What’s Driving the P/C Industry?

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What’s Driving It?
The Economy, for one thing.
Direct Written Premiums track Nominal GDP—not quarter by quarter but overall fairly well.

Sources: SNL Financial; U.S. Commerce Dept., Bureau of Economic Analysis; I.I.I.
The manufacturing sector expanded in 67 of the 70 months from January 2010 through October 2015. It contracted in November 2015 through February 2016 and again in August 2016 but is expanding again.

Sources: Institute for Supply Management; Insurance Information Institute.

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2017:Q1

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

Sources: [http://research.stlouisfed.org/fred2/series/WASCUR](http://research.stlouisfed.org/fred2/series/WASCUR); National Bureau of Economic Research (recession dates); Insurance Information Institute.
Nonresidential Fixed Investment: Implications for Commercial Insurance

Percent Change from same quarter, prior year

- Structures
- Equipment
- Intellectual property products

Sources: bea.gov, news release “Gross Domestic Product: First Quarter 2017 (Second Estimate) and prior releases, Table 8; Insurance Information Institute.
So How is the P/C Industry Doing?

Premium Growth Has Followed Economic Growth, Inflation.

Commercial & Personal Lines Direct Premiums
Written Growth, Quarterly Y-o-Y

Since 2016:Q1, personal DPW have grown by over 5% but commercial DPW by less than 3%.

Sources: NAIC via SNL Financial; Insurance Information Institute calculations.
P/C Insurance Industry
Combined Ratio, 2000-2017*

Heavy Use of Reinsurance Lowered Net Losses.

Best Combined Ratio Since 1949 (87.6)

Higher CAT Losses, Shrinking Reserve Releases, Toll of Soft Market

A return to more usual underwriting loss.

3 Consecutive Years of U/W Profits; 1st time since 1971-73

Sources: A.M. Best; ISO, a Verisk Analytics company; I.I.I.
In the first quarter of the year, net underwriting results have been quite variable.
CAT Claims are normally a small part of total claims in the first quarter, but that wasn’t true in 2017. Moreover, although it’s a small sample, the trend seems to be rising.

*Net of reinsurance and include Loss Adjustment Expenses
Sources: ISO PCS; Insurance Information Institute calculations.
Loss Ratios Have Been Rising for a Decade.  
2016 Return on Net Worth is Likely Close to Zero or Negative.

Source: National Association of Insurance Commissioners data, sourced from S&P Global Market Intelligence; Insurance Information Institute.
State Issues

Auto Insurance

Increase in Loss Costs, 2015:Q1–2017:Q1

- Bodily Injury: 15.3%
- Property Damage: 15.0%
- Personal Injury Protection: 14.1%
- Collision: 13.2%
- Comprehensive: 22.5%

From 2015 to 2017, the cost of accidents has risen dramatically. By contrast, consumer prices overall rose 3.9 percent during 2014 and 2015.

Source: Fast Track Monitoring System.
The industry tends to make an underwriting profit when this ratio is under 70 percent.

Sources: SNL Financial; Insurance Information Institute. NPE=Net Premiums Earned
Reserve Development
Has the Well Run Dry?
AY vs. CY Combined Ratio, (Excl. Guaranty Lines) 2004-2016

10 Consecutive Years of Favorable Loss Development.

Sources: NAIC data from S&P Global Intelligence, Insurance Information Institute.
Personal Lines Combined Ratio, 2004-2016

Catastrophes (Matthew, Hail) Drove HO C.R. Higher. Frequency, Severity Dogged Auto Results. 14 Years of Favorable Development.

Sources: NAIC data from S&P Global Intelligence, Insurance Information Institute.
Commercial Lines Combined Ratio, 2004-2016

After 10 Years, Has the Well Run Dry?

Sources: NAIC data from S&P Global Intelligence, Insurance Information Institute.
Development on Prior, 1996-2016

DoP (% of NEP)

Reserve Releases Keep Getting Smaller.

Sources: NAIC data from S&P Global Intelligence, Insurance Information Institute.
CY Development on Prior by LOB

Reserve Deterioration in Auto Liability Lines, Improvement in Workers Compensation.

Sources: NAIC data from S&P Global Intelligence, Insurance Information Institute.
And the Investment Results?

Yields on 10-Year US Treasury Notes have been below 3% for over 6 years: 10-year bonds bought in 2007 at 5% will be reinvested at 2.5% for 10 more years.

