Inflation in the P/C Insurance Industry:
Assessing Threats, Challenges and Outcomes

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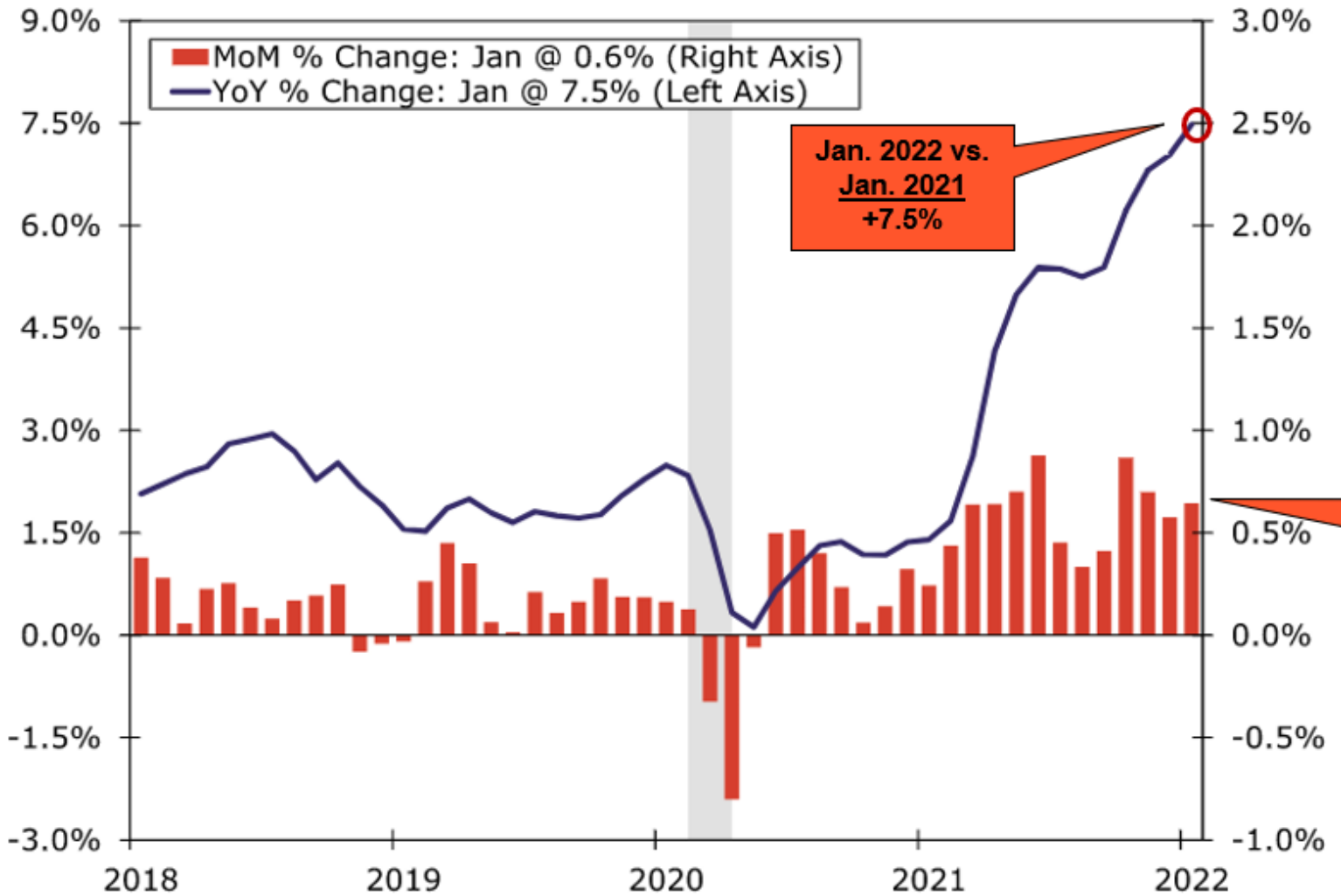
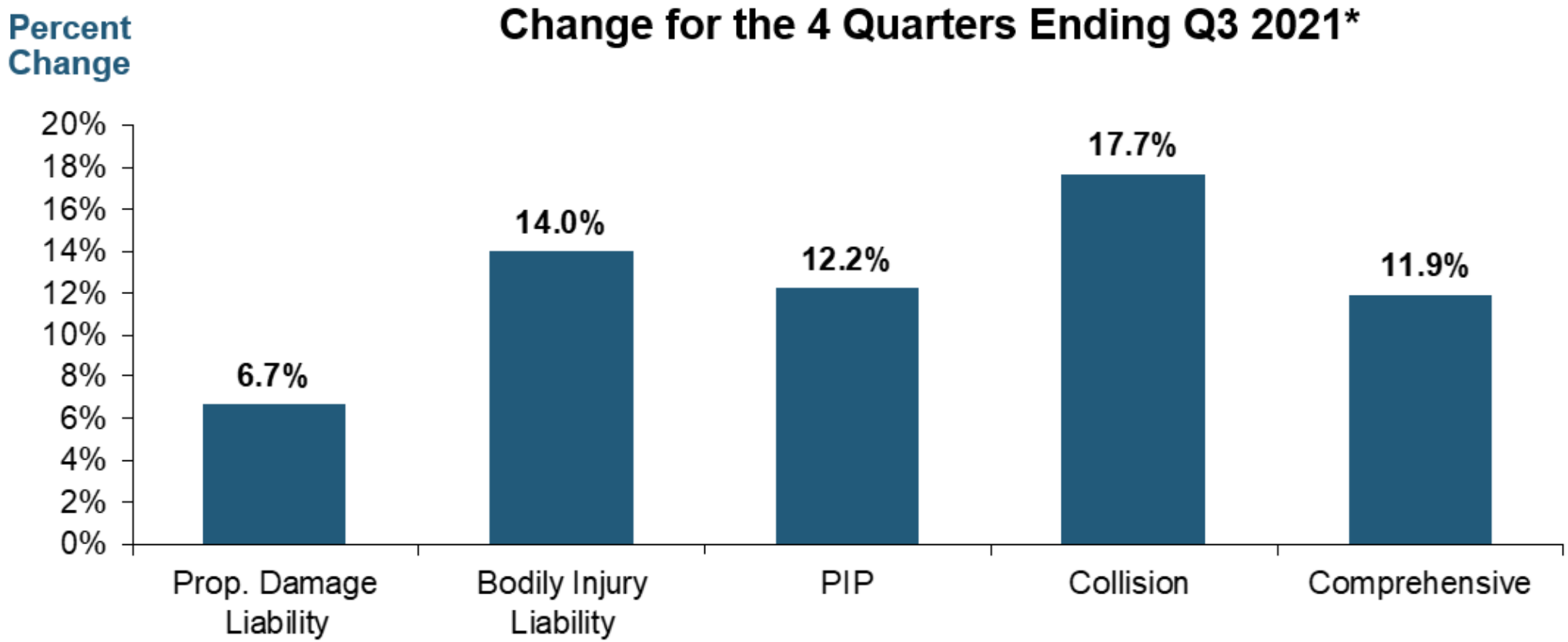
Consumer Price Index (CPI-U): M-o-M and Y-o-Y Changes, Jan. 2018 – Jan. 2022



