P/C Insurance at the Economic Crossroads:
Trends, Challenges & Opportunities

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

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P/C Insurance Overview & Outlook: Outline

- P/C Financial Overview & Outlook in the Post-COVID, High-Inflation Era
  - Premium Growth
  - CAT Loss Update/Reinsurance
  - Underwriting Performance
  - Capital and Capacity
- Economic Overview & Outlook—Impacts for P/C Insurers
  - Growth, Employment, Inflation and Recession
  - Banking Debacles
- Investment Environment
  - Yield trends and outlook
- Inflation: Where it Is Headed & What It Means for P/C Insurers
  - Impacts on claim severities and loss ratios
  - Long-term inflation considerations
- Tort System Abuse/Social Inflation
- Summary

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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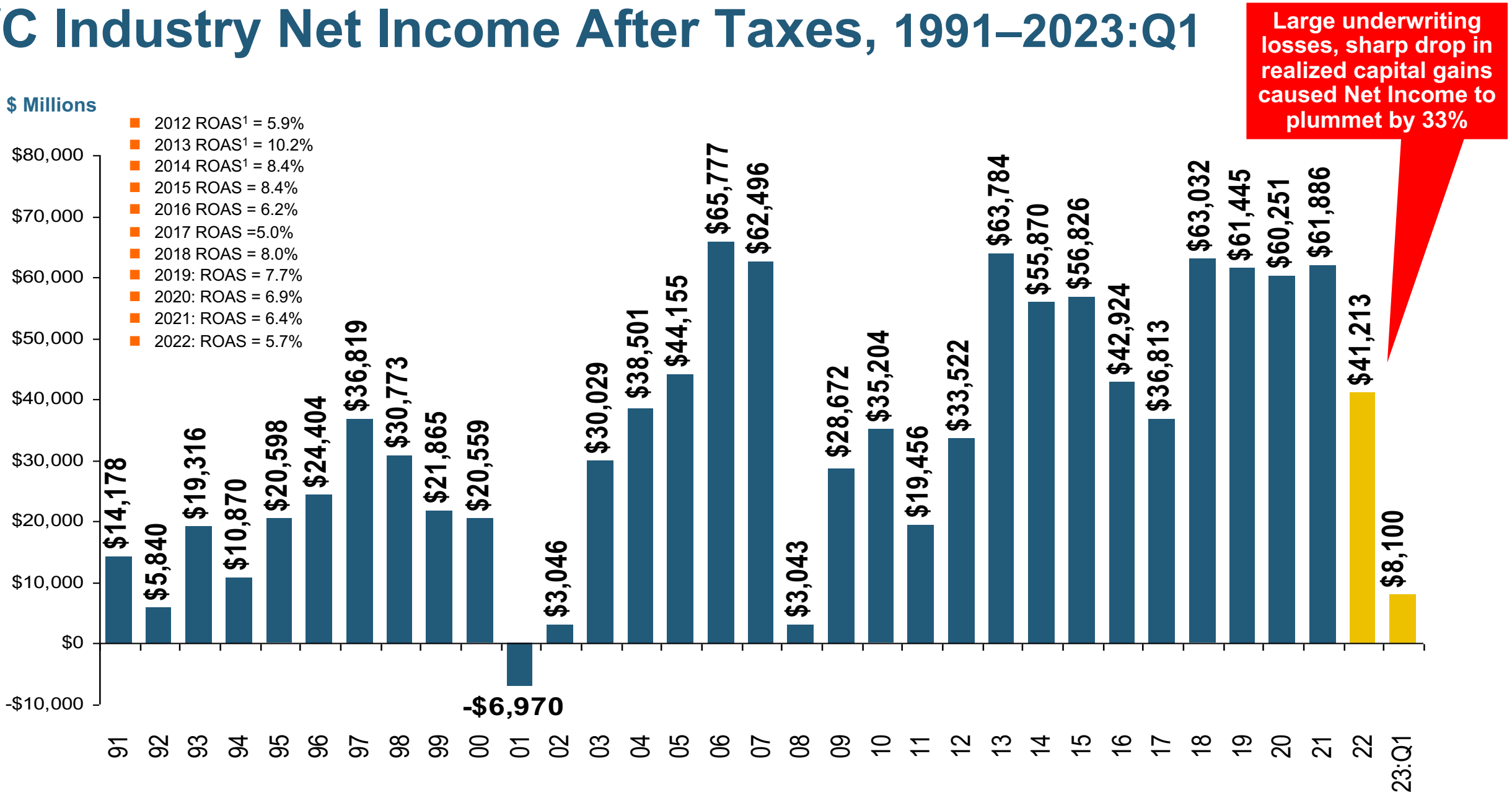
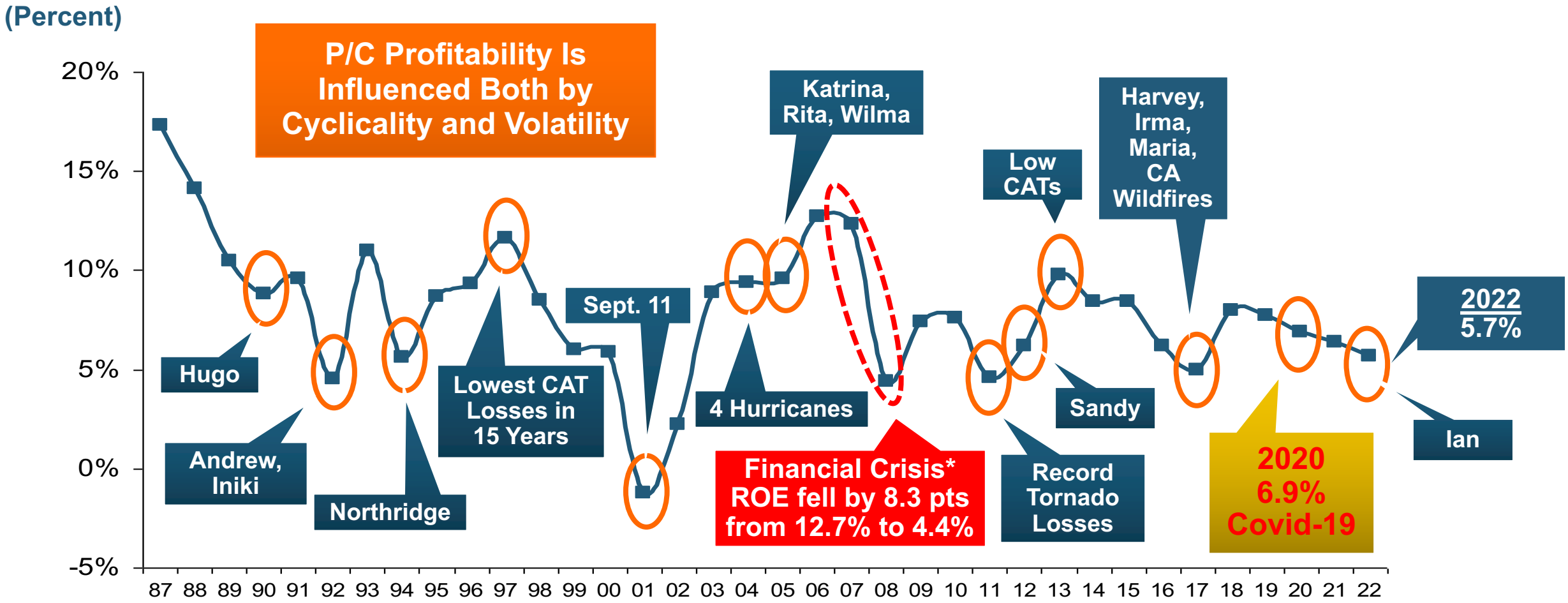
P/C Industry Net Income After Taxes, 1991–2023:Q1



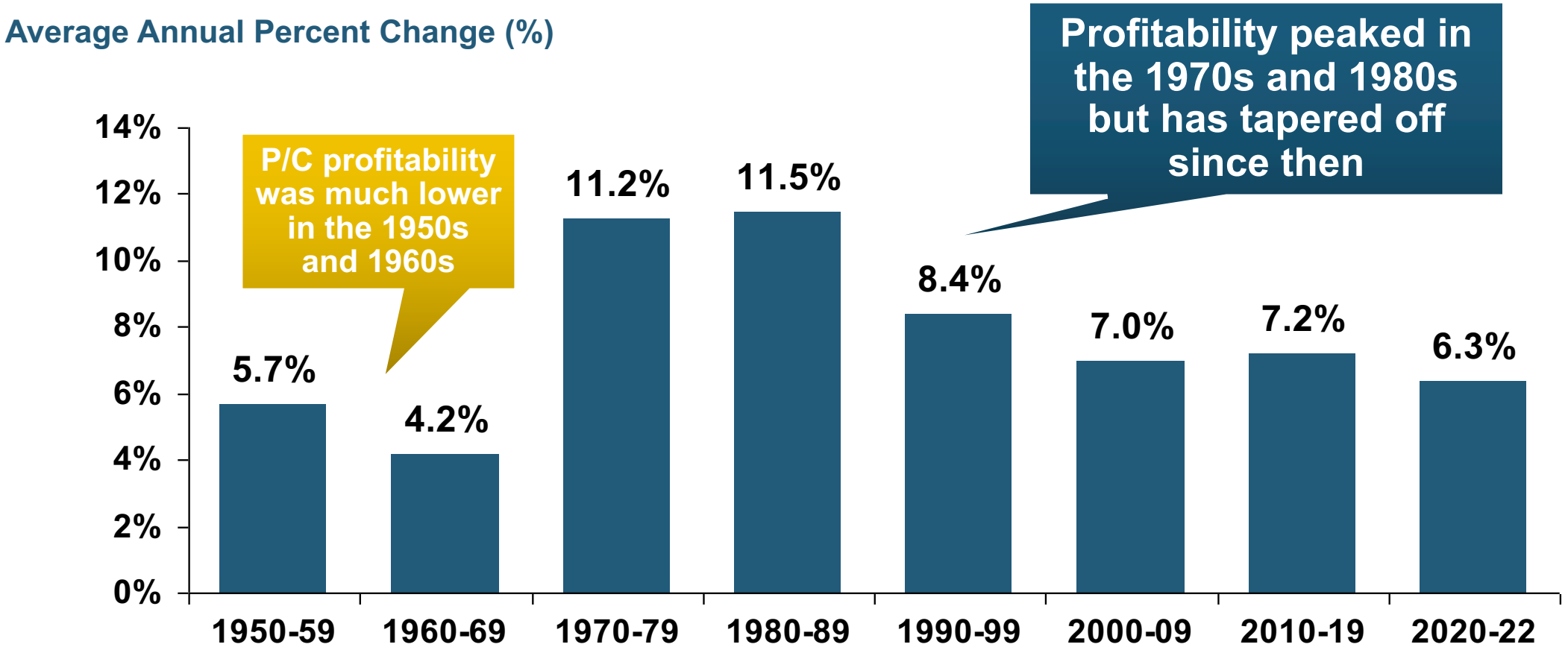
*ROE figures are GAAP; [1]Return on avg. surplus. Excludes Mortgage & Financial Guaranty insurers for years (2009-2014).
Sources: A.M. Best, ISO, APCIA.

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



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

Average ROE for the P/C Insurance Industry by Decade, 1950s – 2020s



Profitability Has Declined since the highs of the 1970s and 1980s, and is approaching its lowest levels since the 1950s

Sources: University of South Carolina, Risk & Uncertainty Management Center

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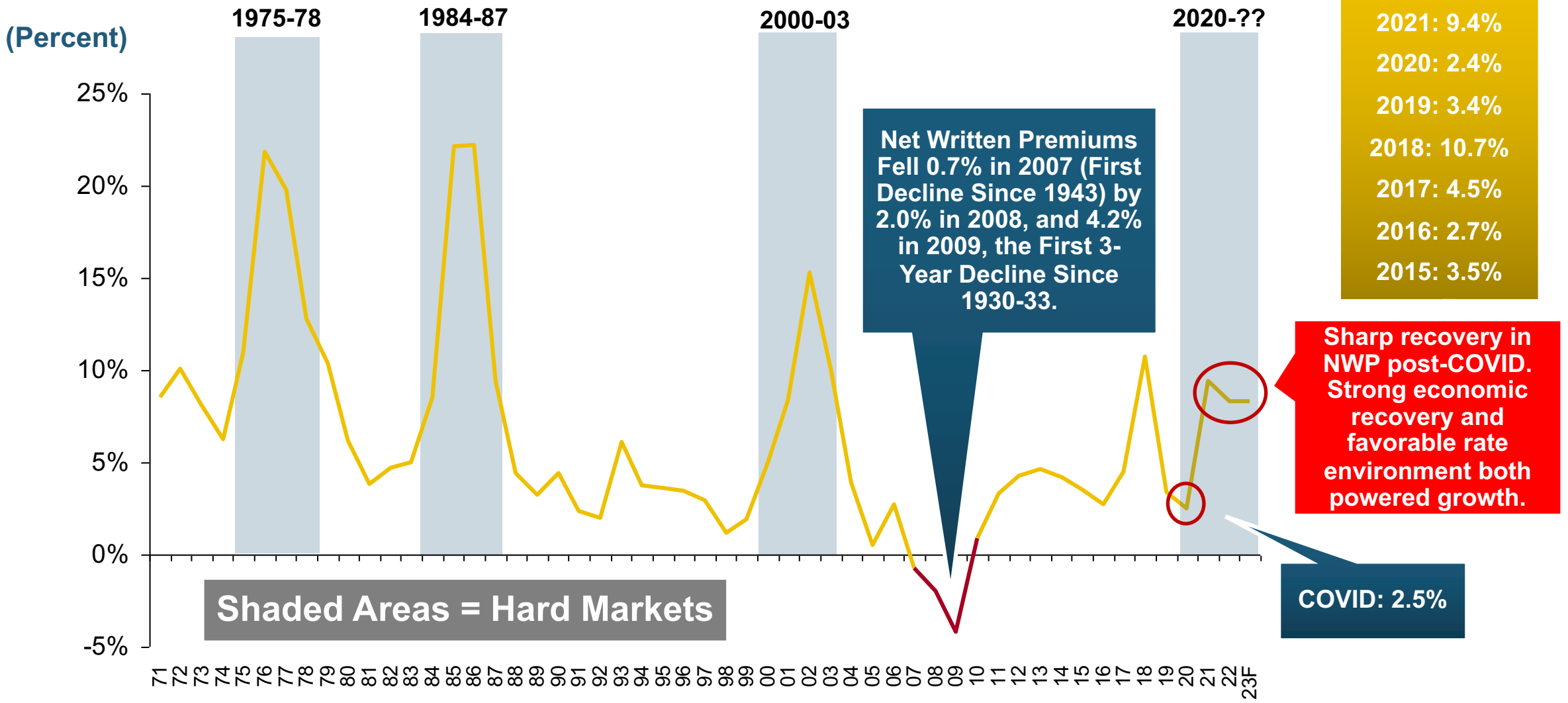
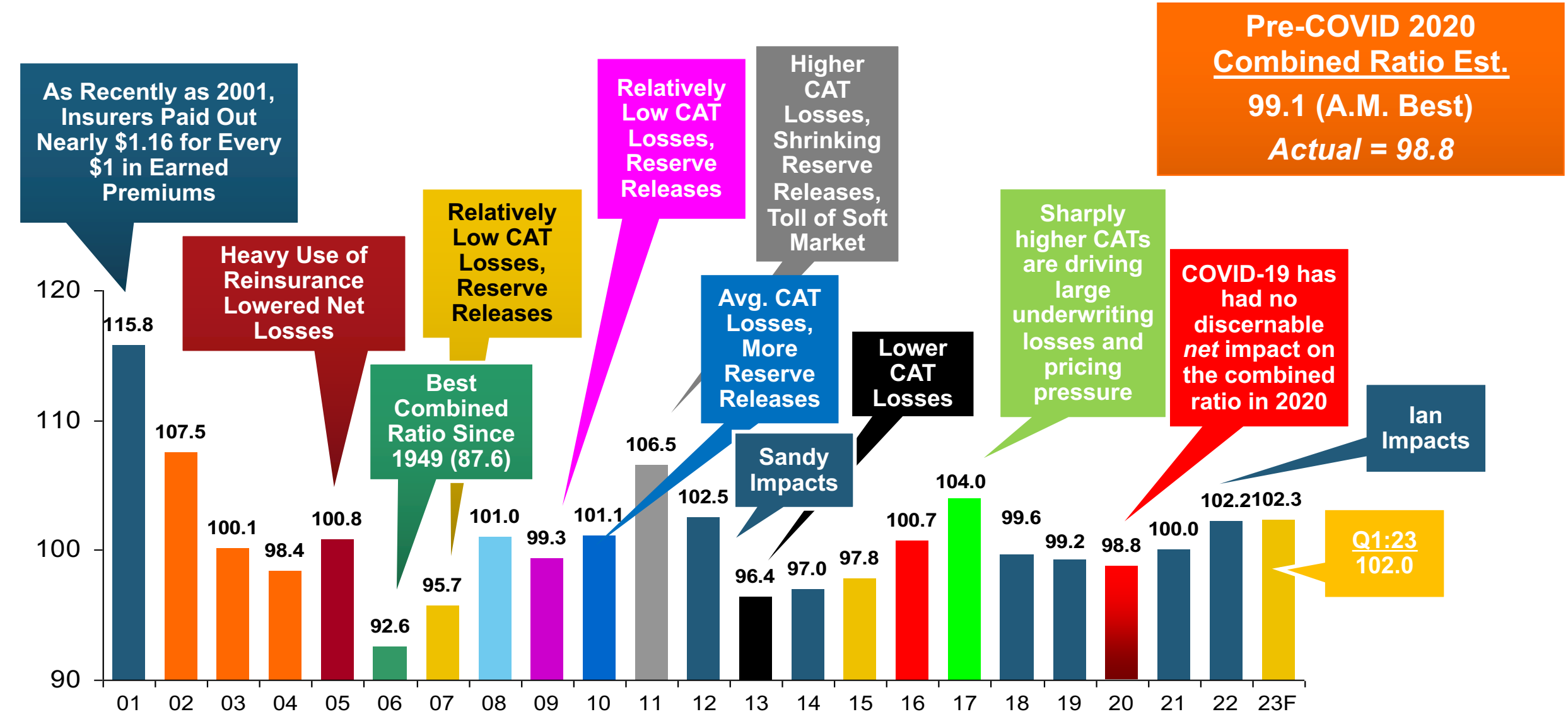
Net Written Premium Growth (All P/C Lines): Annual Change, 1971–2023F



NOTE: Shaded areas denote “hard market” periods.
Sources: A.M. Best (1971-2013, 2023F), ISO (2014-21); Risk & Uncertainty Management Center, Univ. of South Carolina

P/C Insurance Industry Combined Ratio, 2001–2023F*



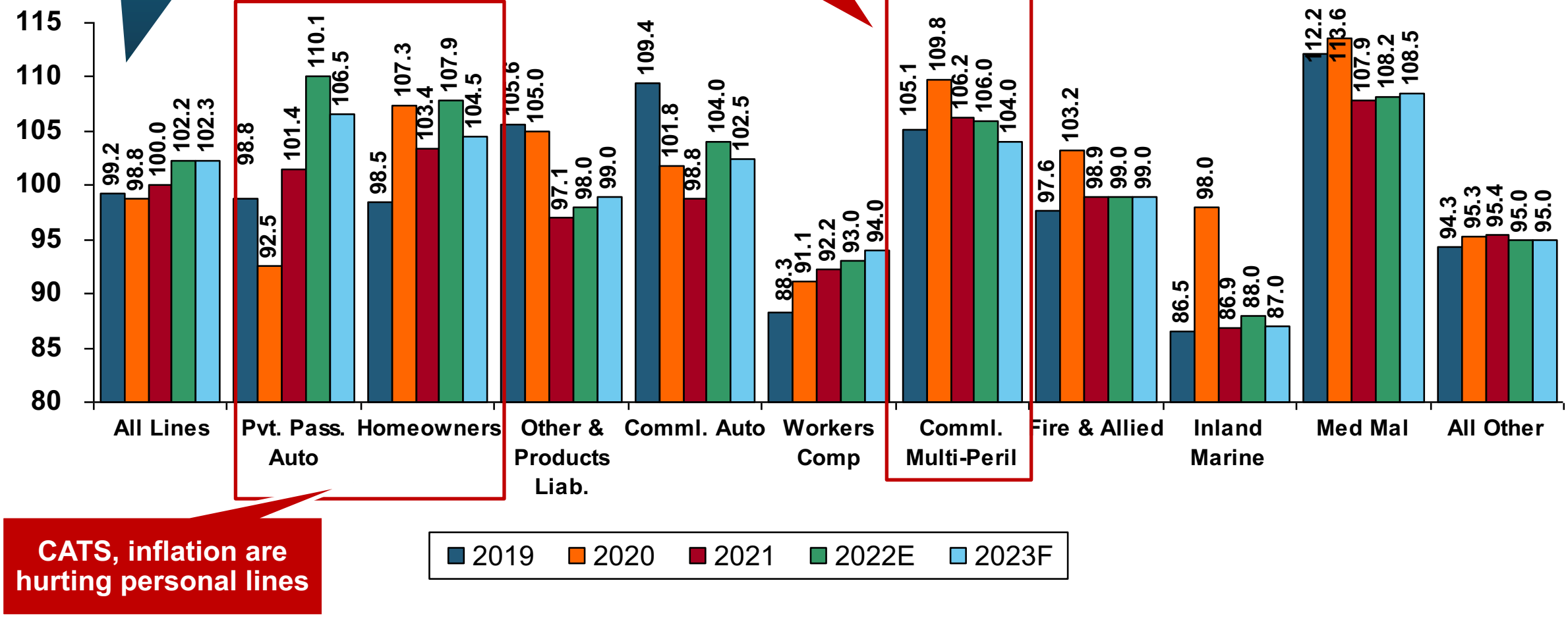
*Excludes Mortgage & Financial Guaranty insurers 2008–2014.
Sources: A.M. Best, ISO (2014-2024F).

Combined Ratios by Line: 2019 – 2023F

High CAT losses and inflation are pushing up combined ratios

Commercial MP has struggled amid inflation, CATs

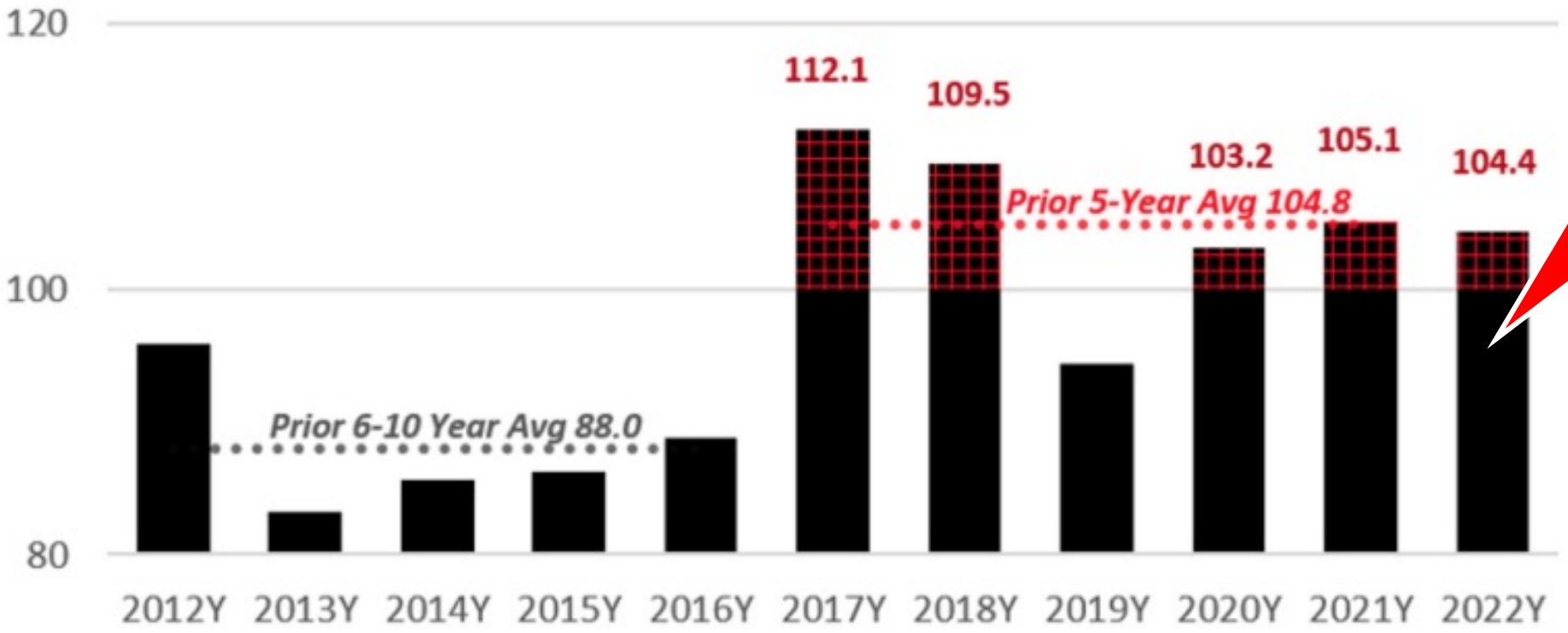
Inflation will continue to pressure combined ratios in 2023



CATS, inflation are hurting personal lines

Source: A.M. Best *Review & Preview* (2023 forecasts as of Mar. 2023); Univ. of South Carolina, Risk and Uncertainty Management Center.

