



**INSURANCE
INFORMATION**
INSTITUTE

What's Driving the P/C Industry?

Casualty Actuarial Society webinar

August 18, 2020

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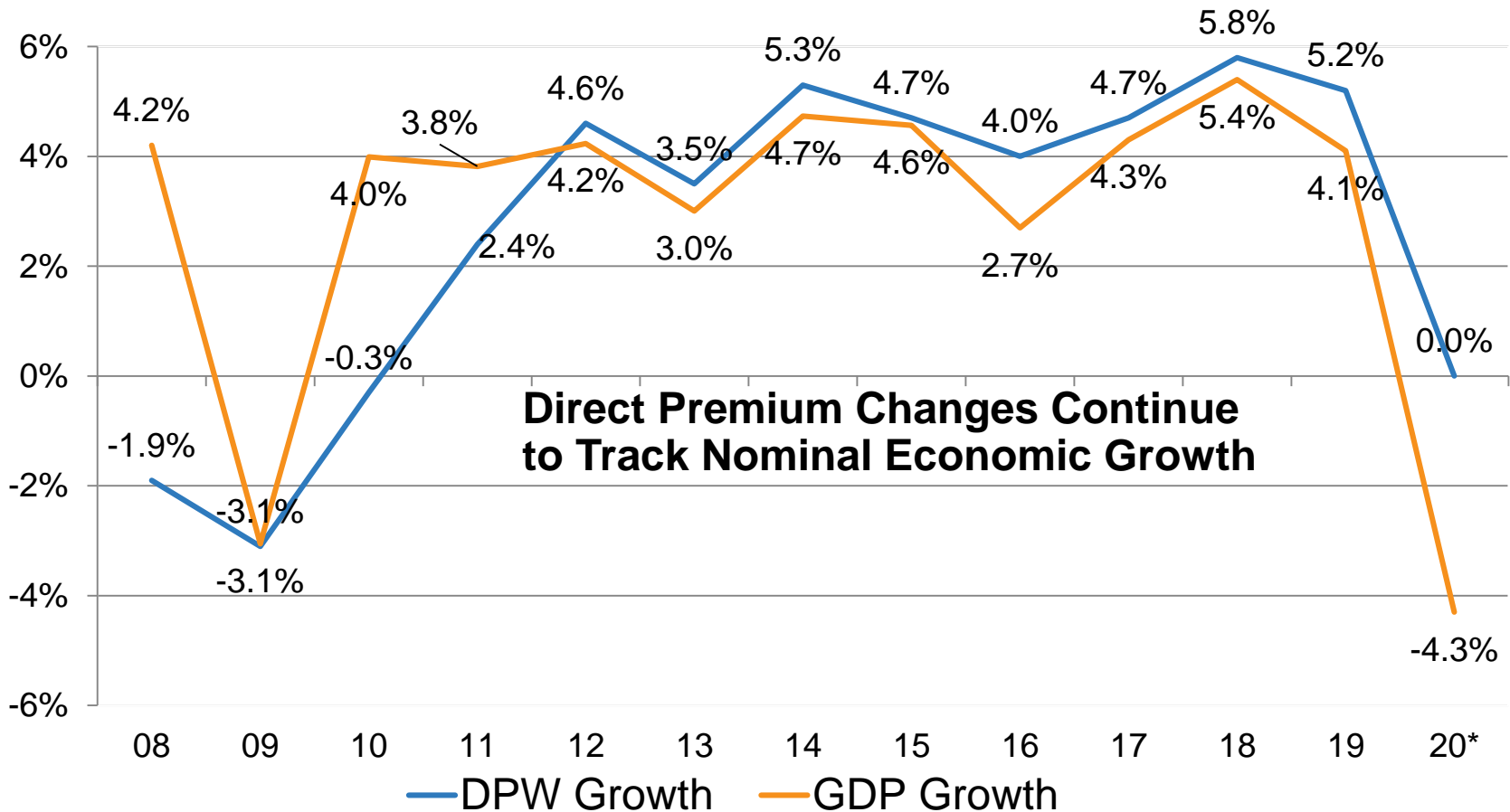
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Insurance Industry Financial Trends

Direct Premium Growth, Annual Change

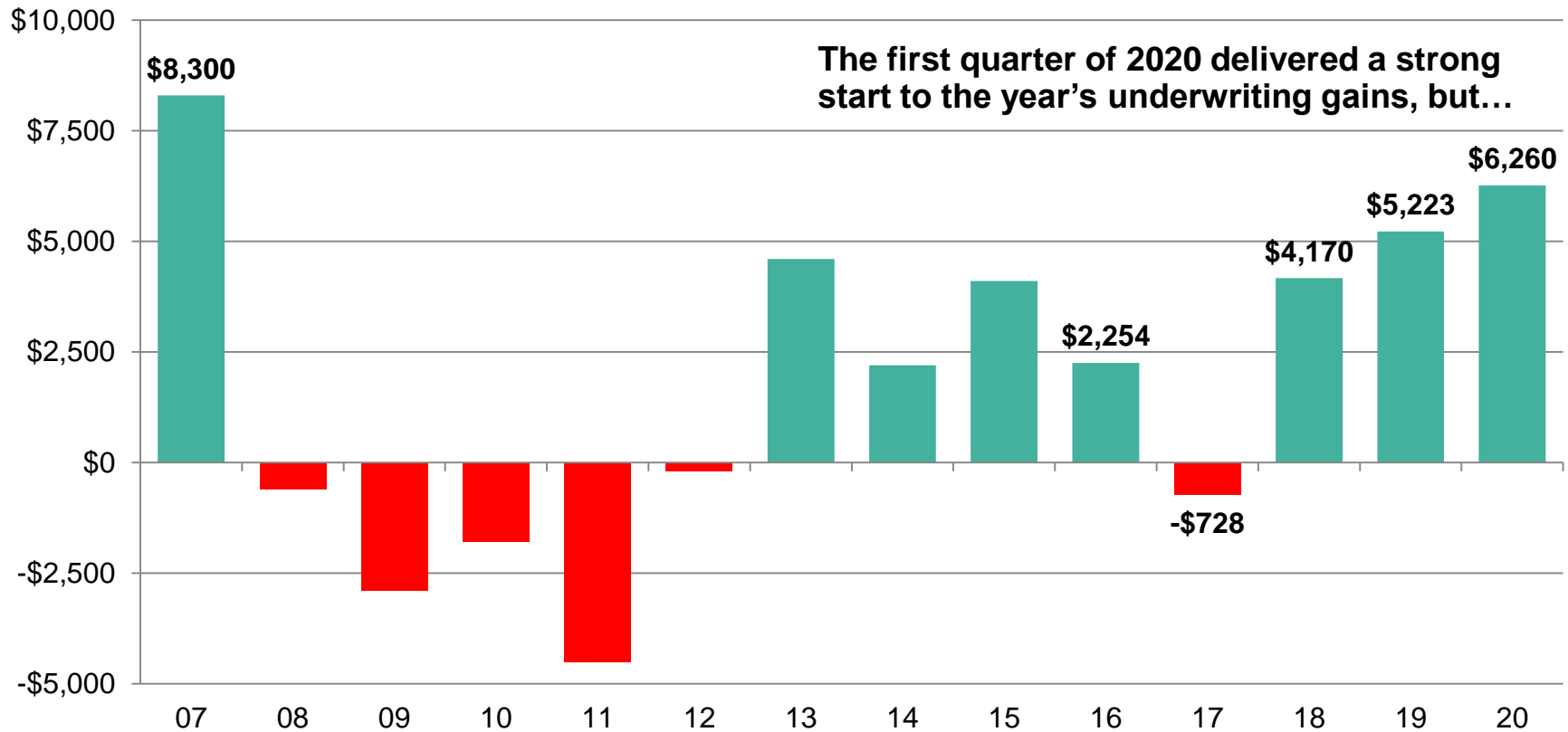


*Nominal GDP for 2020 is Blue Chip consensus forecast for 2020, as of July 2020.

Sources: NAIC data sourced through S&P Global Intelligence, Bureau of Economic Affairs, Insurance Information Institute/Milliman Underwriting Forecast.



Net Underwriting Gains and Losses, 1st Quarters*



Based on the last 14 first quarters, we can say that underwriting profitability runs in streaks. Since 2013 we had 7 of 8 profitable quarters, following 5 unprofitable ones.

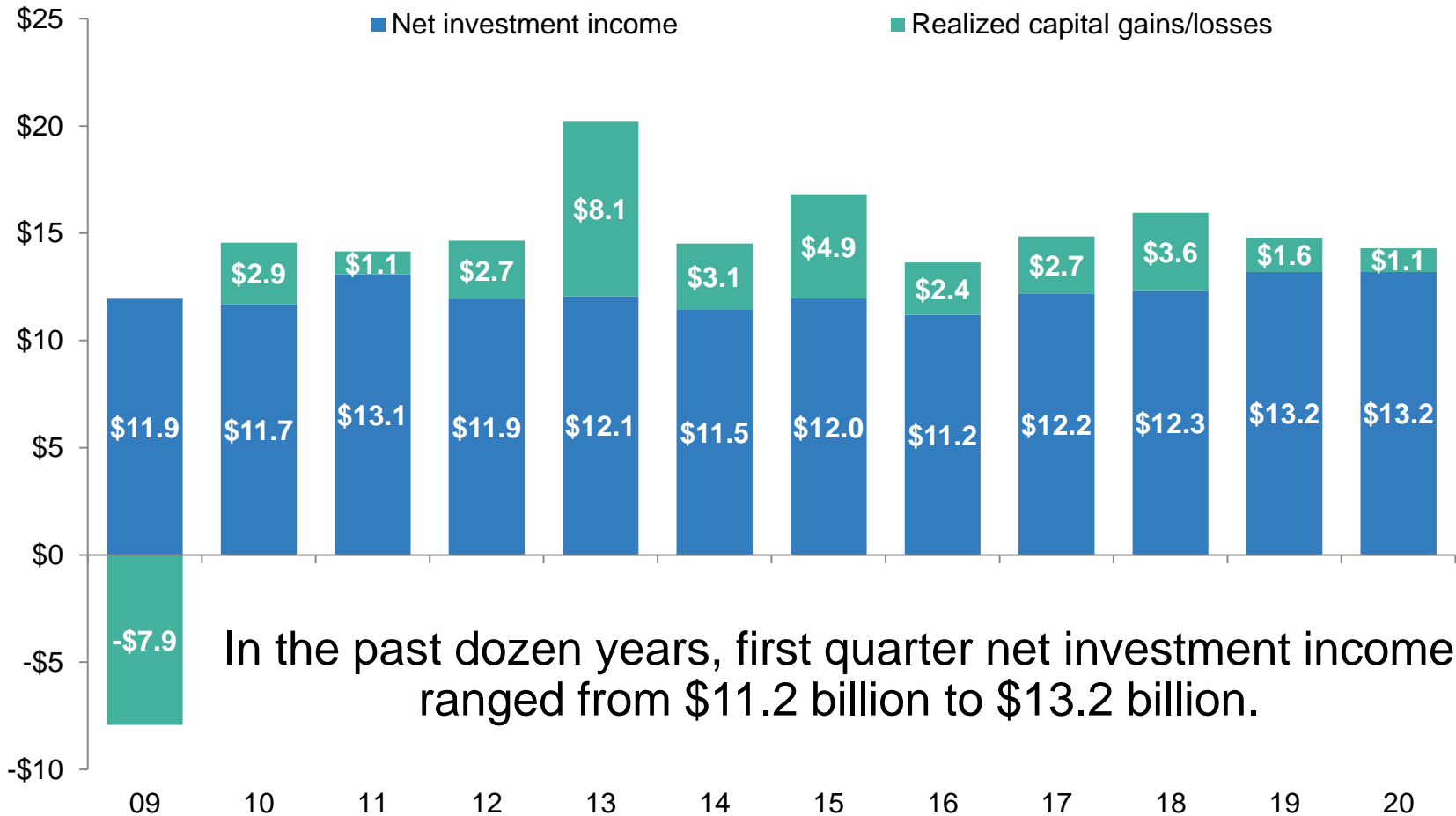


*latest data available

Sources: NAIC data, sourced from S&P Global Market Intelligence, ISO/PCI. 2019

Sources of investment gains, first quarters

\$ Billions



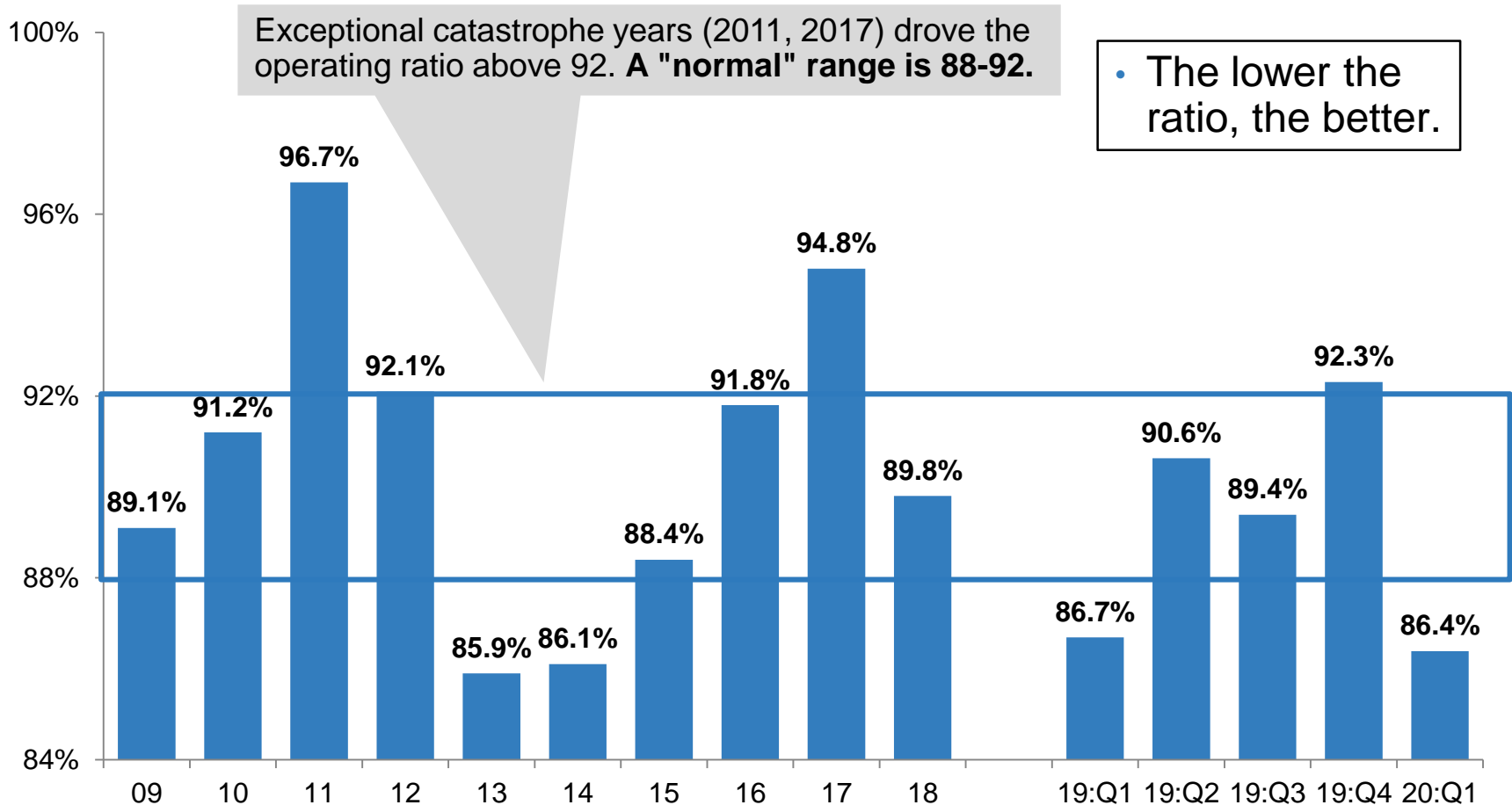
In the past dozen years, first quarter net investment income ranged from \$11.2 billion to \$13.2 billion.

Realized capital gains/losses in first quarters ranged from -\$7.9 billion to \$8.1 billion.



P/C industry operating ratios

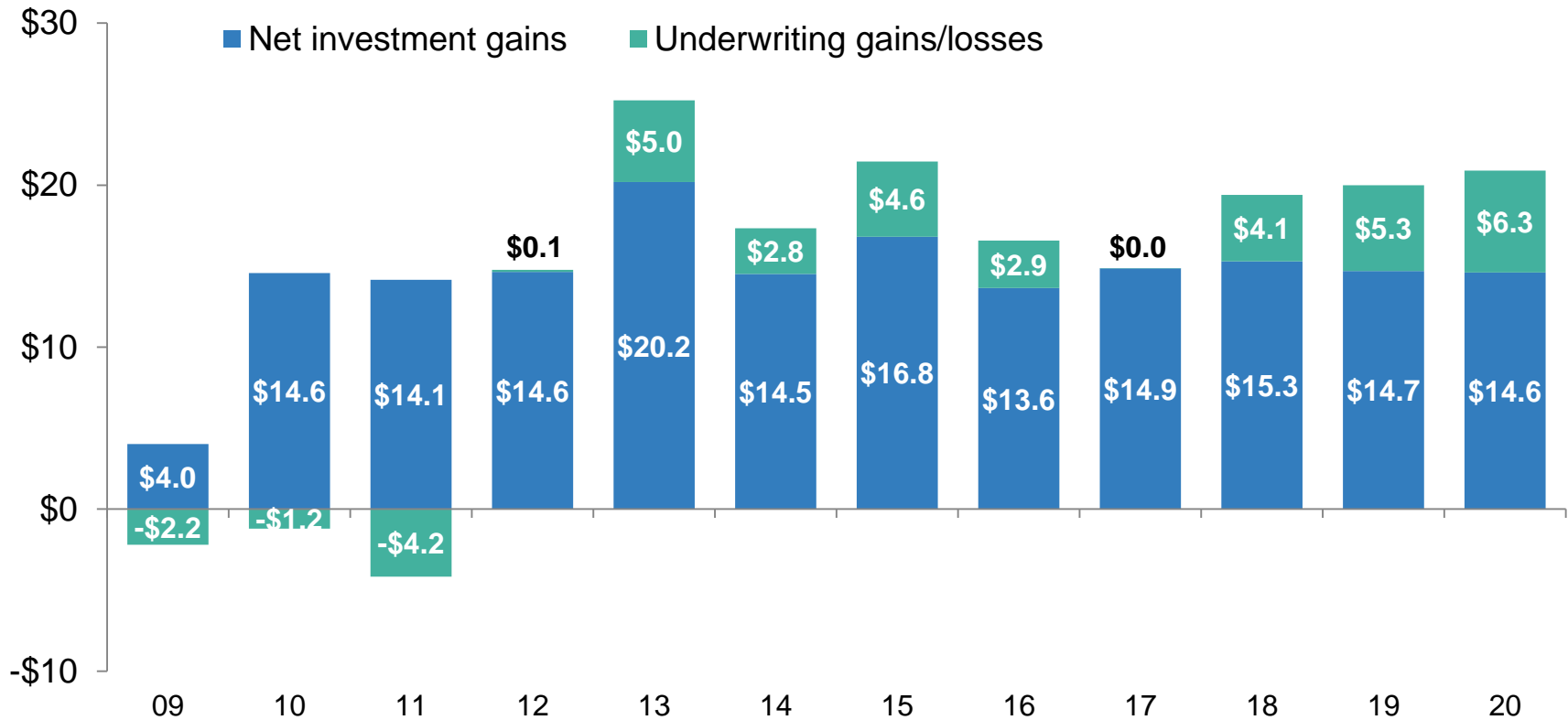
- Operating ratio = combined ratio (losses plus expenses as a percent of earned premiums) minus net investment income as a percent of earned premiums.
- Operating ratio includes all insurance and investment operations except taxes and capital gains and losses.



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

Key sources of P/C insurer profits

\$ Billions



**Steady Investment Gains, Good Underwriting Results
Lifted Profits in Most Years.**

Through first quarter.

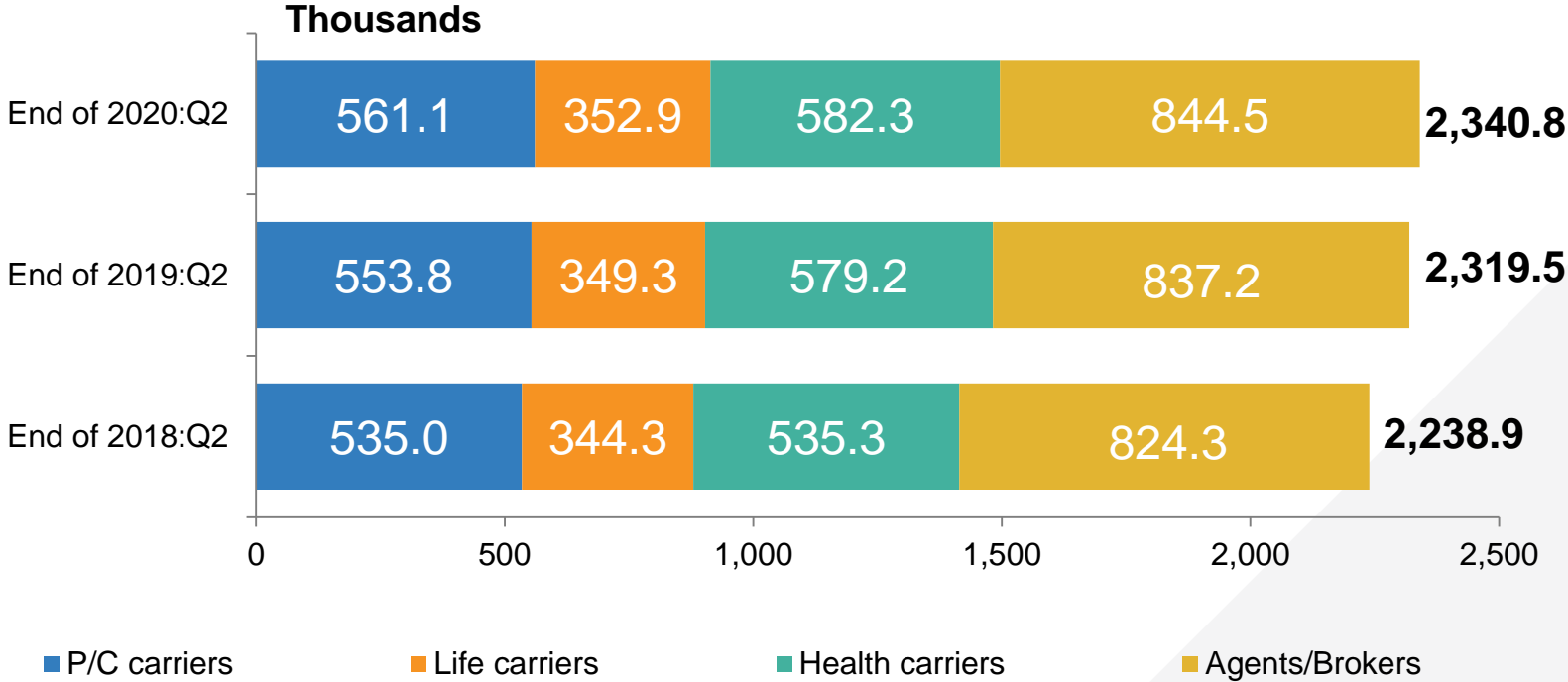
Data are before taxes and exclude extraordinary items.

