Complex Risks in a Complex World:
Insurance Market Trends and Challenges Amid a Sea of Uncertainty

Complex Risks Symposium
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Darla Moore School of Business

Outline: Economic and Geopolitical Risks & (Re)Insurance

- Risk to Global Economic Growth and Stability
  - The Global Inflation Threat: Are We Winning 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

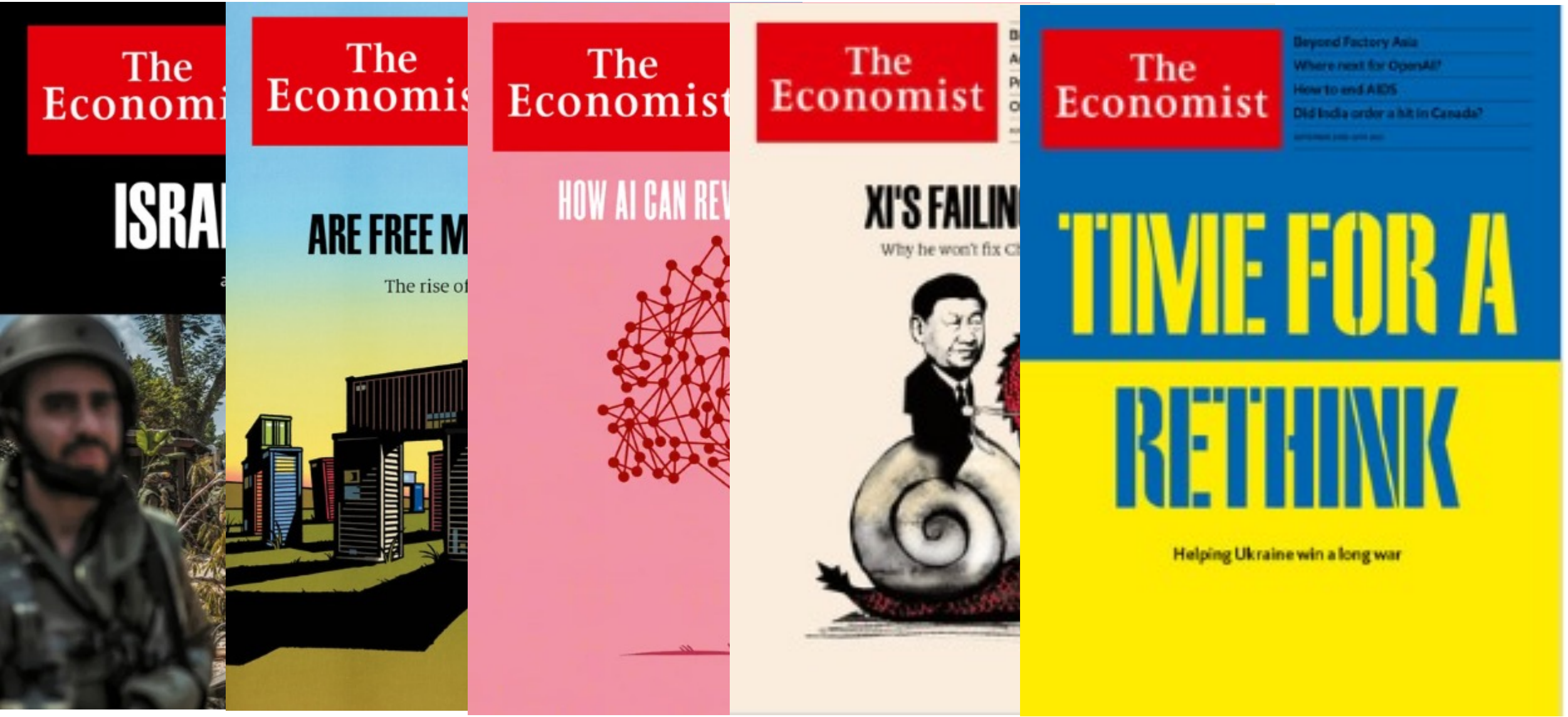
Risk Is Everywhere:

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

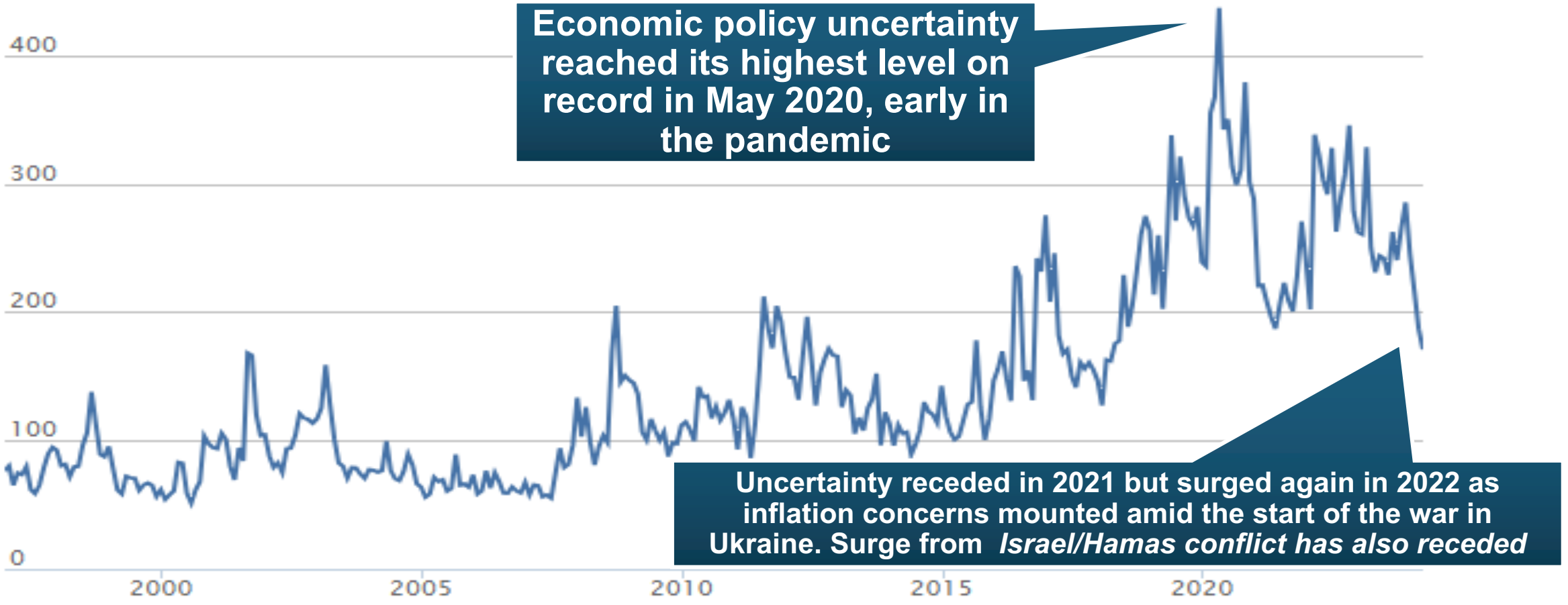
3

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



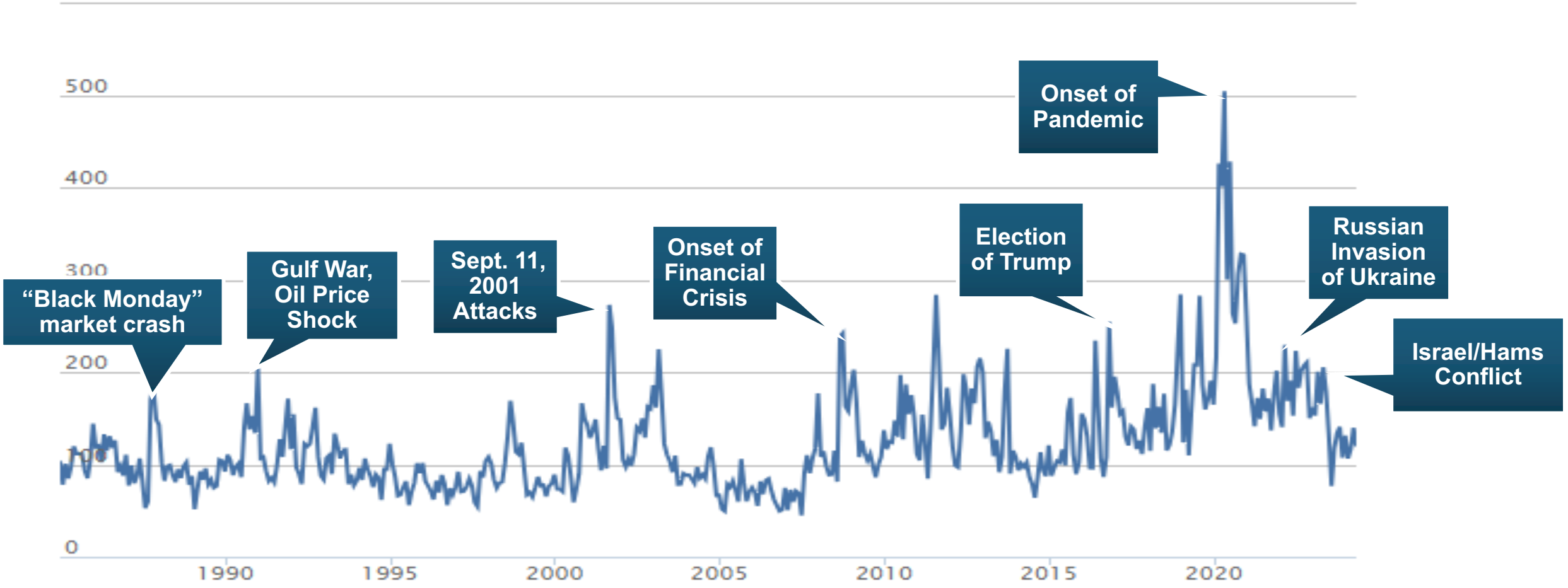
The World Is a Threatening Place Today—Economic Threats, Geopolitics, Technology All Impact (Re)Insurers

Global Economic Policy Uncertainty Index: Global Economic Uncertainty Remains Volatile in the Post-Pandemic World, Jan. 1997 – April 2024



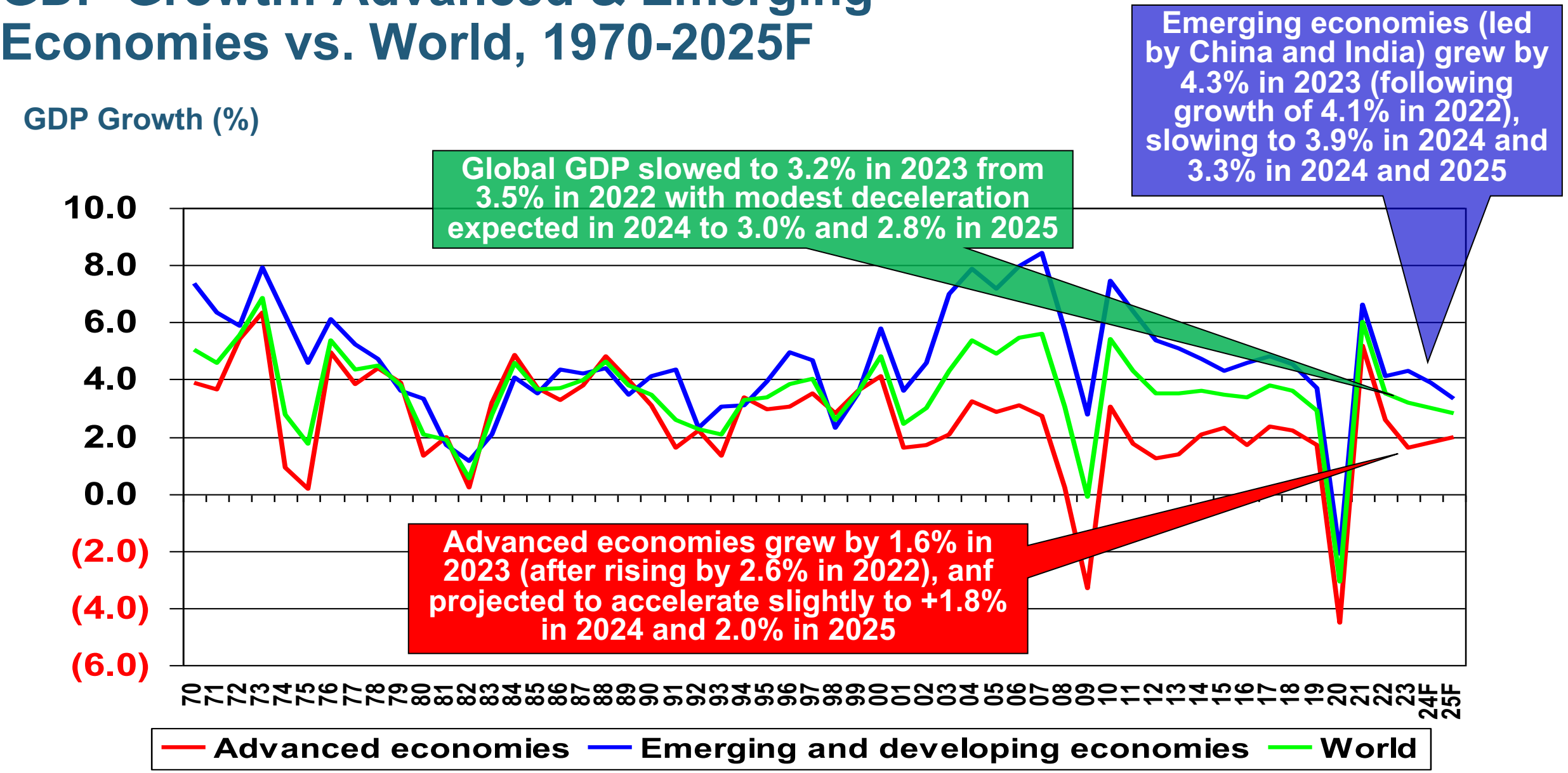
Source: *Economic Policy Uncertainty*, PolicyUncertainty.com accessed June 3, 2024 at: http://www.policyuncertainty.com/index.html

US Economic Policy Uncertainty Index: US Has Been Elevated Since the Advent of the Global Financial Crisis, Jan. 1985 – April 2024



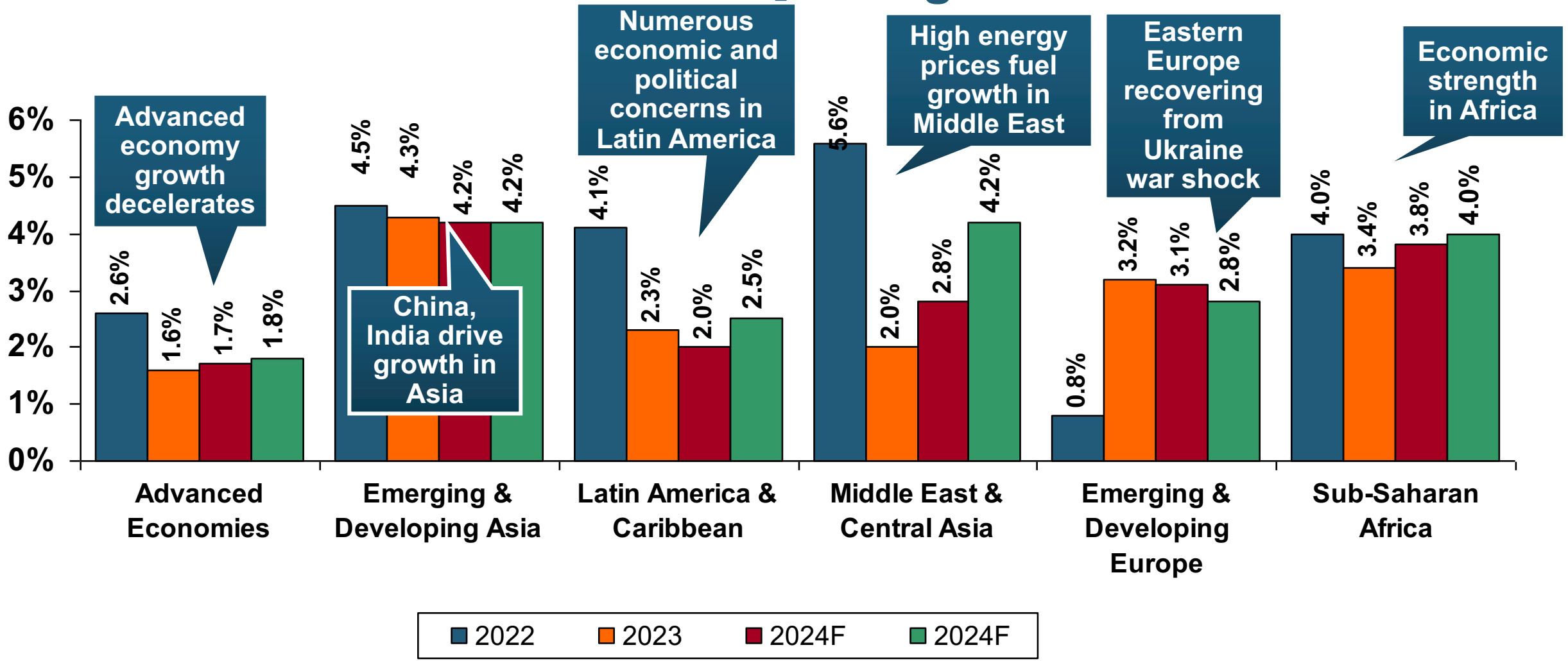
Source: *Economic Policy Uncertainty*, PolicyUncertainty.com accessed June 3, 2024 at: http://www.policyuncertainty.com/index.html

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



Source: International Monetary Fund, *World Economic Outlook* (1970-2023); Wells Fargo Economics (2024F – 2025F) [as of May 2024]; Univ. of South Carolina, Risk and Uncertainty Management Center.

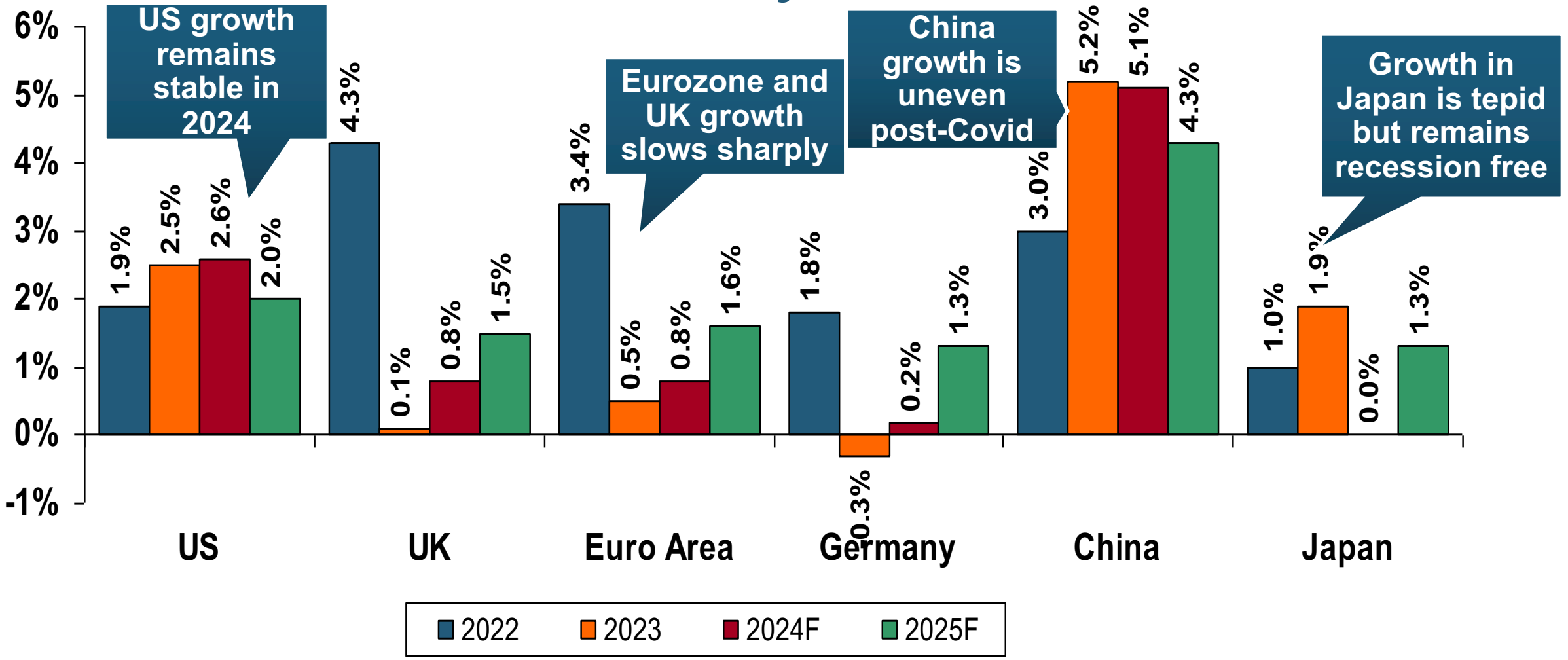
Real GDP Growth Forecasts: Major Regions: 2022 – 2024F



Global Growth Prospects Vary Widely by Region but by 2024 Are Universally Stronger Outside the "Advanced Economies"

Source: International Monetary Fund, *World Economic Outlook*, Apr. 2024 at: https://www.imf.org/en/Publications/WEO/Issues/2024/04/16/world-economic-outlook-april-2024. ; Univ. of South Carolina, Risk and Uncertainty Management Center.

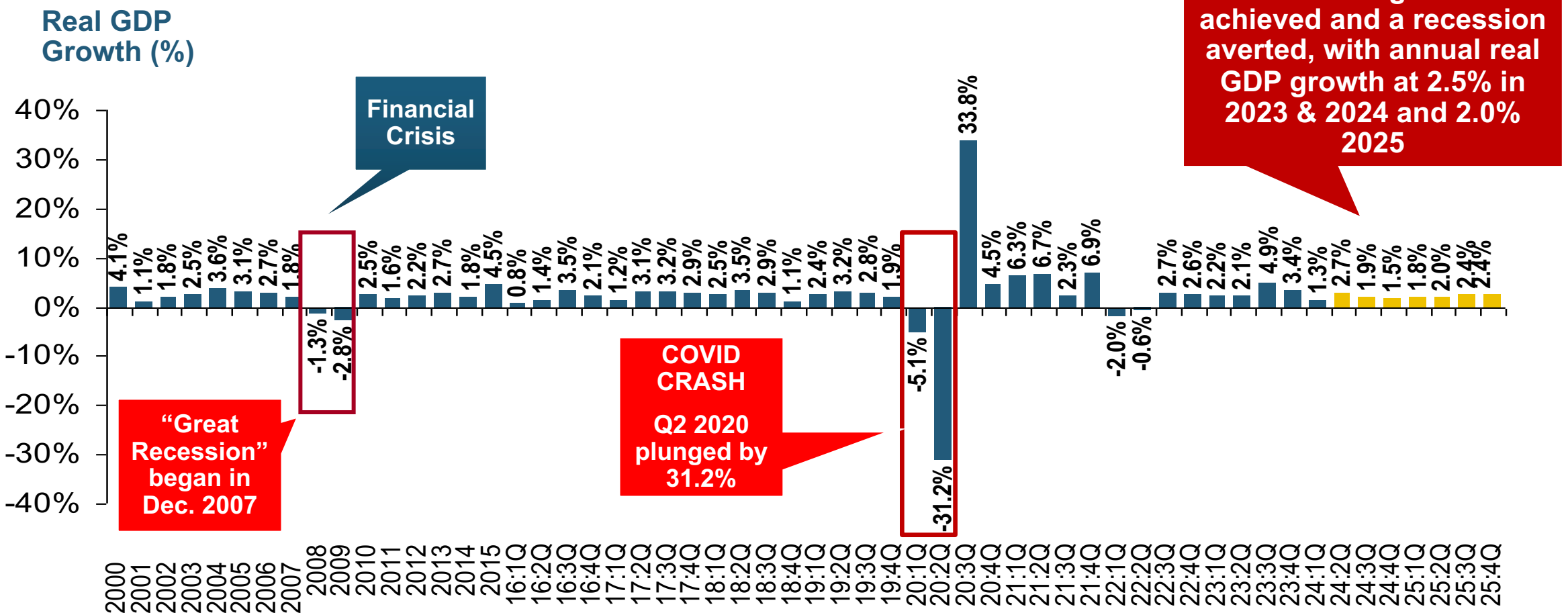
Real GDP Growth Forecasts: Major Economies: 2022 – 2025F



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

Source: IMF, *World Economic Outlook*, Apr. 2024 at: https://www.imf.org/en/Publications/WEO/Issues/2024/04/16/world-economic-outlook-april-2024 and Wells Fargo Economics (5/24); Univ. of South Carolina, Risk and Uncertainty Management Center.

