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INFORMATION**  
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# Economic Update & Emerging Industry Trends

PAMIC

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Michel Leonard, PhD, CBE

Insurance Information Institute ♦ 110 William Street ♦ New York, NY 10038  
[www.iii.org](http://www.iii.org)

# I.I.I. Mission Statement

Improving public understanding of insurance...

...what it does and how it works

# Economic Outlook

## Growth & Inflation

**US:** Q2 numbers weaker than expected confirm negative trend.

**Global:** GDP growth forecast for 2019 is up from 3.0% in January to 3.2%.

## Monetary Policy

**US:** Unusually fast policy turnaround creating instability

**Global:** BoE, ECB signaling cuts. Russia, Turkey cutting. China on hold.

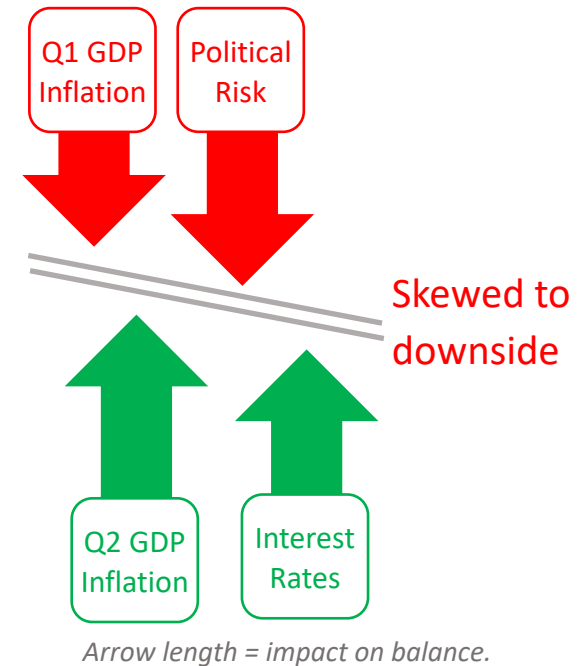
## Political Risk

**US:** Electoral cycle will move center state.

**Global:** Brexit, Hong Kong protests, and Iran risk underpriced. U.S.

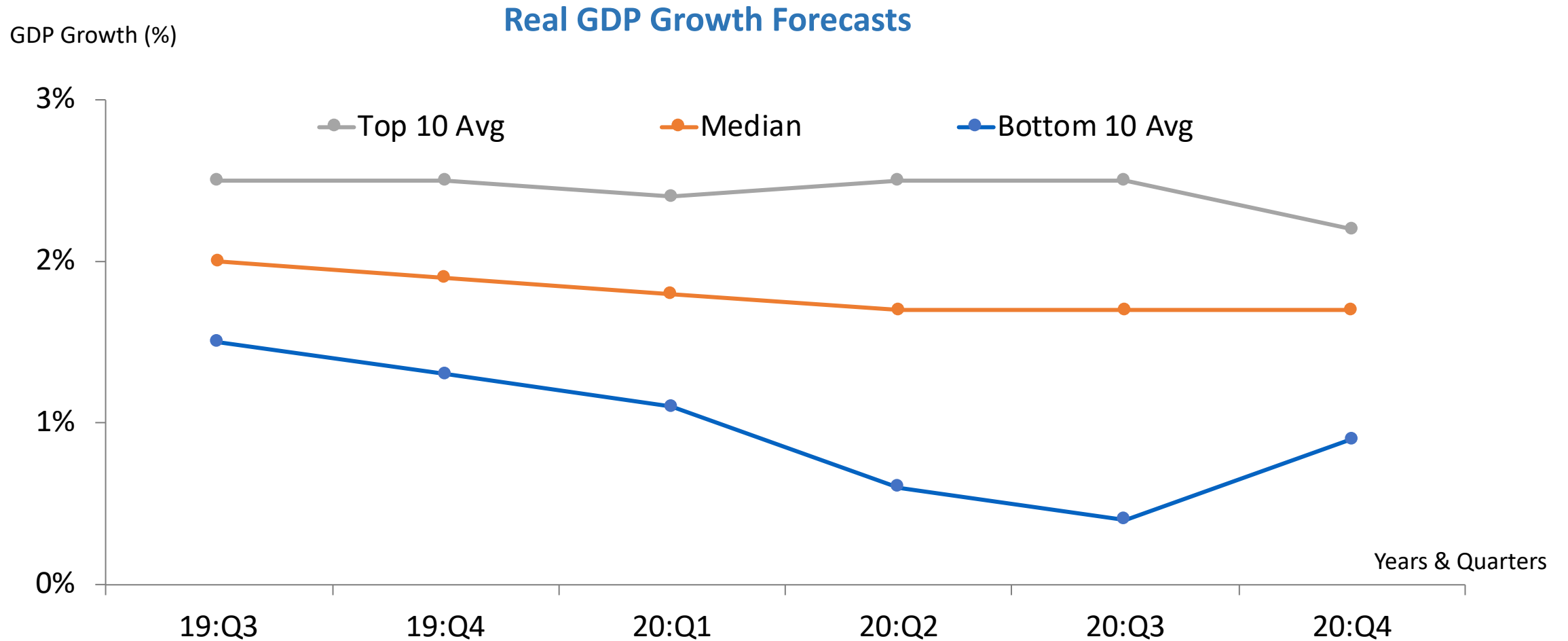
**Industry Insight:** Political risk underwriters view more risks in 2019 than 2018 but losses are stable

## Balance of Risks



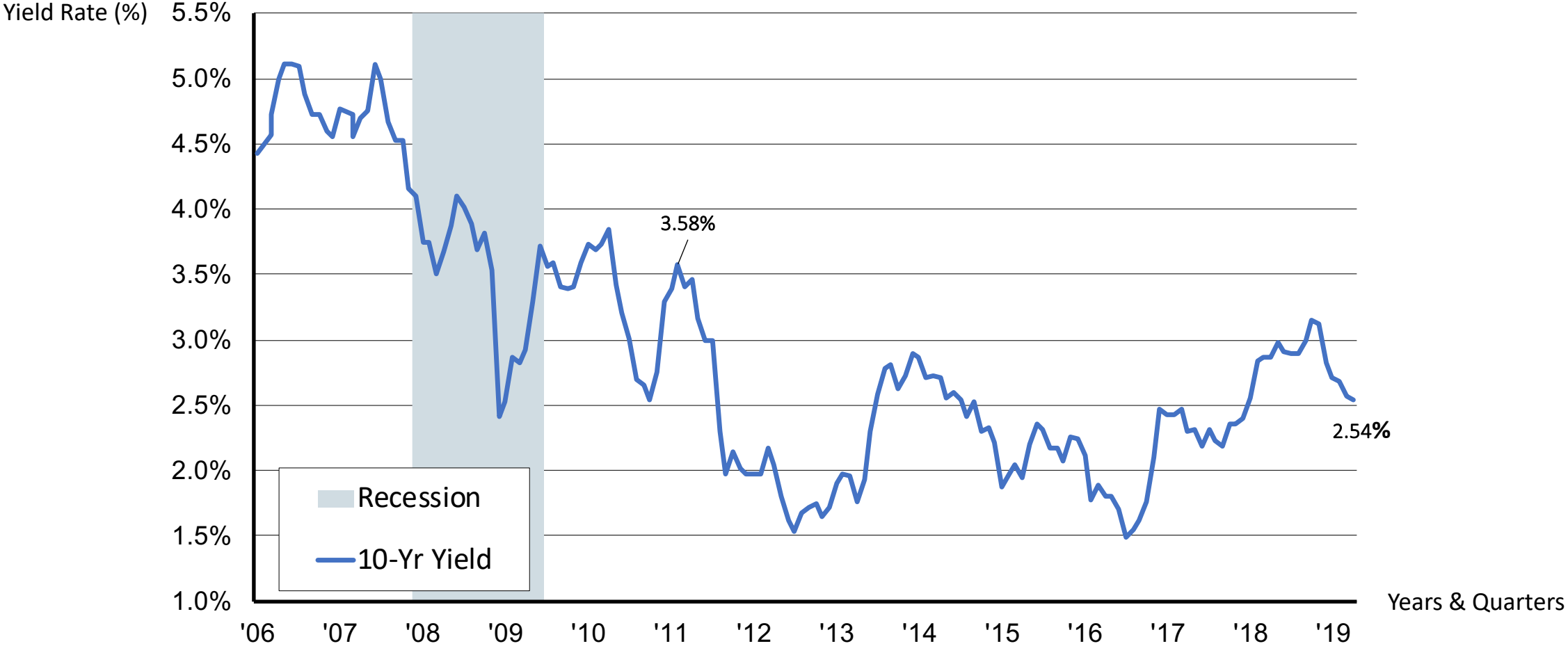
# U.S. GDP Forecasts

53 forecasts: consensus points to **slow growth** in the second half of 2019 and throughout 2020.



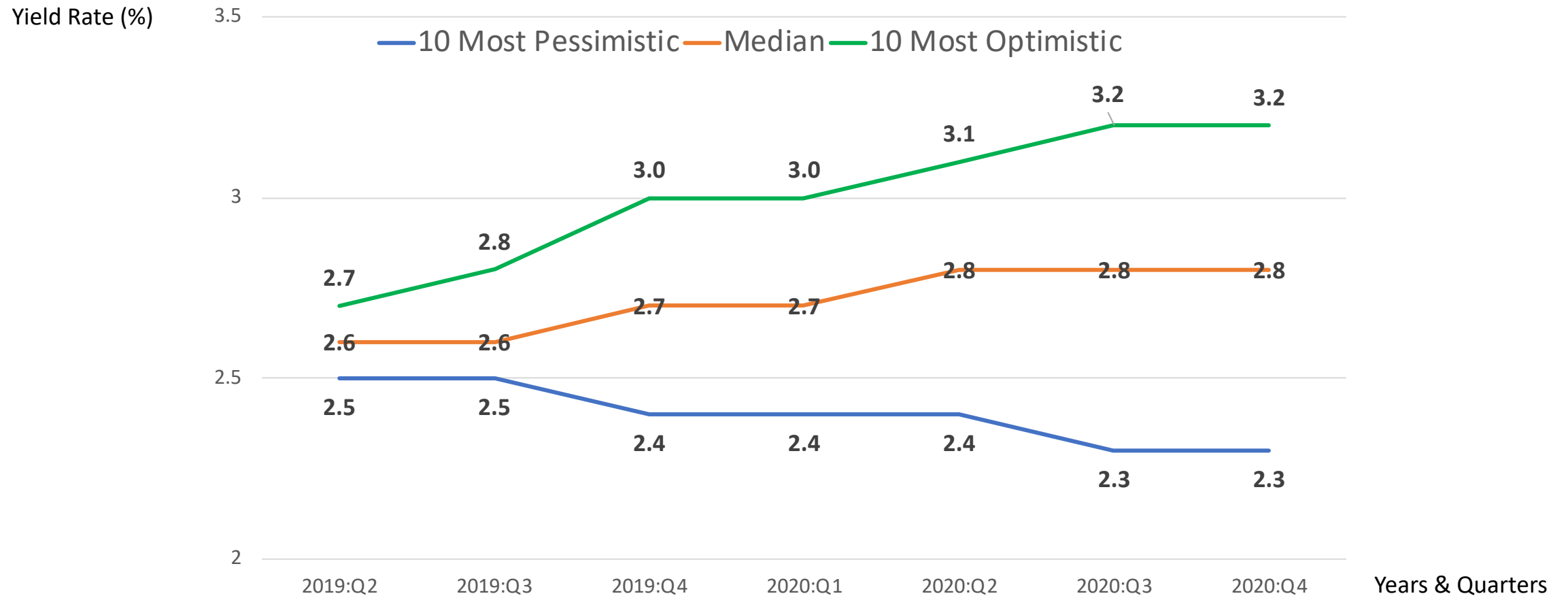
# Treasury Yields: A Long Downward Trend, 2006–2019