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



Employment in Major Subsectors of the Insurance Industry: A Surprise

Over the Last Two Years, All Four Major Insurance Industry Subsectors Have Grown Employment Despite the Recession That Began in February 2020

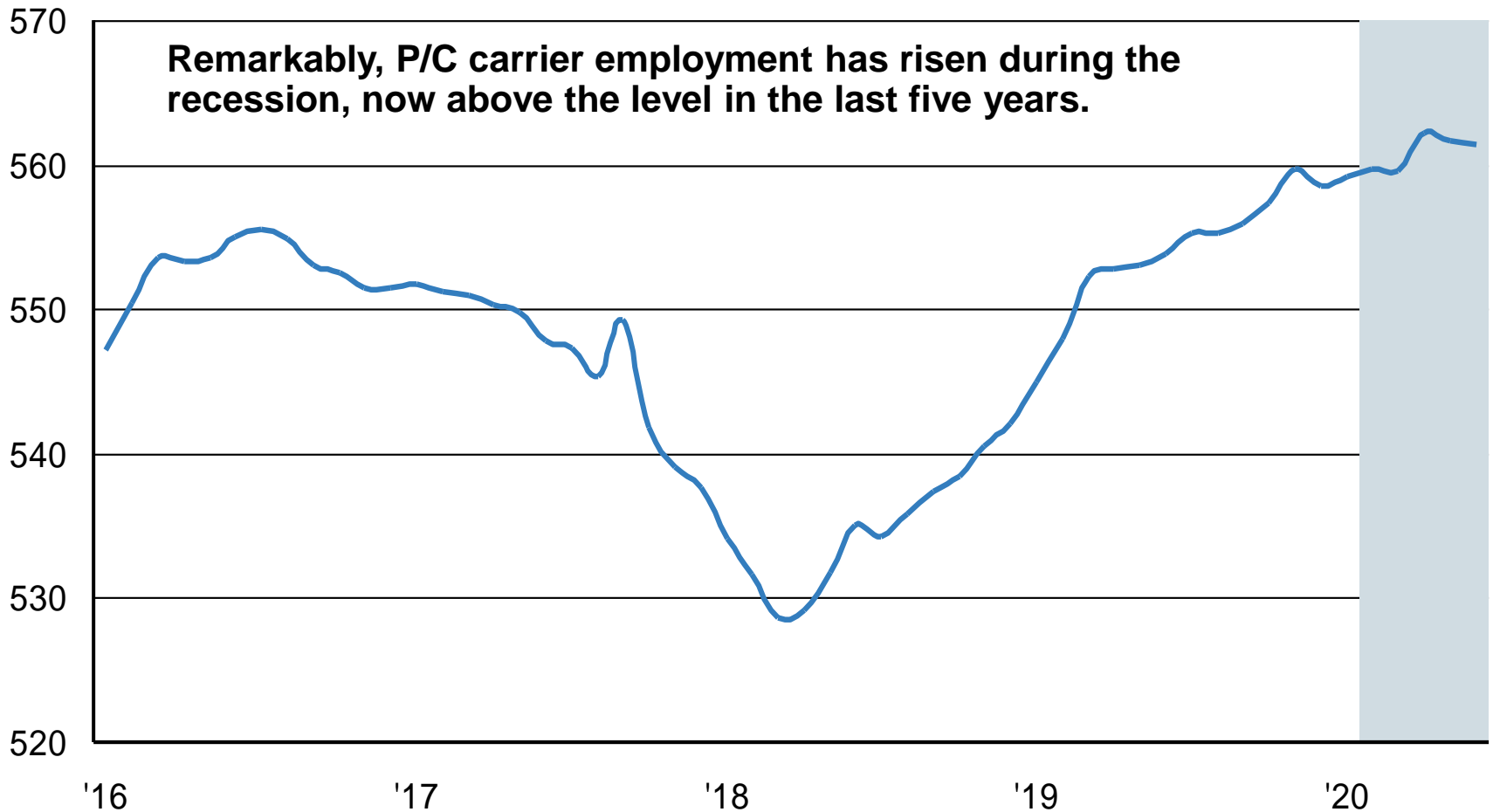


Data are seasonally adjusted
Sources: BLS; Triple-I

Employment at P/C Carriers

Jan. 2013 – June 2020

Thousands

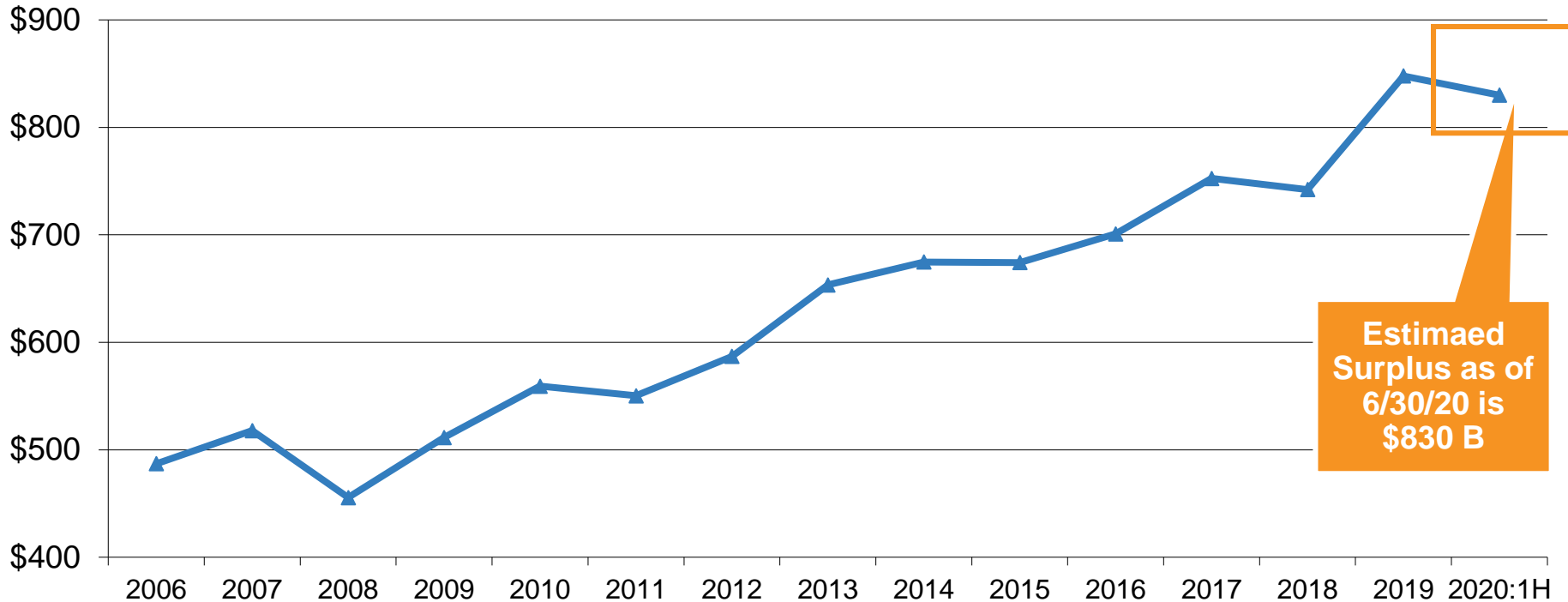


Notes: Recession indicated by gray shaded column. Data are seasonally adjusted.

Sources: Bureau of Labor Statistics; National Bureau of Economic Research (recession dates).

Policyholder Surplus, Year-end, 2006–2019, and Estimated Mid-Year 2020

(\$ Billions)



Estimated Surplus as of 6/30/20 is \$830 B

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

The P/C insurance industry entered 2020 in exceptionally strong financial condition.



Sources: ISO, A.M .Best.

Song of the Current Recession:

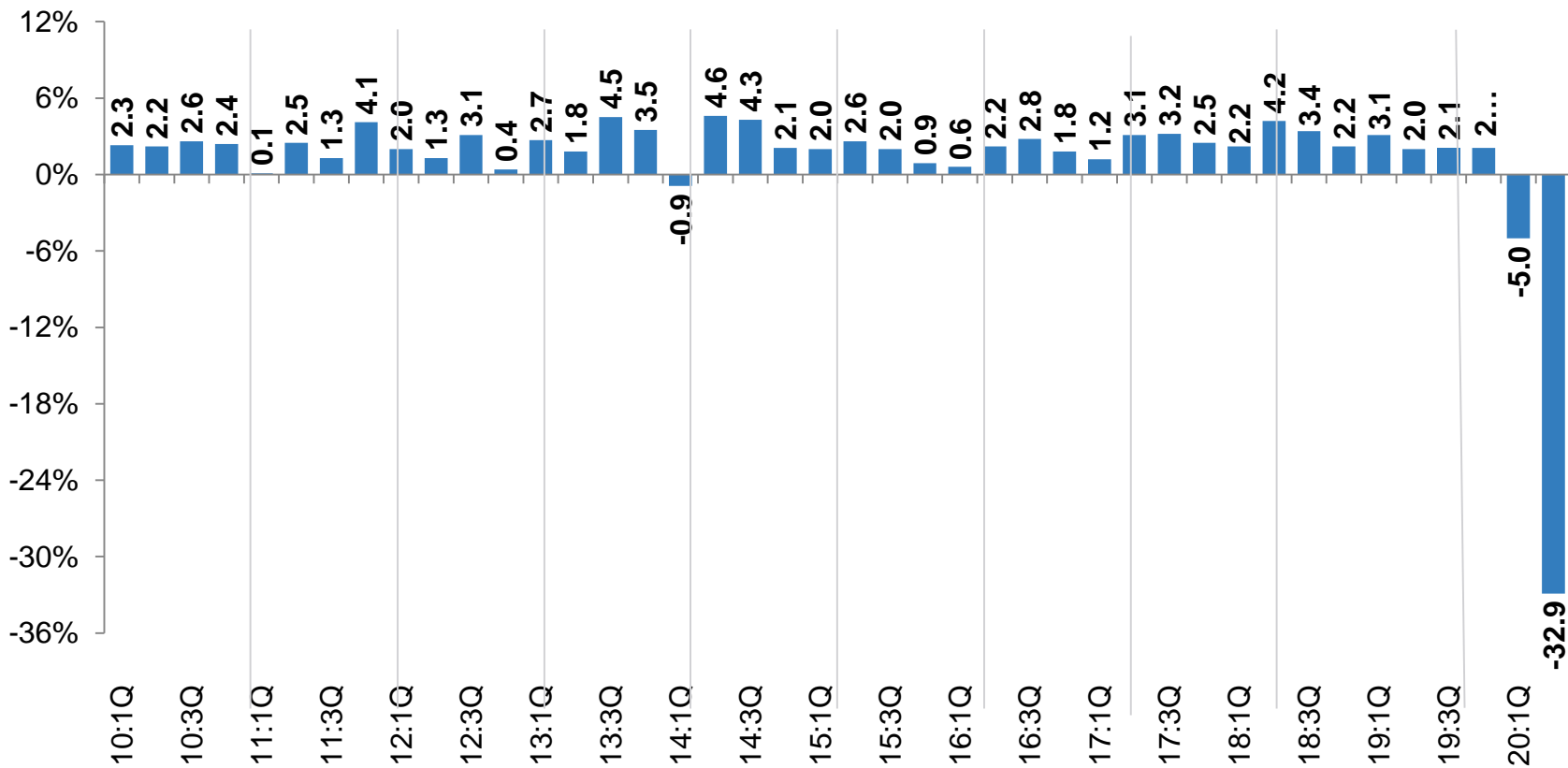
“Nobody Knows the Trouble
I’ve Seen”

July 29 Statement by the Federal Reserve Open Market Committee

The path of the economy will depend significantly on the course of the virus. The ongoing public health crisis will weigh heavily on economic activity, employment, and inflation in the near term, and poses **considerable risks to the economic outlook over the medium term.**



U.S. Real GDP Growth,* Quarterly, 2010-2020

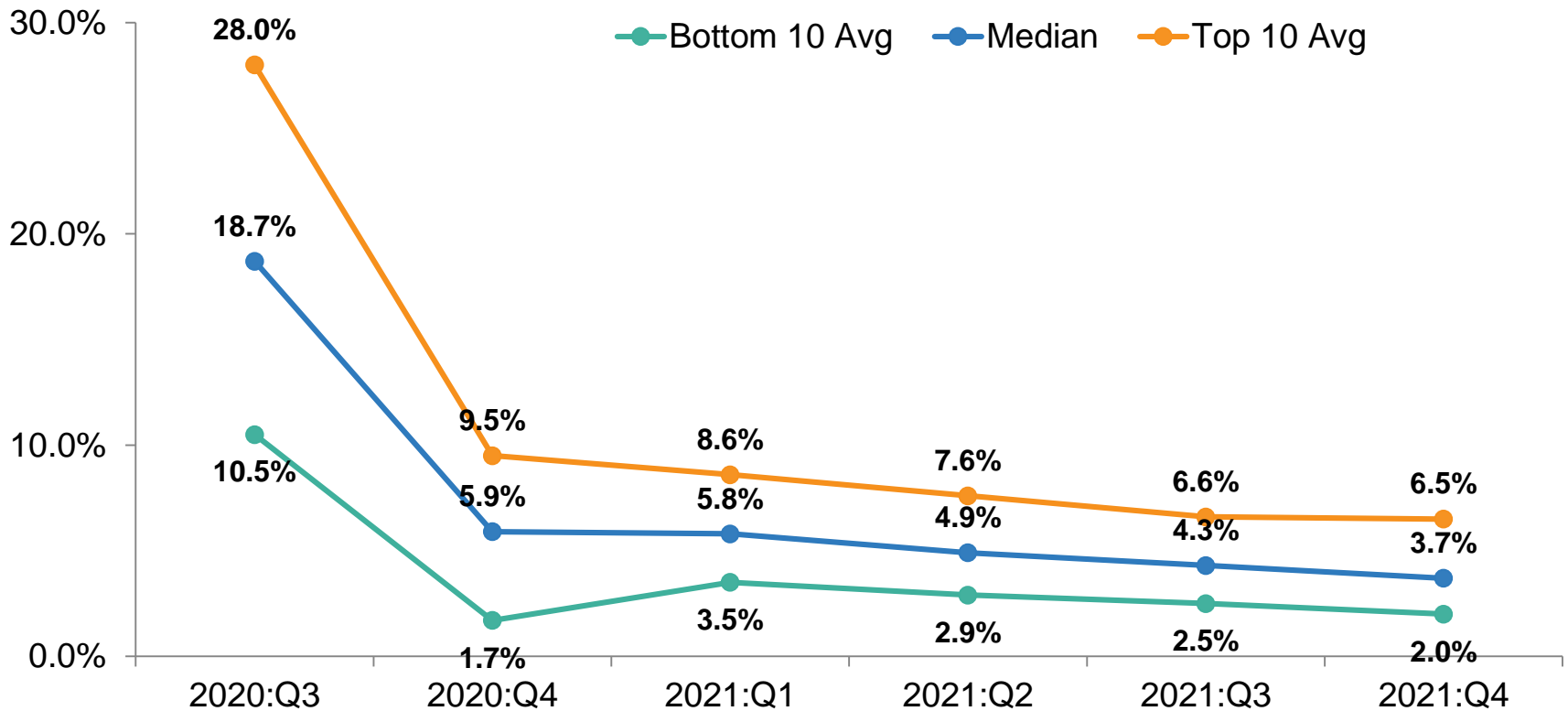


In the last decade, the economy (as measured by real GDP) rarely grew faster than 3% (at an annual rate) in a calendar quarter.



*Seasonally adjusted at an annual rate
Sources: U.S. Department of Commerce; Insurance Information Institute.

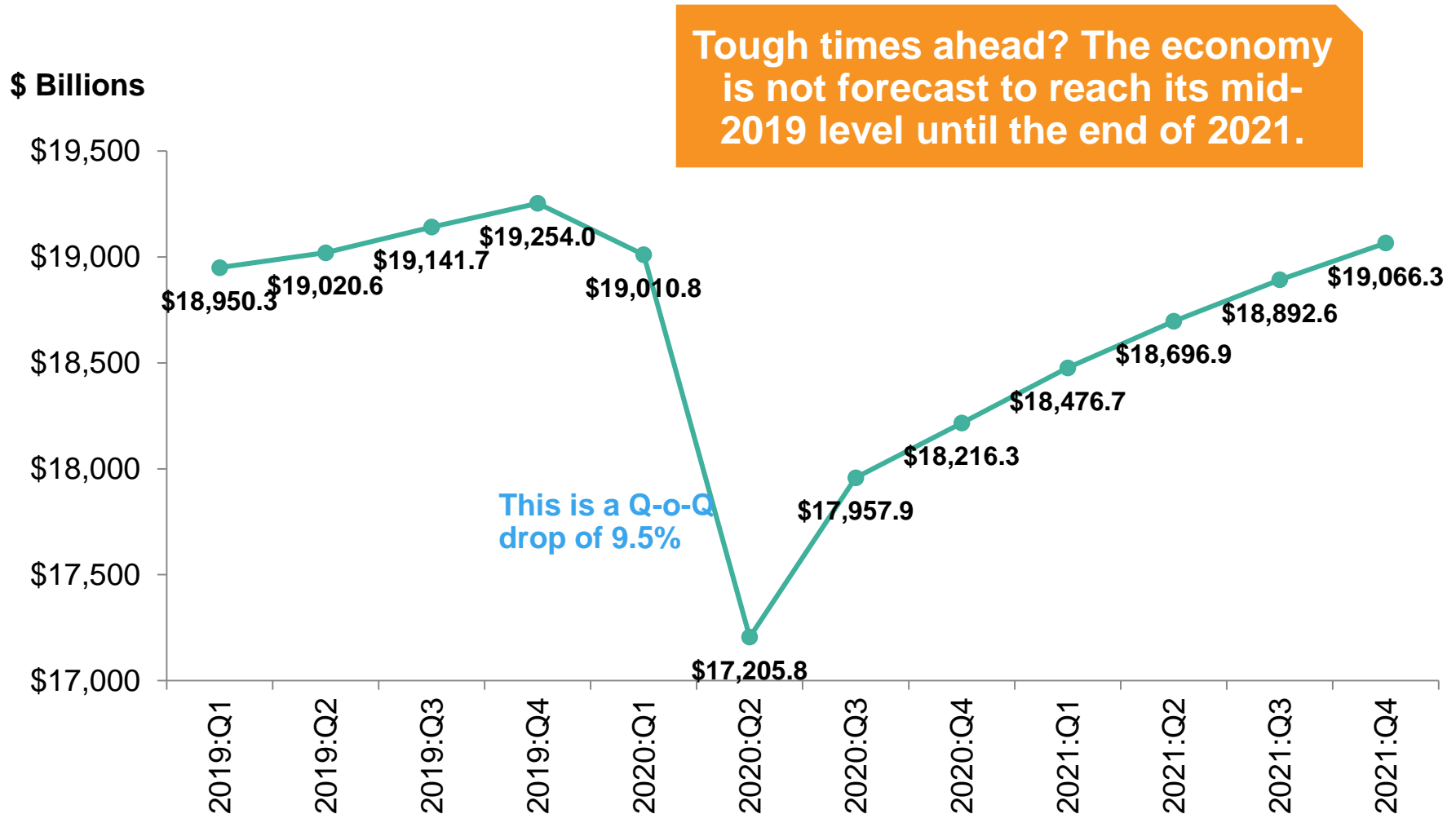
Quarterly U.S. Real GDP Growth (at annual rates): Range of Forecasts, 2020-2021



Tough times ahead?
Forecasts expect U.S. growth to recover slowly through 2021.

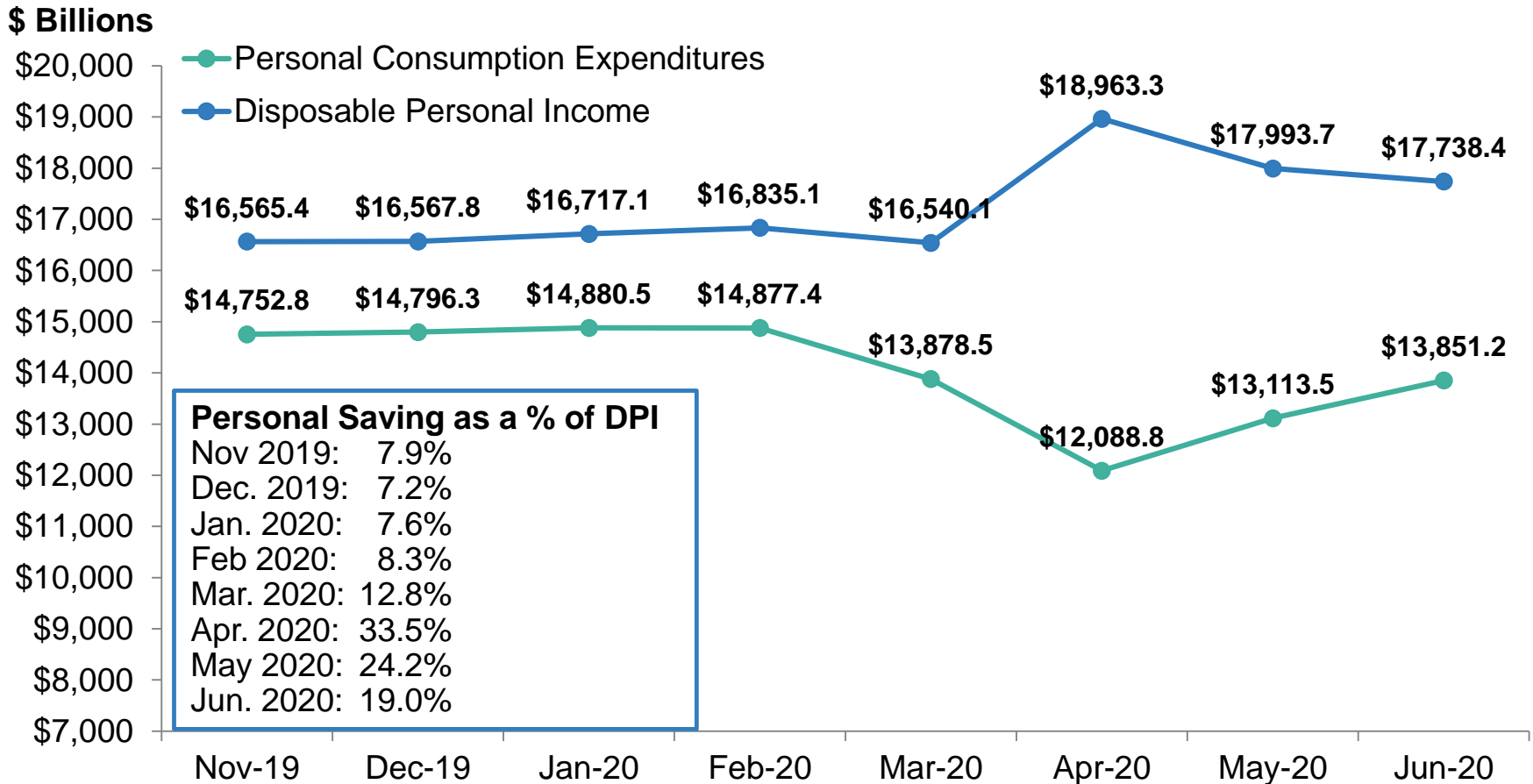


Quarterly U.S. Real GDP: Actual and Forecasts, 2019-2021



Sources: Blue Chip Economic Indicators, August 2020 issue; Insurance Information Institute. Plot points for 2020:Q2 and later are estimates and forecasts.

Hiring Depends on People Having Income and Spending It*



In 2020:Q2 we had the largest drop in credit card balances in history--\$75 billion. Consumption (70% of the economy) is cautious.



