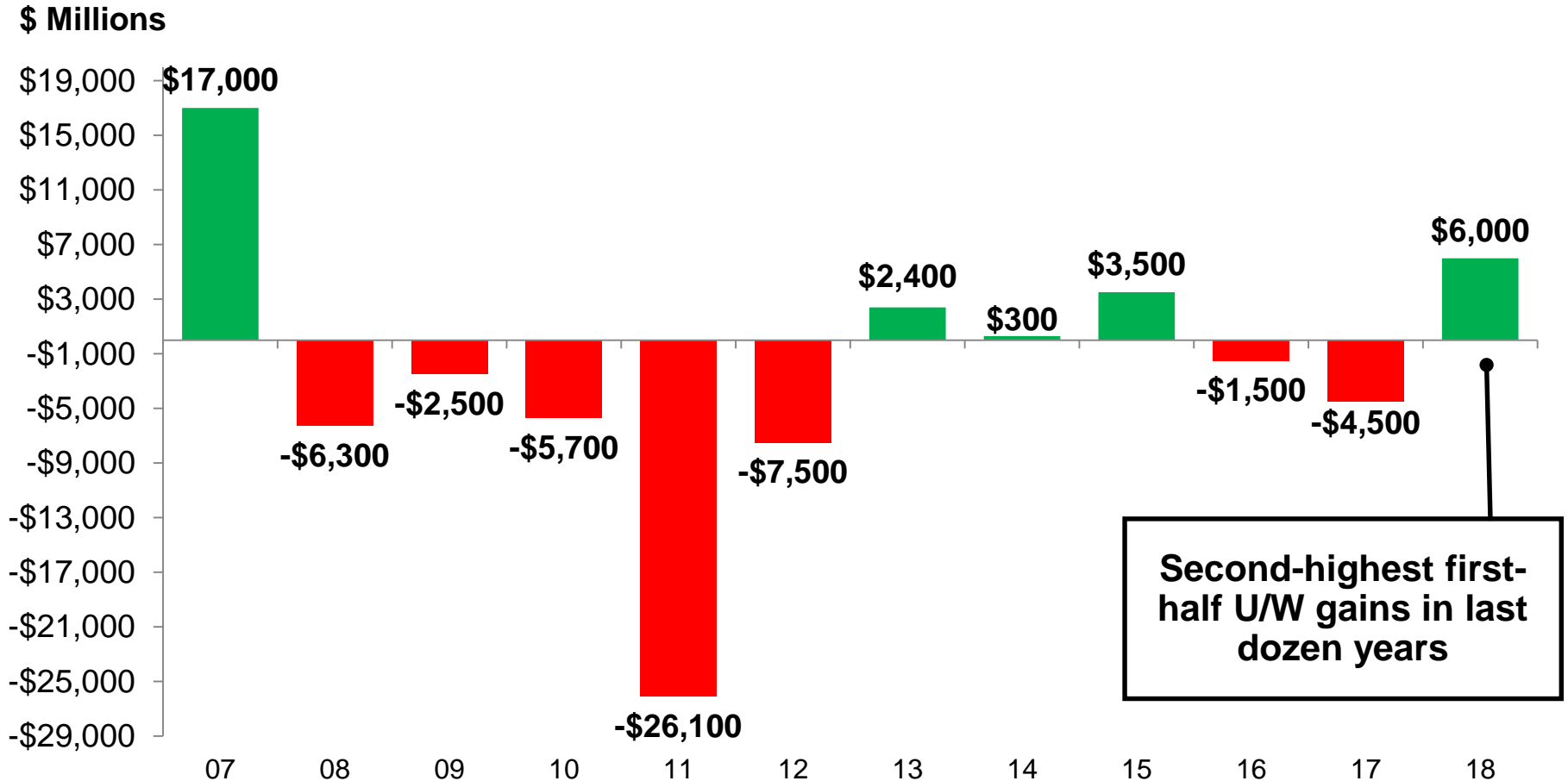
Rising Auto Rates Driving Premium Growth - \$337B at Second Quarter.



All data through second quarter.

SOURCES: NAIC data sourced through S&P Global Intelligence, Bureau of Economic Affairs, Insurance Information Institute.

Net Underwriting Gains & Losses, 1st Halves of Each Year, 2007-2018

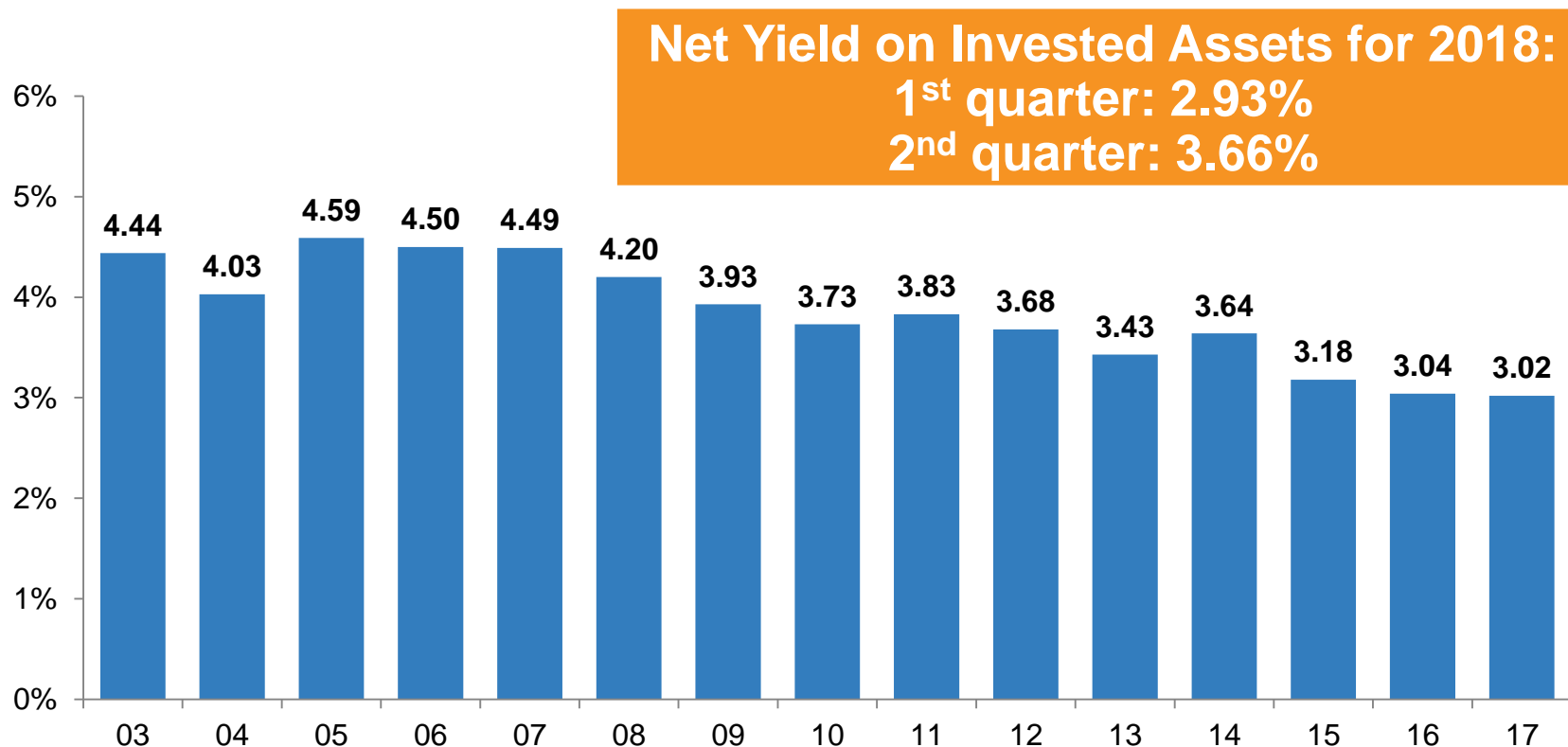


Low Cats in First Half of Year Helped 2017 Result.



Sources: ISO/PCI; Insurance Information Institute.

P/C Insurer Portfolio Yields, 2002-2017

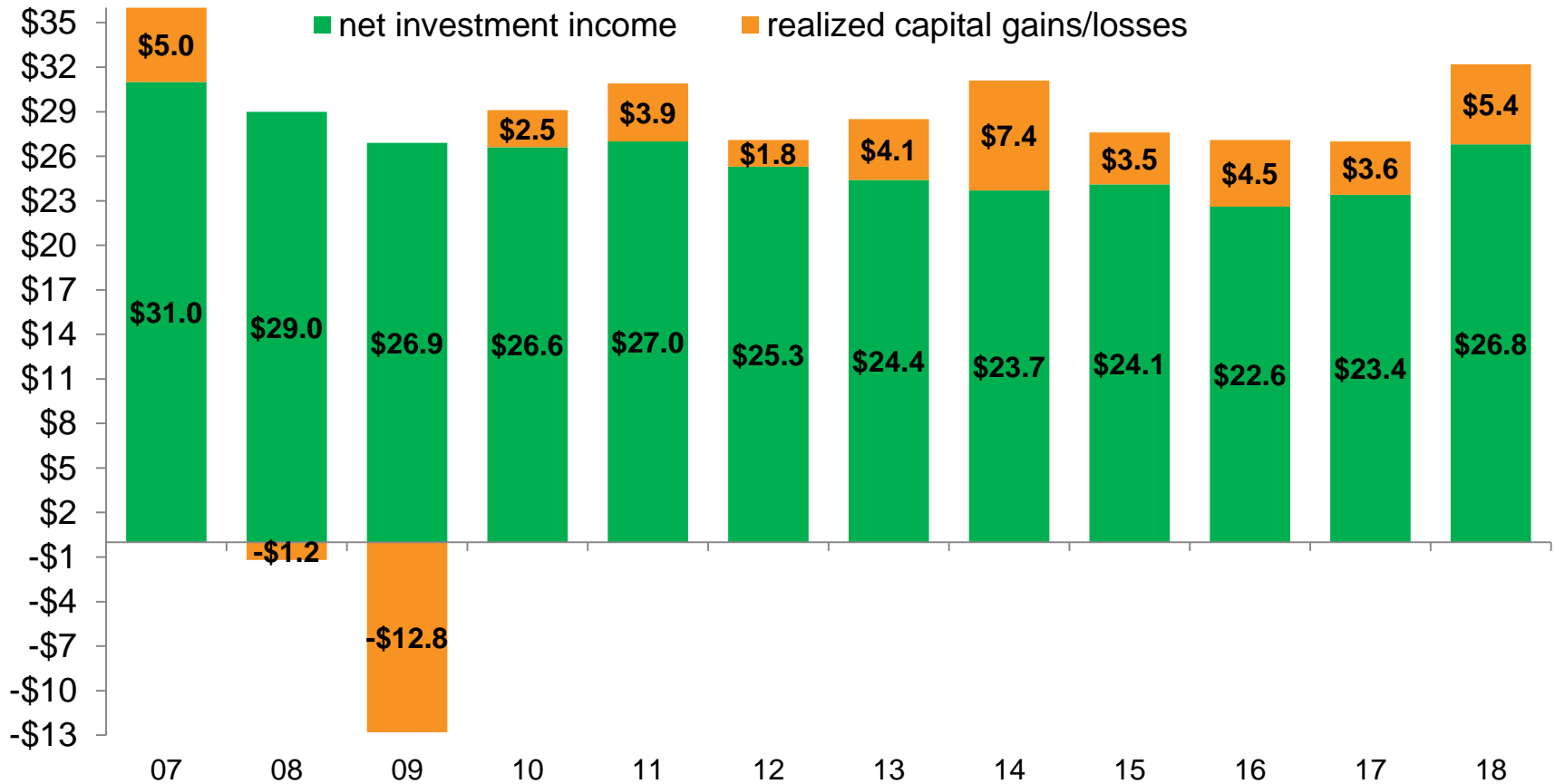


**Even as Prevailing Rates Rise in the Next Few Years,
Portfolio Yields Are Unlikely to Rise Quickly,
Since Low Yields of Recent Years Are “Baked In” to Future Returns.**



Net Investment Gains Vary Mainly With Realized Capital Gains/Losses, 1st Halves, 2007-2018

\$ Billions



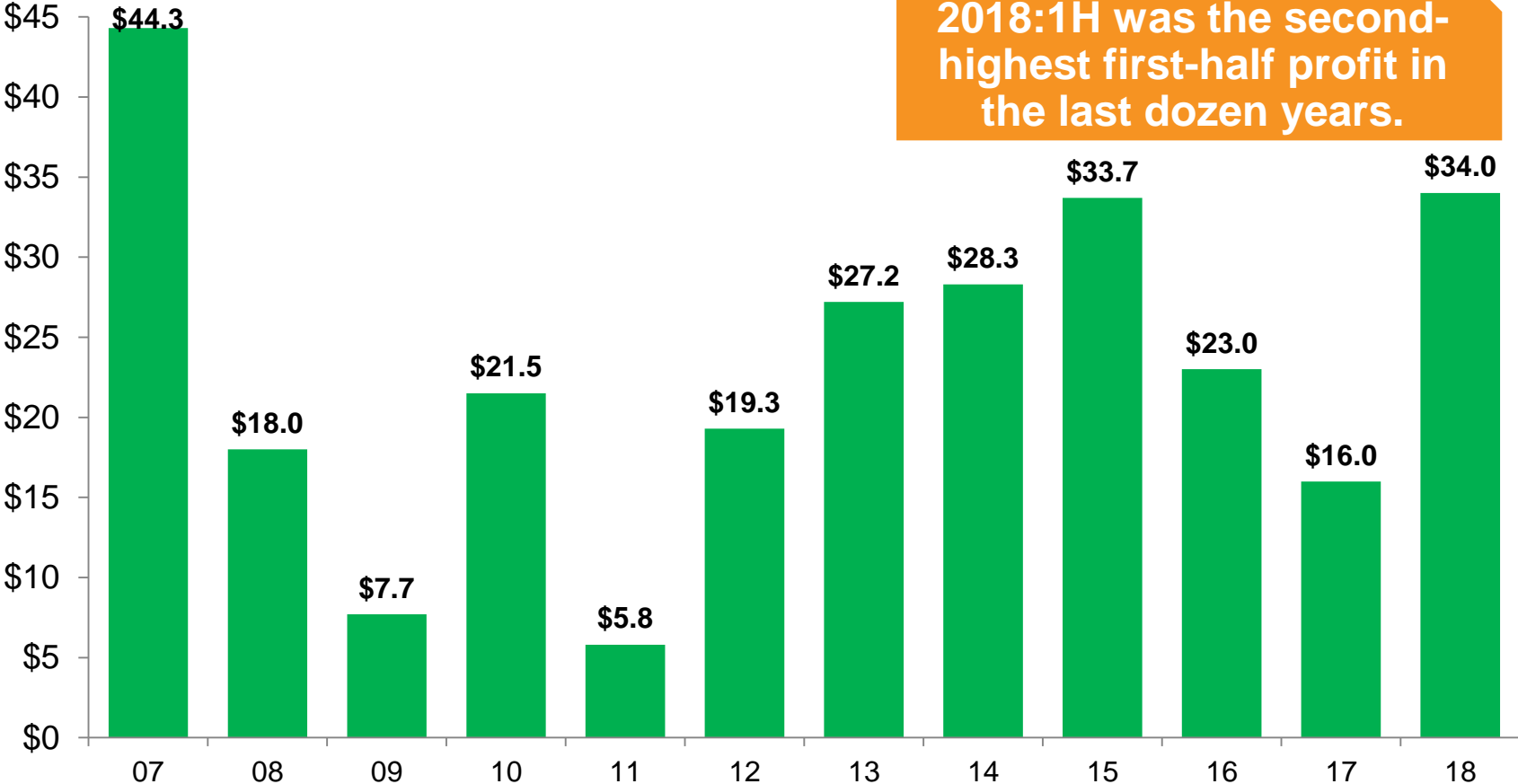
In the first half of the year, net investment income has been steady but realized capital gains/losses have been variable.



Sources: ISO/PCI; Insurance Information Institute.

P/C Industry Net Income After Taxes*, 1st Halves, 2007-2018

\$ Billions, 2018 dollars



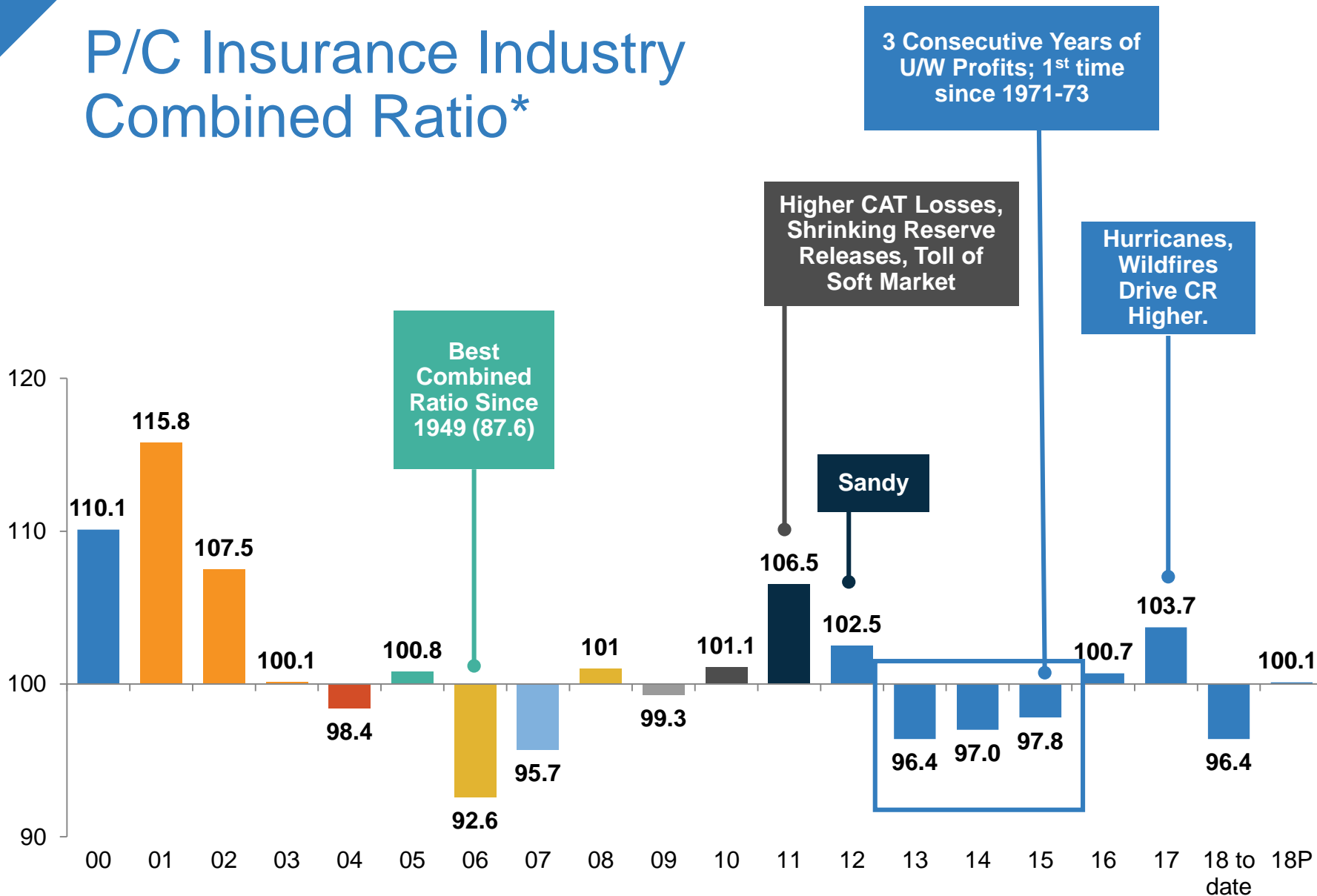
2018:1H was the second-highest first-half profit in the last dozen years.

