Inflation, Recession, Pandemics and CATs:
Impacts & Implications for P-C Insurance Markets

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P/C Insurance Overview & Outlook: Outline

- Economic Overview & Outlook—Impacts for P/C Insurers
  - Growth, Employment, Inflation, Recession…
- Inflation: Where it Is Headed & What It Means for P/C Insurers
  - Impacts on claim severities and loss ratios
  - Long-term inflation considerations
- P/C Financial Overview & Outlook in the Post-COVID, High-Inflation Era
  - Premium Growth
  - Underwriting Performance
  - CAT Loss Update
- Investment Market Issues: Volatility Rules and the Hawkish Fed
- Legal System Abuse (Social Inflation) Overview
- Summary and Q&A

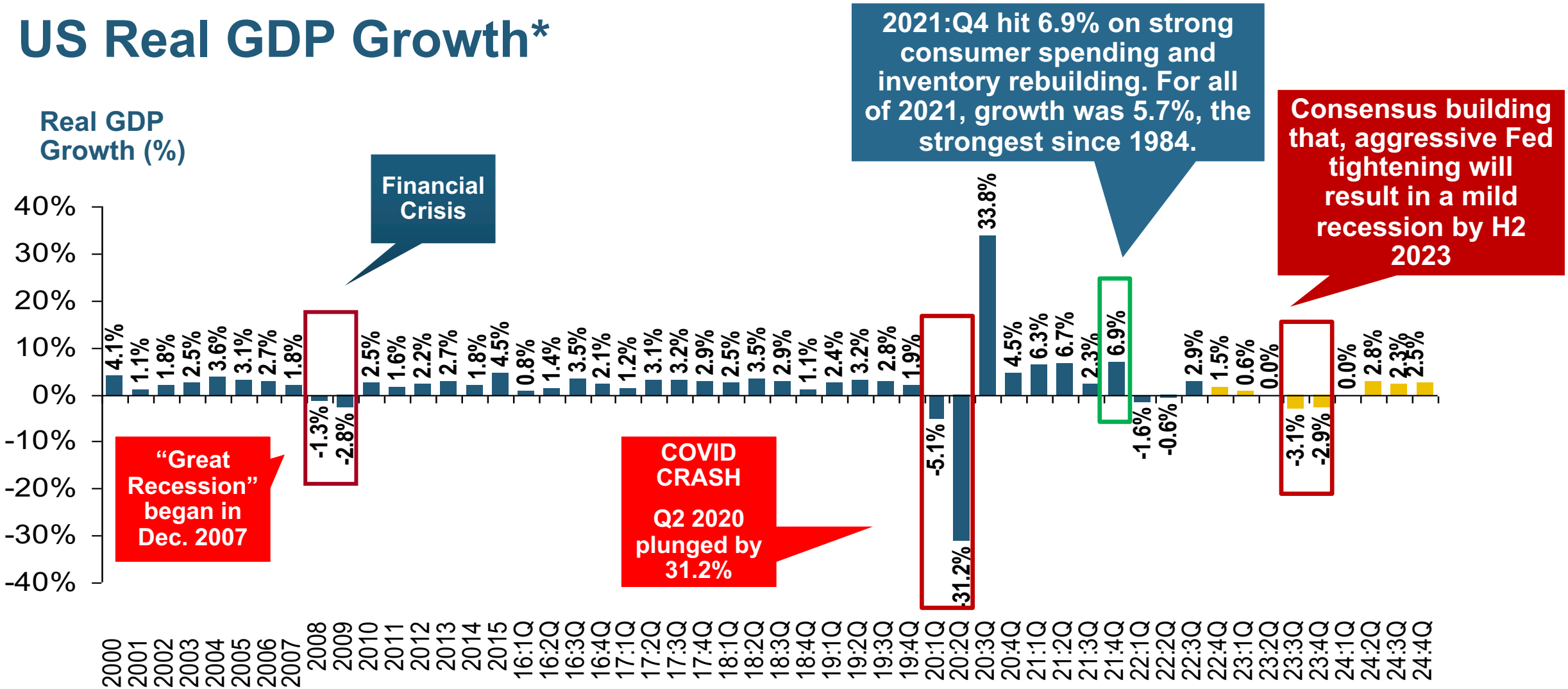
Economic Overview
Economic Optimism Plummeted in 2022
Inflation is Breeding Ground for Pessimism

Inflation, Geopolitical Conflicts and Rising Interest Rates and Weighing Heavily on Business and Consumer Sentiment

Can the Fed "Thread the Needle" and Achieve a "Soft Landing"?

3

US Real GDP Growth*

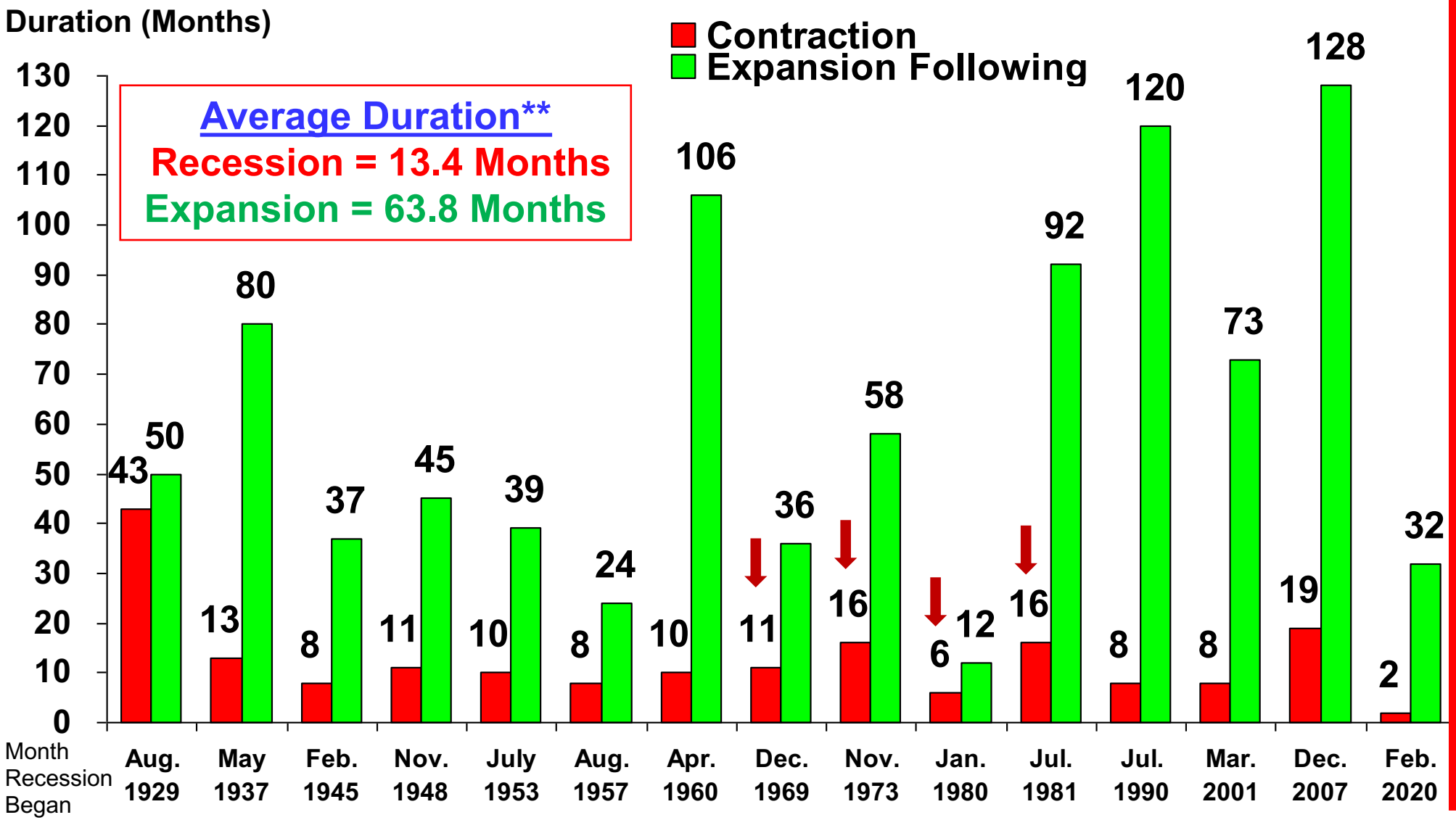


Demand for Insurance Increased Materially in 2021/22—Particularly in Economically Sensitive Commercial Lines Such as WC. Premium growth will likely slow in 2023 as Economy Slows.

* Estimates/Forecasts from Wells Fargo Securities.

Source: US Department of Commerce, Wells Fargo Securities (12/22); Center for Risk and Uncertainty Management, University of South Carolina.

Length of US Business Cycles, 1929-Present*

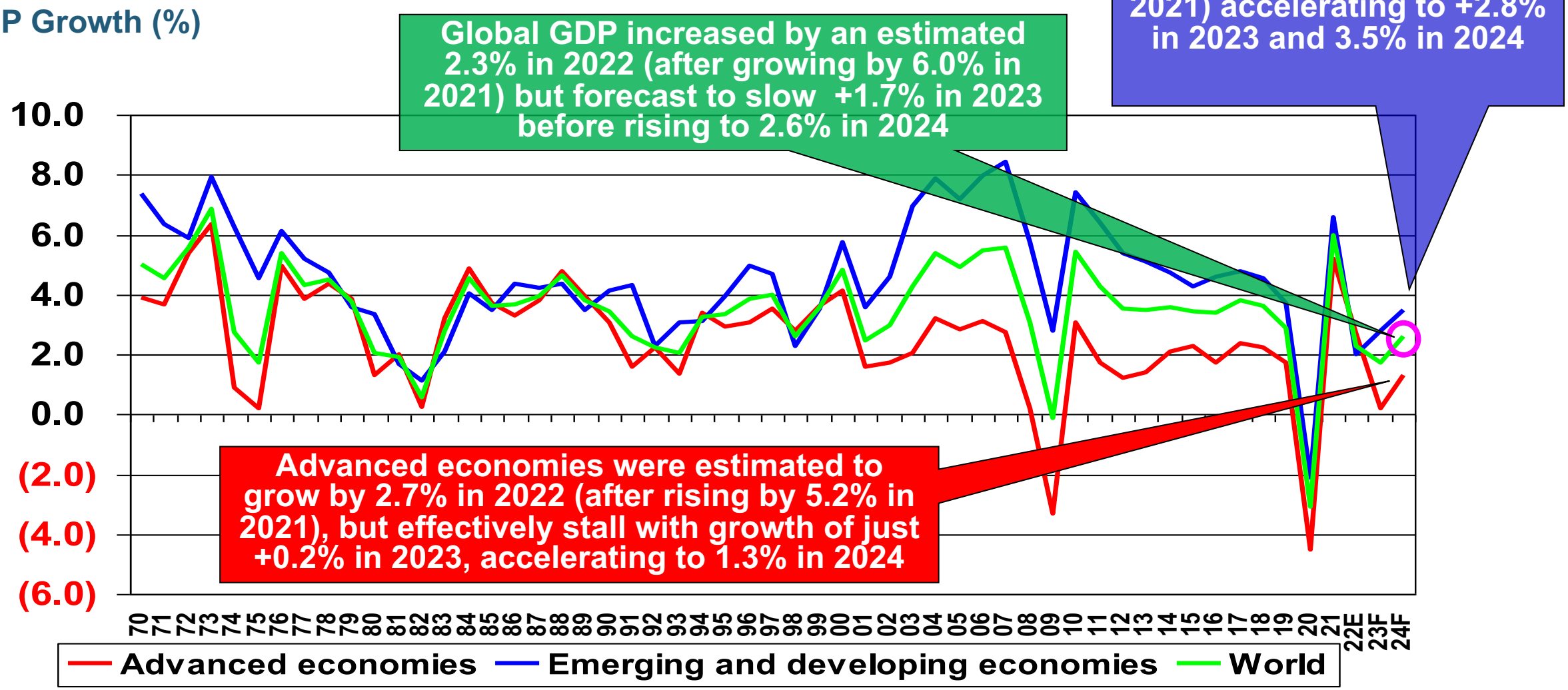


- **The Covid recession lasted just 2 months, ending in April 2020, the shortest on record**
- **Covid abruptly ended the longest economic expansion in US history, which spanned nearly 11 years**
- ***From 1970 – 1982, the economy was in recession for 48 months through 4 recessions (vs. just 2 months over the past 14 years)***

*Through Jan. 2023. **Excluding Covid-19 recession.

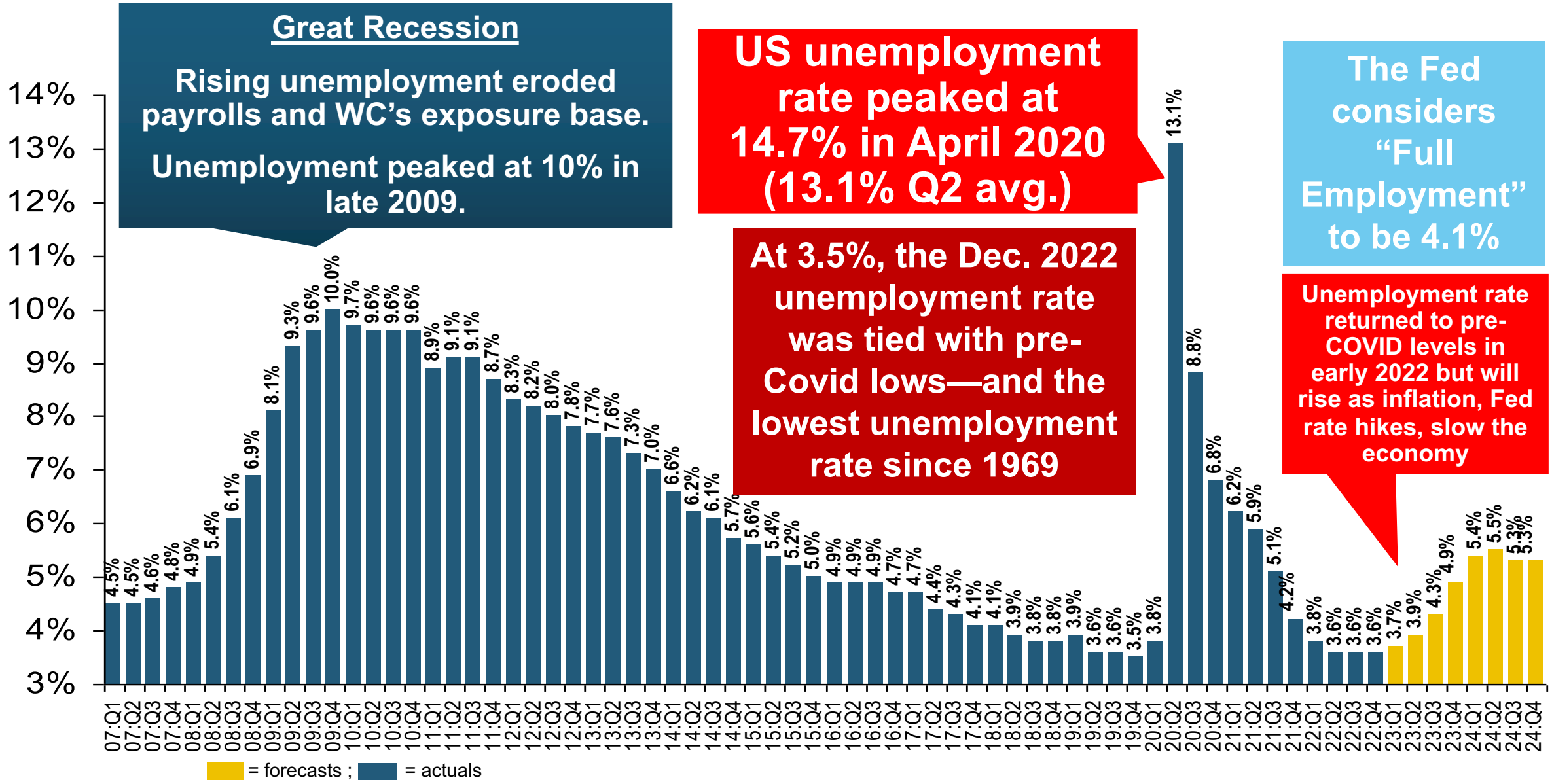
Sources: National Bureau of Economic Research; Risk and Uncertainty Management Center, University of South Carolina.

GDP Growth: Advanced & Emerging Economies vs. World, 1970-2024F



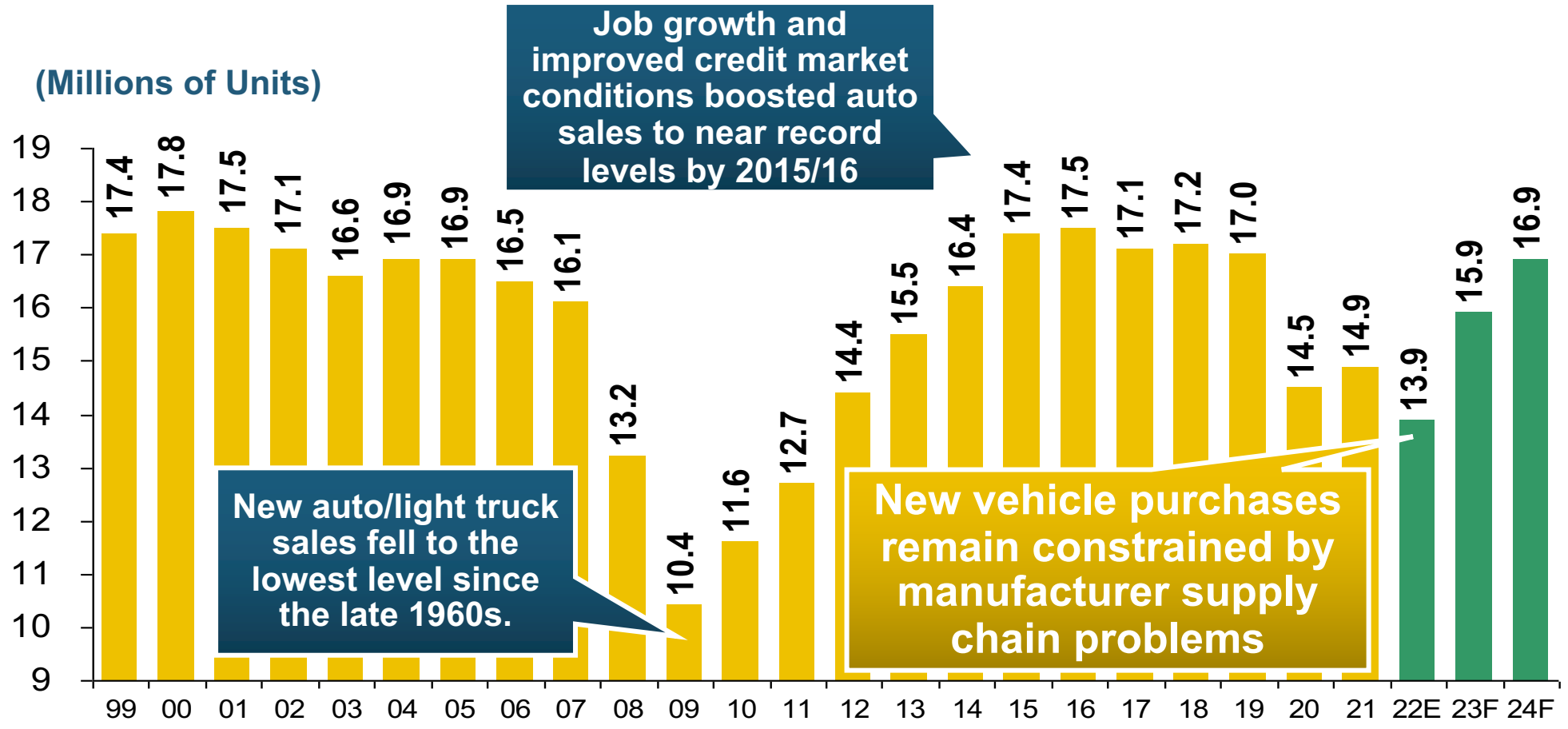
Source: International Monetary Fund, *World Economic Outlook* (1970-2020); Wells Fargo Economics (2021 – 2024F) [as of Dec. 2022]; Univ. of South Carolina, Risk and Uncertainty Management Center.

US Unemployment Rate Forecast: 2007:Q1–2024:Q4



Sources: US Bureau of Labor Statistics; Wells Fargo Securities (12/22 and 10/22 editions); Risk and Uncertainty Management Center, University of South Carolina.

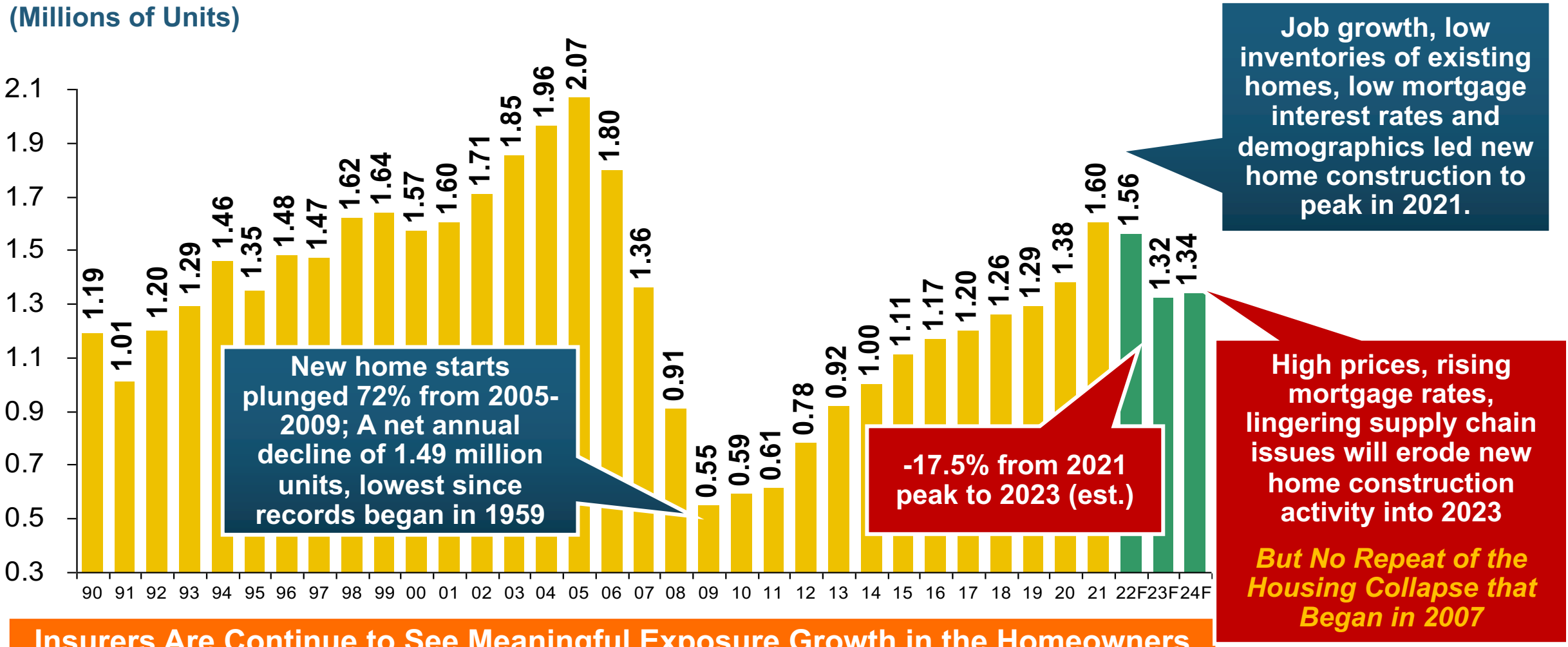
Auto/Light Truck Sales, 1999-2024F



Yearly car/light truck sales remain below pre-COVID levels. Auto manufacturer supply chain issues are expected to linger into early 2023. PP Auto premium might grow by 4%-5%.

Source: U.S. Department of Commerce; Wells Fargo Securities (12/22 for 2022-24F); Univ. of South Carolina, Center for Risk and Uncertainty Management..