Homeowners Insurance Combined Ratio: 2012 – 2022

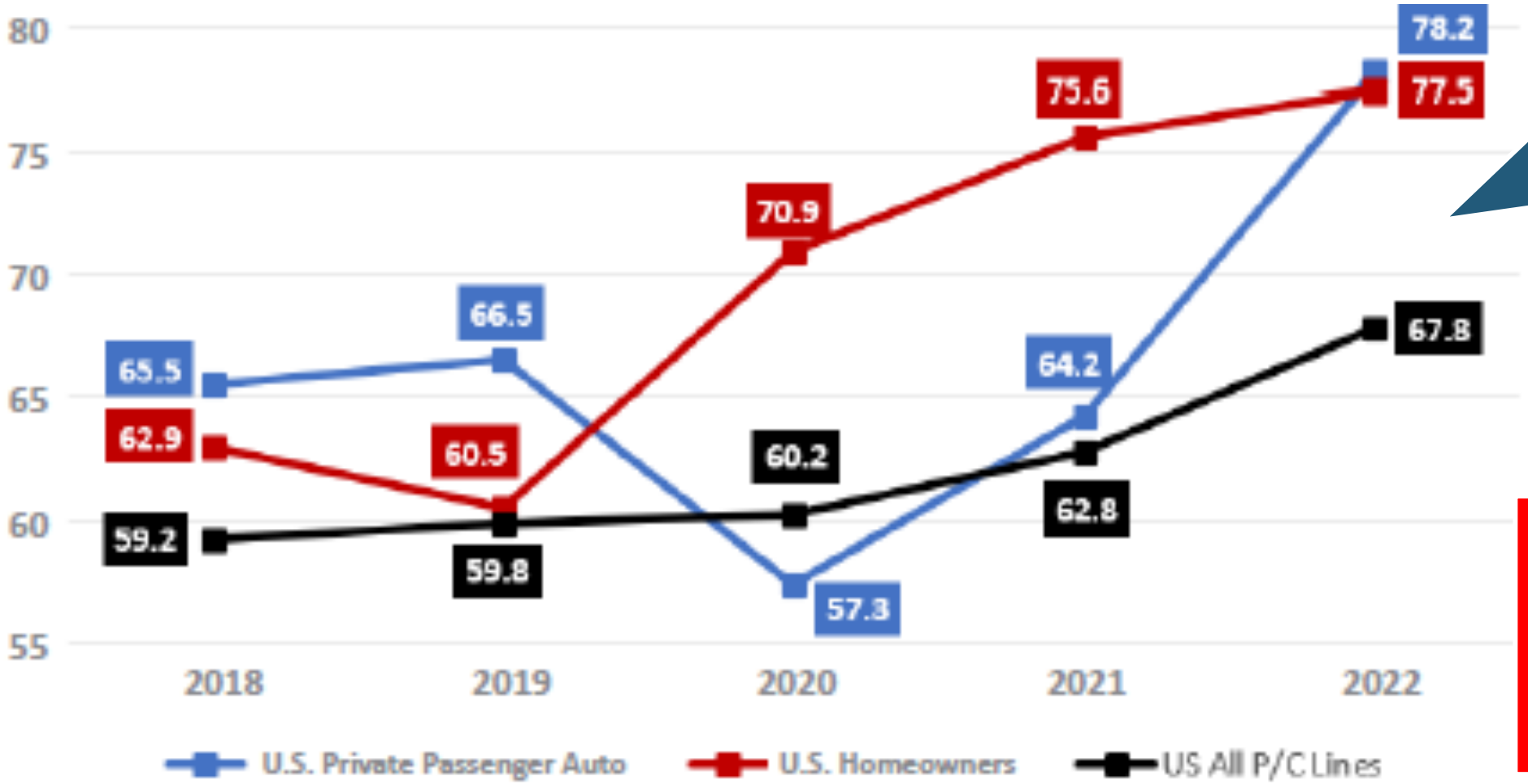


The average homeowners combined ratio over the past 6 years was nearly 17 points higher than the prior 5 years

Inflation and (near) record CAT losses are pressuring property claim losses

Source: APCIA using S&P Global Intelligence

Direct Loss Ratios for Personal Lines: 2018 – 2022*



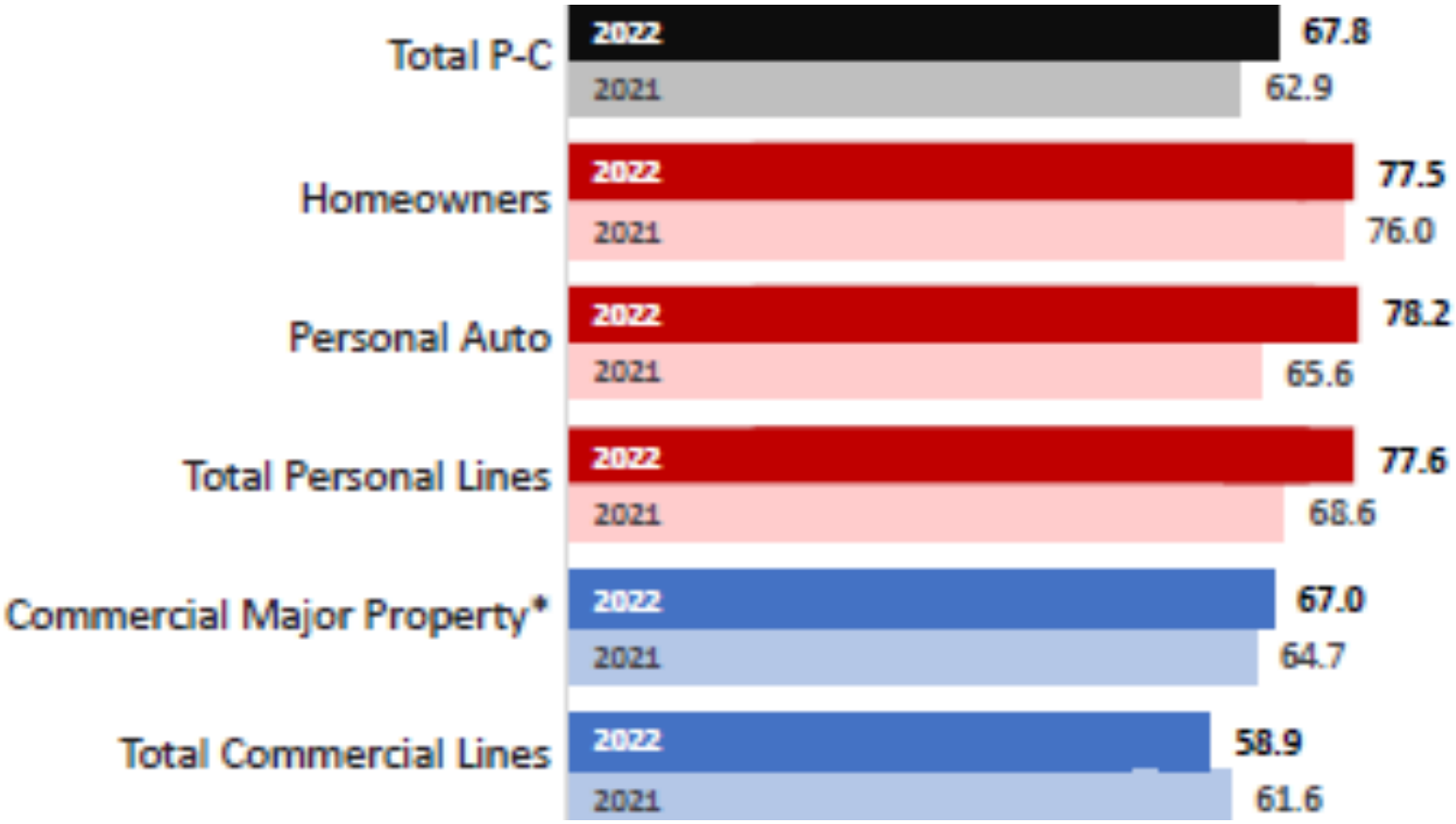
Homeowners and Personal Auto loss ratios rose much faster than All P/C lines over the past few years

Inflation and (near) record CAT losses are pressuring property claim losses

*Through first 9 months of 2022

Source: APCIA using A.M. Best and S&P Global Intelligence data.

Direct Loss Ratios for Select Lines: 2018 – 2022*



Commercial Property also experienced sharp loss ratio increases in 2022

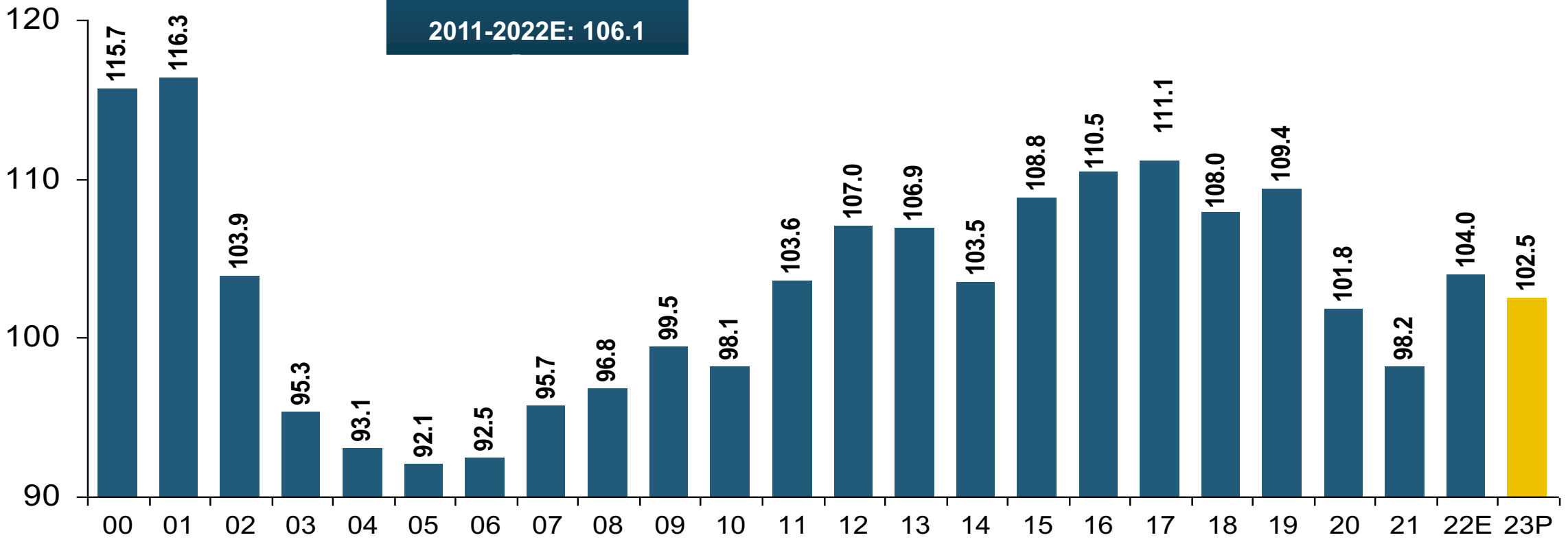
Inflation and (near) record CAT losses are pressuring property claim losses

*Through first 9 months of 2022
Source: APCIA using A.M. Best and S&P Global Intelligence data.

Commercial Auto Combined Ratio, 2000–2022

Commercial Auto has been one of the most challenging lines for P/C insured since 2011

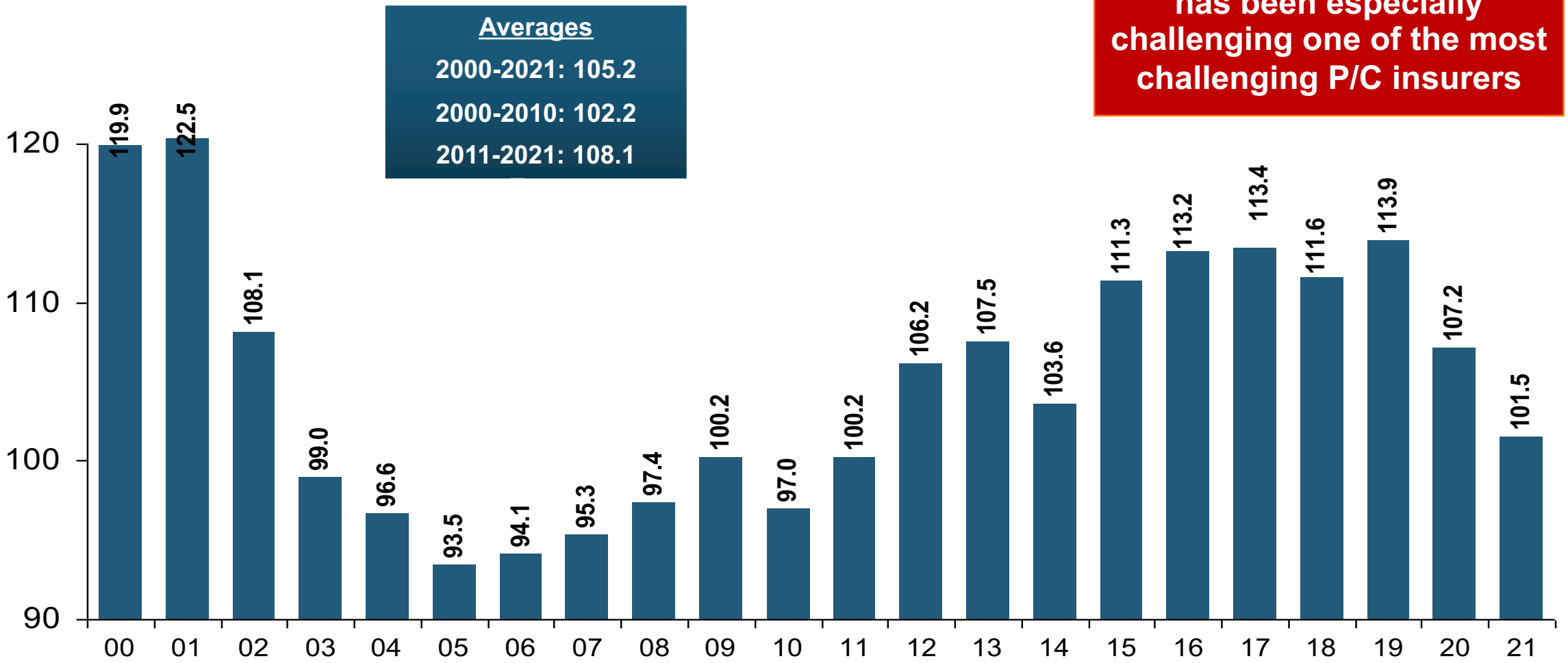
Averages
2000-2022E: 103.1
2000-2010: 99.8
2011-2022E: 106.1



Sources: S&P Global Market Intelligence (2000-2021). A.M. Best (2022E-2023P).

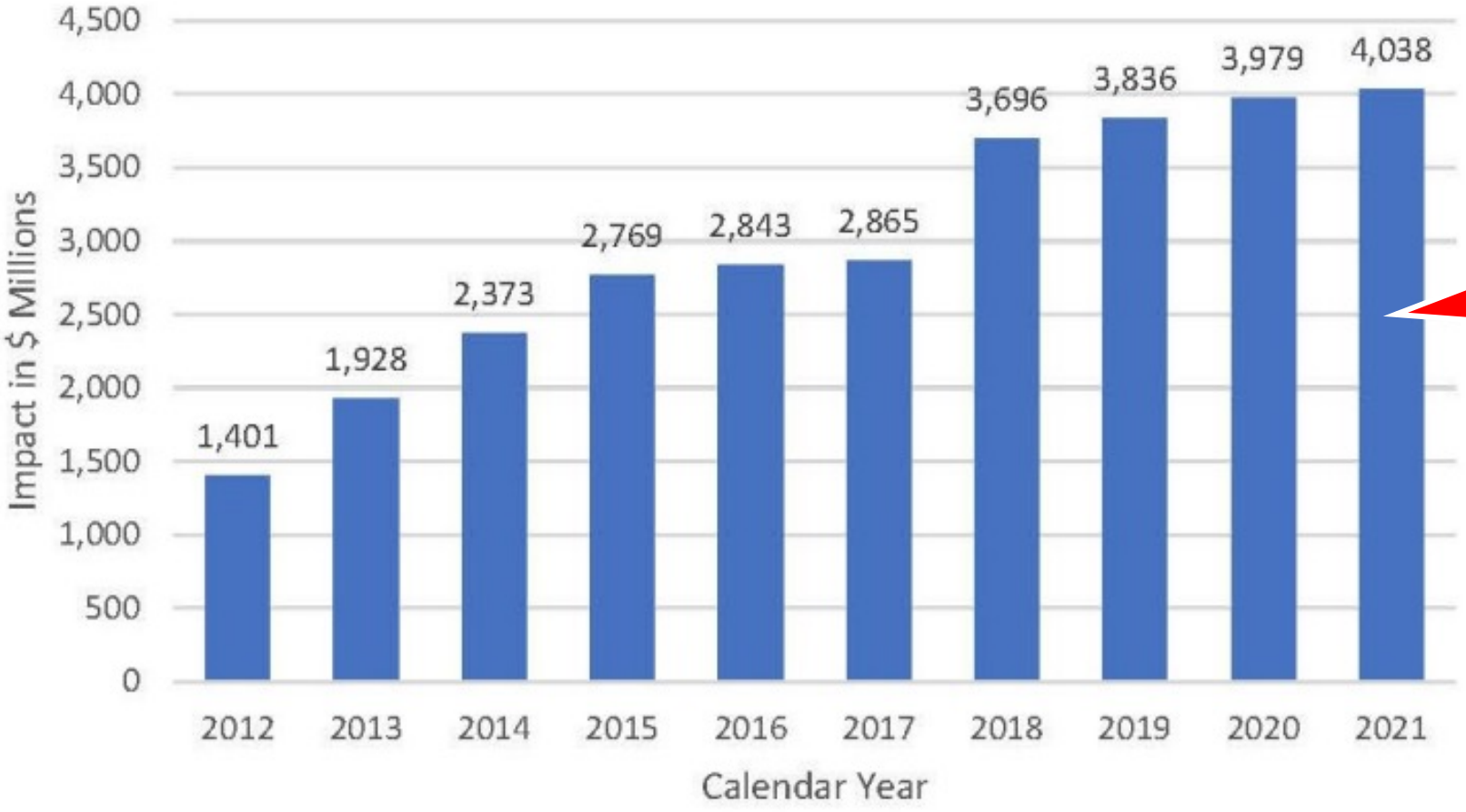
Commercial Auto *Liability* Combined Ratio, 2000–2021

Commercial Auto Liability has been especially challenging one of the most challenging P/C insurers



Sources: S&P Global Market Intelligence (2000-2021).

Estimate of Social Inflation, Commercial Auto Liability, 2012-2021



Legal system abuse is estimated to cost commercial auto insurers billions each year, which combined ratio and rates high

Source: CAS Research Paper, Social Inflation and Loss Development—An Update (2023) by Jim Lynch, FCAS and Dave Moore, FCAS.

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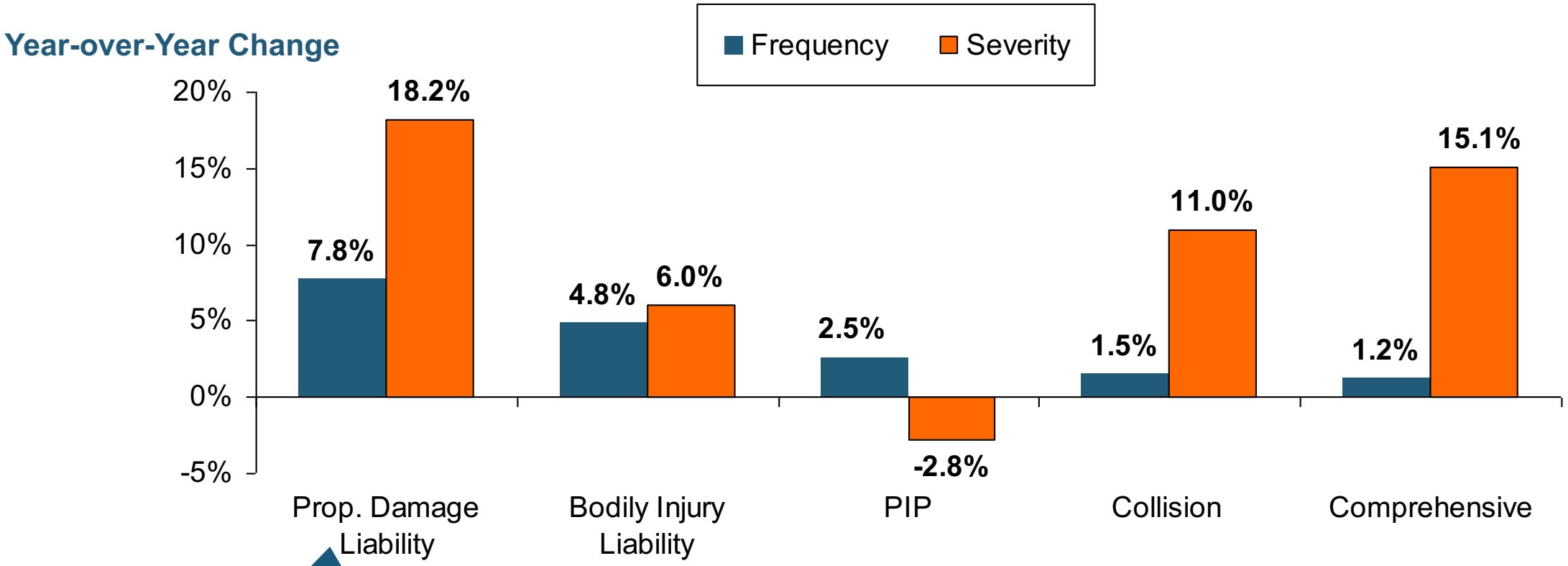
Private Passenger Auto Frequency & Severity Trends

Frequency, Severity and Loss Ratio Trends Are Adverse

Inflation is a Major Driver

Personal Auto Claim Severities Continue to Trend Upward; Frequency Increase Are Moderating: 4 Qtrs. Ending Q1 2023



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

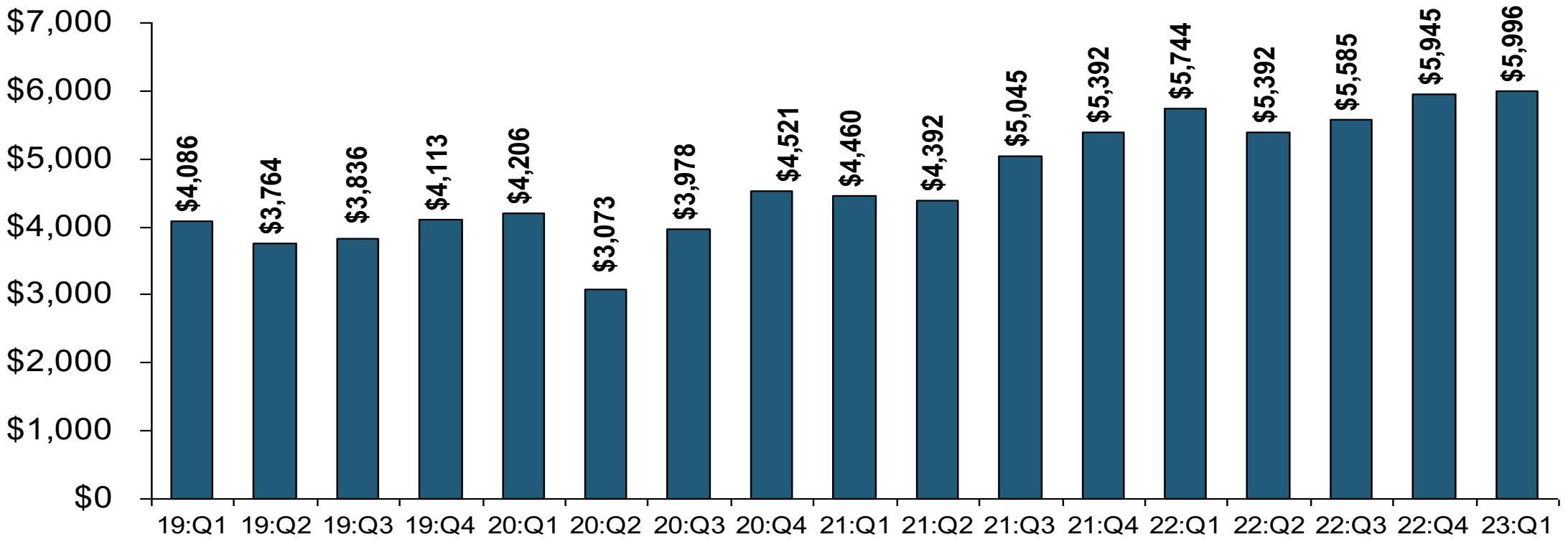
Auto Claim Frequencies Fell Sharply During the Pandemic, though Claim Severities Rose Materially

Source: ISO/PCI *Fast Track* data for Q1 2023; Risk and Uncertainty Management Center, Univ. of South Carolina.

