Overview & Outlook for the P-C Insurance Industry
Trends, Challenges and Opportunities

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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, Investments, Inflation and Recession
- **Inflation: Where it Is Headed & What It Means for P/C Insurers**
  - Cost Drivers for P/C insurers and impacts on rates
  - Long-term inflation considerations
- **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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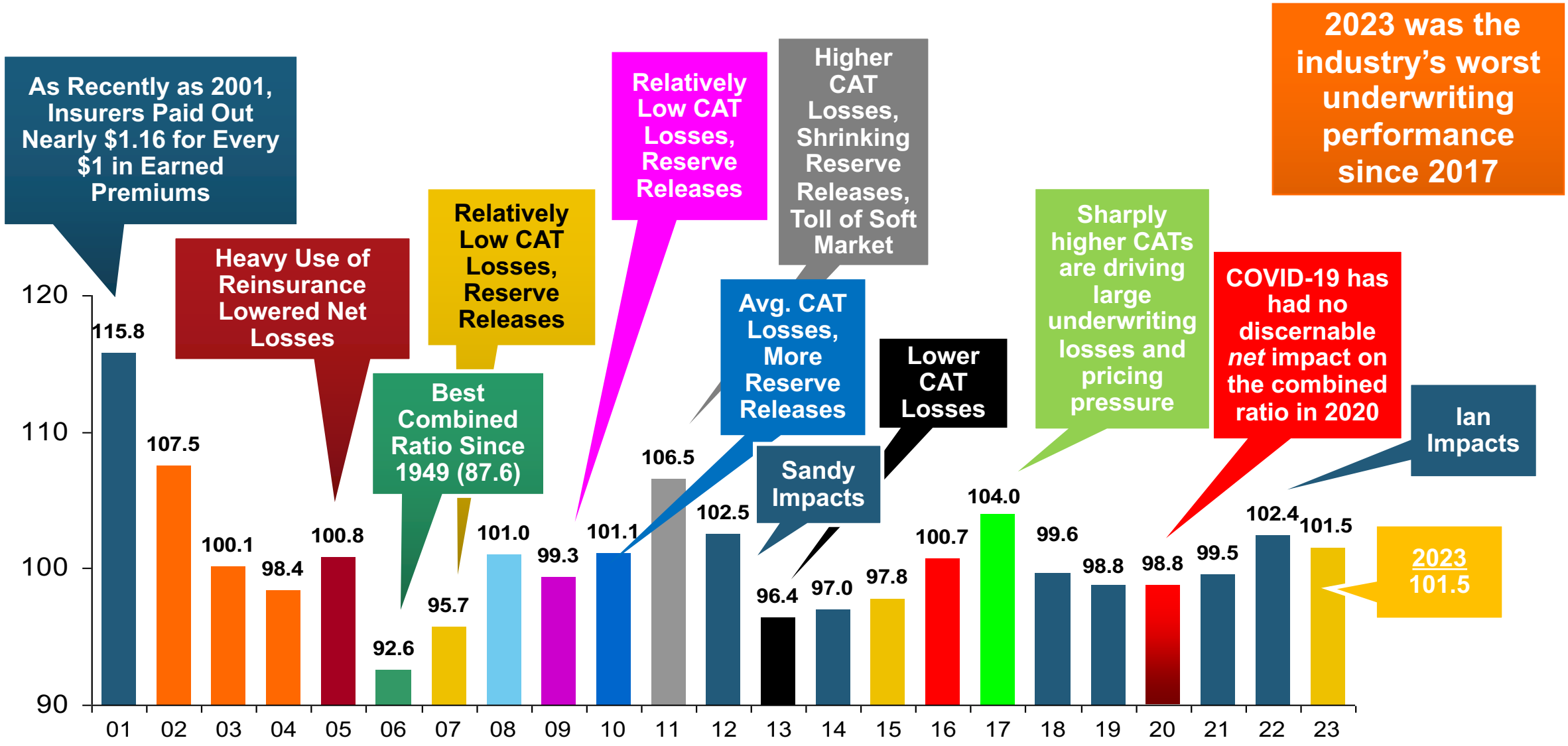
P/C Insurance Industry Combined Ratio, 2001–2023*



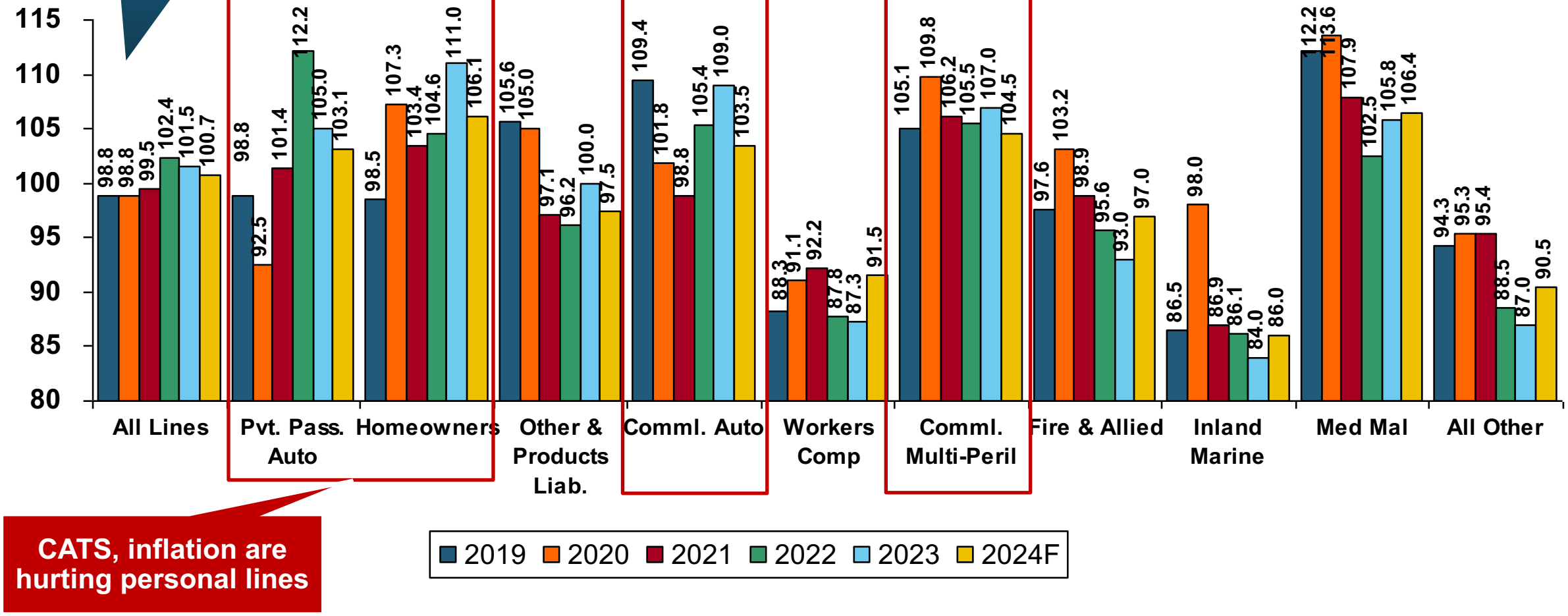
*Excludes Mortgage & Financial Guaranty insurers 2008–2014.
Sources: A.M. Best, ISO (2014-2023).

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); A.M. Best data for 2023 (as of 6/24). Univ. of South Carolina, Risk and Uncertainty Management Center.

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

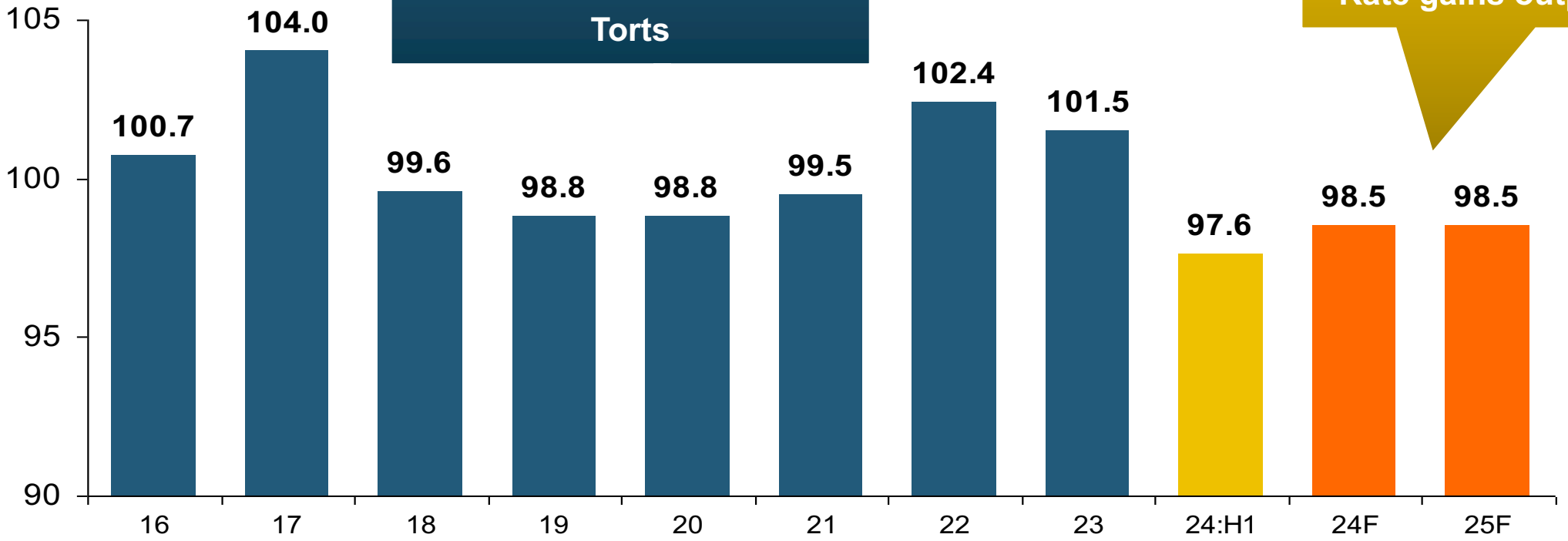
Torts

Significant improvement expected in P/C underwriting performance in 2024/25—led by Personal Lines and especially Personal Auto

DRIVERS

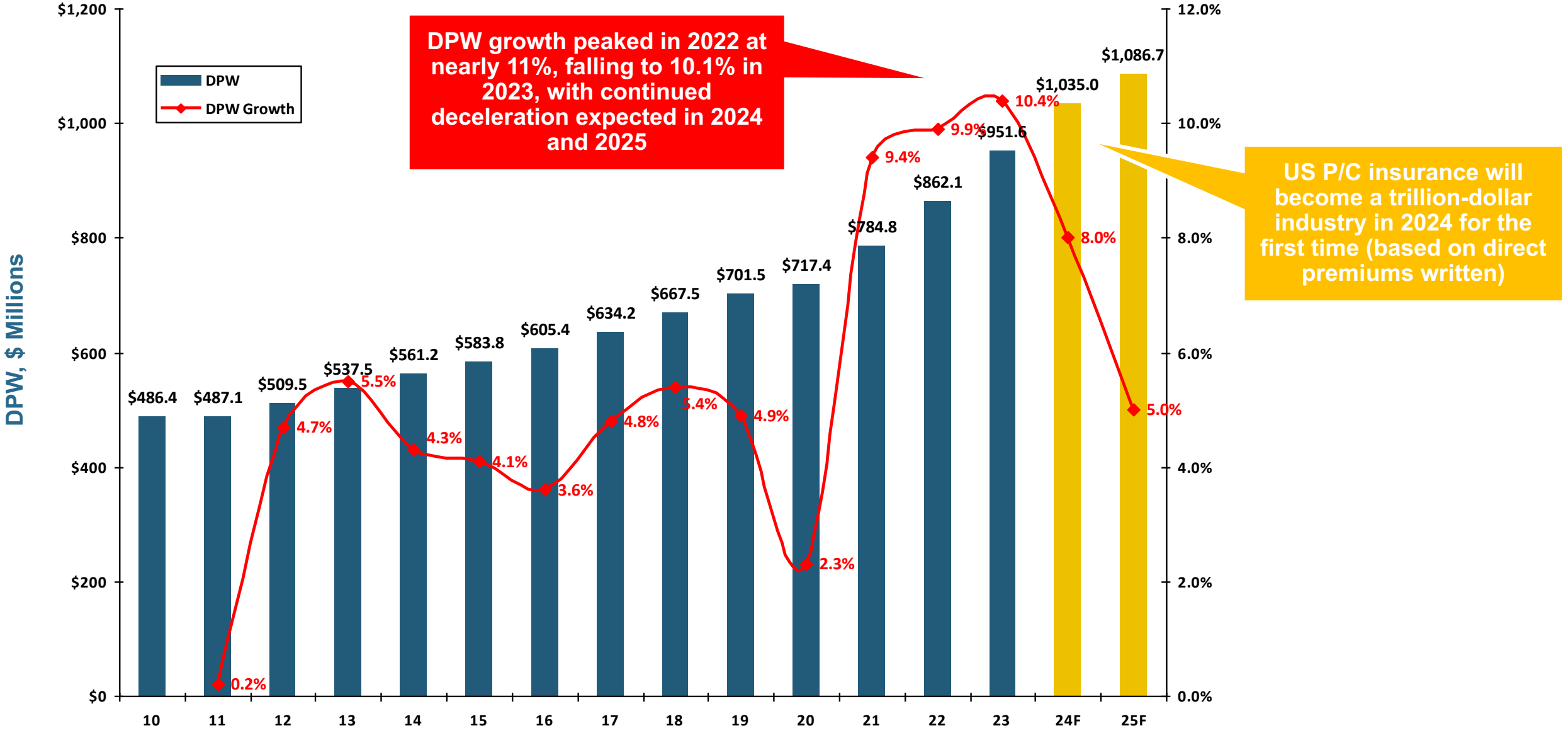
Inflation moderates

Rate gains outpace claim costs



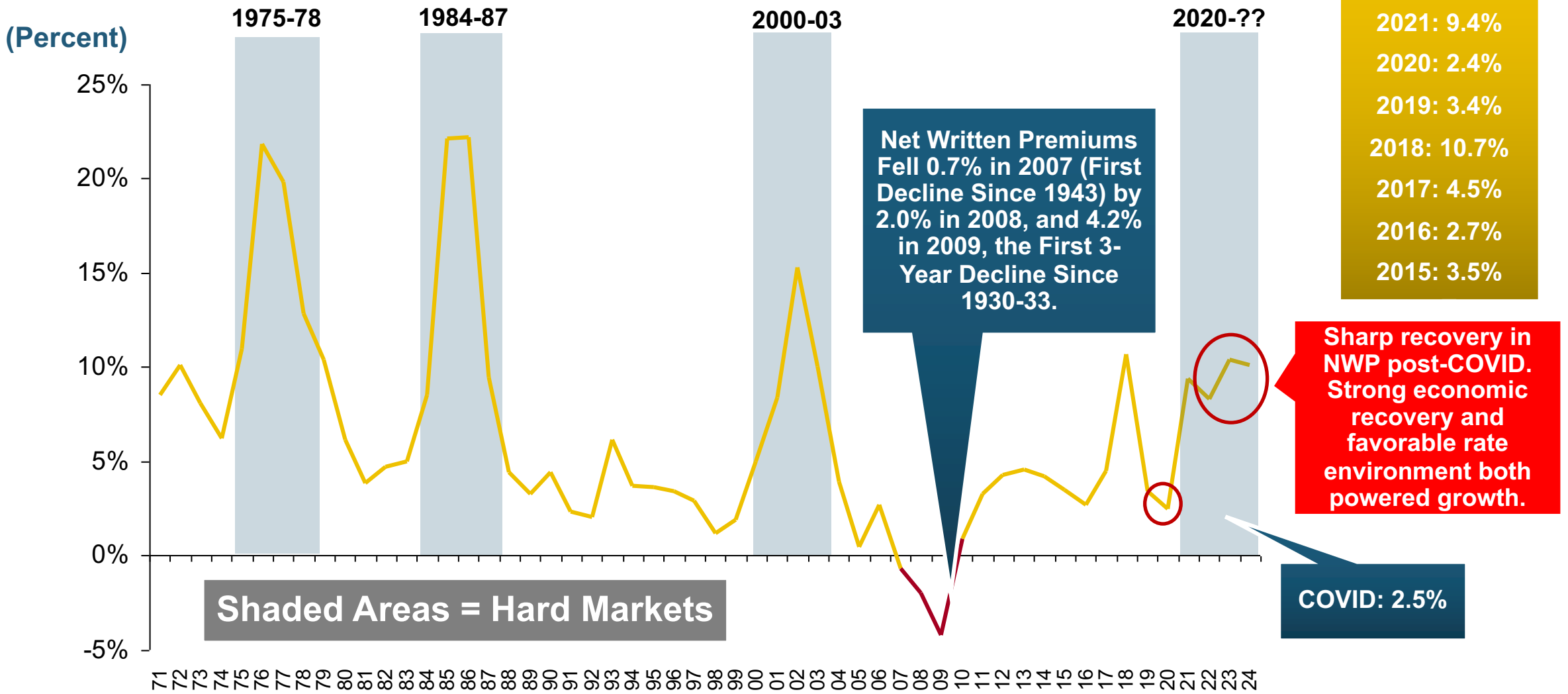
Sources: A.M. Best (2016-2023); Verisk/APCIA (2024:H1); Swiss Re (2024F, 2025F).

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



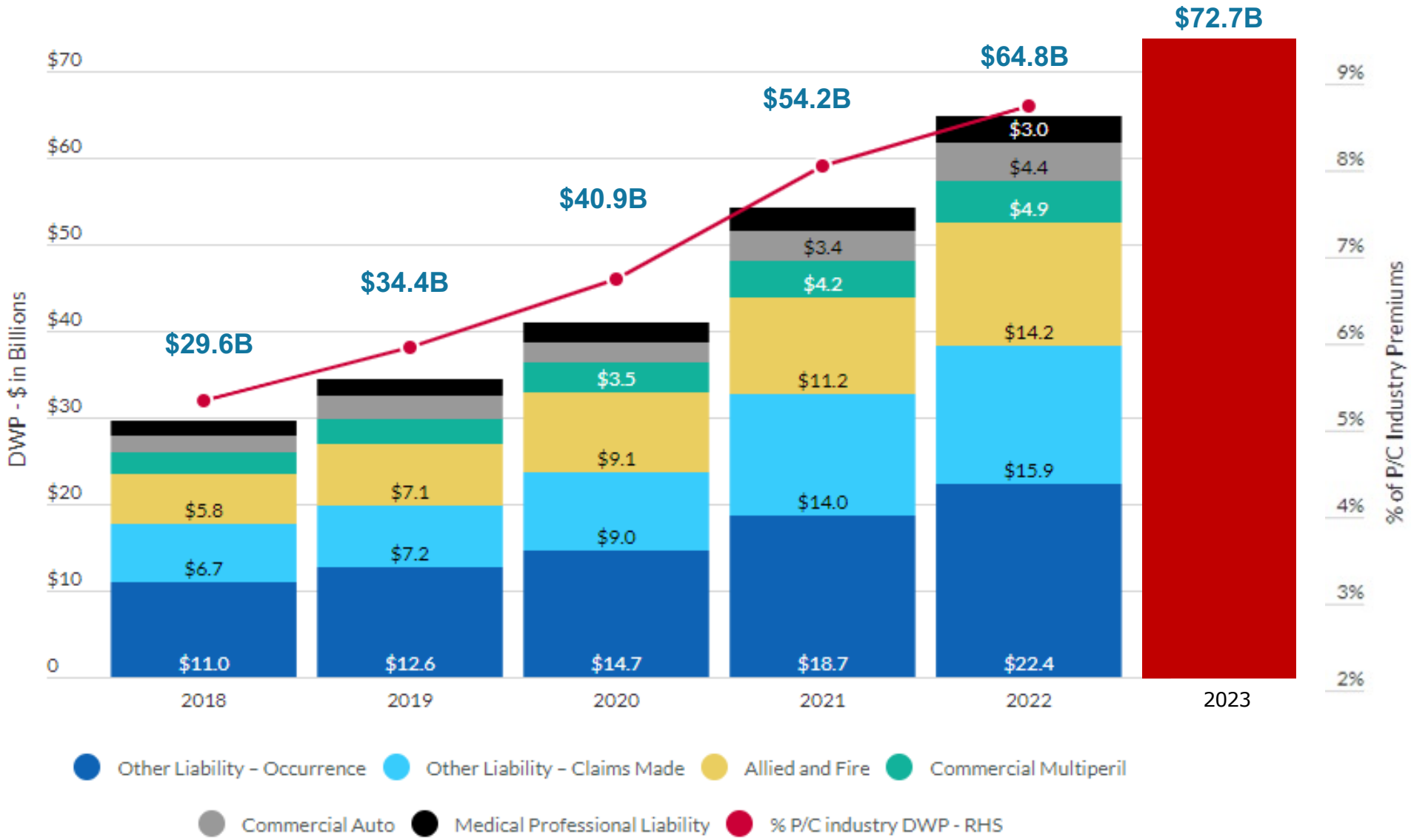
Sources: A.M. Best and NAIC (2010-2022); Forecast figures for 2024-25 from Swiss Re Institute (2024F-2025F) "*US Property & Casualty Outlook: Dog Days are Over,*" (June 2024), accessed at: https://www.swissre.com/dam/jcr:b2178beb-350f-406e-8714-63ea4b3fe2e1/swiss-re-institute-us-pc-dog-days-are-over.pdf.

Net Written Premium Growth (All P/C Lines): Annual Change, 1971–2024:H1



NOTE: Shaded areas denote “hard market” periods.
Sources: A.M. Best (1971-2013), ISO (2014-21); NAIC (2022-2023); Verisk/APCIA (2024:H1); Risk & Uncertainty Management Center, Univ. of South Carolina

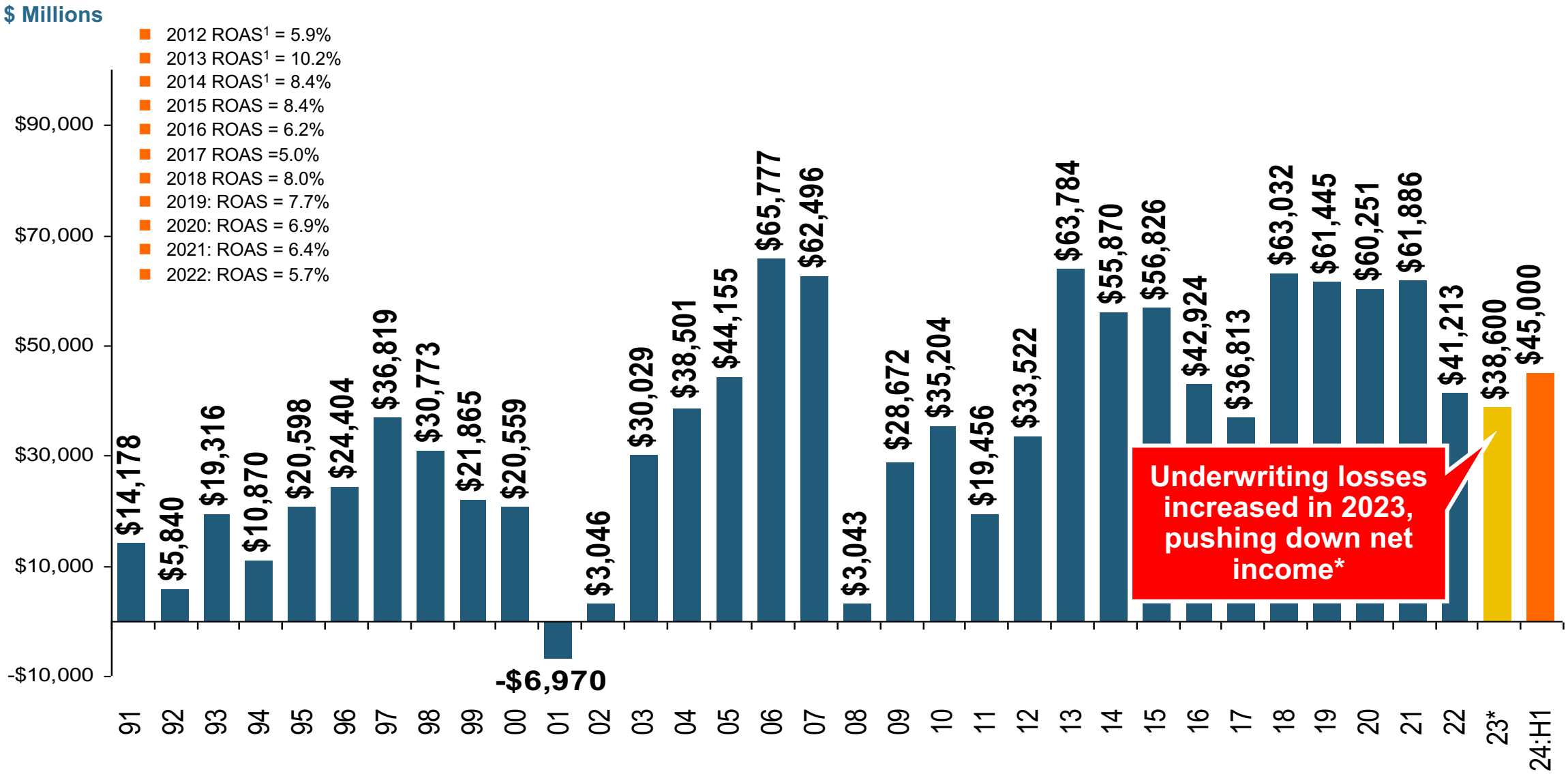
E&S Market Direct Written Premium Trends



E&S premium grew by ~14.6% in 2023, down from 20% in 2022 (up 146% since 2018), approaching 9% of the total P/C market (up from 5.5% in 2018)

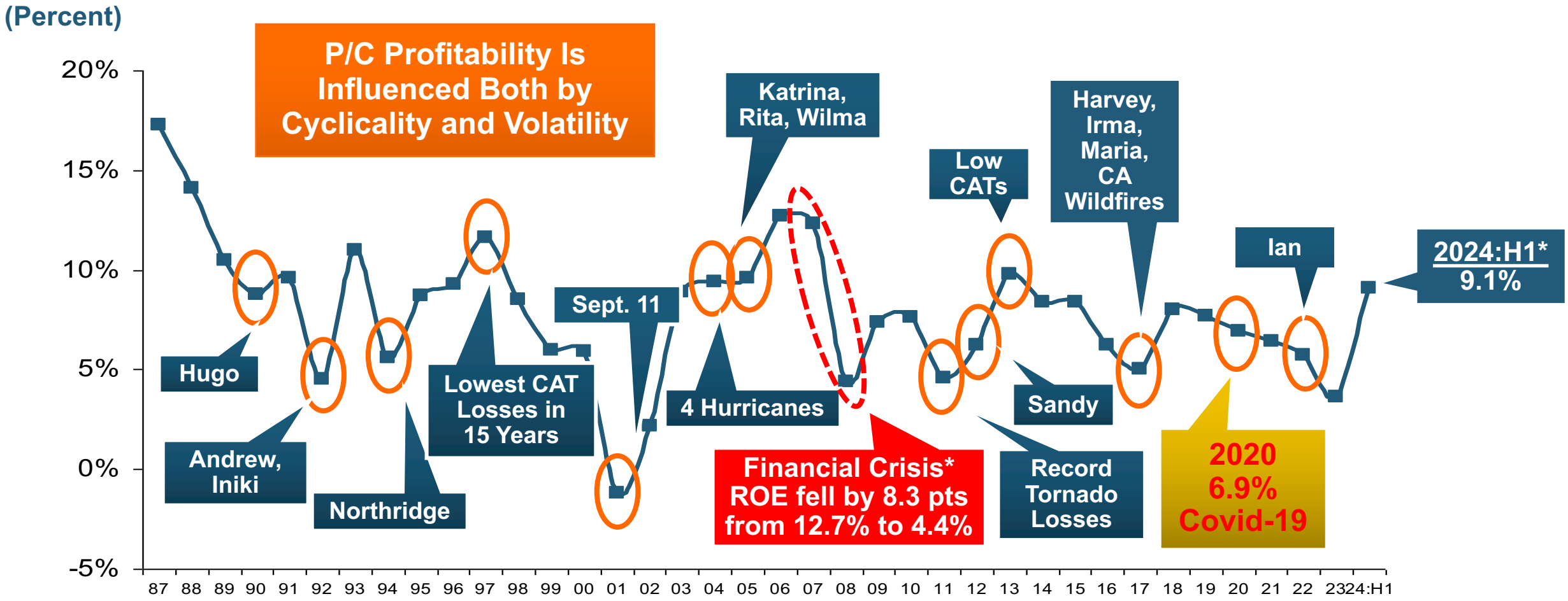
Sources: Data for 2018 – 2022: Fitch Ratings (*Fitch Wire*, Oct. 4, 2023) accessed at: https://www.fitchratings.com/research/insurance/us-excess-surplus-insurance-market-outperformance-to-continue-04-10-2023; For 2023: Insurance Journal from WSIA, accessed at: https://www.insurancejournal.com/news/national/2024/02/14/760715.htm#; Risk and Uncertainty Management Center, University of South Carolina.

