




P&C Industry: Financial Systemic Impact of Geopolitics, Climate, and Social Inflation

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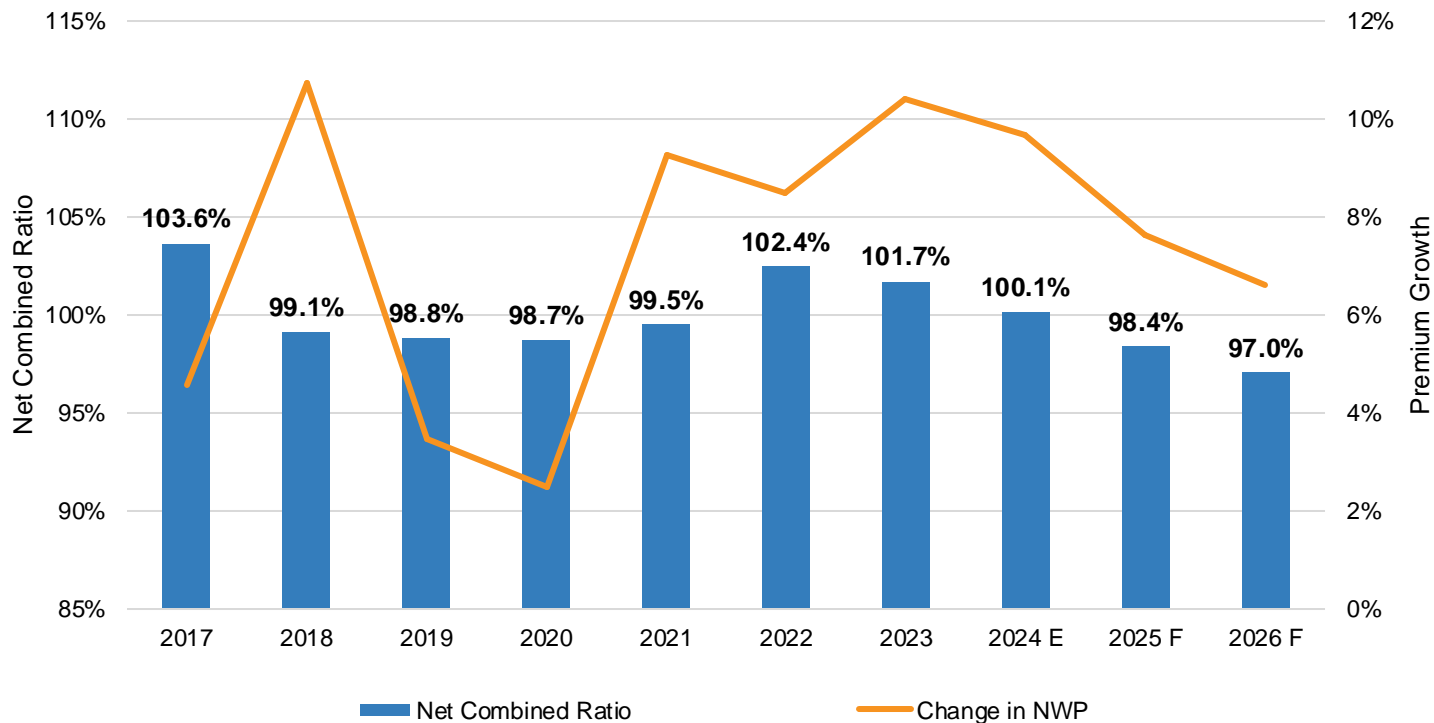
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P&C Industry Overview



P&C Industry Outlook

Net Combined Ratio and Change in NWP

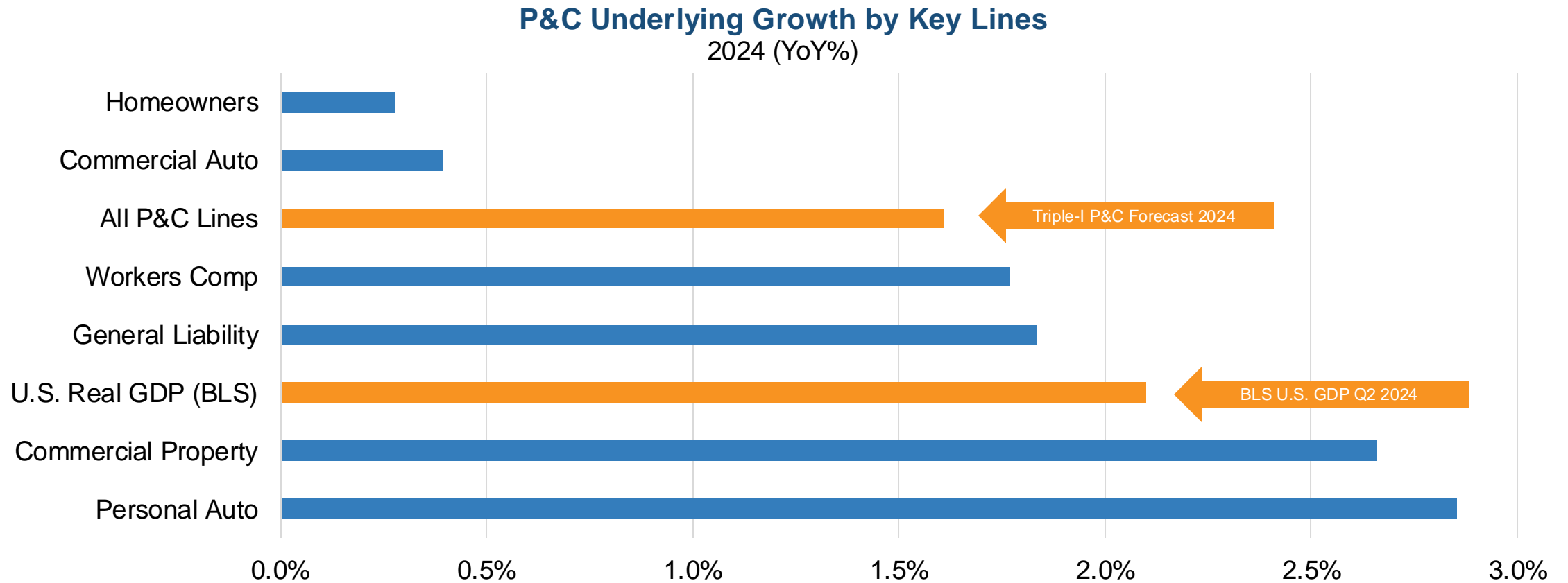


- Good News #1: Favorable first quarter in line with initial full year 2024 Net Combined Ratio
- Good News #2: Personal Auto Net Combined Ratio improved slightly from prior estimates and on track to achieve profitability in 2025
- Bad News #1: Commercial Auto expectations remain unchanged and continues to remain unprofitable through at least 2026
- Bad News #2: General Liability now expected to be slightly unprofitable in 2024

Sources: NAIC Statutory Financial Data through S&P Global Market Intelligence Analysis (as of 6/21/2024); Insurance Information Institute, Milliman.

