COVID-19: A Prognosis of the Pandemic's Implications Based on Lessons Learned Thus Far

P/C Insurance Industry Focus

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Robert P. Hartwig, PhD, CPCU
Clinical Associate Professor of Finance, Risk Management & Insurance
Darla Moore School of Business ♦ University of South Carolina
Robert.Hartwig@moore.sc.edu ♦ 803.777.6782

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P/C Insurance Industry: Financial Overview Amid the COVID-19 Pandemic

The P/C Insurance Industry Entered the COVID-19 Pandemic from a Position of Financial Strength

Industry Remains Strong

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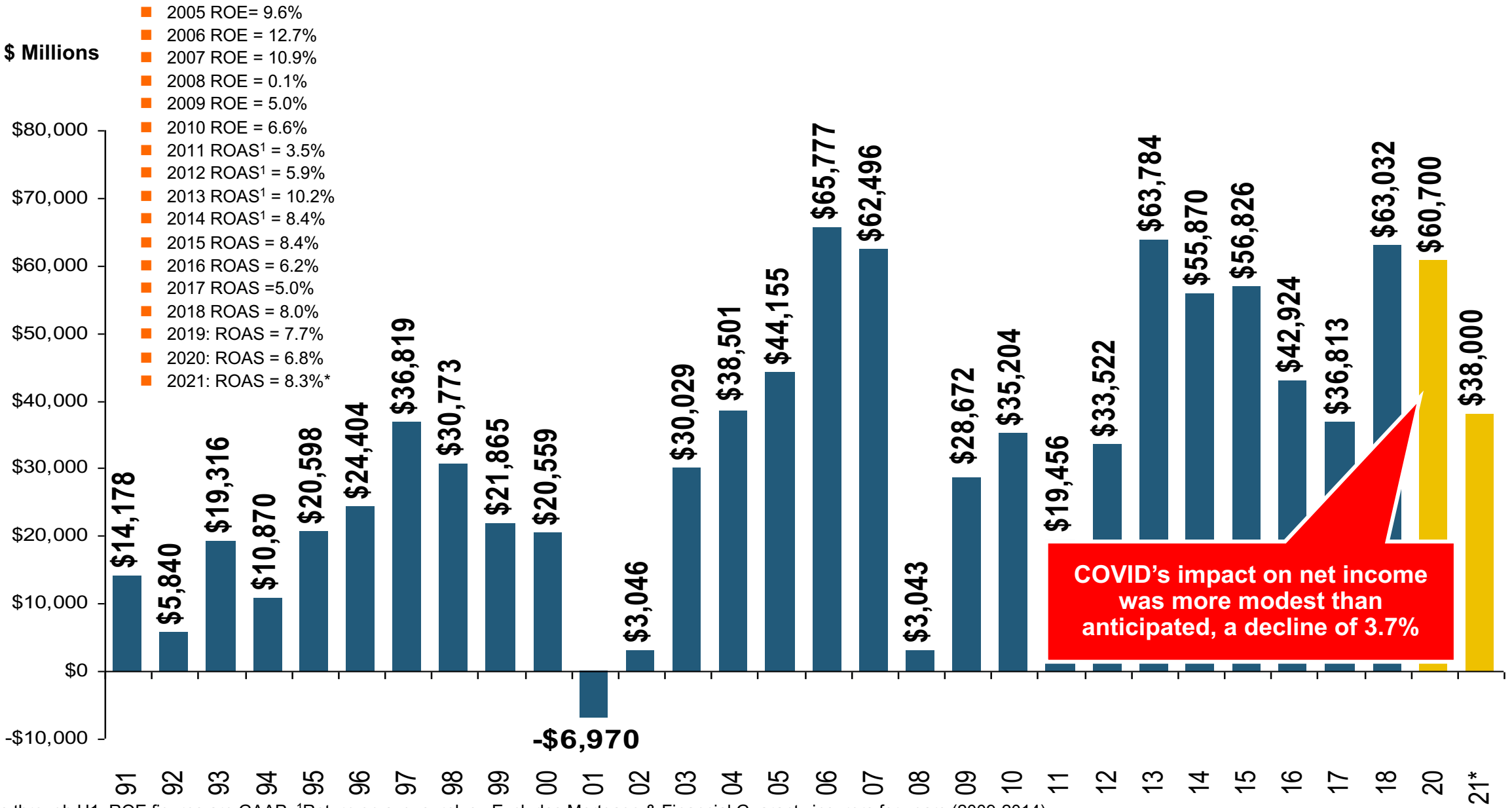
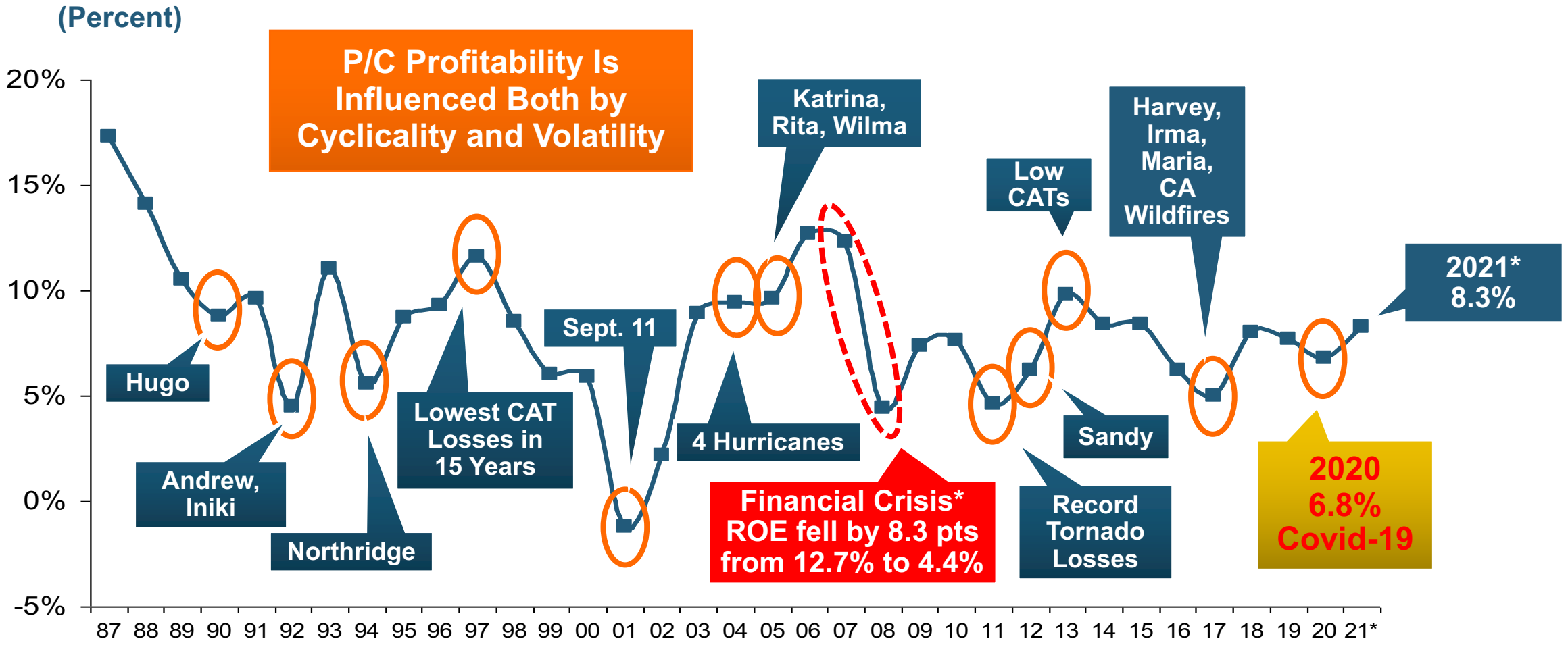
P/C Industry Net Income After Taxes, 1991–2021:H1*



*2021 is through H1. ROE figures are GAAP; [1]Return on avg. surplus. Excludes Mortgage & Financial Guaranty insurers for years (2009-2014).
Sources: A.M. Best, ISO, APCIA.