50% of P/C investments in 5+ year bonds = low bond returns for years



# Yield Forecasts 2019-2020

53 forecasts: No consensus on level or direction of interest rates in the next six quarters



# Economic Indicators for the P/C Insurance Industry

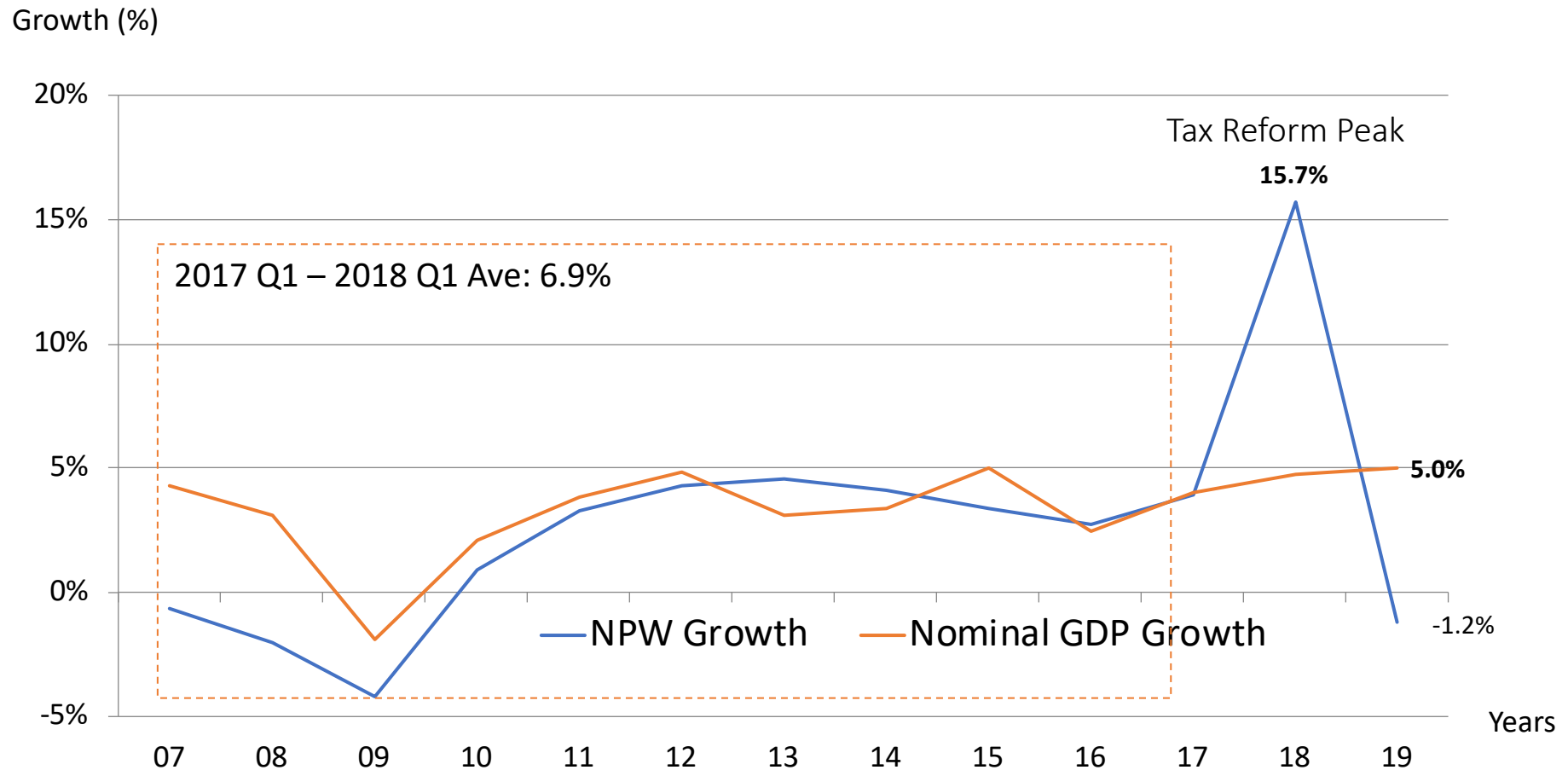
Economic Indicator	Q1 2019	Q2 2019	Analysis
Change in real GDP	3.1%	1.3% ↓	Uncertainty rising
Housing Unit Starts (millions of units) Actual 2018. Forecast 2019	1.21	1.23 ↑	Q2 is Blue Chip median forecast for full year 2019: essentially flat This is a weak indicator
Employment Changes (thousands)	521	512 ↑	+500K per quarter is relatively strong Especially at this stage of cycle
Nonresidential Fixed Investment Growth	6.9%	N/A	Businesses are still investing ... but slowing due to increased uncertainty
Hospital Services Price Increases (y-o-y)	1.8%	1.2% ↓	Lowest level in last 20 years ... helps constrain BI claim severity
10-Year Treasury Yield	2.7%	2.3% ↓	No relief for insurer investment income



# P&C Industry Performance

# Net P/C Premium Written Growth vs. Nominal U.S. Economy

Premium Growth Falls Below GDP Growth For 1<sup>st</sup> Time in 10 Years



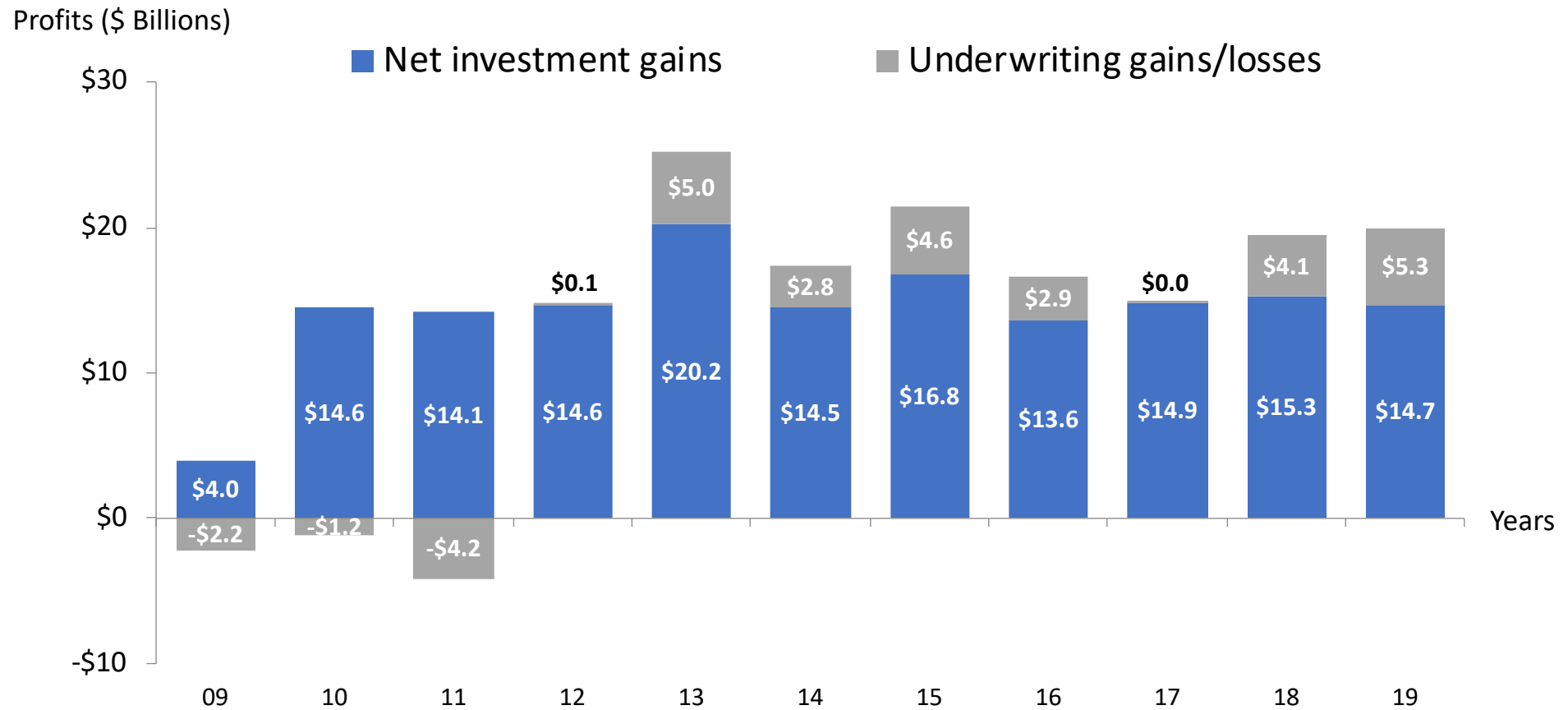
Through first quarter.

SOURCES: A.M. Best (2007-2013), ISO (2014-present), Federal Reserve Bank of St. Louis (FRED), Insurance Information Institute.

