Global Economic and Geopolitical Risks:
Trends and Challenges Impacting Insurance and Reinsurance Markets

AIRROC Legacy Transactions Forum
Jersey City, NJ
October 16, 2023

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

UNIVERSITY OF
SOUTH CAROLINA
Darla Moore School of Business

Outline: Economic and Geopolitical Risks & (Re)Insurance

- Risk to Global Economic Growth
- The Global Inflation Threat: A Long War
- P/C Financial Overview & Outlook in the Post-COVID, High-Inflation Era
  - Underwriting Performance
  - Investment Market Issues: Volatility Rules and the Hawkish Fed
  - CAT Loss Trends
- Geopolitical Challenges: Interconnected Crises Impacting Insurers
- Summary
- Q&A

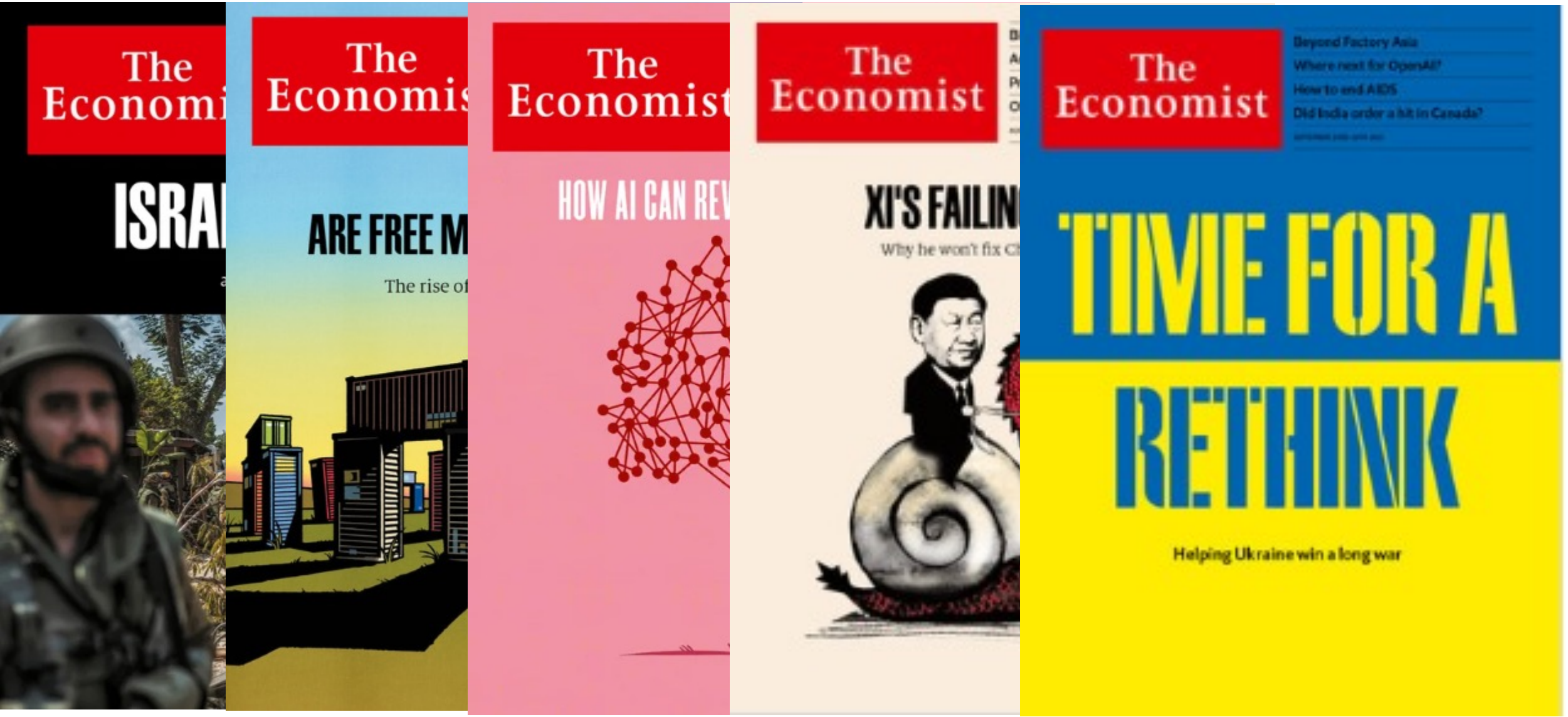
Risks to Global Economic Growth

Is a Global Recession Imminent?

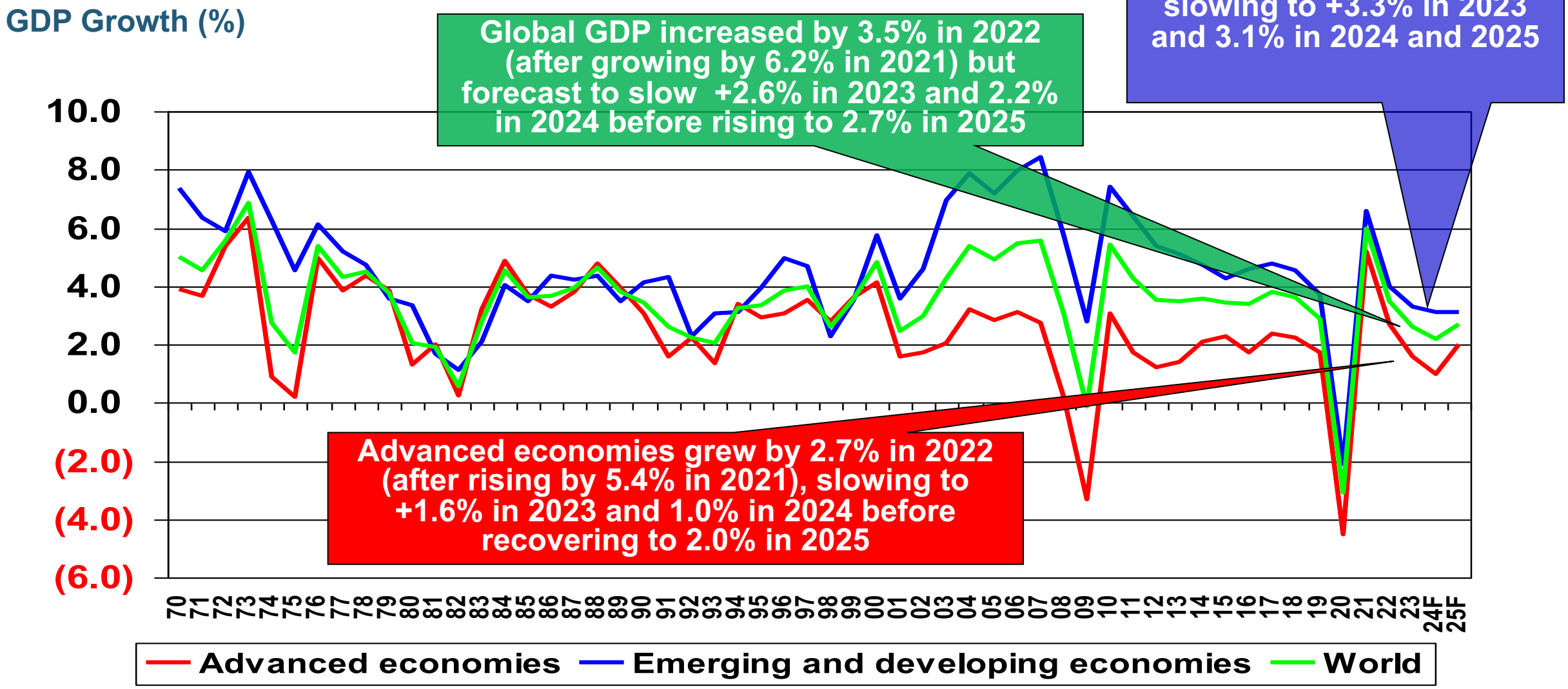
What About Recession in the US?

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

The World Is a Threatening Place Today—Economic Threats, Geopolitics, Technology All Impact (Re)Insurers

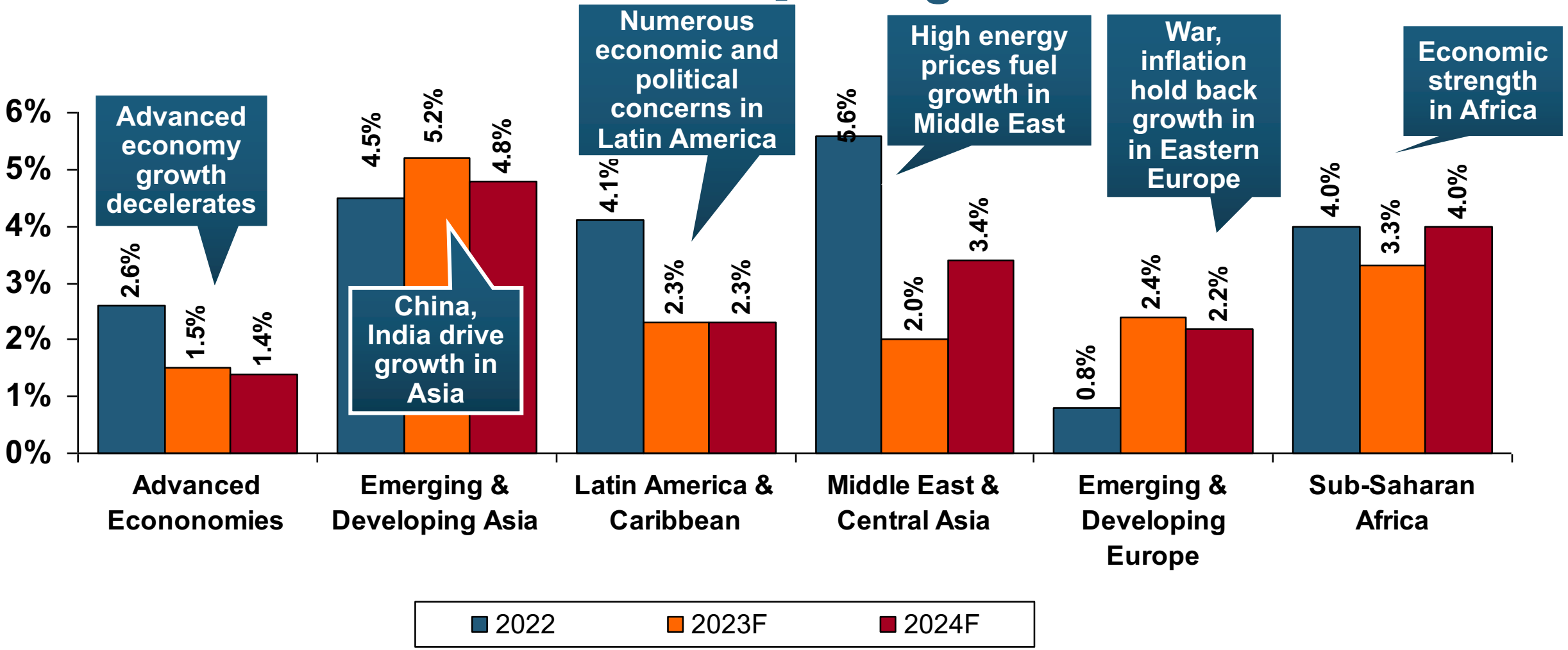


GDP Growth: Advanced & Emerging Economies vs. World, 1970-2025F



Source: International Monetary Fund, *World Economic Outlook* (1970-2022); Wells Fargo Economics (2023F – 2025F) [as of Sept. 2023]; Univ. of South Carolina, Risk and Uncertainty Management Center.

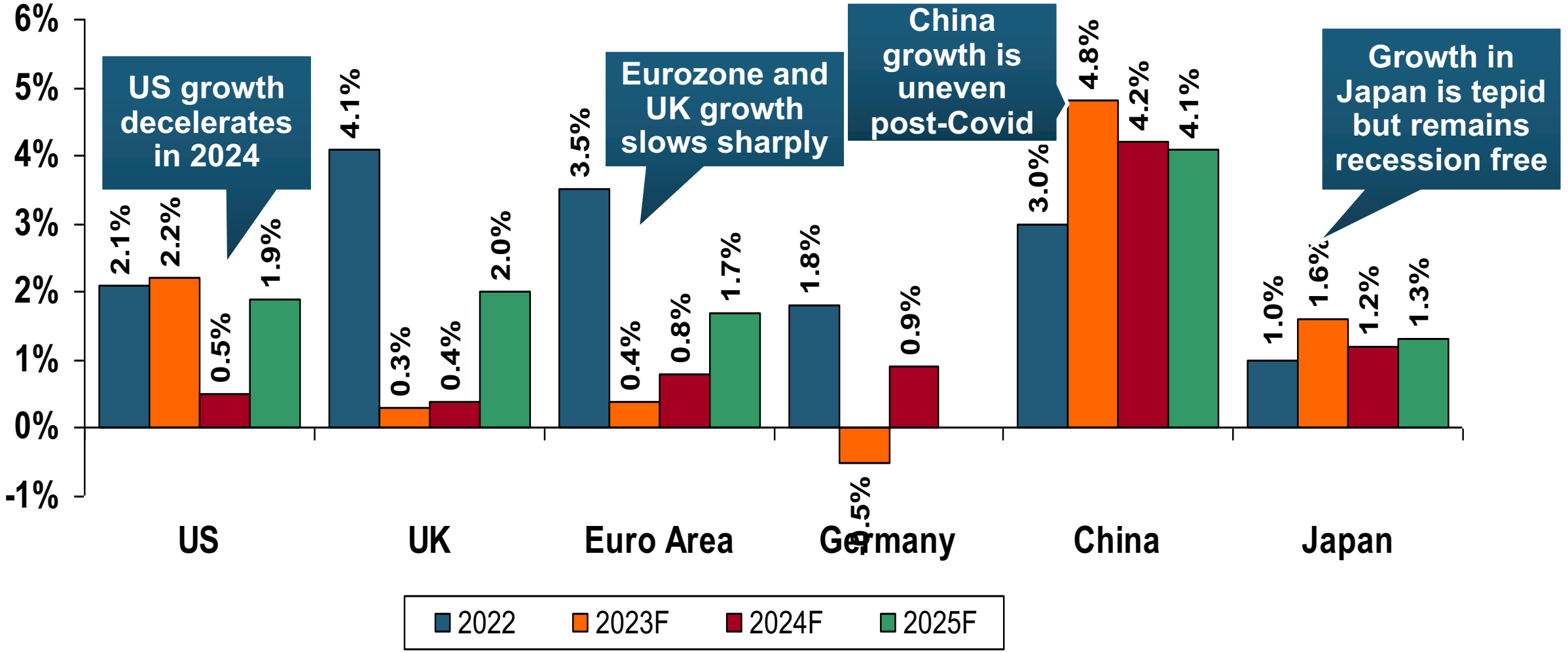
Real GDP Growth Forecasts: Major Regions: 2022 – 2024F



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

Source: International Monetary Fund, *World Economic Outlook*, Oct. 2023 at: https://www.imf.org/en/Publications/WEO/Issues/2023/10/10/world-economic-outlook-october-2023. ; Univ. of South Carolina, Risk and Uncertainty Management Center.

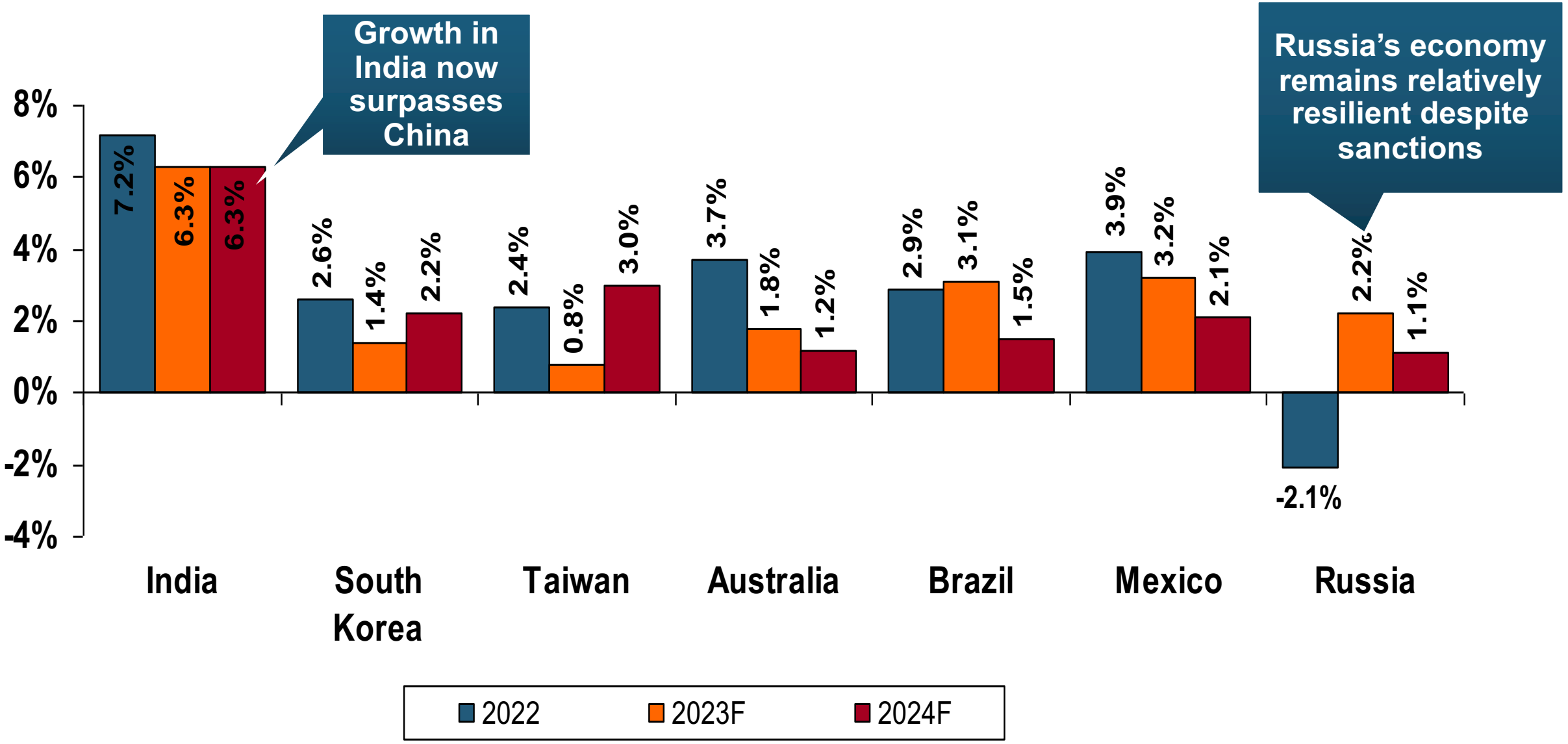
Real GDP Growth Forecasts: Major Economies: 2022 – 2024F



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

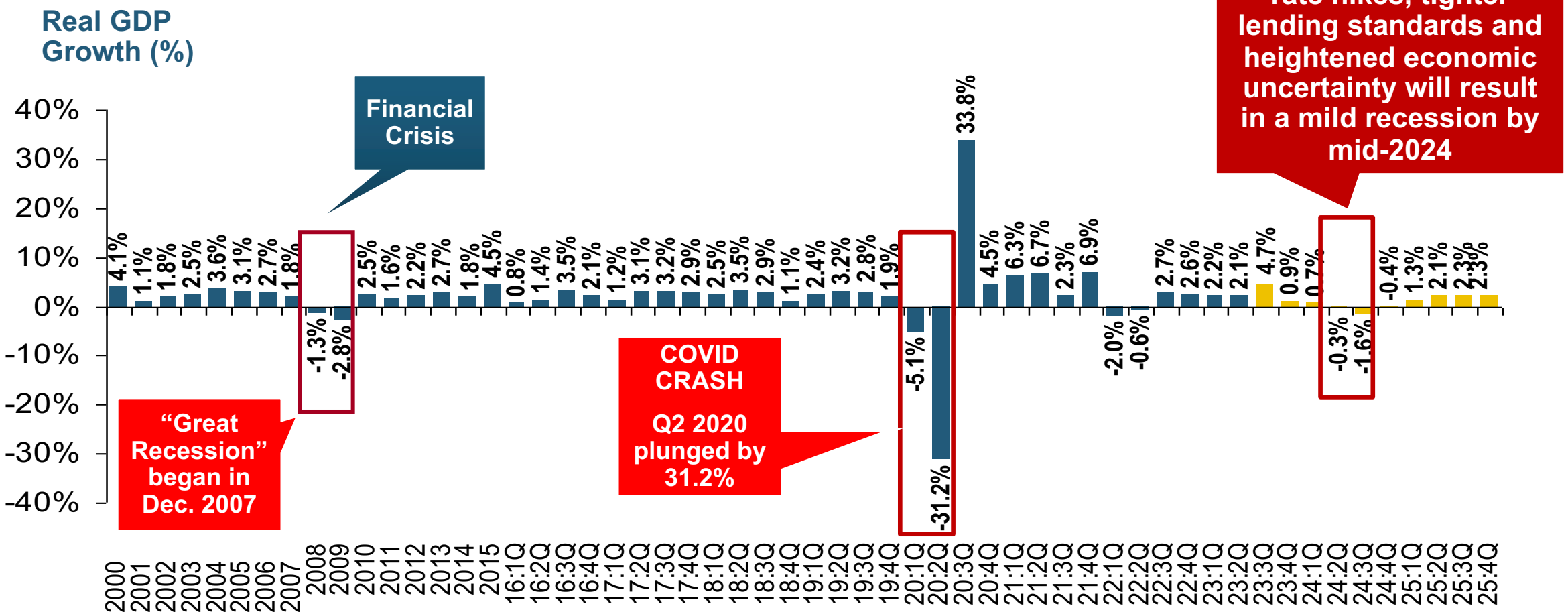
Source: IMF, *World Economic Outlook*, Oct. 2023 at: https://www.imf.org/en/Publications/WEO/Issues/2023/10/10/world-economic-outlook-october-2023 and Wells Fargo Economics (9/23); Univ. of South Carolina, Risk and Uncertainty Management Center.

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



Source: IMF, *World Economic Outlook*, Oct. 2023 at: https://www.imf.org/en/Publications/WEO/Issues/2023/10/10/world-economic-outlook-october-2023 and Wells Fargo Economics (9/23); Univ. of South Carolina, Risk and Uncertainty Management Center.

US Real GDP Growth*



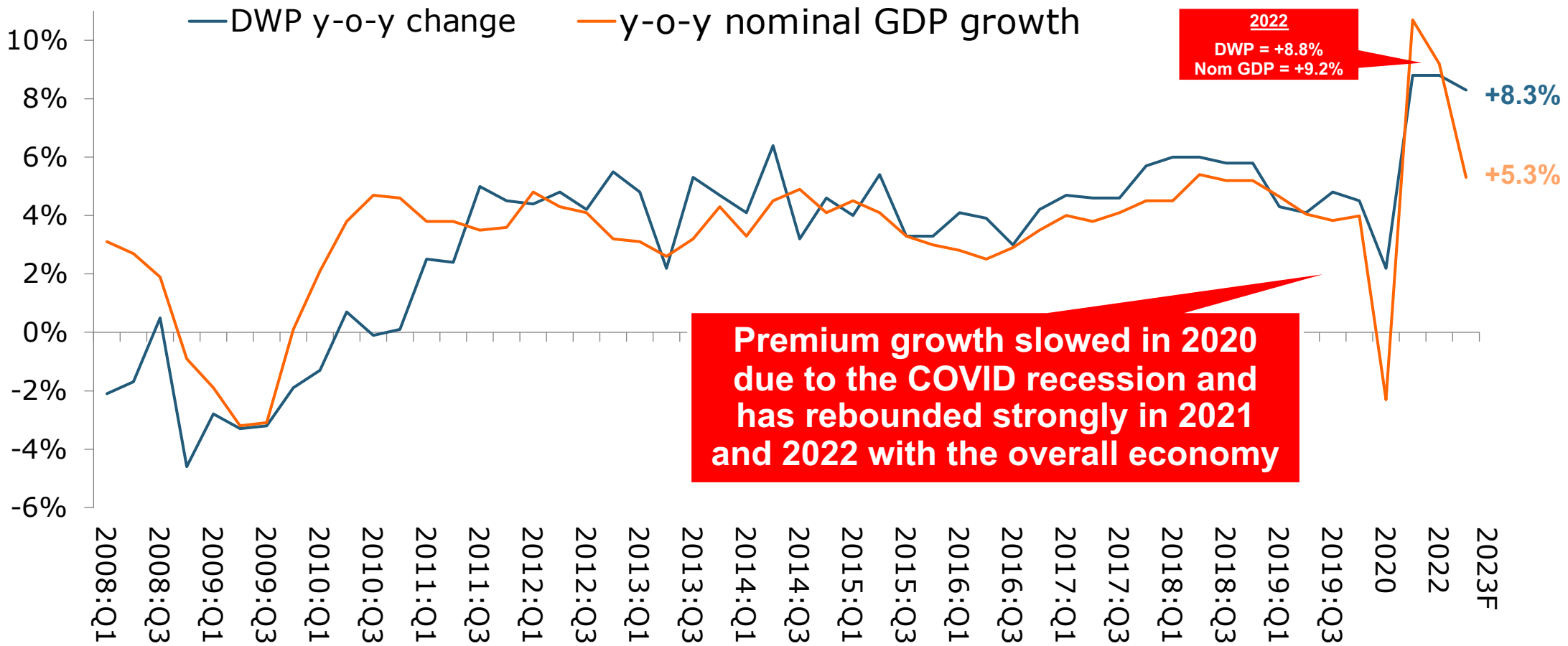
Demand for Insurance Increased Materially in 2021/22 During Recovery from the Pandemic—Particularly in Economically Sensitive Commercial Lines Such as WC. Premium growth will likely slow in 2023/24 as Economy Slows.