ROE: Property/Casualty Insurance by Major Event, 1987–2021:H1*



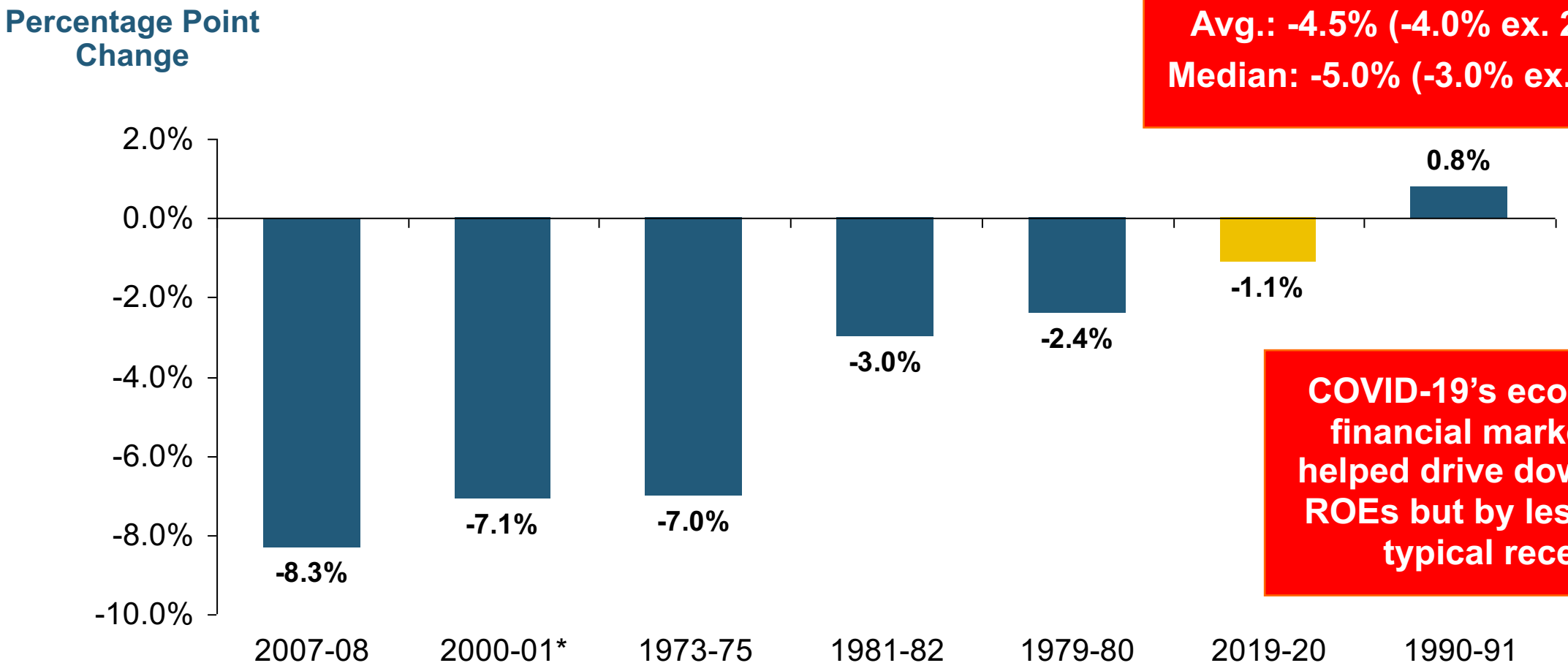
*Excludes Mortgage & Financial Guarantee in 2008 – 2014. 2021 figure is H1 actual of 8.3%.
Sources: ISO, *Fortune,* APCIA; USC RUM Center.

Percentage Point Change in P/C ROEs During Past Economic Downturns: 1971 - Present

Change in P/C ROE During Past Economic Downturns (pre-Covid)

Avg.: -4.5% (-4.0% ex. 2000-01)

Median: -5.0% (-3.0% ex. 2000-01)



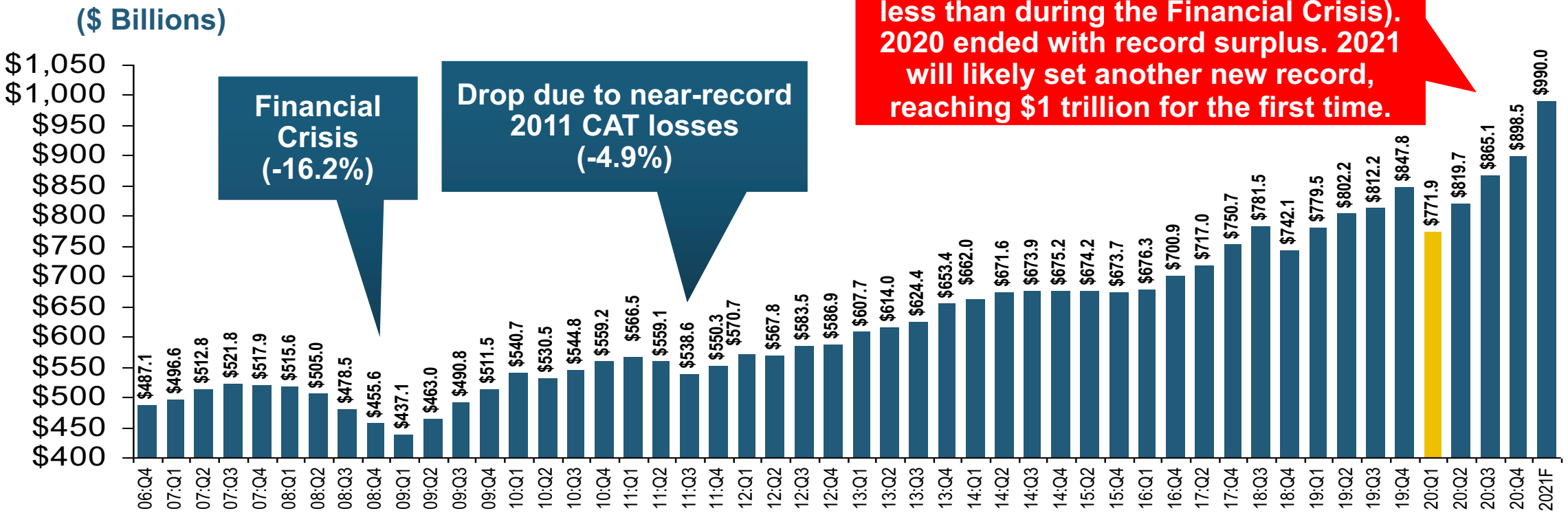
COVID-19's economic and financial market impact helped drive down industry ROEs but by less than in a typical recession

*2000-2001 decline impacted by 9/11 losses.

Source: USC Center for Risk and Uncertainty Management.

Policyholder Surplus (Capacity), 2006:Q4–2020:Q4E and 2021F*

The P/C insurance industry entered the COVID-19 pandemic from a position of strength and was able to withstand the 9.0% surplus decline in Q1 2020 (far less than during the Financial Crisis). 2020 ended with record surplus. 2021 will likely set another new record, reaching $1 trillion for the first time.



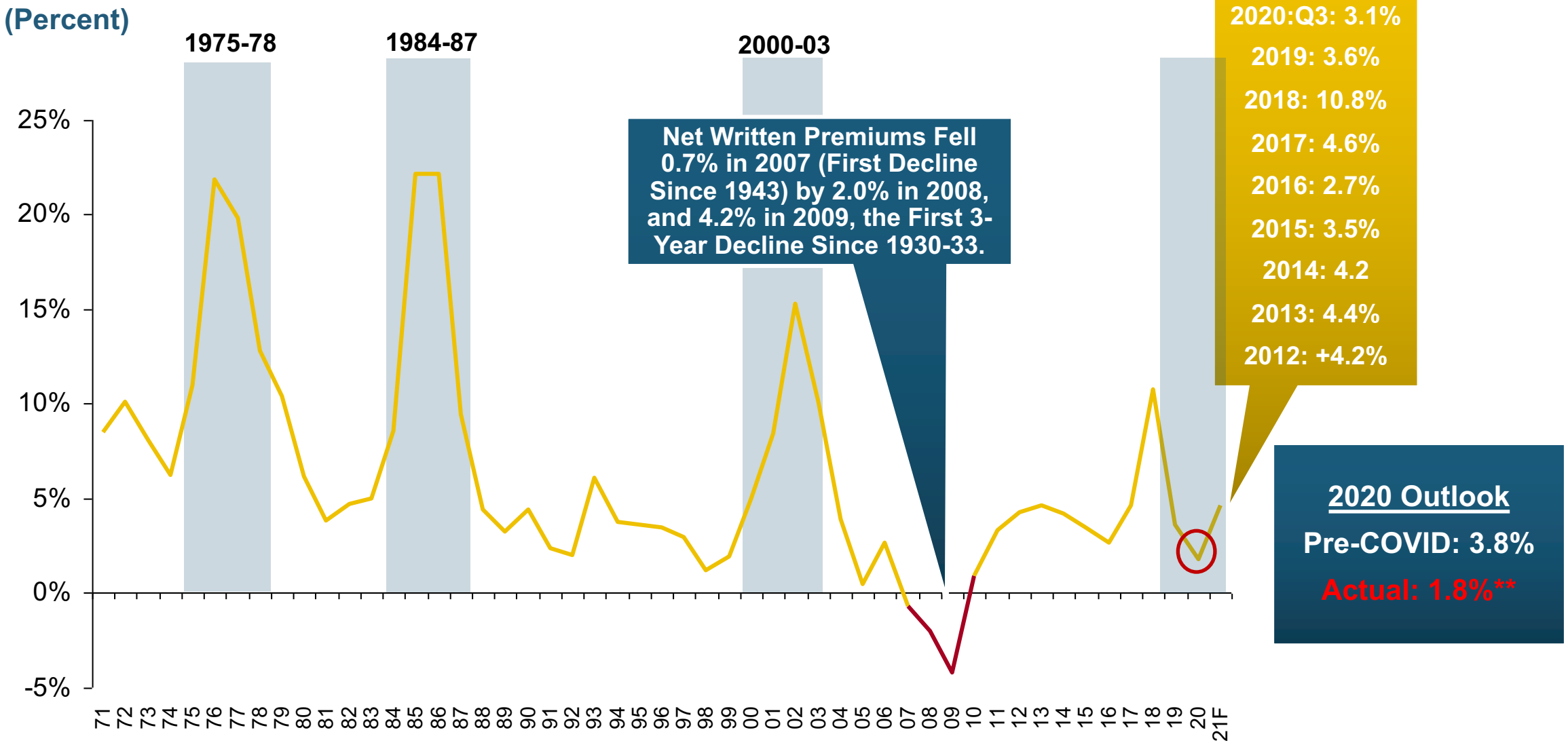
2010: Q1 data includes $22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business.

