



**INSURANCE  
INFORMATION**  
INSTITUTE

# Insurance 2020

Casualty Actuaries of Greater New York

December 9, 2020

James Lynch, FCAS MAAA, Chief Actuary and Senior Vice President, Research and Education

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

Tel: 212.346.5533 ♦ [jamesl@iii.org](mailto:jamesl@iii.org) ♦ [www.iii.org](http://www.iii.org)

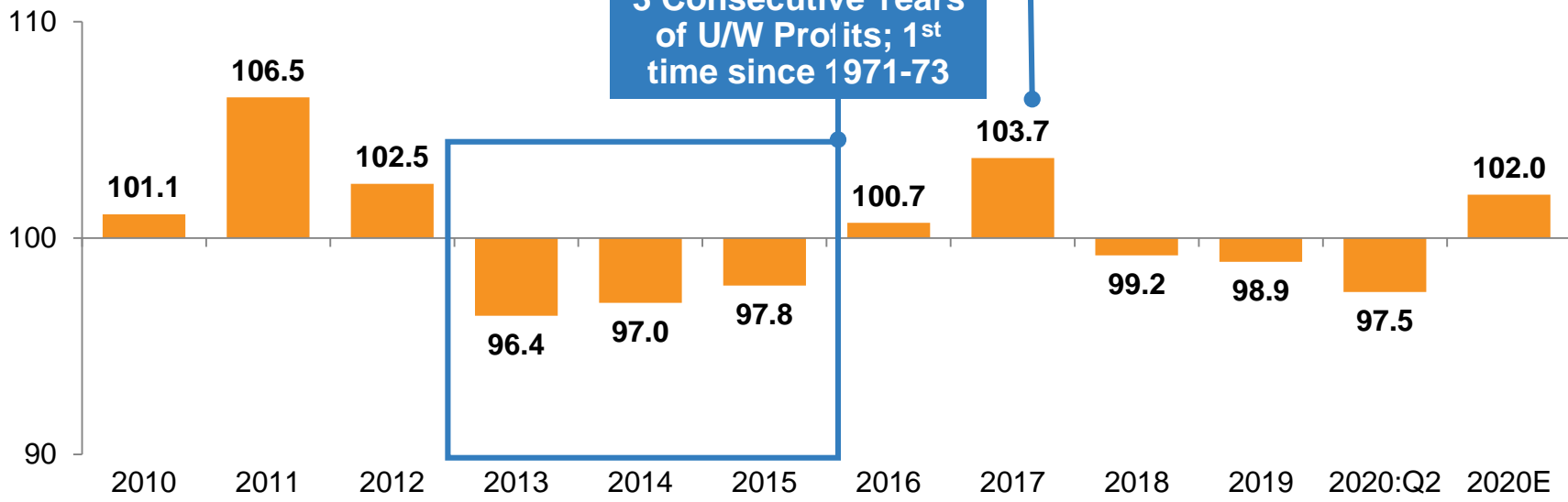
# The Financial Picture

2020: COVID and Cats

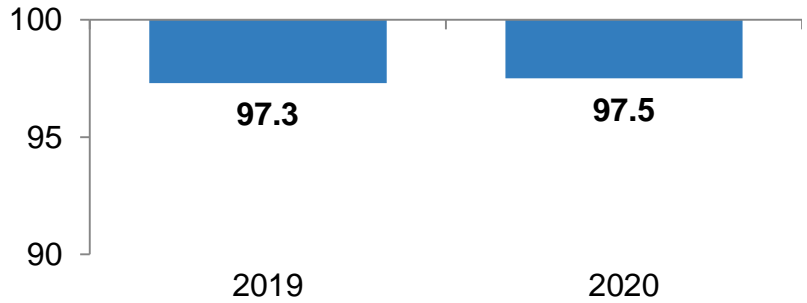
# P/C Insurance Industry Combined Ratio\*

Hurricanes Harvey, Irma, Maria

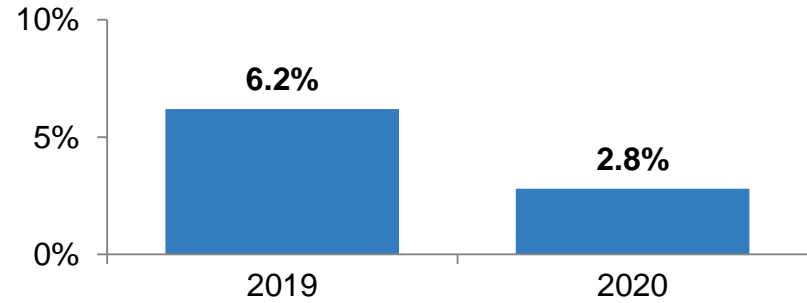
3 Consecutive Years of U/W Profits; 1<sup>st</sup> time since 1971-73



## First Half: Combined Ratio



## First Half: Premium Growth



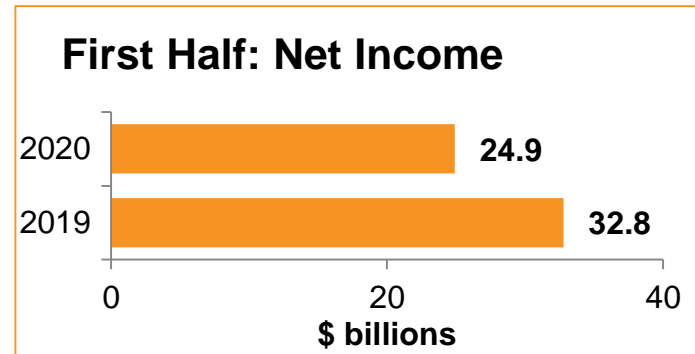
\*Excludes Mortgage & Financial Guaranty insurers before 2014.

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

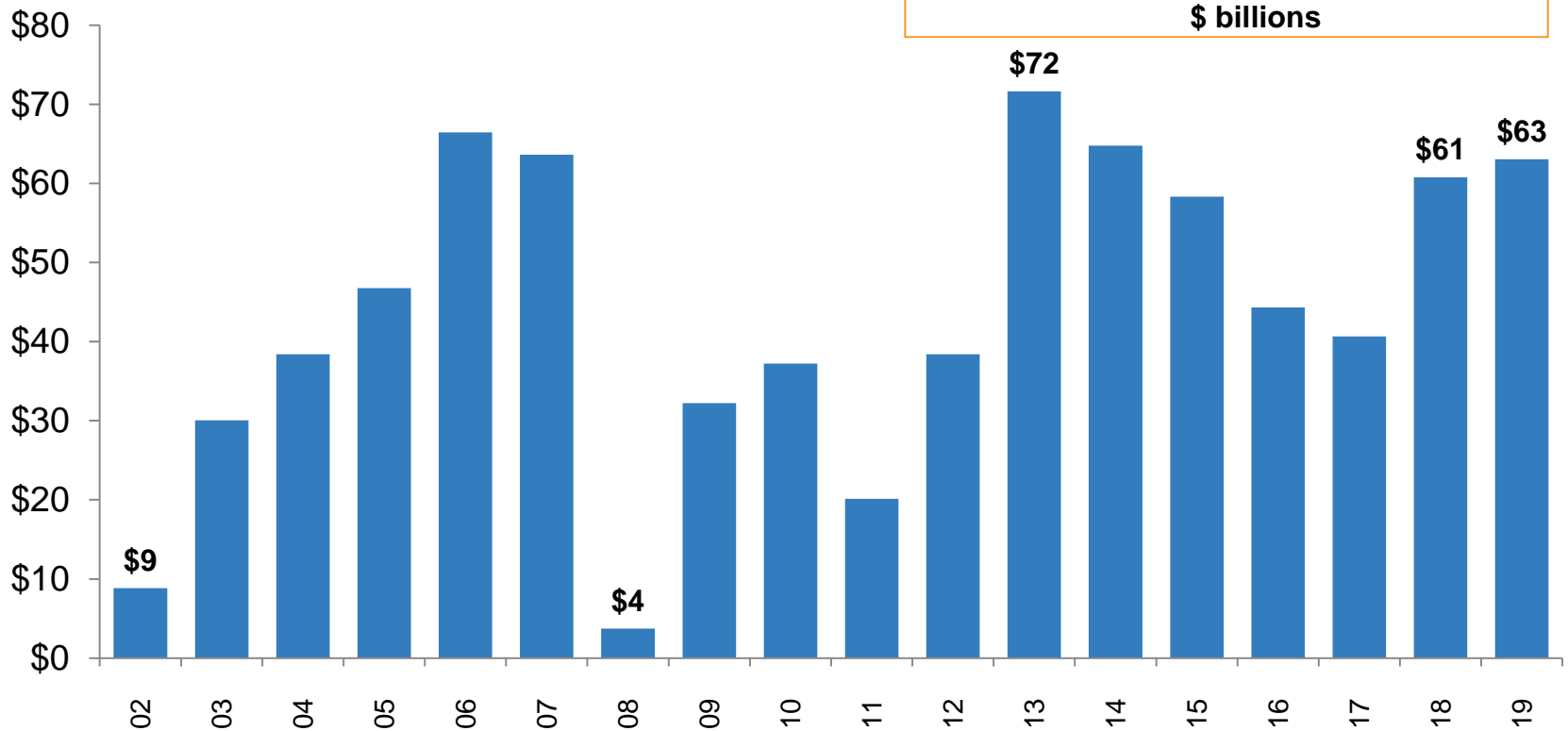
Sources: A.M. Best; APCIA/ISO, a Verisk Analytics® business; I.I./Milliman.



# P/C Industry Net Income After Taxes 2002-Present



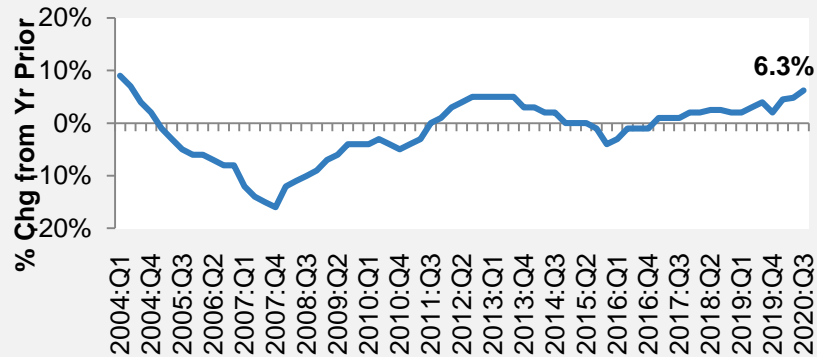
\$ Billions



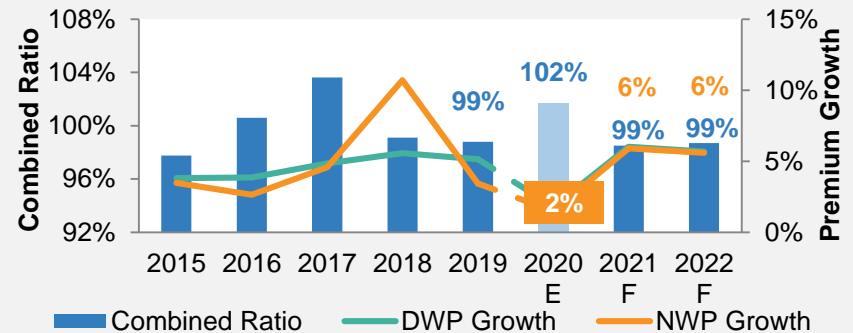
Sources: NAIC data, sourced from S&P Global Market Intelligence.

# Industry Outlook

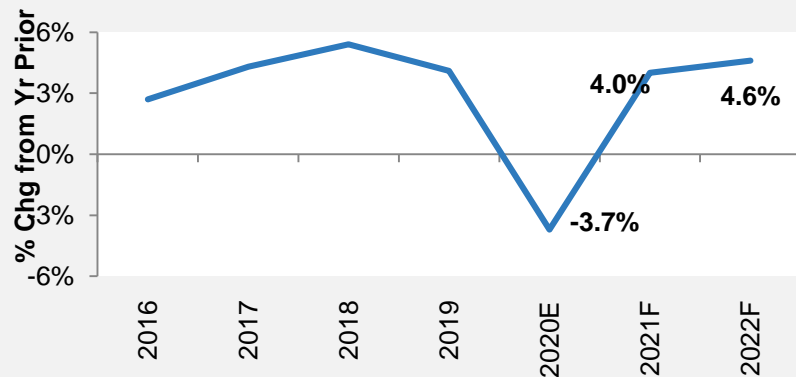
## Commercial Lines Rate Change



## Calendar Year Written Premium Net Combined Ratio Projections



## Growth in Nominal GDP (Real GDP + Inflation)



## 2020 Commentary

Slight rise in premium. Underwriting result deteriorates.

- Pandemic and recession reduce exposure in personal auto, several commercial lines.
- Rate increases make up for lower exposures somewhat.
- Tremendous uncertainty due to pandemic's impact on several lines.
- Above-average cat year.

