

COVID-19: Economic Impacts on the P&C Insurance Industry

Overview and Outlook

Gen Re Client Webinar
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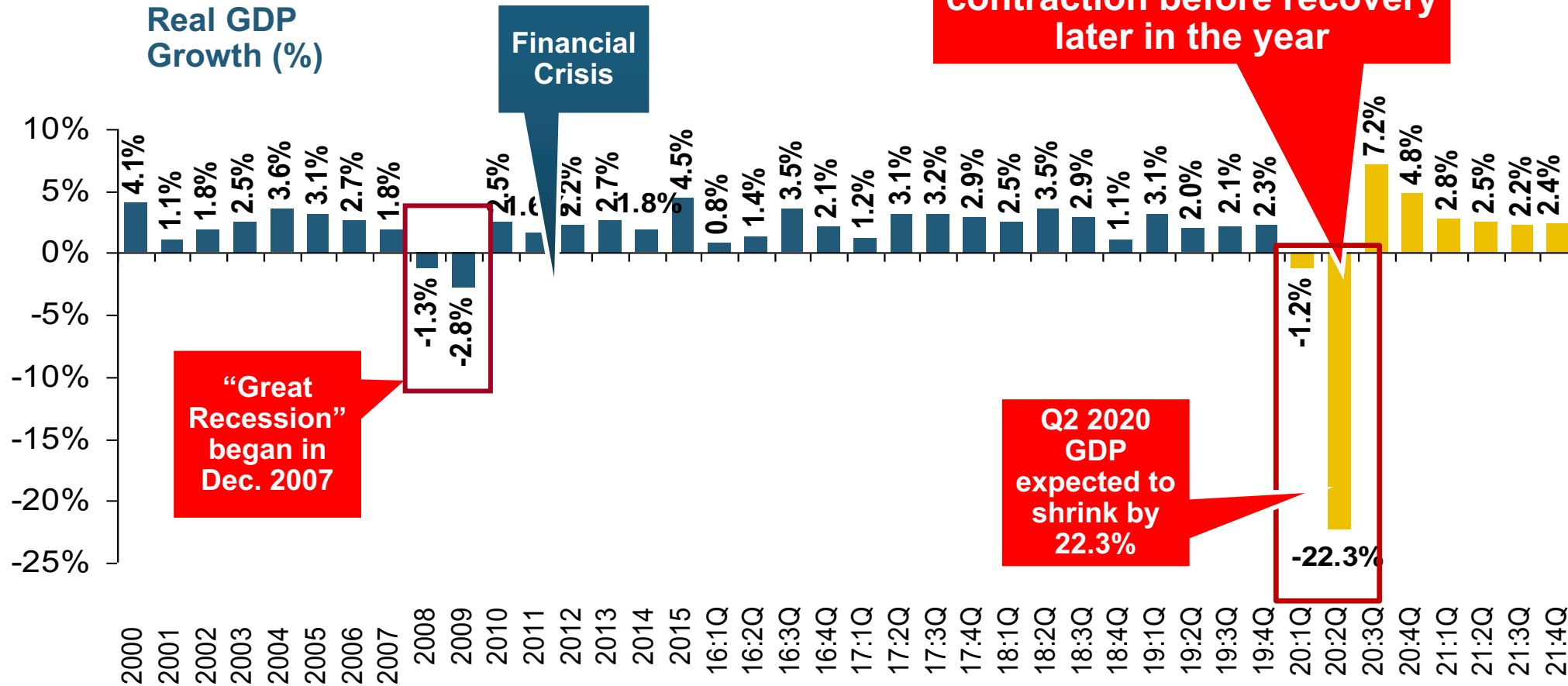
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US Real GDP Growth*