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.

*2021 figures is actual through H1.

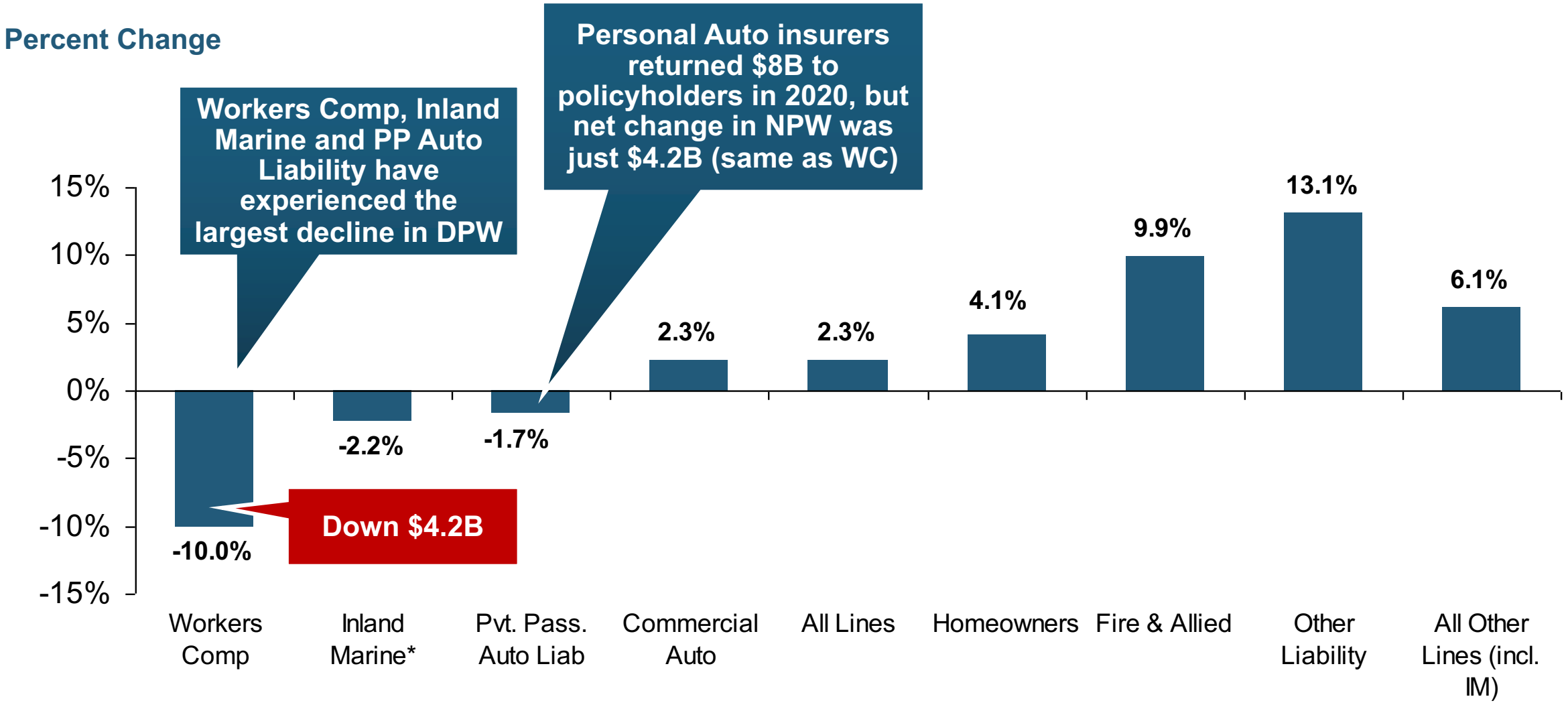
Sources: ISO, A.M .Best; Risk and Uncertainty Management Center, University of South Carolina.

Net Premium Growth (All P/C Lines): Annual Change, 1971–2021F



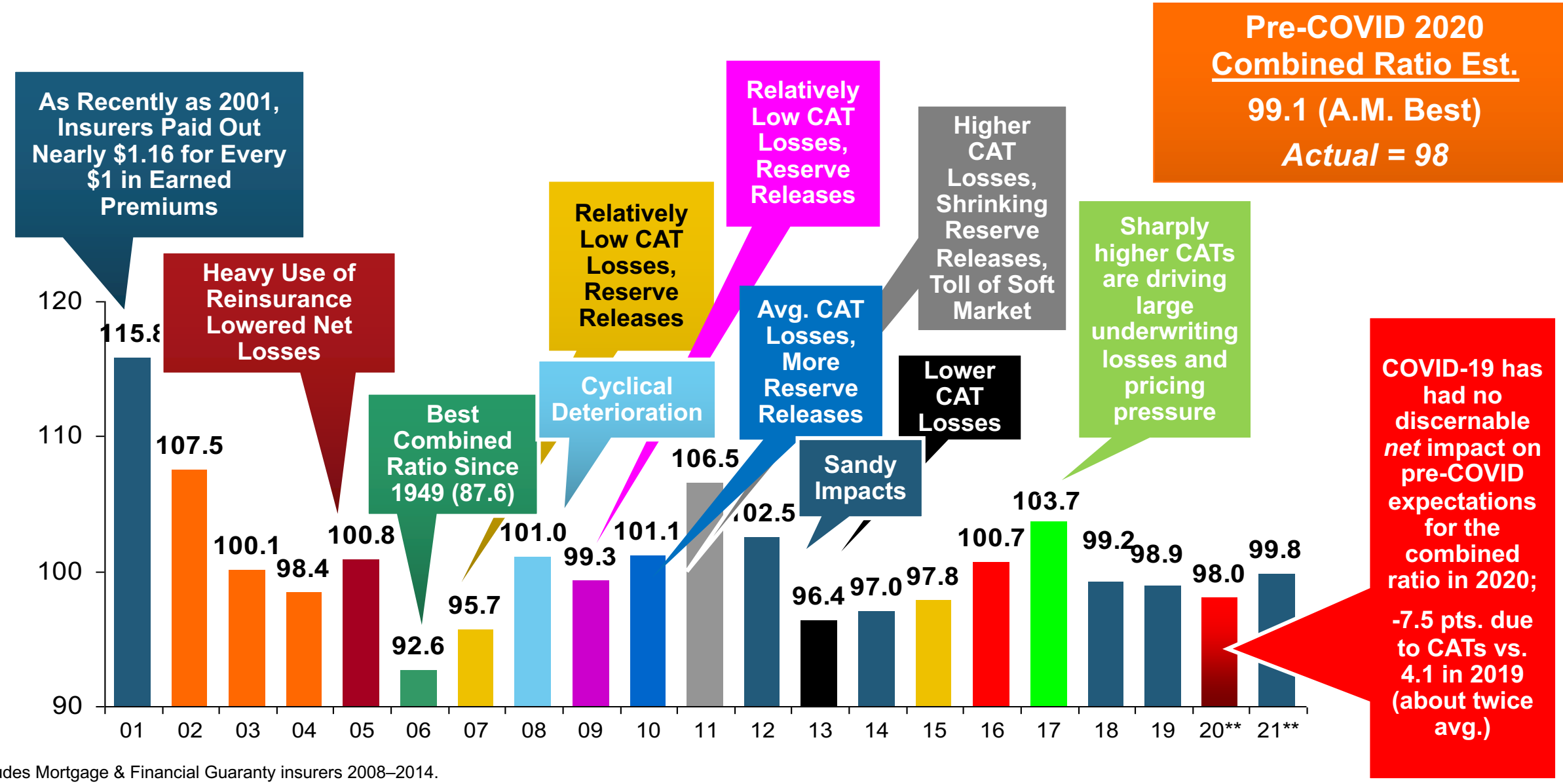
* **Pre/Post-COVID-19 forecast from A.M. Best Review & Preview (Feb. 2020, 2021). NOTE: Shaded areas denote "hard market" periods
Sources: A.M. Best (1971-2013, 2021F), ISO (2014-19); Risk & Uncertainty Management Center, Univ. of South Carolina

COVID's Impact on NPW Growth for Largest P/C Lines: 2020



*Inland Marine figure is DPW though first 9-months of 2020 (A.M. Best).
Sources: NAIC Annual Statement data, NCCI; Risk and Uncertainty Management Center, Univ. of South Carolina.