US Real GDP Growth*



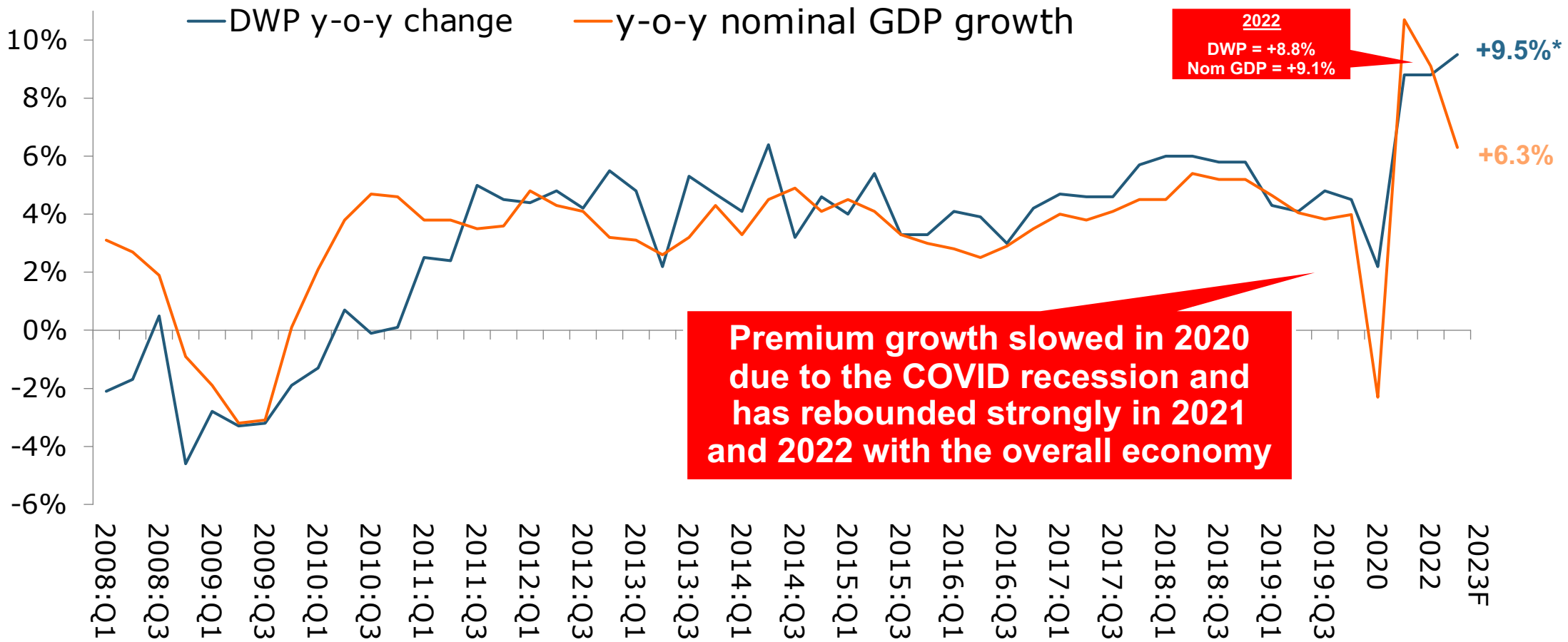
Demand for Insurance Increased Materially in 2021/22 During Recovery from the Pandemic—Particularly in Economically Sensitive Commercial Lines Such as WC. Premium growth will likely slow as Economy Slows.

* Estimates/Forecasts from Wells Fargo Securities.

Source: US Department of Commerce, Wells Fargo Securities (5/24); 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



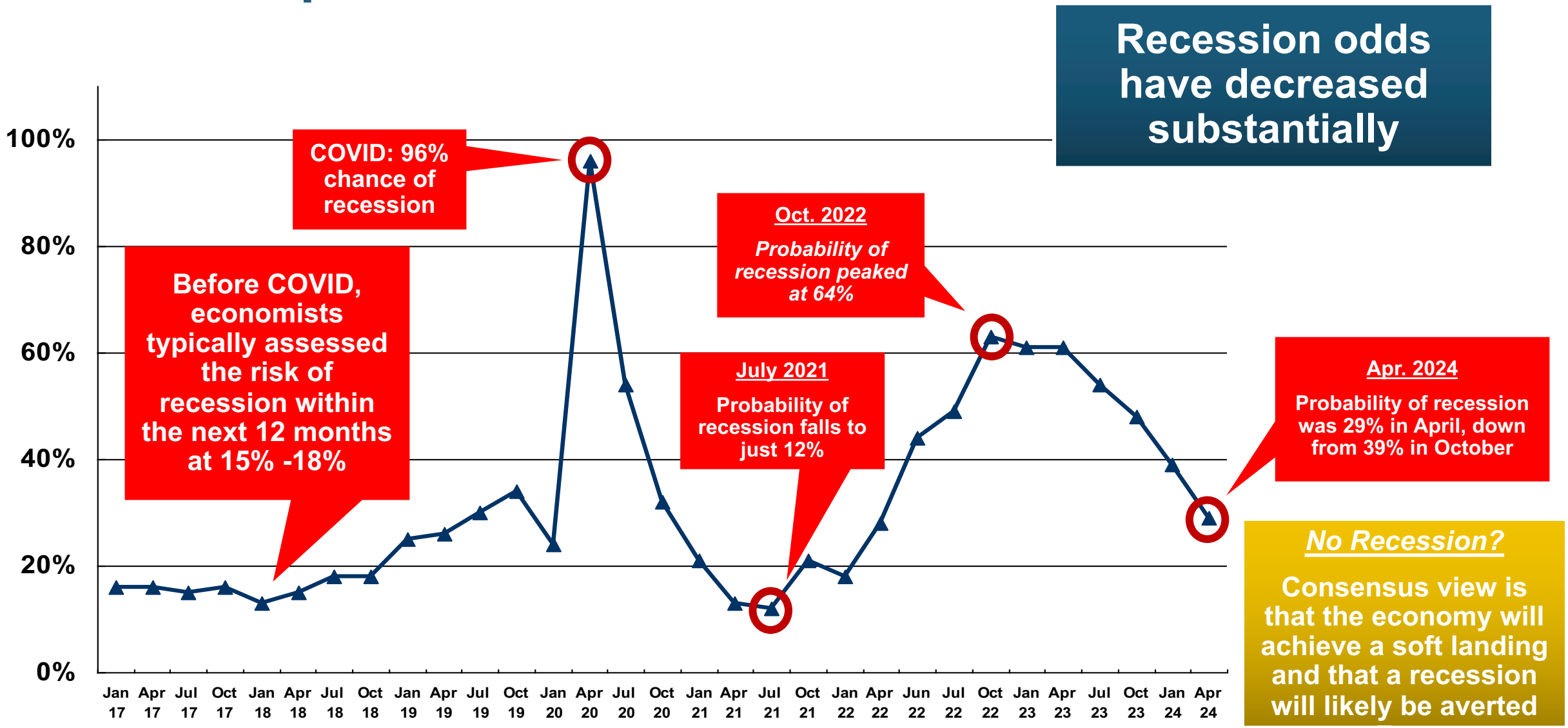
Premium growth slowed in 2020 due to the COVID recession and has rebounded strongly in 2021 and 2022 with the overall economy

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;, Swiss Re (2023F) I.I.I.; Risk and Uncertainty Management Center, University of South Carolina.

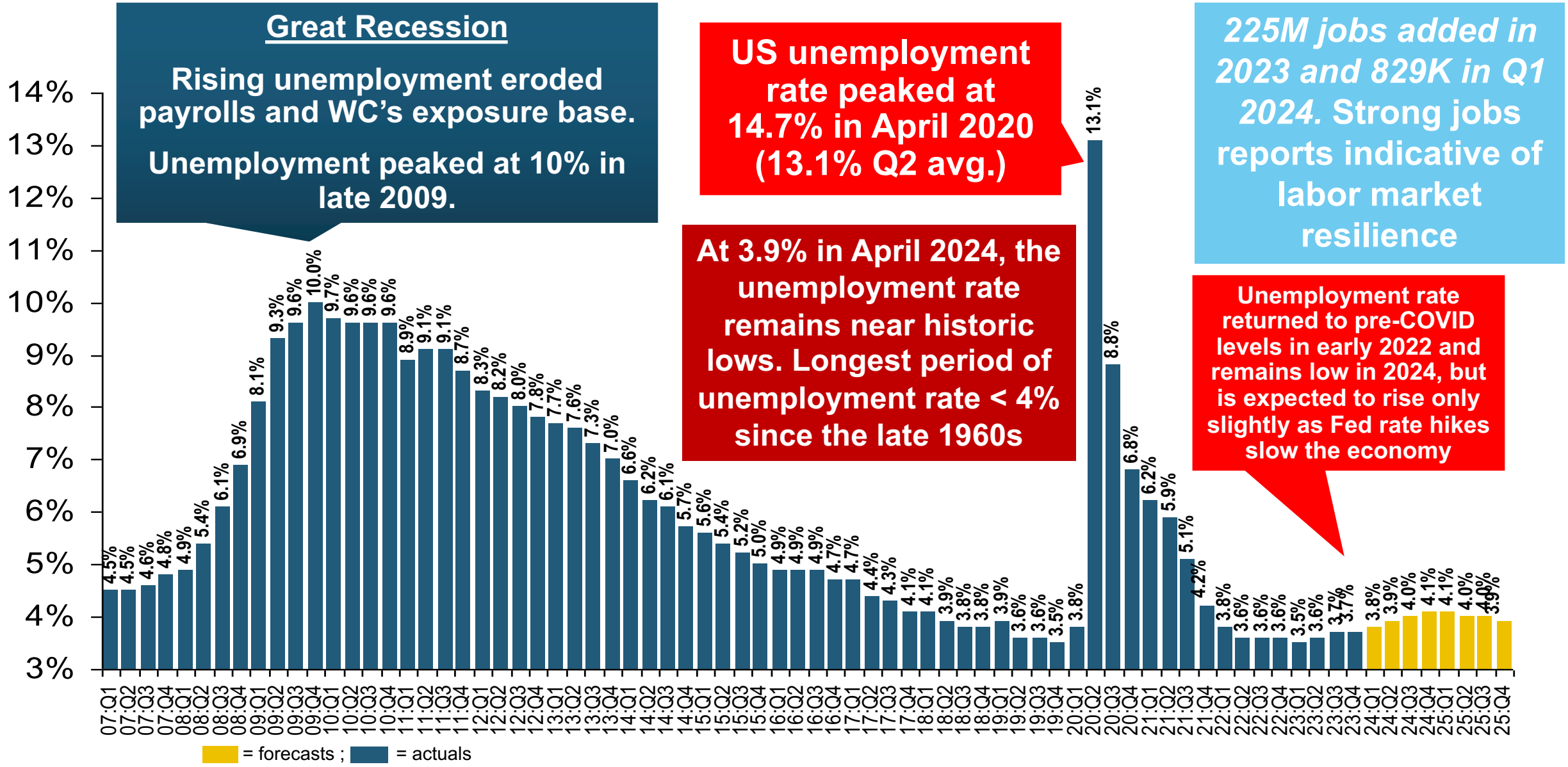
Probability the U.S. Is in a Recession Within Next 12 Months: Jan. 2017 – Apr. 2024*



*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.

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



Sources: US Bureau of Labor Statistics; Wells Fargo Securities (5/24 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 Inflation Threat

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

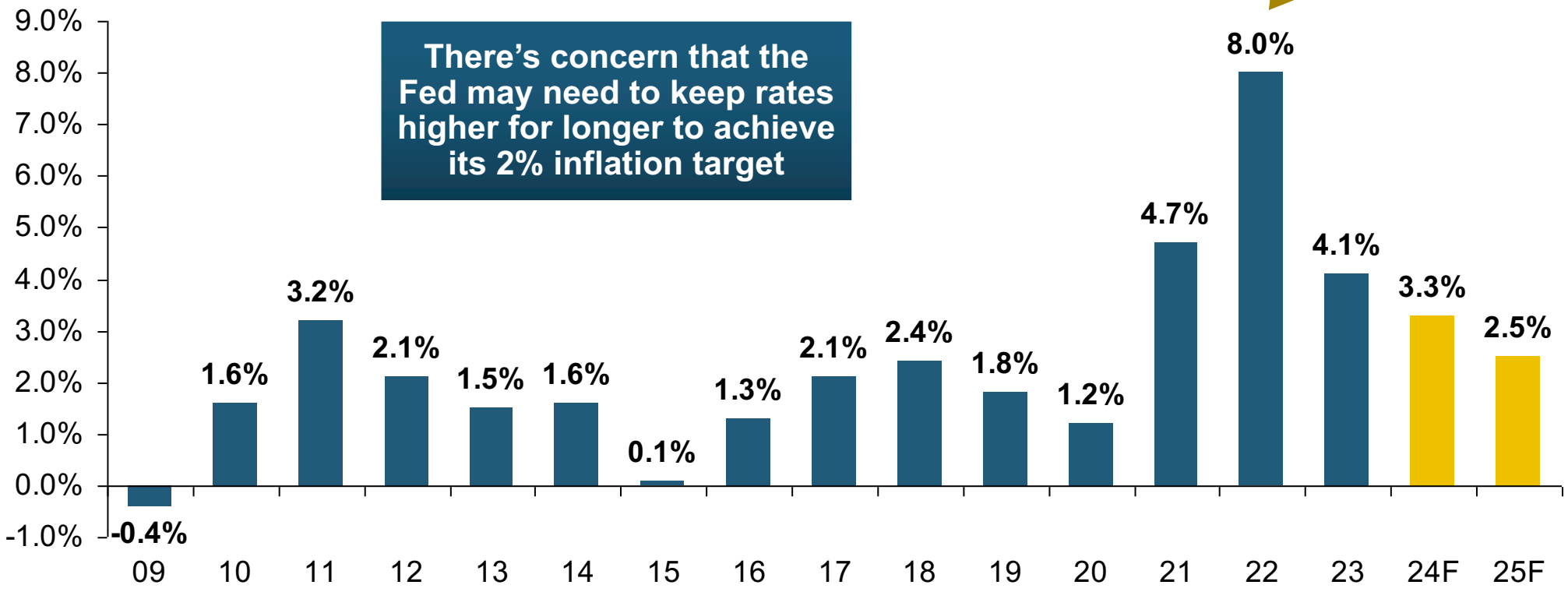
And a Major Concern of Insurers

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

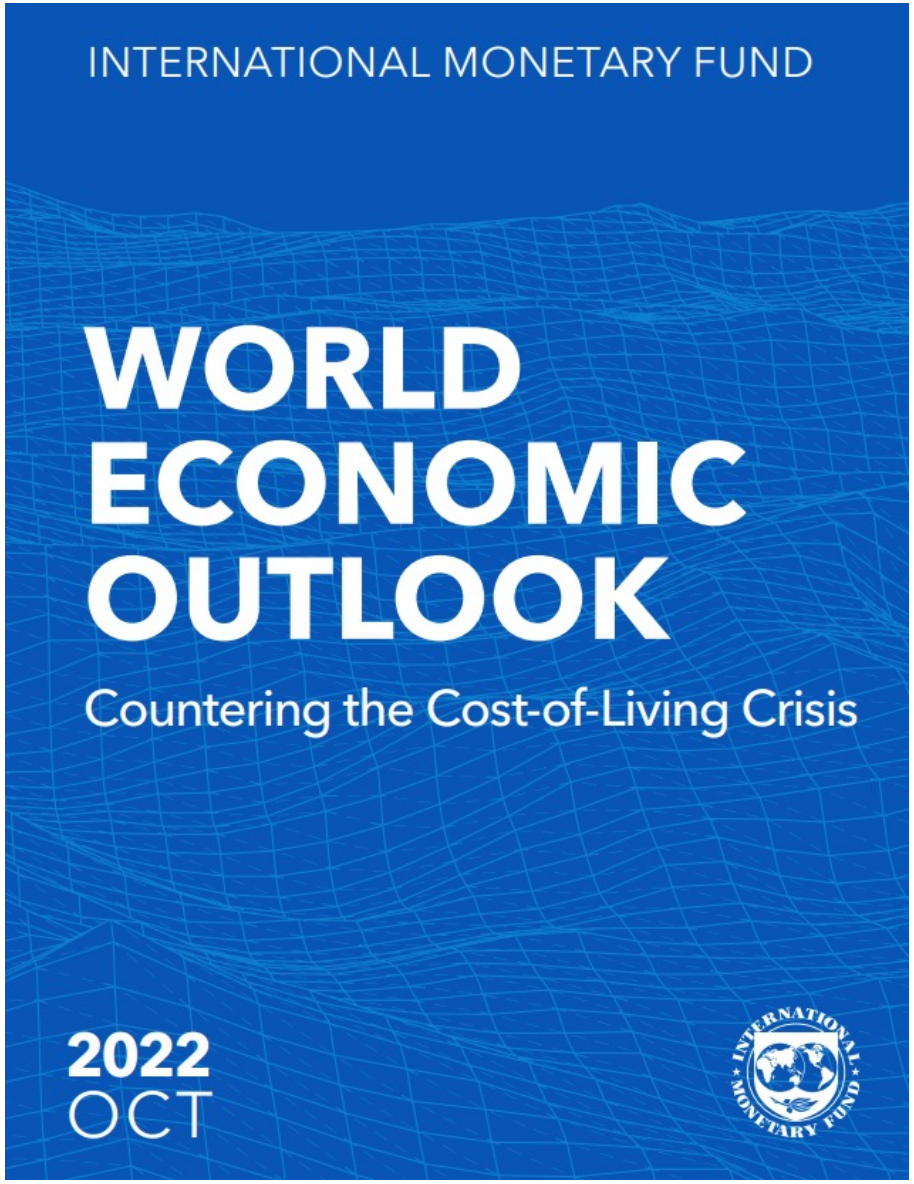
- **Rate Inadequacy**
- **Reserve Inadequacy**
- **Insurance-to-Value**

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

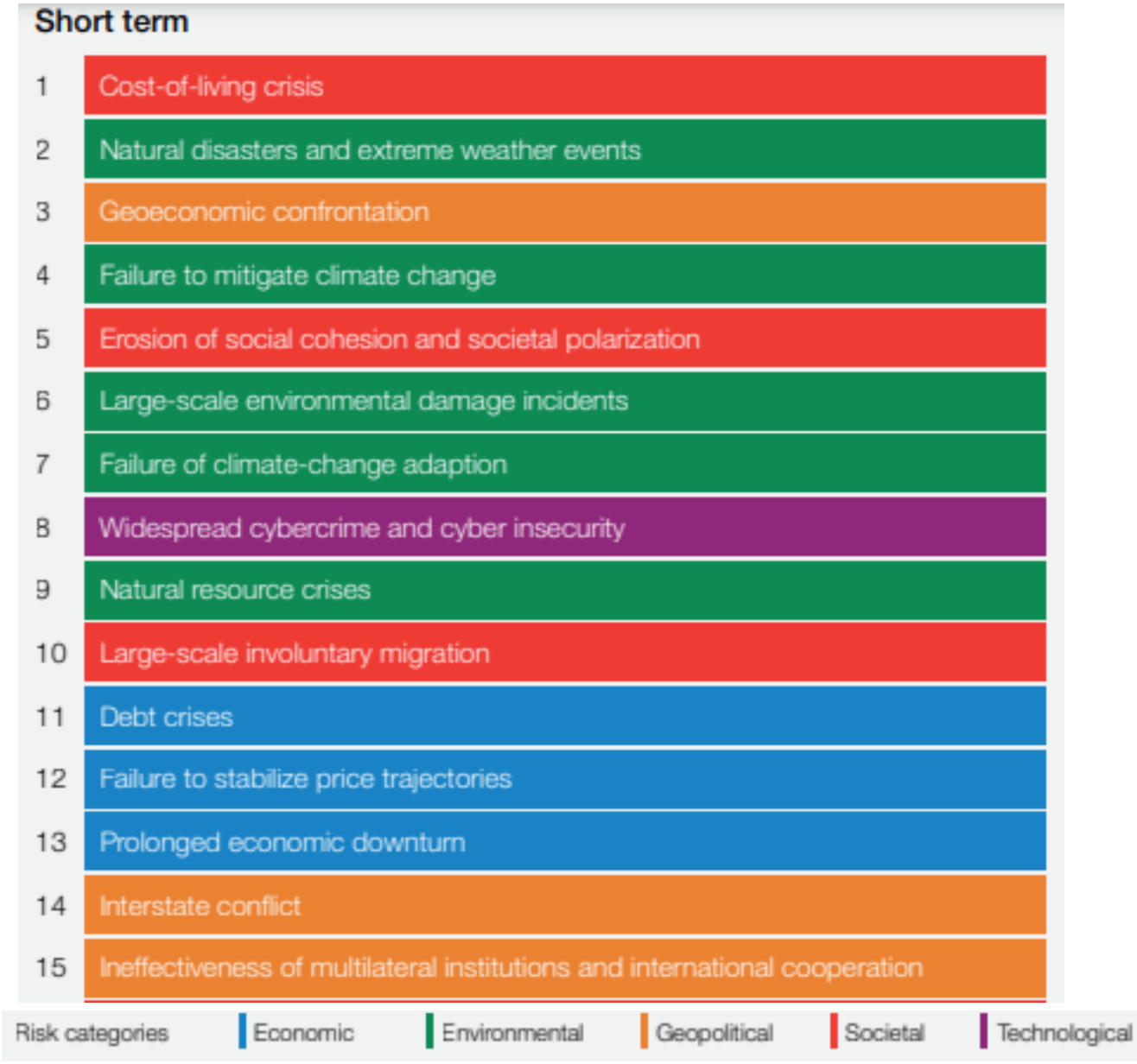
Source: U.S. Bureau of Labor Statistics; Wells Fargo Securities (5/24); USC Center for Risk and Uncertainty Management.

Inflation: Many (Still) View It as a “Crisis”

IMF: Oct. 2022

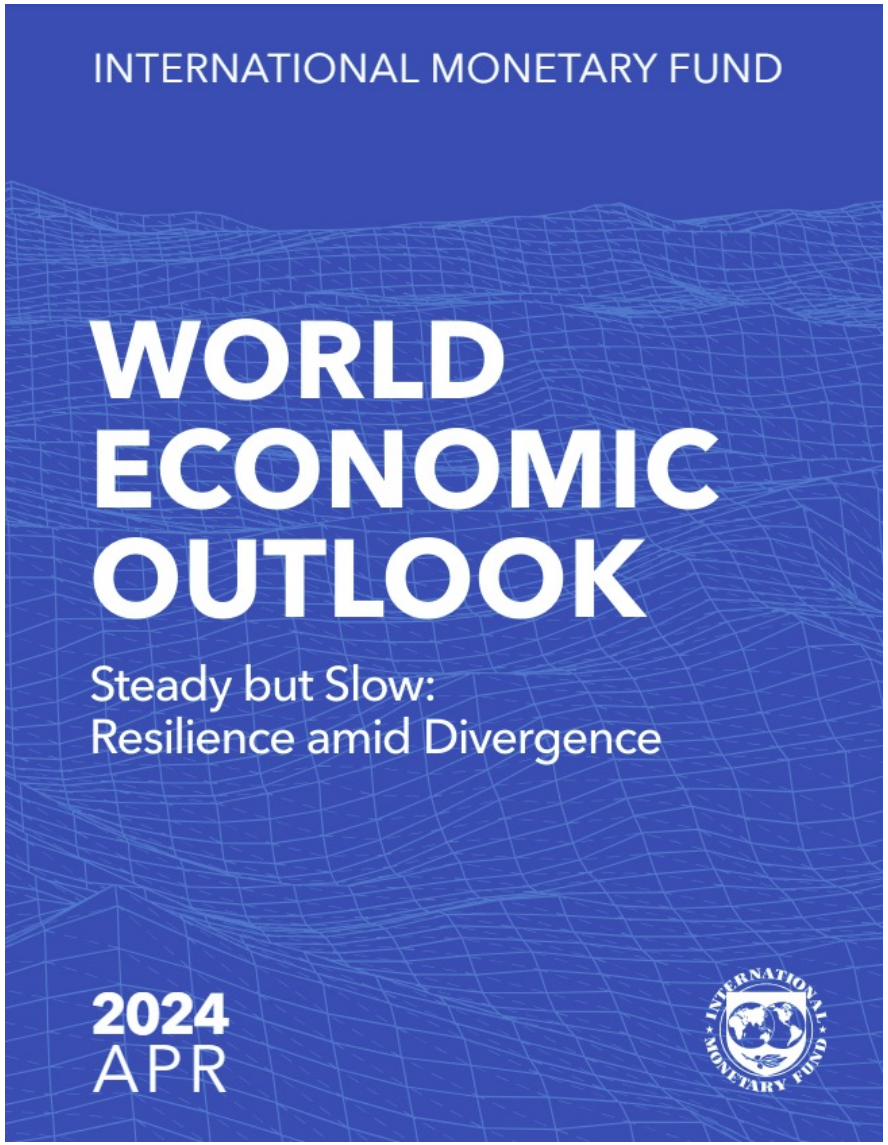


World Economic Forum (Davos): Jan. 2023



Inflation: Many View It as a “Crisis”