Inflation has accelerated rapidly since early 2021

Source: U.S. Bureau of Labor Statistics; Wells Fargo Securities (2/22); USC Center for Risk and Uncertainty Management.

US Personal Auto Claim Auto Claims Severities Are Up Sharply

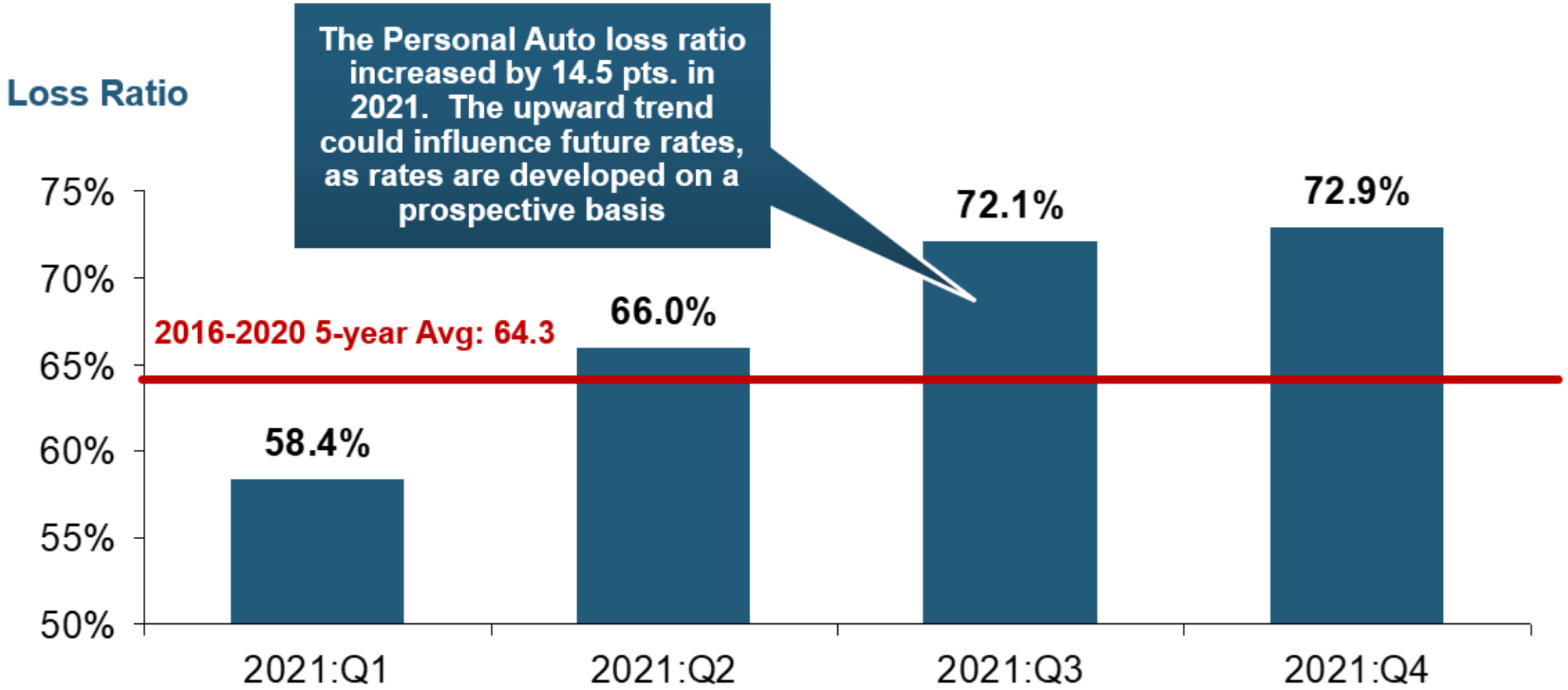