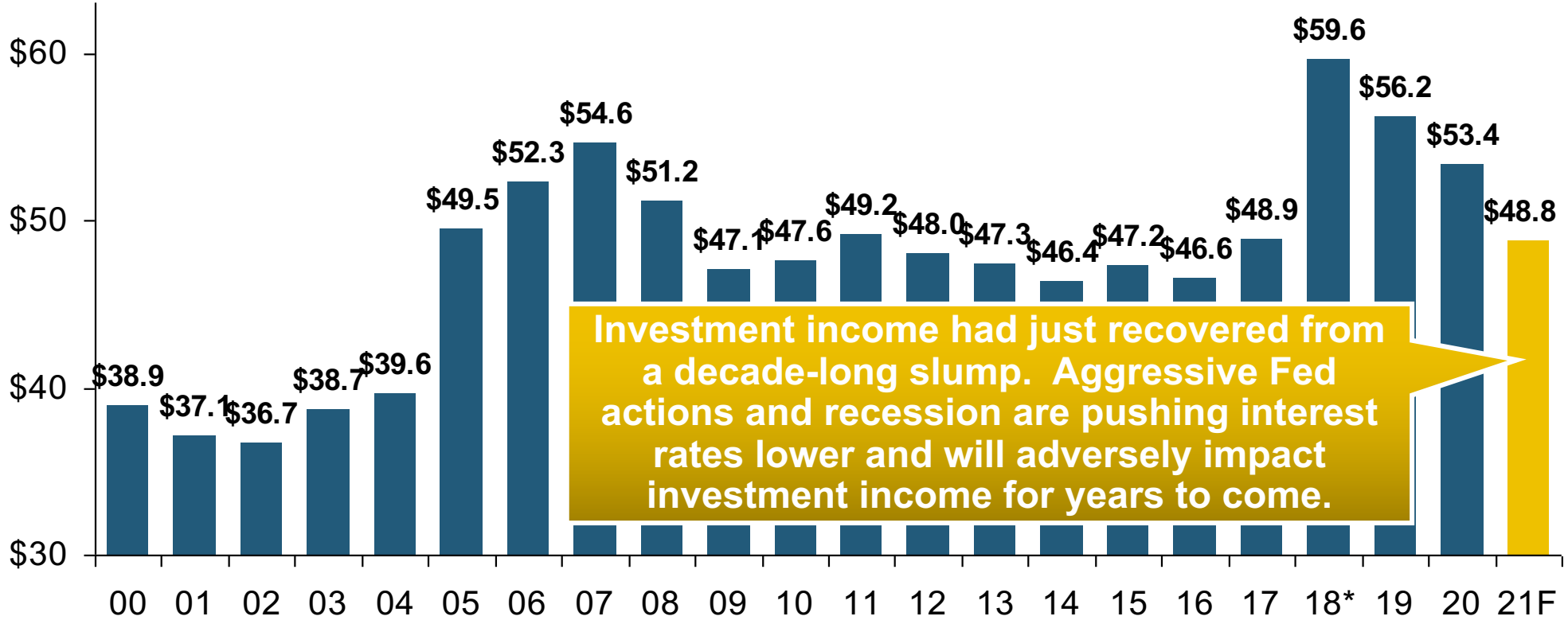
P/C Insurance Industry Combined Ratio, 2001–2021F**



*Excludes Mortgage & Financial Guaranty insurers 2008–2014.
**2021 forecast from A.M. Best Review and Preview (Feb. 2021). First-half actual = 96.9.
Sources: A.M. Best, ISO (2014-2019).

Property/Casualty Insurance Industry Investment Income: 2000–2021F

($ Billions)

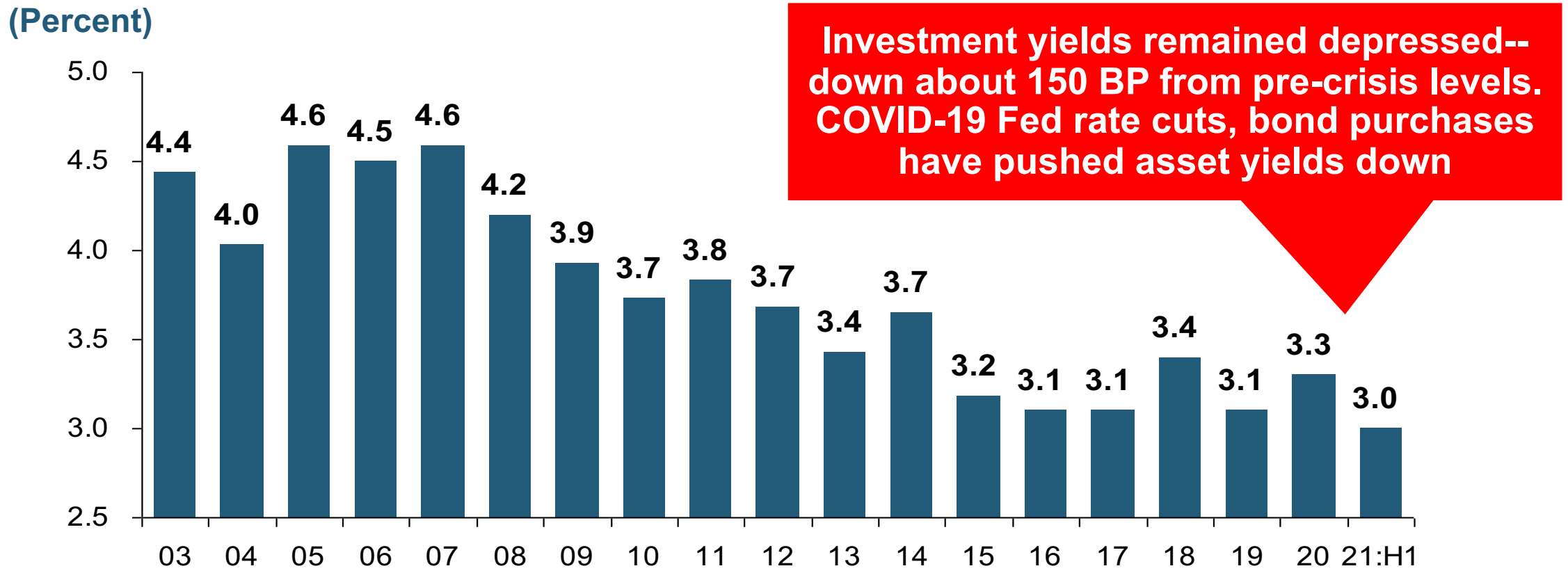


Due to persistently low interest rates, investment income remained below pre-crisis levels for a decade. Lower interest rates post-COVID will drive investment income down once again.

*2021 figure is YTD Q1 actual figure of $12.189B. 2018-19 figures are distorted by provisions of the TCJA of 2017. Increase reflects such items as dividends from foreign subsidiaries.

[1] Investment gains consist primarily of interest and stock dividends. Sources: ISO; University of South Carolina, Center for Risk and Uncertainty Management.

Net Investment Yield on Property/Casualty Insurance Invested Assets, 2007–2021:H1



Investment yields remained depressed--down about 150 BP from pre-crisis levels. COVID-19 Fed rate cuts, bond purchases have pushed asset yields down