In the first half of the year, net income varied considerably.



*adjusted for inflation using the BLS CPI calculator, to 2018 dollars
Sources: ISO, a Verisk Analytics company; Insurance Information Institute.

P/C Insurance Industry Combined Ratio*



Through Q2.

*Excludes Mortgage & Financial Guaranty insurers 2008-2014.

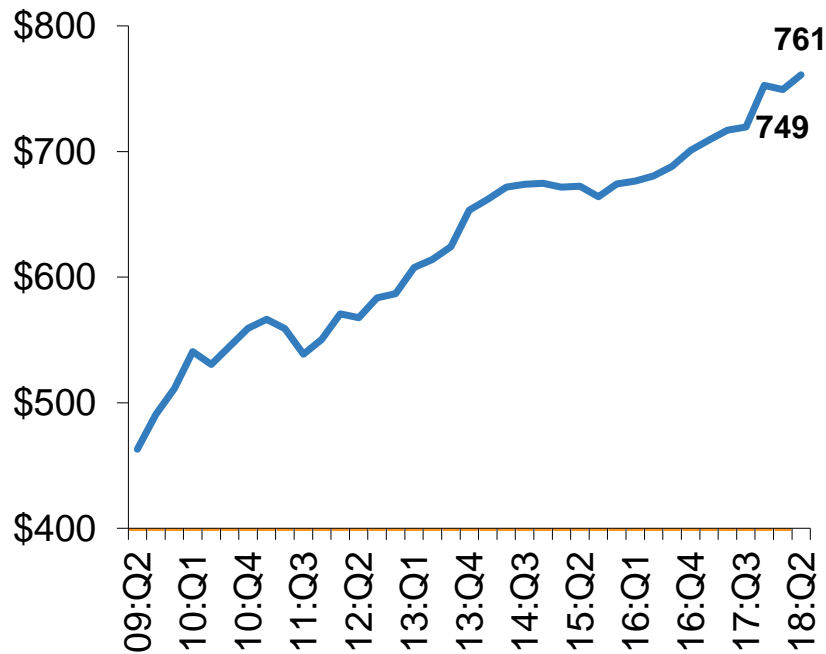
†Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.1; 2012=103.2; 2013= 96.1; 2014= 97.0.

Sources: A.M. Best; ISO, a Verisk Analytics company; I.I.I. projection for 2018.

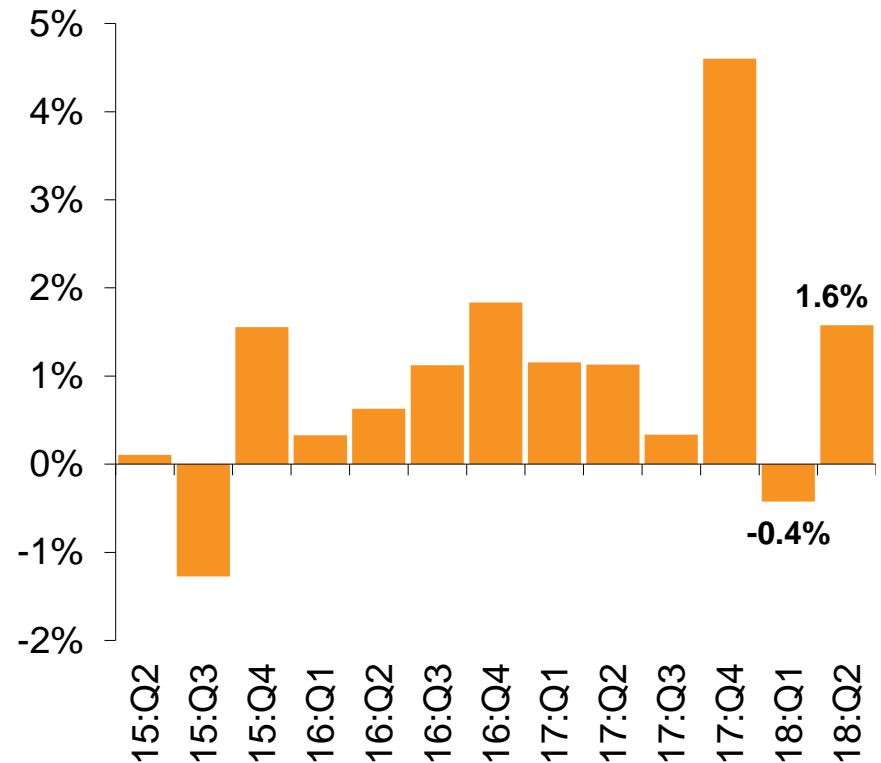
Policyholder Surplus By Quarter

Amount of Surplus

(\$ Billions)



Change from Prior Quarter



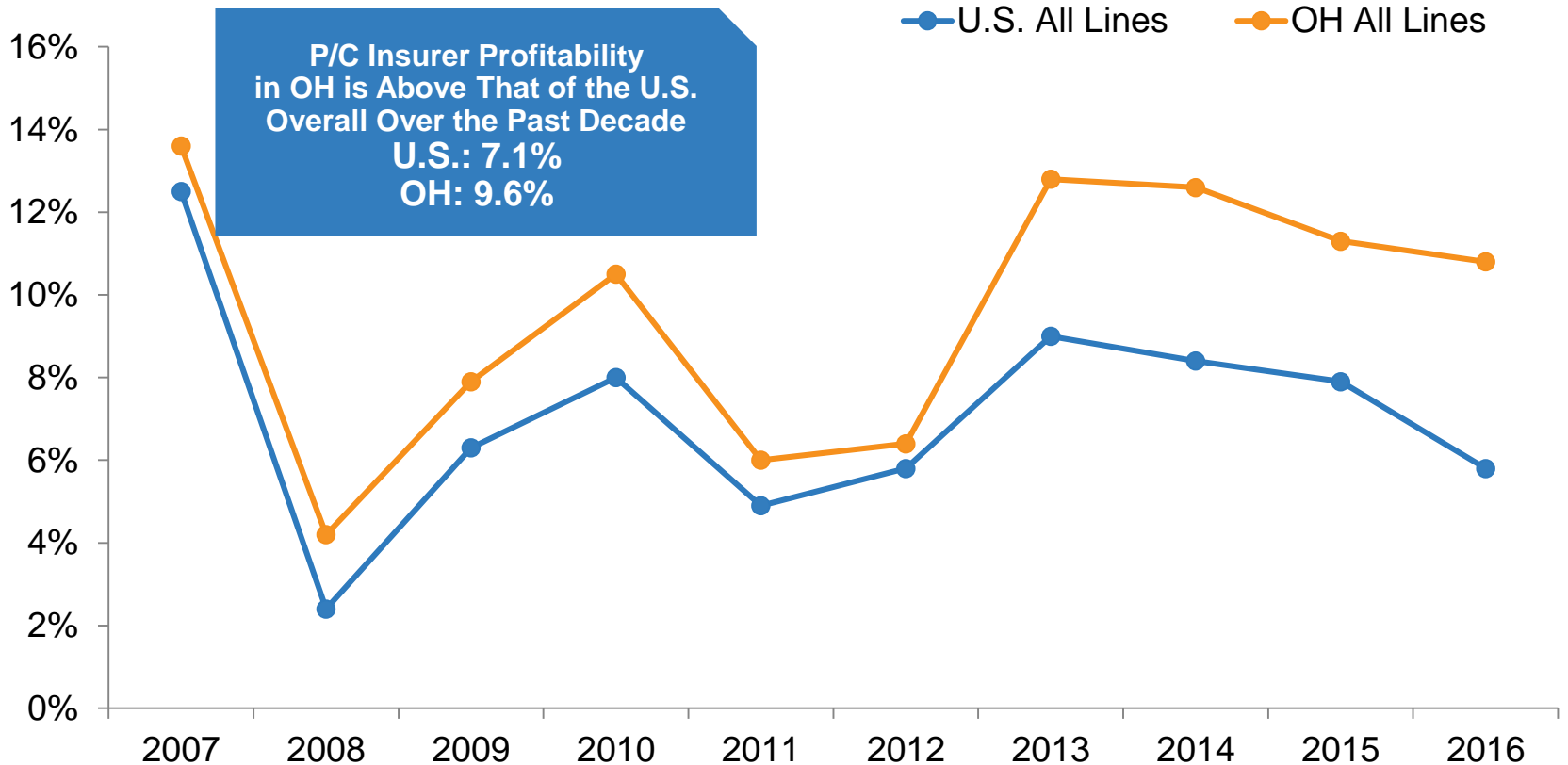
Tax Law Increased Surplus at Year-End 2017 and Makes Surplus Growth a Bit More Volatile. \$1.30 Surplus per \$1 Premium.



Ohio Results

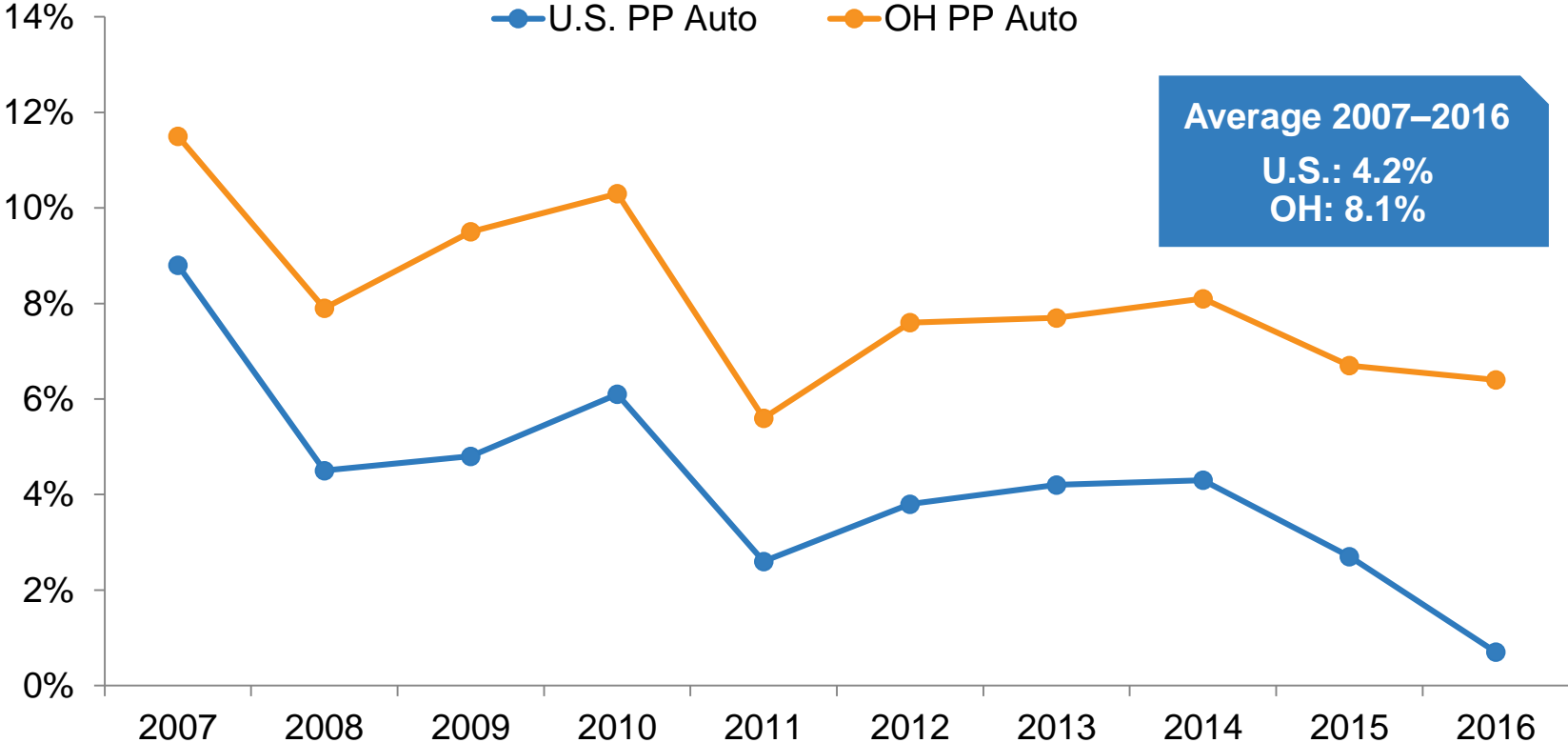
An Industry Prospers

RNW All Lines: OH vs. U.S., 2007–2016



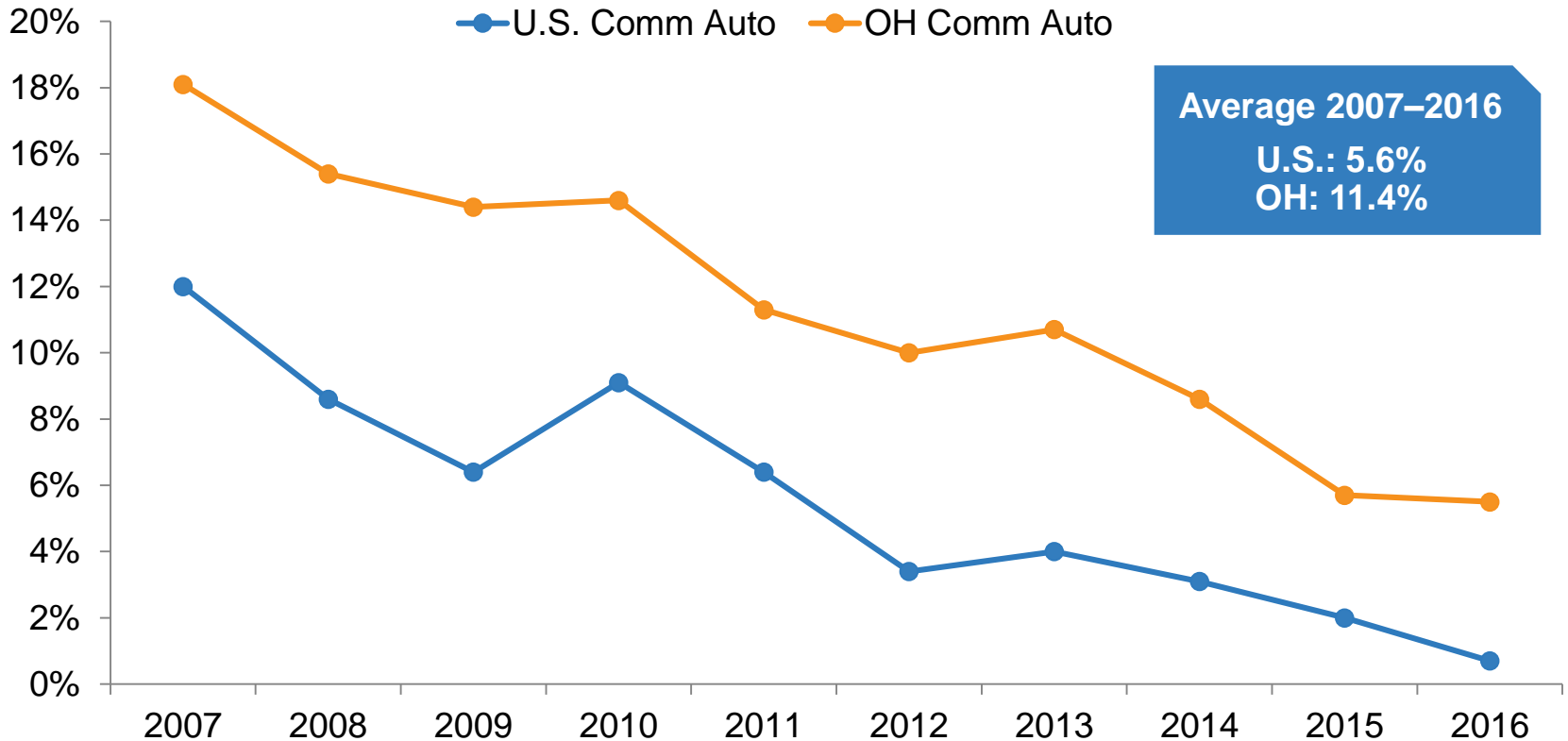
Source: NAIC.