Collision Claim Severity: Rising to New Record Highs

Collision claim severity reached another record high in 2023:Q1, up 42.6% from 2020:Q1

Average Loss, 2018:Q1 through 2023:Q1



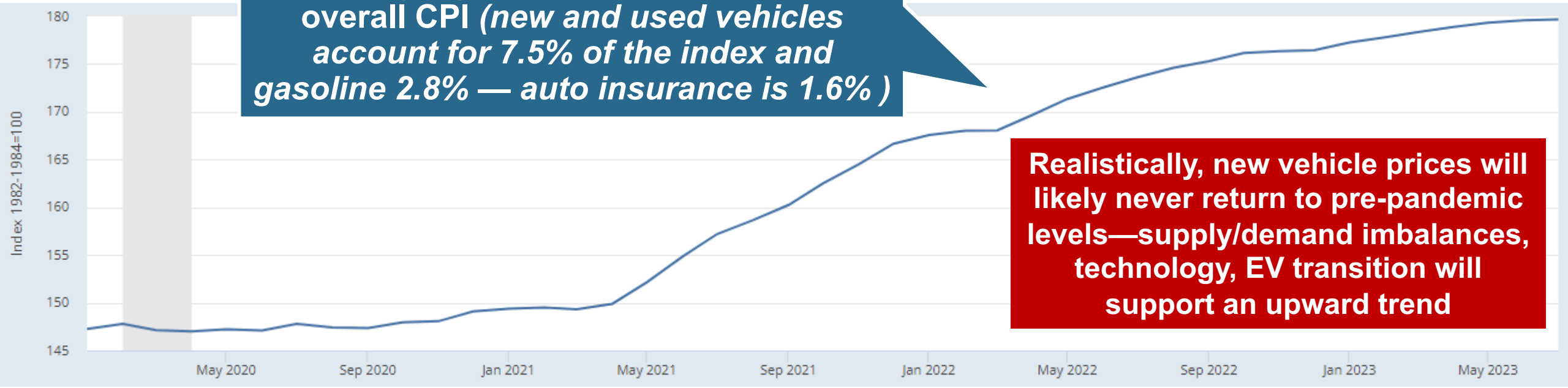
Severities Are Up Sharply—Inflation Is a Major Factor

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

Price Index Changes for New Vehicles, Jan. 2020 – July 2023

New car prices continue to rise but at a more modest pace

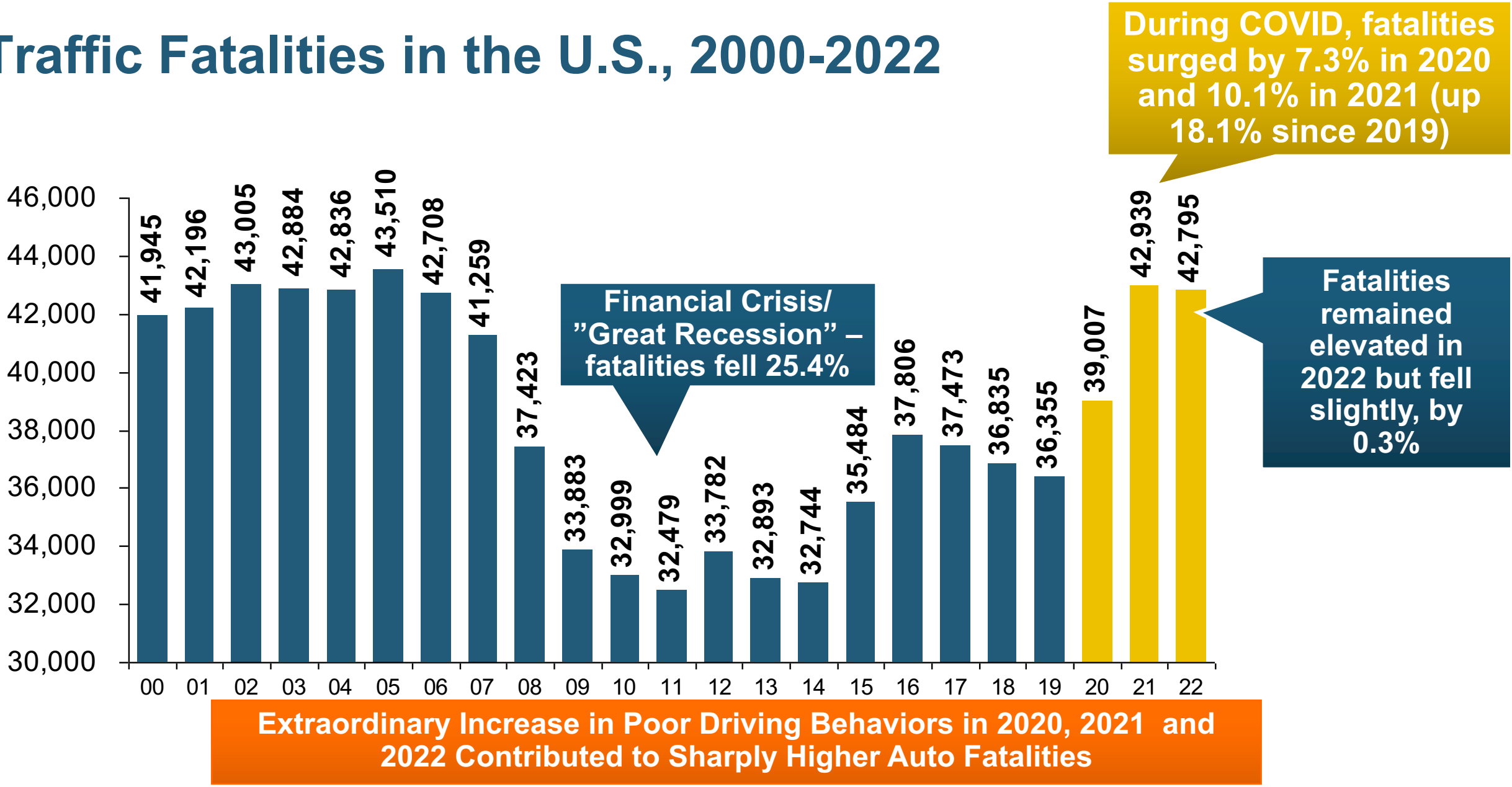
New vehicle prices surged during the pandemic, +22.0% from Jan. 2020 through July 2023 have yet to peak, putting significant pressure on the overall CPI *(new and used vehicles account for 7.5% of the index and gasoline 2.8% — auto insurance is 1.6%)*



Realistically, new vehicle prices will likely never return to pre-pandemic levels—supply/demand imbalances, technology, EV transition will support an upward trend

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

Traffic Fatalities in the U.S., 2000-2022



*2022 figure is annualized based on actual of 31,785 through Sept. 30 (a decline of 0.2% from the same period in 2021).

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: https://www.nhtsa.gov/press-releases/traffic-crash-death-estimates-2022; Risk and Uncertainty Management Center, University of South Carolina.

Commercial Lines Growth & Pricing Cyclicality

Economic and Tort Environment Create Pricing Pressure

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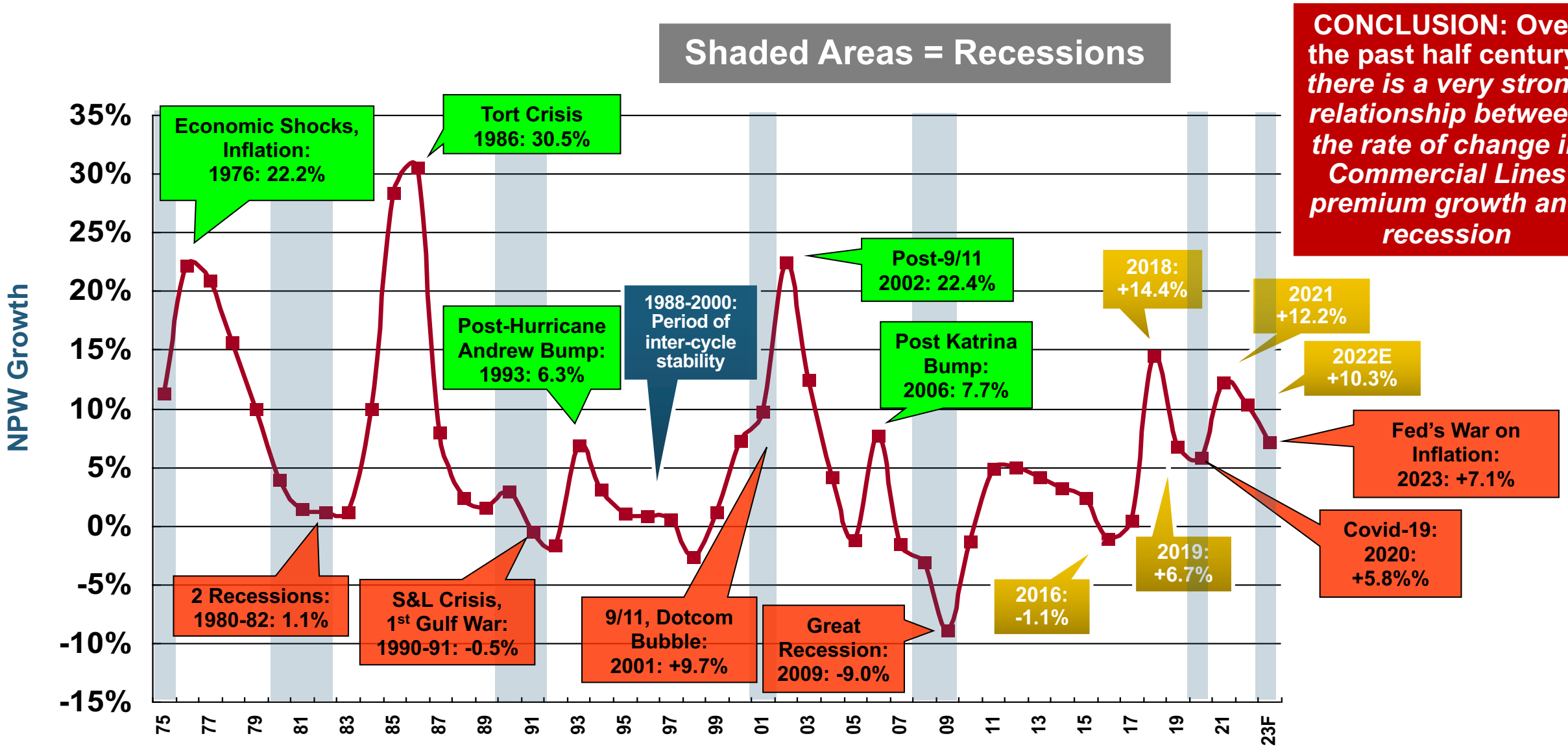
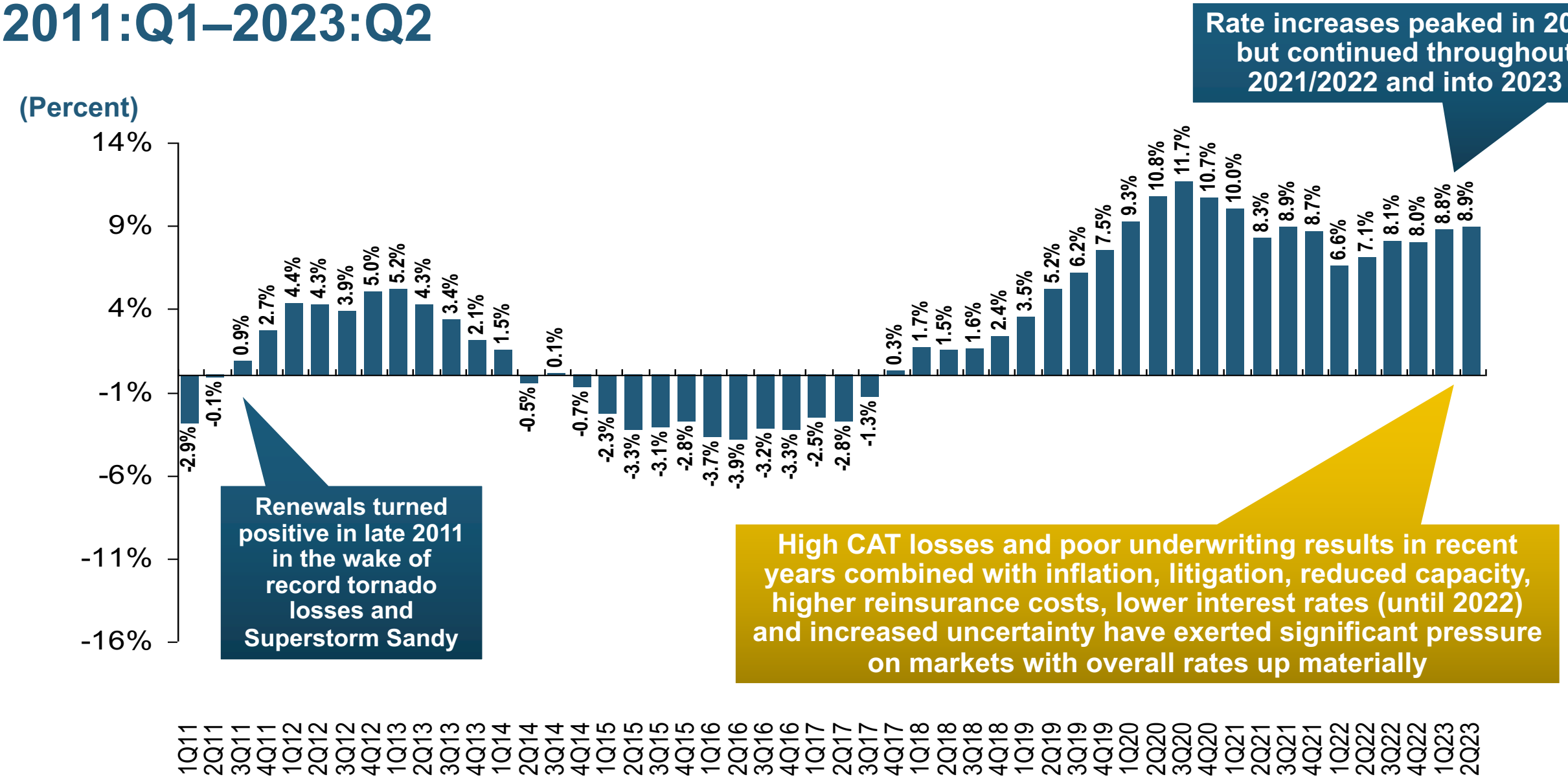
Commercial Lines NPW Premium Growth: 1975 – 2023F



Note: Data include state funds beginning in 1998. . Recession dates (1975–2022) from NBER: https://www.nber.org/research/data/us-business-cycle-expansions-and-contractions
Source: A.M. Best (2022E-23P); ISO; APCIA; Univ. of South Carolina Center for Risk and Uncertainty Management Center.

CIAB: Average Commercial Rate Change, All Lines, 2011:Q1–2023:Q2

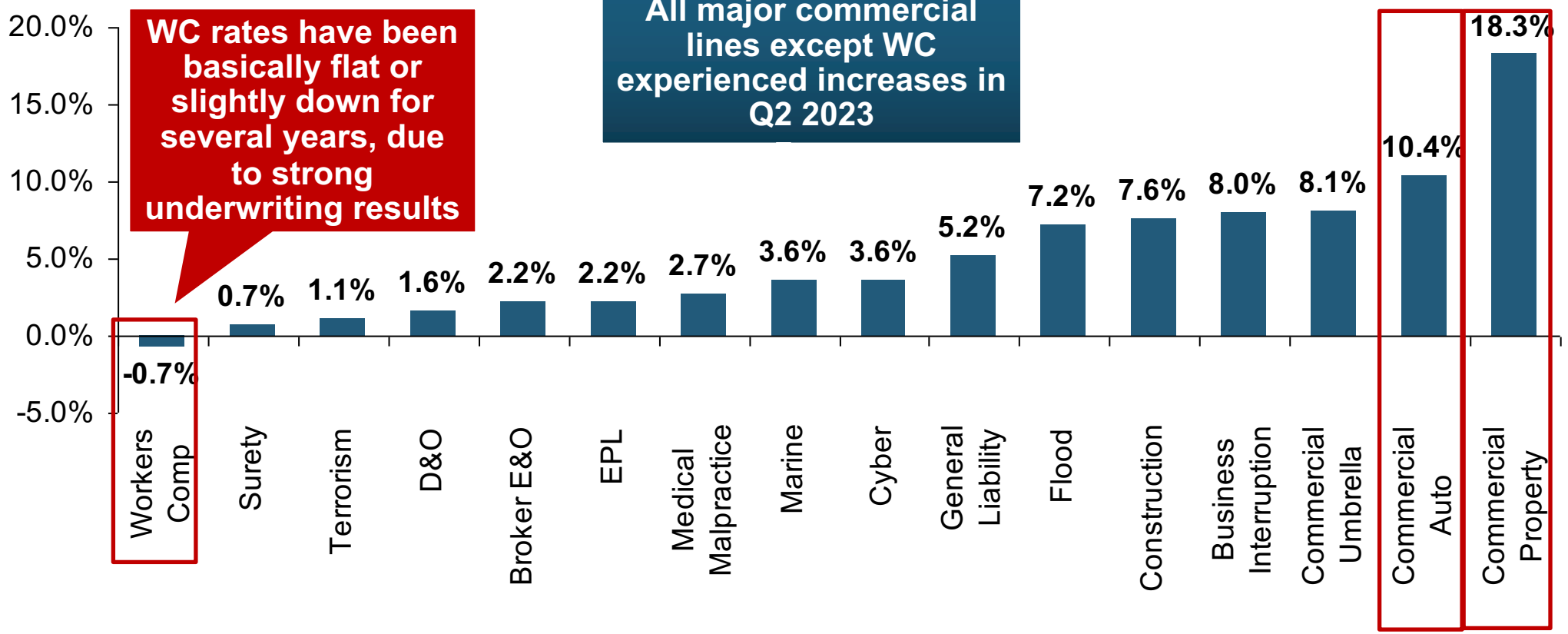


Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents & Brokers; Center for Risk and Uncertainty Management, Univ. of South Carolina.

Change in Commercial Rate Renewals, by Line: 2023:Q2

Commercial property and Business Interruption are experiencing sharp increases due to high CAT losses, inflation and expensive reinsurance

(Percent Change)



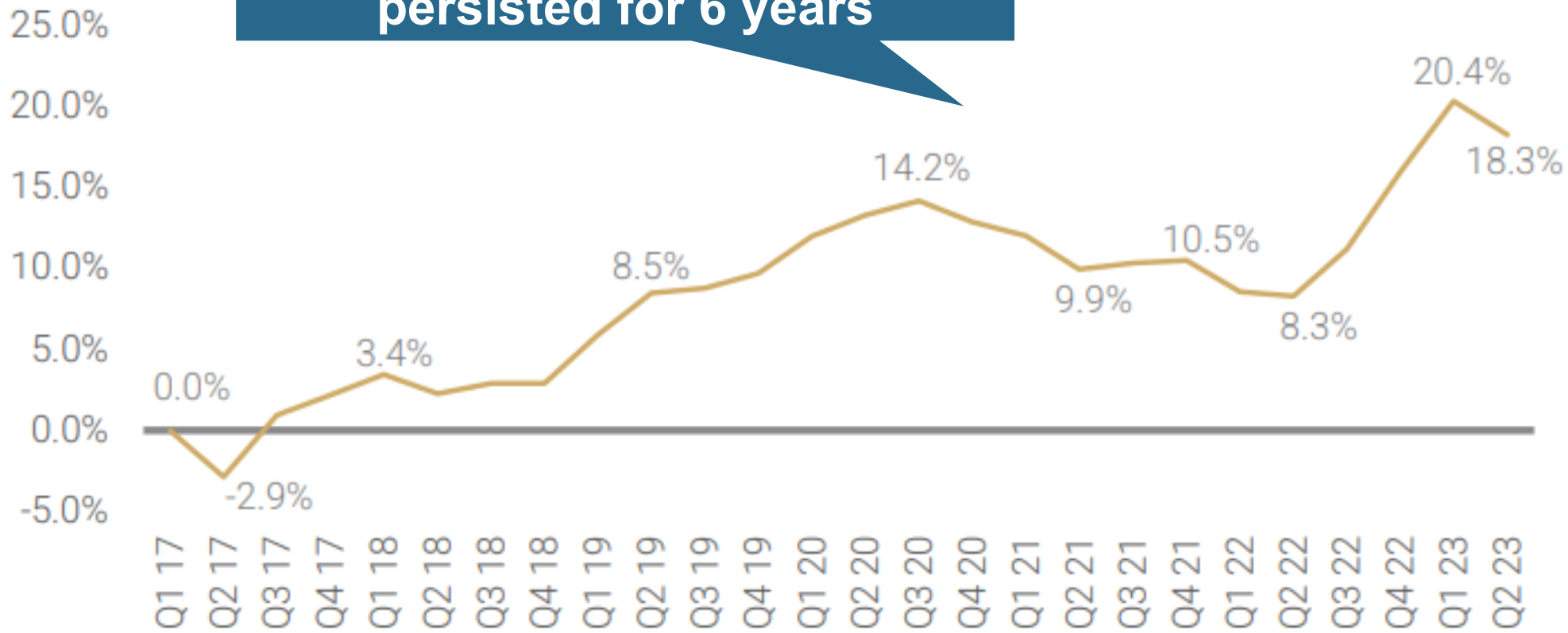
Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.

