



INSURANCE
INFORMATION
INSTITUTE

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State of the Insurance Industry: Key Risks and Opportunities

Insurance Information Institute ♦ 110 William Street ♦ New York, NY 10038
seank@iii.org ♦ 212.346.5533 ♦ www.iii.org

Triple-I and Its Mission



We are the trusted source of unique, data-driven insights on insurance

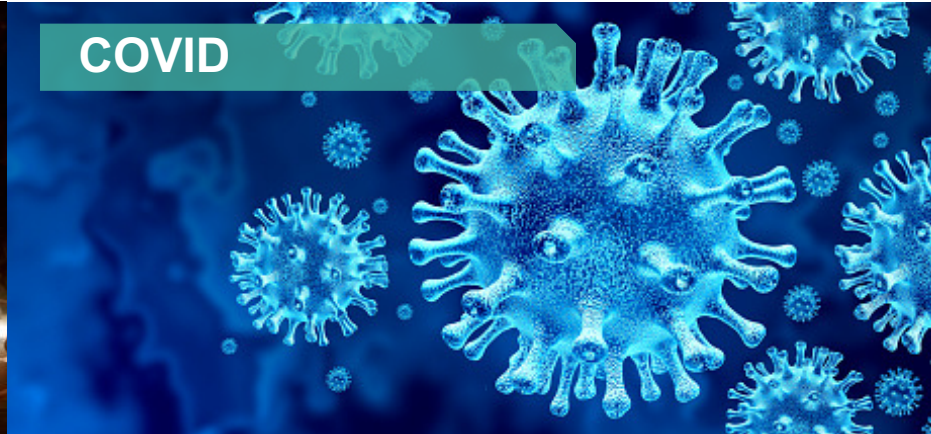
To inform and empower industry stakeholders and consumers

The Disruption Continuum

Catastrophes



COVID



Economics



INSURANCE



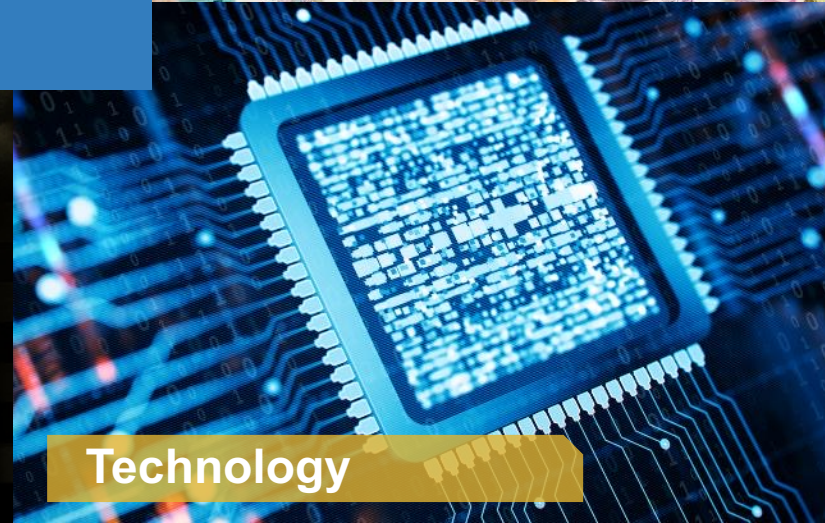
Geopolitical



Social Unrest

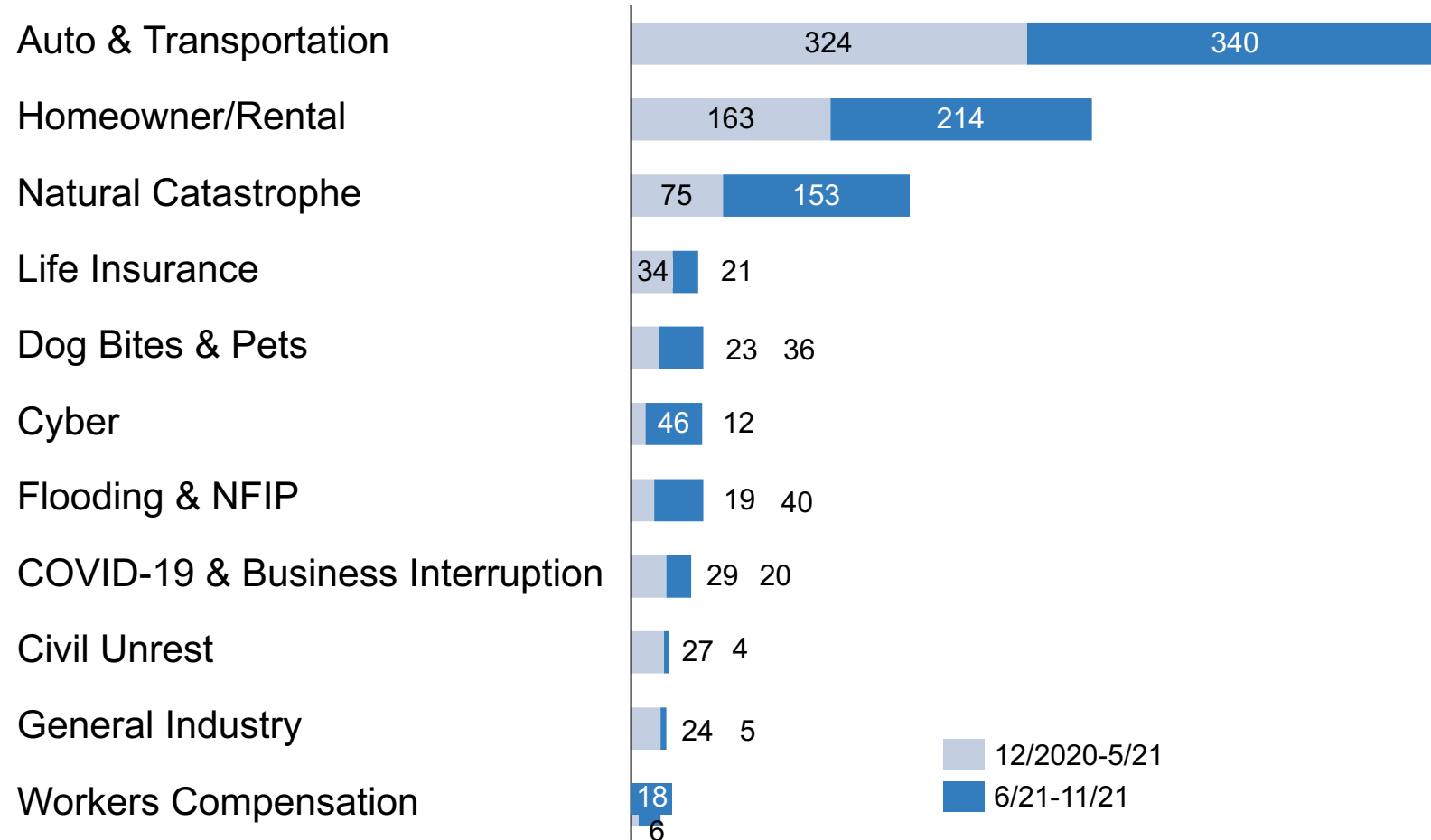


Technology



What's News In Insurance

Triple-I Media Citations By Category



Part I: Insurance Economics Outlook

Economic Fundamentals and P&C Insurance

U.S. and Insurance Growth and Inflation

	2016	2017	2018	2019	2020	2021	2022YT D	2022E	2023F	2024F	2025F
Growth											
U.S. GDP	1.67%	2.25%	2.92%	2.29%	-3.40%	5.81%	5.50%	4.00%	2.20%	2.00%	2.00%
P&C Underlying Growth	3.79%	2.59%	3.03%	1.67%	-4.41%	10.15%	0.09%	6.66%	4.56%	3.37%	2.53%
Inflation											
U.S. Inflation (CPI)	1.27%	2.14%	2.43%	1.81%	1.25%	4.68%	5.20%	2.60%	2.30%	2.10%	2.10%
P&C Replacement Costs	0.11%	0.34%	1.55%	1.20%	1.35%	10.40%	16.32%	9.91%	6.74%	3.84%	2.50%

Underlying Growth represents the average GDP growth of industries impacting P&C NWP growth

Replacement Cost Basket represents the average change in CPI for goods impacting P&C replacement costs

Source: U.S. data: FRED; Insurance Data: Triple-I based on FRED

As of 03/01/2022

Homeowners

Below average completion rates and above average commodity and labor costs constrained performance in 2021 – all expected to continue into 2022

Homeowners

	2016	2017	2018	2019	2020	2021	2022YD	2022E	2023F	2024F	2025F	
Market Growth Index	7.46%	6.02%	4.10%	4.39%	0.14%	5.09%	-0.81%	5.25%	5.93%	5.13%	3.83%	<i>Market Growth represents the average growth of GDP components impacting individual lines' NWP growth.</i>
Housing Units Completed	10.39%	8.86%	3.60%	6.14%	2.43%	5.02%	-6.17%	7.00%	8.00%	7.00%	5.00%	
All Employees Residential Buildings	5.33%	3.02%	6.00%	2.80%	-1.43%	6.66%	4.59%	3.00%	4.00%	3.00%	2.00%	
Retail Trade	3.72%	3.33%	3.19%	2.50%	-2.89%	3.68%	4.50%	4.00%	3.70%	3.50%	3.30%	
Replacement Cost Basket	0.61%	1.77%	3.05%	1.52%	1.76%	11.14%	14.49%	11.50%	7.50%	5.17%	3.17%	<i>Replacement Cost Basket represents the average change in CPI for goods impacting replacement costs for individual line.</i>
Shelter	3.38%	3.32%	3.31%	3.38%	2.47%	2.66%	4.38%	5.50%	4.50%	3.50%	3.00%	
Household Furnishing & Supplies	-1.72%	-1.65%	-0.53%	1.13%	1.33%	4.02%	5.00%	4.00%	3.00%	2.00%	1.50%	
Construction Materials	0.17%	3.62%	6.36%	0.04%	1.49%	26.74%	34.10%	25.00%	15.00%	10.00%	5.00%	