* Estimates/Forecasts from Wells Fargo Securities.

Source: US Department of Commerce, Wells Fargo Securities (10/23); 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



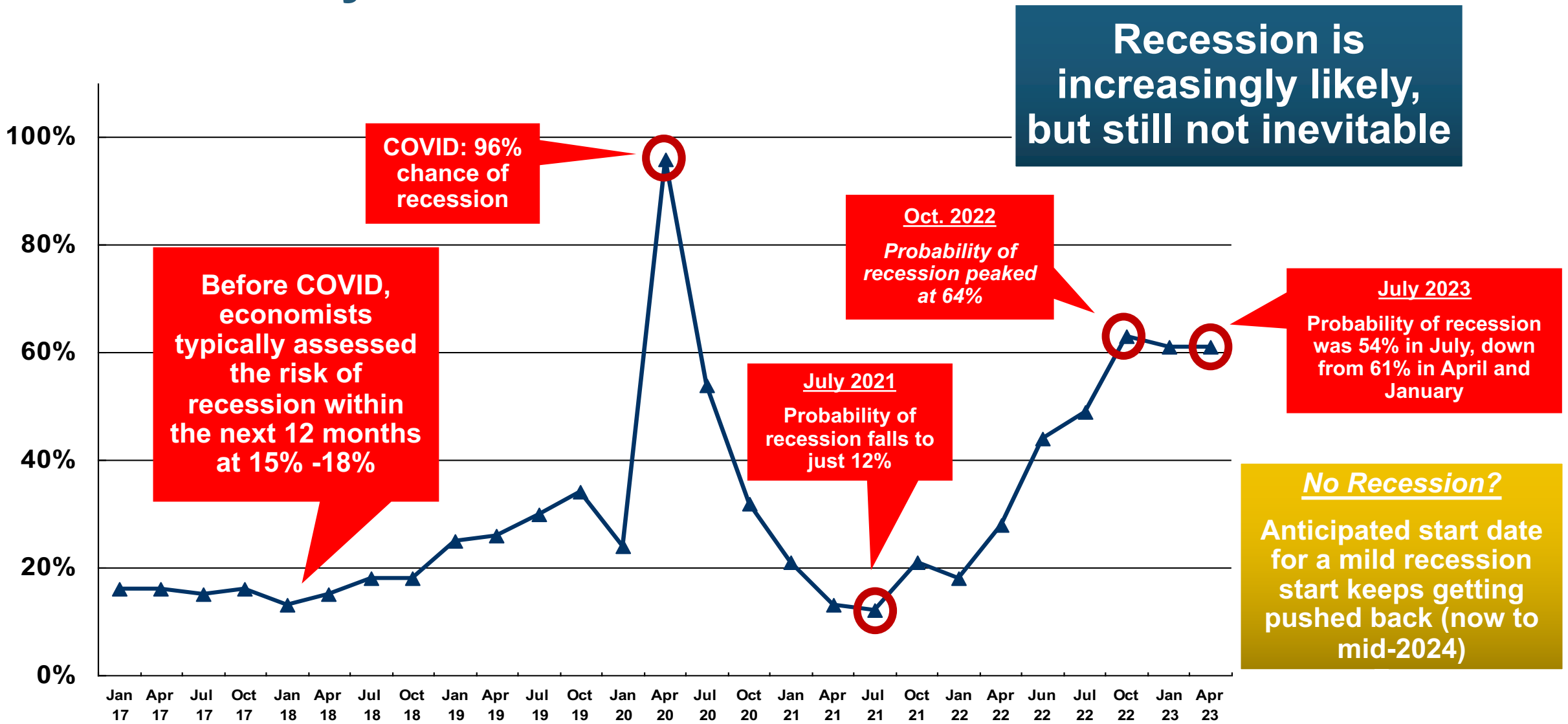
Premium growth slowed in 2020 due to the COVID recession and has rebounded strongly in 2021 and 2022 with the overall economy

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.

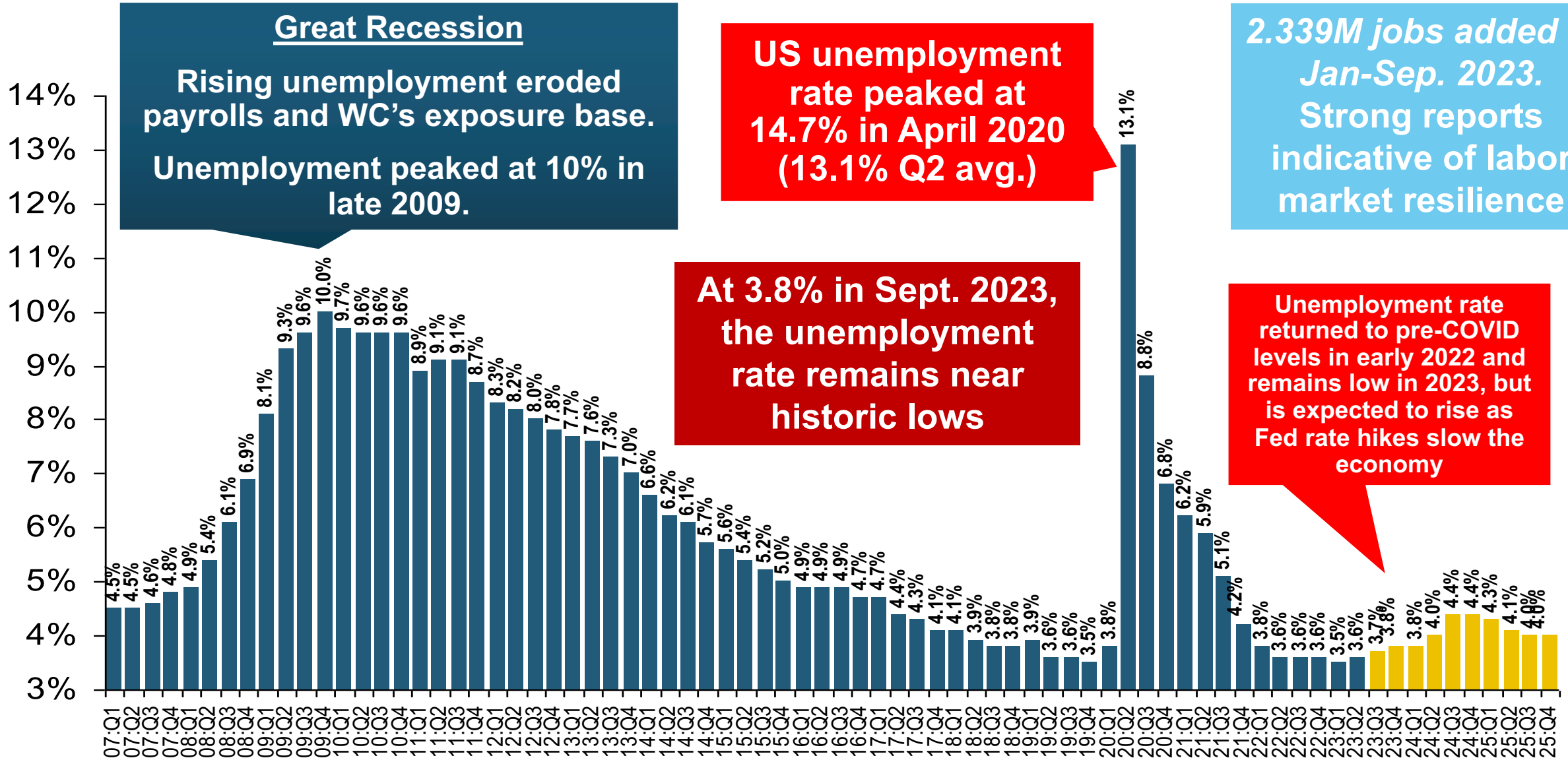
Probability the U.S. Is in a Recession Within Next 12 Months: Jan. 2017 – July 2023*



*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.

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



Sources: US Bureau of Labor Statistics; Wells Fargo Securities (10/23 edition); Risk and Uncertainty Management Center, University 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

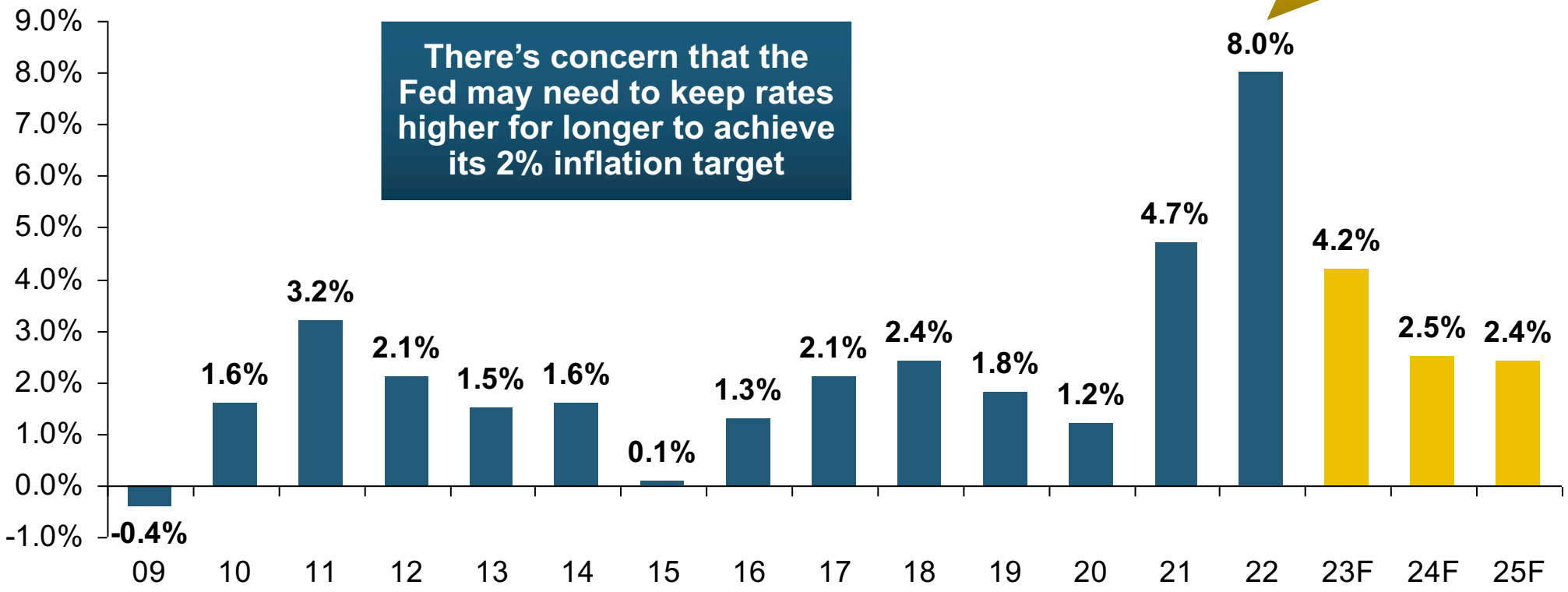
Inflation is the #1 Concern of U.S. Consumers and Corporations…
And in Many Countries Throughout the World

It's Also a Major Concern of (Re)Insurers

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

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 and labor market tightness

Percentage Change (%)



There's concern that the Fed may need to keep rates higher for longer to achieve its 2% inflation target

Insurer Concerns About Inflation

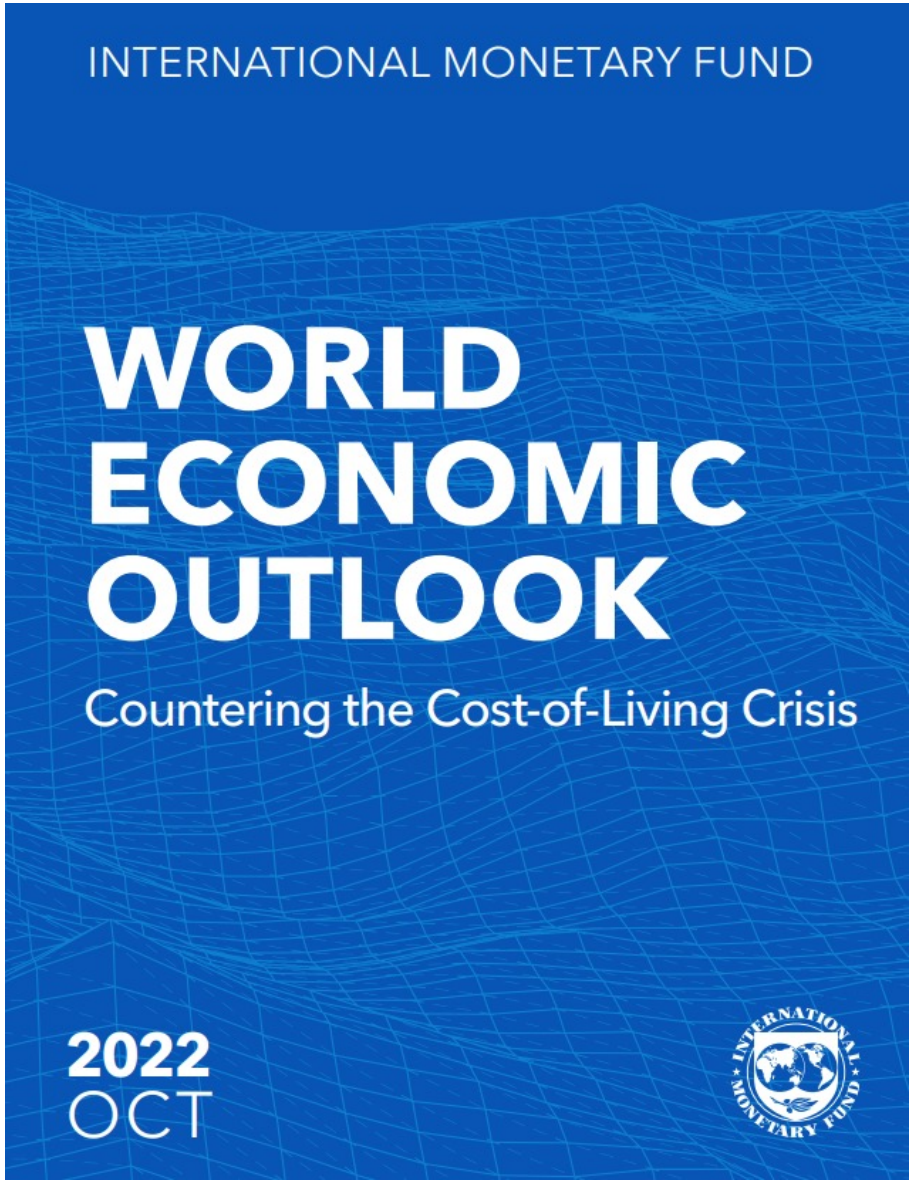
- **Rate Inadequacy**
- **Reserve Inadequacy**
- **Insurance-to-Value**

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

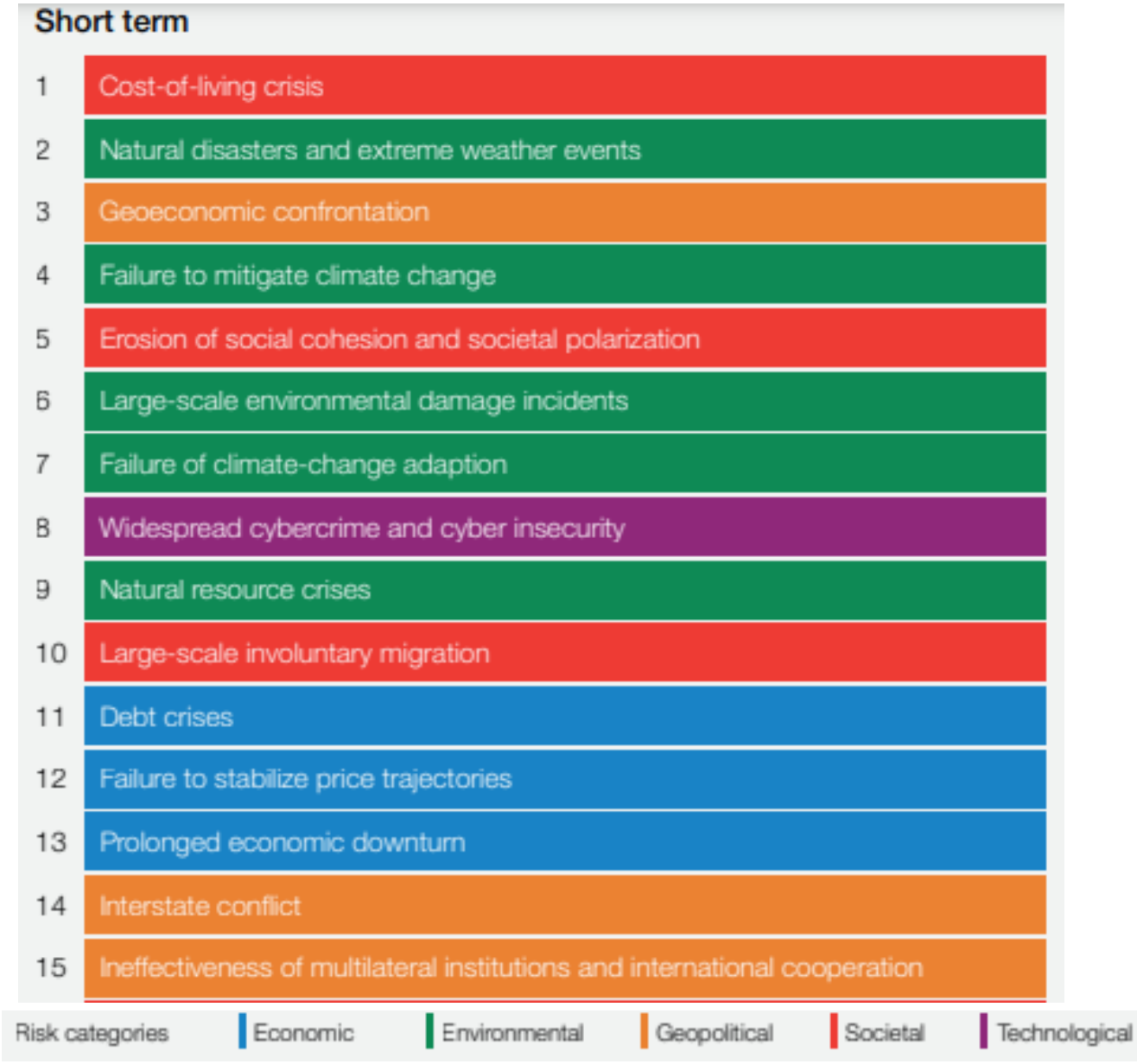
Source: U.S. Bureau of Labor Statistics; Wells Fargo Securities (10/23); USC Center for Risk and Uncertainty Management.

Inflation: Many View It as a “Crisis”

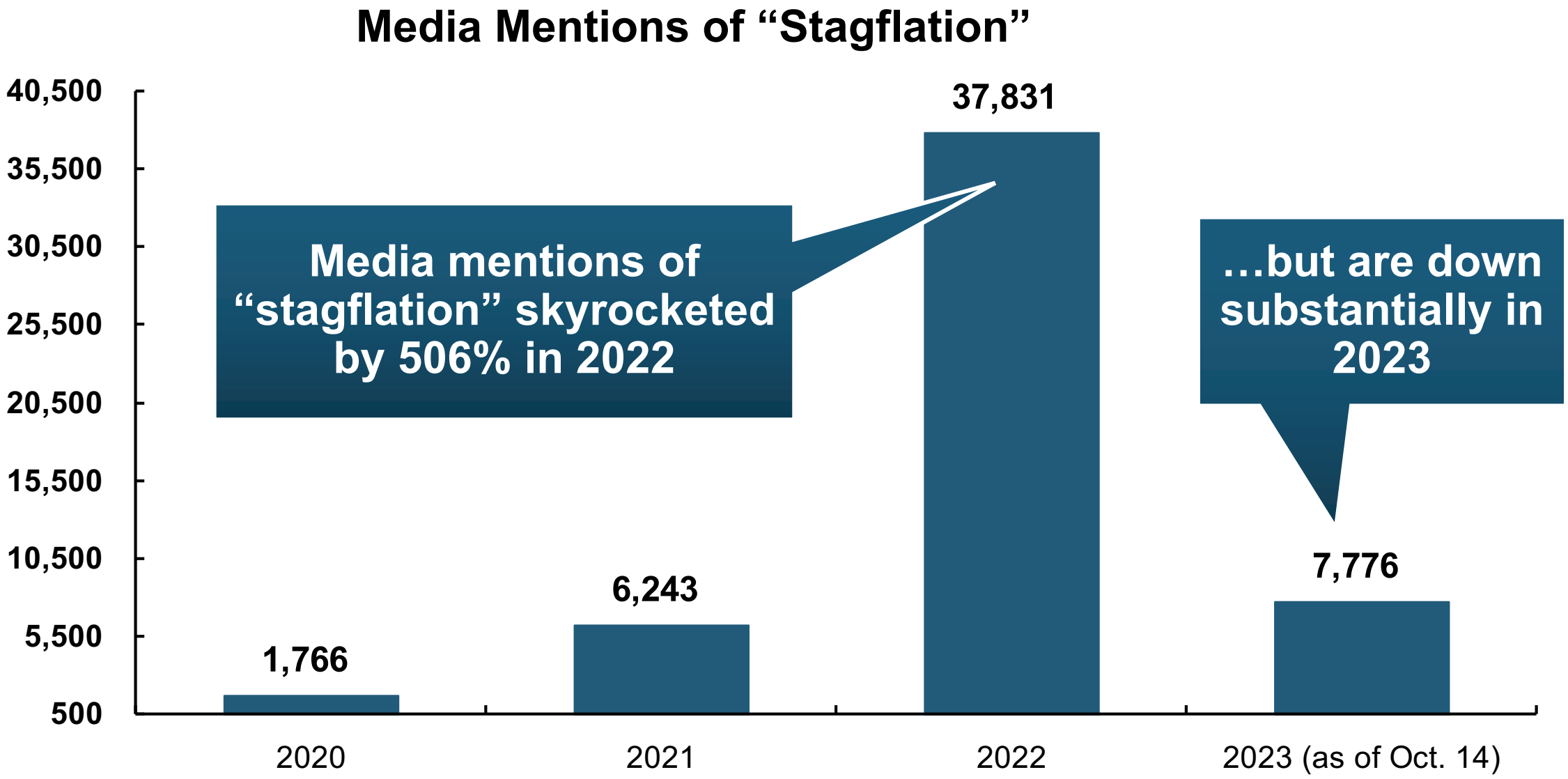
IMF: Oct. 2022



World Economic Forum (Davos): Jan. 2023



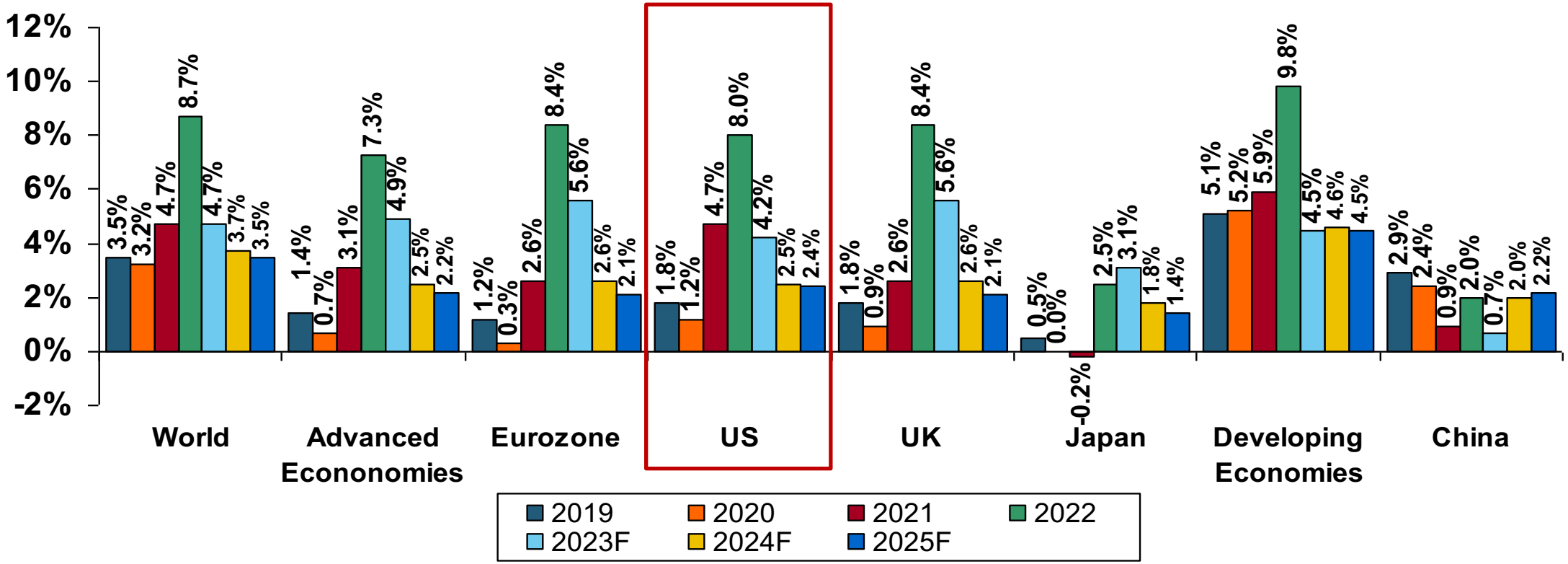
Media Pundits in 2022 Were Quick to Assert that the Scourge of the 1970s—Stagflation—Was Upon Us



Source: Factiva search as of Oct. 14, 2023.; Risk and Uncertainty Management Center, Univ. of South Carolina.