P/C Industry Net Income After Taxes, 1991–2024:H1*



*2023 and 2024 figures are adjusted is adjusted to reflect $50B realized gain from a large reinsurer (National Indemnity). Including this gain, net income after tax is $86.6B in 2023 and $94.7B in 2024:H1.
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, 1987–2024:H1*

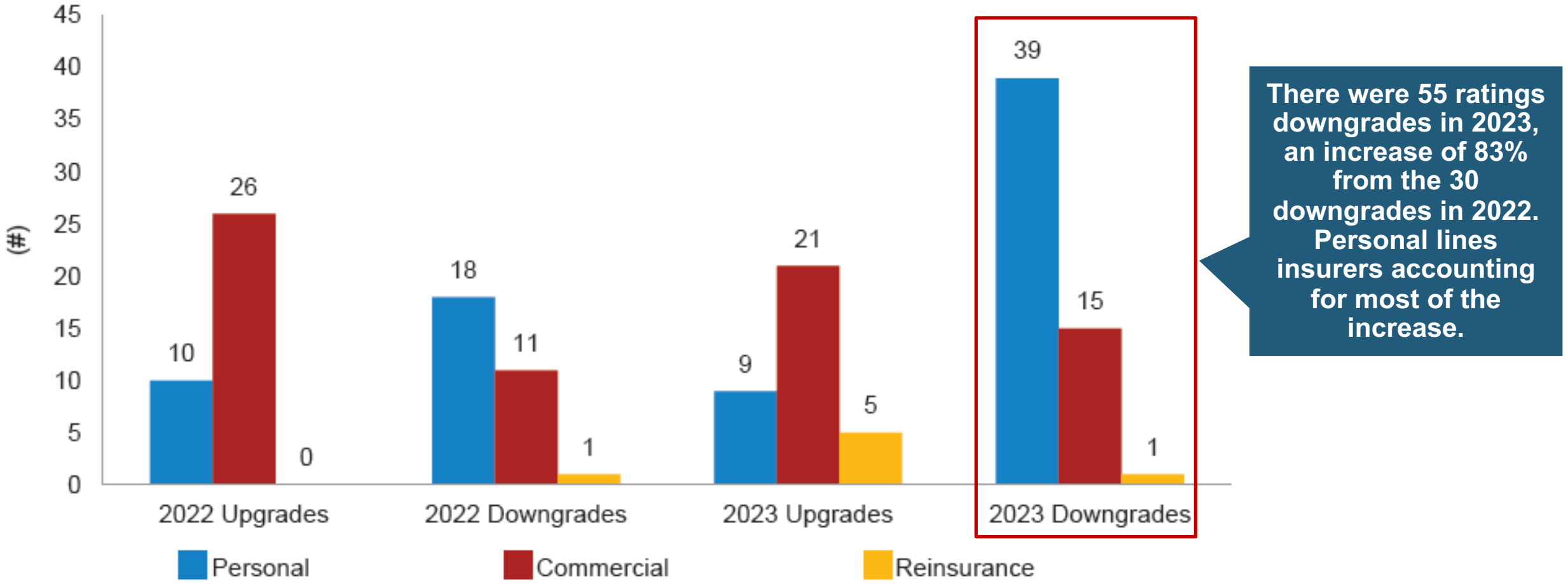


*Excludes Mortgage & Financial Guarantee in 2008 – 2014.
Sources: A.M. Best, ISO, *Fortune,* APCIA; USC RUM Center.

Upgrades, Downgrades and M&A Activity

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

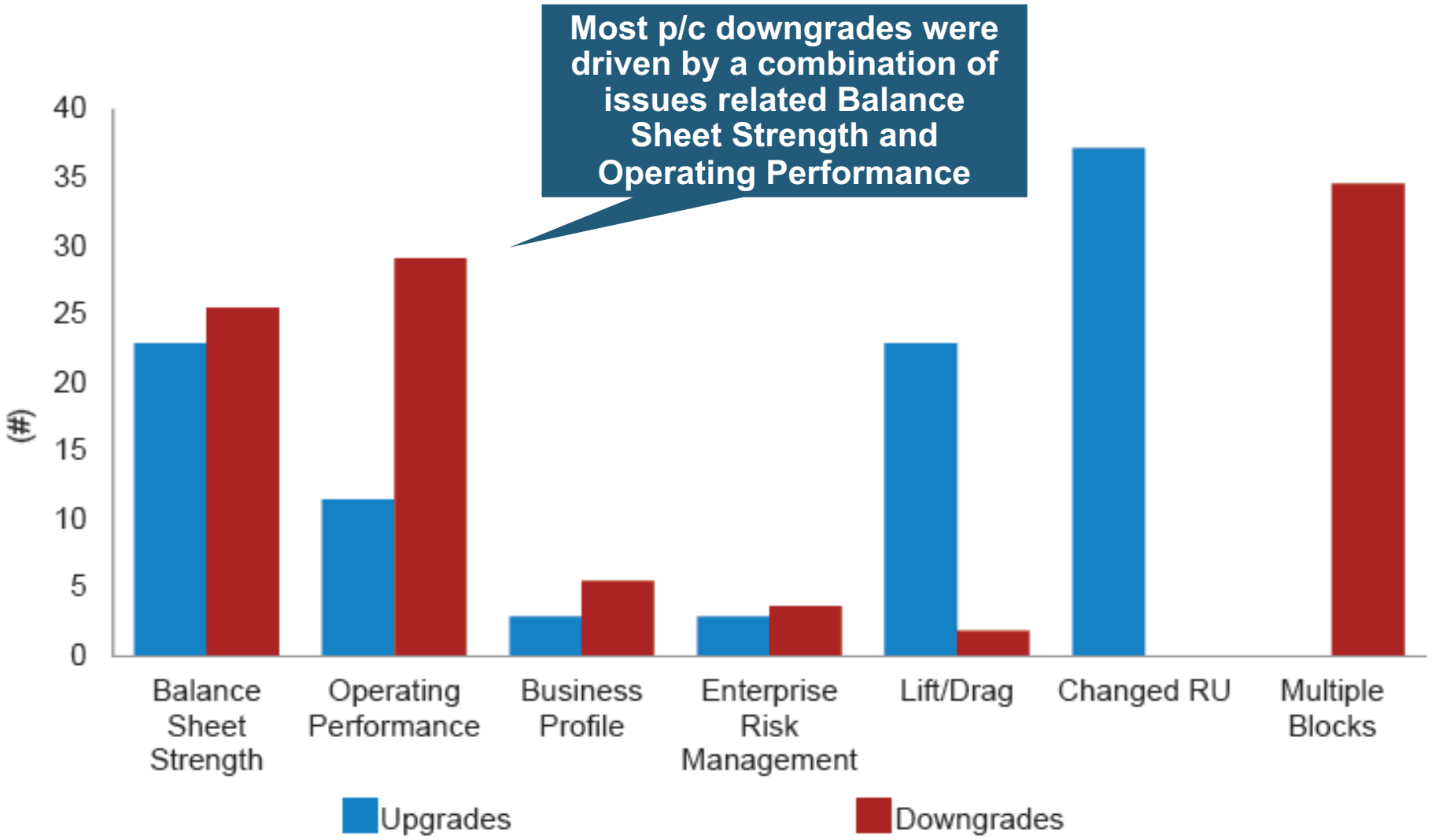
US P/C: Rating Upgrades & Downgrades, by Segment, 2023



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.*

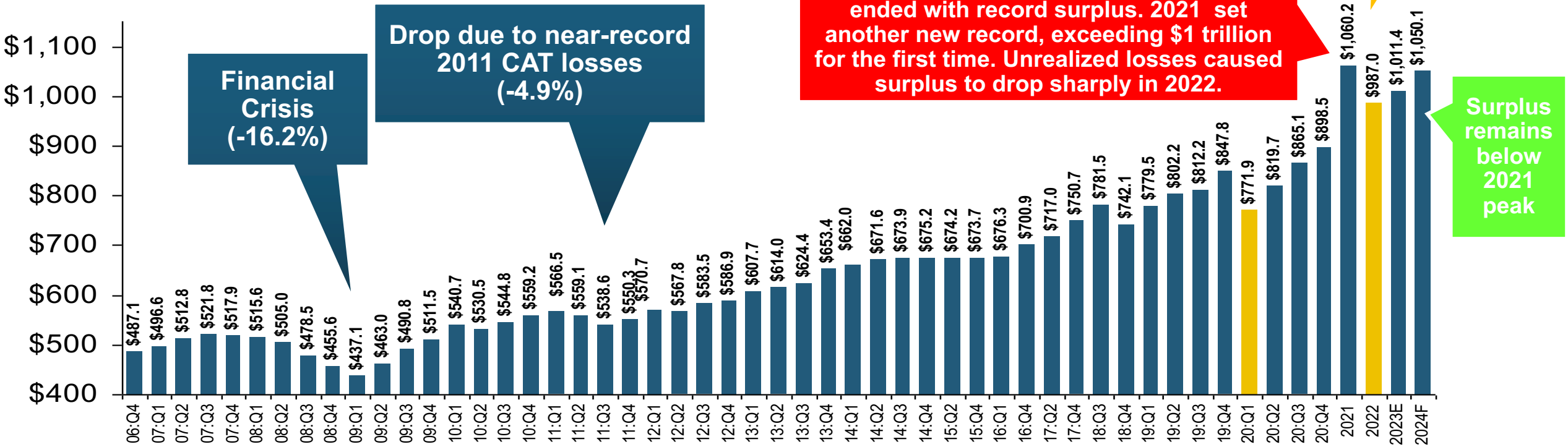
Capital and Capacity

P/C Insurance: Capitalized Crunch?

Will Industry Capacity Recover?

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

($ Billions)

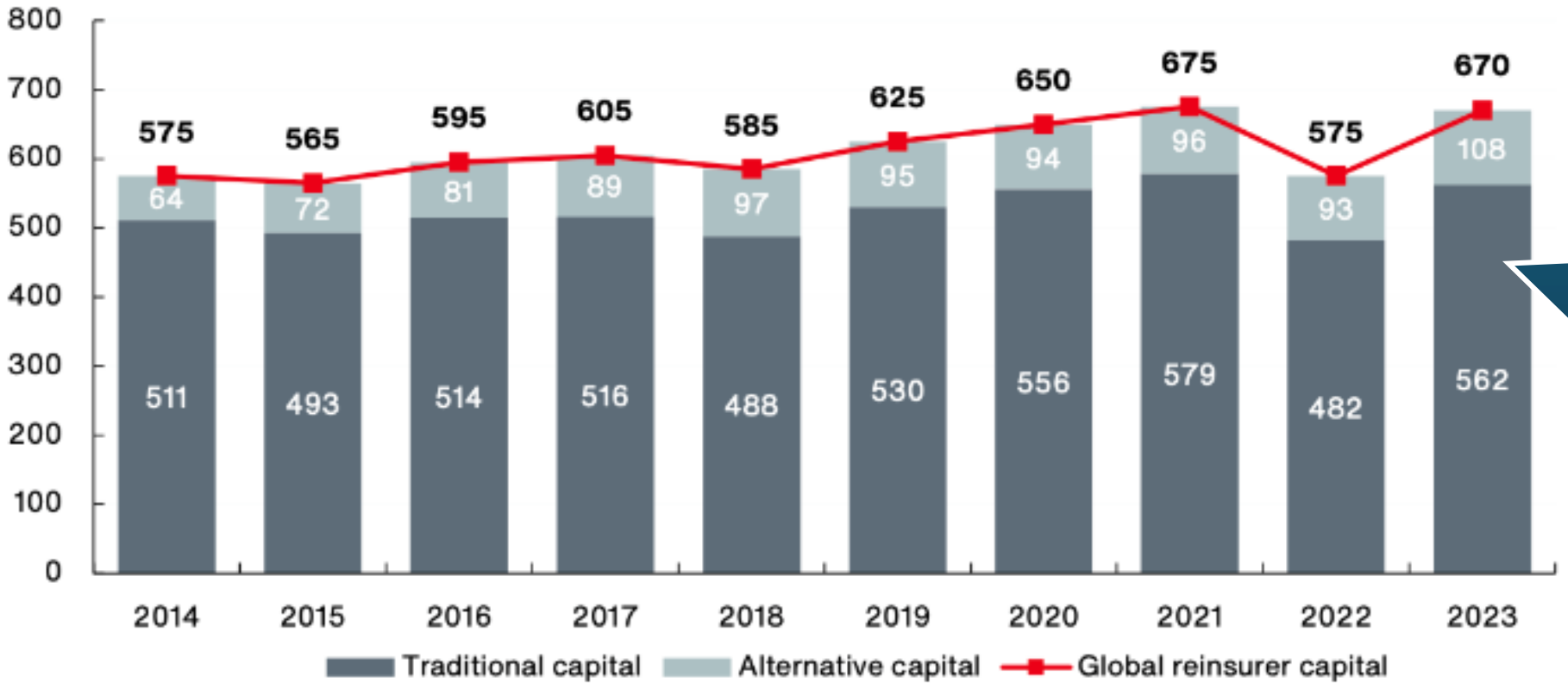


Policyholder Surplus is the industry's financial cushion against large insured events, periods of economic stress and financial market volatility. It is also a source of capital to underwrite new risks.

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

Global Reinsurance Capital, 2013 – 2023

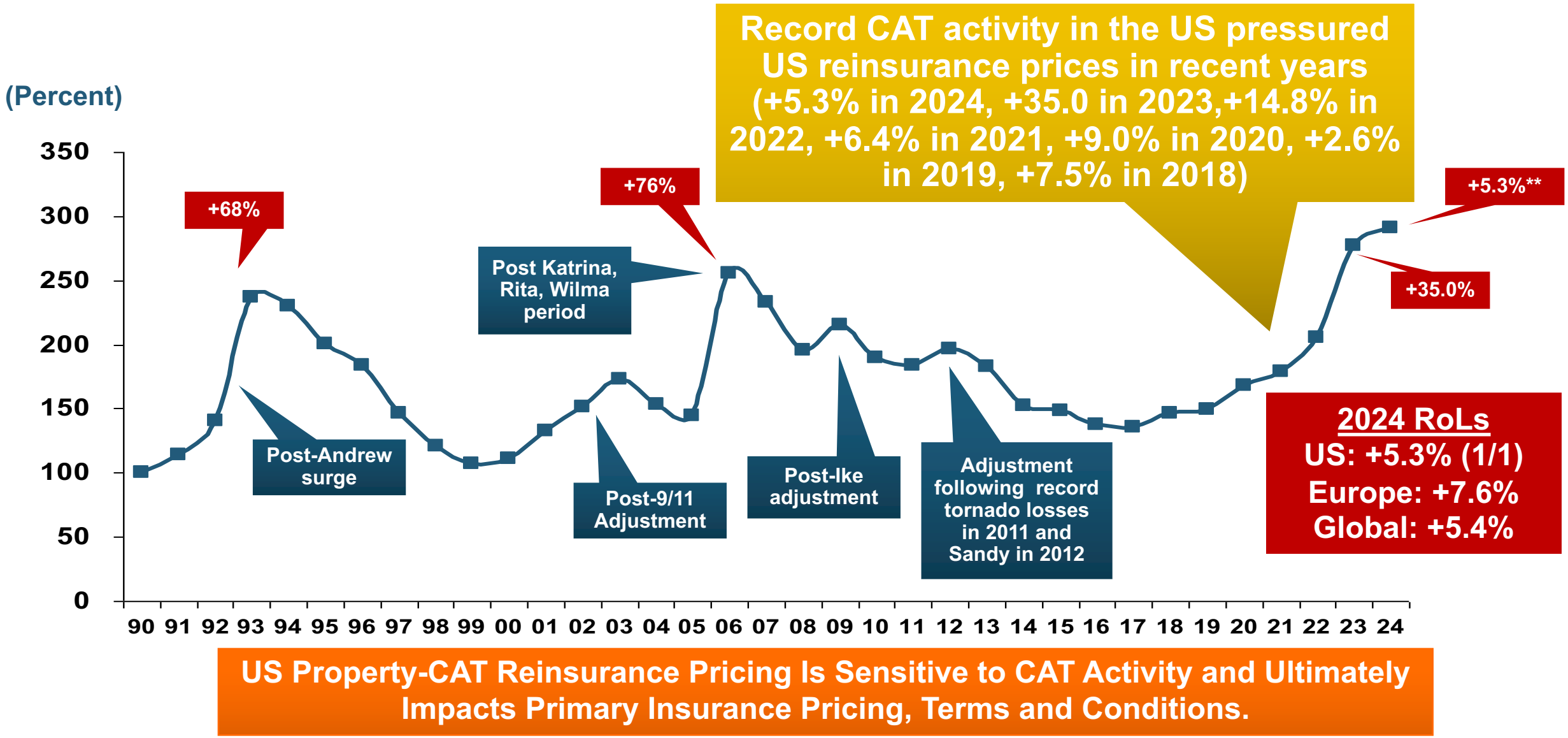
$ Billions



Global reinsurance capital fell by $80B or 14.8% in 2022, contributing to today's property insurance challenges. Most of that capital was recovered in 2023—with ILS playing a key role

Source: Aon Reinsurance Solutions/Aon Securities from Artemis.bm, accessed at:

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.

**Figure as of 1/1/24. Guy Carpenter reports that mid-year renewals (as of 6/1/24) were up just 1.2%. See: https://www.artemis.bm/us-property-cat-rate-on-line-index/

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

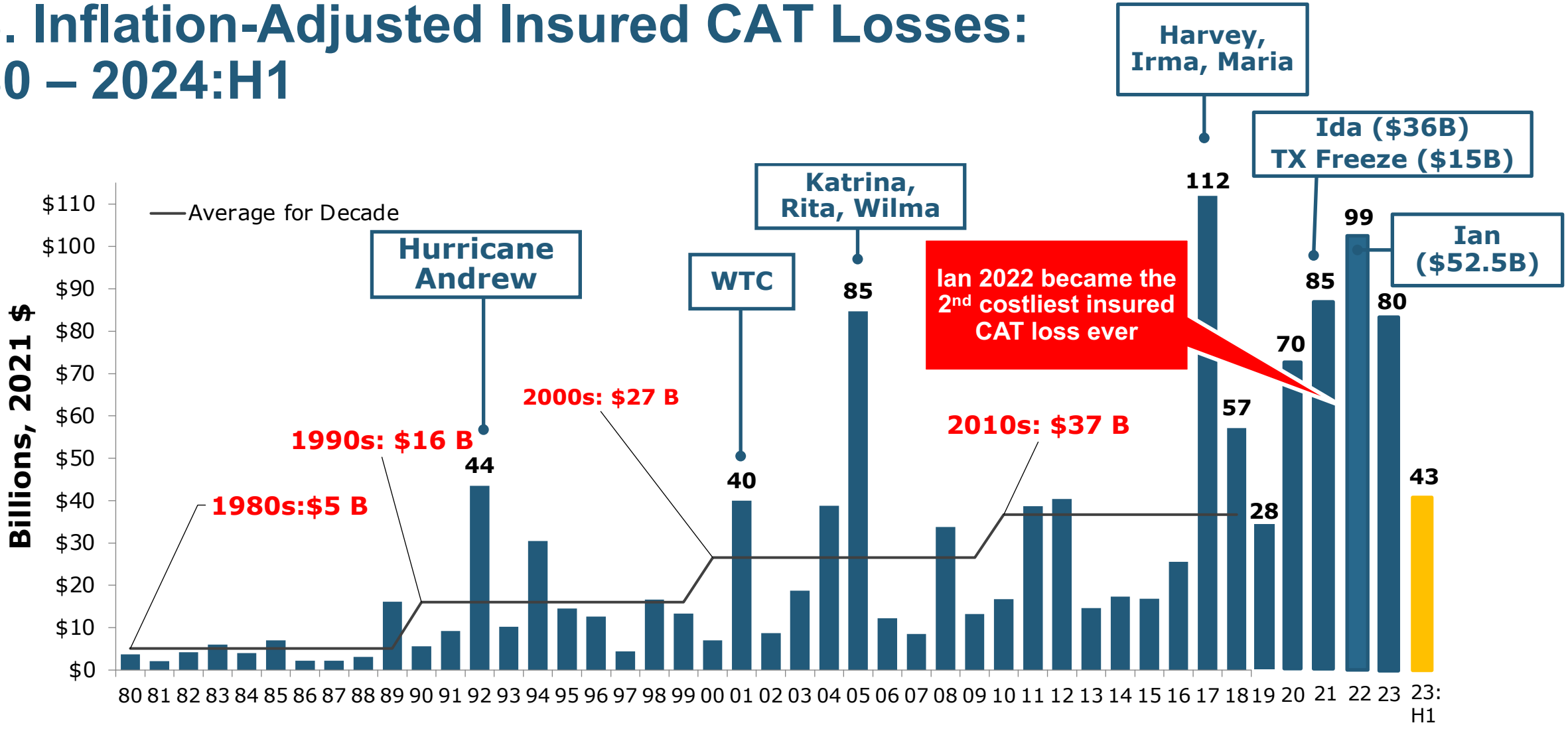
Catastrophe Loss Trends

The Rise in CAT Losses Shows No Signs of Easing

The 2020s Are Off to an Ominous Beginning

Hurricane Helene is Just the Latest in a Long Series of Mega-Disasters

U.S. Inflation-Adjusted Insured CAT Losses: 1980 – 2024:H1



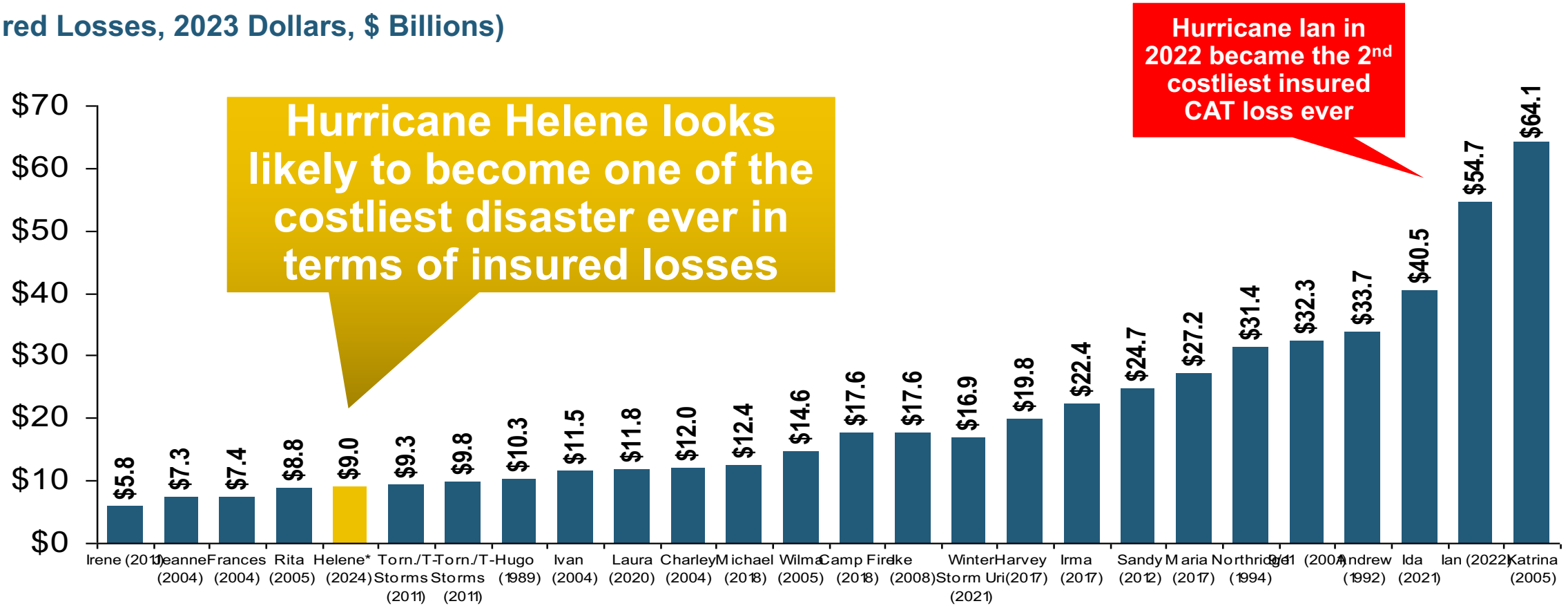
Average Insured Loss per Year*
1980-2021: $23.8 Billion
2012-2021: $44.1 Billion

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

*Stated in 2021 dollars except 2022 -2024 (in current dollars).
Sources: Property Claims Service, a Verisk Analytics business (1980-2019); 2020-22 figures from Munich Re; 2023 and 2024:H1 figure from Aon. Insurance Information Institute; University of South Carolina, Risk & Uncertainty Management Center.