Source: U.S. data: FRED; Insurance Data: Triple-I based on FRED

As of 03/01/2022



Personal Auto

Low inventory and high labor costs constrained performance in 2021 – inventory expected to recover in 2022 while labor costs likely to remain elevated longer

Personal Auto

	2016	2017	2018	2019	2020	2021	2022YD	2022E	2023F	2024F	2025F
Market Growth Index	0.93%	0.02%	1.63%	-1.56%	-7.86%	17.98%	-0.13%	10.05%	4.36%	2.34%	1.68%
Light Autos & Light Trucks Unit Sales	0.49%	-1.87%	0.48%	-1.52%	14.67%	10.00%	10.50%	7.50%	3.00%	2.00%	1.00%
Total Private Exp., All Autos	1.78%	3.68%	3.84%	-1.65%	5.35%	33.46%	20.00%	15.00%	7.00%	3.00%	3.00%
Replacement Cost Basket	-0.96%	-1.49%	0.11%	1.10%	1.62%	12.36%	21.77%	11.00%	7.67%	3.17%	2.50%
New Vehicles	0.15%	-0.25%	-0.47%	0.37%	0.53%	5.84%	12.19%	5.50%	3.00%	2.00%	1.00%
Used Vehicles	-2.57%	-3.88%	0.37%	1.00%	3.22%	26.48%	40.52%	20.00%	15.00%	5.00%	5.00%
Parts & Equipment	-0.47%	-0.36%	0.44%	1.93%	1.10%	4.76%	12.60%	7.50%	5.00%	2.50%	1.50%

Market Growth represents the average growth of GDP components impacting individual lines' NWP growth.

Replacement Cost Basket represents the average change in CPI for goods impacting replacement costs for individual line.

Source: U.S. data: FRED; Insurance Data: Triple-I based on FRED

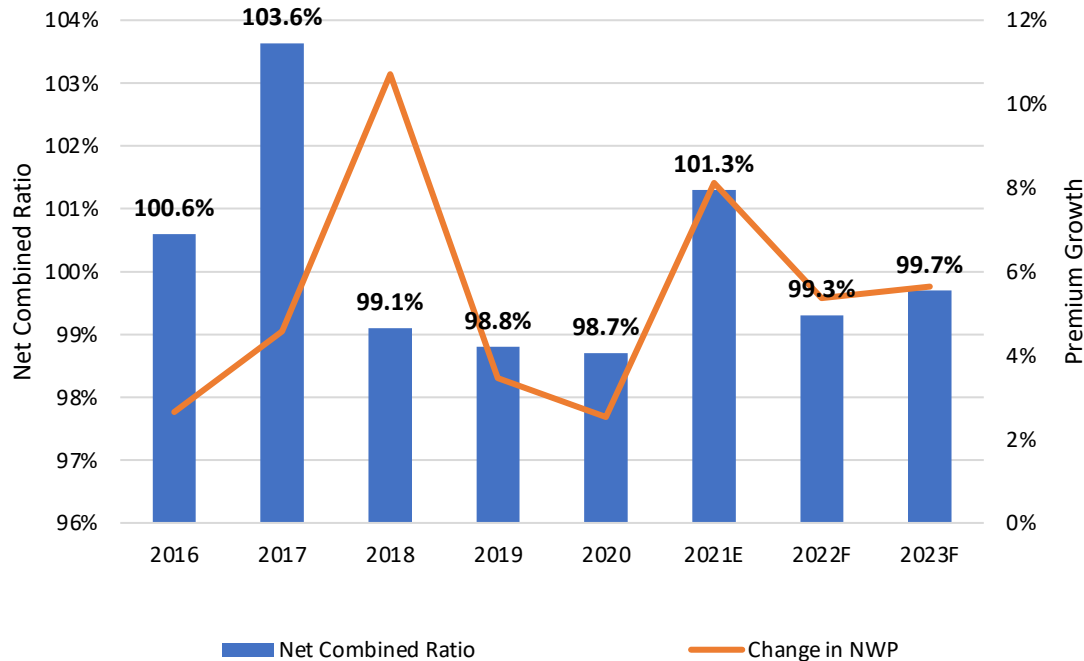
As of 03/01/2022



Part 2: Underwriting Forecast

P&C Industry Outlook

Industry Net Combined Ratio and Change in NWP



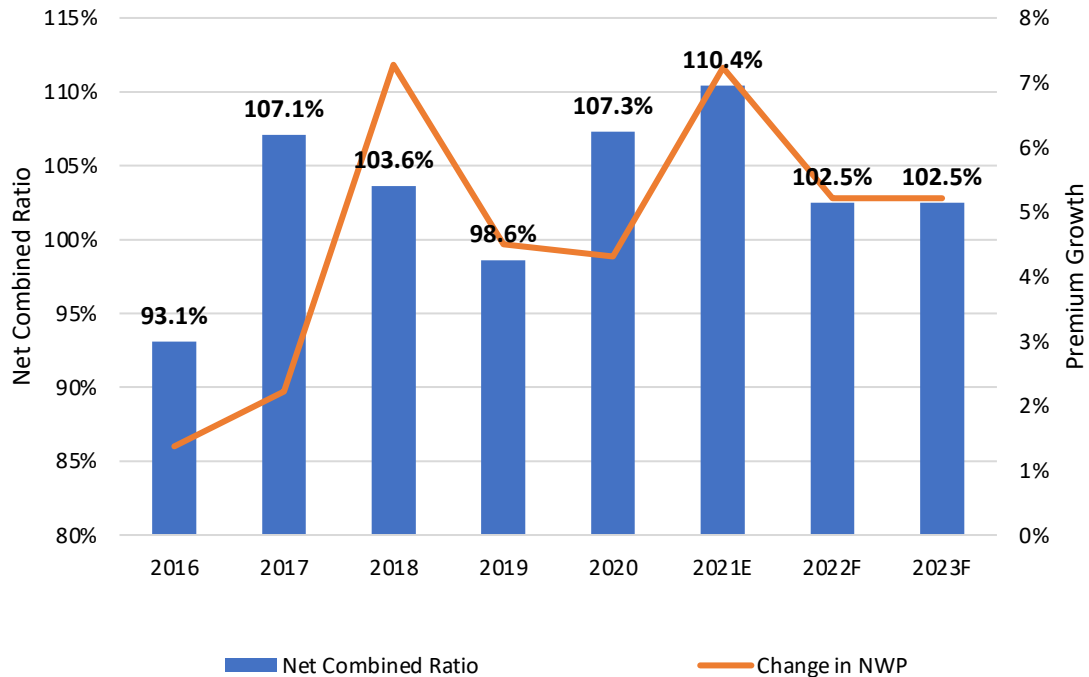
- ▲ 2021E Combined Ratio increased by 0.8 pts to 101.3%, due to deterioration in personal lines partially offset by commercial lines
- ▲ Worst full-year Cat losses since 2017: TX Freeze, Hurricane Ida, Wildfires, Tornadoes
- ▲ Healthy premium growth in 2021-2023 from economic recovery and hard market
- ▲ Uncertainty from COVID and loss pressures will continue to put pressure on rates
- ▲ Inflation, supply chain, and riskier insured behavior all contributing to loss pressures

Sources: NAIC Statutory Financial Data through S&P Global Market Intelligence
Analysis: Insurance Information Institute, Milliman.



Homeowners

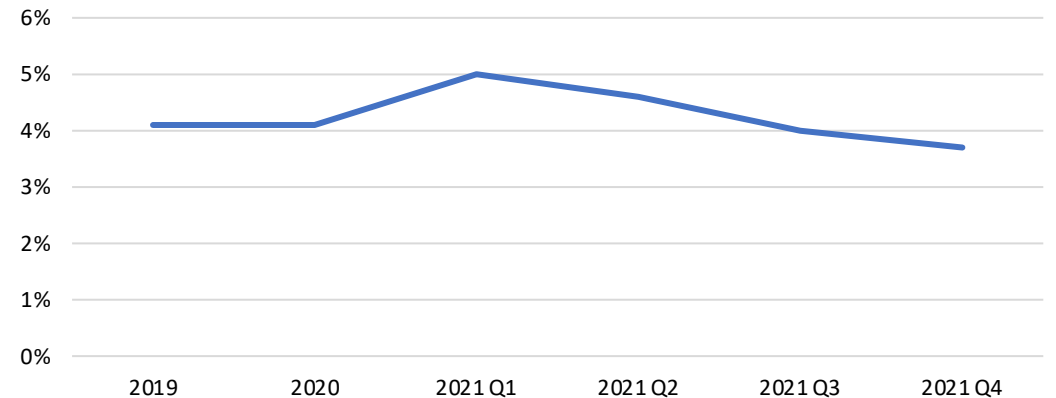
Homeowners Net Combined Ratio and Change in NWP



Sources: NAIC Statutory Financial Data through S&P Global Market Intelligence
 Analysis: Insurance Information Institute, Milliman.

