Overview and Outlook P/C Insurance Markets in an Age of Uncertainty:
Trends, Challenges and Opportunities

HSB Client Advisory Board
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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
  - M&A Trends
  - 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
  - Cost Drivers for P/C insurers and impact on rates
  - Long-term inflation considerations
- **Legal System Abuse/Social Inflation: Another Major Driver of Cost**
- **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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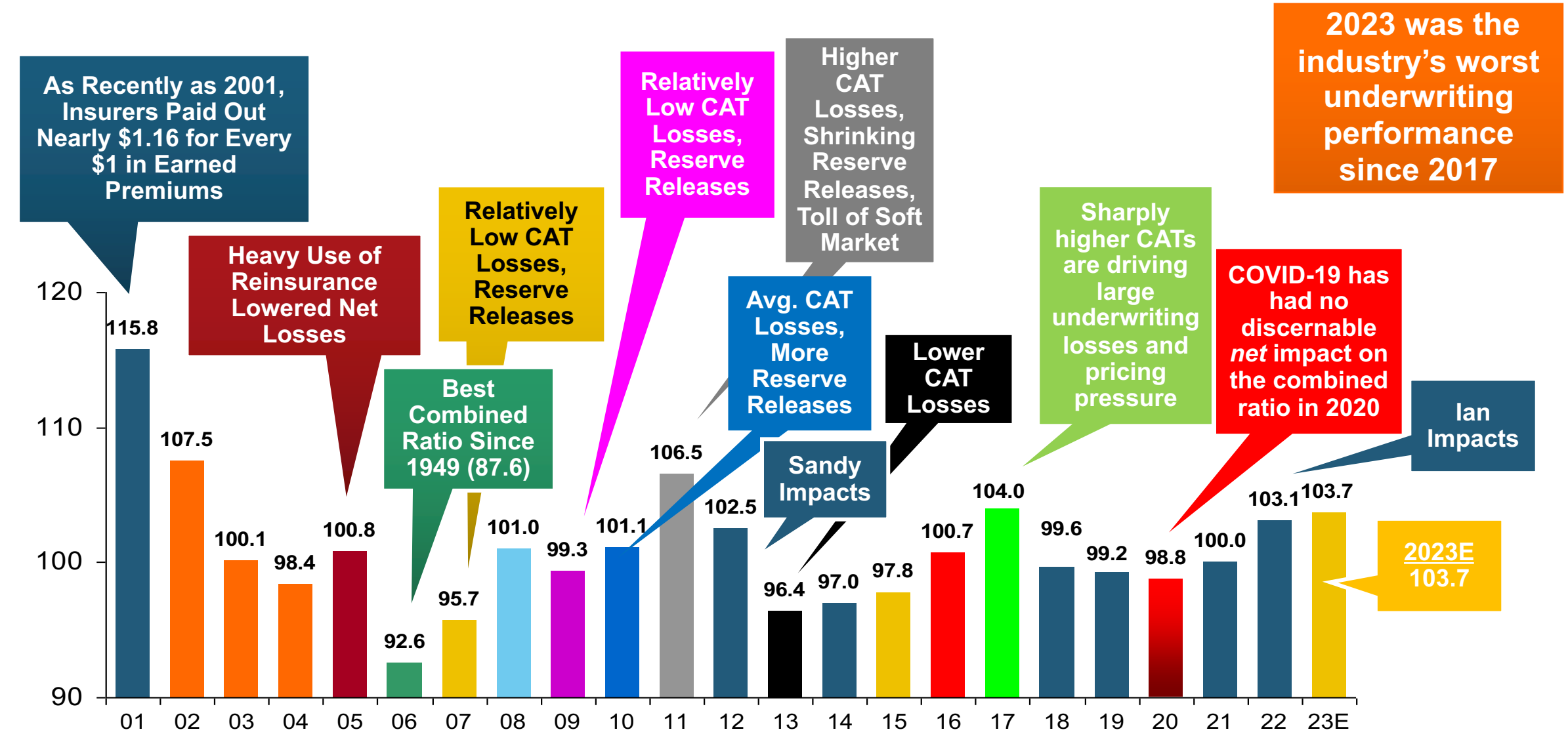
2023 Highlights & Lowlights

- **Net Underwriting Loss: $38.4B, $7.6B worse than 2022**
- **Net Earned Premiums: + 9.7%**
- **Net Loss & LAE: +11.9%; Other Underwriting Expense: +7.3%**
- **All Lines Combined Ratio: 103.7** ***(7.8 pts. due to CATs)***
  - **Excluding favorable reserve development, AY Combined Ratio = 104.4**
- **Net Investment Income: $75.9B (up 6.2% or $71.5B from 2022)**
- **Net Income: $88.6B (+ 127%)** ***[-1% to $38.6B after adjustment]***
  - **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: $1011.4B (+2.5% from YE 22 but *down* 4.6% from YE 21 peak of $1.06T)**
  - **Helped by huge swing to $29.3B unrealized capital *gain* from $103.3B unrealized *loss***
  - **Surplus held back by huge increase in stockholder dividends to $104.4B (+186%)**
    - ***Most of this increase ($82B) was due to a dividend paid out by one large reinsurer***

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



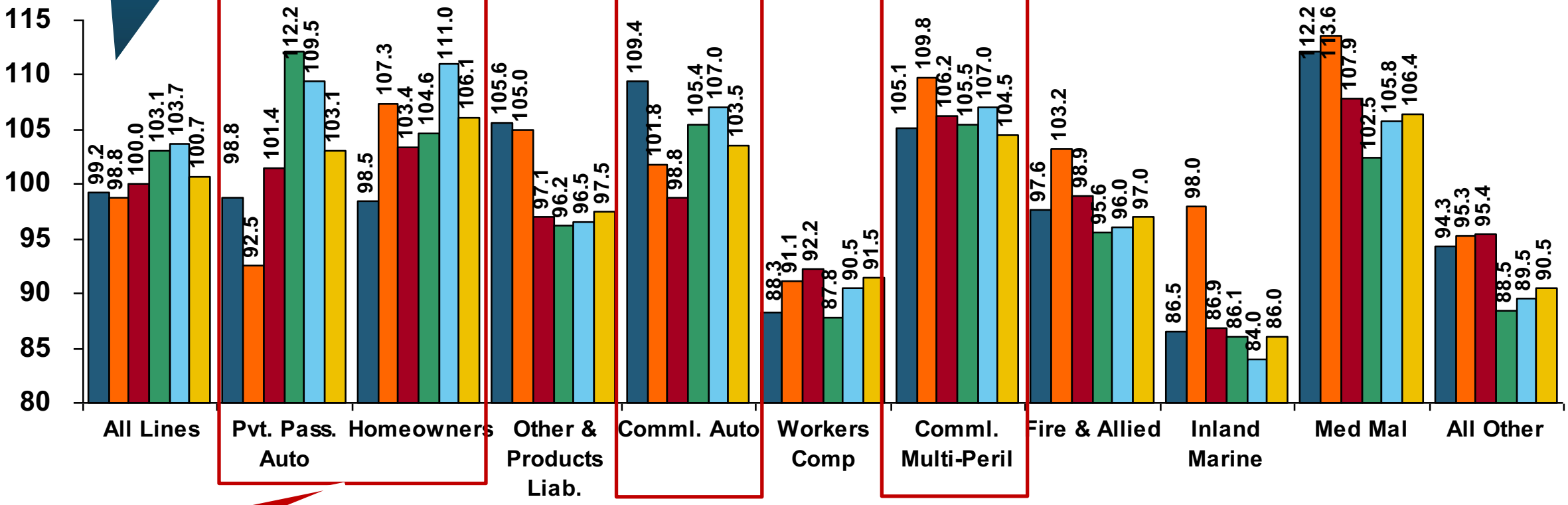
*Excludes Mortgage & Financial Guaranty insurers 2008–2014.
Sources: A.M. Best, ISO (2014-2023EF).

Combined Ratios by Line: 2019 – 2024F*

High CAT losses and inflation are pushing up combined ratios

Commercial Auto, MP have struggled amid inflation, CATs

Inflation will continue to pressure combined ratios in 2024



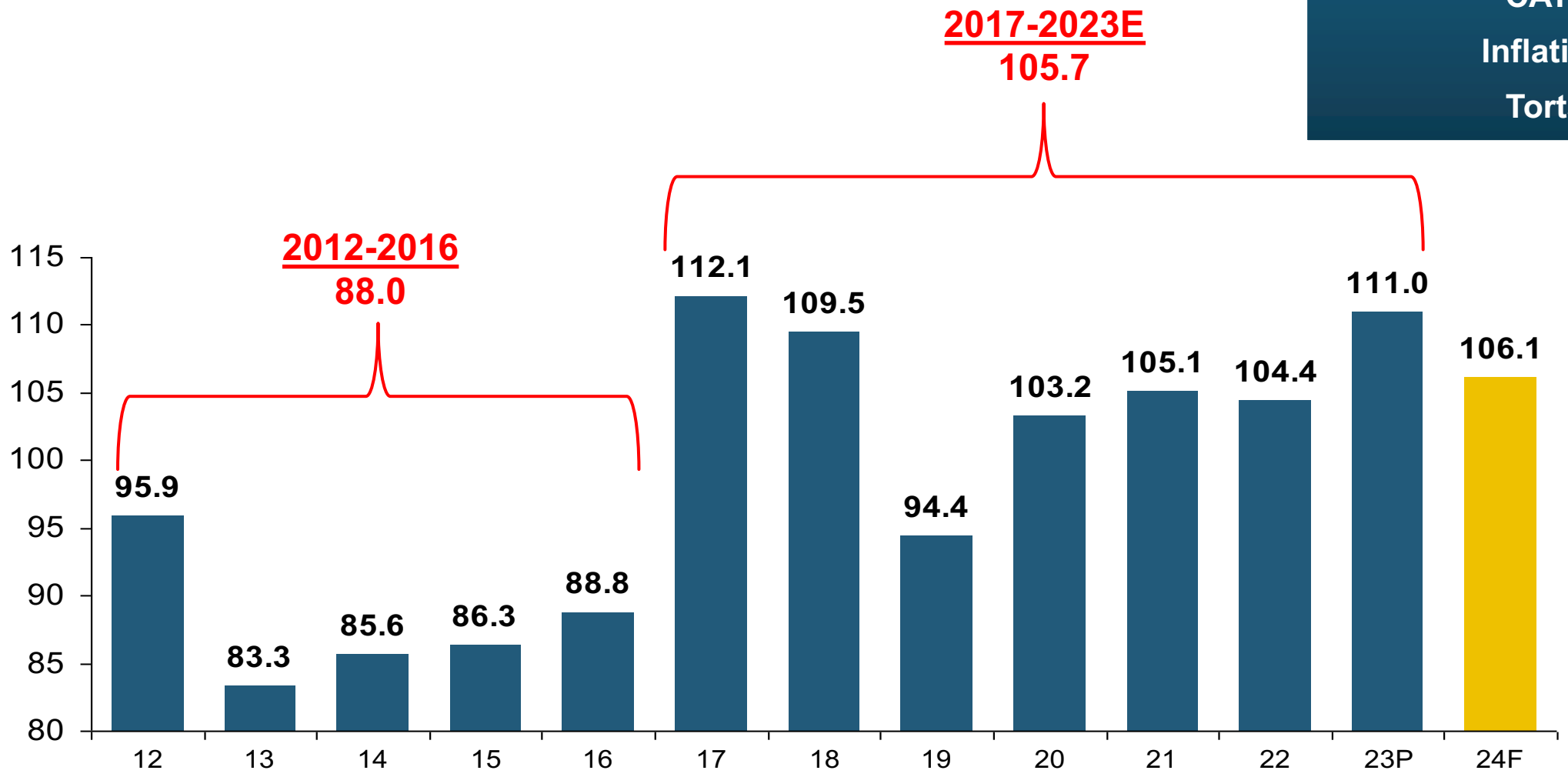
CATS, inflation are hurting personal lines

Source: A.M. Best *Review & Preview* (2023 estimates and 2024 forecasts as of Mar. 2024); Univ. of South Carolina, Risk and Uncertainty Management Center.

Homeowners Combined Ratio, 2012–2024F

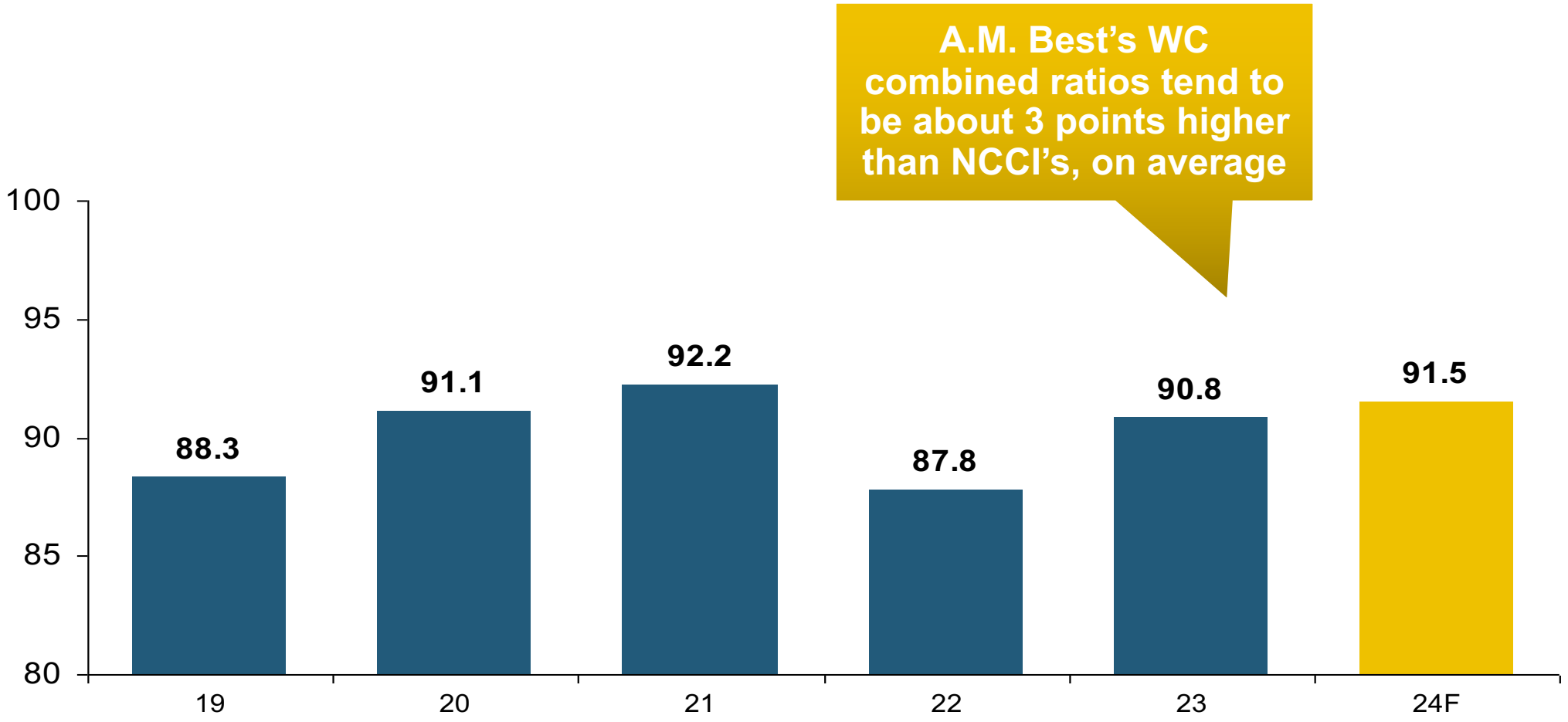
Homeowners insurance results have deteriorated markedly since 2017, largely due to:

- **CATs**
- **Inflation**
- **Torts**



Sources: A.M. Best (2016-2024F); Best's Review & Preview (March 2024).

Workers Comp Combined Ratio, 2016–2024F (A.M. Best)



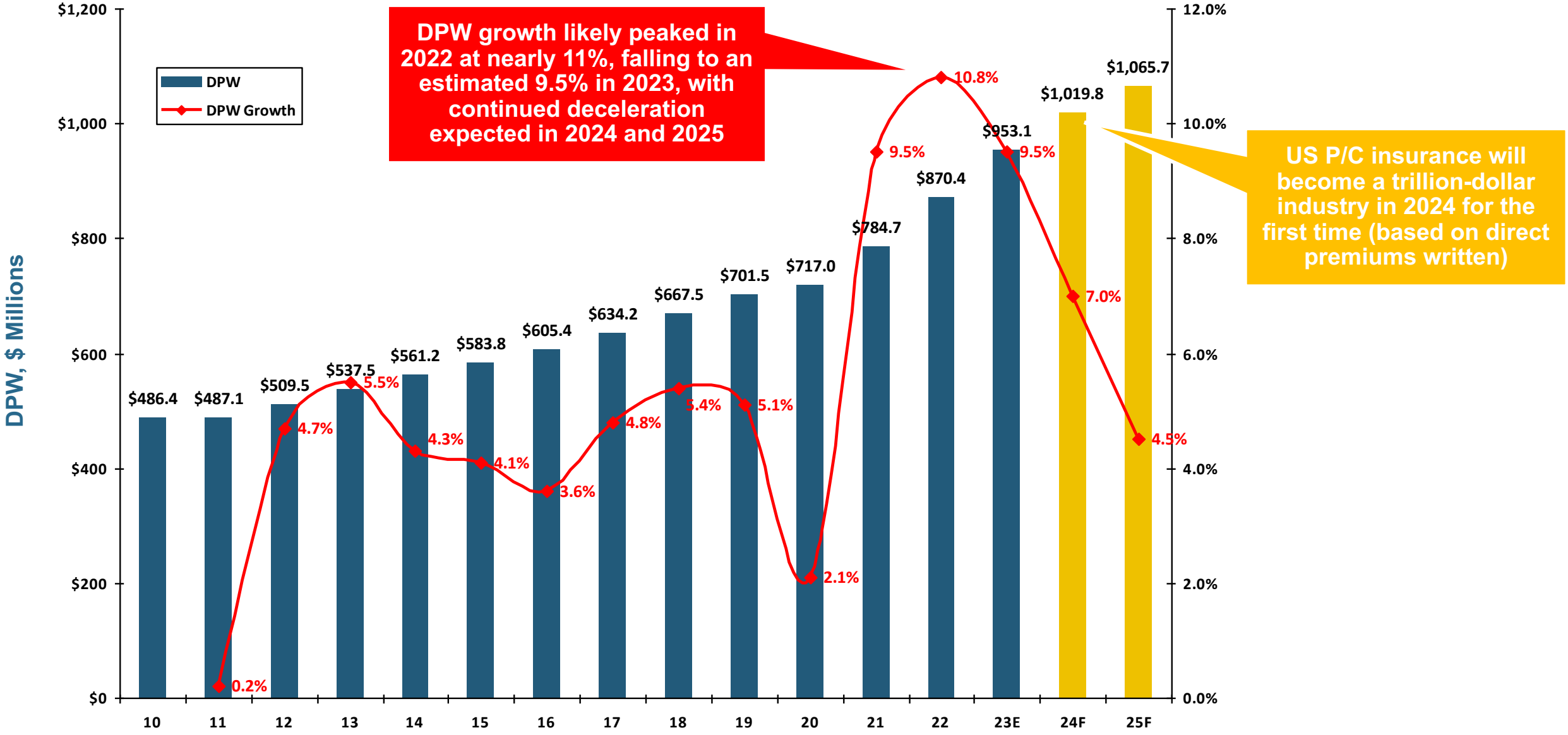
Sources: A.M. Best; Best's Review & Preview (March 2024).

Expense Ratios—Falling at Last?

Large rate increases combined with material declines in advertising and wage growth have pushed the expense ratio below 28% where they have remained for decades

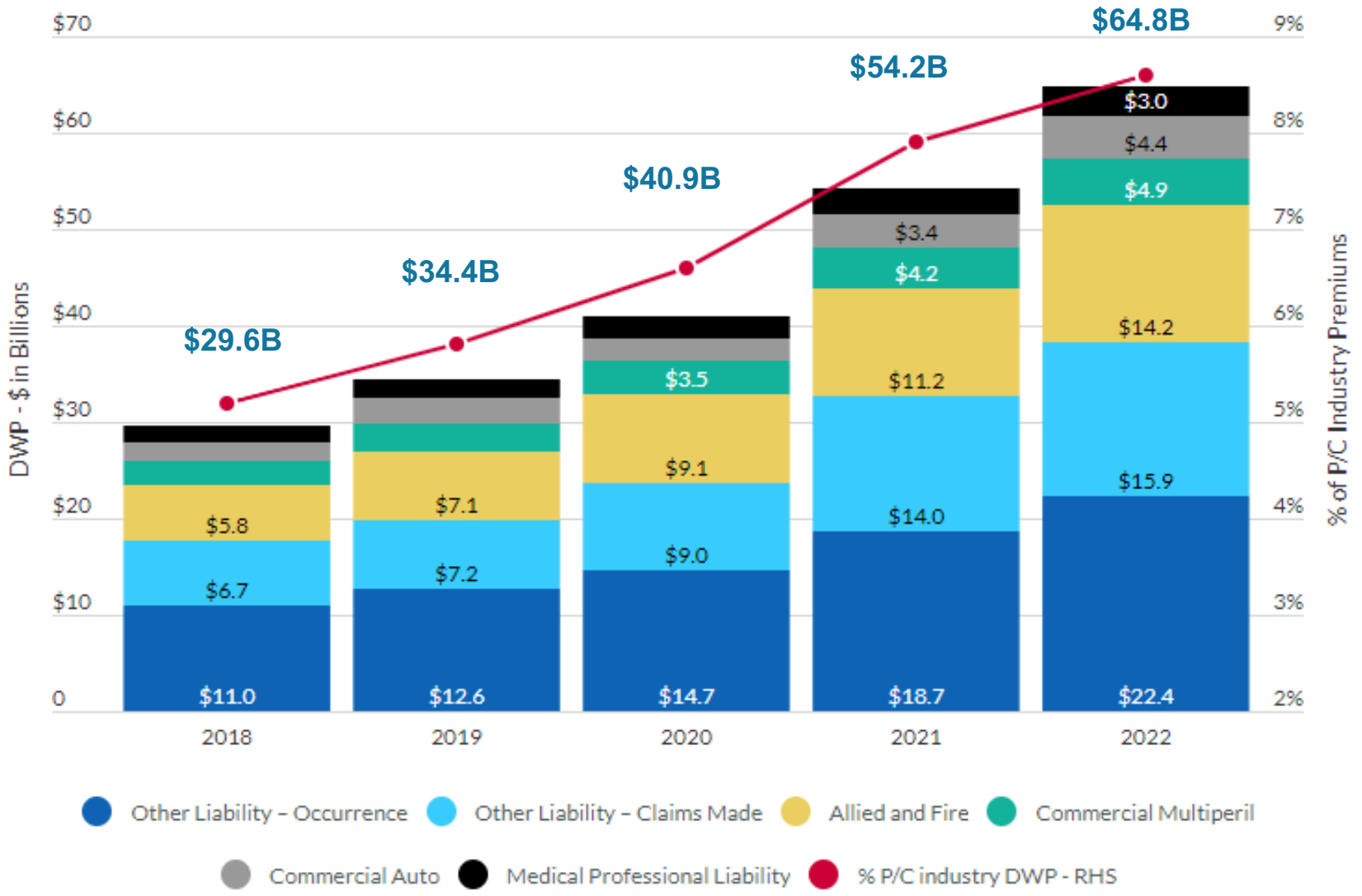
Sources: Assured Research (4/30/24) from S&P Global Market Intelligence.

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.

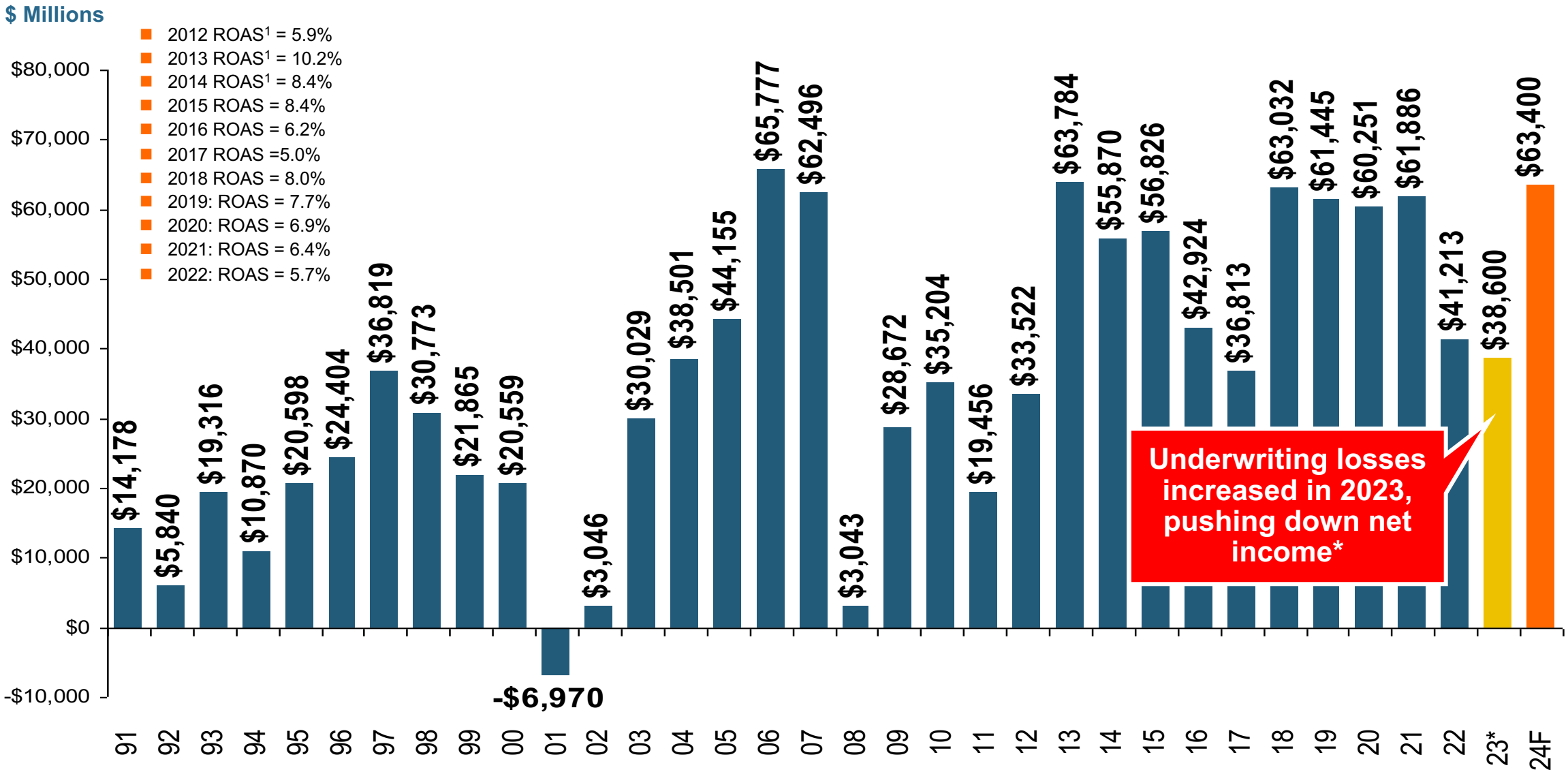
E&S Market Direct Written Premium Trends



E&S premium grew by 20% in 2022 (up 119% since 2018), approaching 9% of the total P/C market (up from 5.5% in 2018)

Sources: Fitch Ratings (*Fitch Wire*, Oct. 4, 2023) accessed at: https://www.fitchratings.com/research/insurance/us-excess-surplus-insurance-market-outperformance-to-continue-04-10-2023; Risk and Uncertainty Management Center, University of South Carolina.

