What's in Store for 2024—and Beyond?
The Year Ahead for Insurers and the Economy

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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
  - Investment Environment
- **Inflation: Where it Is Headed & What It Means for P/C Insurers**
  - Impacts on claim severities and loss ratios
  - Long-term inflation considerations
- **Legal System Abuse/Social Inflation**
- **Summary and Q&A**

P/C Insurance Industry Financial Overview & Outlook:

Challenges Amid Inflation and Higher Interest Rates

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

Industry Remains Strong

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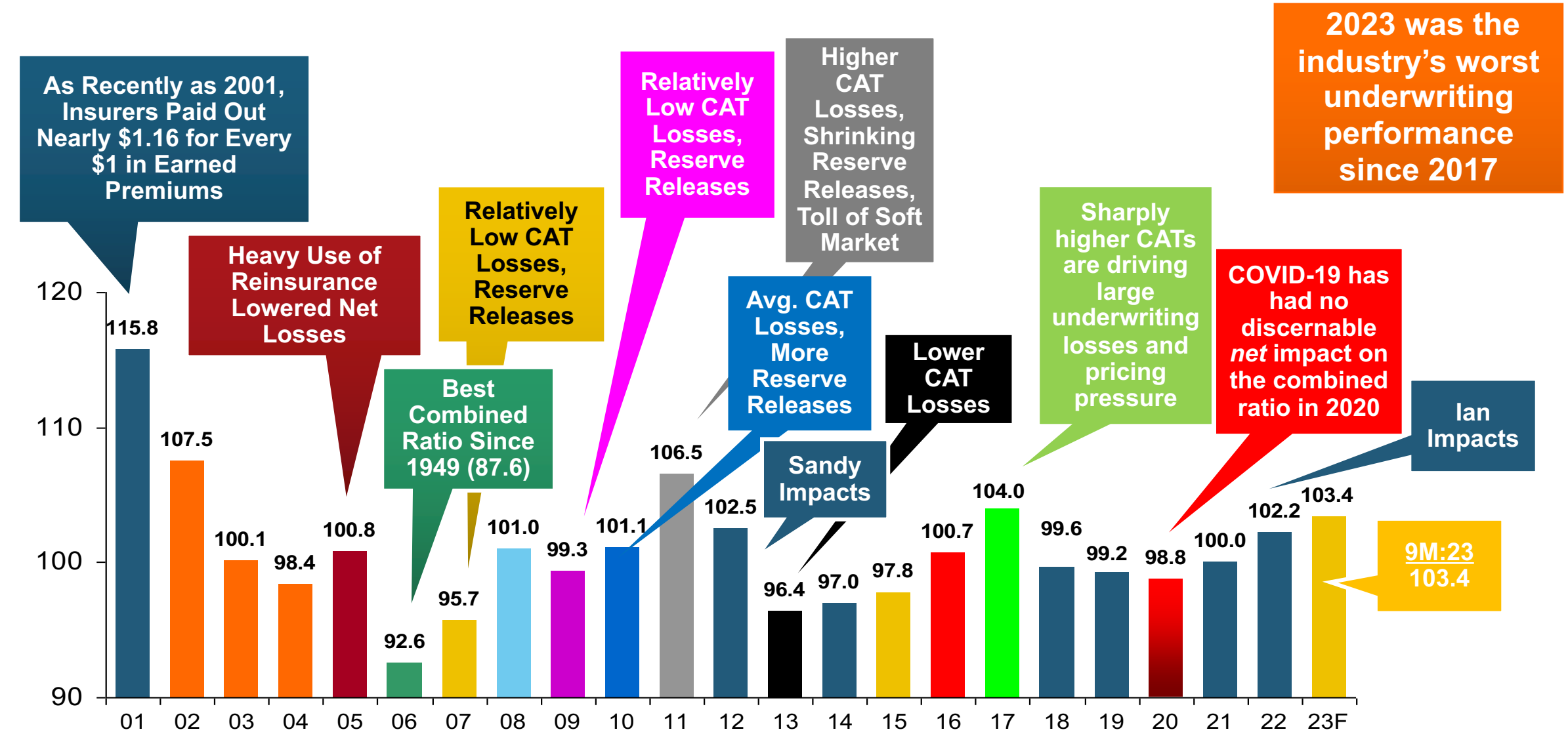
2023 Highlights & Lowlights through 9M:2023

- **Net Underwriting Loss: $32.2B as of 9M 2023, $7.6B worse than 9M 2022**
- **Net Earned Premiums: + 9.7%**
- **Net Loss & LAE: +11.9%; Other Underwriting Expense: +7.3%**
- **All Lines Combined Ratio: 103.4 *(9.8 pts. due to CATs)***
  - **Excluding $5.5B favorable reserve development, AY Combined Ratio = 104.3**
- **Net Investment Income: $51.4B (unchanged)**
- **Net Income: $65.7B (+ 132%)**
  - **AMB: *"A $50 billion change in realized capital gains at National Indemnity Company resulted in net income more than doubling to $65.7 billion."***
- **Surplus: $980B (-0.5% from YE 2022 and 6.7% from YE 2021 peak of $1.05T)**
  - **Helped by huge swing to $22.5B unrealized capital *gain* from $129.6B unrealized *loss***
  - **Surplus held back by huge increase in stockholder dividends to $96.7B (+253%)**
  - **PHS likely exceeded $1T at YE 2023**

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



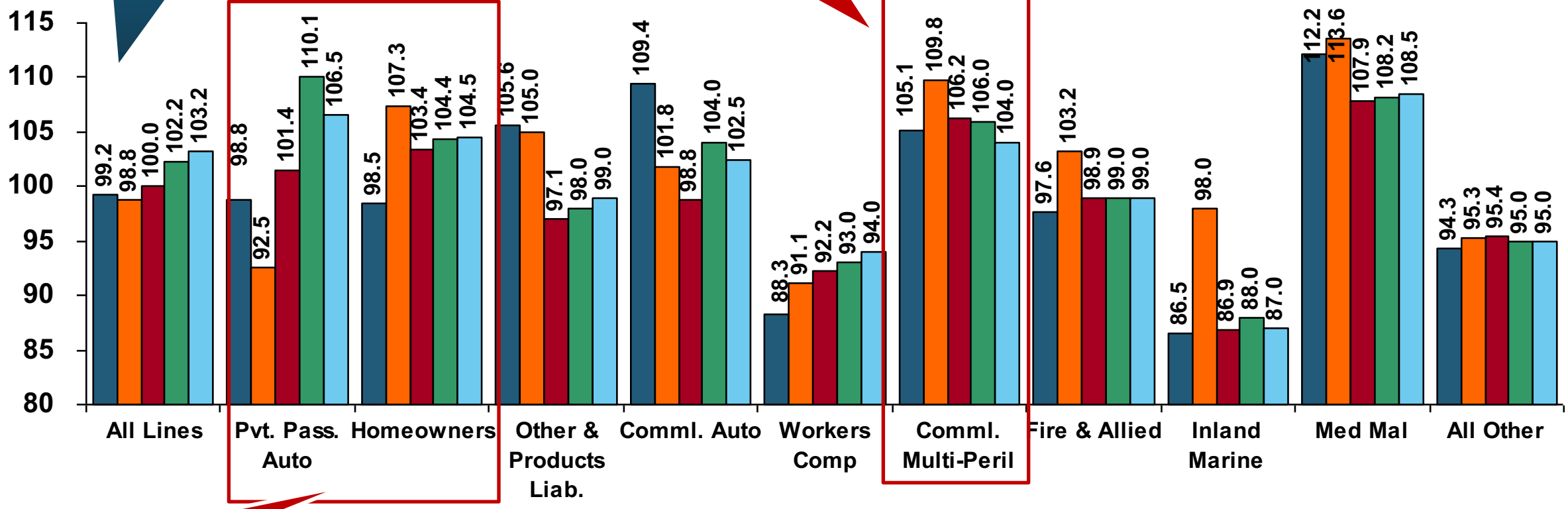
*Excludes Mortgage & Financial Guaranty insurers 2008–2014.
Sources: A.M. Best, ISO (2014-2024F).

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



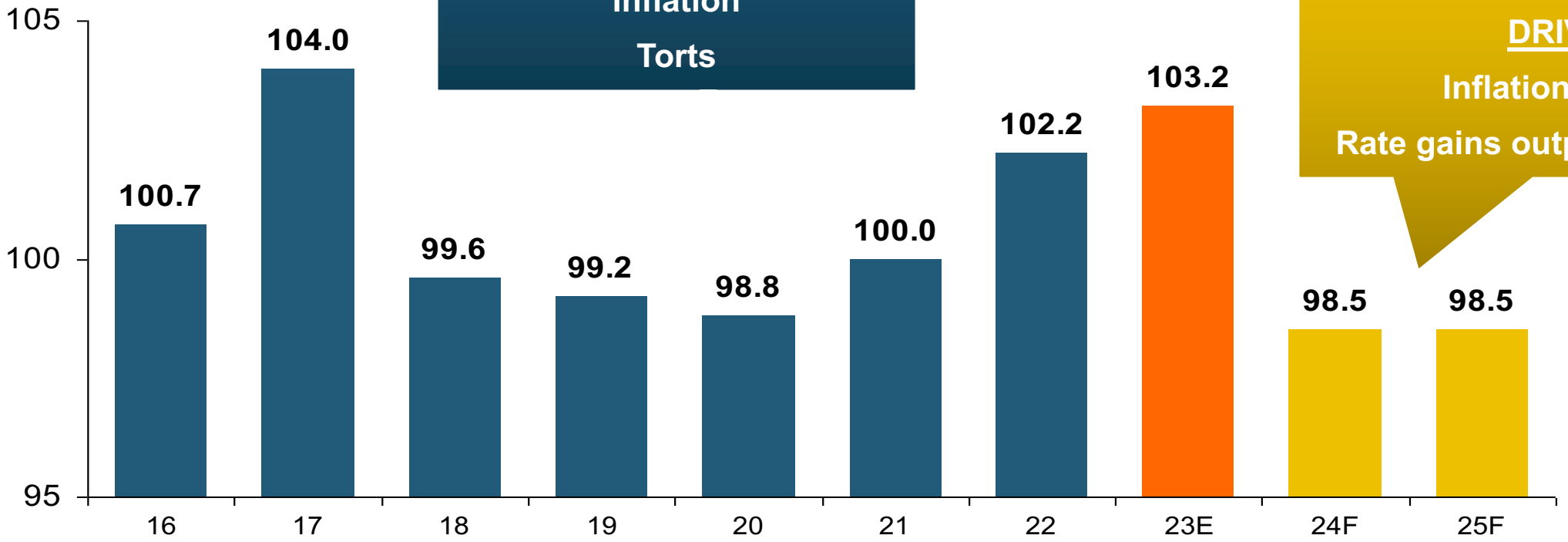
CATS, inflation are hurting personal lines

Source: A.M. Best *Review & Preview* (2023 forecasts as of Mar. 2023); Univ. of South Carolina, Risk and Uncertainty Management Center. 2023 All Lines figure from Dec. 8, 2023 A.M. Best *Financial Review*.

P/C Insurance Industry Combined Ratio, 2016–2025F

P/C insurer underwriting performance has been highly variable over the past decade, largely due to:

- CATs
- Inflation
- Torts



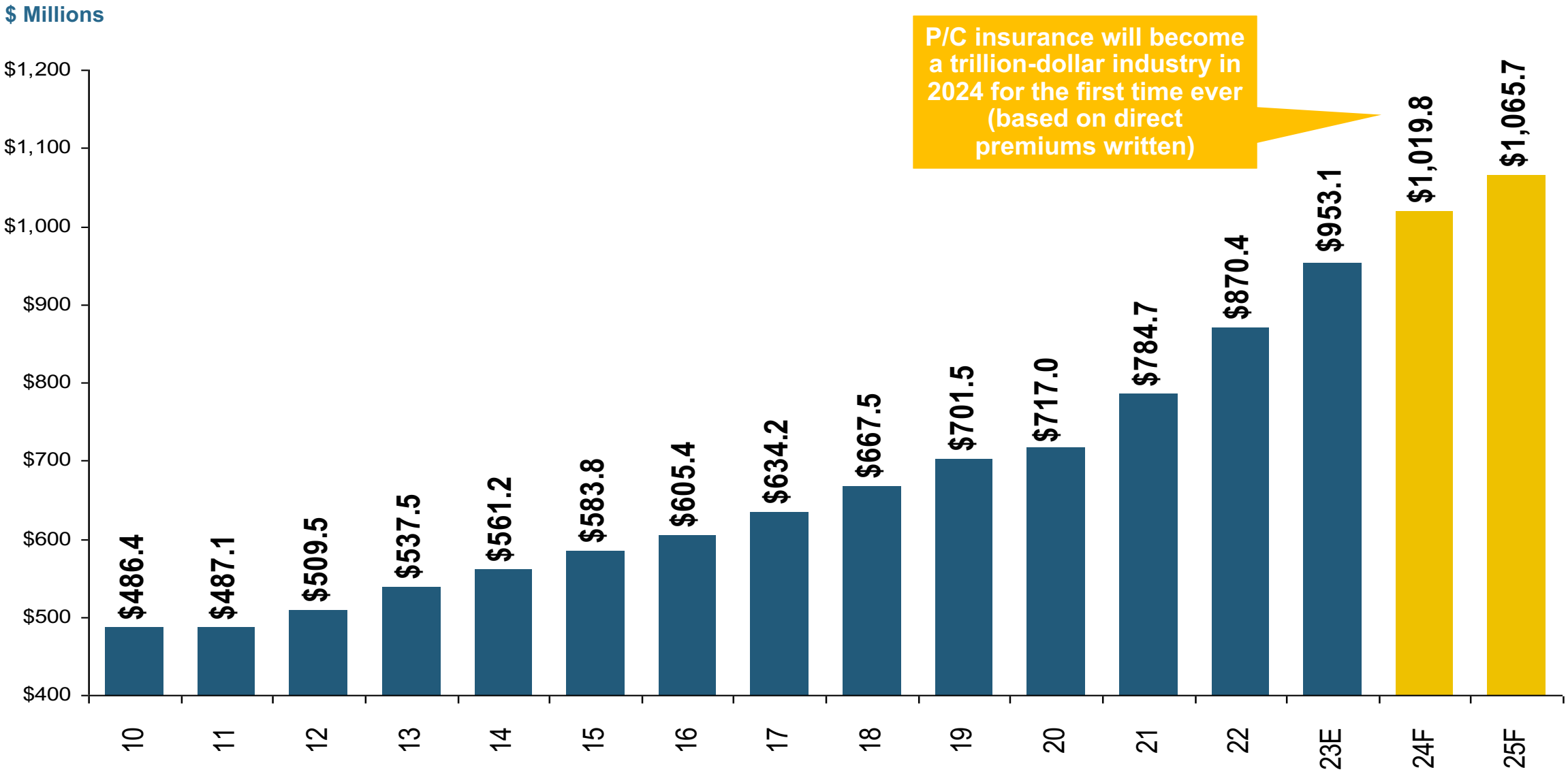
Significant improvement expected in P/C underwriting performance in 2024—led by Personal Lines and especially Personal Auto

DRIVERS

- Inflation moderate
- Rate gains outpace claim costs

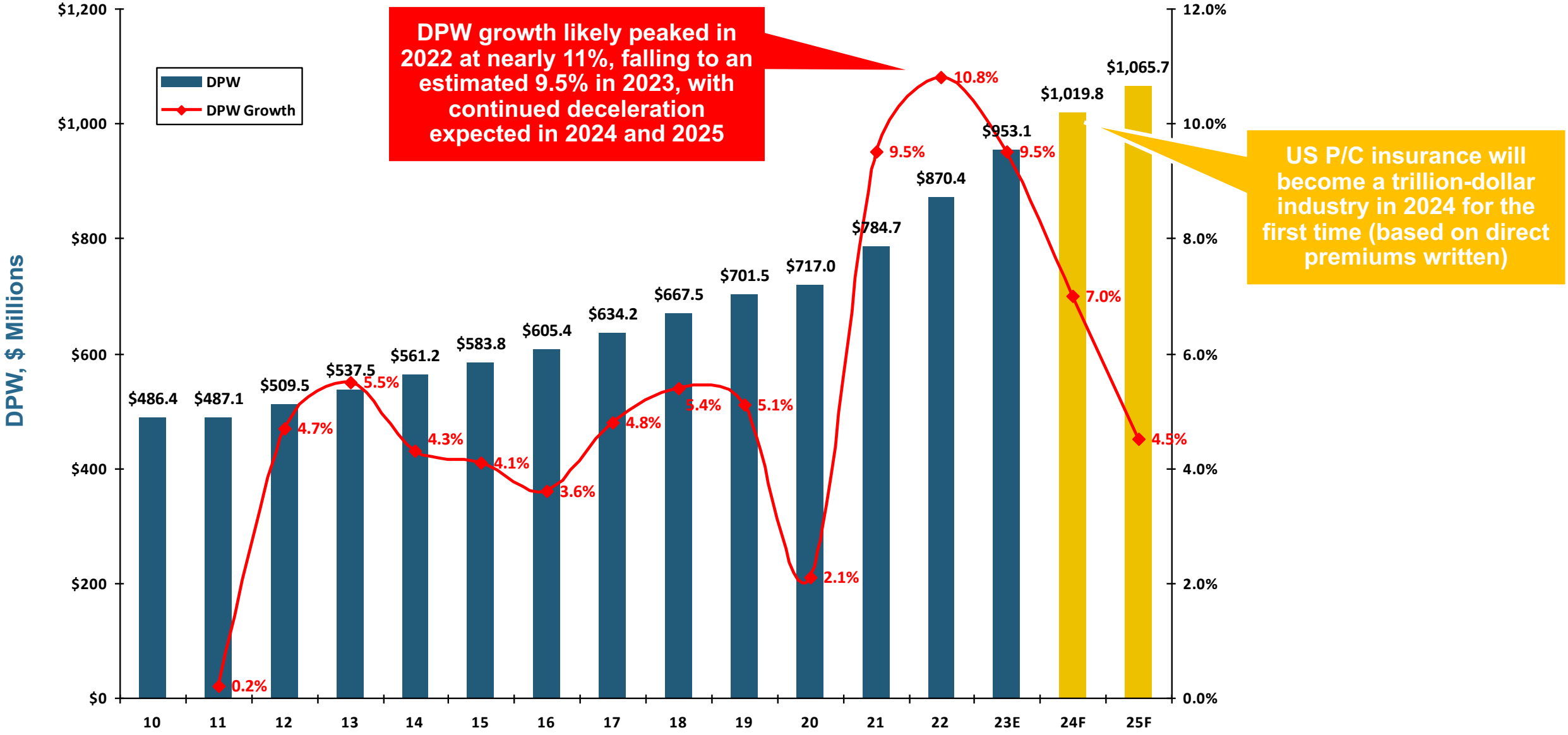
Sources: A.M. Best (2016-2022); Swiss Re Institute (2024F-2025F) "*US Property & Casualty Outlook: Strong Momentum into 2024 Led by Personal Lines,*" (January 2024) accessed at: https://www.swissre.com/dam/jcr:e0013881-51ed-443c-ad22-b03ec9380c4a/2024-01-09-sri-uspropertycasualtyoutlook-strong-momentum.pdf.

P/C Direct Premiums Written, 2010–2025F



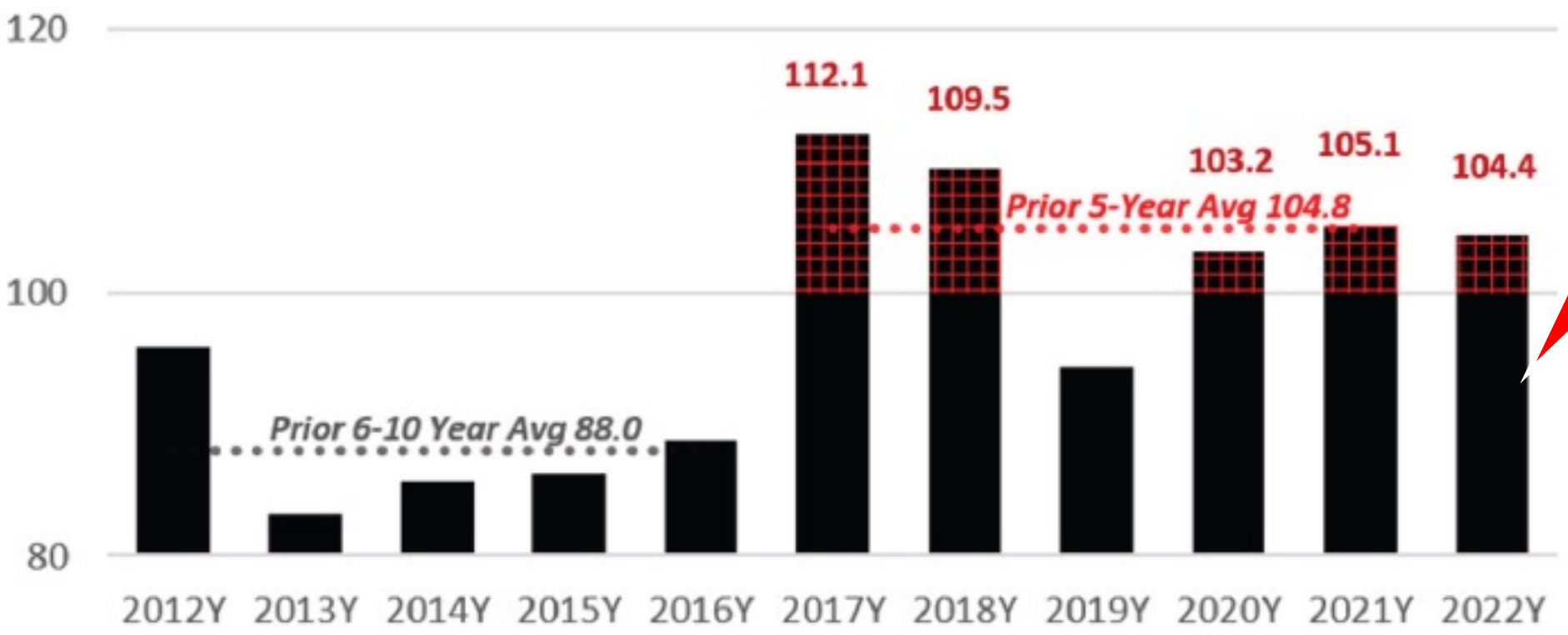
Sources: A.M. Best and NAIC (2010-2022); Forecast figures for 2024-25 calculated by Risk and Uncertainty Management Center, Univ. of South Carolina from Swiss Re Institute (2024F-2025F) "*US Property & Casualty Outlook: Strong Momentum into 2024 Led by Personal Lines,*" (January 2024) accessed at: https://www.swissre.com/dam/jcr:e0013881-51ed-443c-ad22-b03ec9380c4a/2024-01-09-sri-uspropertycasualtyoutlook-strong-momentum.pdf.

P/C Direct Premiums Written Volume and Growth, 2010–2025F



Sources: A.M. Best and NAIC (2010-2022); Forecast figures for 2024-25 calculated by Risk and Uncertainty Management Center, Univ. of South Carolina from Swiss Re Institute (2024F-2025F) "*US Property & Casualty Outlook: Strong Momentum into 2024 Led by Personal Lines,*" (January 2024) accessed at: https://www.swissre.com/dam/jcr:e0013881-51ed-443c-ad22-b03ec9380c4a/2024-01-09-sri-uspropertycasualtyoutlook-strong-momentum.pdf.

