Economic and Geopolitical Risk:
Impacts and Implications for Global Insurance and Reinsurance Markets

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Outline: Economic and Geopolitical Risks & (Re)Insurance

- Global Economic Overview & Outlook—Impacts for (Re)Insurers
  - Growth vs. Recession
- Inflation: Where it Is Headed & What It Means for P/C Insurers and Reinsurers
- P/C Financial Overview & Outlook in the Post-COVID, High-Inflation Era
  - Underwriting Performance
  - Investment Market Issues: Volatility Rules and the Hawkish Fed
- Geopolitical Challenges: Interconnected Crises Impacting Insurers
- Summary and Q&A

Risks to Global Economic Growth

Is a Global Recession Imminent—
Is it Already Here?

Economic Growth Is a Major Driver of (Re)Insurers Growth

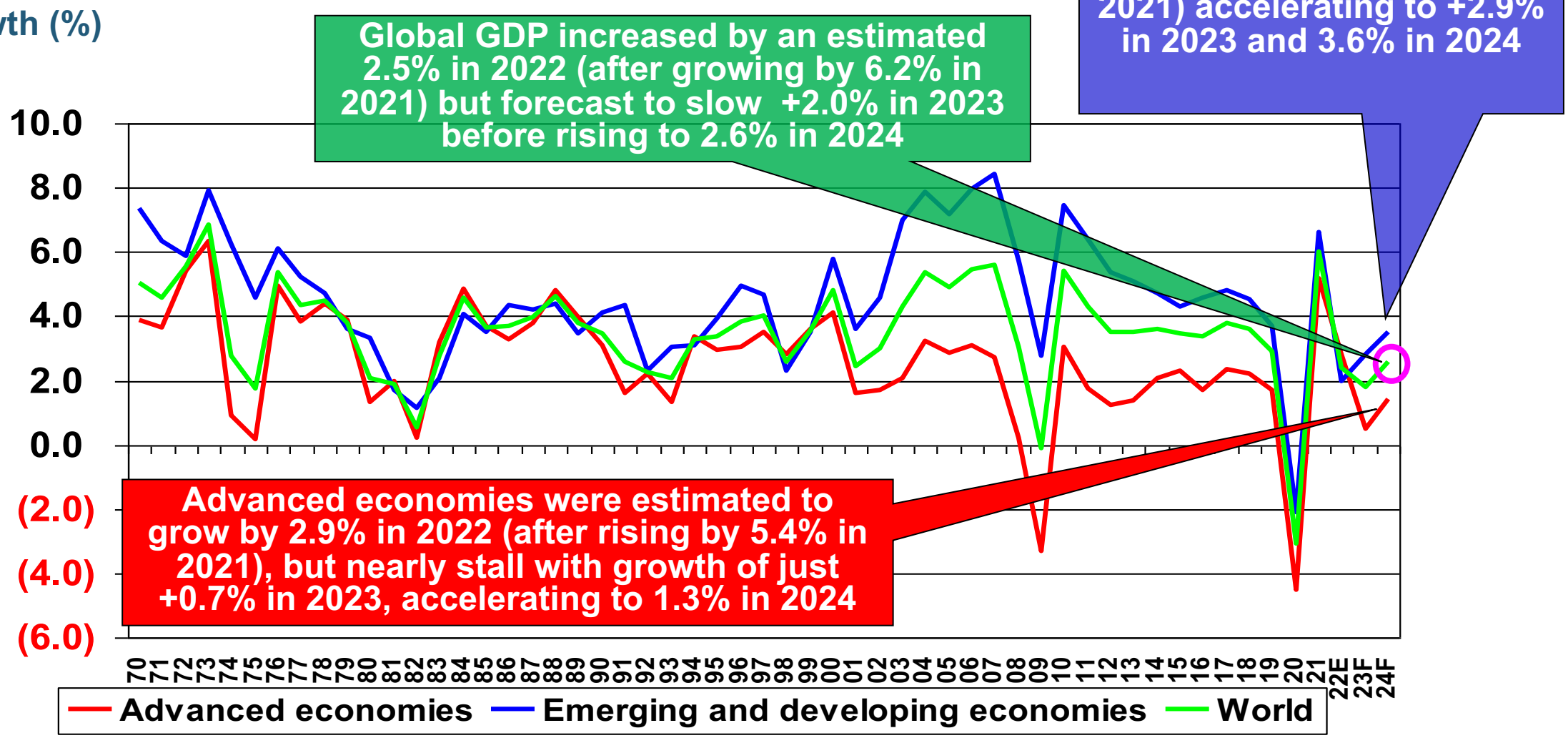
Economic Overview
Economic Optimism Plummeted in 2022
Inflation is Breeding Ground for Pessimism

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"?

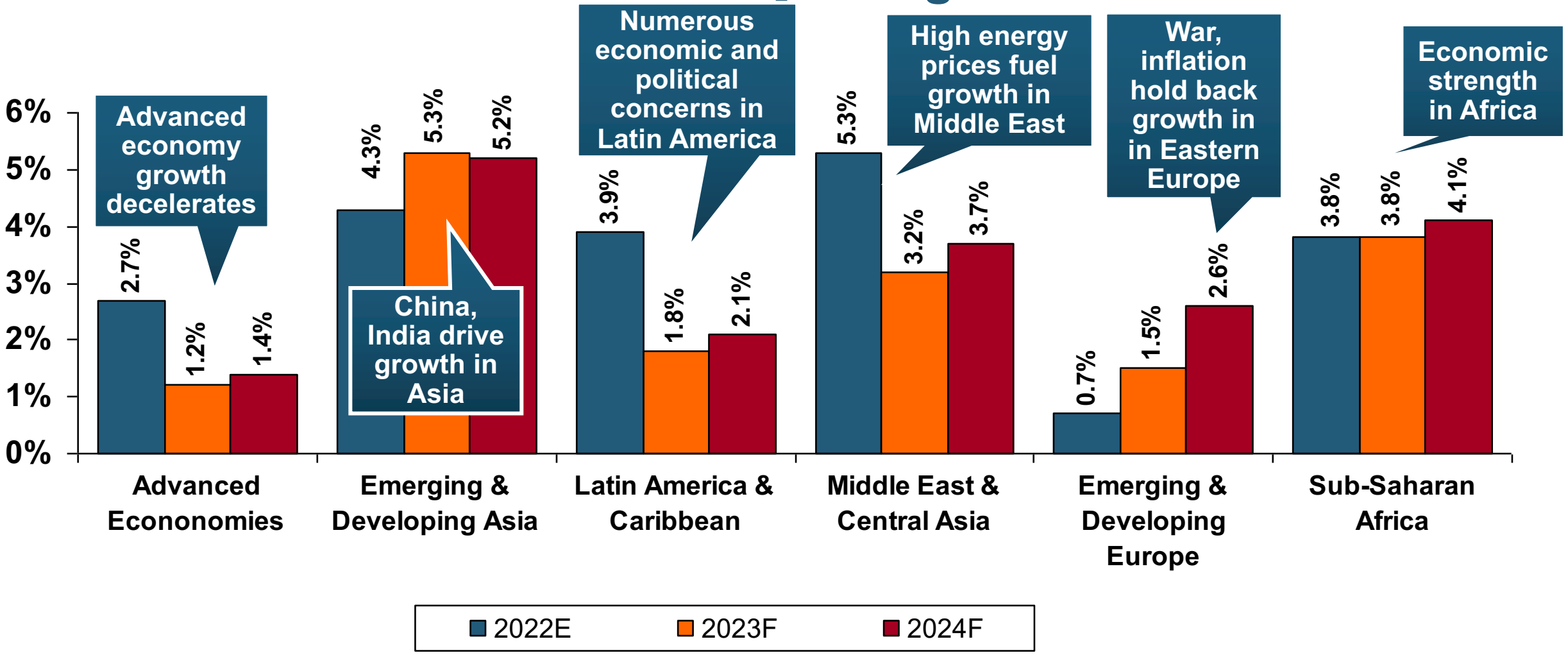
4

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



Source: International Monetary Fund, *World Economic Outlook* (1970-2021); Wells Fargo Economics (2022E – 2024F) [as of Feb. 2023]; Univ. of South Carolina, Risk and Uncertainty Management Center.

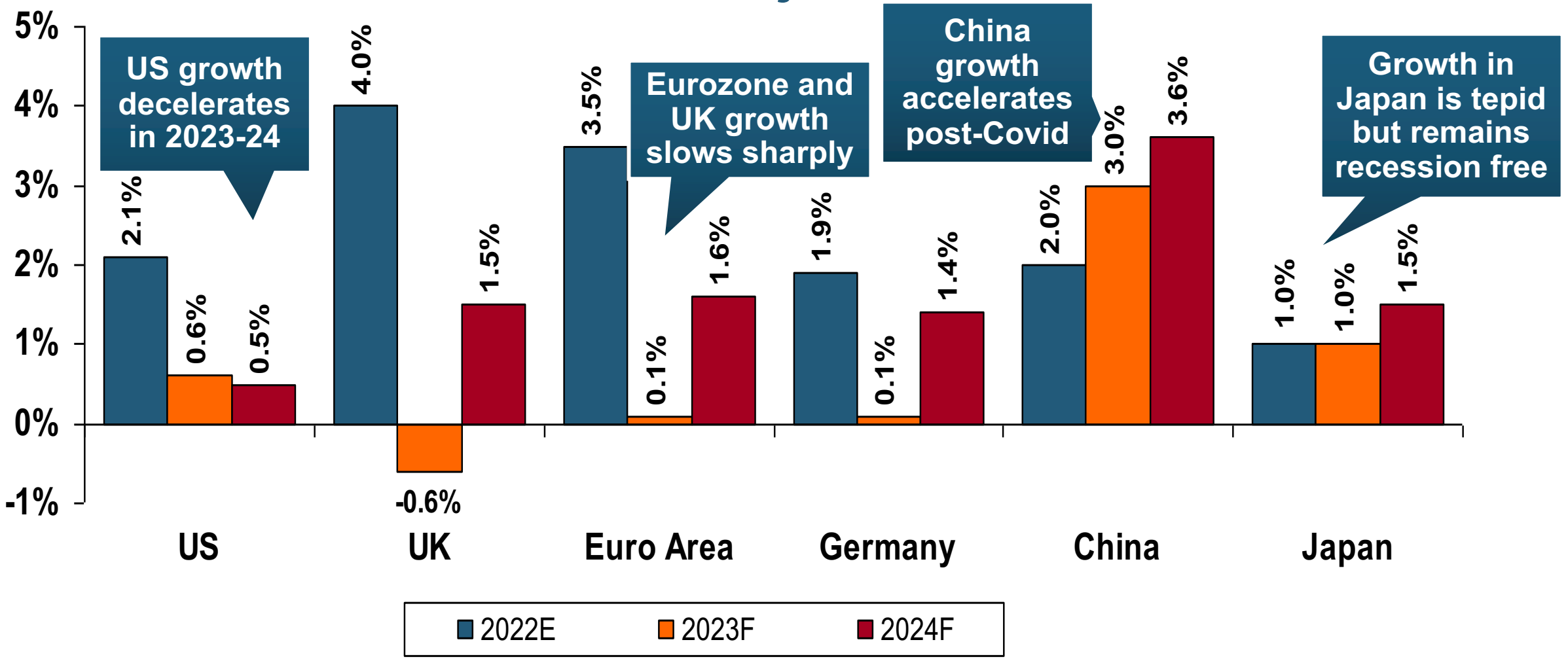
Real GDP Growth Forecasts: Major Regions: 2022E – 2024F



Global Growth Prospects Vary Widely by Region but by 2023 Are Universally Stronger Outside the "Advanced Economies"

Source: International Monetary Fund, *World Economic Outlook*, Jan. 2023 at: https://www.imf.org/en/Blogs/Articles/2023/01/30/global-economy-to-slow-further-amid-signs-of-resilience-and-china-re-opening; Univ. of South Carolina, Risk and Uncertainty Management Center

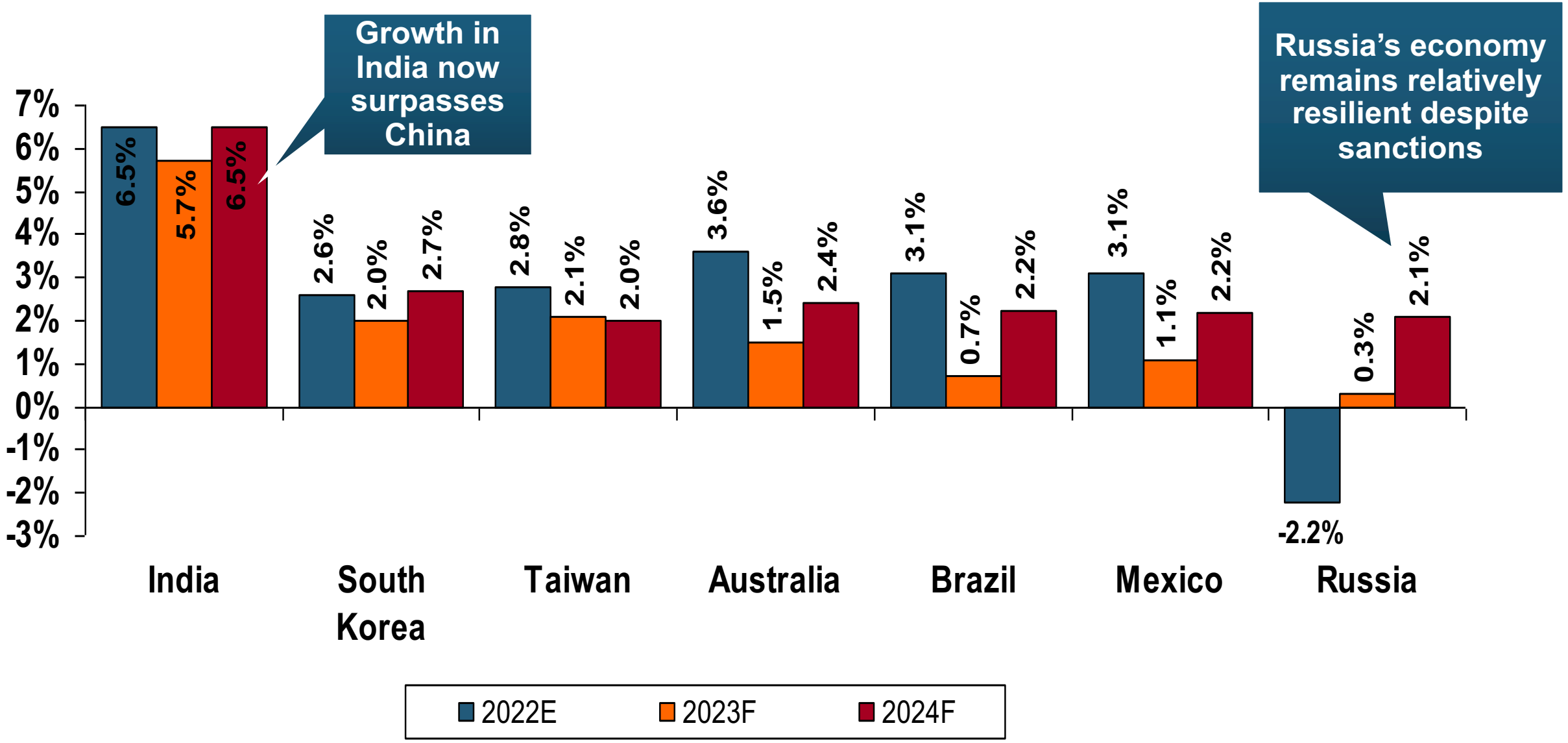
Real GDP Growth Forecasts: Major Economies: 2022E – 2024F



Growth Prospects Among the World's Major Economies Varies Widely by Region with China Leading the Leading the Way

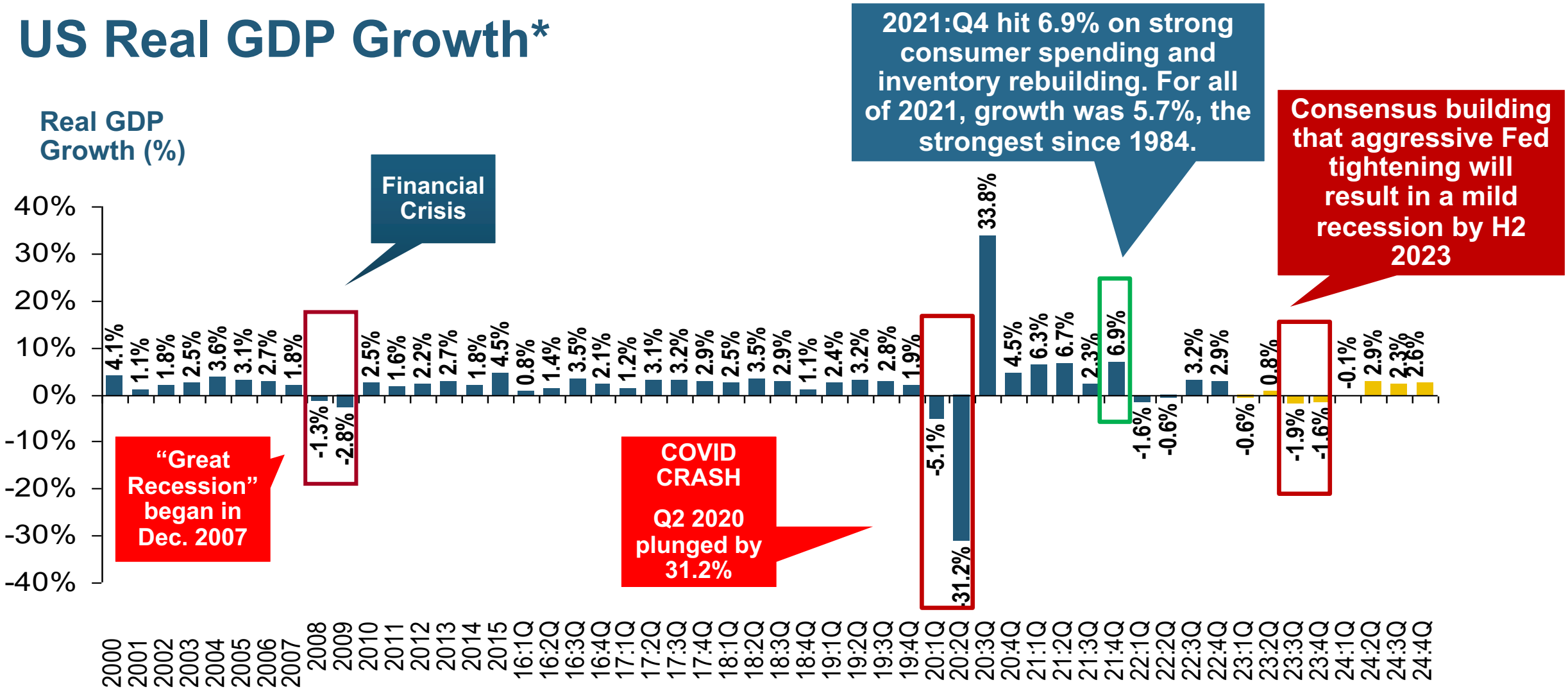
Source: IMF, *World Economic Outlook*, Jan. 2023 at: https://www.imf.org/en/Blogs/Articles/2023/01/30/global-economy-to-slow-further-amid-signs-of-resilience-and-china-re-opening and Wells Fargo Economics (2/23); Univ. of South Carolina, Risk and Uncertainty Management Center.

Real GDP Growth Forecasts: Other Key Economies: 2022E – 2024F



Source: IMF, *World Economic Outlook*, Jan. 2023 at: https://www.imf.org/en/Blogs/Articles/2023/01/30/global-economy-to-slow-further-amid-signs-of-resilience-and-china-re-opening and Wells Fargo Economics (2/23); Univ. of South Carolina, Risk and Uncertainty Management Center.

US Real GDP Growth*

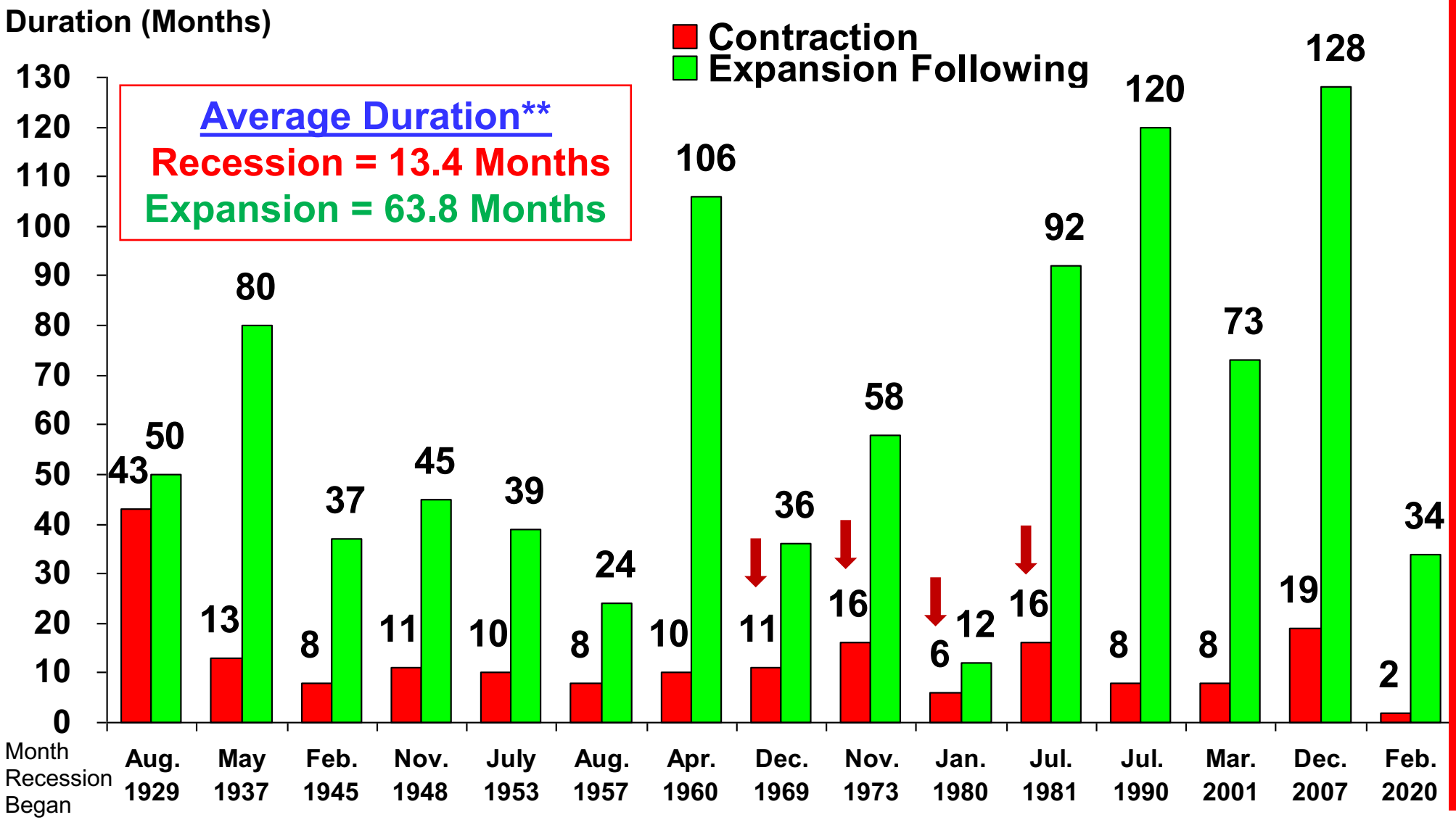


Demand for Insurance Increased Materially in 2021/22 During Recovery from the Pandemic—Particularly in Economically Sensitive Commercial Lines Such as WC. Premium growth will likely slow in 2023 as Economy Slows.