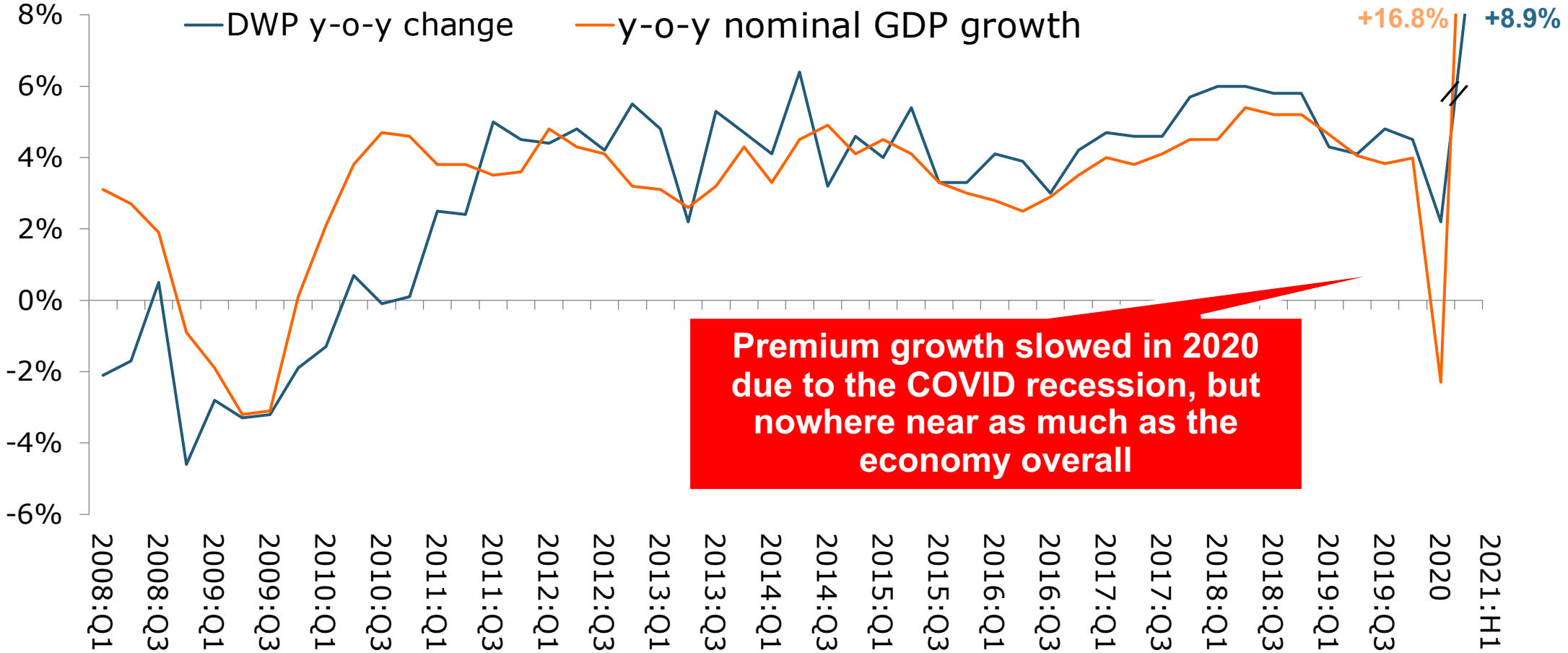
The yield on invested assets remains low relative to pre-crisis yields. Fed rate increases beginning in late 2015 through 2018 halted the slide in yields, but rate cuts in 2019/2020 have adversely impacted recent gains

Average: 1960-2019 = 4.9%
Low: 2.8% (1961)
High: 8.2% (1984/85)

Sources: NAIC data, sourced from S&P Global Market Intelligence; 2017-19 figures are from ISO. 2020-21 data from the APCIA. Risk and Uncertainty Management Center, Univ. of South Carolina.

The Economy Drives P/C Insurance Industry Premiums: 2006:Q1–2021:H1*

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



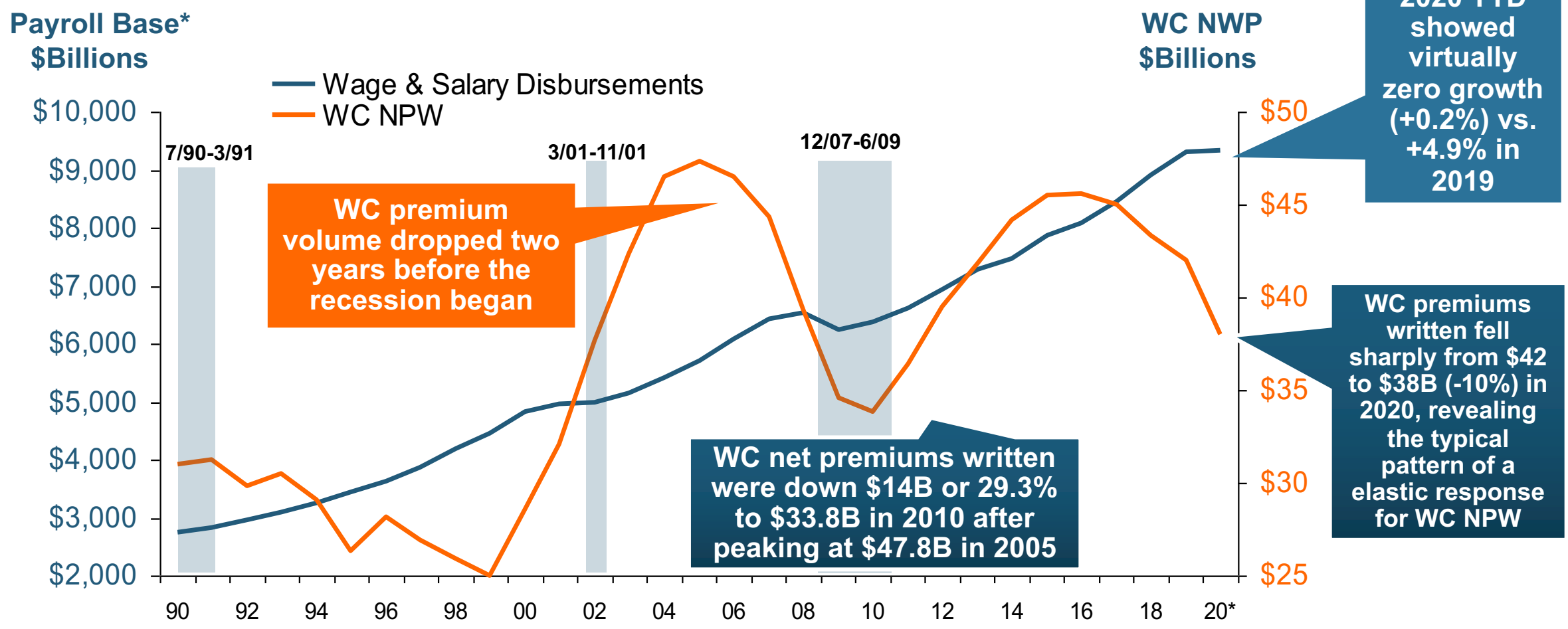
Premium growth slowed in 2020 due to the COVID recession, but nowhere near as much as the economy overall

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

*2020 figure is annual.

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

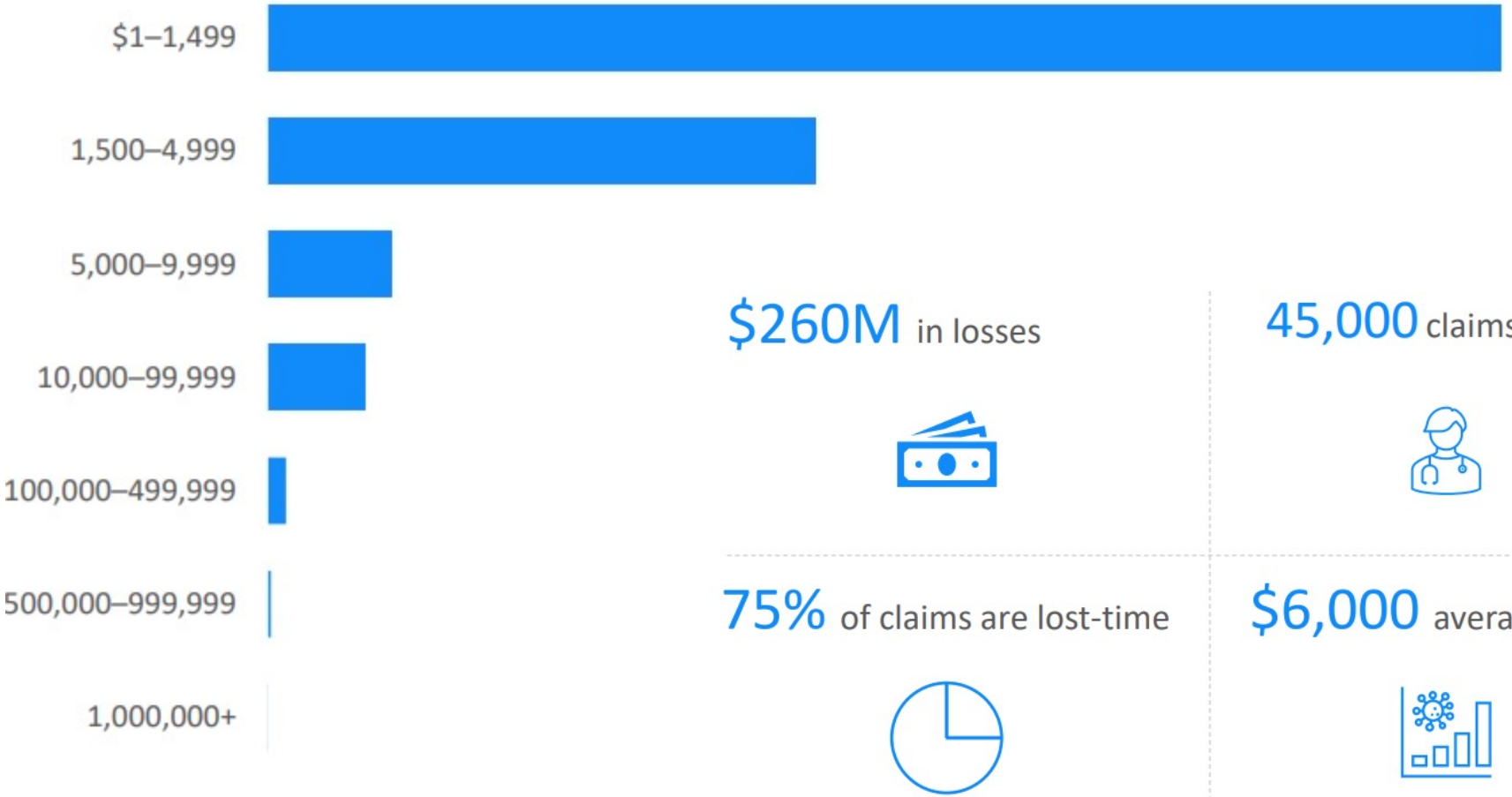
Payroll vs. Workers Comp Net Written Premiums, 1990–2020*