Top 23 Most Costly Disasters in U.S. History

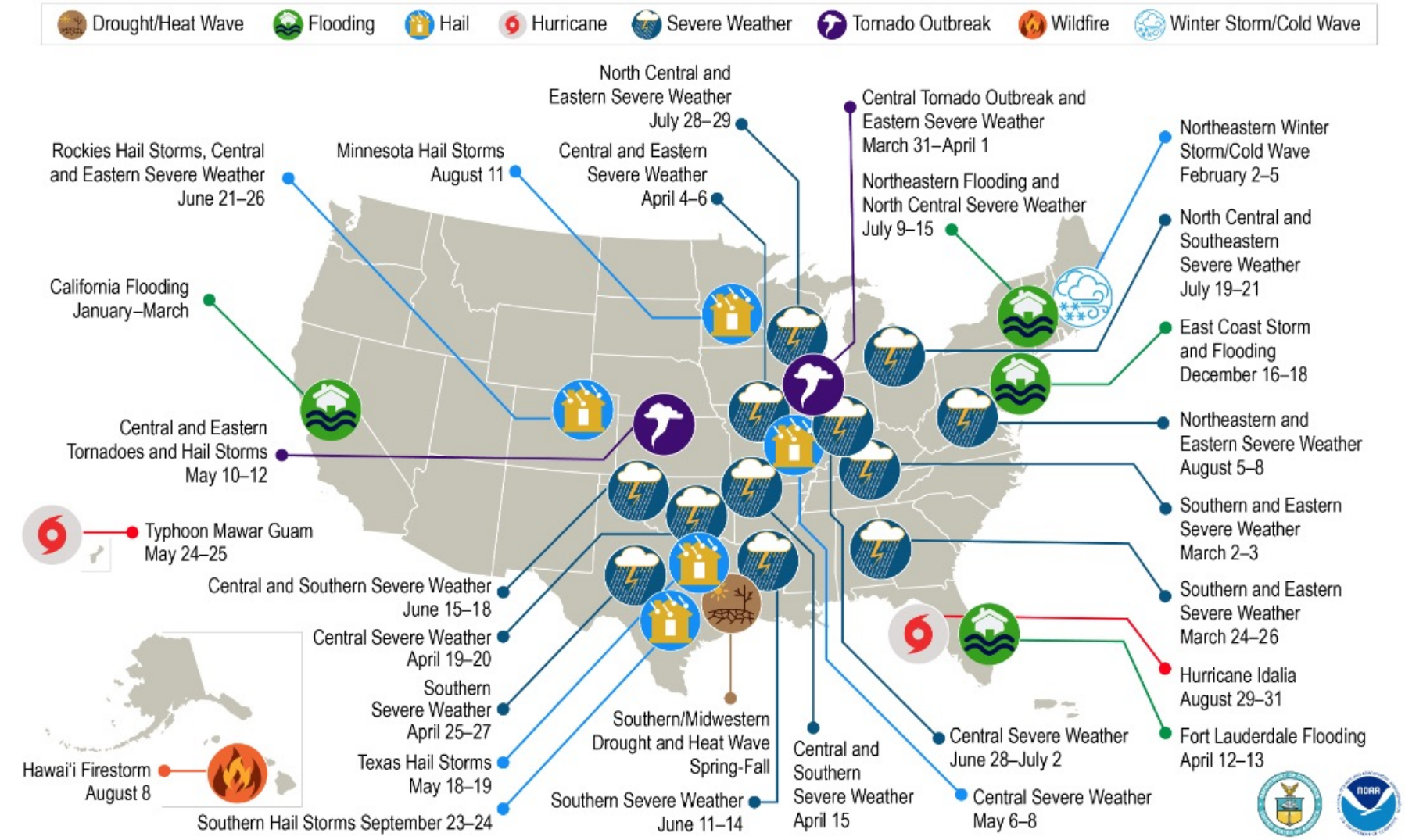
(Insured Losses, 2023 Dollars, $ Billions)



*2024 dollars; Estimate as of 10/5/24.

Sources: PCS, RMS, Aon, Karen Clark & Co; USC Center for Risk and Uncertainty Management adjustments to 2024 dollars using the CPI.

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

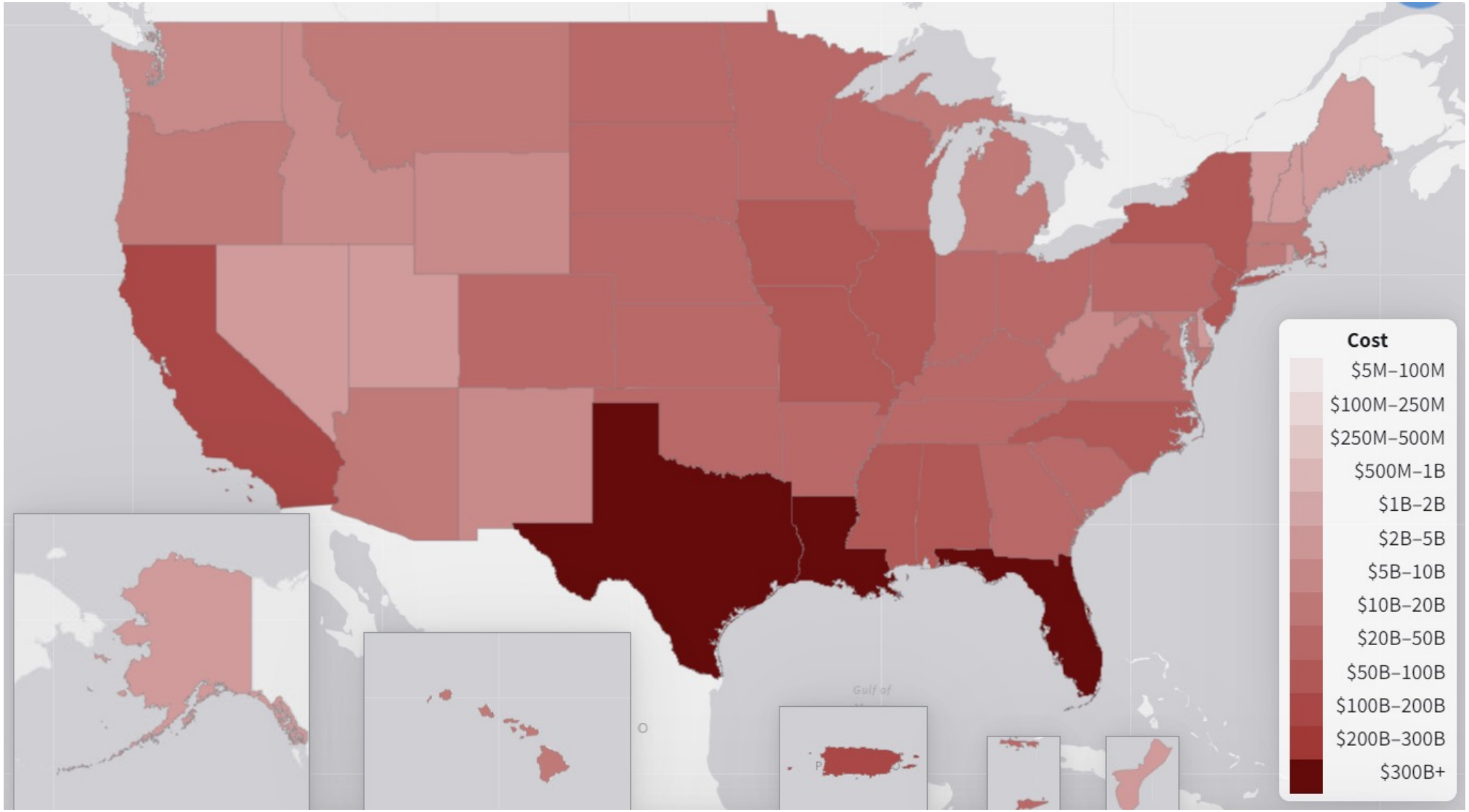


*This map denotes the approximate location for each of the **28 separate billion-dollar weather and climate disasters that impacted the United States in 2023.***

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.

Distribution of Losses from US Billion-Dollar Weather and Climate Disaster Events, 1980 - 2024* (CPI-Adjusted)



Heavy concentration of losses in Gulf Coast states and CA

*As of May 8, 2024.
Source: NOAA, accessed at: https://www.ncei.noaa.gov/access/billions/mapping.

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

Inflation, Geopolitical Conflicts and 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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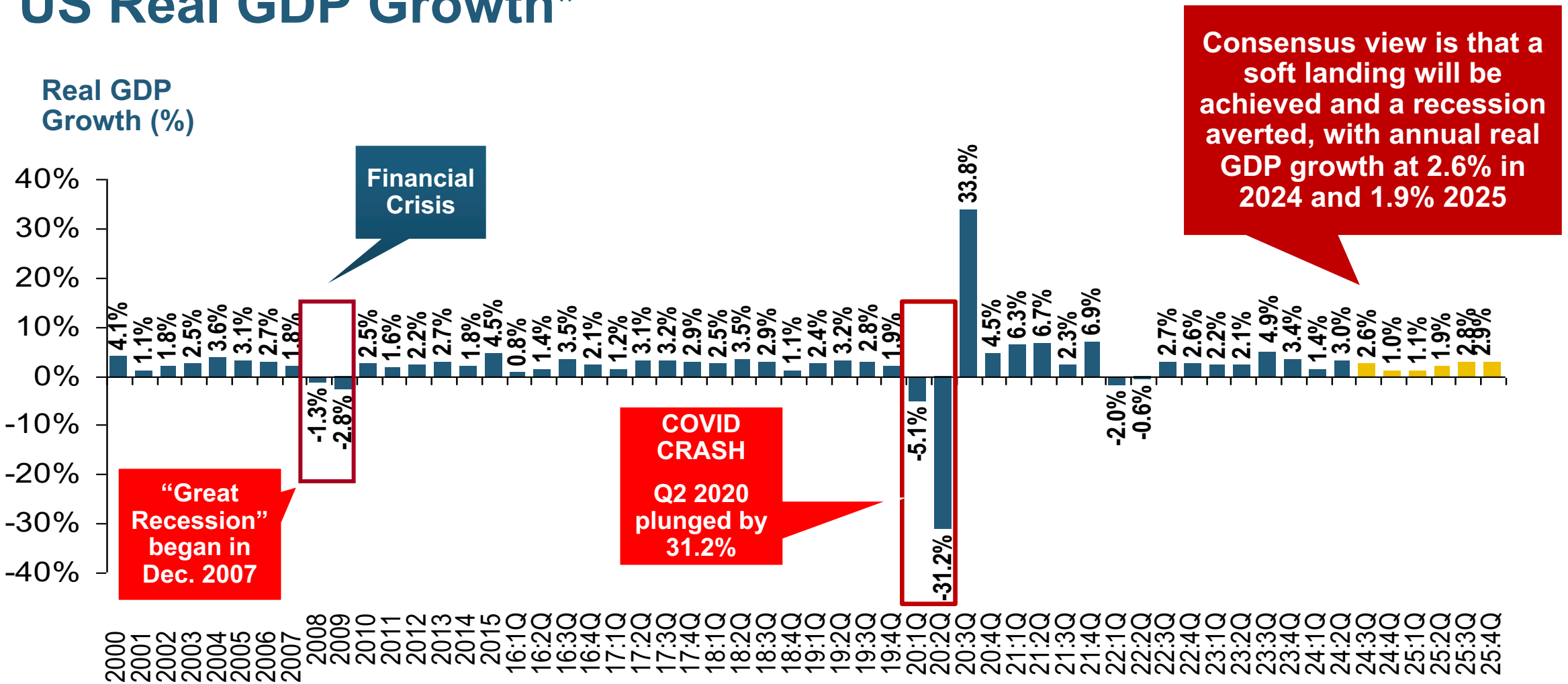
US Real GDP Growth*

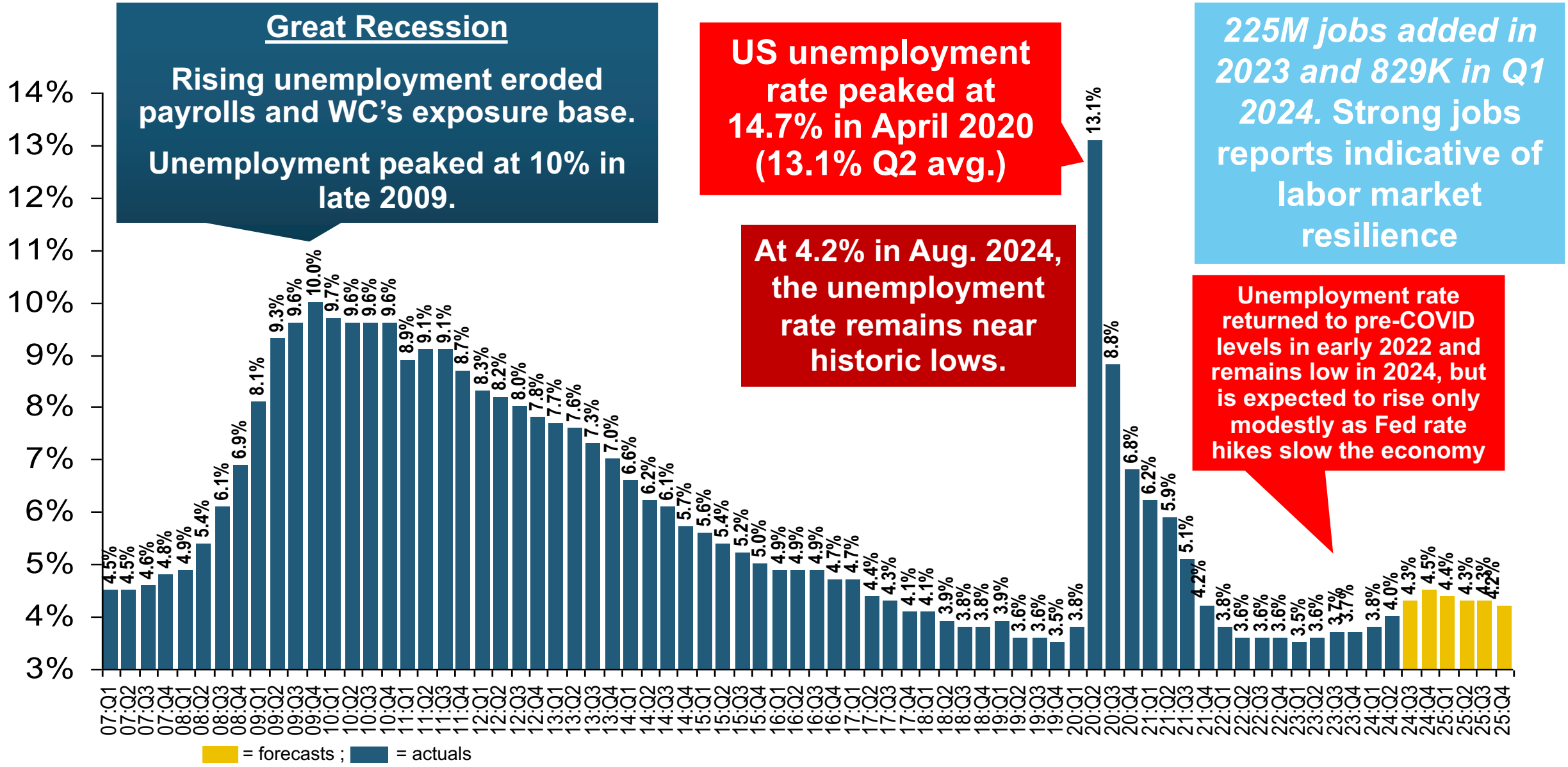


Demand for Insurance Increased Materially in 2021/22 During Recovery from the Pandemic—Particularly in Economically Sensitive Commercial Lines Such as WC. Premium growth will likely slow as Economy Slows.

* Estimates/Forecasts from Wells Fargo Securities.

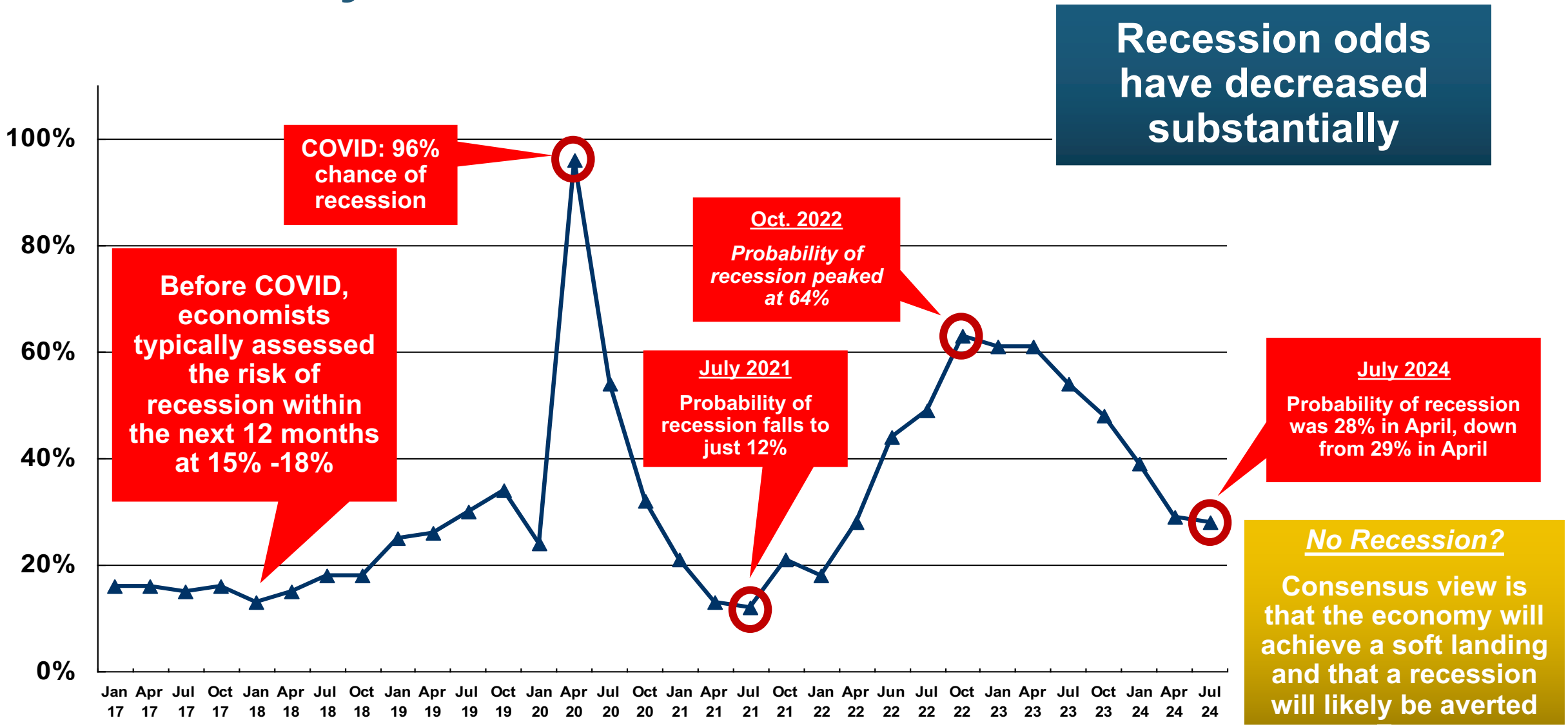
Source: US Department of Commerce, Wells Fargo Securities (9/24); Center for Risk and Uncertainty Management, University of South Carolina.

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



Sources: US Bureau of Labor Statistics; Wells Fargo Securities (9/24 edition); Risk and Uncertainty Management Center, University of South Carolina.

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



*April 2024 survey included the responses of 75 economists.

Source: Wall Street Journal surveys of economists: https://www.wsj.com/economy/central-banking/where-do-economists-think-were-headed-these-are-their-predictions-b3db91ea?mod=hp_listb_pos1; 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.

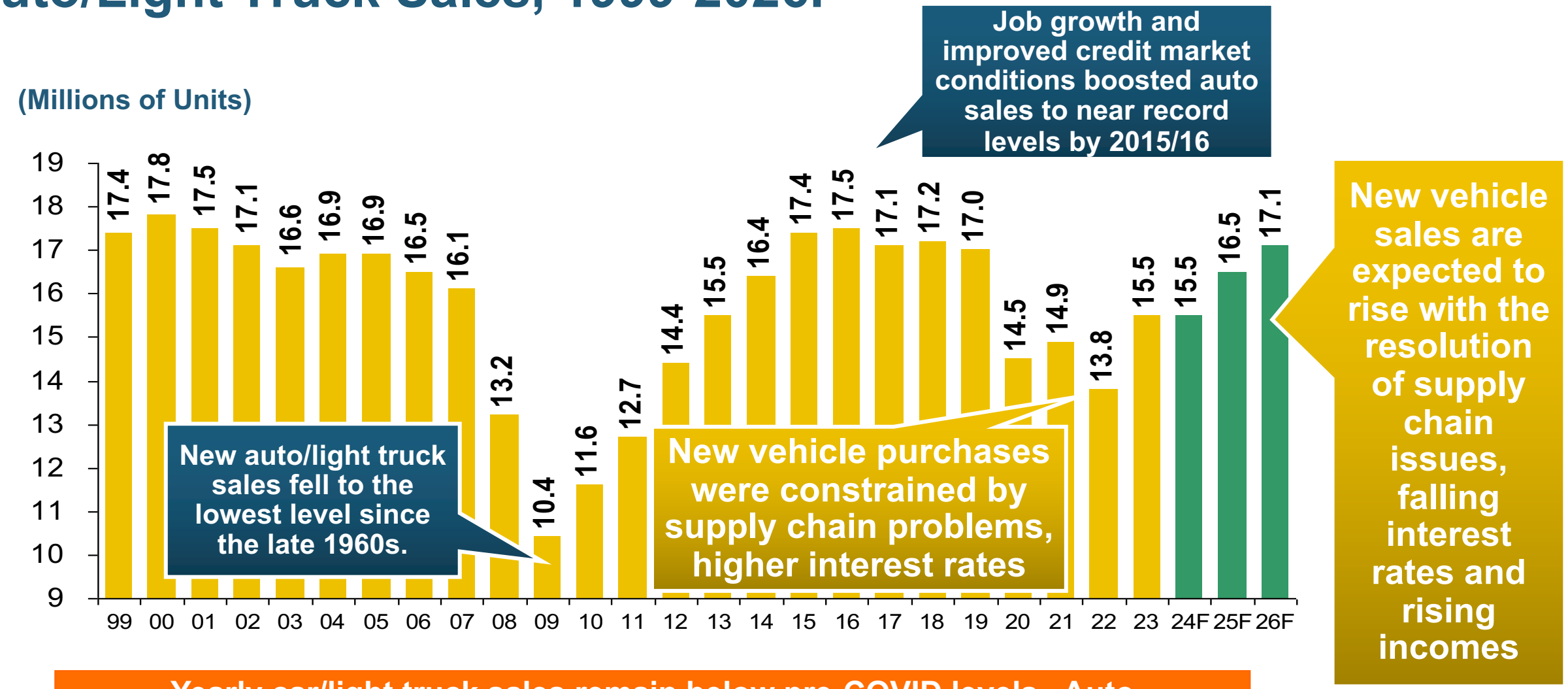
Hard Landing

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.