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

Commercial Property Premium Changes, 2017:Q1 – 2023:Q2

Commercial Property hard market conditions have persisted for 6 years

High CAT losses, inflation and expensive reinsurance continue to drive commercial pricing upward



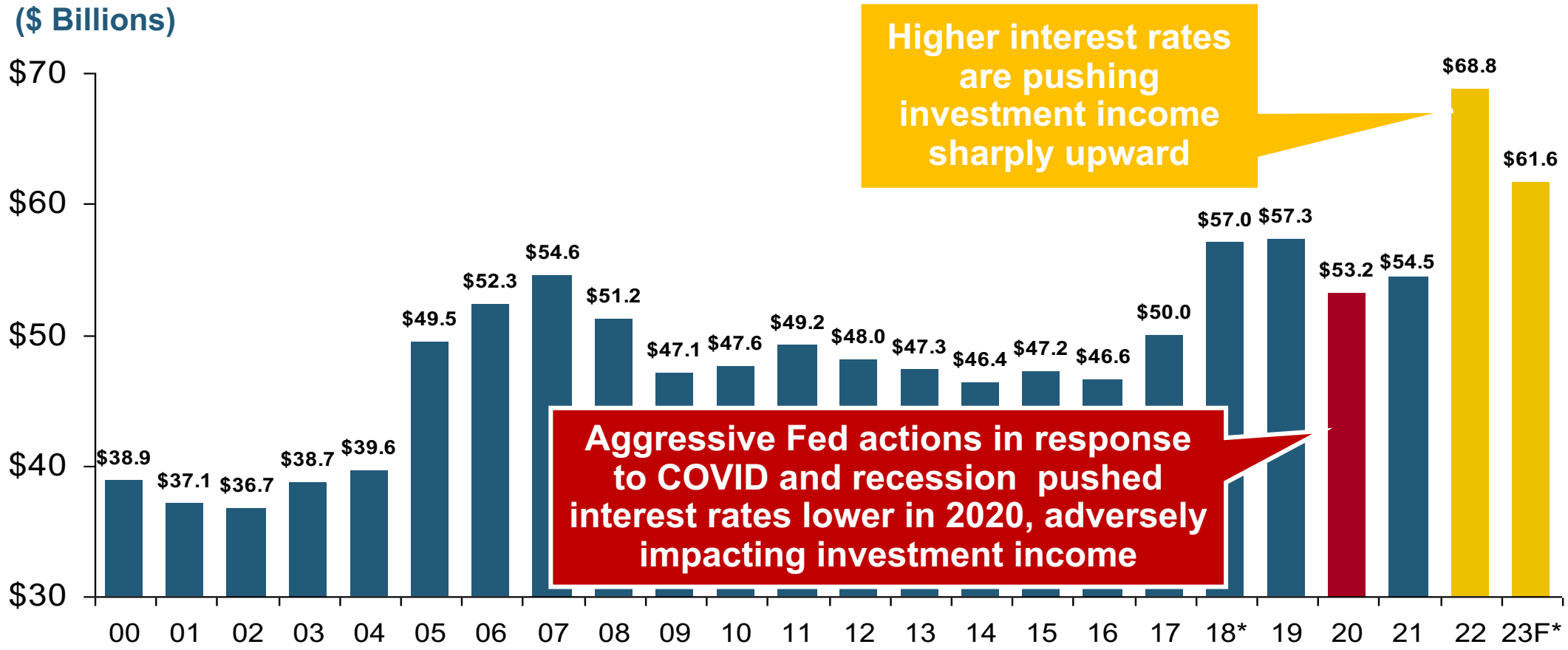
Source: Council of Insurance Agents and Brokers; USC Center for Risk and Uncertainty Management.

Investments:
Wall Steet's Wild Ride Continues

Investment Performance Is a Key Driver of Insurer Profitability

How Has the Hawkish Fed Impacted Insurer Portfolios?

Property/Casualty Insurance Industry Investment Income: 2000–2023F*

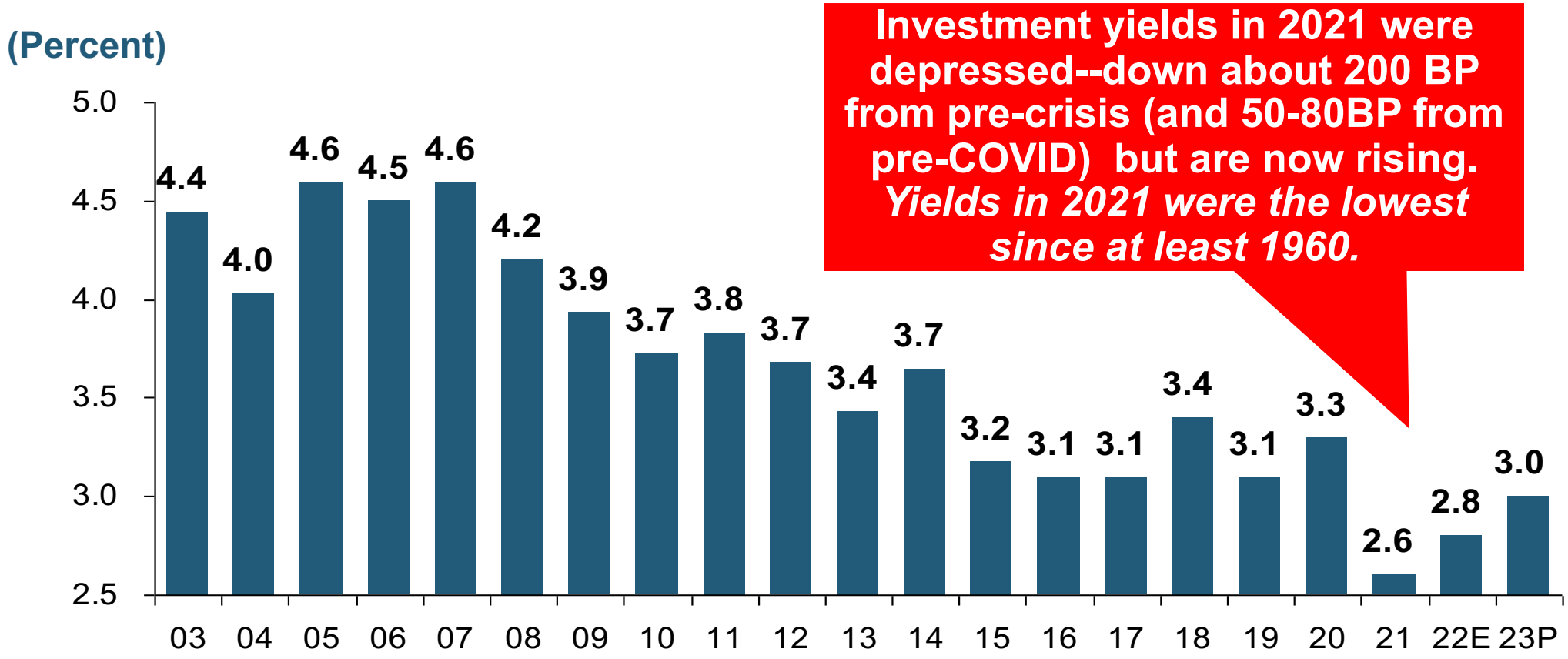


Due to persistently low interest rates, investment income remained below pre-crisis levels for a decade. Lower interest rates during COVID drove investment income down once again. Fed rate hikes in 2022-23 are reversing this trend.

*2023 is annualized figure based on Q1 actual of $15.4B. 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: A.M. Best Review & Preview (March 2023); ISO; University of South Carolina, Center for Risk and Uncertainty Management.

Net Investment Yield on Property/Casualty Insurance Invested Assets, 2007–2023P



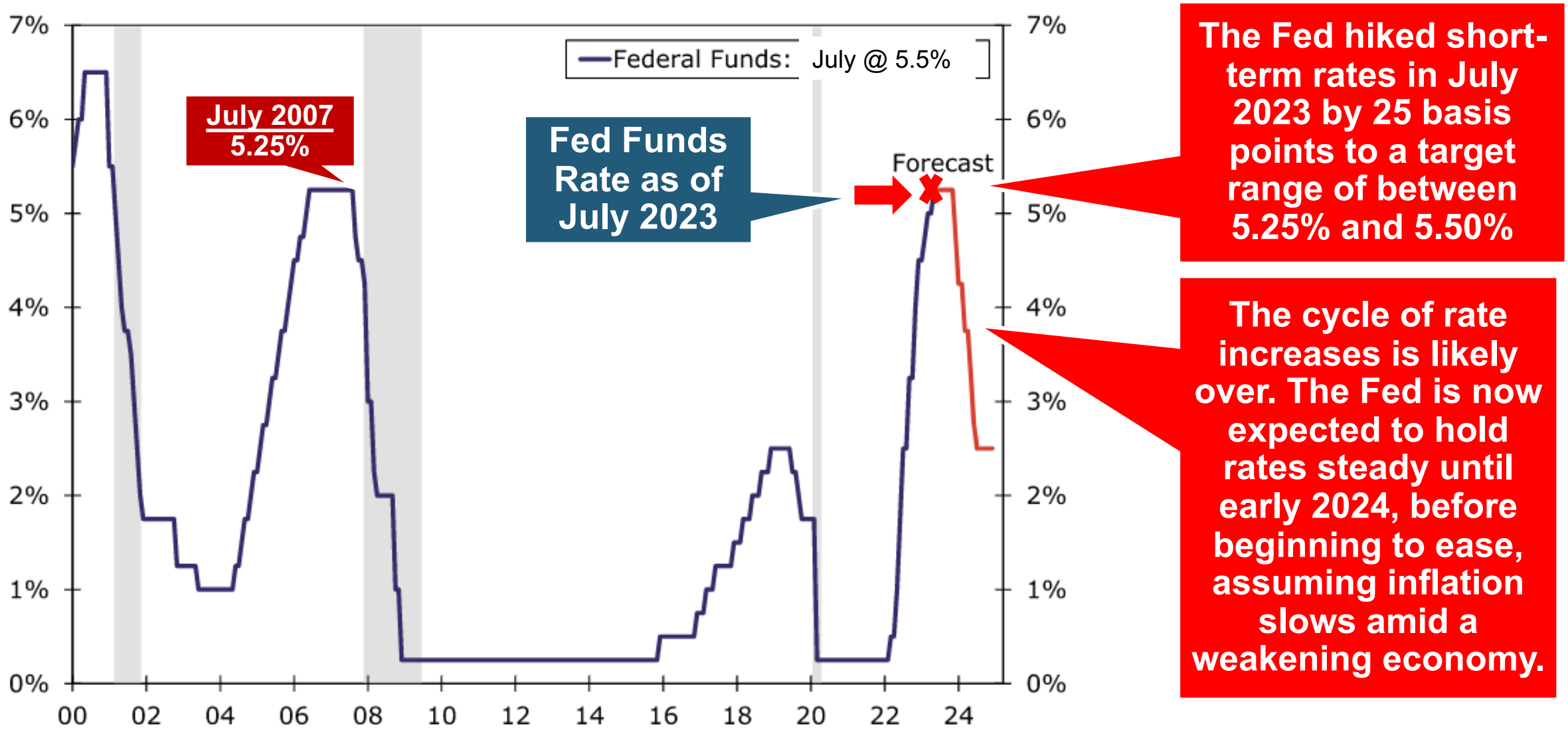
Investment yields in 2021 were depressed--down about 200 BP from pre-crisis (and 50-80BP from pre-COVID) but are now rising. *Yields in 2021 were the lowest since at least 1960.*

The yield on invested assets remains depressed relative to pre-financial crisis and pre-COVID yields. Fed rate hikes in 2022-23 are lifting yields and investment income.

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. 2022^{E}-23P from A.M. Best Review & Preview (March 2023). Risk and Uncertainty Management Center, Univ. of South Carolina.

Federal Funds Target Rate: Up, Up and Away!

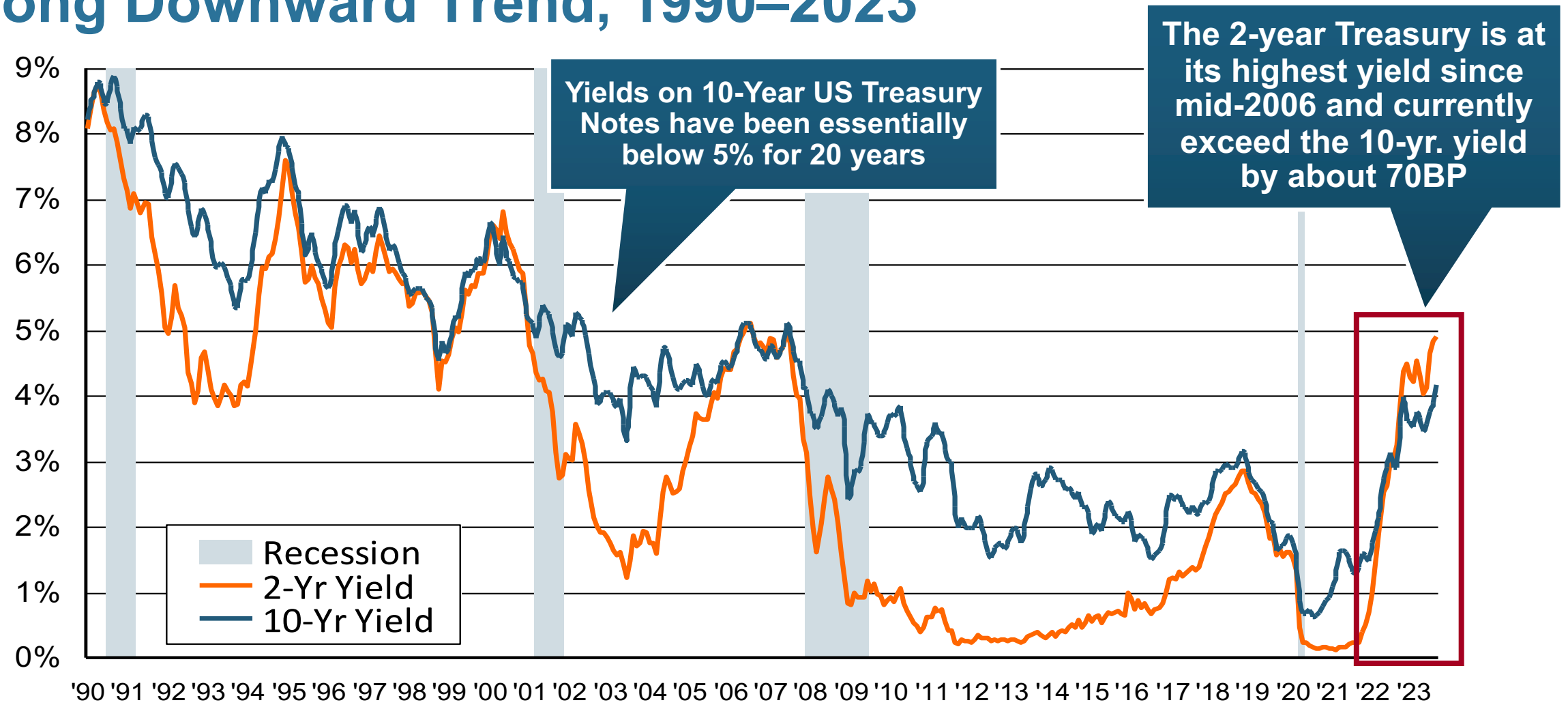


The Fed hiked short-term rates in July 2023 by 25 basis points to a target range of between 5.25% and 5.50%

The cycle of rate increases is likely over. The Fed is now expected to hold rates steady until early 2024, before beginning to ease, assuming inflation slows amid a weakening economy.

Source: Federal Reserve Board and Wells Fargo Economics (6/23); Risk and Uncertainty Management Center, University of South Carolina.

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

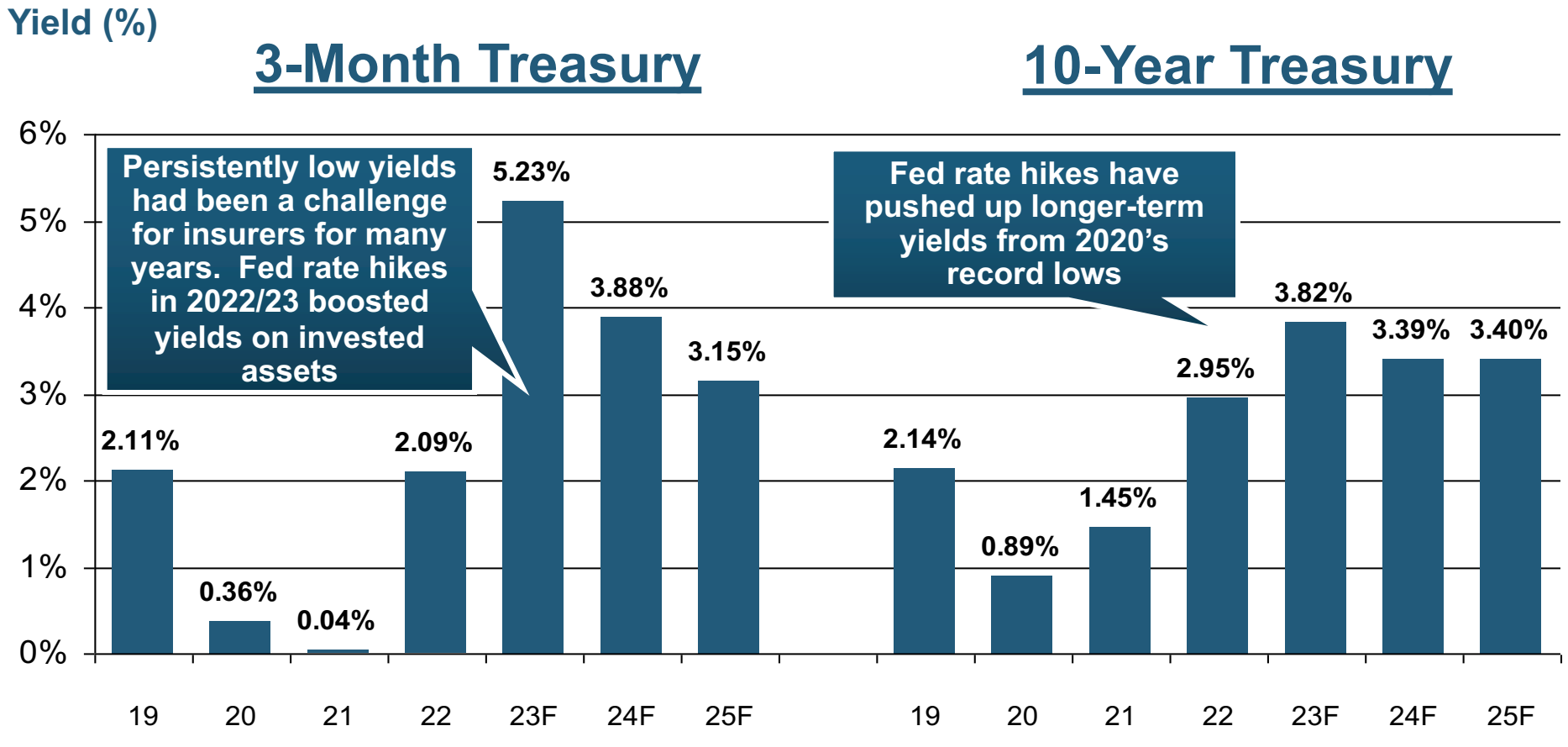


Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, Fed rate hikes should over time provide a modest boost to P/C insurer portfolio yields

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

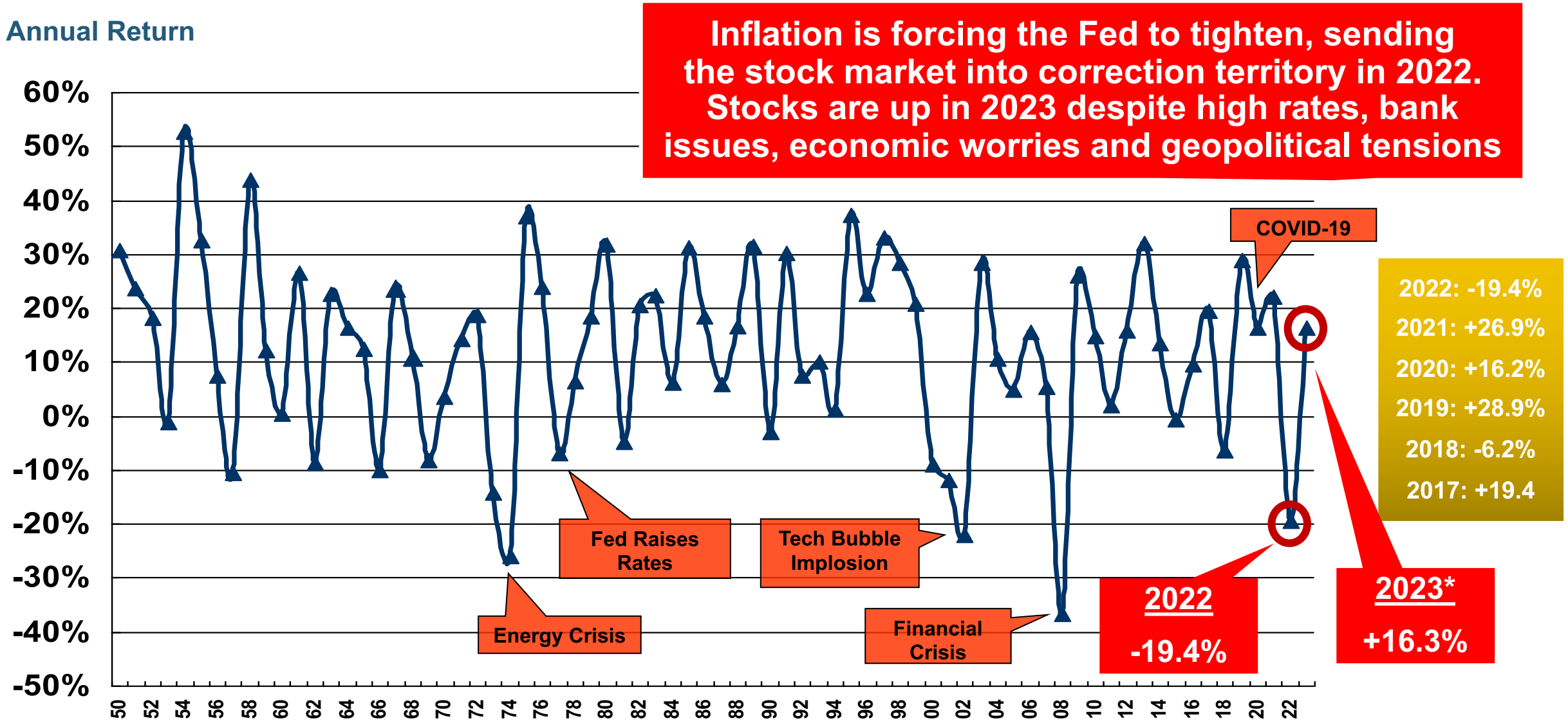
Interest Rate Forecasts: 2019 – 2025F: *Higher for Longer*



Rising interest rates will provide a modest tailwind for insurers as the Fed raises interest rates. This will be especially beneficial to longer-tailed lines such as Workers Comp.

Sources: Wells Fargo Securities (9/23); Risk and Uncertainty Management Center, University of South Carolina.

S&P 500 Index Returns, 1950–2023*



*Through Sept. 8, 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.