- ▲ Increased 2021E Combined Ratio to 110.4% as Hurricane Ida had a greater impact on this line than previously anticipated, plus KY tornadoes and CO wildfire in Q4
- ▲ Loss Pressures and Expected Cats indicate greater rate increases are needed to improve 2022F and 2023F results

Homeowners Rate Changes

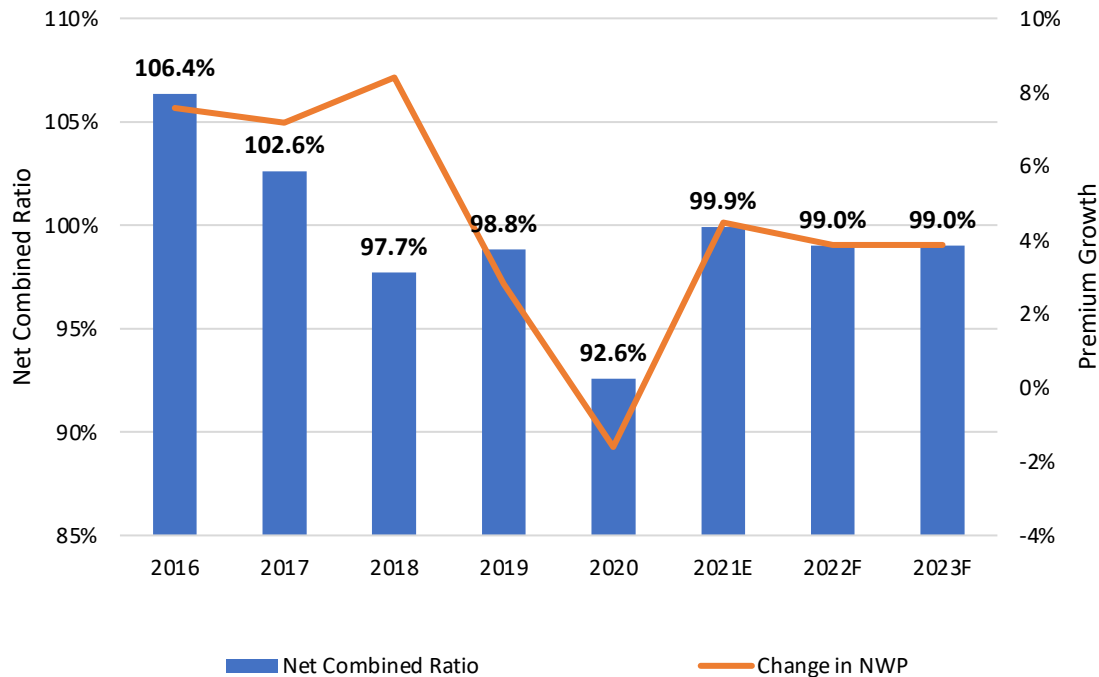


Source: Market Scout (Q4 2021)



Personal Auto

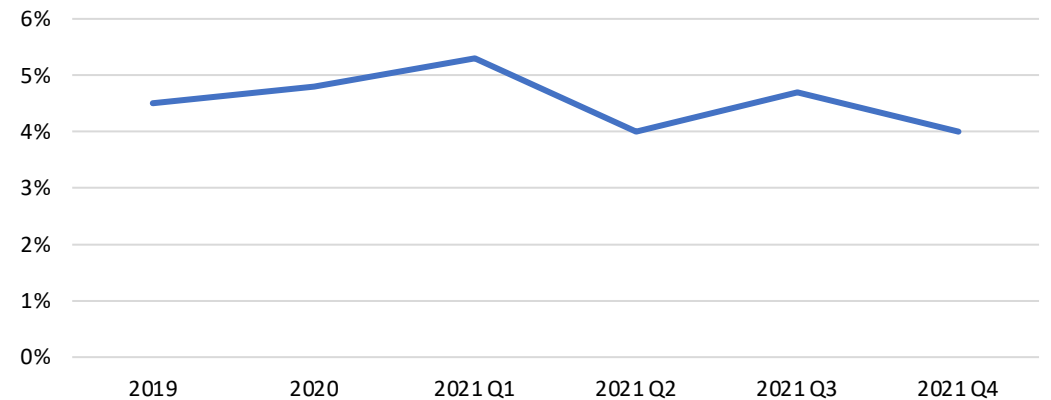
Personal Auto Net Combined Ratio and Change in NWP



Sources: NAIC Statutory Financial Data through S&P Global Market Intelligence
 Analysis: Insurance Information Institute, Milliman.

- ▲ Increased 2021E Combined Ratio to 99.9% due to deteriorating Non-Cat loss trends combined with excess Cat losses
- ▲ Loss pressures cause 2022F and 2023F profitability to remain at pre-pandemic levels

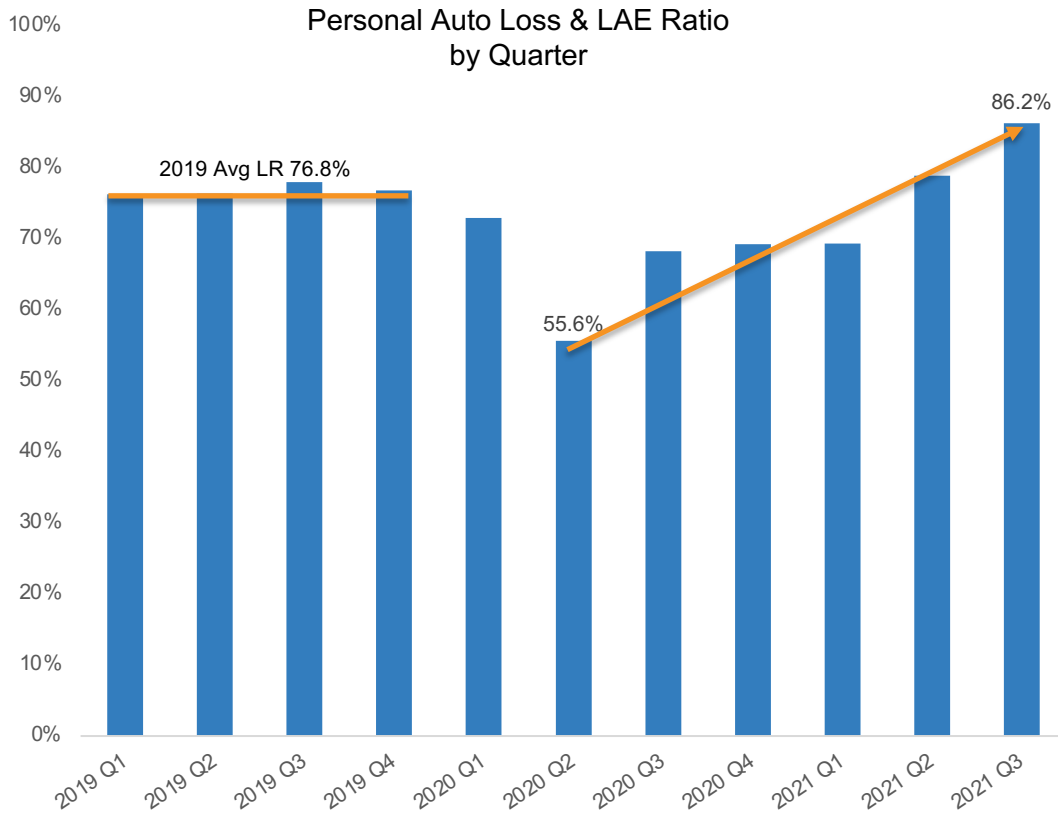
Personal Auto Rate Changes



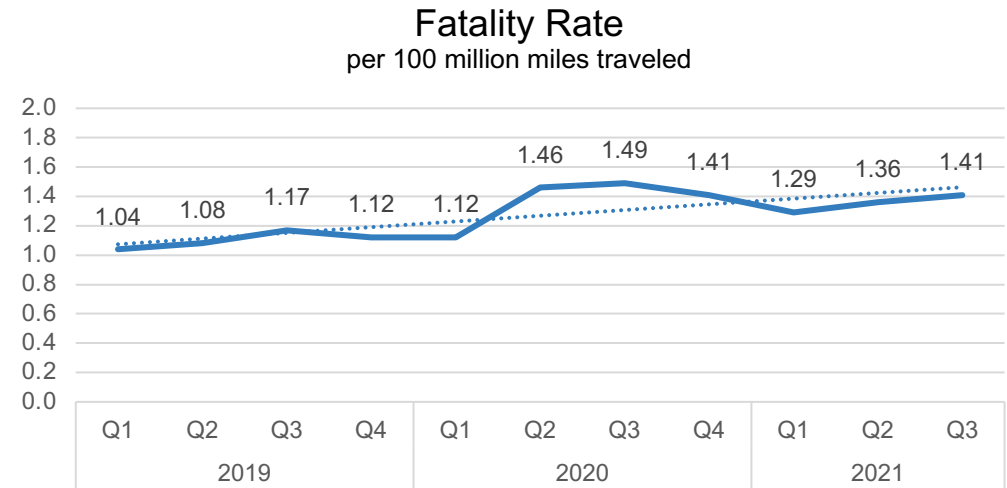
Source: Market Scout (Q4 2021)



Personal Auto – Deeper Look at Deteriorating Trends



- ▲ Qtrly Loss & LAE Ratio deteriorating rapidly from 2020Q2 at 55.6% to 2021Q3 at 86.2%, above the pre-pandemic ratio of 76.8% in 2019
- ▲ Miles driven largely back to 2019 levels, but with riskier driving behaviors leading to increased fatality rate