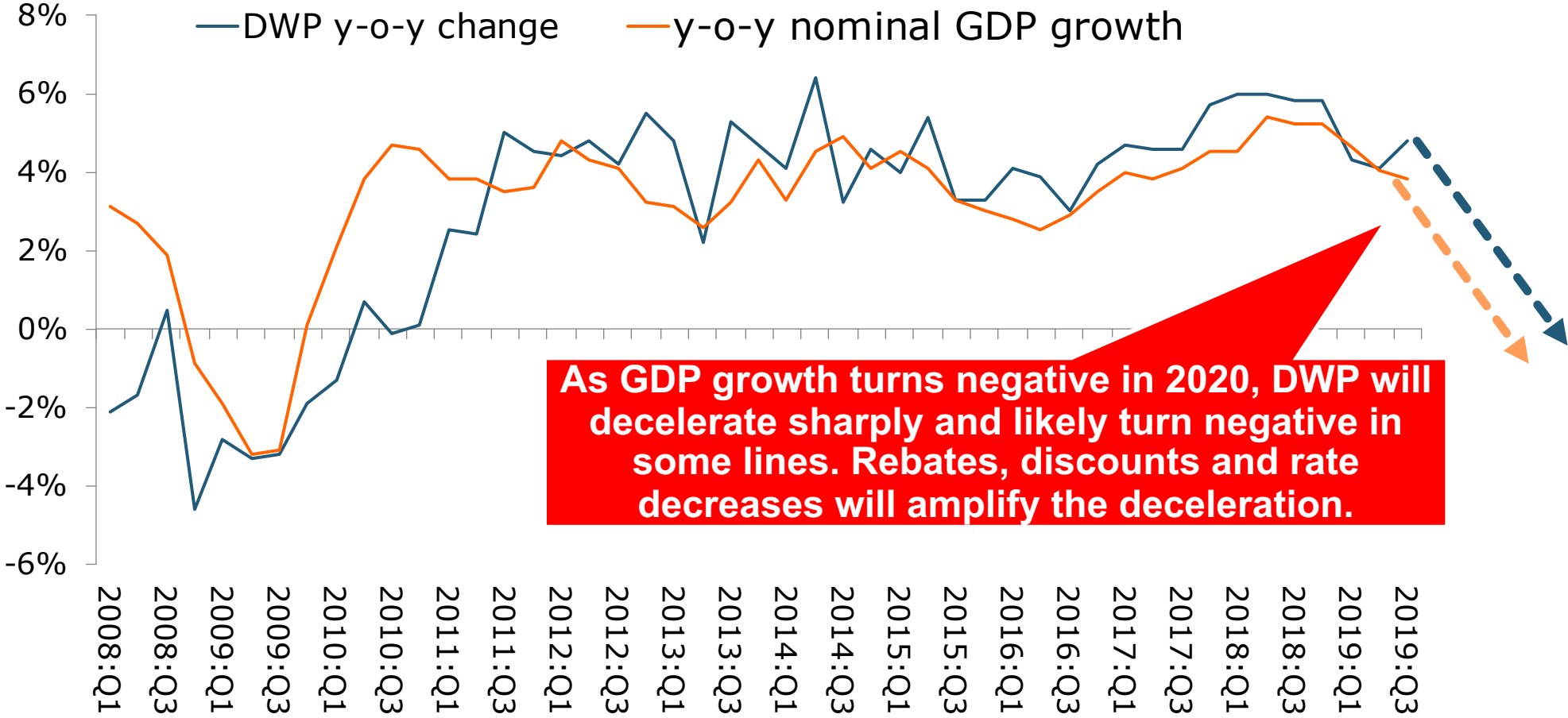


Demand for Insurance Will Be Impacted As the Economy Slows but Should Improve by Late Q3 and into Q4

* Estimates/Forecasts from Wells Fargo Securities.
 Source: US Department of Commerce, Wells Fargo Securities 4/8/20; Center for Risk and Uncertainty Management, University of South Carolina.

The Economy Drives P/C Insurance Industry Premiums: 2006:Q1–2019:Q3

Direct Premium Growth (All P/C Lines) vs. Nominal GDP: Quarterly Y-o-Y Pct. Change

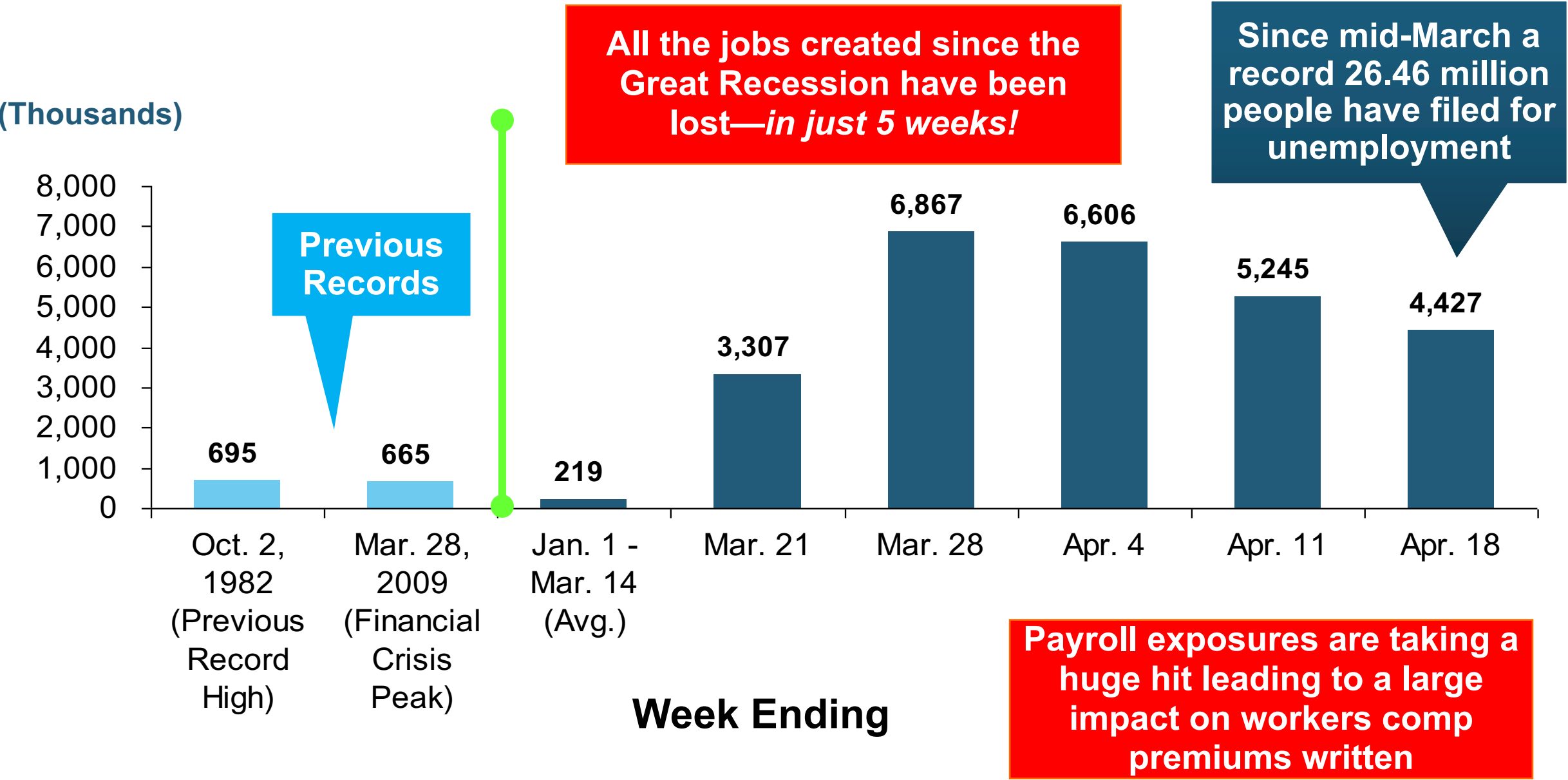


As GDP growth turns negative in 2020, DWP will decelerate sharply and likely turn negative in some lines. Rebates, discounts and rate decreases will amplify the deceleration.