IMF: April 2024



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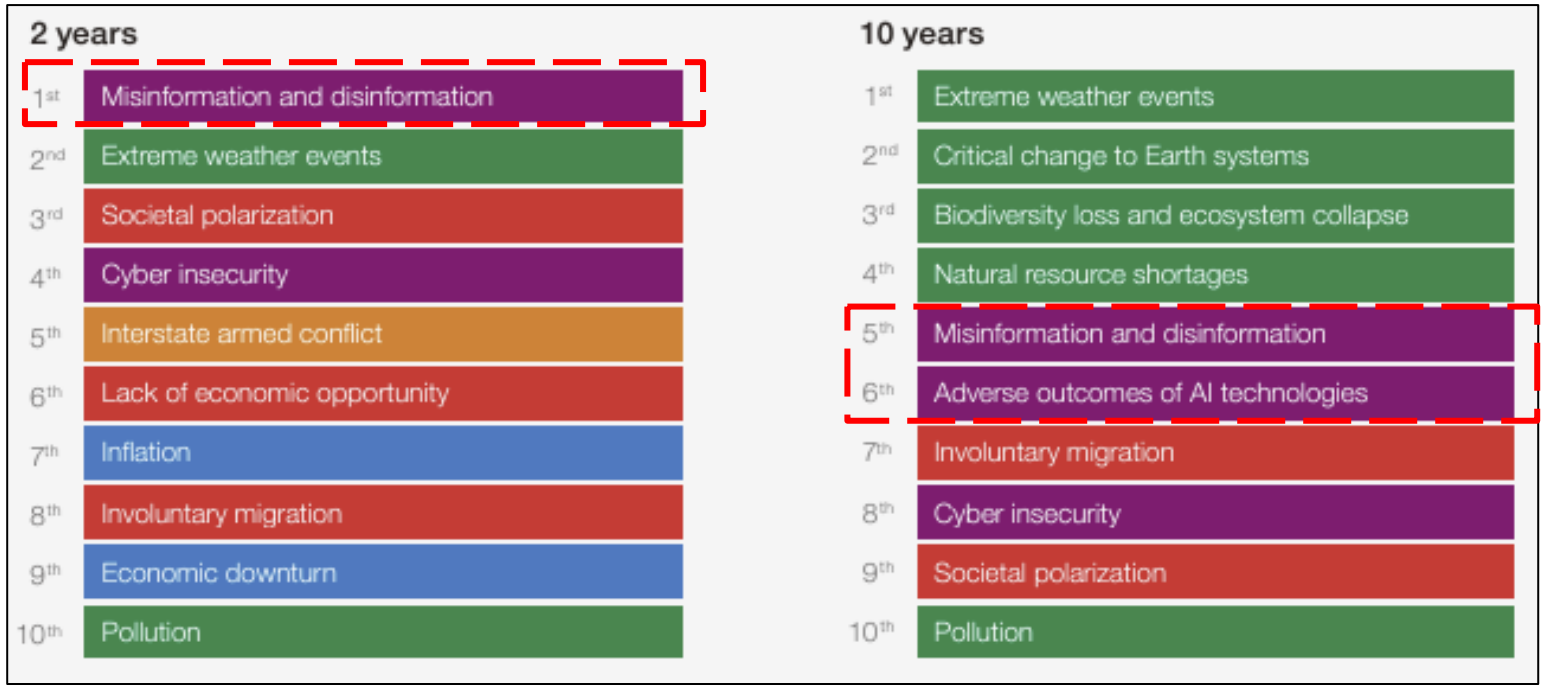
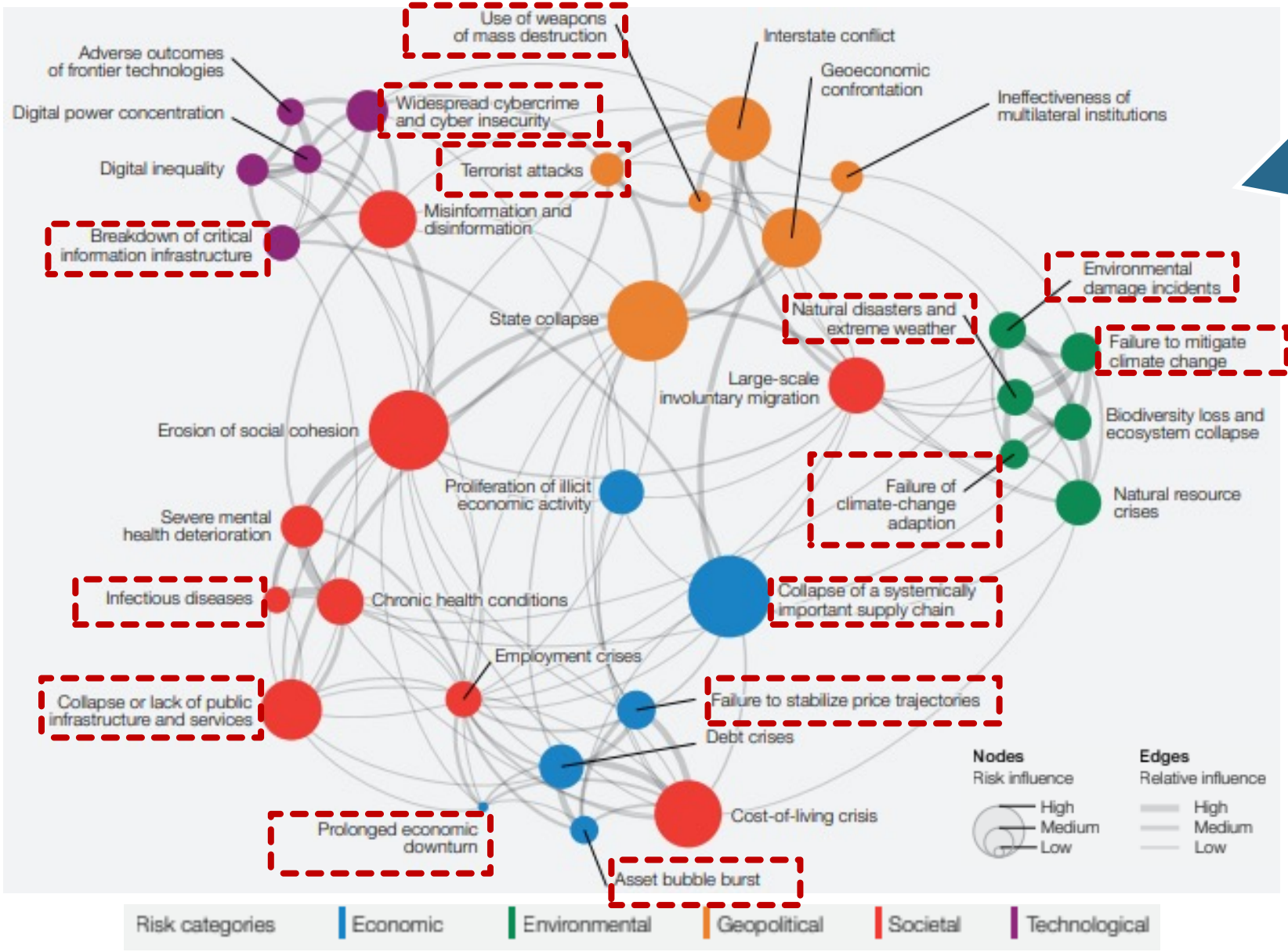


Global Risks Landscape 2023: Interconnections Map



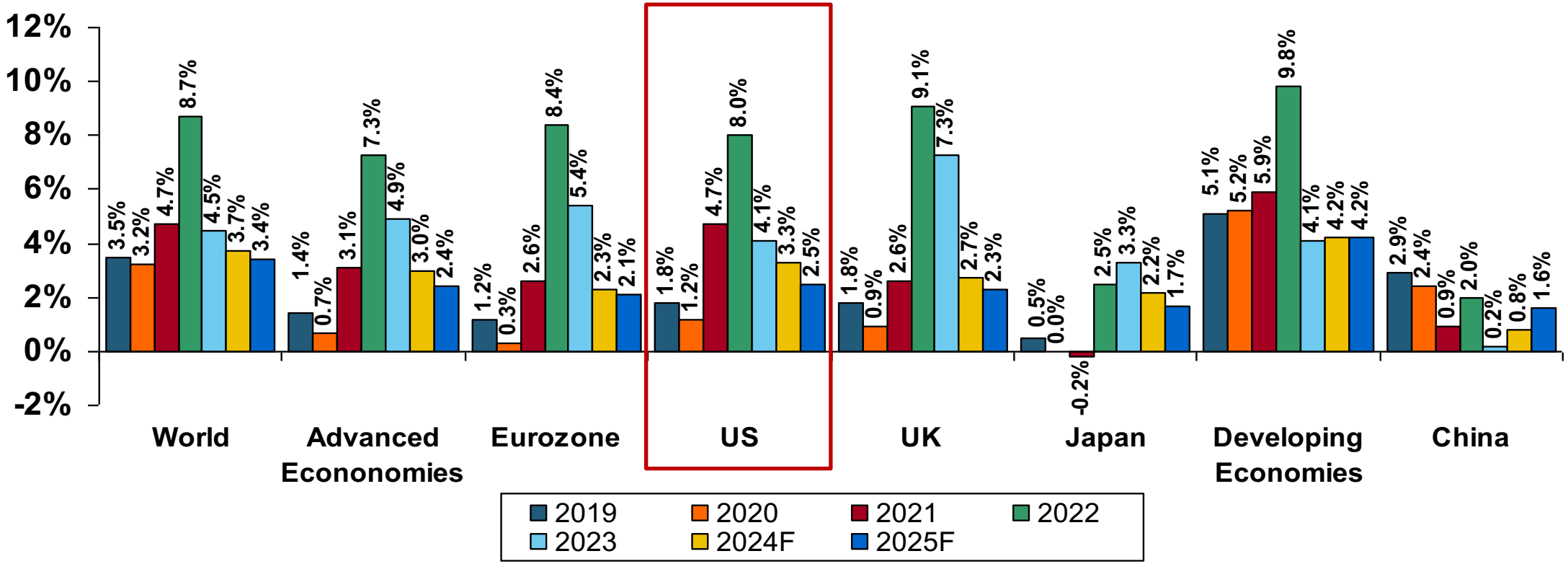
- **Many global risks have direct or indirect consequences for insurers**
- **Should insurers play a leading role in mitgating these risks?**

= 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.

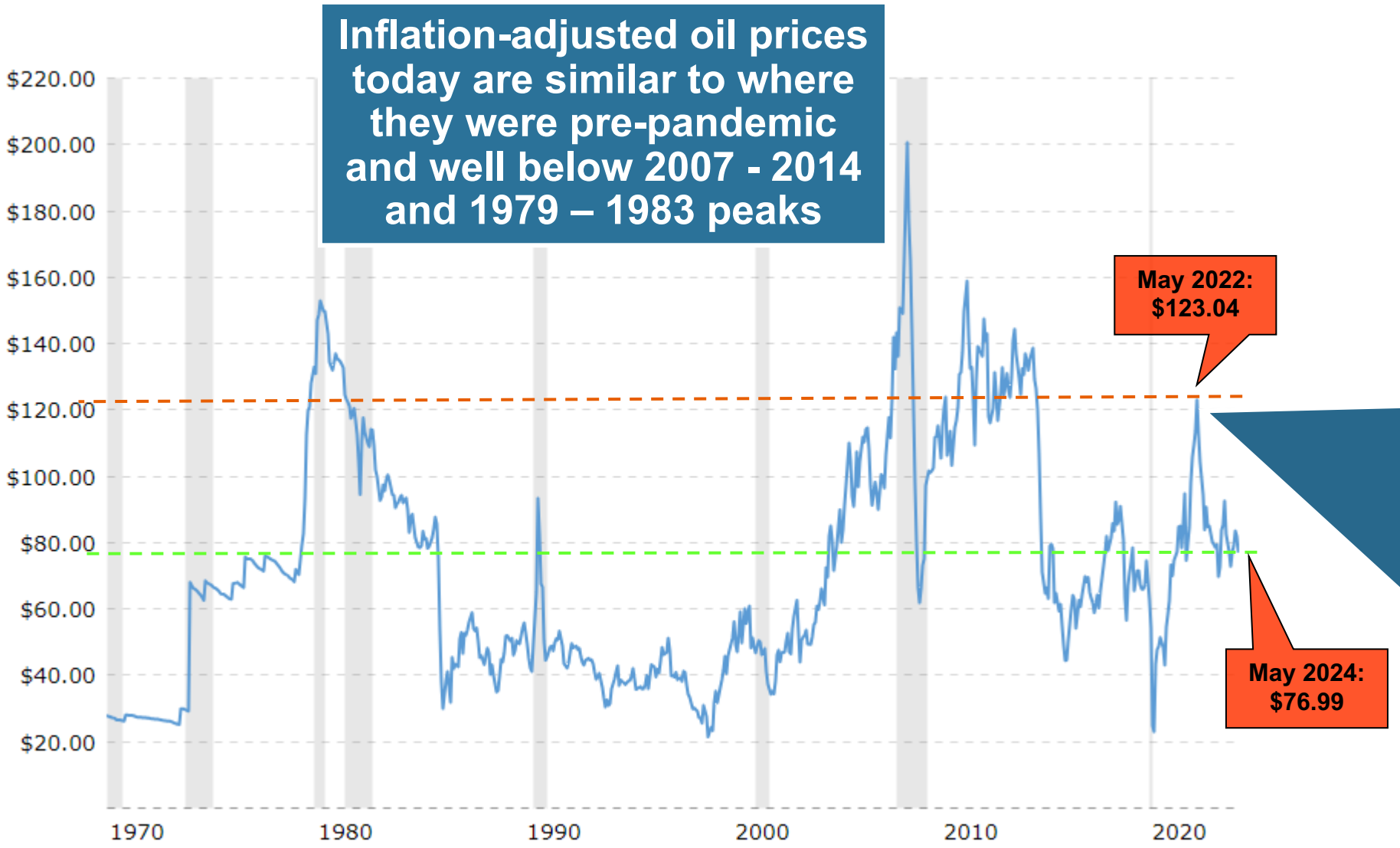
Inflation: A Global Phenomenon – Outlook through 2025F

- Inflation has been a global phenomenon, clearly not just the US
- Higher interest rates to combat inflation have generally not precipitated recessions
- 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 (May 2024); Univ. of South Carolina, Risk and Uncertainty Management Center.

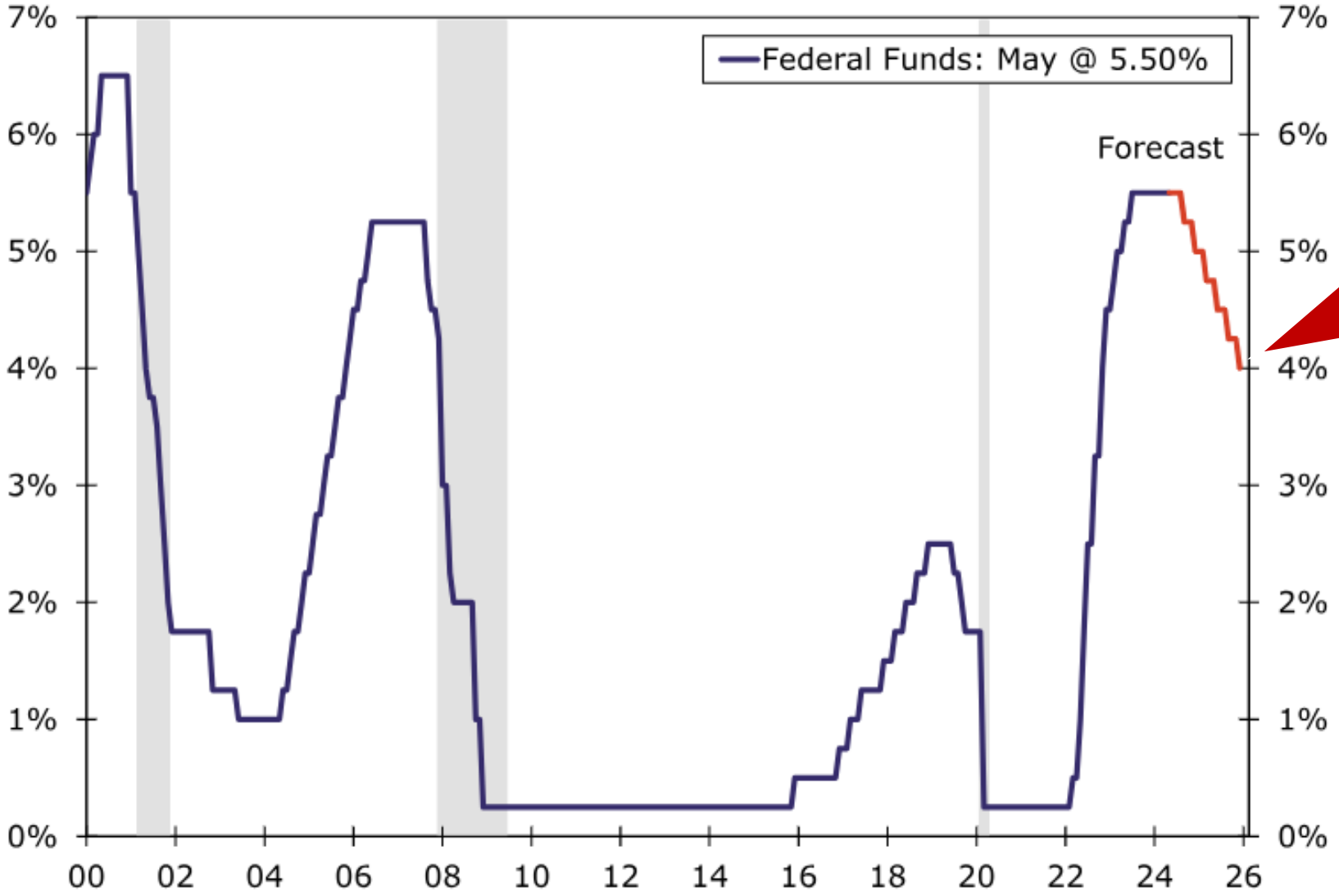
Crude Oil Prices: Price per Barrel,
Jan. 1970 – May 2024 (Inflation Adjusted)



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 economic recoveries exacerbated oil price pressures.

Sources: Macrotrends.net accessed 6/3/24 at: https://www.macrotrends.net/1369/crude-oil-price-history-chart; Risk and Uncertainty Management Center, University of South Carolina.

Federal Funds Target Rate, 2000 – 2025F



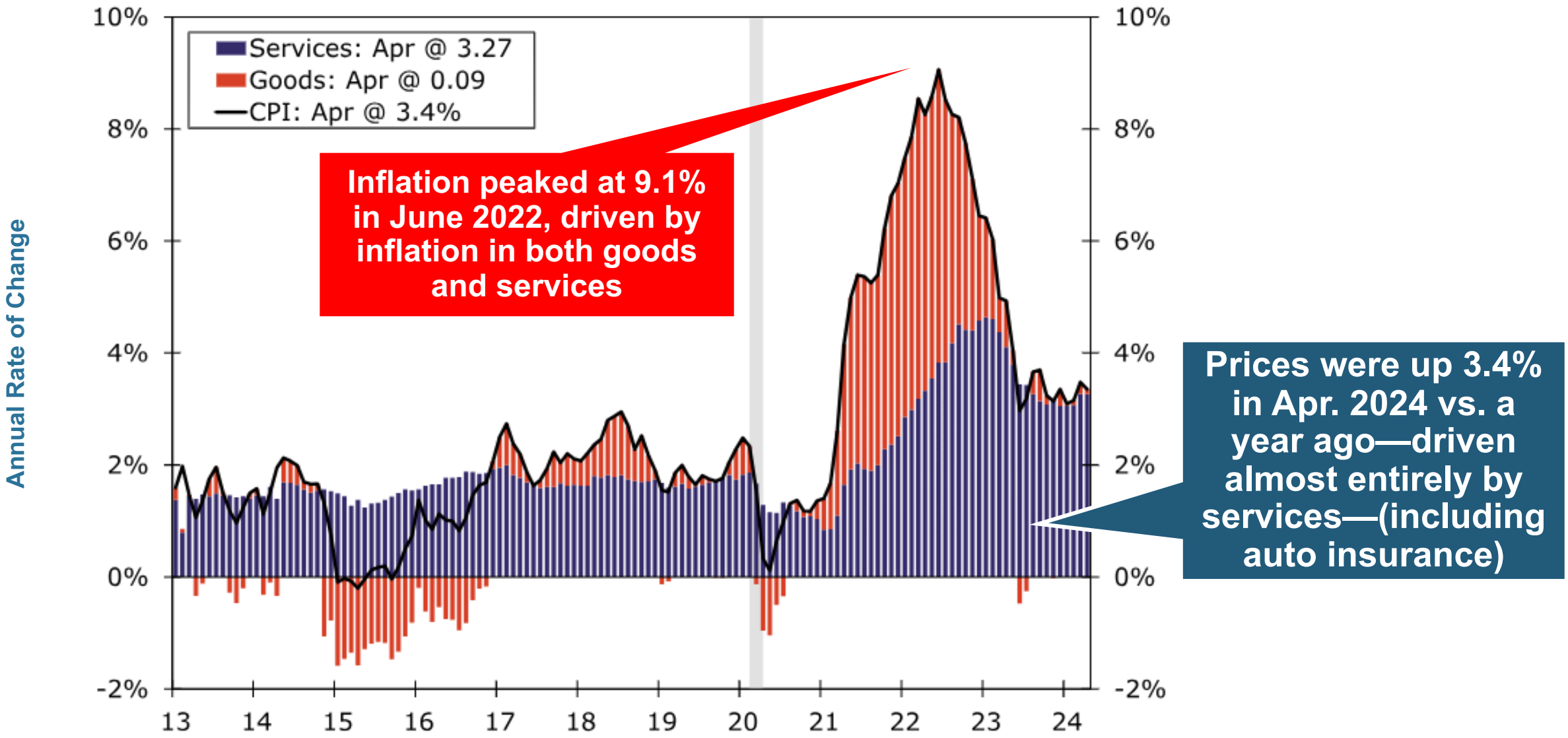
Consensus view *was* that the Fed will begin to cut rates at its June meeting…*but that has shifted to September*

2024: 50bps

2025: 100bps

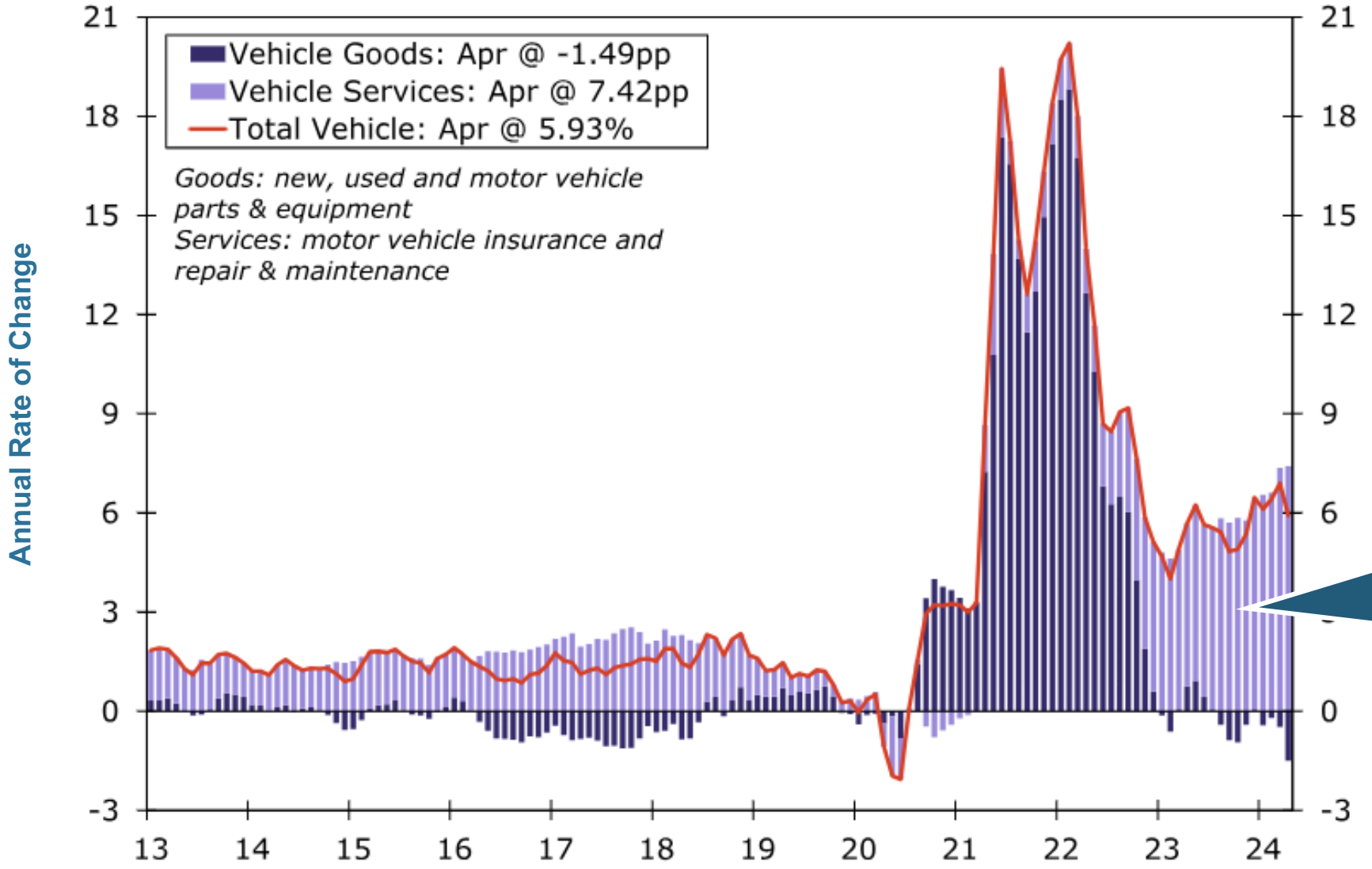
Source: Federal Reserve Board and Wells Fargo Securities.