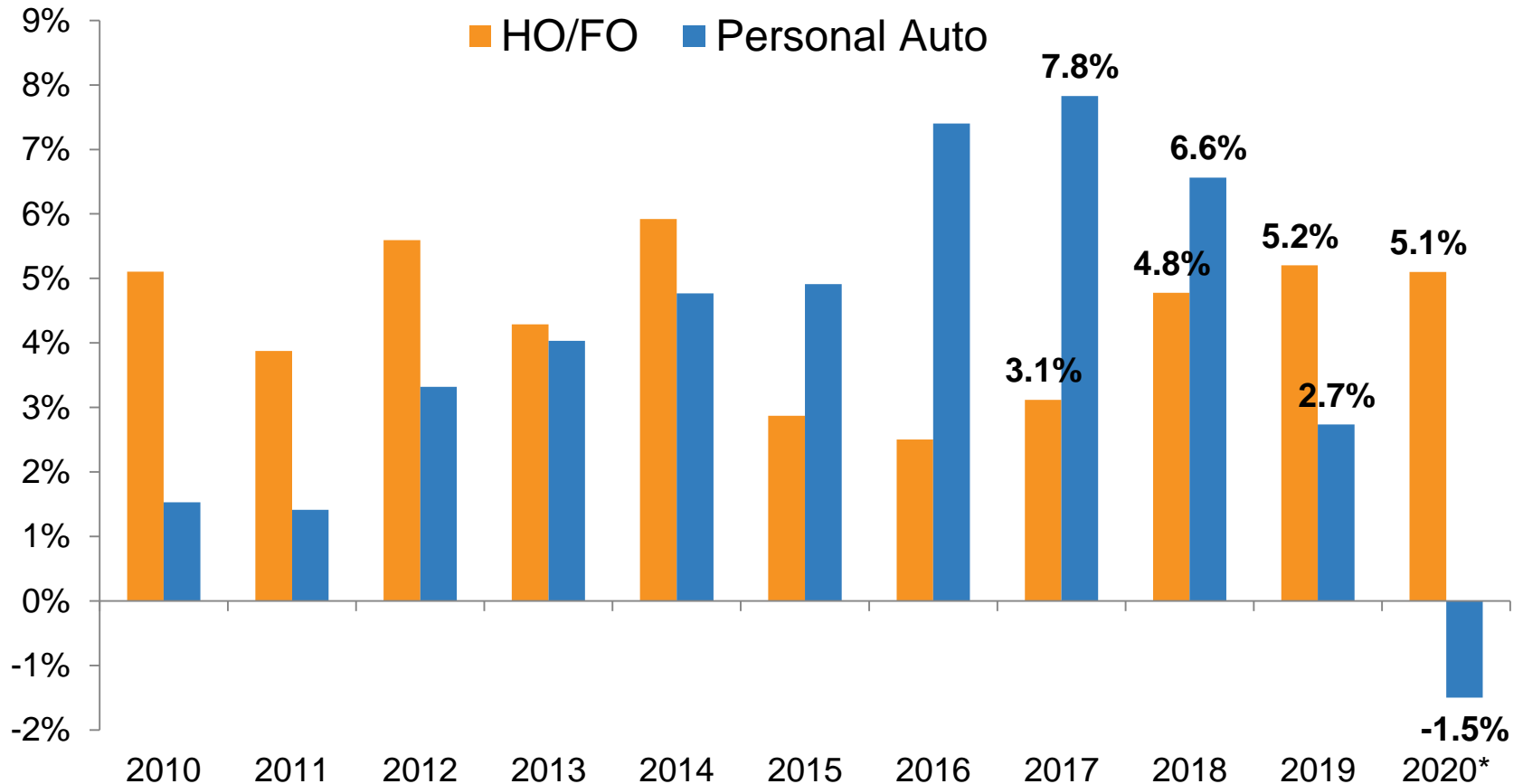
Data sources: NAIC data sourced through S&P Global Market Intelligence, MarketScout, Blue Chip Economic Indicators, Congressional Budget Office, PCS, Aon, Munich Re, Energy Information Agency, FRED (Federal Reserve Bank of St. Louis).

Analysis: Insurance Information Institute, Milliman.



# The Personal Lines Picture

# Direct Written Premium Growth By Year

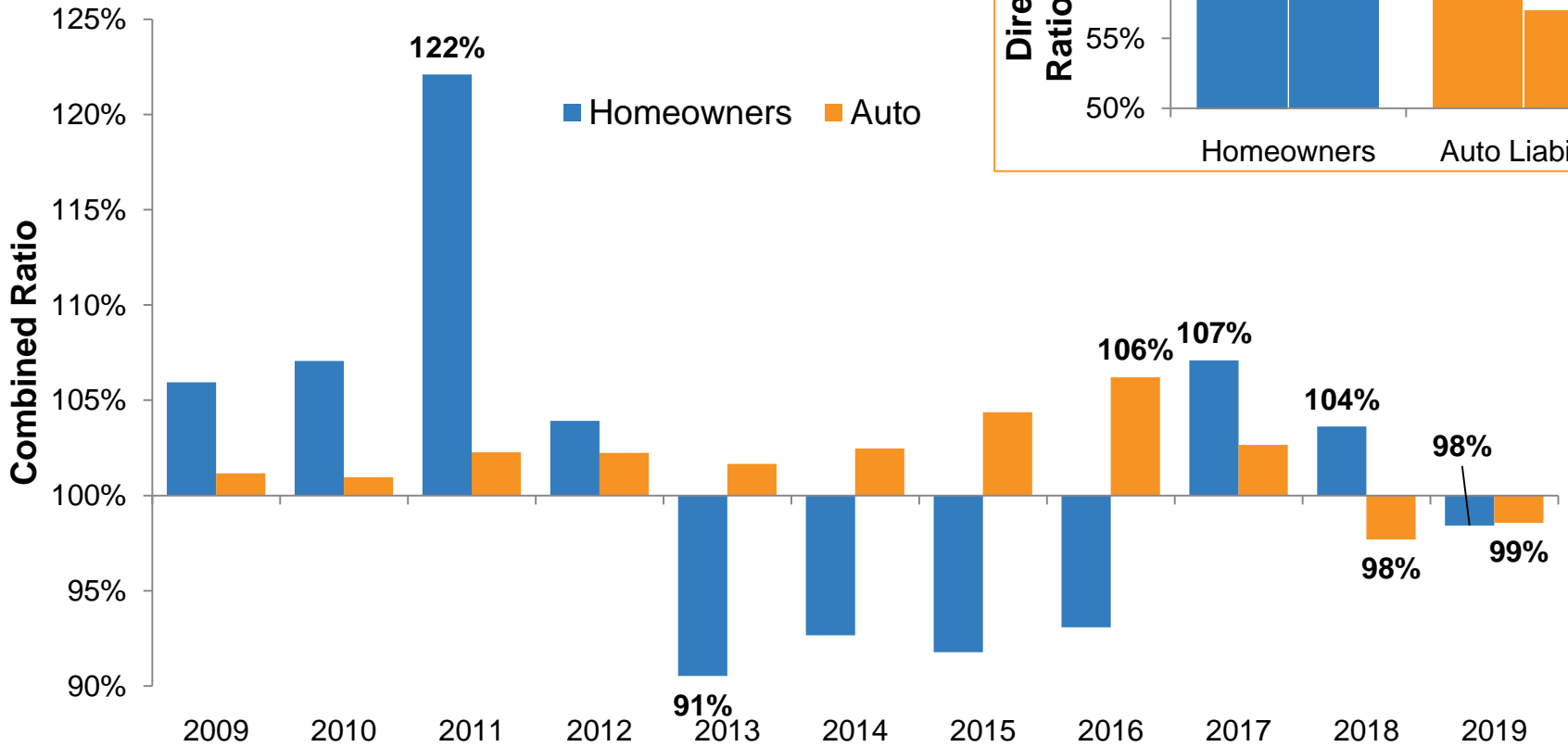


HO growth more stable than auto, which grew in response to rising costs till recently.



- Through Q2. Personal auto liability only.
- Sources: NAIC data, sourced from S&P Global Market Intelligence.

# Personal Lines Results



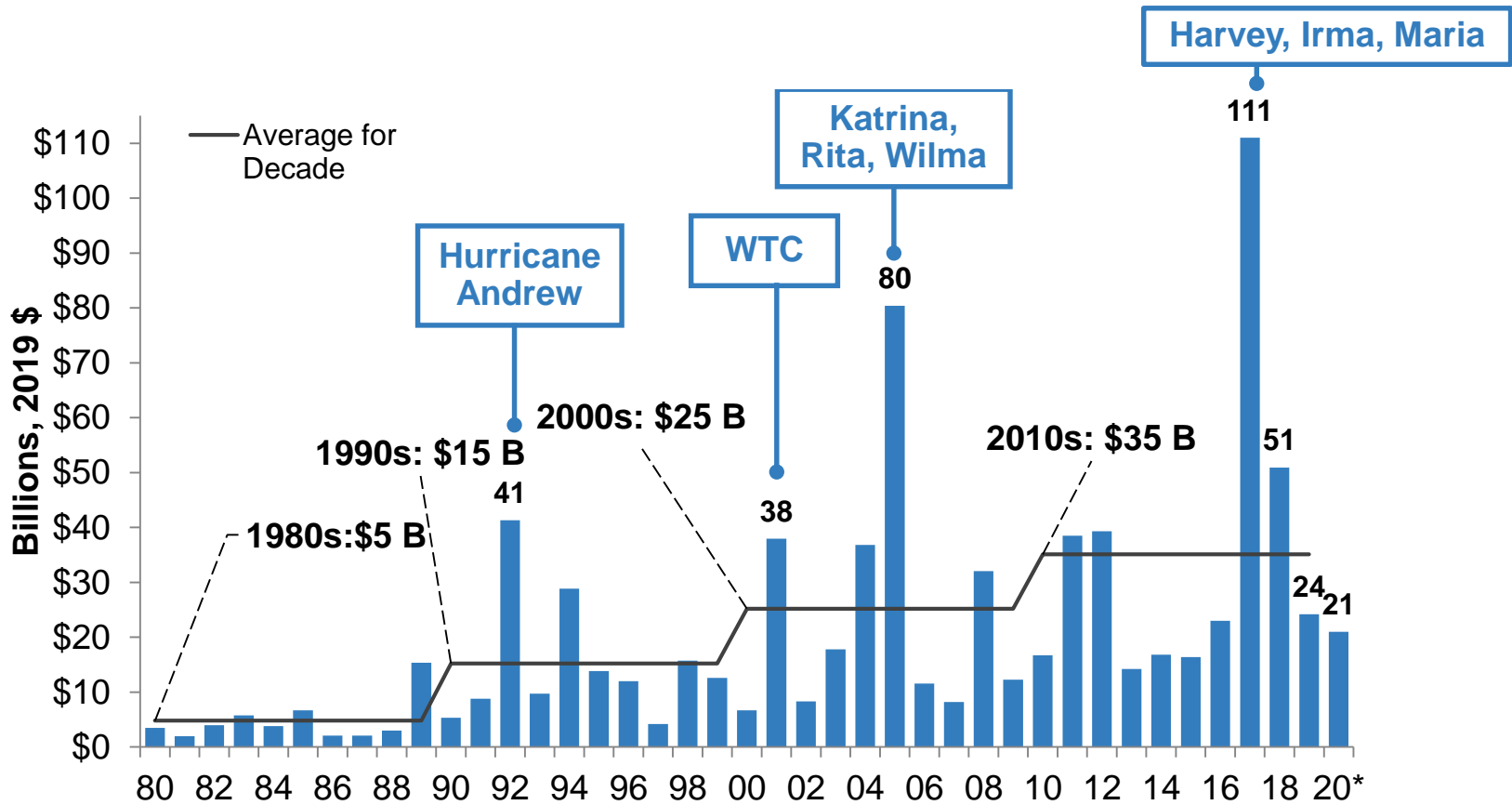
**Personal auto has returned to underwriting profitability. Homeowners results depend on catastrophe season.**



Source: NAIC data, sourced from S&P Global Market Intelligence.



# HO Trend: Catastrophe Losses



**2019 was a relatively mild year; 2020 hit by multiple hurricanes, widespread wildfires – mostly in second half**

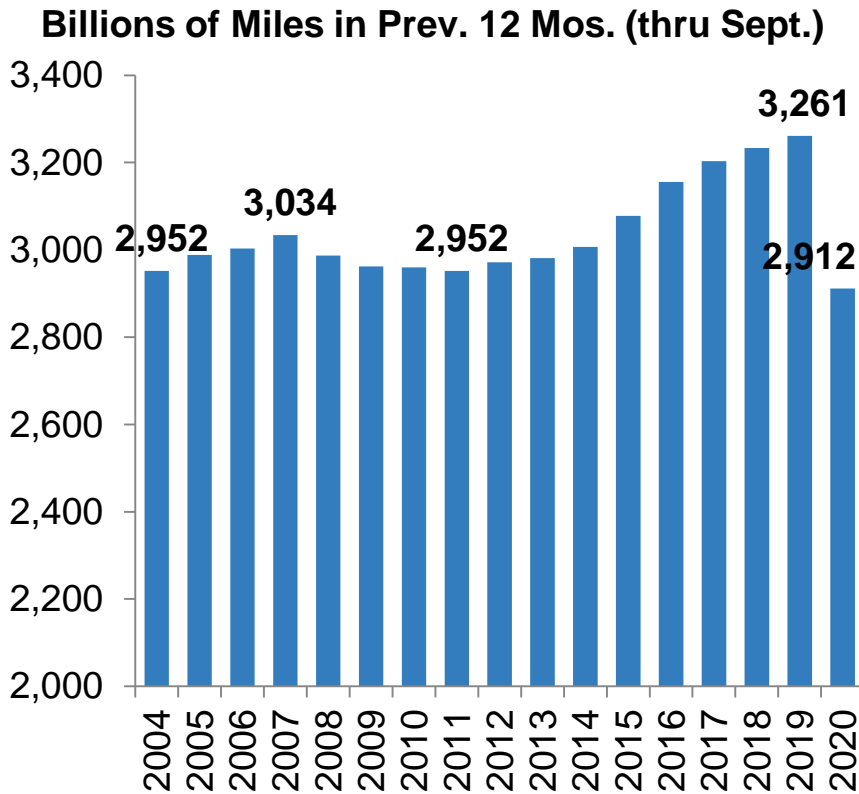
\*Aon estimate through June. 2010s is average of 2010 to 2019. All losses are Direct.

Sources: Property Claims Service, a Verisk Analytics business; Aon; Insurance Information Institute.

