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Quarterly P/C Industry Snapshot

April 2020

Information and analysis provided by the
Insurance Information Institute

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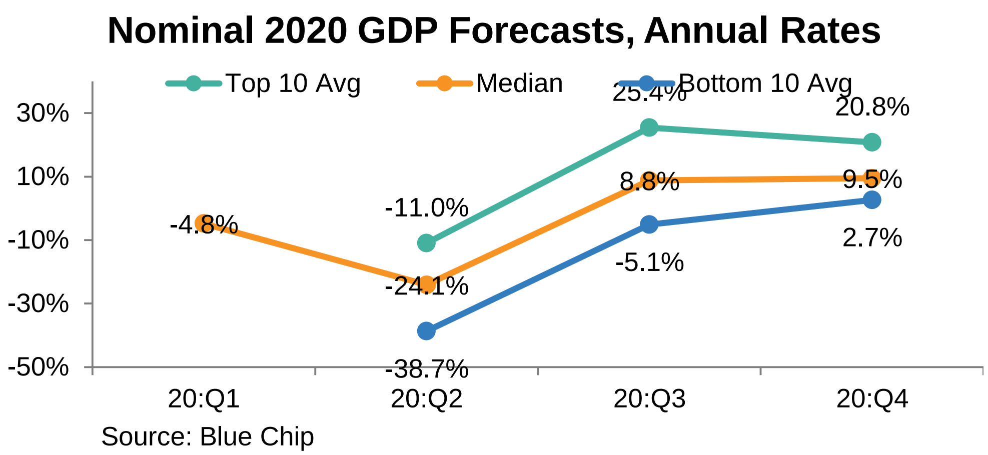
Key Insurance Economic Indicators

The U.S. economy, pertinent to the P/C insurance industry

The 53 Blue Chip forecasts underlying this chart see a remarkable range for nominal GDP. Some foresee a two-quarter recession.

P/C premium growth usually follows nominal GDP.

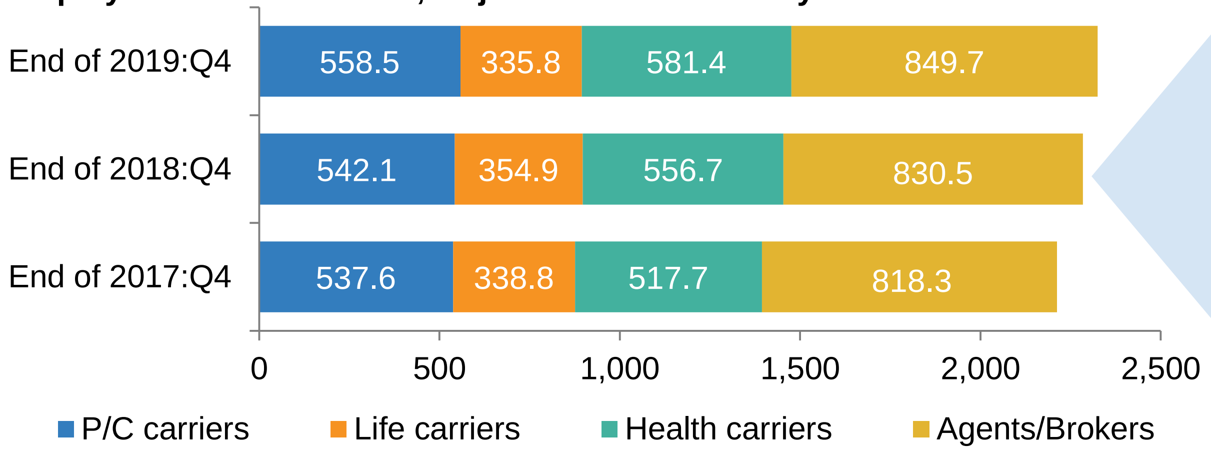


Economic Indicator	Indicator Value (2019:Q4)	Indicator Value (2020:Q1)	Analysis
% Change in Real GDP (vs. prior quarter, at annual rate)	2.1%	-4.8% ↓	Q1 GDPNow estimate is as of April 16. Blue Chip forecasts range widely..
Housing Unit Starts (thousands of units)	327	324 →	Essentially flat, and at a low level. This is a weak indicator.
Employment Change (thousands)	630	-212 ↓	Virtually all of the plunge came in the last two weeks of March. More unemployment coming.
Nonresidential Fixed Investment, growth rate	-0.6%	-8.6% ↓	Components: Investing in structures -9.7%; in equipment –15.2%; in software +0.4%
Hospital Services Price Increases (y-o-y)	3.3%	4.3% ↑	Rising; supply scarcities driven by COVID-19
Interest Rates (10-Year U.S. Treasury) quarterly average	1.8%	1.4% ↓	Still falling. No relief for insurer investment income

P/C insurance industry

Insurance Industry Indicator	2018	2019	Analysis
Industry Operating Ratio	89.8	90.0	Slight deterioration likely due to slightly lower investment income.
Natural Catastrophe Losses ($ billions)	$43.3	$28.4	2019 was a decent year. Catastrophe losses in the better years this decade ranged $13 billion to $22 billion.
Industry After-Tax Profits ($ billions)	$59.63	$61.45	Profit rose on lower catastrophe claims.