P&C Underlying Growth by Key Lines

P&C Underlying Growth falls below overall U.S. GDP on revised BLS GDP data.



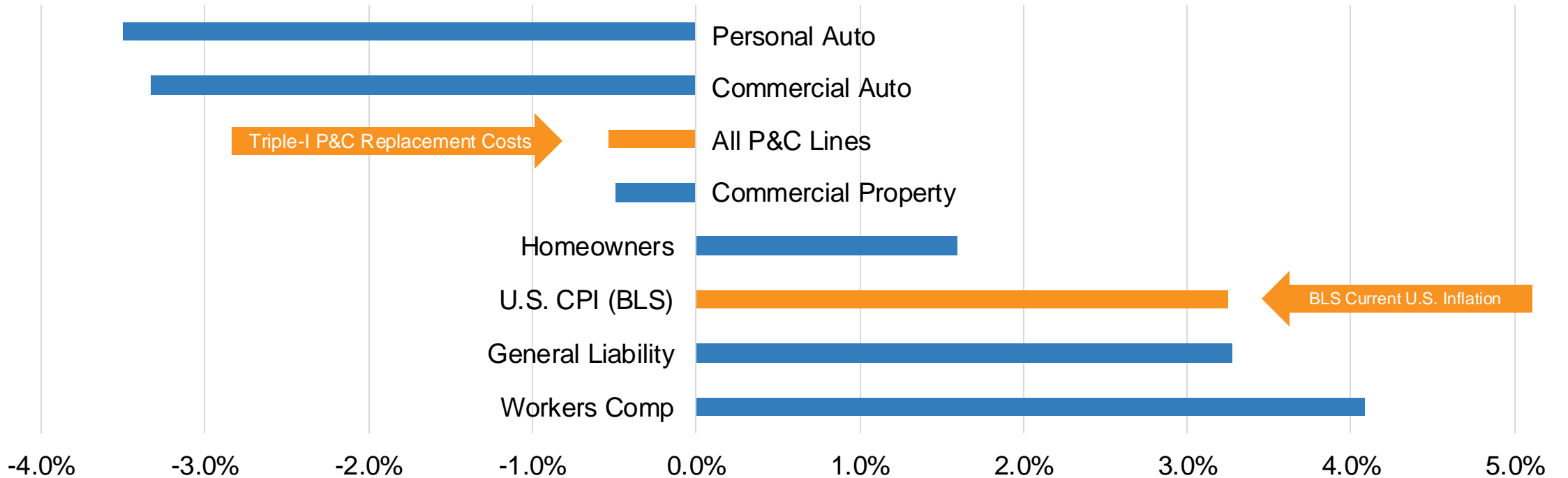
Source: Triple-I (as of 06/26/2024)

P&C Replacement Costs by Key Lines

P&C Replacement Costs for 2024 remain below overall U.S. inflation.

Confirms earlier Triple-I expectations and forecasts.

P&C Replacement Costs by Key Lines 2024 (YoY%)



Source: P&C Replacement Costs: Triple-I; CPI: BLS (as of 06/26/2024)

P&C and Geopolitical Risk

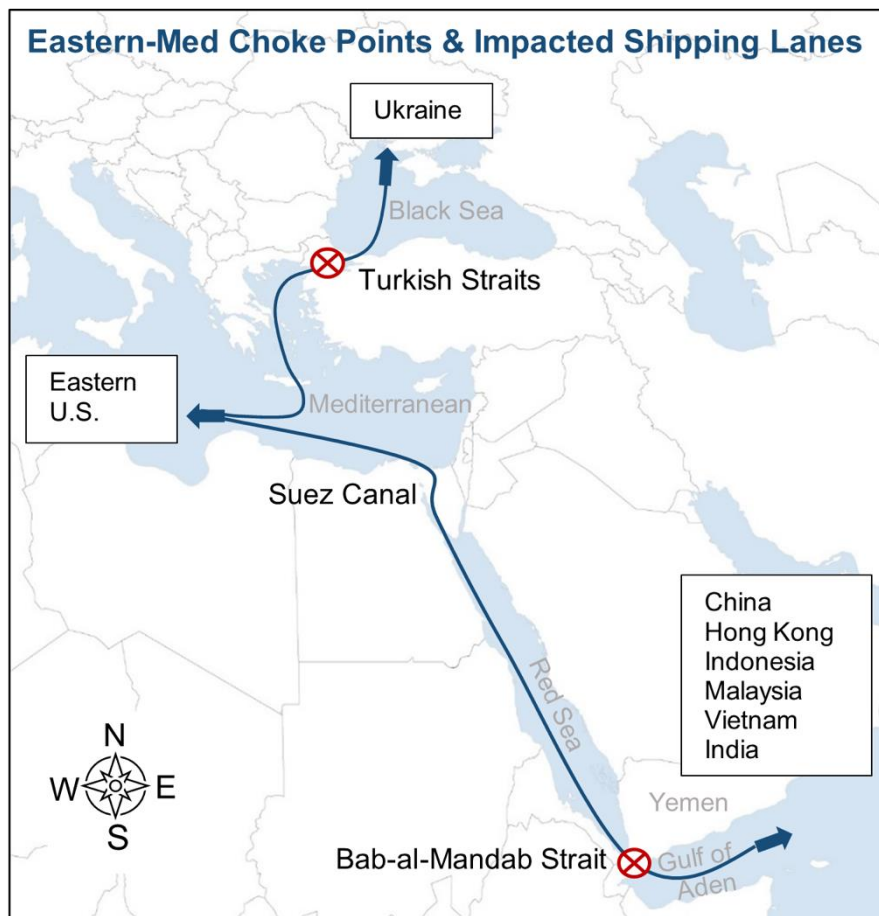
Financial Systemic Impact



Key Geopolitical Risks Relevant Risks



Global Geopolitical Risk: Strained Shipping Lanes Increase U.S. P&C Replacement Costs



Source:
Insurance
Information
Institute
(As of 8/8/24)

This map illustrates the impact of armed conflicts in the Black Sea and the Gulf of Aden on global shipping lanes between the Eastern Coast of the U.S. and, primarily, China, Hong Kong, Indonesia, Malaysia, Vietnam, India, and Ukraine.