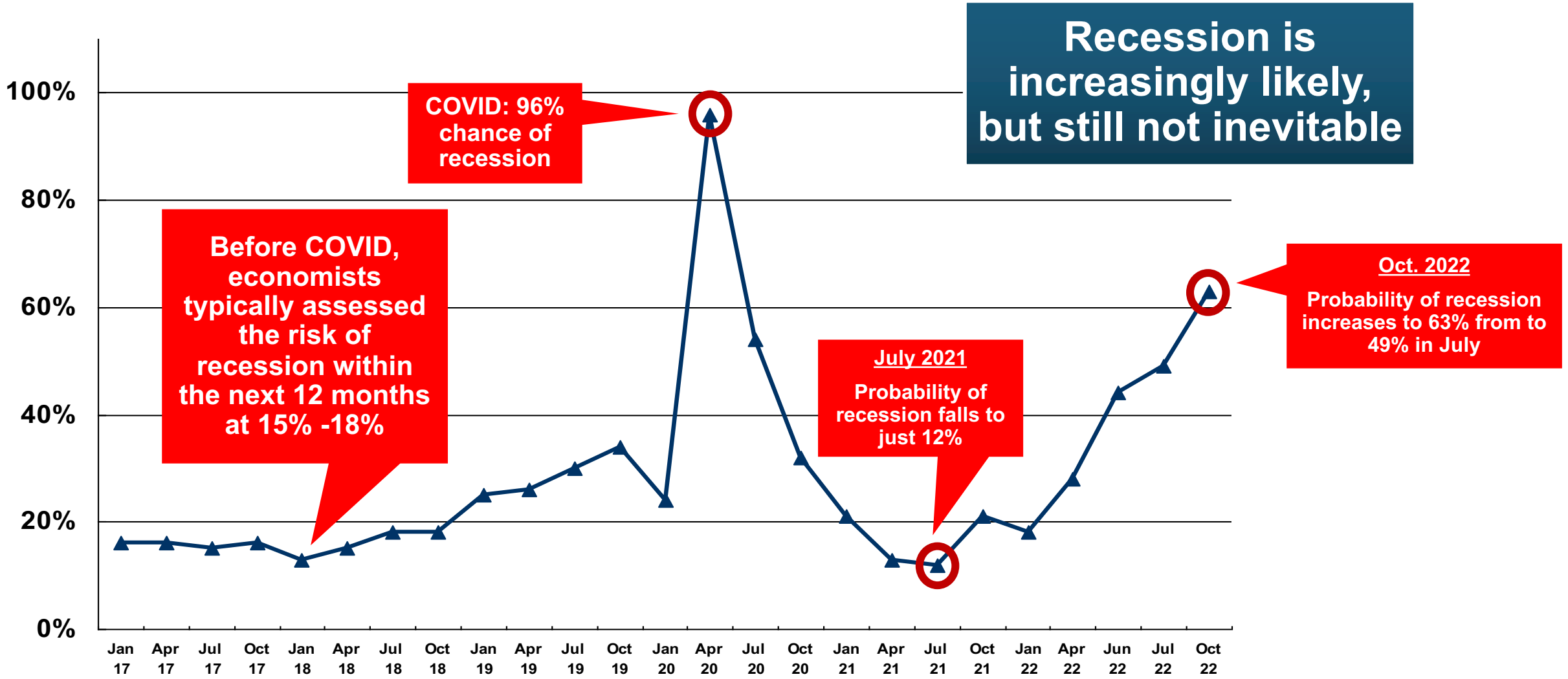
New Private Housing Starts, 1990-2024F



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 (12/22 for 2022-24); Univ. of South Carolina, Center for Risk and Uncertainty Management..

Probability the U.S. Is in a Recession Within Next 12 Months: Jan. 2017 – Oct. 2022*

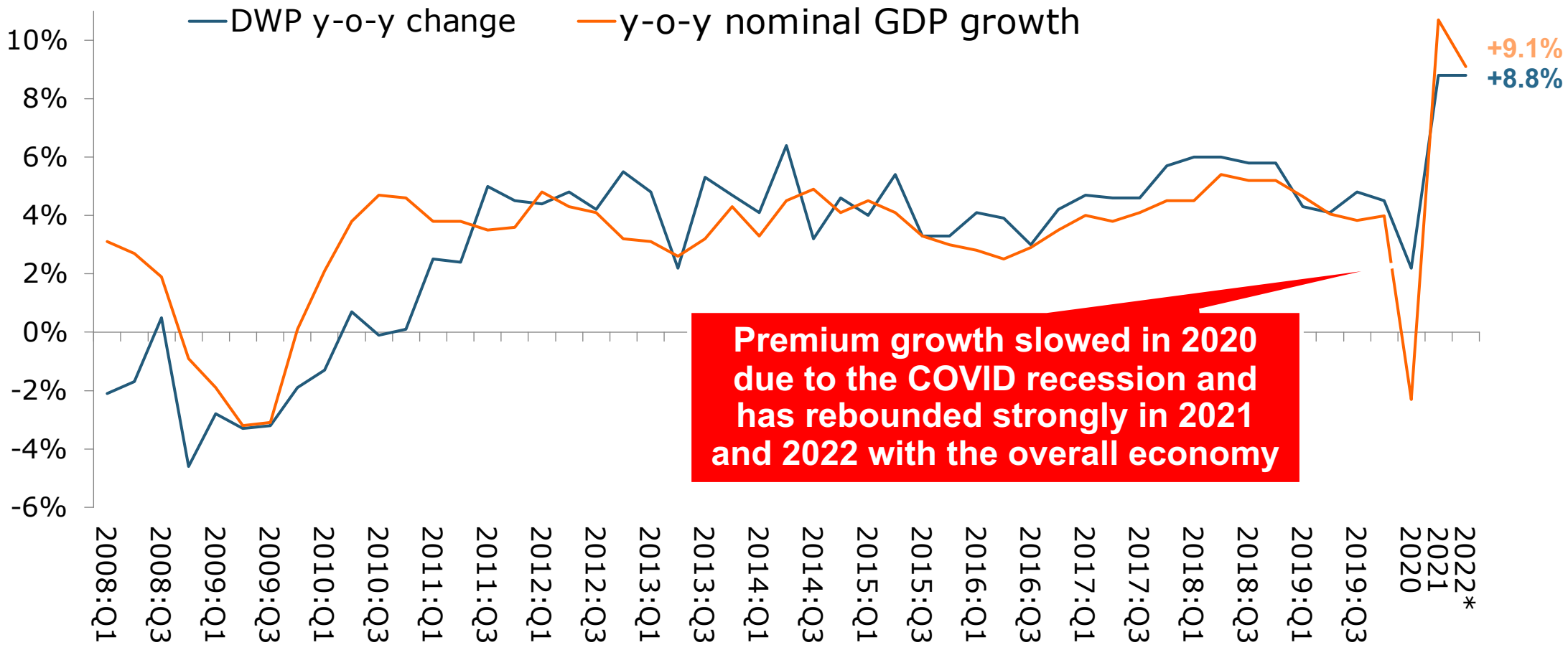


*Oct. 2022 survey included the responses of 75 economists.

Source: Wall Street Journal surveys of economists: https://www.wsj.com/articles/economists-now-expect-a-recession-job-losses-by-next-year-11665859869; Risk and Uncertainty Management Center, University of South Carolina.

The Economy Drives P/C Insurance Industry Premiums: 2006:Q1–2022*

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



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

*2020-22 figures are annual; 2022 DWP figure is preliminary.
Sources: SNL Financial; U.S. Commerce Dept., Bureau of Economic Analysis; ISO; I.I.I.; Risk and Uncertainty Management Center, University of South Carolina.

Question: Is the U.S. economy already in recession?

ANSWER: NO! Even though Q1/Q2 2022 real GDP were negative, Q3 was strongly positive at +2.6%, while labor markets also remain strong. The notion that 2 consecutive quarters of negative real GDP define the start of a recession is incomplete.

The U.S. Inflation Threat

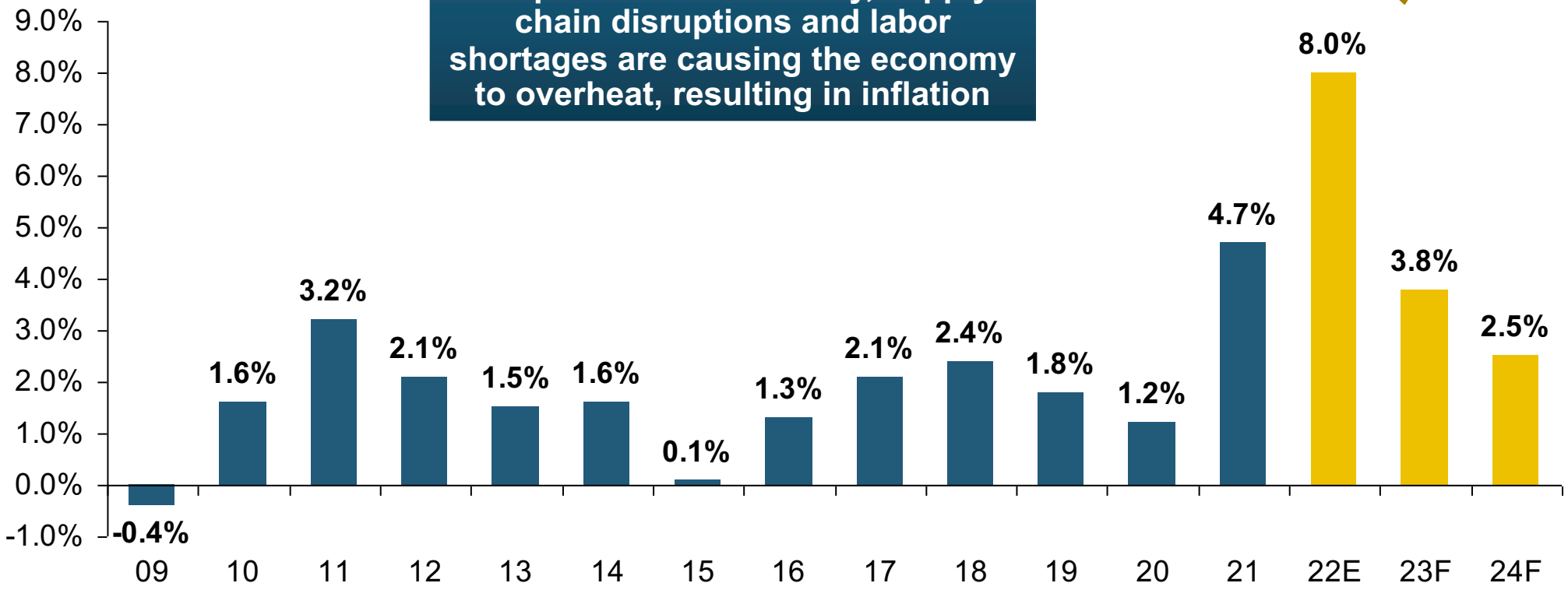
Inflation is the #1 Concern of U.S. Consumers and Corporations…

It's Also a Major Concern of Insurers

U.S. Inflation Rate: 2009-2024F*

Inflation accelerated sharply in 2021 before peaking at 9.1% in June 2022. Inflation should moderate through 2023/24; Forecast is highly dependent of trajectory of energy prices and Fed rate hikes.

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



Insurer Concerns About Inflation

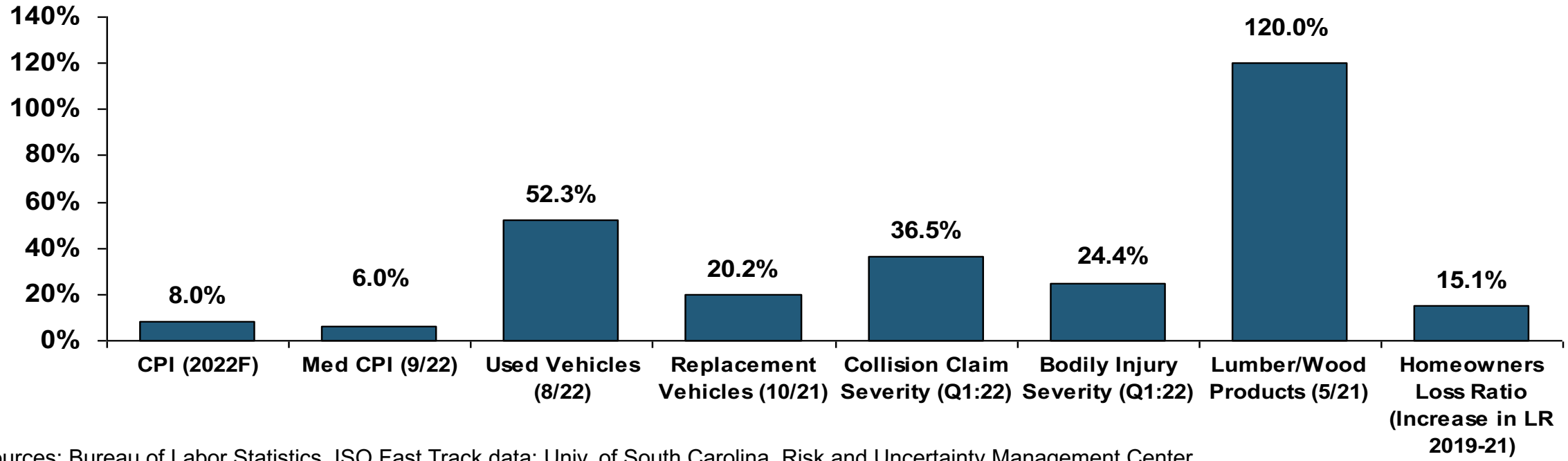
- **Rate Inadequacy**
- **Reserve Inadequacy**
- **Insurance-to-Value**

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

Source: U.S. Bureau of Labor Statistics; Wells Fargo Securities (12/22); USC Center for Risk and Uncertainty Management.

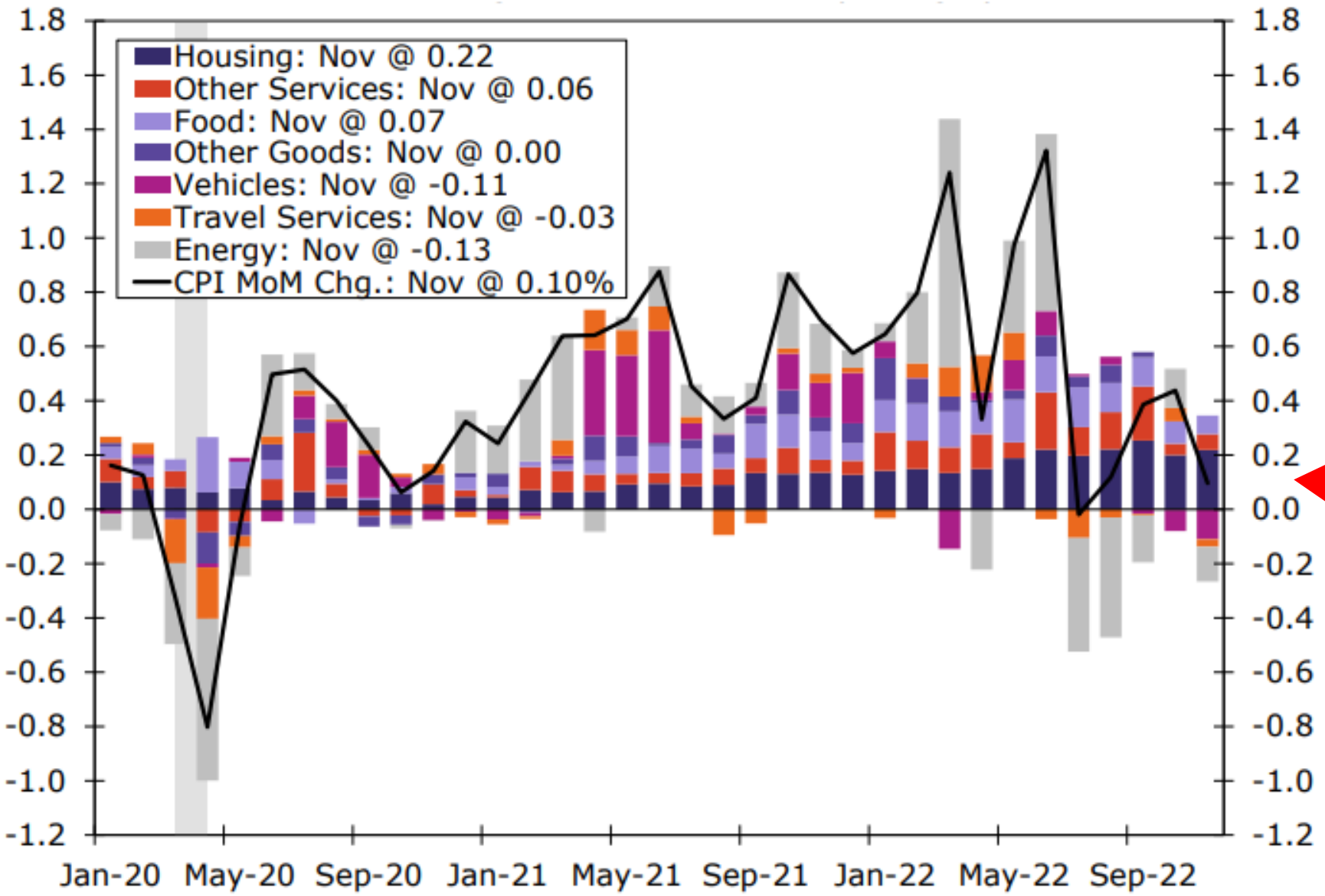
Inflation: Large, Immediate Impacts for Insurers

- Claims severities across property, auto and other lines have surged
- Medical inflation is now accelerating even as overall inflation eases
- Inherent lags in P/C ratemaking imply it will be years before rates are fully adequate
- If inflation persists, reserve adequacy could become a problem (as in the 1970s/80s)
- ITV is an increasing concern



Sources: Bureau of Labor Statistics, ISO Fast Track data; Univ. of South Carolina, Risk and Uncertainty Management Center.

Contribution to CPI by Category: November 2022

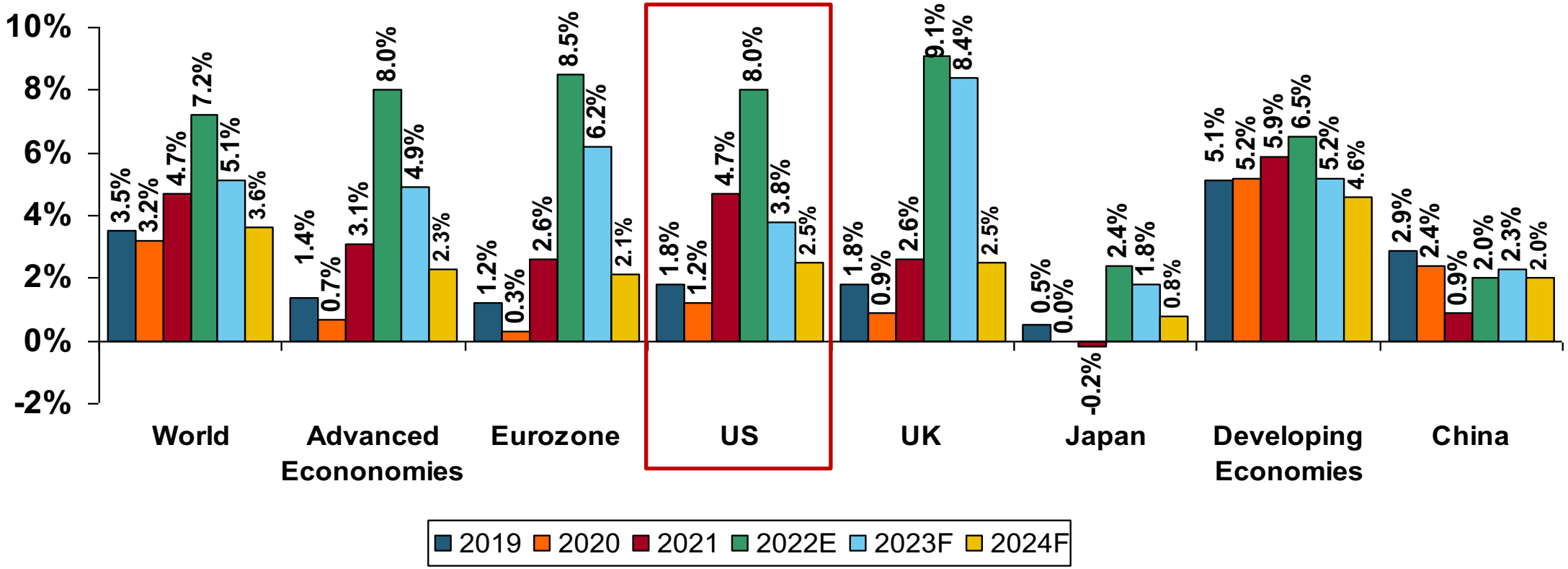


Prices were up 7.1% in Nov. 2022 vs. a year ago, down from the June 2022 peak of 9.1%. Energy and Vehicles pulled CPI down in Nov., but increases in Housing, Food, and Other Services prevented a larger drop.

Source: U.S. Department of Commerce and Wells Fargo Economics.

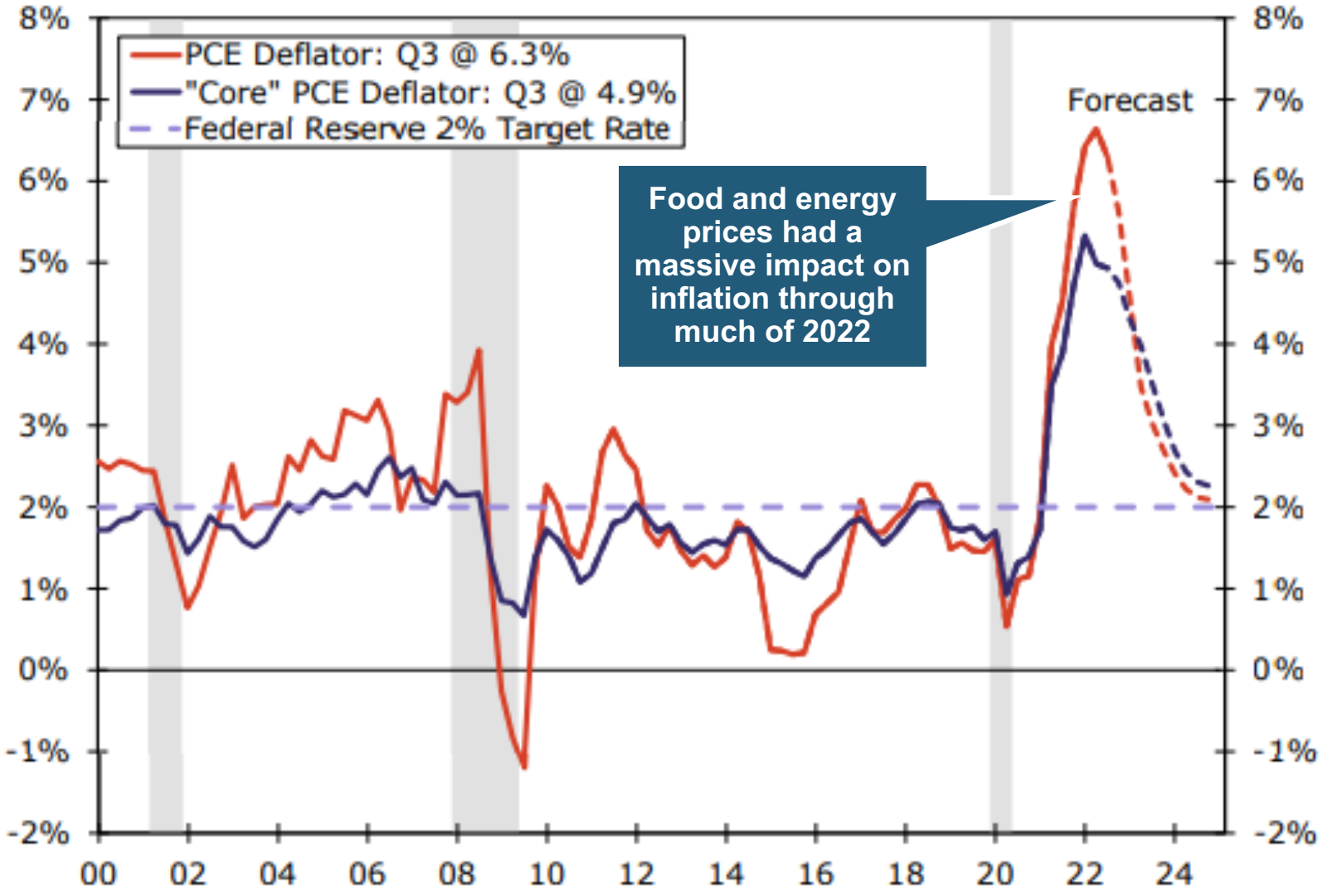
Inflation: A Global Phenomenon – Outlook through 2024F

- Inflation is a global phenomenon
- For some countries, the cure (high interest rates) may be worse than the disease
- For (re)insurers, impacts were immediate but relief will take years
- Inflation will drive the need for tens of billions in additional (re)insurance capacity



Source: IMF and Wells Fargo Securities (Dec. 2022); Univ. of South Carolina, Risk and Uncertainty Management Center.