Homeowners Insurance Combined Ratio: 2012 – 2022*

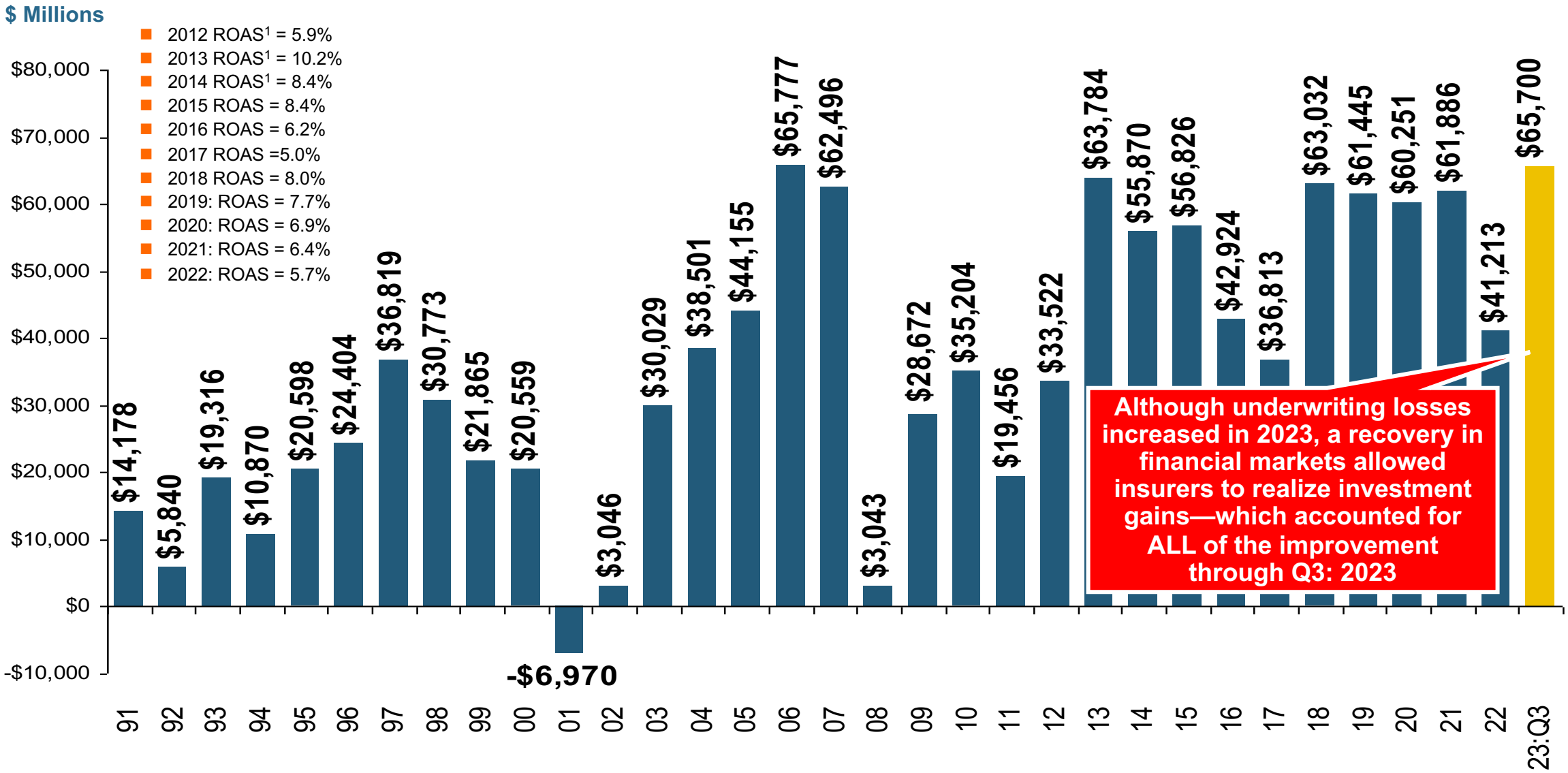


The average homeowners combined ratio over the past 6 years was nearly 17 points higher than the prior 5 years

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

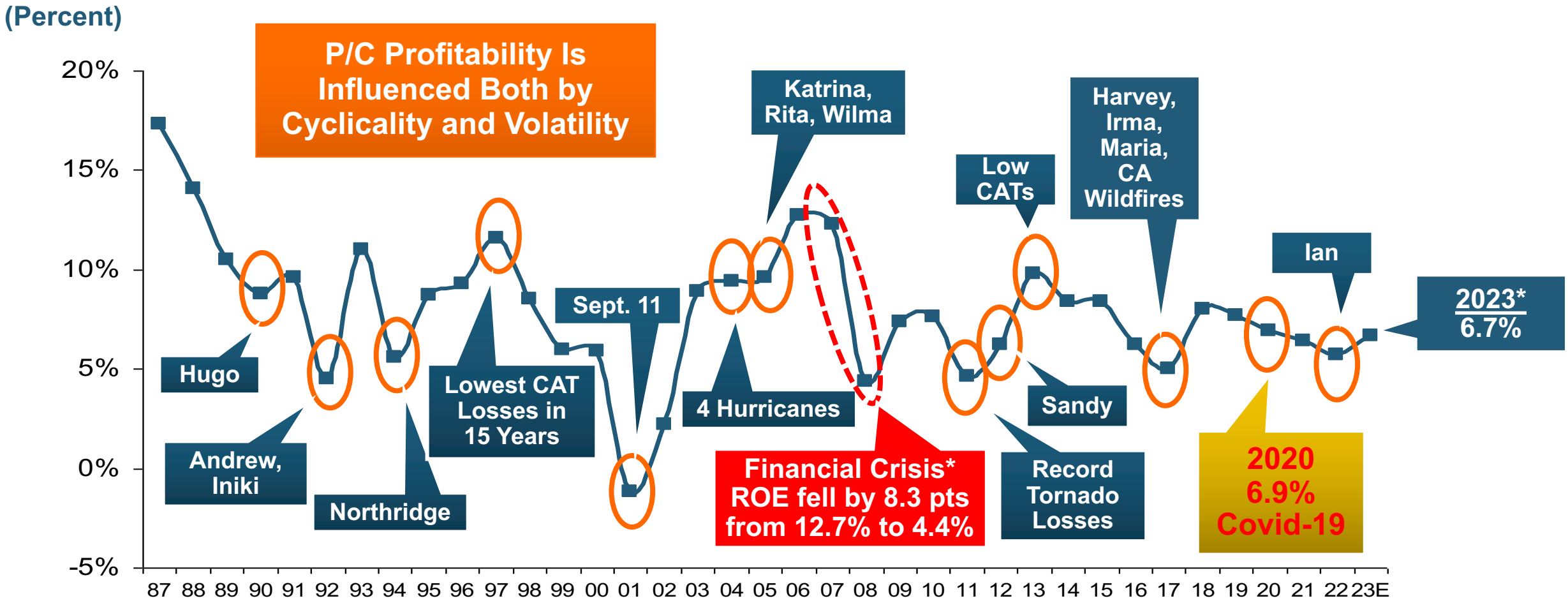
Source: APCIA using S&P Global Intelligence

P/C Industry Net Income After Taxes, 1991–2023:Q3



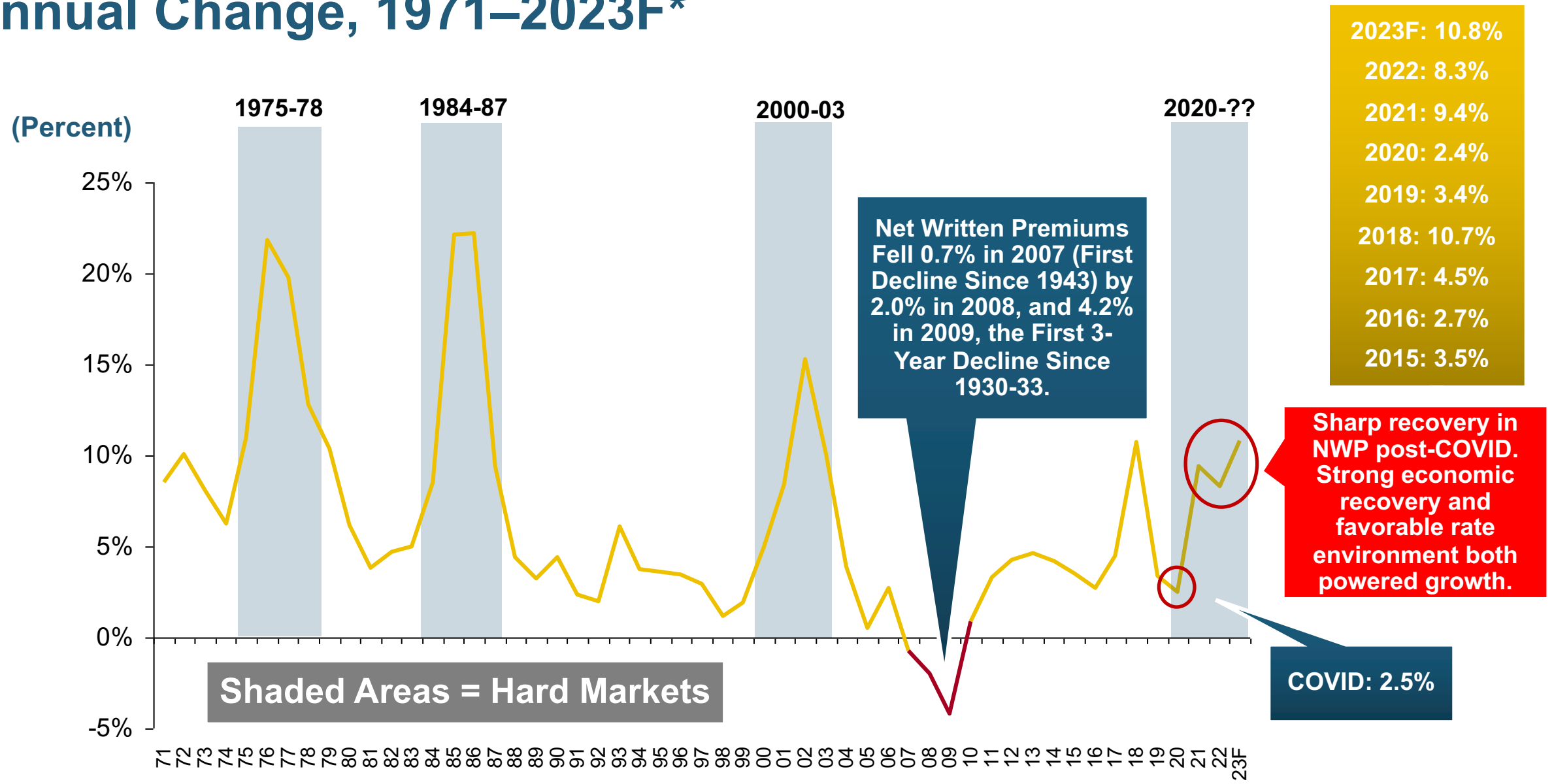
*ROE figures are GAAP; [1]Return on avg. surplus. Excludes Mortgage & Financial Guaranty insurers for years (2009-2014).
Sources: A.M. Best, ISO, APCIA.

ROE: Property/Casualty Insurance by Major Event, 1987–2023*



*Excludes Mortgage & Financial Guarantee in 2008 – 2014. 2023 figure is through Q3.
Sources: A.M. Best, ISO, *Fortune,* APCIA; USC RUM Center.

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

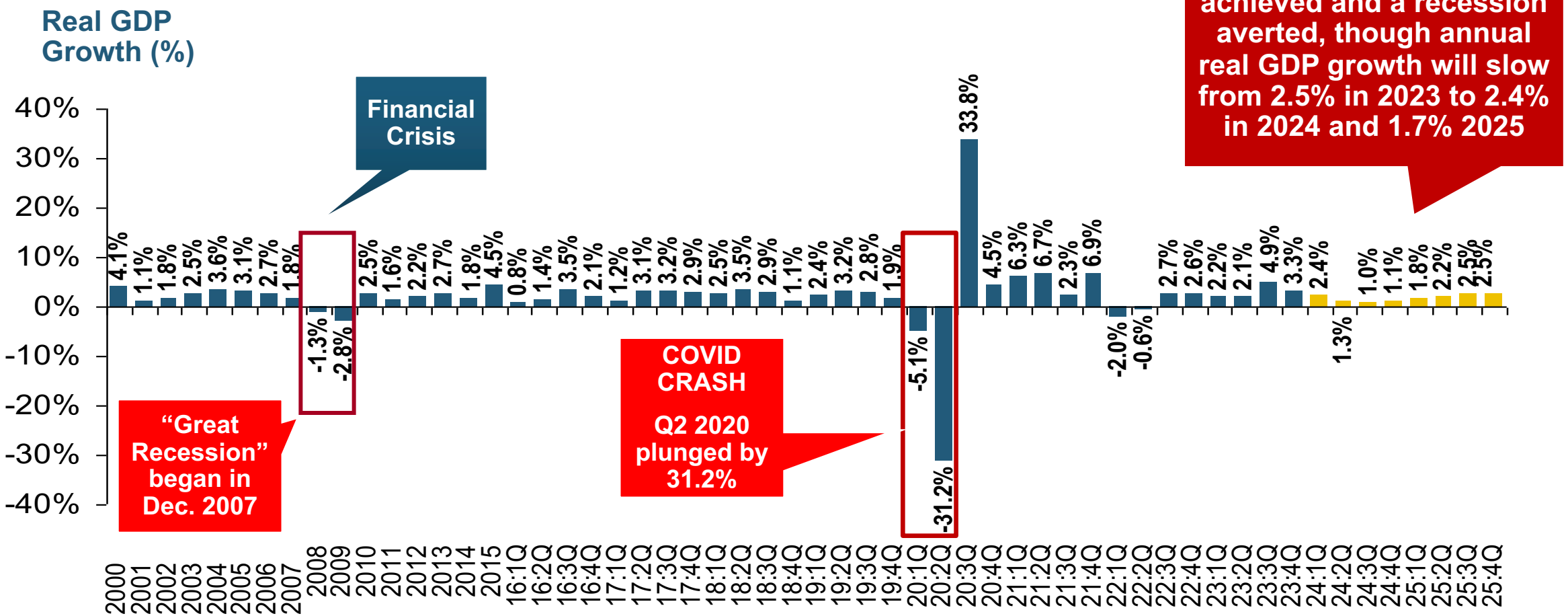
Economic Overview
The U.S. Economy Remains Resilient and Consumer Gloom is Lifting

Inflation, Geopolitical Conflicts and Still-High Interest Rates Have Weighed Heavily on Business and Consumer Sentiment

Is the Fed About to "Thread the Needle" and Achieve a "Soft Landing"?

15

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 (2/24); Center for Risk and Uncertainty Management, University of South Carolina.

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

Great Recession

Rising unemployment eroded payrolls and WC's exposure base.

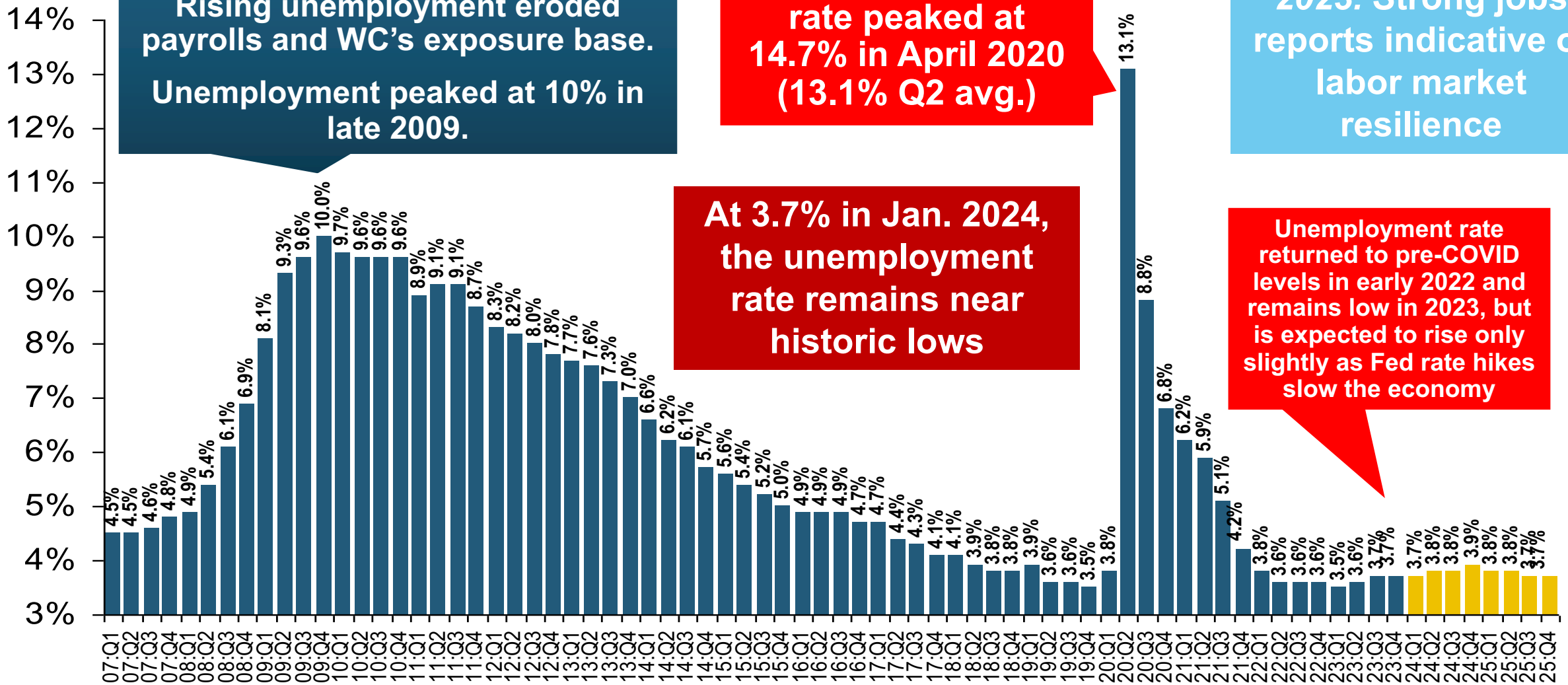
Unemployment peaked at 10% in late 2009.

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

225M jobs added in 2023. **Strong jobs reports indicative of labor market resilience**

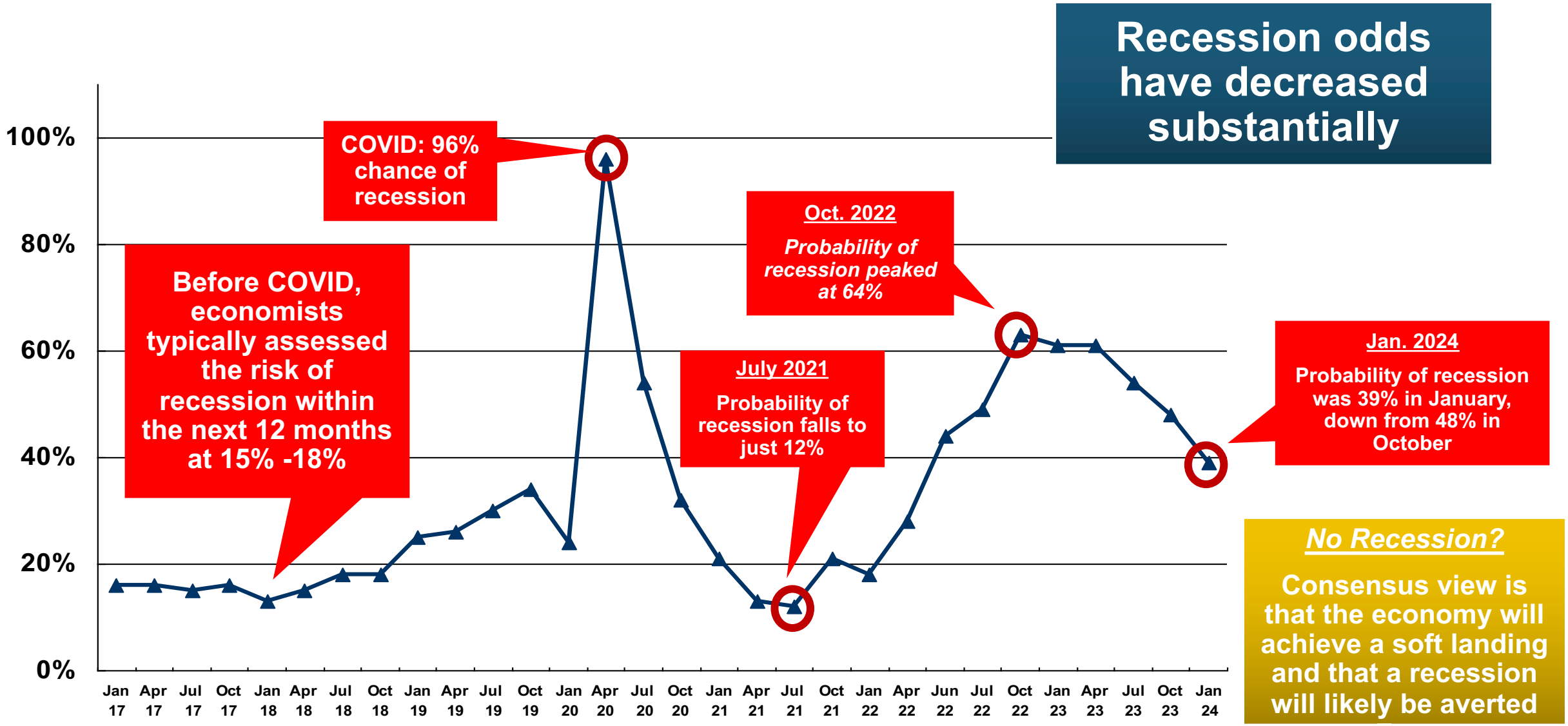
At 3.7% in Jan. 2024, the unemployment rate remains near historic lows

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



Sources: US Bureau of Labor Statistics; Wells Fargo Securities (2/24 edition); Risk and Uncertainty Management Center, University of South Carolina.

Probability the U.S. Is in a Recession Within Next 12 Months: Jan. 2017 – Jan. 2024*



*January 2024 survey included the responses of 71 economists.

Source: Wall Street Journal surveys of economists: https://www.wsj.com/economy/it-wont-be-a-recession-it-will-just-feel-like-one-1919267a; 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.

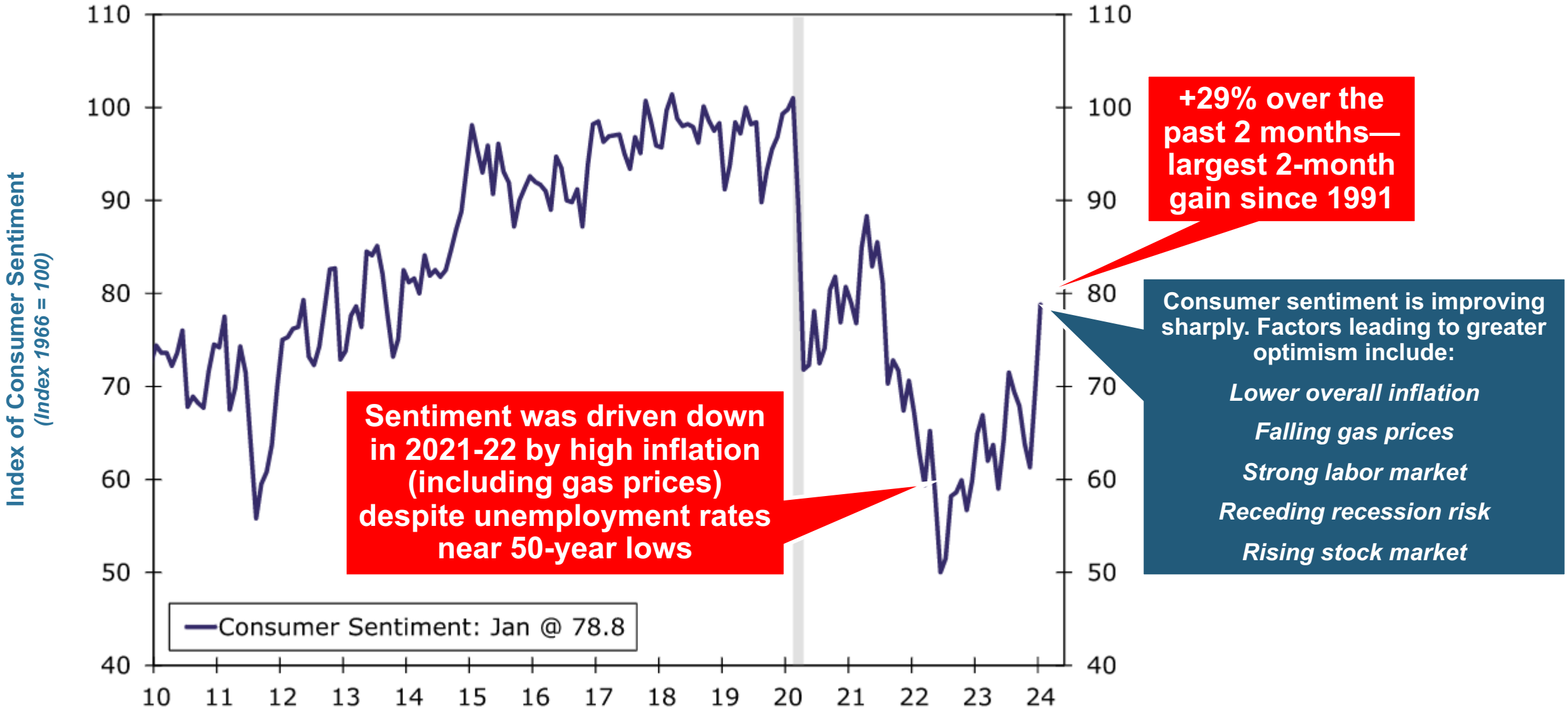
Hard Landing

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.

Consumer Sentiment: Recent Rebound but Still Low Despite Strong Jobs Markets



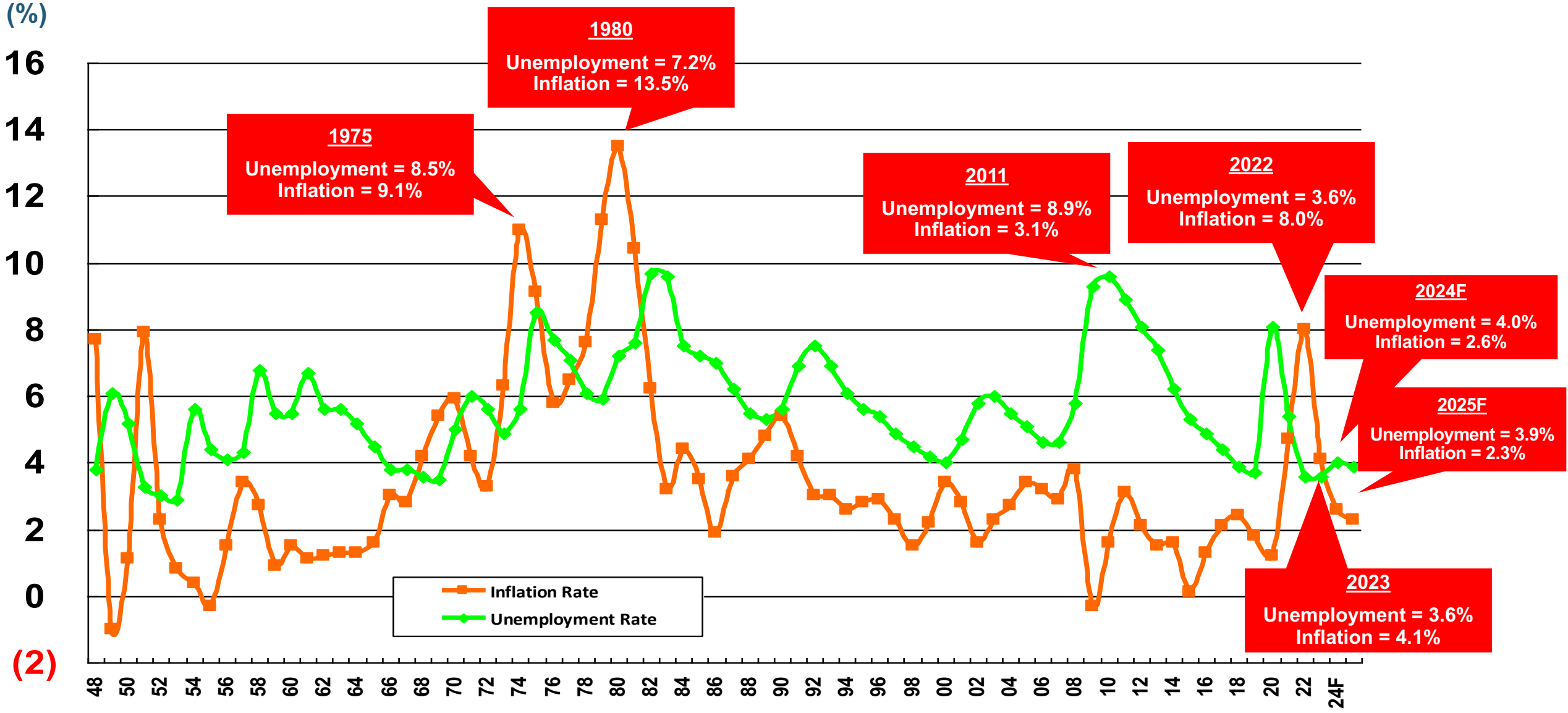
Source: University of Michigan and Wells Fargo Economics.

How Miserable Should Consumers Really Be?