Continued payroll growth will benefit WC exposure growth, but falling rates will adversely impact growth in Net Written Premiums

*Private employment as of Dec. 2020; Shaded areas indicate recessions. WC premiums are from NCCI through 2020. Private carriers only.
Sources: NBER (recessions); Federal Reserve Bank of St. Louis at http://research.stlouisfed.org/fred2/series/WASCUR;NCCI.

COVID WC Claims: NCCI Data Should Modest Impacts



$260M in losses

45,000 claims

75% of claims are lost-time

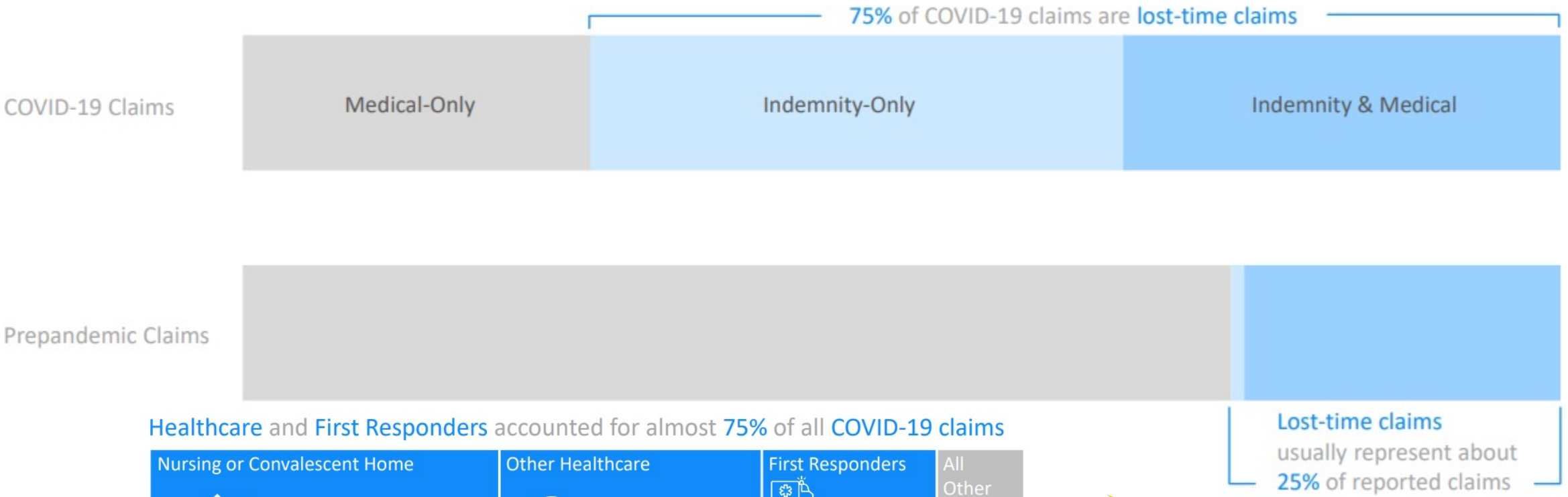
$6,000 average severity

NCCI estimates total COVID WC costs through the end of the pandemic at ~$500M for the 38 states in which they serve. For all 50 states plus self-insureds, the number is likely closer to $1 billion or more

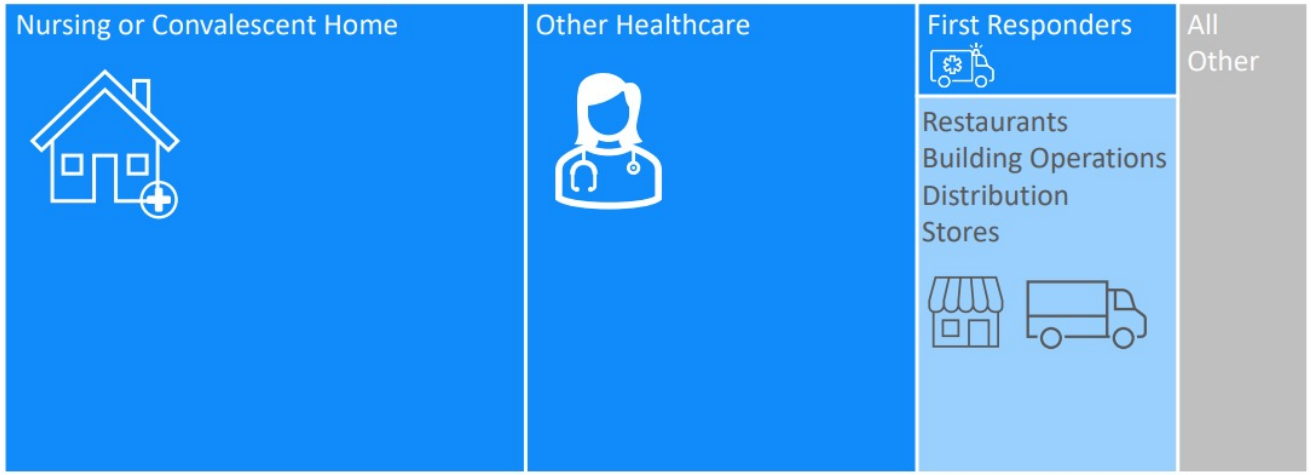
Most claims were low severity, with average severity = $6,000 in 2020

Source: NCCI Financial Call through 12/31/20. Indemnity and Medical Paid+Case Losses

COVID WC Claim Distribution



Healthcare and First Responders accounted for almost 75% of all COVID-19 claims



Most claims WC COVID claims were lost-time and originating with healthcare workers and first responsers

Source: NCCI Financial Call through 12/31/20. Indemnity and Medical Paid+Case Losses

Inflationary Pressures Impacting Insurers

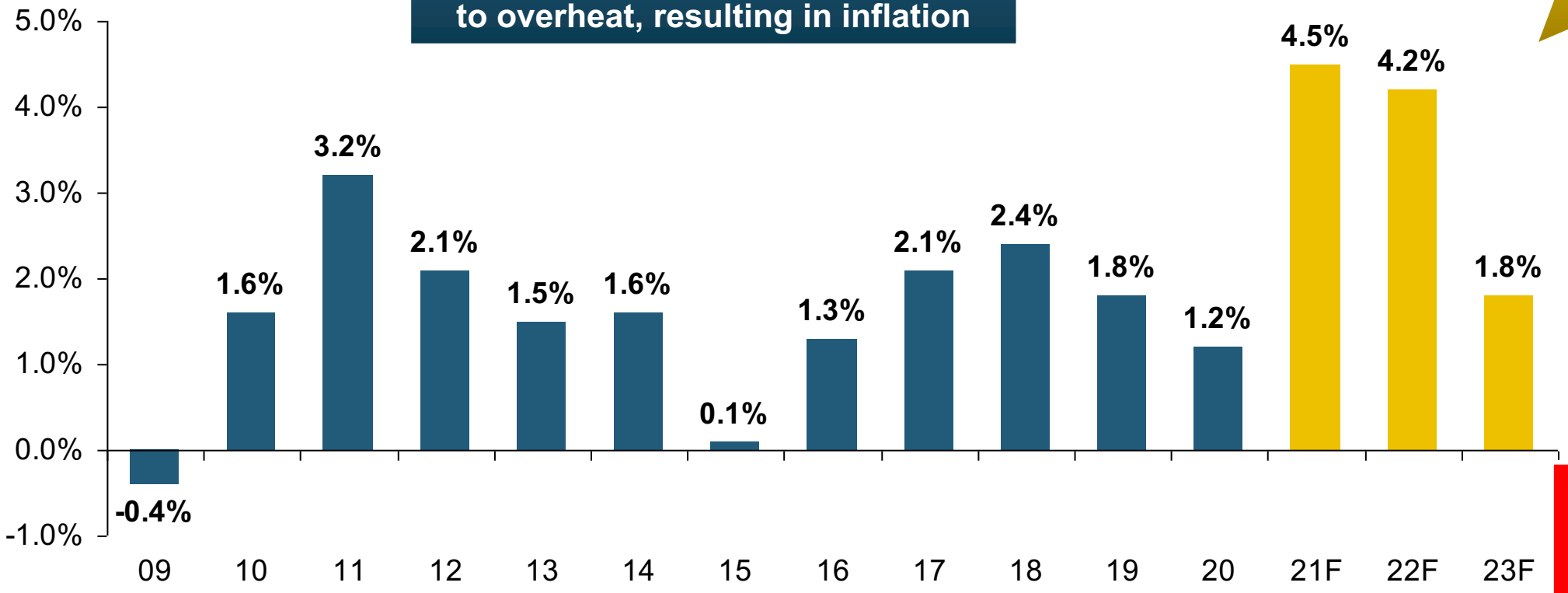
Claim Inflation Is Here Today

Rate and Reserve Adequacy Are Concerns if Current Inflationary Trends Persist

U.S. Inflation Rate: 2009-2023F*

There's a great deal of concern that trillions of dollars of stimulus plus the post-COVID recovery, supply chain disruptions and labor shortages are causing the economy to overheat, resulting in inflation