Inflation Is Contributing the Sharp Increase in Auto Claim Severities—For both Physical Damage and Bodily Injury Coverages

*Most recent available.

Source: ISO/PCI *Fast Track* data for Q3 2021; Risk and Uncertainty Management Center, Univ. of South Carolina.

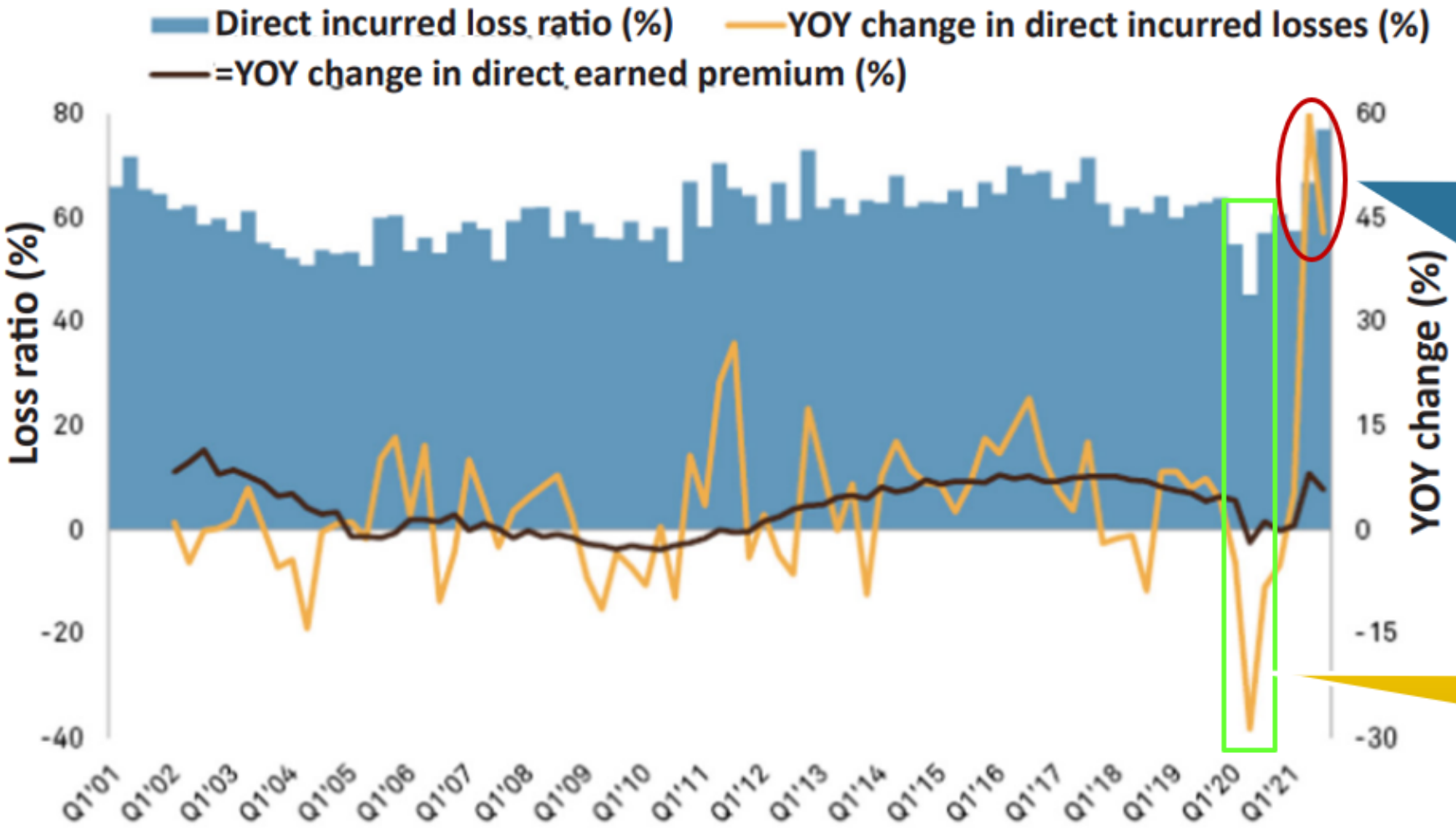
Personal Auto Loss Ratios: 2021 Quarterly