Contribution to CPI, Goods vs. Services, Apr. 2024



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

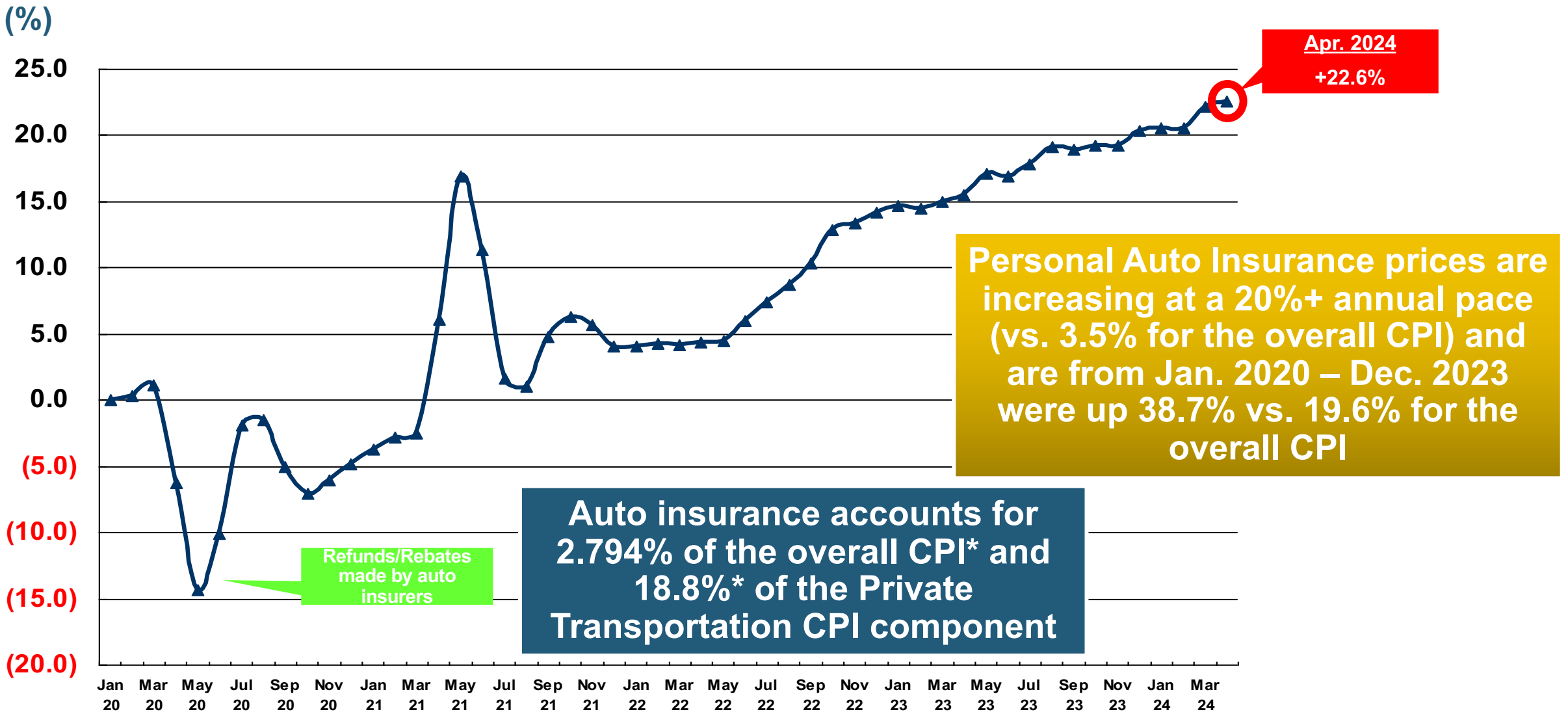
Motor Vehicle Inflation, Jan. 2013 – Apr. 2024



Motor Vehicle Services includes insurance—which was up 22.6% in Apr. 2024 vs. a year ago

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

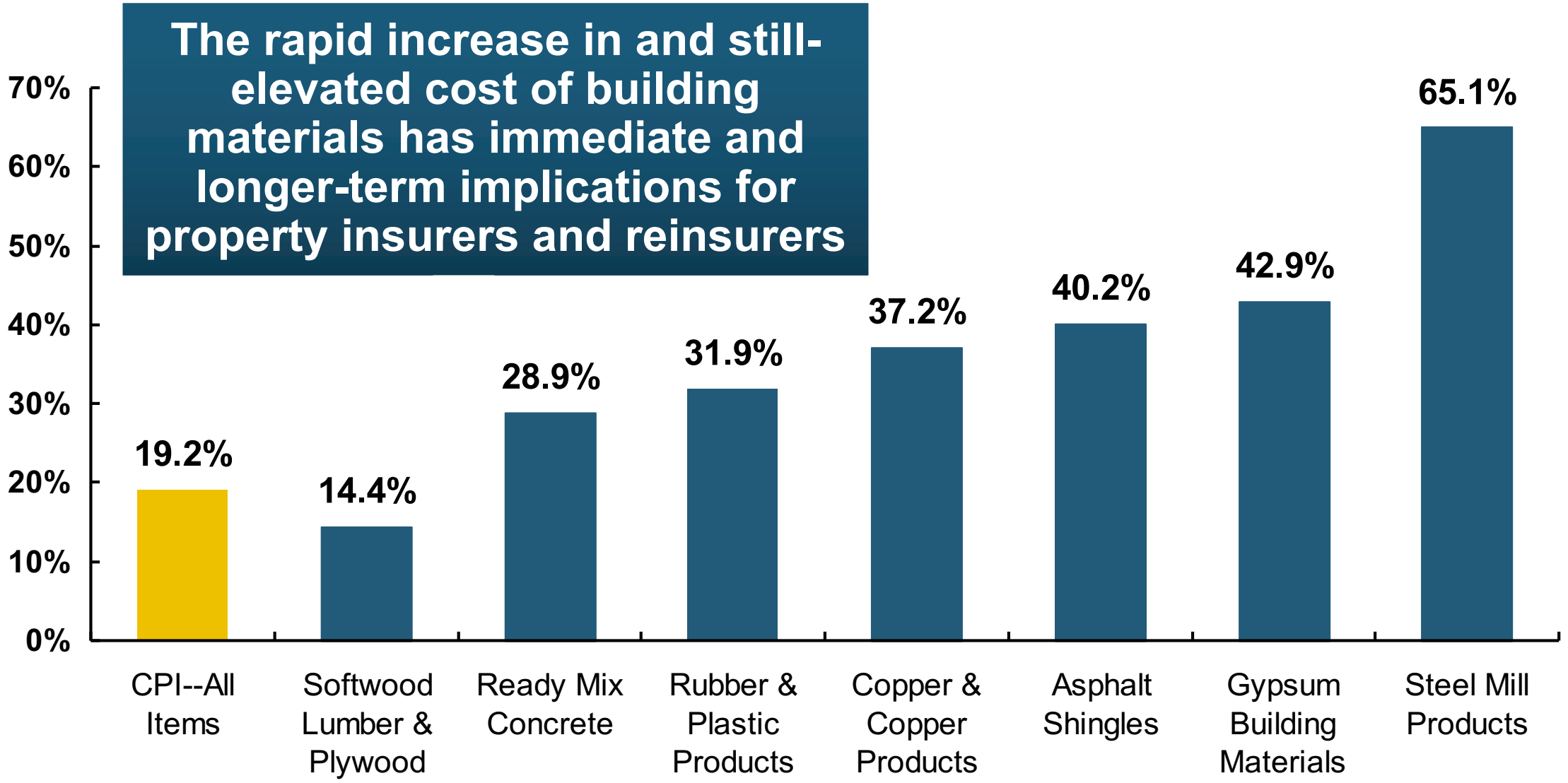
CPI for Motor Vehicle Insurance, 12-Month Change: Jan. 2020 – Apr. 2024



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

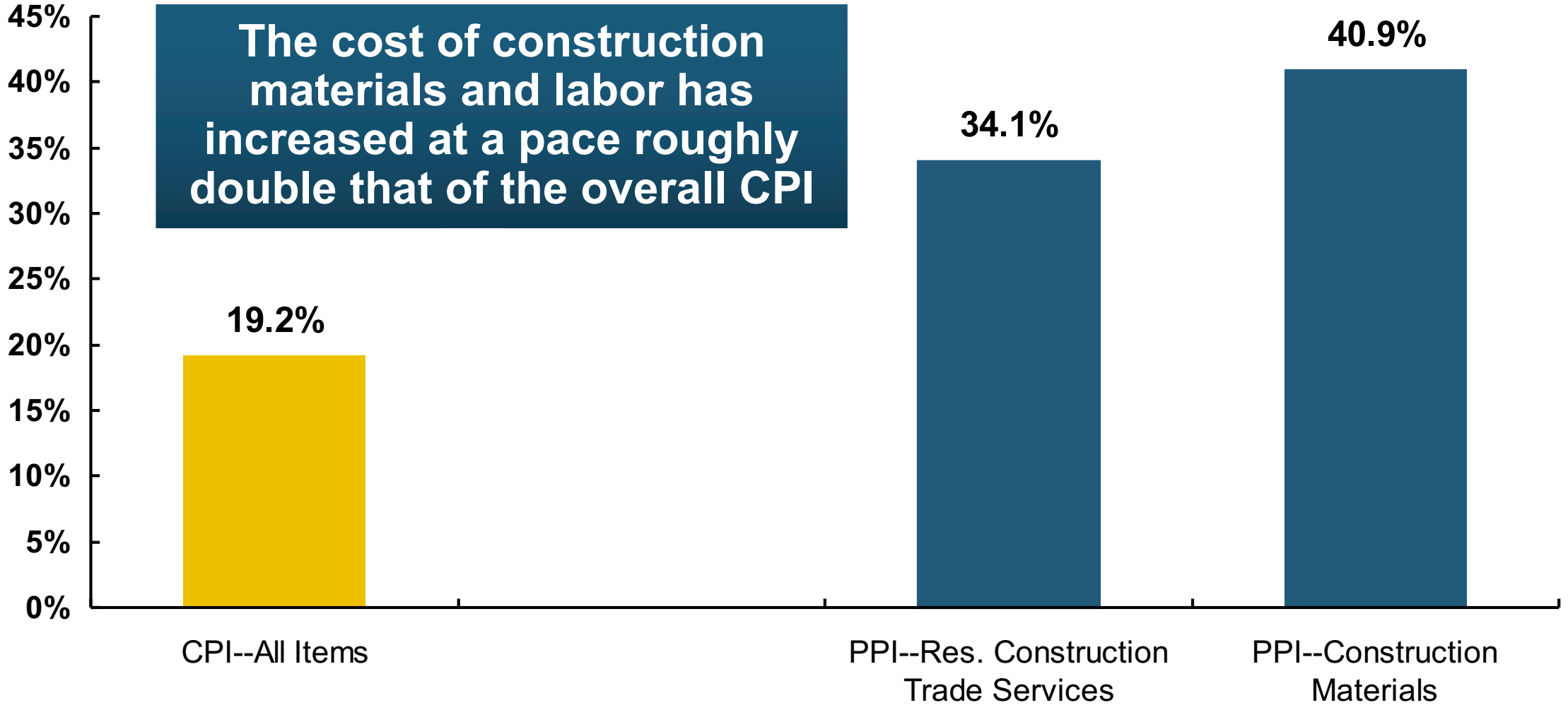
Sources: US Bureau of Labor Statistics, accessed at: https://data.bls.gov/timeseries/CUUR0000SETE. Risk and Uncertainty Management Center, University of South Carolina.

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



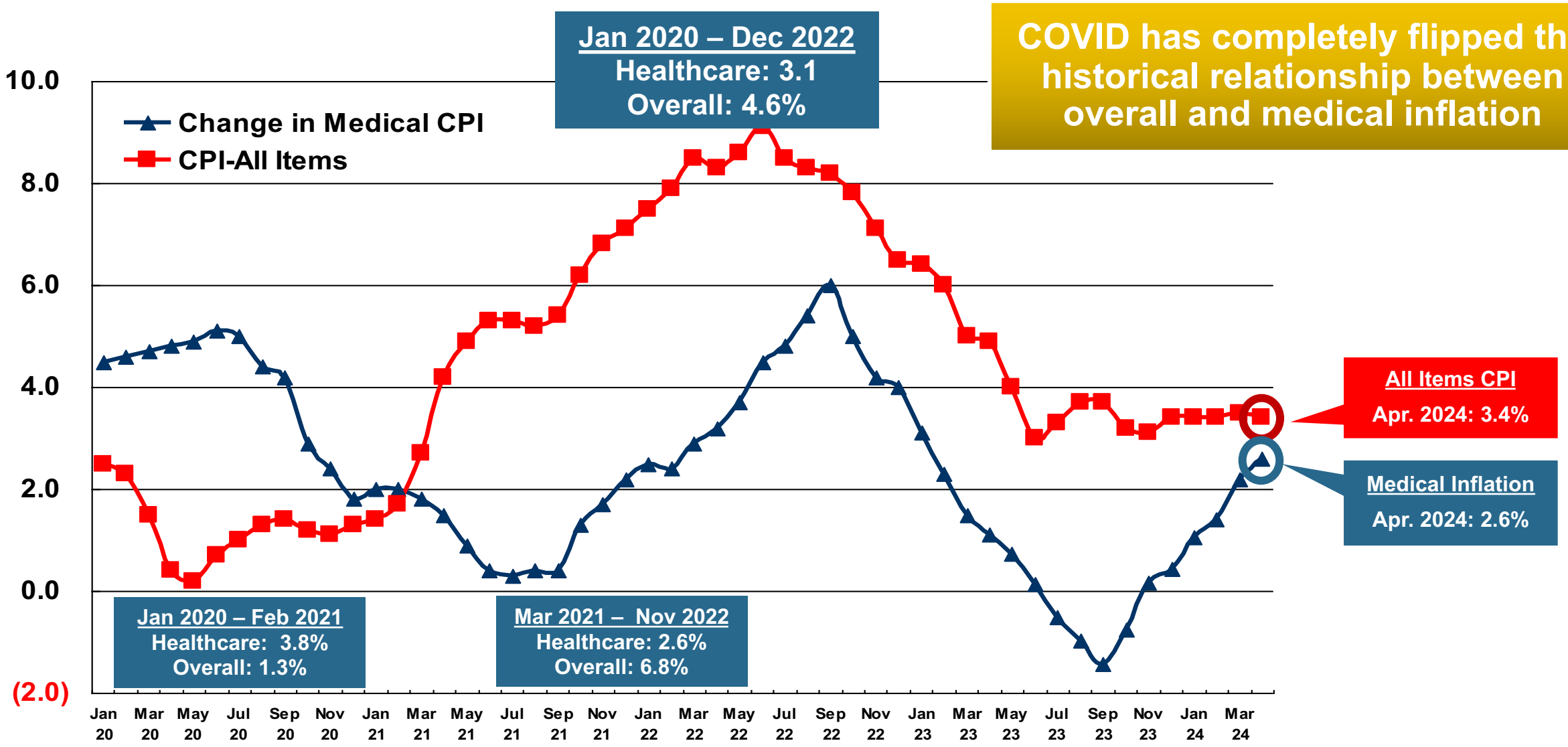
Source: U.S. Bureau of Labor Statistics.

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



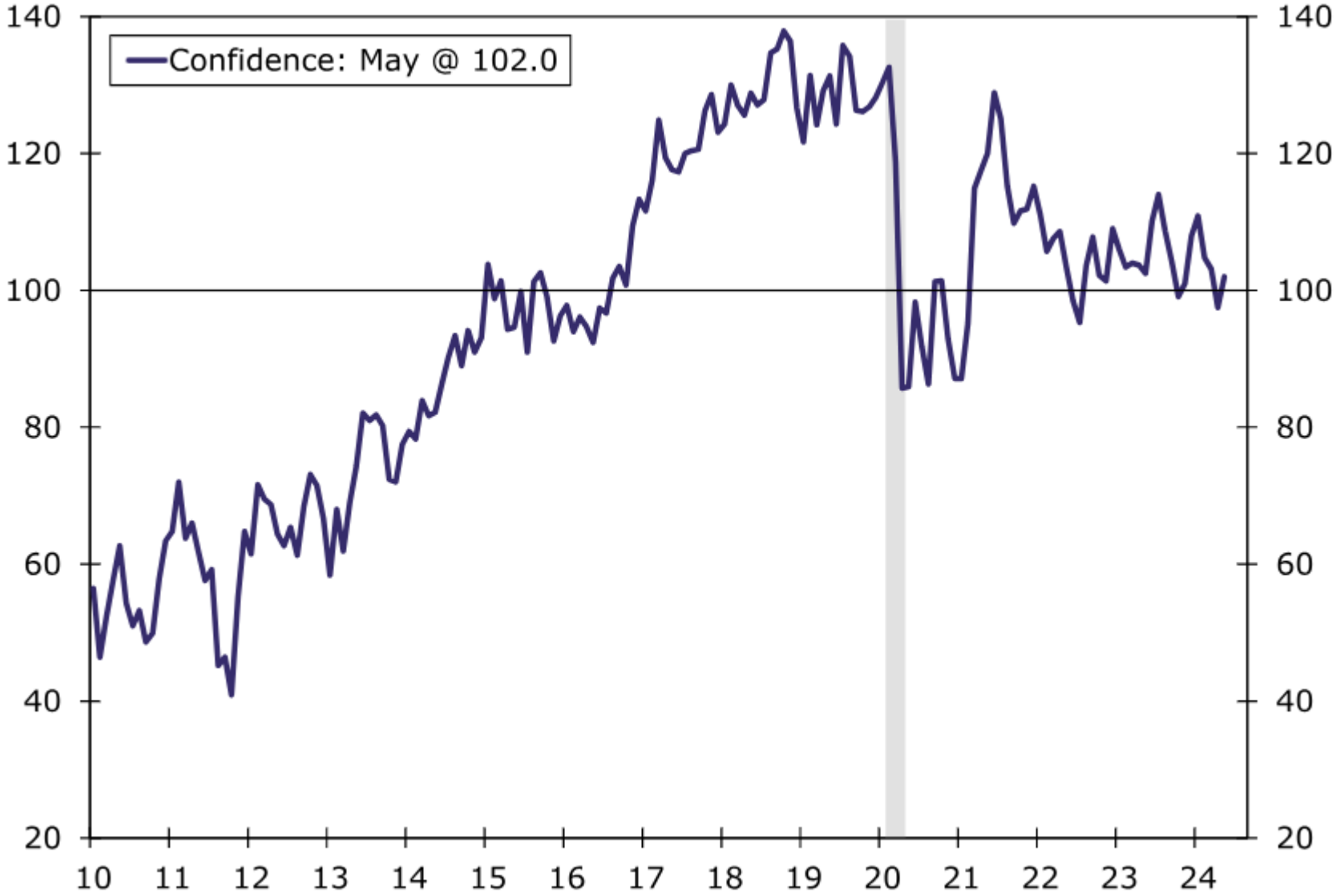
Source: U.S. Bureau of Labor Statistics.

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



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

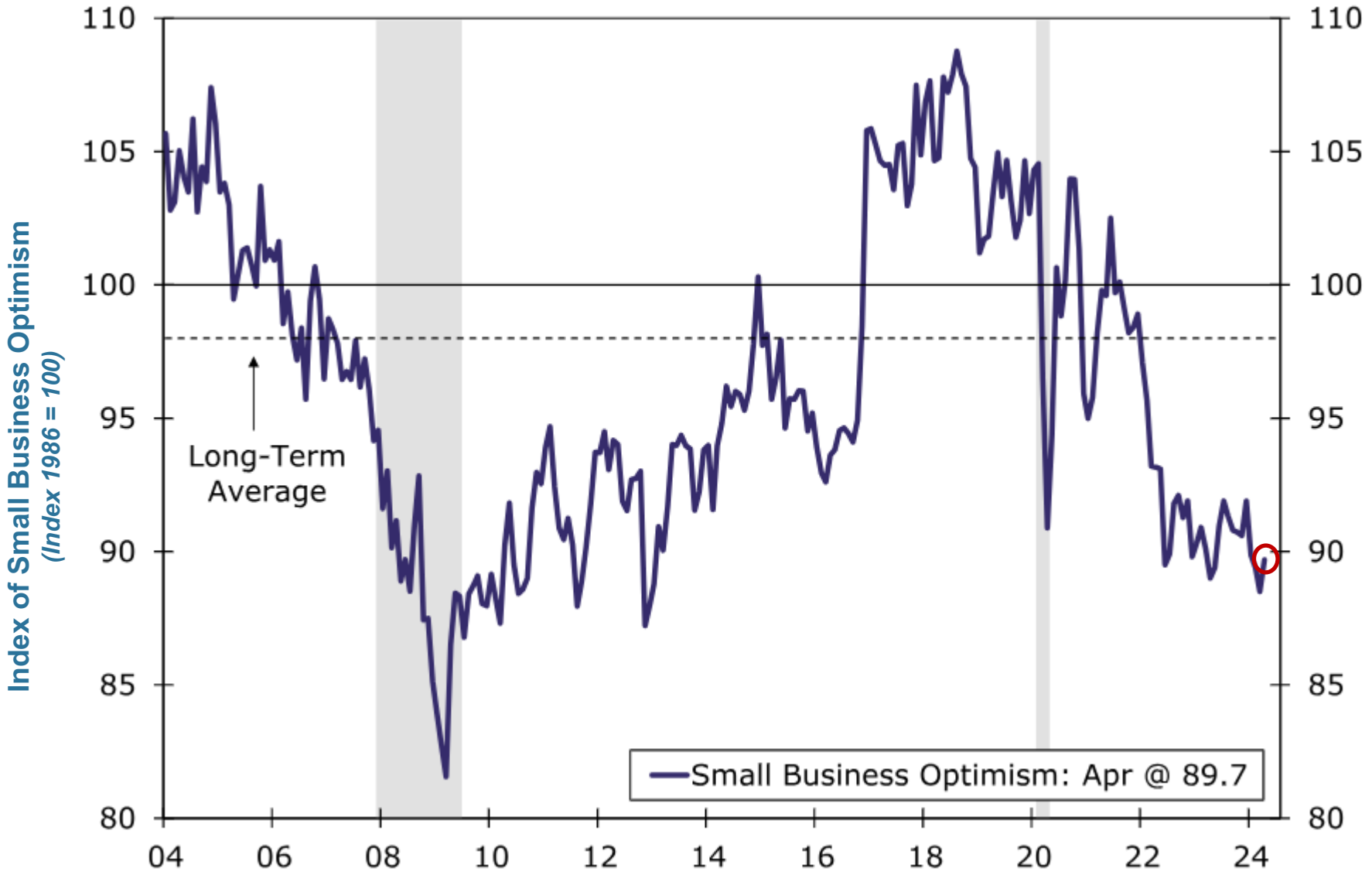
Consumer Confidence: Holding Steady Amid Strong Job Growth, Lower Inflation



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

Source: The Conference Board and Wells Fargo Economics.

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 recession.

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

Source: NFIB 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)*

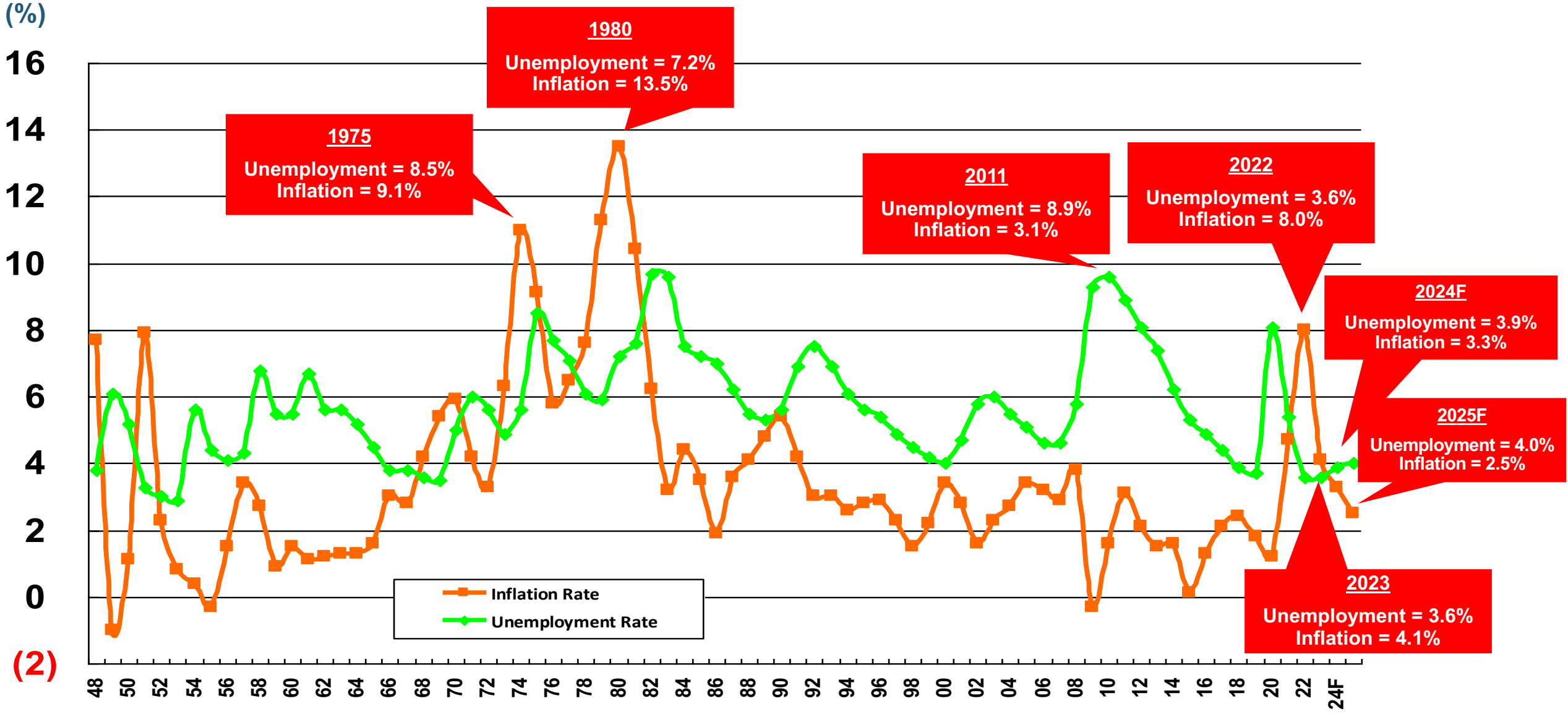
A Quick Review of Economic History Is Helpful

How do Americans Feel About the Economy?