Inflation accelerated sharply in 2021—though should decelerate in 2022 and beyond—making the case for a Fed rate hike more remote (Fed is looking to keep long-run inflation rate ~2%)



Insurer Concerns About Inflation

Rate Inadequacy

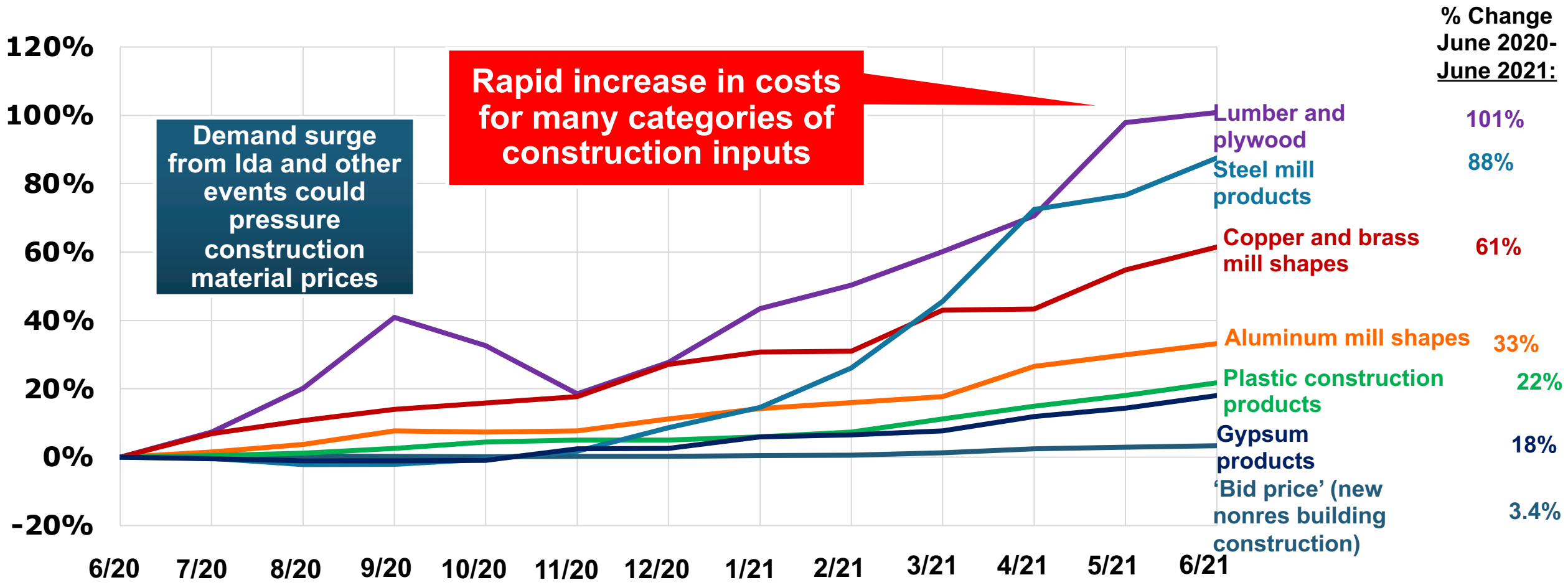
Reserve Inadequacy

*Annual change in Consumer Price Index for All Urban Consumers (CPI-U).

Source: U.S. Bureau of Labor Statistics; Wells Fargo Securities (10/21); USC Center for Risk and Uncertainty Management.

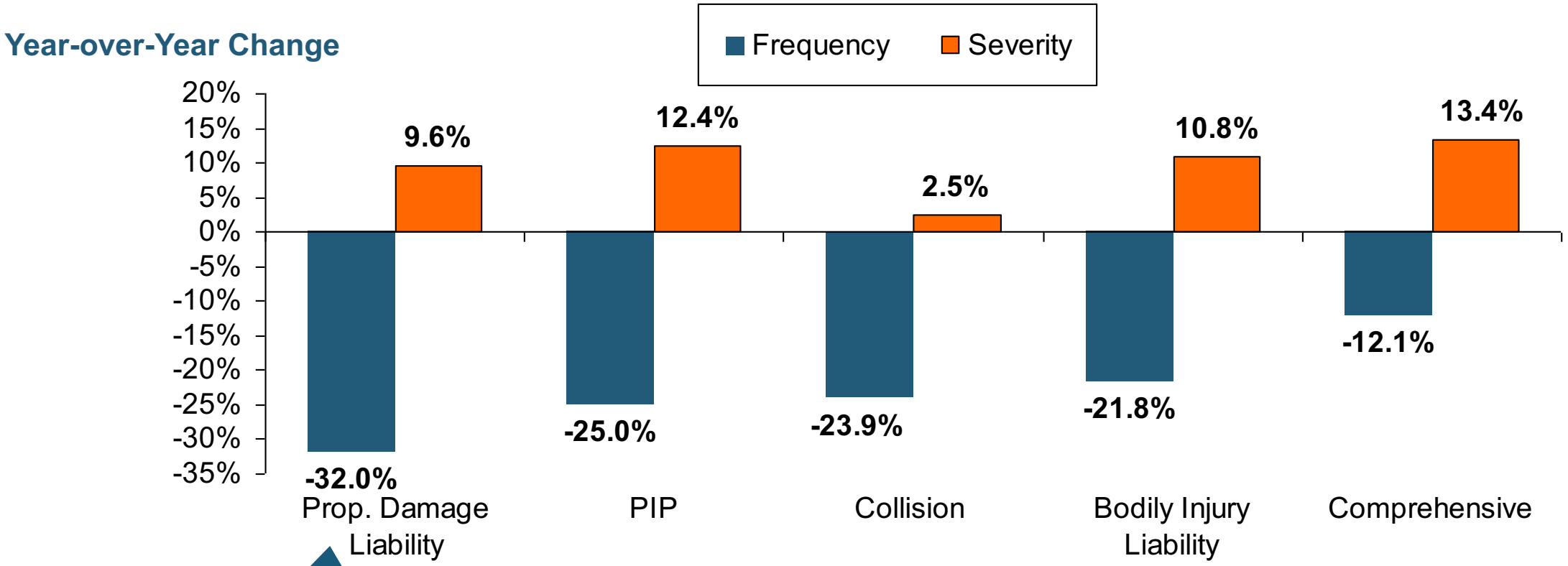
PPIs for Construction and Selected Inputs

Cumulative change in PPIs, June 2020 -June 2021 (not seasonally adj.)



Source: Associated General Contractors from Bureau of Labor Statistics, producer price indexes, www.bls.gov/ppi

US Auto Claim Frequency Trends Significantly Impacted by COVID but Severities Rise: 12 Months Ending Q1 2021



PD Liability claims plunged by nearly 1/3

Auto Claims Fell Sharply During the Pandemic, though Claim Severities Rose Materially

Source: ISO/PCI *Fast Track* data for Q1 2021; Risk and Uncertainty Management Center, Univ. of South Carolina.

