P/C Insurance in a Post-Pandemic World: *Distribution Trends, Challenges and Opportunities for Networks*

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Darla Moore School of Business

P/C Insurance Overview & Outlook: Outline

- P/C Financial Overview & Outlook Amid the COVID-19 Pandemic
- Investment Market Issues: Volatility Rules, Low Interest Rates are Back
- The Economy, Insurance and COVID-19: Overview & Outlook
  - Growth, Employment, Inflation…
- Personal & Commercial Lines Overview
  - Workers Comp & COVID—Special Focus
- Distribution Trends
- COVID Litigation Update
- Summary and Q&A

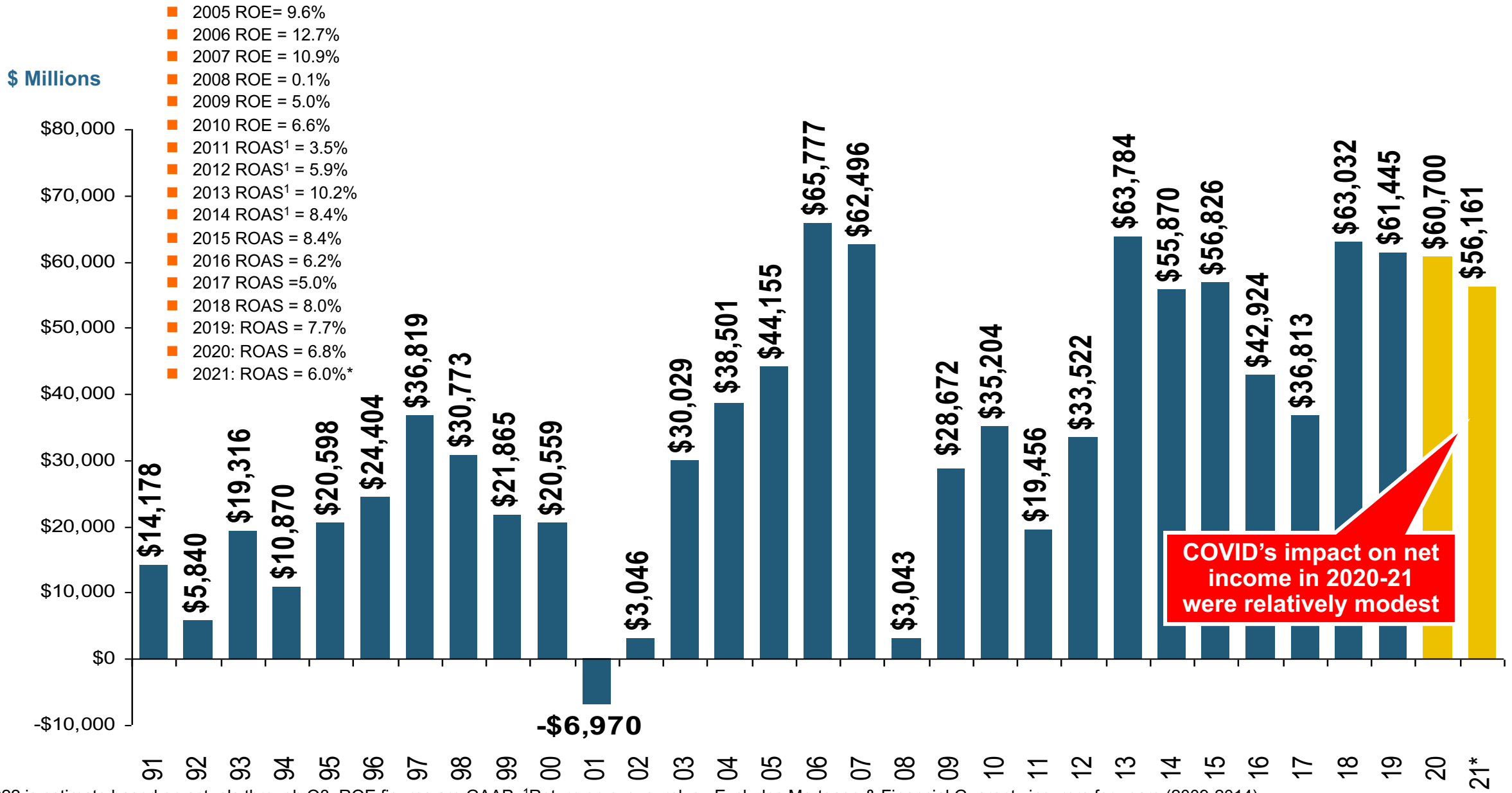
P/C Insurance Industry: Financial Overview Amid the COVID-19 Pandemic

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

Industry Remains Strong

3

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

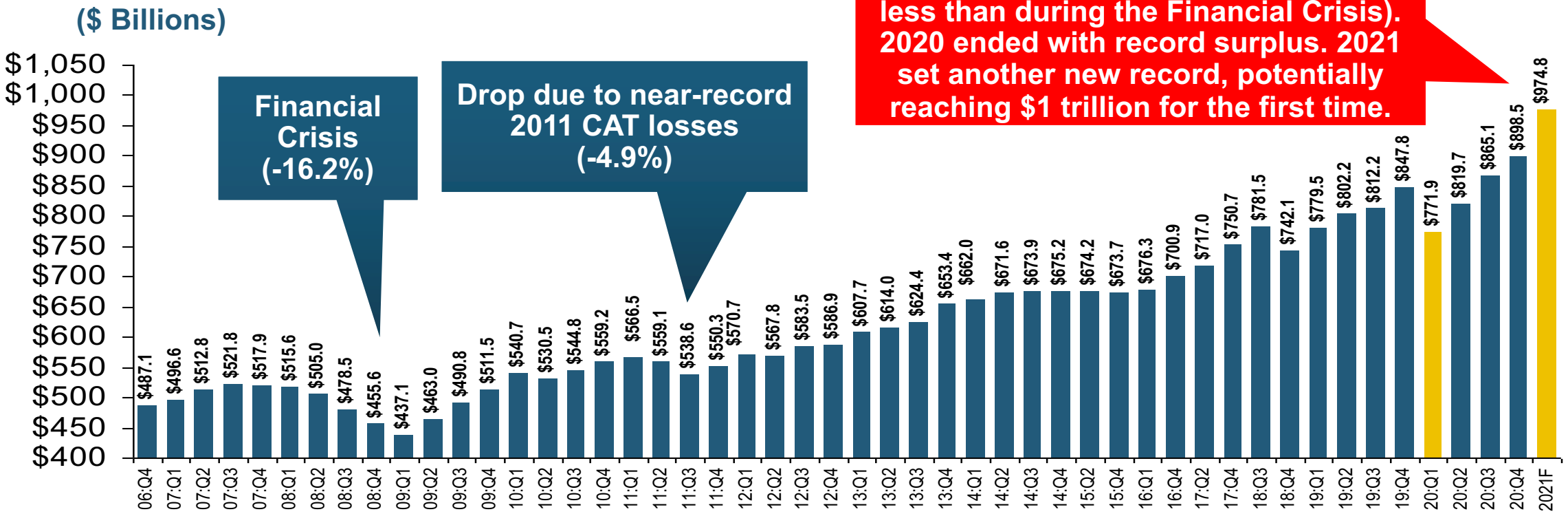


*2022 is estimate based on actuals through Q3. ROE figures are GAAP; [1]Return on avg. surplus. Excludes Mortgage & Financial Guaranty insurers for years (2009-2014).

Sources: A.M. Best, ISO, APCIA.

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 set another new record, potentially reaching $1 trillion for the first time.



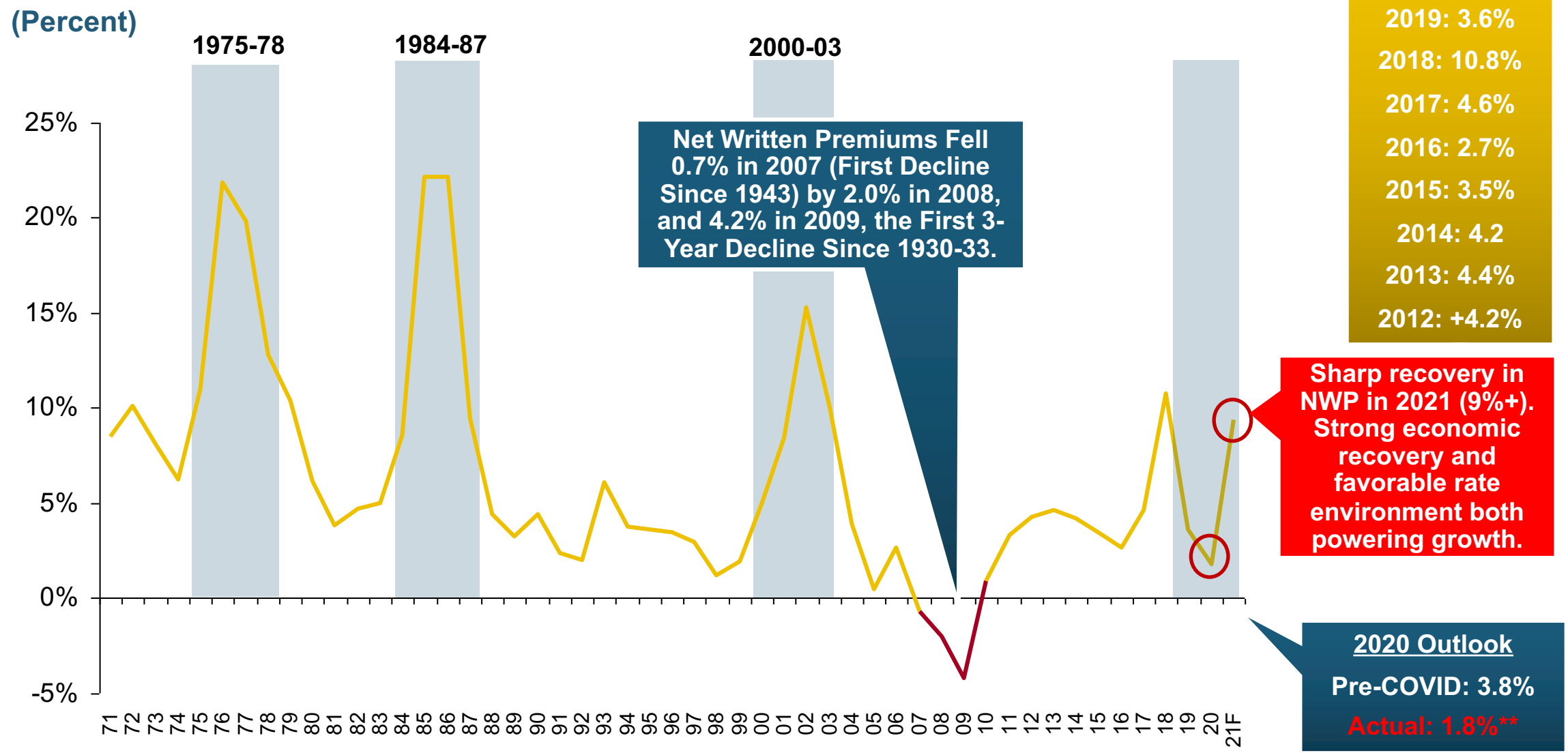
2010: Q1 data includes $22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business.

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 figure is actual through Q3.

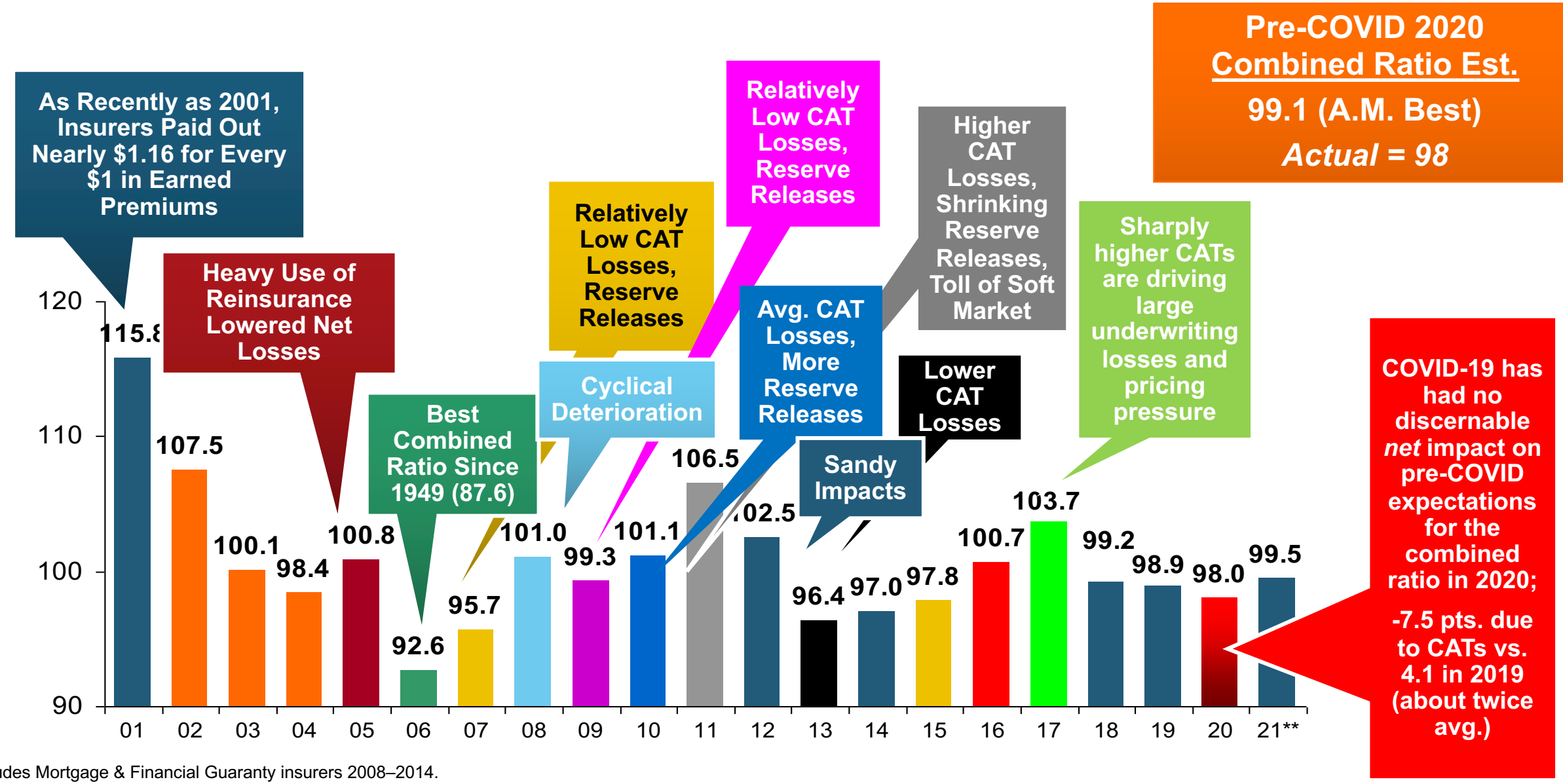
Sources: ISO, A.M .Best; Risk and Uncertainty Management Center, University of South Carolina.

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



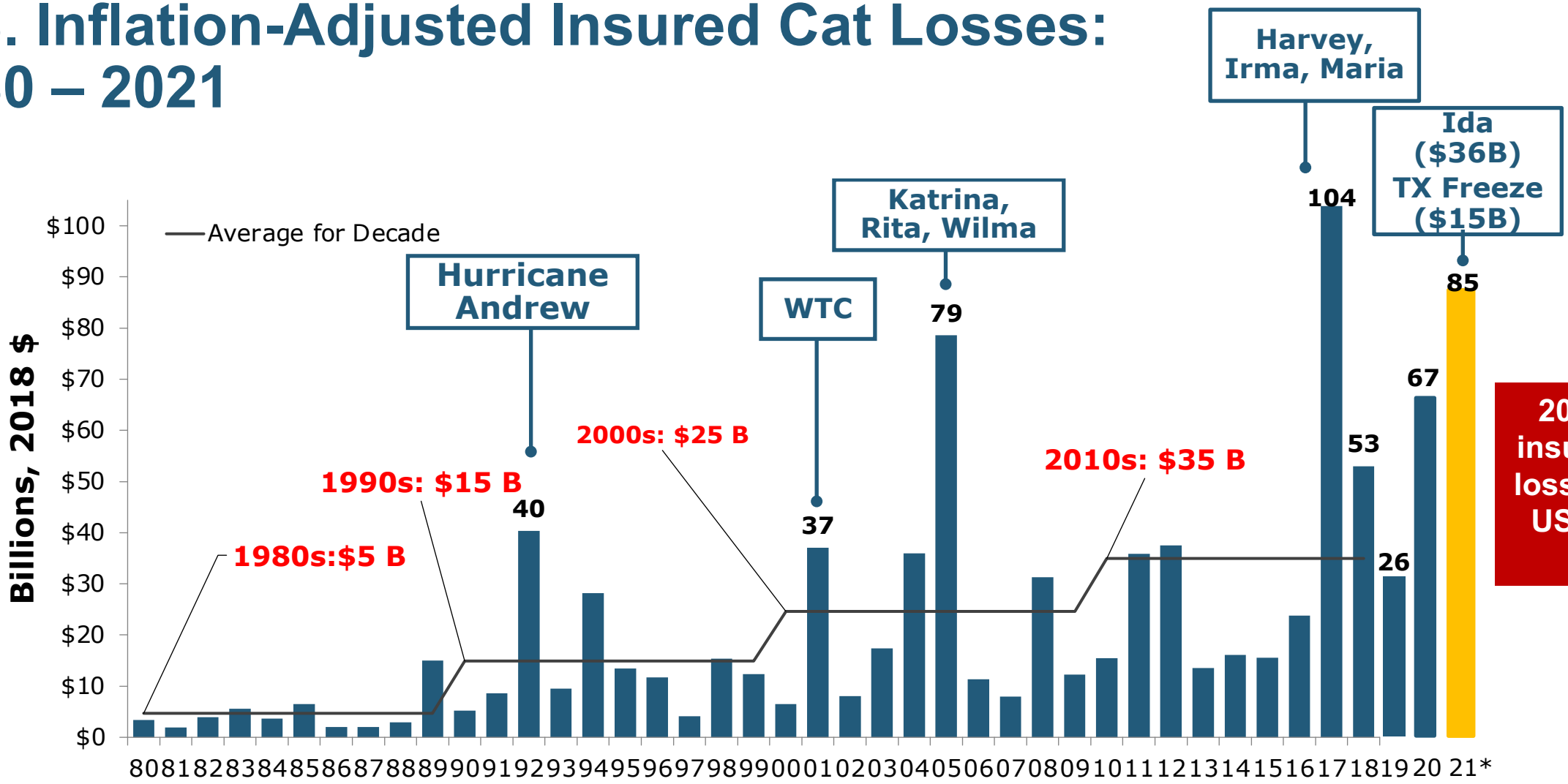
* **Pre/Post-COVID-19 forecast from A.M. Best Review & Preview (Feb. 2020, 2021). NOTE: Shaded areas denote "hard market" periods.
Sources: A.M. Best (1971-2013, 2021F), ISO (2014-19); Risk & Uncertainty Management Center, Univ. of South Carolina

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



*Excludes Mortgage & Financial Guaranty insurers 2008–2014.
**2021 figure is 9-month actual = 99.5. (Q3 figure was 104.5)
Sources: A.M. Best, ISO (2014-2019).

U.S. Inflation-Adjusted Insured Cat Losses: 1980 – 2021



2021 CAT insured CAT losses in the US totaled $85B

Average Insured Loss per Year for 1980-2020 is $22.2 Billion

The 2020s are off to an ominous start with $76B in average annual insured losses

Sources: Property Claims Service, a Verisk Analytics business (1980-2019); 2020 and 2021 figures from Munich Re; Insurance Information Institute; University of South Carolina, Risk & Uncertainty Management Center.

COVID Is Not Over!
But How Have Actual Results Differed from Expectations?

A Review of Early Predictions of COVID's Impact on Insurers

US P/C Results Have Generally Been Better than Anticipated

Potential Impacts of COVID-19 on *Written Premium* in 2020, by Key Line

Line	Estimated Premium Impact
Workers Compensation	12.5% to 25% reduction in premium written in 2020 ***(equates to $5.9B to $11.75B DWP)***
Business Interruption & Contingency	7% to 13% reduction in premium volume (US & UK)
General Liability*	$1.5B to $6.3B premium reduction in US
Personal Auto	~$10B in refunds, rebates (equates to ~4% of DWP)
Personal Travel Insurance	29% to 78% reduction in premium written (US & UK)
Personal/Comm. Motor	~10% reduction in US; 0% to 11% reduction in UK
Marine/Aviation/Transport	$0.7B-$1.5B (US); $0.6 - $1.2B (UK)

APRIL/MAY 2020 ESTIMATES

*Includes nursing home professional liability.

Source: Derived from Willis Towers Watson, *Scenario Analysis of COVID-19 Pandemic* (Fig.11, 14), May 2020. and other sources; Risk and Uncertainty Management Center, University of South Carolina.

Potential Impacts of COVID-19 on *LOSSES* in 2020, by Key Line

Line	Estimated Loss Impact
Workers Compensation	$0.2B - $92B ***(depends on severity of pandemic and "presumption" determination)***
Business Interruption & Contingency	$2B - $22B (US); $1.1B - $13.9B (UK)
General Liability*	$0.7B to $27B loss across US & Bermuda markets
Personal/Comm. Motor	$26B - $57B reduction in personal auto and $4.2B - $9.4B commercial (US); $1 - $7B overall reduction in UK
Mortgage	$0 - $1.7B loss across US & Bermuda markets
D&O	$0.6 - $4.0 loss across US & Bermuda markets
Marine/Aviation/Transport	$0.3B-$1.3B reduction (US); $0.6 - $1.1B (UK)

APRIL/MAY 2020 ESTIMATES

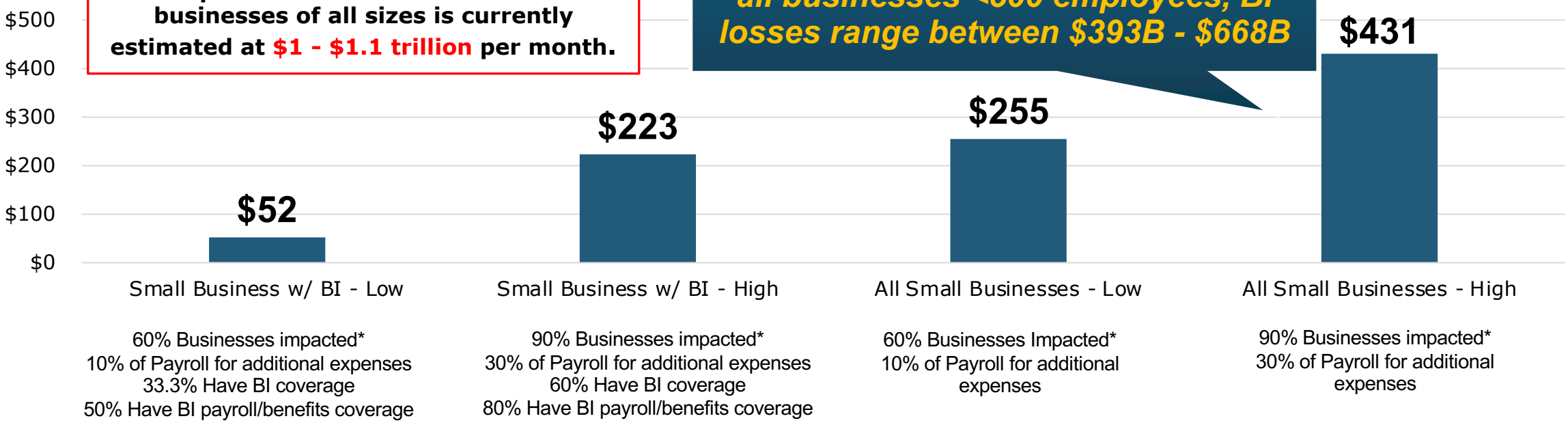
*Includes nursing home professional liability.

Source: Derived from Willis Towers Watson, *Scenario Analysis of COVID-19 Pandemic* (Fig.11, 14), May 2020. and other sources; Risk and Uncertainty Management Center, University of South Carolina.

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

The potential for such losses for all businesses of all sizes is currently estimated at $1 - $1.1 trillion per month.

Monthly BI losses for small business vary widely depending on underlying assumptions but expansive legislation would result in higher estimates; *For all businesses <500 employees, BI losses range between $393B - $668B*

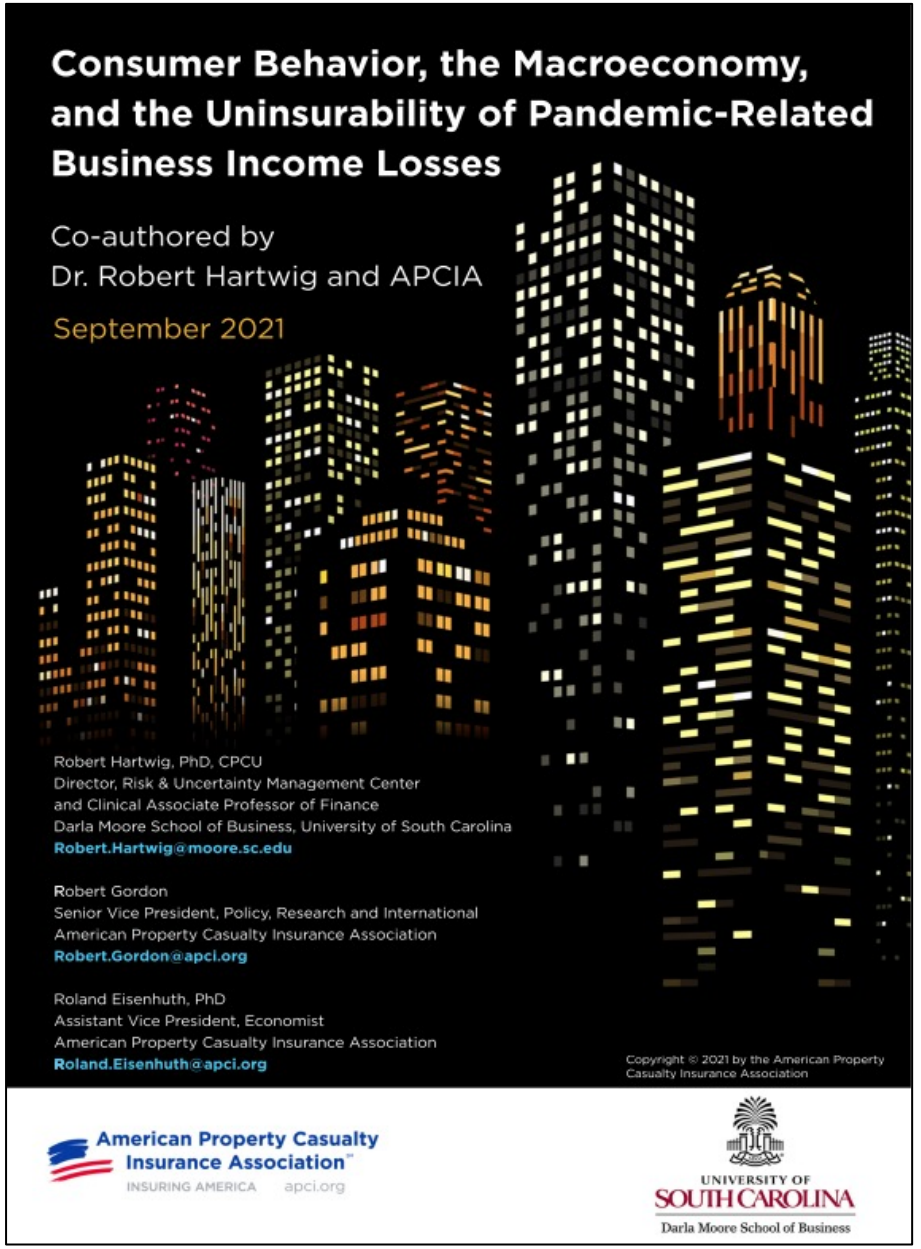


* Businesses impacted: Proportion of businesses completely or substantially closed related to coronavirus
Assumptions: Losses if standard insurance policy exclusions for viruses/pandemics are voided and physical loss/damage requirement is stricken; three main coverages - profit lost, payroll/benefits, additional expenses; average annual $2m revenue and 7% profit margin; non-wage benefits of small businesses are 25% less than that for average US businesses

Source: APCIA, April 2020.