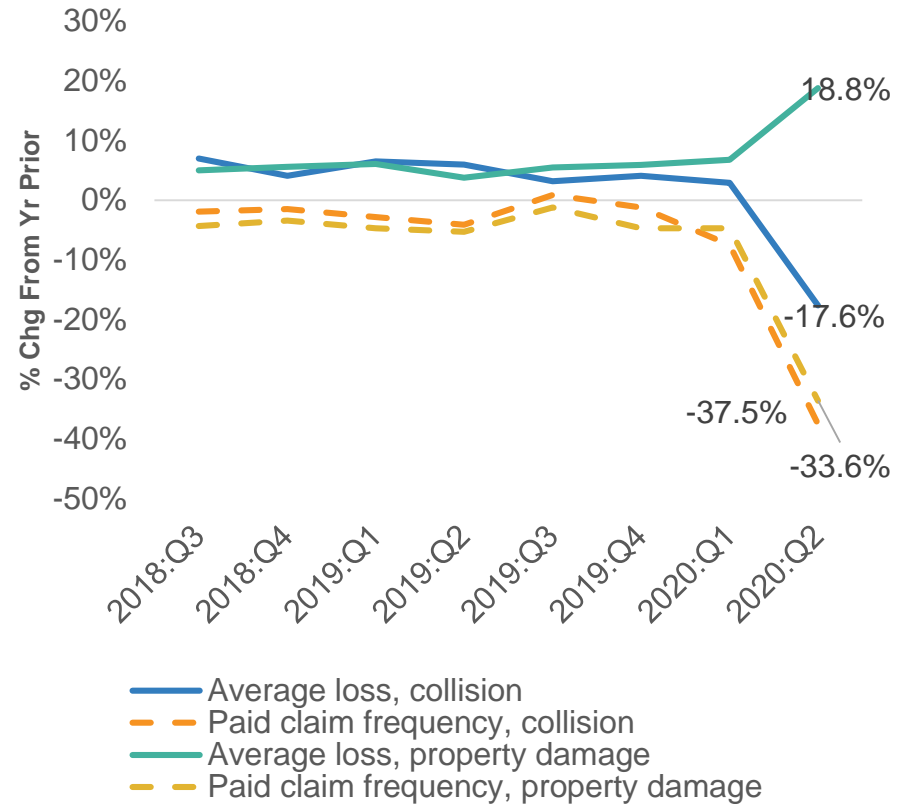


# Auto Trends

## Americans stopped driving



## Frequency, severity trends

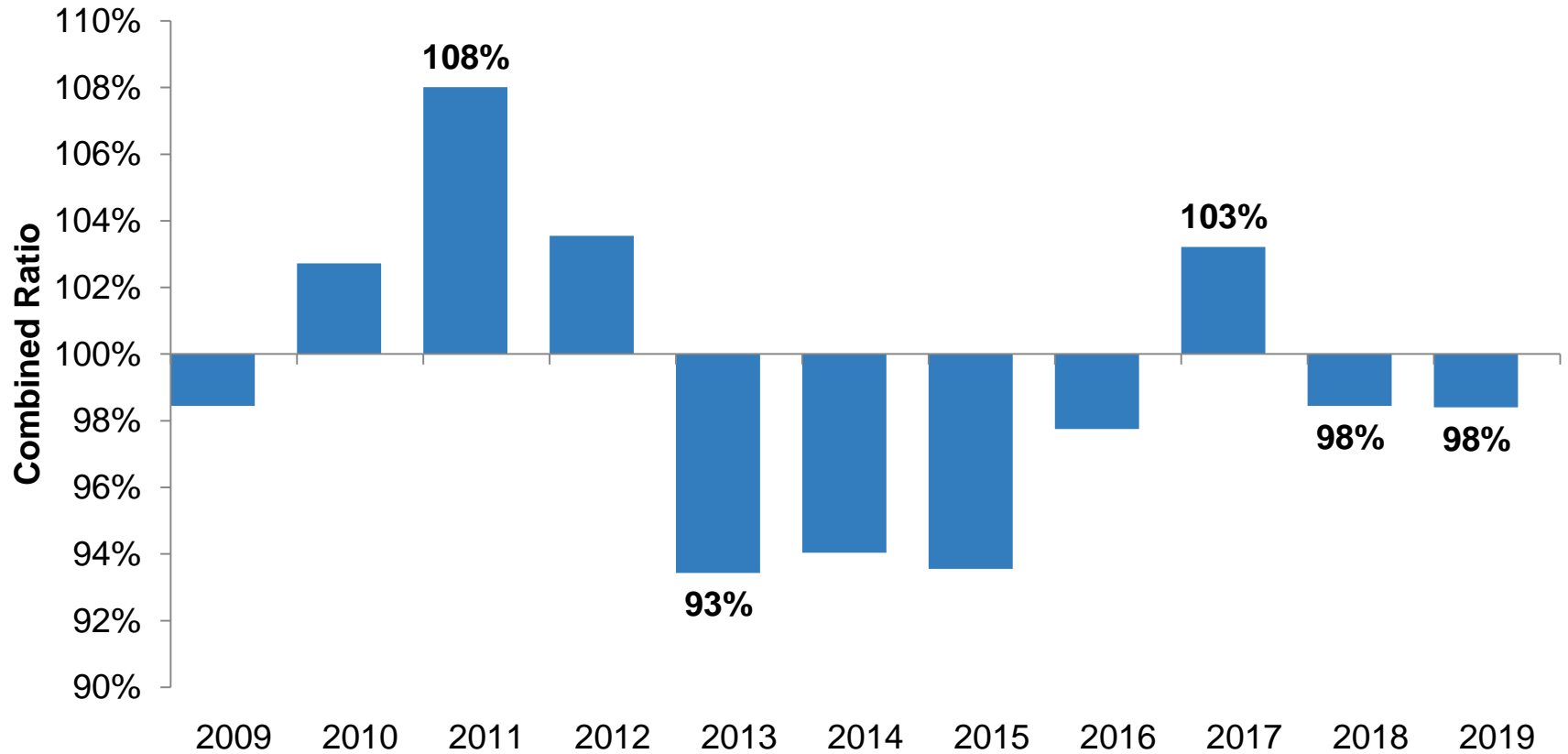


Source: Federal Highway Administration, Fast Track Monitoring System.

# The Commercial Lines Picture

2020 Was Looking Good

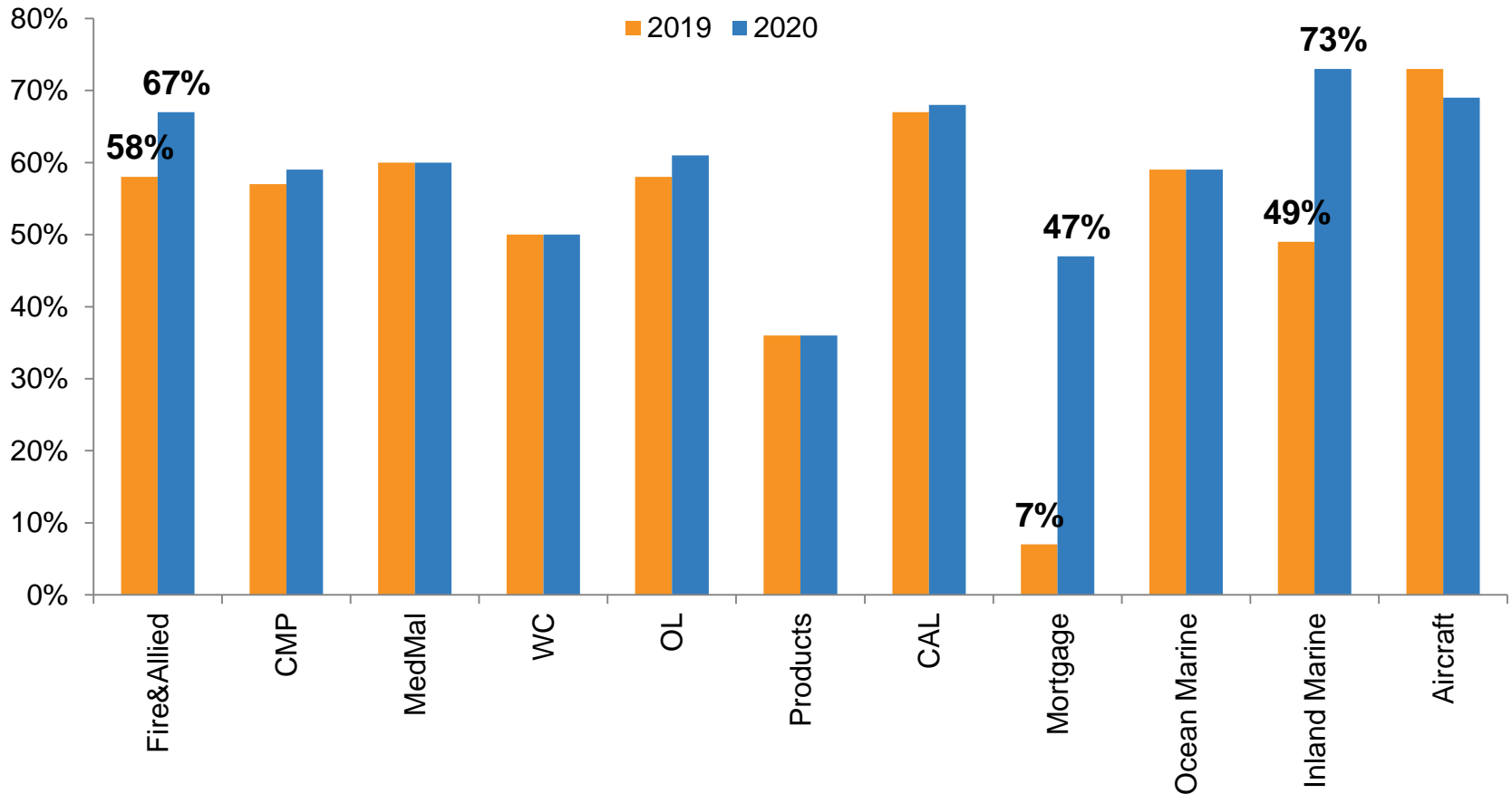
# Commercial Lines Results



**Excellent workers comp results have more than made up for problems in auto, general liability.**



# Commercial Direct Loss Ratios by Line



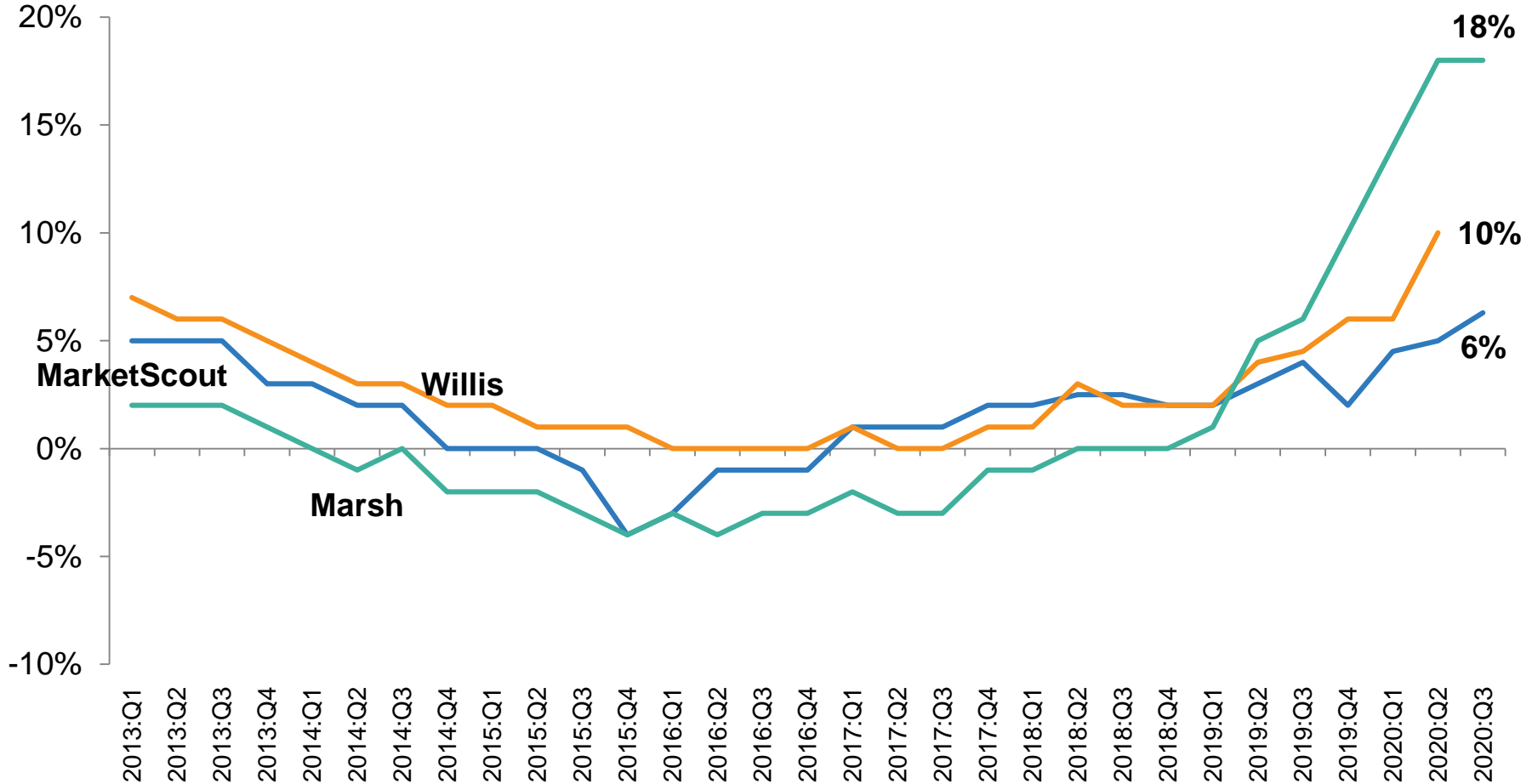
Allied Lines, Mortgage and Inland Marine results deteriorated in first half; note Auto, GL deteriorated (slightly), even in hard market.



Through Q2.

Source: NAIC data, sourced from S&P Global Market Intelligence.