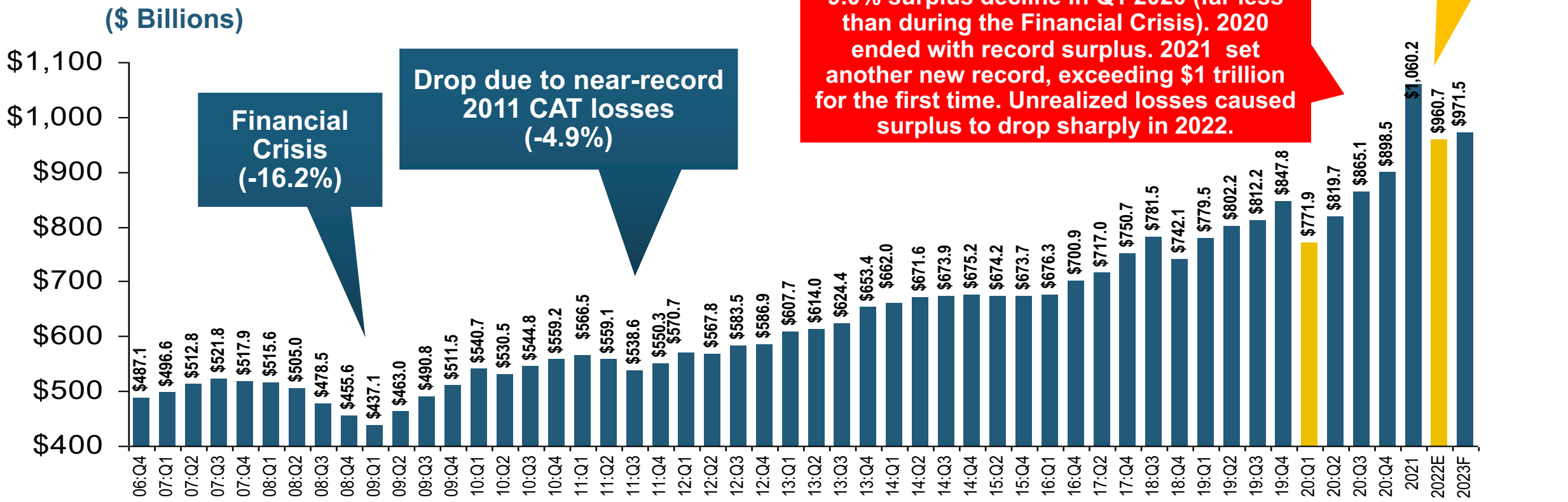
Capital, Capacity & Reinsurance

P/C Insurance: Capital Crunch?

Will Industry Capacity Recover?

Reinsurance Markets Remain Under Pressure

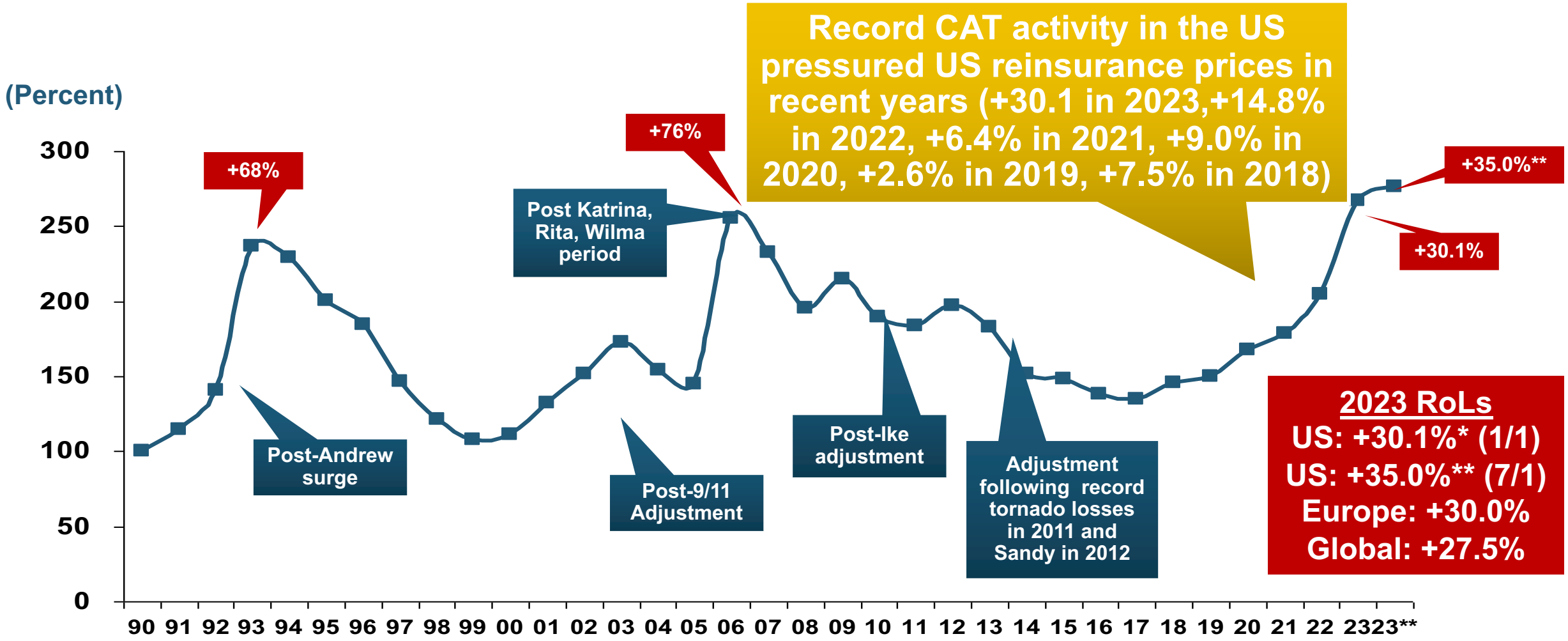
Policyholder Surplus (Capacity), 2006:Q4 – 2023F



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.

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

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.

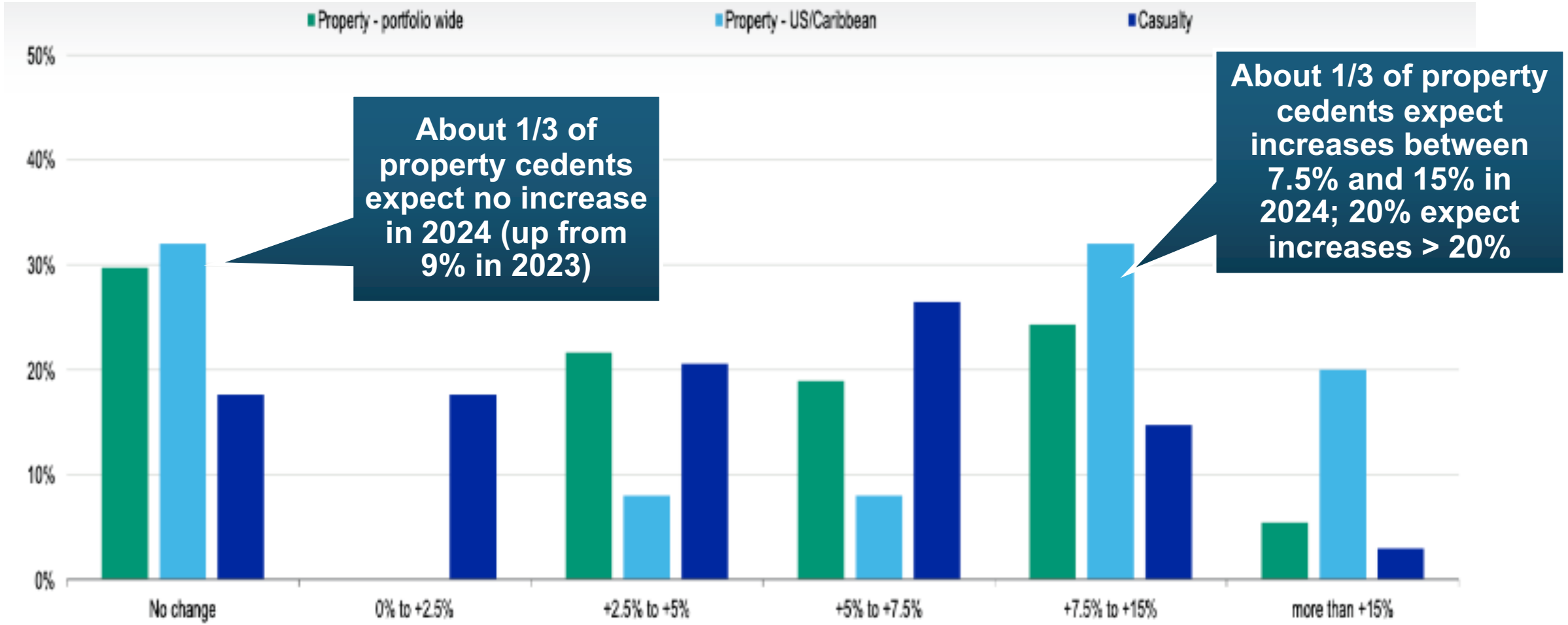
*As of January 1 each year.

**35.0% figure is the change in reinsurance rate for period from January through July 2023 relative to Jan. 1, 2022.

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

Cedent Expectations for 2024 Reinsurance Price Increases

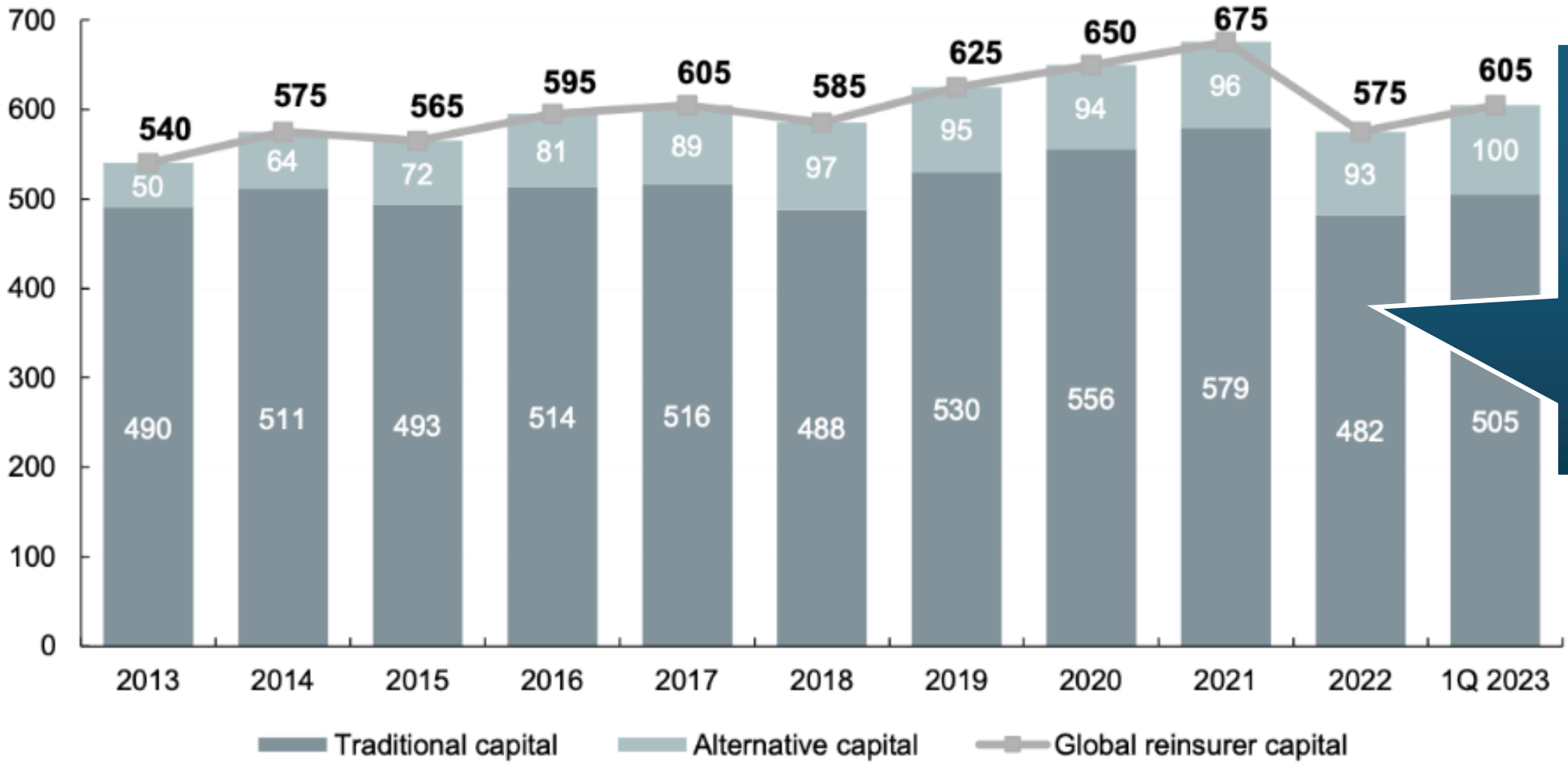
$ Billions



Source: Moody's Reinsurance Buyers Survey 2024 from Reinsurance News, accessed at: https://www.reinsurancene.ws/reinsurance-price-rises-likely-to-continue-in-2024-moodys/.

Global Reinsurance Capital, 2013 – 2023:Q1

$ Billions



Global reinsurance capital fell by $100B or 14.8% in 2022, contributing to today's property insurance challenges. Some recovery evident in 2023.

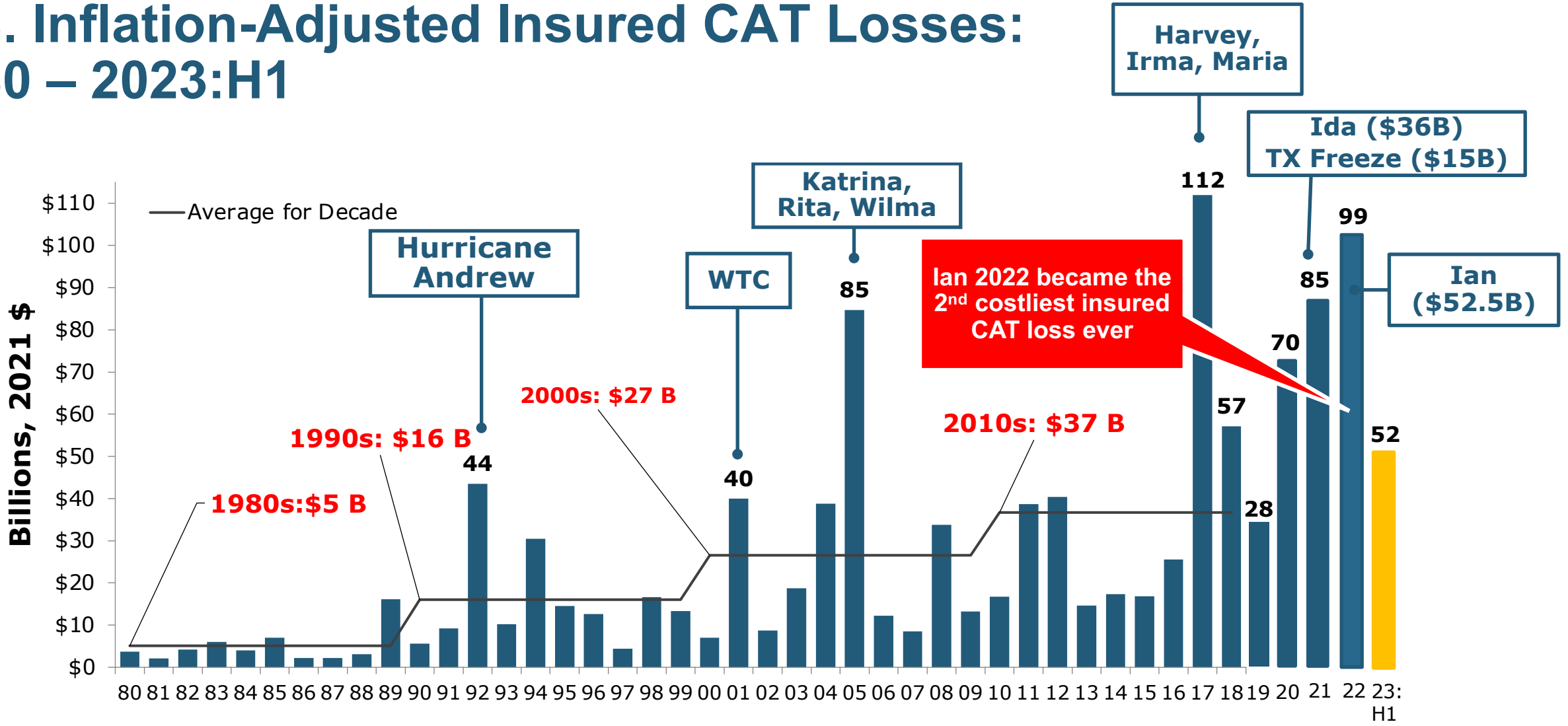
Source: Aon Reinsurance Solutions/Aon Securities from Artemis.bm, accessed at: https://www.artemis.bm/news/alternative-reinsurance-capital-grows-to-new-100bn-high-aon/.

Catastrophe Loss Trends

The Rise in CAT Losses Shows No Signs of Easing

The 2020s Are Off to an Ominous Beginning—in the US and Canada…

U.S. Inflation-Adjusted Insured CAT Losses: 1980 – 2023:H1



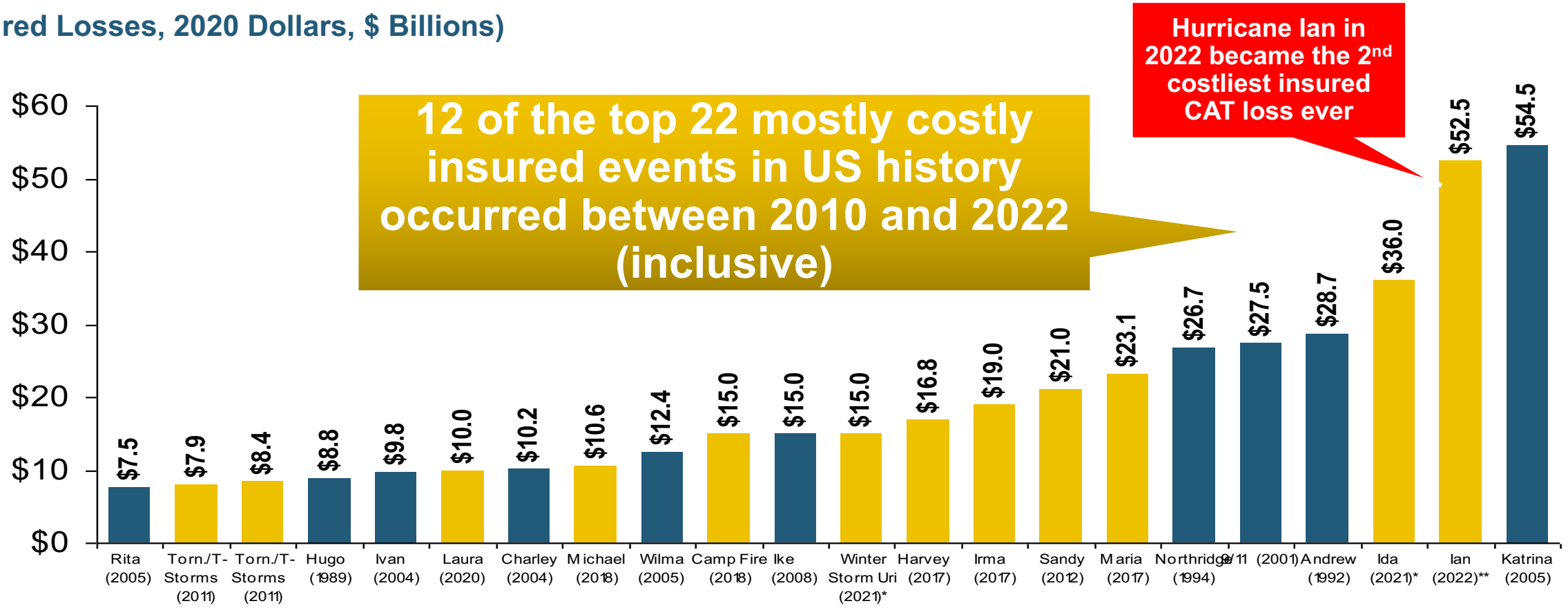
Average Insured Loss per Year*
1980-2021: $23.8 Billion
2012-2021: $44.1 Billion

The 2020s are off to an ominous start with $85B in average annual insured losses (2020-22)

*Stated in 2021 dollars except 2022 and 2023 (2022/23 dollars).
Sources: Property Claims Service, a Verisk Analytics business (1980-2019); 2020-21 figures from Munich Re; 2023 YTD data from Gallagher Re, Insurance Information Institute; University of South Carolina, Risk & Uncertainty Management Center.

Top 22 Most Costly Disasters in U.S. History

(Insured Losses, 2020 Dollars, $ Billions)

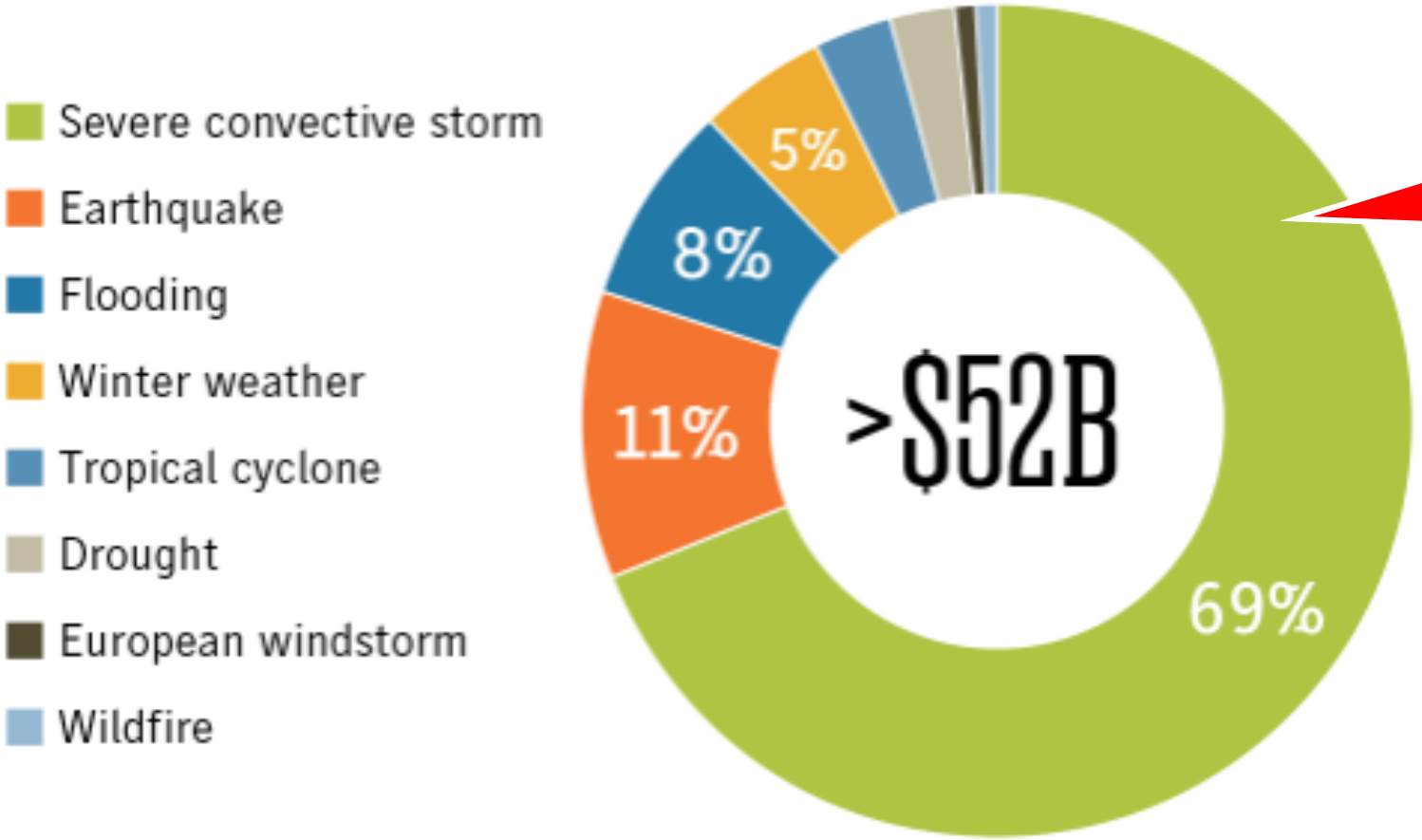


18 of the 22 Most Expensive Insurance Events in US History Have Occurred Since 2004.