Paper on Macroeconomic Shifts Driving Much of BI Loss during COVID

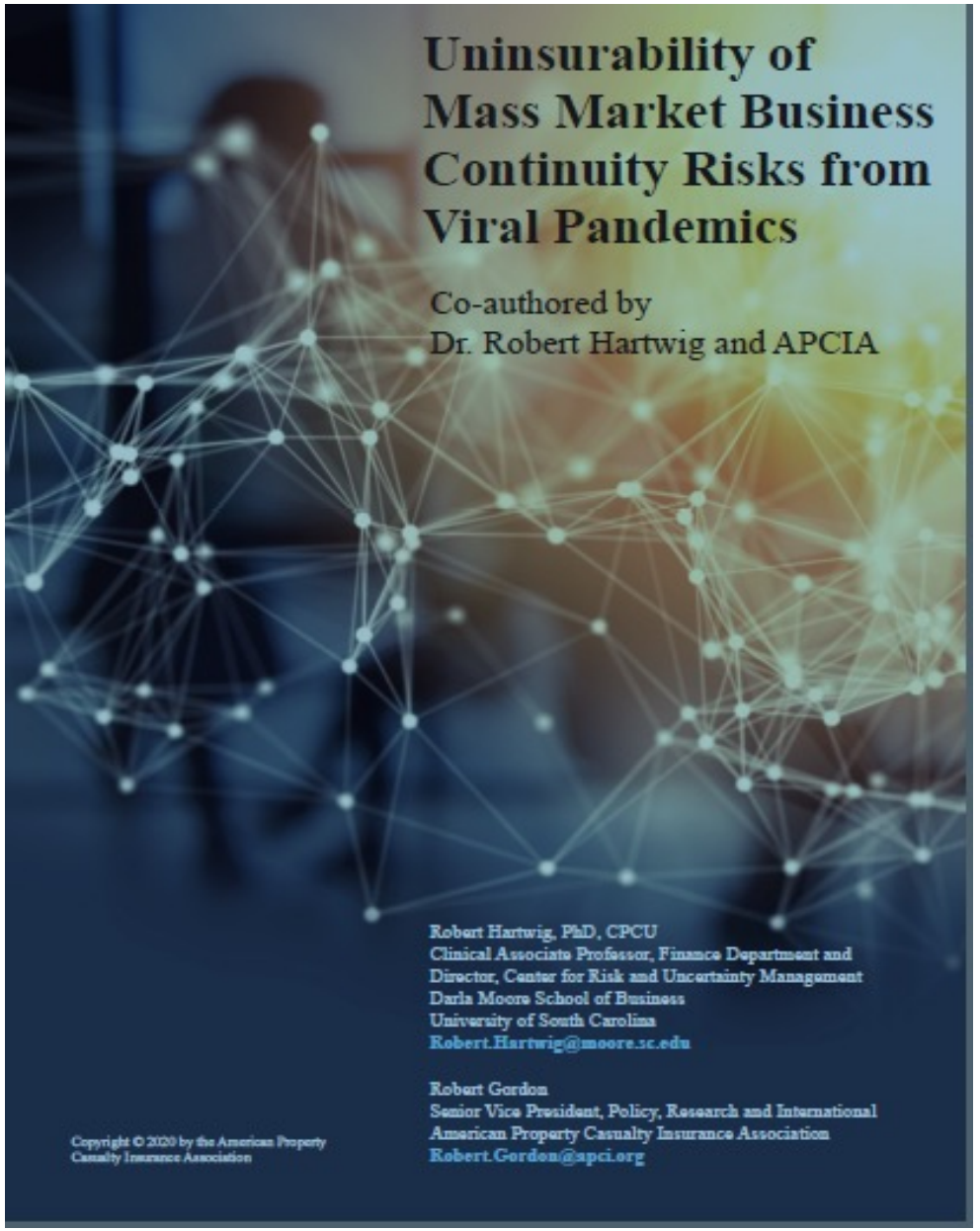
- Research shows that much of the BI loss during COVID arose from uninsurable shifts in consumer spending patterns and a collapse in aggregate demand
  - Both are macroeconomic phenomenon and are not now nor have they ever been insurable
  - Insurers have asserted and courts agree that COVID does not result in physical damage to property
- Macroeconomic stabilization policy is properly the domain of government



Download at: https://www.uscriskcenter.com/wp-content/uploads/2021/09/Macroeconomic_Pandemic_whitepaper_HartwigAPCIA-FINAL.pdf

Paper on Insurability of Pandemic Risk

- Large scale business continuity risks from pandemics are generally note insurable in the private sector
- Business continuity risks are largely undiversifiable within private insurance markets and are highly correlated with other risks (e.g., investment risks)
- Large scale business continuity losses pose a potentially systemic risk to the industry and overall economy
- Import role for government



Download at: https://www.uscriskcenter.com/wp-content/uploads/2020/05/Uninsurability-of-Pandemic-Risk-White-Paper-Hartwig-APCIA-FINAL-WORD.pdf

Reasons Why P/C Insurance Worst-Case COVID Scenarios Failed to Materialize (*So Far*)

- Economic Recovery Proceeding More Quickly than Anticipated
- Rapid Financial Market Recovery (*and then some…*)
- Massive Government Stimulus and Accommodative Fed Policy
- Worst-Case Epidemiological Outcome Avoided
- Record Pace of Vaccine Development
- Employers Did a Reasonably Good Job Protecting Workers from Exposure
- Many States Did Not Repeat Spring 2020 Lockdowns
- Litigation Outcomes Generally Favor Insurers
- WC Presumption Expansions Did Not Lead to Explosion in Claims
- Offsetting Exposure Reductions in Many Lines

INVESTMENTS:
THE NEW REALITY

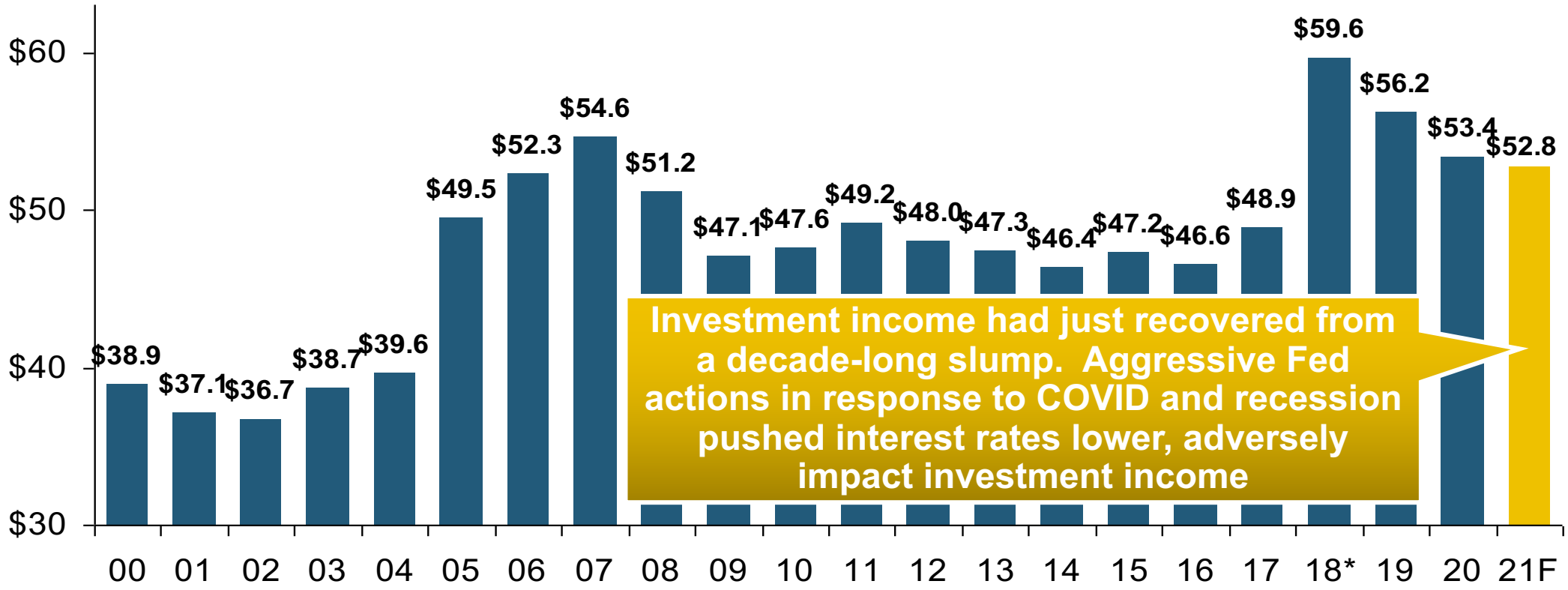
Investment Performance Is a Key Driver of Insurer Profitability

Aggressive Rate Cuts Will Adversely Impact Invest Insurer Earnings

Financial Crisis *Déjà Vu*?

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

($ Billions)

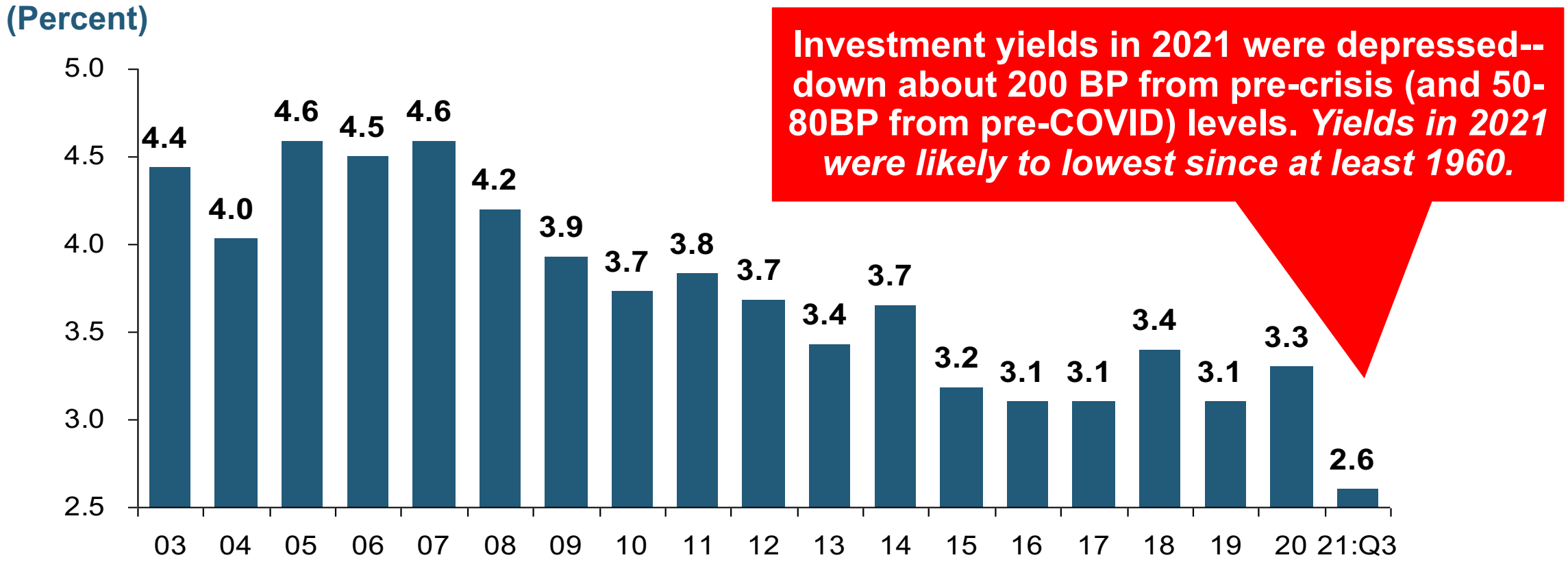


Due to persistently low interest rates, investment income remained below pre-crisis levels for a decade. Lower interest rates during COVID drove investment income down once again. Fed rate hikes in 2022 could reverse this trend.

*2021 figure is anualized YTD 9M actual figure of $39.564B. 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:Q3



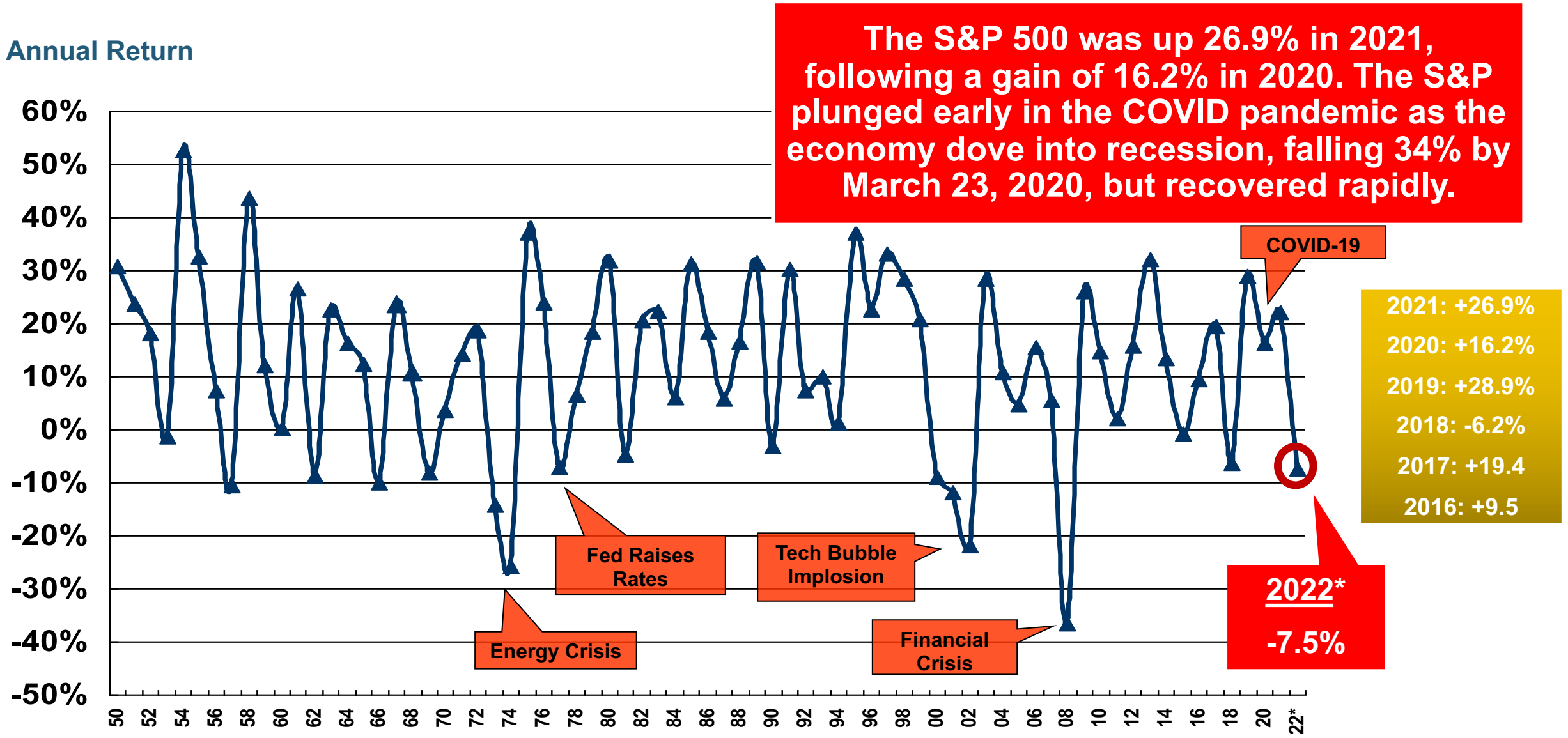
Investment yields in 2021 were depressed--down about 200 BP from pre-crisis (and 50-80BP from pre-COVID) levels. *Yields in 2021 were likely to lowest since at least 1960.*

The yield on invested assets remains depressed relative to pre-financial crisis and pre-COVID yields. Fed rate hikes in 2022 should begin to slowly lift yields.

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

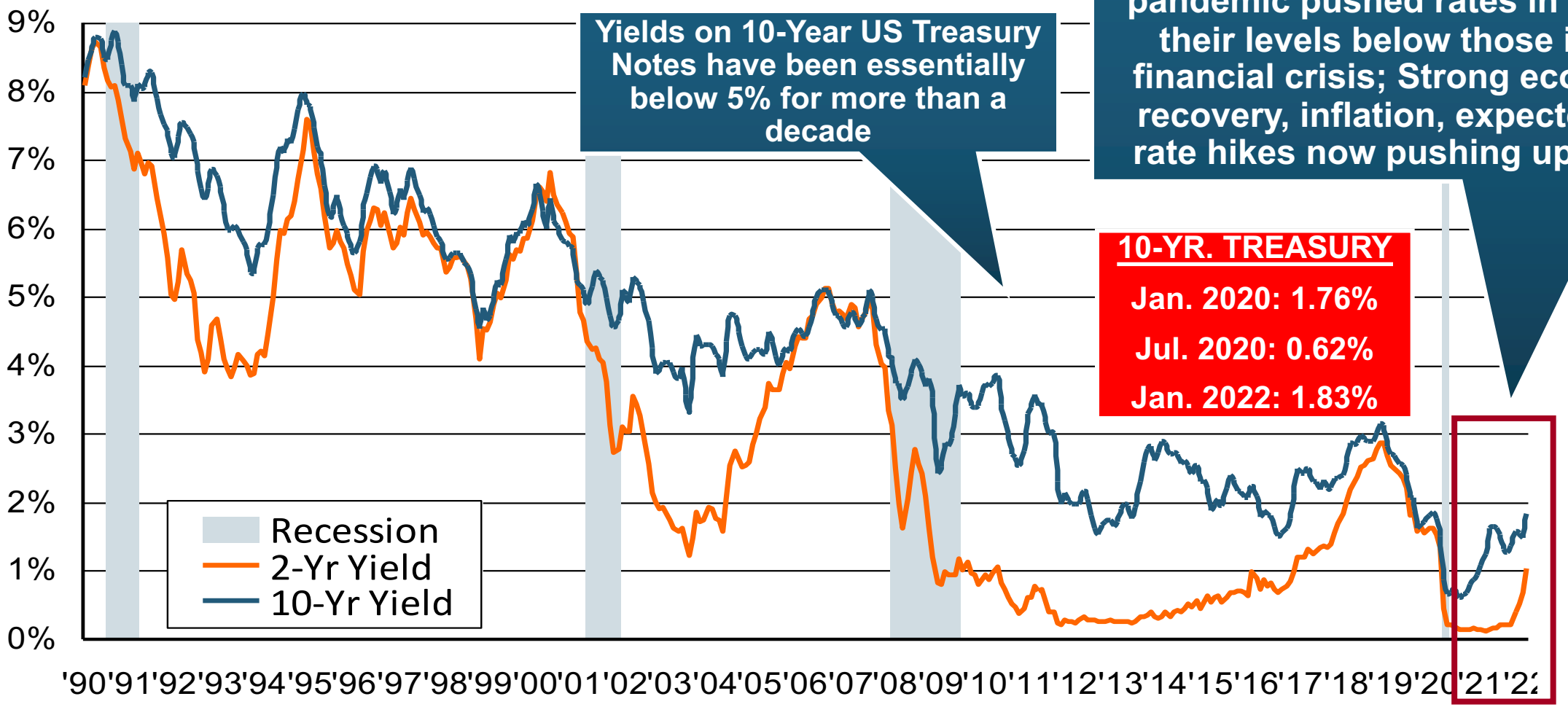
Sources: NAIC data, sourced from S&P Global Market Intelligence; 2017-19 figures are from ISO. 2020-21 data from the APCIA. Risk and Uncertainty Management Center, Univ. of South Carolina.

S&P 500 Index Returns, 1950–2022*



,
*Through Jan. 27, 2022.
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, 1990–2022*

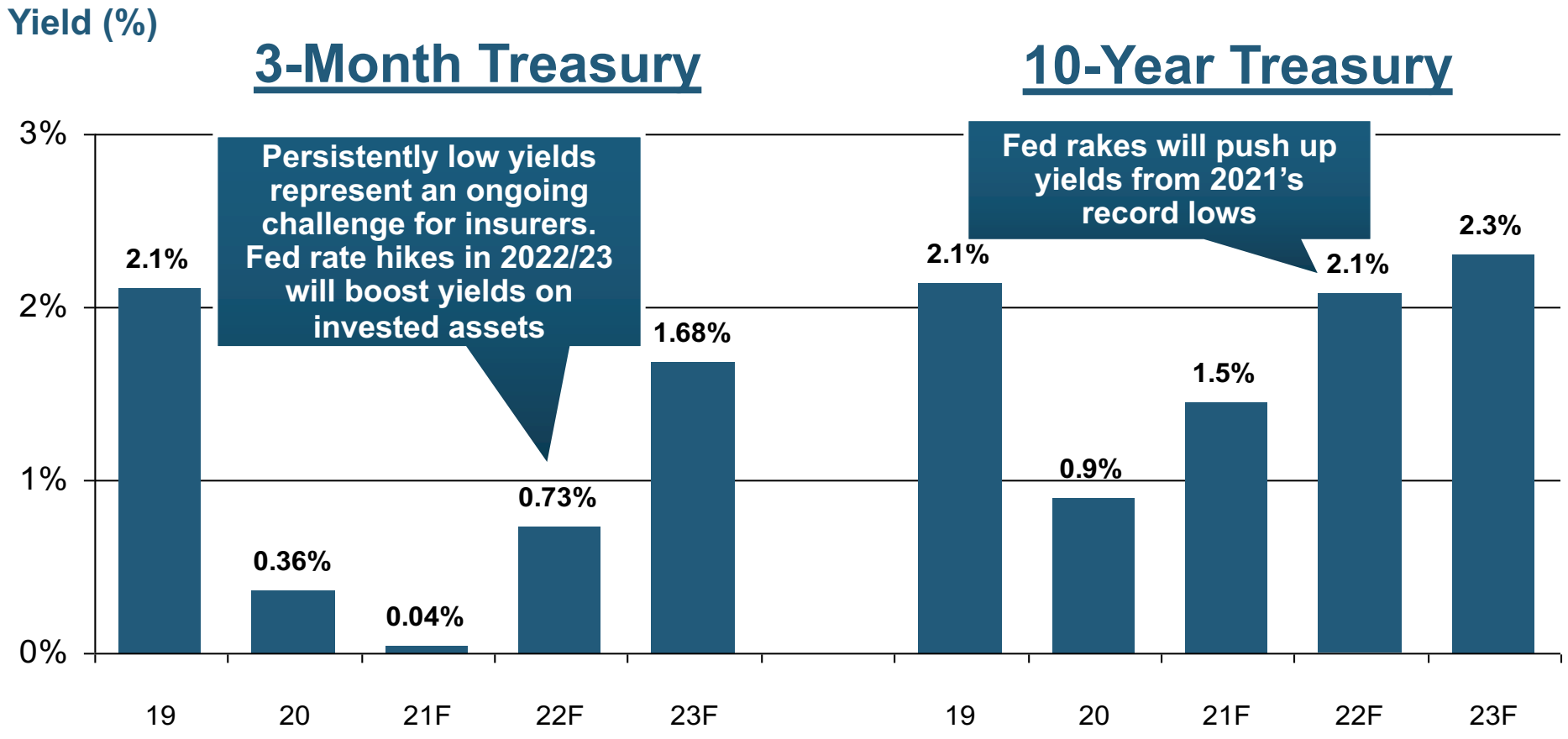


Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for many years to come.

*Monthly, constant maturity, nominal rates, through Jan. 2022.

Sources: Federal Reserve Bank at http://www.federalreserve.gov/releases/h15/data.htm. National Bureau of Economic Research (recession dates); Risk and Uncertainty Management Center, University of South Carolina.

Interest Rate Forecasts: 2019 – 2023F



Short-term rates remain severely depressed with little change expected through 2023 (based on current Fed messaging). Longer-term yields are expected to drift up a bit as the Fed initiates tapering as well modestly higher inflationary expectations

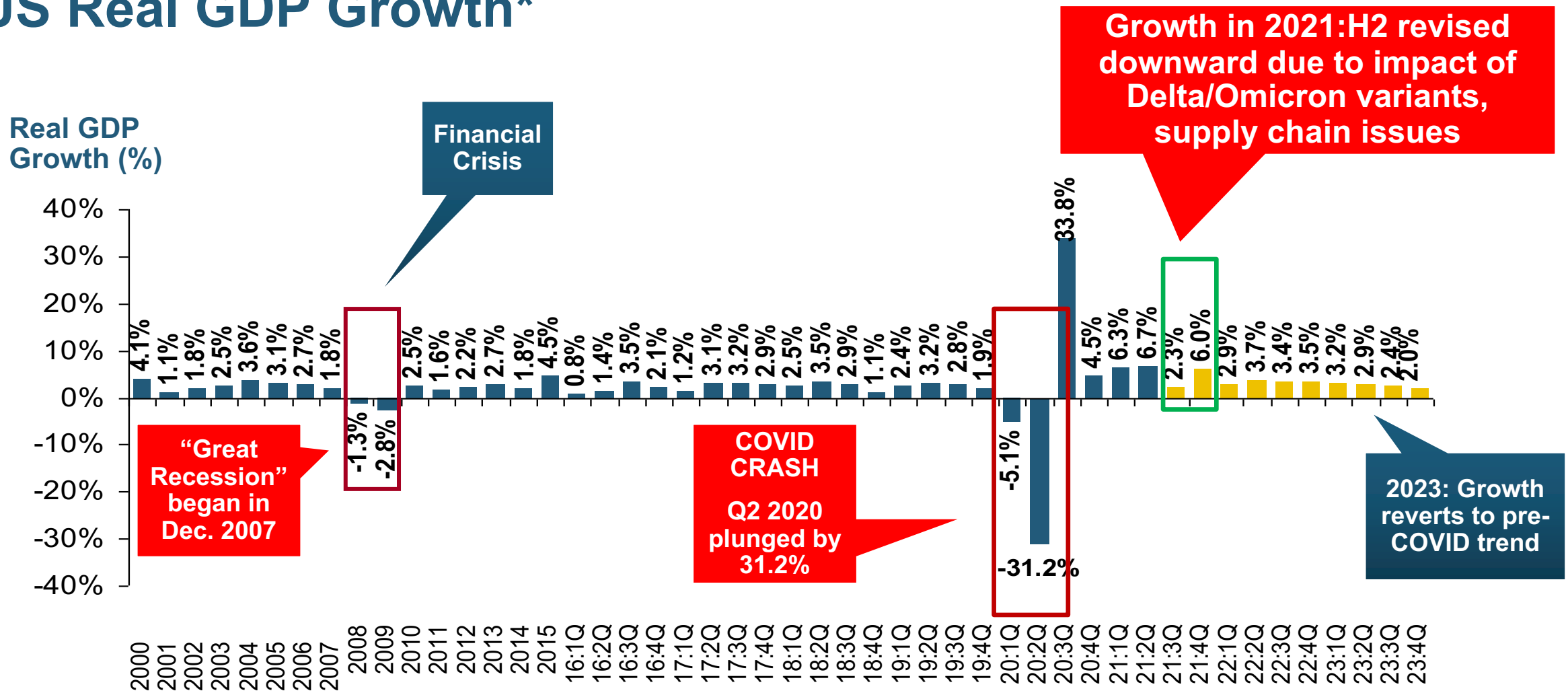
Sources: Wells Fargo Securities (1/22); Risk and Uncertainty Management Center, University of South Carolina.

THE ECONOMY

The Strength of the Economy Has Always Influenced Growth in Insurers' Exposure Base Across Most Lines—Including During the COVID-19 Pandemic

The Links Between the Economy and the P/C Insurance Industry Are Strengthening

US Real GDP Growth*

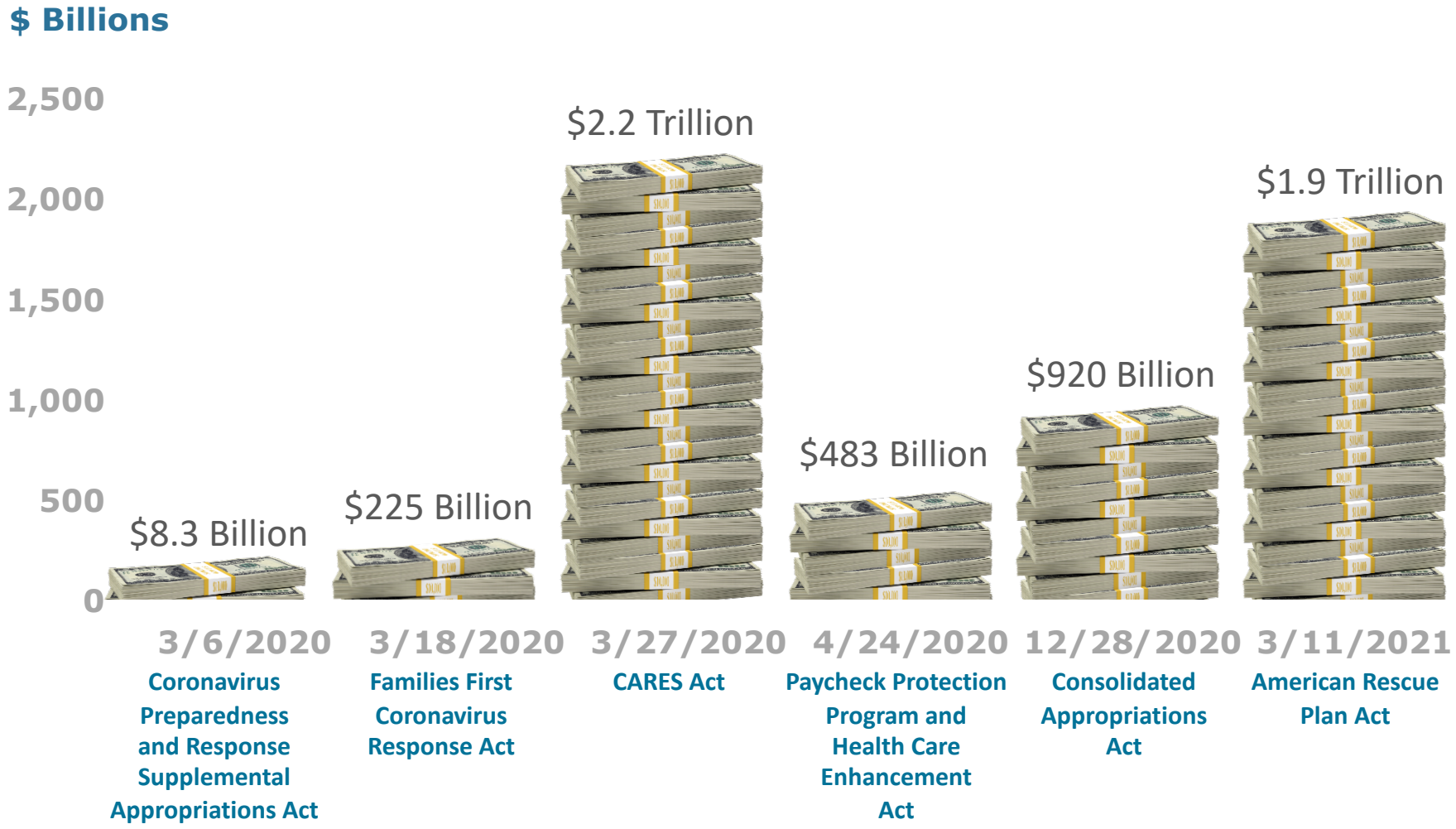


GDP Recovered to Q4 2019 Level in Q1 2021. Demand for Insurance Increasing Materially in 2021/22—Particularly in Economically Sensitive Commercially Lines Such as WC

* Estimates/Forecasts from Wells Fargo Securities.