Collision Loss Ratios Are Rising Rapidly and Are Far Above the 5-Year Average

Source: APCIA via S&P Global Market Intelligence; University of South Carolina, Risk & Uncertainty Management Center.

Inflationary Spike in Auto Physical Damage Losses

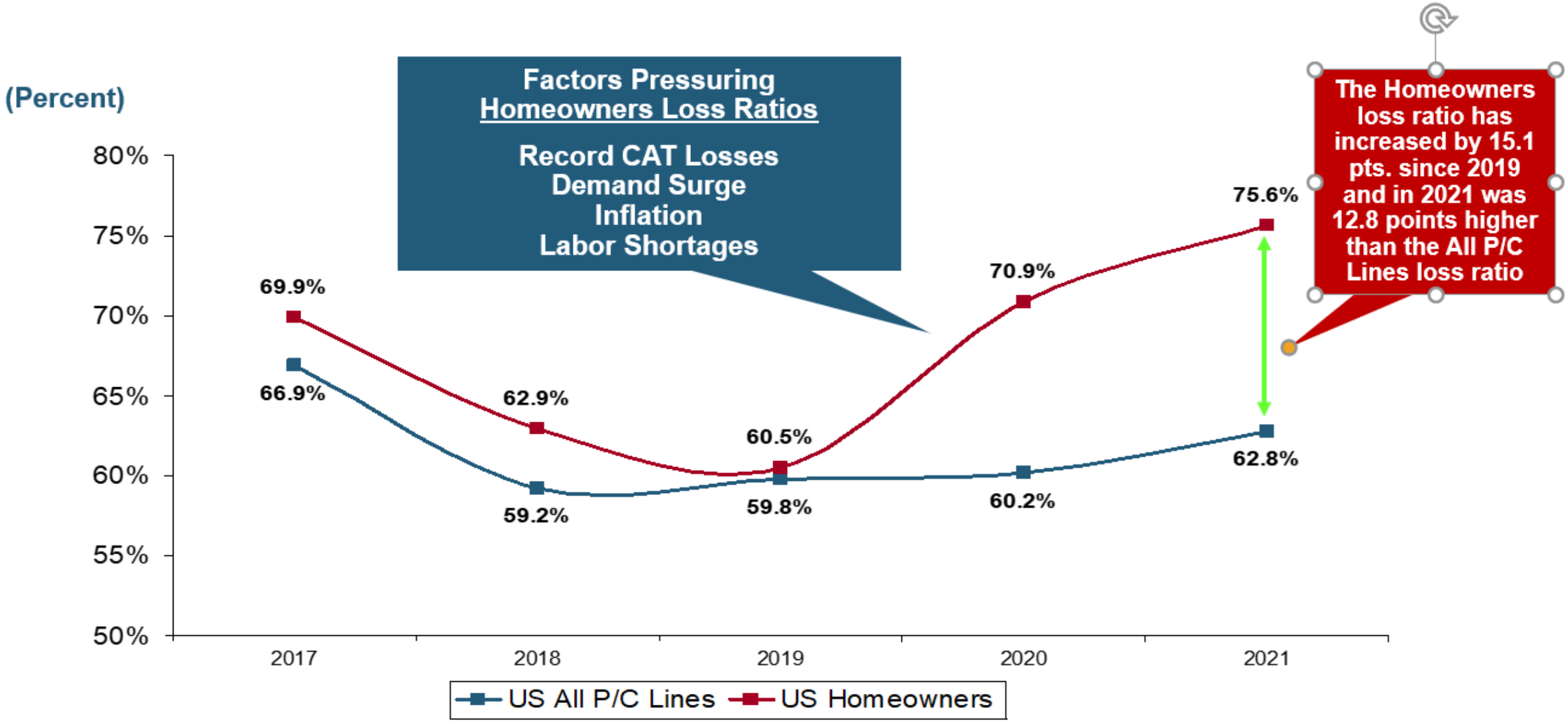


Incurred loss and loss ratios are up sharply, but premiums haven't come close to keeping pace. Private Passenger Auto rates lag behind underlying loss cost trends.

Temporary COVID-driven drop in losses, loss ratio and dip in premiums