*2021 dollars; **2022 dollars (Aon insured loss estimate as of 1/25/23).

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

U.S. Insured Losses by Peril, H1 2023

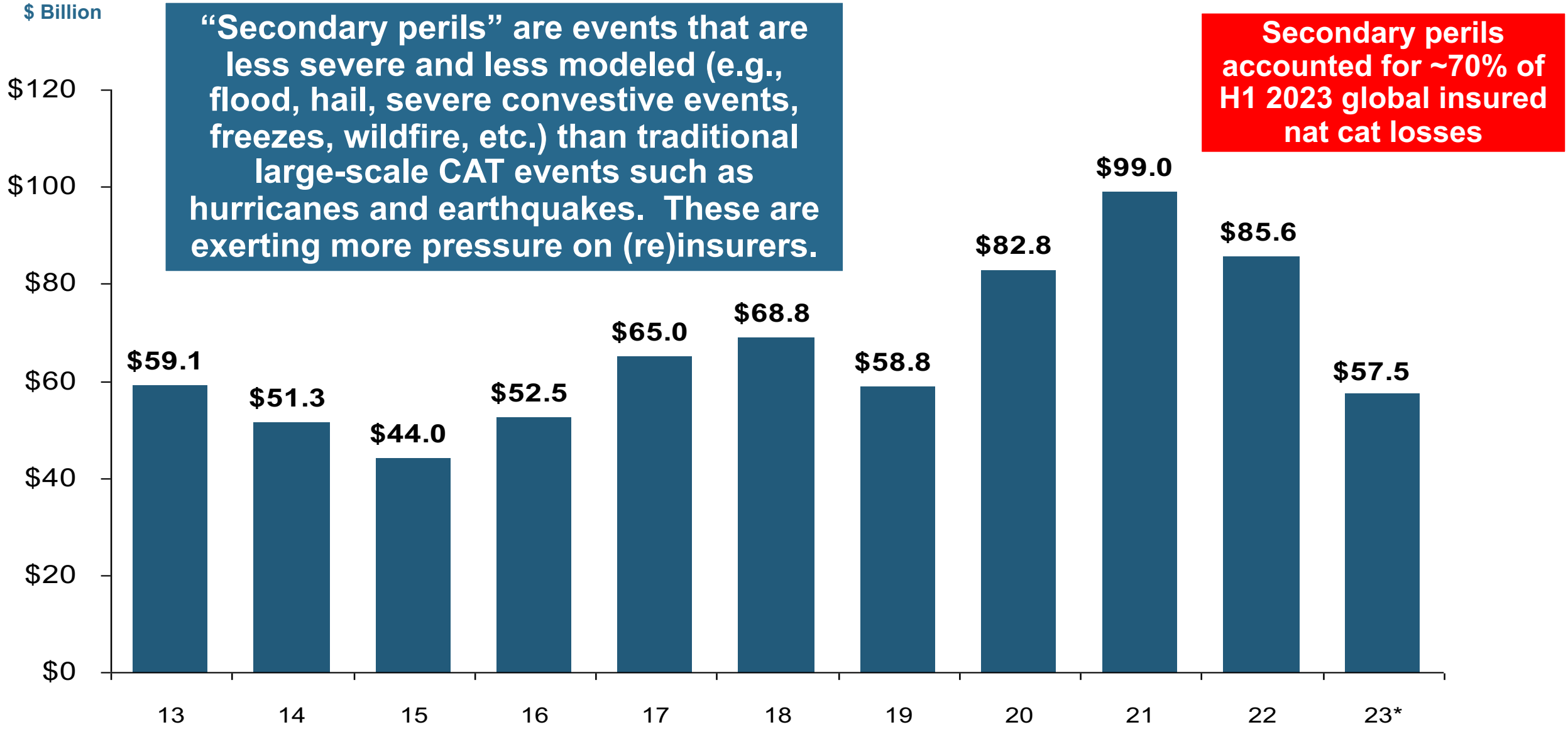


Severe convective storm (SCS) events accounted for 69% of US insured natural CAT losses during H1 2023

Secondary perils (including SCS) are of increasing concern to insurers and reinsurers

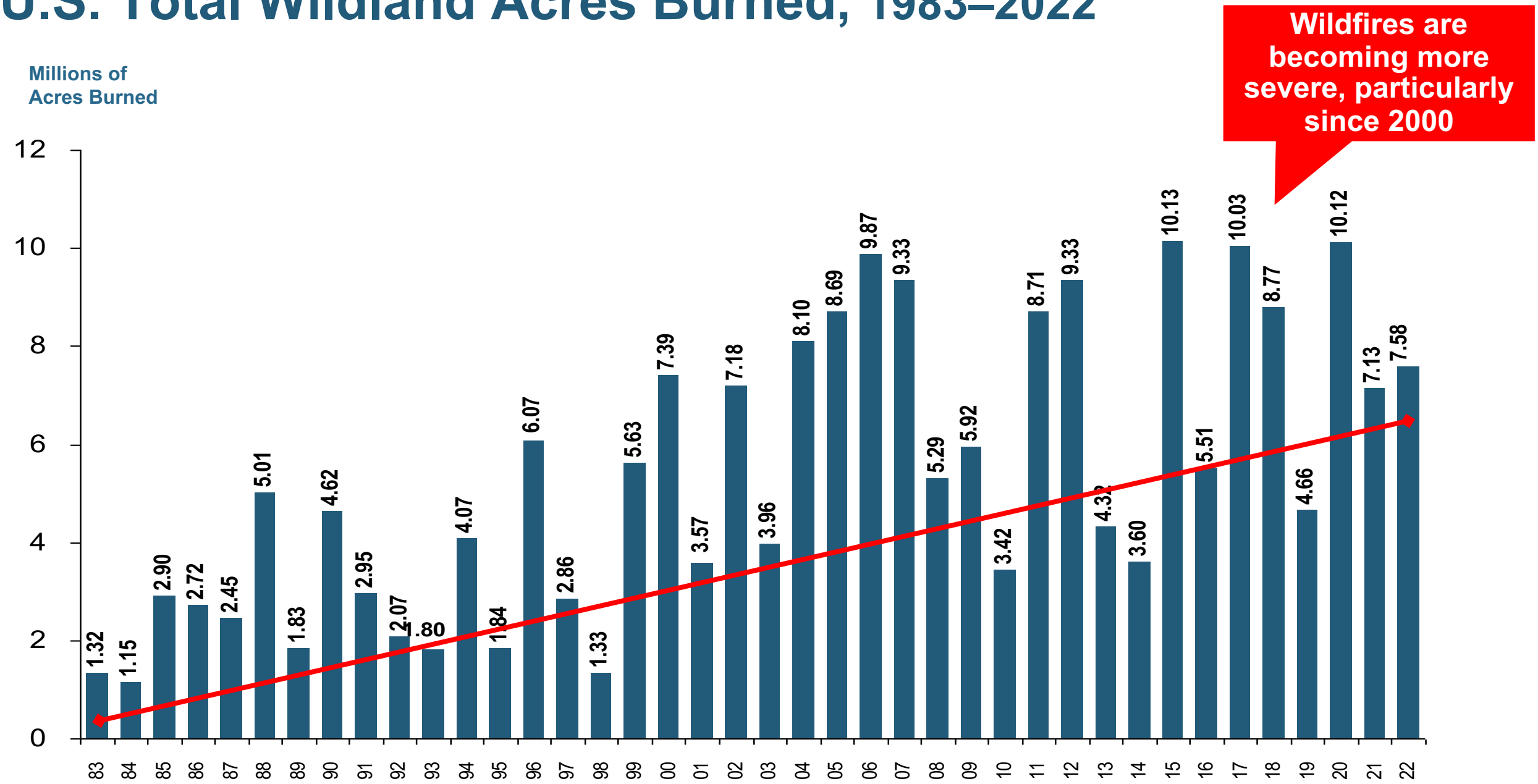
Source: Gallagher Re from Business Insurance accessed at: https://www.businessinsurance.com/article/20230718/NEWS06/912358694/Nat-cat-insured-losses-total-$52B-in-2023-H1-Gallagher-Re-

Global Secondary Peril Insured Losses, 2013–2023*



*Through August 10, 2023
Sources: Gallagher Re.

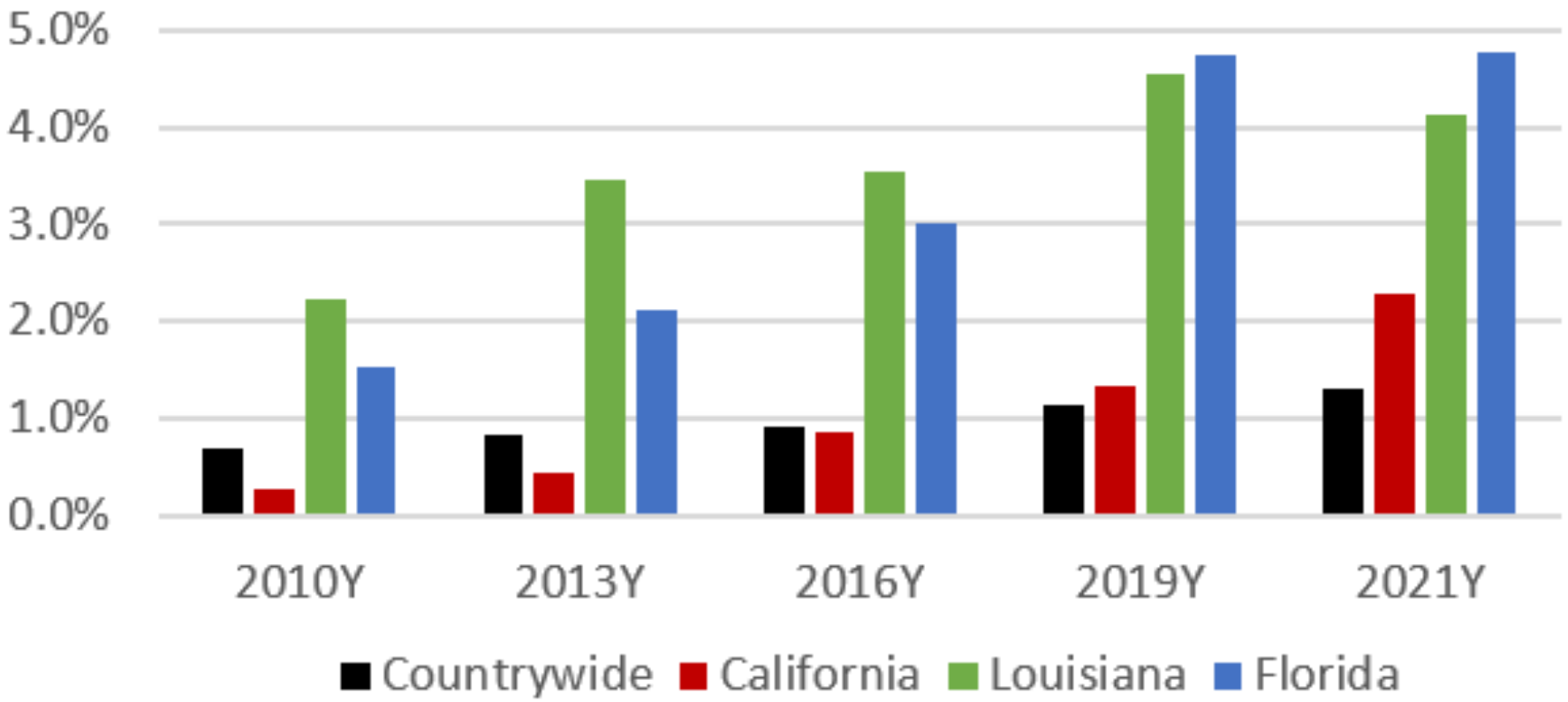
U.S. Total Wildland Acres Burned, 1983–2022



*2004 figures do not include data for North Carolina

Sources: National Interagency Fire Center at: https://www.nifc.gov/fire-information/statistics/wildfires.

E&S Percent of P/C Industry DPW: Homeowners, 2010 – 2021



An increasing share of the homeowners markets is being written by surplus lines carriers—esp. in CA, FL and LA

Source: APCIA via S&P Global Market Intelligence.

Economic Overview

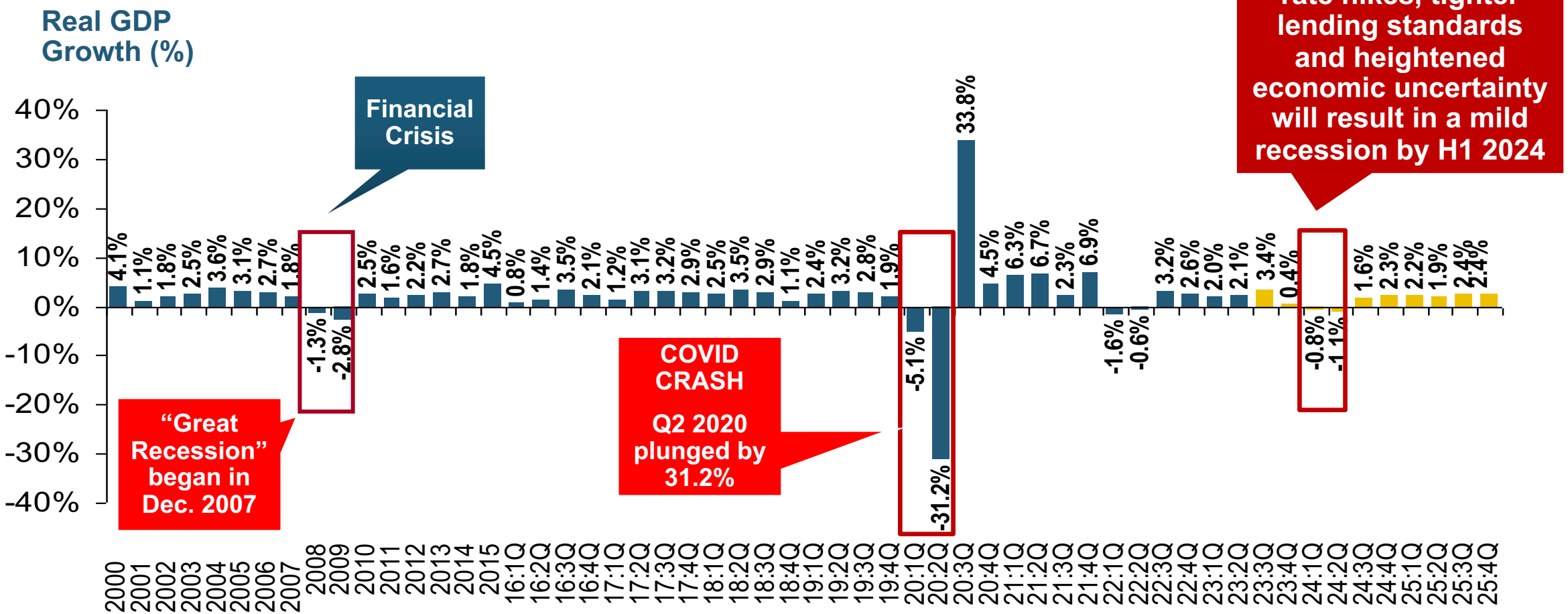
The Defiant US Economy

Inflation, Geopolitical Conflicts and Rising Interest Rates and Weighing Heavily on Business and Consumer Sentiment but the Economy Remains Resilient

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

61

US Real GDP Growth*



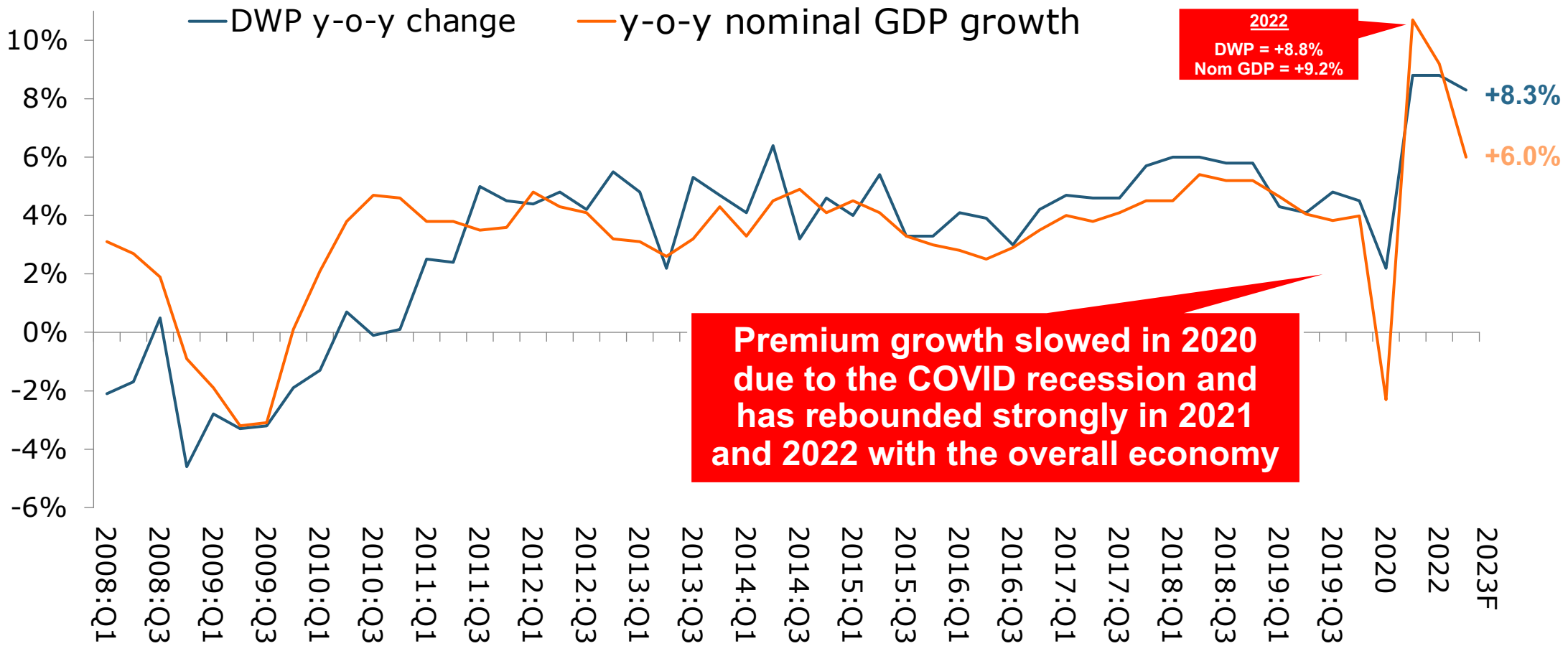
Demand for Insurance Increased Materially in 2021/22 During Recovery from the Pandemic—Particularly in Economically Sensitive Commercial Lines Such as WC. Premium growth will likely slow in 2023/24 as Economy Slows.

* Estimates/Forecasts from Wells Fargo Securities.

Source: US Department of Commerce, Wells Fargo Securities (9/23); Center for Risk and Uncertainty Management, University of South Carolina.

The Economy Drives P/C Insurance Industry Premiums: 2006:Q1–2023F*

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



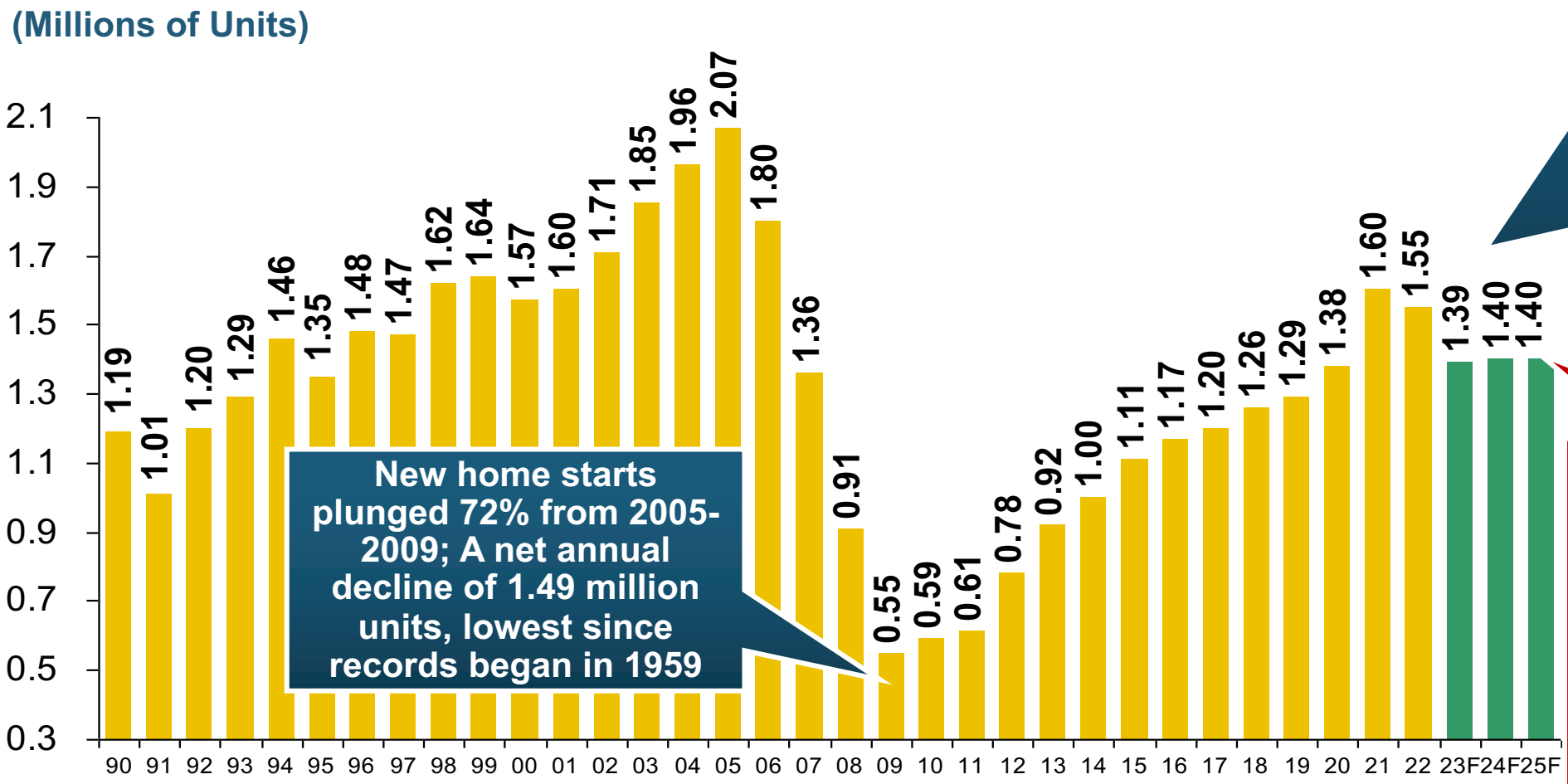
Premium growth slowed in 2020 due to the COVID recession and has rebounded strongly in 2021 and 2022 with the overall economy

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

*2020-23F figures are 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.

New Private Housing Starts, 1990-2025F



Job growth, low inventories of existing homes, low mortgage interest rates and demographics propelled new home construction into 2022, though materials prices, supply chain problems, lack of labor remain headwinds

High prices, rising mortgage rates, will temper new home construction activity through 2023, though low inventory of existing homes is propping up prices

But No Repeat of the Housing Collapse that Began in 2007

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 (9/23 for 2023F-25F); Univ. of South Carolina, Center for Risk and Uncertainty Management..