RNW PP Auto: OH vs. U.S., 2007–2016



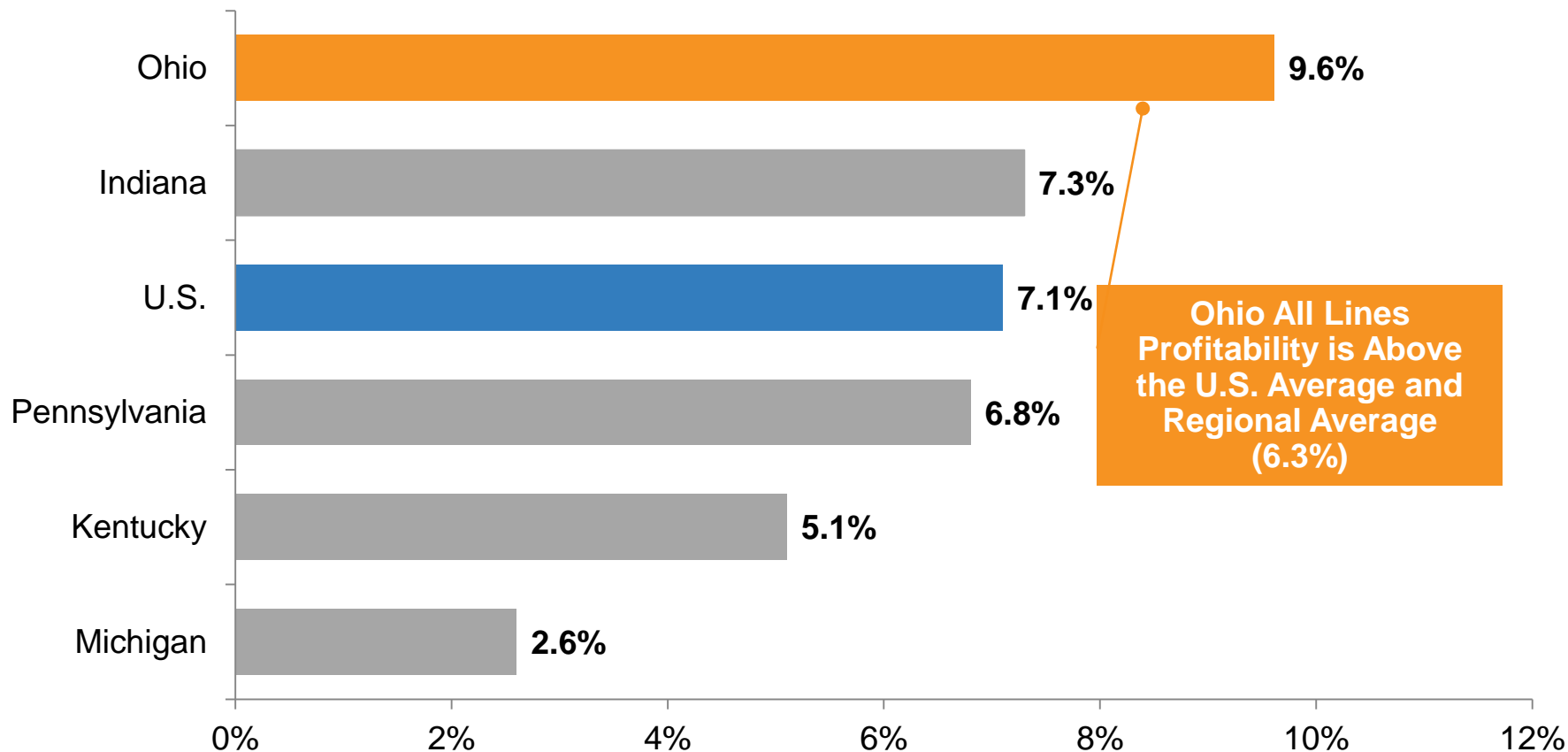
Source: NAIC.

RNW Comm. Auto: OH vs. U.S., 2007–2016

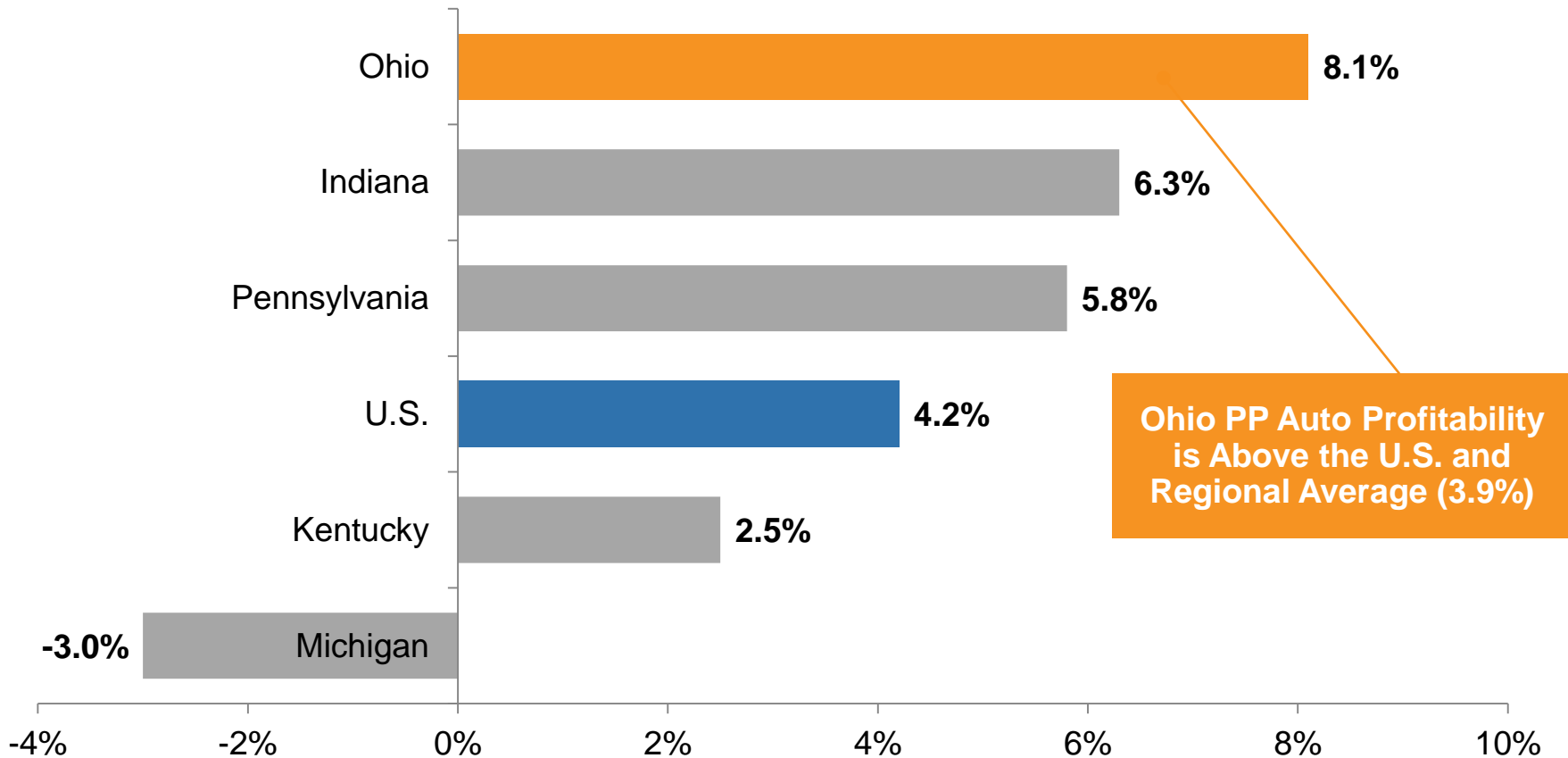


Source: NAIC.

All Lines: 10-Year Average RNW OH and Nearby States, 2007–2016



PP Auto: 10-Year Average RNW OH and Nearby States, 2007–2016



Sources: NAIC, Insurance Information Institute.

Top Ten Most Expensive and Least Expensive States for Automobile Insurance, 2015¹

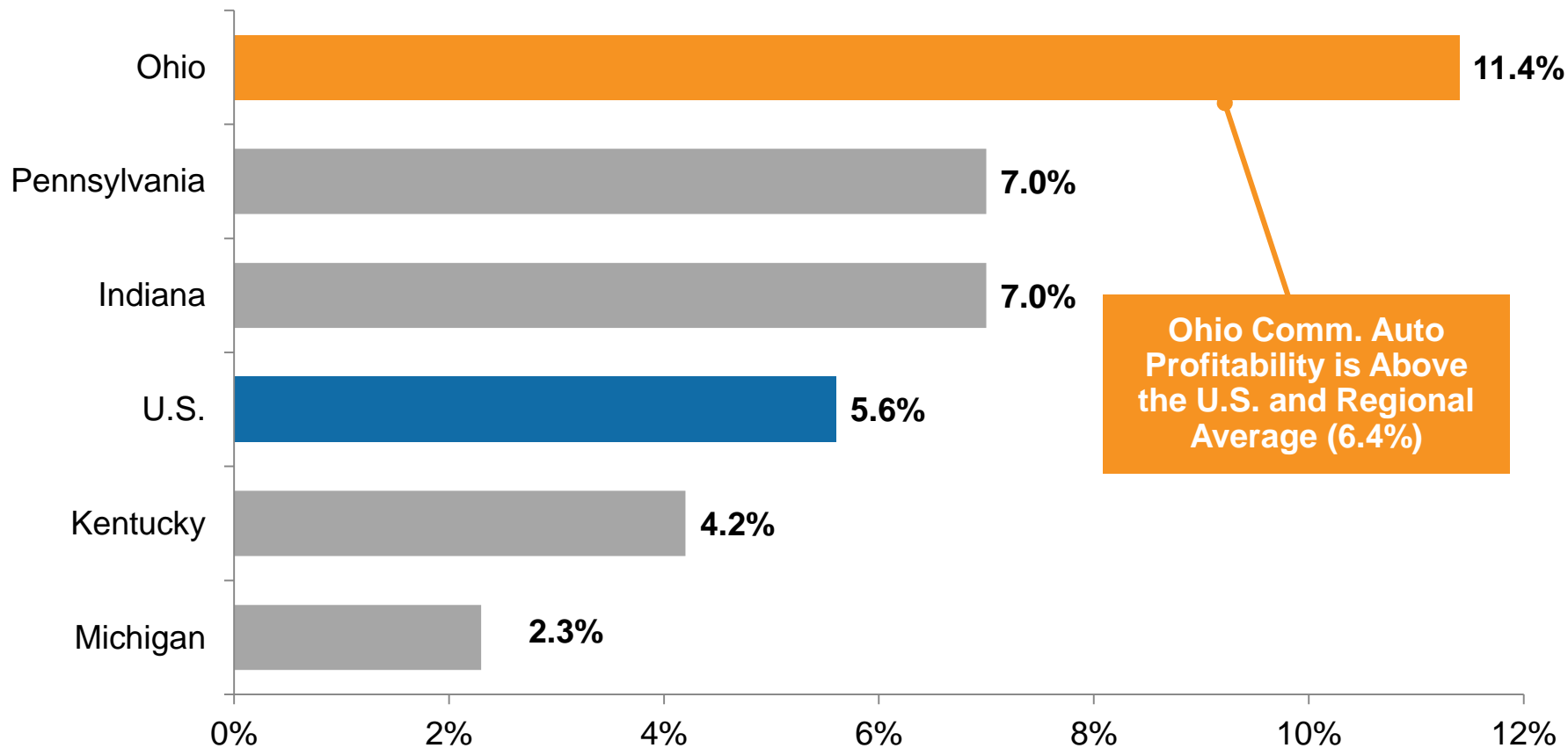
Rank	Most Expensive States	Average Expenditure	Rank	Least Expensive States	Average Expenditure
1	New Jersey	\$1,265.69	1	Idaho	\$573.83
2	New York	1,234.84	2	Iowa	599.03
3	Louisiana	1,231.77	3	South Dakota	615.78
4	Michigan	1,231.39	4	Maine	617.73
5	D.C.	1,190.39	5	North Dakota	637.54
6	Florida	1,185.25	6	North Carolina	655.37
7	Rhode Island	1,147.95	7	Wyoming	656.64
8	Delaware	1,145.66	8	Wisconsin	664.81
9	Massachusetts	1,058.50	9	Indiana	666.24
10	Connecticut	1,048.56	10	Vermont	680.18

Ohio Ranked 38th in Average Expenditure for Auto Insurance in 2015. The Average Expenditure was \$702.59.



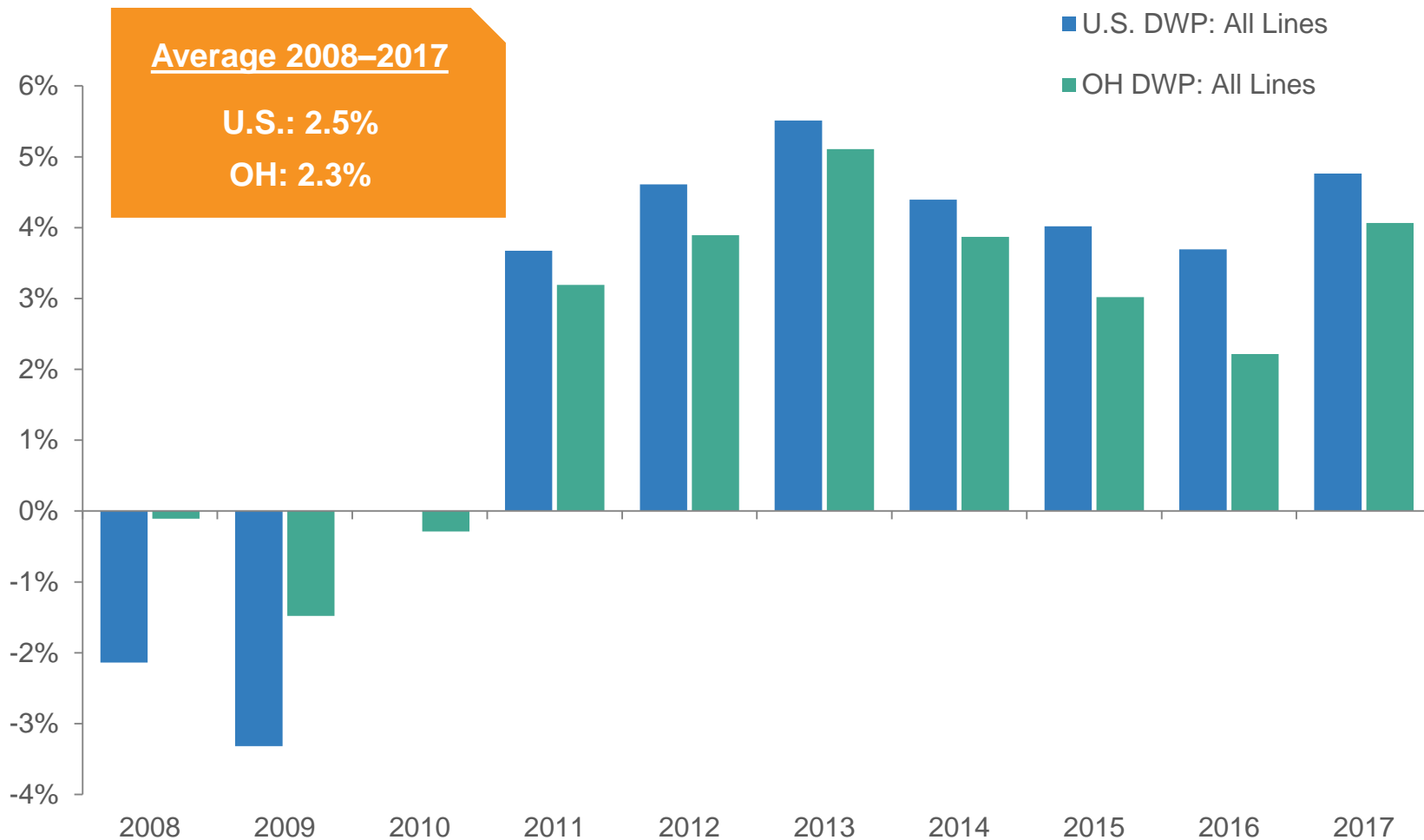
¹Based on average automobile insurance expenditures.
Source: © 2017 National Association of Insurance Commissioners.

Comm. Auto: 10-Year Average RNW OH and Nearby States, 2007–2016

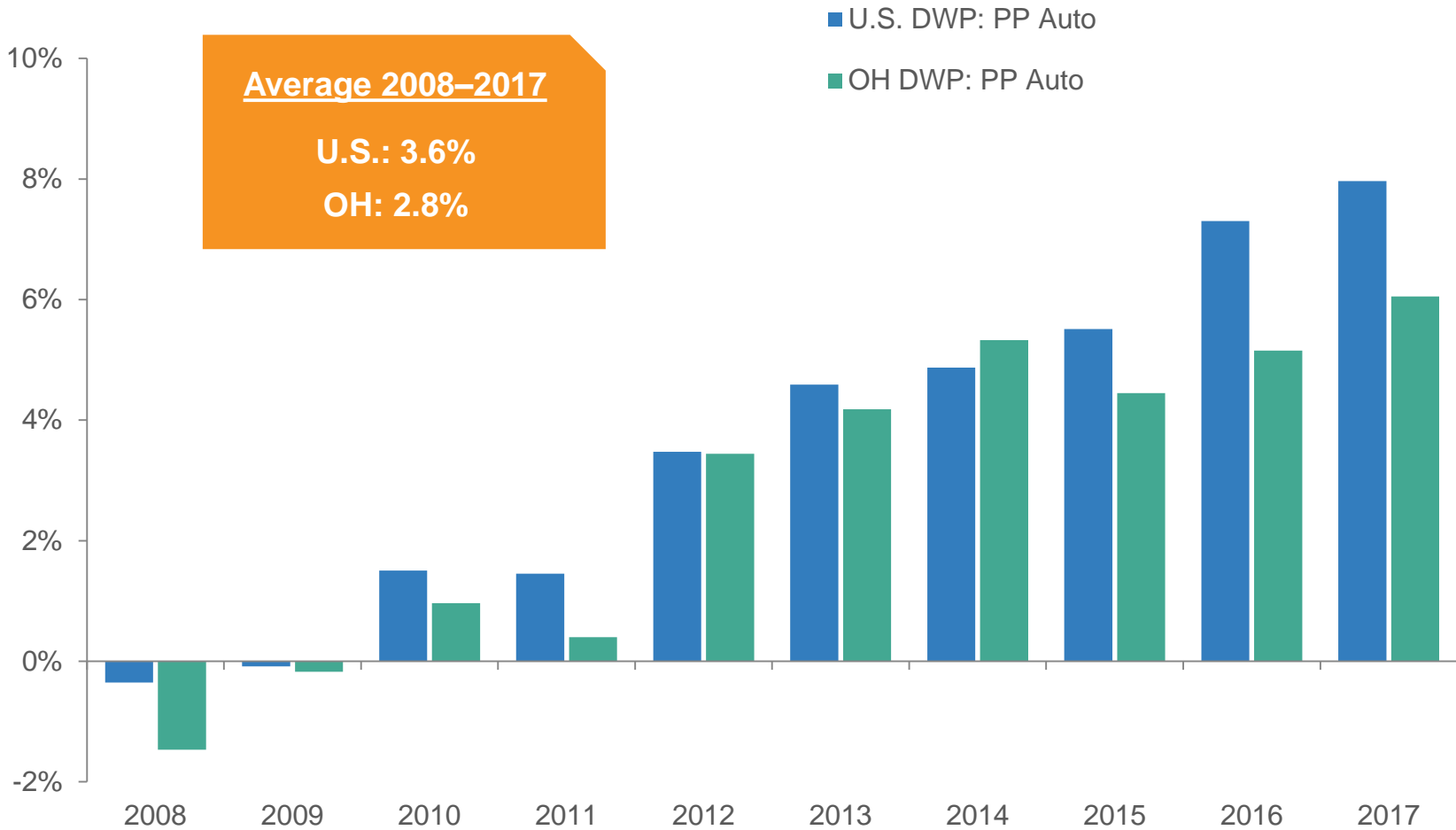


Sources: NAIC, Insurance Information Institute.

