Navigating Risk and Reward:
A Guide to the Evolving Economy and Insurance Markets

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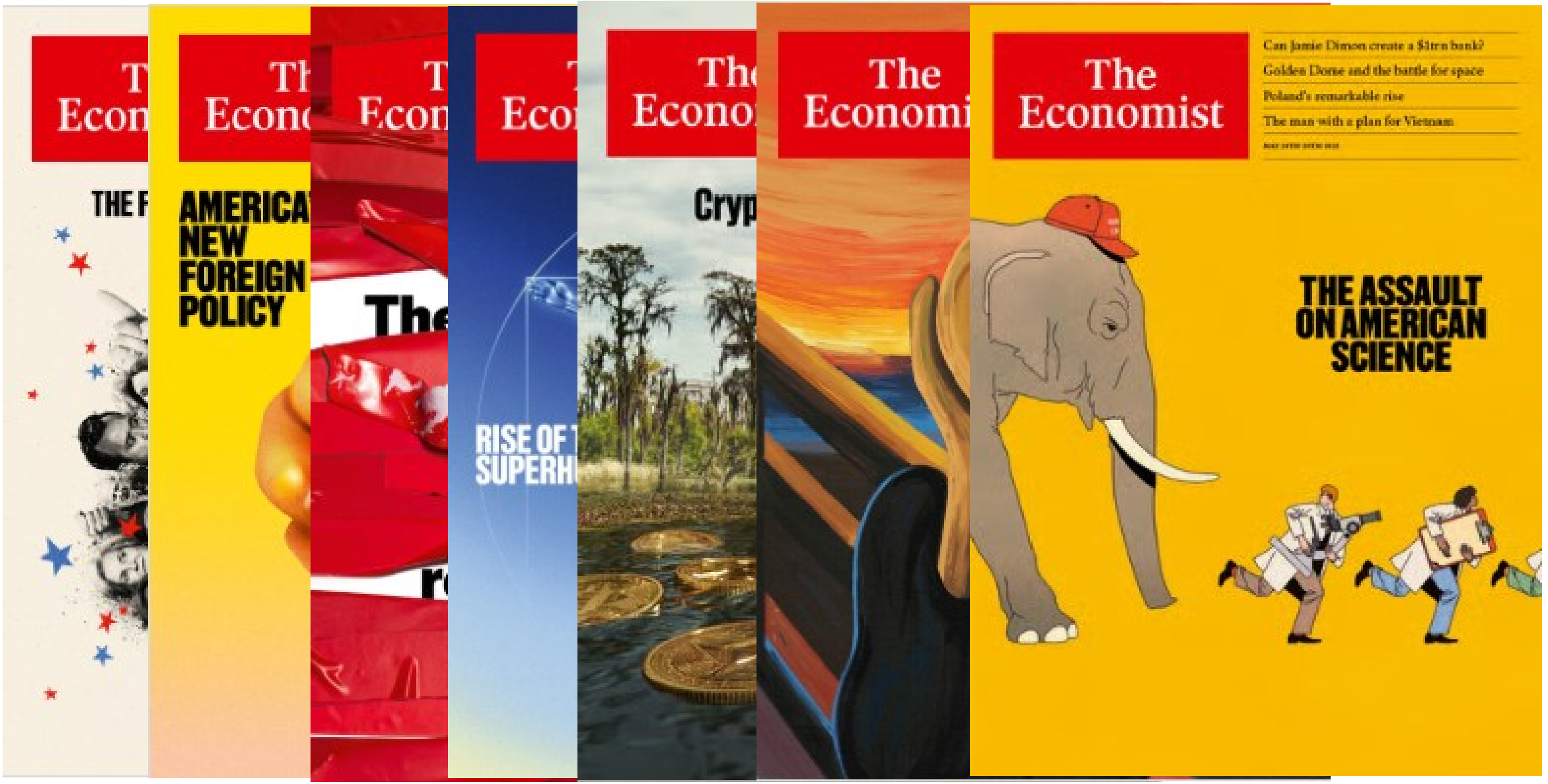
P/C Insurance Overview & Outlook: A World of Risks

- P/C Financial Overview & Outlook in a Era of Rising Uncertainty
  - 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 monetary policy on P/C insurers
- Tariff Impacts and P/C insurance
- Populism & P/C Insurance: A Constellation of Risks
- Personal and Commercial Insurance Trends
  - Cost drivers
  - Is the hard market coming to end?
- Legal System Abuse
- Summary and Q&A

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



P/C Insurance Industry Financial Overview & Outlook:

Challenges Amid Inflation and Higher Interest Rates

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

Industry Remains Strong

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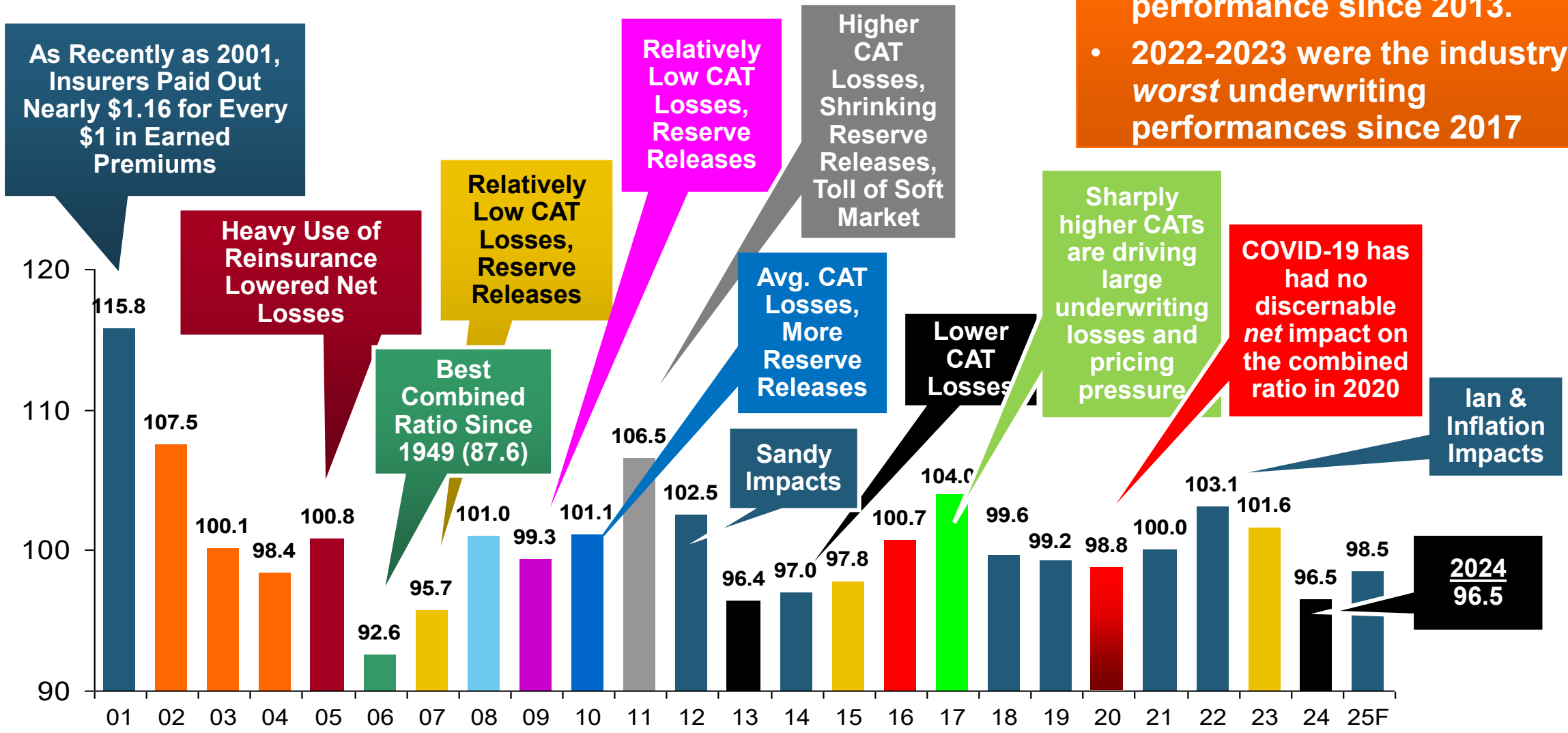
P/C Insurance Industry Combined Ratio, 2001–2025F*

- 2024 was the *best* underwriting performance since 2013.
- 2022-2023 were the industry's *worst* underwriting performances since 2017



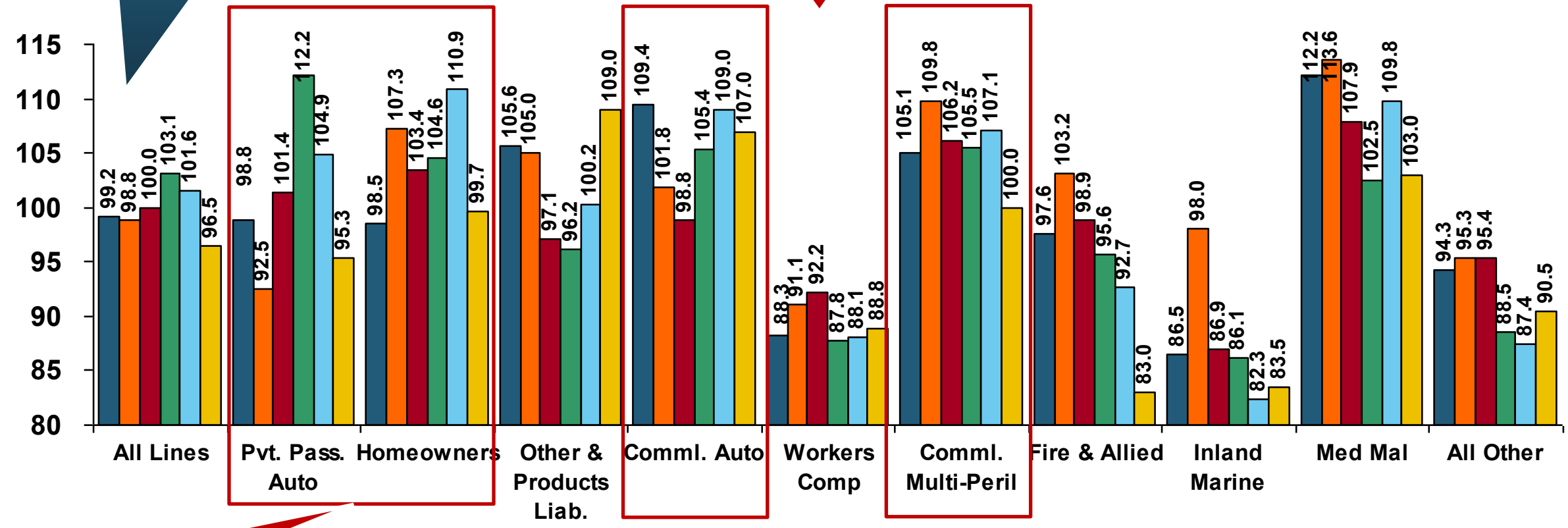
*Excludes Mortgage & Financial Guaranty insurers 2008–2025F.
Sources: A.M. Best, ISO (2001-2023). S&P Global Intelligence (2024).

Combined Ratios by Line: 2019 – 2024*

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 hurt personal lines in 2021-2023

Source: A.M. Best *Review & Preview* (2019-2022); S&P Global 2023-2024. Univ. of South Carolina, Risk and Uncertainty Management Center.

P/C Insurance Industry Combined Ratio, 2016–2026F

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

CATs

Inflation

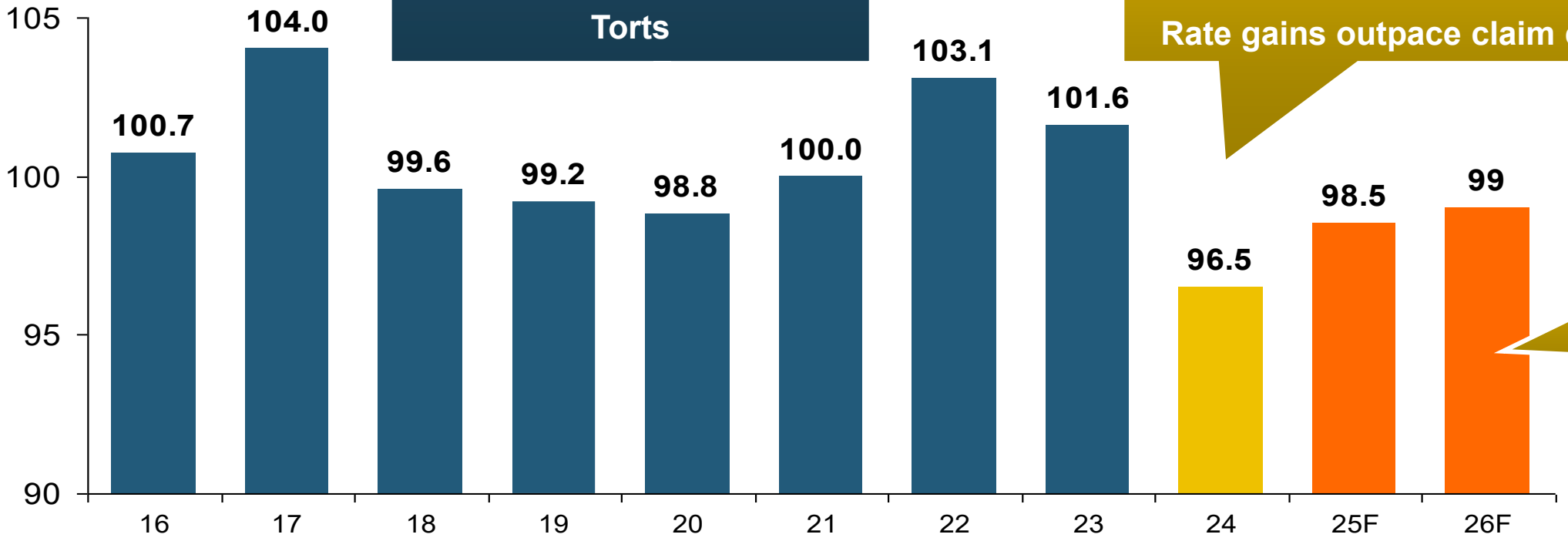
Torts

2024 ended up being a great year—led by improvements in Personal Lines and especially Personal Auto—despite Hurricanes Helene and Milton.

DRIVERS

Inflation moderates

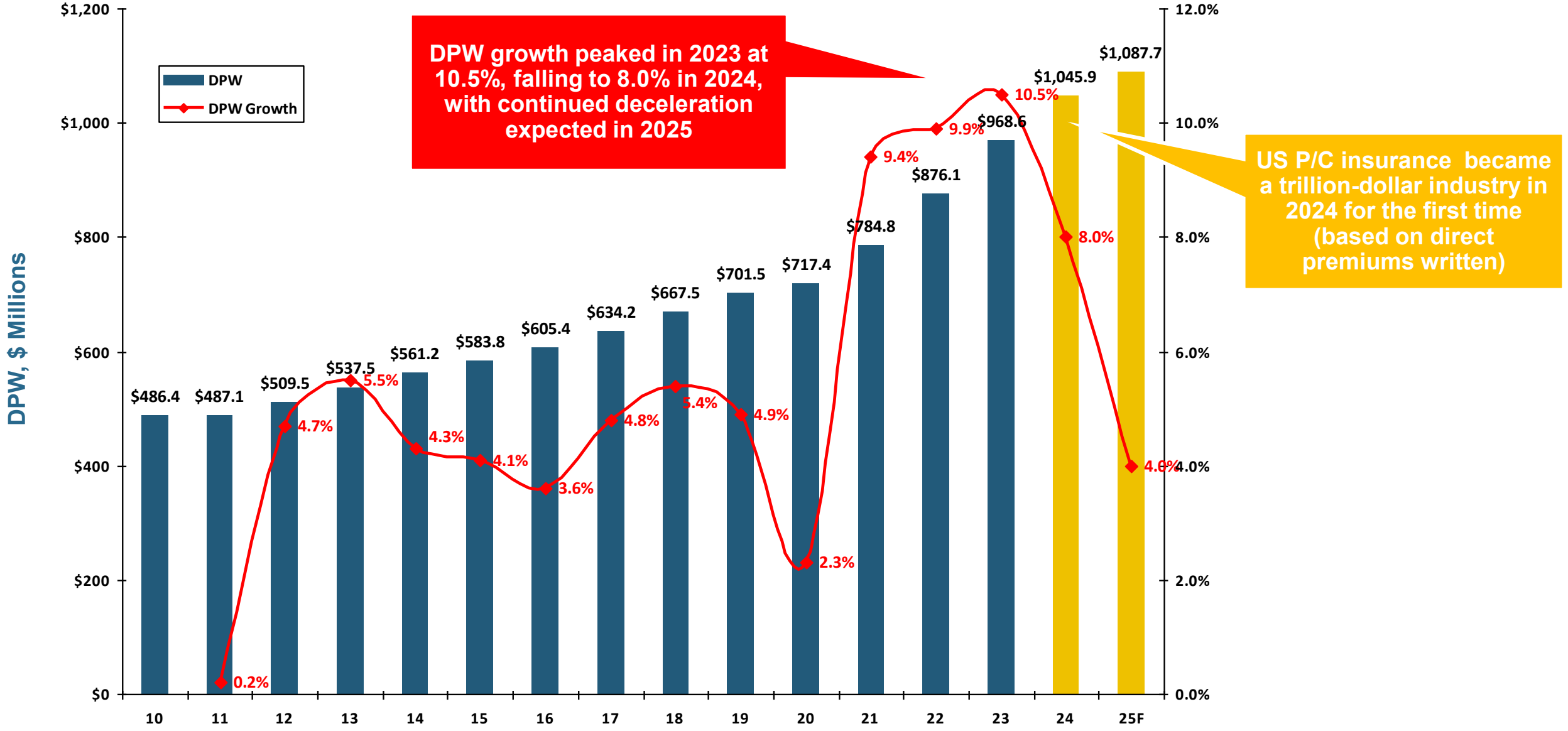
Rate gains outpace claim costs



Expectations for 2025-2026 are currently fairly optimistic

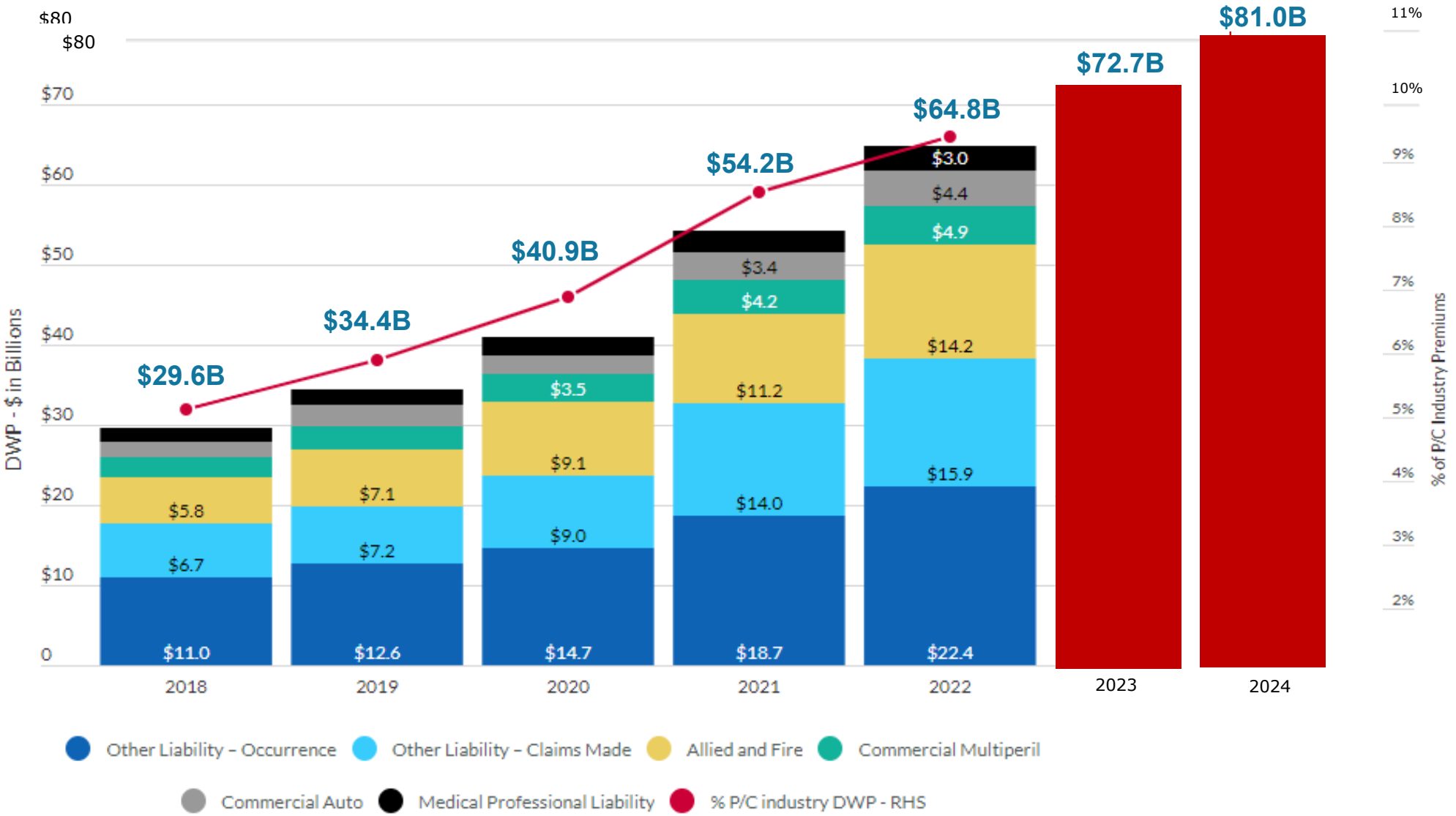
Sources: A.M. Best (2016-2024); S&P Global Intelligence (2024); Swiss Re (2025F-2026F as of April 2025); USC Risk and Uncertainty Management Center.

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



Sources: A.M. Best, NAIC and S&P Global (2010-2024); Forecast figures for 2025 from Swiss Re Institute "*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.

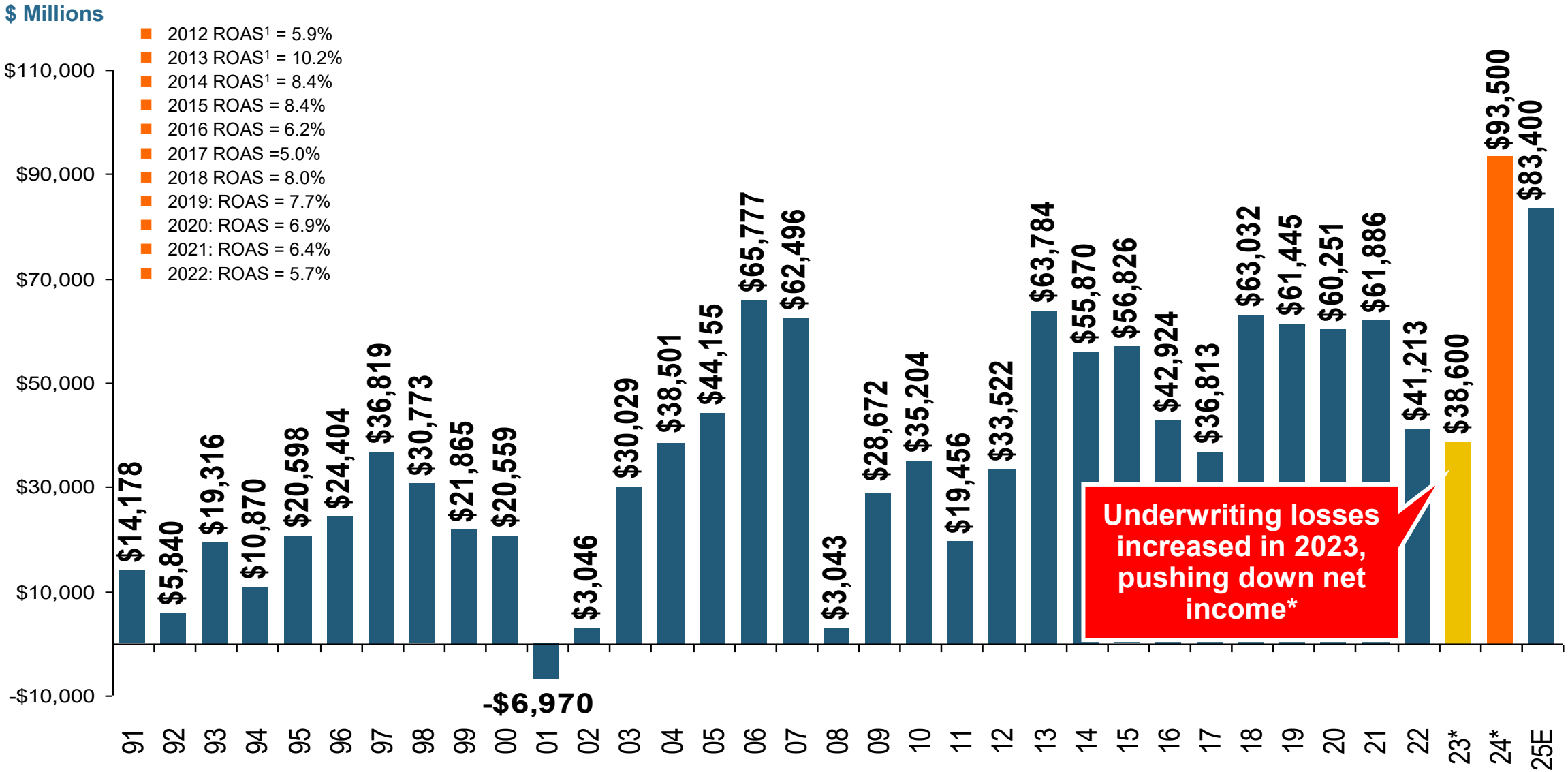
E&S Market Direct Written Premium Trends



E&S premium grew by 12.1% in 2024, down from 14.6% in 2023 and 20% in 2022 (up 174% since 2018). E&S premiums were about 11% of the total P/C market in 2024, doubling from from 5.5% in 2018.

