

ECONOMIC PRESSURES AND GETTING INSURANCE RIGHT

Presented by:

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OUR AGENDA

- Identify the various types of economic inflation and how they relate directly and indirectly to the insurance industry
- Discuss insurance industry responses to economic pressure
- Consider the positive and negative aspects to the industry of inflationary pressure
- Define social inflation and distinguish it from general economic inflation
- Describe the impact of inflation on the P&C industry

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9.1%

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1982 – Year in Review

- Ronald Reagan was President
- Eddie Murphy first appeared on the Tonight Show (with Johnny Carson!)
- *Chariots of Fire* won the Academy Award for Best Picture
- Tylenol is recalled
- Epcot Center in Orlando opens
- Michael Jackson's *Thriller* is released
- Ben Roethlisberger was born

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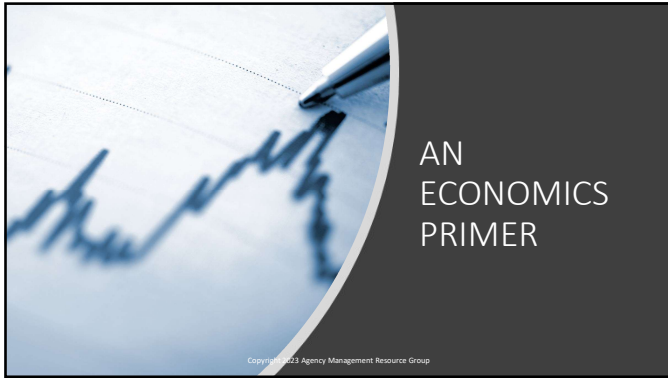
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But, that doesn't tell the whole story...

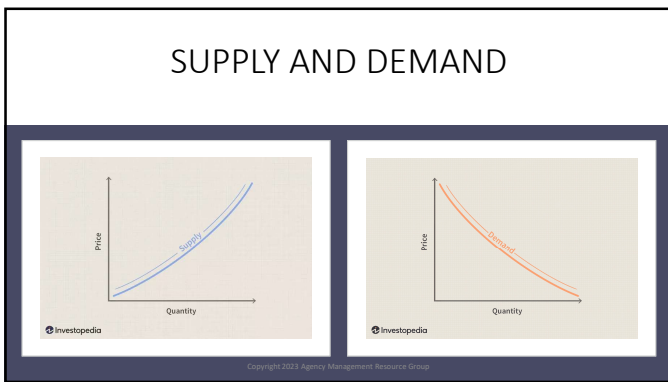
	Historically adjusted changes from preceding month							12-month average (12 mos. ending Dec. 2022)
	Dec. 2022	Nov. 2022	Aug. 2022	May 2022	Dec. 2021	Nov. 2021	Dec. 2020	
All items	0.1	0.0	0.1	0.1	0.4	0.0	0.1	0.1
Food	1.0	1.1	0.8	0.8	0.6	0.0	0.1	0.9
Food at home	1.0	1.1	0.7	0.7	0.4	0.0	0.2	0.9
Food away from home	0.9	0.7	0.9	0.9	0.9	0.0	0.4	0.1
Energy	1.0	0.8	0.0	0.1	1.0	1.0	0.9	1.1
Energy commodities	0.4	0.6	0.1	0.7	0.4	1.0	0.4	0.4
Consumer (all types)	11.1	7.0	0.0	0.0	0.0	1.0	0.4	1.1
Real estate	1.0	0.0	0.0	0.0	0.0	1.0	0.0	0.0
Energy services	1.0	0.1	0.1	1.1	1.1	1.1	1.0	0.0
Electricity	1.0	1.0	1.0	0.4	0.1	0.1	1.0	0.0
Utility (all) gas service	0.0	1.0	1.0	1.0	0.0	1.0	1.0	0.0
All items less food and energy	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commodities less food and energy commodities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New vehicles	0.7	0.0	0.0	0.7	0.4	0.0	0.0	0.0
Used cars and trucks	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Apparel	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Medical care commodities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Medical care services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Services less energy services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shelter	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transportation services	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Medical care services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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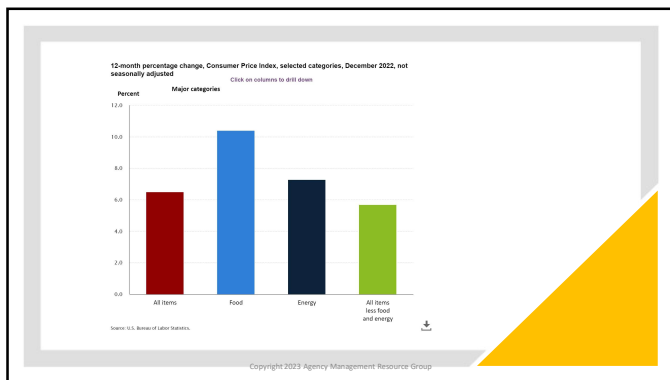
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INSURANCE INDUSTRY

We have likely proven to be relatively recession-proof, but we're certainly not inflation-proof!