P/C Industry Net Income After Taxes, 1991–2024F*

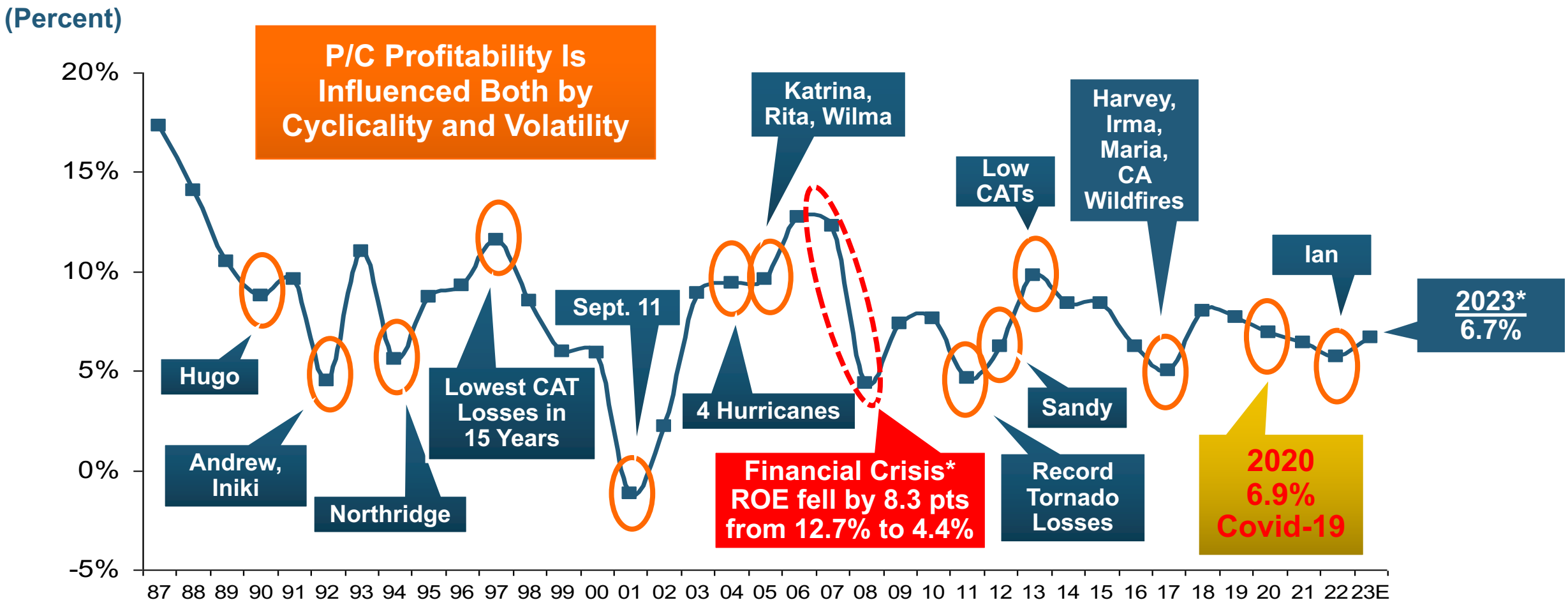


*2023 figure is adjusted is adjusted to reflect $50B realized gain from a large reinsurer (National Indemnity). Including this gain, net income after tax is $86.6B.

Note: ROE figures are GAAP; [1]Return on avg. surplus. Excludes Mortgage & Financial Guaranty insurers for years (2009-2014).

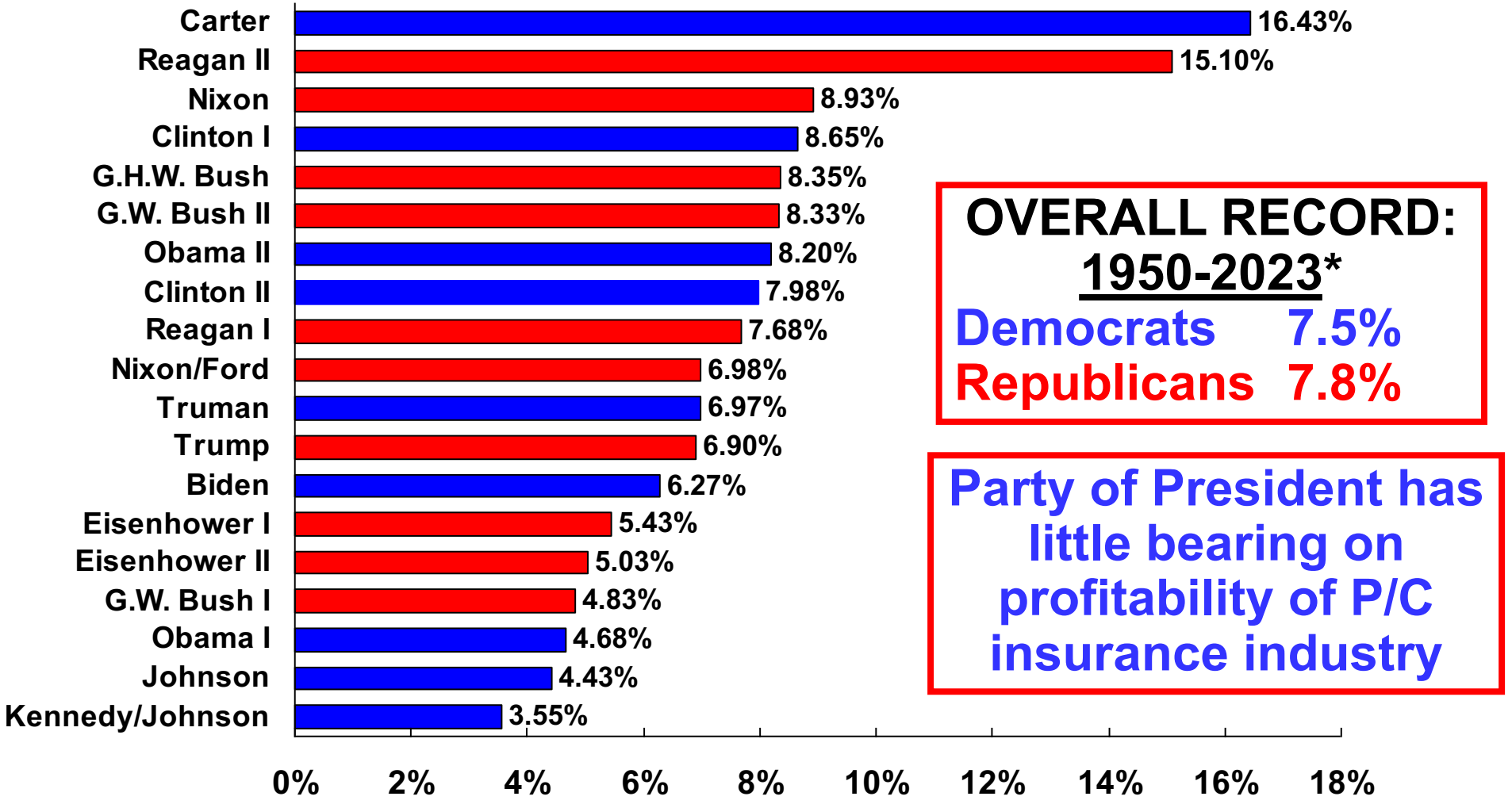
Sources: A.M. Best, ISO, APCIA.

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.

P/C Insurance Industry ROE by Presidential Administration, 1950-2023*



OVERALL RECORD: 1950-2023*

Democrats 7.5%

Republicans 7.8%

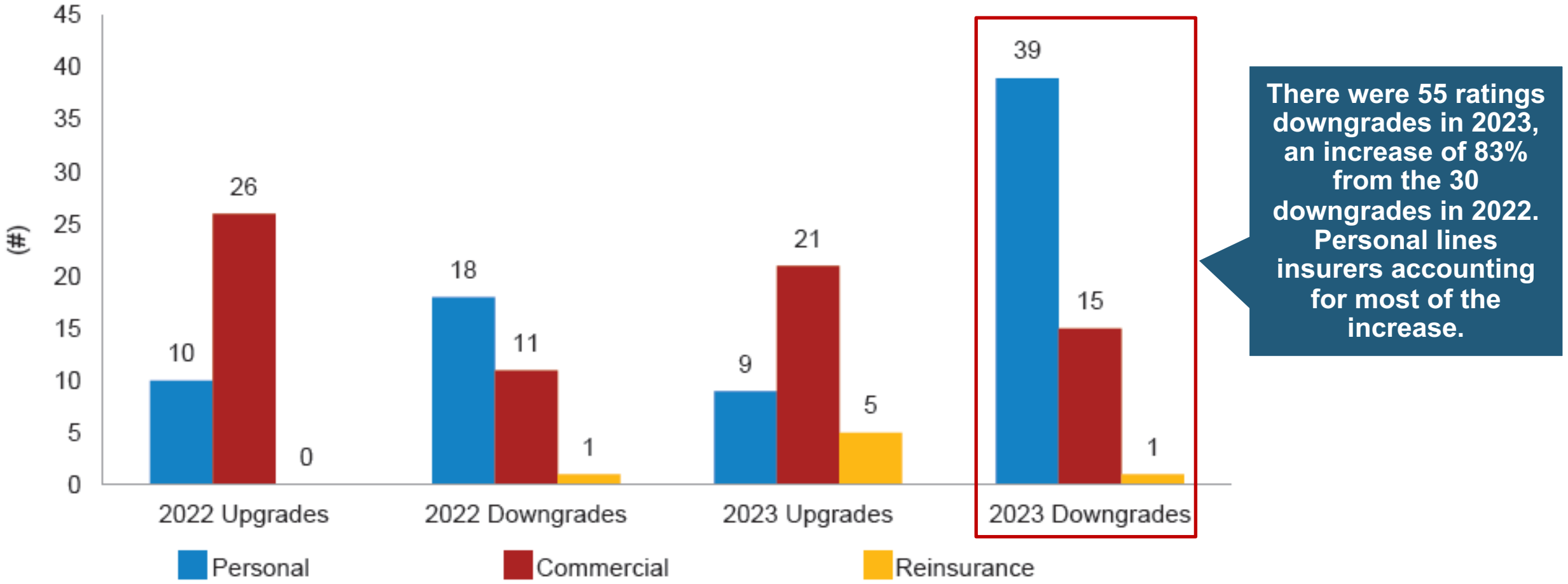
Party of President has little bearing on profitability of P/C insurance industry

*Biden figure is 2021-2023 average. ROEs for the years 2008-2014 exclude mortgage and financial guaranty segments.
Source: Risk and Uncertainty Management Center, University of South Carolina.

Upgrades, Downgrades and M&A Activity

Underwriting Performance, CATs and Capital Are Impacting Ratings and M&A Activity

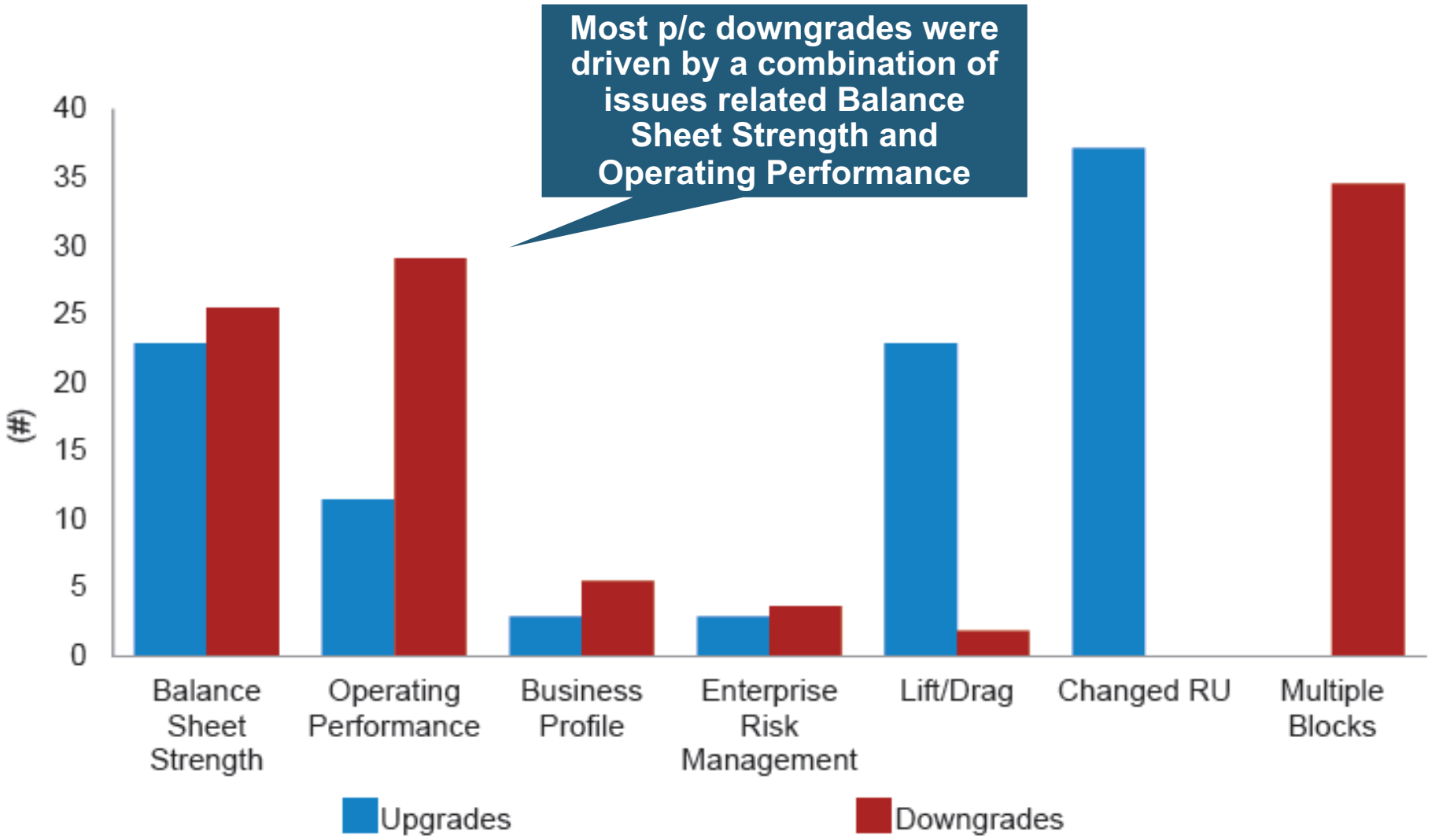
US P/C: Rating Upgrades & Downgrades, by Segment, 2023



There were 55 ratings downgrades in 2023, an increase of 83% from the 30 downgrades in 2022. Personal lines insurers accounting for most of the increase.

Source: A.M. Best Review & Preview (March 11, 2024), *US Property/Casualty Downgrades Outpace Upgrades in 2023.*

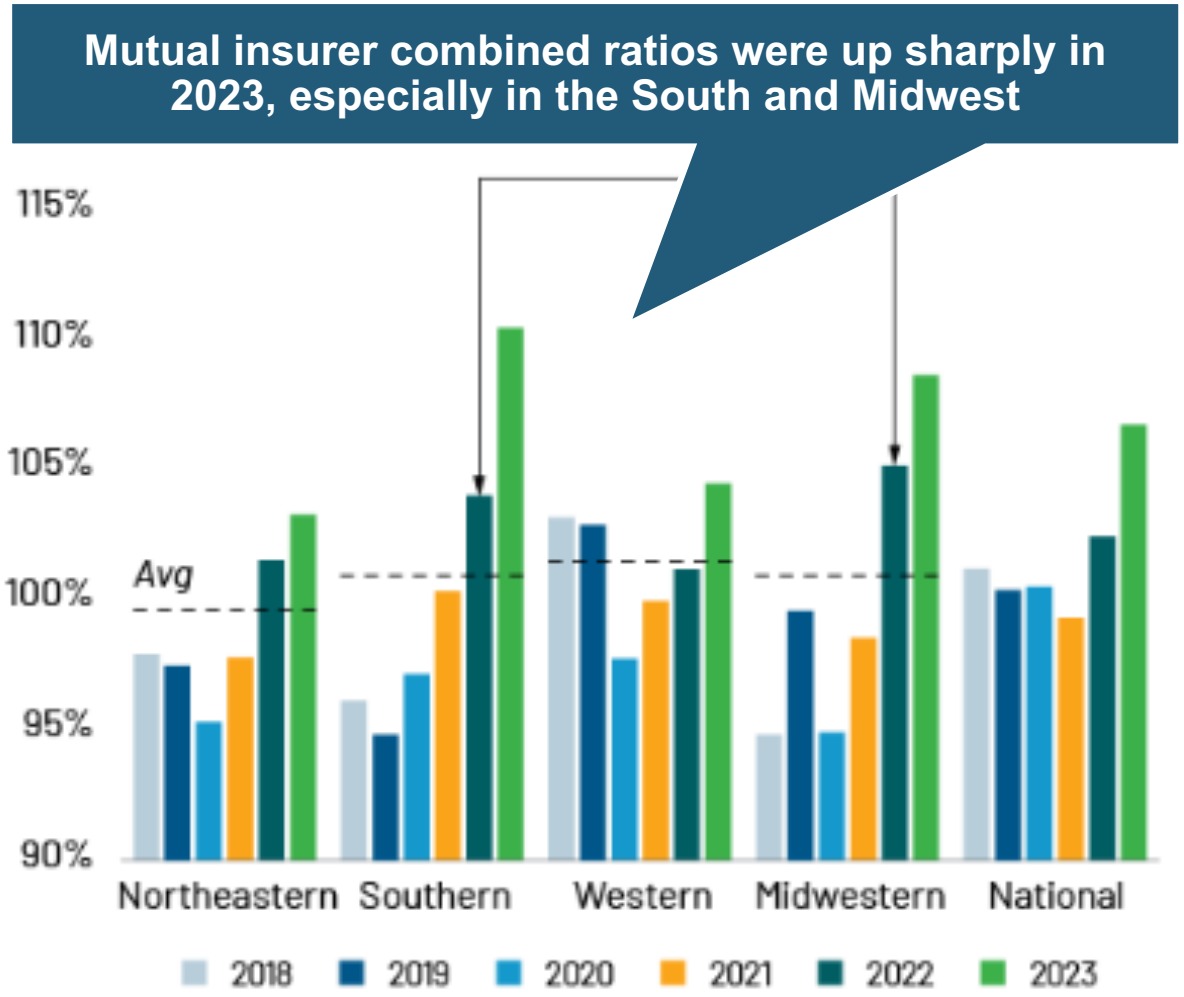
US P/C: Drivers of Rating Upgrades & Downgrades, 2023



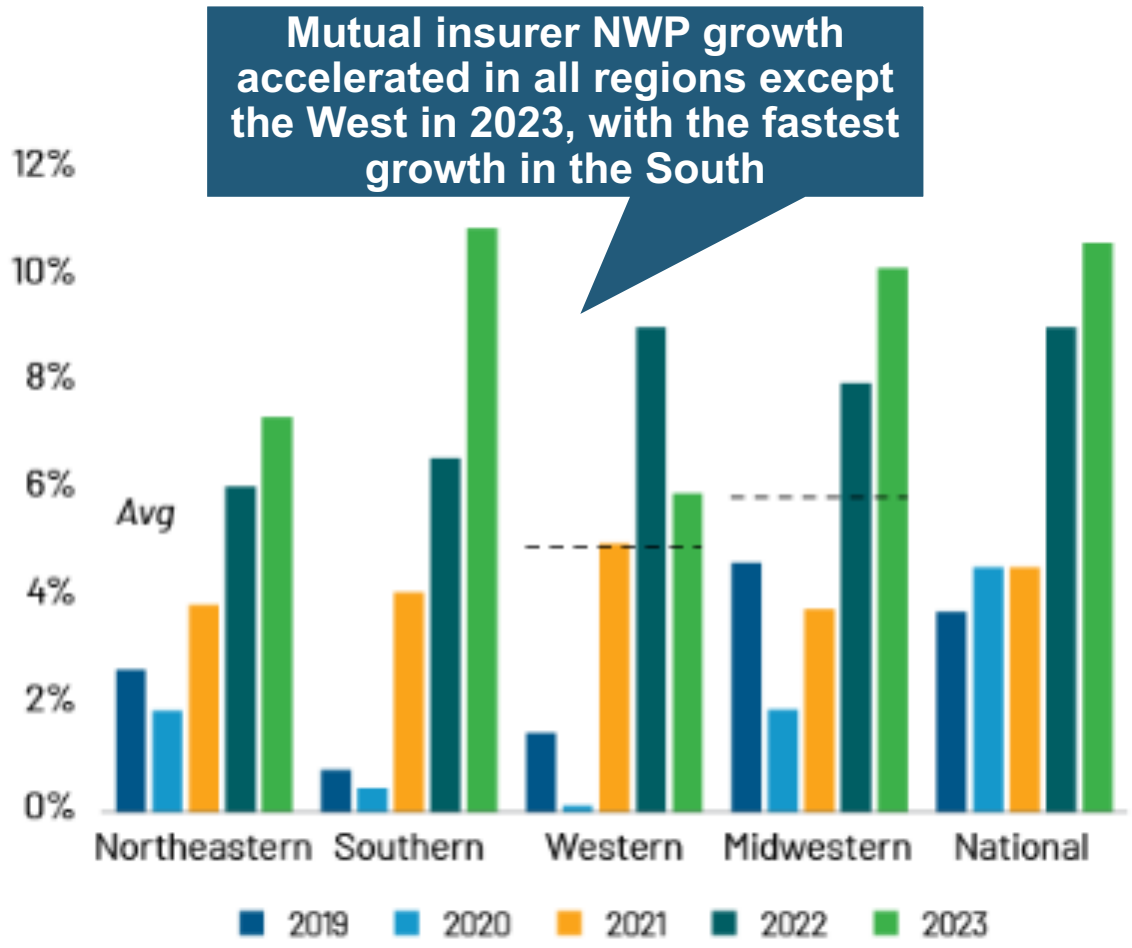
Source: A.M. Best Review & Preview (March 11, 2024), *US Property/Casualty Downgrades Outpace Upgrades in 2023.*