Employment in Thousands, Major Insurance Industry Sectors

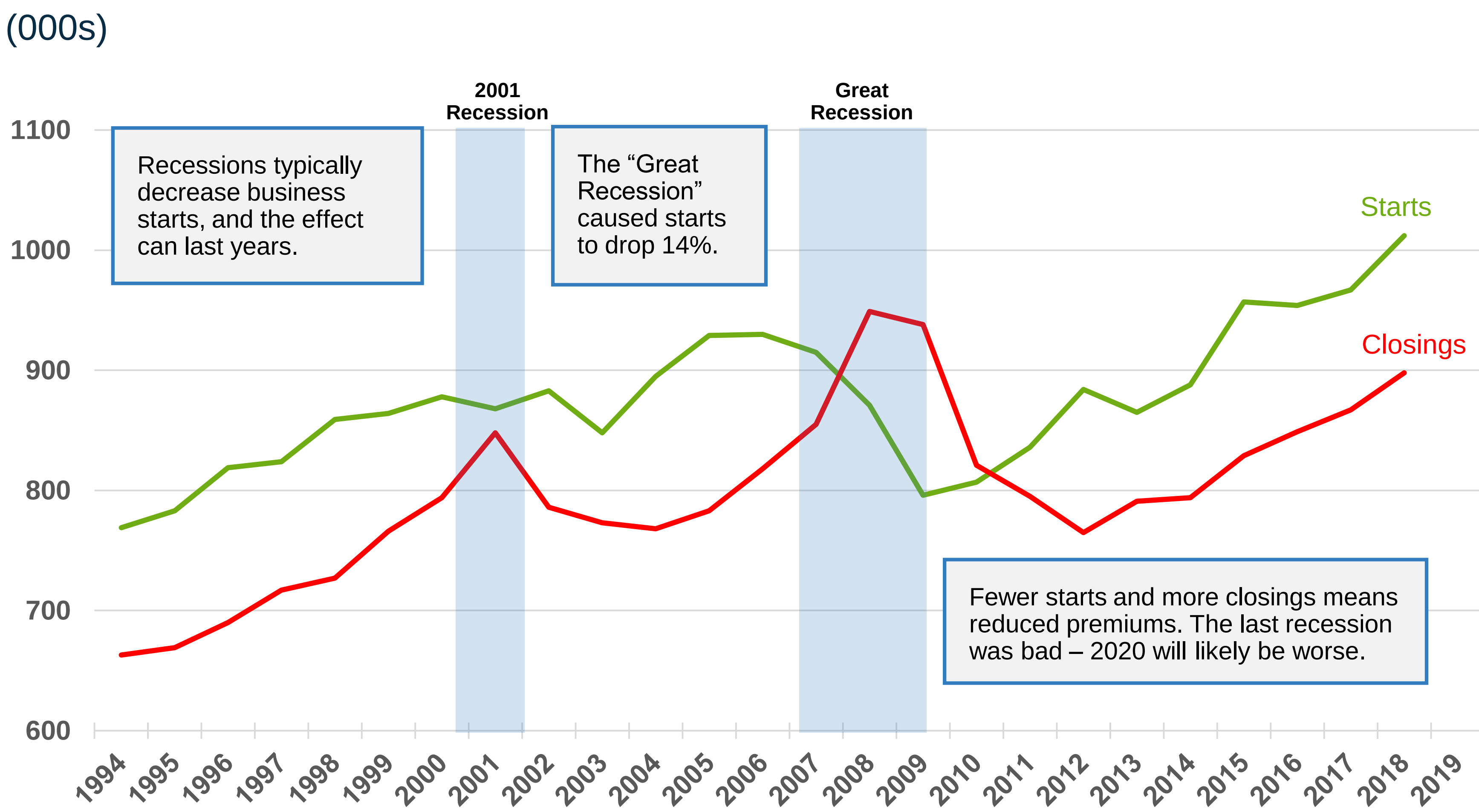


Over the last two years, life carrier employment was flat, P/C and health carrier employment grew, and agent employment grew strongly.