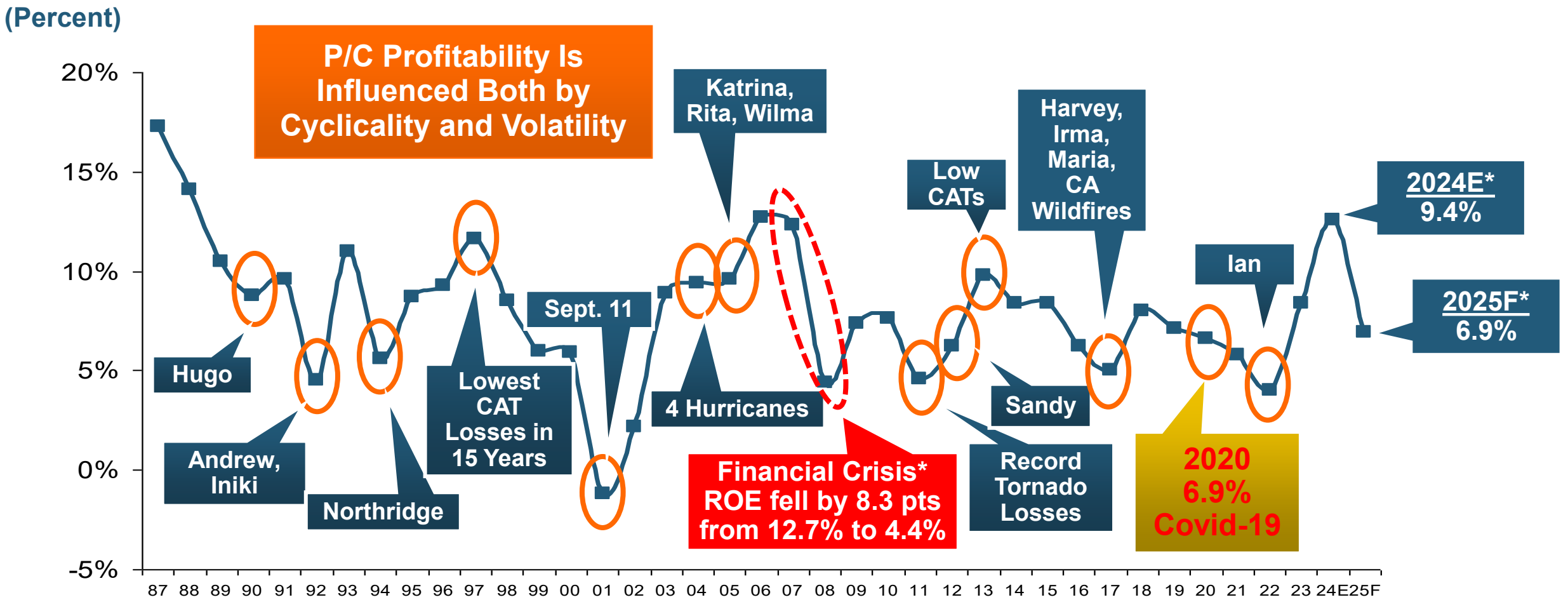
Sources: Data for 2018 – 2022: Fitch Ratings (*Fitch Wire*, Oct. 4, 2023) accessed at: https://www.fitchratings.com/research/insurance/us-excess-surplus-insurance-market-outperformance-to-continue-04-10-2023; For 2023-24: Insurance Journal from WSIA, accessed at: https://www.insurancejournal.com/news/national/2025/02/06/810946.htm; Risk and Uncertainty Management Center, University of South Carolina.

P/C Industry Net Income After Taxes, 1991–2025E*



*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.

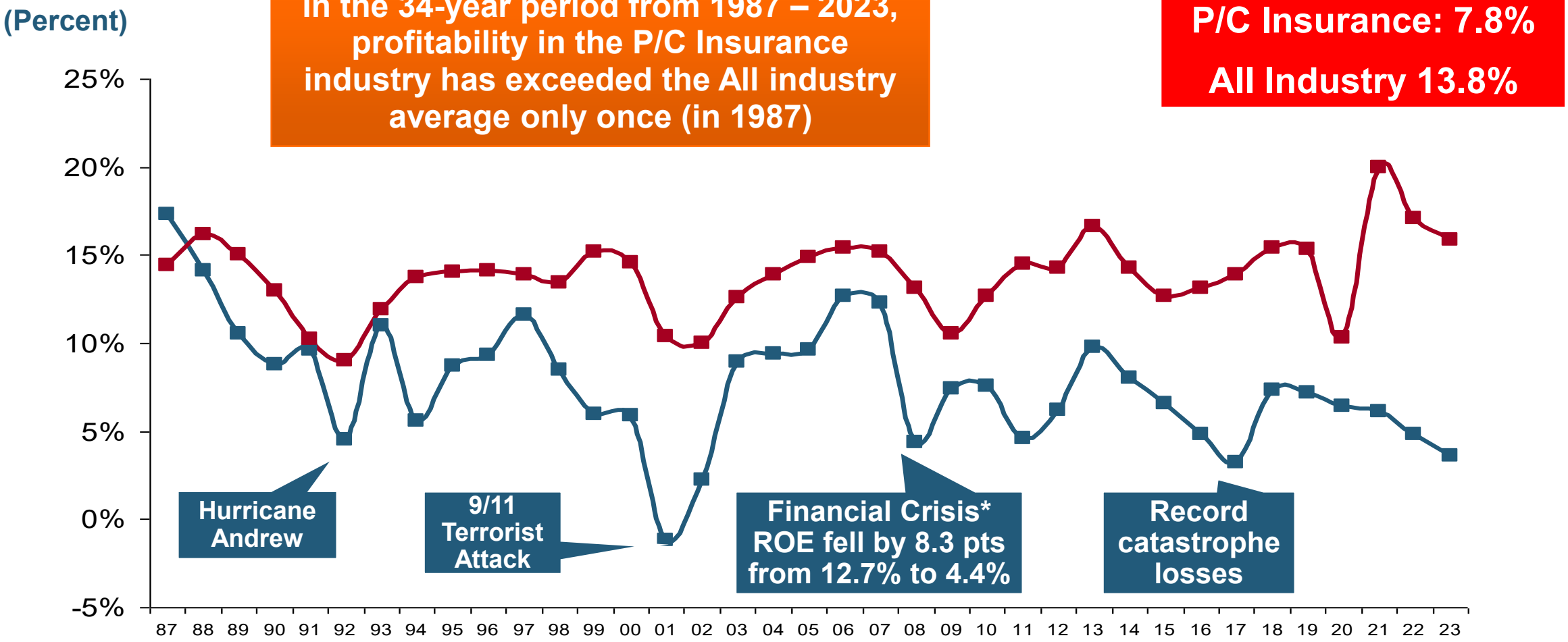
ROE: Property/Casualty Insurance vs. Fortune All Industry, 1987–2023*

In the 34-year period from 1987 – 2023, profitability in the P/C Insurance industry has exceeded the All industry average only once (in 1987)

Avg. ROE*

P/C Insurance: 7.8%

All Industry 13.8%



*2023 figures are estimates.
Sources: NAIC, ISO, *Fortune*; USC RUM Center.

Upgrades and Downgrades

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.

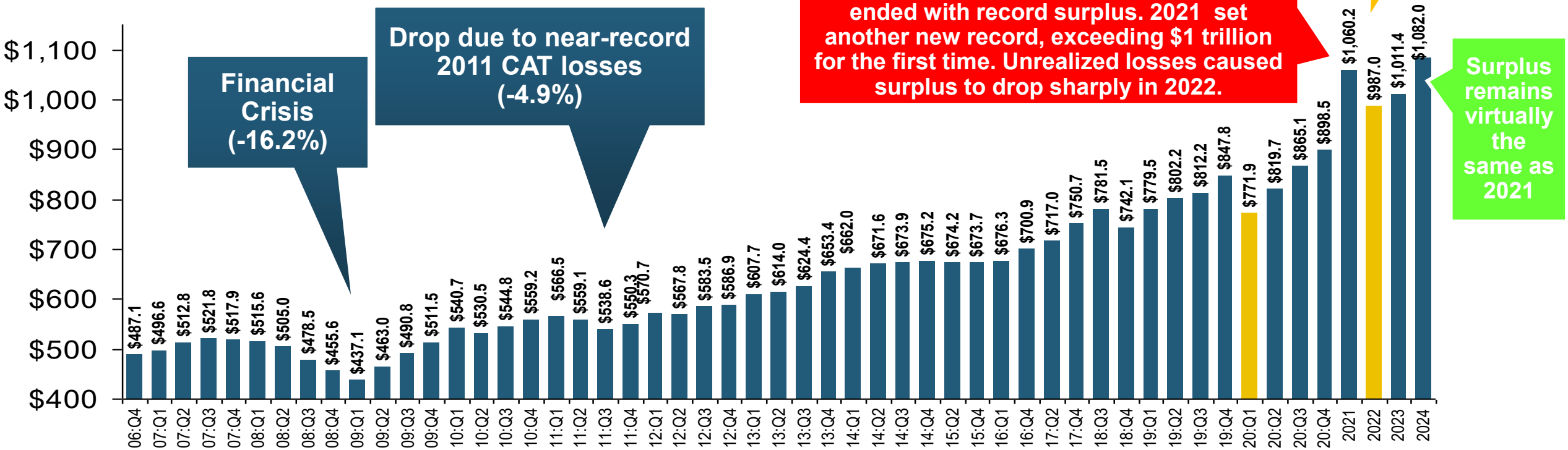
Capital and Capacity

P/C Insurance: Is the Industry's Capital Crunch Over?

Will Industry Capacity Growth Resume?

Policyholder Surplus (Capacity), 2006:Q4 – 2024

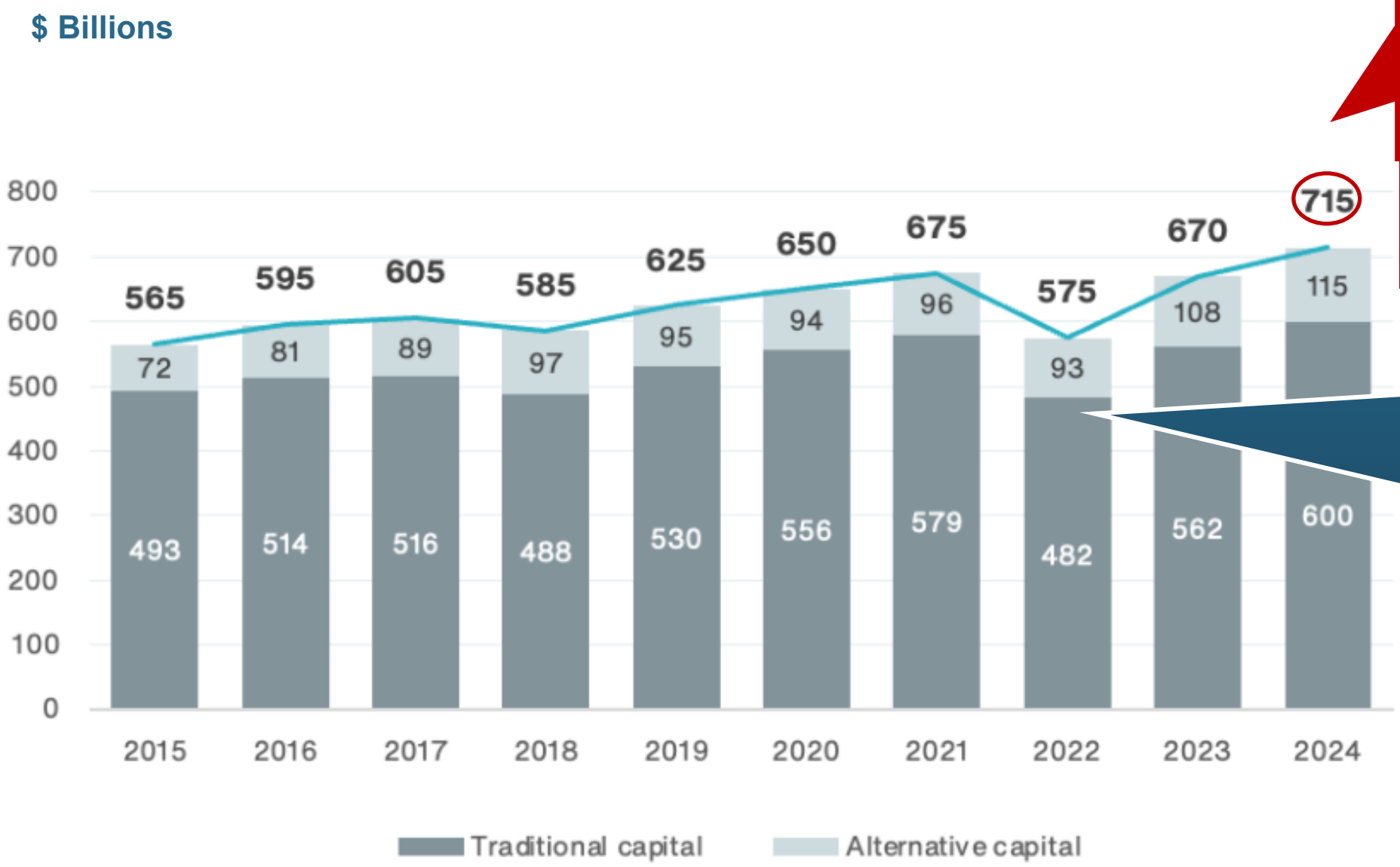
($ Billions)



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

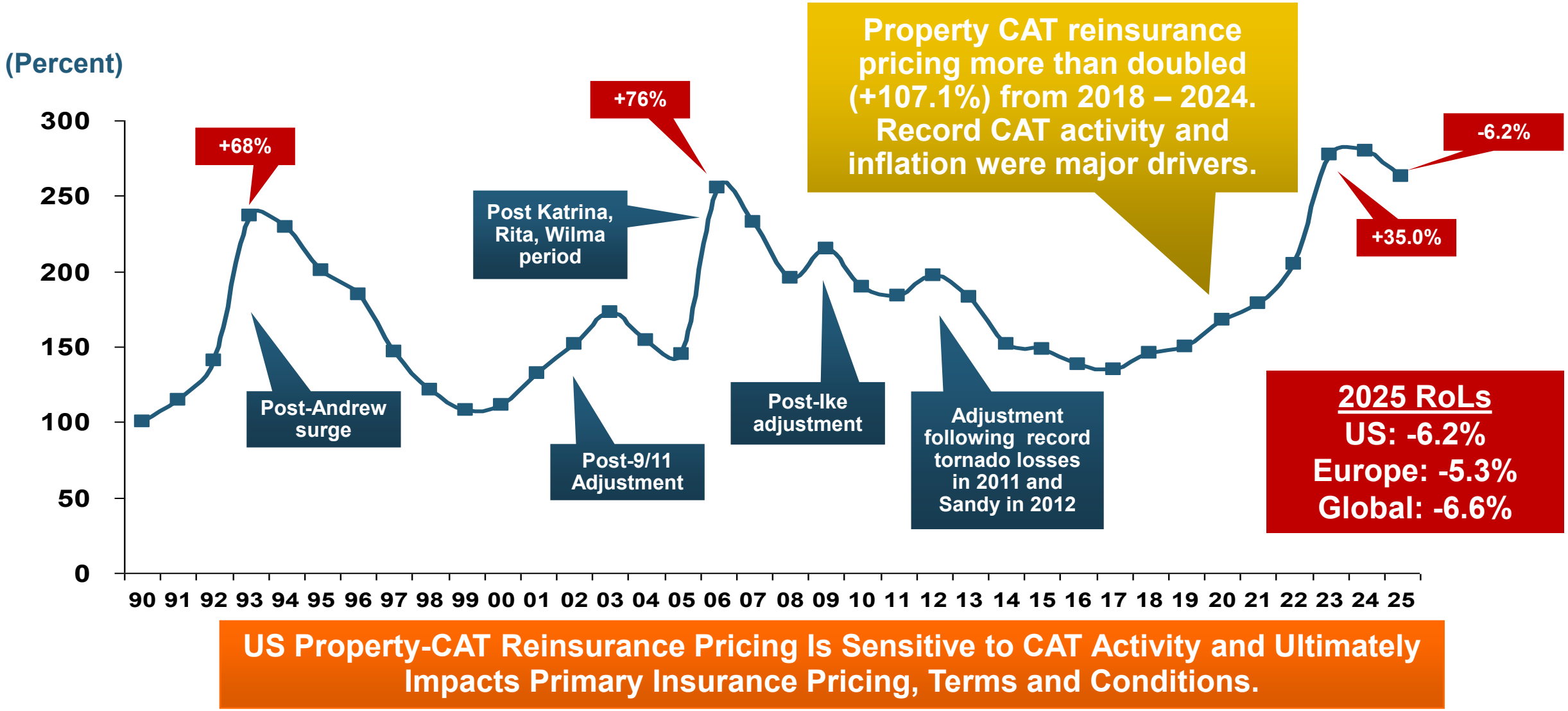


Global reinsurance reached a new high in 2024, but is only 5.9% above its 2022 peak—far below the increase that would be needed to keep pace with inflation and exposure growth

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

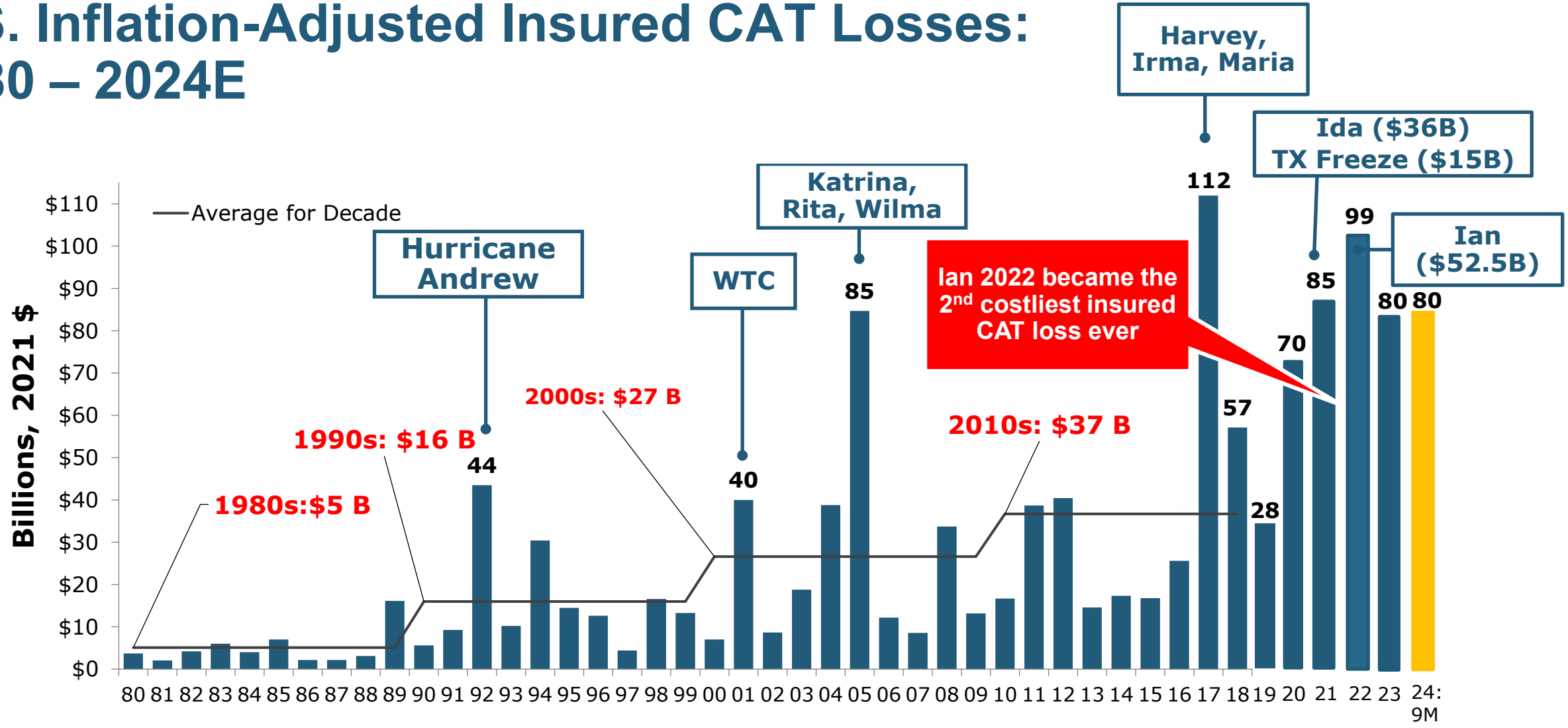
Catastrophe Loss Trends

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

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



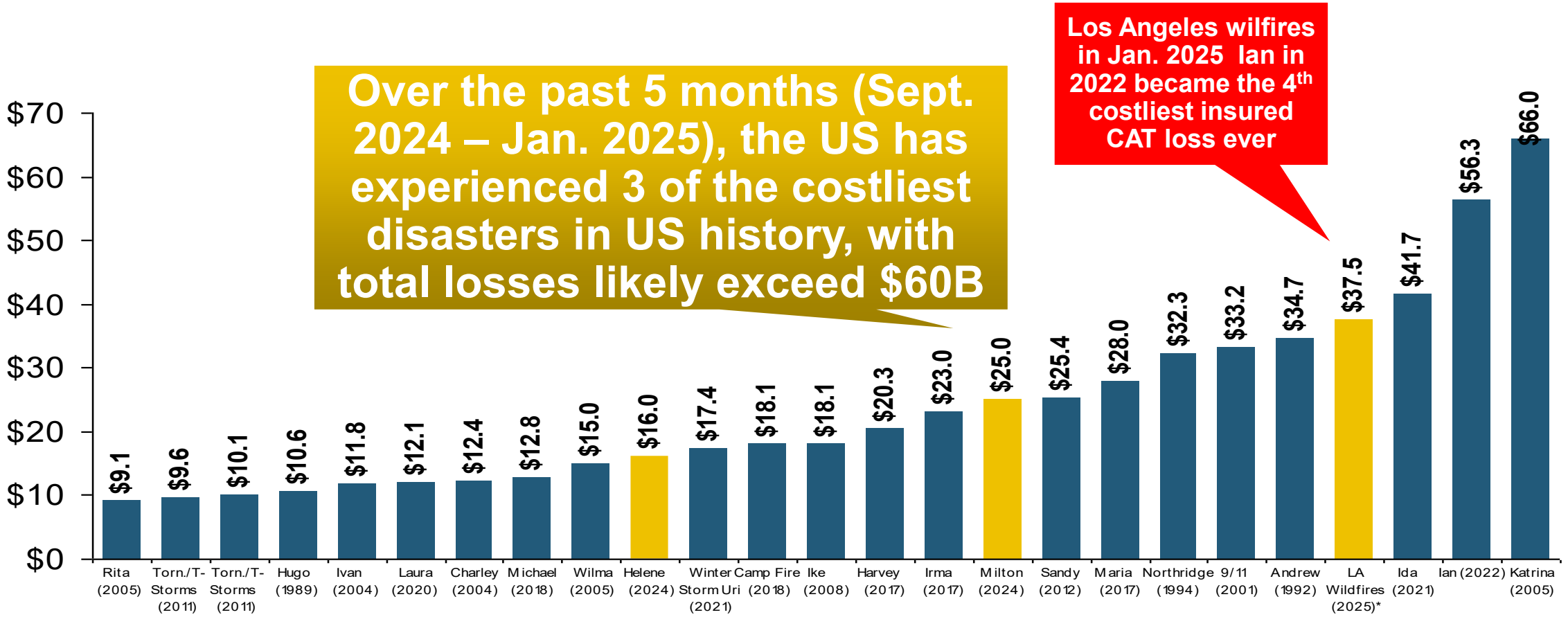
Average Insured Loss per Year*
1980-2021: $23.8 Billion
2012-2021: $44.1 Billion

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.

Top 26 Most Costly Disasters in U.S. History

(Insured Losses, 2024 Dollars, $ Billions)

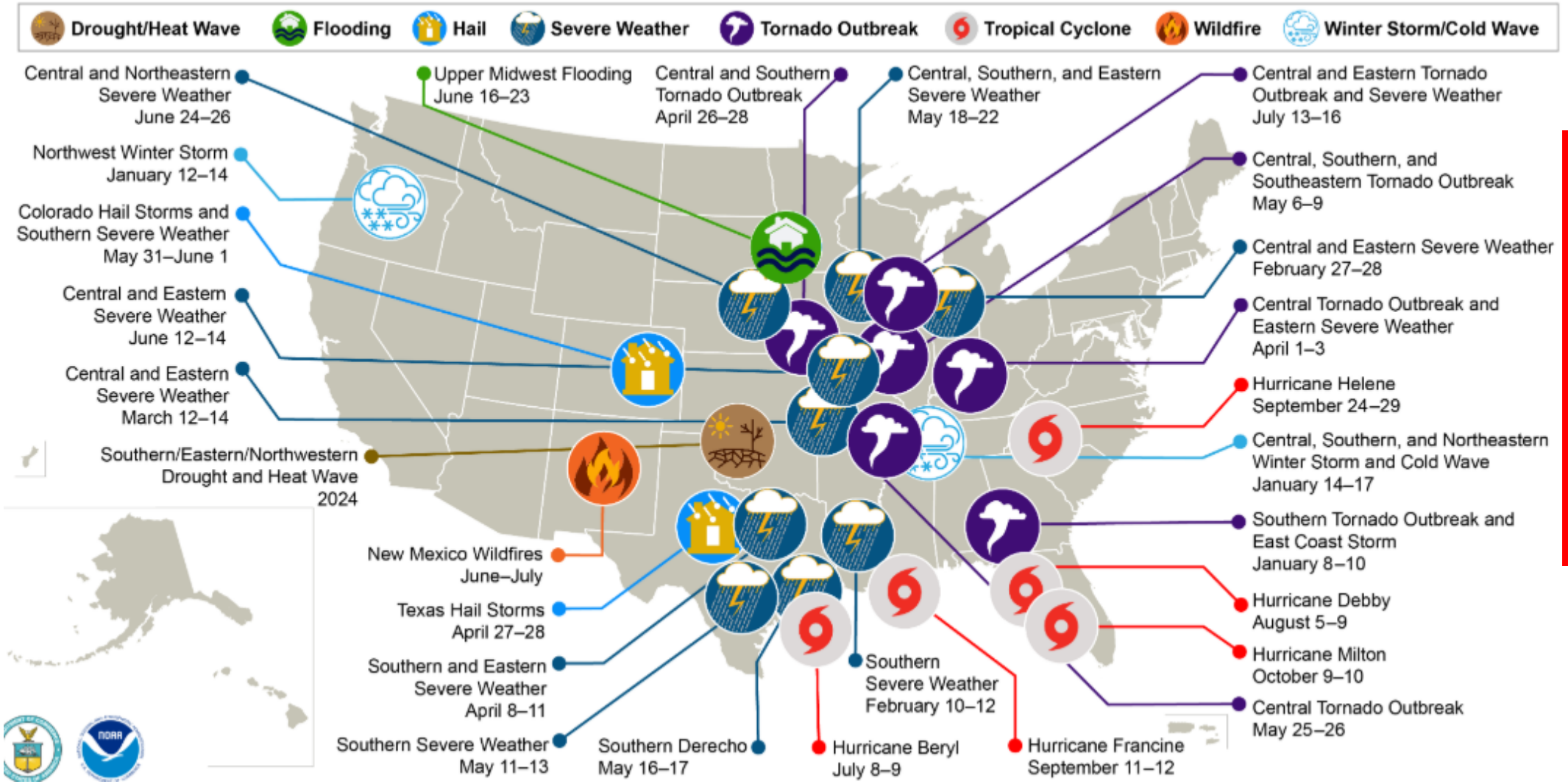


23 of the 26 Most Expensive Insurance Events in US History Have Occurred Since 2004.

*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.

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/.