\*ISO/Verisk estimate

# Key Sources of P/C Insurer Profits

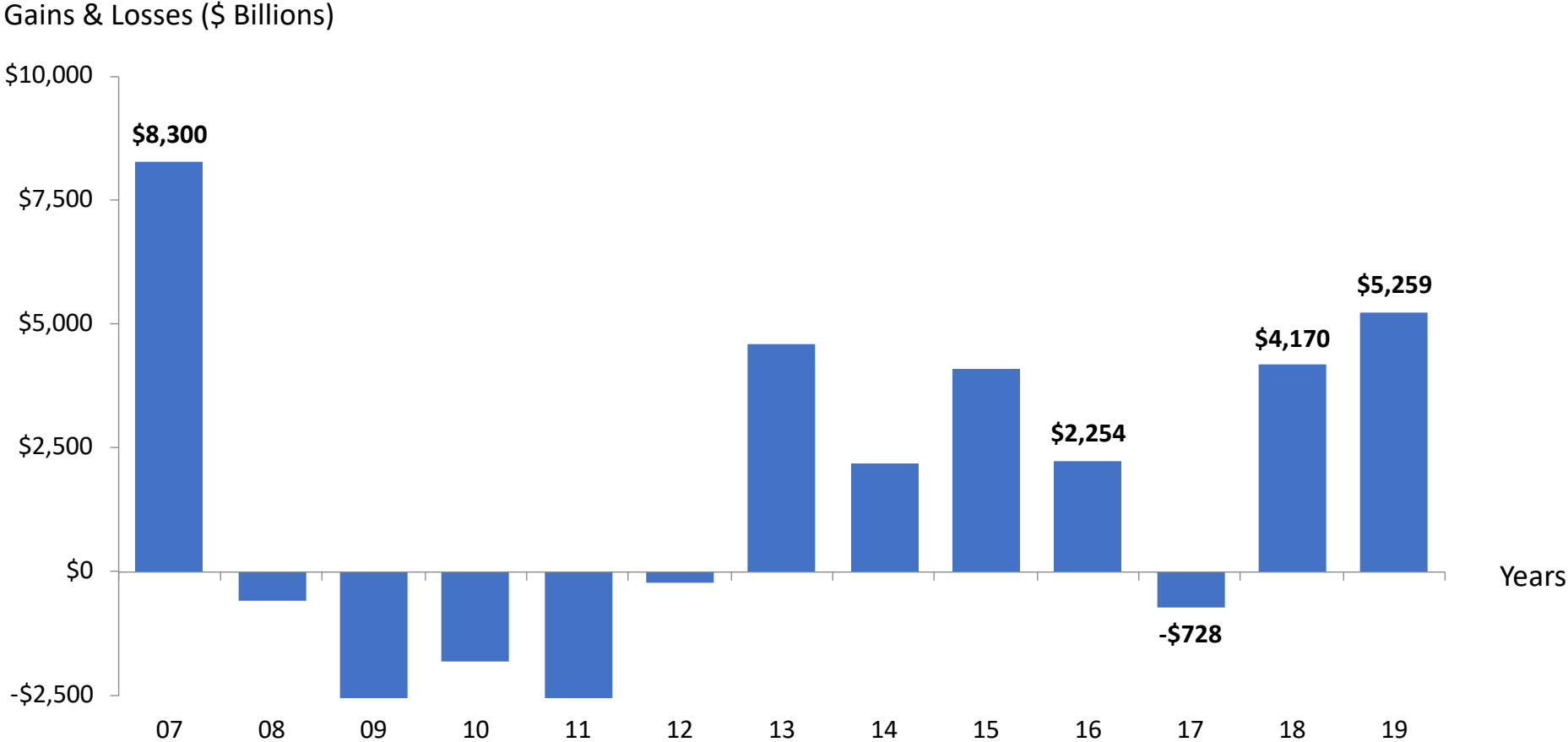
Strong Capital Gains and Underwriting Result Lifted Profits.



Through first quarter. Data are before taxes and exclude extraordinary items. Source: NAIC data, sourced from S&P Global Market Intelligence.

# P/C Underwriting Gains

Third Year in a Row of Underwriting Gains Lead to Best Performance since 2007



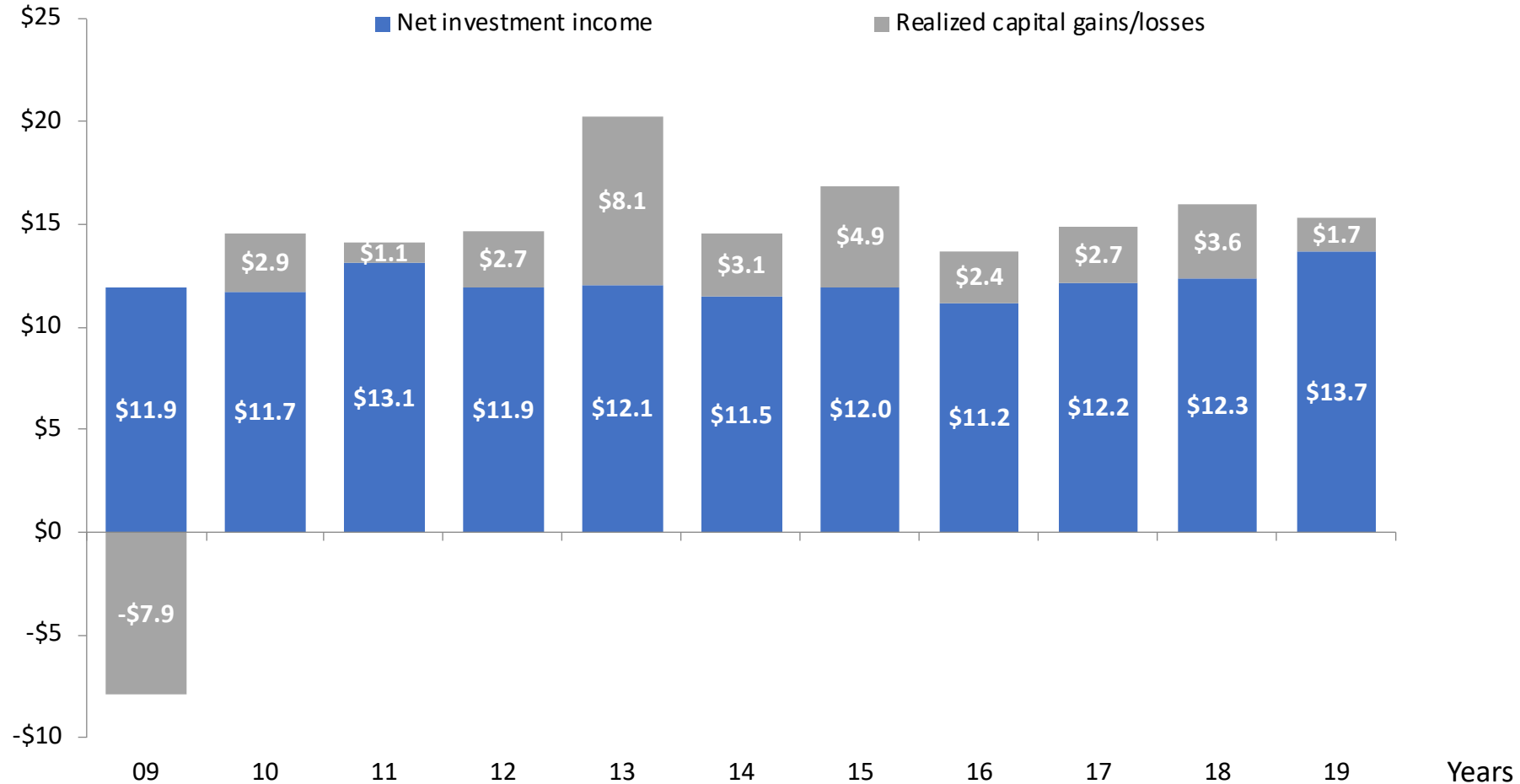
Sources: NAIC data, sourced from S&P Global Market Intelligence, ISO/PCI. 2019



# P/C Sources of Investment Gains and Losses

Steady investment income - but smaller Q1 realized capital gains

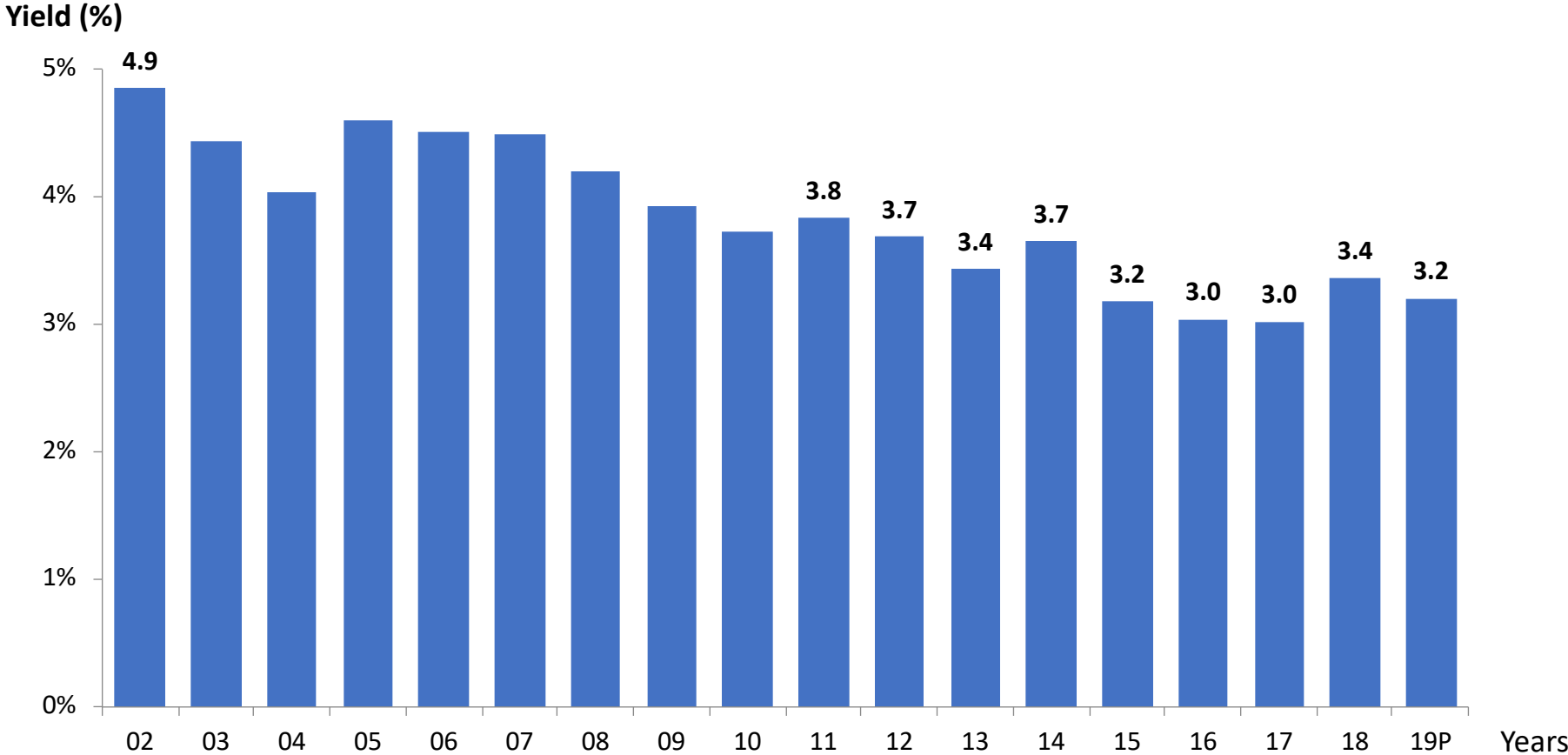
Gains & Losses (\$ Billions)



