Macro Trends Impacting the P&C Insurance Market

A Look Ahead to 2025—and Beyond

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UNIVERSITY OF
SOUTH CAROLINA
Darla Moore School of Business

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
  - Potential impacts of changes in fiscal and trade policy on P/C insurers
- **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:

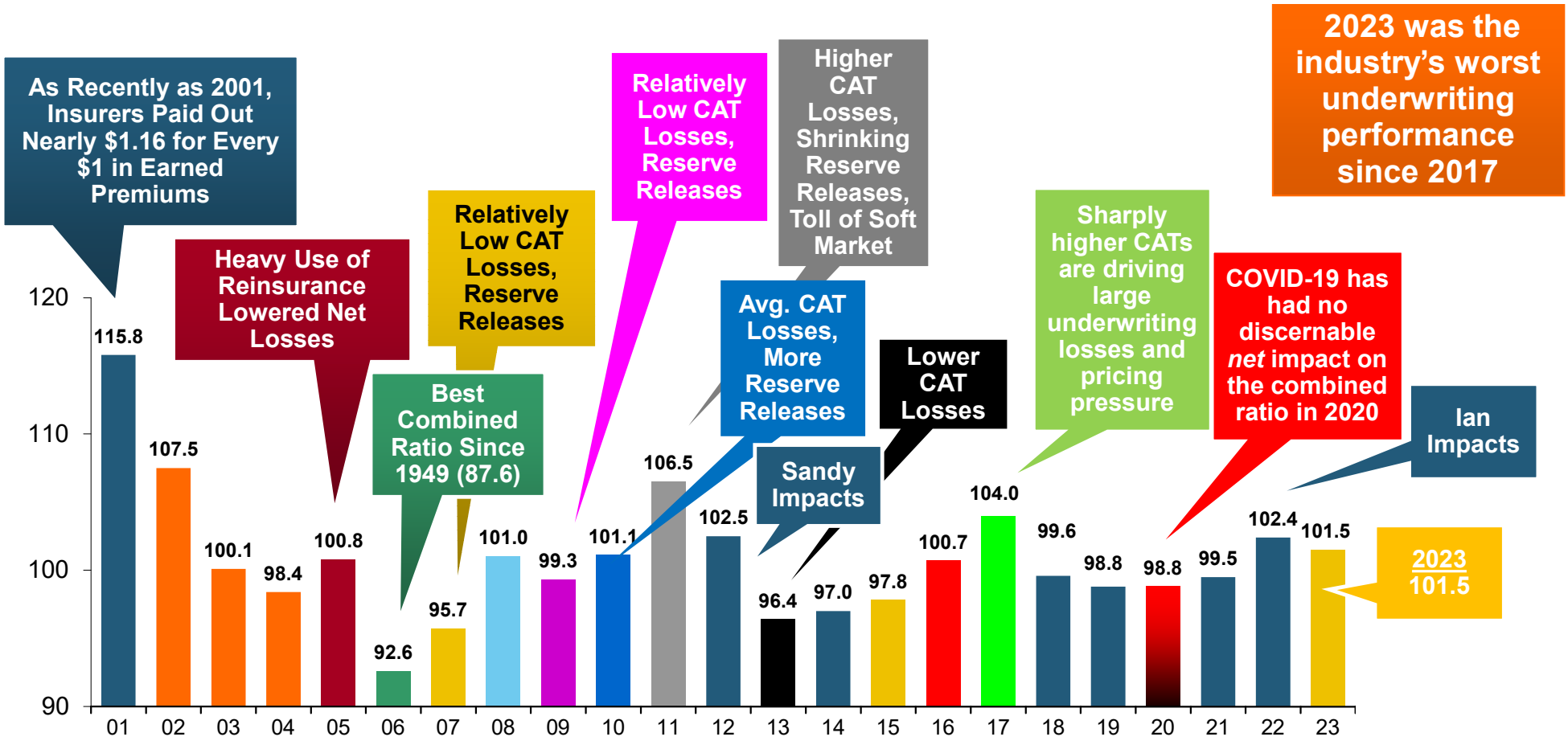
Challenges Amid Inflation and Higher Interest Rates

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

Industry Remains Strong

3

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



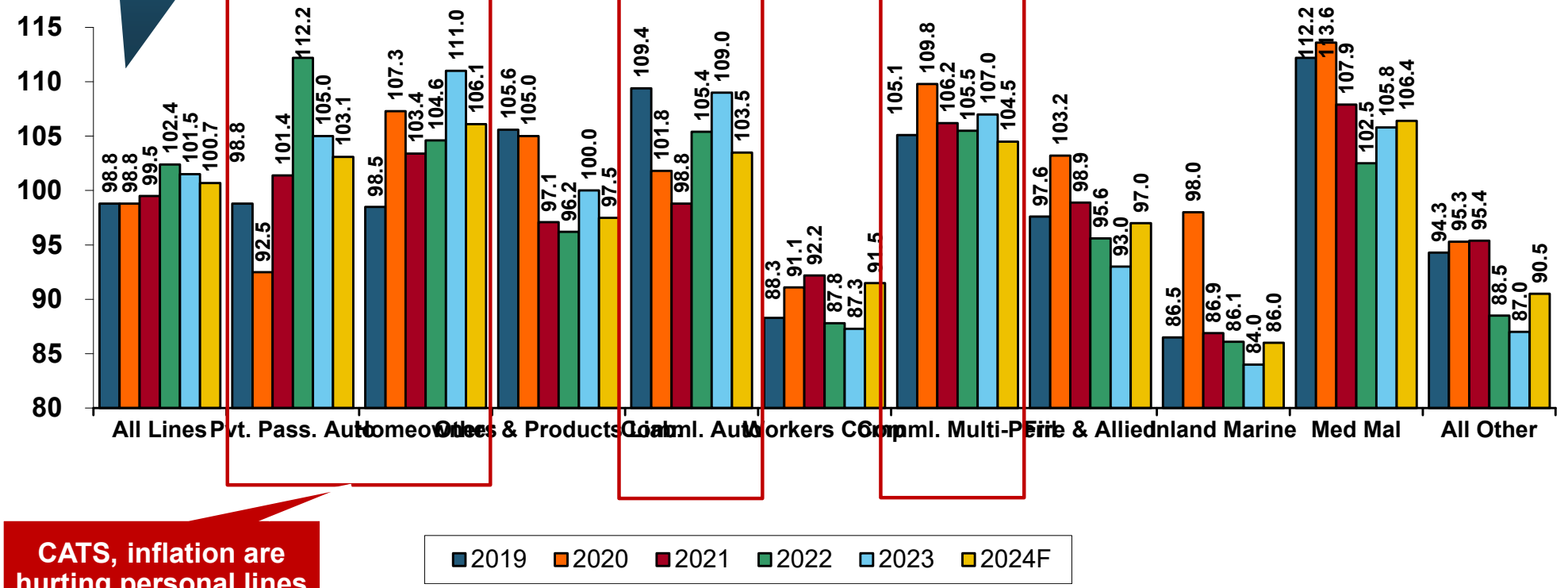
*Excludes Mortgage & Financial Guaranty insurers 2008–2014.
Sources: A.M. Best, ISO (2014-2023).

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

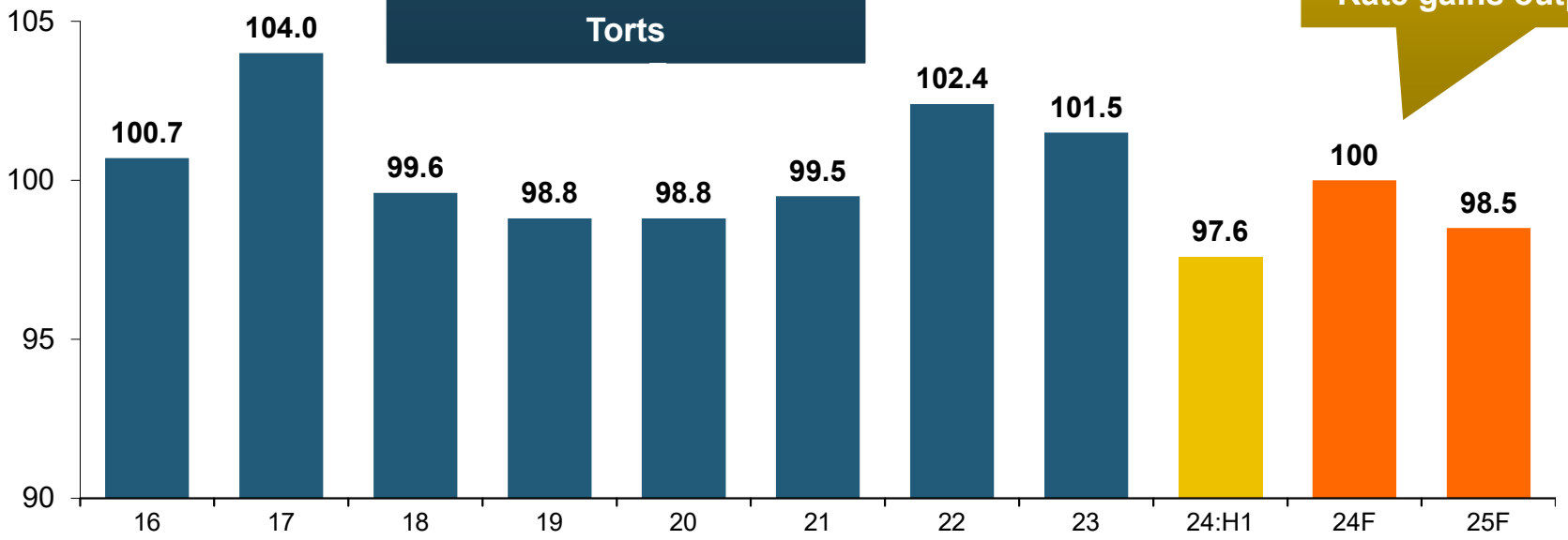
Torts

2024 was shaping up to be a great year—led by Personal Lines and especially Personal Auto—then Helene and Milton happened…

DRIVERS

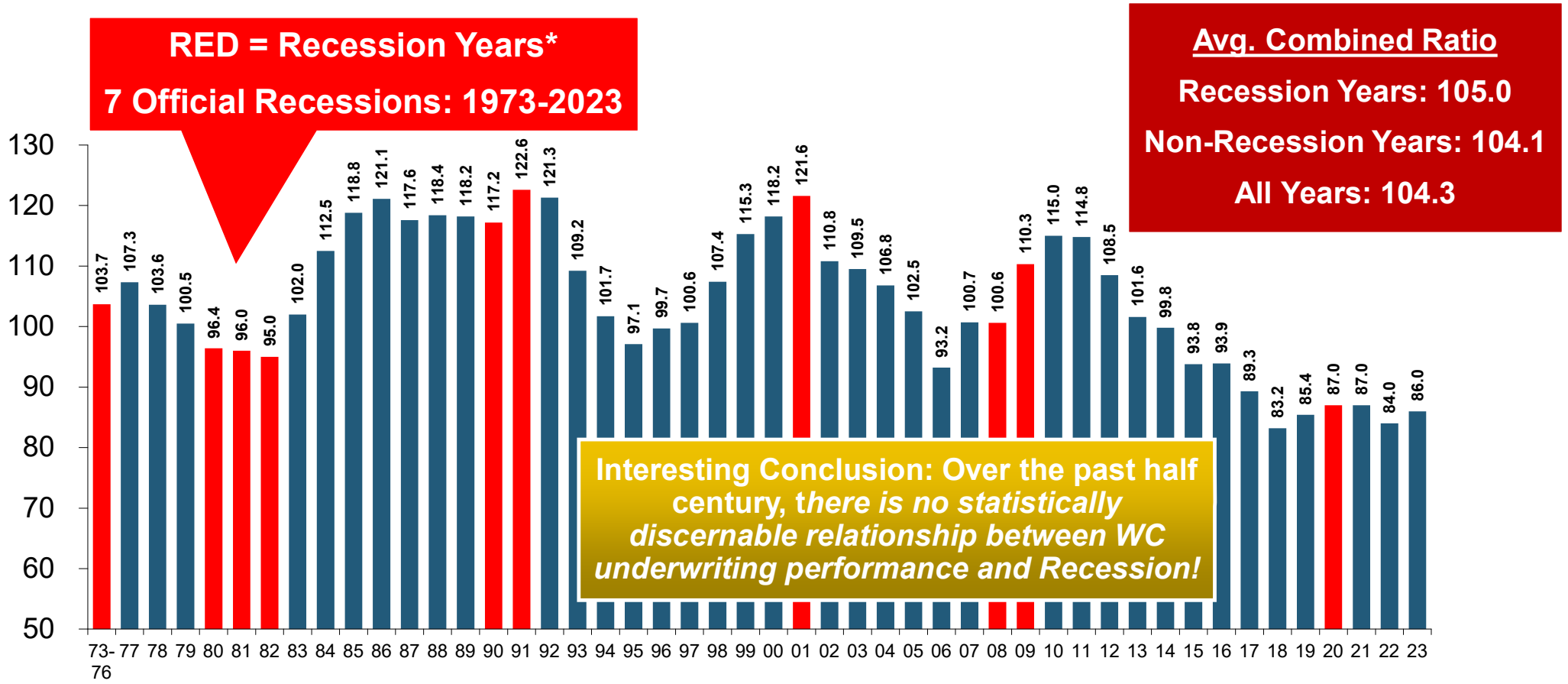
Inflation moderates

Rate gains outpace claim costs



Sources: A.M. Best (2016-2023); Verisk/APCIA (2024:H1); USC Risk and Uncertainty Management Center (2024F); Swiss Re (2025F).

Workers Comp Combined Ratios: 1973 – 2023p

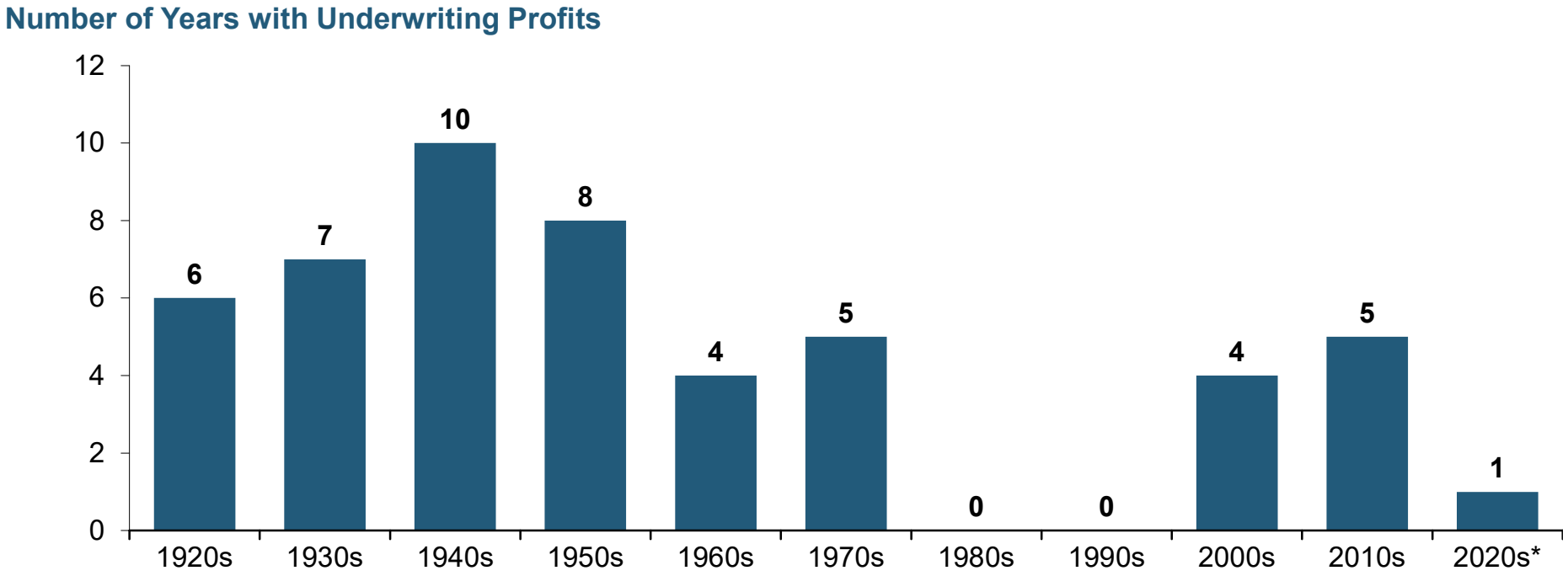


*Years in which 3 or more months of the year were in recession plus 2020 (Covid-related recession) which lasted 2 months. Recession dates from NBER: https://www.nber.org/research/data/us-business-cycle-expansions-and-contractions

Note: Data for 1973-1984 are calculated from incurred loss and expense data, excluding policyholder dividends, as sourced below, and are for stock companies only.

Sources: *Social Security Bulletin*, July 1988 (v. 51, n. 7) accessed at: https://www.ssa.gov/policy/docs/ssb/v51n7/v51n7p4.pdf; NAIC Annual Statement (1985-2021); NCCI (2022p); University of South Carolina, Risk and Uncertainty Management Center.

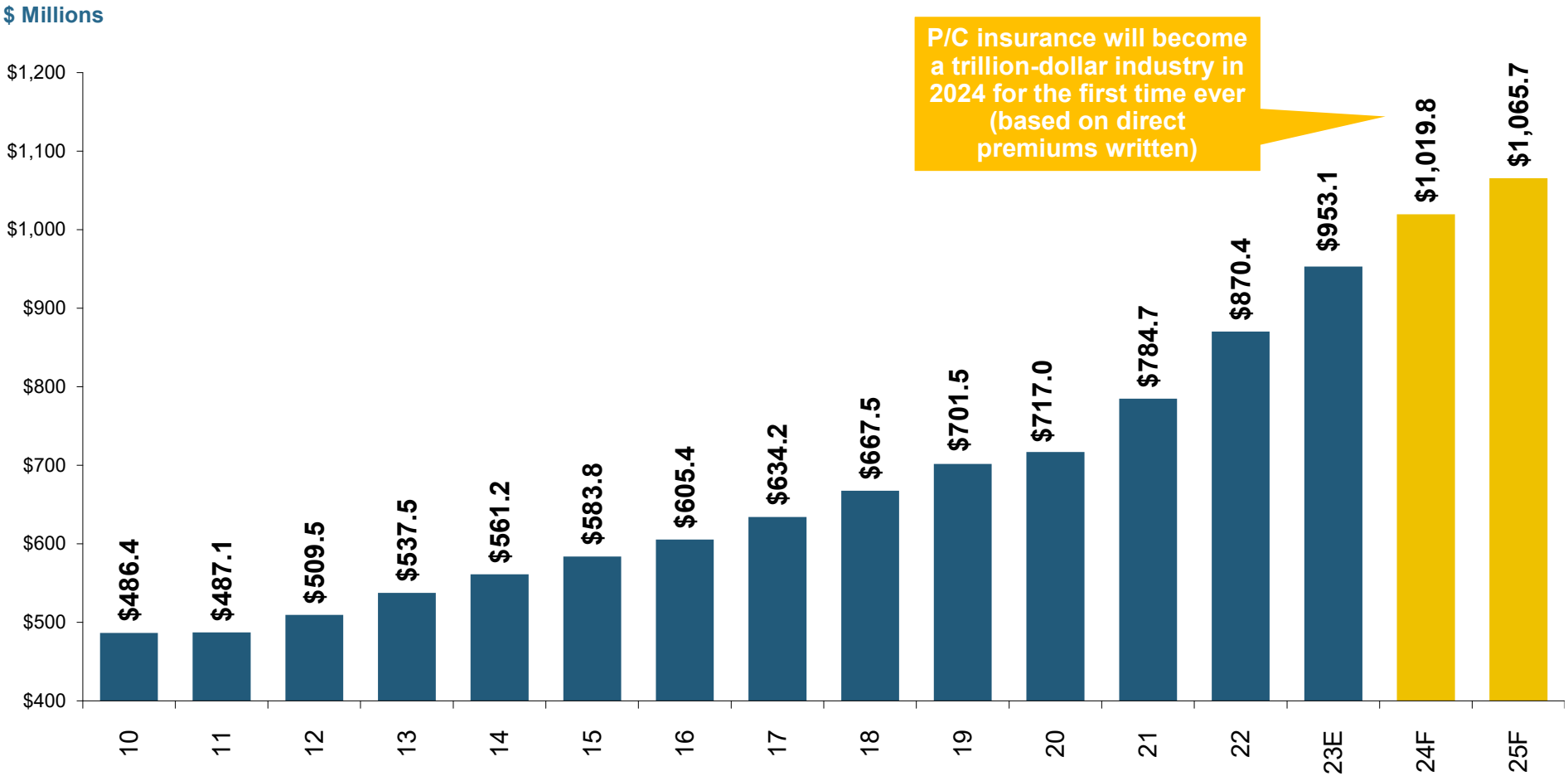
Number of Years with Underwriting Profits by Decade, 1920s–2020s



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

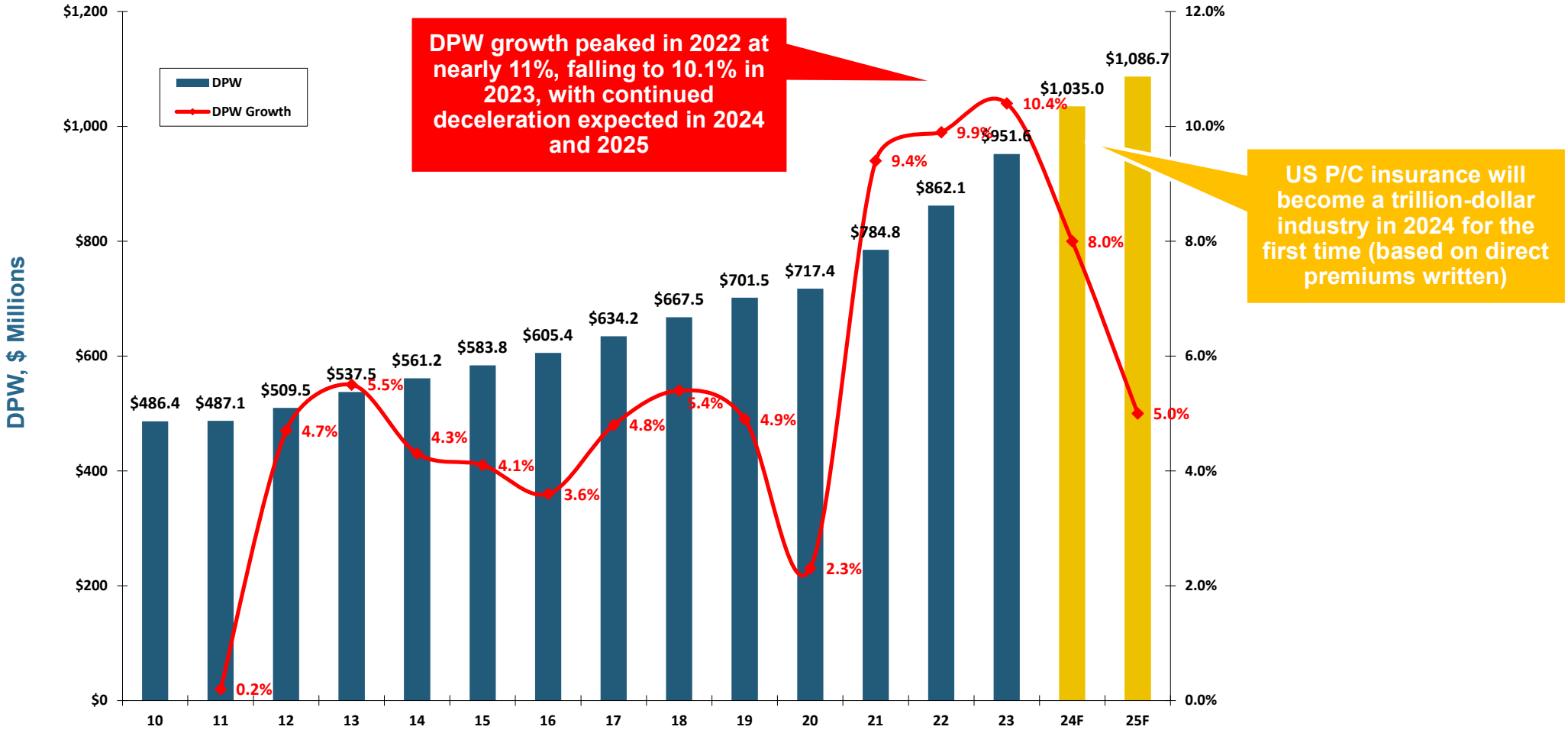
* 2020 through 2023.
Note: Data for 1920–1934 based on stock companies only. Underwriting profit is defined as a combined ratio <100.
Sources: Insurance Information Institute research from A.M. Best Data.

P/C Direct Premiums Written, 2010–2025F



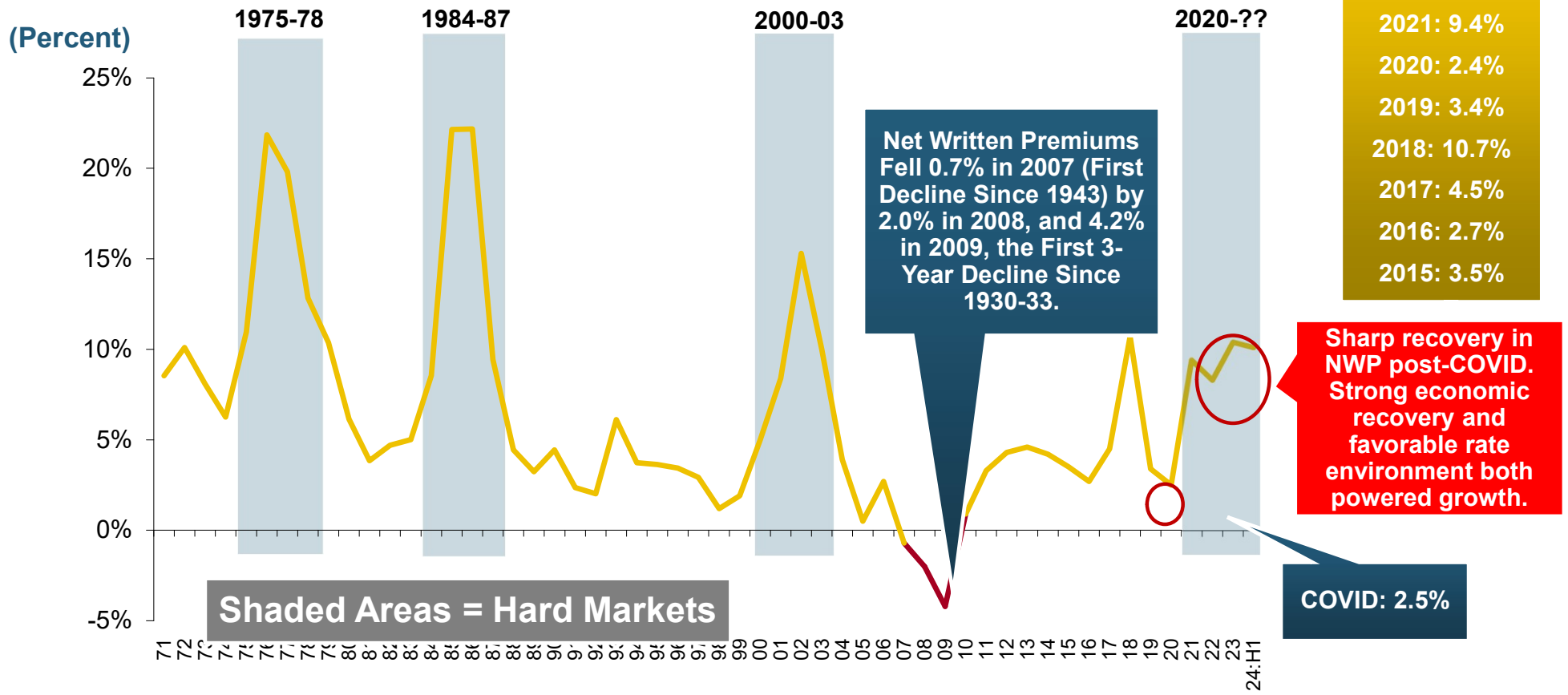
Sources: A.M. Best and NAIC (2010-2022); Forecast figures for 2024-25 calculated by Risk and Uncertainty Management Center, Univ. of South Carolina from Swiss Re Institute (2024F-2025F) "*US Property & Casualty Outlook: Strong Momentum into 2024 Led by Personal Lines,*" (January 2024) accessed at: https://www.swissre.com/dam/jcr:e0013881-51ed-443c-ad22-b03ec9380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

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



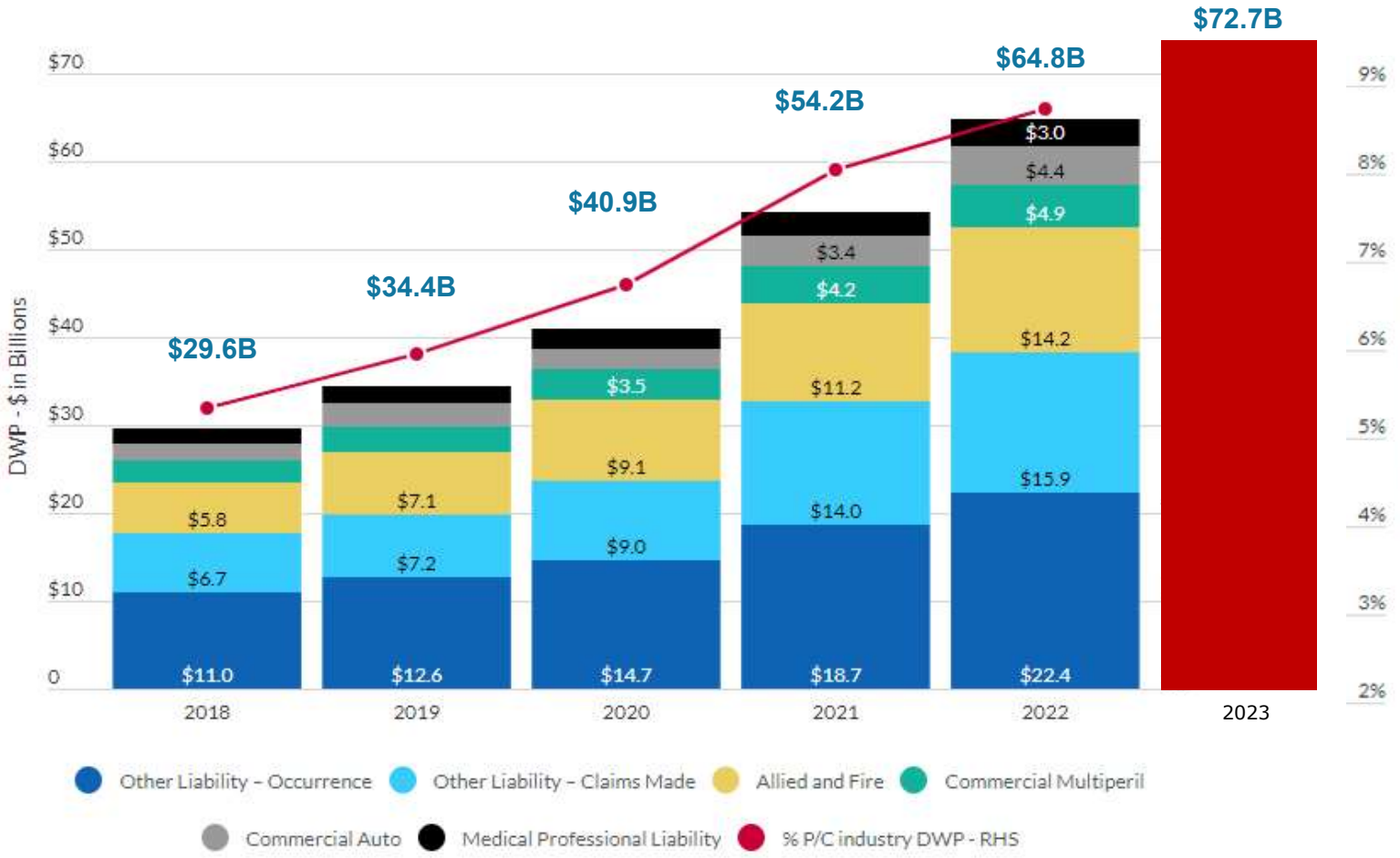
Sources: A.M. Best and NAIC (2010-2022); Forecast figures for 2024-25 from Swiss Re Institute (2024F-2025F) "*US Property & Casualty Outlook: Dog Days are Over,*" (June 2024), accessed at: https://www.swissre.com/dam/jcr:b2178beb-350f-406e-8714-63ea4b3fe2e1/swiss-re-institute-us-pc-dog-days-are-over.pdf.

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

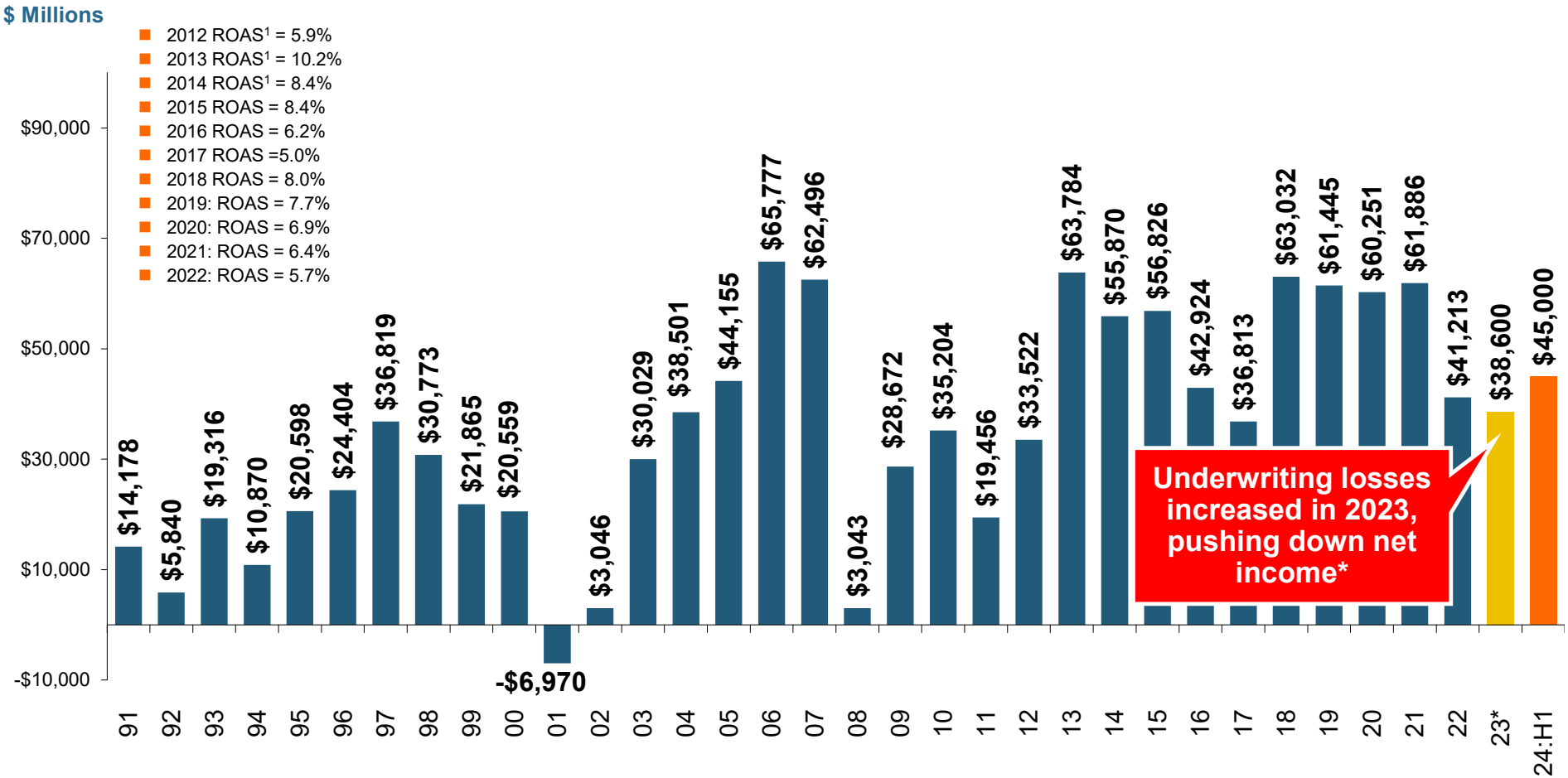
E&S Market Direct Written Premium Trends



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)

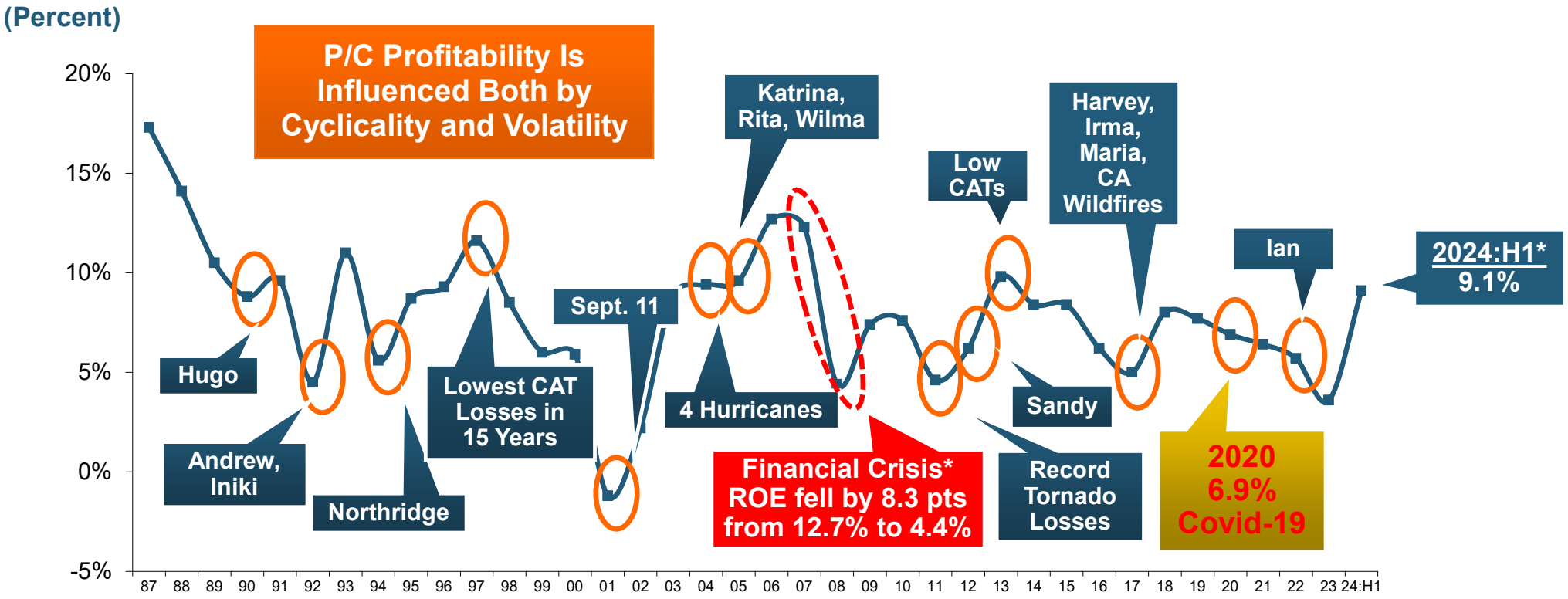
Sources: Data for 2018 – 2022: Fitch Ratings (*Fitch Wire*, Oct. 4, 2023) accessed at: https://www.fitchratings.com/research/insurance/us-excess-surplus-insurance-market-outperformance-to-continue-04-10-2023; For 2023: Insurance Journal from WSIA, accessed at: https://www.insurancejournal.com/news/national/2024/02/14/760715.htm#;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

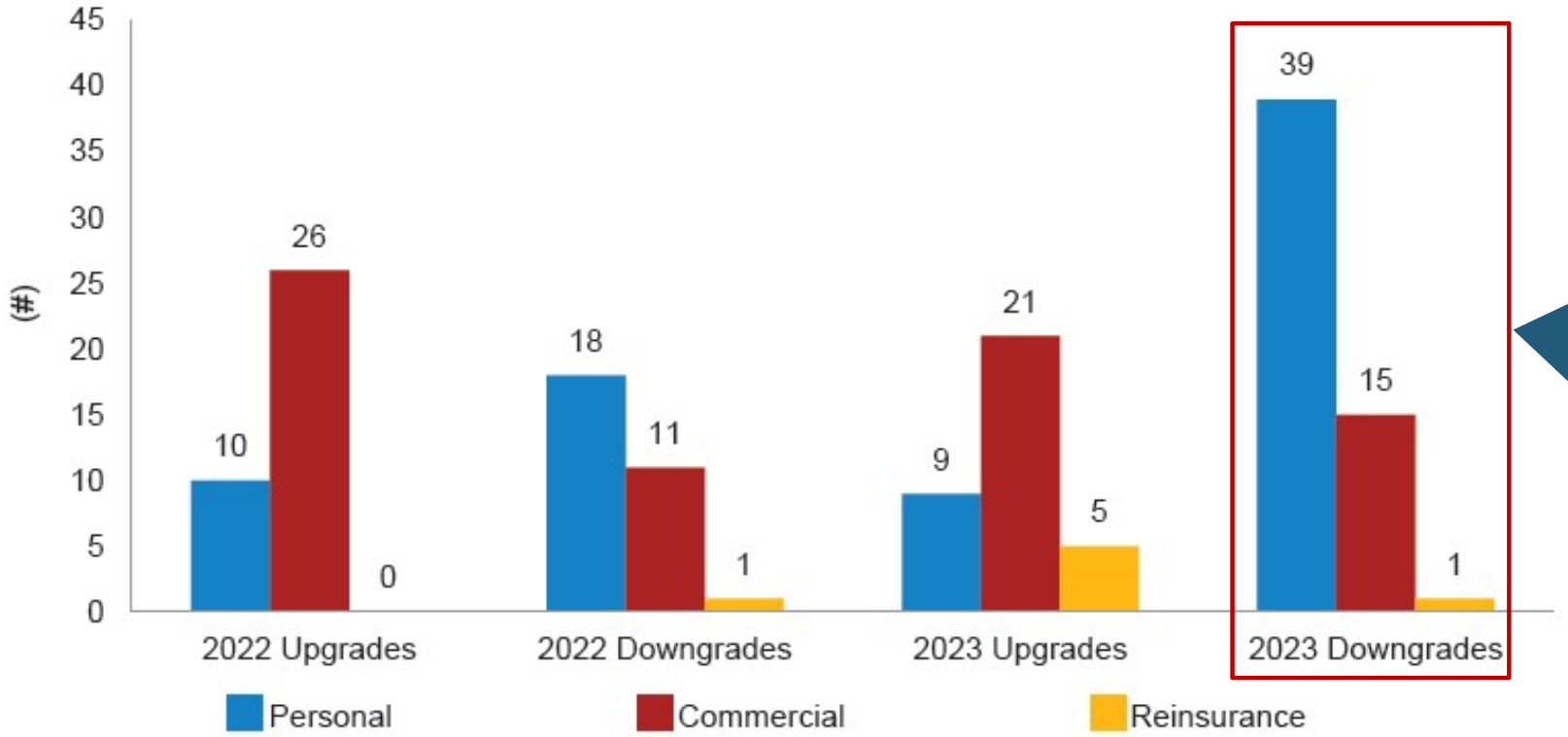


*Excludes Mortgage & Financial Guarantee in 2008 – 2014.
Sources: A.M. Best, ISO, *Fortune,* APCIA; USC RUM Center.