Source: APCIA: *Insurers Struggling to Keep Pace with the Highest Inflation in 40 Years* (Feb. 2022).

Direct Loss Ratios: Homeowners vs. All P/C Lines, 2017–2021



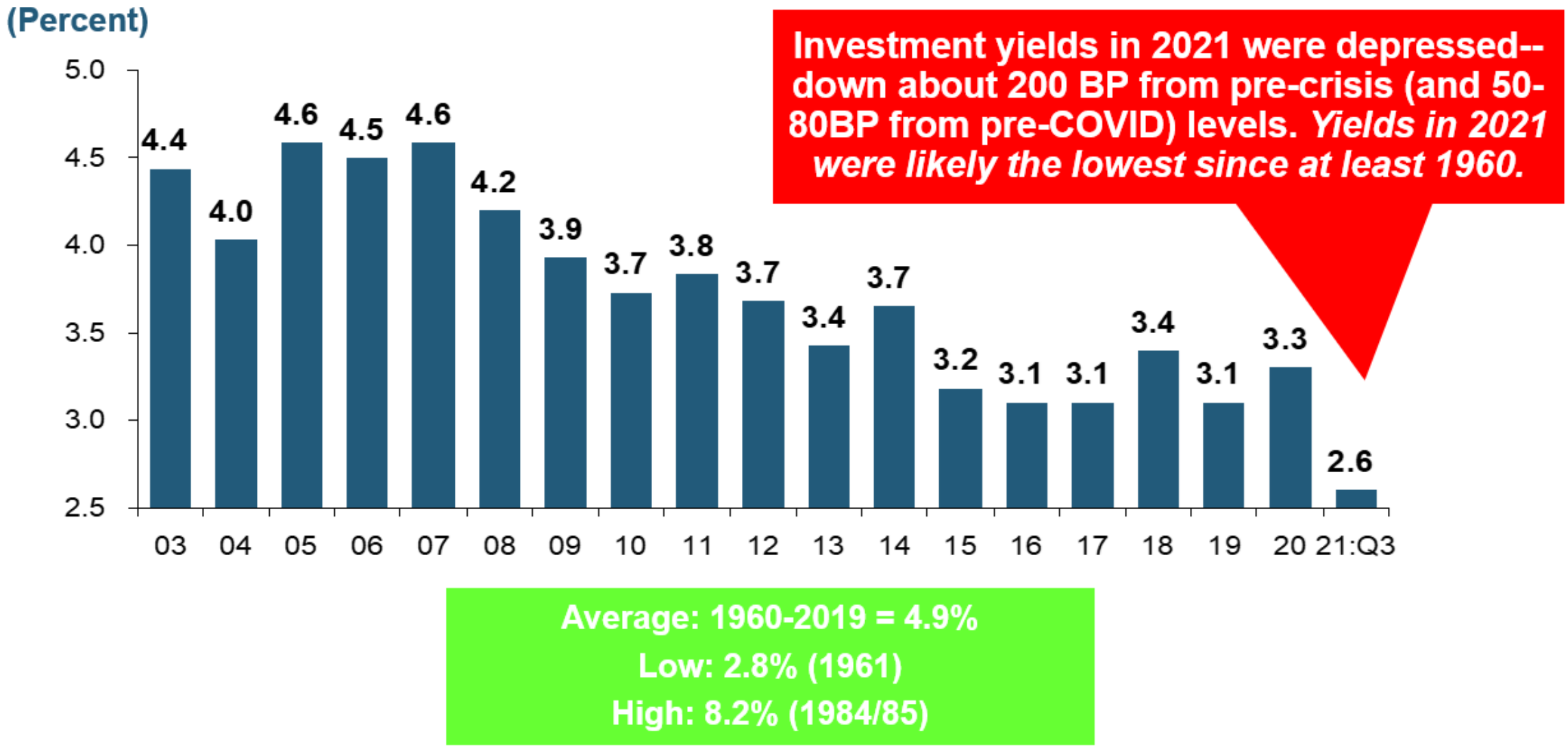
Sources: APCIA: *Insurers Struggling to Keep Pace with the Highest Inflation in 40 Years* (Feb. 2022) sourced from: *Insurance Journal*, based on data from A.M. Best, January 25, 2022 Report "US Property/Casualty Top Line Premiums Up, Loss Ratio Deteriorates Through 3Q 2021."