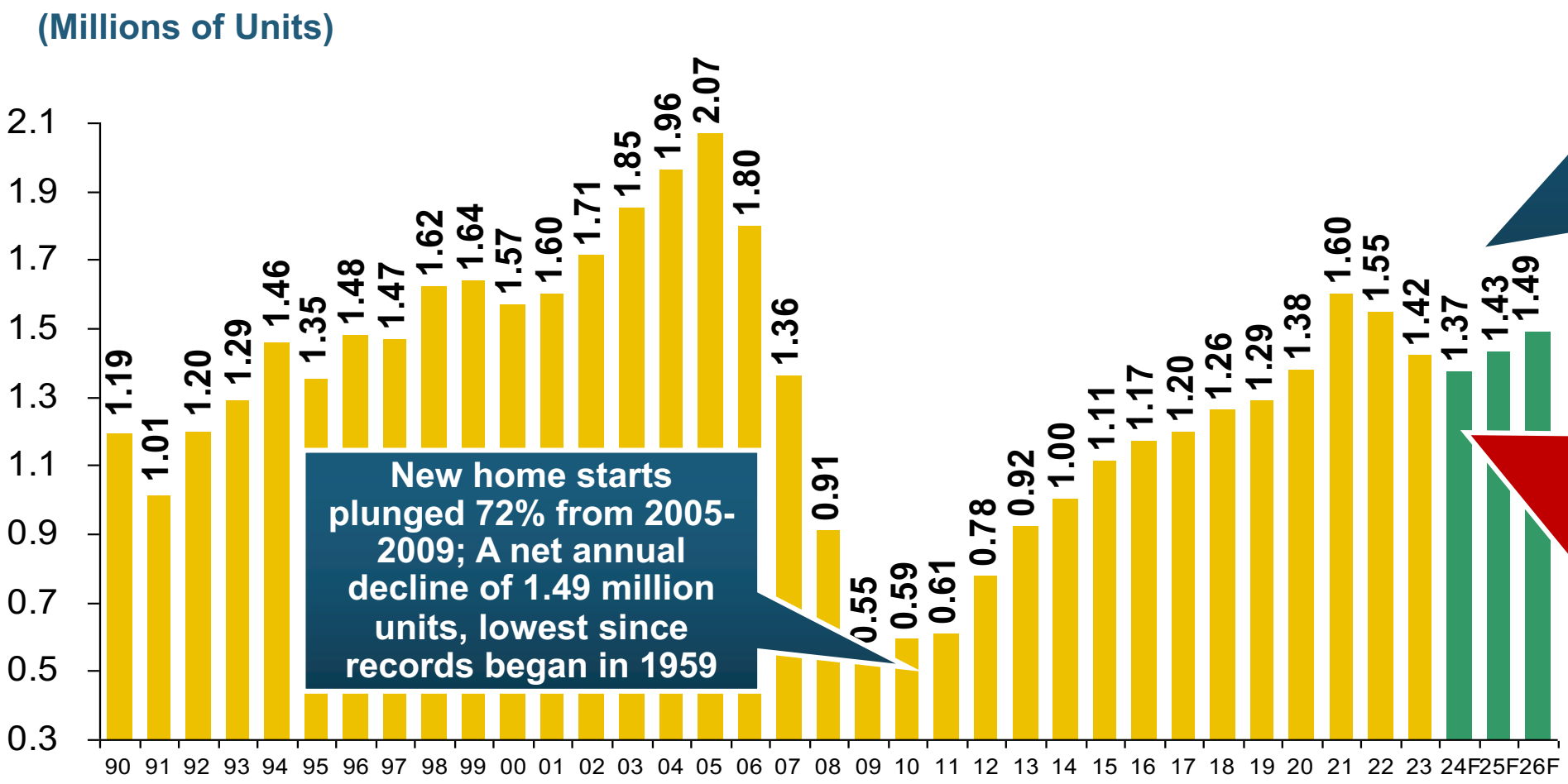
Auto/Light Truck Sales, 1999-2026F



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 2024-26

Source: U.S. Department of Commerce; Wells Fargo Securities (9/24 for 2023F-25F); Univ. of South Carolina, Center for Risk and Uncertainty Management..

New Private Housing Starts, 1990-2026F



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 2024, though low inventory of existing homes is propping up demand. Falling mortgage rates should prop up demand in 2025 and 2026

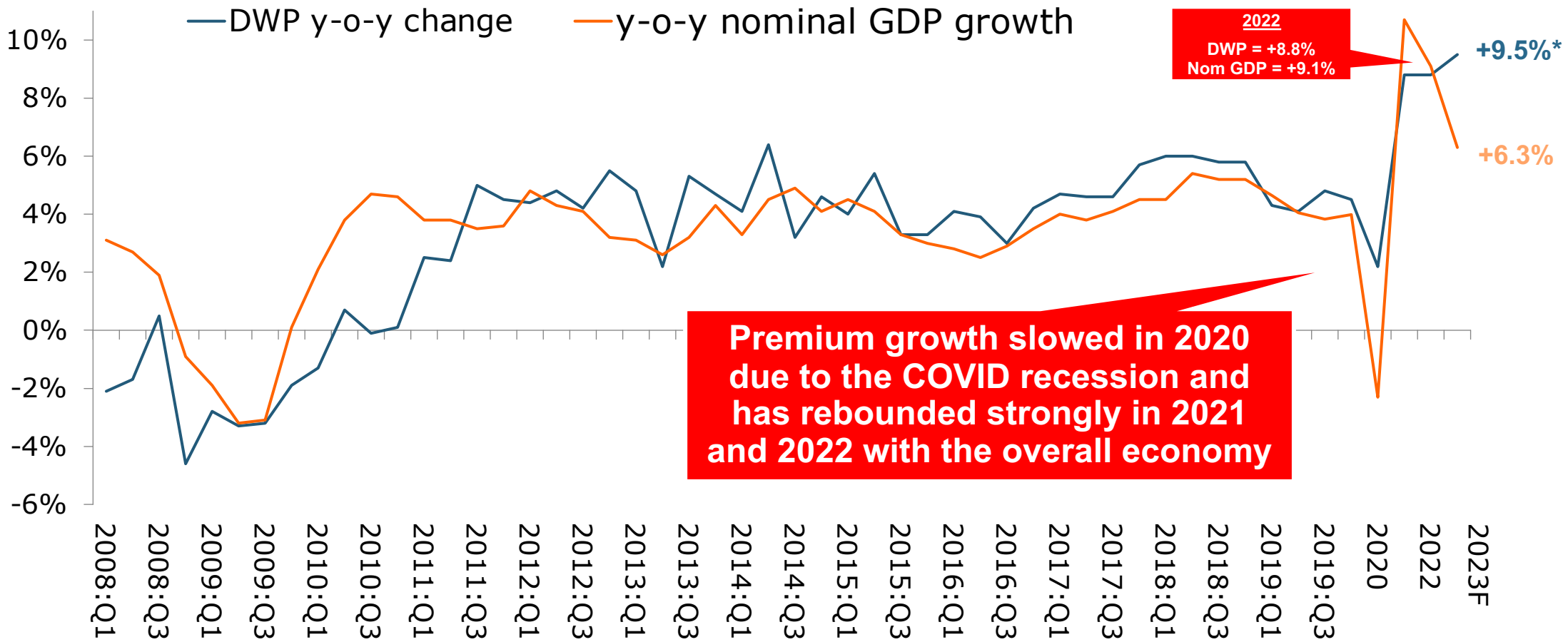
No Repeat of the Housing Collapse that Began in 2007

Insurers Are Continue to See Meaningful Exposure Growth in the Homeowners Line as well as Lines Associated with Home Construction: Construction Risk Exposure, Surety, Commercial Auto; Potent Driver of Workers Comp Exposure

Source: U.S. Department of Commerce; Wells Fargo Securities (9/24 for 2024F-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



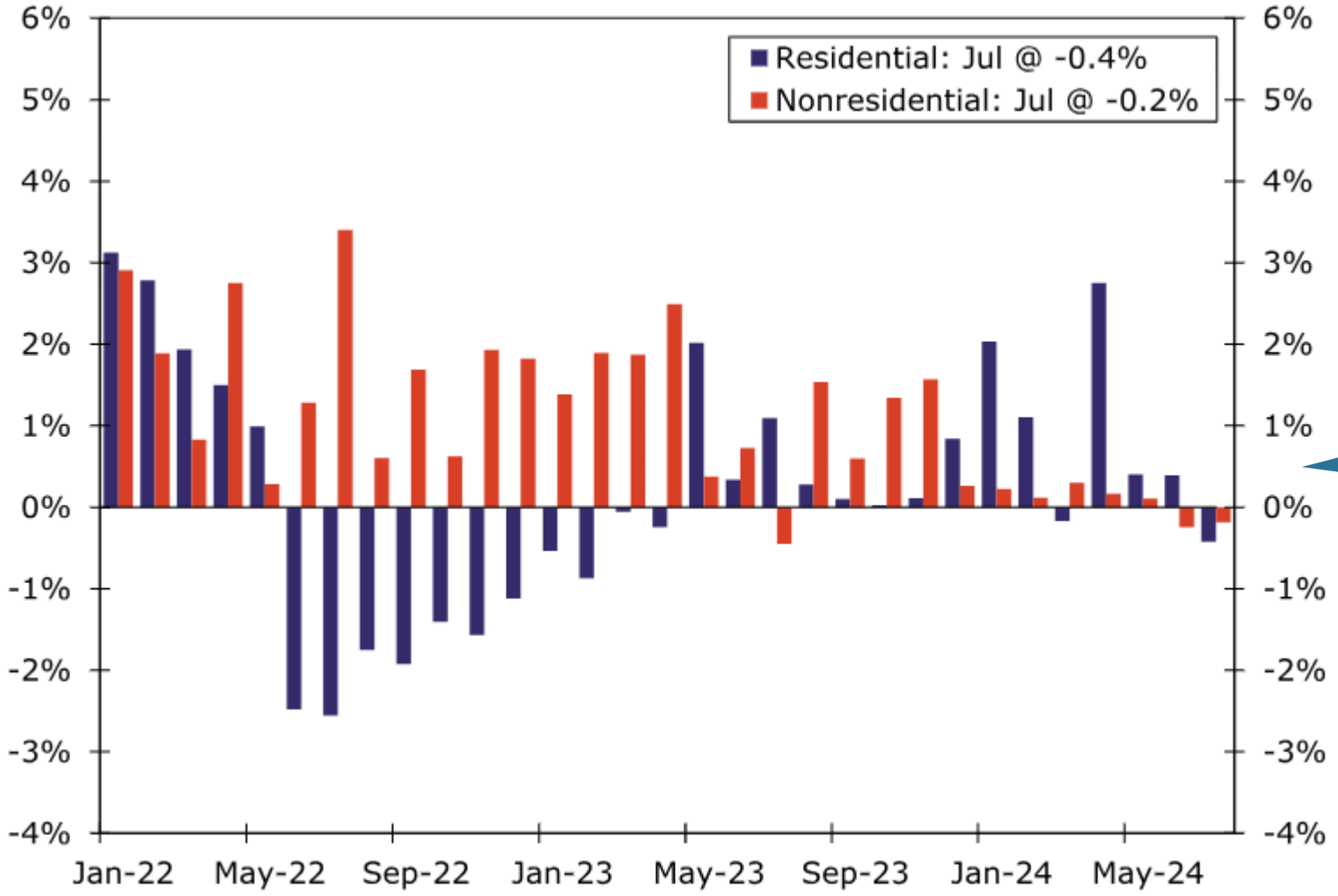
Premium growth slowed in 2020 due to the COVID recession and has rebounded strongly in 2021 and 2022 with the overall economy

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.

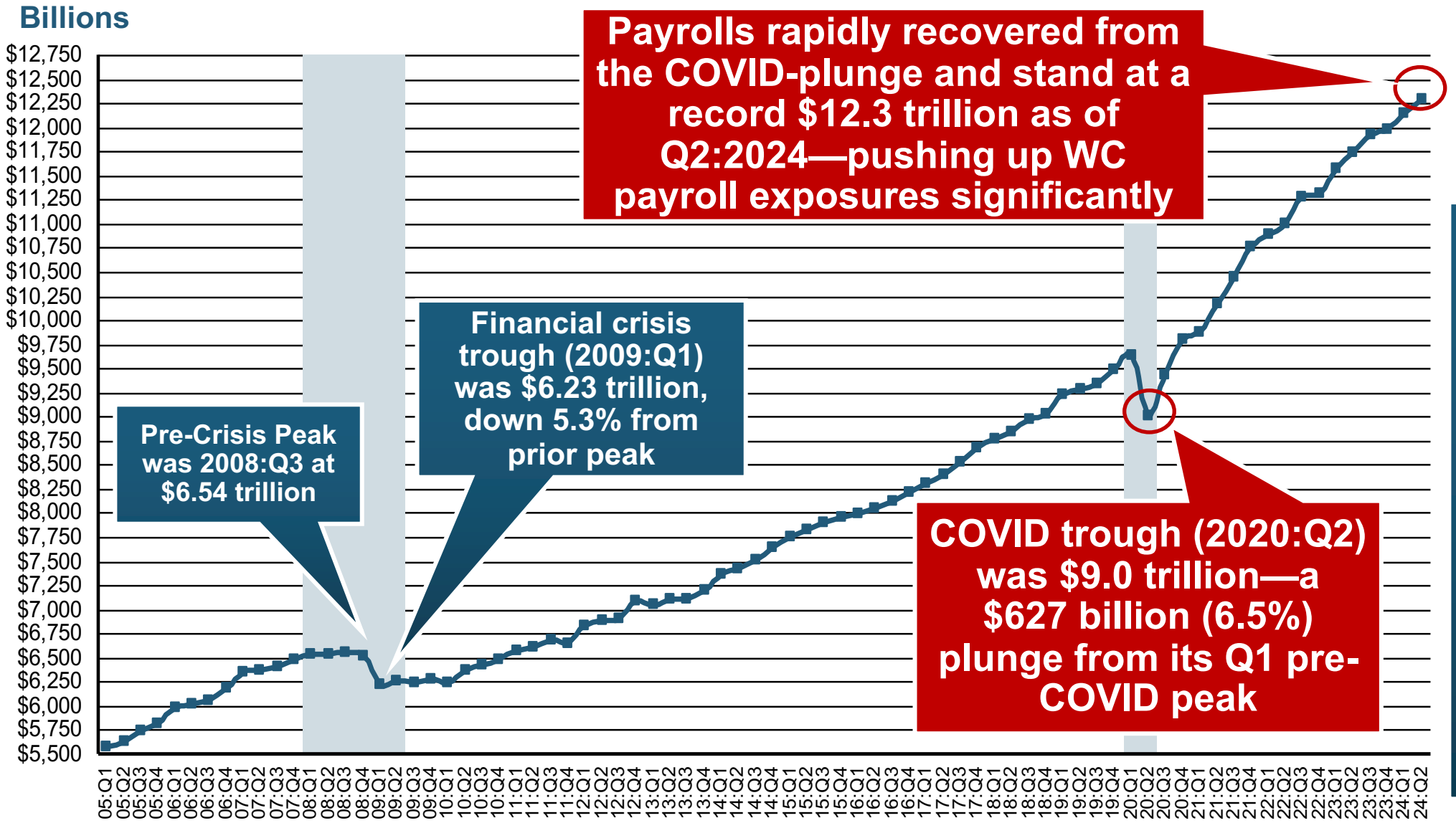
Residential & Nonresidential Construction: Higher Interest Rates Leading to a Slowdown, but no Crash Expected



Construction activity is slowing as higher interest rates take their toll, but pent-up residential demand will fuel growth as rates fall

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

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005:Q1–2024:Q2



Growth rates

2024:Q2: 4.7%
2023: 6.1%
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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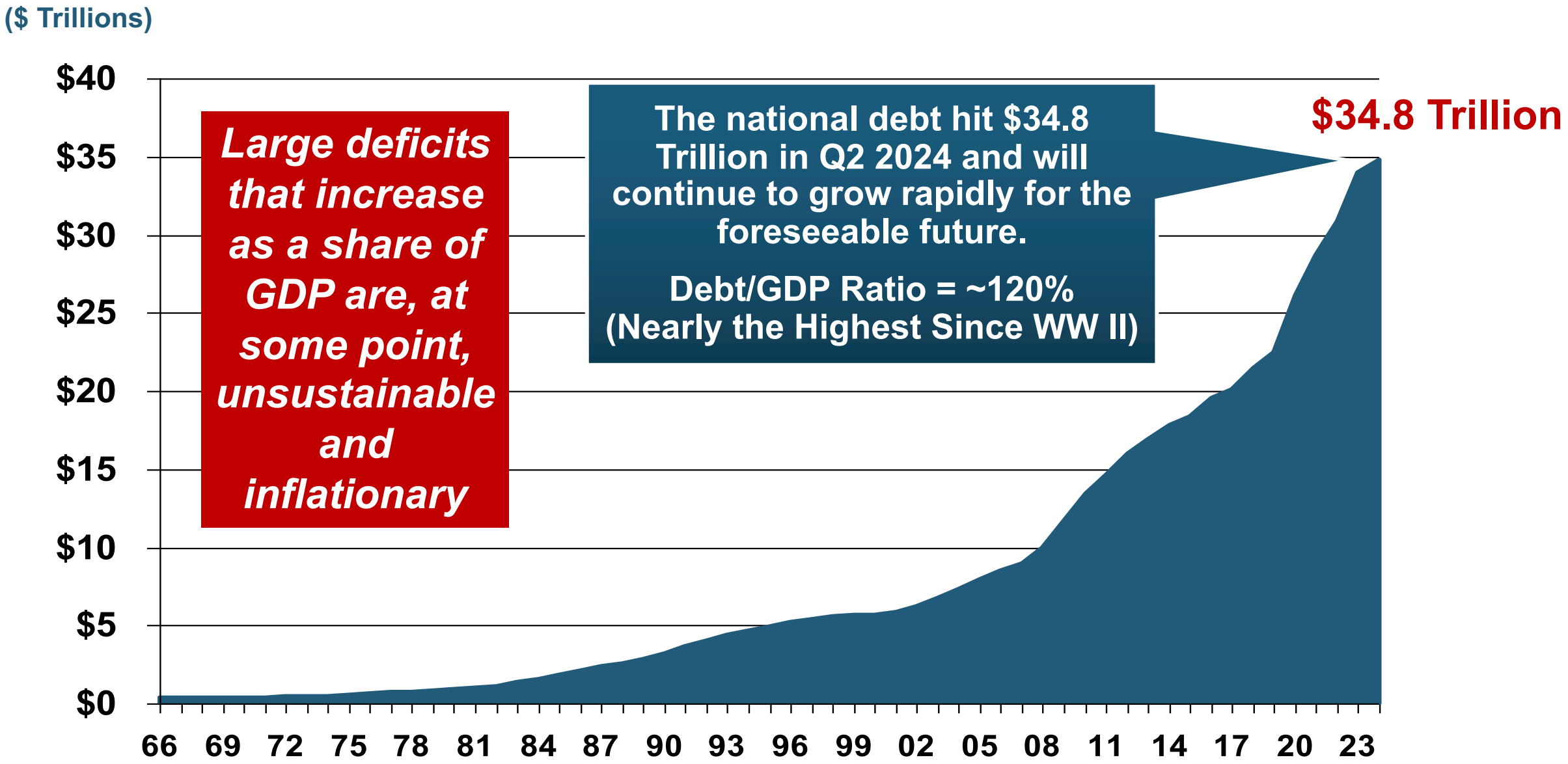
U.S. National Debt, 1966 – 2024:Q2



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

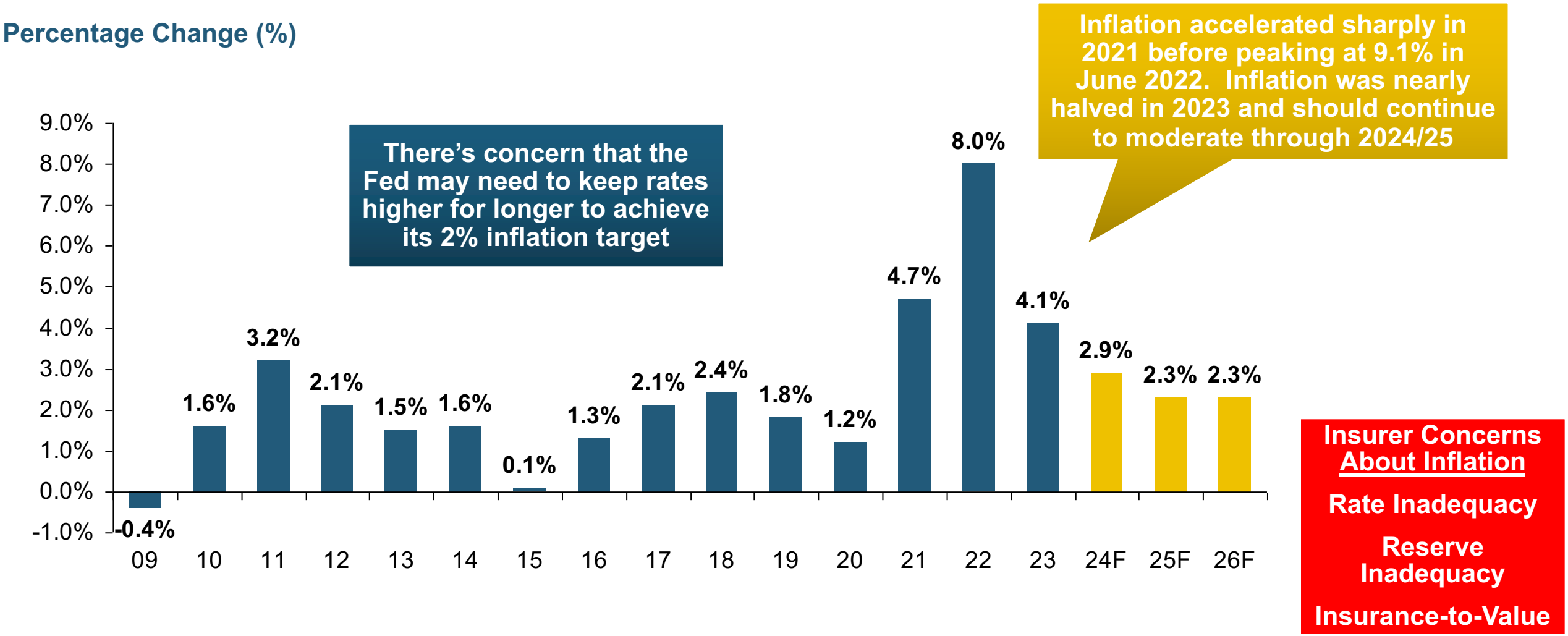
The Inflation Threat

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

And a Major Concern of Insurers

Is the Threat Finally Subsiding?

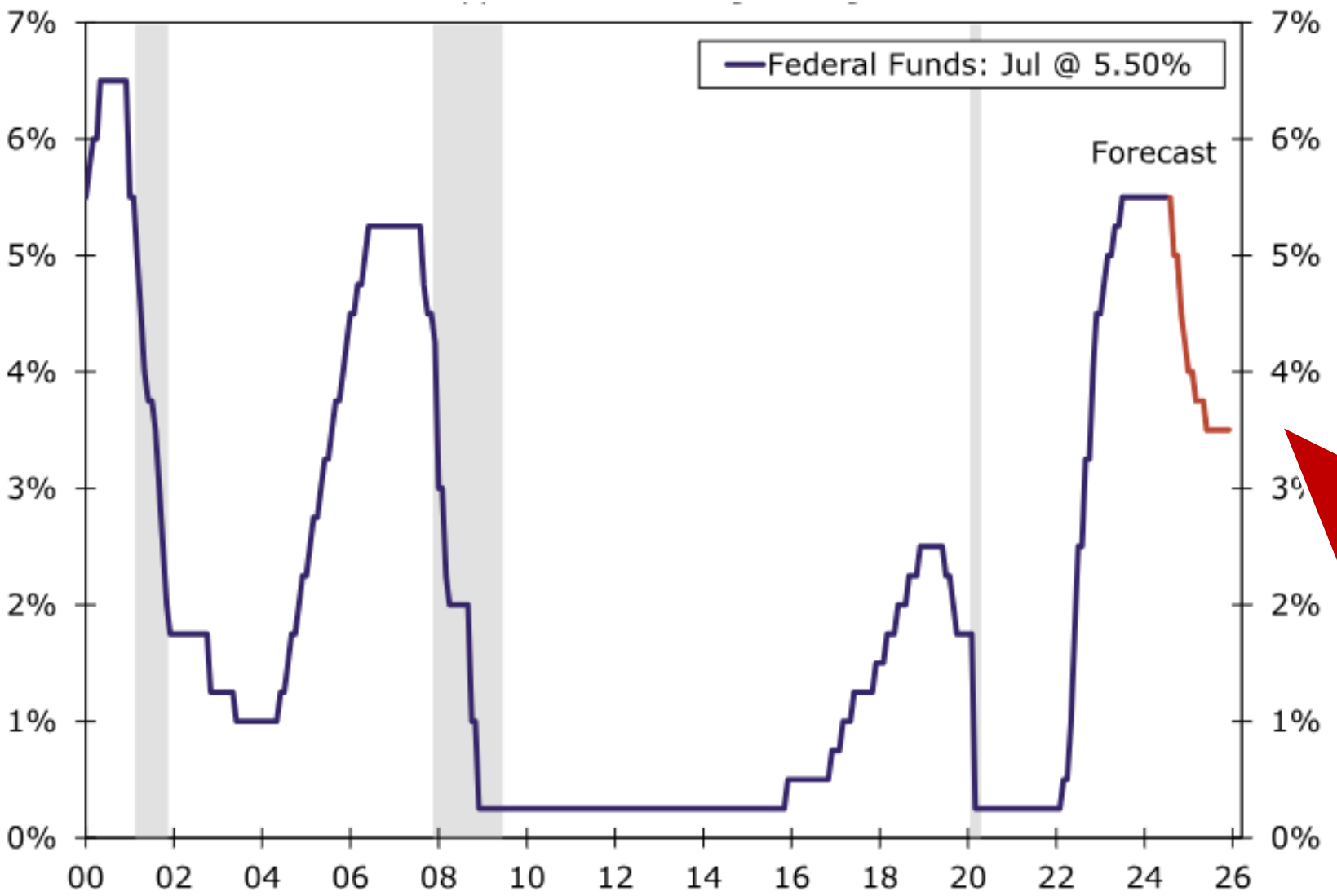
U.S. Inflation Rate: 2009-2025F*



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

Source: U.S. Bureau of Labor Statistics; Wells Fargo Securities (9/24); USC Center for Risk and Uncertainty Management.