* Estimates/Forecasts from Wells Fargo Securities.

Source: US Department of Commerce, Wells Fargo Securities (2/23); Center for Risk and Uncertainty Management, University of South Carolina.

Length of US Business Cycles, 1929-Present*



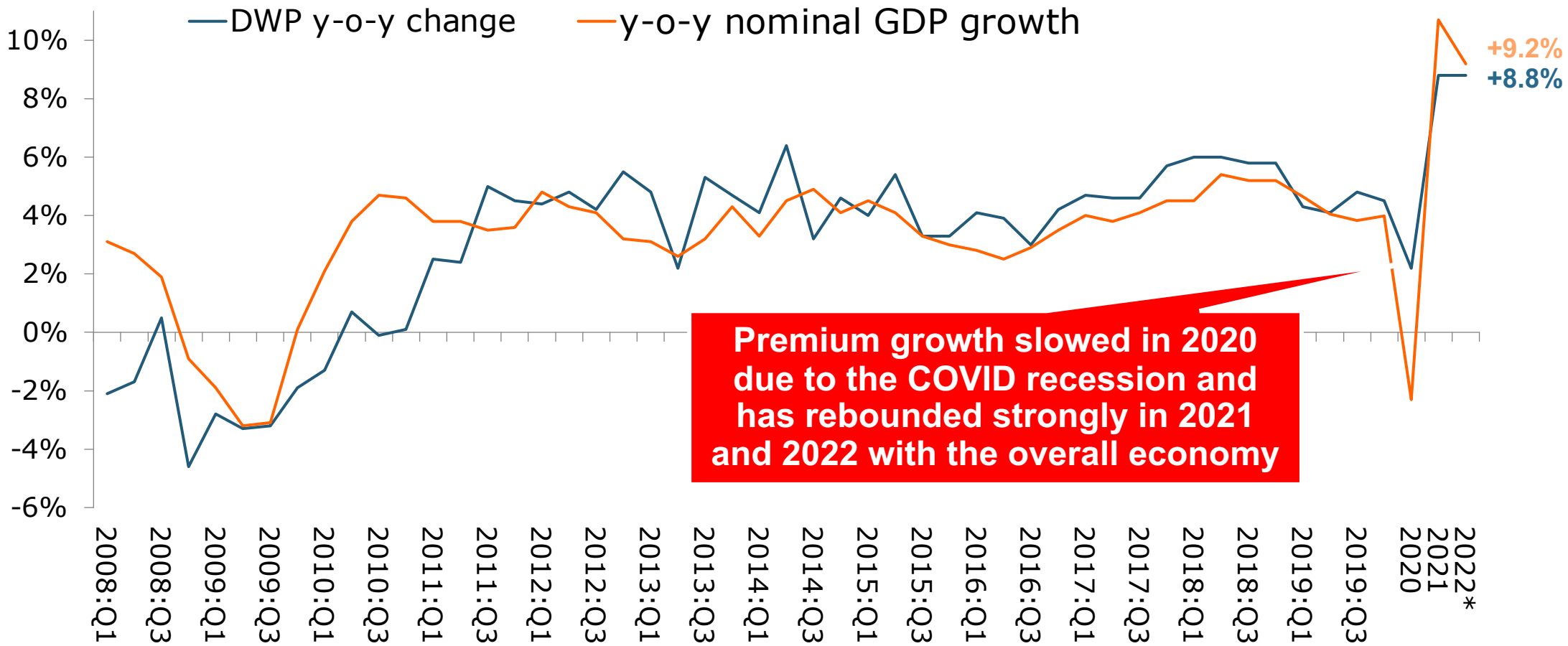
- The Covid recession lasted just 2 months, ending in April 2020, the shortest on record
- Covid abruptly ended the longest economic expansion in US history, which spanned nearly 11 years
- *From 1970 – 1982, the economy was in recession for 48 months through 4 recessions (vs. just 2 months over the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

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

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

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

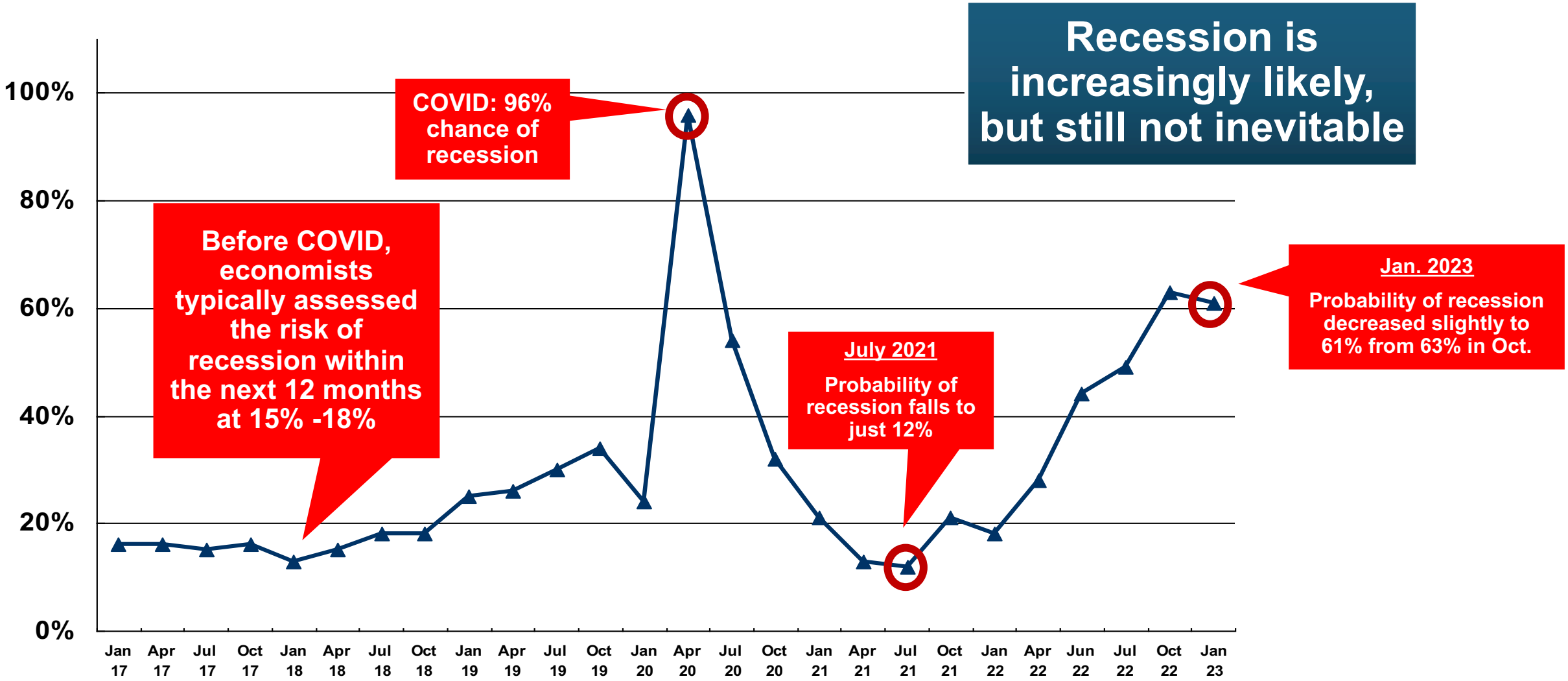
Direct Premium Growth (All P/C Lines) vs. Nominal GDP: Quarterly Y-o-Y Pct. Change



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.

Probability the U.S. Is in a Recession Within Next 12 Months: Jan. 2017 – Jan. 2023*



*Jan. 2023 survey included the responses of 71 economists.

Source: Wall Street Journal surveys of economists: https://www.wsj.com/articles/despite-easing-price-pressures-economists-in-wsj-survey-still-see-recession-this-year-11673723571; Risk and Uncertainty Management Center, University of South Carolina.

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

Great Recession

Rising unemployment eroded payrolls and WC's exposure base.

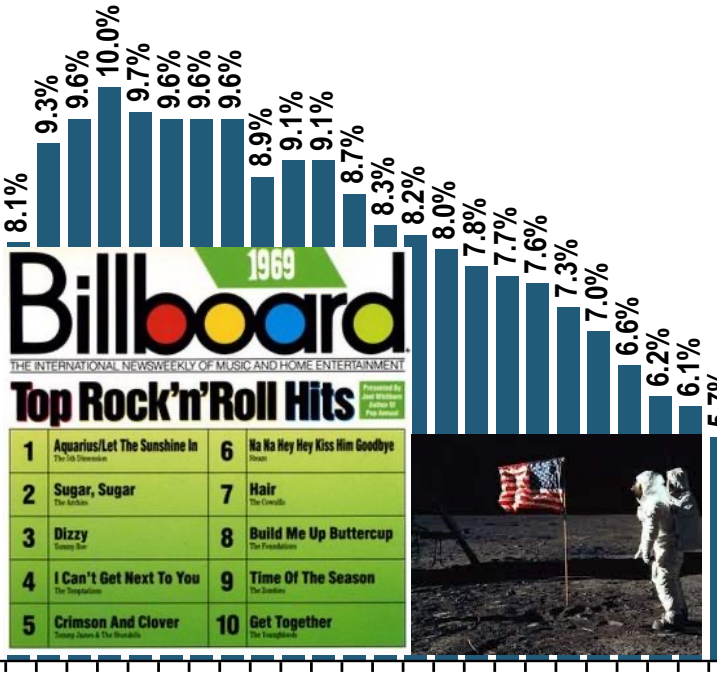
Unemployment peaked at 10% in late 2009.

US unemployment rate peaked at 14.7% in April 2020 (13.1% Q2 avg.)

517K jobs added in Jan. 2023! **Blowout report indicative of labor market resilience**

At 3.4%, the Jan. 2023 unemployment rate was below pre-Covid lows—and the lowest unemployment rate since May 1969

Unemployment rate returned to pre-COVID levels in early 2022 band remains low in early 2023, but is expected to rise as Fed rate hikes, slow the economy



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07:Q1 07:Q2 07:Q3 07:Q4 08:Q1 08:Q2 08:Q3 08:Q4 09:Q1 09:Q2 09:Q3 09:Q4 10:Q1 10:Q2 10:Q3 10:Q4 11:Q1 11:Q2 11:Q3 11:Q4 12:Q1 12:Q2 12:Q3 12:Q4 13:Q1 13:Q2 13:Q3 13:Q4 14:Q1 14:Q2 14:Q3 14:Q4 15:Q1 15:Q2 15:Q3 15:Q4 16:Q1 16:Q2 16:Q3 16:Q4 17:Q1 17:Q2 17:Q3 17:Q4 18:Q1 18:Q2 18:Q3 18:Q4 19:Q1 19:Q2 19:Q3 19:Q4 20:Q1 20:Q2 20:Q3 20:Q4 21:Q1 21:Q2 21:Q3 21:Q4 22:Q1 22:Q2 22:Q3 22:Q4 23:Q1 23:Q2 23:Q3 23:Q4 24:Q1 24:Q2 24:Q3 24:Q4

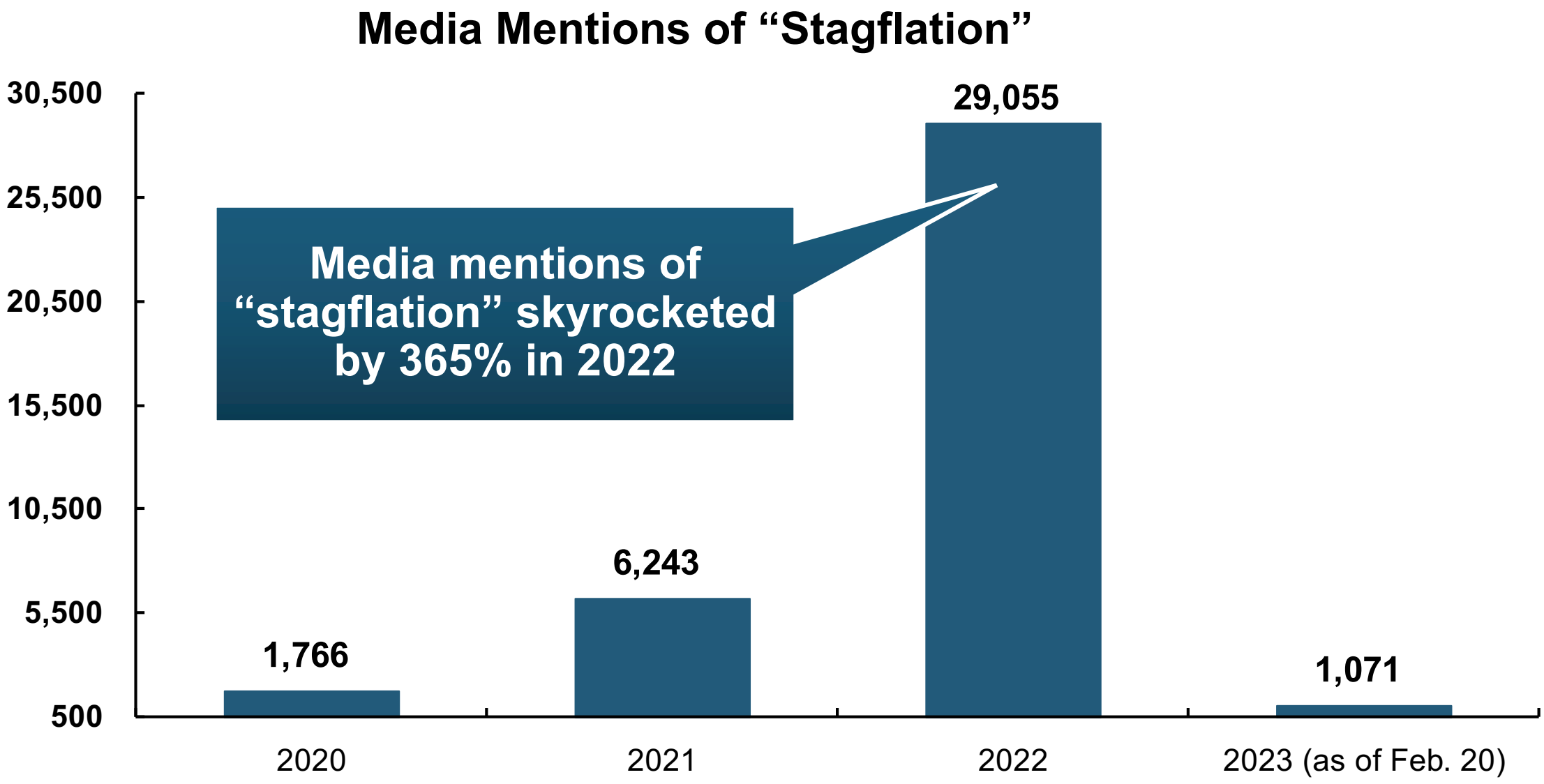
= forecasts ; = actuals

Sources: US Bureau of Labor Statistics; Wells Fargo Securities (2/23 edition); 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/Q4 2022 were strongly positive, while labor markets also remain strong. The notion that 2 consecutive quarters of negative real GDP define the start of a recession is incomplete.

Media Pundits Were Quick to Assert that the Scourge of the 1970s—Stagflation—Was Upon Us



Source: Factiva search as of Feb. 20, 2023.; Risk and Uncertainty Management Center, Univ. of South Carolina.

If We're Not in a Recession Today – What Are the Possibilities Over the Next 12 Months?

A soft landing occurs when an economy sustains a mild slowdown whereby consumer and investment spending softens, but continues to register positive growth.

Soft Landing

A hard landing describes a recession with a sharp contraction in spending, resulting in many workers losing their jobs and companies significantly reducing their capital investments.

Hard Landing

In a "no landing" scenario, the economy averts a recession altogether.

No Landing

Source: Public Mutual; Univ. of South Carolina, Risk and Uncertainty Management Center.

The U.S. and Global Inflation Threat

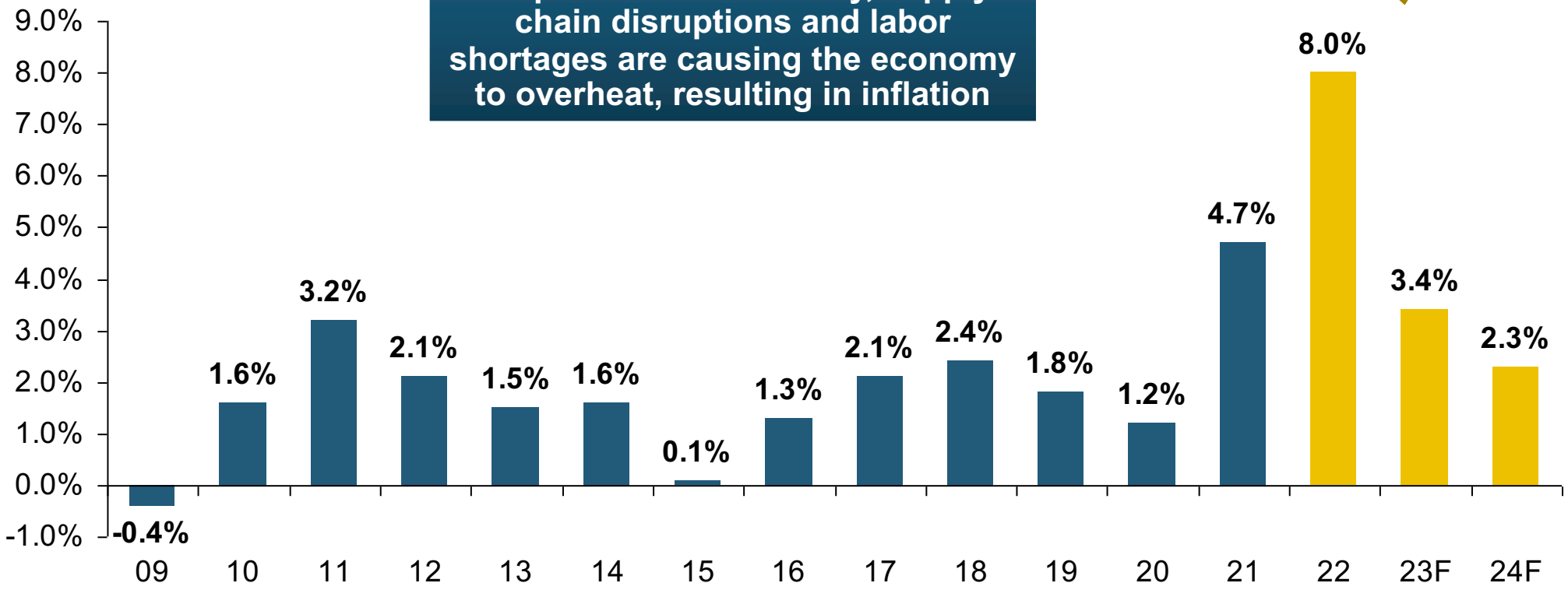
Inflation is the #1 Concern of U.S. Consumers and Corporations…
And in Many Countries Throughout the World

It's Also a Major Concern of (Re)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