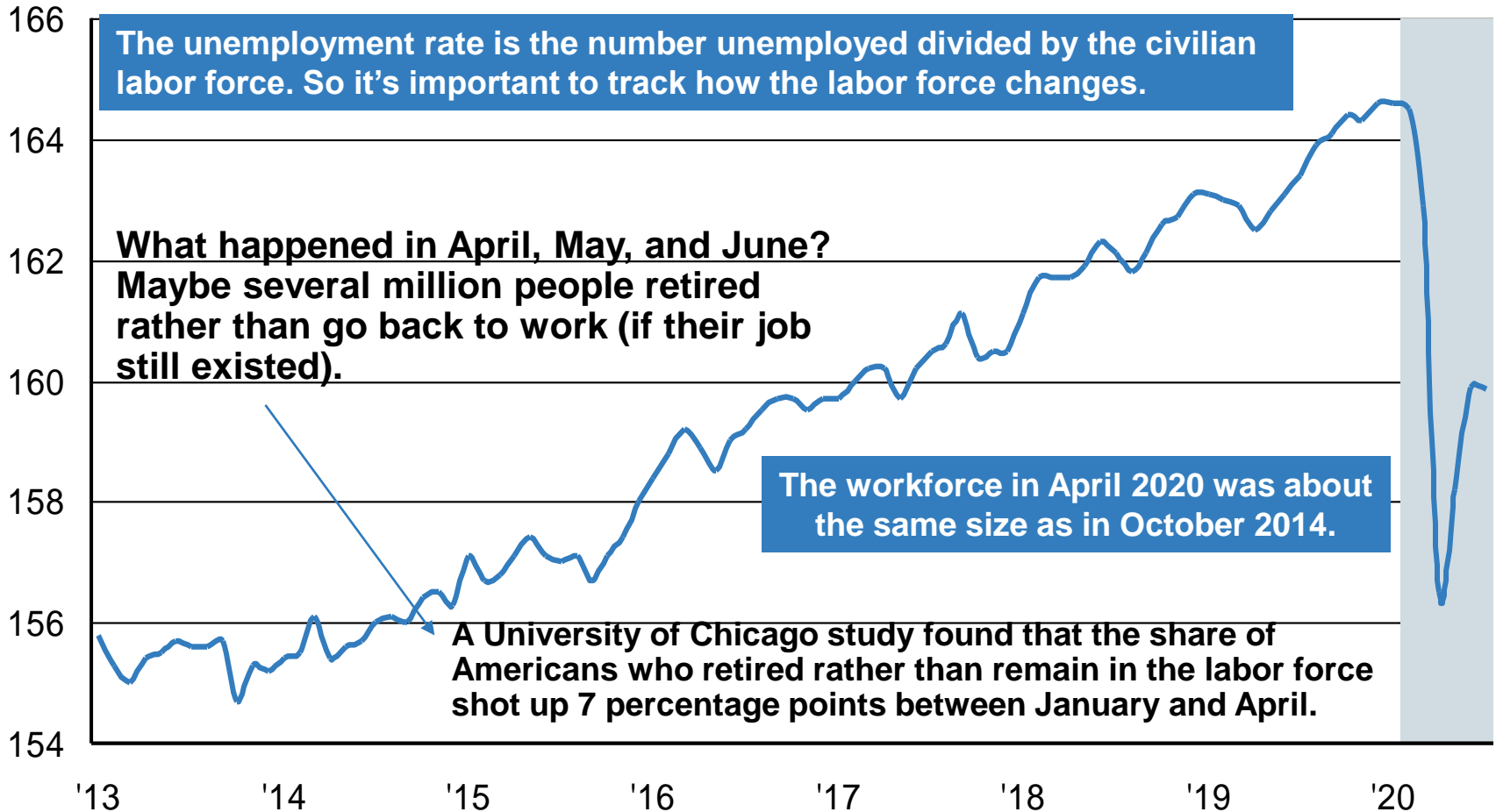
*Data are seasonally adjusted at an annual rate

Sources: bea.gov, Personal Income and Outlays, June 2020 and Annual Update, Table 1; Insurance Information Institute.

The Civilian Labor Force

Jan. 2013 – July 2020

Millions



From February 2020 to April, the workforce shrank by 8.1 million, but it regained 3.5 million by June, for a net drop of 4.6 million. Flat in July.

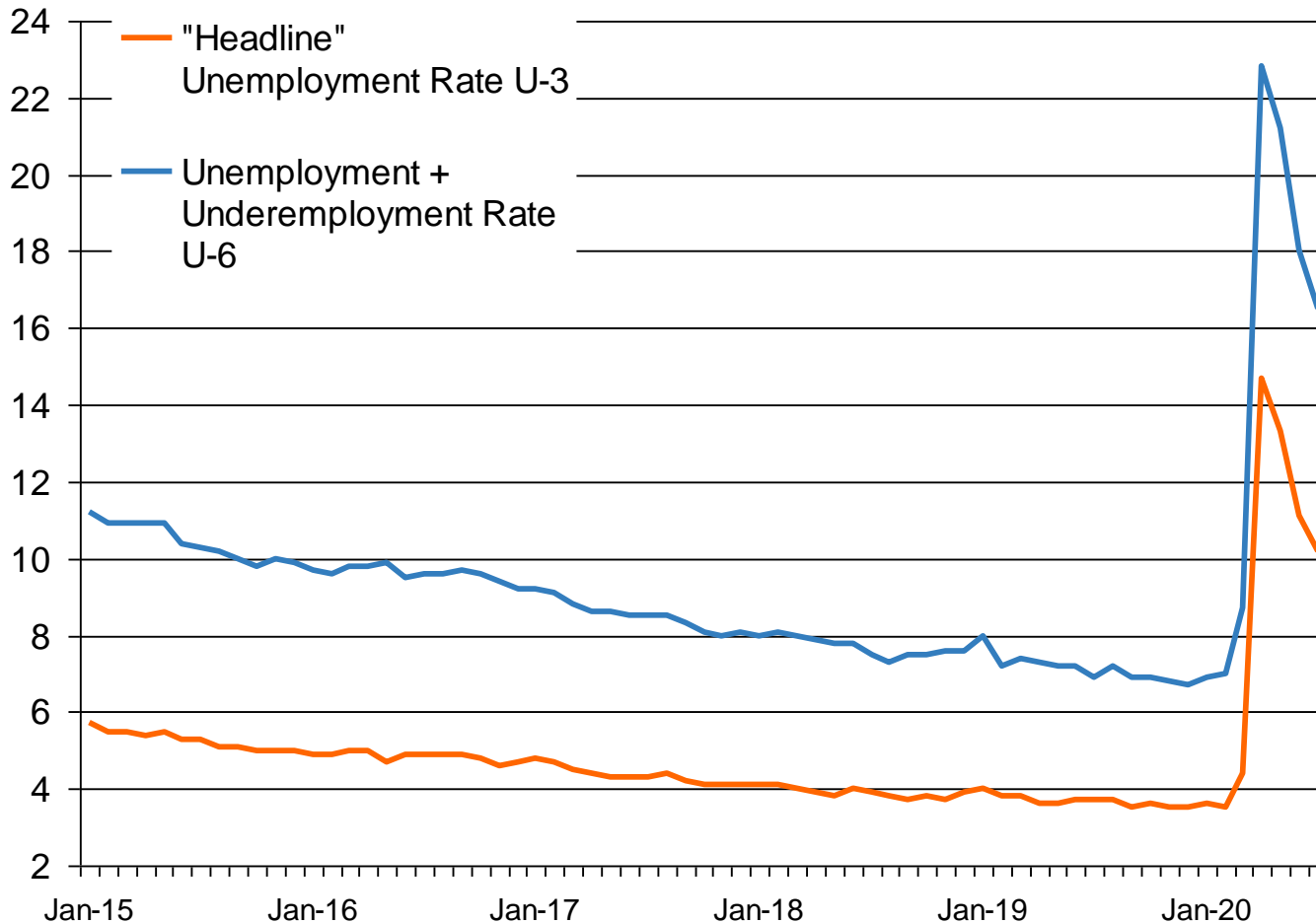


Notes: Recession indicated by gray shaded column. Data are seasonally adjusted.

Sources: Bureau of Labor Statistics; National Bureau of Economic Research (recession dates).

Unemployment and Underemployment Rates

January 2015 through July 2020
Seasonally Adjusted (%)



For U-6, 8.0% to 9.5% is "normal."

U-6 was 16.5% in July 2020.

"Headline" unemployment was 10.2% in July 2020. 4.5% to 5.5% is "normal."

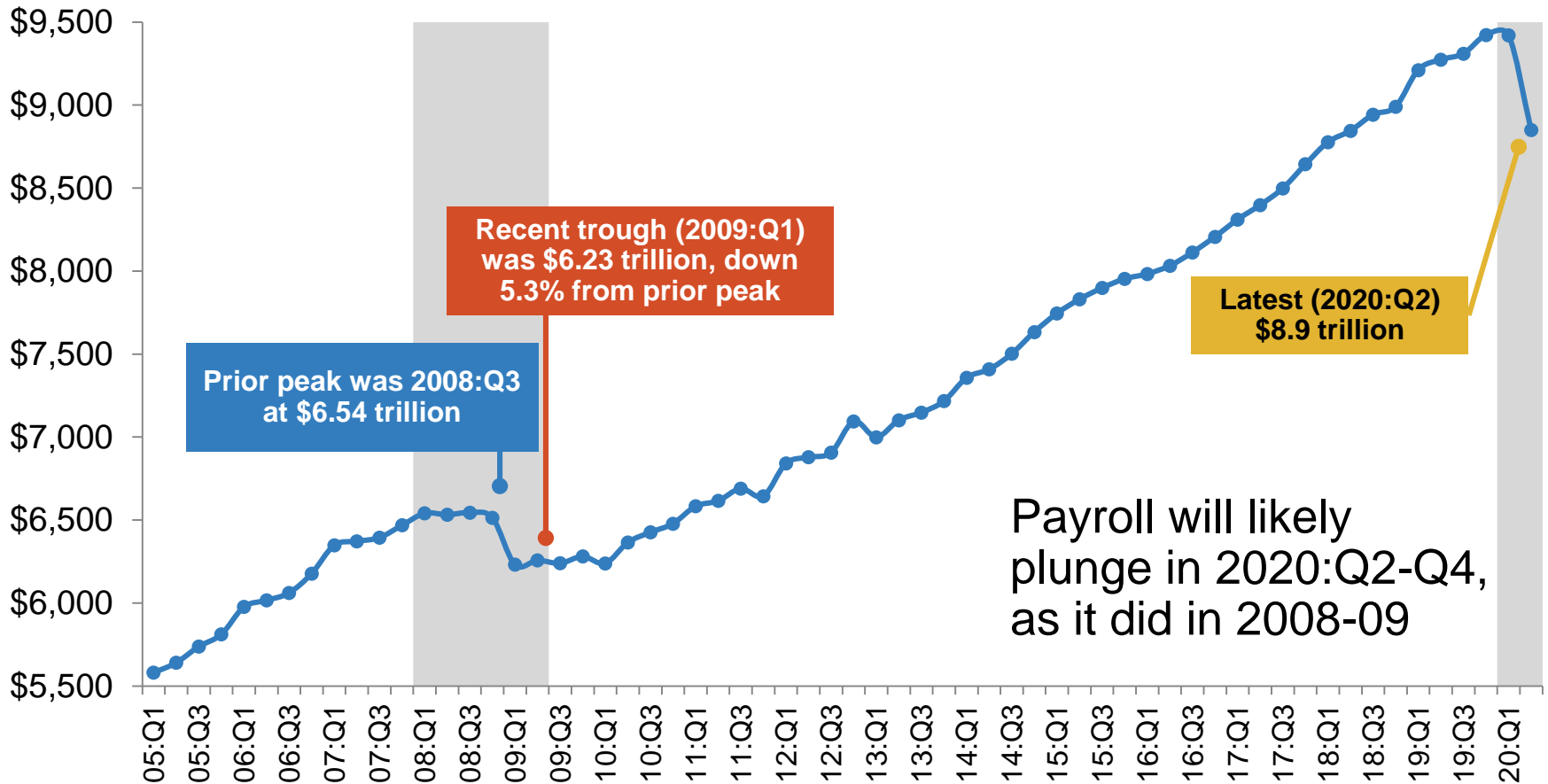


U-6 is not seasonally adjusted
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

WC exposure base rose steadily through 2019

Nonfarm payroll (wages and salaries): quarterly

Billions



Payroll will likely plunge in 2020:Q2-Q4, as it did in 2008-09

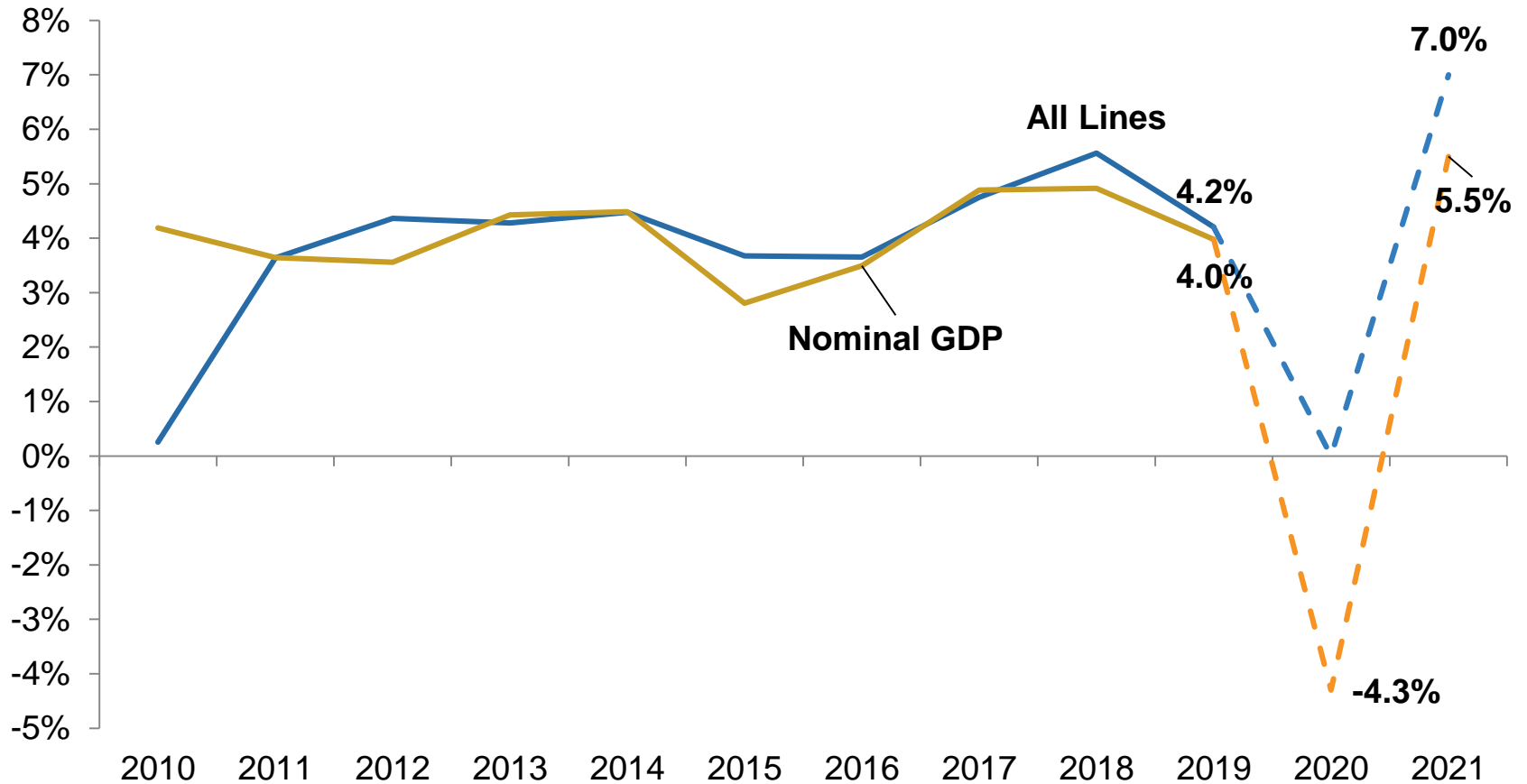
Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.
 Sources: <http://research.stlouisfed.org/fred2/series/WASCUR>; National Bureau of Economic Research (recession dates); Insurance Information Institute.



The Global Pandemic

An Unprecedented P/C Insurance Toll

Direct Written Premium Growth By Year



Normally premium grows at about the same rate as the economy, which bodes ill for insurers this year. But firming rates are easing the pain.

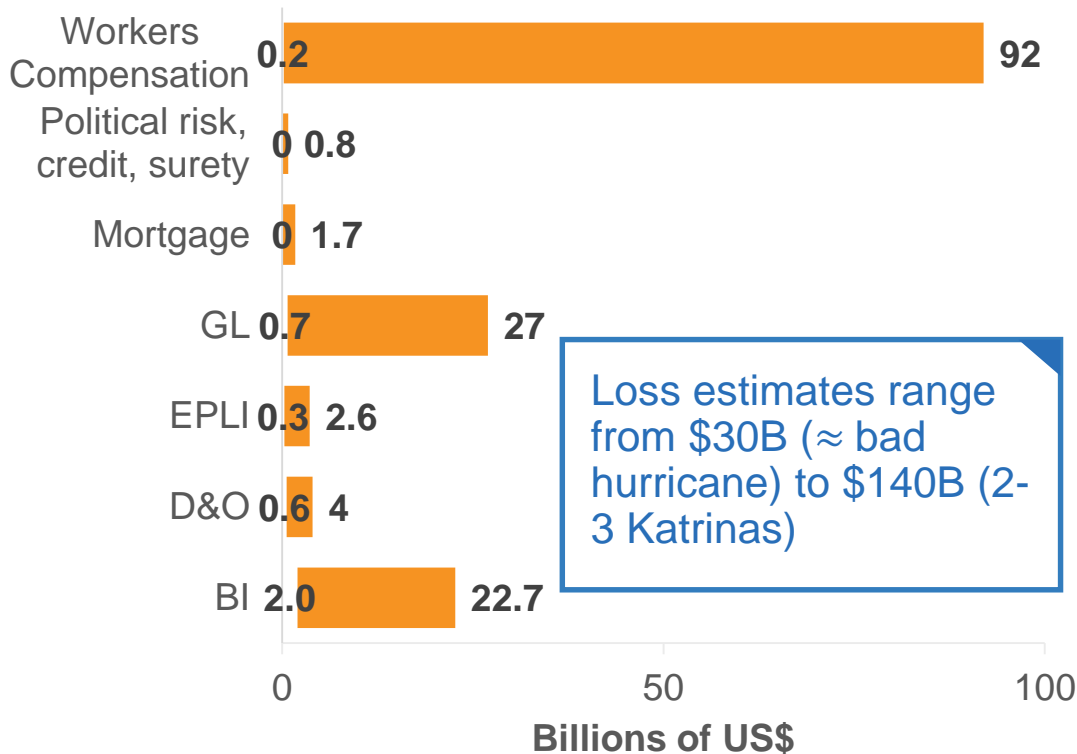


Sources: NAIC data, sourced through S&P Global Market Intelligence; Blue Chip Economic Forecasts, May 2020; Insurance Information Institute/Milliman.

COVID-19's Impact

Unprecedented Spread of Loss, Deterioration of Exposure

Potential Loss Impact



Exposure Impact

- ▲ \$14B auto premium
- ▲ Employment related exposures (GL, WC)

Investment

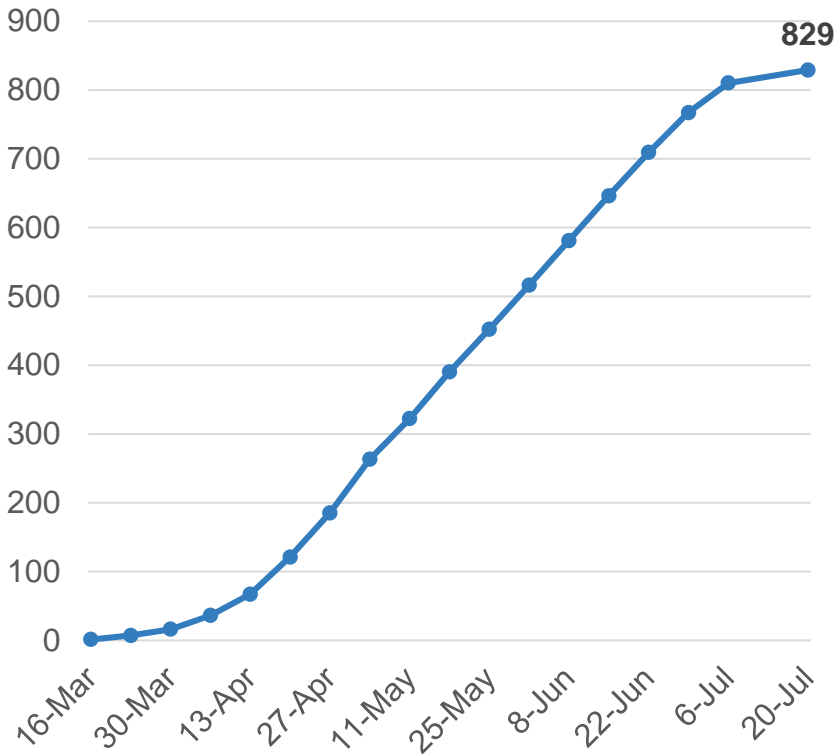
- ▲ Volatile stocks, bond yields plunging
- ▲ Lloyd's estimate: \$96B in investment losses



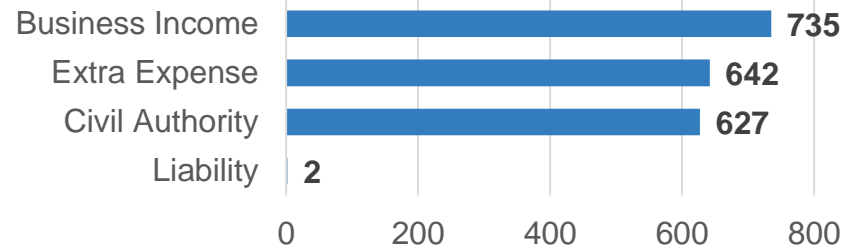
By the Numbers

Who wants what?

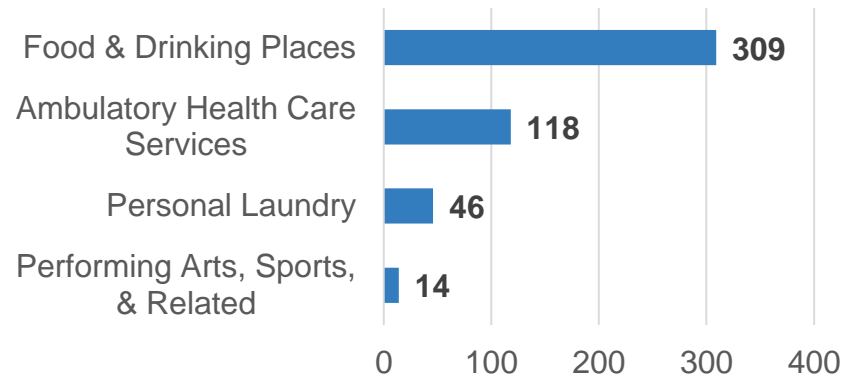
Cumulative Filings



Coverage Sought



Who Is Suing?