Upgrades, Downgrades and M&A Activity

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

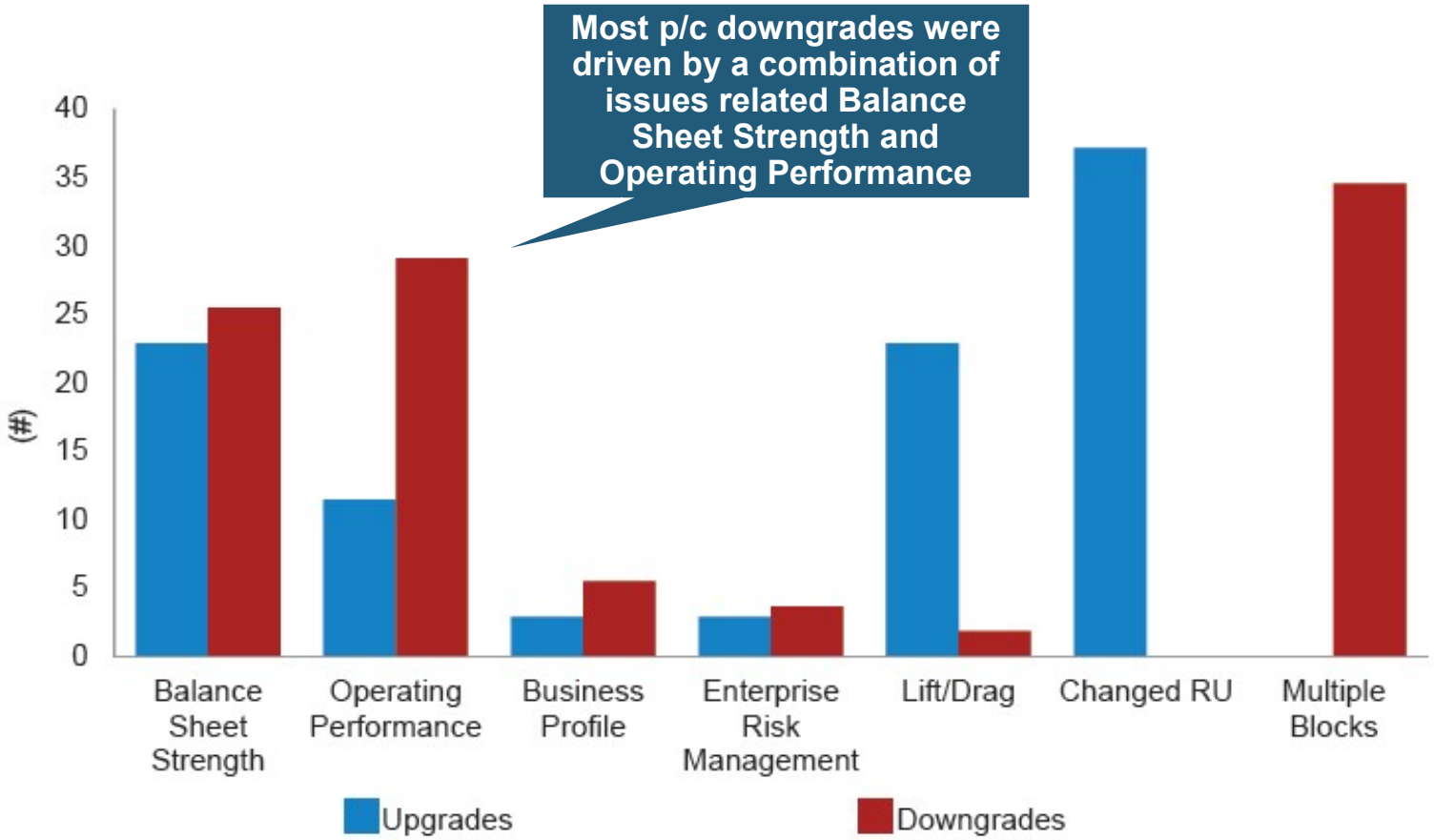
US P/C: Rating Upgrades & Downgrades, by Segment, 2023



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.

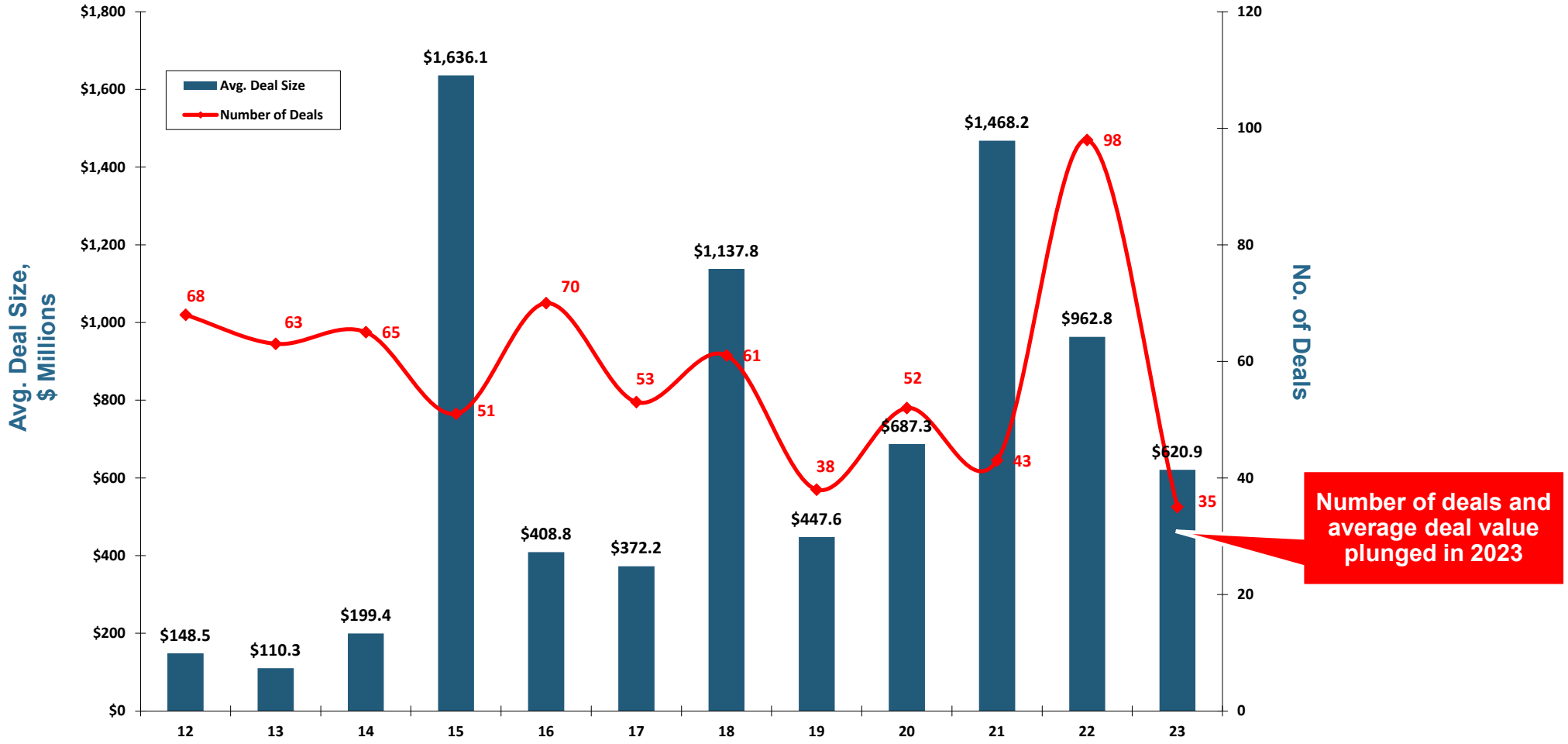
Source: A.M. Best Review & Preview (March 11, 2024), *US Property/Casualty Downgrades Outpace Upgrades in 2023.*

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



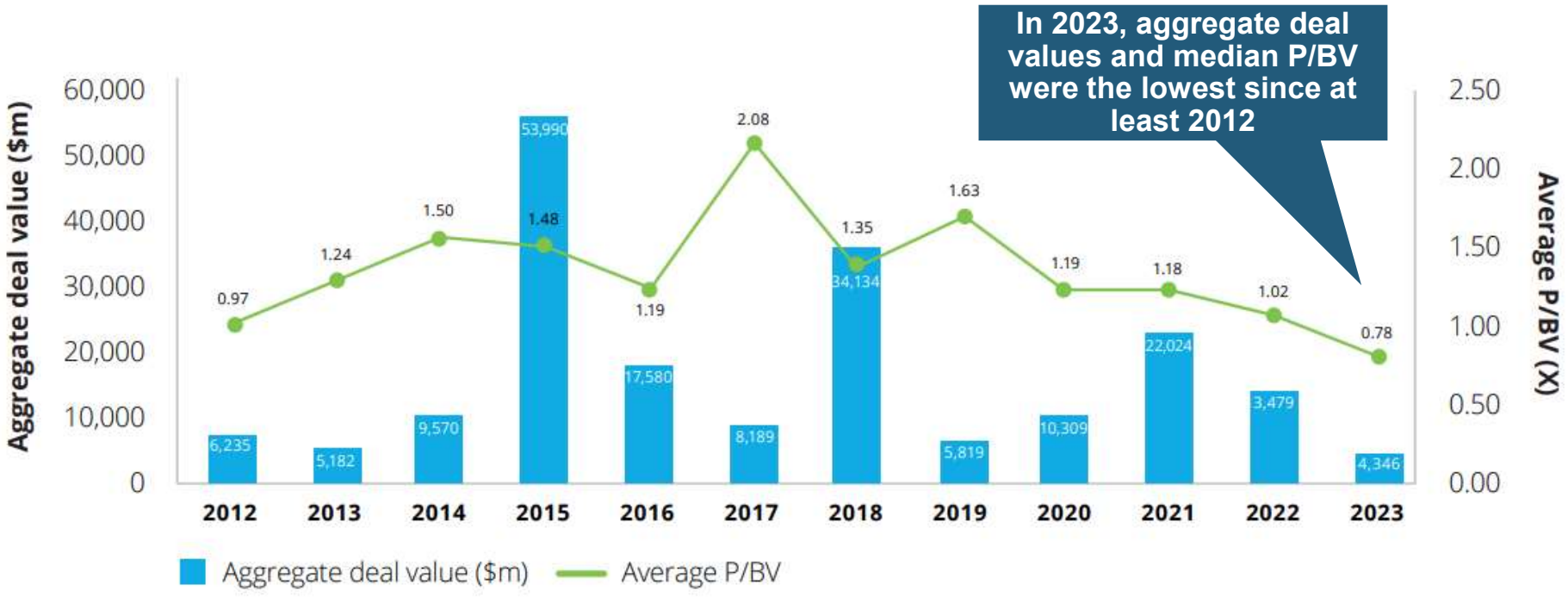
Source: A.M. Best Review & Preview (March 11, 2024), *US Property/Casualty Downgrades Outpace Upgrades in 2023.*

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



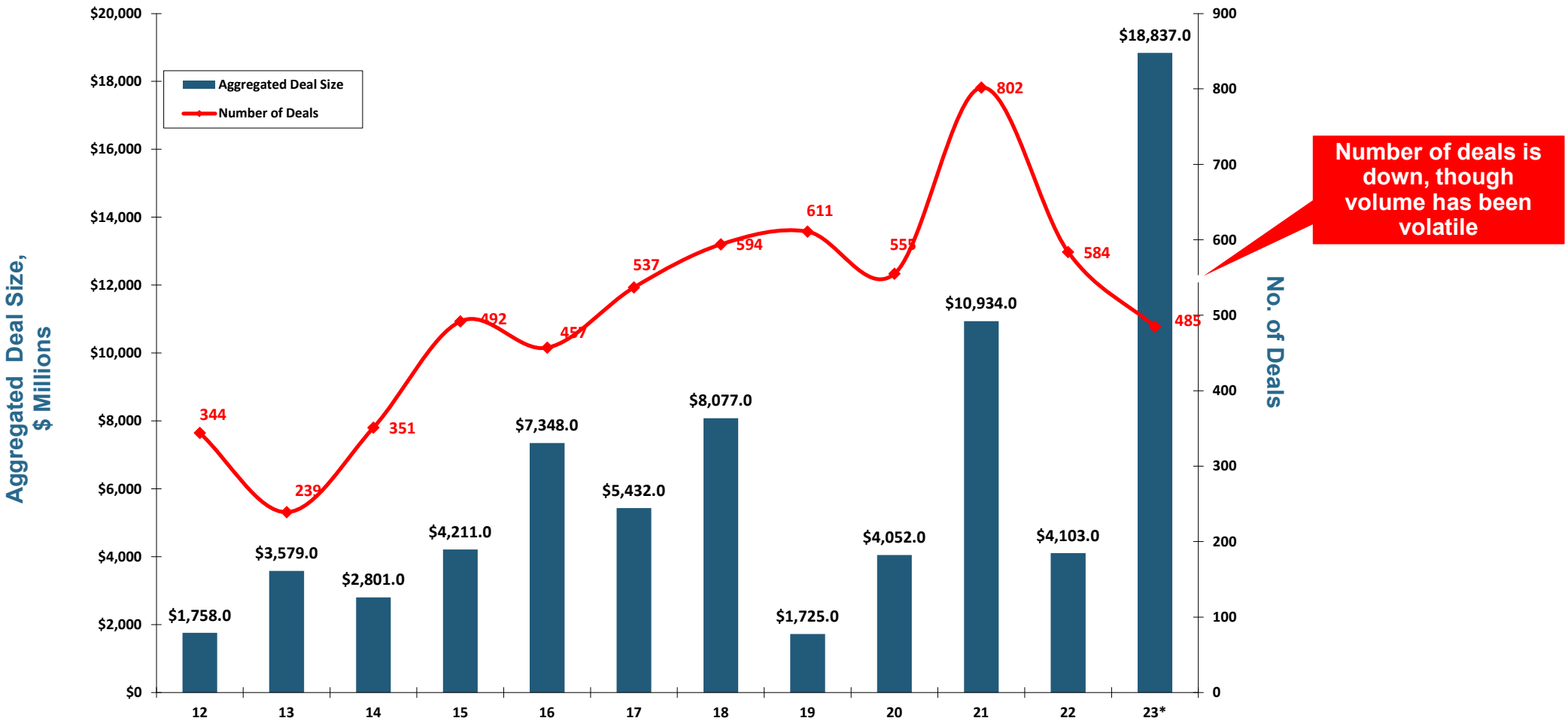
Source: Deloitte, *2024 Insurance M&A Outlook*, accessed at: https://www2.deloitte.com/us/en/pages/financial-services/articles/insurance-m-and-a-outlook.html; Risk & Uncertainty Management Center, University of South Carolina.

P/C M&A: Aggregate Deal Value and Price-to-Book Multiples, 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.

Broker M&A: Number and Aggregated Deal Value, 2012–2023*



*2023 aggregated deal value skewed by Aon's $13.6B acquisition of NFP Insurance Services (announced 12/20/23).
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.

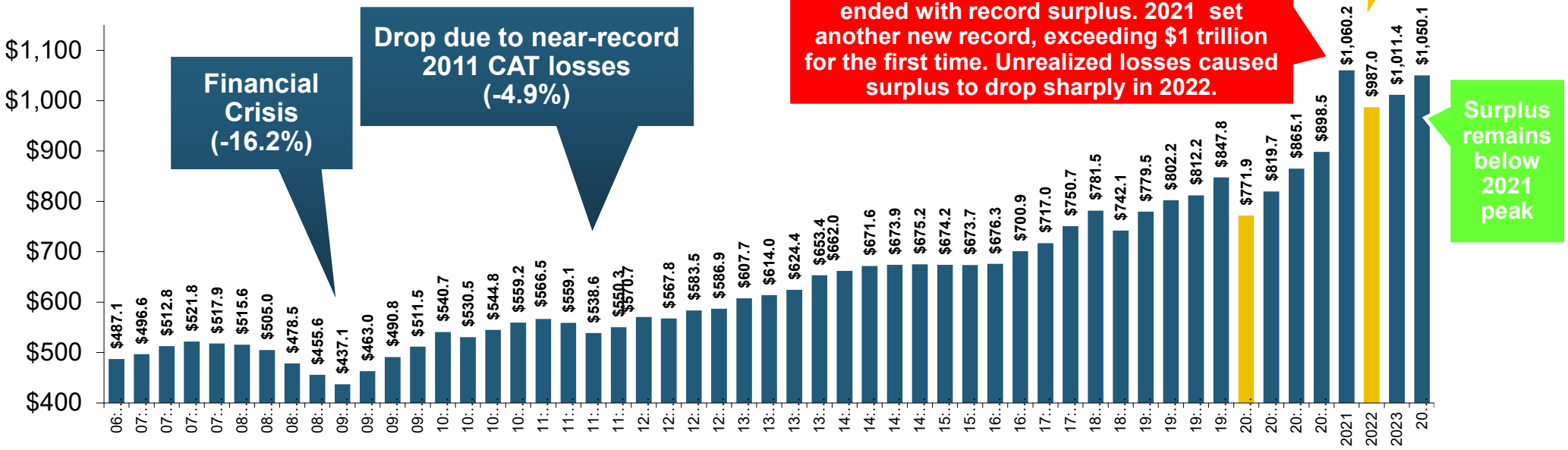
Capital and Capacity

P/C Insurance: Capitalized Crunch?

Will Industry Capacity Recover?

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

($ Billions)

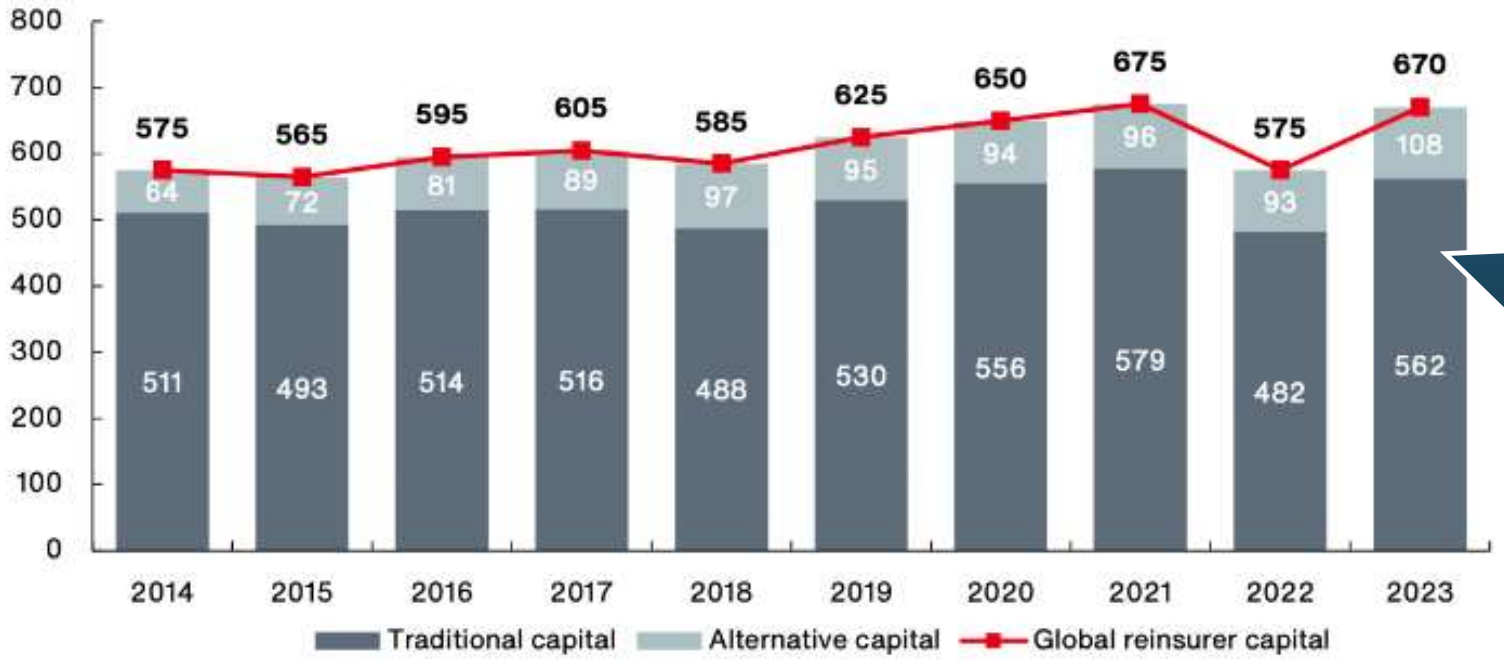


Policyholder Surplus is the industry's financial cushion against large insured events, periods of economic stress and financial market volatility. It is also a source of capital to underwrite new risks.

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

Global Reinsurance Capital, 2013 – 2023

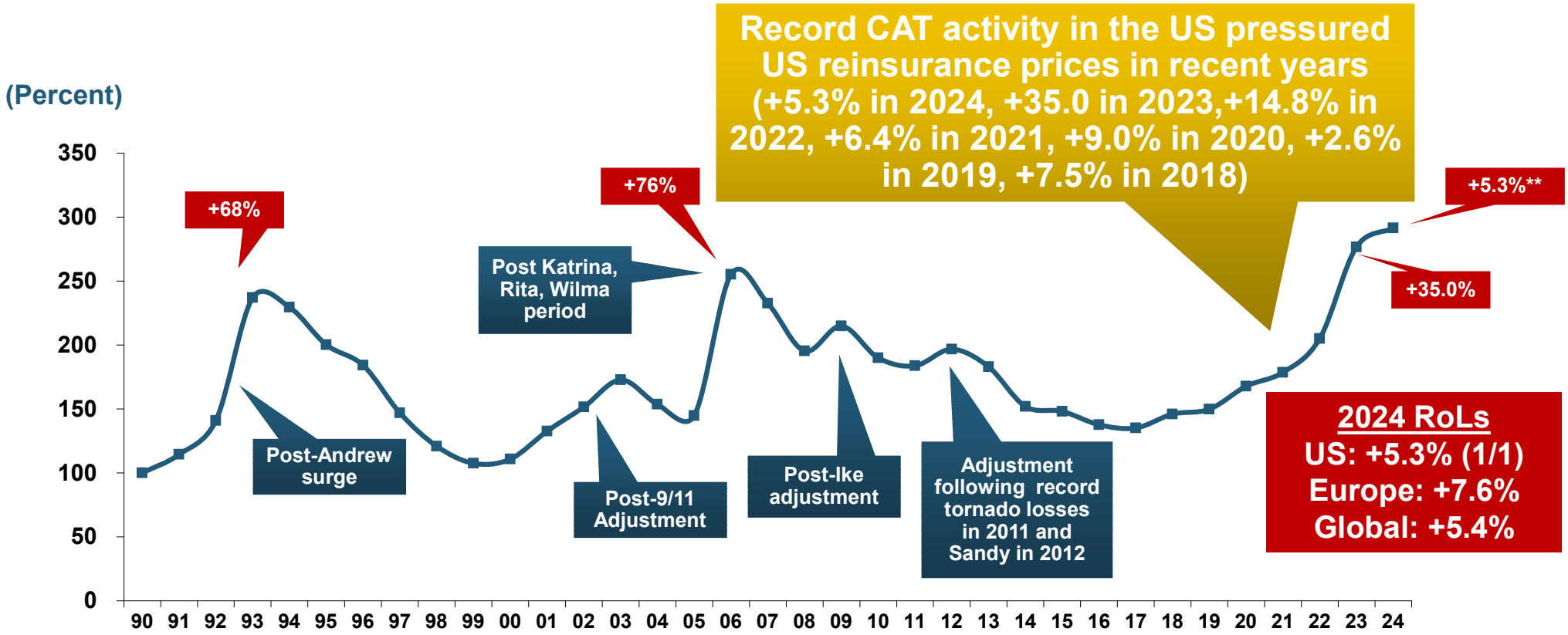
$ Billions



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

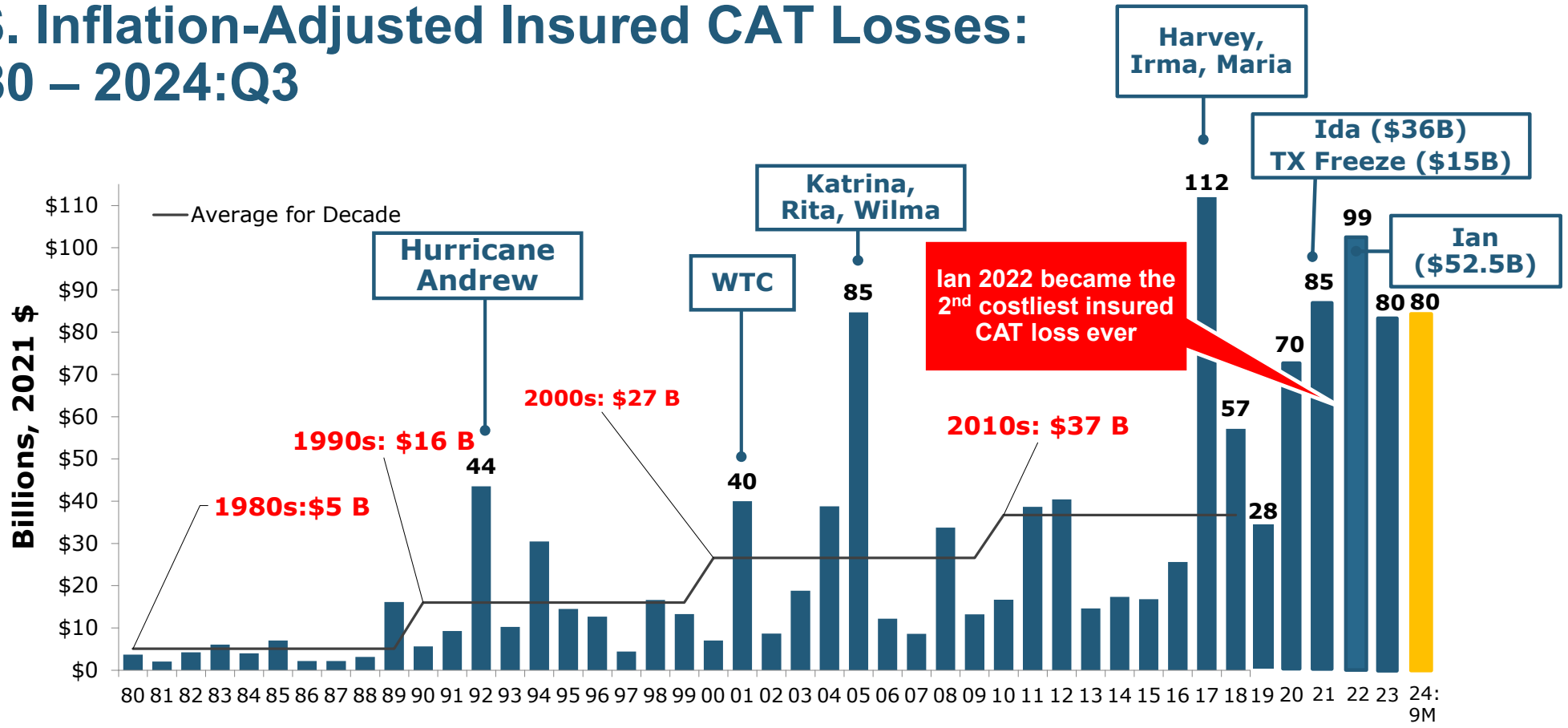
Catastrophe Loss Trends

The Rise in CAT Losses Shows No Signs of Easing

The 2020s Are Off to an Ominous Beginning

Hurricanes Helene and Milton Are Just the Latest in a Long Series of Mega-Disasters

U.S. Inflation-Adjusted Insured CAT Losses: 1980 – 2024:Q3

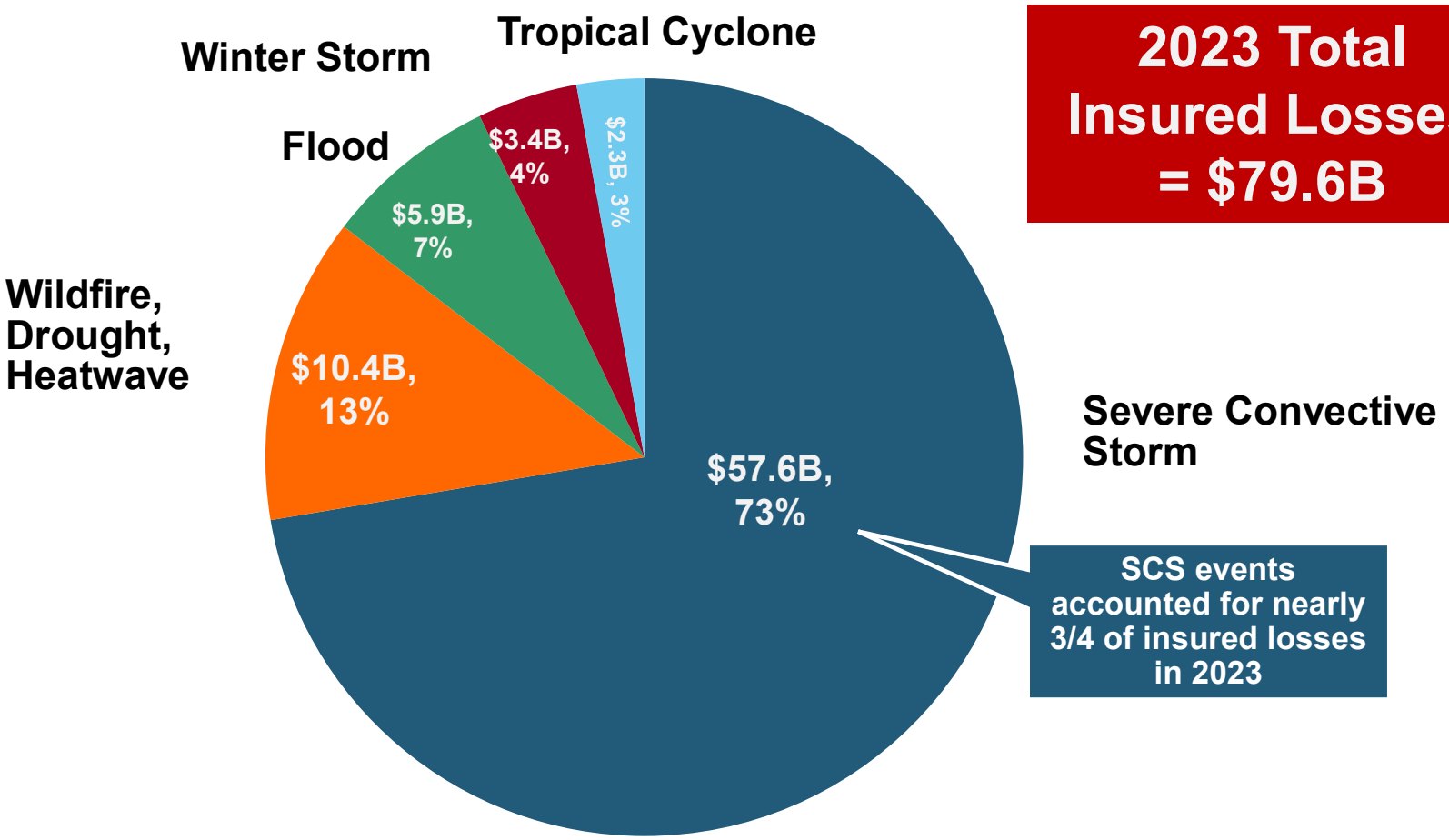


Average Insured Loss per Year*
1980-2021: $23.8 Billion
2012-2021: $44.1 Billion

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 2024:9M figure from Aon. Insurance Information Institute; University of South Carolina, Risk & Uncertainty Management Center.

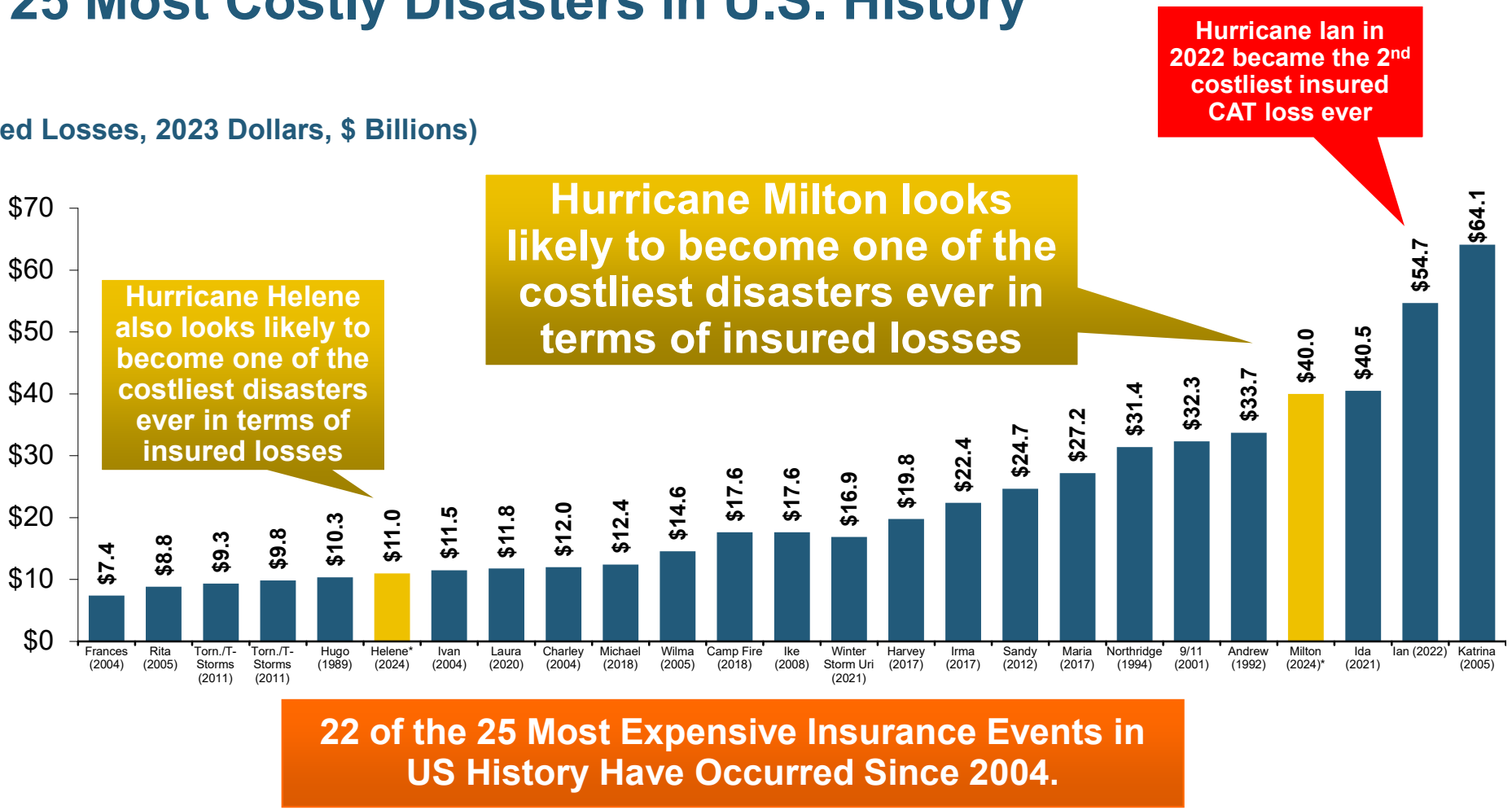
Insured Natural Disaster Losses by Peril, 2023 ($ Billions)



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

Top 25 Most Costly Disasters in U.S. History

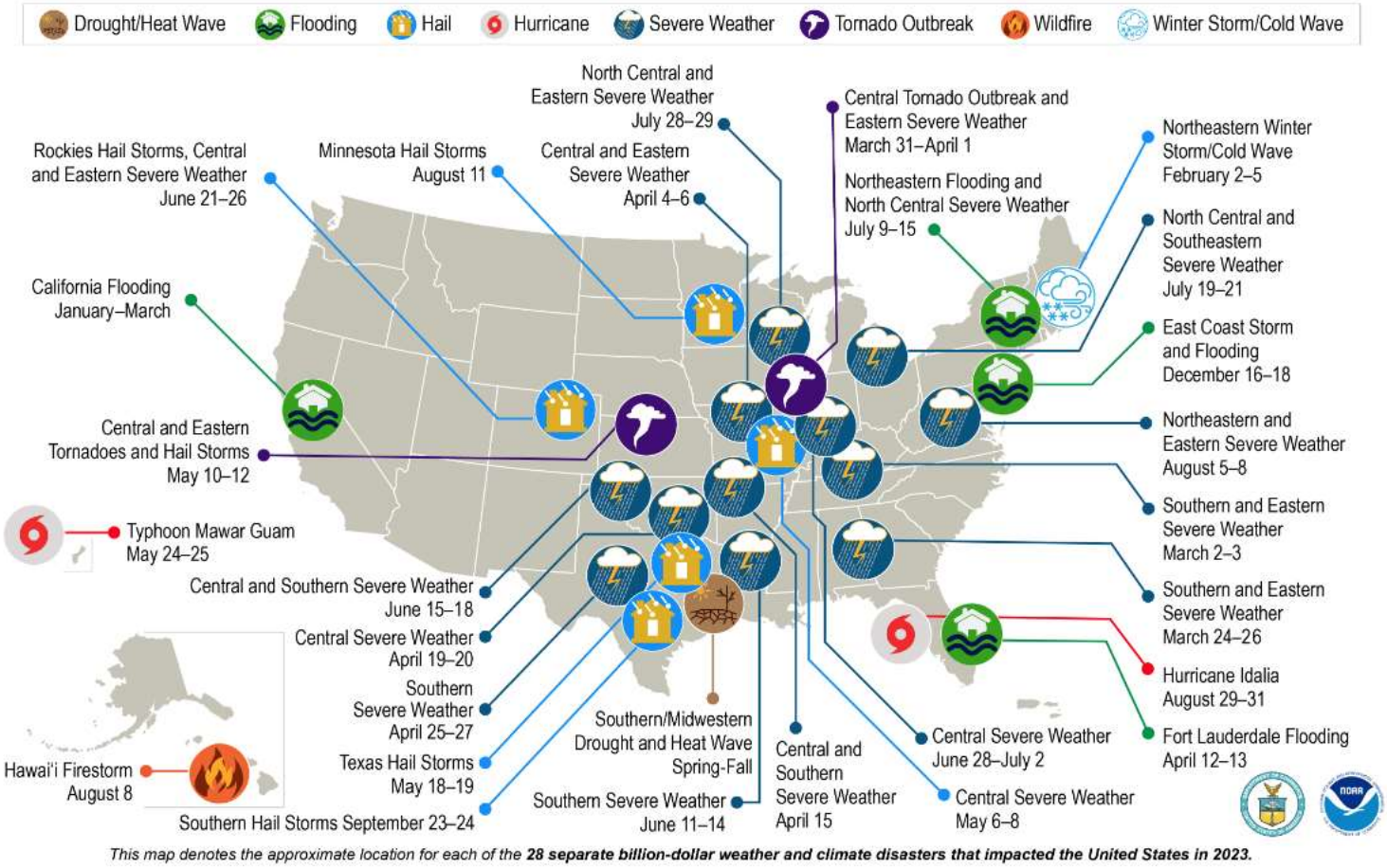
(Insured Losses, 2023 Dollars, $ Billions)



22 of the 25 Most Expensive Insurance Events in US History Have Occurred Since 2004.