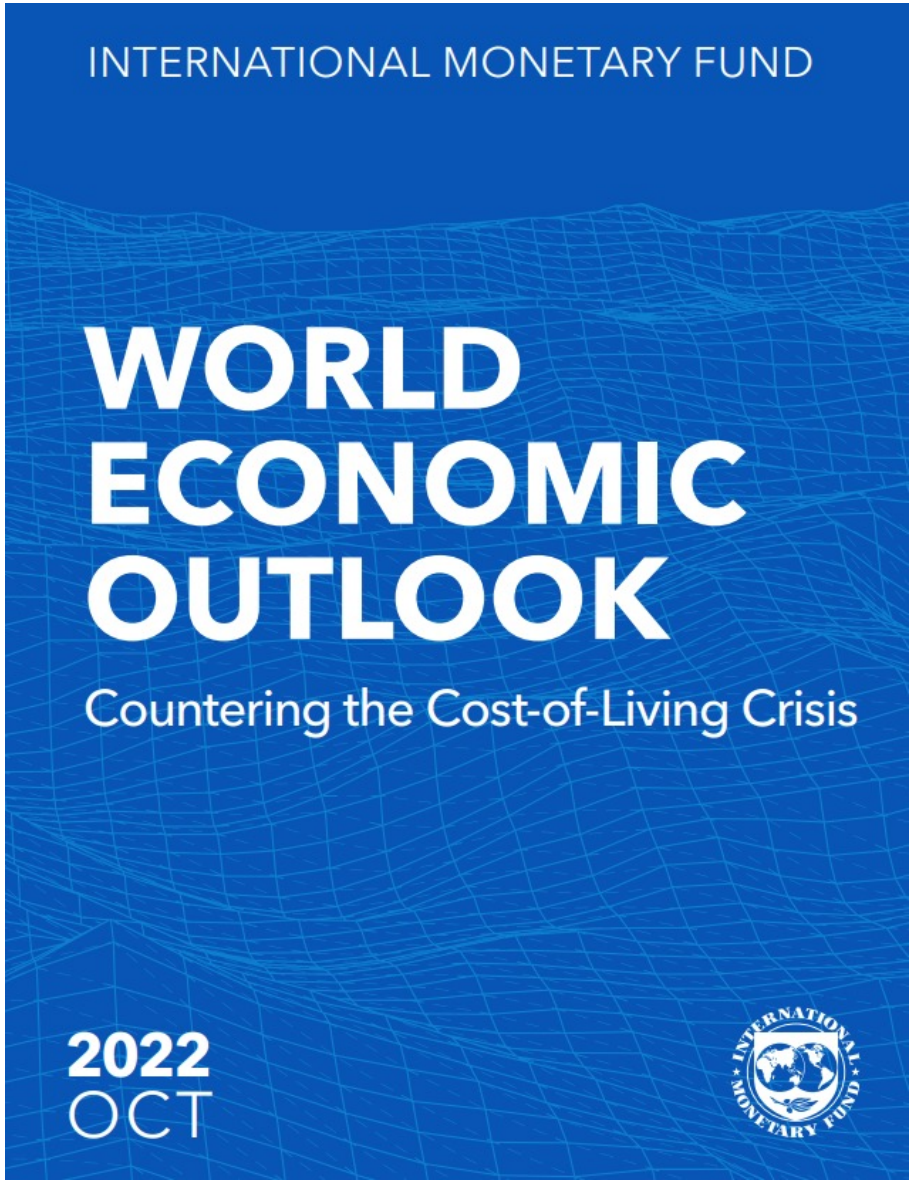
Insurance-to-Value

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

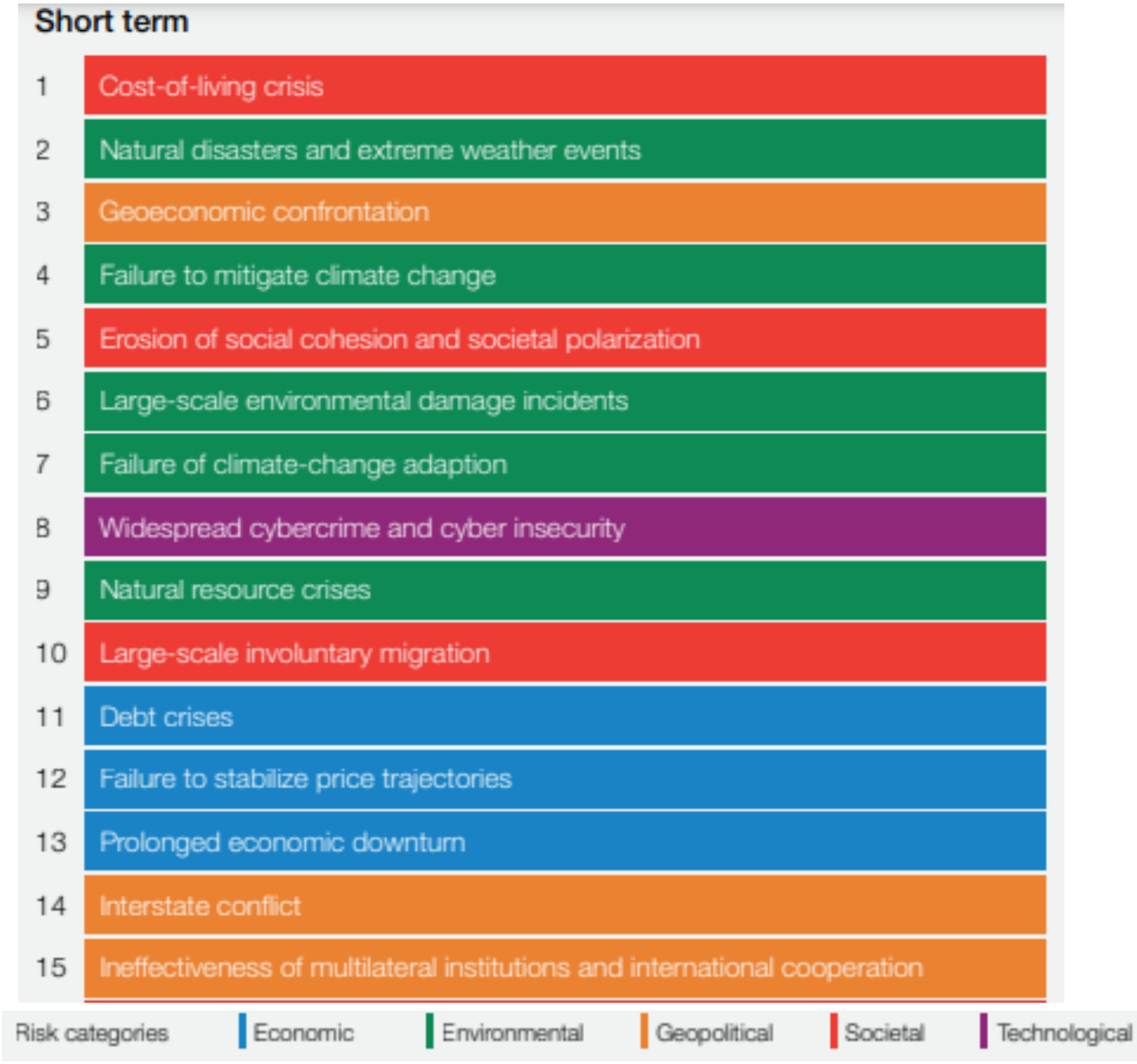
Source: U.S. Bureau of Labor Statistics; Wells Fargo Securities (2/23); USC Center for Risk and Uncertainty Management.

Inflation: Many View It as a “Crisis”

IMF: Oct. 2022

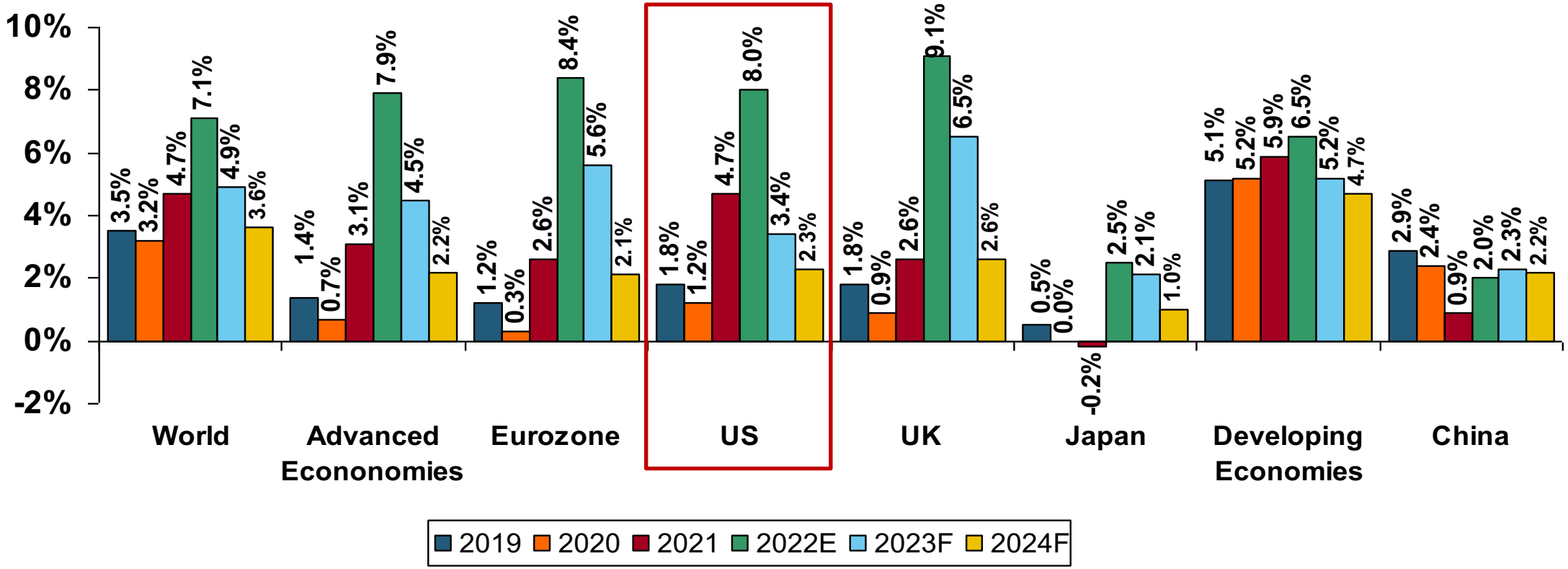


World Economic Forum (Davos): Jan. 2023



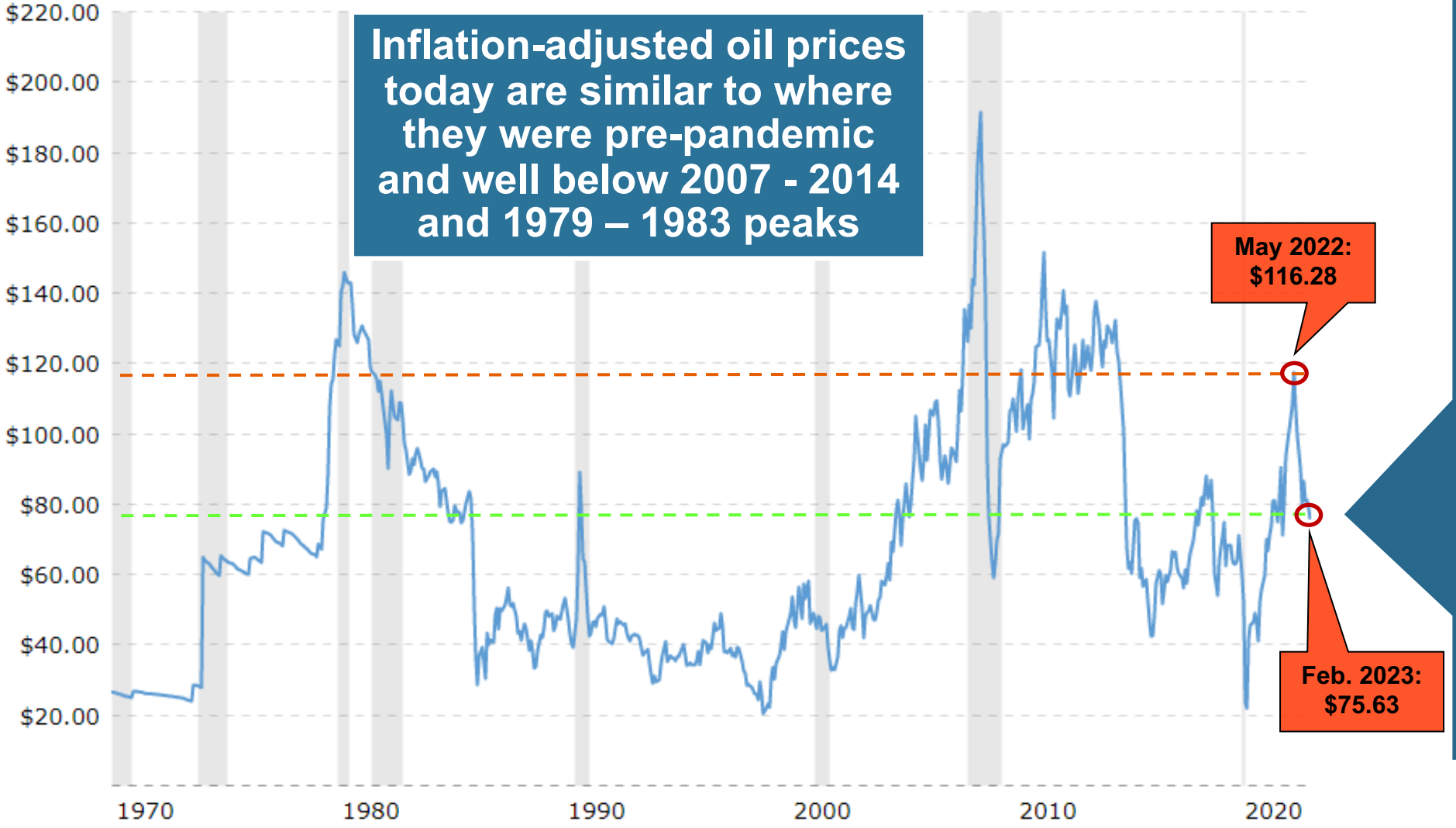
Inflation: A Global Phenomenon – Outlook through 2024F

- 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 (Feb. 2023); Univ. of South Carolina, Risk and Uncertainty Management Center.

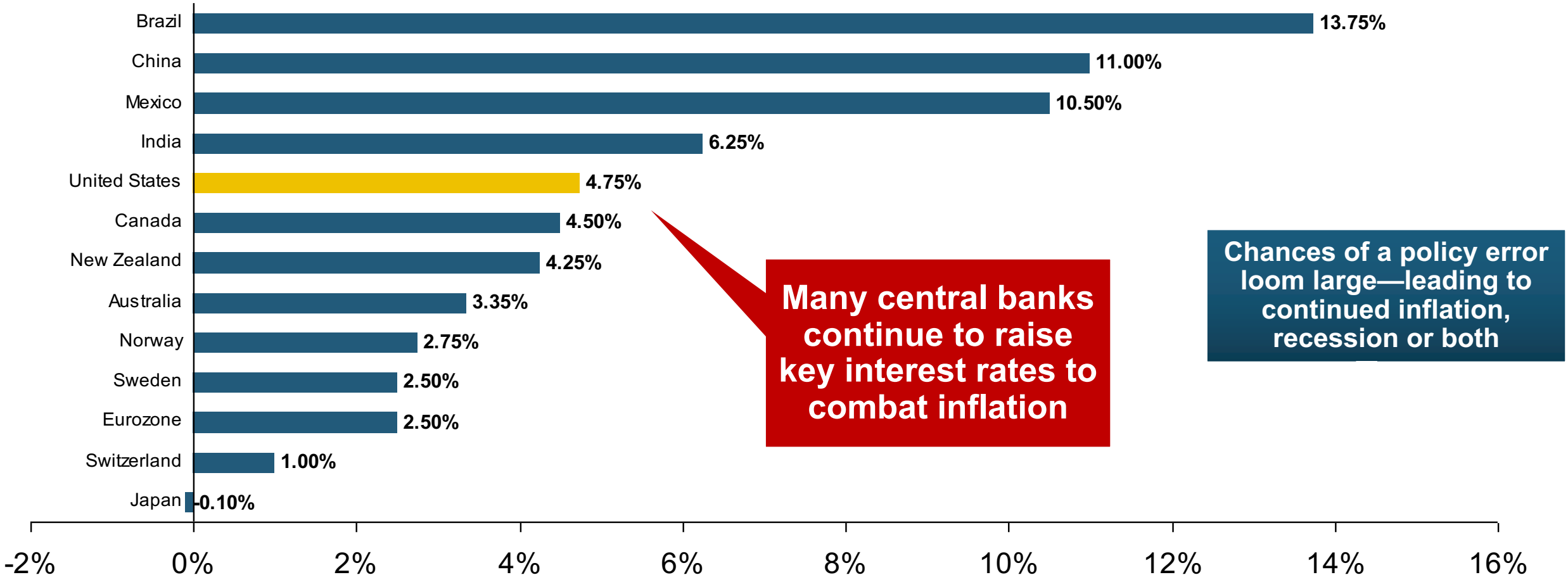
Crude Oil Prices: Price per Barrel,
Jan. 1970 – Feb. 2023 (Inflation Adjusted)



Crude peaked well above $100/bbl in May 2022—a quintupling from its pandemic low—causing market panic and fueling inflation. The Russian invasion of Ukraine, sanctions on Russian oil and economy recoveries are exacerbating oil price pressures.

Sources: Macrotrends.net accessed 2/27/23 at: https://www.macrotrends.net/1369/crude-oil-price-history-chart; Risk and Uncertainty Management Center, University of South Carolina.

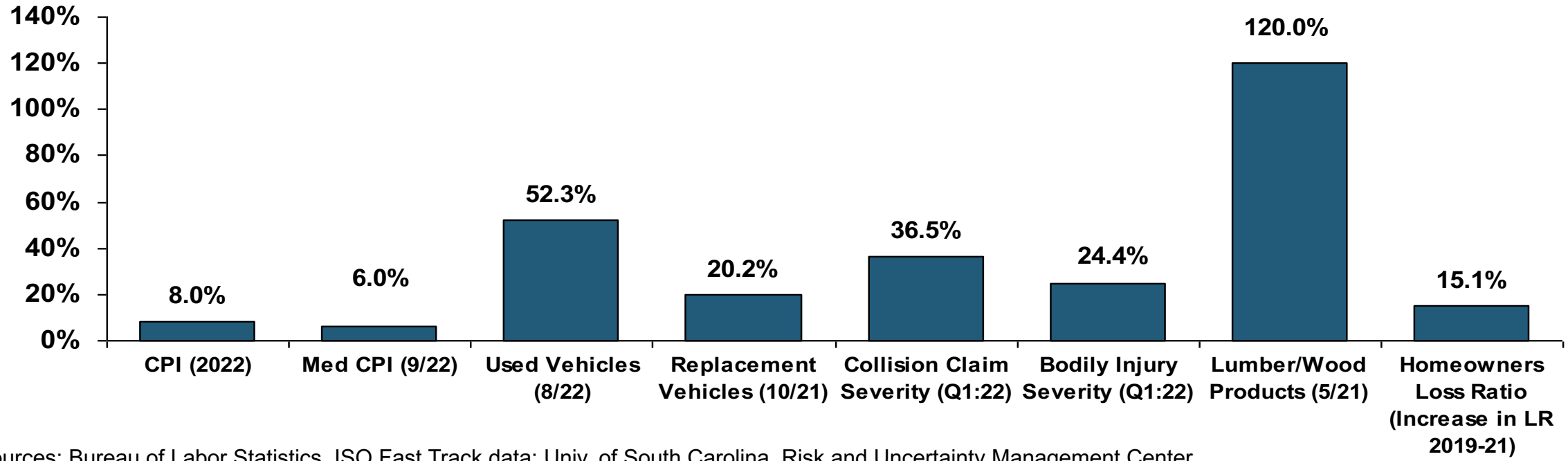
Central Bank Key Policy Rates (End of Q4 2022):
The Global War Against Inflation Rages On…



Source: Wells Fargo Economics (2/23); USC Center for Risk and Uncertainty Management.

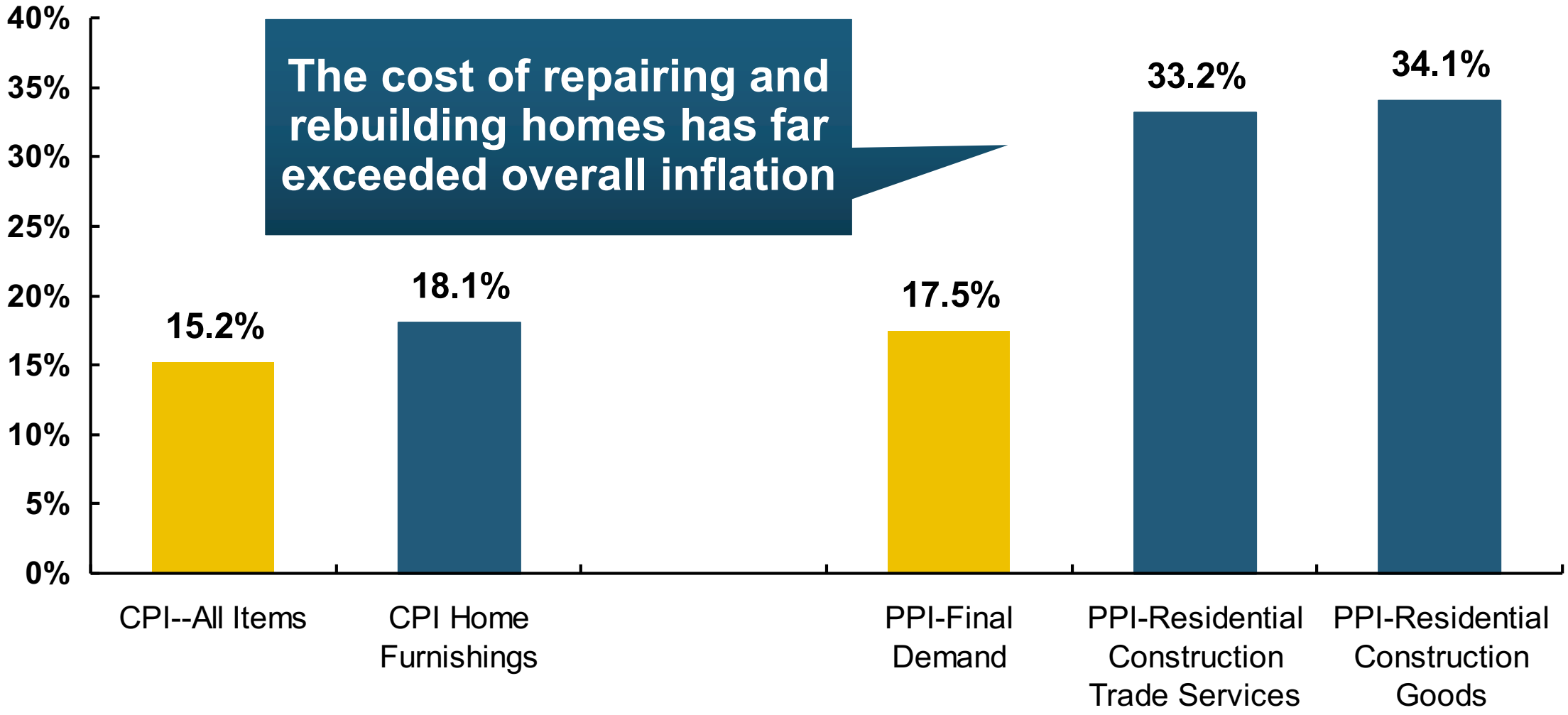
Inflation: Large, Immediate Impacts for Insurers

- 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.

Change in Cost Indicators for Home Insurance (U.S.), Jan. 2020 – Dec. 2022



Source: U.S. Bureau of Labor Statistics.