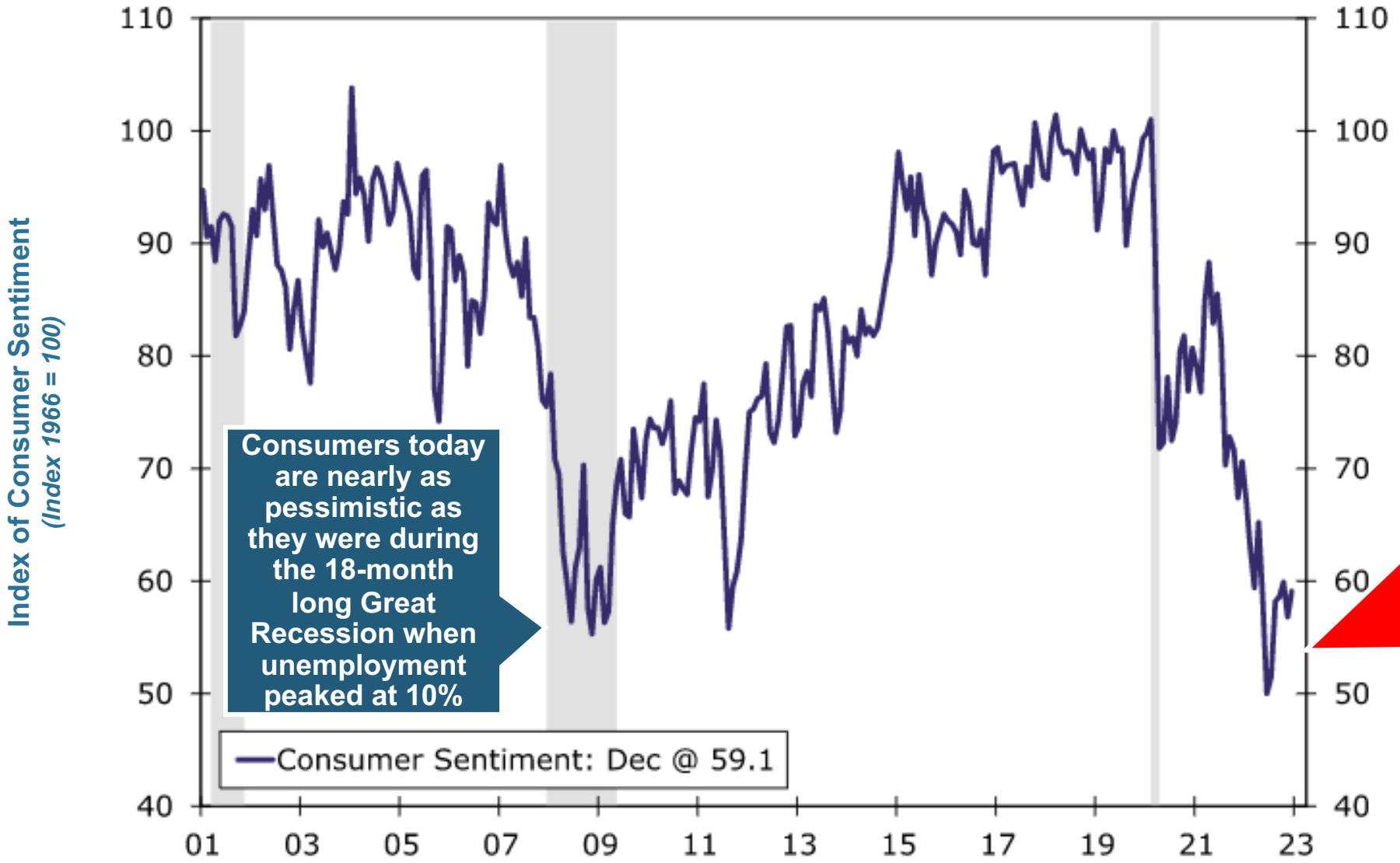
Personal Consumption Expenditure (PCE) Inflation: Sharp Decline Underway



The PCE (Fed's preferred inflation metric) is expected to continue to moderate over the next year, approaching 2% by late 2023. Along with rising unemployment (reaching ~5% by Q1 2024), this suggests the Fed will begin to ease in H2 2023

Source: U.S. Department of Commerce and Wells Fargo Economics.

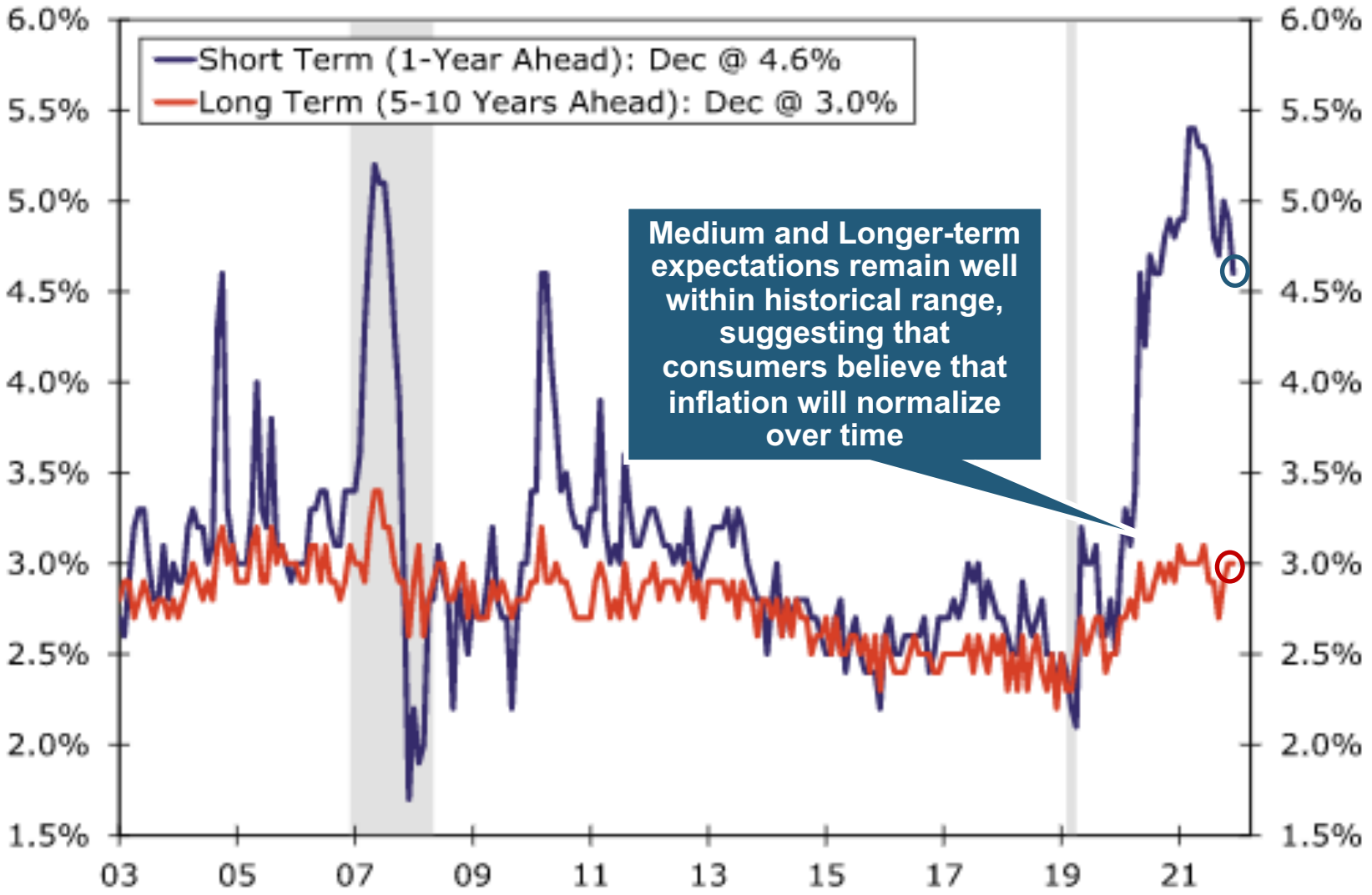
Consumer Sentiment: Close to the Lowest Ever Despite Strong Jobs Markets



Despite unemployment rates that are among the lowest in 50+ years and the "end" of the COVID pandemic, consumers are *GRUMPY*— sentiments improved in late 2022

Source: University of Michigan and Wells Fargo Economics.

Consumer Inflation Expectations: Generally Falling Over Both Short and Long-Terms Horizons



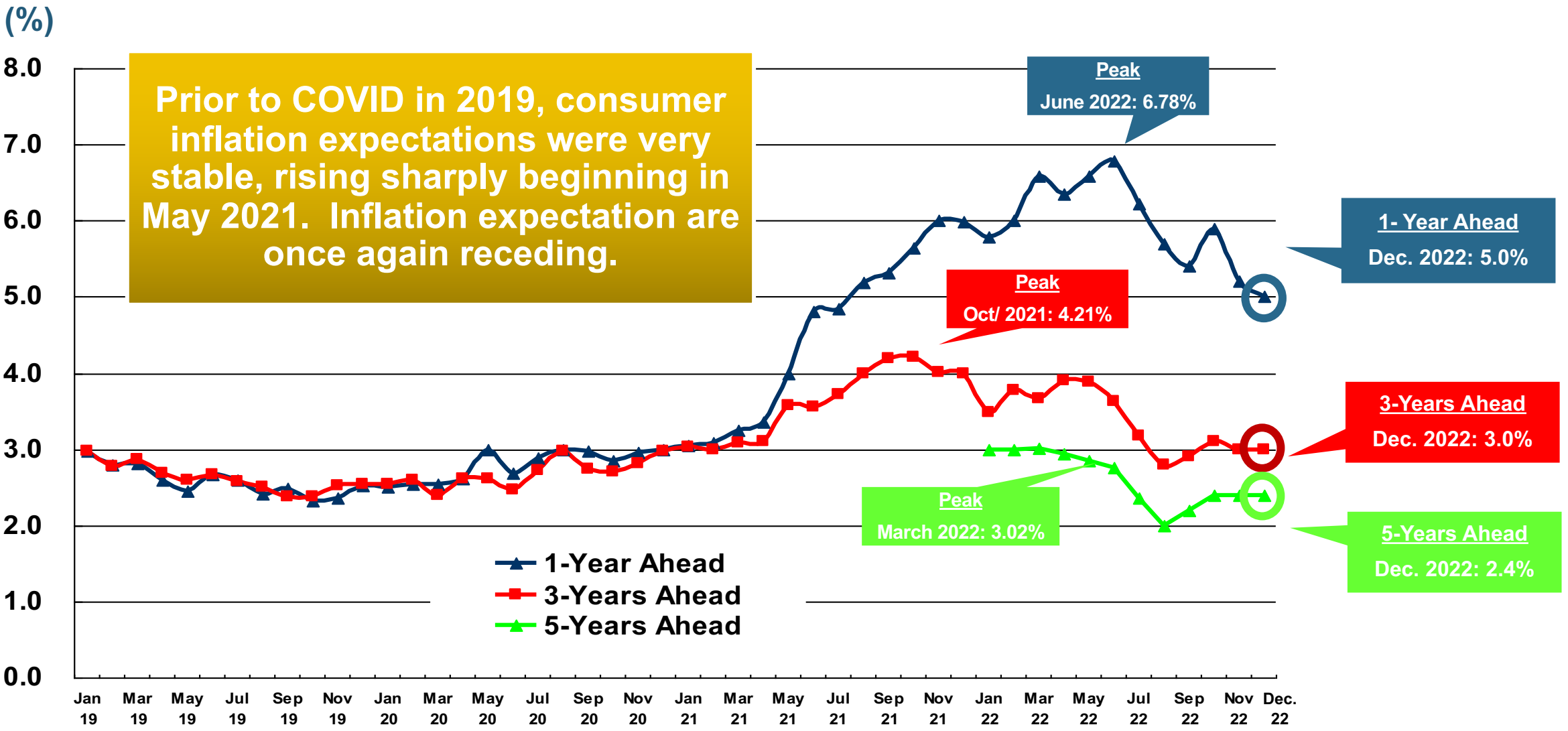
Medium and Longer-term expectations remain well within historical range, suggesting that consumers believe that inflation will normalize over time

1- Year Ahead
Dec. 2022: 4.6%

5-10 Years Ahead
Dec. 2022: 3.0%

Source: University of Michigan and Wells Fargo Economics.

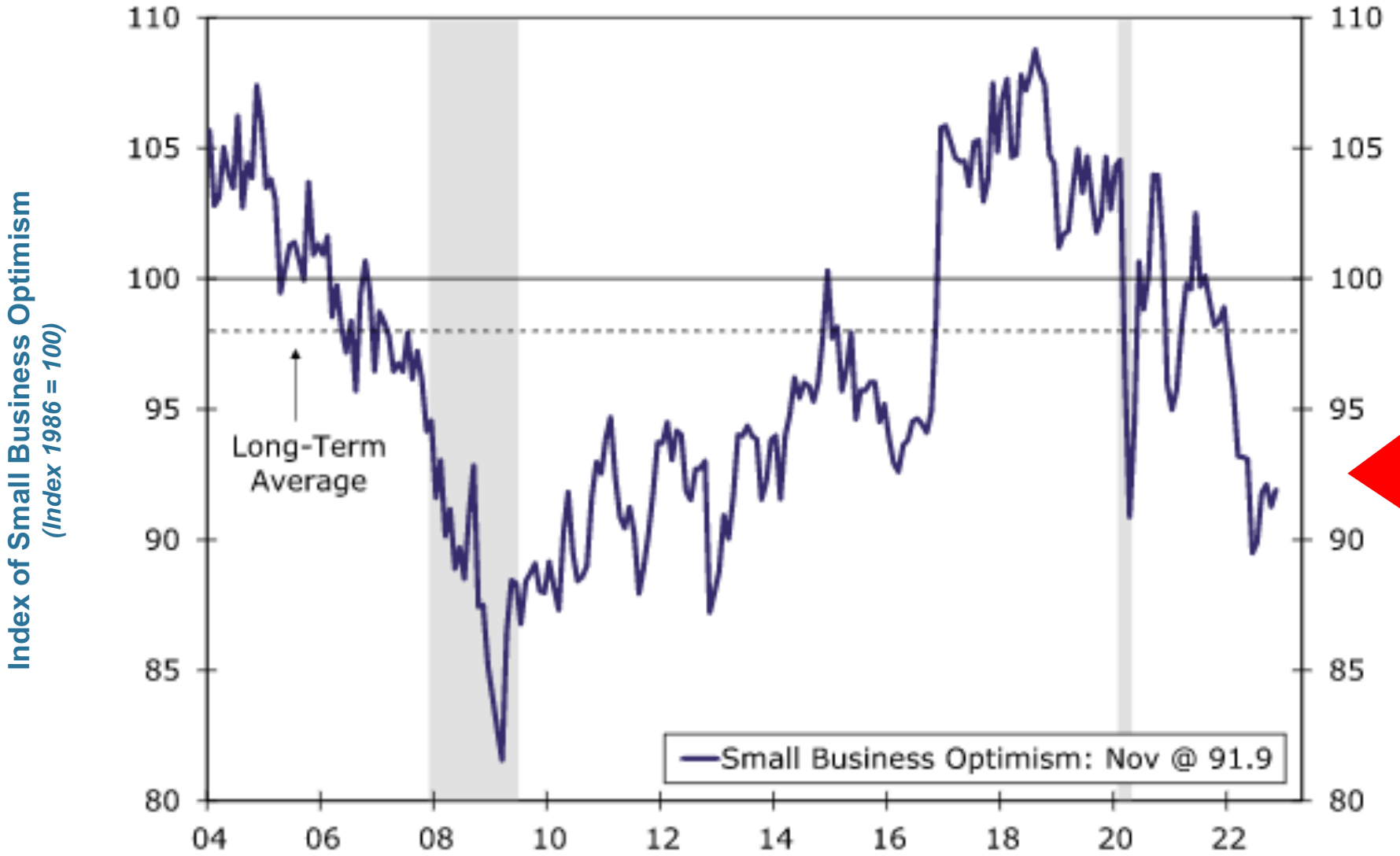
Consumer Inflation Expectations: 1, 3 and 5 Years Ahead*



*Survey data for 5-year ahead series begin in January 2022.

Sources: Federal Reserve Bank of New York, accessed at: https://www.newyorkfed.org/microeconomics/sce#/inflexp-1; Risk and Uncertainty Management Center, University of South Carolina.

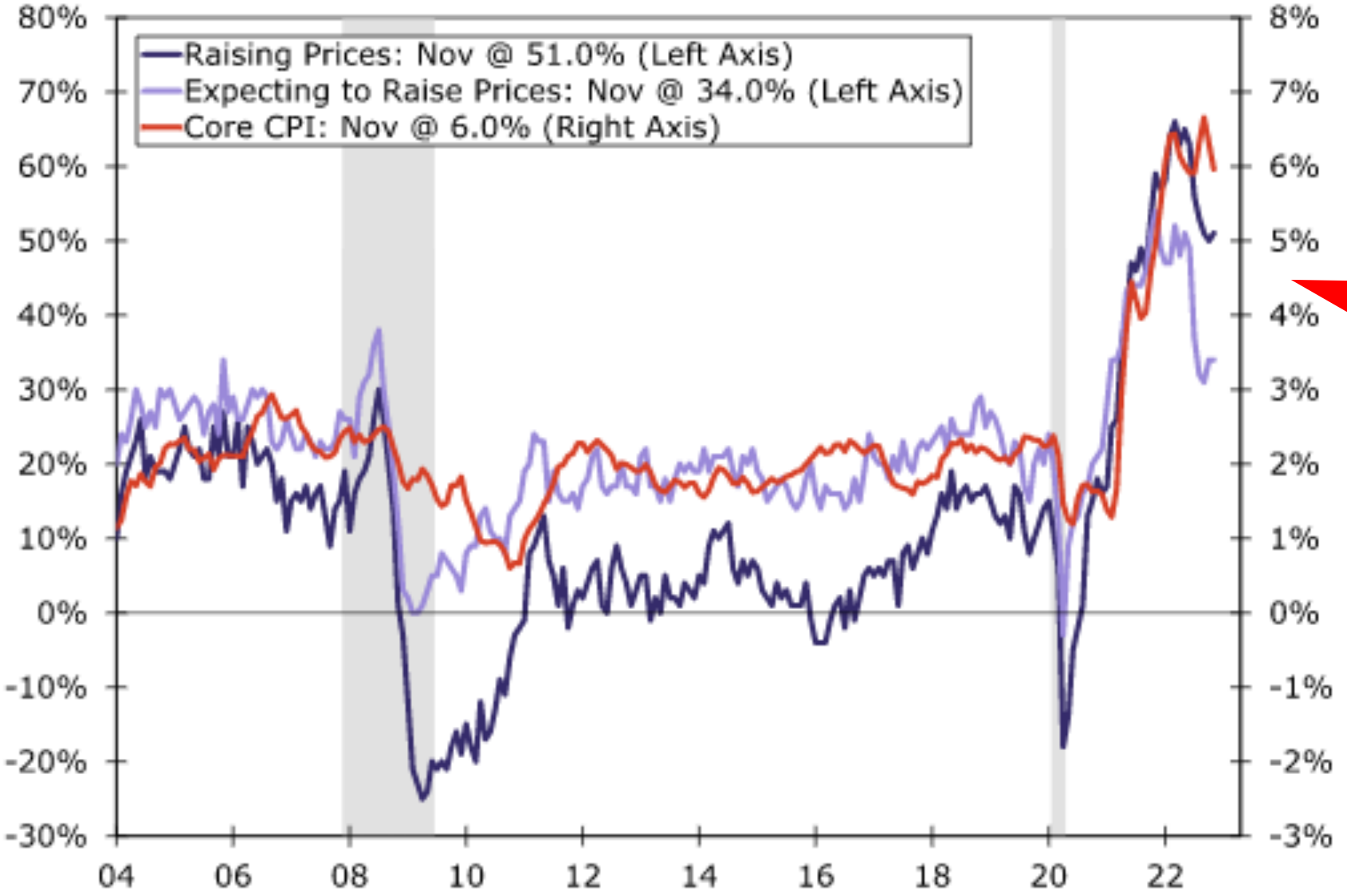
Small Business Optimism: Will the Sharp Decline Reverse?



Small businesses today (Nov. 22) are about as pessimistic as they were during the depths of pandemic (lowest since 2013), despite strong sales. Inflation and labor issues are leading concerns.

Source: NFIB, Wells Fargo Economics and tradingeconomics.com, accessed at: https://tradingeconomics.com/united-states/nfib-business-optimism-index.

Small Businesses: As Inflation Cools, Fewer Business Plan to Raise Prices



Inflation peaked in mid-2022 leading to fewer businesses indicating the need to increase prices

Source: NFIB and Wells Fargo Economics (Nov. 2022).