Direct written premiums track nominal GDP fairly tightly over time, suggesting the P/C insurance industry’s growth prospects inextricably linked to economic performance.

Sources: SNL Financial; U.S. Commerce Dept., Bureau of Economic Analysis; ISO; I.I.I.; Risk and Uncertainty Management Center, University of South Carolina.

Initial Claims for Unemployment: COVID Surge Shatters Records



Source: US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

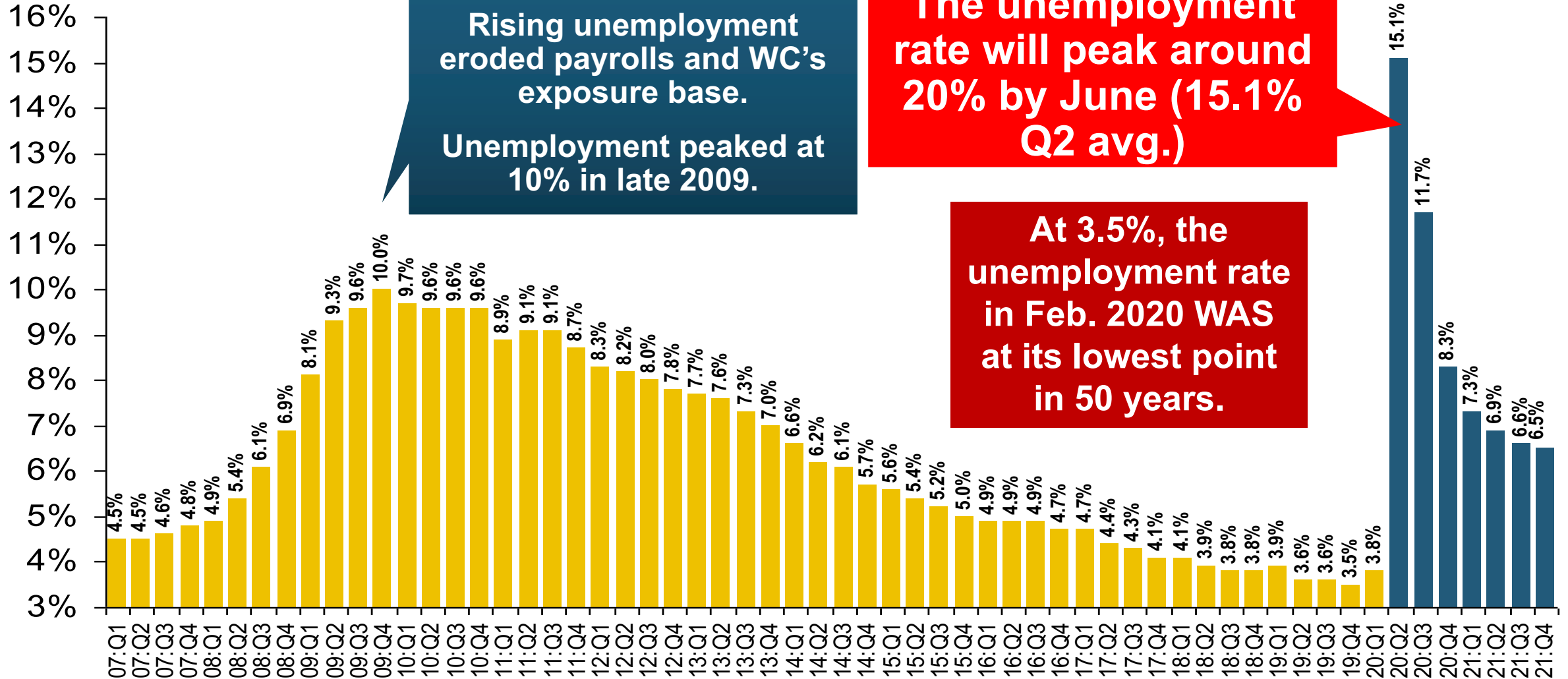
US Unemployment Rate Forecast: 2007:Q1–2021:Q4

Great Recession

Rising unemployment eroded payrolls and WC's exposure base.
Unemployment peaked at 10% in late 2009.

The unemployment rate will peak around 20% by June (15.1% Q2 avg.)

At 3.5%, the unemployment rate in Feb. 2020 WAS at its lowest point in 50 years.