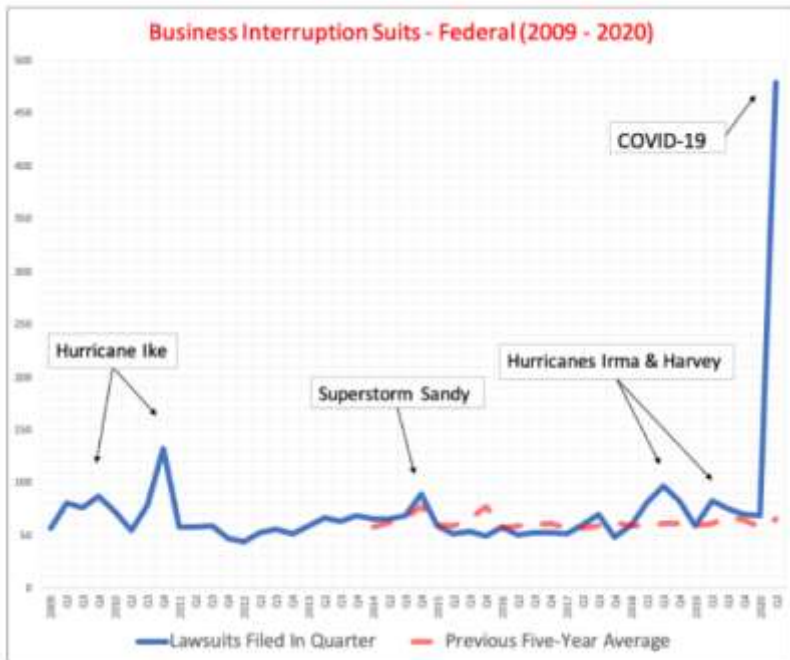


Source: COVID Coverage Litigation Tracker, cclt.law.upenn.edu

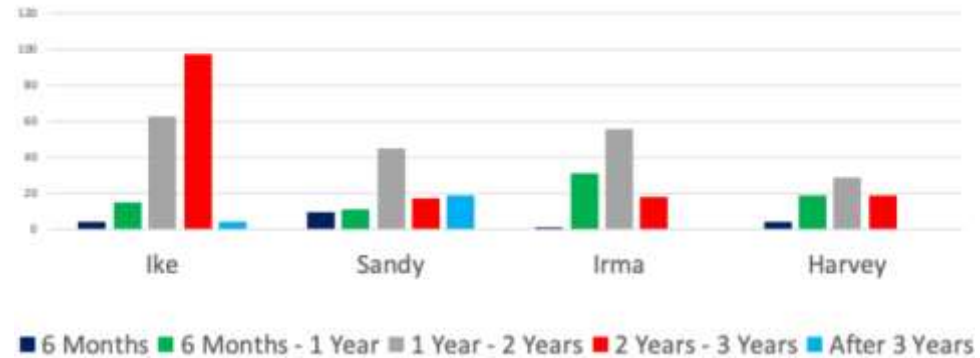
Catastrophic Tales

... Or tails

COVID Cases Clog Courts



Cat-Related Lawsuit Filings



Most lawsuits from catastrophes trickle in at first, peaking one to three years after event.



Insurance Issues by Line of Business

Before the Pandemic and Now

2020 Forecast and Reforecast

Line	Before the Pandemic	Now
Property	Trapped capital, rates	Business interruption
Personal Auto	Lower frequency, rates	Less driving (but faster), premium givebacks
D&O	Event-driven securities class actions, rates	Hindsight litigation of securities filings
Cyber	Public sector ransomware	Hospital ransomware, phishing
Commercial Auto	Continuing deterioration	Less driving, Hours of Service rules suspended
Workers Comp	Falling frequency, solid profits	Fewer exposures, first responders presumption



Insurance Issues by Line of Business

What lies ahead?

Second Half 2020 and Beyond

Line	What to Look For	What May Lie Beyond
Property	Impact of social unrest, grim hurricane forecast	Work from home → less commercial real estate
Personal Auto	Rate cuts vs. additional credits; regulatory pressure	Work from home → less driving
Workers Comp	Impact of presumptive regulations, limits on rate-setting	Work from home → fewer injuries
Liability	Legislative proposals to limit liability	Social inflation
Commercial Auto	Social inflation	Social inflation

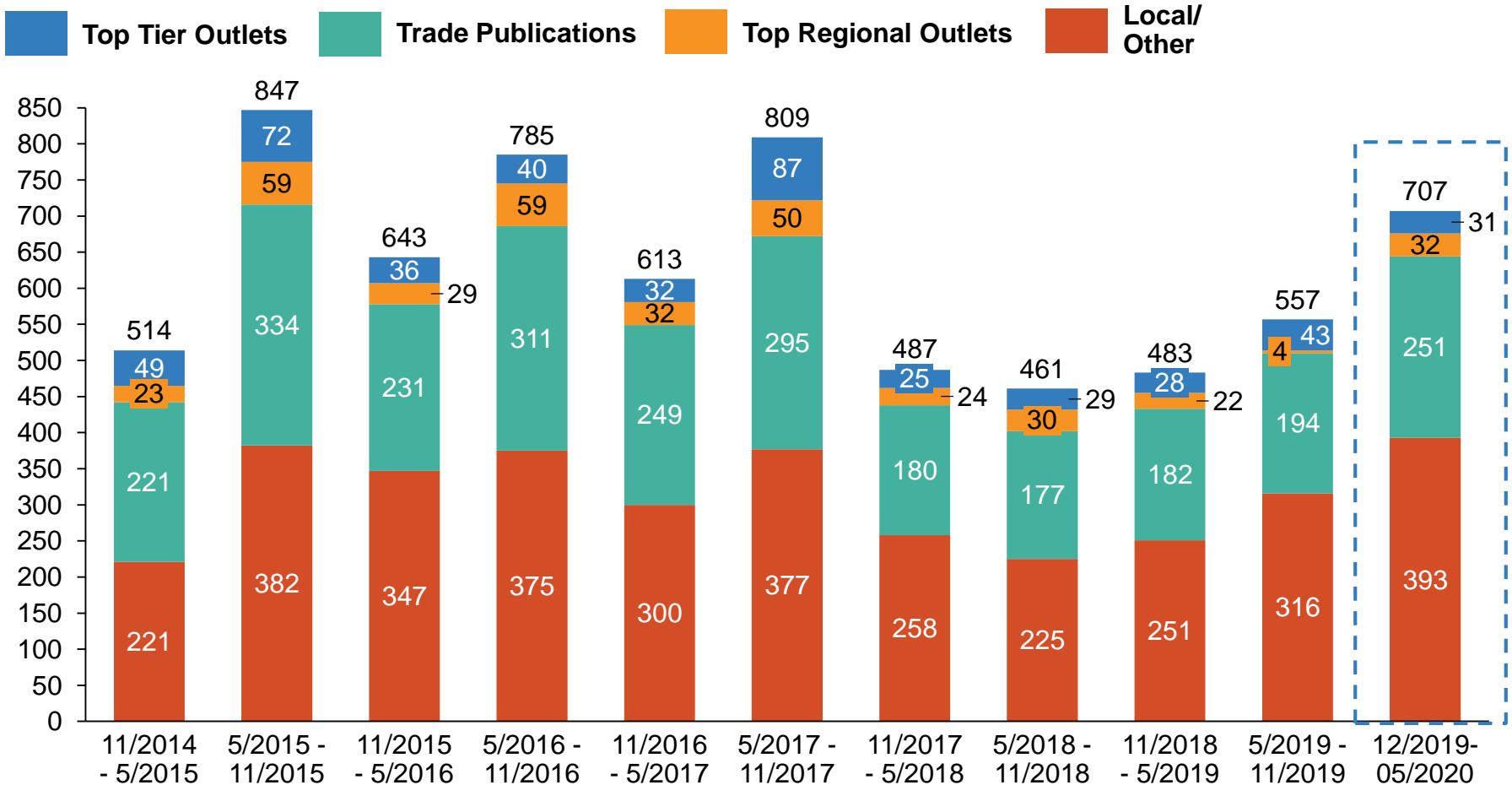


The Global Pandemic

The Media and Insurance

Triple-I Media Citations Are At Their Highest Point Since The Costly 2017 Hurricane Season

Triple-I Media Citations By Outlet Type*

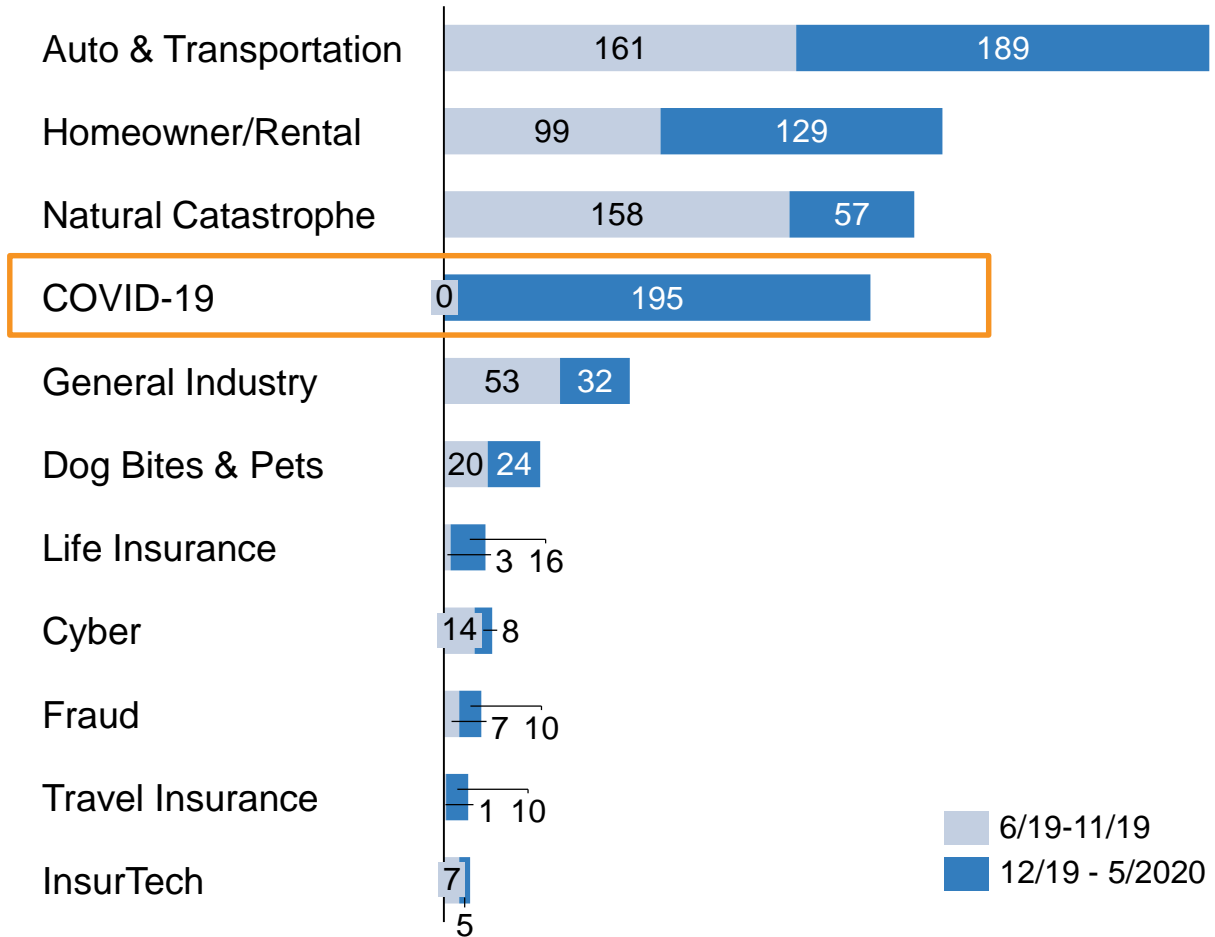


*Top tier press is defined as leading national publications, such as CBS News, *New York Times*, and *Wall Street Journal*. Top Regional Outlets encompass leading regional outlets, such as *Los Angeles Times* and *Chicago Tribune*.

COVID-19 Created A New Opportunity for Triple-I To Illuminate The Role Of The Insurance Industry

- COVID-19 was the topic featuring the most Triple-I mentions in the past six months, even though relevant coverage only began in March.
- COVID-19 stories primarily concerned business interruption and auto rebates.
- Strong mentions in the Auto & Transportation, Homeowner/Rental, and Natural Catastrophe topic areas indicate that the Triple-I is still top-of-mind in these traditionally strong categories.

Media Citations By Category



Increasing Scrutiny Of The Industry Culminated In The Launch Of A Reputational Campaign

Keeping promises made to Main Street, ensuring fairness for all customers.

Get Involved Contact

Changing insurance contracts would threaten the ability of insurers to cover claims for paying policyholders.

FAIR Future of American Insurance & Reinsurance

INSURANCE INFORMATION

FAIR Future of American Insurance & Reinsurance

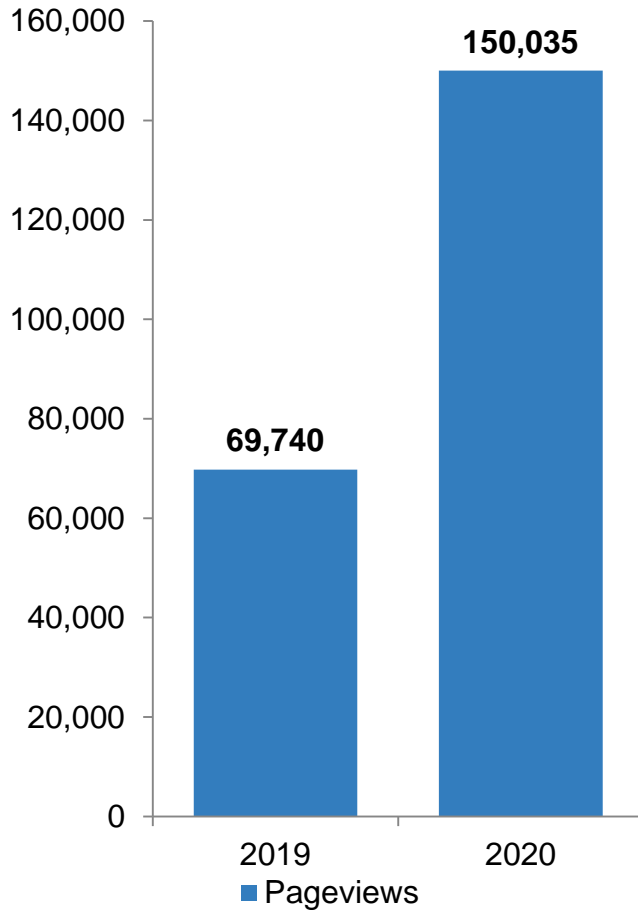
FAIR Future of American Insurance & Reinsurance

Insurers are keeping their promises to Main Street.
See how.

- The 'Future of American Insurance & Reinsurance' campaign launched during a pivotal week of activity for the industry, as the business interruption debate continued with a White House roundtable with restaurants and a Congressional hearing.
- With a separate website and public presences, this campaign provides the Triple-I with a separate platform and voice.
- The campaign will take on overarching industry issues and emphasize its essential role in supporting and rebuilding communities in these uncertain times.

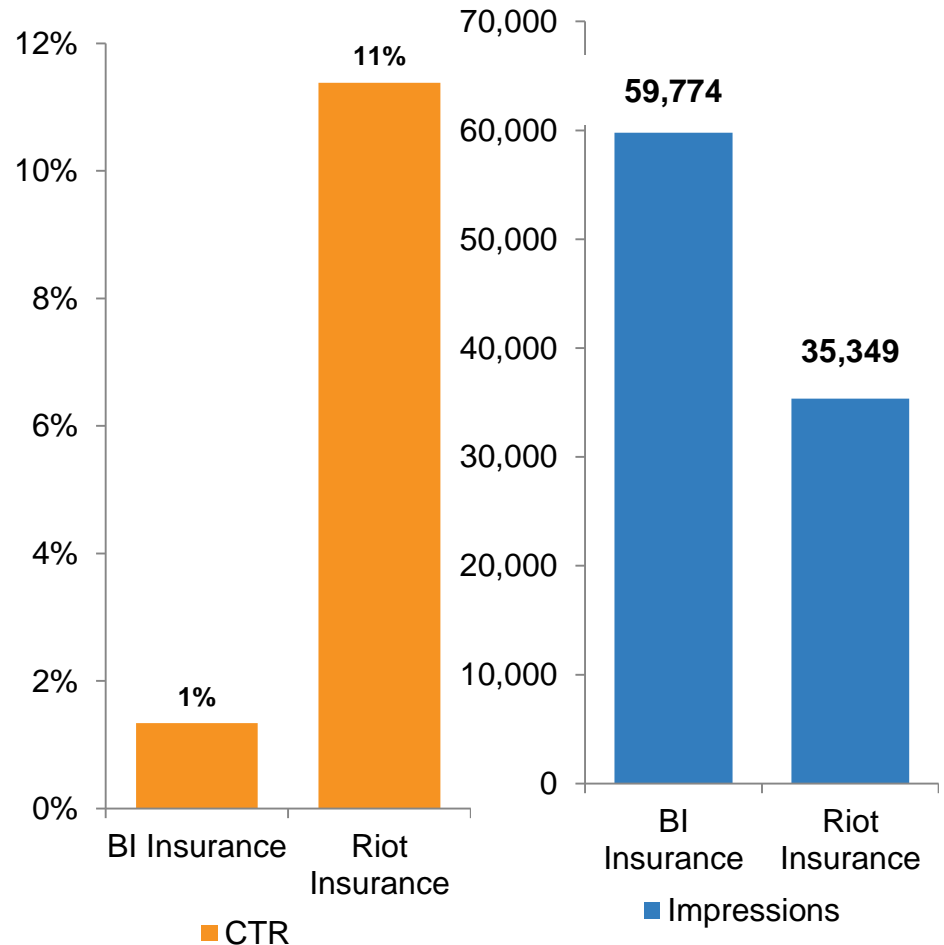
COVID-19 Related Content Spikes

Mortality Risk Facts & Stats (12 months through July)



Source: Google Analytics, July

Impressions and Click-Through Rate (CTR) for Business Interruption and Riot Insurance



Source: Google Console, 3 months through July 2020; Click-through rate (CTR) is the ratio of users who click on a specific link to the number of total users who view a page, email, or advertisement. Impressions are when an advertisement or any other form of digital media renders on a user's screen

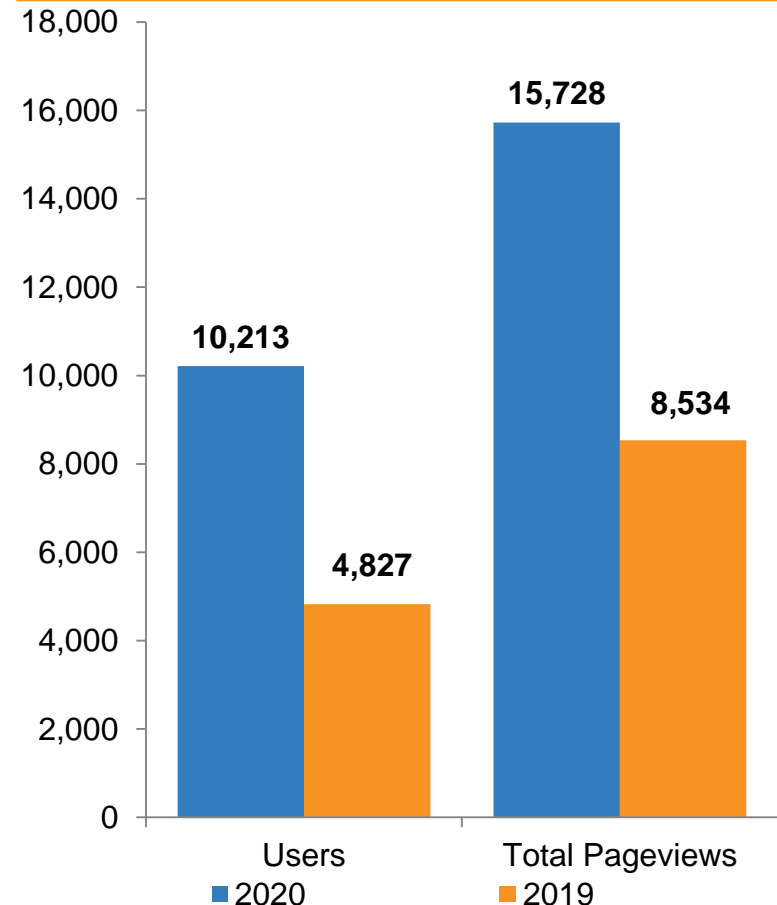


Blog Metrics

Top Posts In July 2020*

1. Are Life Insurers Denying Benefits for Deaths Related to COVID-19 (4,789 views)
2. The Insurance Information Institute and The Institutes Announce Plan to Affiliate (322 views)
3. Gauging Pandemic's Impact on Insurers (268 views)
4. Social Inflation and COVID-19 (243 views)
5. Latest Report Shows Job Stability for the Insurance Industry (230 views)

Posts, Viewership (July 2020 compared to July 2019)

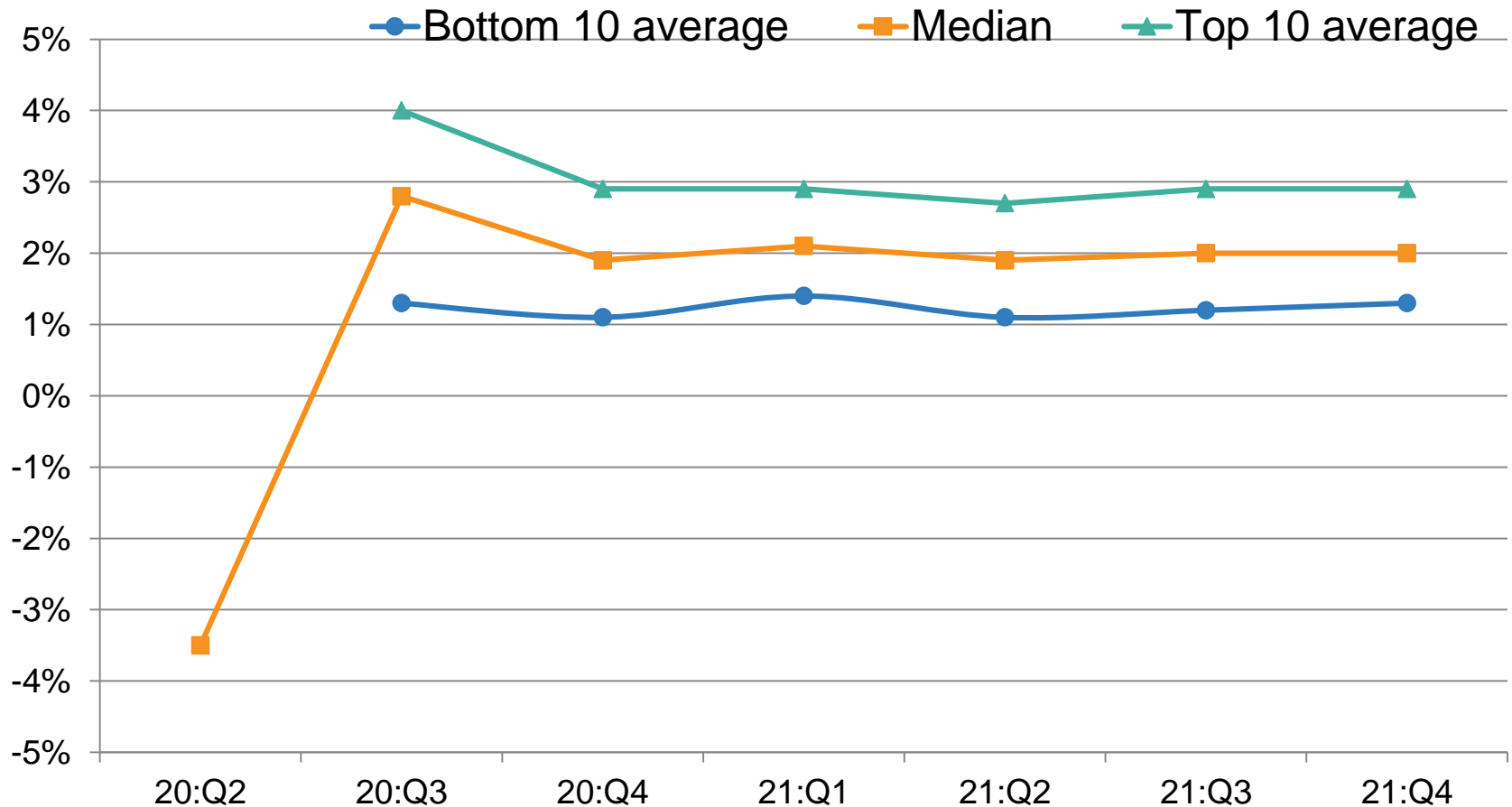


Source: Google Analytics
* July 1 – July 29



The Pandemic and Investment Returns: The Effect of Inflation Expectations

CPI Forecasts for 2020-2021



If the top forecasts are correct, bond yields should rise significantly



Note: Data are percent change from prior quarter, at an annual rate.
Sources: Blue Chip, August 2020; Insurance Information Institute.