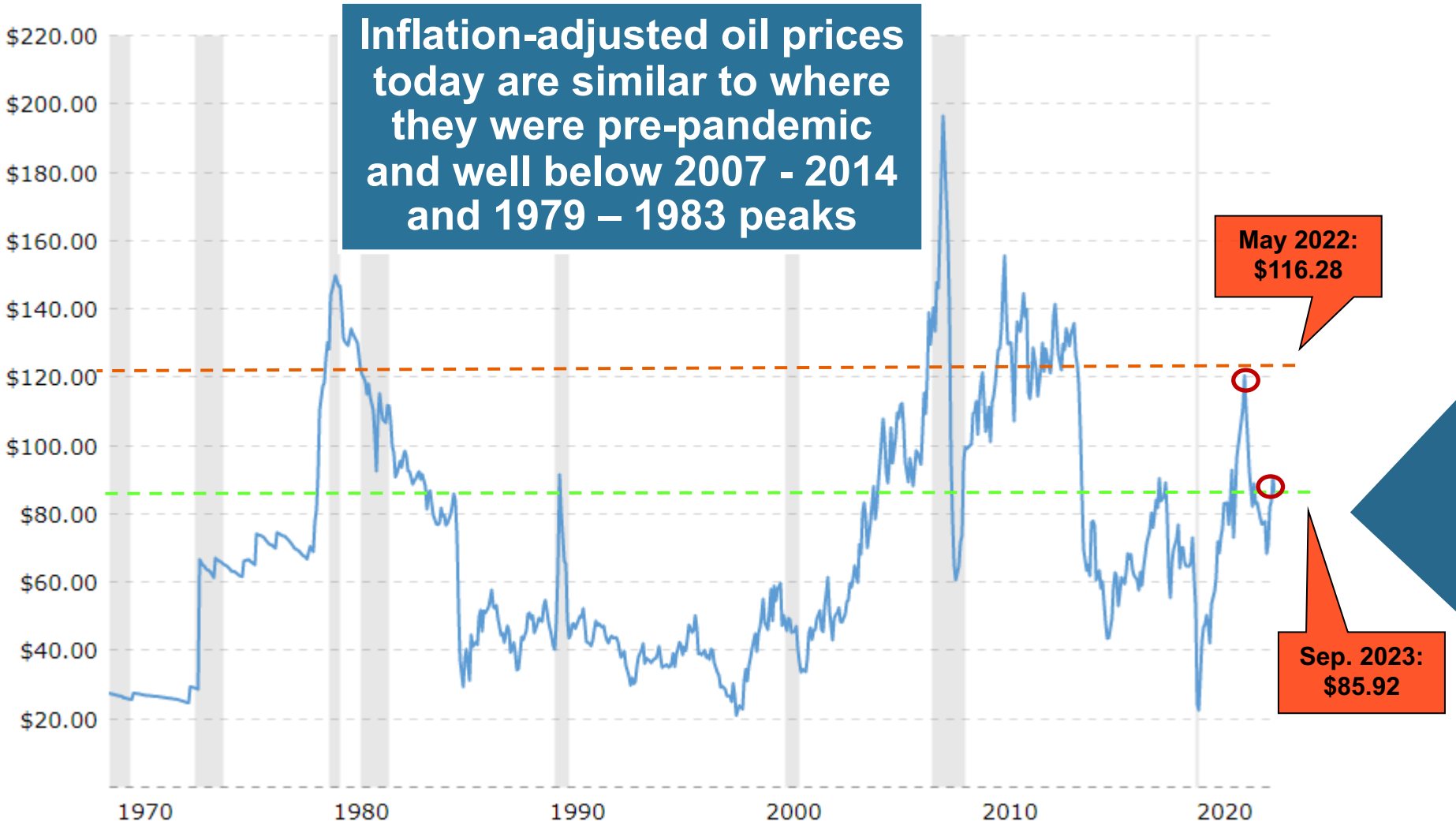
Inflation: A Global Phenomenon – Outlook through 2025F

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

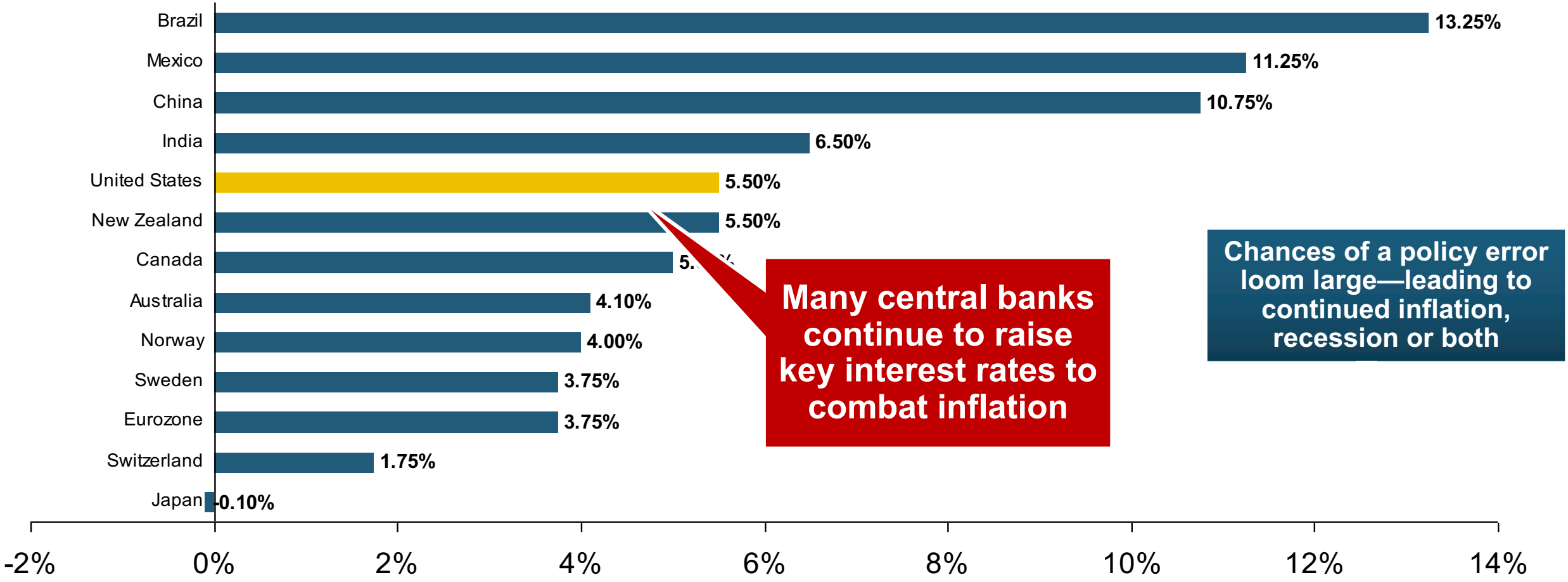
Crude Oil Prices: Price per Barrel,
Jan. 1970 – Sept. 2023 (Inflation Adjusted)



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 10/11/23 at: https://www.macrotrends.net/1369/crude-oil-price-history-chart; Risk and Uncertainty Management Center, University of South Carolina.

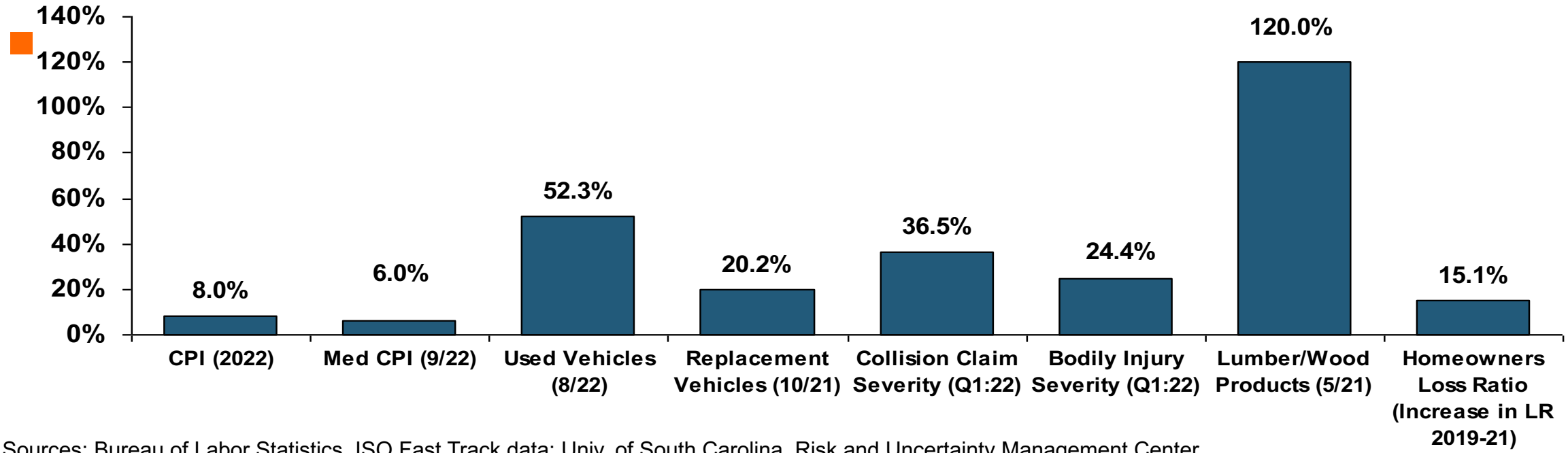
Central Bank Key Policy Rates (End of Q3 2023):
The Global War Against Inflation Rages On…



Source: Wells Fargo Economics (9/23); USC Center for Risk and Uncertainty Management.

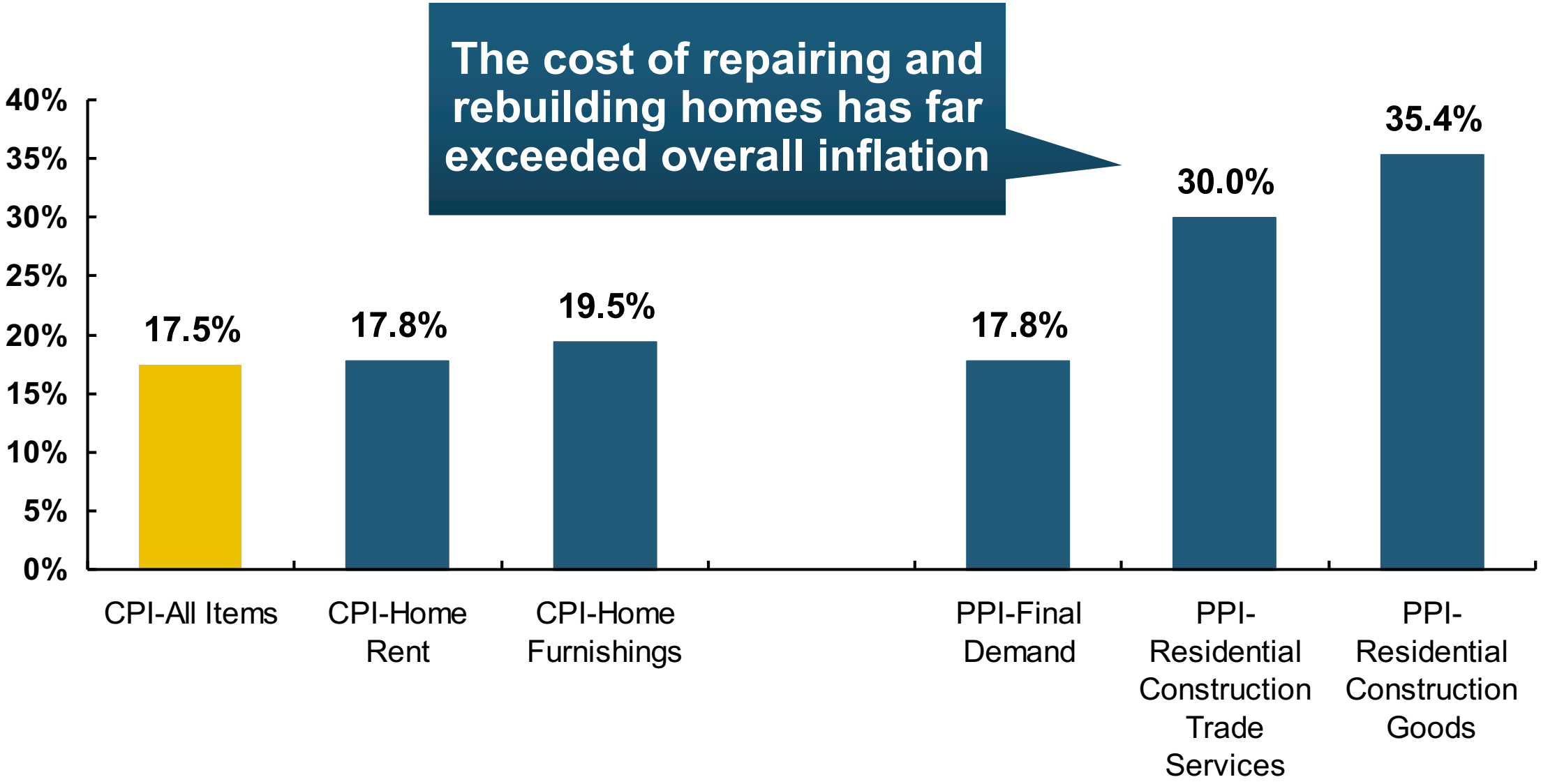
Inflation: Large, Immediate Impacts for Insurers

- Claims severities across property, auto and other lines have surged
- 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)
- Insurance-to-Value (ITV) is an increasing concern
- Medical inflation is likely accelerate even as overall inflation eases



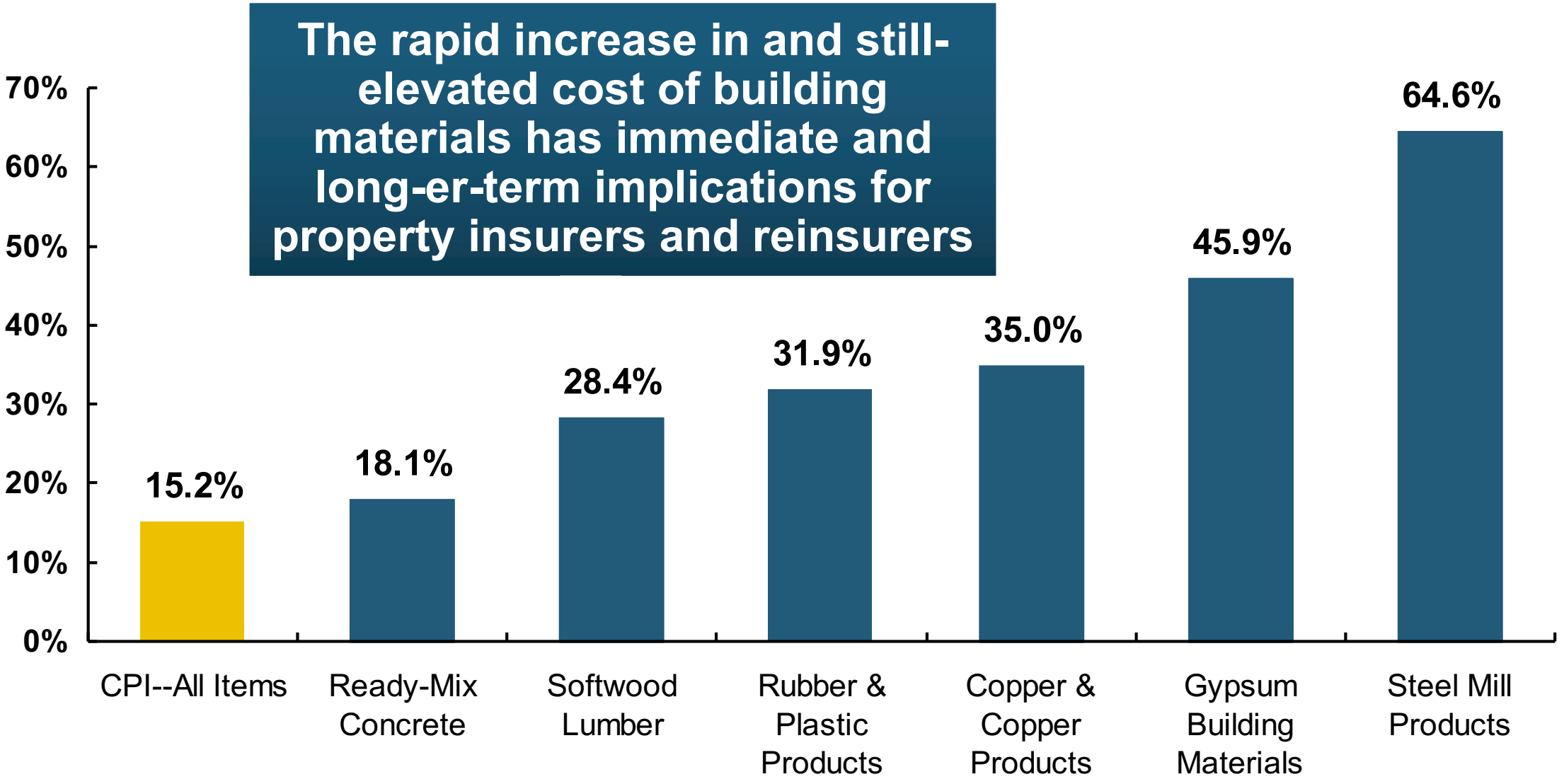
Sources: Bureau of Labor Statistics, ISO Fast Track data; Univ. of South Carolina, Risk and Uncertainty Management Center.

Change in Cost Indicators for Home Insurance (U.S.), Jan. 2020 – June 2023



Source: U.S. Bureau of Labor Statistics.

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

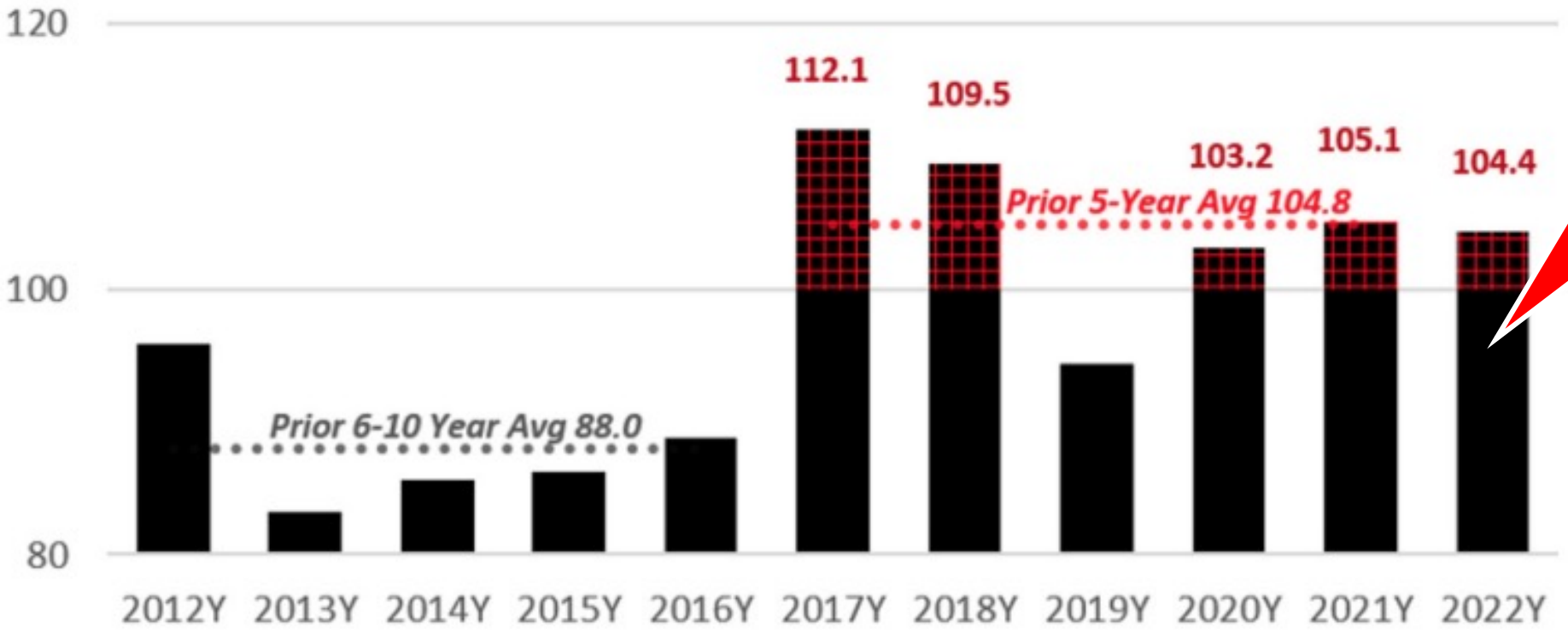


Source: U.S. Bureau of Labor Statistics.

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.