Mutual Combined Ratio and Premium Growth, by Region, 2018 – 2023

Combined Ratio

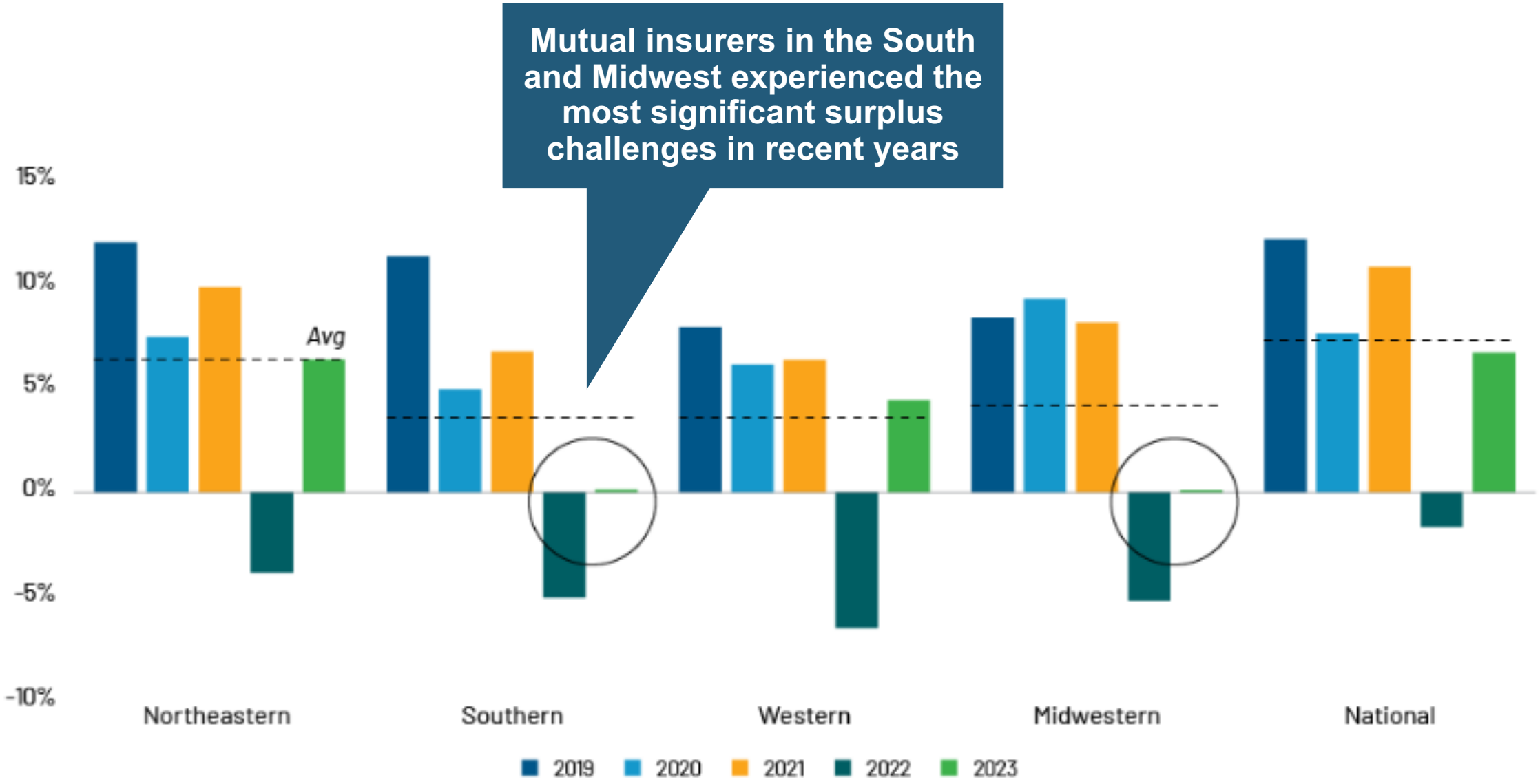


Net Written Premium Growth



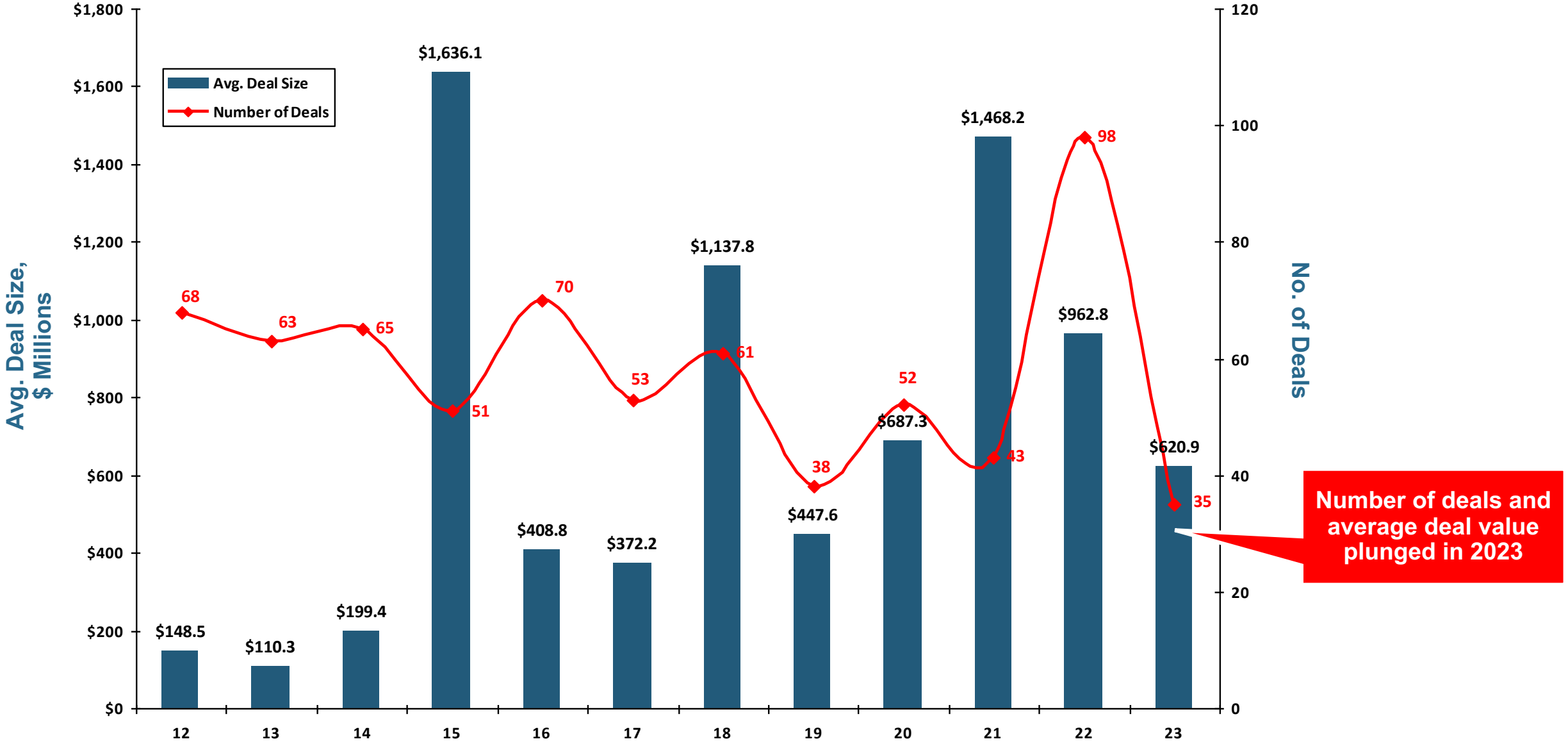
Sources: Gen Re (April 2024), “Financial Analysis—Challenging Times for Many U.S. Mutual Insurers,” from Assured Research.

Mutual Insurer Annual Change in Surplus, by Region, 2018 – 2023



Sources: Gen Re (April 2024), “Financial Analysis—Challenging Times for Many U.S. Mutual Insurers,” from Assured Research.

P/C M&A: Number and Avg. Deal Value, 2012–2023



Source: Deloitte, *2024 Insurance M&A Outlook*, accessed at: https://www2.deloitte.com/us/en/pages/financial-services/articles/insurance-m-and-a-outlook.html; Risk & Uncertainty Management Center, University of South Carolina.

Economic Overview
The U.S. Economy Remain 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"?

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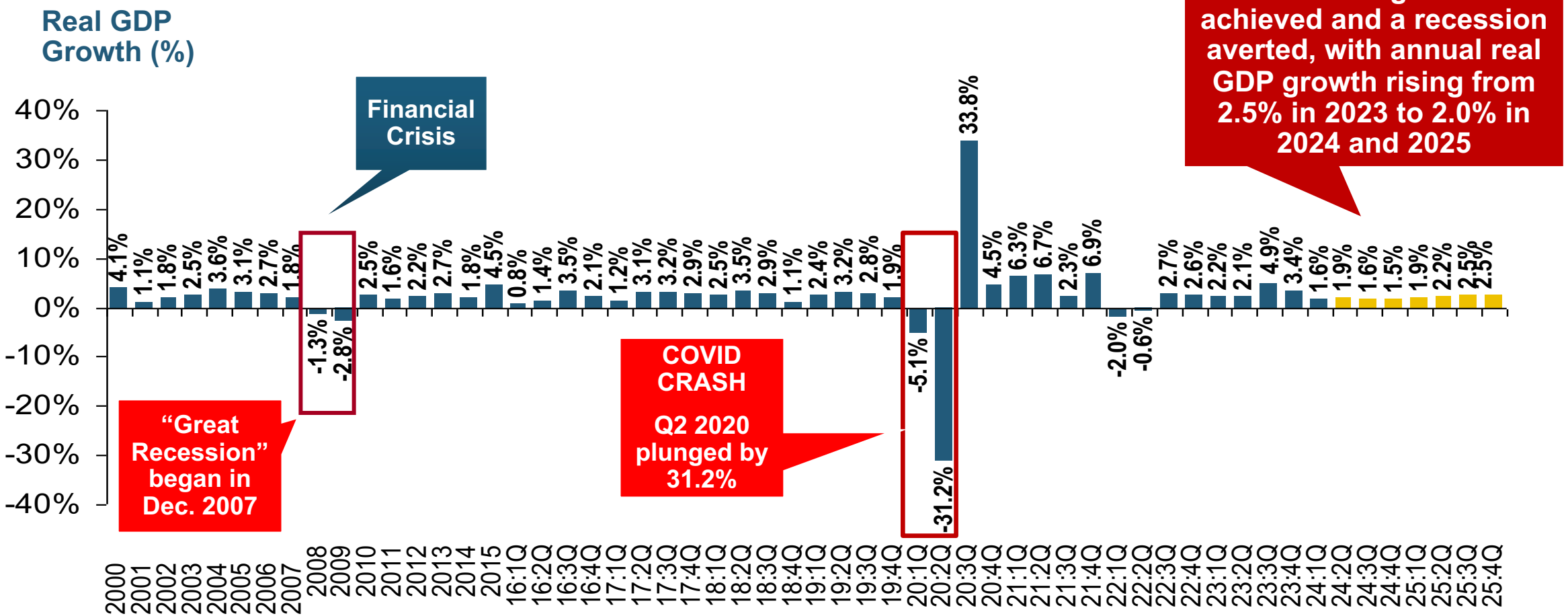
US Real GDP Growth*

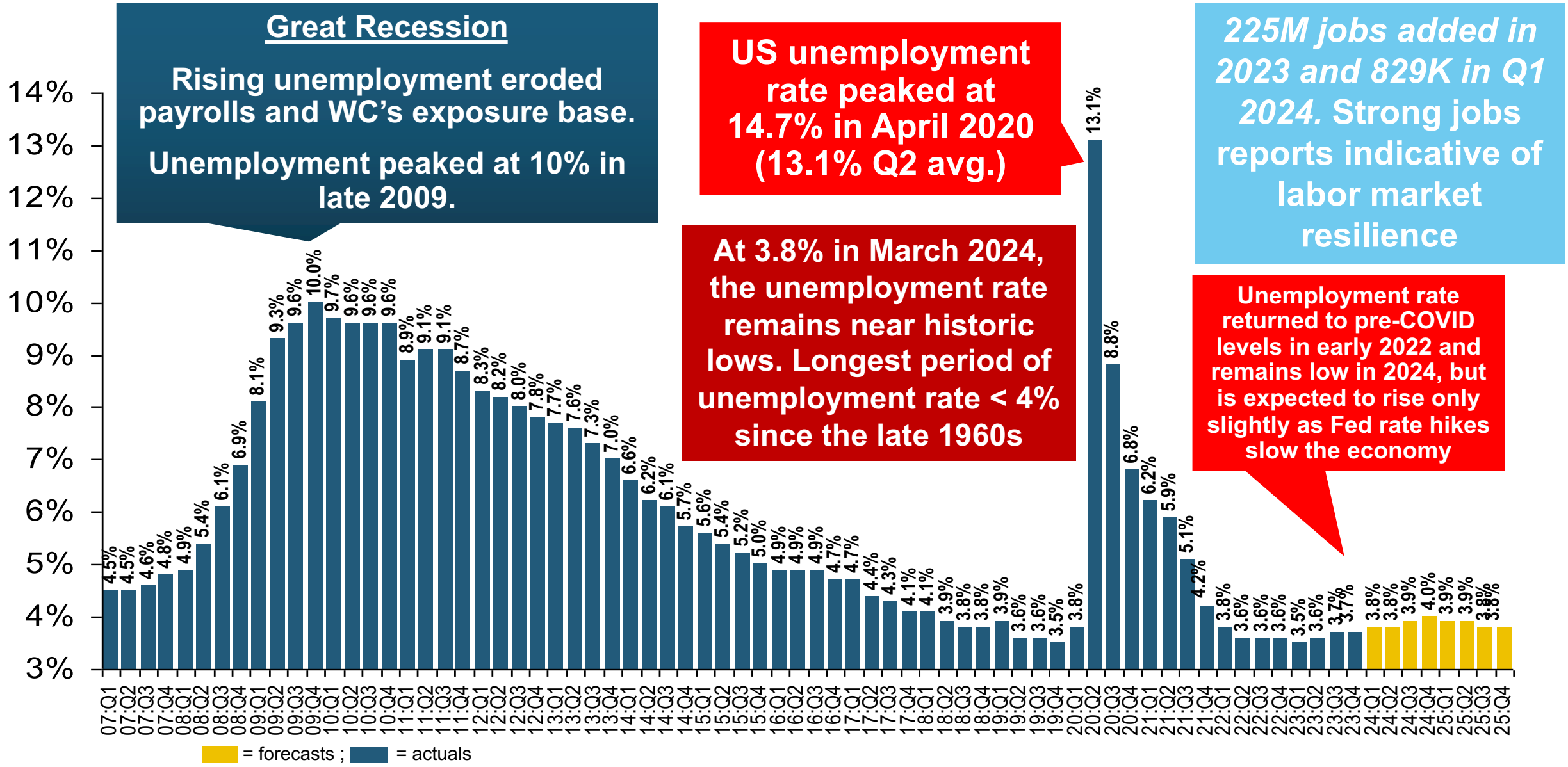


Demand for Insurance Increased Materially in 2021/22 During Recovery from the Pandemic—Particularly in Economically Sensitive Commercial Lines Such as WC. Premium growth will likely slow in 2023/24 as Economy Slows.

* Estimates/Forecasts from Wells Fargo Securities.

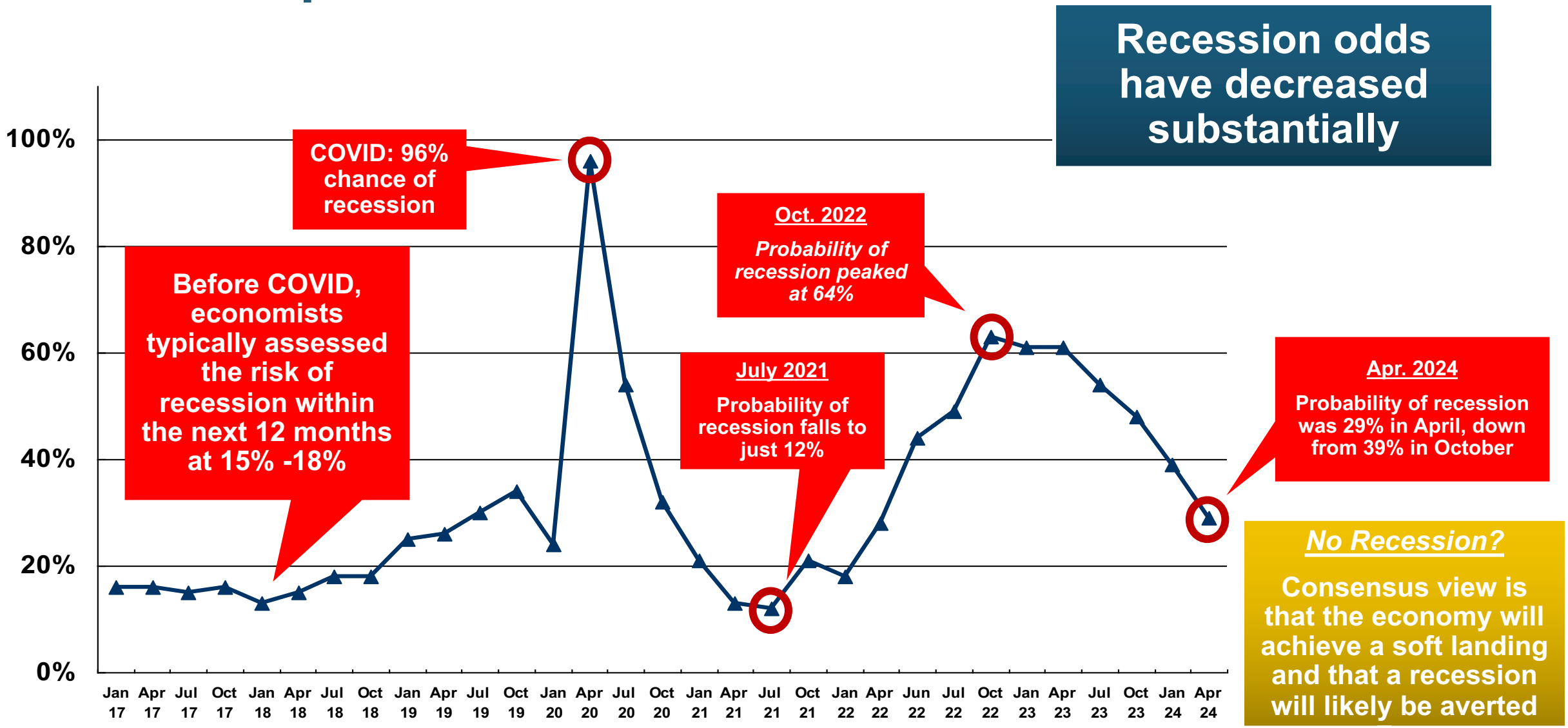
Source: US Department of Commerce, Wells Fargo Securities (4/24); Center for Risk and Uncertainty Management, University of South Carolina.

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



Sources: US Bureau of Labor Statistics; Wells Fargo Securities (4/24 edition); Risk and Uncertainty Management Center, University of South Carolina.

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



*April 2024 survey included the responses of 69 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.

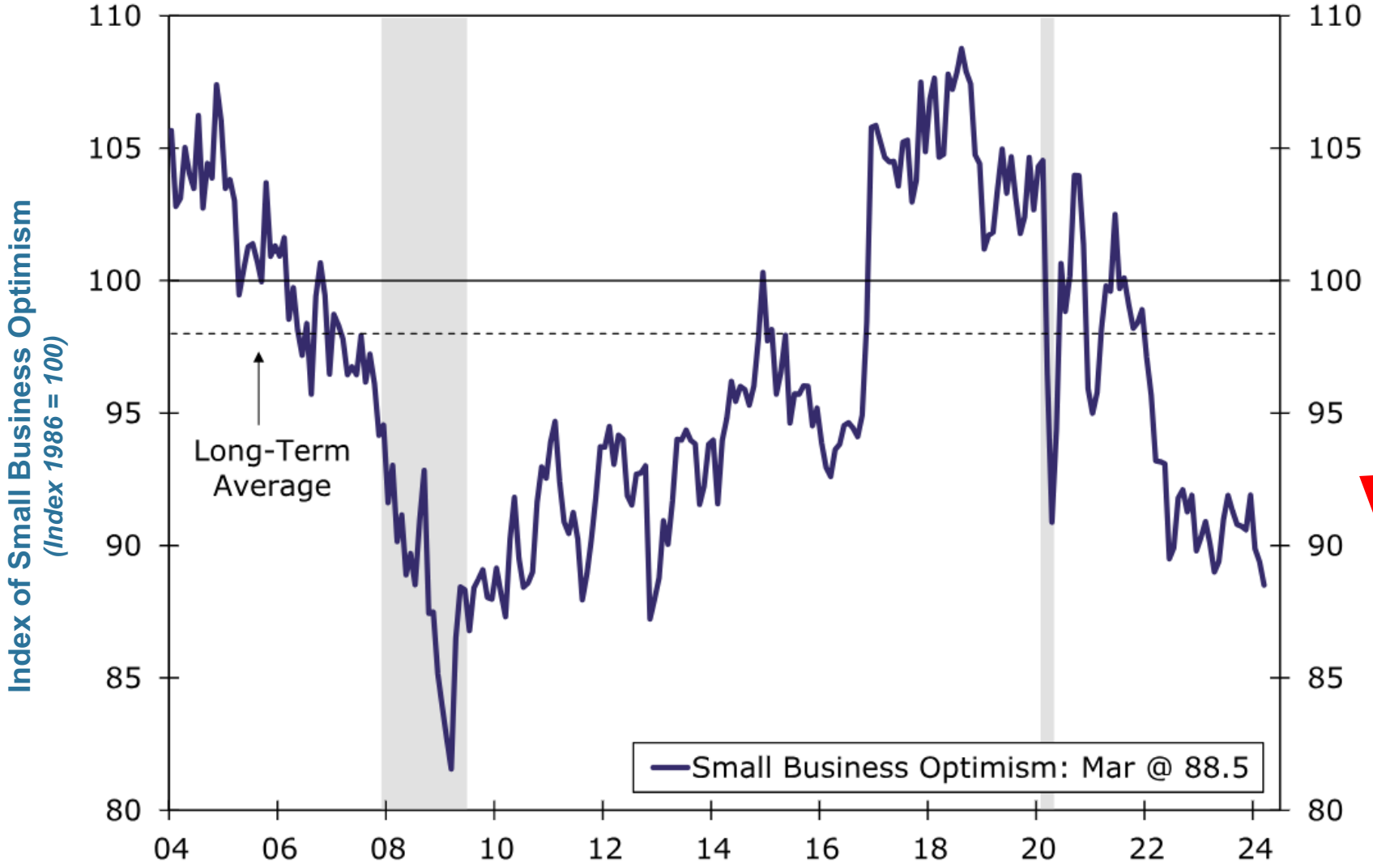
Hard Landing

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.

Small Business Sentiment: Optimism Remains Low

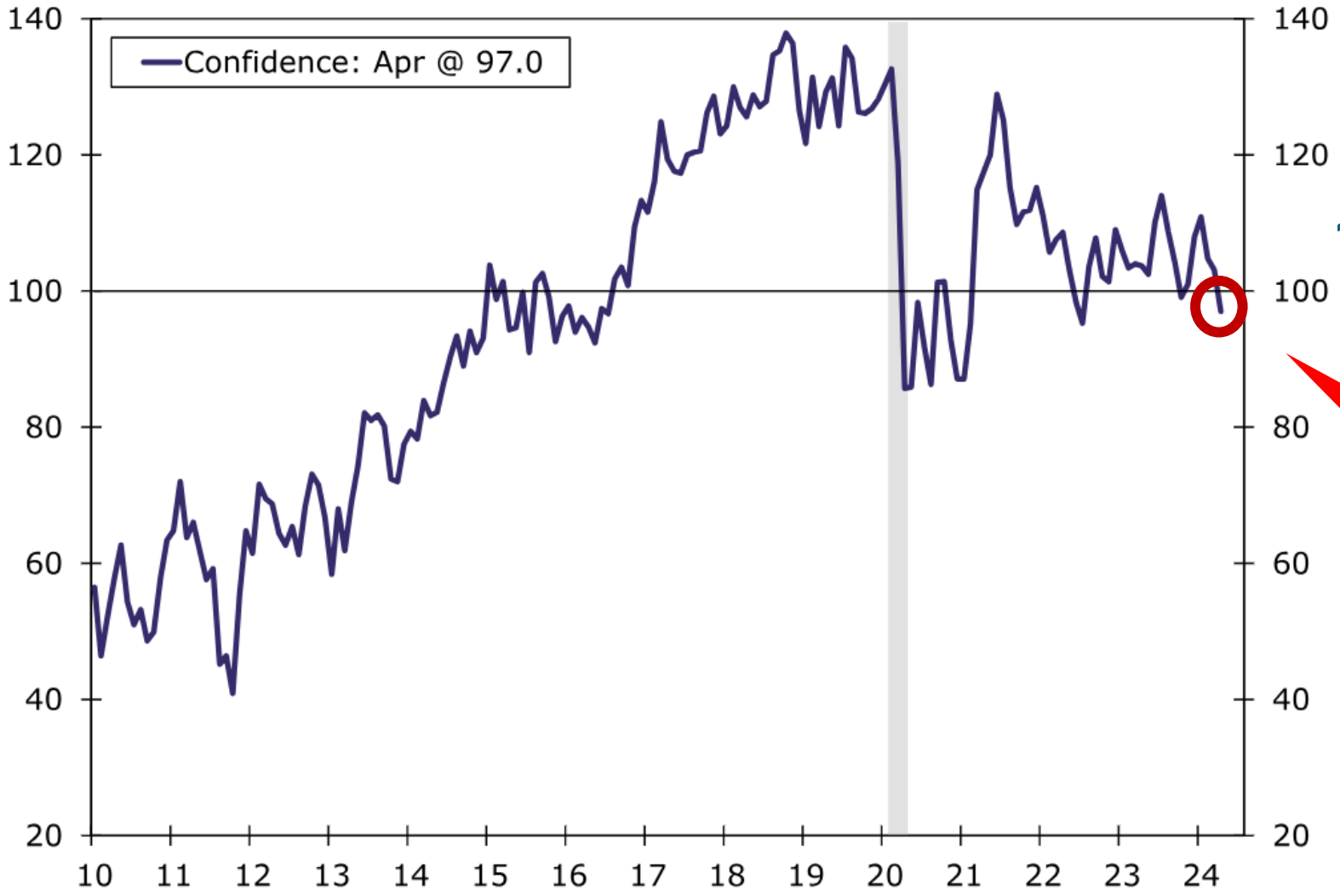


Small businesses today are even *more* pessimistic than they were during the depths of pandemic, despite strong spending by consumers, easing labor market issues, lower inflation and receding odds of a reciession.

Business owner concerns have pivoted from recession worries and to cost concerns related to materials, labor and financing

Source: NFIB and Wells Fargo Economics.