*2024 dollars; Midpoint estimates as of 10/17/24. Milton losses include estimated NFIP losses of $10B (Morningstar). Helene estimates (RMS).
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

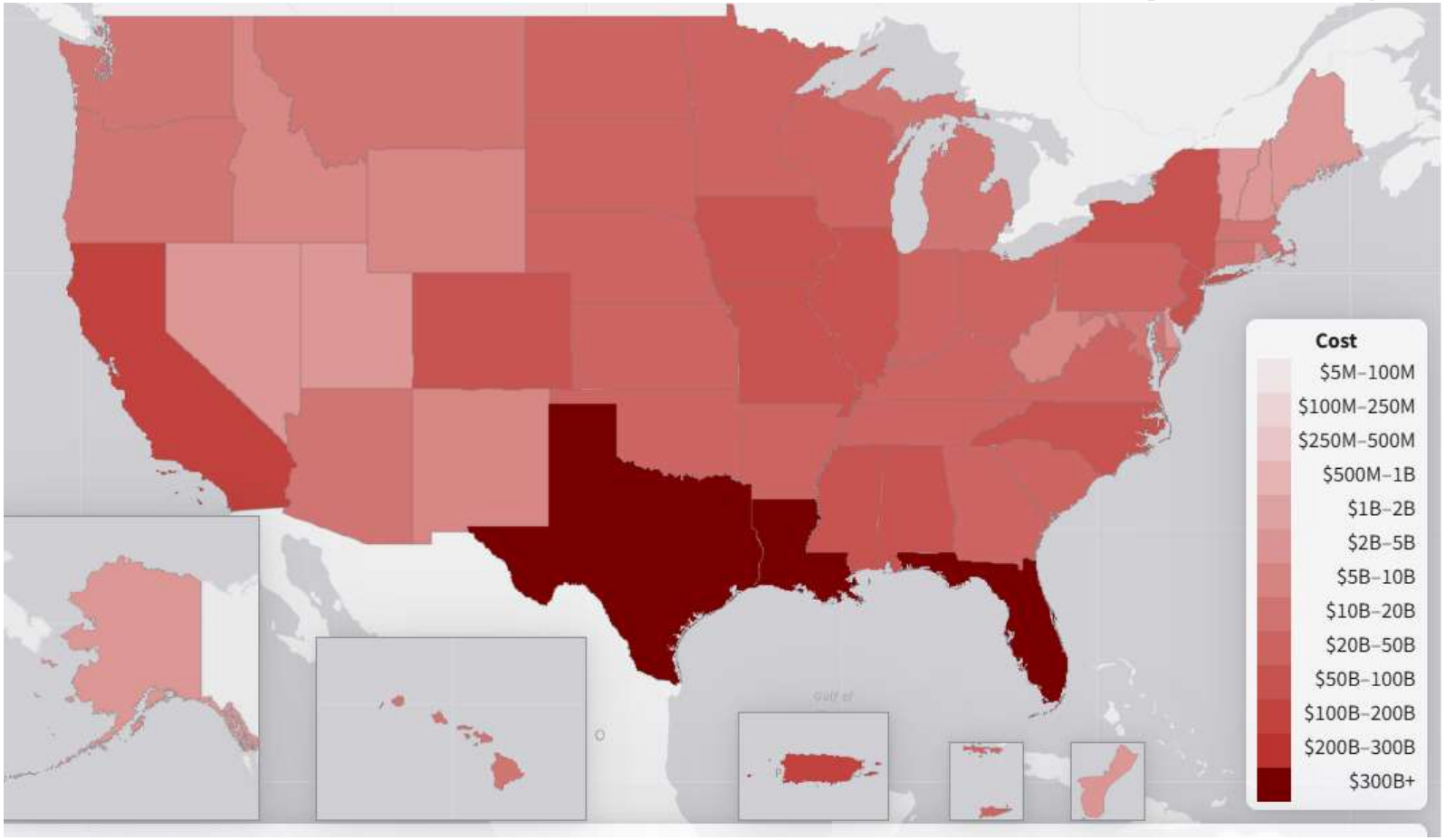


*This map denotes the approximate location for each of the **28 separate billion-dollar weather and climate disasters that impacted the United States in 2023.***

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.

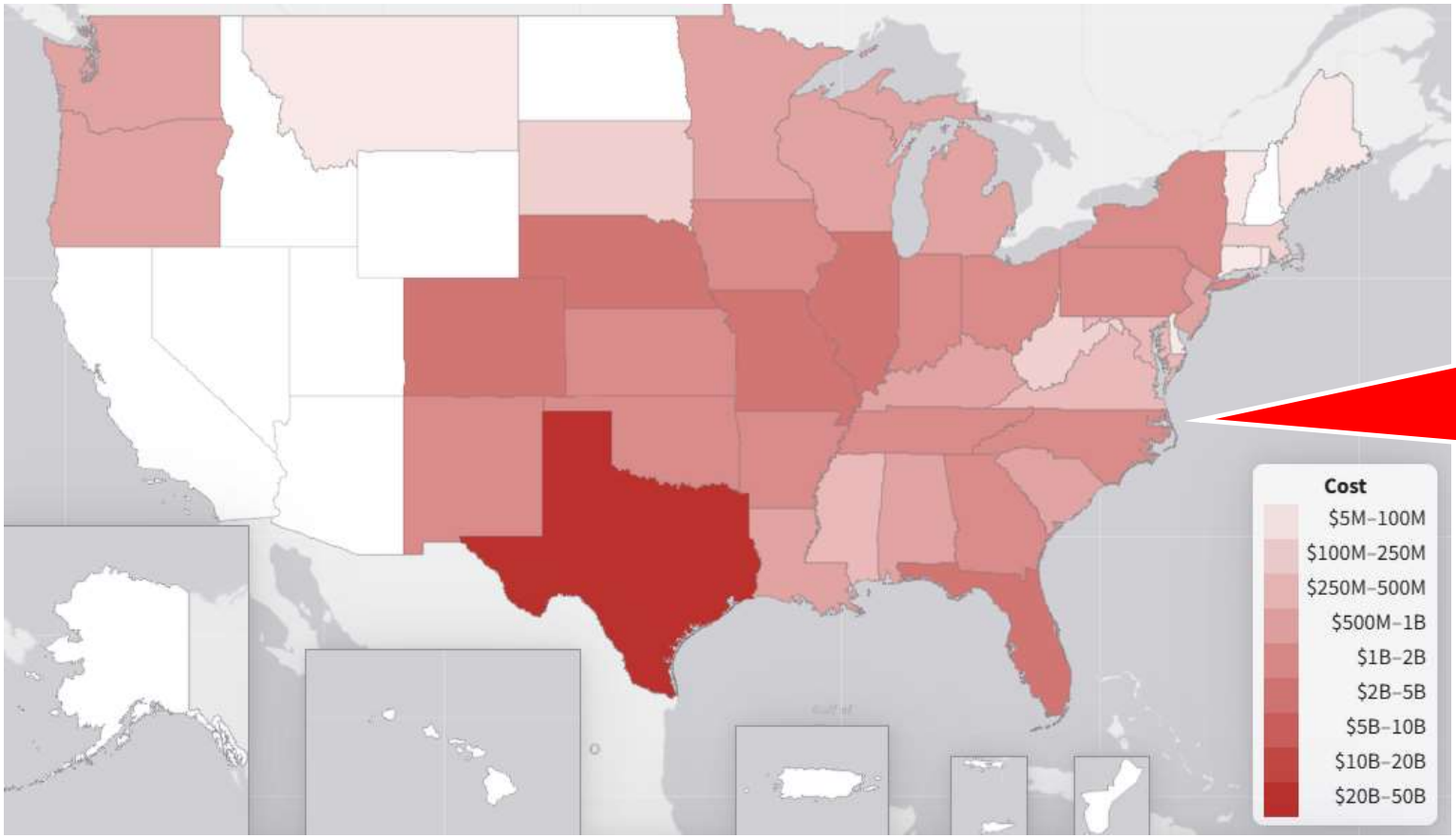
Distribution of Losses from US Billion-Dollar Weather and Climate Disaster Events, 1980 - 2024* (CPI-Adjusted)



Heavy concentration of losses in Gulf Coast states and CA

*As of Nov. 1, 2024.
Source: NOAA, accessed at: https://www.ncei.noaa.gov/access/billions/mapping.

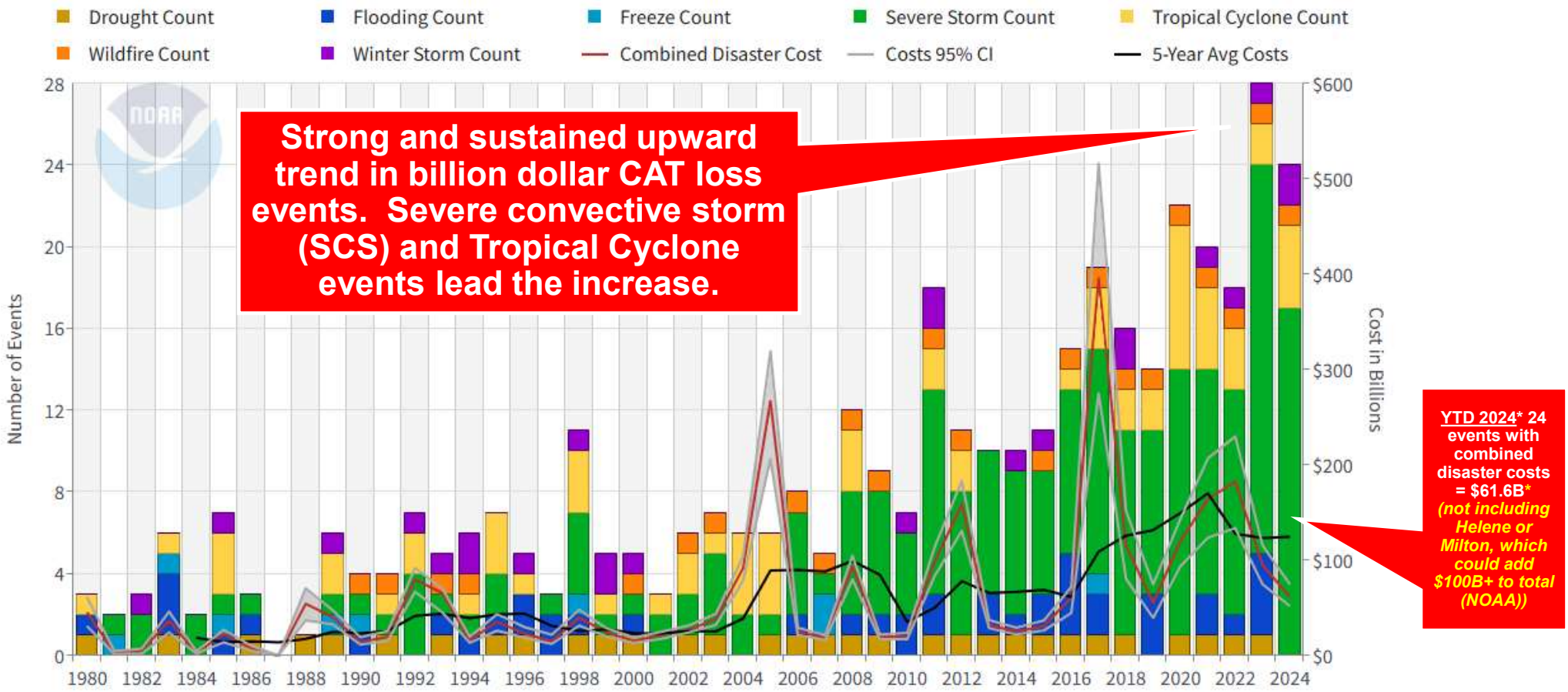
Distribution of Losses from US Billion-Dollar Weather and Climate Disaster Events, 2024* (CPI-Adjusted)



Data for 2024 do not yet fully reflect full impact of Hurricanes Helene and Milton

*As of Nov. 1, 2024.
Source: NOAA, accessed at: https://www.ncei.noaa.gov/access/billions/mapping.

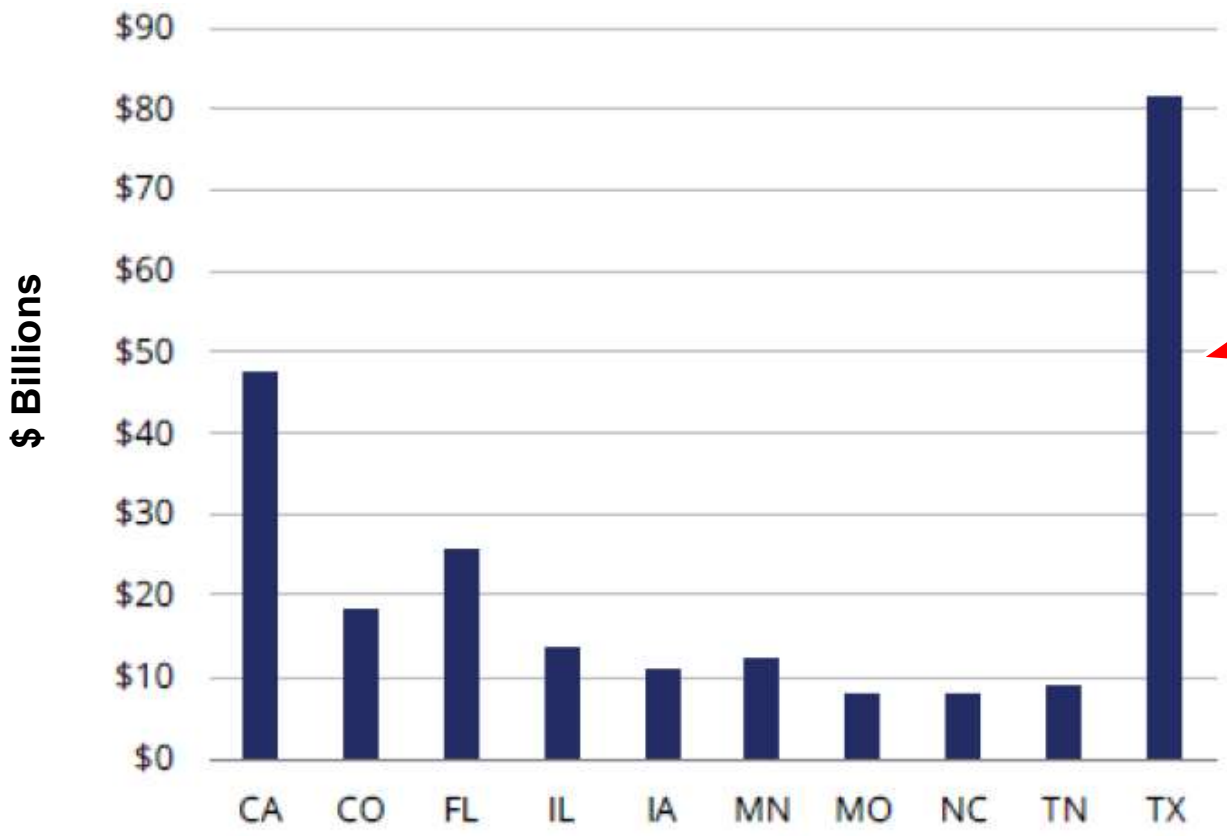
US Billion-Dollar Weather and Climate Disaster Events, Economic Costs, by Type, 1980 – 2024* (CPI-Adjusted)



*As of November 1, 2024.

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

Secondary Peril Losses, Top 10 States, 2014 – 2023



Texas leads the country in "Secondary-Peril" losses, which are accounting for an increasing share of total losses

Source: Conning, Inc.

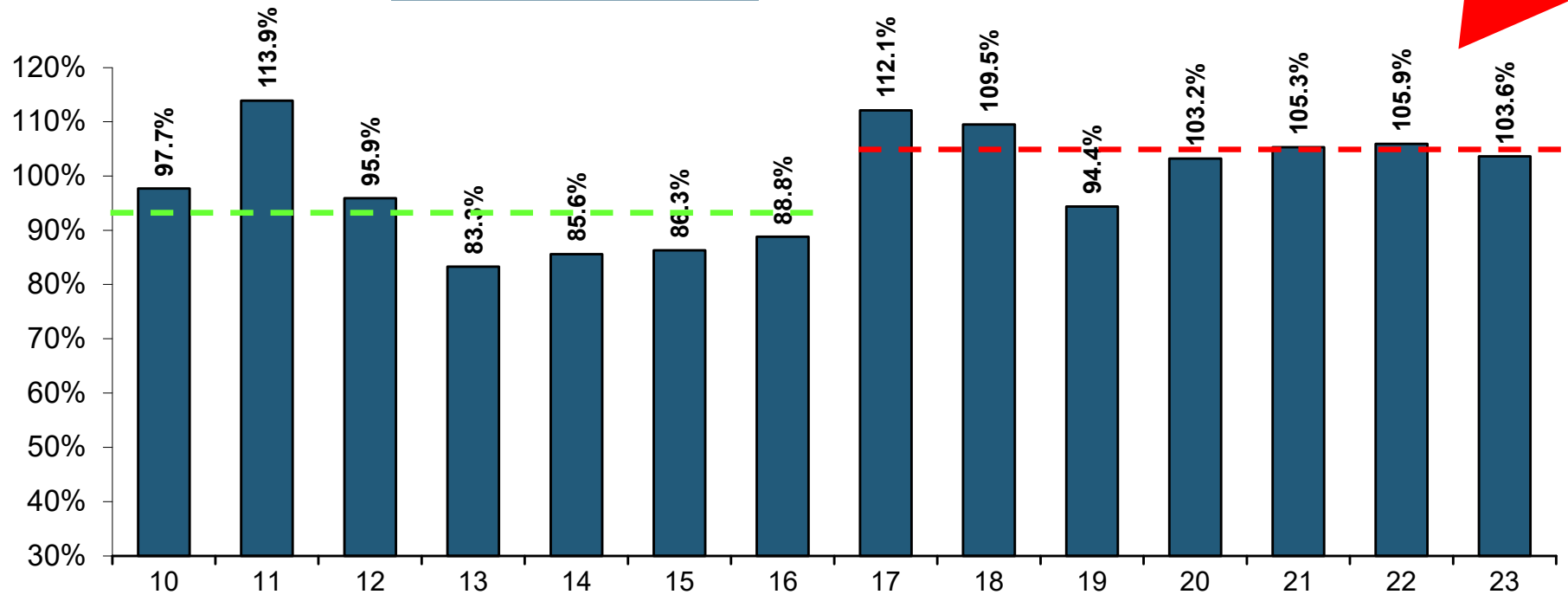
State of the Homeowners Insurance Market

Inflation, High Catastrophe Losses Are Challenges for Insurers and Policyholders Across the Country

Homeowners Insurance Combined Ratios: US, 2010 – 2023

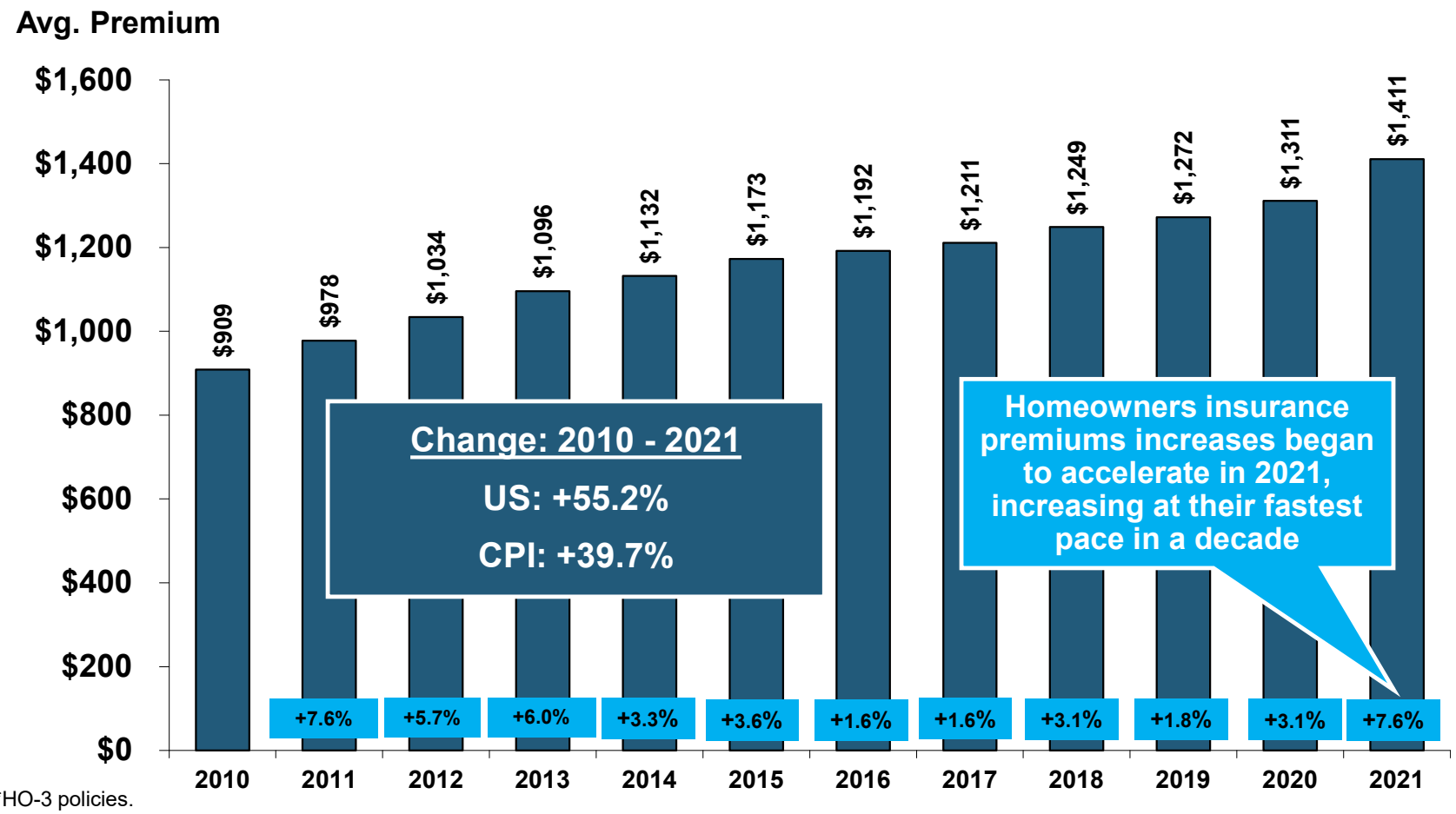
Average:
99.0% (2010-2023)
93.1 (2010-2016)
104.9% (2017-2023)

The Homeowners combined ratio from 2017-2023 (104.9) was nearly 133 points higher from than from 2010-2016 (93.1)



Sources: APCIA estimates using S&P Global Market Intelligence data; University of South Carolina, Risk & Uncertainty Management Center.

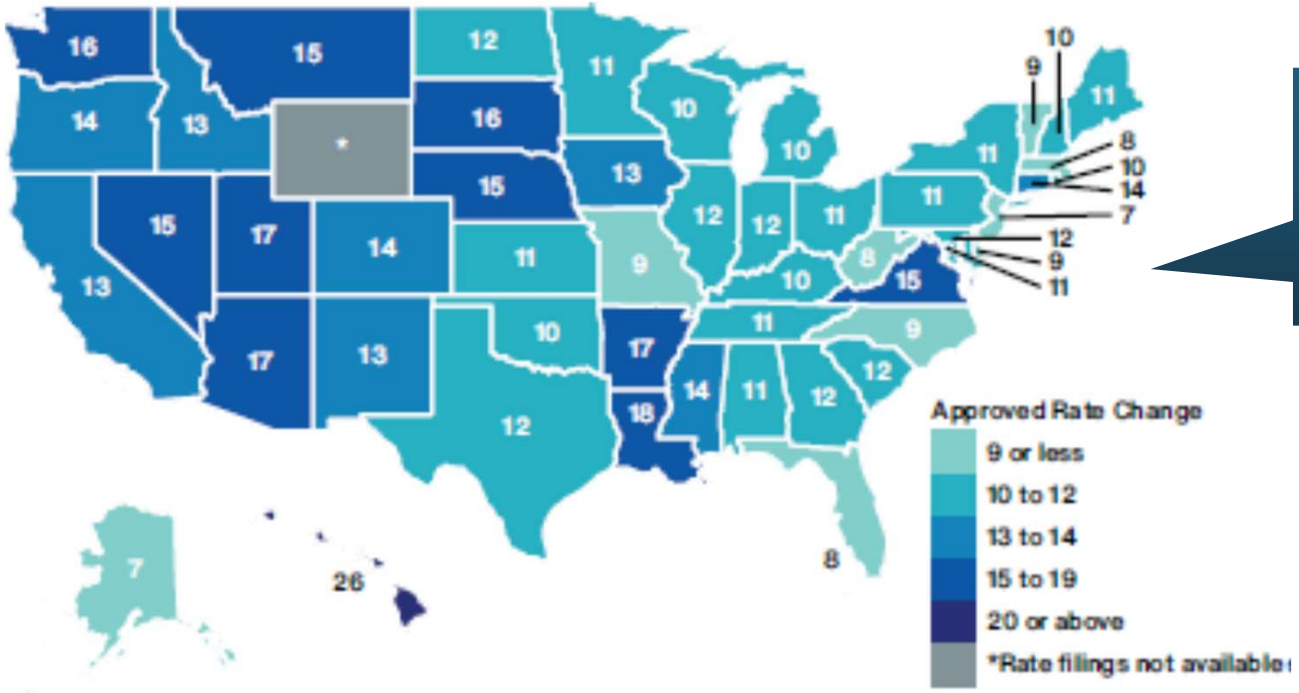
US Average Homeowners Insurance Premium, 2010-2021*



*HO-3 policies.

Sources: NAIC *Dwelling Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance Report: Data for 2021* (Jan. 2024) and previous years, *available at: https://content.naic.org/article/naic-releases-homeowners-insurance-report-2021*.

Top Homeowners Insurers'
Average Approved Rate Change (1/23 – 6/24)



The average increase in Homeowners insurance rates was 10% - 15% in most states between 1/23 and 6/24

Source: Aon

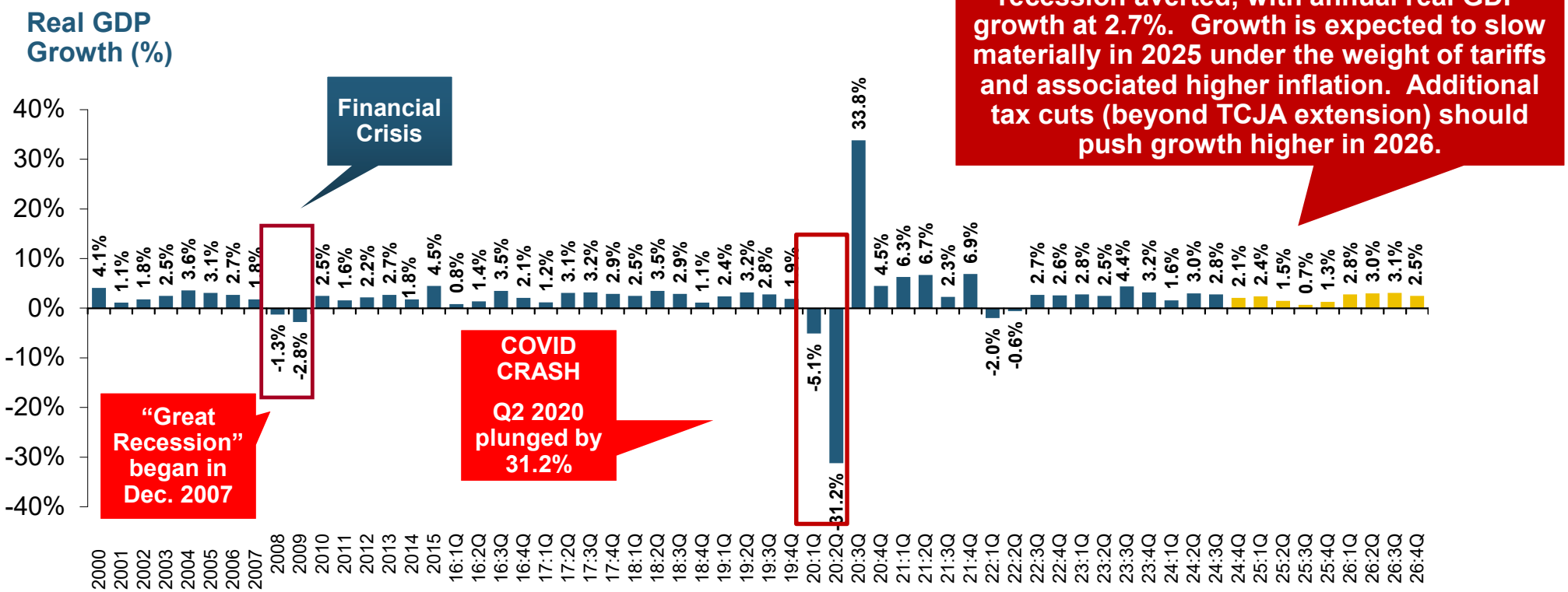
Economic Overview
The U.S. Economy Remain Resilient and Consumer Gloom is Lifting

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"?

38

US Real GDP Growth, 2000 – 2026F*

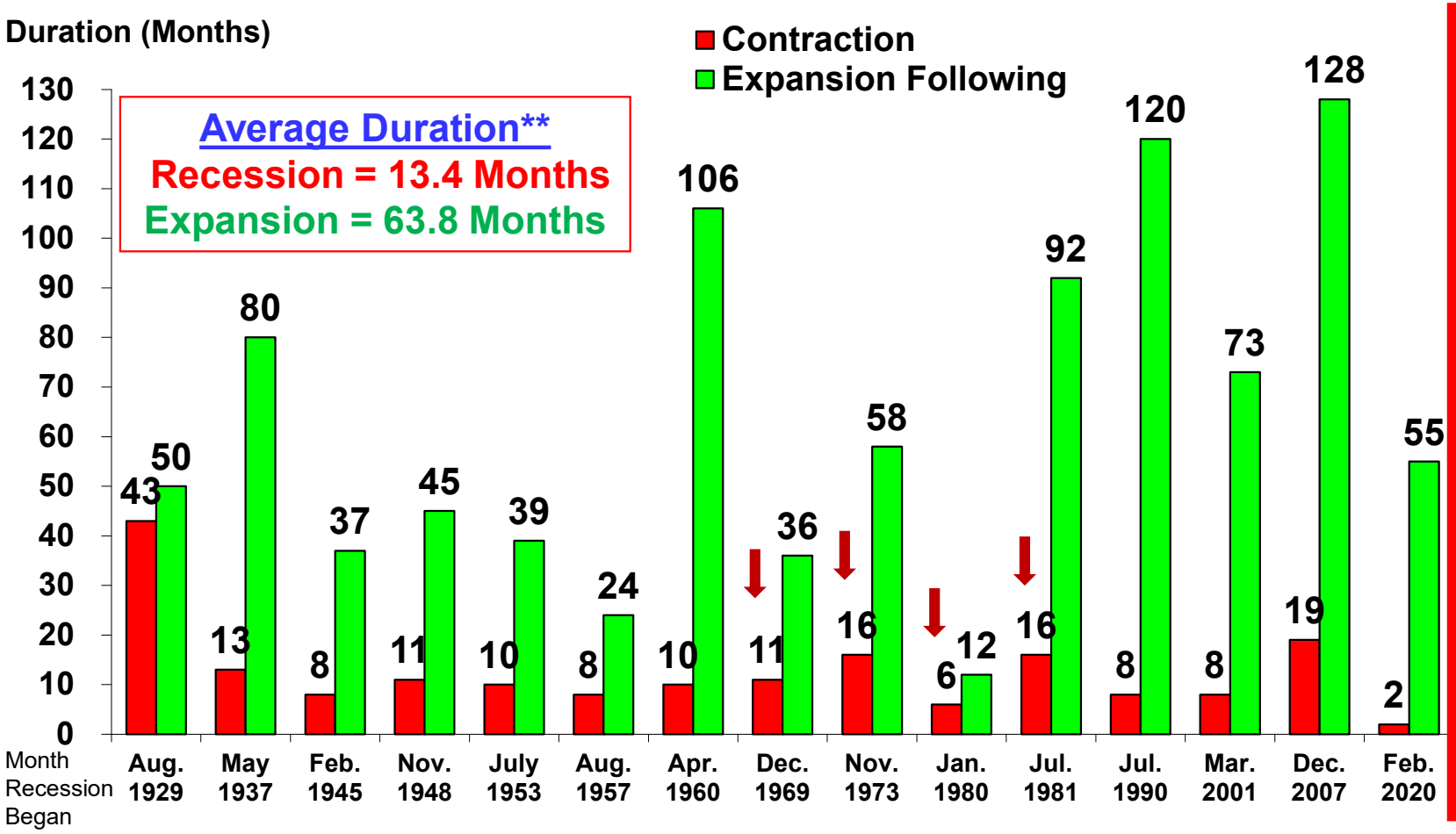


Demand for Insurance Increased Materially in 2021/22 During Recovery from the Pandemic—Particularly in Economically Sensitive Commercial Lines Such as WC. Premium growth will likely slow as Economy Slows.

* Estimates/Forecasts from Wells Fargo Securities.

Source: US Department of Commerce, Wells Fargo Securities (11/24); Center for Risk and Uncertainty Management, University of South Carolina.

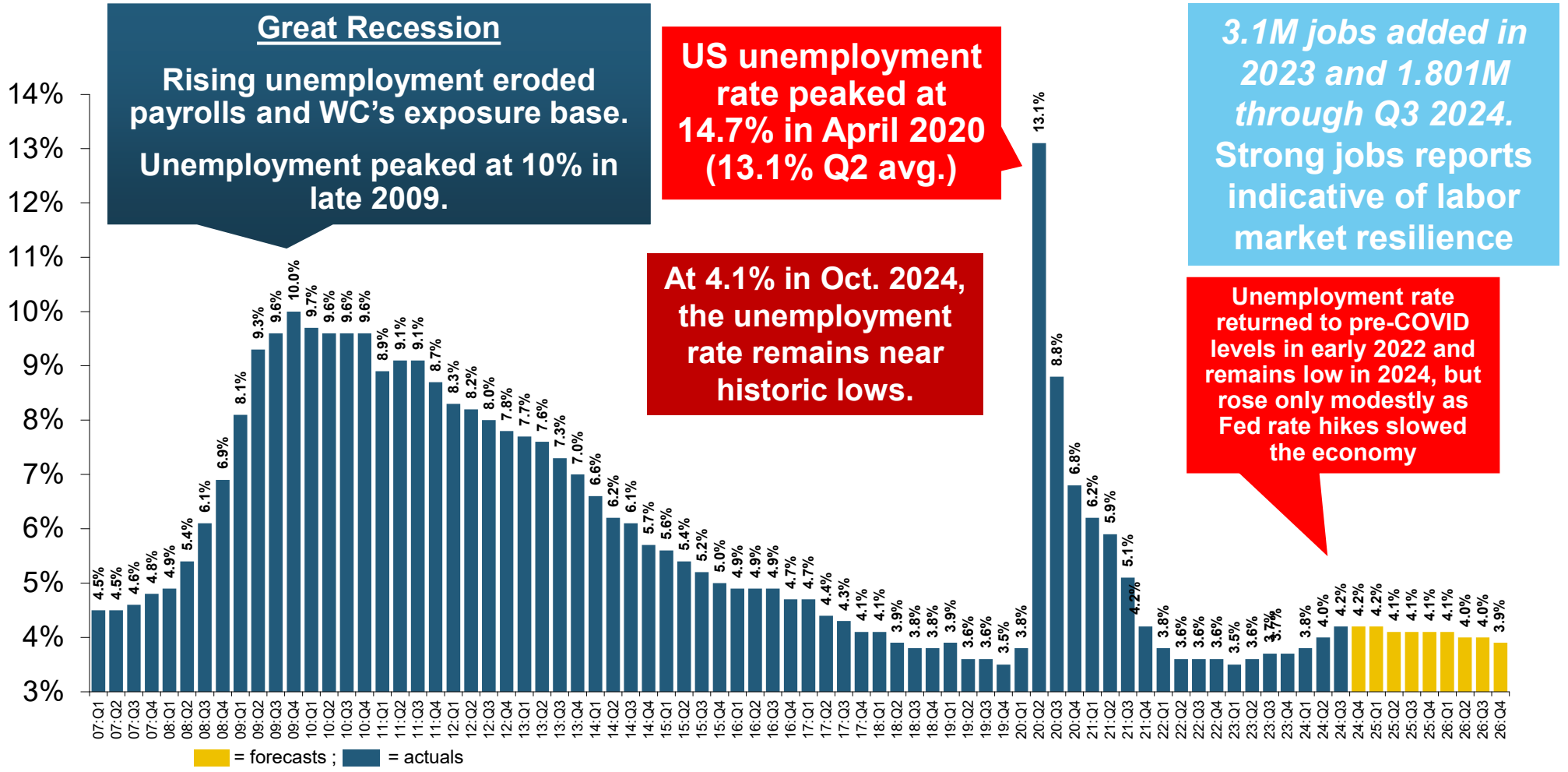
Length of US Business Cycles, 1929-Present*



- The Covid recession lasted just 2 months, ending in April 2020, the shortest on record
- Covid abruptly ended the longest economic expansion in US history, which spanned nearly 11 years
- *From 1970 – 1982, the economy was in recession for 48 months through 4 recessions (vs. just 2 months over the past 14 years)*

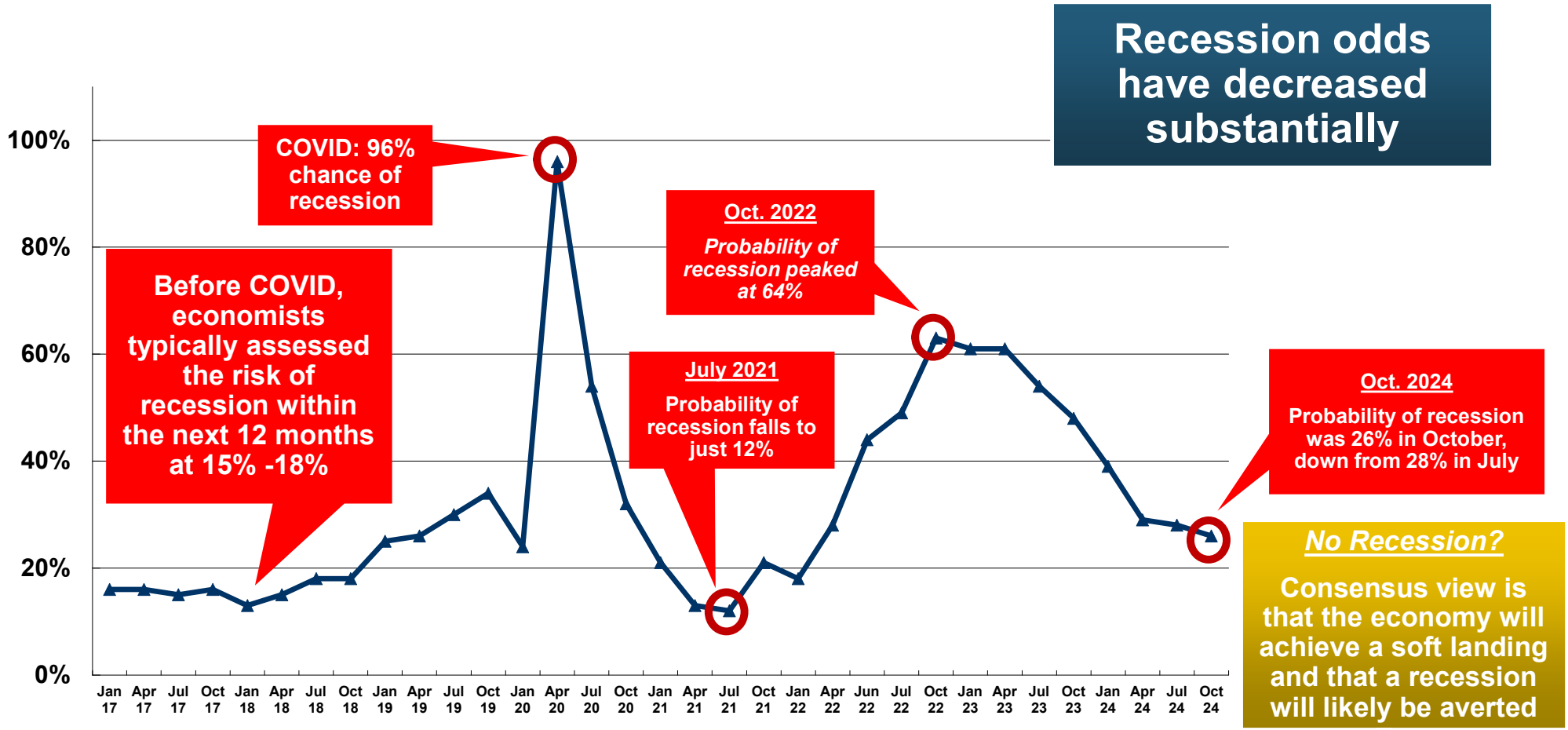
*Through Dec. 2024. **Excluding Covid-19 recession.
Sources: National Bureau of Economic Research; Risk and Uncertainty Management Center, University of South Carolina.