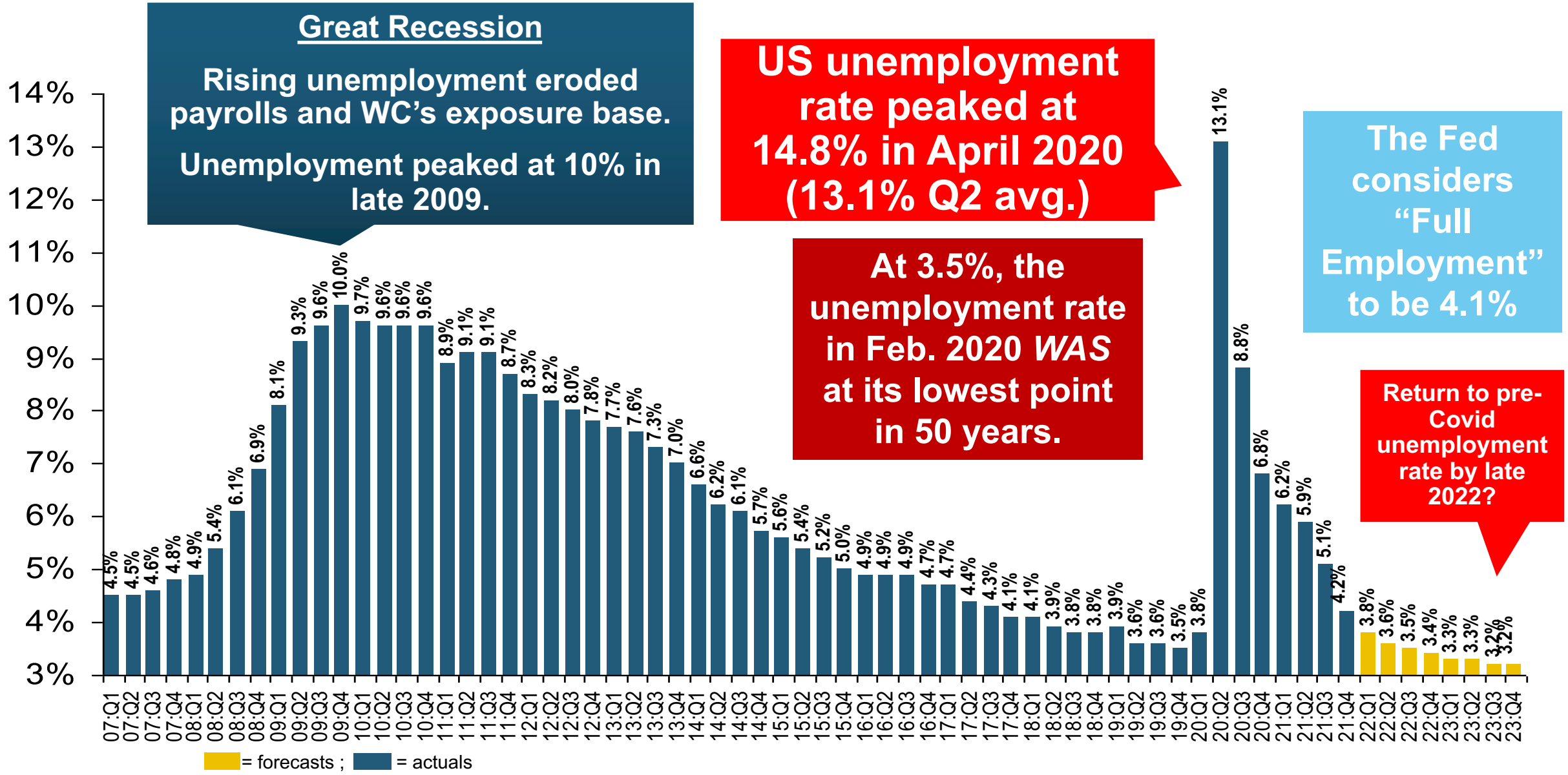
Source: US Department of Commerce, Wells Fargo Securities 1/22; Center for Risk and Uncertainty Management, University of South Carolina.

COVID-19 Stimulus Plans



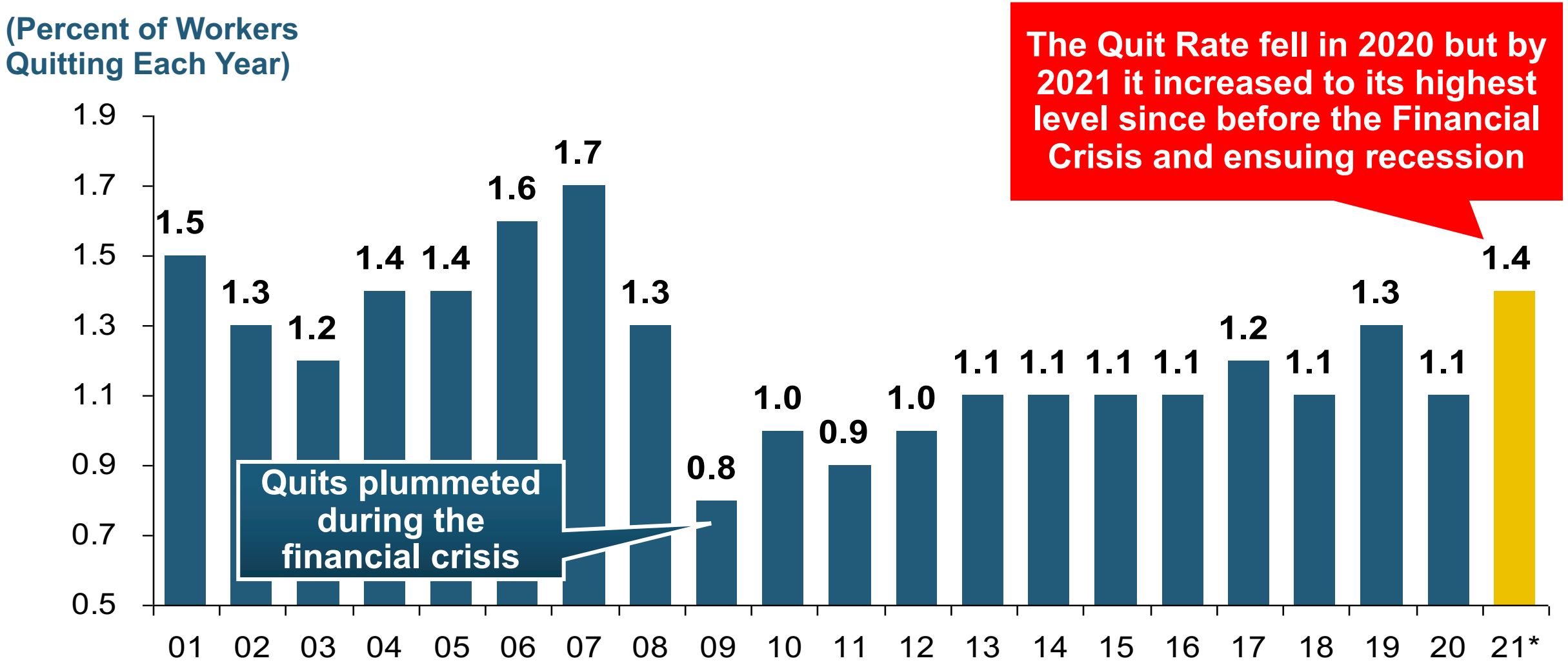
To date, Congress has passed 6 COVID-19 relief bills, providing as much as $5.7 trillion in assistance

US Unemployment Rate Forecast: 2007:Q1–2023:Q4



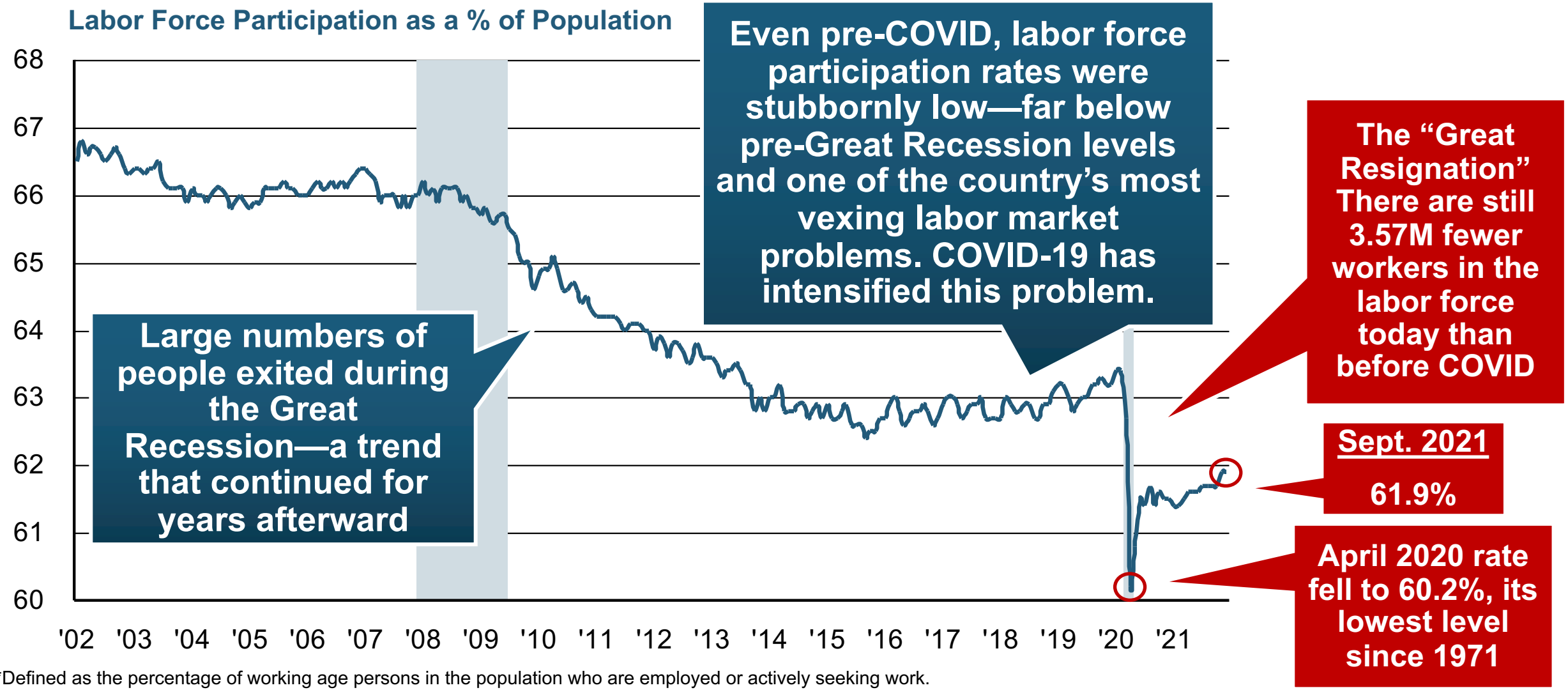
Sources: US Bureau of Labor Statistics; Wells Fargo Securities (1/22 edition); Risk and Uncertainty Management Center, University of South Carolina.

Quit Rate in Finance and Insurance: 2001 – 2021*



*2021 figure is based on data through Nov. 2021.
Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

Labor Force Participation Rate, Jan. 2002–Dec. 2021*

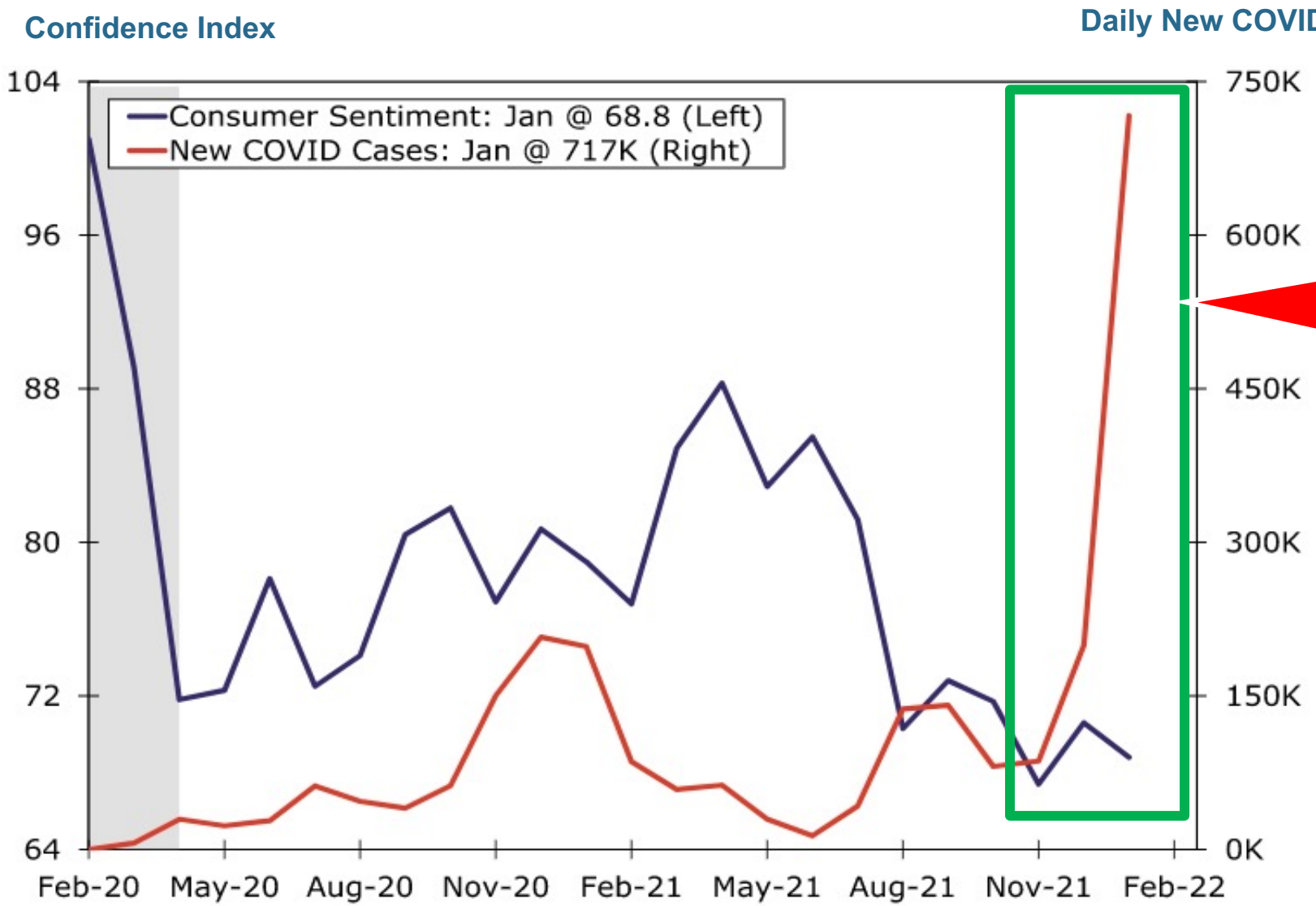


*Defined as the percentage of working age persons in the population who are employed or actively seeking work.

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics at http://www.bls.gov/data/; National Bureau of Economic Research (recession dates); Center for Risk and Uncertainty Management, University of South Carolina.

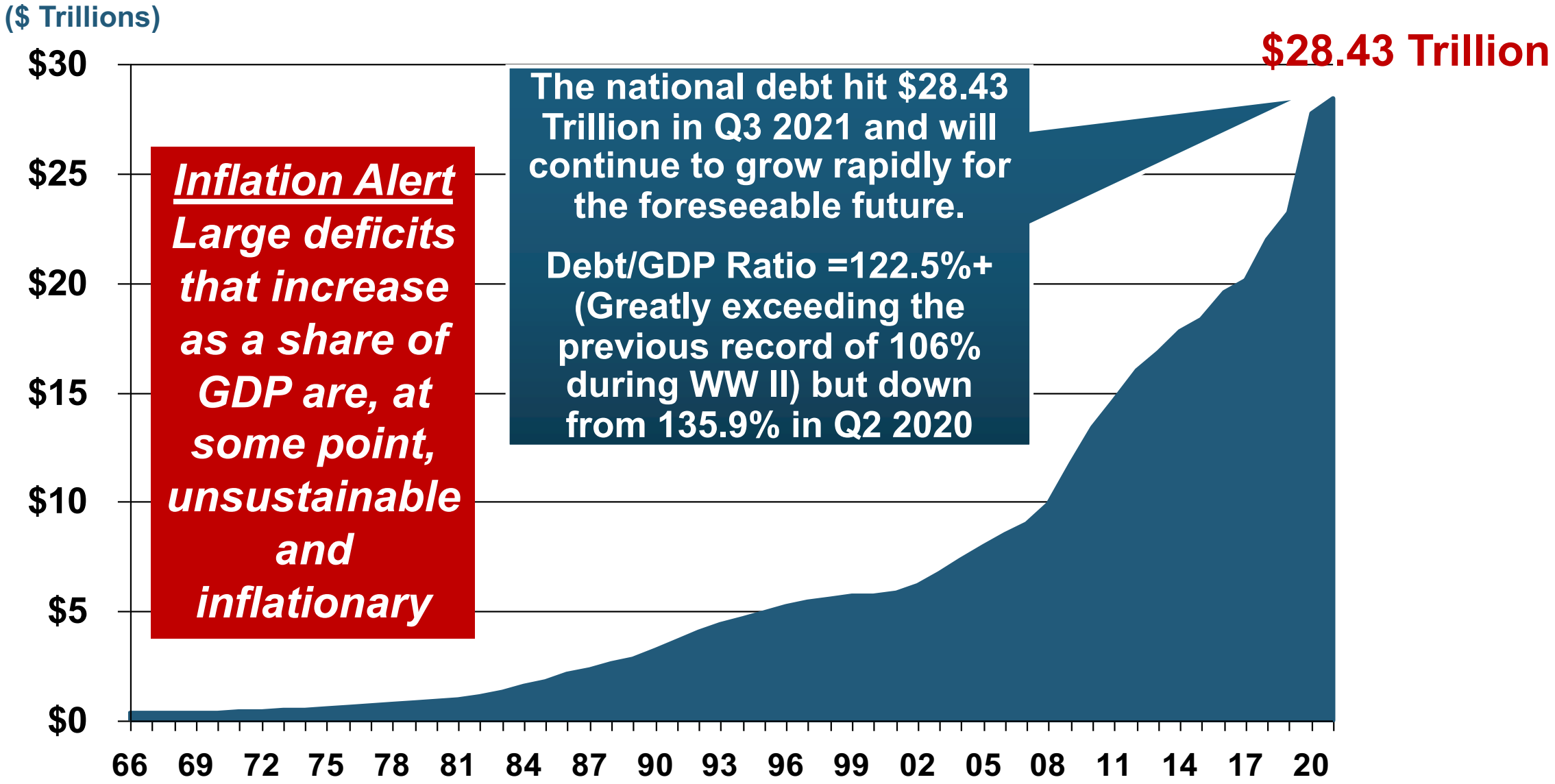
Consumer Sentiment vs. COVID Cases, Jan. 2020 – Jan. 2022



The surge in cases from the COVID Omicron variant, along with inflation and geopolitical concerns have pushed Consumer Sentiment down, but the effect is not as large as with Delta

Source: University of Michigan, Bloomberg, Wells Fargo Securities; University of South Carolina Risk and Uncertainty Management Center.

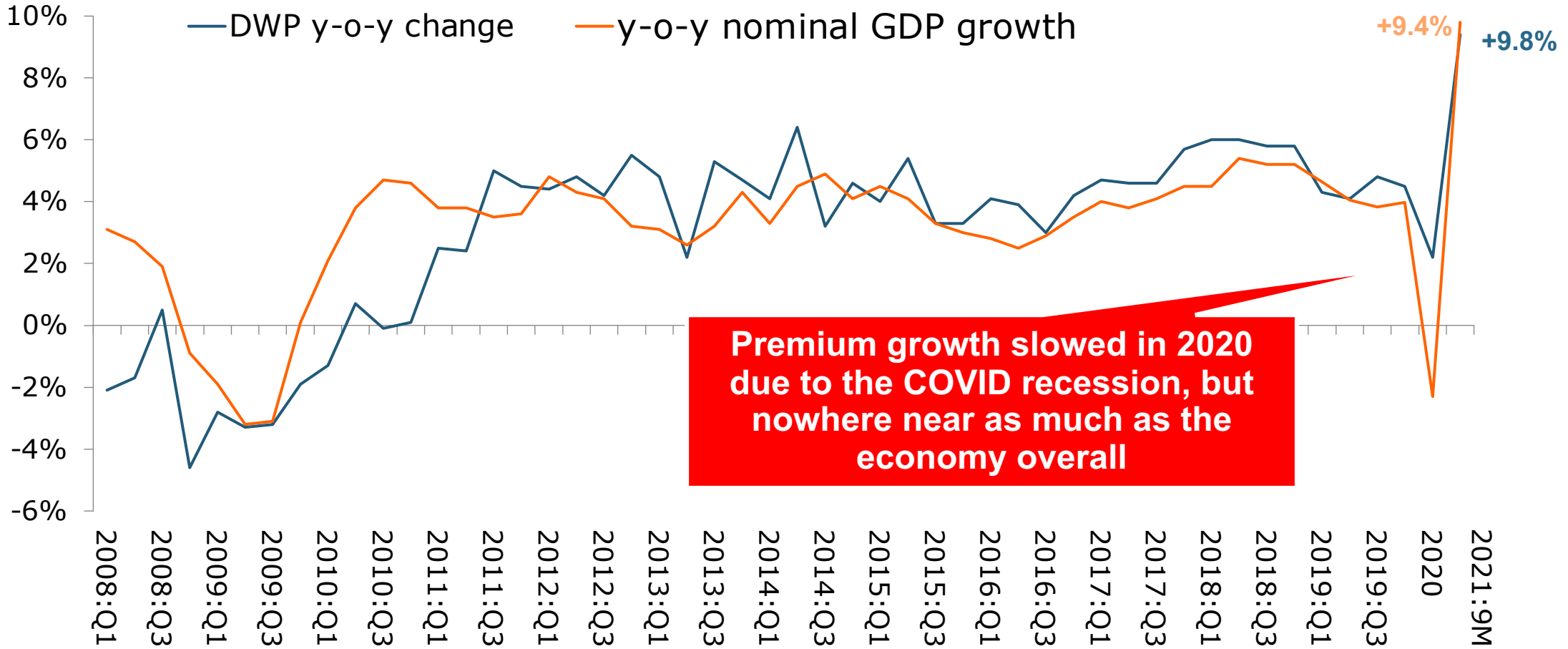
U.S. National Debt, 1966–2021:Q3 *[Latest Available]*



Source: Congressional Budget Office; Federal Reserve Bank of St. Louis: https://fred.stlouisfed.org/series/GFDEGDQ188S

The Economy Drives P/C Insurance Industry Premiums: 2006:Q1–2021:9M*

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.

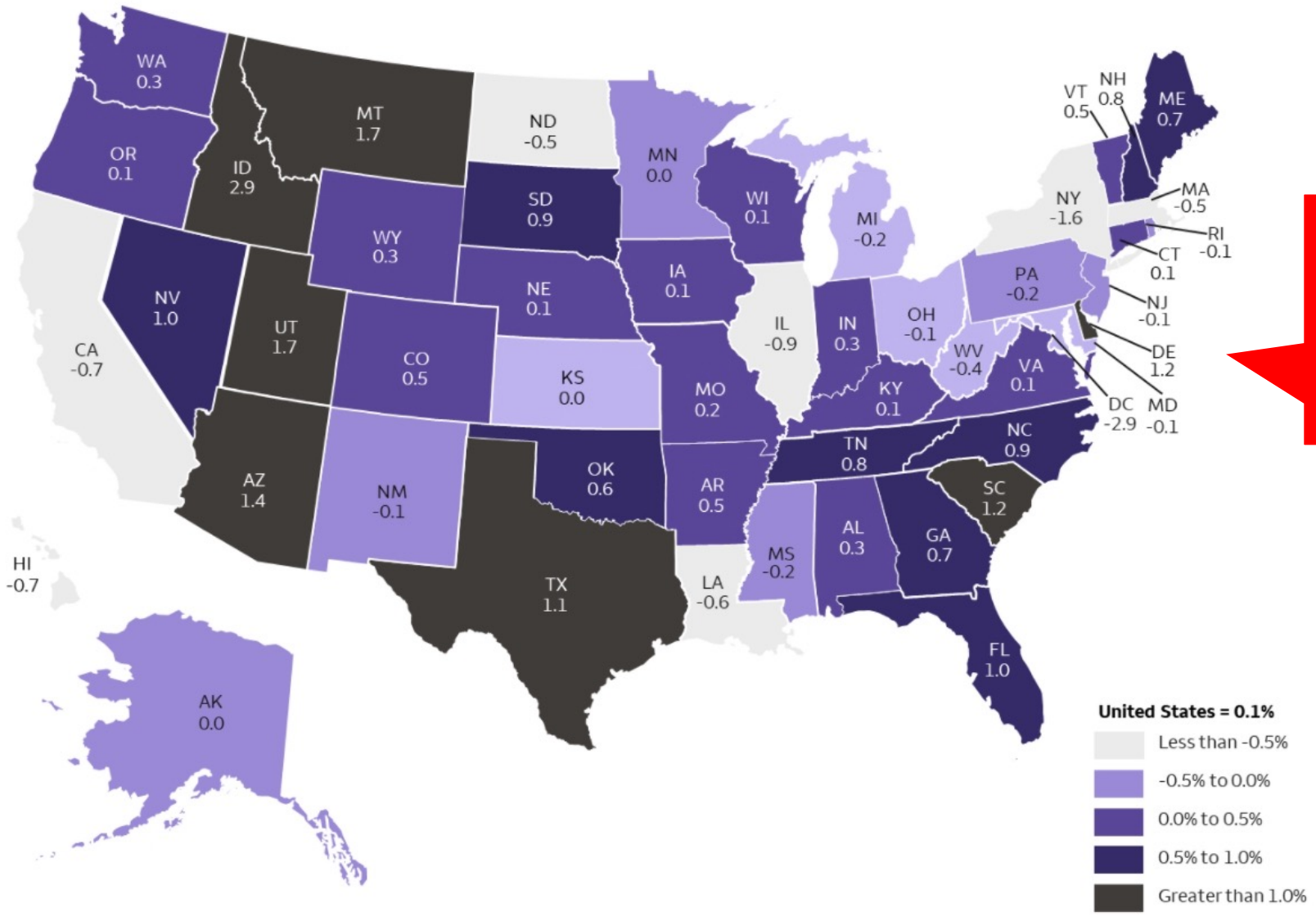
Population Change by State, July 2020–July 2021 (U.S.: 0.1%)

Top 5

ID	2.9%
MT	1.7%
UT	1.7%
AZ	1.4%
SC	1.2%

Bottom 5

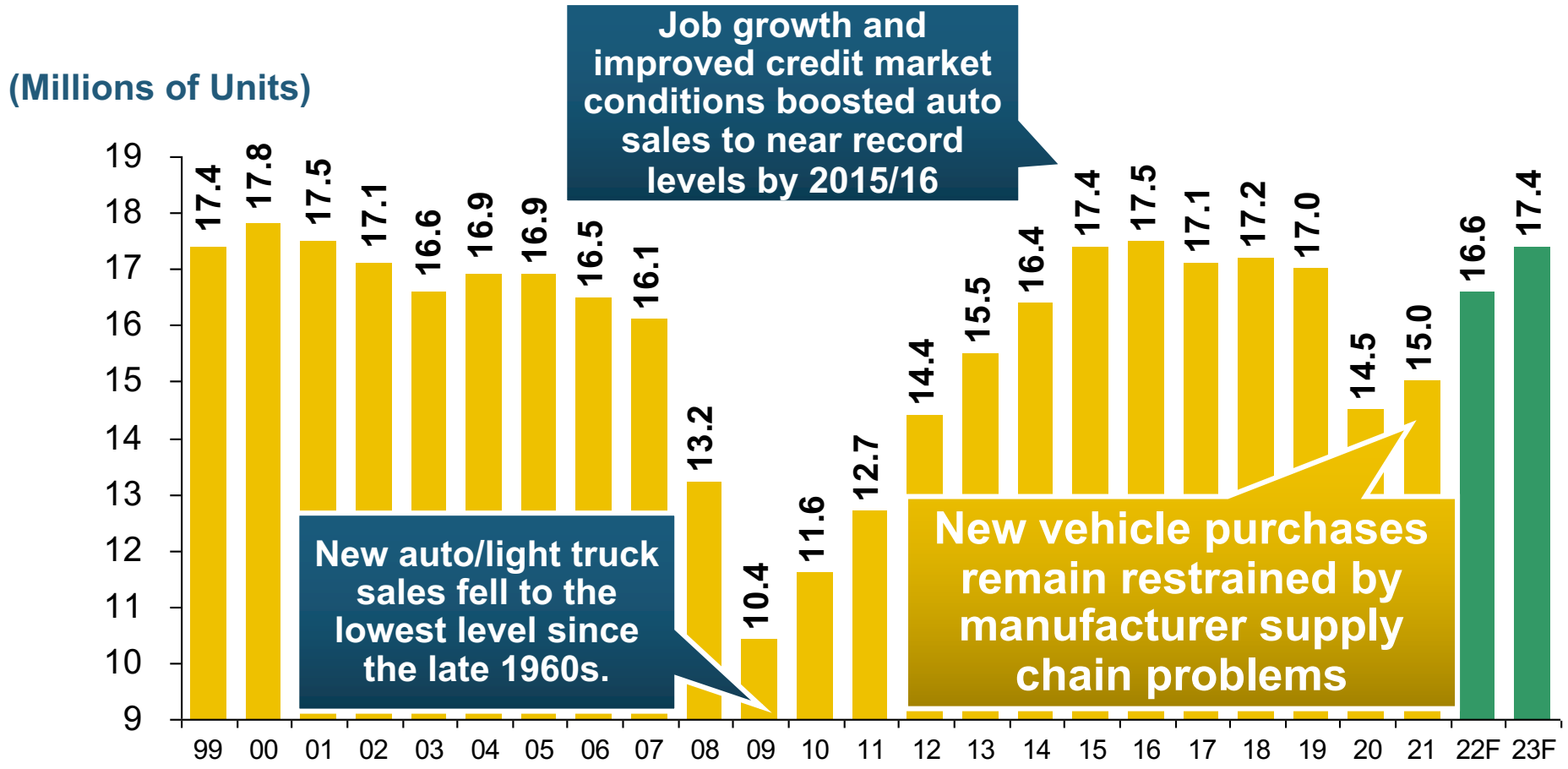
NY	-1.6%
IL	-0.9%
CA	-0.7%
HI	-0.7%
LA	-0.6%



Population growth is a driver of growth insurance demand and insurable exposure. Demographic trends in the Northeast are generally weak

Source: U.S. Census Bureau, Dec. 2021 estimates, www.census.gov/popest; Wells Fargo Securities; Risk an Uncertainty Management Center, University of South Carolina.