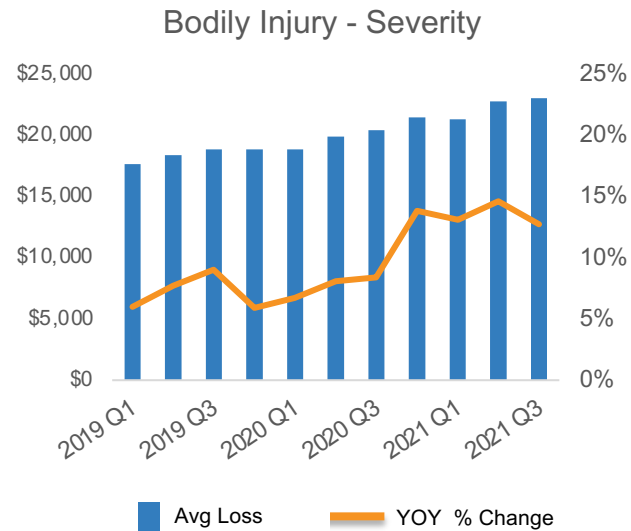
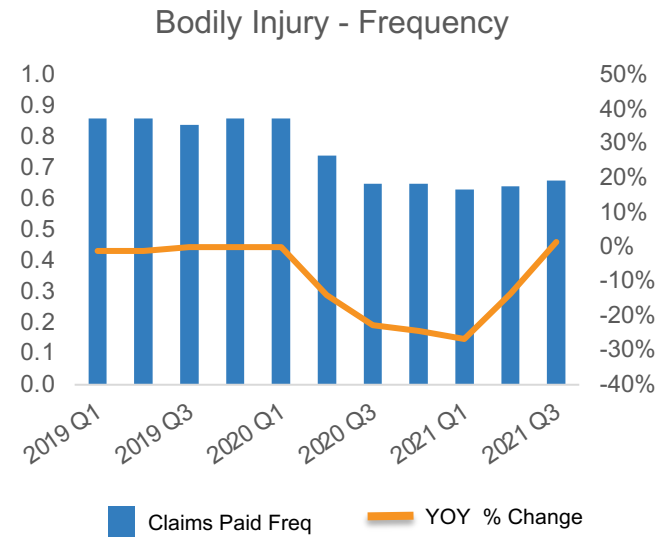


Source: Includes copyrighted material of Insurance Services Offices, Inc., with its permission

Source: <https://crashstats.nhtsa.dot.gov/Api/Public/ViewPublication/813240> (Figure 1)

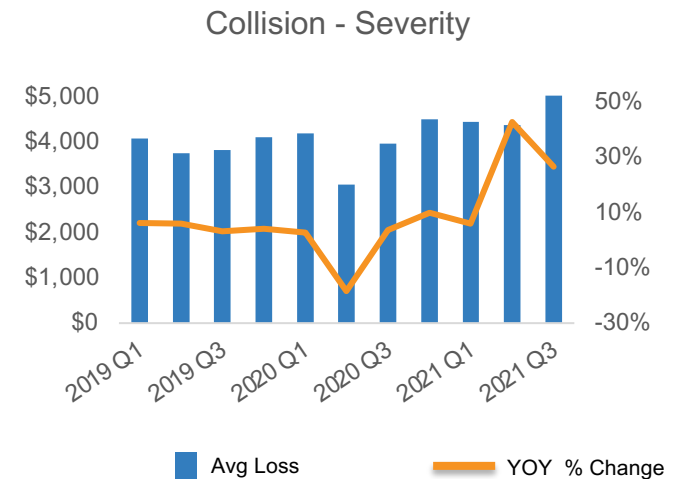
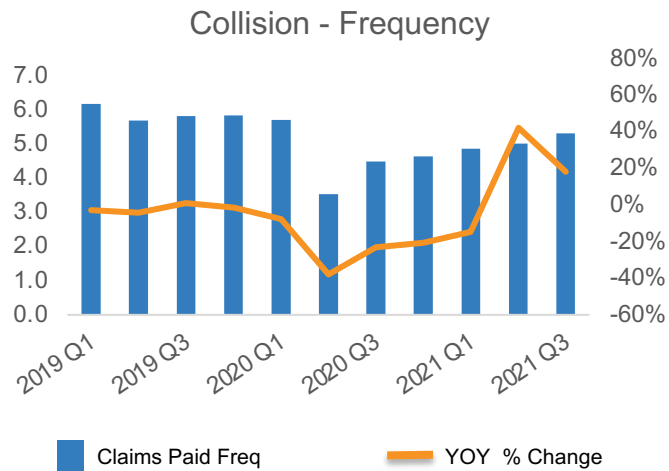


Personal Auto – Deeper Look at Deteriorating Trends



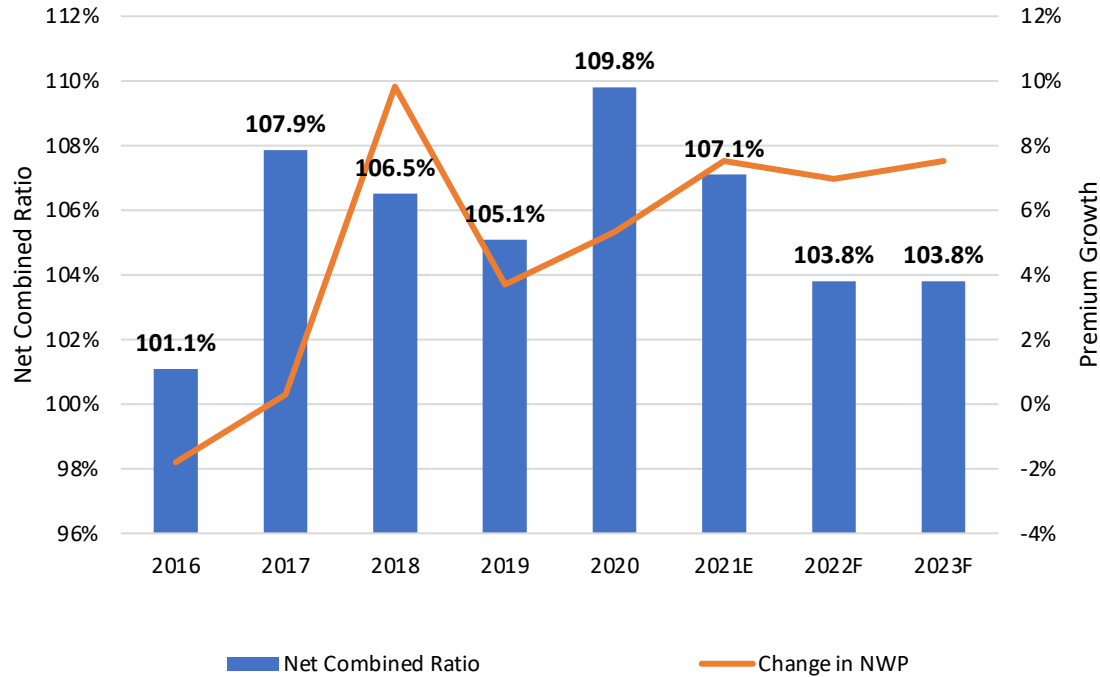
- ▲ BI Frequency has not fully rebounded from improvement in 2020Q2
- ▲ BI Severity has continuously trended upward from 2019 through 2021

- ▲ Collision is having the most significant impact on overall Loss Ratio deterioration from 2020Q2 to 2021Q3
- ▲ Both Frequency and Severity worsening materially throughout this 5 quarters of deterioration



Commercial Multi-Peril

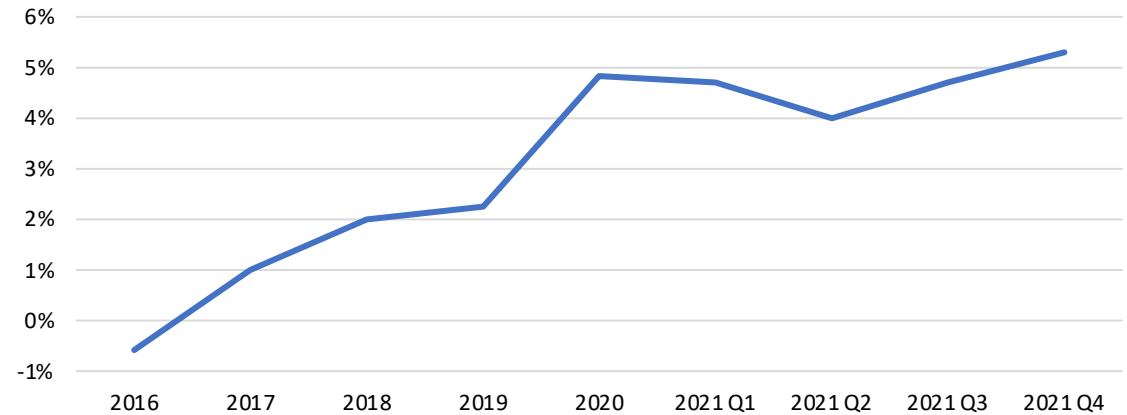
CMP Net Combined Ratio and Change in NWP



- ▲ 2021E Combined Ratio decreased to 107.1% primarily due to reallocation of Cats by product
- ▲ Strong NWP growth from economic recovery and hard market
- ▲ Watch for Business Interruption court decisions or potential federal legislation

Sources: NAIC Statutory Financial Data through S&P Global Market Intelligence
 Analysis: Insurance Information Institute, Milliman.