Many Believed that We Were in a Recession in 2022—*We Weren't—And that Recession Was Inevitable in 2023 (It Wasn't)*

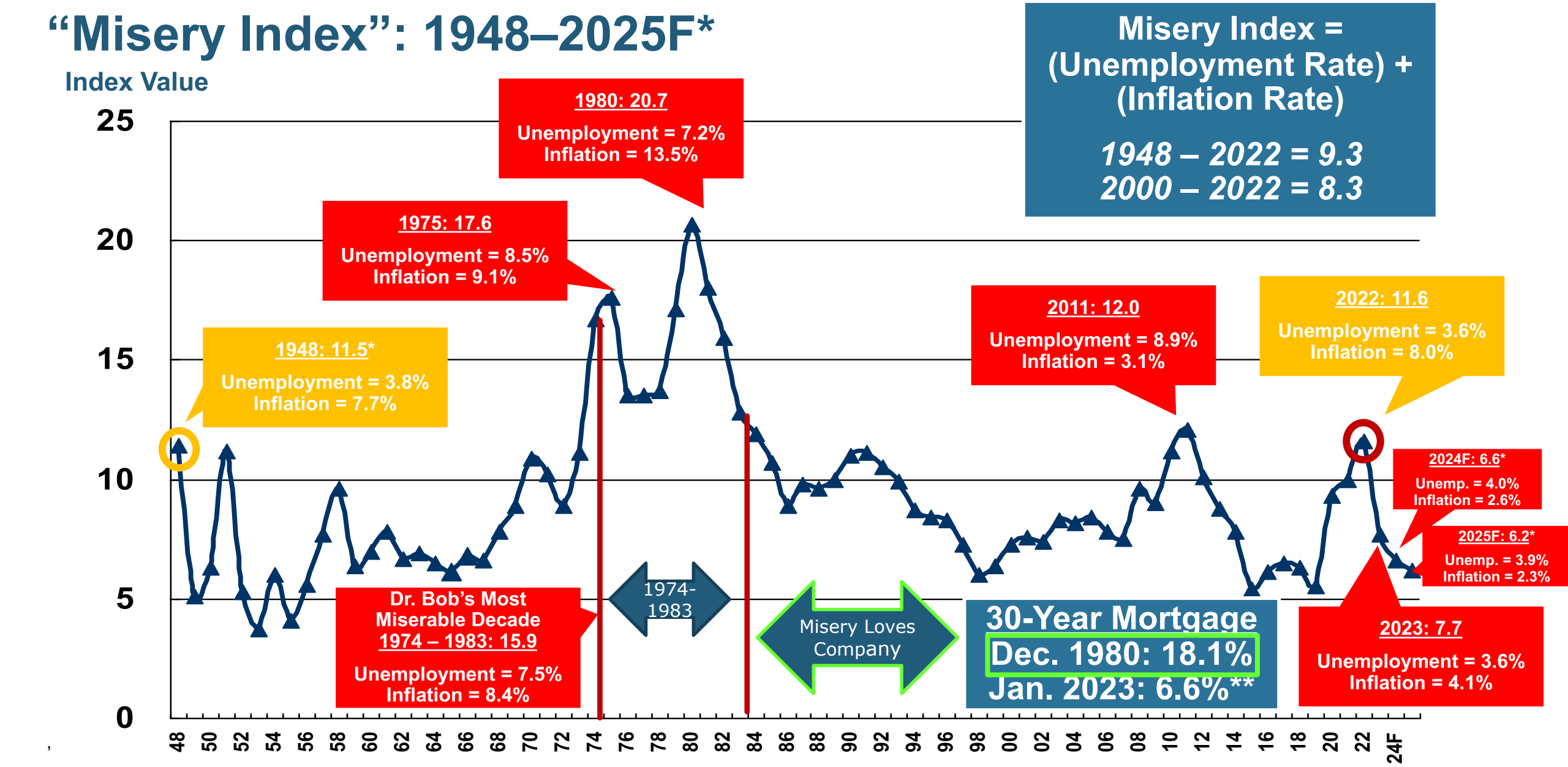
A Quick Review of Economic History Is Helpful

Inflation and Unemployment Rate, 1948–2025F*



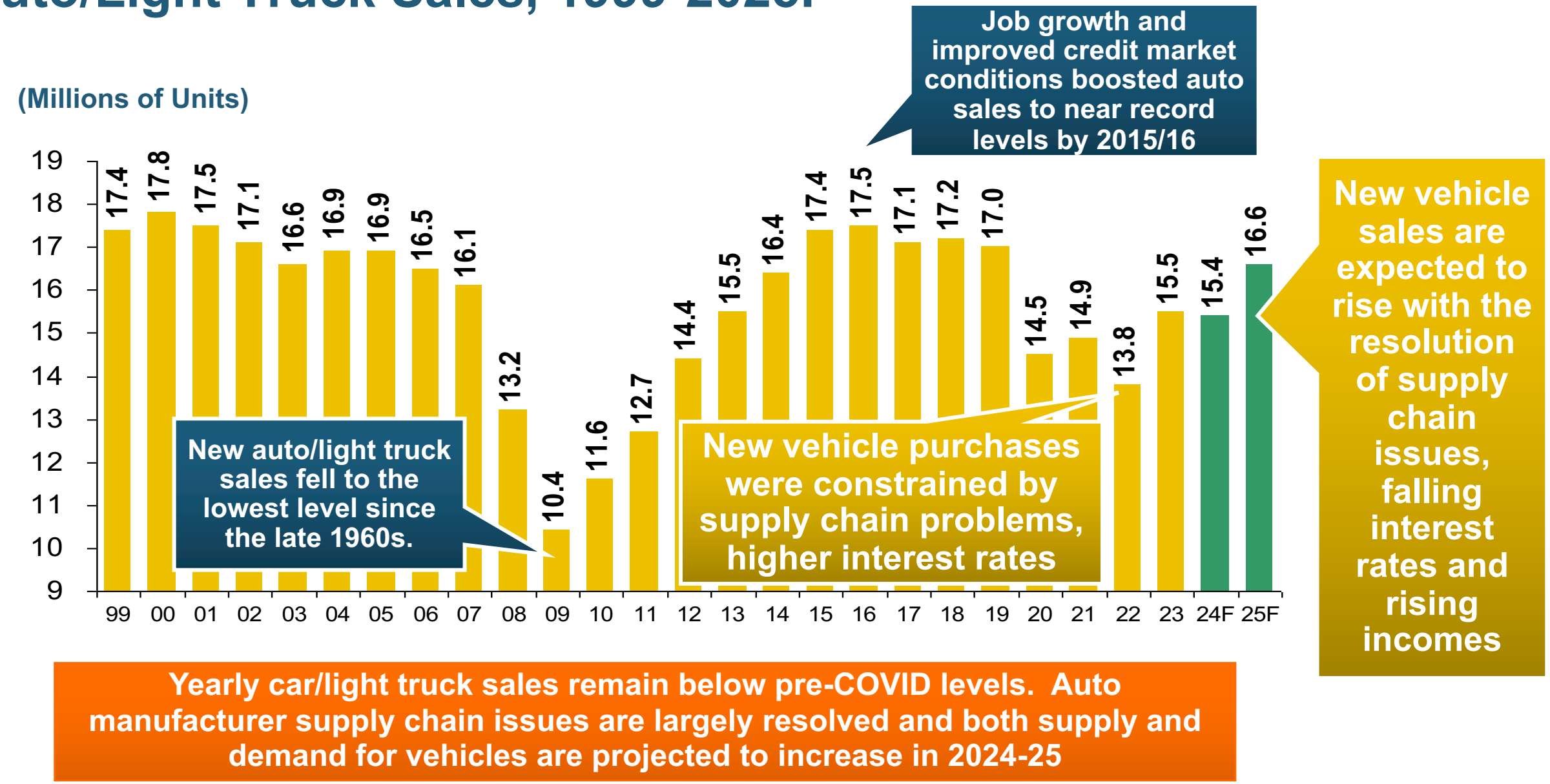
*2024-25 forecast of unemployment and inflation rates based on Wells Fargo Securities forecasts (1/24).
Source: U.S. Bureau of Labor Statistics; Center for Risk and Uncertainty Management, University of South Carolina.

“Misery Index”: 1948–2025F*



*Estimated based on Wells Fargo Securities forecasts (1/24).
**As of 1/19/24 based on Freddie Mac data.
Source: U.S. Bureau of Labor Statistics; Center for Risk and Uncertainty Management, University of South Carolina.

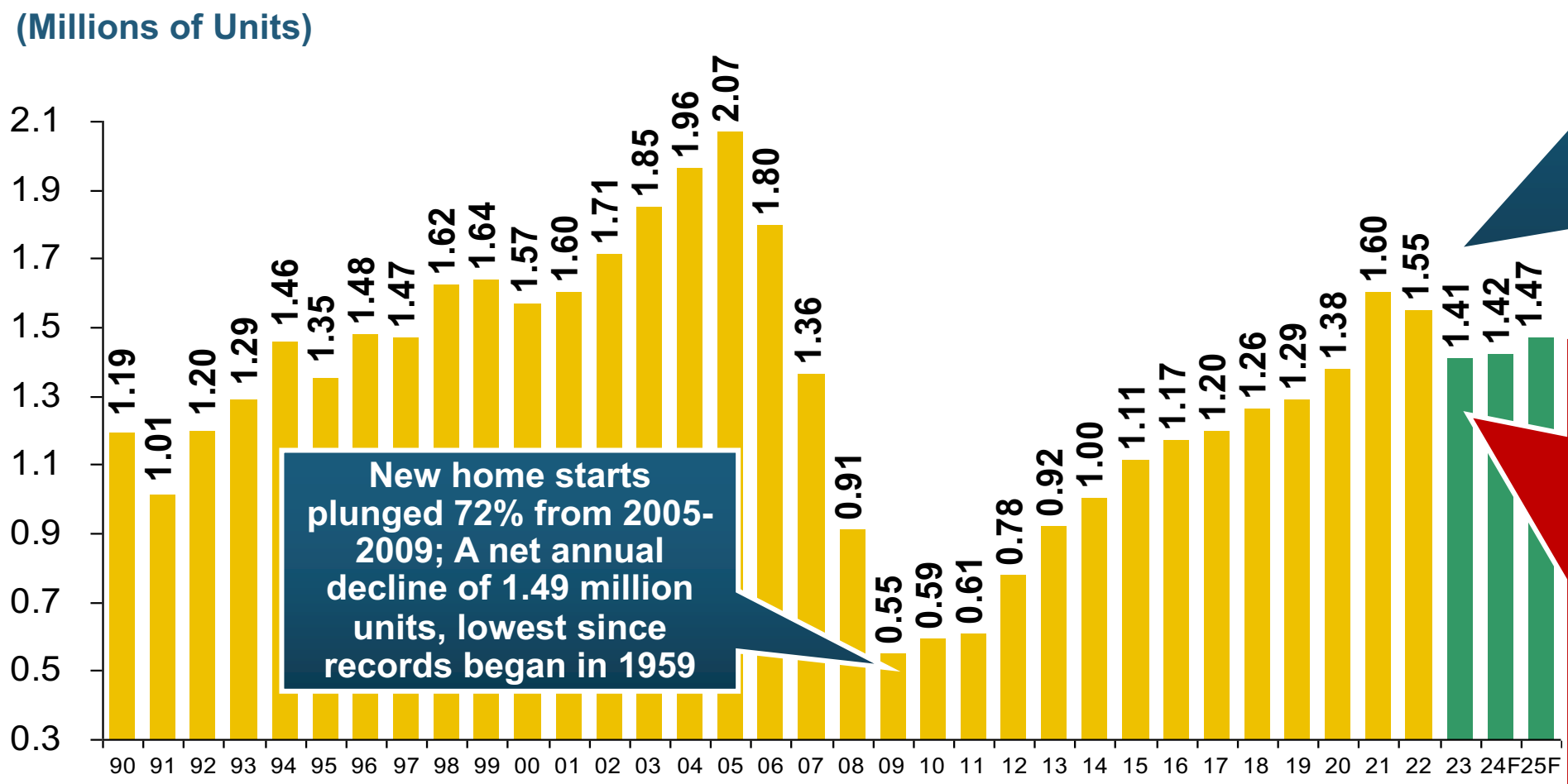
Auto/Light Truck Sales, 1999-2025F



Yearly car/light truck sales remain below pre-COVID levels. Auto manufacturer supply chain issues are largely resolved and both supply and demand for vehicles are projected to increase in 2024-25

Source: U.S. Department of Commerce; Wells Fargo Securities (2/24 for 2023F-25F); Univ. of South Carolina, Center for Risk and Uncertainty Management..

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 were headwinds

High prices, rising mortgage rates, tempered new home construction activity through 2023, though low inventory of existing homes is propping up demand. Falling mortgage rates should prop up demand in 2024-2025

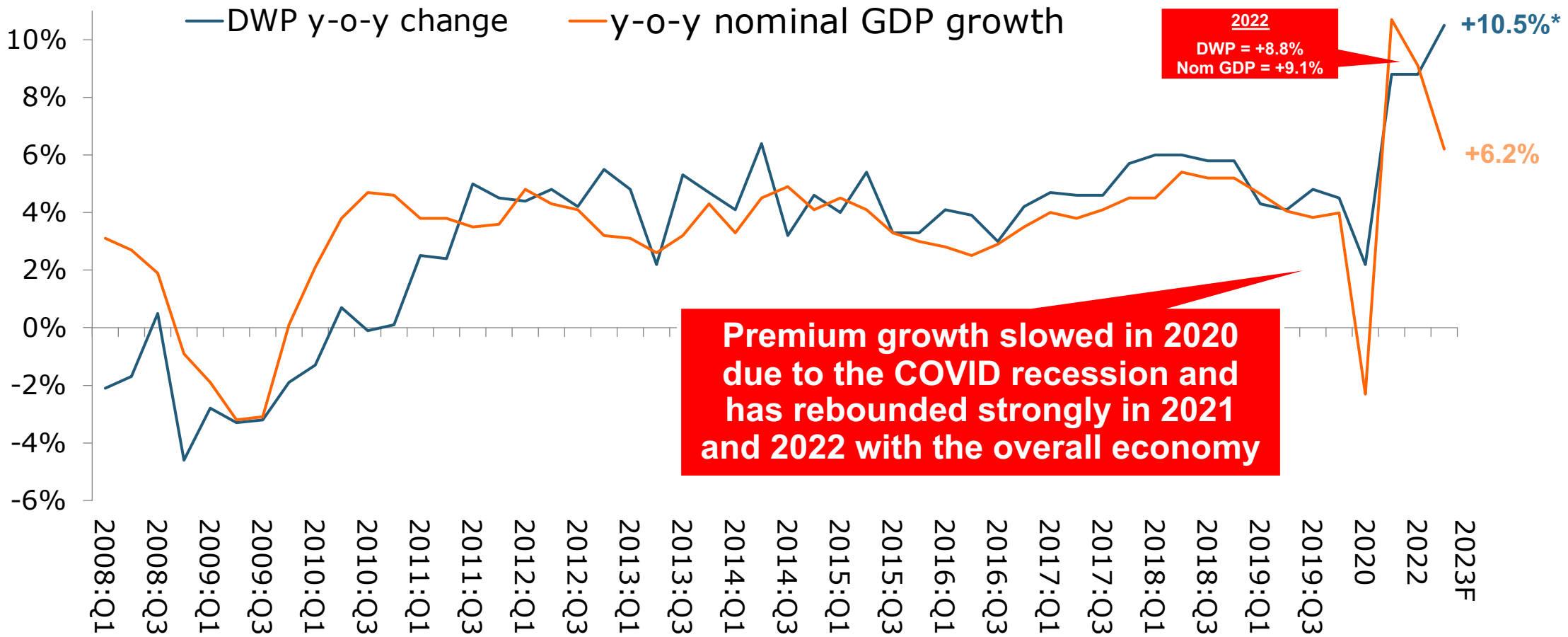
No Repeat of the Housing Collapse that Began in 2007

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 (2/24 for 2023F-25F); Univ. of South Carolina, Center for Risk and Uncertainty Management..

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

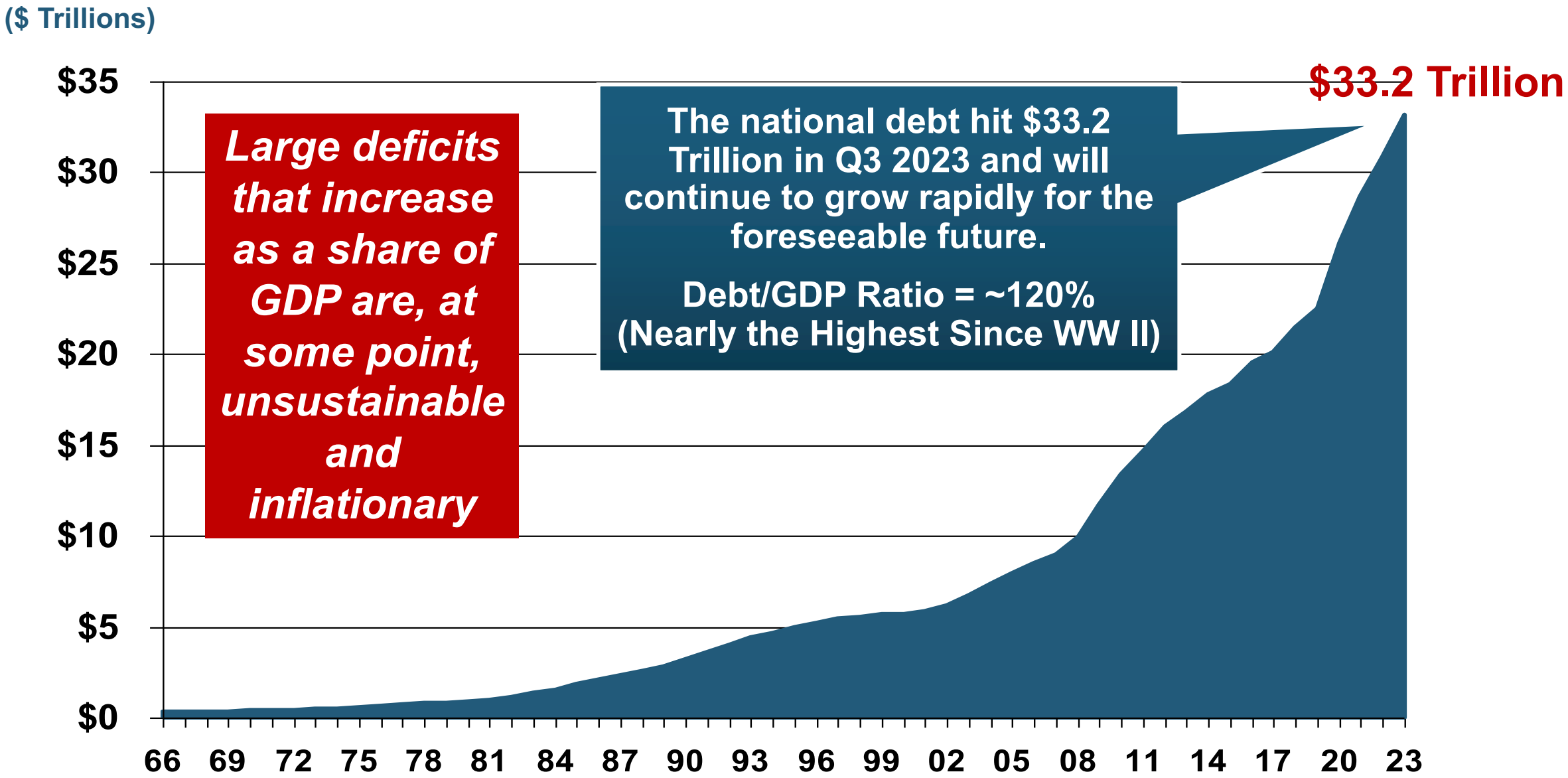


Direct written premiums track nominal GDP fairly tightly over time, suggesting the P/C insurance industry's growth prospects inextricably linked to economic performance.

*2020-23F figures are annual. 2023 DWP figure is Q3:2023 vs. Q3:2022.

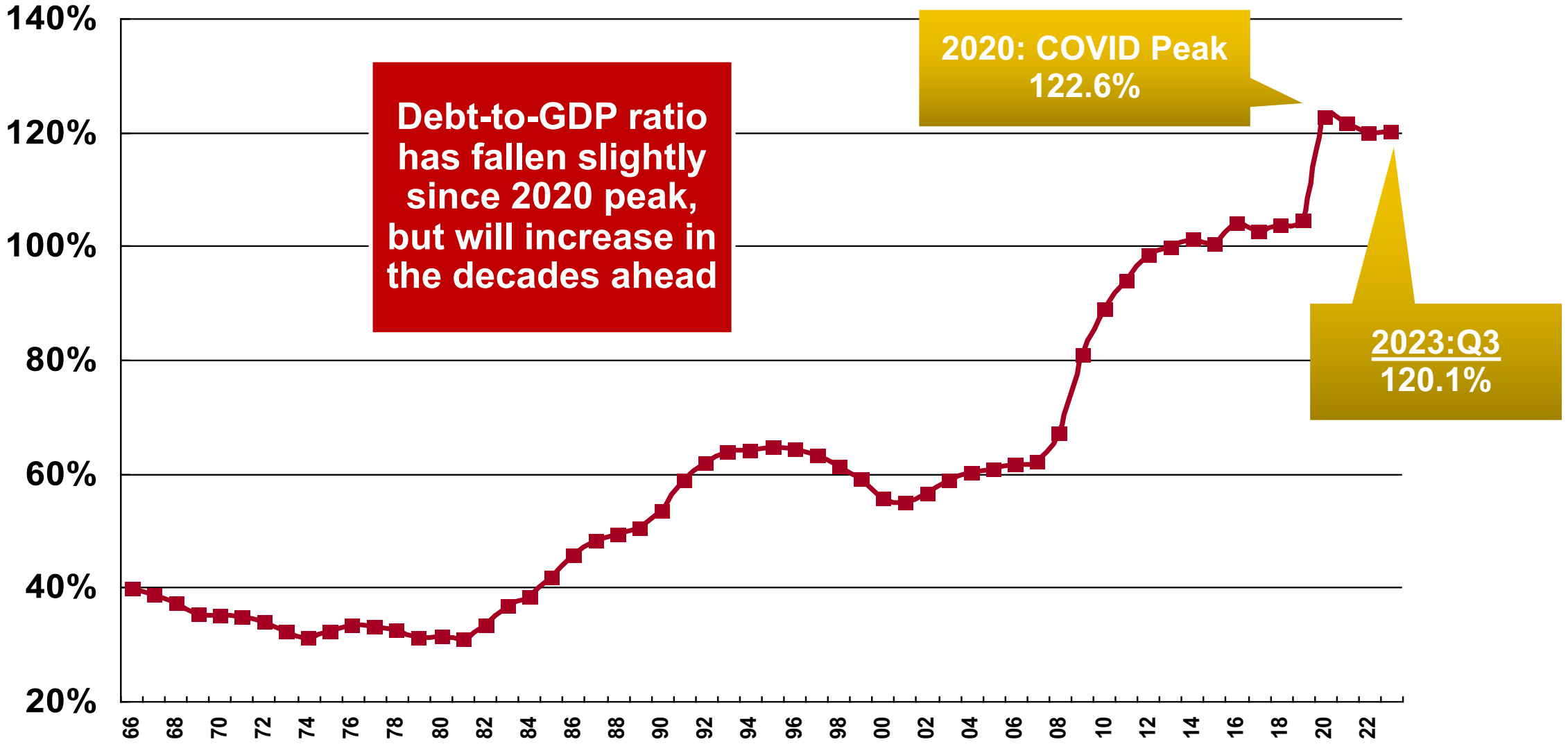
Sources: SNL Financial; U.S. Commerce Dept., Bureau of Economic Analysis; ISO; I.I.I.; Risk and Uncertainty Management Center, University of South Carolina.

U.S. National Debt, 1966 – 2023:Q3



Source: Congressional Budget Office; Federal Reserve Bank of St. Louis: https://fred.stlouisfed.org/series/FYPUGDA188S.

Total Public Debt as a Percent of GDP: 1966 – 2023*



*2023 data based on data through Q3.
Source: Office of Management and Budget via St. Louis Fed: https://fred.stlouisfed.org/series/GFDEGDQ188S#. Univ. of South Carolina Center for Risk and Uncertainty Management Center.

The Inflation Threat

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

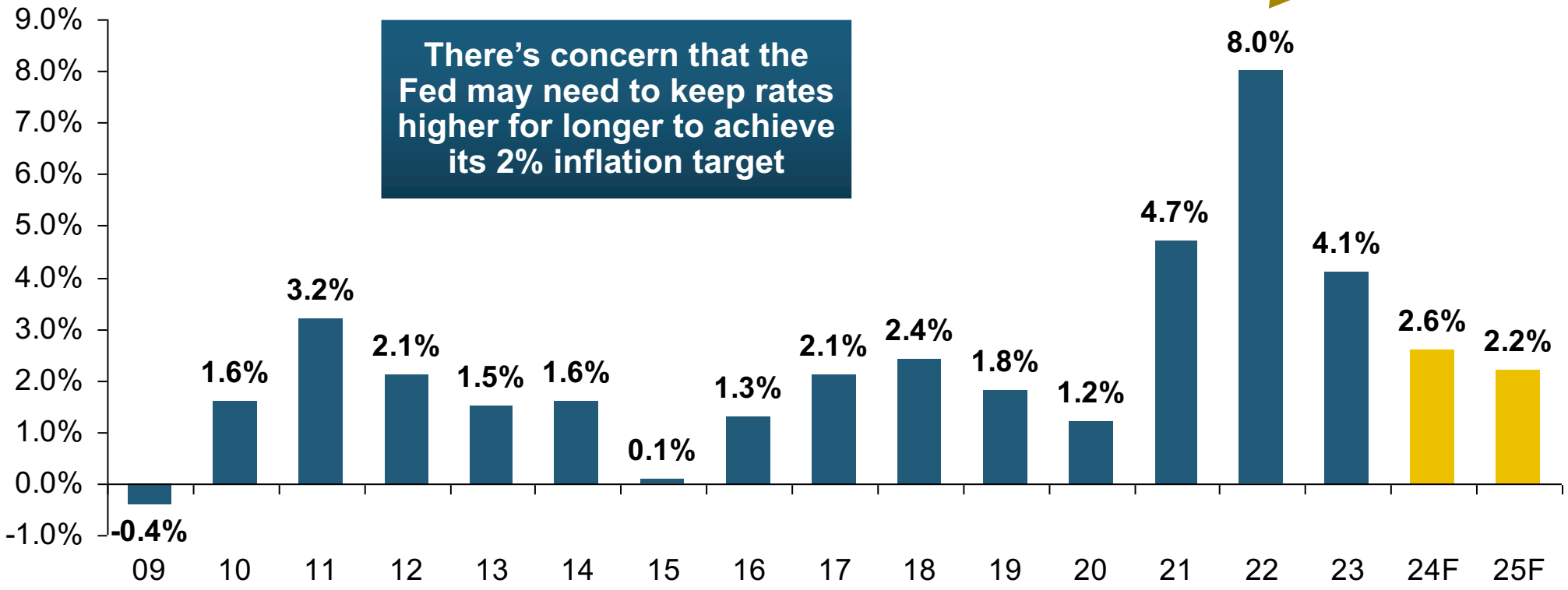
And a Major Concern of Insurers

Is the Threat Finally Subsiding?