Some Economic Forces Affecting P/C Insurance

The Growth of Exposures Through 2019 Will End in the 2020 Recession, but the Latest Economic Data Don’t Show That Yet

Business Starts vs. Closings



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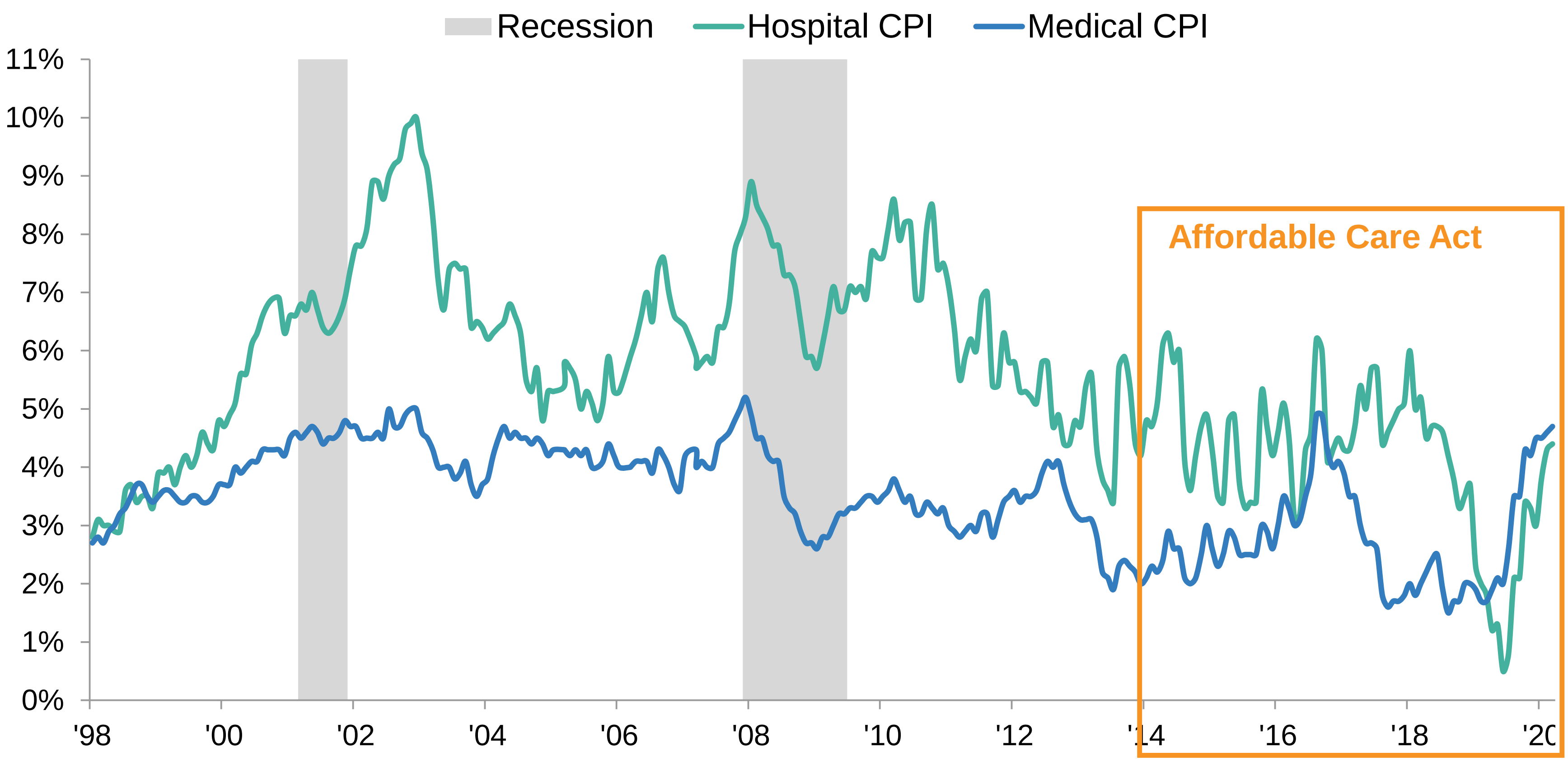
Price changes,* medical care vs. hospital care