Through First Quarter. Sources: NAIC data, sourced from S&P Global Market Intelligence; Insurance Information Institute

# P/C Insurer Portfolio Yields

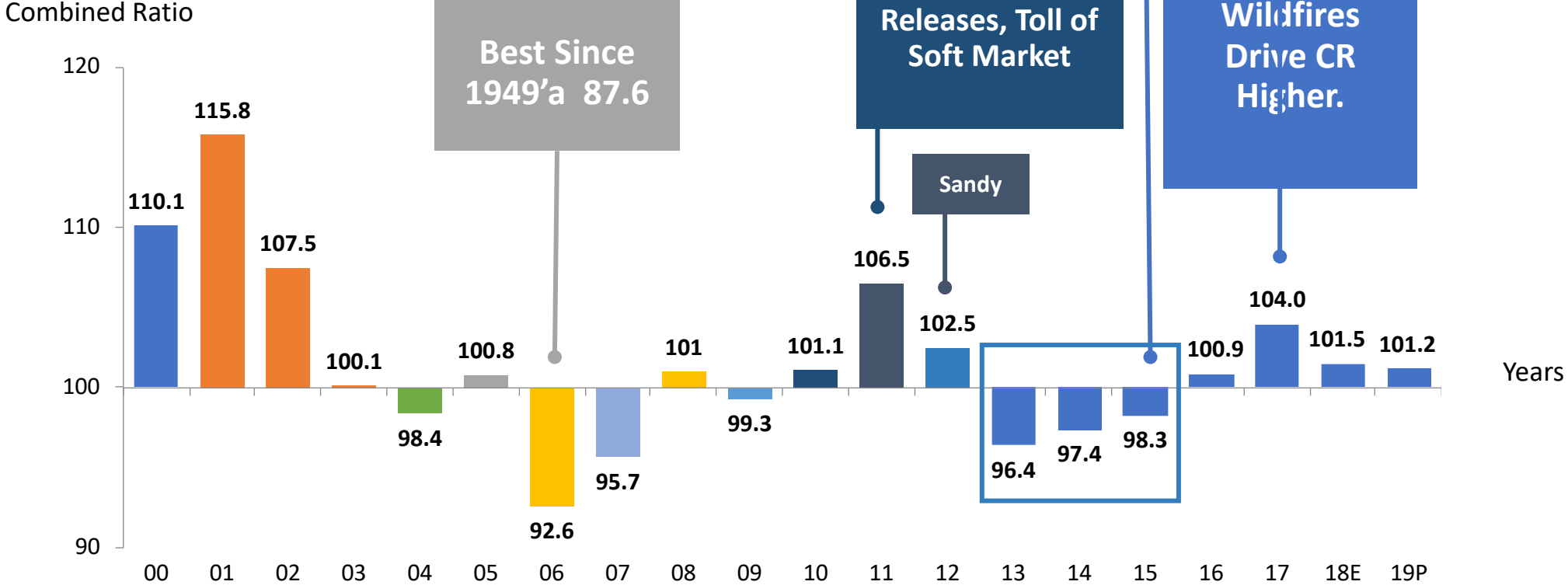
Insurers facing yields below 4% since 2009



Sources: NAIC data, sourced from S&P Global Market Intelligence, ISO/PCI. 2019 projected with Q1 data



# P/C Industry Combined Ratio

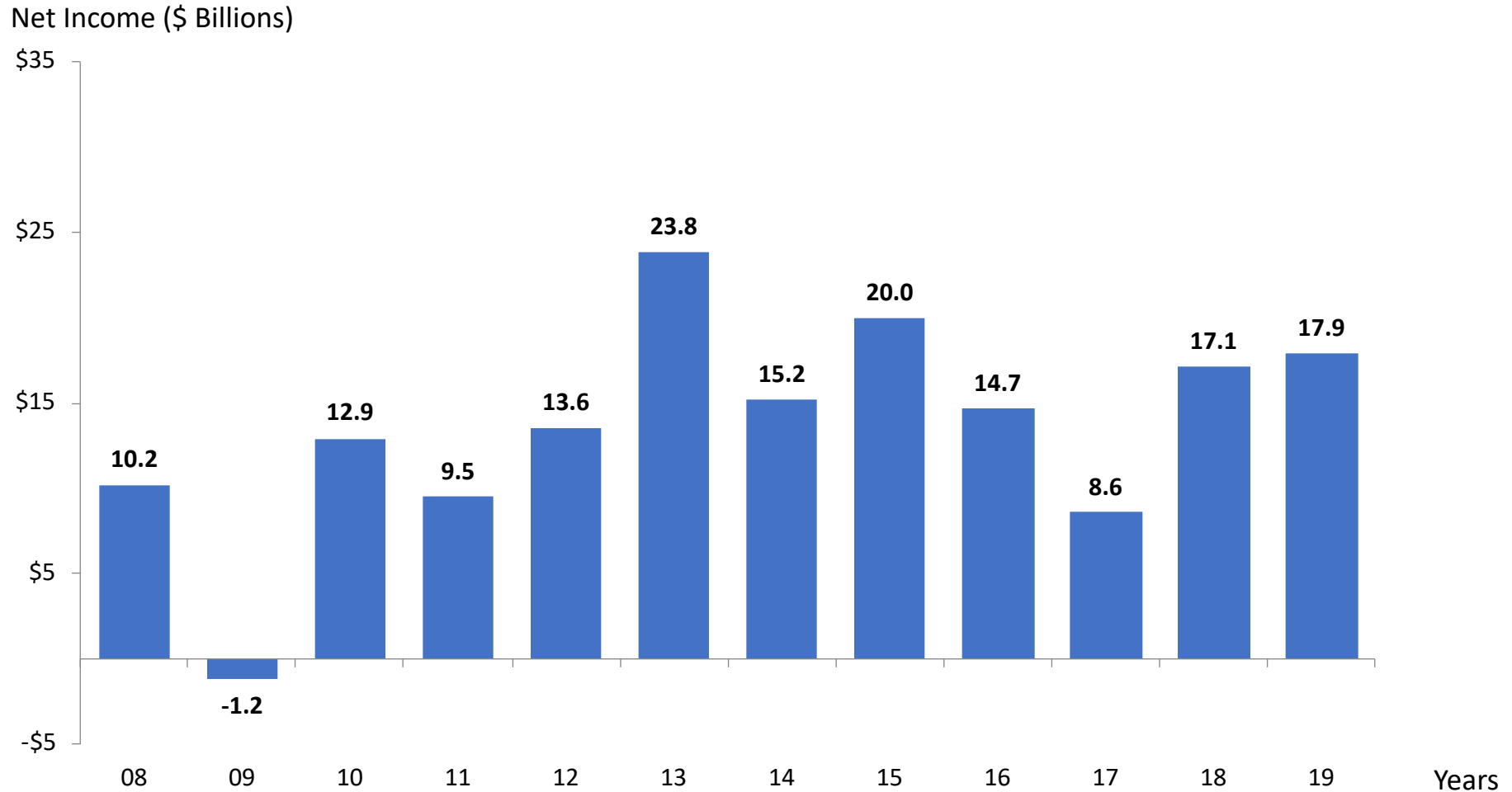


\*Excludes Mortgage & Financial Guaranty insurers 2008-2014.  
 Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.1; 2012:=103.2; 2013: = 96.1; 2014: = 97.0.  
 Sources: A.M. Best; ISO, a Verisk Analytics company; 2019 based on Q1 data



# P/C Industry Net Income After Taxes

All Leading to Rising Net Income After Taxes



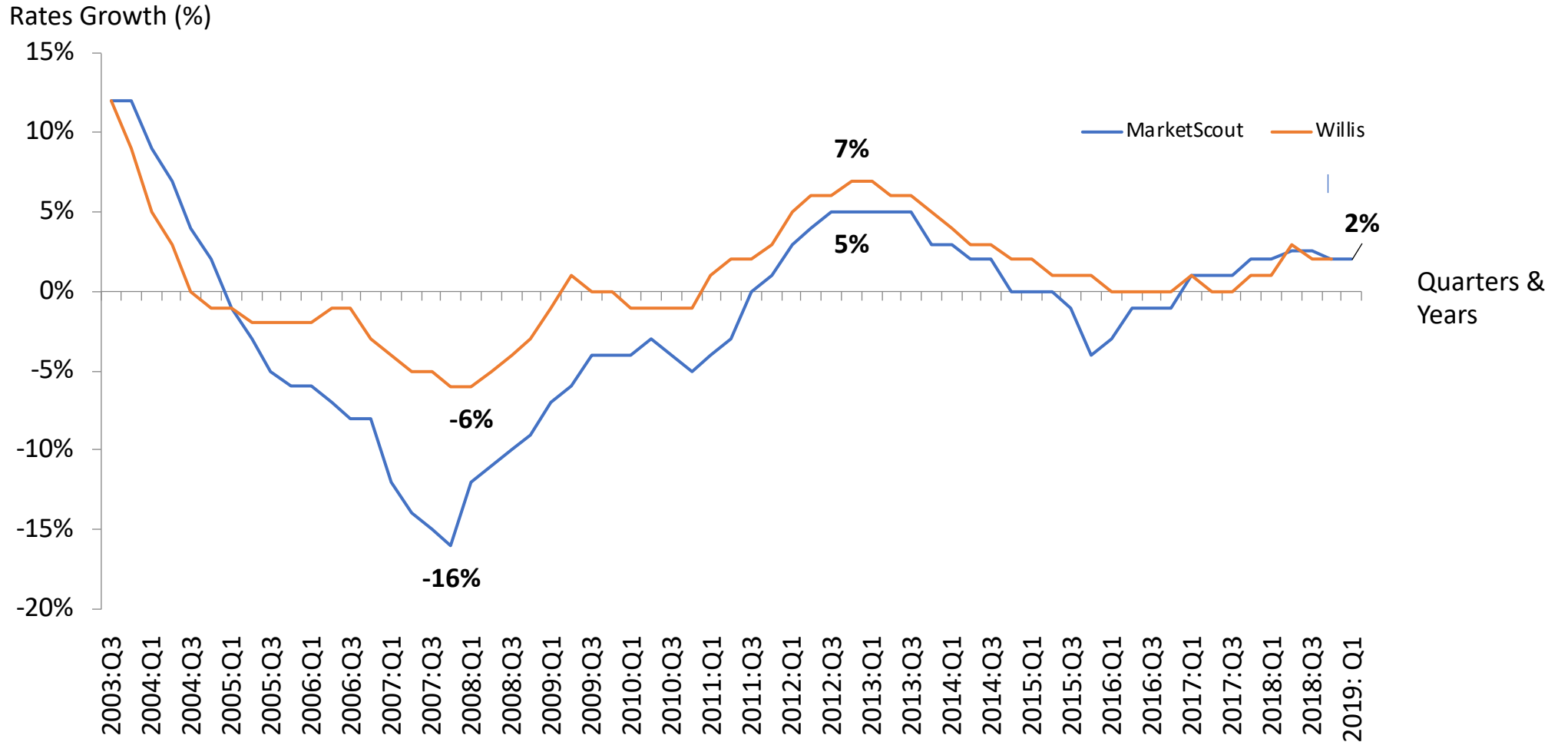
Through first quarter. Adjusted for inflation using the BLS CPI calculator.  
Sources: NAIC data, sourced from S&P Global Market Intelligence; Insurance Information Institute.