Inflation Measurement: Methodological Challenges

Comparing Prices of Identical Items

- Some prices can't be compared
 - New products (e.g., new drugs)
 - New services (e.g. new medical treatment)
- Prices of some goods or services must be adjusted to remove the price-effect of new elements
 - Cars with new safety features
 - Improved cell-phone service
 - Higher prices for output from places of business (e.g., restaurants, factories) with new Covid-19 protection



Inflation Measurement: Methodological Challenges

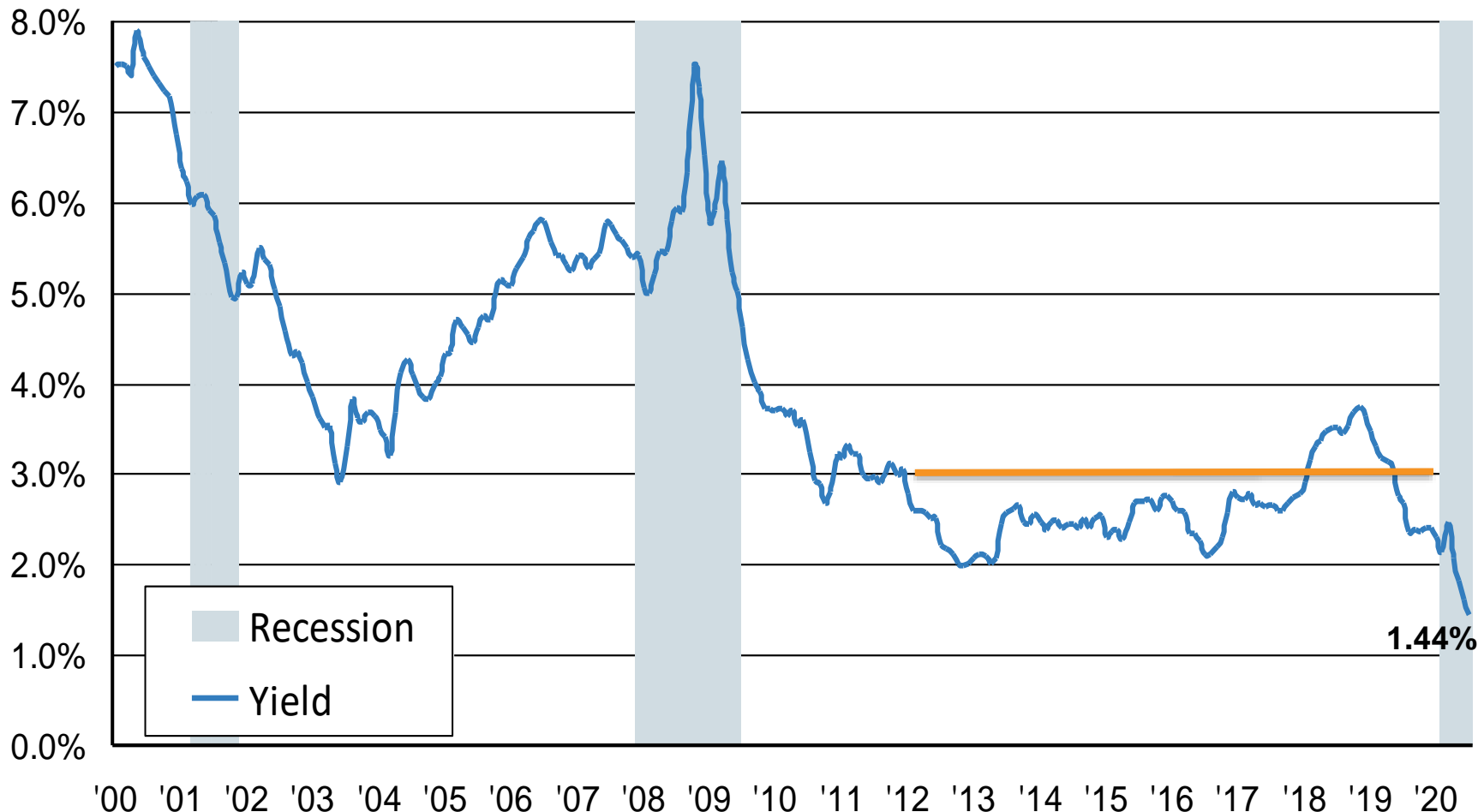
Collection Methods for Prices of Commodities and Services

	March 2019	March 2020
Collected prices	87%	75%
Collection mode		
personal visit	67%	37%
phone	9%	12%
online	14%	39%
other	9%	16%

The Pandemic and Investment Returns: Lower for Longer

Depressed Yields Will Necessarily Influence Underwriting & Pricing

BofA AA Corporate Index Effective Yields,* 2000–2020

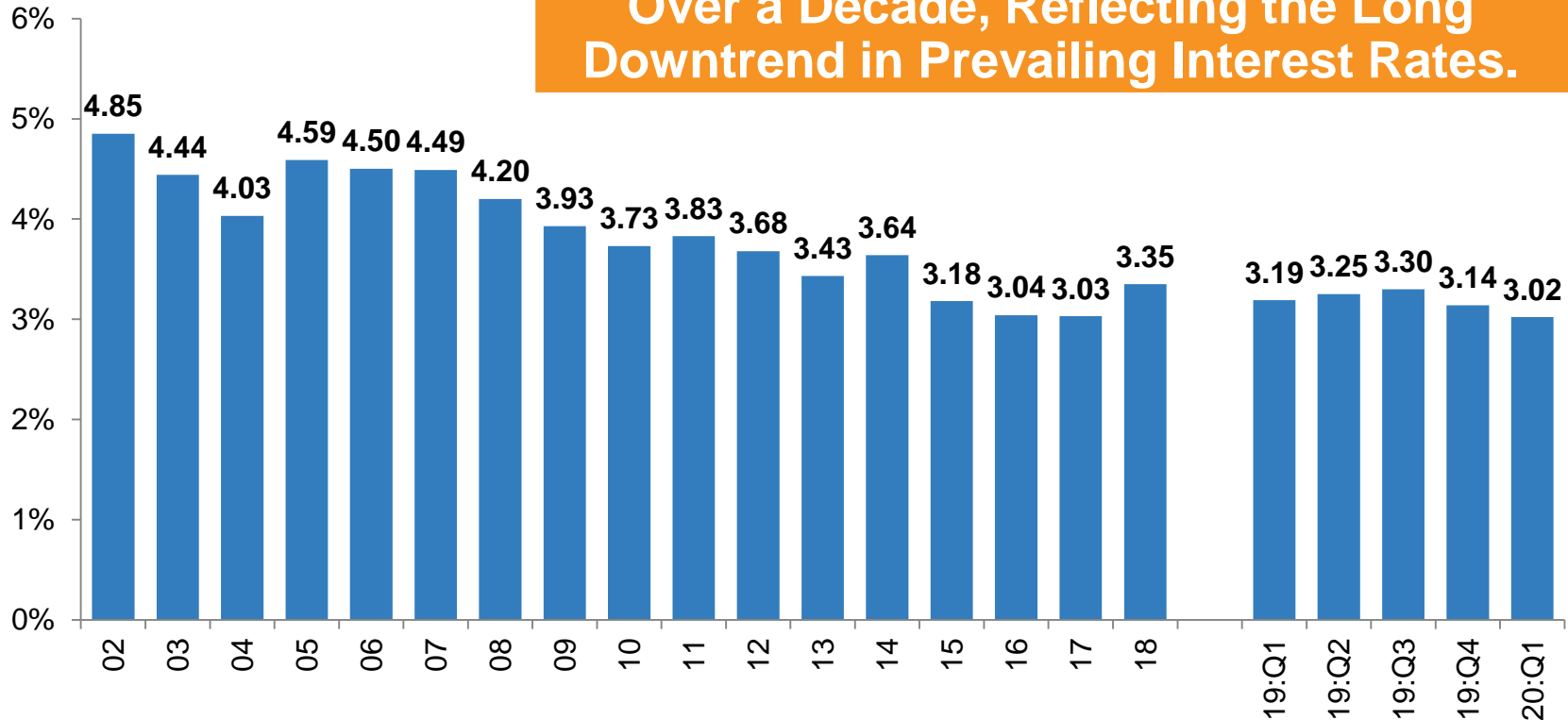


Since the yield on these bonds has been lower than 3% for most of the past decade, many P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, not seasonally adjusted, through July 2020.

P/C Insurer Portfolio Yields, 2002-2020:Q1

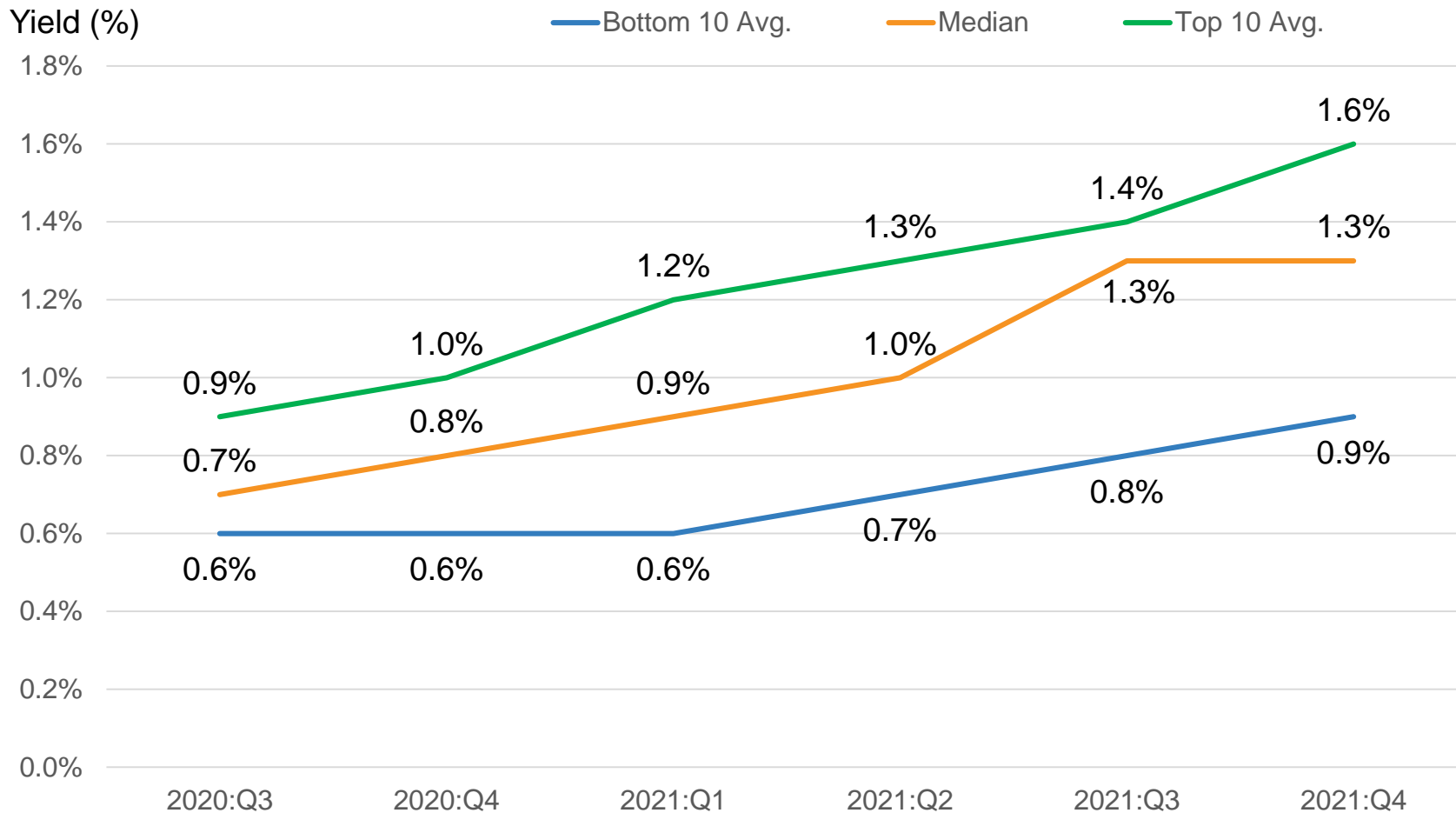
P/C Carrier Yields Have Been Falling for Over a Decade, Reflecting the Long Downtrend in Prevailing Interest Rates.



Even if 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.



August 2020: Quarterly Yield Forecasts for 10-Year US Treasury Bonds in 2020-21

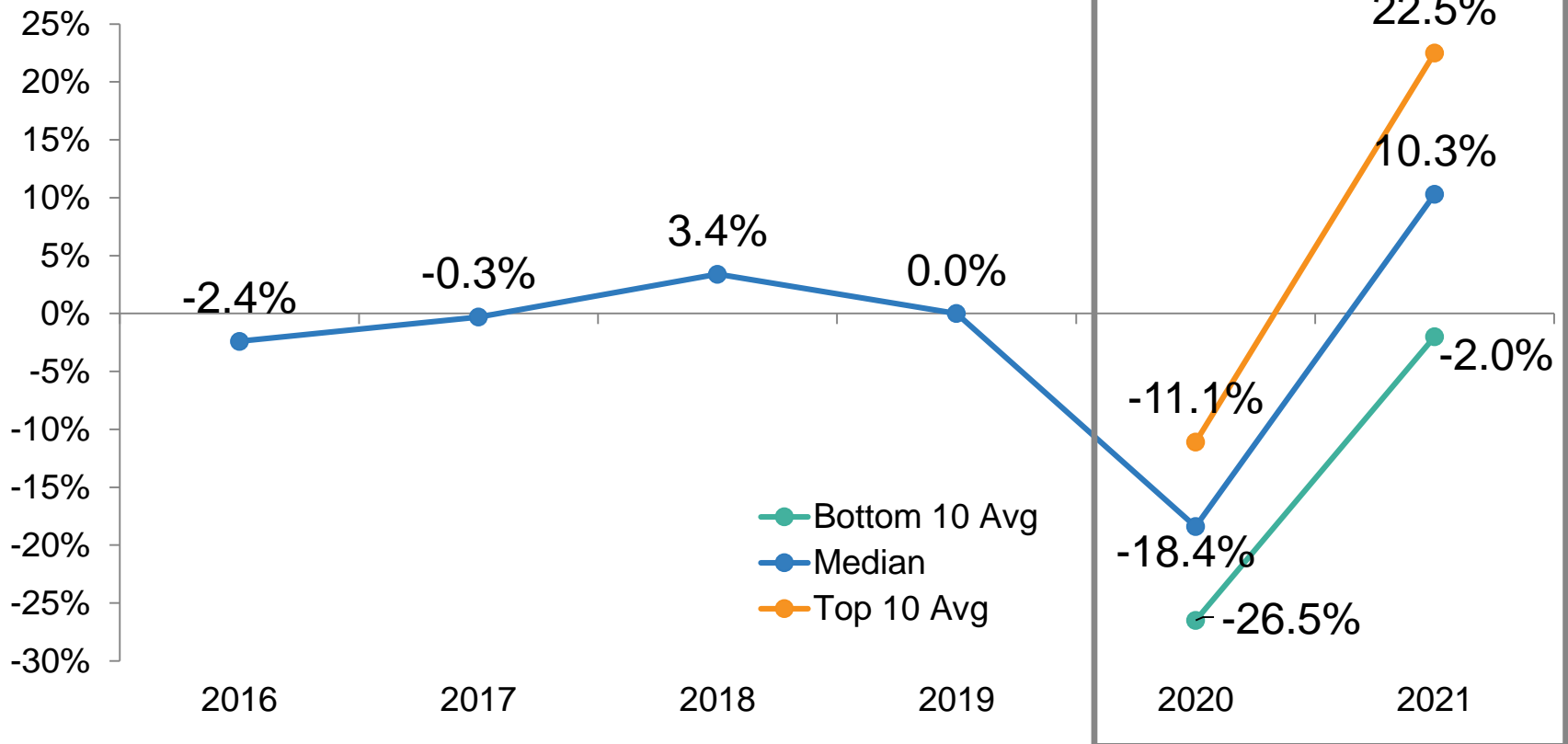


The forecasts in the Blue Chip survey see a common direction for the yield of 10-year T-bonds in 2020-21 but not much relief.



Where is the Stock Market Headed? Recent Corporate Profits History and Range of Forecasts

Year-over-Year percent change



Forecasts expect corporate profits to plunge this year and most see a recovery in 2021.



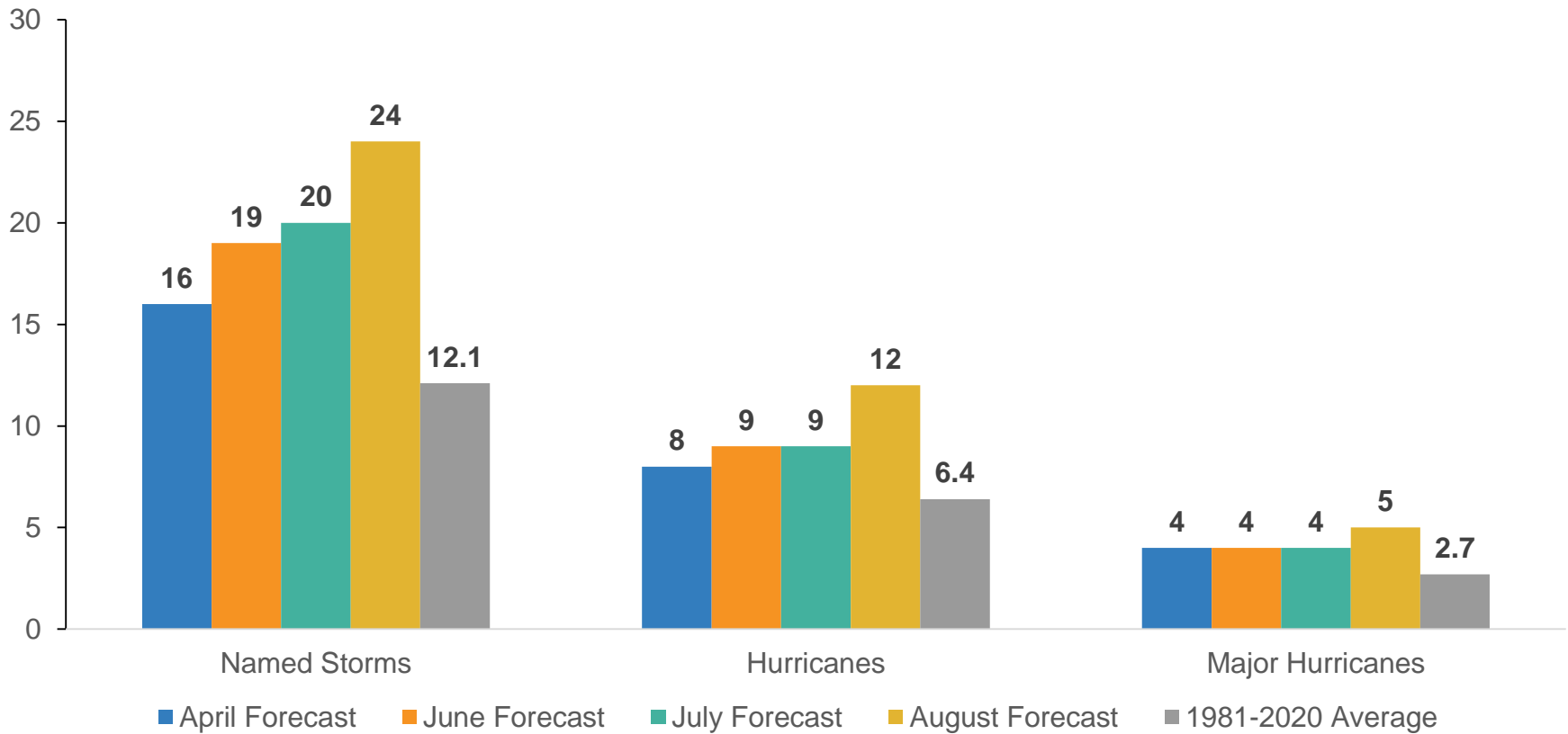
Sources: Blue Chip Economic Indicators, July 2020 issue; Insurance Information Institute.

Underwriting Results and Outlook

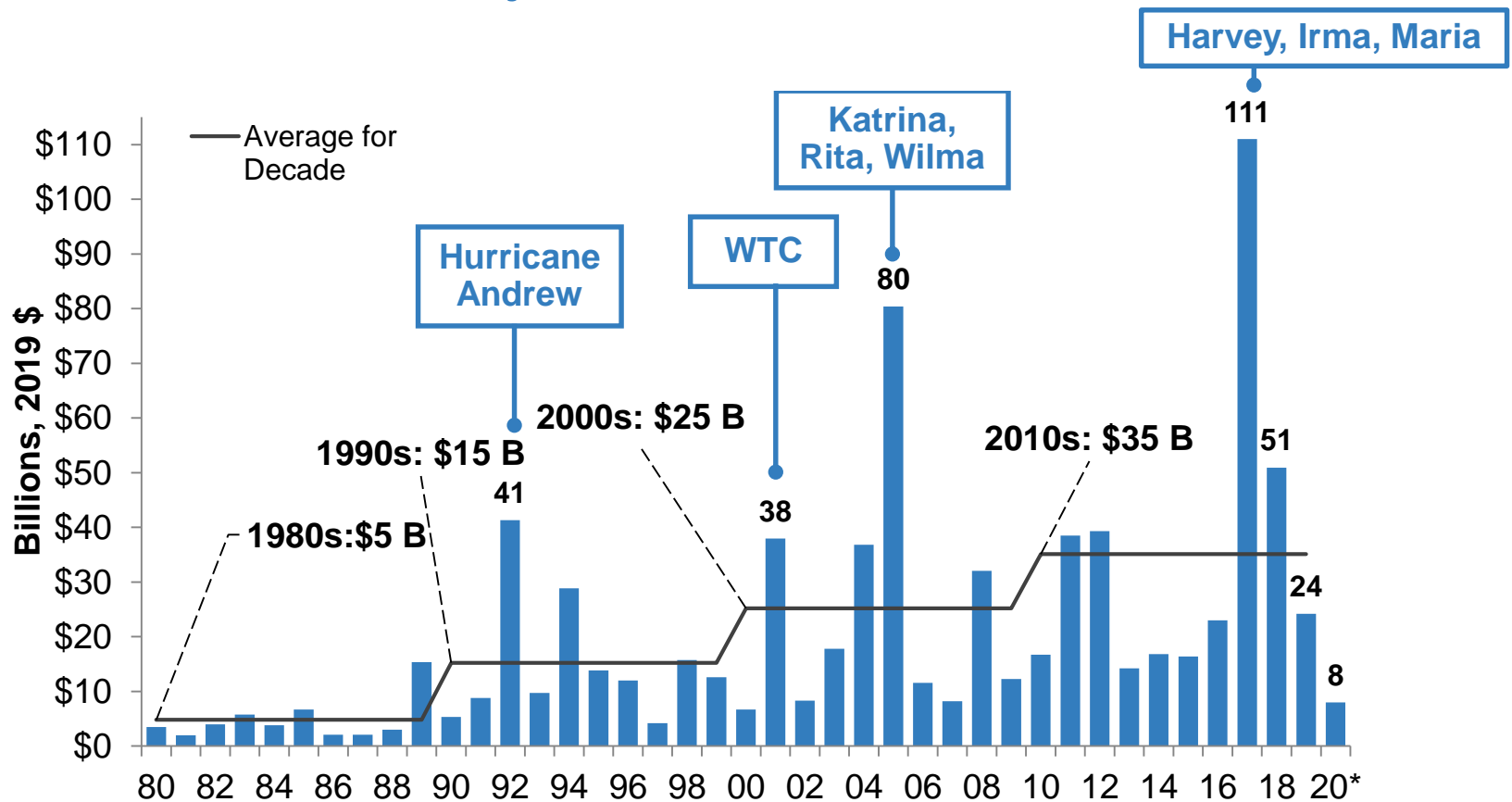
Beyond the Pandemic

Hurricane Forecast

Grim.