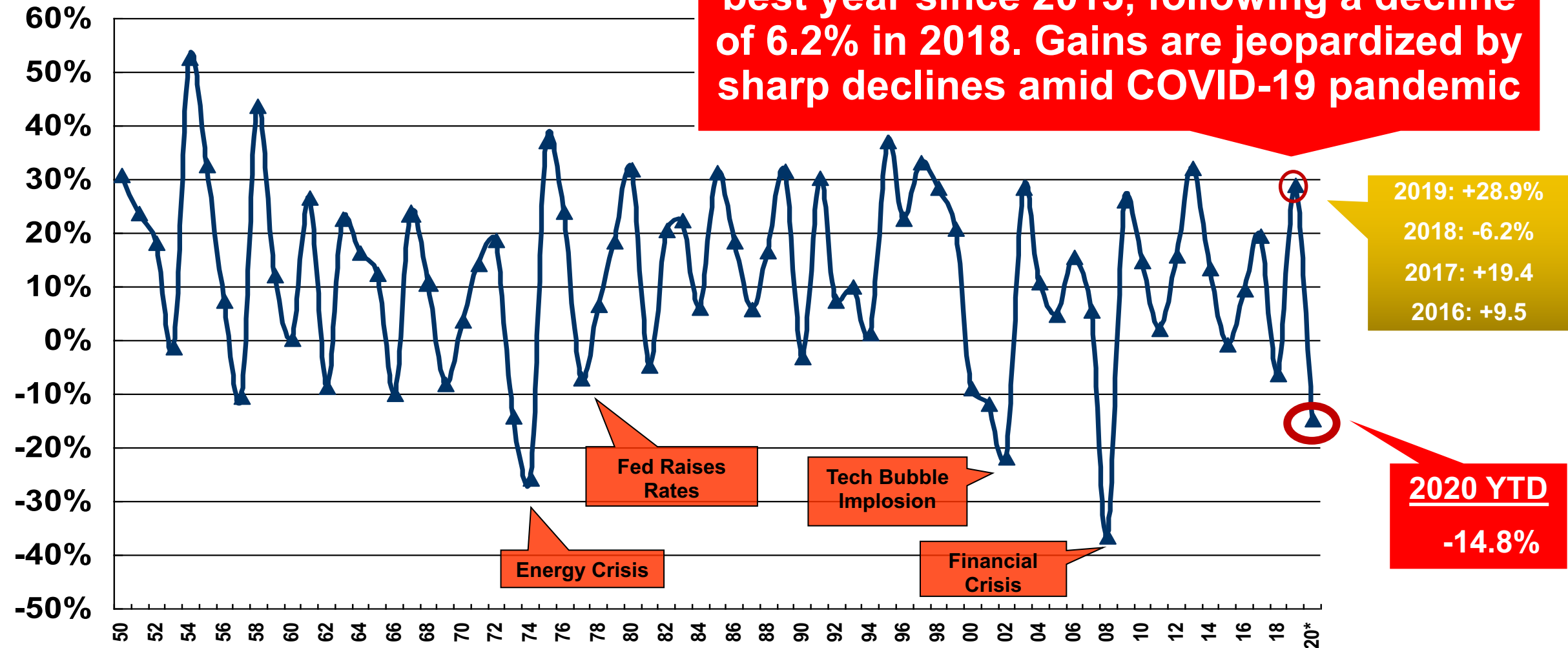


■ = actual; ■ = forecasts

Sources: US Bureau of Labor Statistics; Wells Fargo Securities (4/20 edition); Risk and Uncertainty Management Center, University of South Carolina.

S&P 500 Index Returns, 1950–2020*

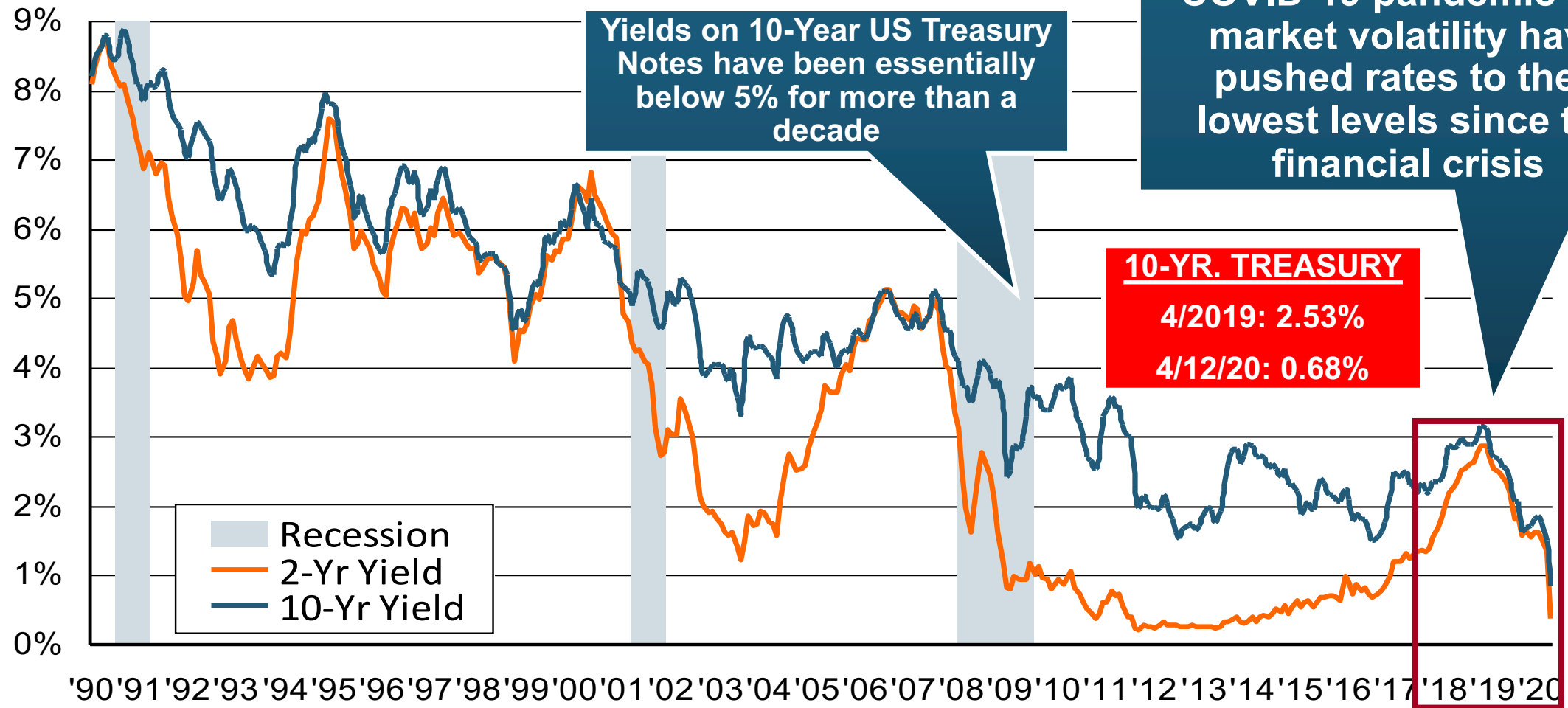
Annual Return



*Through April 15, 2020.