- **55% believe the economy is shrinking, and 56% think the US is currently experiencing a recession**
  - ***Fact: Economy has been expanding since the pandemic (+2.5% in '23, +2.6% (est.) in '24)***
- **49% believe the S&P 500 stock market index is down for the year**
  - ***Fact: S&P 500 was up 10.6% through May 2024, and up about 24% in 2023***
- **49% Believe that Unemployment is at a 50-Year High**
  - ***Fact: Unemployment rate has been under 4%, a near 50-year low, for the longest continuous period since the late 1960s-early 1970***
- **72% Believe Inflation is Increasing**
  - ***Fact: Inflation peaked at 9.1% in June 2022, was 4.1% in 2023; 3.5% in Apr. 2024***

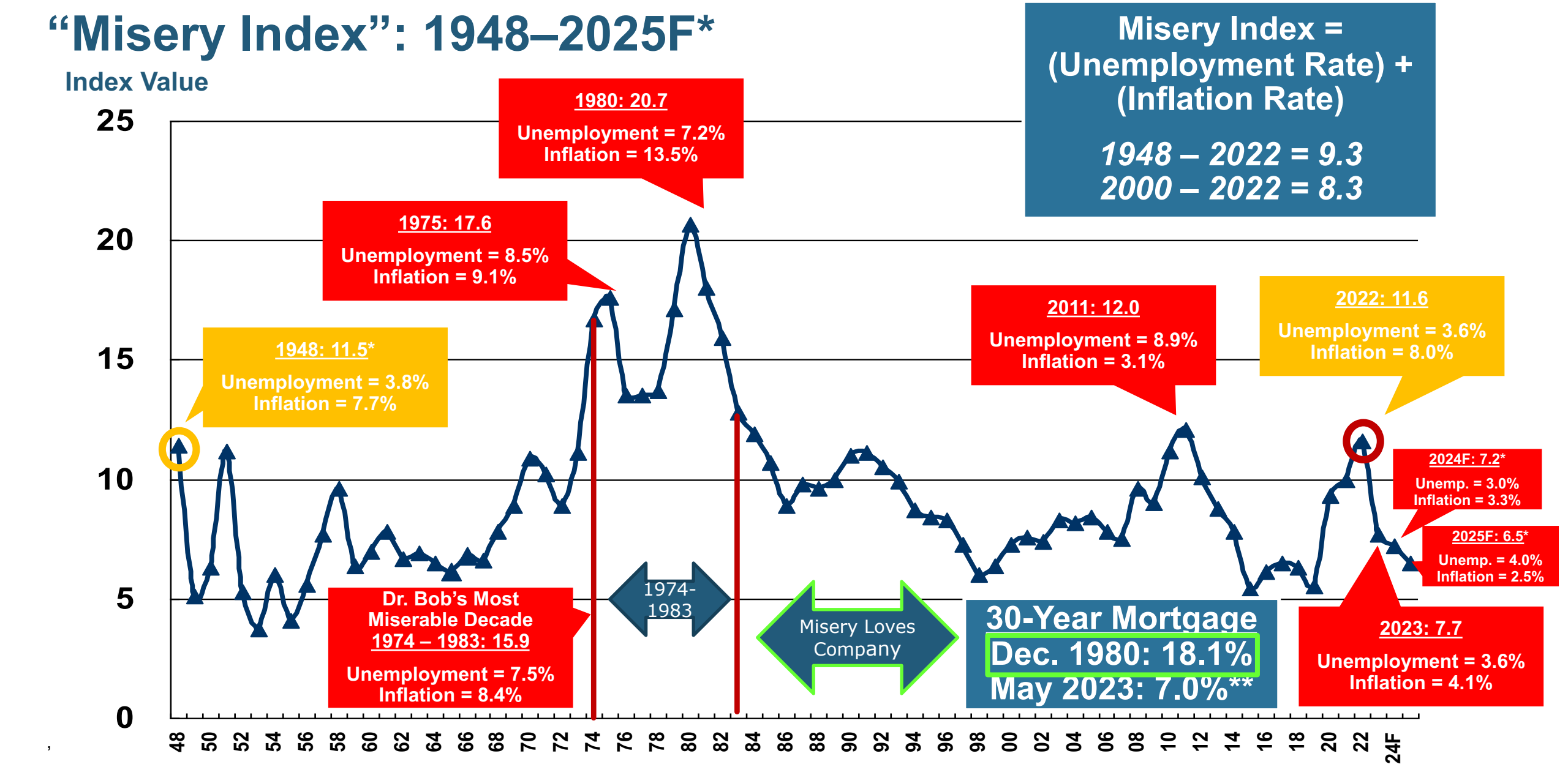
Source: Harris Poll conducted for The Guardian (May 2024): https://www.theguardian.com/us-news/article/2024/may/22/poll-economy-recession-biden; Center for Risk and Uncertainty Management, University of South Carolina.

Inflation and Unemployment Rate, 1948–2025F*



*2024-25 forecast of unemployment and inflation rates based on Wells Fargo Securities forecasts (5/24).
Source: U.S. Bureau of Labor Statistics; Center for Risk and Uncertainty Management, University of South Carolina.

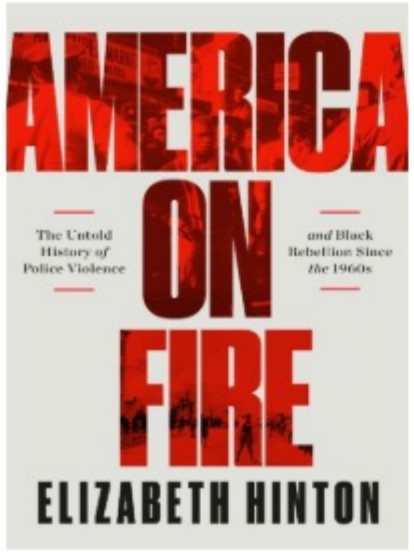
“Misery Index”: 1948–2025F*



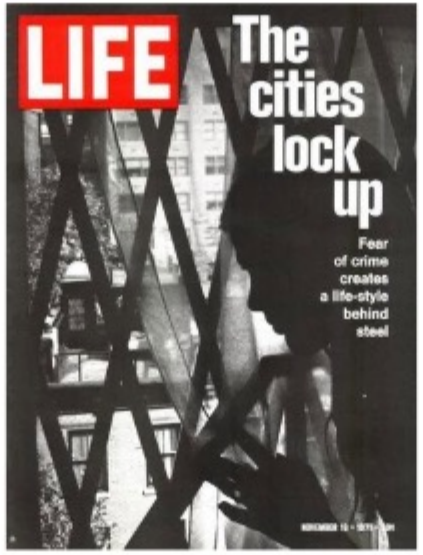
*Estimated based on Wells Fargo Securities forecasts (5/24).
**As of 5/30/24 based on Freddie Mac data.
Source: U.S. Bureau of Labor Statistics; Center for Risk and Uncertainty Management, University of South Carolina.

STUDY HISTORY: IT WAS A LOT WORSE IN THE 1970s

Nothing divides America today as much today as the Vietnam War did in 1968-1974



Some protests after George Floyd's murder got violent... After the murders of MLK Jr. & RFK Sr. widespread riots rocked multiple U.S. cities for weeks

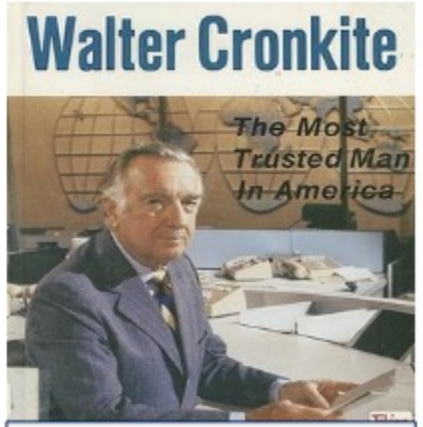


At its pandemic high (2020) the violent crime rate in the U.S. was still below the rate in every year between 1972-2010 (FBI data)

Today's consumers pay 11% of wages for food & pay just over 7% for a 30yr fixed home mortgage… both below prices for the same things *every year* in the 1970s. (USDA & FRED data)

But, but, but…

We trusted the media to help us make sense of a scary world back then… today, not so much



Trust in Mass Media
(Great Deal / Fair amount)
1976: **72%**
2023: **32%**
(Gallup)

Sources: Mehlman Consulting, Q2 2024 presentation: https://mehlmanconsulting.com/wp-content/uploads/The-Not-It-Election-MehlmanQ2-2024.pdf

MEHLMAN CONSULTING

P/C Insurance Industry Financial Overview & Outlook:

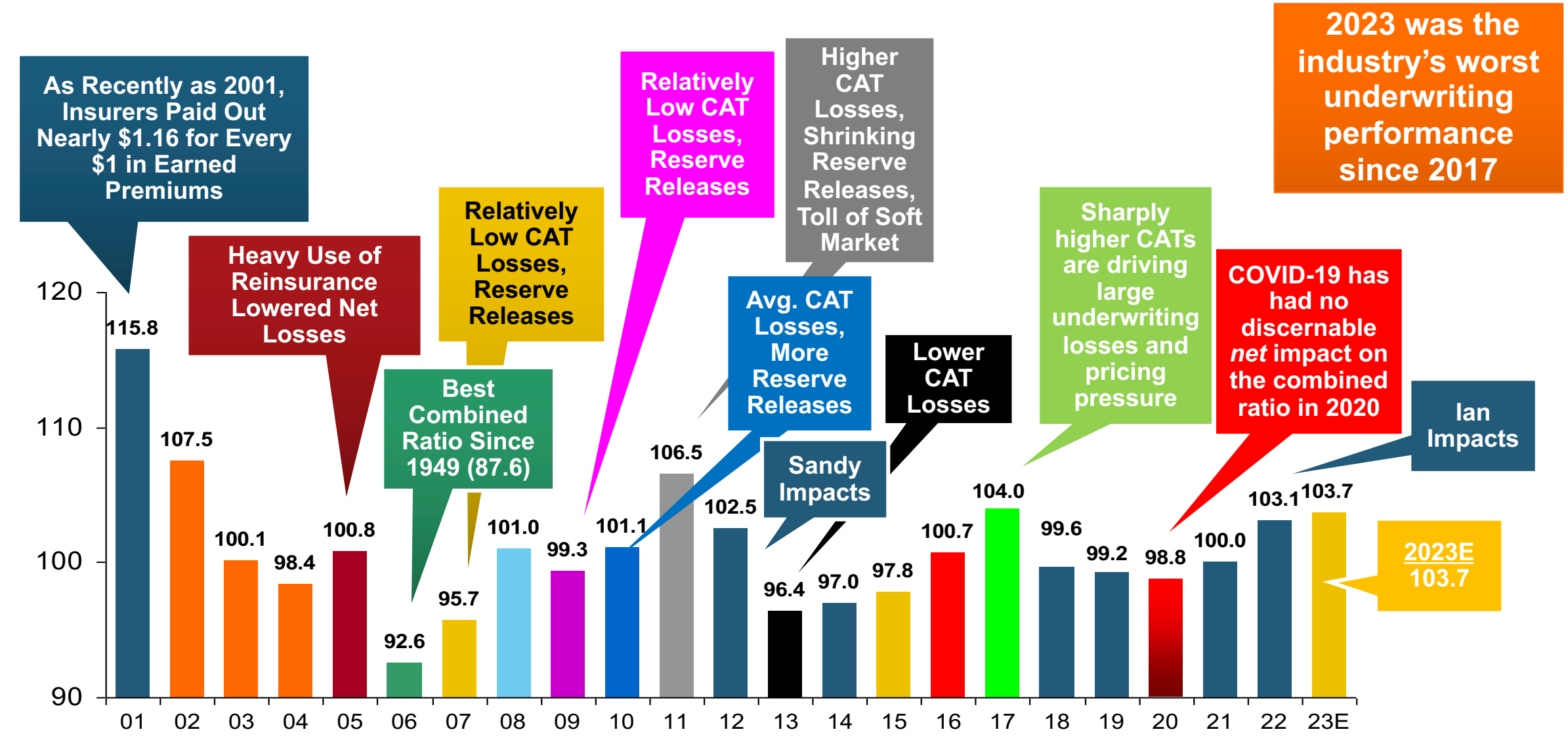
Challenges Amid Inflation and Higher Interest Rates

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

Industry Remains Strong

45

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



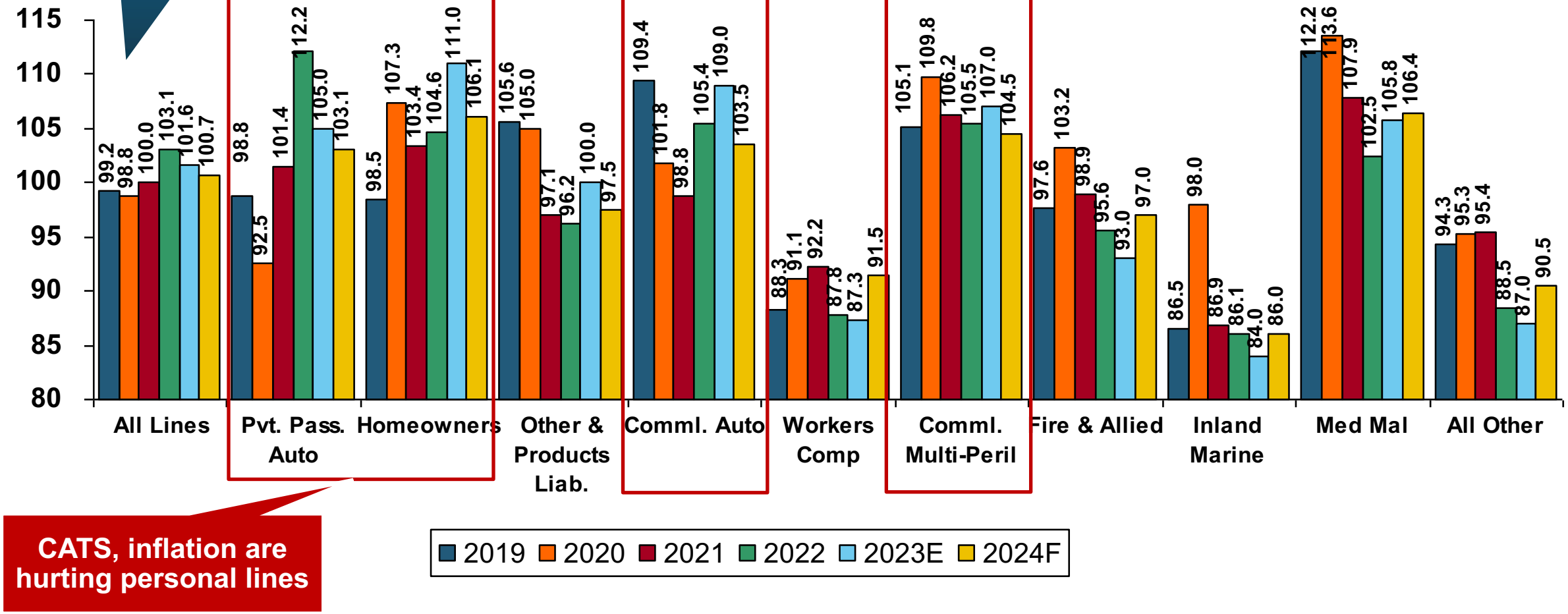
*Excludes Mortgage & Financial Guaranty insurers 2008–2014.
Sources: A.M. Best, ISO (2014-2023EF).

Combined Ratios by Line: 2019 – 2024F*

High CAT losses and inflation are pushing up combined ratios

Commercial Auto, MP have struggled amid inflation, CATs

Lingering inflation will continue to pressure combined ratios in 2024



CATS, inflation are hurting personal lines

Source: A.M. Best *Review & Preview* (2019-2022; 2024 forecasts as of Mar. 2024); NAIC Annual statement data for 2023. Univ. of South Carolina, Risk and Uncertainty Management Center.

P/C Insurance Industry Combined Ratio, 2016–2024F

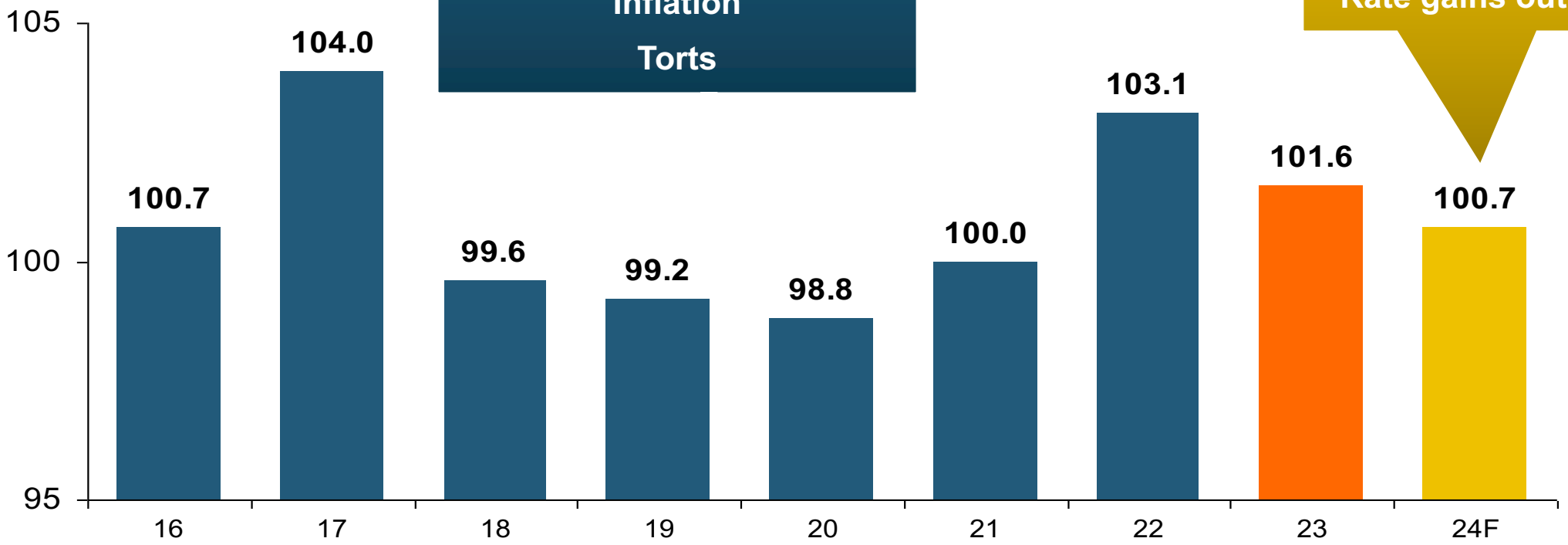
P/C insurer underwriting performance has been highly variable over the past decade, largely due to:

- CATs
- Inflation
- Torts

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

DRIVERS

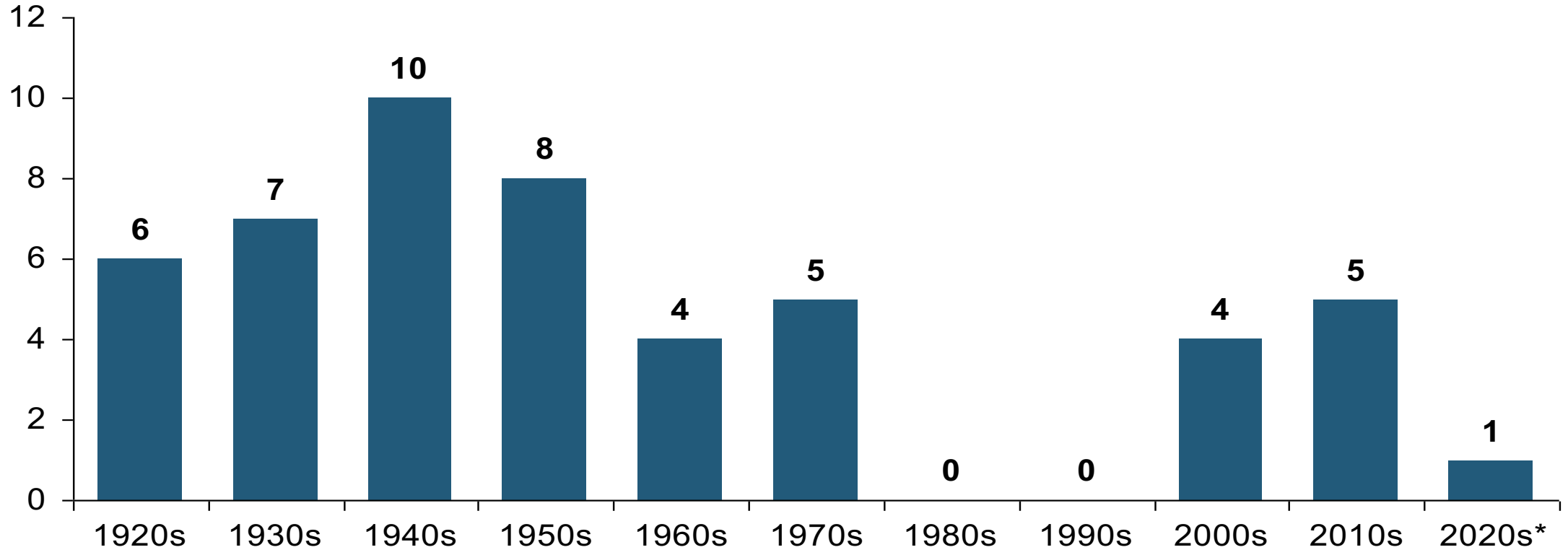
- Inflation moderates
- Rate gains outpace claim costs



Sources: A.M. Best (2016-2022 and 2024F); Best's Review & Preview (March 2024). NAIC Annual Statements (2023).

Number of Years with Underwriting Profits by Decade, 1920s–2020s

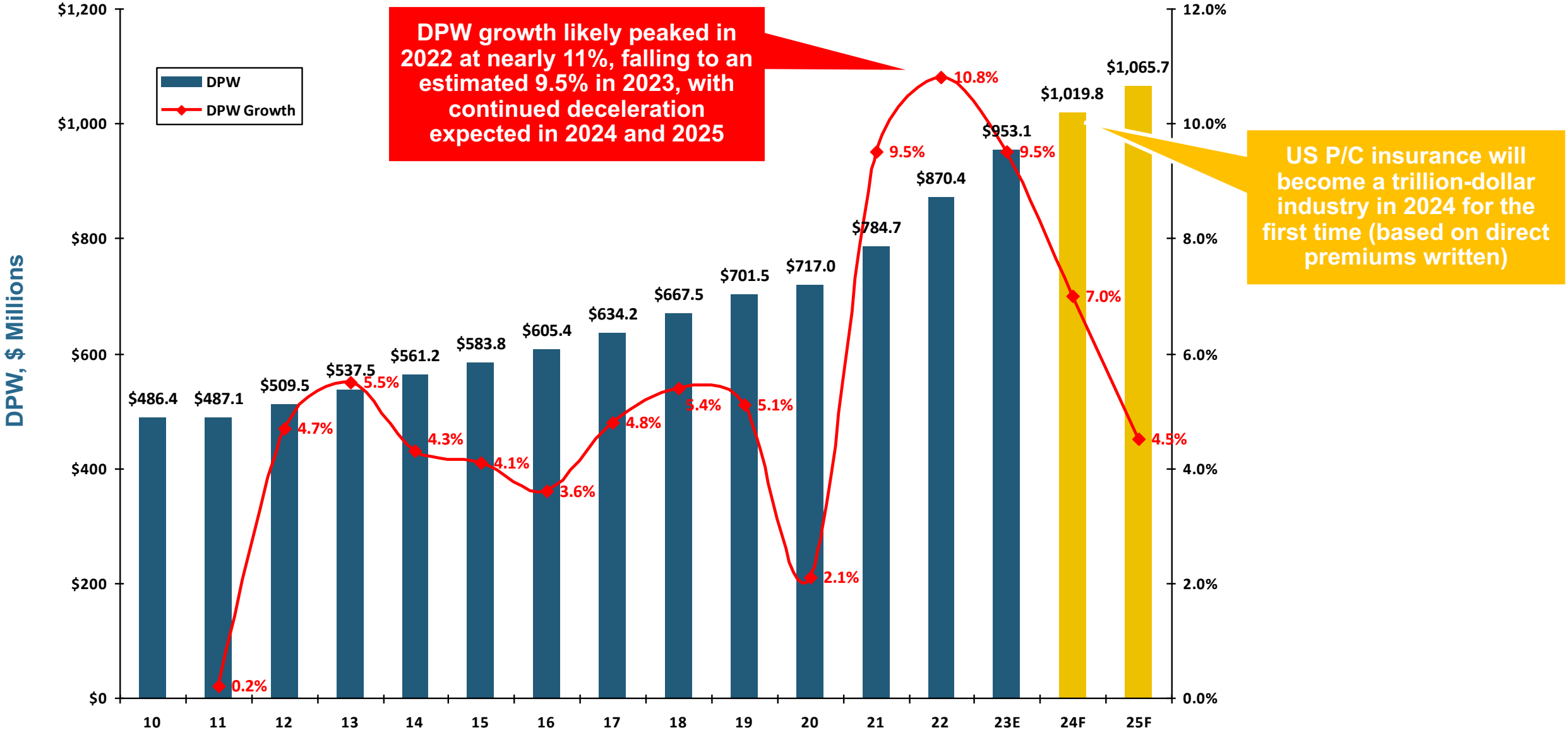
Number of Years with Underwriting Profits



Underwriting Profits Were Common Before the 1980s (40 of the 60 Years Before 1980 Had Combined Ratios Below 100) –But Then They Vanished. Not a Single Underwriting Profit Was Recorded in the 25 Years from 1979 Through 2003

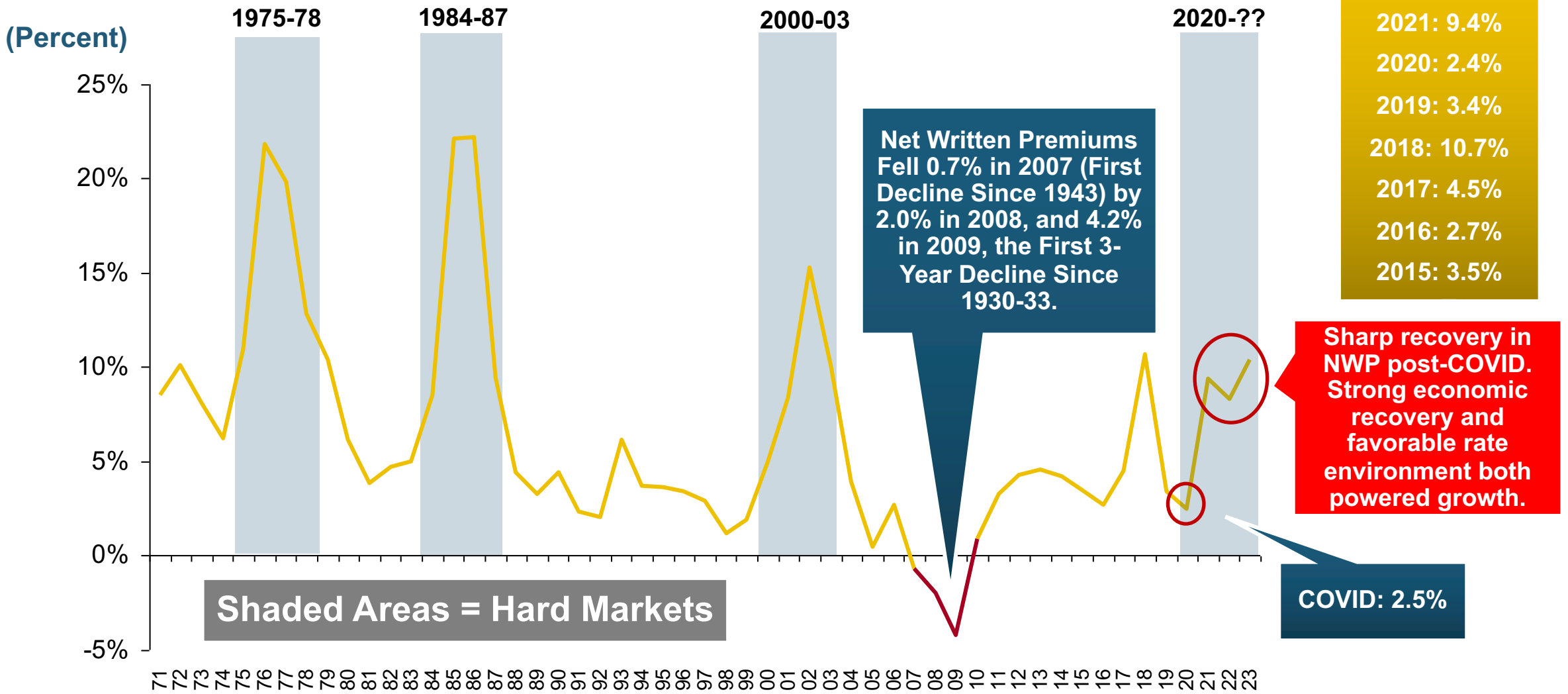
* 2020 through 2023.
Note: Data for 1920–1934 based on stock companies only. Underwriting profit is defined as a combined ratio <100.
Sources: Insurance Information Institute research from A.M. Best Data.