Federal Funds Target Rate, 2000 – 2025F



The Fed will cut rates at its September 18 meeting 50bps with more to come…

Sep. 2024: 50bps

Nov. 2024: 25bps

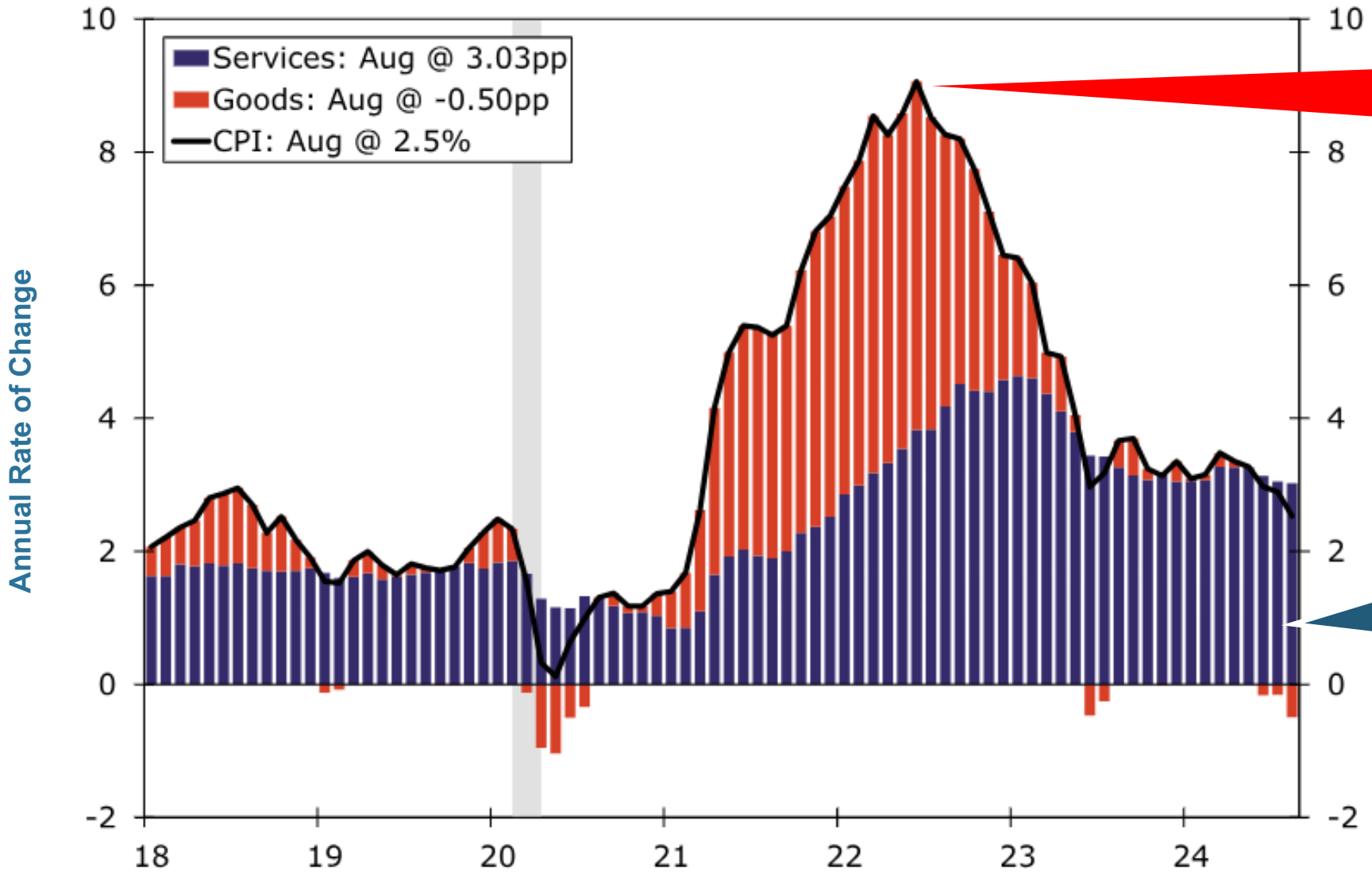
Dec. 2024: 25bps

2025: 100bps

The Fed's 50bps Sept. 18 rate cut represents a pivot from its focus on bringing down inflation to preventing further weakening in the labor market

Source: Federal Reserve Board and Wells Fargo Securities as of 8/4/24.

Contribution to CPI, Goods vs. Services, Jan. 2018 - Aug. 2024

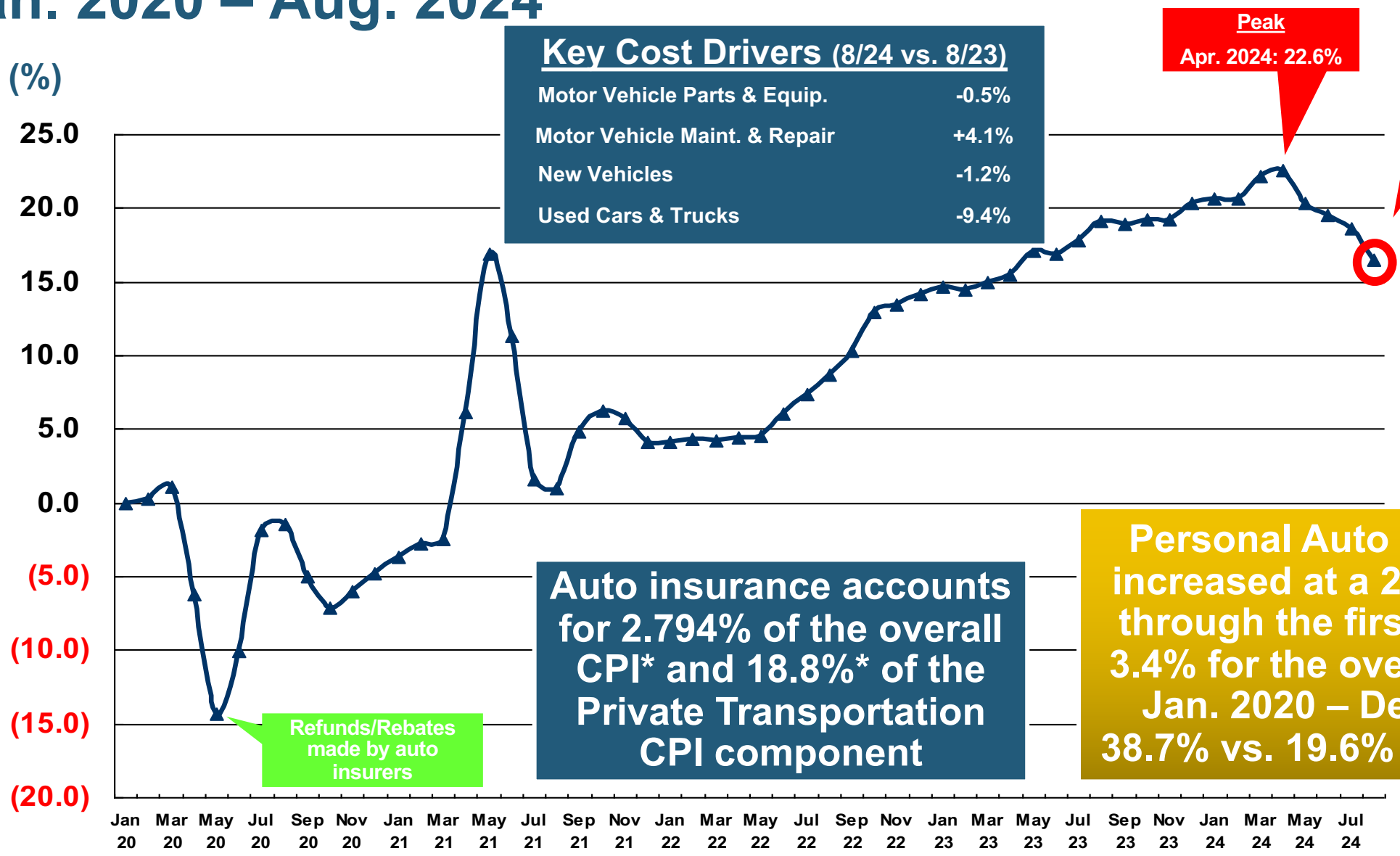


Inflation peaked at 9.1% in June 2022, driven by inflation in both goods and services

Prices were up 2.5% in Aug. 2024 vs. a year ago—driven almost entirely by services—(including auto insurance)

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

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



Key Cost Drivers (8/24 vs. 8/23)

Motor Vehicle Parts & Equip.	-0.5%
Motor Vehicle Maint. & Repair	+4.1%
New Vehicles	-1.2%
Used Cars & Trucks	-9.4%

Peak
Apr. 2024: 22.6%

Refunds/Rebates made by auto insurers

Auto insurance accounts for 2.794% of the overall CPI* and 18.8%* of the Private Transportation CPI component

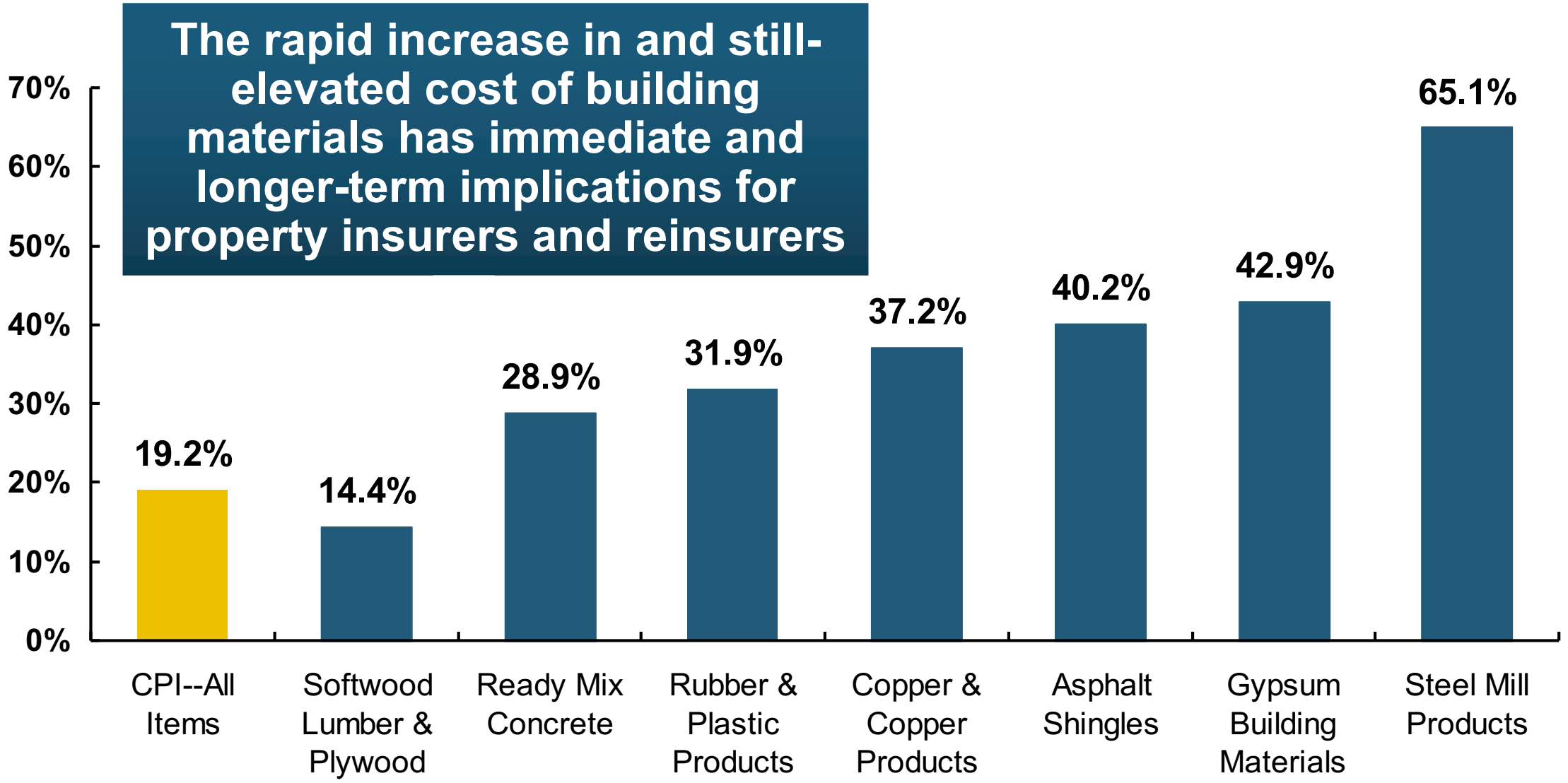
- The auto insurance component of the Consumer Price Index in August was up 16.5%
- While still high, the increase is the smallest since April 2023 and well below the 22.6% peak in April 2024
- The August reading reaffirms that a sustained deceleration in auto insurance price increases is underway
- Moderation in key auto insurance cost drivers bodes well for continued deceleration in auto insurance costs

Personal Auto Insurance prices increased at a 21.0% annual pace through the first half of 2024 (vs. 3.4% for the overall CPI) and from Jan. 2020 – Dec. 2023 were up 38.7% vs. 19.6% for the overall CPI

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

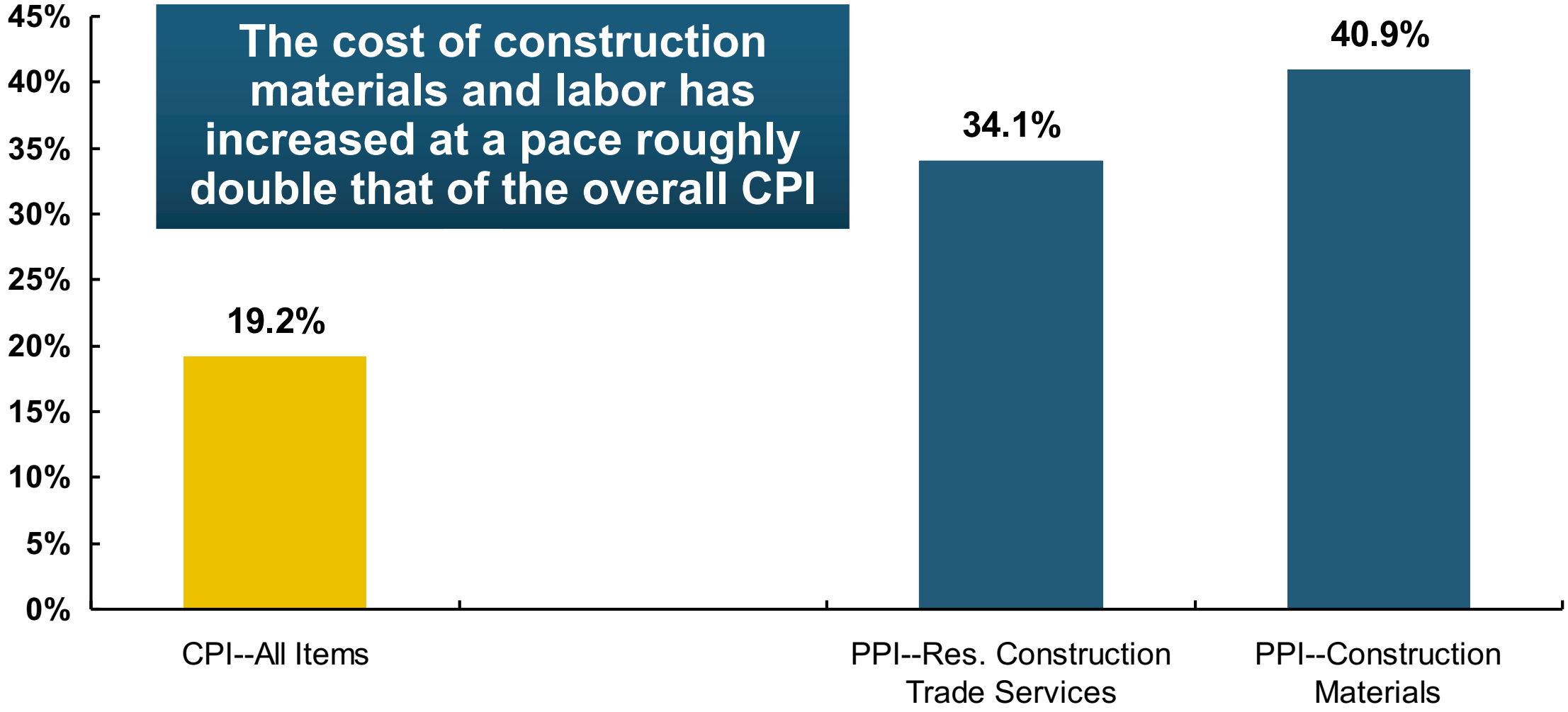
Sources: US Bureau of Labor Statistics, accessed at: https://data.bls.gov/timeseries/CUUR0000SETE. Risk and Uncertainty Management Center, University of South Carolina.

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



Source: U.S. Bureau of Labor Statistics.

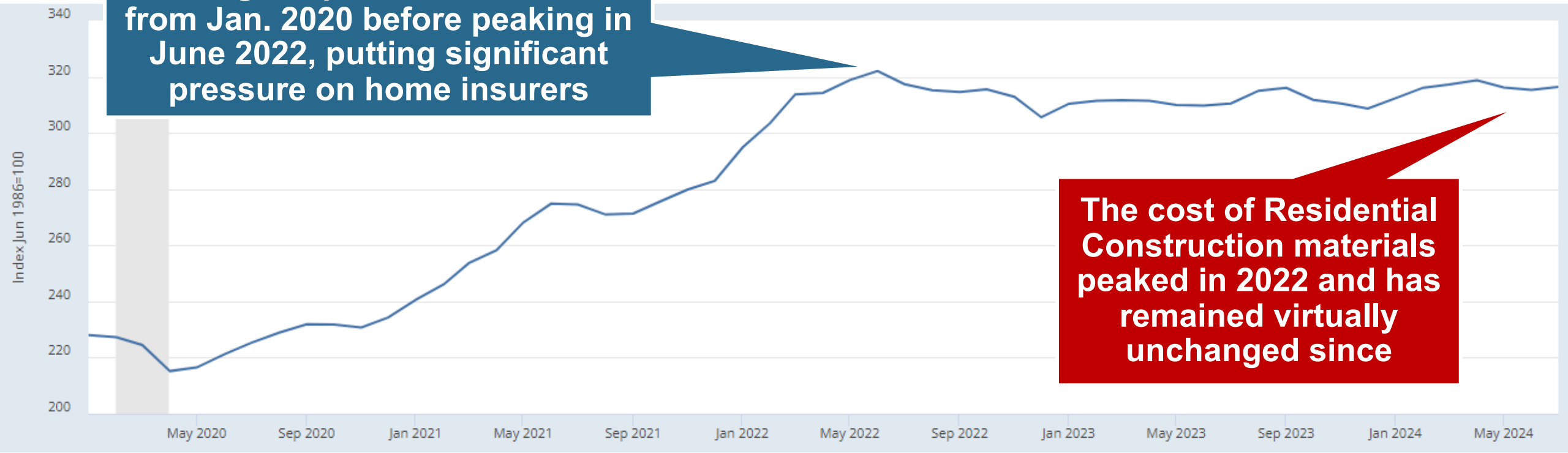
Cost Indicators for Homeowners, Price Index Changes, Jan. 2020 – Dec. 2023



Source: U.S. Bureau of Labor Statistics.

PPI: Net Inputs to Residential Construction, Goods, Jan. 2019 – July 2024

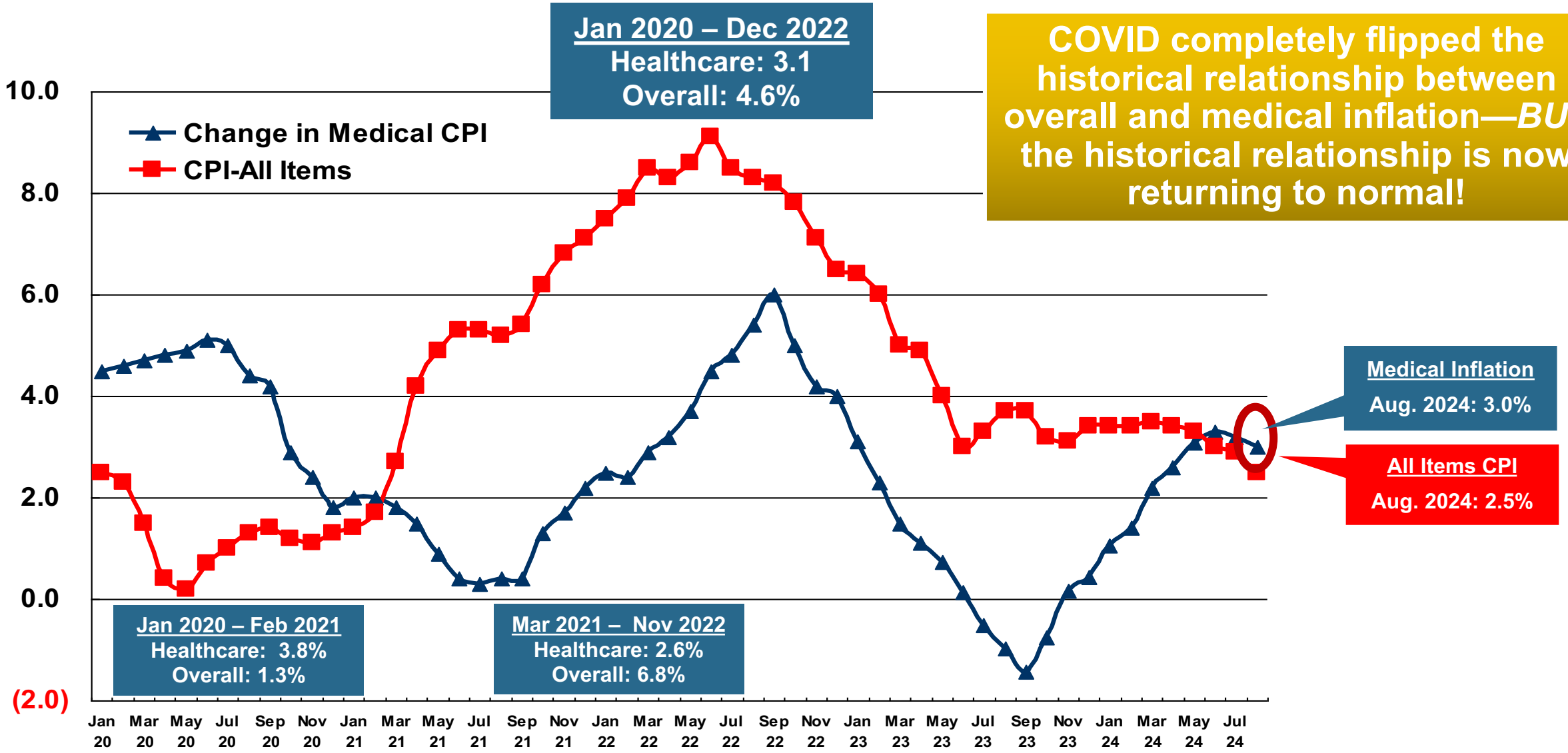
The cost of Residential Construction materials surged during the pandemic, +41.2% from Jan. 2020 before peaking in June 2022, putting significant pressure on home insurers



The cost of Residential Construction materials peaked in 2022 and has remained virtually unchanged since

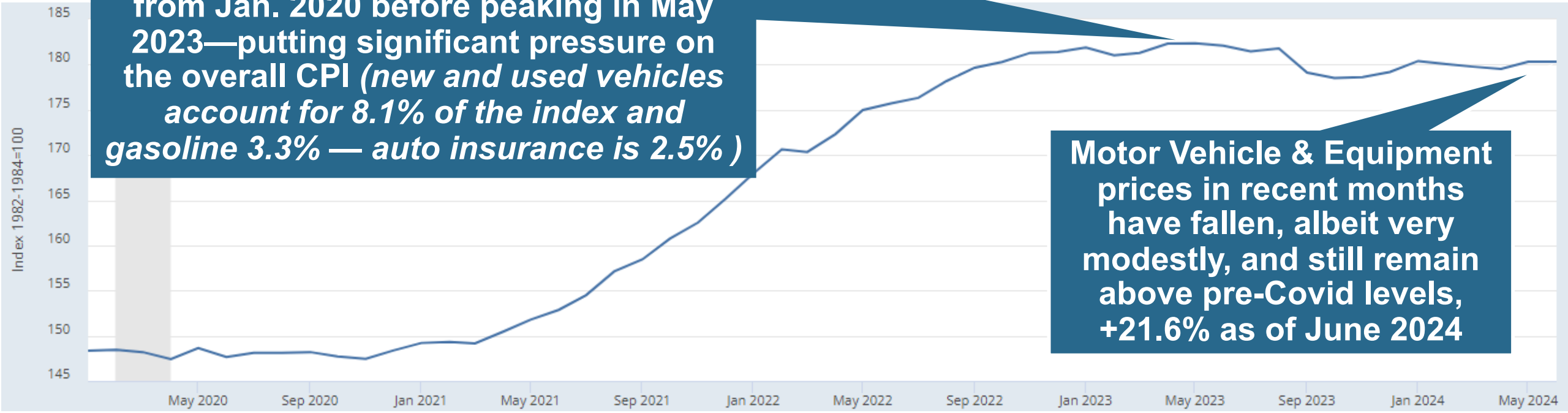
Sources: Federal Reserve Bank of St. Louis from US Bureau of Labor Statistics: https://fred.stlouisfed.org/series/WPUIP2311001; Risk and Uncertainty Management Center, University of South Carolina.