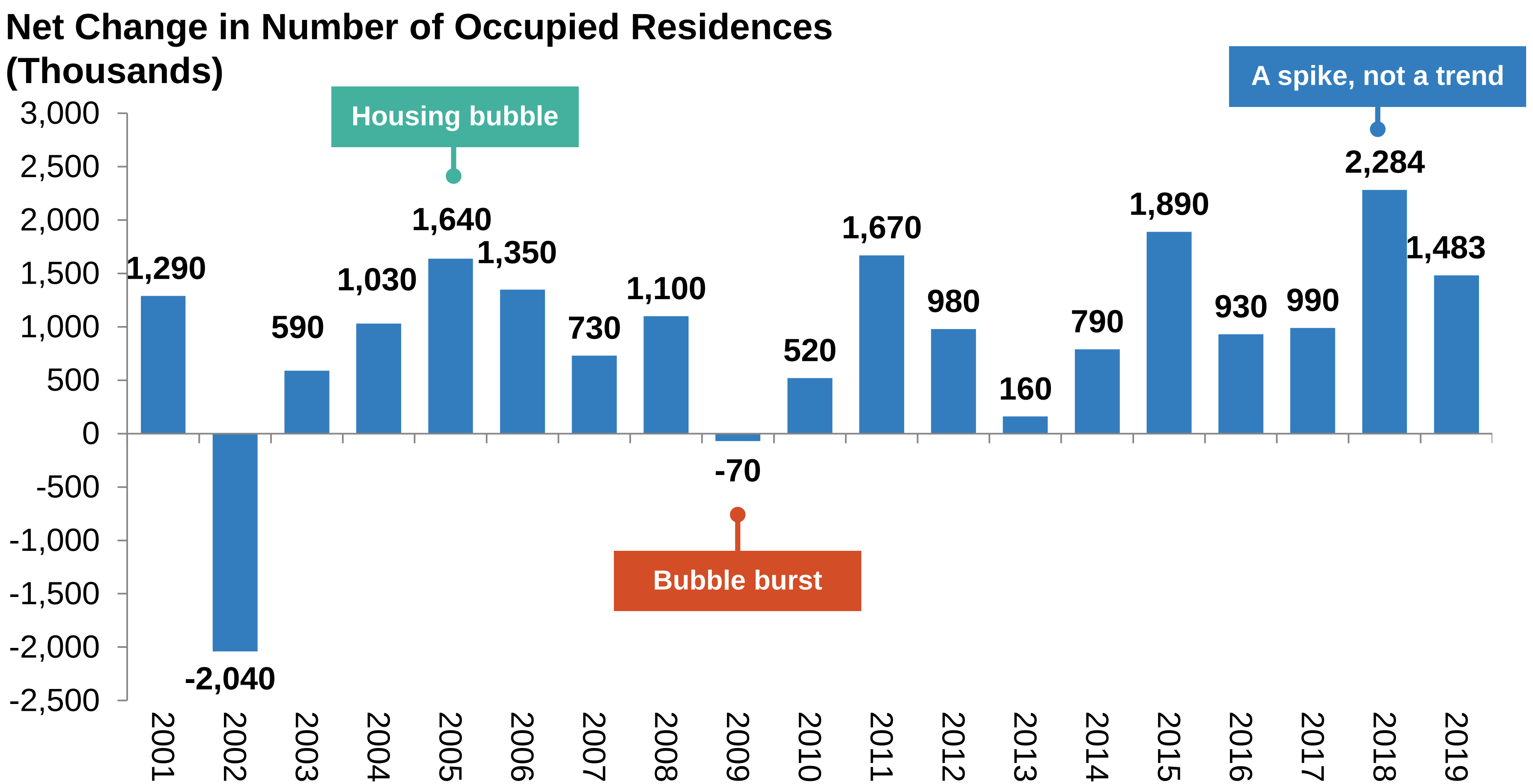
For BI Liability and WC, hospital care prices are more relevant than general medical care prices. Hospital prices generally rose several percentage points faster than medical care, but that spread shrank under the Affordable Care Act and reversed since August 2019.

*Percentage change from same month in prior year; through November 2019; seasonally adjusted.

Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institute.

I.I.I. Quarterly P/C Industry Snapshot, published April 2020.

Change in number of occupied residences => Demand for home and renters insurance



Sources: Census Bureau; CoreLogic; Insurance Information Institute.