# Commercial Lines Rate Changes



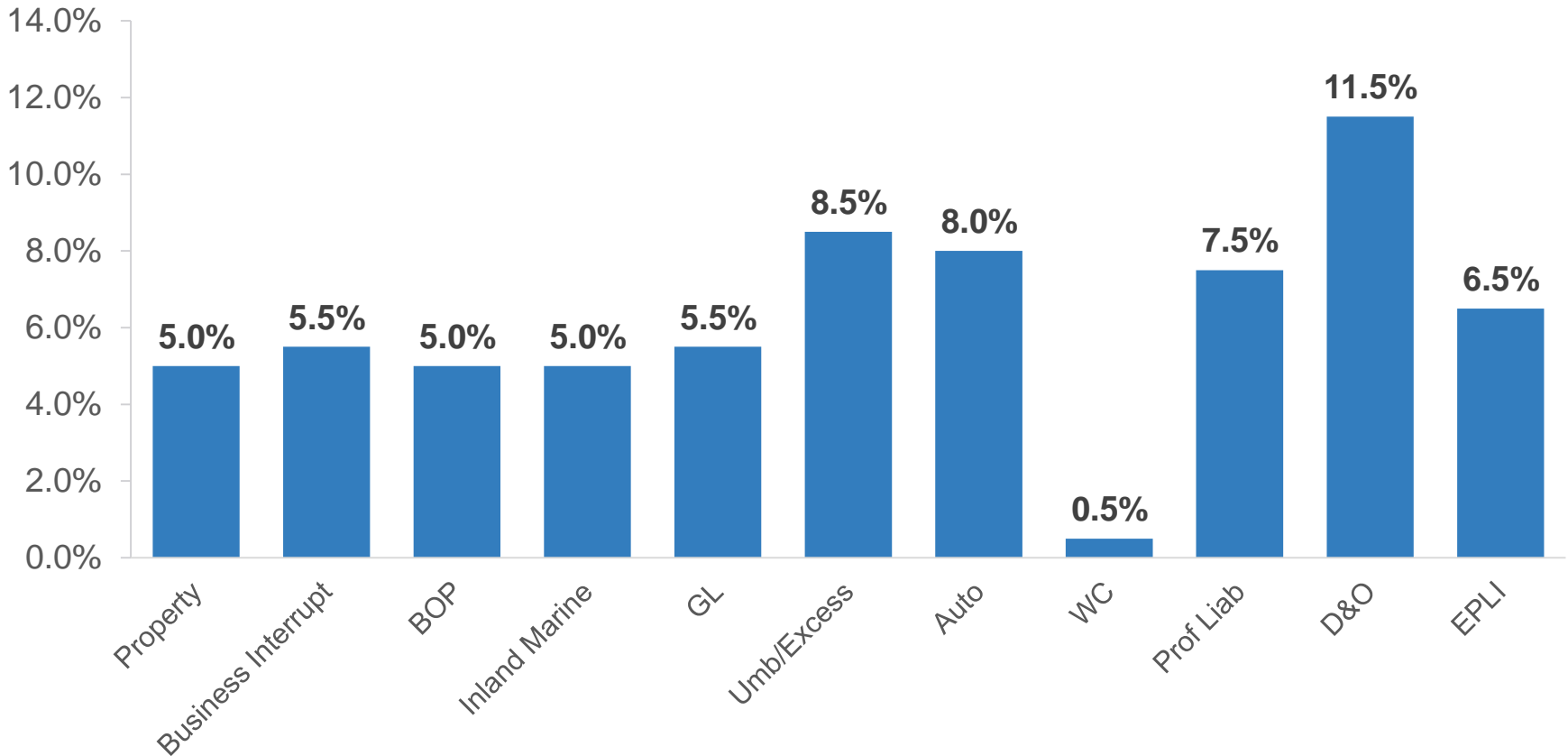
Fastest rate increases in almost 20 years.



Sources: Willis Towers Watson, MarketScout, Marsh.

# Commercial Rate Changes

By Line, 2020:Q3



All of these are larger than previous quarter. Overall, largest rate increases in almost 20 years.

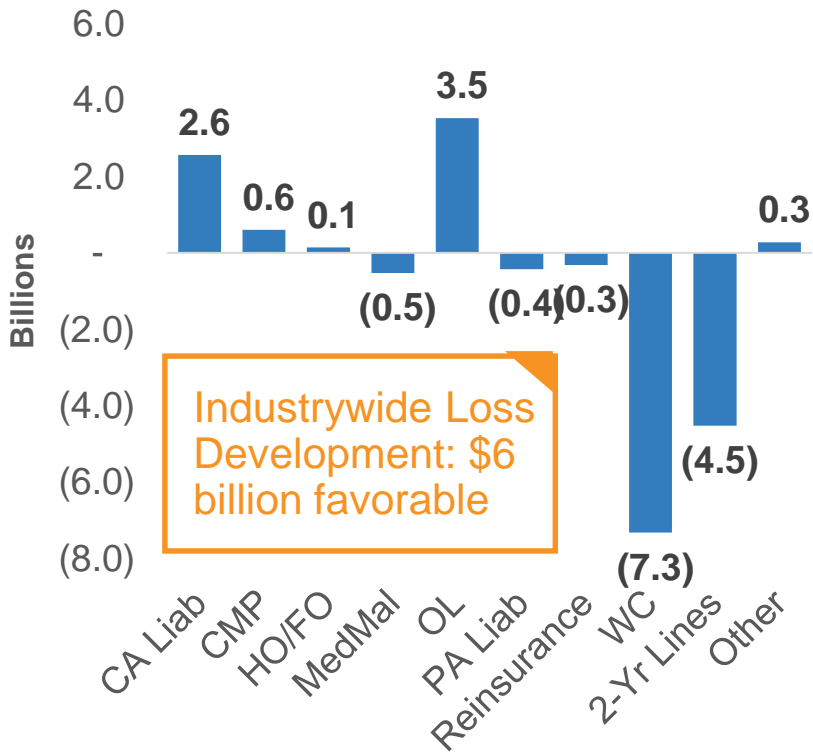


Source: MarketScout.

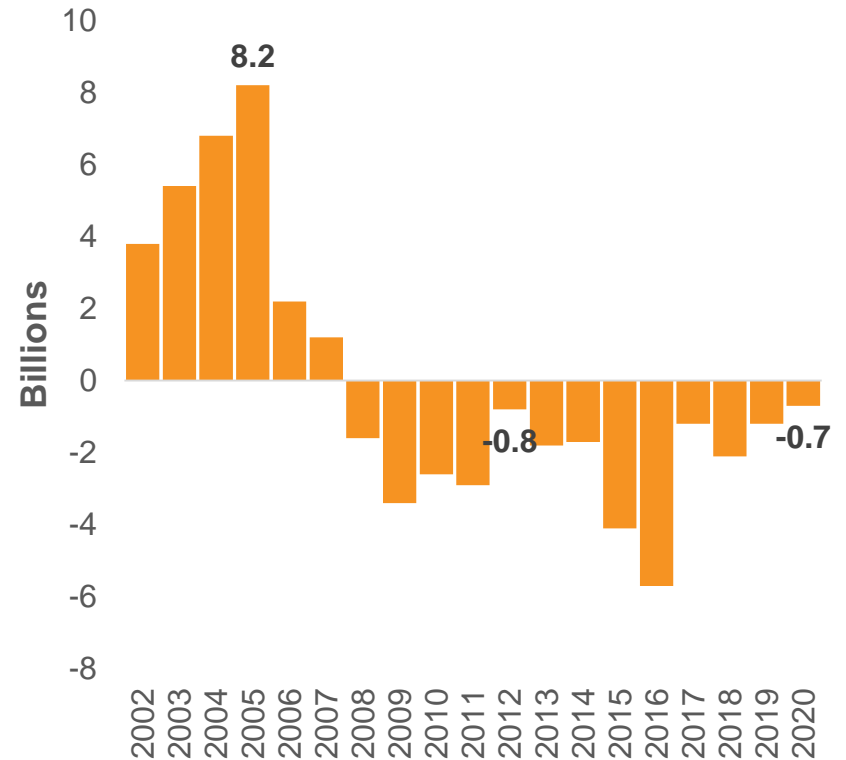
# Reserving Trends

Is the cupboard getting bare?

## CY2019 Loss Development



## CY Development on Older\* Claims as of Mid-Year



\* Older claims are more than 42 months old, e.g. 2017 and prior as of Q22020.  
Source: NAIC data, sourced from S&P Global Market Intelligence.



# 2021 Forecast

Social inflation, uncertainty drive the hard market

## Rate Projections

Line	2021 Forecast
Property	Up 15 to 25%
GL	Up 7.5% to 15%
Umbrella/XS	Up 30% to 150%
WC	Flat
Comm Auto	Up 8% to 15%
D&O	Up to 70%
Cyber	Up 10% to 30%

## Market Influences

Line	Trend
Property	Cats, COVID
GL	Social inflation
Umbrella/XS	Social inflation
WC	COVID
Comm Auto	Social inflation
D&O	COVID, IE&D
Cyber	COVID

**These are all higher than spring projections.**



# Social Inflation

An Actuarial Examination

# Social Inflation

## Coming to Terms

### A Good Definition

- ▲ “a fancy term to describe rising litigation costs and their impact on insurers’ claim payouts, loss ratios, and, ultimately, how much policyholders pay for coverage.”

### Actuarial Interpretation

- ▲ “Excessive inflation in claims.”
  - ◆ Occurs when development defies key assumption: Loss Development is RV about stable mean



# Triple-I Analysis

## What We Studied and Why

- ▲ Hypothesis: Rising LDFs → Social Inflation
- ▲ Method:
  - ◆ Focus on Long-Tailed Liability Lines
    - Minimizes Catastrophe's Impact
    - 12:120 LDF > 1.8 (Workers Comp)
    - Included: Comm Auto Liability, MedMal, Other Liability, Product Liability
    - Excluded: Personal Auto Liability, Workers Comp, Special Liability
  - ◆ Look for Rising LDFs

# Upward Creep in Loss Development

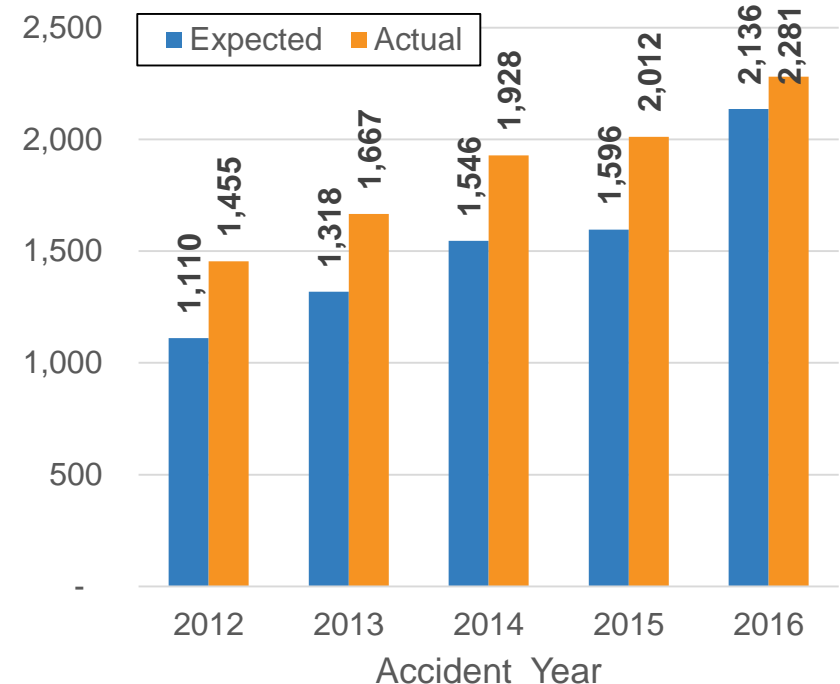
Key Assumption: LDF is RV about mean + inflation

## Comm Auto LDFs

	12	24	36	48
2009	1.34	1.14	1.08	1.03
2010	1.36	1.16	1.08	1.04
2011	1.40	1.16	1.08	1.04
2012	1.40	1.16	1.09	1.04
2013	1.41	1.18	1.10	1.04
2014	1.42	1.19	1.10	1.05
2015	1.45	1.18	1.11	
2016	1.43	1.20		
2017	1.44			