US Unemployment Rate Forecast: 2007:Q1–2026:Q4



Sources: US Bureau of Labor Statistics; Wells Fargo Securities (11/24 edition); Risk and Uncertainty Management Center, University of South Carolina.

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



*Oct. 2024 survey included the responses of 74 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.

All Indications Are that the Fed Has Achieved a Soft Landing

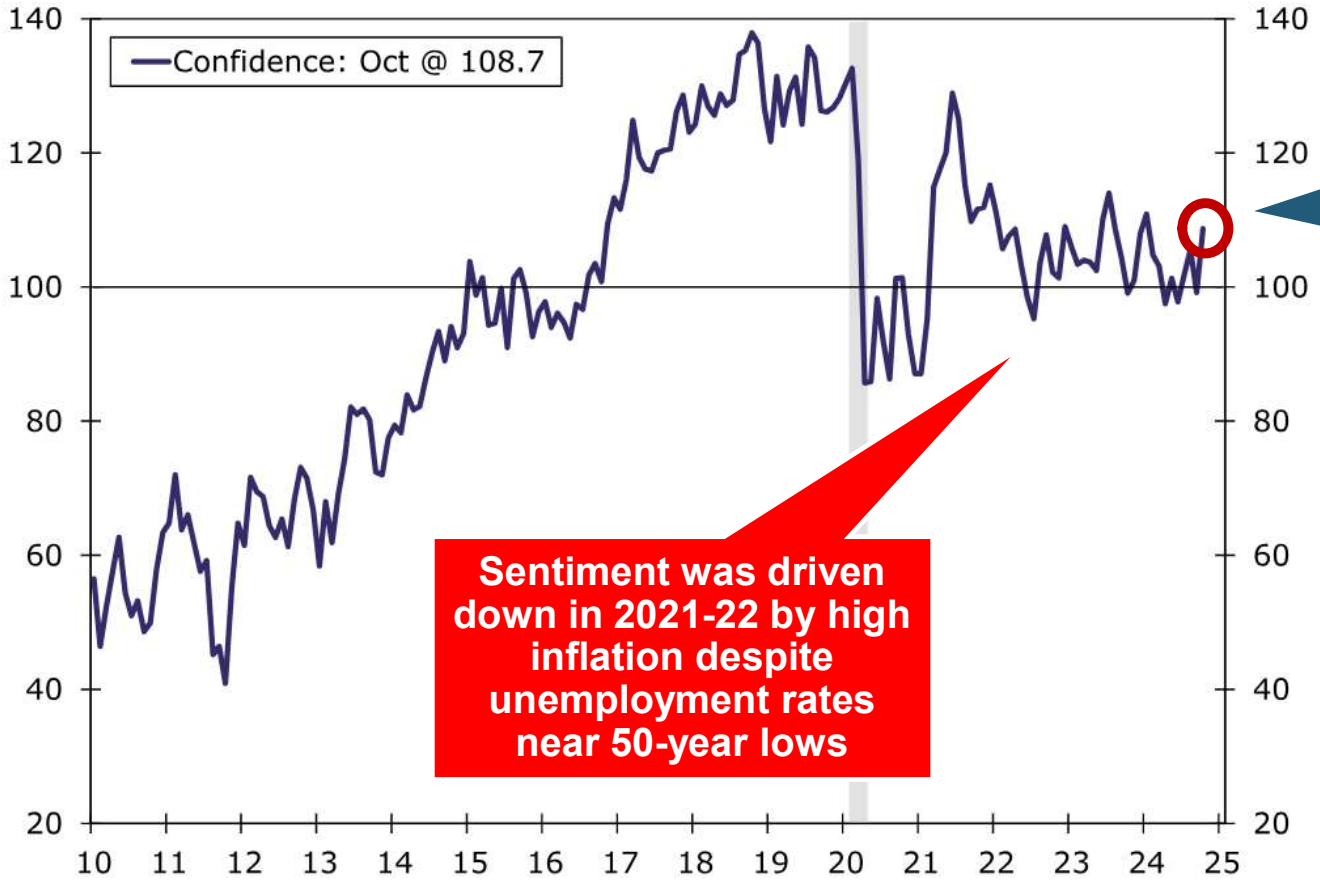
Soft Landing

Hard Landing

No Landing

Source: Public Mutual; Univ. of South Carolina, Risk and Uncertainty Management Center.

Consumer Confidence: Up Slightly Amid Lower Inflation, Steady Labor Markets

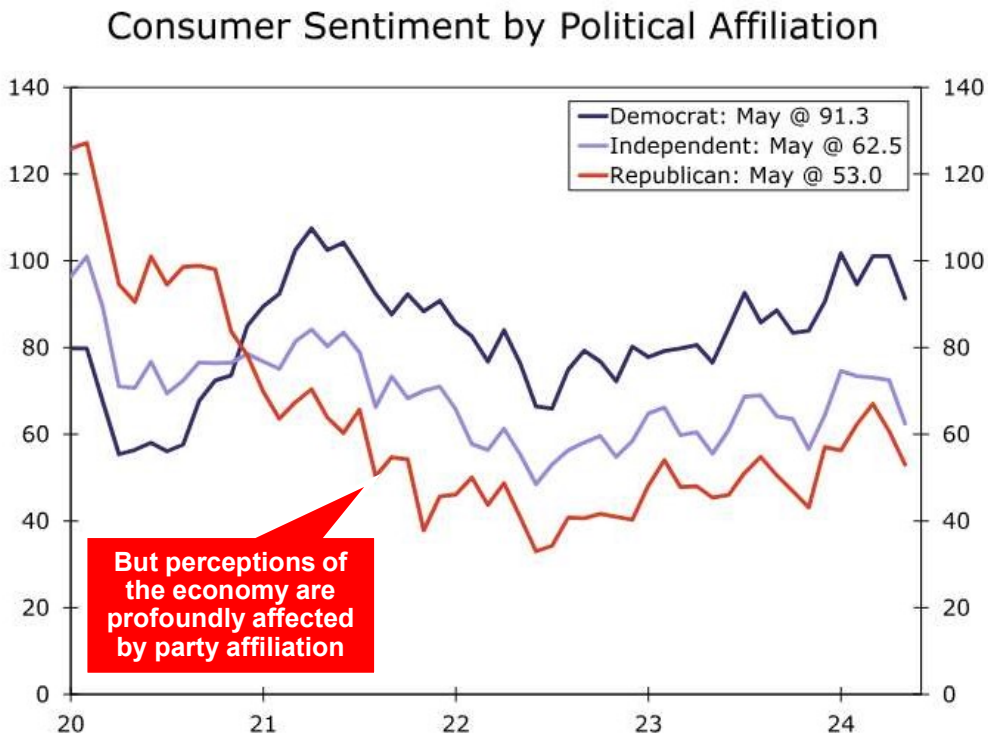


Sentiment was driven down in 2021-22 by high inflation despite unemployment rates near 50-year lows

Consumer optimism is improving and are generally optimistic about their current situation but pessimistic about the future

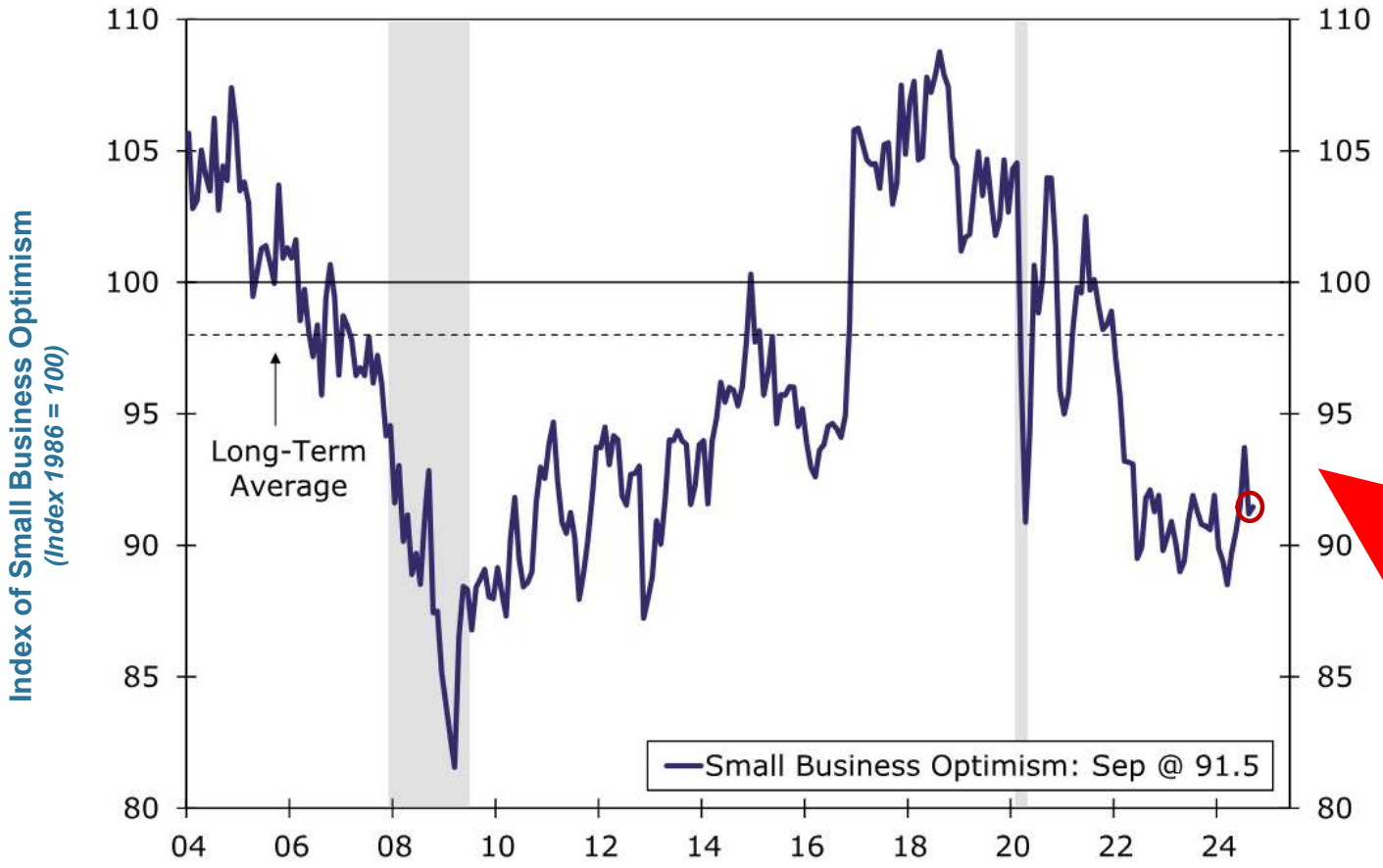
Source: The Conference Board and Wells Fargo Economics.

Consumer Confidence by Party of President and Political Affiliation



Source: The Conference Board (by President), Univ. of Michigan (by political affiliation) and Wells Fargo Economics (7/24).

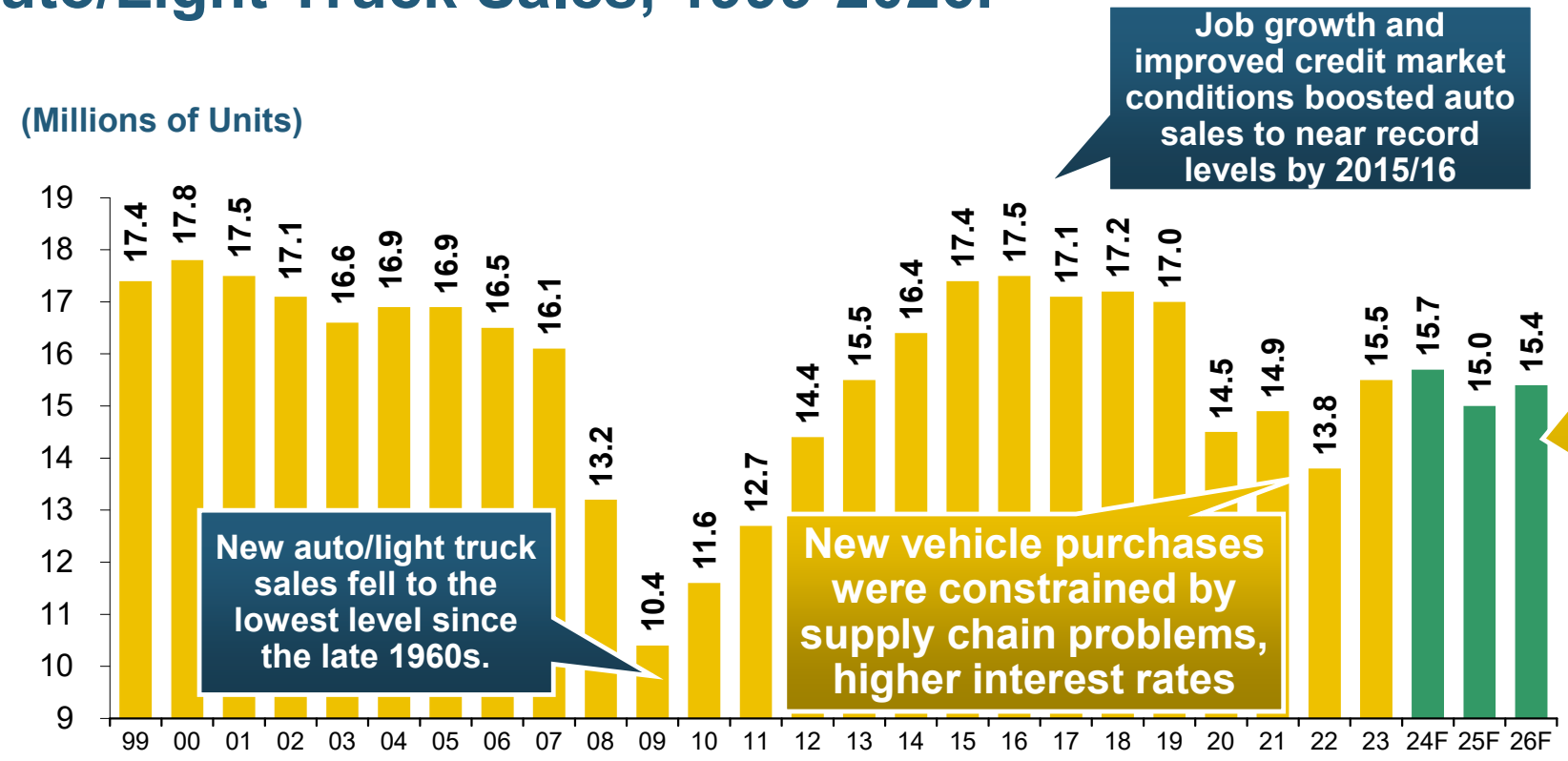
Small Business Sentiment: Optimism Remains Low



Small businesses today are nearly as pessimistic than they were during the depths of pandemic, despite relatively strong spending by consumers, easing labor market issues, lower inflation and receding odds of a recession. *Business owner concerns are focused public policy uncertainty, worries over sales momentum, challenging earnings environment*

Source: NFIB and Wells Fargo Economics.

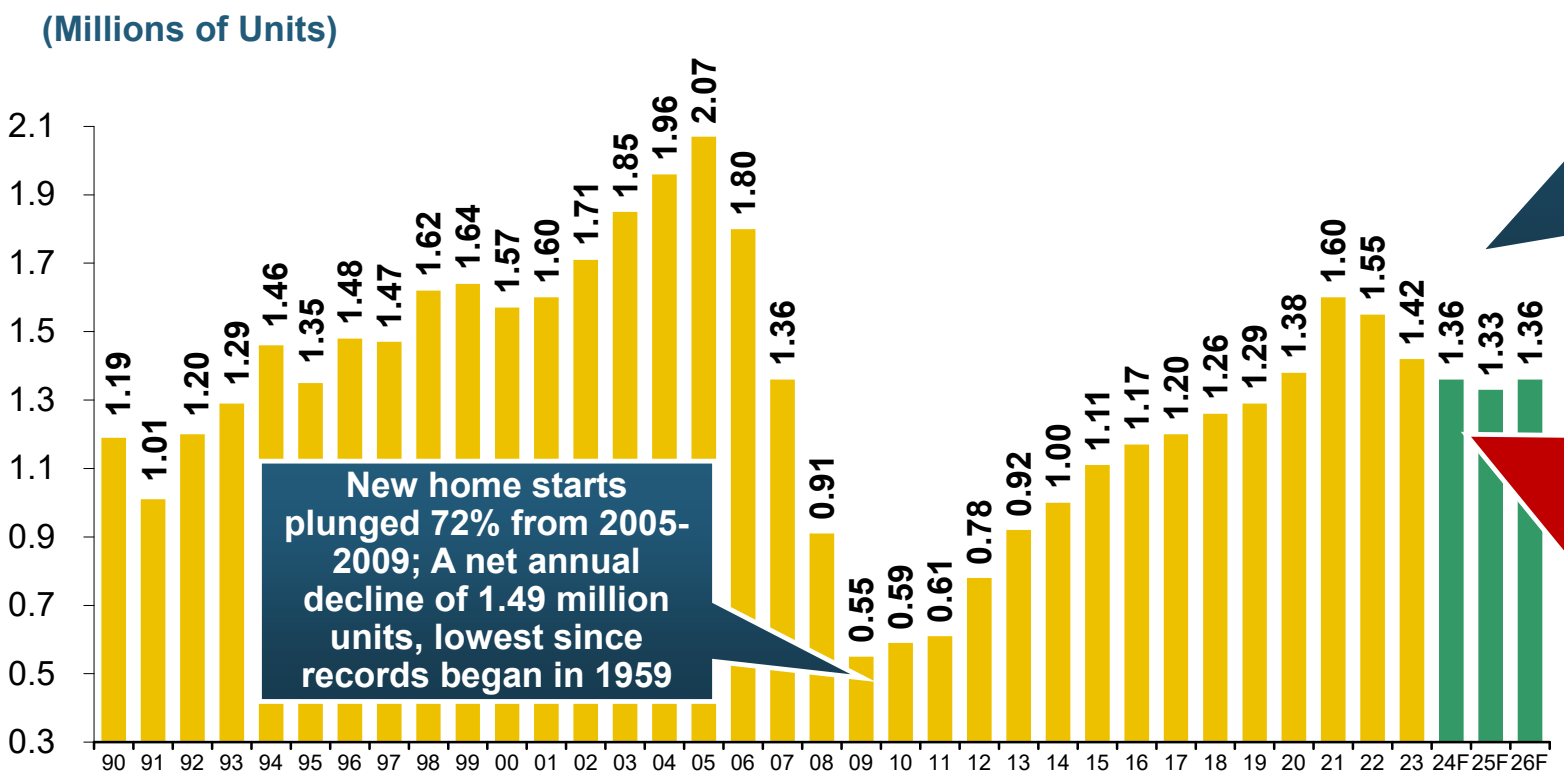
Auto/Light Truck Sales, 1999-2026F



Yearly car/light truck sales remain below pre-COVID levels. Auto manufacturer supply chain issues are largely resolved but vehicle financing costs remain stubbornly elevated, resulting in flat-to-down sales in 2025-26

Source: U.S. Department of Commerce; Wells Fargo Securities (11/24 for 2023F-26F); 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

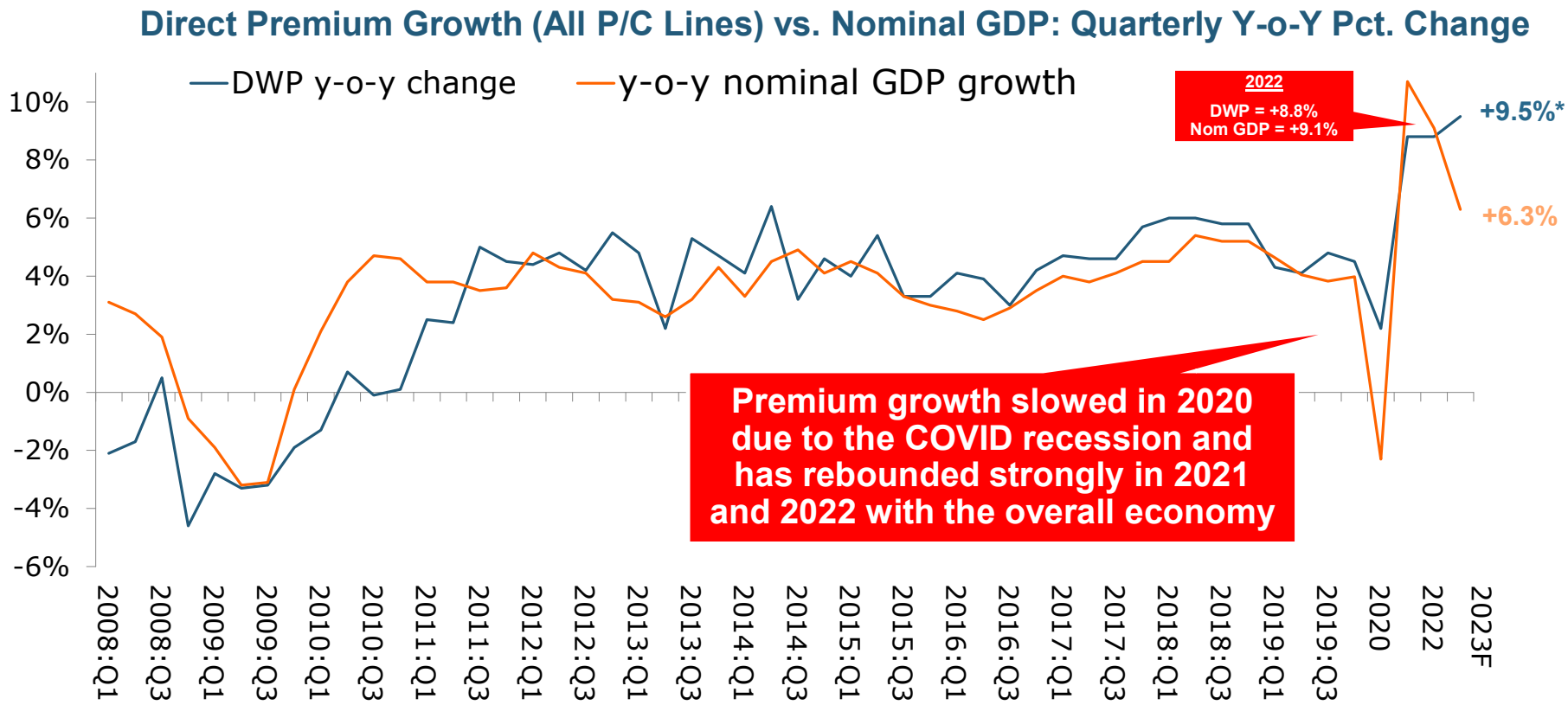
High prices, rising mortgage rates, tempered new home construction activity through 2024, though low inventory of existing homes is propping up demand. Mortgage rates are now expected to fall only marginally, tempering housing starts in 2025 and 2026

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 (11/24 for 2024F-26F); Univ. of South Carolina, Center for Risk and Uncertainty Management..

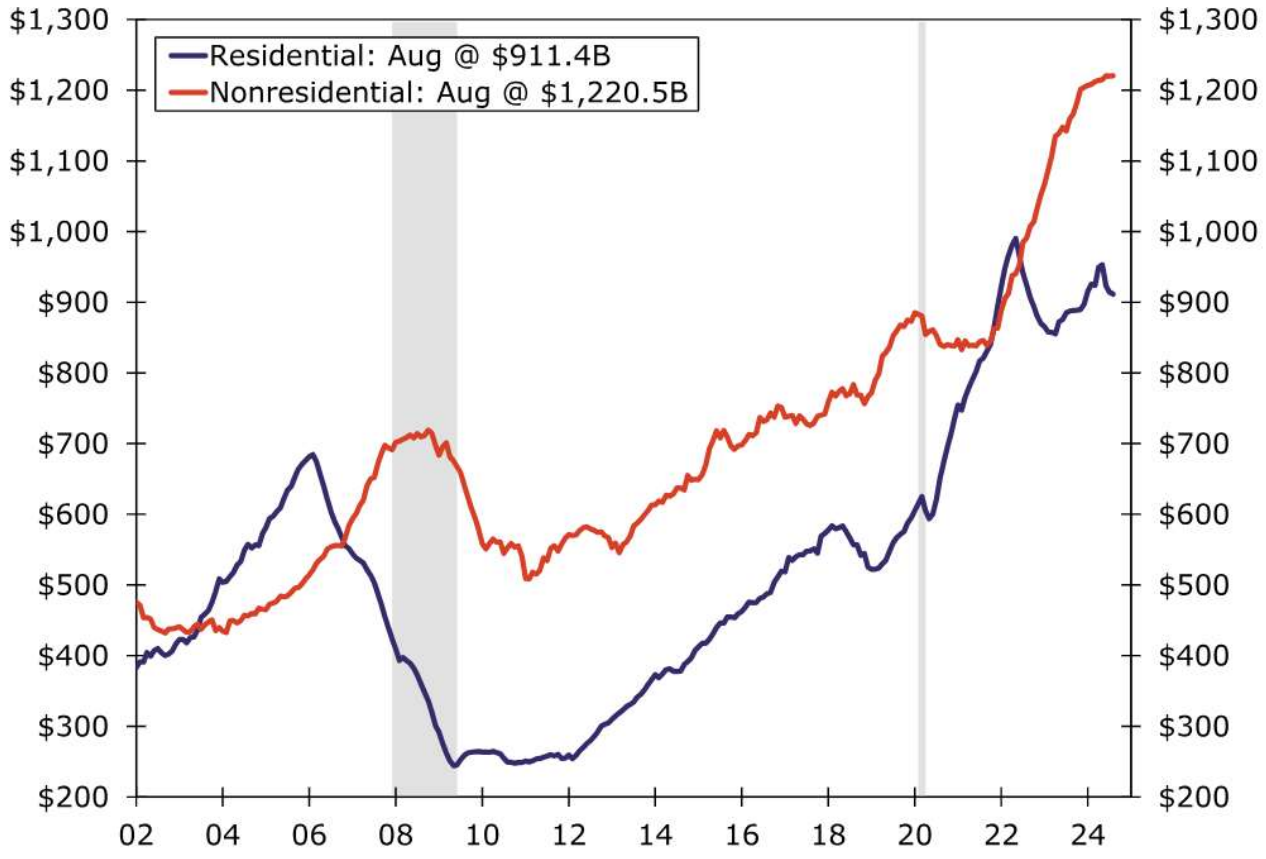
The Economy Drives P/C Insurance Industry Premiums: 2006:Q1–2023F*



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.

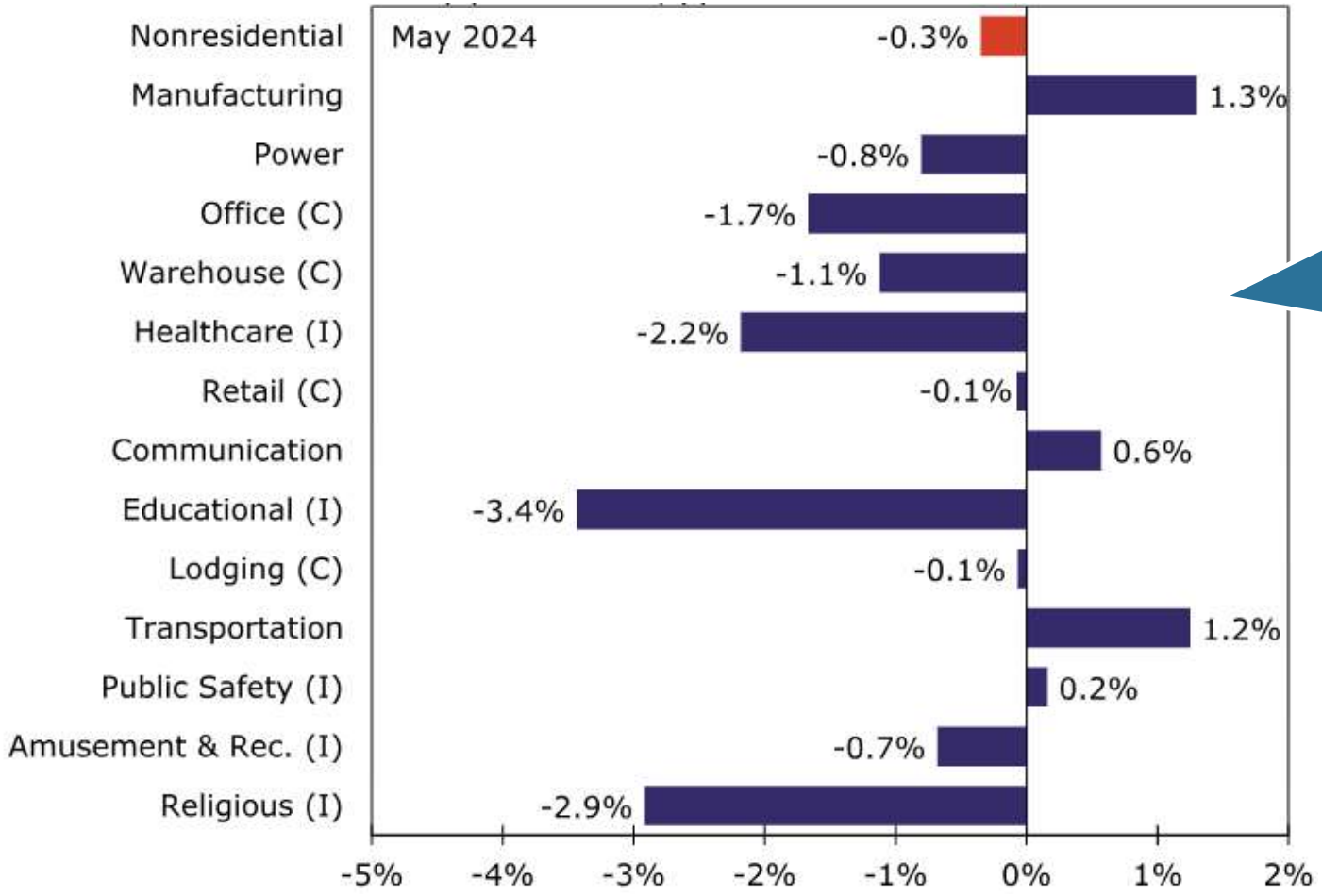
Residential & Nonresidential Construction: Higher Interest Rates Led to a Slowdown, but Rate Cuts Will Help



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.

Private Nonresidential Construction Put-in-Place



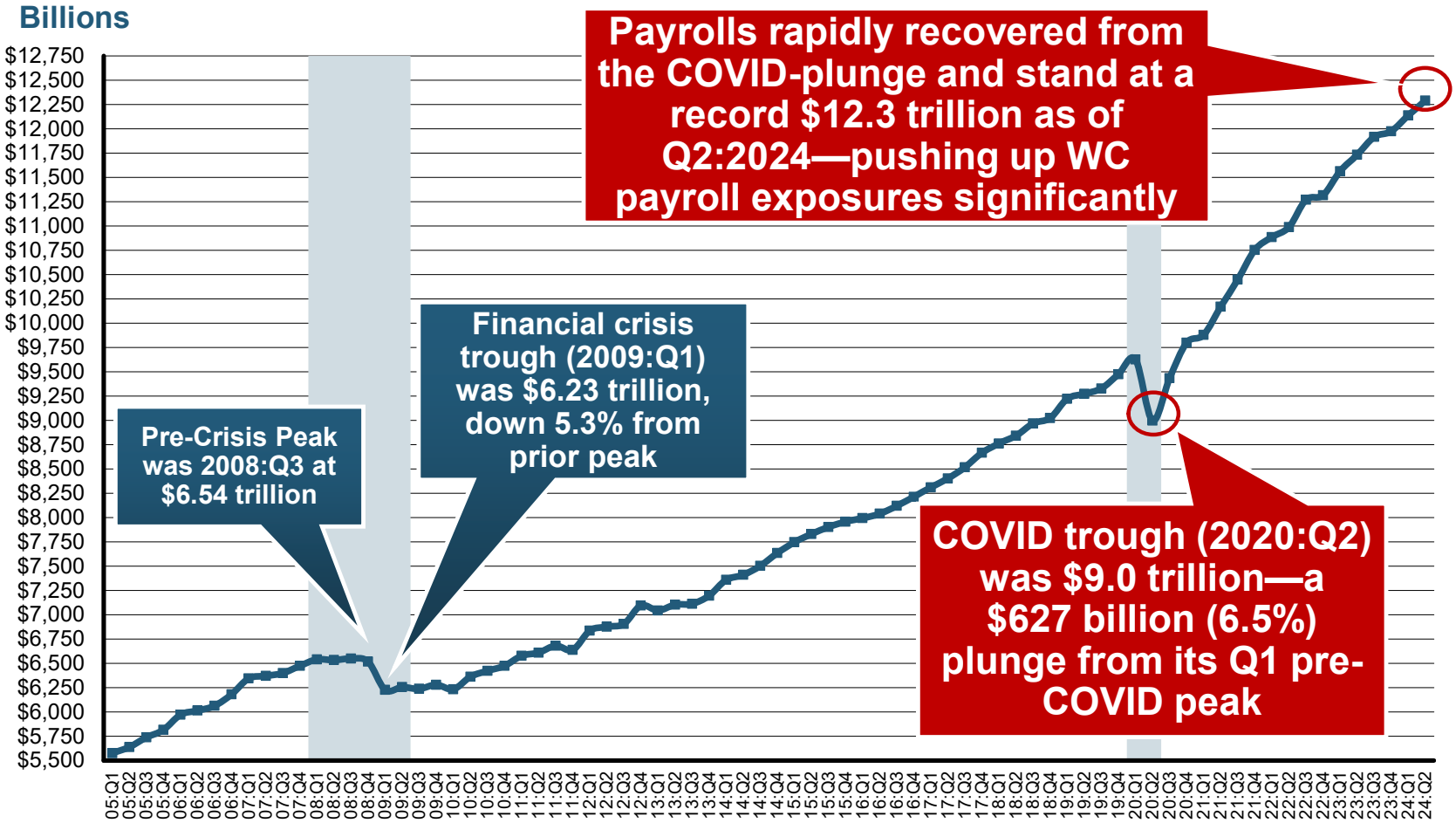
Nonresidential construction activity is down across the board, with the notable exception of Manufacturing and certain categories of infrastructure

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

Annual Change in Average Hourly Wage, 2007– 2024:H1

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

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



Growth rates

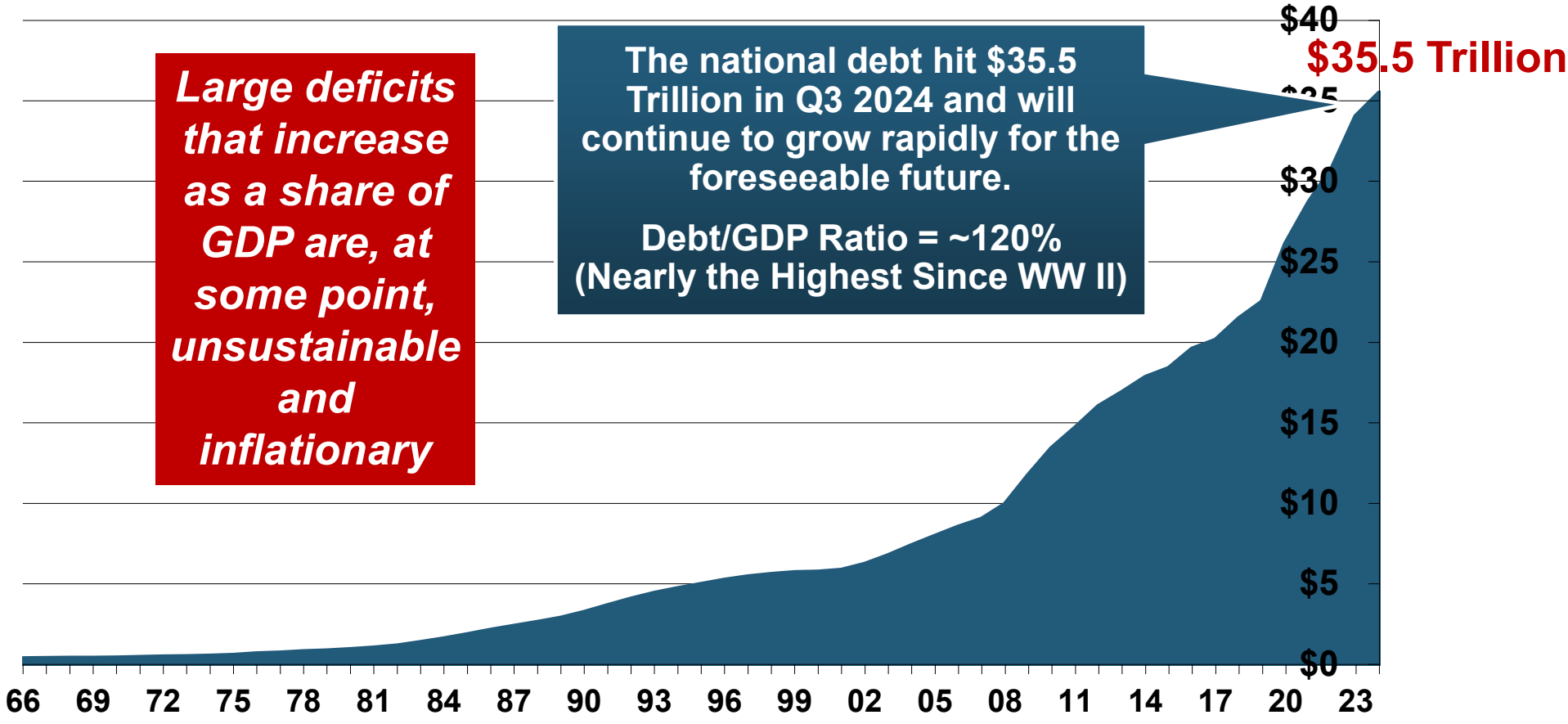
2024:Q2: 4.7%
2023: 6.1%
2022: 7.8%
2021: 9.0%
2020: 1.5%
2019: 4.8%
2018: 4.6%
2017: 4.5%
2016: 3.4%
2015: 3.2%
2014: 4.9%
2013: 5.2%
2012: 2.3%
2011: 3.9%
2010: 5.5%

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).

53

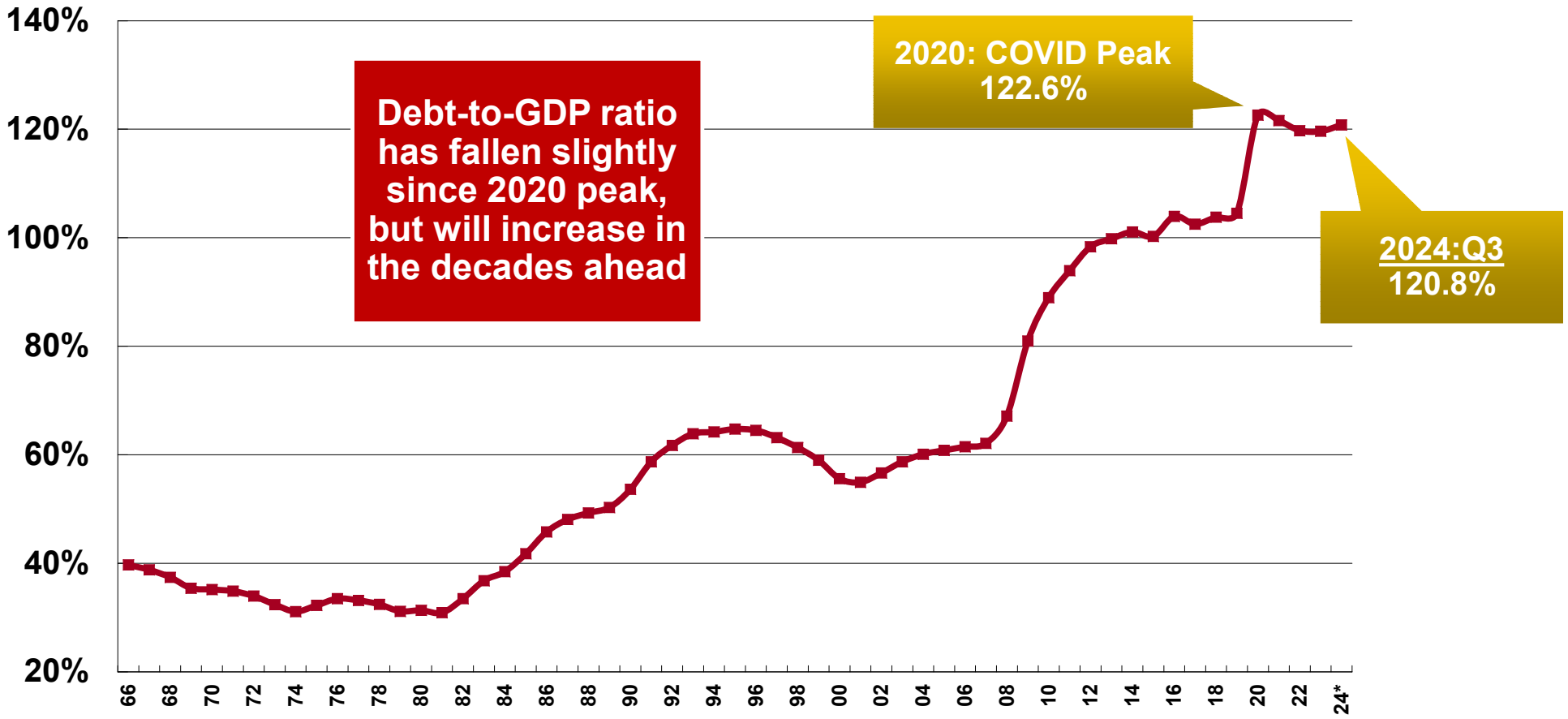
U.S. National Debt, 1966 – 2024:Q3

($ Trillions)



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

Total Public Debt as a Percent of GDP: 1966 – 2024:Q3



Source: Office of Management and Budget via St. Louis Fed: https://fred.stlouisfed.org/series/GFDEGDQ188S#. Univ. of South Carolina Center for Risk and Uncertainty Management Center.