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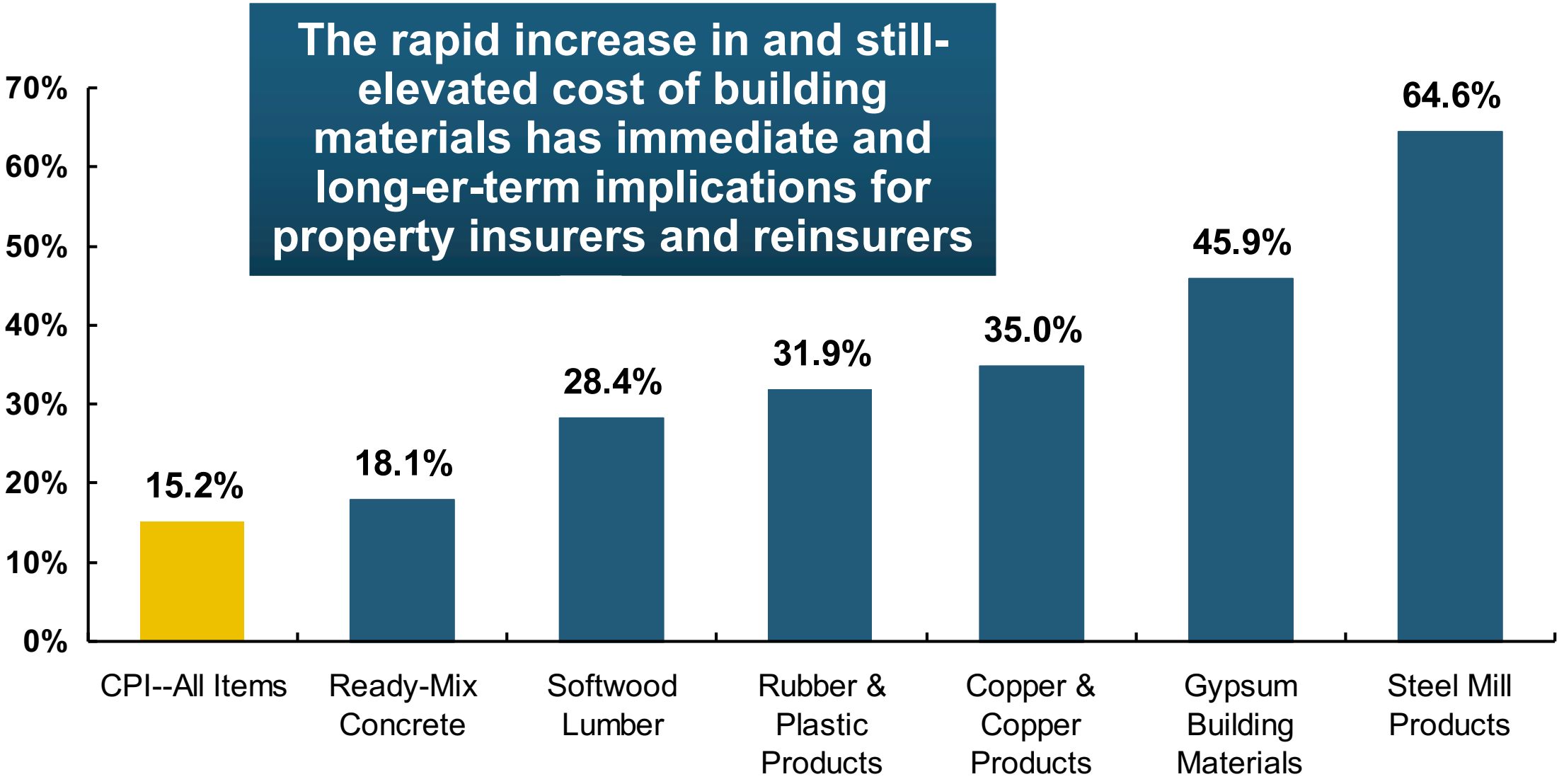
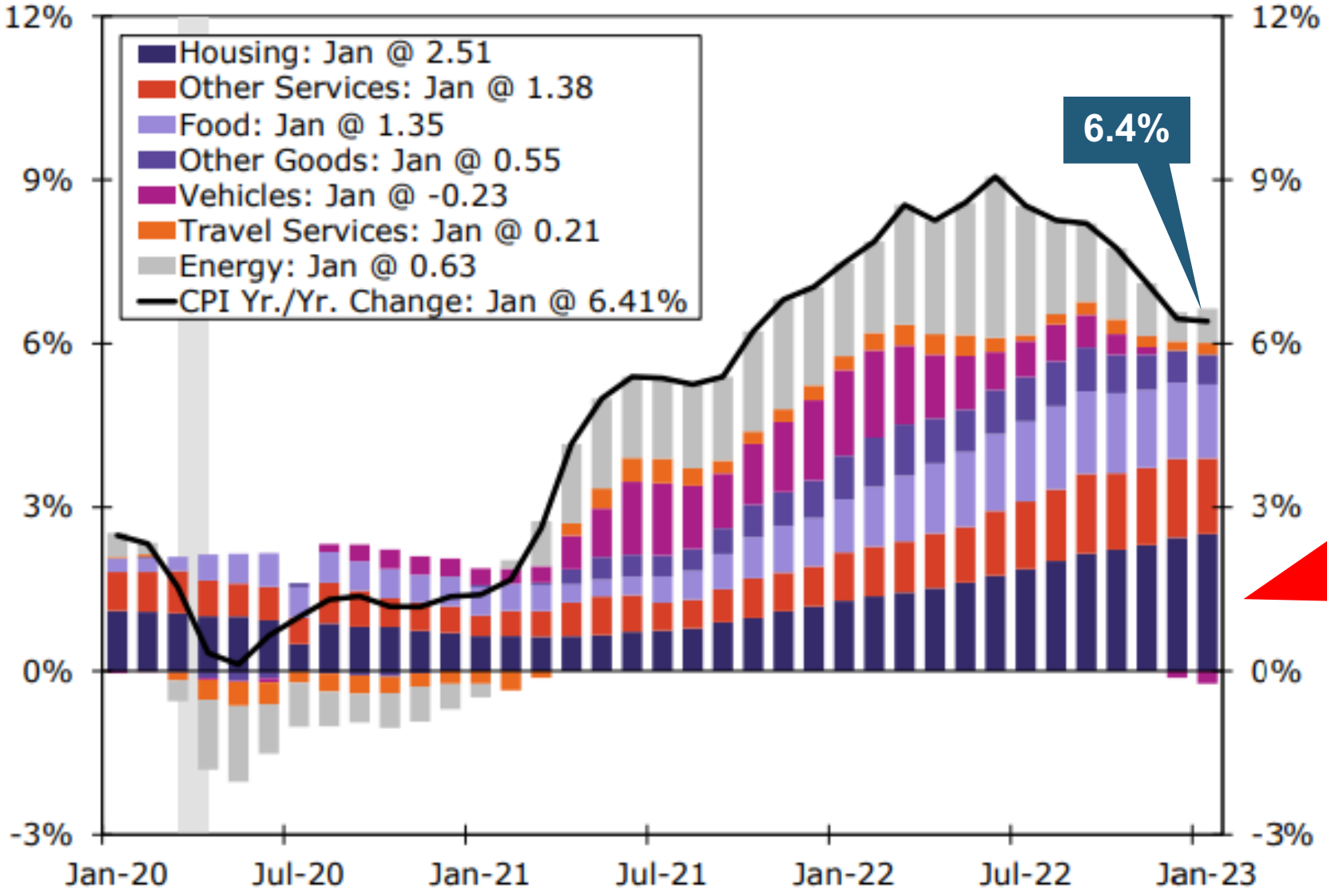


Source: U.S. Bureau of Labor Statistics.

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

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

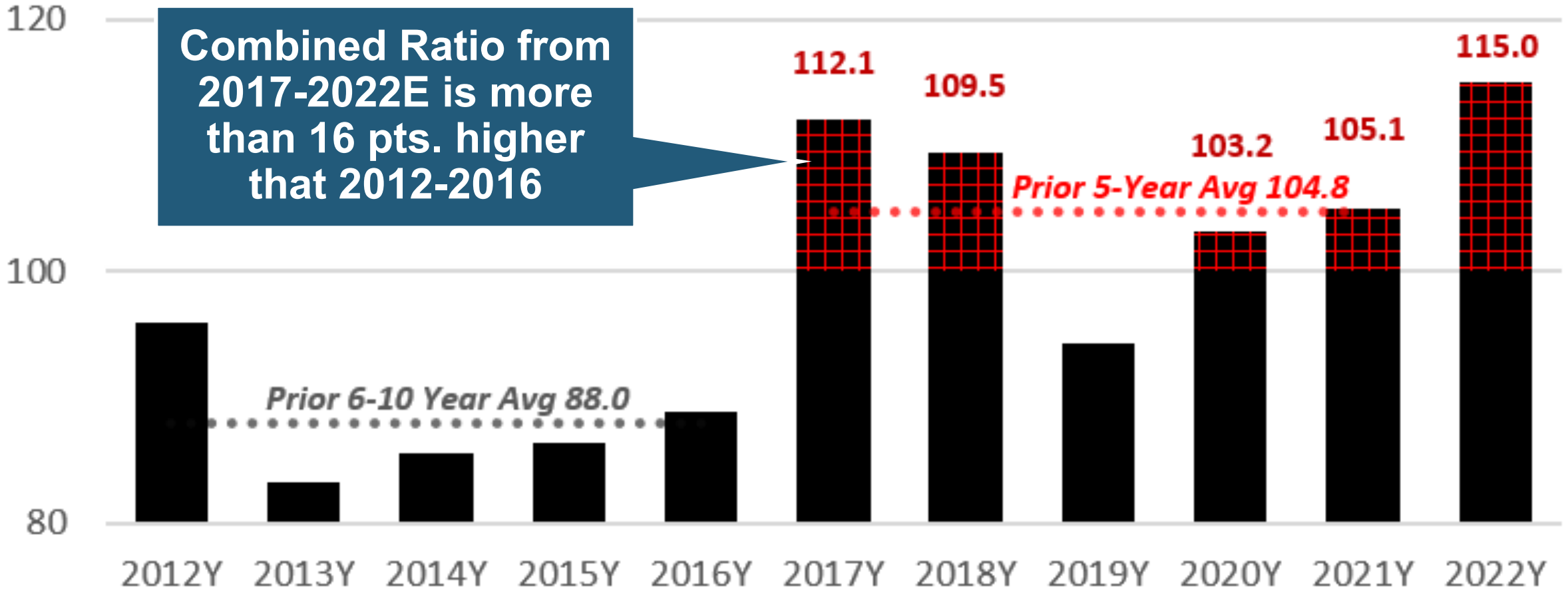
Contribution to CPI by Category: January 2023



Prices were up 6.4% in Jan. 2023 vs. a year ago, down from the June 2022 peak of 9.1%. Even as energy prices recede fom their 2022 peak, increases in Housing, Food, and Other Services are the major obstacles to tempering inflation

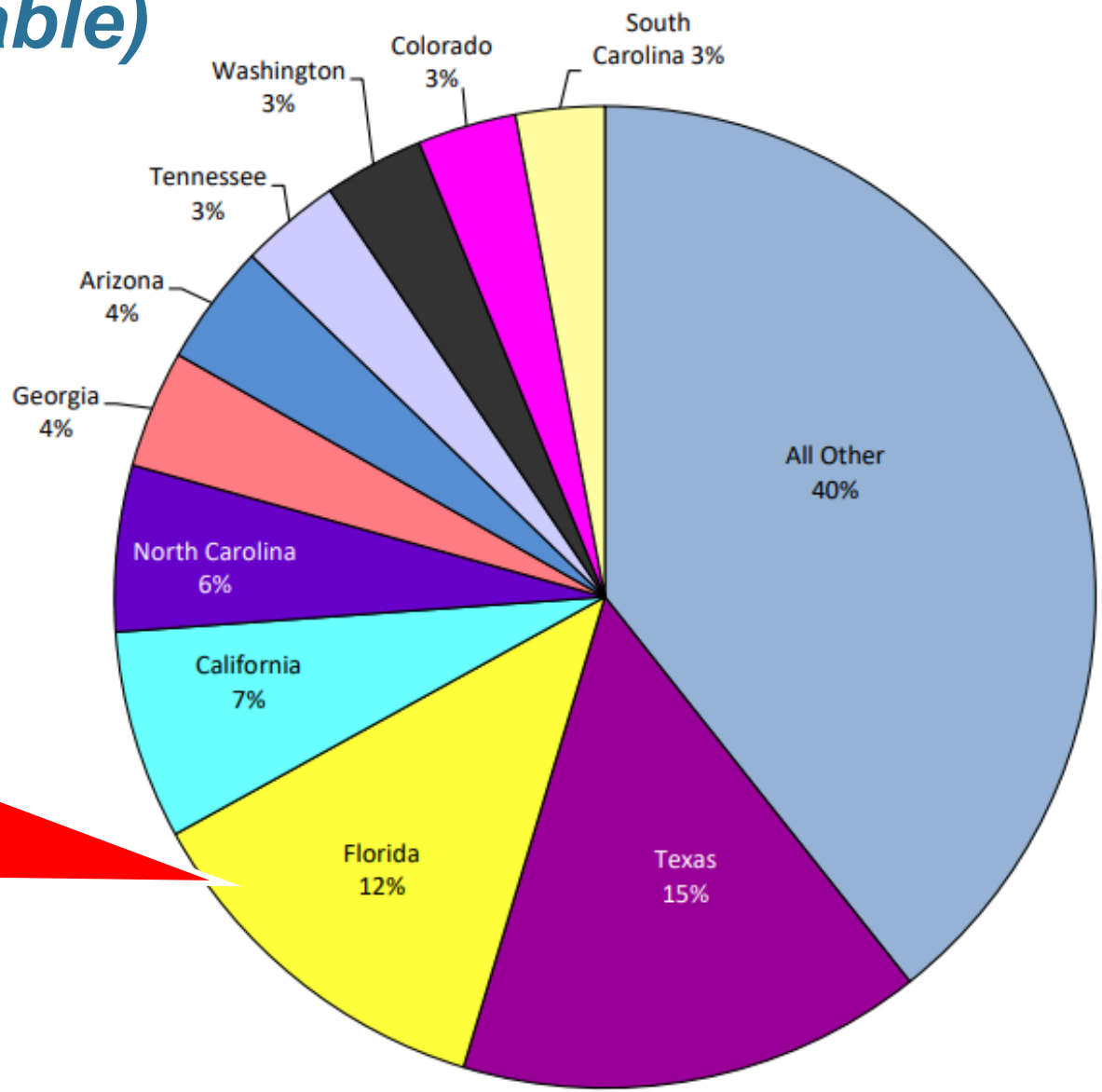
Source: U.S. Department of Commerce and Wells Fargo Economics.

Homeowners Combined Ratio, 2012-2022E: Shows the Combined Effects of Record CATs and Inflation



Source: APCIA using S&P Global Markets Intelligence; 2022 estimate is from Triple-I and Milliman (Nov. 2022).

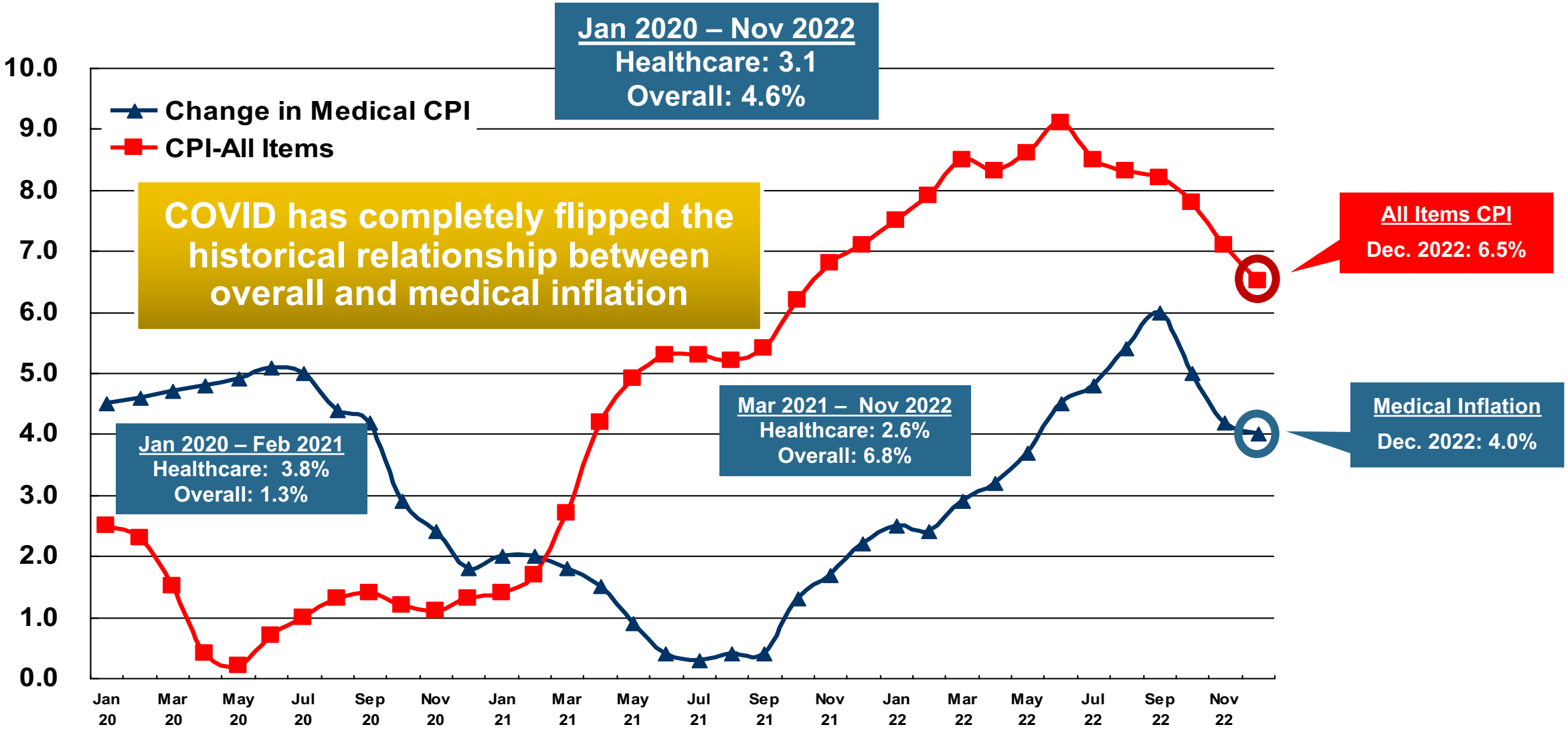
Top 10 States for Residential Housing Permit Authorizations, 2021 *(Latest Available)*



Just 9 disaster-prone (tropical cyclone and wildfire risk) states accounted for 57% of all building permit authorizations in 2021, with 27% in TX and FL alone

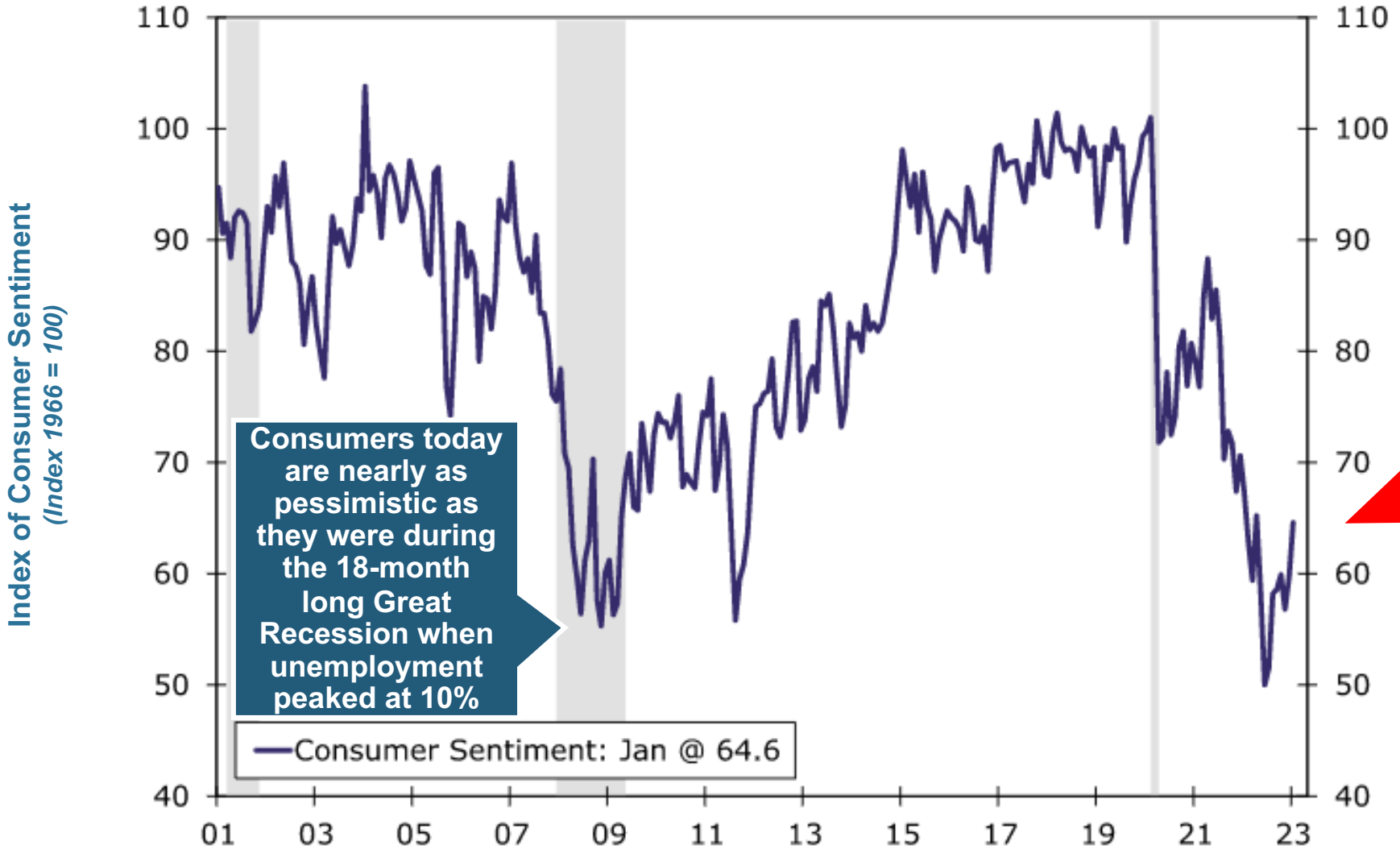
Source: U.S. Census Bureau, 2021 Annual Building Permits Survey, accessed at: https://www.census.gov/construction/bps/

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



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

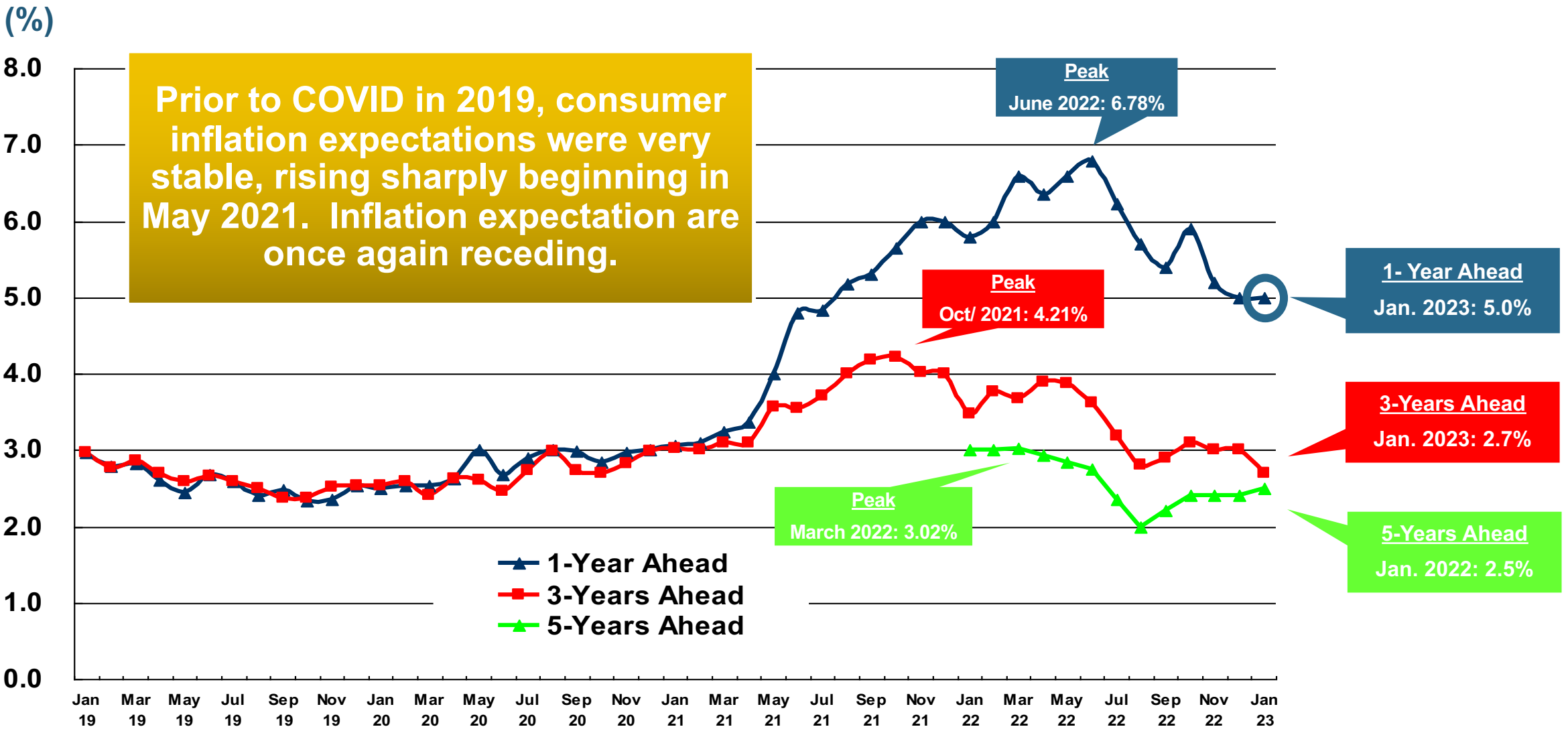
Consumer Sentiment: Close to the Lowest Ever in 2022 Despite Strong Jobs Markets—But Now Rebounding



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/early 2023

Source: University of Michigan and Wells Fargo Economics.