Increasing disruptions of these shipping lanes would primarily impact the availability and pricing of:

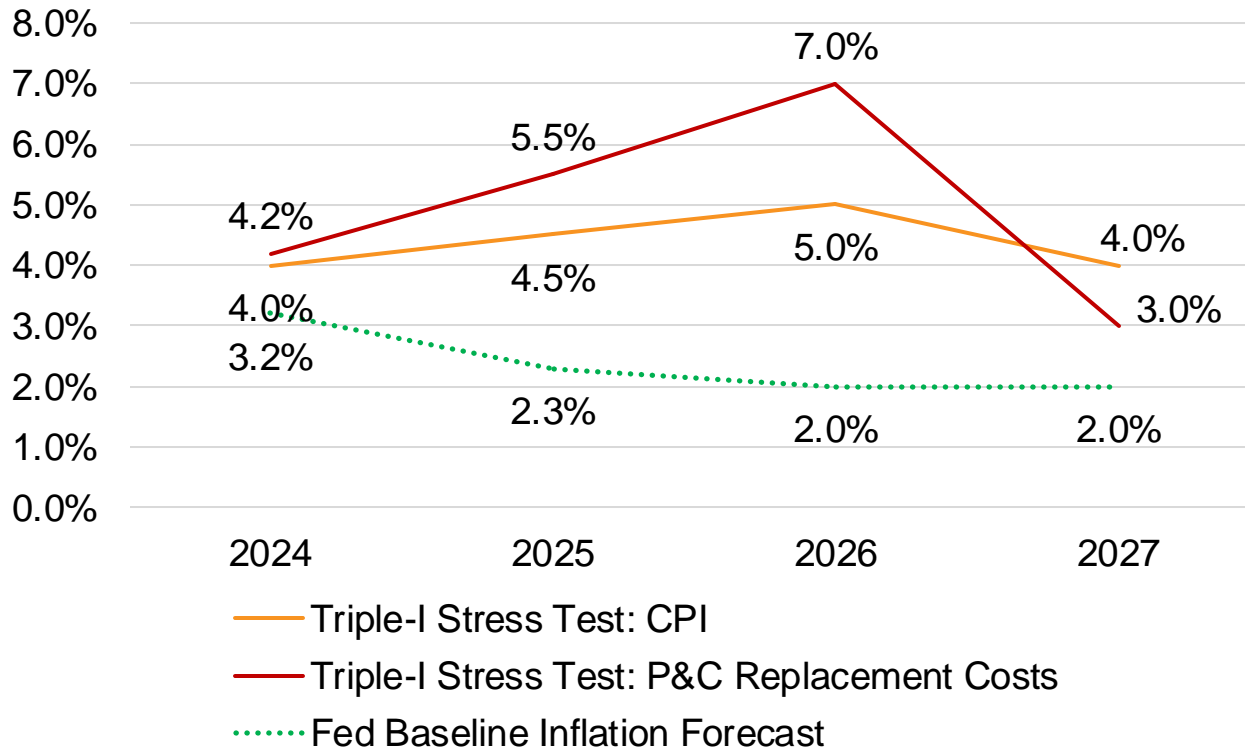
- Construction materials, including concrete and concrete bonding agent.
- Manufactured goods, including technology and IT.
- Consumer goods such as home furnishings and garments.
- There would be limited to no impact on the pricing and availability of motor vehicles and their parts.

Members can read the full Triple-I August Geopolitical Risk Outlook on our website.

Major Geopolitical Risk Event in 2024 Could Push Inflation to 5.0% and P&C Replacement Costs to 7.0% by 2026.



Geopolitical Risk: Inflation and P&C Replacement Costs Impact (YoY%)



Source: Insurance Information Institute As of 07/7/2024

Using the Fed's inflation forecast as baseline, Triple-I stress tested P&C replacement costs for geopolitical risks. The results were as follows:

- The impact would create a three-year inflationary cycle, peaking in 2026.
- Overall inflation would increase to 5.0%.
- P&C replacement costs would increase to 7.0%.
- Prices of construction materials, vehicles, and food would bear the brunt of the impact.

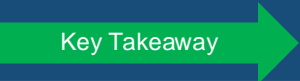

Stress tests included Russian embargo of gas exports, Chinese blockage of Taiwan, and cutoff of international shipping lines.

Triple-I members can access the full report on our website.

Commercial Property Economic Drivers

Confirming Q1 trend and rebound starting 2025 on Class A conversions.

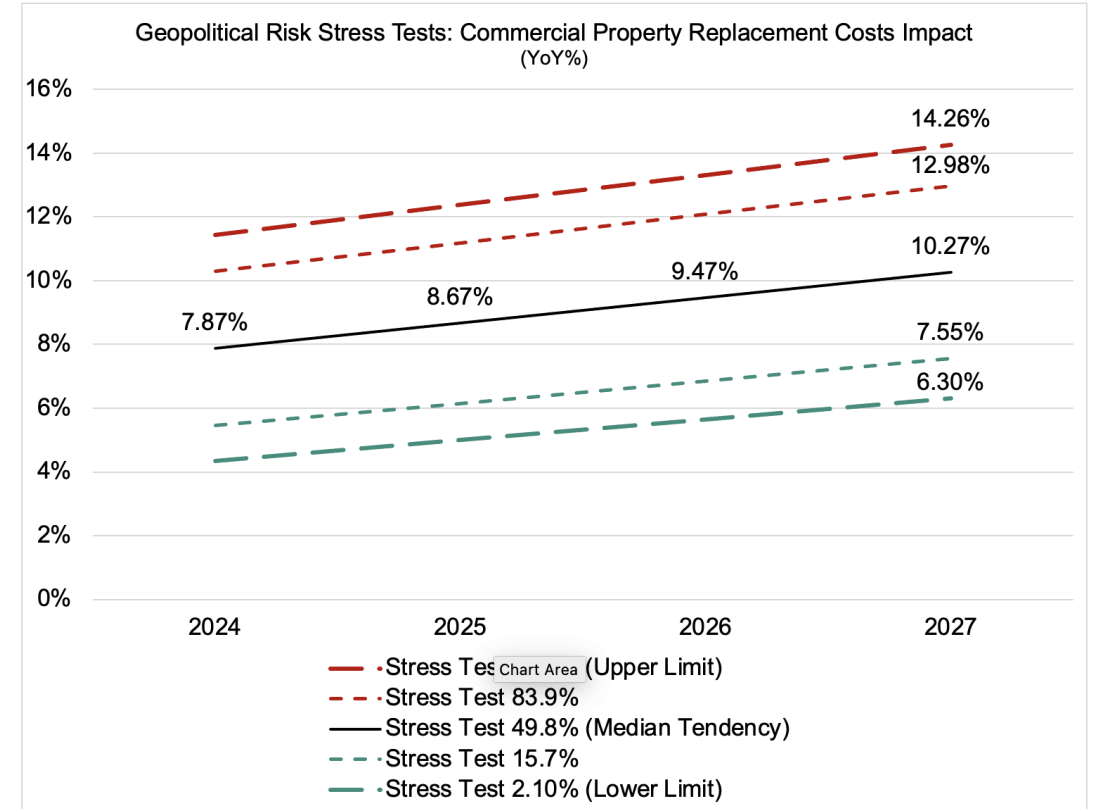
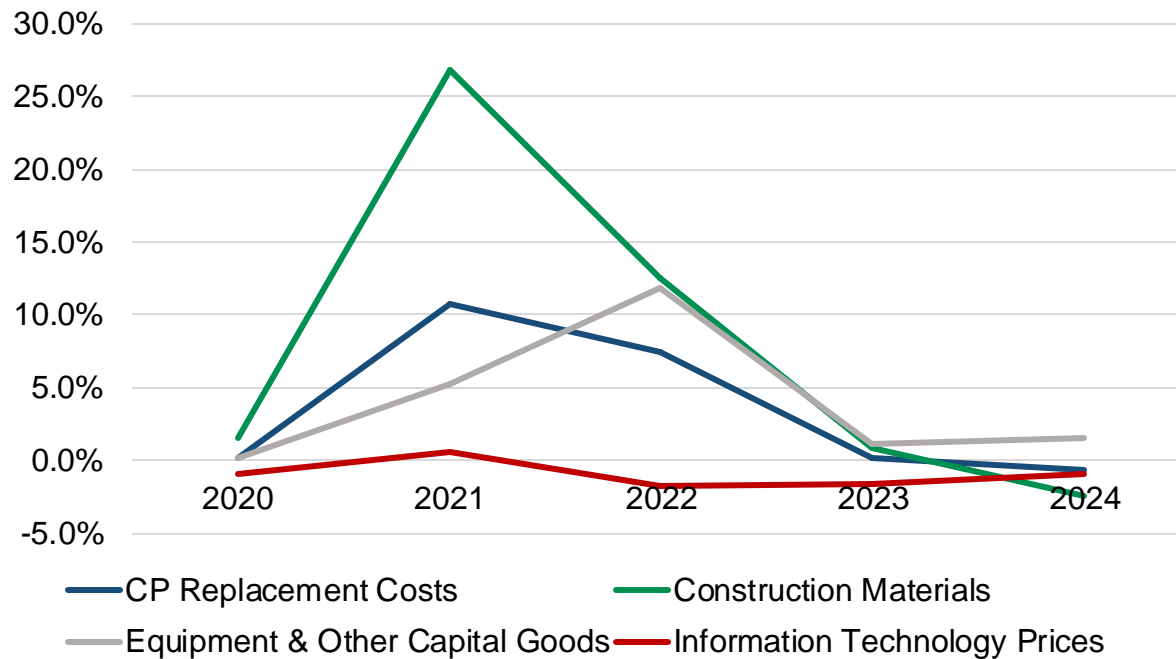
Faster increases in replacement costs starting 2025.