Homeowners Insurance Combined Ratio: 2012 – 2022

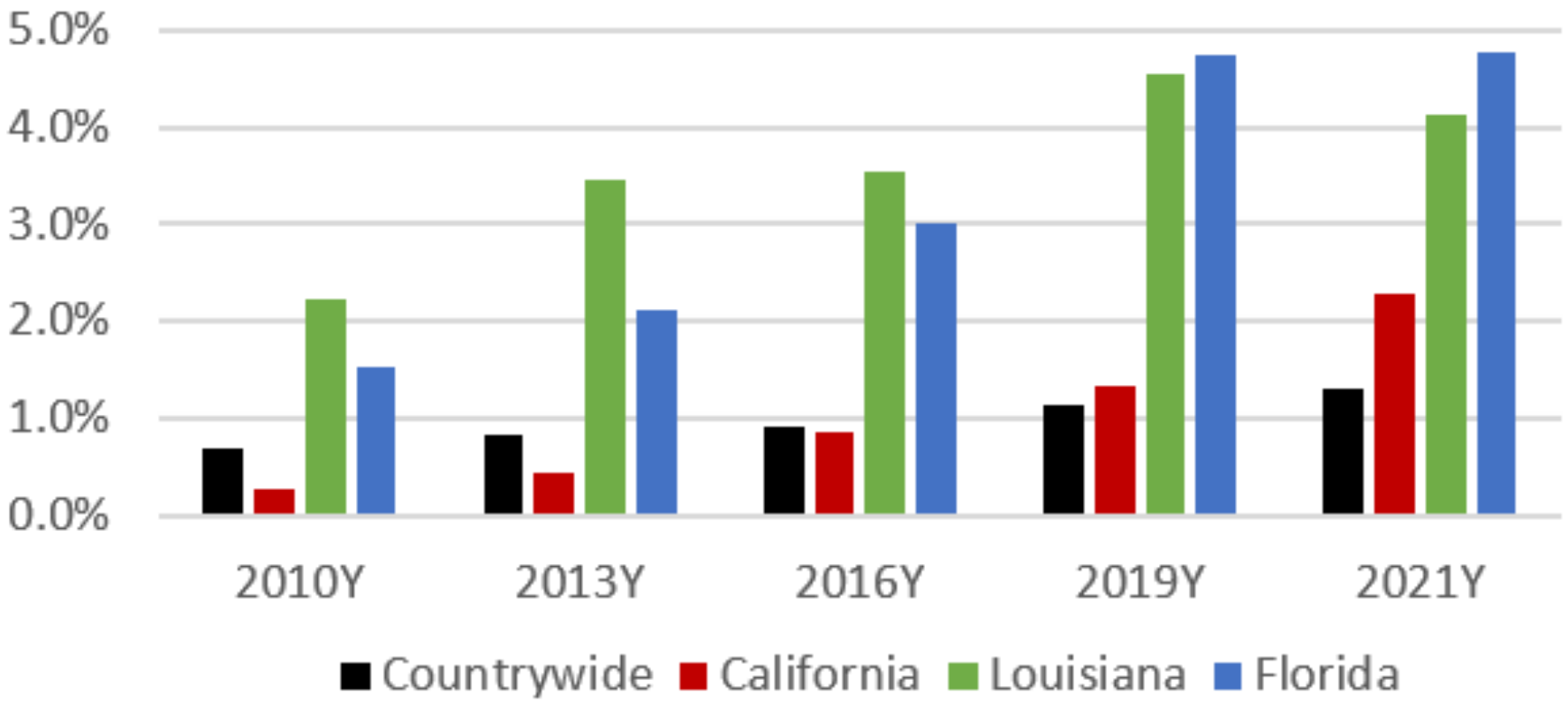


The average homeowners combined ratio over the past 6 years was nearly 17 points higher than the prior 5 years

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

Source: APCIA using S&P Global Intelligence

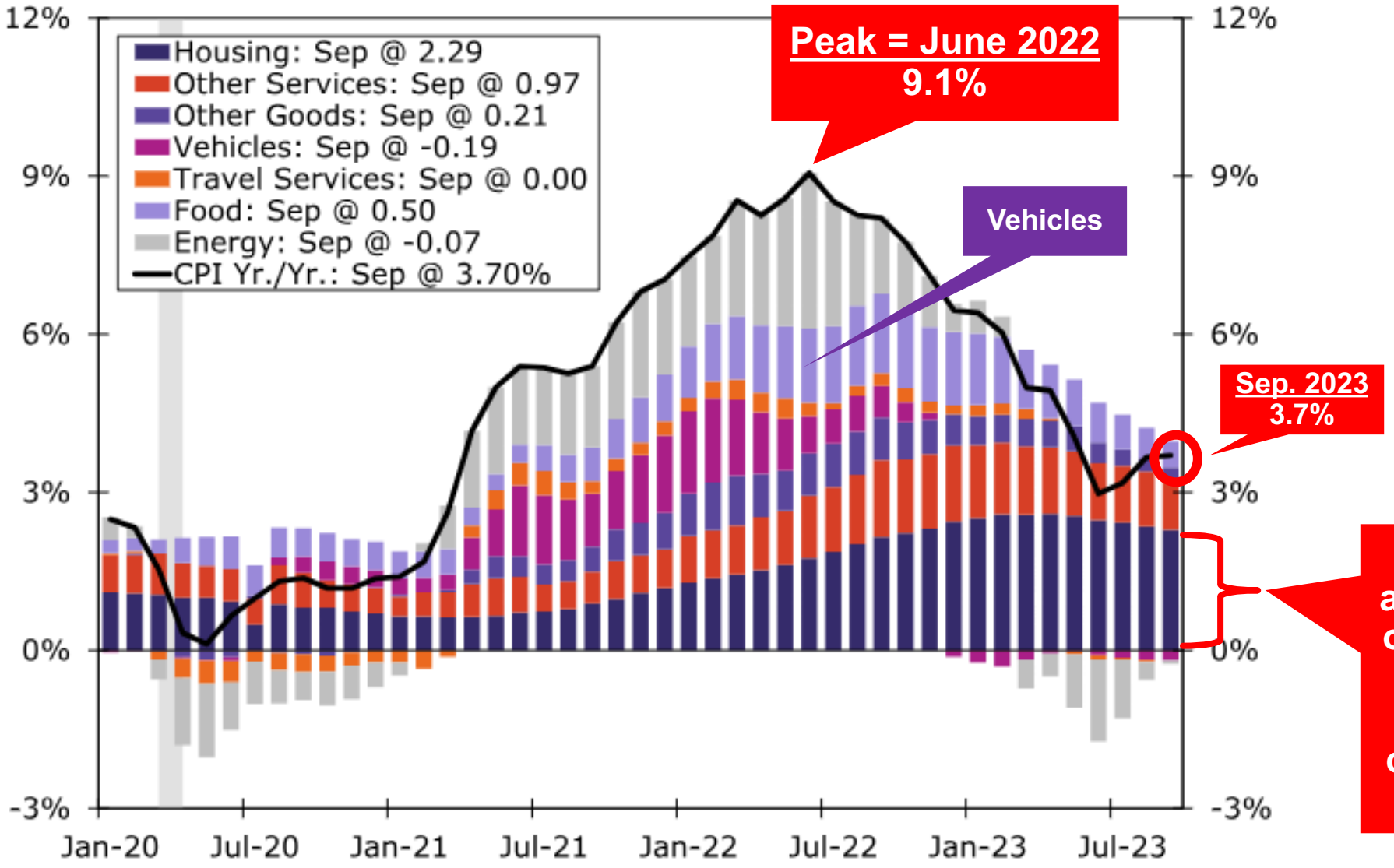
E&S Percent of P/C Industry DPW: Homeowners, 2010 – 2021



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.

Contribution to CPI by Category: Sept. 2023



Peak = June 2022 9.1%

Vehicles

Sep. 2023 3.7%

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.

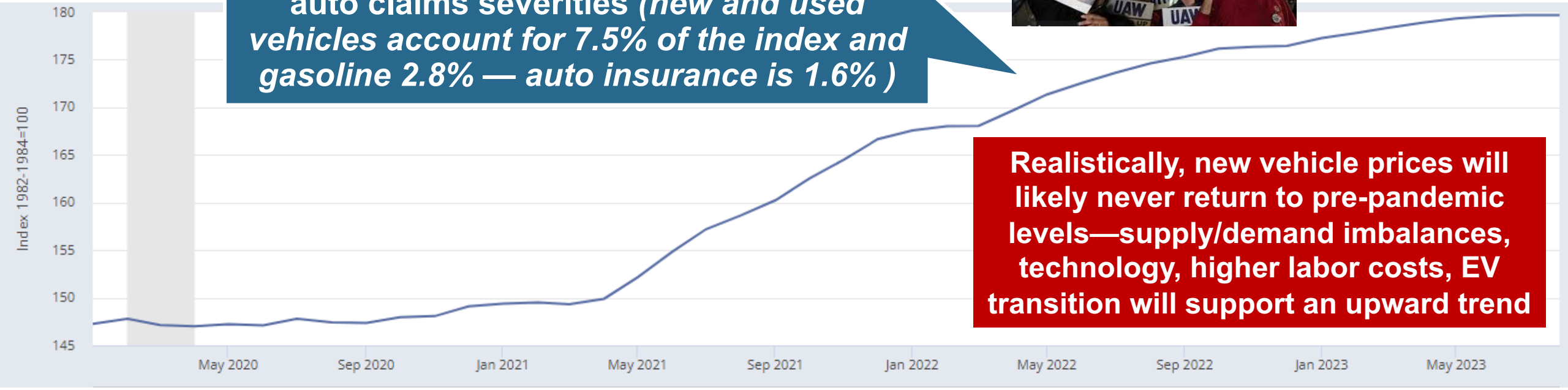
Prices were up 3.7% in Sept. 2023 vs. a year ago—and down from the June 2022 peak of 9.1%. Even as energy prices recede from their 2022 peak, increases in Shelter (Housing), Travel and Food are the major obstacles to bringing inflation down to the Fed's 2% goal

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

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

New car prices rising at a more modest pace—*UAW strike could change that*

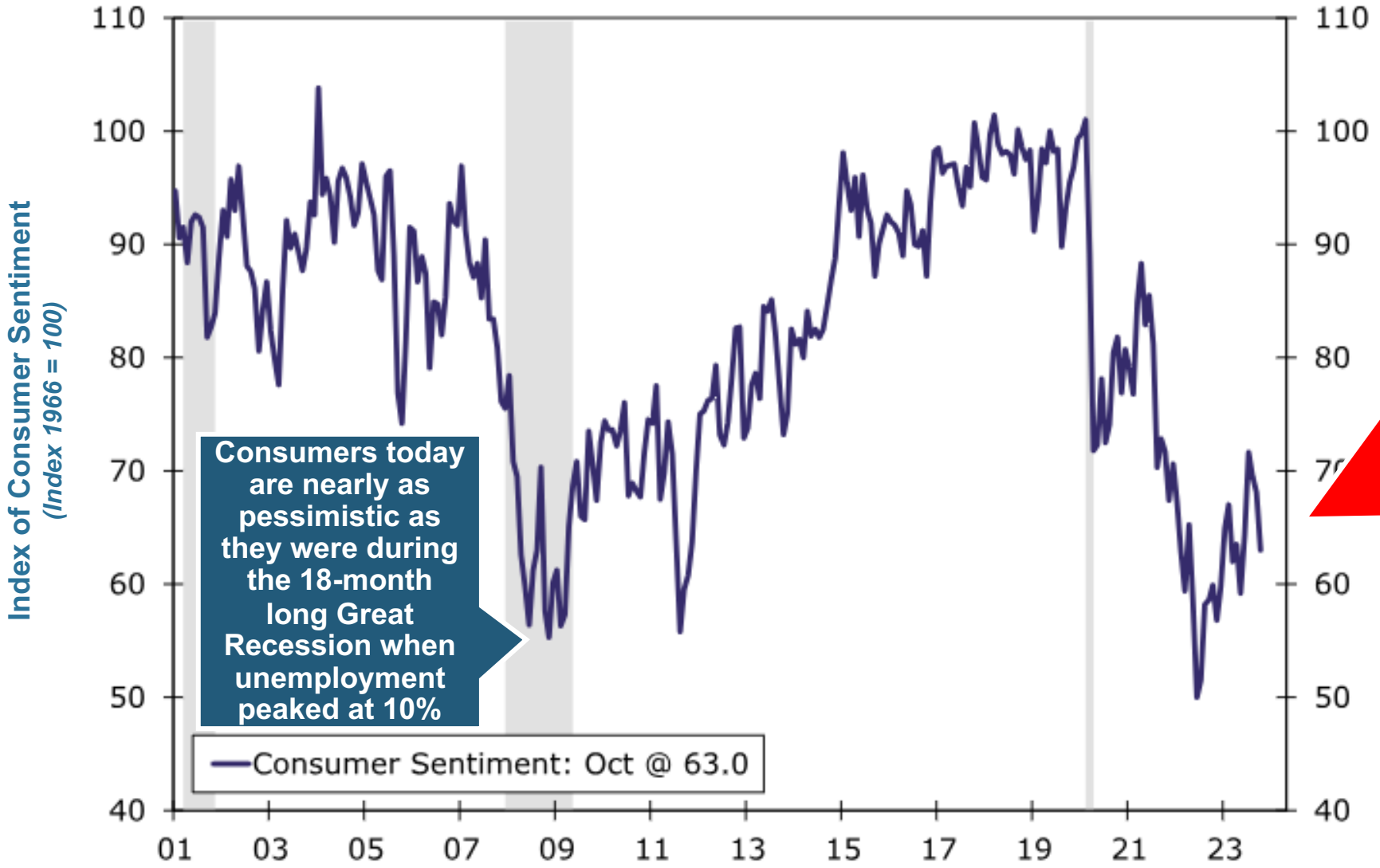
New vehicle prices surged during the pandemic, +22.0% from Jan. 2020 through Aug. 2023 and seem to have peaked but are unlikely to fall, keeping pressure on auto claims severities *(new and used vehicles account for 7.5% of the index and gasoline 2.8% — auto insurance is 1.6%)*



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

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

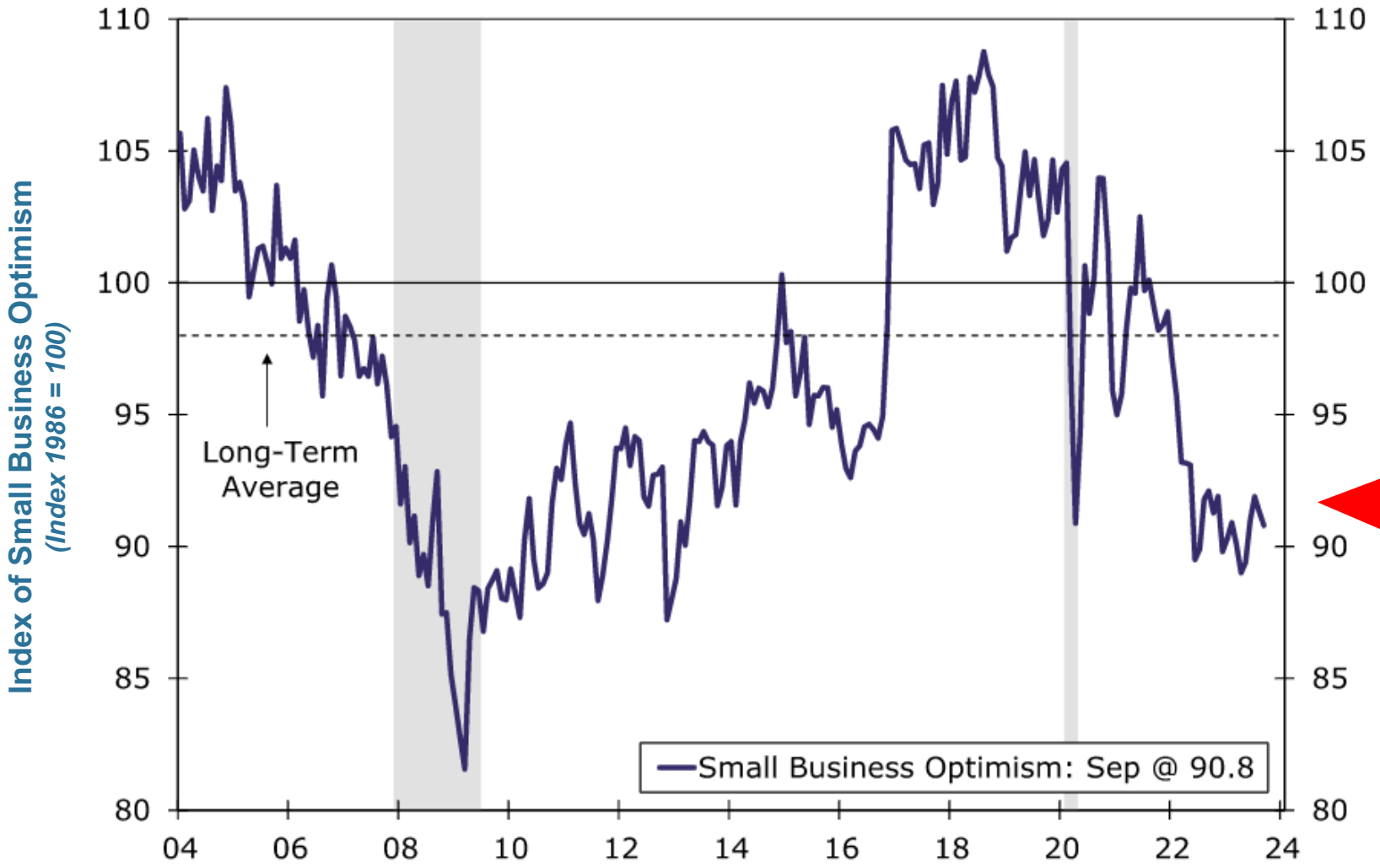
Consumer Sentiment: Close to the Lowest Ever in 2022 Despite Strong Jobs Markets—But Now Rebounding



Consumer sentiments remain depressed amid political drama in Washington, labor strikes, geopolitical conflict and lingering inflation—despite low unemployment and continued economic growth…consumers are *GRUMPY*

Source: University of Michigan and Wells Fargo Economics.

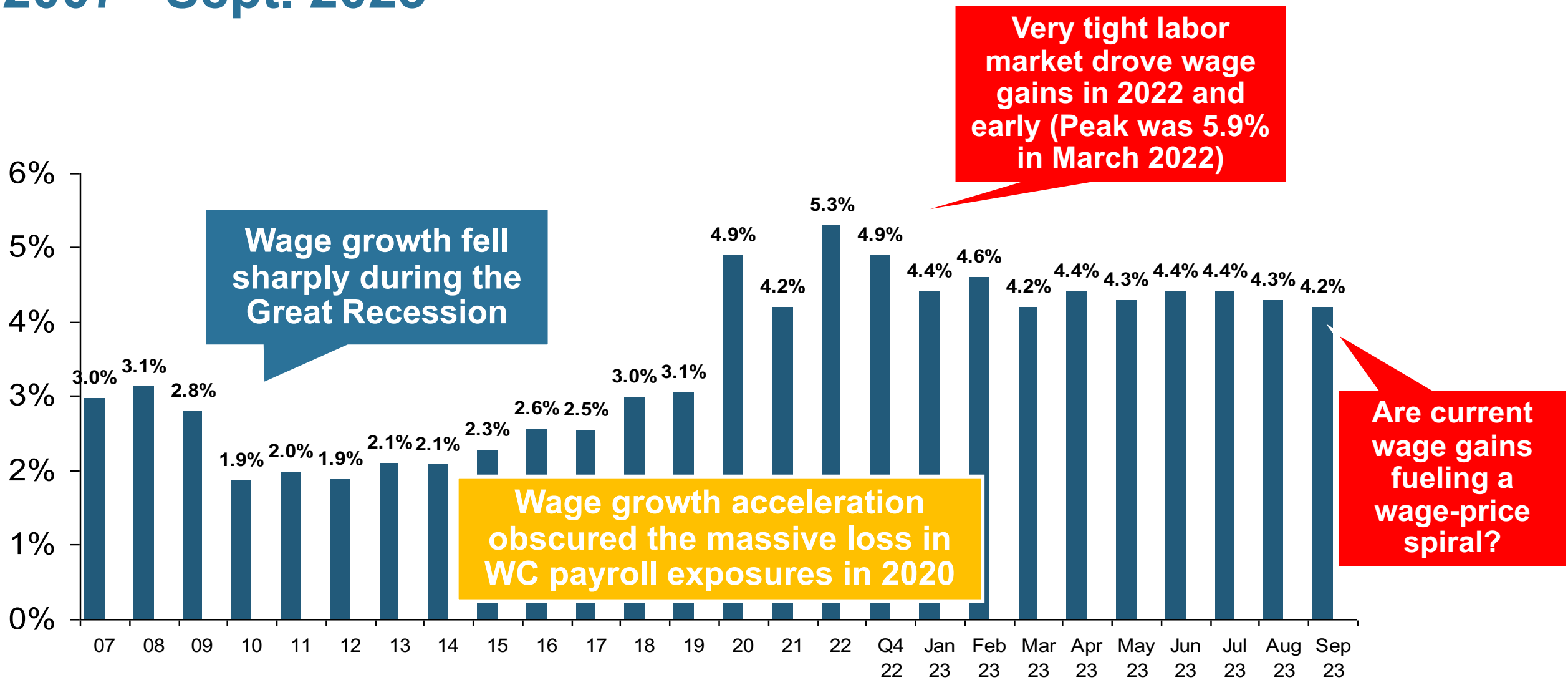
Small Business Sentiment: Optimism is Hovering Near a 10-Year Low



Small businesses today are even *more* pessimistic than they were during the depths of pandemic, but robust consumer spending, lower inflation and improvements in labor suppy may be stabilizing sentiments

Source: NFIB and Wells Fargo Economics.

Annual Change in Average Hourly Wage, 2007– Sept. 2023

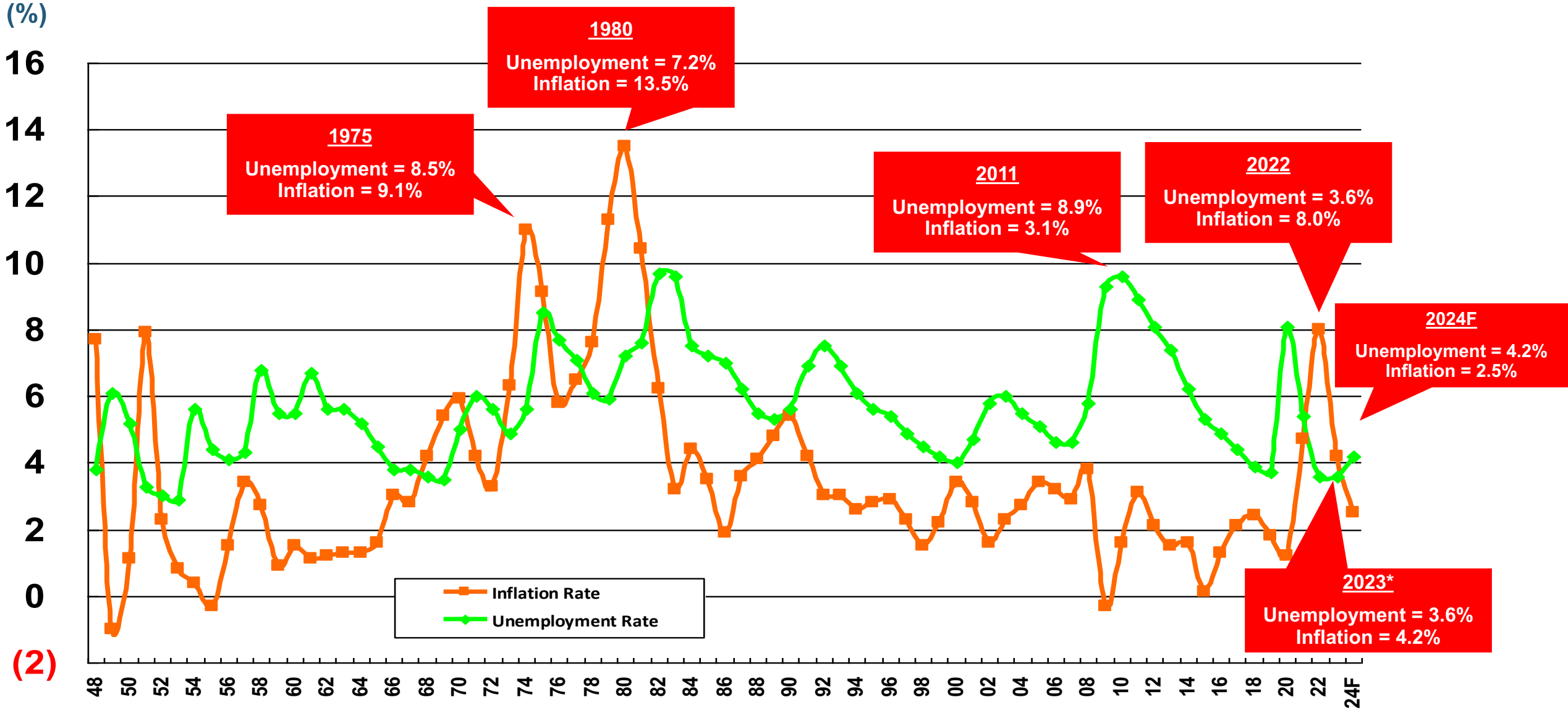


Sources: US Bureau of Labor Statistics at http://www.bls.gov/data/#employment; National Bureau of Economic Research (recession dates); Risk and Uncertainty Management Center, Univ. of South Carolina.