Consumer Confidence: Holding Steady Amid Strong Job Growth, Lower Inflation

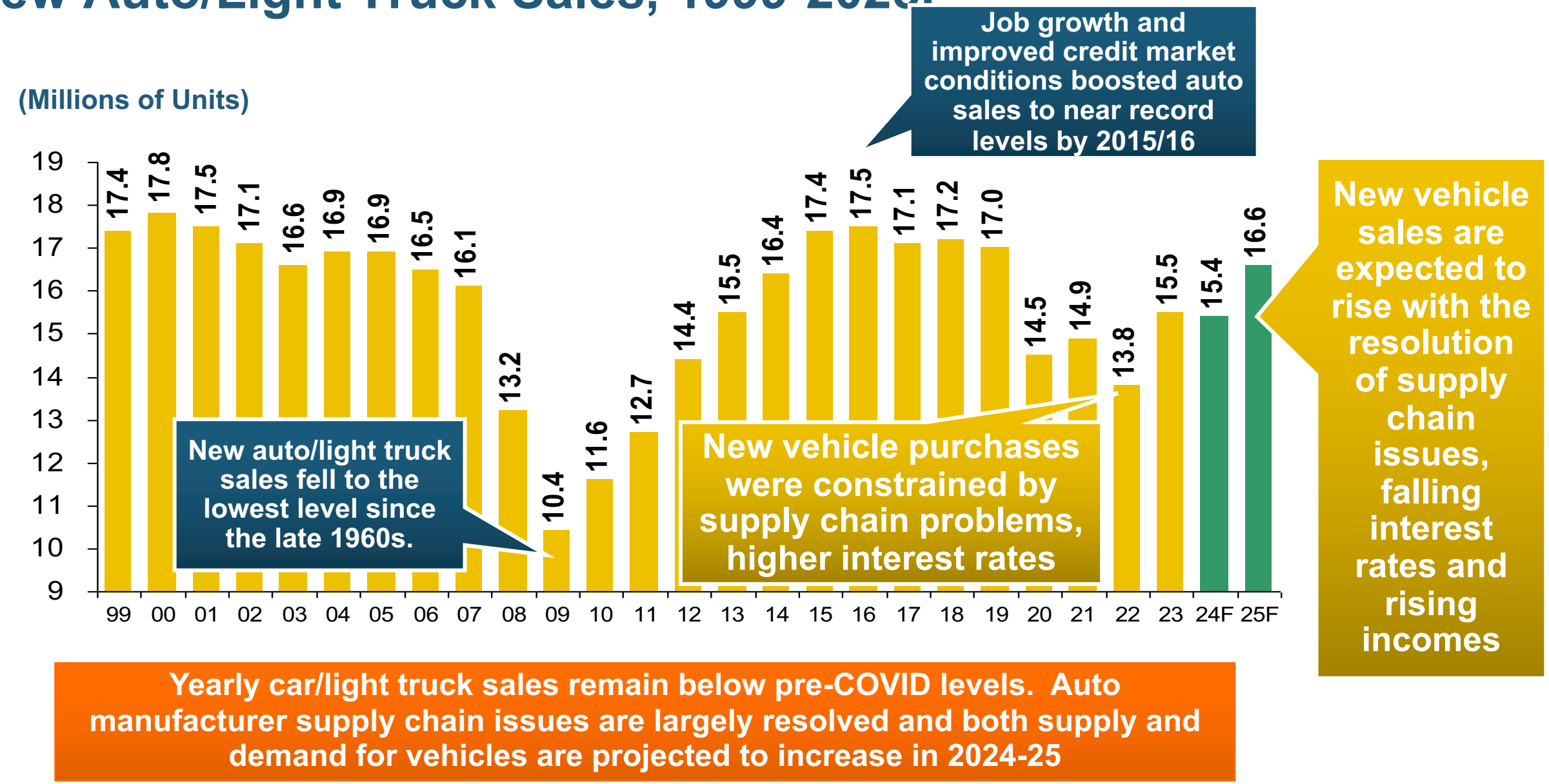


Consumers are generally optimistic about their current situation but are very pessimistic about the future

Sentiment was driven down in early 2024 due to lingereing inflation (esp. rising gas prices) and concern about expected future labor market conditions

Source: The Conference Board and Wells Fargo Economics.

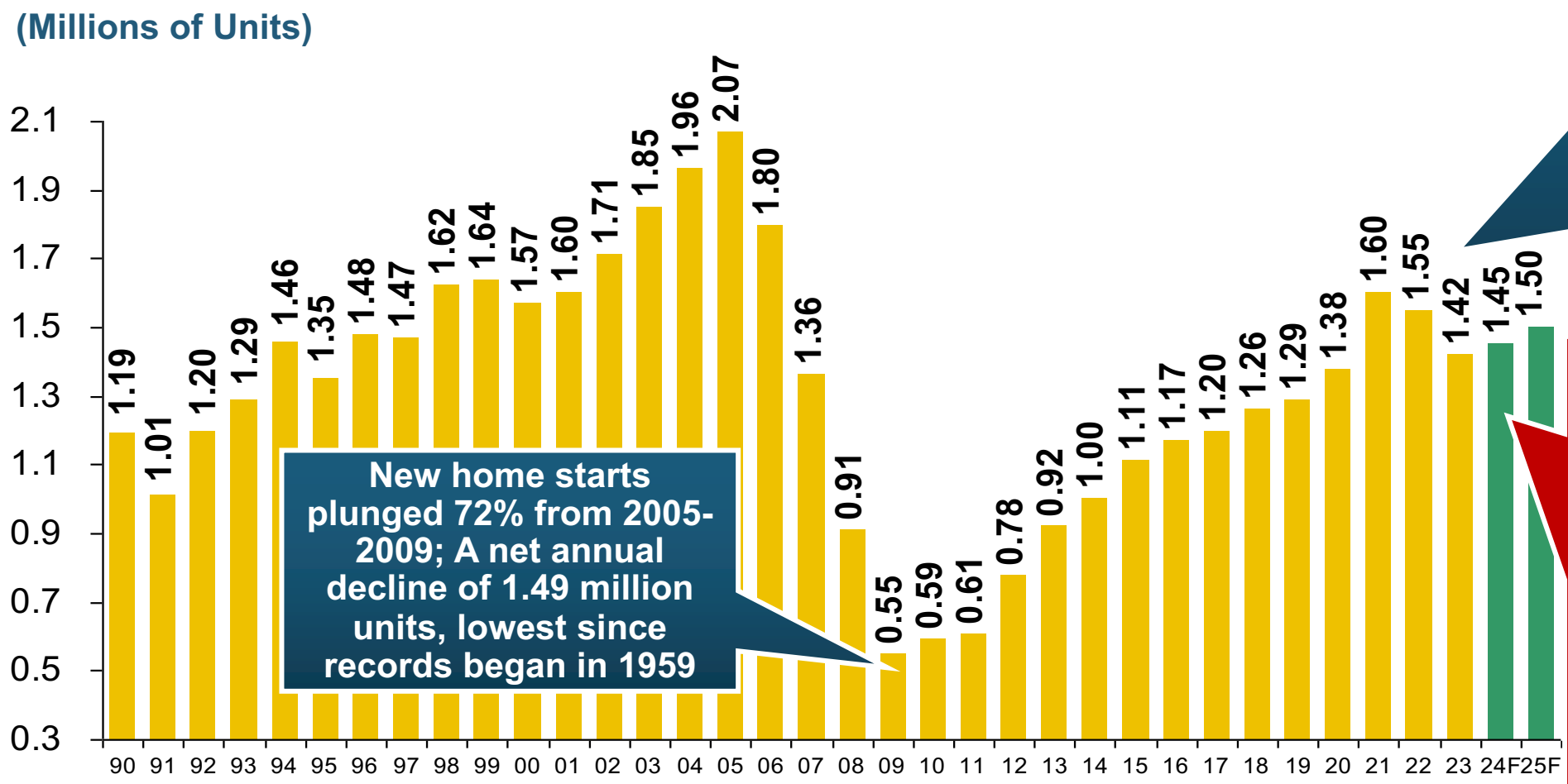
New Auto/Light Truck Sales, 1999-2025F



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 (4/24 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

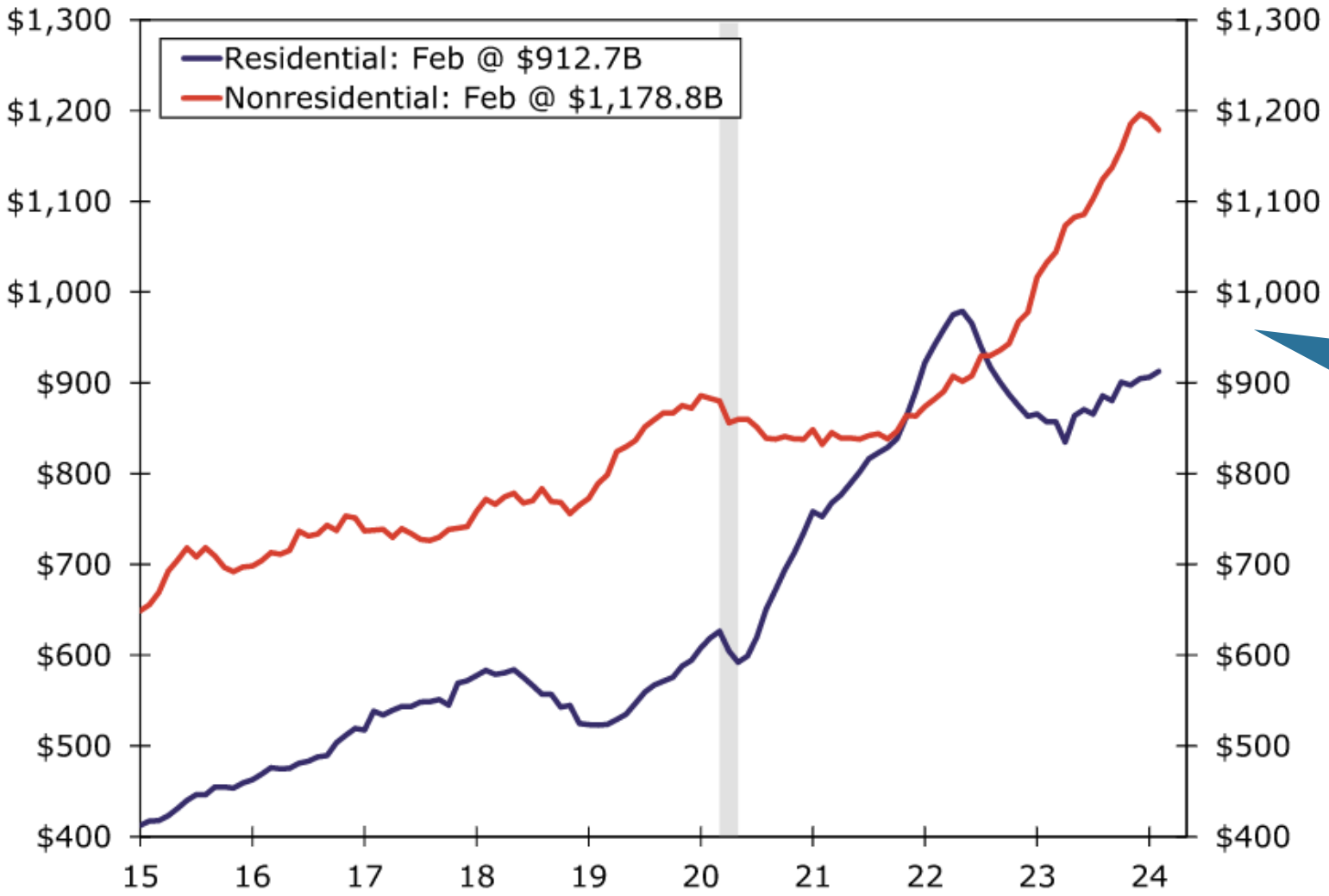
High prices, rising mortgage rates, tempered new home construction activity through 2023, though low inventory of existing homes is propping up demand. Falling mortgage rates should prop up demand in 2024-2025

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 (4/24 for 2023F-25F); Univ. of South Carolina, Center for Risk and Uncertainty Management..

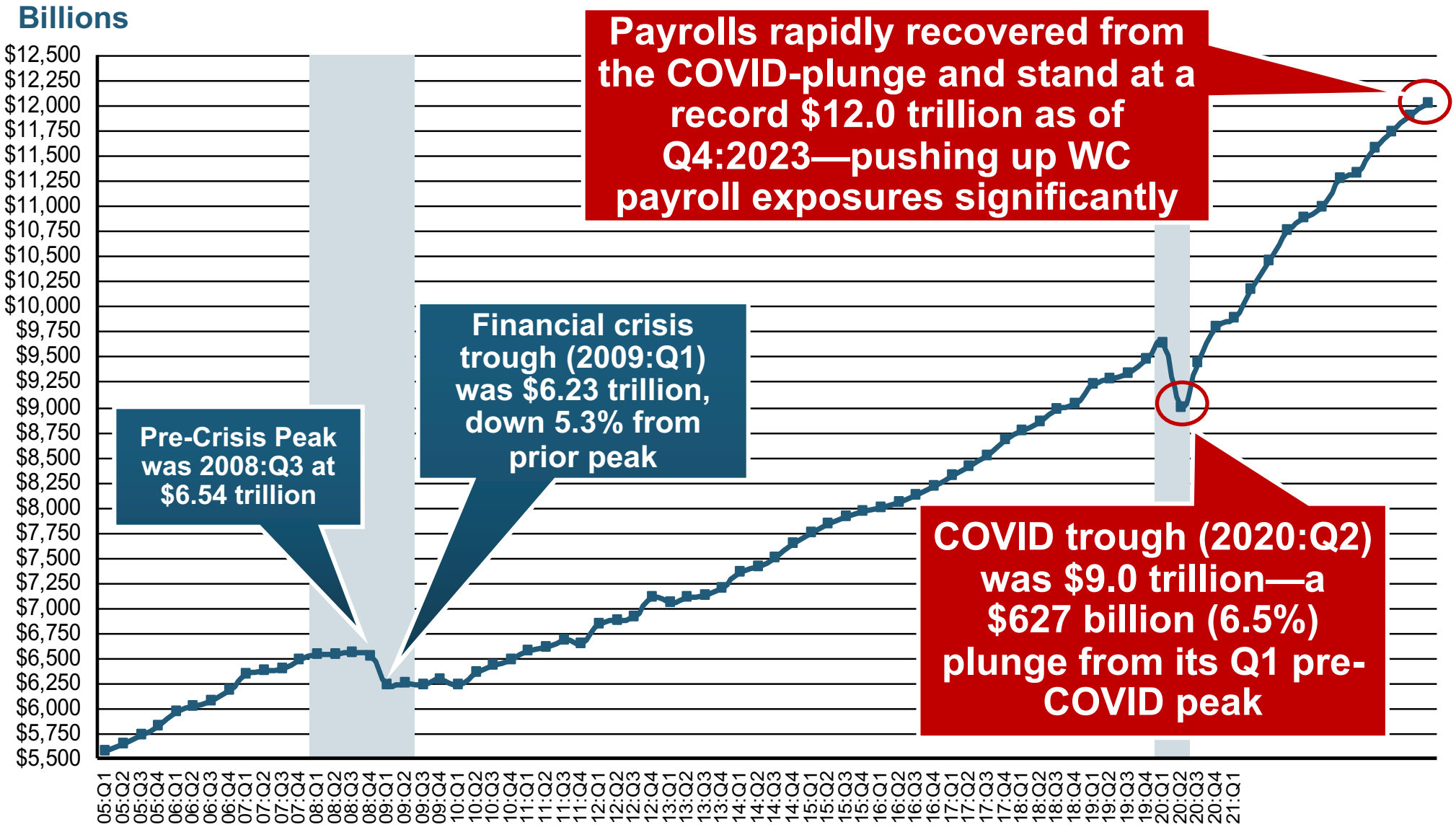
Construction Activity: Higher Interest Rates Leading to a Slowdown in Nonresidential, but No Crash Expected



Construction activity remains somewhat resilient despite higher financing costs, supporting growth in many lines of insurance

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

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005:Q1–2023:Q4



Growth rates

2023: 6.2%
2022: 7.8%
2021: 9.0%
2020: 1.5%
2019: 4.8%
2018: 4.6%
2017: 4.5%
2016: 3.4%
2015: 3.2%
2014: 4.9%
2013: 5.2%
2012: 2.3%
2011: 3.9%
2010: 5.5%

Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.
Sources: http://research.stlouisfed.org/fred2/series/WASCUR; National Bureau of Economic Research (recession dates).

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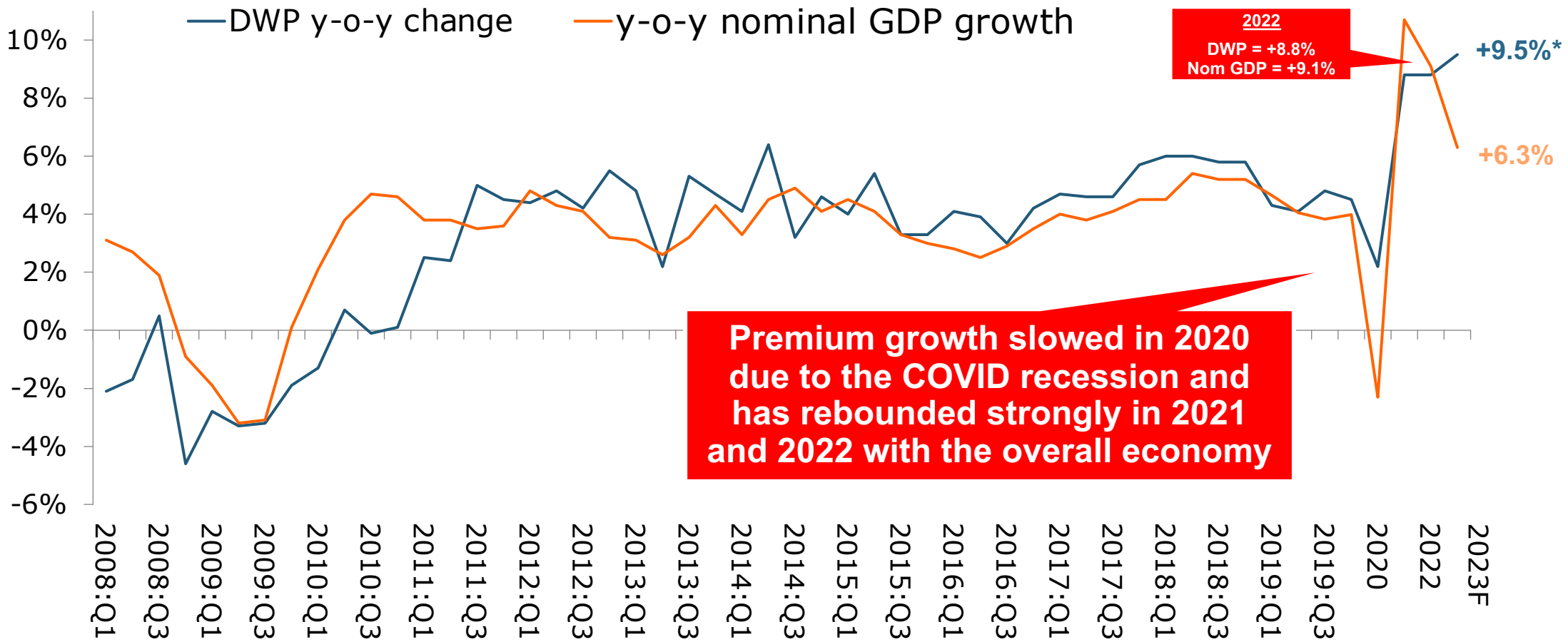
The Economy Drives P/C Insurance Industry Premiums: 2006:Q1–2023*

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



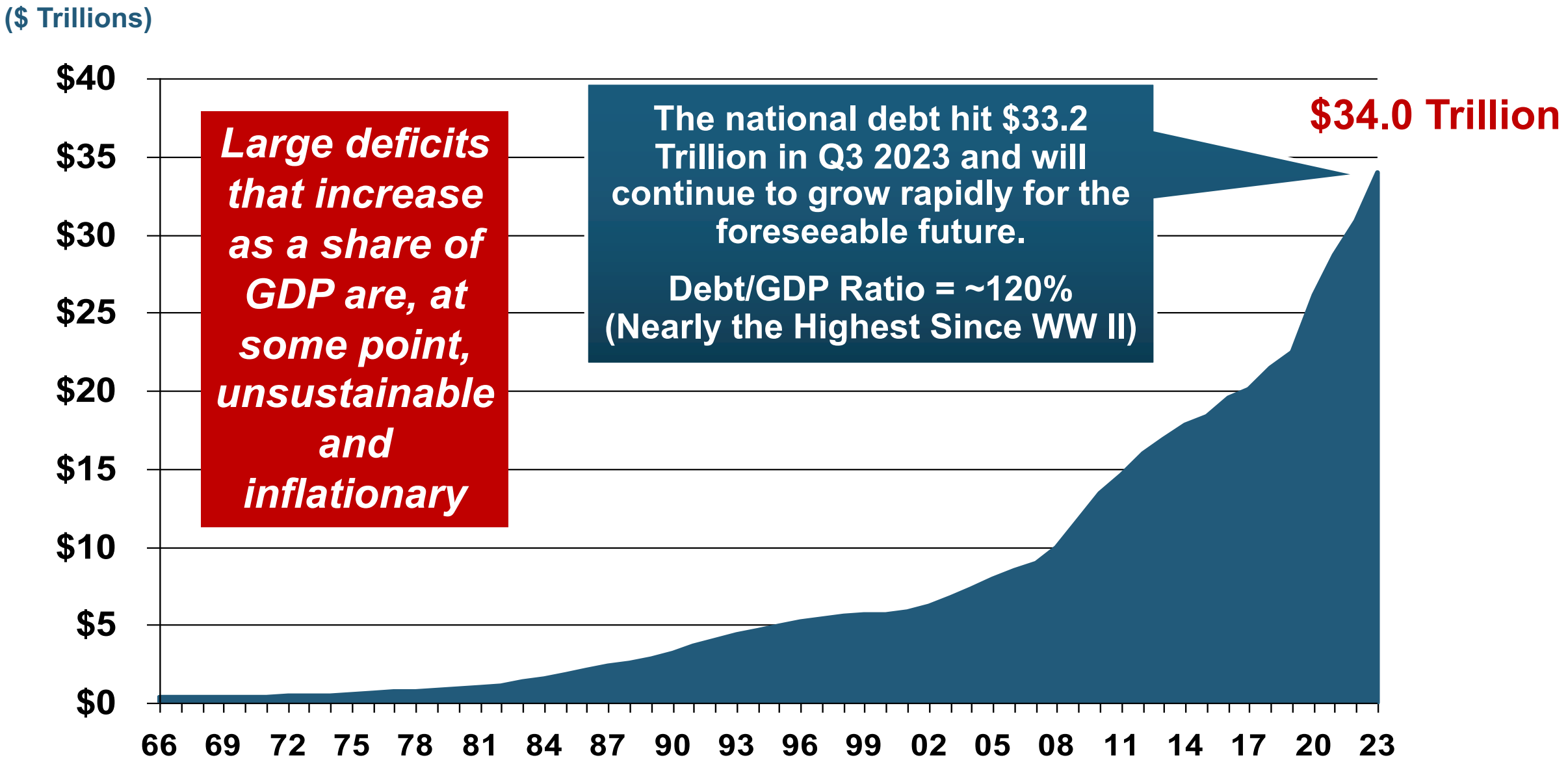
Premium growth slowed in 2020 due to the COVID recession and has rebounded strongly in 2021 and 2022 with the overall economy

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

*2020-23 figures are annual.

Sources: SNL Financial; U.S. Commerce Dept., Bureau of Economic Analysis; ISO;, Swiss Re (2023F) I.I.I.; Risk and Uncertainty Management Center, University of South Carolina.