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

Inflation accelerated sharply in 2021 before peaking at 9.1% in June 2022. Inflation was nearly halved in 2023 and should continue to moderate through 2024/25; 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

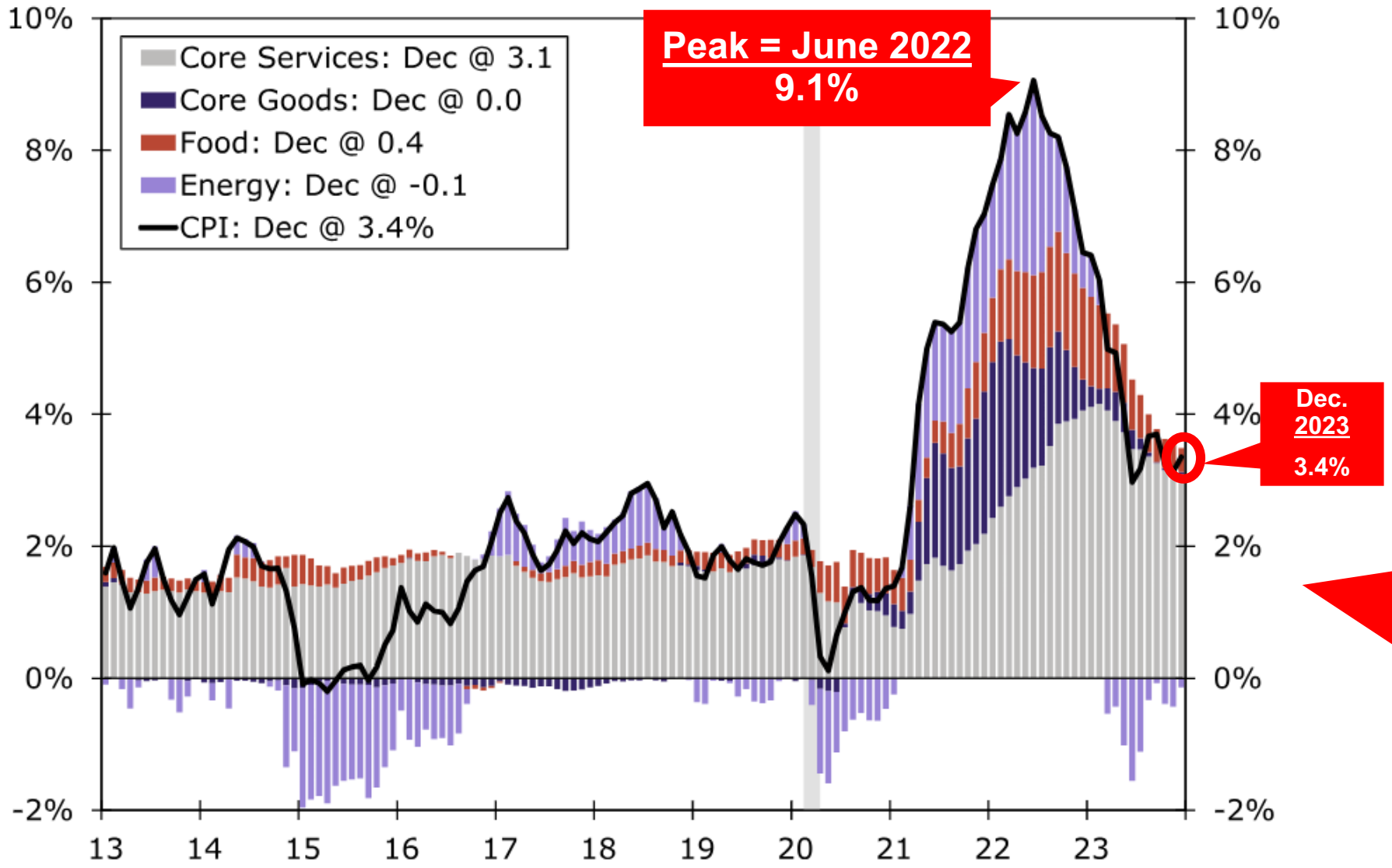
Insurer Concerns About Inflation

- **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 (2/24); USC Center for Risk and Uncertainty Management.

Contribution to CPI by Category: Dec. 2023

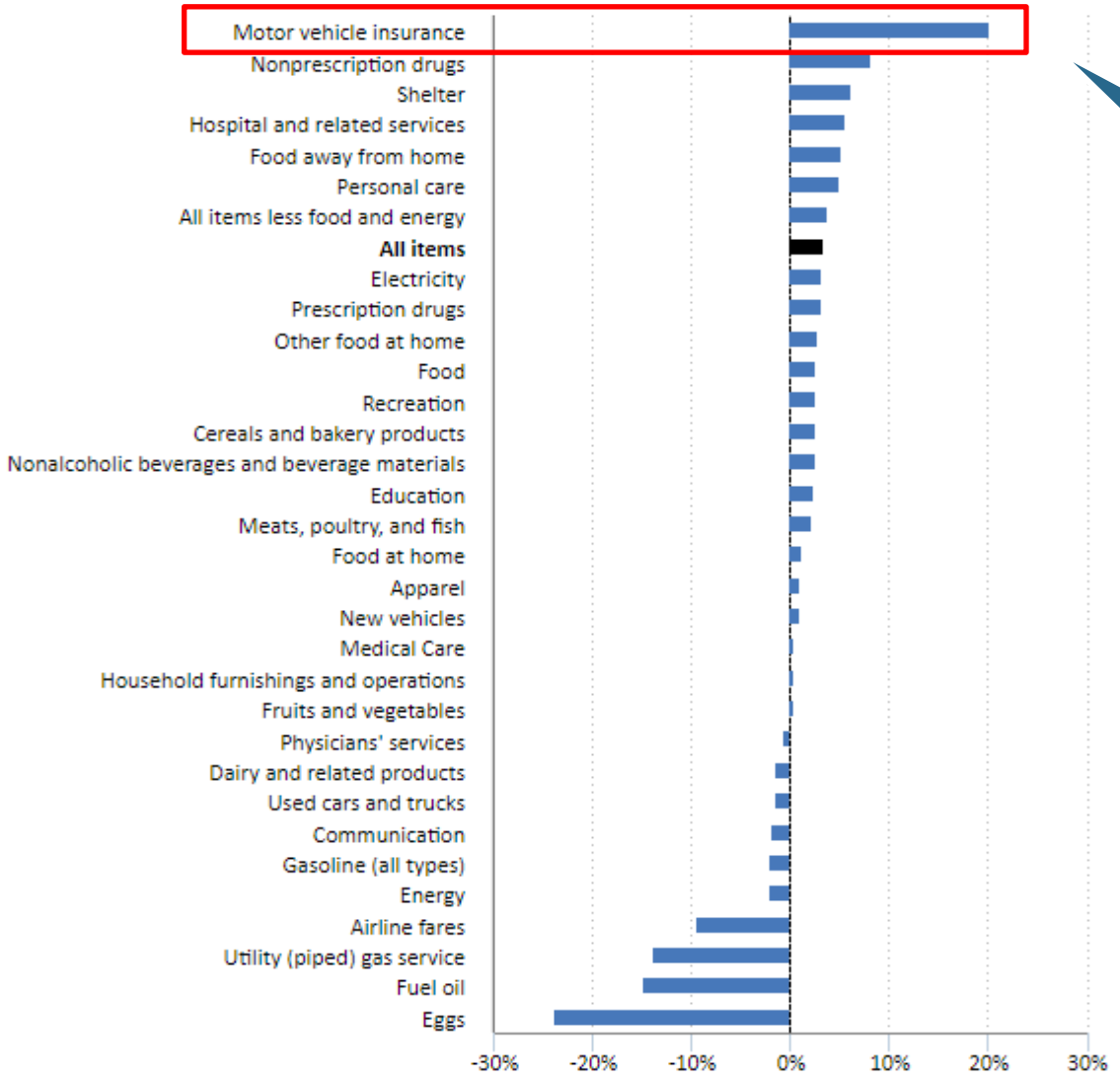


Prices were up 3.4% in Dec. 2023 vs. a year ago—and down from the June 2022 peak of 9.1%. Even as energy prices recede from their 2022 peak, increases in Shelter (Housing) and Food have been major obstacles to bringing inflation down to the Fed's 2% goal

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.

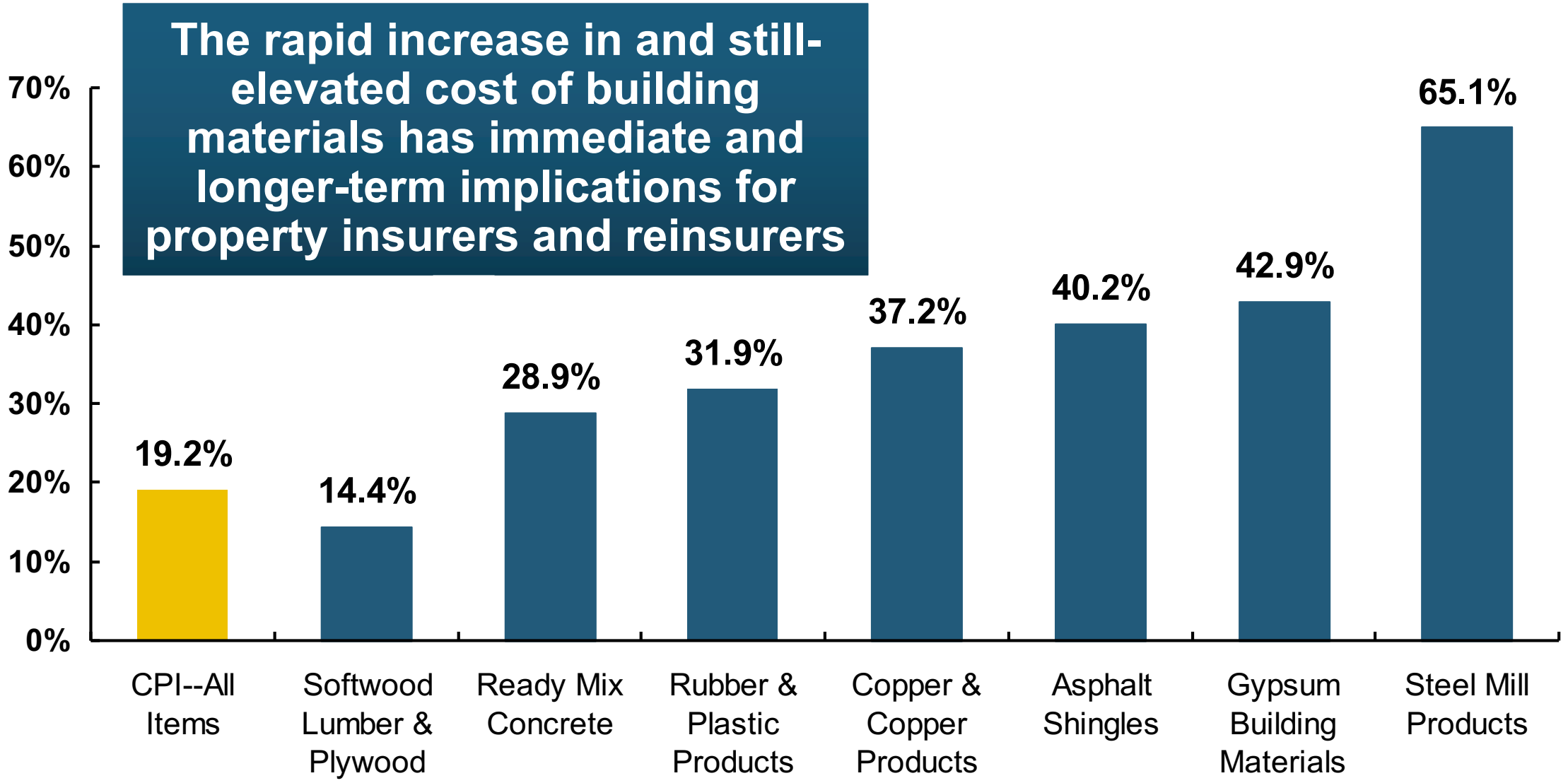
Even Government Number Crunchers Thought the Increase in Auto Insurance Prices Was Noteworthy…



The 20.3% increase in the Motor Vehicle Insurance CPI component was highlighted by the BLS in a recent article

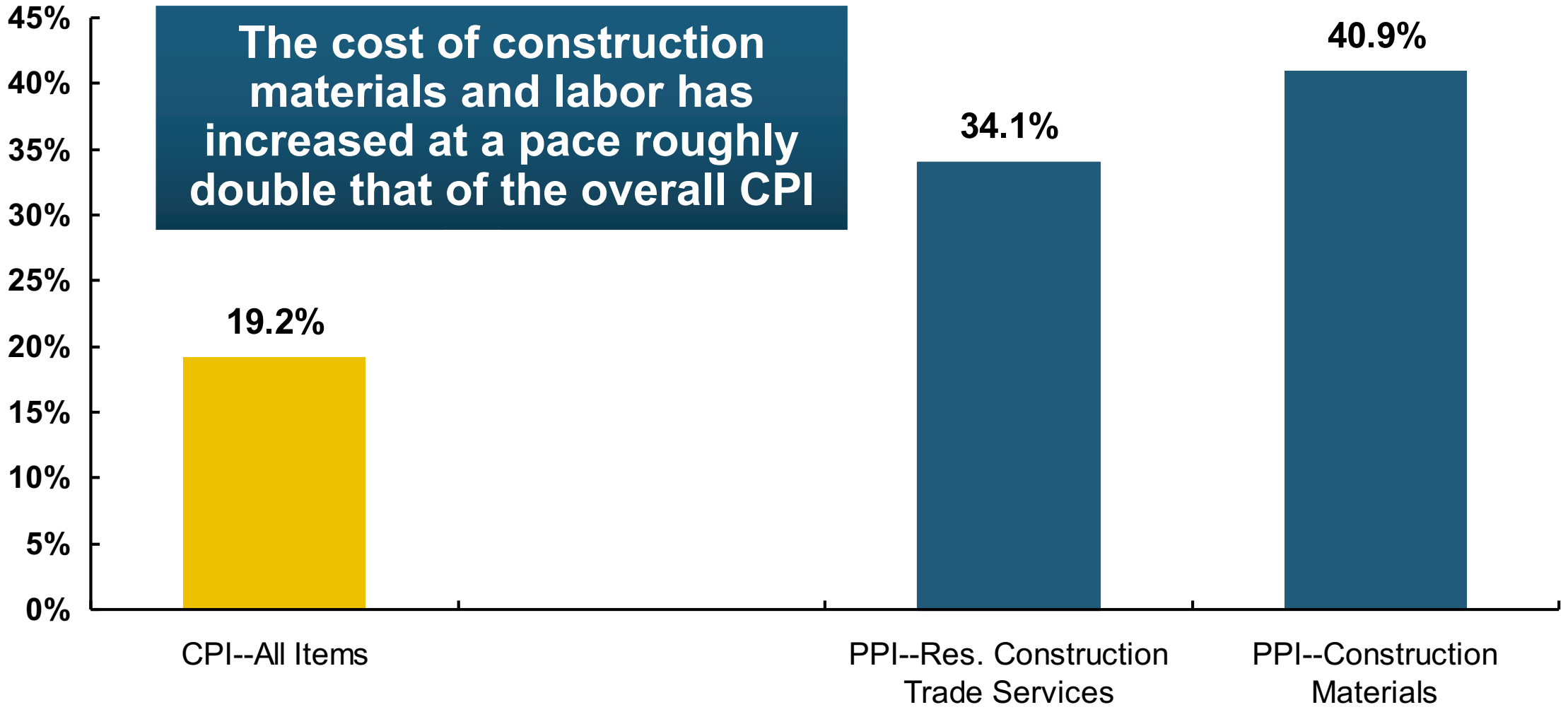
Sources: US Bureau of Labor Statistics; *TED: The Economics Daily* (Jan. 19, 2024), Consumer Price Index in Review https://www.bls.gov/opub/ted/2024/consumer-price-index-2023-in-review.htm. Risk and Uncertainty Management Center, University of South Carolina.

Change in Cost Indicators for Selected Construction Inputs, Jan. 2020 – Dec. 2023



Source: U.S. Bureau of Labor Statistics.

Cost Indicators for Homeowners, Price Index Changes, Jan. 2020 – Dec. 2023

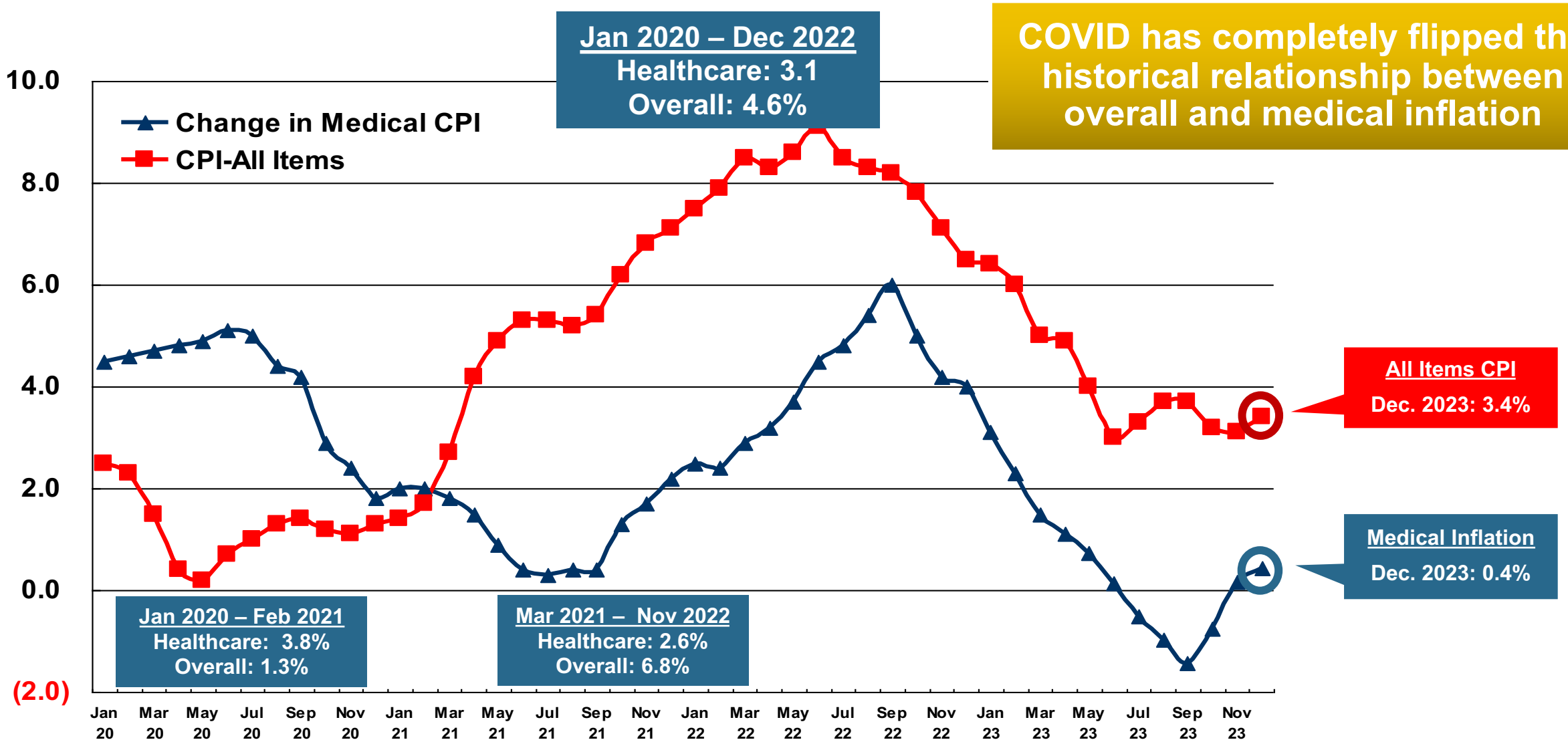


Source: U.S. Bureau of Labor Statistics.

Producer Price Index: Lumber and Wood Products,
Jan. 2020 – Dec. 2023

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 – Dec. 2023 *(Percent Change from Year Ago)*



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

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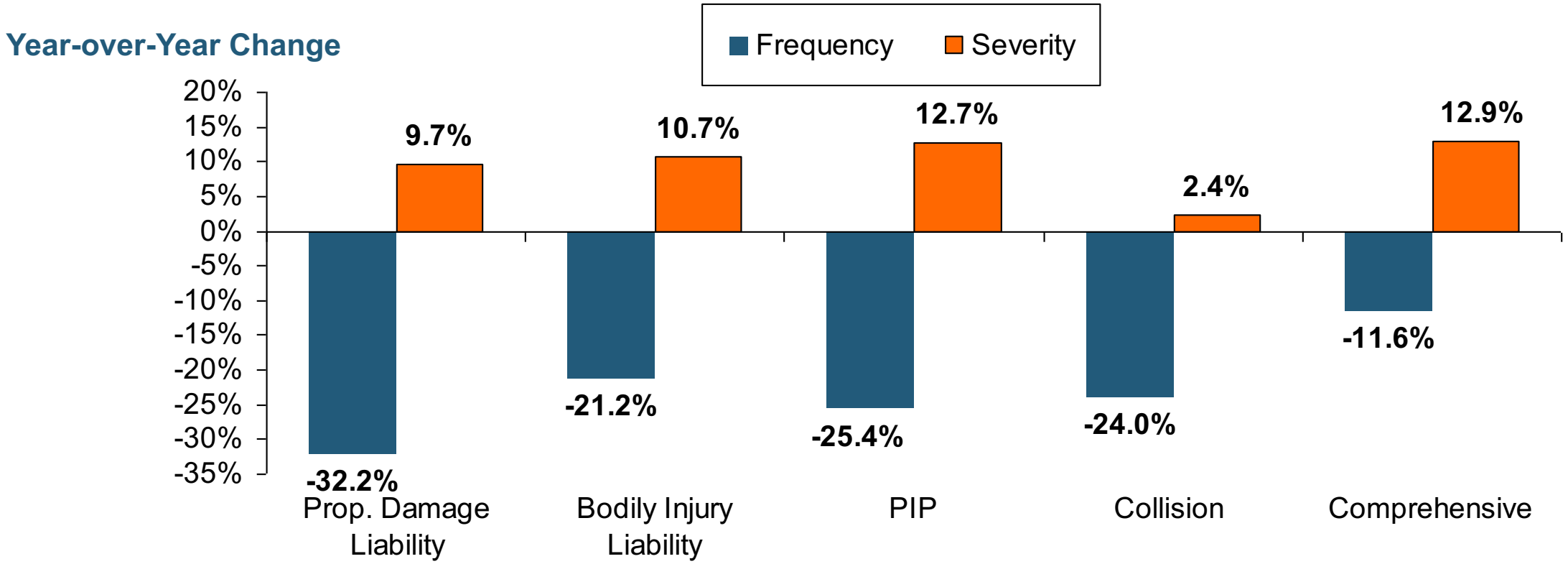
Private Passenger Auto Frequency & Severity Trends

Frequency, Severity and Loss Ratio Trends Are Adverse

Inflation is a Major Driver

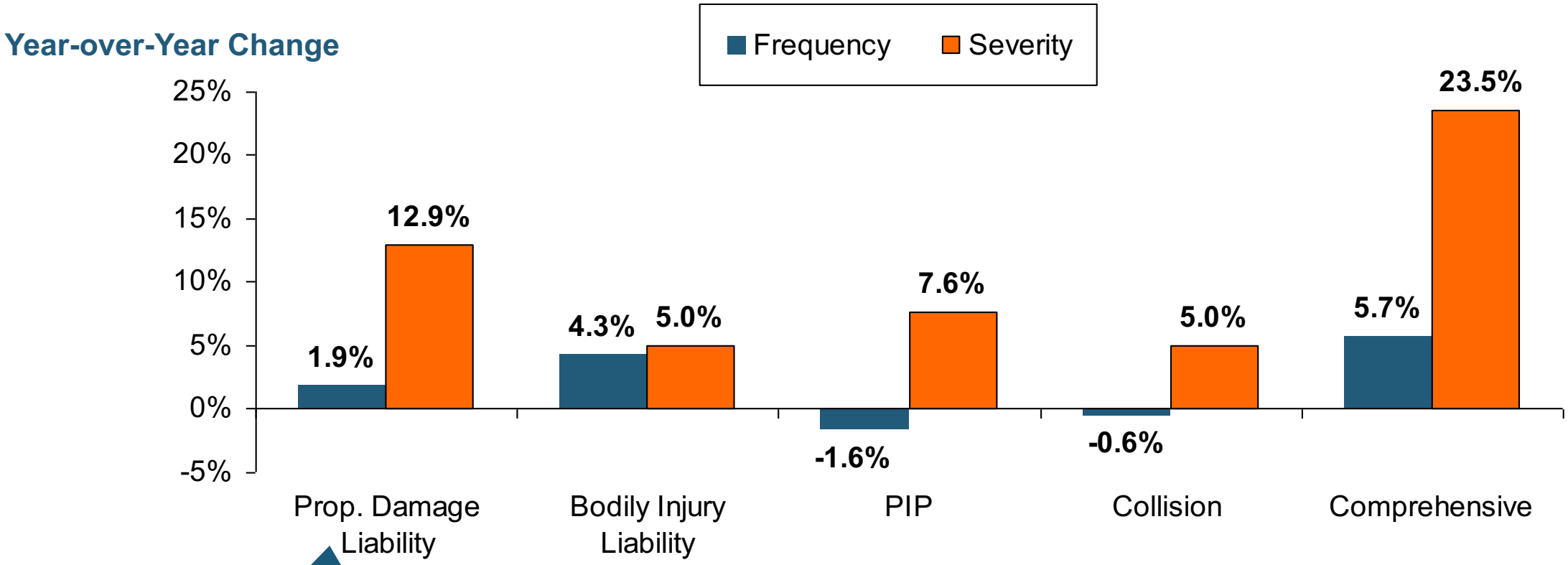
At the Peak of the Pandemic, Frequencies Across All Coverages Plummeted and But Severities Rose: 4 Qtrs. Ending Q1 2021