Are Things As Bad as Many Believe Them to Be?

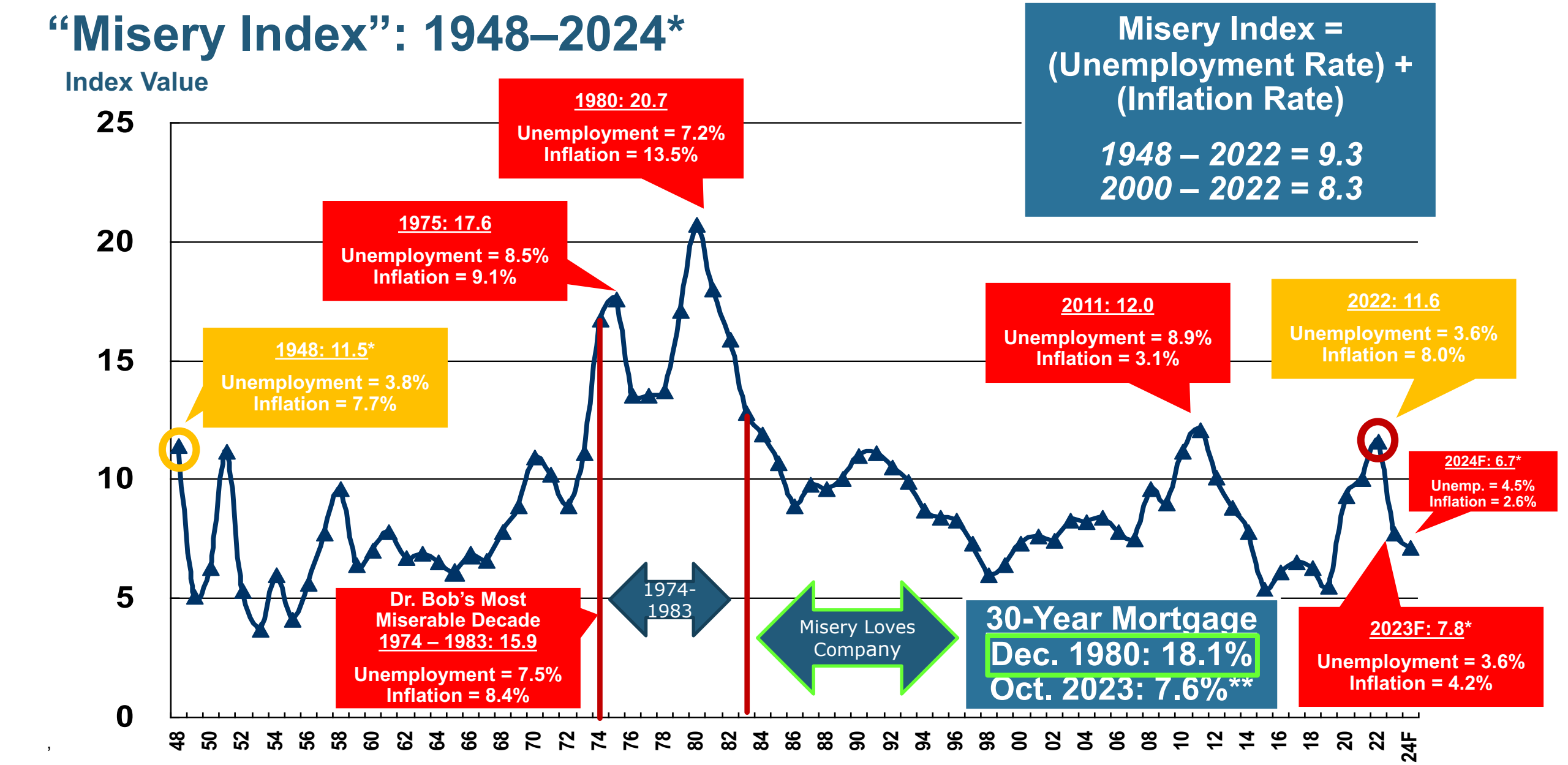
A Quick Review of Economic History Is Helpful

Inflation and Unemployment Rate, 1948–2024F*



*2023-24 forecast of unemployment and inflation rates based on Wells Fargo Securities forecasts (10/23).
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 (10/23).
**As of 10/12/23 based on Freddie Mac data.
Source: U.S. Bureau of Labor Statistics; Center for Risk and Uncertainty Management, University of South Carolina.

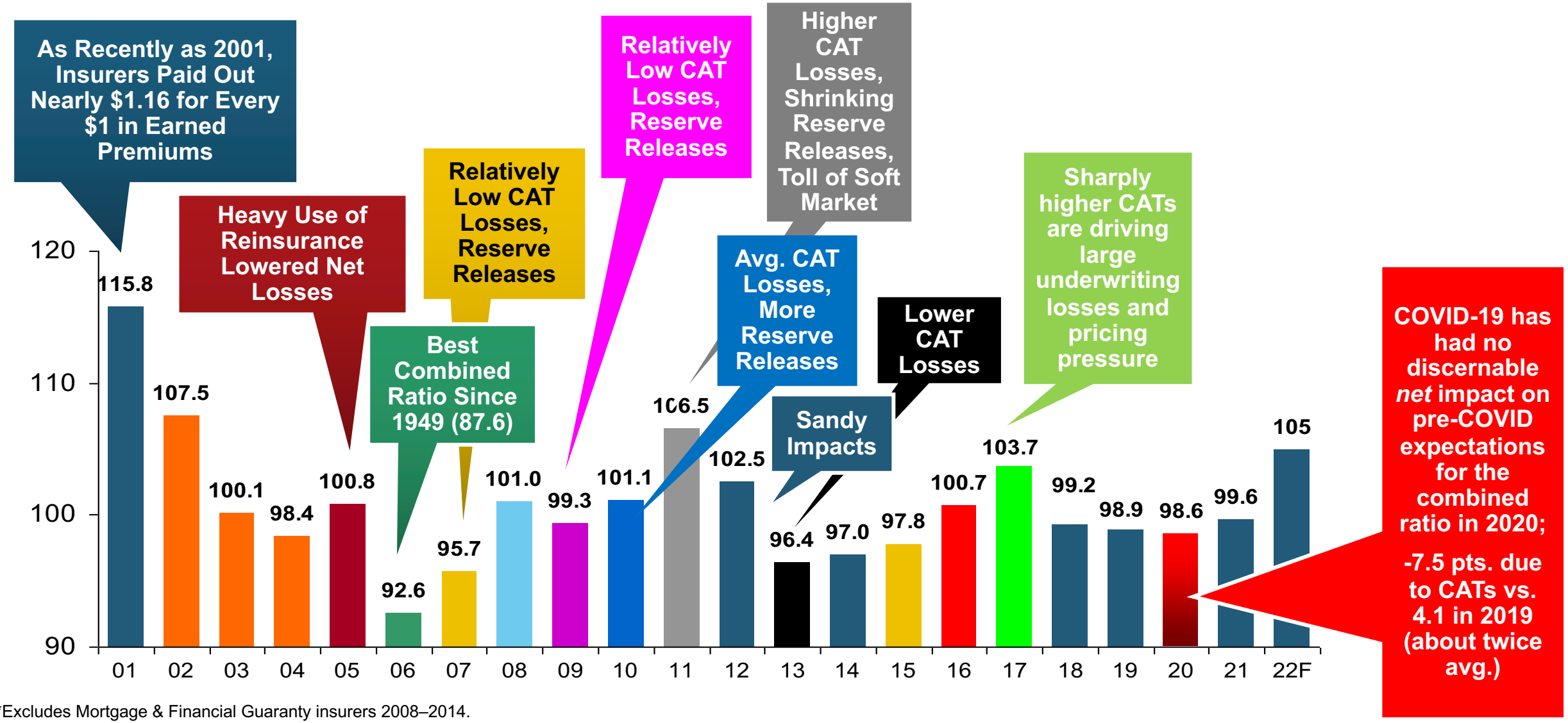
P/C Insurance Industry Financial Overview & Outlook

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

Industry Remains Strong

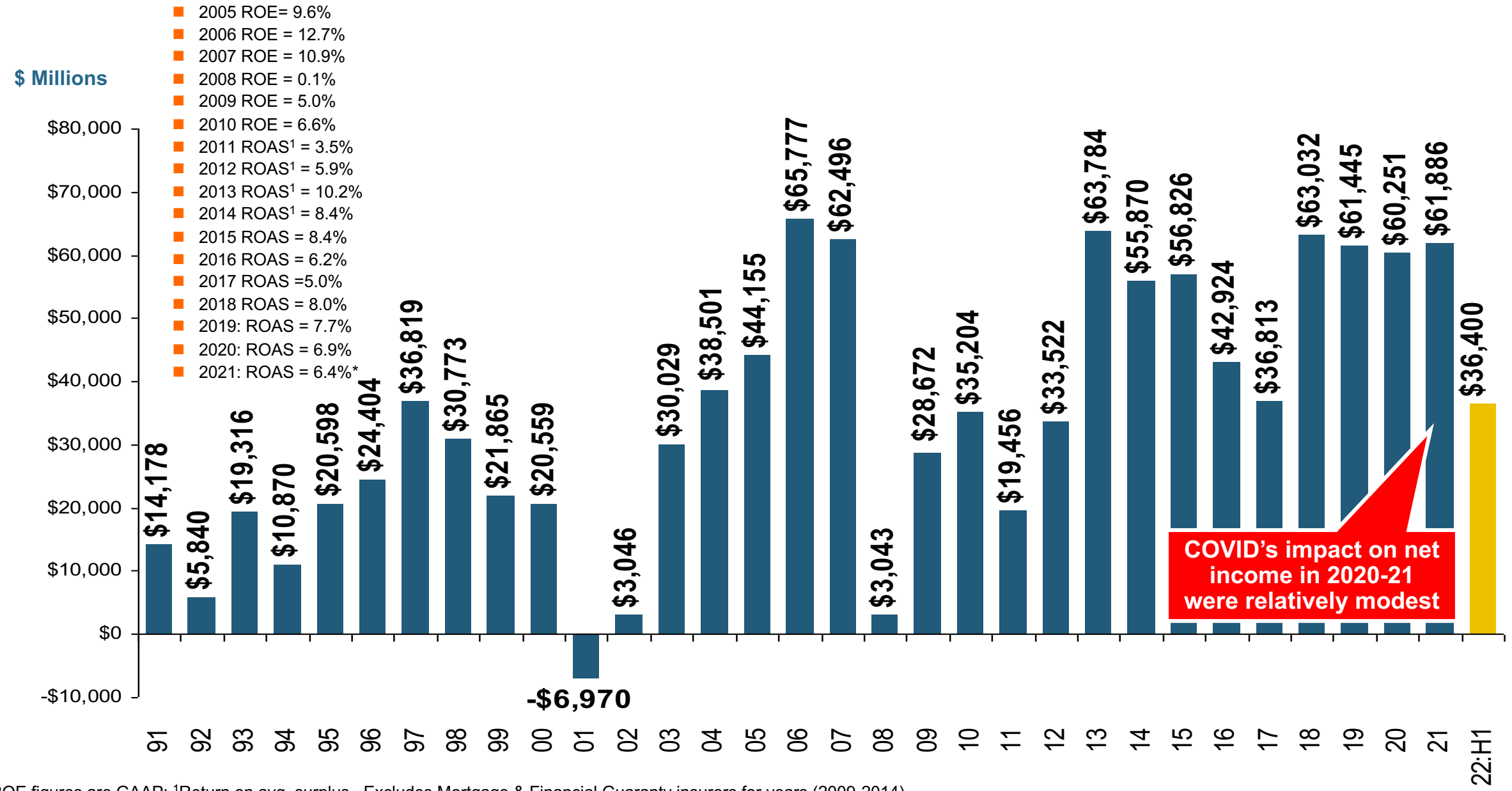
45

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



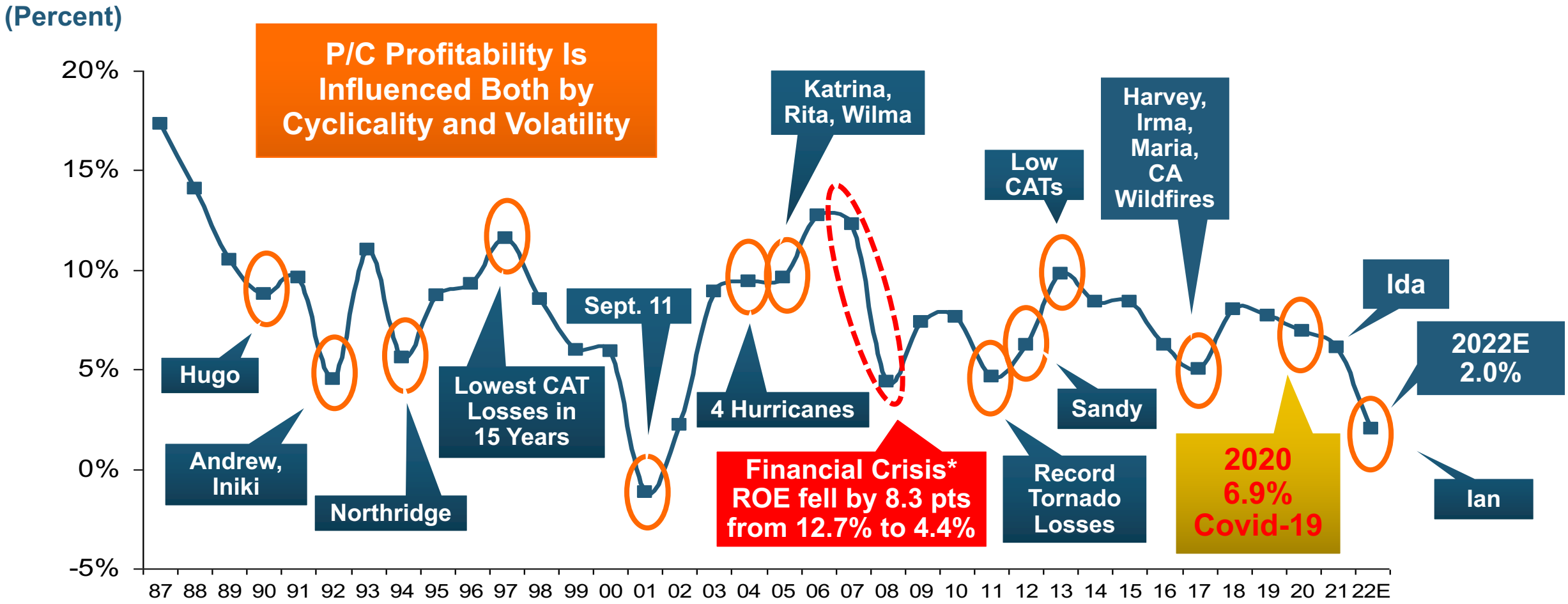
*Excludes Mortgage & Financial Guaranty insurers 2008–2014.
**2022 figure is forecast..
Sources: A.M. Best, ISO (2014-2022F).

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



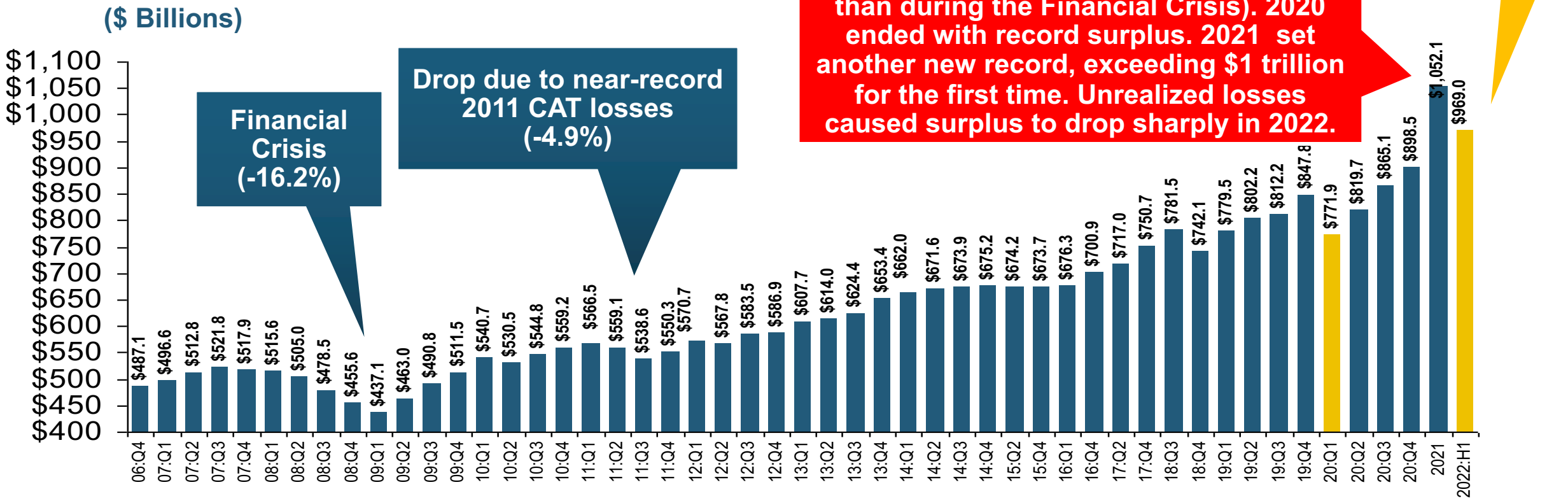
*ROE figures are GAAP; [1]Return on avg. surplus. Excludes Mortgage & Financial Guaranty insurers for years (2009-2014).
Sources: A.M. Best, ISO, APCIA.

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*

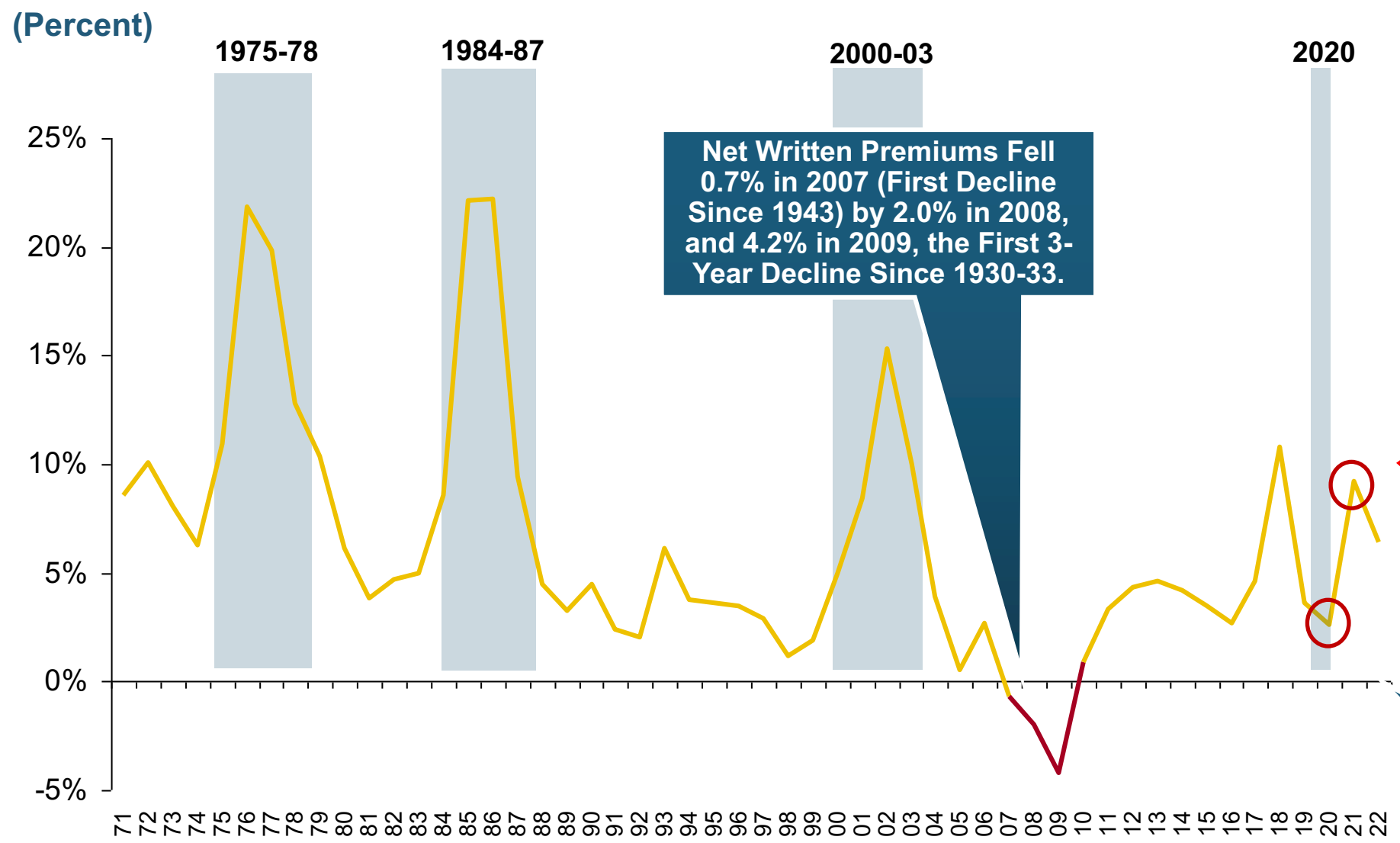


Policyholder Surplus is the industry's financial cushion against large insured events, periods of economic stress and financial market volatility. It is also a source of capital to underwrite new risks.