Commercial Property (Change YoY%)	2023	2024	2025	2026
Underlying Growth 	2.9%	2.7%	3.9%	5.3%
Real Estate, Rental & Leasing	1.2%	1.3%	3.0%	5.0%
All Employees Non-Residential Buildings	6.0%	5.2%	5.5%	6.0%
Replacement Costs 	-0.5%	-0.5%	2.5%	3.5%
Construction Materials	-2.9%	-1.3%	3.5%	5.0%
Capital Investments inc. Construction	3.3%	0.8%	3.0%	4.0%
Information Technology Prices	-2.0%	-1.0%	1.0%	1.5%

Source: Insurance data and analysis: Triple-I; U.S. economic data: FRED (as of 06/26/2024)

Commercial Property: Replacement Costs and Geopolitical Risk Stress Tests

Commercial Property Insurance Replacement Costs
(2020-2024 Change YoY%)





Source: Analysis: Triple-I; Data: FRED (as of 09/09/2024) 11

Homeowners Economic Drivers

Confirming Q1 recovery in housing starts. Expecting rebound in 2025 on lower interest rates.

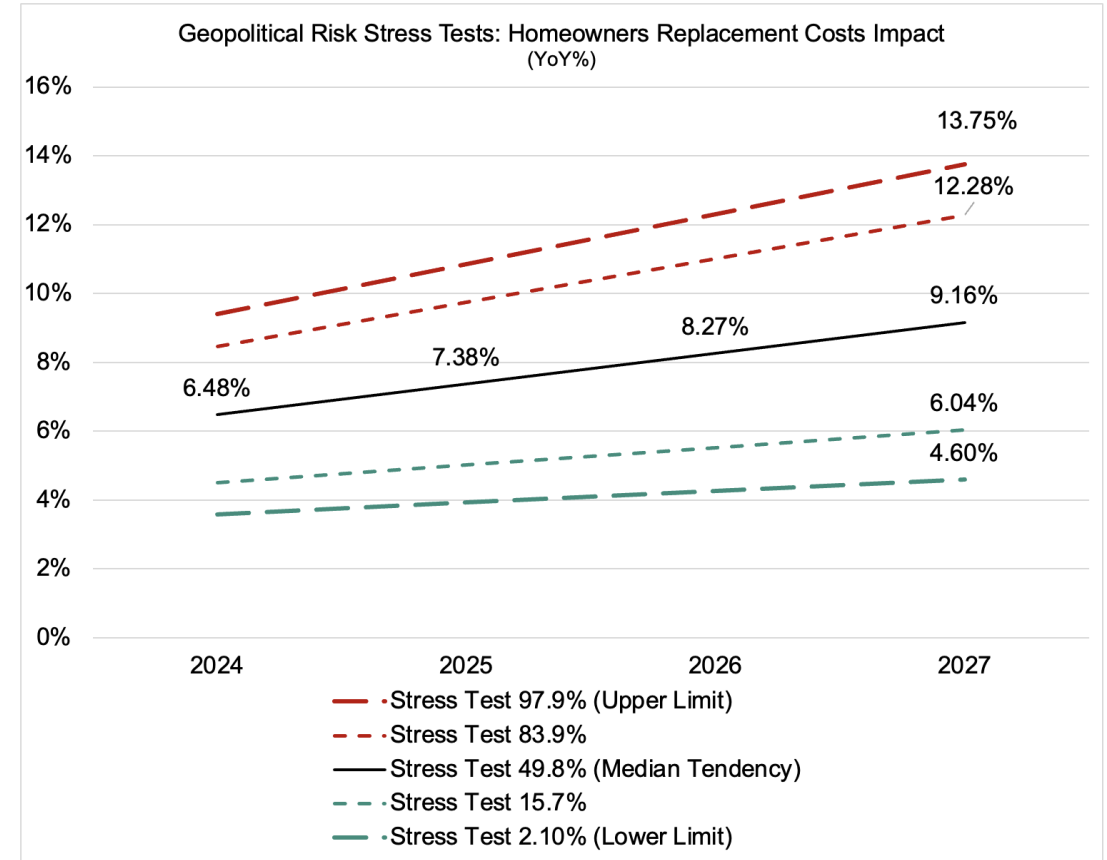
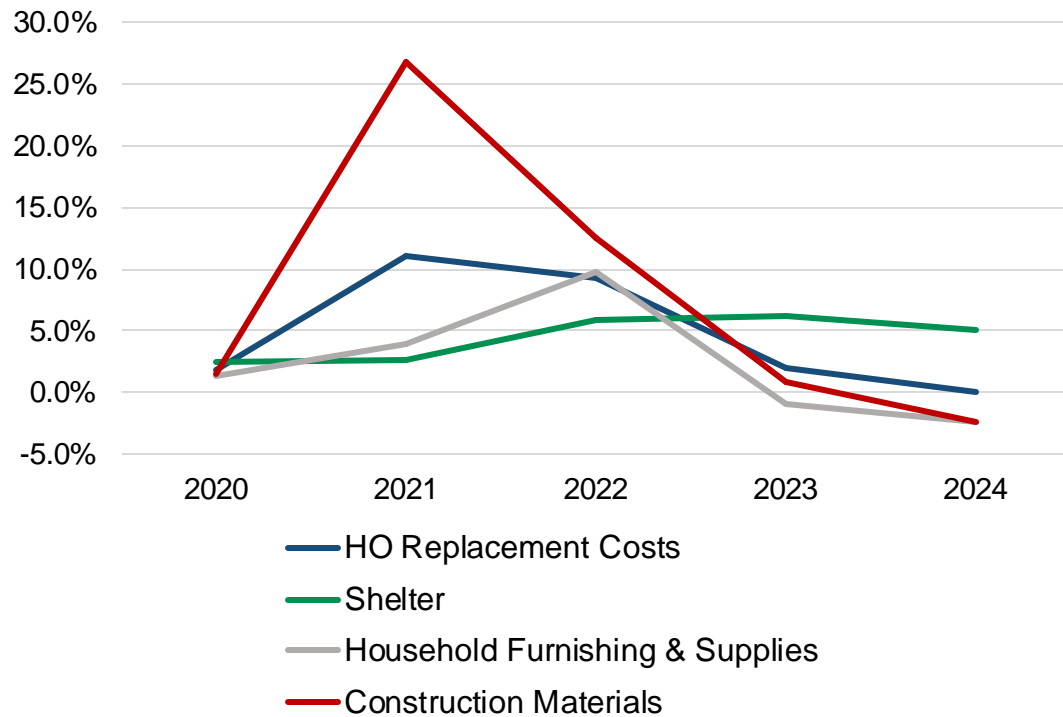
Faster increases in replacement costs starting 2025.