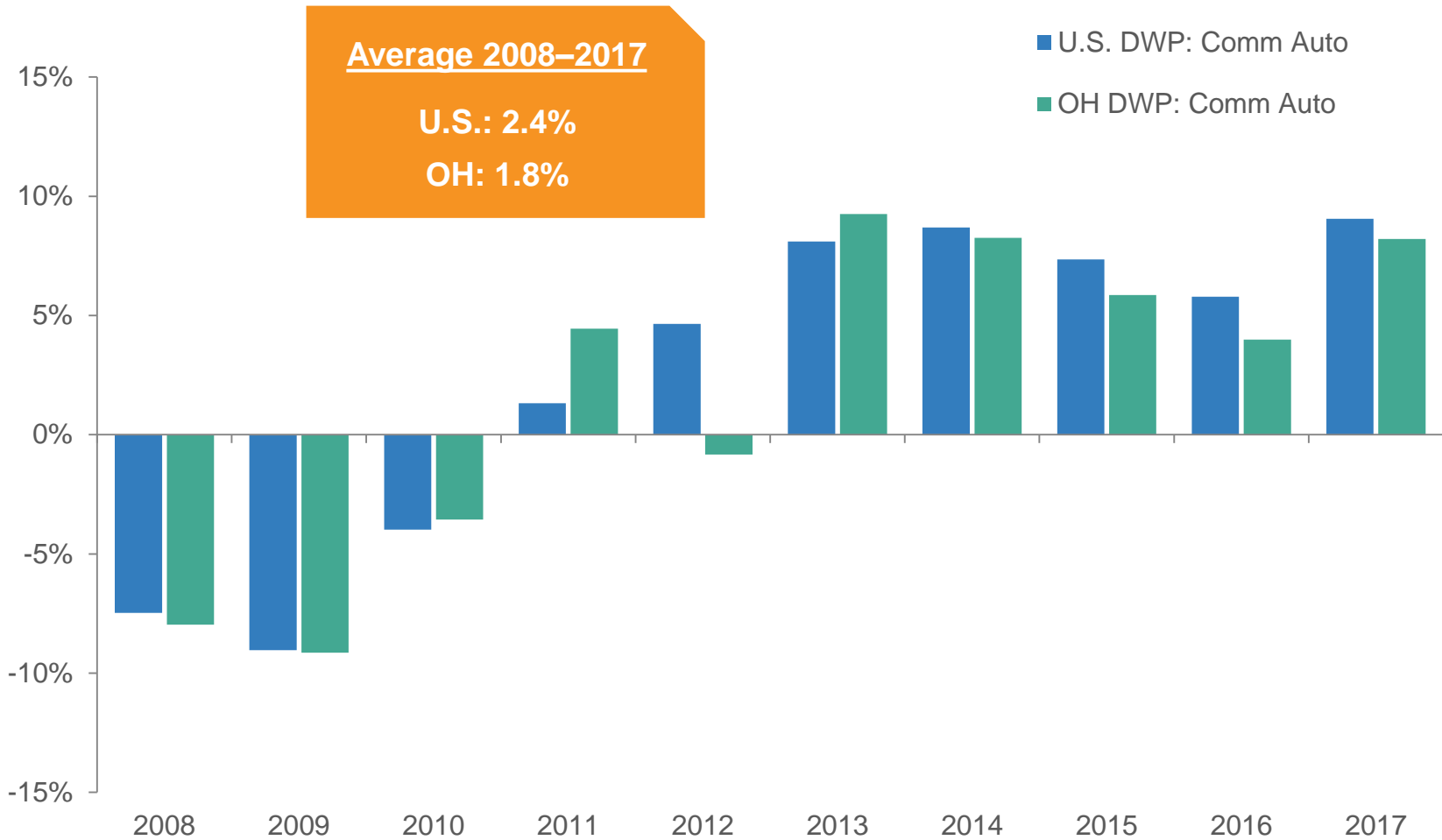
All Lines DWP Growth: OH vs. U.S.



Private Passenger Auto DWP Growth: OH vs. U.S.



Commercial Auto DWP Growth: OH vs. U.S.

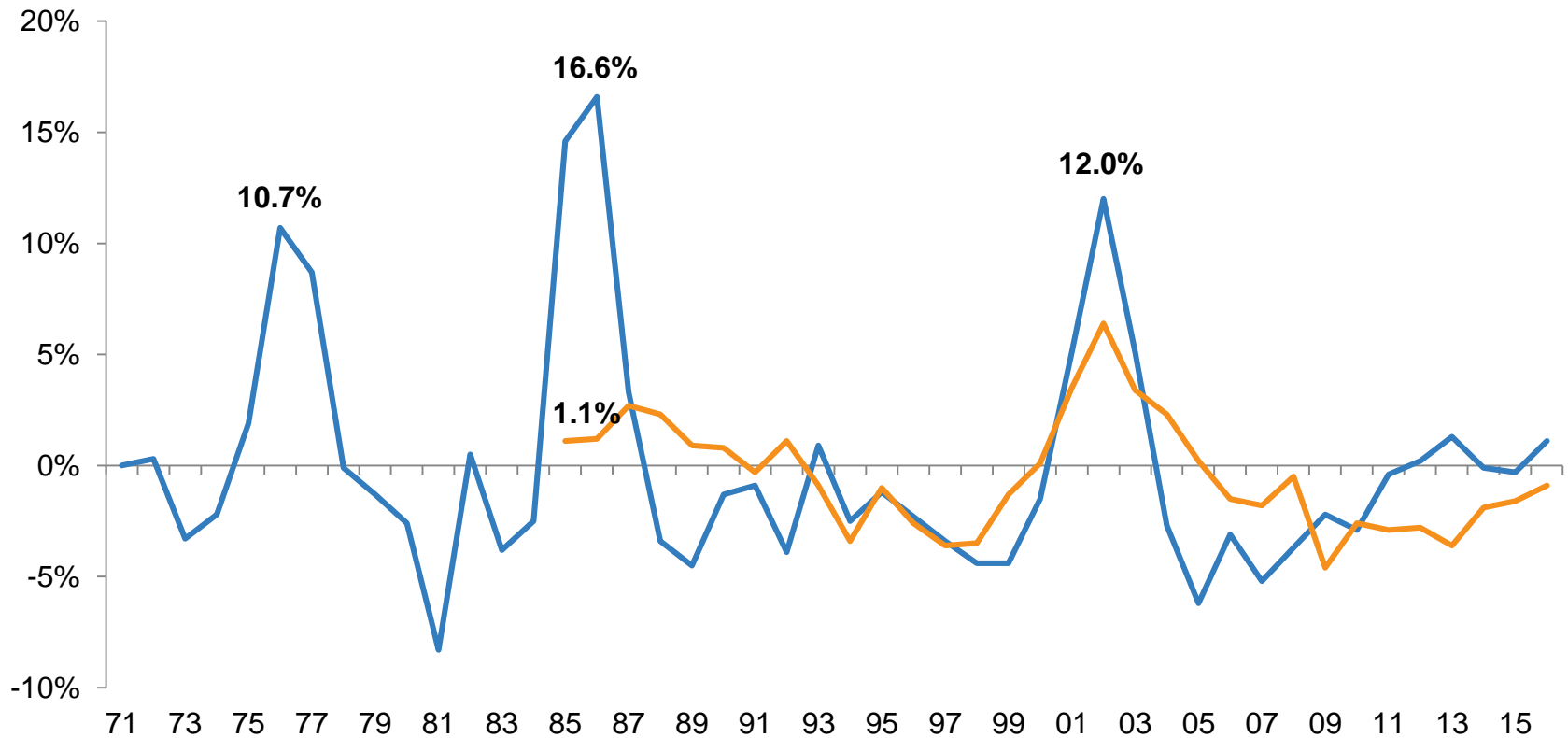


2017:Q4 Scuttlebutt

Is a hard market coming?

Three Hard Markets in the Last 45 Years

Net Premium Growth (All P/C Lines) Minus Nominal GDP, Annual Change



▼ The three “hard markets” in this 45-year span were in 1976–77, 1985–86, and 2001–03.



Sources: A.M. Best (1971-2017), ISO (2014-16), A.M. Best, Insurance Information Institute (1986-1994); U.S. Commerce Dept., Bureau of Economic Analysis; Insurance Information Institute calculations.

I.I.I. Hypothesis

What causes a hard market?

- ▲ Return on equity falls to 4% or below?
- ▲ Surplus drops due to financial market declines and/or significant underwriting losses?
- ▲ Unusually large losses due to catastrophes?



P/C Industry ROE and Hard Markets

Year	ROE	NWP-GDP Growth in Following Year	Hard Market?
1975	2.4%	10.7%	Yes
1984	1.8%	14.6%	Yes
2001	-1.2%	12.0%	Yes
2002	2.1%	5.1%	Yes
2017	5.0%	0.4%*	No



* Direct Written Premium – GDP Growth through Second Quarter

Policyholder Surplus and Hard Markets

Year	Surplus Decline	NWP-GDP Growth in Following Year	Hard Market?
1984	-2.7%	14.6%	Yes
1999	-0.9%	-1.5%	No
2000	-4.7%	5.1%	Yes
2001	-8.0%	12.0%	Yes
2008	-12.5%	-2.2%	No
2011	-0.8%	0.2%	No
2017	+7.4%	0.4%	No



* Direct Written Premium – GDP Growth through Second Quarter

CAT Claims and Hard Markets

Year	CAT Claims Over \$25 billion (2016 Adjusted)	NWP-GDP Growth in Following Year	Hard Market?
1992	\$39.6	0.9%	No
1994	\$27.7	-1.2%	No
2001	\$36.4	12.0%	Yes
2004	\$36.4	-6.2%	No
2005	\$77.1	-3.1%	No
2008	\$30.7	-2.2%	No
2011	\$35.2	0.2%	No
2012	\$36.8	1.3%	No
2017	\$90.5	0.4%	No



Hard Market in 2018?

- ▲ **Strong indicator: $\leq 4\%$ ROE**
 - ◆ Consistent hard markets in years comparisons.
- ▲ **Indifferent indicator: Surplus Increase/Decrease**
 - ◆ Inconsistent hard/soft markets in years comparisons.
- ▲ **Weak indicator: Large Cat Losses**
 - ◆ Consistent non-movement.



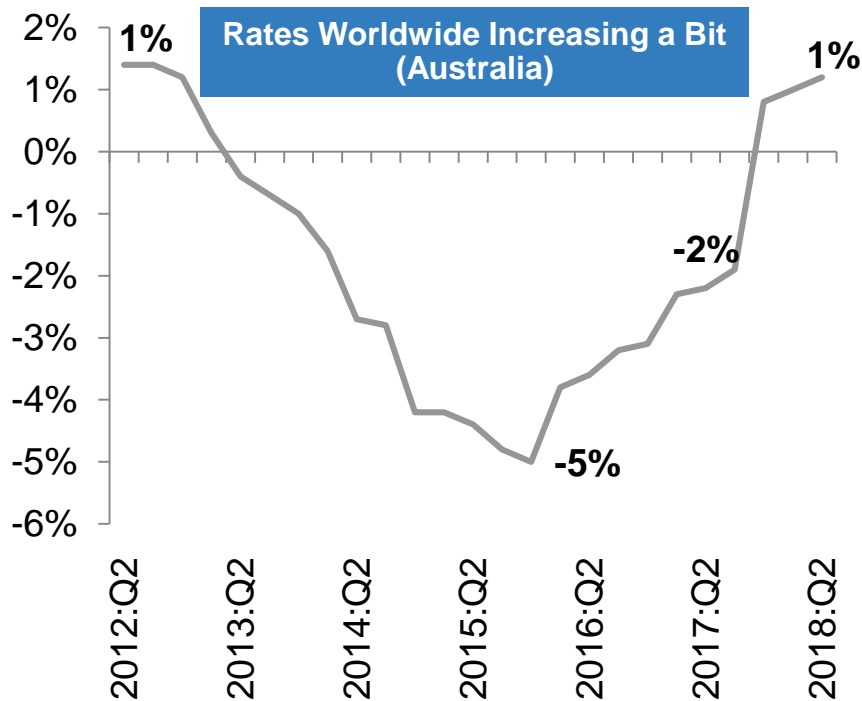
Commercial Rate Changes

Commercial Auto . . . And Everything Else

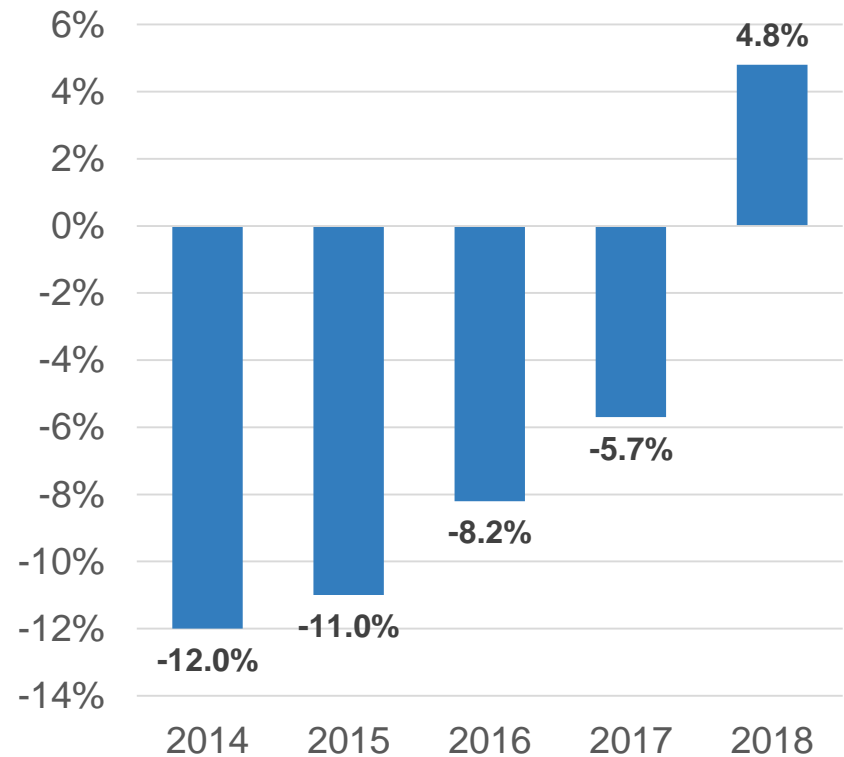
Rate Changes Worldwide

Rates Soft/Flat, Especially in Reinsurance

Global Insurance Rates Through Q2 2018



Global Reinsurance January Renewals

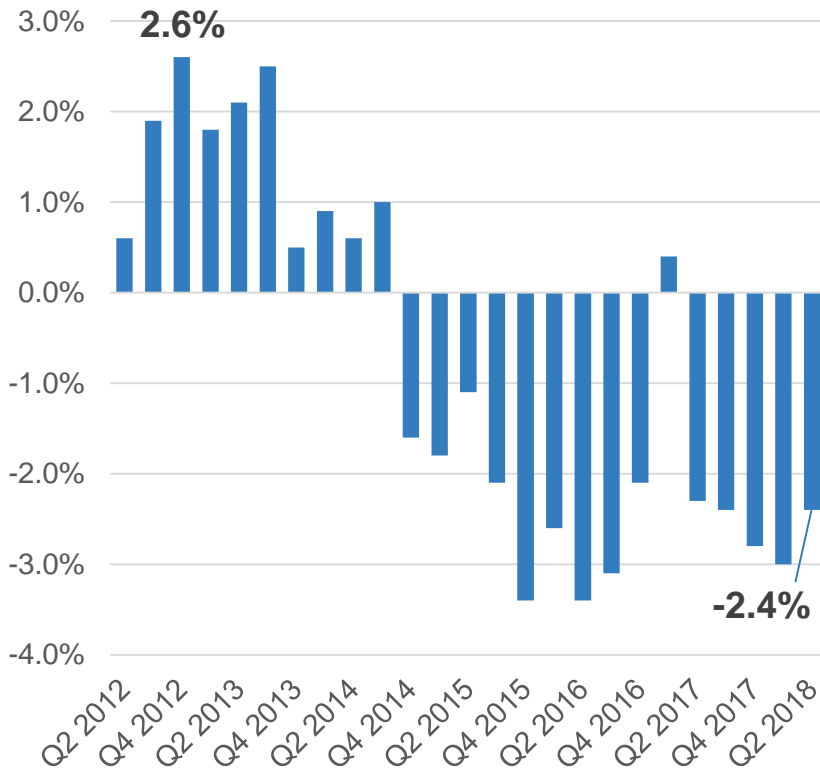


Sources: Marsh Insurance Market Index, JLT Re.