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 – 2025F

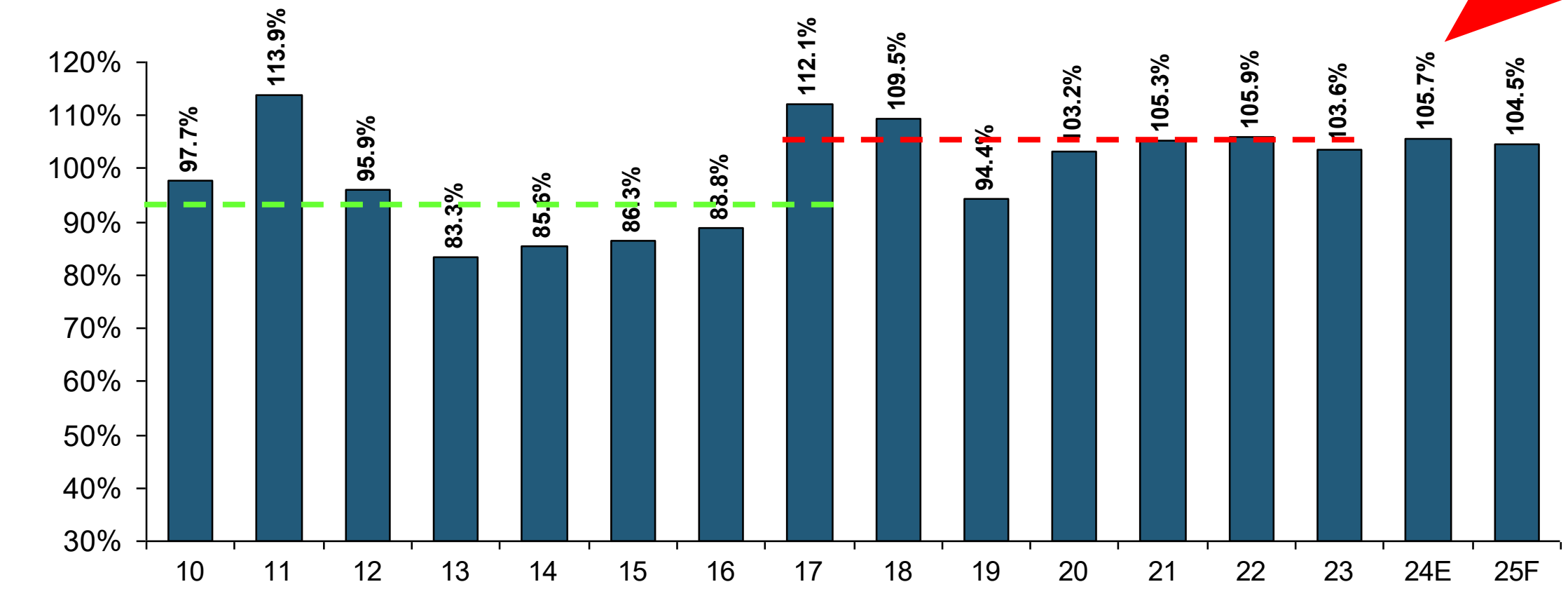
Average:

99.0% (2010-2023)

93.1 (2010-2016)

104.9% (2017-2023)

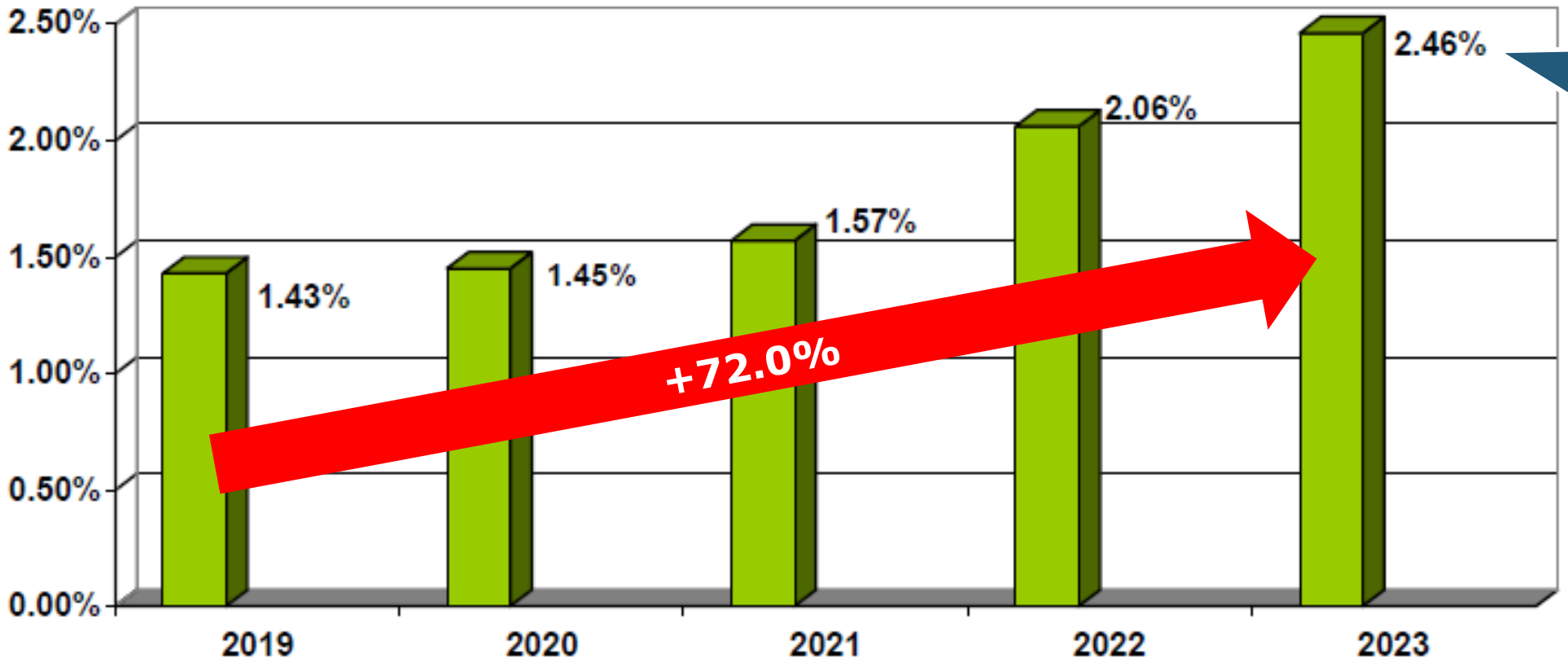
The Homeowners combined ratio from 2017-2023 (104.9) was nearly 12 points higher from than from 2010-2016 (93.1)



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.

Residual Market (All Plans) Earned Premium as a Percent of Total Market: HO, CMP, Fire and Allied Lines, 2019 - 2023

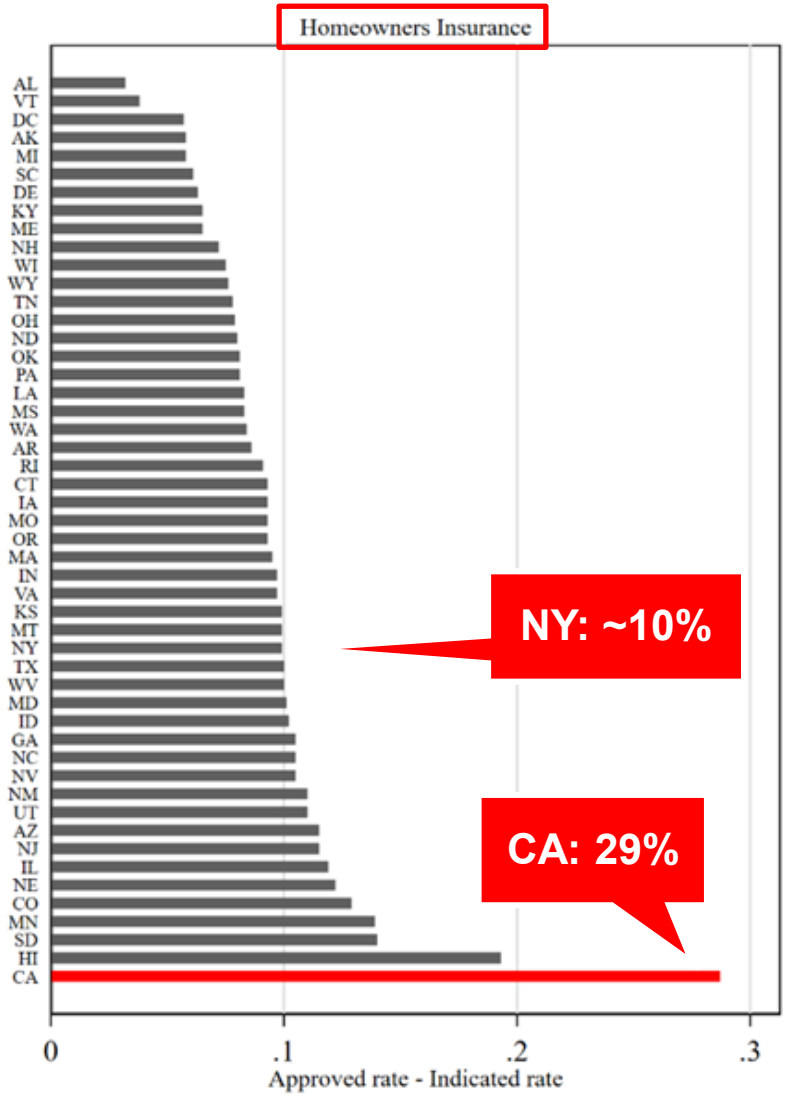
$ Billions

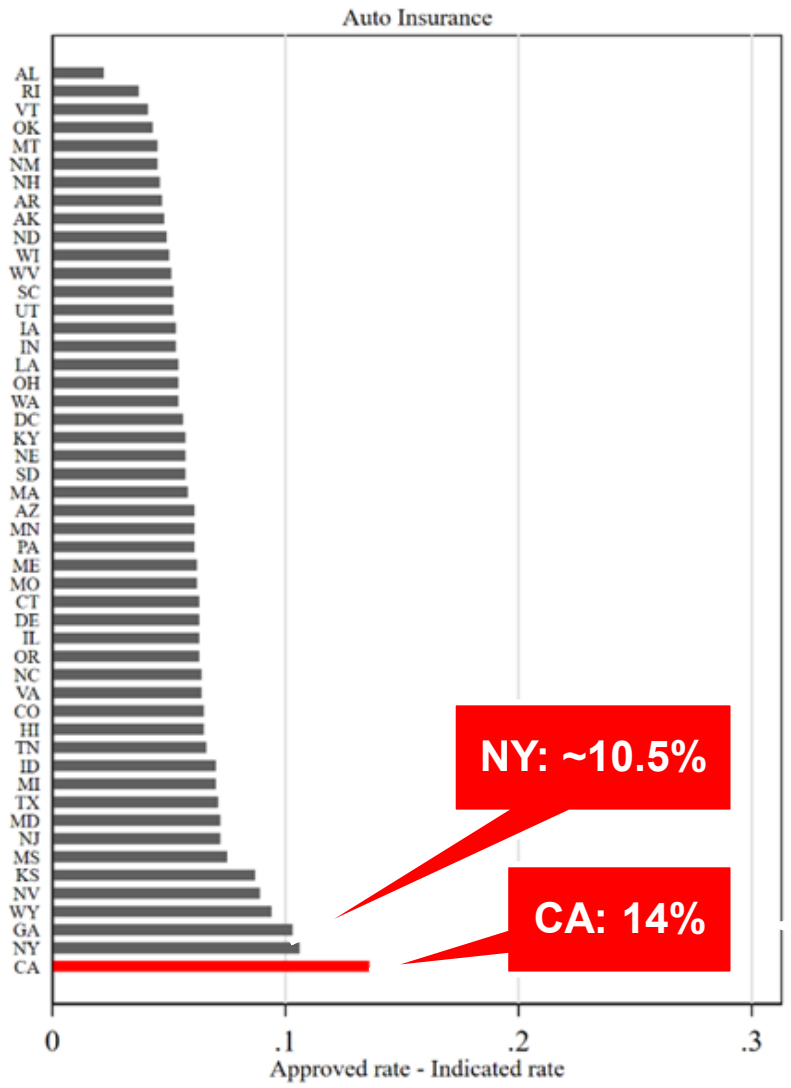


Property residual markets as a percent of total markets rose from 1.43% in 2019 to 2.46% in 2023—an increase of 72%

Source: Property Insurance Plans Service Office (PIPSO), *2024 FAIR and Beach Plan Underwriting Results and Market Penetration Report*, (Fig. 3, p. V).

Regulatory Rate Suppression by State, 2018 - 2022





Rate suppression is defined as the difference between the actuarially indicated rate and the rate approved by regulators.

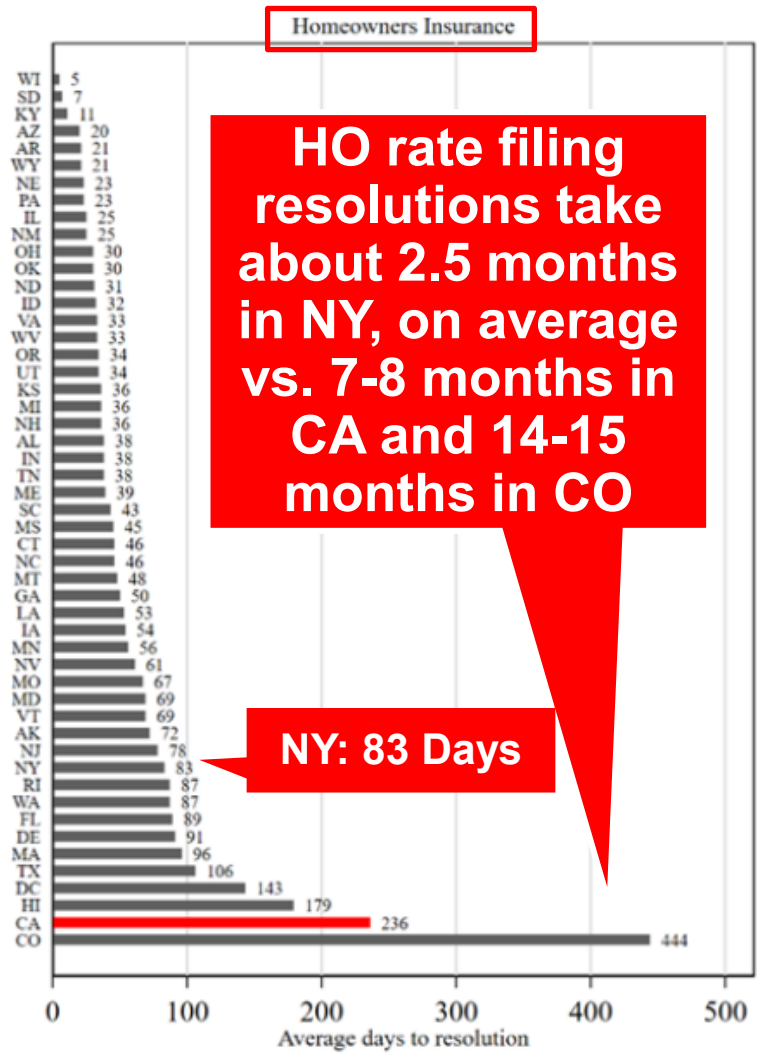
Example: *If an insurer's rate analysis indicates that a 40% increase is required for rates to be adequate, and the regulator instead approves only a 15% increase, the effect of rate suppression is (40%–15%=) 25%*

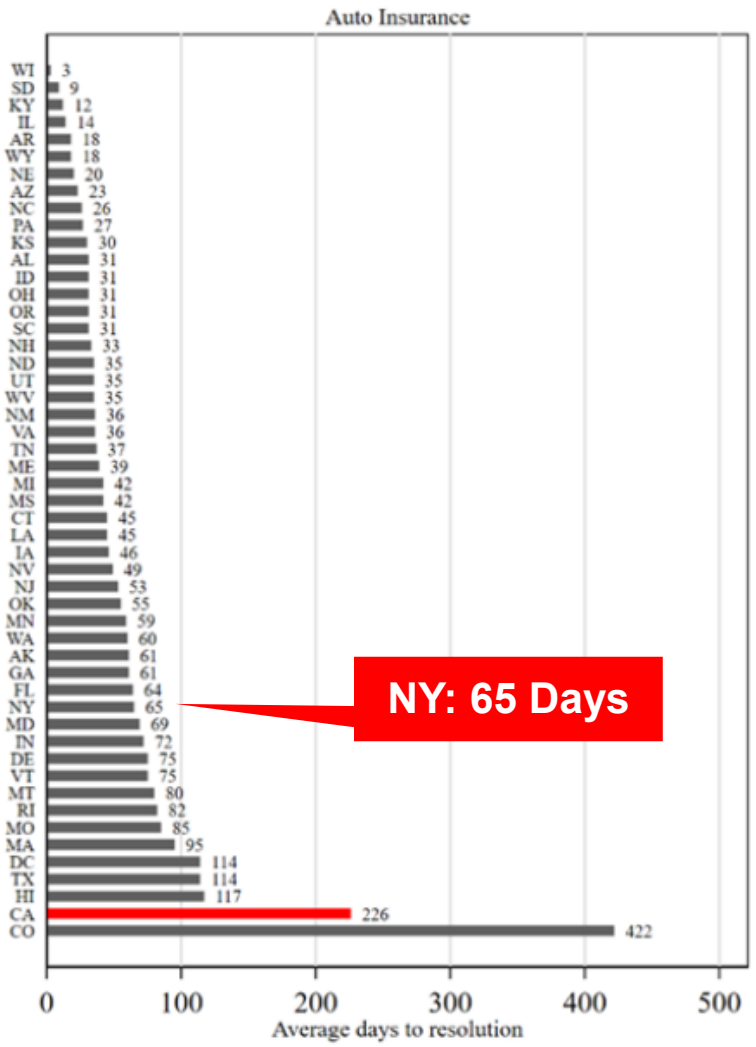
CA and NY lead the way in rate suppression in auto insurance

SOURCE: *SERFF Rate Filing Data From S&P Capital. Florida data are unavailable.*

Source: International Center for Law & Economics, ICLE White Paper 2023-11-06, "Rethinking Prop 103's Approach to Insurance Regulation." Accessed at: https://laweconcenter.org/wp-content/uploads/2023/11/Rethinking-Prop-103s-Approach-to-Insurance-Regulation-2.pdf

Average Days to Resolution of Rate Filings by State, 2018 - 2022





Source: International Center for Law & Economics, ICLE White Paper 2023-11-06, “Rethinking Prop 103’s Approach to Insurance Regulation.” Accessed at: https://laweconcenter.org/wp-content/uploads/2023/11/Rethinking-Prop-103s-Approach-to-Insurance-Regulation-2.pdf

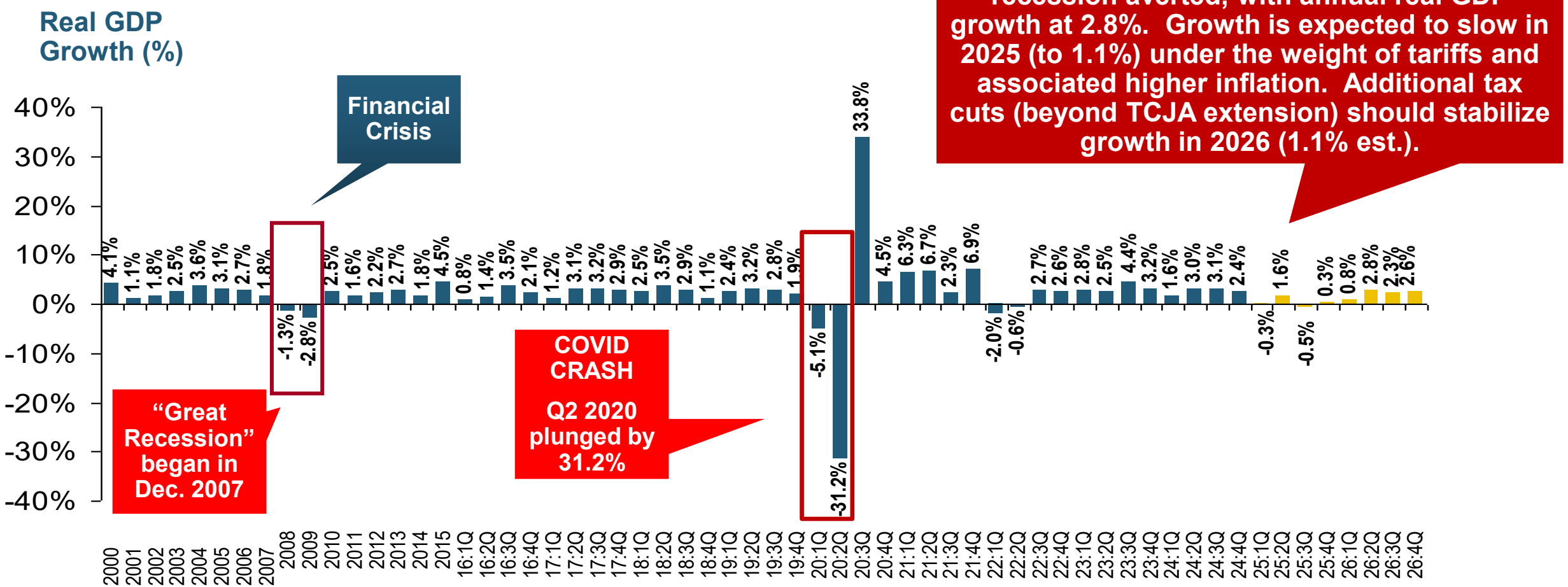
Economic Overview
The U.S. Economy Remains Resilient but Consumer Gloom is Returning

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

52

US Real GDP Growth, 2000 – 2026F*

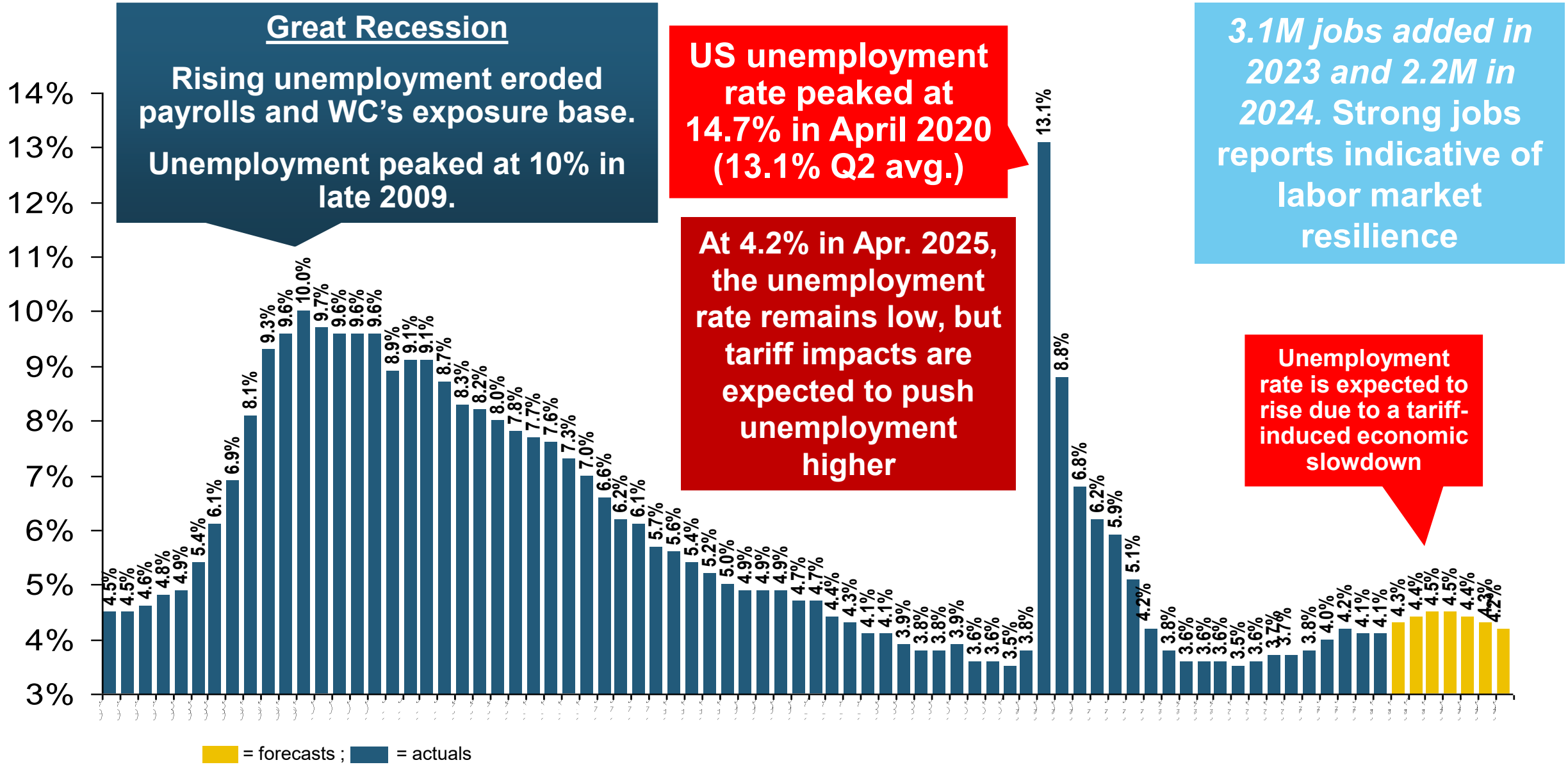


Demand for Insurance Increased Materially in 2021/22 During Recovery from the Pandemic—Particularly in Economically Sensitive Commercial Lines Such as WC. Premium growth will likely slow as Economy Slows in 2025-26.

* Estimates/Forecasts from Wells Fargo Securities.

Source: US Department of Commerce, Wells Fargo Securities (5/25); Center for Risk and Uncertainty Management, University of South Carolina.