# Commercial Rates

# All Commercial Lines Rate Changes

Rates creeping higher but that masks differences by line of business

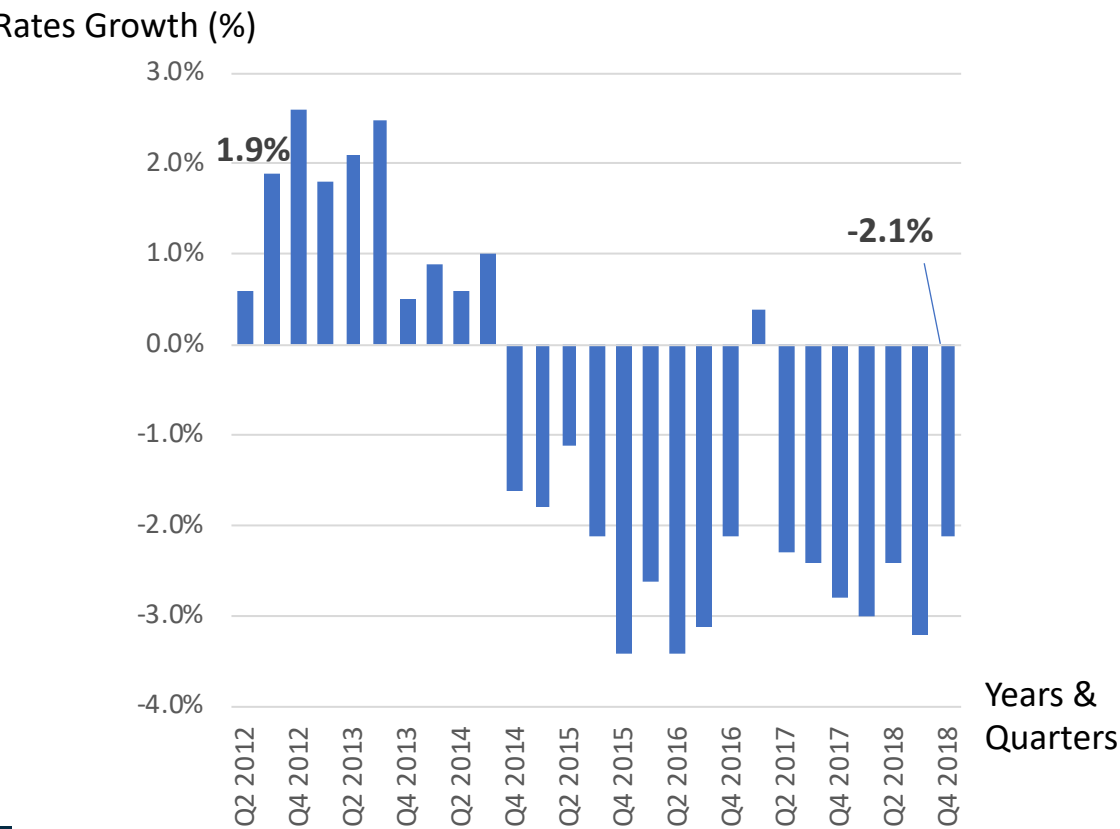


Sources: Willis Towers Watson, MarketScout.

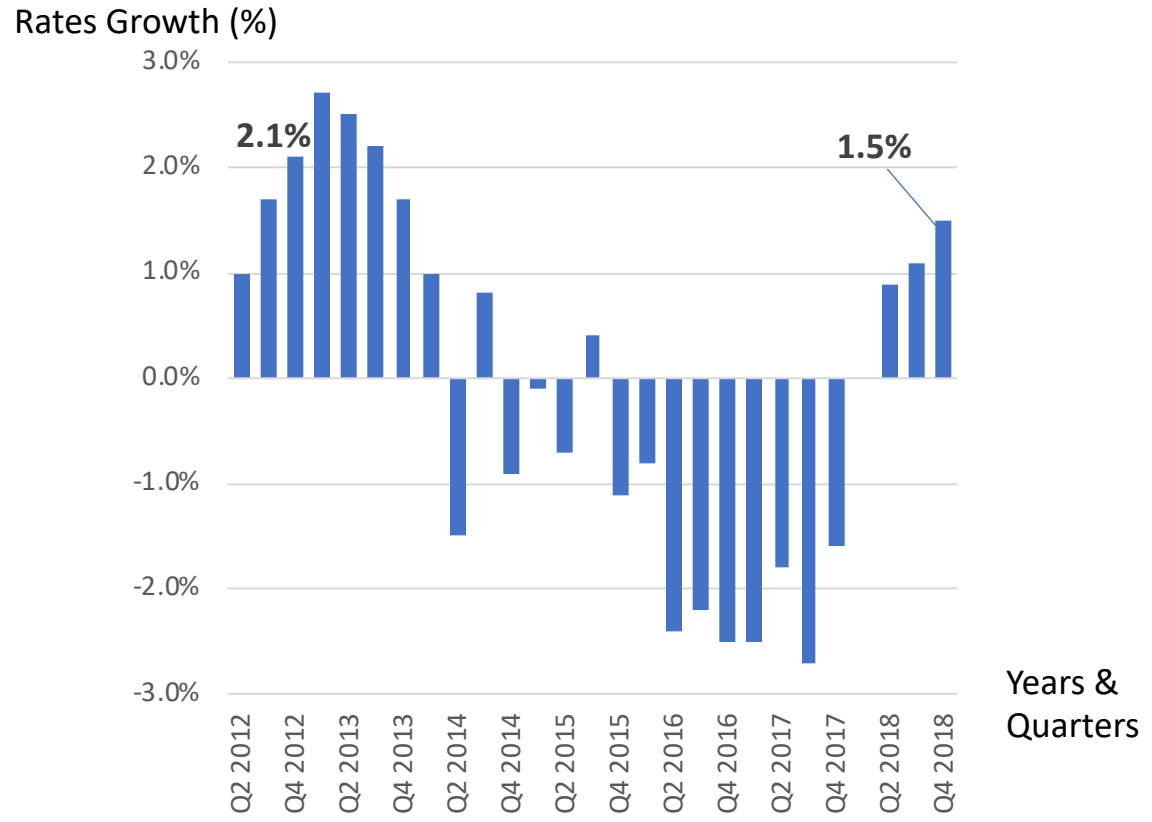
# Liability Rate Changes

Slight Softening, Though Local Markets Vary

## U.S. Casualty



## U.S. Financial and Prof Liab



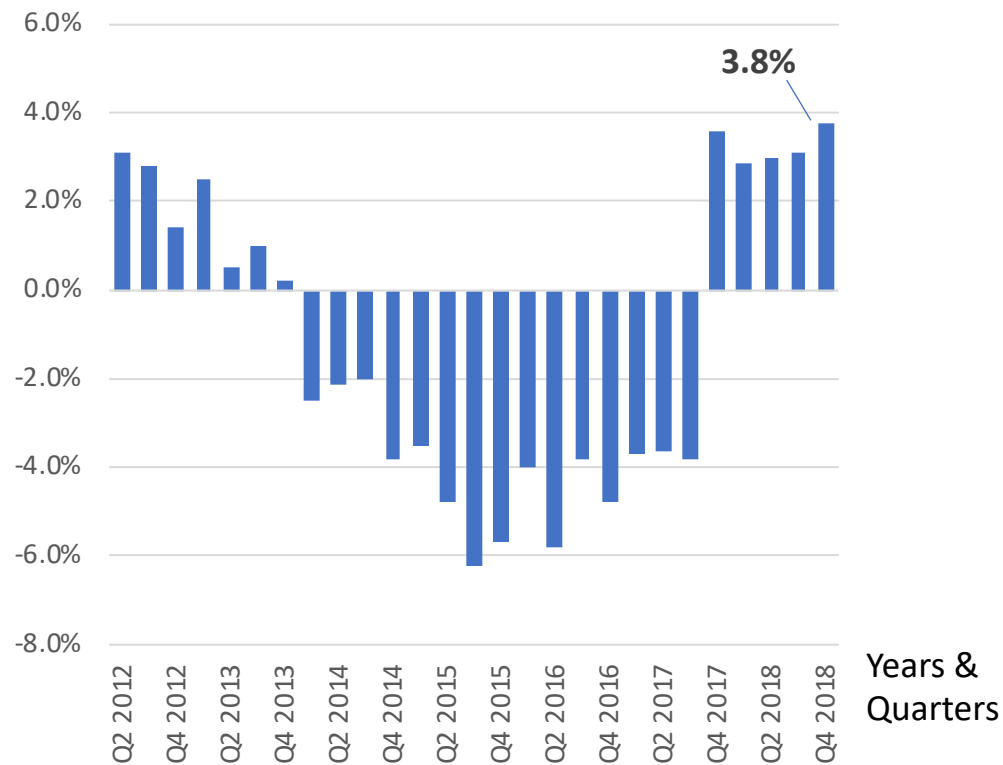
SOURCE: Marsh Insurance Market Index.