Commercial Multi-Peril Rate Changes

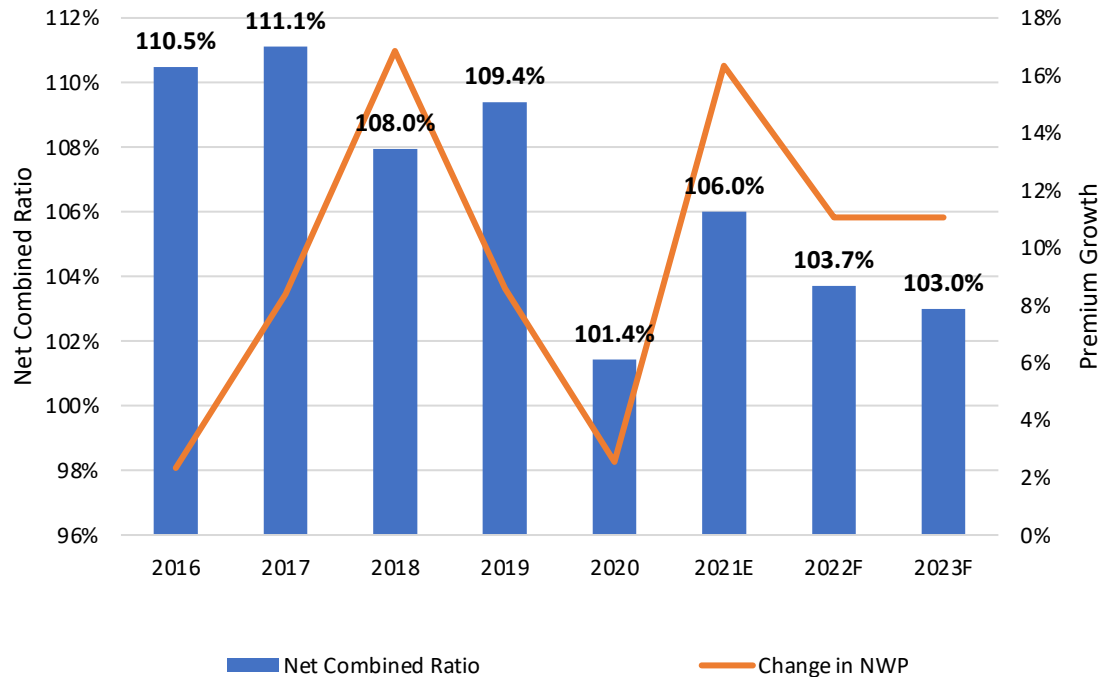


Source: Market Scout (Q4 2021)



Commercial Auto

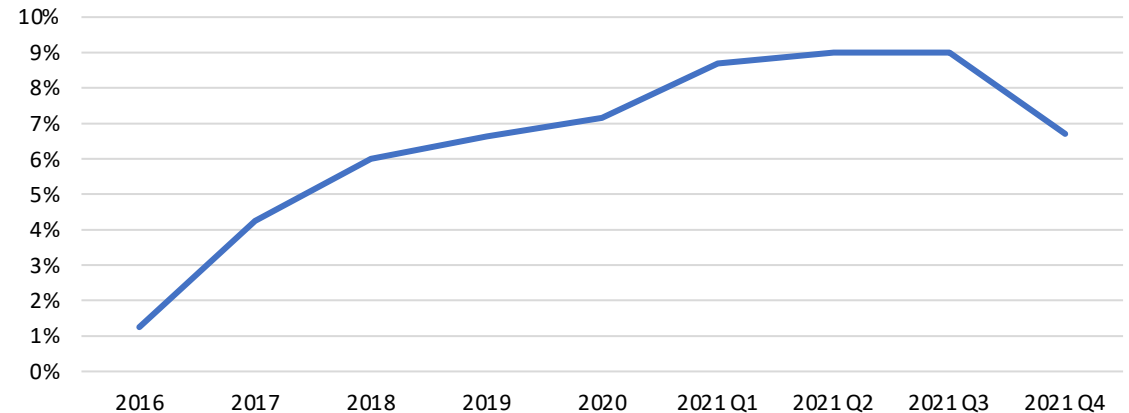
Commercial Auto Net Combined Ratio and Change in NWP



Sources: NAIC Statutory Financial Data through S&P Global Market Intelligence
 Analysis: Insurance Information Institute, Milliman.

- ▲ Underwriting losses continue through 2023F, but improving year-over-year
- ▲ Strong NWP growth from economic recovery and hard market
- ▲ Watch for social inflation loss pressure and prior year adverse loss development

Commercial Auto Rate Changes

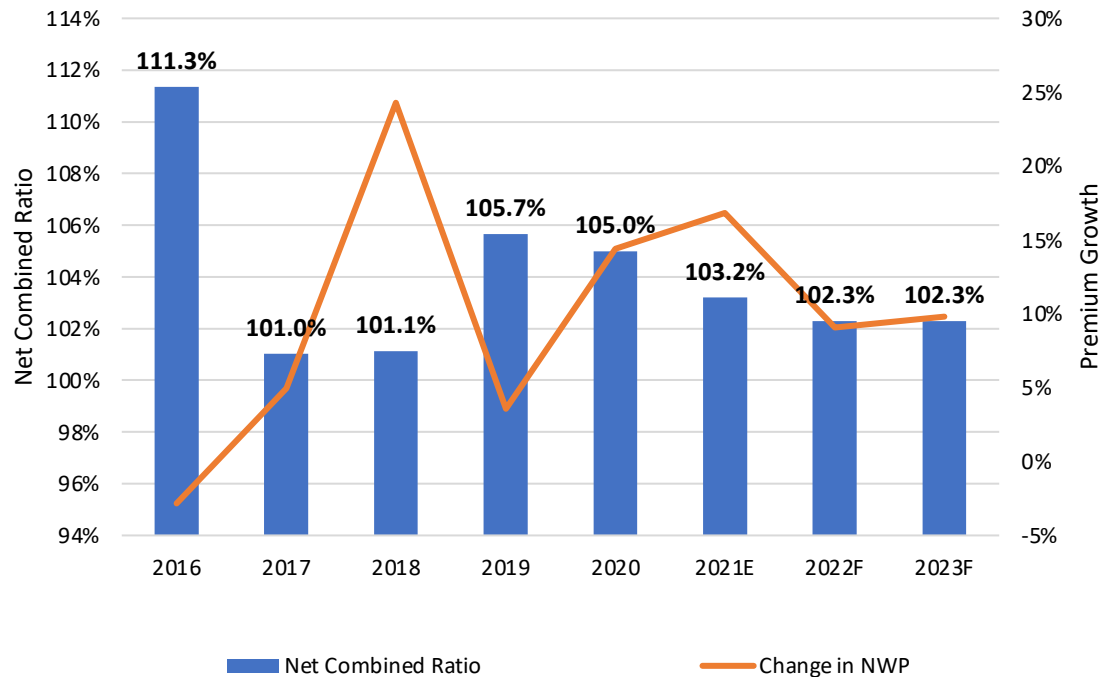


Source: Market Scout (Q4 2021)



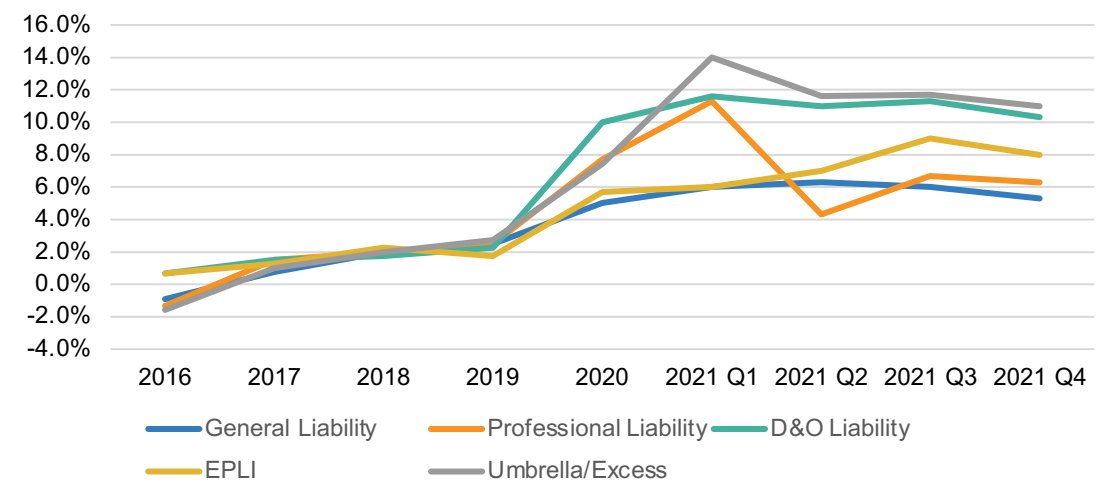
General Liability

General Liability Combined Ratio and Change in NWP



- ▲ Underwriting losses continue, but improving
- ▲ Strong NWP growth from economic recovery and hard market
- ▲ Watch for social inflation and cyber risk

General Liability Rate Changes



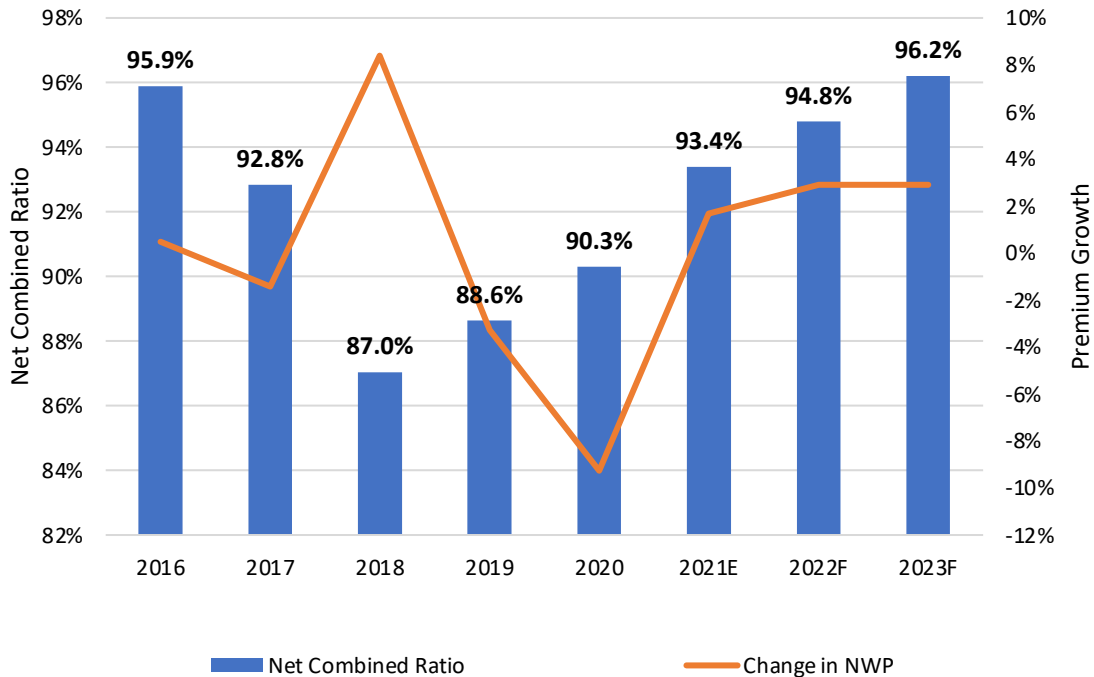
Source: Market Scout (Q4 2021)

Sources: NAIC Statutory Financial Data through S&P Global Market Intelligence
 Analysis: Insurance Information Institute, Milliman.