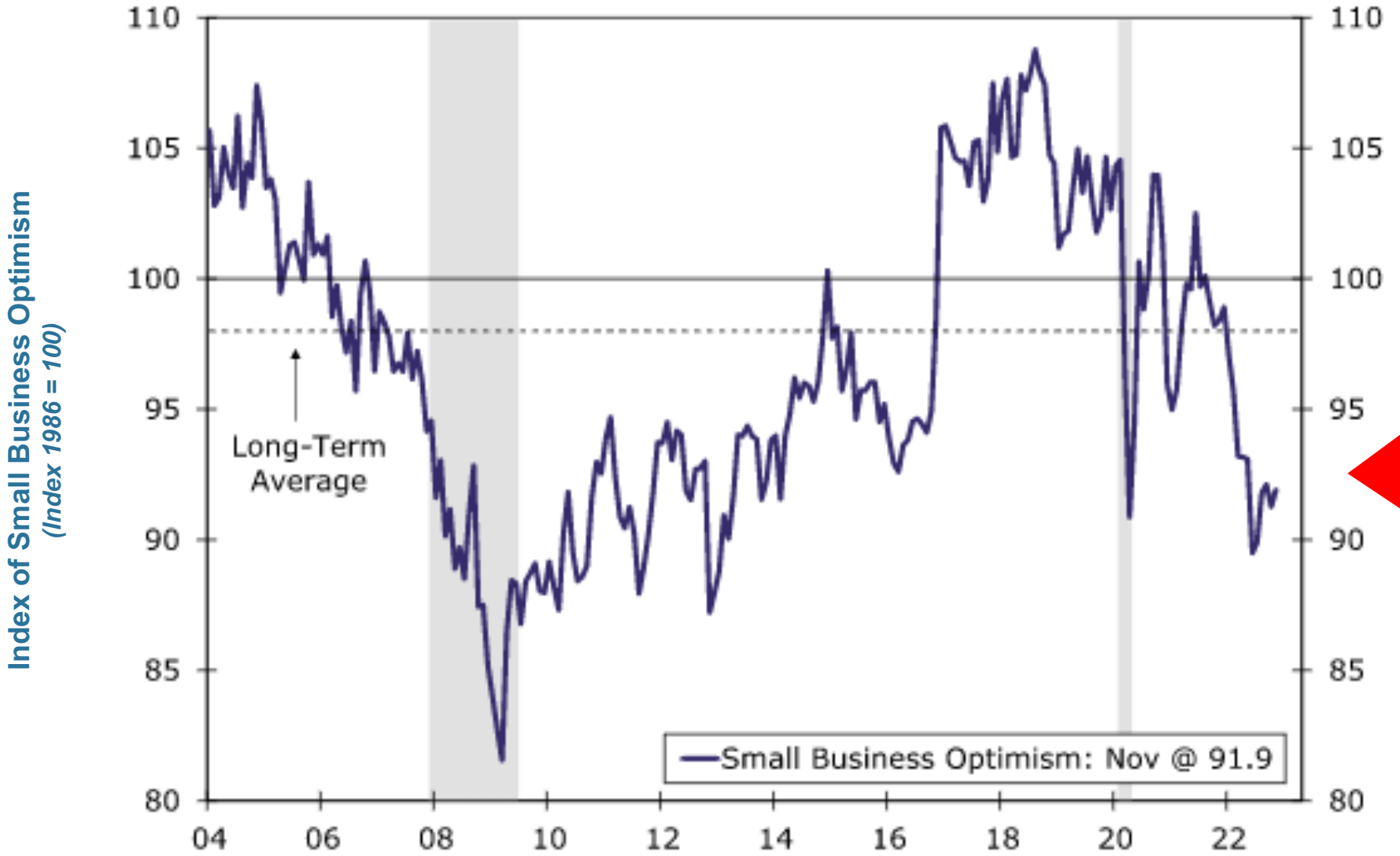
Consumer Inflation Expectations: 1, 3 and 5 Years Ahead*



*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.

Annual Change in Average Hourly Wage, 2007–2022*

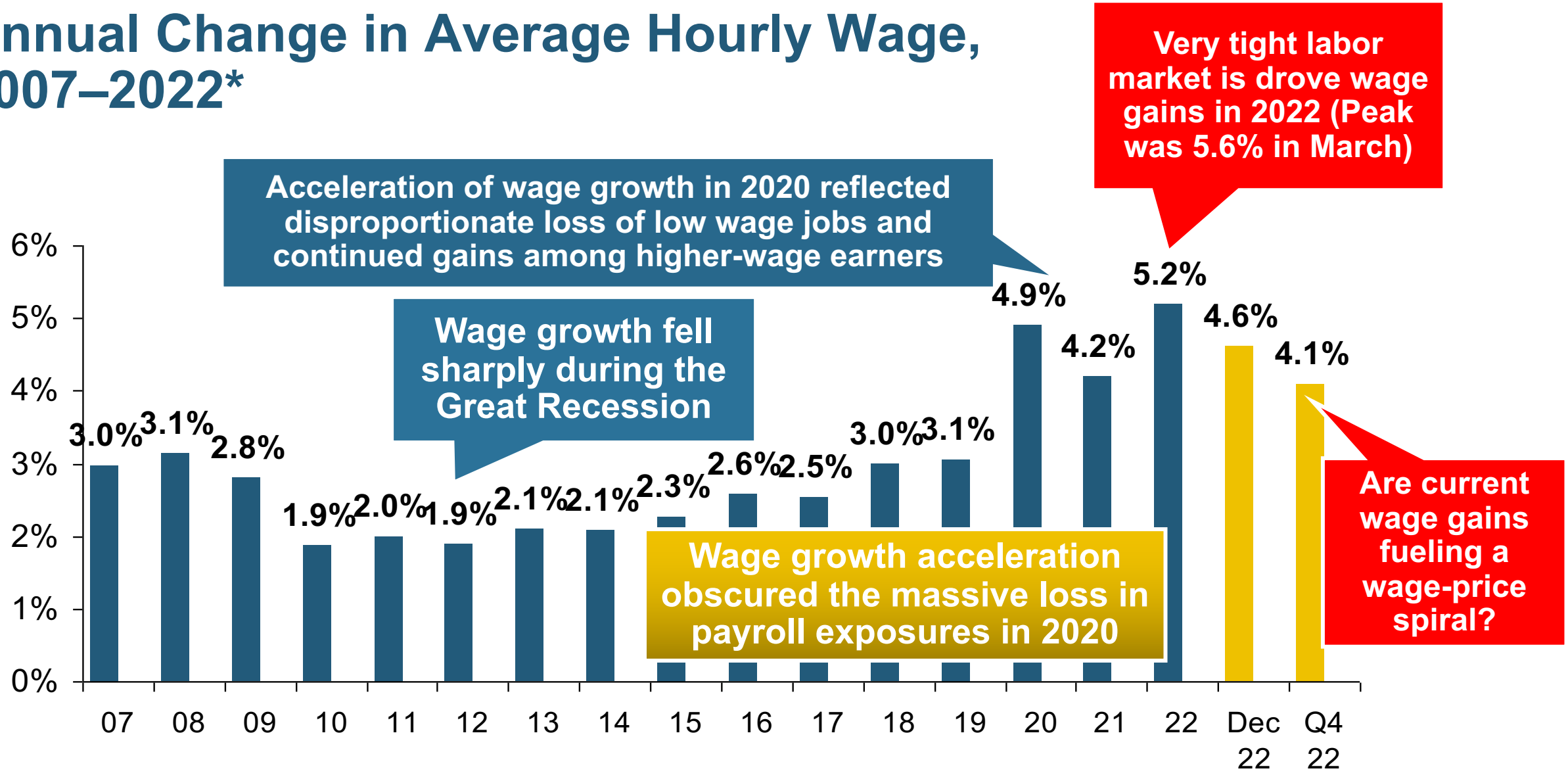
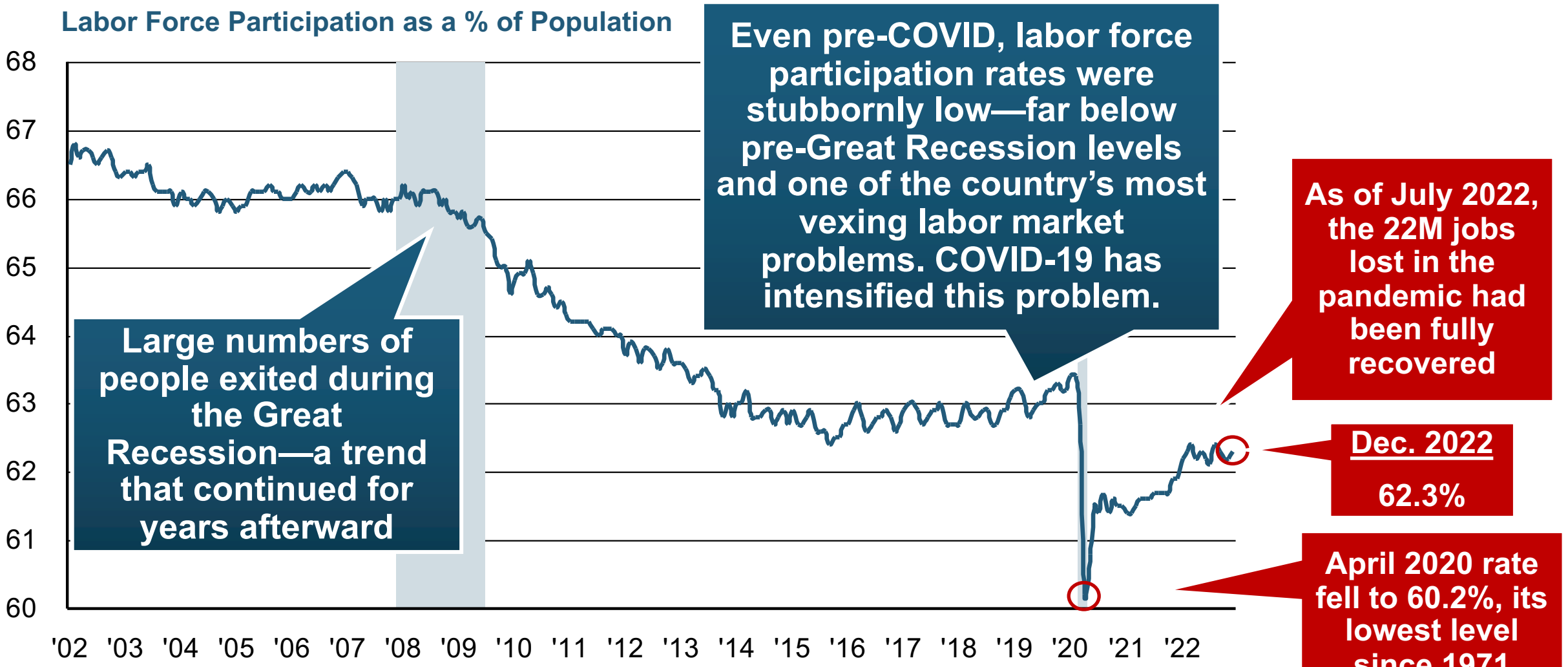


*Figure is year-over-year change from Dec. 2021 to Dec. 2022.

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.

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.

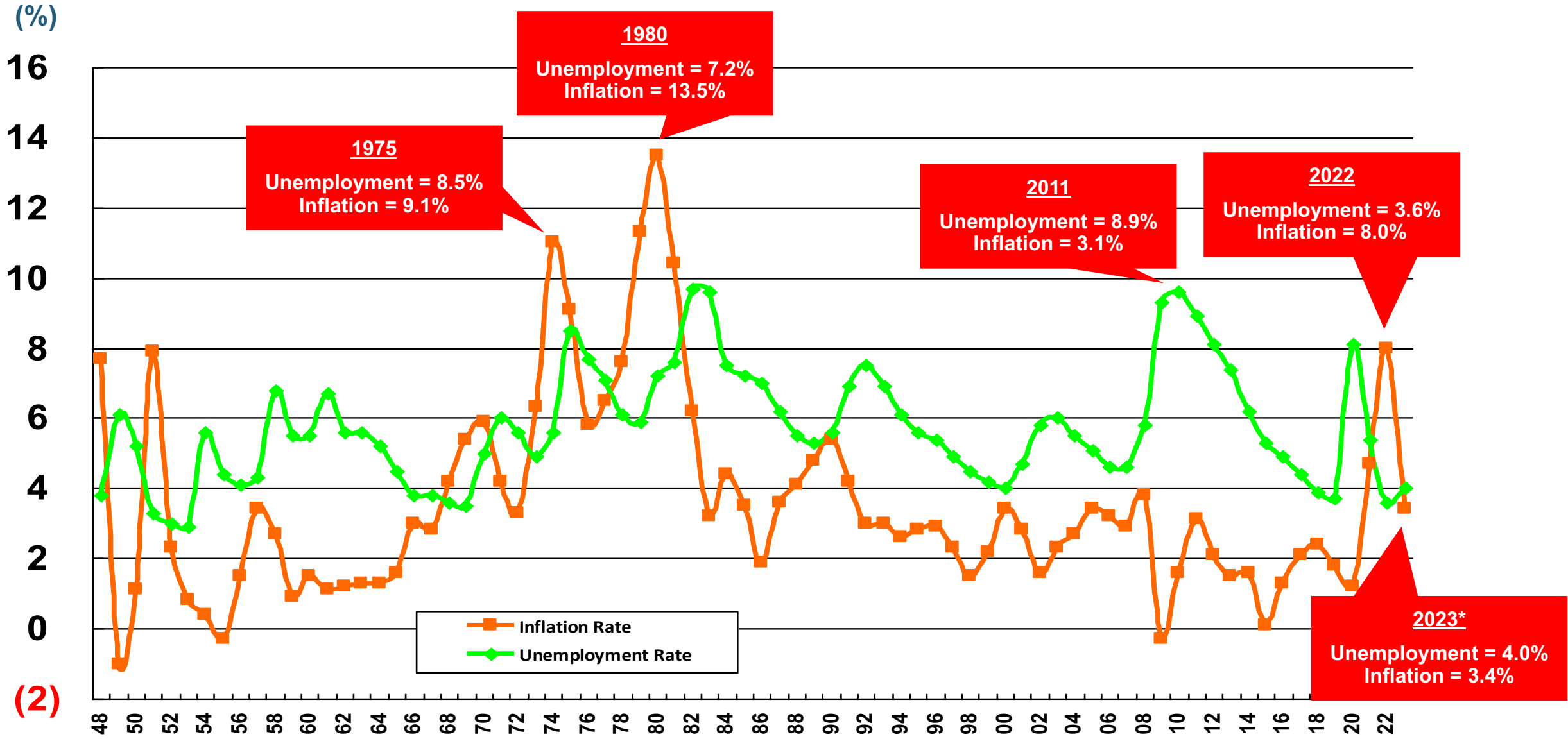
Note: Recessions indicated by gray shaded columns.

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.

Are Things As Bad as Many Believe Them to Be?

A Quick Review of Economic History Is Helpful

Inflation and Unemployment Rate, 1948–2023*



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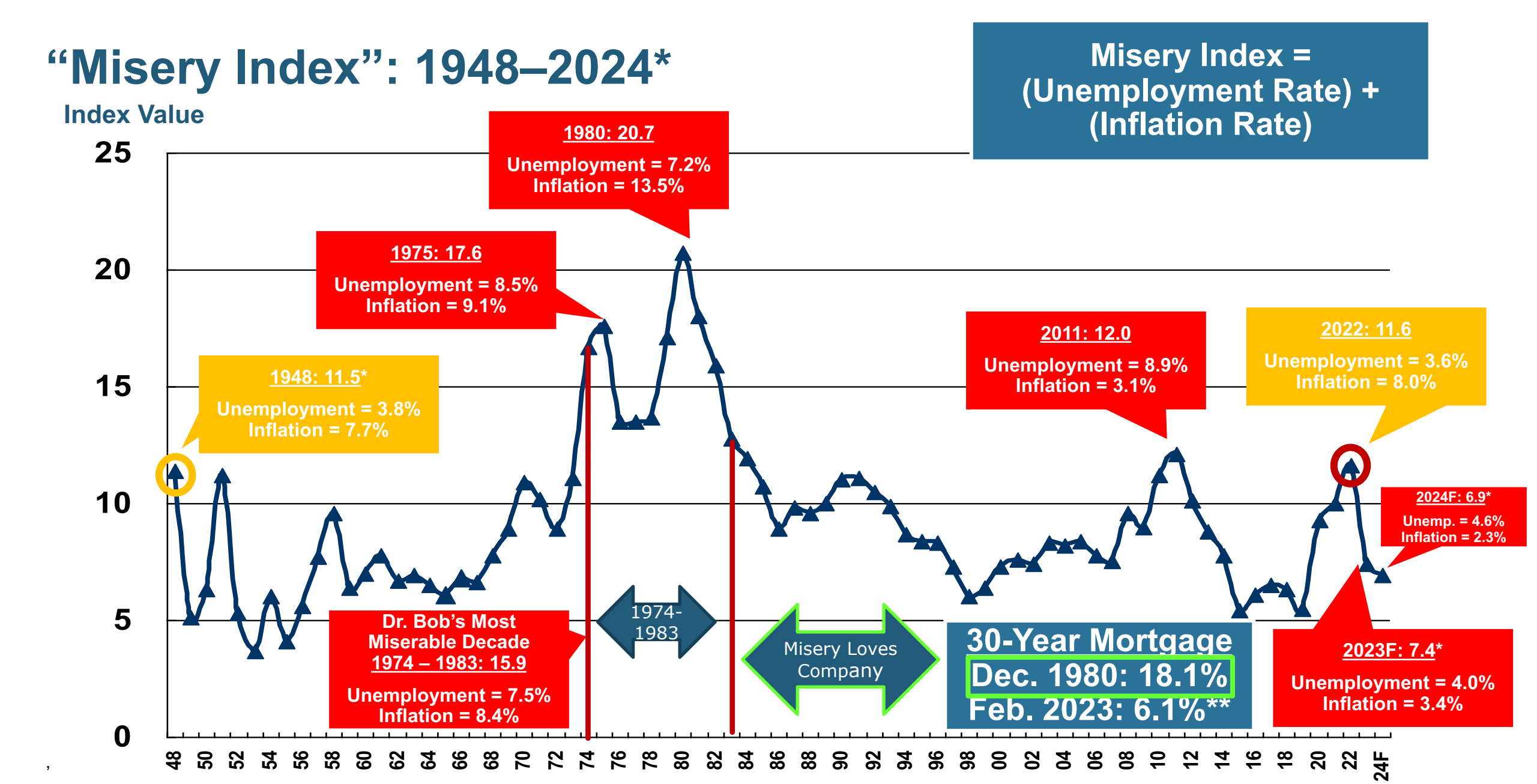
*2023 forecast based on Wells Fargo Securities forecasts (2/23).
Source: U.S. Bureau of Labor Statistics; Center for Risk and Uncertainty Management, University of South Carolina.

“Misery Index”: 1948–2024*



*Estimated based on Wells Fargo Securities forecasts (2/23).
**As of 2/9/23 based on Freddie Mac data.
Source: U.S. Bureau of Labor Statistics; Center for Risk and Uncertainty Management, University of South Carolina.