Annual Change in Average Hourly Wage, 2007–2022*

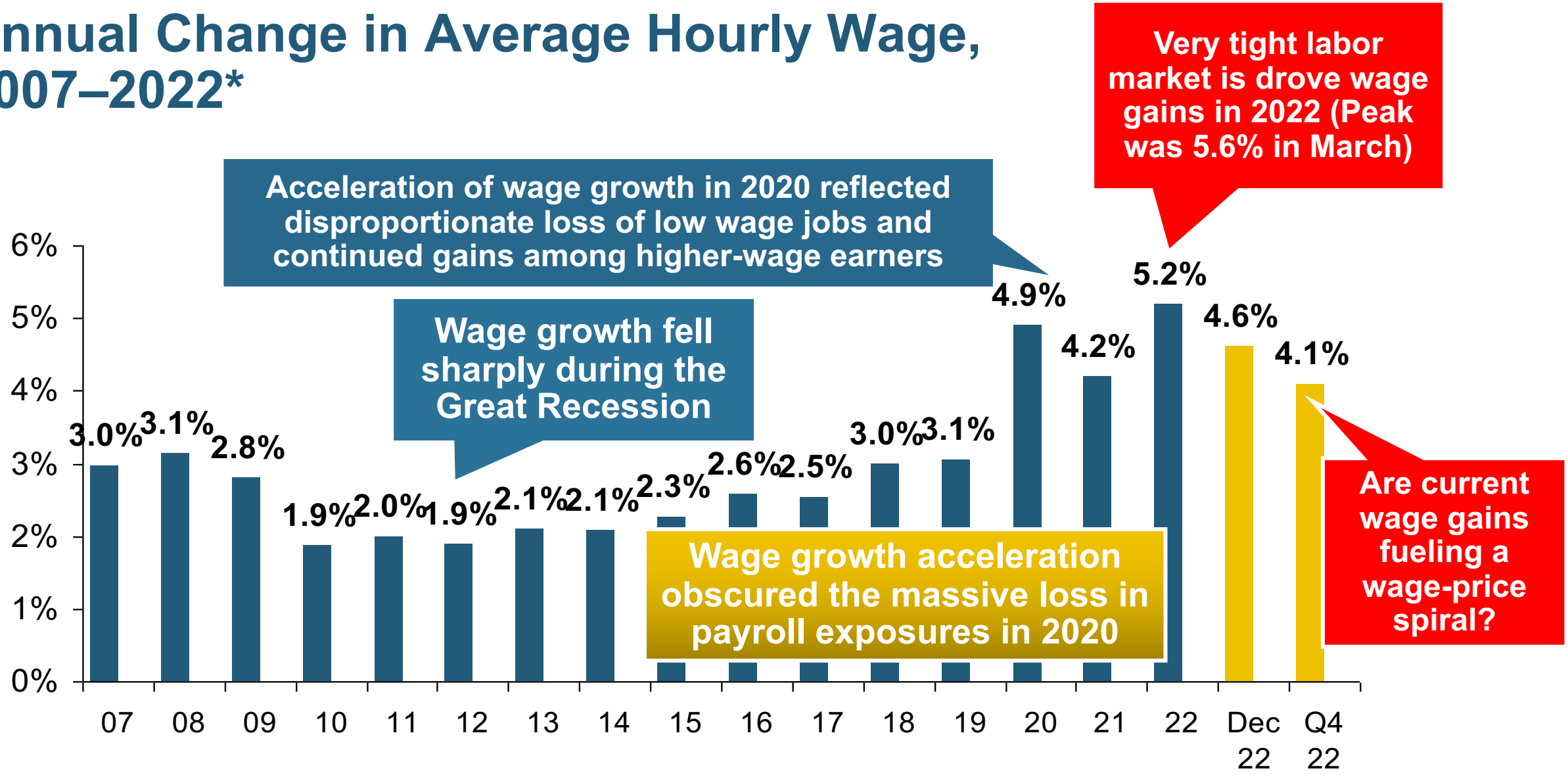
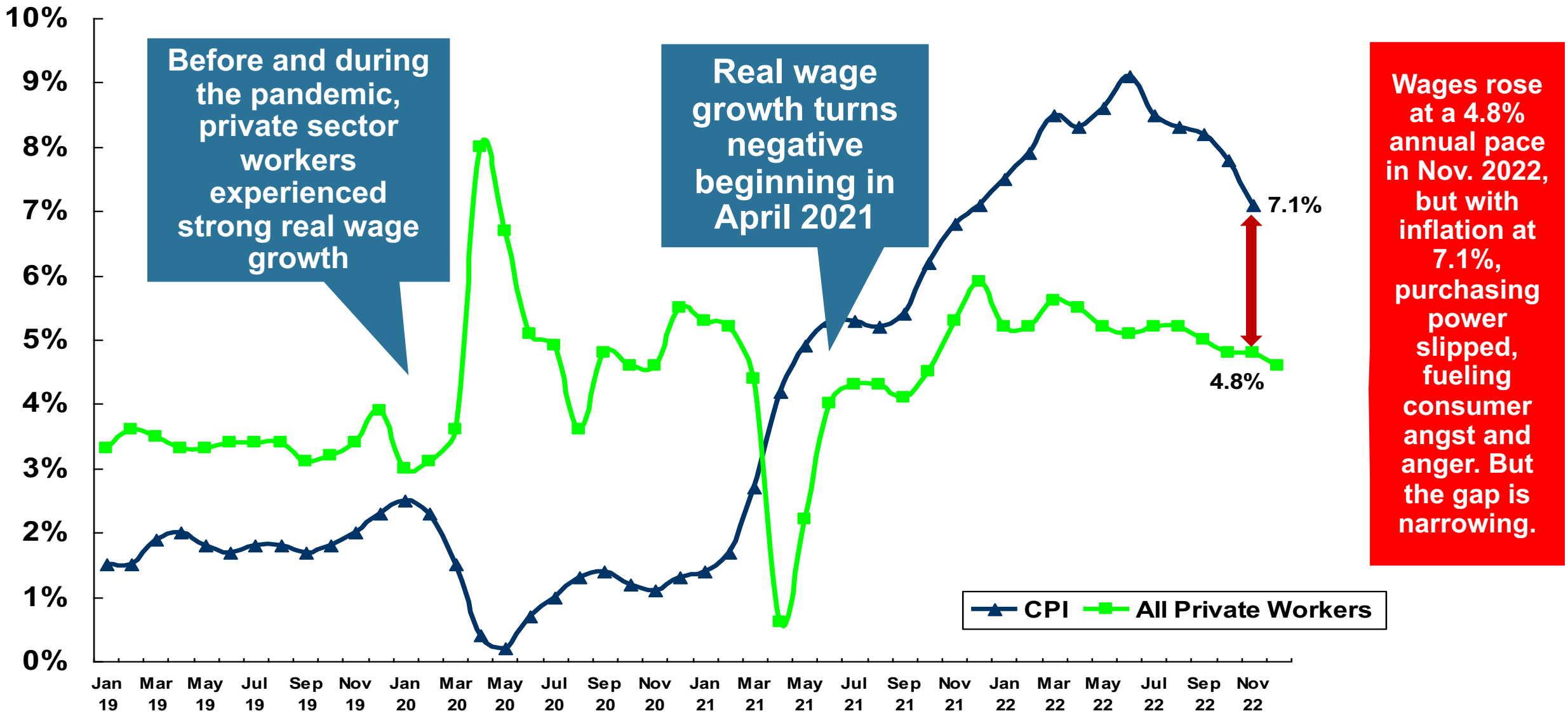


*Figure is year-over-year change from Dec. 2021 to Dec. 2022.

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

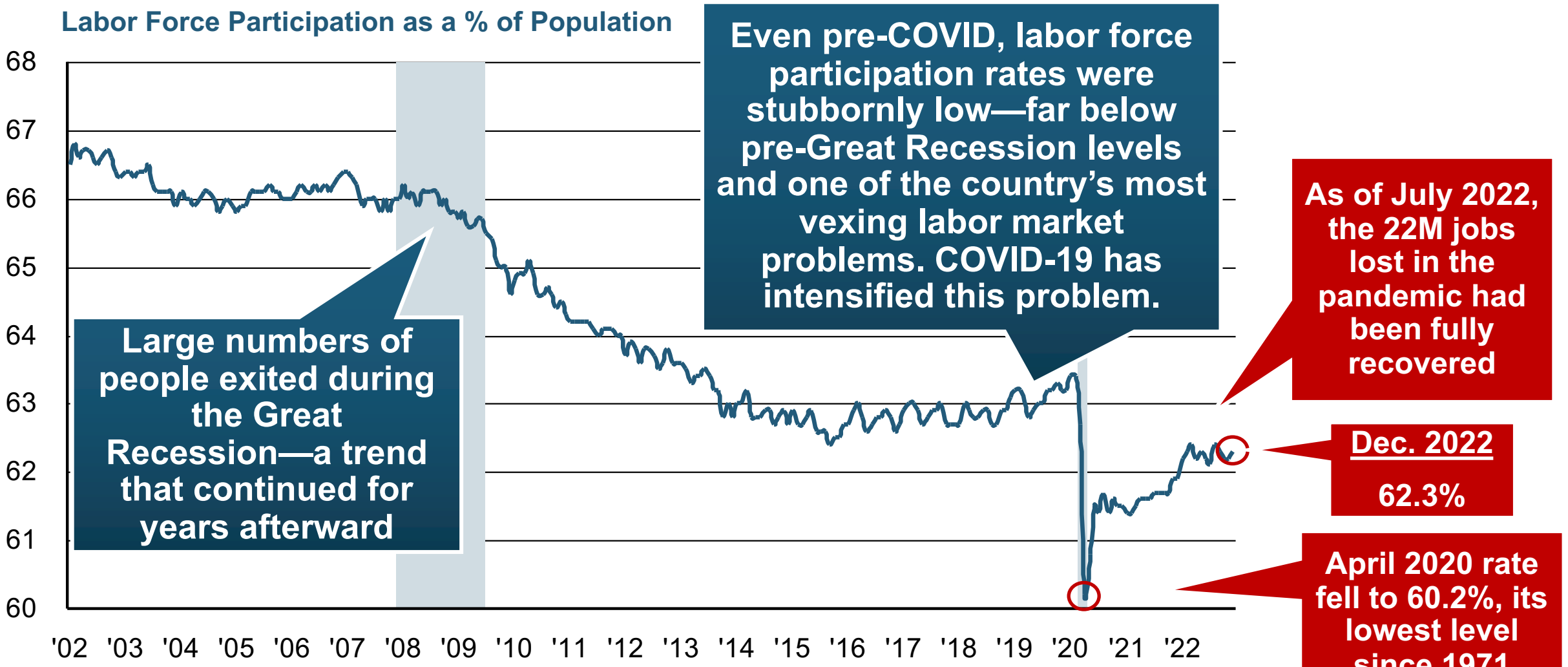
Inflation (CPI) vs. Hourly Earnings Growth: Jan. 2019 – Nov. 2022*



Wages rose at a 4.8% annual pace in Nov. 2022, but with inflation at 7.1%, purchasing power slipped, fueling consumer angst and anger. But the gap is narrowing.

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

Labor Force Participation Rate, Jan. 2002–Dec. 2022*

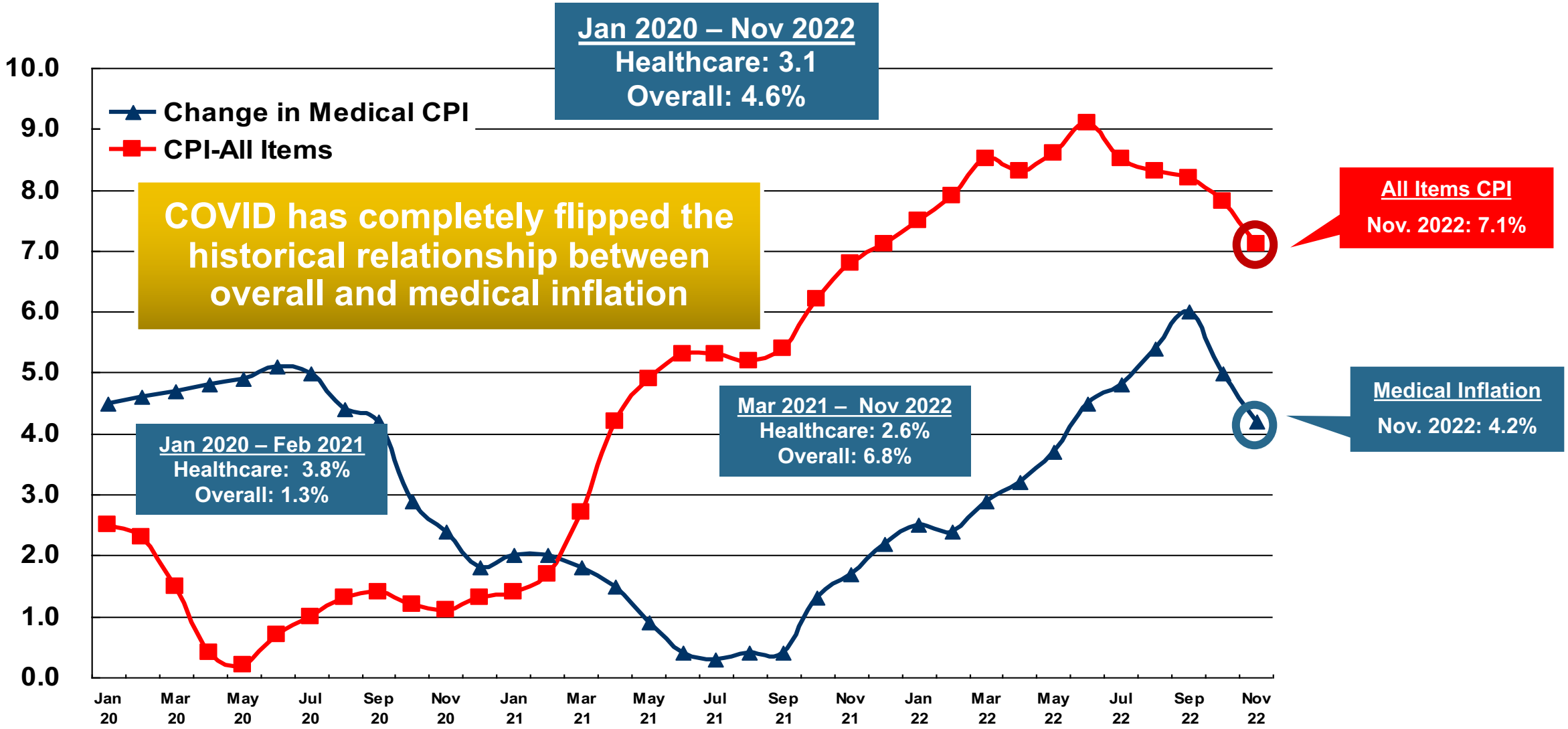


*Defined as the percentage of working age persons in the population who are employed or actively seeking work.

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.

Medical Cost Inflation vs. Overall CPI During COVID, Jan. 2020 – Nov. 2022 *(Percent Change from Year Ago)*

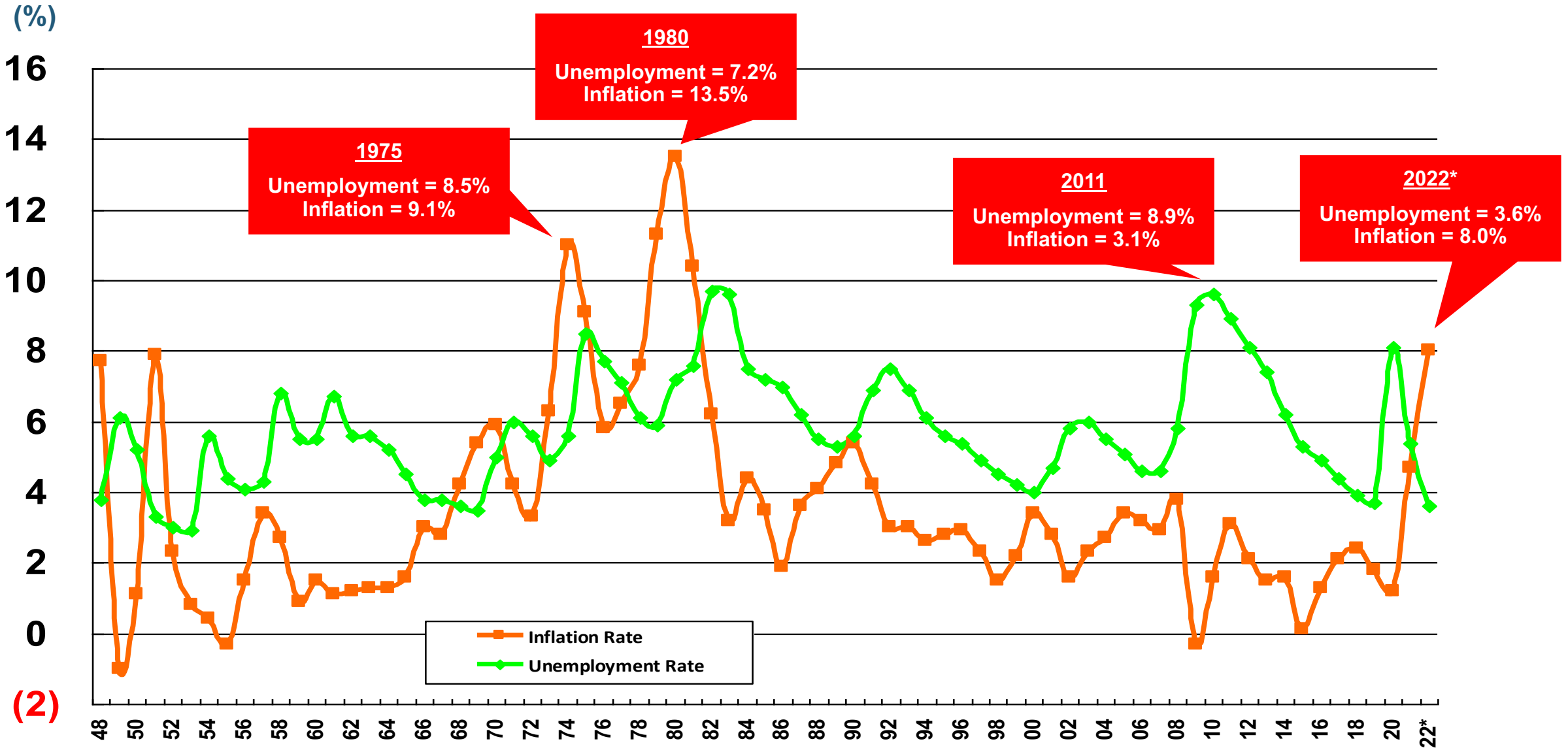


Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

Are Things As Bad as Many Believe Them to Be?

A Quick Review of Economic History Is Helpful

Inflation and Unemployment Rate, 1948–2022F*



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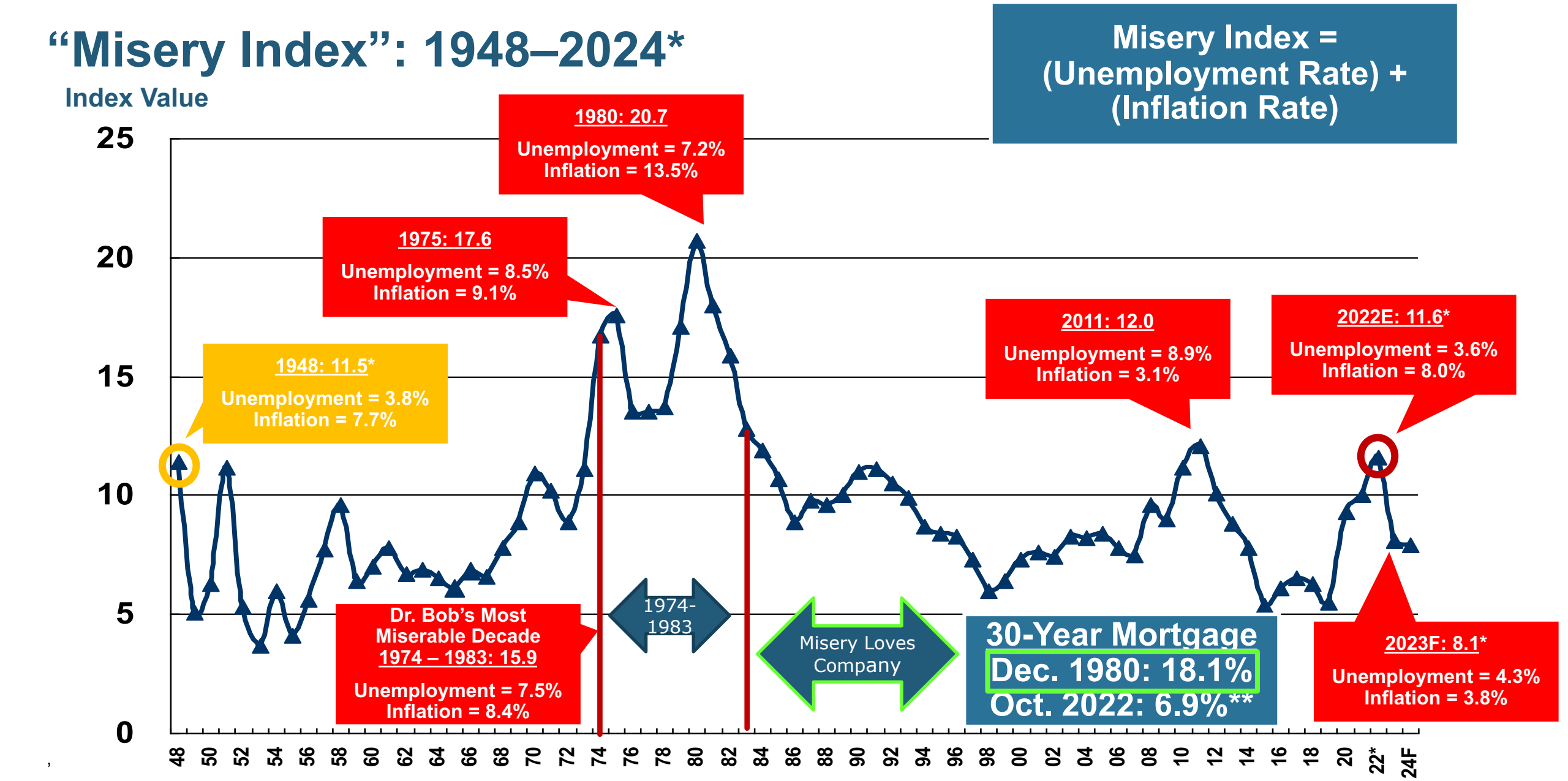
*2022 forecast based on Wells Fargo Securities forecasts (12/22).
Source: U.S. Bureau of Labor Statistics; Center for Risk and Uncertainty Management, University of South Carolina.

“Misery Index”: 1948–2024*



*Estimated based on Wells Fargo Securities forecasts (12/22).
**As of 10/20/22 based on Freddie Mac data.
Source: U.S. Bureau of Labor Statistics; Center for Risk and Uncertainty Management, University of South Carolina.

Three Long-Run Global Factors Exacerbating Inflation

1. Deglobalization

- Global trade as a % of global GDP rose from 25% in 1970 to a peak of 61% in 2008, falling thereafter to 52% by 2020
- Nationalism, reshoring/near-shoring, supply chain restructuring, pivot toward resilience from minimum cost, etc.→All diminish advantages of comparative advantage and result in higher production costs

Three Long-Run Global Factors Exacerbating Inflation

2. Decarbonization

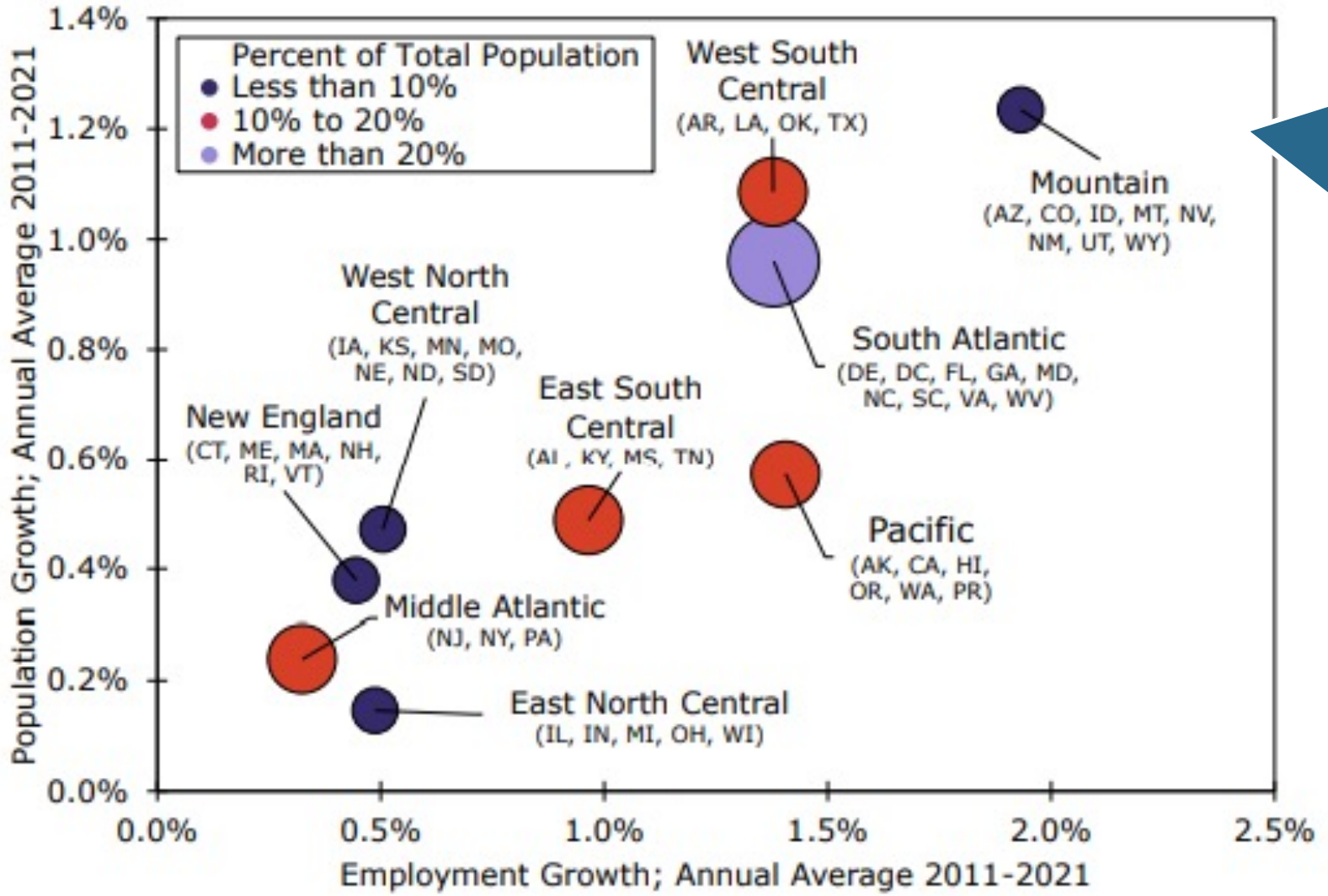
- Cost to transition to Net Zero carbon emissions is estimated at $9.2 trillion annually, now through 2050 ($3.5T more than today)
- Managing the transition poorly (e.g., failing to maintain appropriate infrastructure, competitive environment for carbon-based energy during the transition) will raise costs (e.g., Russia dependence)

Three Long-Run Global Factors Exacerbating Inflation

3. Depopulation

- Population growth in the US and many advanced economies is close to zero or negative
- Advanced economies are aging
  - 1-in-5 in the US will be 65+ in 2030
- World population growth is slowing
- In the absence of major productivity enhancements, labor shortages are inflationary

Regional Population Growth vs. Employment Growth, 2011 – 2021



- Although overall population growth is near zero in the US overall, insurers with exposure to states with rapid population and job growth with see signficantly larger gains in exposure
- Mountain, South Atlantic regions plus Texas lead the way

Sources: US Dept. of Labor; Wells Fargo Economics; Risk and Uncertainty Management Center, University of South Carolina.

