Awful Economics:

Tariffs and Trade Wars Are Bad for the Global Economy, Insurers and Reinsurers—Period

Orlando, FL
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UNIVERSITY OF
SOUTH CAROLINA
Darla Moore School of Business

P/C Insurance Overview & Outlook: Outline

- **Global Economic Overview & Outlook—Impacts for P/C (Re)Insurers**
  - Growth, Employment, Investments, Inflation, and Recession
  - Potential impacts of changes in fiscal and monetary policy on P/C insurers
  - Tariff impacts and P/C insurance
- **P/C Financial Overview & Outlook in a Era of Rising Uncertainty**
  - Premium Growth
  - CAT Loss Update/Reinsurance
  - Underwriting Performance
  - Capital and Capacity
- **P/C Personal and Commercial Insurance Trends**
  - Cost drivers
  - Will the hard market continue in 2025?
- **Legal System Abuse**
- **Summary and Q&A**

Risks to the Global Economy Are Rising

Is a Global Recession Imminent?

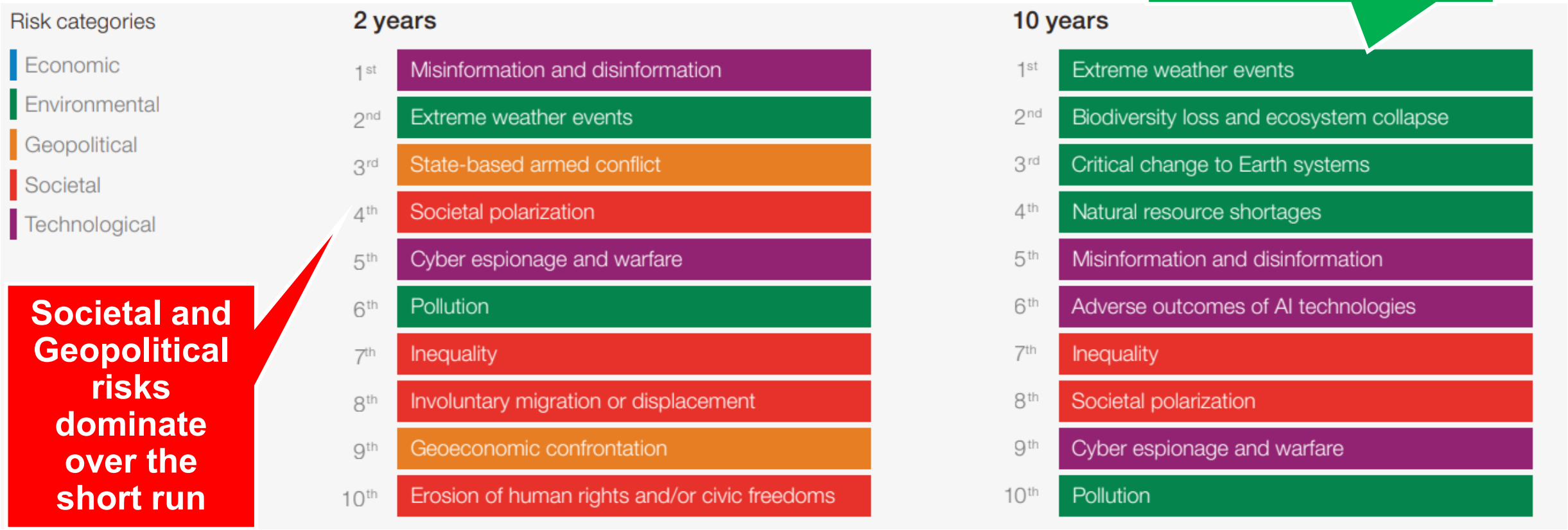
What About Recession in the US?

Economic Growth Is a Major Driver of (Re)Insurers Growth

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

2025 Global Risks Report: Global Risks Ranked by Severity Over the Short and Long Term

Environmental and Technology risks dominate over the longer run



Societal and Geopolitical risks dominate over the short run

Source: World Economic Forum *Global Risks Report 2025*, accessed at: https://reports.weforum.org/docs/WEF_Global_Risks_Report_2025.pdf; Risk & Uncertainty Management Center, University of South Carolina.

Global Economic Overview

Economic Optimism Is Plummeting in 2025

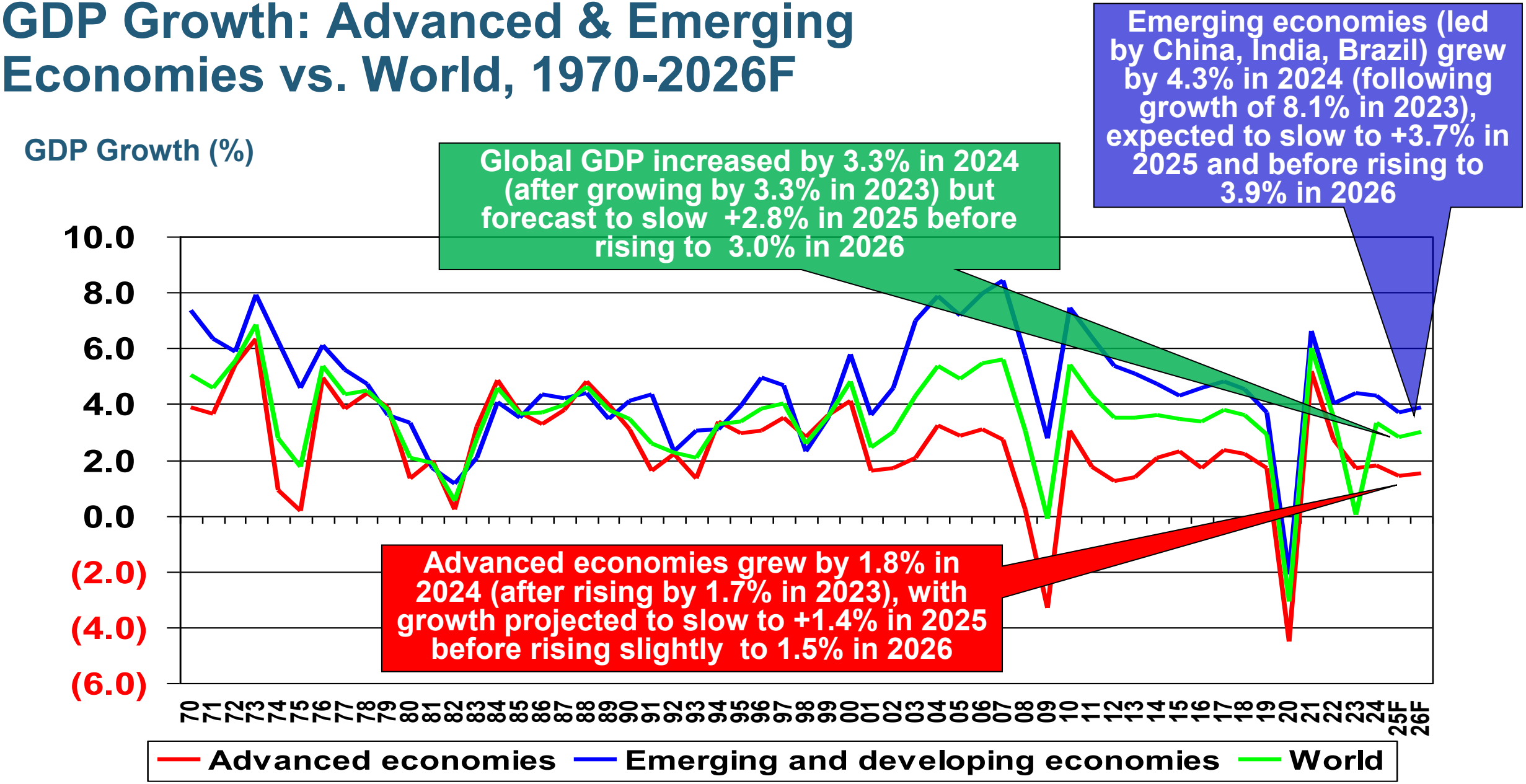
Uncertainty is a Breeding Ground for Pessimism

Economic Uncertainty, Financial Market Volatility, Geopolitical Conflicts, Tariffs and High Interest Rates and Weighing Heavily on Business and Consumer Sentiment

The Fed's Job Has Become Nearly Impossible

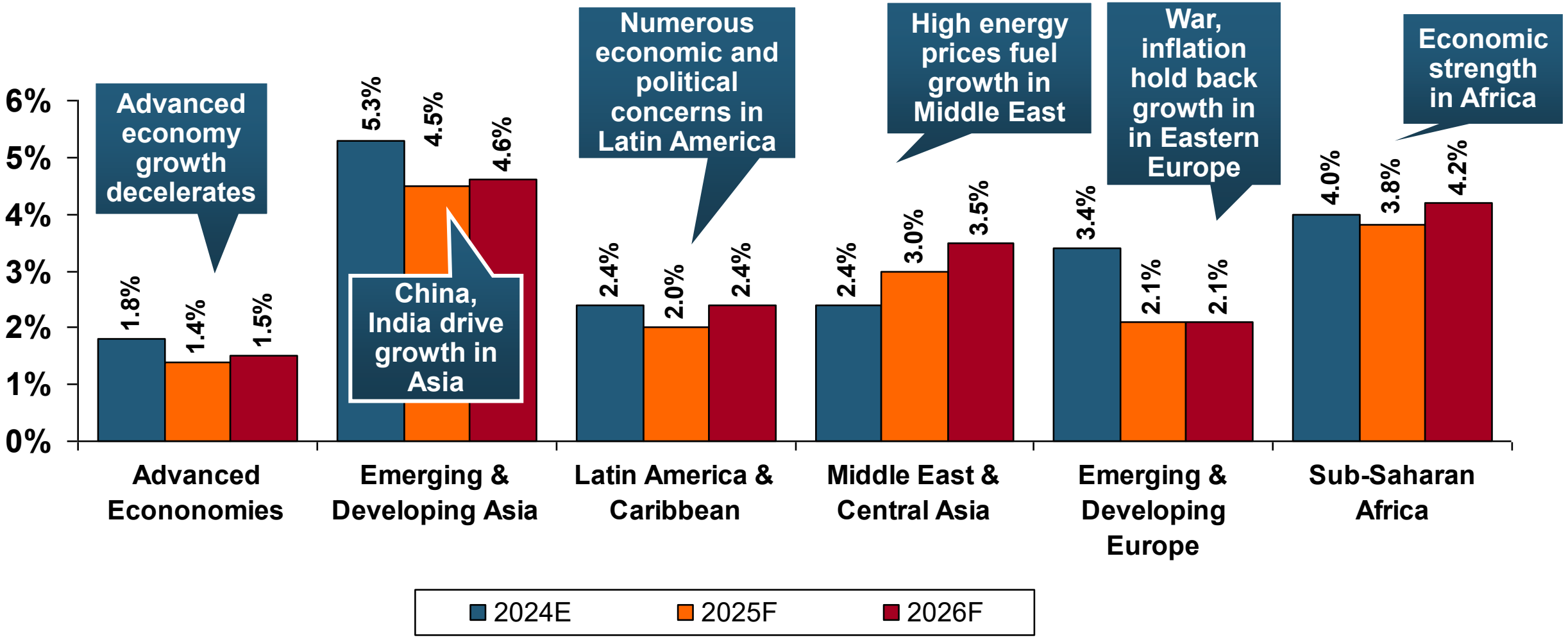
6

GDP Growth: Advanced & Emerging Economies vs. World, 1970-2026F



Source: International Monetary Fund, *World Economic Outlook* (1970-2025); Wells Fargo Economics (2025F – 2026F) [as of Apr. 22, 2025]; Univ. of South Carolina, Risk and Uncertainty Management Center.

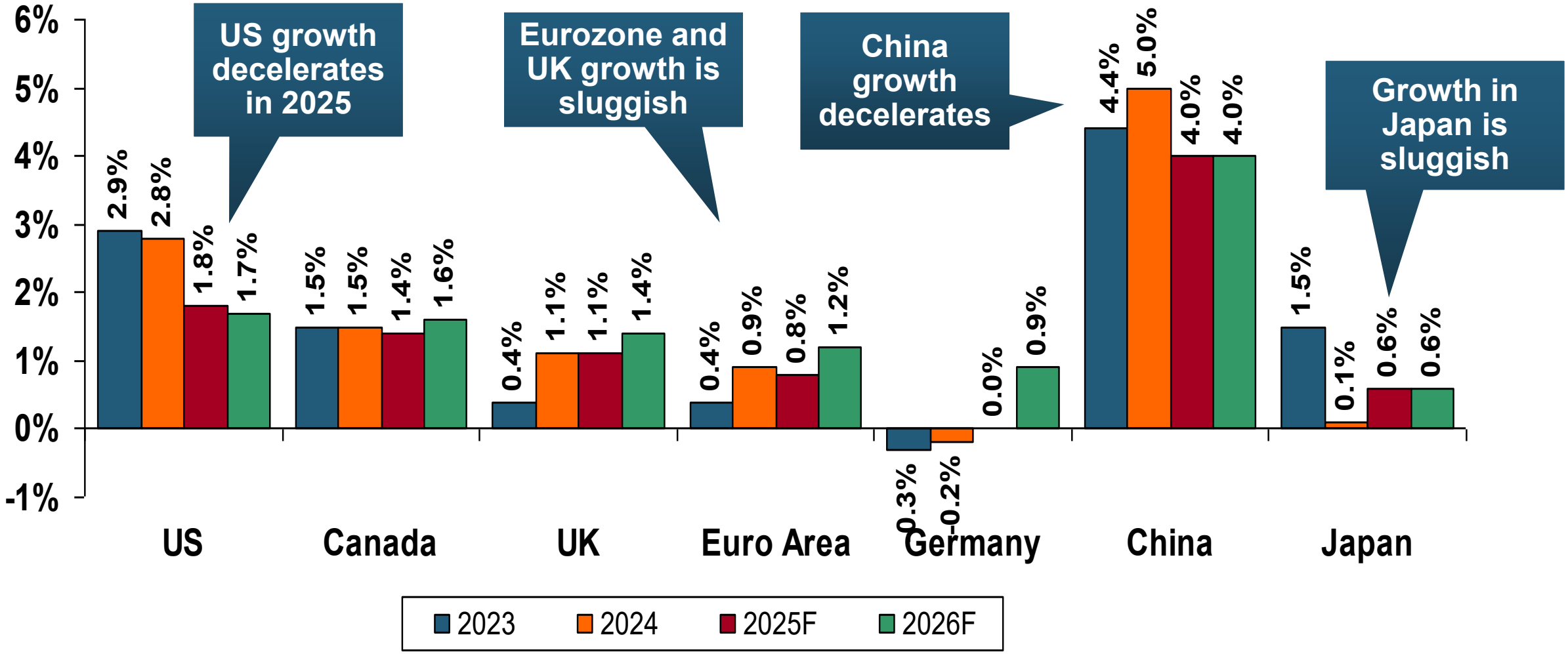
Real GDP Growth Forecasts: Major Regions: 2024E – 2026F



Global Growth Prospects Vary Widely but All Will Be Impacted Negatively by Tariffs and Trade War

Source: IMF, *World Economic Outlook*, Apr. 2025 at: https://www.imf.org/en/Publications/WEO/Issues/2025/01/17/world-economic-outlook-update-january-2025 and Wells Fargo Economics (3/25); Univ. of South Carolina, Risk and Uncertainty Management Center.

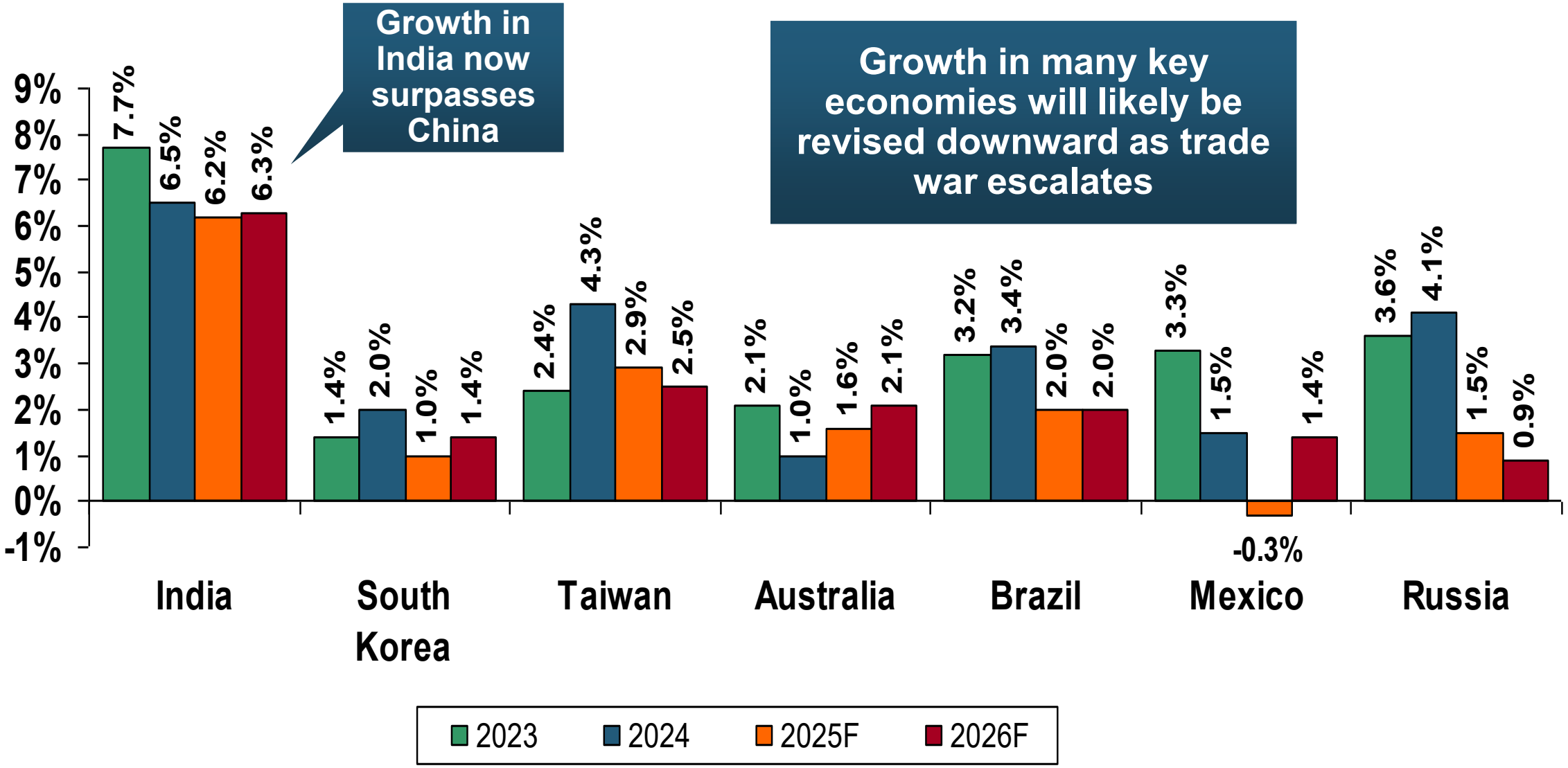
Real GDP Growth Forecasts: Major Economies: 2022 – 2026F



Growth Prospects Among the World's Major Economies Have Been Deteriorating

Source: IMF, *World Economic Outlook*, Apr. 2025 at: https://www.imf.org/en/Publications/WEO/Issues/2025/01/17/world-economic-outlook-update-january-2025 and Wells Fargo Economics (4/25); Univ. of South Carolina, Risk and Uncertainty Management Center.

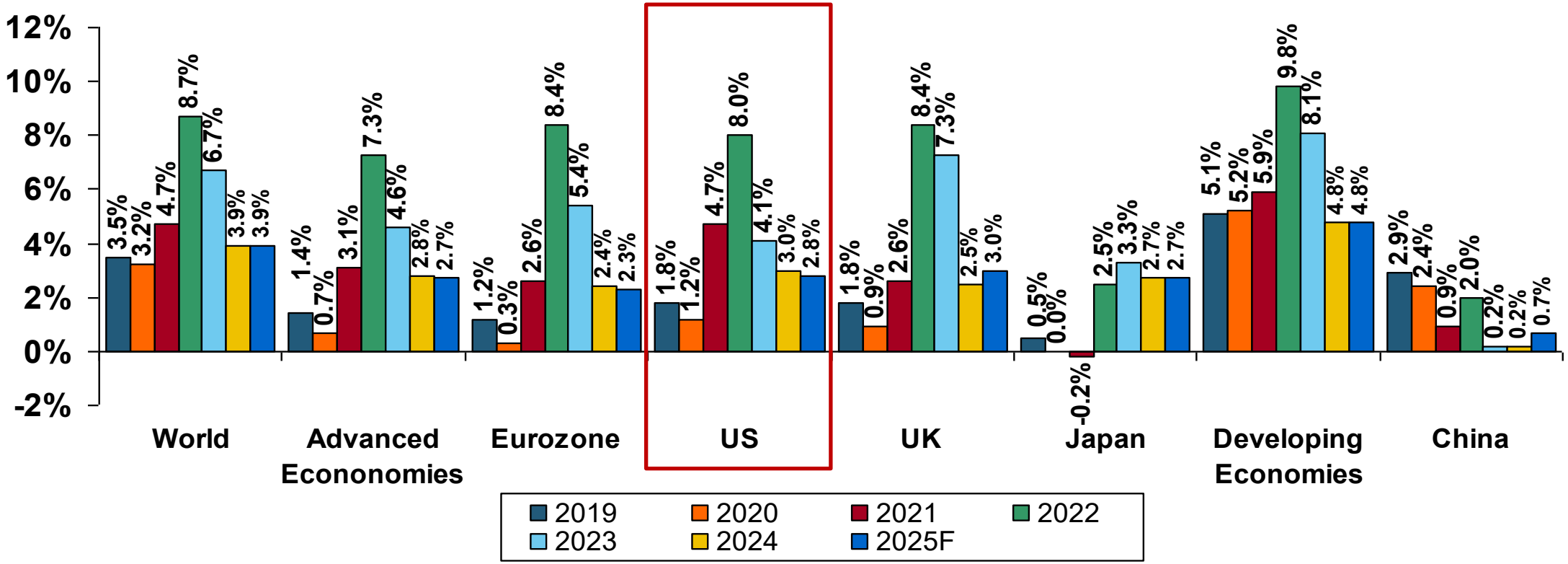
Real GDP Growth Forecasts: Other Key Economies: 2024E – 2026F



Source: IMF, *World Economic Outlook*, Apr. 2025 at: https://www.imf.org/en/Publications/WEO/Issues/2025/01/17/world-economic-outlook-update-january-2025 and Wells Fargo Economics (4/25); Univ. of South Carolina, Risk and Uncertainty Management Center.

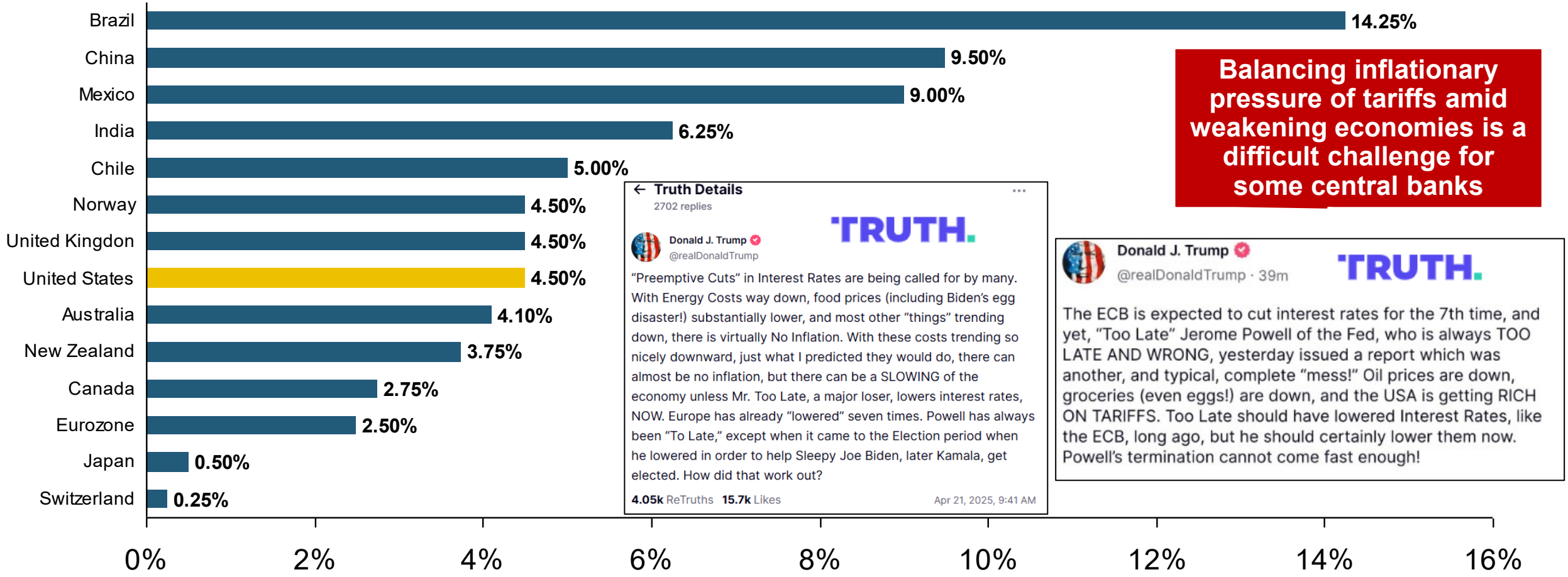
Inflation: A Global Phenomenon – Outlook through 2025F

- Inflation was a global phenomenon but tariffs stoking new fears
- Inflation is far below its 2022-2023 peak in most major economies
- For (re)insurers, impacts were immediate but rates have largely caught up
- Inflation drove the need for tens of billions in additional (re)insurance capacity



Source: IMF and Wells Fargo Securities (Mar. 2025); Univ. of South Carolina, Risk and Uncertainty Management Center.

Central Bank Key Policy Rates (As of April 8, 2025): *Easing Continues After the Global War on Inflation*



Balancing inflationary pressure of tariffs amid weakening economies is a difficult challenge for some central banks

← Truth Details
2702 replies

TRUTH.

Donald J. Trump
@realDonaldTrump

"Preemptive Cuts" in Interest Rates are being called for by many. With Energy Costs way down, food prices (including Biden's egg disaster!) substantially lower, and most other "things" trending down, there is virtually No Inflation. With these costs trending so nicely downward, just what I predicted they would do, there can almost be no inflation, but there can be a SLOWING of the economy unless Mr. Too Late, a major loser, lowers interest rates, NOW. Europe has already "lowered" seven times. Powell has always been "To Late," except when it came to the Election period when he lowered in order to help Sleepy Joe Biden, later Kamala, get elected. How did that work out?