Auto/Light Truck Sales, 1999-2023F

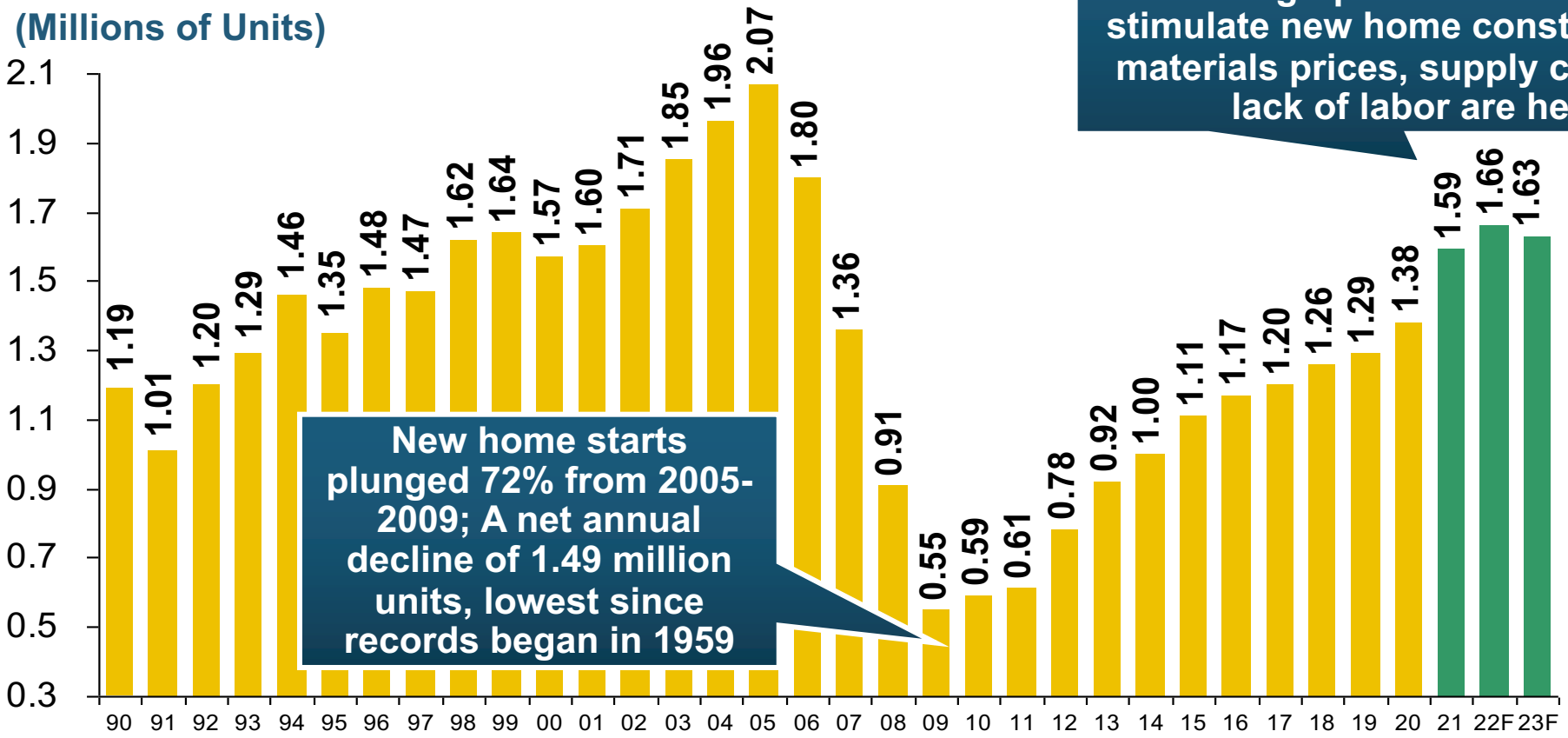


Yearly car/light truck sales remain below pre-COVID levels. Auto manufacturer supply chain issues are expected to linger well in to 2022. PP Auto premium might grow by 3.5% - 5%.

Source: U.S. Department of Commerce; Wells Fargo Securities (1/22 for 2021-22); Univ. of South Carolina, Center for Risk and Uncertainty Management..

New Private Housing Starts, 1990-2023F

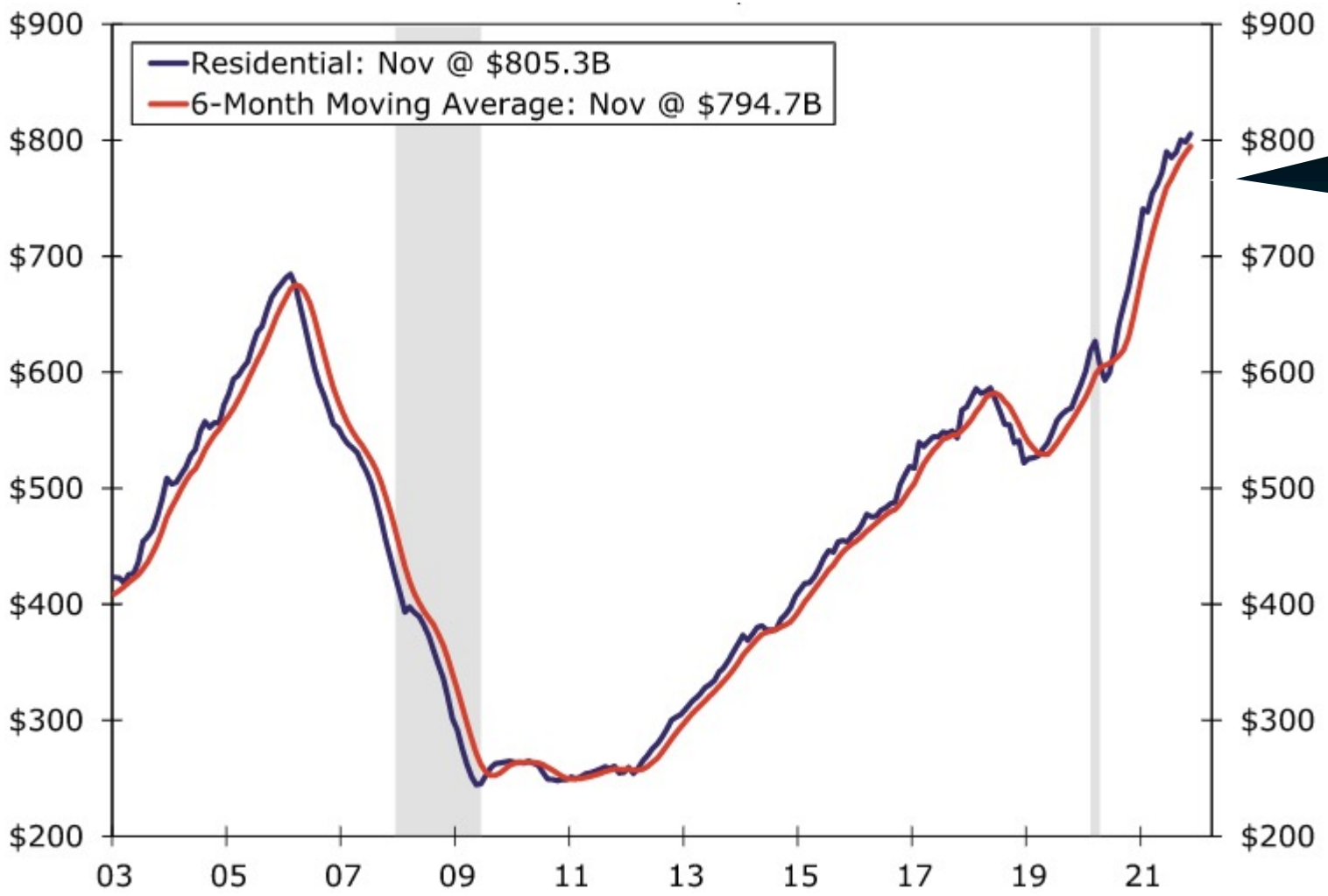
Job growth, low inventories of existing homes, low mortgage interest rates and demographics should continue to stimulate new home construction, though materials prices, supply chain problems, lack of labor are headwinds



Insurers Are Continue to See Meaningful Exposure Growth in the Homeowners Line as well as Lines Associated with Home Construction: Construction Risk Exposure, Surety, Commercial Auto; Potent Driver of Workers Comp Exposure

Source: U.S. Department of Commerce; Wells Fargo Securities (1/22 for 2021-23); Univ. of South Carolina, Center for Risk and Uncertainty Management..

Private Residential Construction, Jan. 2003 – Nov. 2021*
($ Billions, Seasonally Adjusted Annual Rate)

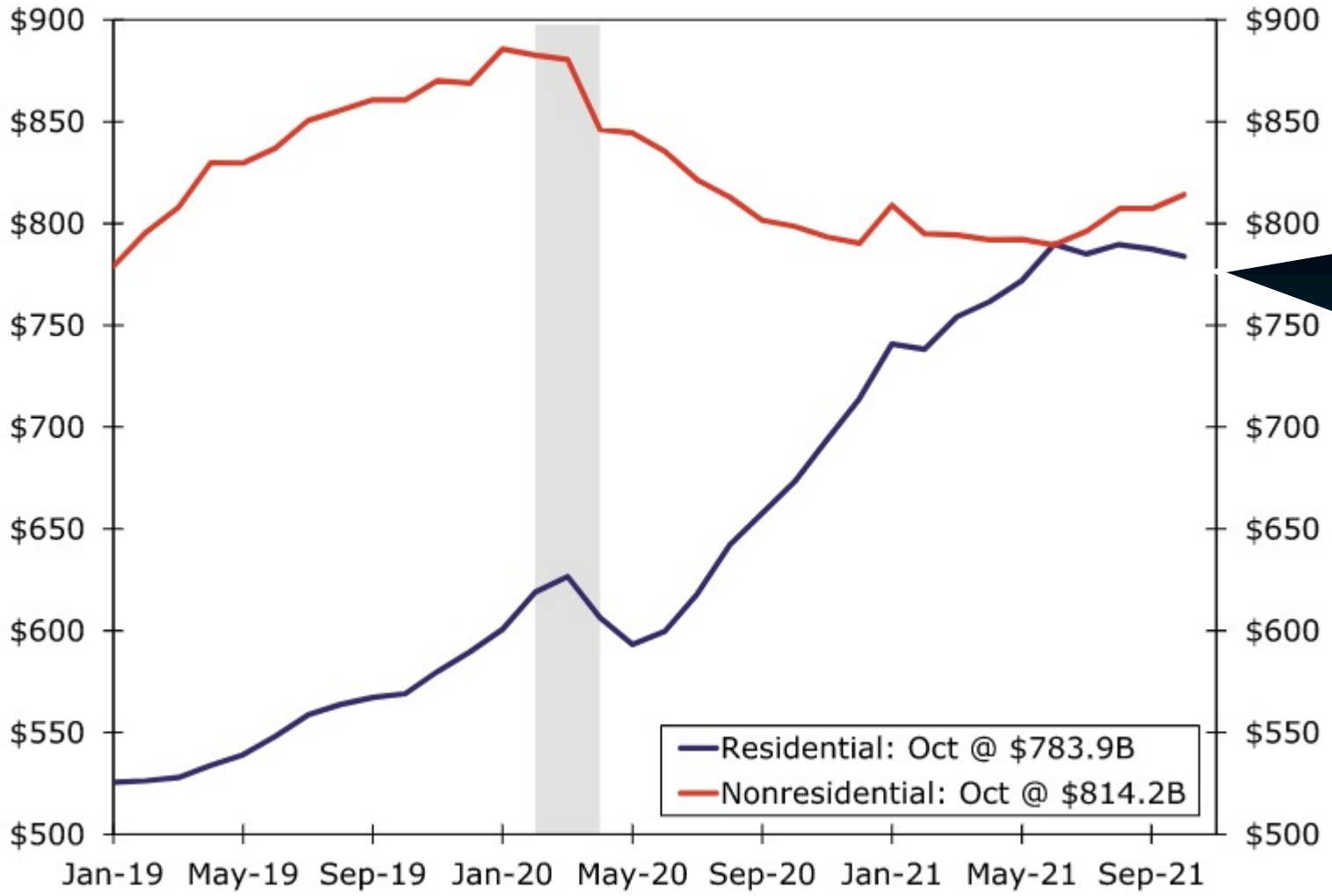


The value of Residential Construction has skyrockted during the pandemic and is up ~30% from its pre-COVID peak. It is also up ~15% from its pre-Financial Crisis peak

*Latest available.

Sources: US Department of Commerce; Wells Fargo Securities (1/22); Risk and Uncertainty Management Center, University of South Carolina.

Private Residential Construction, Jan. 2003 – Nov. 2021*
($ Billions, Seasonally Adjusted Annual Rate)



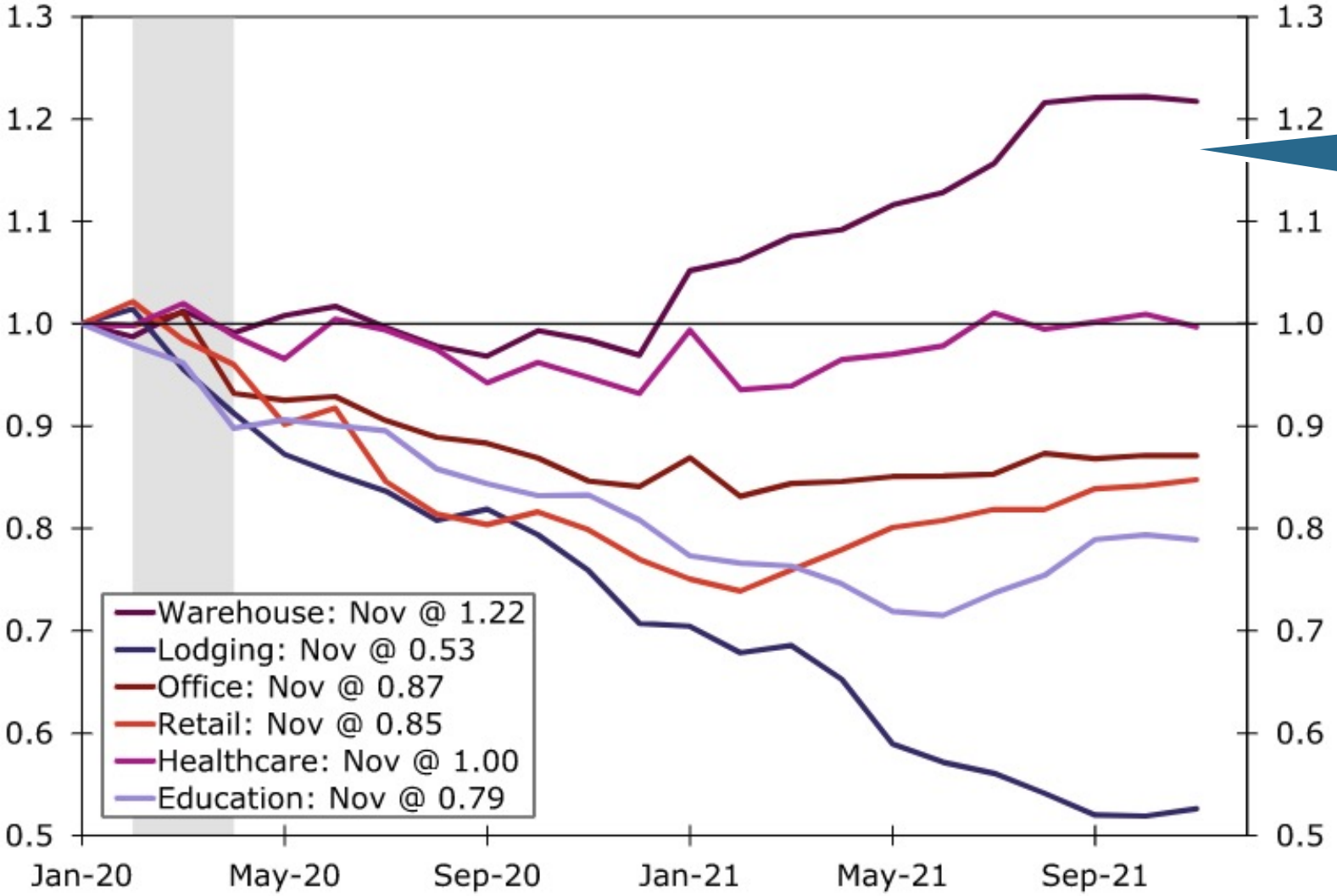
The value of Residential Construction has skyrockted during the pandemic and is up ~30% from its pre-COVID peak.

Nonresidential Construction is down about 8% relative to pre-COVID levels

*Latest available.

Sources: US Department of Commerce; Wells Fargo Securities (1/22); Risk and Uncertainty Management Center, University of South Carolina.

Nonresidential Construction Index,
Jan. 2020 – Nov. 2021* (Jan. 2020 = 100)



With the exception of warehousing and healthcare, private nonresidential construction is generally falling

*Latest available. C = Commercial, I = Institutional.

Sources: US Department of Commerce; Wells Fargo Securities (1/22); Risk and Uncertainty Management Center, University of South Carolina.

Inflationary Pressures Impacting Insurers

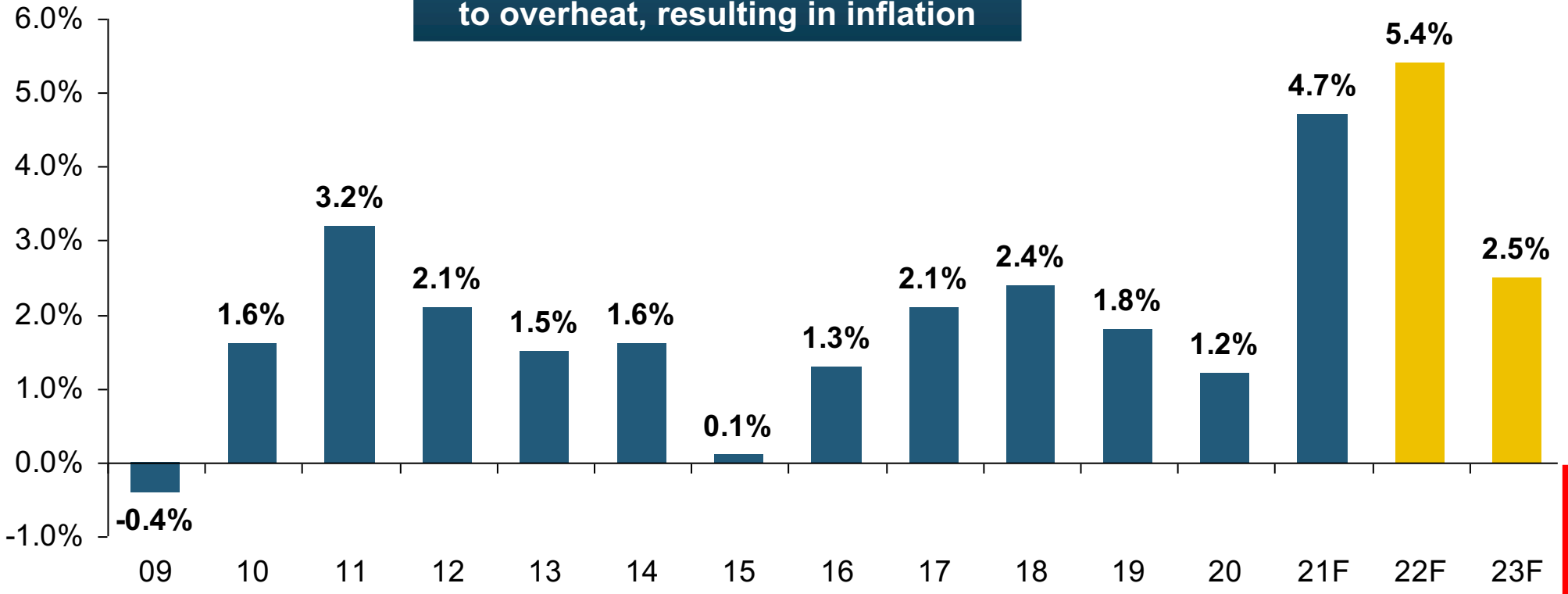
Claim Inflation Is Here Today

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—accelerating the Fed timetable for rate hikes. Inflation moderate in 2022:H2 and beyond



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 (1/22); USC Center for Risk and Uncertainty Management.

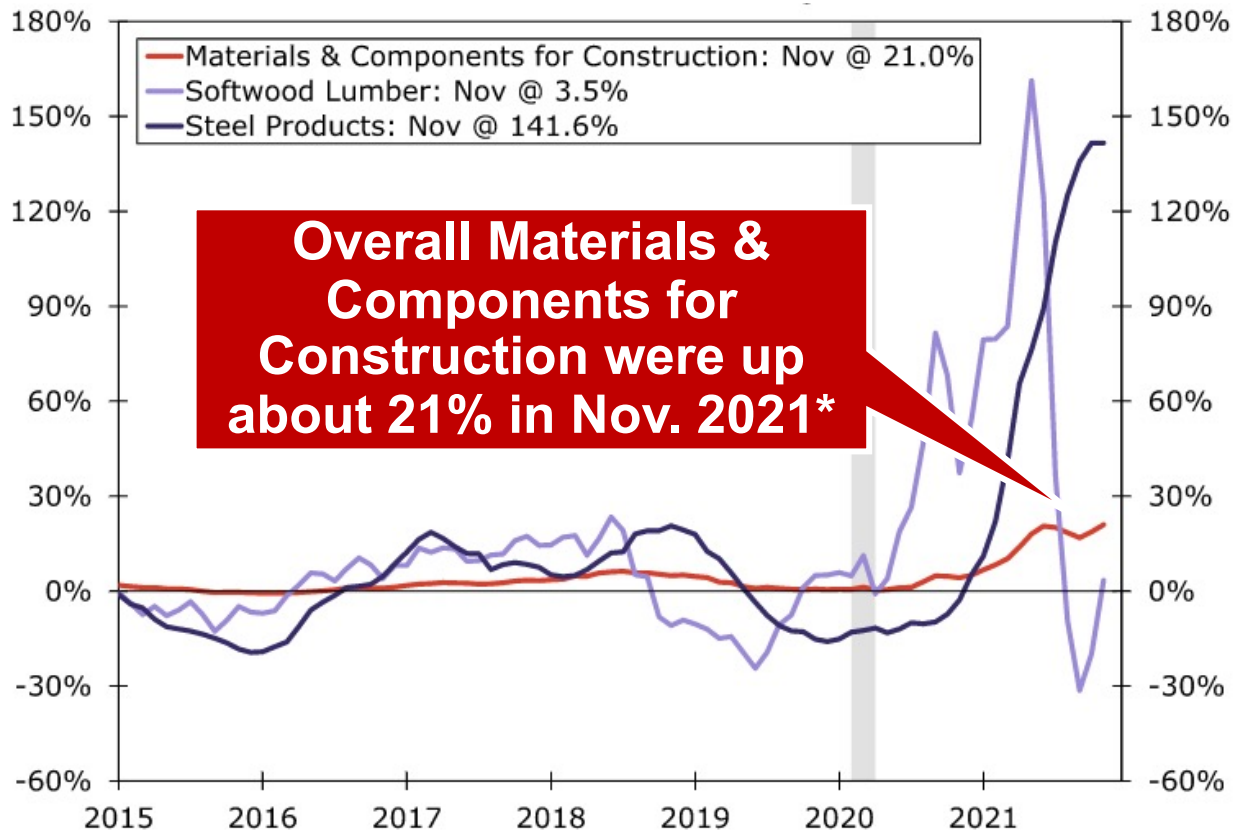
Crude Oil Prices: Price per Barrel, Jan. 2002 – Jan. 2022 (Inflation Adjusted)

Crude above $80/bbl—more than quadruple its pandemic low—causing market panic and fueling inflation fears. But this is a price level we've experienced many times before—most recently in 2018—a period of economic growth and falling unemployment

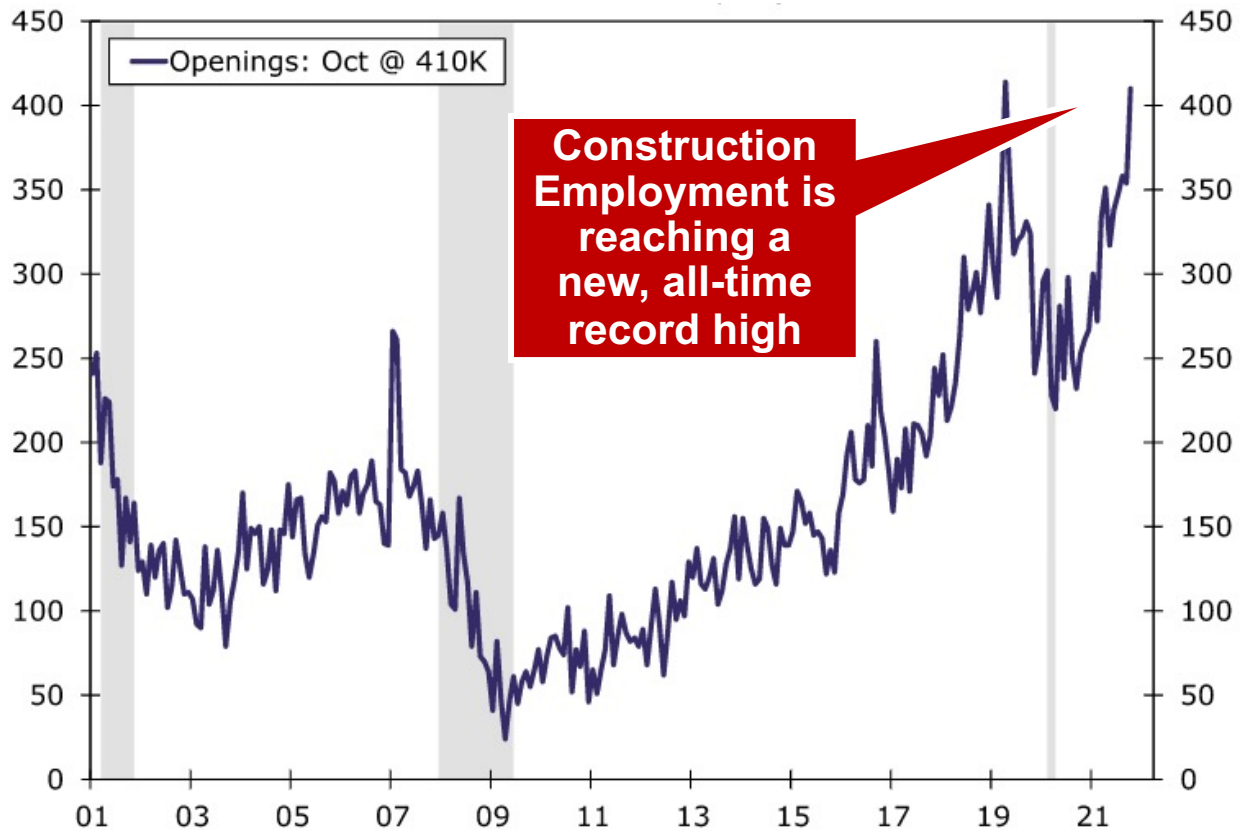
Sources: Macrotrends.net accessed 1/24/22 at: https://www.macrotrends.net/1369/crude-oil-price-history-chart; Risk and Uncertainty Management Center, University of South Carolina.

PPIs for Construction and Construction Employment

PPIs: Y-o-Y Percent Change, Jan. 2015 – Nov. 2021*



Construction Employment, Jan. 2001 – Nov. 2021*



*Latest available.

Sources: US Department of Commerce; Wells Fargo Securities (1/22); Risk and Uncertainty Management Center, University of South Carolina.