P/C Insurance Industry Financial Overview & Outlook:

Challenges Amid Rising Inflation and Higher Interest Rates

The Current Economic Environment Presents Many Challenges for P/C Insurers

Industry Remains Strong

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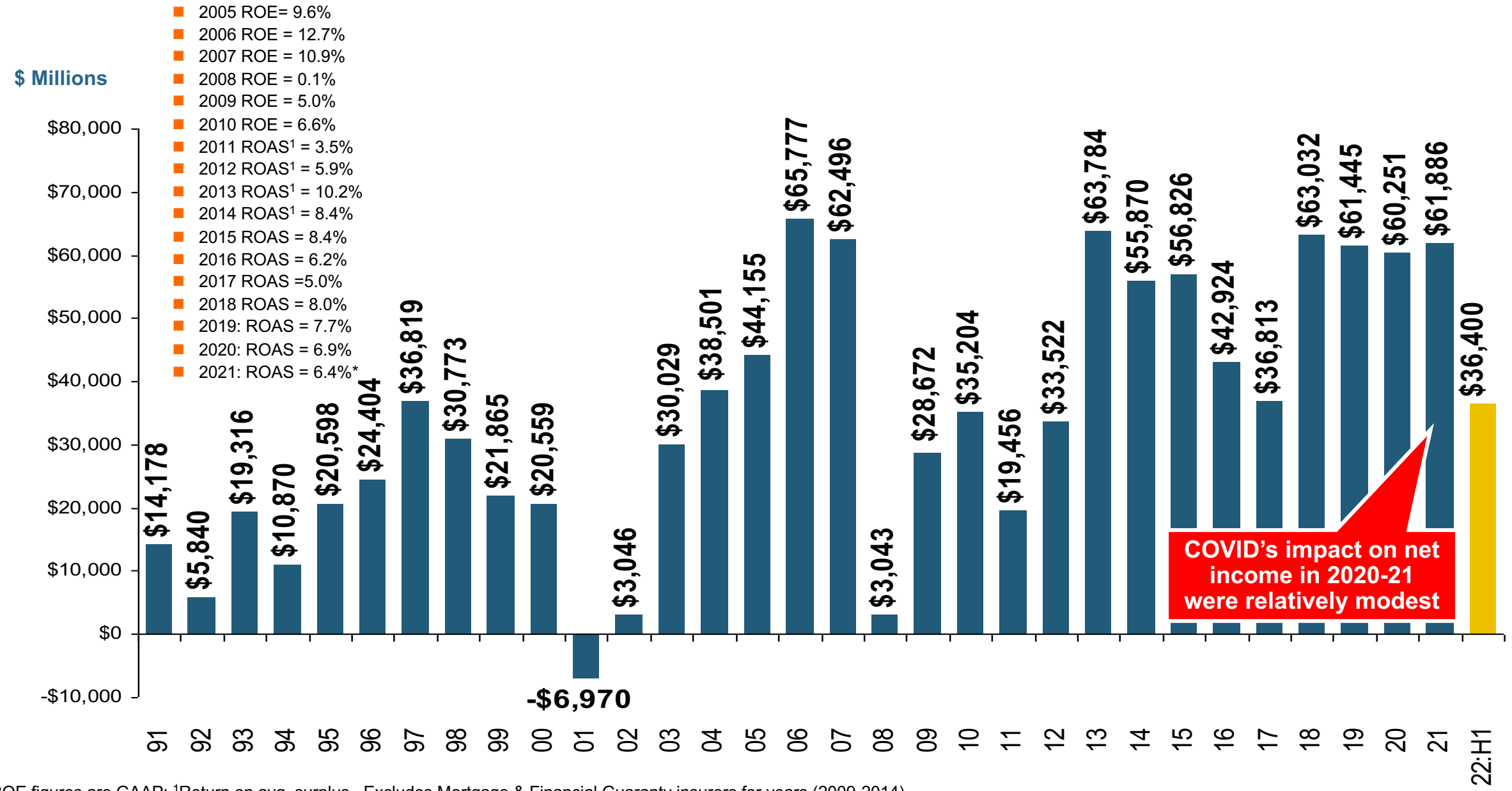
Profits and Profitability

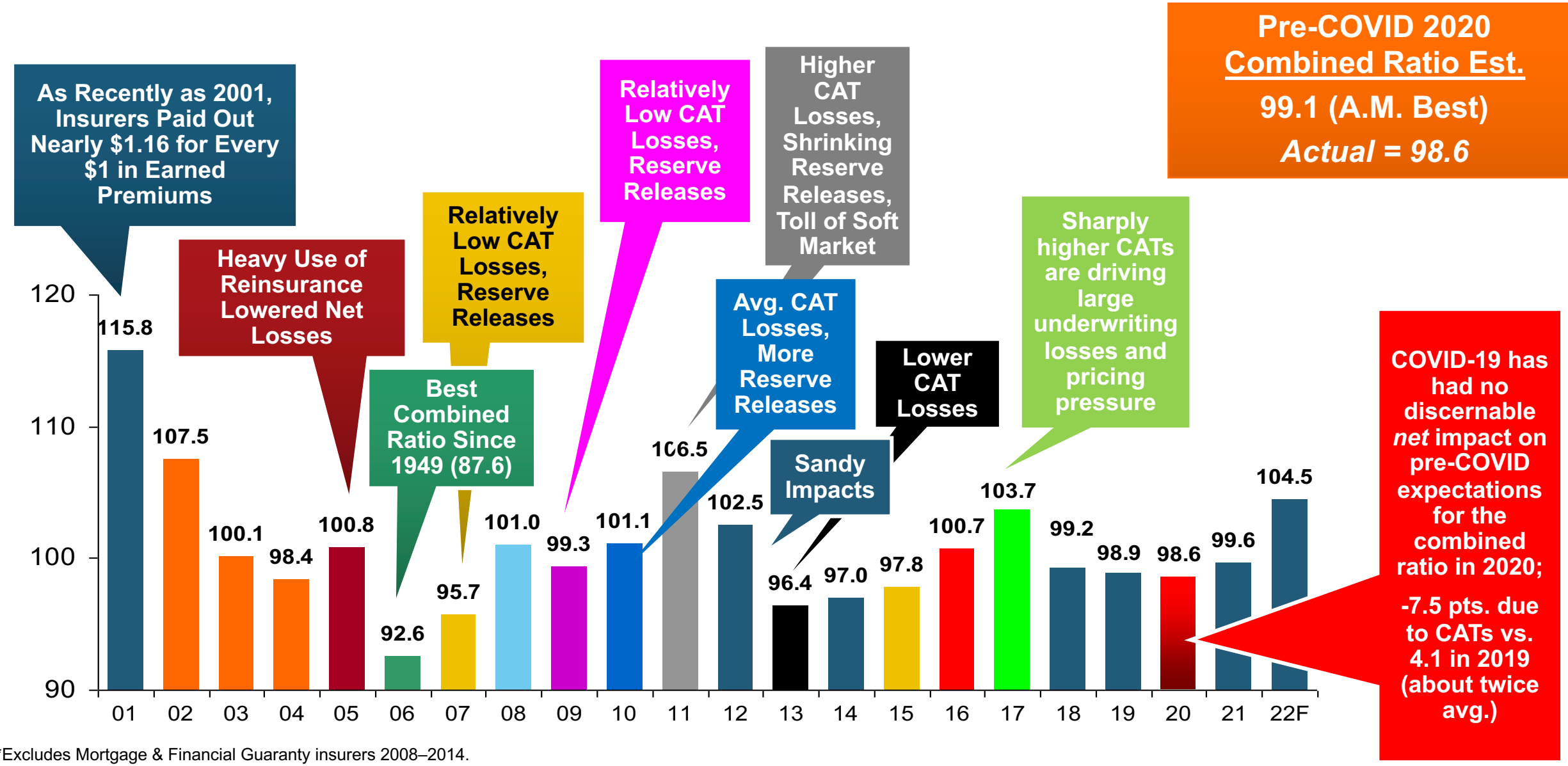
P/C Profitability Is Extremely Volatile

P/C Industry Net Income After Taxes, 1991–2022:H1*



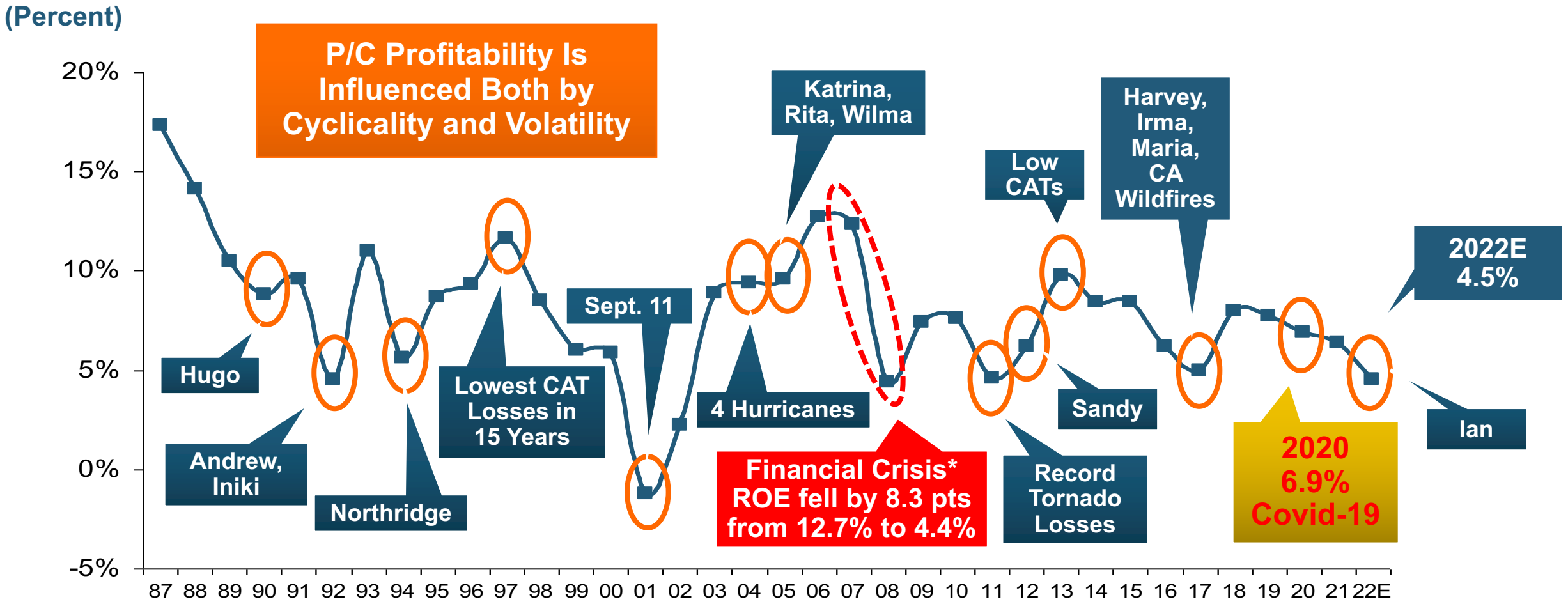
*ROE figures are GAAP; [1]Return on avg. surplus. Excludes Mortgage & Financial Guaranty insurers for years (2009-2014).
Sources: A.M. Best, ISO, APCIA.

P/C Insurance Industry Combined Ratio, 2001–2022F**



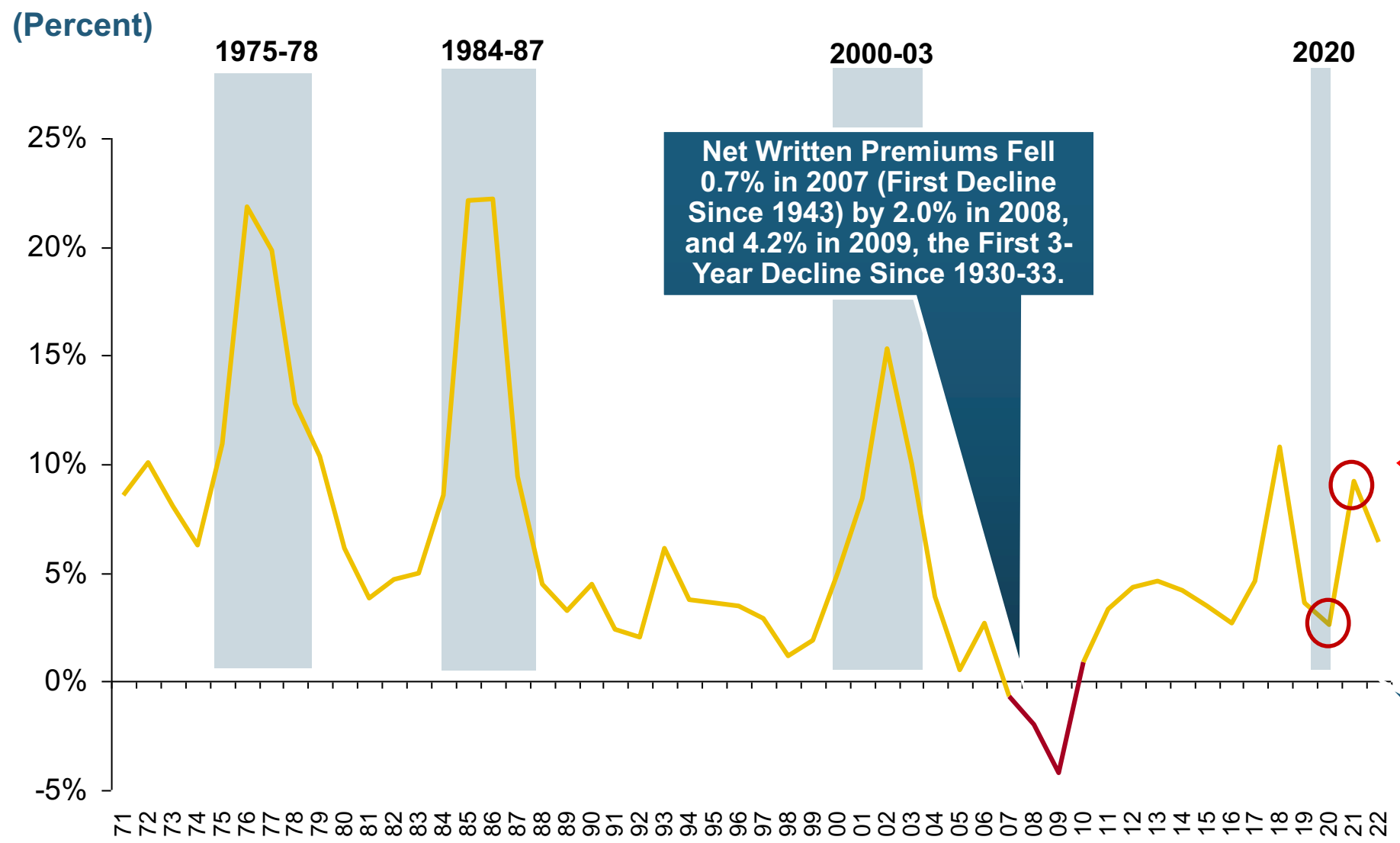
*Excludes Mortgage & Financial Guaranty insurers 2008–2014.
**2022 figure is forecast..
Sources: A.M. Best, ISO (2014-2022F).

ROE: Property/Casualty Insurance by Major Event, 1987–2022E*



*Excludes Mortgage & Financial Guarantee in 2008 – 2014.
Sources: ISO, *Fortune,* APCIA; USC RUM Center.

Net Written Premium Growth (All P/C Lines): Annual Change, 1971–2022F



Net Written Premiums Fell 0.7% in 2007 (First Decline Since 1943) by 2.0% in 2008, and 4.2% in 2009, the First 3-Year Decline Since 1930-33.

2022F: 6.4%
2021: 9.2%
2020: 2.6%
2019: 3.6%
2018: 10.8%
2017: 4.6%
2016: 2.7%
2015: 3.5%

Sharp recovery in NWP in 2021 (9.2%). Strong economic recovery and favorable rate environment both powered growth.

2020 Outlook

Pre-COVID: 3.8%

Actual: 2.6%**

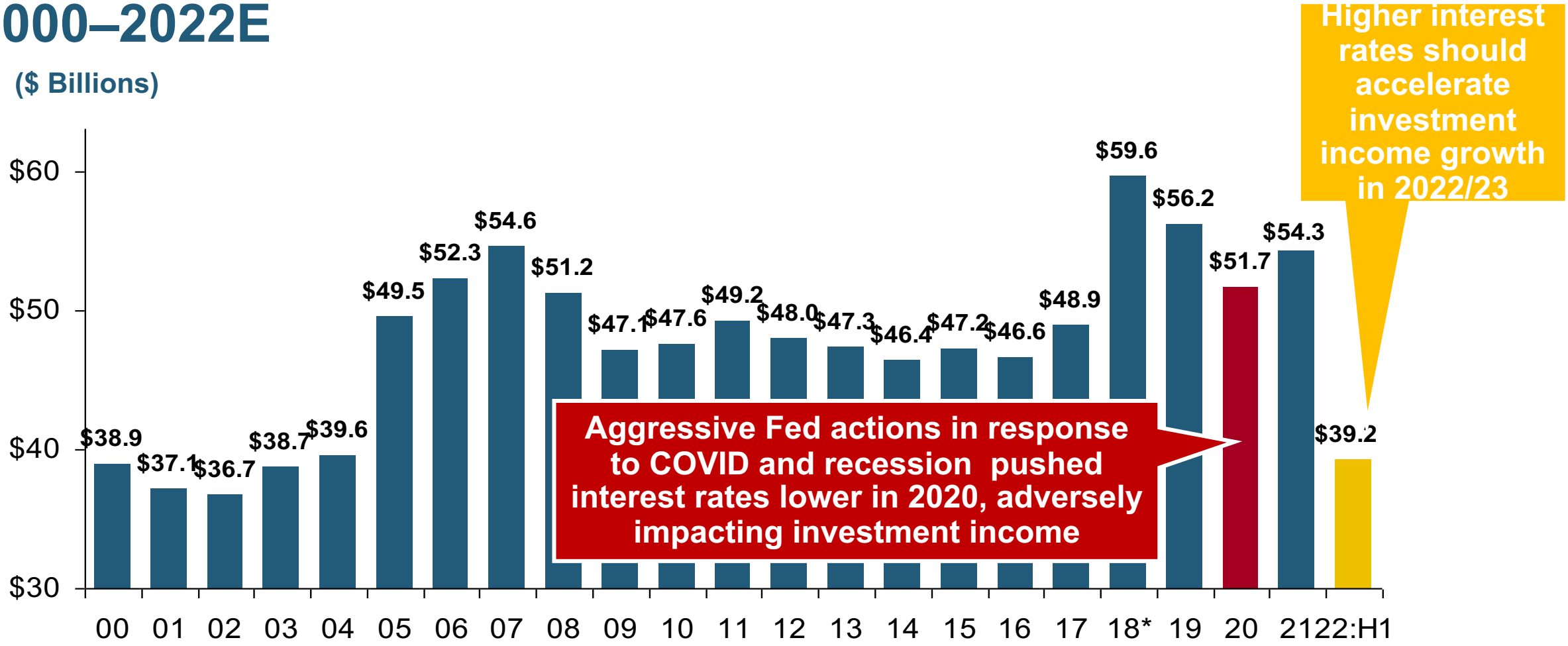
NOTE: Shaded areas denote "hard market" periods.
Sources: A.M. Best (1971-2013, 2022F), ISO (2014-21); Risk & Uncertainty Management Center, Univ. of South Carolina

Investments

Investment Performance Is a Key Driver of Insurer Profitability, Especially in Long-Tailed Lines Such as Workers Comp

Dove to Hawk: How Will an Aggressive Fed Impact Insurer Portfolios?

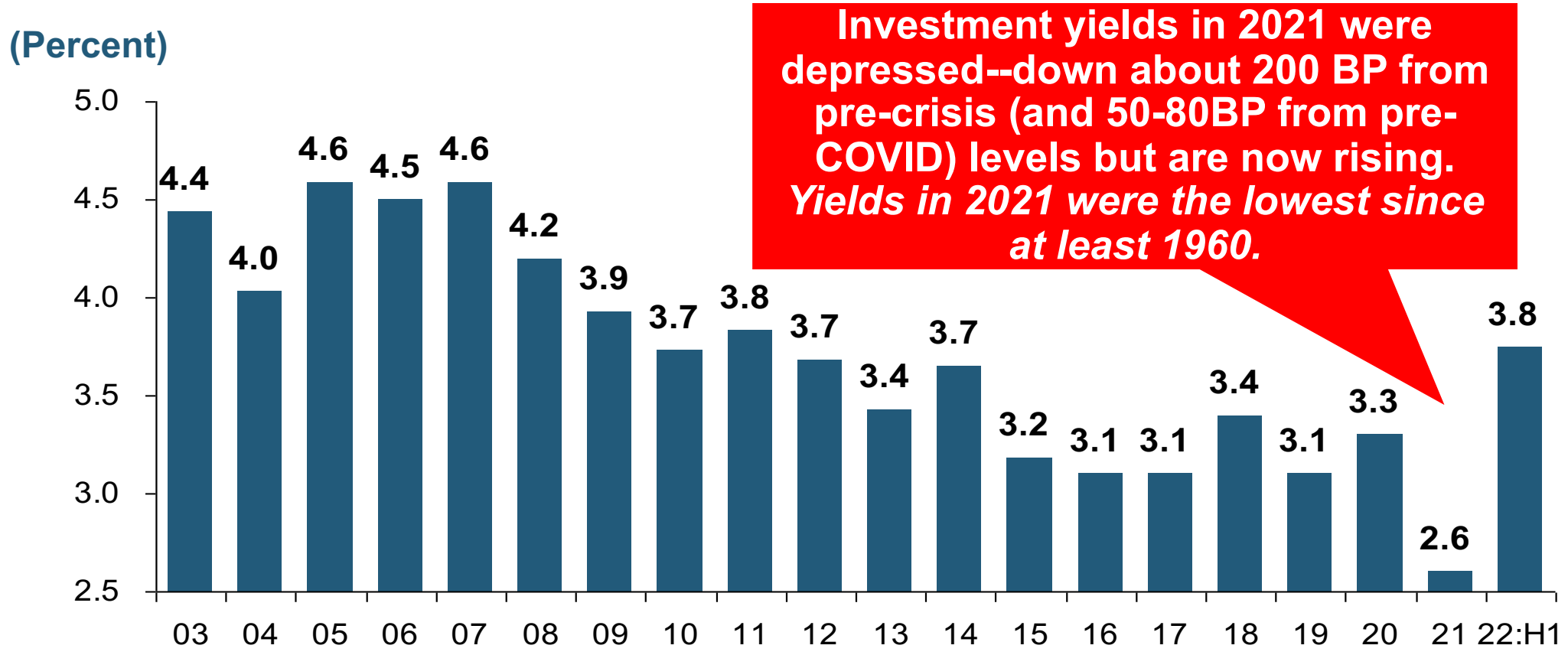
Property/Casualty Insurance Industry Investment Income: 2000–2022E



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 actual as of 12/31/21. 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, 2007–2022:H1



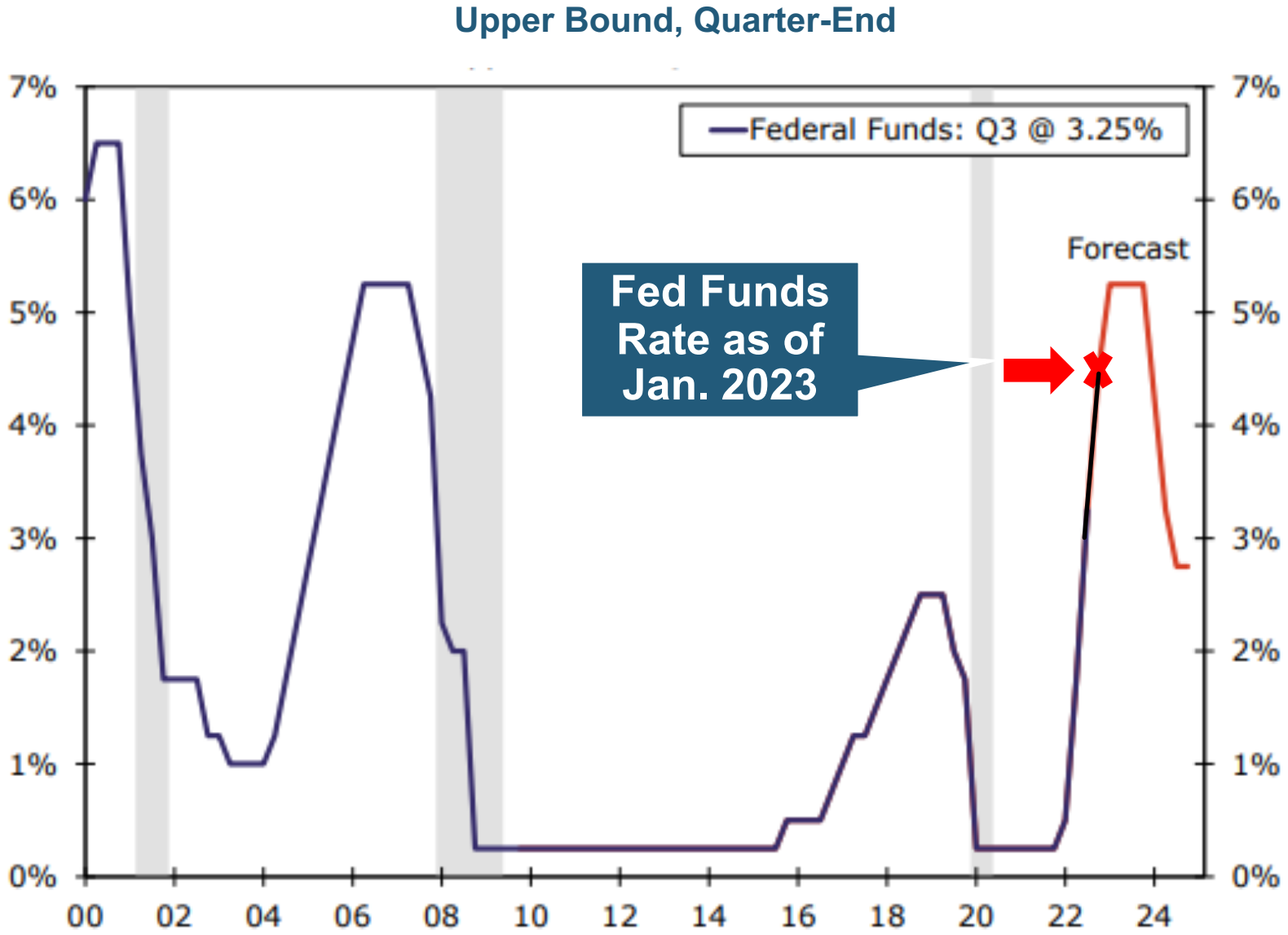
Investment yields in 2021 were depressed--down about 200 BP from pre-crisis (and 50-80BP from pre-COVID) levels but are now rising. ***Yields in 2021 were the lowest since at least 1960.***

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.