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

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

Personal Auto Claim Severities Continue to Trend Upward; Frequency Increase Are Moderating: 4 Qtrs. Ending Q3 2023

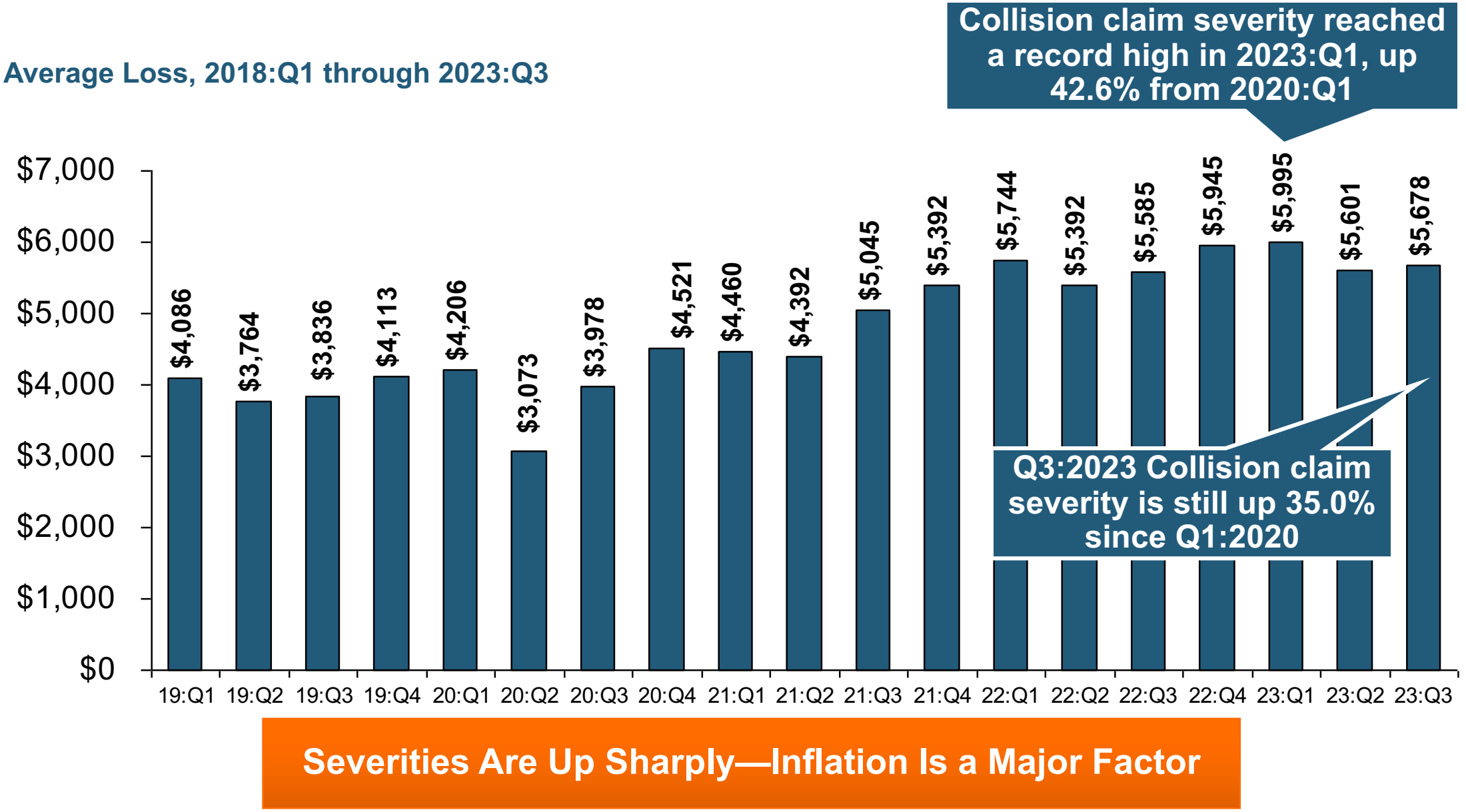


Recall: PD Liability claims were down 32.2% for the 4 qtrs. ending Q1 2021

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

Source: ISO/PCI *Fast Track* data for Q3 2023; Risk and Uncertainty Management Center, Univ. of South Carolina.

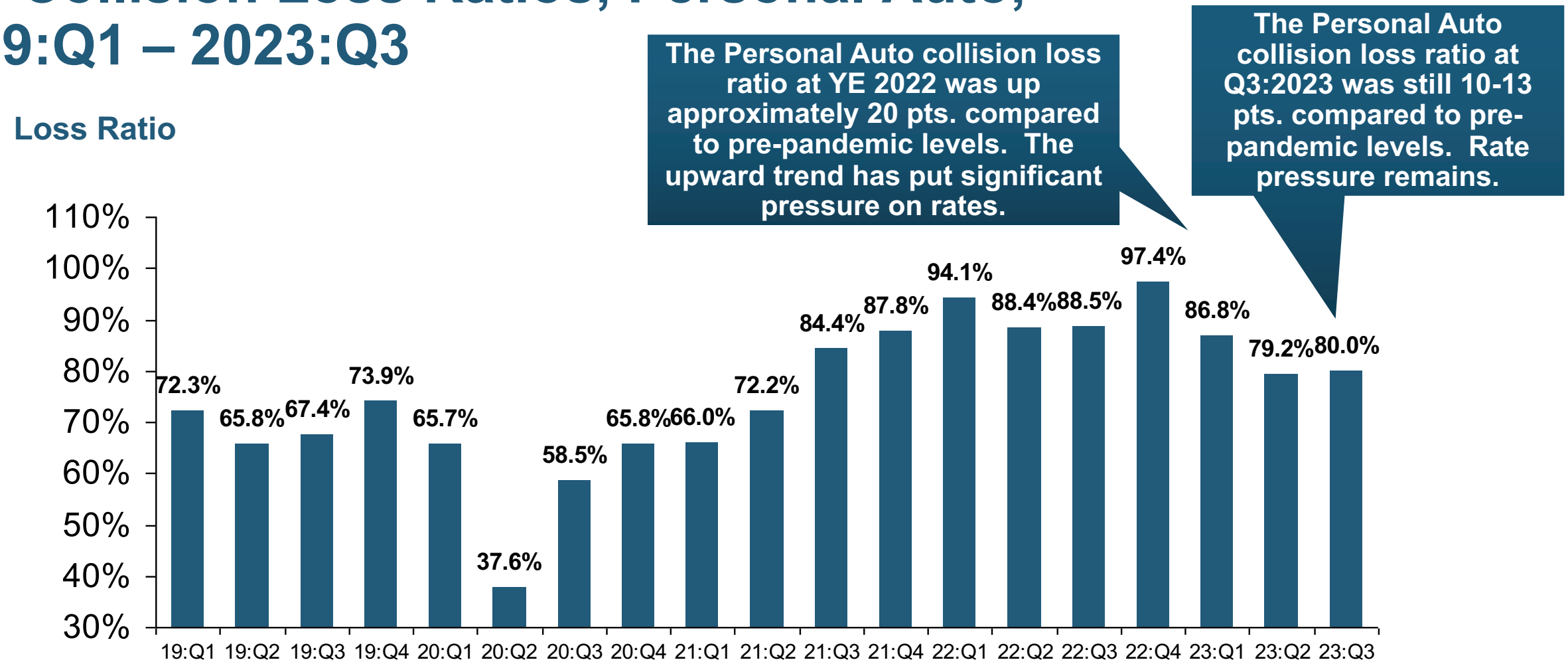
Collision Claim Severity: Rising to New Record Highs



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.

US: Collision Loss Ratios, Personal Auto, 2019:Q1 – 2023:Q3



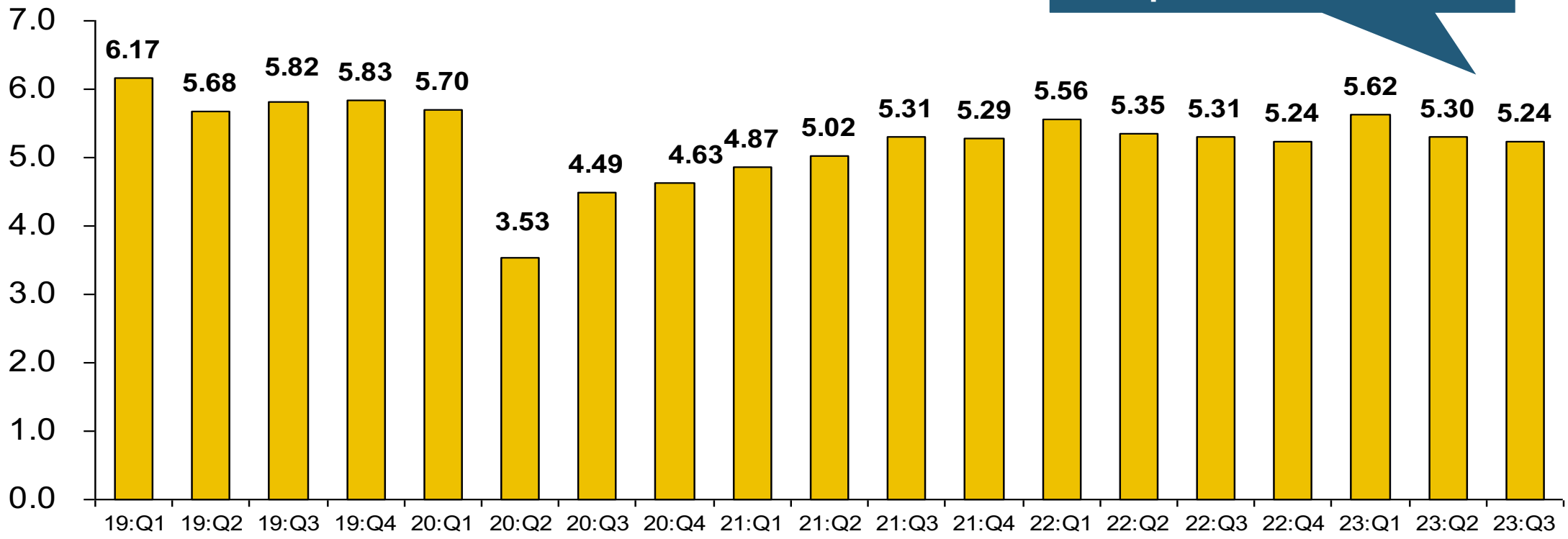
Collision Loss Ratios Rose Rapidly After COVID, Peaking in Late 2022 and Remain Above Pre-Covid Levels

Source: Fast Track data; University of South Carolina, Risk & Uncertainty Management Center.

US Collision Claim Frequency Trend: Returning to Pre-Pandemic Levels?

Paid Claim Frequency, 2019:Q1 through 2023:Q3*

Collision claim frequency remains below pre-pandemic levels

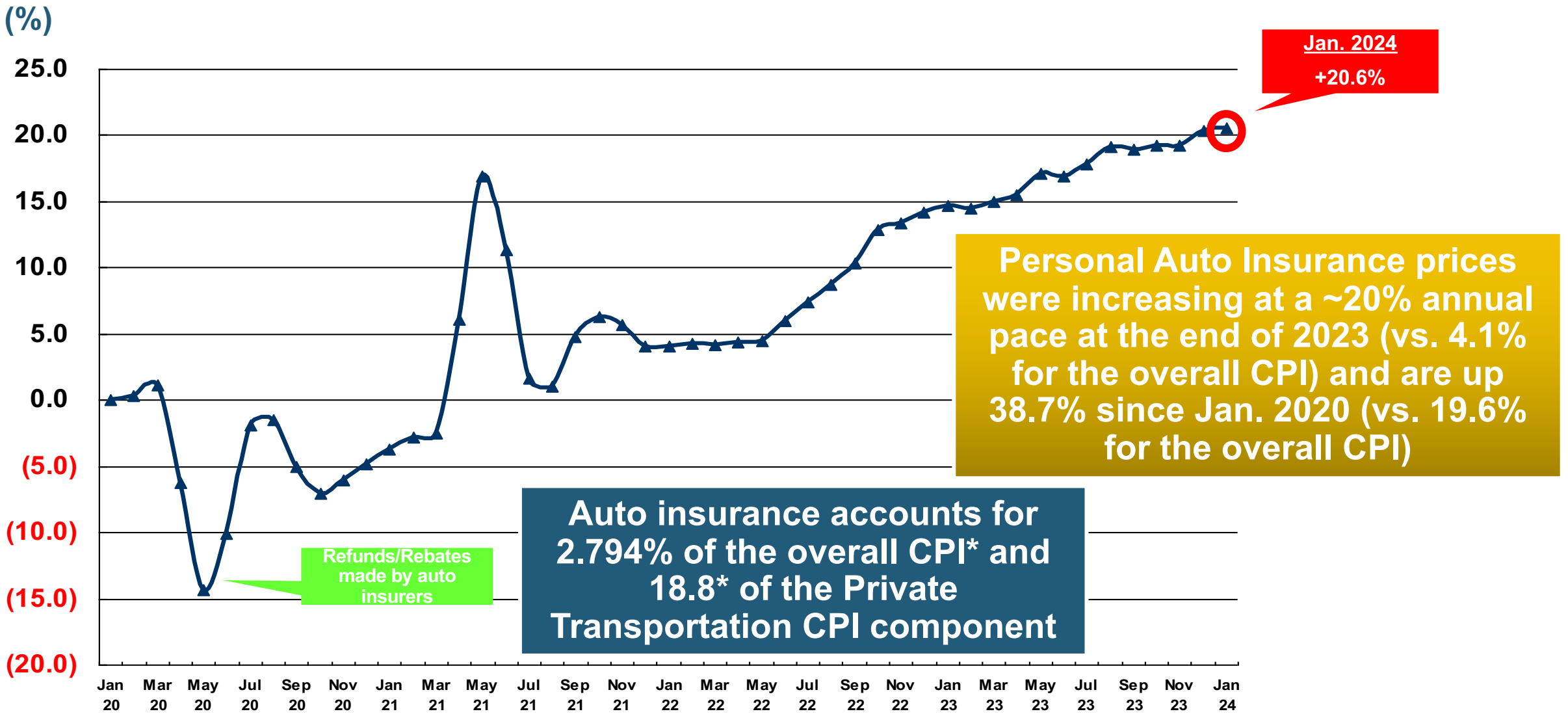


Pandemic-Induced Frequency Decline Was Short-Lived and Has Now Nearly Normalized

*Number of claims per 100 earned car years.

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

CPI for Motor Vehicle Insurance, 12-Month Change: Jan. 2020 – Jan. 2024



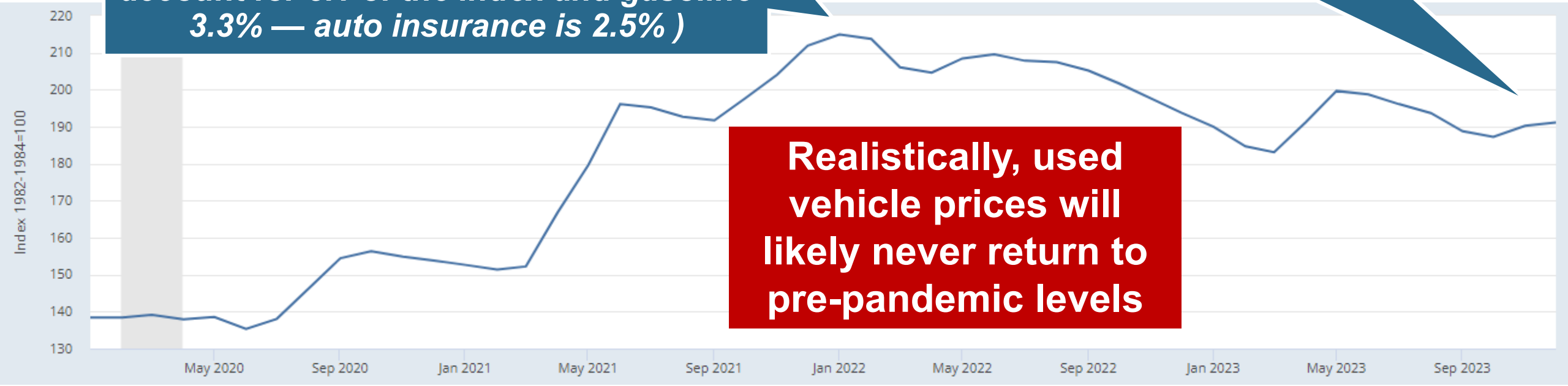
*Weighting as of Dec. 2023: https://www.bls.gov/cpi/factsheets/motor-vehicle-insurance.htm.

Sources: US Bureau of Labor Statistics, accessed at: https://data.bls.gov/timeseries/CUUR0000SETE. Risk and Uncertainty Management Center, University of South Carolina.

Price Index Changes for Used Cars & Trucks, Jan. 2020 – Dec. 2023

New and Used Vehicle prices surged during the pandemic, +52.3% from Jan. 2020 before peaking in Jan. 2022— putting significant pressure on the overall CPI *(new and used vehicles account for 8.1 of the index and gasoline 3.3% — auto insurance is 2.5%)*

Used car prices in recent months have begun to fall, albeit very modestly, and still remain far above pre-Covid levels, +38.1% as of Dec. 2023

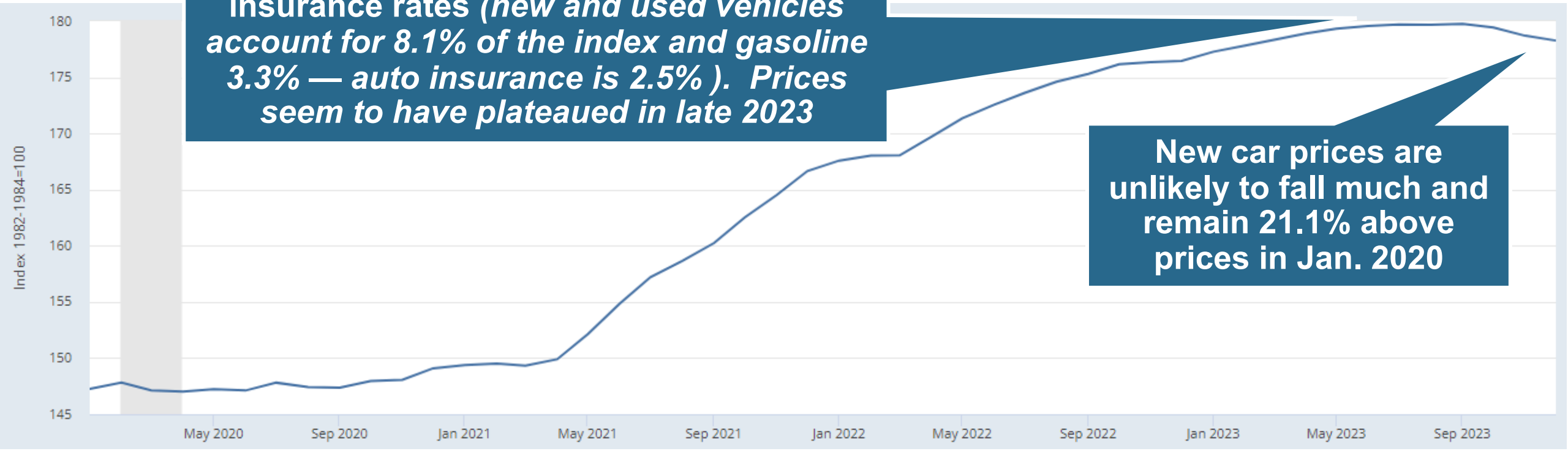


Realistically, used vehicle prices will likely never return to pre-pandemic levels

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

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

New vehicle prices surged during and after the pandemic, +22.1% from Jan. 2020 to Sept. 2023 (peak), putting significant pressure on the overall CPI and auto insurance rates *(new and used vehicles account for 8.1% of the index and gasoline 3.3% — auto insurance is 2.5%). Prices seem to have plateaued in late 2023*

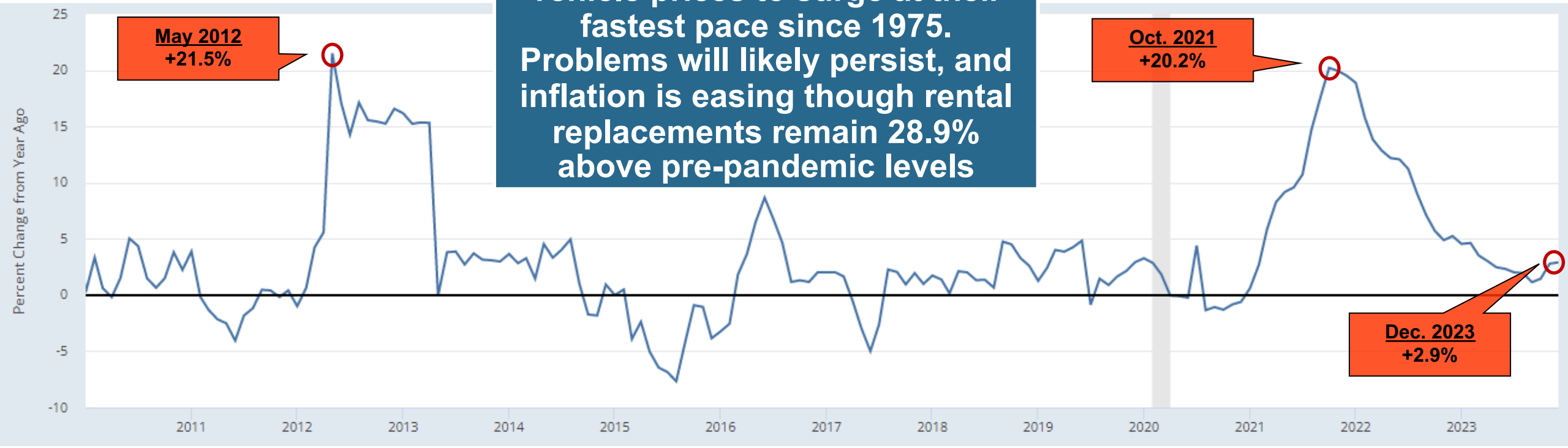


New car prices are unlikely to fall much and remain 21.1% above prices in Jan. 2020

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

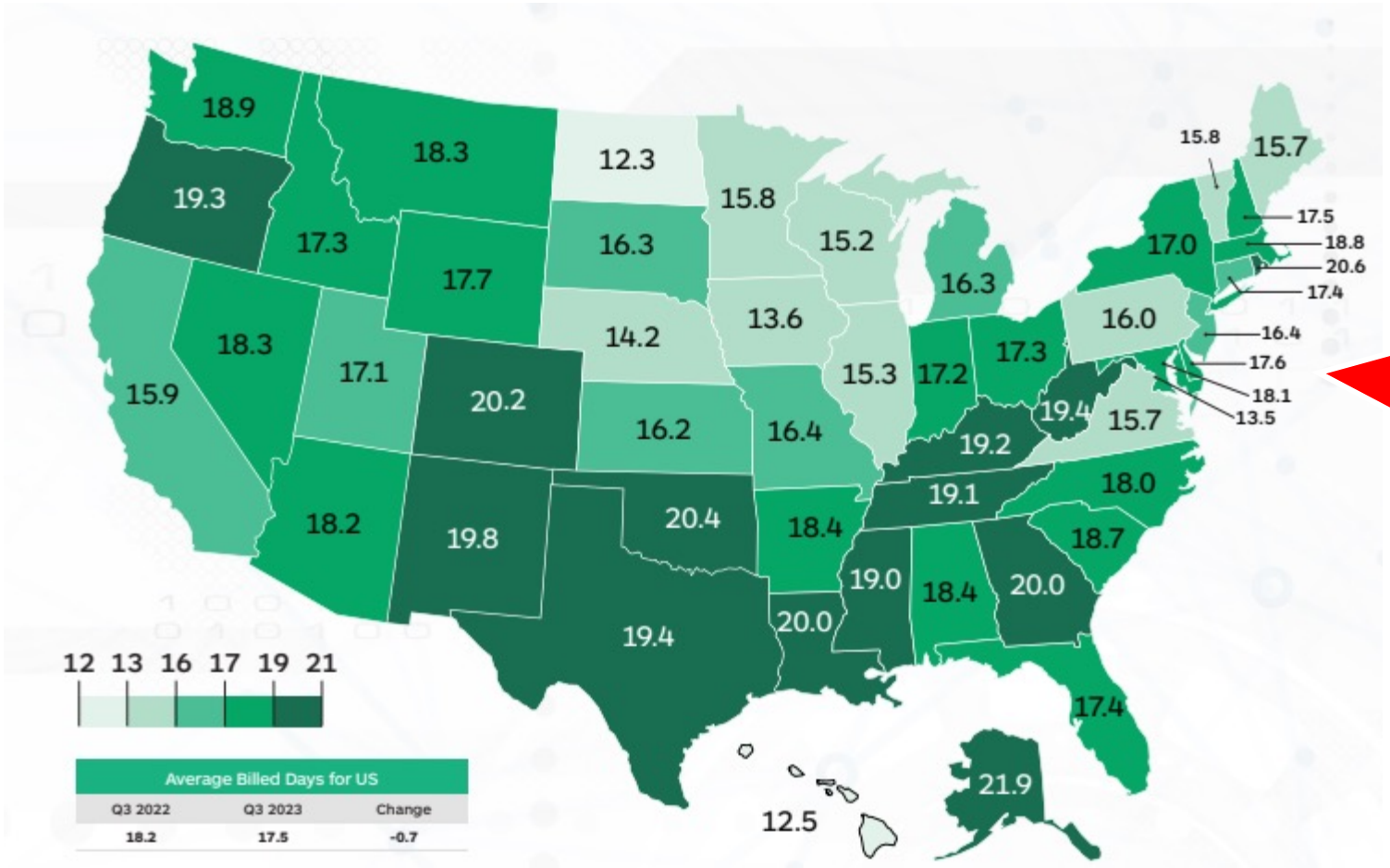
Change in Price for Replacement Passenger Car Rentals, Jan. 2010 – Dec. 2023 (% Change from Year Ago)

High demand and supply chain problems have caused new vehicle prices to surge at their fastest pace since 1975. Problems will likely persist, and inflation is easing though rental replacements remain 28.9% above pre-pandemic levels



Sources: Federal Reserve Bank of St. Louis at: https://fred.stlouisfed.org/series/PCU5321115321113#0 from US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

Length of Collision Replacement Rentals by State (Days), 2023:Q3



Avg. Length of Rental

2023:Q3: 18.2 days

2022:Q4: 18.7 days

2021:Q4: 17.0 days

2021:Q2: 13.2 days

CHANGE: +5.0 Days (21:Q2 – 23:Q3)