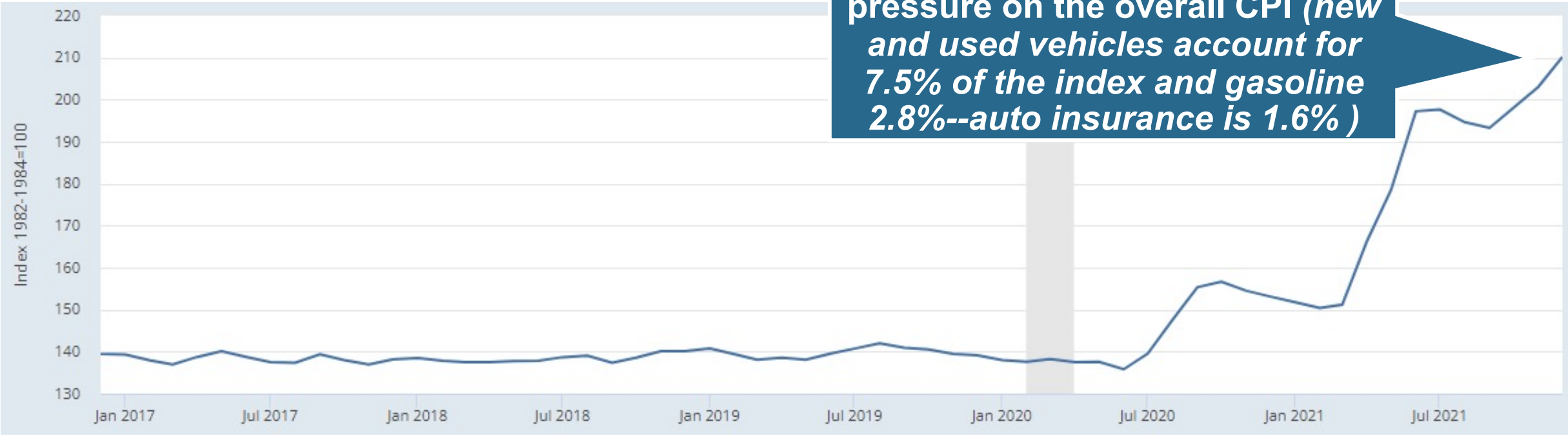
Producer Price Index: Lumber and Wood Products, Jan. 2020 – Nov. 2021

Lumber & Wood Product prices surged during the pandemic, peaking in mid-2021 and remain 65% above pre-COVID levels

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

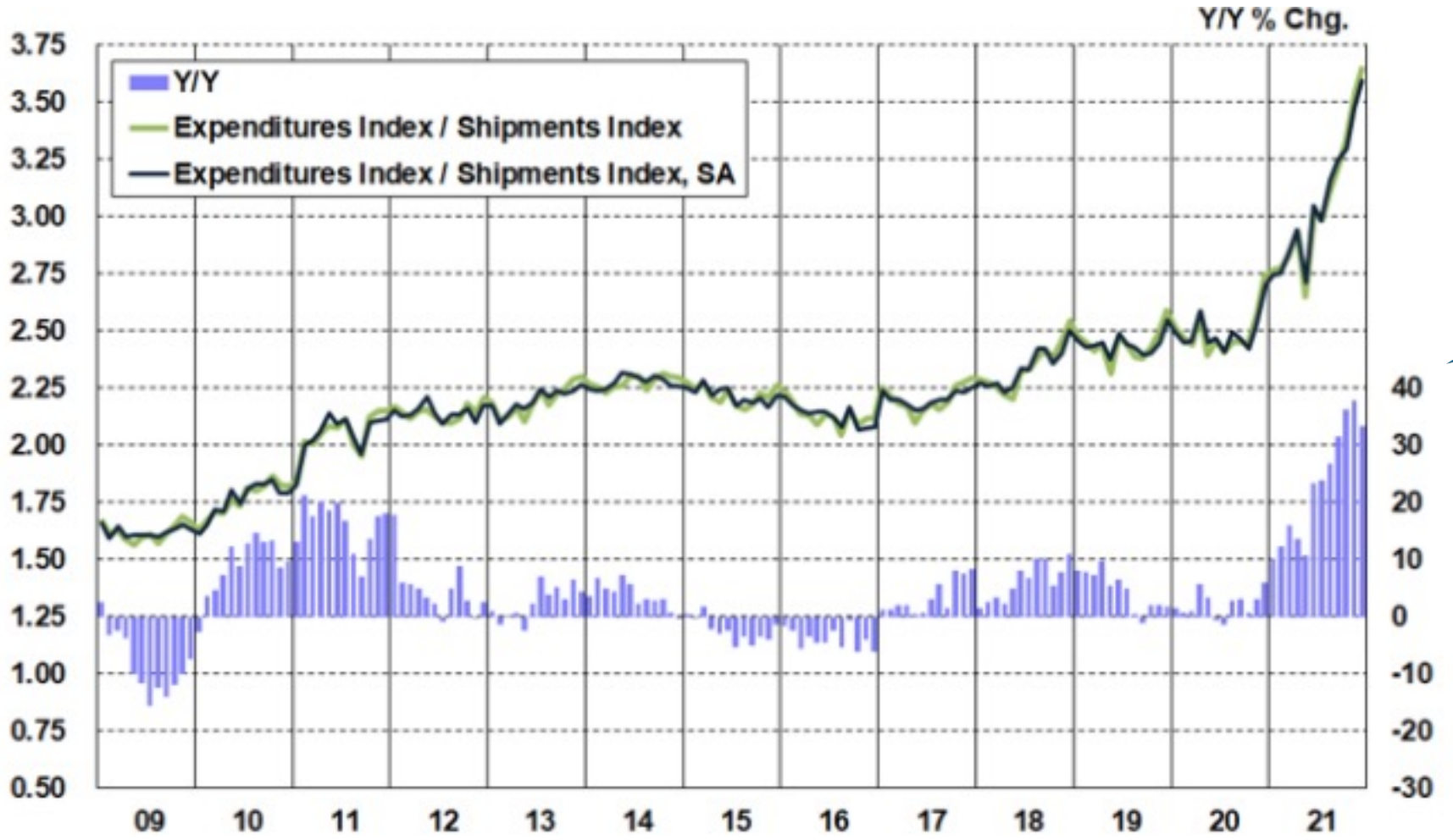
Price Index Changes for Used Cars & Trucks, Jan. 2017 – Dec. 2021

New and Used Vehicle prices have surged during the pandemic, +52% since Jan. 2020—putting significant pressure on the overall CPI *(new and used vehicles account for 7.5% of the index and gasoline 2.8%--auto insurance is 1.6%)*



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

Index of Domestic Freight Costs (All Modes), Jan. 2009 – Dec. 2021



30%+ increase in domestic shipping costs Y-o-Y as of Dec. 2021

Sources: Cass Freight Index accessed 1/24/22 at: https://www.cassinfo.com/freight-audit-payment/cass-transportation-indexes/cass-freight-index; Risk and Uncertainty Management Center, University of South Carolina.

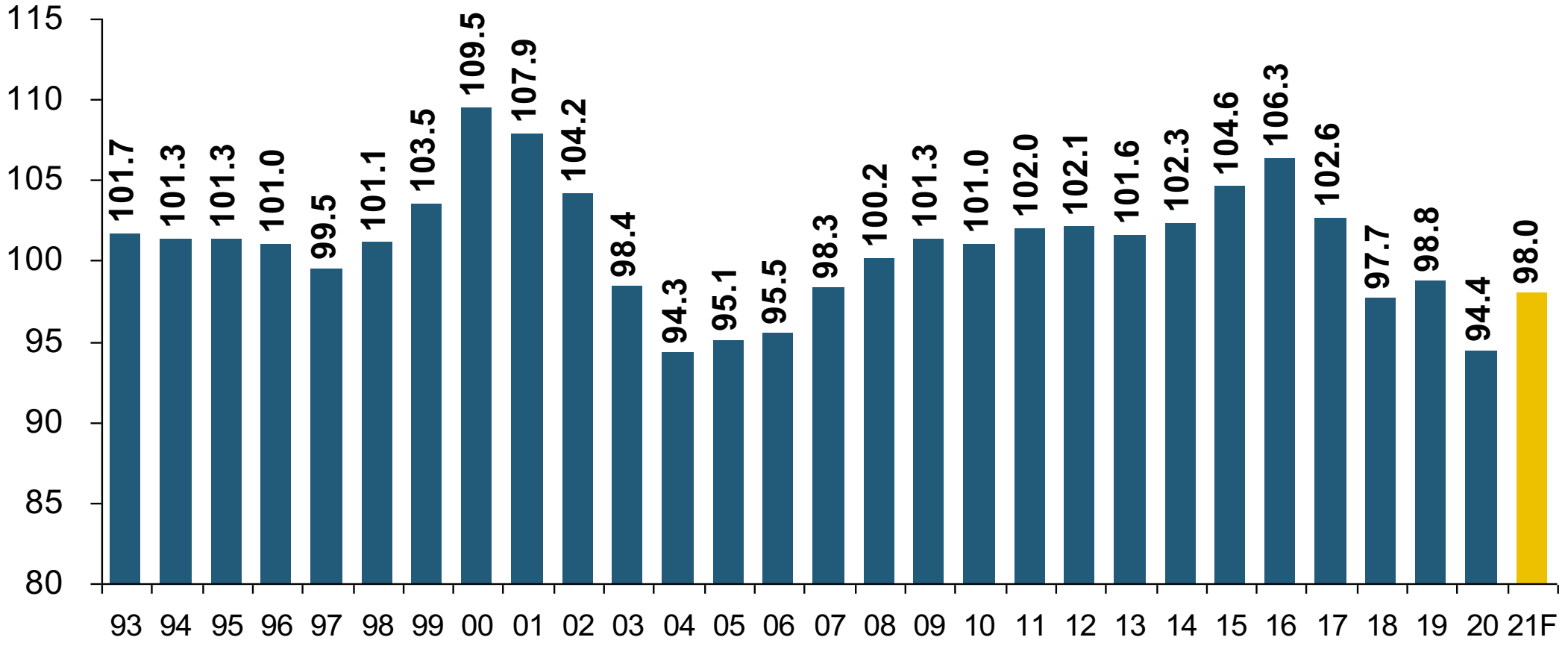
State of the Personal Lines Market

Auto Frequency and Severity Are an Immediate Challenge

Homeowners Significantly Impacted by Heavy CAT Losses

44

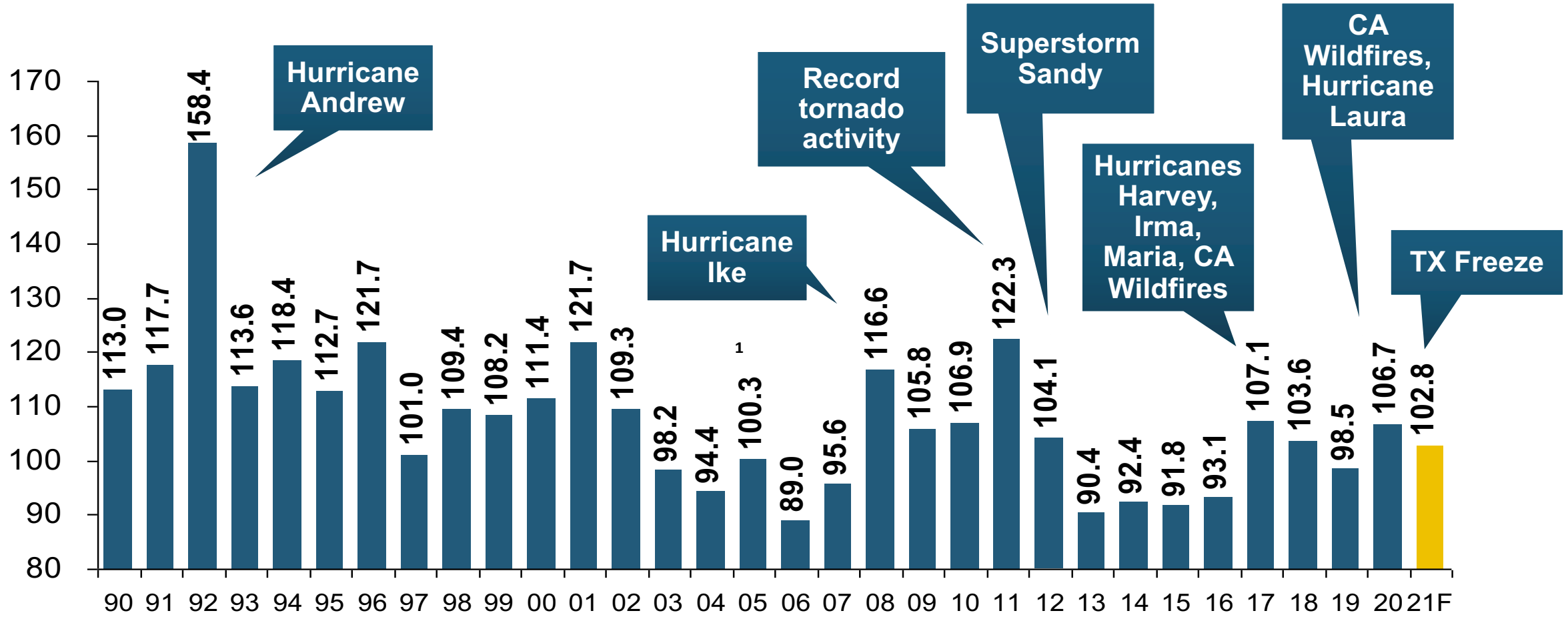
Private Passenger Auto Combined Ratio: 1993–2021F



Private Passenger Auto Underwriting Results Remain Strong. Improvement in 2020 Due Partially to Reduced Claim Frequency During COVID-19 Pandemic

Sources: A.M. Best (1990-2021F); USC RUM Center.

Homeowners Insurance Combined Ratio: 1990–2021F



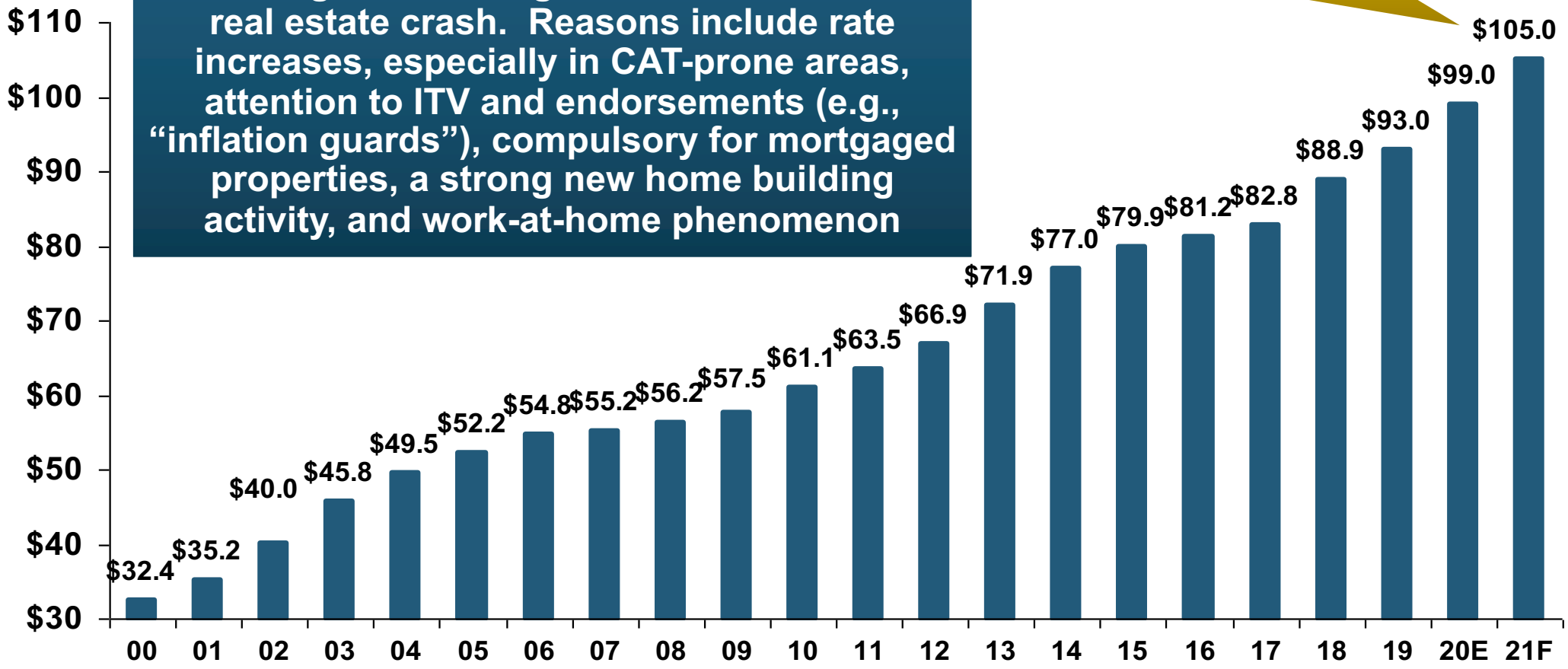
Homeowners Performance Had Improved Markedly Since 2011/12's Large Cat Losses…But Elevated CAT Activity Continues to Adversely Impact Underwriting Performance

Sources: A.M. Best (1990-2019 and 2021F); Statutory financial data from S&P Global (2020); USC RUM Center.

Homeowners Insurance
Net Written Premium, 2000–2021F

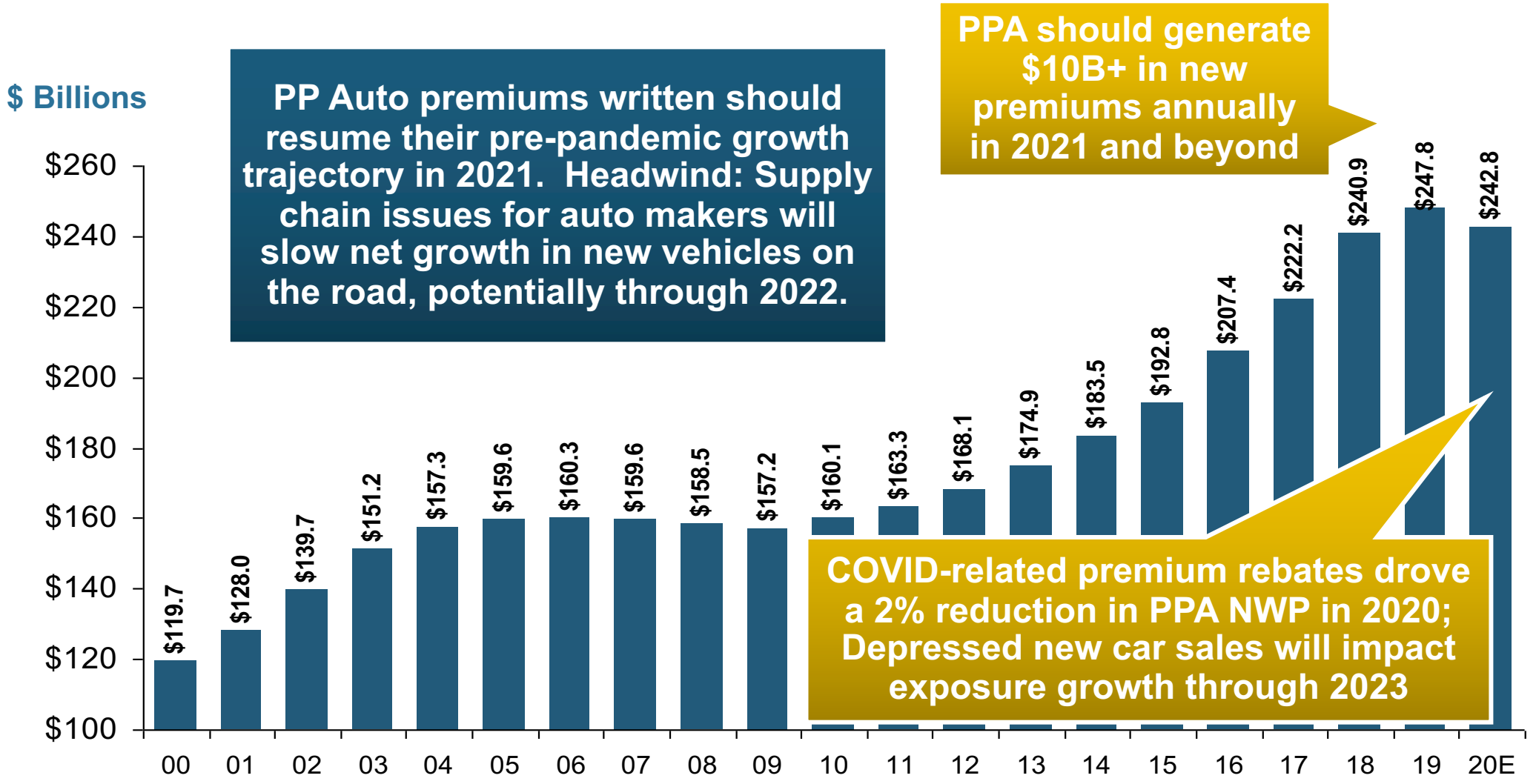
The Homeowners line will reach $100B in NWP in 2021 for the first time and should generate about $4B - $6B in new premiums annually for the next few years

Homeowners insurance NWP more than tripled (+205% from 2000-2020) despite very little unit growth during the financial crisis and real estate crash. Reasons include rate increases, especially in CAT-prone areas, attention to ITV and endorsements (e.g., "inflation guards"), compulsory for mortgaged properties, a strong new home building activity, and work-at-home phenomenon



Sources: A.M. Best; USC RUM Center.

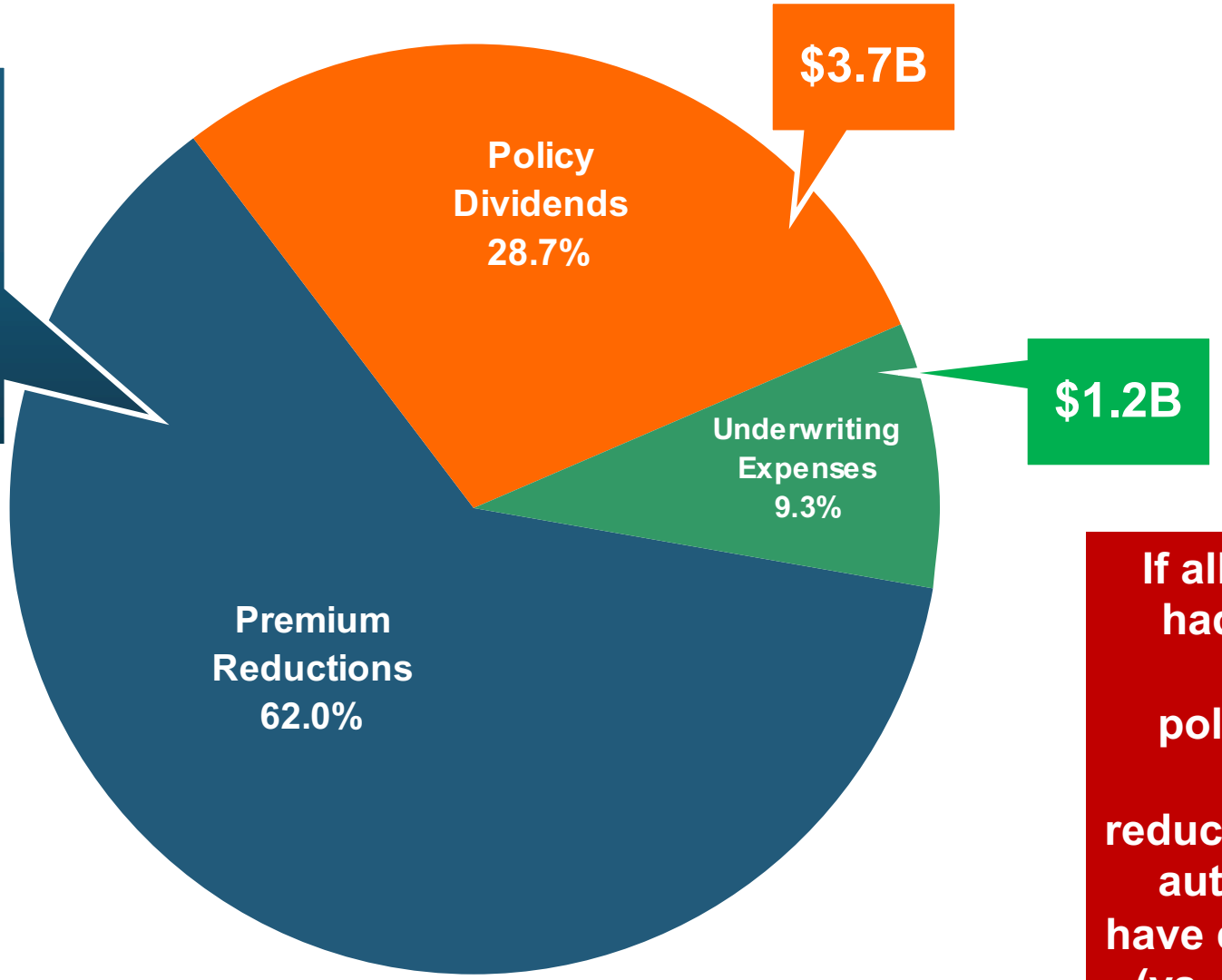
Private Passenger Auto Insurance Net Written Premium, 2000–2020



Sources: A.M. Best (1990-2020E); USC RUM (2021F).

Auto Insurers Returned $12.9 Billion to Policyholders in 2020, but Accounted for Then in Different Ways

About $8B of 62% of the $12.9B premiums returned by auto insurers in 2020 were recorded as a Premium Reductions



If all auto insurers had recorded all credits to policyholders as "premium reductions," personal auto DWP would have dropped by ~3% (vs. 1.4% reported)

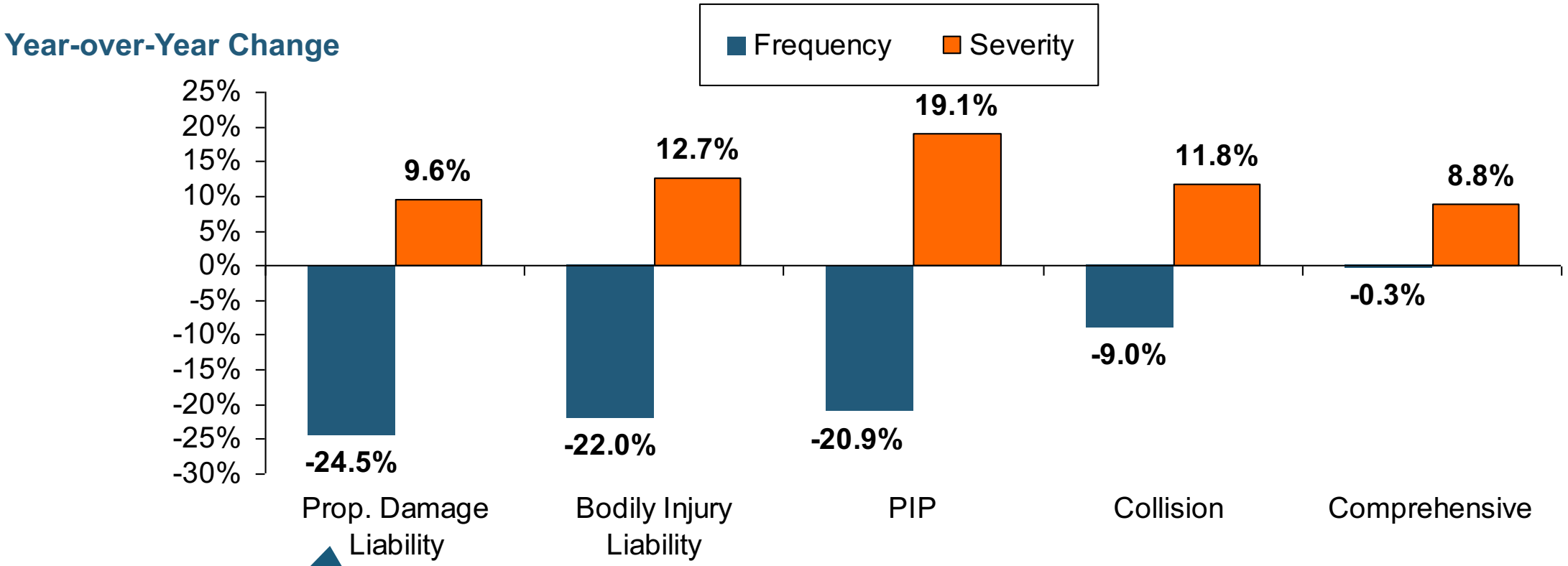
Source: A.M. Best; Risk and Uncertainty Management Center, University of South Carolina.

UNIVERSITY OF
SOUTH CAROLINA
Darla Moore School of Business

Private Passenger Auto Frequency & Severity Trends

Frequency, Severity and Loss Ratio Trends Are Mixed

US Personal Auto Claim Frequency Trends Significantly Impacted by COVID but Severities Rise: 12 Months Ending Q2 2021



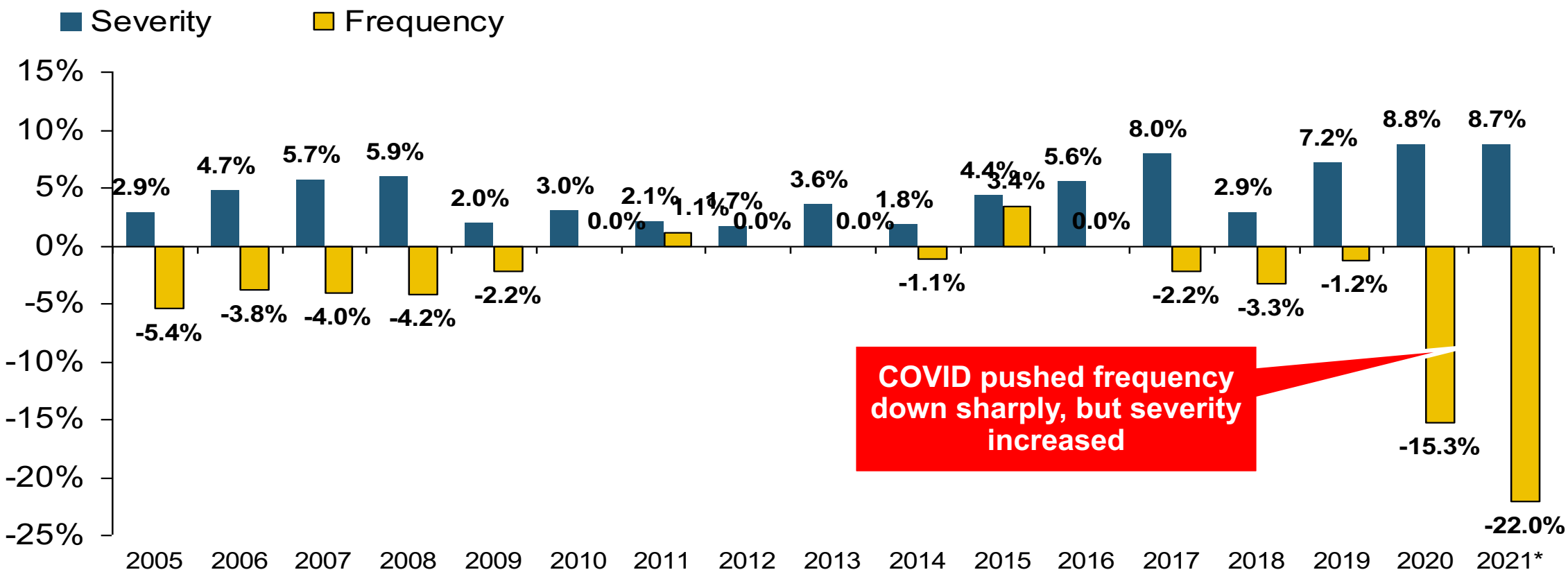
PD Liability claims plunged by nearly 1/4

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

Source: ISO/PCI *Fast Track* data for Q2 2021; Risk and Uncertainty Management Center, Univ. of South Carolina.