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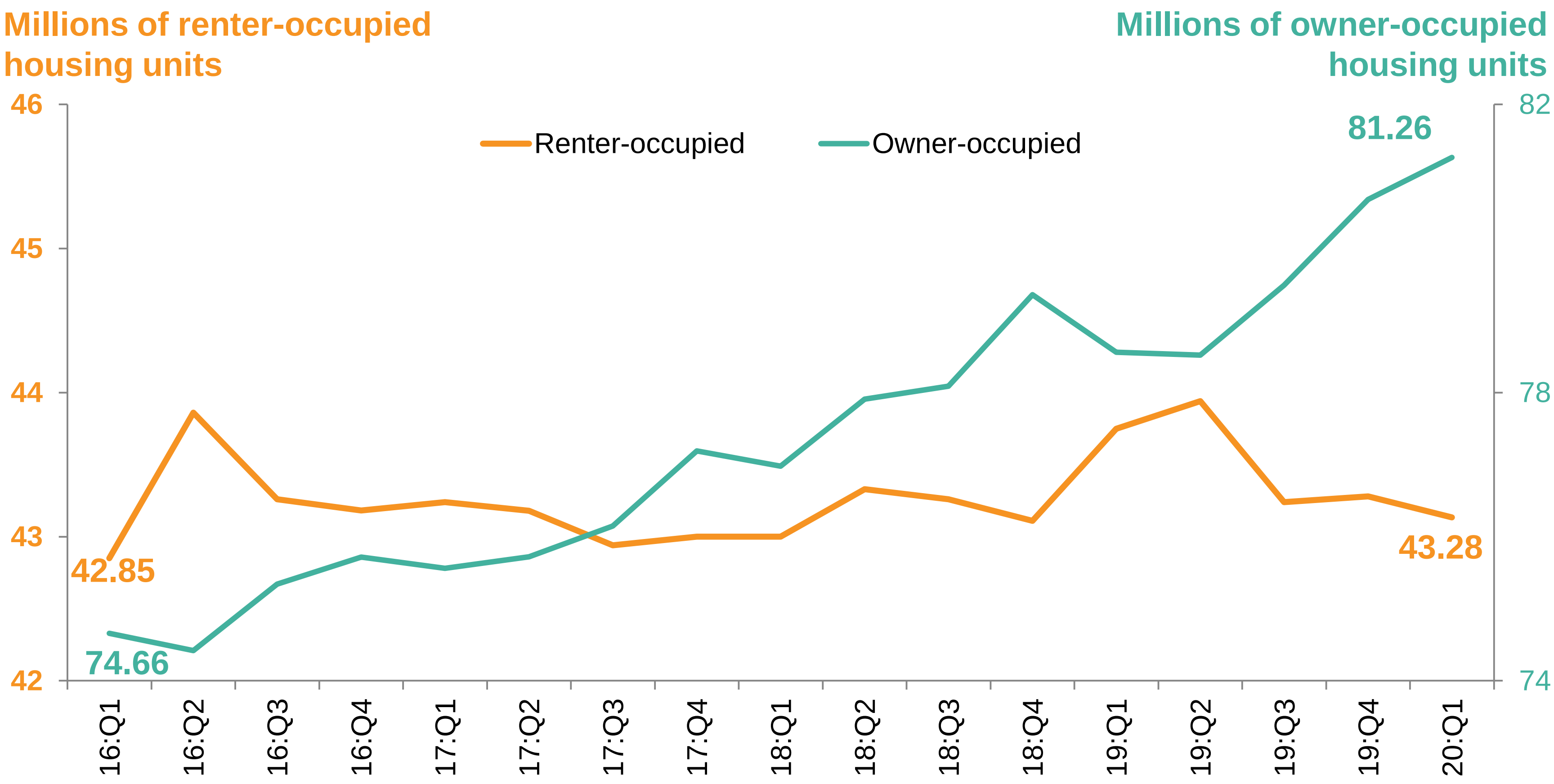
Home renters vs. owners, 2016 to present



Since 2016:Q1 the number of owner-occupied housing units grew by about 6.6 million, but the number of renter-occupied housing units grew by only 0.4 million in that span. This is good news for Homeowners insurance premium growth.

Sources: U.S. Census Bureau at http://www.census.gov/housing/hvs/data/histtabs.html, Table 8; Insurance Information Institute.

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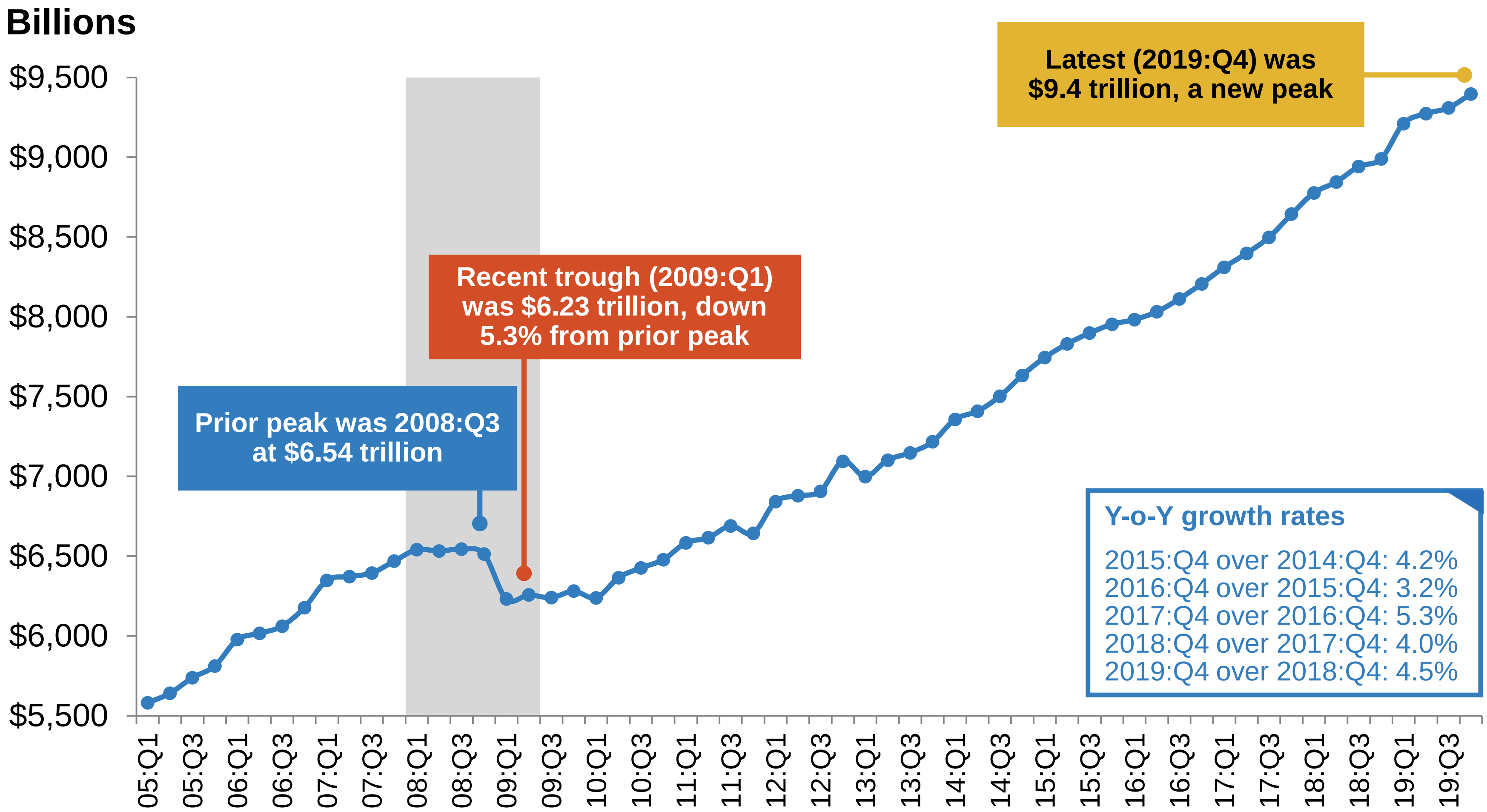
WC exposure base rose steadily through 2019
Nonfarm payroll (wages and salaries): quarterly