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



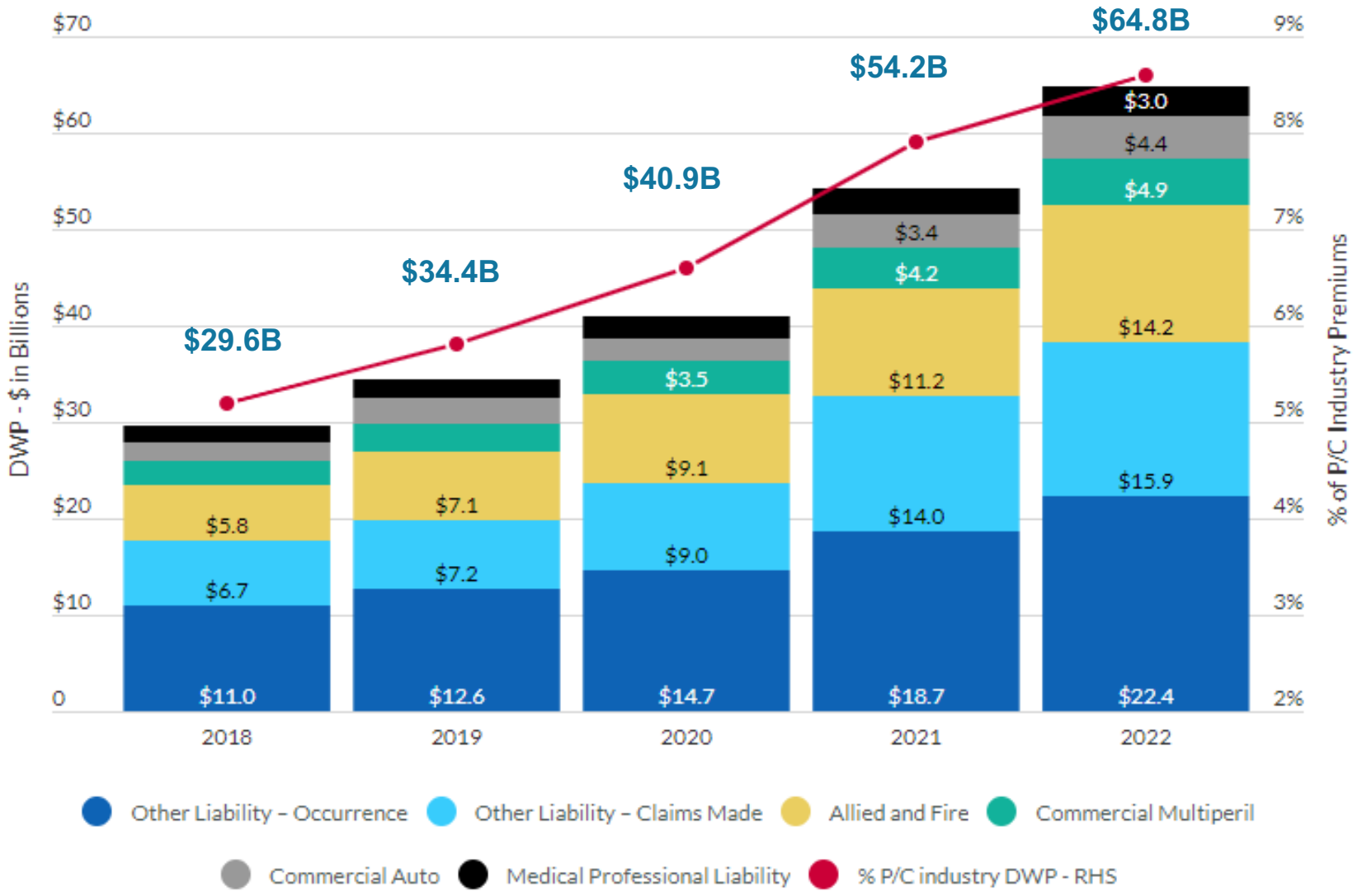
Sources: A.M. Best and NAIC (2010-2022); Forecast figures for 2024-25 calculated by Risk and Uncertainty Management Center, Univ. of South Carolina from Swiss Re Institute (2024F-2025F) "*US Property & Casualty Outlook: Strong Momentum into 2024 Led by Personal Lines,*" (January 2024) accessed at: https://www.swissre.com/dam/jcr:e0013881-51ed-443c-ad22-b03ec9380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

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



NOTE: Shaded areas denote “hard market” periods.
Sources: A.M. Best (1971-2013), ISO (2014-21); NAIC (2022-2023); Risk & Uncertainty Management Center, Univ. of South Carolina

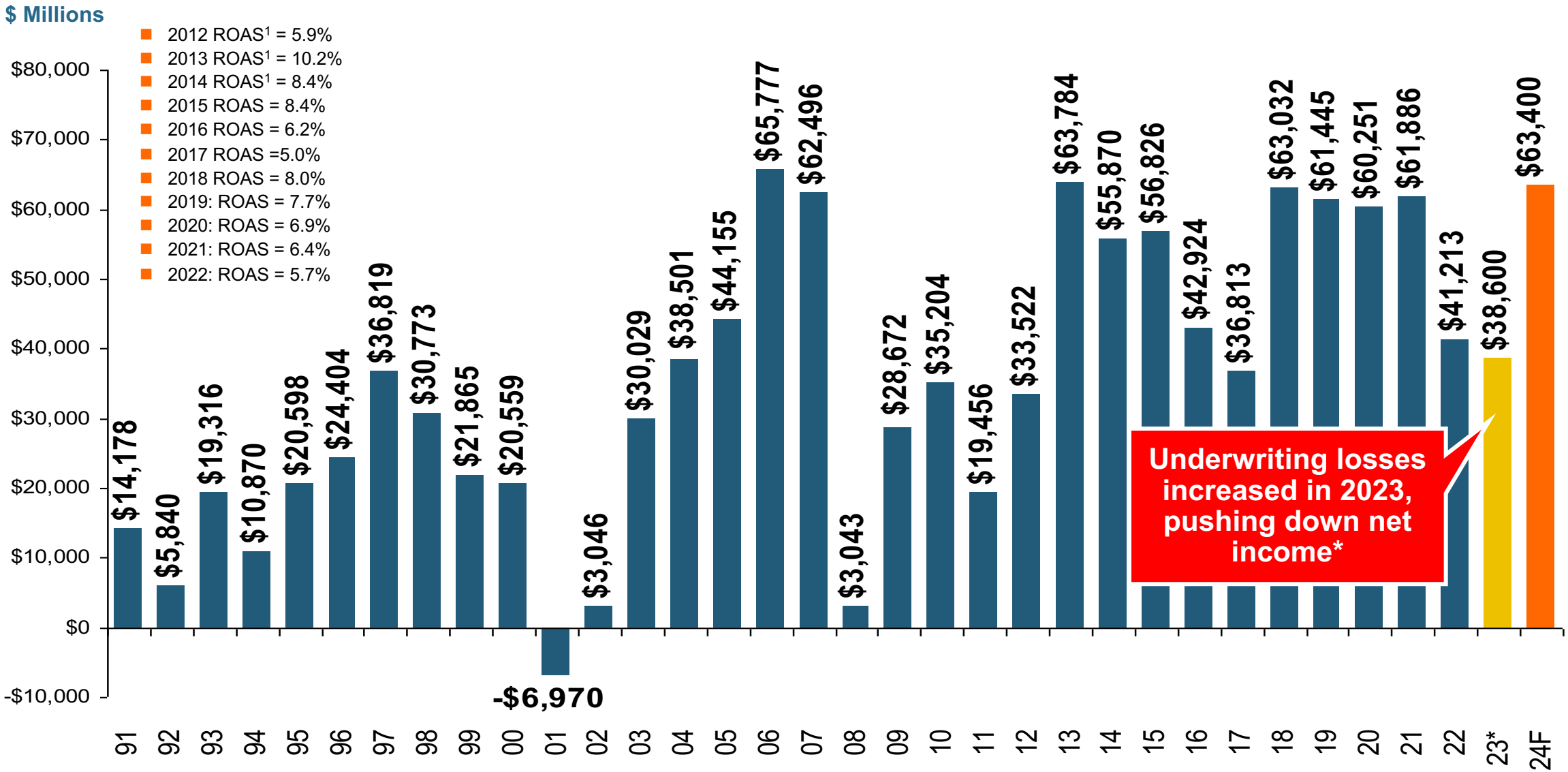
E&S Market Direct Written Premium Trends



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*

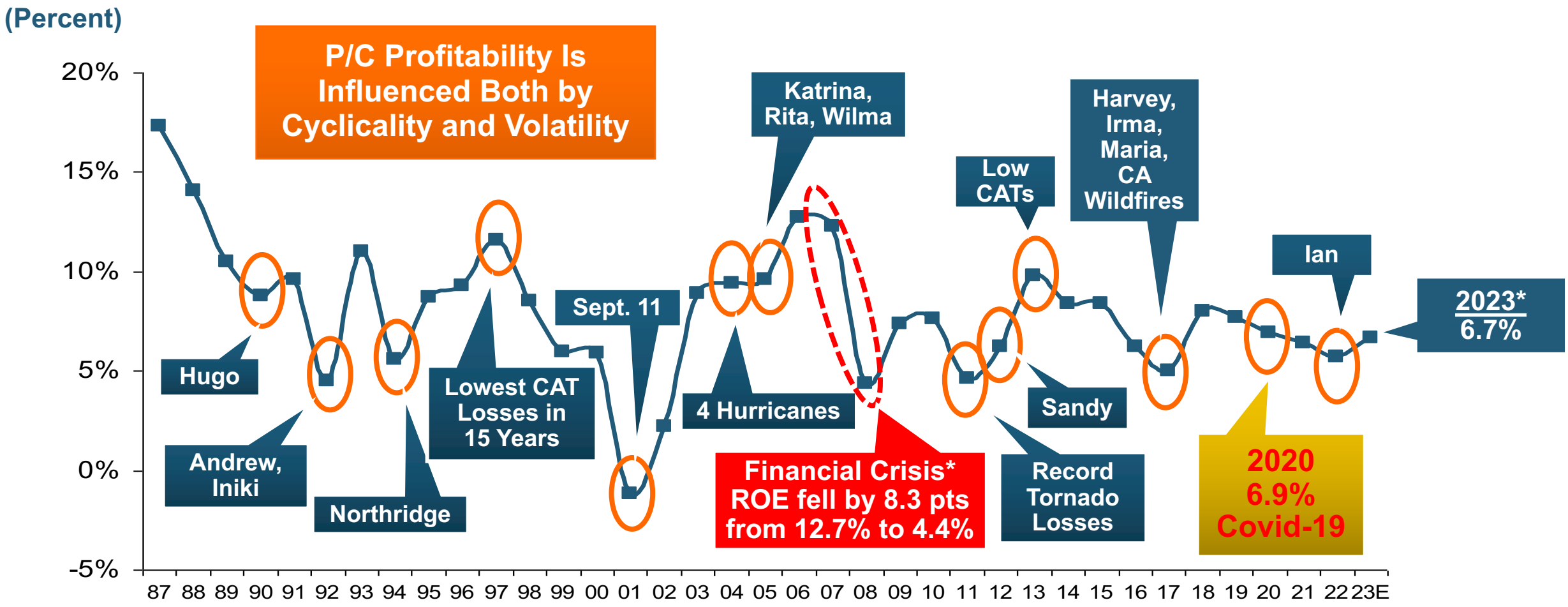


*2023 figure is adjusted is adjusted to reflect $50B realized gain from a large reinsurer (National Indemnity). Including this gain, net income after tax is $86.6B.

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*

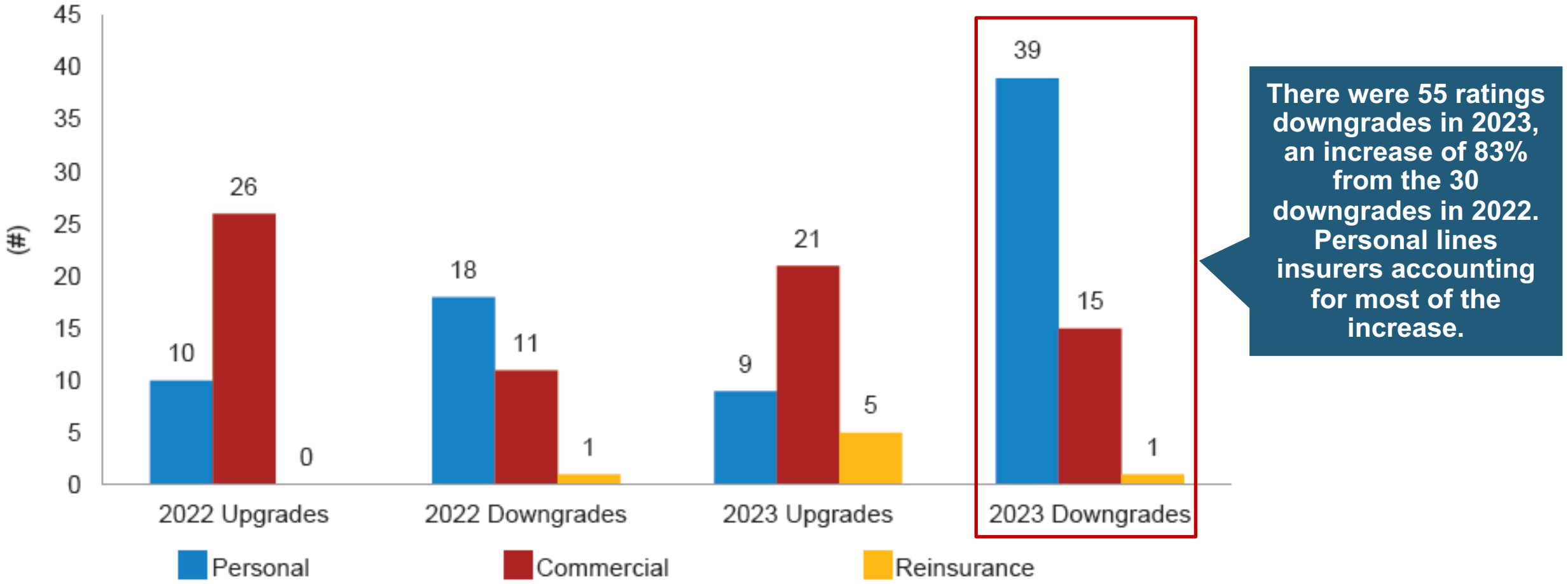


*Excludes Mortgage & Financial Guarantee in 2008 – 2014. 2023 figure is through Q3.
Sources: A.M. Best, ISO, *Fortune,* APCIA; USC RUM Center.

Upgrades, Downgrades and M&A Activity

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

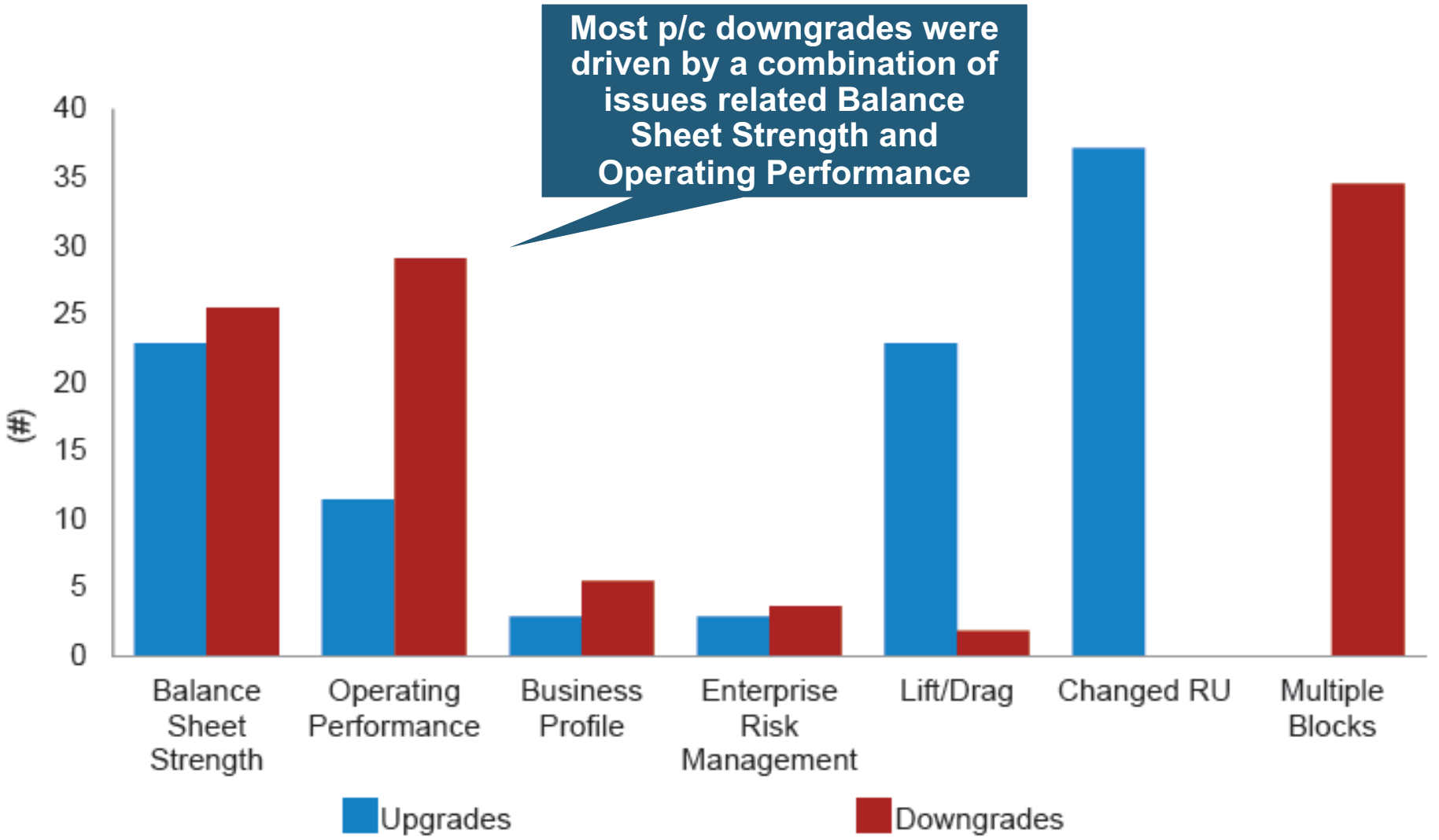
US P/C: Rating Upgrades & Downgrades, by Segment, 2023



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



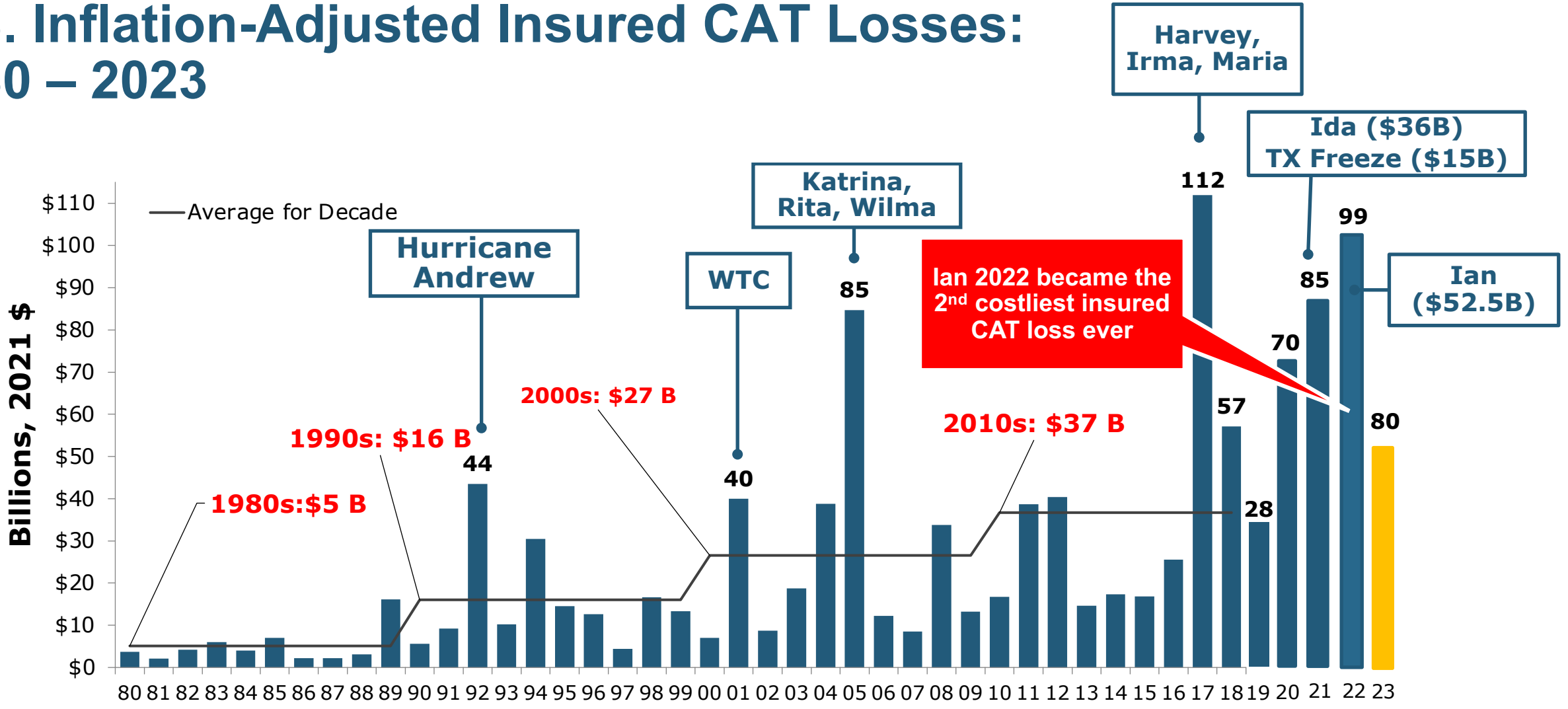
Source: A.M. Best Review & Preview (March 11, 2024), *US Property/Casualty Downgrades Outpace Upgrades in 2023.*

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 – 2023

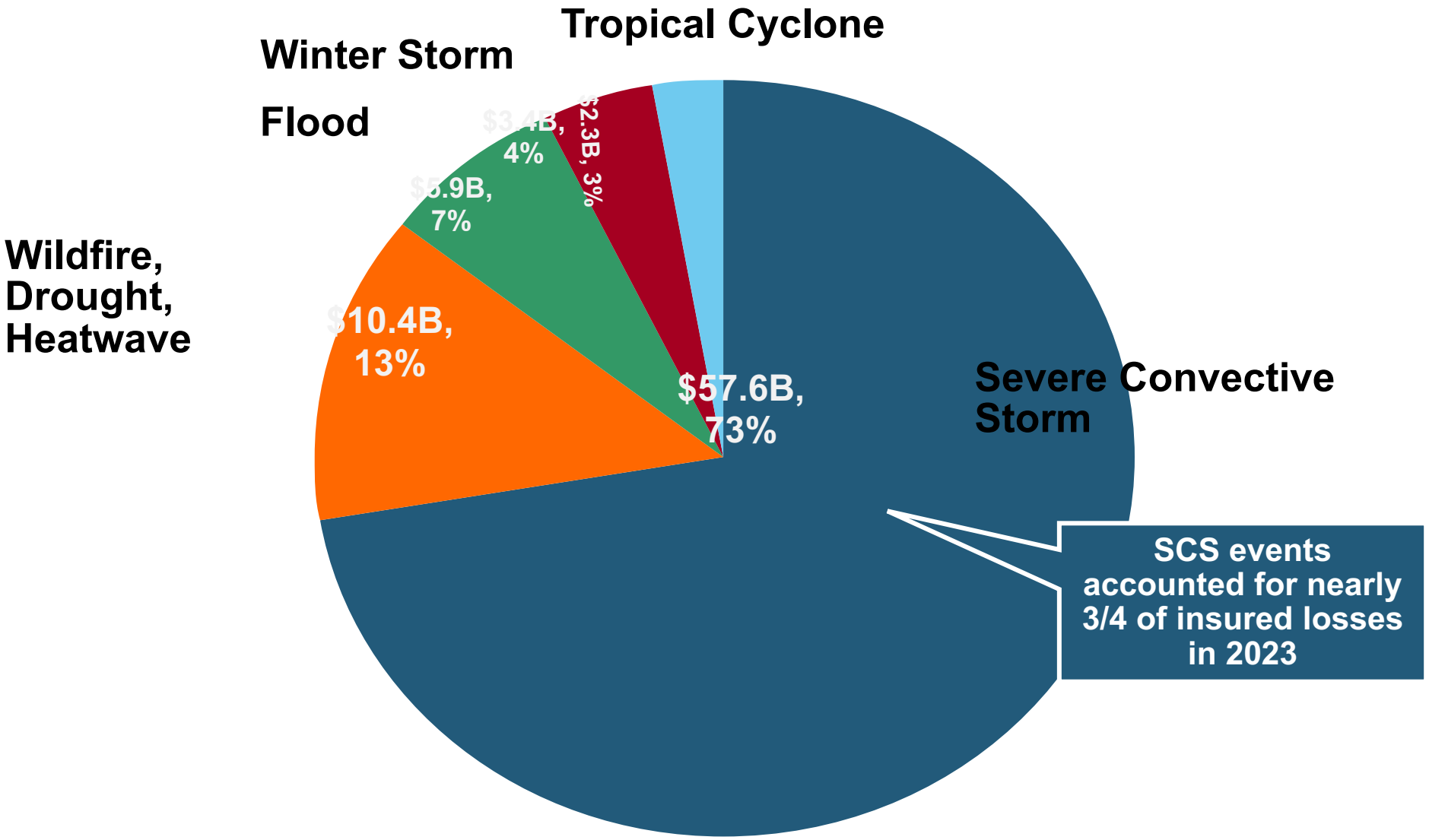


Average Insured Loss per Year*
1980-2021: $23.8 Billion
2012-2021: $44.1 Billion

The 2020s are off to an ominous start with $83.5B in average annual insured losses (2020-23)

*Stated in 2021 dollars except 2022 and 2023 (2022/23 dollars).
Sources: Property Claims Service, a Verisk Analytics business (1980-2019); 2020-22 figures from Munich Re; 2023 figure from Aon. Insurance Information Institute; University of South Carolina, Risk & Uncertainty Management Center.