U.S. Inflation-Adjusted Insured Cat Losses



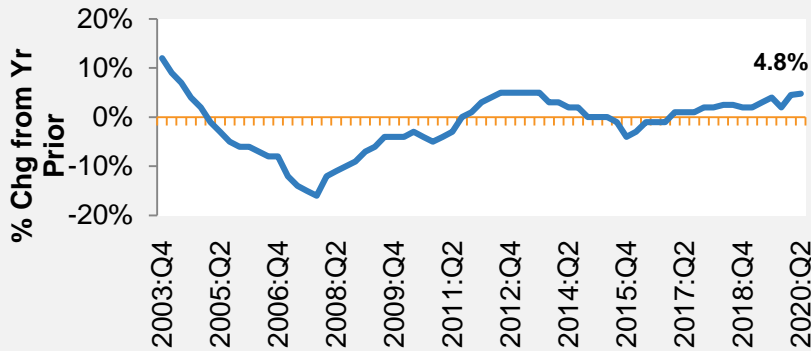
2019 was a relatively mild year; 2020 faces pandemic, above-average hurricane forecast

*Aon estimate through April. 2010s is average of 2010 to 2019. All losses are Direct.
Sources: Property Claims Service, a Verisk Analytics business; Aon; Insurance Information Institute.

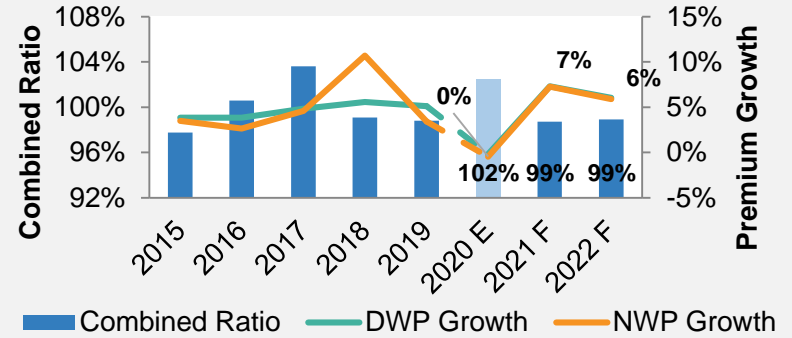


Industry Outlook

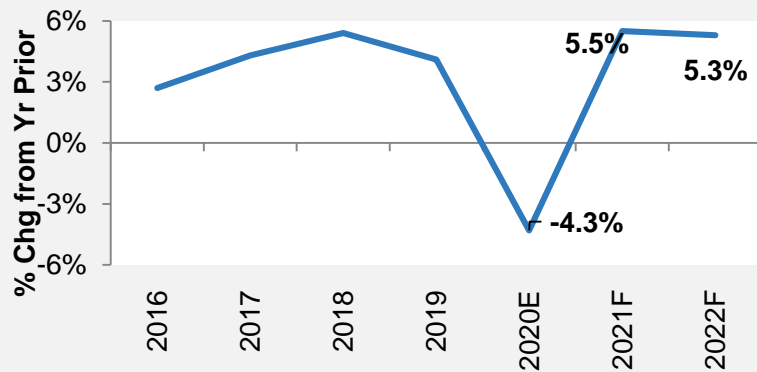
Commercial Lines Rate Change



Premium, CR Projections



Growth in Nominal GDP (Real GDP + Inflation)



Commentary

Overall premium projected to be flat. 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.
- We assume normal cat year, despite bleak hurricane forecast.

Data sources: 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)

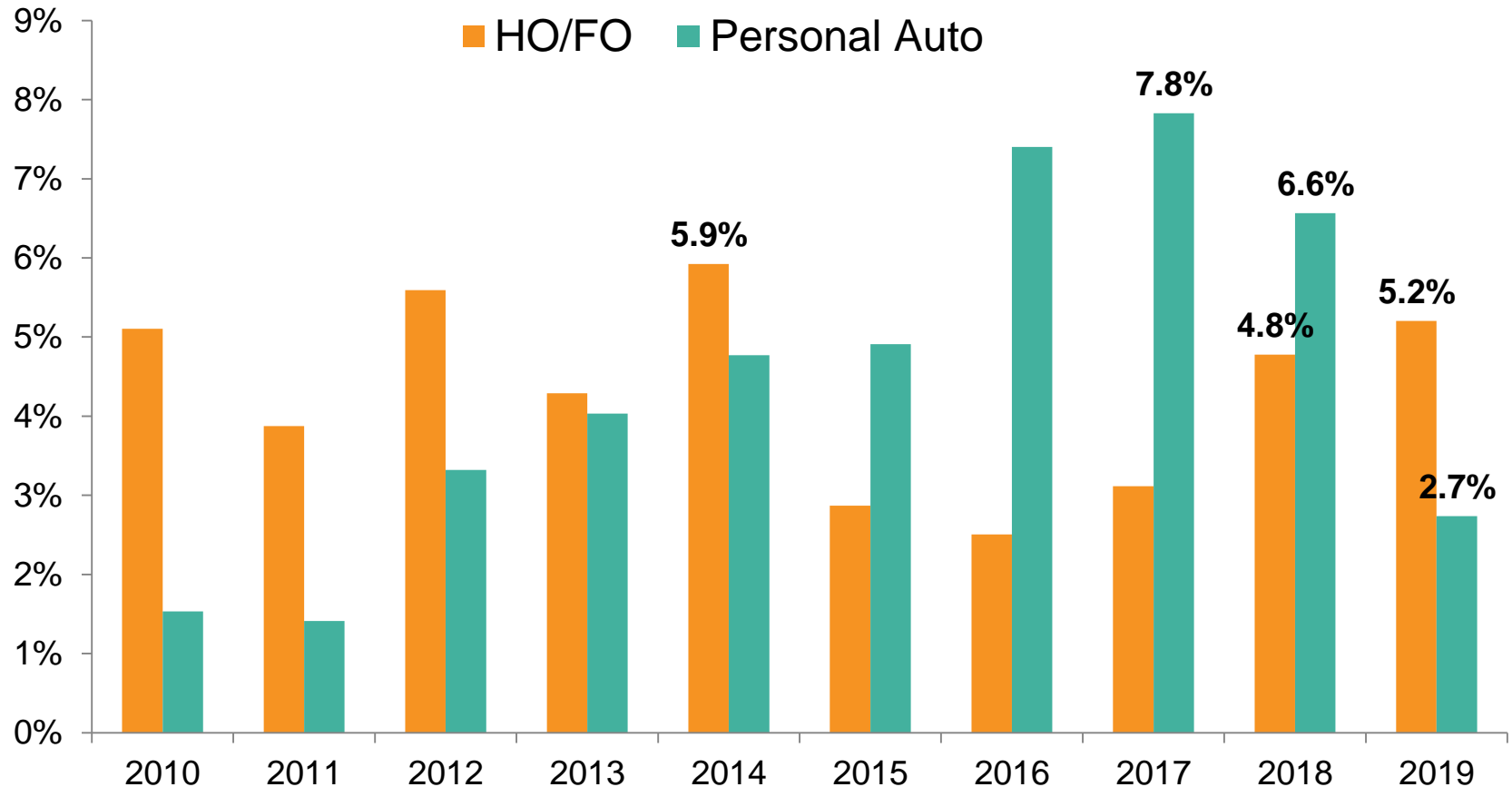
Analysis: Insurance Information Institute, Milliman.



The Personal Lines Picture

2020 Was Looking Good

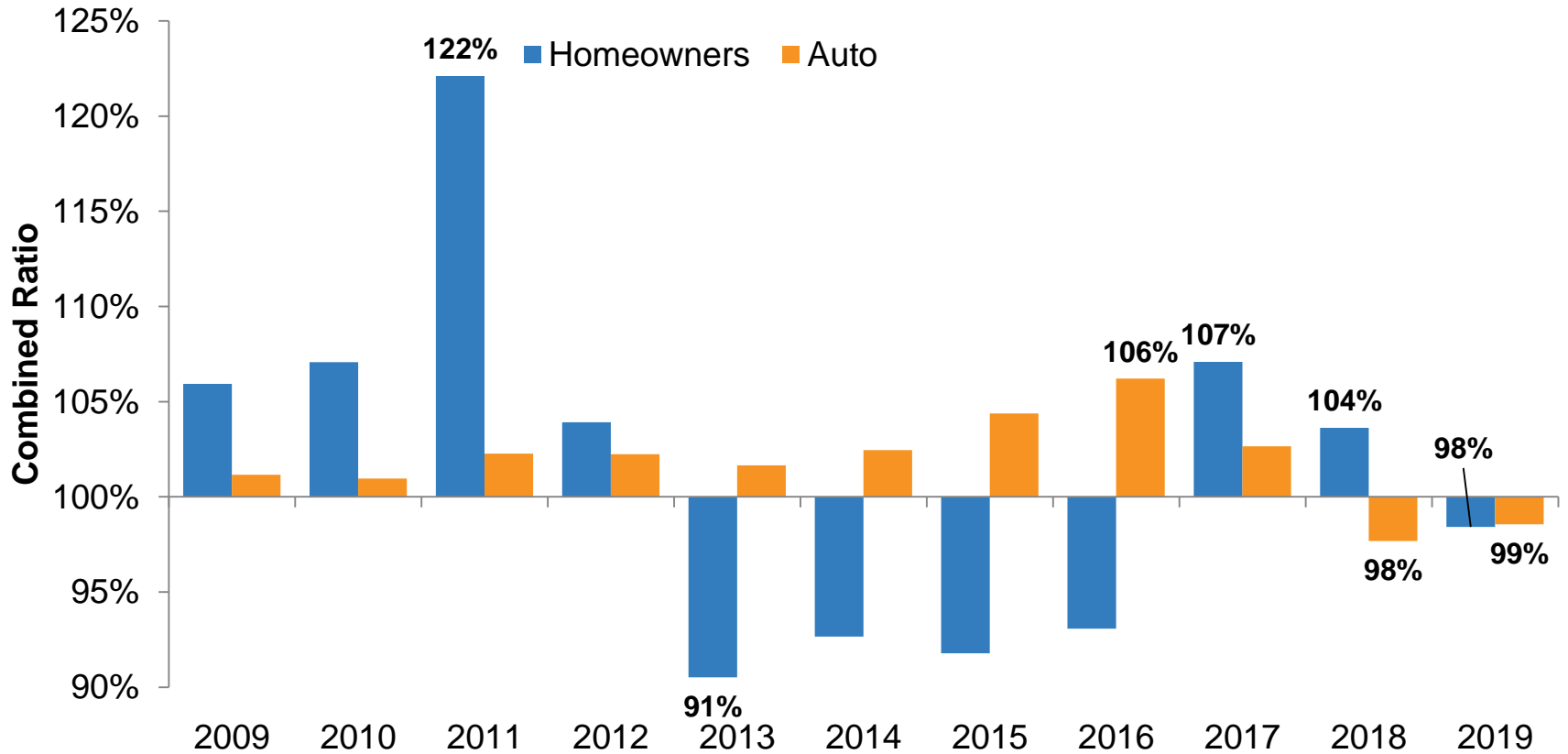
Direct Written Premium Growth By Year



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



Personal Lines Results

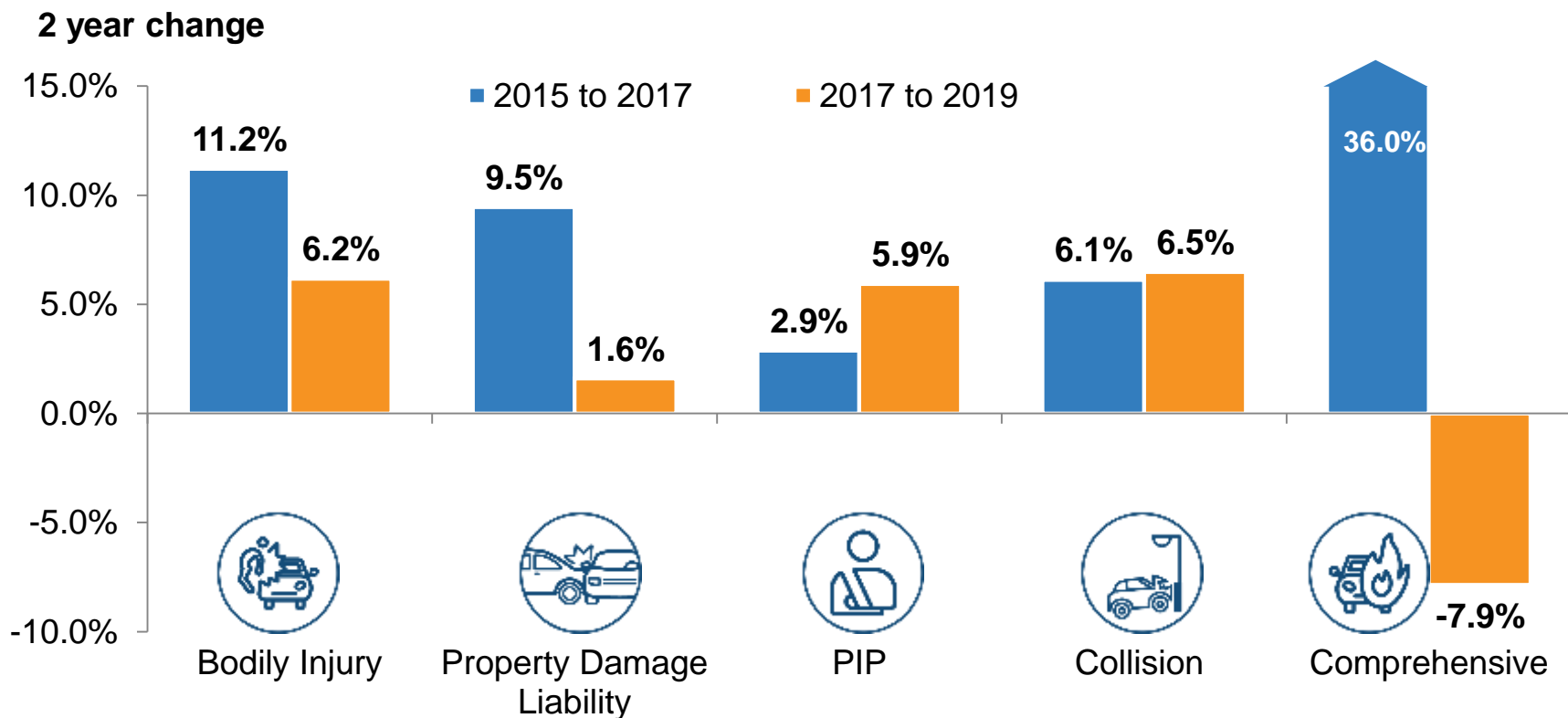


Personal auto has returned to underwriting profitability. Homeowners results depend on catastrophe season.



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

Loss Costs Have Tapered Off the Past 2 Years



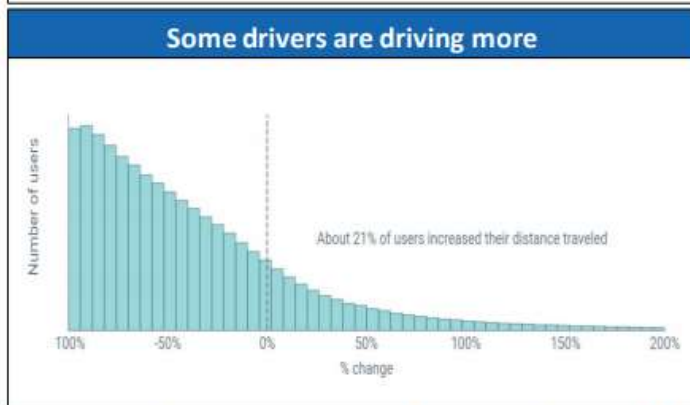
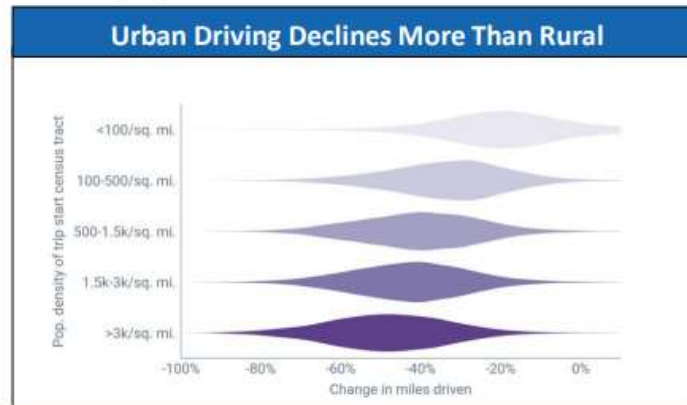
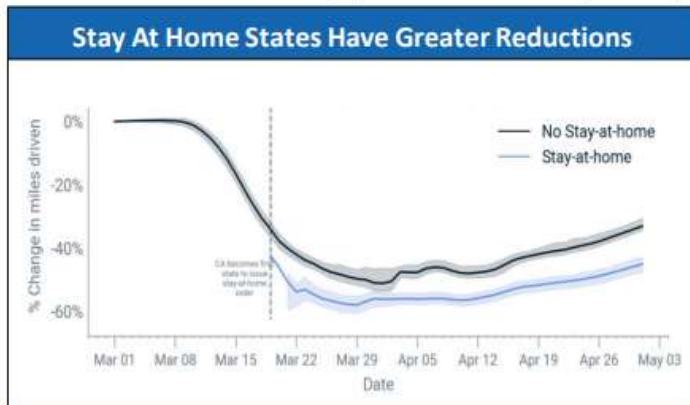
The cost of accidents has tapered off in recent years



The Telematics Moment

Real-time Driving Data Saves Consumers Billions

- Broad telematics ecosystem used to assess coronavirus operating environment
 - 23+ million vehicles
 - 3.5 billion trips; 38 billion miles; Feb 2, 2020 to May 1, 2020



Note: These insights are based on representative samplings of data from Arity's multi-source dataset. That dataset includes anonymized and aggregated driving behavior data from multiple insurance and non-insurance sources and is not solely reflective of any Arity affiliate companies or any other particular source or industry. The data is collected via both mobile app and on-board device methods.

Other Data

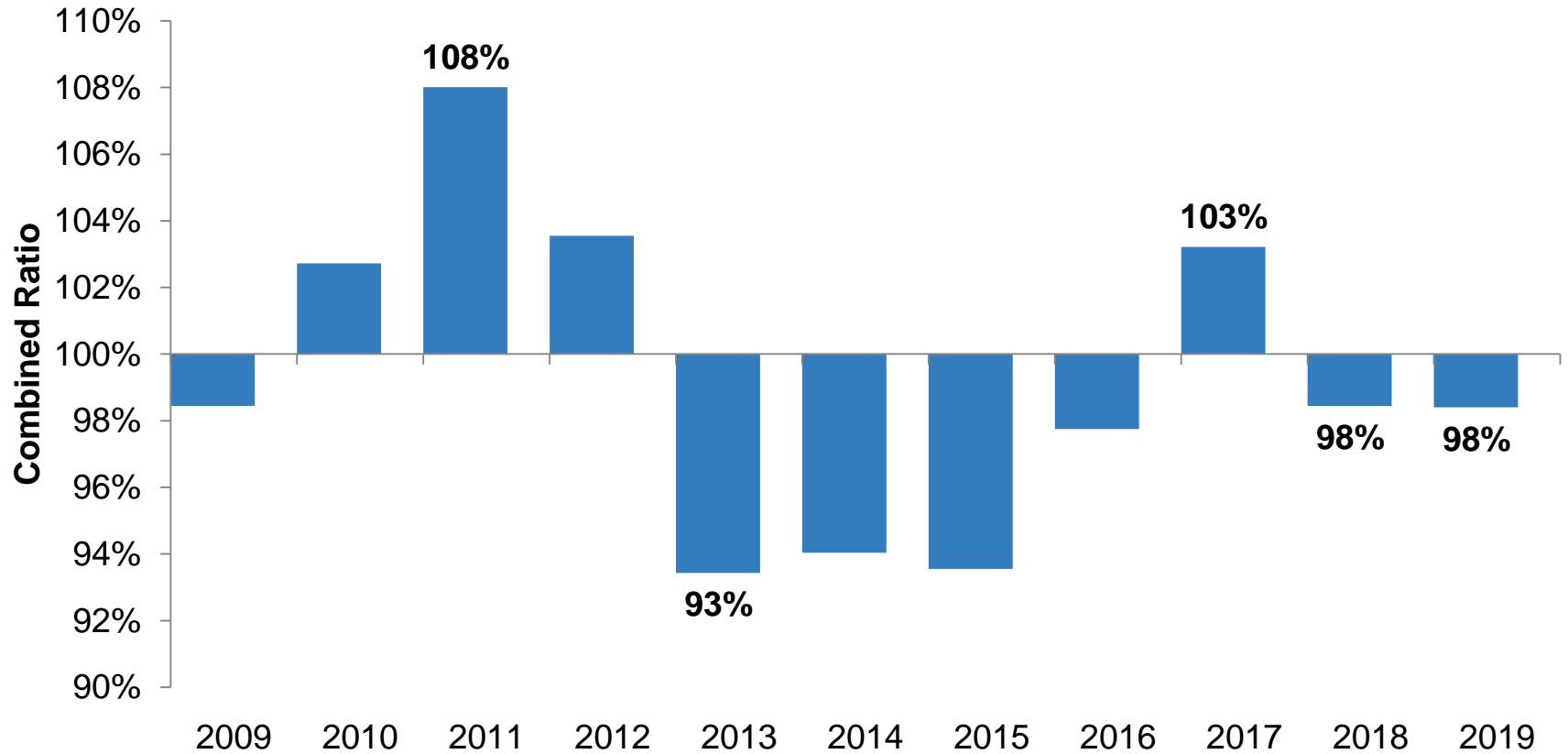
- ▲ Slightly riskier driver mix
- ▲ Less aggressive driving
- ▲ Driving > 100 mph up 30%