Fiscal Policy Will Have a Major Impact on Inflation, Unemployment, Interest Rates and Economic Growth

Fiscal Cost of President Trump's Campaign Plans

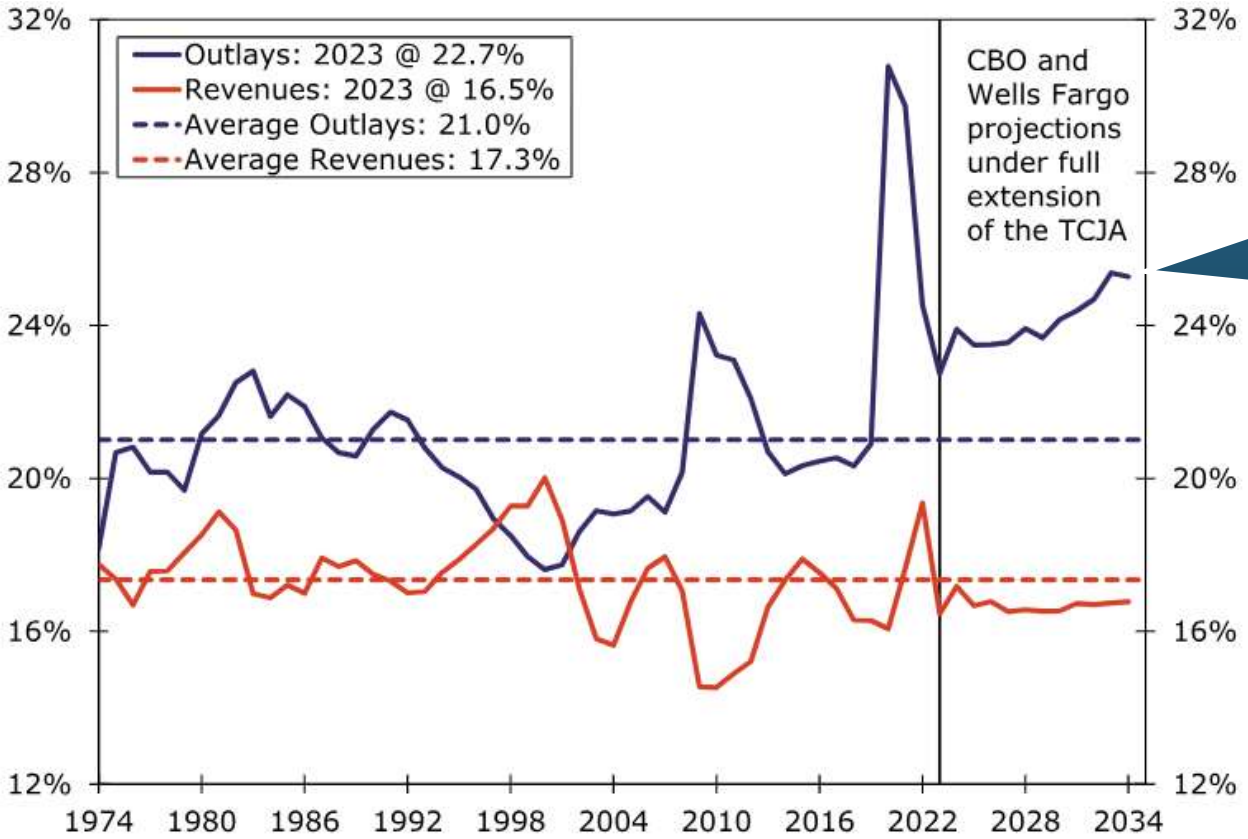
Estimated Impact on Deficit, Billions, 2026–2035 (Costs/Savings)

Policy Proposal	Low	Central	High
Extend and modify the Tax Cuts & Jobs Act (TCJA)	-$4,600	-$5,350	-$5,950
Exempt overtime income from taxes	-$500	-$2,000	-$3,000
End taxation of Social Security benefits	-$1,200	-$1,300	-$1,450
Exempt tip income from taxes	-$100	-$300	-$550
Lower the corporate tax rate to 15% for domestic manufacturers	-$150	-$200	-$600
Enact or expand other individual and small business tax breaks	-$150	-$200	-$350
Strengthen and modernize the military	-$100	-$400	-$2,450
Secure the border and deport unauthorized immigrants	$0	-$350	-$1,000
Enact housing reforms, including credits for first-time homebuyers	-$100	-$150	-$350
Boost support for health care, long-term care and caregiving	-$50	-$150	-$300
Subtotal, tax cuts and spending increases	***-$6,950***	***-$10,400***	***-$16,000***
Establish a universal baseline tariff and additional tariffs	+$4,300	+$2,700	+$2,000
Reverse current energy/environment policies and expand production	+$750	+$700	+$550
Reduce waste, fraud and abuse	+$250	+$100	$0
End the department of education and support school choice	+$200	+$200	$0
Subtotal, revenue increases and spending reductions	***+$5,500***	***+$3,700***	***+$2,550***
Net interest	***-$200***	***-$1,050***	***-$2,100***
Total, net deficit impact	**-$1,650**	**-$7,750**	**-$15,550**

Note: Figures rounded to the nearest $50 billion.
Source: Committee for a Responsible Budget and Wells Fargo Economics (as of 11/21/24).

Large-scale deficit spending is expected to create inflationary pressures that will have broad impacts on the economy. Inflation will be a major issue for insurers to consider—both from deficit spending and higher tariffs

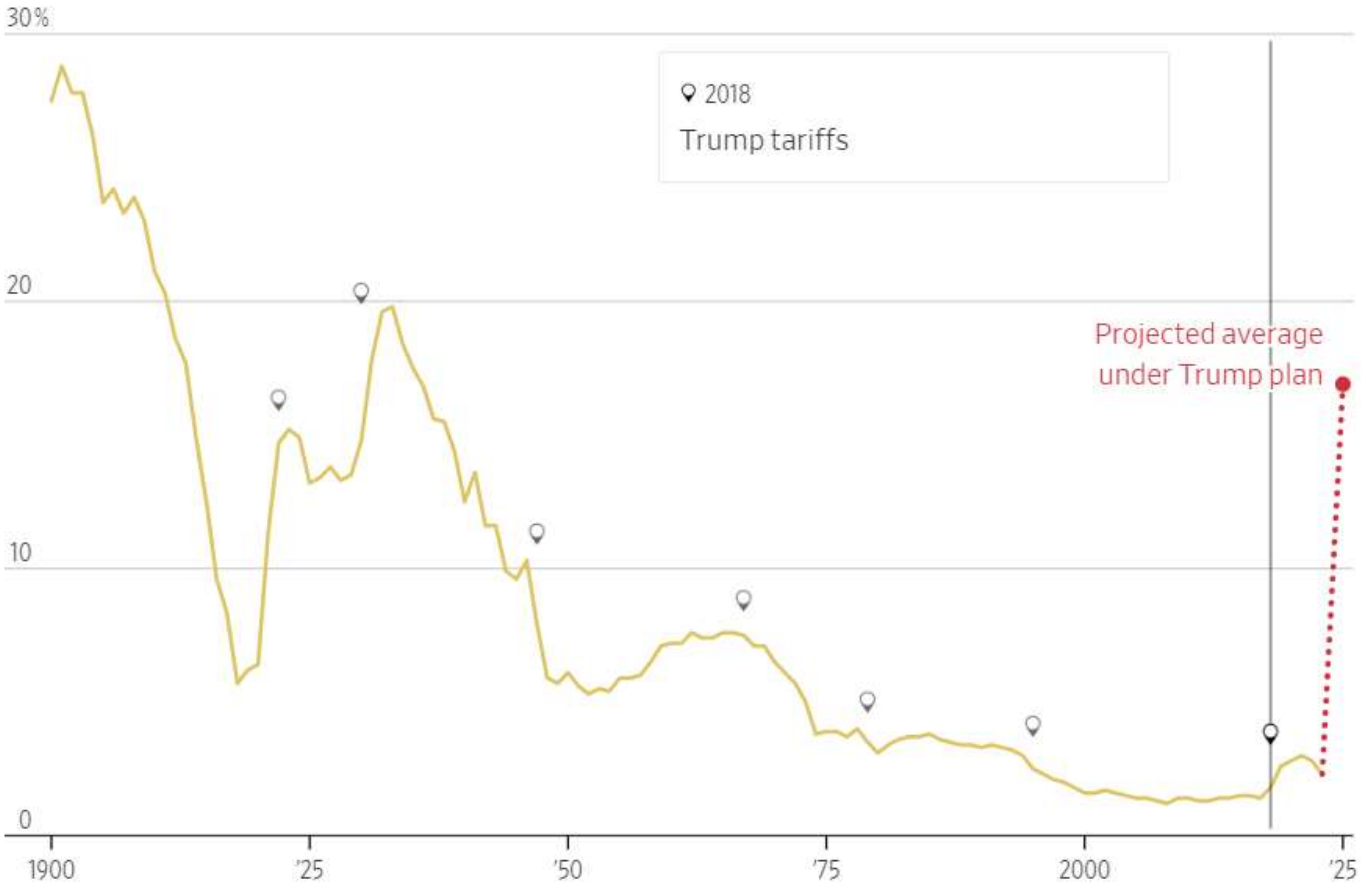
Federal Spending as a Share of GDP Is Expected to Greatly Exceed Revenues Over the Next Decade



Federal outlays as a share of GDP are expected to increase from 22.7% in 2023 to ~25% over the next decade, far above the average over the past half century, while revenues as a share of GDP remain flat—and below historical averages

Source: Congressional Budget Office and Wells Fargo Economics (as of 11/6/24).

Average Weighted Tariffs on US Imports, 1900 – 2025*



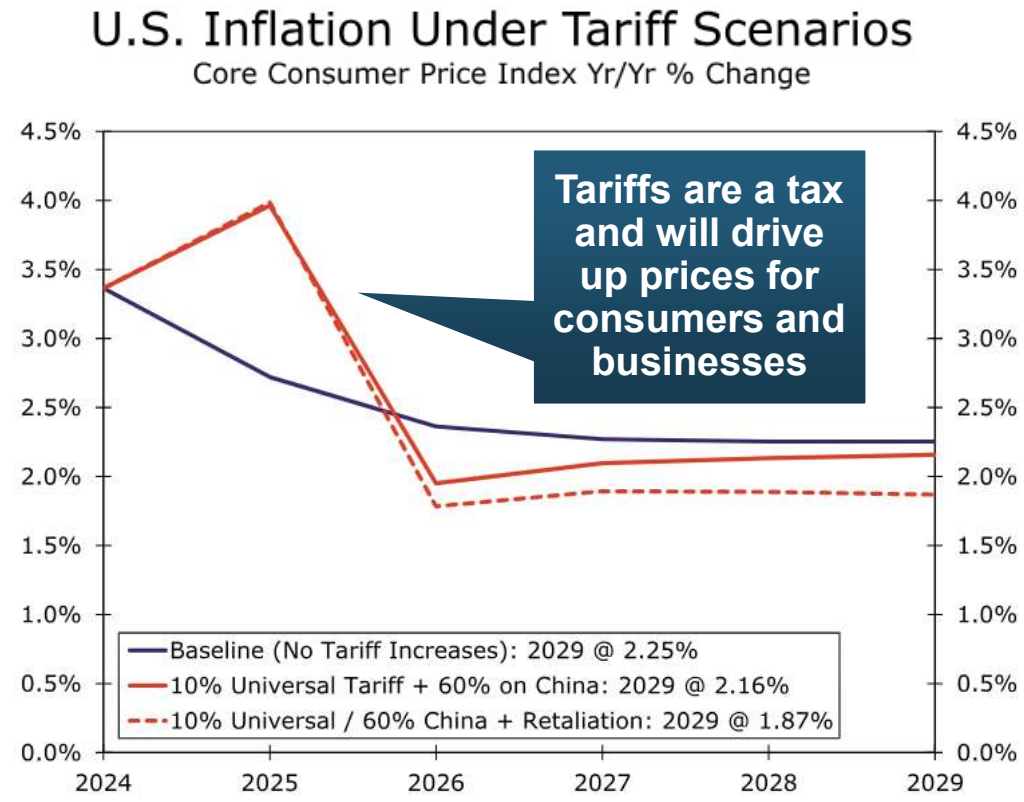
Proposed tariffs are projected to reduce trade between the US and its major trading partners by 1% to 4%, depending on the degree of retaliation

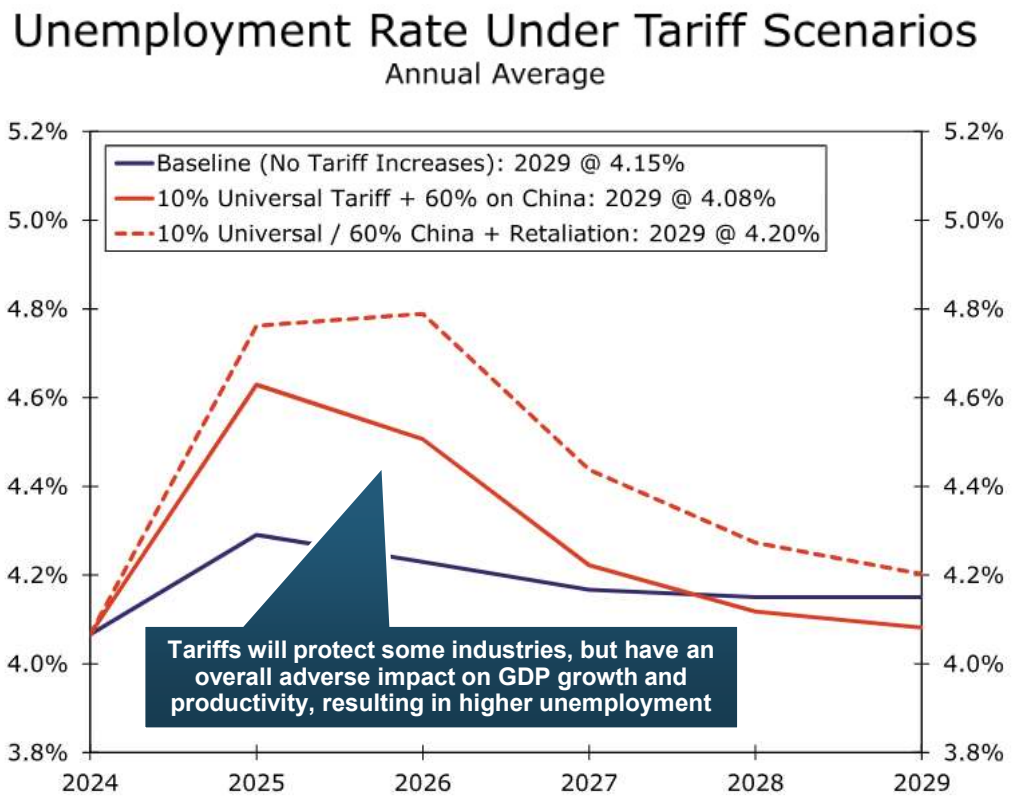
Proposed tariffs would push the average tariff rate to their highest levels since the 1930s

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

*Estimate based on projected Trump tariffs (as proposed as of Oct. 15, 2024).
Source: Evercore ISI as published in the *Wall Street Journal*, Oct. 16, 2024; Available at: https://www.wsj.com/economy/trade/donald-trump-election-trade-tariffs.

Tariffs: Spending as a Share of GDP Is Expected to Greatly Exceed Revenues Over the Next Decade

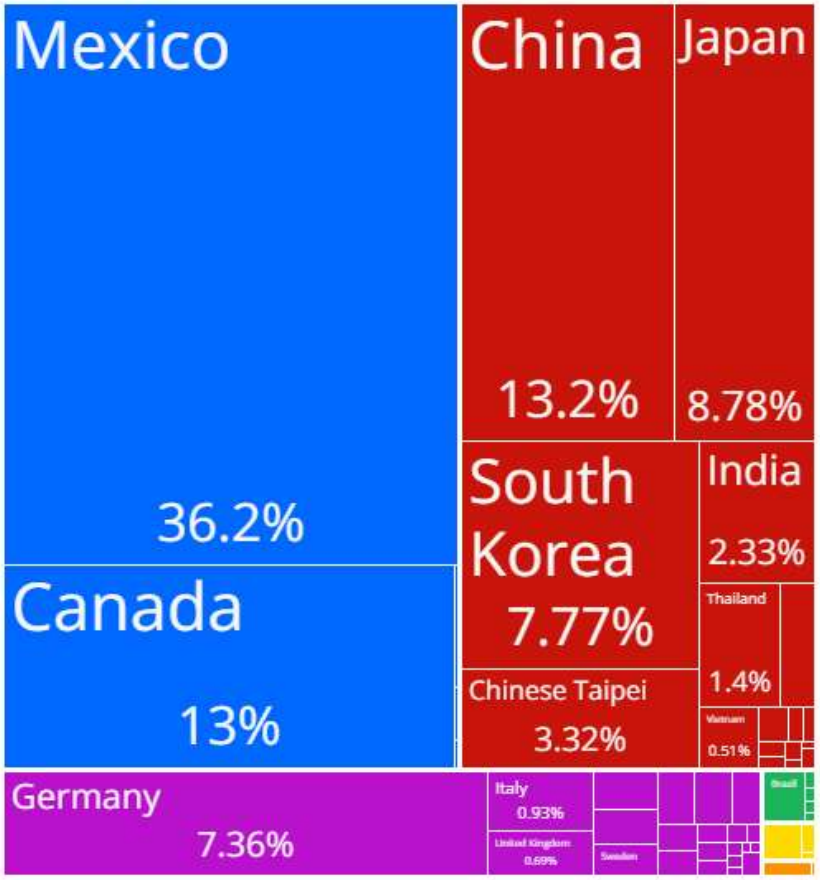




Source: Oxford Economics and Wells Fargo Economics (as of 11/6/24).

US Imports of Auto Parts, by Source Country, 2022

Total = $88 Billion



36.2% of auto part imports into the US in 2022 were from Mexico. China and Canada are a distant second and third. All are vulnerable to potential sharp price increases due to threatened tariffs ranging from 20% to 60%.

Imported auto parts account for a large share of those used in repairs paid for by insurers (esp. aftermarket parts). Tariffs will likely drive up personal and commercial auto claim severities.

Source: Observatory of Economic Complexity (OEC) available at: https://oec.world/en/profile/bilateral-product/motor-vehicles-parts-and-accessories-8701-to-8705/reporter/usa.

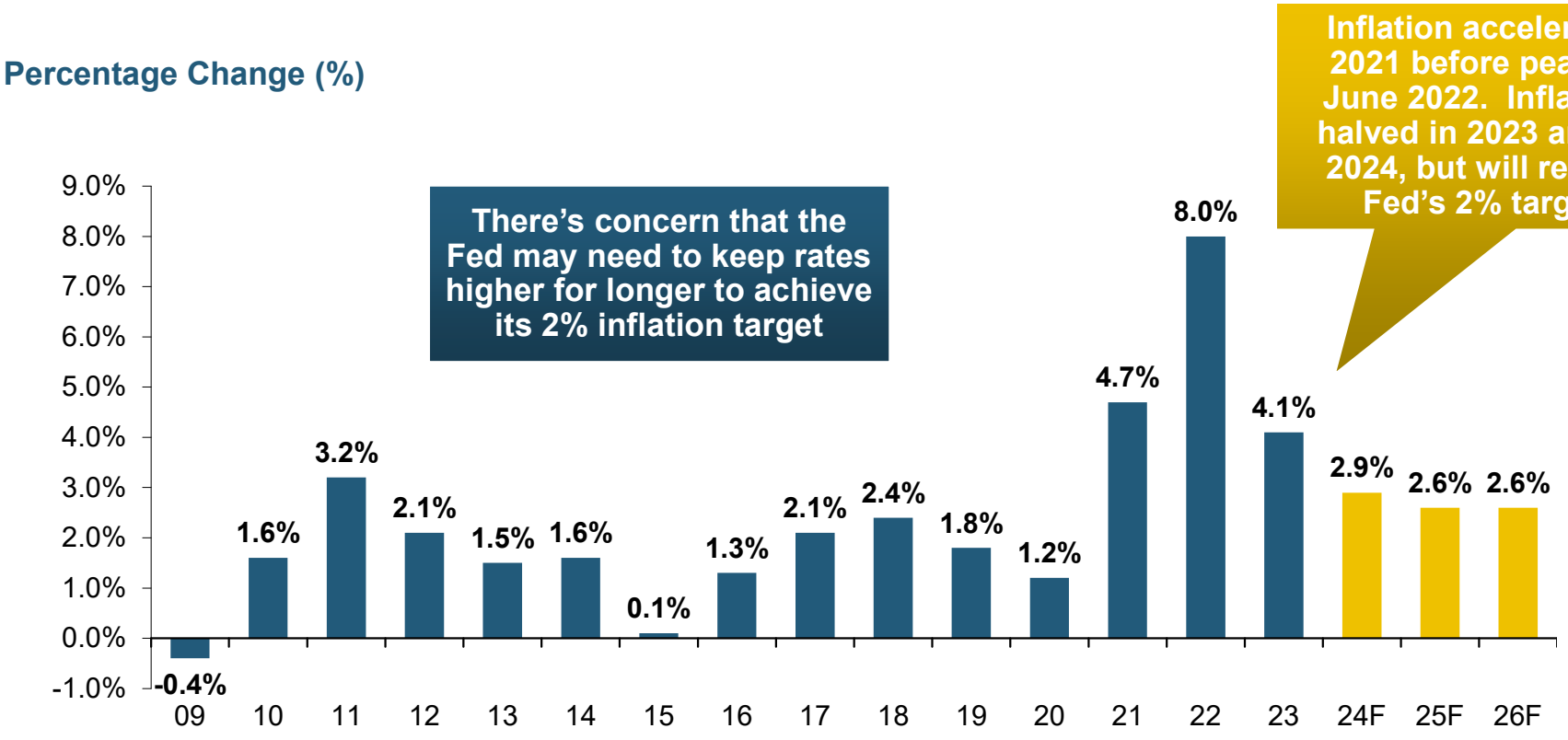
The Inflation Threat

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*



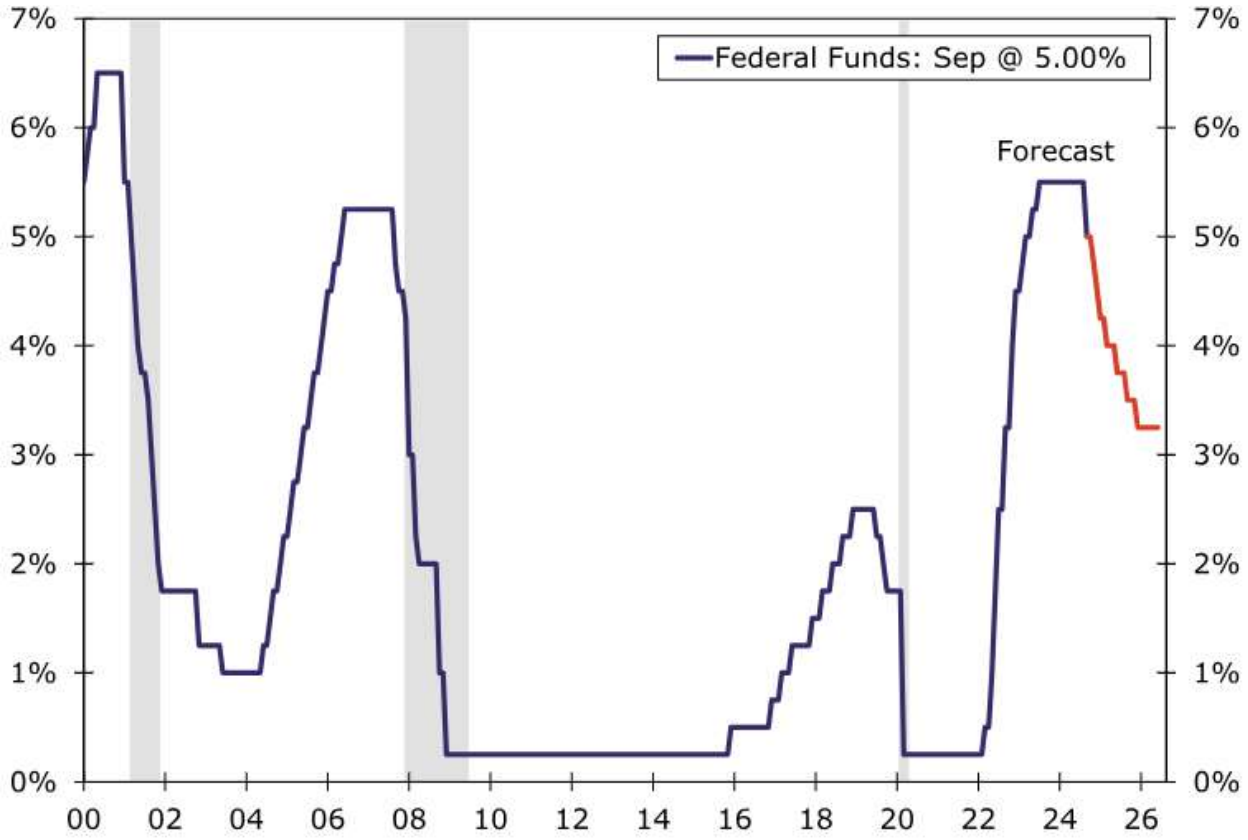
Insurer Concerns About Inflation

- 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 (11/24); 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

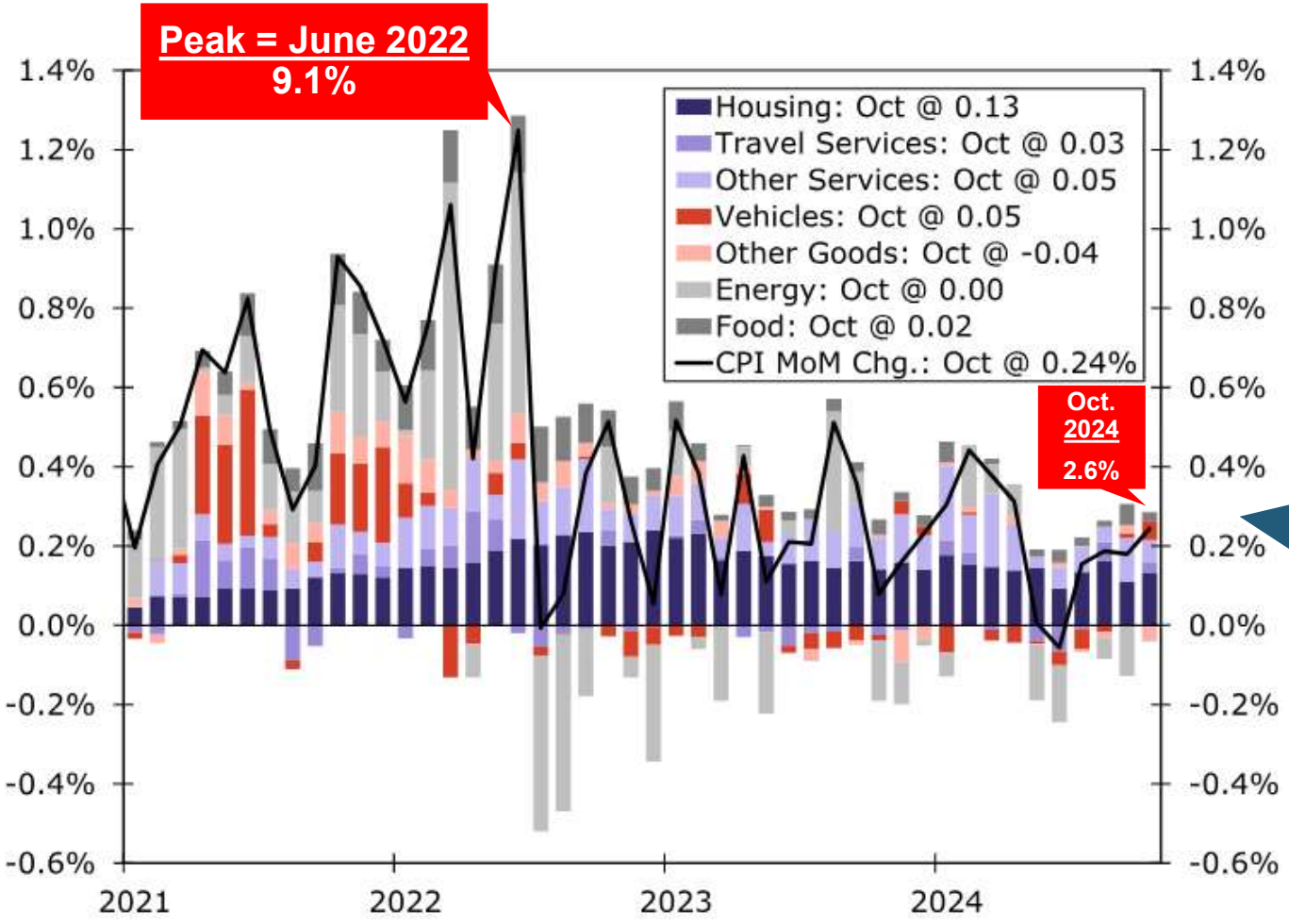
Dec. 2024: 25bps

2025: 100bps

The Fed's 50bps in Sept. and 25bps in Nov. rate cuts represent 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 10/24.

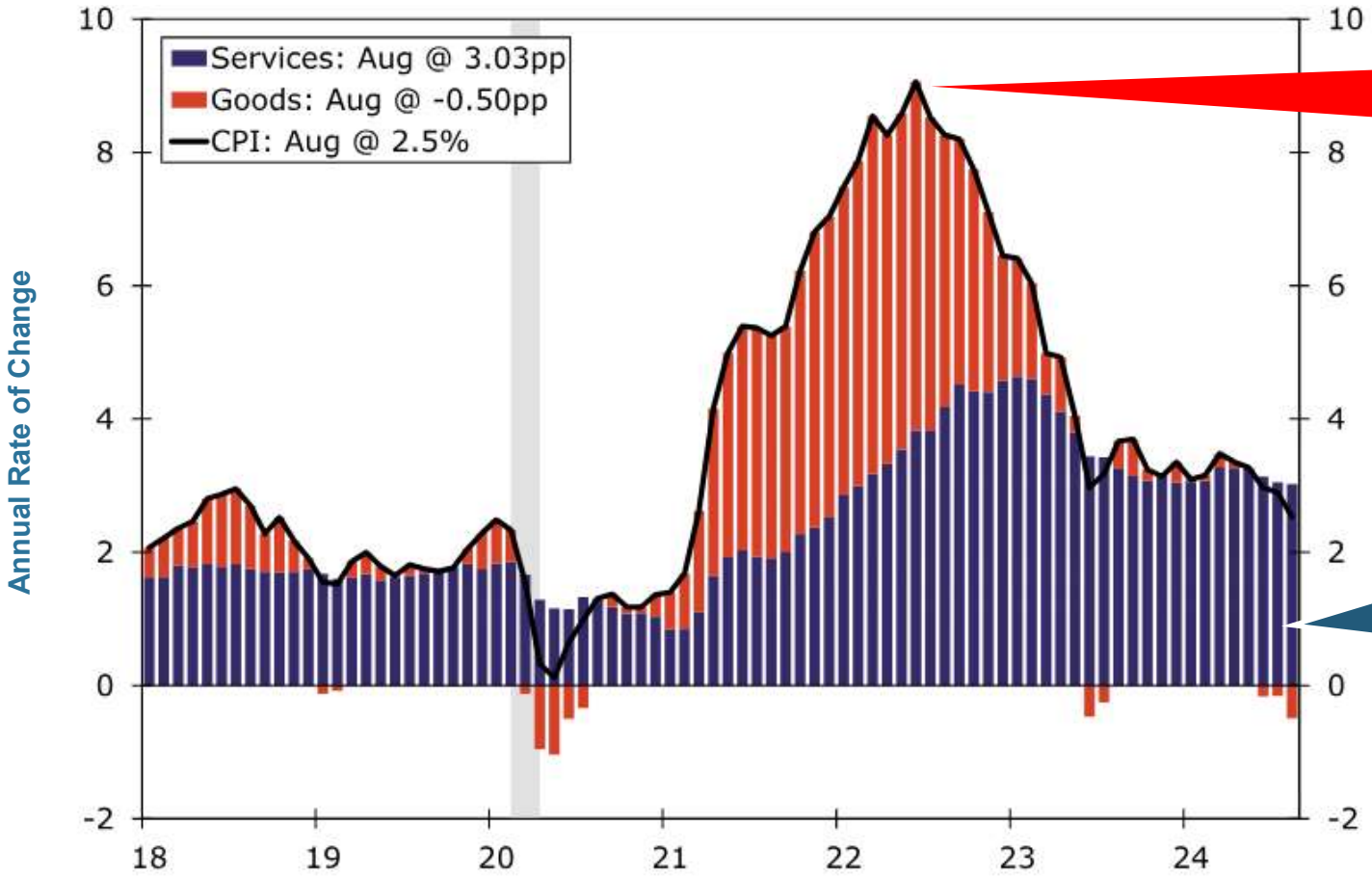
Contribution to CPI by Category: Jan. 2021 – Oct. 2024



Prices were up 2.6% in Oct. 2024 vs. a year ago—well below the June 2022 peak of 9.1%. Increases in Shelter (Housing), Vehicles and Other Services (which includes auto insurance) are the most significant obstacles to bringing inflation down to the Fed's 2% goal

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

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

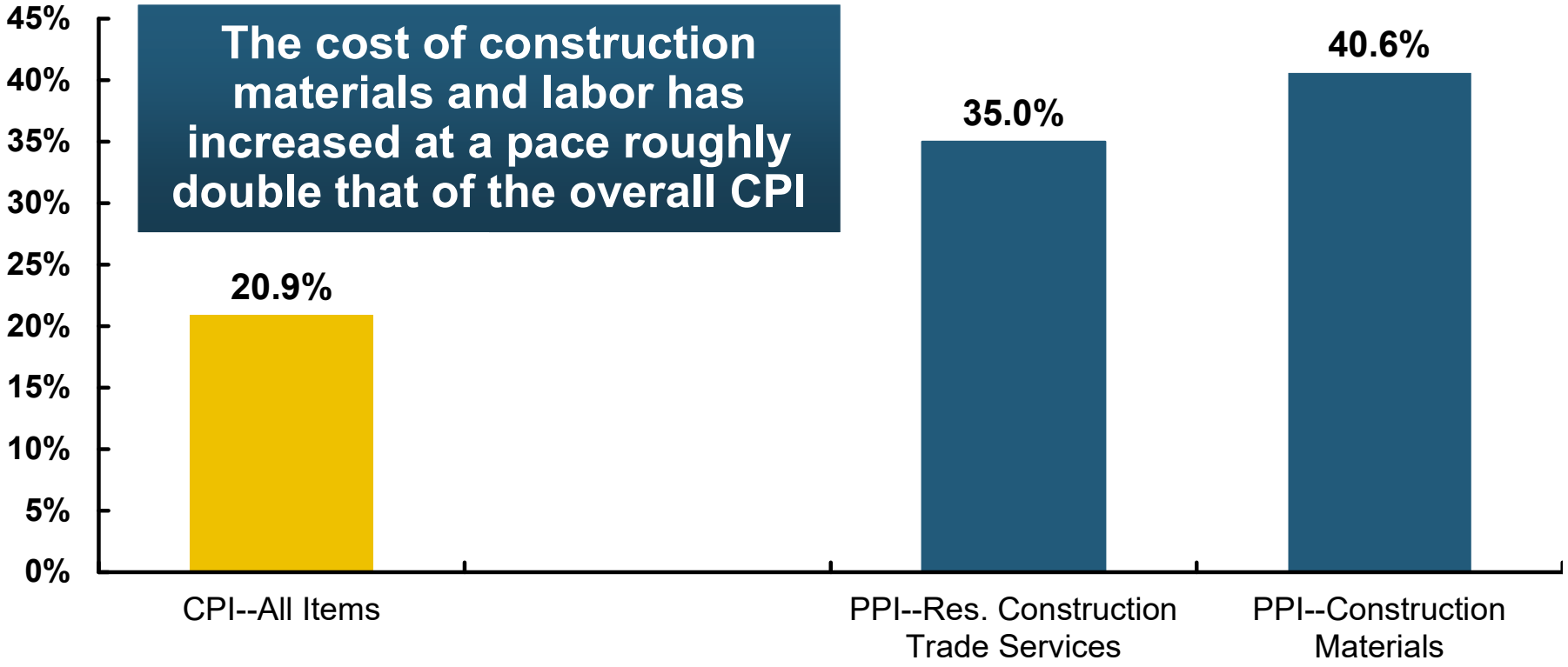


Inflation peaked at 9.1% in June 2022, driven by inflation in both goods and services

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

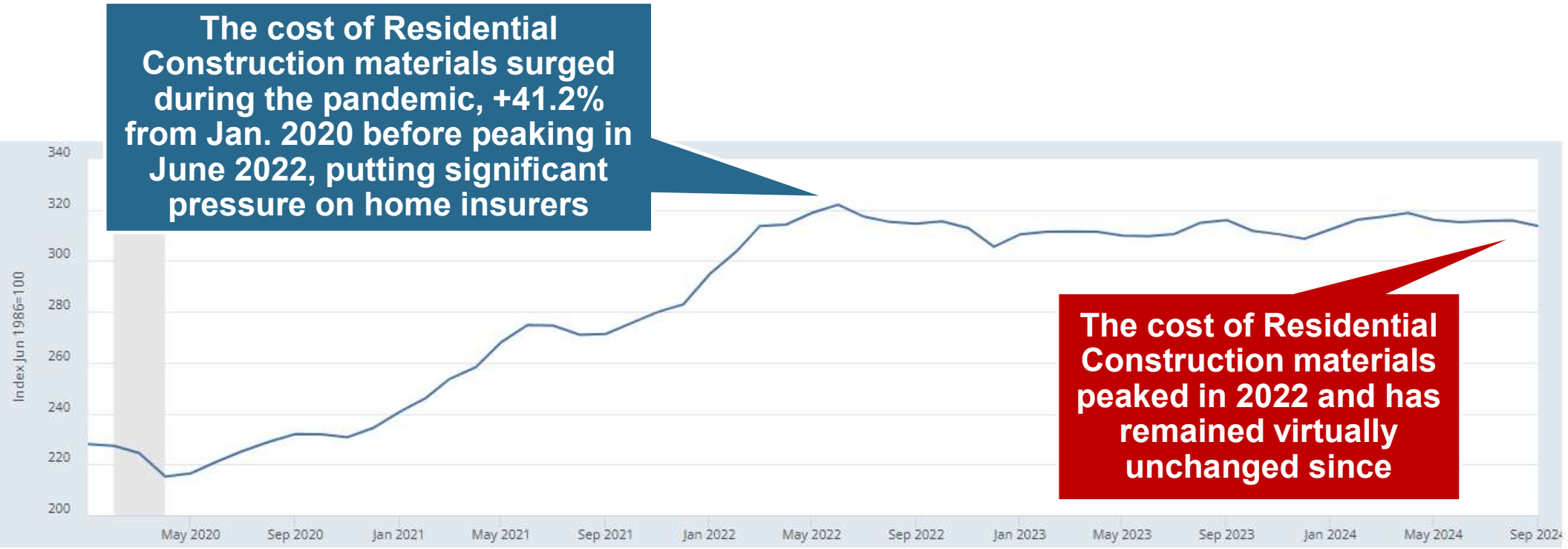
Source: U.S. Department of Commerce and Wells Fargo Economics.

Cost Indicators for Homeowners, Price Index Changes, Jan. 2020 – June 2024



Source: U.S. Bureau of Labor Statistics.