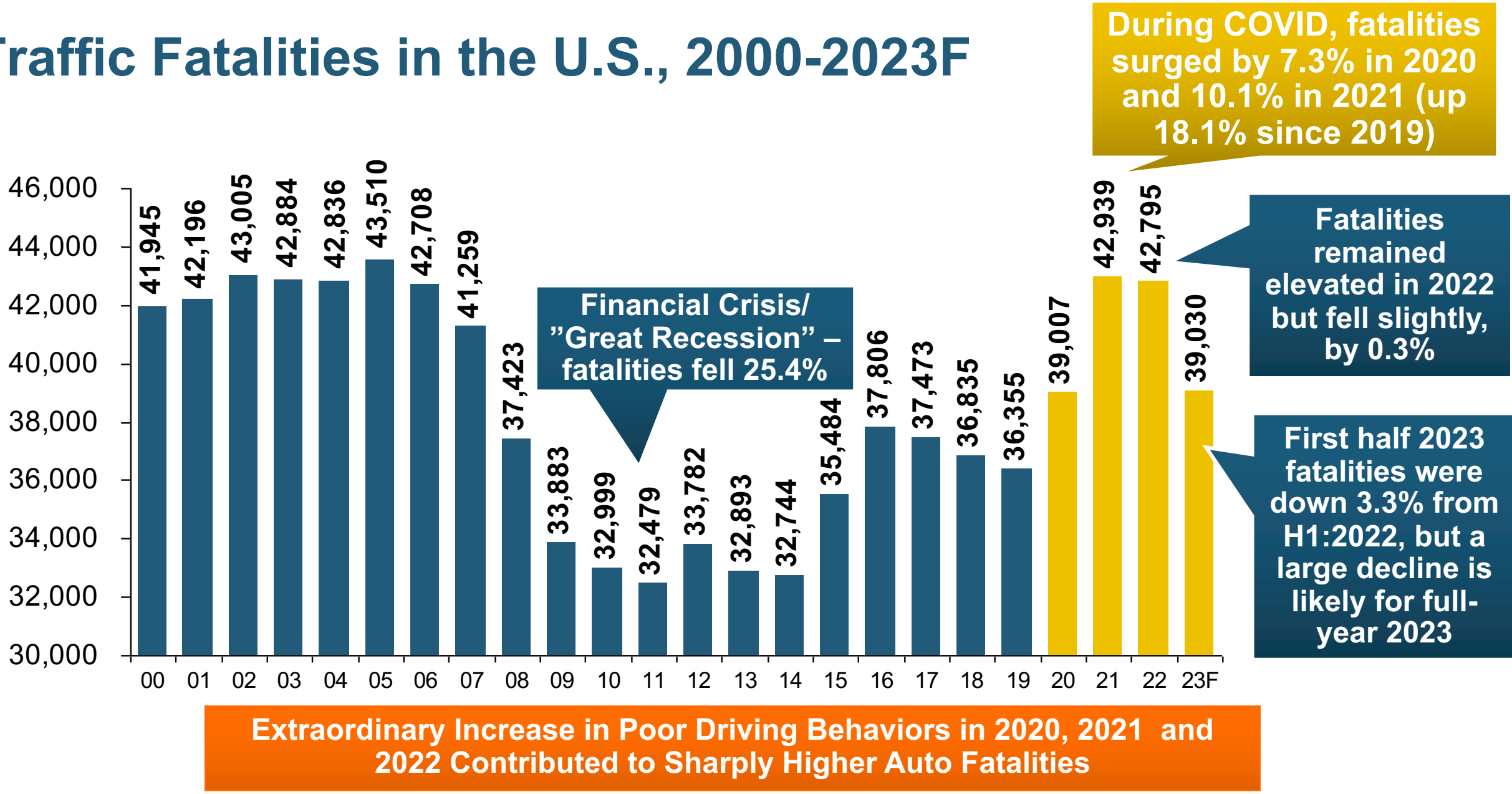
RANGE: 12.5 (HI) to 21.9 (AK)

Replacement rental length has begun to slowly decline but is still 5.0 days longer than in mid-2021

The increase in length of rental was referred to as "striking" by Enterprise and is a key driver of auto claim severity. The increase in the cost of rentals materially exacerbates the problem.

Source: Enterprise Rental-A-Car U.S. Length of Rental Report accessed at: https://www.enterprise.com/en/car-rental/rent-a-car-after-an-accident/replacement-resources/industryinsights.html.

Traffic Fatalities in the U.S., 2000-2023F



*2023 figure is annualized figure based on actual data through June 30 (19,515 deaths, a decline of 3.3% from the same period in 2022).

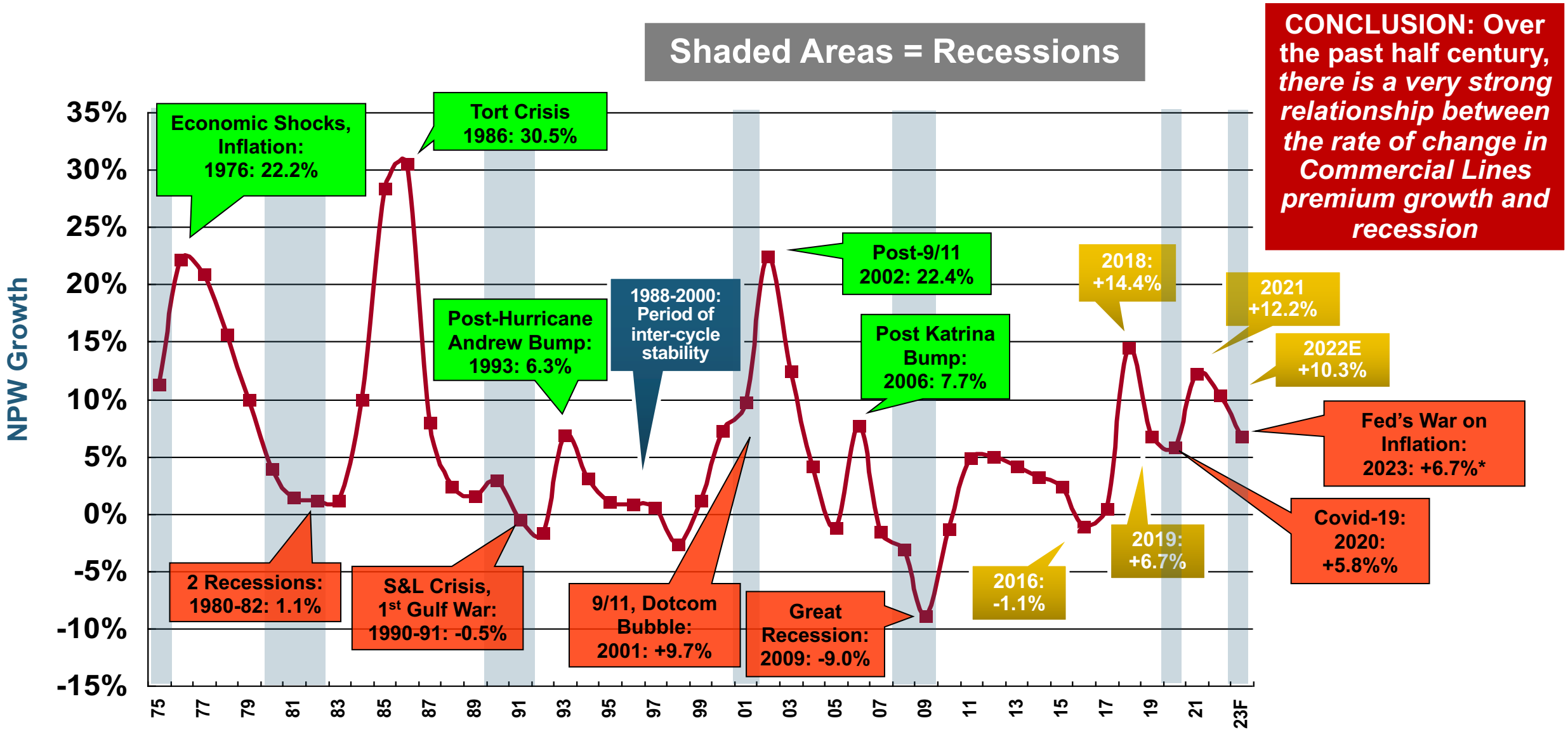
Source: Insurance Institute for Highway Safety and Highway Loss Data Institute: https://www.iihs.org/iihs/topics/t/general-statistics/fatalityfacts/overview-of-fatality-facts and NHTSA: https://www.nhtsa.gov/press-releases/2023-Q2-traffic-fatality-estimates; Risk and Uncertainty Management Center, University of South Carolina.

Commercial Lines Growth & Pricing Cyclicality

Economic and Tort Environment Create Pricing Pressure

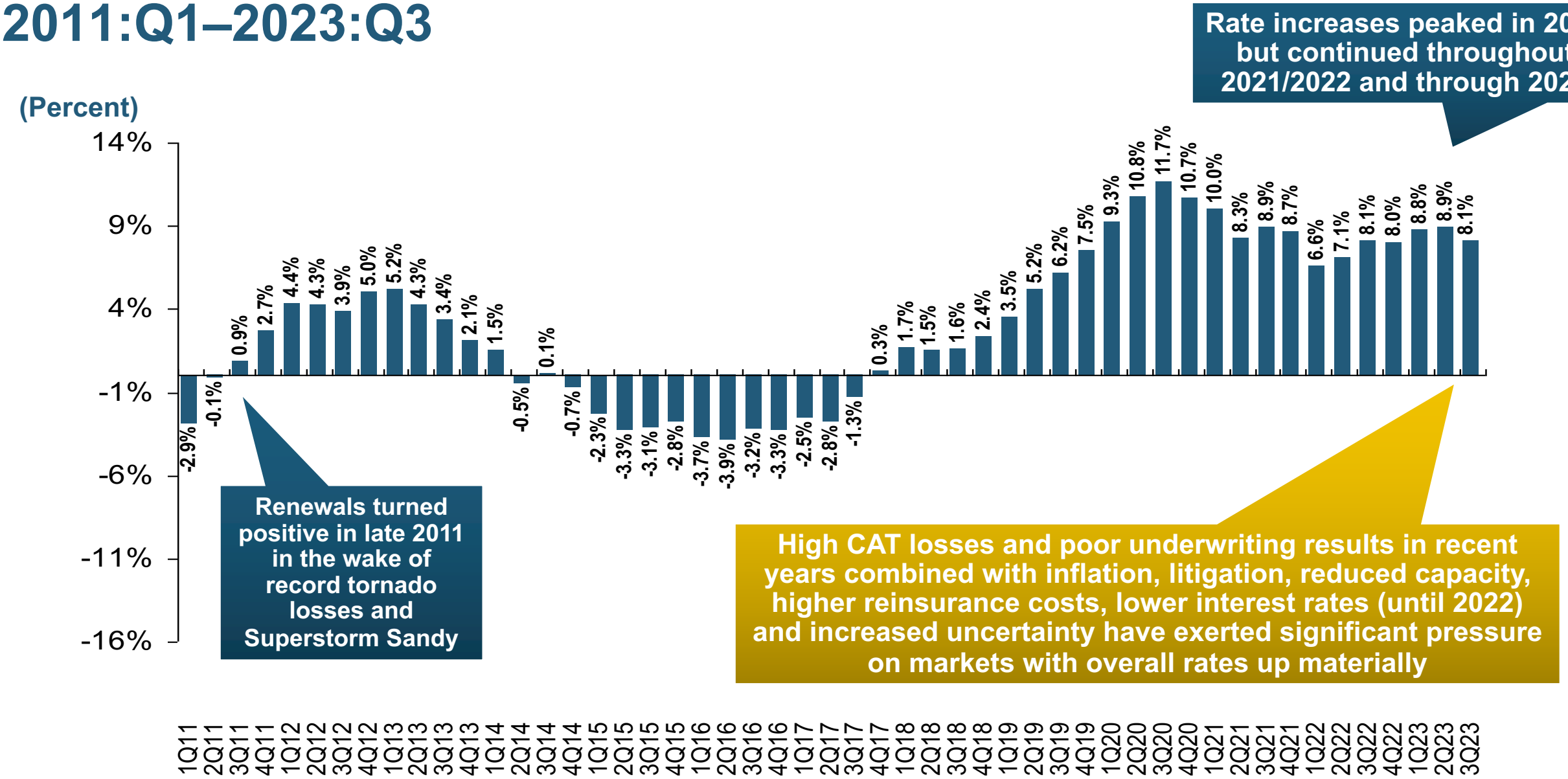
51

Commercial Lines NPW Premium Growth: 1975 – 2023F



*2023 data based on data through H1.
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:Q3

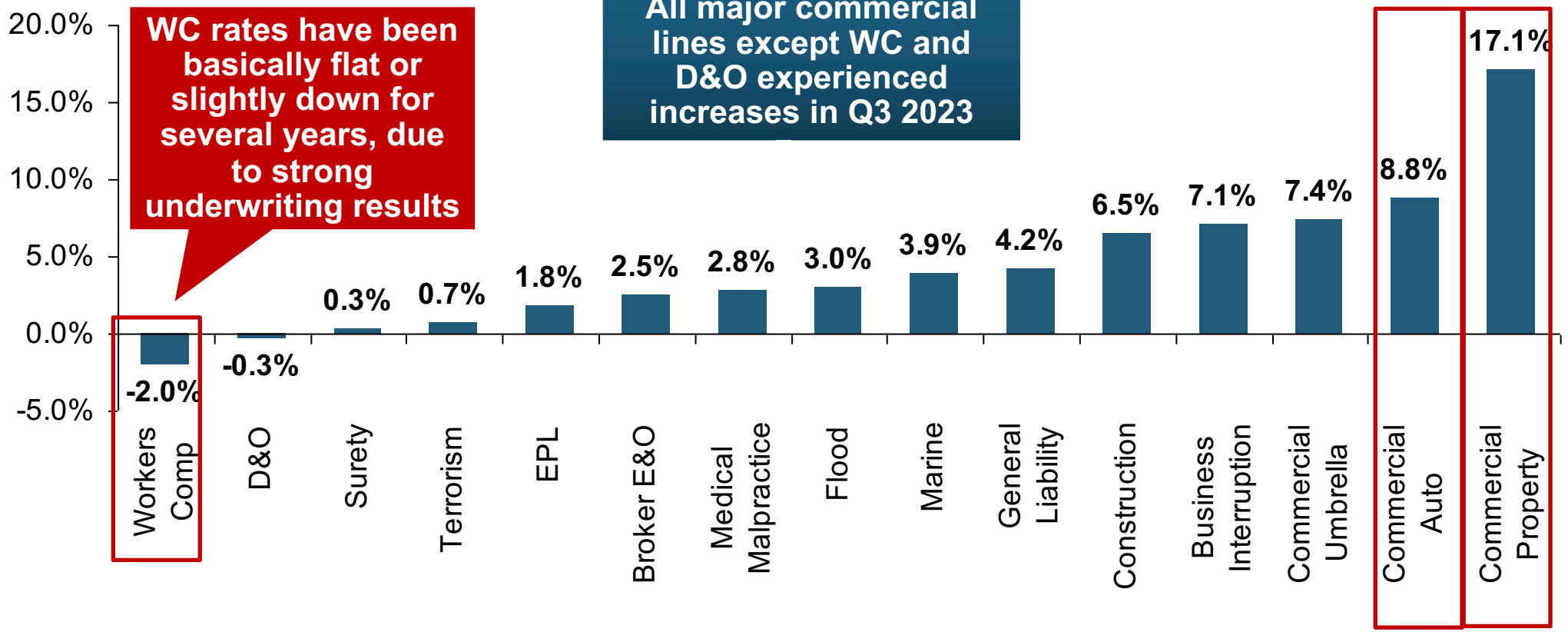


Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents & Brokers; Center for Risk and Uncertainty Management, Univ. of South Carolina.

Change in Commercial Rate Renewals, by Line: 2023:Q3

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.

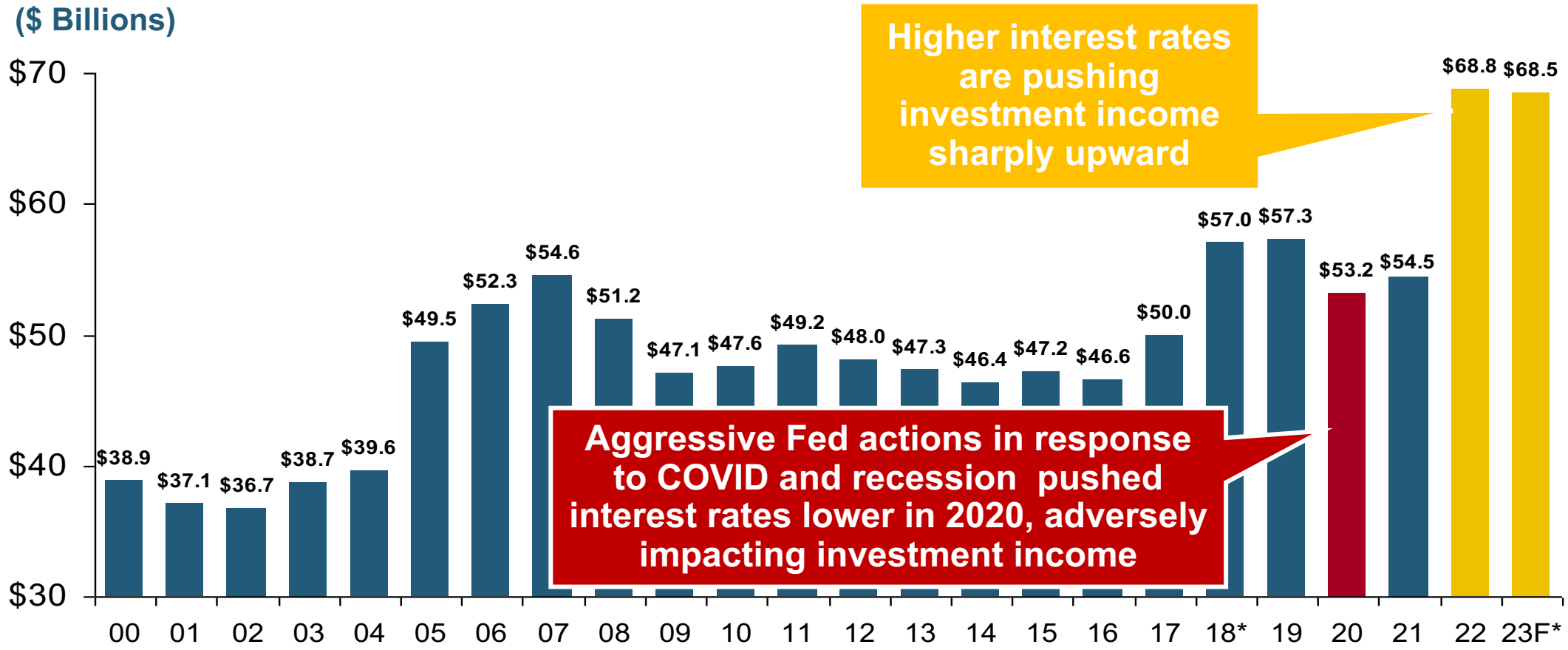
Source: Council of Insurance Agents and Brokers; USC Center for Risk and Uncertainty Management.

Investments:
Wall Street'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*

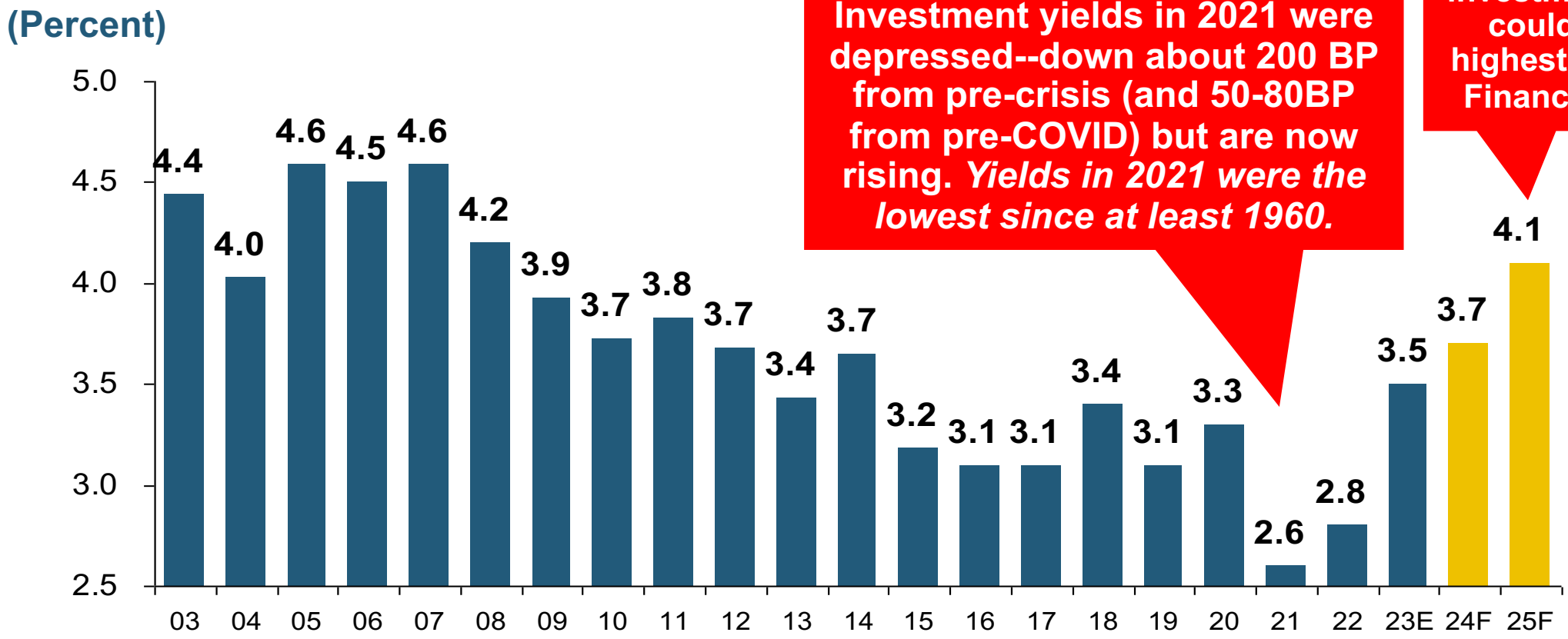


Due to persistently low interest rates, investment income remained below pre-crisis levels for a decade. Lower interest rates during COVID drove investment income down once again. Fed rate hikes in 2022-23 are reversing this trend.

*2023 is annualized figure based on YTD Q3 actual of $51.4B. 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, 2007–2025F



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.*

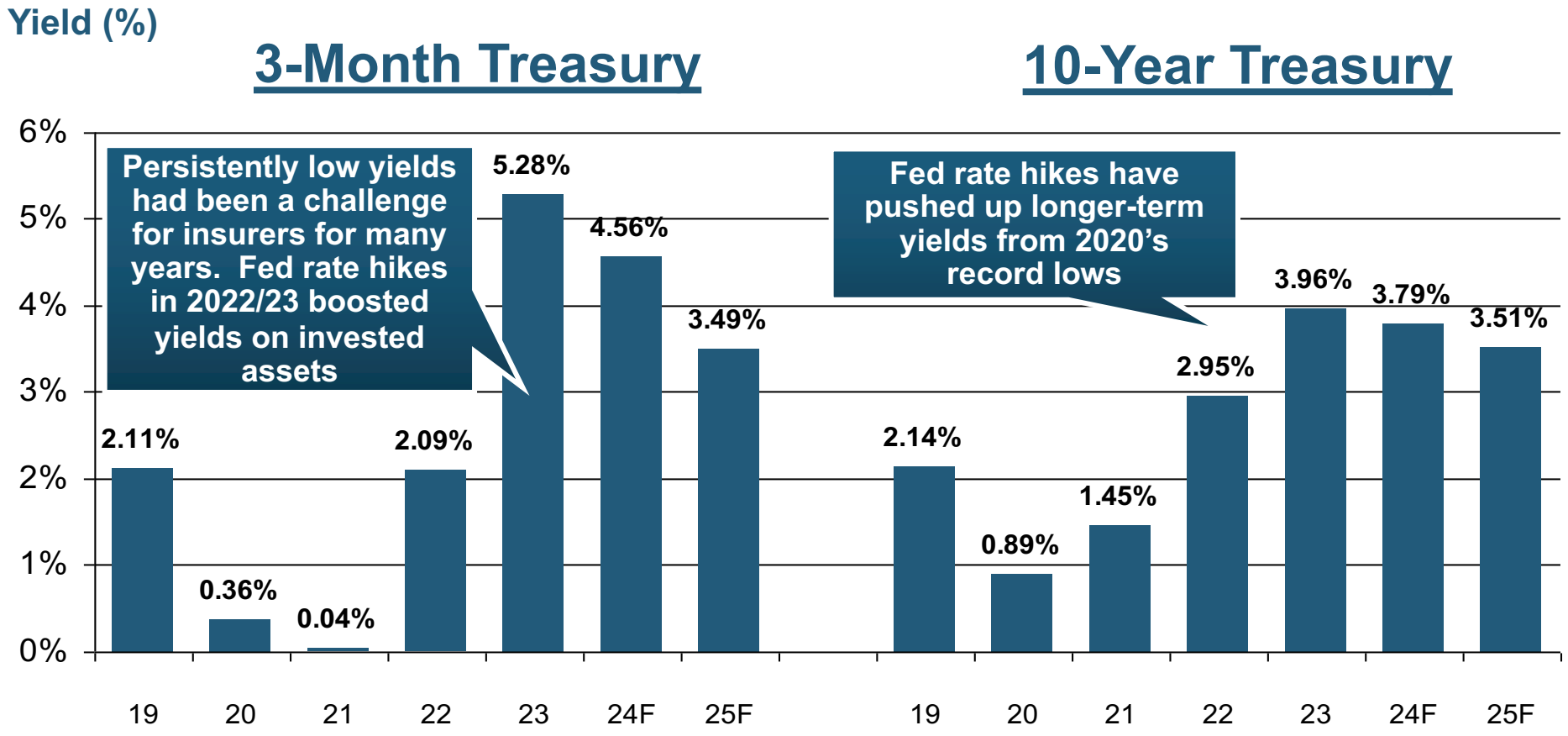
By 2025, investment yields could be the highest since the Financial Crisis

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. 2020-22 data from APCIA. 2023E-25FP from Swiss Re (Jan. 2024). Risk and Uncertainty Management Center, Univ. of South Carolina.