Source: NYU Stern School of Business: http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html; Center for Risk and Uncertainty Management, University of South Carolina

US Treasury Security Yields: A Long Downward Trend, 1990–2020*

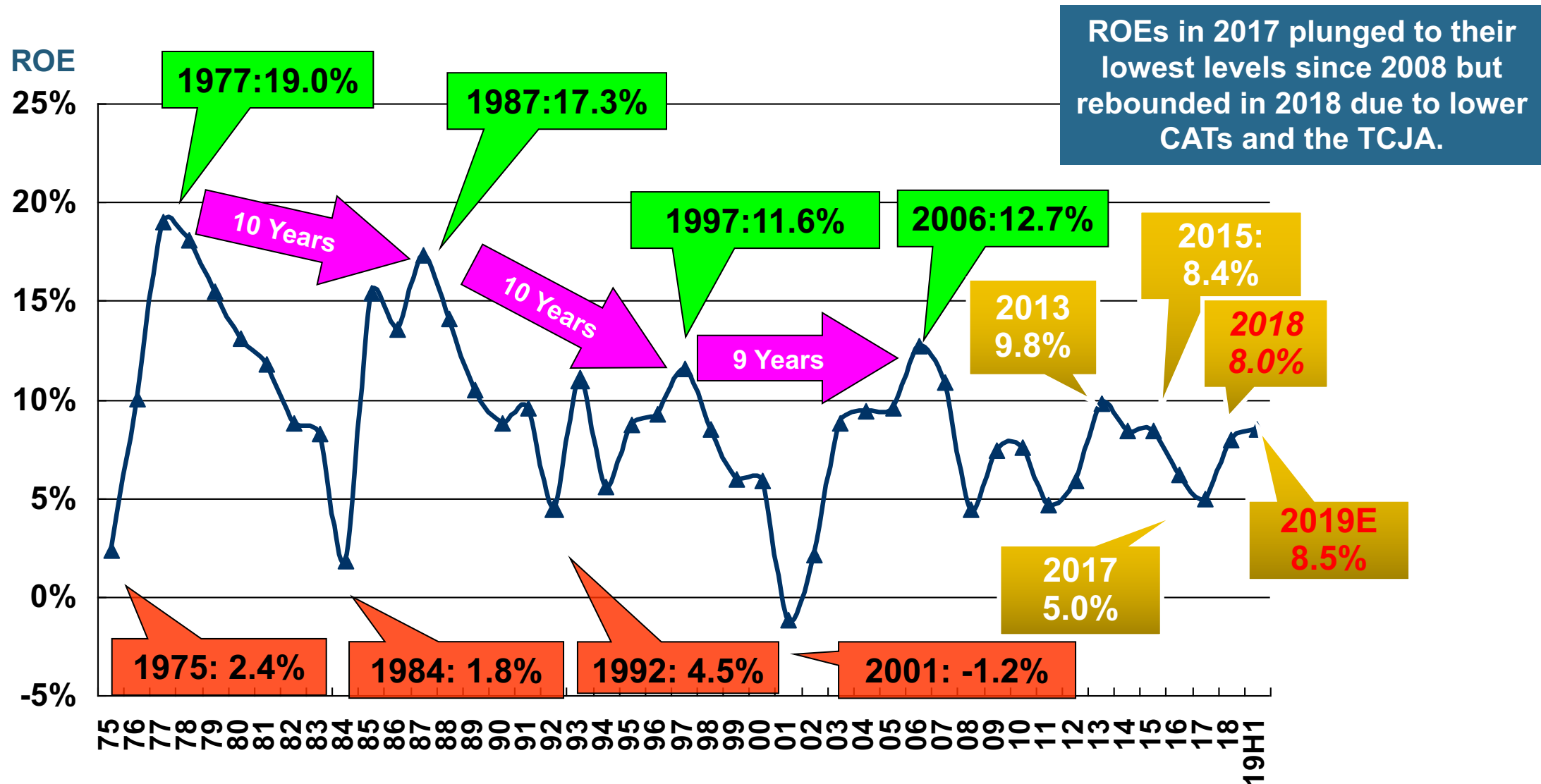


Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, constant maturity, nominal rates, through March 2020.

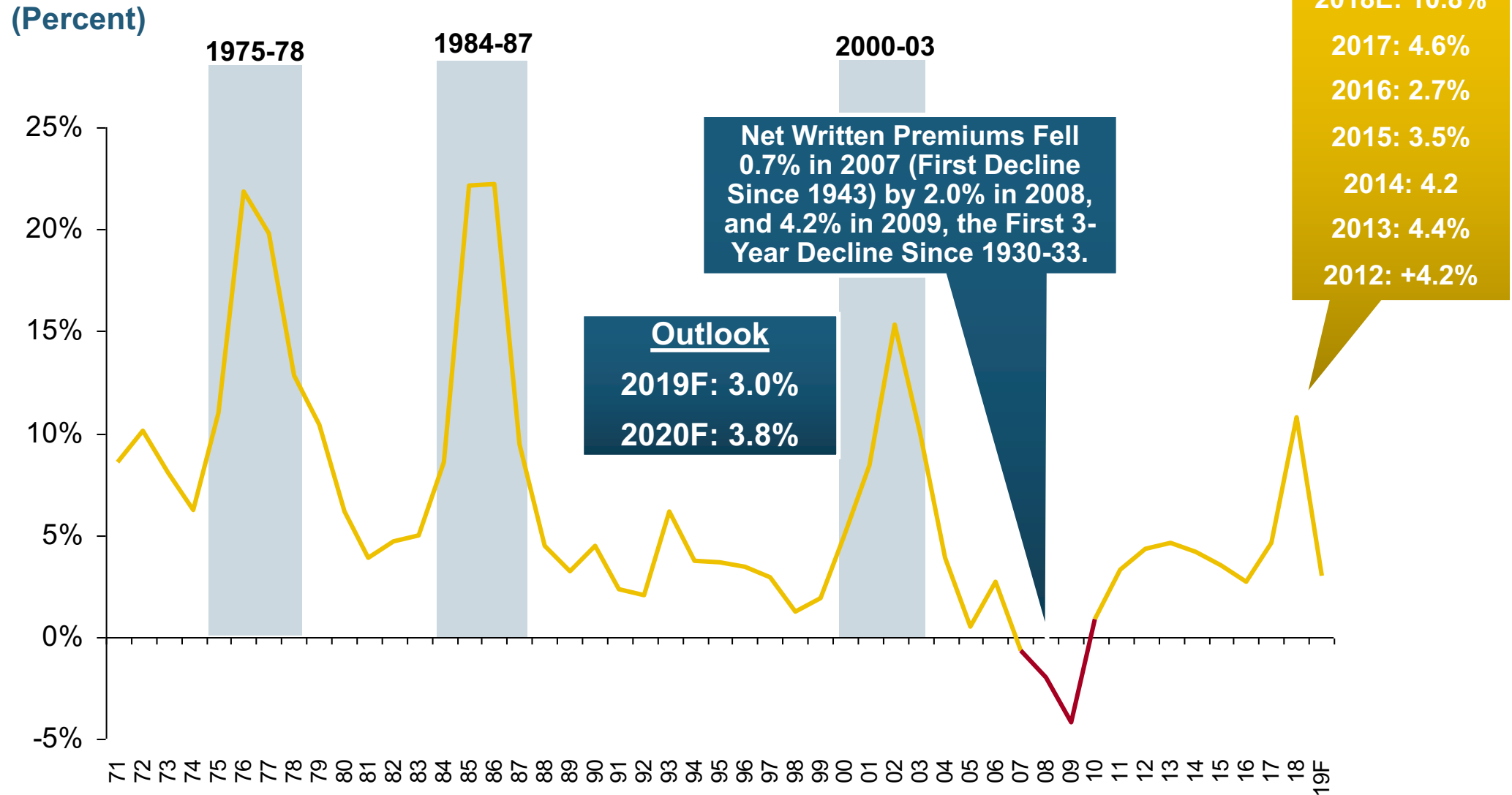
Sources: Federal Reserve Bank at <http://www.federalreserve.gov/releases/h15/data.htm>. National Bureau of Economic Research (recession dates); Insurance Information Institute.