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 June 2017.

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

Sources: NAIC data, sourced from S&P Global Market Intelligence; Insurance Information Institute.
In the first quarter of the year, net investment income has been steady but realized capital gains/losses have been quite variable.

Sources: ISO/PCI; Insurance Information Institute.
June 2017: Quarterly Yield Forecasts for 10-Year US Treasury Bonds in 2017-18


Sources: Blue Chip Economic Indicators (6/17); Insurance Information Institute
The “Bottom Line”?
In the first quarters of the year, net income varied. 2017 was the second-lowest profit in the last 11 years.

*adjusted for inflation using the BLS CPI calculator, to 2016 dollars
Sources: A.M. Best; ISO, a Verisk Analytics company; Insurance Information Institute.
Policyholder Surplus, Quarterly, 2006:Q4–2017:Q1

$400
$450
$500
$550
$600
$650
$700
$750

2007:Q3
Pre-Crisis Peak

2011 CAT
losses

Surplus grew
by 4.8% over
3/31/2016

Surplus as of
3/31/17 stood
at $709.0B

The industry now has $1 of surplus for every $0.75 of NPW, the strongest claims-paying status in its history.

2010:Q1 data includes $22.5B of paid-in capital from a holding company parent for one insurer’s investment in a non-insurance business.

The P/C insurance industry is, in 2017, in very strong financial condition.

Sources: ISO, A.M. Best.
Commercial Rates*

Softening Ahead?

*These Publicly Available Estimates May Differ Substantially From Events In Individual States and Markets
Rate Changes Worldwide

Rates Soft/Flat, Especially in Reinsurance

Global Insurance Rates Through Q1 2017

Global Reinsurance January Renewals

Rates Have Been Flat/Declining Slightly for Several Years

Sources: Marsh Insurance Market Index, JLT Re.
Commercial Lines Rate Change

We're in a Long Period of Flat Rates Overall.

Sources: Willis Towers Watson, MarketScout.
Liability Rate Changes
Slight Softening, Though Local Markets Vary

SOURCE: Marsh Insurance Market Index.
Property/Cyber Rate Changes
Slight Softening, Though Local Markets Vary

SOURCE: Marsh Insurance Market Index.
On the Horizon
Sharing Economy and Disruption
Greatest Threats, Opportunities
Whither Silicon Valley?

**Greatest Opportunity**
- Advanced Analytics: 32%
- Mobile Apps: 19%
- Big Data: 18%
- Tight Value Chain: 12%
- Gig Economy: 6%
- IoT: 6%
- ILS: 4%
- Insurer VC: 2%
- Insurtech: 1%

**Greatest Threat**
- Insurtech: 17%
- Mobile Apps: 16%
- Tight Value Chain: 14%
- ILS: 12%
- Big Data: 10%
- Advanced Analytics: 9%
- Insurer VC: 8%
- Gig Economy: 8%
- IoT: 6%

Insurance Technology Financing – Change Is Coming

Investment In Insurance Tech Is Rising. Number of Deals Set A Record Last Year. P/C Insurance is Increasingly the Focus.

SOURCES: CB Insights, Insurance Information Institute.
The (Re)Insurance Value Chain
Where Could Disruption Lie?

Protecting People & Organizations


Most Links in the Value Chain Have the Potential to Be Disrupted in Next 10 Years.
Alternative capacity has grown 350% since 2006. It has more than tripled in the past six years.

Source: Aon Benfield Analytics; Insurance Information Institute.
The Internet
Will It Disrupt Marketing?

Lead Generators
- InsWeb, NetQuote, Insurance.com
- Site allows comparison shopping, sells lead to insurer

Call Center Agencies
- SelectQuote, Goji
- Call center employs agents

Digital agencies
- Esurance, Policy Genius
- Quote and buy online

But Customers Still Like Agents

Did You Compare Prices When Your Auto Policy Was Up for Renewal?

- Don't Know: 1%
- None of These: 29%
- Any Method: 69%
- By Phone: 37%
- Online: 39%
- Talk to Agent: 50%

Pricing Disruptor: The Fragmented Risk
One-Day Auto Insurance

Pre-register

Register
- Name
- Birthday
- Address
- e-mail address
- Driver’s License No.
- License expiry date

Buy

Input
- License plate No.
- Date of driving

Pay

Premium is added on the monthly mobile phone bill

Loss Control Disruptor
The Internet of Things

Telematics Today

Telematics Tomorrow

![Telematics Today Diagram](image1)

![Telematics Tomorrow Diagram](image2)
Claims Disruptor
Artificial Intelligence + Behavioral Economics

Lemonade

“IT’S NOT OUR MONEY!”