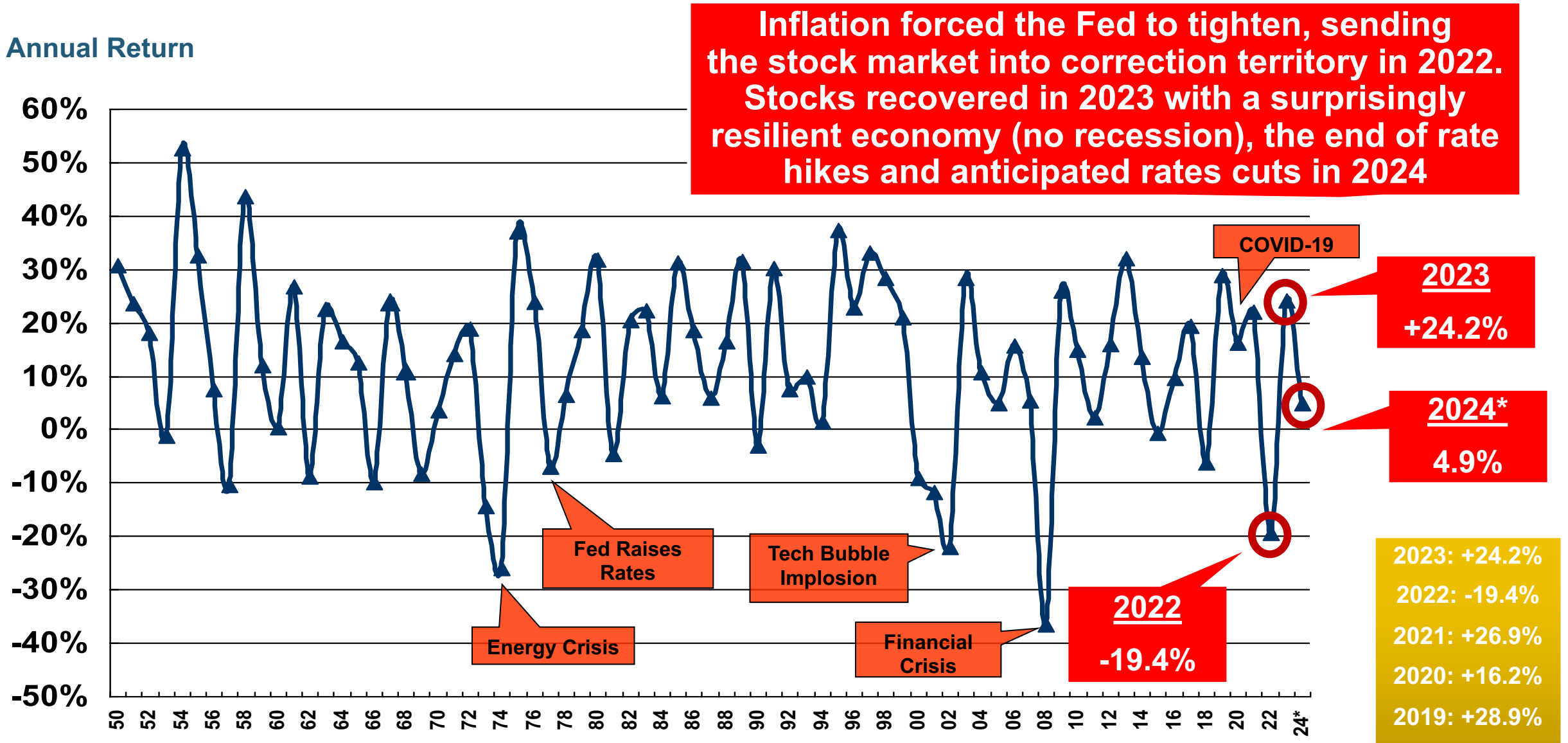
Interest Rate Forecasts: 2019 – 2025F: *Higher for Longer*



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.

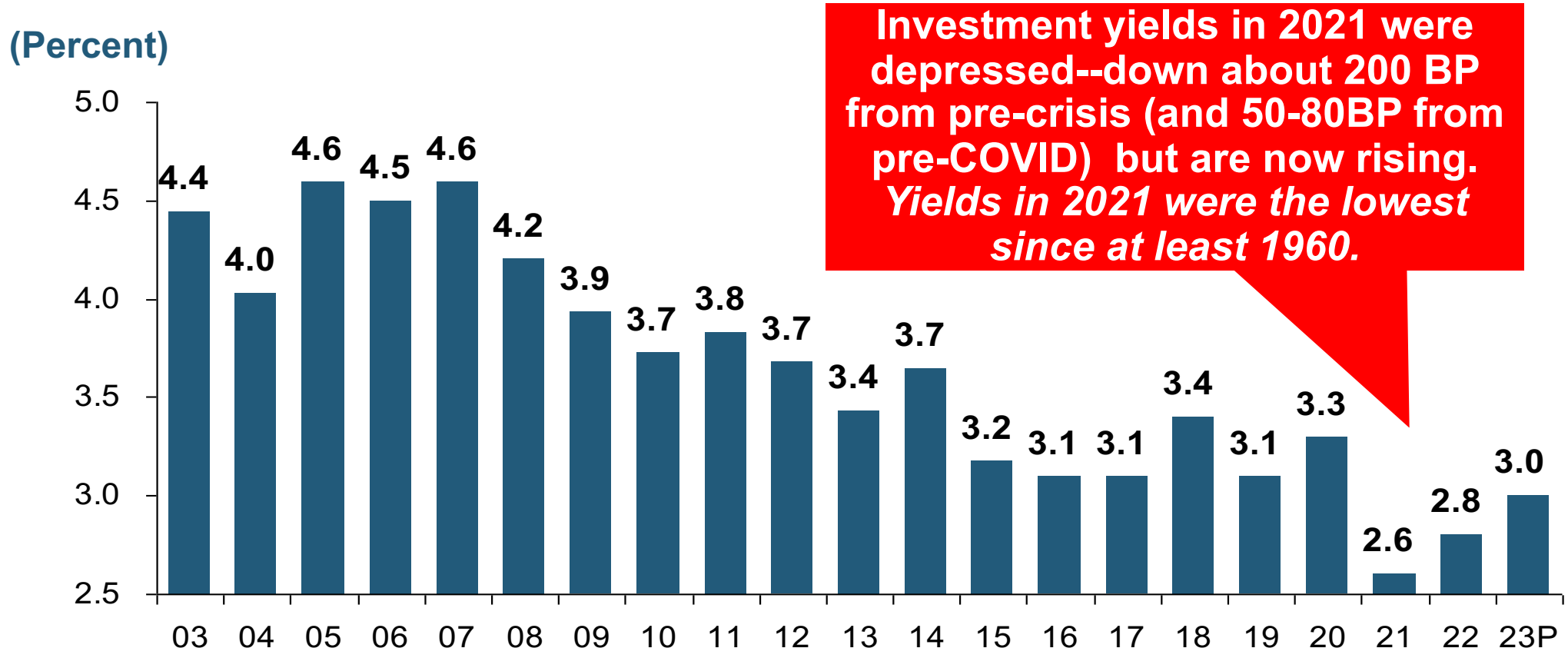
Sources: Wells Fargo Securities (2/24); Risk and Uncertainty Management Center, University of South Carolina.

S&P 500 Index Returns, 1950–2024*



*Through Feb. 19, 2024.
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.

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



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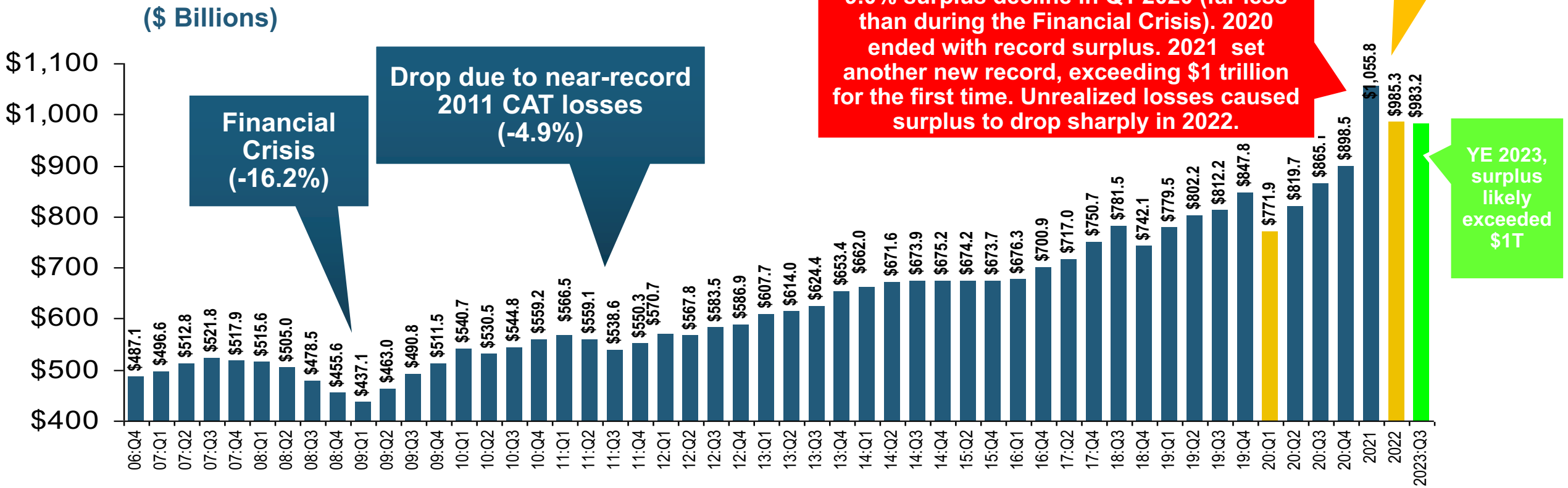
Capital and Capacity

P/C Insurance: Capitalized Crunch?

Will Industry Capacity Recover?

Policyholder Surplus (Capacity), 2006:Q4 – 2023:Q3

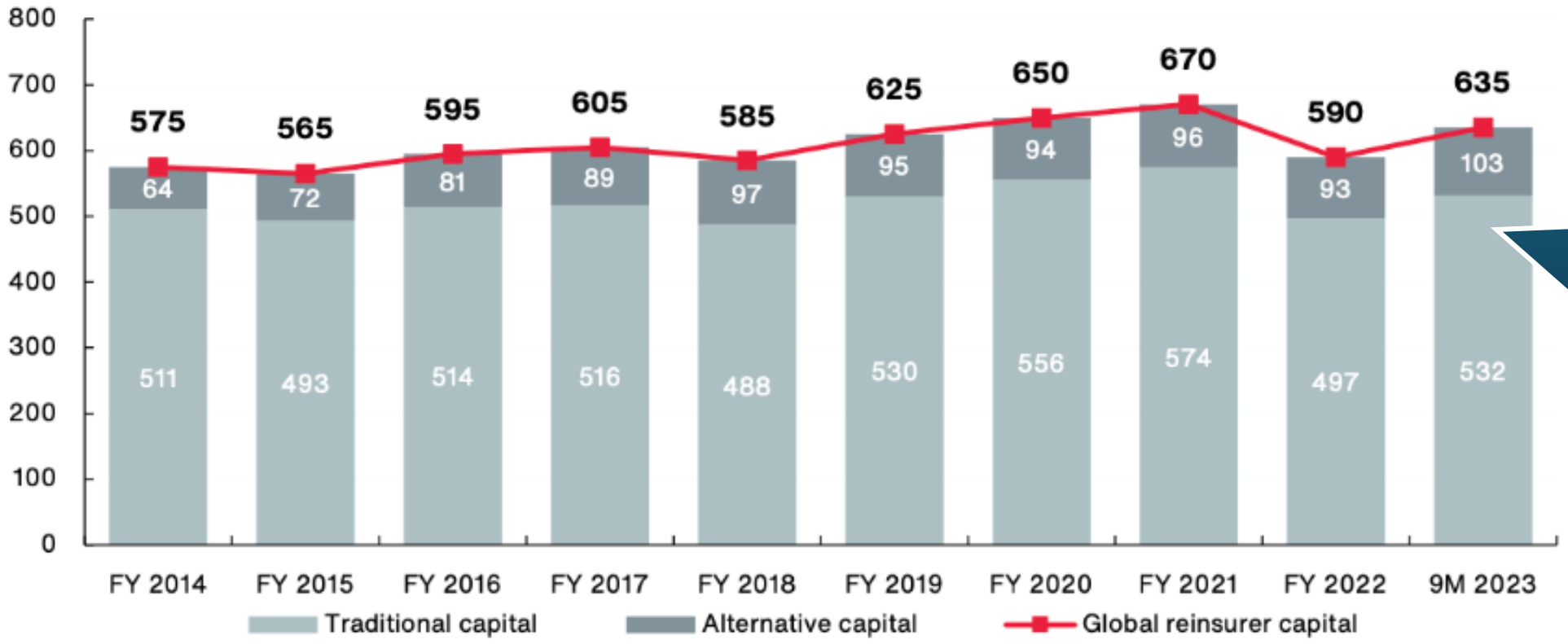


Policyholder Surplus is the industry's financial cushion against large insured events, periods of economic stress and financial market volatility. It is also a source of capital to underwrite new risks.

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

Global Reinsurance Capital, 2013 – 2023:Q3

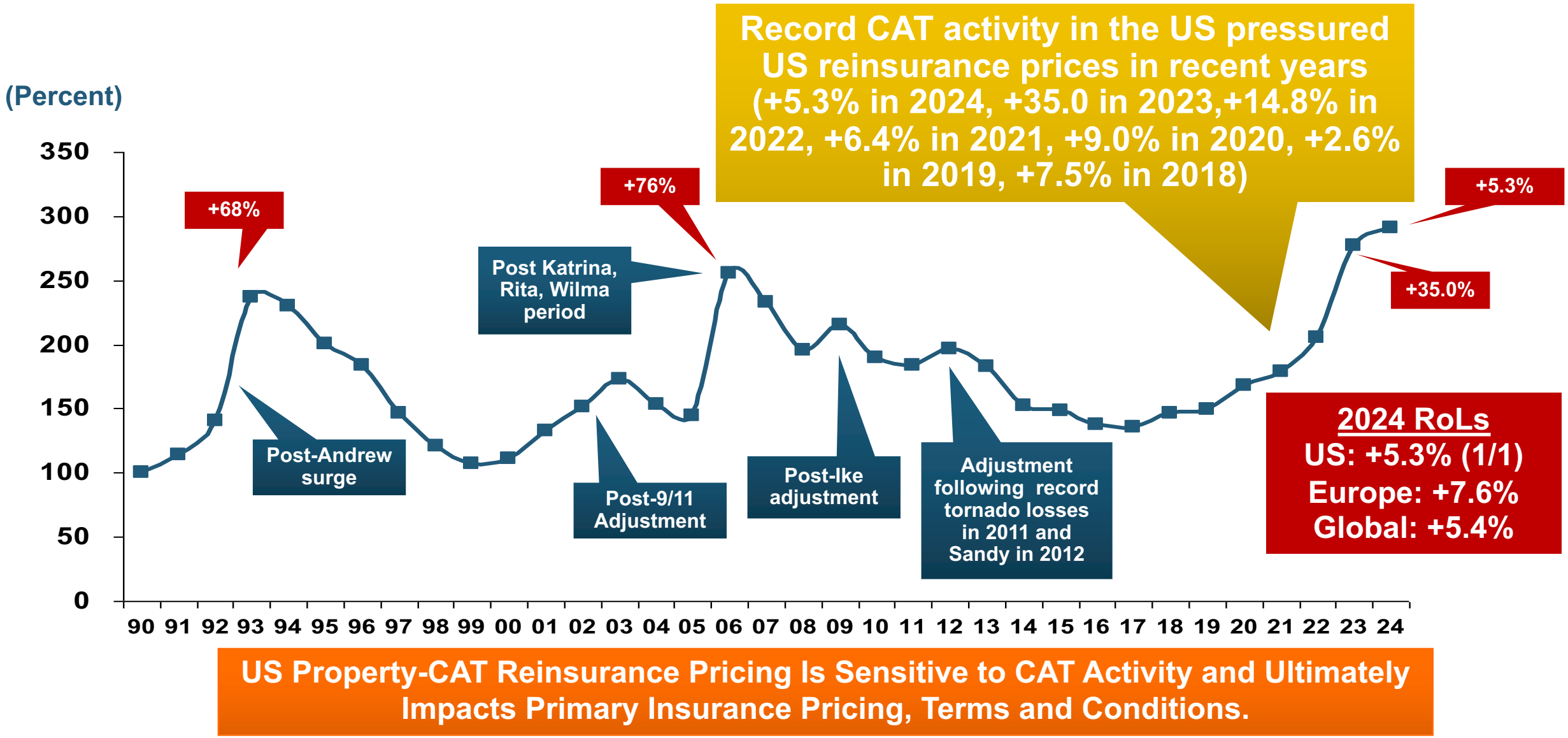
$ Billions



Global reinsurance capital fell by $80B or 12.0% 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-capital-hits-record-103bn-delivers-best-performance-ever-aon/.

US Property Catastrophe Rate-on-Line Index: 1990 – 2024*



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.

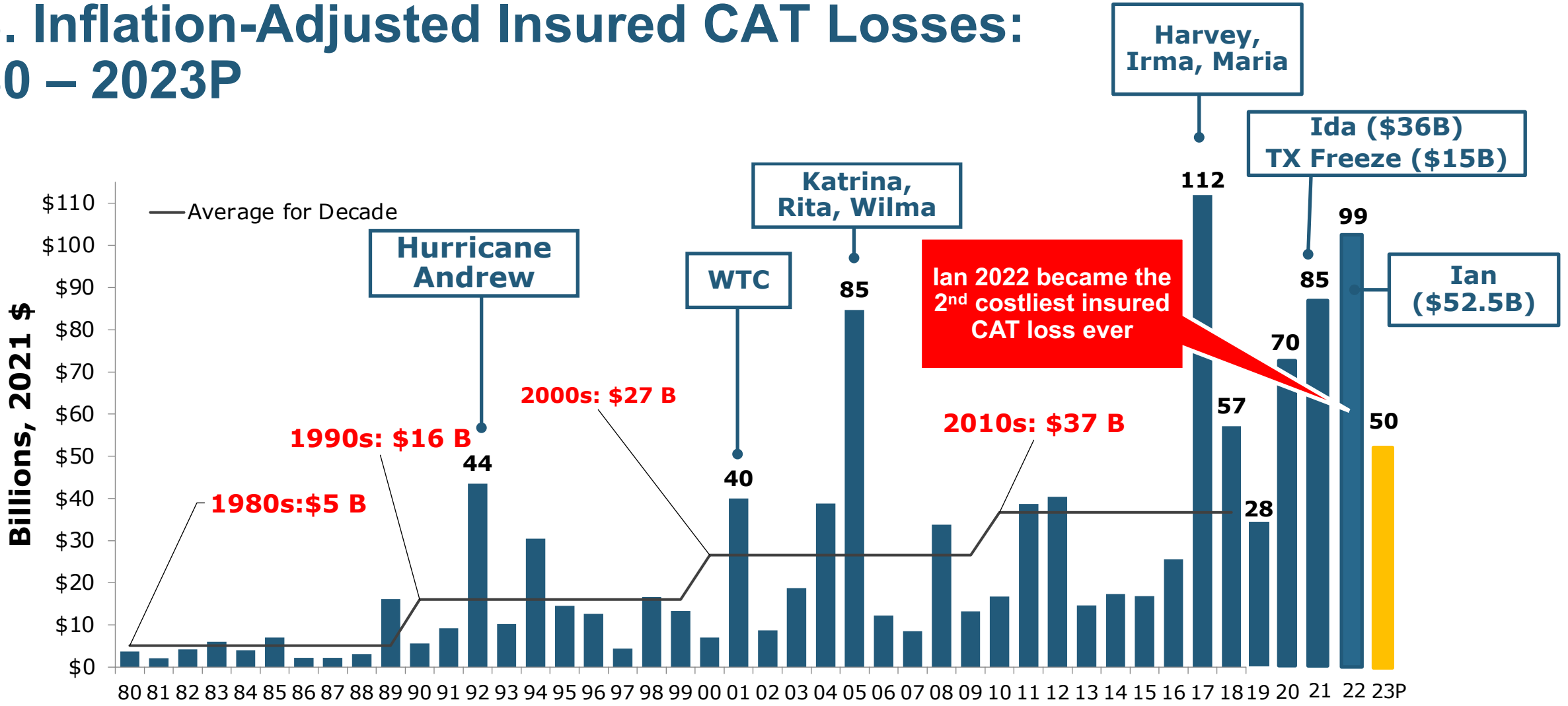
Source: Guy Carpenter; Artemis.bm accessed at: http://www.artemis.bm/us-property-cat-rate-on-line-index

Catastrophe Loss Trends

The Rise in CAT Losses Shows No Signs of Easing

The 2020s Are Off to an Ominous Beginning

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



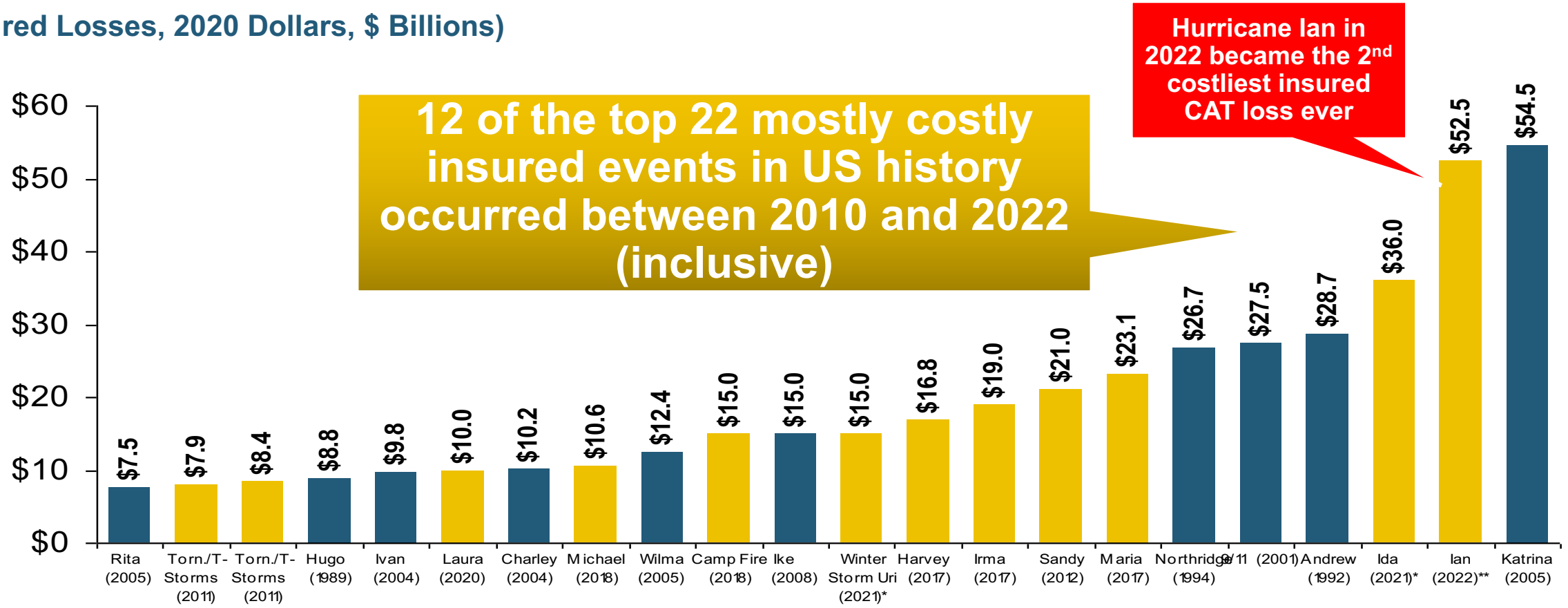
Average Insured Loss per Year*
1980-2021: $23.8 Billion
2012-2021: $44.1 Billion

The 2020s are off to an ominous start with $76B in average annual insured losses (2020-23P)

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

Top 22 Most Costly Disasters in U.S. History

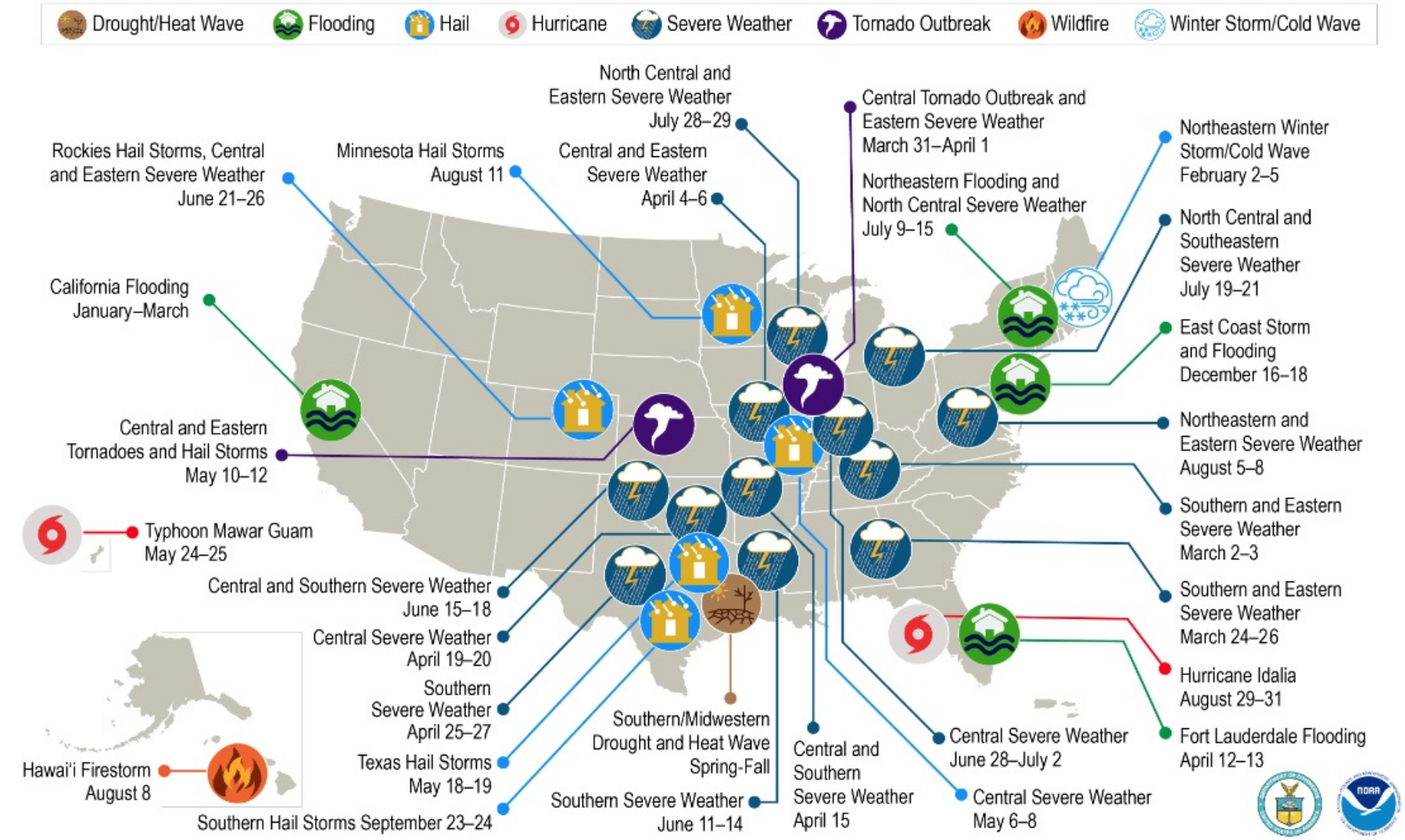
(Insured Losses, 2020 Dollars, $ Billions)



*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.