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.

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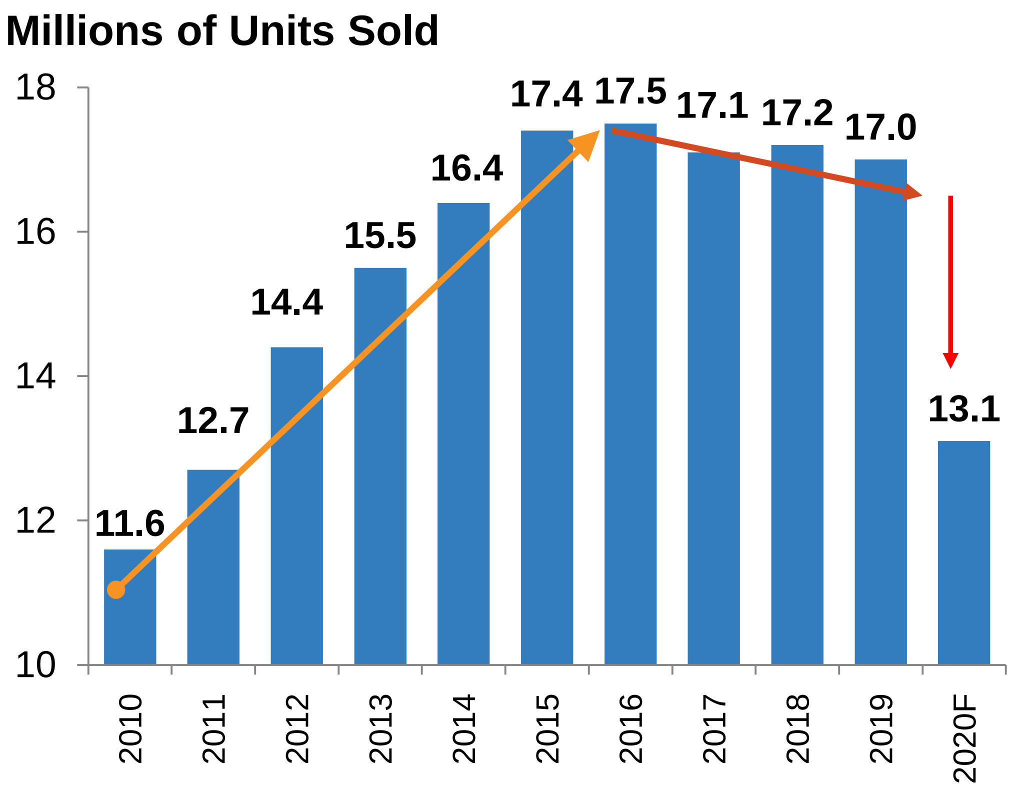
New vehicle sales are back in recession mode, as are private passenger auto premiums



New car sales were trending down since 2016 but the pandemic-driven recession that began in March will sharply cut sales for the rest of 2020 despite near-zero interest rates. PP auto premiums will fall, too.

Sources: Blue Chip Economic Indicators; Insurance Information Institute.

I.I.I. Quarterly P/C Industry Snapshot, published April 2020.