Bodily Injury: Severity Trend Is Up, Frequency Plunge in 2020/21 Due to COVID

Annual Change, 2005 through 2021*



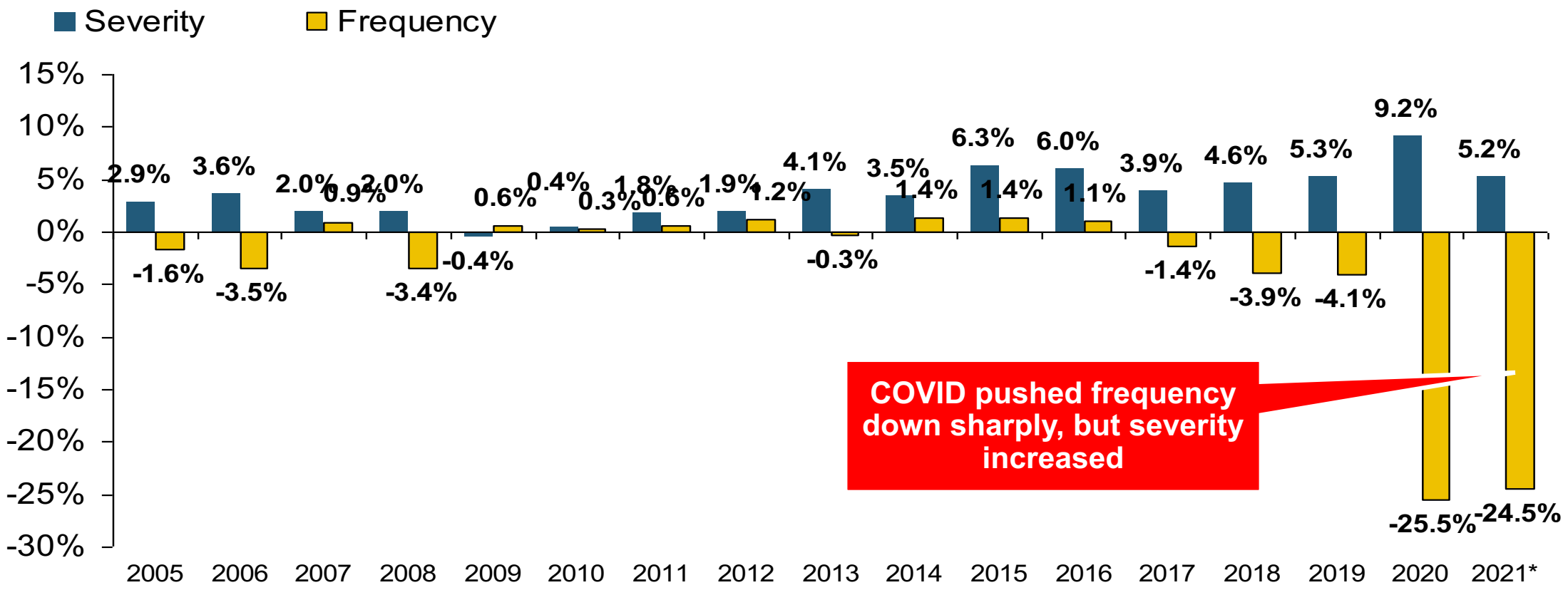
Frequency trend will not return to pre-COVID trajectory until at least 2022

*2021 figure is for the 4 quarters ending 2021:Q2.

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

Property Damage Liability: Severity Trend Is Up, Frequency Plunge in 2020 Due to COVID

Annual Change, 2005 through 2021*

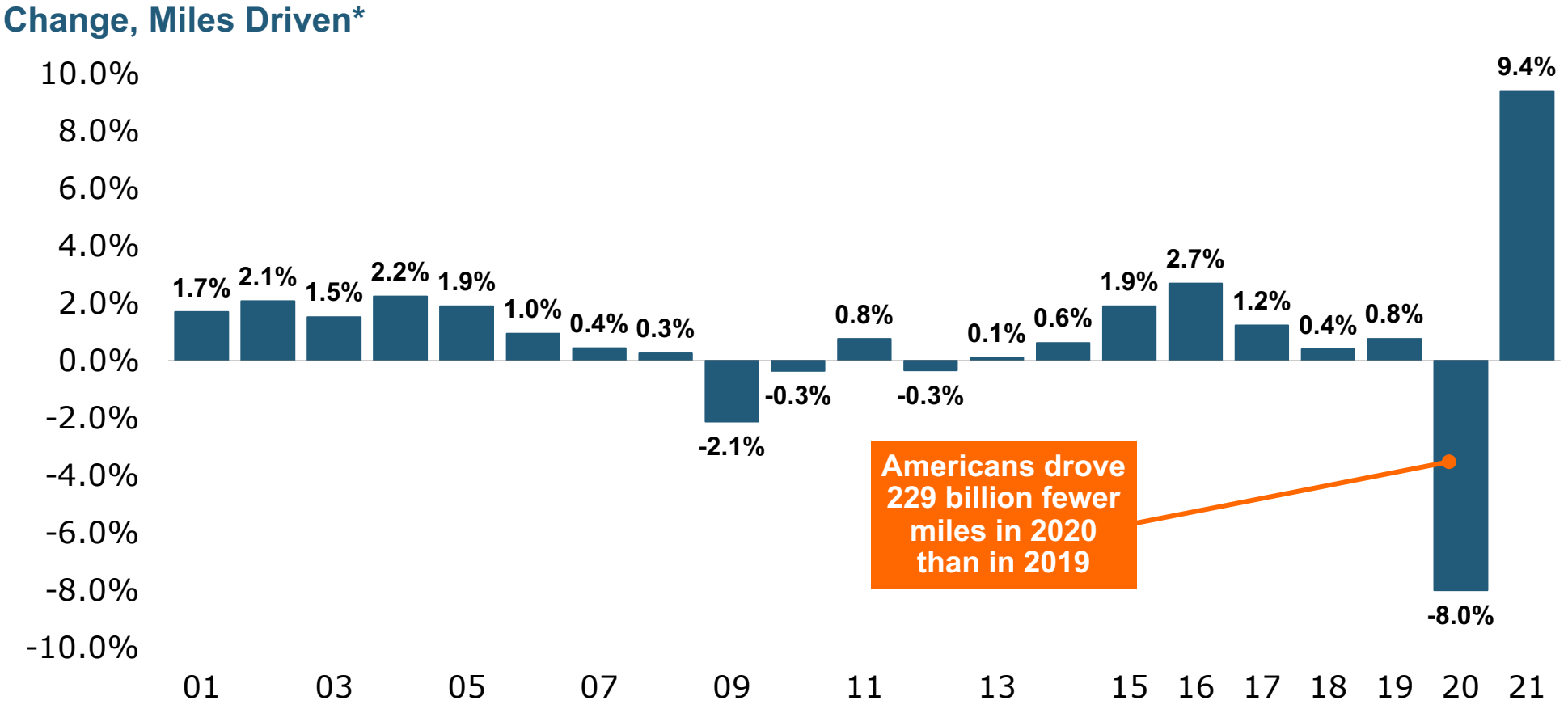


Frequency trend will not return to pre-COVID trajectory until at least 2022

*2020 figure is for the 4 quarters ending 2021:Q2.

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

Miles Driven During the First Half of 2021 Remains Depressed: 2000-2021*



Tremendous Growth In Miles Driven. The More People Drive, the More Frequently They Get Into Accidents.

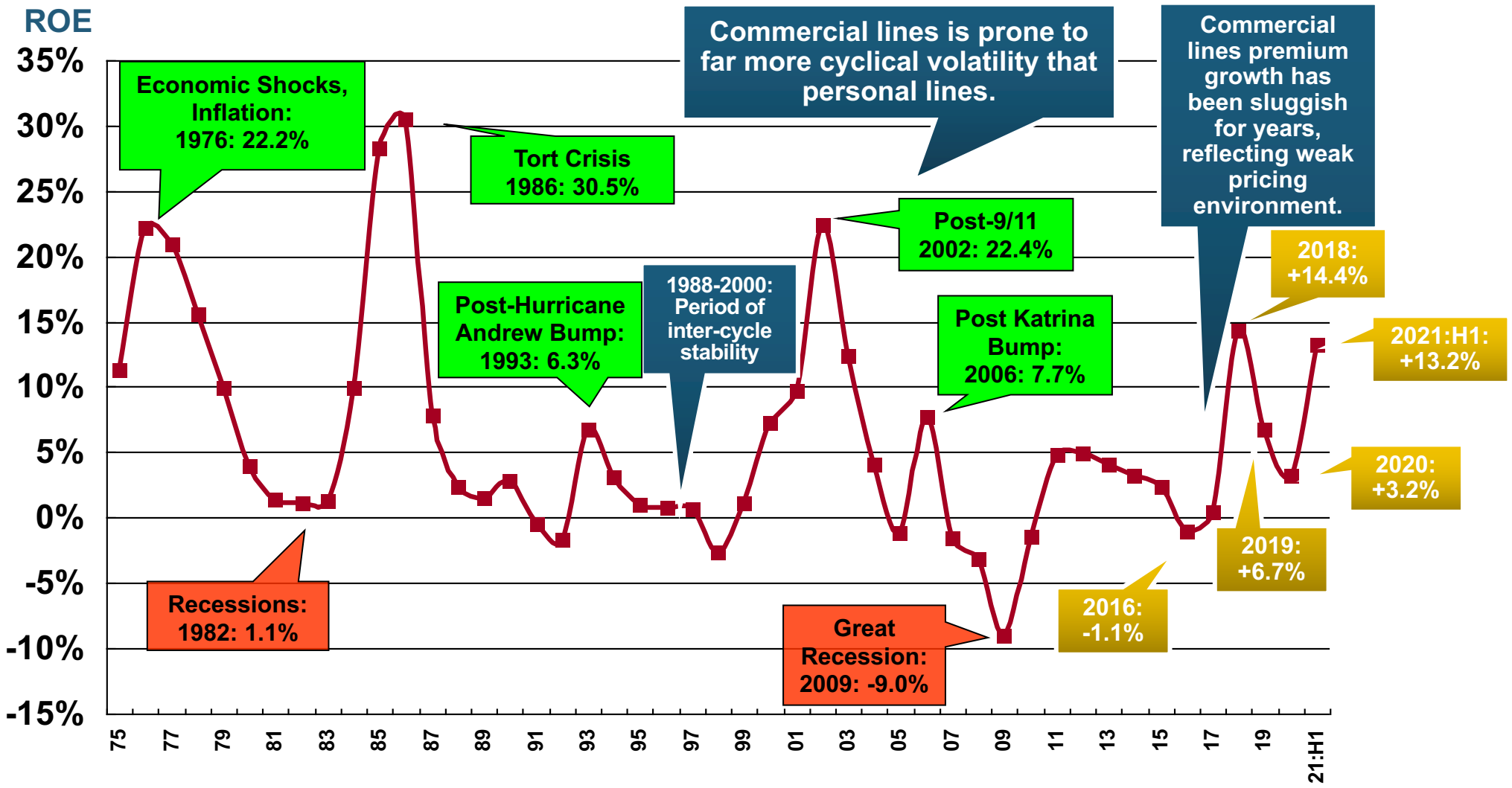
*Moving 12-month total vs. prior year through November 2021.
Sources: Federal Highway Administration; Insurance Information Institute.

Commercial Lines Growth, Underwriting Performance & Pricing Cyclicality

Pricing Pressures Remain

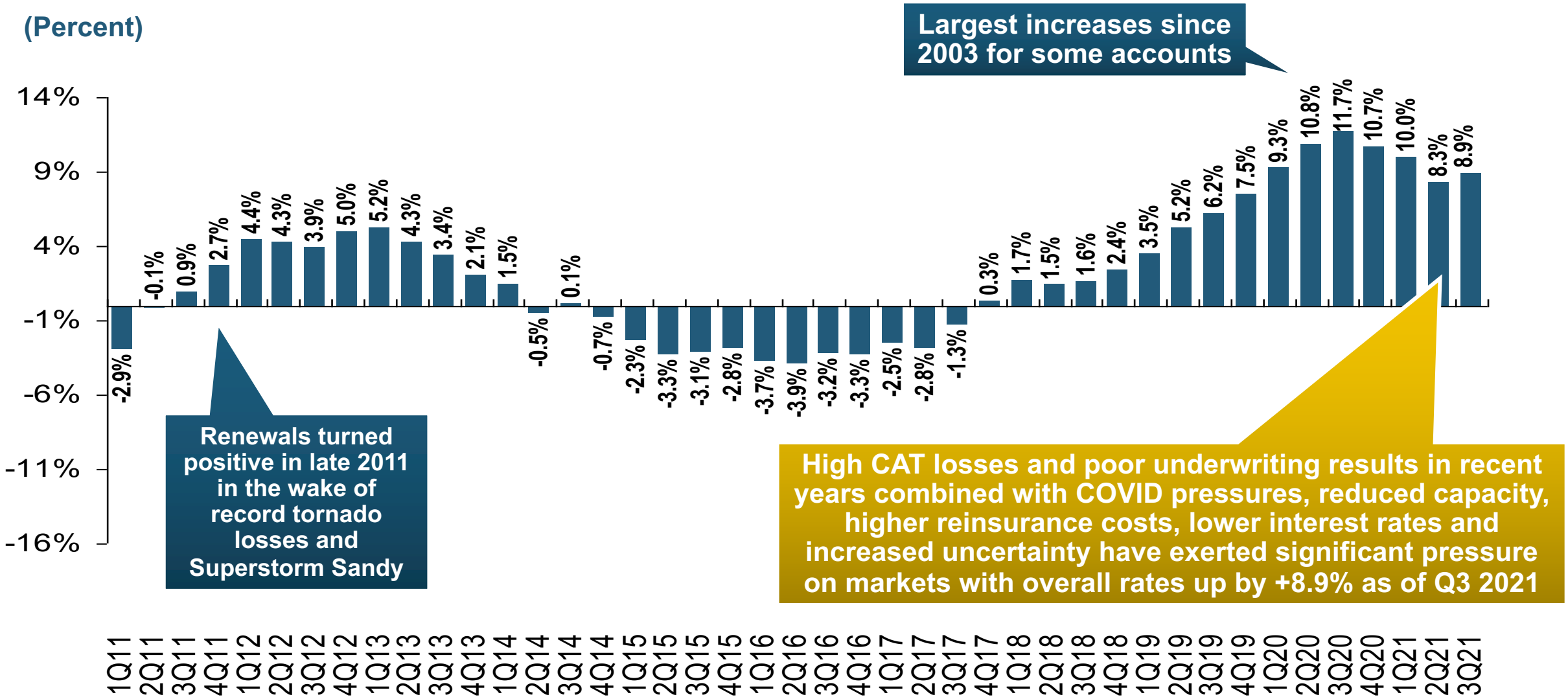
55

Commercial Lines NPW Premium Growth: 1975 – 2021:H1



Note: Data include state funds beginning in 1998.
Source: A.M. Best; ISO; APCIA; Univ. of South Carolina Center for Risk and Uncertainty Management Center.

CIAB: Average Commercial Rate Change, All Lines, 2011:Q1–2021:Q3*

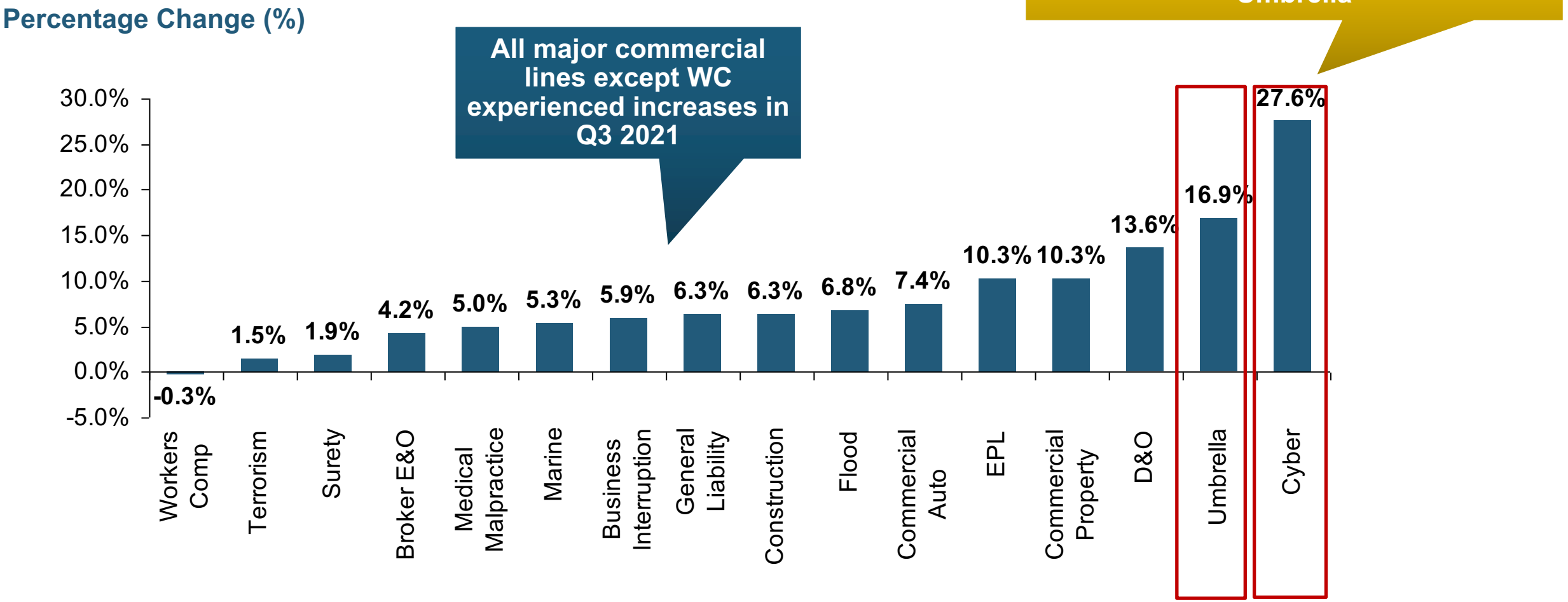


*Latest available.
Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents & Brokers; Center for Risk and Uncertainty Management, Univ. of South Carolina.

Change in Commercial Rate Renewals, by Line: 2021:Q3

Cyber is seeing record increase, in response to major breaches in 2020 and 2021, overtaking Commercial Umbrella

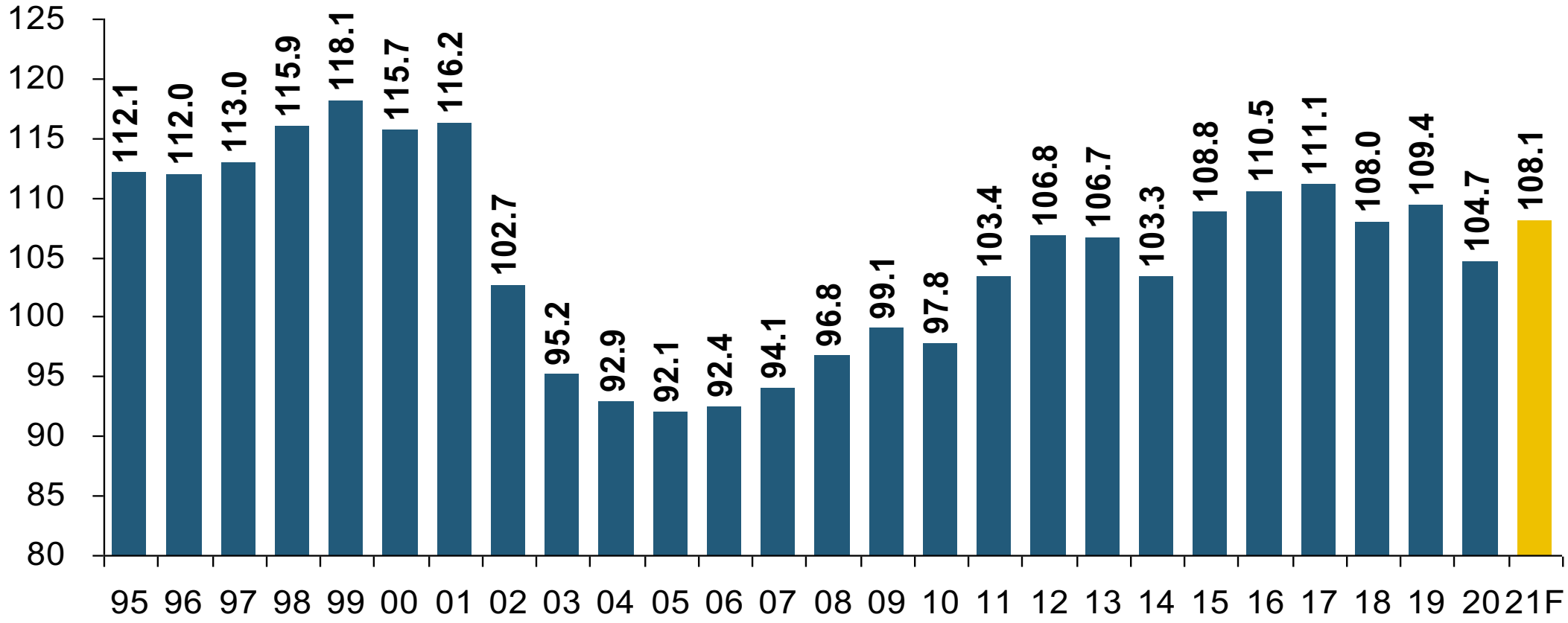
All major commercial lines except WC experienced increases in Q3 2021



Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.

Source: Council of Insurance Agents and Brokers; USC Center for Risk and Uncertainty Management.

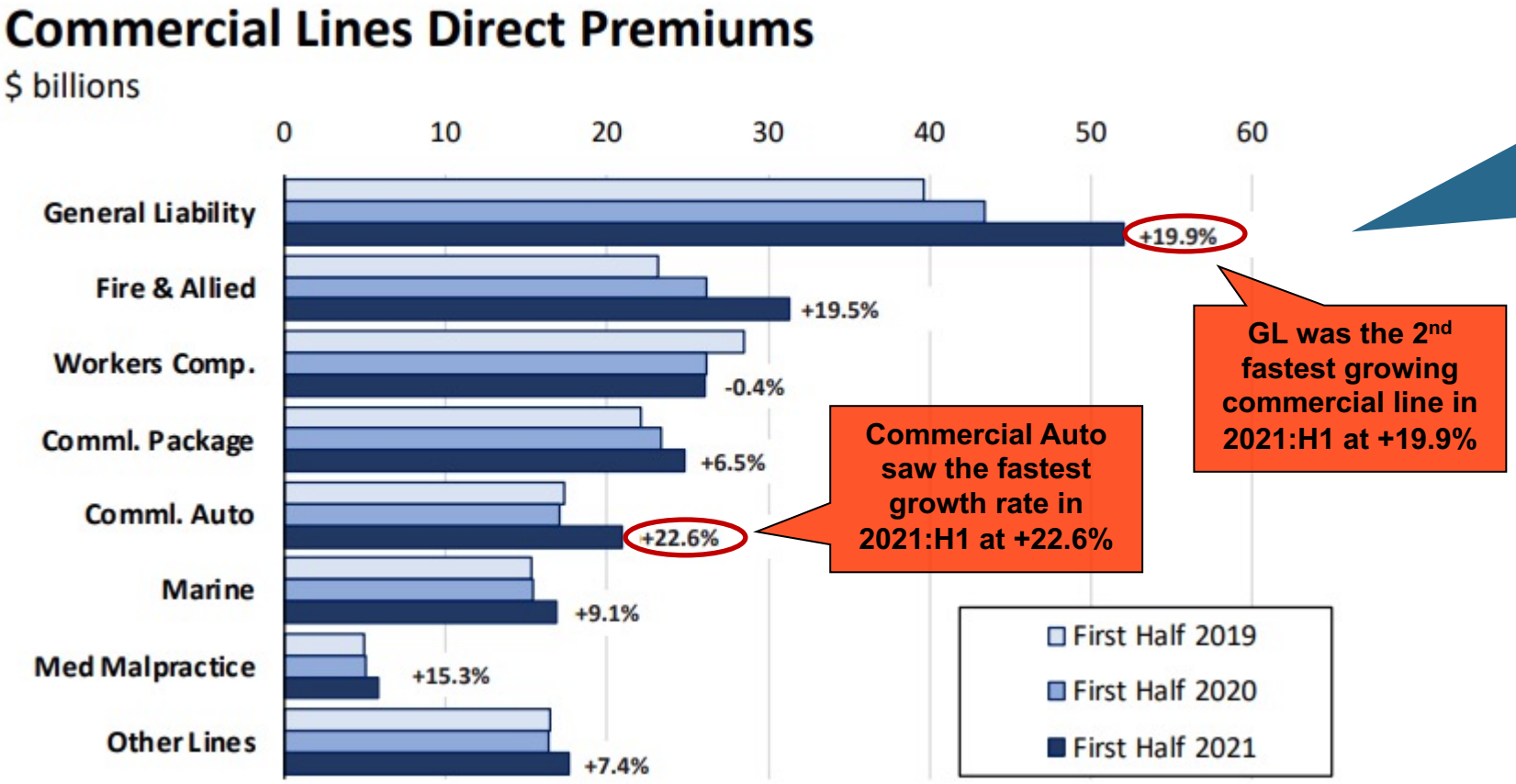
Commercial Auto Combined Ratio: 1993–2021F



Commercial Auto Results Are Challenged as Rate Gains Have Yet to Fully Offset Adverse Frequency and Severity Trends; 2020 Improvement Driven in Part by Reduced Claim Frequency During COVID-19 Pandemic

Sources: A.M. Best (1990-2021F); Center for Risk and Uncertainty Management, University of South Carolina.

Commercial Lines Direct Premiums Written: 2021:H1



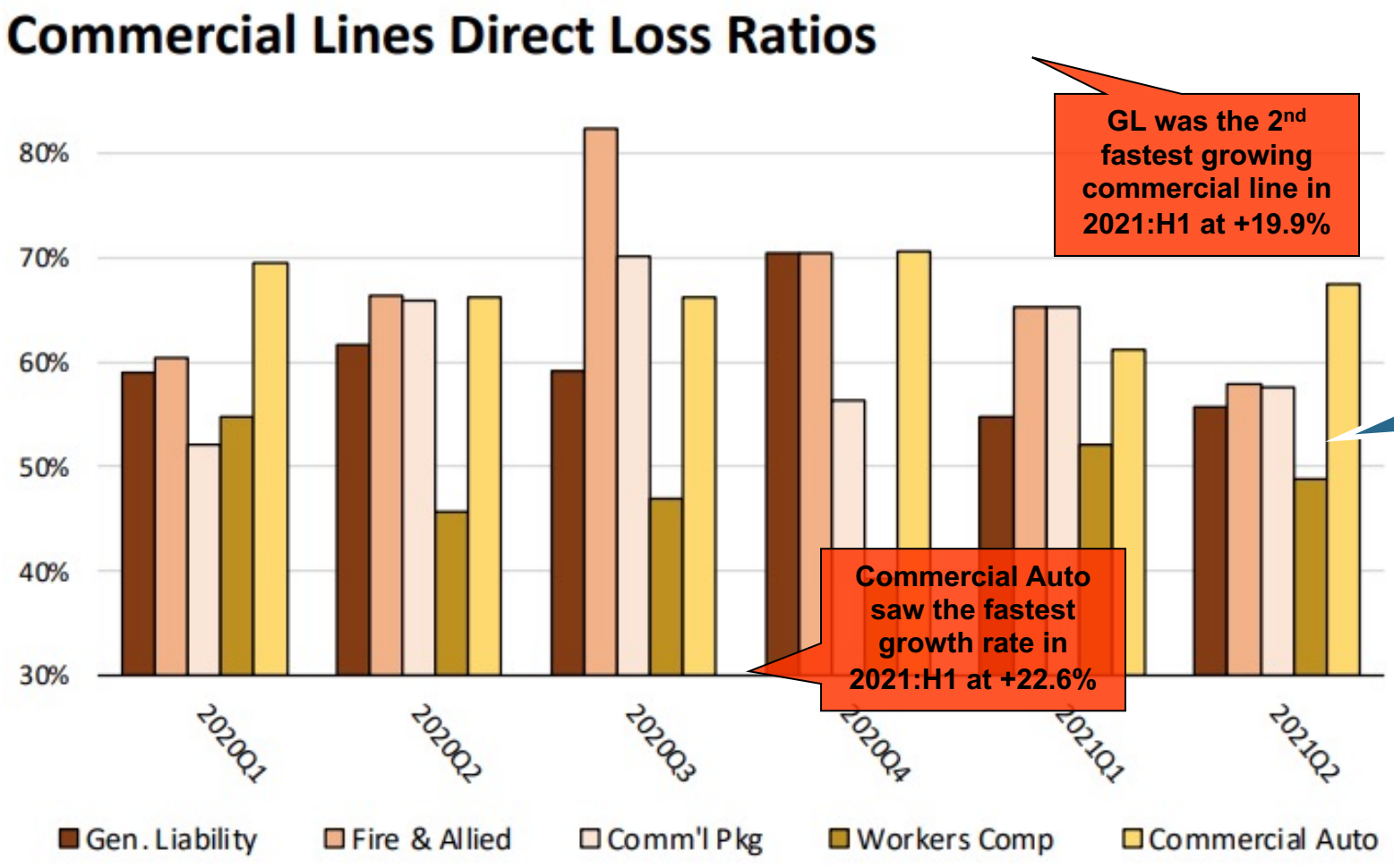
Commercial Auto saw the fastest growth rate in 2021:H1 at +22.6%

GL was the 2nd fastest growing commercial line in 2021:H1 at +19.9%

Most major commercial lines (except WC) saw sharp growth in 2021:H1, with exposures rebounding from pandemic lows and benefitting from strong rate gains

Sources: APCIA from statutory financial data from S&P Global as of 9/27/21; Risk and Uncertainty Management Center, University of South Carolina.