Workers Compensation

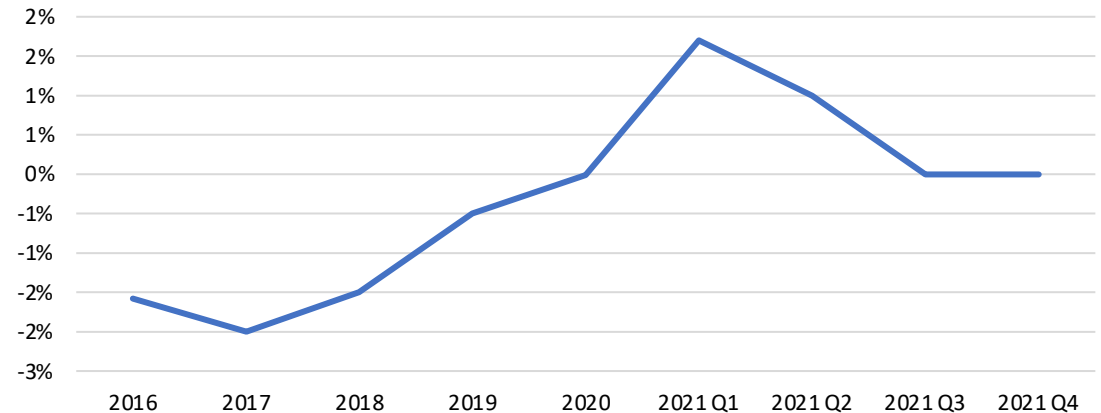
WC Net Combined Ratio and Change in NWP



- ▲ Underwriting profits continue, although margins shrinking
- ▲ Pandemic, recession, remote work, and economic recovery impacted volume and location of WC risk

Sources: NAIC Statutory Financial Data through S&P Global Market Intelligence
 Analysis: Insurance Information Institute, Milliman.

Workers Compensation Rate Changes



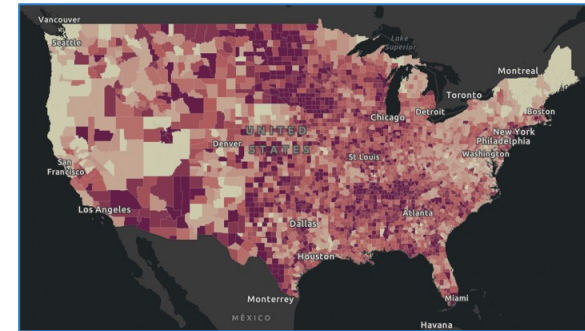
Source: Market Scout (Q4 2021)



Risks & Opportunitites

Risks & Opportunities

Cyber



Climate & Resilience

Forbes

Fed Chair Powell Warns That Cyber Attacks And Covid-19 Spreading Again Are The Biggest Risks To The Economy

Jonathan Ponciano Forbes Staff
Apr 11, 2021

Risk-Based Pricing

Topics / Finance /

Expert View: How Letting Insurance Companies Use Risk-Based Pricing Lowers Premiums

Risk-based pricing allows insurers to set prices based on the risk they assume and to tailor policies, and prices, to potential customers.

Pandemic & Its Impacts



Litigation & Claims Inflation



Pandemic Risk & Impacts

COVID-19 and economic recession and recovery have changed how we live and work, with impacts across most insurance product lines

Business Interruption

- Insurance industry defended commercial policy contract language, but lawsuits continue
- [Key principles of forward-looking government-backed pandemic recovery solutions](#)

Changing Driving Patterns

- Reduced mileage early in pandemic, but now restored; riskier driving increased and continues
- Companies seeking increased rates due to frequency and severity of losses
- [Infographic: What's Happening with Auto Insurance Rates](#)

Pressure on Repair and Construction Costs

- New and used car prices increasing due to supply-chain disruption
- Extremely volatile lumber pricing is one of many drivers of rising home insurance premiums
- [State of the Risk: Homeowners Insurance Rate Increases](#)

Risky driving and fatal crashes surged in 2020, even with fewer drivers on the road, a new report finds

By Scottie Andrew, CNN

Updated 7:26 AM ET, Tue January 19, 2021



Even though fewer people drove during the first six months of the pandemic, fatal car crashes rose, as did risky driving habits like driving under the influence, a National Highway Traffic Safety Administration report found.

(CNN) — The Covid-19 pandemic has forced many Americans to stay home and stay put. But even though fewer people were driving during the first six months of the pandemic, riskier driving surged, leading to a troubling uptick in fatal crashes, preliminary data shows.

Home construction costs soar despite big drop in lumber prices

Thursday, 8 Jul 2021 08:04 PM EDT

HOME CONSTRUCTION COSTS SOAR DESPITE DROP IN LUMBER PRICES

Report on soaring home construction

Chip shortage likely to keep car prices sky-high through 2023

UPDATED ON: SEPTEMBER 8, 2021 / 12:47 PM / CBS/AP

f t i



Litigation & Claims Inflation

Warren Buffett is often credited with first using the term “social inflation” to describe “a broadening definition by society and juries of what is covered by insurance policies”

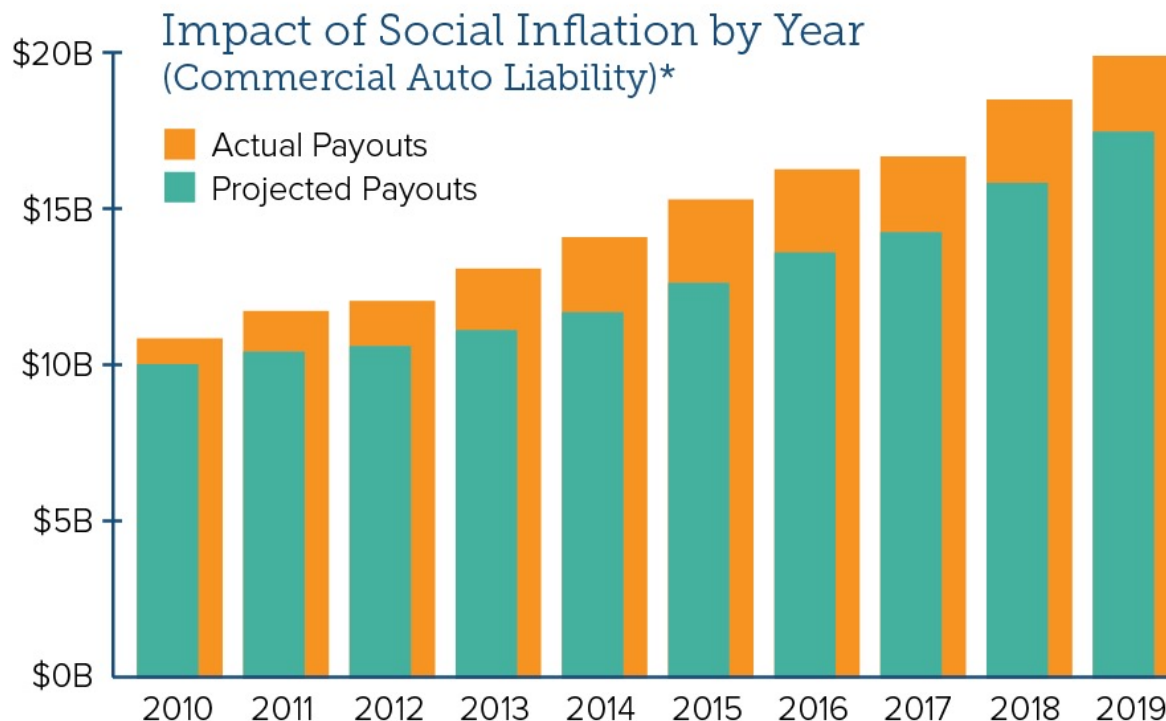
Triple-I published research in February 2022 on social inflation, funded by CAS Research Grant

- Absent a universal definition, Triple-I defines Social Inflation as “excessive inflation in claims related to litigation trends”
- Study was performed using standard industrywide claim triangles through 2019

Key Findings:

- Social Inflation **increased claims** by an estimated **\$20B (14%)** from 2010 to 2019 in Commercial Auto Liability
- Evidence of similar trends found in Other Liability Occurrence and Medical Malpractice Claims-made

Issues Brief: [State of the Risk: Social Inflation \(iii.org\)](https://www.iii.org/state-of-the-risk-social-inflation)



*Triple-I and Casualty Actuarial Society analysis of National Association of Insurance Commissioner (NAIC) data. Social Inflation and Loss Development, Lynch, J. and Moore, D., February 2022

Sources: Warren Buffett, “Chairman’s Letter - 1977,
”<https://www.berkshirehathaway.com/letters/1977.html>.