Federal Funds Target Rate: Up, Up and Away!

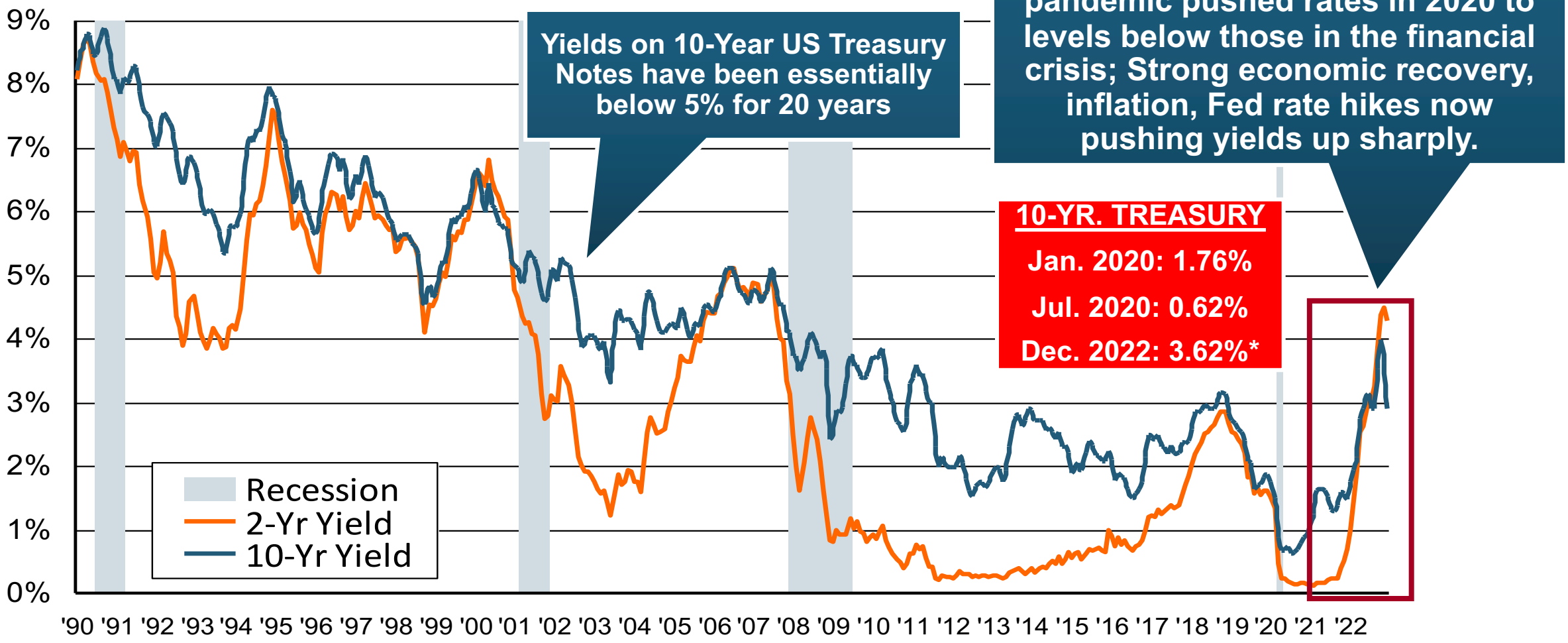


The Fed is expected to continue its rate hikes to a peak of 3.75% - 4.00% at year-end 2022. If the objective of lower inflation is met (or in sight), the Fed will likely lower rates in late 2023 to keep unemployment low

The Fed hiked short-term rates in Dec. 2022 by 50 basis points to a target range of between 4.25% and 4.50%

Source: Federal Reserve Board and Wells Fargo Economics (12/22); Risk and Uncertainty Management Center, University of South Carolina.

US Treasury Security Yields: A Long Downward Trend, 1990–2022*

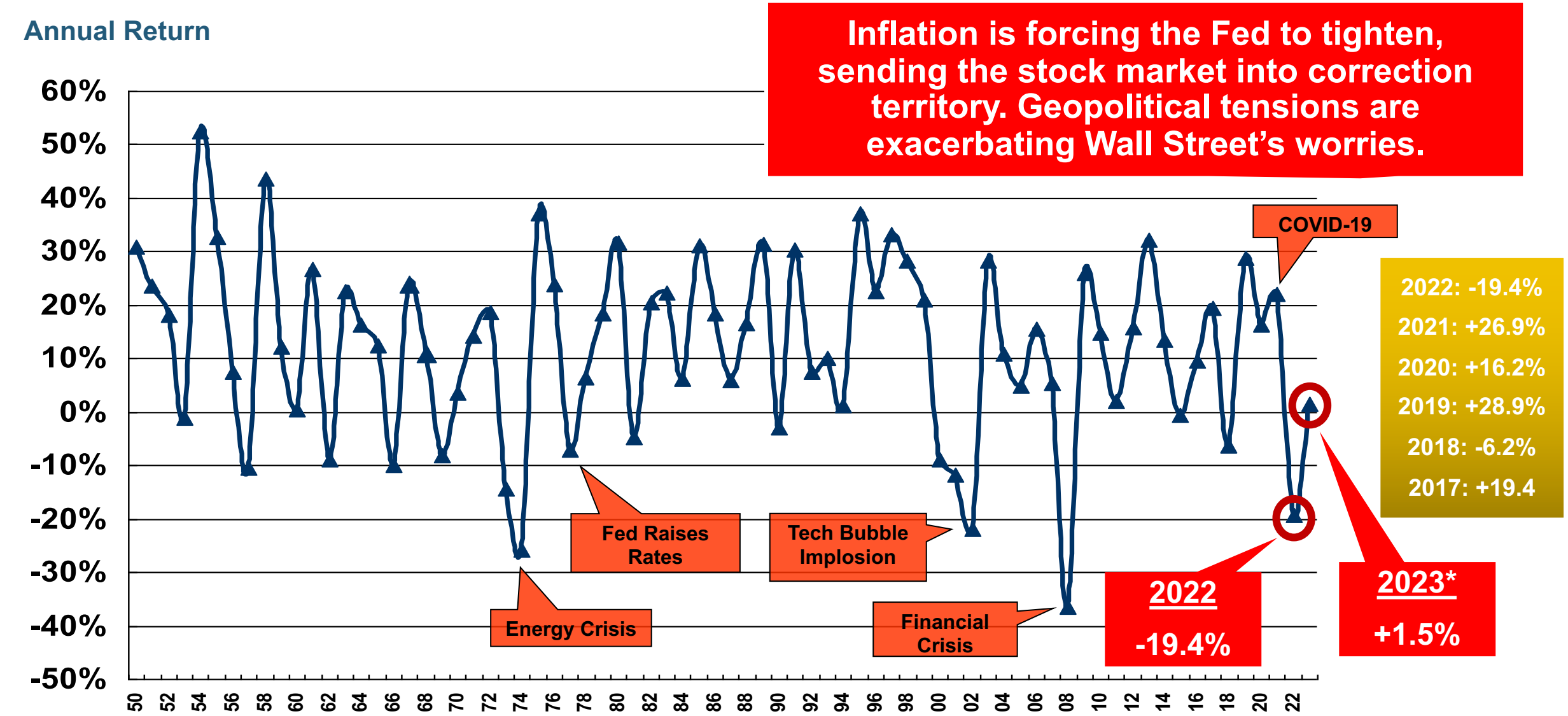


Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, Fed rate hikes should over time provide a modest boost to P/C insurer portfolio yields

*Monthly, constant maturity, nominal rates, through Dec. 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.

S&P 500 Index Returns, 1950–2023*



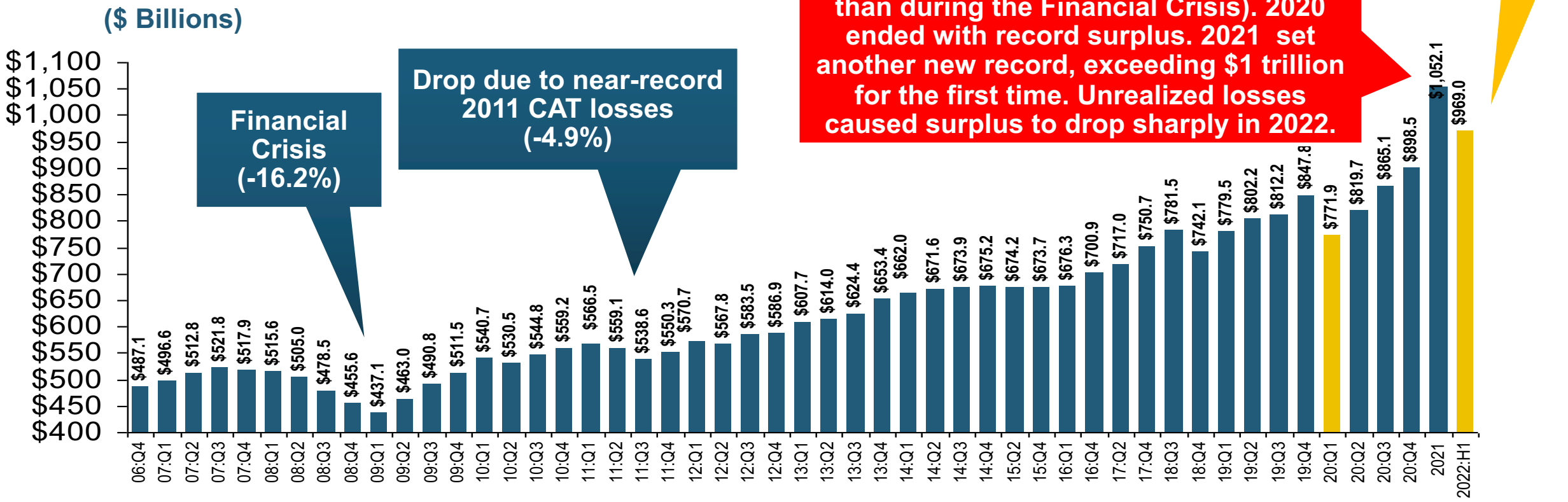
*Through Jan. 6, 2022.
Source: NYU Stern School of Business: http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html;
Center for Risk and Uncertainty Management, University of South Carolina.

Capital and Capacity

P/C Insurance: Over or Under Capitalized?

Is the Industry Creating Economic Value?

Policyholder Surplus (Capacity), 2006:Q4 – 2022:H1*

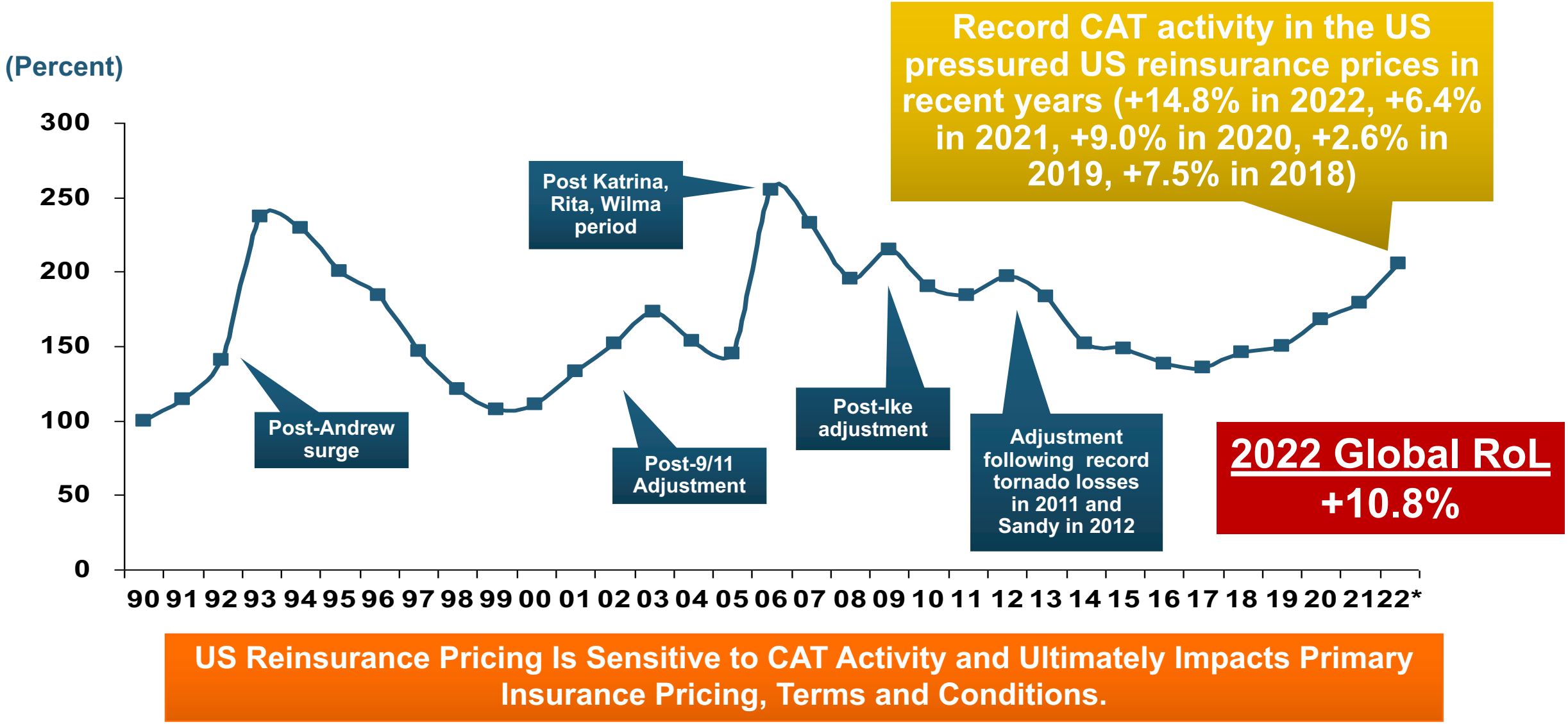


Policyholder Surplus is the industry's financial cushion against large insured events, periods of economic stress and financial market volatility. It is also a source of capital to underwrite new risks.

*2022 figure is actual through Q2.

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

US Property Catastrophe Rate-on-Line Index: 1990 – 2022*



US Reinsurance Pricing Is Sensitive to CAT Activity and Ultimately Impacts Primary Insurance Pricing, Terms and Conditions.

*As of January 1 each year.

Source: Guy Carpenter; Artemis.bm accessed at: http://www.artemis.bm/us-property-cat-rate-on-line-index

Property Reinsurance Rate Movements as of 1/1/23

Territory	Pro rata commission	Risk loss-free % change	Risk loss-hit % change	Catastrophe loss-free % change	Catastrophe loss-hit % change
Australia	-5.0% to -2.5%	+5% to +15%	+15% to +30%	+10% to +20%	+25% to +45%
Canada	-4% to -2%	+10% to +20%	+20% to +35%	+12% to +25%	+20% to +40%
Central & Eastern Europe	-1.5% to 0.0%	+5% to +20%	+20% to +35%	+10% to +30%	+20% to +50%
China	-4% to -1%	+15% to +30%	n/a	+20% to +30%	n/a
Europe	n/a	+20% to +30%	n/a	+25% to +40%	n/a
France, Belgium	n/a	+10% to +20%	+20% to +30%	n/a	+25 to +60%
Germany, Switzerland, and Austria	n/a	+25% to +60%	n/a	+25% to +60%	n/a
Italy	n/a	n/a	+5% to +25%	+7.5% to +20%	+10% to +35%
Indonesia	-2.5% to 0%	+5% to +20%	+30% to +40%	+5% to +20%	+30% to +40%
Korea	-10% to -5%	n/a	+50% to +100%	+15% to +20%	+50% to +100%
Latin America	-7% to 0%	0% to +12%	+10% to +25%	+7% to +35%	+10% to +45%
MENA, South Africa	-3% to 0%	+5% to +10%	+10% to +25%	+15% to +30%	+30% to +50%
Malaysia	-9%	+20% to +25%	+25% to +100%	+20% to +25%	+25% to +100%
Netherlands	-2% to 0%	+2.5% to +17.5%	+7.5% to +25%	+5% to +32.5%	+15% to +45%
Nordic Countries	n/a	+10% to +30%	+15% to +50%	+15% to +30%	+25% to +35%
Turkey	-5%	+20% to +50%	n/a	+20% to +50%	n/a
United Kingdom	n/a	+20 to +25%	+30% to +40%	+20 to +27.5%	n/a
United States	-6% to -3%	+15% to +25%	+35% to +150%	+25% to +50%	+45% to +100%

Property reinsurance prices are up around the world, especially for CAT-loss hit accounts:+45% to 100% increases in the US

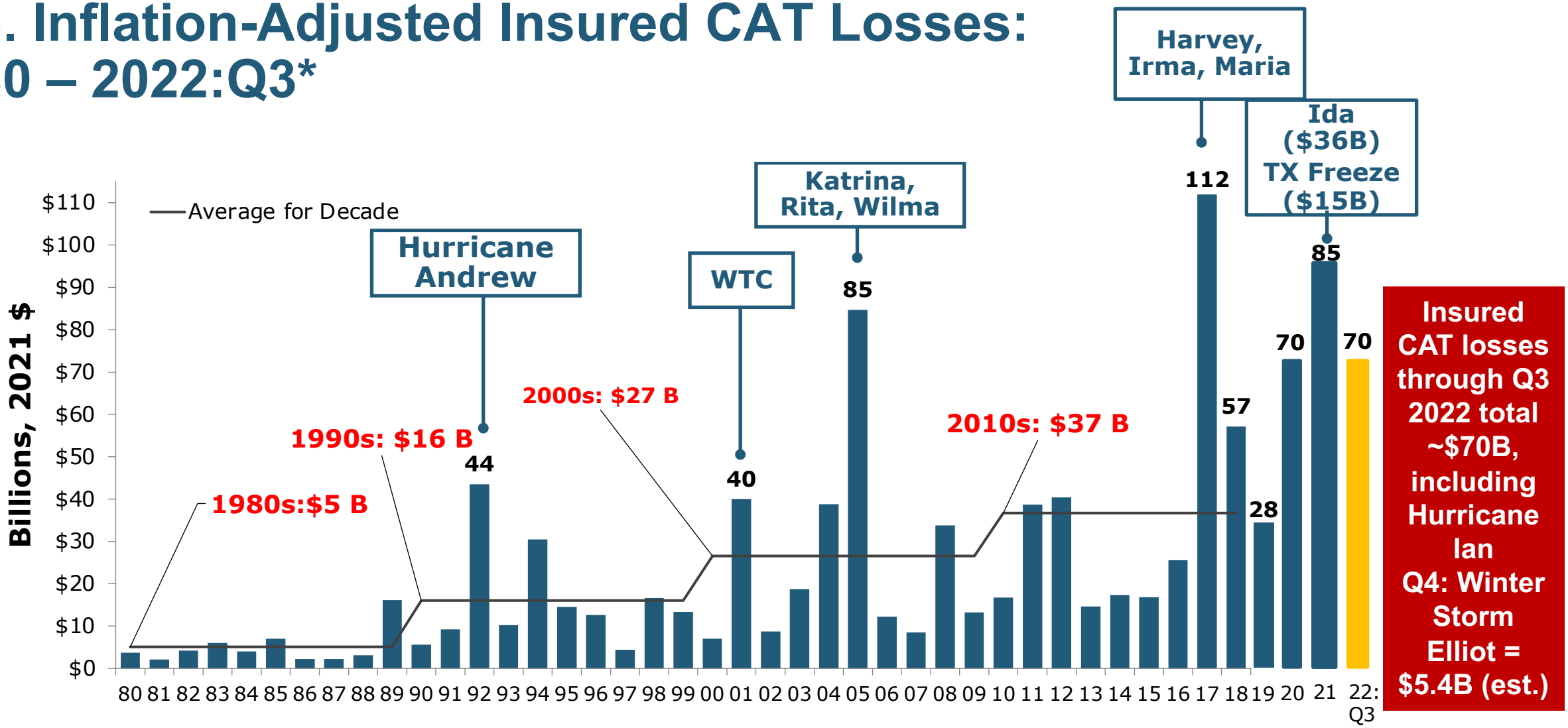
Source: Gallagher Re 1st View Report (Jan. 2023) available at: https://www.ajg.com/gallagherre/news-and-insights/2023/january/gallagher-re-first-view-market-turns/; Risk and Uncertainty Management Center, University of South Carolina.

Catastrophe Loss Trends

The Rise in CAT Losses Shows No Signs of Easing

The 2020s Are Off to an Ominous Beginning

U.S. Inflation-Adjusted Insured CAT Losses: 1980 – 2022:Q3*



Insured CAT losses through Q3 2022 total ~$70B, including Hurricane Ian
Q4: Winter Storm Elliot = $5.4B (est.)