The Commercial Lines Picture

2020 Was Looking Good

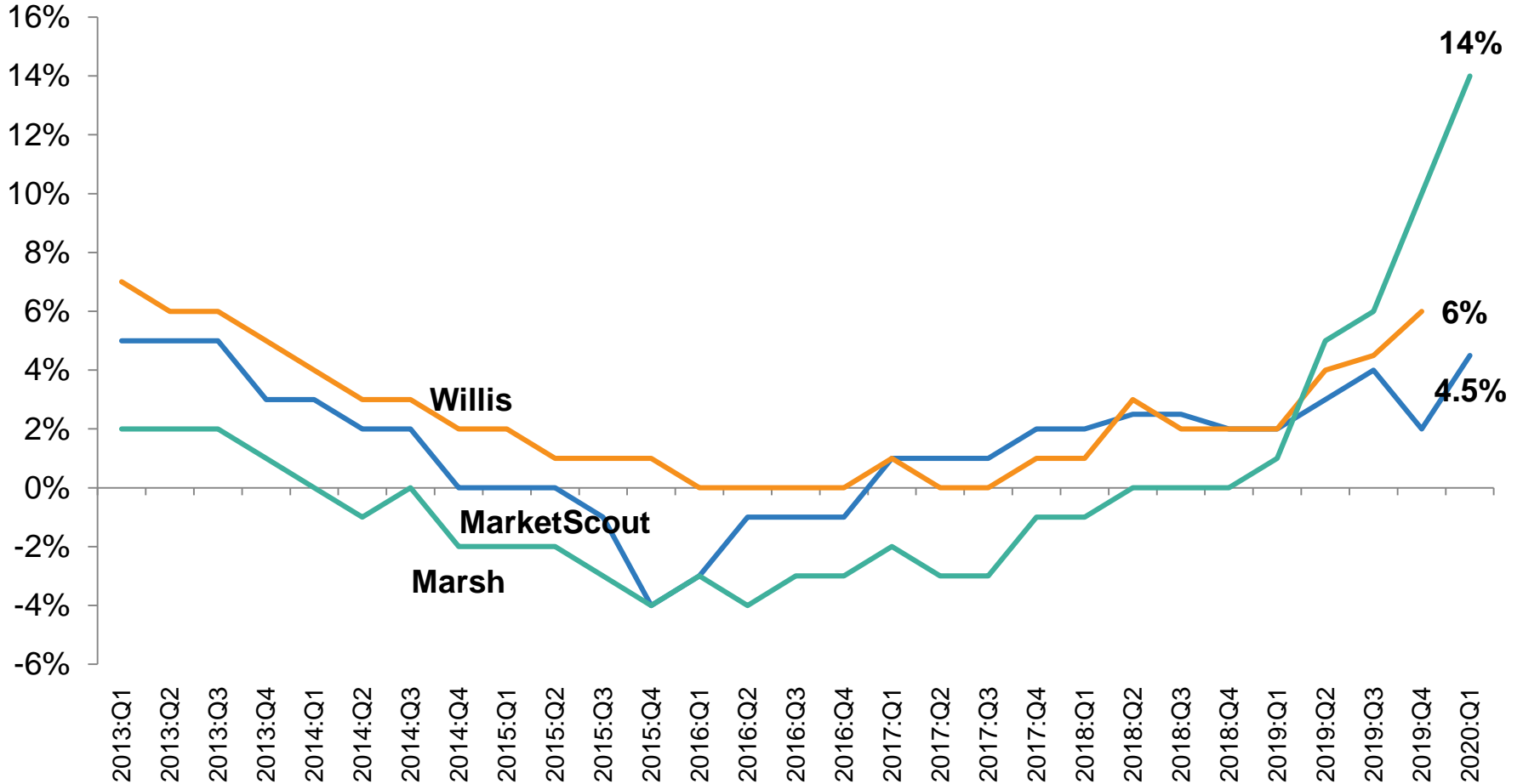
Commercial Lines Results



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



Commercial Lines Rate Changes



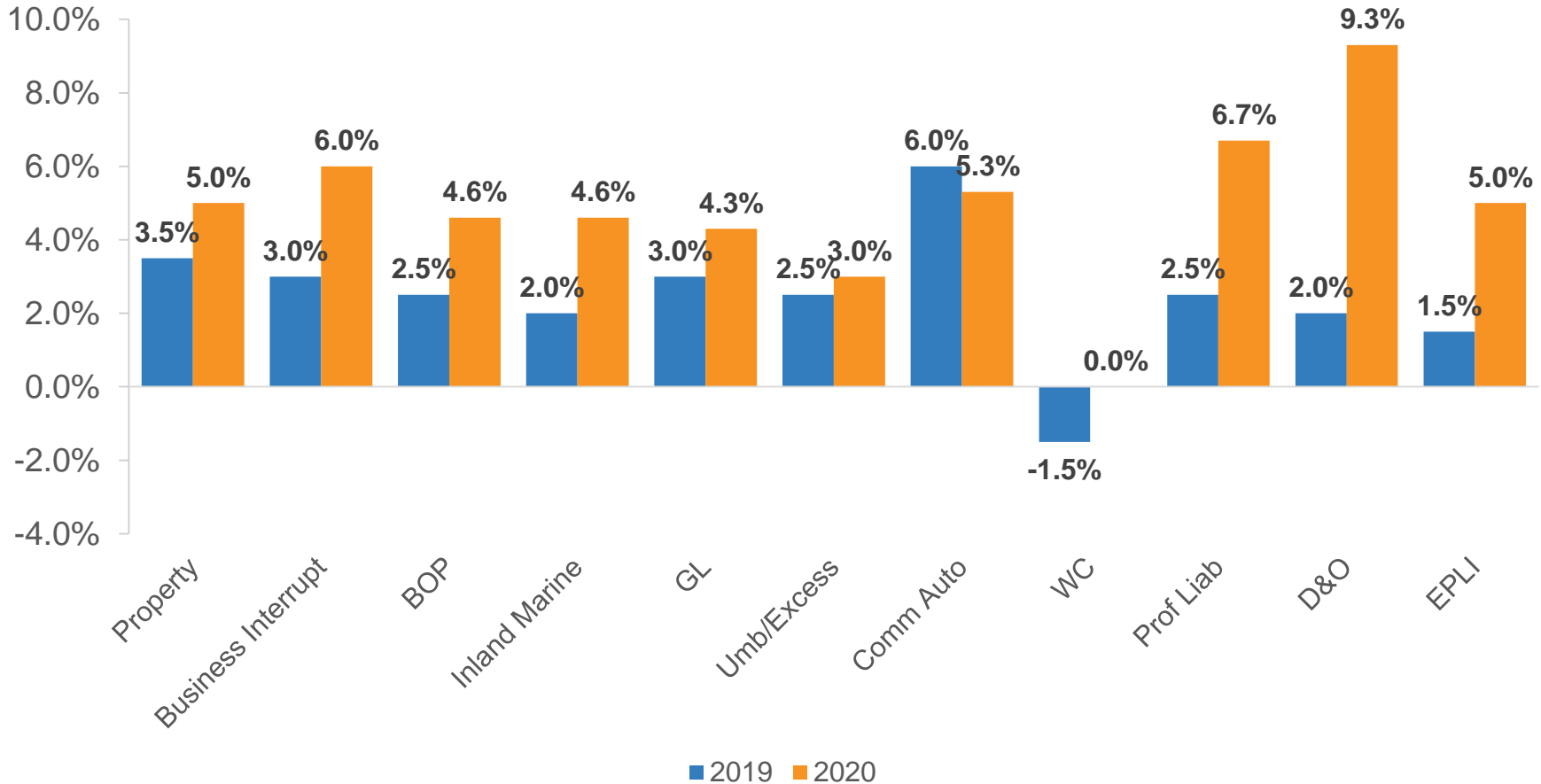
Rates have been rising. Is it a hard market?



Sources: Willis Towers Watson, MarketScout, Marsh.

Commercial Rate Changes

By Line, As of Second Quarter

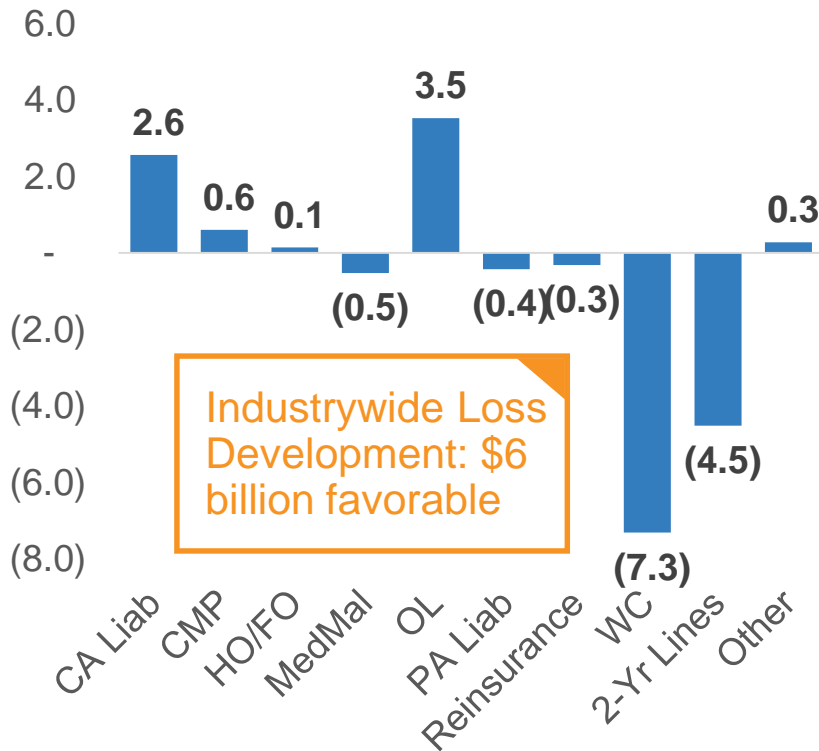


Source: MarketScout.

Key Trends

(at Year-End)

Loss Development



What's Happening

- ▲ PA: Moderating frequency, some severity movement
- ▲ WC: Frequency plunging
- ▲ D&O: Securities litigation explosion (event driven)
- ▲ EPLI: #Metoo
- ▲ GL: Social inflation
- ▲ CA: Social Inflation



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

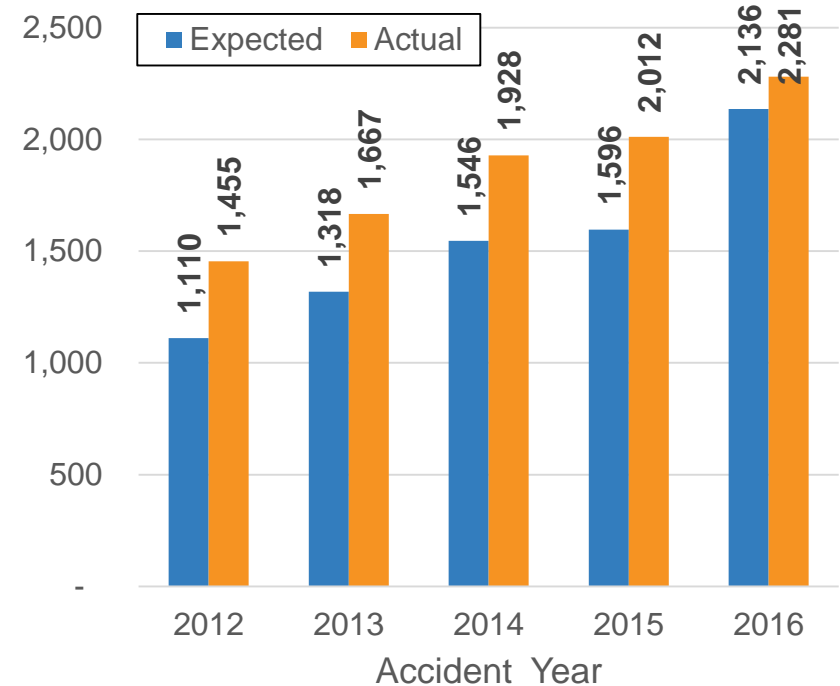
Key Assumption: LDF is RV about mean + inflation

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			

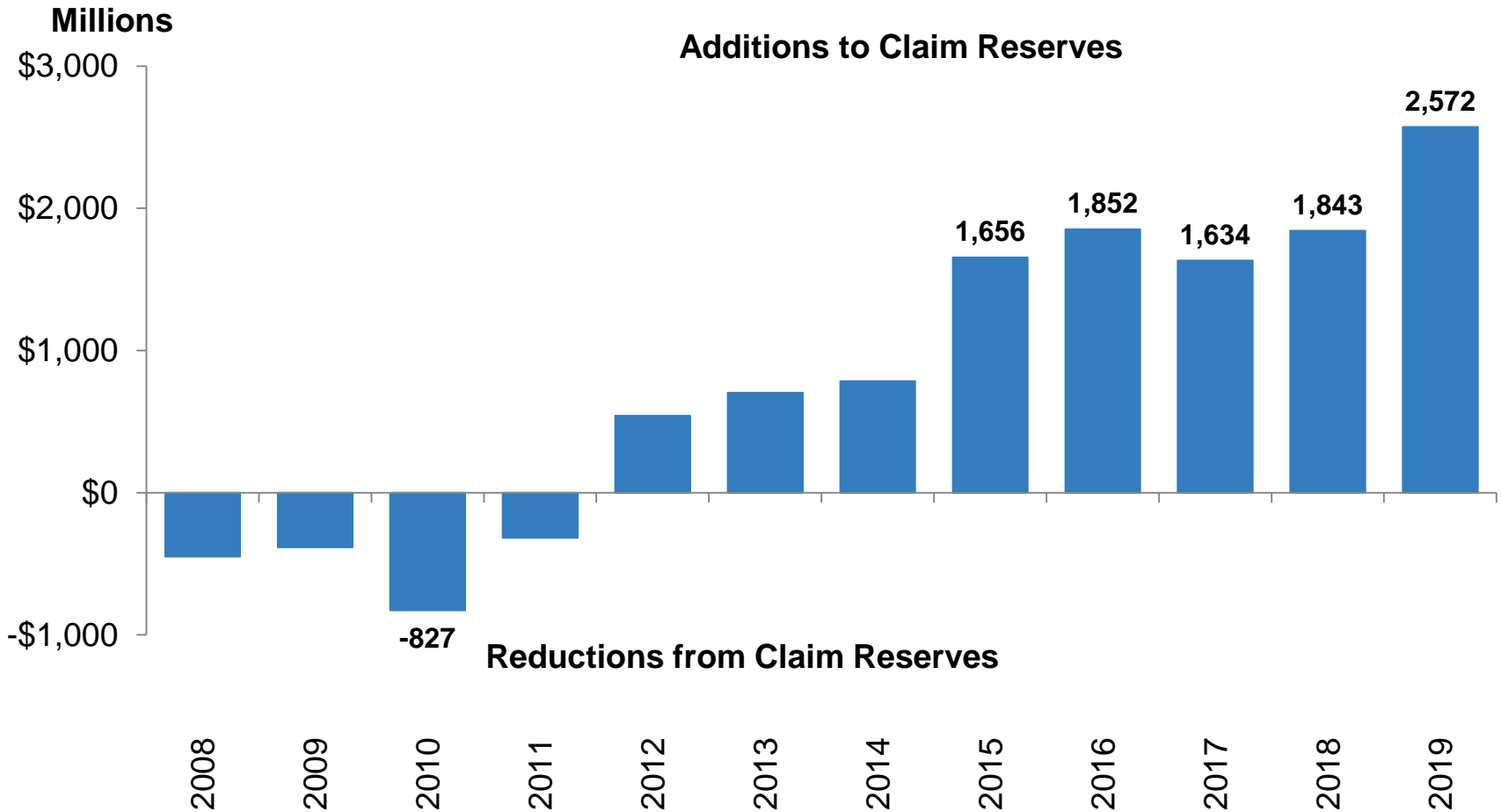
2-Year Expected vs. Actual

12-36 Development (\$ Millions)



Social Inflation: The Toll

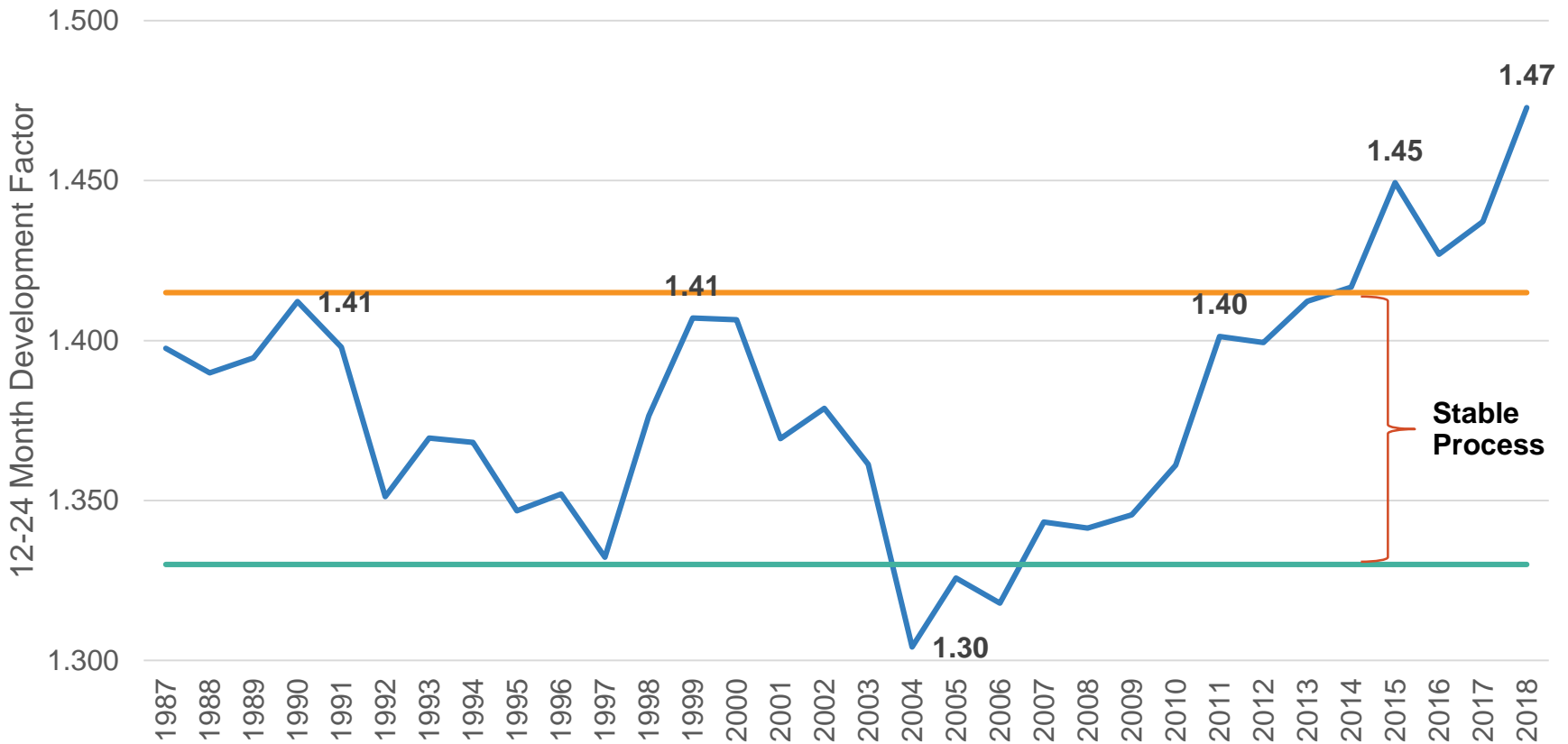
Reserve Development, Commercial Auto Liability



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

Recent Years – Unstable Mean

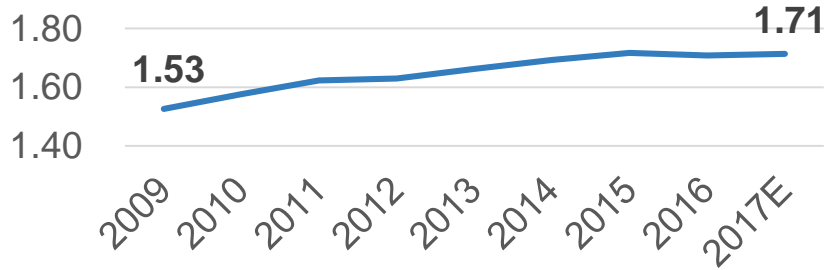
Commercial auto liability LDFs keep rising



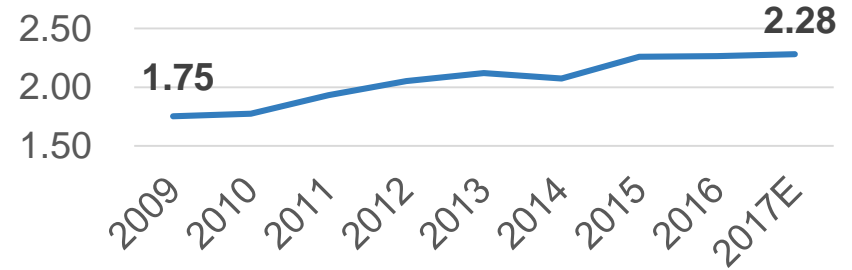
It's Not Just Auto

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

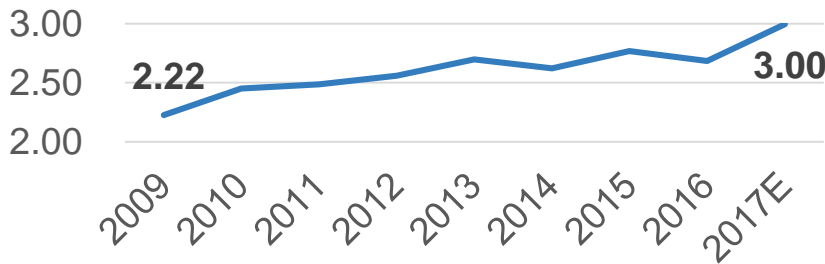
Commercial Auto



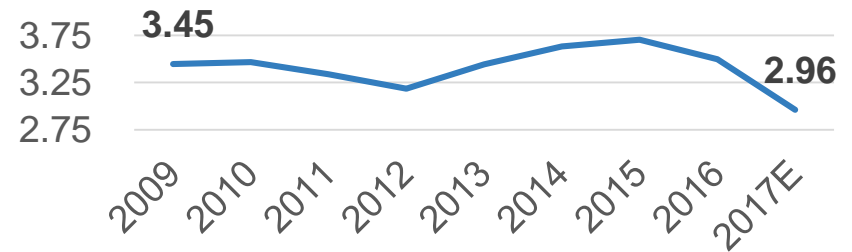
MedMal Claims-Made



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.

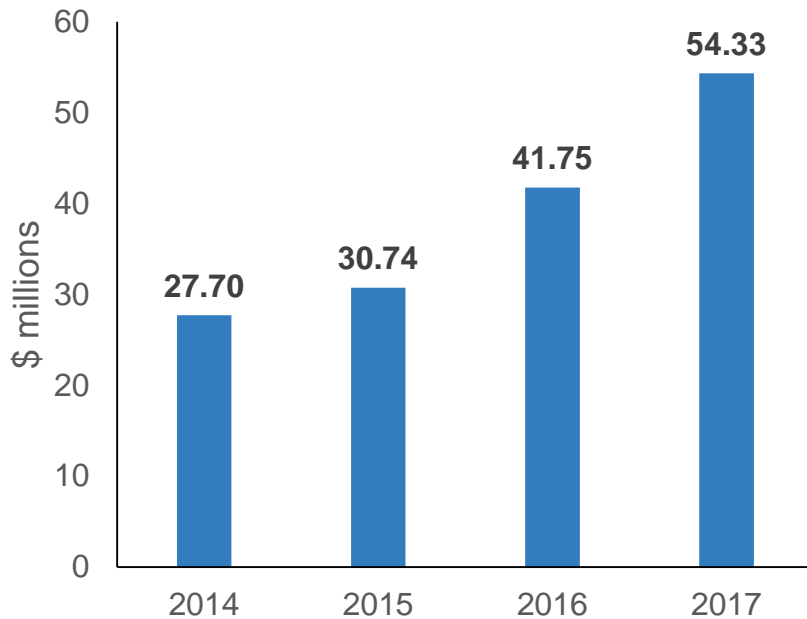


Why Is It Happening?

The Changing Legal Environment

“Jackpot Justice”

Median, 50 Largest Jury Verdicts

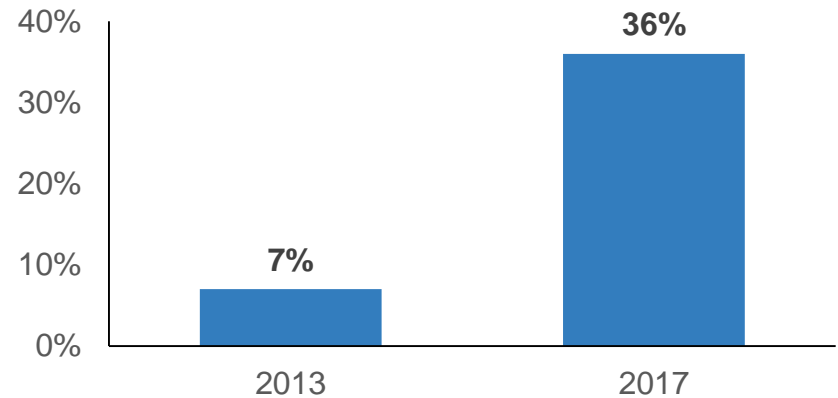


Litigation Financing

Litigation is a financeable asset.