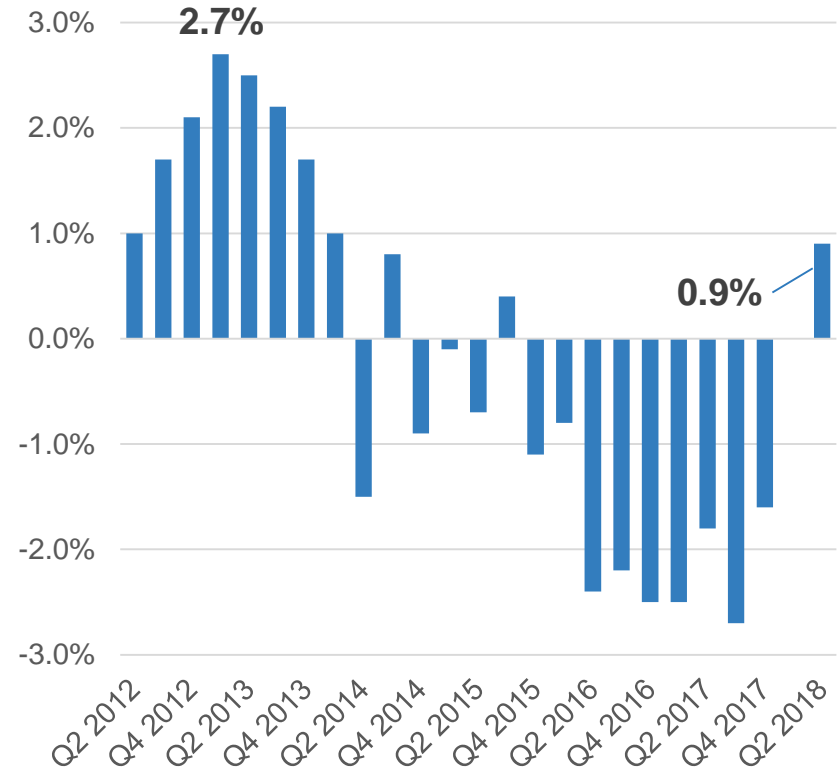
Liability Rate Changes

Slight Softening, Though Local Markets Vary

U.S. Casualty



U.S. Financial and Prof Liab

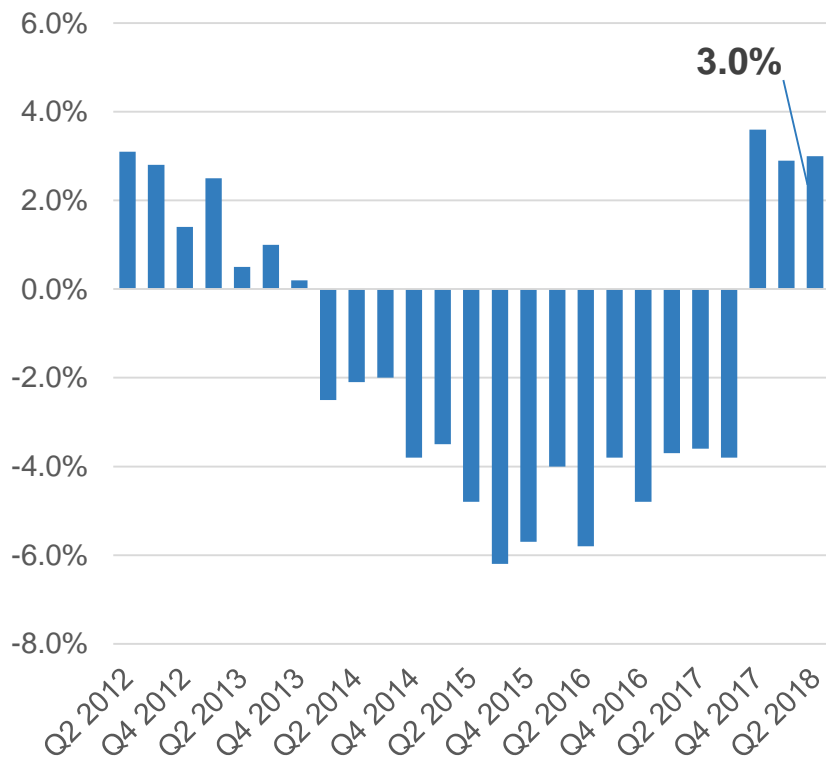


SOURCE: Marsh Insurance Market Index.

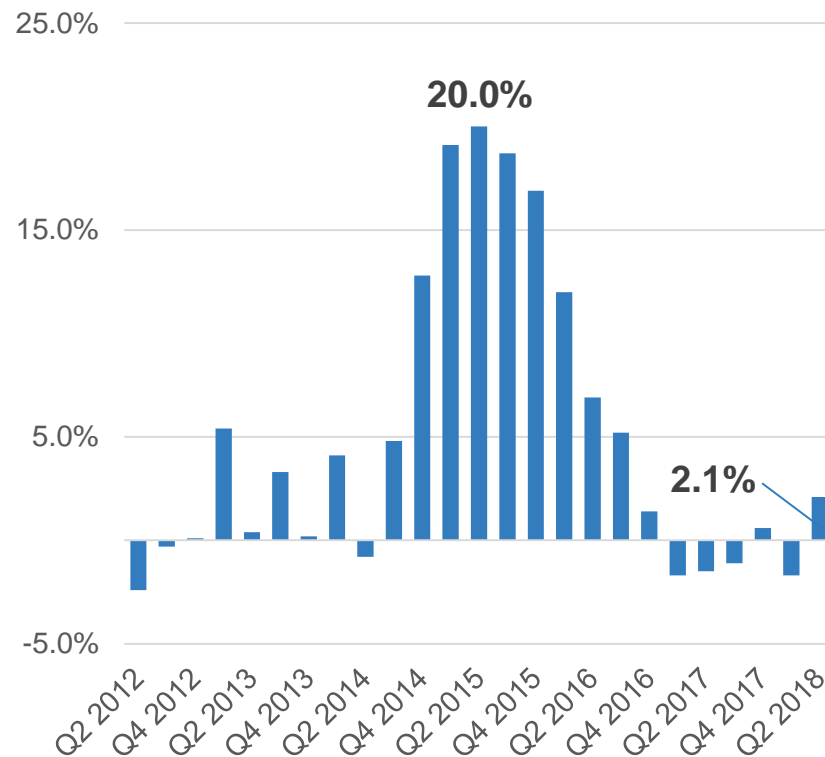
Property/Cyber Rate Changes

A Flat Market, Though Local Markets Vary

U.S. Property

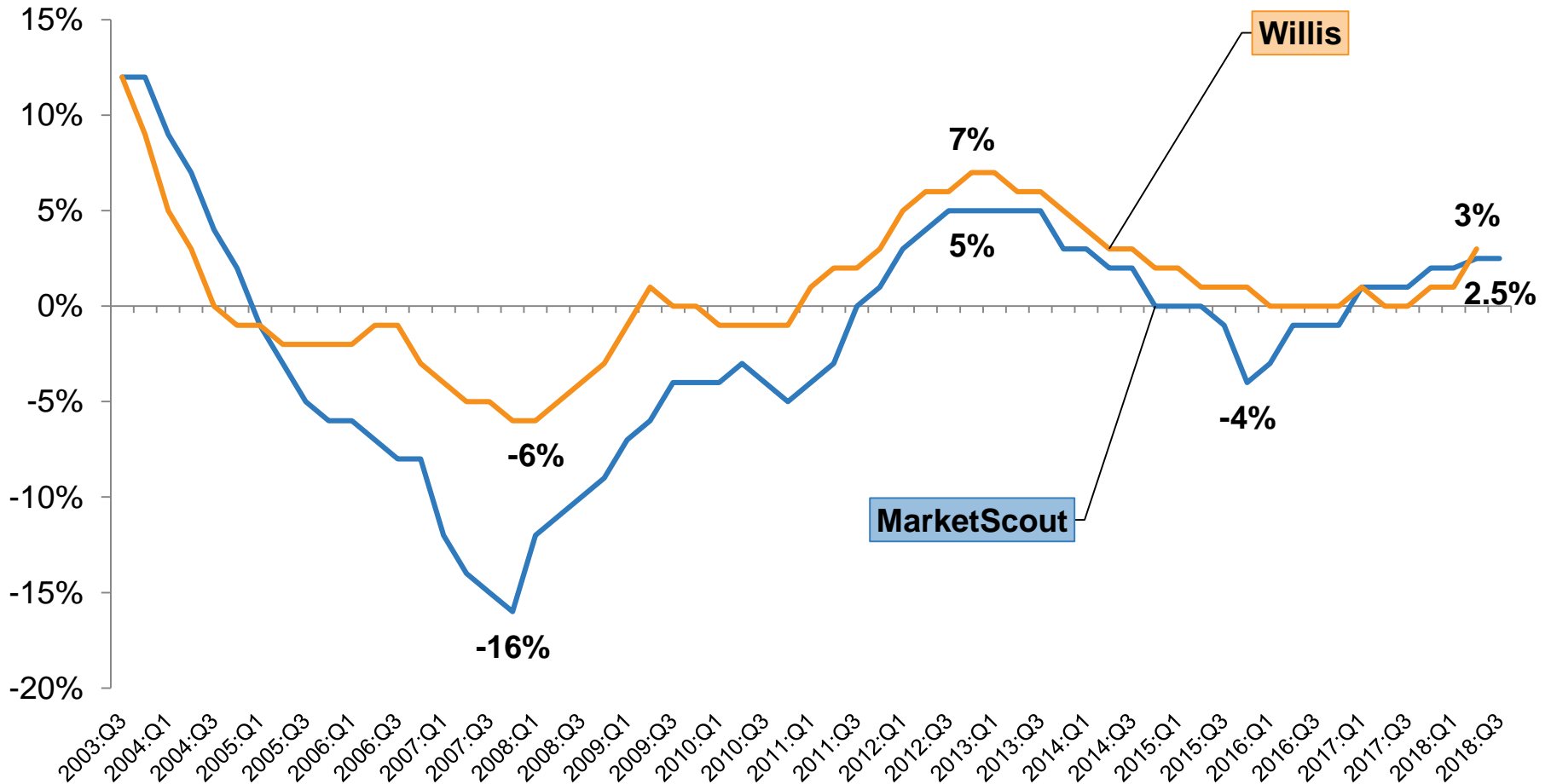


U.S. Cyber



SOURCE: Marsh Insurance Market Index.

Commercial Lines Rate Change

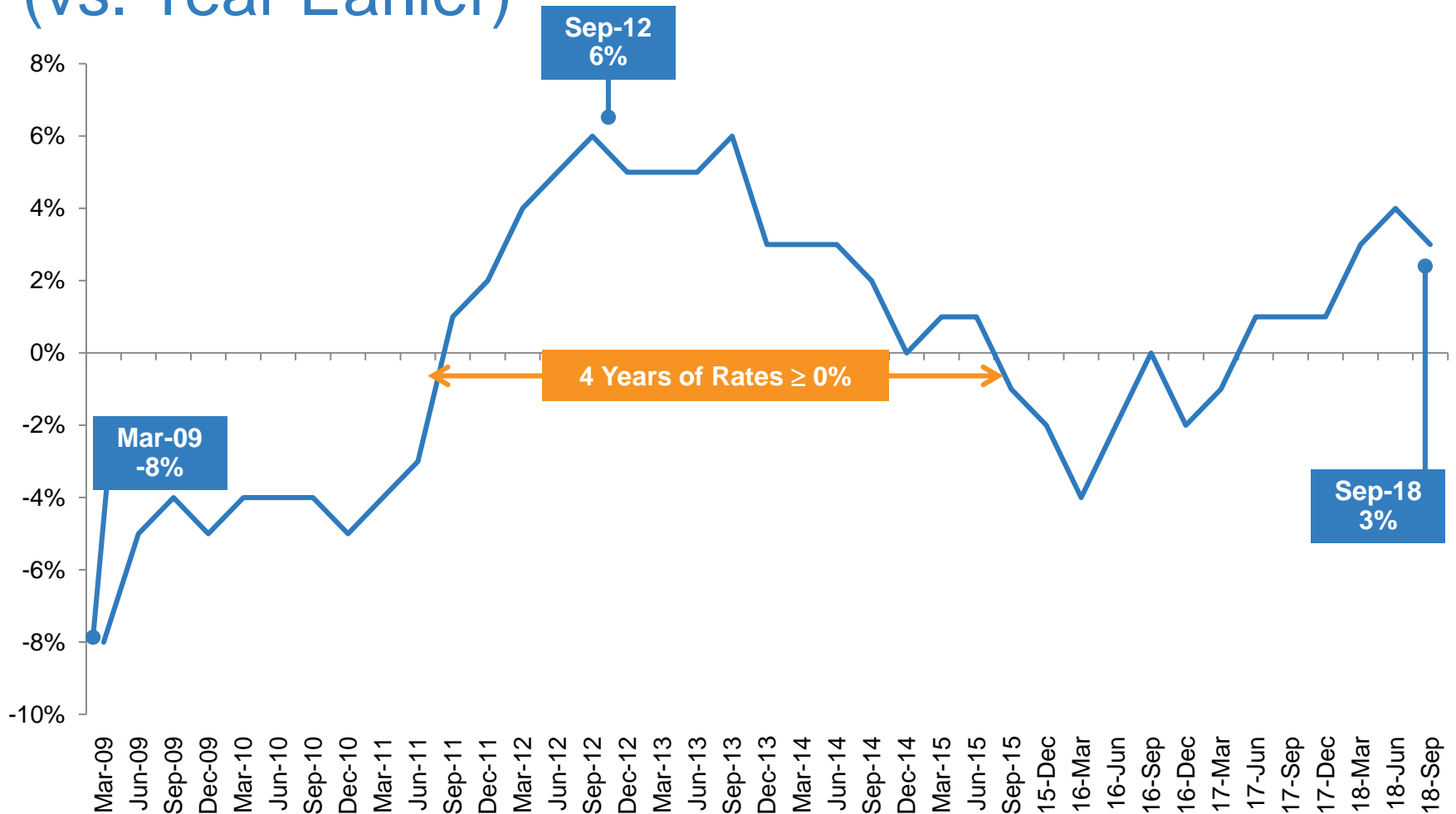


'Material' Increases in Auto, Property, Umbrella; Q2 Increases > Q1 Increases



Sources: Willis Towers Watson, MarketScout.

Commercial Property Rate Change (vs. Year Earlier)

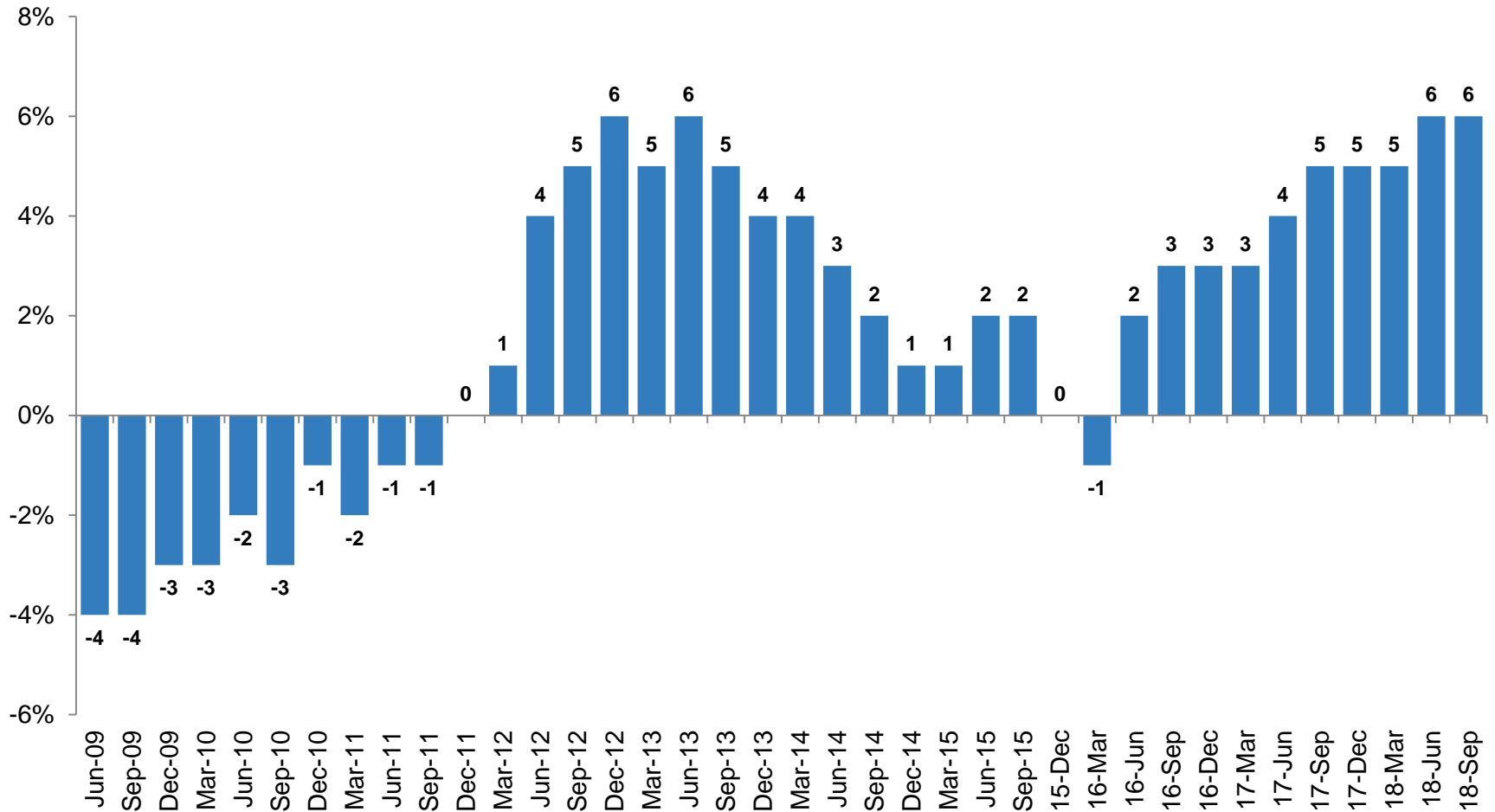


Property Rates Closely Following Loss Experience, Especially in Catastrophe Prone Areas.