Risk-Based Pricing

Insurance rates are calculated to reflect underlying risk. Debates about risk-based pricing must consider the interconnected nature of affordability, availability, and fairness

Intense Discussions about Race and Insurance

- NAIC created Special Committee on Race and Insurance in 2020, with a broad charter across all product lines
- CAS commissioned research series on Race and Insurance Pricing, to be released in March 2022
- AAA has active Racial Equity Task Forces in each practice area
- Federal Insurance Office conducted a Request for Information on Auto Affordability and Availability
- Colorado Legislature passed bill defining unfair discrimination and restricting use of many characteristics for pricing. It authorized insurance commissioner to implement by January 1, 2023
- Washington Insurance Commissioner is fighting to permanently ban the use of credit-based Insurance Scores for auto and homeowners

What should actuaries and the broader industry do?

- Review how you perform your daily responsibilities with an enhanced lens of affordability, availability, and fairness
- Focus on how we can reduce or slow growth in insurance loss costs to improve affordability for the entire market

Credit-Based Insurance Scores – The Battle Heats Up

By Jerry Theodorou | May 20, 2021

Washington Judge Shoots Down Insurance Commissioner's Credit Scoring Ban

October 11, 2021



The Ascent > Knowledge > Insurance-auto

Here's Why Insurers Care About Your Credit Score

by Kailey Hagen | Published on Oct. 16, 2021



Cyber Risk

The challenge: Mitigating one's own vulnerability to attack while assessing how much risk to retain, cede, or assume

Business Leaders

- Mitigate risk of data being stolen, business interruption, and ransom demands
- How much risk to retain vs. buying insurance?

Insurers Offering Commercial Policies

- Assess cyber risk appetite: assume or exclude?
- Align policy language clearly and consistently with risk appetite
- How much cyber risk to retain vs. ceding to reinsurance market

Reinsurers

- Manage aggregate cyber risk appetite/limits
- Assess how well ceding insurers are underwriting and mitigating cyber risk

Government

- Mitigate global cyber threats that are beyond control of any single U.S. company
- Are some risks too much for private sector? Is a federal backstop required?

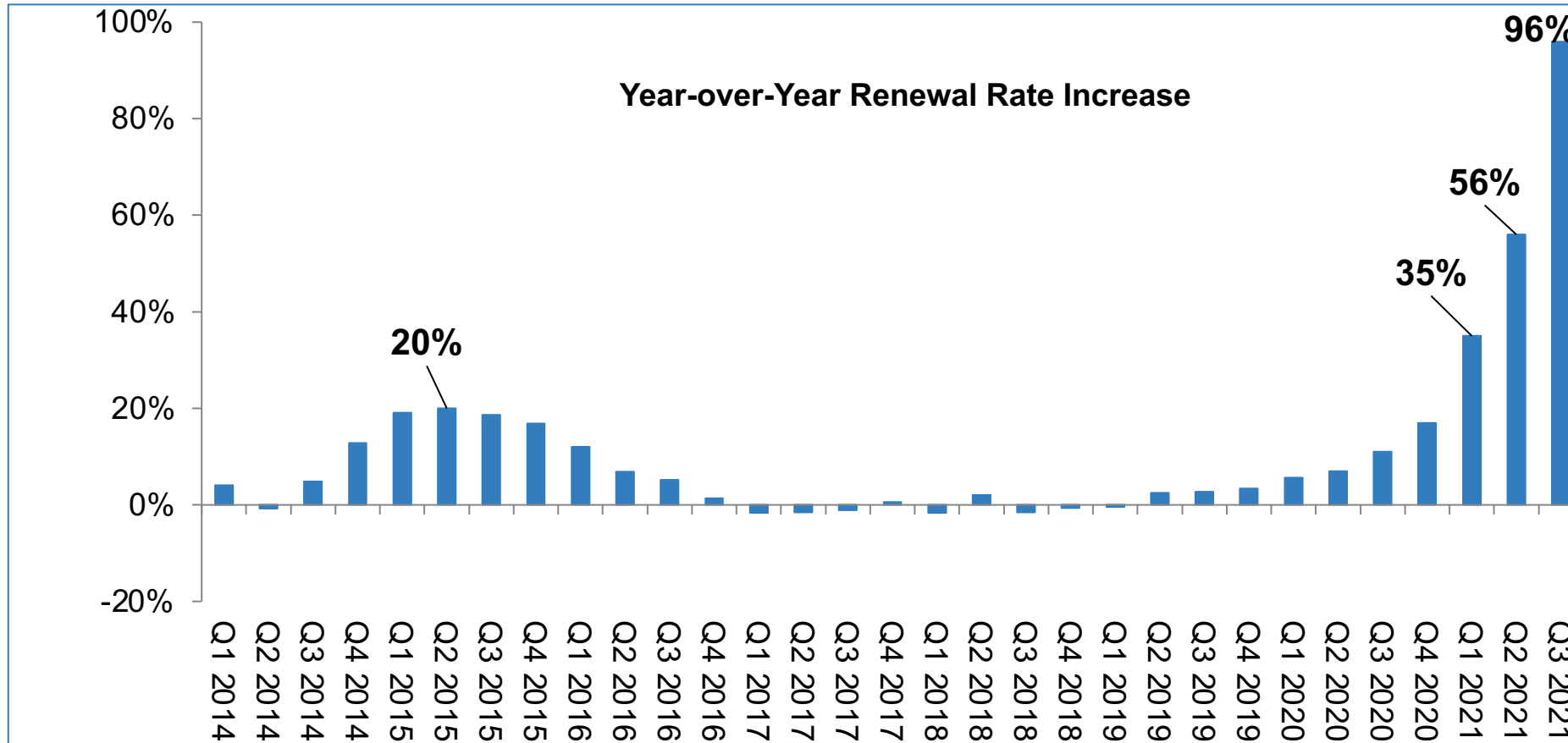
Issues Brief: [State of the Risk: Cyber \(iii.org\)](https://www.iii.org/state-of-the-risk-cyber)

Some cyber risks may not be insurable by the private sector



Global Cyber Insurance Premiums Soaring in 2021

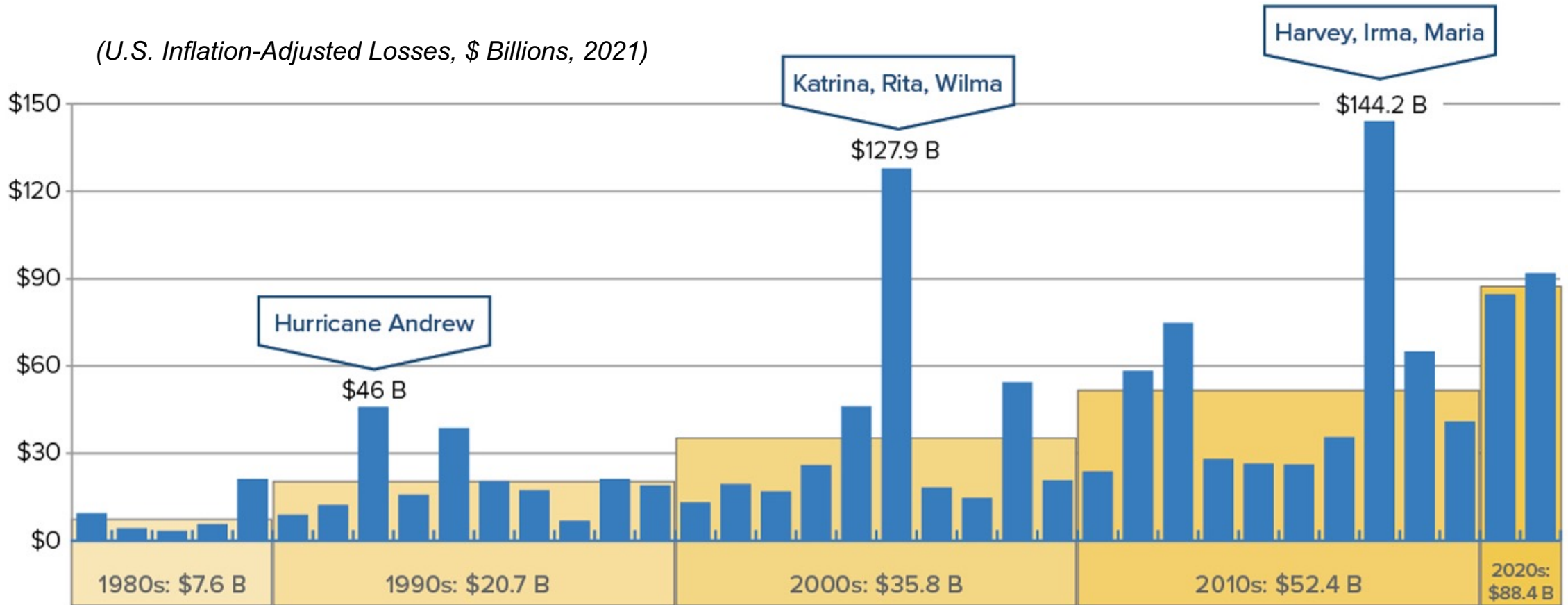
In a hard market driven by increased frequency and severity of ransomware claims, how should insurers price future cyber risk?