- 68% of US Law Firms

% of US Law Firms Using Litigation Financing



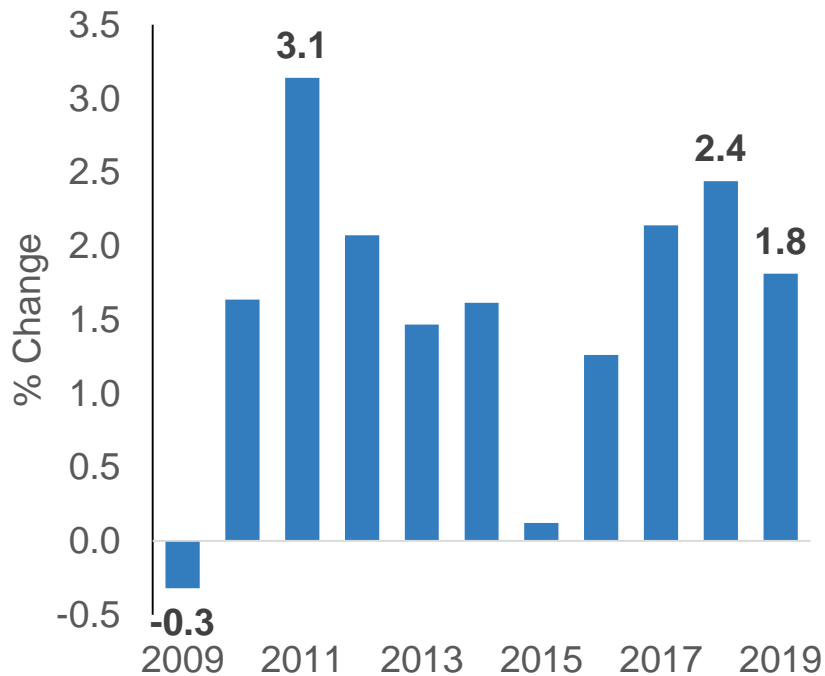
Why It Is Happening

Why Social Inflation Hits Insurance

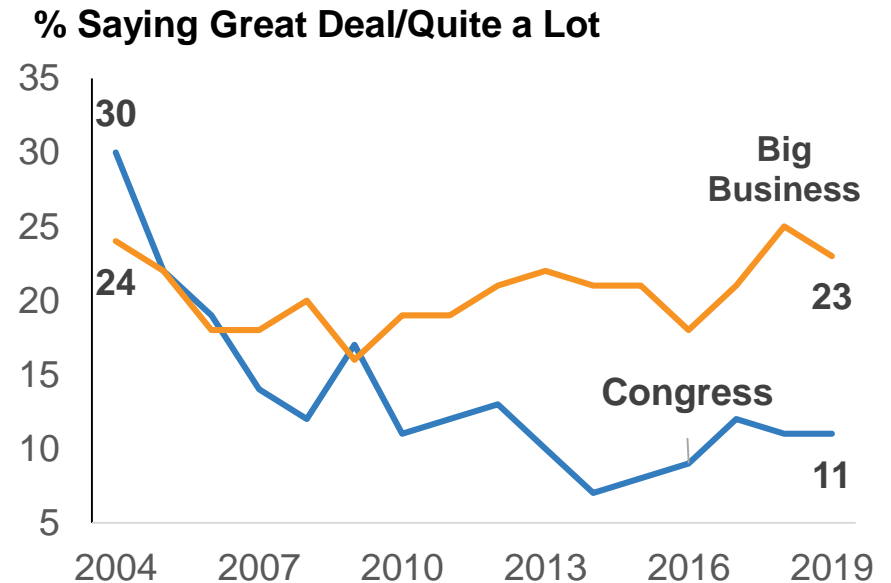
Overall Inflation Remains Steady

Who Solves Problems?

CPI Change vs Year Earlier



Confidence in Institutions

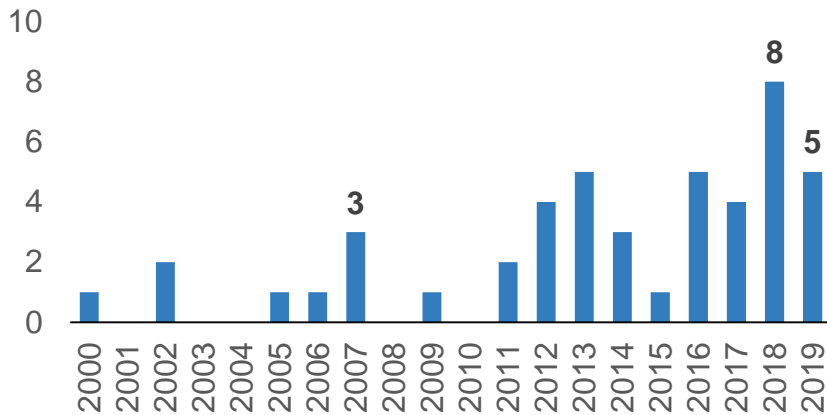


Why Is It Happening?

Social Trends Set the Stage

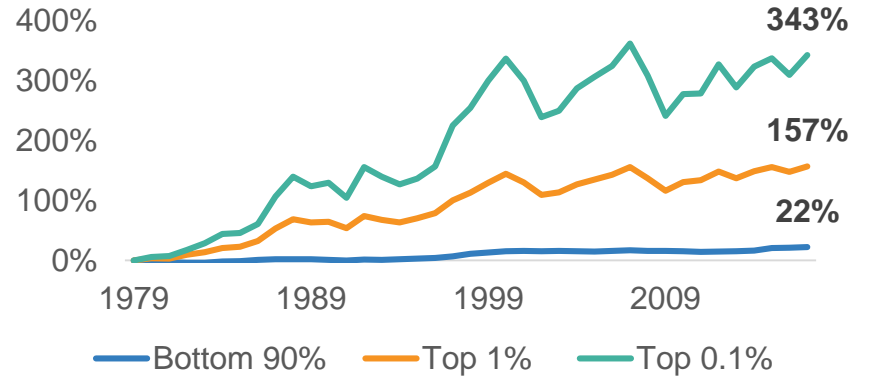
Big Payout Expectations

No. of \$300M Lottery Jackpots

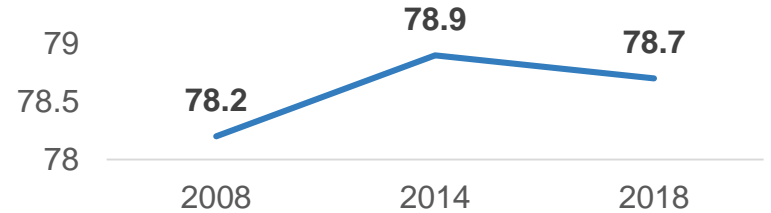


Dystopian Days

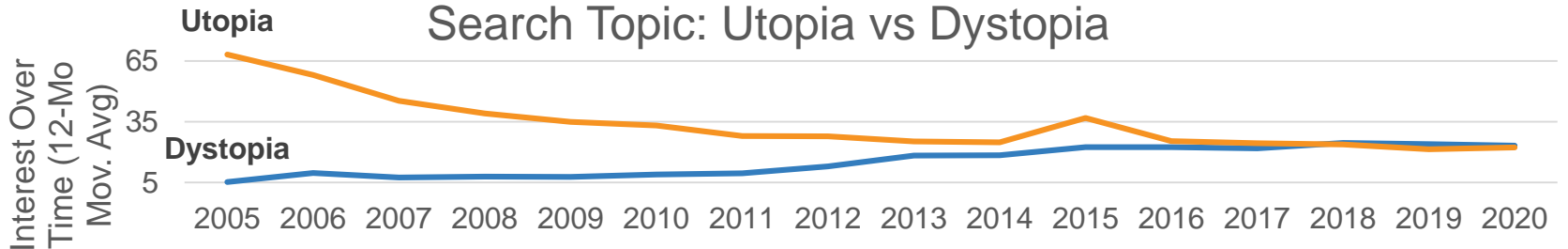
% Chg, Real Income Since 79



Life Expectancy at Birth

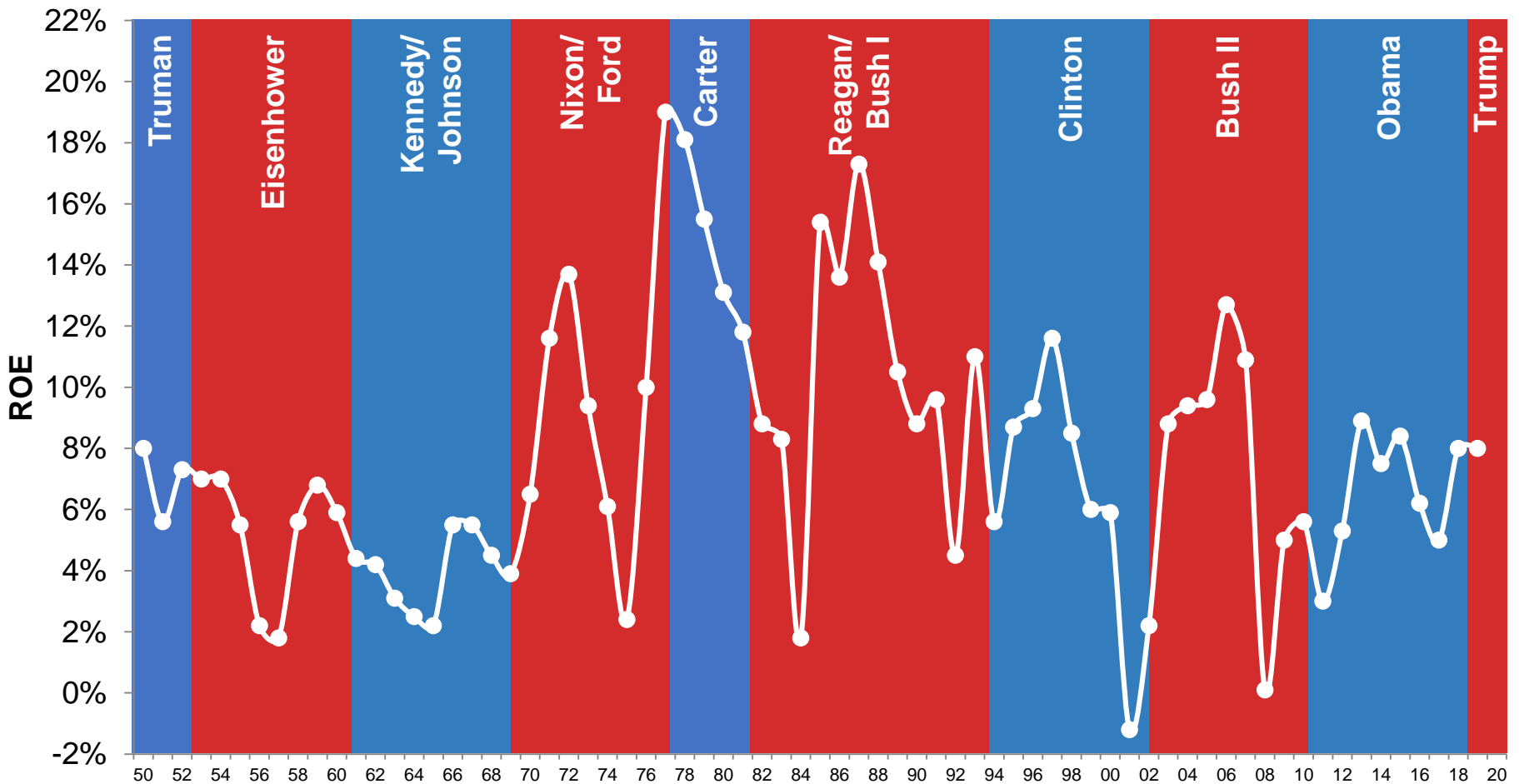


Search Topic: Utopia vs Dystopia



It's a Presidential Election Year:
Does That Matter for P/C ROE?

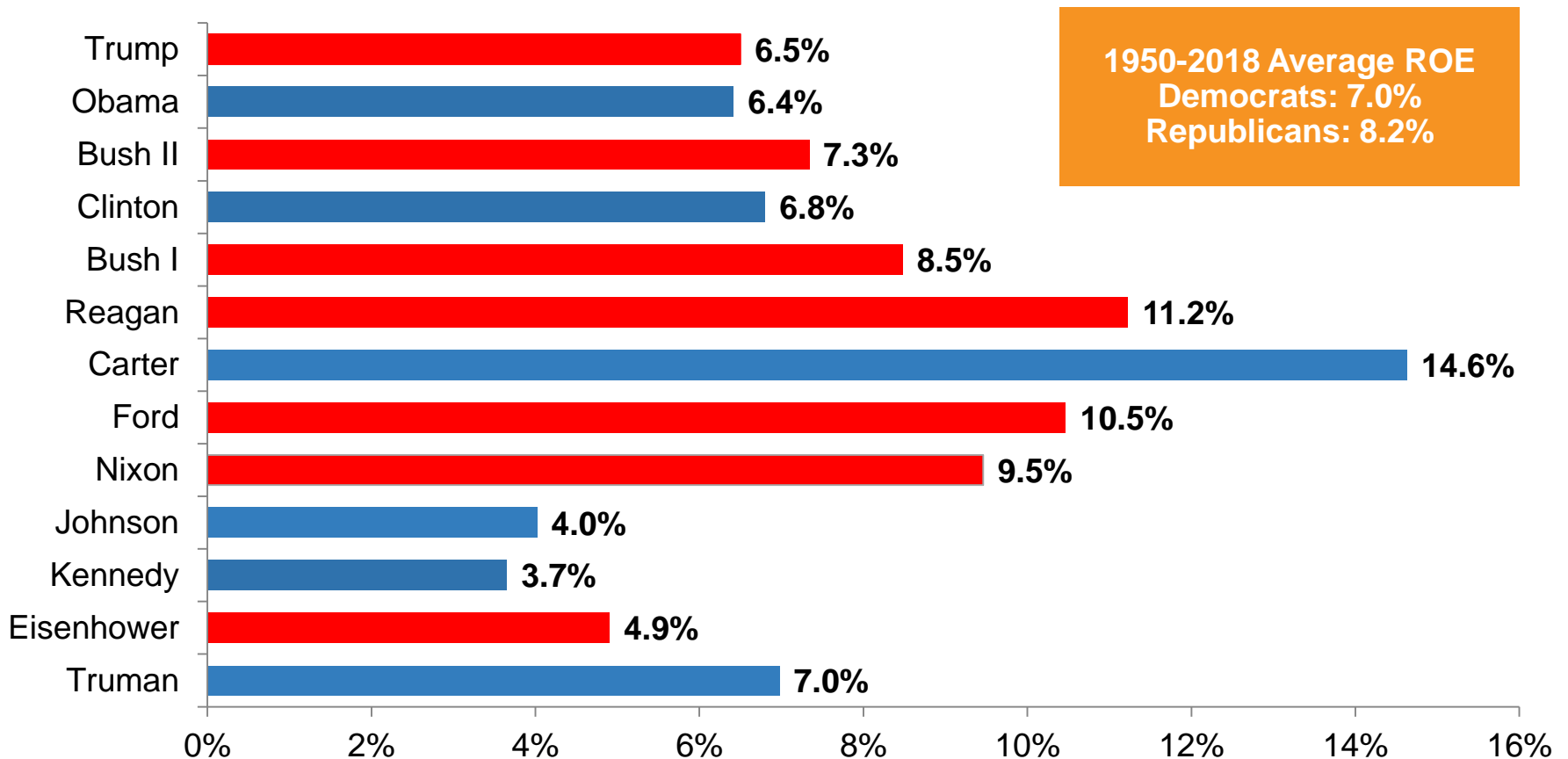
P/C Insurance Industry ROE by Presidential Party Affiliation 1950-2019



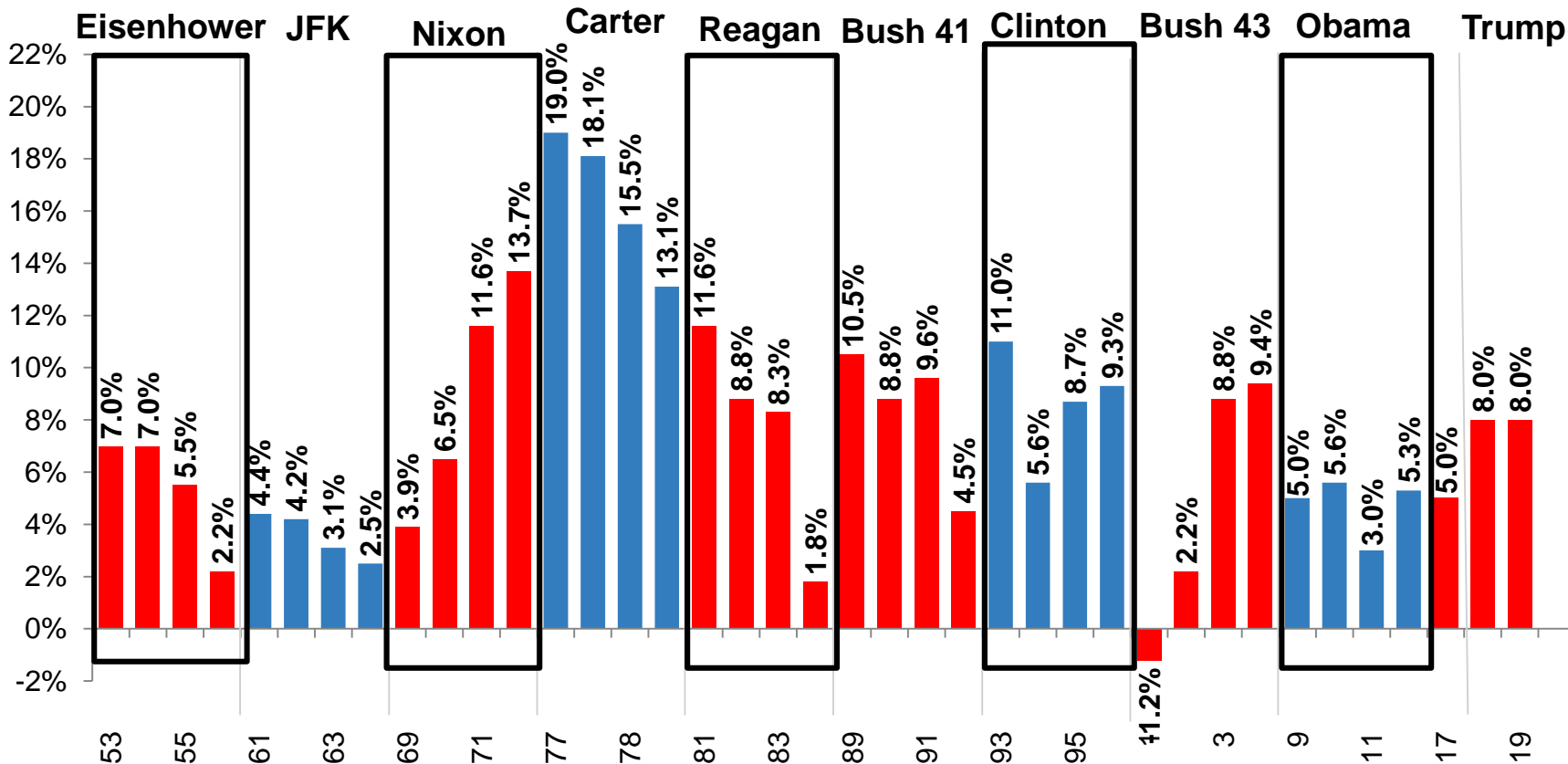
BLUE = Democratic President

RED = Republican President

P/C Insurance Industry Average ROE by Presidential Administration, 1950-2018



P/C ROE during a President's First Term, 1953-2020



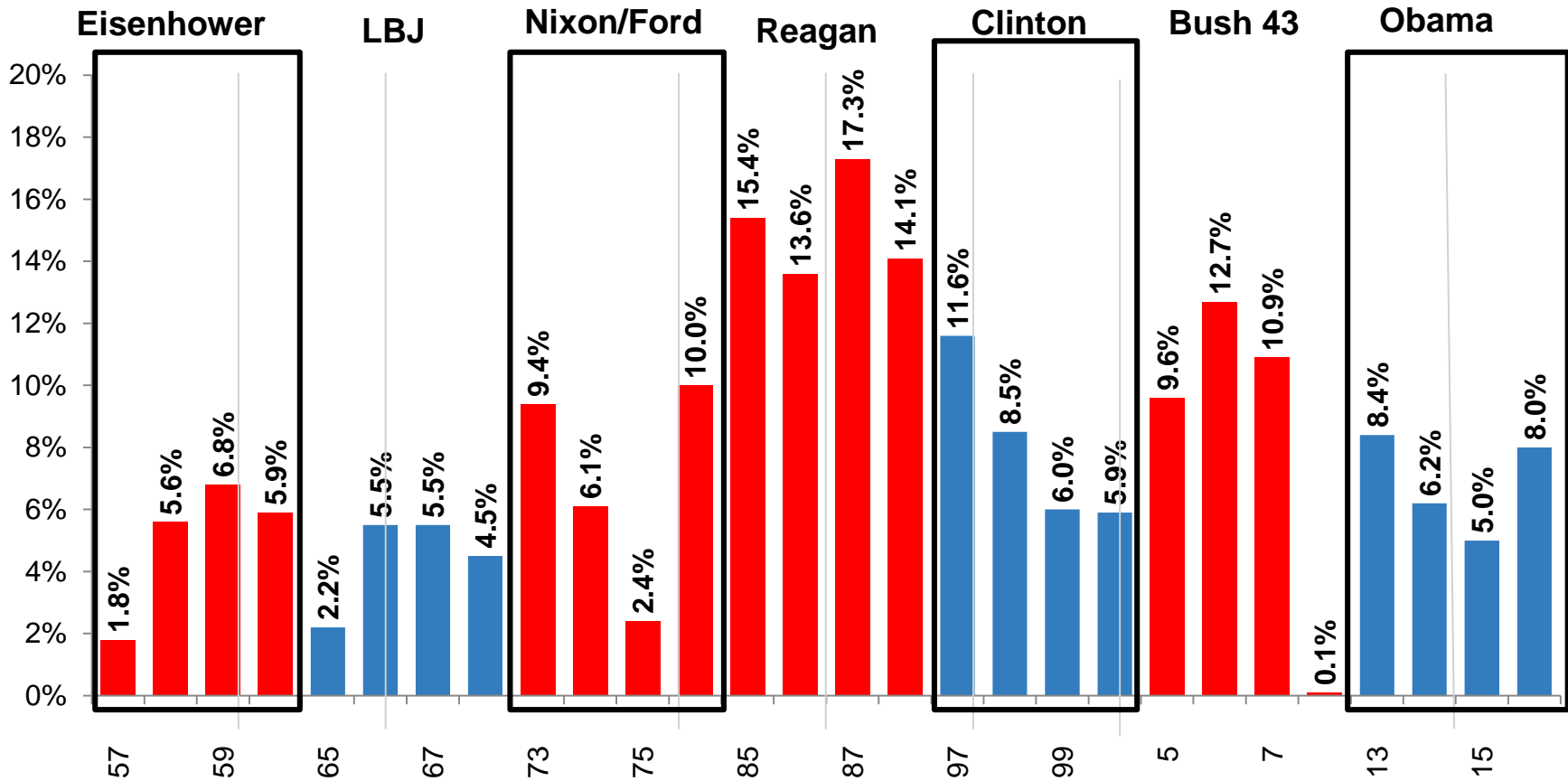
Carter's first term was the best; JFK's was the most disappointing.



*Seasonally adjusted at an annual rate

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

P/C ROE during a President's Second Term, 1953-2020



Reagan's second term was the best; LBJ's the most disappointing



*Seasonally adjusted at an annual rate
Sources: U.S. Department of Commerce; Insurance Information Institute.

Summary

“Unprecedented”

- ▲ Pandemic recession has hit industry three ways:
 - ◆ Lower exposures
 - ◆ Catastrophe-level losses
 - ◆ Weak investment environment
 - ◆ --- But industry employment remains strong
- ▲ Pandemic/recession complicate issues in individual lines
- ▲ Social inflation a growing concern





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Thank you for your time
and your attention!