COVID-19 Litigation Update

Court Decisions Have Largely Favored Insurers, but Concerns Remain

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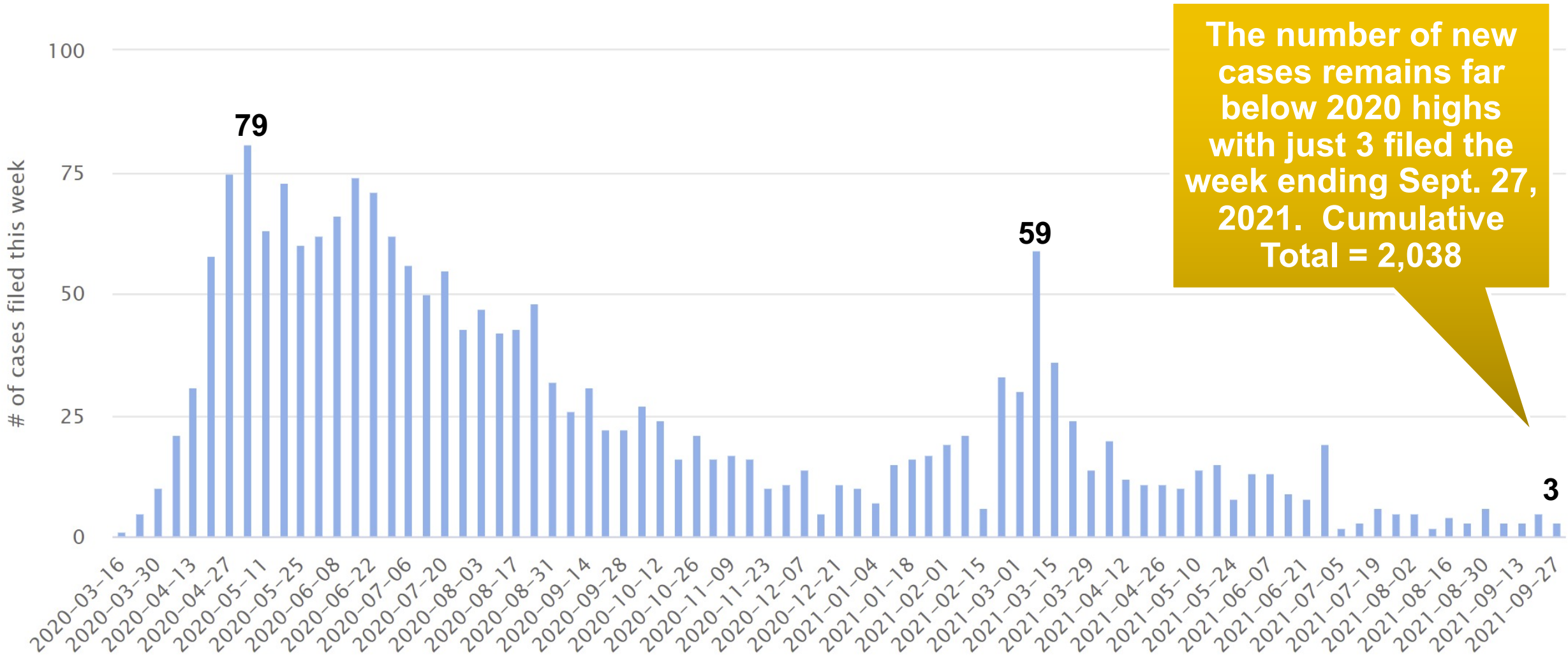
Weekly Number of COVID-Related Lawsuits Filed:

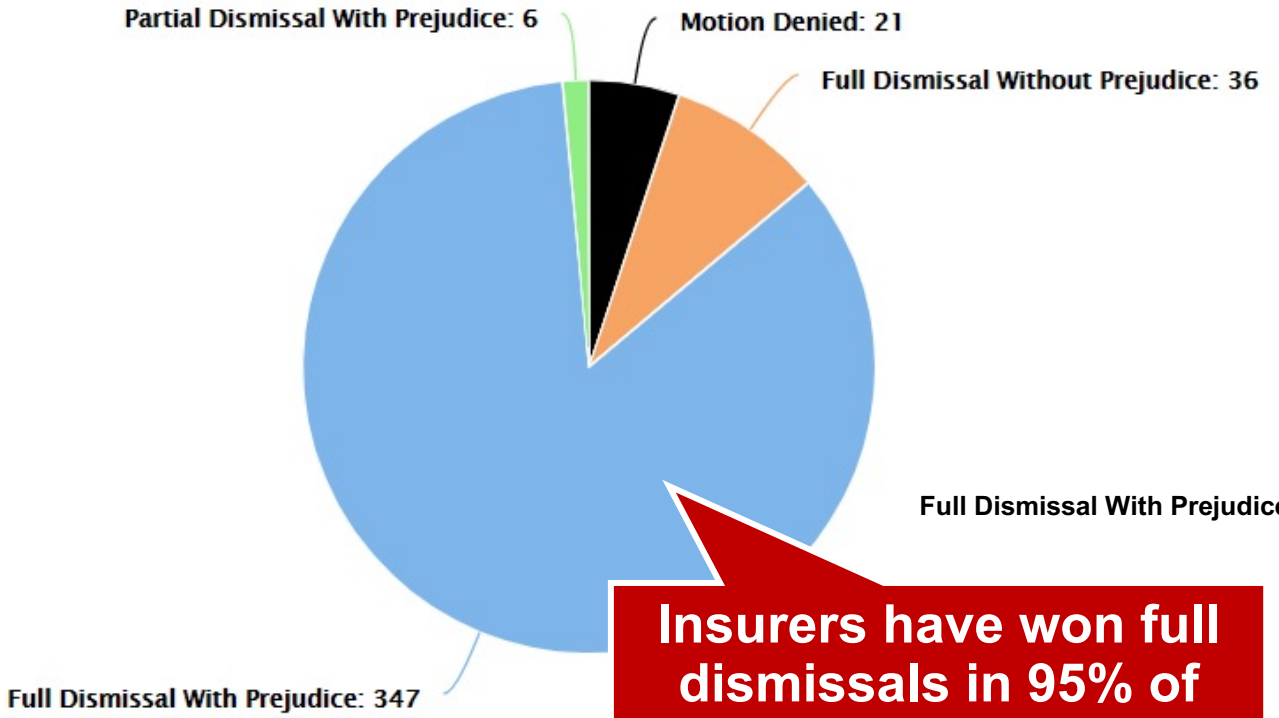
(Weeks Ending Mar. 16, 2020 to Sept. 27, 2021) [Latest Available]



Source: Covid Coverage Litigation Tracker, University of Pennsylvania School of Law. Accessed 11/3/21 at: https://cclt.law.upenn.edu

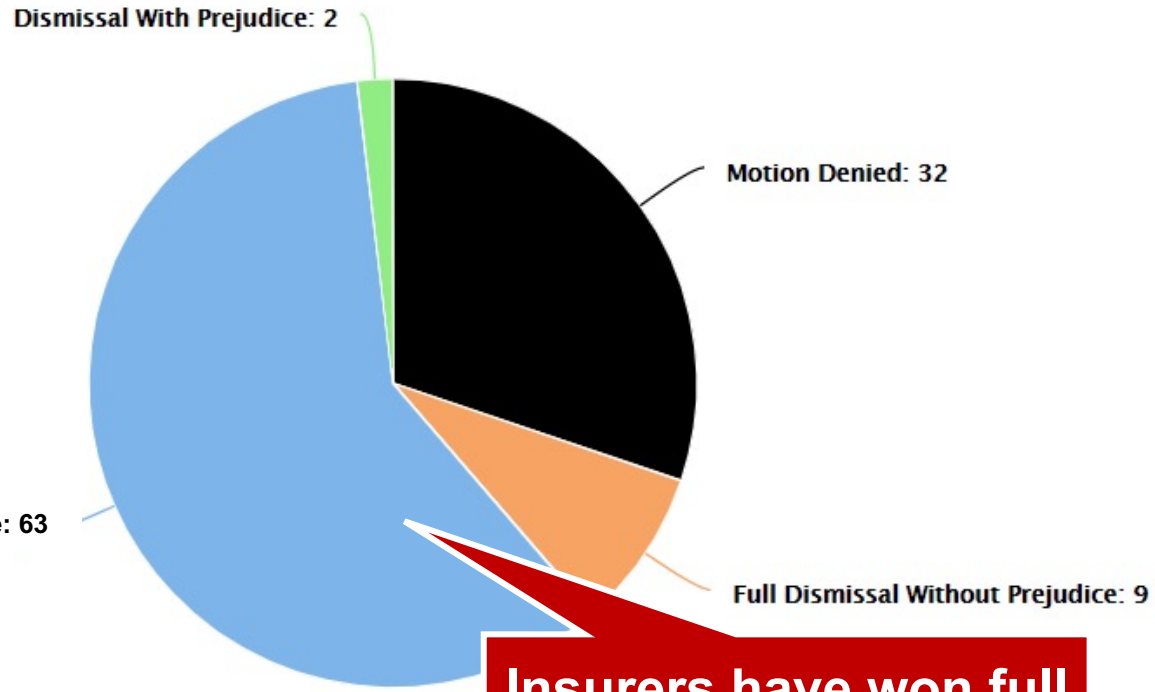
COVID Litigation: Merits Rulings on Motions to Dismiss: Federal vs. State Courts *(Total through July 26, 2021) [Latest Available]*

Federal Courts



Insurers have won full dismissals in 95% of federal court cases involving Covid

State Courts



Insurers have won full dismissals in 70% of state court cases involving Covid

Source: Covid Coverage Litigation Tracker, University of Pennsylvania School of Law. Accessed 9/1/21 at: https://cclt.law.upenn.edu

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Twitter: twitter.com/bob_hartwig

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