US Billion-Dollar Weather and Climate Disaster Events, Economic Costs, 2023



*This map denotes the approximate location for each of the **28 separate billion-dollar weather and climate disasters that impacted the United States in 2023.***

There were a record 28 events in the US in 2023 that caused at least $1B in economic damage, up from 18 in 2022

Source: NOAA, accessed at: https://www.ncei.noaa.gov/access/billions/time-series.

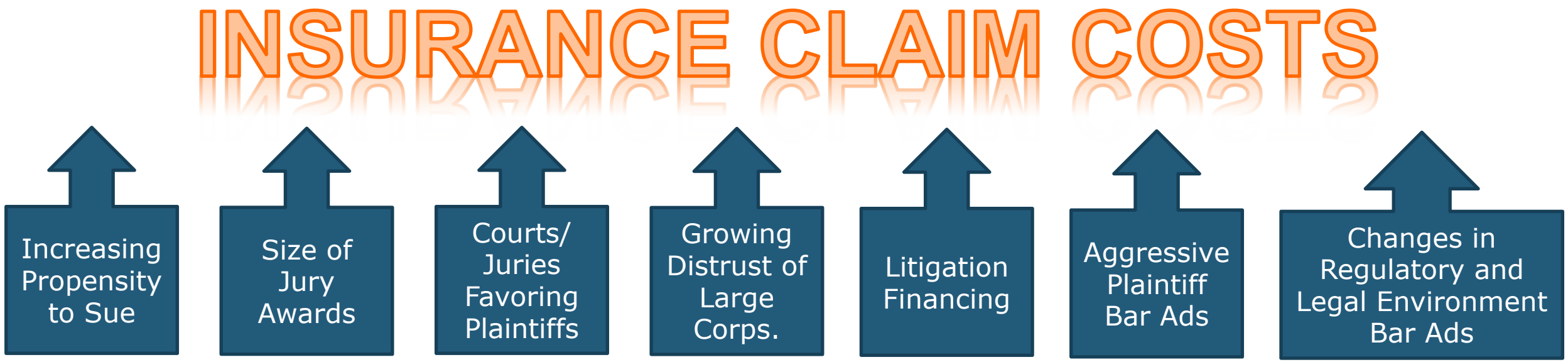
Legal System Abuse (Social Inflation) & Litigation Trends

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

Major Driver of Rate Across Multiple Lines

70

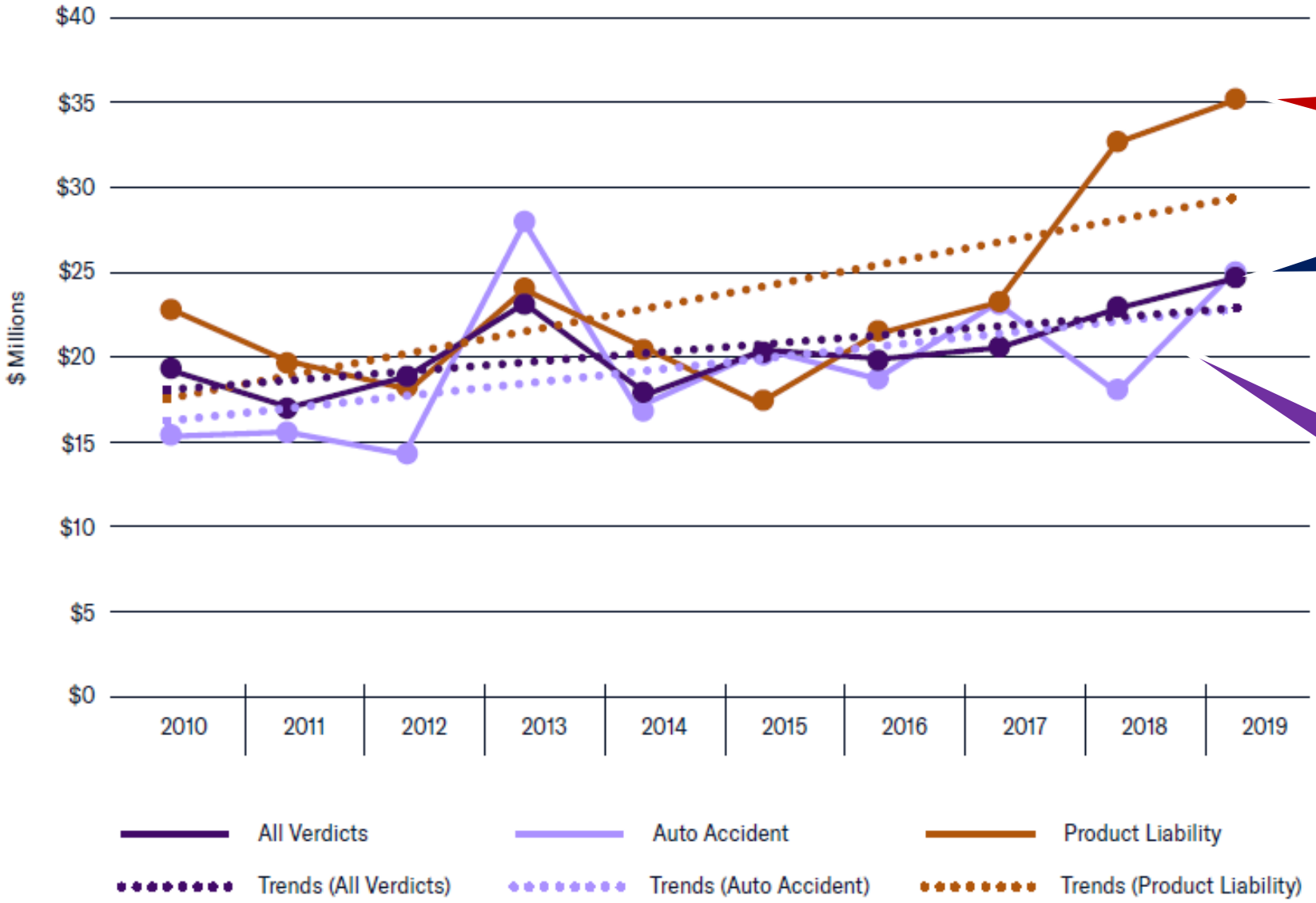
Social Inflation: Many Interrelated Causes, Difficult to Manage



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).

Median Nuclear Verdict and Trend Line: 2010 – 2019*



Products Liability

+53.2% from $23.0M in 2010 to $35.1M in 2019

All Nuclear Verdicts

+27.5% from $19.3M in 2010 to $24.6M in 2019

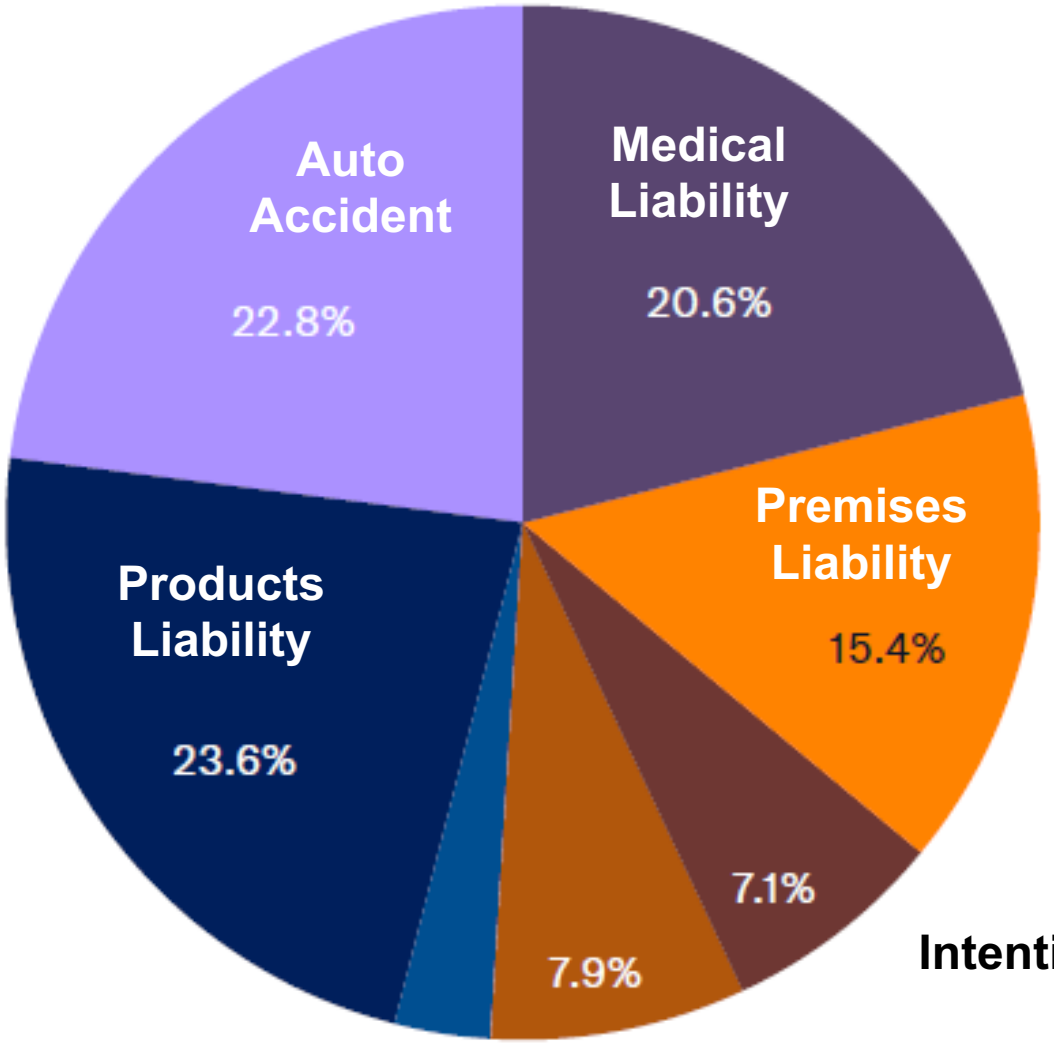
Auto Accident

+63.2% from $15.2M in 2010 to $24.8M in 2019

**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.

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.

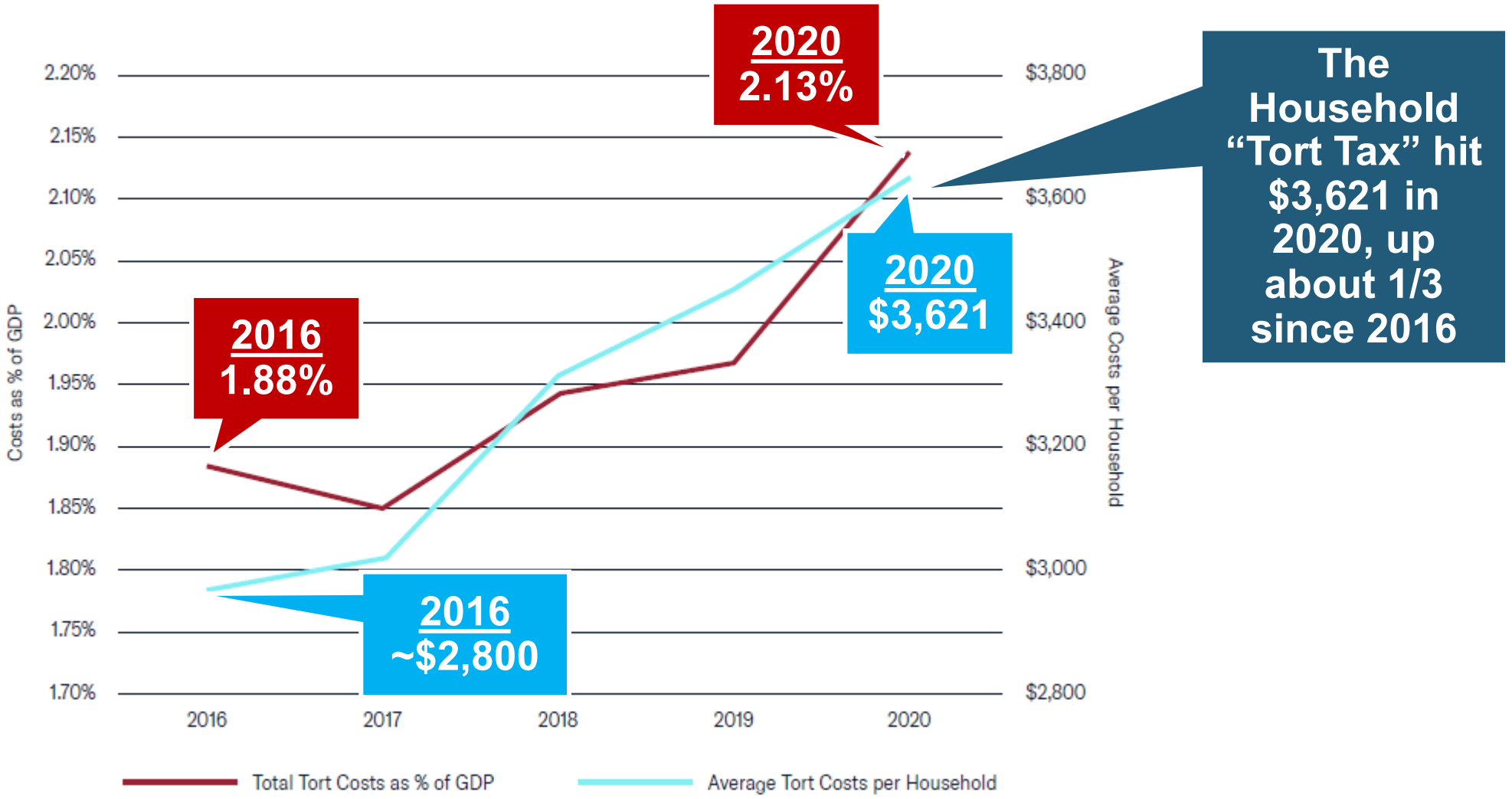
Direct Economic Tort Costs by Category of Tort: 2016 – 2020*

	2016	2017	2018	2019	2020	Average Annual Growth
Commercial Liability	222	220	248	264	291	7%
Personal Liability	128	138	149	153	152	4%
Total Tort Costs	**350**	**358**	**396**	**418**	**443**	**6%**
National GDP	18,586	19,370	20,402	21,243	20,760	3%
Consumer Price Index	240	245	251	256	259	2%
Total Costs as % of GDP	**1.88%**	**1.85%**	**1.94%**	**1.97%**	**2.13%**	**3.15%**

- **Total tort costs reached $443B in 2020**
  - ***$291B Commercial Liability***
  - ***$152B Personal Liability***
- **Tort costs as a share GDP hit 3.15% in 2020, up from 1.88% in 2016 (an increase of $93B**
- **Tort costs grew at twice the pace of GDP from 2016 – 2016**

Source: US Chamber of Commerce Institute for Legal Reform (Nov. 2022), "Tort Costs in America: An Empirical Analysis of Costs and Compensation of the U.S. Tort System" accessed at: https://instituteforlegalreform.com/research/tort-costs-in-america-an-empirical-analysis-of-costs-and-compensation-of-the-u-s-tort-system/. Risk and Uncertainty Management Center, Univ. of South Carolina.

Change in Tort Costs Over Time: 2016 – 2020



Source: US Chamber of Commerce Institute for Legal Reform (Nov. 2022), "Tort Costs in America: An Empirical Analysis of Costs and Compensation of the U.S. Tort System" accessed at: https://instituteforlegalreform.com/research/tort-costs-in-america-an-empirical-analysis-of-costs-and-compensation-of-the-u-s-tort-system/. Risk and Uncertainty Management Center, Univ. of South Carolina.

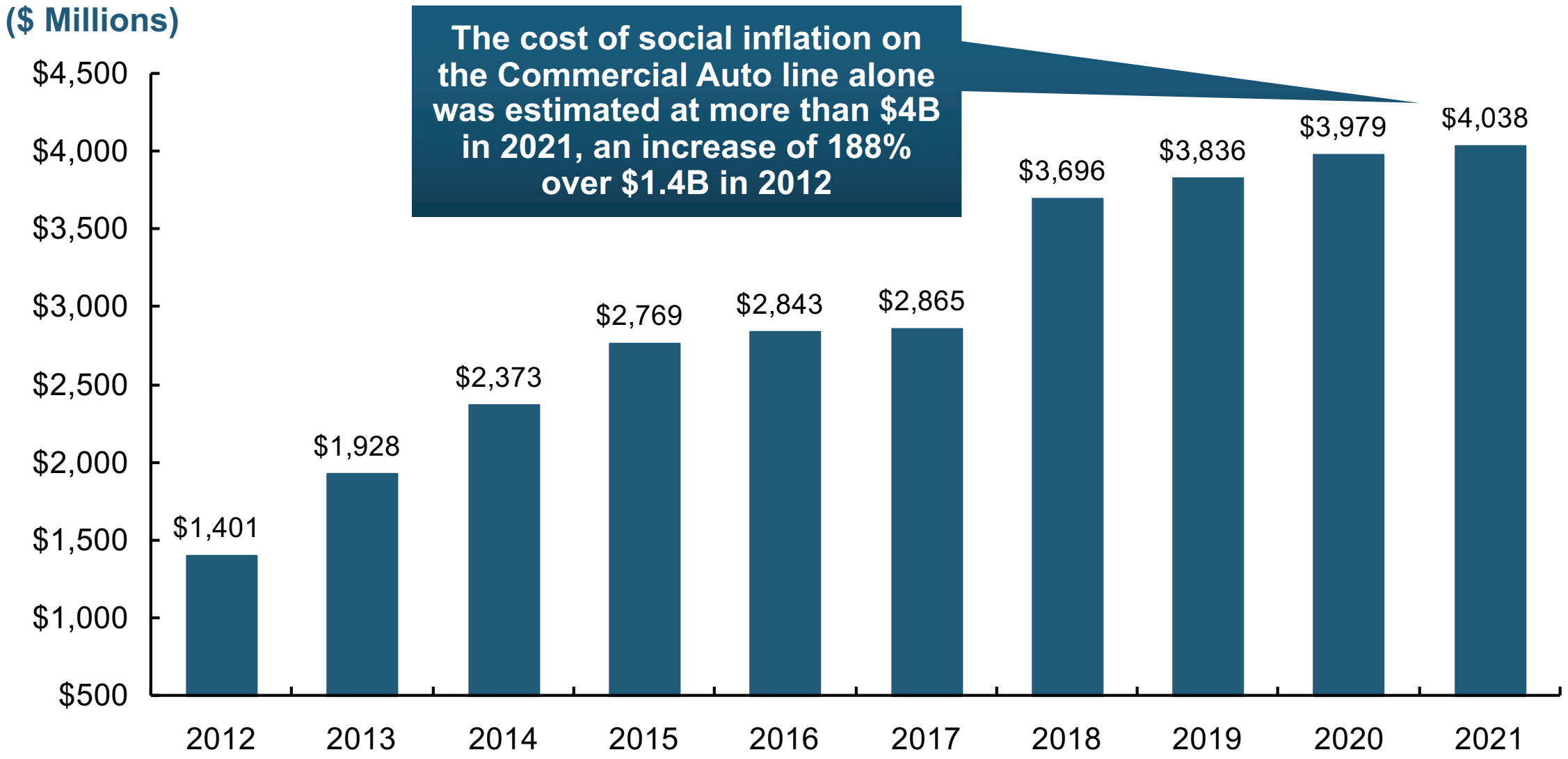
Percent of P/C Companies Reporting Adverse Reserve Development as of 9/30 Each Year, 2001 - 2023

About 45% of P/C insurers reported adverse reserve development thru Q3:2023, the highest number since the early 00s, "the last difficult reserve period for the industry"

-William Wilt, Assured Research

Source: Assured Research as published on LinkedIn (Feb. 10, 2024) accessed at: https://www.linkedin.com/in/william-wilt-b47a7542/.

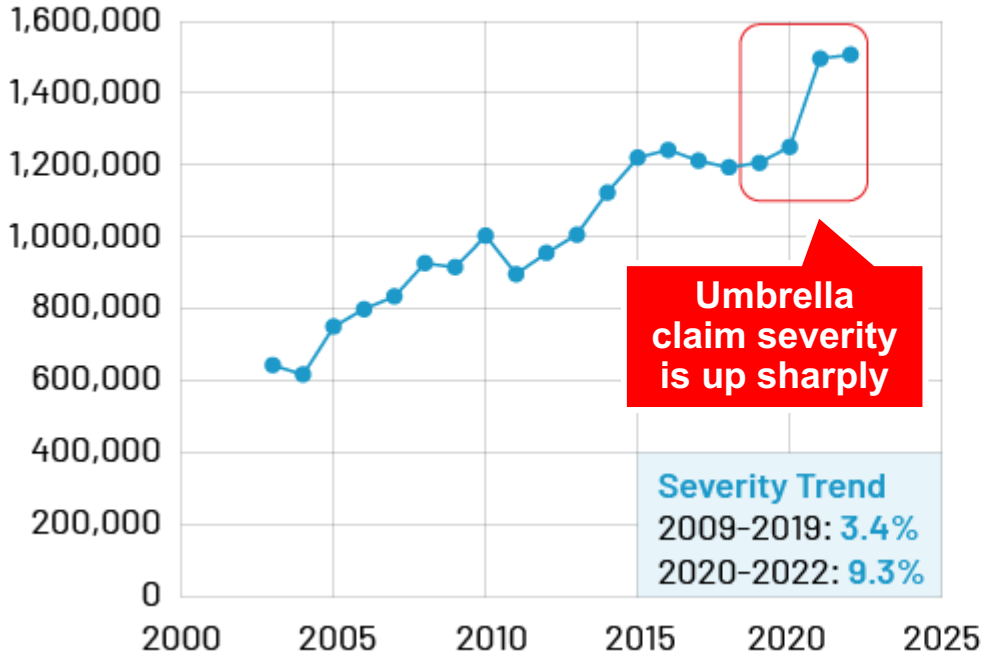
Commercial Auto Liability: Estimated Impact of Social Inflation, 2012 – 2021*



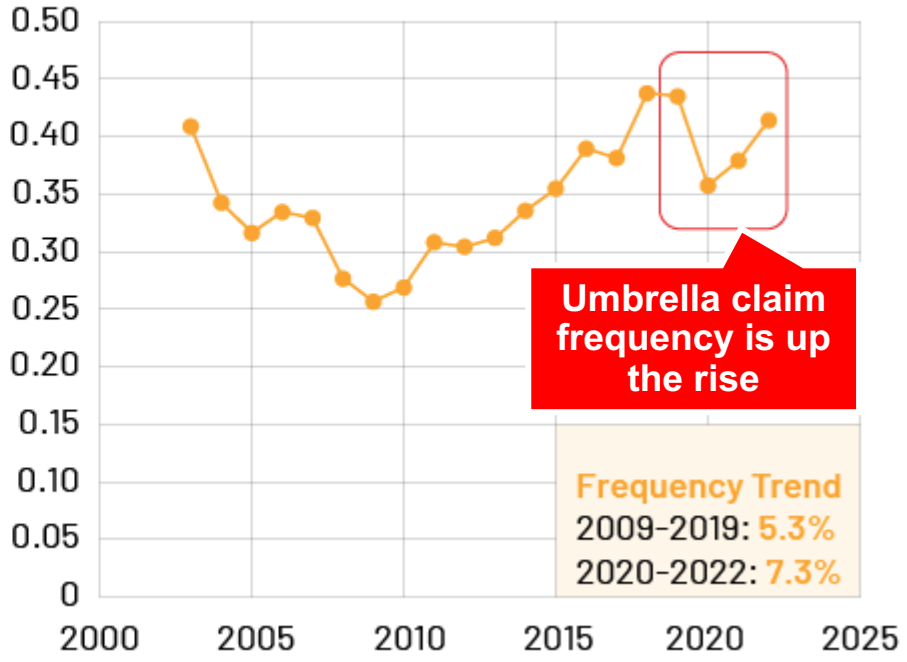
*Case-incurred estimates.
Source: CAS Research Paper; *Social Inflation and Loss Development—An Update* (2023) accessed at: https://www.iii.org/sites/default/files/docs/pdf/cas_social_inflation_03062023.pdf.

Commercial Umbrella: A Casualty of Legal System Abuse

Commercial Umbrella Severity (Loss & ALAE)



Commercial Umbrella Frequency (Claims per On-Leveled Premium)



"A decade ago an average single-person loss that would be contained in primary limits is now well into Umbrella limits, and the tail associated with Commercial Umbrella claims has likely been underestimated"

-Gen Re

Contributing Factors

Legal system abuse

Nuclear verdicts

Sophisticated trial bar

3rd Party Litigation Funding

Distracted driving

Aggravated damages

Source: Gen Re analysis using ISO data as published (Feb. 9, 2024) accessed at: https://www.genre.com/us/knowledge/publications/2024/february/battered-umbrella-a-market-in-urgent-need-of-fixing-en.

SUMMARY

- **The P/C Insurance Industry Remains Strong, Stable, Sound and Secure**
  - **Auto lines, property and reinsurance segments are stressed but not impaired**
- **Odds of a "Soft Landing" Increasing; Recession in 2024/25 Unlikely**
- **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 Will Persist in 2024, But Will Subside (Peak Reached in June 2022)**
- **Loss Cost Challenges Remain but Are Easing in 2024—Inflation, Supply Chain**
- **Legal System Abuse Issues Remain a Long-Term Challenge**

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Thank you for your time and your attention!

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