US Unemployment Rate Forecast: 2007:Q1–2025:Q4

Great Recession

Rising unemployment eroded payrolls and WC's exposure base.

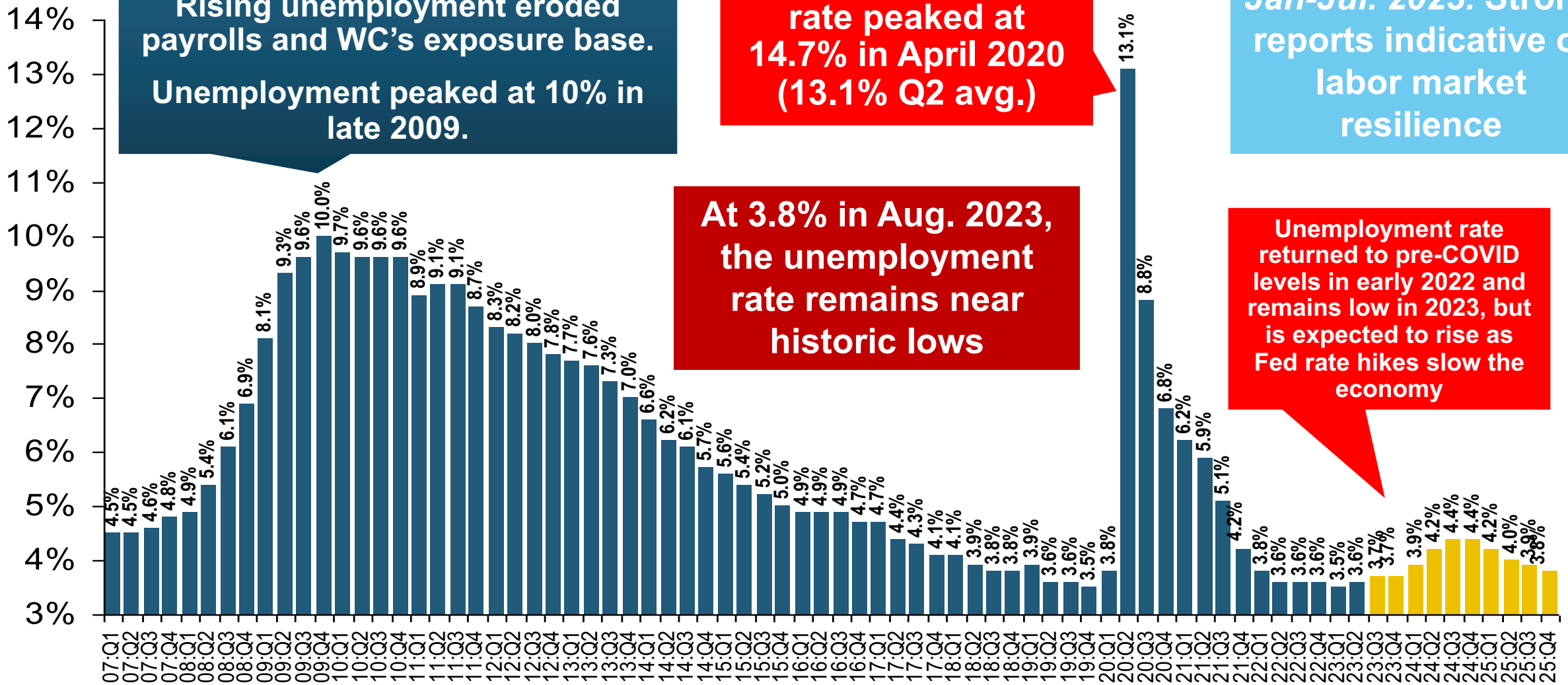
Unemployment peaked at 10% in late 2009.

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

***1.807M jobs added in Jan-Jul. 2023.* Strong reports indicative of labor market resilience**

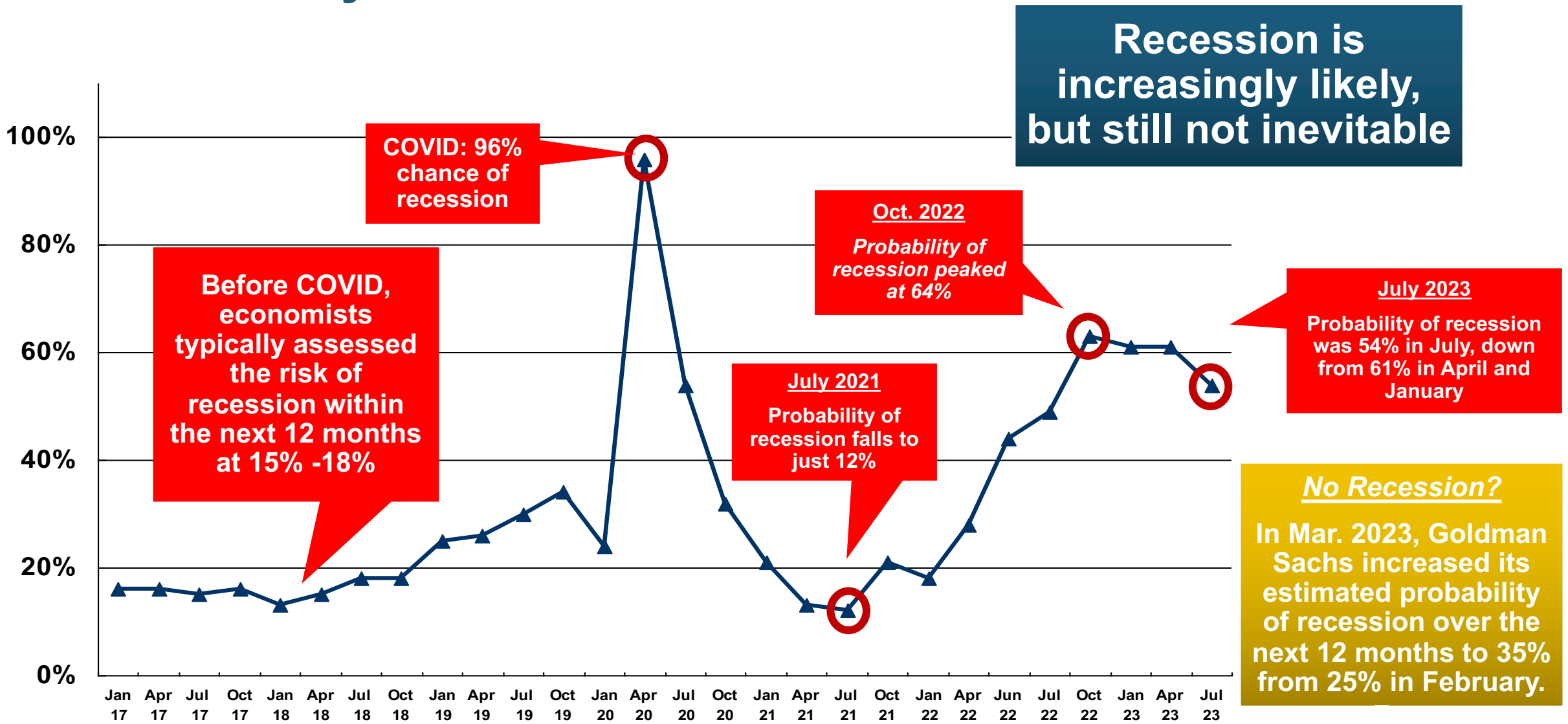
At 3.8% in Aug. 2023, the unemployment rate remains near historic lows

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



Sources: US Bureau of Labor Statistics; Wells Fargo Securities (9/23 edition); Risk and Uncertainty Management Center, University of South Carolina.

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



*July 2023 survey included the responses of 76 economists. Range was 12% to 96%.

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.

Not All Recessions Are Created the Same – 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 Inflation Threat

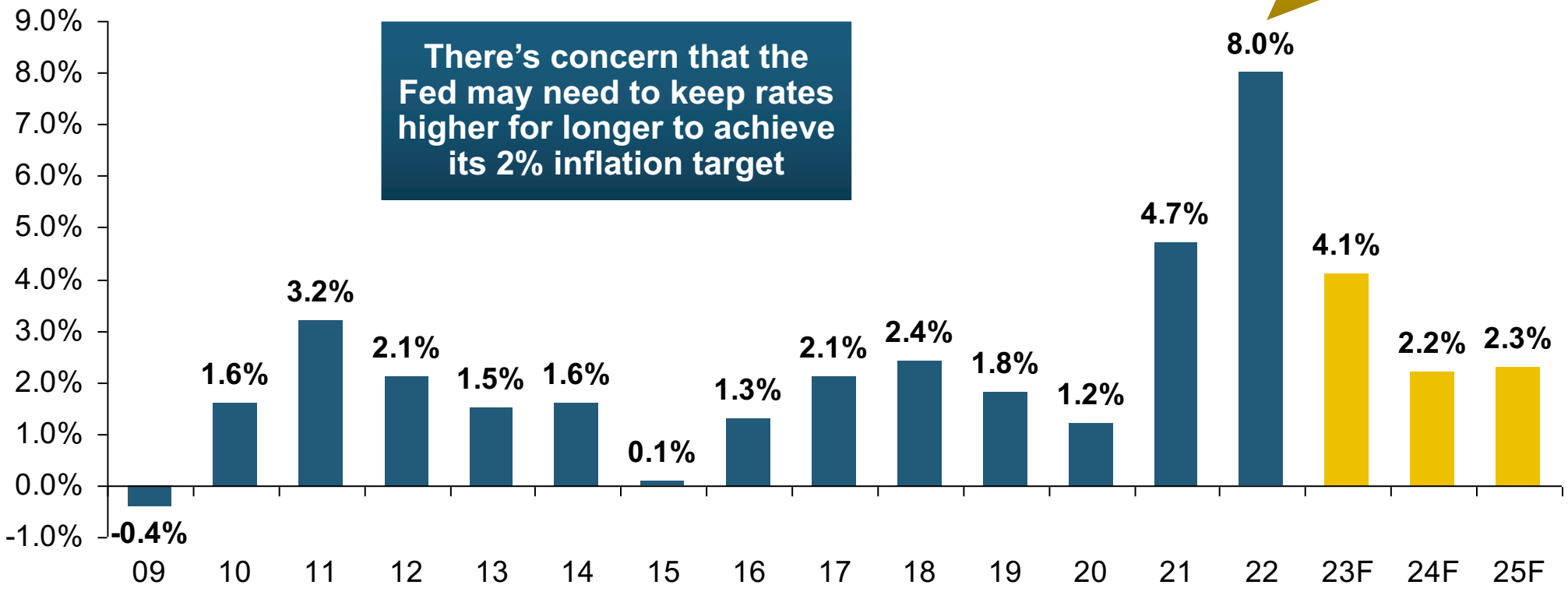
Inflation is the #1 Concern of U.S. Consumers and Corporations…

It's Also a Major Concern of Insurers

U.S. Inflation Rate: 2009-2025F*

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, Fed rate hikes an dlabor market tightness

Percentage Change (%)



Insurer Concerns About Inflation

Rate Inadequacy

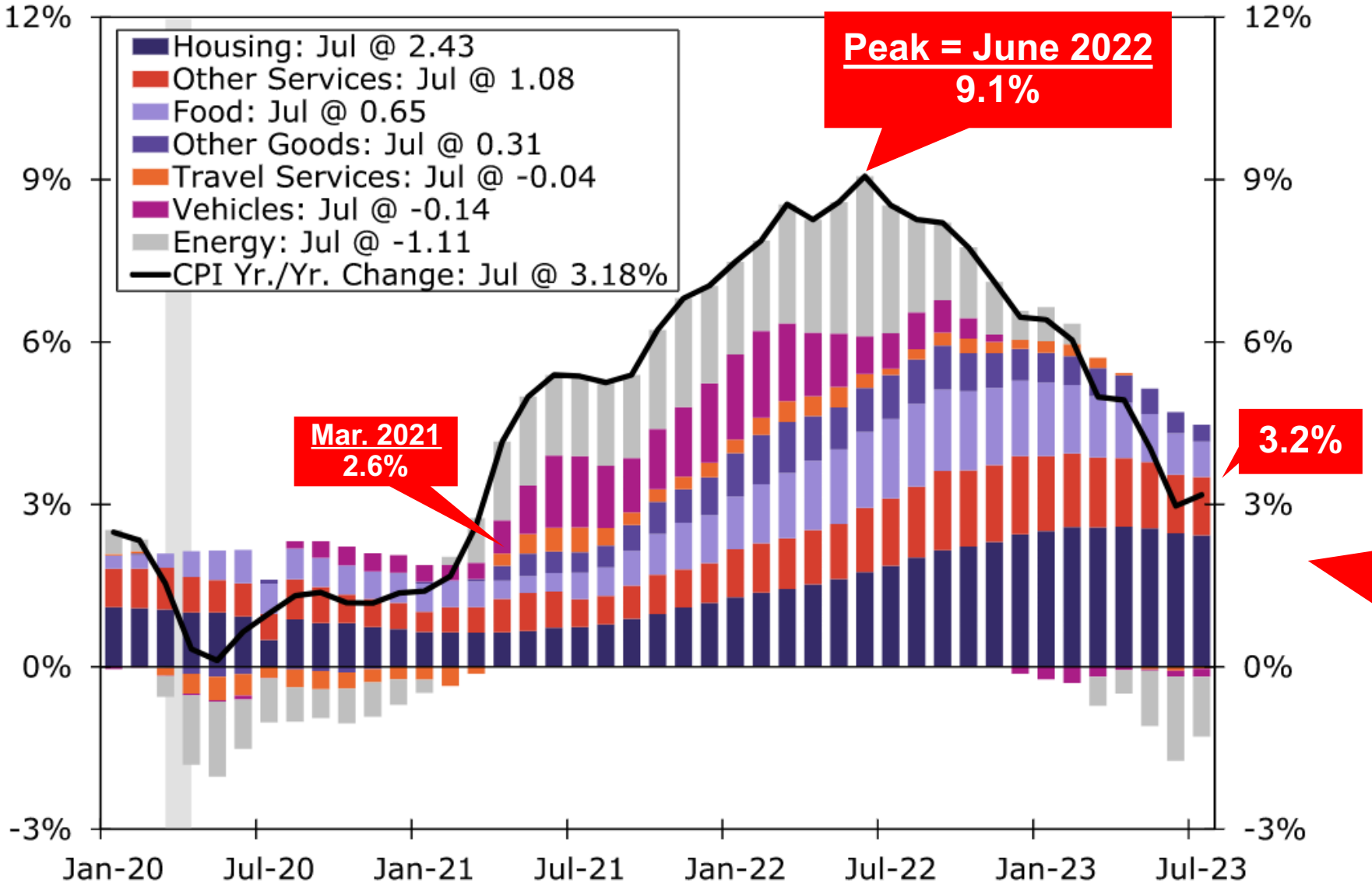
Reserve Inadequacy

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 (9/23); USC Center for Risk and Uncertainty Management.

Contribution to CPI by Category: July 2023

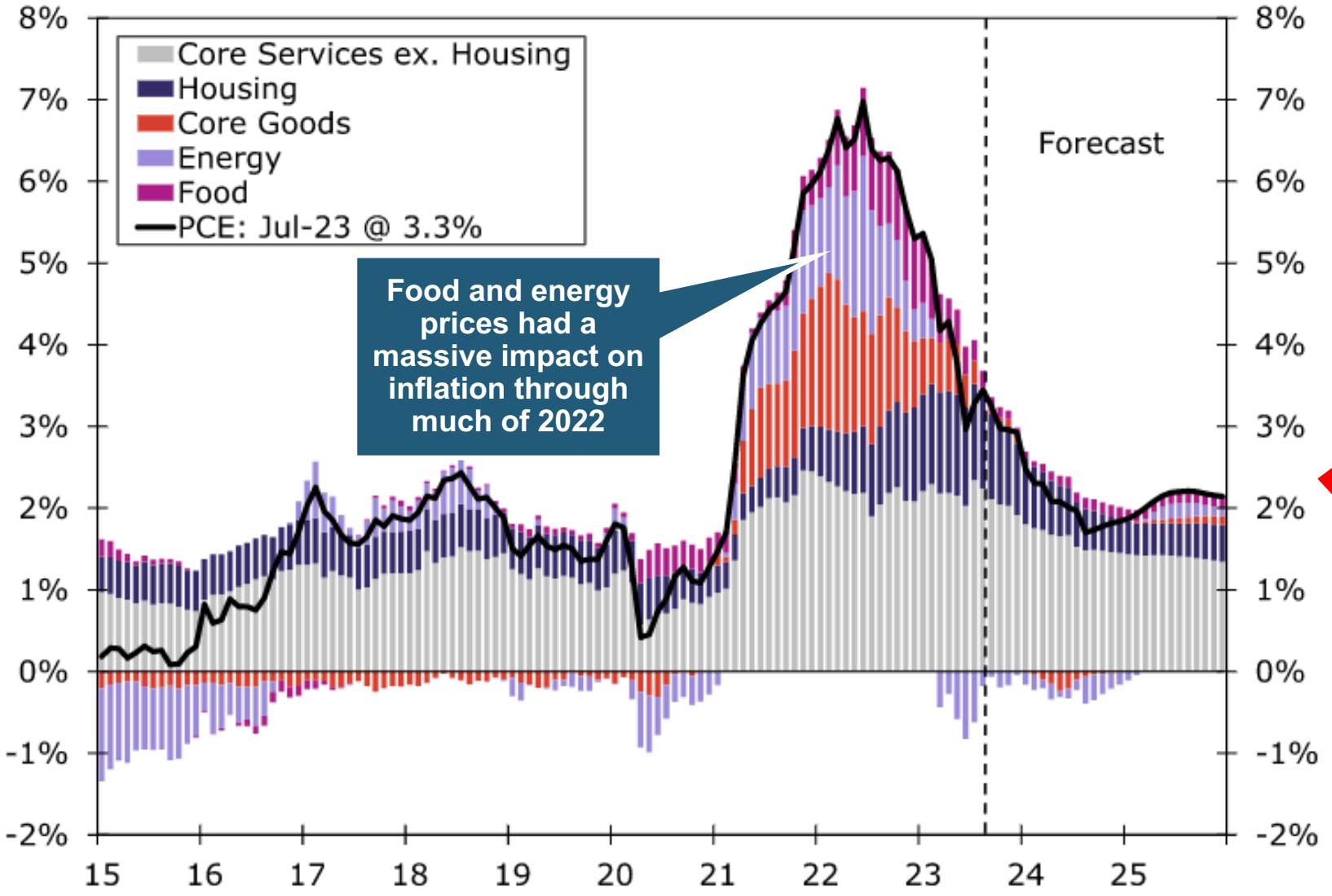


Prices were up 3.2% in July 2023 vs. a year ago—and down from the June 2022 peak of 9.1%. Even as energy prices recede from their 2022 peak, increases in Shelter (Housing), Travel and Food are the major obstacles to bringing inflation down to the Fed's 2% goal

Housing (Shelter) accounted for about 60% of the 3% increase in the CPI in mid-2023. The impact of this CPI component is beginning to diminish.

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

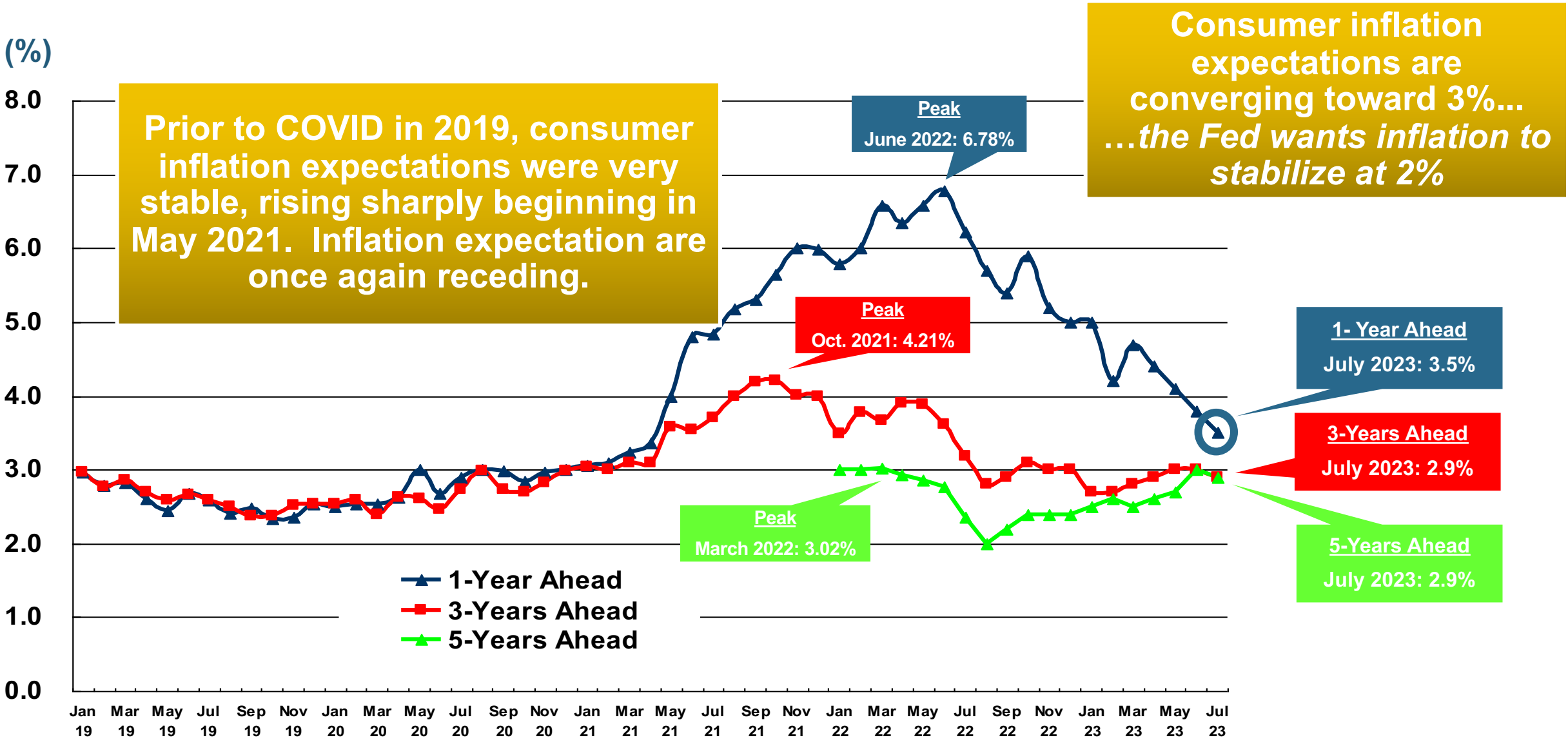
Personal Consumption Expenditure (PCE) Inflation: Sharp Decline Underway



The PCE (Fed's preferred inflation metric) is expected to continue to moderate over the next year, approaching 2% by mid-2024. Along with rising unemployment (reaching close to ~4.5% in Q2 2024), this suggests the Fed will begin to ease in H1 2024

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

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

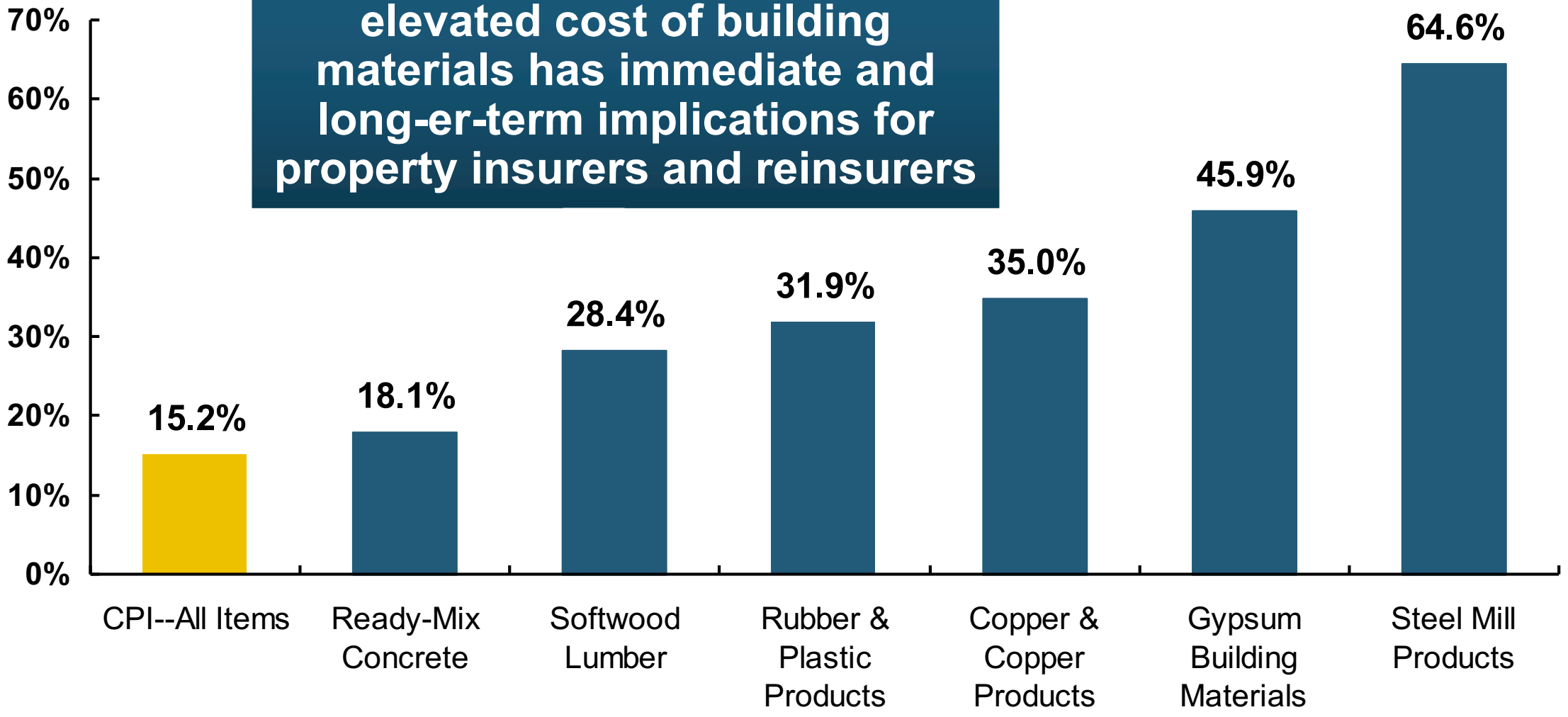


*Survey data for 5-year ahead series begin in January 2022.