*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%**

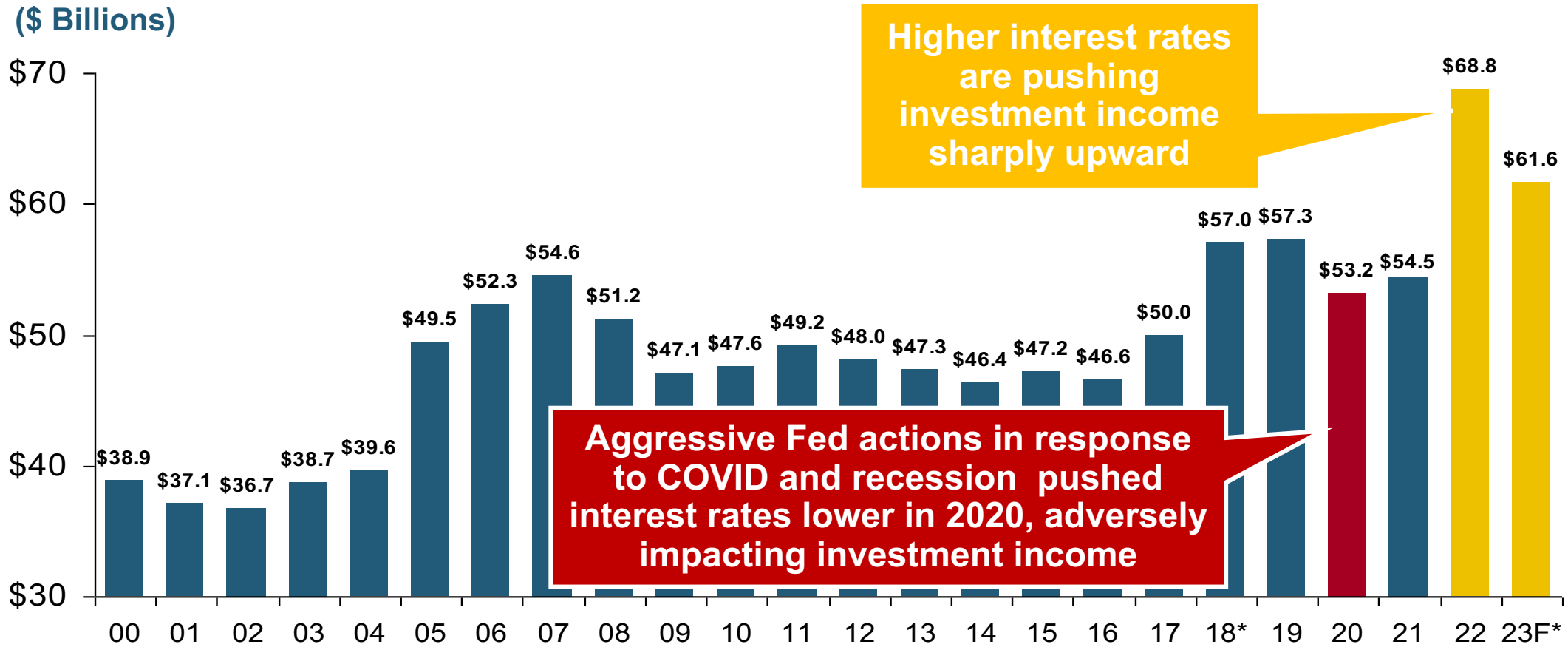
NOTE: Shaded areas denote "hard market" periods.
Sources: A.M. Best (1971-2013, 2022F), ISO (2014-21); Risk & Uncertainty Management Center, Univ. of South Carolina

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: 2000–2023F*

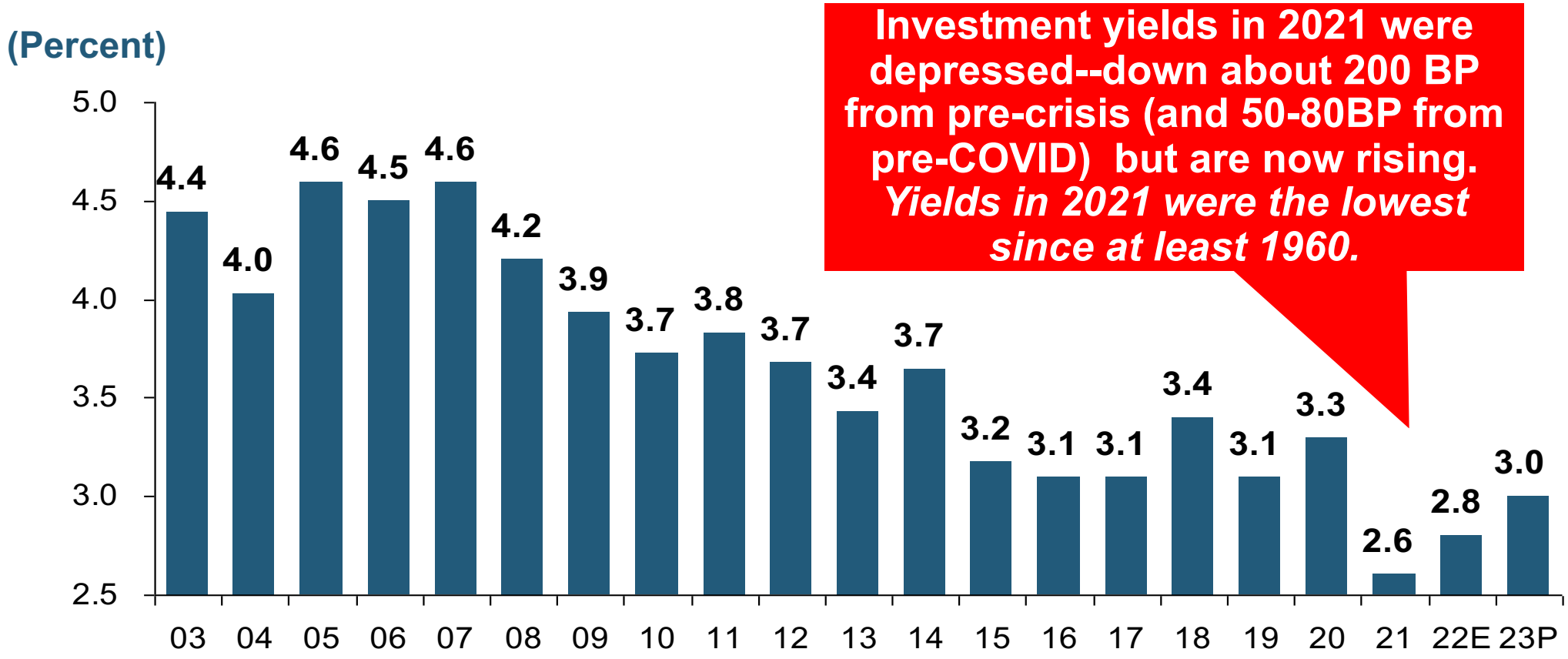


Due to persistently low interest rates, investment income remained below pre-crisis levels for a decade. Lower interest rates during COVID drove investment income down once again. Fed rate hikes in 2022-23 are reversing this trend.

*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



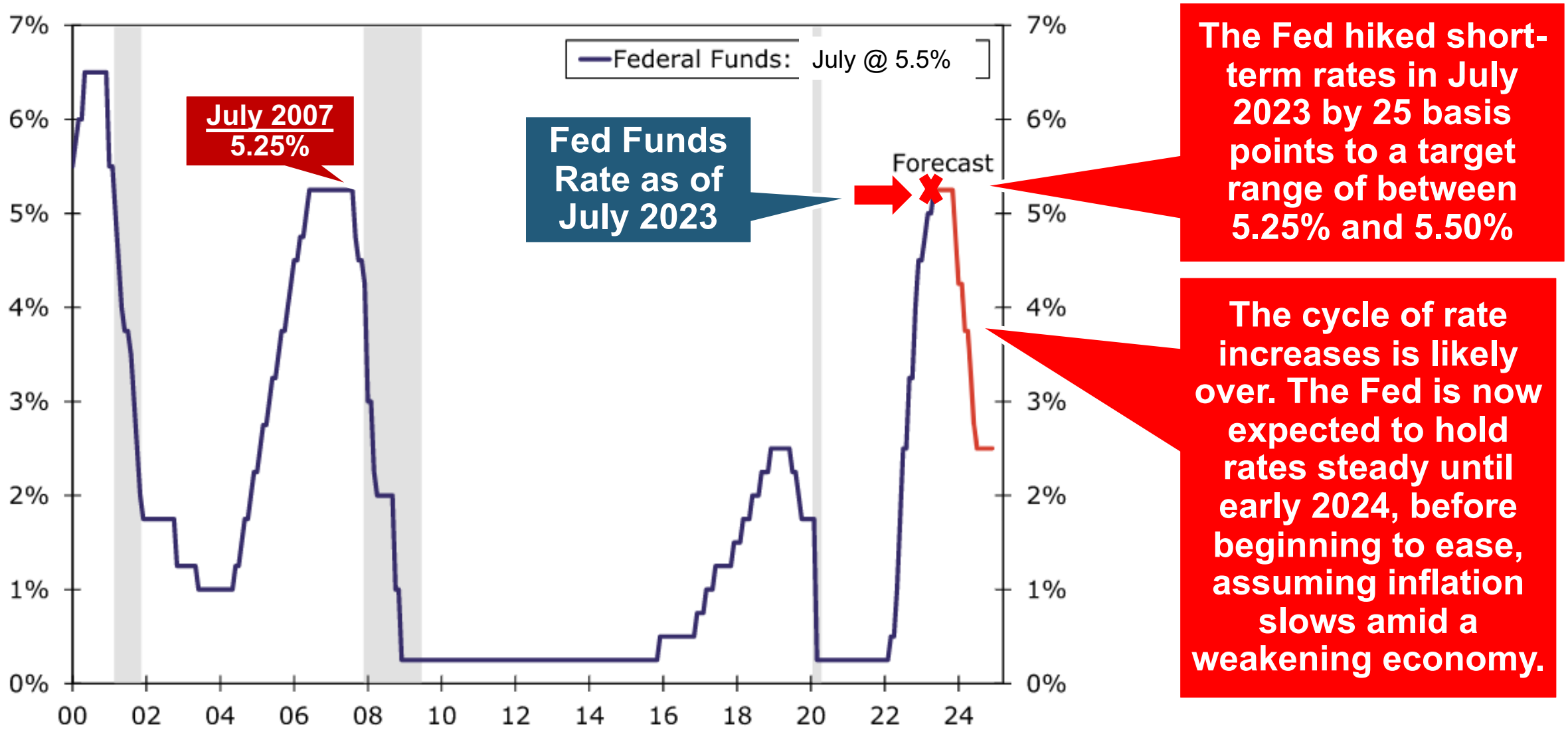
Investment yields in 2021 were depressed--down about 200 BP from pre-crisis (and 50-80BP from pre-COVID) but are now rising. *Yields in 2021 were the lowest since at least 1960.*

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!

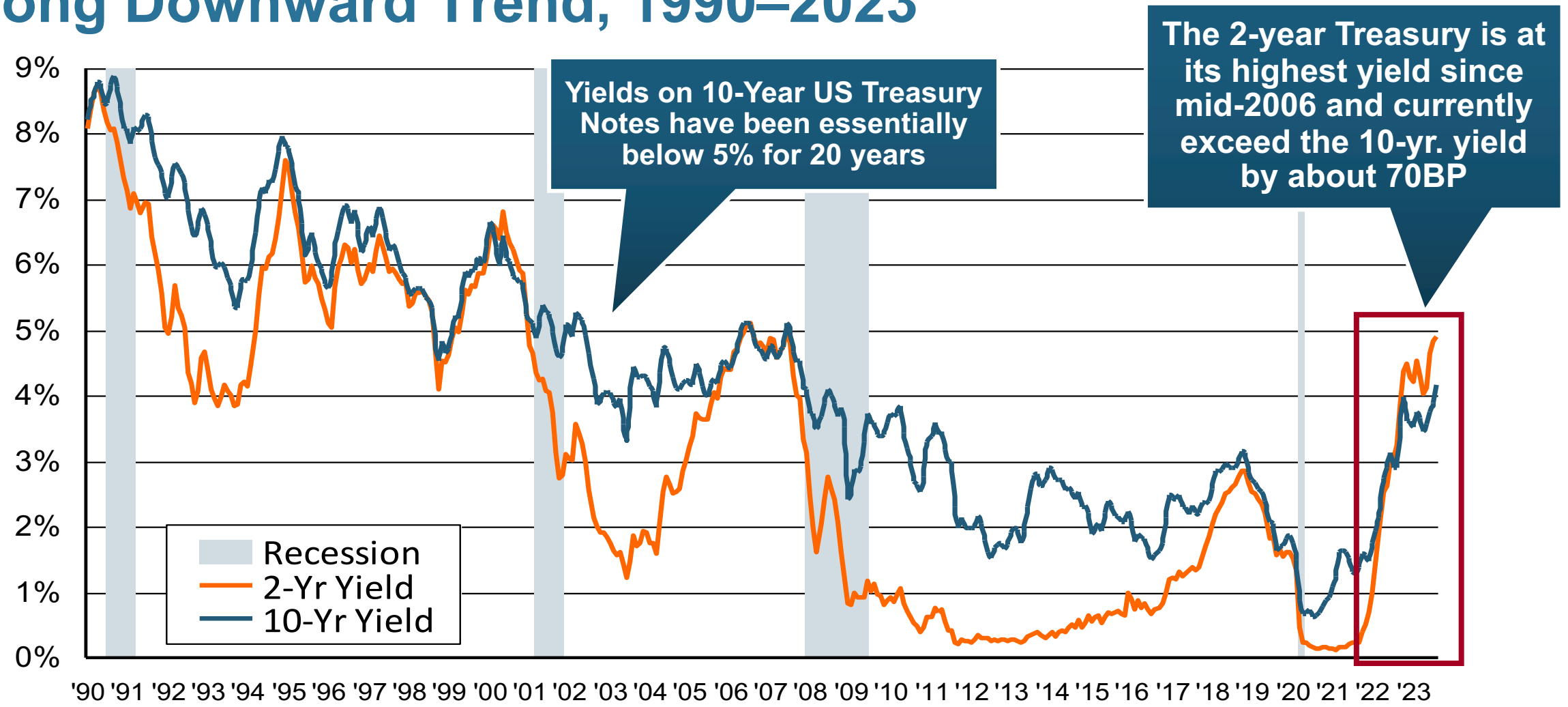


The Fed hiked short-term rates in July 2023 by 25 basis points to a target range of between 5.25% and 5.50%

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*

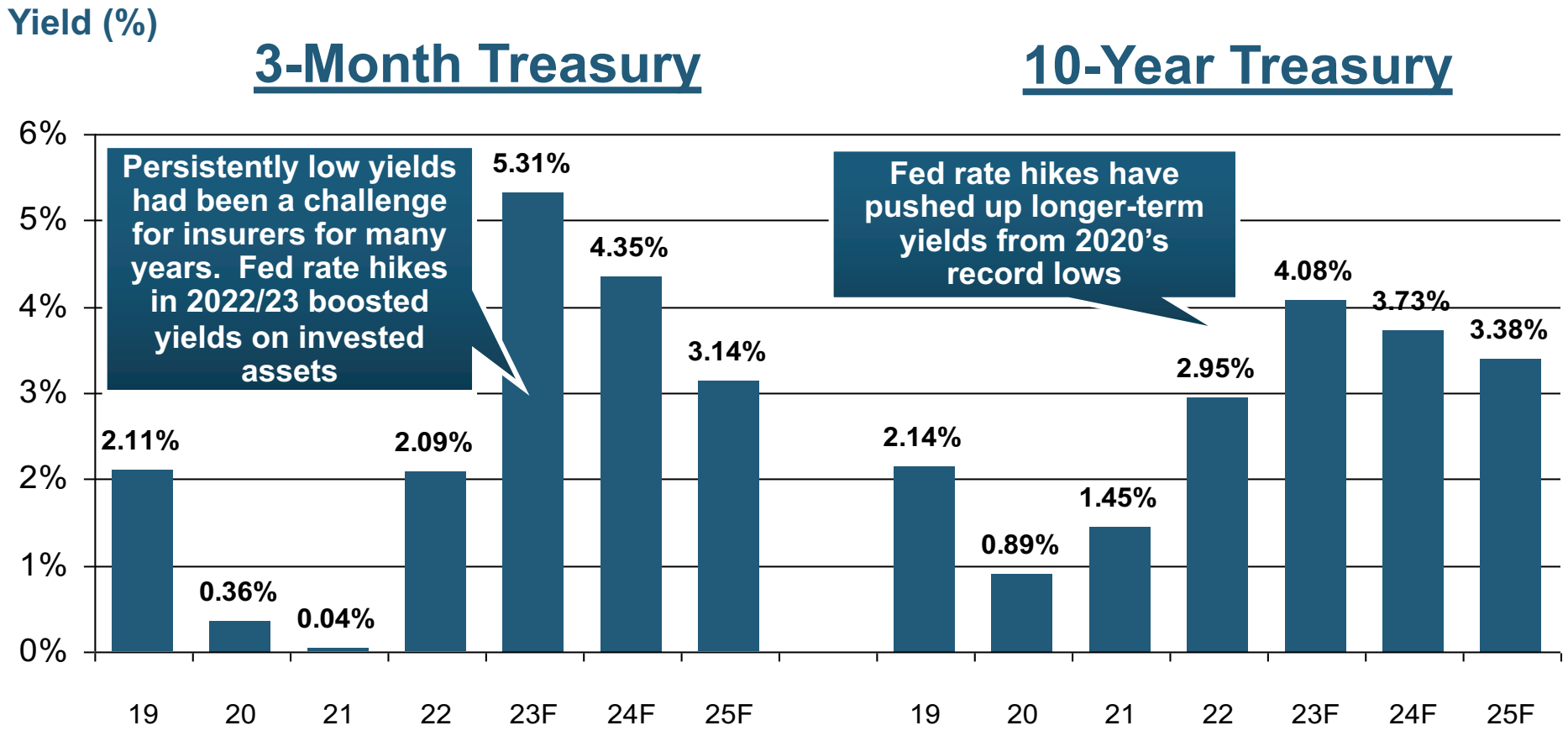


Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, Fed rate hikes should over time provide a modest boost to P/C insurer portfolio yields

*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.

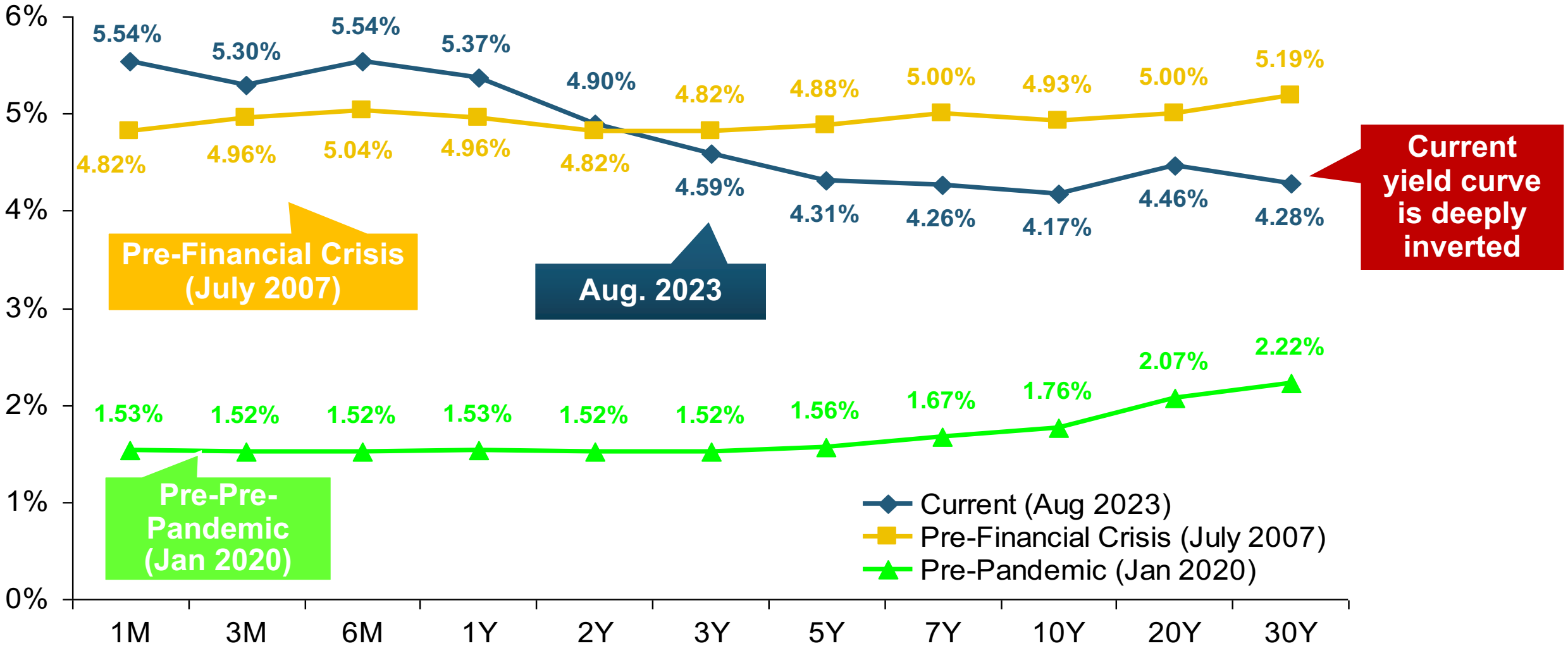
Interest Rate Forecasts: 2019 – 2025F: *Higher for Longer*



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 (10/23); Risk and Uncertainty Management Center, University of South Carolina.

Treasury Yield Curves: August 2023 vs. Pre-Pandemic (Jan. 2020) and Pre-Financial Crisis (July 2007)



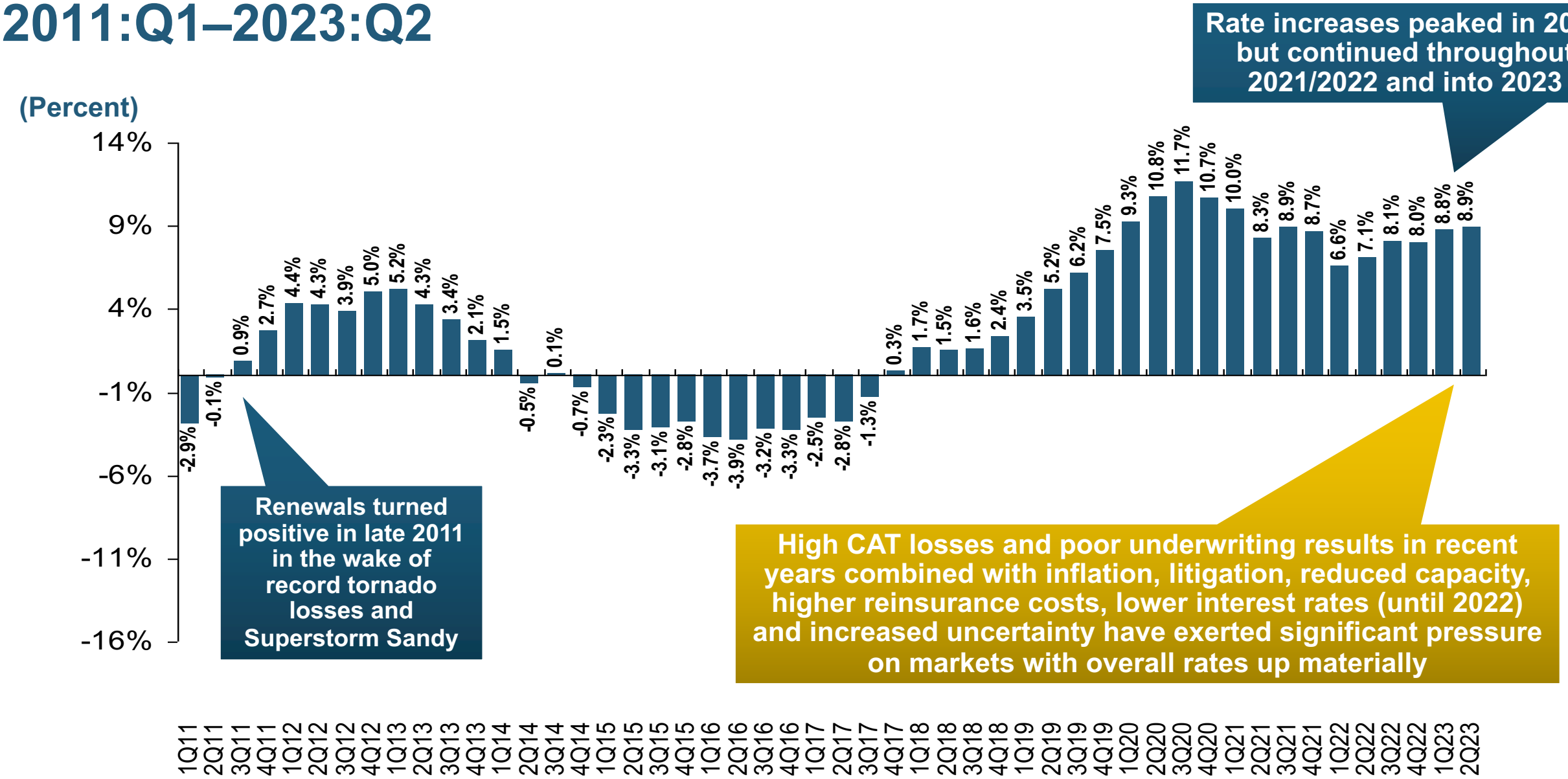
Source: Federal Reserve Board of Governors: http://www.federalreserve.gov/releases/h15/data.htm; Univ. of South Carolina..