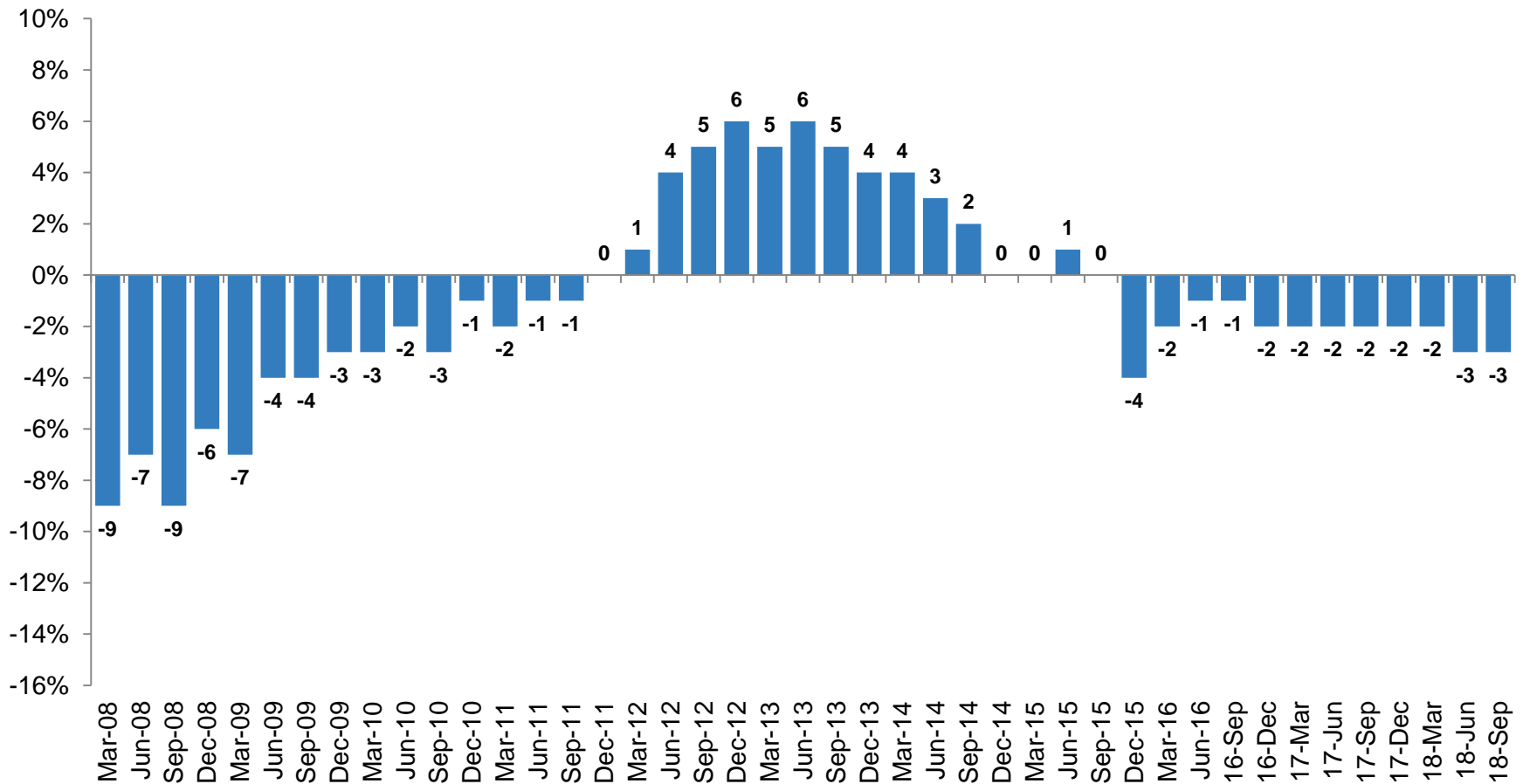
Sources: MarketScout, Insurance Information Institute..

Commercial Auto Rate Change (vs. Year Earlier)



Sources: MarketScout, Insurance Information Institute.

Workers Comp Rate Change (vs. Year Earlier)



Stellar Results Have Created a Soft Market.

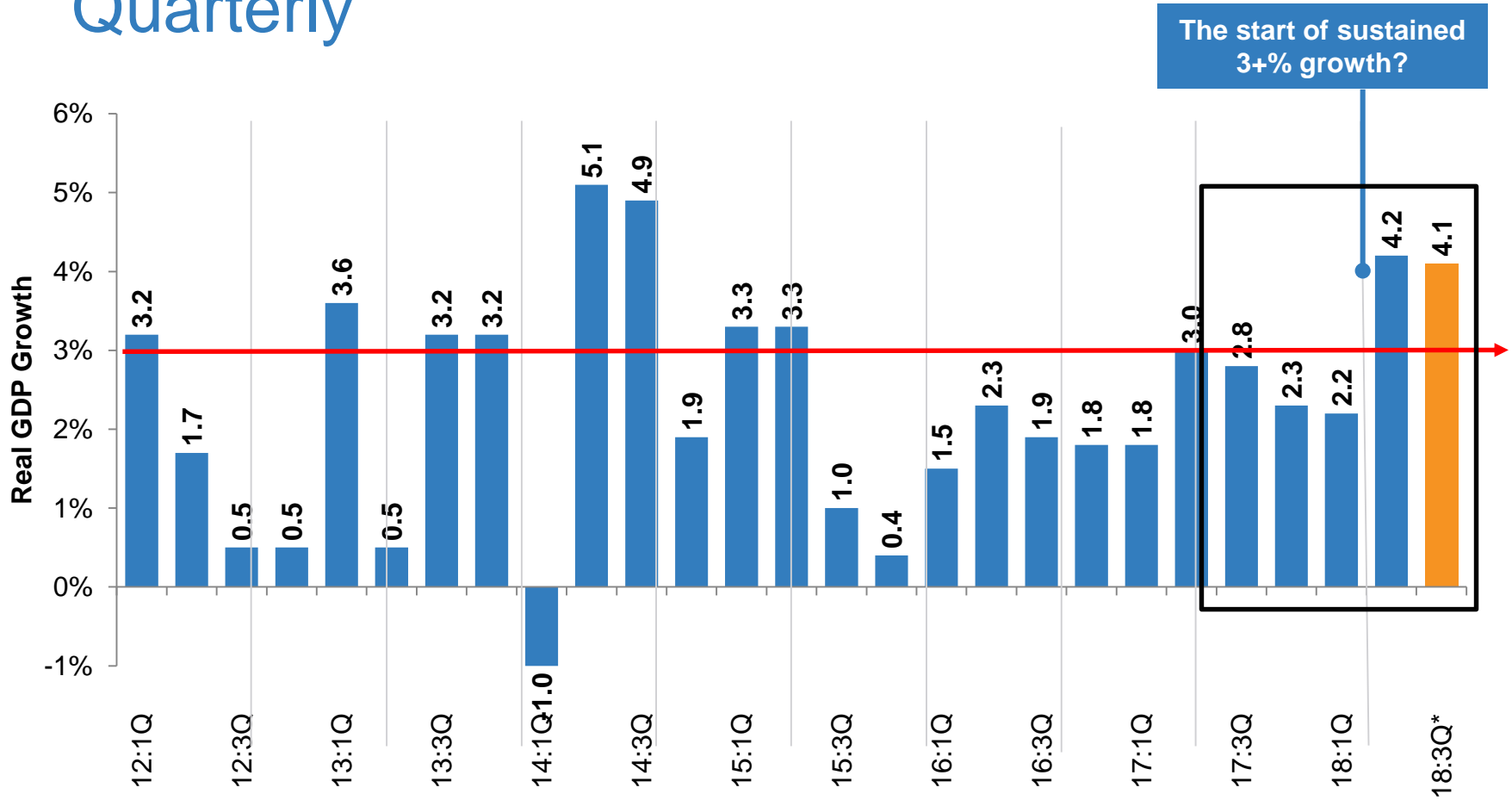


Sources: MarketScout, Insurance Information Institute.

Economic Outlook

The Strength of the Economy
Will Influence the Insurance Environment

U.S. Post-Recession Real GDP Growth,** Quarterly



Since the start of 2012, the economy (as measured by real GDP) grew 3% or faster (at an annual rate) in a calendar quarter only 10 times in 22 quarters. But twice in the last 5.

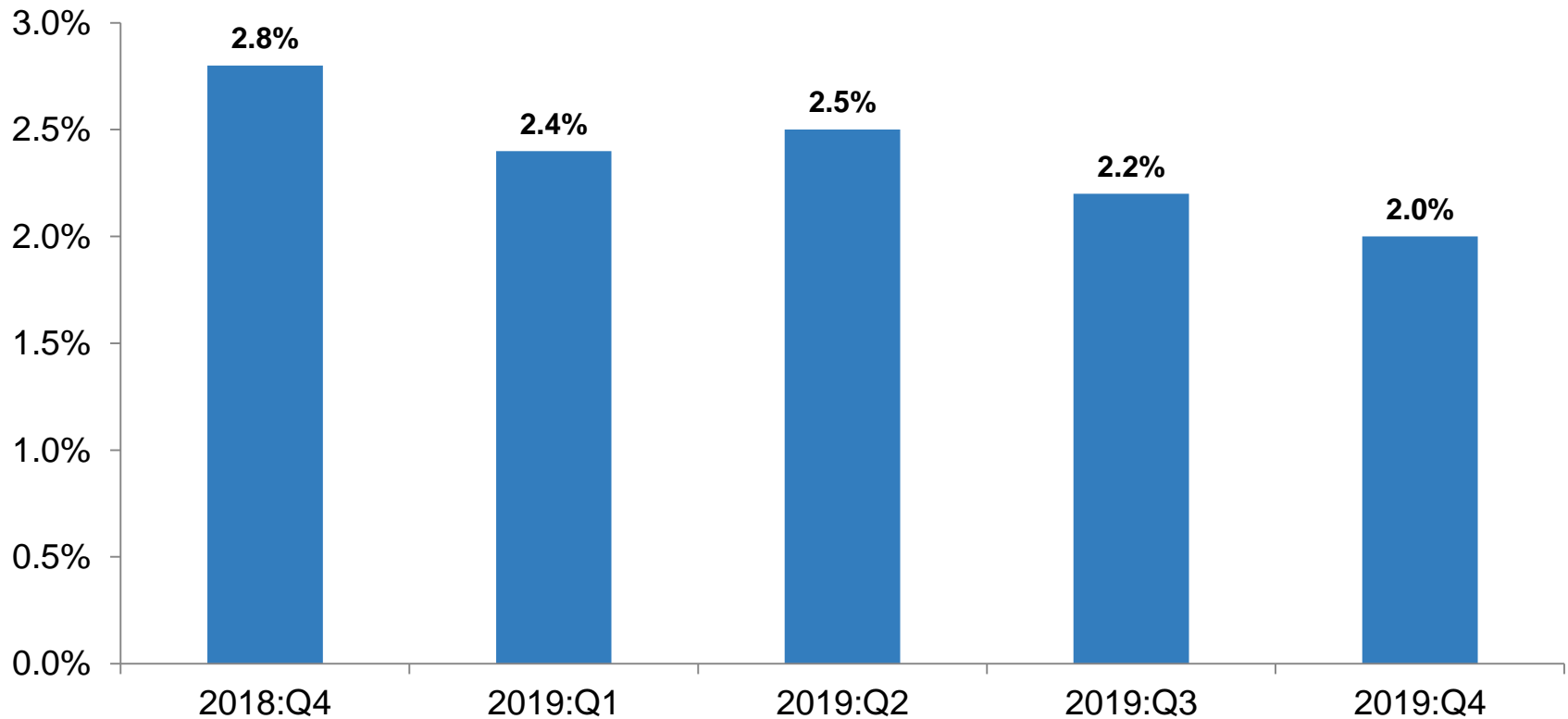


*GDPnow estimate

**Percent change from previous quarter, seasonally-adjusted at an annual rate

Sources: U.S. Department of Commerce; Insurance Information Institute.

Quarterly U.S. Real GDP Growth: Forecasts



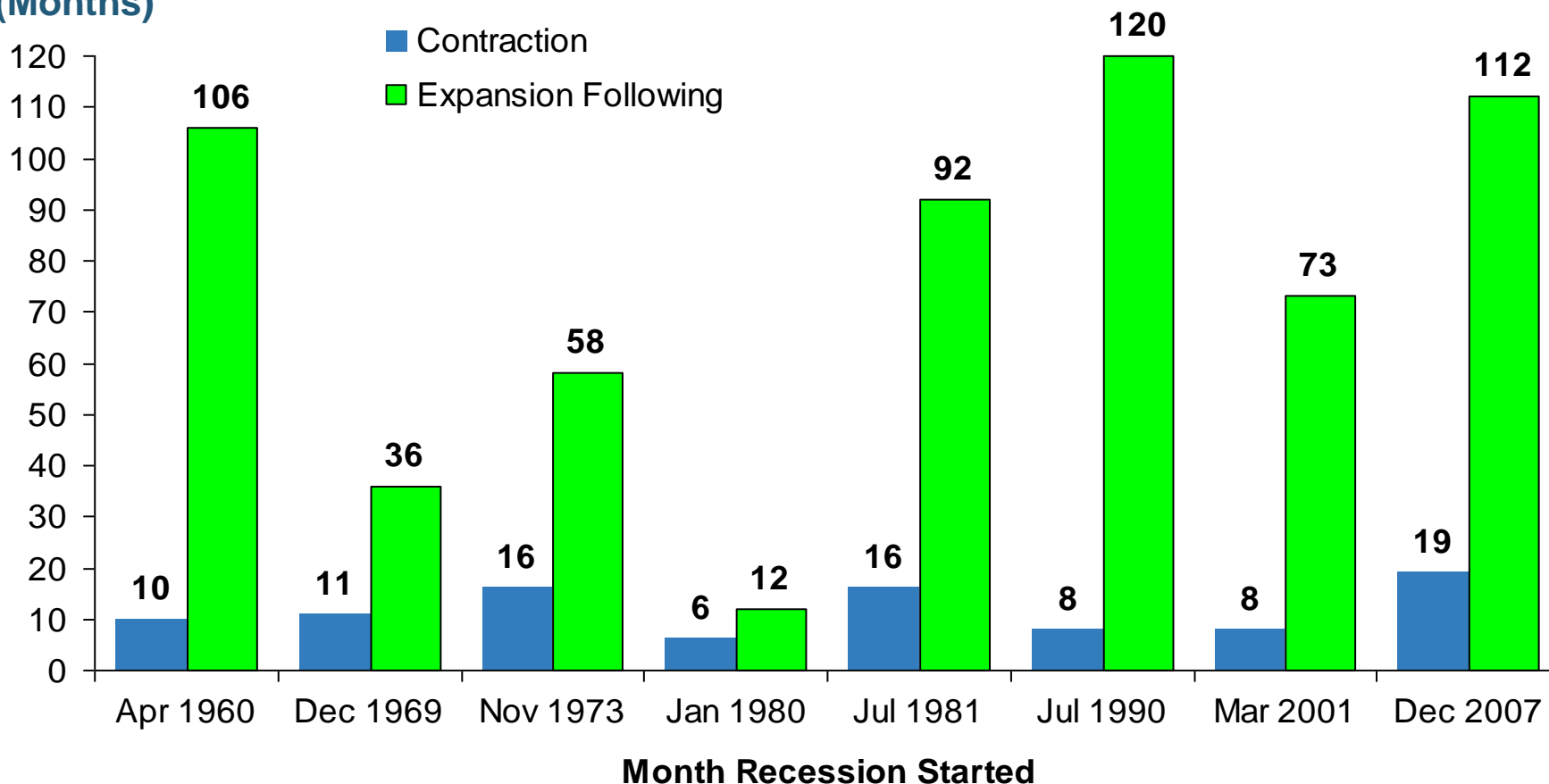
As Interest Rates Rise, Most Economists Forecast Slower Growth.



Length of US Business Cycles, 1960–Present*

Duration
(Months)

■ Contraction
■ Expansion Following



The length of the expansions greatly exceeds the length of contractions (recessions).

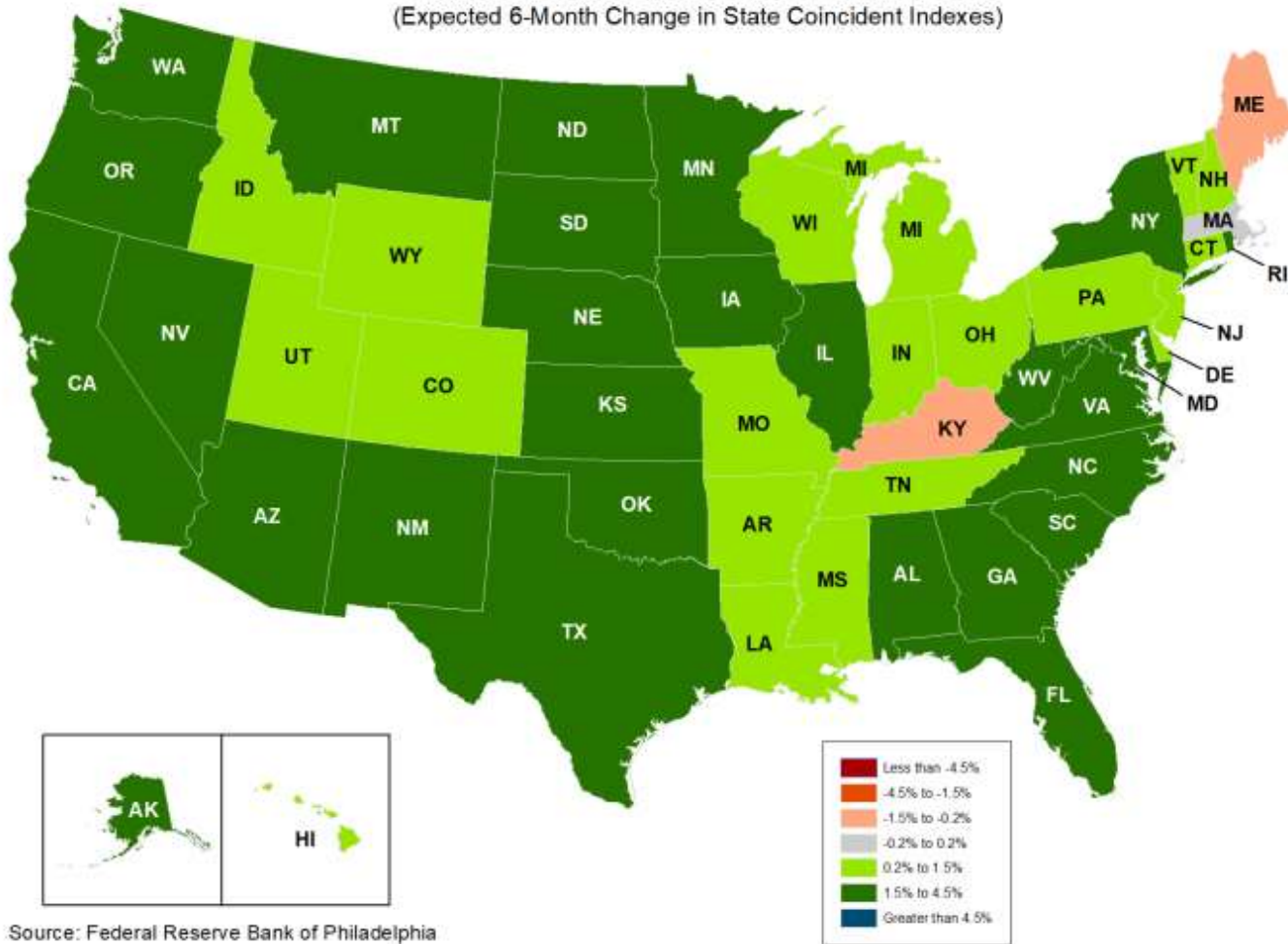


*Through October 2018; June 2009 was the “official” end of recession.