4.05k ReTruths **15.7k** Likes Apr 21, 2025, 9:41 AM

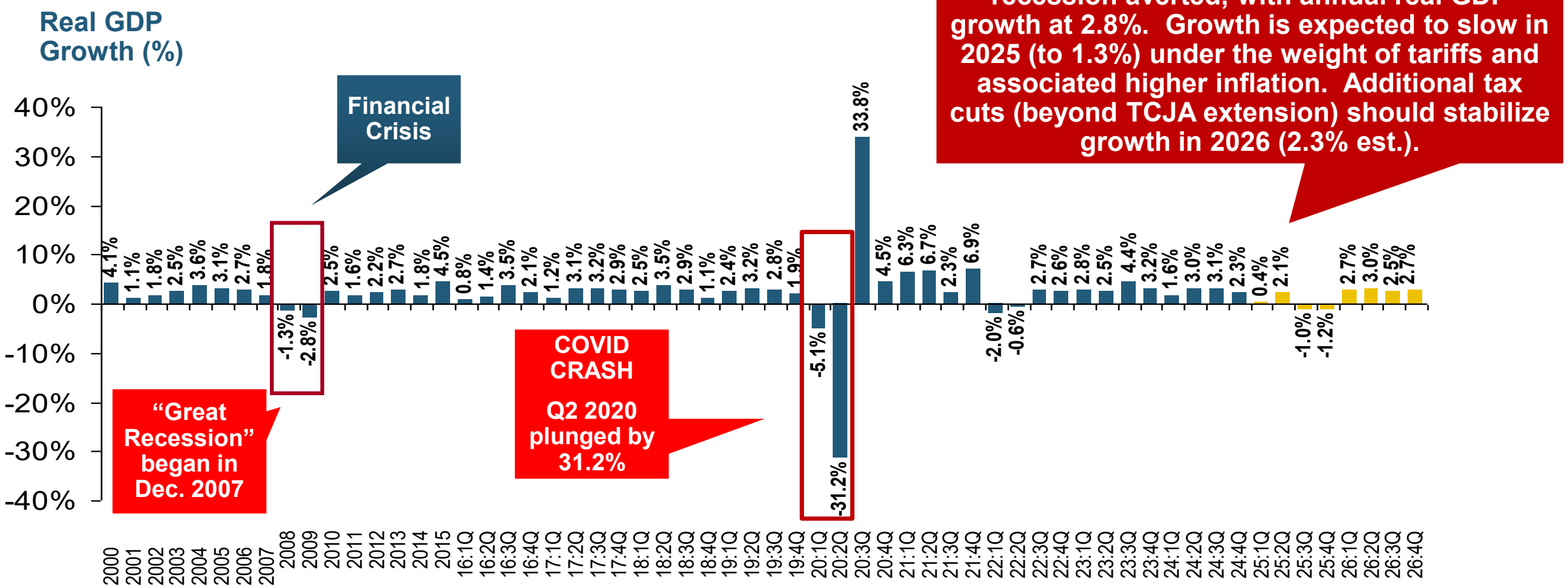
Donald J. Trump
@realDonaldTrump · 39m

TRUTH.

The ECB is expected to cut interest rates for the 7th time, and yet, "Too Late" Jerome Powell of the Fed, who is always TOO LATE AND WRONG, yesterday issued a report which was another, and typical, complete "mess!" Oil prices are down, groceries (even eggs!) are down, and the USA is getting RICH ON TARIFFS. Too Late should have lowered Interest Rates, like the ECB, long ago, but he should certainly lower them now. Powell's termination cannot come fast enough!

Source: Wells Fargo Economics (4/25); USC Center for Risk and Uncertainty Management.

US Real GDP Growth, 2000 – 2026F*



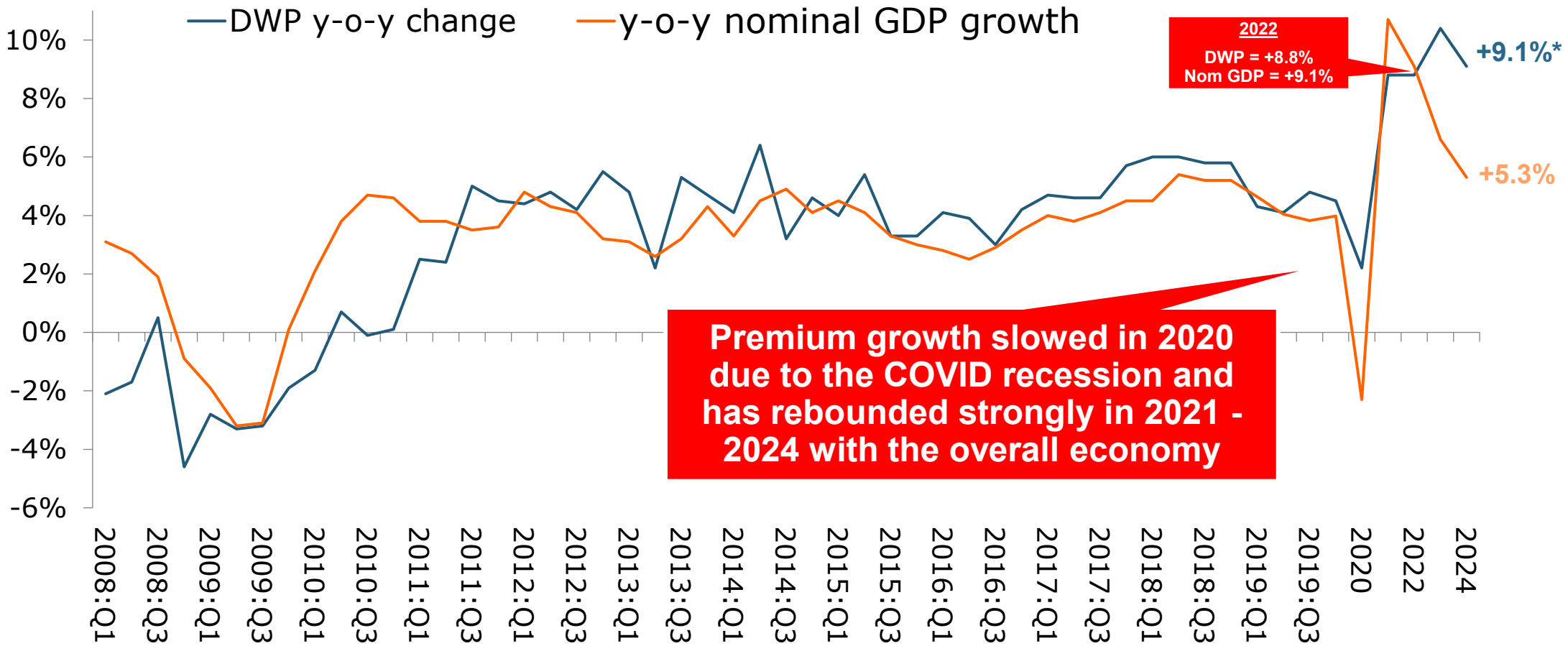
Demand for Insurance Increased Materially in 2021/22 During Recovery from the Pandemic—Particularly in Economically Sensitive Commercial Lines Such as WC. Premium growth will likely slow as Economy Slows.

* Estimates/Forecasts from Wells Fargo Securities.

Source: US Department of Commerce, Wells Fargo Securities (4/25); Center for Risk and Uncertainty Management, University of South Carolina.

The Economy Drives P/C Insurance Industry Premiums: 2006:Q1–2024E*

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

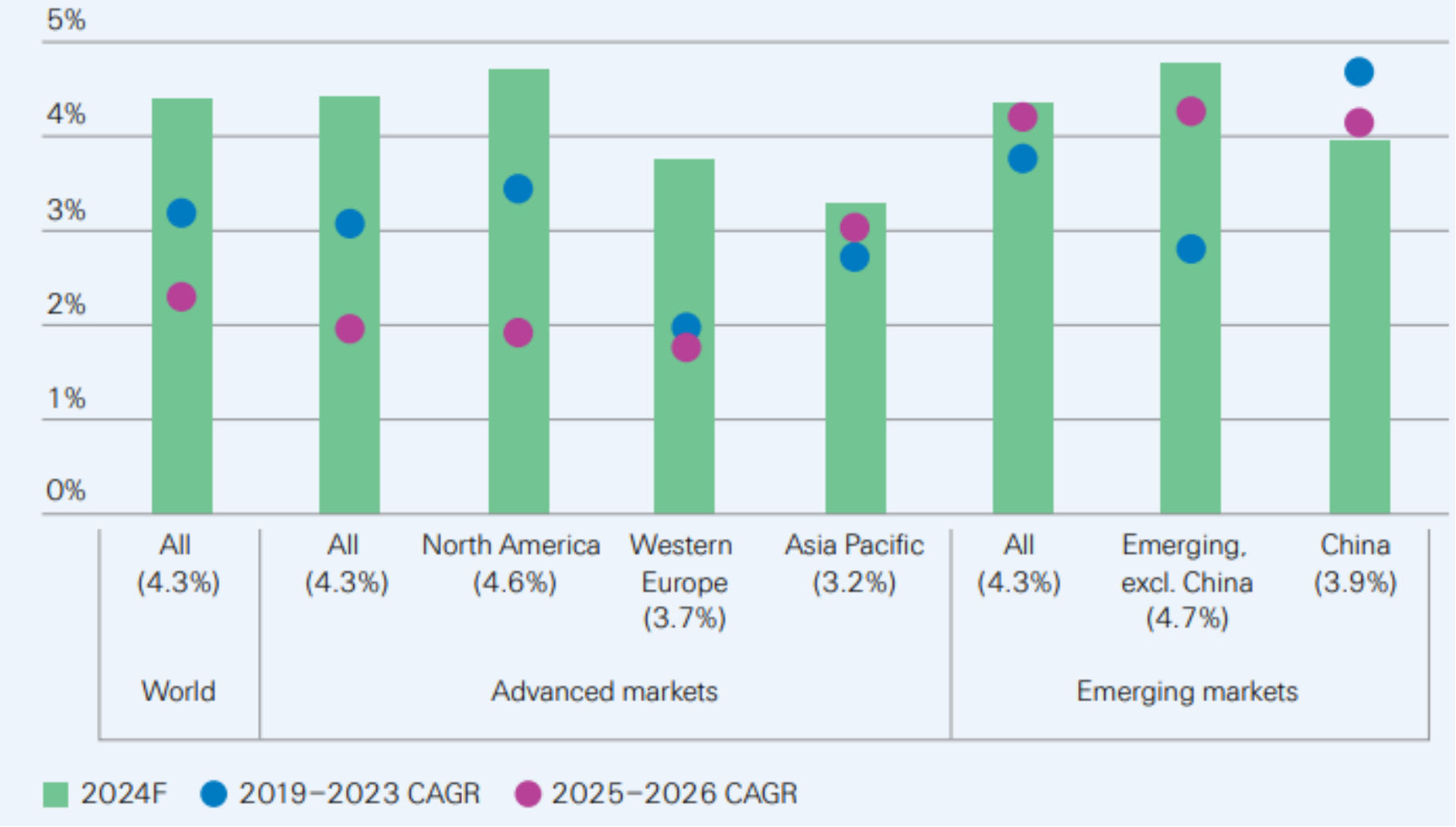


Direct written premiums track nominal GDP fairly tightly over time, suggesting the P/C insurance industry's growth prospects inextricably linked to economic performance.

*2020-24 figures are annual.

Sources: SNL Financial; U.S. Commerce Dept., Bureau of Economic Analysis; ISO;, Swiss Re (2024E) I.I.I.; Risk and Uncertainty Management Center, University of South Carolina.

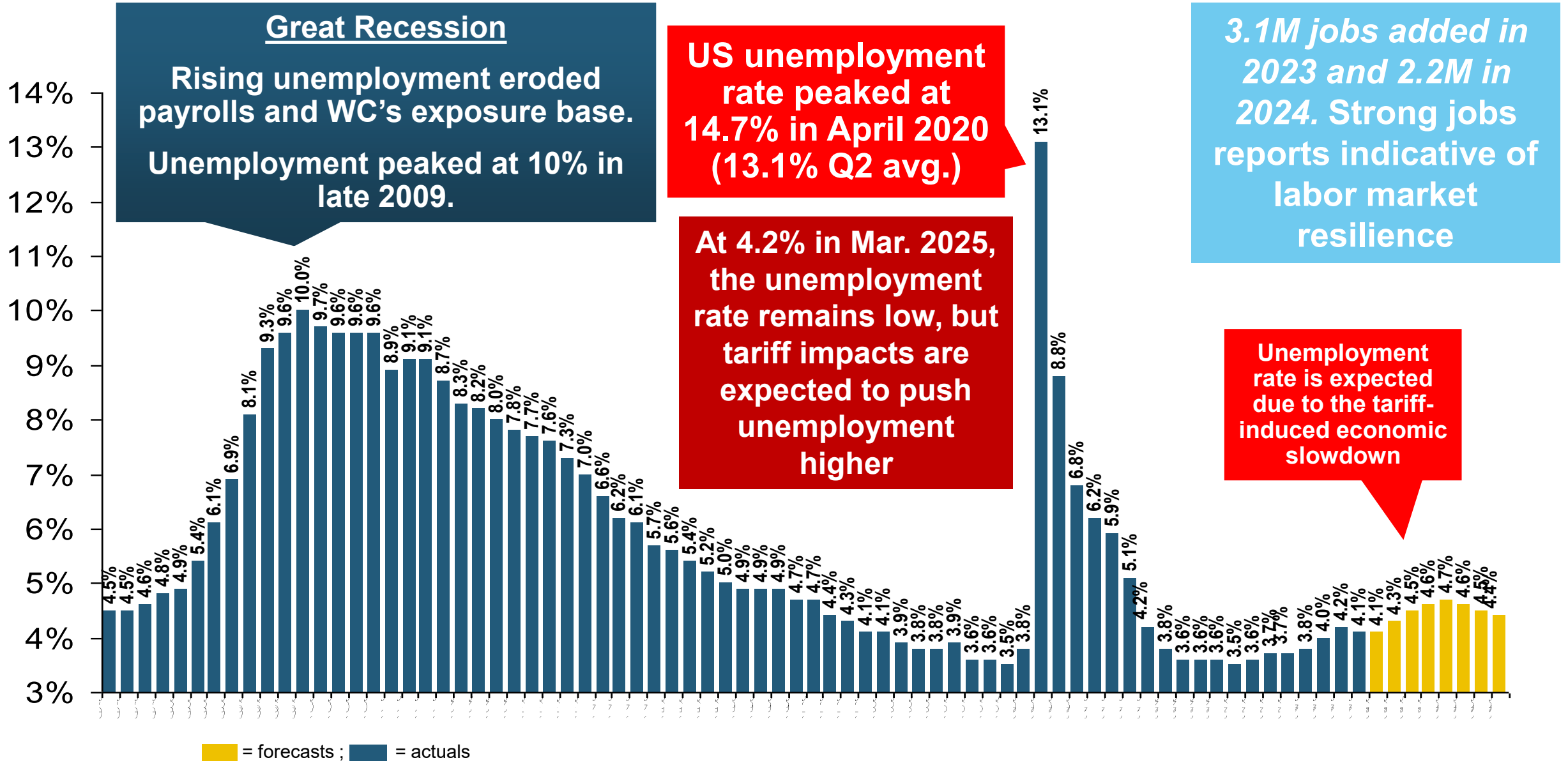
Global Non-Life Real Premium Growth, by Region *(2024 values in brackets)*



Advanced Markets premium growth is expected to slow, while Emerging Markets excluding China are forecast to grow in 2025-2026

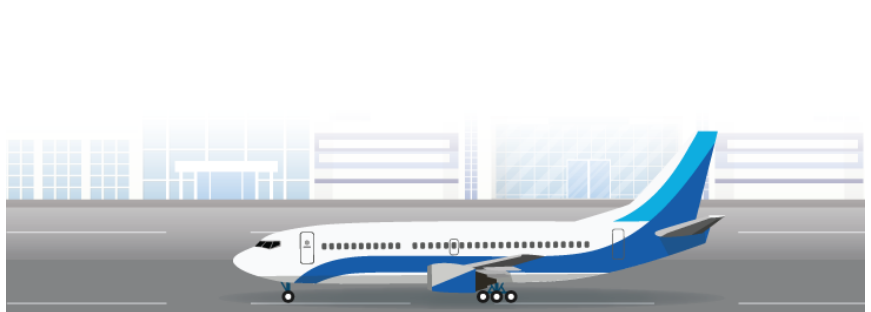
Source: Swiss Re Institute, Sigma No 5/2024, *Growth in the Shadow of (Geo)politics*, accessed at: https://www.swissre.com/dam/jcr:dbe1695d-7cf9-4a14-bc37-52465fe4789a/sri-sigma-global-economic-insurance-market-outlook-2025-2026.pdf; Risk & Uncertainty Management Center, University of South Carolina.

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



Sources: US Bureau of Labor Statistics; Wells Fargo Securities (4/25 edition); Risk and Uncertainty Management Center, University of South Carolina.

The Fed Was on Final Approach for a Soft Landing Until Tariff Turmoil Forced a Go Around – 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

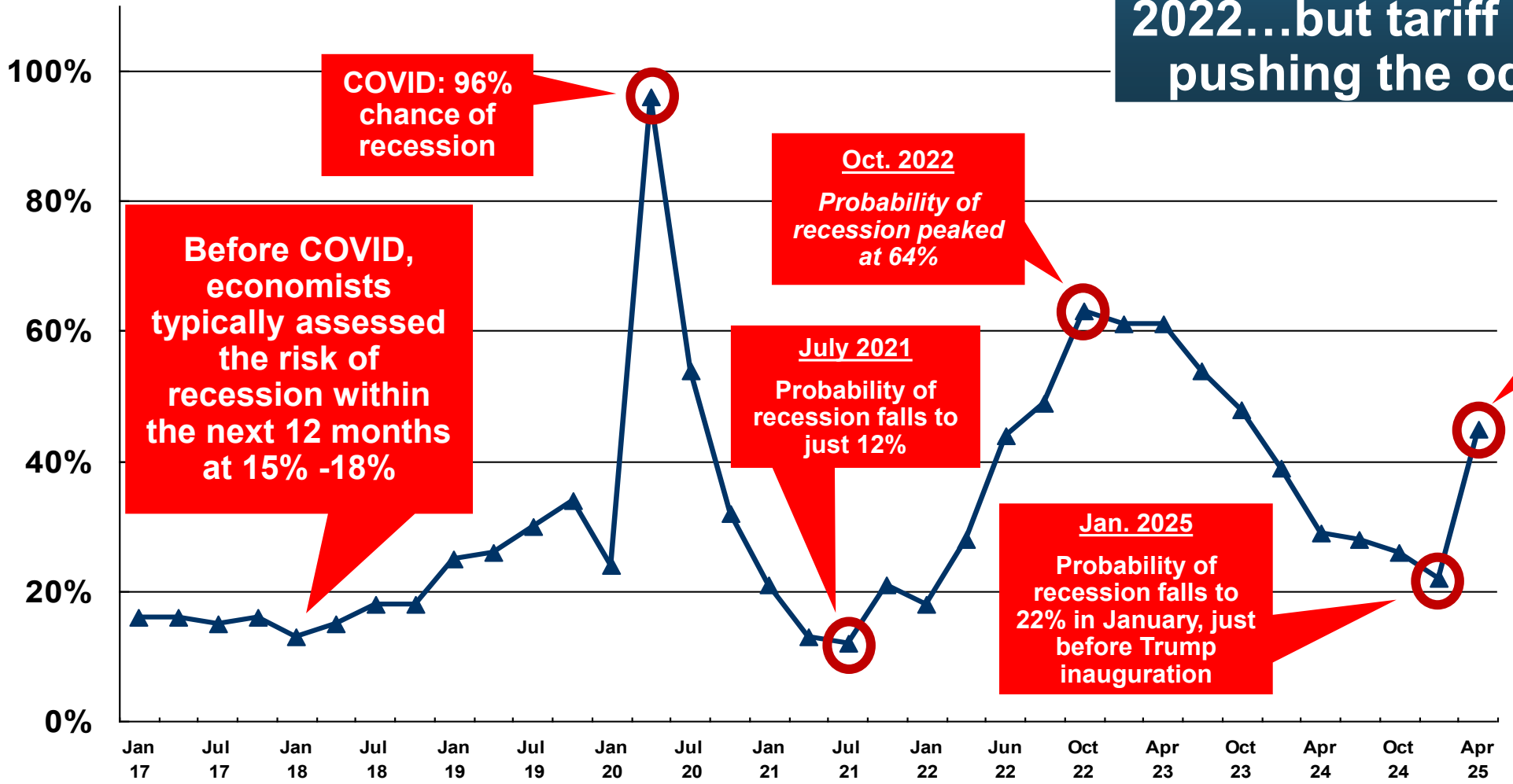
In a "no landing" scenario, the economy averts a recession altogether.

No Landing

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

Probability the U.S. Is in a Recession Within Next 12 Months: Jan. 2017 – Apr. 2025*

Recession odds decreased substantially since 2022…but tariff concerns are pushing the odds back up



Recession?

The economy achieved a "soft landing" in 2024, averting a recession most thought would result from higher interest rates—but tariffs are raising recession worries

*Jan. 2025 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.

P/C Insurance Industry Financial Overview & Outlook:

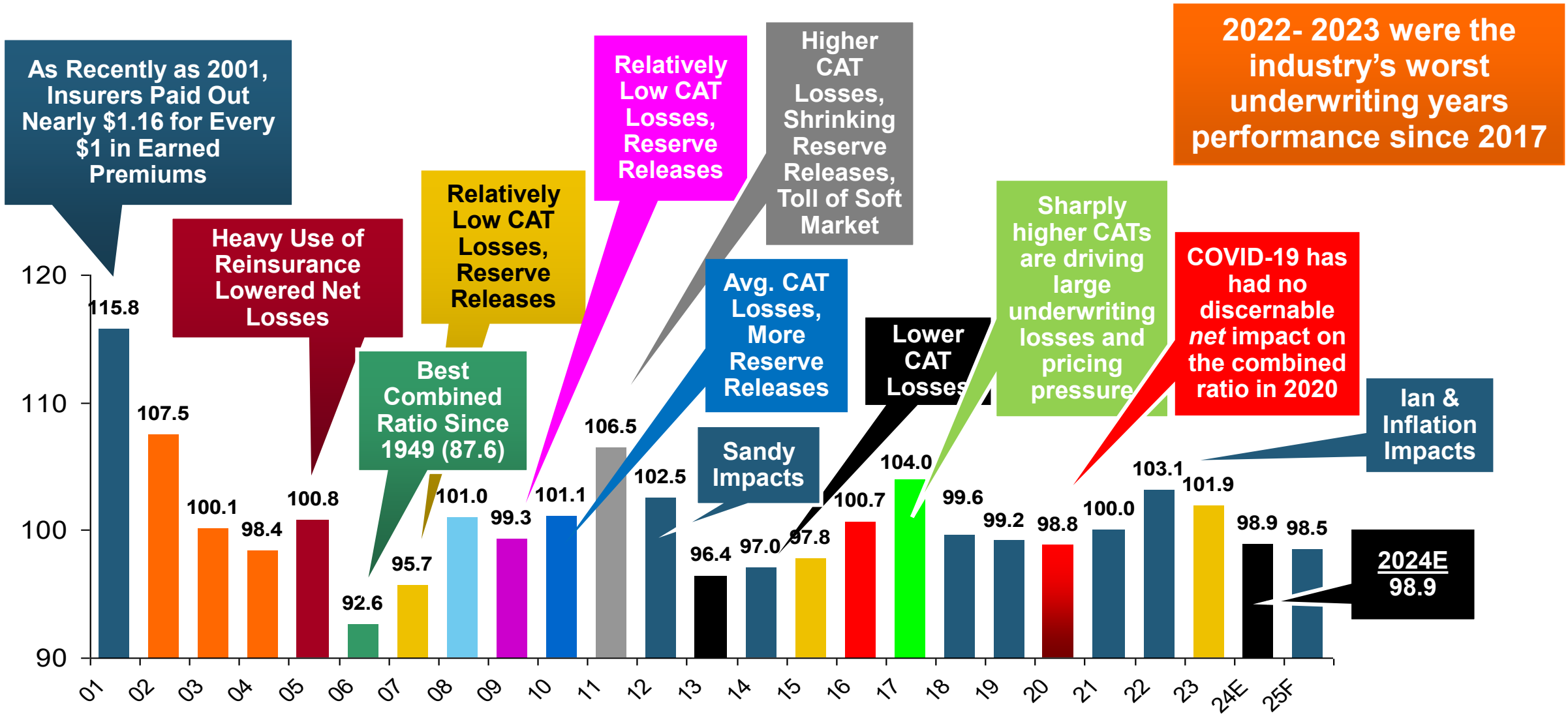
Challenges Amid Inflation and Higher Interest Rates

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

Industry Remains Strong

19

P/C Insurance Industry Combined Ratio, 2001–2024E*



*Excludes Mortgage & Financial Guaranty insurers 2008–2025F.
Sources: A.M. Best, ISO (2014-2017).