Commercial Lines & Pricing Cyclicality

Economic and Tort Environment Create Pricing Pressure

61

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

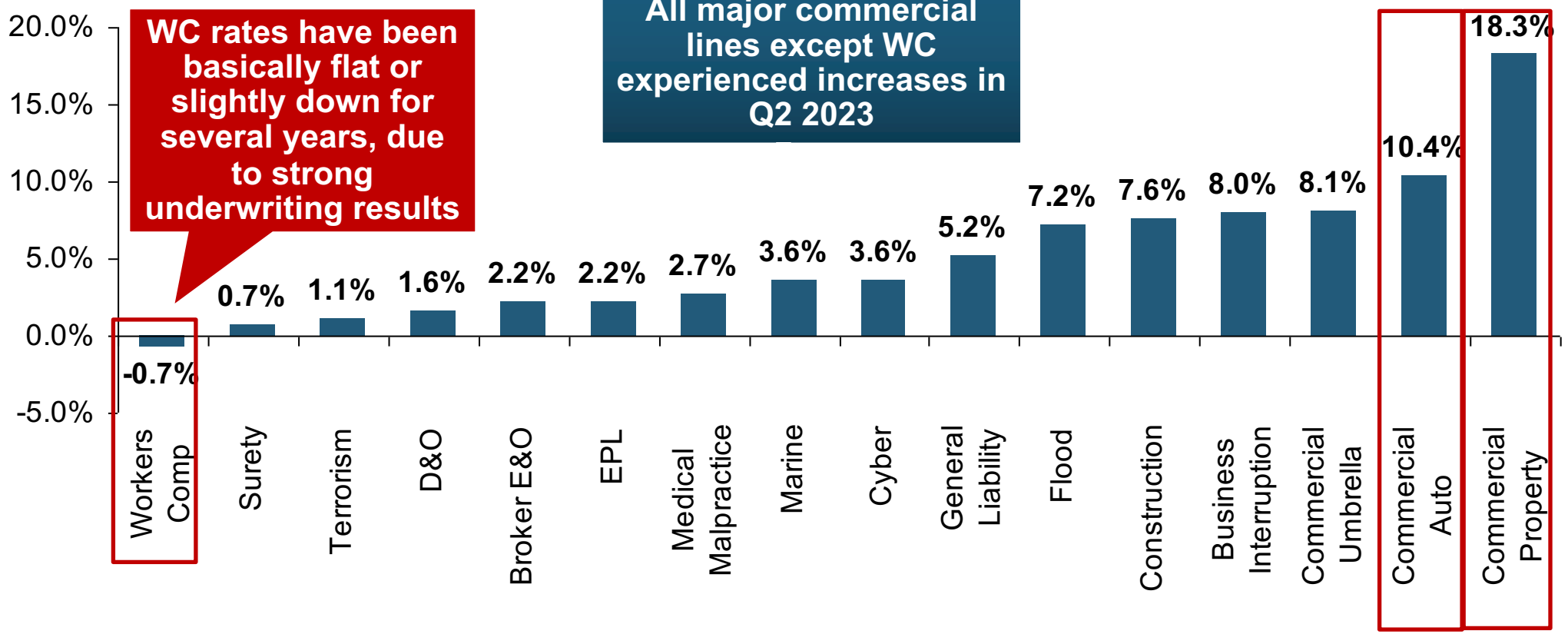


Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents & Brokers; Center for Risk and Uncertainty Management, Univ. of South Carolina.

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

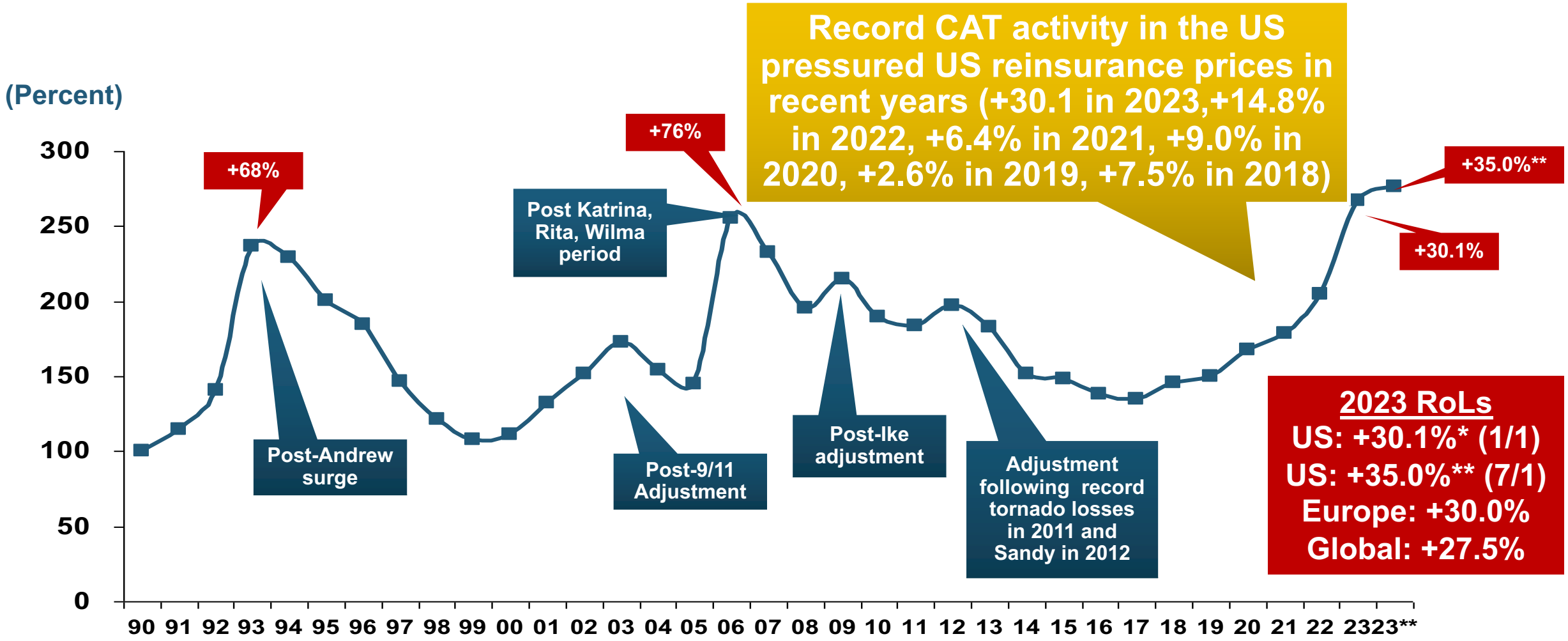
(Percent Change)



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.

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.

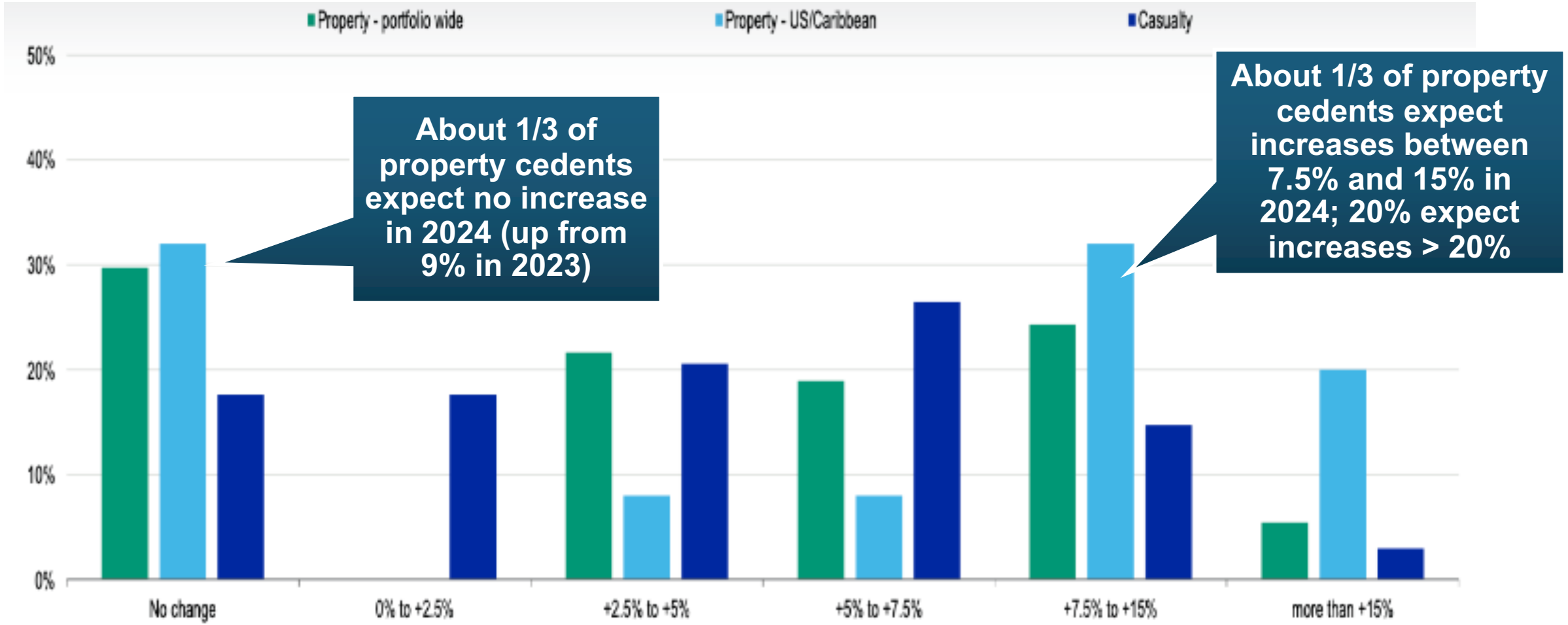
*As of January 1 each year.

**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

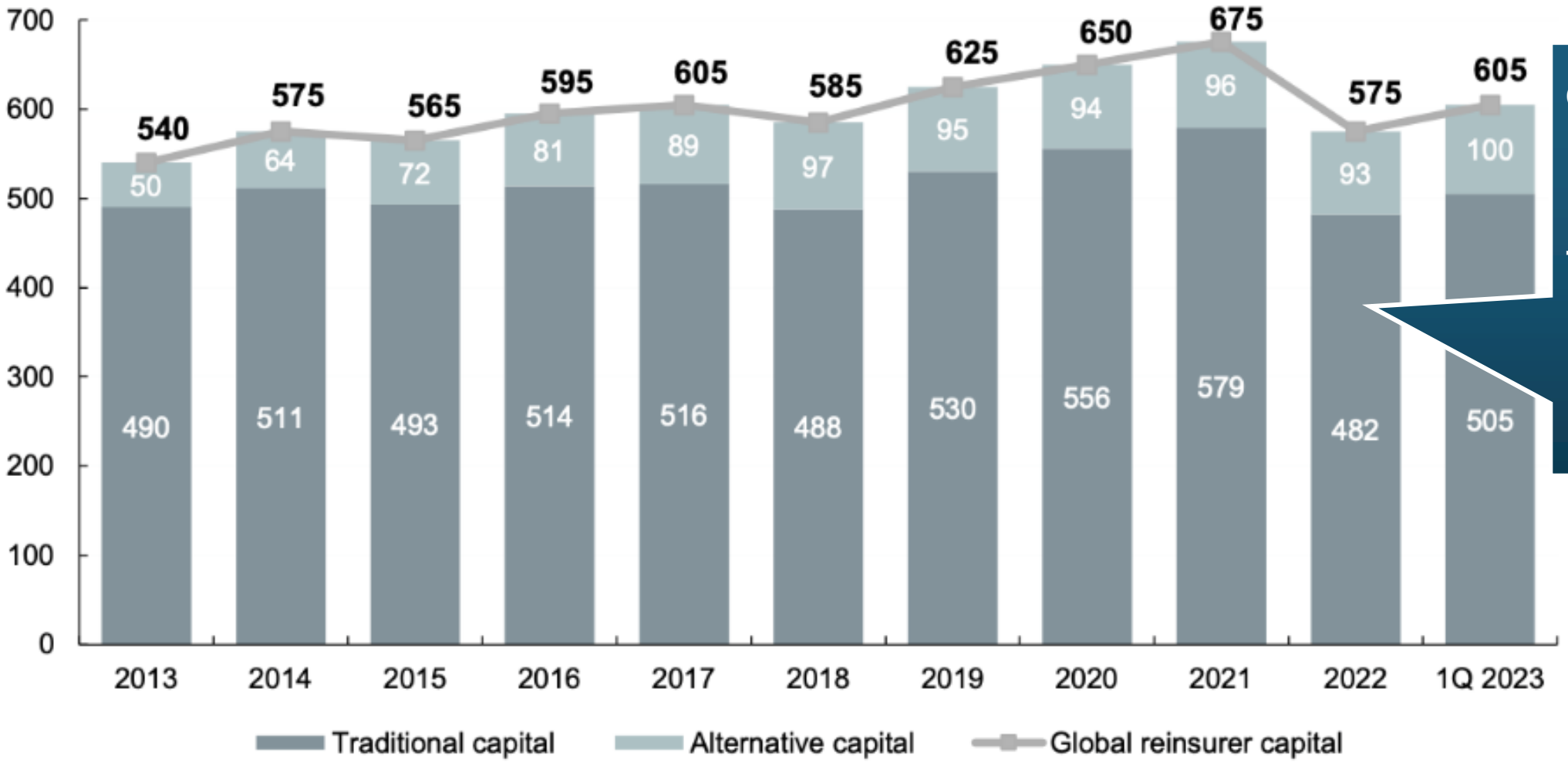
$ Billions



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/.

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

Globalization Has Benefitted Billions of People…Yet Its Future Is in Jeopardy: The Rise of Homeland Economics

- **Homeland Economics is a response to 4 big shocks**
  1. **The Economy:** The 2007-09 financial crisis and 2020 recession (and ensuing supply shocks and inflation) damaged confidence in the economy on a global scale
  2. **Geopolitical Shocks:** China/US tension, Russia/Ukraine, Israel/Hamas and more breed skepticism that economic integration leads to political integration.
  3. **Energy:** Weaponization of energy (e.g., Russia) has led to a sense that supplies of energy and other "strategic" commodities must be secured. Backlash against decarbonization is also a factor.
  4. **Generative AI:** Perceived as a threat by workers and adds to fears that the global economy is stacked against the average person.

Source: *The Economist*, Oct. 7, 2023

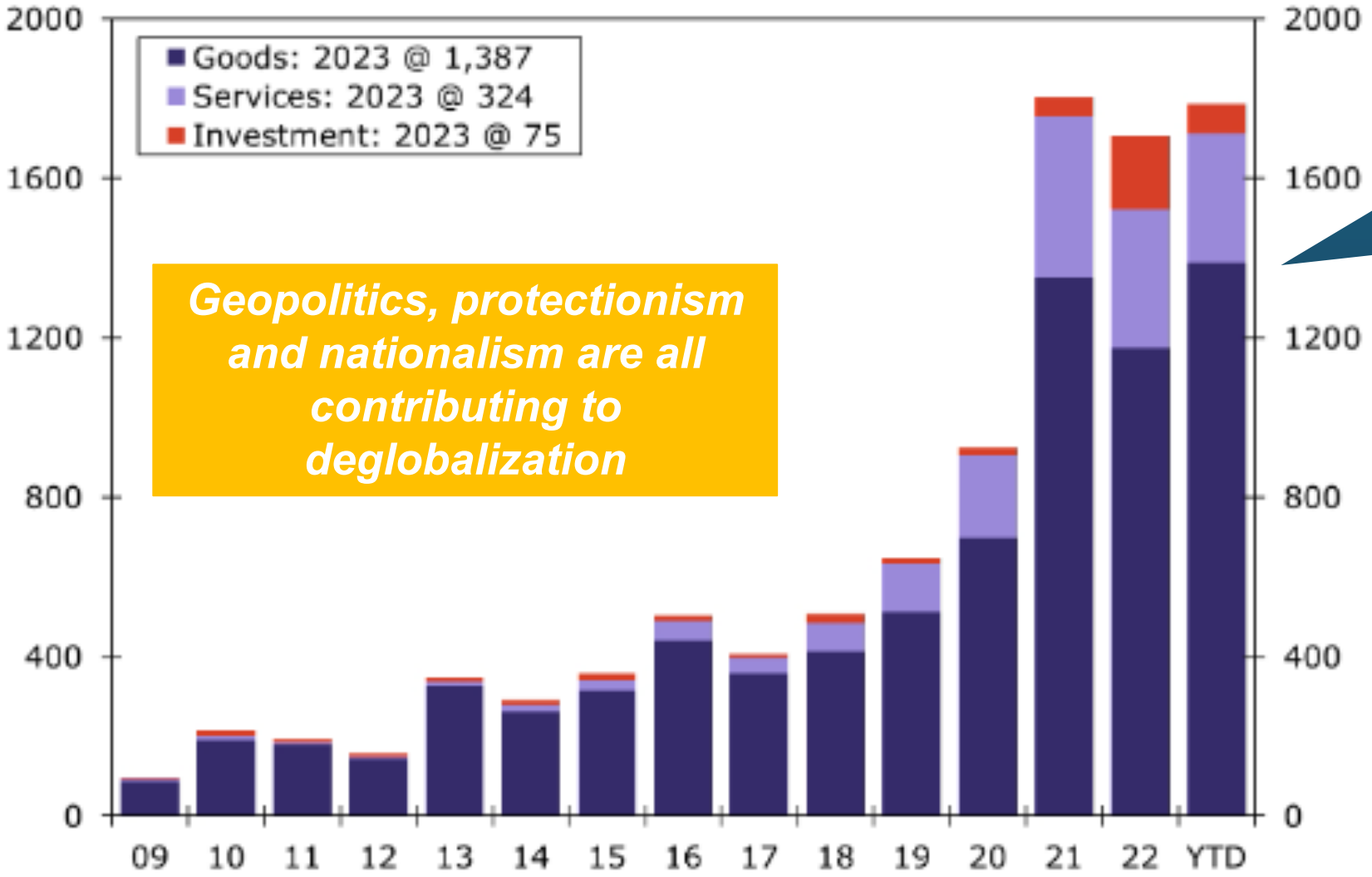
Deglobalization: Perils and Promises

- 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?

Global Trade-to-GDP Ratio, 1970–2022

,
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.

Number of “Harmful” Trade Restrictions, 2009 – 2023*



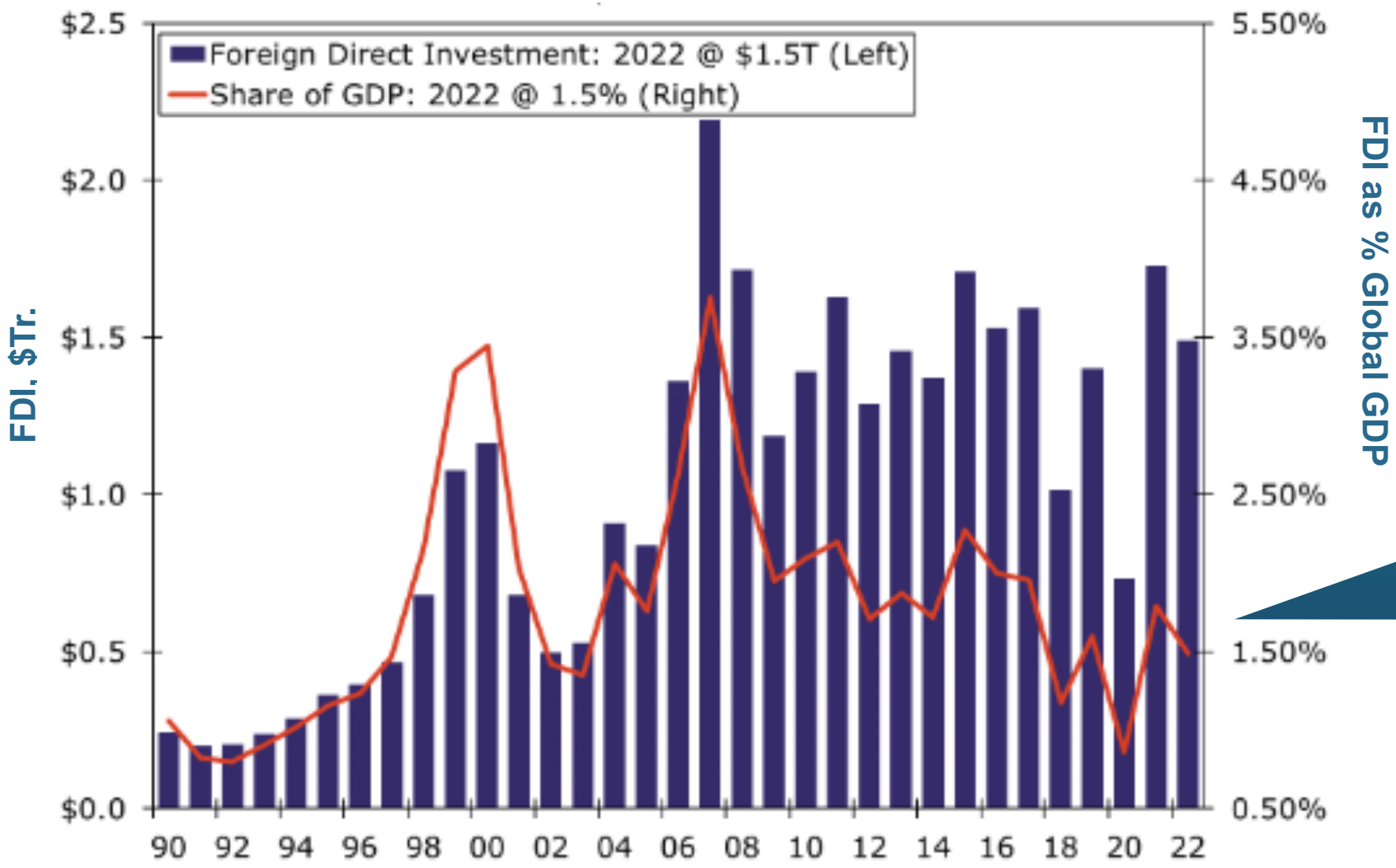
Geopolitics, protectionism and nationalism are all contributing to deglobalization

Harmful trade restrictions began increasing in the aftermath of the global financial crisis and accelerated in the wake of Covid and during a recent rise in geopolitical tensions and nationalism

The proliferation of harmful trade restrictions is unambiguously detrimental to globally-focused industries, including insurance and reinsurance

*As of as of Sept. 13, 2023.
Source: Global Trade Alert and Wells Fargo Economics.

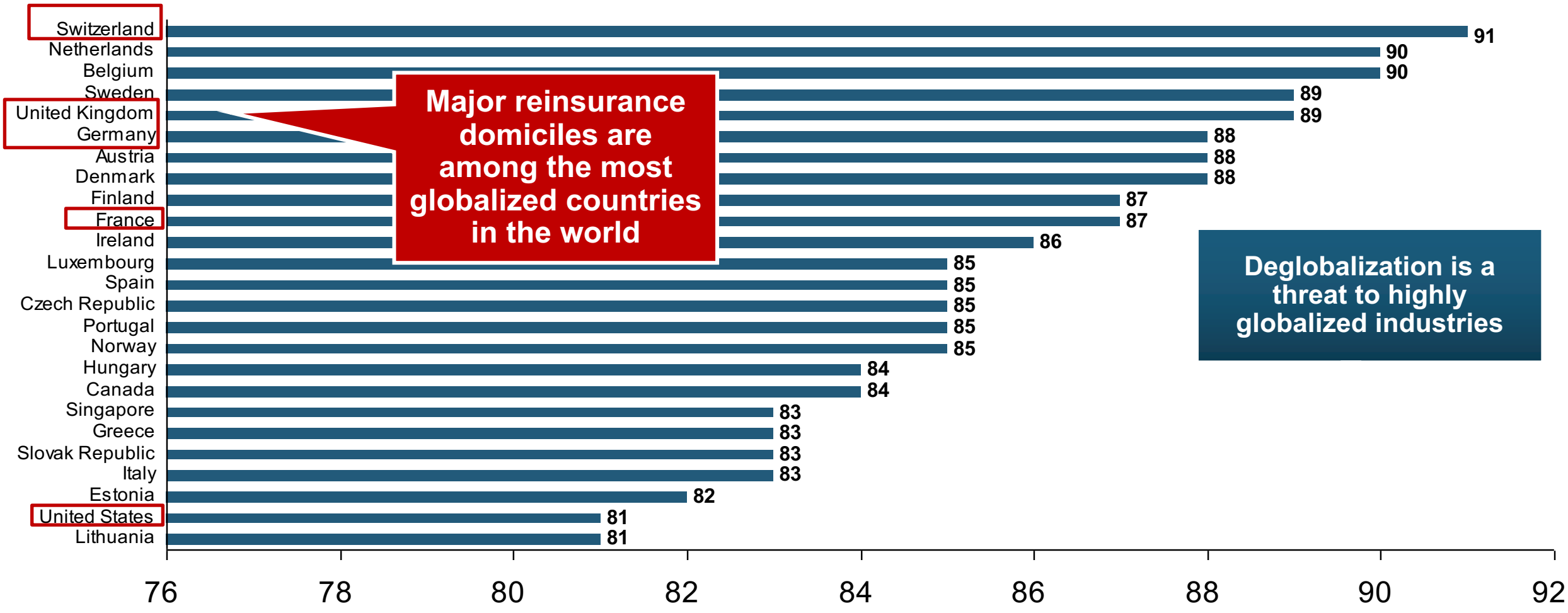
Global Foreign Direct Invest ($Trillion and as a Share of GDP)



Global Foreign Direct Investment as a share of global GDP has been falling since the start of the global financial crisis

Source: UN Conference on Trade and Development and Wells Fargo Economics (9/23).