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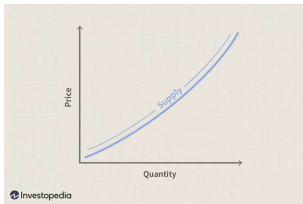
DEMAND-PULL INFLATION

Consumers demand more goods and services than suppliers can supply, and prices go up.

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SUPPLY AND DEMAND



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COST-PUSH INFLATION

The costs associated with providing goods and services go up, and suppliers must raise prices to maintain profits

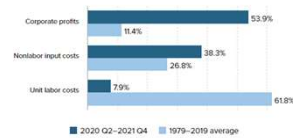
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"BUILT-IN" INFLATION

- The cost of living goes up and wages must rise in response
- Corporate "greed"

Normal and recent contributions to growth in unit prices in the nonfinancial corporate sector



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WHAT'S "FUELING" ALL OF THIS?

- Soaring demand
- Supply chain issues – microchip shortages
- Labor shortages and higher wages – The Great Resignation
 - 11.4 million open jobs
 - 6 million unemployed Americans
- State and federal "handouts"
- Low (but rising) interest rates
- Geopolitical risk
- Global pandemic
- Robust consumer spending brought about by pent-up demand

"There's a limit to the amount of gym equipment and furnishings one can buy."
--Deloitte

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THE INSURANCE INDUSTRY RESPONSE TO INFLATION

Continued hard market

Increased rates (20 quarters)

Reduced appetite for risk

Greater focus on risk prevention

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ARE THERE ANY BENEFITS TO INFLATION?

Higher premiums = higher commissions

What goes up doesn't necessarily come down – or does it?

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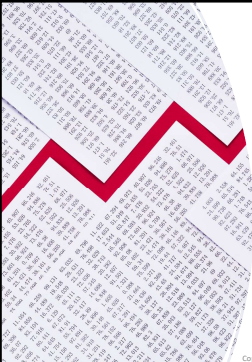
SOCIAL INFLATION

An insurance industry-wide increase in claims costs over and above "normal" economic inflation. Specifically, it is the inflation in claims costs caused by changing societal views of litigation and plaintiff-friendly court decisions.

We own this space, baby!

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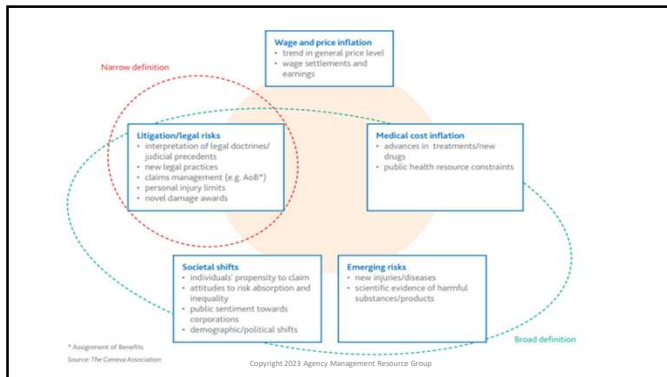


IS IT NEW?

- In a word, **NO**
- Warren Buffett coined the term in his 1977 annual letter to Berkshire Hathaway shareholders

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WHAT'S DRIVING IT?

- The 2008 financial crisis
- The "Bull" affect
 - Data and analytics
 - Technology
 - Social media
 - Behavioral science

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WHAT'S DRIVING IT?

- Changes in underlying beliefs about the appropriateness of filing lawsuits and expectations of higher compensation
 - People are more litigious – and they're angry
 - People are financially strapped at the moment
 - Some people will be more inclined to settle quickly – others will wait for the big "payday"
 - Entitlement thinking
- Rollbacks of tort reforms that were intended to control costs
 - Limitations and caps on non-economic damages
- Legislative action to retroactively extend or repeal statutes or limitations
 - #MeToo and BI coverage for pandemic-related losses
 - Politicians who desire being re-elected (AKA: all of them) don't want an angry electorate

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INCREASES IN PREMIUMS CANNOT
KEEP PACE WITH THIS TREND

AFFORDABILITY AND AVAILABILITY
WILL BE IMPACTED

ECONOMIC DISRUPTION WILL
TAKE PLACE

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WHAT
LINES OF
BUSINESS
ARE MOST
AFFECTED?

- Commercial Auto
- Commercial General Liability
- Medical Malpractice
- Management Liability (D&O, EPLI, etc.)
- E&O
- Personal Auto Liability
- PIP
- +

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WHAT CAN WE DO?

01

Check your
agency's "minimum
coverage
standards"

02

Write accounts, not
policies

03

Propose an
umbrella to
EVERYONE!

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