Profitability Peaks & Troughs in P/C Insurance Industry ROE, 1975 – 2019E



Profitability = P/C insurer ROEs. 2011-18 figures are estimates based on ROAS data. Note: Data for 2008-2014 exclude mortgage and financial guaranty insurers. Source: NAIC, ISO, A.M. Best, USC RUM Center.

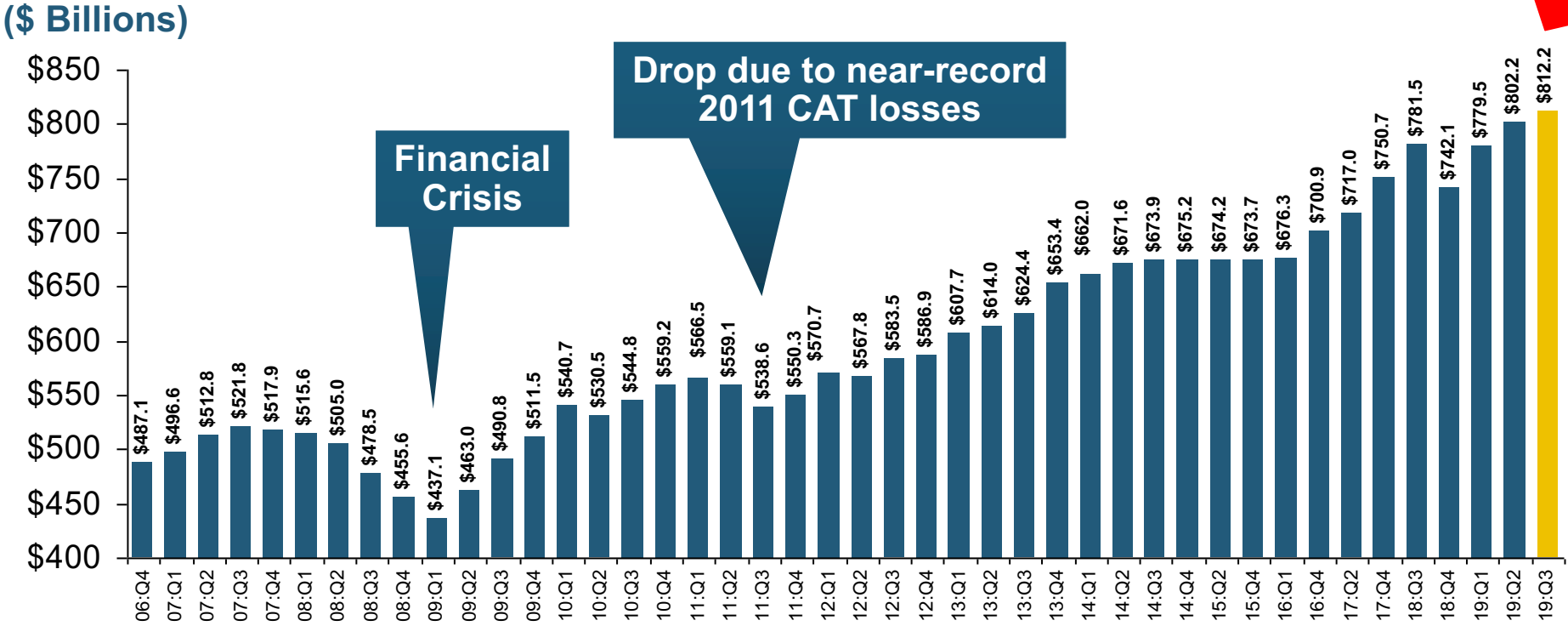
Net Premium Growth (All P/C Lines): Annual Change, 1971—2019F



*Figure is actual 2018:9M vs. 2017:9M change adjusted for affects of the TCJA of 2017. Shaded areas denote “hard market” periods
 Sources: A.M. Best (1971-2013, 2020F), ISO (2014-19); Risk & Uncertainty Management Center, Univ. of South Carolina estimate for 2019.