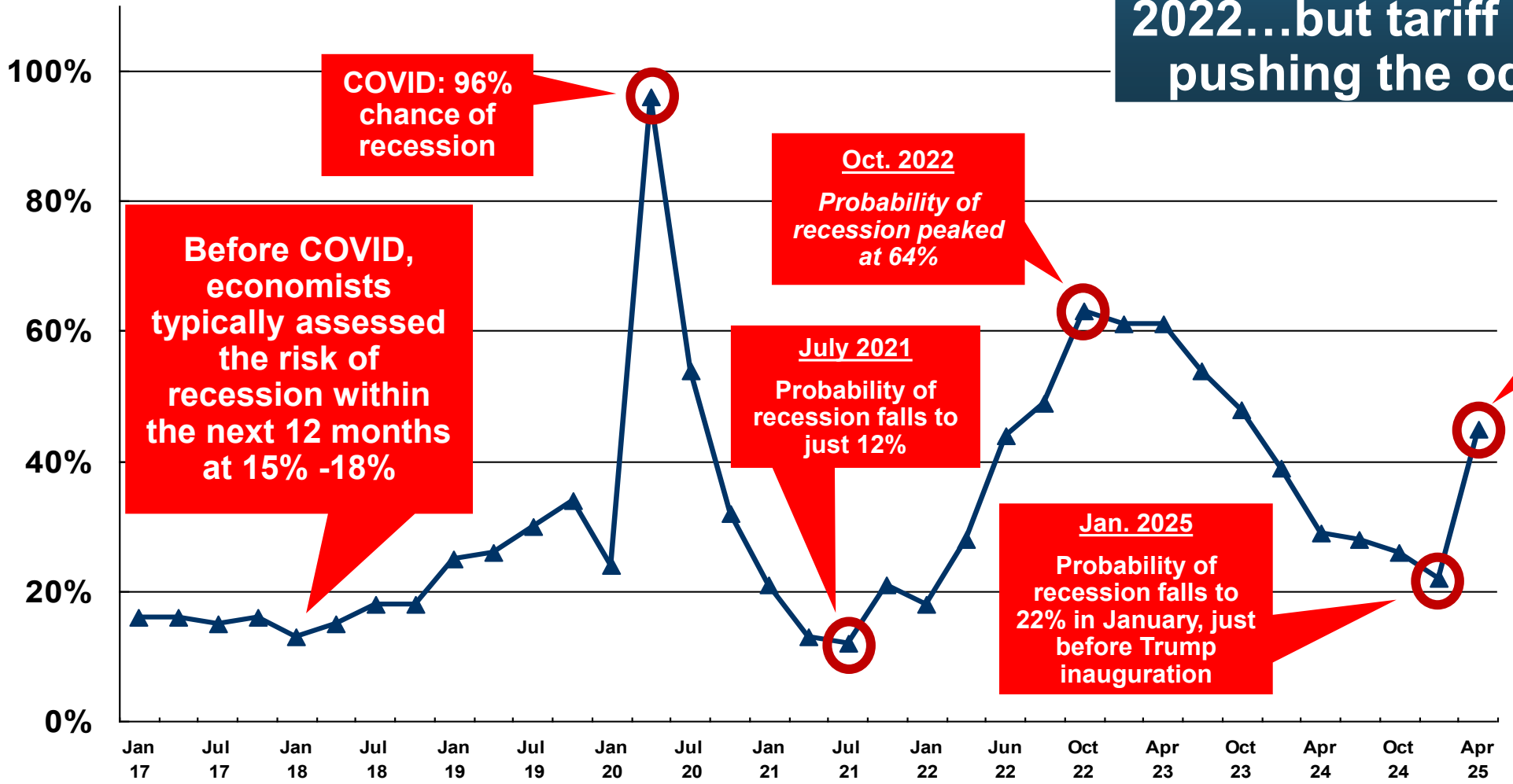
US Unemployment Rate Forecast: 2007:Q1–2026:Q4



Sources: US Bureau of Labor Statistics; Wells Fargo Securities (5/25 edition); Risk and Uncertainty Management Center, University of South Carolina.

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

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

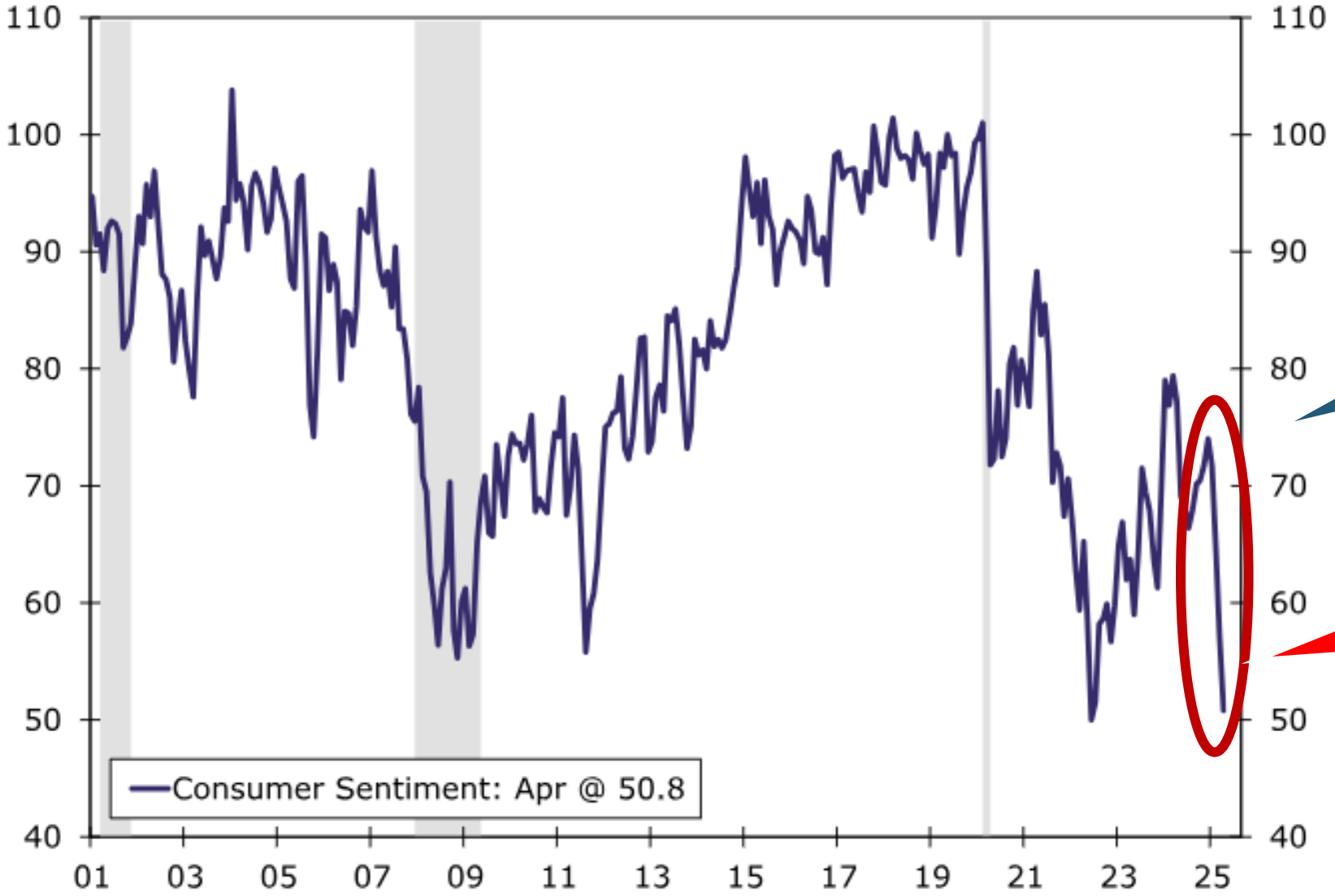


Recession?

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

*Apr. 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.

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

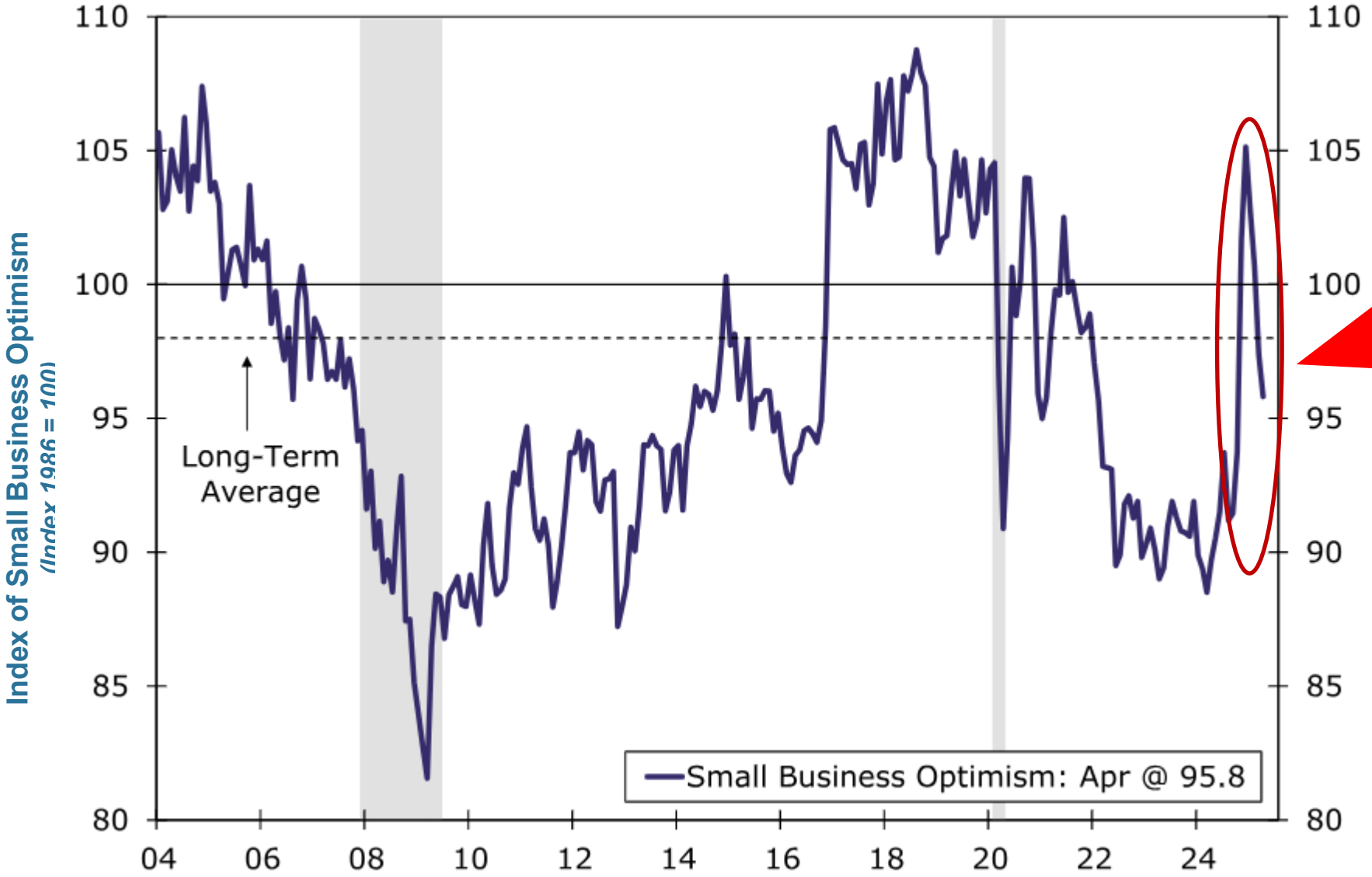


Consumer confidence has plunged to its lowest level since 2022 (peak inflation) as well as 2008-09 (Financial Crisis)

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.

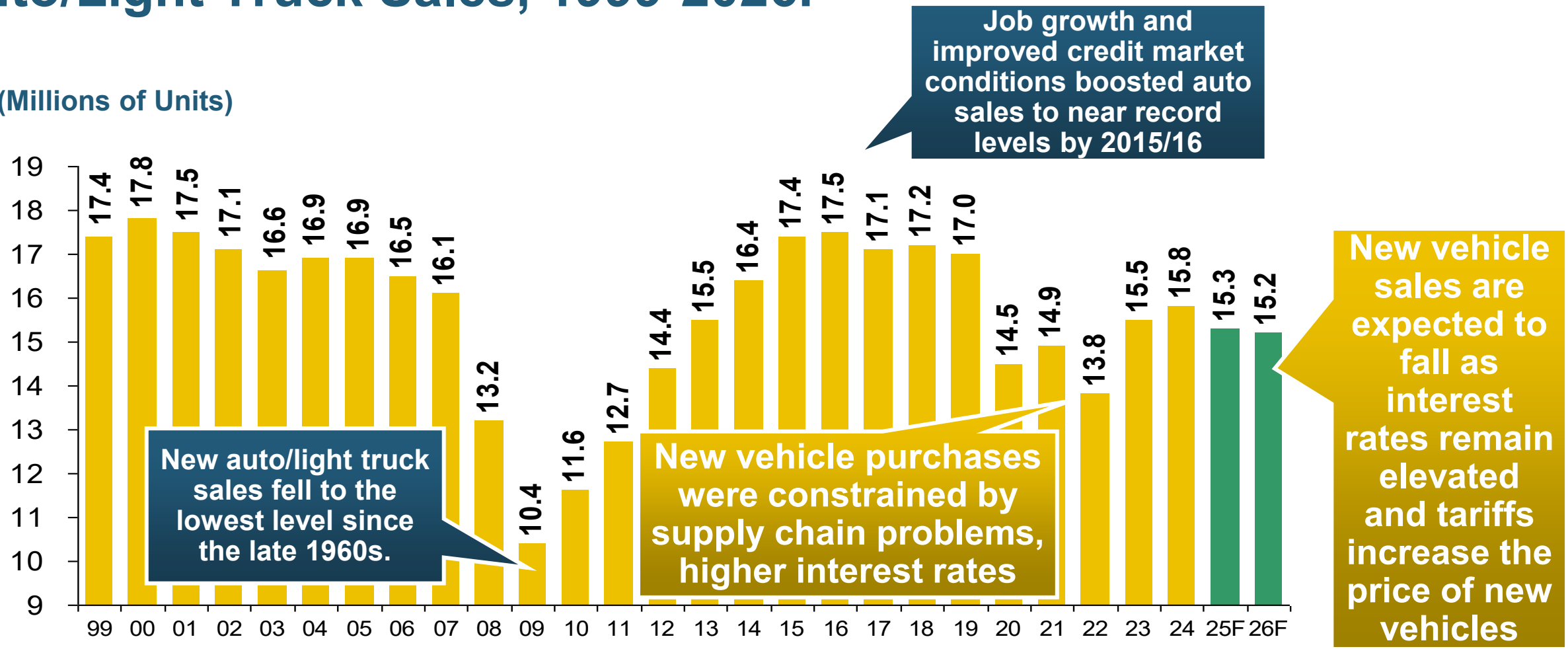
Small Business Sentiment: Optimism Surged Post-Election but Is Receding on Tariff Concerns



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.

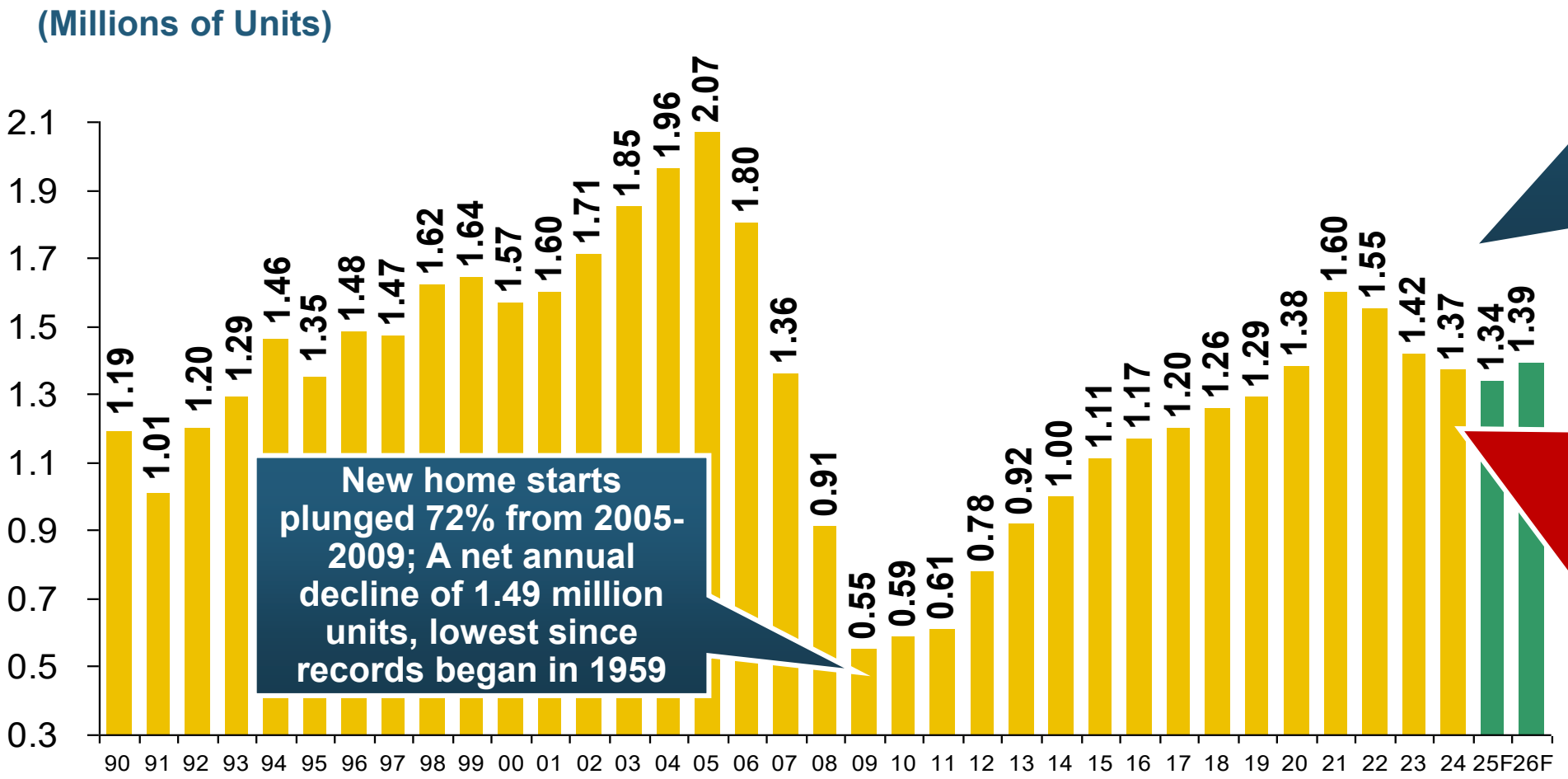
Auto/Light Truck Sales, 1999-2026F



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 (5/25); 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

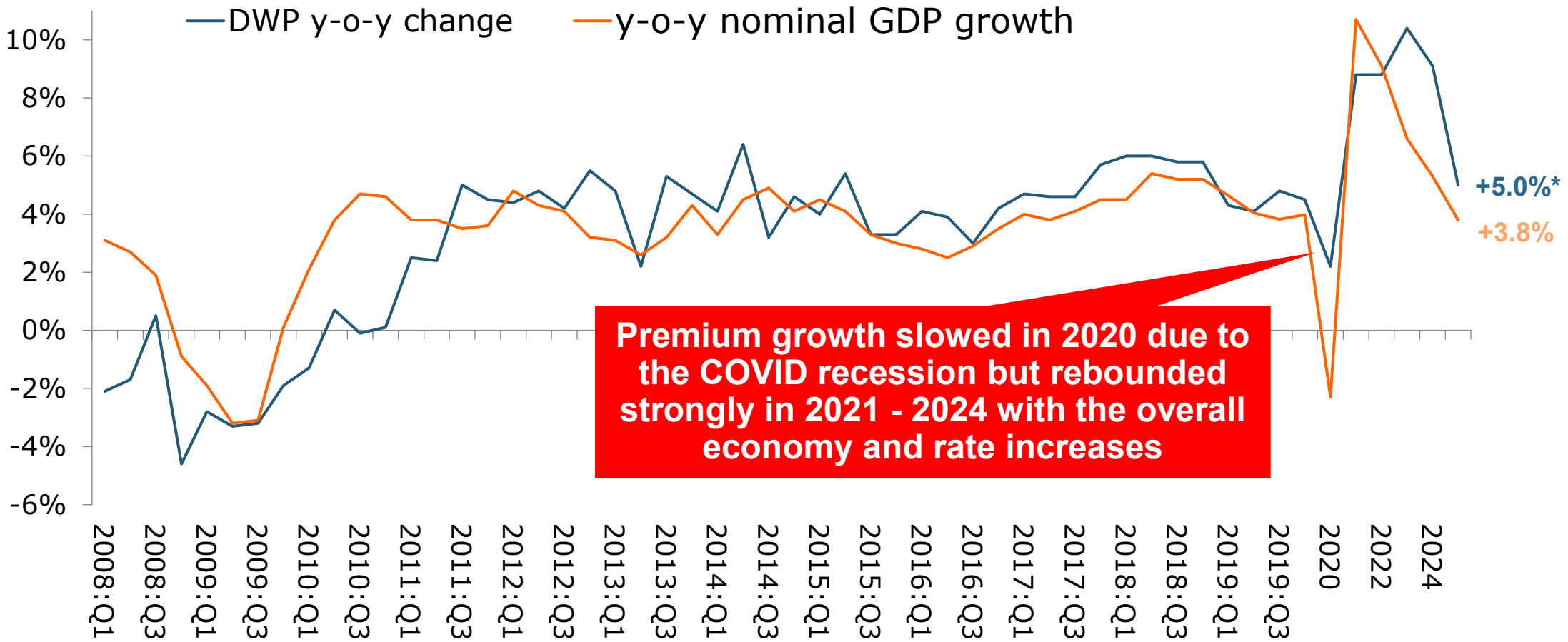
No Repeat of the Housing Collapse that Began in 2007

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 (5/25); Univ. of South Carolina, Center for Risk and Uncertainty Management..

The Economy Drives P/C Insurance Industry Premiums: 2006:Q1–2025F*

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

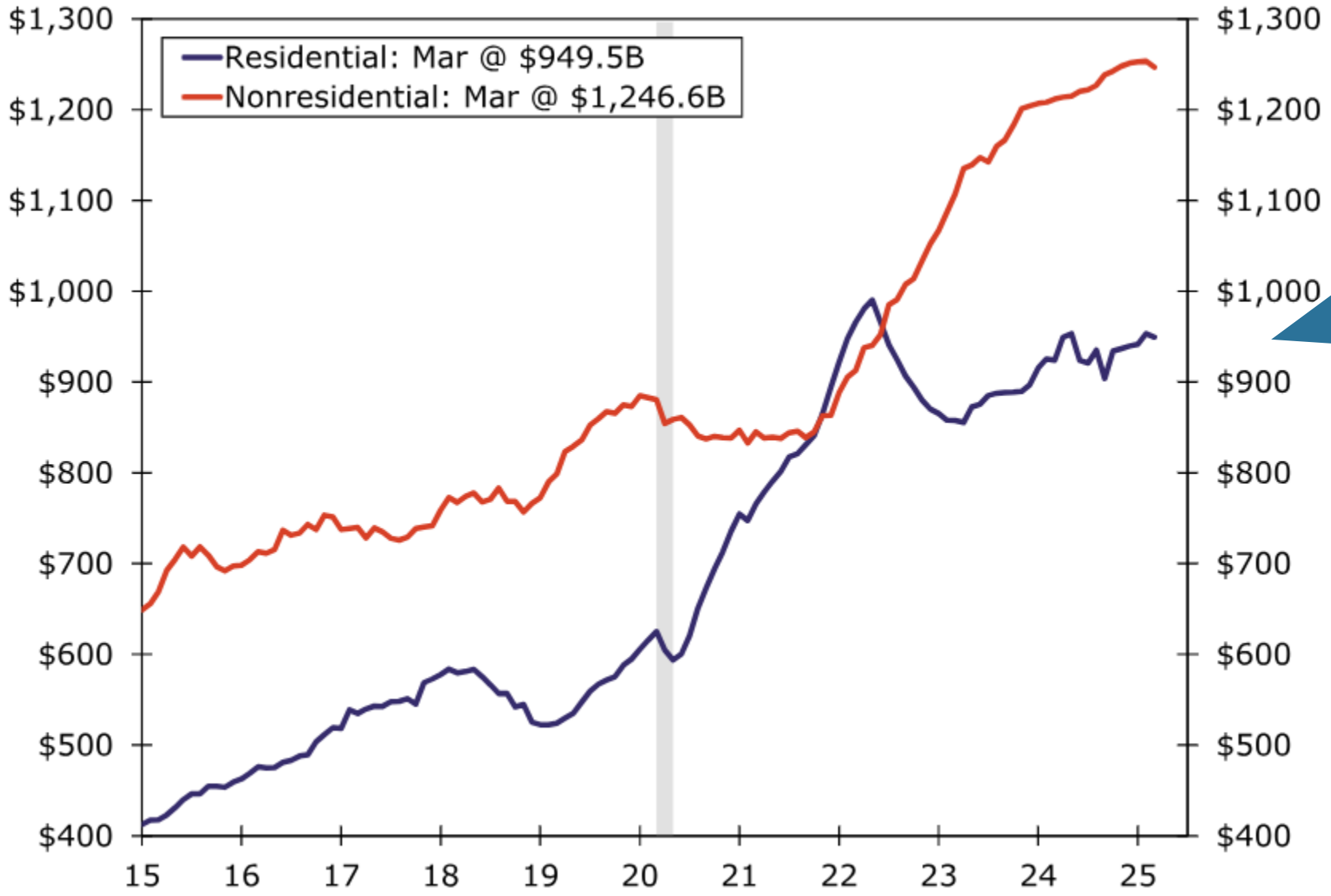


Direct written premiums track nominal GDP fairly tightly over time, suggesting the P/C insurance industry's growth prospects inextricably linked to economic performance.

*2020-25F figures are annual.

Sources: SNL Financial; U.S. Commerce Dept., Bureau of Economic Analysis; ISO;, Swiss Re (2025E) I.I.I.; Risk and Uncertainty Management Center, University of South Carolina.

Residential & Nonresidential Construction: Higher Interest Rates and Tariff-Driven Increases Are Headwinds

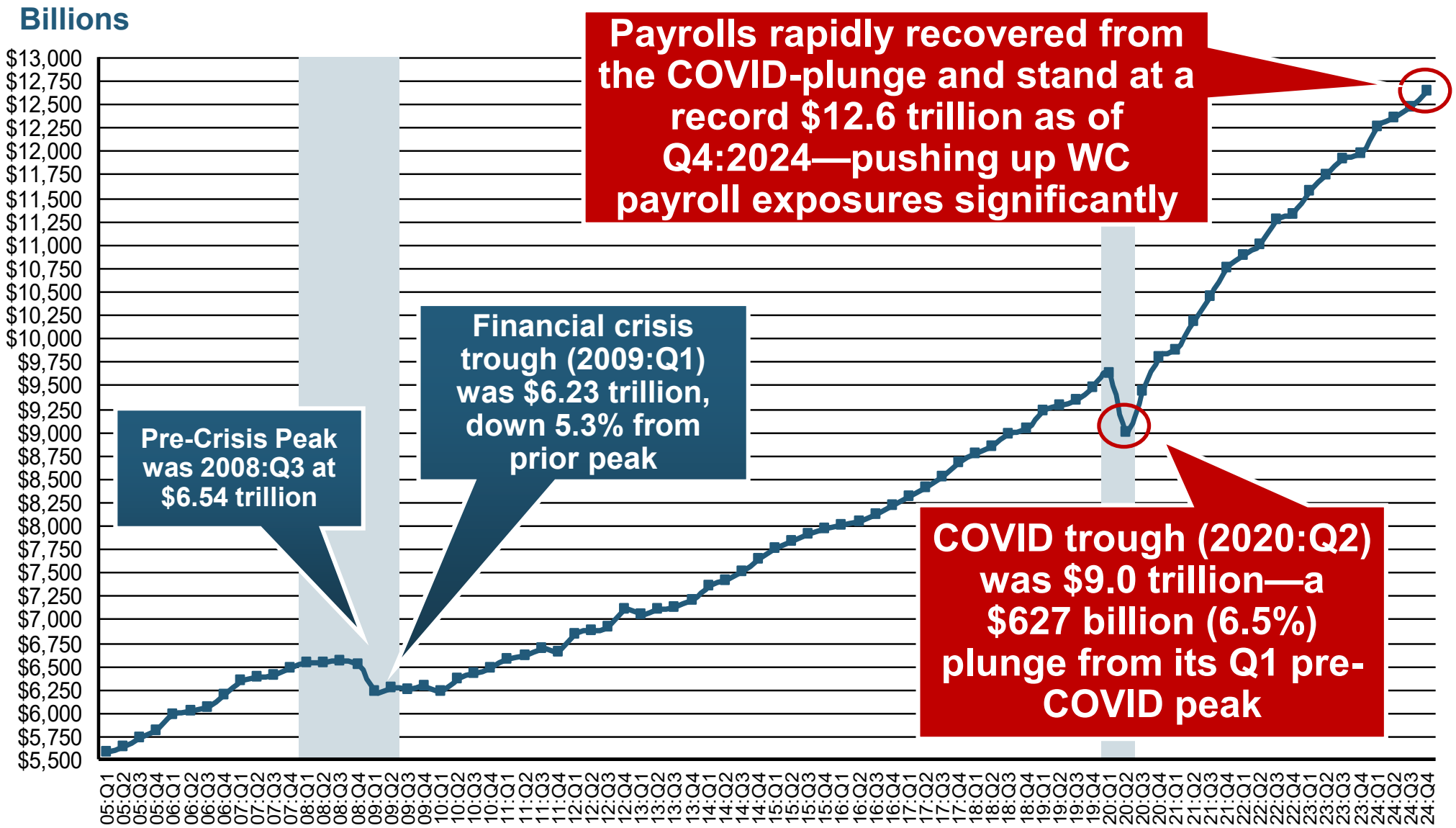


Construction spending in 2025 will remain under pressure with elevated interest rates, tariff-driven price increases and immigration policy changes.