Commercial Lines Direct Loss Ratios: 2020:Q1 – 2021:Q2



GL was the 2nd fastest growing commercial line in 2021:H1 at +19.9%

Commercial Auto saw the fastest growth rate in 2021:H1 at +22.6%

Loss ratios for most major commercial lines have been volatile since the start of 2020

Sources: APCIA from statutory financial data from S&P Global as of 9/27/21; Risk and Uncertainty Management Center, University of South Carolina.

Distribution Trends

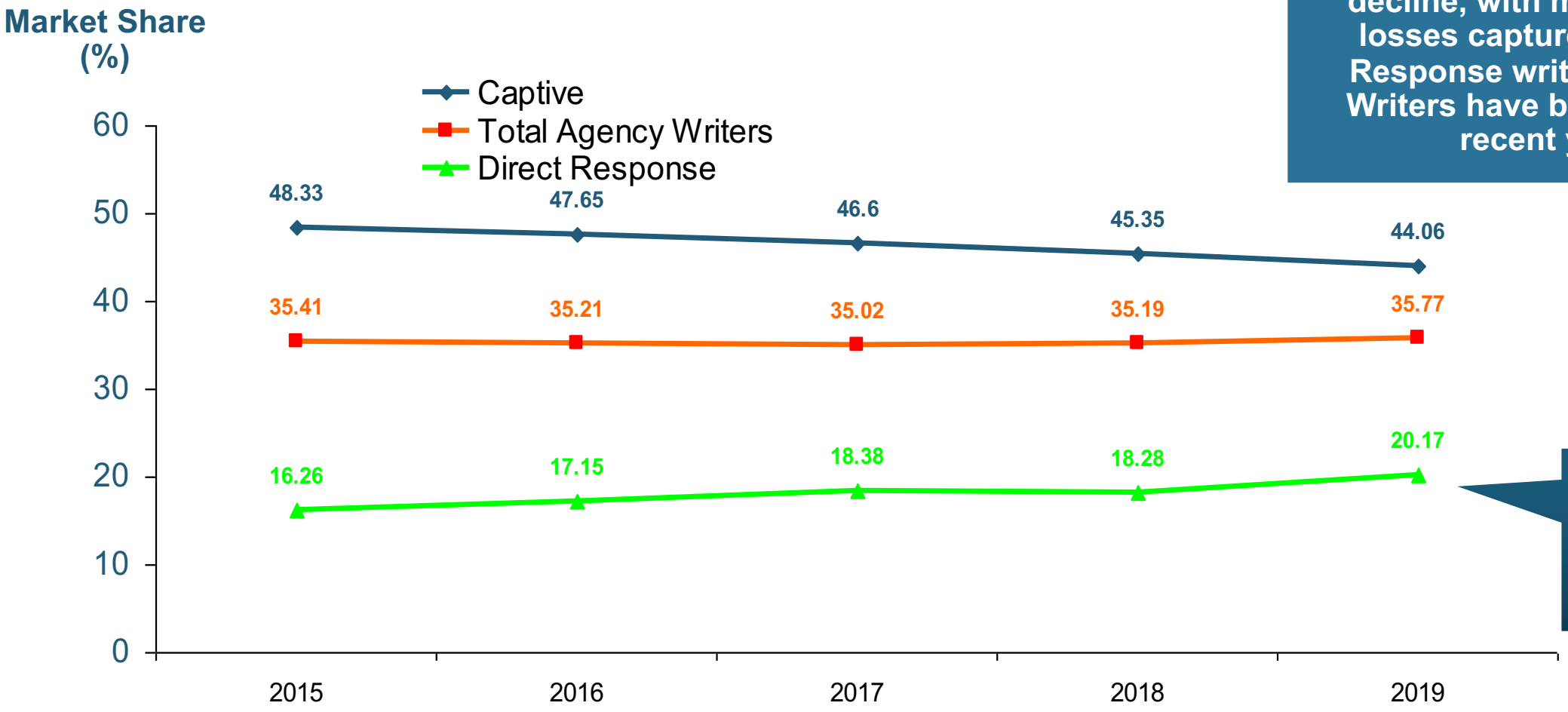
Independent Agents Are Holding their Ground in Commercial Lines

Private Equity Funds Are Hungry for Insurance Industry Growth

62

5-Year Market Share by Distribution Channel: *Personal Lines*

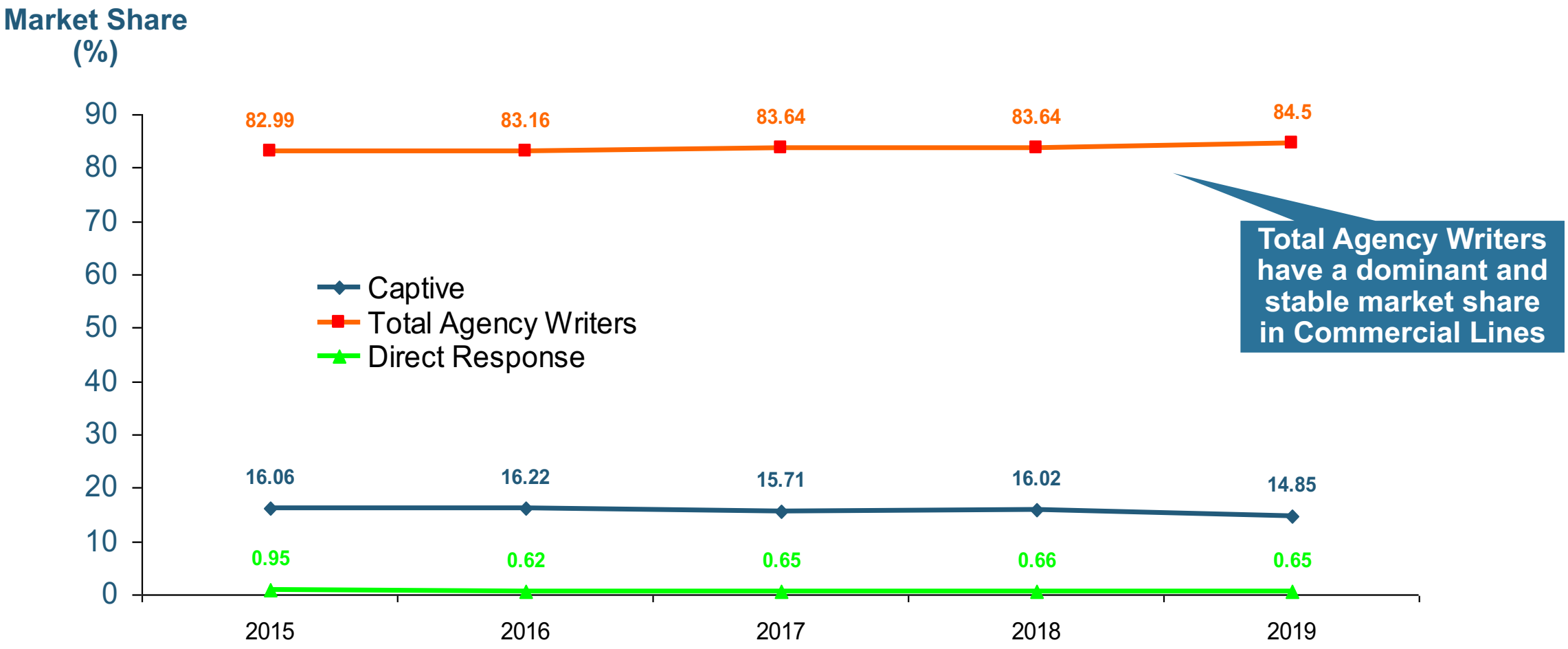
Captive Agency market share in Personal Lines continues to decline, with most of those losses captured by Direct Response writers. Agency Writers have been stable in recent years



Most gains by Direct Response carriers has come at the expense of Captive carriers

Sources: 2020 Market Share Report, IIABA from A.M. Best data at https://www.independentagent.com/research/SiteAssets/MarketShareReport/default/2020-Market-Share-Report-BasedOn2019Data.pdf; University of South Carolina, Risk and Uncertainty Management Center.

5-Year Market Share by Distribution Channel: *Commercial Lines*



Sources: 2020 Market Share Report (latest available), IIABA from A.M. Best data at https://www.independentagent.com/research/SiteAssets/MarketShareReport/default/2020-Market-Share-Report-BasedOn2019Data.pdf; University of South Carolina, Risk and Uncertainty Management Center.

10 States with Largest Independent Agent Market Share, 2019

Personal Lines	
MA	69.40
VT	53.45
ME	52.36
FL	47.05
SD	46.19
CT	43.62
WI	43.29
OH	41.44
ND	40.77
PA	40.27

Commercial Lines	
MI	89.80
WV	89.71
HI	89.62
KS	88.91
PA	88.09
OK	87.92
CO	87.91
AL	87.50
AR	87.19
NC	86.10

There is far more state variation in IA market share than in commercial lines

Sources: 2020 Market Share Report (latest available), IIABA from A.M. Best data at https://www.independentagent.com/research/SiteAssets/MarketShareReport/default/2020-Market-Share-Report-BasedOn2019Data.pdf; University of South Carolina, Risk and Uncertainty Management Center.

Merger Mania?

- Private Equity are aggressively looking to acquire distribution outlets
  - PE is very aggressive in general esp. in tech space
- These well-funded, cash-rich buyers make it difficult for local IA buyers to compete for an acquisition
- PE buyers place more of an emphasis on short-term RoR (to reward backers) and then the building of longer-term equity to maximize value in a future sale
  - In contrast, local IA acquirers primarily are interested in long-term equity growth and base purchase price primarily on cash flow
- PE investors usually like to see an EBITDA of at least 30%.
- Well-funded buyers are typically paying 2.5x – 3.5x revenues compared to 1.8x to 2.1x for local/smaller buyers
- Numerous other structural differences in the deals
- Turbulence in investment environment could affect PE firms in general

Source: Merger & Acquisition State of the Industry, Insurance Journal, 9/6/21, accessed at: https://www.insurancejournal.com/magazines/mag-features/2021/09/06/630183.htm

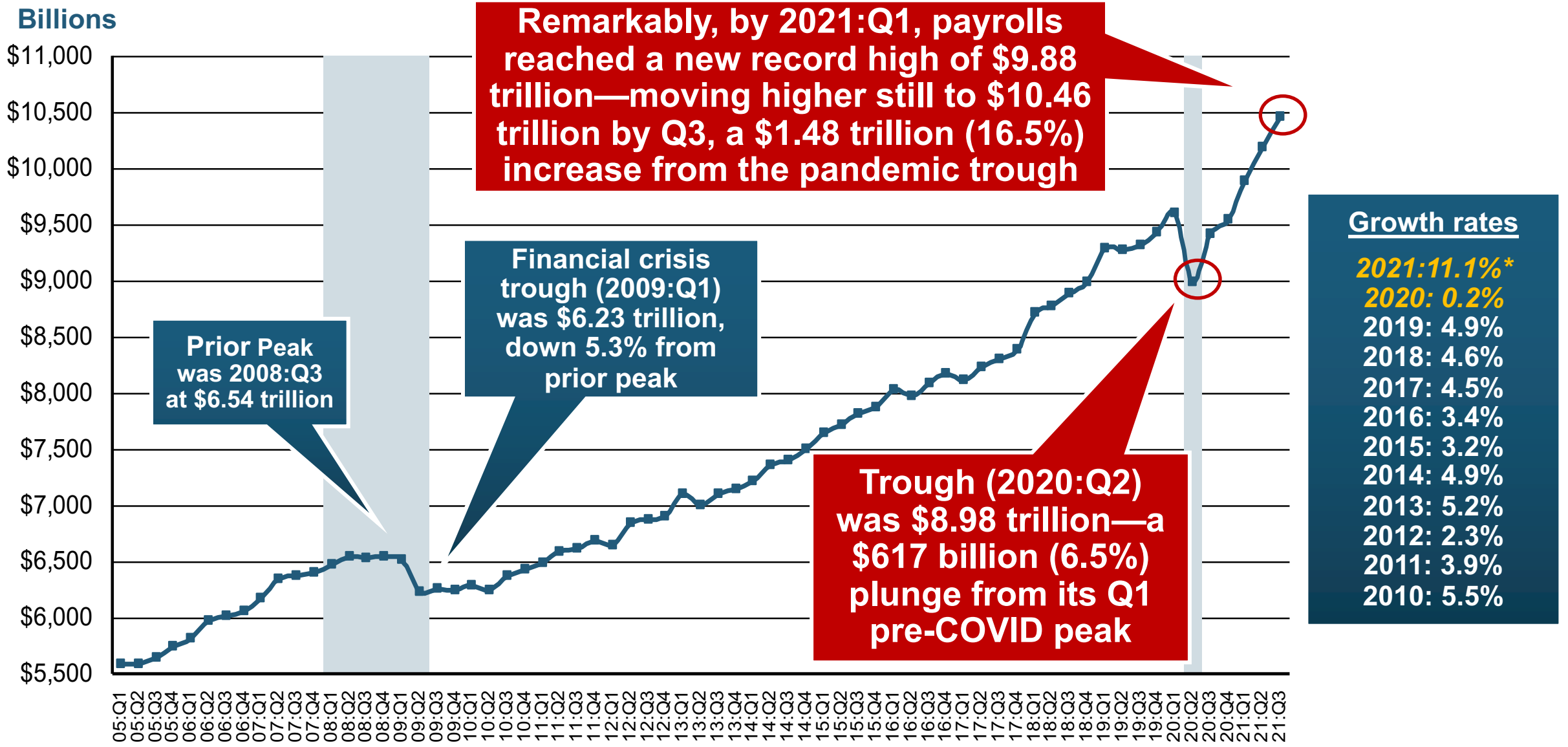
Workers Compensation Update

Significant Improvement Over the Past Decade

Long-Term Affects of COVID Uncertain

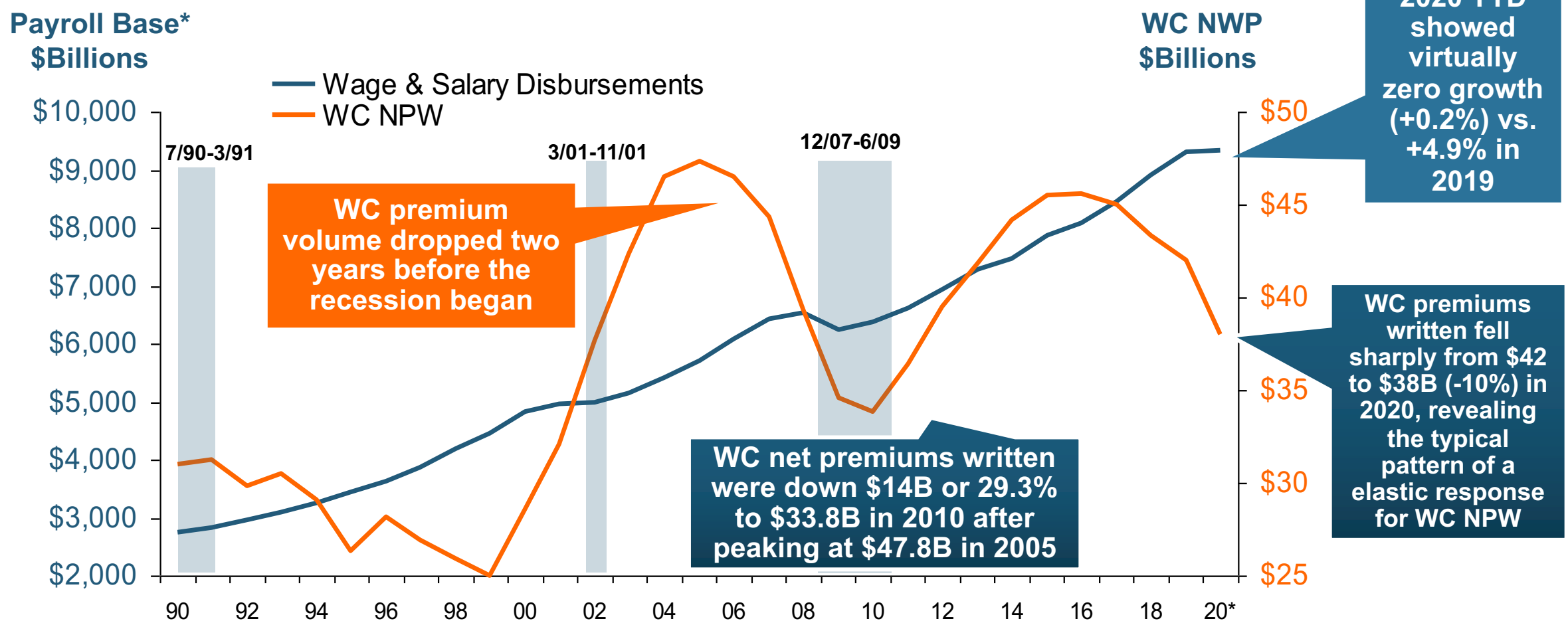
67

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2021:Q3



Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates. *Q3 2021 vs. Q3 2020.
Sources: http://research.stlouisfed.org/fred2/series/WASCUR; National Bureau of Economic Research (recession dates).

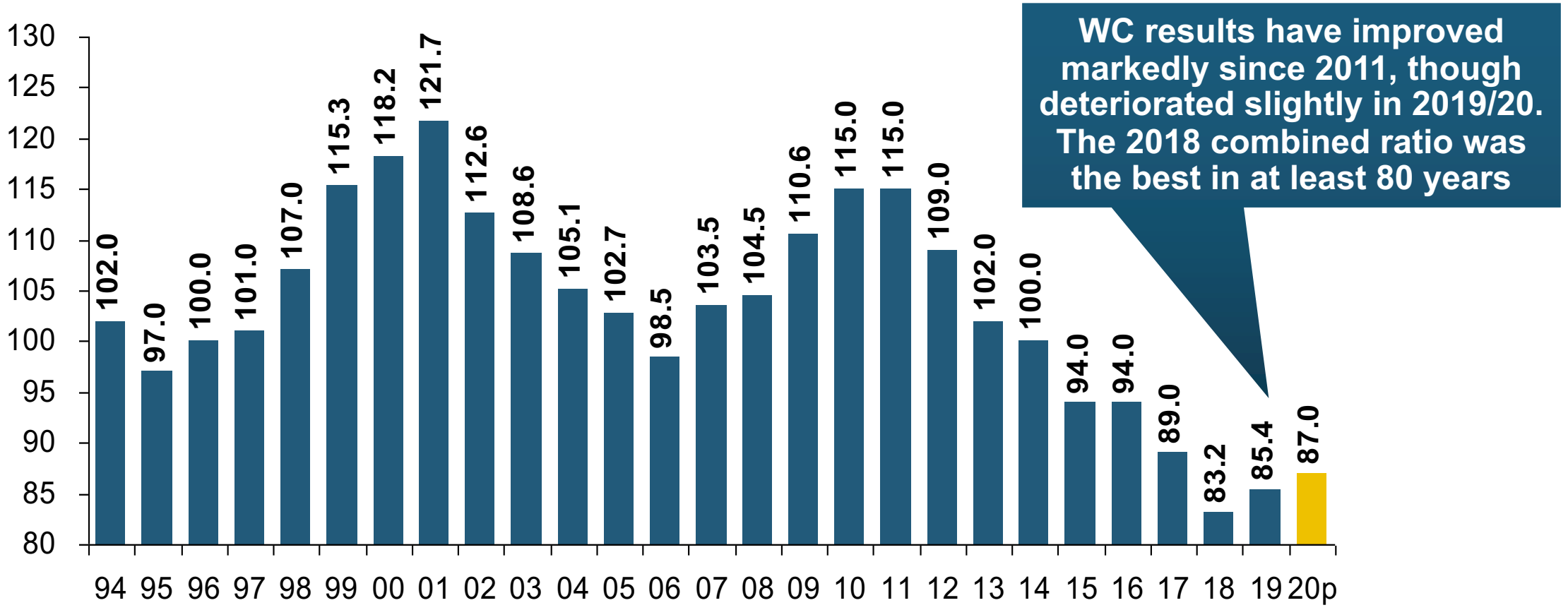
Payroll vs. Workers Comp Net Written Premiums, 1990–2020*



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.

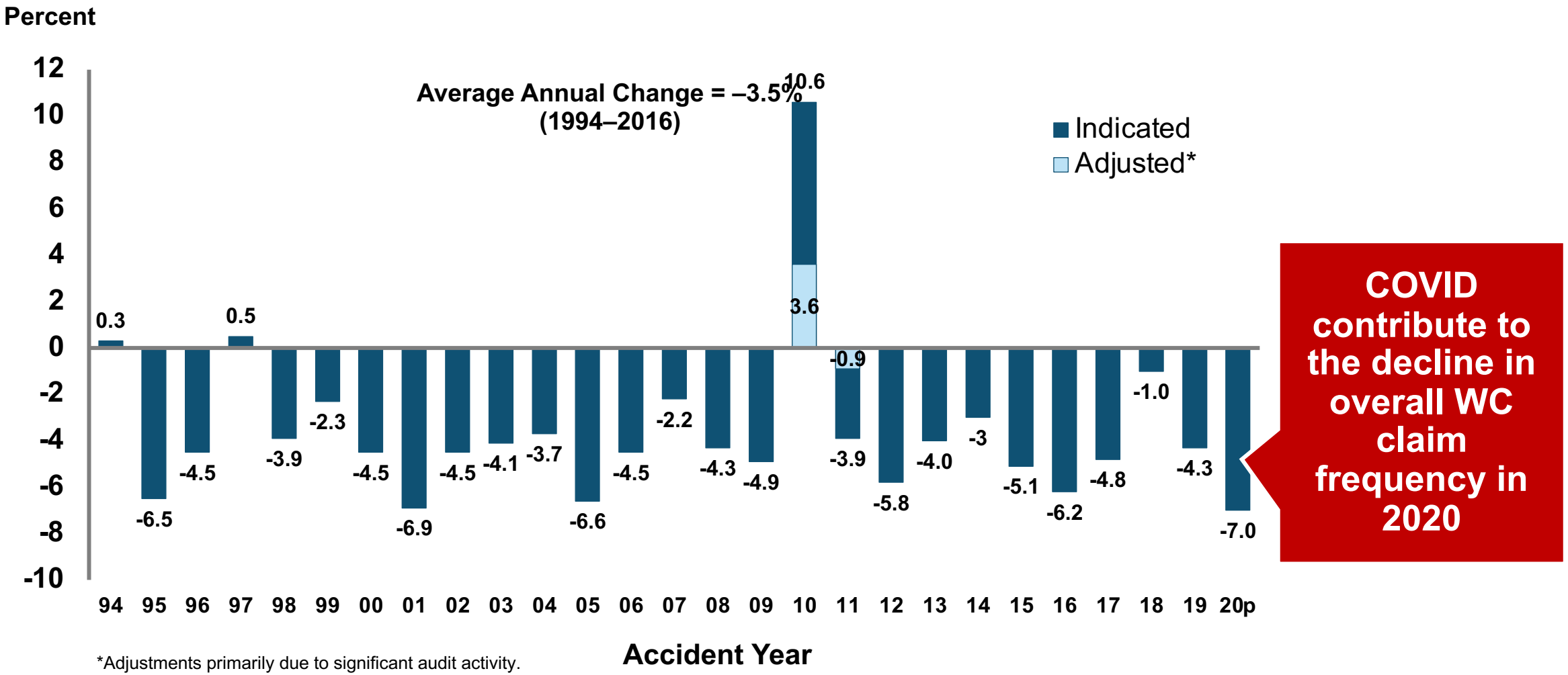
Workers Compensation Combined Ratio: 1994–2020P



Workers Comp Results Improved Substantially Over the Past Decade with COVID (So Far) Having Only Modest Impacts on Underwriting Performance

Sources: A.M. Best (1994-2009); NCCI (2010-2020P) and are for private carriers only..

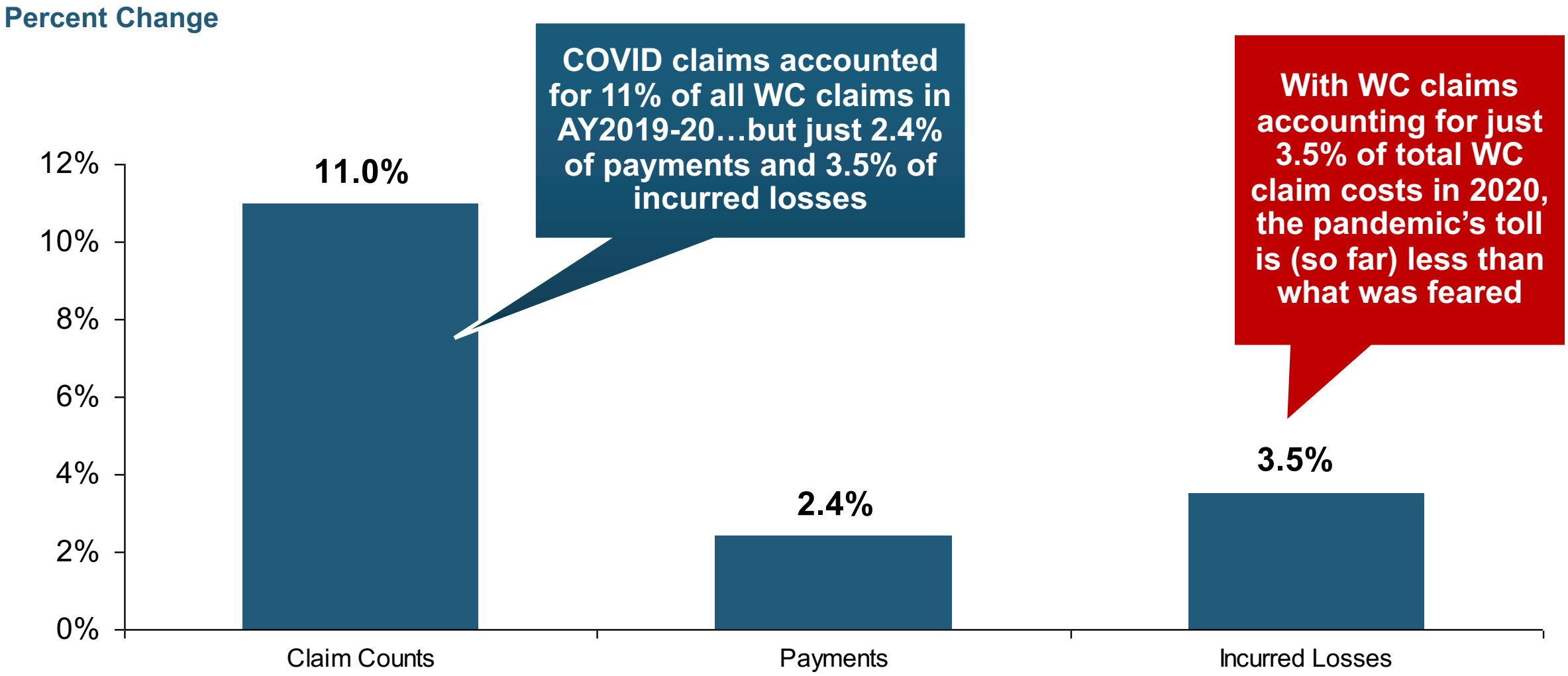
Workers Compensation Lost-Time Claim Frequency Declined Again in 2020



COVID contribute to the decline in overall WC claim frequency in 2020

*Adjustments primarily due to significant audit activity.
2020p: Preliminary based on data valued as of 12/31/2020.
Source: NCCI Financial Call data, developed to ultimate and adjusted to current wage an voluntary loss cost level; Excludes high deductible policies; 1994-2020: Based on data through 12/31/20. Data for all states where NCCI provides ratemaking services, excluding WV.
Frequency is the number of lost-time claims per $1M pure premium at current wage and voluntary loss cost level

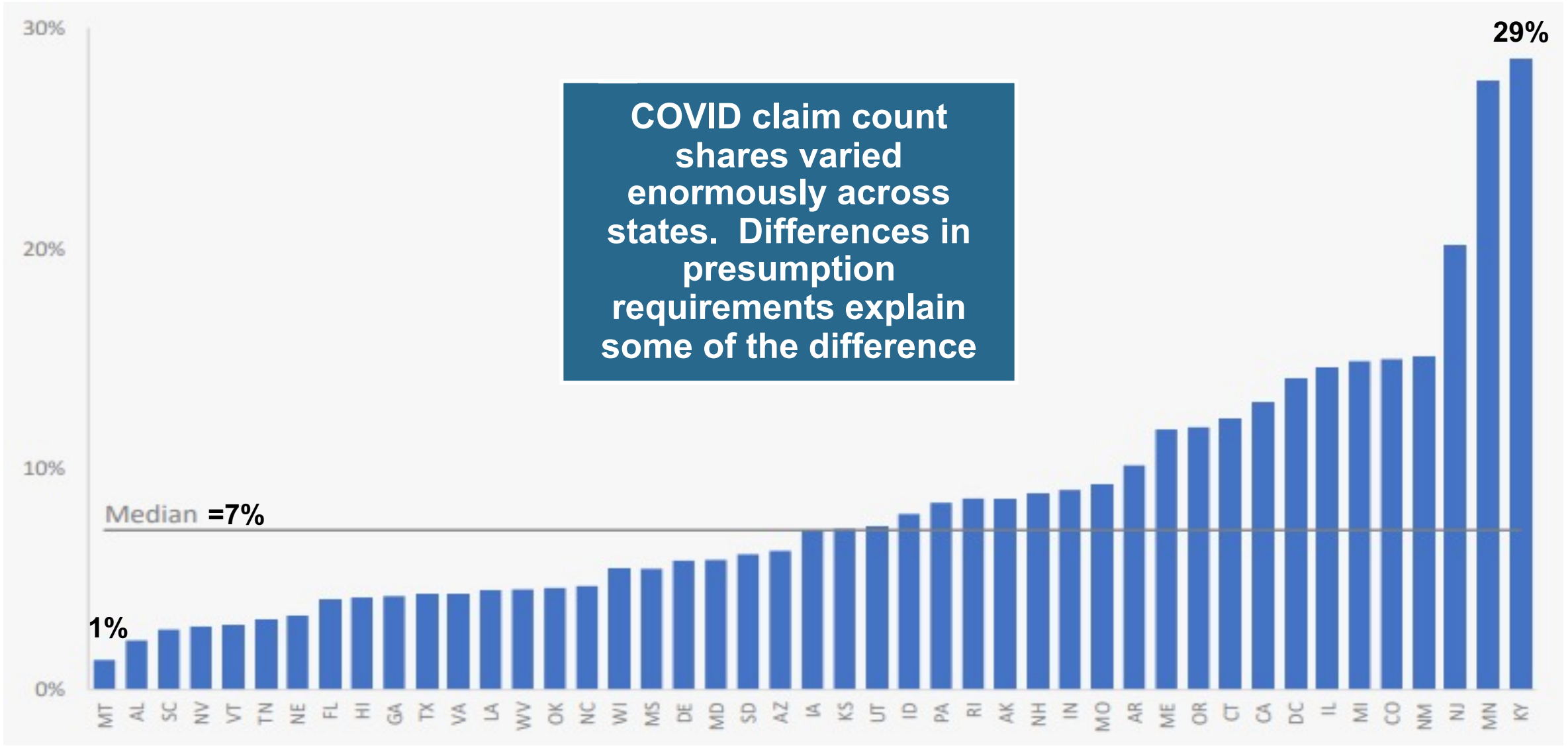
COVID-19 Shares of Claim Counts, Payments and Incurred Losses in 2020



*Data are from 45 jurisdictions (excludes MA, NY, ND, OH, WA and WY

Sources: *Covid-19's Impact on Workers Compensation: A Multi-Bureau Collaboration*, accessed from NCCI at: https://www.ncci.com/Articles/Documents/Insights-COVID19-Impact-on-WC.pdf; Risk and Uncertainty Management Center, Univ. of South Carolina.