Special Topic:
Covid-19 and
Business Interruption Insurance

Four Key Takeaways on Business Interruption Insurance and Pandemic-Driven Claims

Global pandemic risks are uninsurable

- A pandemic impacts all lines of insurance at once
- Only the federal government has the financial wherewithal to cover pandemic risks
- Only a handful of business interruption policies cover communicable disease contamination; very few U.S. businesses purchase them

Retroactive payouts would bankrupt insurers

- Rewriting contracts after they have been agreed to is unconstitutional – Article I
- Requiring an insurer to pay for losses it never insured would cause irreparable harm to the industry
- Mandating business interruption payouts would eliminate the surplus sets aside for covered claims in a matter of months

Insurers ready and actively paying covered claims

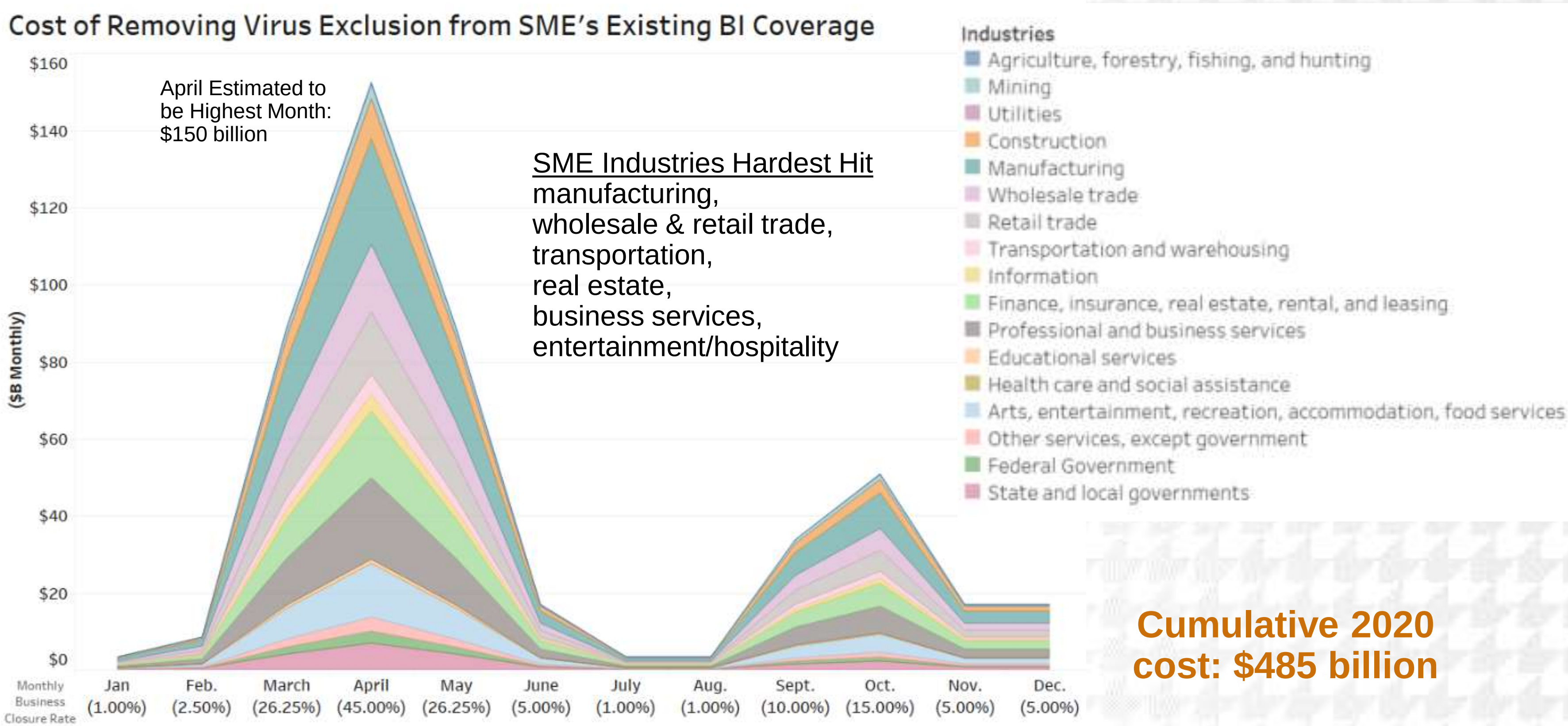
- Insurer stability is essential in meeting all the covered losses from people, businesses and communities
- Covered losses include accidents, injuries, liability lawsuits, fires, and disasters such as windstorms
- The industry’s financial strength is especially important in an era of more frequent and severe hurricanes, tornadoes and wildfires

Policies clearly explain “virus and bacteria” exclusions

- Business interruption policies generally require the losses to be caused by physical damage to the property
- The threat of a virus is generally not considered physical damage to the property
- Policies typically have exclusions saying an insurer will not “pay for loss or damage caused by or resulting from any virus, bacterium or other microorganism that induces or is capable of inducing physical distress, illness or disease”