P/C Insurance: Results by Line through Q3 2024

($ Millions)

DPW were up 9.1% through Q3 2024

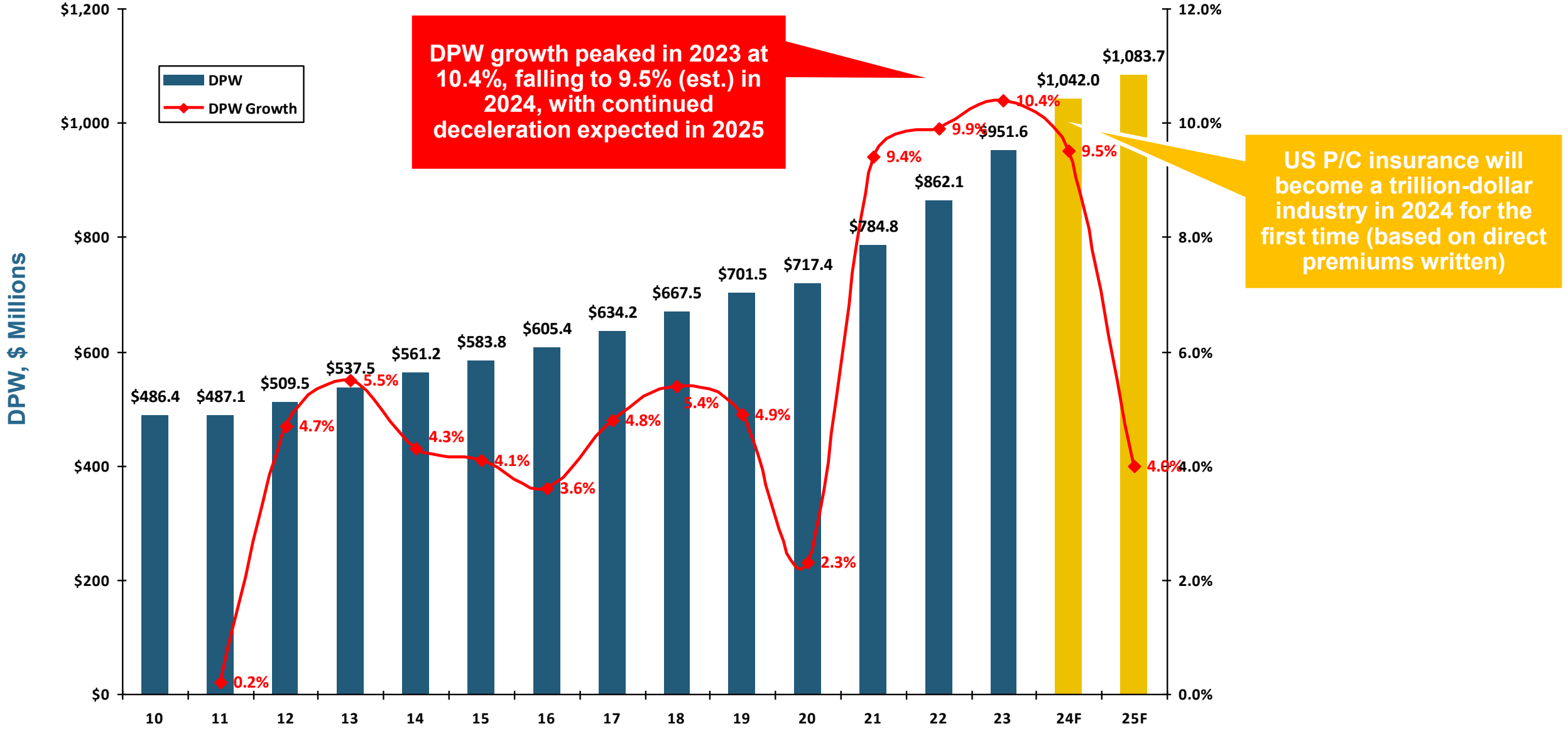
P/C all lines loss ratio improved by 5.4 points through Q3 2024 to 62.2

Coverage Line	Direct Premiums Written 3Q22	3Q23	3Q24	YoY % Change 3Q23-3Q24	Direct Incurred Loss Ratio 3Q22	3Q23	3Q24	3Q23/3Q24 Change	3Q23/3Q24 Better or Worse
Homeowners/Farmowners	105,280	119,761	133,696	11.6	79.3	81.2	67.4	-13.8	↑
Private Passenger Auto	209,384	237,685	271,730	14.3	78.1	76.3	66.6	-9.7	↑
Workers' Compensation	43,609	45,129	43,369	-3.9	47.5	47.9	49.3	1.4	↓
Commercial Auto	45,203	48,076	53,614	11.5	68.6	72.7	72.1	-0.6	↑
Commercial Property*	78,226	75,032	80,608	7.4	67.1	61.3	50.6	-10.7	↑
Other Liability (Occurrence)	53,748	56,879	63,122	11.0	66.0	65.5	73.1	7.6	↓
Other Liability (Claims-Made)	32,087	29,810	29,792	-0.1	49.8	48.9	51.2	2.3	↓
Medical Professional Liability	9,690	9,906	10,337	4.3	55.6	55.5	54.7	-0.8	↑
Surety	6,517	7,275	8,083	11.1	14.8	20.8	24.9	4.2	↓
Total P/C	**664,356**	**732,282**	**799,235**	**9.1**	**68.1**	**67.6**	**62.2**	**-5.4**	↑

* Commercial property data comprises fire, allied lines, and CMP (non-liability). Commercial property data for 2022 includes the entire premium and loss totals for the CMP line because the data for that line was not split between CMP-Liability and CMP-Non-Liability until 2023. The 3Q22 direct incurred loss ratio also reflects the inclusion of the full CMP premium and loss data. This data is as of January 6, 2025.

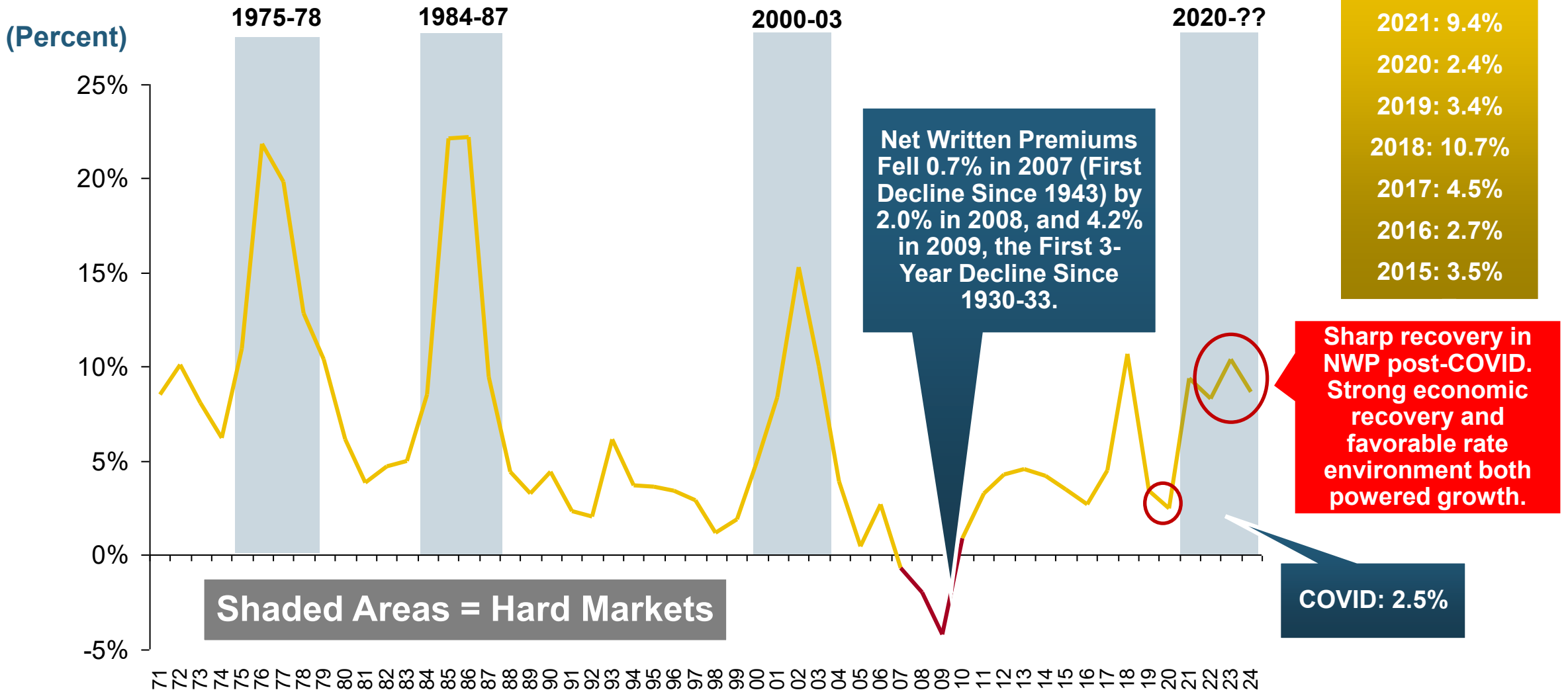
Source: A.M. Best as published in Carrier Management (1/24/25) at: https://www.carriermanagement.com/news/2025/01/24/270970.htm

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



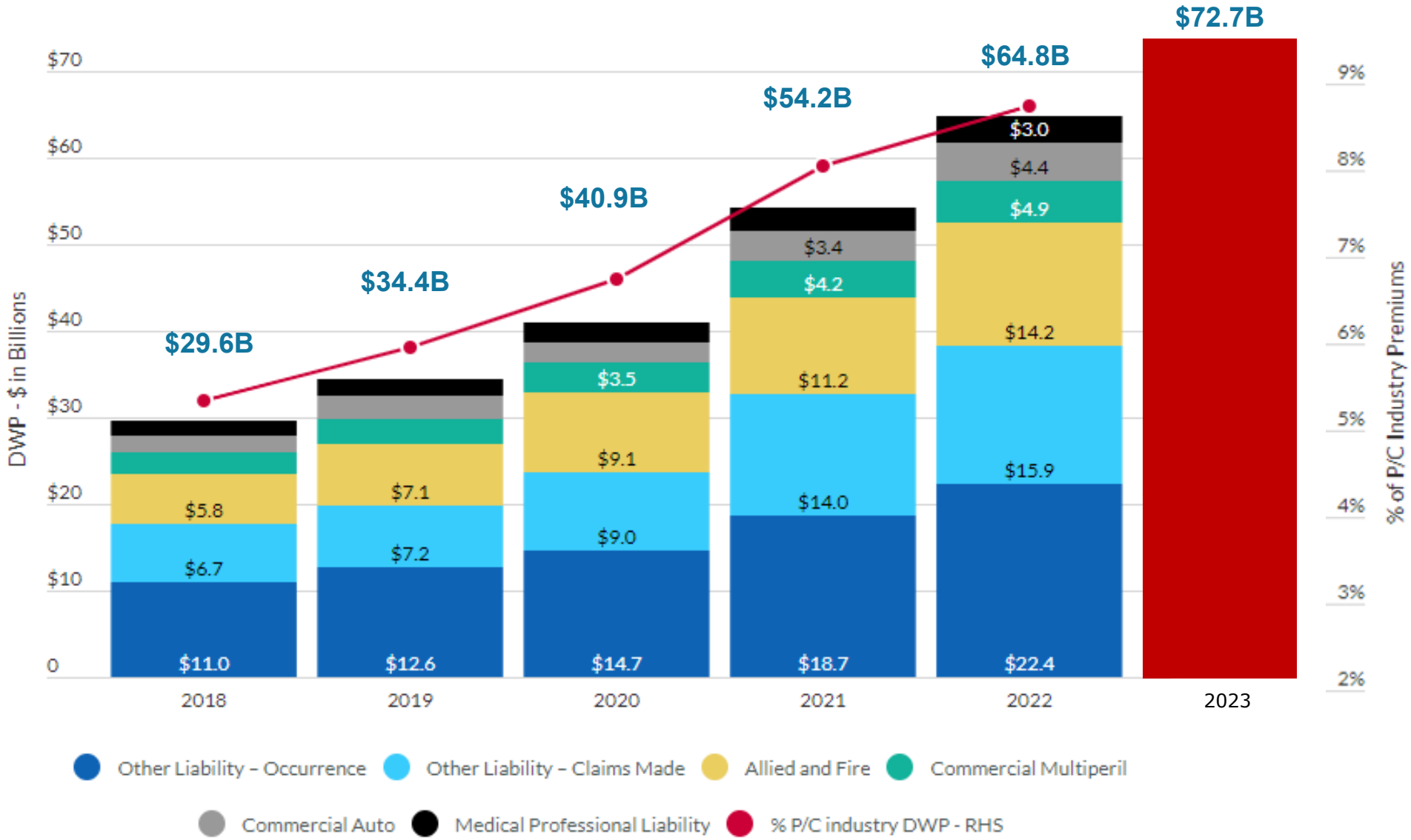
Sources: A.M. Best and NAIC (2010-2022); Forecast figures for 2024-25 from Swiss Re Institute (2024F-2025F) "*US Property & Casualty Outlook: Dog Days are Over,*" (June 2024), accessed at: https://www.swissre.com/dam/jcr:b2178beb-350f-406e-8714-63ea4b3fe2e1/swiss-re-institute-us-pc-dog-days-are-over.pdf.

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



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

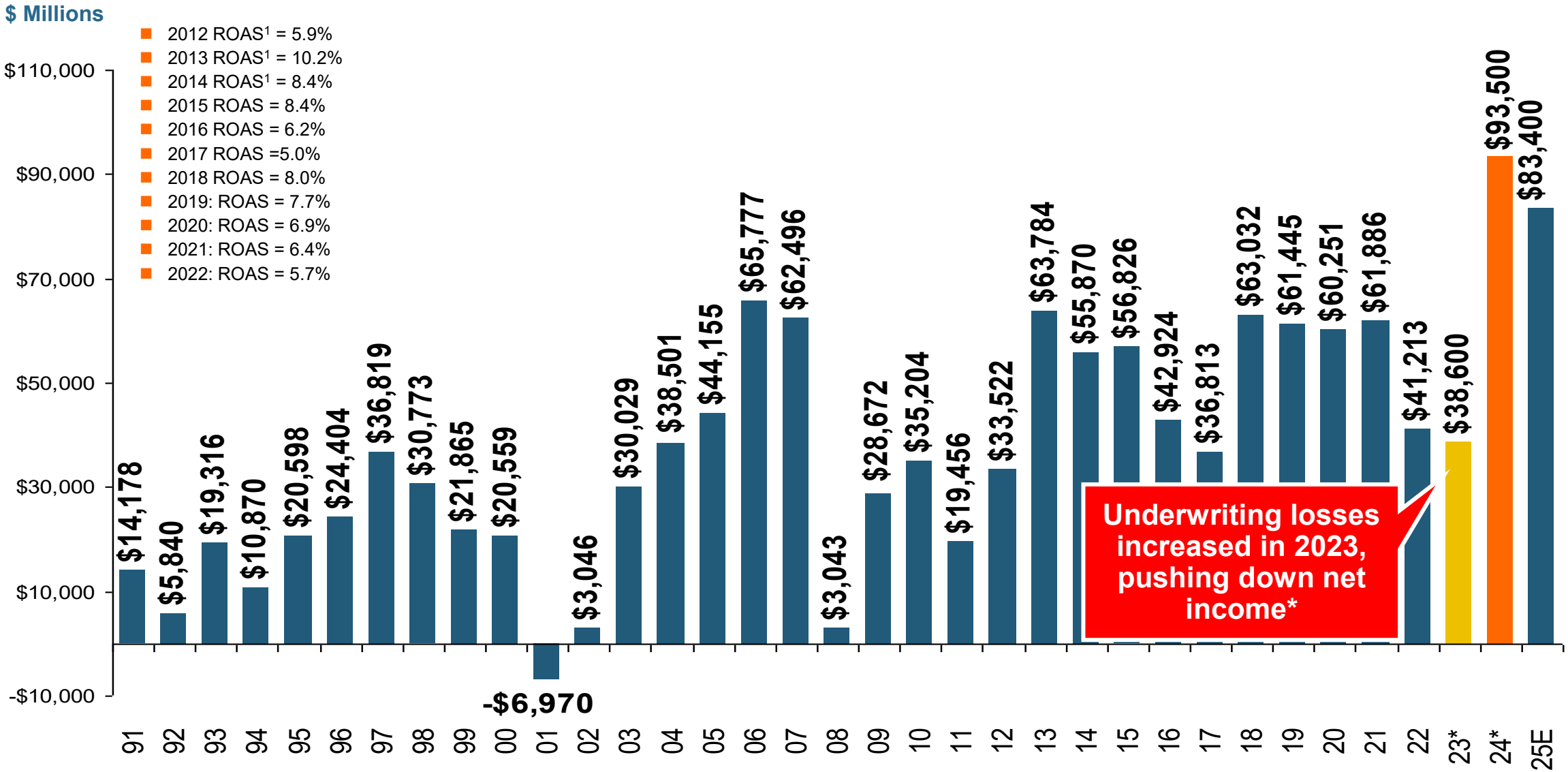
E&S Market Direct Written Premium Trends



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)

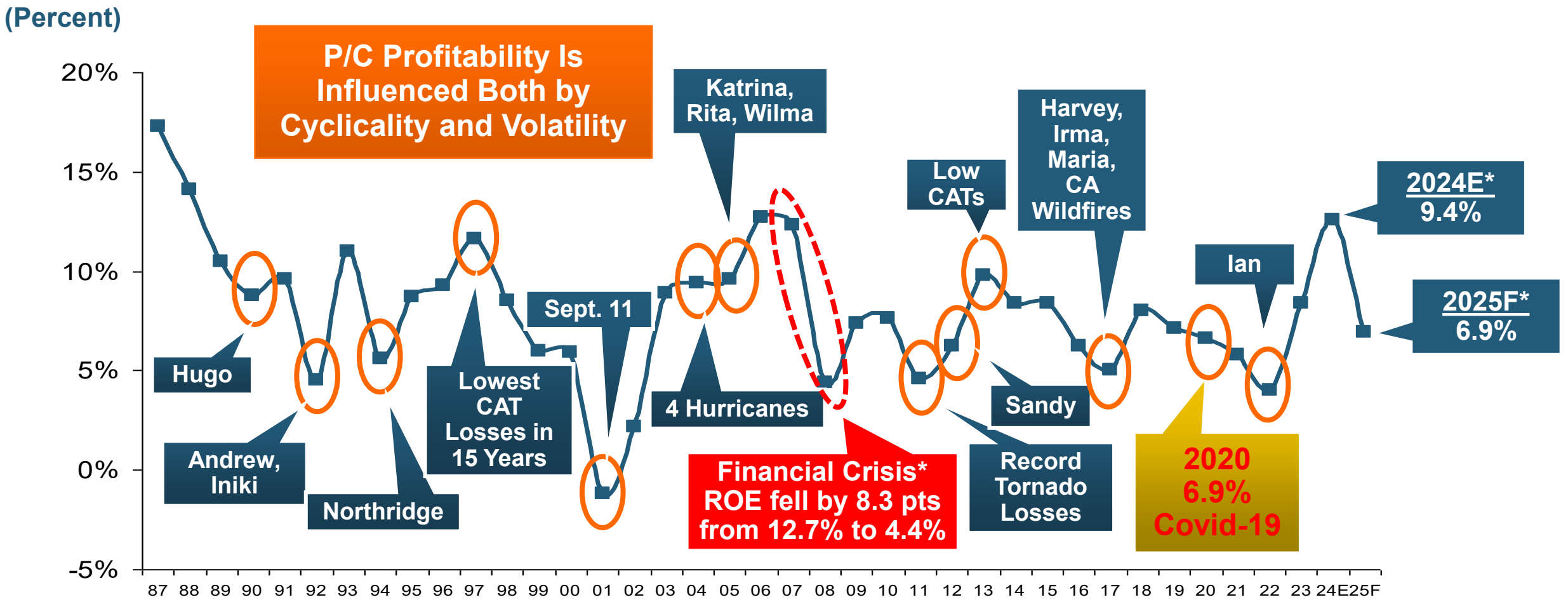
Sources: Data for 2018 – 2022: Fitch Ratings (*Fitch Wire*, Oct. 4, 2023) accessed at: https://www.fitchratings.com/research/insurance/us-excess-surplus-insurance-market-outperformance-to-continue-04-10-2023; For 2023: Insurance Journal from WSIA, accessed at: https://www.insurancejournal.com/news/national/2024/02/14/760715.htm#;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

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



*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, 1987–2025F



*Excludes Mortgage & Financial Guarantee in 2008 – 2025F.
Sources: A.M. Best, ISO, *Fortune,* APCIA; USC RUM Center.

Upgrades, Downgrades and M&A Activity

Underwriting Performance, CATs and Capital Are Impacting Insurer Ratings

US P/C: Rating Upgrades & Downgrades, by Segment, 2024

There were 43 ratings downgrades in 2024, down from 55 in 2023. Personal lines insurers accounted for 31 (72%) of total downgrades in 2024.

Upgrades Up, Downgrades Down

AM Best Rating Actions for Full-Year

	2024		2023		2022		2024 Change		2023 Change	
	Upgrades	Downgrades	Upgrades	Downgrades	Upgrades	Downgrades	Upgrades	Downgrades	Upgrades	Downgrades
Personal	8	31	9	39	10	18	-1	-8	-1	21
Commercial	34	12	21	15	26	11	13	-3	-5	4
Reinsurance	0	0	5	1	0	1	-5	-1	5	0
Total	42	43	35	55	36	30	7	-12	-1	25

Source: AM Best, March 13, 2025, U.S. Property/Casualty: Rating Upgrades Up, Downgrades Down in 2024; AM Best, March 11, 2024, U.S. Property/Casualty Downgrades Outpace Upgrades in 2023

Source: A.M. Best Review & Preview 2025 and 2024 from Carrier Management (March 16, 2025) at: https://www.carriermanagement.com/news/2025/03/16/273012.htm.

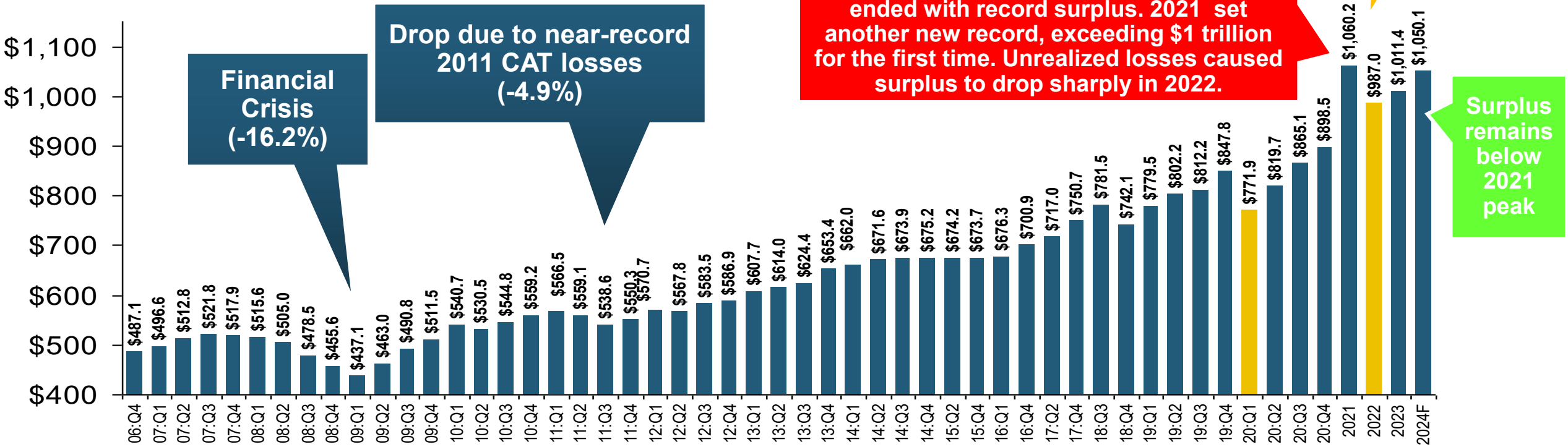
Capital and Capacity

P/C Insurance: Capitalized Crunch?

Will Industry Capacity Recover?

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

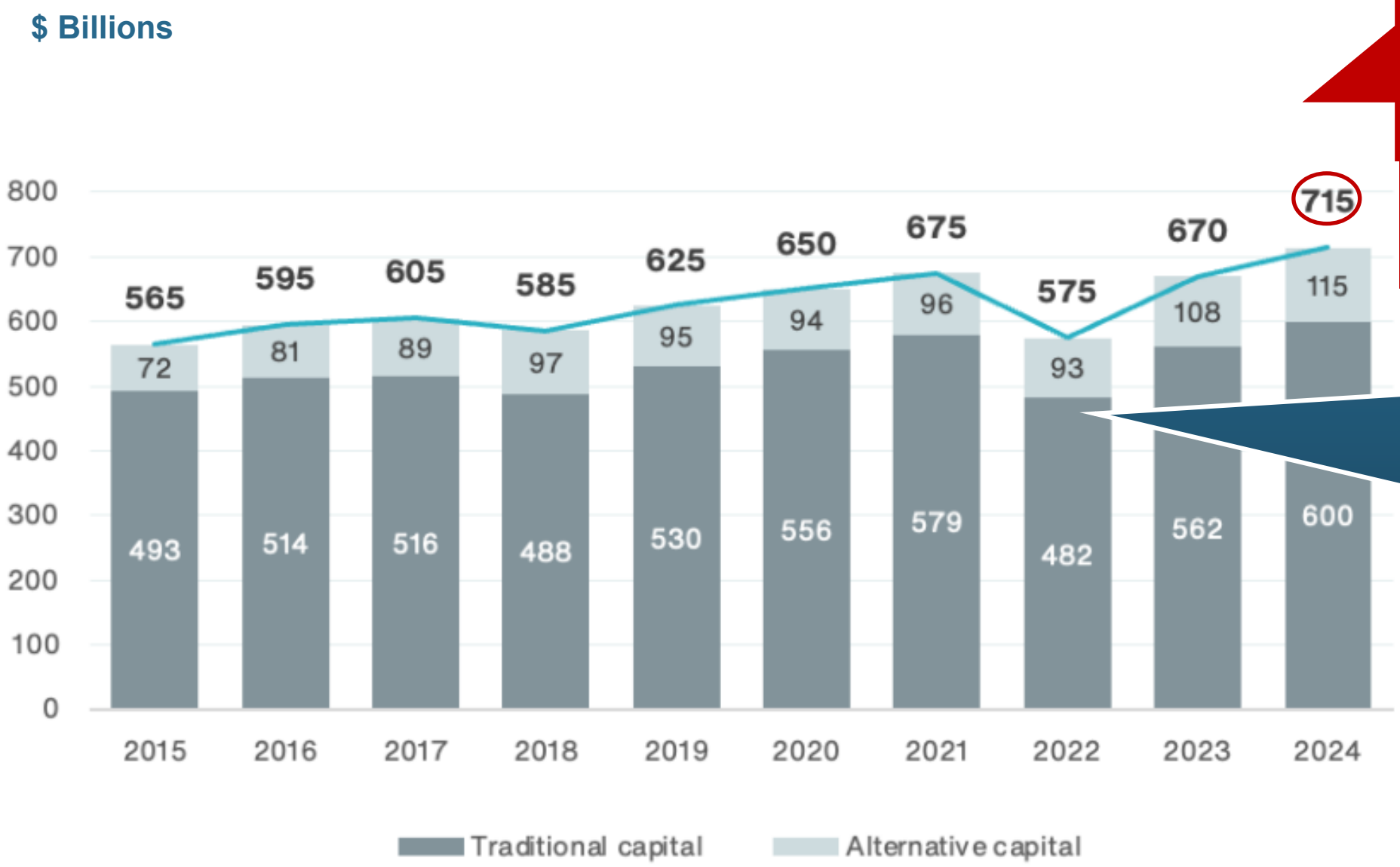
($ Billions)