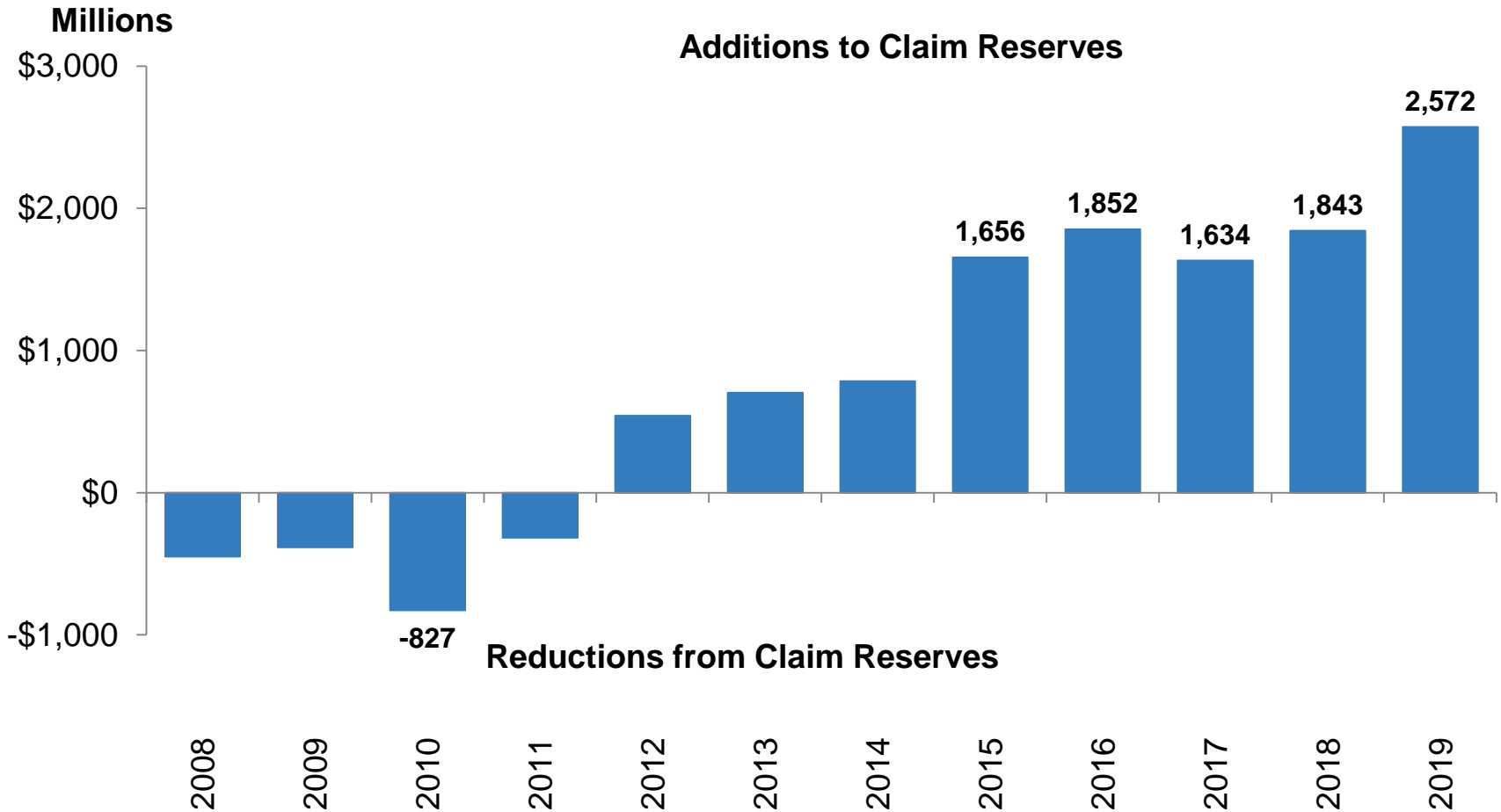
## 2-Year Expected vs. Actual

12-36 Development (\$ Millions)



# Social Inflation: The Toll

## Reserve Development, Commercial Auto Liability

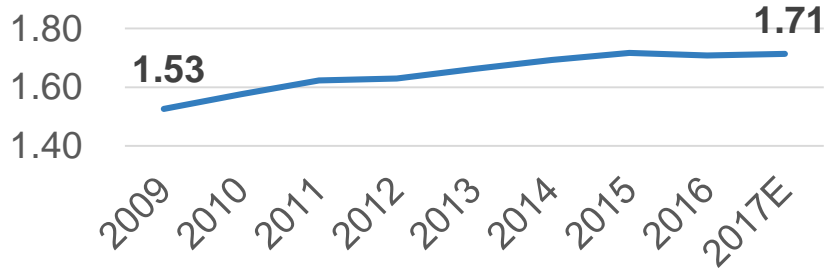


Sources: NAIC data sourced from S&P Market Intelligence; Insurance Information Institute.

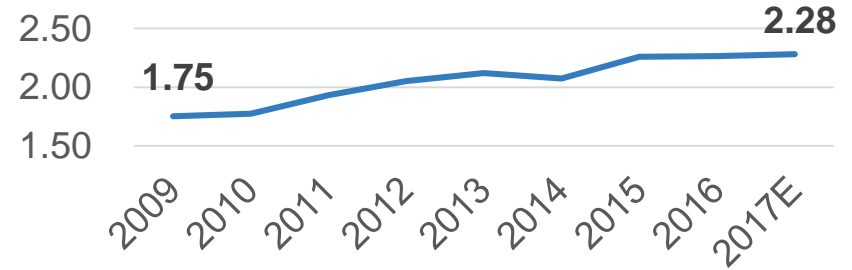
# It's Not Just Auto

## 12:36 Loss Development Factors by Year, Long-Tailed Lines

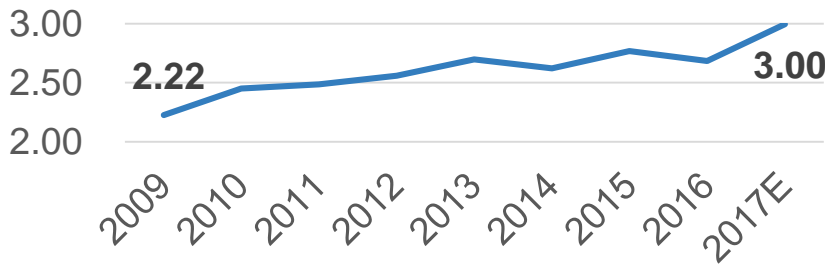
### Commercial Auto



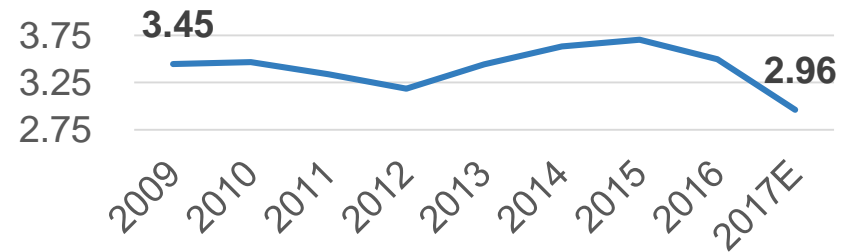
### MedMal Claims-Made



### Other Liability Occurrence



### Other Long-Tailed Lines\*



• Medical Malpractice Occurrence, Other Liability Claims-Made, Products Liability Occurrence, Products Liability Claims-Made.  
 Estimate assumes 24:36 Factor is straight average of previous three years.  
 Source: NAIC data, sourced from S&P Global Market Intelligence; Insurance Information Institute.