U.S. National Debt, 1966 – 2023:Q4



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

The Inflation Threat

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

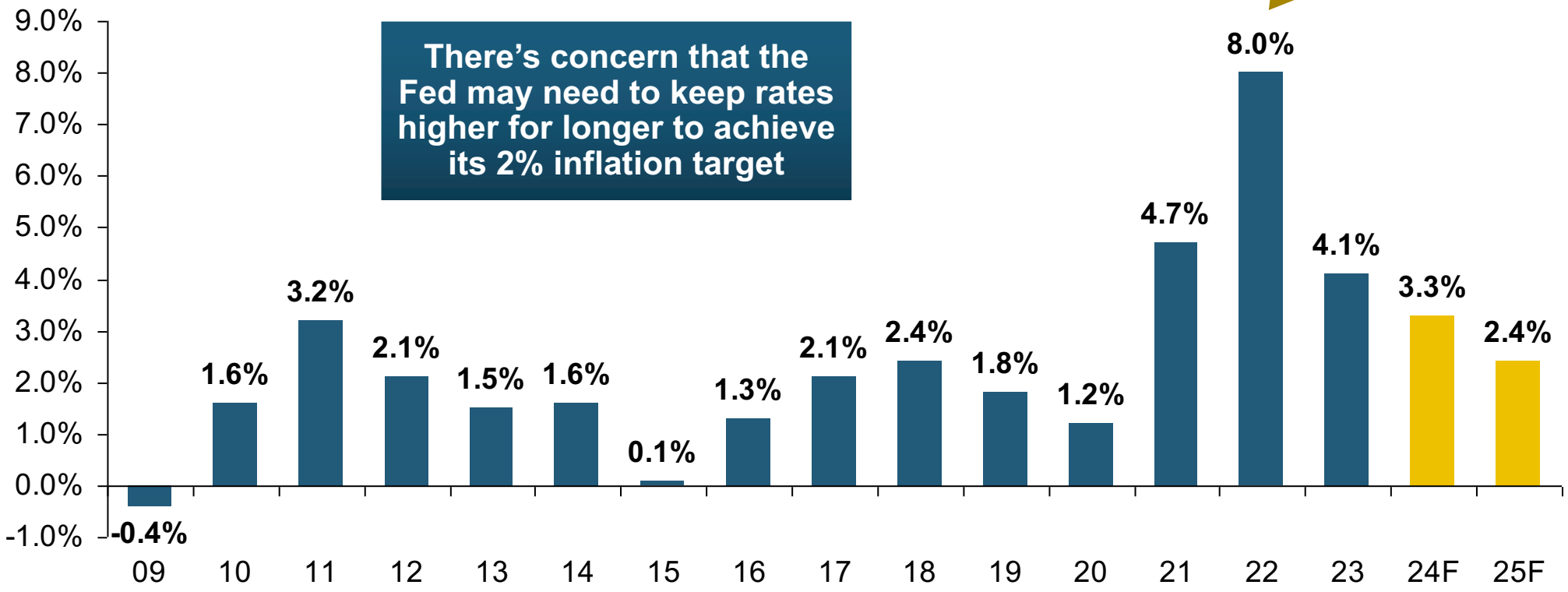
And a Major Concern of Insurers

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

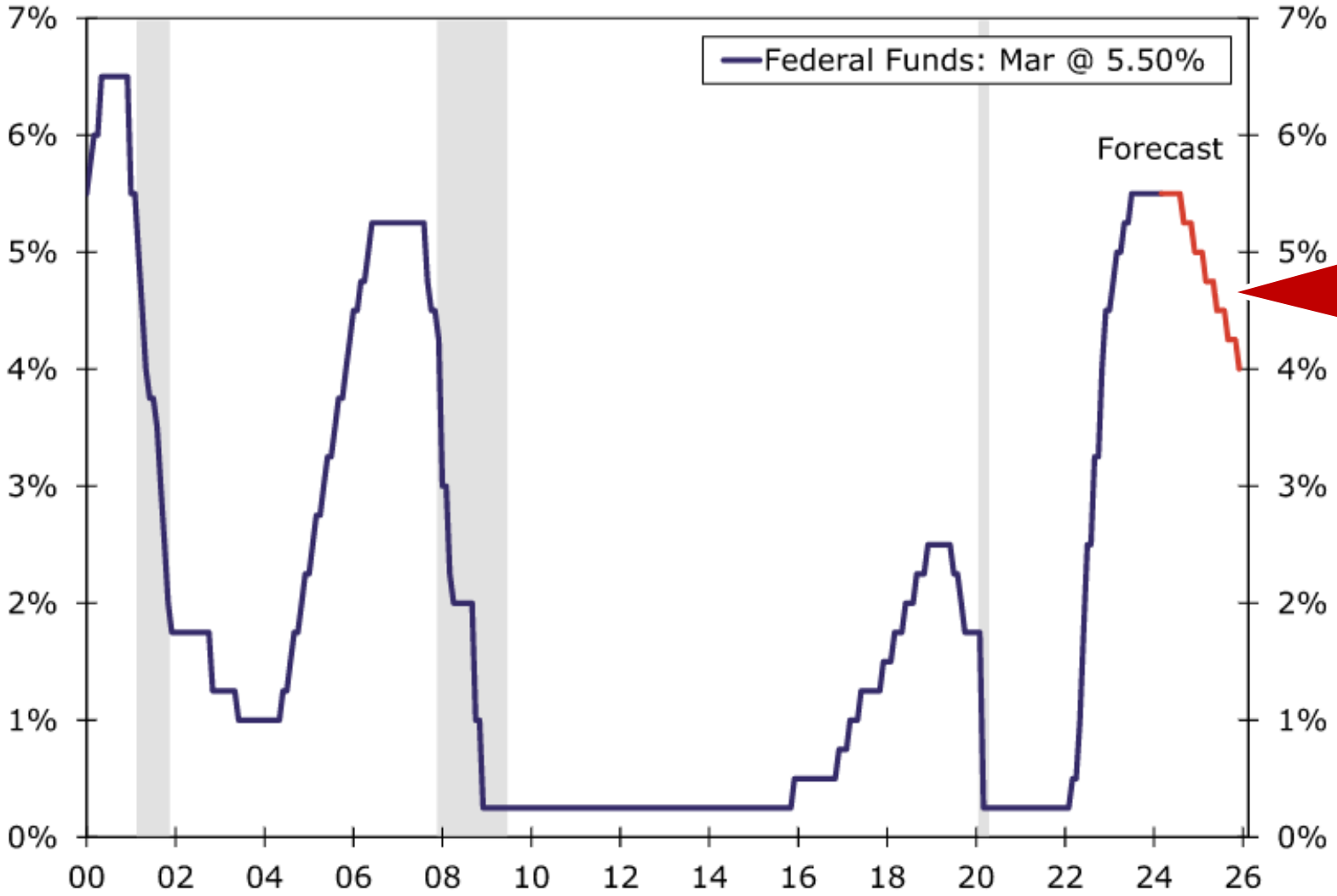
Insurer Concerns About Inflation

- **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 (4/24); USC Center for Risk and Uncertainty Management.

Federal Funds Target Rate, 2000 – 2025F



Stubborn inflation implies that the Fed is unlikely to reduce interest rates before September 2024

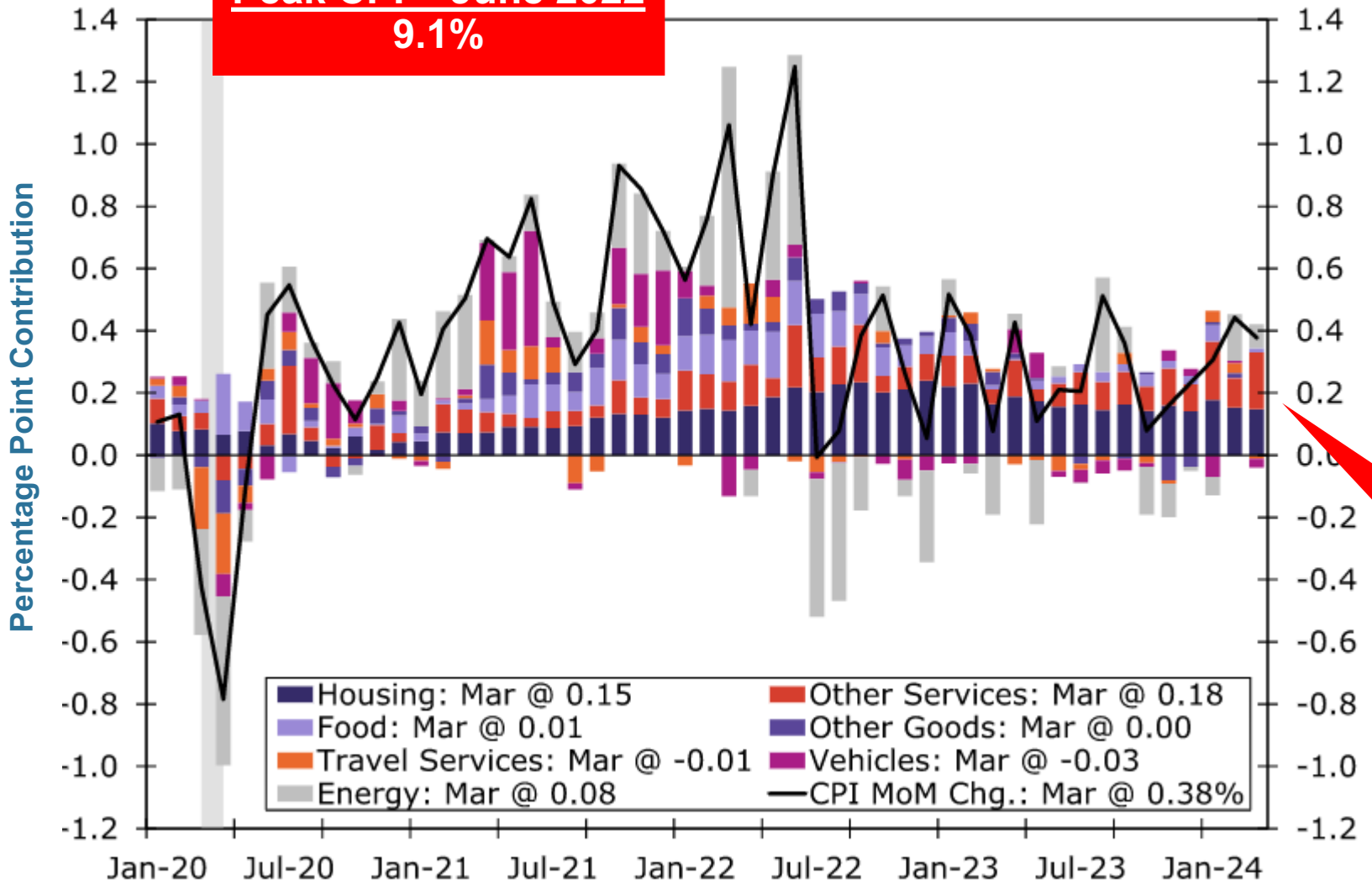
2024: 50bps → 5.00%

2025: 100bps → 4.00%

Source: Federal Reserve Board and Wells Fargo Securities.

Contribution to CPI by Category: March 2024

Peak CPI = June 2022
9.1%

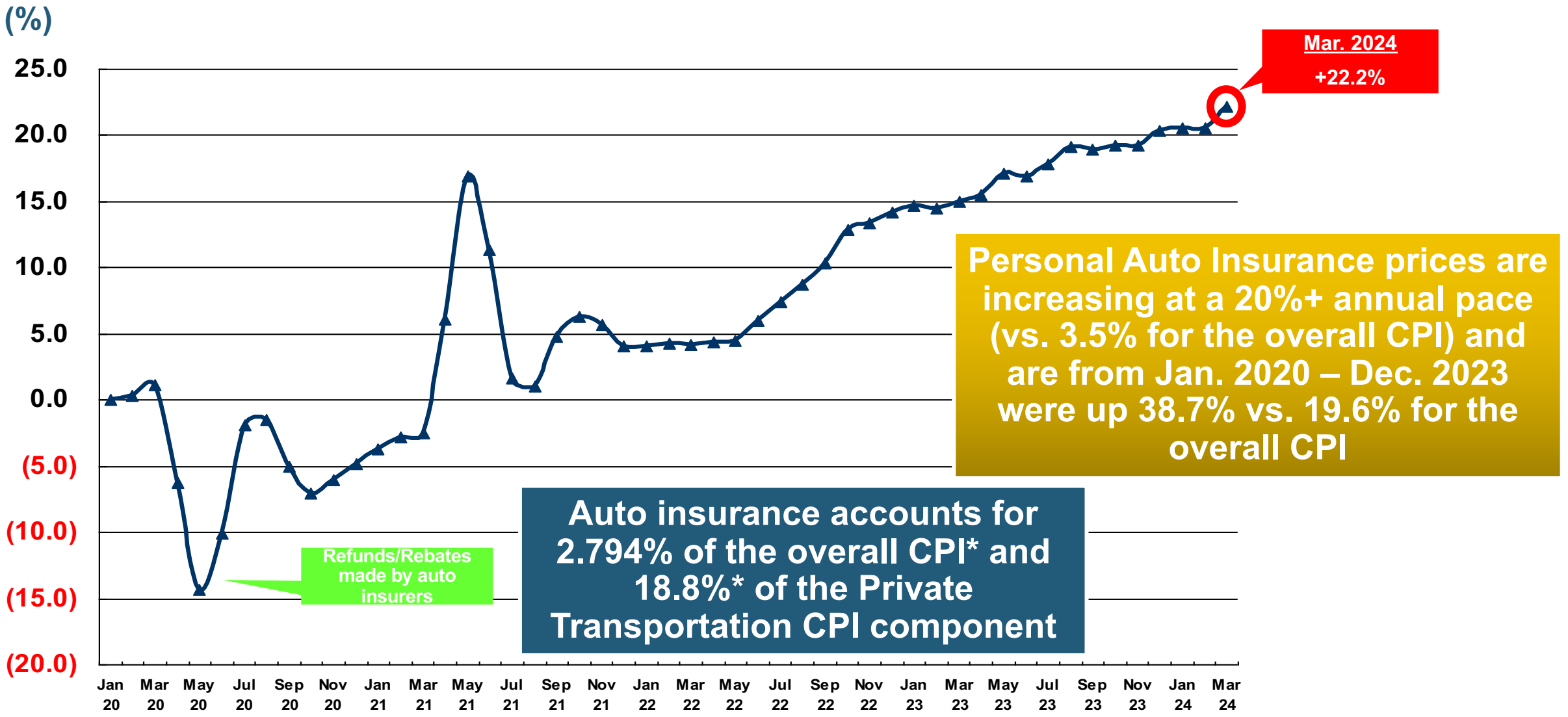


Prices were up 3.5% in March 2024 vs. a year ago—but down from the June 2022 peak of 9.1% and 4.1% for all of 2023. "Core Services" such as Shelter, Medical Care, Travel, Personal Services, Communication and *Insurance* are now the major drivers of consumer prices

Housing (Shelter)and Other Services (which includes auto insurance) accounted for the majority of the increase in March

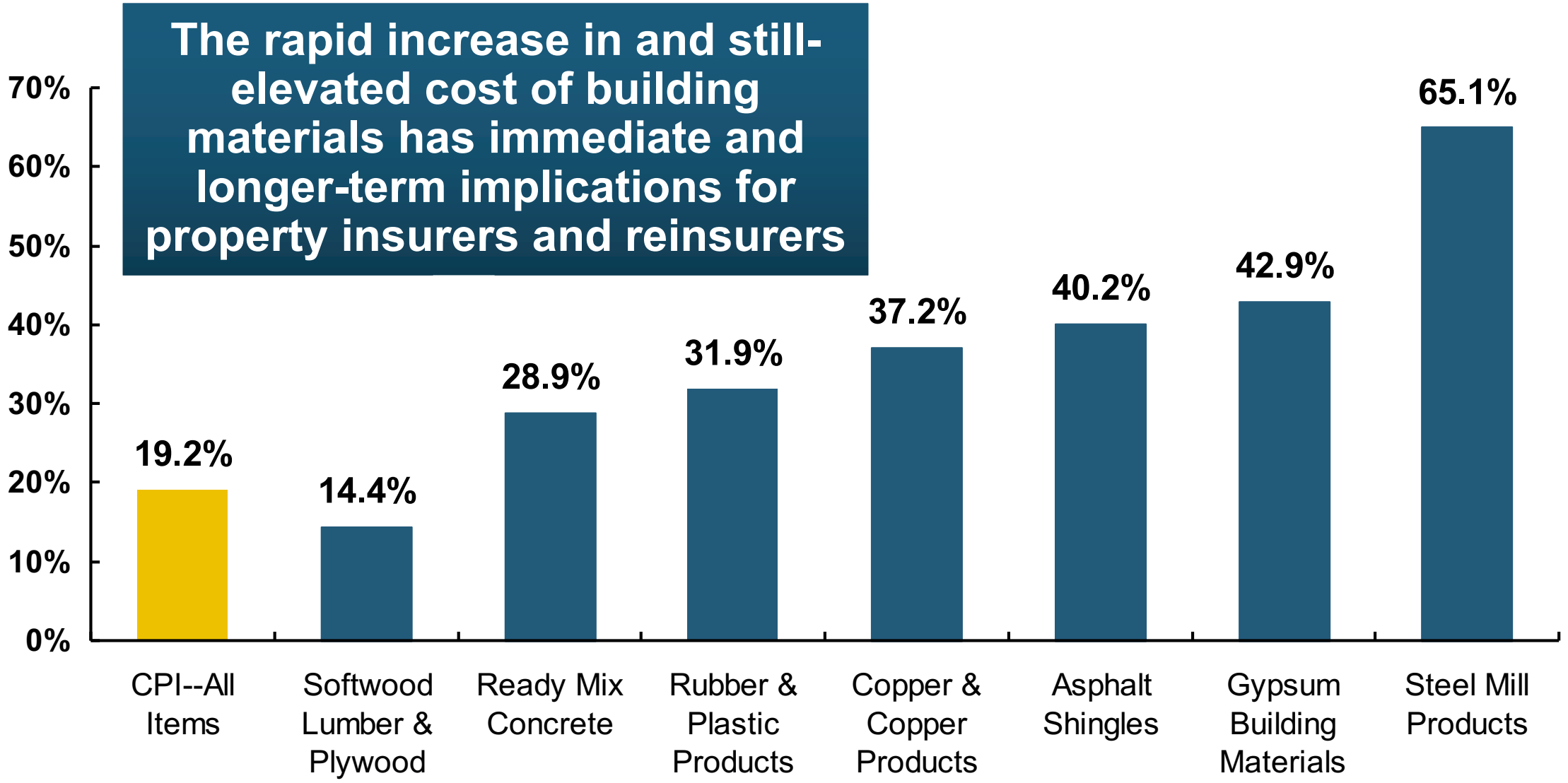
Source: U.S. Department of Commerce and Wells Fargo Economics.

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



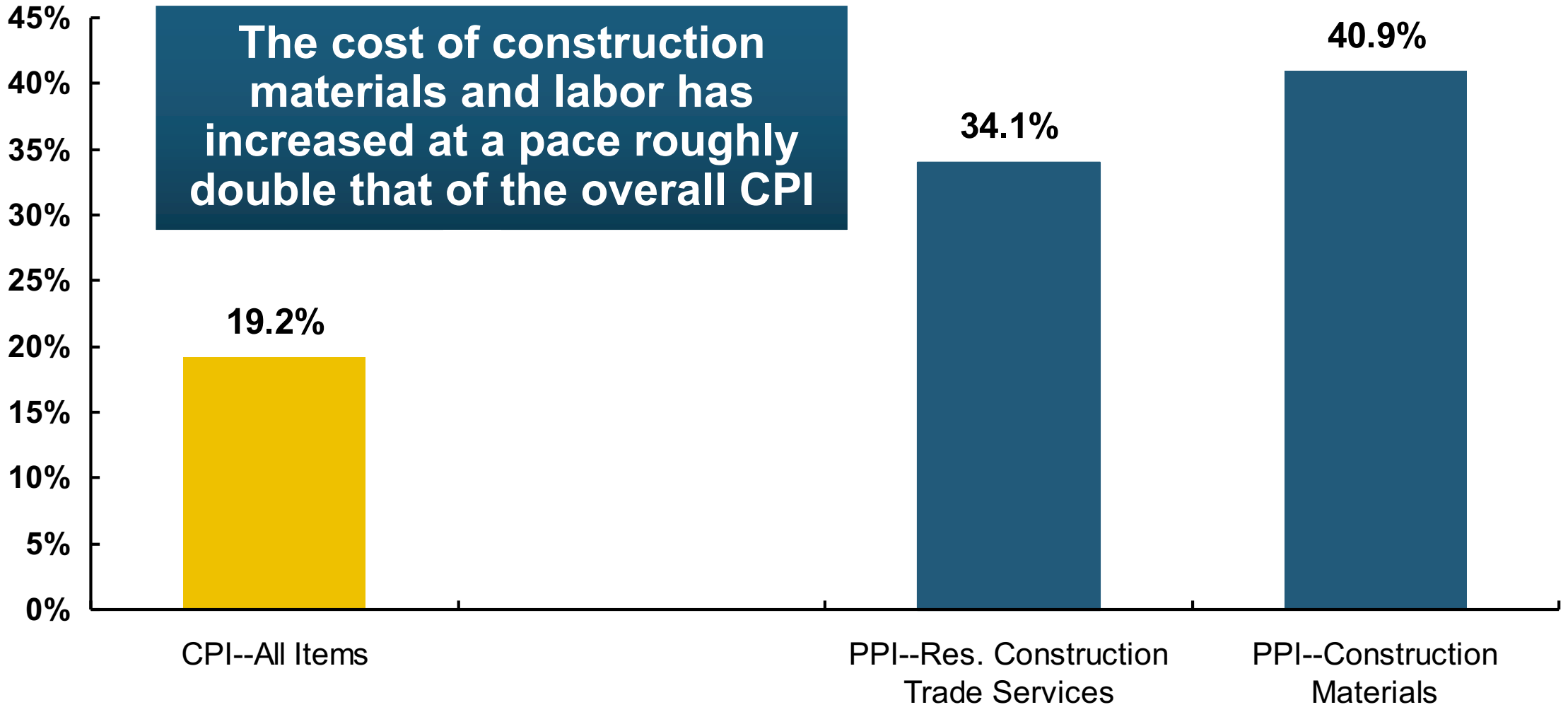
*Weighting as of Dec. 2023: https://www.bls.gov/cpi/factsheets/motor-vehicle-insurance.htm.
Sources: US Bureau of Labor Statistics, accessed at: https://data.bls.gov/timeseries/CUUR0000SETE. Risk and Uncertainty Management Center, University of South Carolina.

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



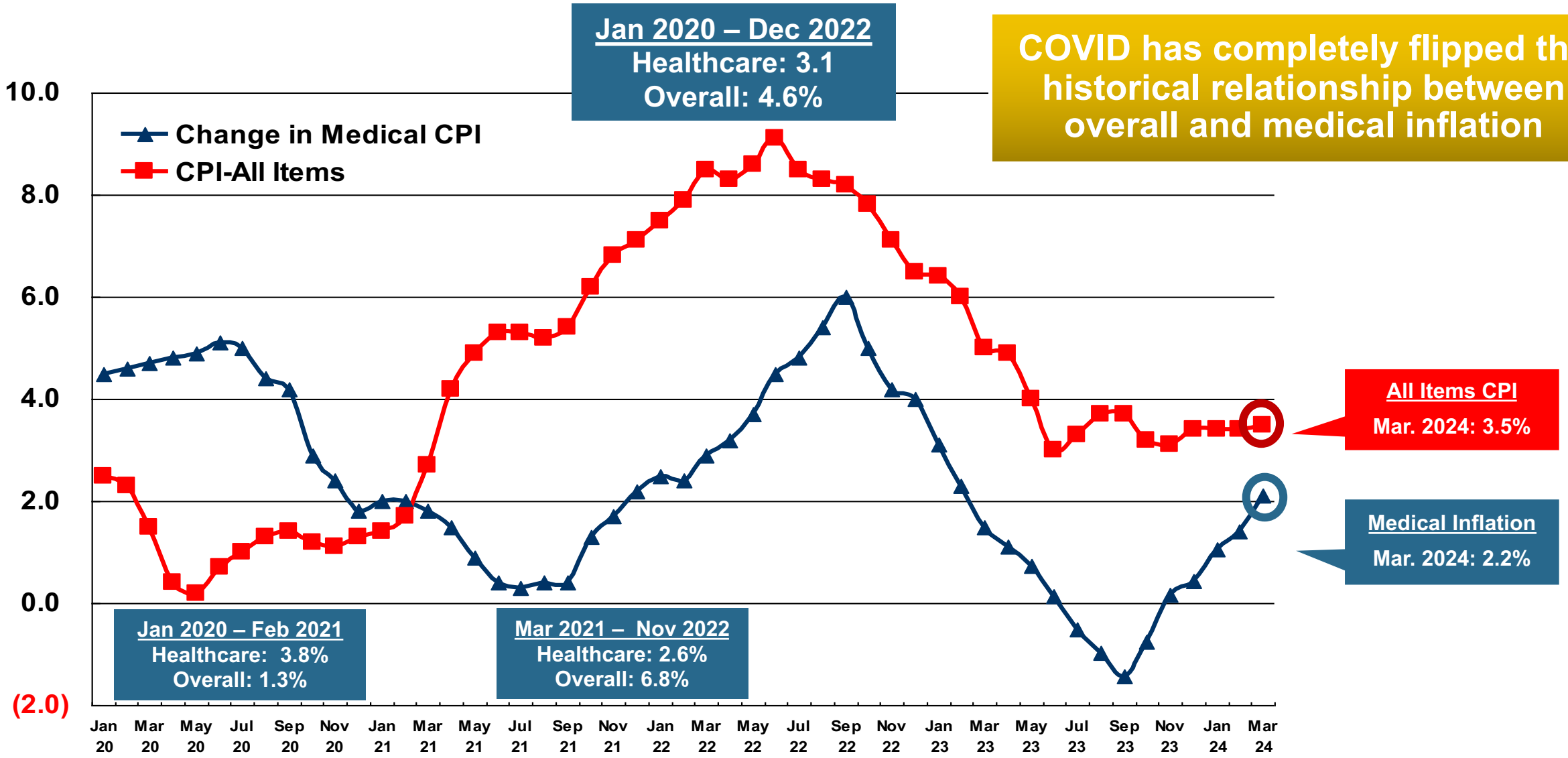
Source: U.S. Bureau of Labor Statistics.

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



Source: U.S. Bureau of Labor Statistics.