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, 2015 – 2024

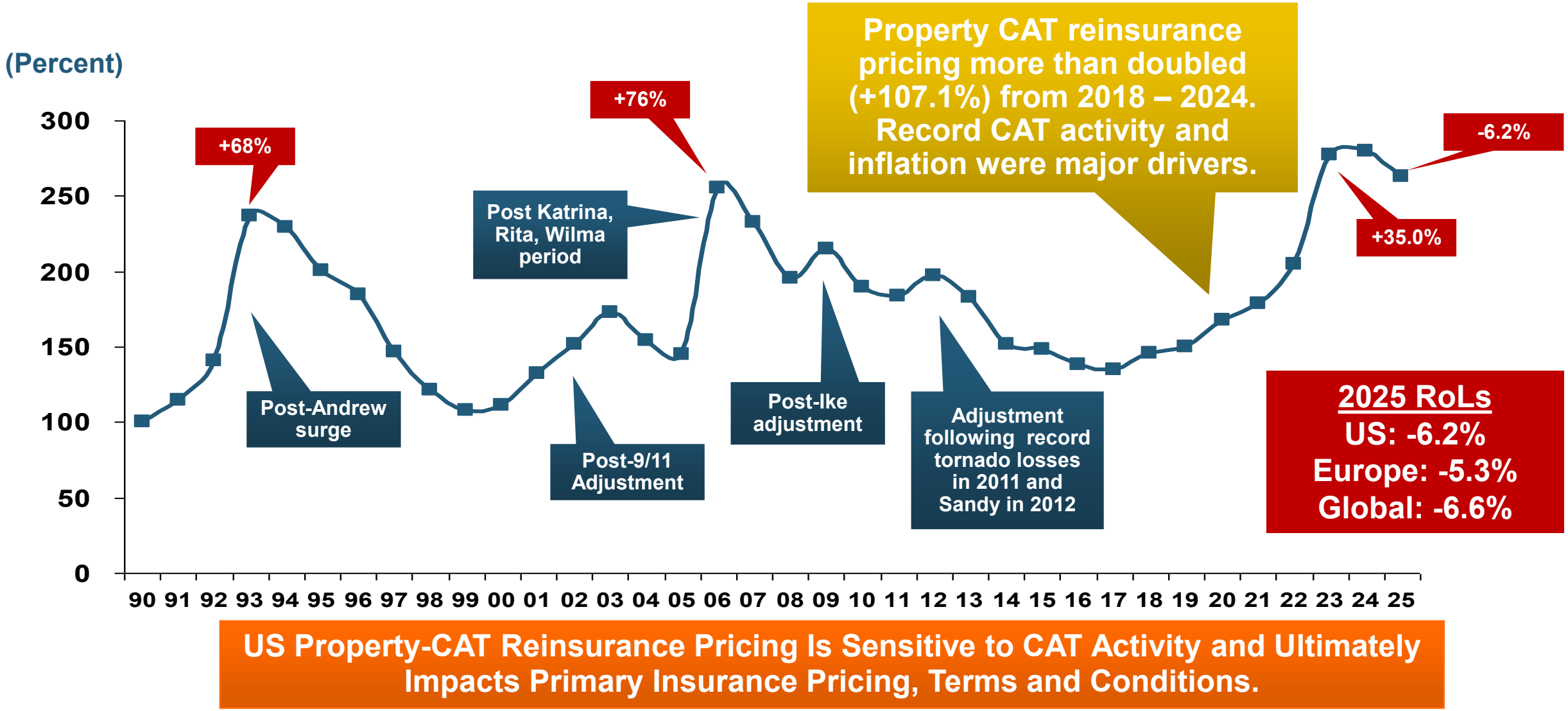


Global reinsurance reached a new high in 2024, but is only 5.9% above its 2022 peak—far below the increase that would be needed to keep pace with inflation and exposure growth

Global reinsurance capital fell by $100B or 14.8% in 2022, contributing to recent property insurance challenges. Most of that capital was recovered in 2023—with ILS playing a key role

Source: Aon Reinsurance Solutions/Aon Securities accessed at: https://assets.aon.com/-/media/files/aon/reports/2025/reinsurance-market-dynamics-apr-2025.pdf

US Property Catastrophe Rate-on-Line Index: 1990 – 2025*

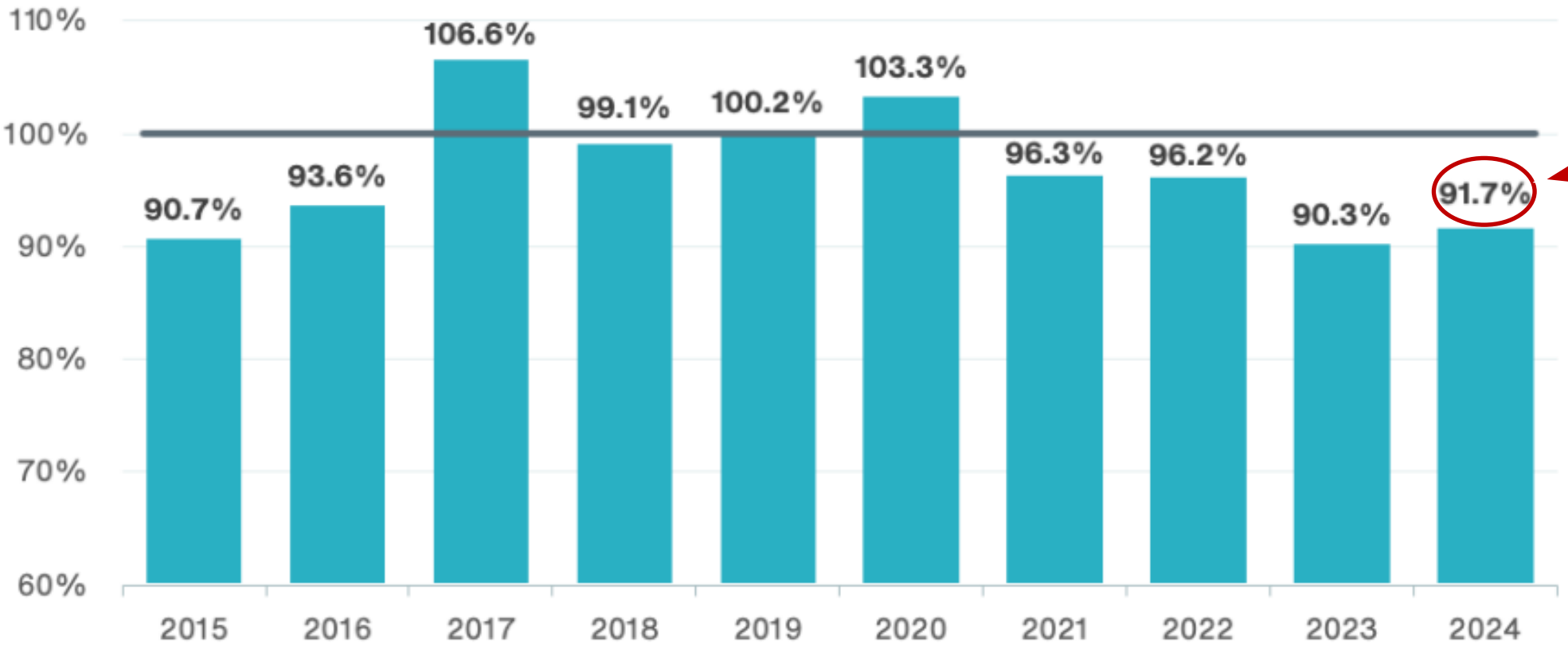


US Property-CAT Reinsurance Pricing Is Sensitive to CAT Activity and Ultimately Impacts Primary Insurance Pricing, Terms and Conditions.

*As of January 1 each year.

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

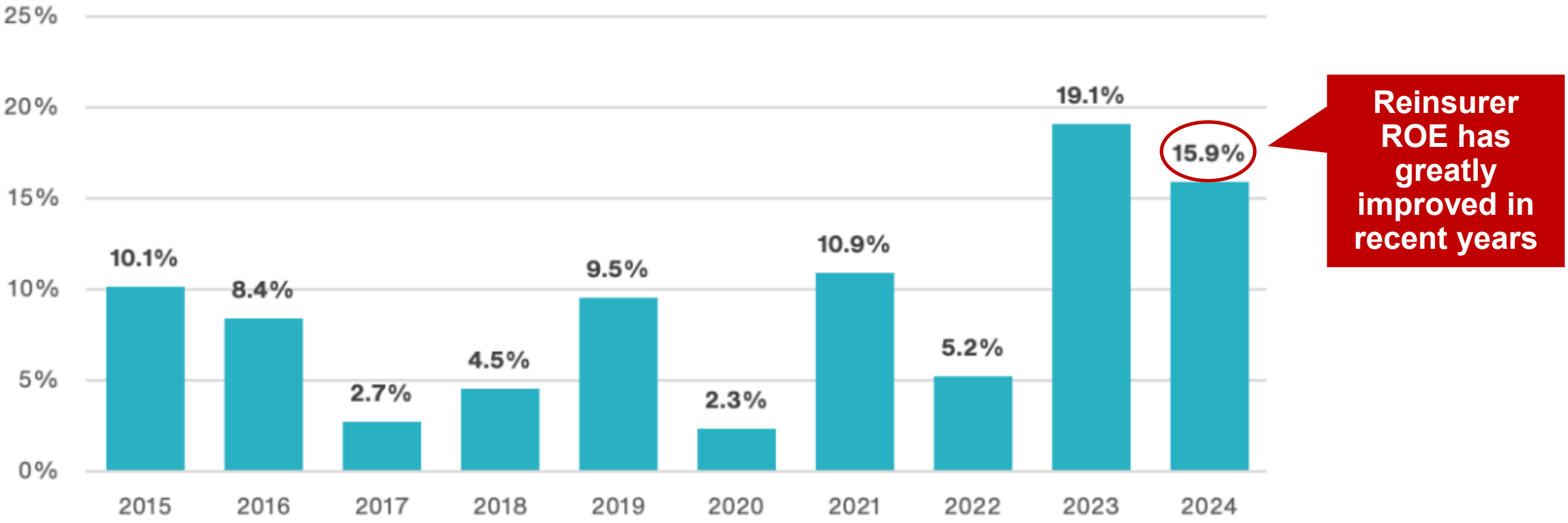
Reinsurance Sector Combined Ratio, 2015 – 2024



Reinsurer underwriting performance has greatly improved in recent years

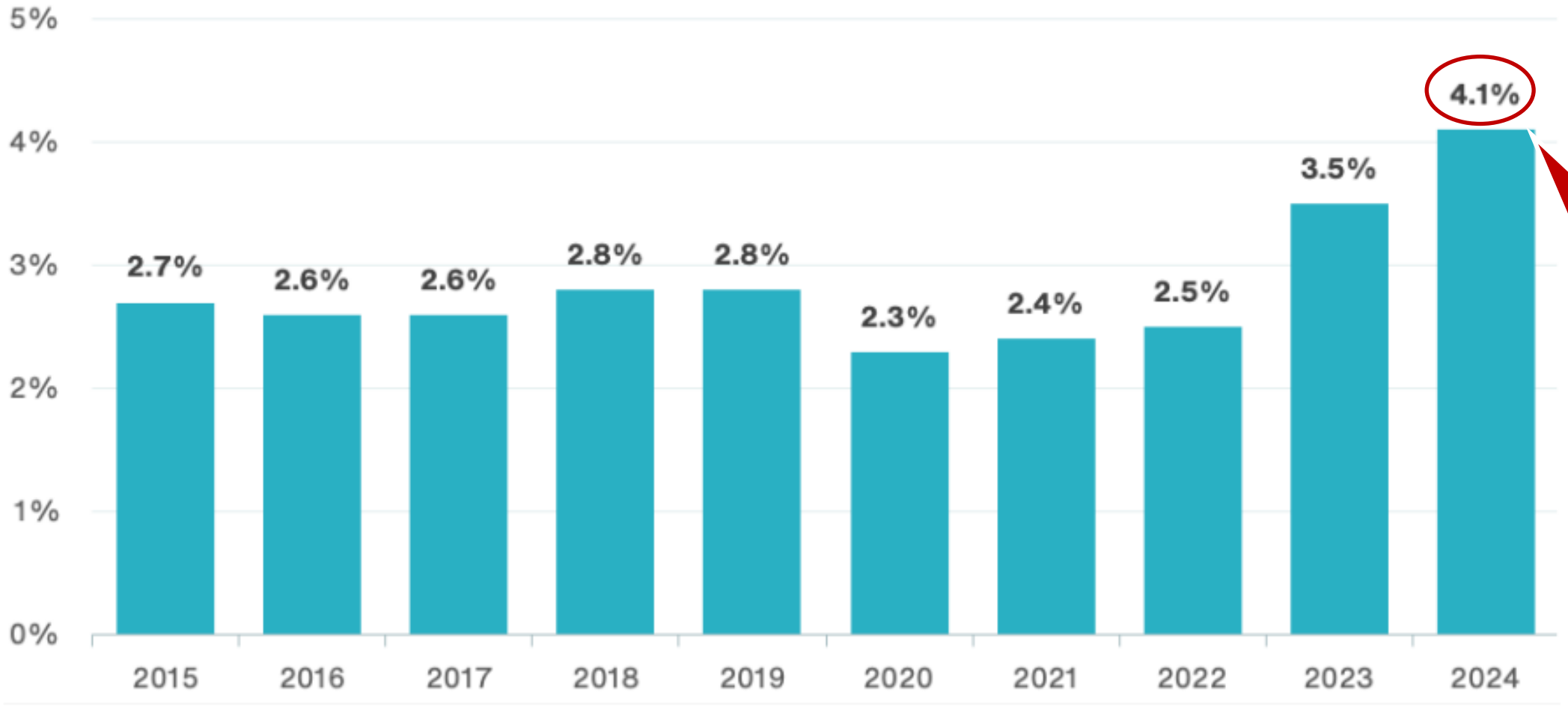
Source: Company financial statements as compiled by Aon Reinsurance Solutions accessed at: https://assets.aon.com/-/media/files/aon/reports/2025/reinsurance-market-dynamics-apr-2025.pdf

Reinsurance Sector Return on Equity, 2015 – 2024



Source: Company financial statements as compiled by Aon Reinsurance Solutions accessed at: https://assets.aon.com/-/media/files/aon/reports/2025/reinsurance-market-dynamics-apr-2025.pdf

Reinsurance Sector Ordinary Investment Yield, 2015 – 2024



Reinsurer investment yields are up signficantly in recent years

Source: Company financial statements as compiled by Aon Reinsurance Solutions accessed at: https://assets.aon.com/-/media/files/aon/reports/2025/reinsurance-market-dynamics-apr-2025.pdf

Catastrophe Loss Trends

The Rise in CAT Losses Shows No Signs of Easing

The 2020s Are Off to an Ominous Beginning

The Los Angeles Wildfires, Hurricanes Helene and Milton Are Just the Latest in a Long Series of Mega-Disasters

California Fires (as of Apr. 21)

- ~18,000+ structures destroyed/damaged
- ~40,000 acres burned across all fires
- 29 confirmed fatalities
- ~170,000 residents were under evac. orders
- ~$37.5B: Insured Losses (Aon, Apr. 2025 est.)
  - $250B - $275B: Econ Loss Est.
- CA FAIR Plan: Largest Exposure
  - Has $2.63B reins., co-reins, assessments
- Issue rapidly politicized, Insurers demonized

THE WALL STREET JOURNAL.

California Was Already in Home-Insurance Crisis Before Los Angeles Infernos

Industry officials warn of widespread economic damage on par with some of biggest fire disasters in recent memory

By Jean Eaglesham Follow and Joe Flint Follow
Updated Jan. 9, 2025 1:06 pm ET

1455 Gift unlocked article Listen (9 min)

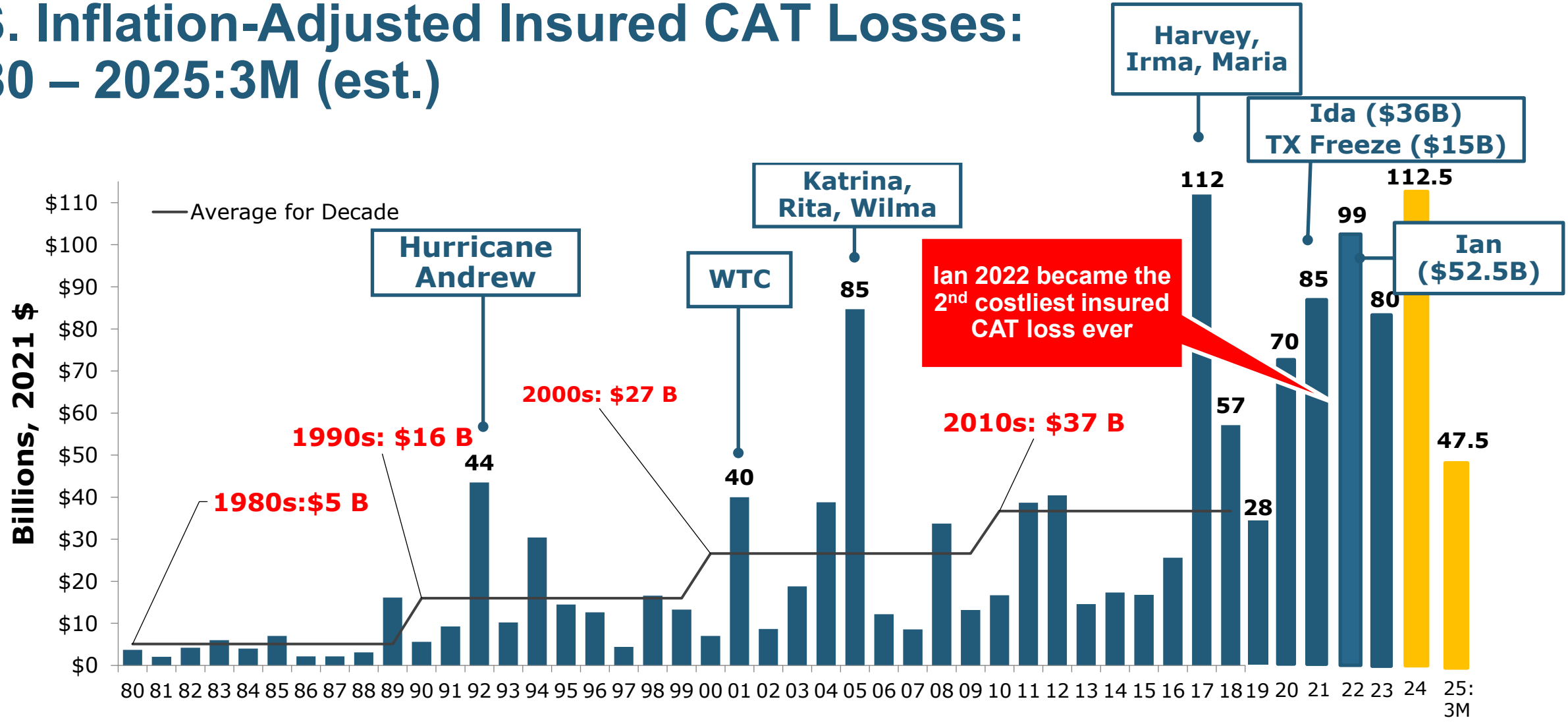
The Economist

The world in brief

Uninsurable California?

Jan 9th 2025 · 1 min read

U.S. Inflation-Adjusted Insured CAT Losses: 1980 – 2025:3M (est.)



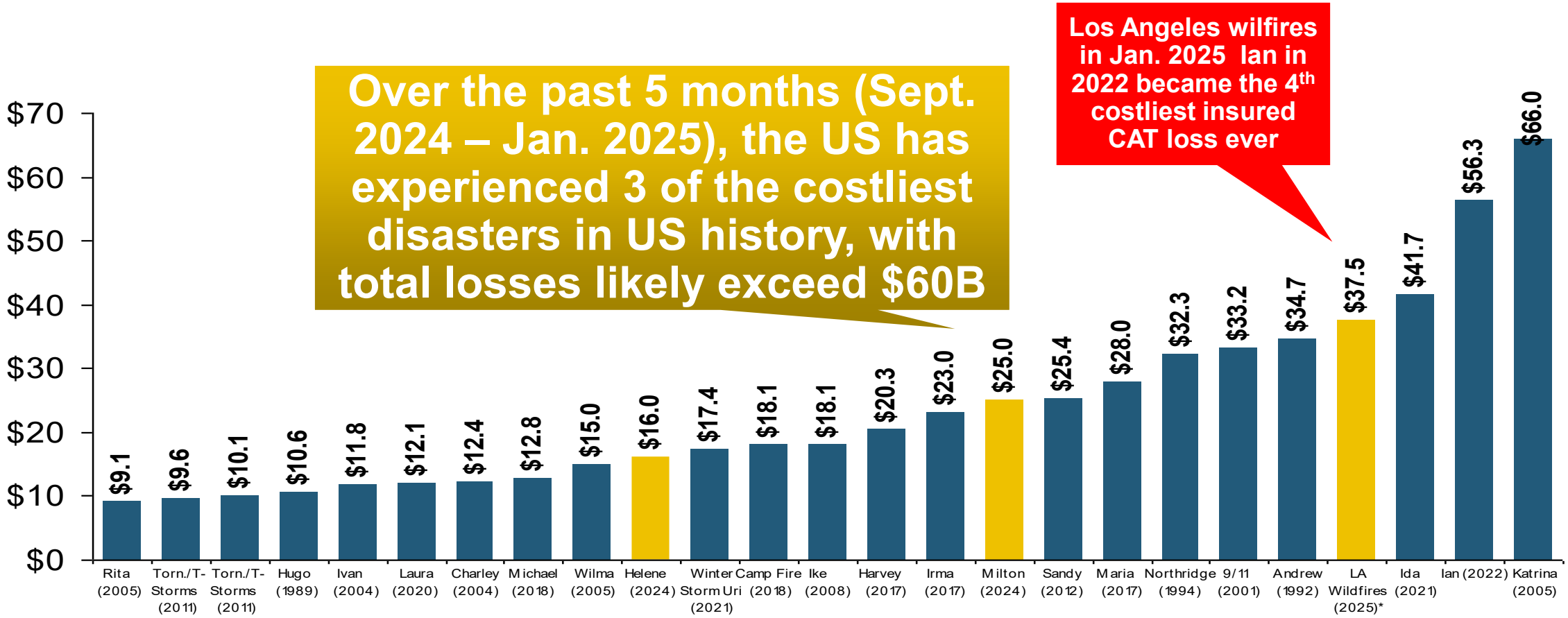
Average Insured Loss per Year*
1980-2021: $23.8 Billion
2012-2021: $44.1 Billion

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, 2024, 2025:3M figure from Aon. Insurance Information Institute; University of South Carolina, Risk & Uncertainty Management Center.

Top 26 Most Costly Disasters in U.S. History

(Insured Losses, 2024 Dollars, $ Billions)



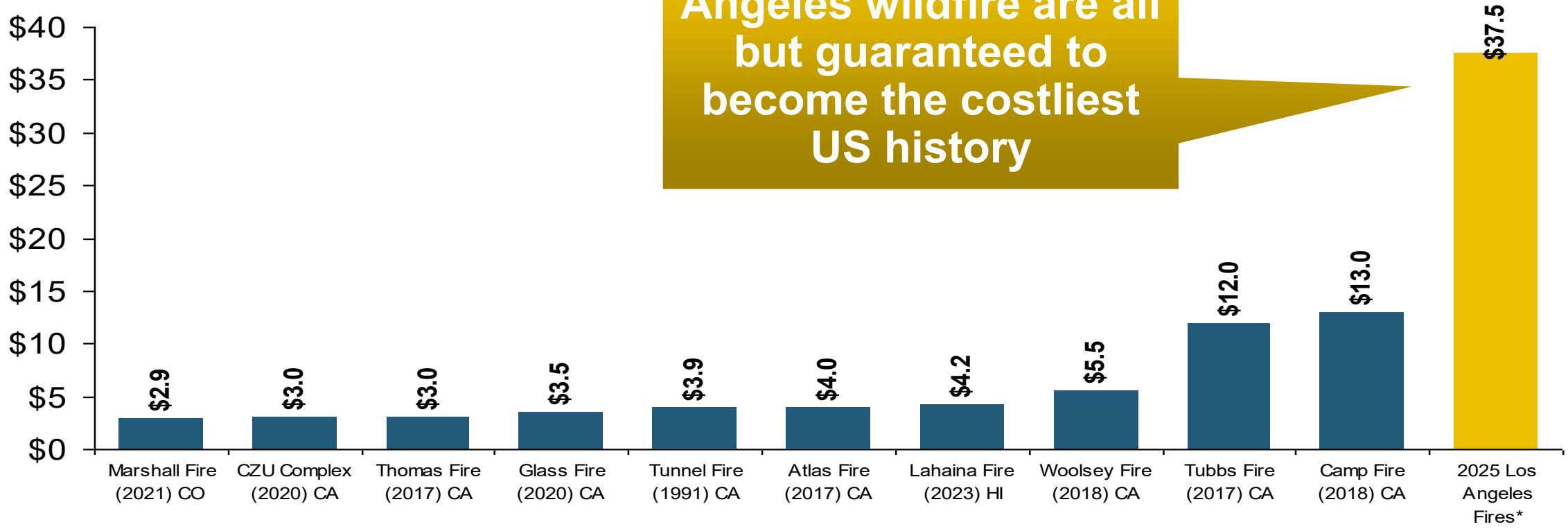
23 of the 26 Most Expensive Insurance Events in US History Have Occurred Since 2004.

*2025 dollars; Munich Re estimates as of Jan. 2025 for Hurricanes Helene and Milton; Aon estimate as of Apr. 2025 for LA wildfires.

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

Top 11 Most Costly Wildfires in U.S. History

(Insured Losses, 2024 Dollars, $ Billions)

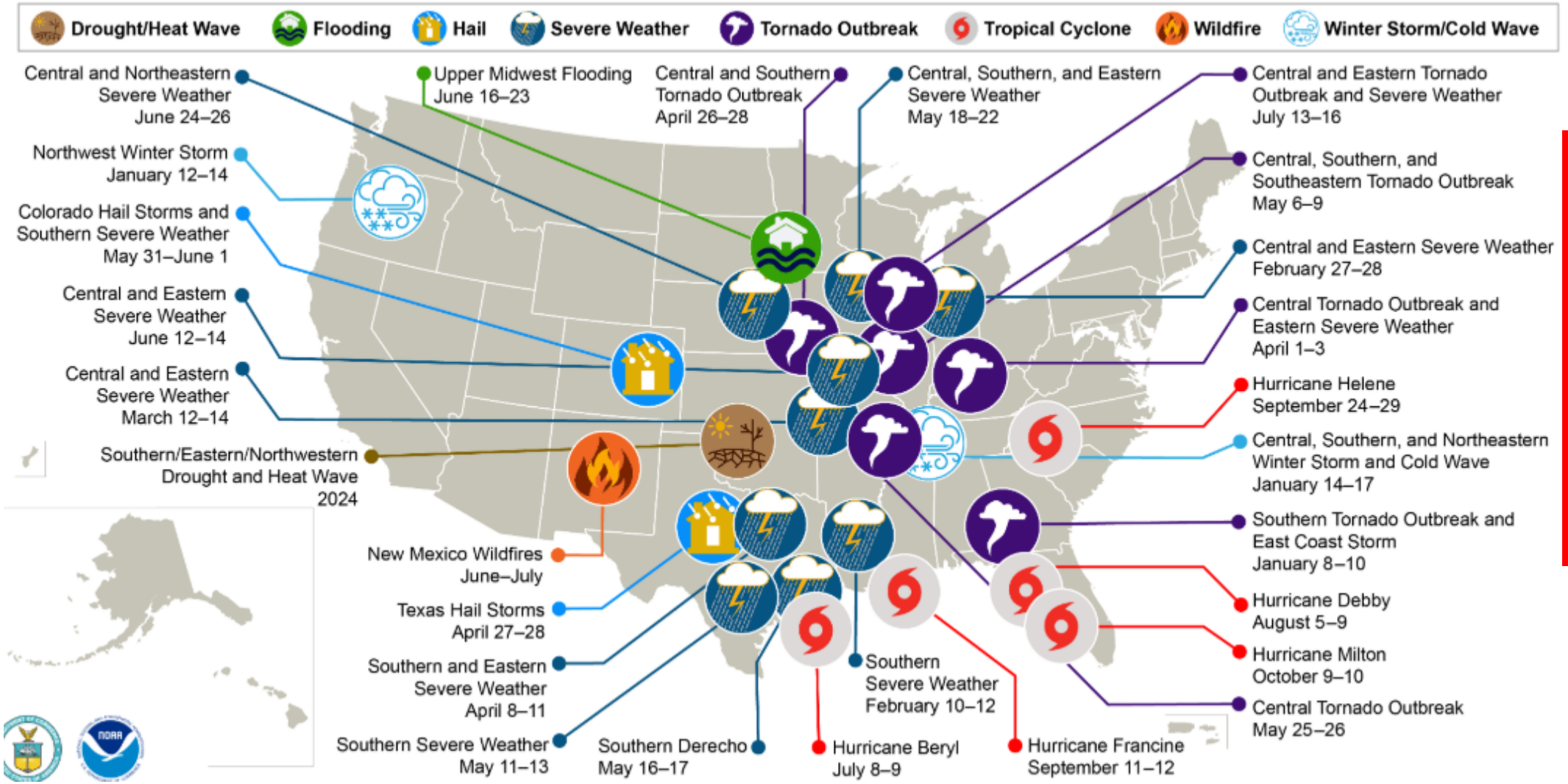


9 of the 11 Most Expensive Wildfire Events Occurred in California. All but One Occurred Since 2017.