NAHB: Tariffs likely to raise construction costs by $10,900 per single-family home

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

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



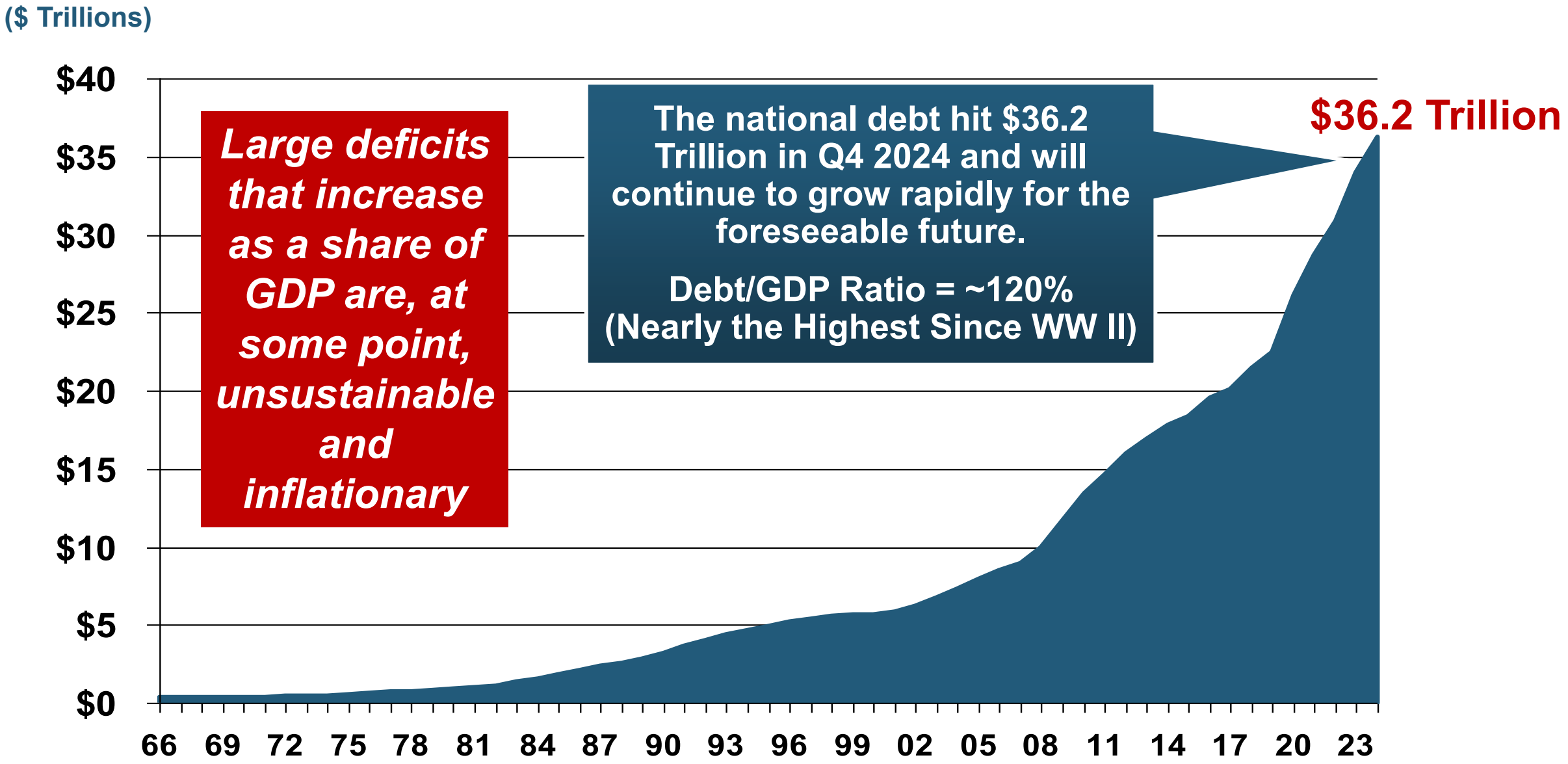
Growth rates

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).

70

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

75

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***
- **April 29: Complex rules on auto tariffs introduced that will reduce the imposed 25% tariff**
- **April: More tariffs against EU threatened, esp. for pharmaceuticals**
  - **Tariffs on Canadian lumber of 14.4% - 34.45% loom**
- **Proposed USTR port fees on Chinese vessels of up to $1.5M**
- **May 8: US & UK strike trade "deal" (but 10% baseline tariffs remain in place)**
- **May 12: Most tariffs on Chinese goods reduced to 30% (10% baseline + 20% fentanyl)**
  - ***The April escalation in tariffs had resulted in a de facto embargo***
  - ***Stock markets crashed, the dollar plummeted and the bond market revolted—sending interest rates up***

Tariff Time Line (cont'd)

- **May 12: Most tariffs on Chinese goods reduced to 30% (10% baseline + 20% fentanyl)**
  - ***The April escalation in tariffs had results in a de facto embargo***
  - ***Stock markets crashed, the dollar plummeted a***
- **May 23: Trump threatens 50% tariff on EU (as of June 1) & 25% tariff on foreign-made iPhones**
  - ***May 25: Postpones EU tariffs until July 9***

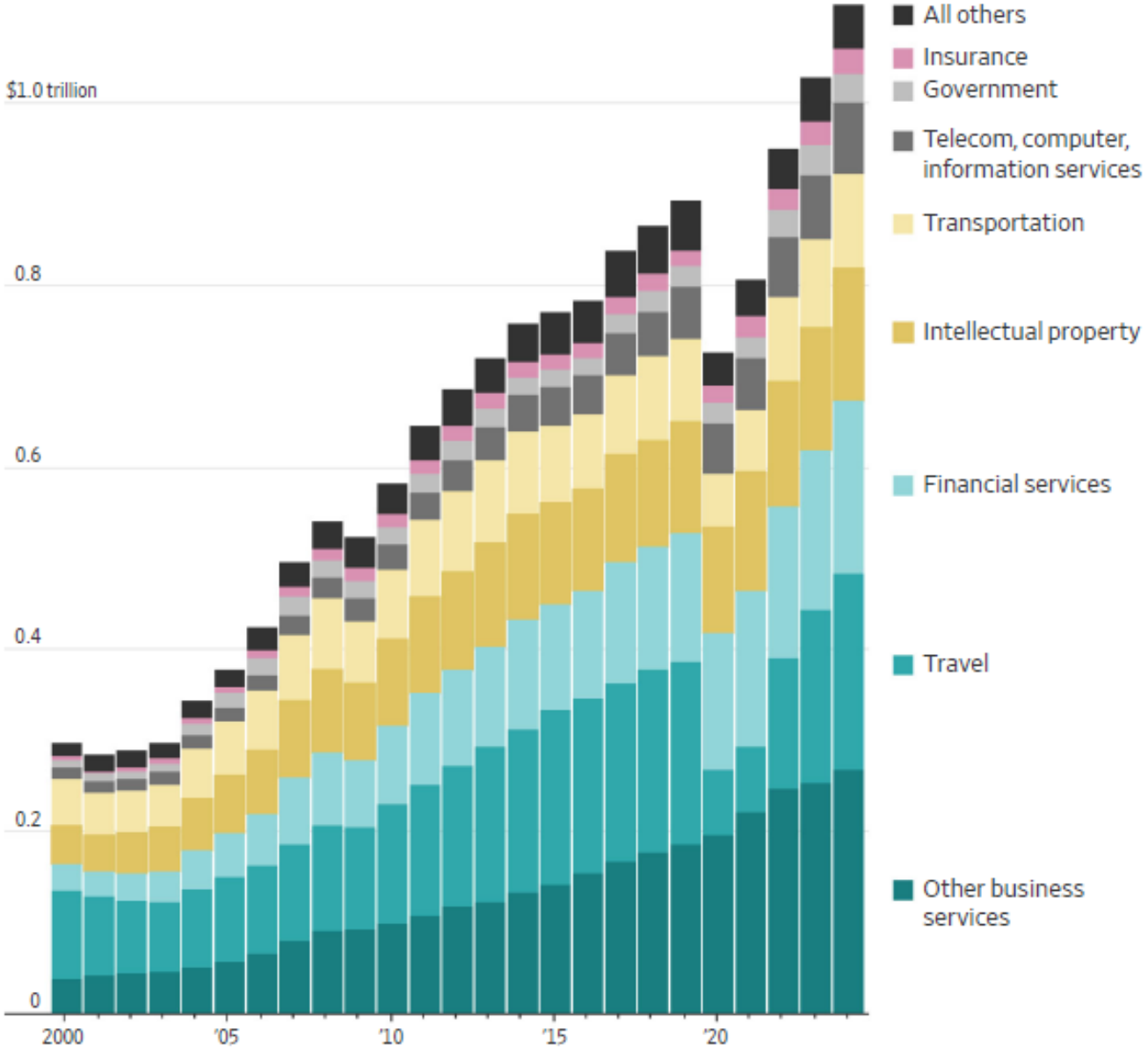
> ***"Do not mistake the reversal of folly for the triumph of sanity."***
> **--The Economist (5/21/25)**

Estimated Impact of Tariffs

New Home Price: $9,200 (NAHB)

New Car Prices: $2,000 - $15,000 (Anderson Economics Group)

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

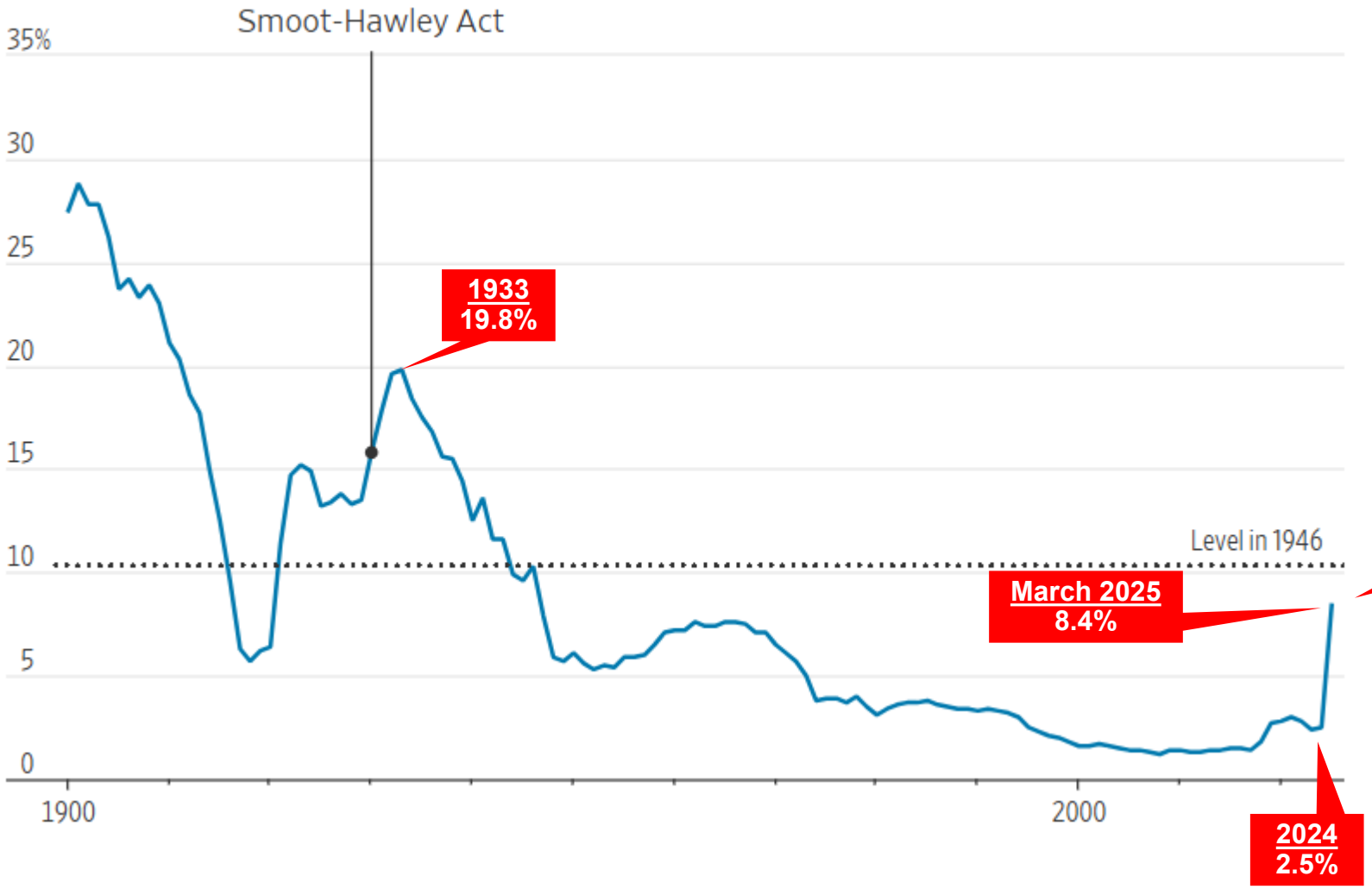
Source: University of South Carolina, Risk & Uncertainty Management Center.

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
D&O	Earnings uncertainty; Share price plunges; Supply chain disruptions	Increased shareholder litigation

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

Average Weighted Tariffs on US Imports, 1900 – March 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

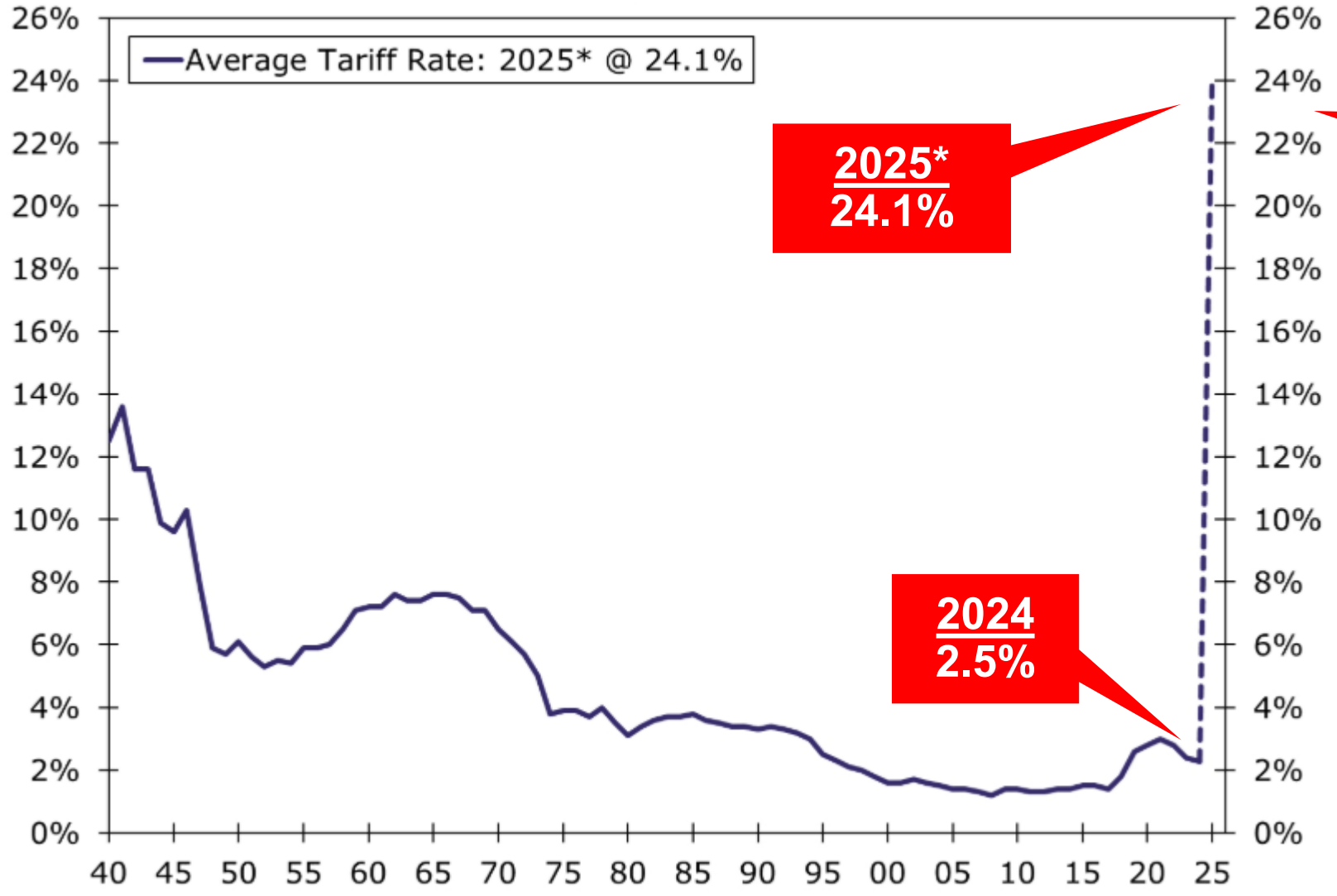
Proposed tariffs would push the average tariff rate to their highest levels since the 1930s

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 – Apr. 3, 2025*



2025*
24.1%

2024
2.5%

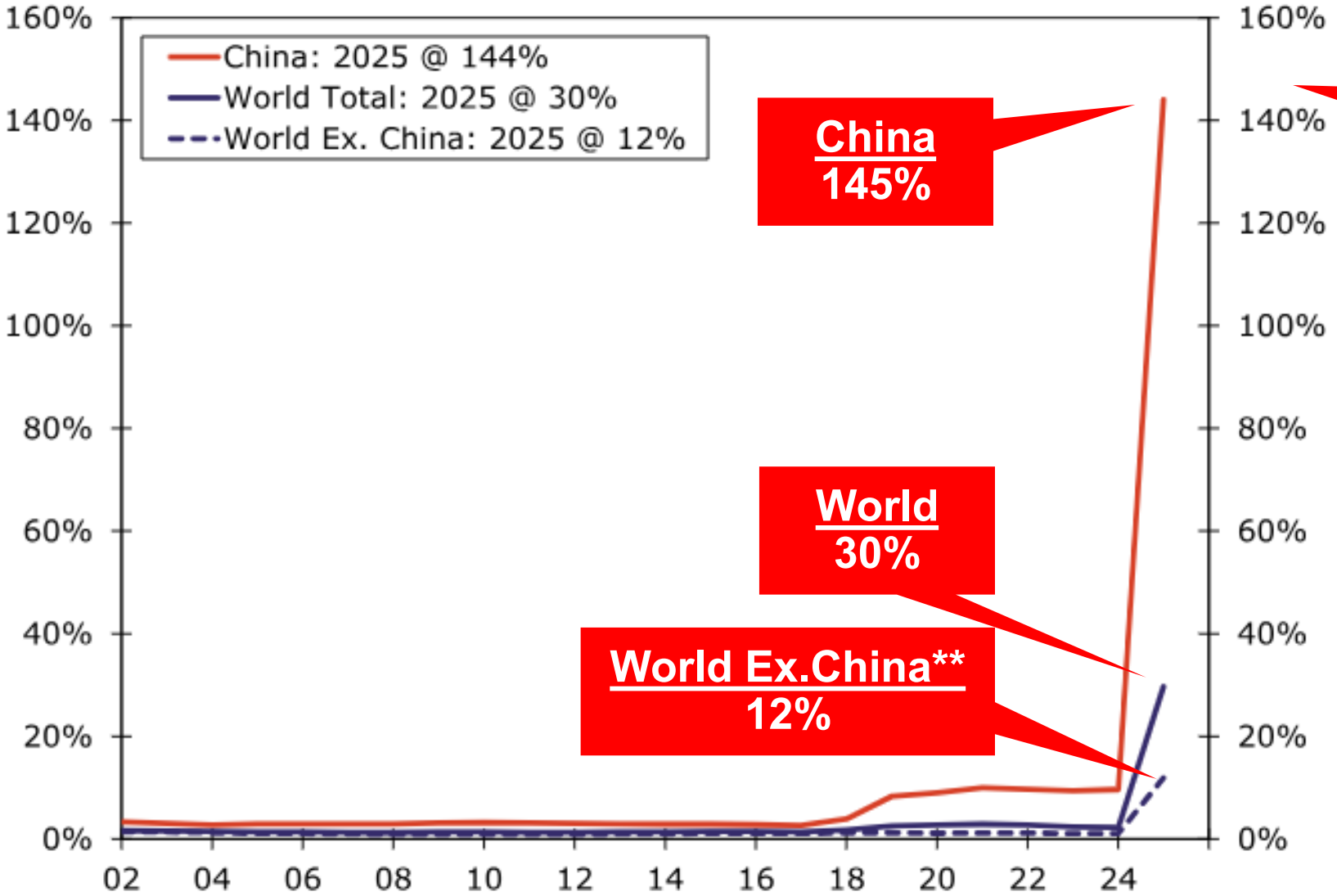
Proposed tariffs would push the average tariff rate to their highest levels since the 1930s

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

*As of April 3, 2025. April 2, 2025 was deemed “Liberation Day” by President Trump.
Source: US Dept. of Commerce and Wells Fargo Economics.

Average Weighted Tariffs on US Imports, 1940 – Apr. 9, 2025*



China 145%

World 30%

World Ex.China 12%**

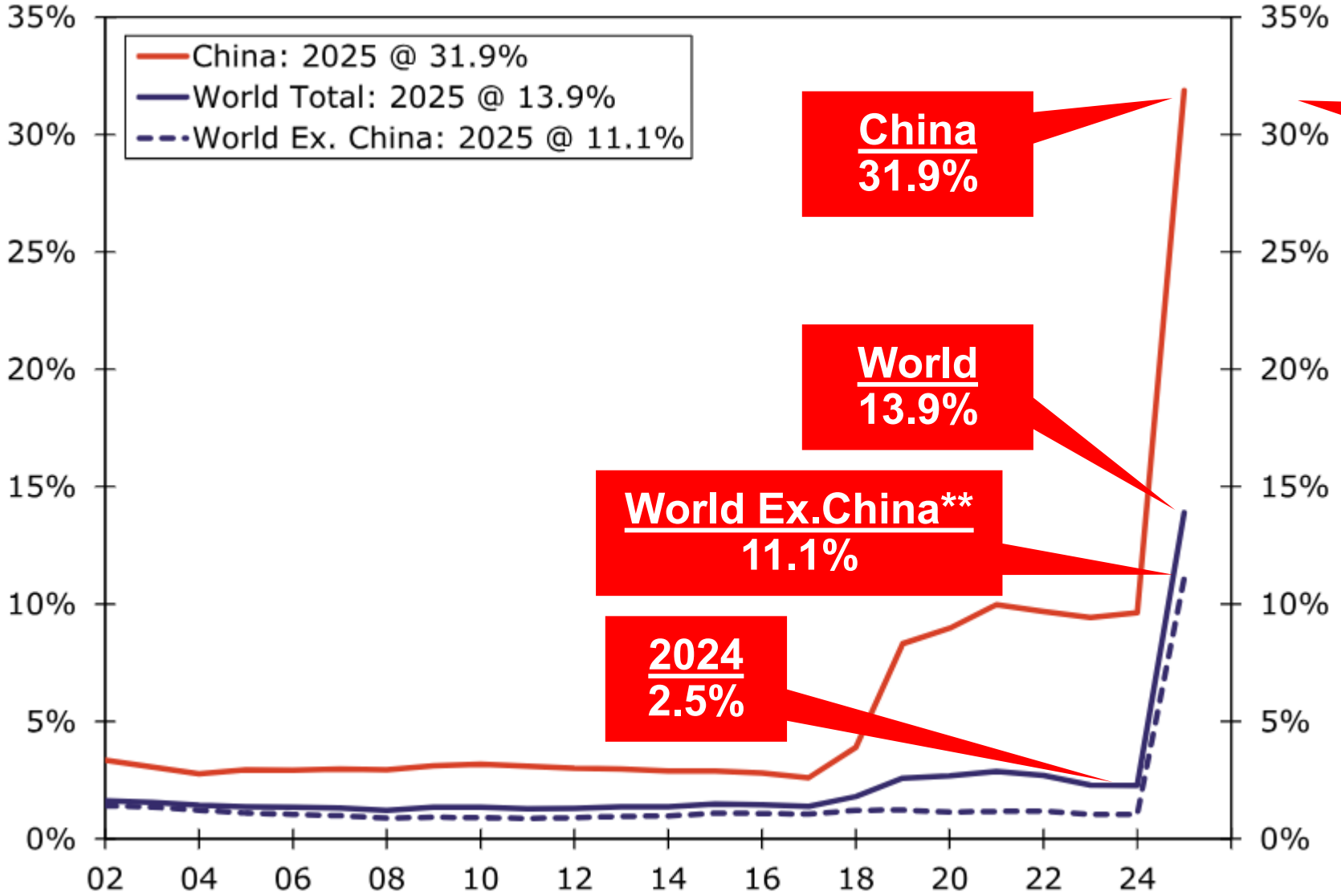
Proposed tariffs would push the average tariff rate to their highest levels since the 1930s

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.