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



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

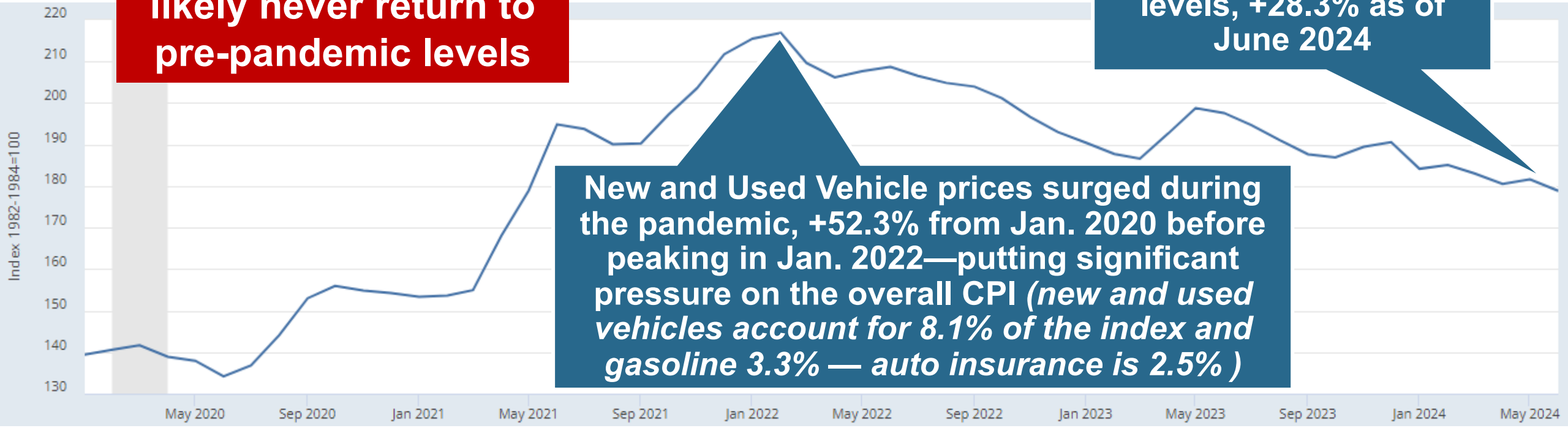
Price Index Changes for Motor Vehicle Parts & Equipment, Jan. 2020 – June 2024



Sources: US Bureau of Labor Statistics: https://fred.stlouisfed.org/series/CUUR0000SETC; Risk and Uncertainty Management Center, University of South Carolina.

Price Index Changes for Used Cars & Trucks, Jan. 2020 – June 2024

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



Used car prices are falling, but still remain well above pre-Covid levels, +28.3% as of June 2024

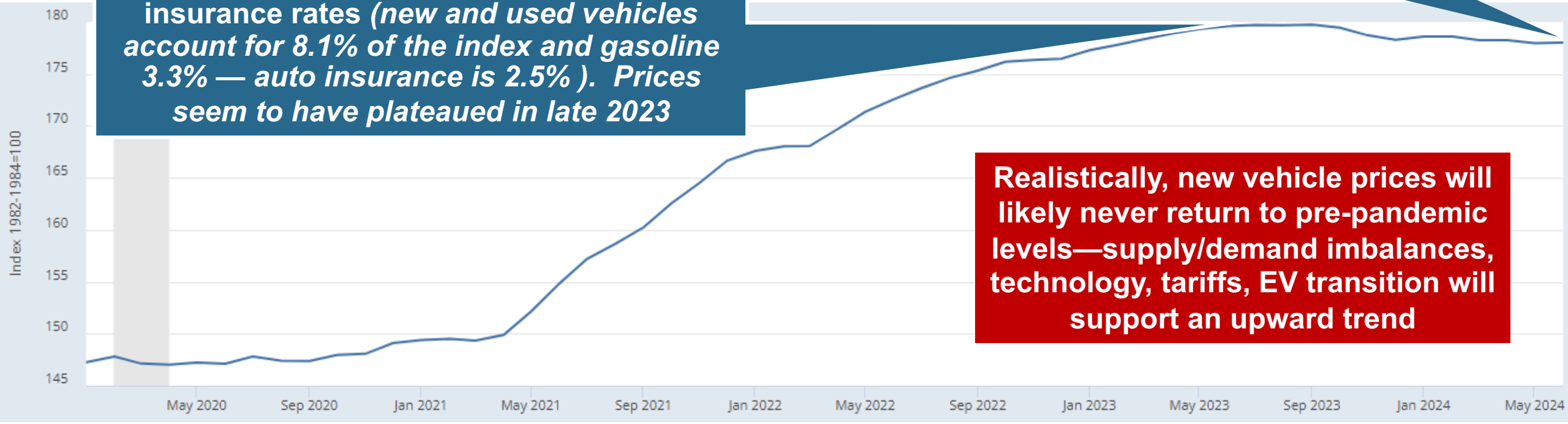
New and Used Vehicle prices surged during the pandemic, +52.3% from Jan. 2020 before peaking in Jan. 2022—putting significant pressure on the overall CPI *(new and used vehicles account for 8.1% of the index and gasoline 3.3% — auto insurance is 2.5%)*

Sources: US Bureau of Labor Statistics; https://fred.stlouisfed.org/series/CUSR0000SETA02. Risk and Uncertainty Management Center, University of South Carolina.

Price Index for New Vehicles, Jan. 2020 – June 2024

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*

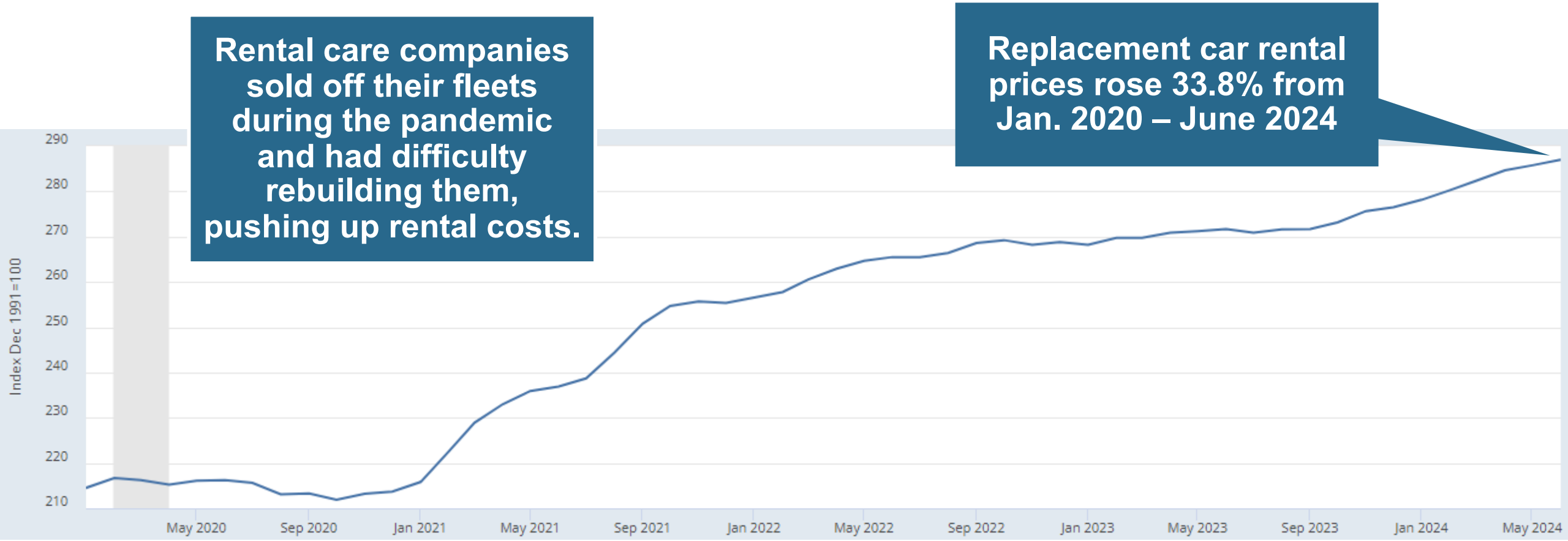
New car prices in recent months have begun to fall, but only slightly and still remain well above pre-Covid levels, +20.9% as of June 2024



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

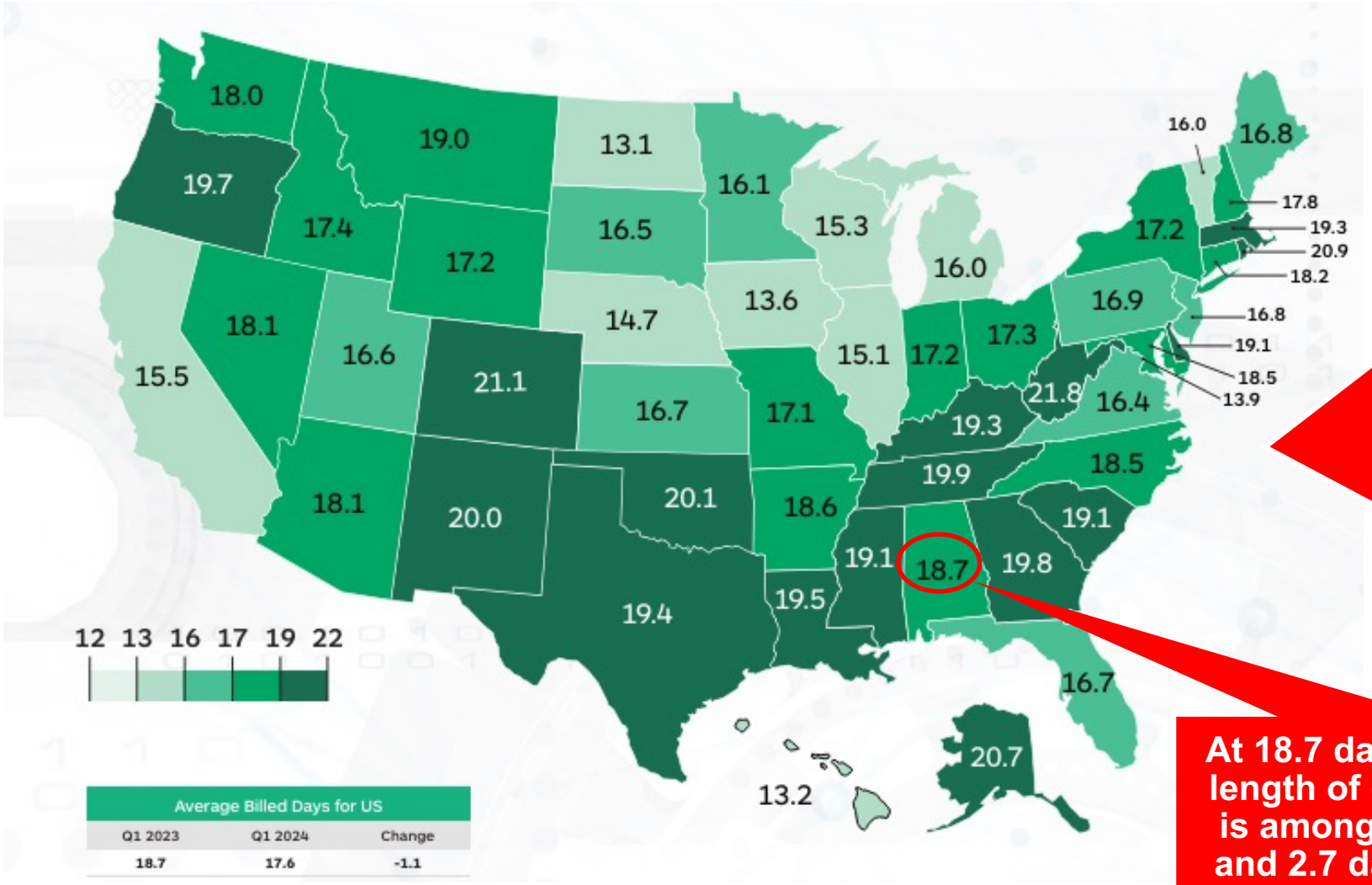
Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center: https://fred.stlouisfed.org/series/CUUR0000SETA01; University of South Carolina.

Price Index Change for Replacement Passenger Car Rentals, Jan. 2010 – June 2024 (% 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.

Length of Collision Replacement Rentals by State (Days), 2024:Q2



Avg. Length of Rental

2024:Q2: 16.0 days

2023:Q2: 17.4 days

2022:Q4: 18.7 days

2021:Q4: 17.0 days

2021:Q2: 13.2 days

CHANGE: +5.5 Days (21:Q2 – 22:Q43)

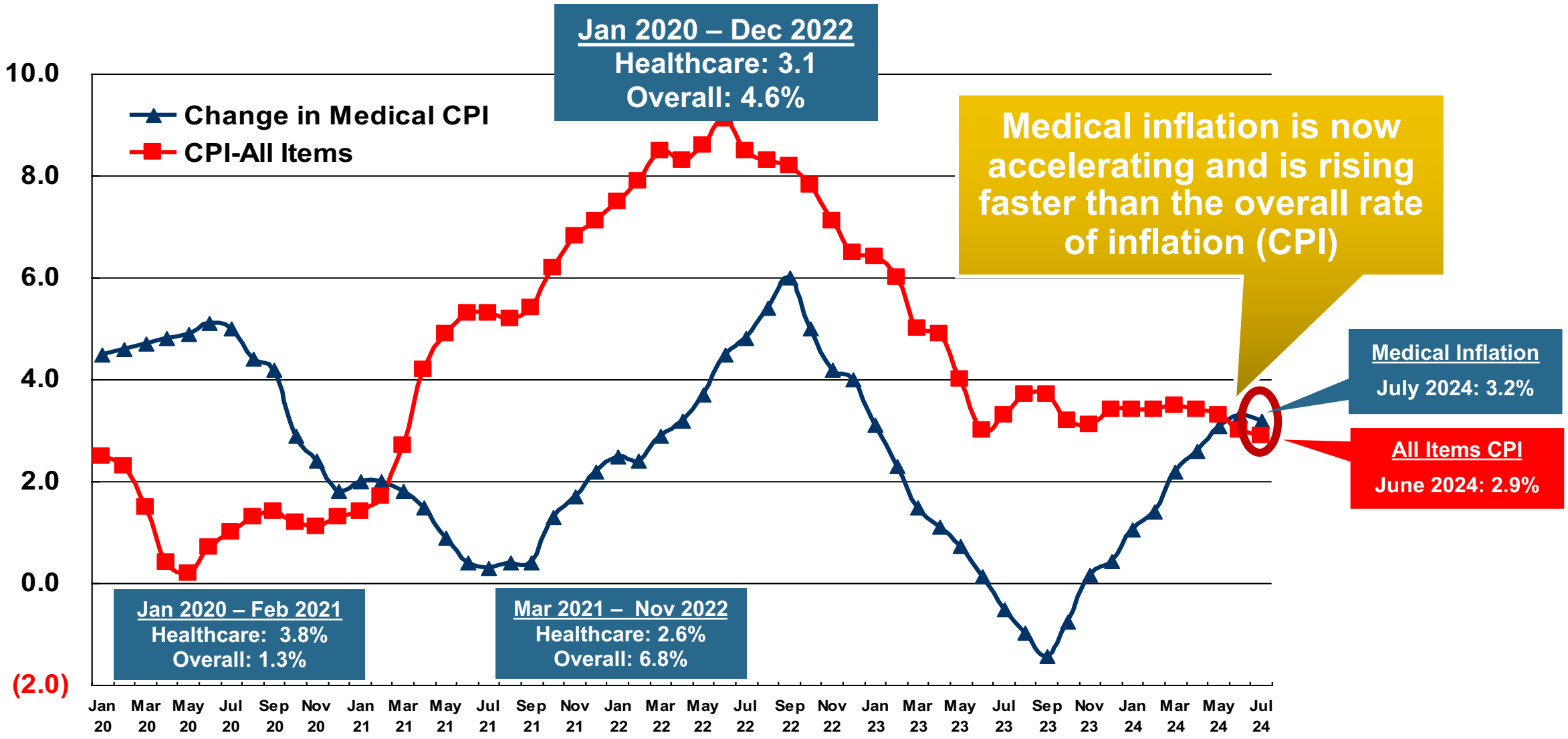
RANGE: 11.1 (ND) to 20.7 (AK)

Replacement rental length has begun to slowly decline but is still 2.8 days longer than in mid-2021

At 18.7 days, Alabama's average length of collision repair rentals is among the longest in the US and 2.7 days longer that the US average of 16.0 days

Source: Enterprise Rental-A-Car U.S. Length of Rental Report accessed at: https://www.enterprise.com/content/dam/ent-brand/LOB/ReplacementResources/q2-2024/24_ENT_DR_M06780_RLD-LOR-Q2-2024_US.pdf

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



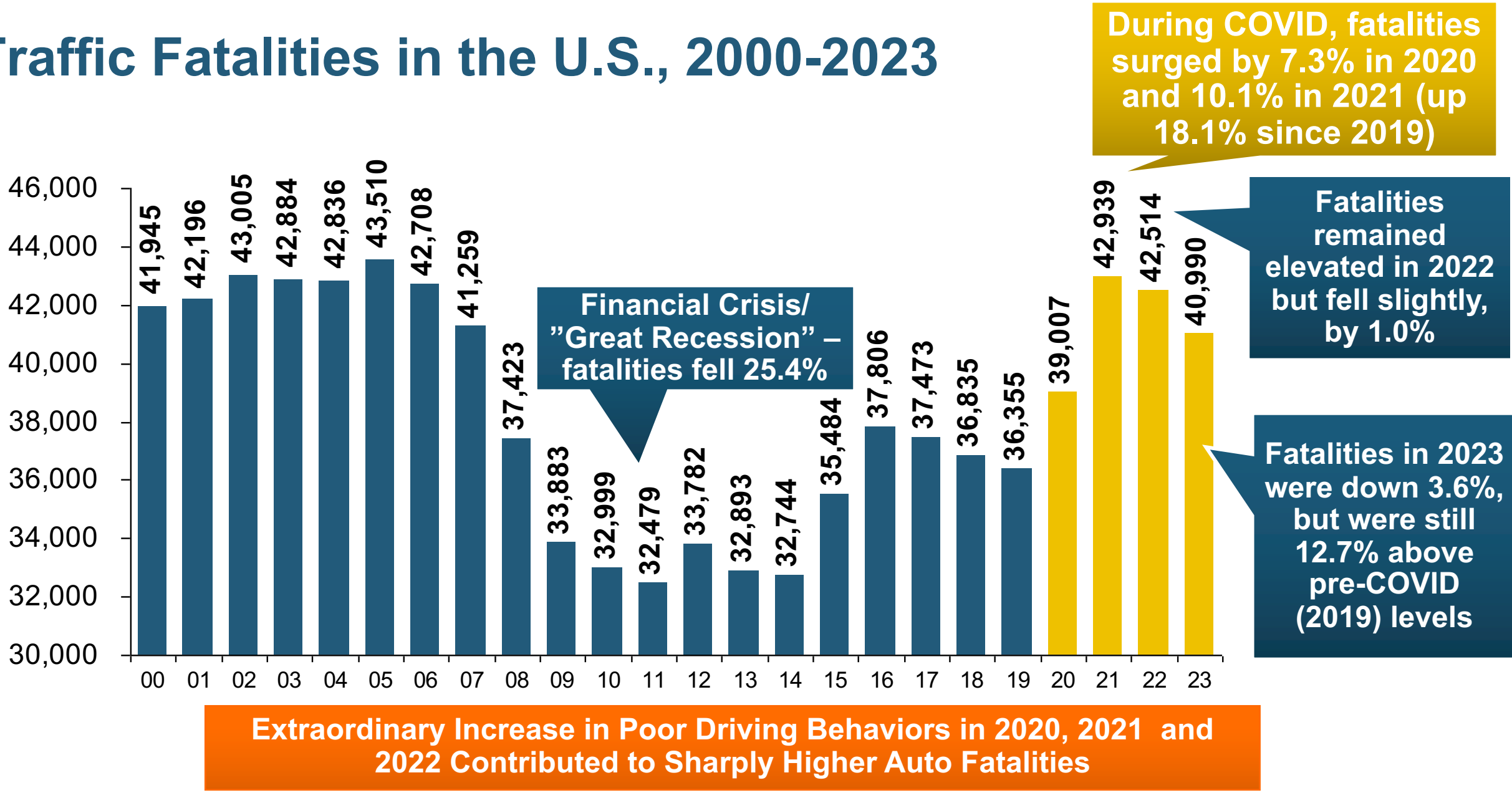
Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

Driving Behaviors Have Worsened

Motor Vehicle Fatalities Have Skyrocketed

Driver Behaviors Have Changed for the Worse, Pushing Up Fatality Rates and Claim Costs

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



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/2022-traffic-deaths-2023-early-estimates; Risk and Uncertainty Management Center, University of South Carolina.

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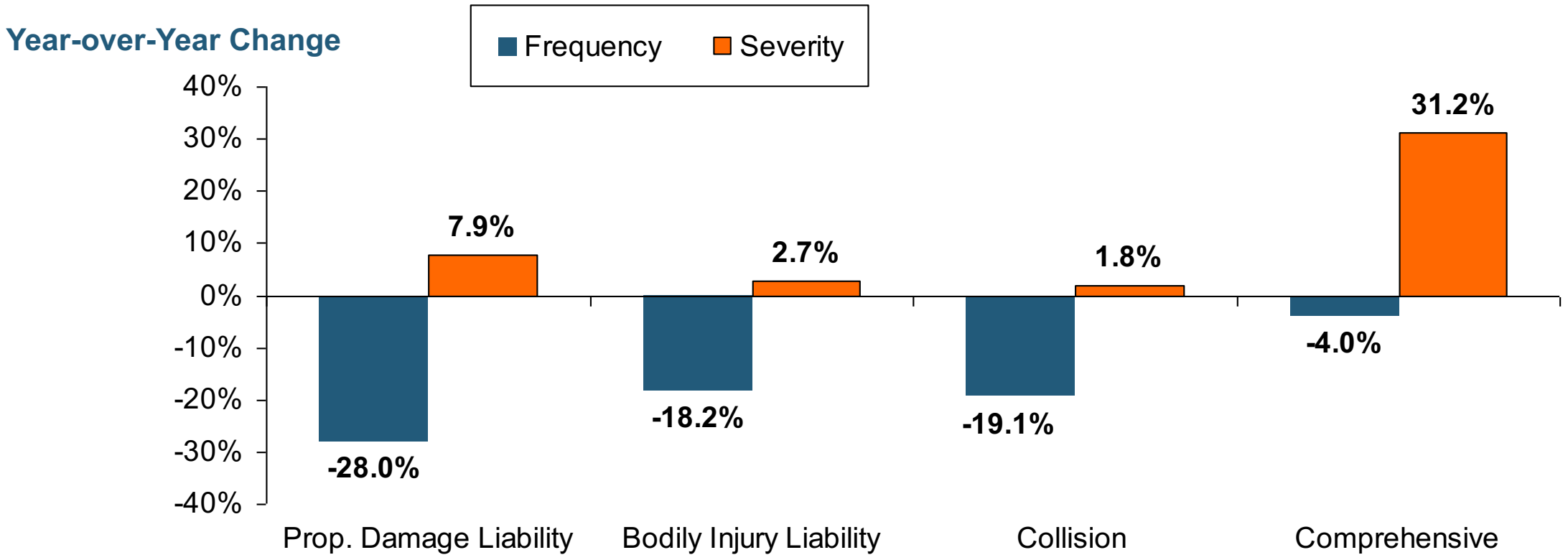
Darla Moore School of Business

Overview of Recent Private Passenger Auto Frequency & Severity Trends in Louisiana

Severity and Loss Ratio Trends Have Generally Been Adverse

Inflation is a Major Driver

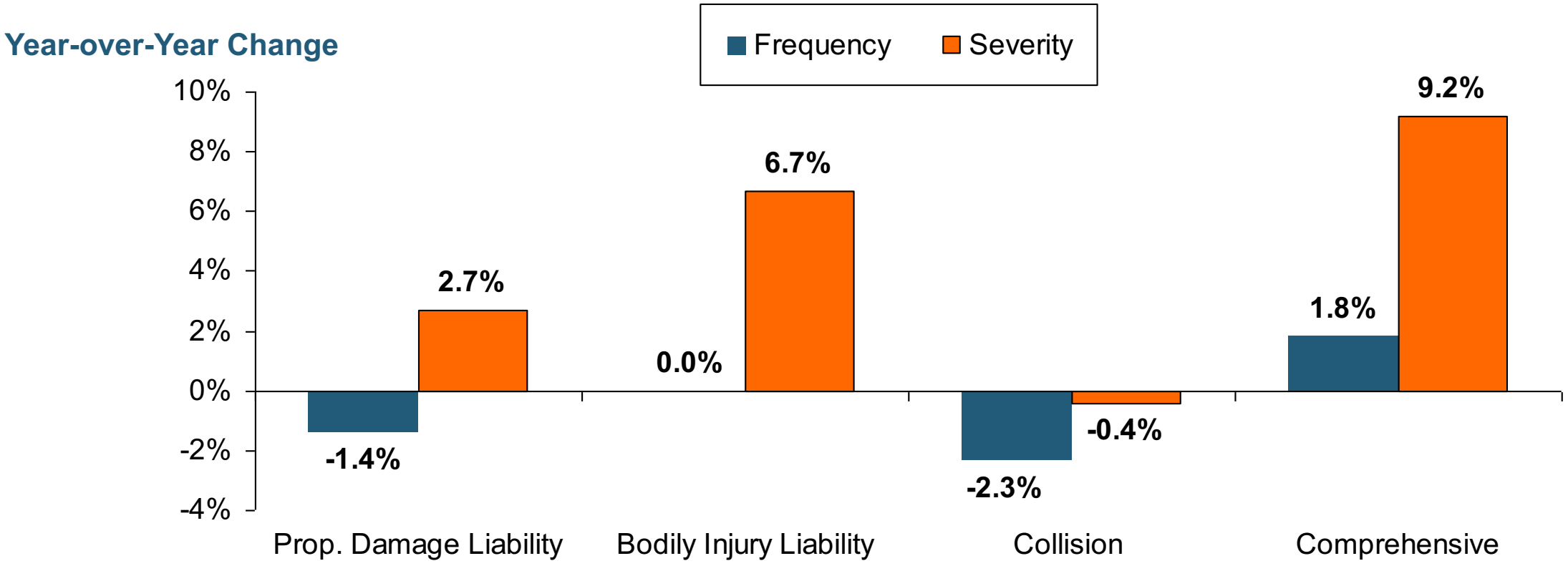
AL: At the Peak of the Pandemic, Frequencies Across Most Coverages Plummeted and But Severities Still Rose: 4 Qtrs. Ending Q1 2021



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.