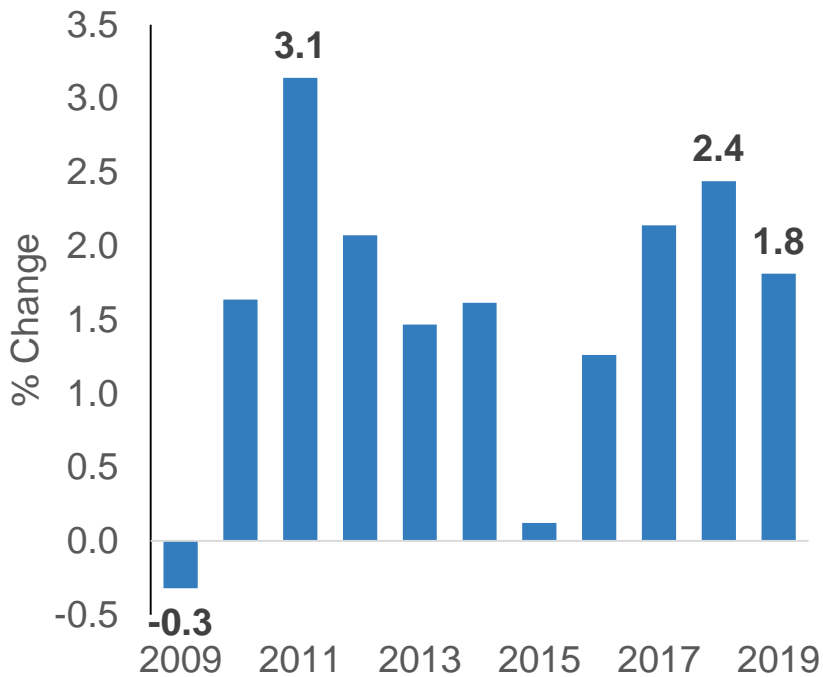
# Why It Is Happening

## Why Social Inflation Hits Insurance

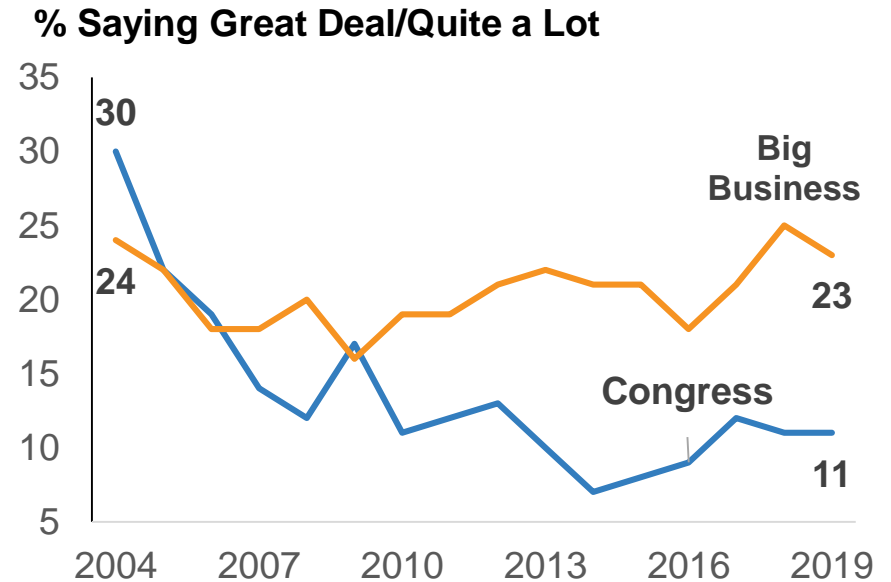
### Overall Inflation Remains Steady

### Who Solves Problems?

CPI Change vs Year Earlier



Confidence in Institutions



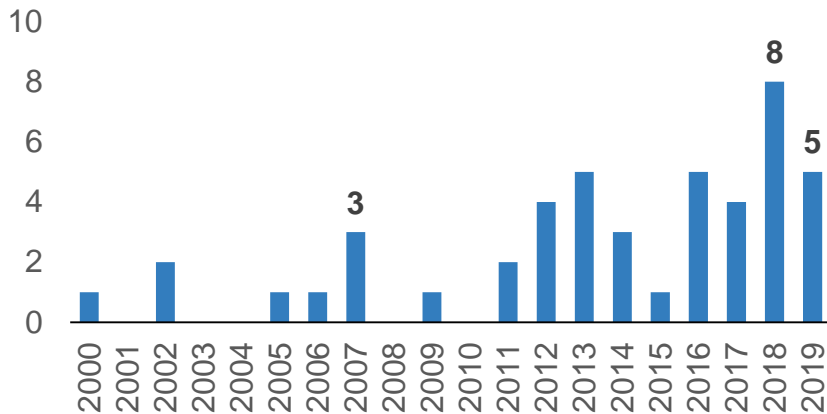


# Why Is It Happening?

## Social Trends Set the Stage

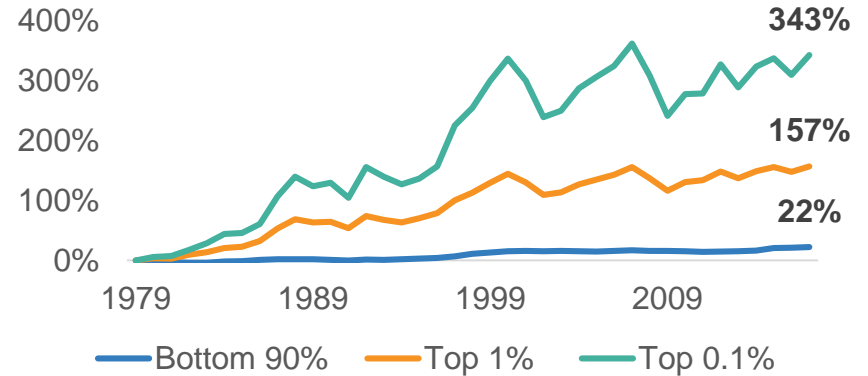
### Big Payout Expectations

No. of \$300M Lottery Jackpots

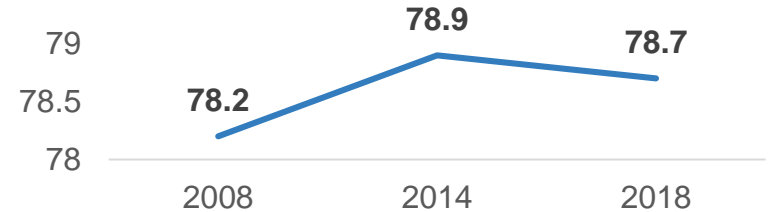


### Dystopian Days

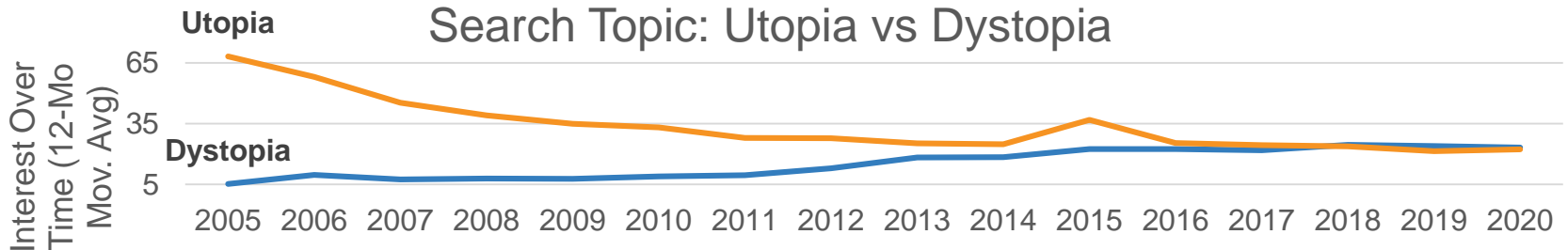
% Chg, Real Income Since 79



Life Expectancy at Birth



Search Topic: Utopia vs Dystopia

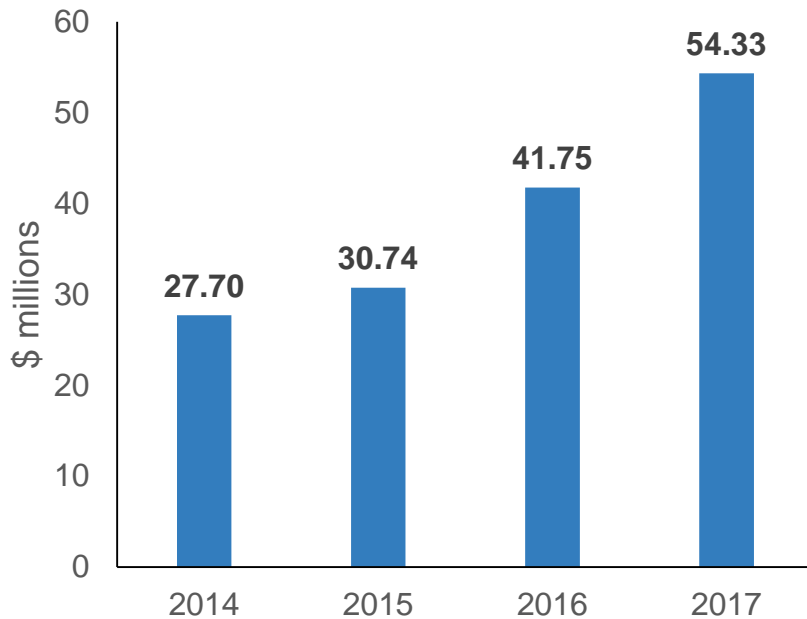


# Why Is It Happening?

## The Changing Legal Environment

### “Jackpot Justice”

Median, 50 Largest Jury Verdicts

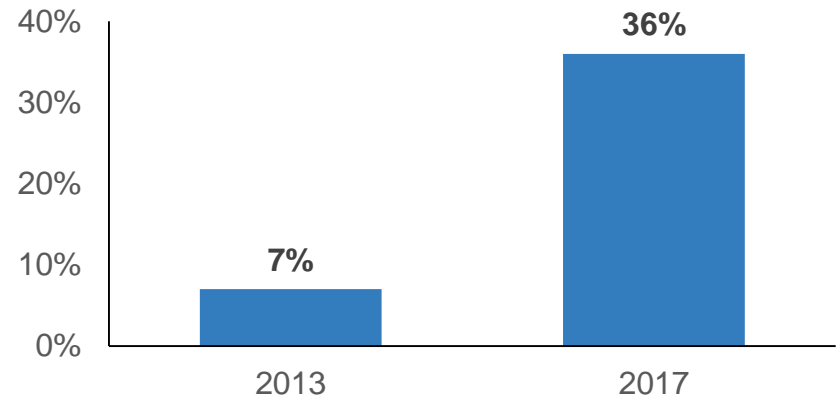


### Litigation Financing

Litigation is a financeable asset.

- 68% of US Law Firms

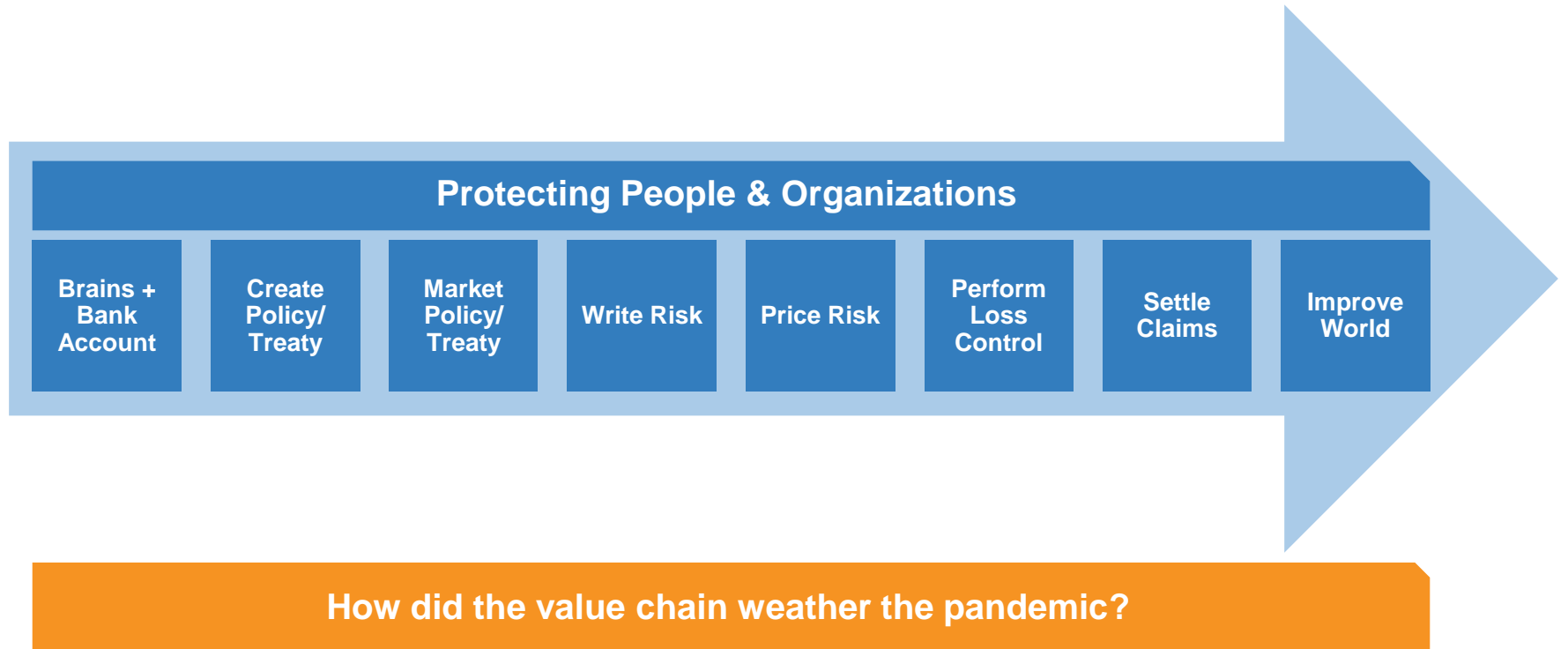
% of US Law Firms Using Litigation Financing



# COVID-19 and Insurance

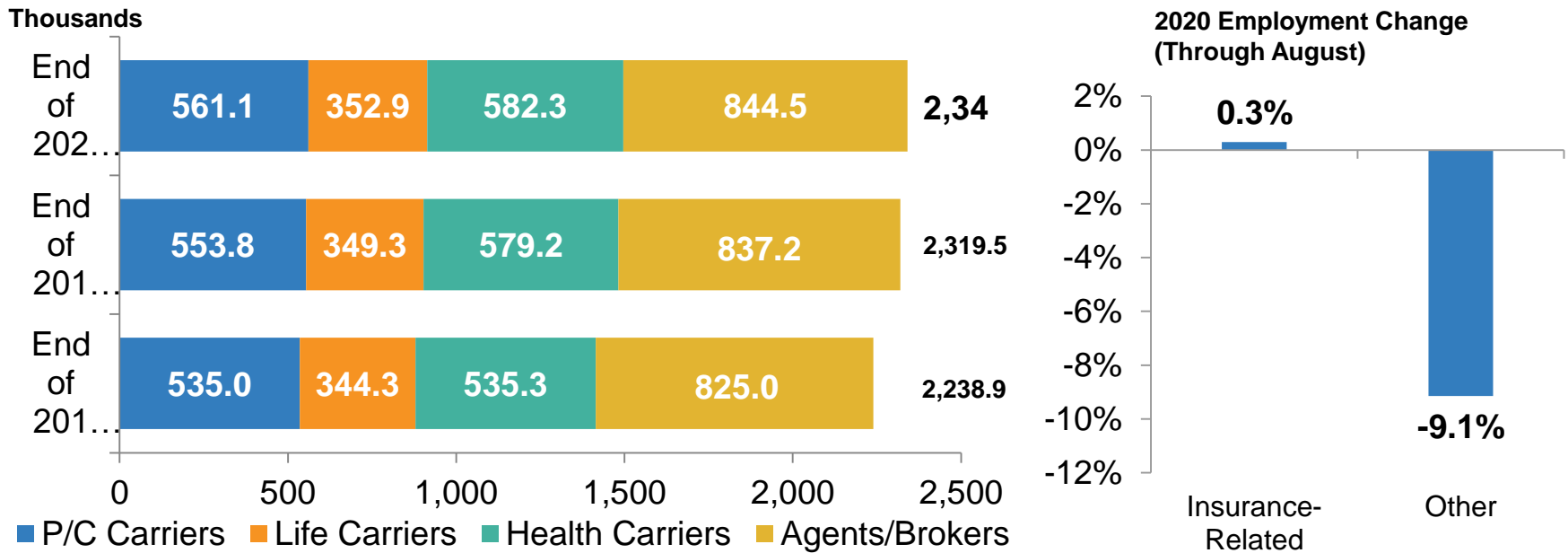
# The insurance value chain

How insurance contributes to society



# Brains: Industry is preserving its human capital

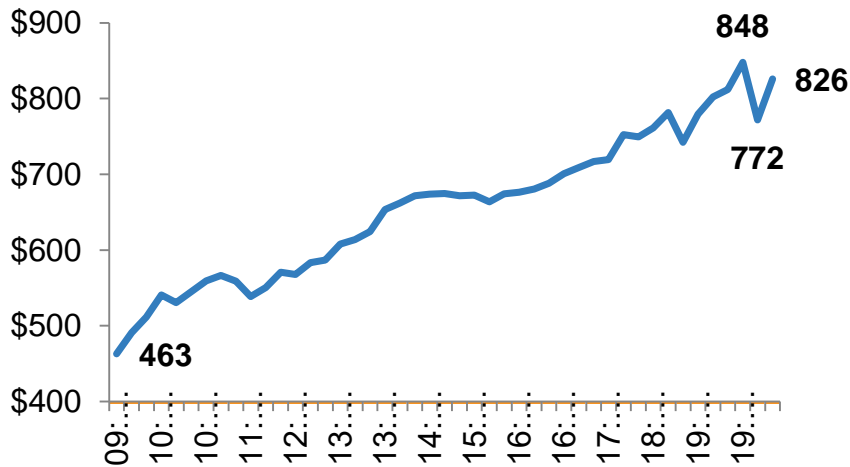
Steady employment among all four insurance sectors despite the recession



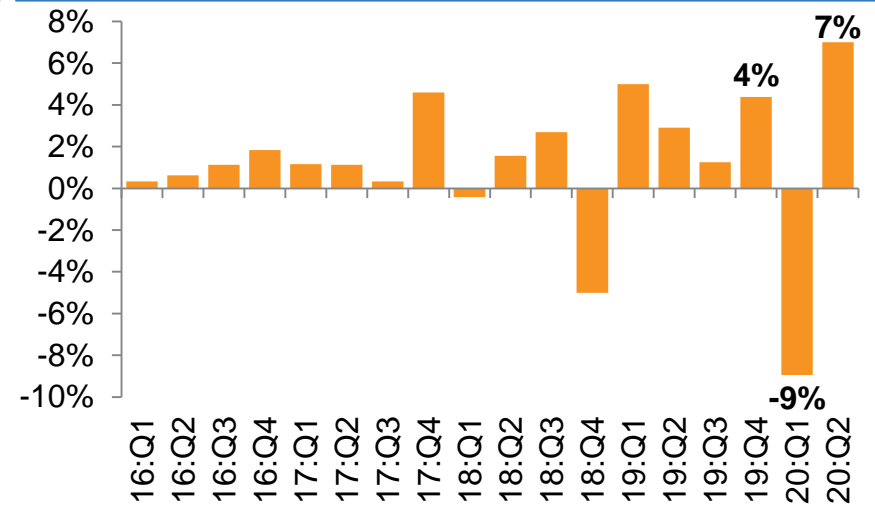
Data are seasonally adjusted.  
Sources: BLS; Insurance Information Institute.

# The bank account – Damage, then recovery

Amount of Surplus (\$ Billions)



Change from Prior Quarter



Surplus has rebounded from Q1 decline caused by unrealized capital losses (stock declines).



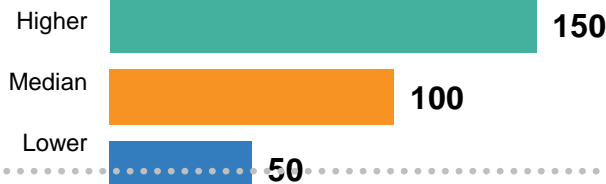
# Monthly costs of retroactive changes to SME BI policies

Regardless of scenario, retroactive attempts to include pandemics in BI causes bankruptcy

## Retroactive BI Scenarios

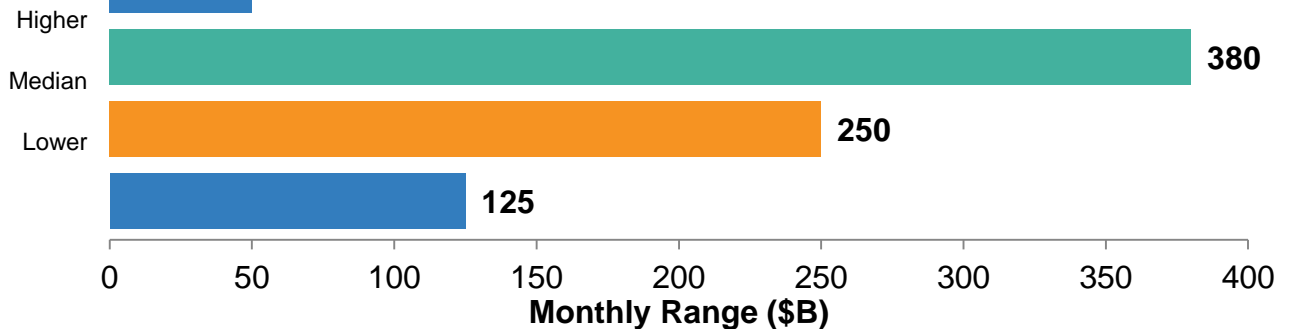
1

**Virus / Bacteria  
Exclusion  
Removal**



2

**Expanded BI to  
All SMEs**



### Key Assumptions

Scenario 1: 40% take-up rate  
Scenario 2: 100% take-up rate  
Loss basis: Compensation, profits, adjustment costs 7 days waiting period  
Retained loss of 10% of total loss

Median estimates are model-driven. The higher and lower estimates assume a standard distribution for BI losses anchored in the model-driven median loss estimates.