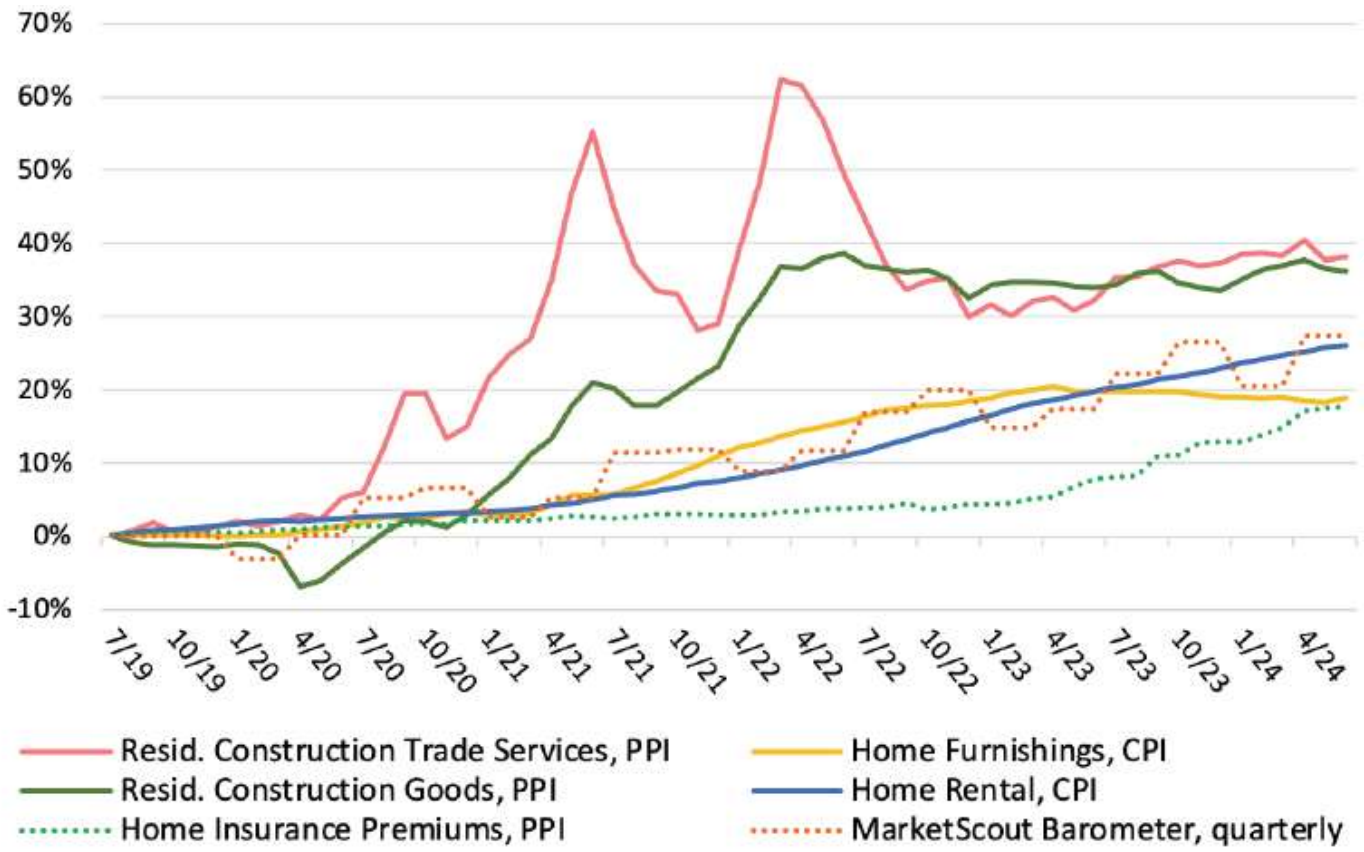
PPI: Net Inputs to Residential Construction, Goods, Jan. 2019 – Sept. 2024



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.

Cost Indicators: Homeowners Insurance

Cumulative Percent Change Over 5 Years



Home insurance premium growth has materially lagged behind inputs to the cost of home insurance

5-Year Change

PPI, Trade Services: +40.7%

PPI, Goods: 37.3%

CPI: +22.6

Home Rental: +28.7%

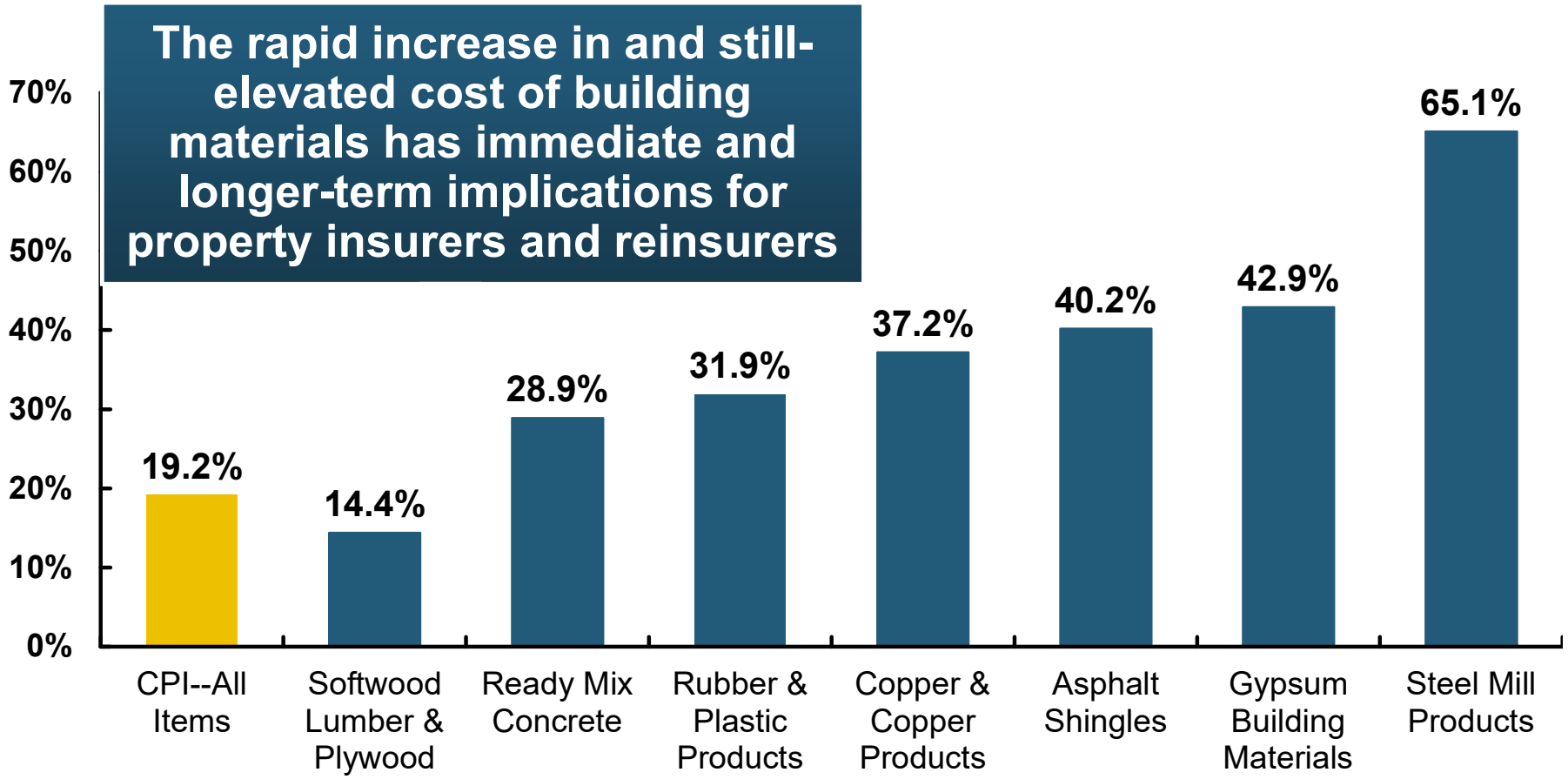
Home Furnishings: +20.5%

Home Ins. Premiums:

+17.7% (PPI) – 27.3% (MarketScout)

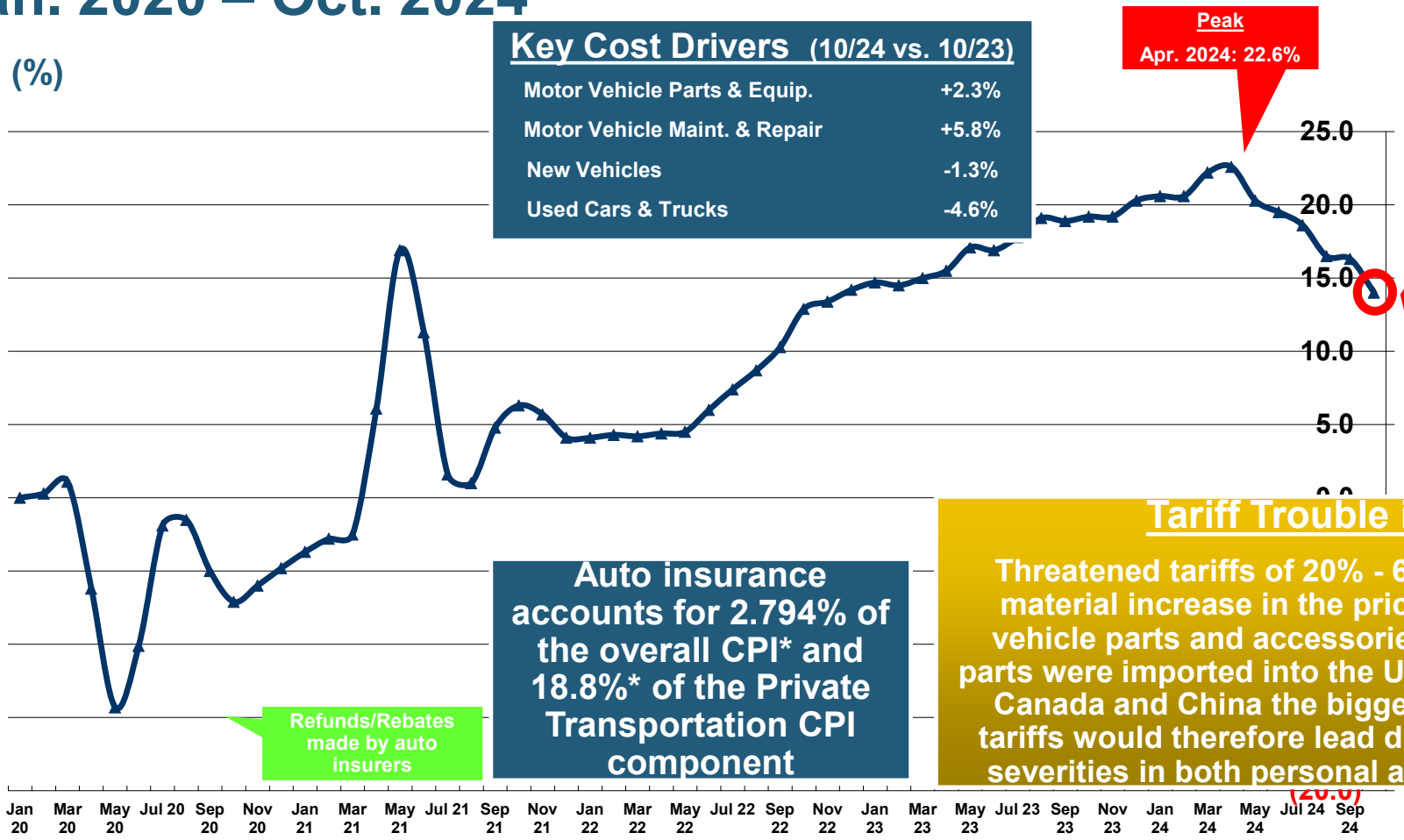
Sources: APCIA from Bureau of Labor Statistics. Monthly data through Oct. 2, 2024; Risk and Uncertainty Management Center, University of South Carolina.

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



Source: U.S. Bureau of Labor Statistics.

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



- The auto insurance component of the Consumer Price Index in September was up 14.0%
- While still high, the increase is the smallest since December 2022 and well below the 22.6% peak in April 2024
- The October 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

Tariff Trouble in 2025?

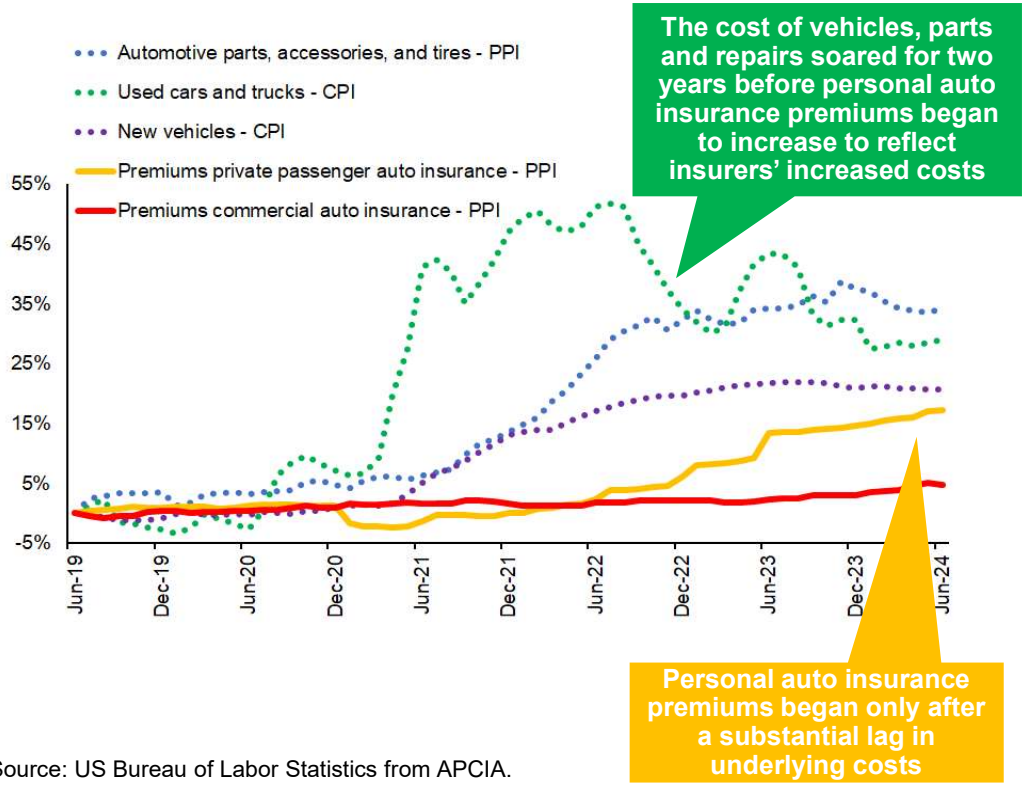
Threatened tariffs of 20% - 60% would result in a material increase in the price of imported motor vehicle parts and accessories ($88 billion in auto parts were imported into the US in 2022--with Mexico, Canada and China the biggest suppliers). Higher tariffs would therefore lead directly to higher claim severities in both personal and commercial auto.

*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.

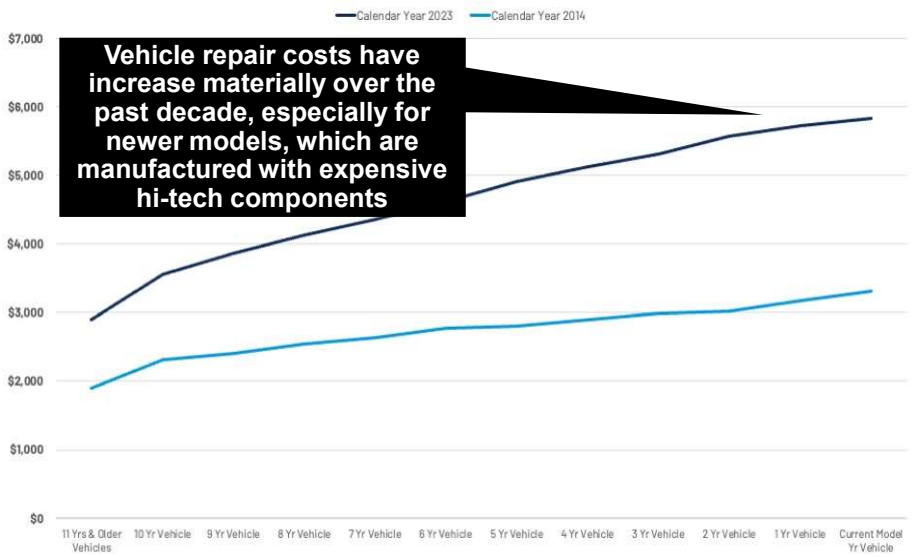
The Cost of New/Used Vehicles and Repairs Is Up Sharply

Cumulative Price Changes – Auto



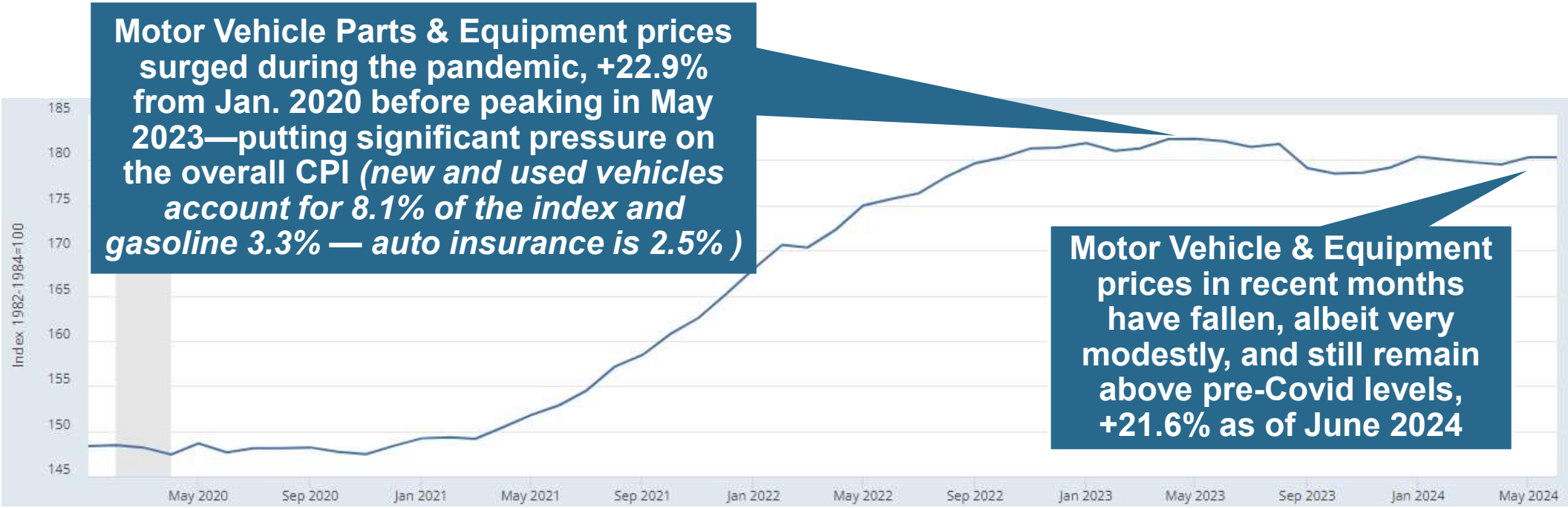
Source: US Bureau of Labor Statistics from APCIA.

Avg. Cost of Repair by Vehicle Age, 2023 vs. 2014



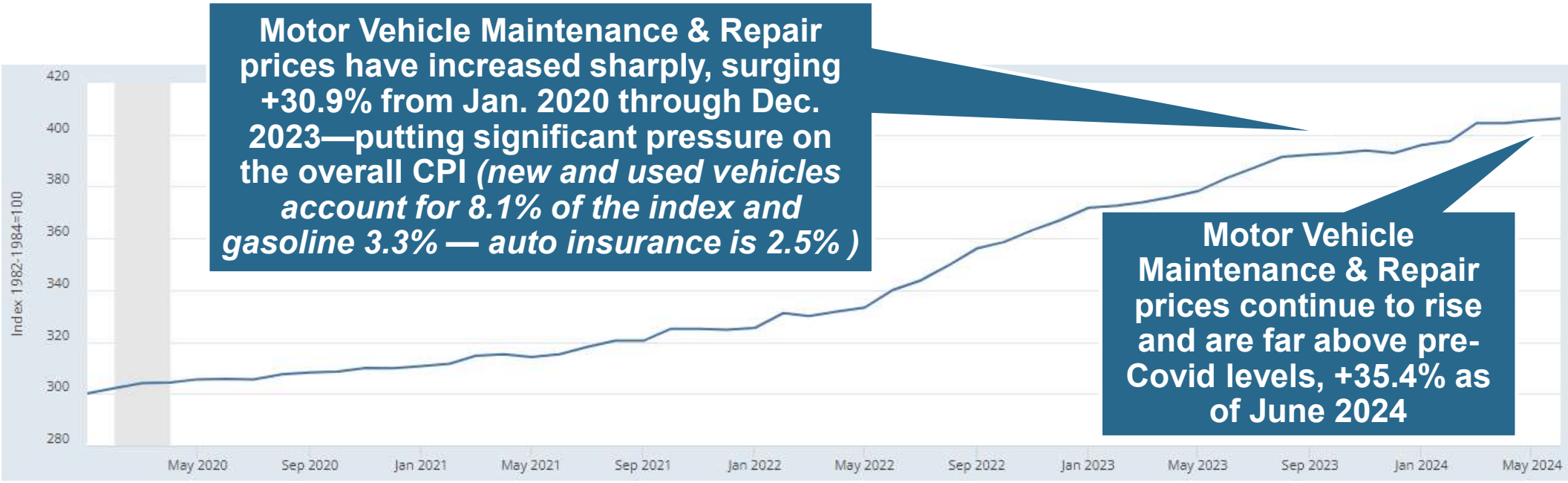
Source: CCC intelligent Solutions from APCIA.

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 Motor Vehicle Maintenance & Repair, Jan. 2020 – June 2024

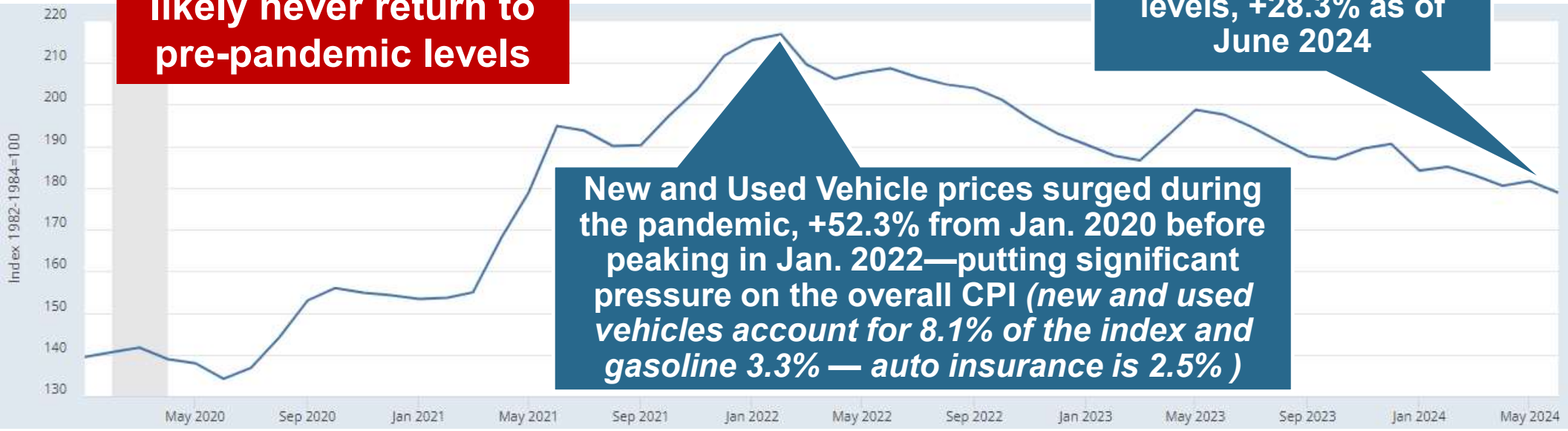


Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center: https://fred.stlouisfed.org/series/CUSR0000SETD; University of South Carolina.

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



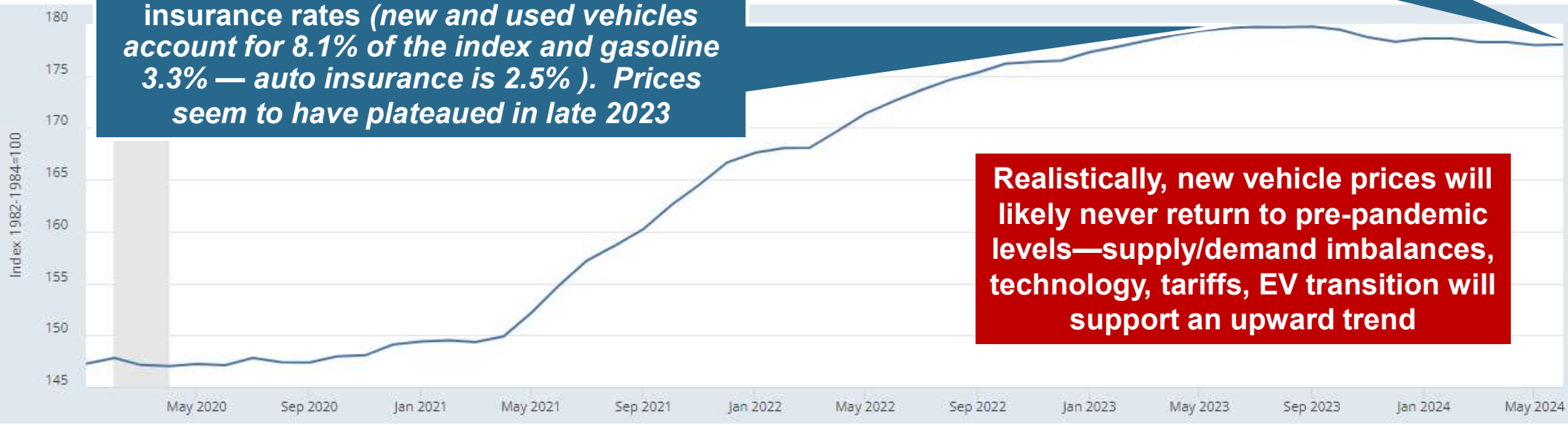
New and Used Vehicle prices surged during the pandemic, +52.3% from Jan. 2020 before peaking in Jan. 2022—putting significant pressure on the overall CPI *(new and used vehicles account for 8.1% of the index and gasoline 3.3% — auto insurance is 2.5%)*

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*

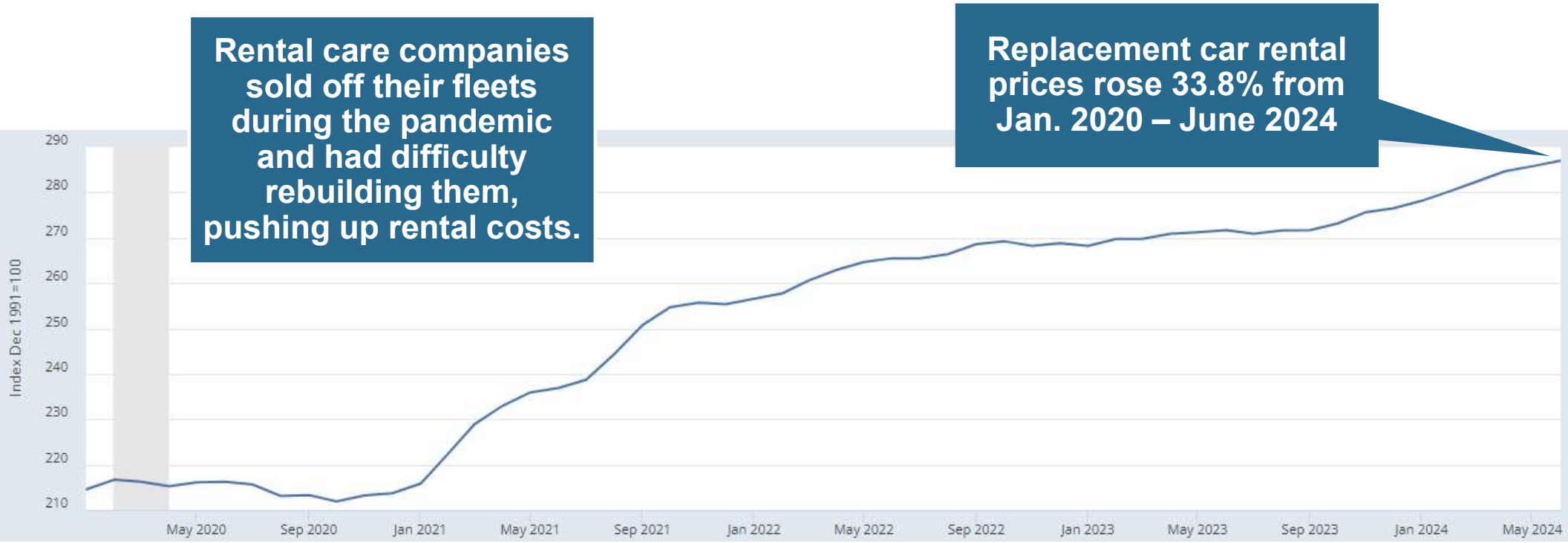
New car prices in recent months have begun to fall, but only slightly and still remain well above pre-Covid levels, +20.9% as of June 2024



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

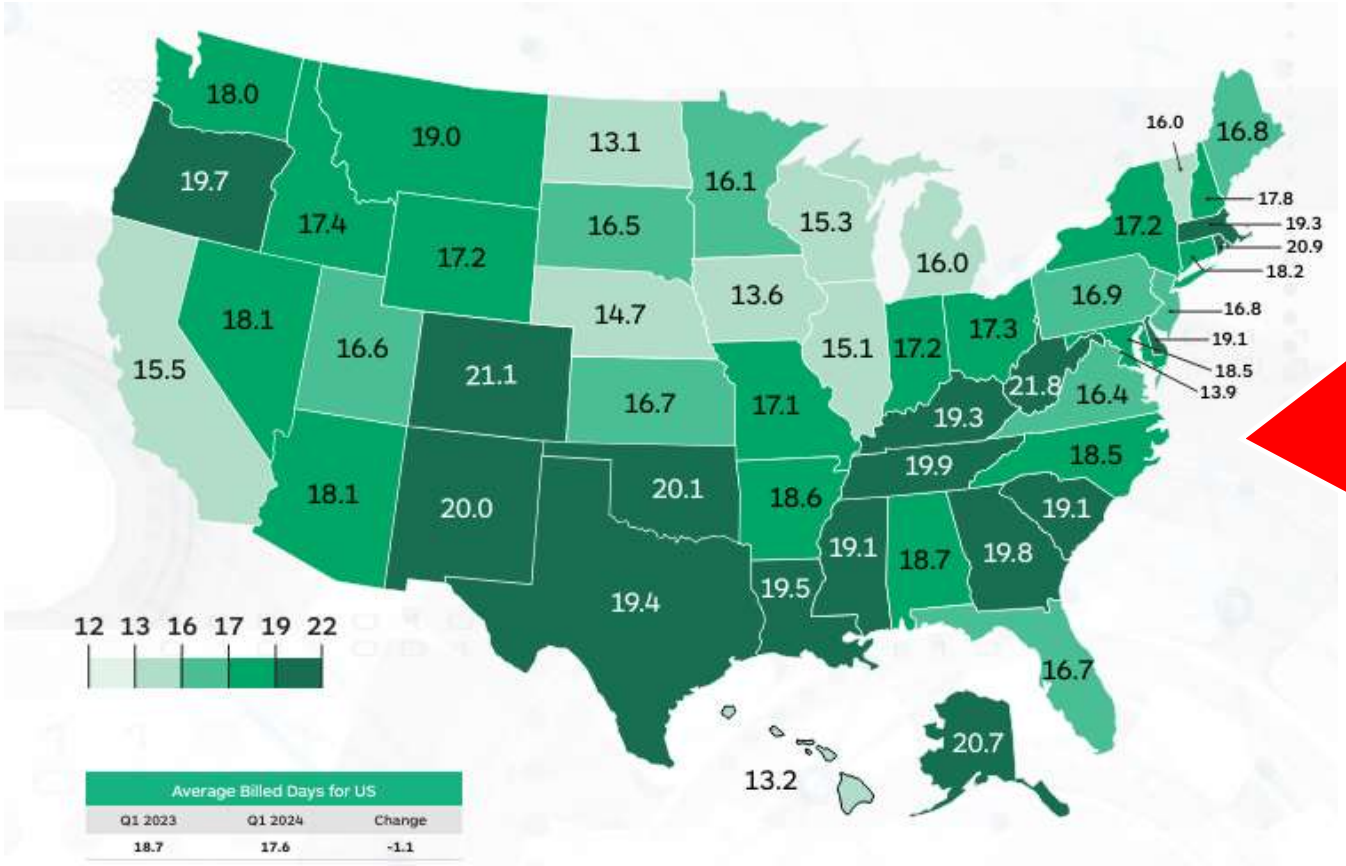
Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center: https://fred.stlouisfed.org/series/CUUR0000SETA01; University of South Carolina.

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

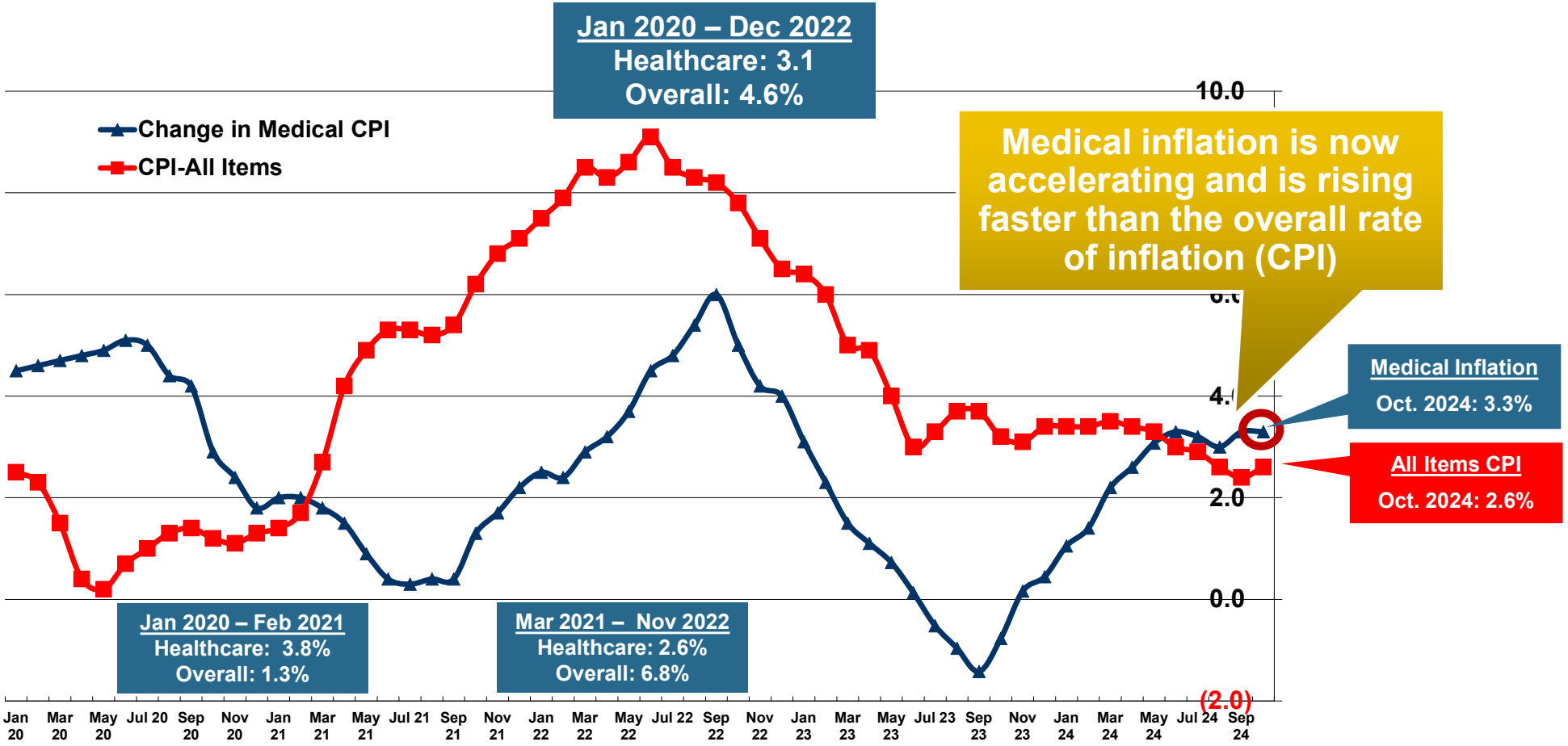
CHANGE: +5.5 Days (21:Q2 – 22:Q43)

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

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 – Oct. 2024 *(Percent Change from Year Ago)*



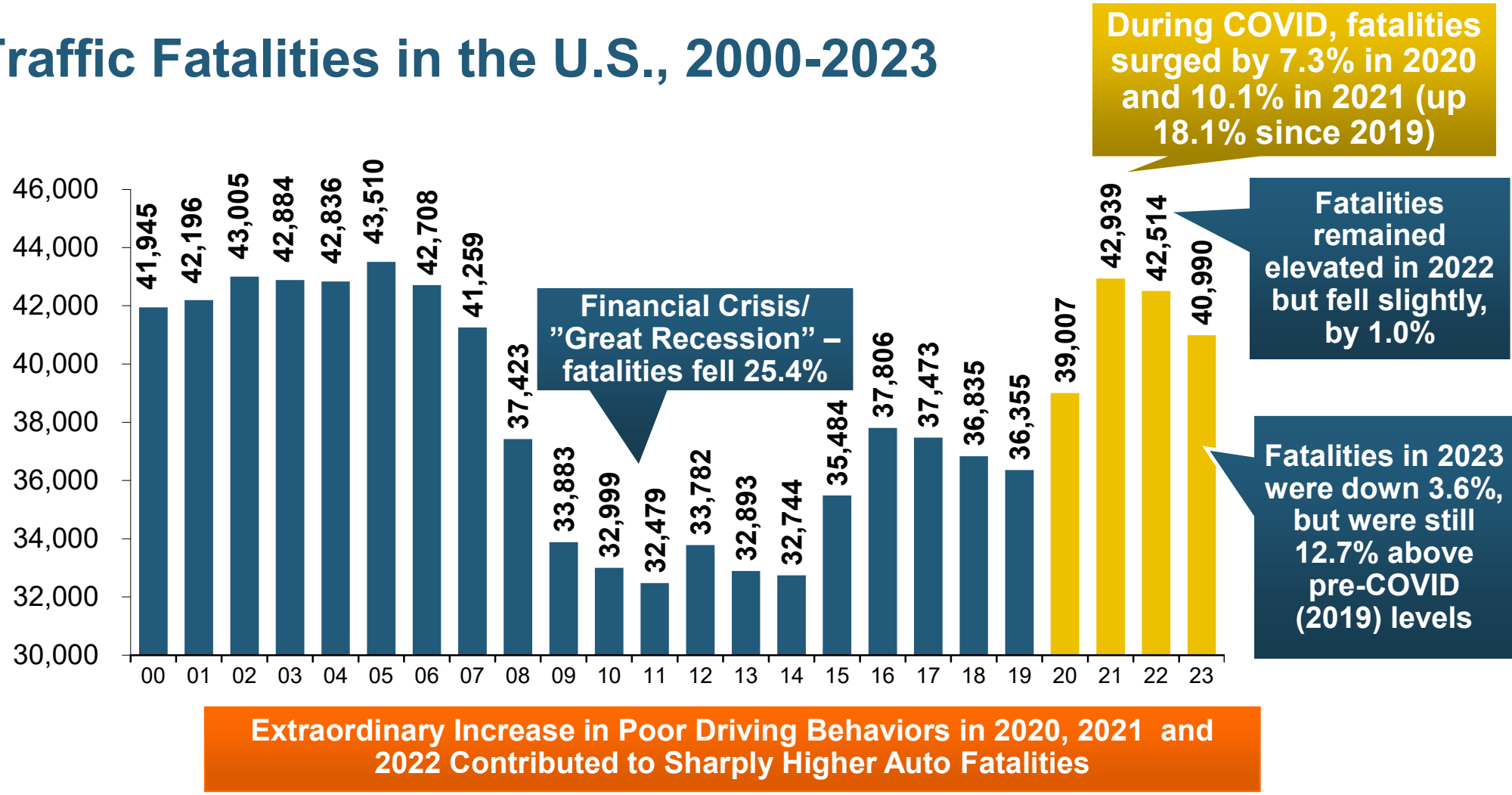
Sources: US Bureau of Labor Statistics via Federal Reserve Bank of St. Louis: https://fred.stlouisfed.org/series/CPIMEDSL; Risk and Uncertainty Management Center, University of South Carolina.

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.