Homeowners (Change YoY%)	2023	2024	2025	2026
Underlying Growth 	-5.4%	0.3%	4.0%	4.8%
Housing Units Starts	-12.3%	-2.0%	4.5%	5.5%
All Construction Employment	0.8%	2.9%	3.1%	3.3%
Retail Trade	2.3%	2.3%	4.0%	5.0%
Replacement Costs 	2.5%	1.6%	3.7%	4.3%
Shelter	7.5%	5.4%	5.0%	4.5%
Household Furnishing & Supplies	2.9%	0.7%	2.5%	3.5%
Construction Materials	-2.9%	-1.3%	3.5%	5.0%

Source: Insurance data and analysis: Triple-I; U.S. economic data: FRED (as of 06/26/2024)

Homeowners Insurance: Replacement Costs and Geopolitical Risk Stress Tests

Homeowners Insurance Replacement Costs
(2020-2024 Change YoY%)



Source: Analysis: Triple-I; Data: FRED (as of 09/09/2024) 13

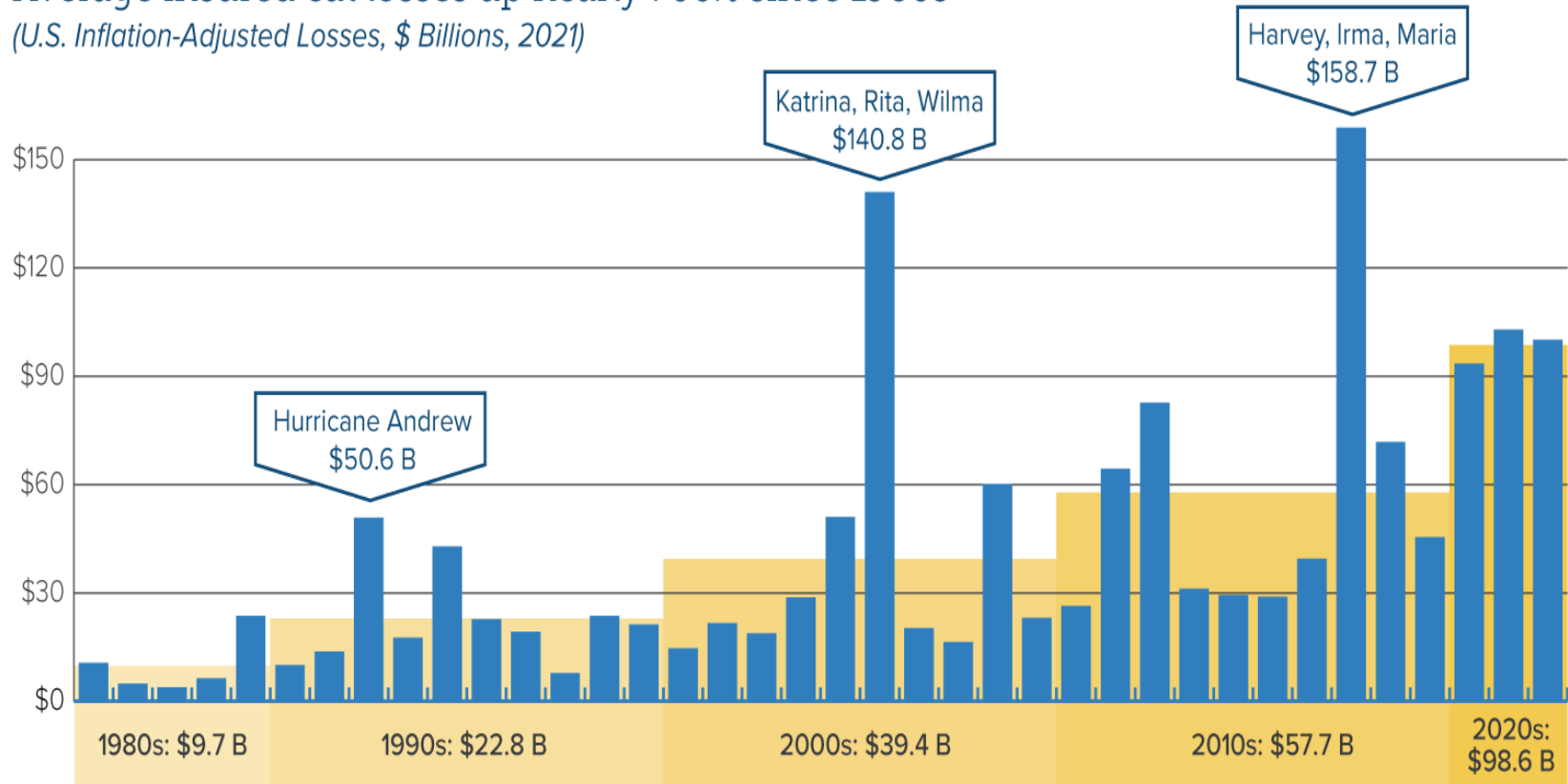
P&C and Climate Change

Financial Systemic Impact



U.S. Catastrophe Losses Steadily Climbing

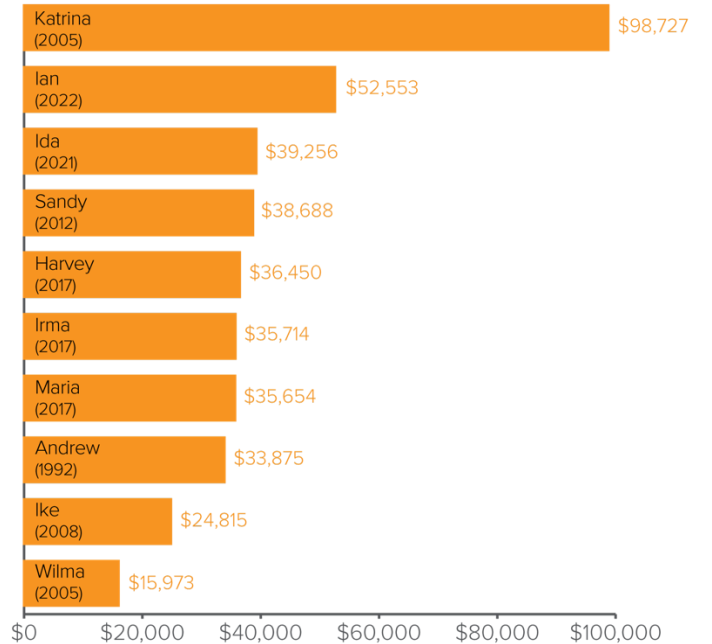
Average insured cat losses up nearly 700% since 1980s*
 (U.S. Inflation-Adjusted Losses, \$ Billions, 2021)



*Includes insured losses from all natural perils.

Source: Aon (Catastrophe Insight)

10 Costliest U.S. Hurricanes
 (\$ millions, in 2022 dollars)