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.

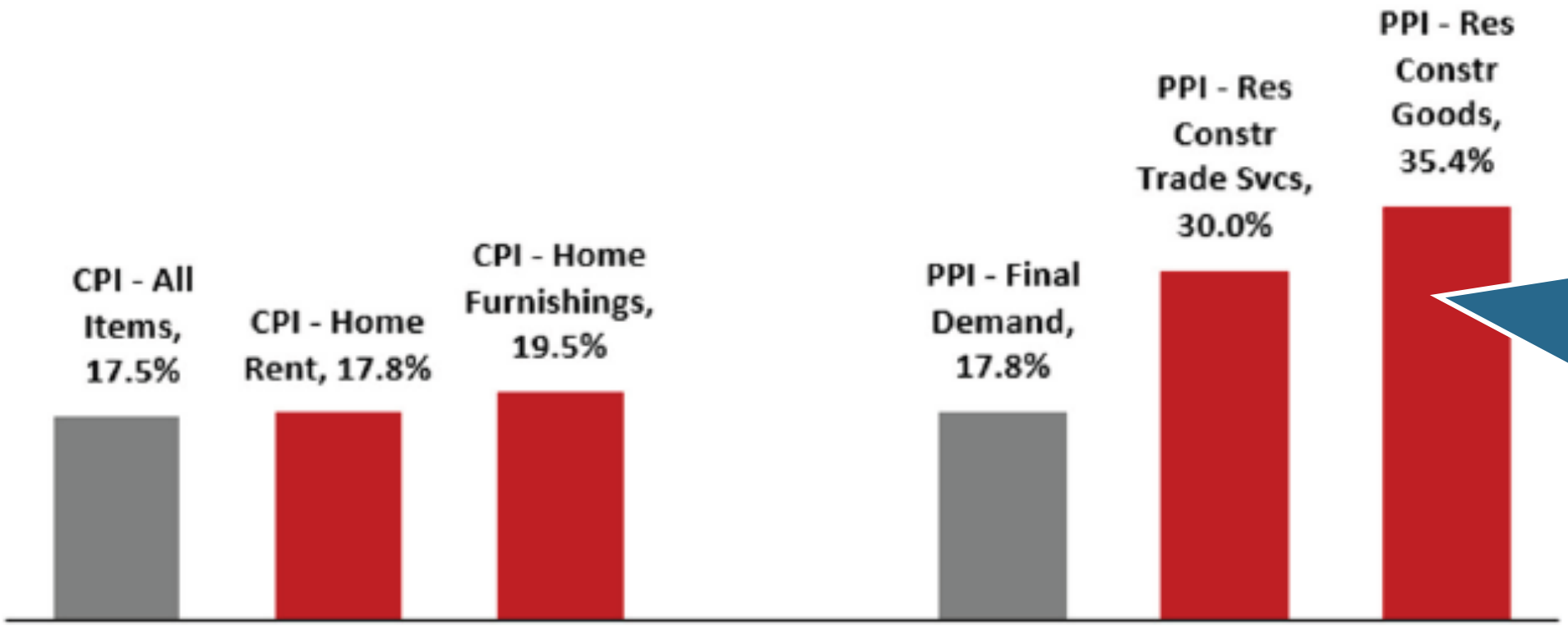
Change in Cost Indicators for Selected Construction Inputs, Jan. 2020 – Dec. 2022

The rapid increase in and still-elevated cost of building materials has immediate and long-er-term implications for property insurers and reinsurers



Source: U.S. Bureau of Labor Statistics.

Cost Indicators: Homeowners Insurance, Price Index Changes, Jan. 2020 – June 2023



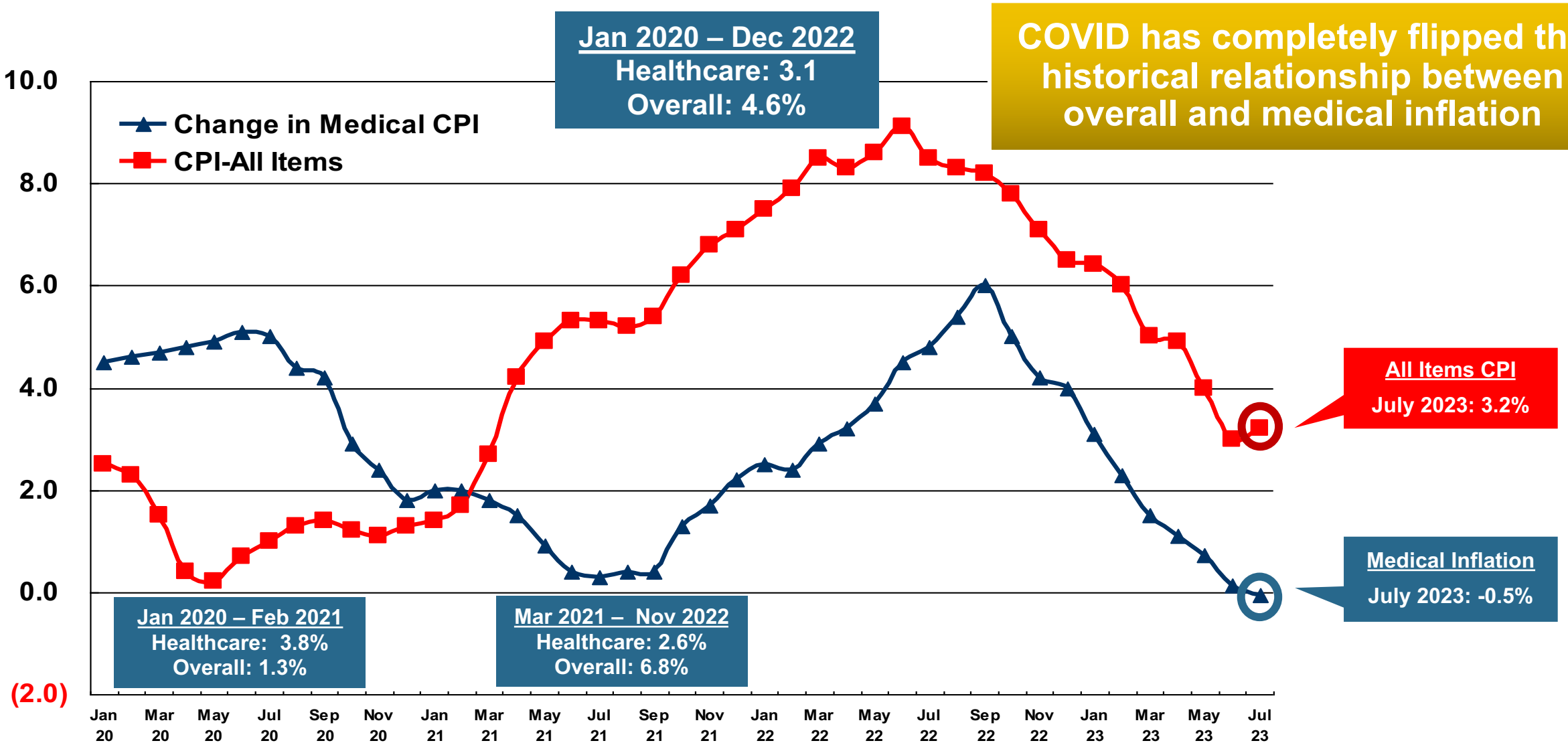
Drivers of residential (and commercial) construction and repair costs have surged since 2020

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

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.

Medical Cost Inflation vs. Overall CPI Since COVID, Jan. 2020 – July 2023 *(Percent Change from Year Ago)*



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

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

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Social Inflation: Many Interrelated Causes, Difficult to Manage

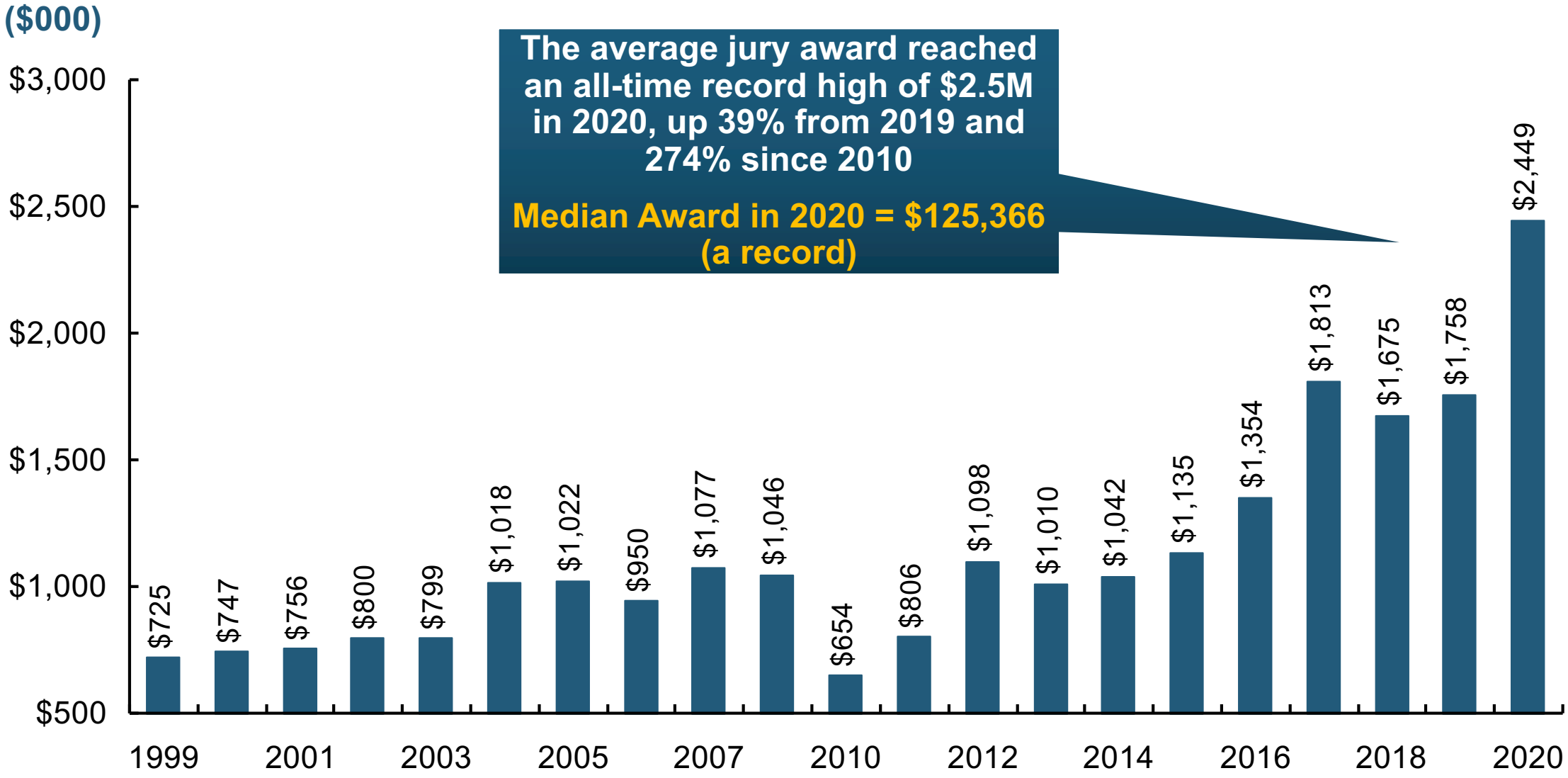
INSURANCE CLAIM COSTS

- 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)

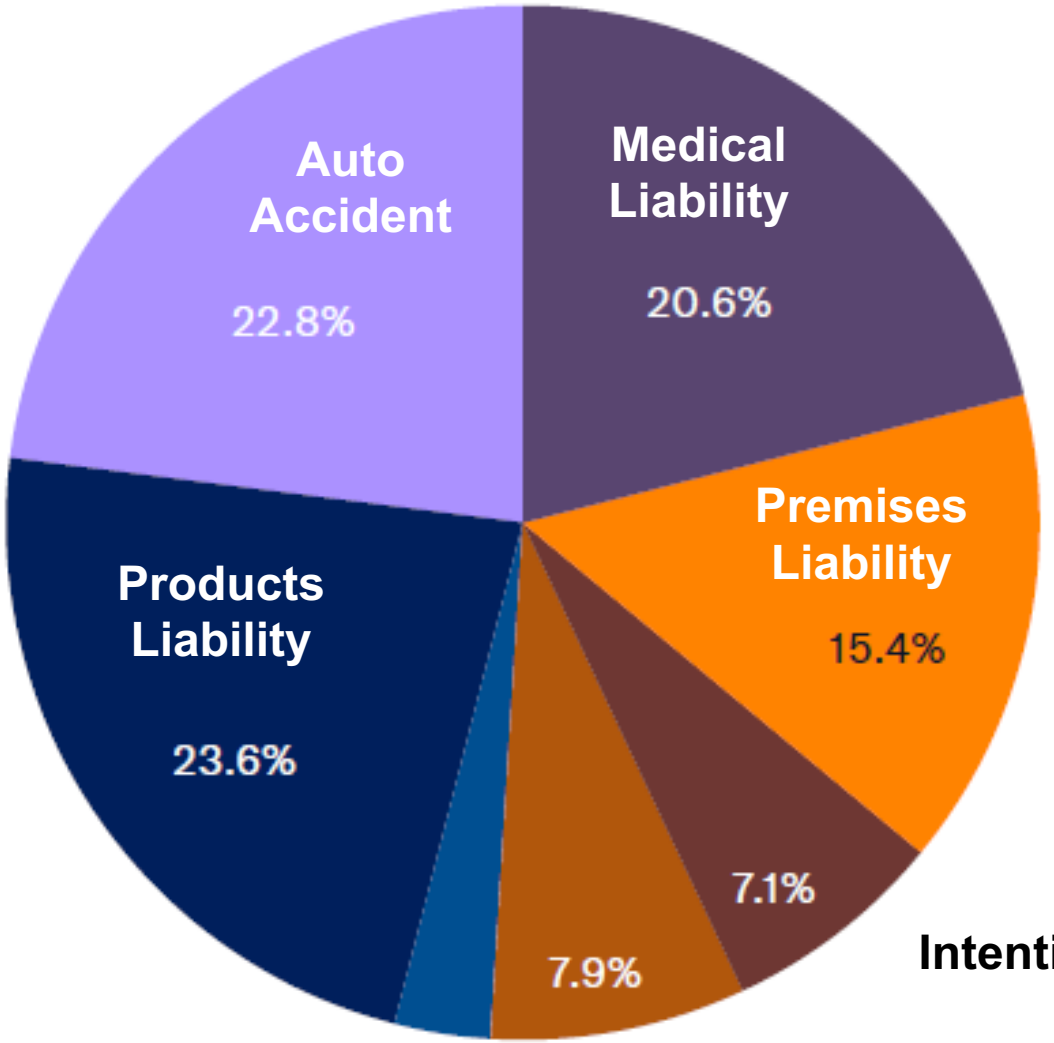
Source:Risk and Uncertainty Management Center, Univ. of South Carolina, adapted from Verisk “Social Inflation” presentation (2020).

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.

Nuclear Verdicts by Case Type: 2010 – 2019*



Products, Auto and Medical Liability account for 2/3 of nuclear verdicts

**The ILR defines a nuclear verdict as a jury verdict of $10M or more.*

Source: US Chamber of Commerce Institute for Legal Reform (Sept. 2022), "*Nuclear Verdicts: Trends, Causes and Solutions,*" accessed at: https://instituteforlegalreform.com/research/nuclear-verdicts-trends-causes-and-solutions/. Risk and Uncertainty Management Center, Univ. of SC.

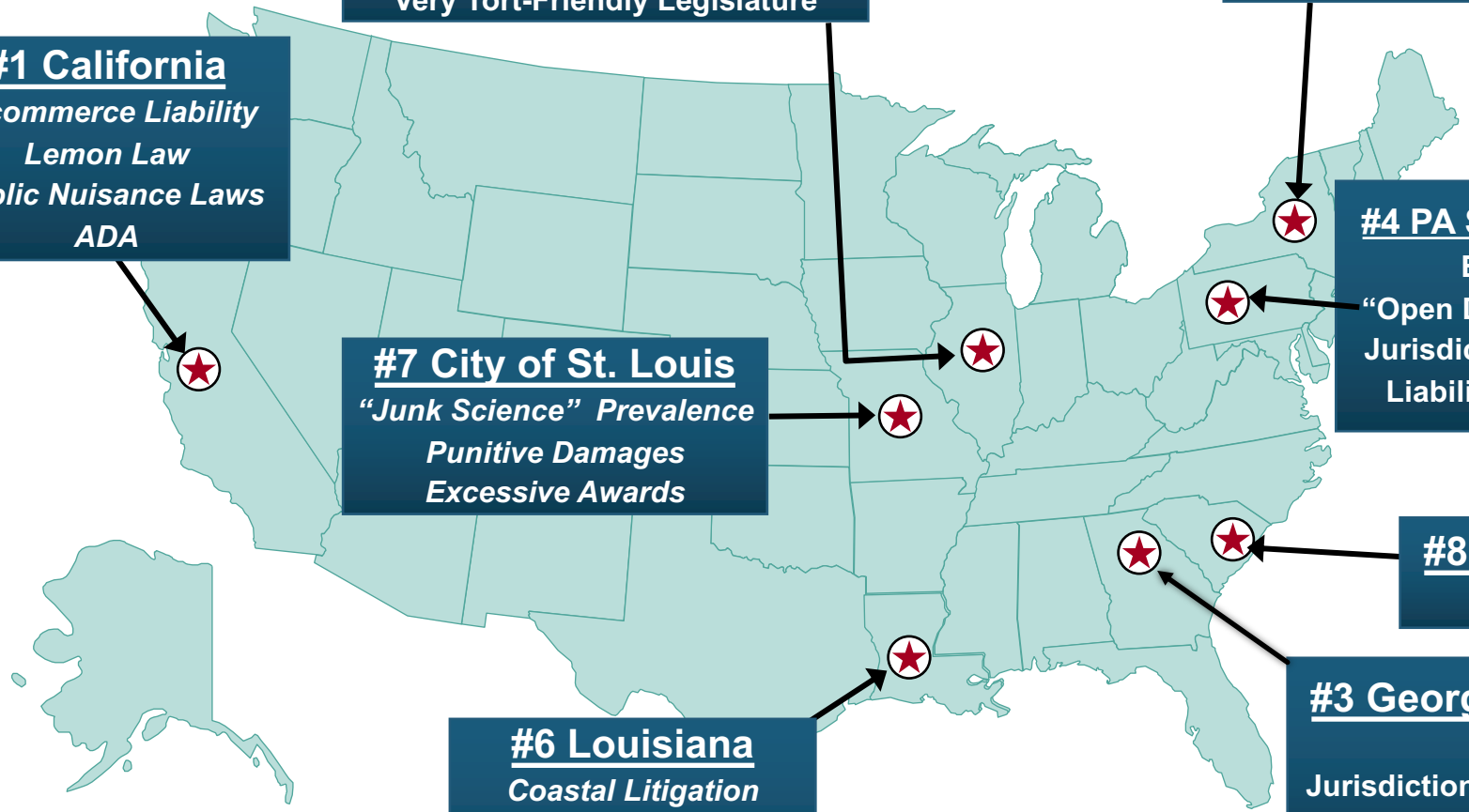
The Nation's Judicial Hellholes: 2021/2022

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.



#1 California
E-commerce Liability
Lemon Law
Public Nuisance Laws
ADA

#5 Illinois: Cook, Madison, St. Clair Counties
Biometric Information Privacy Act
Very Tort-Friendly Legislature

#2 New York
Asbestos
ADA
Climate/Energy

#4 PA Supreme Ct./Phil. Cts.
Excessive Verdicts
"Open Door" to non-PA plaintiffs
Jurisdiction of Out-of-State Cos.
Liability expanding decisions

#7 City of St. Louis
"Junk Science" Prevalence
Punitive Damages
Excessive Awards

#8 South Carolina
Asbestos

#6 Louisiana
Coastal Litigation
Deceptive Lawyer Ads
Judicial Misconduct

#3 Georgia Supreme Ct.
Bad Faith
Jurisdiction of Out-of-State Cos.
Nuclear Verdicts

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
  - Auto lines, property and reinsurance segments are stressed but not impaired
- CAT Trends Remain a Challenge—Driving Premium to Surplus Lines Markets
- Odds of a "Soft Landing" Increasing but Shallow Recession is Still Likely in Early 2024
- Asset Price Volatility Will Persist as Inflation Uncertainty
- Interest Rates Will Remain "Higher for Longer"
- Higher Interest Rates Provide a Modest Tailwind for Investment Income
- Inflationary Pressures Persist in 2023, But Are Subsiding (Peak Reached in June 2022)
- Loss Cost Challenges Remain but Should Ease in 2023/24—Inflation, Supply Chain
- Legal System Abuse Issues Remain a Long-Term Challenge

UNIVERSITY OF
SOUTH CAROLINA
Darla Moore School of Business

Thank you for your time and your attention!

Twitter: twitter.com/bob_hartwig

For a copy of this presentation, email me at robert.hartwig@moore.sc.edu or

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