Evolution of Climate Risk

U.S. Catastrophe Losses Steadily Climbing

(U.S. Inflation-Adjusted Losses, \$ Billions, 2021)



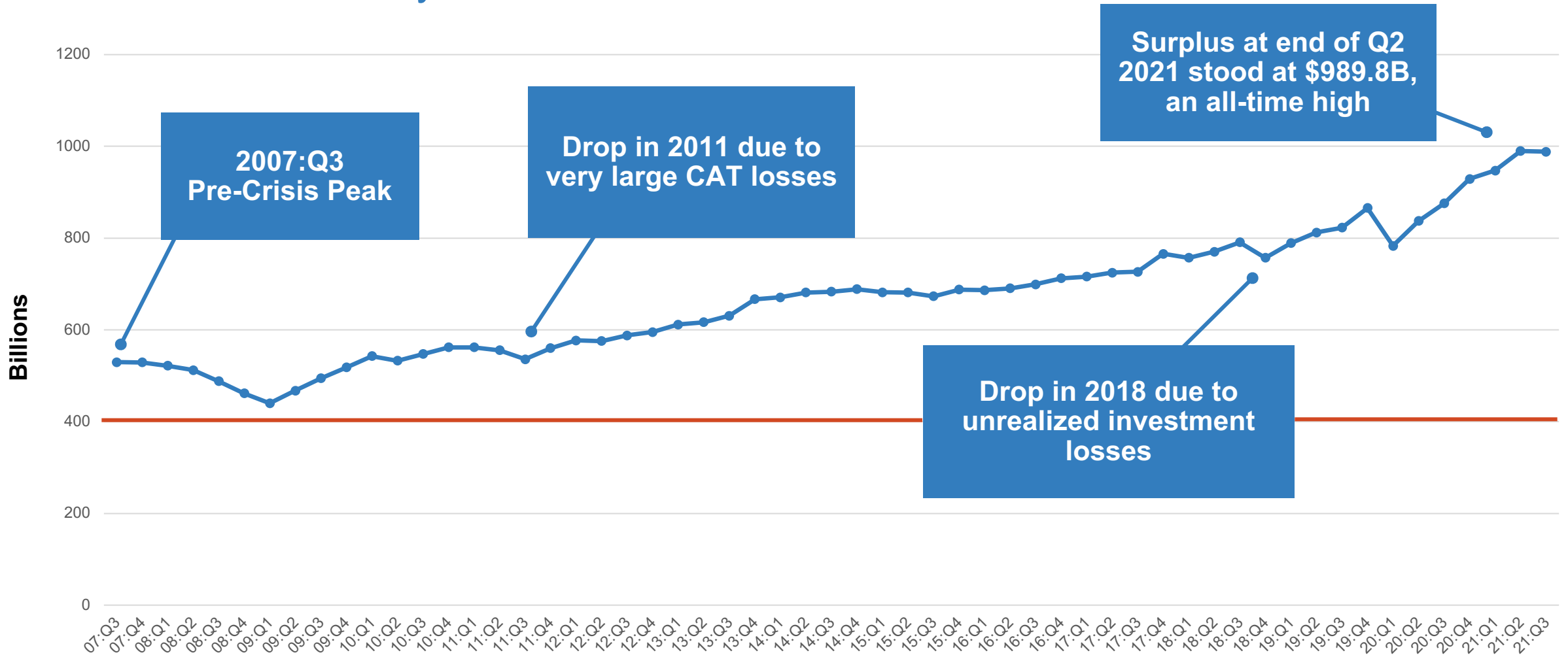
*Includes insured losses from all natural perils.

Source: Aon (Catastrophe Insight)

Insured Cat Losses are Increasing at an Alarming Rate – Nearly 700% Since 80's



Macro Solvency a.k.a. Policyholders Surplus 2007-2020 Quarterly



Policyholder Surplus: Positive



Sources: NAIC data sourced through S&P Global Intelligence; Insurance Information Institute.

2021 Is a Preview of Evolving Climate Risk



Select a state or year from the dropdown button or scroll over a county to see changes in historical NFIP take-up rates since 2010. Color-coding represents the size of change in take-up rates.

State:

Year:

New York

Policies: **3,859,221**

Housing Units: **89,863,724**

[Learn more about the data >](#)

[Reset Data](#)

% insured: < 1.0% < 2.0% < 10.0% ≥ 10.0%

New York

Westchester County

Policies: 13,870
Housing Units: 370,974
NFIP TIV: \$273B
NFIP Premium: 268,766,000,000
NFIP Take-Up: 3.7%

OX

Gulf of

© Mapbox © OpenStreetMap [Improve this map](#)



People are Living More In Harm's Way

Miami Beach: 2022



Miami Beach: +3'





Climate Risk and Resilience



INSURANCE
INFORMATION
INSTITUTE



RESILIENCE
ACCELERATOR
Minimize Risk | Speed Recovery

Objective

Drive **behavioral change** to help people and communities better manage risk and become more resilient



Strategies

Create a resilience movement giving households and communities a stake in risk mitigation

Educate and empower stakeholders about protection gaps and their impact on their recovery

Fast-track the use of cost-effective tools to drive risk mitigation, transfer and retention



Action Partners



- ▲ Triple-I Members
- ▲ Carriers, Reinsurers and Brokers
- ▲ Insurance Trade Associations
- ▲ Nonprofits and Foundations
- ▲ Regulators
- ▲ Academia



FEMA



AON



BUILDSTRONG
COALITION



ResilientH2O Partners
Innovative Tech | Integrated Risk Mitigation



Wharton
UNIVERSITY of PENNSYLVANIA

Data-driven resilience insight | resilience.iii.org

Peril Maps

Hurricanes Floods

NFIP Resilience FSHA

Select a state or year from the dropdown button or scroll over a county to see changes in historical NFIP take-up rates since 2010. Color-coding represents the size of change in take-up rates.

State:

Year: 2020

South Carolina

Policies: 4,458,642

Housing Units: 23,928,728

Learn more about the data

NFIP Take-Up Rates

Peril Maps

Hurricanes Floods

NFIP Resilience FSHA

Resilience Ratings 2021

Select a state from the dropdown button or scroll over a state to see the climatological probability of any state being impacted by a flooding or major storm event.

% Impacted: +1.5% +2.0% +3.0% +4.0%

Resilience Ratings

Peril Maps

Hurricanes Floods

NFIP Resilience FSHA

Select a state from the dropdown button or scroll over a state to see the most storms to hit a state in terms of financial impact. Shows the economic losses caused by individual storms and losses incurred by insurers.

Illinois Jordan 2018

Economic Loss: \$150M

Insured Loss: \$120M

Hurricanes Forecasts

Peril Maps

Hurricanes Floods

NFIP Resilience FSHA

Select a state from the dropdown button or scroll over a state to visualize the average distance between commercial and residential buildings to the nearest coastline.

Hurricanes Insured Losses

Peril Maps

Hurricanes Floods

Track Losses Forecast

Select a storm from the dropdown button or scroll over a state to see the path and strength of historical hurricanes and tropical storms. Storms are listed chronologically starting with the most recent. Some major storms are color-coded by year.

Central Basin: CA CT MD VA

Flood FSHA Exposure

Peril Maps

Hurricanes Floods

Track Losses Forecast

Select a storm from the dropdown button or scroll over a state to see the path and strength of historical hurricanes and tropical storms. Storms are listed chronologically starting with the most recent. Some major storms are color-coded by year.

Hurricanes Tracker

RESILIENCE ACCELERATOR

PERIL MAPS RESILIENCE BLOG EVENTS VISION ABOUT CONTACT

FLOODS

HURRICANES

Resilience Blog

SEPTEMBER 10, 2021
California Weekly Update: 09/10/21
Click here to read the latest news from California and the West, compiled by Janet Ruiz, Triple-I's Director of Strategic [...]

SEPTEMBER 10, 2021
Florida Weekly Update 9/10/21

AUGUST 19, 2021
Weather Update: Tropical Storm Henri

AUGUST 17, 2021
Bermuda and Insurance: Small County, Mighty Contribution

AUGUST 16, 2021
California Weekly Update: 08/13/21

[View all articles >](#)

Learn more about the project

RESILIENCE ACCELERATOR
TRANSFORM HOW COMMUNITIES RECOVER

The Resilience Project

Learn more about the Triple-I Resilience Accelerator's tools to transform how communities use insurance and preemitive risk mitigation to increase resilience to extreme weather events and fast-track recovery post natural disasters.

The power of resilience

In this video Sean Kevelighan, CEO of the Triple-I, discusses the project and its goal to understand the risk of natural catastrophes as the likelihood of severe weather increases, and more people move into high-risk areas. [Learn more.](#)

Vision and values

Dr. Michel Léonard, senior economist at the Triple-I, discusses how the Resilience Accelerator aims to create a new paradigm for socializing resilience by making data transparent and insightful. Organizations and individuals can choose the most effective strategies for driving risk mitigation and resilience best practices. [Learn more.](#)



ESG

ESG Is In Insurers' DNA

Environmental

- Invest for maximum impact, minimal harm
- Understand and manage climate risk
- Innovate through technology and partnerships

Social

- Risk-based pricing rooted in fairness
- Highly competitive market fosters consumer choice
- Invest in what makes us better as a society

Governance

- Board composition
- Director performance and independence
- Compliance and transparency
- Hiring and compensation equity
- Investment and solvency standards
- Responsibilities to stakeholders
(Customers, Employees, Regulators, Communities, Shareholders)

Bottom Line:

- Regulated by 50+ jurisdictions
- NAIC Risk Management & Own Risk and Solvency Assessment (ORSA) model
- Climate risk/resilience research/information sharing (e.g., Triple-I Resilience Accelerator)
- Investment in diverse, inclusive workforce; community aid; financial literacy; and other social goods

Insurers' ESG Focus At A Glance

Driving Resilience



- ▲ From “recovery and repair” to “predict and prevent”
- ▲ Risk partners and financial first responders for families, businesses, and communities
- ▲ Sophisticated hazard modeling and data-driven loss control support informed risk taking

Giving Back



COVID:

- ▲ U.S. auto insurers returned over \$14 billion to customers in response to reduced driving during COVID-19 pandemic
- ▲ Insurers have pledged more than \$280 million in donations to organizations fighting the pandemic

Sharing Insights



Nonprofits driving understanding of insurance for diverse audiences:

- ▲ Griffith Foundation
- ▲ Insurance Information Institute
- ▲ Insurance Institute for Business and Home Safety
- ▲ Insurance Research Council
- ▲ National Association of Insurance Commissioners
- ▲ Society of Insurance Research

Considerations





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