Medical Cost Inflation vs. Overall CPI Since COVID, Jan. 2020 – Mar. 2024 *(Percent Change from Year Ago)*



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

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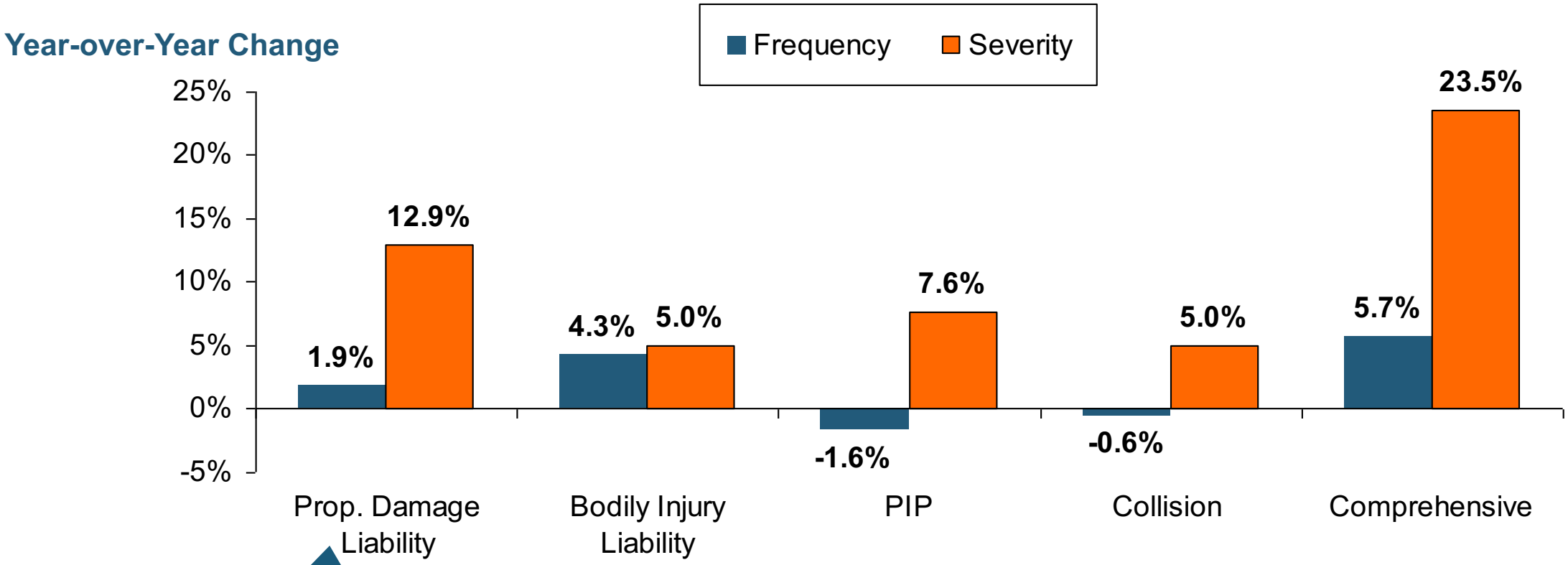
U.S. Private Passenger Auto Frequency & Severity Trends

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 Q3 2023

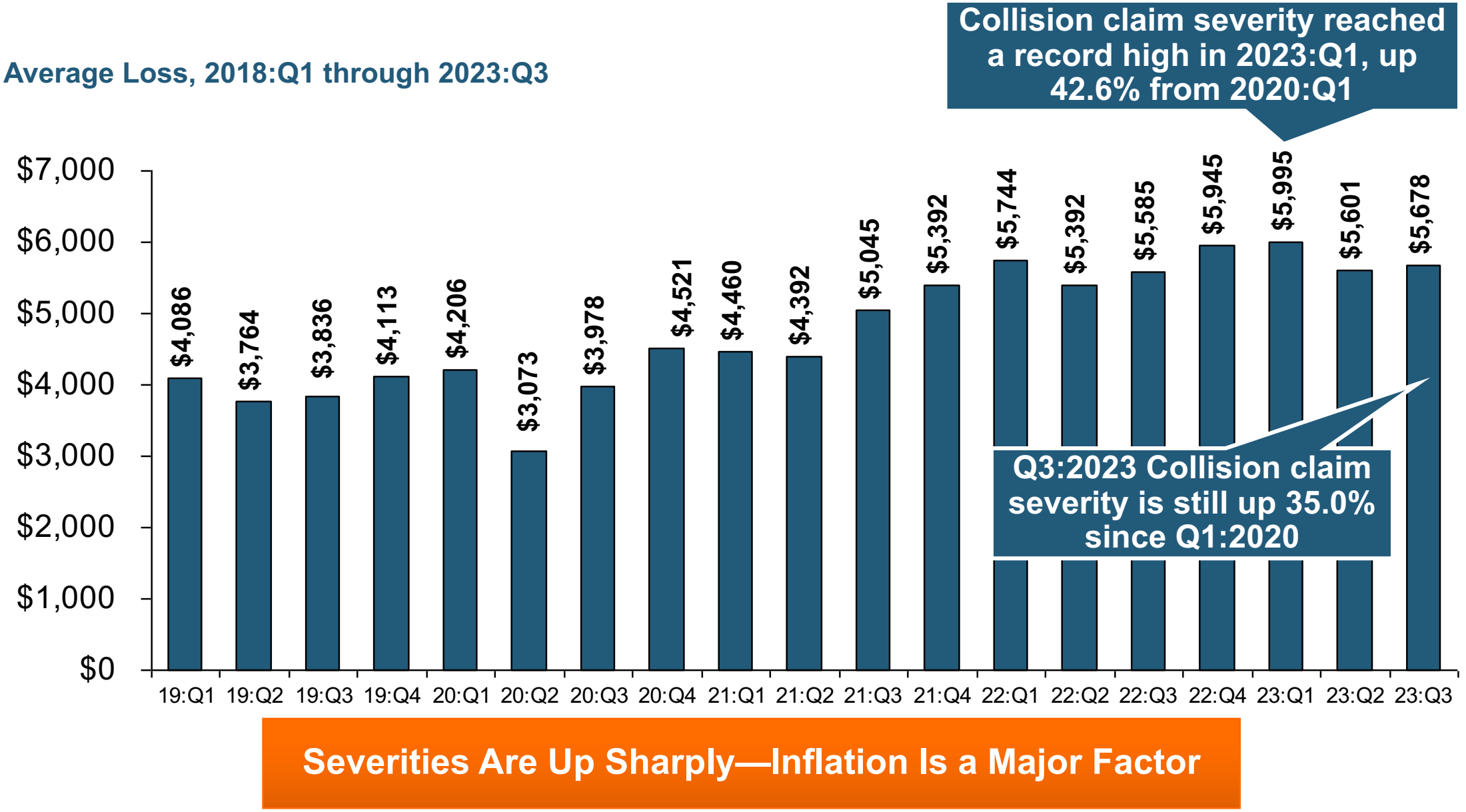


Recall: PD Liability claims were down 32.2% for the 4 qtrs. ending Q1 2021

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



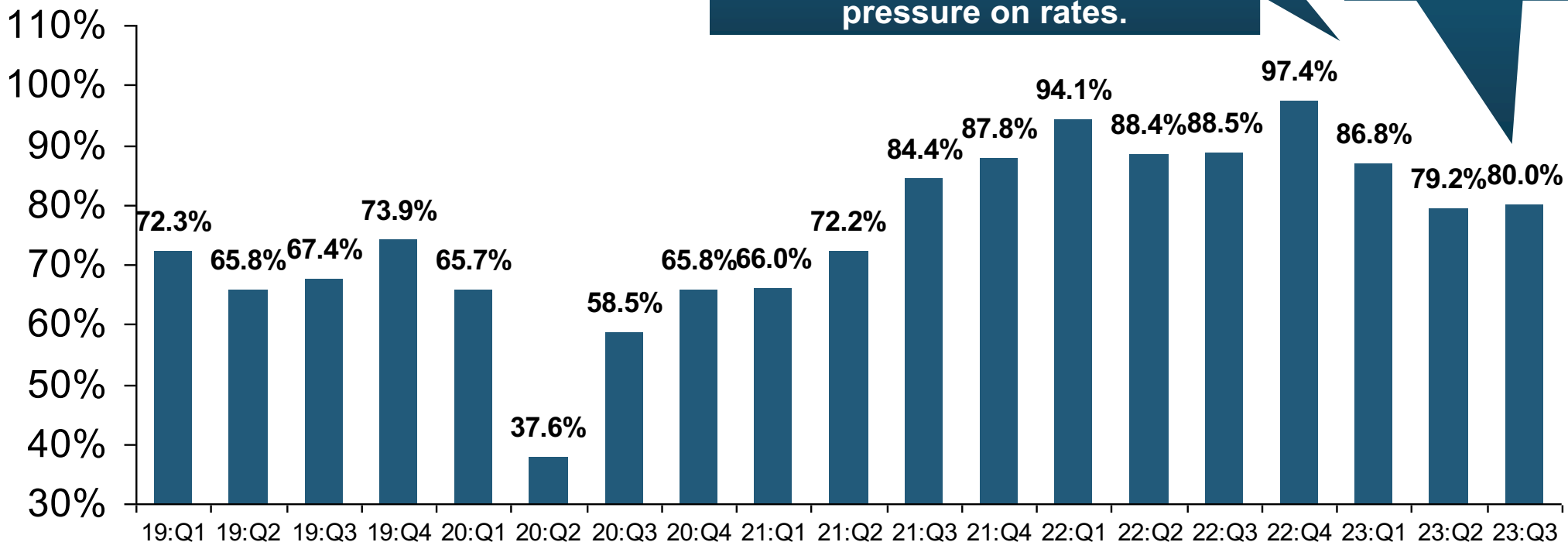
Severities Are Up Sharply—Inflation Is a Major Factor

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

The Personal Auto collision loss ratio at YE 2022 was up approximately 20 pts. compared to pre-pandemic levels. The upward trend has put significant pressure on rates.

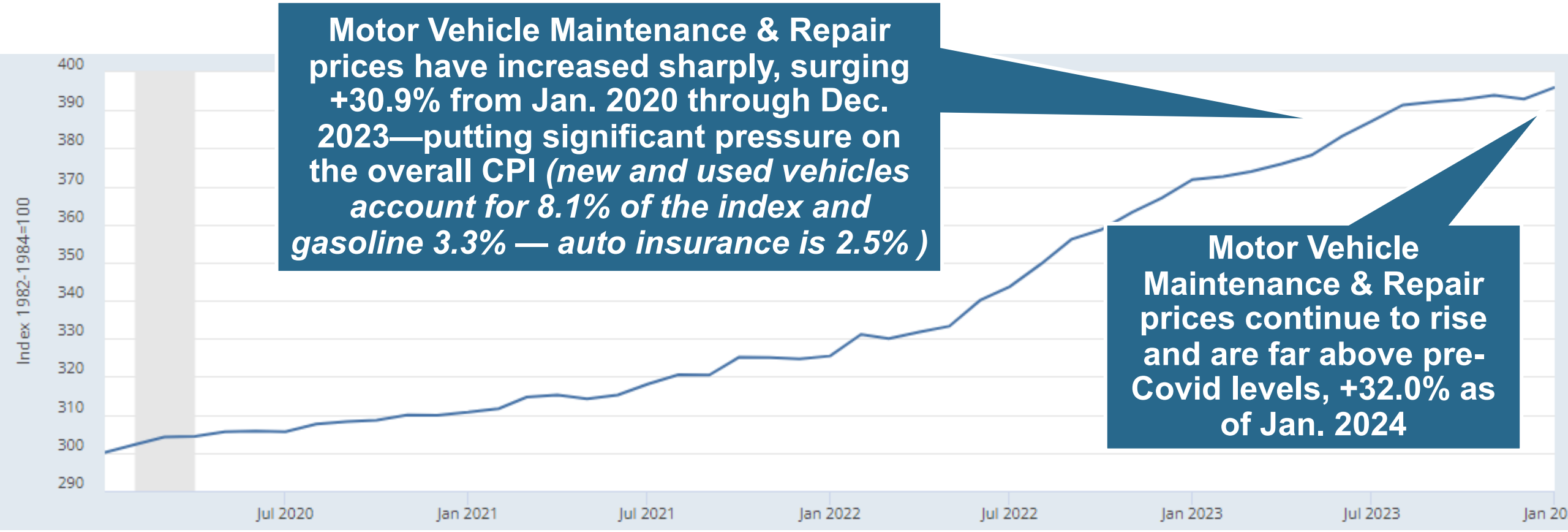
The Personal Auto collision loss ratio at Q3:2023 was still 10-13 pts. compared to pre-pandemic levels. Rate pressure remains.



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

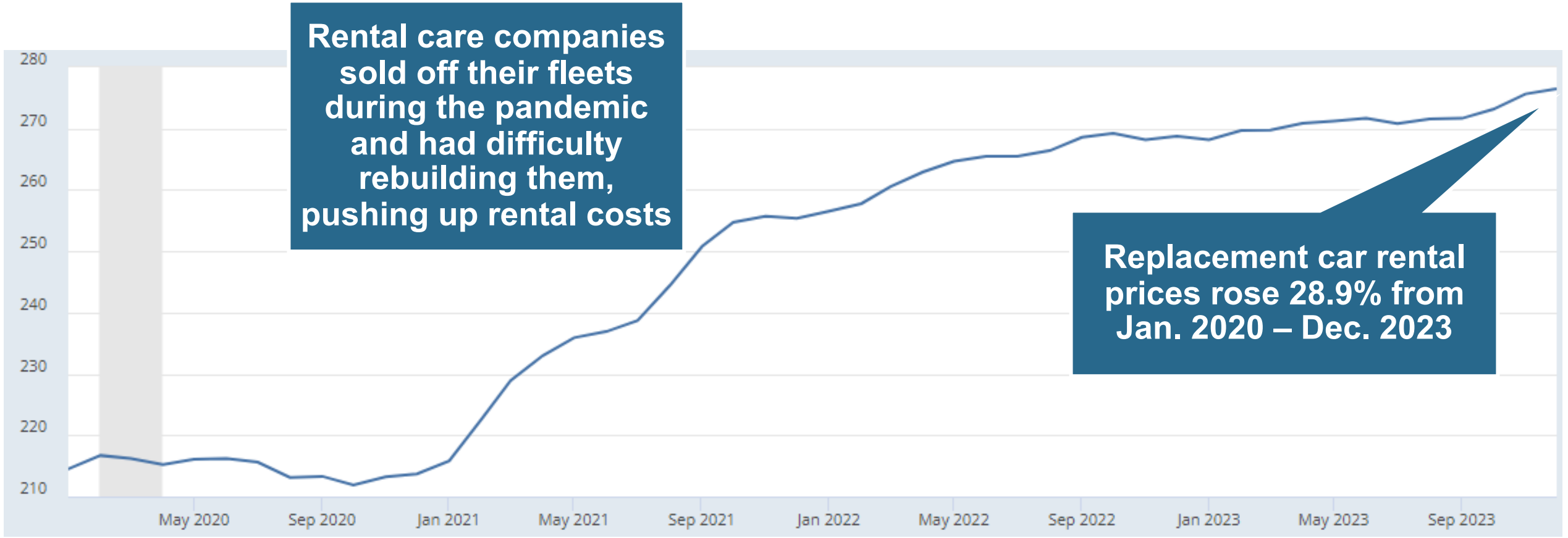
Source: Fast Track data; University of South Carolina, Risk & Uncertainty Management Center.

Price Index Changes for Motor Vehicle Maintenance & Repair, Jan. 2020 – Jan. 2024



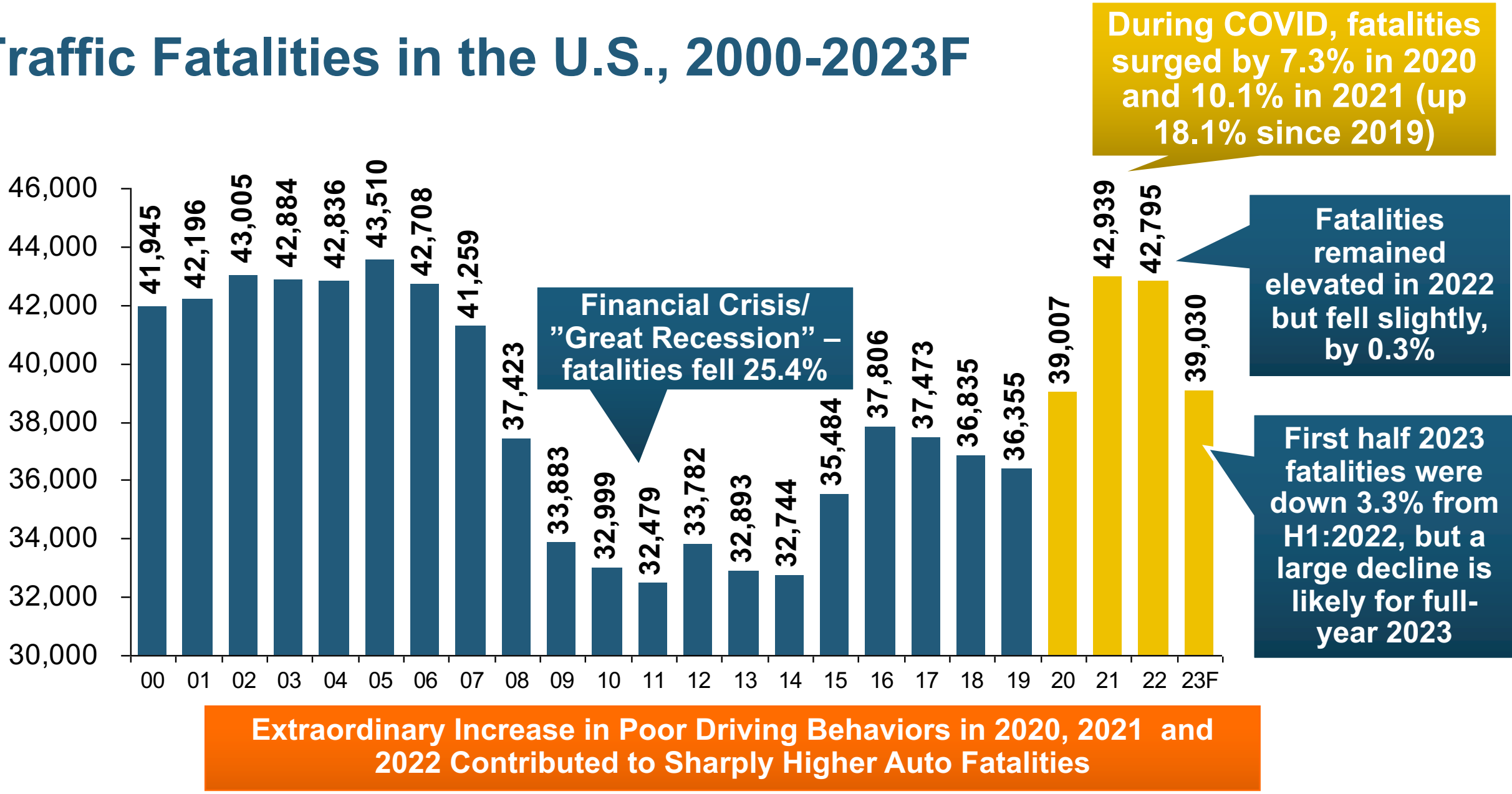
Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

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



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.

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).

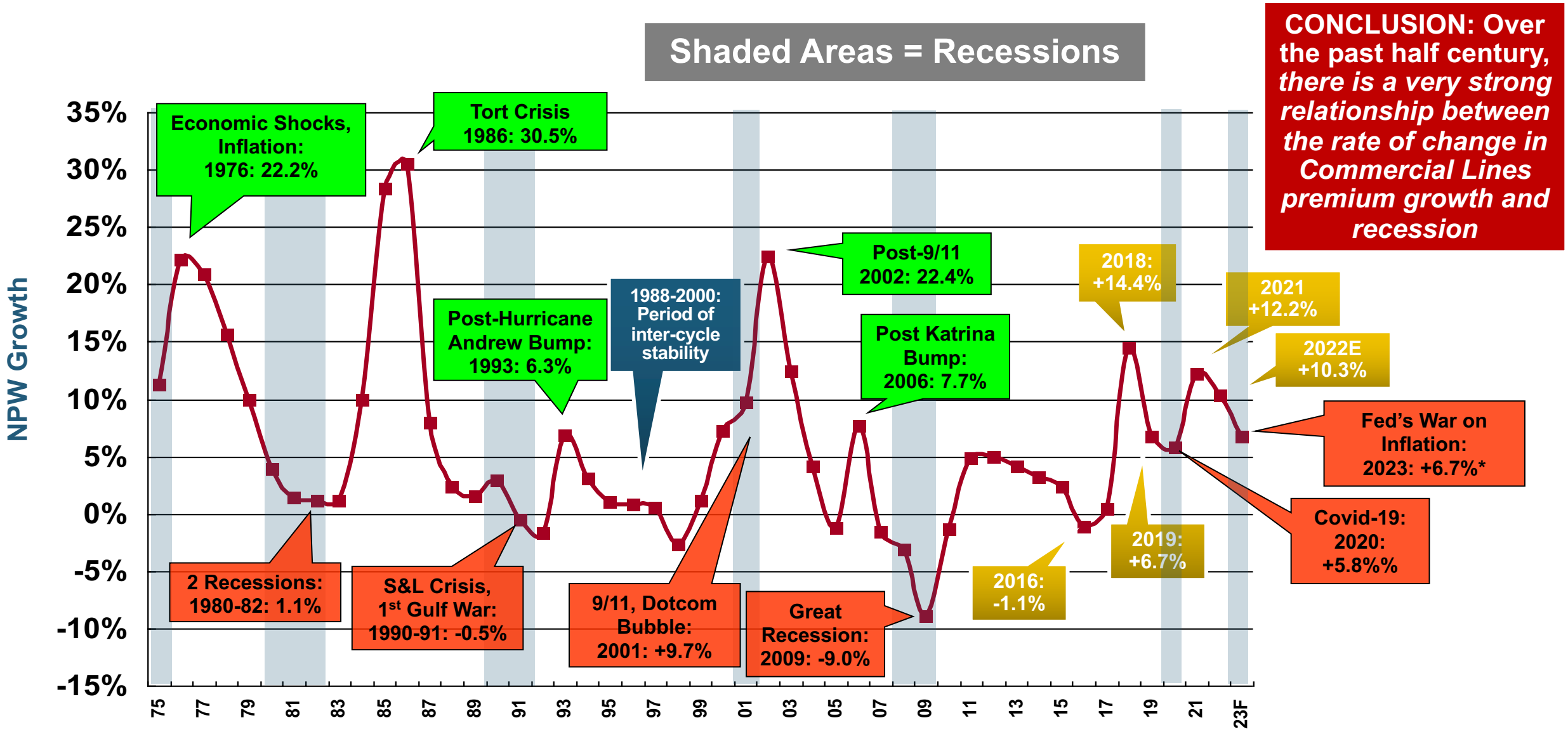
Source: Insurance Institute for Highway Safety and Highway Loss Data Institute: https://www.iihs.org/iihs/topics/t/general-statistics/fatalityfacts/overview-of-fatality-facts and NHTSA: https://www.nhtsa.gov/press-releases/2023-Q2-traffic-fatality-estimates; Risk and Uncertainty Management Center, University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

Commercial Lines Growth & Pricing Cyclicality

Economic and Tort Environment Create Pricing Pressure

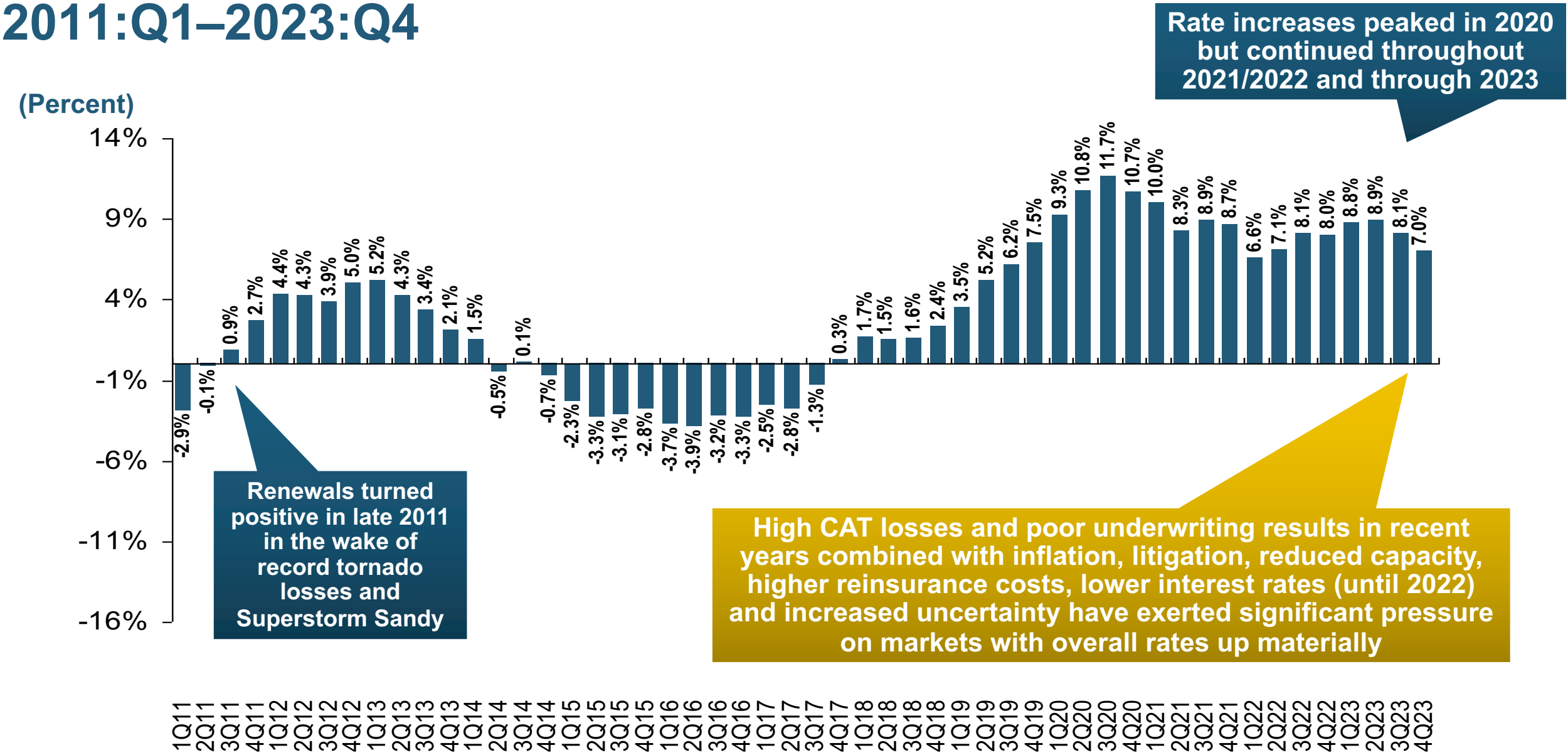
82

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:Q4

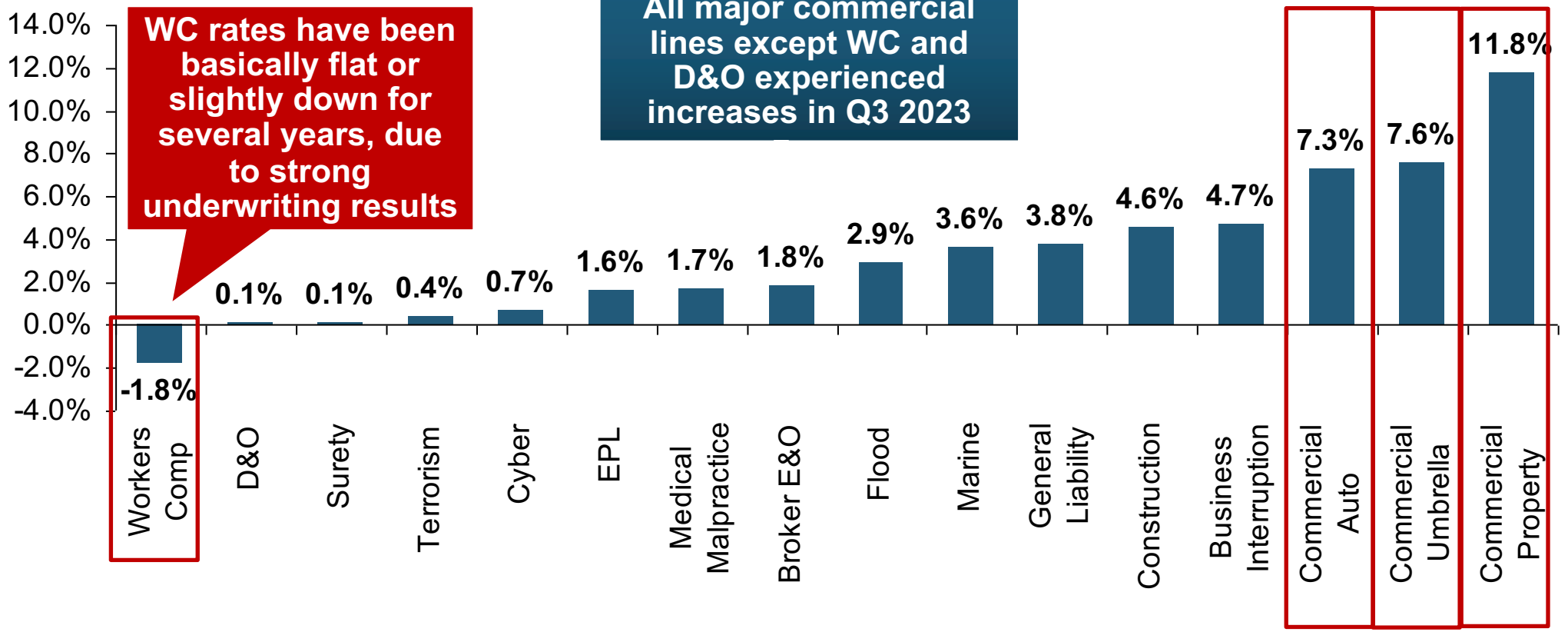


Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents & Brokers; Center for Risk and Uncertainty Management, Univ. of South Carolina.