Producer Price Index: Lumber and Wood Products, Jan. 2020 – Jan. 2022

Lumber & Wood Product prices surged during the pandemic, peaking in mid-2021 and remain 62% above pre-COVID levels

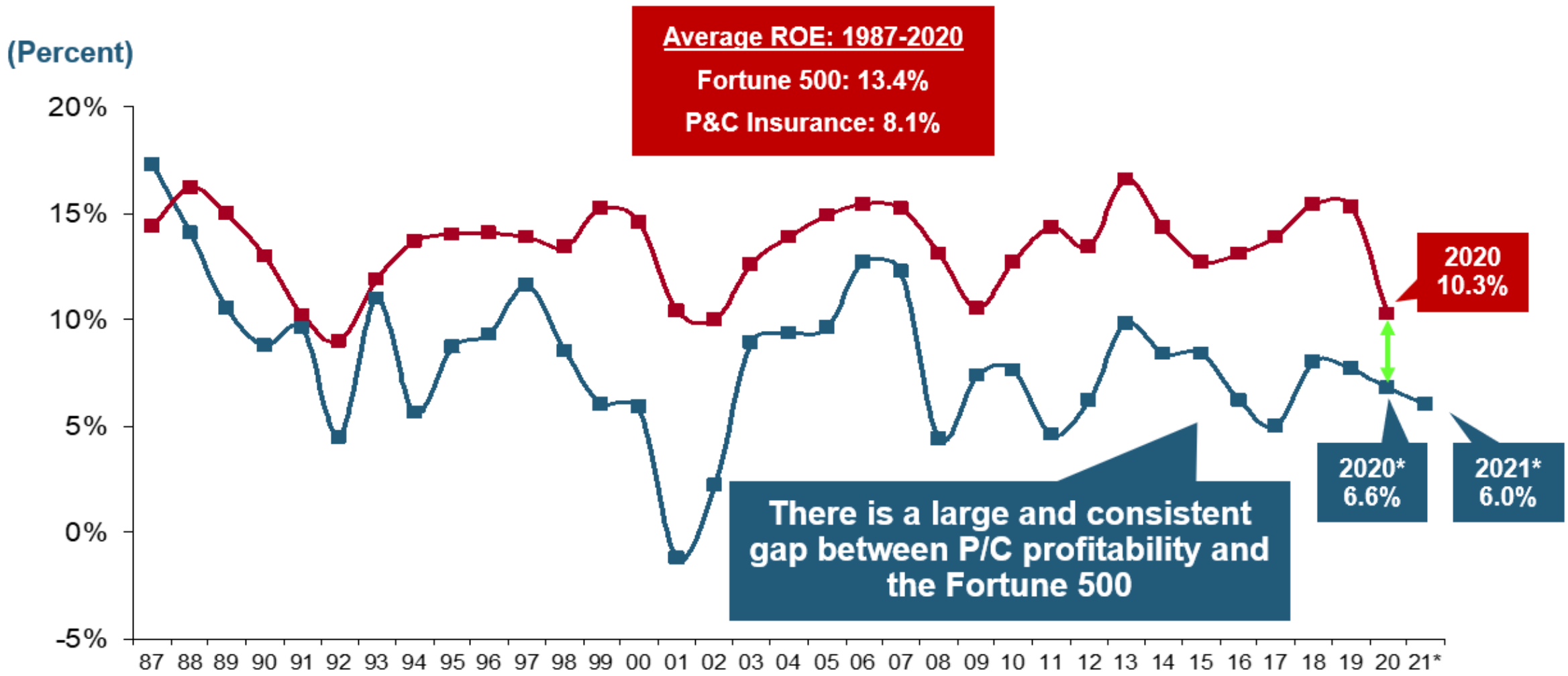
Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

Net Investment Yield on Property/Casualty Insurance Invested Assets, 2007–2021:Q3



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.