Sources: National Bureau of Economic Research; Insurance Information Institute.

State-by-State Leading Indicators through February 2019

August 2018 State Leading Indexes
(Expected 6-Month Change in State Coincident Indexes)



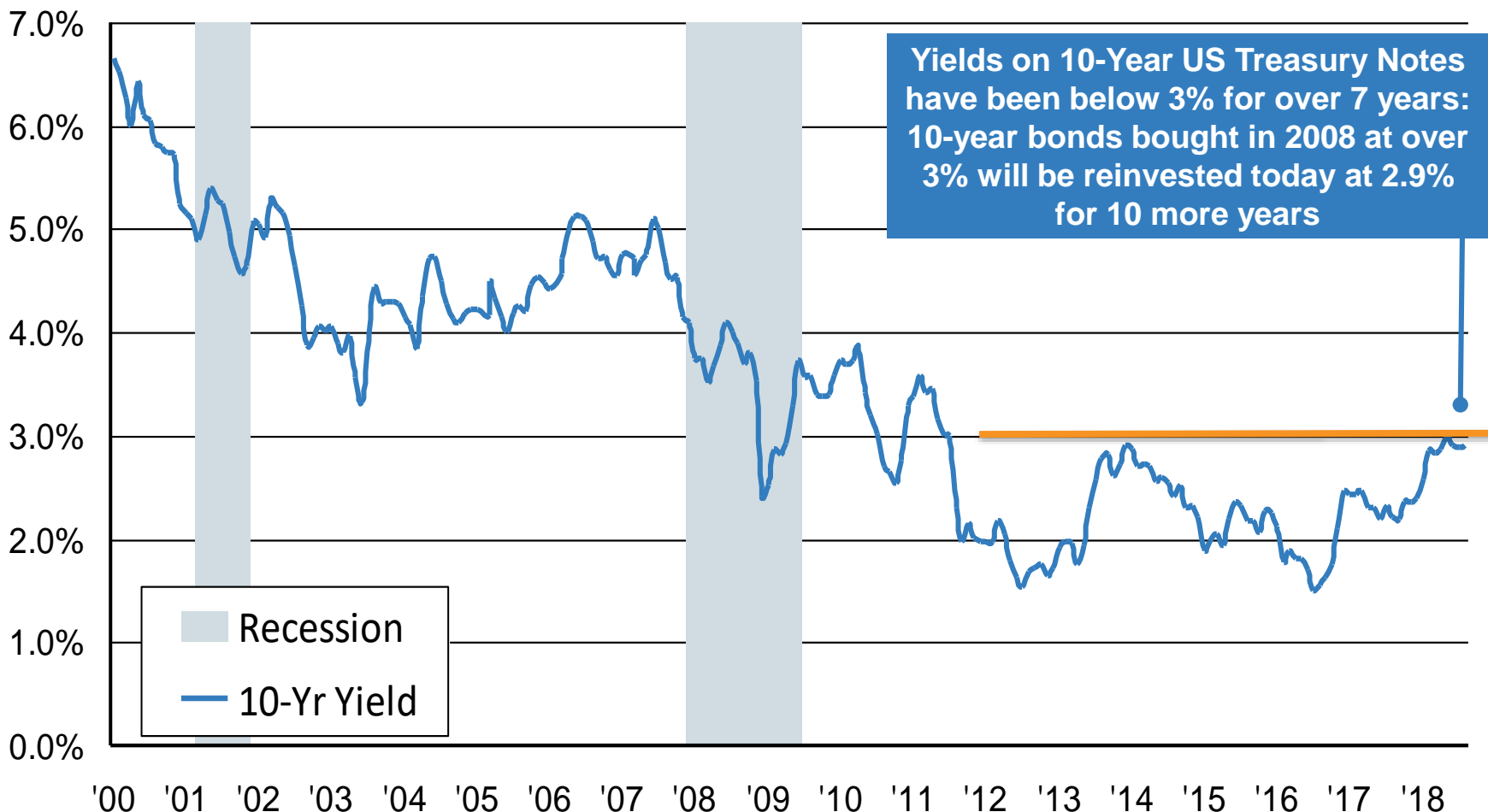
Near-term growth forecasts vary widely by state. Strongest growth = dark green (1.5%-4.5%); then light green; then gray; weakest = beige (-1.5% to -4.5%)

Source: Federal Reserve Bank of Philadelphia



Sources: Federal Reserve Bank of Philadelphia at www.philadelphiafed.org/index.cfm , released October 4, 2018; Next release is November 5, 2018; Insurance Information Institute.

US Treasury Note 10-Year Yields*: Is the long downward trend over?



Since nearly 50% of P/C bond/cash investments are in 5-year or longer maturities, most P/C insurer portfolios will have low-yielding bonds for years to come.

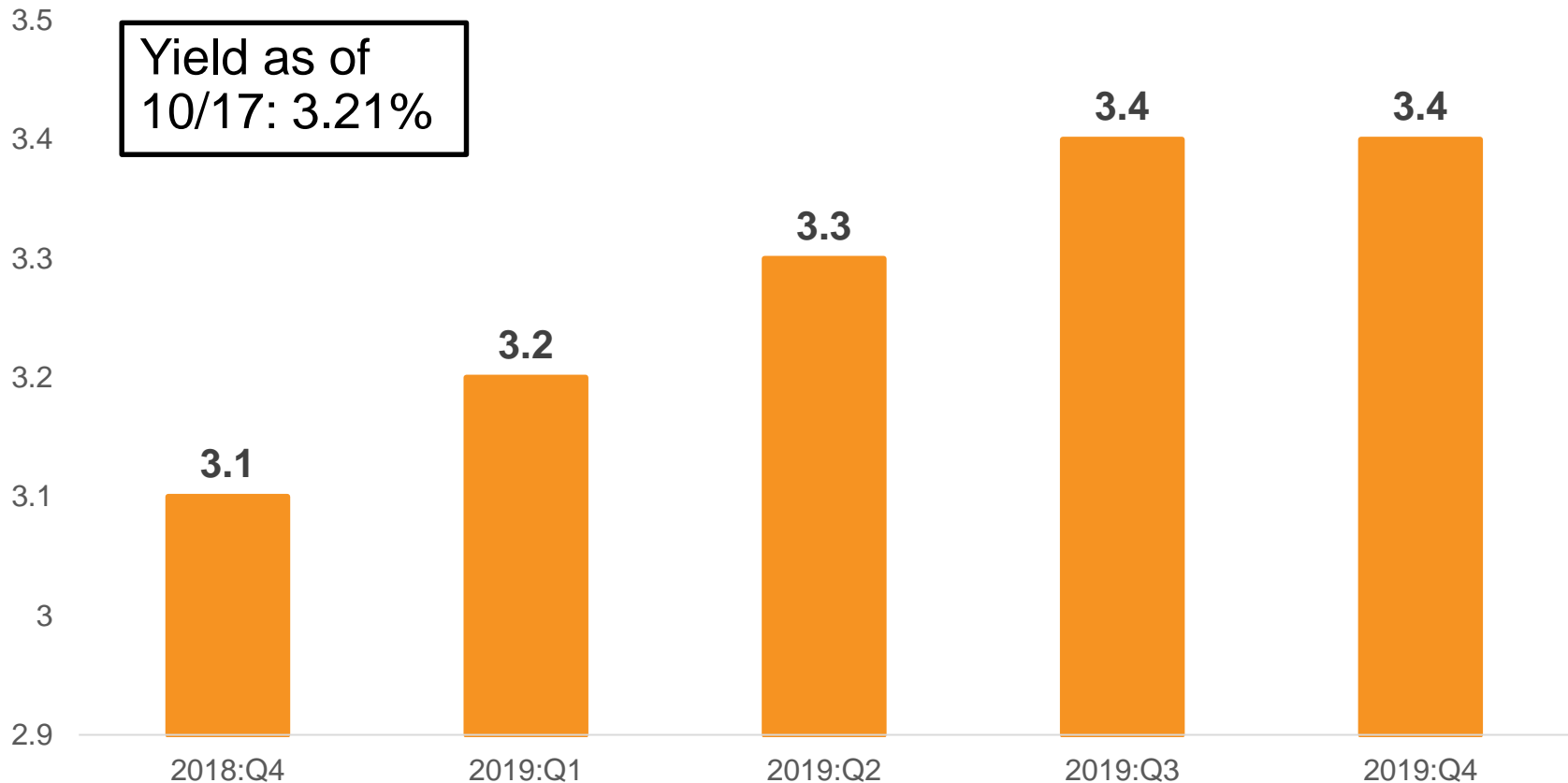
*Monthly, constant maturity, nominal rates, through August 2018.



Sources: Federal Reserve Bank at <http://www.federalreserve.gov/releases/h15/data.htm>; National Bureau of Economic Research (recession dates); Insurance Information Institute.

September 2018: Quarterly Yield Forecasts for 10-Year US Treasury Bonds in 2018-19

Yield (%)



Many of the 53 forecasts in the Blue Chip survey expect continual increases in the yield of 10-year T-bonds in 2018-19.

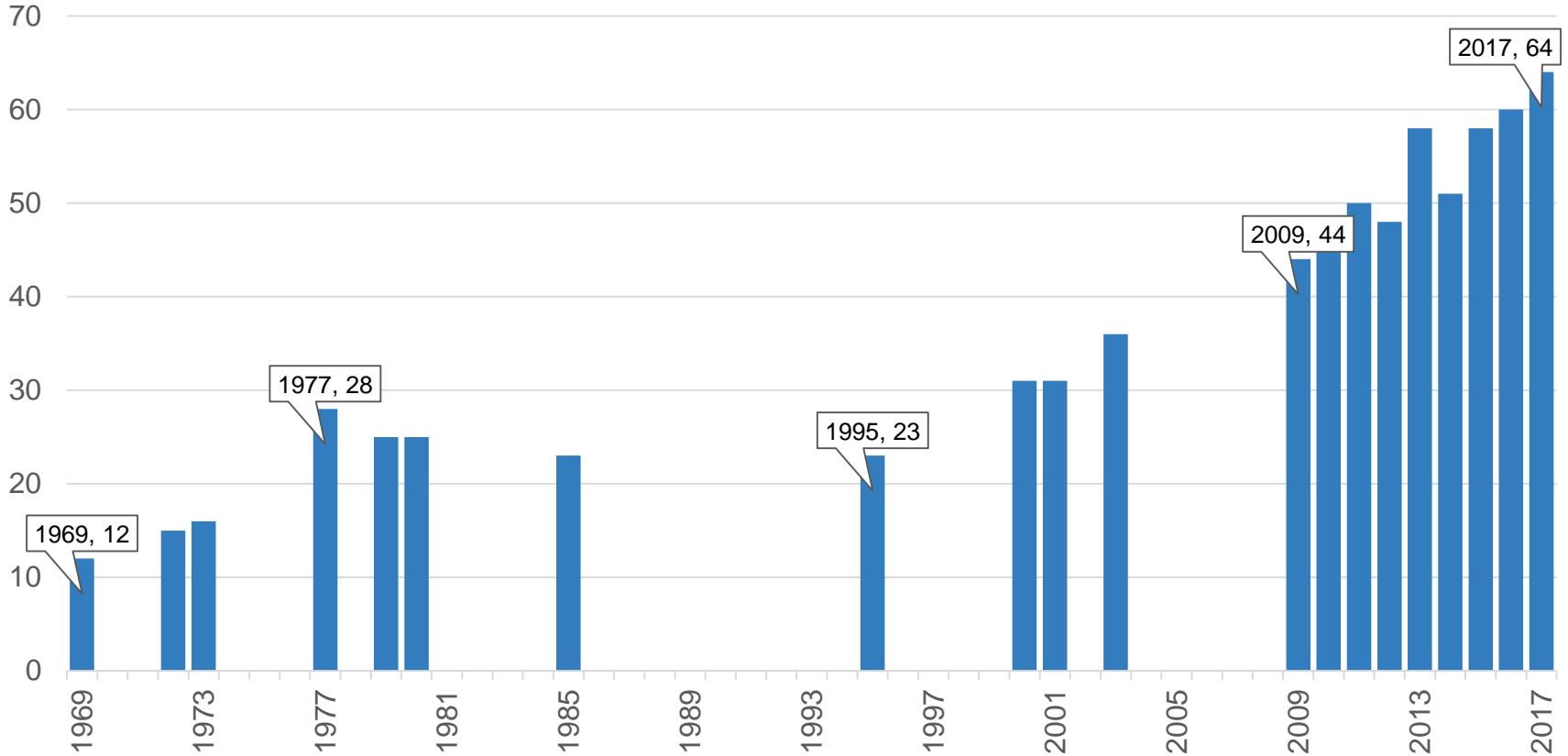


Cannabis and Insurance

A Sensitive Issue

Support for Legalization Grows

% Saying Yes



“Do You Think the Use of Marijuana Should Be Made Legal, Or Not?”



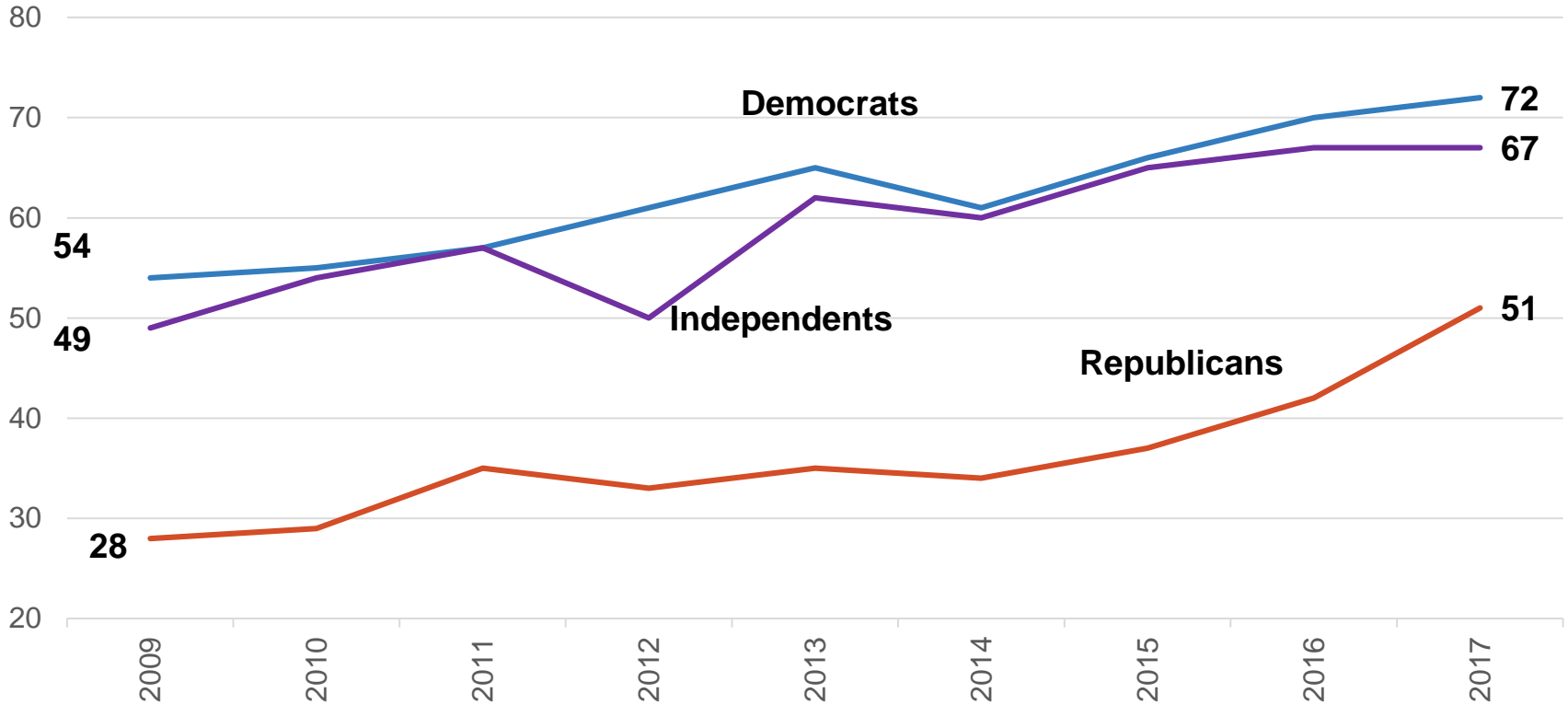
No survey in years where no data appears.

SOURCES: Gallup Poll Social Series, <http://news.gallup.com/file/poll/221027/171025Marijuana.pdf>.

Support for Legalization Grows

% Saying Yes

— Democrats — Independents — Republicans



“Do You Think the Use of Marijuana Should Be Made Legal, Or Not?”