Includes Puerto Rico and the U.S. Virgin Islands and losses sustained by private insurers and government-sponsored programs such as the National Flood Insurance Program. Includes hurricanes that occurred through 2022. Subject to change as loss estimates are further developed. As of January 2023. Ranked on insured losses in 2022 dollars. Adjusted for inflation by Aon using the U.S. Consumer Price Index.

Risk transfer is essential, but just one tool in the resilience toolkit alongside risk modeling, technology, public policy, finance, and science

Carrier Insolvencies and Ratings

Carrier ratings in states exposed to extreme weather events and legal system abuse have systematically underestimated insolvency risk.

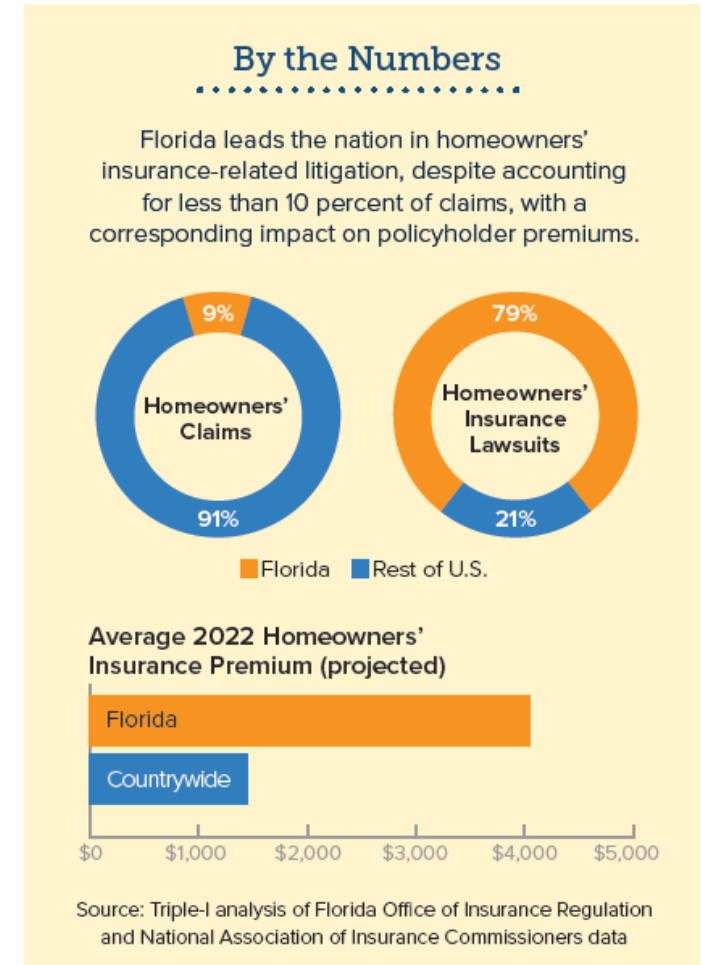
Florida

- \$51B was paid out by insurers over 10-year period, with 71% going to attorneys' fees and public adjustors
- Nine insurance company insolvencies since 2021
- Citizens Property Insurance Corp. insured over 1.4M policies

Louisiana

- 2021 Industry Combined Ratio of 462 pts and Underwriting Loss of \$7.2B due primarily to Hurricane Ida
- Nine companies were declared insolvent in 2022
- Lawsuit environment costs the state \$3.9B in lost economic activity, imposing a "tort tax" of \$451 per resident annually