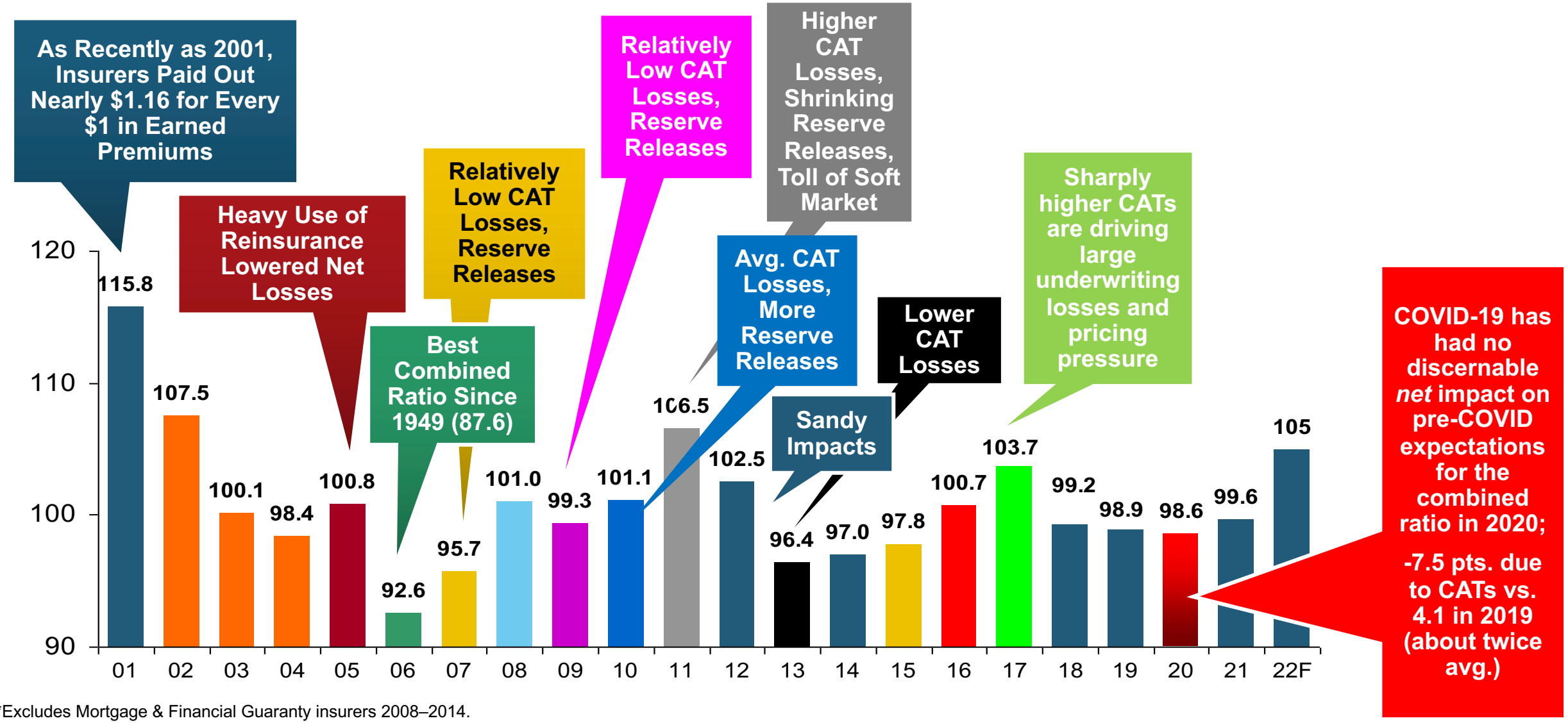
P/C Insurance Industry Financial Overview & Outlook

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

Industry Remains Strong

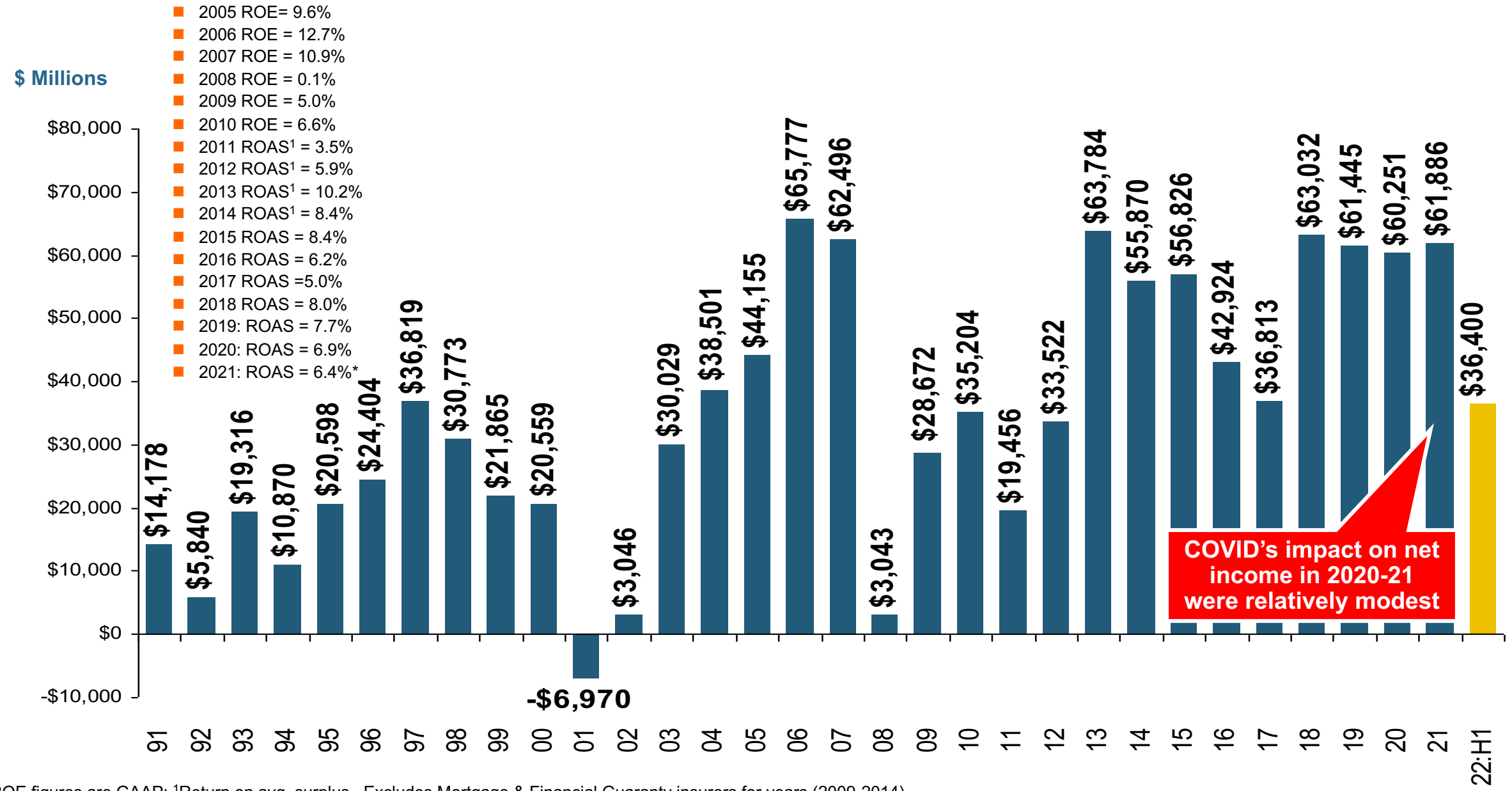
44

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



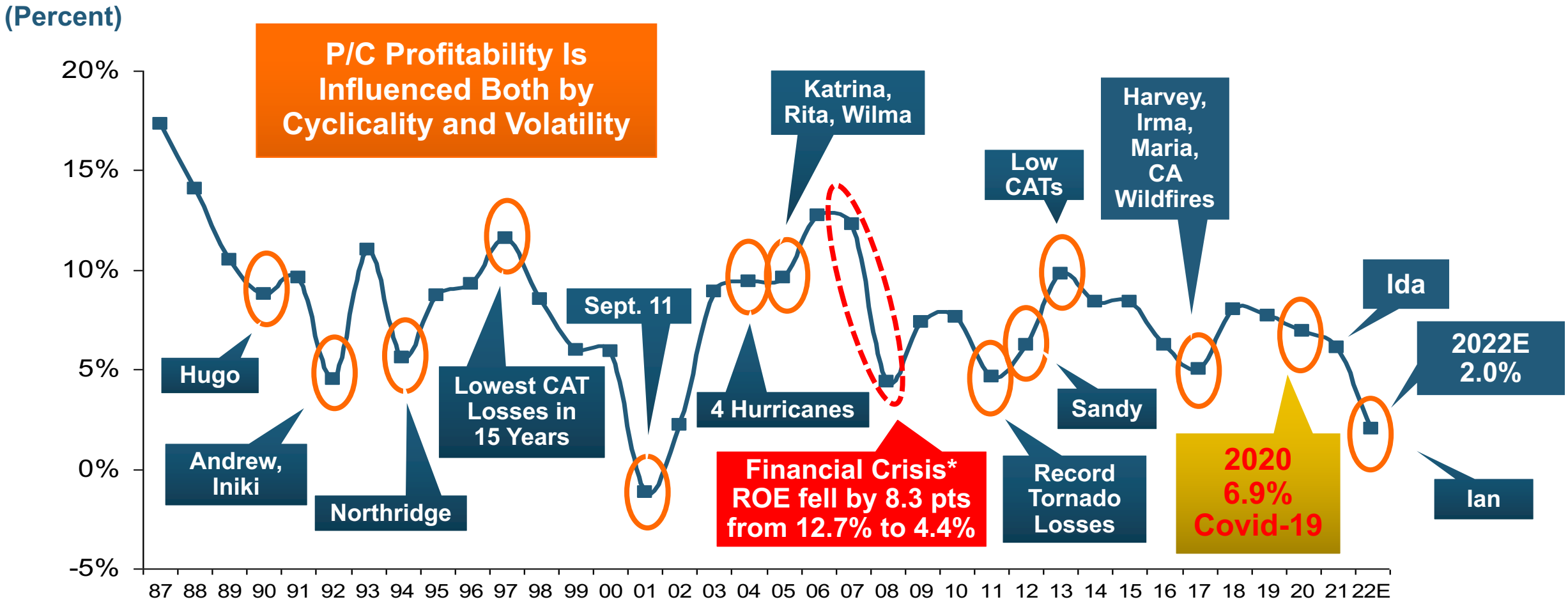
*Excludes Mortgage & Financial Guaranty insurers 2008–2014.
**2022 figure is forecast..
Sources: A.M. Best, ISO (2014-2022F).

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



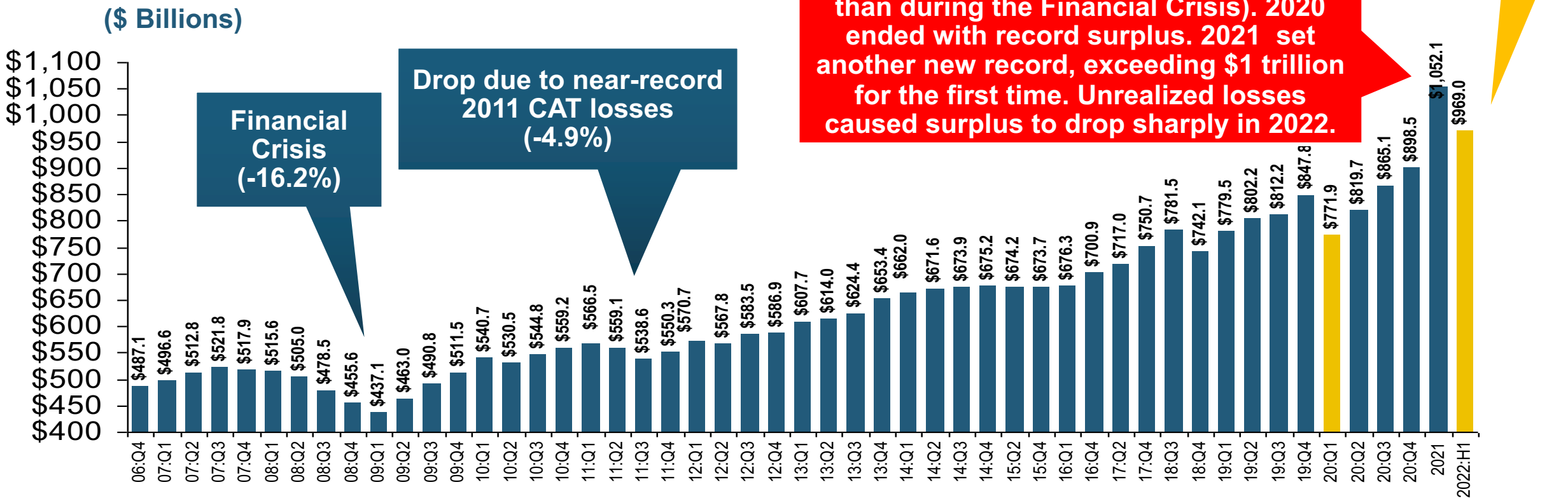
*ROE figures are GAAP; [1]Return on avg. surplus. Excludes Mortgage & Financial Guaranty insurers for years (2009-2014).
Sources: A.M. Best, ISO, APCIA.

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



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

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

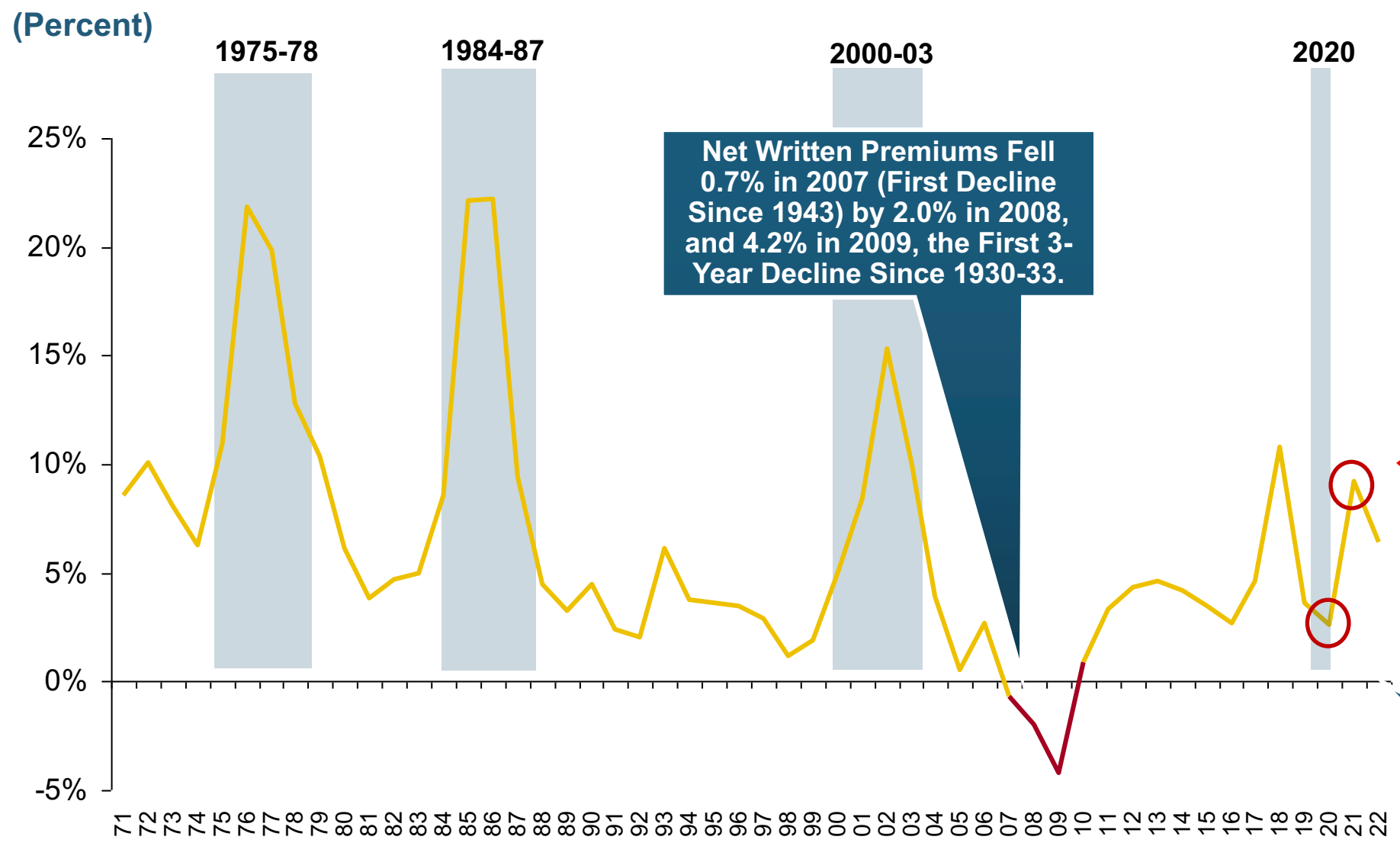


Policyholder Surplus is the industry's financial cushion against large insured events, periods of economic stress and financial market volatility. It is also a source of capital to underwrite new risks.

*2022 figure is actual through Q2.

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

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%**

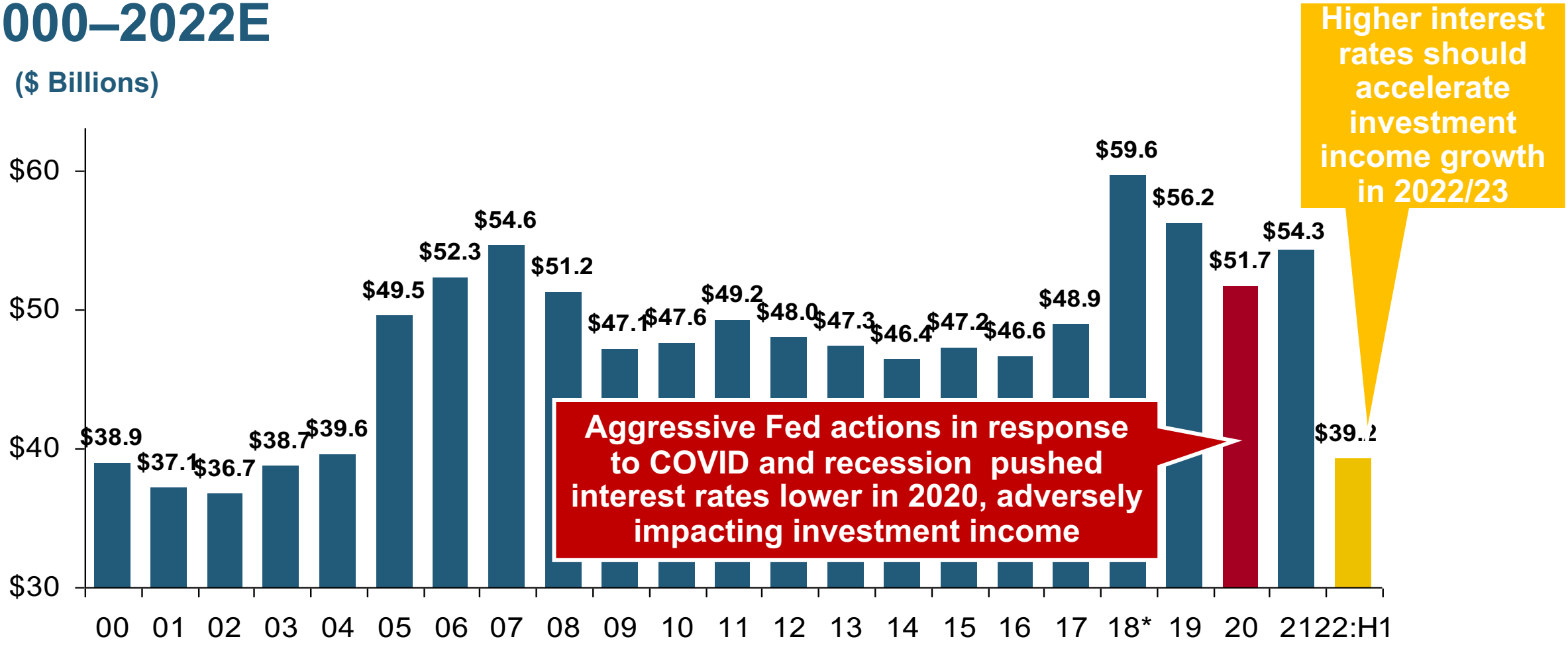
NOTE: Shaded areas denote "hard market" periods.
Sources: A.M. Best (1971-2013, 2022F), ISO (2014-21); Risk & Uncertainty Management Center, Univ. of South Carolina

Investments

Investment Performance Is a Key Driver of Insurer Profitability

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

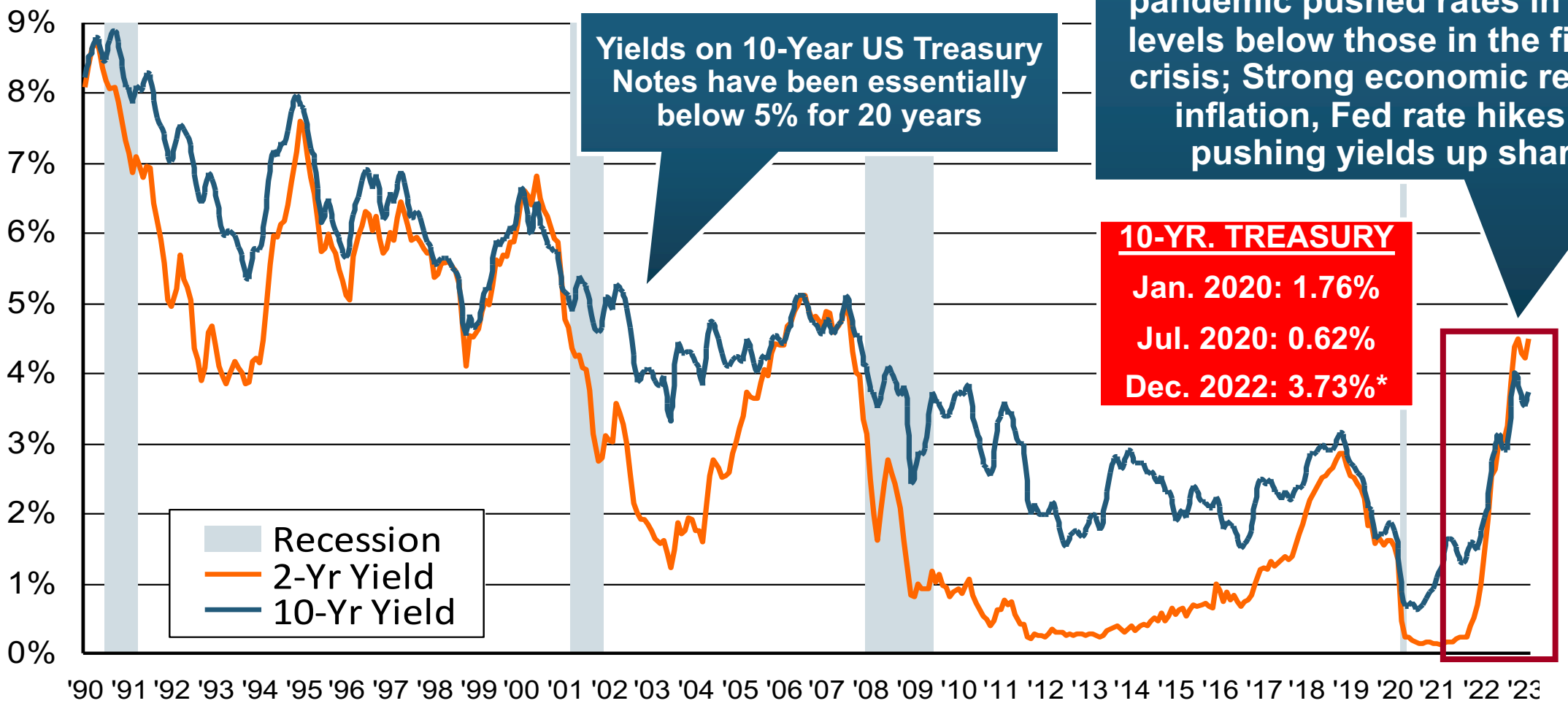
Property/Casualty Insurance Industry Investment Income: 2000–2022E



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.