Change in Commercial Rate Renewals, by Line: 2023:Q4

Commercial Property is experiencing sharp increases due to high CAT losses, inflation and expensive reinsurance. Commercial Auto and Umbrella are impacted by legal system abuse/social inflation

(Percent Change)



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

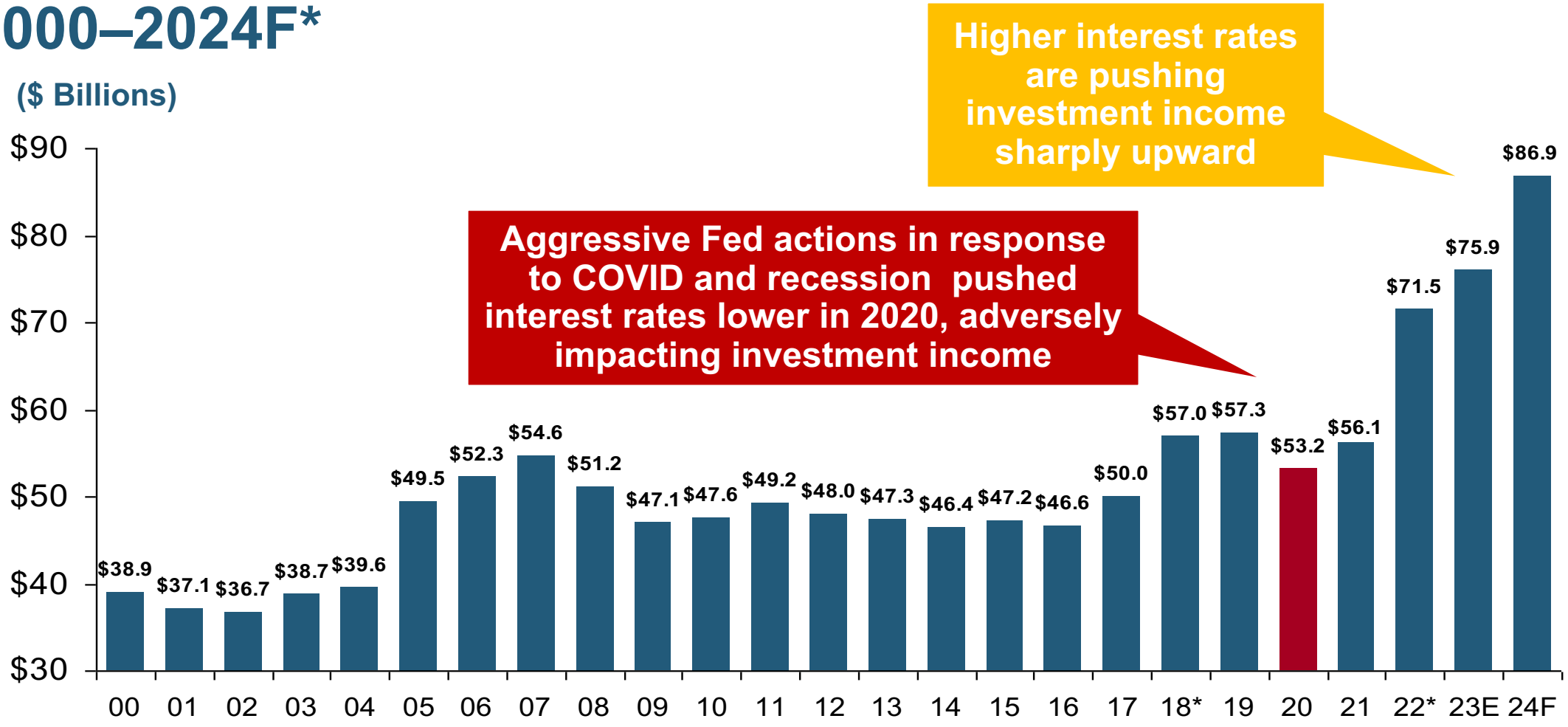
Source: Council of Insurance Agents and Brokers; USC Center for Risk and Uncertainty Management.

Investments:
Wall Street's Wild Ride Continues

Investment Performance Is a Key Driver of Insurer Profitability

How Has the Hawkish Fed Impacted Insurer Portfolios?

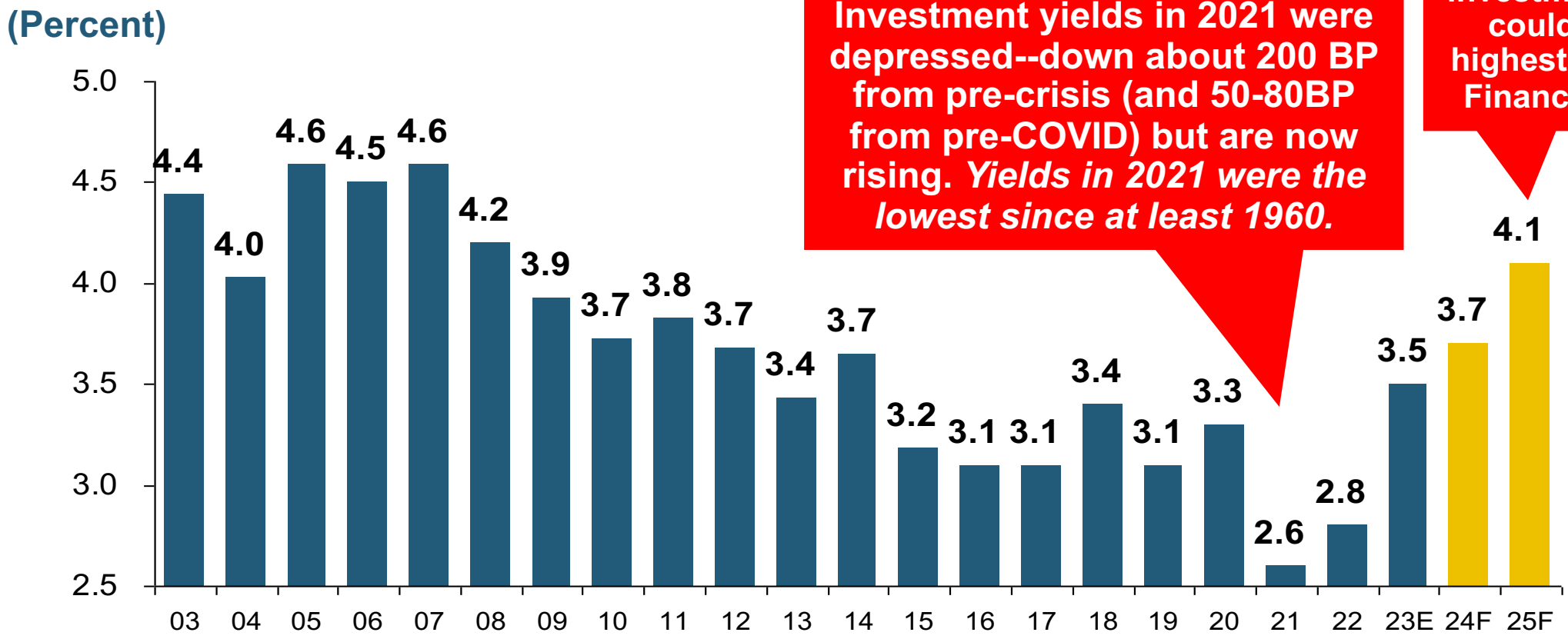
Property/Casualty Insurance Industry Investment Income: 2000–2024F*



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.

* 2018-19 figures are distorted by provisions of the TCJA of 2017. Increase reflects such items as dividends from foreign subsidiaries.
**2022 figure includes a $10.8B intercompany distribution by a large reinsurer that flowed through NII.
[1] Investment gains consist primarily of interest and stock dividends. Sources: A.M. Best Review & Preview (March 2024); 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.

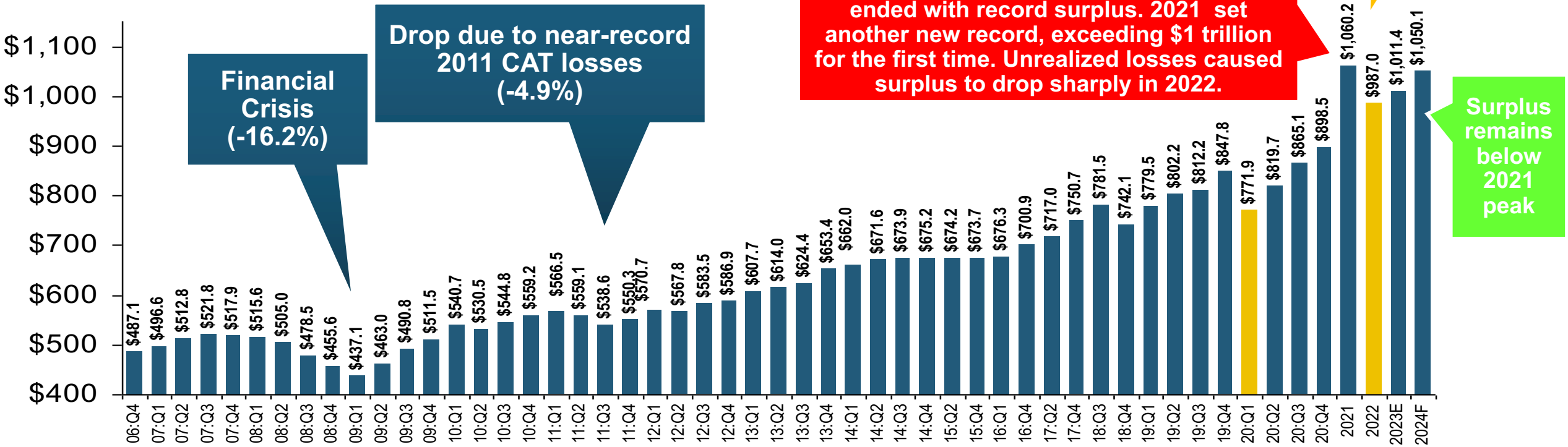
Capital and Capacity

P/C Insurance: Capitalized Crunch?

Will Industry Capacity Recover?

Policyholder Surplus (Capacity), 2006:Q4 – 2024F

($ Billions)

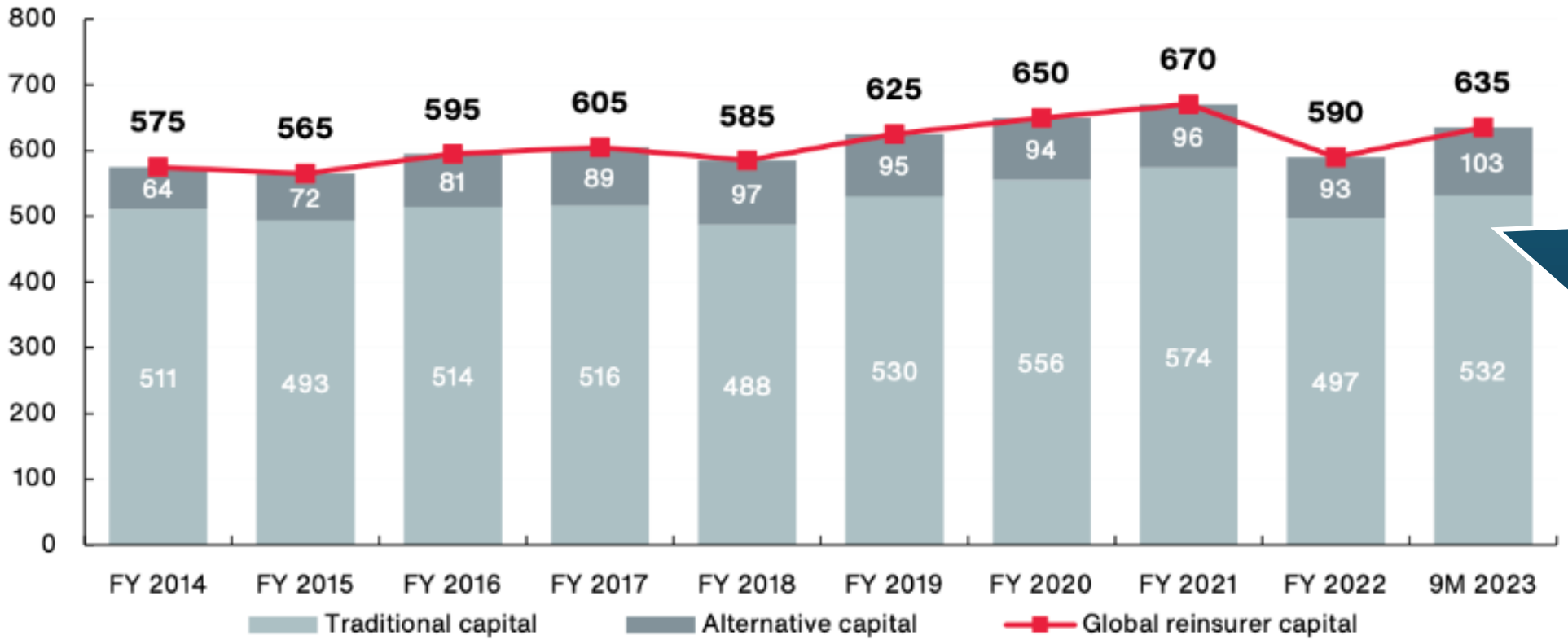


Policyholder Surplus is the industry's financial cushion against large insured events, periods of economic stress and financial market volatility. It is also a source of capital to underwrite new risks.

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

Global Reinsurance Capital, 2013 – 2023:Q3

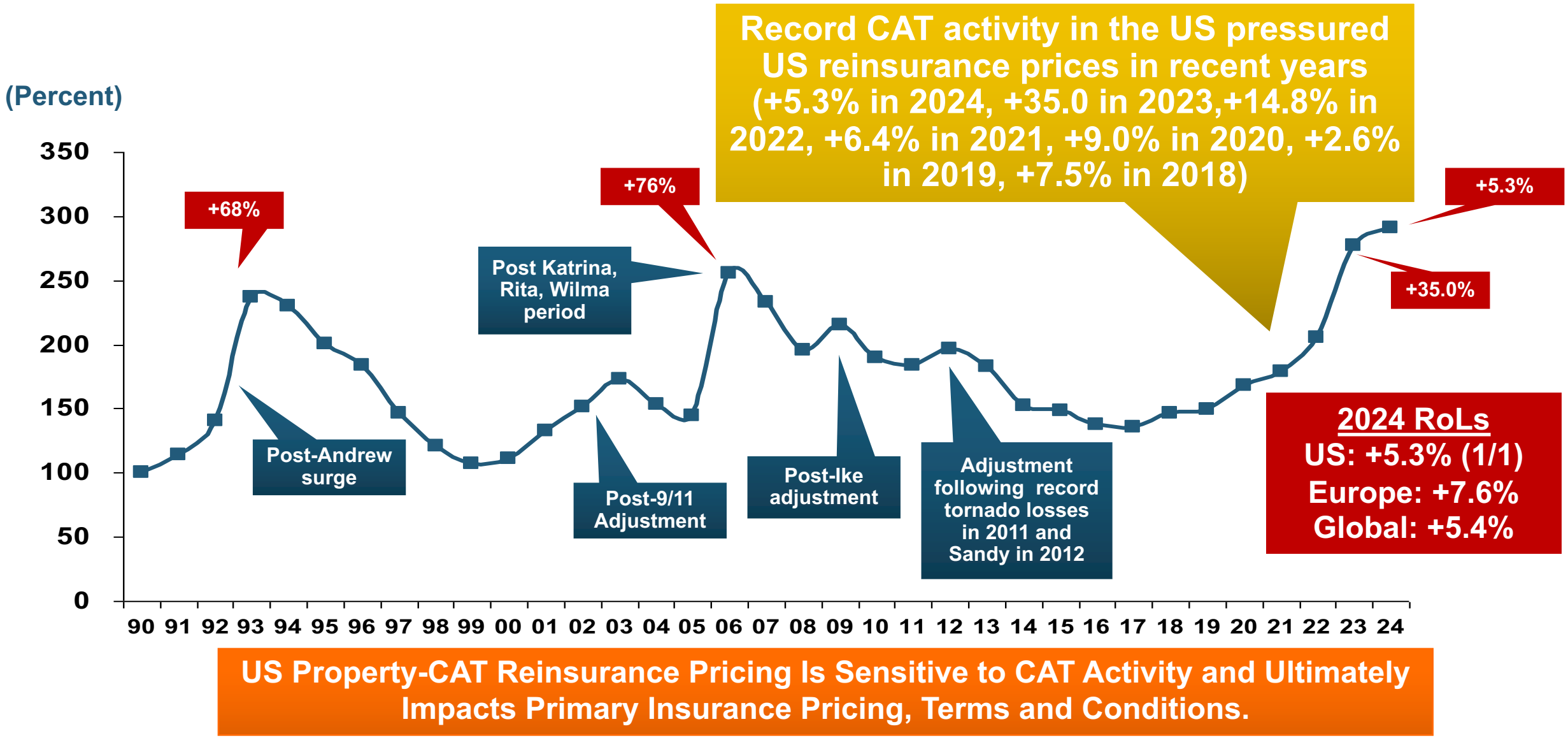
$ Billions



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.

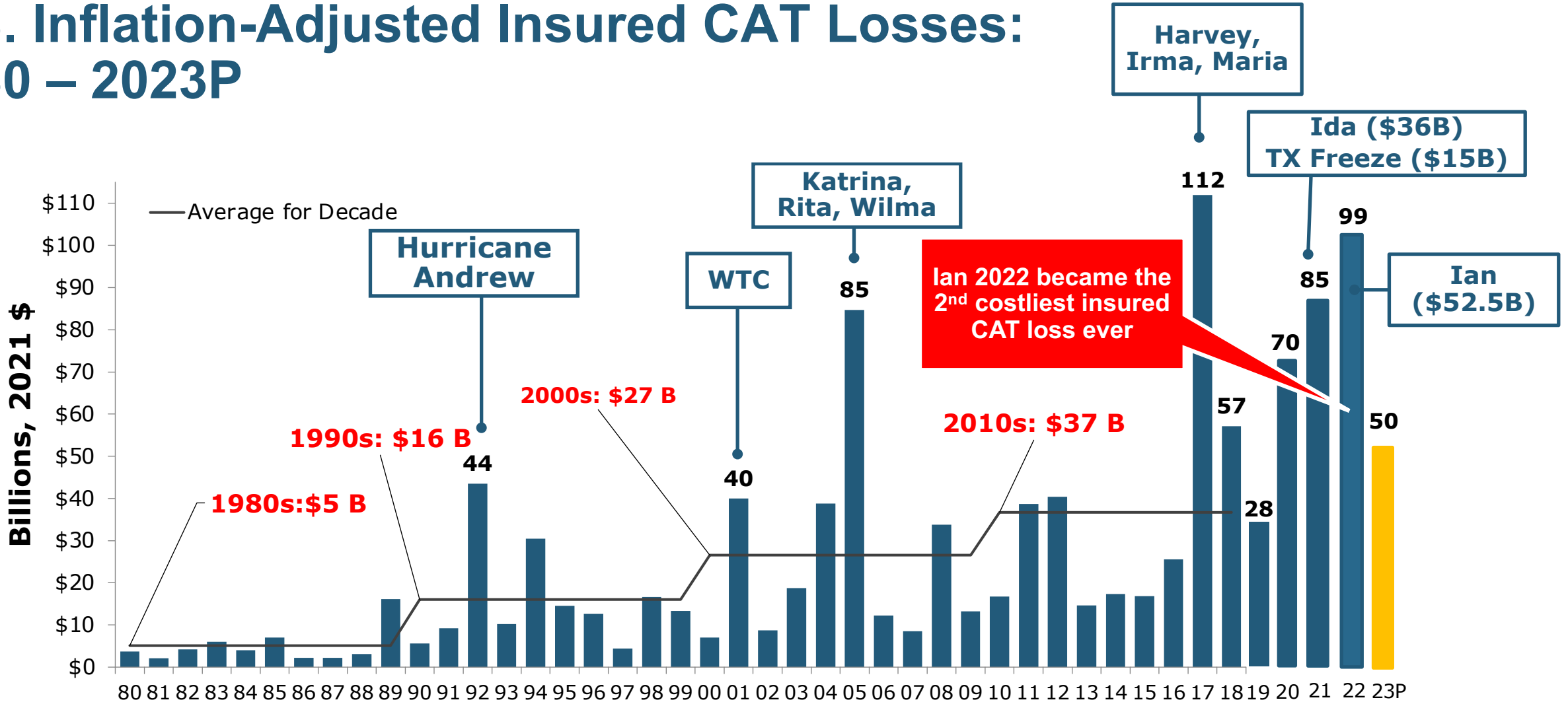
Source: Guy Carpenter; Artemis.bm accessed at: http://www.artemis.bm/us-property-cat-rate-on-line-index

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

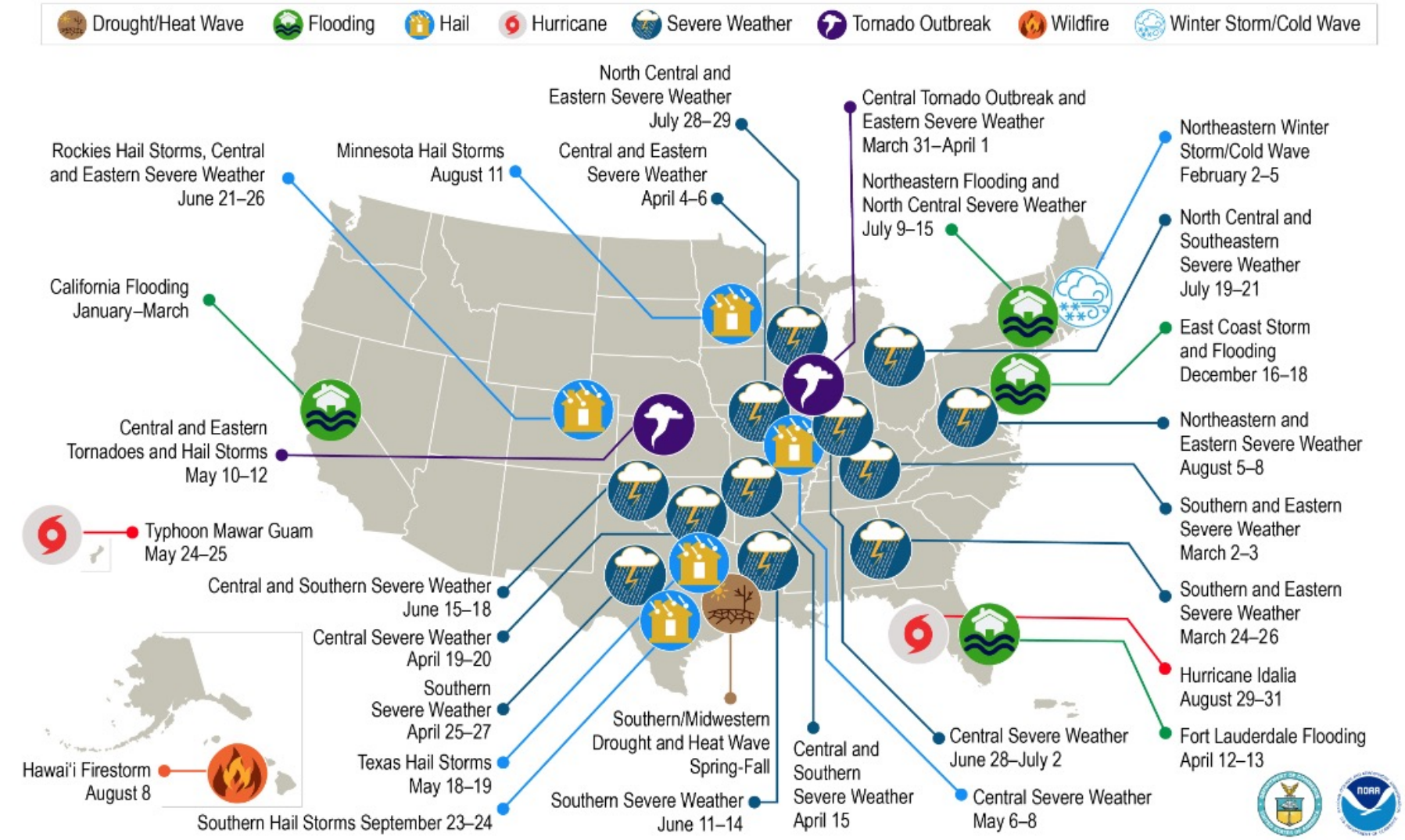


Average Insured Loss per Year*
1980-2021: $23.8 Billion
2012-2021: $44.1 Billion

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.