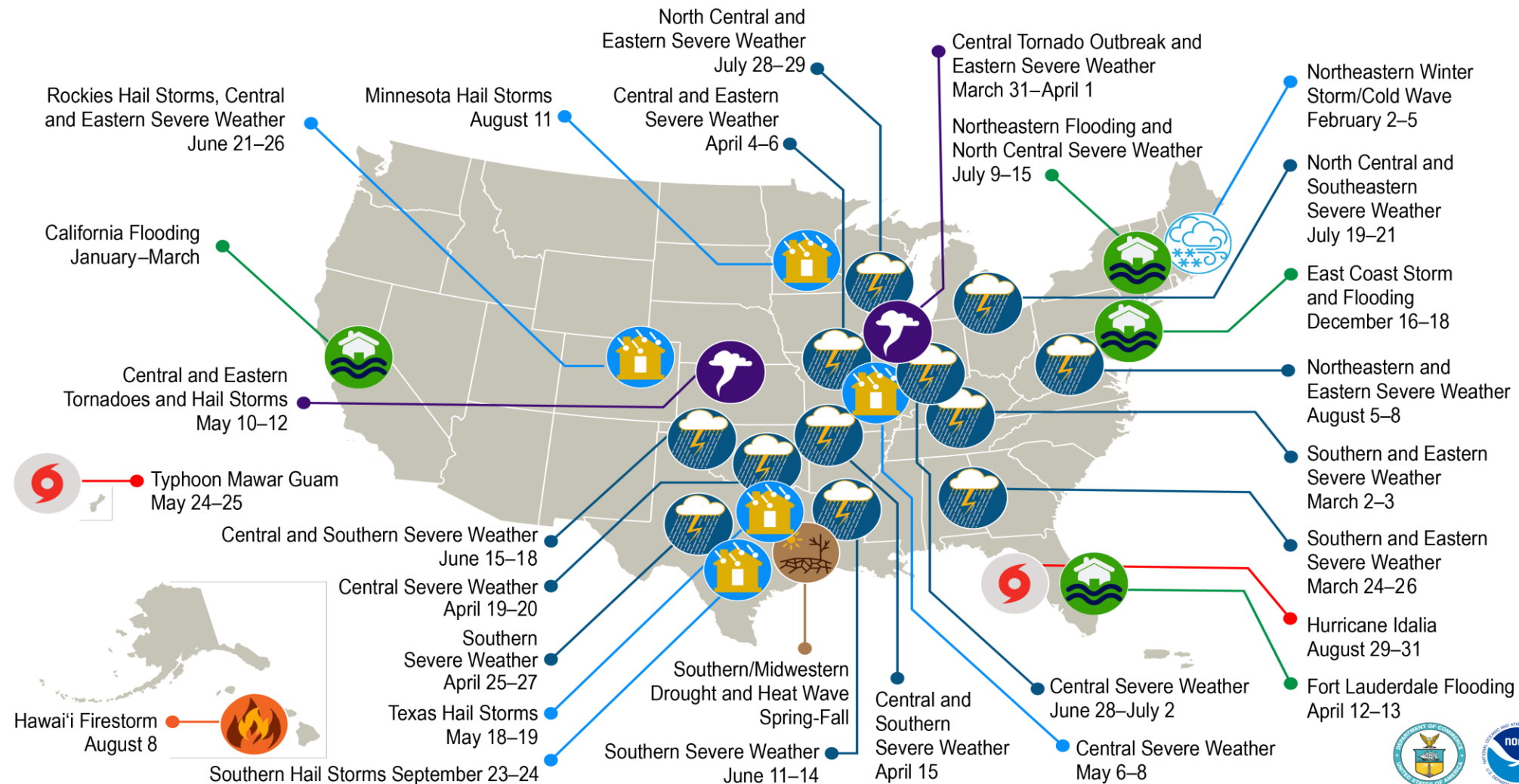
Sources: Florida Office of Insurance Regulation; American Tort Reform Association (as of 2023)



U.S. 2023 Billion-Dollar Weather and Climate Disasters



- Record 28 billion-dollar events in 2023
- Prior record was 22 events in 2020
- \$93B total cost in 2023
- Record more than \$50B in severe convective storms through Q3



This map denotes the approximate location for each of the 28 separate billion-dollar weather and climate disasters that impacted the United States in 2023.



P&C Industry and and Social Inflation

Financial Systemic Impact

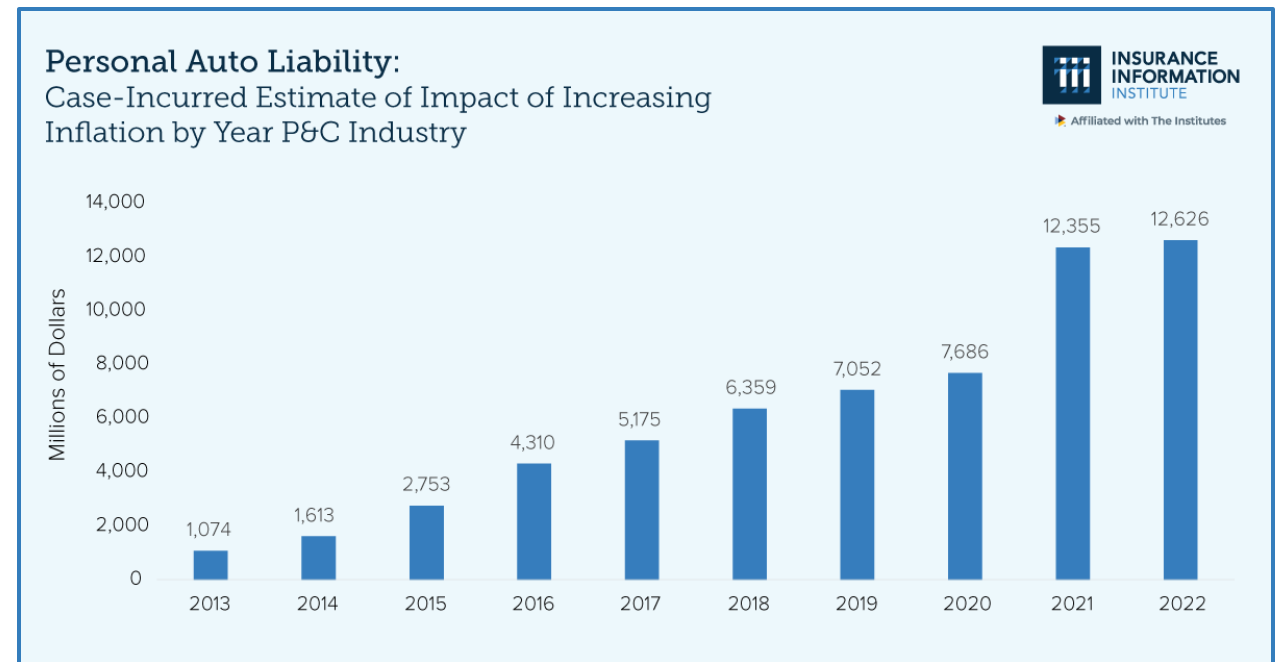


Impact of Increasing Economic + Social Inflation

Triple-I quantified the combined impact of inflationary trends on auto liability – personal and commercial combined

Key Findings

- Economic and social inflationary trends contributed to **increased claims** by an estimated **\$96-105B** from 2013 to 2022
 - Personal auto estimated at **\$61B**, or **6.5%** of loss and DCC
 - Commercial auto estimated at **\$35-44B**, or **19-24%** of loss and DCC
- Both lines experienced claim settlement patterns slowdown in 2020-2021 and subsequent speed-up in 2022



*Triple-I analysis of National Association of Insurance Commissioner (NAIC) data.
[Impact of Increasing Inflation on Personal and Commercial Auto Liability Insurance](#),
Jim Lynch, Dave Moore, Dale Porfilio, September 2023