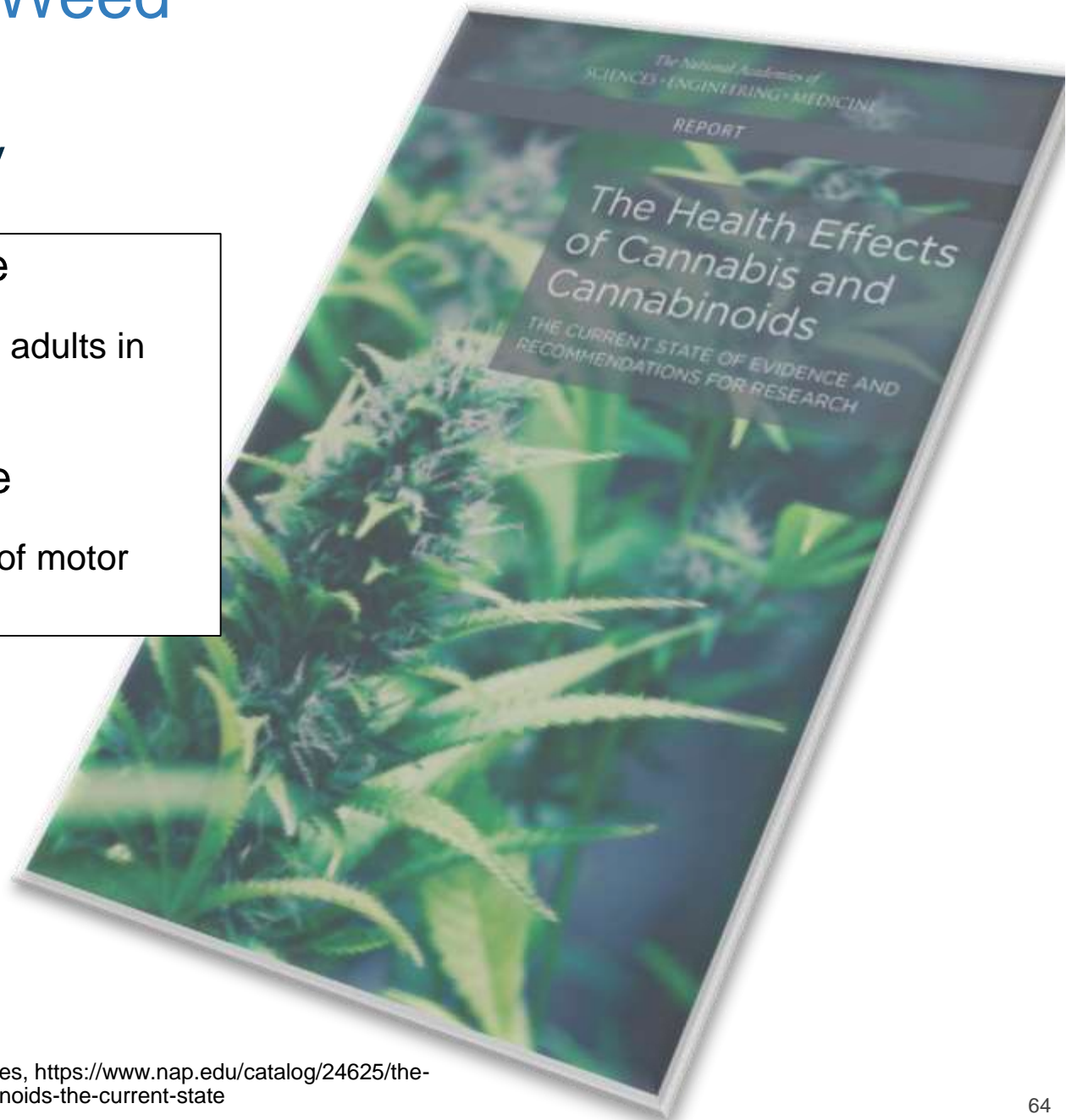


SOURCES: Gallup Poll Social Series, <http://news.gallup.com/poll/221018/record-high-support-legalizing-marijuana.aspx>

The Science of Weed

What the Experts Say

- ▲ **Conclusive evidence**
 - ▲ Improves the lot of adults in chronic pain.
- ▲ **Substantial evidence**
 - ▲ Increases the risk of motor vehicle crashes.



Cannabis as Medicine

Treatments for Occupational-Related Conditions

Work-Related Conditions

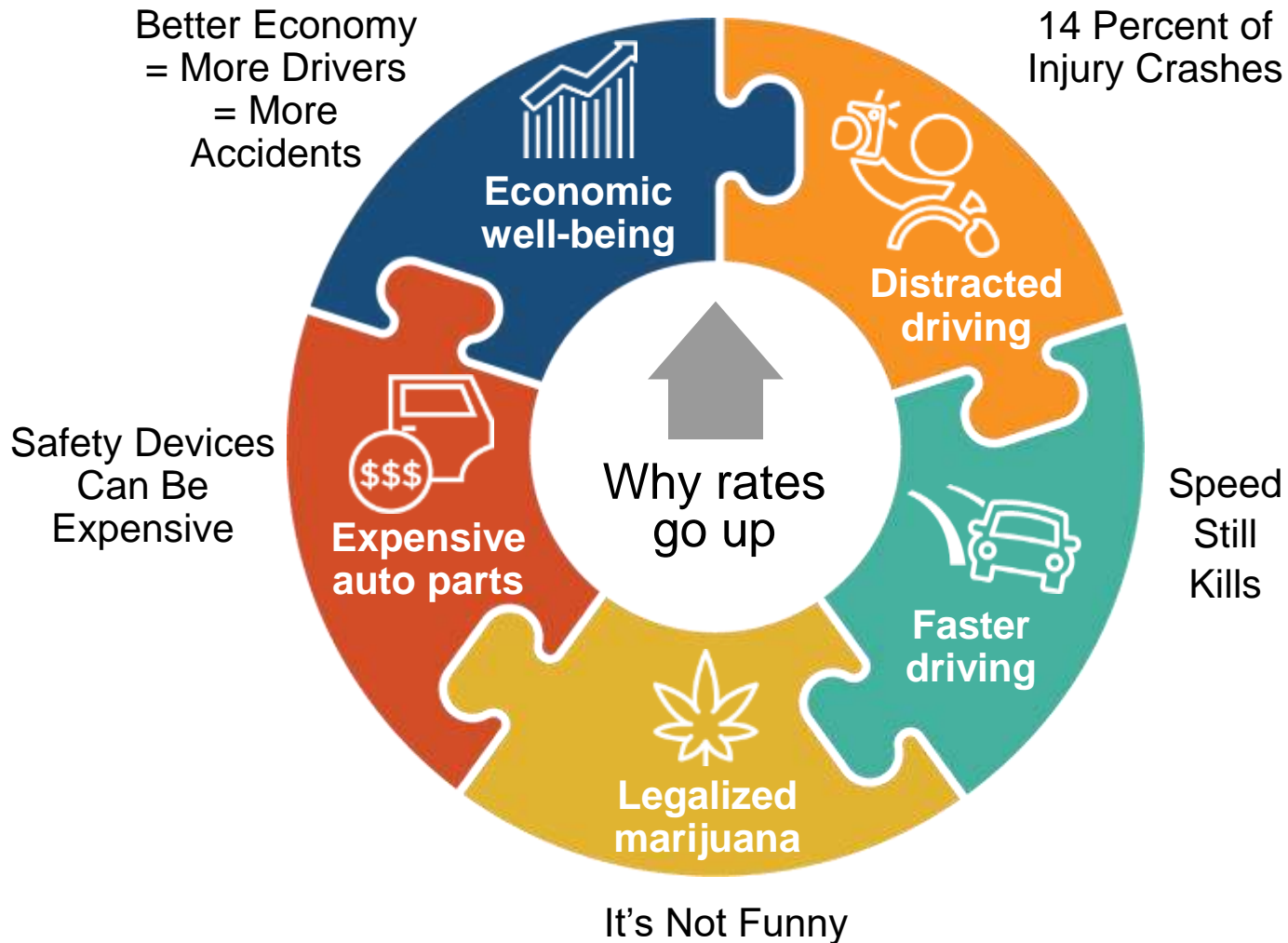
- ▲ Chronic Pain
- ▲ Anxiety and Depression
- ▲ PTSD
- ▲ Traumatic Brain Injury
- ▲ Spasticity Following Spinal Cord Injury

Cannabis vs. Opioids

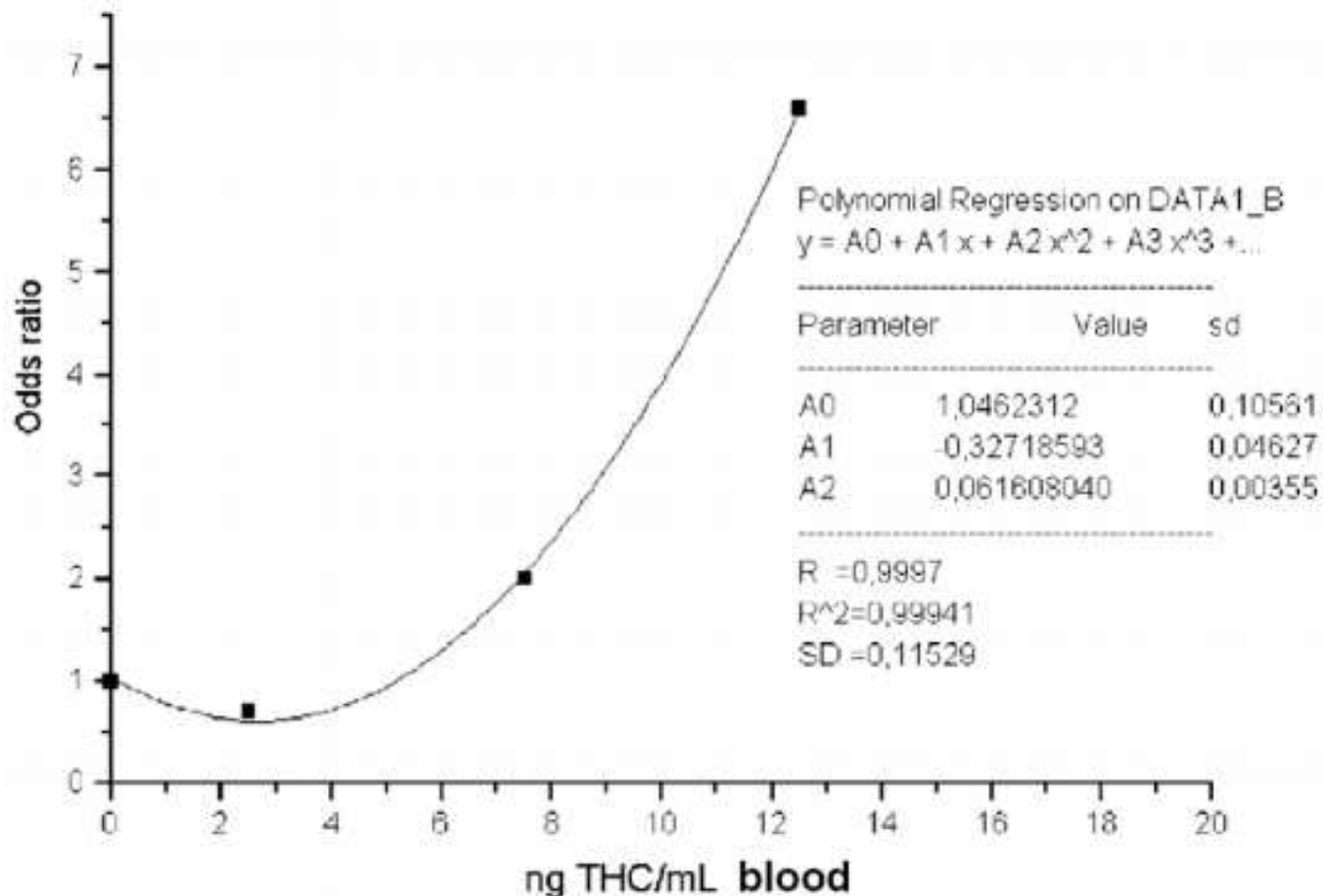
- ▲ ‘Highly suggestive studies’
 - ◆ Death Certificate Study
 - ◆ Dispensaries Study
 - ◆ Medicare/Medicaid Study
 - ◆ Auto Fatality Study
- ▲ Not conclusive – Further Study Needed



Road Safety



Accident Probability



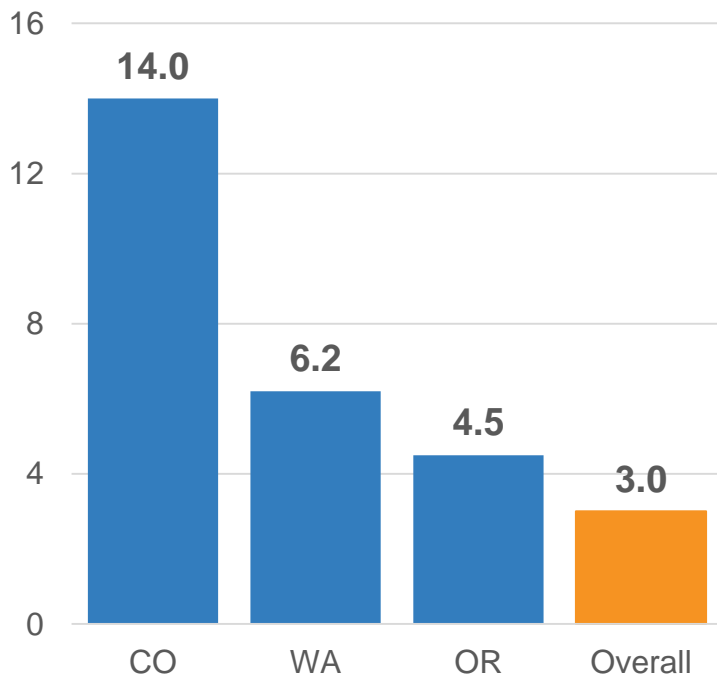
Chance of Accident Rises Sharply As Consumption Rises.



SOURCE: Sewell, Poling, Sofuoglu, "The Effect of Cannabis Compared with Alcohol on Driving," American Journal on Addictions, 2009.

Legal Sales Lead to More Accidents

Percent Change in Collision Frequency, 2012-2016*



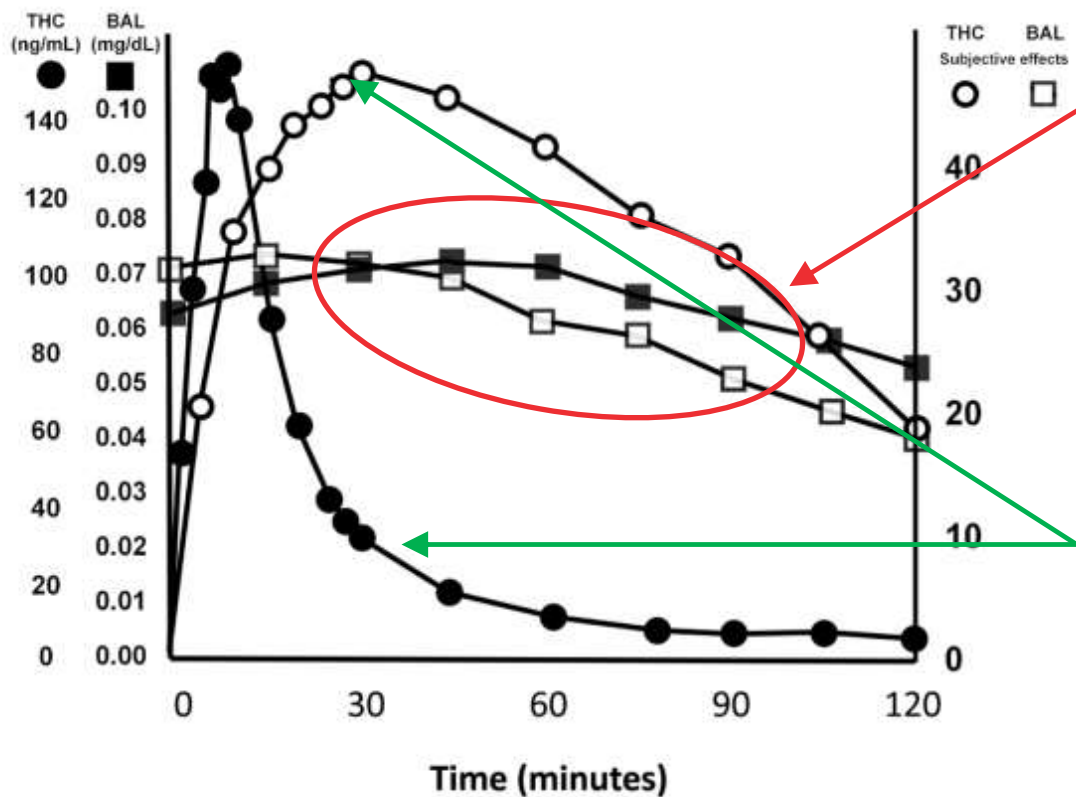
* Vs. Neighboring States.

- ▲ Look at 'Real World' Crashes
- ▲ All Measures Statistically Significant
- ▲ 'Overall' Measure a Good Proxy for What Will Happen in Any State
- ▲ Auto Accidents are 6% of WC claims; 12% of Losses



SOURCE: Highway Loss Data Institute.

Blood Levels vs. Intoxication



BAC and 'feeling drunk' rise and fall in lockstep

THC levels in blood and 'feeling high' rise and fall at different rates

It Is Difficult to Use Blood Test to Measure Whether Someone is High.



SOURCE: Sewell, Poling, Sofuoglu, "The Effect of Cannabis Compared with Alcohol on Driving," American Journal on Addictions, 2009.

State of the Debate

Lots of Questions

Insurers Are Asking

- ▲ Will Schedule I Status Change?
- ▲ Is Medical Marijuana Covered?

Employers Are Asking

- ▲ Does WC Cover a High Worker?
- ▲ Is Drug-Free Workplace Affected?

Regulators Are Asking

- ▲ How Can Reimbursement Be Handled?
- ▲ Can Worker Rights, Employer Needs Be Balanced?

Legislators Are Asking

- ▲ What Are the Key Issues in the Debate?
- ▲ If We Legalize, What Will Feds Do?



Questions?



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