# Property/Cyber Rate Changes

Also Slight Softening, Though Local Markets Vary

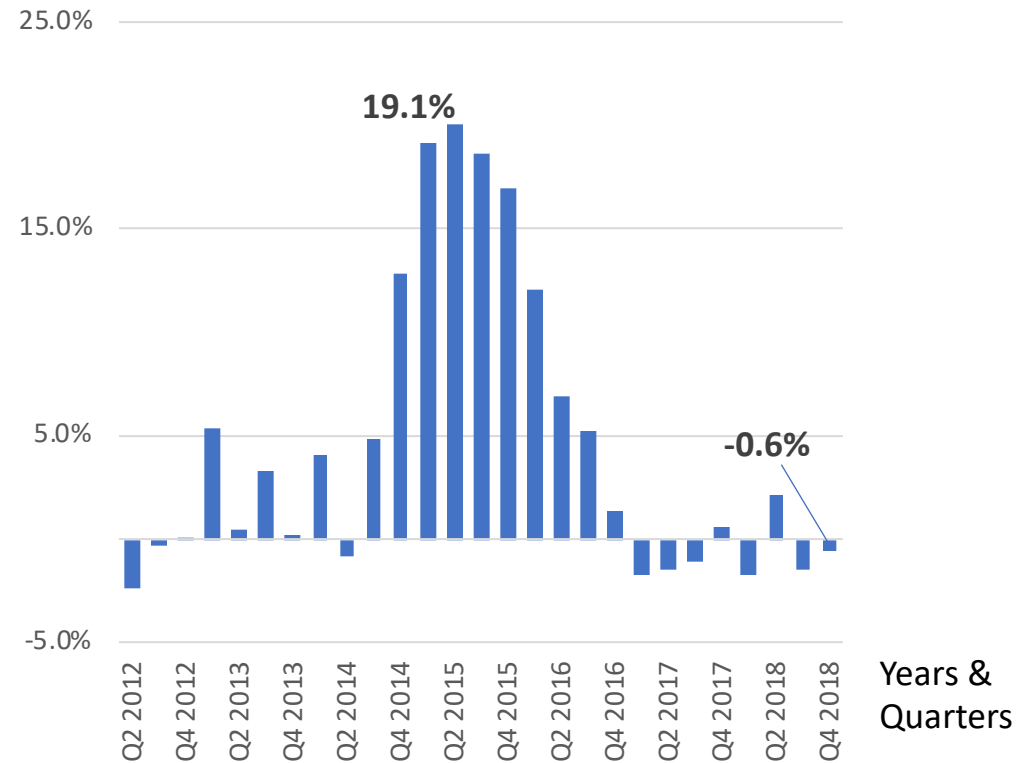
## U.S. Property

Rates Growth (%)



## U.S. Cyber

Rates Growth (%)

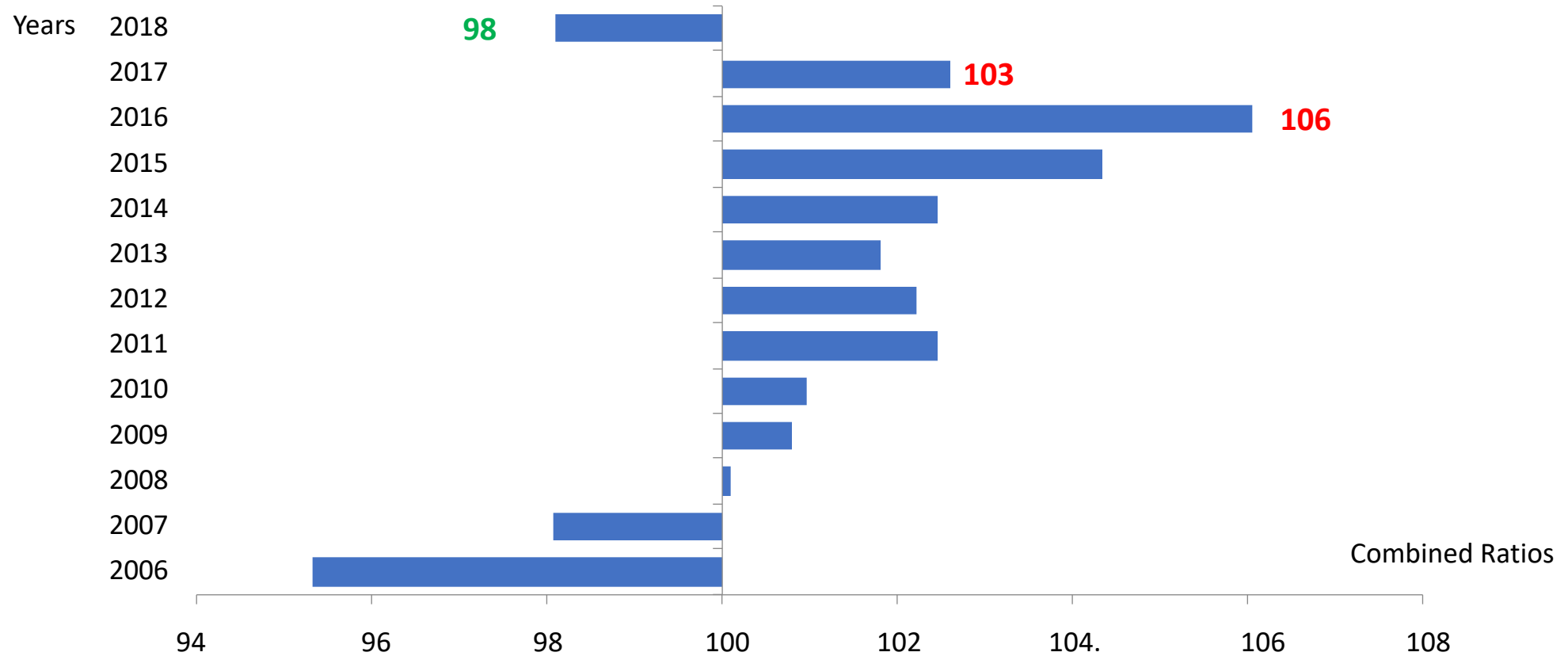


SOURCE: Marsh Insurance Market Index.

# Industry Trends

# Personal Auto: Combined Ratios

Personal auto rates rose rapidly to catch up with expected losses

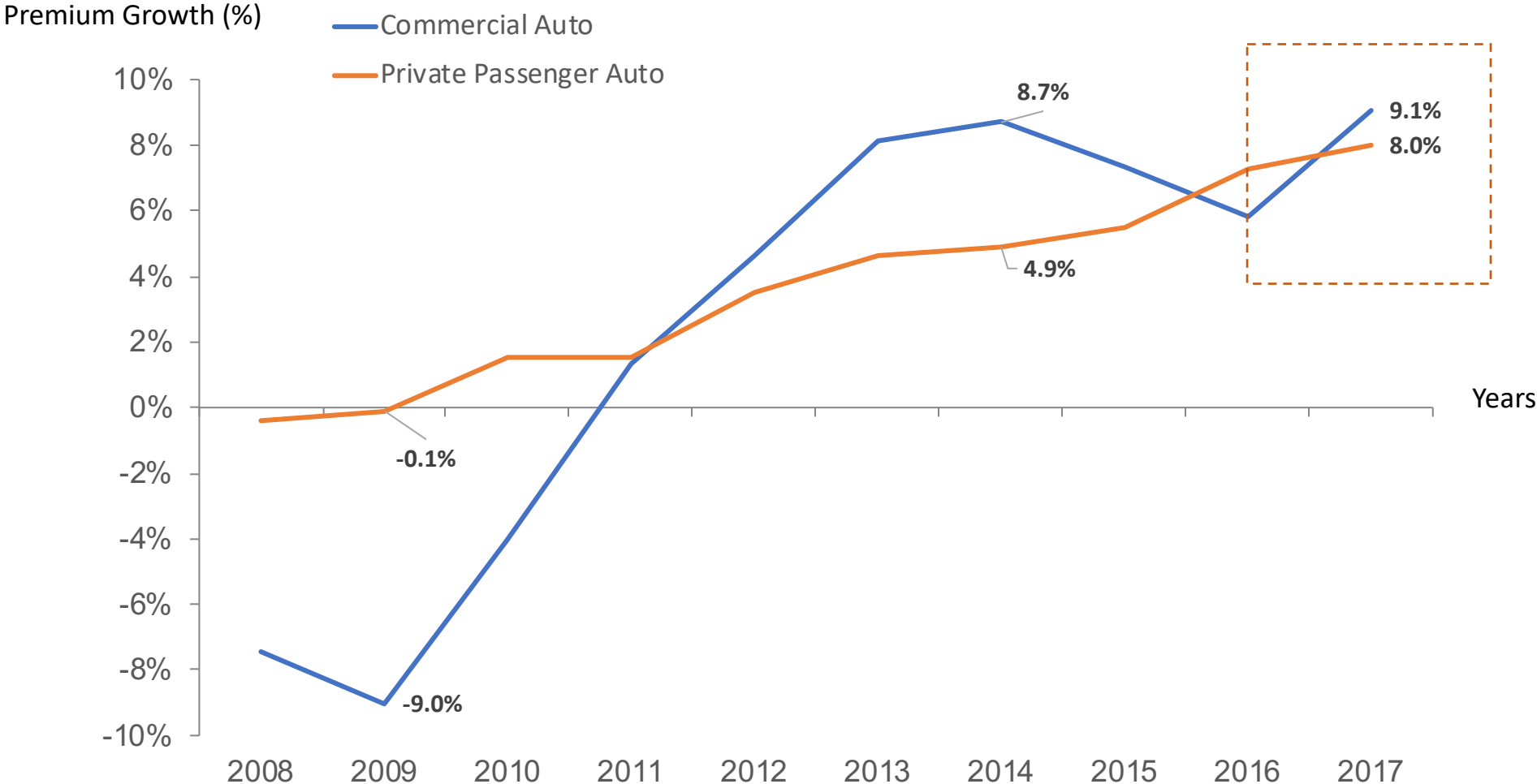


Source: National Association of Insurance Commissioners data, sourced from S&P Global Market Intelligence; 2018 is I.I.I. estimate.