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 (2020-21)

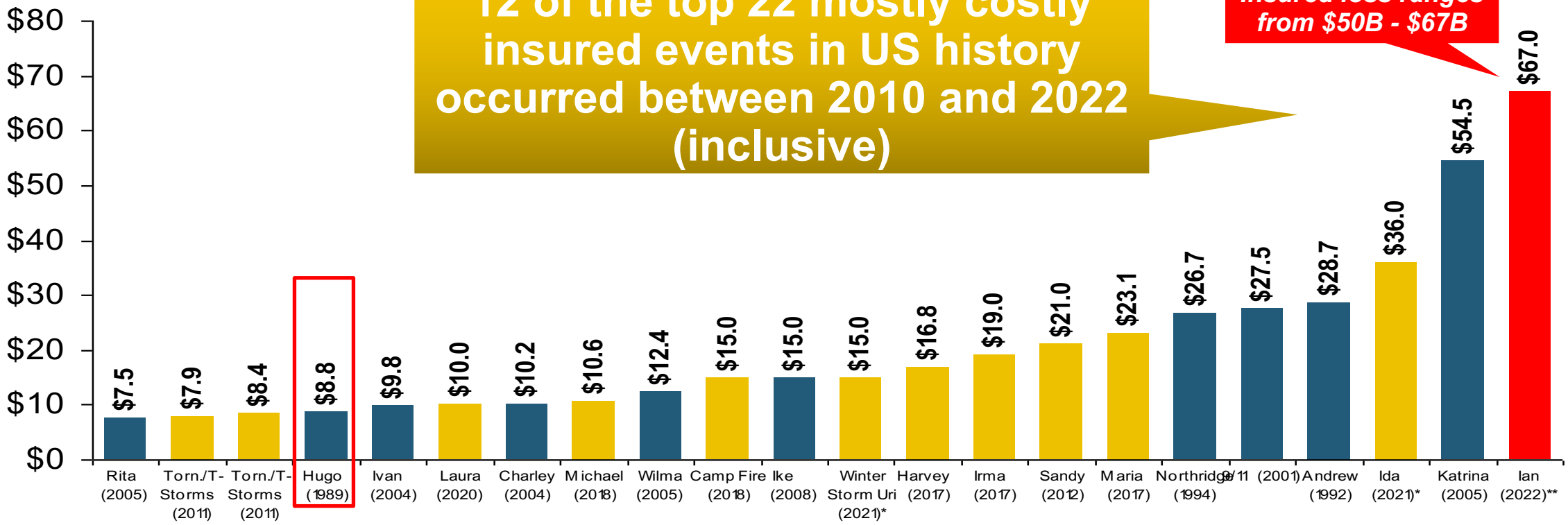
*Stated in 2021 dollars except 2022:Q3 (2022 dollars).
Sources: Property Claims Service, a Verisk Analytics business (1980-2019); 2020-21 figures from Munich Re; 2023 YTD data from Aon; Insurance Information Institute; University of South Carolina, Risk & Uncertainty Management Center.

Top 22 Most Costly Disasters in U.S. History—Hurricane Ian Overtakes Katrina?

(Insured Losses, 2020 Dollars, $ Billions)

Hurricane Ian could become the costliest insured CAT loss ever. *Insured loss ranges from $50B - $67B*

12 of the top 22 mostly costly insured events in US history occurred between 2010 and 2022 (inclusive)



18 of the 22 Most Expensive Insurance Events in US History Have Occurred Since 2004.

*2021 dollars; **2022 dollars (RMS private insurer estimate as of 10/10/22).

Sources: PCS, RMS, Aon, Karen Clark & Co; USC Center for Risk and Uncertainty Management adjustments to 2020 dollars using the CPI.

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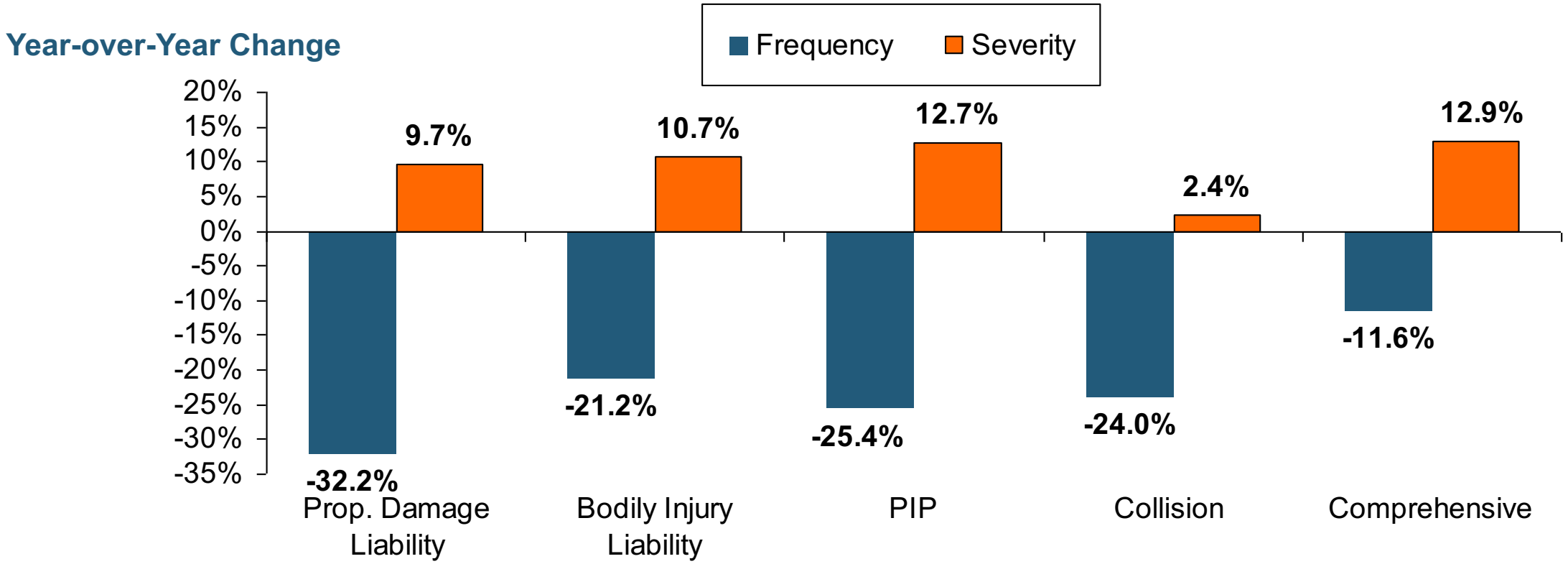
Private Passenger Auto Frequency & Severity Trends

Frequency, Severity and Loss Ratio Trends Are Adverse

Inflation is a Major Driver

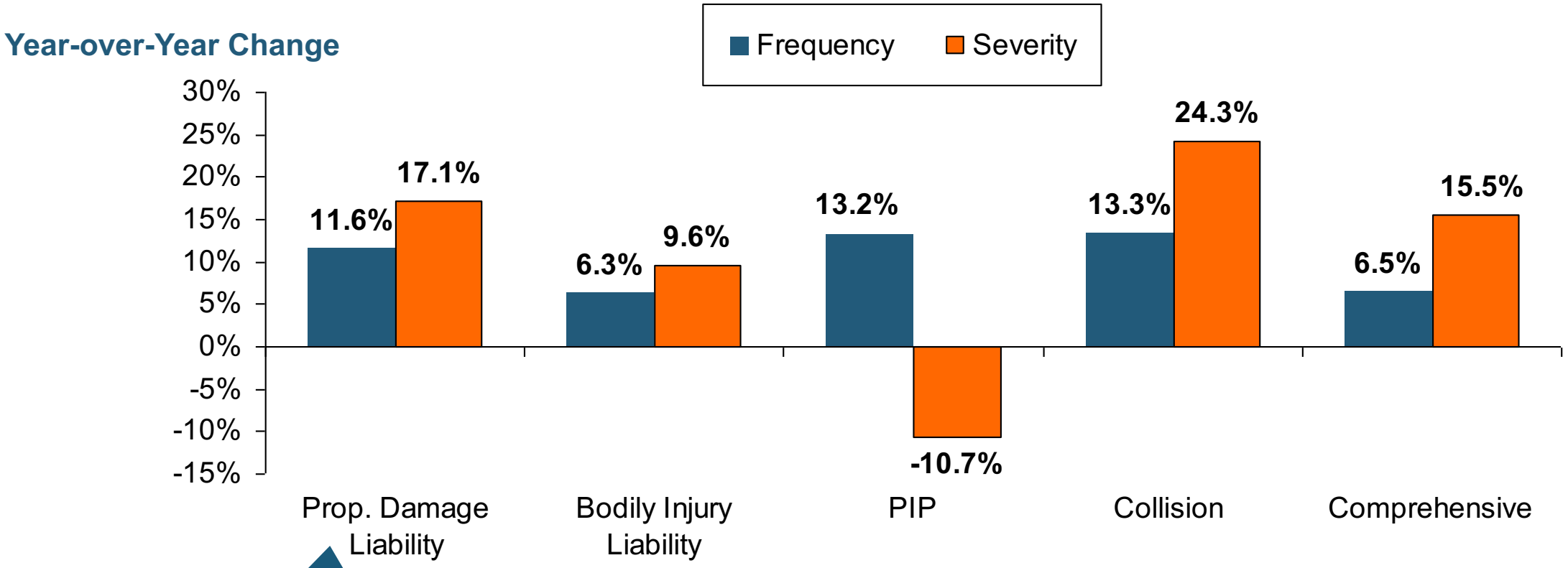
At the Peak of the Pandemic, Frequencies Across All Coverages Plummeted and But Severities Rose: 4 Qtrs. Ending Q1 2021



The COVID-19 Pandemic Introduced Unparalleled Volatility in the Personal Auto Line

Source: ISO/PCI *Fast Track* data for 4 quarters ending in Q1 2021; Risk and Uncertainty Management Center, Univ. of South Carolina.

Personal Auto Claim Frequency Declines Have Ended and Are in Full Reversal, Severity Rise Continues: 4 Qtrs. Ending Q3 2022



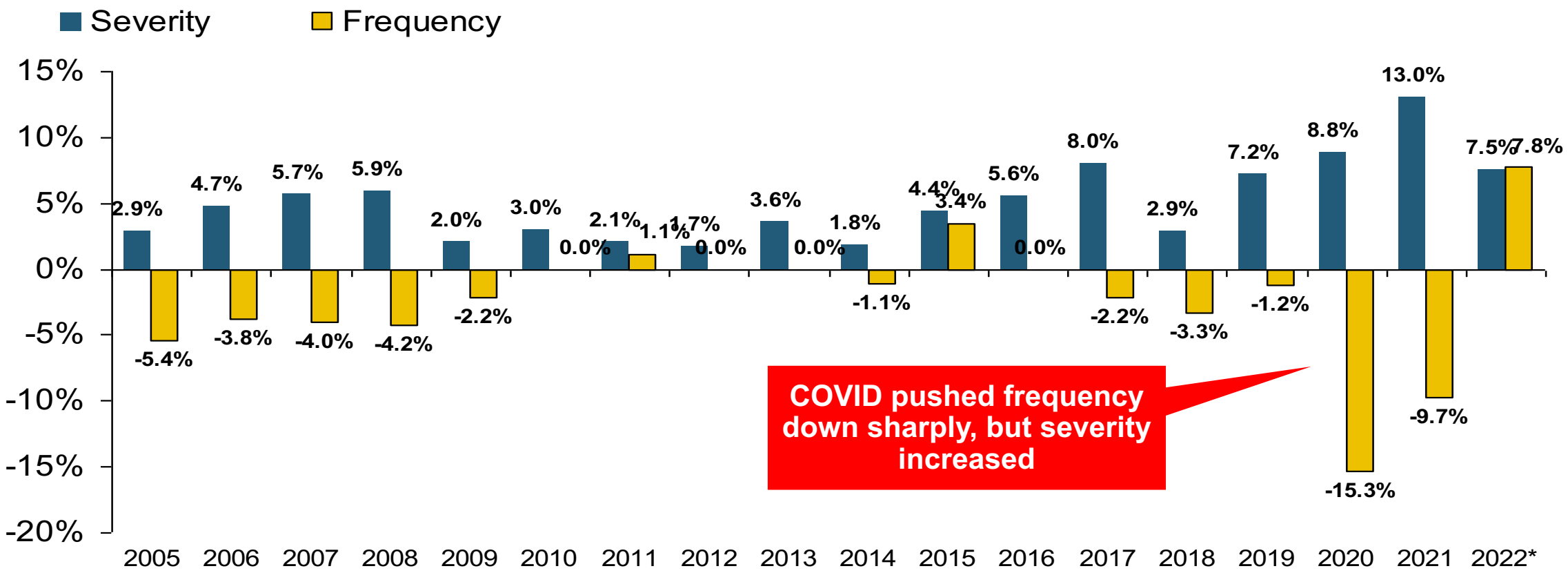
Recall: PD Liability claims were down 32.2% for the 4 qtrs. ending Q1 2021

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

Source: ISO/PCI *Fast Track* data for Q3 2022; Risk and Uncertainty Management Center, Univ. of South Carolina.

Bodily Injury: Severity Trend Is Up, Frequency Plunge Due to COVID Has Ended and Is Reversing

Annual Change, 2005 through 2022*



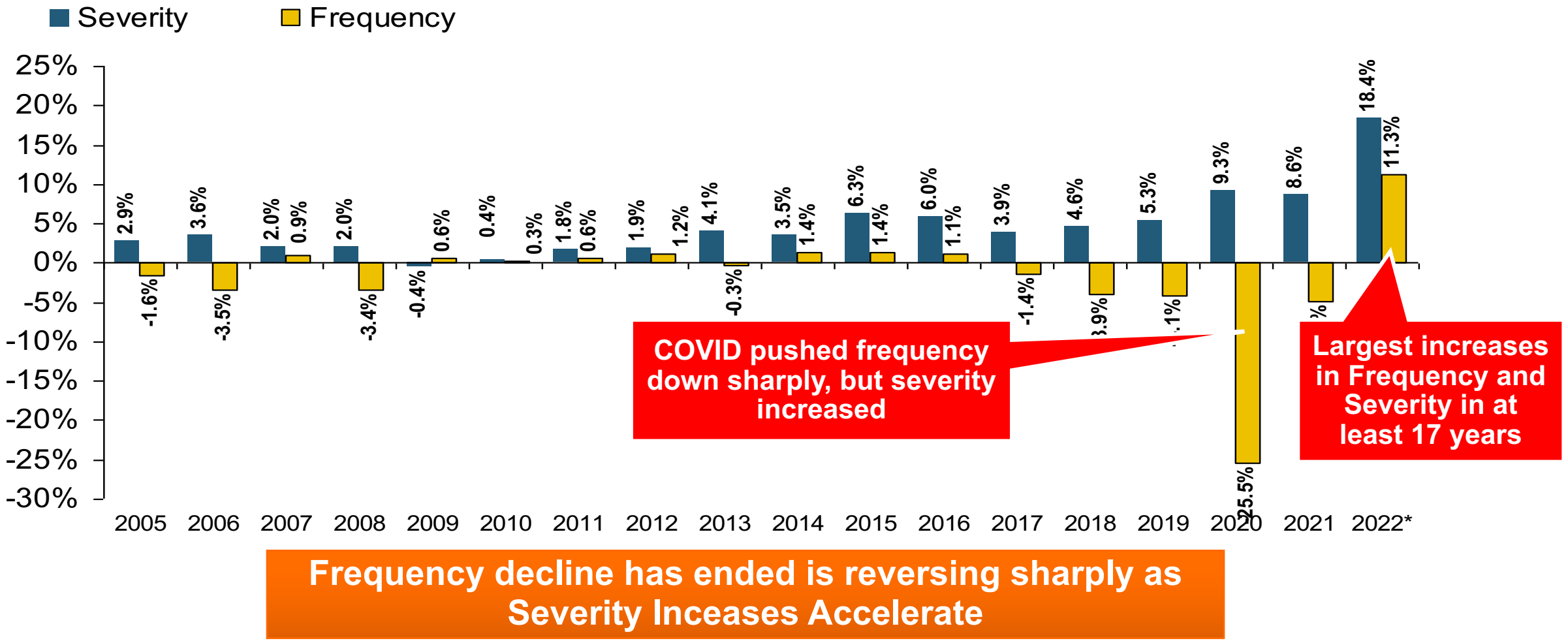
Frequency decline has ended and Severity Increases Continue

*2022 figure is for the 4 quarters ending 2022:Q3.

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 Has Ended and Is Reversing

Annual Change, 2005 through 2022*



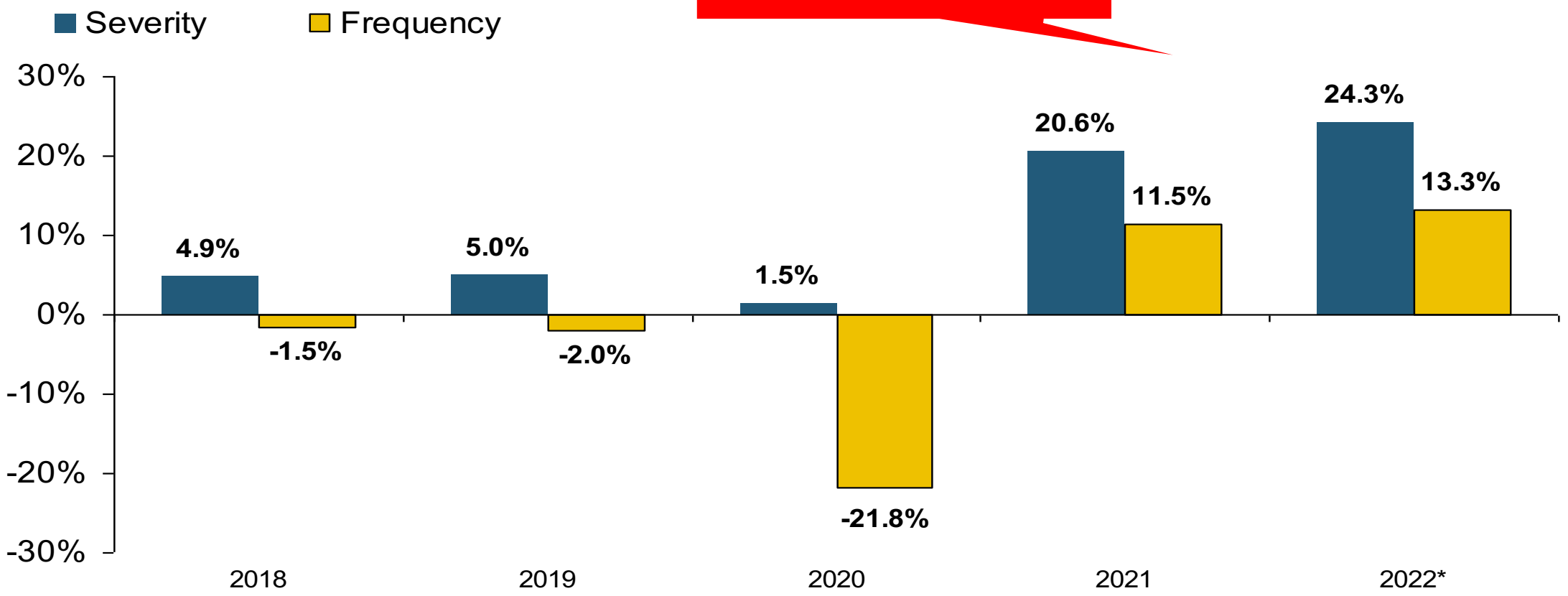
Frequency decline has ended is reversing sharply as Severity Inceases Accelerate

*2022 figure is for the 4 quarters ending 2022:Q3.

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

Collision Coverage: Post-Pandemic Surge in Both Frequency and Severity

Annual Change, 2018 through 2022*



Pandemic-Induced Frequency Decline Has Ended and Is Reversing Sharply

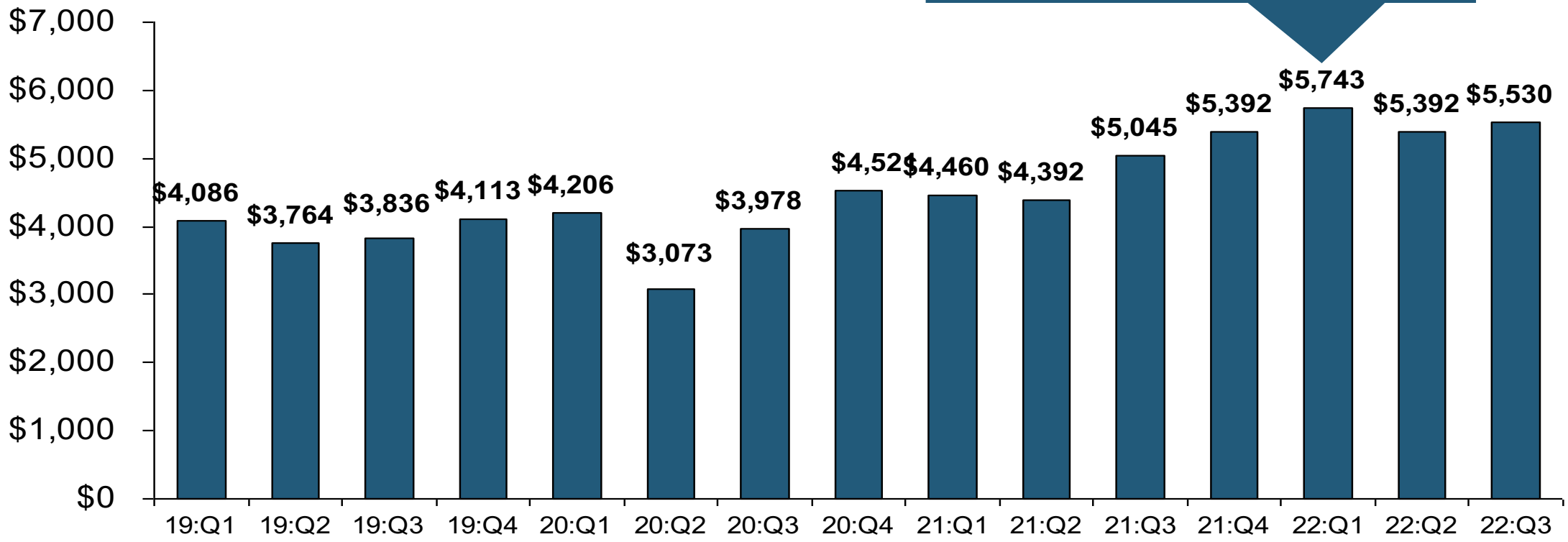
*2022 figure is for the 4 quarters ending 2022:Q2.