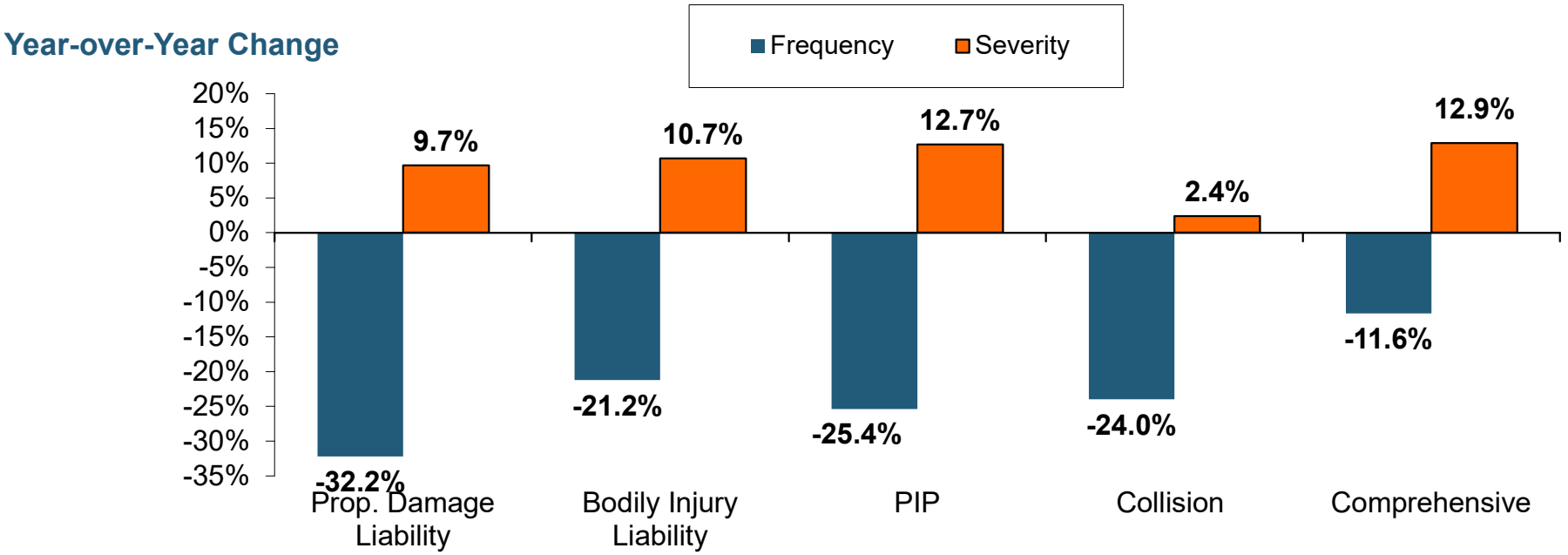
UNIVERSITY OF
SOUTH CAROLINA
Darla Moore School of Business

Overview of Recent Private Passenger Auto Frequency & Severity Trends

Severity and Loss Ratio Trends Have Generally Been Adverse

Inflation is a Major Driver

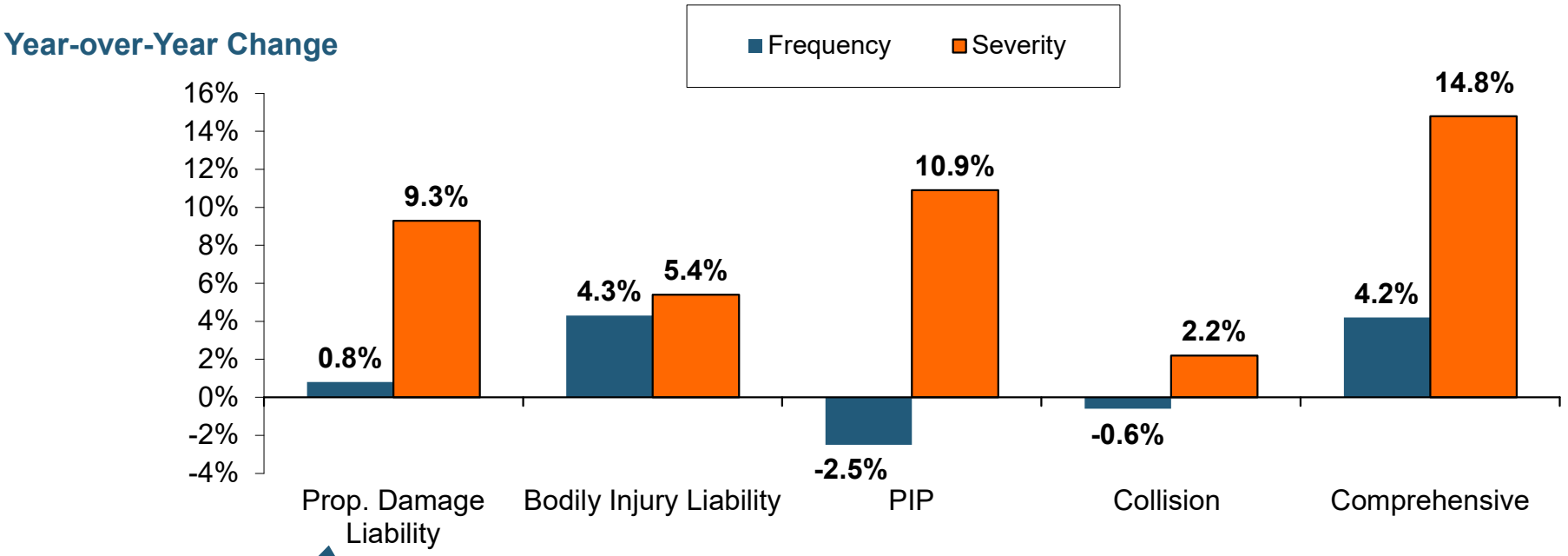
At the Peak of the Pandemic, Frequencies Across All Coverages Plummeted and But Severities Rose: 4 Qtrs. Ending Q1 2021



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

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

Personal Auto Claim Severities Continue to Trend Upward; Frequency Increase Are Moderating: 4 Qtrs. Ending Q4 2023

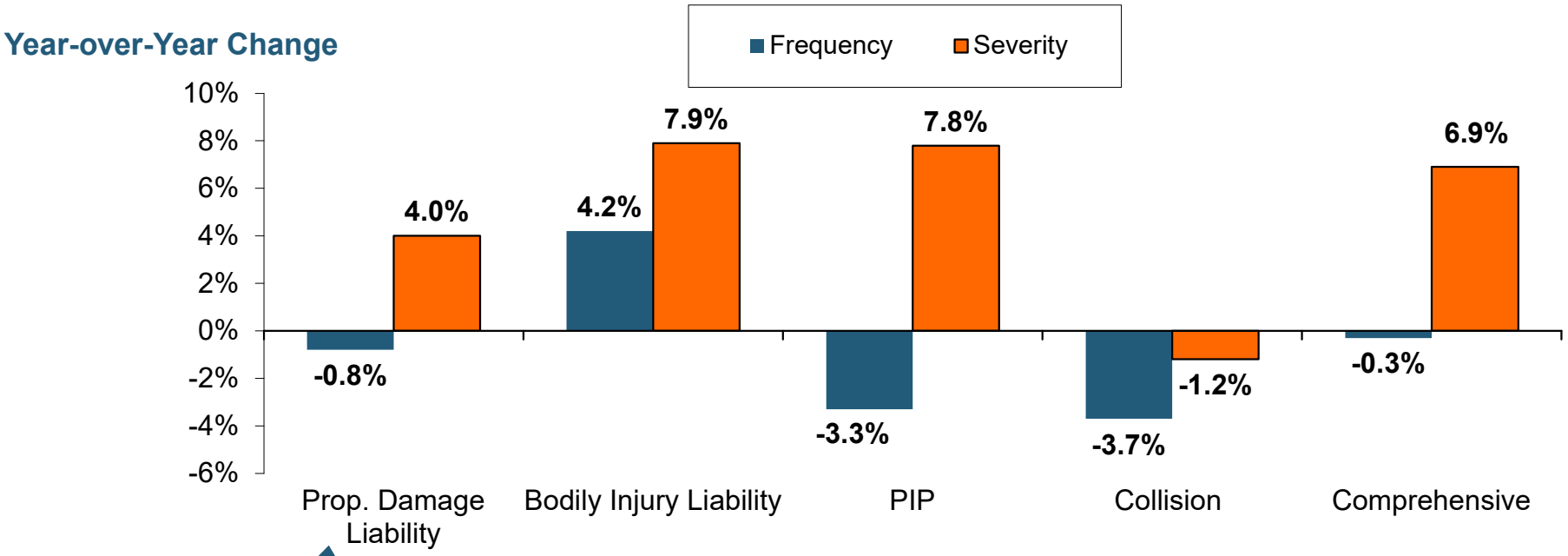


Recall: PD Liability claims were down 32.2% for the 4 qtrs. ending Q1 2021

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

Source: ISO/PCI *Fast Track* data for Q4 2023; Risk and Uncertainty Management Center, Univ. of South Carolina.

Personal Auto Claim Severities Continue to Trend Upward; Frequency Increase Are Moderating: 4 Qtrs. Ending Q2 2024

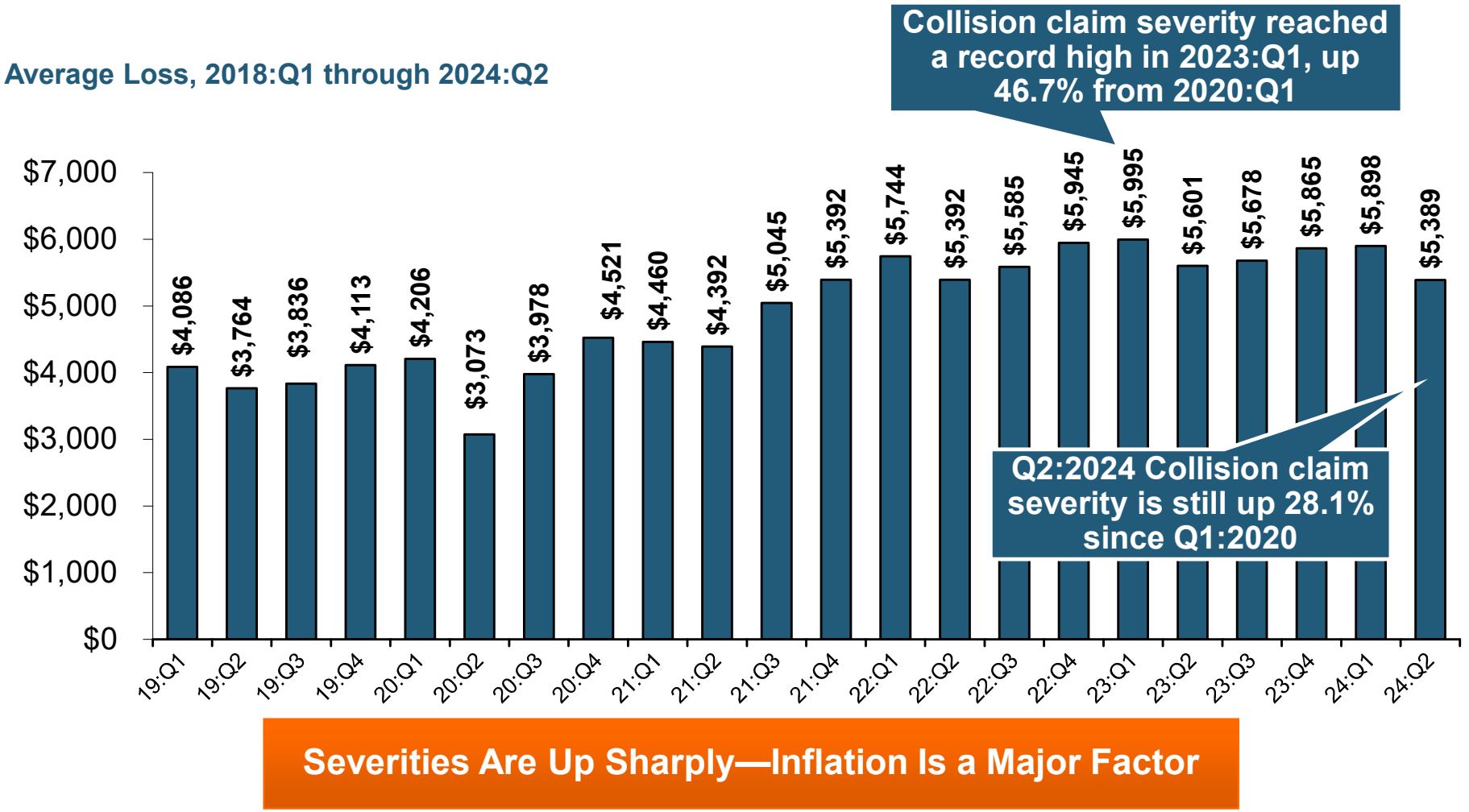


Recall: PD Liability claims were down 32.2% for the 4 qtrs. ending Q1 2021

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

Source: ISO/PCI *Fast Track* data for Q2 2024; Risk and Uncertainty Management Center, Univ. of South Carolina.

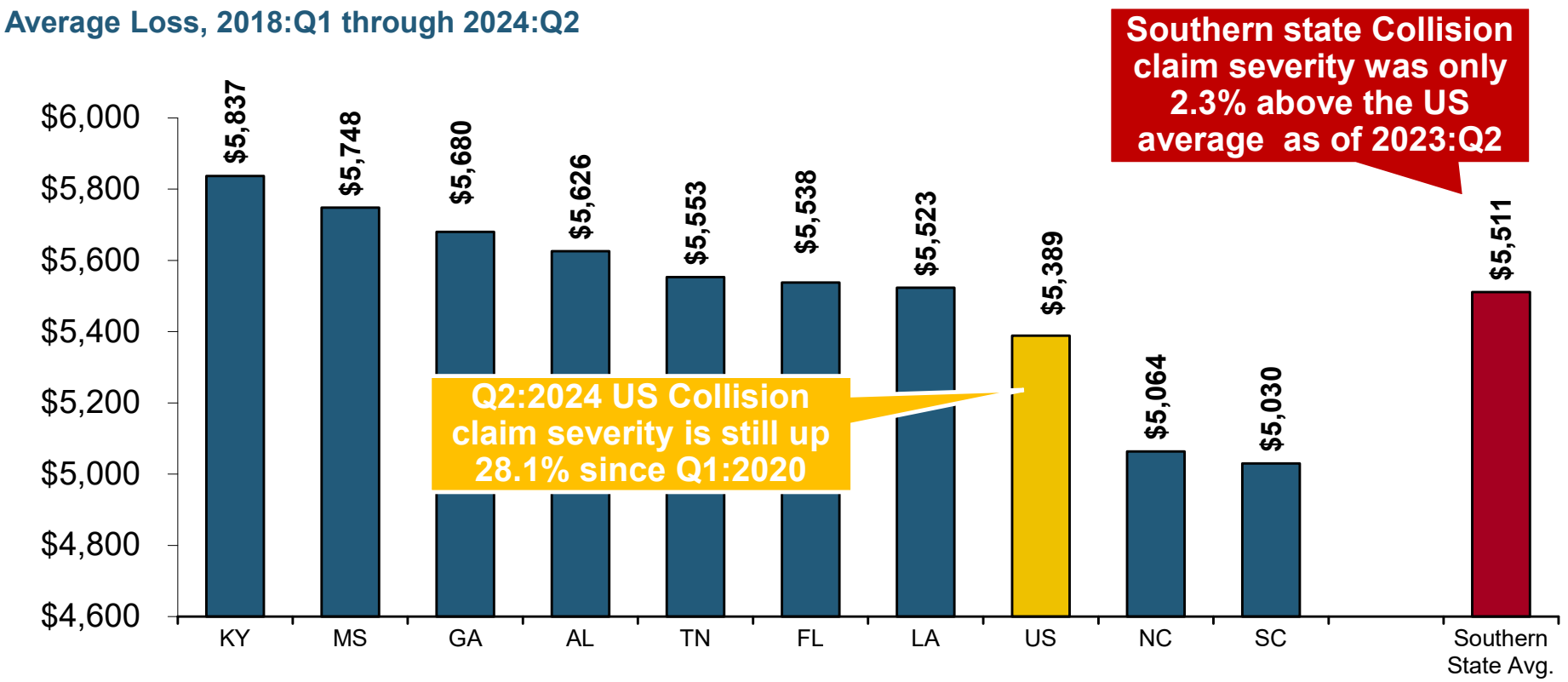
Collision Claim Severity: Rising to New Record Highs



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.

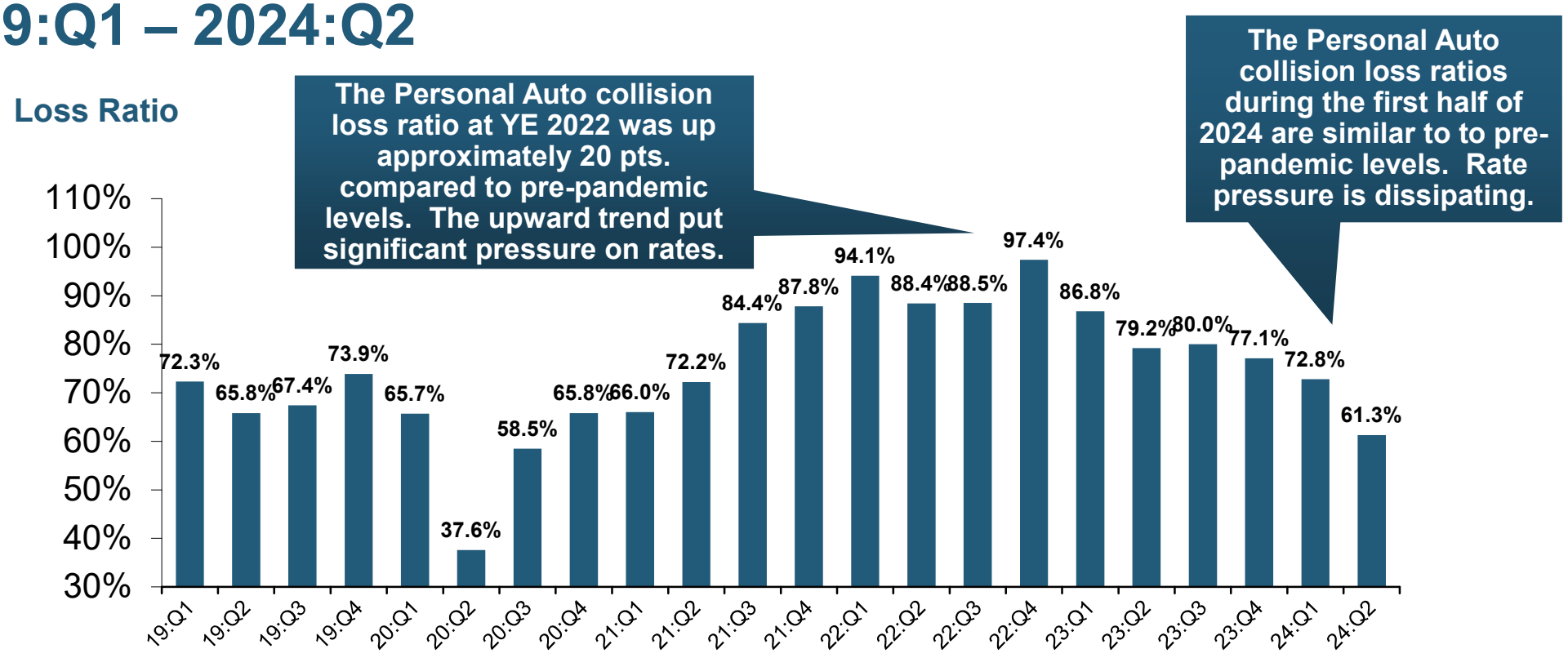
Collision Claim Severity for Southern States: 2024:Q2



Collision Claim Severities Vary Significantly Across the South States

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

US: Collision Loss Ratios, Personal Auto, 2019:Q1 – 2024:Q2

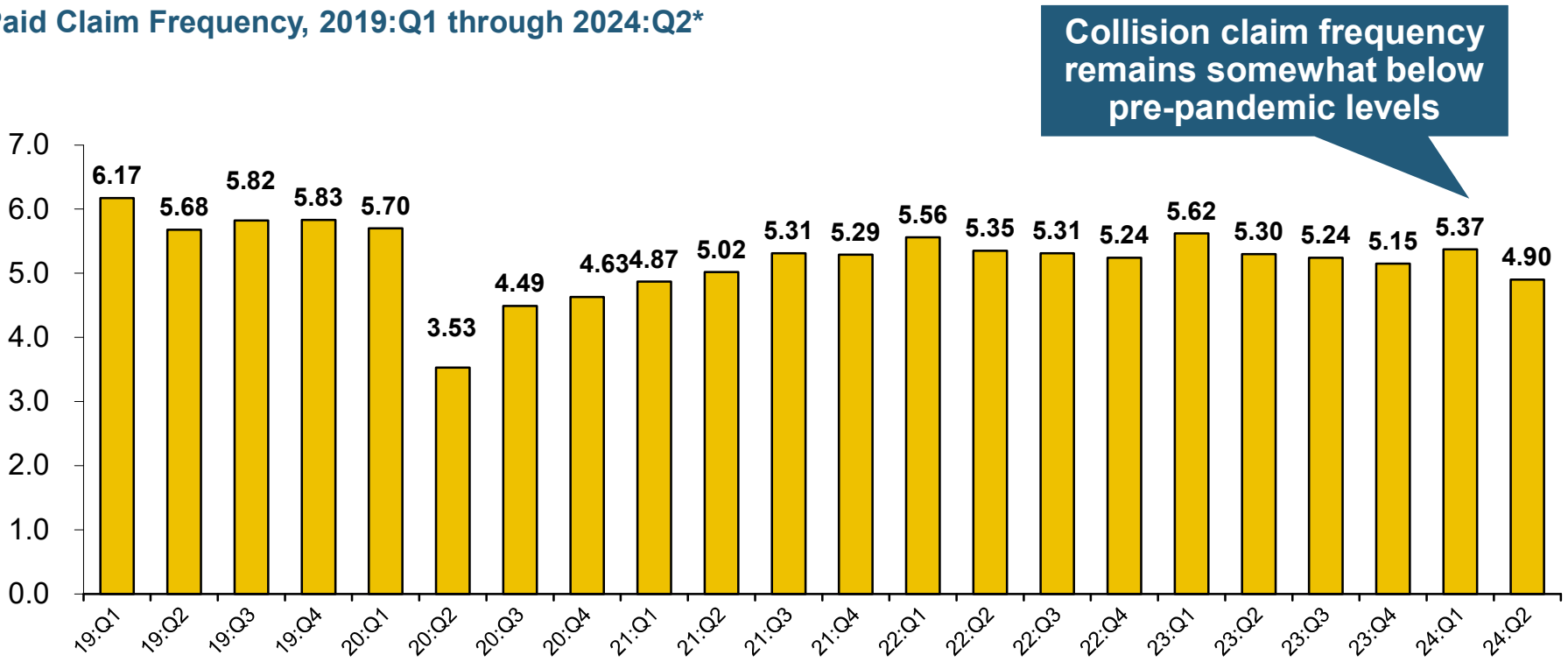


Collision Loss Ratios Rose Rapidly After COVID, Peaking in Late 2022 and Until Recently Remained Above Pre-Covid Levels

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

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

Paid Claim Frequency, 2019:Q1 through 2024:Q2*



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

*Number of claims per 100 earned car years.

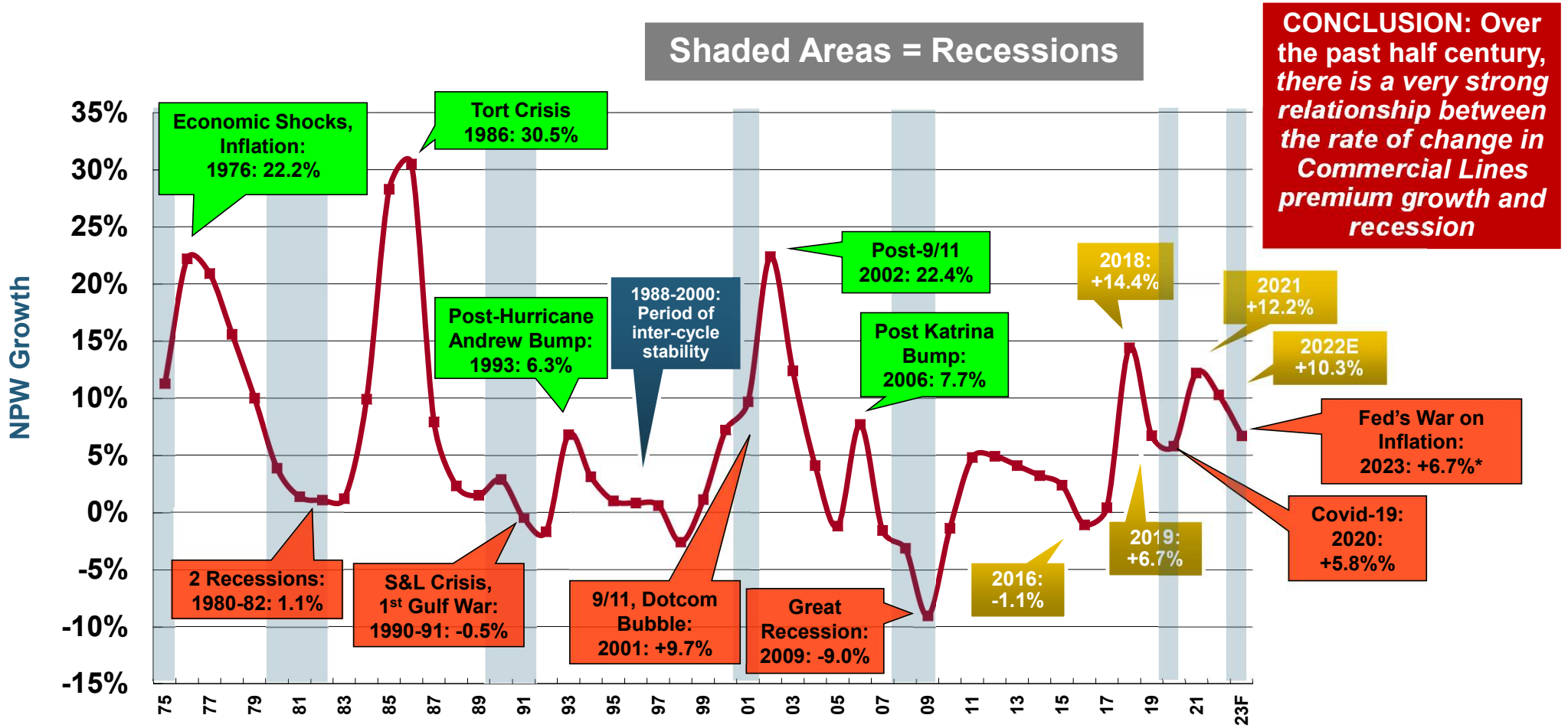
Source: ISO/PCI *Fast Track* data; Center for Risk and Uncertainty Management, Univ. of South Carolina.

Commercial Lines Growth & Pricing Cyclicality

Economic and Tort Environment Create Pricing Pressure

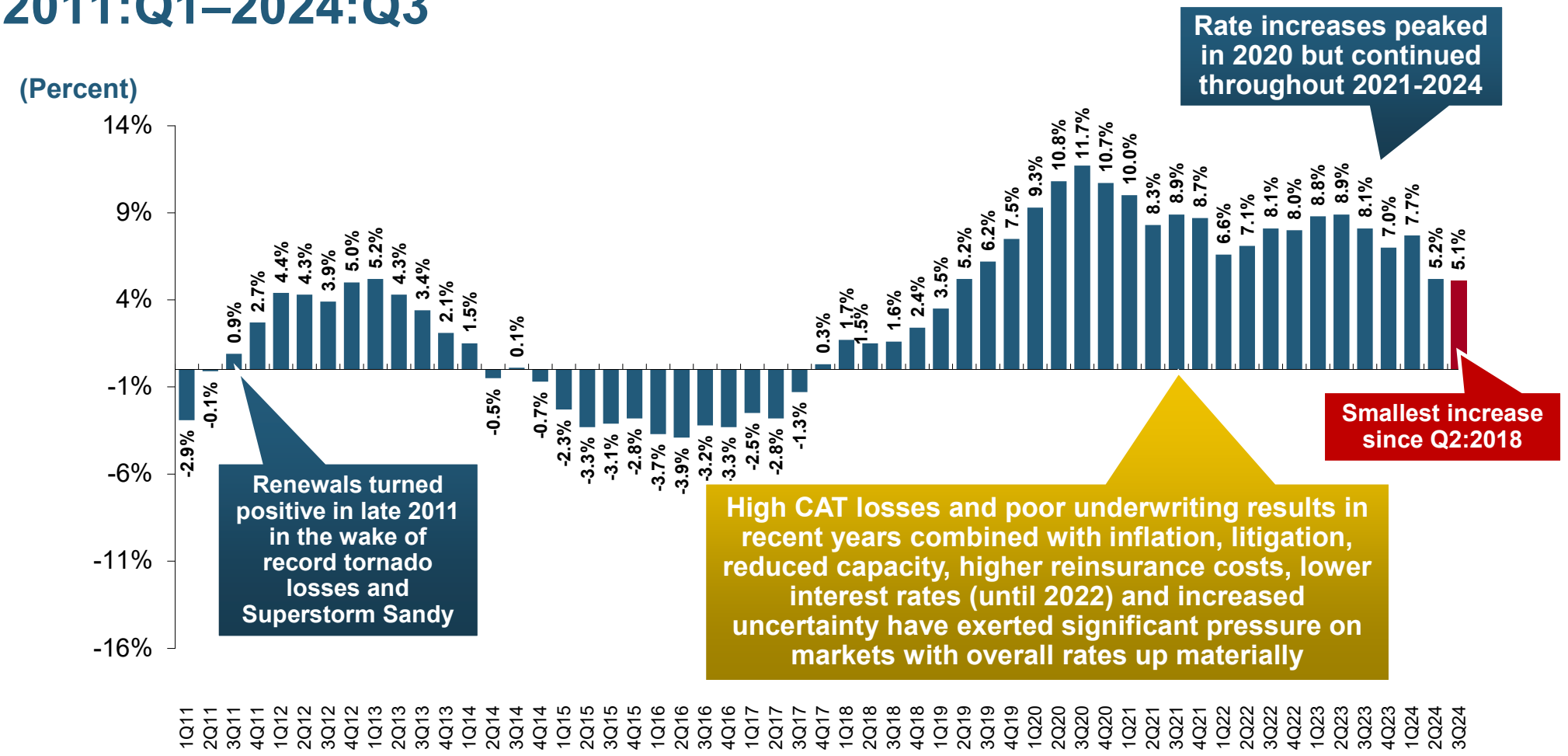
89

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:Q3

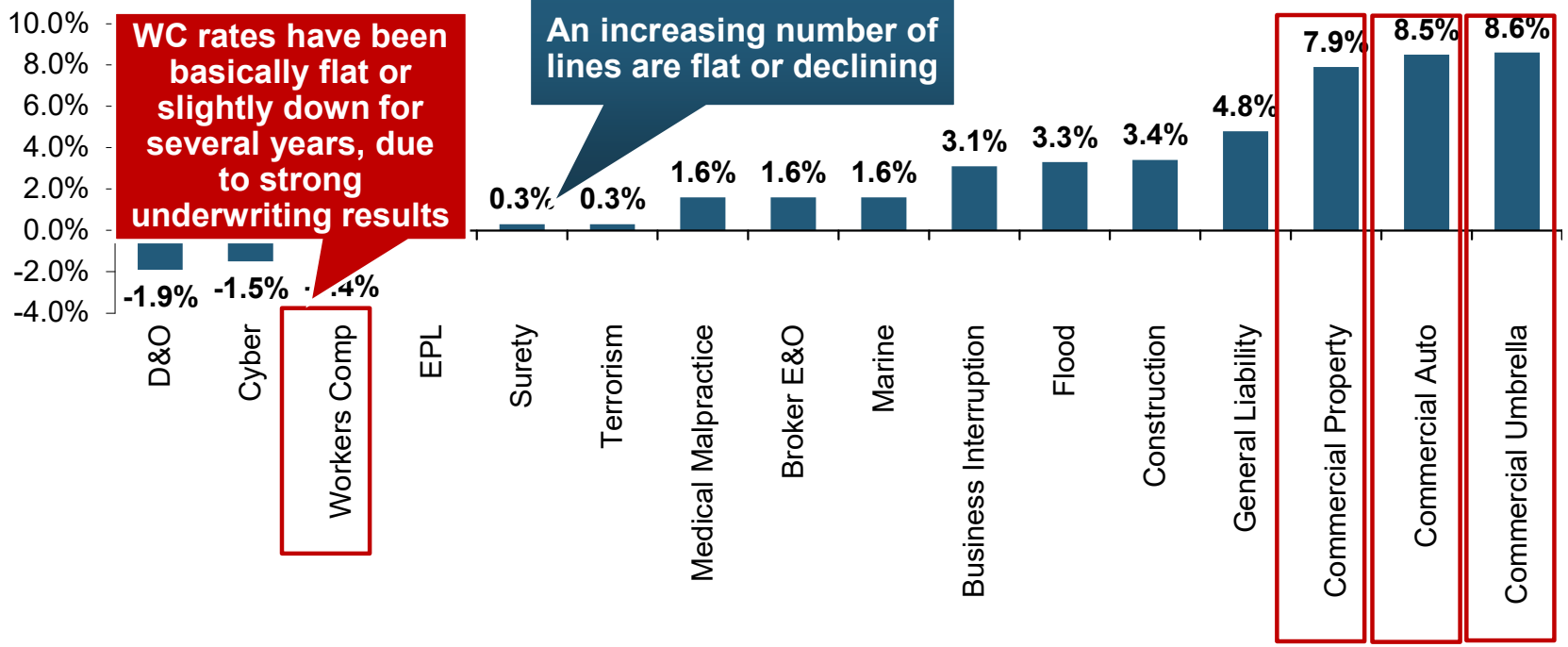


Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents & Brokers; Center for Risk and Uncertainty Management, Univ. of South Carolina.

Change in Commercial Rate Renewals, by Line: 2024:Q3

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.

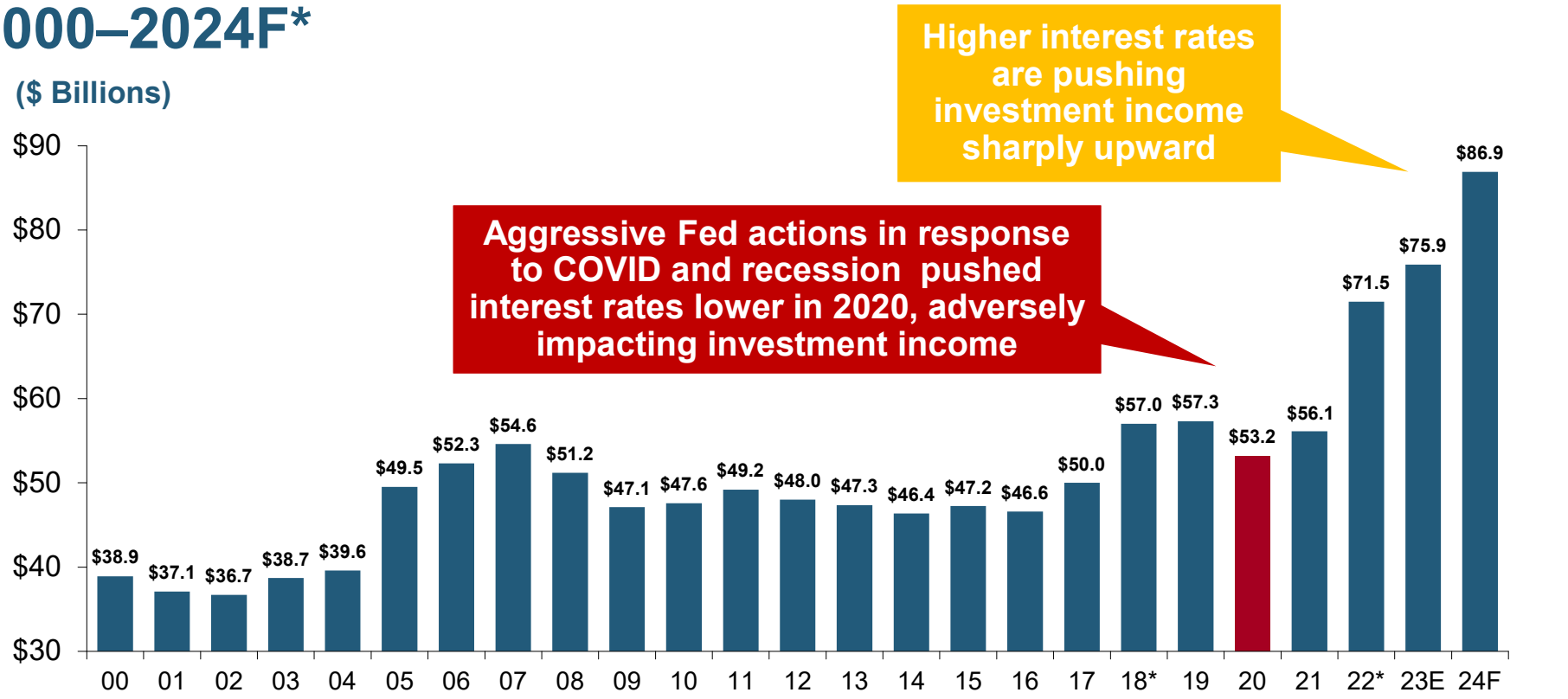
Source: Council of Insurance Agents and Brokers; USC Center for Risk and Uncertainty Management.

Investments:
Wall Street's Wild Ride Continues

Investment Performance Is a Key Driver of Insurer Profitability

How Has the Hawkish Fed Impacted Insurer Portfolios?

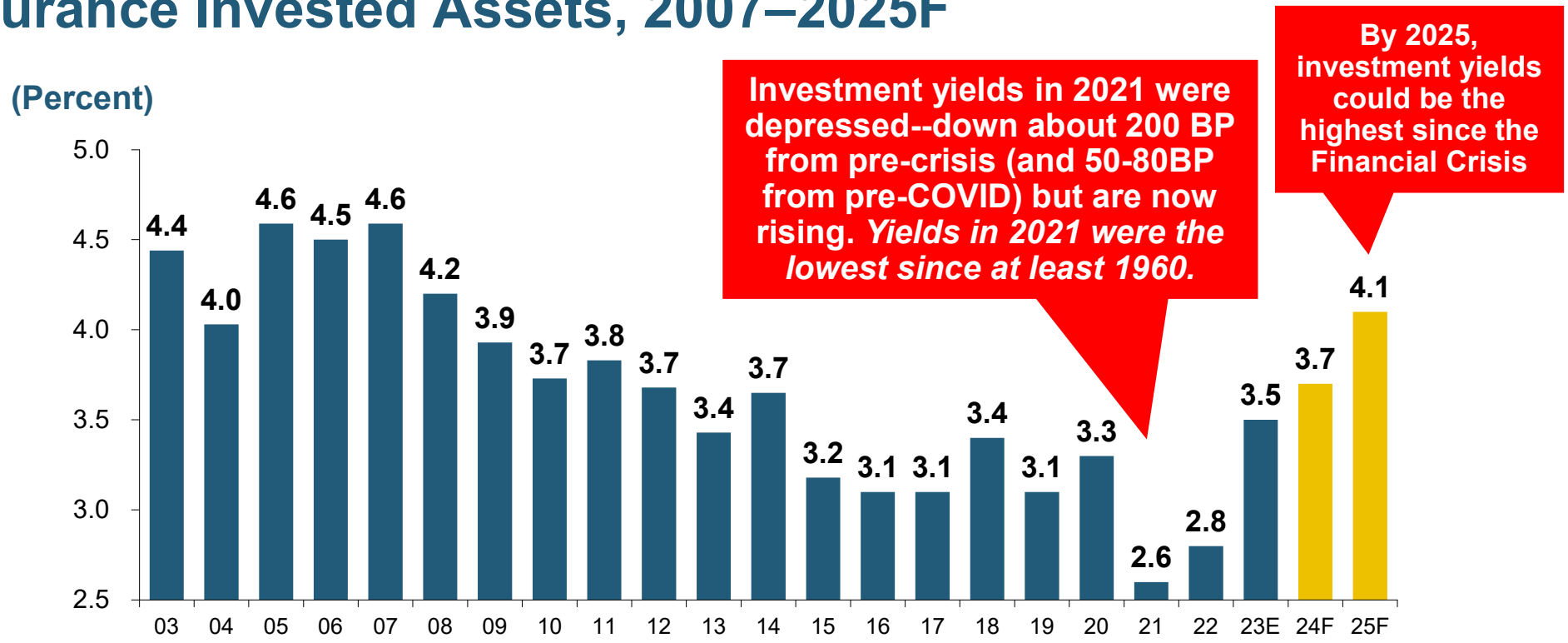
Property/Casualty Insurance Industry Investment Income: 2000–2024F*



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

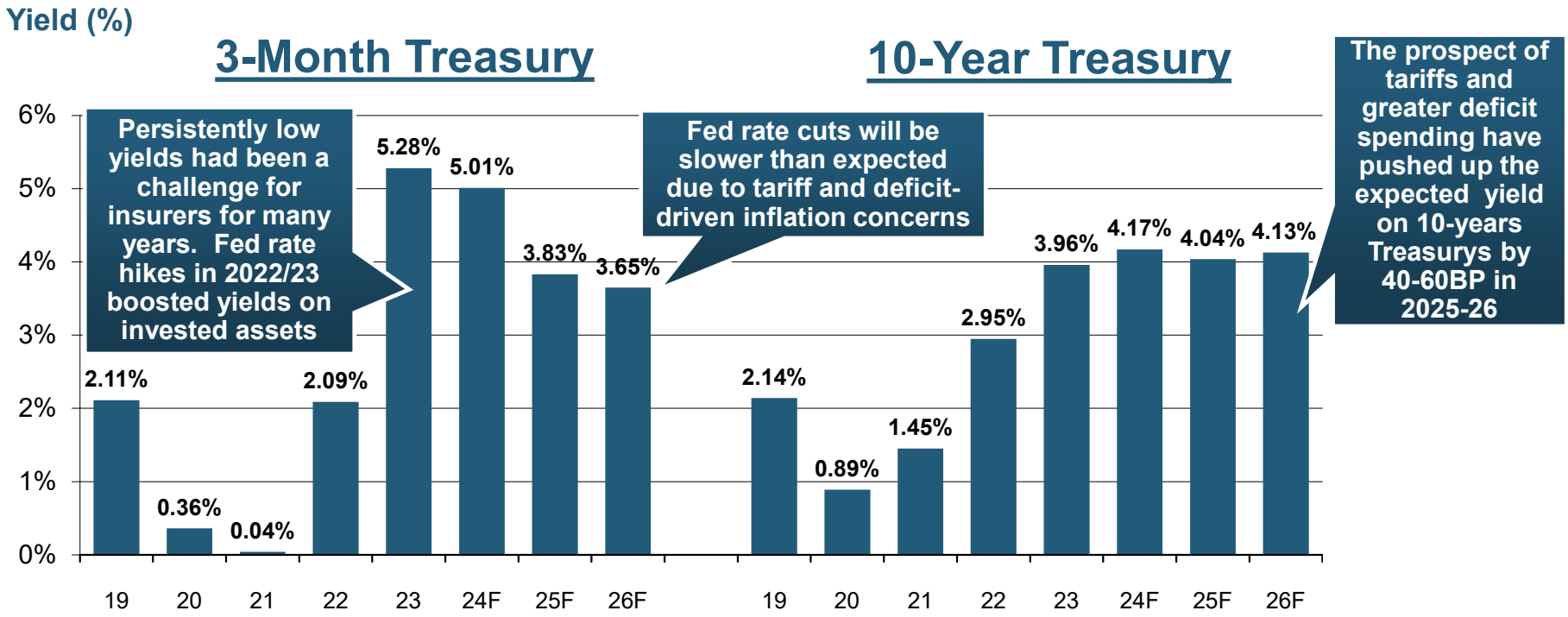


The yield on invested assets remains depressed relative to pre-financial crisis and pre-COVID yields. Fed rate hikes in 2022-23 are lifting yields and investment income.