US Treasury Security Yields: A Long Downward Trend, 1990–2023*

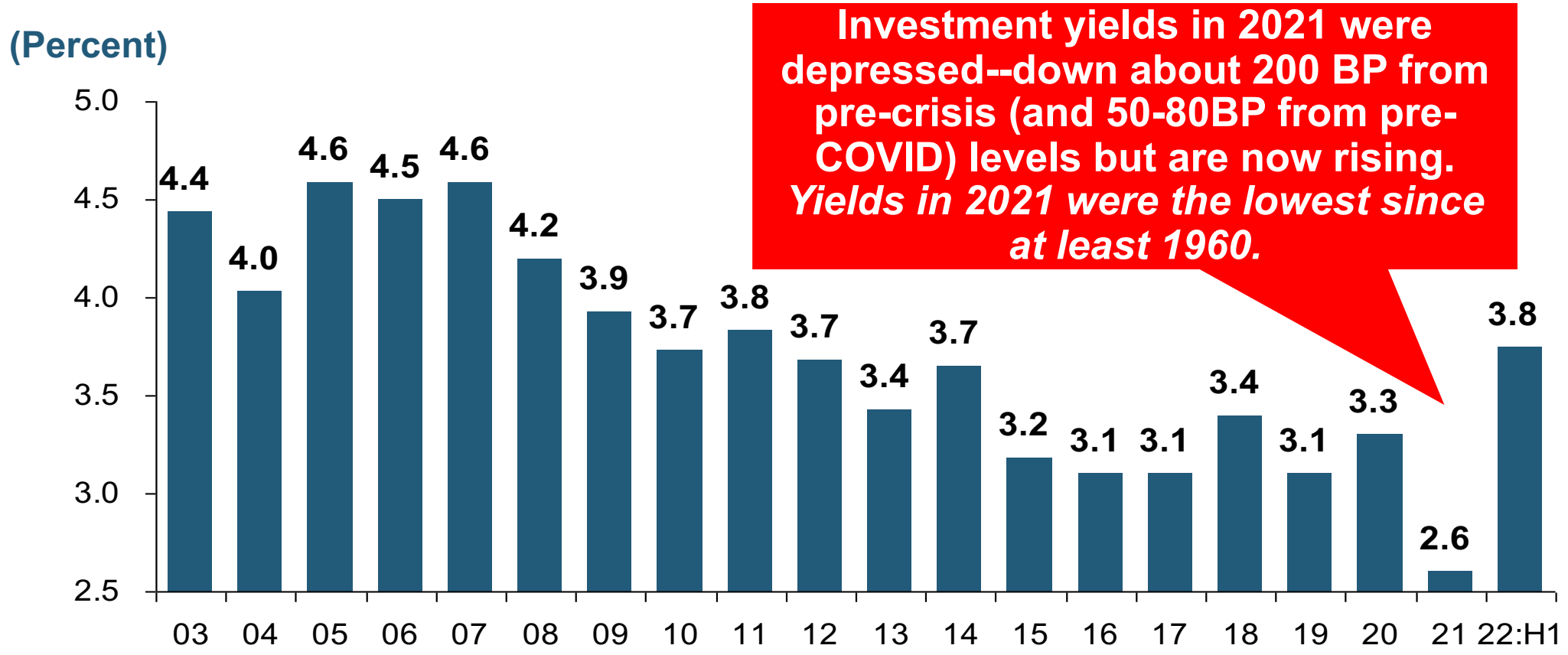


Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, Fed rate hikes should over time provide a modest boost to P/C insurer portfolio yields

*Monthly, constant maturity, nominal rates, through Feb. 2023.

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.

Net Investment Yield on Property/Casualty Insurance Invested Assets, 2007–2022:H1



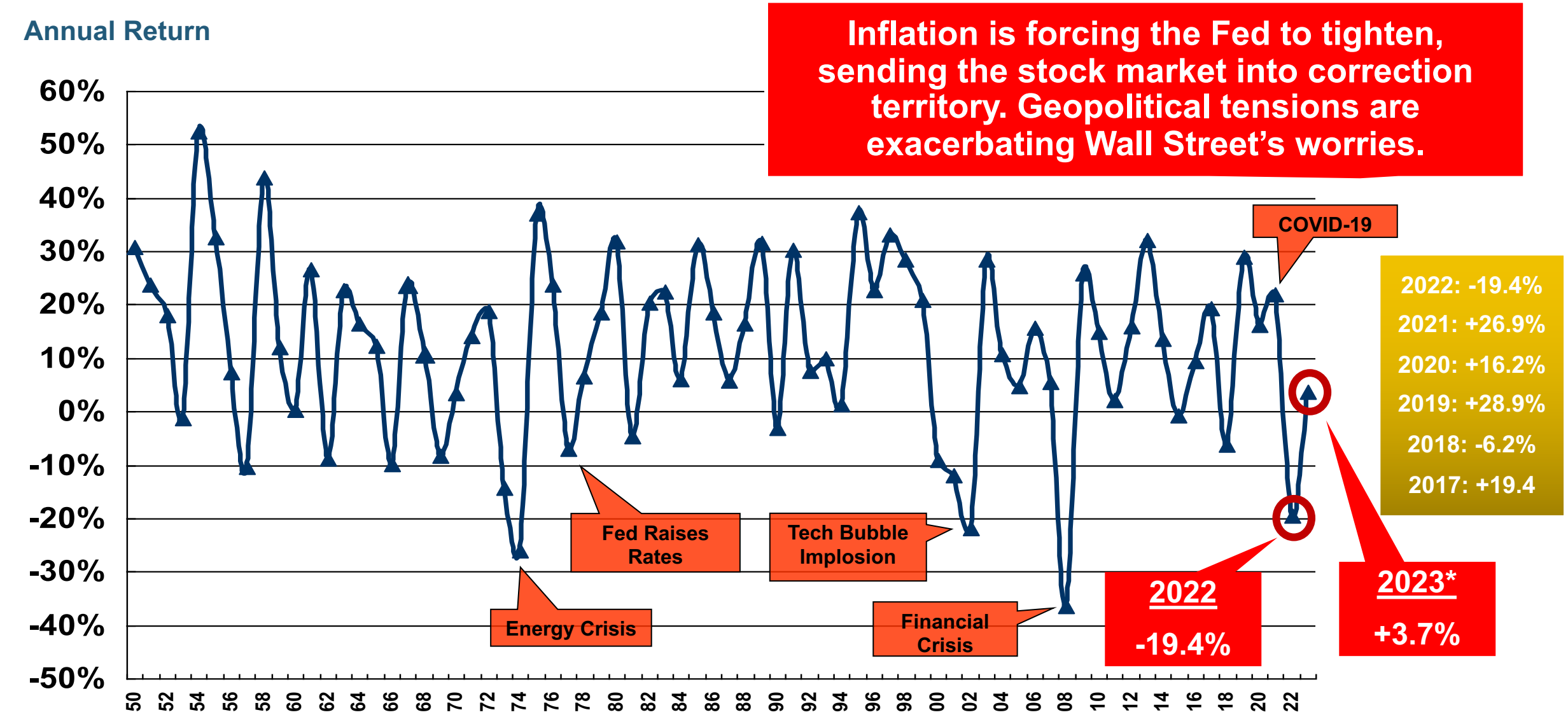
Investment yields in 2021 were depressed--down about 200 BP from pre-crisis (and 50-80BP from pre-COVID) levels but are now rising. ***Yields in 2021 were the lowest since at least 1960.***

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.

S&P 500 Index Returns, 1950–2023*



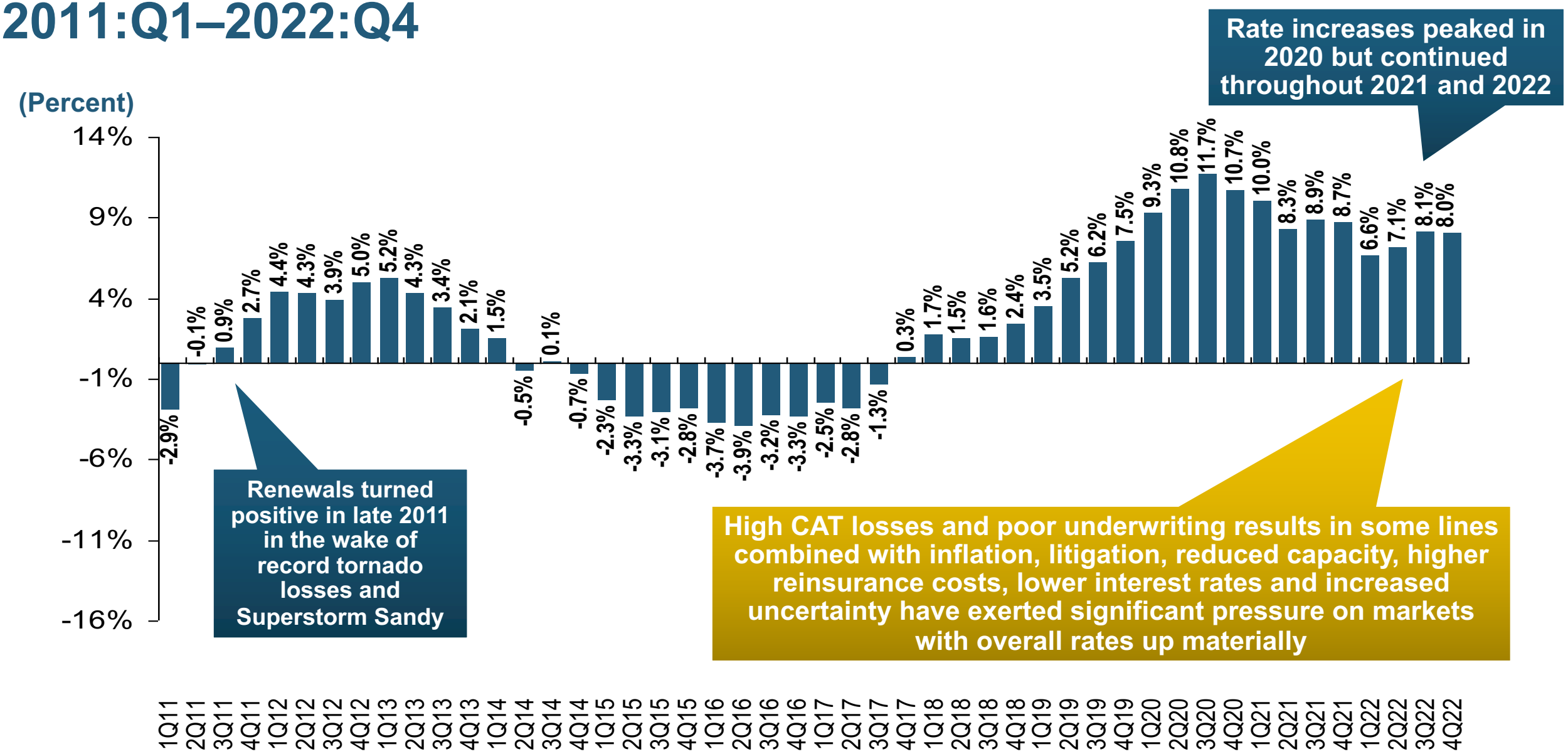
*Through Feb. 27, 2023.
Source: NYU Stern School of Business: http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html;
Center for Risk and Uncertainty Management, University of South Carolina.

Commercial Lines & Pricing Cyclicality

Economic and Tort Environment Create Pricing Pressure

57

CIAB: Average Commercial Rate Change, All Lines, 2011:Q1–2022:Q4

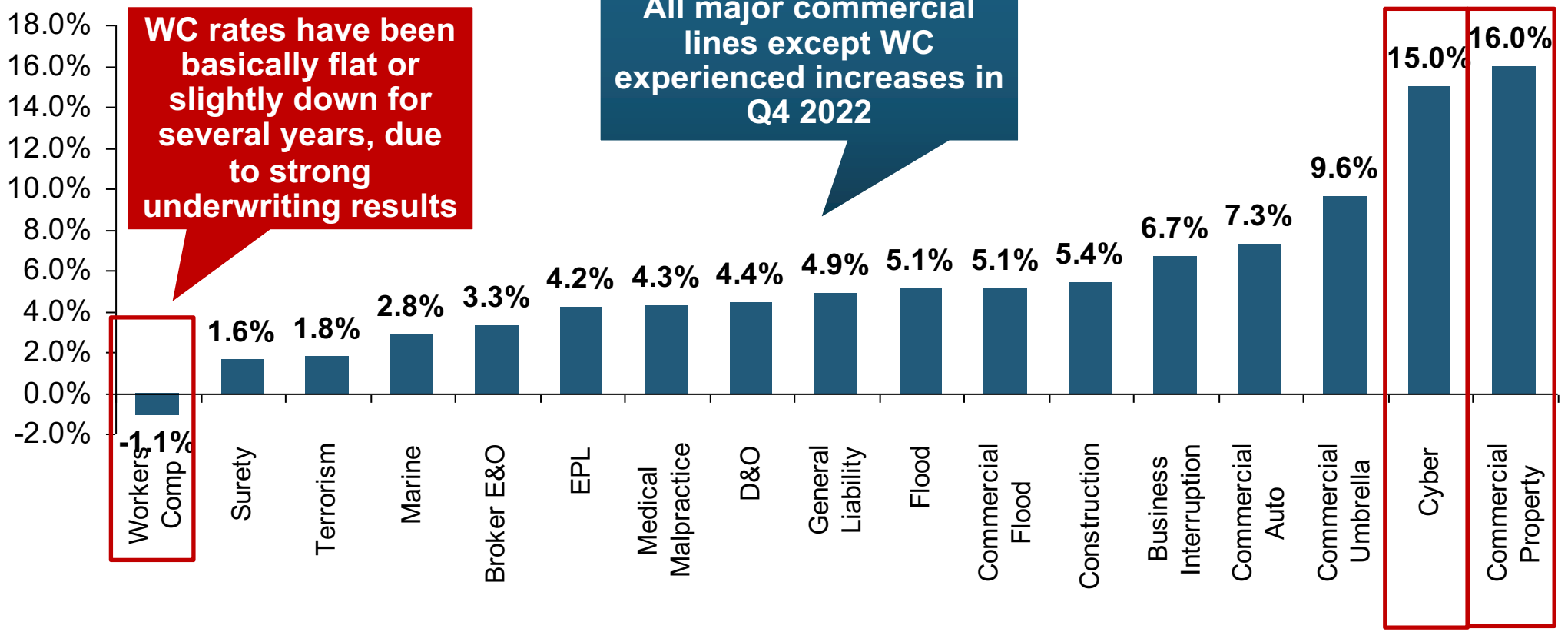


Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents & Brokers; Center for Risk and Uncertainty Management, Univ. of South Carolina.

Change in Commercial Rate Renewals, by Line: 2022:Q4

Commercial property is up sharply as CAT losses and inflation continue to take their toll, overtaking Cyber, which is up in response to major breaches in recent years.

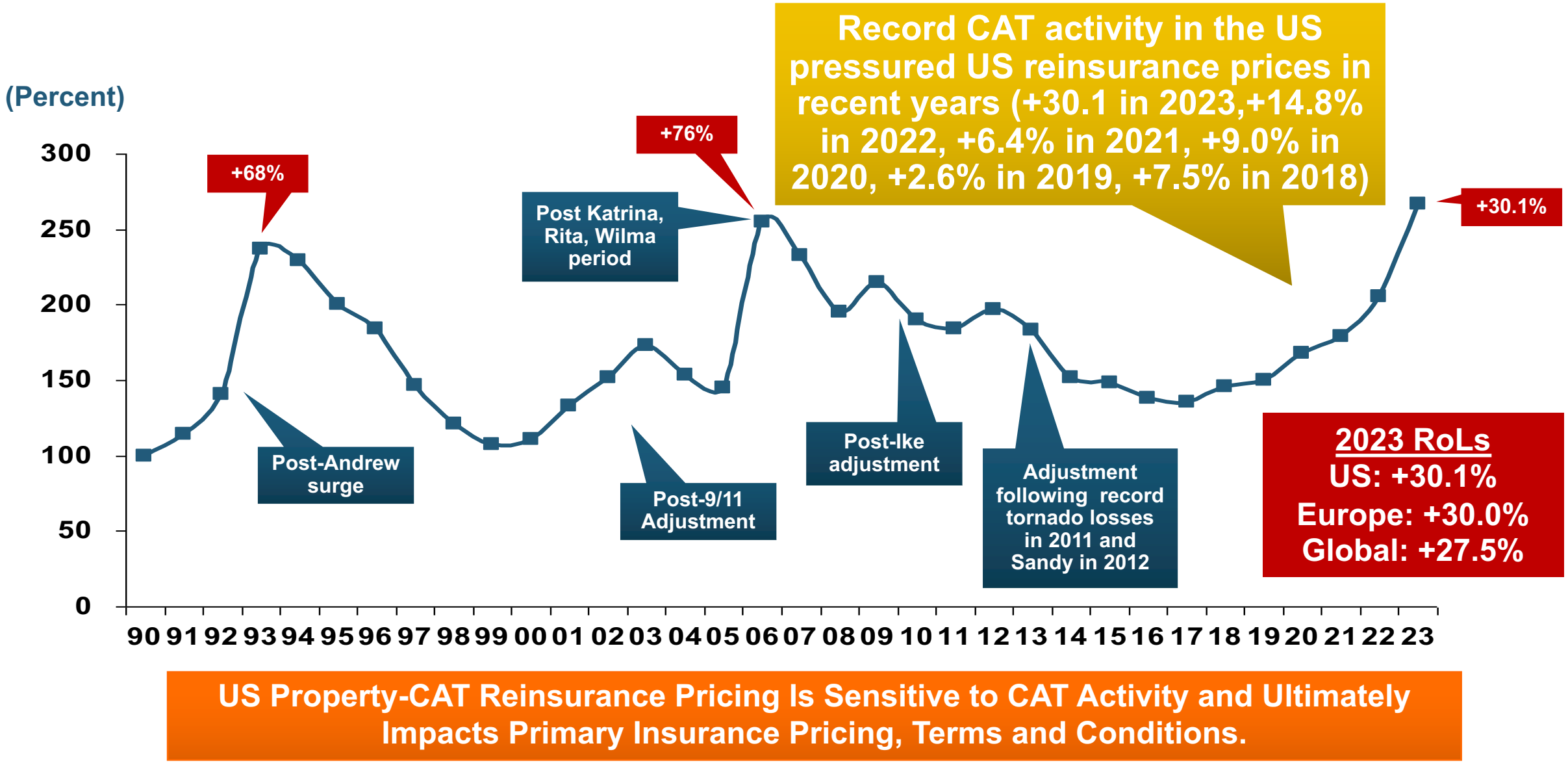
(Percent Change)



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.

US Property Catastrophe Rate-on-Line Index: 1990 – 2023*



US Property-CAT 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

The Risk(s) of Deglobalization

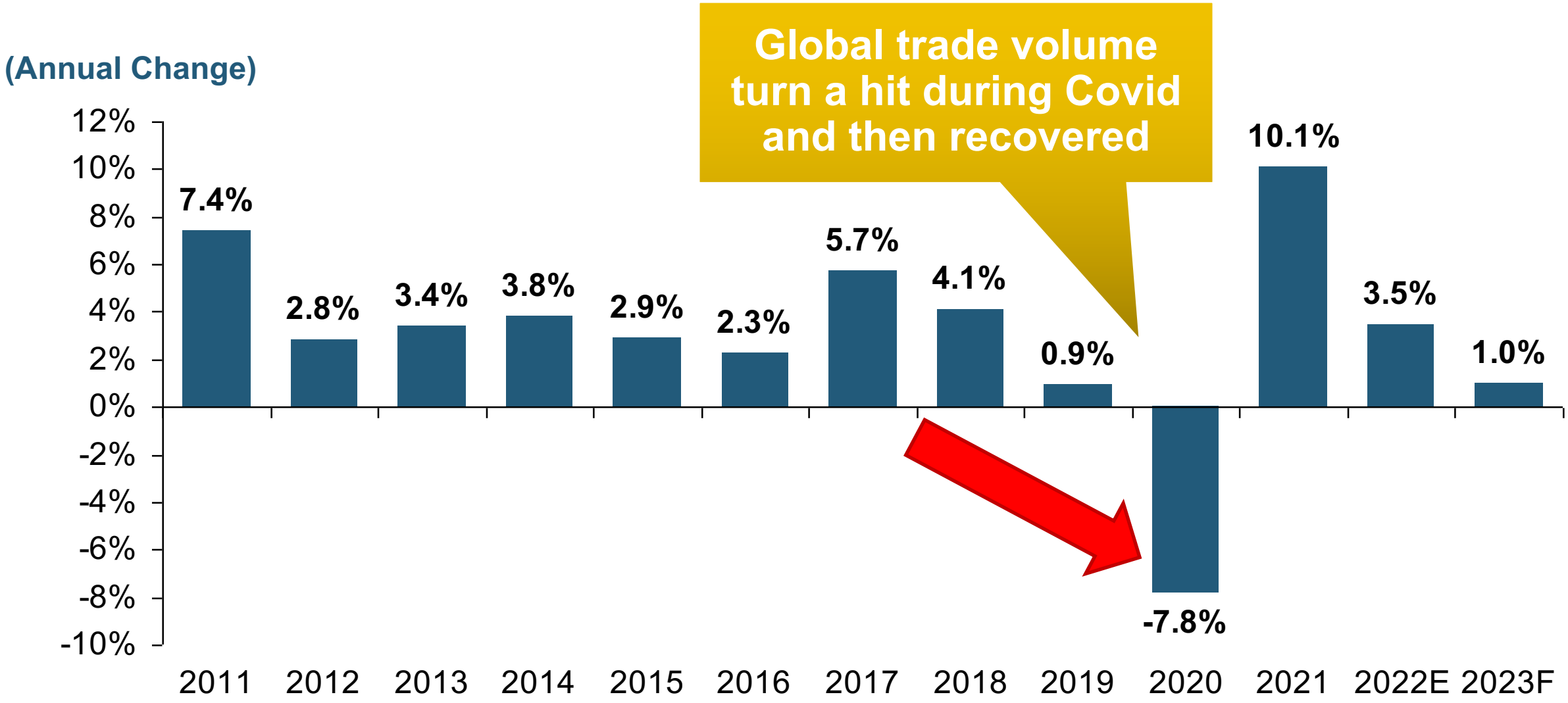
Deglobalization Is a Major Threat to Many Industries, Including (Re)Insurance

Reinsurance Is One of the Most Globalized of All Industries

Deglobalization: Perils and Promises

- 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
- The return of "Industrial Policy"?
  - Not new, but what will it look like in its new, 21st-century form?