Average Weighted Tariffs on US Imports, 1940 – May 12, 2025*



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

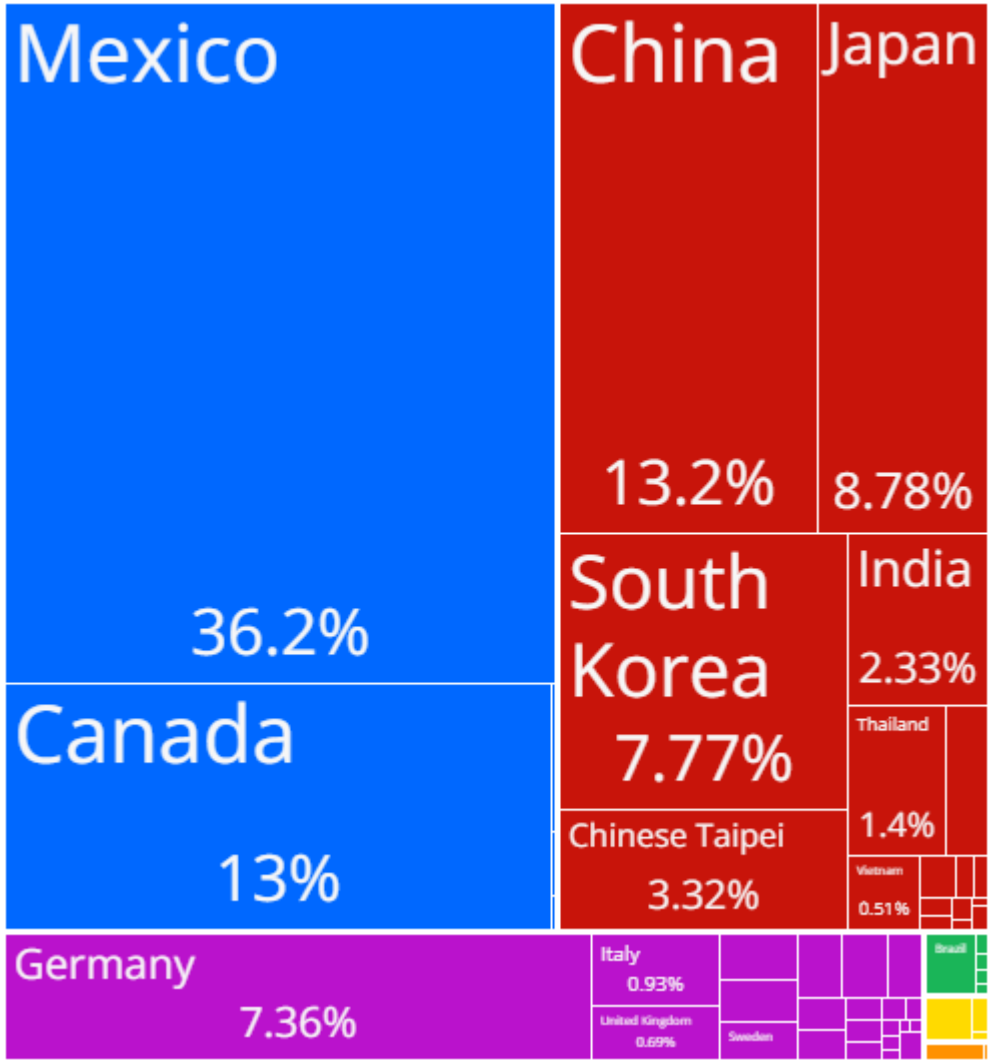
Tariff Impacts on Motor Vehicles by Vehicle Type and Cost*

High Impact (Imported Luxury Models)	Medium Impact (Some US-Assembled Vehicles)	Lower Impact (Many US-Assembled Vehicles)
•**Estimated Price Increase:** $10,000 to $20,000 or more •**ModelExamples:** Audi, BMW, Jaguar-Land Rover, Mercedes-Benz, Genesis, Lexus •**Factors:** Lower U.S. content, European and Asian assembly, and higher base prices contribute to this higher impact	•**Estimated Price Increase:** $5,000 to $8,500 •**Model Examples:** Some Jeep, Ram, and Toyota truck models, Chrysler Pacifica, Ford Bronco Sport •**Factors:** Some reliance on imported parts or assembly in Mexico/Canada	•**Estimated Price Increase:** $2,000 to $3,000 •**Model Examples:** Honda Civic, Honda Odyssey, Chevrolet Malibu, Toyota Camry Hybrid, Ford Explorer •**Factors:** High U.S. content, primarily assembled in the U.S

*Impacts are estimates as of May 23, 2025.
Sources: Detroit Free Press, USA Today, Reuters, Anderson Economics Group, Mazda USA; University of South Carolina Risk and Uncertainty Management Center research (including AI searches).

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.

Government Agencies Important to P/C Insurer Risk Assessment and Management

Source: USC Risk & Uncertainty Management Center research (as of 3/3/25).

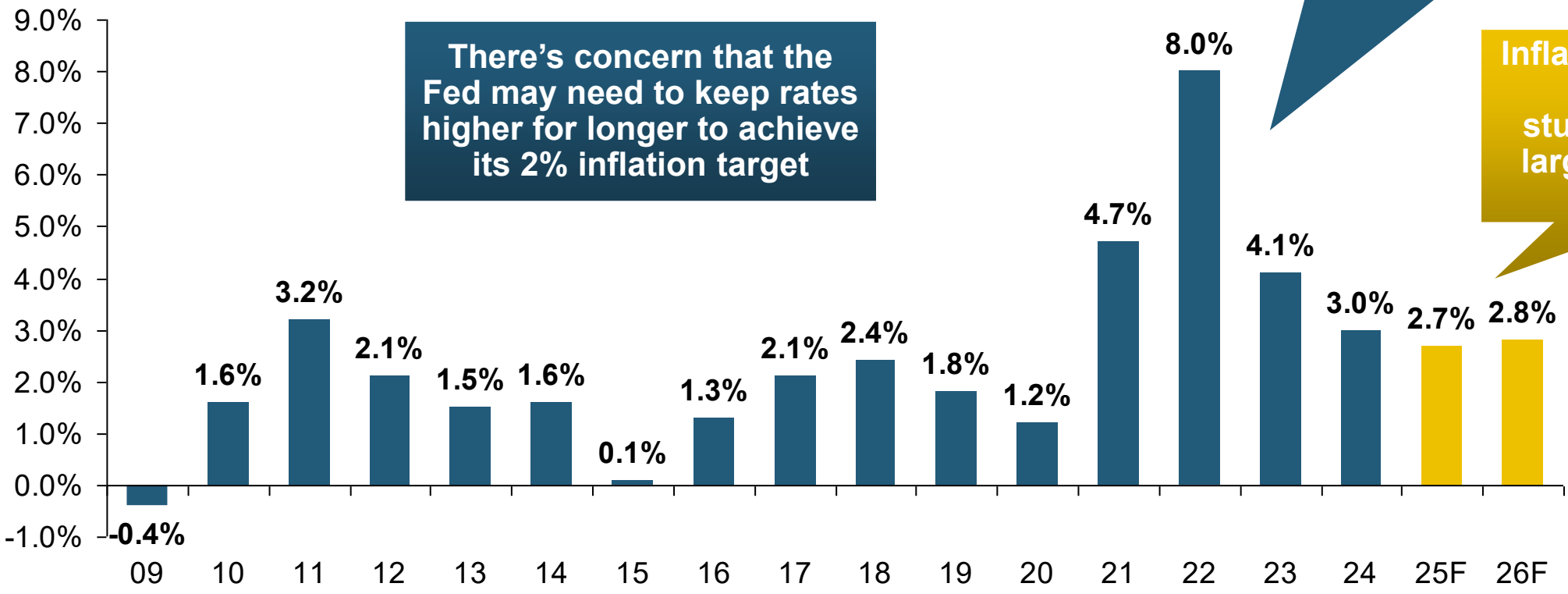
The Inflation Threat

Inflation Has Been a Major Driver of Auto and Property Claims Severities

Will Tariffs Reignite Inflation?

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 remain stubbornly high, due largely to anticipated tariff inpacts

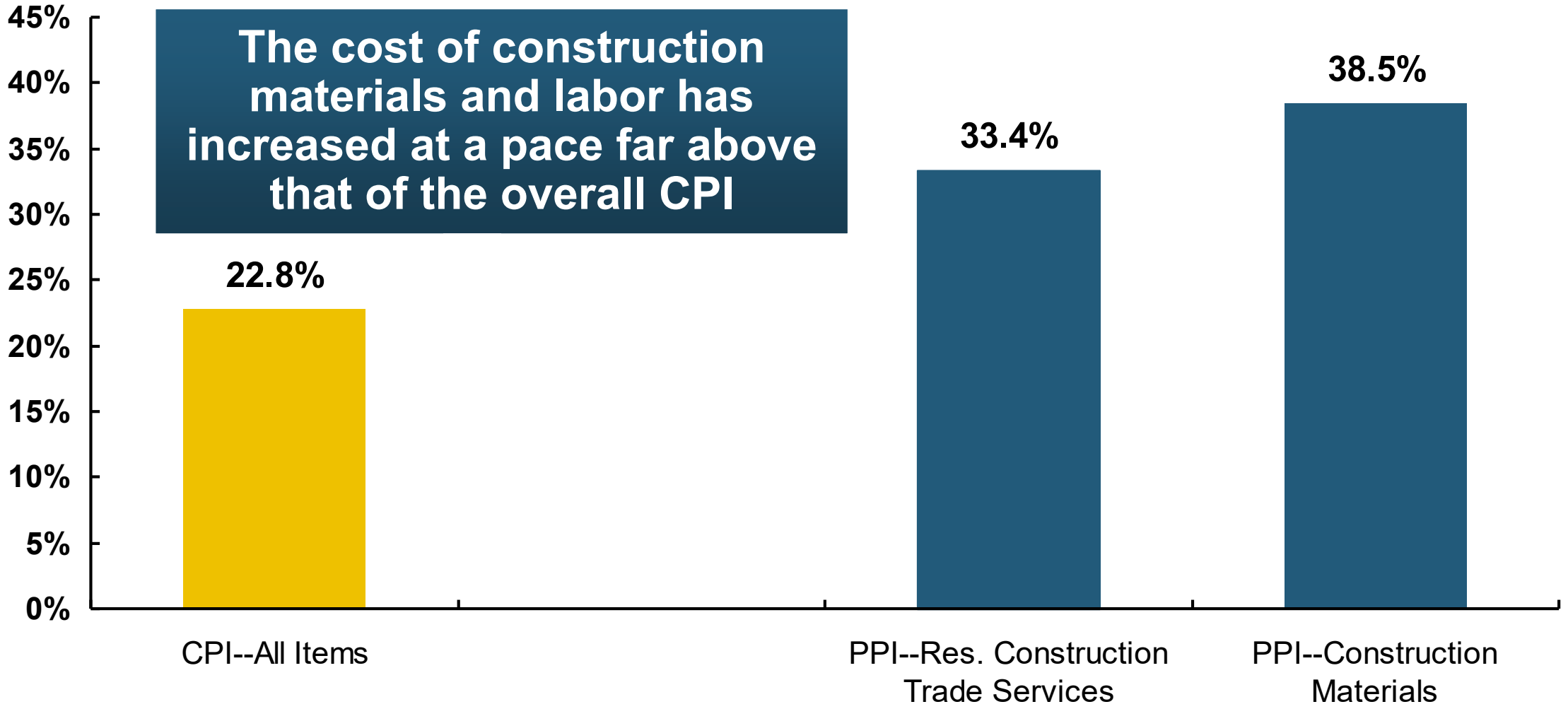
Insurer Concerns About Inflation

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

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

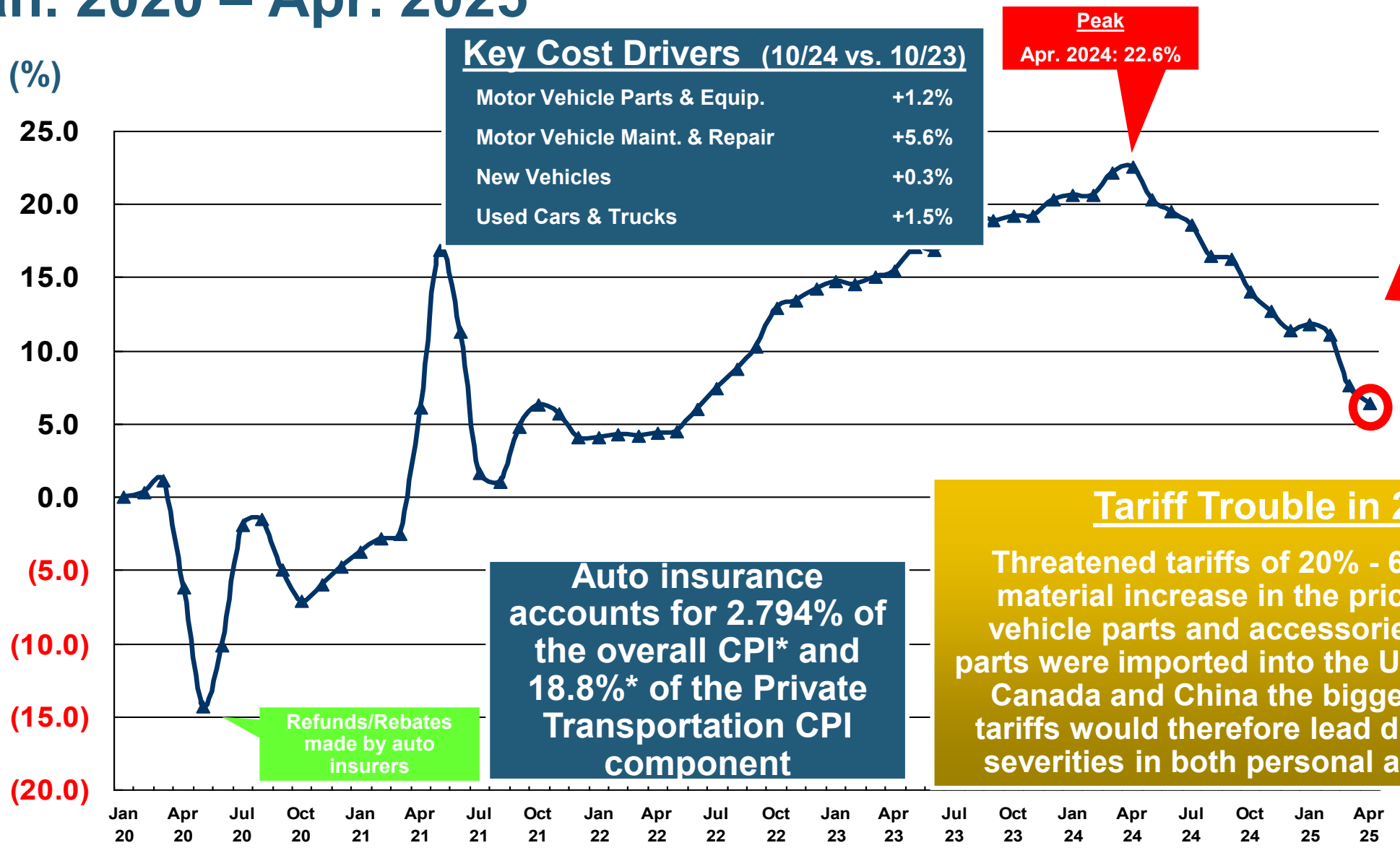
Source: U.S. Bureau of Labor Statistics; Wells Fargo Securities (5/25); USC Center for Risk and Uncertainty Management.

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).

CPI for Motor Vehicle Insurance, 12-Month Change: Jan. 2020 – Apr. 2025



Key Cost Drivers (10/24 vs. 10/23)

Motor Vehicle Parts & Equip.	+1.2%
Motor Vehicle Maint. & Repair	+5.6%
New Vehicles	+0.3%
Used Cars & Trucks	+1.5%

- The auto insurance component of the Consumer Price Index in April was up 6.4%
- The February figure is the lowest since June 2022

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

Tariff Trouble in 2025-2026?

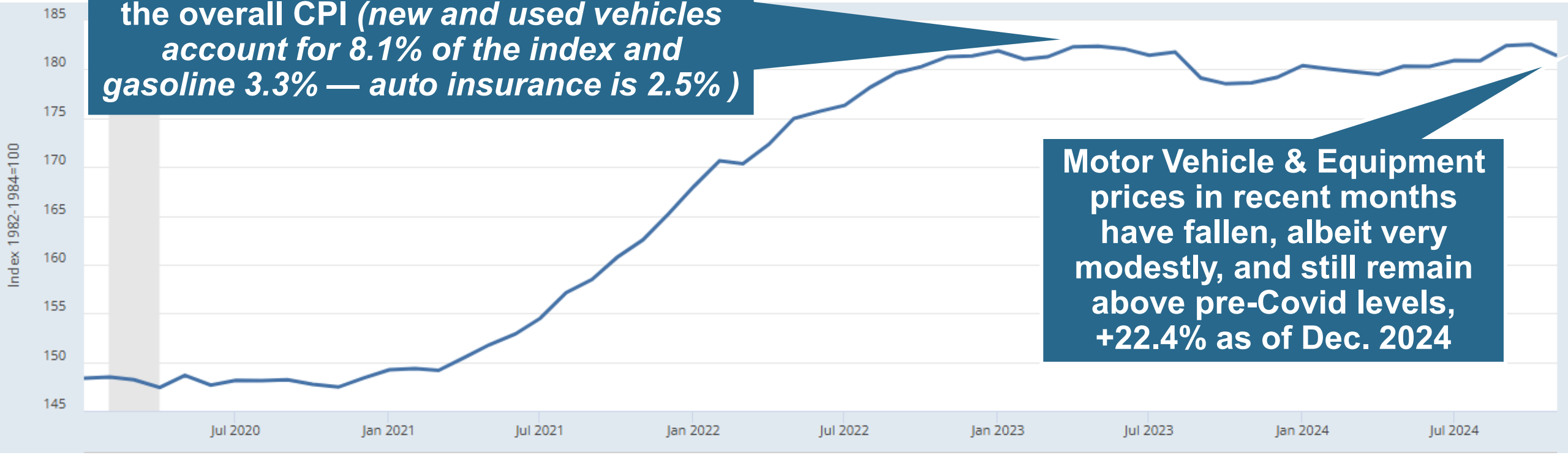
Threatened tariffs of 20% - 60% would result in a material increase in the price of imported motor vehicle parts and accessories ($88 billion in auto parts were imported into the US in 2022--with Mexico, Canada and China the biggest suppliers). Higher tariffs would therefore lead directly to higher claim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

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%)*

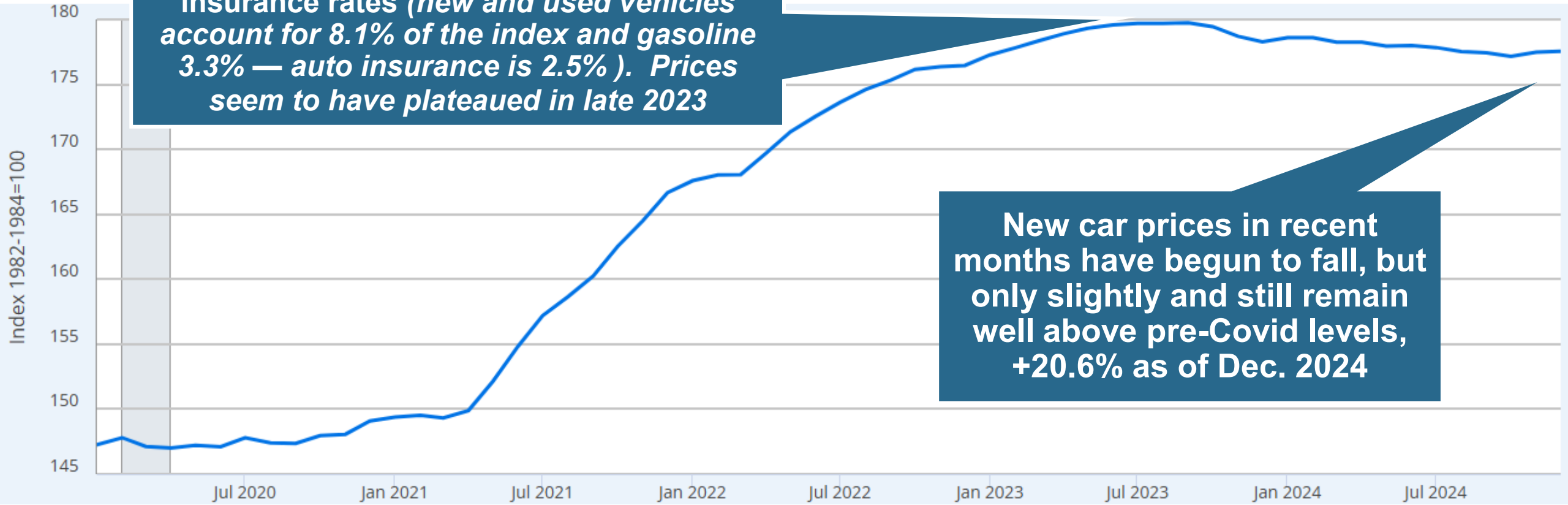


Motor Vehicle & Equipment prices in recent months have fallen, albeit very modestly, and still remain above pre-Covid levels, +22.4% as of Dec. 2024

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

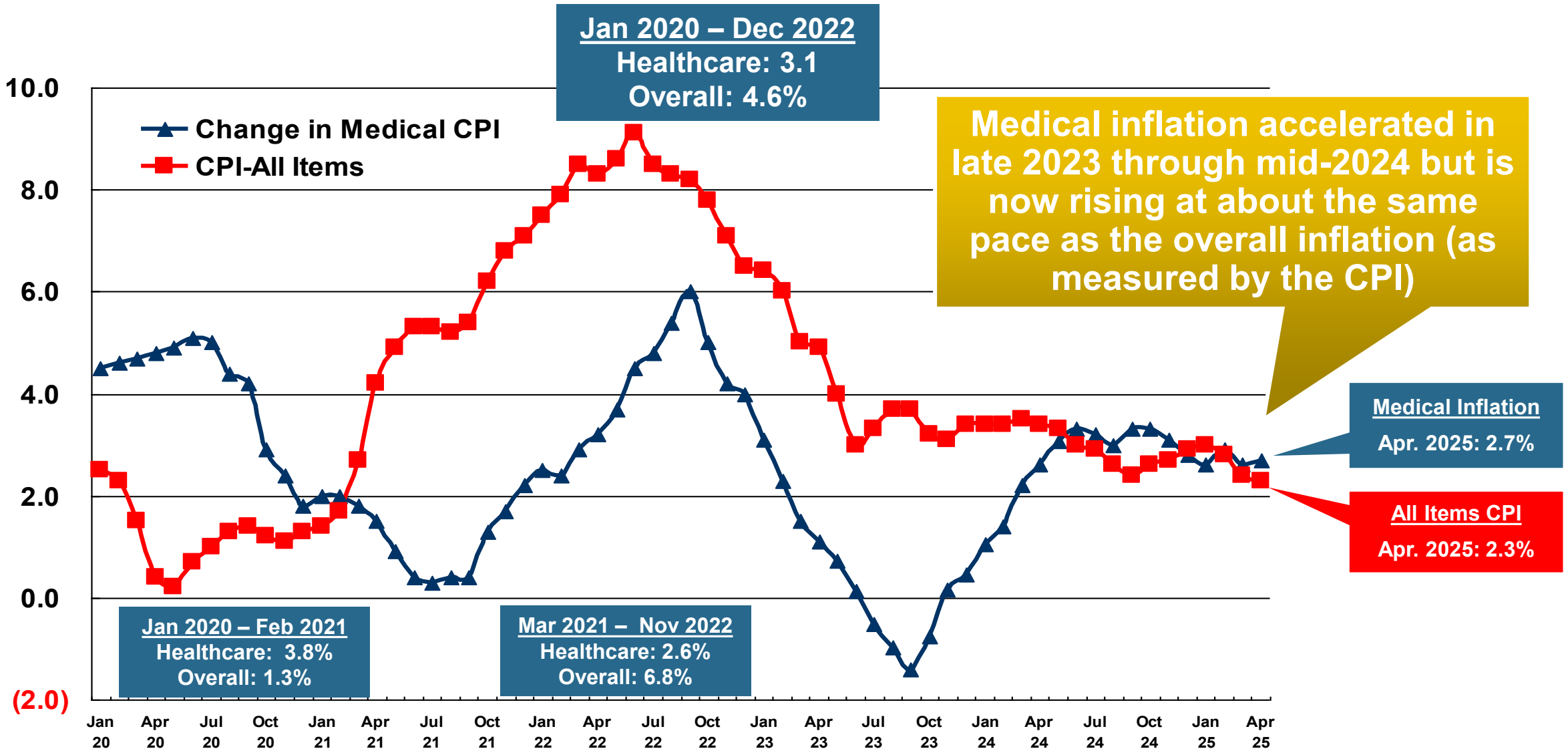
New vehicle prices surged during and after the pandemic, +22.1% from Jan. 2020 to Sept. 2023 (peak), putting significant pressure on the overall CPI and auto insurance rates *(new and used vehicles account for 8.1% of the index and gasoline 3.3% — auto insurance is 2.5%). Prices seem to have plateaued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

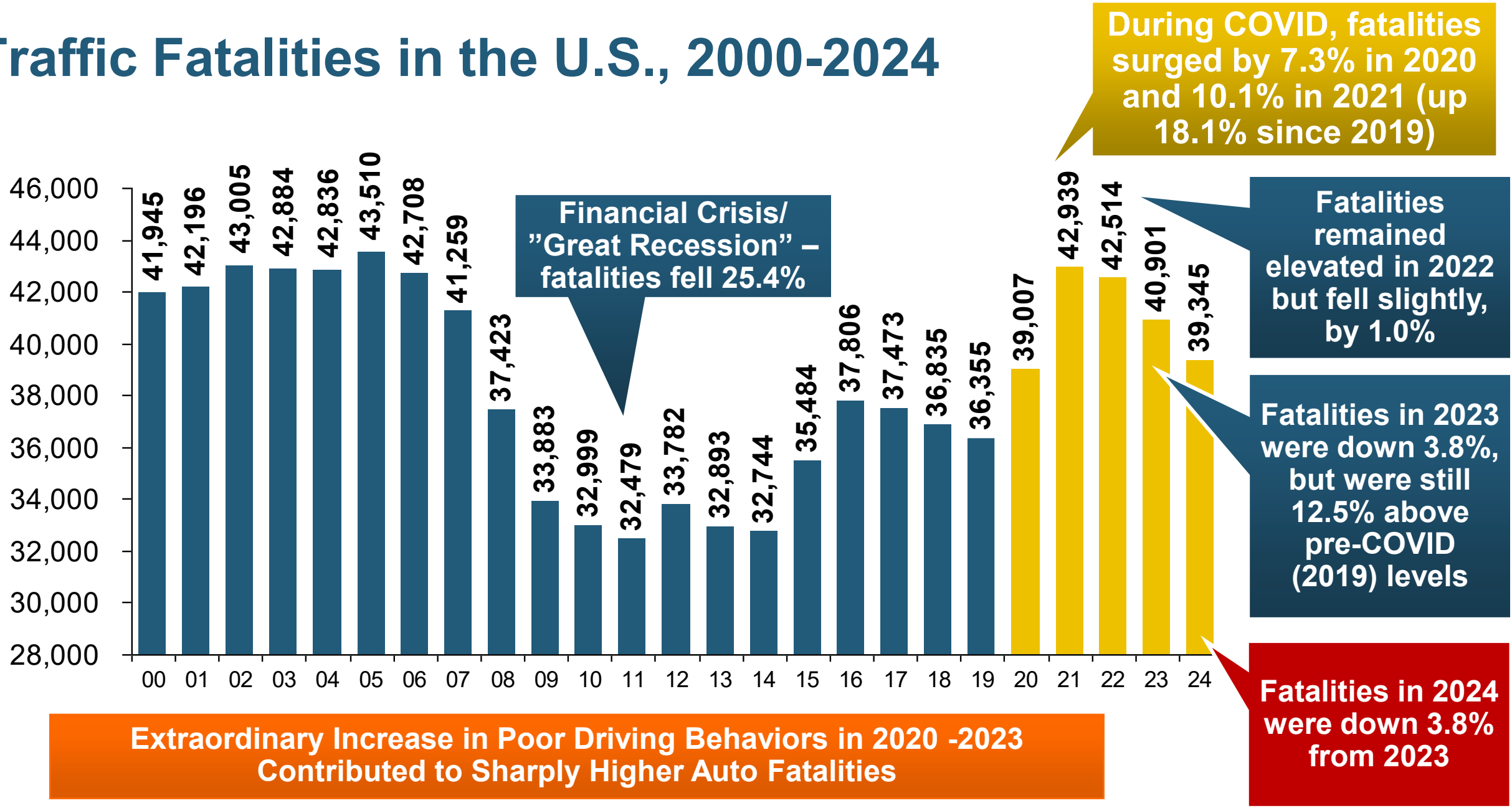
Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center: https://fred.stlouisfed.org/series/CUUR0000SETA01; University of South Carolina.