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, investment restrictions, 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.

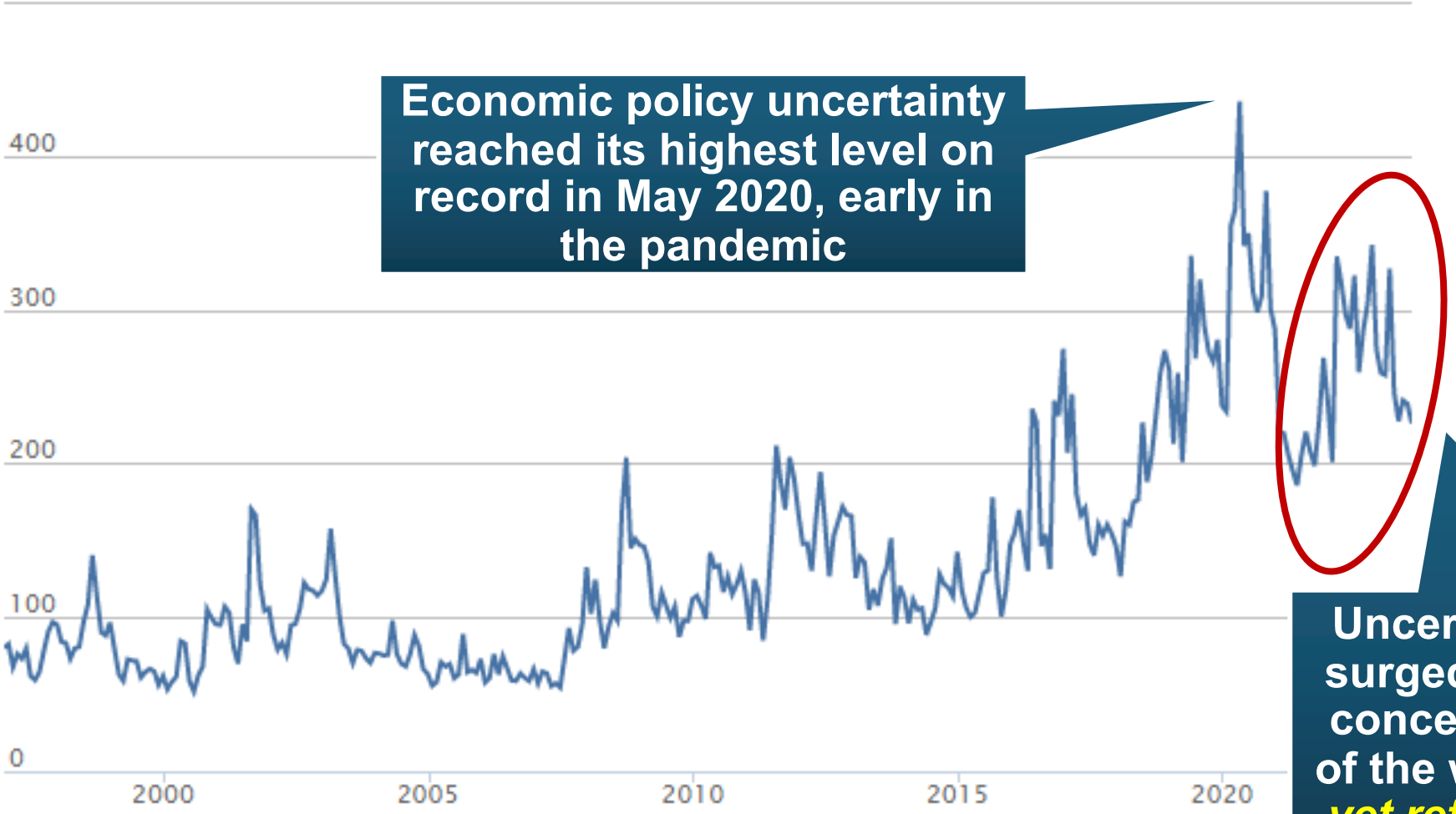
Risk Is Everywhere:

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

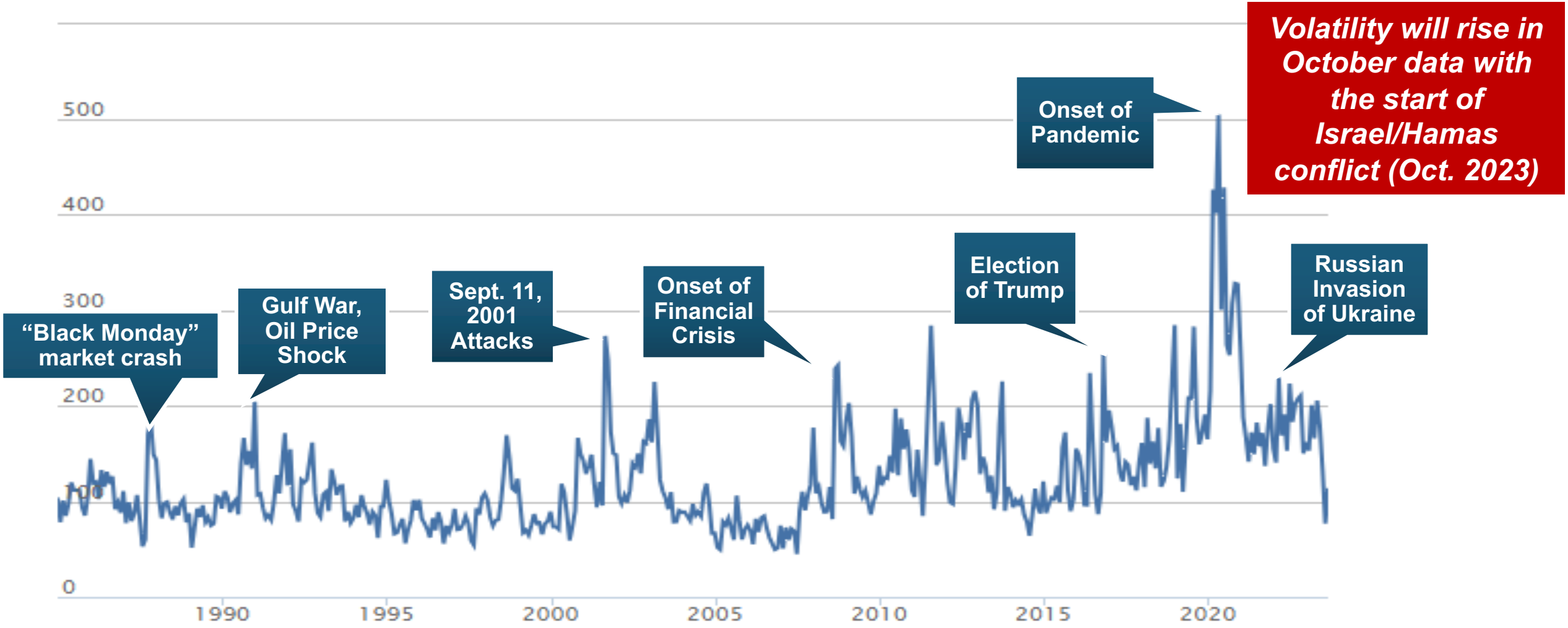
78

Global Economic Policy Uncertainty Index: Global Economic Uncertainty Remains Volatile in the Post-Pandemic World, Jan. 1997 – Sept. 2023



Source: *Economic Policy Uncertainty*, PolicyUncertainty.com accessed Oct. 11, 2023 at: http://www.policyuncertainty.com/index.html

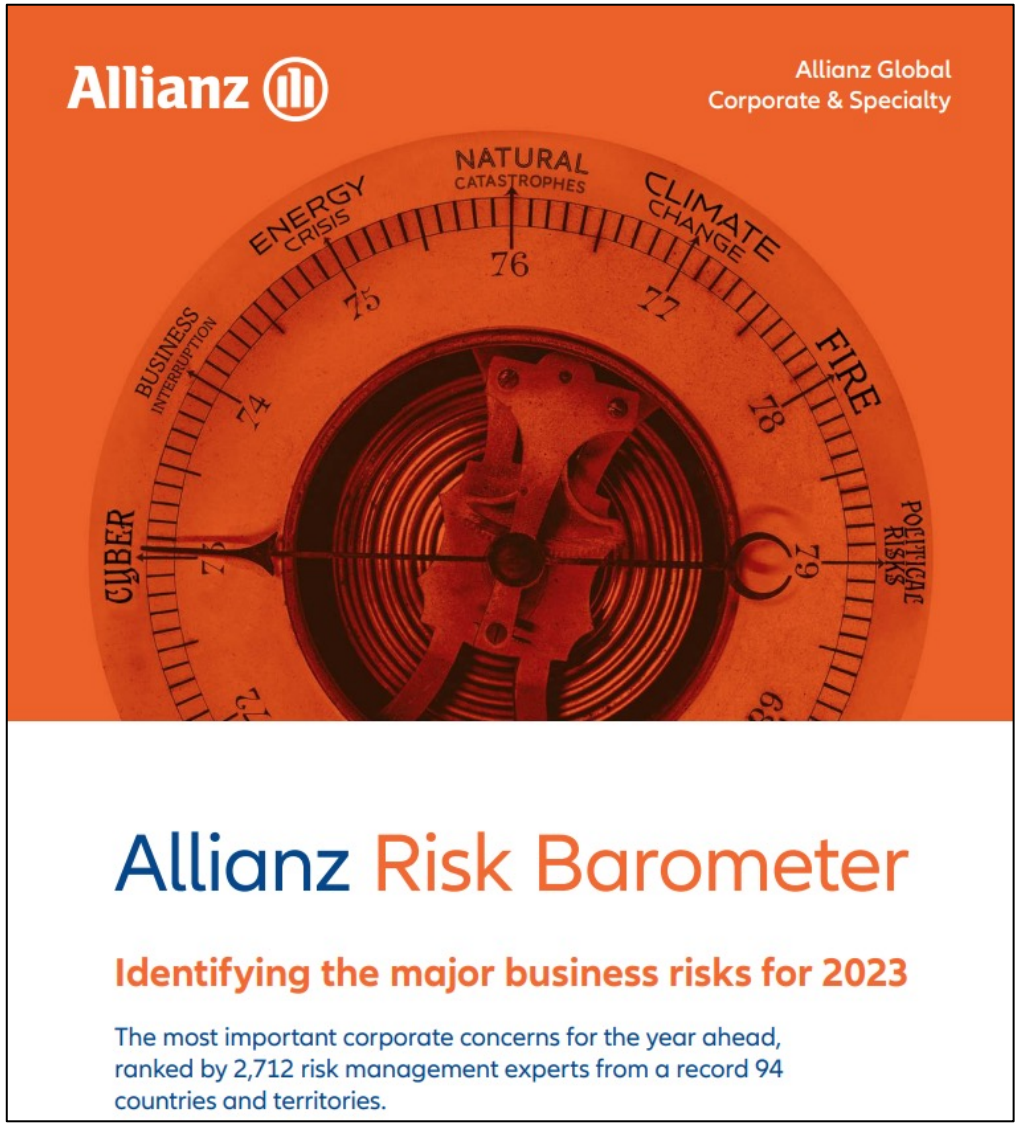
US Economic Policy Uncertainty Index: US Has Been Elevated Since the Advent of the Global Financial Crisis, Jan. 1985 – Sept. 2023



Source: *Economic Policy Uncertainty*, PolicyUncertainty.com accessed Oct. 15, 2023 at: http://www.policyuncertainty.com/index.html

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

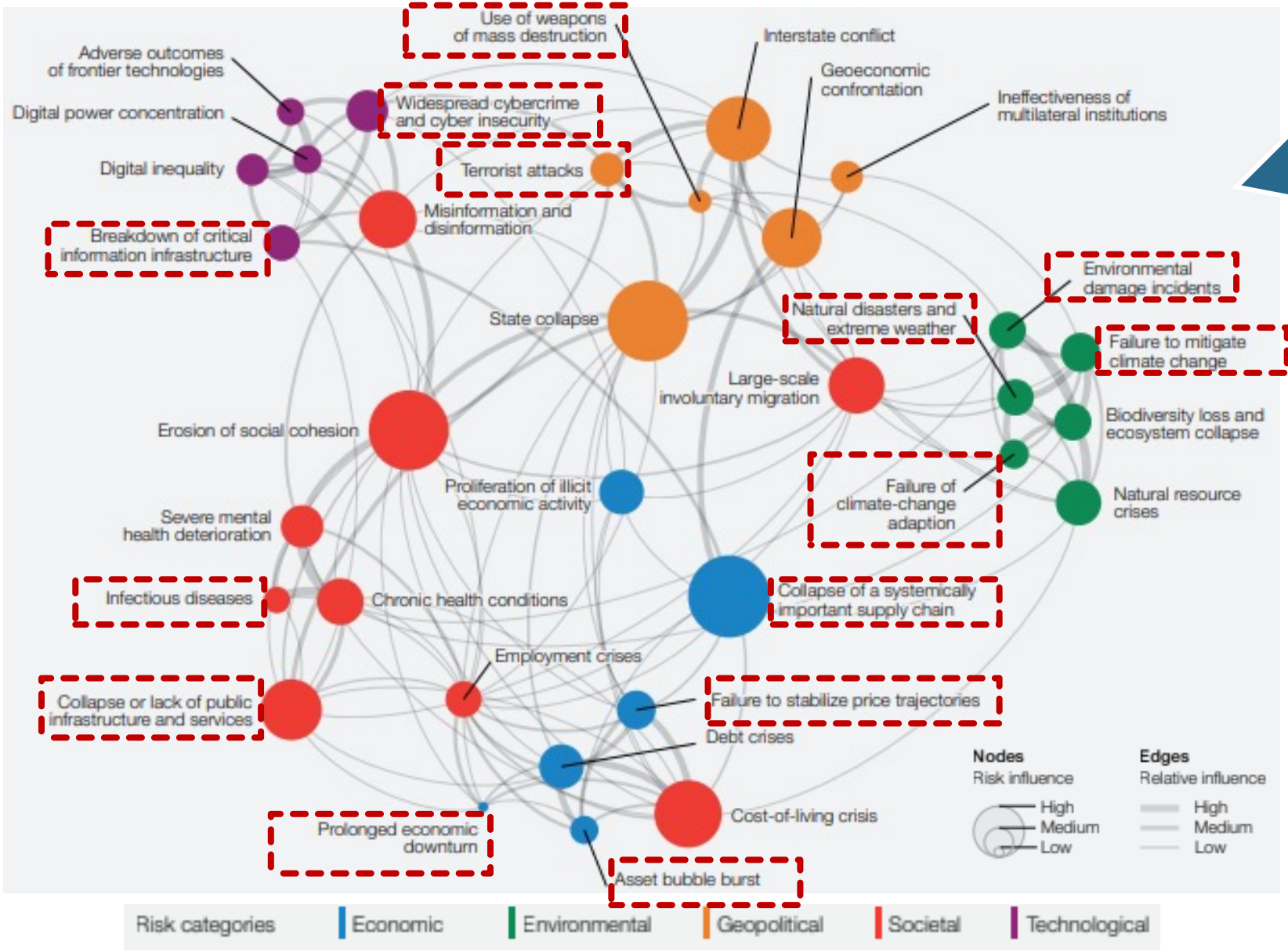
1. Cyber Incidents
2. Business Interruption (incl. supply chain disruption)
3. Macroeconomic Developments (e.g., inflation)
4. Energy Crises
5. Changes in Legislation and Regulation (e.g., protectionism)
6. Natural Catastrophes
7. Climate Change
8. Shortage of Skilled Workforce
9. Fire, Explosion
10.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

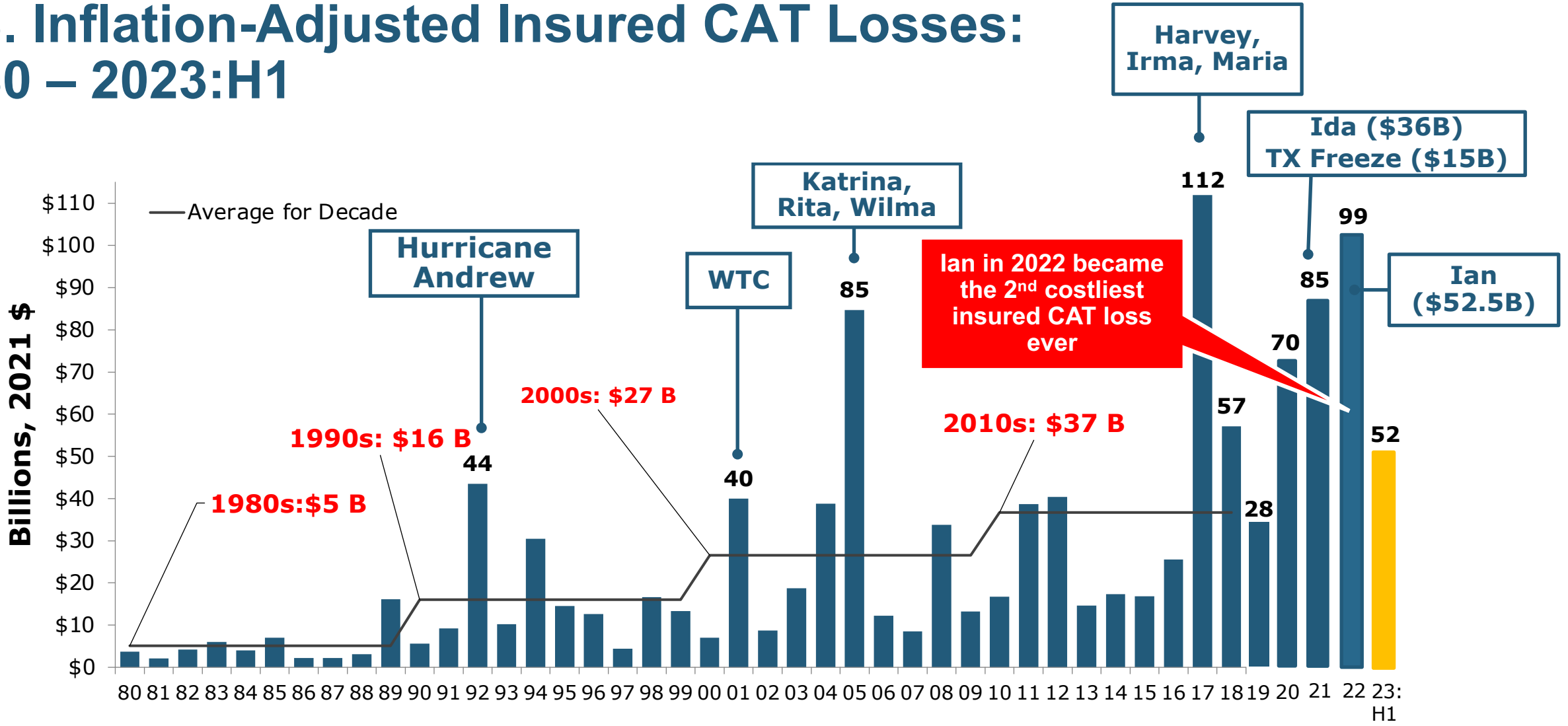


- **Many global risks have direct or indirect consequences for insurers**
- **Should insurers play a leading role in mitgating these risks?**

= 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 – 2023:H1



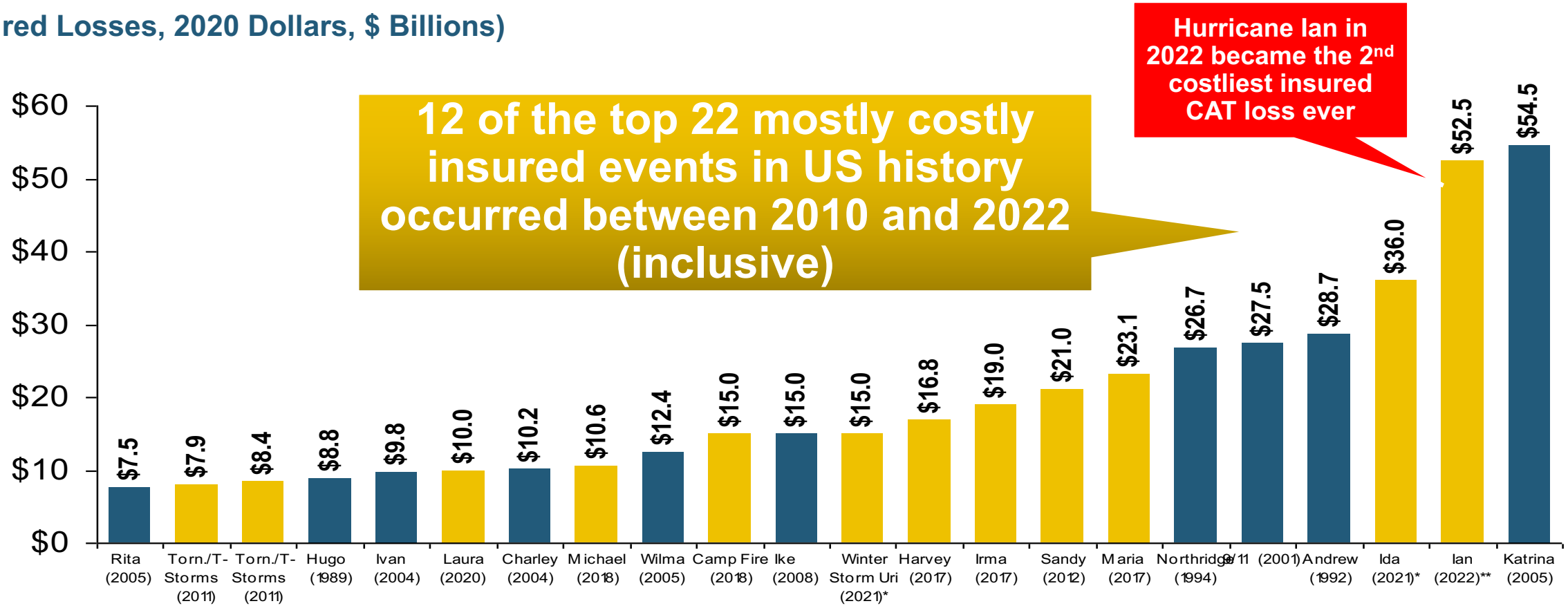
Average Insured Loss per Year*
1980-2021: $23.8 Billion
2012-2021: $44.1 Billion

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)



*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.

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)

SUMMARY

- The P/C Insurance Industry Remains Strong, Stable, Sound and Secure
- Geopolitical Concerns Remain High→ Interconnectedness/Globalization Threatened
- A Shallow US Recession is Possible Beginning in mid-2024
- Inflationary Pressures Will Persist in through 2023 and into 2024, but are moderating
- Loss Cost Challenges Remain but Should Ease in 2024—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
- Immediate P/C Concerns: Capacity, CATs, Politics

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

Download at www.uscriskcenter.com