Estimated Claims in 2020 in Existing SMEs* BI Policies if the Virus/Bacteria Exclusion is Overridden

*Small- and Medium-Sized Enterprises

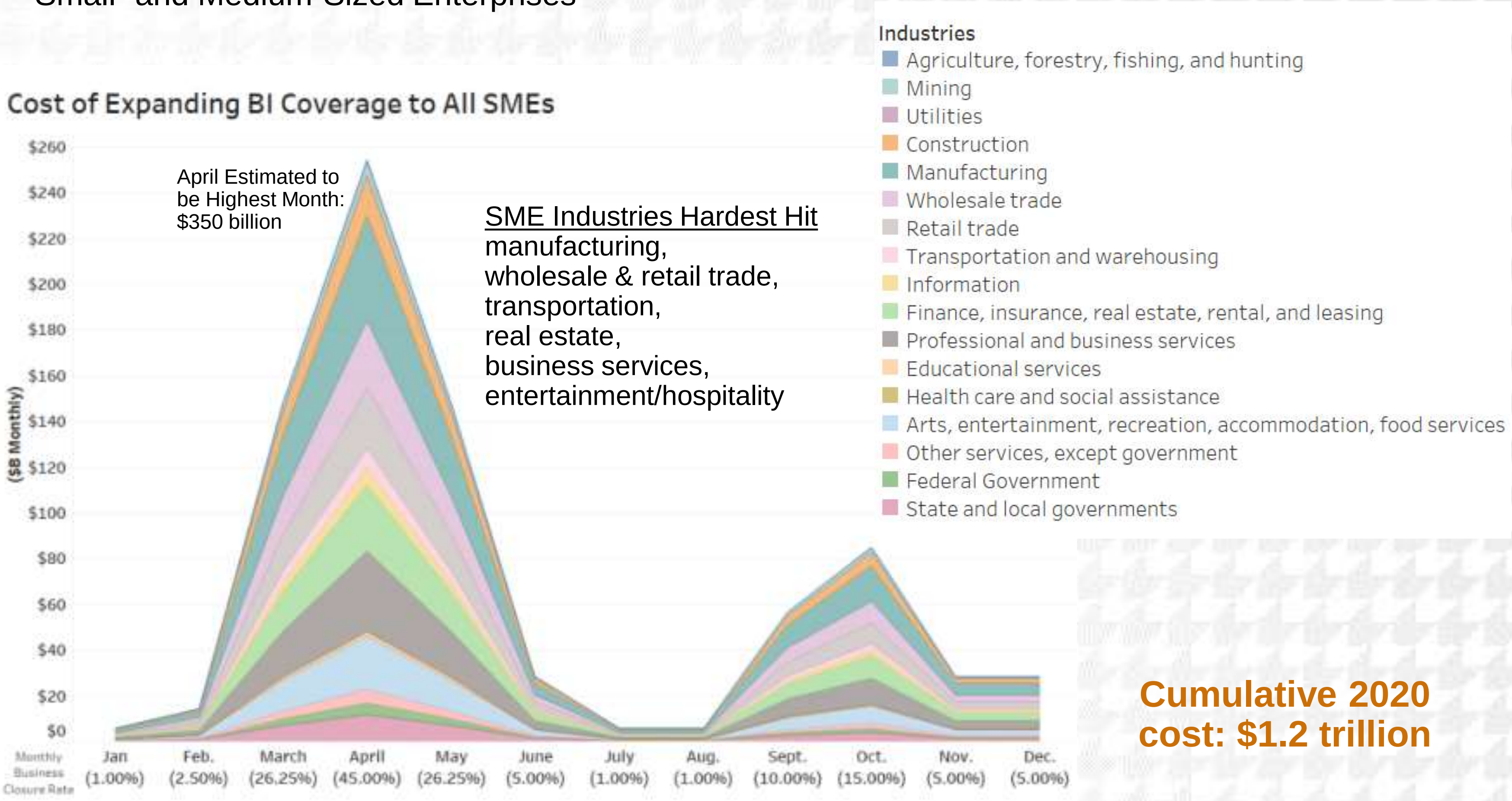


Cumulative 2020 cost: $485 billion

Assumes a second wave of the pandemic in the Fall. Assumes that only about 40% of SMEs have BI coverage now. Triple-I estimates that, at most, $300 billion of surplus could be available before the industry, collectively, reached the RBC Company Action Level.

Estimated Claims in 2020 if All SMEs* Could Seek BI Recovery for Pandemic-Related Losses

*Small- and Medium-Sized Enterprises



Cumulative 2020 cost: $1.2 trillion

Assumes a second wave of the pandemic in the Fall. Assumes that 100% of SMEs get BI recoveries. Triple-I estimates that, at most, $300 billion of surplus could be available before the industry, collectively, reached the RBC Company Action Level.