ROE: Property/Casualty Insurance vs Fortune All Industry, 1987–2021E*

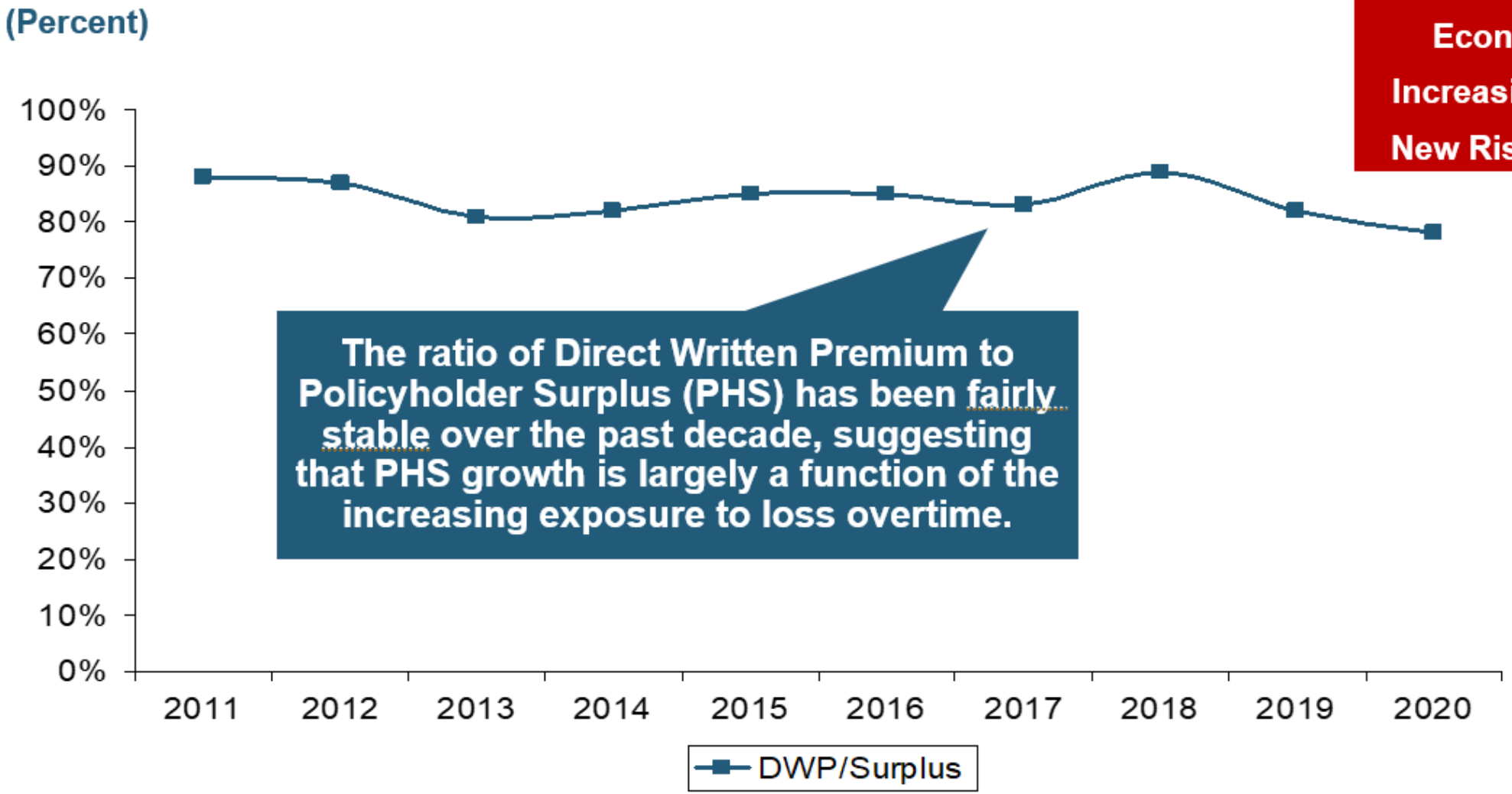


*Excludes Mortgage & Financial Guarantee in 2008 – 2014. 2021 P/C figure is estimate based on actual of 6.0% through Q3.
Sources: ISO, *Fortune,* APCIA; USC RUM Center.