$729
3 Seconds

CLAIM APPROVED
We reviewed your claim and found it valid.
A payment will be sent to you right away.

Expenses 20%
Reinsurance 20%
‘Rainy Day Fund’ 20%
Subject to Giveback 40%

$729
3 Seconds
Approved: New Claim

December 23, 2016

Great! We’re happy to hear that

Back to Home
How Insurance Contributes to Economic Growth
The Insurance Industry’s Contribution to GDP Now Nearly Equals Banks

Sources: US Bureau of Economic Analysis; Insurance Information Institute.
Major Construction Projects Don’t Start Without Insurance

An example: Boston’s “Big Dig.” At $14 billion, the project was…

- Larger than the original Panama Canal,
- More expensive than the “Chunnel” connecting France and England
- Among the carriers who were winning bidders were AIG, Lexington, Zurich-American and Kemper Environmental.
- Workforce included 150 general contractors, 600 construction companies
- Worst fear: that a building within 50 feet of the excavation would collapse

As Economies Grow Wealthier, Insurance Market Penetration (Premium as % of GDP) Also Grows

Some wealthy countries have penetration rates of 10% and higher

Source: A.M. Best.
Insurance Contributes to Growth by Speeding Recovery

- Insurers are “financial first responders”
  - Insurance claims administration and payment is the most efficient way to achieve rapid recovery
  - Insurers perform this function more quickly and reliably than government or other aid organizations
  - This effect benefits not just those directly affected but also the wider community
  - After SuperStorm Sandy, 93% of claims were closed within 6 months
Insurers Sponsor and Promote Knowledge and Activities That Save Lives and Property

Insurers collect and disseminate both financial and non-financial knowledge; for example:

- **Life insurers**: Major longevity influencers
- **WC insurers**: Injury and fatality avoidance and rehabilitation
- **Property insurers**: Research and certification of fire-resistant materials
Final Thoughts
President Trump’s goal of a sustained 4% real annual growth rate will be hard to achieve, even if labor productivity reverses its 21st century slide, because the labor force isn’t growing as rapidly as before, especially if immigration is curtailed.

Source: http://econbrowser.com/archives/2017/05/president-trumps-gdp-forecast
### Length of US Business Cycles, 1960–Present*

#### Duration (Months)

<table>
<thead>
<tr>
<th>Month Recession Started</th>
<th>Contraction</th>
<th>Expansion Following</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apr 1960</td>
<td>10</td>
<td>106</td>
</tr>
<tr>
<td>Dec 1969</td>
<td>11</td>
<td>36</td>
</tr>
<tr>
<td>Nov 1973</td>
<td>16</td>
<td>58</td>
</tr>
<tr>
<td>Jan 1980</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>Jul 1981</td>
<td>16</td>
<td>92</td>
</tr>
<tr>
<td>Jul 1990</td>
<td>8</td>
<td>120</td>
</tr>
<tr>
<td>Mar 2001</td>
<td>8</td>
<td>73</td>
</tr>
<tr>
<td>Dec 2007</td>
<td>19</td>
<td>85</td>
</tr>
</tbody>
</table>

*Average Duration*<br>Recession = 11.75 Mos<br>Expansion = 72.50 Mos

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

*Through July 2017; June 2009 was the “official” end of the recession that started in Dec 2007.*

Sources: National Bureau of Economic Research; Insurance Information Institute.
Recession Ahead? The Fed’s “Change in Labor Market Conditions Index” is a Good Indicator

Since 1976, we’ve had a recession whenever the Index drops below -15.

Source: https://fred.stlouisfed.org/series/FRBLMCI#0, last updated May 8, 2017
Summary

- The economy seems likely to grow at a modest rate, and property/casualty premiums will grow with them.
- Catastrophes are an increasing drag on underwriting results.
- Commercial rates may be entering a soft period.
- Investment returns continue to be meager; don’t expect changes soon.
- Insurance is a cornerstone of the U.S. economy.
Thank you for your time and your attention!

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