AL: Personal Auto Claim Severities Are Generally Rising, While Comprehensive Frequency is Flat: 4 Qtrs. Ending Q1 2024

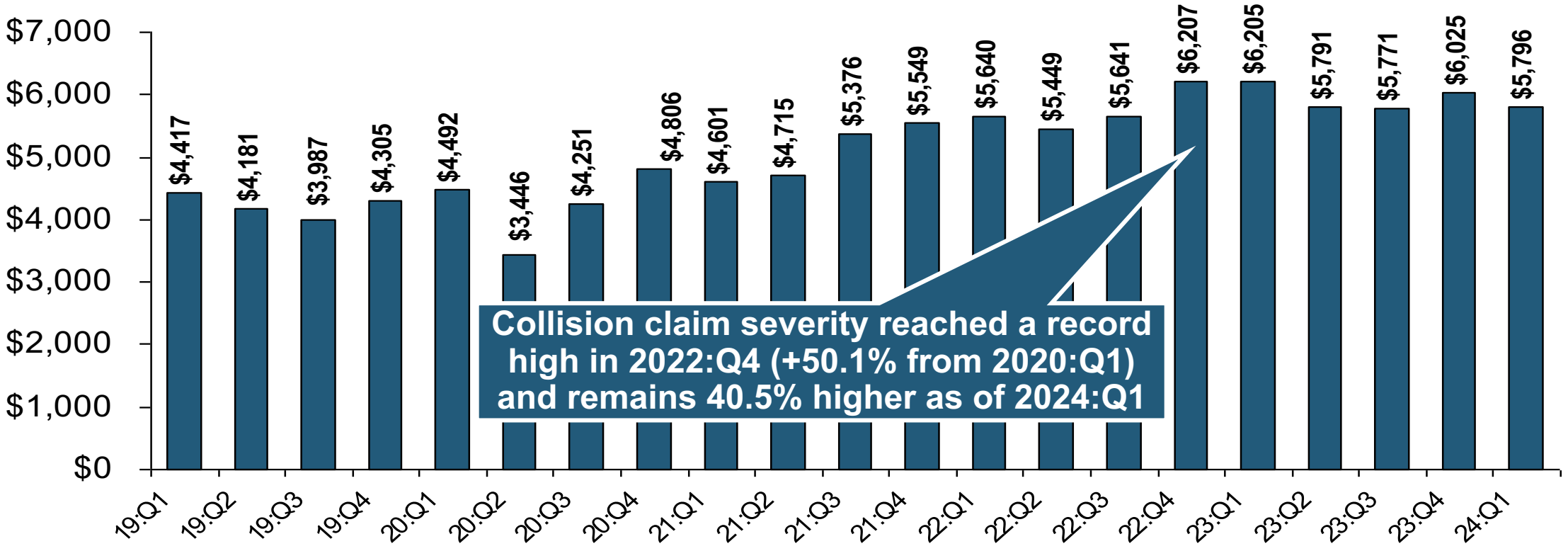


Auto Claim Frequencies Fell Sharply During the Pandemic, though Claim Severities Rose Materially

Source: ISO/PCI *Fast Track* data for four quarter ending in Q1 2024; Risk and Uncertainty Management Center, Univ. of South Carolina.

Alabama Collision Claim Severity: Rising to New Record Highs

Average Loss, 2019:Q1 through 2024:Q1



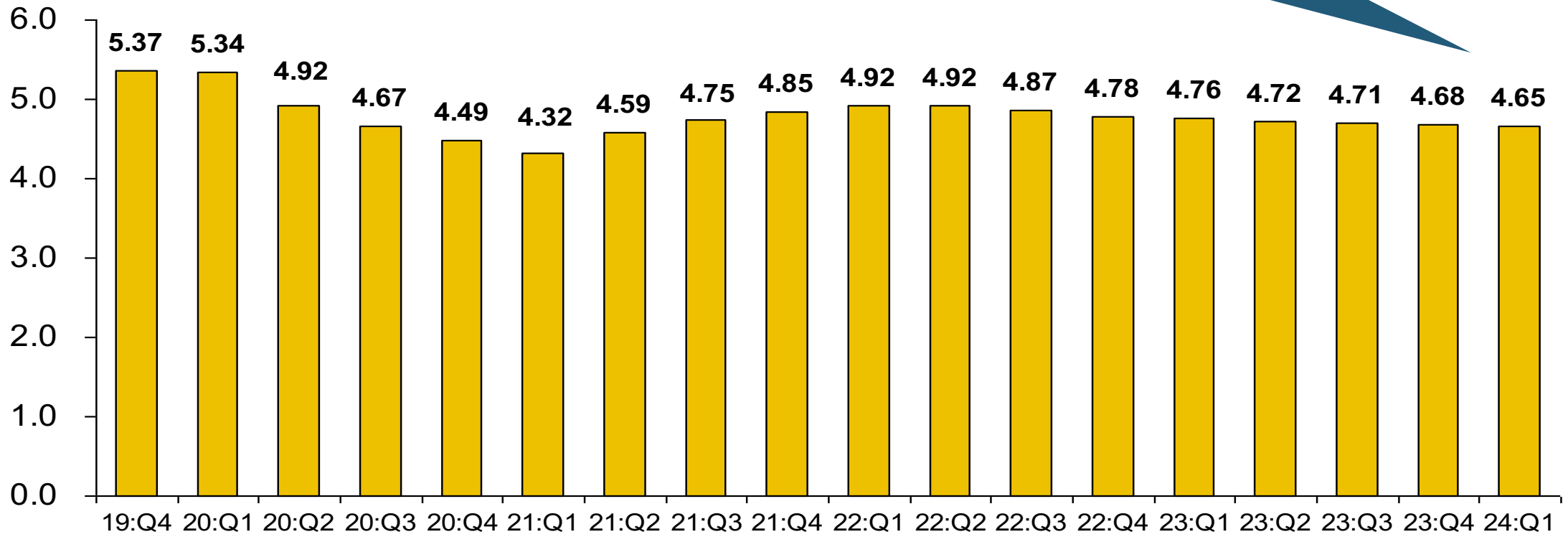
Severities Are Up Sharply—Inflation Is a Major Factor

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

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

Paid Claim Frequency, 2019:Q1 through 2024:Q1*

Collision claim frequency in AL is somewhat below pre-pandemic levels

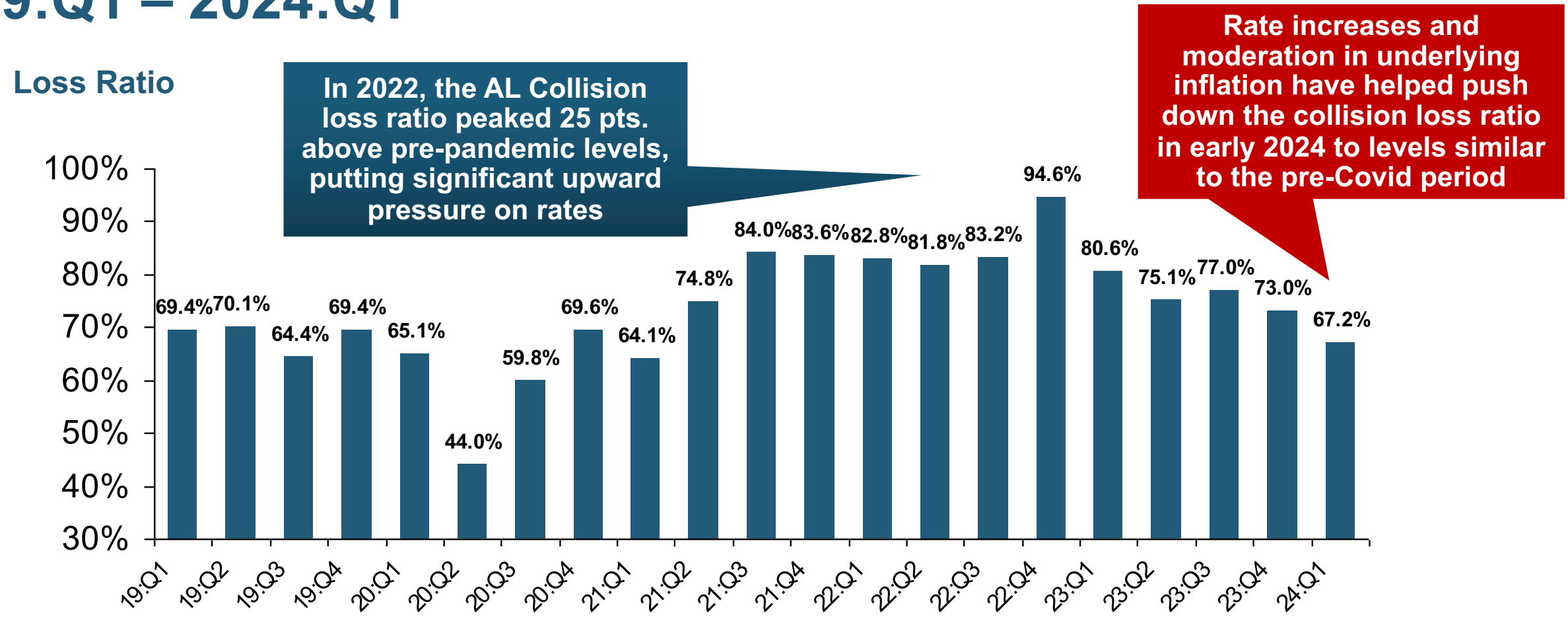


Has Frequency Reached its Post-Pandemic Peak?

*Number of claims per 100 earned car years.

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

Alabama: Collision Loss Ratios, Personal Auto, 2019:Q1 – 2024:Q1

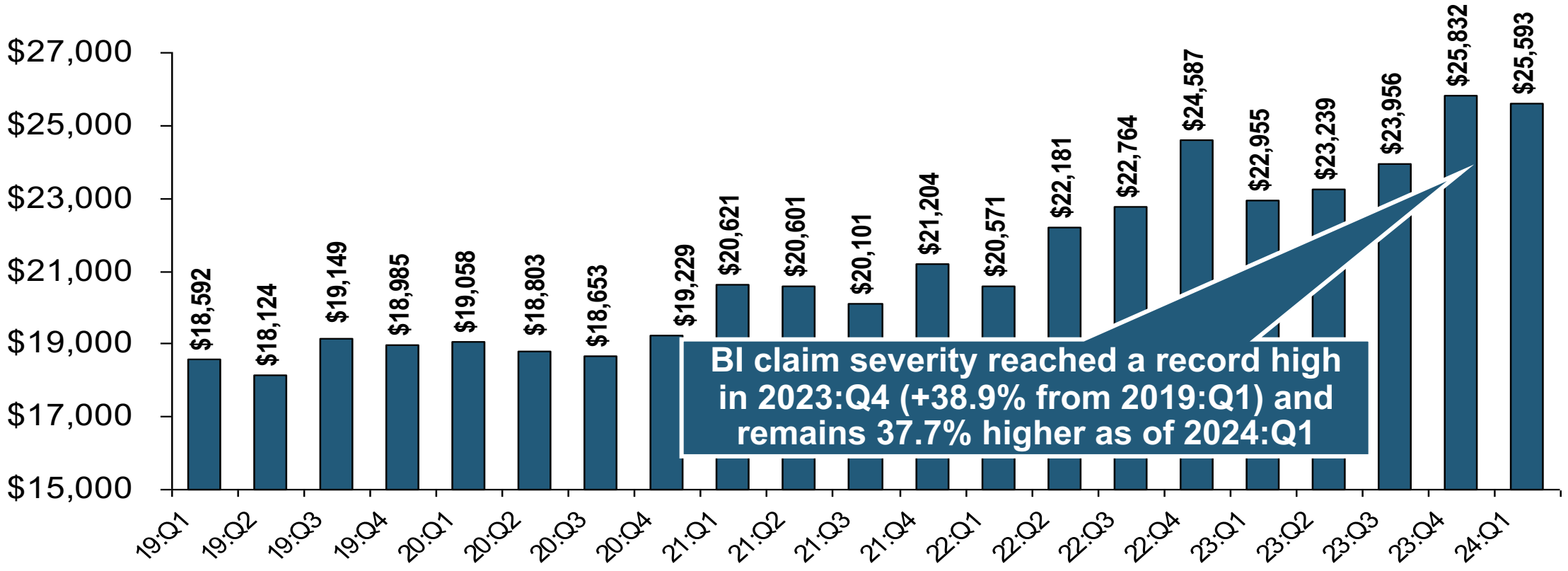


Collision Loss Ratios Rose Rapidly and Have Only Recently Begun to Moderate

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

Alabama Bodily Injury Claim Severity: Near Record Highs

Average Loss, 2019:Q1 through 2024:Q1



BI Severities Are Up Sharply—Litigation and Inflation Are Major Factors

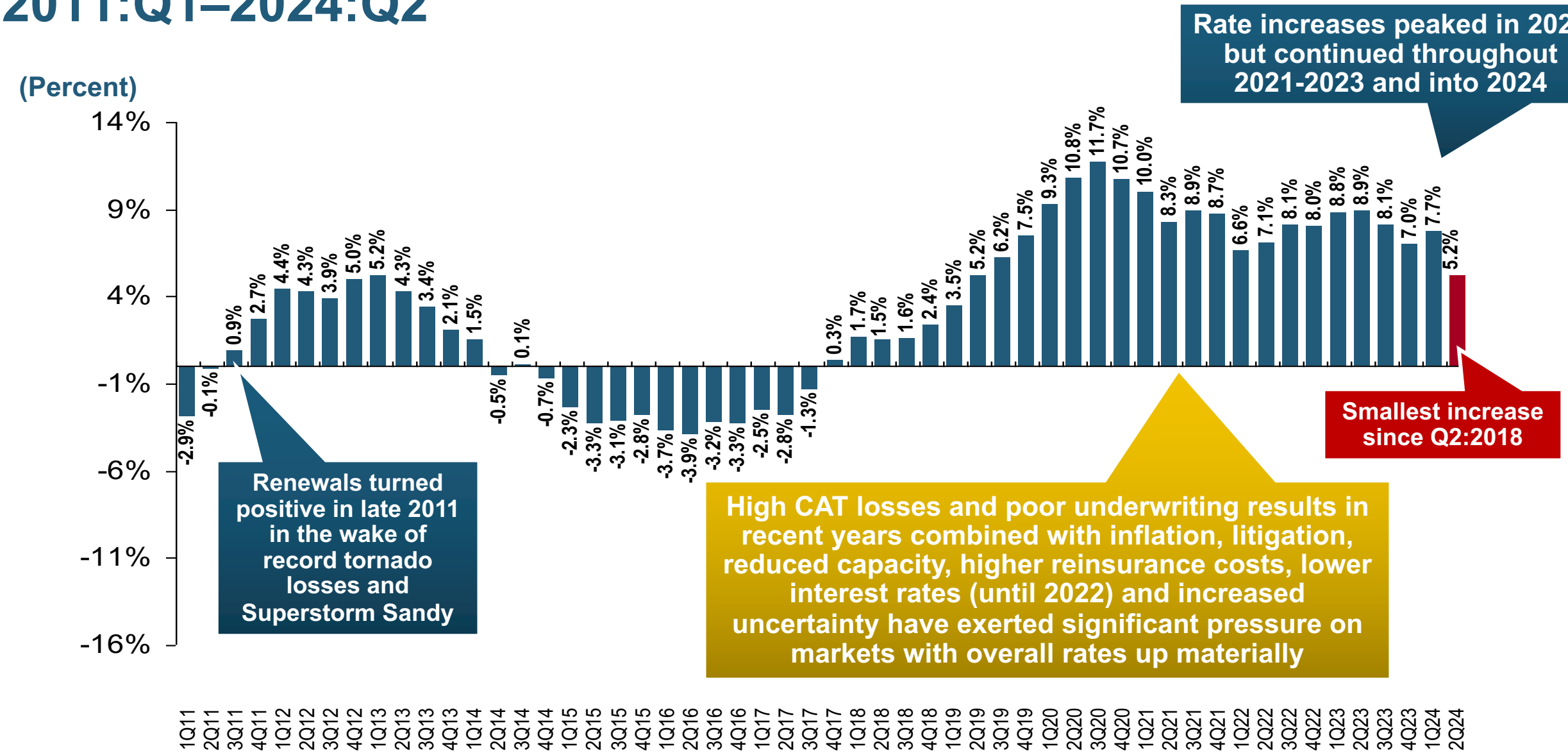
Source: ISO/PCI *Fast Track* data; Center for Risk and Uncertainty Management, Univ. of South Carolina.

Commercial Lines Growth & Pricing Cyclicality

Economic and Tort Environment Create Pricing Pressure

82

CIAB: Average Commercial Rate Change, All Lines, 2011:Q1–2024:Q2

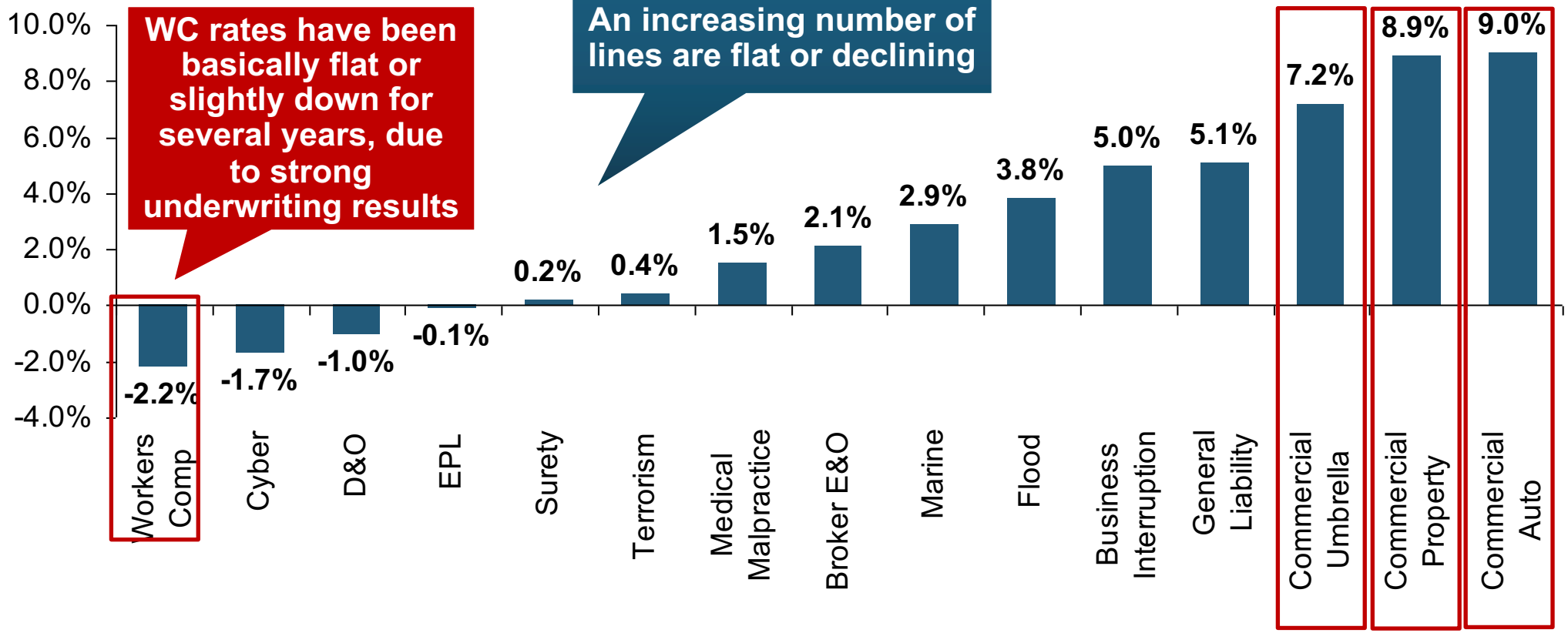


Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents & Brokers; Center for Risk and Uncertainty Management, Univ. of South Carolina.

Change in Commercial Rate Renewals, by Line: 2024:Q2

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.

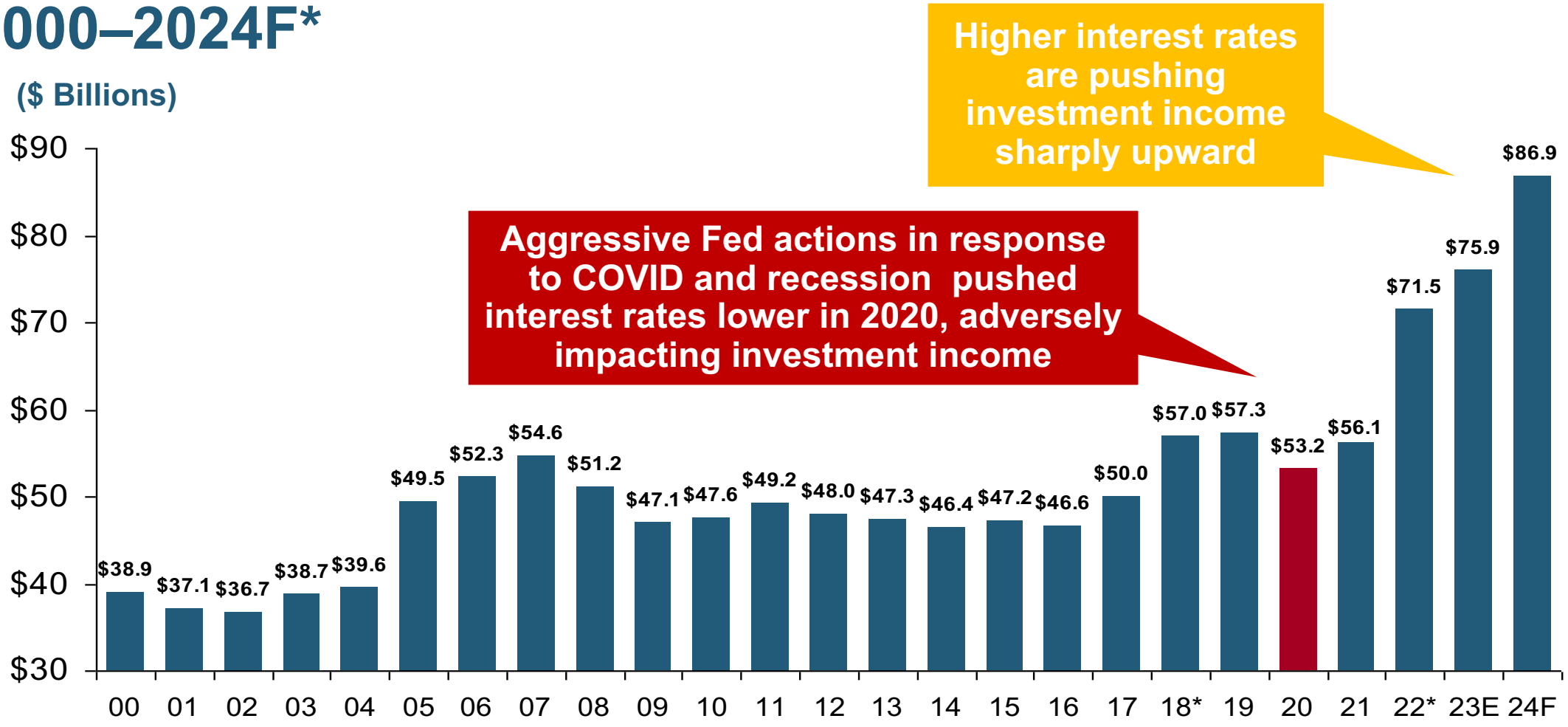
Source: Council of Insurance Agents and Brokers; USC Center for Risk and Uncertainty Management.

Investments:
Wall Street's Wild Ride Continues

Investment Performance Is a Key Driver of Insurer Profitability

How Has the Hawkish Fed Impacted Insurer Portfolios?

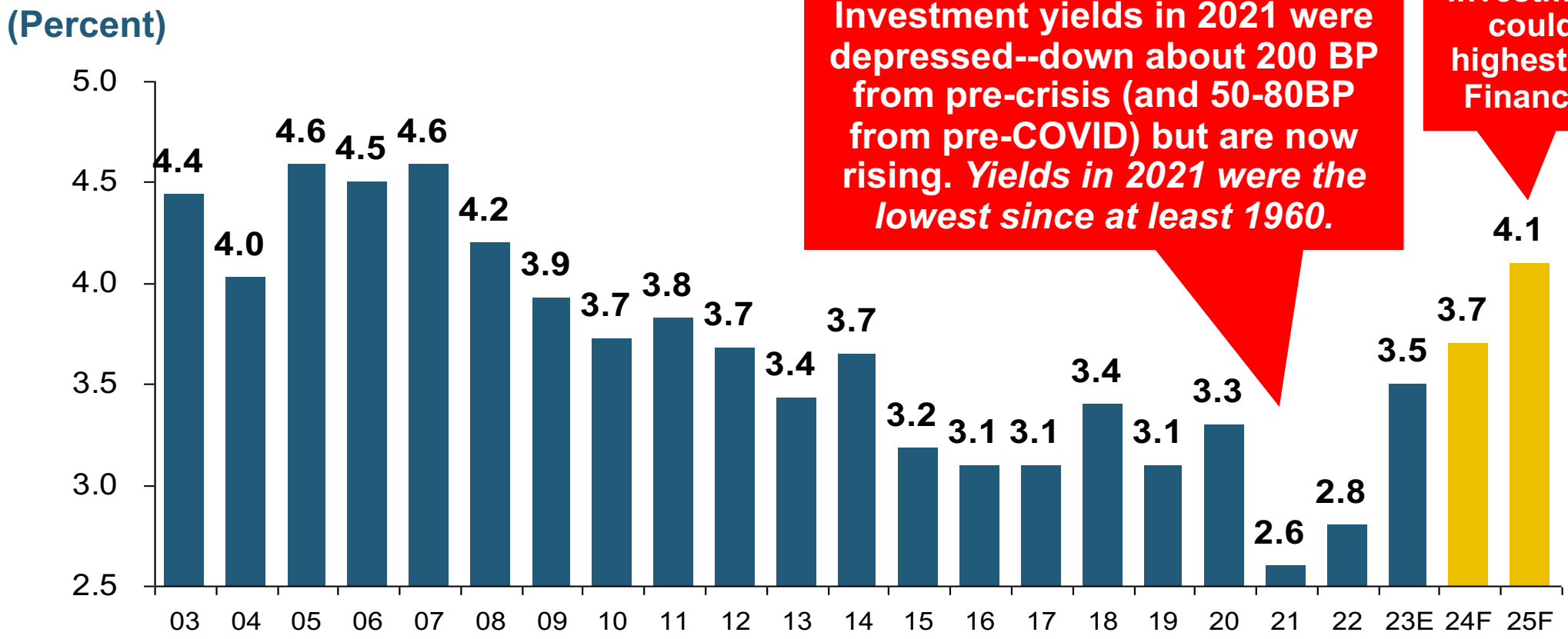
Property/Casualty Insurance Industry Investment Income: 2000–2024F*



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.