Premium and Loss Reserves to Policyholder Surplus, 2011–2020

Drivers of Increasing Loss Exposure Include:

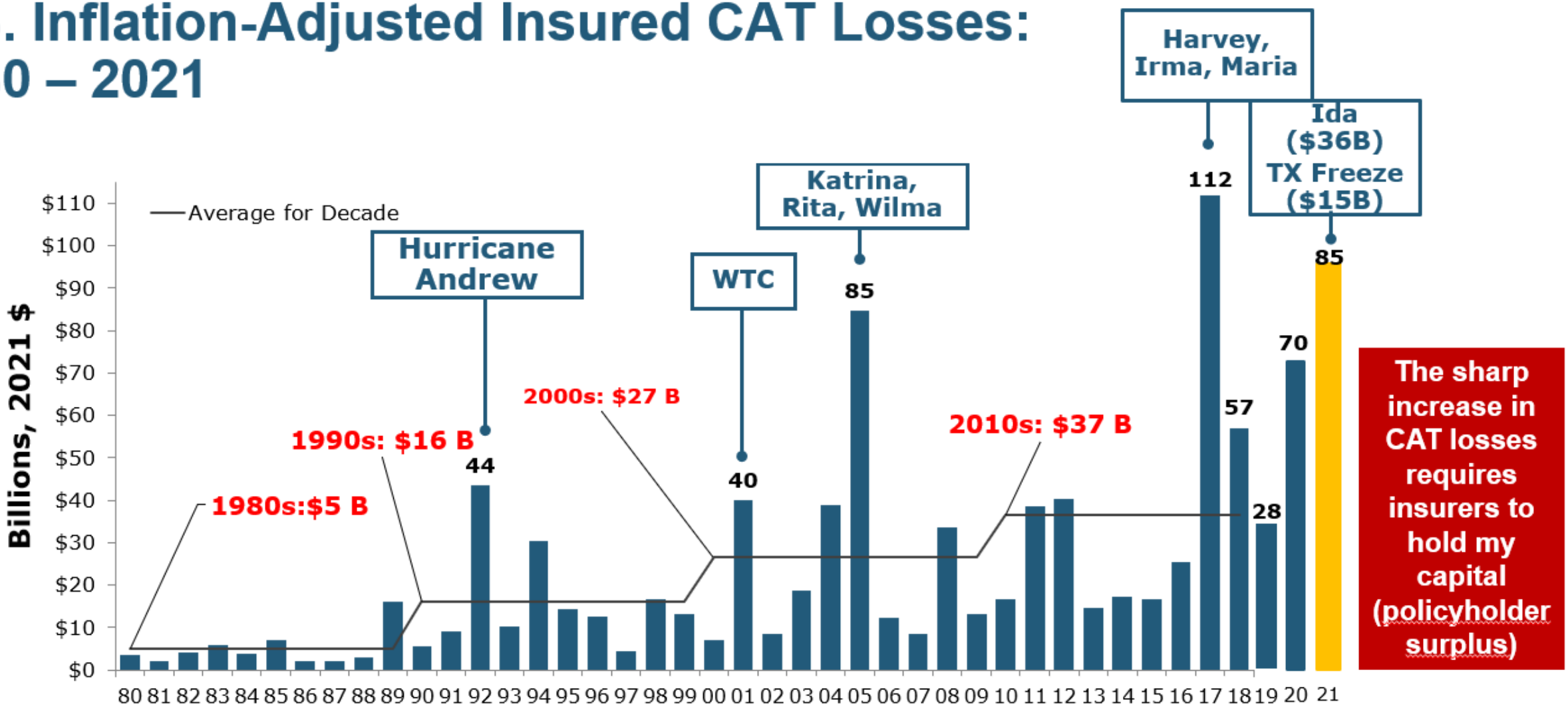
- Economic Growth
- Increasing CAT Losses
- New Risks (e.g., Cyber)



The ratio of Direct Written Premium to Policyholder Surplus (PHS) has been fairly stable over the past decade, suggesting that PHS growth is largely a function of the increasing exposure to loss overtime.

Sources: S&P Market Intelligence; Risk & Uncertainty Management Center, University of South Carolina.

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



The sharp increase in CAT losses requires insurers to hold my capital (policyholder surplus)

Average Insured Loss per Year*
1980-2021: $23.8 Billion
2012-2021: $44.1 Billion

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

*Stated in 2021 dollars.
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.

SUMMARY

- P&C insurance industry is experiencing a sharp increase in claim severities affecting property, liability and auto coverages
- Loss ratios are increasing rapidly
- Inflation, record/near-record catastrophe losses, demand surge and the increased dangerous driving behaviors are all contributing to the increase in severities and loss ratios
- Investment income has been falling in recent years
- Given current trends, rate adequacy is a concern
- Insurers use current trend data to develop rates prospectively, hence the pressure adjust rates accordingly

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Thank you for your time and your attention!

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