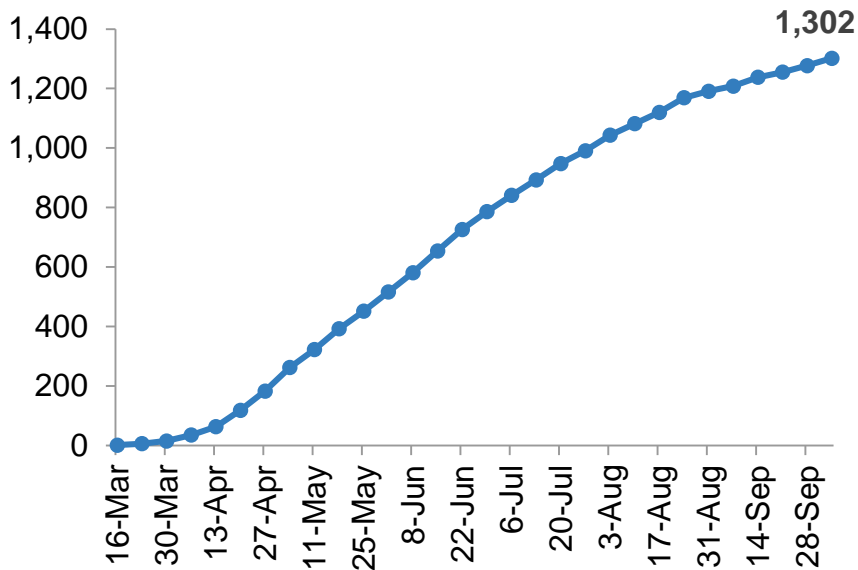
Source: Insurance Information Institute.



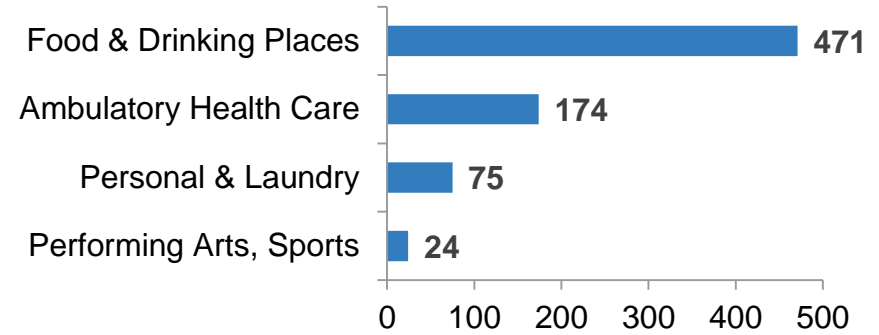
# Policy wording: Insurers minimized risk

Insurers understood threat of pandemics well before most

## Cumulative Filings



## Who Is Suing?



## Insurer Defenses

- ▲ No physical damage
- ▲ Exclusion for loss due to virus or bacteria (2006)





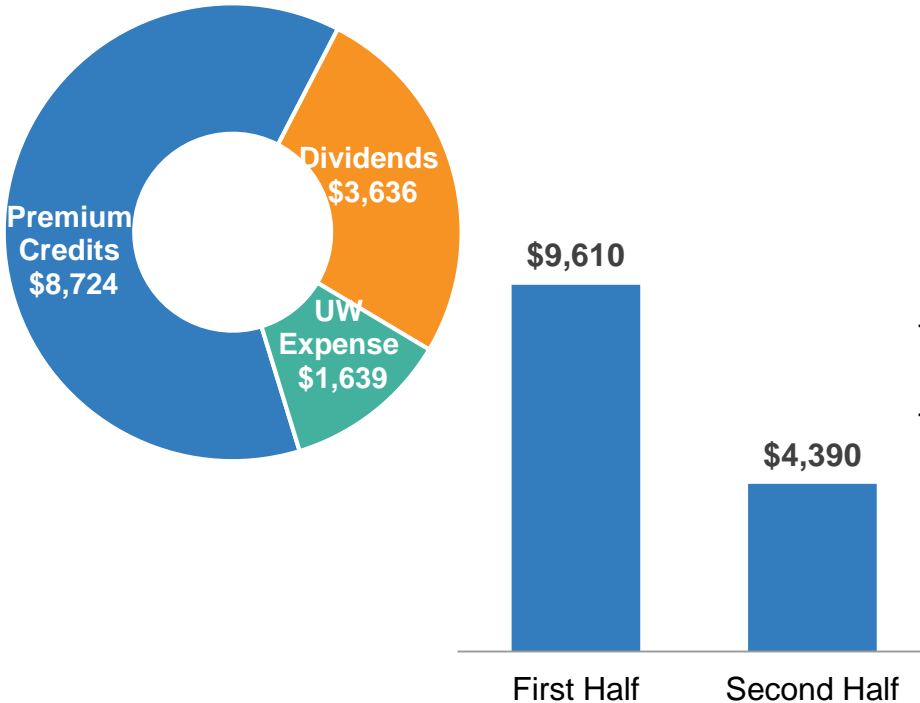
# Pricing: Adjusting on the fly

Insurers reacted nimbly to fulfill regulatory needs

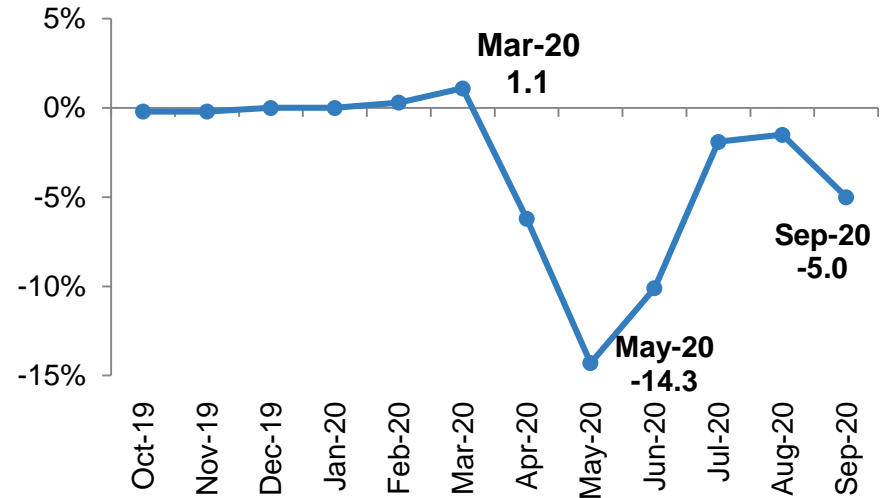
**\$14B in Personal Auto Givebacks**

**Consumer Price Index – Personal Auto**

In Millions



Percentage change from year earlier

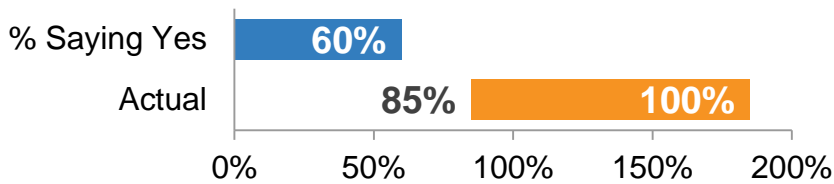


Sources: Insurance Information Institute, Bureau of Labor Statistics.

# Marketing opportunities

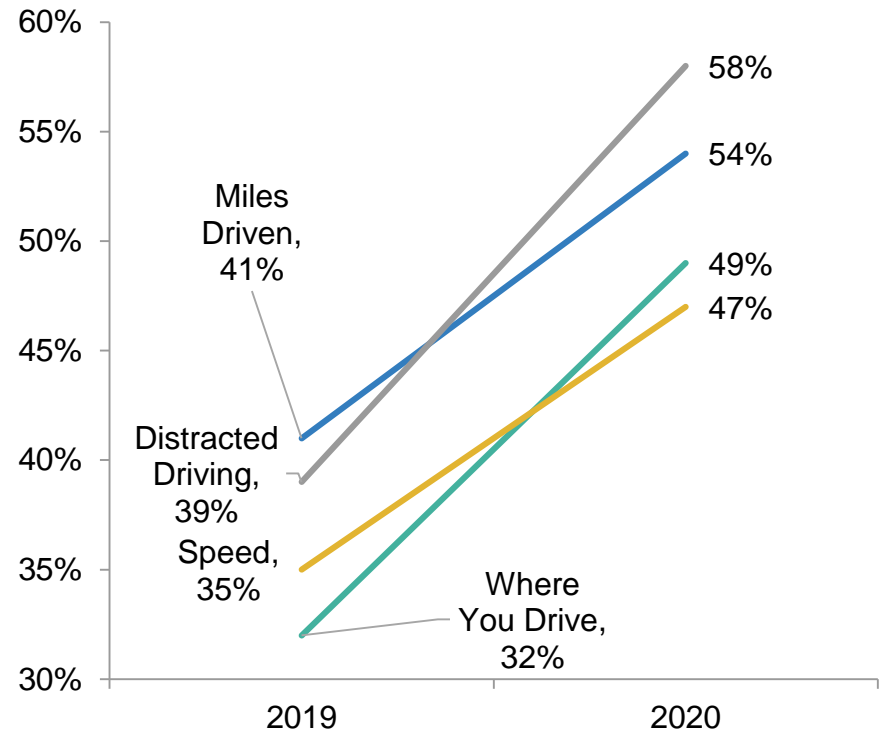
Too few knew industry gave back billions, but telematics shone

## Did you receive either refund or credit?

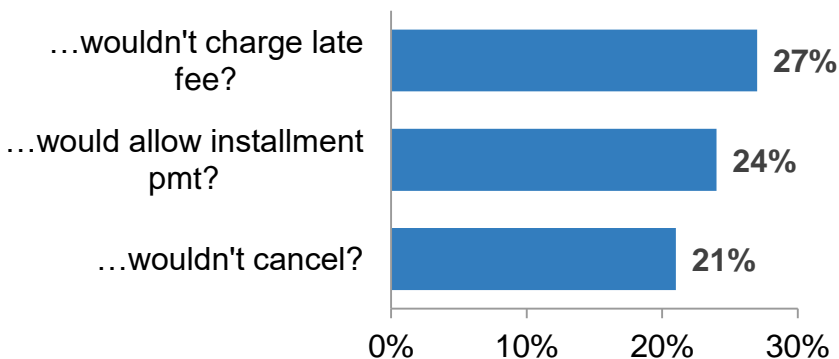


## Growing embrace of telematics

Percent comfortable with use in pricing



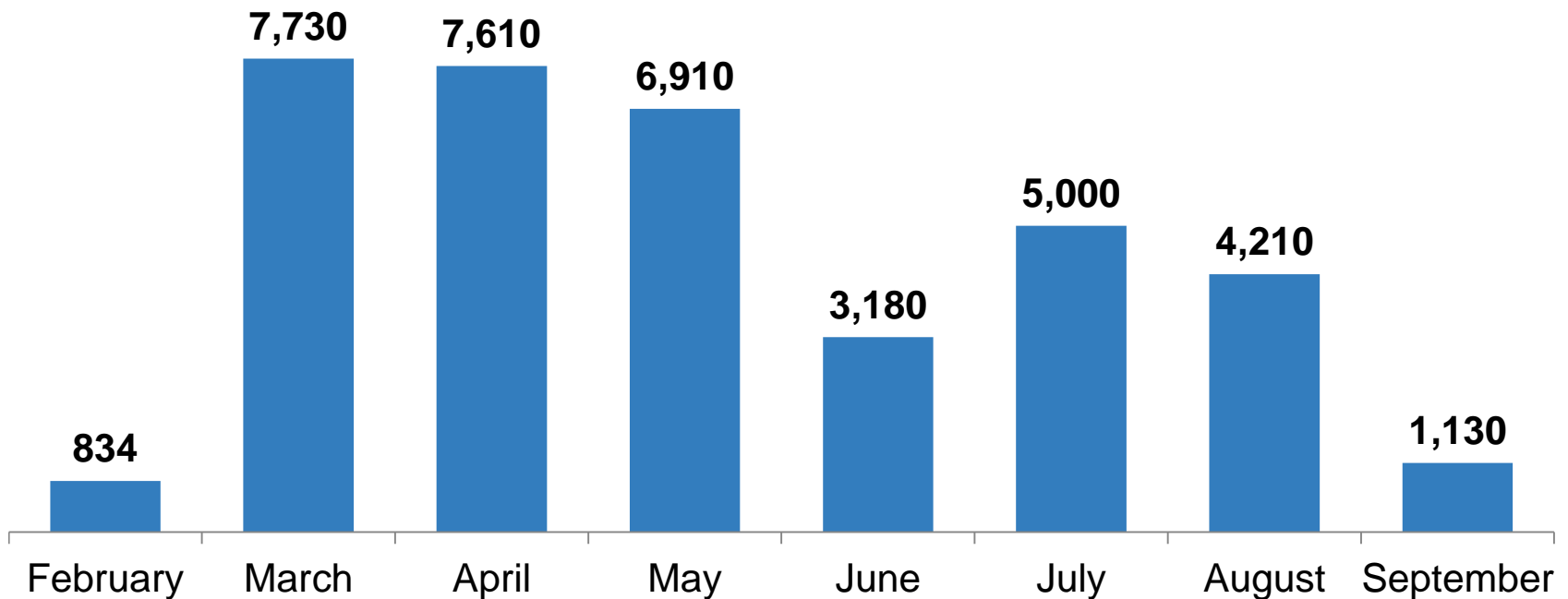
## Did insurer tell you it...