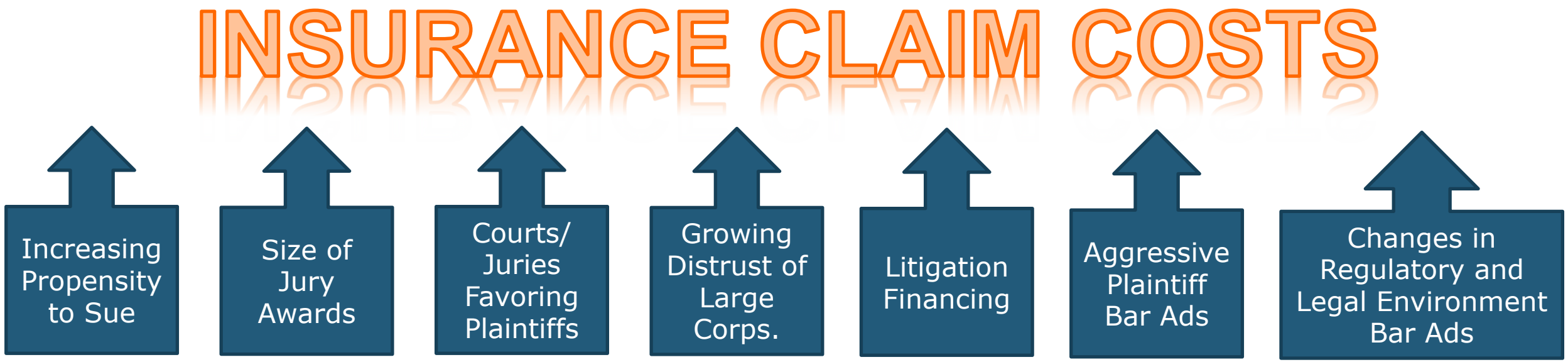
Legal System Abuse (Social Inflation) & Litigation Trends

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

Major Driver of Rate Across Multiple Lines

91

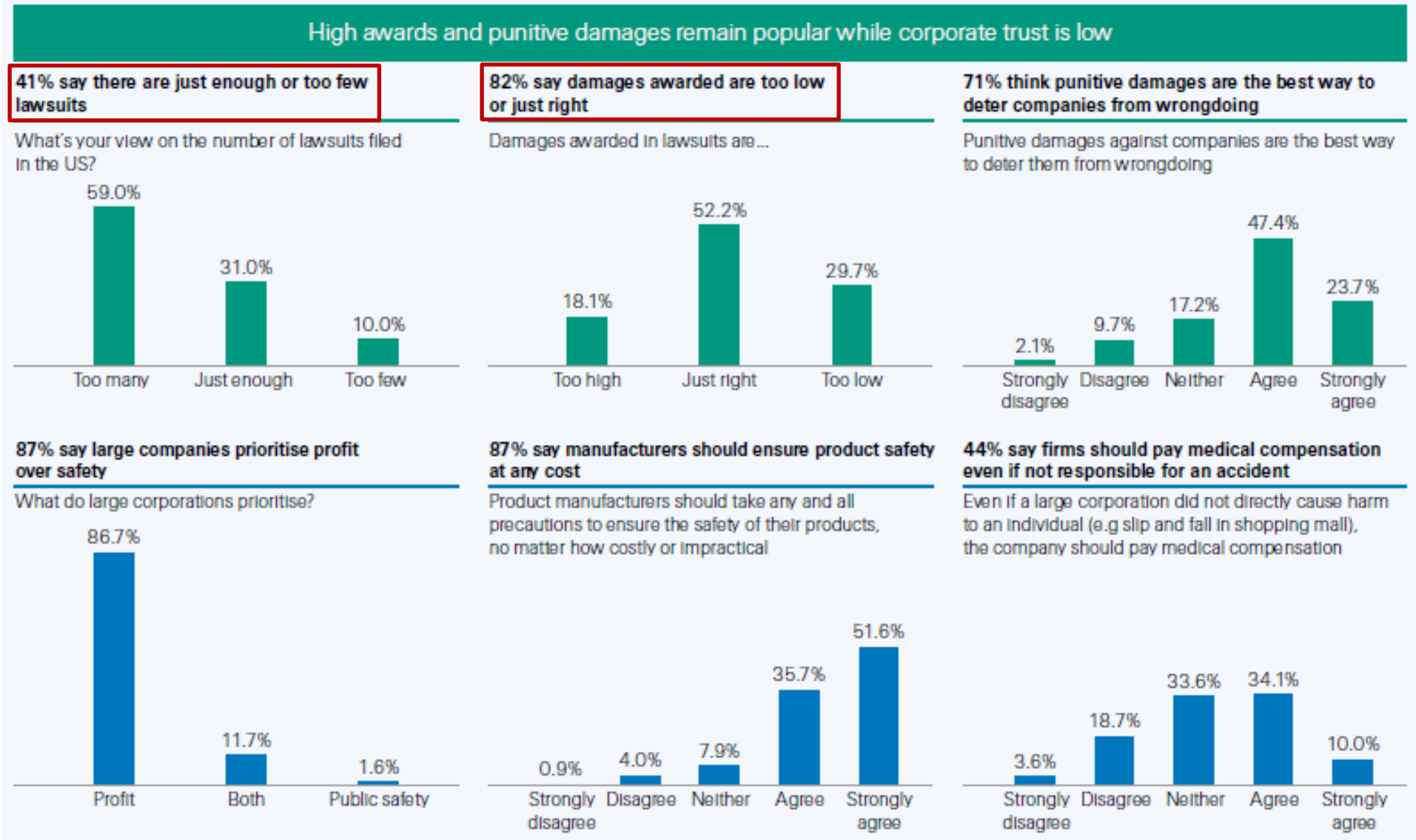
Social Inflation: Many Interrelated Causes, Difficult to Manage



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).

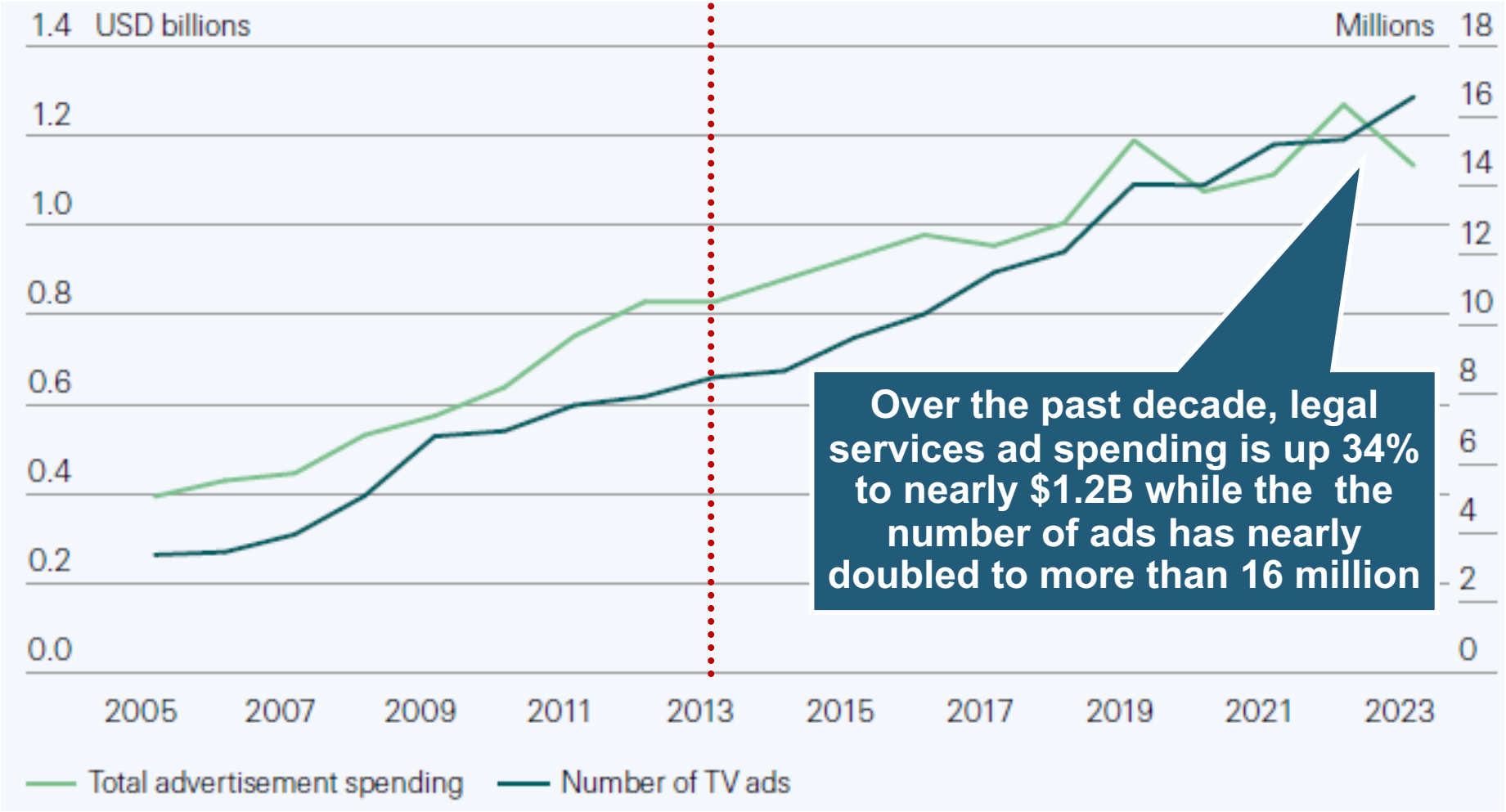
Survey of Attitudes Toward Social Inflation



The average American has attitudes that are conducive to continued social inflation.

Source: Swiss Re Institute (*sigma* No. 4/2024), "Quantifying Social Inflation in the US," accessed at: https://www.swissre.com/institute/research/sigma-research/sigma-2024-04-social-inflation.html.

Attorney Advertising Remains Very Aggressive



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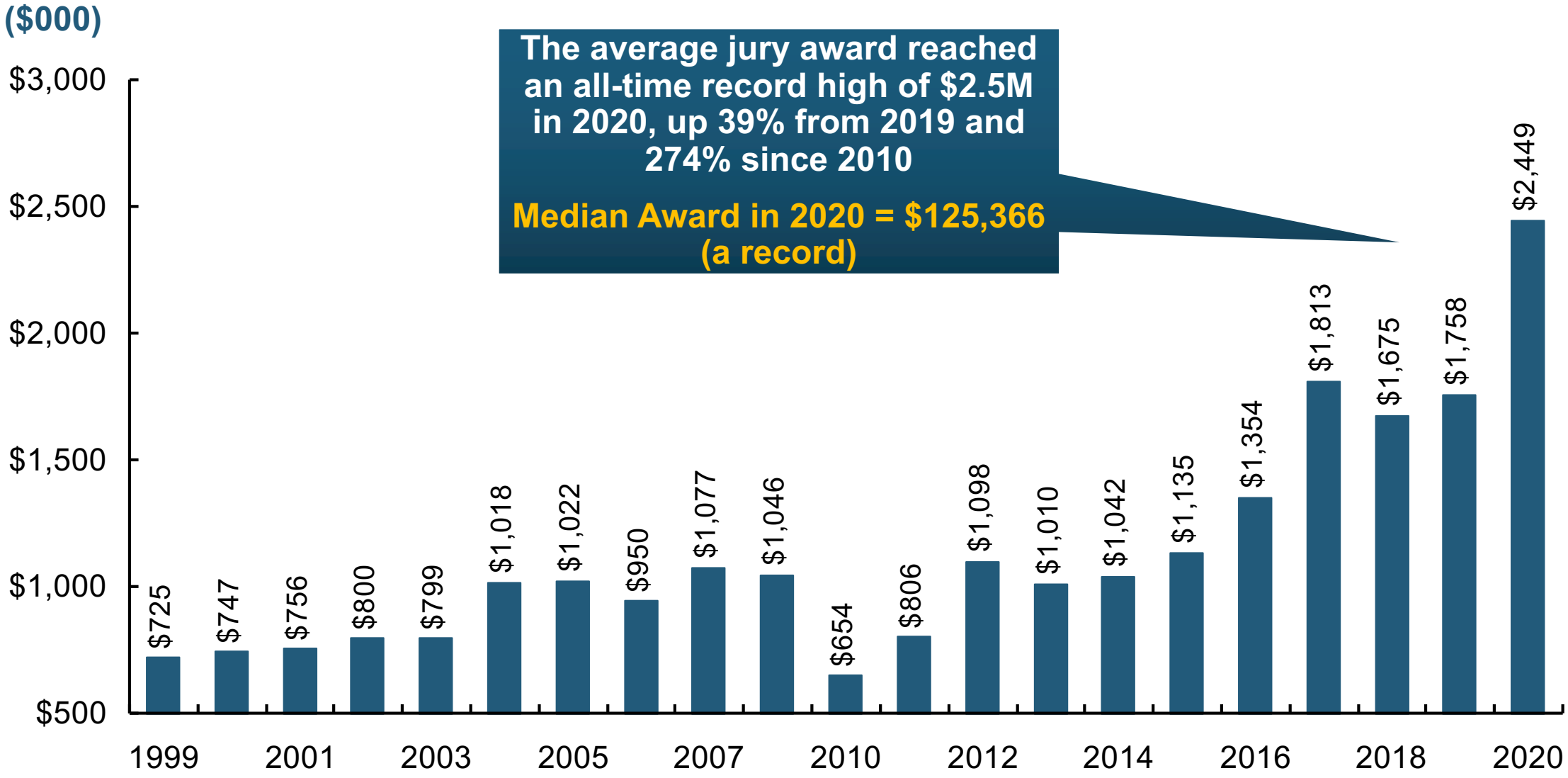
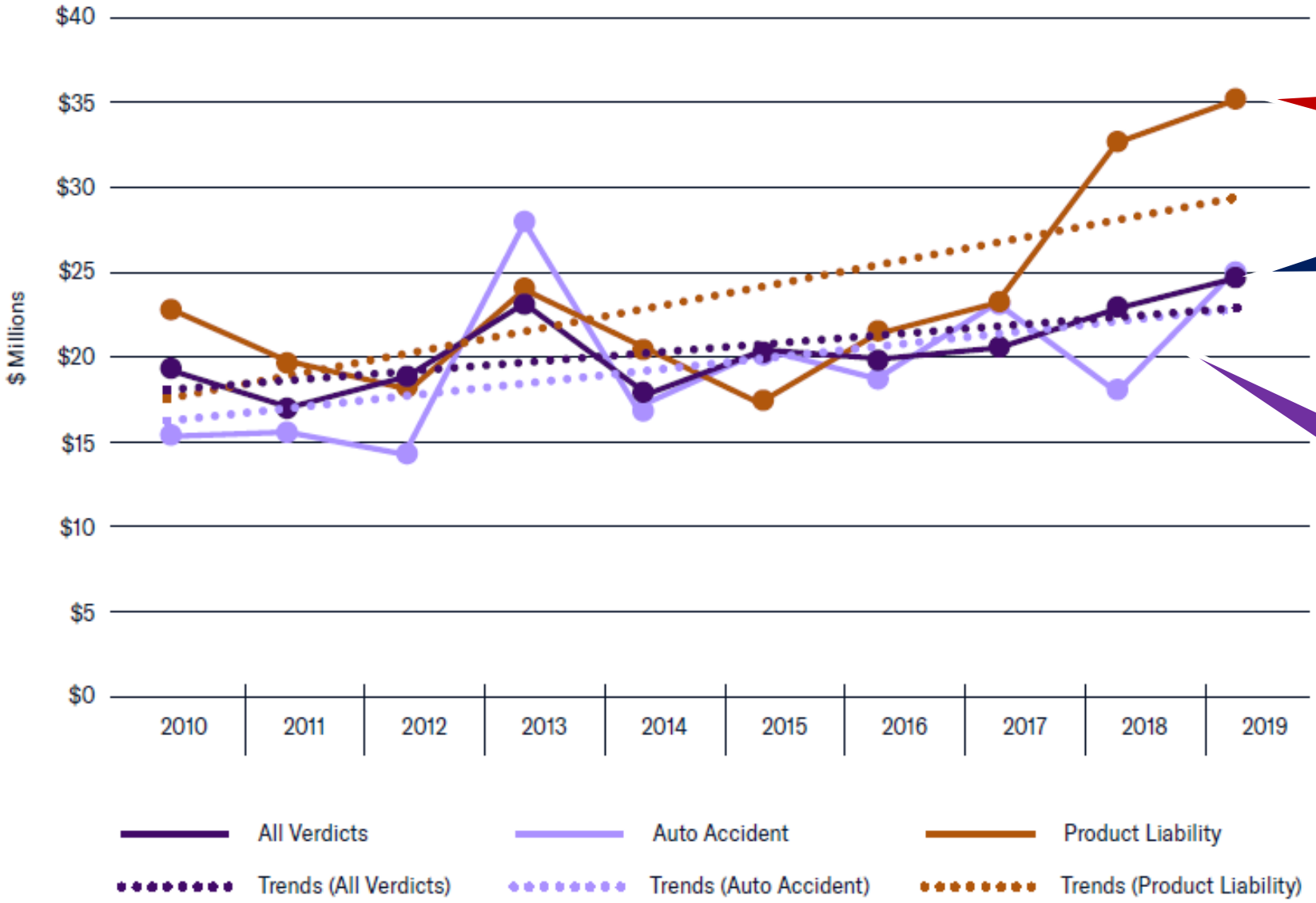
Source: Swiss Re Institute (*sigma* No. 4/2024), "Quantifying Social Inflation in the US," from X-Ante Legal Services Ad Trends, accessed at: https://www.swissre.com/institute/research/sigma-research/sigma-2024-04-social-inflation.html.

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

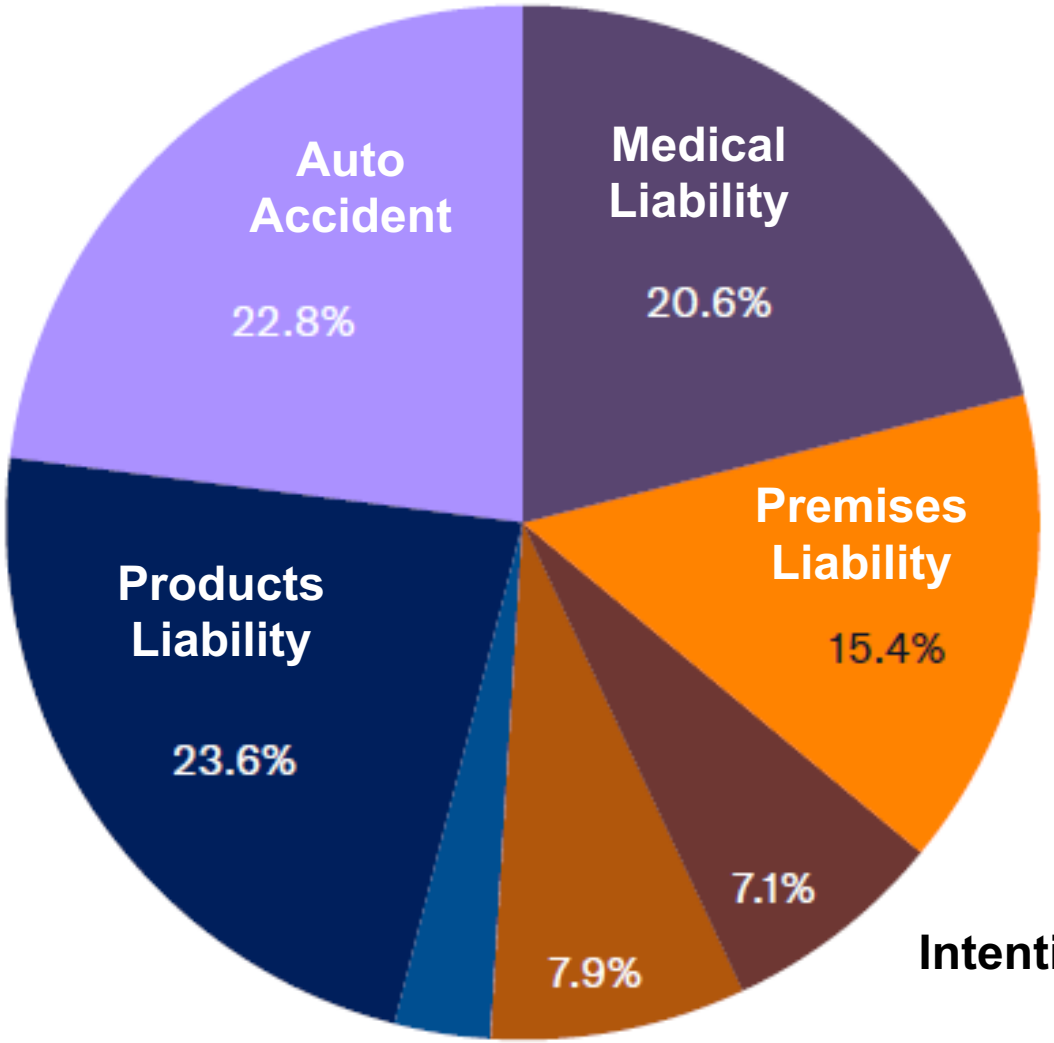
Auto Accident

+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*

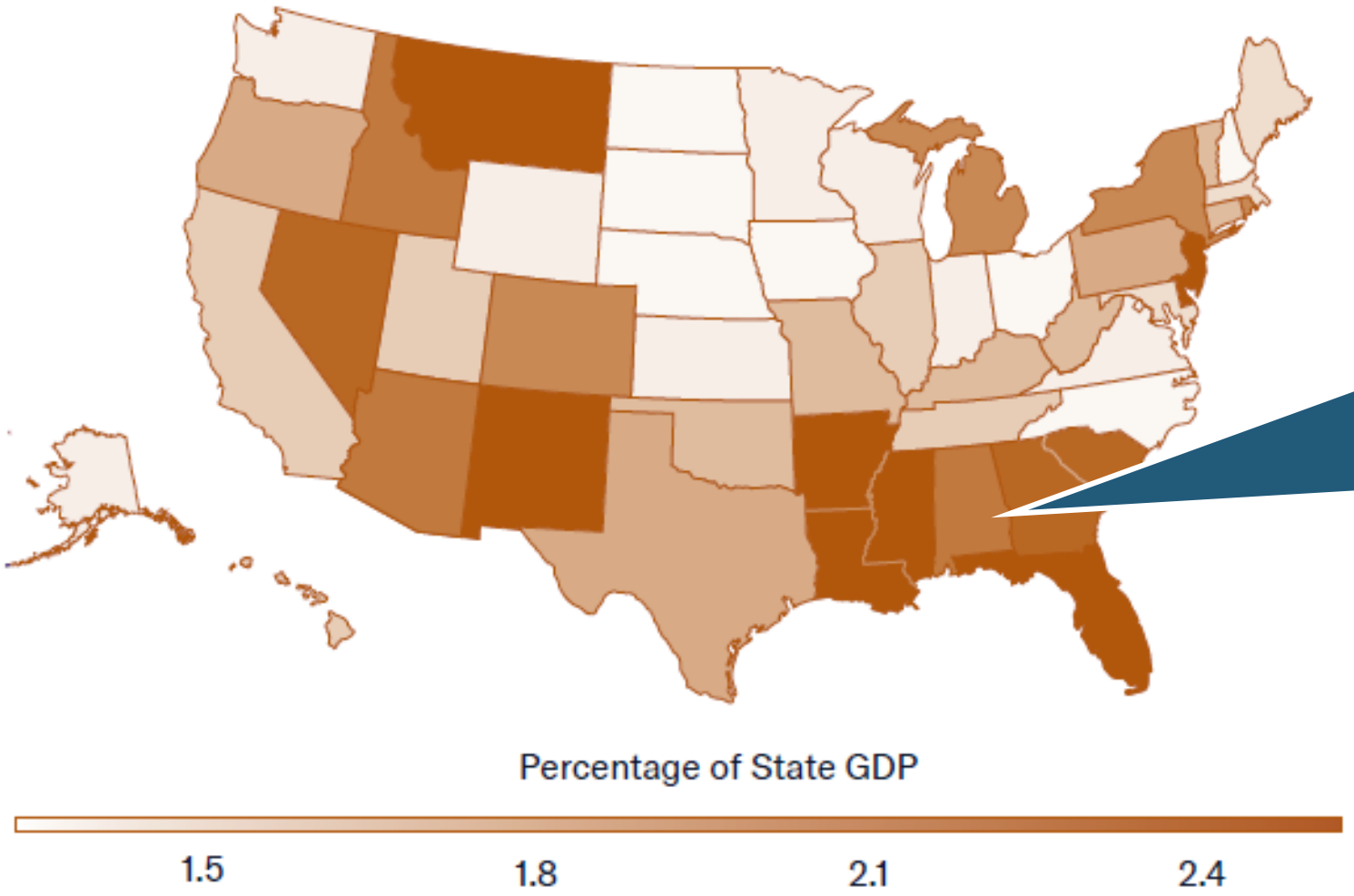


Products, Auto and Medical Liability account for 2/3 of nuclear verdicts

**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.

Tort Costs as Percent of State GDP, by State (2020)



At 2.48% of state GDP, tort costs as a share of GDP are among the highest in the US and well above the 2.11% for the US overall

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.

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 still favor a "Soft Landing"; Recession Unlikely in 2024/25**
- **Asset Price Volatility Will Persist with Monetary Policy, Geopolitical Uncertainty**
- **Higher Interest Rates Are Providing a Modest Tailwind for Investment Income**
- **Inflationary Pressures Persisted in 2024, though Subsided Materially**
- **Loss Cost Challenges Remain but Should Slowly Ease through 2024 into 2025**
- **Legal System Abuse Issues Remain a Long-Term Challenge and Major Cost Driver**

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Darla Moore School of Business

Thank you for your time and your attention!

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Download at www.uscriskcenter.com