Medical Cost Inflation vs. Overall CPI Since COVID, Jan. 2020 – Apr. 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.

Traffic Fatalities in the U.S., 2000-2024



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://crashstats.nhtsa.dot.gov/Api/Public/ViewPublication/813670#; 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

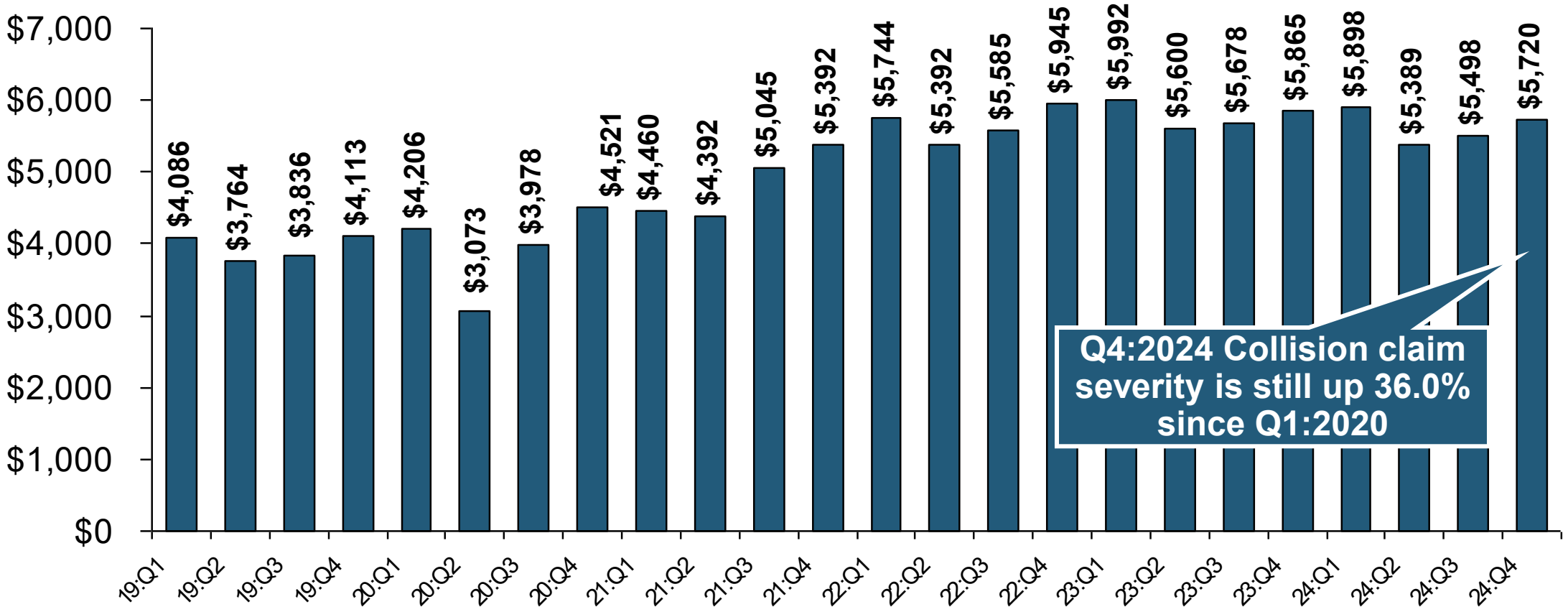
Severity and Loss Ratio Trends Have Generally Been Adverse

Inflation is a Major Driver

Collision Claim Severity: Still Near Record Highs

Collision claim severity reached a record high in 2023:Q1, up 46.7% from 2020:Q1

Average Loss, 2018:Q1 through 2024:Q4

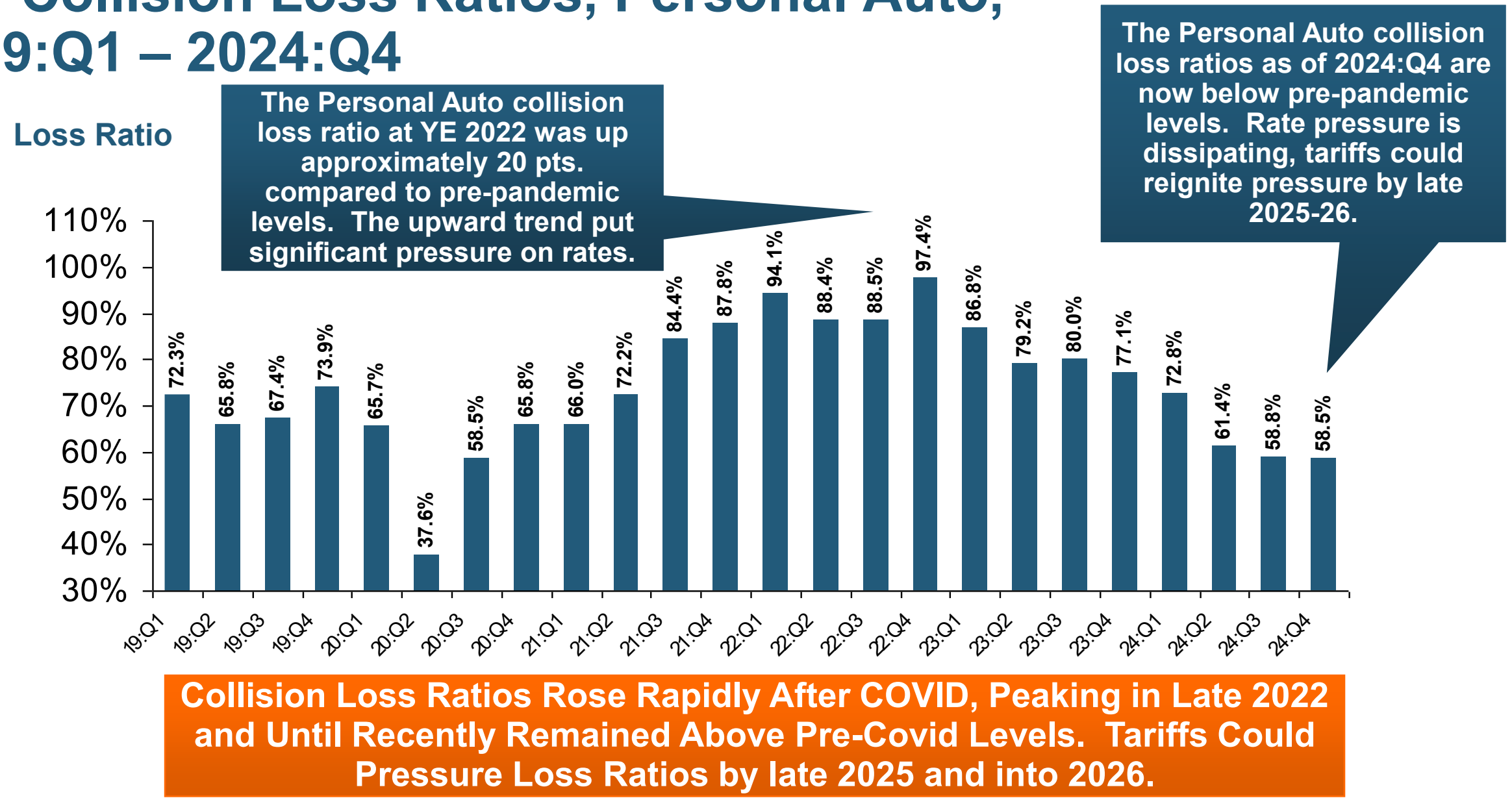


Q4:2024 Collision claim severity is still up 36.0% since Q1:2020

Severities Are Up Sharply—Inflation Is a Major Factor. Tariffs Could Pressure Severities Upward.

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:Q4

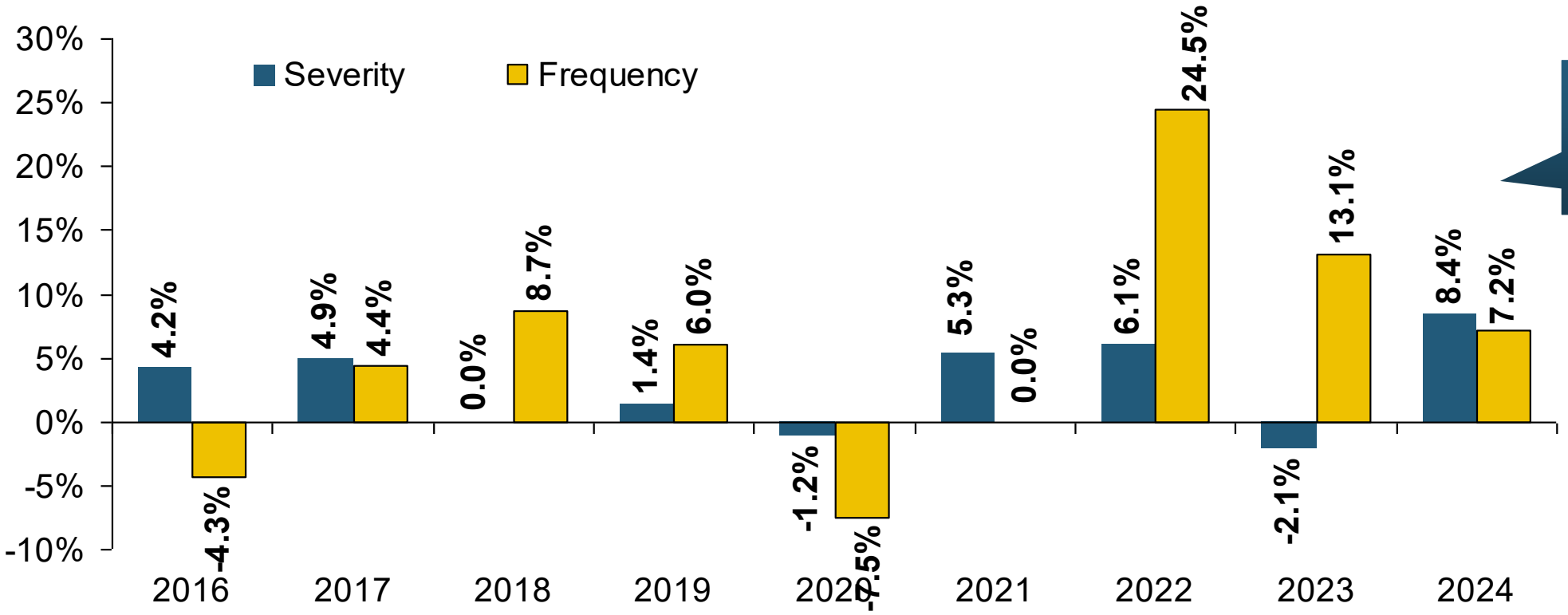


Collision Loss Ratios Rose Rapidly After COVID, Peaking in Late 2022 and Until Recently Remained Above Pre-Covid Levels. Tariffs Could Pressure Loss Ratios by late 2025 and into 2026.

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

New York Coverage: BI Severity Up, Frequency Is Surging*

Annual Change, 2016 through 2024*



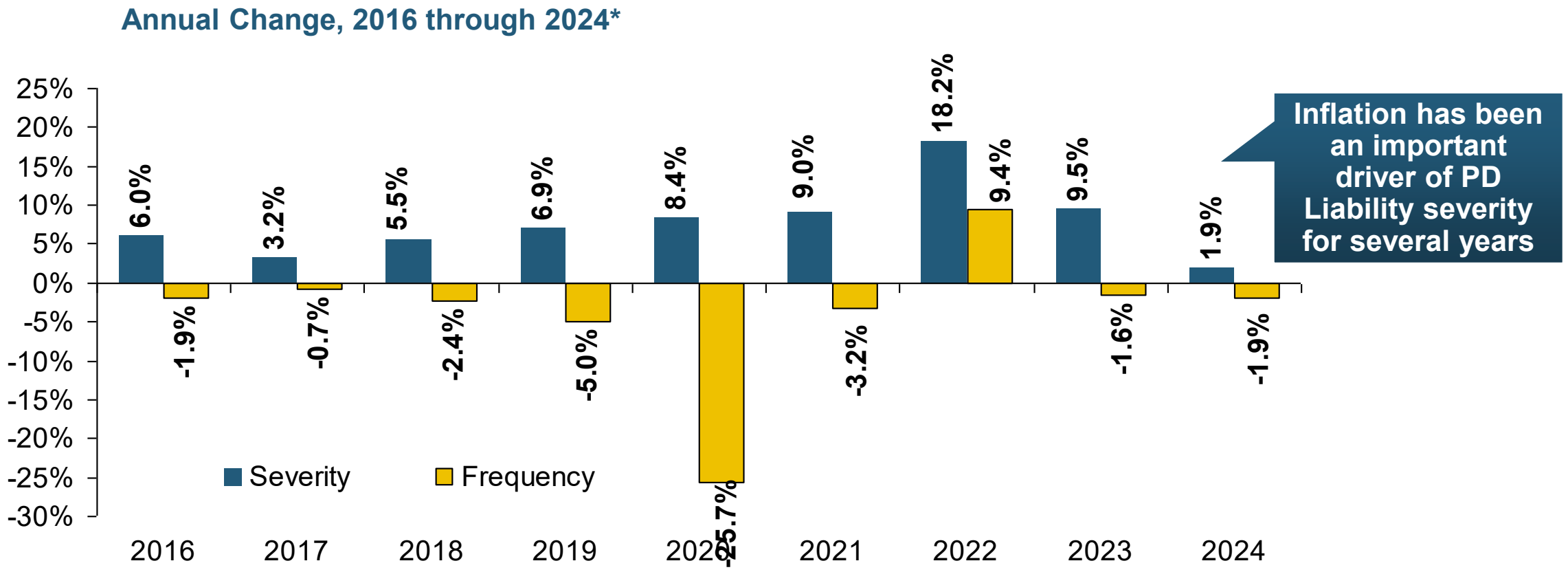
BI frequency and severity generally continue to increase

BI Severity Is Rising. Frequency Is Well Above Pre-COVID Levels

*2024 data are for the 4 quarters ending Dec. 31, 2024.

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

New York Coverage: Prop. Damage Severity Soars While Frequency Moderates*

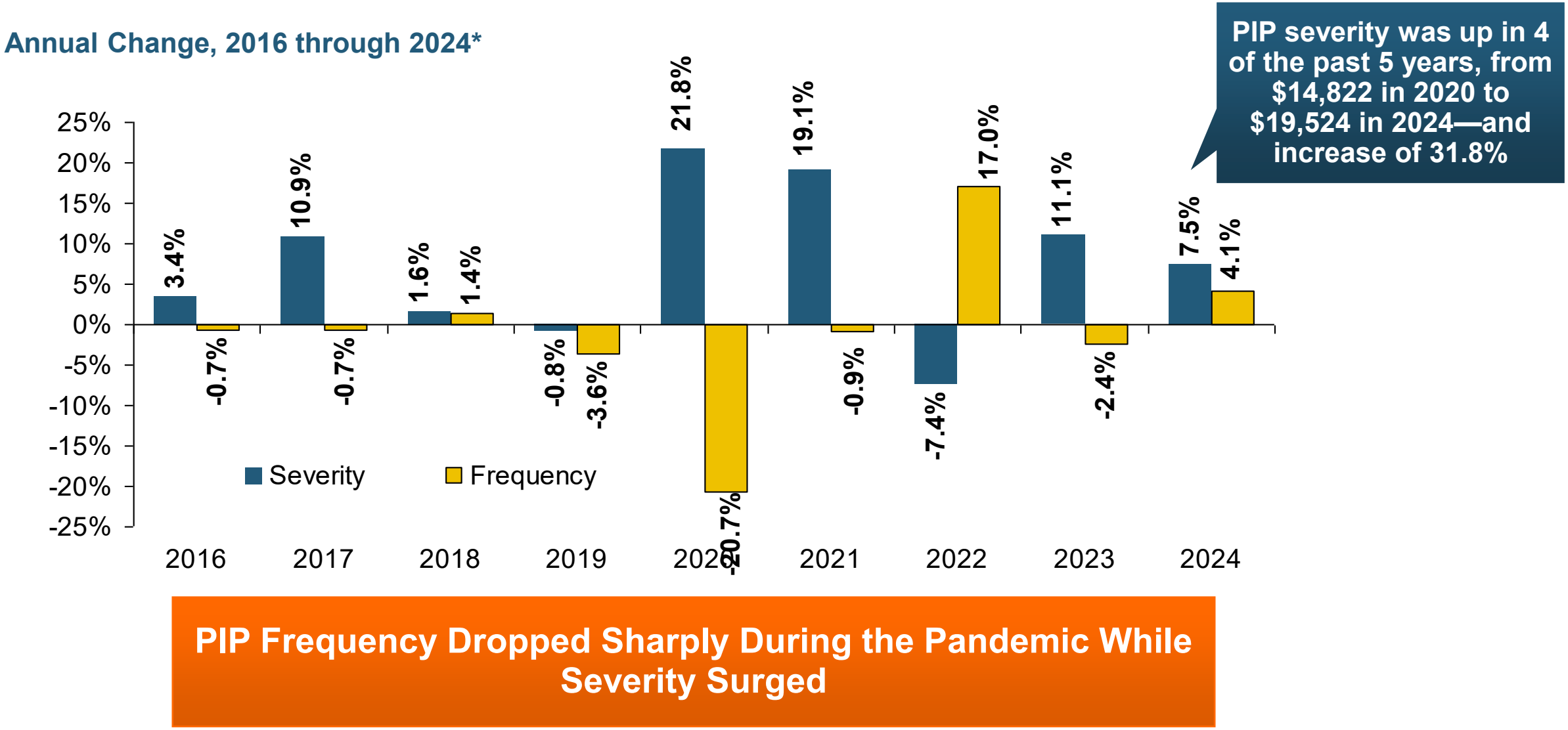


PD Severity Continued to Rise Before, During and After the Pandemic. Frequency Only Partially Recovered

*2024 data are for the 4 quarters ending Dec. 31, 2024.

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

New York Coverage: Personal Injury Protection Frequency and Severity Changes Have Been Volatile*

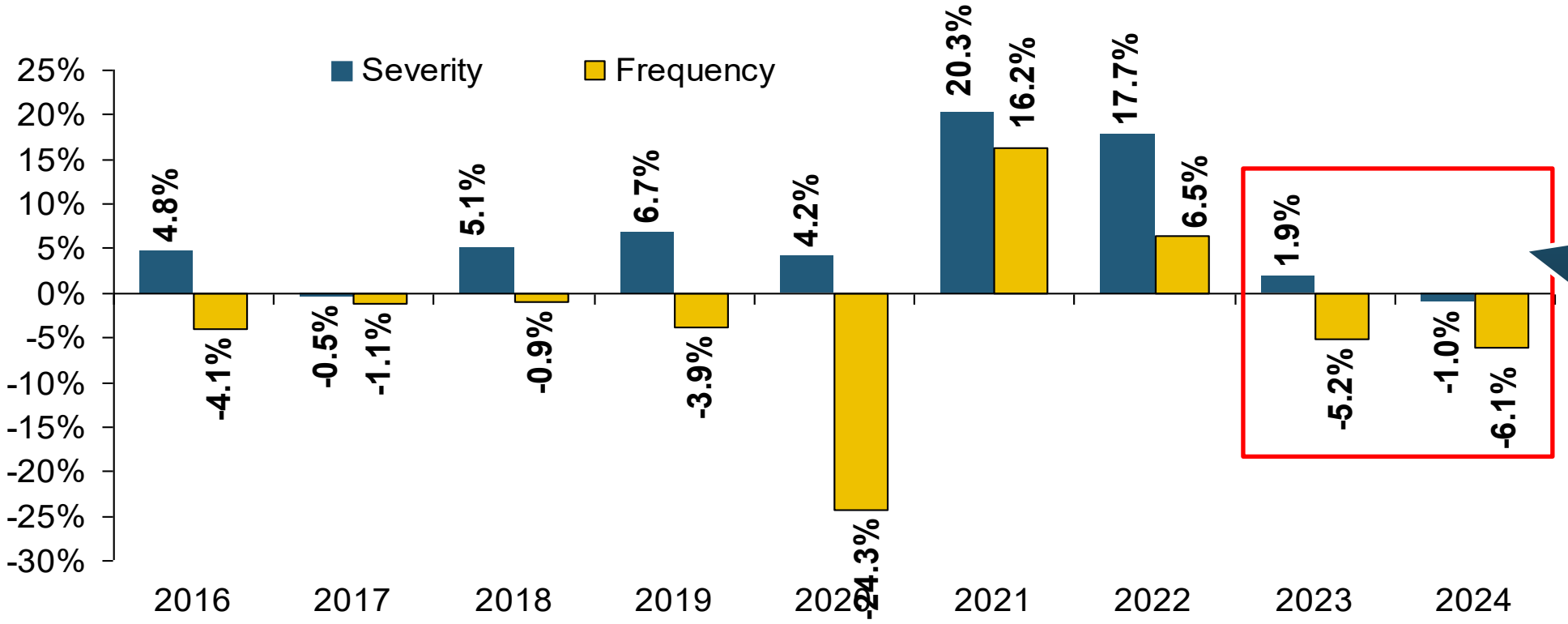


*2024 data are for the 4 quarters ending Jan. 31, 2024.

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

New York Coverage: COVID Led to a Temporary Reduction in Collision Frequency While Severity Continued to Increase*

Annual Change, 2016 through 2024*



Collision frequency and severity trends have stabilized after surging in the wake of the pandemic

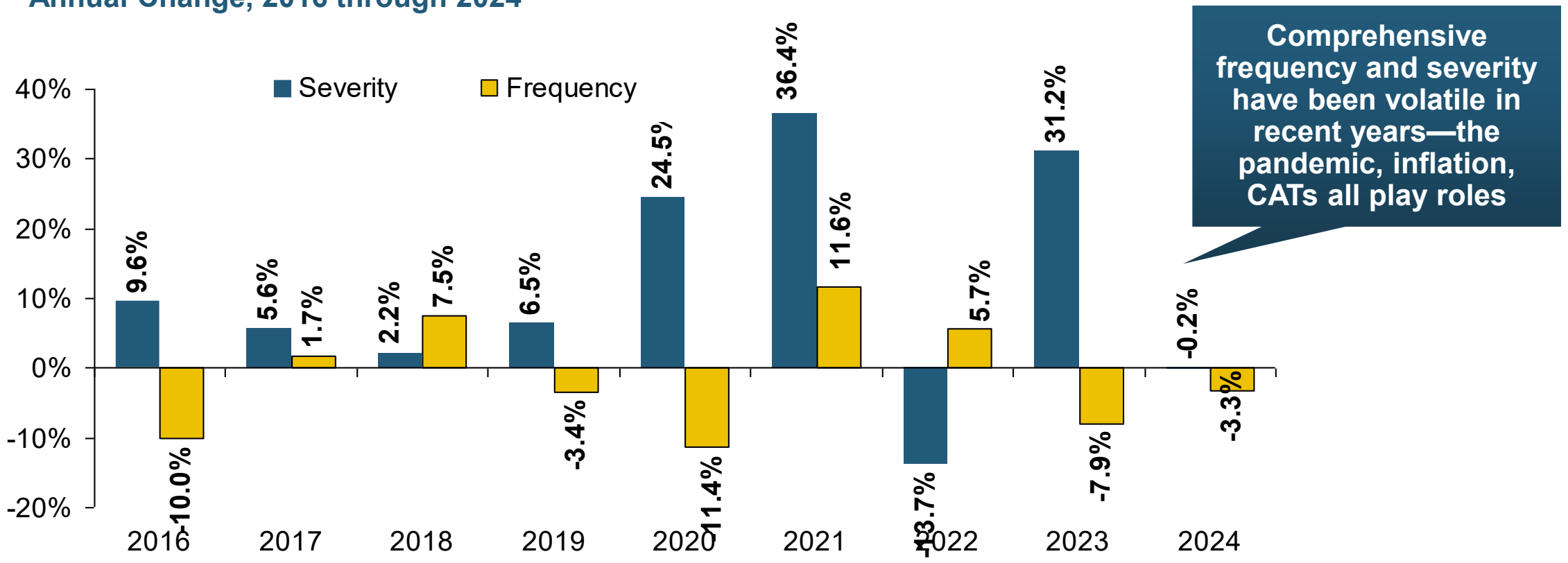
Frequency and Severity Surge After Covid

*2024 data are for the 4 quarters ending Dec. 31, 2024.

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

New York Coverage: COVID Has Increased Comprehensive Claim Volatility*

Annual Change, 2016 through 2024*



Comprehensive frequency and severity have been volatile in recent years—the pandemic, inflation, CATs all play roles

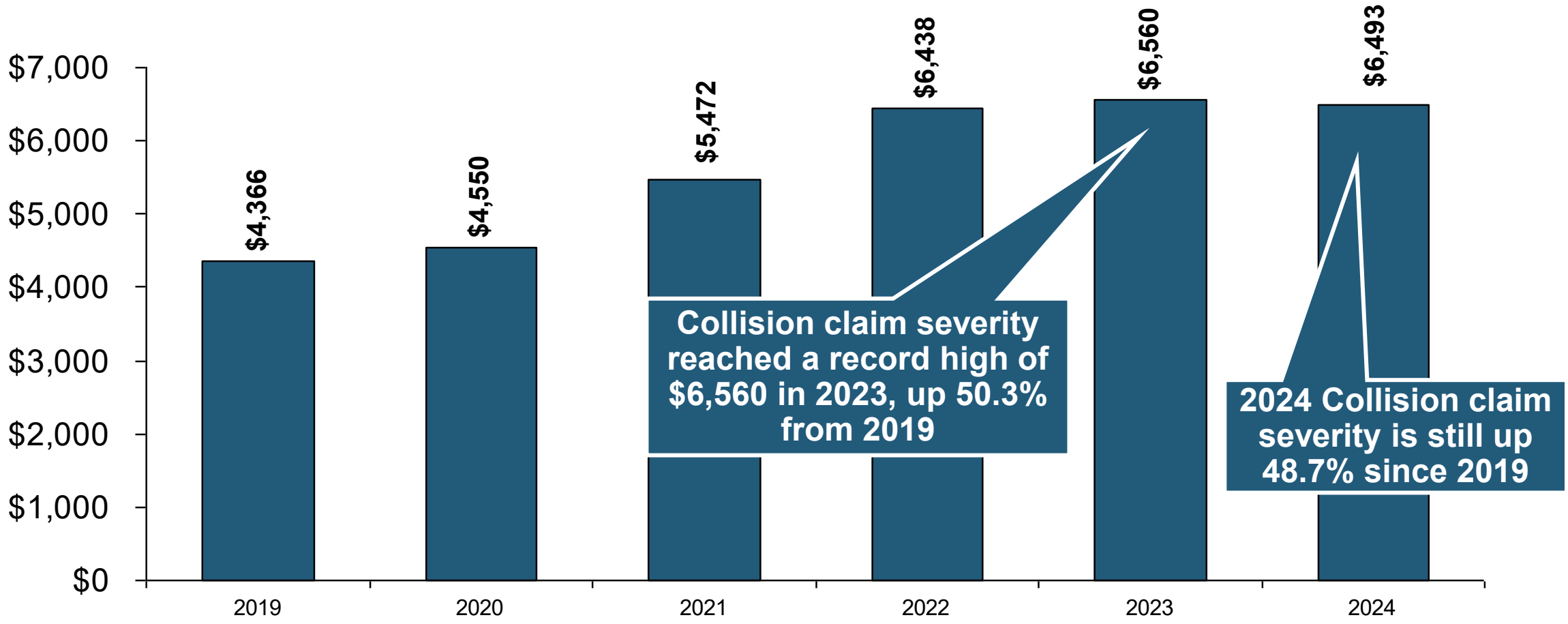
Collision Claim Frequency Is Volatile and Usually Most Impacted by Weather Impacts; Inflation Has Impacted Severities

*2024 data are for the 4 quarters ending Dec. 31, 2024.