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

Collision Claim Severity: Rising to New Record Highs

Average Loss, 2018:Q1 through 2022:Q3

Collision claim severity reached a record high in 2022:Q1, up 36.5% from 2020:Q1

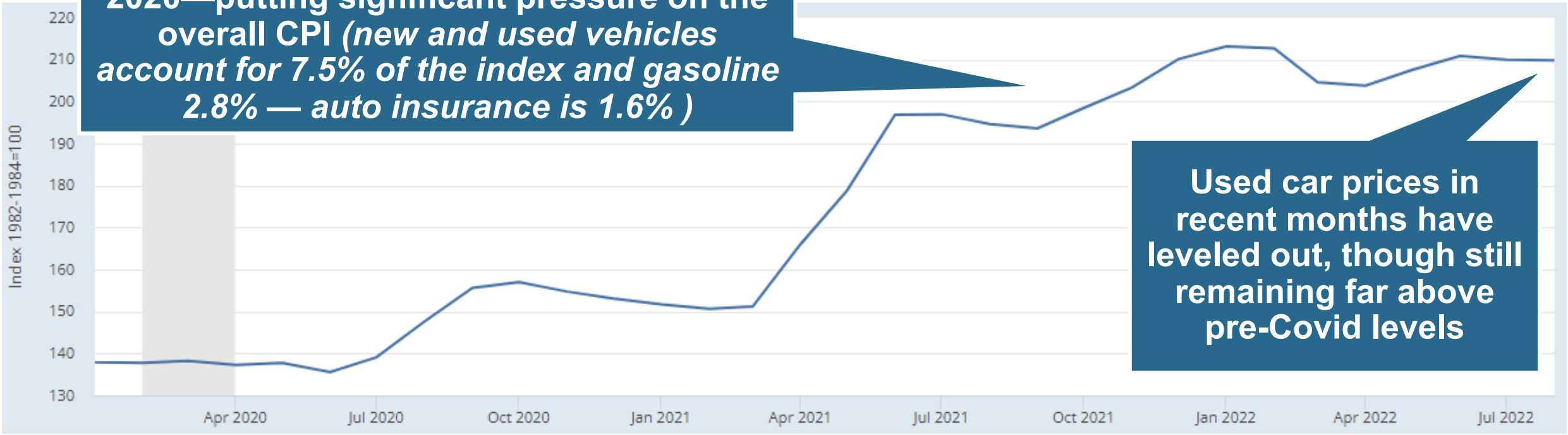


Severities Are Up Sharply—Inflation Is a Major Factor

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

Price Index Changes for Used Cars & Trucks, Jan. 2020 – Aug. 2022

New and Used Vehicle prices have surged during the pandemic, +52.3% 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%)*



Used car prices in recent months have leveled out, though still remaining far above pre-Covid levels

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

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

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

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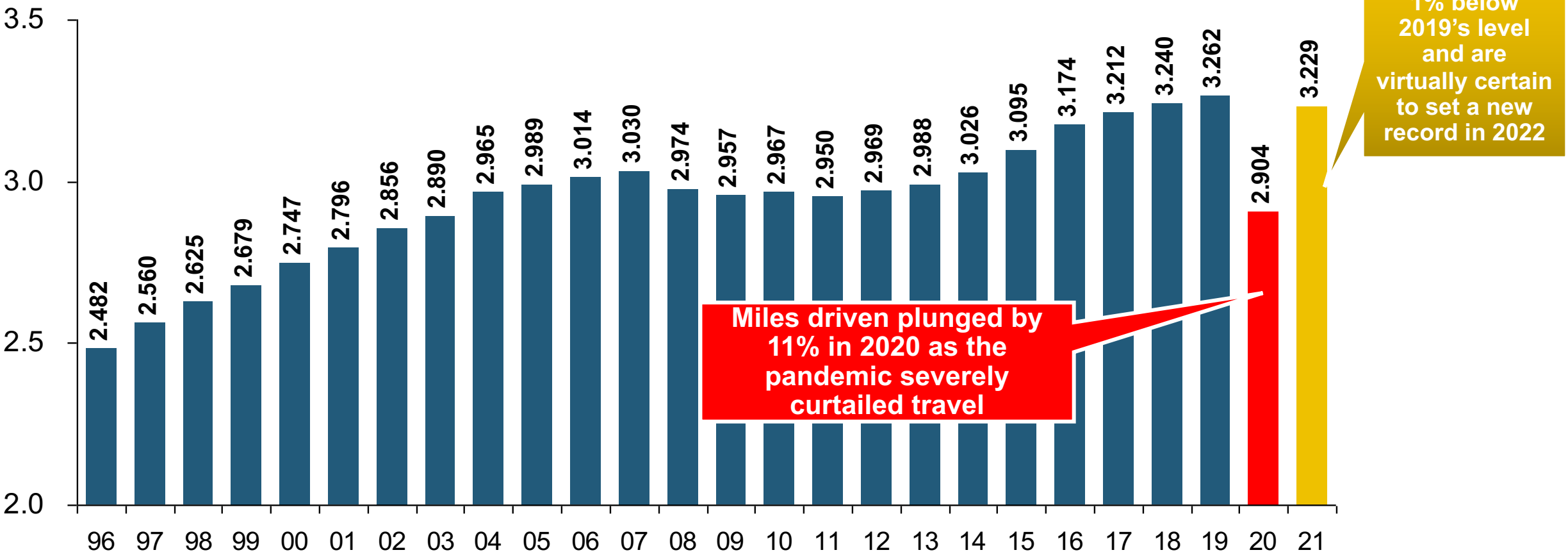
Back Behind the Wheel

Americans Are Back Behind the Wheel

Miles Driven Will Could Set a New Record in 2022

Travel in Trillions of Vehicle Miles in U.S.: 1996–2021

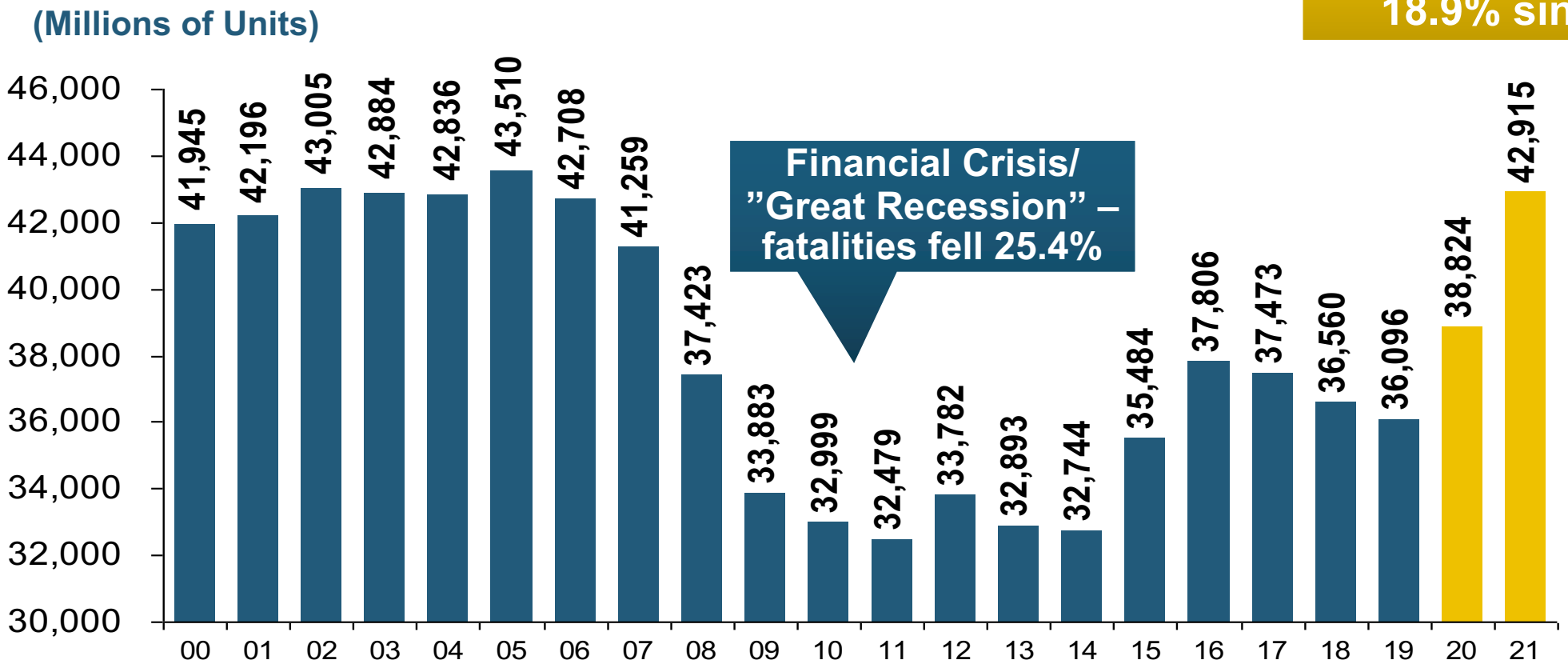


Miles driven in 2022 will likely set a new record, but could still be held back by soaring gas prices that could induce vehicle owners to scale back on their driving

Sources: Sources: Federal Highway Administration; USC RUM Center.

Traffic Fatalities in the U.S., 2000-2021

During COVID, fatalities surged by 7.6% in 2020 and 10.5% in 2021 (up 18.9% since 2019)



Extraordinary Increase in Poor Driving Behaviors in 2020 and 2021 Contributed to Sharply Higher Auto Fatalities

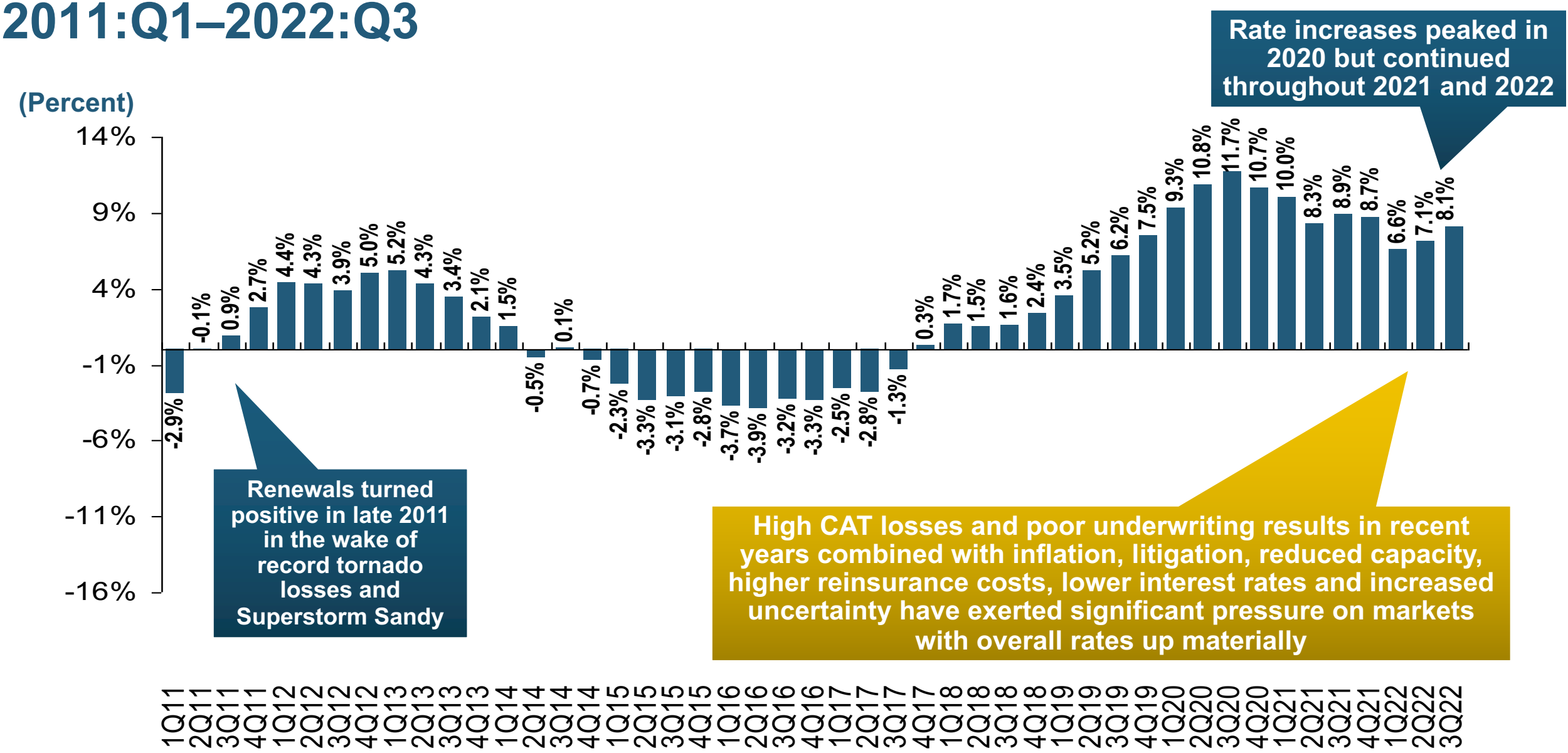
Source: Insurance Institute for Highway Safety and Highway Loss Data Institute: https://www.iihs.org/iihs/topics/t/general-statistics/fatalityfacts/overview-of-fatality-facts and NHTSA (2021): https://www.nhtsa.gov/press-releases/early-estimate-2021-traffic-fatalities#:~:text=NHTSA%20projects%20that%20an%20estimated,Fatality%20Analysis%20Reporting%20System's%20history; Risk and Uncertainty Management Center, University of South Carolina.

Commercial Lines & Pricing Cyclicality

Economic and Tort Environment Create Pricing Pressure

71

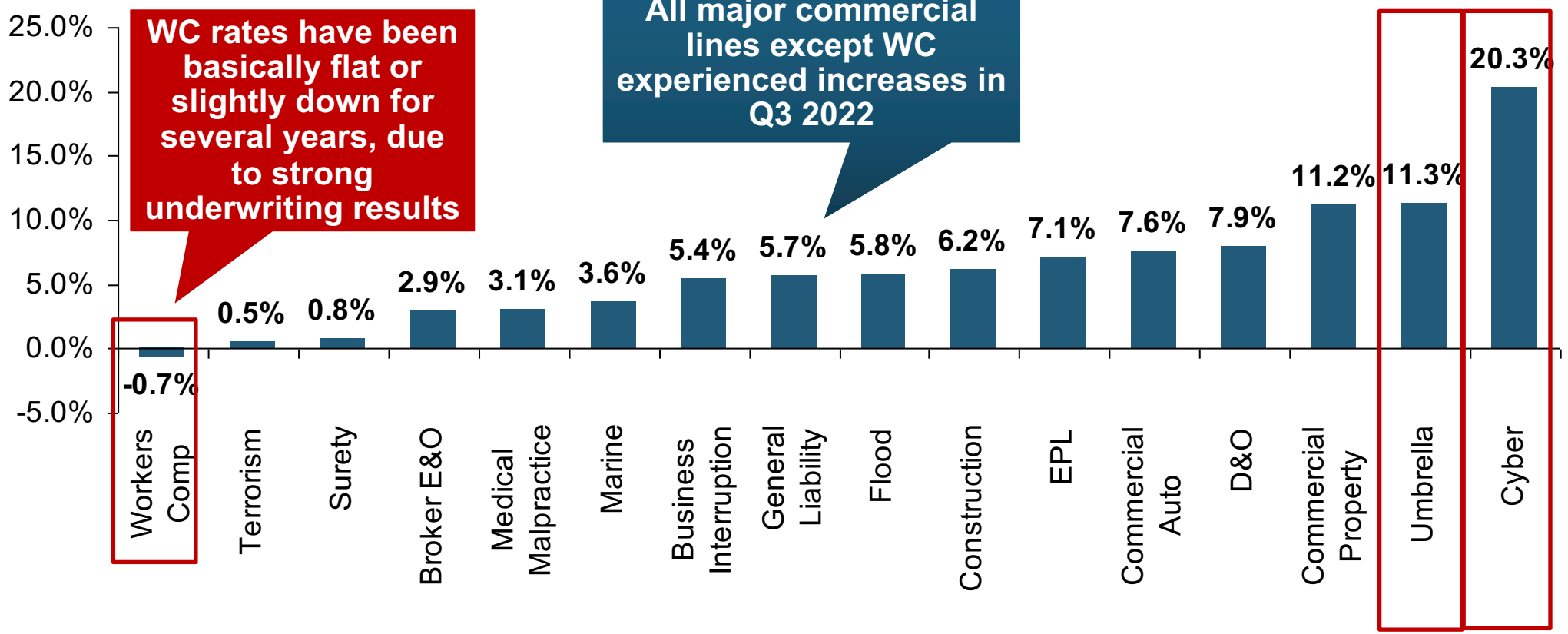
CIAB: Average Commercial Rate Change, All Lines, 2011:Q1–2022:Q3



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: 2022:Q3

(Percent Change)



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.

Legal System Abuse (Social Inflation) & Litigation Trends

Rising Litigation Costs Are a Concern for Businesses Large and Small—*and Their Insurers*

Major Driver of Rate Across Multiple Lines

74

Social Inflation: Many Interrelated Causes, Difficult to Manage

INSURANCE CLAIM COSTS

- Increasing Propensity to Sue
- Size of Jury Awards
- Courts/ Juries Favoring Plaintiffs
- Growing Distrust of Large Corps.
- Litigation Financing
- Aggressive Plaintiff Bar Ads
- Changes in Regulatory and Legal Environment Bar Ads

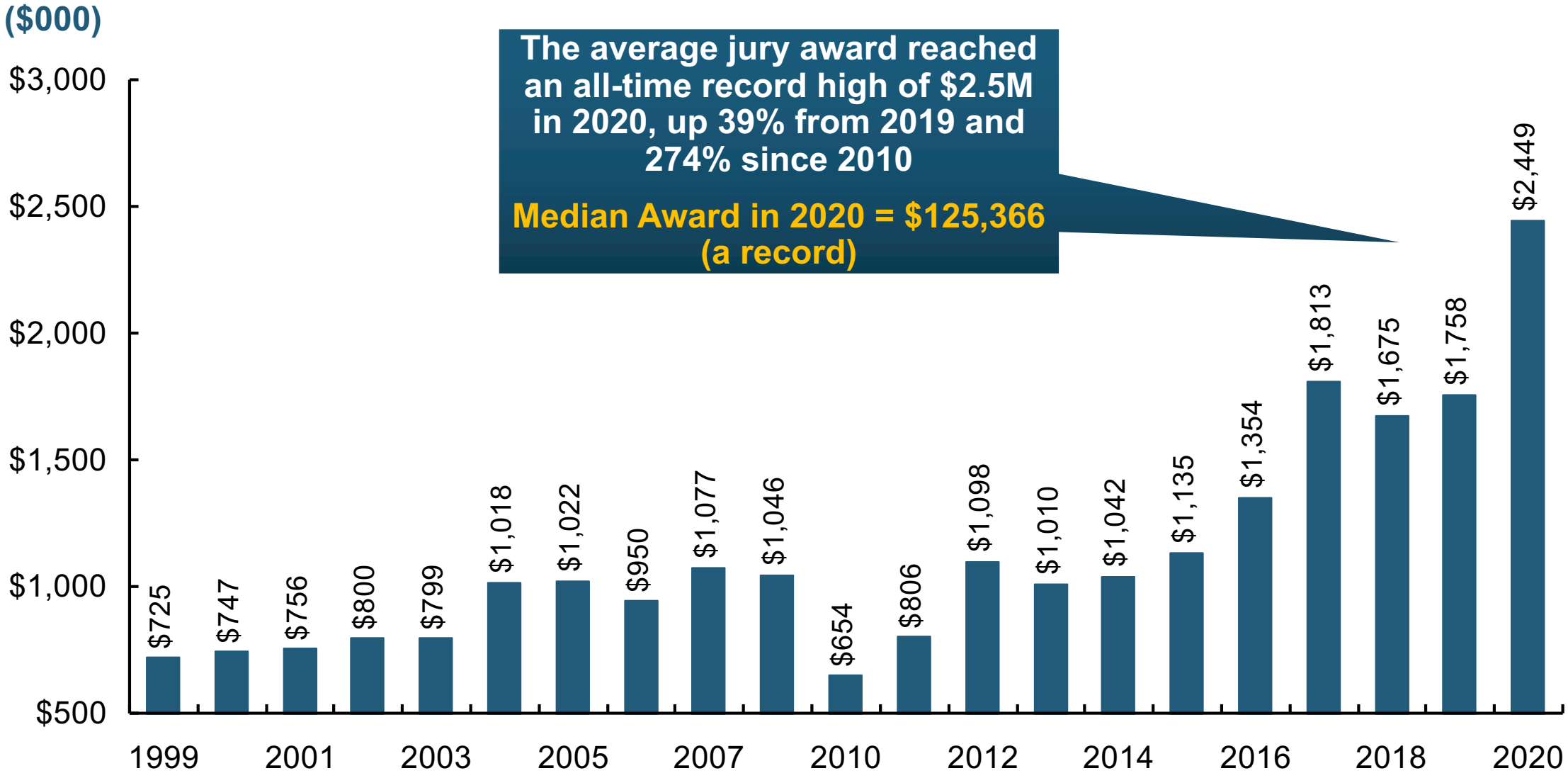
Applied to a seemingly limitless number of issues, these drivers are pushing tort costs (and therefore claim costs upward)

Source:Risk and Uncertainty Management Center, Univ. of South Carolina, adapted from Verisk “Social Inflation” presentation (2020).

(Small) Sample of Issues Driving Claims Costs Higher

- Assignment of Benefits (Florida Homeowners)—***December 2022 Reforms!!!***
- Trucking Accident Litigation (Commercial Auto)
- Reviver Statutes (e.g, Boy Scouts, Catholic Church, Southern Baptists)
- Opioids, Glyphosate, Paraquat (Products)
- Asbestos
- Public Nuisance Replacing/Circumventing Strict Liability? (Products, GL)
- Technology Issues/Technology Firms (e.g., cyber breaches, privacy, antitrust)
- Securities Issues (e.g., Crypto, SPACs, Bear Market of 2022)

Average Jury Awards, 1999 – 2020 (latest available)



Source: Jury Verdict Research; *Current Award Trends in Personal Injury* (61st Edition), Thomson Reuters; Risk and Uncertainty Management Center, Univ. of South Carolina.

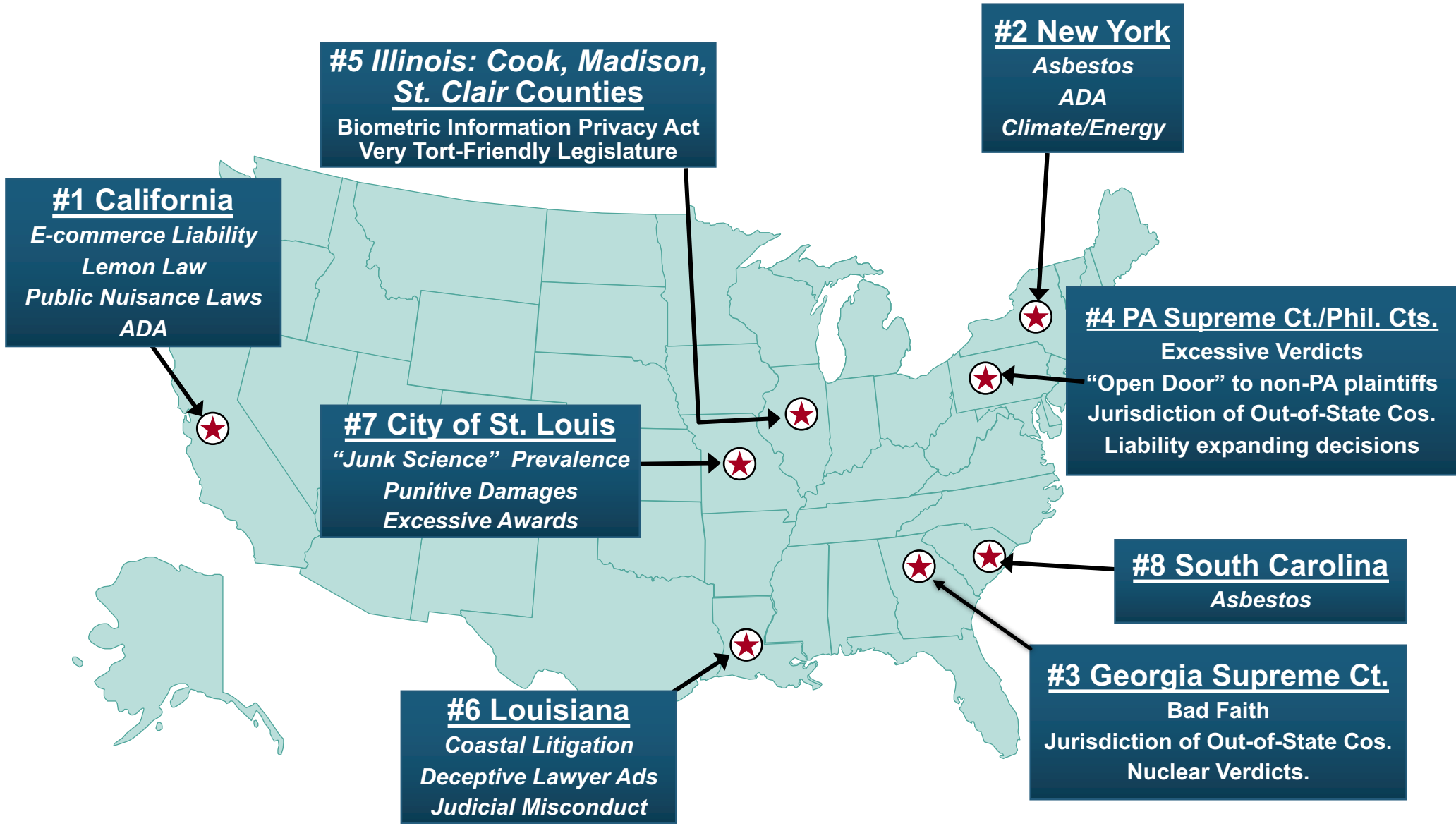
The Nation's Judicial Hellholes: 2021/2022

Watch List

- Florida Legislature
- Colorado
- TX Ct. of Appeals
- Minnesota
- Maryland

Dishonorable Mention

- American Law Inst.
- FL Appellate Ct.
- KY Atty. General
- Ohio
- Utah Supreme Ct.



Source: American Tort Reform Association; Risk & Uncertainty Management Center, University of South Carolina.

SUMMARY

- The P/C Insurance Industry Remains Strong, Stable, Sound and Secure
- A Shallow Recession is Increasingly Likely Beginning in Q3 or Q4 2023
- Asset Price Volatility Will Persist as Inflation Uncertainty, Geopolitical Concerns Remain High
- Higher Interest Rates Will Eventually Provide a Modest Tailwind for Investment Income
- Inflationary Pressures Will Persist in 2023, But Will Subside (Peak Likely Reached in June 2022)
- Loss Cost Challenges Remain but Should Ease in 2023—Inflation, Supply Chain
- Legal System Abuse Issues Remain a Long-Term Challenge
- Immediate P/C Concerns: Capacity, CATs, Inflation→Rate/Reserve Adequacy, ITV

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Thank you for your time and your attention!

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Download at www.uscriskcenter.com