Policyholder Surplus (Capacity), 2006:Q4–2019:Q3

The P/C insurance industry entered the COVID-19 pandemic from a position strength

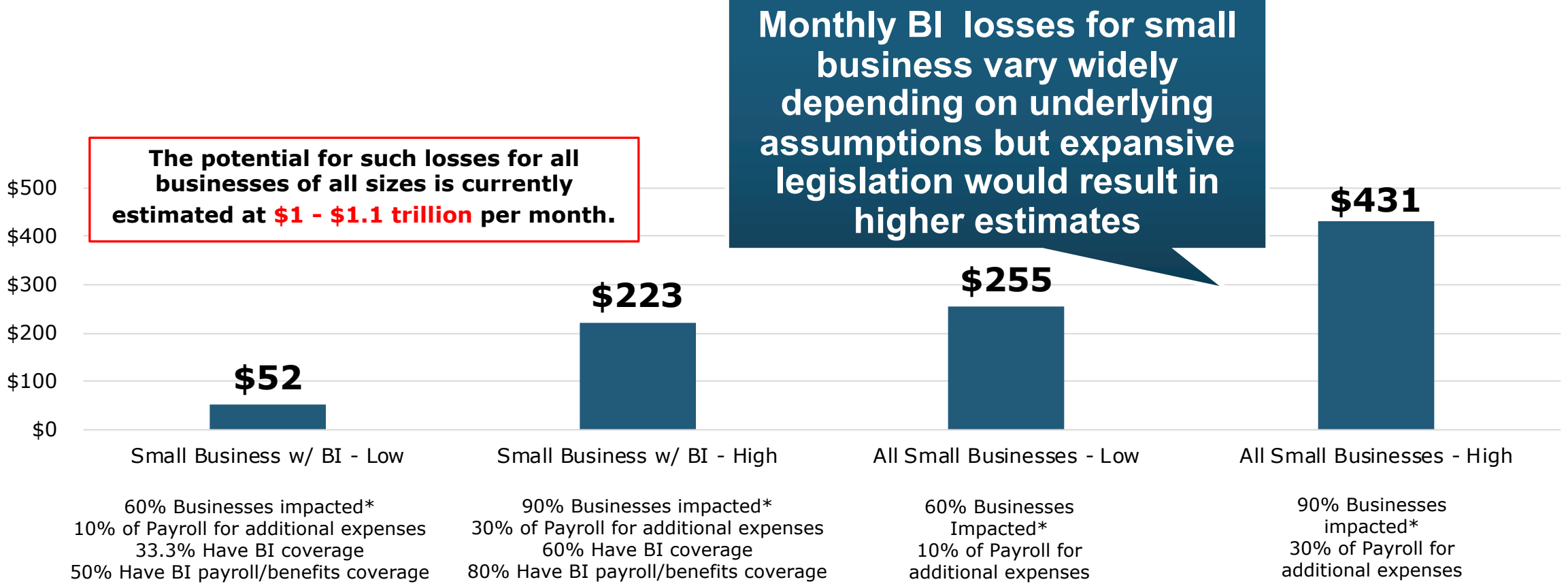


2010:Q1 data includes \$22.5B of paid-in capital from a holding company parent for one insurer’s investment in a non-insurance business.

Policyholder Surplus is the industry’s financial cushion against large insured events, periods of economic stress and financial market volatility. It is also a source of capital to underwrite new risks.

Sources: ISO, A.M .Best; 2019E from Center for Risk and Uncertainty Management, University of South Carolina, based on actual \$812.2B through 9/30/2019.

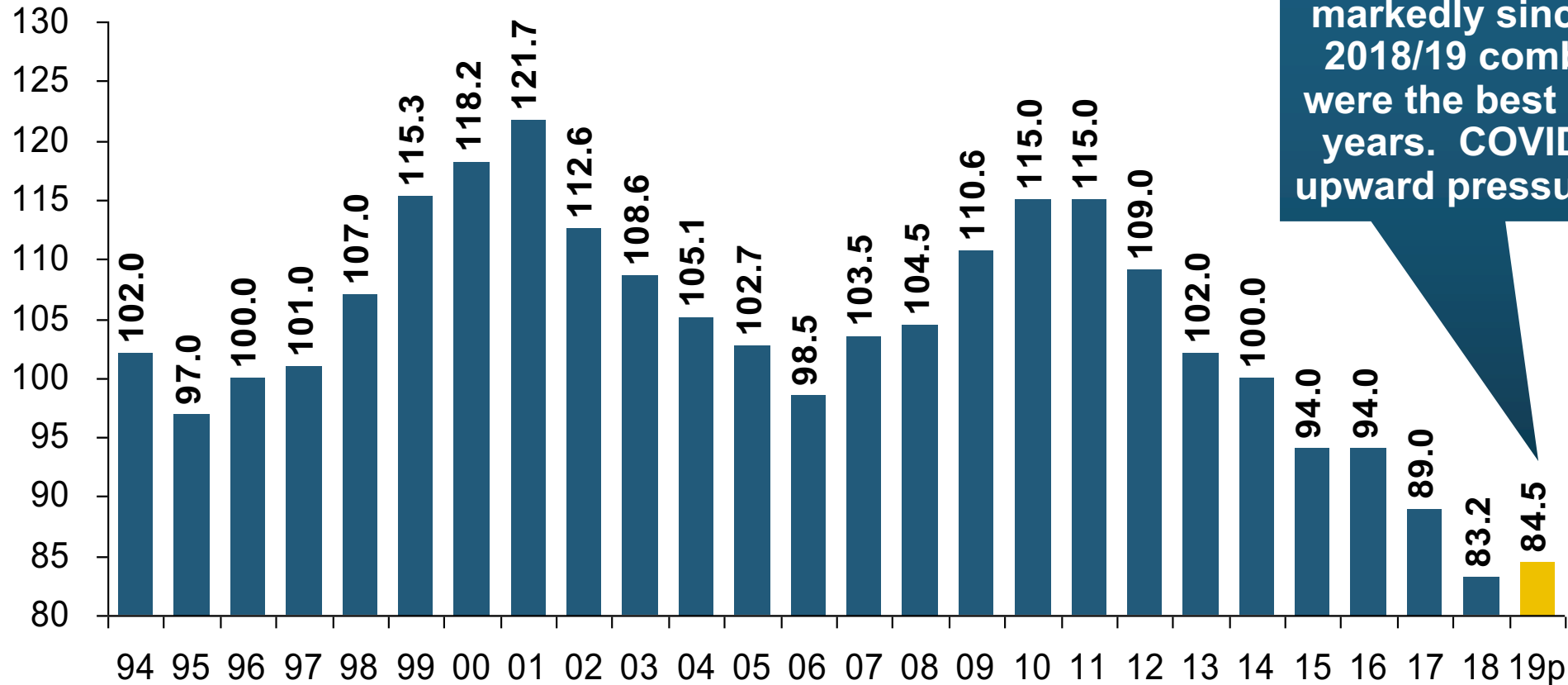
Estimated Monthly U.S. Business Interruption Coronavirus Losses for Small Business—Potential Range (<100 Employees; \$Bill)