*Aon estimate as of Apr. 21, 2025

Sources: Artemis.bm from Gallagher Re at: https://www.reinsurancene.ws/insured-la-wildfire-losses-to-notably-exceed-10bn-gallagher-re/; USC Risk and Uncertainty Management Center

US Billion-Dollar Weather and Climate Disaster Events, Economic Costs, 2024*



There were 27 events in the US in 2024 that caused at least $1B in economic damage, down from a record 28 in 2023

*As of Feb. 1, 2025.

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

Homeowners Insurance Combined Ratios: US, 2010 – 2025F

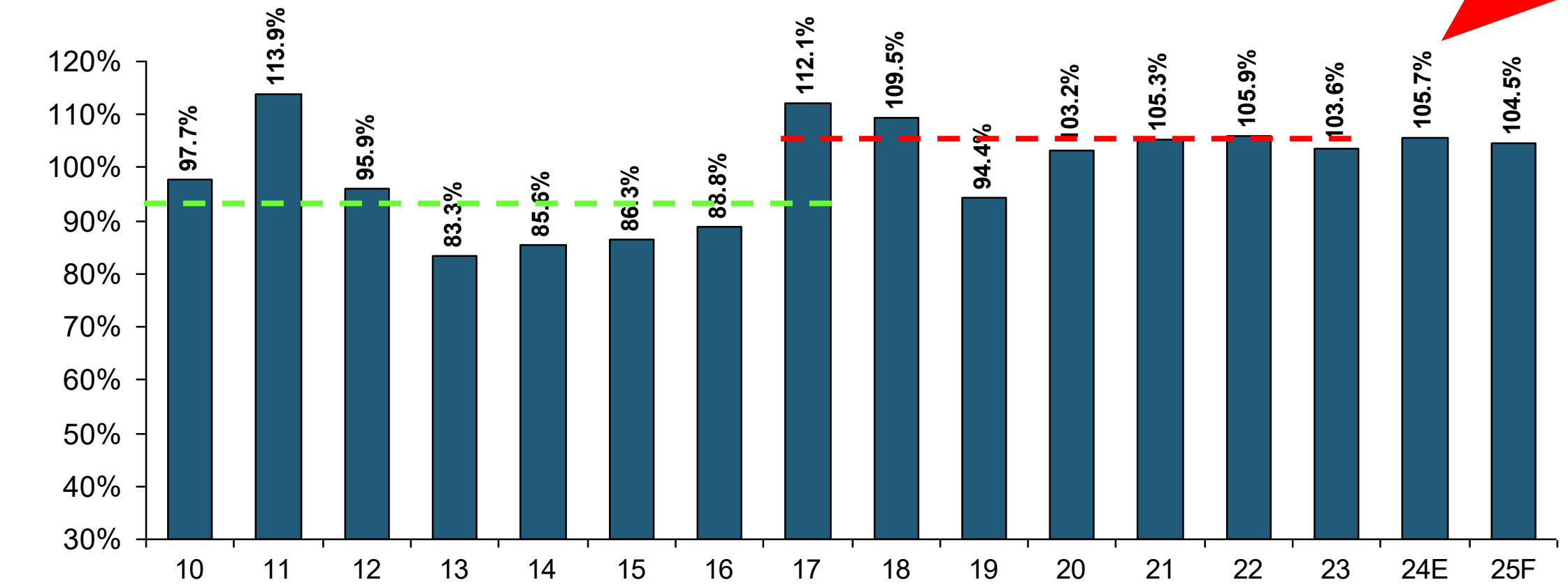
Average:

99.0% (2010-2023)

93.1 (2010-2016)

104.9% (2017-2023)

The Homeowners combined ratio from 2017-2023 (104.9) was nearly 12 points higher from than from 2010-2016 (93.1)



Sources: APCIA estimates using S&P Global Market Intelligence data; A.M. Best Review & Preview (Feb. 20, 2025) for 2024E – 2025F); University of South Carolina, Risk & Uncertainty Management Center.

Economic Overview
The U.S. Economy Remains Resilient but Consumer Gloom is Returning

Inflation, Geopolitical Conflicts, High Interest Rates and Now Tariffs Have Weighed Heavily on Business and Consumer Sentiment

Tariffs Will Increase Auto and Property Claim Severities

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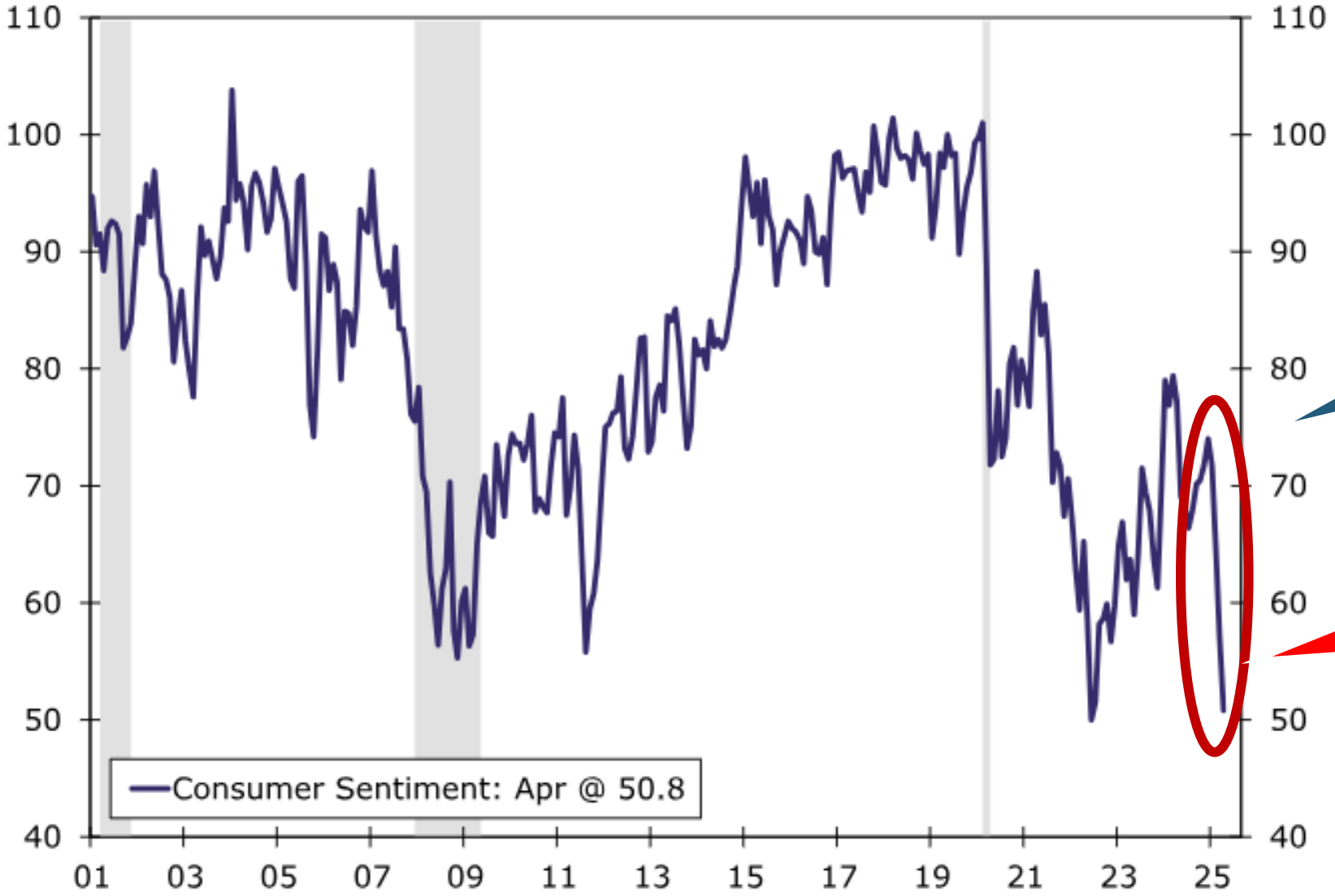
Consumer Confidence: Popped After Election, But Is Falling Since on Economic and Policy Concerns

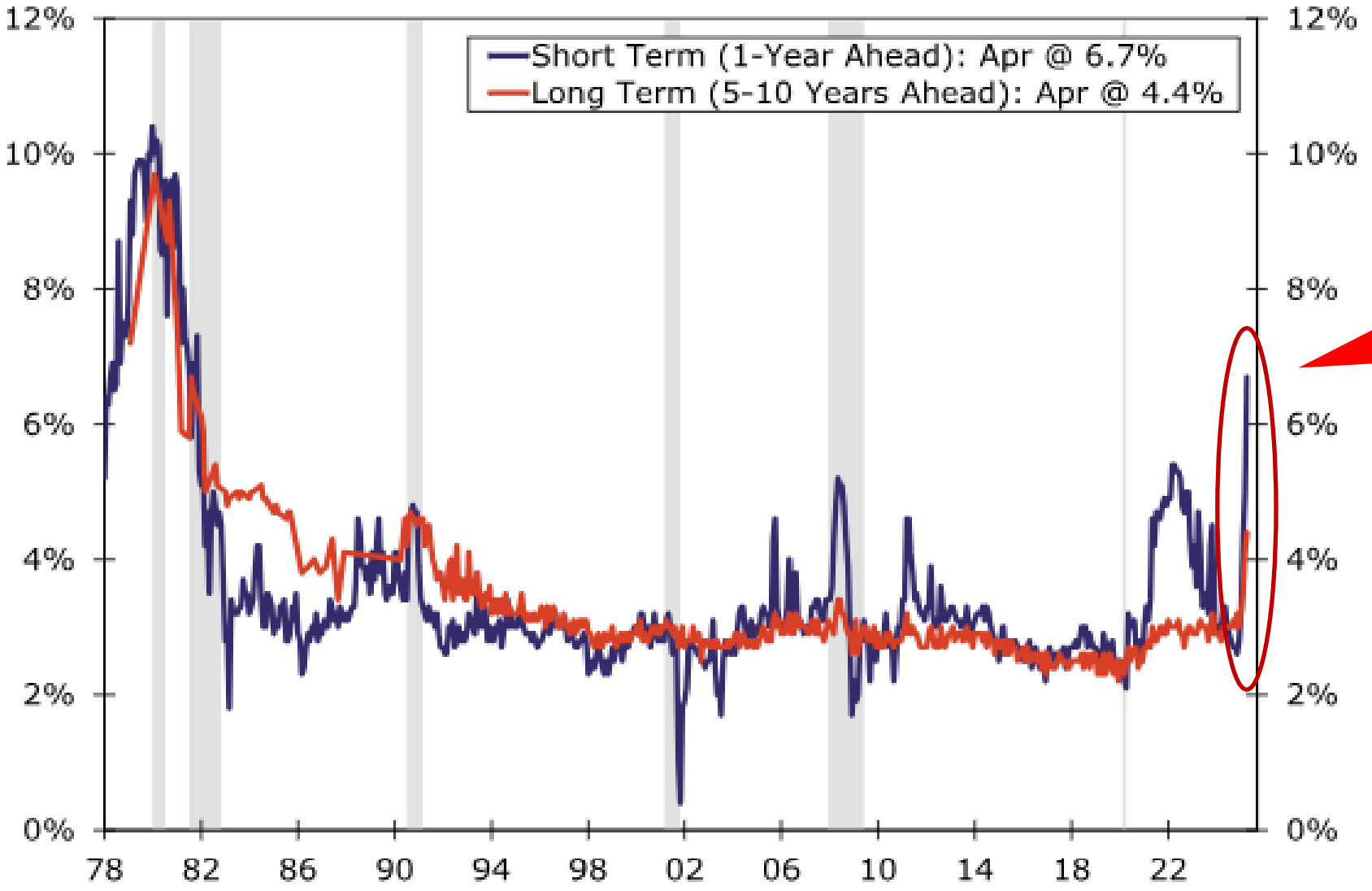


Consumer confidence has plunged to its lowest level since 2022 (peak inflation) as well as 2008-09 (Financial Crisis)

Consumer optimism about the future rose after the election in November, but has since plunged amid concerns about tariffs, resurgent inflation and jobs

Source: University of Michigan and Wells Fargo Economics.

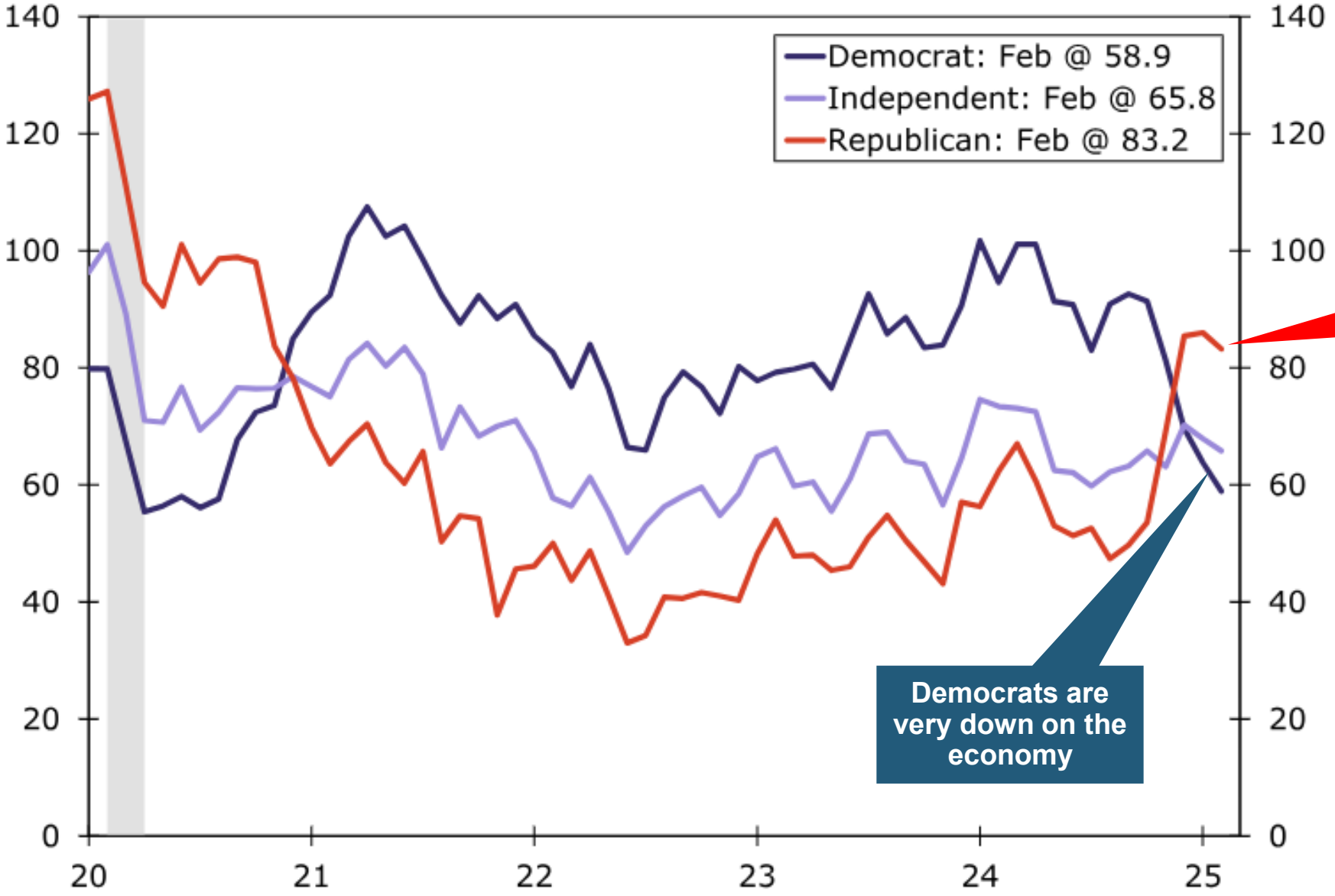
Consumer Inflation Expectations: Inflation Expectations Are Rising—Especially for the Next Year



Short-term inflation expectation in Apr. rose to 6.7% (highest since 1981), up from 2.6% in late 2024. Tariff concerns drove much of the surge.

Source: University of Michigan and Wells Fargo Economics.

Consumer Sentiment by Political Affiliation

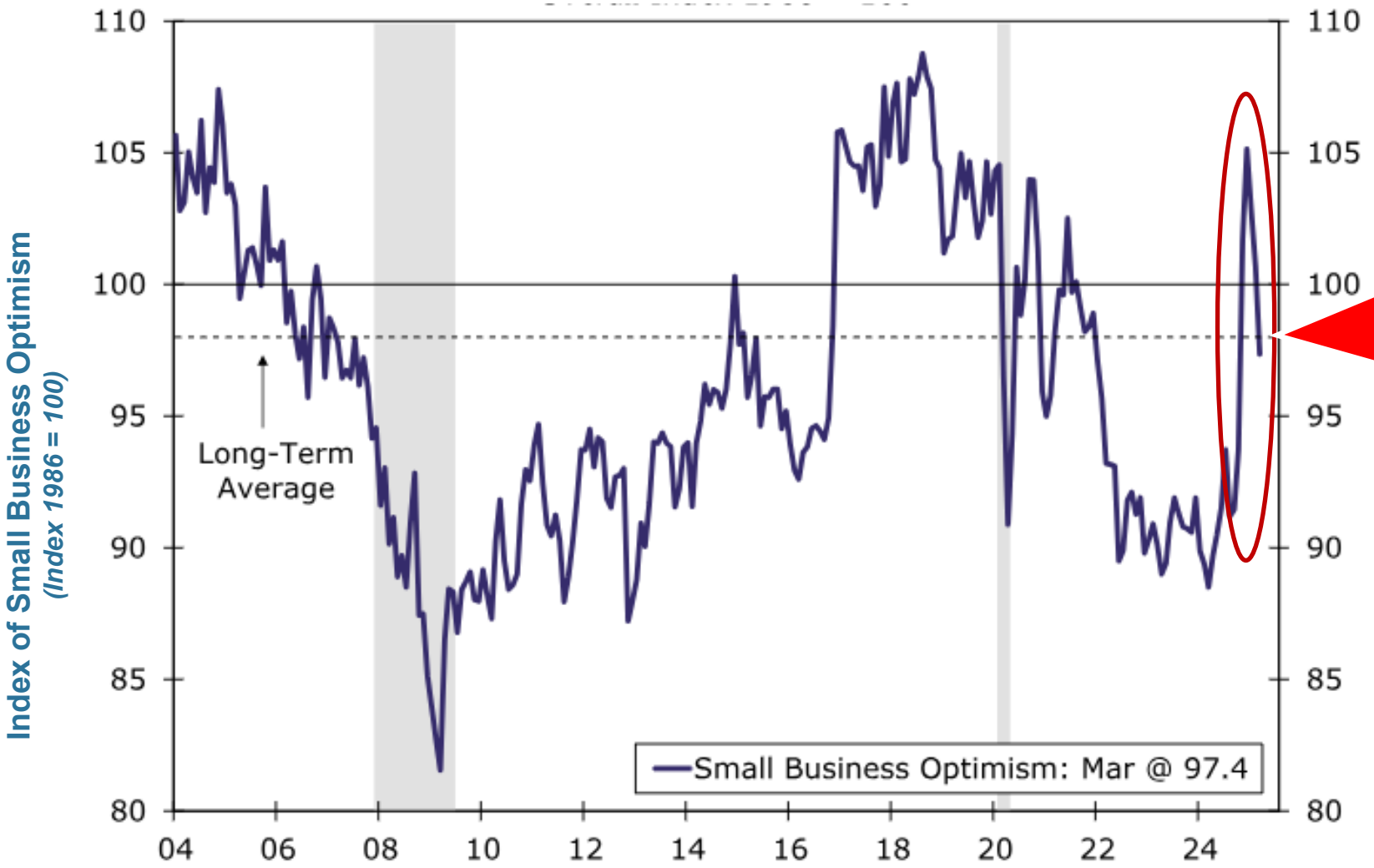


Republican sentiment surged after the election, but fell recently amid tariff concerns

Democrats are very down on the economy

Source: Univ. of Michigan and Wells Fargo Economics (2/25).

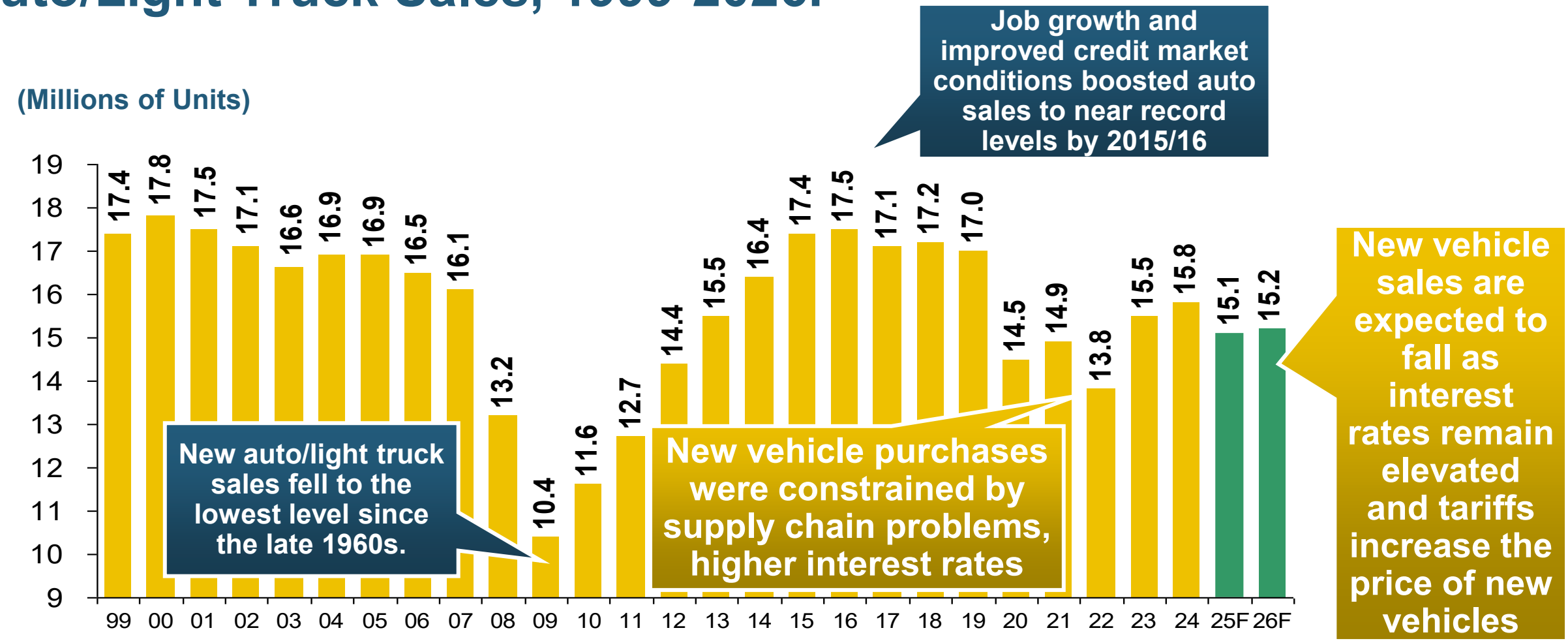
Small Business Sentiment: Optimism Surged Post-Election but Is Beginning to Recede on Tariff Concerns



Small businesses optimism surged in the wake of the November election, fueled by hopes of lower taxes and less regulation (similar to 2016). Tariff and sales fears are now leading to concerns.

Source: NFIB and Wells Fargo Economics.