# Auto Direct Written Premium Growth: Commercial vs. Private Passenger, 2008-2017

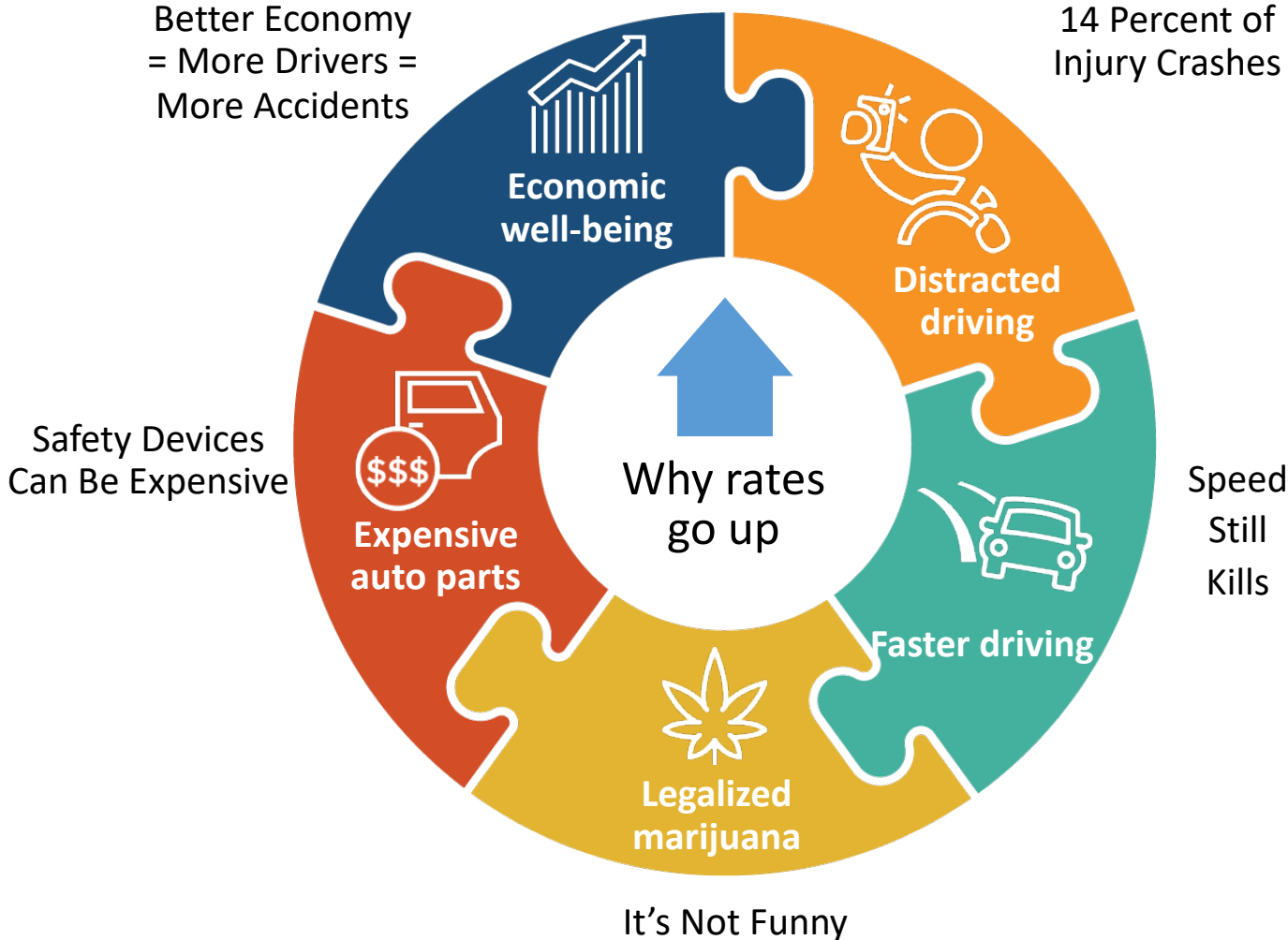
Commercial Premium Growth Stronger than Private But Both Rising



Source: NAIC data, sourced from S&P Global Market Intelligence, Insurance Information Institute.



# Personal Auto: Road Safety



Source: Insurance Information Institute research.

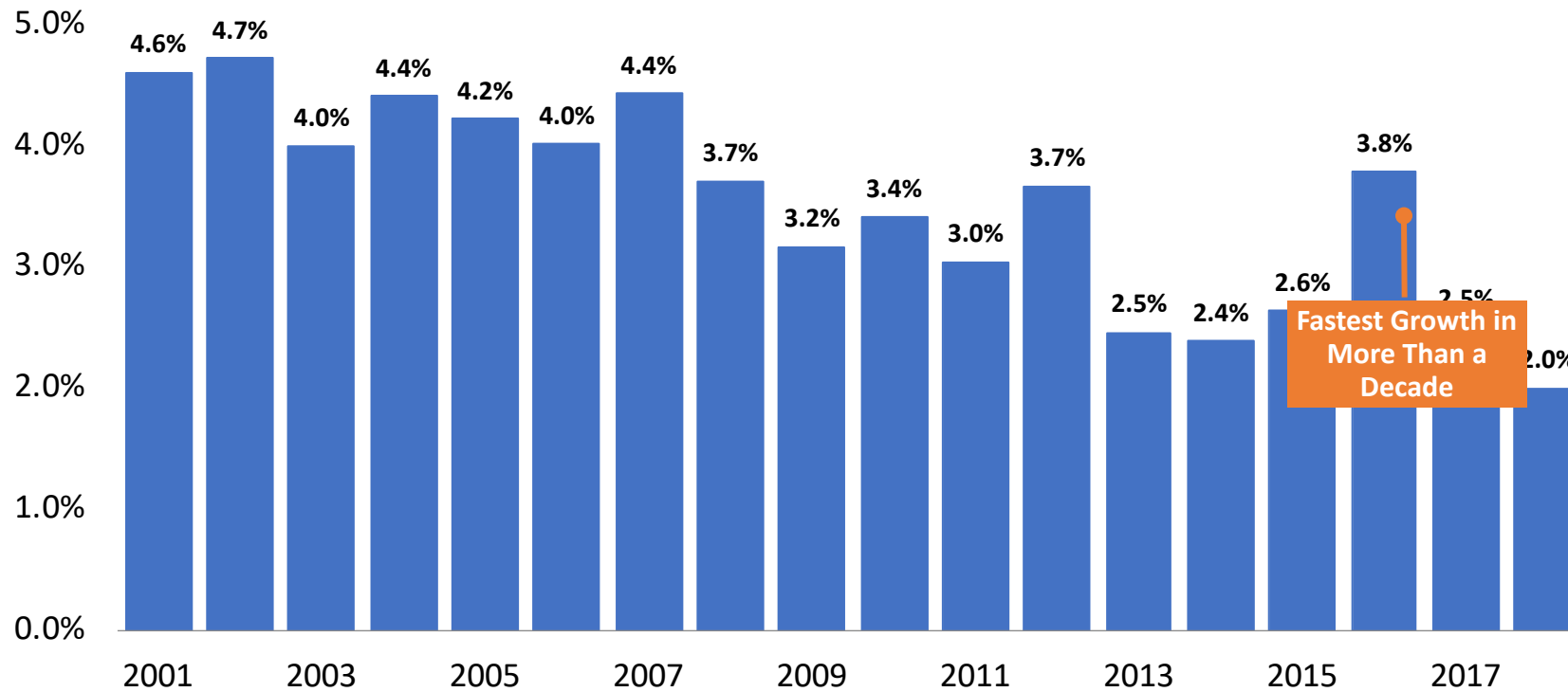




# Health: Medical Inflation Moderating

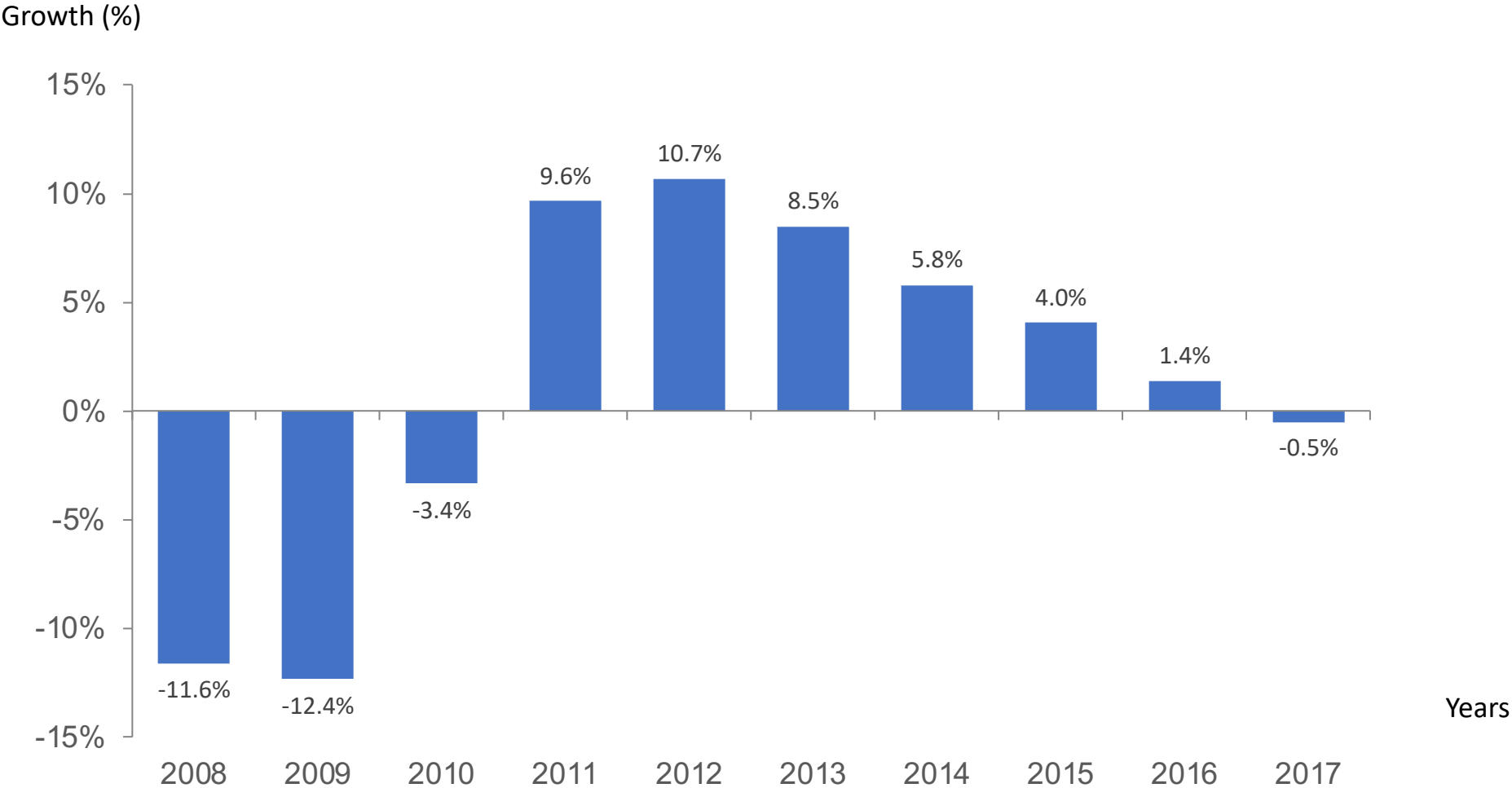
Injury Severity Typically Exceeds Medical CPI.