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

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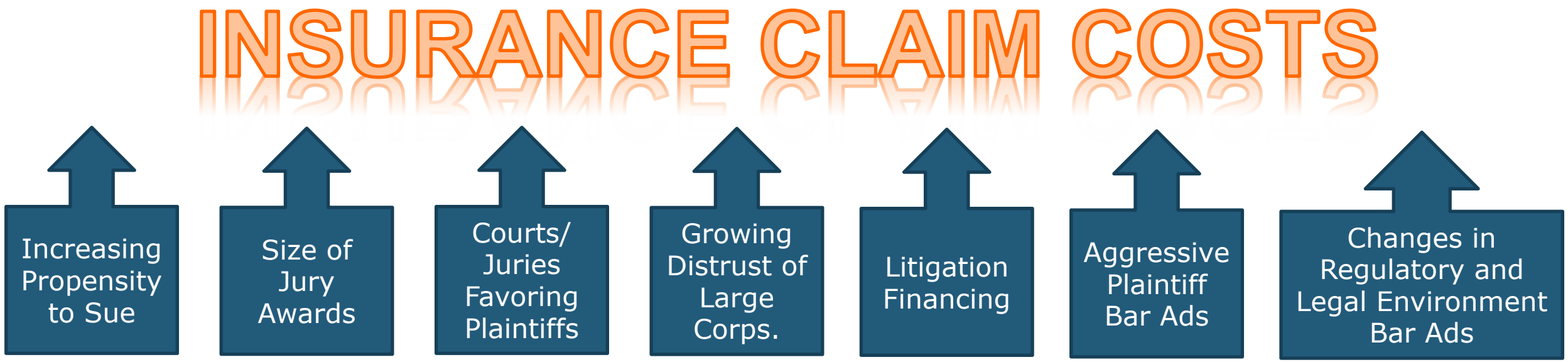
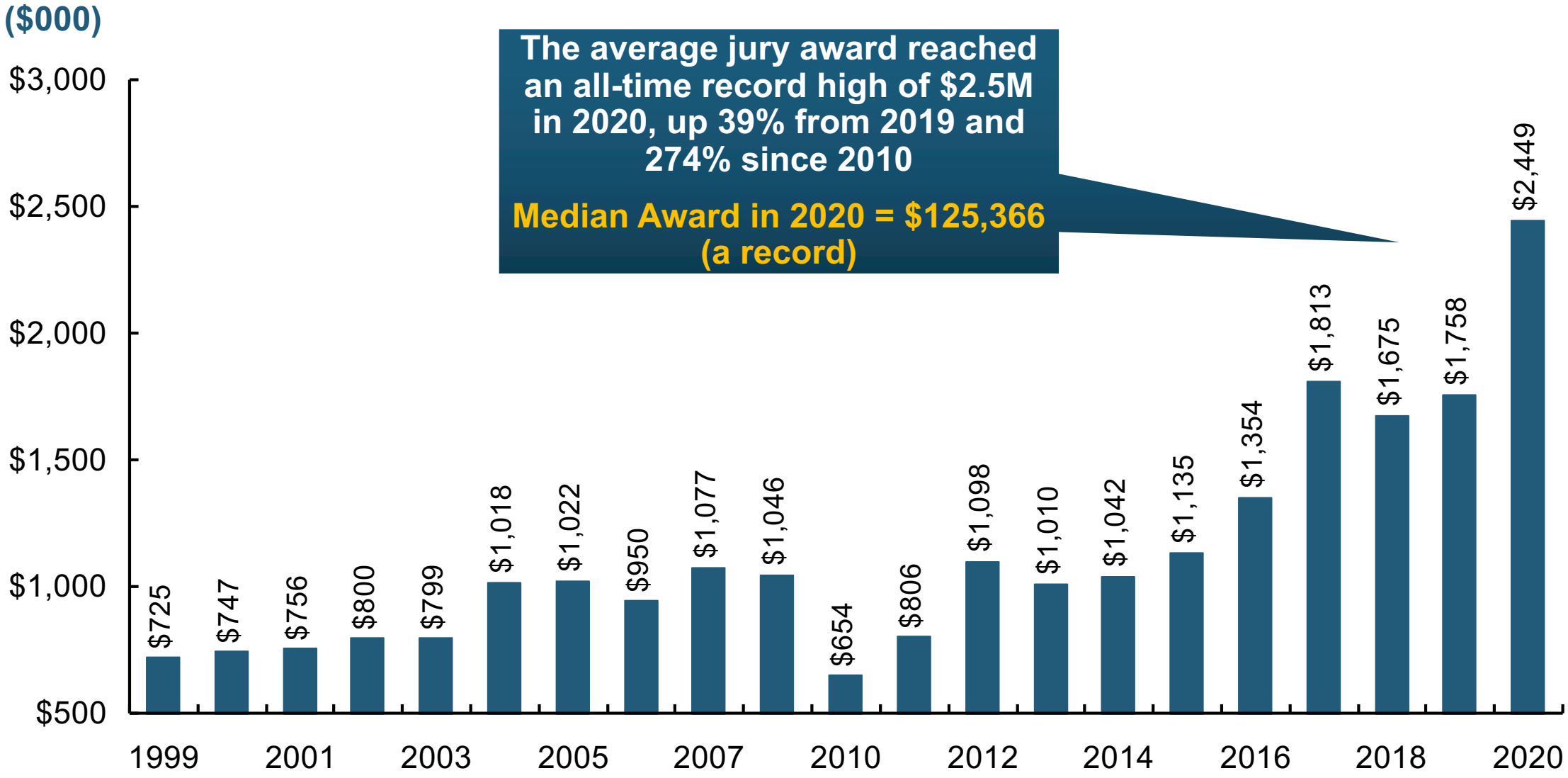
Social Inflation: Many Interrelated Causes, Difficult to Manage



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

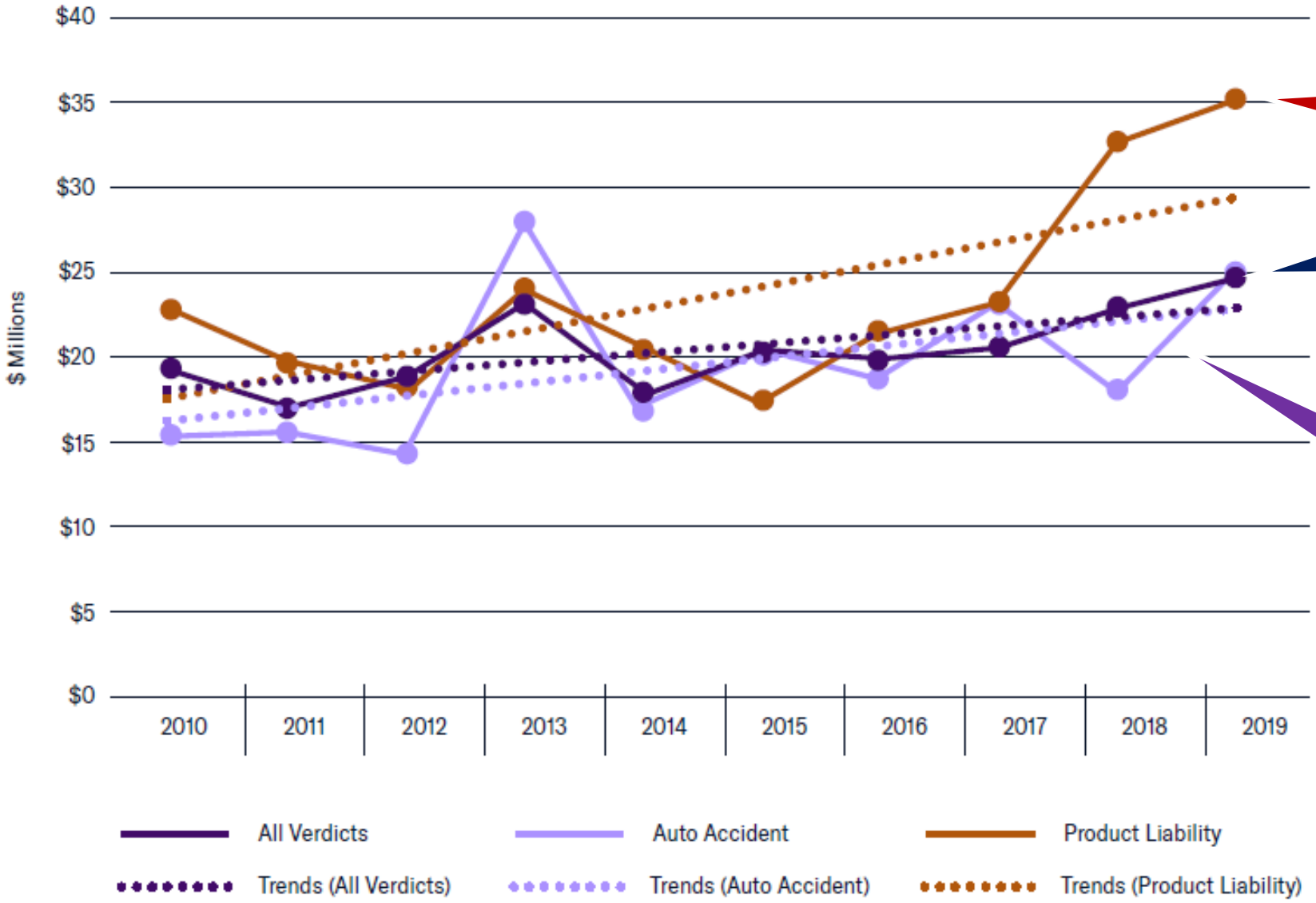
Source:Risk and Uncertainty Management Center, Univ. of South Carolina, adapted from Verisk “Social Inflation” presentation (2020).

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.

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

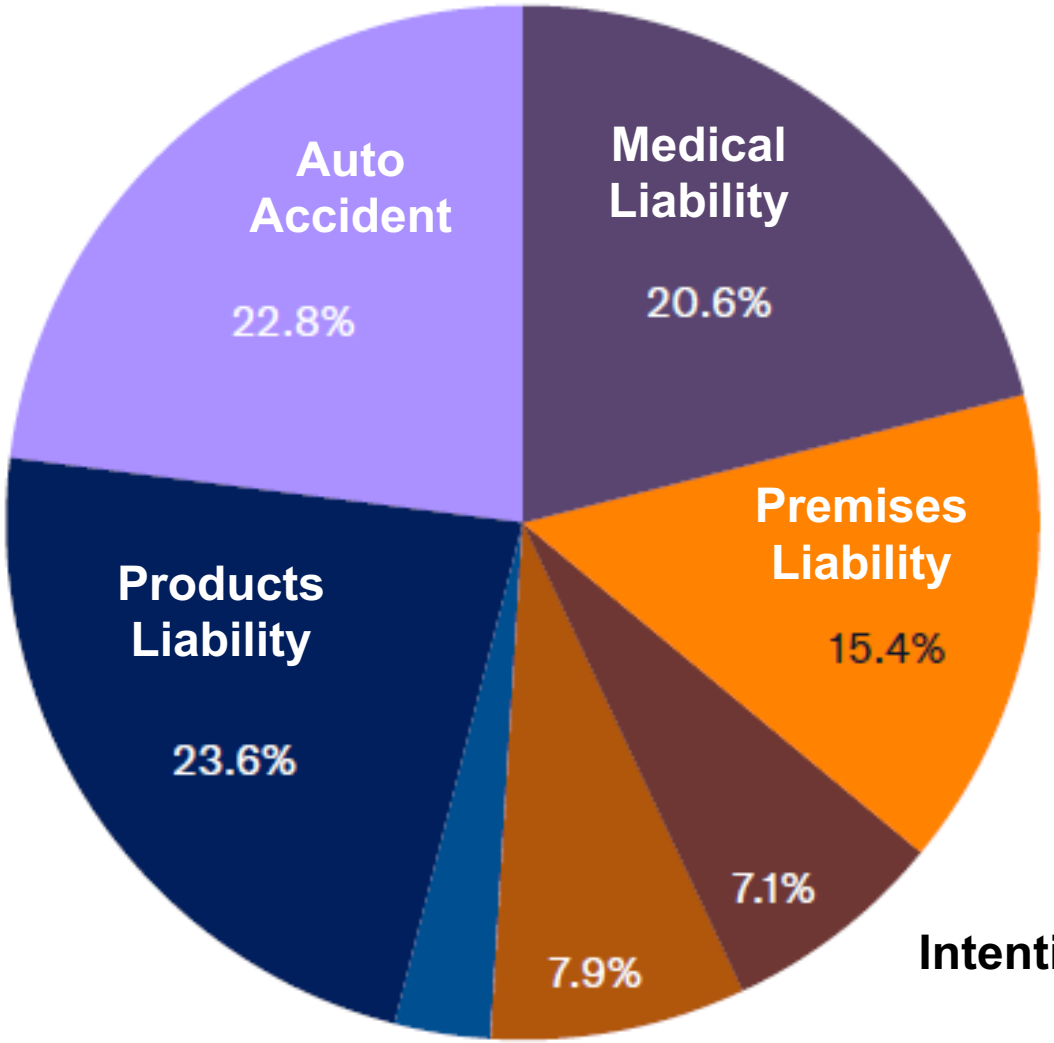
Auto Accident

+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.

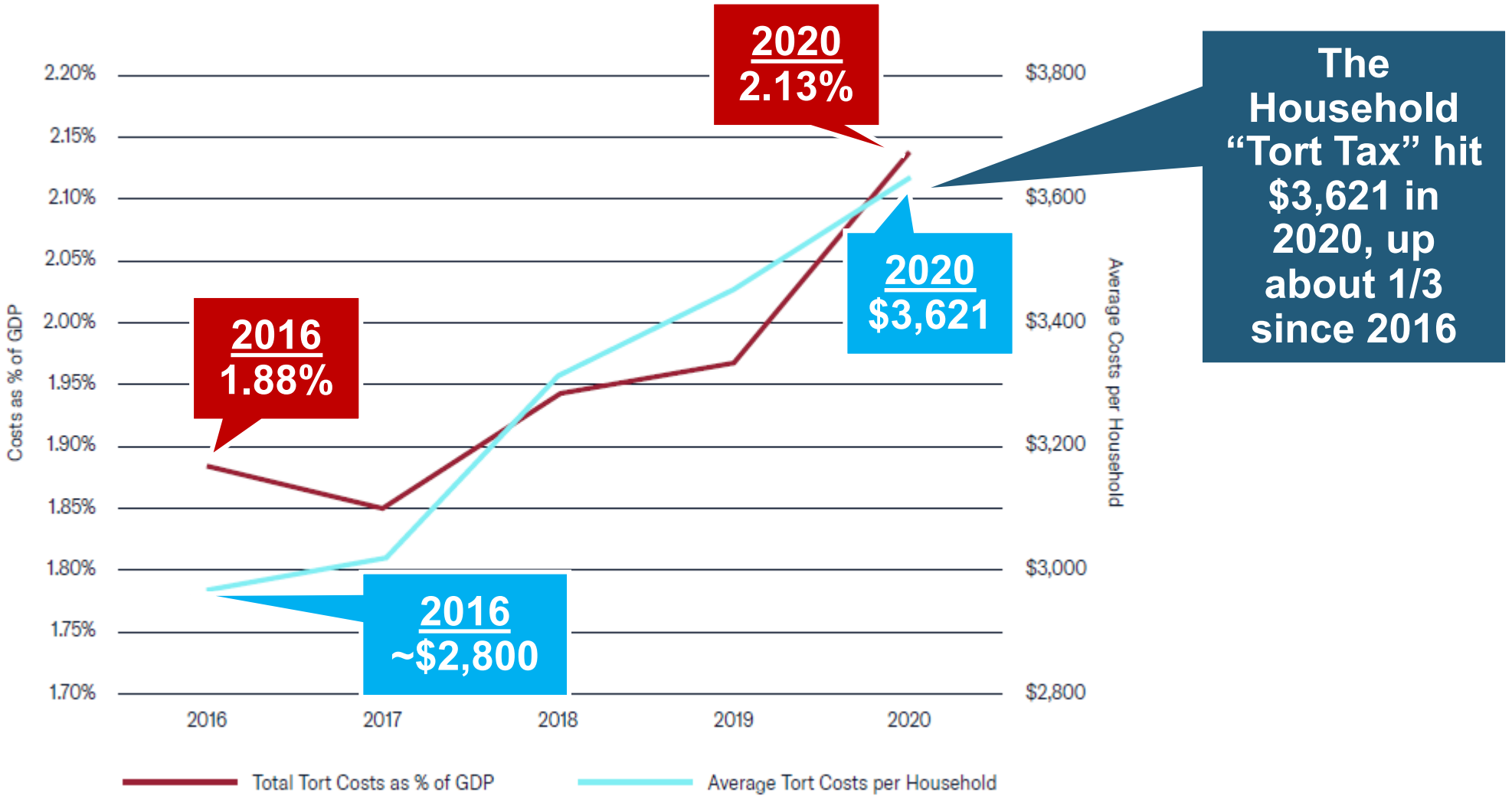
Direct Economic Tort Costs by Category of Tort: 2016 – 2020*

	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.

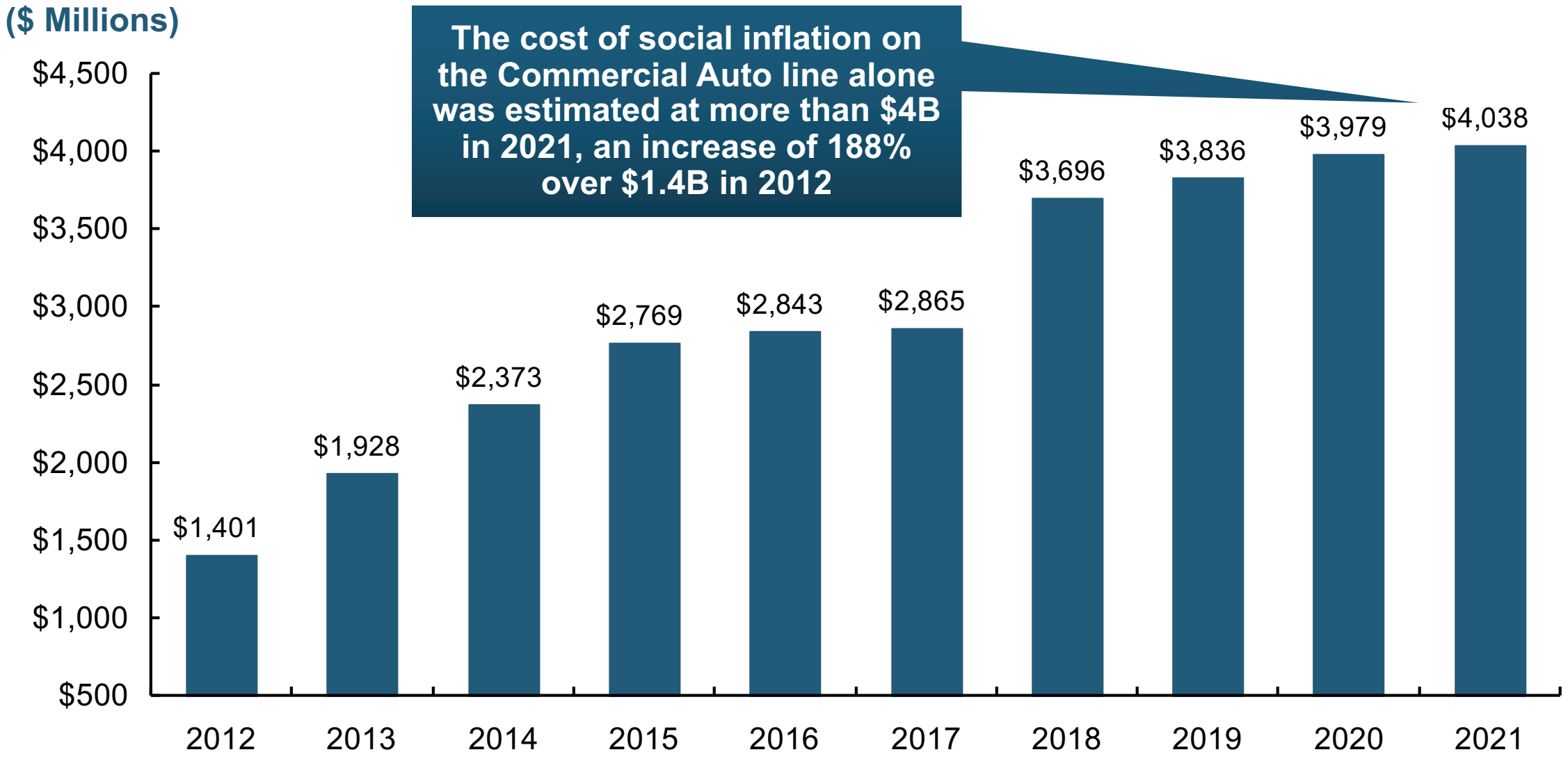
Percent of P/C Companies Reporting Adverse Reserve Development as of 9/30 Each Year, 2001 - 2023

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/.

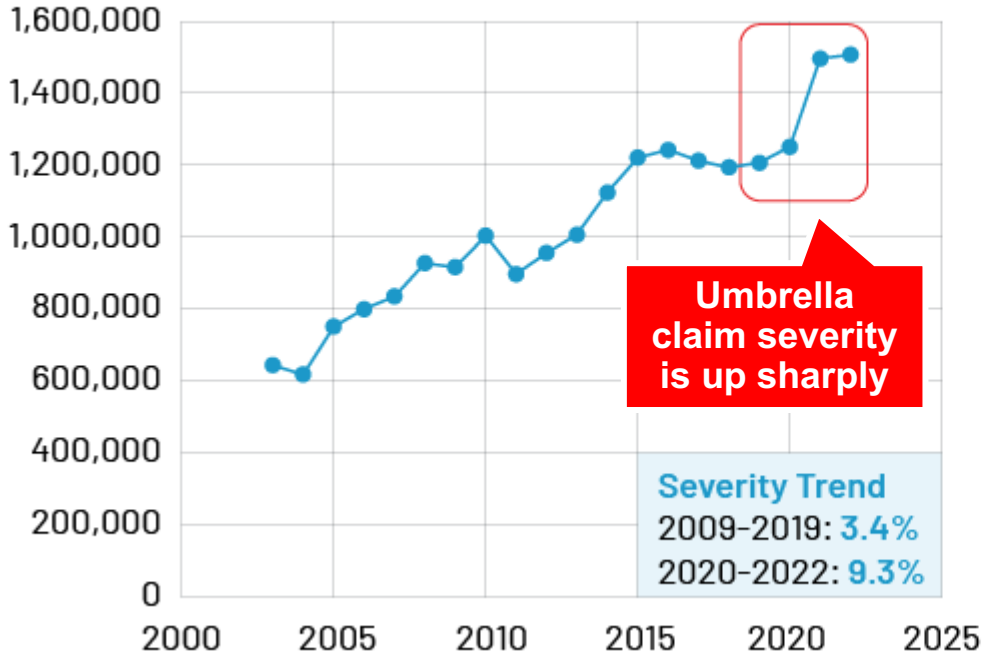
Commercial Auto Liability: Estimated Impact of Social Inflation, 2012 – 2021*



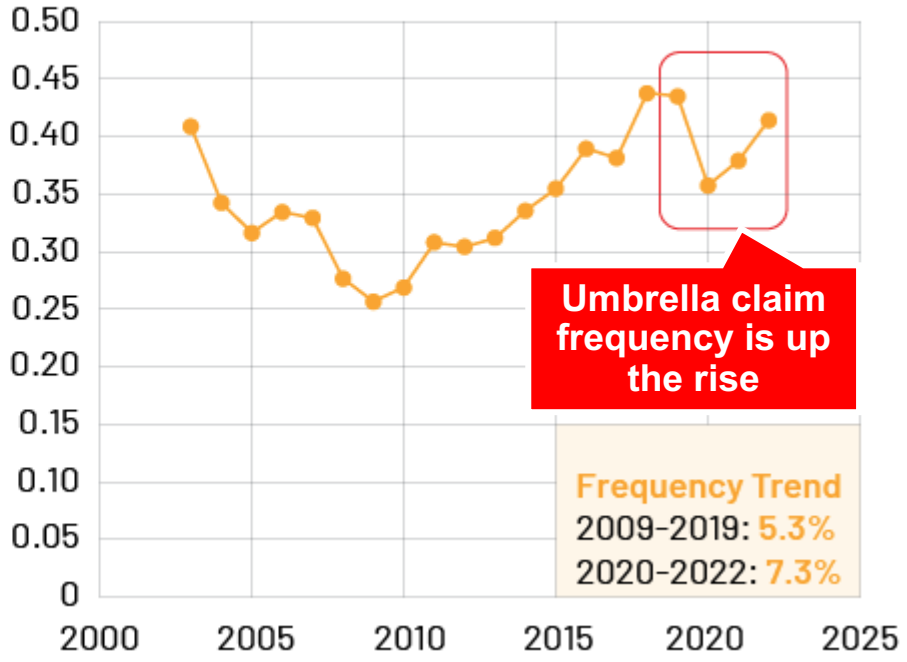
*Case-incurred estimates.
Source: CAS Research Paper; *Social Inflation and Loss Development—An Update* (2023) accessed at: https://www.iii.org/sites/default/files/docs/pdf/cas_social_inflation_03062023.pdf.

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**
  - **Continued migration toward E&S markets**
- **Odds of a "Soft Landing" or "No Landing" Increasing; Recession in 2024/25 Unlikely**
- **Asset Price Volatility Will Persist as Inflation Uncertainty**
- **Higher Interest Rates Provide a Modest Tailwind for Investment Income**
- **Inflationary Pressures Will Persist in 2024, though Subsiding**
- **Loss Cost Challenges Remain but Should Slowly Ease in 2024—Inflation, Supply Chain, etc.**
- **Legal System Abuse Issues Remain a Long-Term Challenge and Major Cost Driver**

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Download at www.uscriskcenter.com