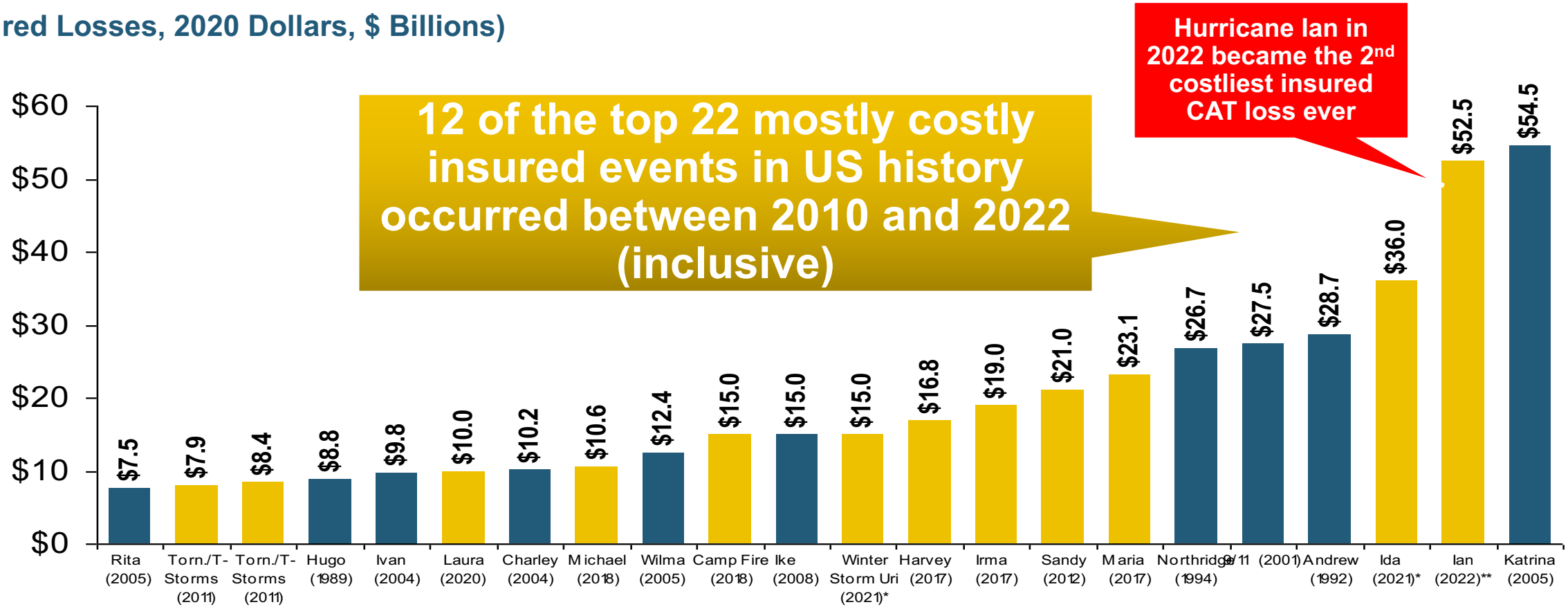
Natural Disaster Losses by Peril, 2023 ($ Billions)



Source: Aon. Risk and Uncertainty Management Center, Univ. of SC.

Top 22 Most Costly Disasters in U.S. History

(Insured Losses, 2020 Dollars, $ Billions)

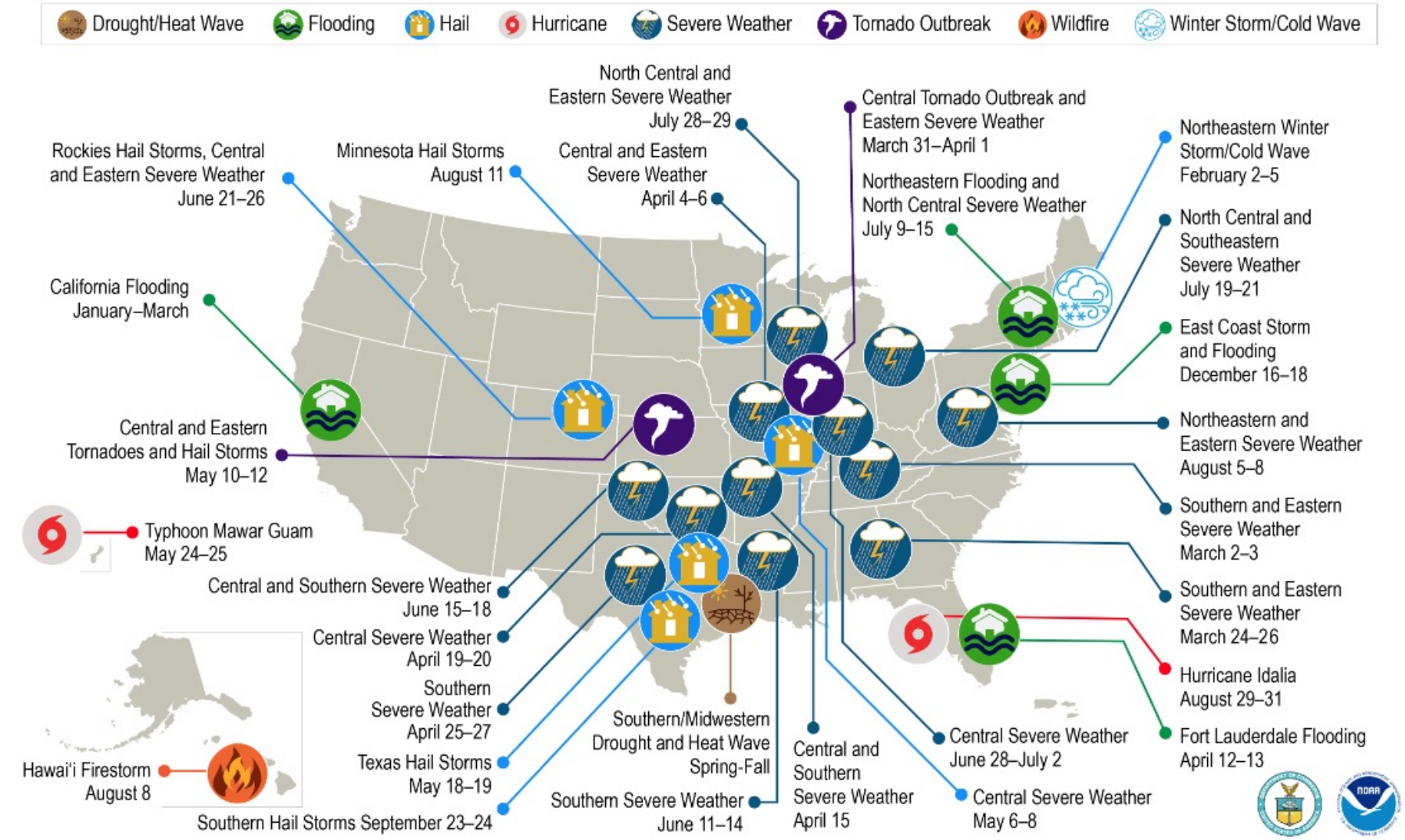


18 of the 22 Most Expensive Insurance Events in US History Have Occurred Since 2004.

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

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

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

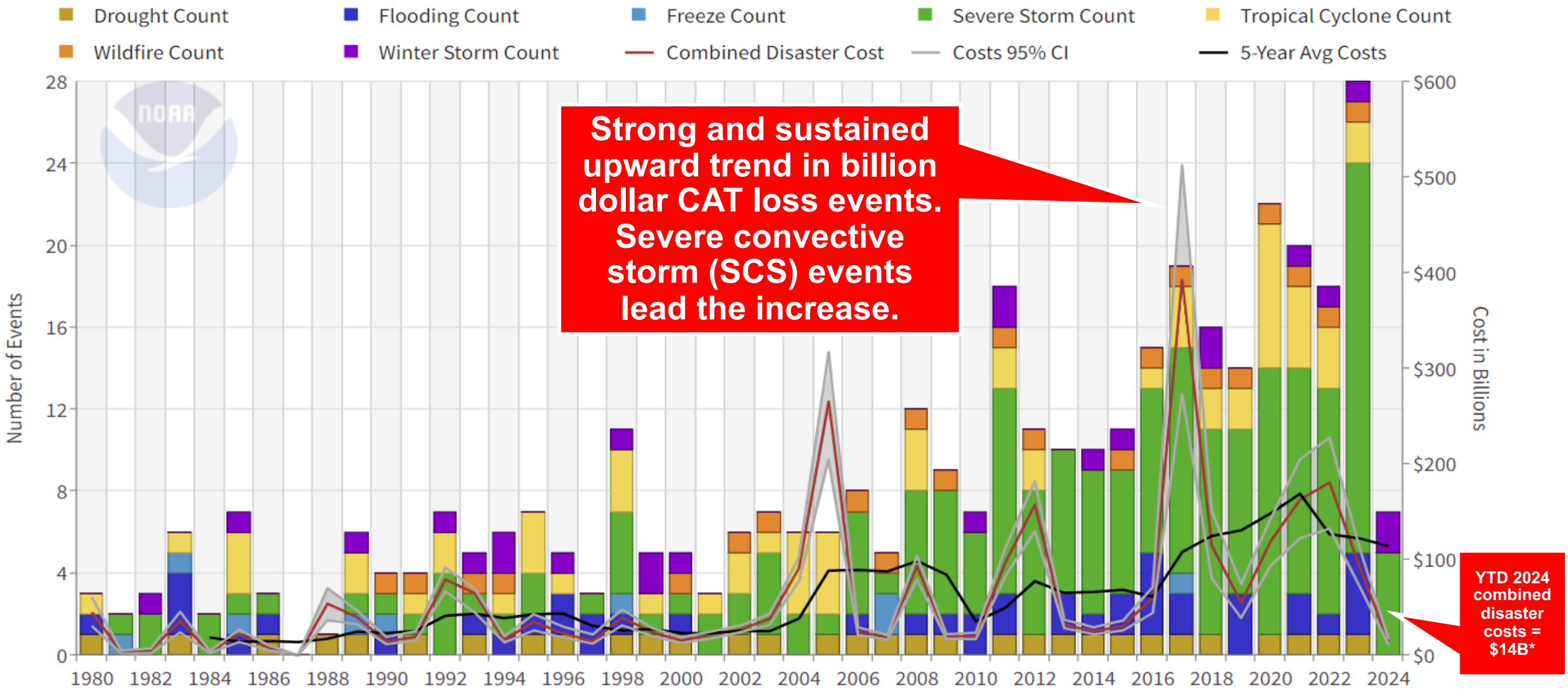


*This map denotes the approximate location for each of the **28 separate billion-dollar weather and climate disasters that impacted the United States in 2023.***

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.

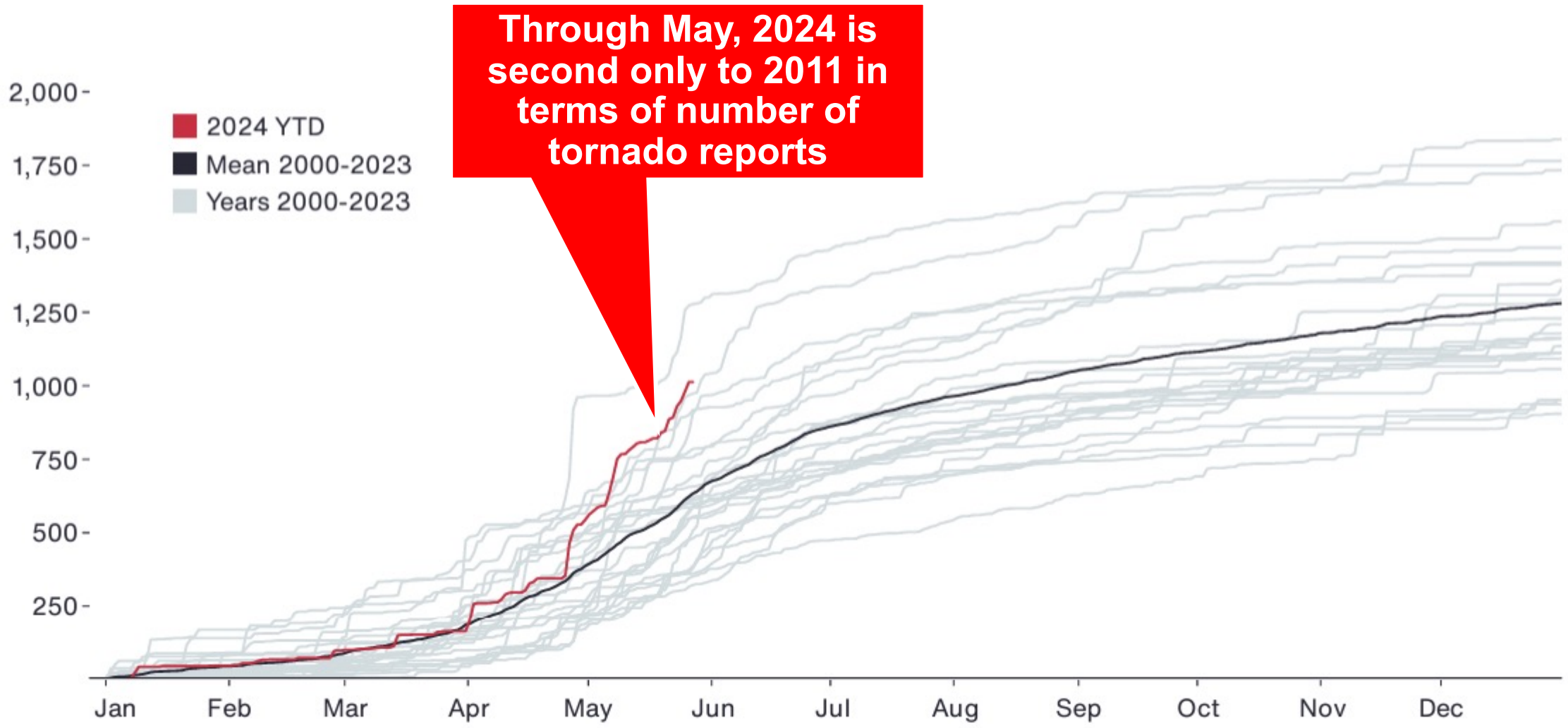
US Billion-Dollar Weather and Climate Disaster Events, Economic Costs, by Type, 1980 – 2024* (CPI-Adjusted)



*As of May 8, 2024.

Source: NOAA. Chart created by USC Risk and Uncertainty Management Center by accessing: https://www.ncei.noaa.gov/access/billions/time-series.

Cumulative Monthly Tornado Reports, 2000 – May 2024



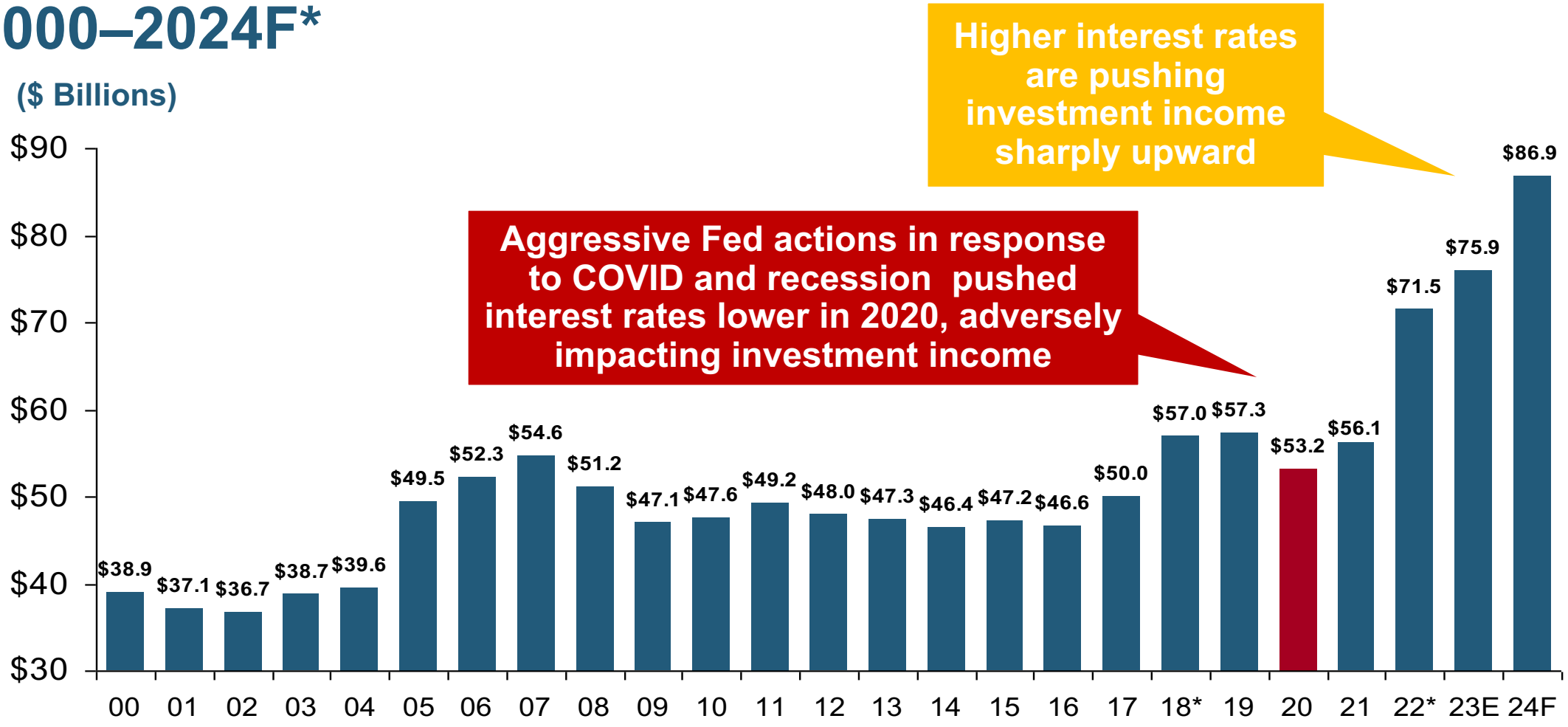
Source: NOAA SPC and Aon Weekly CAT Report (May 31, 2024).

Investments:
Wall Street's Wild Ride Continues

Investment Performance Is a Key Driver of Insurer Profitability

How Has the Hawkish Fed Impacted Insurer Portfolios?

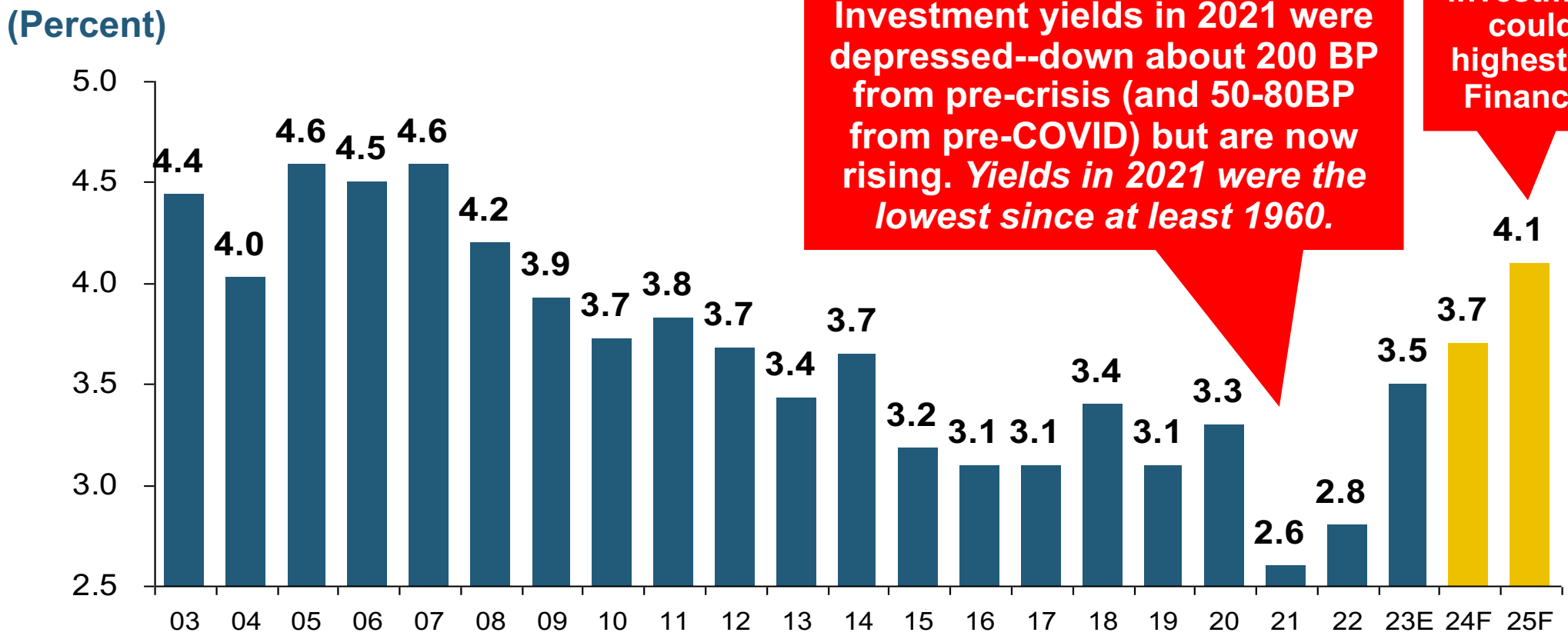
Property/Casualty Insurance Industry Investment Income: 2000–2024F*



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.*

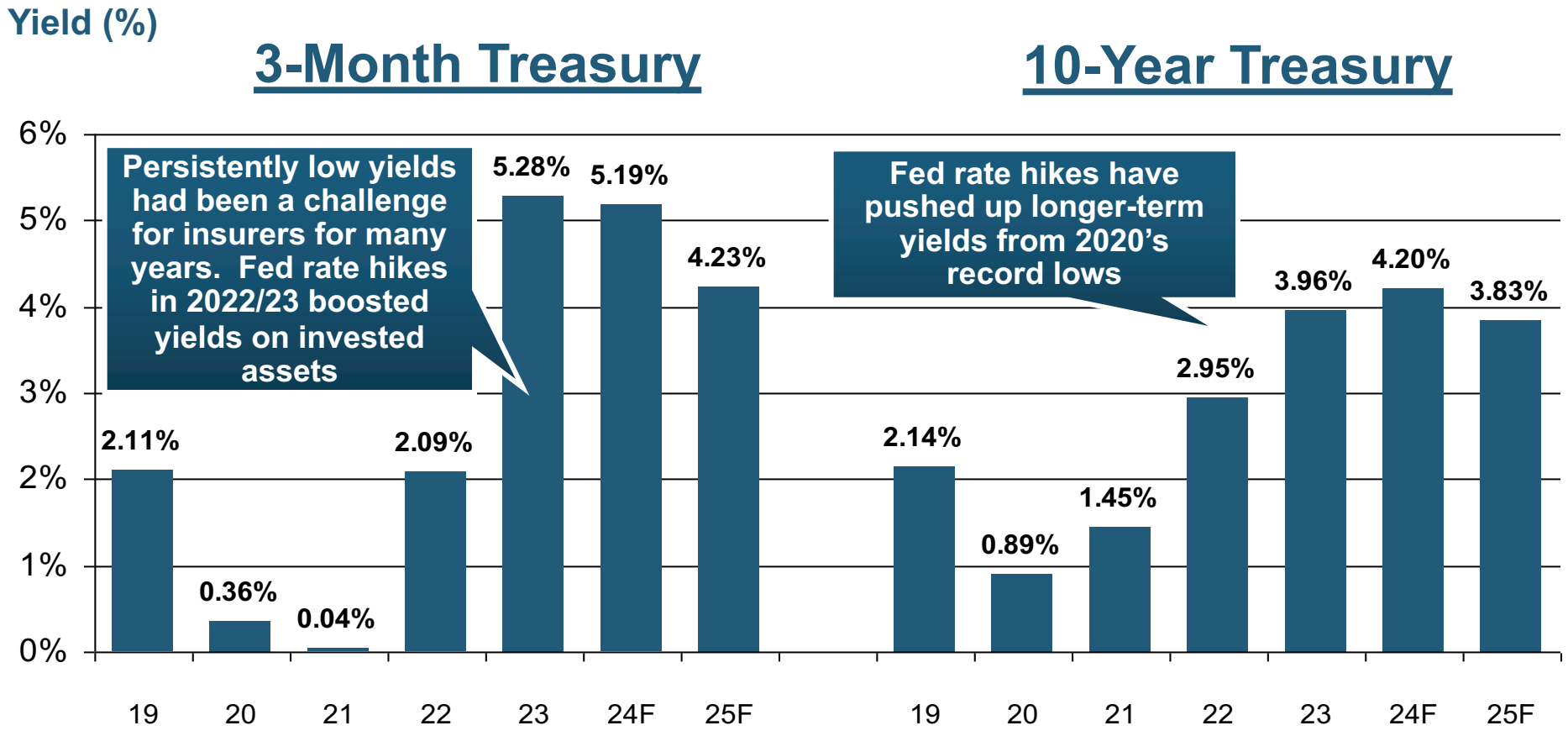
By 2025, investment yields could be the highest since the Financial Crisis

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.