Third-Party Litigation Funding

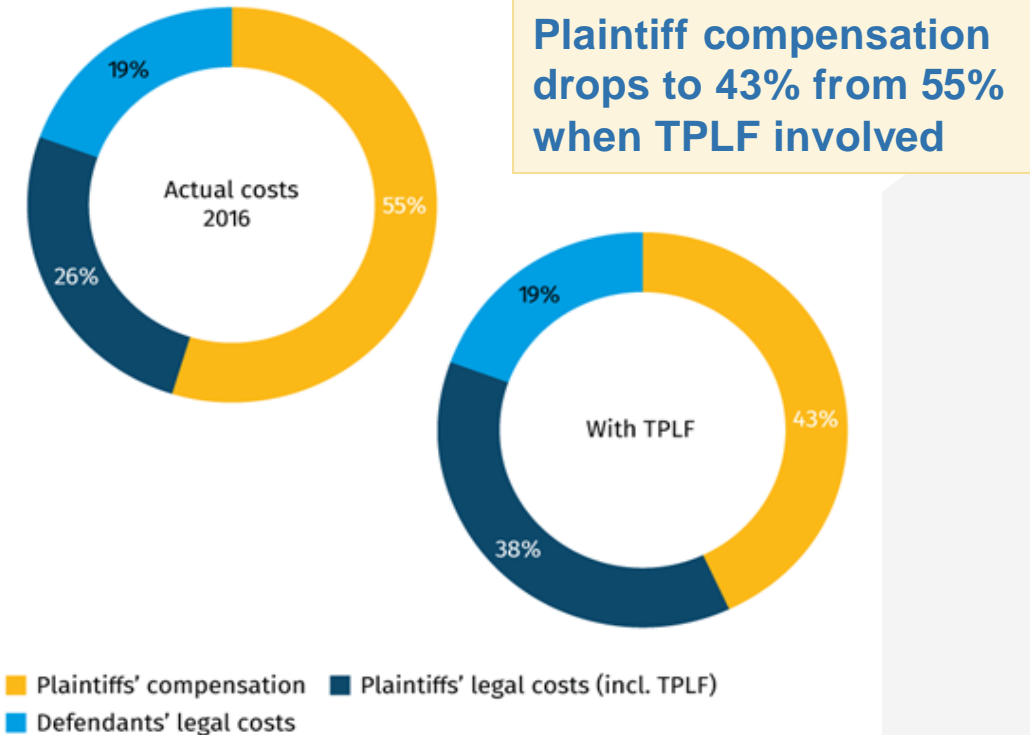
Who typically provides this money?

Deep-pocketed investors – accredited investors, hedge funds, financial institutions, asset managers, other large funds – seeking above-average returns on their investments

What kinds of cases are funded?

- Torts and contract breaches
- Personal injury
- Class Action
- Intellectual Property
- Whistleblower
- Arbitration

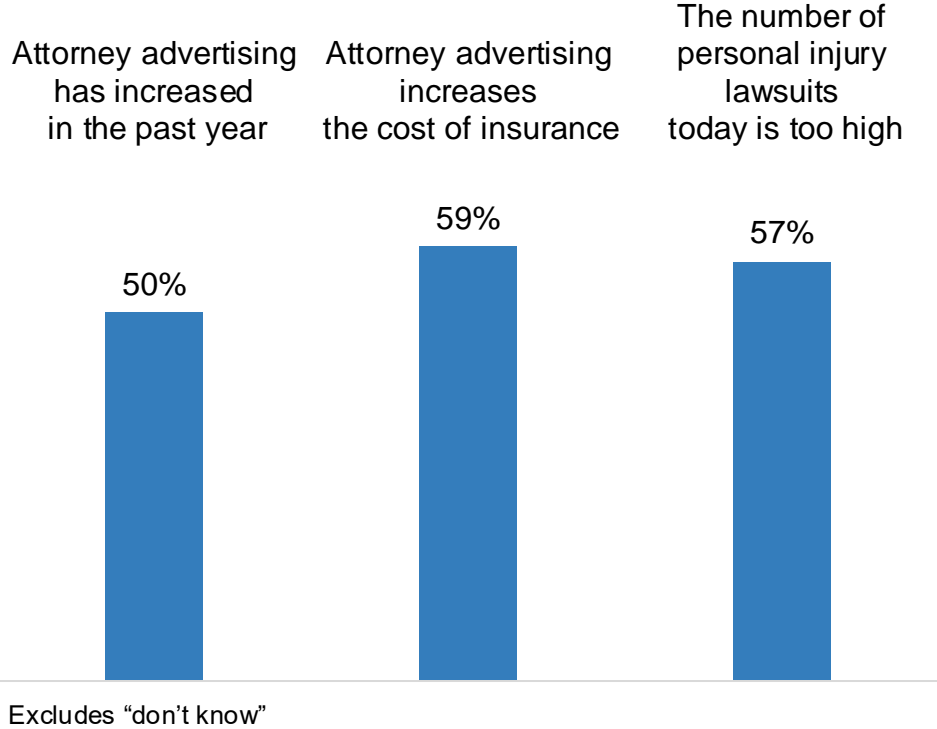
Distribution of tort system costs without TPLF (left) and with TPLF (right)



Source: Swiss Re, Institute for Legal Reform, Research Nester

Attorney Involvement and Litigation

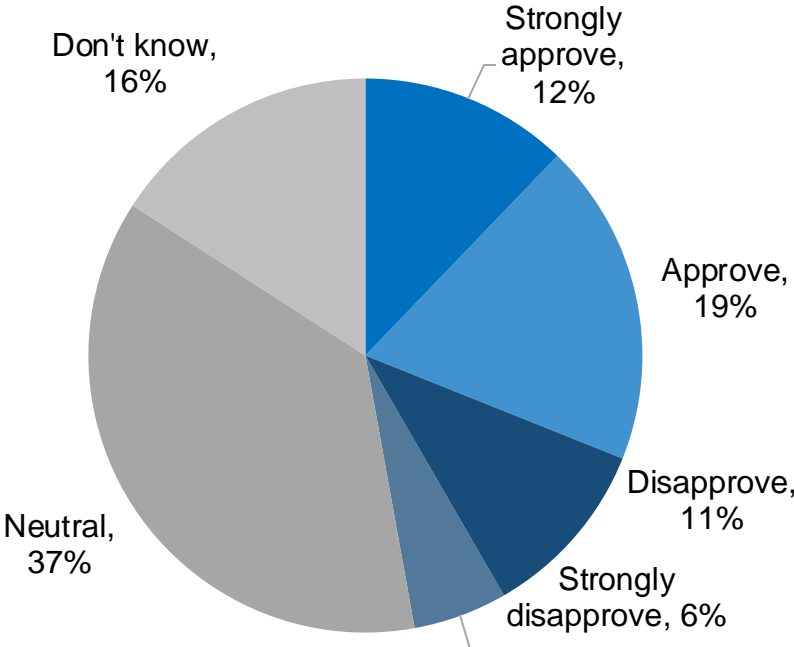
Consumers understand connection between attorney advertising and insurance costs



Source: [Public Attitudes on Litigation Trends and the Role of Attorneys in Auto Insurance Claims](#)
[Insurance Research Council \(insurance-research.org\)](#)

Opportunities for education about Third-Party Litigation Funding

Attitude Toward Litigation Financing





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