Annual Change (%), CPI - Medical



# US Workers Comp DWP Growth

Multi Year Downward Trend Now Crossed Negative

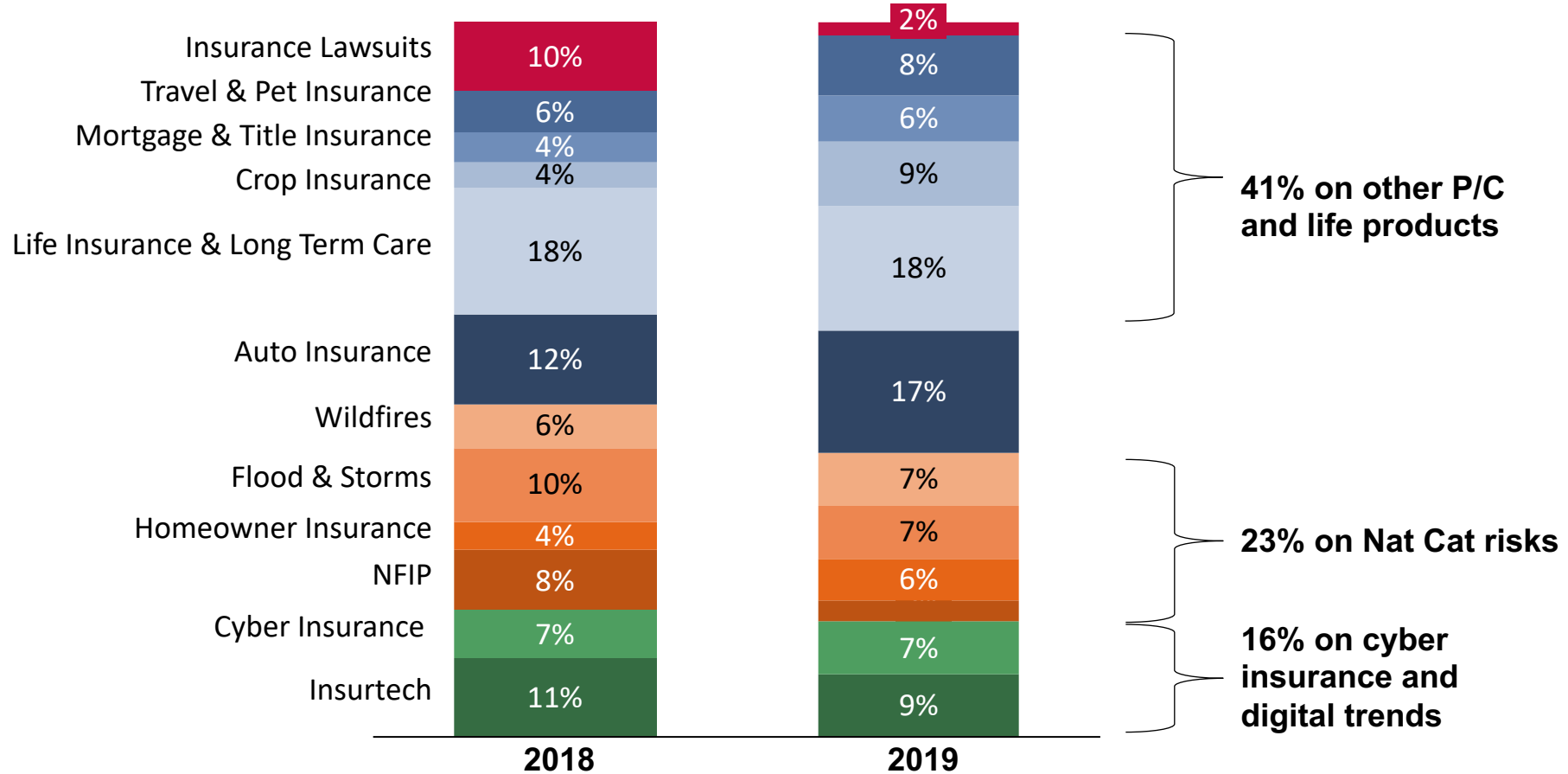


Source: NAIC data, sourced from S&P Global Market Intelligence, Insurance Information Institute.

# Key I.I.I. Initiatives

# Insurance Industry News Cycle

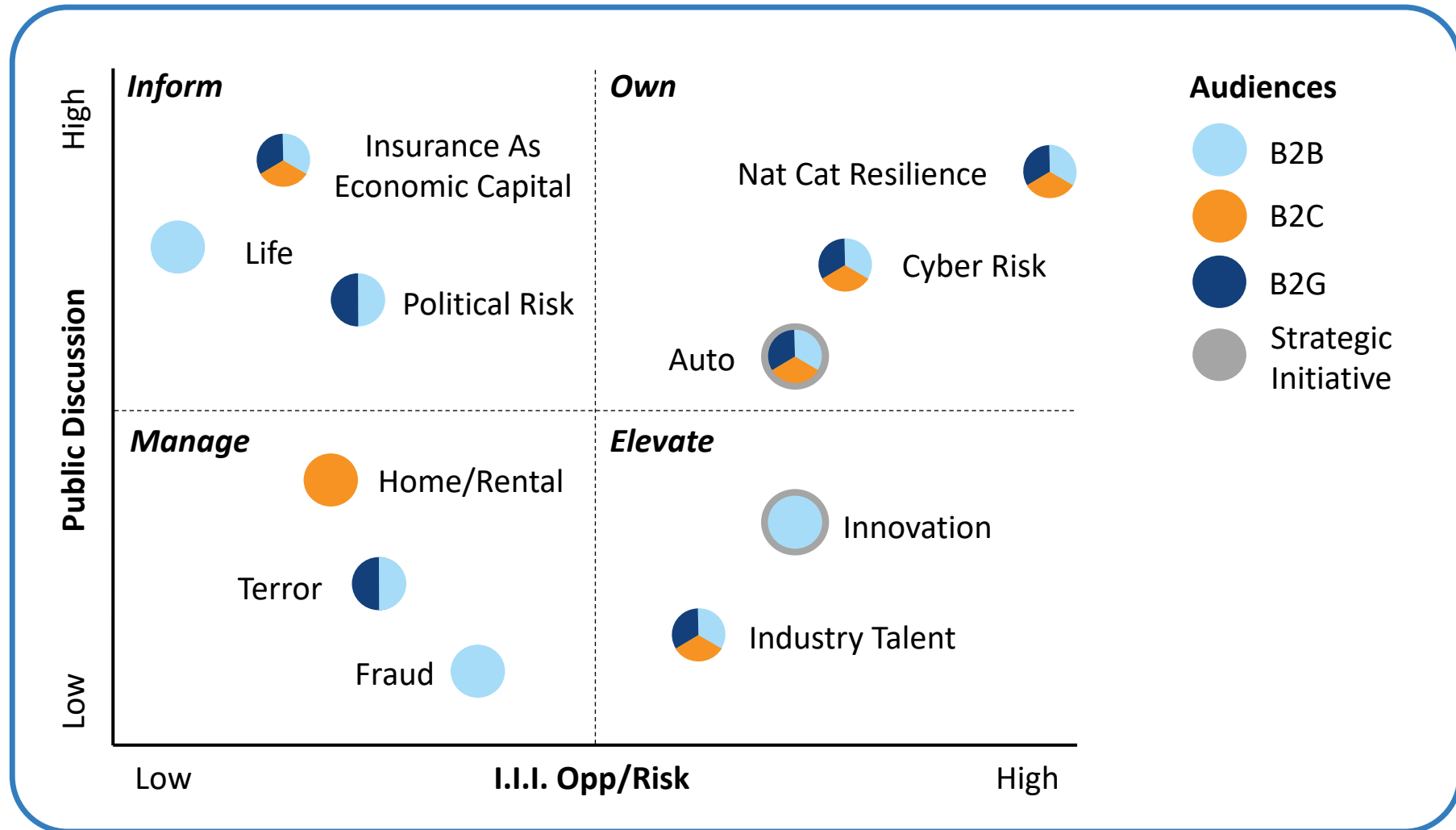
## U.S. Media Coverage On Insurance Topics In 2018 and 2019



\*Source: Quid, HPS Analysis

Nat cats, auto, tech/innovation continue as biggest P/C drivers

# Our priorities in 2019 continue to reflect industry and customer conversations focus



# Insurance For Resilience Coalition

Promote **resiliency through insurance** by empowering individuals, small businesses, and communities to develop a holistic approach to **managing extreme weather events**

## Help us identify the best **aspirational + realistic** goals

- ▲ Directly contribute to hardening, retrofitting, and implementation of preemptive risk reduction strategies for **100,000 Households**
- ▲ Directly contribute to decreasing the protection gap for extreme weather events by **\$10 Billion**
- ▲ Support vulnerable households by ensuring that at least **20% of impact** focuses on low-income communities



**Track, quantity and benchmark** progress towards these goals through the I.I.I.'s insurance and resilience **models & indices**

# Conclusion: Key Points

## Economic growth likely to slow – but when?

- GDP is slowing and rates are going down
- Manufacturing may be running out of steam
- Services are doing well
- Wages are finally beating inflation

## P/C Industry will continue to follow economic cycle

- P/C industry follows economic growth cycles
- Falling interest rates hurts investment income
- Catastrophes drive results – and losses are up
- Rates are drifting higher – but it's not a hard market

Michel Leonard, PhD, CBE  
Senior Economist & Vice President  
110 William St, 18<sup>th</sup> Floor  
New York, NY 10038  
212.346.5518 ♦ michell@iii.org ♦ www.iii.org