COVID-19 Workers Comp Claim Count Share by State



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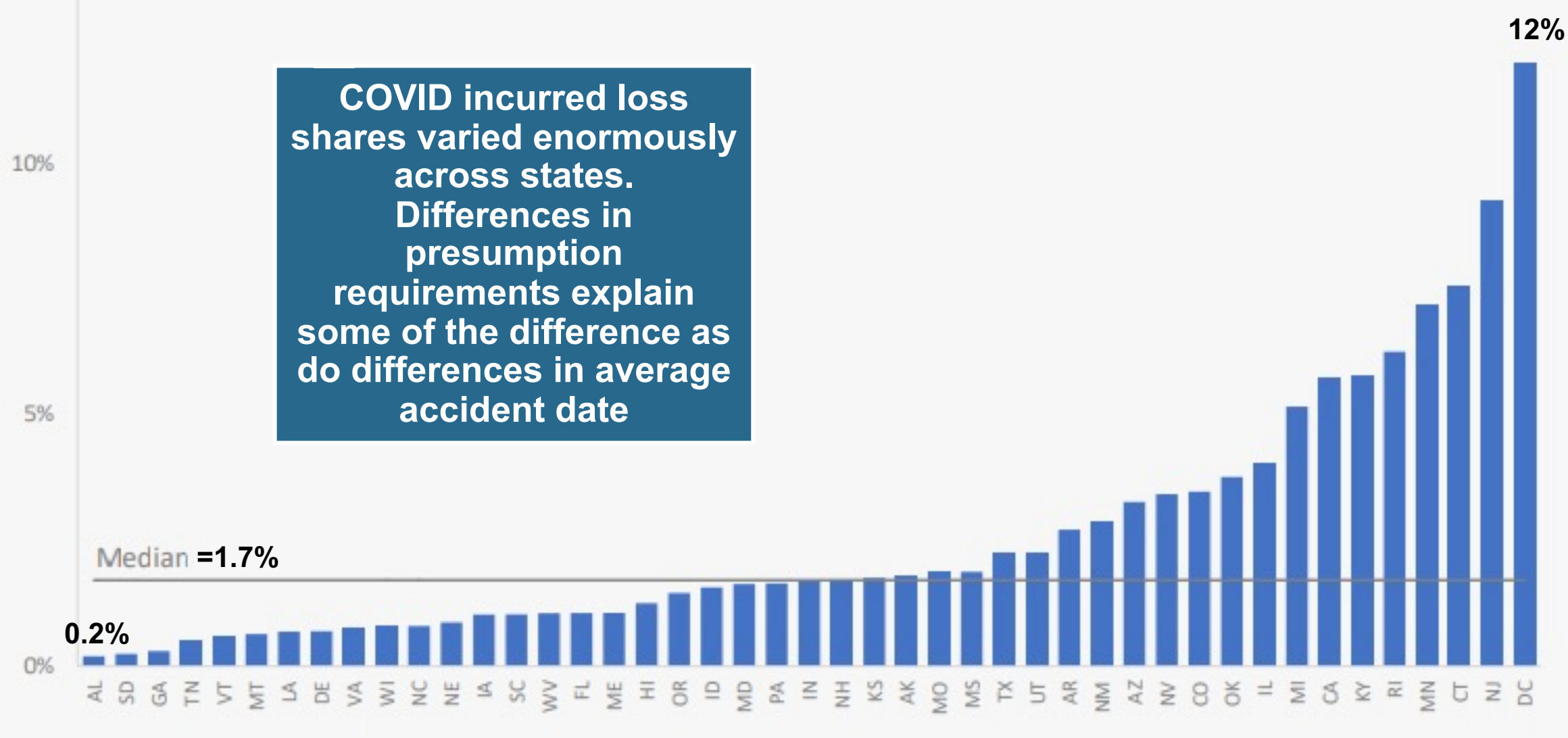
Sources: *Covid-19's Impact on Workers Compensation: A Multi-Bureau Collaboration*, accessed from NCCI at: https://www.ncci.com/Articles/Documents/Insights-COVID19-Impact-on-WC.pdf; Risk and Uncertainty Management Center, Univ. of South Carolina.

COVID-19 WC Incurred Loss Share by State



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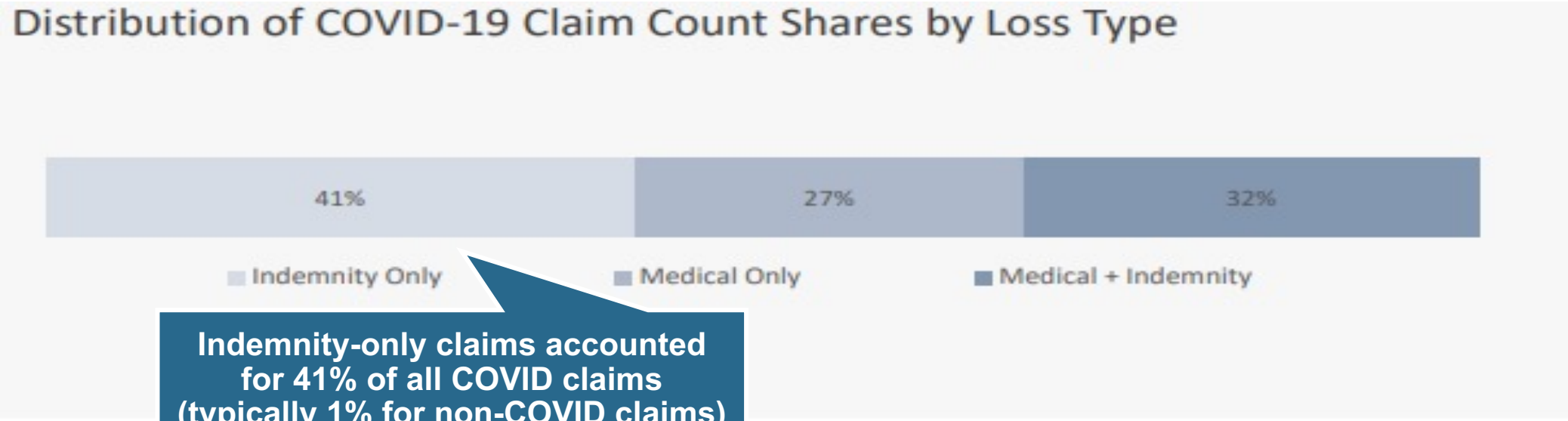
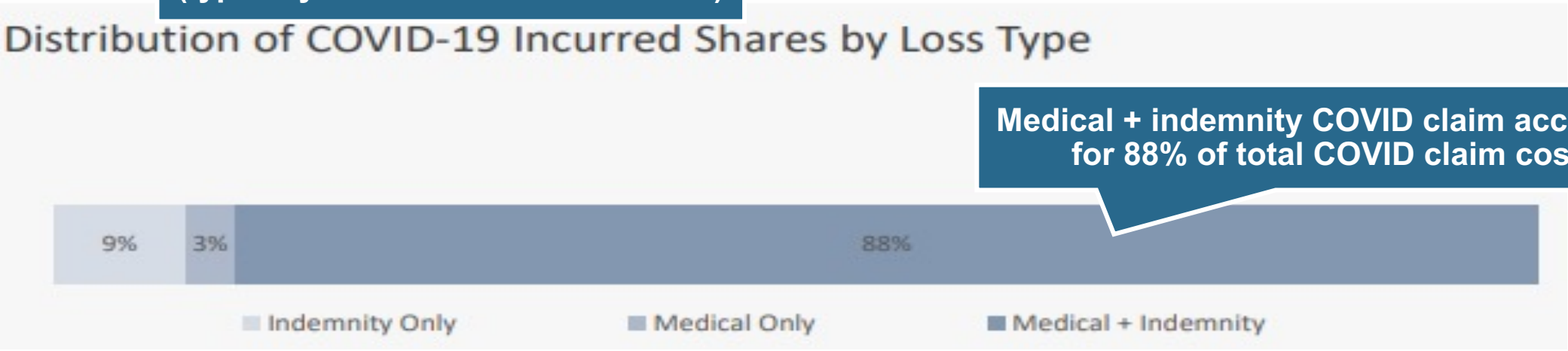
COVID-19 WC Incurred Loss Share by State



Indemnity-only claims accounted for 41% of all COVID claims (typically 1% for non-COVID claims)

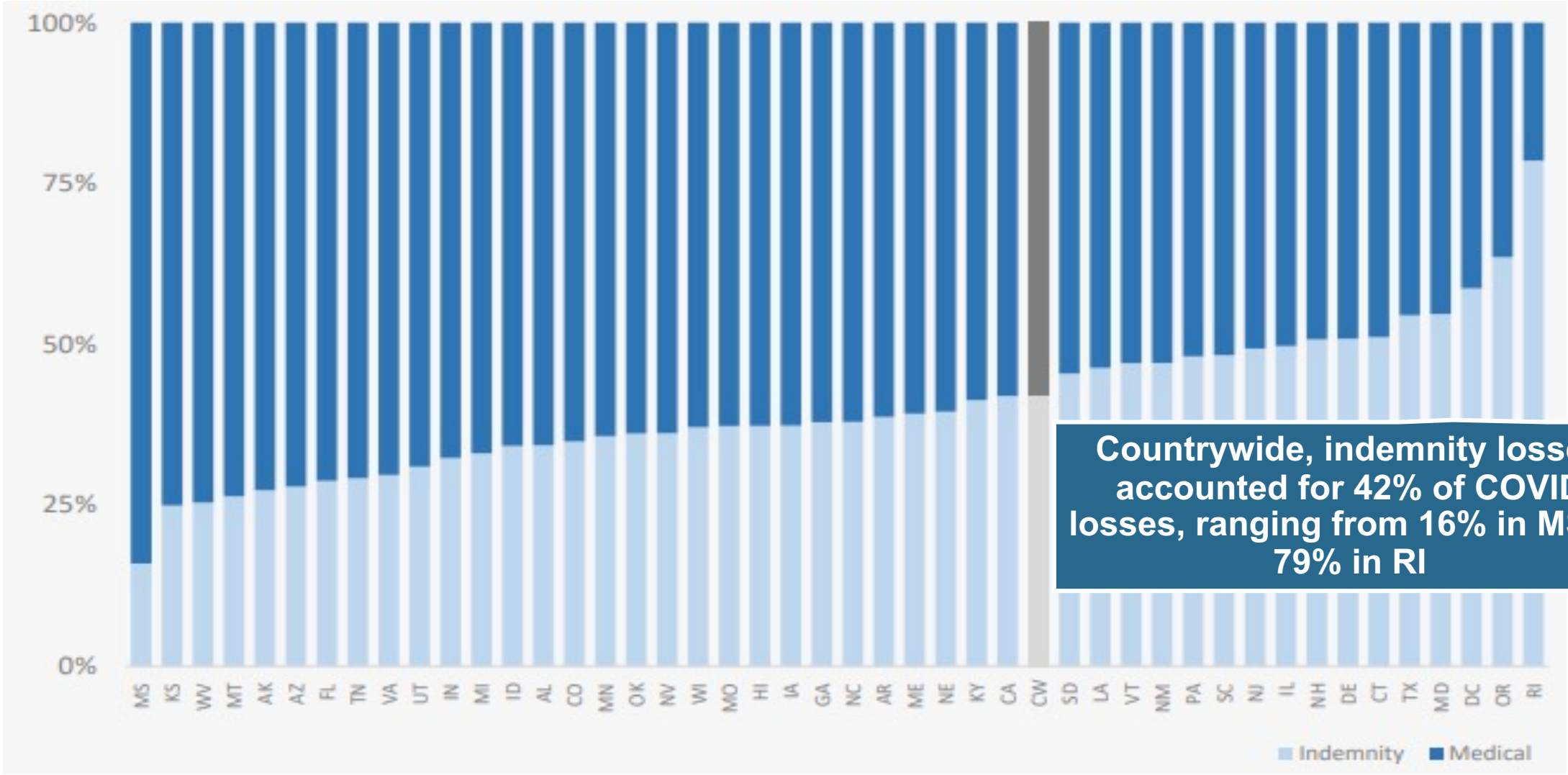


Medical + indemnity COVID claim accounted for 88% of total COVID claim costs

*Data are from 45 jurisdictions (excludes MA, NY, ND, OH, WA and WY

Sources: *Covid-19's Impact on Workers Compensation: A Multi-Bureau Collaboration*, accessed from NCCI at: https://www.ncci.com/Articles/Documents/Insights-COVID19-Impact-on-WC.pdf; Risk and Uncertainty Management Center, Univ. of South Carolina.

Distribution of COVID-19 WC Indemnity and Medical Incurred Loss Amounts



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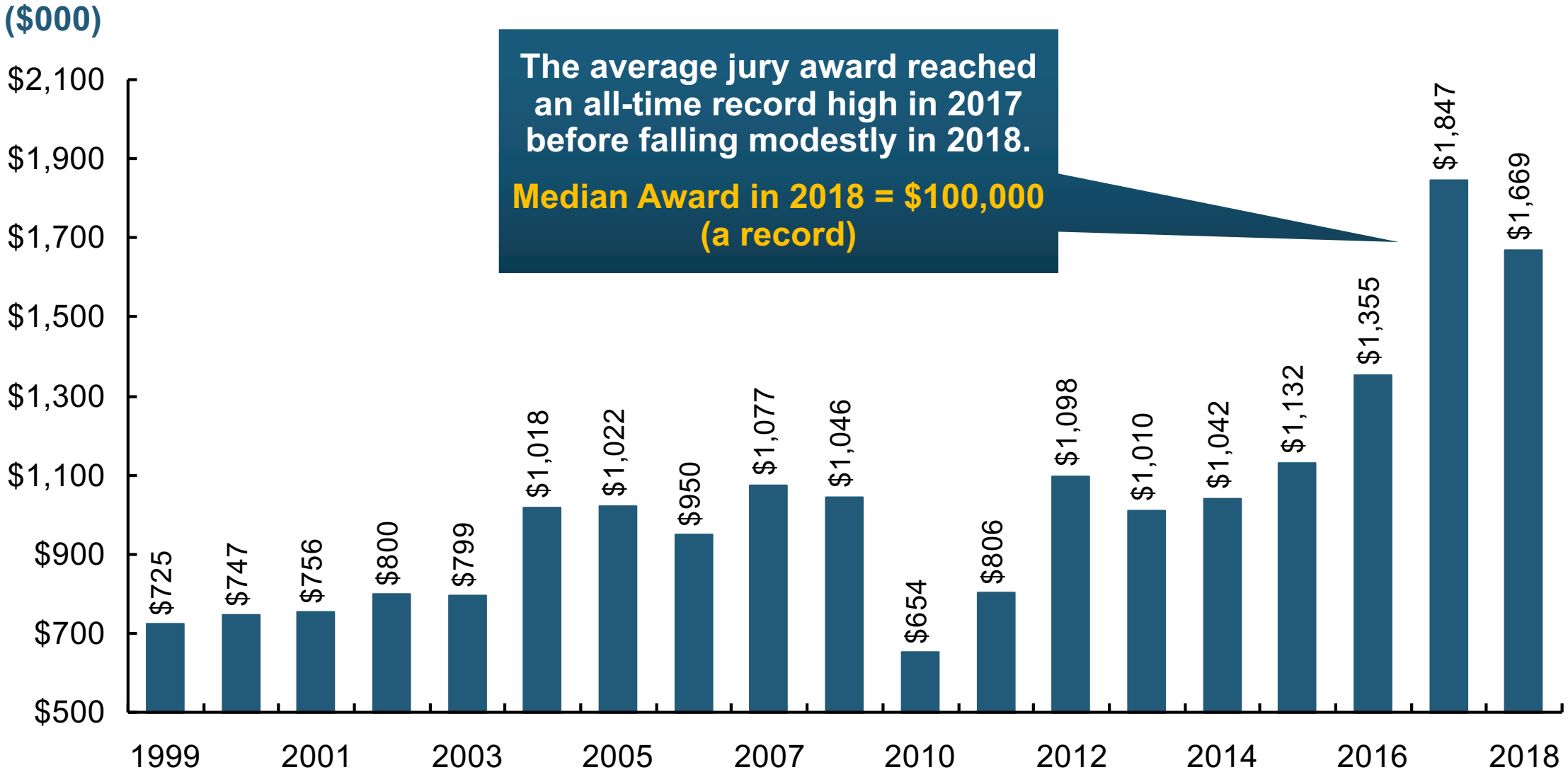
Sources: *Covid-19's Impact on Workers Compensation: A Multi-Bureau Collaboration*, accessed from NCCI at: https://www.ncci.com/Articles/Documents/Insights-COVID19-Impact-on-WC.pdf; Risk and Uncertainty Management Center, Univ. of South Carolina.

Social Inflation & Litigation Trends

Tort Pressures Are Rising

77

Average Jury Awards, 1999 – 2018 (latest available)



Source: Jury Verdict Research; *Current Award Trends in Personal Injury* (59th Edition), Thomson Reuters; Risk and Uncertainty Management Center, Univ. of South Carolina.

Defense Costs and Cost Containment Expenses as Percent of Incurred Losses, 2017 - 2019

Liability	2017		2018		2019	
	Amount	As a percent of Incurred losses	Amount	As a percent of Incurred losses	Amount	As a percent of Incurred losses
Product liability	$645,190	68.6%	$861,155	66.4%	$668,304	50.4%
Medical professional liability	1,660,939	43.7	1,690,271	41.8	1,891,994	40.5
Other liability	3,778,162	38.2	3,966,294	35.0	4,421,983	35.7
Commercial multiple peril[2]	2,117,223	34.8	2,276,023	31.2	2,529,989	32.8
Workers compensation	2,956,635	13.6	3,065,540	14.3	2,783,923	13.2
Commercial auto liability	1,746,182	11.2	1,823,716	10.2	2,123,461	10.4
Private passenger auto liability	5,380,006	5.9	6,007,796	6.5	6,573,122	6.8
All liability lines	**$18,284,337**	**12.3%**	**$19,690,795**	**12.7%**	**$20,992,776**	**12.8%**

Defense-related costs account for a huge proportion of all expenses in some key lines

Source: NAIC data sourced from S&P Global Intelligence, Insurance Information Institute.

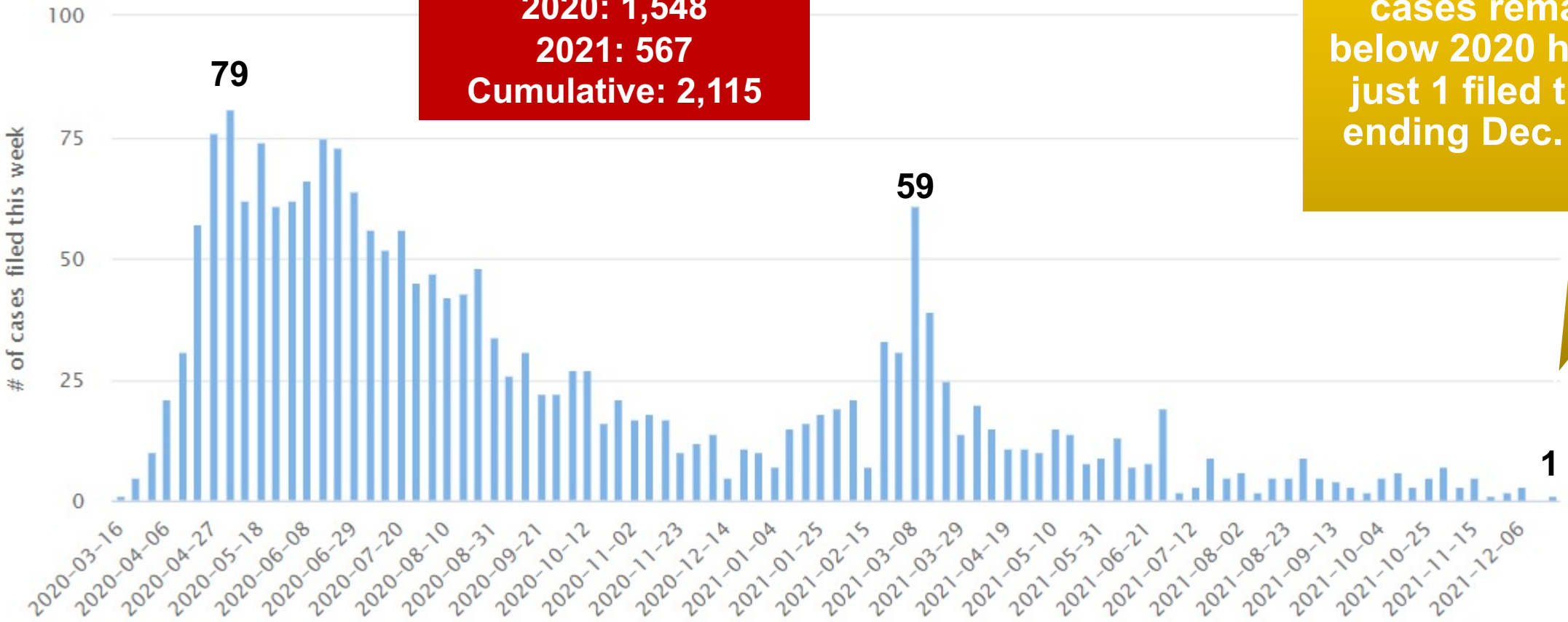
COVID-19 Litigation Update

Court Decisions Have Largely Favored Insurers, but Concerns Remain

80

Weekly Number of COVID-Related Lawsuits Filed:
(Weeks Ending Mar. 16, 2020 to Dec. 20, 2021) [Latest Available]

Totals
2020: 1,548
2021: 567
Cumulative: 2,115

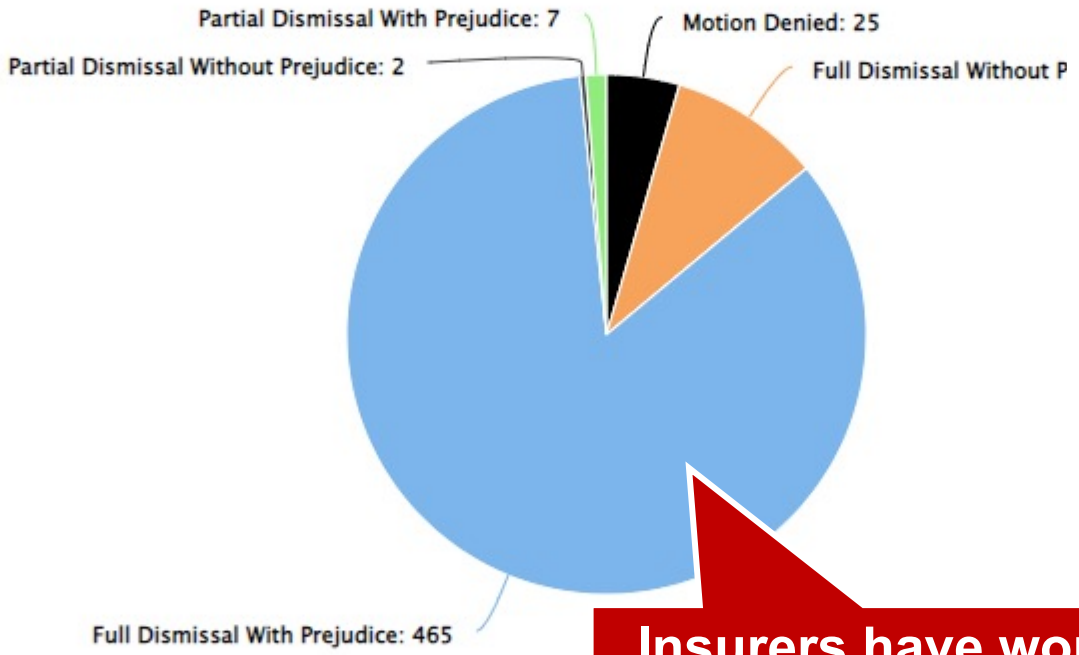


The number of new cases remains far below 2020 highs with just 1 filed the week ending Dec. 20, 2021

Source: Covid Coverage Litigation Tracker, University of Pennsylvania School of Law. Accessed 1/21/22 at: https://cclt.law.upenn.edu

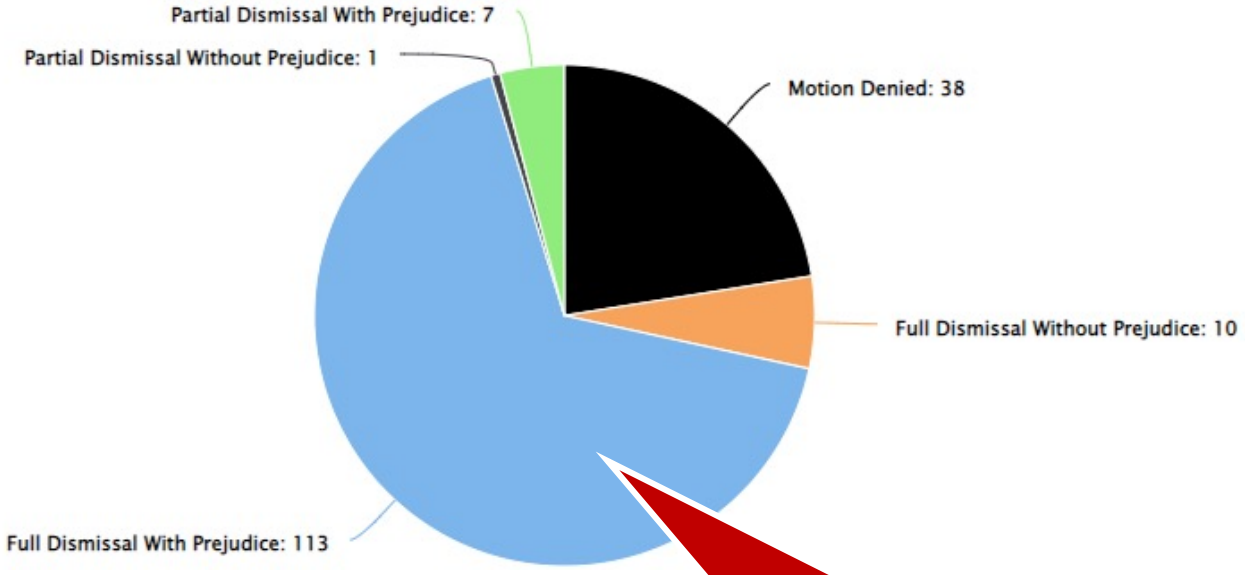
COVID Litigation: Merits Rulings on Motions to Dismiss: Federal vs. State Courts *(Total through Dec. 20, 2021) [Latest Available]*

Federal Courts



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

State Courts



Insurers have won full dismissals in 78% of state court cases involving Covid

Source: Covid Coverage Litigation Tracker, University of Pennsylvania School of Law. Accessed 1/23/22 at: https://cclt.law.upenn.edu

SUMMARY

- The P/C Insurance Industry Remains Strong, Stable, Sound and Secure
- IA commercial market share is stable
- Worst-Case COVID-19 Scenarios Have Been Averted
- Covid Variants, Snarled Supply Chains, Vaccine Hesitancy Are Slowing the Economic Recovery, though a Second Recession Is Unlikely
  - Most P/C Exposures Restored to Pre-Pandemic Levels by mid-2022
- Asset Price Volatility Will Persist and Low Interest Rates Will Pressure Investment Earnings for Years
- Inflation Surge Will Linger Through late 2022, but will subside
- Many Loss Cost Challenges—Inflation, Supply Chain and Social Inflation Issues

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Thank you for your time and your attention!

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Download at www.uscriskcenter.com