Source: Insurance Information Institute, Arity.com

# Market challenge: A surge in business interruption media coverage

Count of Stories Mentioning Business Interruption Insurance & COVID-19



Source: Meltwater.



# Market challenge: An industry campaign

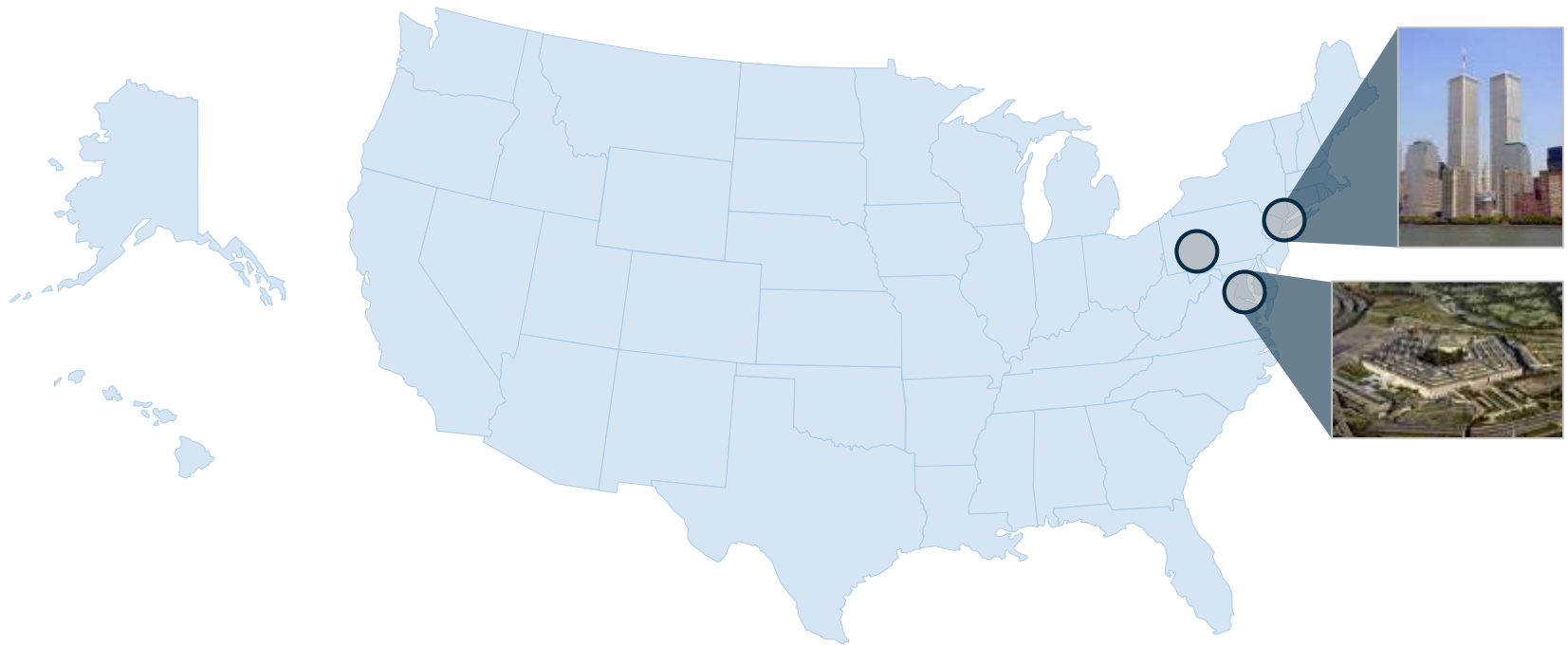


- ▲ The Future of American Insurance & Reinsurance (FAIR) campaign launched in May and has served as a source of education surrounding pivotal industry activity, including Congressional hearings, White House roundtables, state legislation, and media stories.
- ▲ With a separate website, valuable explanatory assets, stakeholder outreach, and digital promotions, this integrated campaign provides the Triple-I with a separate platform and voice to present information in a digestible, influential manner to key audiences.
- ▲ The campaign takes on overarching industry issues (i.e. business interruption) and emphasizes its essential role in supporting and rebuilding communities in these uncertain times.



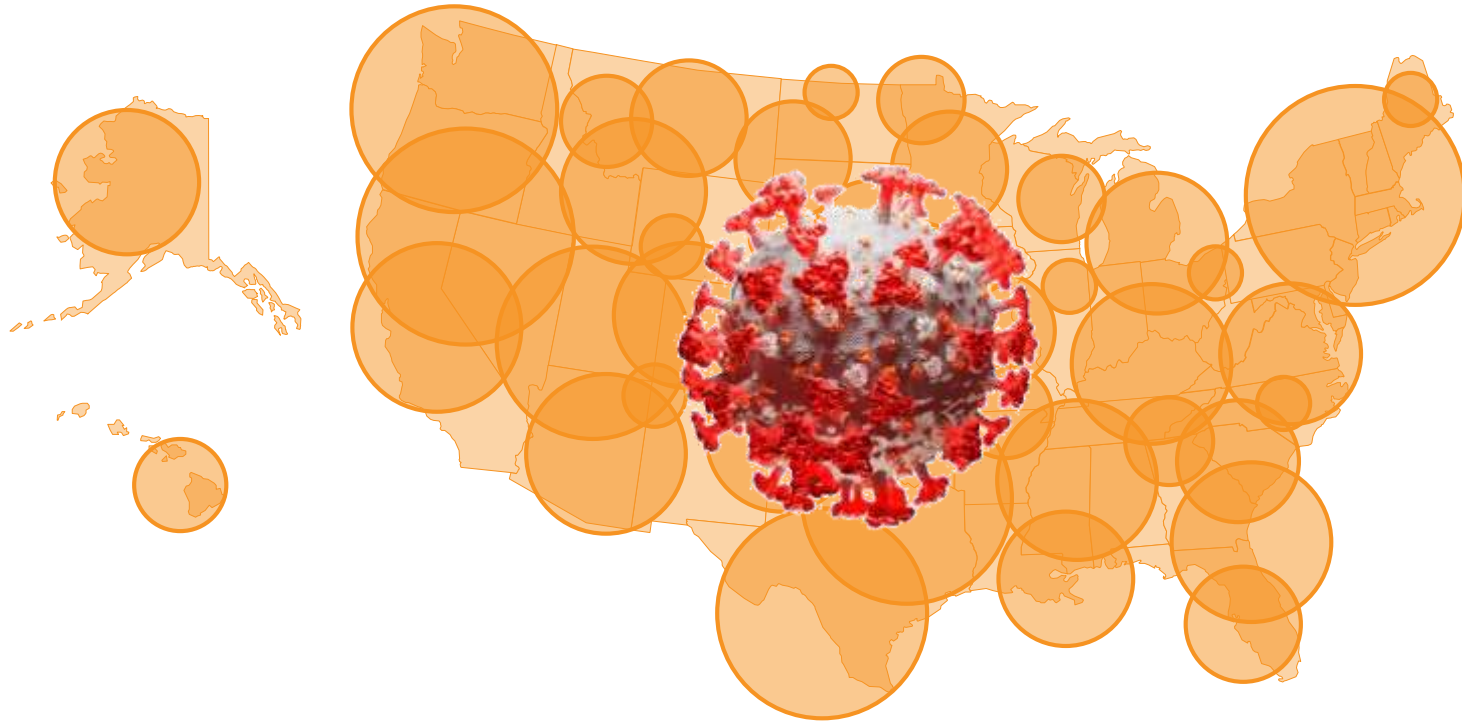
# Communications: Global pandemics are uninsurable

## Economic Impact of 9/11



# Communications: Global pandemics are uninsurable

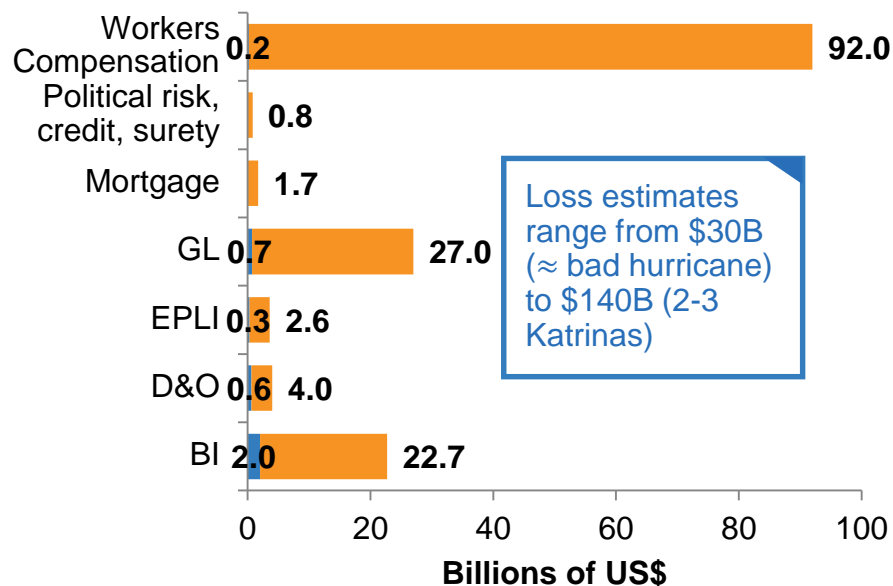
## Economic Impact of Coronavirus



# Settling claims: COVID-19's claims impact

Losses spread across many lines, but amount is uncertain

## Potential Loss Impact

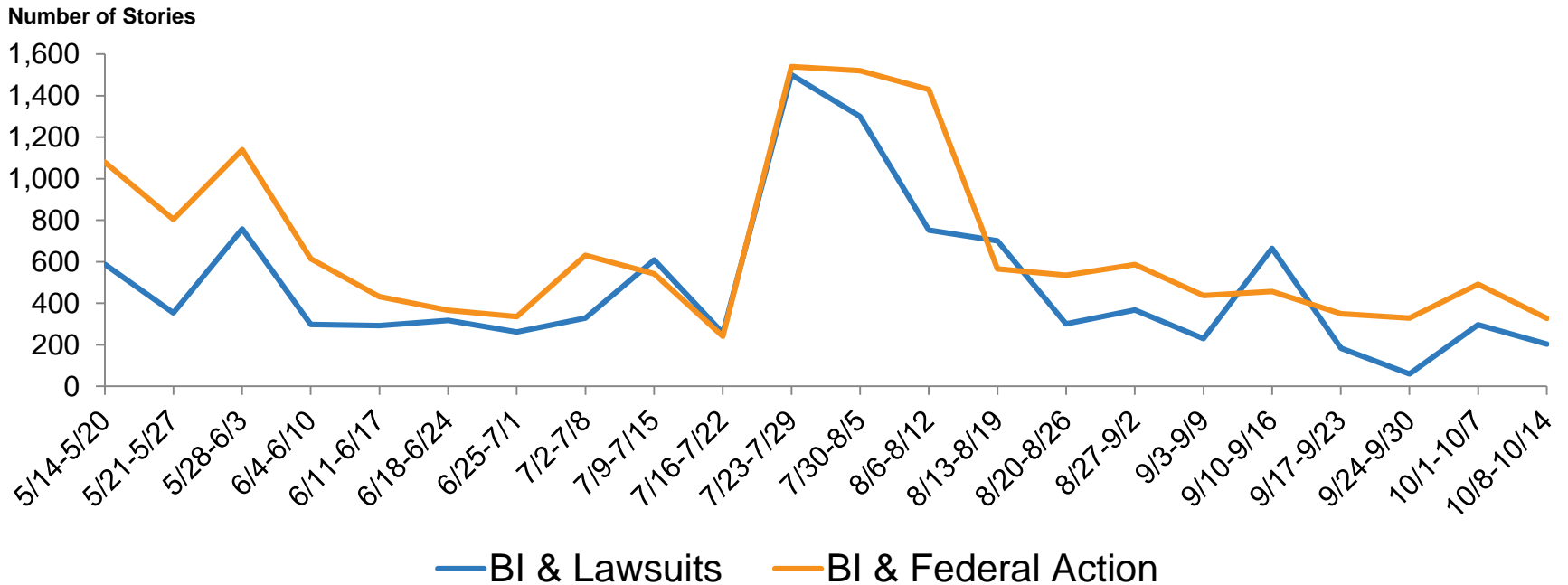


## Industrywide Toll

- ▲ Lloyd's estimate (May, worldwide) \$107B
- ▲ Reported (through September 12, worldwide): \$22.4B
- ▲ Triple-I estimate: equivalent in US to a significant hurricane (\$10B - \$50B)



# A better place: Six months into COVID-19, news coverage discusses federal policy solution



Source: Meltwater.





# A better place: FAIR guiding principles: A defined perspective on potential policy solutions

Given their universal scope, pandemics are largely uninsurable. Therefore, only the government has the financial capacity to provide the relief small and large businesses need to weather this crisis.

## Proposed solutions must:

- ▲ Maintain the federal government as a primary provider of relief, reflecting the reality that pandemic risks are not privately insurable.
- ▲ Provide widely accessible relief payments to businesses in a fast and efficient manner once a pandemic is declared by the government, with minimal chance of abuse.
- ▲ Protect businesses from losses, and incentivize businesses to retain employees, without jeopardizing insurers' existing commitments.



# Stepping Up

## America's Insurers:

for Customers, Communities, and Employees

The insurance industry is applying forward-thinking solutions to take care of its customers, communities, and employees during the COVID-19 crisis

### Customers

Auto insurers have returned **\$14 billion** so far to customers' pockets around the country through premium relief

### Community

Insurers have pledged **more than an estimated \$280 million** (according to III/Insurance Industry Charitable Foundation) in donations to the national and local organizations fighting this pandemic on the frontlines

### Employees

Employing more than **2.8 million Americans**, Insurers are taking care of their employees—many pledging no layoffs during the ongoing crisis

### Industry

Insurers are implementing **innovative solutions** to carrying out daily operations while respecting social distancing





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Thank you for your time  
and your attention!