* Businesses impacted: Proportion of businesses completely or substantially closed related to coronavirus
 Assumptions: Losses if standard insurance policy exclusions for viruses/pandemics are voided and physical loss/damage requirement is stricken; three main coverages - profit lost, payroll/benefits, additional expenses; average annual \$2m revenue and 7% profit margin; non-wage benefits of small businesses are

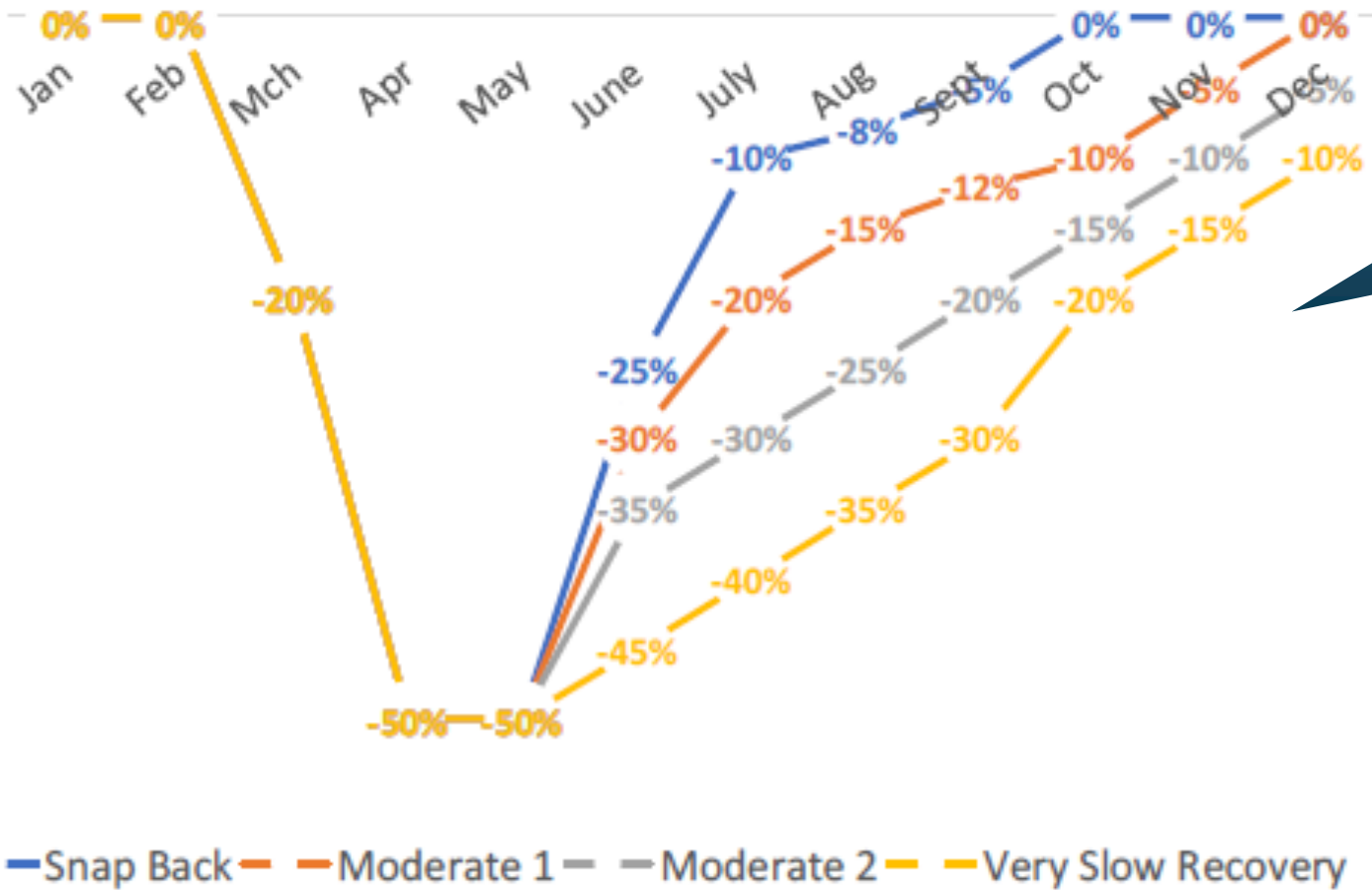
Legislation in several states would trample over contracts and destroy the state's insurance markets

Workers Compensation Combined Ratio: 1994–2019P



Workers Comp's Record Underwriting Performance Will Come to an Abrupt End in 2020 as COVID-19 Claims (including Presumptions) Take Their Toll

Personal Auto and Commercial Auto: Much Depends on the Pace of Recovery, Total Magnitude of Rebates



There is much uncertainty related to the pace of recovery, which will directly influence claim frequency

The economic fallout from COVID-19 will cause small business sentiment to plunge causing hiring and investment to move sharply negative

Outlook: Small business sentiment will continue to fall sharply with significant negative repercussions for p/c insurers

Source: Assured Research, 4/20/20..



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*Thank you for your time
and your attention!*

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