Growth in Global Merchandise (Goods)Trade : 2011 – 2023F

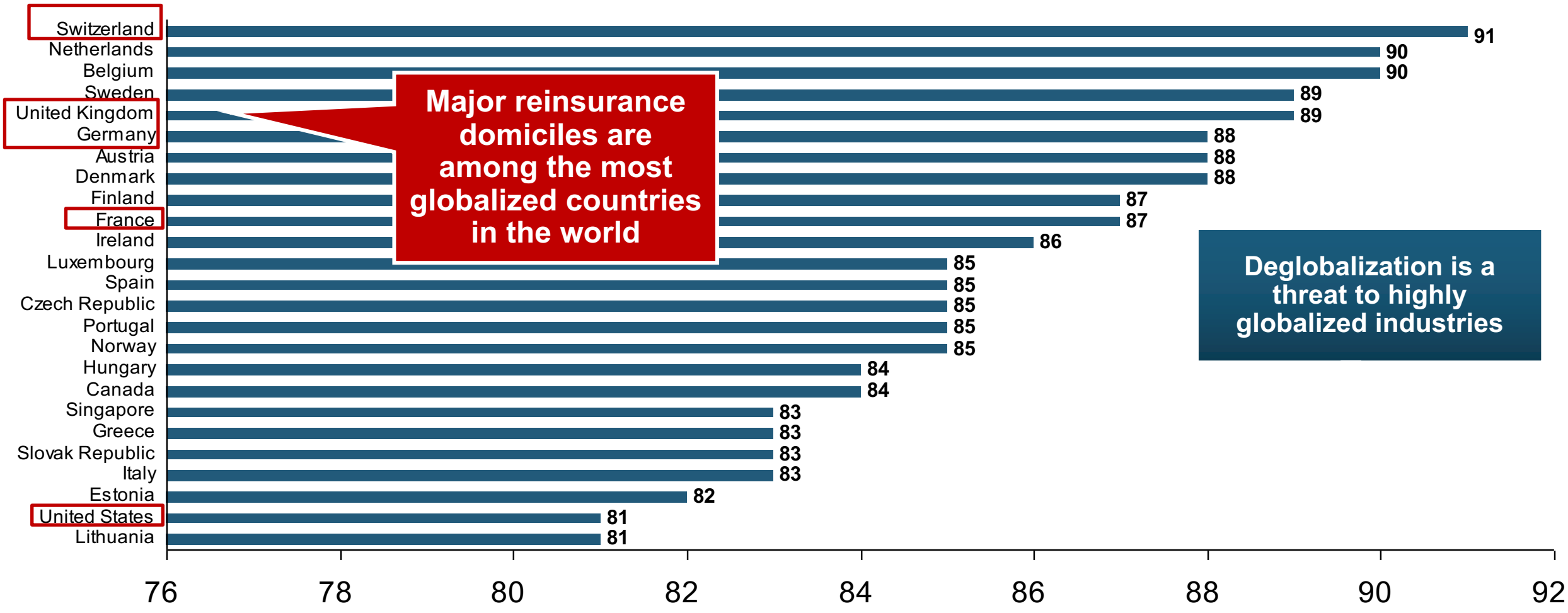


Source: IMF, *World Economic Outlook*, Oct. 2022 and Jan. 2023 Update.

Global Trade-to-GDP Ratio, 1970–2021 (latest available)

,
Source: Macrotrends from World Bank data: https://www.macrotrends.net/countries/WLD/world/trade-gdp-ratio;
Center for Risk and Uncertainty Management, University of South Carolina.

Top 25 Most Globalized Countries in the World, 2020*



*Composite index which includes factors related to economic, social and political globalization; Index includes rankings for 196 countries.

Source: ETF Zurich, KOF Swiss Economic Institute accessed at: https://kof.ethz.ch/en/forecasts-and-indicators/indicators/kof-globalisation-index.html; USC Center for Risk and Uncertainty Management.

The Siren Sound of Deglobalization…*Nationalist Economic Policies Are Often Cloaked in Attractive Economic Terms*

Economic Nationalist Pressures Persist, Prevailing

Multilateralist Ideals

Supply Chain Efficiency

Offshoring

Hands Off Industrial Policy

Information Interconnectivity

Regulatory Harmonization

Supply Chain Resiliency

Onshoring & Friendshoring

Hands On Industrial Policy

Data Protectionism

Regulatory Fragmentation

Nationalist Likelihoods

Source: Mehlman Consullting.

Deglobalization: Unambiguously Bad for (Re)Insurers

- Reinsurance itself is among the most global of all industries, so a "decoupling" of global economic activity is difficult to construe as a net positive
- Deglobalization Implies Increased…
  - Protectionism (tariffs, quotas, content requirements, etc.)
  - Nationalism
  - Balkanization
  - Implementation of industrial policy
  - Regulatory fragmentation
- Diminished economic integration→Greater propensity for (armed) conflict
- Weaponization of Natural Resources & Commodities→Resource-spawned conflicts
- Issues such as climate change much more difficult to address
- Inflationary—Benefits of the Law of Comparative Advantage are Diminished

Largest P/C and Life Insurance Companies, by Assets (2020)

Virtually all of the largest insurers in the world have a global presence.

Rank	Company	Country	Total assets (US$ Billion)
1	Allianz	Germany	1,261.9
2	Axa	France	950.6
3	Prudential Financial	United States	940.7
4	Ping An Insurance	China	883.9
5	Berkshire Hathaway	United States	773.7
6	MetLife	United States	795.1
7	Nippon Life	Japan	776.7
8	China Life Insurance	China	776.4
9	Legal & General	United Kingdom	774.8
10	Manulife Financial	Canada	688.8
11	Assicurazioni Generali	Italy	669.1
12	Aviva	United Kingdom	651.6
13	Japan Post Insurance	Japan	636.8
14	American International Group	United States	586.5
15	Dai-ichi Life	Japan	577.1
16	Aegon N.V.	Netherlands	546.5
17	CNP Assurances	France	543.7
18	Credit Agricole Assurances	France	536.8
19	JA Kyosai	Japan	531.6
20	Life Insurance Corporation	India	520.5
21	Prudential plc	United Kingdom	516.1
22	Great-West Lifeco	Canada	469.8
23	Zurich Insurance Group	Switzerland	439.3
24	Meiji Yasuda Life	Japan	417.2
25	New York Life Insurance Company	United States	414.3

Source: A.M. Best 2022 ranking of largest insurance companies in the world by non-banking from Wikipedia at: https://en.wikipedia.org/wiki/List_of_largest_insurance_companies; Risk and Uncertainty Management Center, University of South Carolina.

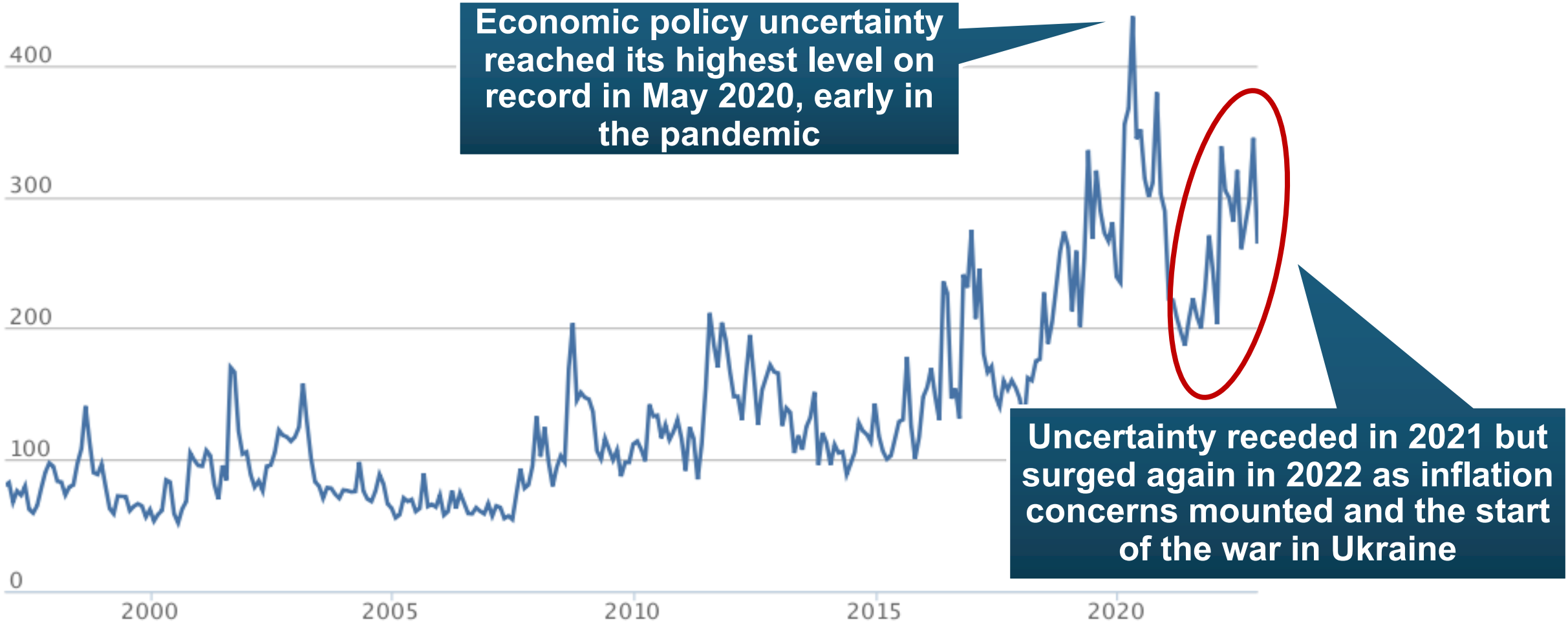
Risk Is Everywhere:

Geopolitical and Economic Risk Are Just a Fraction of the World's Most Pressing Concerns

Managing Short-Term and Long-Term Risks Is a Global Challenge with Many Implications Challenges for Insurers

69

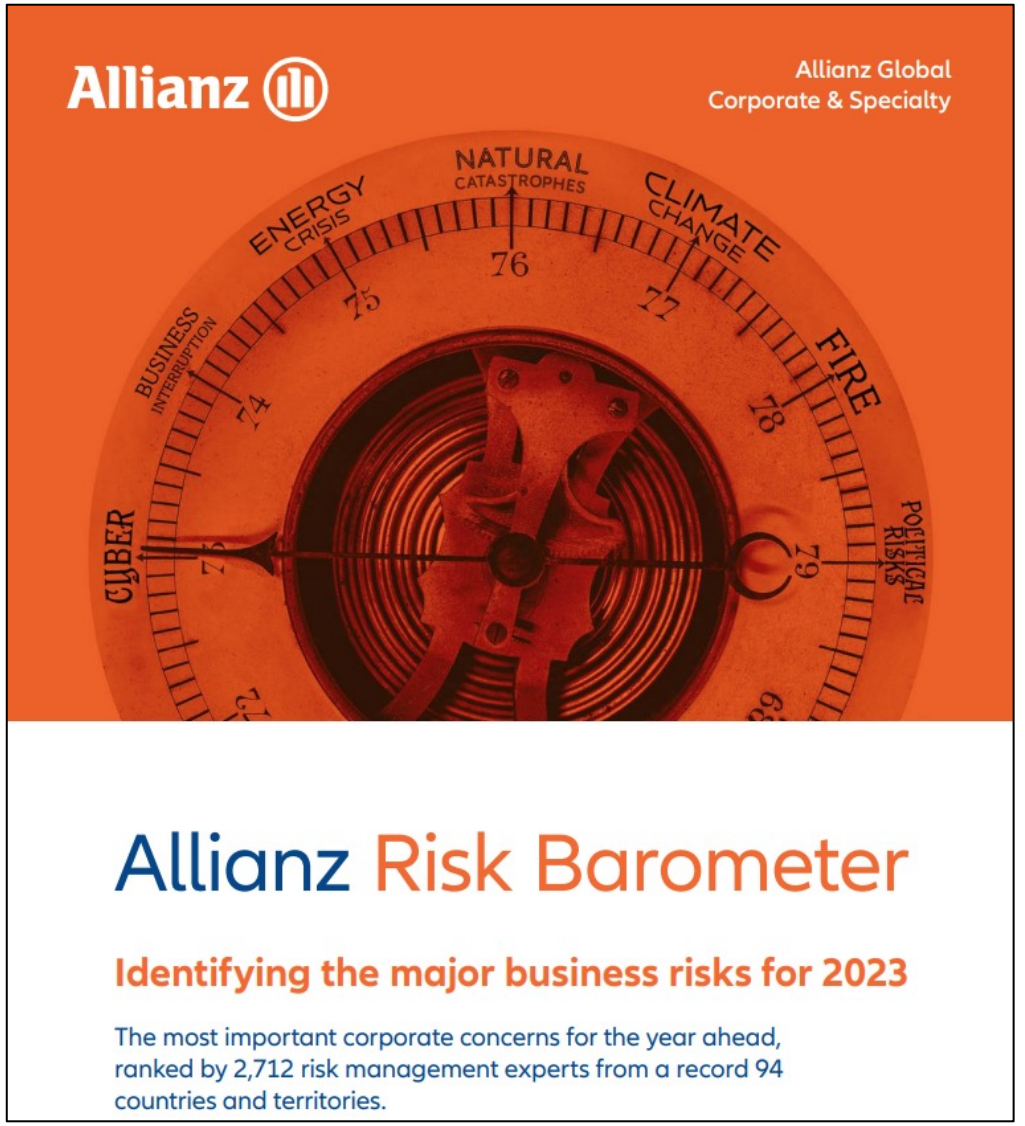
Global Economic Policy Uncertainty Index: Global Economic Uncertainty Remains Elevated in the Post-Pandemic World, Jan. 1997 – Dec. 2022



Source: *Economic Policy Uncertainty*, PolicyUncertainty.com accessed Feb. 20, 2023 at: http://www.policyuncertainty.com/index.html

Allianz Risk Barometer: Top 10 Most Important Business Risks for 2023

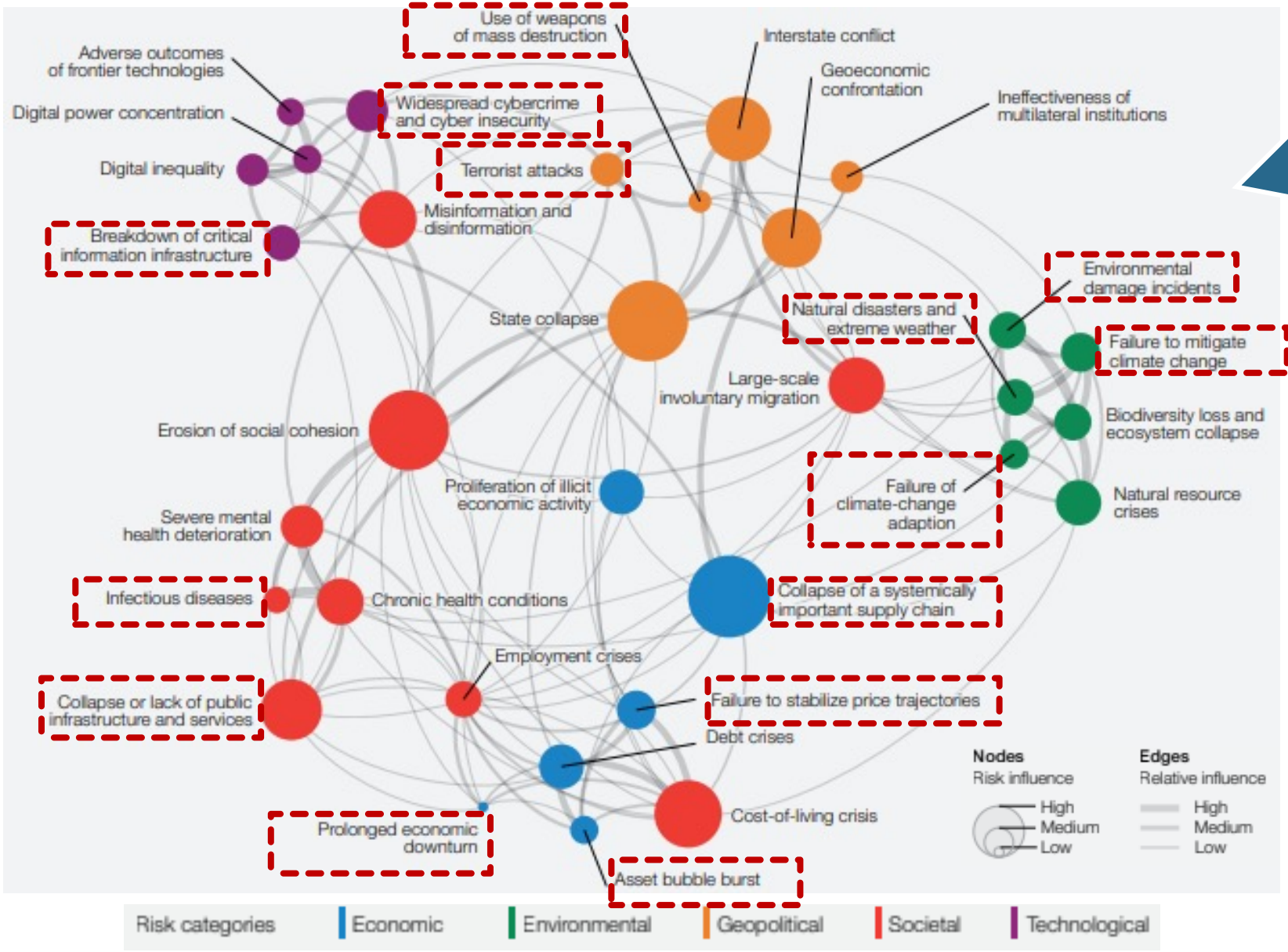
1. Cyber Incidents
2. Business Interruption (incl. supply chain disruption)
3. Macroeconomic Developments (e.g., inflation)
4. Energy Crises
5. Changes in Legislation and Regulation (e.g., protectionism)
6. Natural Catastrophes
7. Climate Change
8. Shortage of Skilled Workforce
9. Fire, Explosion
10. Political Risks & Violence



Global Risks Ranked by Severity: 2 and 10-Year Horizons

Sources: World Economic Forum, *2023 Global Risks Report*, accessed at: https://www3.weforum.org/docs/WEF_Global_Risks_Report_2023.pdf ; Risk and Uncertainty Management Center, University of South Carolina.

Global Risks Landscape 2023: Interconnections Map

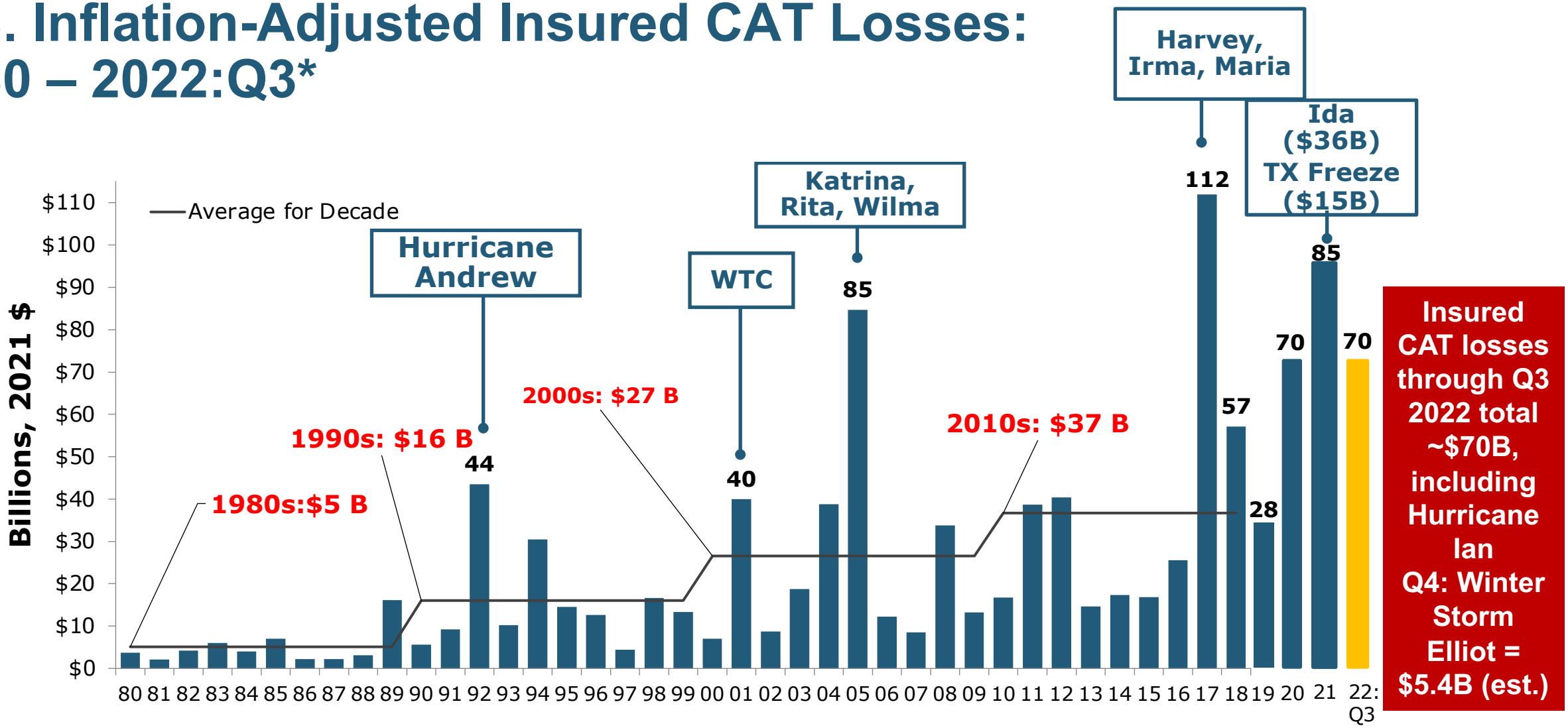


- **Many global risks have direct or indirect consequences for insurers**
- **Should insurers play a leading role in mitgating these risks?**

= Risk with potential material, direct impact for (re)insurers

Sources: World Economic Forum, *2023 Global Risks Report*, accessed at: https://www3.weforum.org/docs/WEF_Global_Risks_Report_2023.pdf ; Risk and Uncertainty Management Center, University of South Carolina.

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.

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, inadequate investment in renewables, etc.) will raise cost

(e.g., Russia dependence)

ENERGY NATIONALISM

The Use of Energy Resources to Exert Political and Economic Influence Is on the Rise

Nationalism and Energy Are a Volatile Combination

80

Energy Nationalism—Back Again

- **The United States is using is newfound energy riches to restructure the global energy hierarchy**
  - The rapid transition from a net energy importer to a major exporter has:
    - Reduced dependence on volatile sources in the Middle East and greatly weakened the OPEC cartel
    - Allowed the US to gain leverage over Iran, Russia, Saudi Arabia and as well as “thorns in the side” such as Venezuela
    - Allowed the US to insert itself into Western Europe’s relationship with Russia

- **Russia itself seeks to use its energy resources to exert greater influence in European affairs**
  - **Nord Stream 2 pipeline**

This slide is not new. I created for a presentation I gave at the Onshore Energy Conference in London, November 2018

SUMMARY

- The P/C Insurance Industry Remains Strong, Stable, Sound and Secure
- A Shallow Recession is Increasingly Likely Beginning in H2 2023
- Inflationary Pressures Will Persist in 2023, But Will Subside (Peak Reached in June 2022)
- Loss Cost Challenges Remain but Should Ease in 2023—Inflation, Supply Chain
- Asset Price Volatility Will Persist as Inflation Uncertainty Continues
- Capacity is down globally and will take time to recover
- Higher Interest Rates Will Provide a Modest Tailwind for Investment Income
- Geopolitical Concerns Remain High→ Interconnectedness/Globalization Threatened
- Immediate P/C Concerns: Capacity, CATs, Inflation→Rate/Reserve Adequacy, ITV

UNIVERSITY OF
SOUTH CAROLINA
Darla Moore School of Business

Thank you for your time and your attention!

Twitter: twitter.com/bob_hartwig

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Download at www.uscriskcenter.com