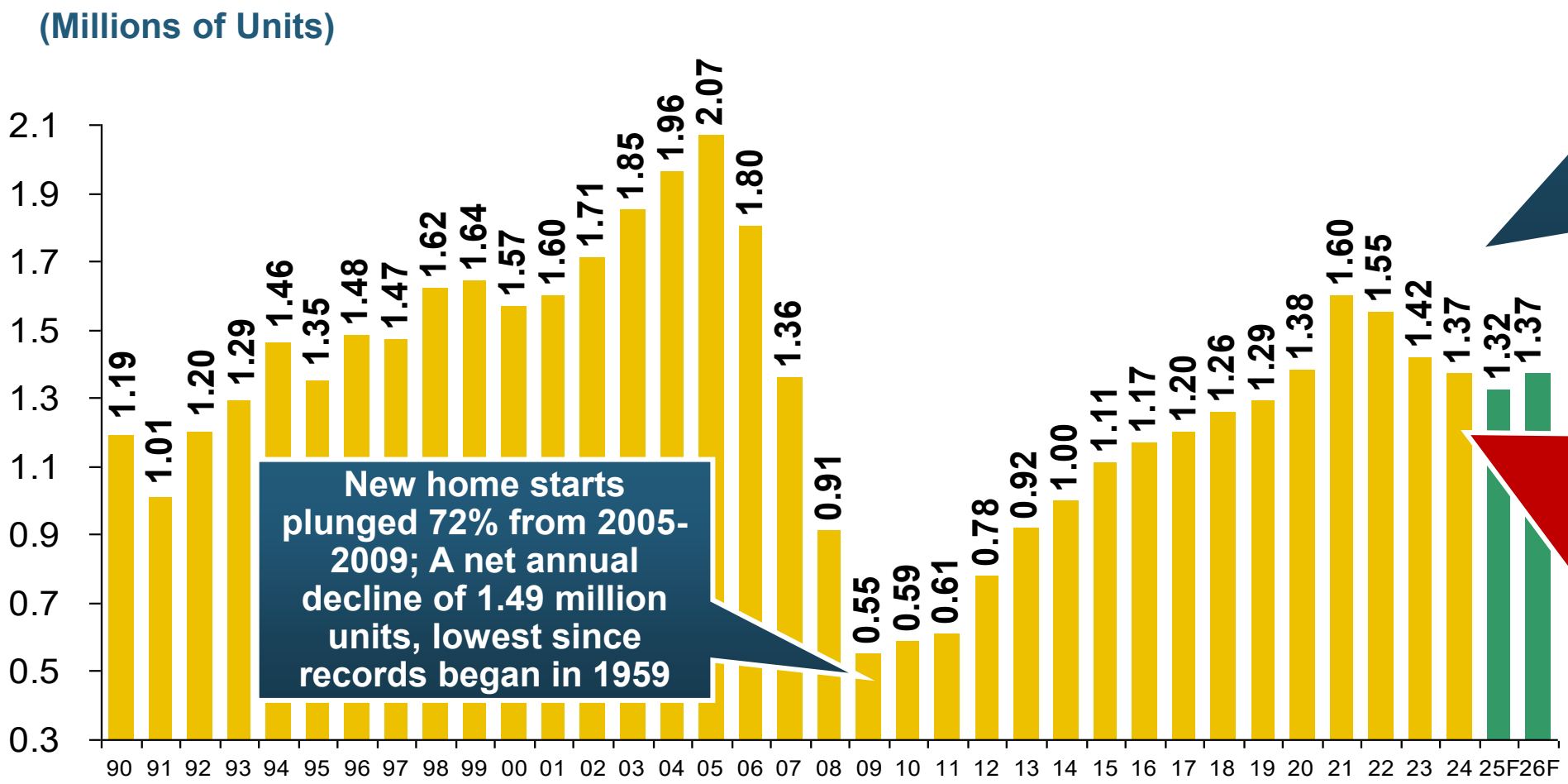
Auto/Light Truck Sales, 1999-2026F



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 and tariffs will push up new car prices, resulting in downward sales pressure in 2025-26

Source: U.S. Department of Commerce; Wells Fargo Securities (4/25); 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 remain elevated, and tariffs will push up prices, tempering housing starts in 2025 and 2026

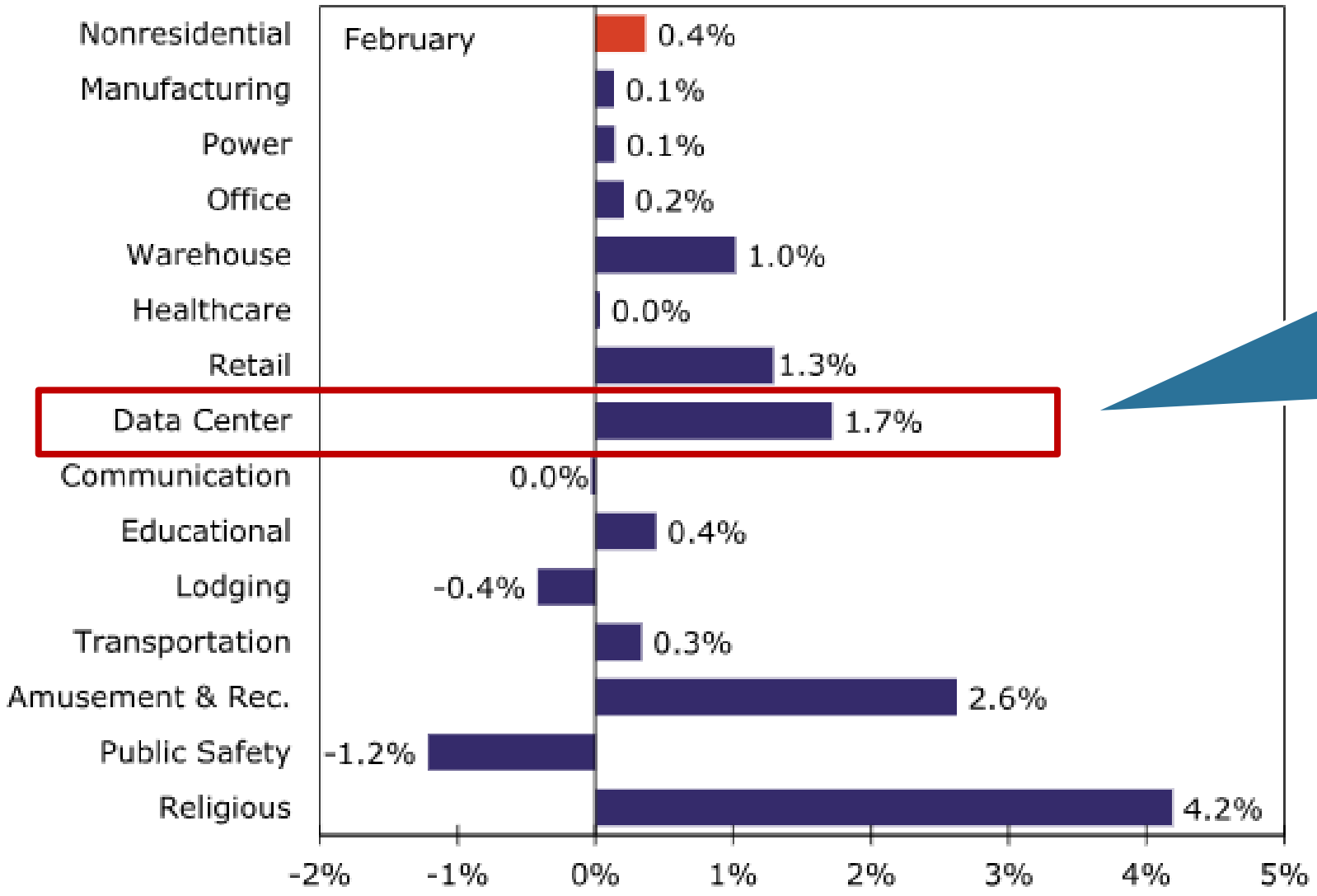
No Repeat of the Housing Collapse that Began in 2007

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

Nonresidential Construction Put in Place, Feb. 2025

(Year-over-Year % Change)

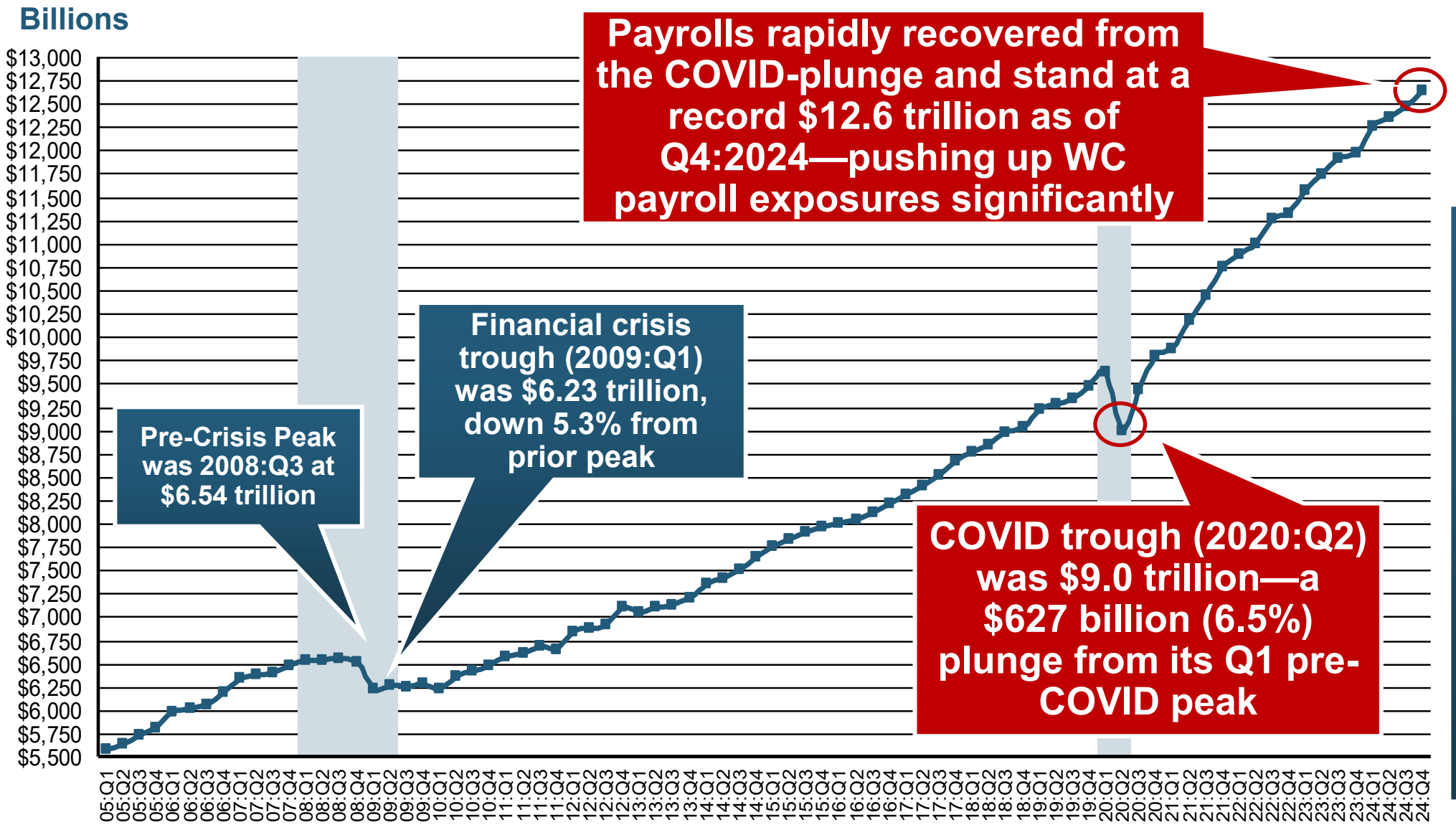


Data center construction was up 1.7% in Feb. and 38.8% over the prior 12 months

Overall construction was up 3.9% over the prior 12 months.

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

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005:Q1–2024:Q4



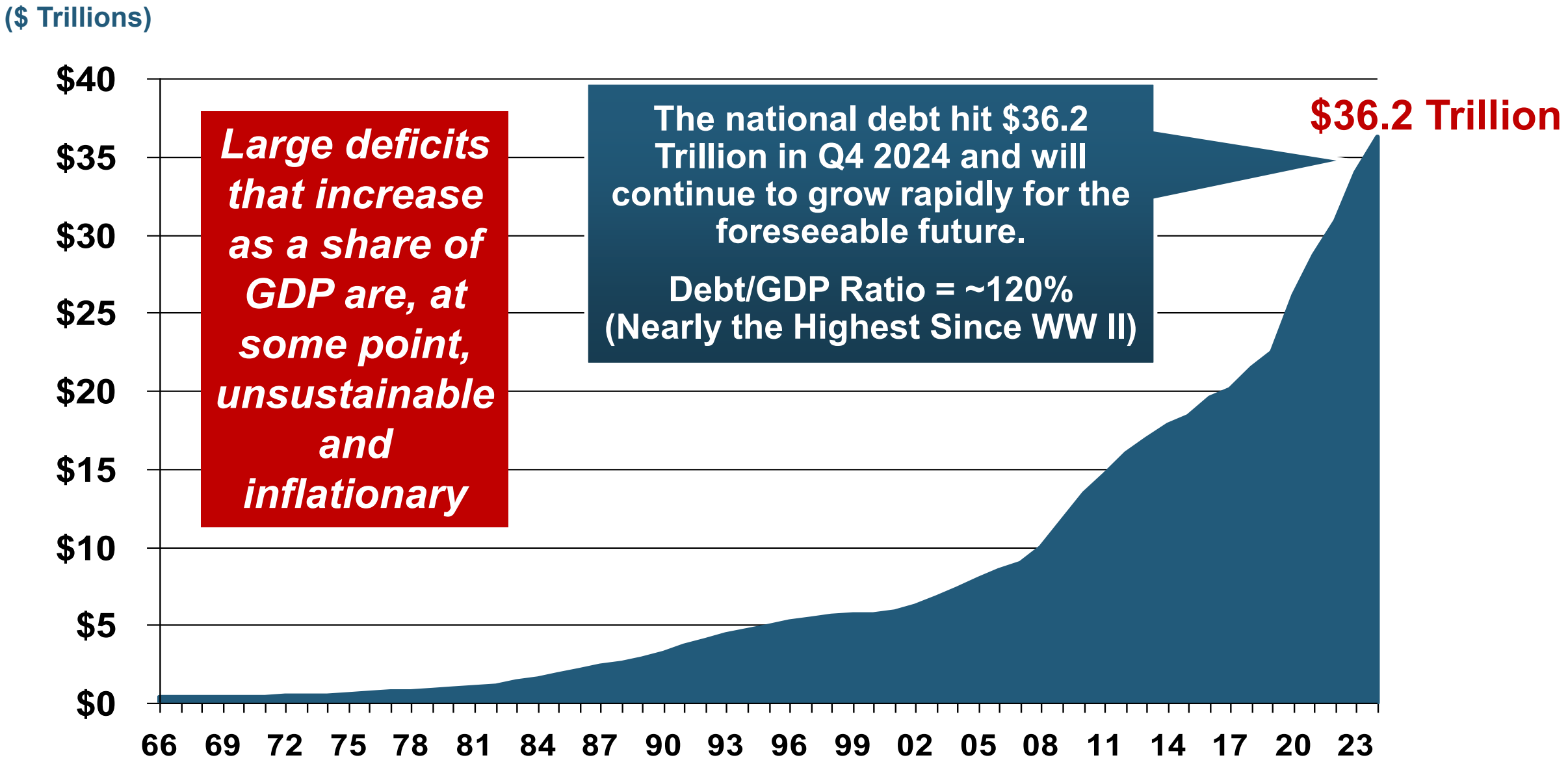
Growth rates

2024: 5.9%
2023: 5.4%
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).

51

U.S. National Debt, 1966 – 2024:Q4



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

"*A Little Disturbance*" & "Getting Yippy"
How Will US Policy Shifts Impact the P/C Insurance Industry?

Inflation, Fiscal Policy, Trade Policy, Geopolitical Conflicts and High Interest Rates Have Weighed Heavily on Business and Consumer Sentiment

Tariffs Will Increase Auto and Property Claim Severities

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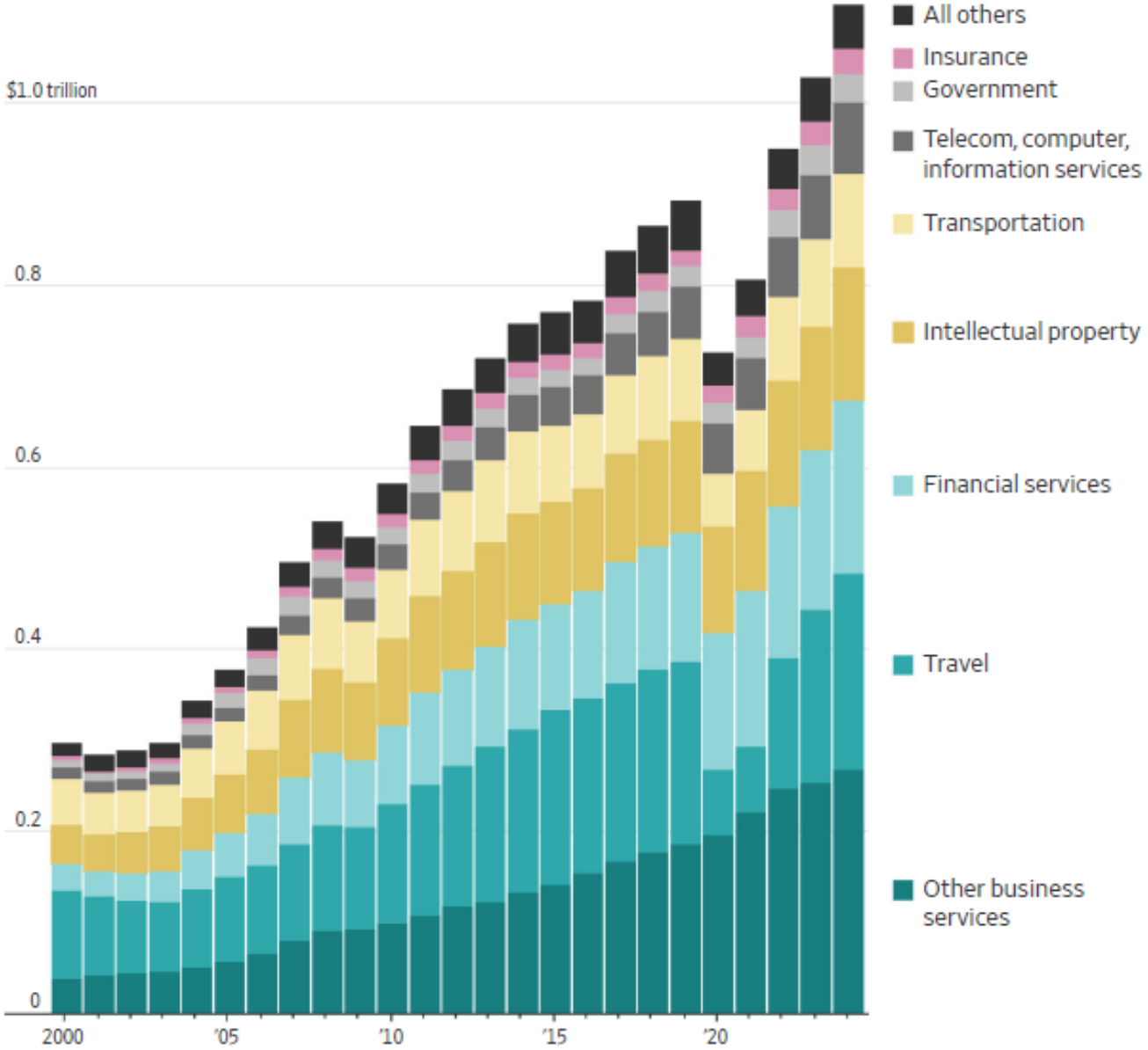
Tariff Time Line

- Feb. 4: 10% on all Chinese products
  - China retaliates with tariffs on US coal, LNG, crude oil, ag machinery, large cars
- Mar. 4: US imposed 25% tariffs on all imports from Mexico & Canada and addl. 10% on Chinese goods
  - Canada announced retaliatory tariffs on $100B on US goods
  - Mexico: Will announce tariffs against US on March 9
  - China imposes 15% tariff on addition US goods, effective March 10
- Mar. 12: New/additional tariffs on steel/aluminum totaling 25%
- April 2: “Reciprocal tariffs” implemented (“Liberation Day”) in 11% - 57% range
- Apr. 3: 25% tariffs on foreign autos and parts (excl. USMCA compliant)
- Apr. 5: 10% tariffs on virtually imports become effective

Tariff Time Line (cont'd)

- **Apr. 9: 90-day pause on "reciprocal" tariffs imposed; Tariffs on China increased to 145%**
  - **China increases tariffs on US imports to 125%**
  - ***Apr. 12: Trump exempts certain electronics from 125% reciprocal tariff (20% in other tariffs remain)***
  - ***Apr. 13: Trump says exemptions temporary and will be new tariffs on semiconductors pending a study***
- **Apr.: ?? More tariffs against EU threatened, esp. for pharmaceuticals**
- **Oct. 2025: Proposed USTR port fees on Chinese vessels starting at $50 per net ton rising $30 per net ton each year to $140/ton by 2028**

US Service Exports, by Country



Trump Administration totally ignores the fact that the US runs a large *surplus* in Service exports. *Insurance is one of the largest US Service exports.*

Current policy focuses entirely on goods, which is economically nonsensical.

Source: US Commerce Dept. from *Wall Street Journal* (4/10/25): "Trump's Trade Math Ignores Major Export: American Services." Available at: https://www.wsj.com/economy/trade/us-exports-services-trump-tariff-calculations-fe481e2b.

Insurance Lines/Segments Impacted by Tariffs

Line/Segment	Risk	Consequences
Personal Auto	Tariffs imposed on most vehicles and parts	Rising physical damage severities→ Rate increases
Commercial Auto	Tariffs imposed on most vehicles and parts	Rising physical damage severities→ Rate increases
Ocean Marine	Decreased transoceanic shipping	Hull and cargo exposures shrink→ Premium volume falls
Residential & Commercial Property	Tariffs imposed on many important construction goods, electronics, appliances, etc.	Rising property claim severities→ Rate increases, Limits become inadequate (ITV)
Inland Marine	Tariffs reduce cargo transport volumes	Exposures shrink→ Premium volume falls
Aviation	Tariffs reduce air cargo volumes; Economic uncertainty and hostility toward US allies is reducing travel demand.	Exposures shrink→ Premium volume falls

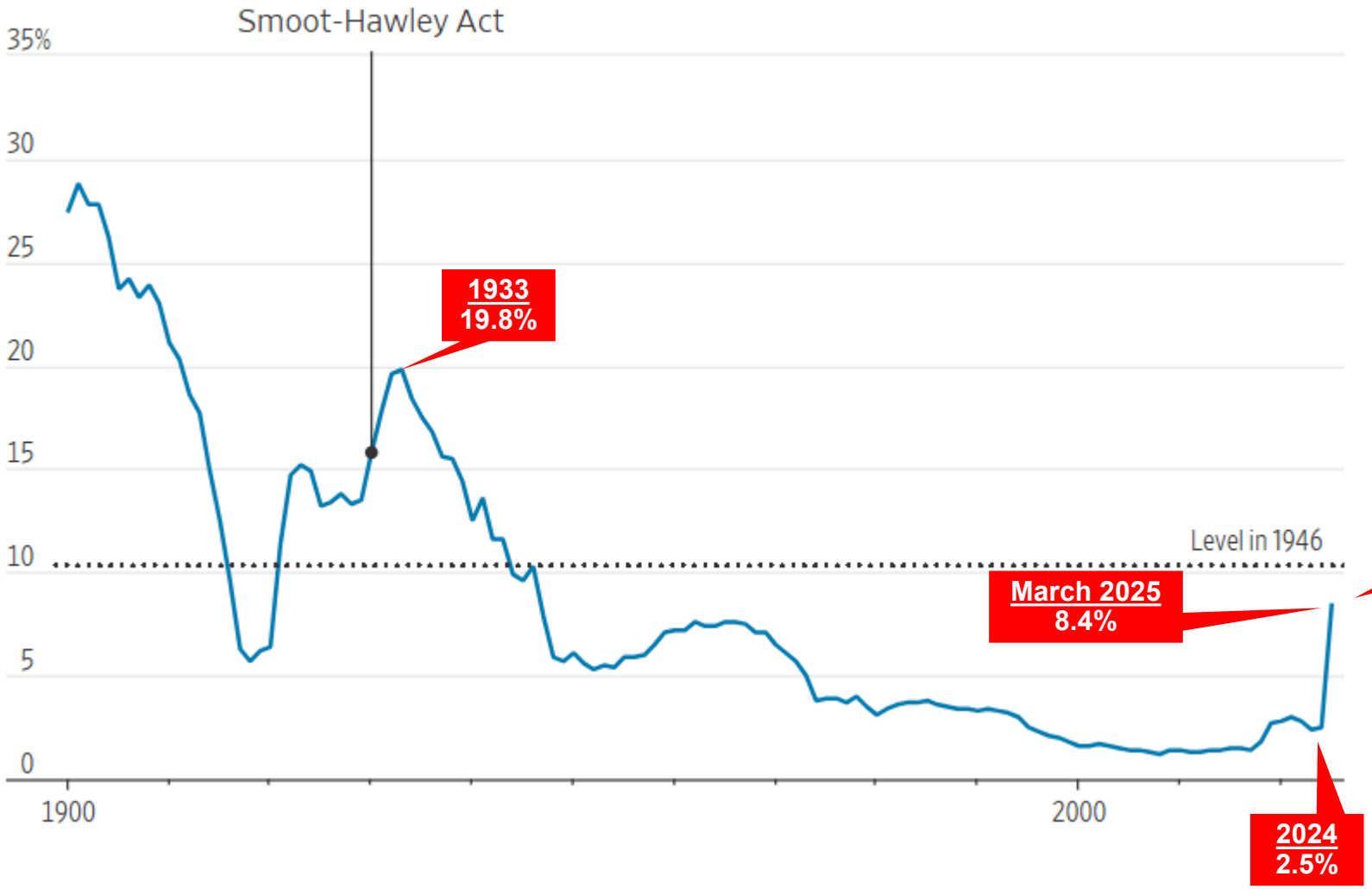
Source: University of South Carolina, Risk & Uncertainty Management Center.

Insurance Lines/Segments Impacted by Tariffs (cont'd)

Line/Segment	Risk	Consequence
Trade Credit	Decreased international trade	Exposures shrink→ Premium volume falls
Farm/Ag	Retaliatory tariffs against US ag exports	Lower farm production/income→ Premium volumes falls
USL&H	Decreased import and export activity at US ports reduces port employment	Exposures fall→ Premium volume slows or shrinks
Workers Comp.	Economic slowdown results in higher unemployment rate	Reduced payroll exposure→ Premium volumes slows or shrinks

Source: University of South Carolina, Risk & Uncertainty Management Center.