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.

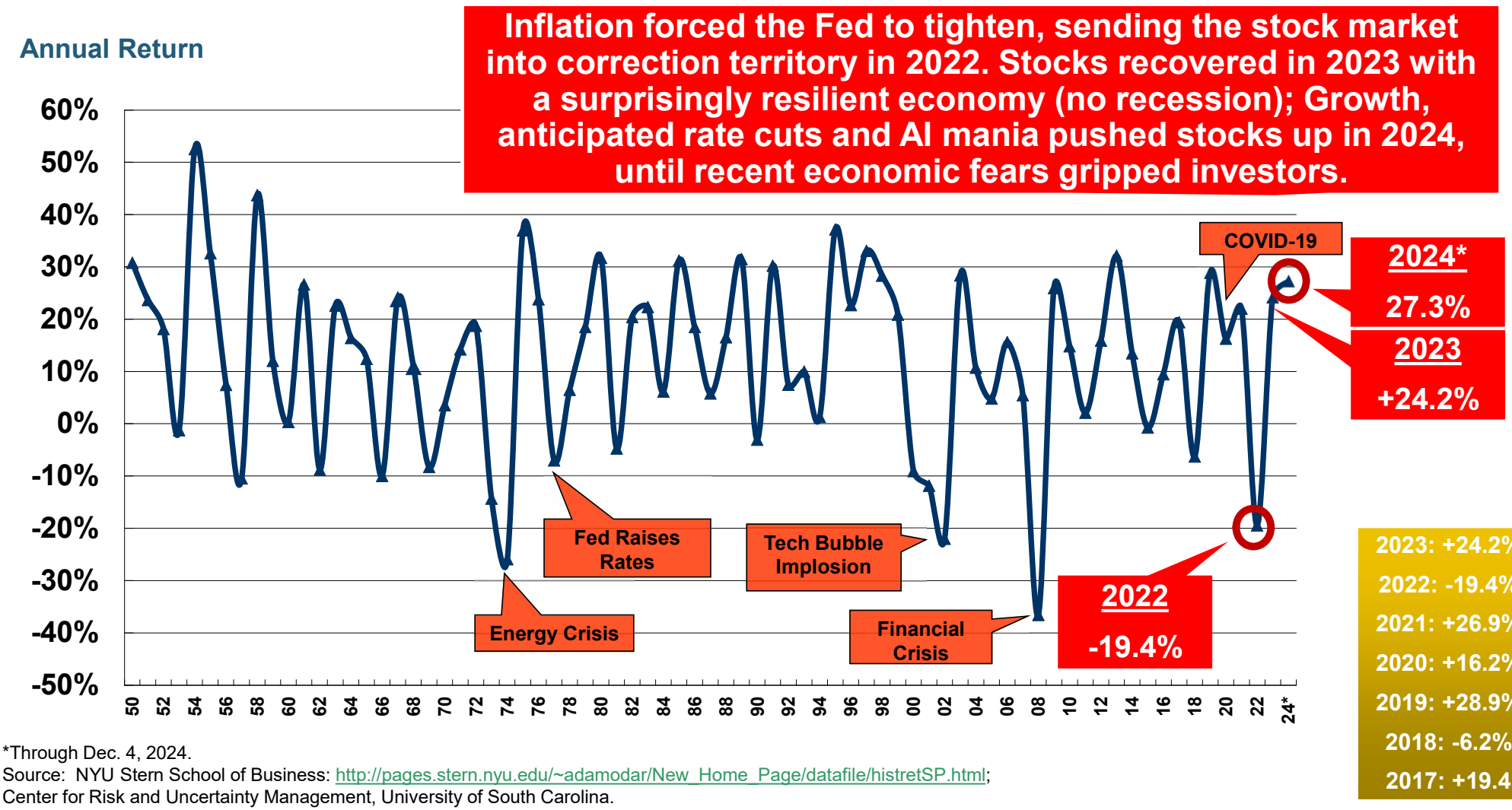
Interest Rate Forecasts: 2019 – 2026F: *Higher for Longer*



Higher interest rates are providing a modest tailwind for insurers. This is especially beneficial to longer-tailed lines such as Workers Comp.

Sources: Wells Fargo Securities (11/24); Risk and Uncertainty Management Center, University of South Carolina.

S&P 500 Index Returns, 1950–2024*



*Through Dec. 4, 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.

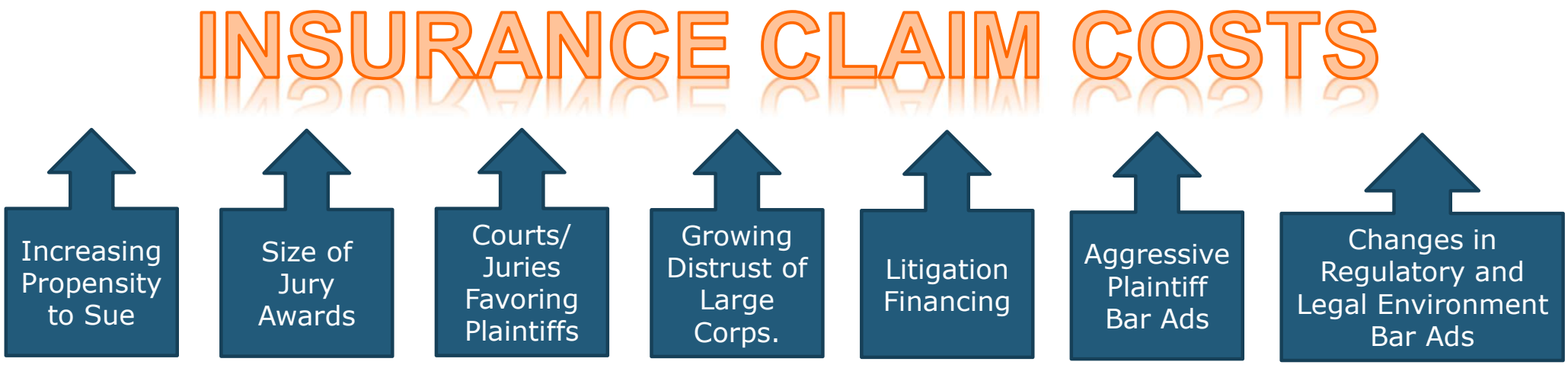
Legal System Abuse (Social Inflation) & Litigation Trends

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

Major Driver of Rate Across Multiple Lines

98

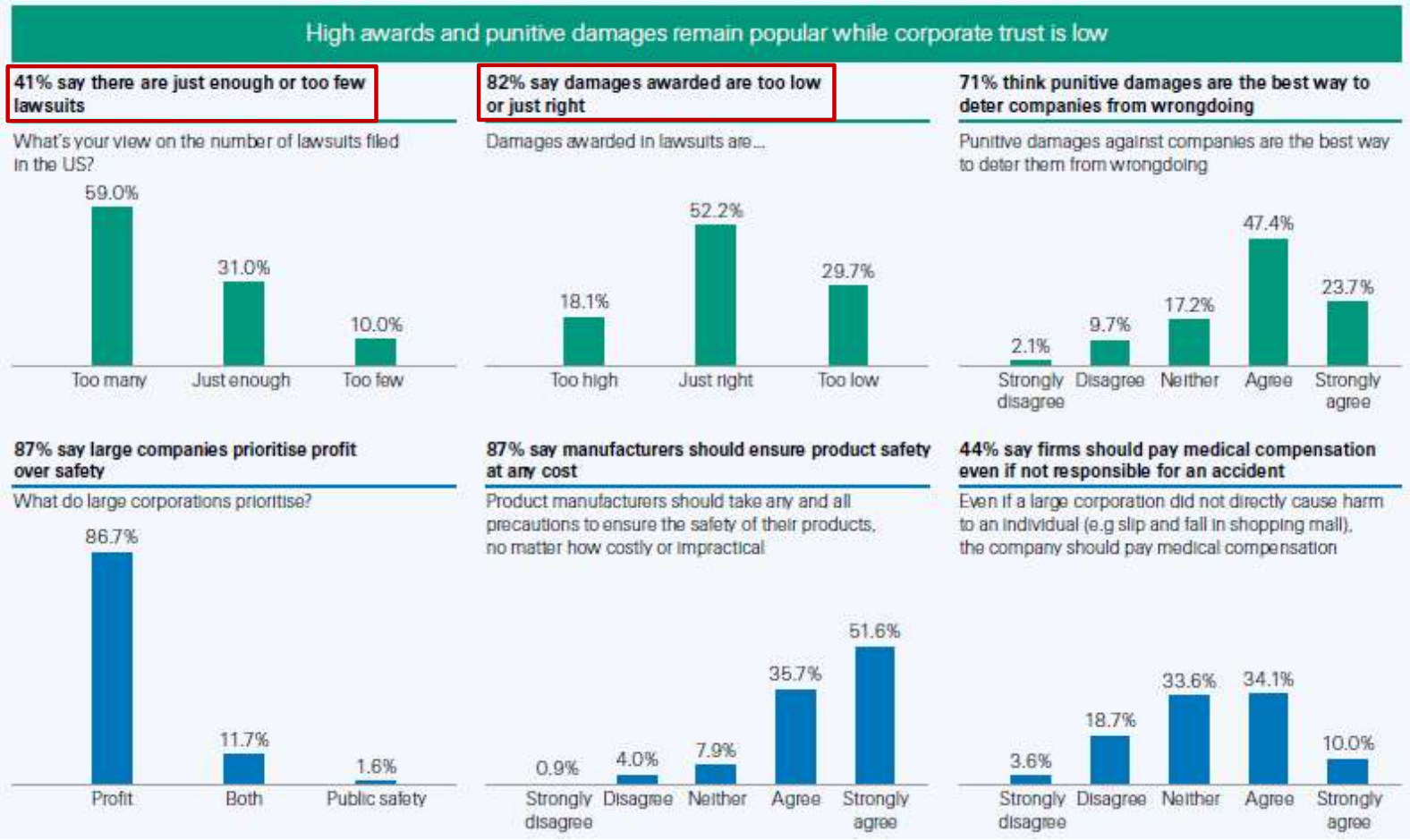
Social Inflation: Many Interrelated Causes, Difficult to Manage



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).

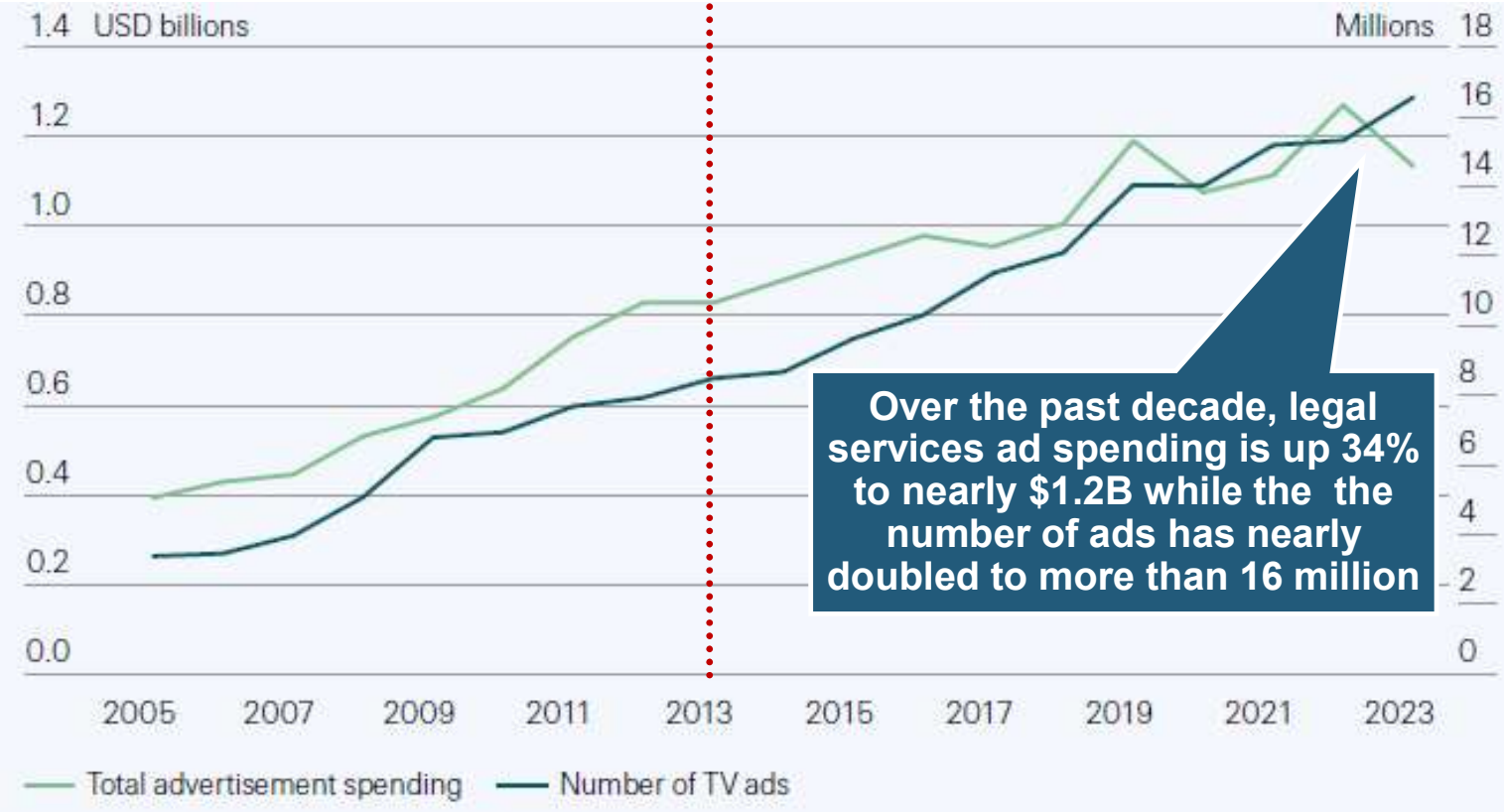
Survey of Attitudes Toward Social Inflation



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.

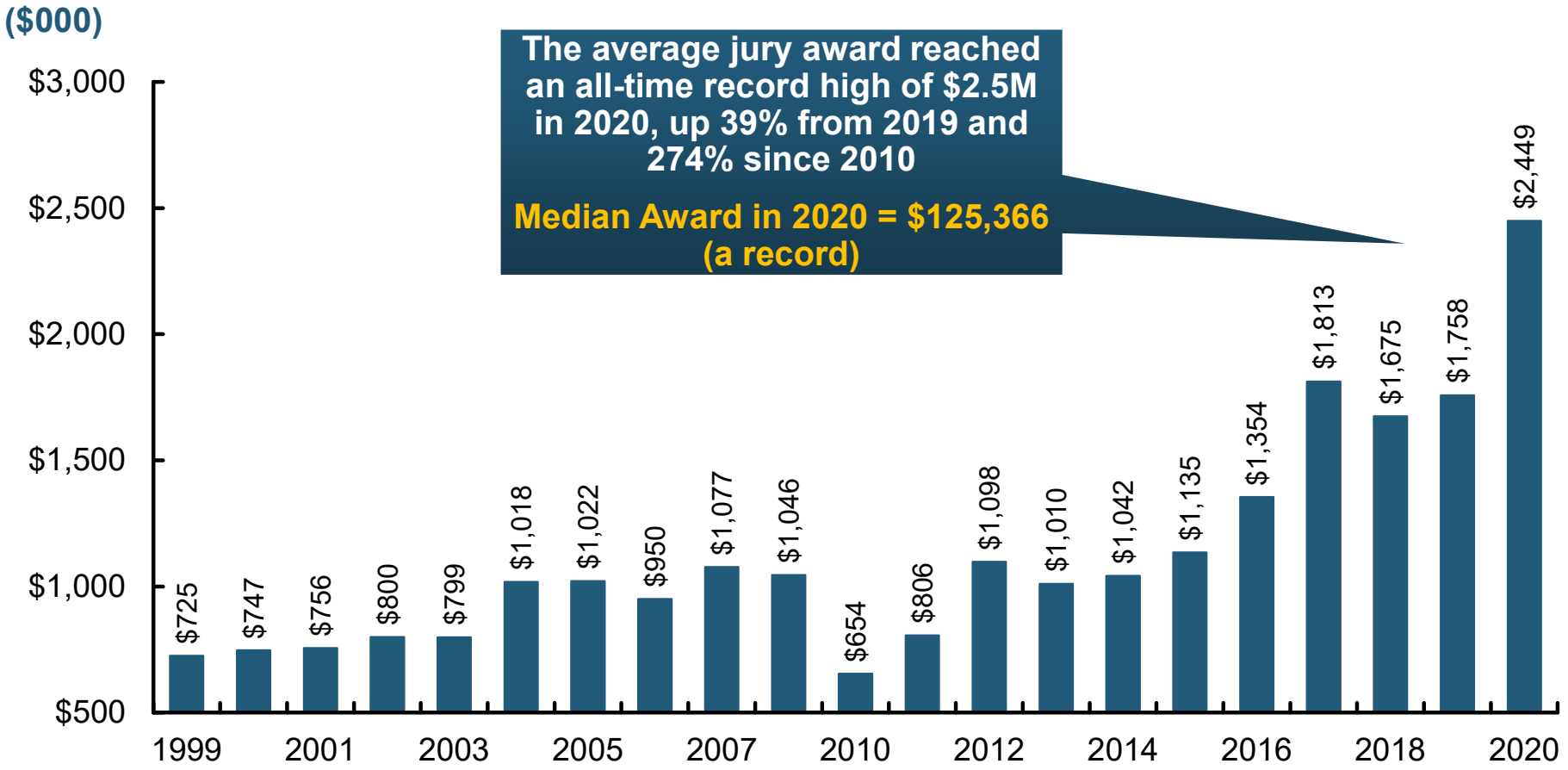
Attorney Advertising Remains Very Aggressive



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

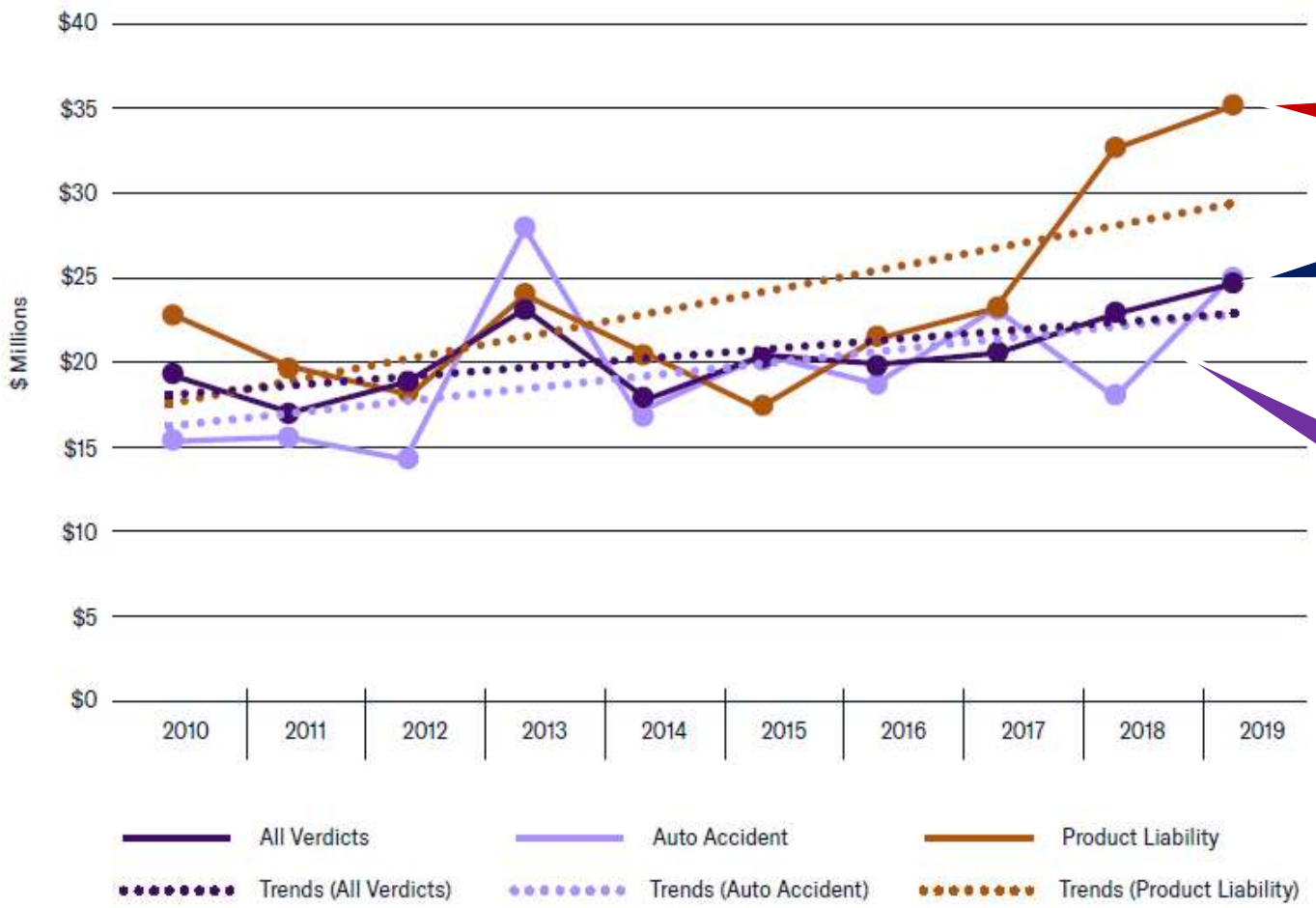
Source: Swiss Re Institute (*sigma* No. 4/2024), "Quantifying Social Inflation in the US," from X-Ante Legal Services Ad Trends, accessed at: https://www.swissre.com/institute/research/sigma-research/sigma-2024-04-social-inflation.html.

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

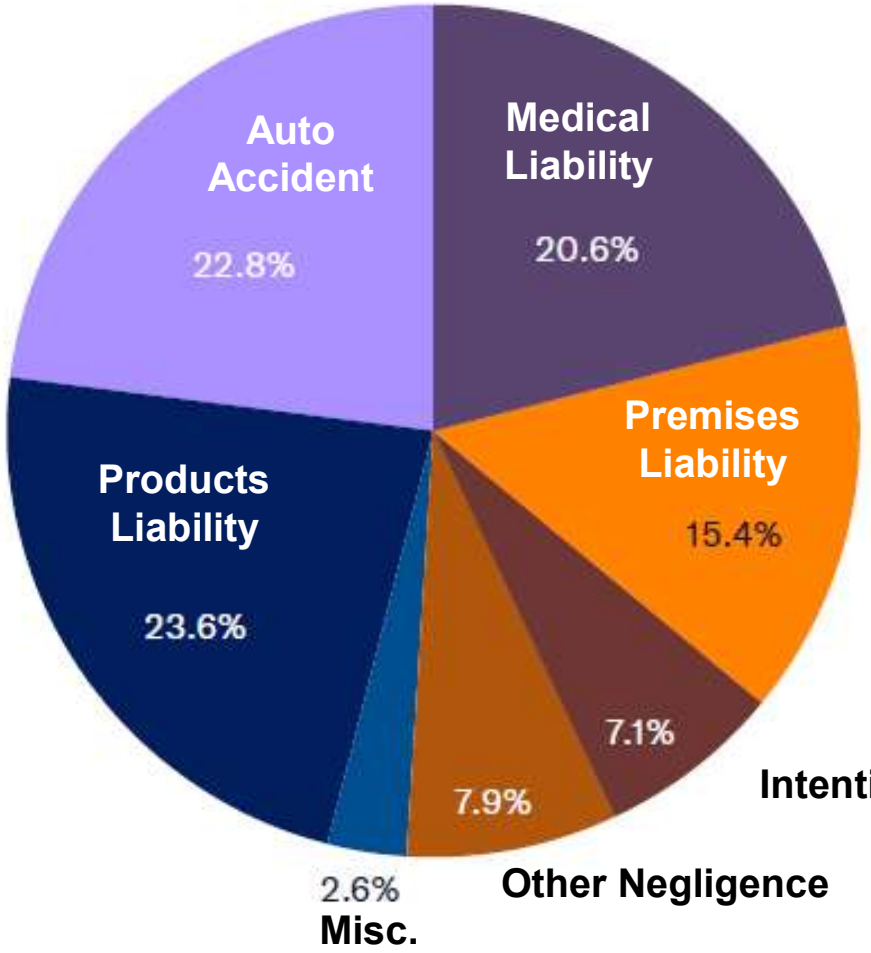
Auto Accident

+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*

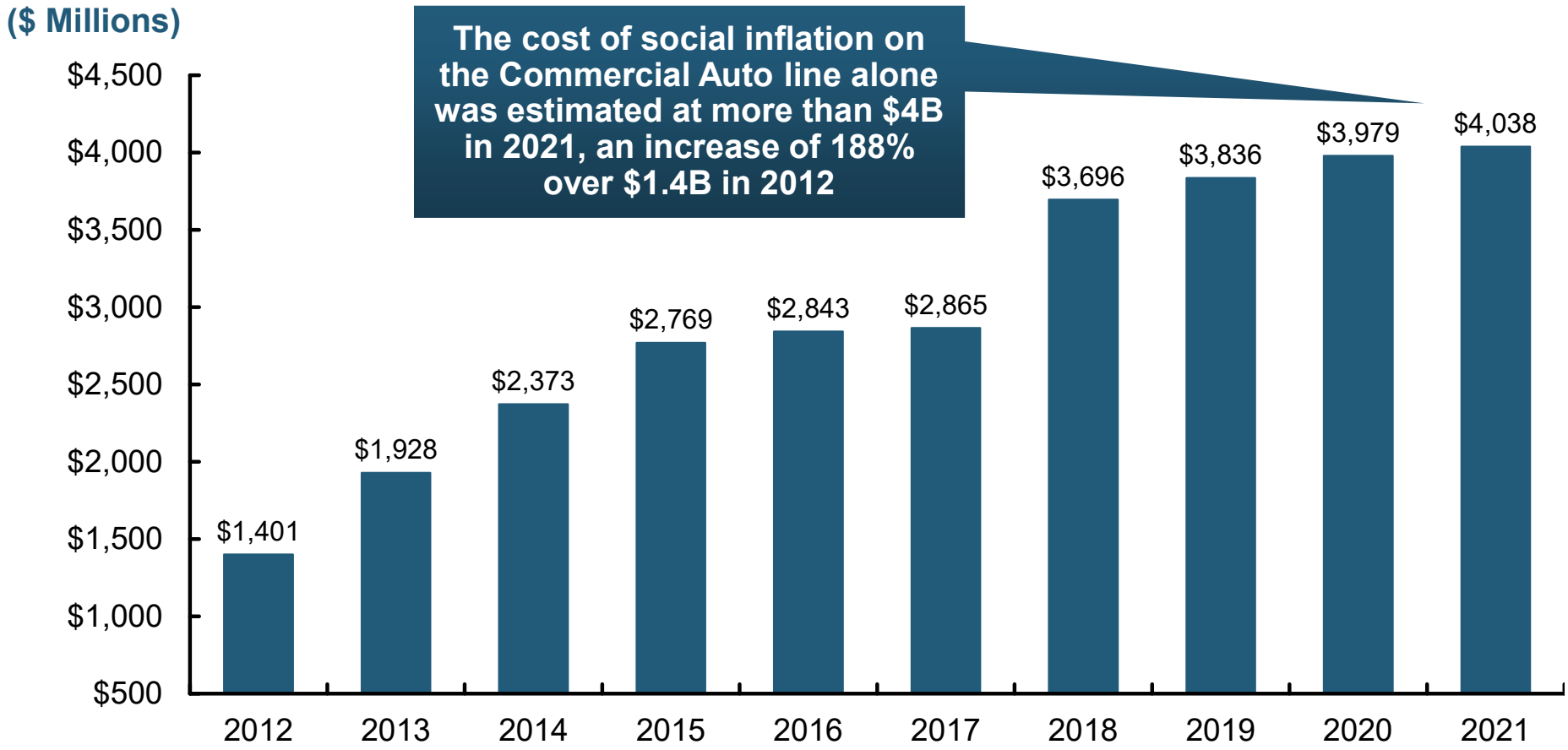


Products, Auto and Medical Liability account for 2/3 of nuclear verdicts

**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.

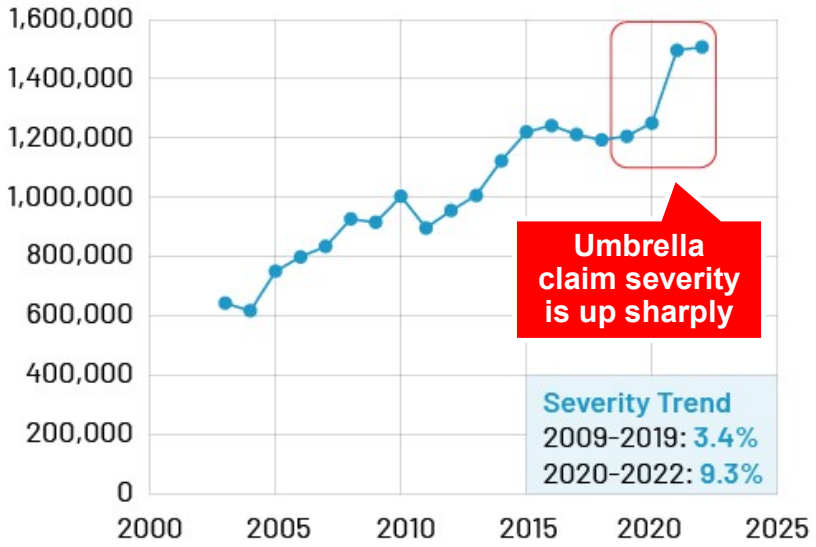
Commercial Auto Liability: Estimated Impact of Social Inflation, 2012 – 2021*



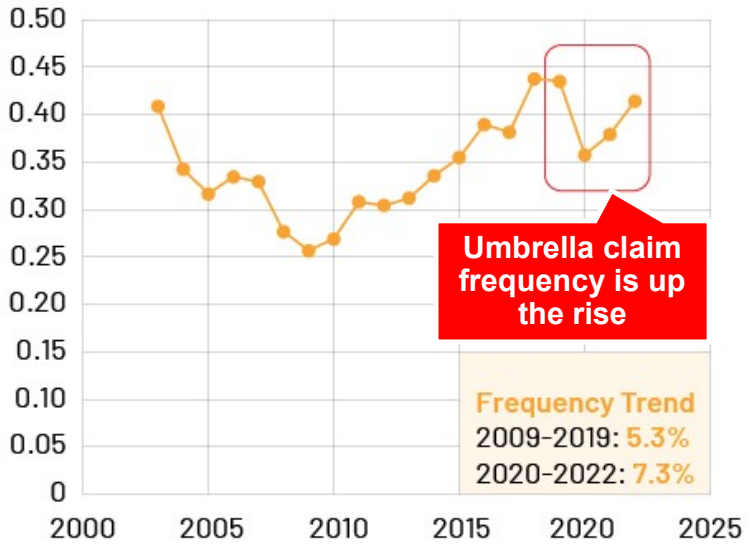
*Case-incurred estimates.
Source: CAS Research Paper; *Social Inflation and Loss Development—An Update* (2023) accessed at: https://www.iii.org/sites/default/files/docs/pdf/cas_social_inflation_03062023.pdf.

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.

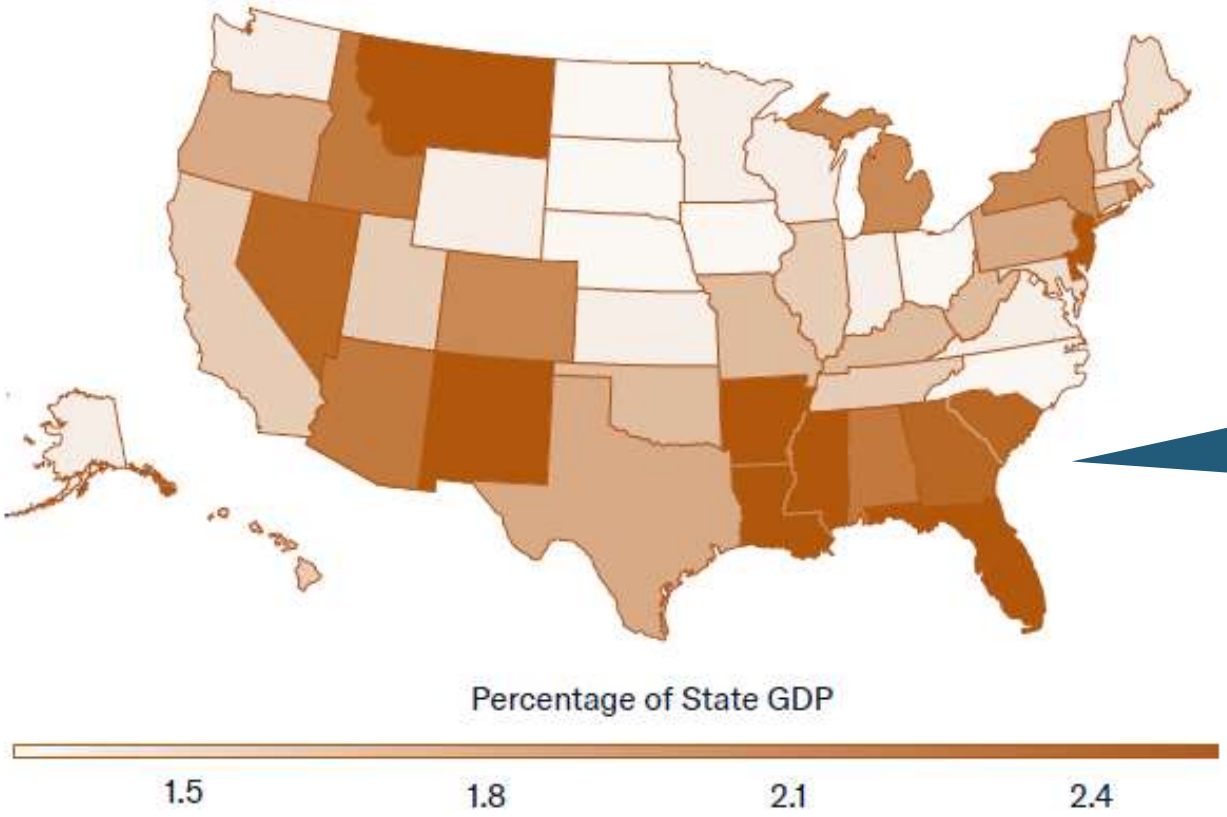
Direct Economic Tort Costs by Category of Tort: 2016 – 2020*

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

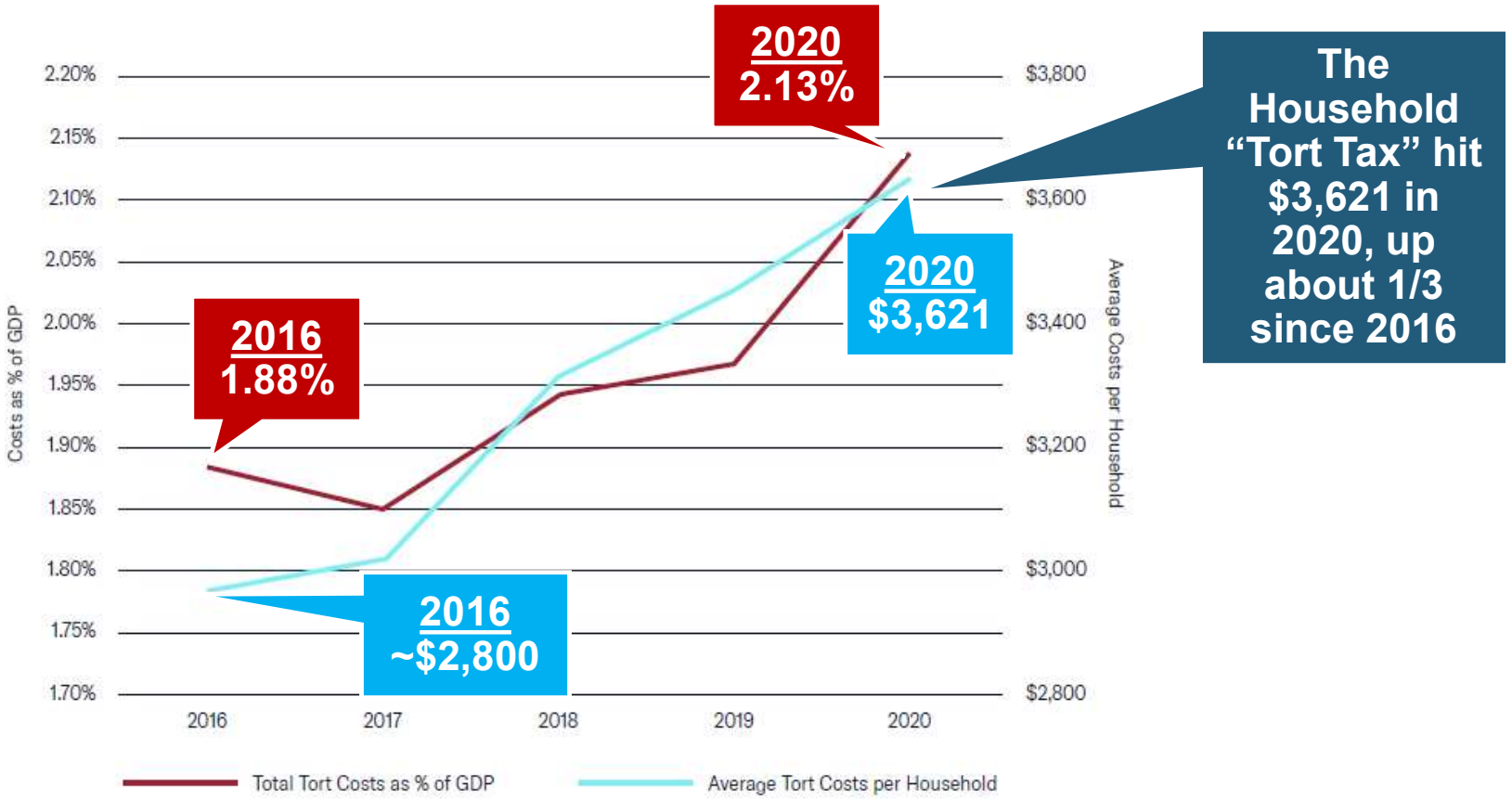
Tort Costs as Percent of State GDP, by State (2020)



Tort costs as a share of GDP stood at 2.1% for the US overall but are materially higher in the Southeast

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/.

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**
- **"Soft Landing" Has Been Achieved; Recession Unlikely in 2025**
- **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 Have Been Easing, but Changes in Fiscal, Trade and Labor Policies in 2025 Could Exert Inflationary Pressures**
- **Legal System Abuse Issues Remain a Long-Term Challenge and Major Cost Driver**

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Thank you for your time and your attention!

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