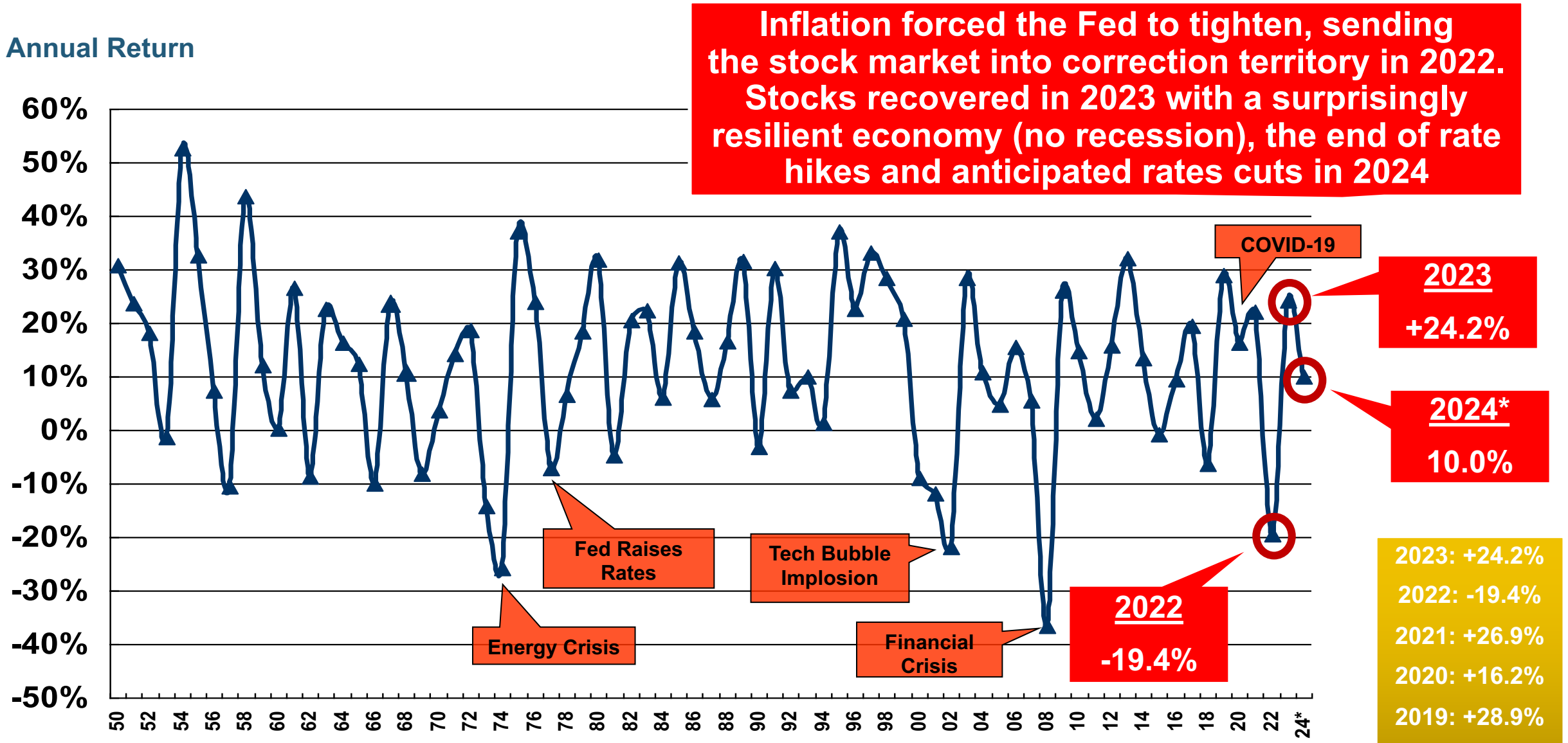
Interest Rate Forecasts: 2019 – 2025F: *Higher for Longer*



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 (5/24); Risk and Uncertainty Management Center, University of South Carolina.

S&P 500 Index Returns, 1950–2024*



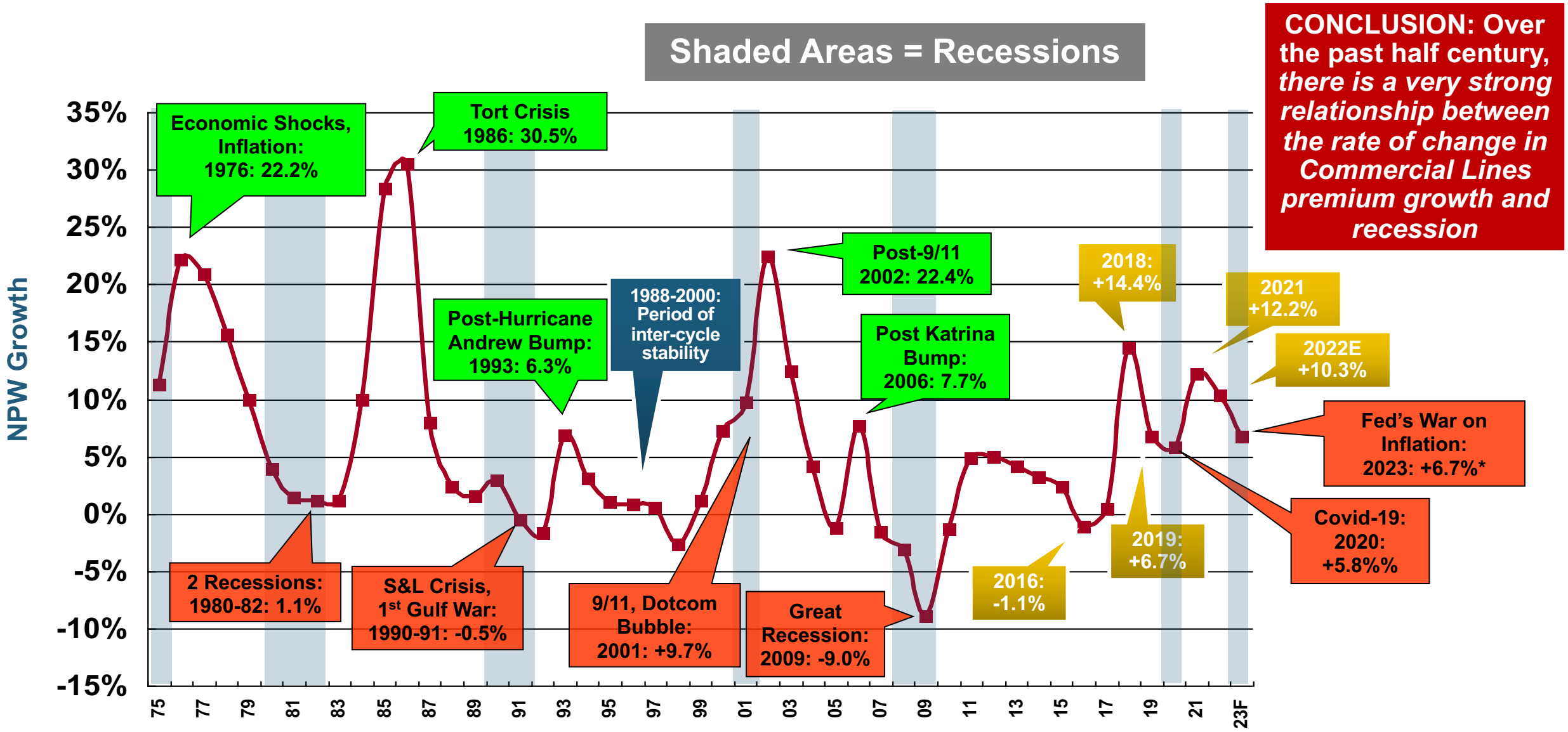
*Through June 3, 2024.
Source: NYU Stern School of Business: http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html;
Center for Risk and Uncertainty Management, University of South Carolina.

Commercial Lines Growth & Pricing Cyclicality

Economic and Tort Environment Create Pricing Pressure

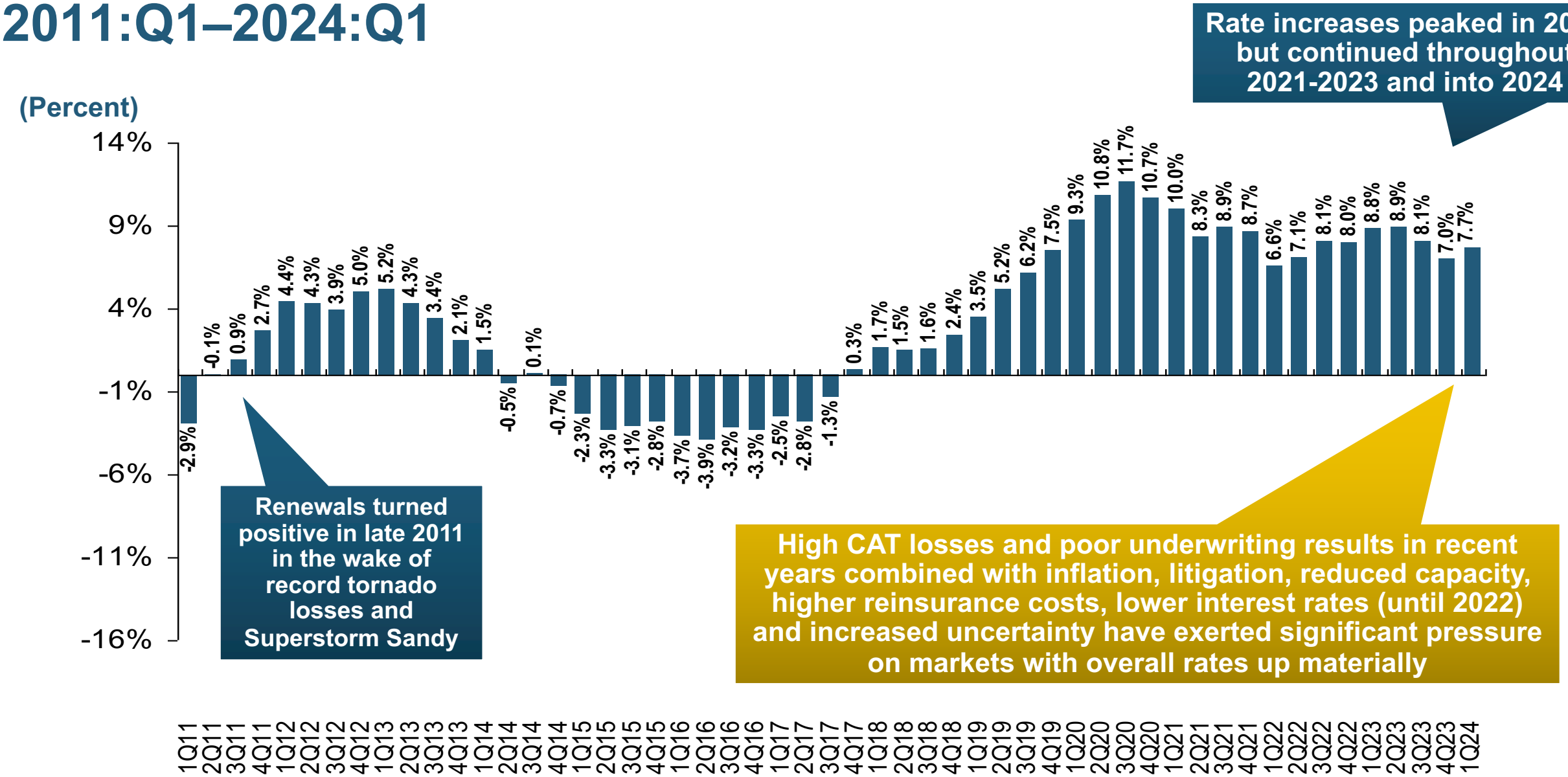
75

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:Q1–2024:Q1

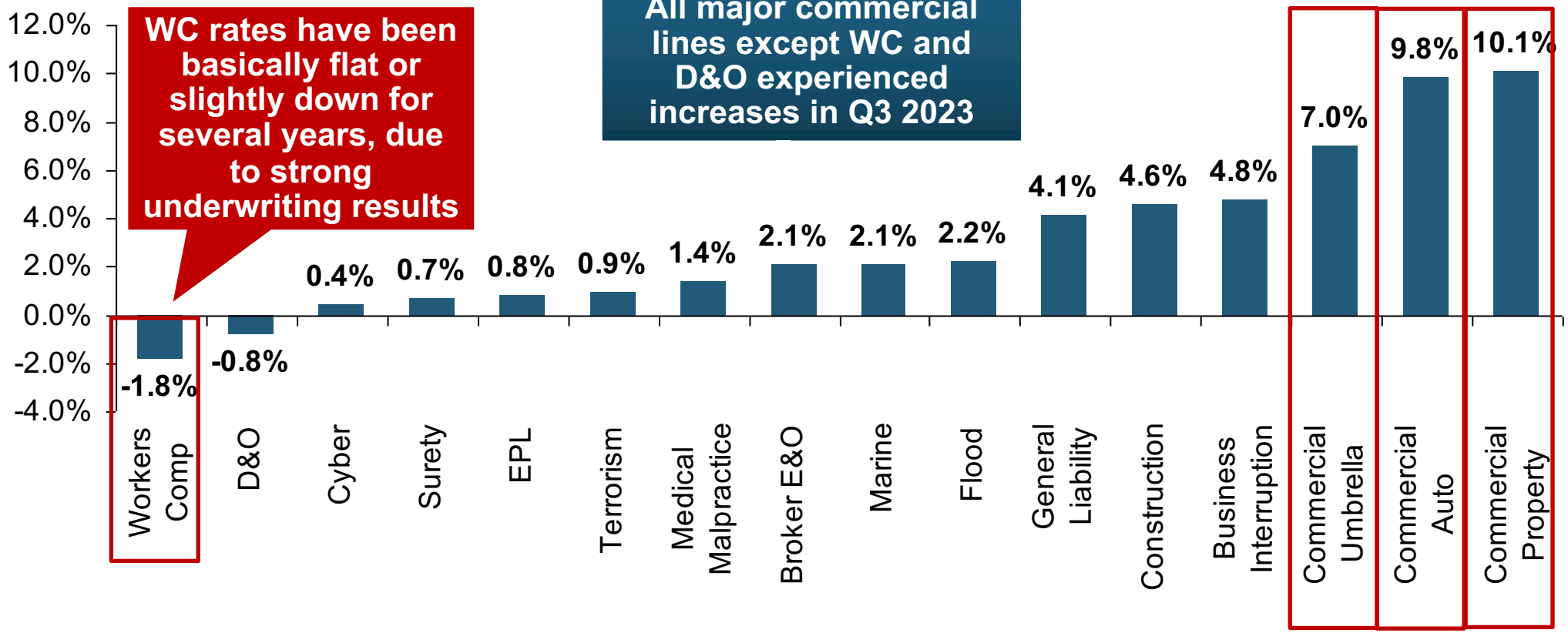


Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents & Brokers; Center for Risk and Uncertainty Management, Univ. of South Carolina.

Change in Commercial Rate Renewals, by Line: 2024:Q1

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.

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

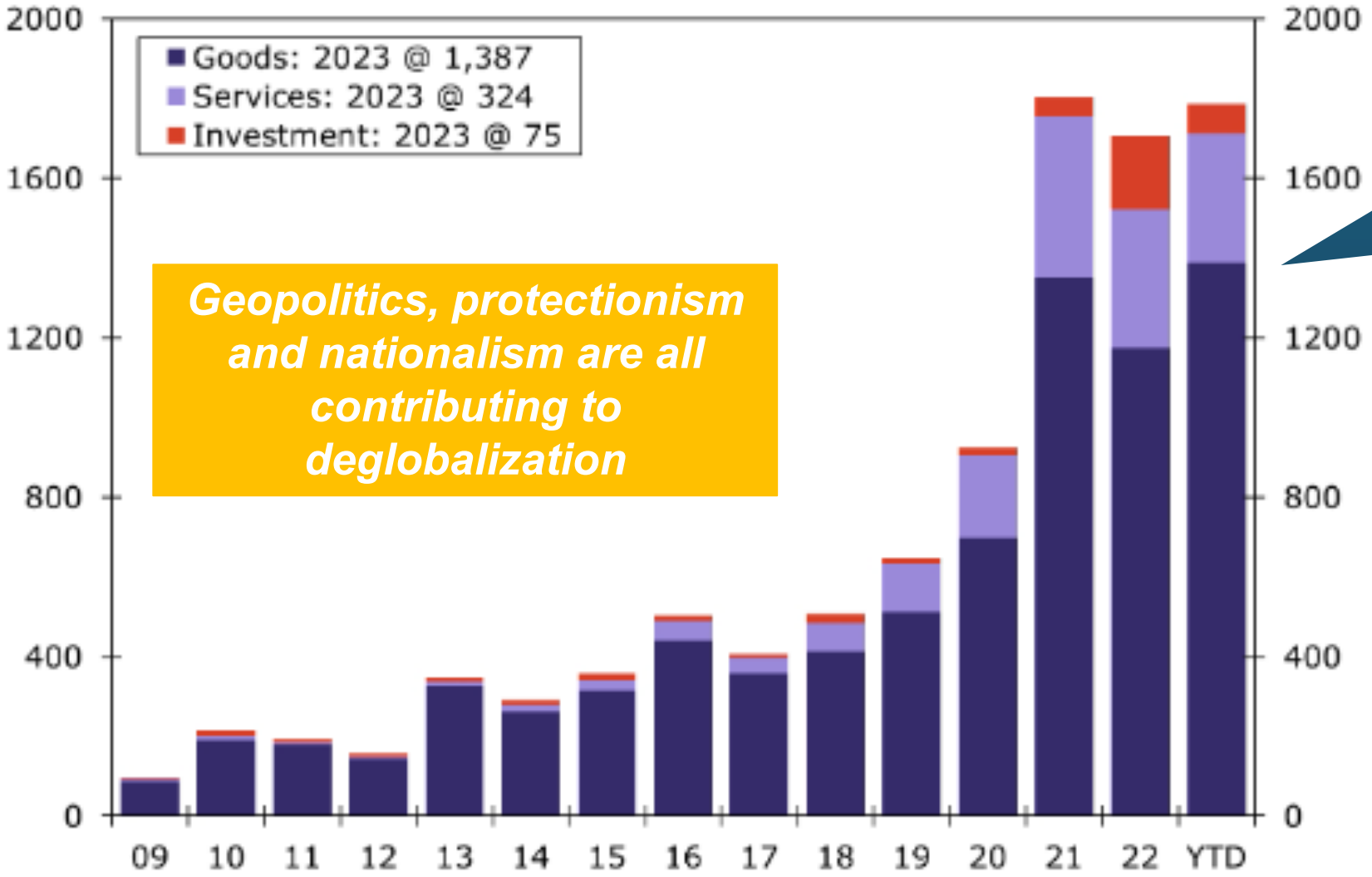
Deglobalization: Perils and Promises

- 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*



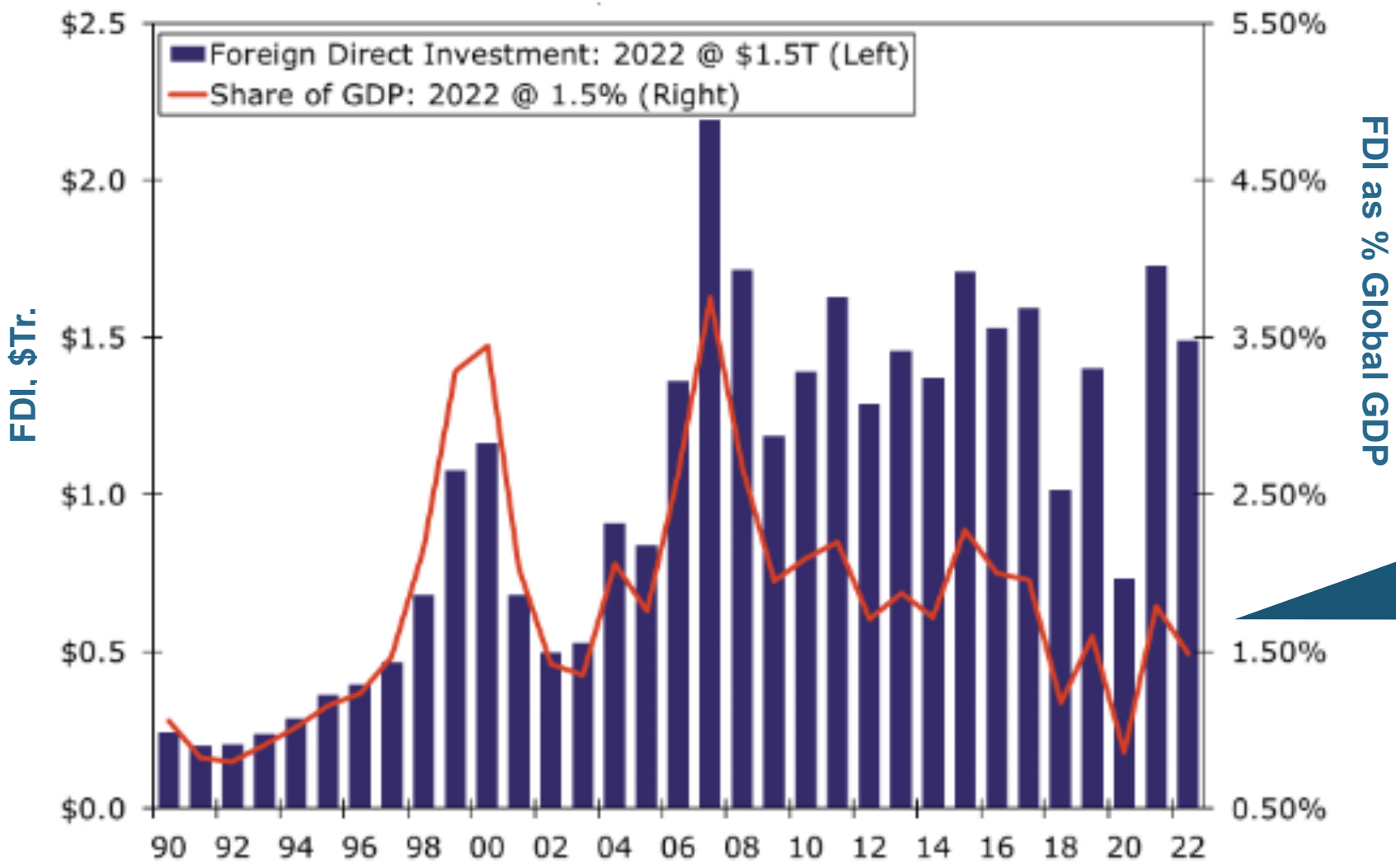
Geopolitics, protectionism and nationalism are all contributing to deglobalization

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.

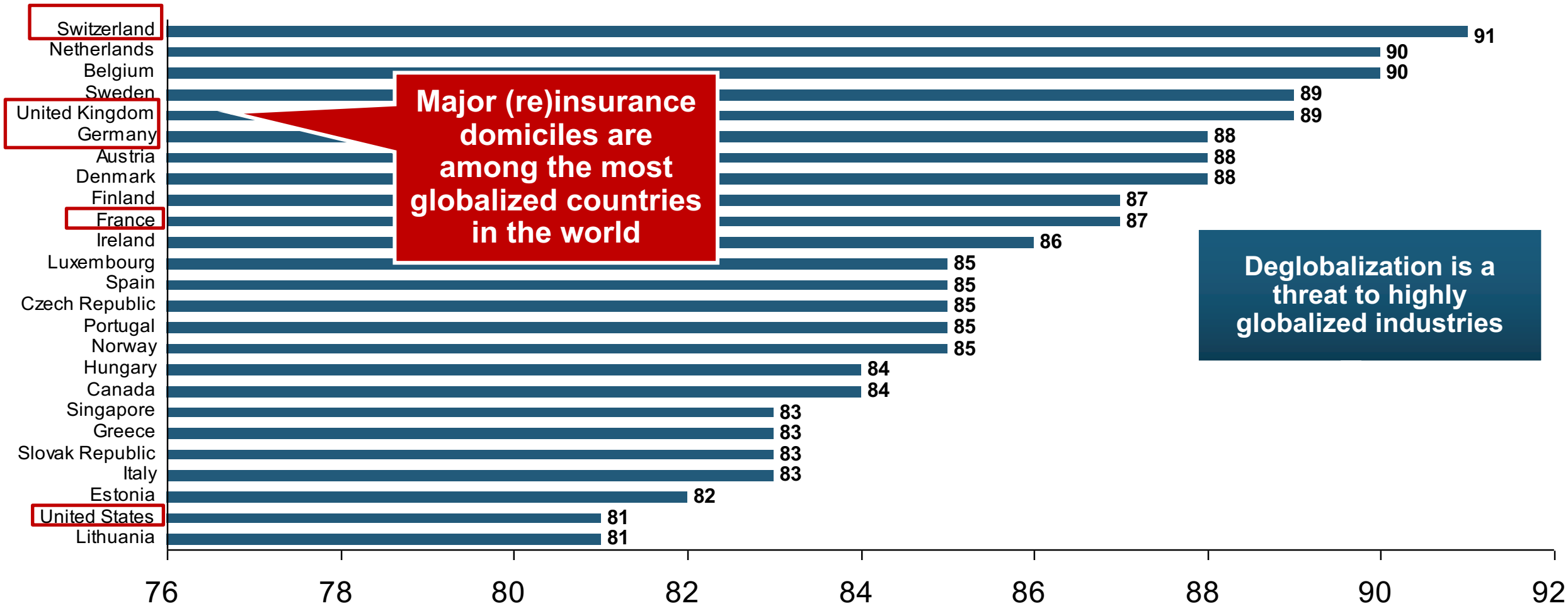
Global Foreign Direct Invest ($Trillion and as a Share of GDP)



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

- (Re)Insurance 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

SUMMARY

- Global and Domestic Risks Abound, But Risks for Insurers Remain Manageable
- 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

UNIVERSITY OF
SOUTH CAROLINA
Darla Moore School of Business

Thank you for your time and your attention!

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Download at www.uscriskcenter.com