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

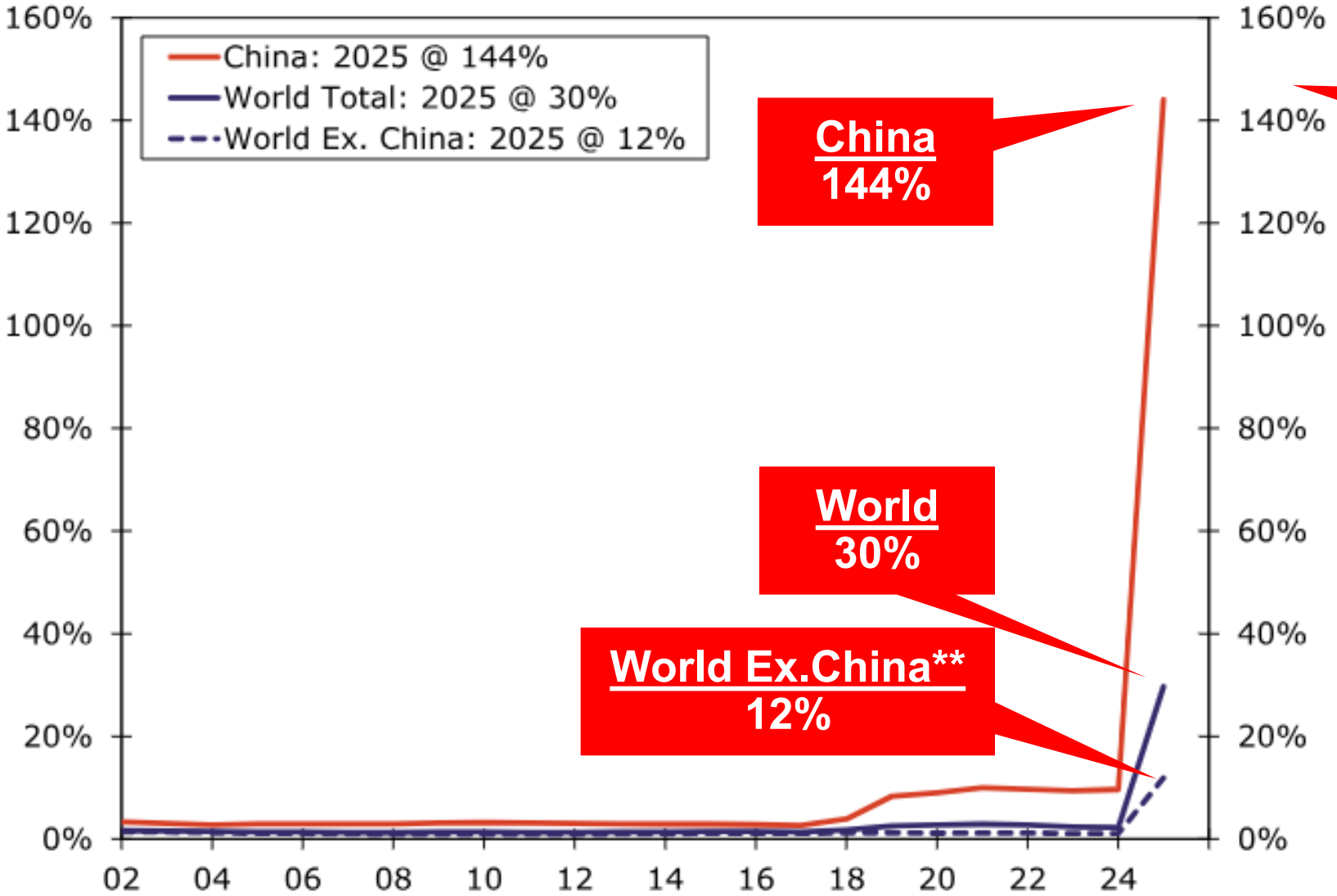
Proposed tariffs would push the average tariff rate to their highest levels since the 1930s

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

*As of March 25, 2025.

Source: Tax Foundation as published in the *Wall Street Journal*, March 25, 2025; Available at: https://www.wsj.com/economy/trade/trade-war-explodes-across-world-at-pace-not-seen-in-decades-0b6d6513?mod=hp_lead_pos1.

Average Weighted Tariffs on US Imports, 1940 – 2025*



China 144%

World 30%

World Ex.China 12%**

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

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

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

*Estimates as of April 9, 2025. **Reflects 90-day "reciprocal" tariff pause.
Source: US Dept. of Commerce and Wells Fargo Economics.

The Inflation Threat

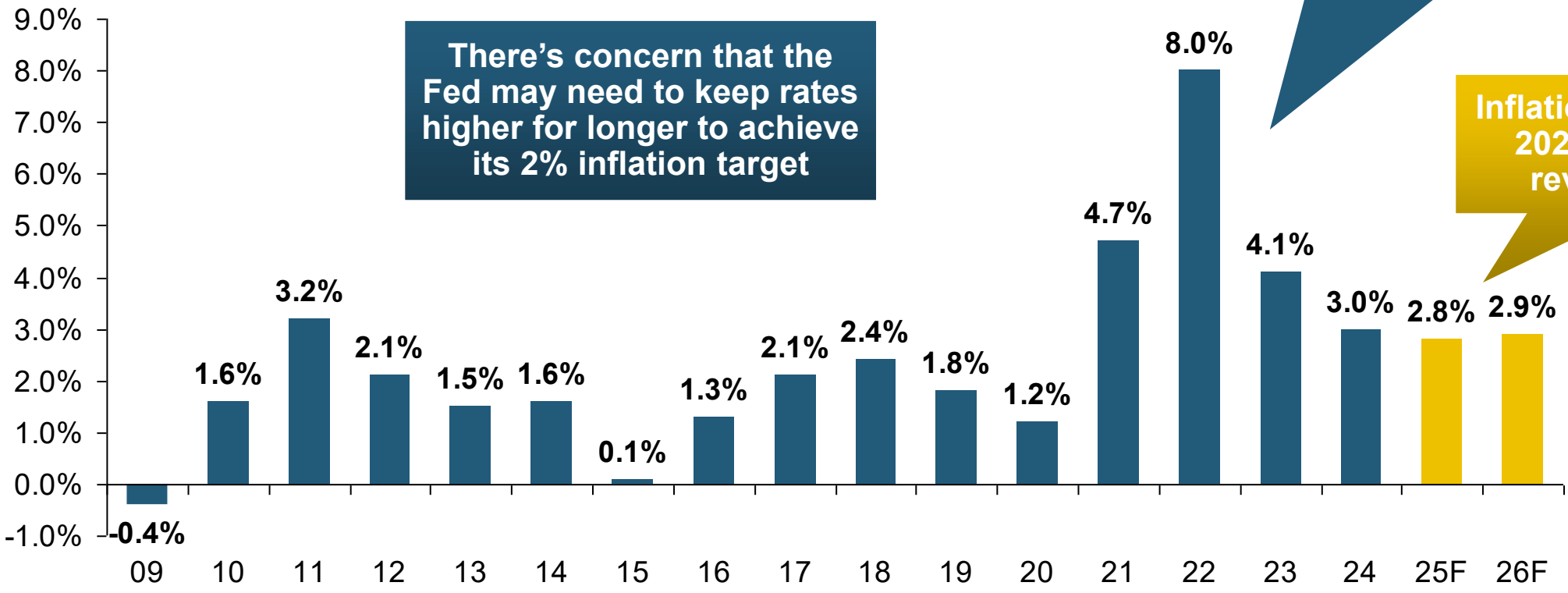
Inflation Has Been the #1 Concern of U.S. Consumers and Corporations…

And a Major Concern of Insurers

Is the Threat Finally Subsiding?

U.S. Inflation Rate: 2009-2026F*

Percentage Change (%)



There's concern that the Fed may need to keep rates higher for longer to achieve its 2% inflation target

Inflation accelerated sharply in 2021 before peaking at 9.1% in June 2022. Inflation was nearly halved in 2023 and fell further in 2024, but will remain above the Fed's 2% target in 2025-26

Inflation projections for 2025-26 have been revised upwards

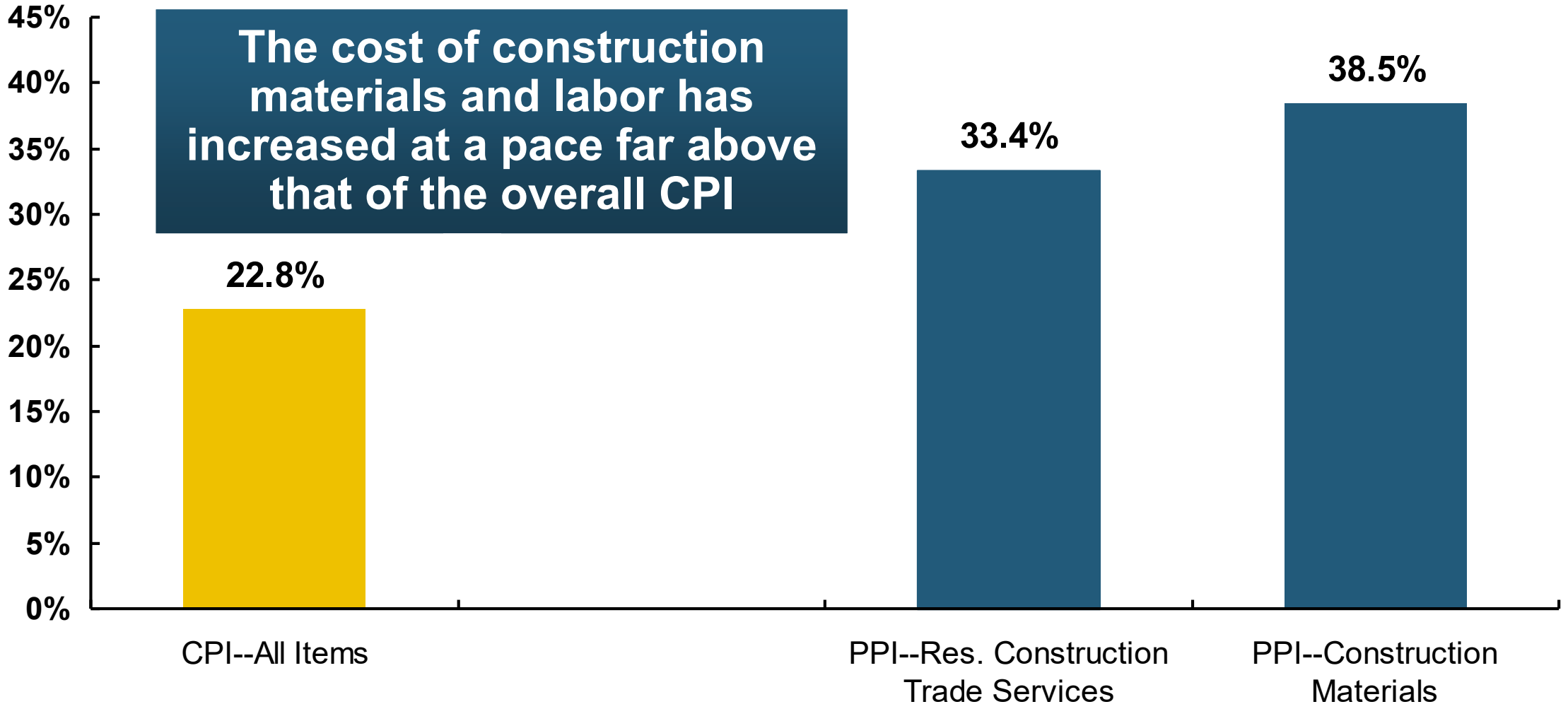
Insurer Concerns About Inflation

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

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

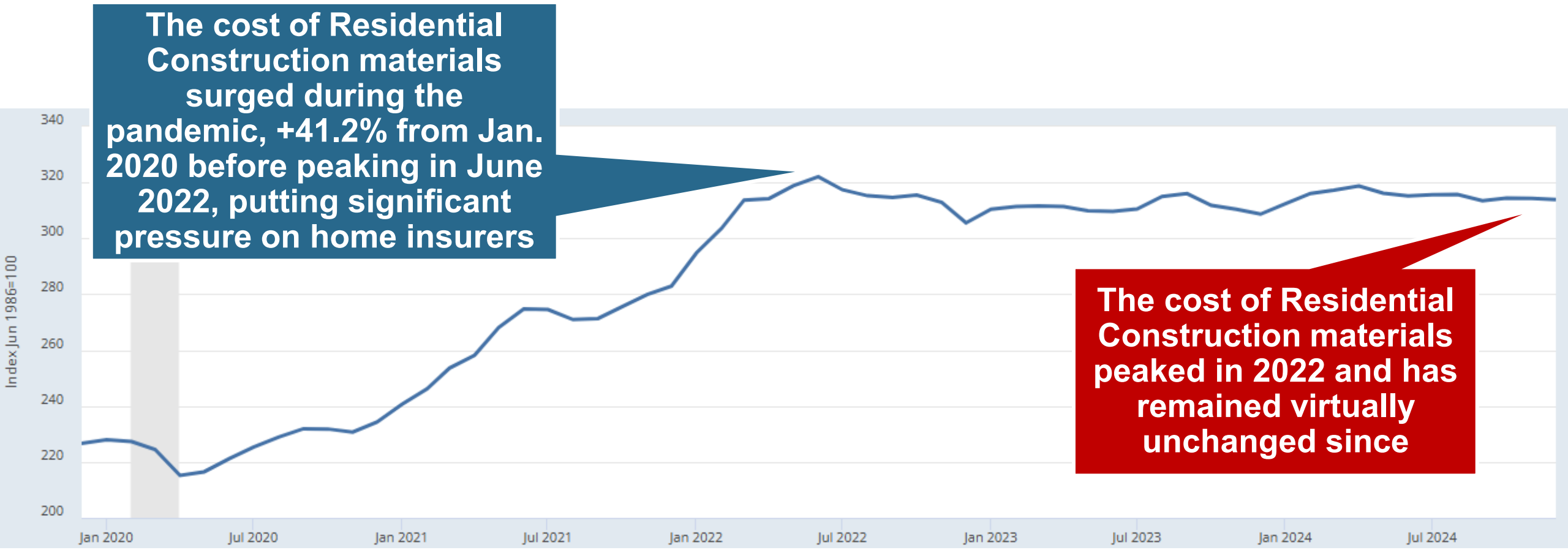
Source: U.S. Bureau of Labor Statistics; Wells Fargo Securities (4/25); USC Center for Risk and Uncertainty Management.

Cost Indicators for Residential Const., Price Index Changes, Jan. 2020 – Dec. 2024



Source: U.S. Bureau of Labor Statistics from Federal Reserve Bank of St. Louis: https://fred.stlouisfed.org/series/WPUIP23111021 (Trade Services) and https://fred.stlouisfed.org/series/WPUSI012011 (Construction Materials).

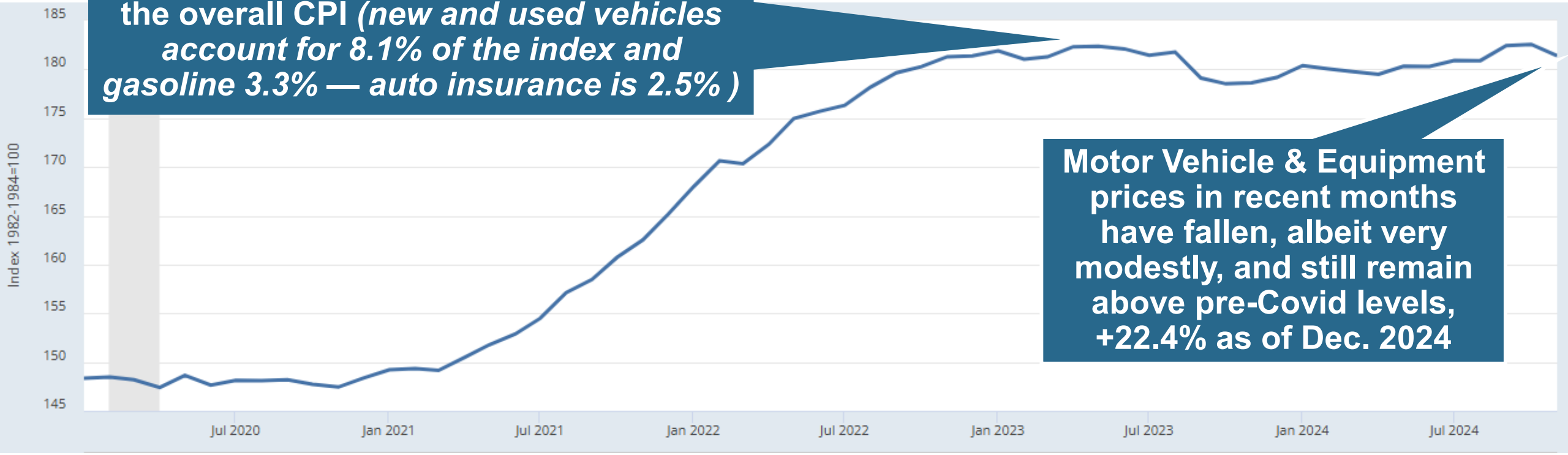
PPI: Net Inputs to Residential Construction, Goods, Jan. 2019 – Dec. 2024



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.

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

Motor Vehicle Parts & Equipment prices surged during the pandemic, +22.9% from Jan. 2020 before peaking in May 2023—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%)*

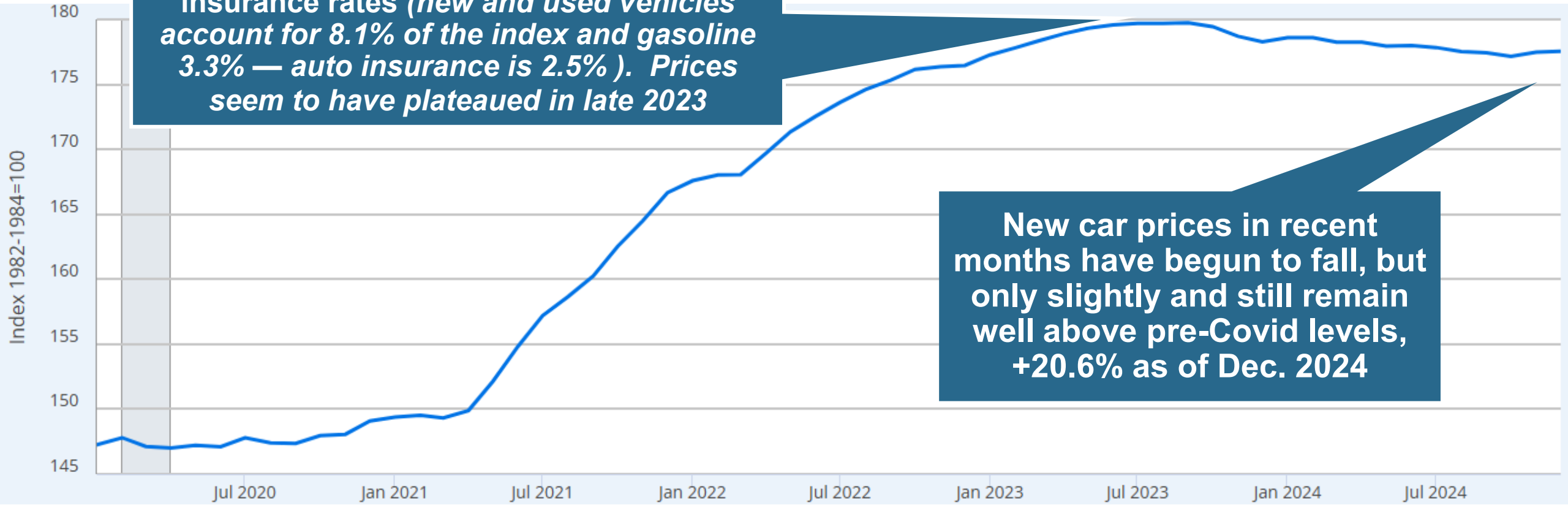


Motor Vehicle & Equipment prices in recent months have fallen, albeit very modestly, and still remain above pre-Covid levels, +22.4% as of Dec. 2024

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

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

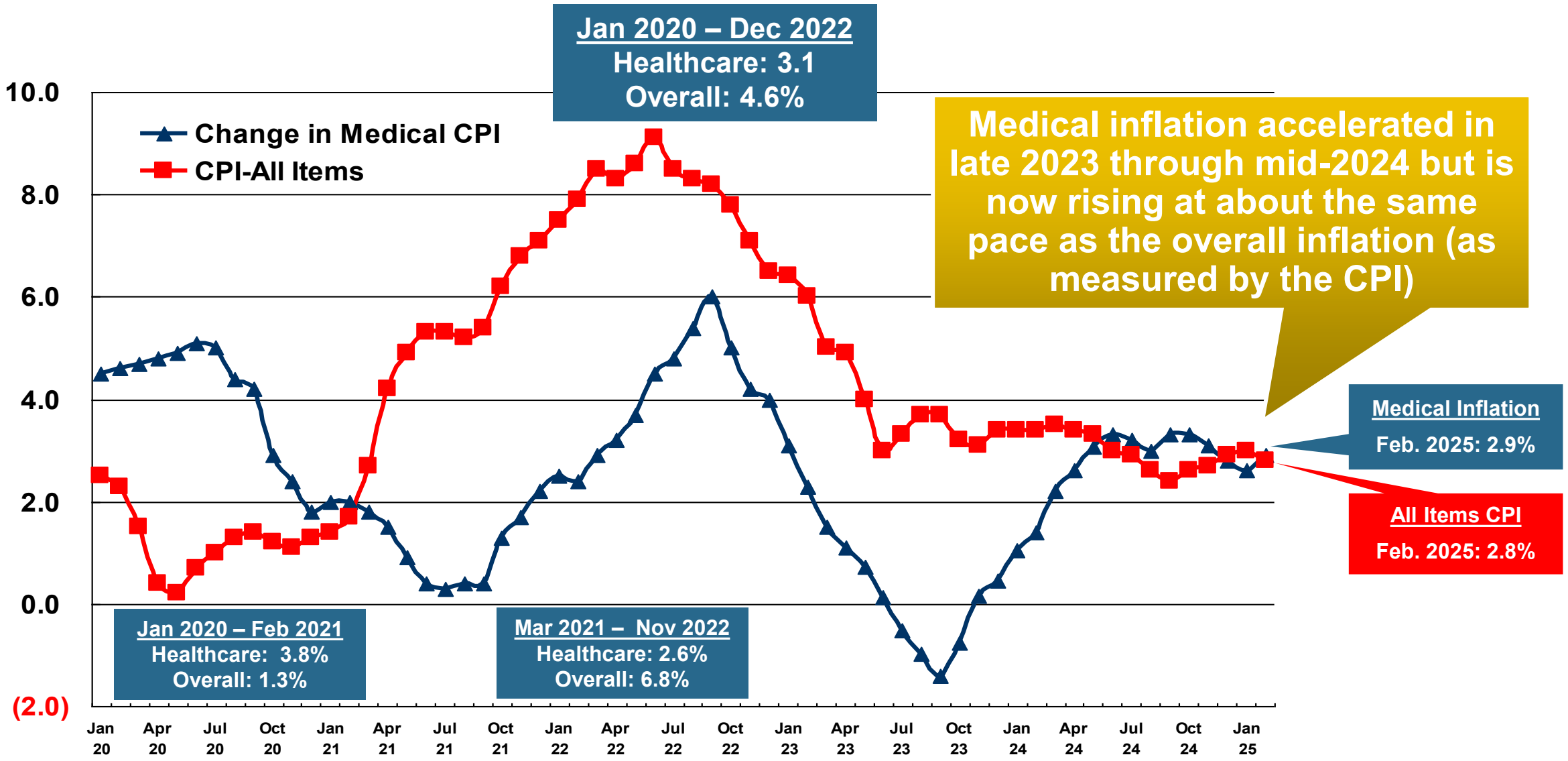
New vehicle prices surged during and after the pandemic, +22.1% from Jan. 2020 to Sept. 2023 (peak), putting significant pressure on the overall CPI and auto insurance rates *(new and used vehicles account for 8.1% of the index and gasoline 3.3% — auto insurance is 2.5%). Prices seem to have plateaued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



New car prices in recent months have begun to fall, but only slightly and still remain well above pre-Covid levels, +20.6% as of Dec. 2024

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

Medical Cost Inflation vs. Overall CPI Since COVID, Jan. 2020 – Feb. 2025 *(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.

Commercial Lines Growth & Pricing Cyclicality

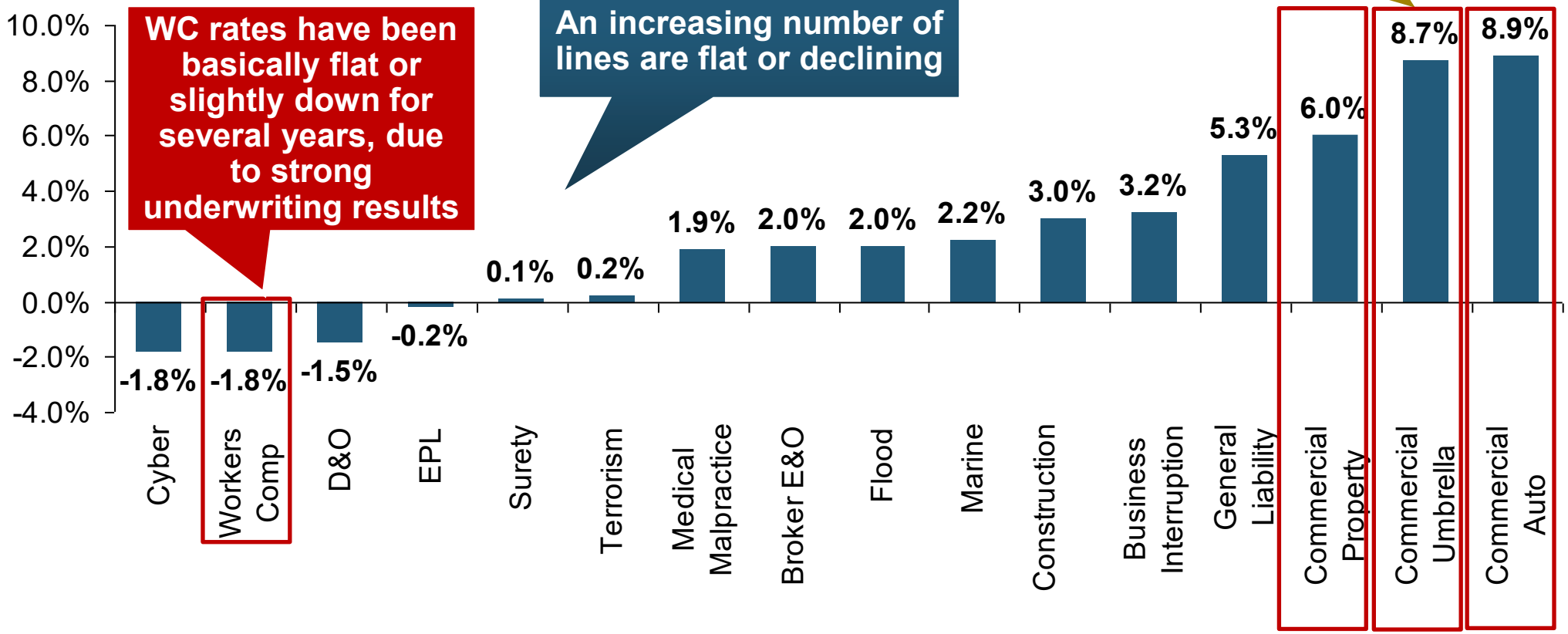
Economic and Tort Environment Create Pricing Pressure