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

New York Collision Claim Severity: 2019 - 2024

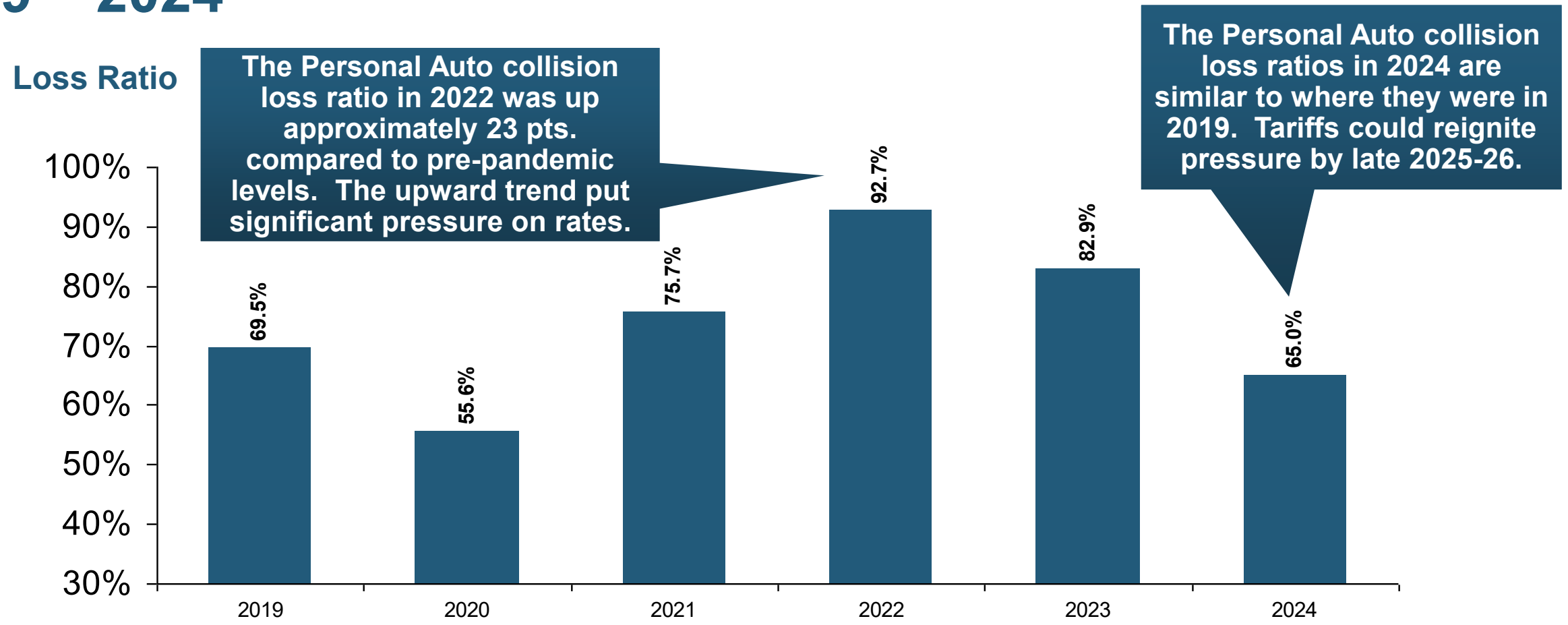
Average Loss, 2018:Q1 through 2024:Q4



Severities Are Up Sharply—Inflation Is a Major Factor. Tariffs Could Pressure Severities Upward.

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

New York: Collision Loss Ratios, Personal Auto, 2019 – 2024



Collision Loss Ratios Rose Rapidly After COVID, Peaking in Late 2022 and Until Recently Remained Above Pre-Covid Levels. Tariffs Could Pressure Loss Ratios by late 2025 and into 2026.

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

Commercial Lines Growth & Pricing Cyclicality

Economic and Tort Environment Create Pricing Pressure

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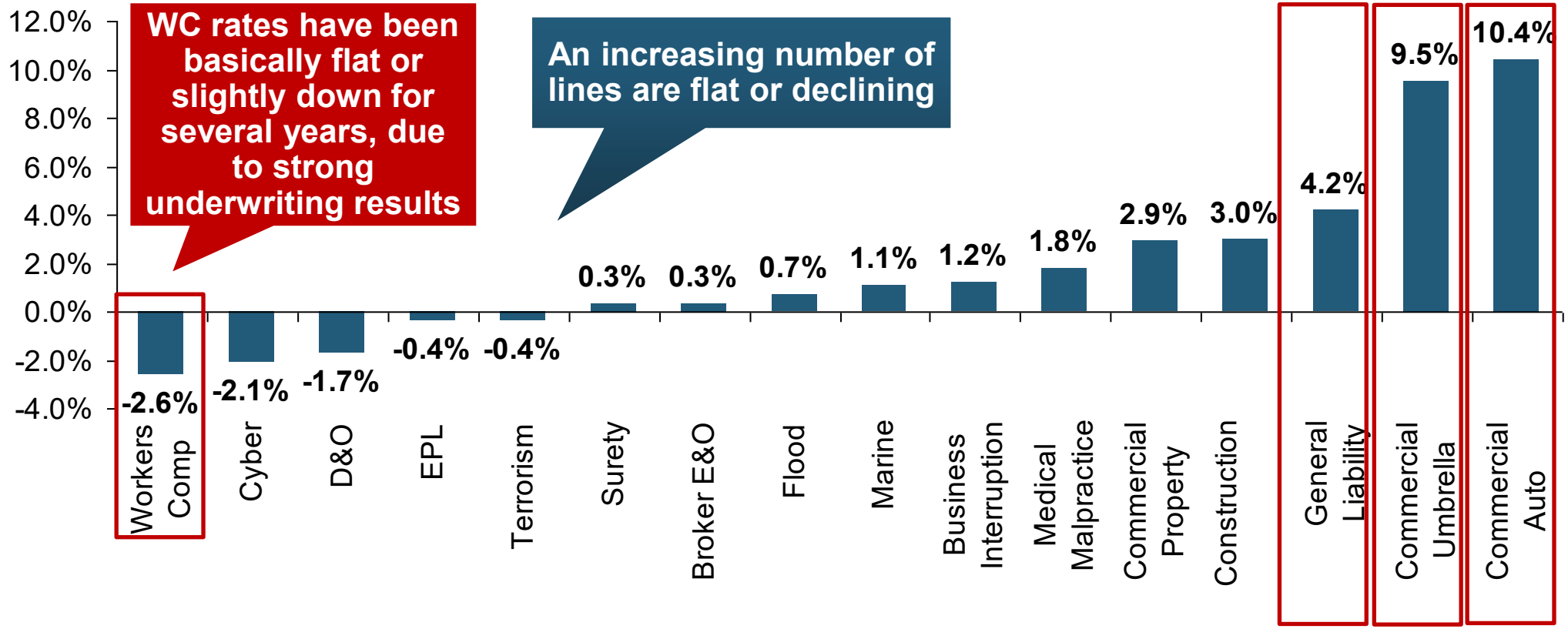
Change in Commercial Rate Renewals, by Line: 2025:Q1

Commercial Auto, Umbrella and GL are adversely impacted by legal system abuse/social inflation. Commercial Property increases have eased substantially after years of sharp increases due to high CAT losses, inflation and expensive reinsurance.

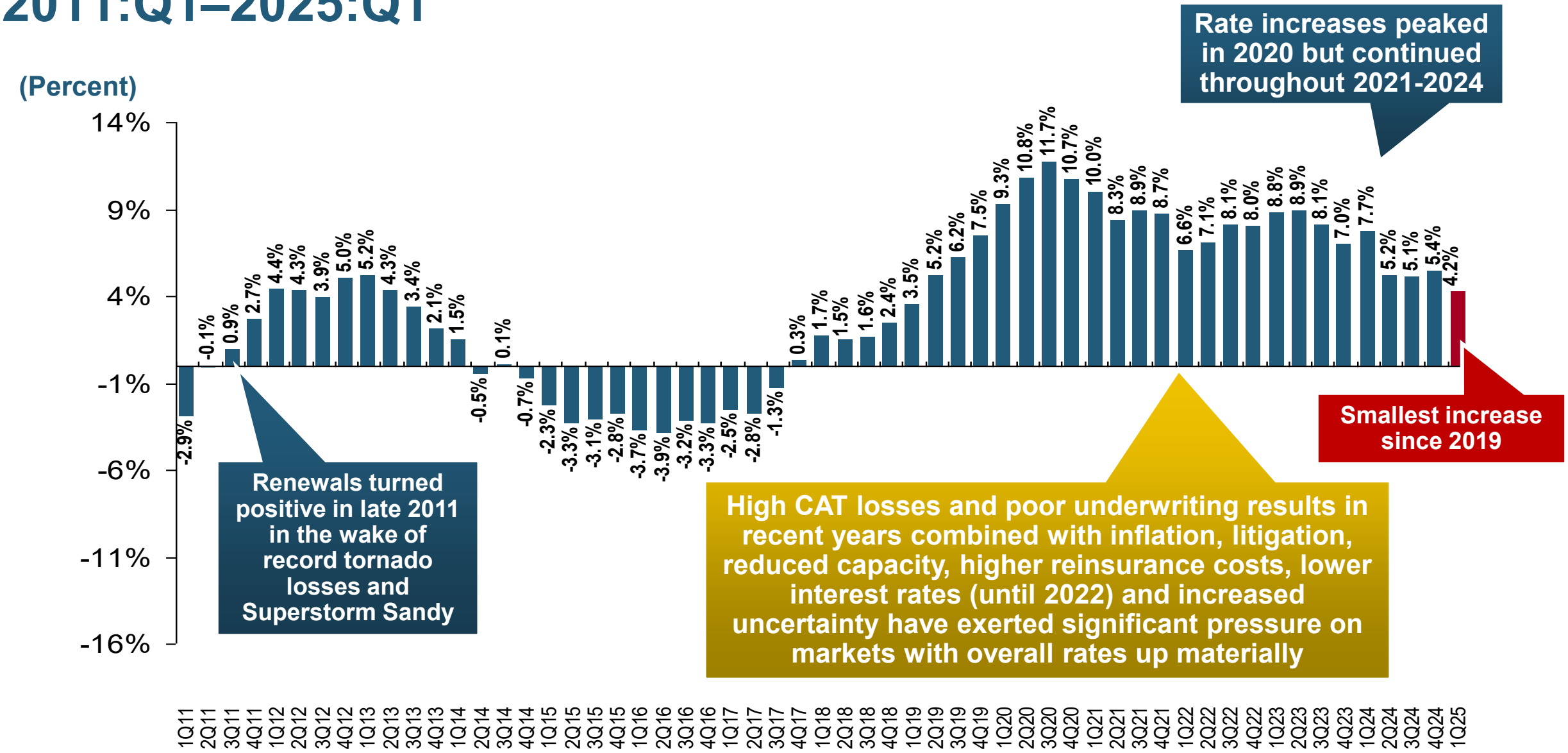
(Percent Change)



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:Q1–2025:Q1



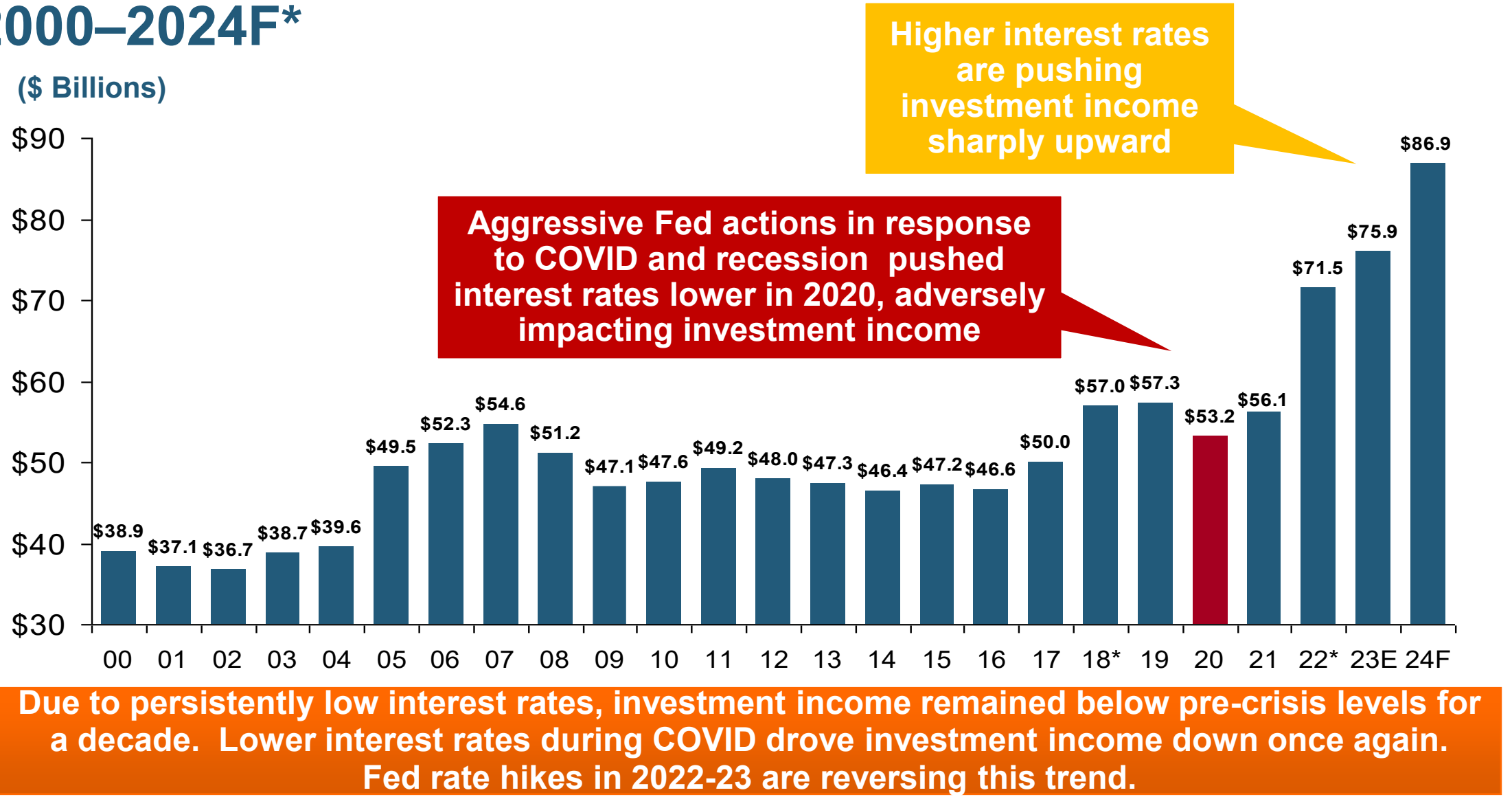
Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents & Brokers; Center for Risk and Uncertainty Management, Univ. of South Carolina.

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*

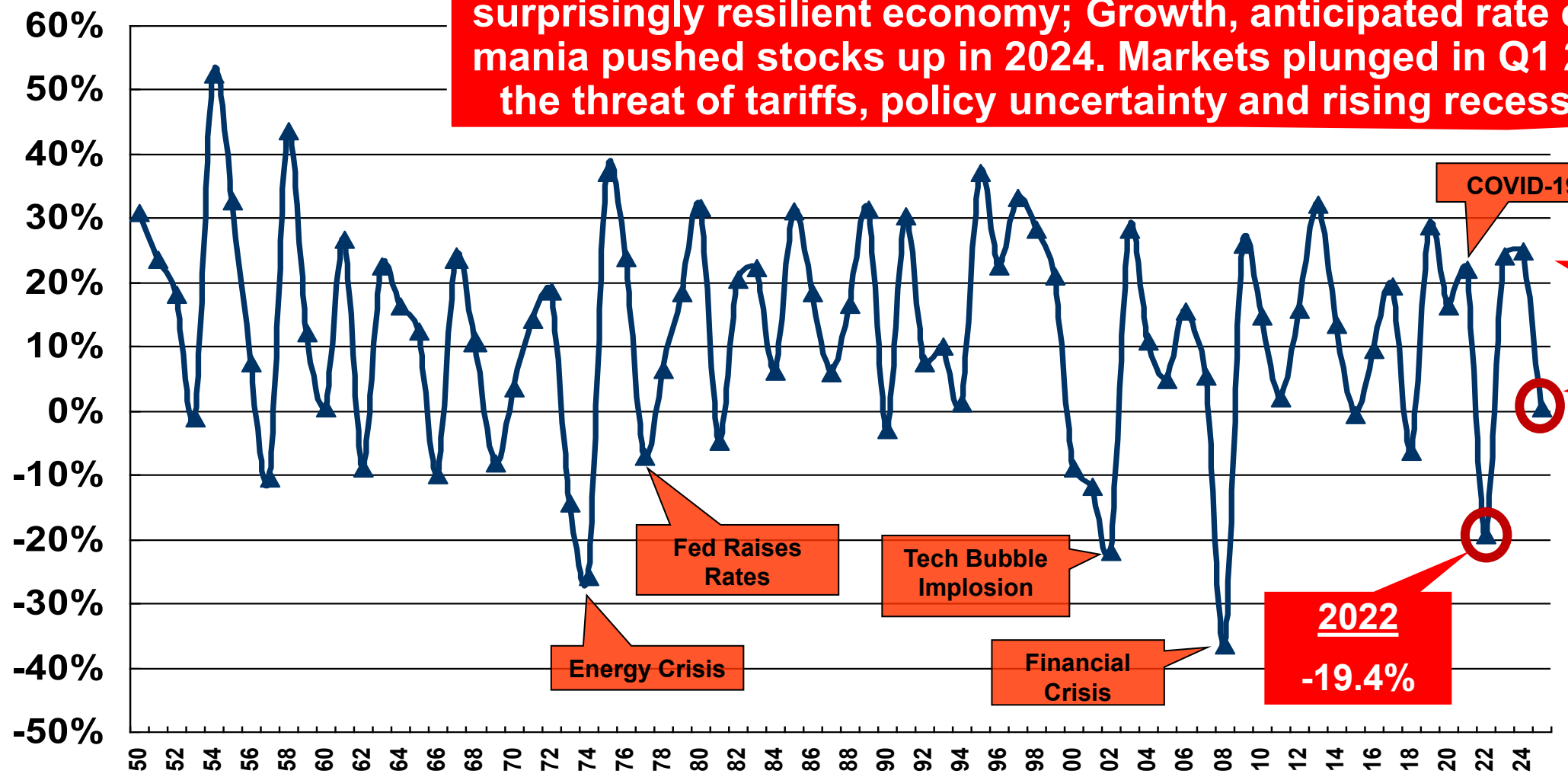


Due to persistently low interest rates, investment income remained below pre-crisis levels for a decade. Lower interest rates during COVID drove investment income down once again. Fed rate hikes in 2022-23 are reversing this trend.

* 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.

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.



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 May 28, 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

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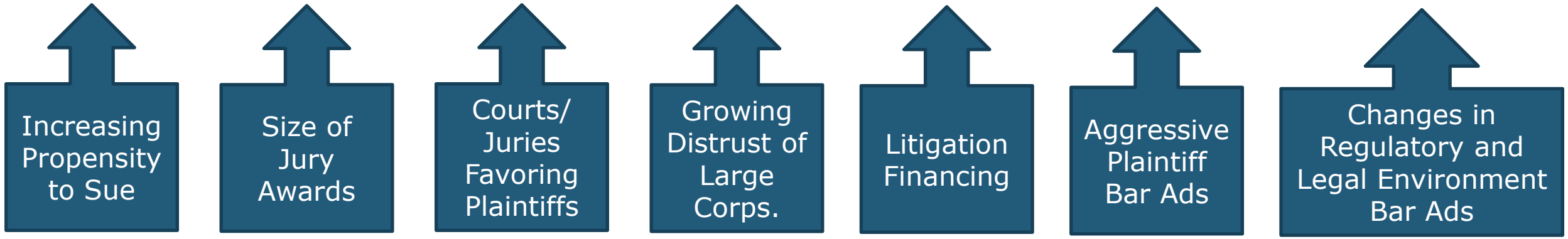
Social Inflation: Many Interrelated Causes, Difficult to Manage

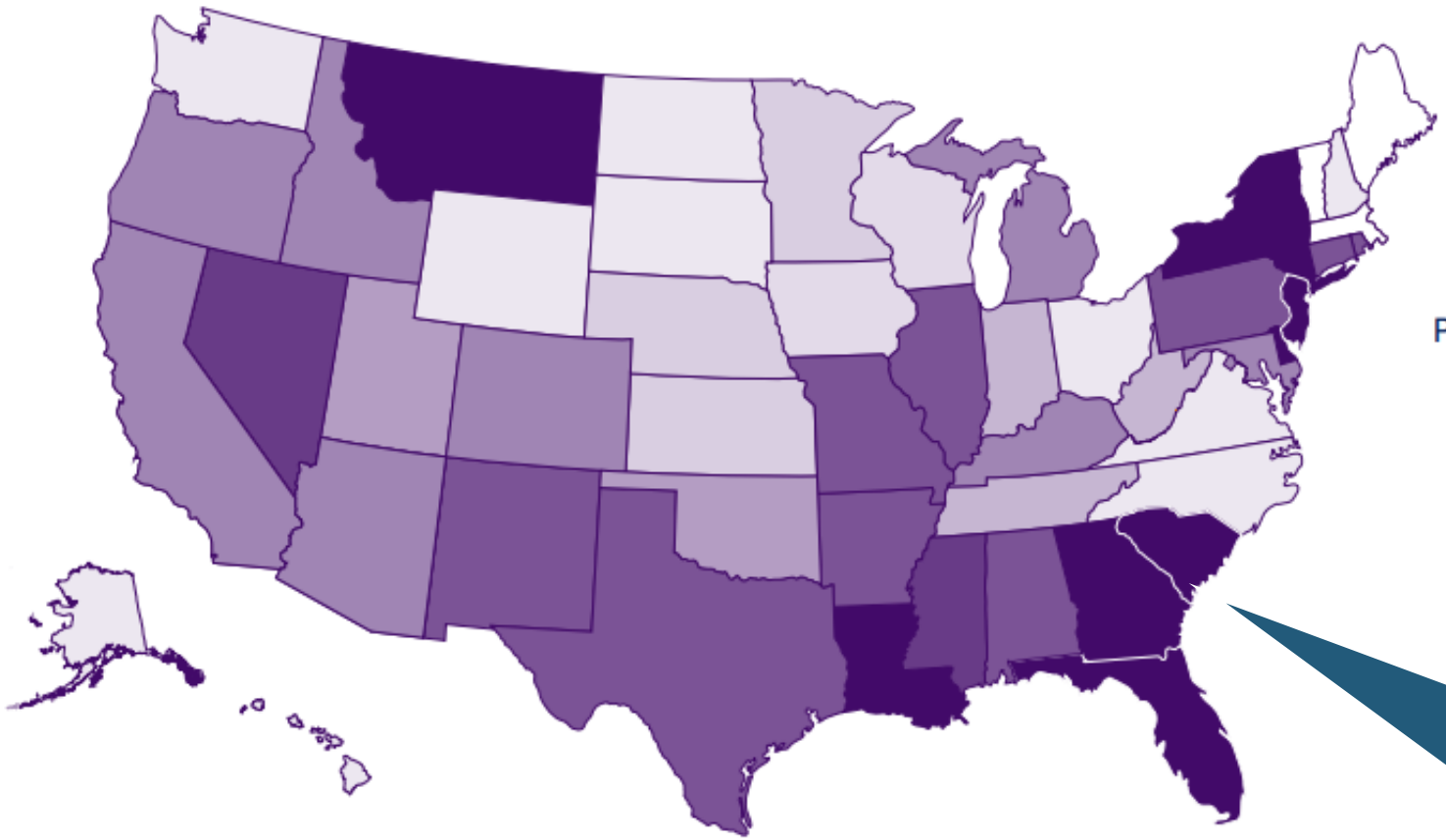
INSURANCE CLAIM COSTS



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.

Top 10 States: Tort Costs as Percent of State GDP (2022)

State	Total Tort Costs ($ millions) [1]	State GDP ($ millions) [2]	Tort Costs as % of State GDP [3]
DE	$3,122	$90,208	3.46%
FL	$48,179	$1,439,065	3.35%
LA	$7,748	$291,952	2.65%
NY	$53,437	$2,048,403	2.61%
GA	$19,932	$767,378	2.60%
MT	$1,729	$67,072	2.58%
SC	$7,554	$297,546	2.54%
NJ	$18,996	$754,948	2.52%
NV	$5,356	$222,939	2.40%
RI	$1,714	$72,771	2.36%
Top 10 States	**$167,766**	**$6,052,282**	**2.77%**

Sources and Notes:
[2]: Bureau of Economic Analysis, Gross Domestic Product by state: All industry total. Last updated: May 23, 2024.
[3] = [1] / [2].

Tort costs across the 10 states with the highest tort cost to GDP ratios totaled $167.8 billion in 2022, equating to a "tort tax" amounting to 2.77% of GDP (vs. 2.07% for the US overall)

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.

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.

SUMMARY

- **The 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
- **"Soft Landing" Jeopardized; Recession Still Unlikely but Odds Are Increasing**
- **Asset Price Volatility Will Persist with Monetary Policy, Fiscal, Geopolitical Uncertainty**
- **Higher Interest Rates Are Providing a Modest Tailwind for Investment Income**
- **Inflationary Pressures Moderated in 2024, though Persisting into 2025**
  - Tariffs—if fully implemented and maintained—are somewhat "stagflationary"
- **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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Download at www.uscriskcenter.com