68

Change in Commercial Rate Renewals, by Line: 2024:Q4

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

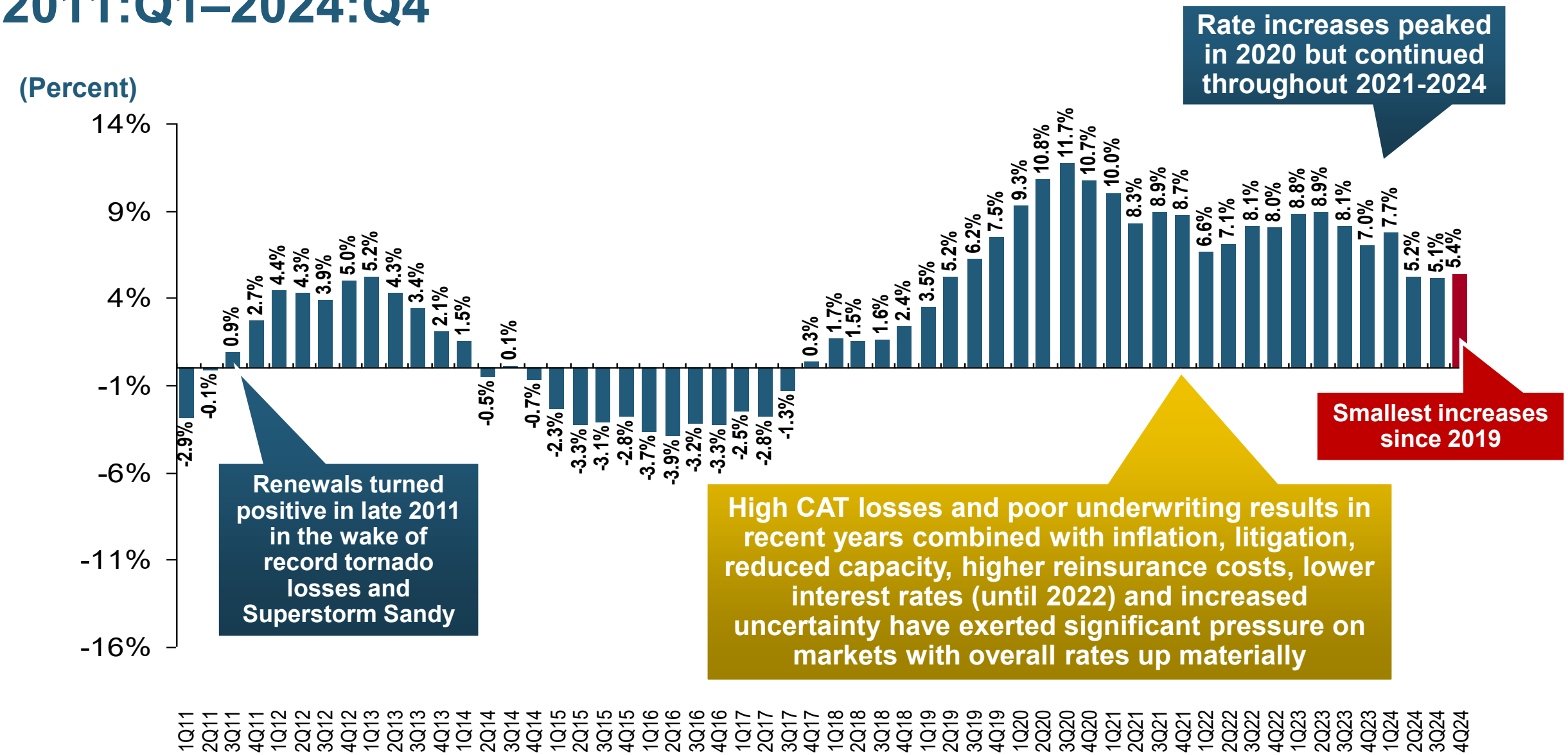
(Percent Change)



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

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

CIAB: Average Commercial Rate Change, All Lines, 2011:Q1–2024:Q4



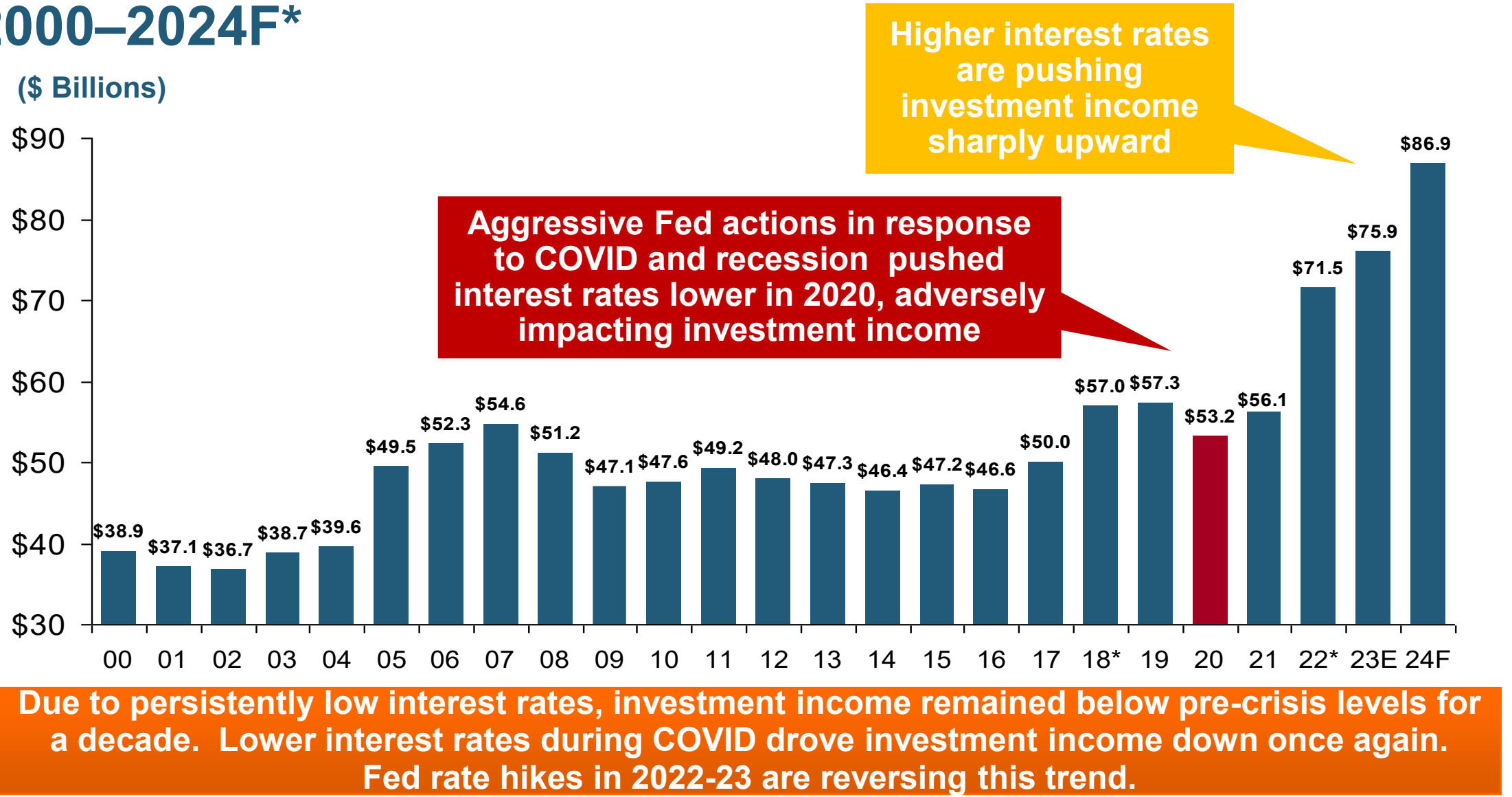
Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents & Brokers; Center for Risk and Uncertainty Management, Univ. of South Carolina.

Investments:
Wall Street's Wild Ride Continues

Investment Performance Is a Key Driver of Insurer Profitability

How Has the Hawkish Fed Impacted Insurer Portfolios?

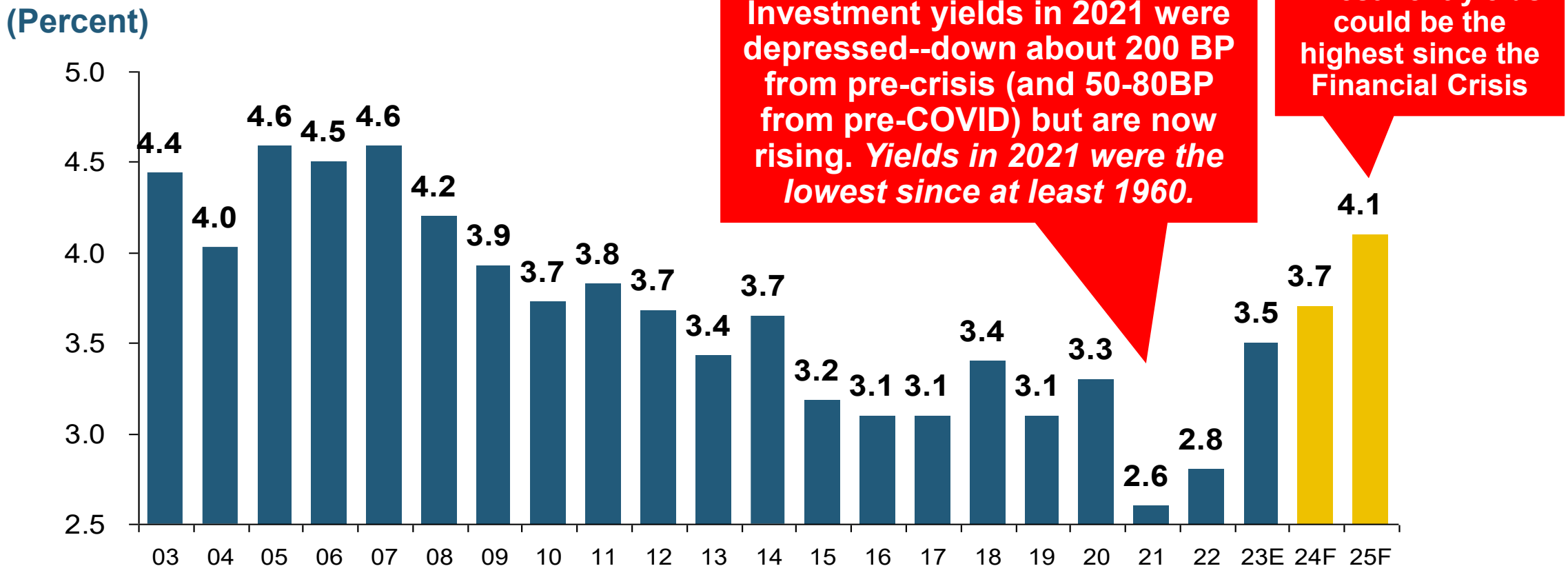
Property/Casualty Insurance Industry Investment Income: 2000–2024F*



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.

S&P 500 Index Returns, 1950–2025*

Inflation forced the Fed to tighten, sending the stock market into correction territory in 2022. Stocks recovered in 2023 with a surprisingly resilient economy; Growth, anticipated rate cuts and AI mania pushed stocks up in 2024. Markets plunged in Q1 2025 under the threat of tariffs, policy uncertainty and rising recession risks.

Dow Headed for Worst April Since 1932 as Investors Send 'No Confidence' Signal

Few think administration's negotiations with trade partners will yield results soon enough to ease the strain

THE WALL STREET JOURNAL.

By Hannah Erin Lang Follow

April 21, 2025 9:00 pm ET

2024
25.0%

2025*
-12.8%

2024: +25.0%
2023: +24.2%
2022: -19.4%
2021: +26.9%
2020: +16.2%
2019: +28.9%
2018: -6.2%
2017: +19.4

*Through April 21, 2025.
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

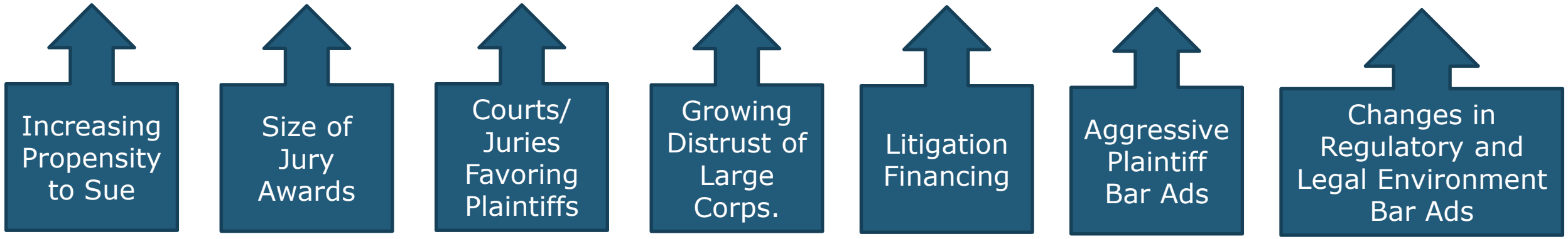
Rising Litigation Costs Are a Concern for Businesses Large and Small—*and Their Insurers*

Major Driver of Rate Across Multiple Lines

76

Social Inflation: Many Interrelated Causes, Difficult to Manage

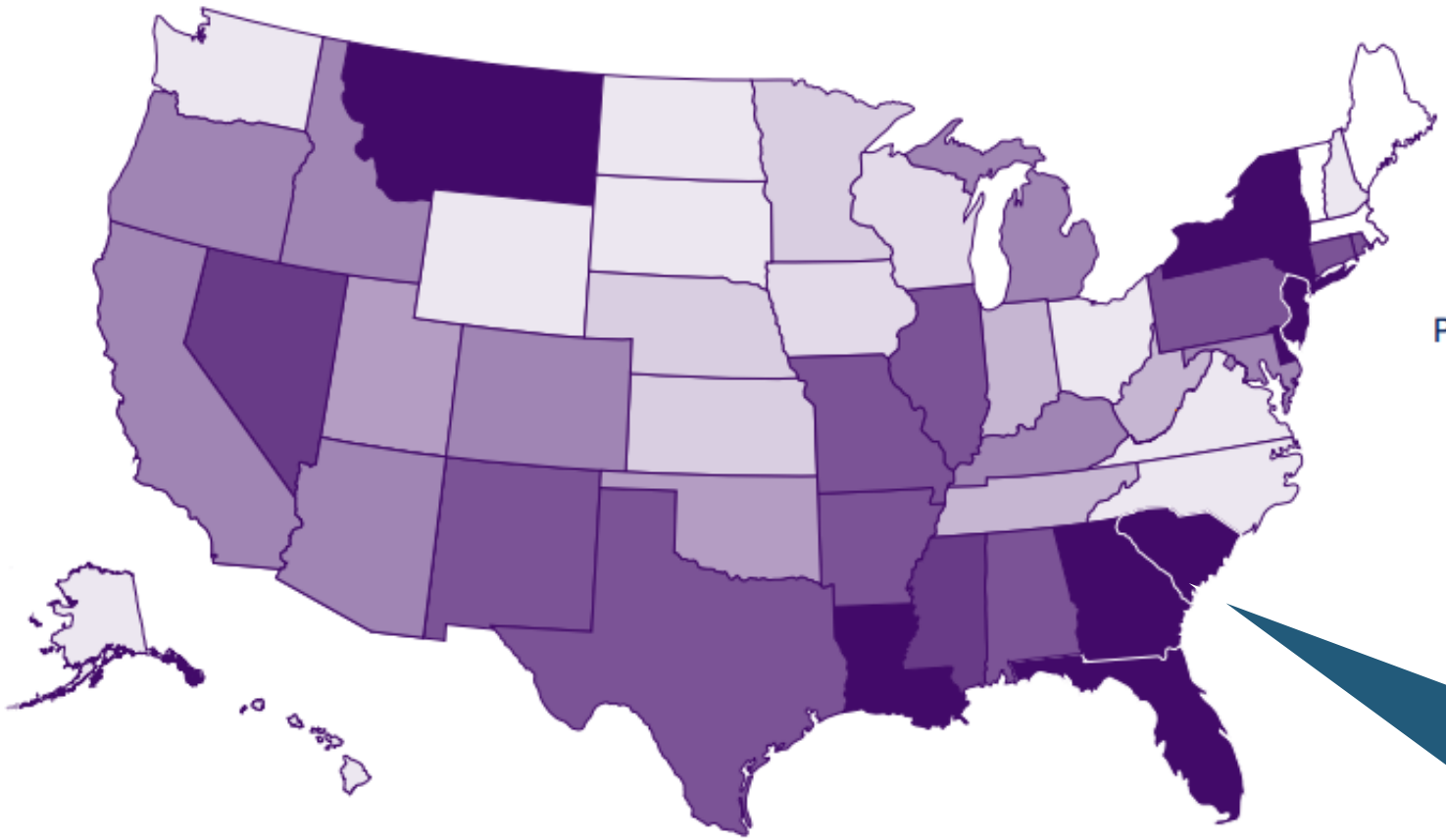
INSURANCE CLAIM COSTS



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).

Tort Costs as Percent of State GDP, by State (2022)

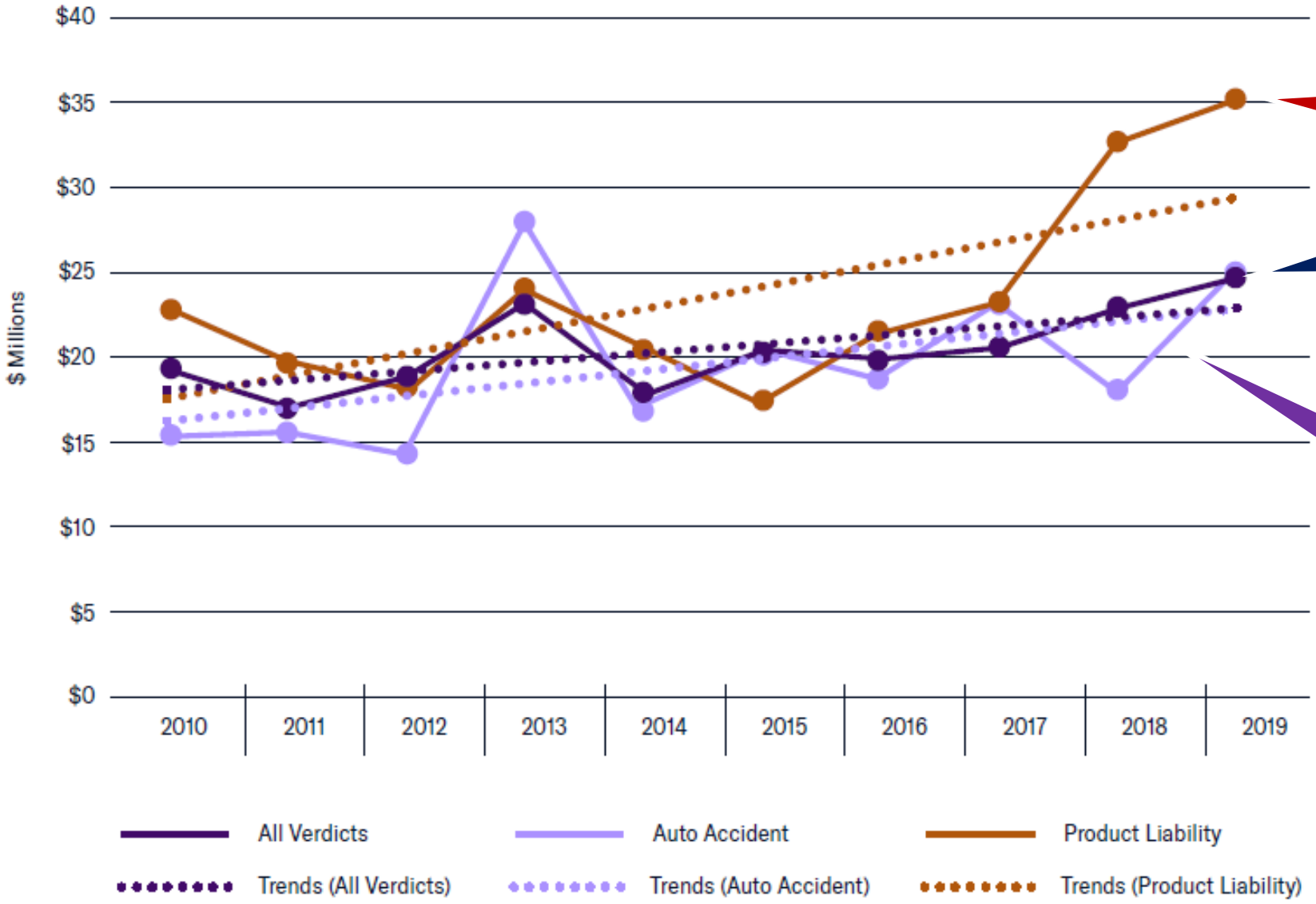


On a Per Household basis, the US "tort tax" equated to $4,207 in 2022

Tort costs as a share of GDP stood at 2.07% for the US overall in 2022 but are materially higher in the Southeast

Source: US Chamber of Commerce Institute for Legal Reform (Nov. 2024), "Tort Costs in America: An Empirical Analysis of Costs and Compensation of the U.S. Tort System" (3rd Edition) accessed at: https://instituteforlegalreform.com/research/tort-costs-in-america-an-empirical-analysis-of-costs-and-compensation-in-the-u-s-tort-system-third-edition/. 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.

Tort Costs Over Time by Category, 2016 - 2022 ($Bill) (2022)

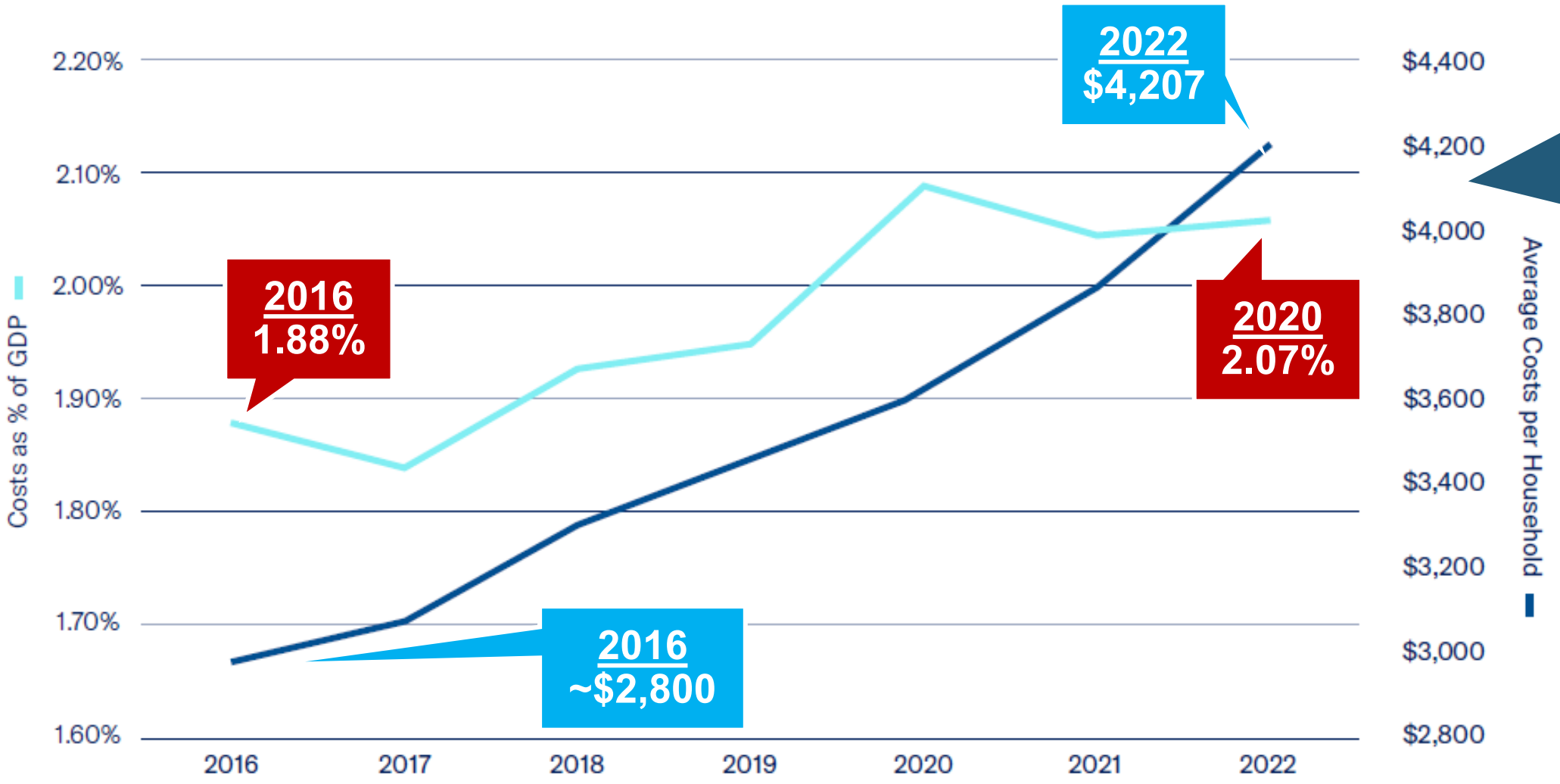
		2016	2017	2018	2019	2020	2021	2022	Average Annual Growth
Commercial Liability									
General/Professional	[1]	$176	$171	$194	$205	$230	$256	$291	8.8%
Medical	[2]	$14	$13	$14	$15	$16	$17	$17	4.3%
Automobile	[3]	$33	$35	$39	$44	$45	$51	$58	10.1%
Commercial Liability Total	[4]	$222	$220	$247	$264	$290	$324	$367	8.7%
Personal Liability									
Homeowners (liability portion)	[5]	$4	$4	$4	$4	$4	$5	$5	5.1%
Automobile	[6]	$125	$135	$145	$150	$149	$152	$157	3.9%
Personal Liability Total	[7]	$129	$139	$149	$154	$153	$156	$162	3.9%
Total Tort Costs	[8]	**$351**	**$359**	**$397**	**$418**	**$444**	**$481**	**$529**	**7.1%**
National GDP	[9]	$18,701	$19,508	$20,536	$21,395	$21,193	$23,462	$25,598	5.4%
Consumer Price Index	[10]	240.0	245.1	251.1	255.7	258.8	271.0	292.7	3.4%
Total Costs as % of GDP	[11]	**1.9%**	**1.8%**	**1.9%**	**2.0%**	**2.1%**	**2.0%**	**2.1%**	

Increases in tort liability costs are driven primarily by Commercial lines, which are grew at and average annual rate 8.7% from 2016 – 2022, compared to 3.9% for Personal lines

The US "tort tax" equated to $4,207 per household in 2022

Source: US Chamber of Commerce Institute for Legal Reform (Nov. 2024), "Tort Costs in America: An Empirical Analysis of Costs and Compensation of the U.S. Tort System" (3rd Edition) accessed at: https://instituteforlegalreform.com/research/tort-costs-in-america-an-empirical-analysis-of-costs-and-compensation-in-the-u-s-tort-system-third-edition/; Risk and Uncertainty Management Center, Univ. of South Carolina.

Change in Tort Costs Over Time: 2016 – 2022



The Household "Tort Tax" hit $4,207 in 2022, up about 50% since 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.

SUMMARY

- Global Economic Outlook for 2025-2026 Is Challenging
- Tariffs—if Fully Implemented and Maintained—are Somewhat "Stagflationary"
- "Soft Landing" Jeopardized; Recession Still Unlikely but Odds Are Increasing
- The US P/C Insurance Industry Remains Strong, Stable, Sound and Secure
  - Auto lines, property and reinsurance segments were stressed but are improving
- Loss Cost Challenges Have Been Easing, but Changes in Fiscal, Trade and Labor Policies in 2025 Could Exert Inflationary Pressures
  - Tariffs would adversely impact auto and property claim severities; Reduce exposures
- Asset Price Volatility Will Persist with Monetary Policy, Fiscal, Geopolitical Uncertainty
- Higher Interest Rates Are Providing a Modest Tailwind for Investment Income
- Legal System Abuse Issues Remain a Long-Term Challenge and Major Cost Driver

UNIVERSITY OF
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Thank you for your time and your attention!

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