

# Future Shock: What's Ahead for the US Economy and the Insurance Industry

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Insurance Information Institute



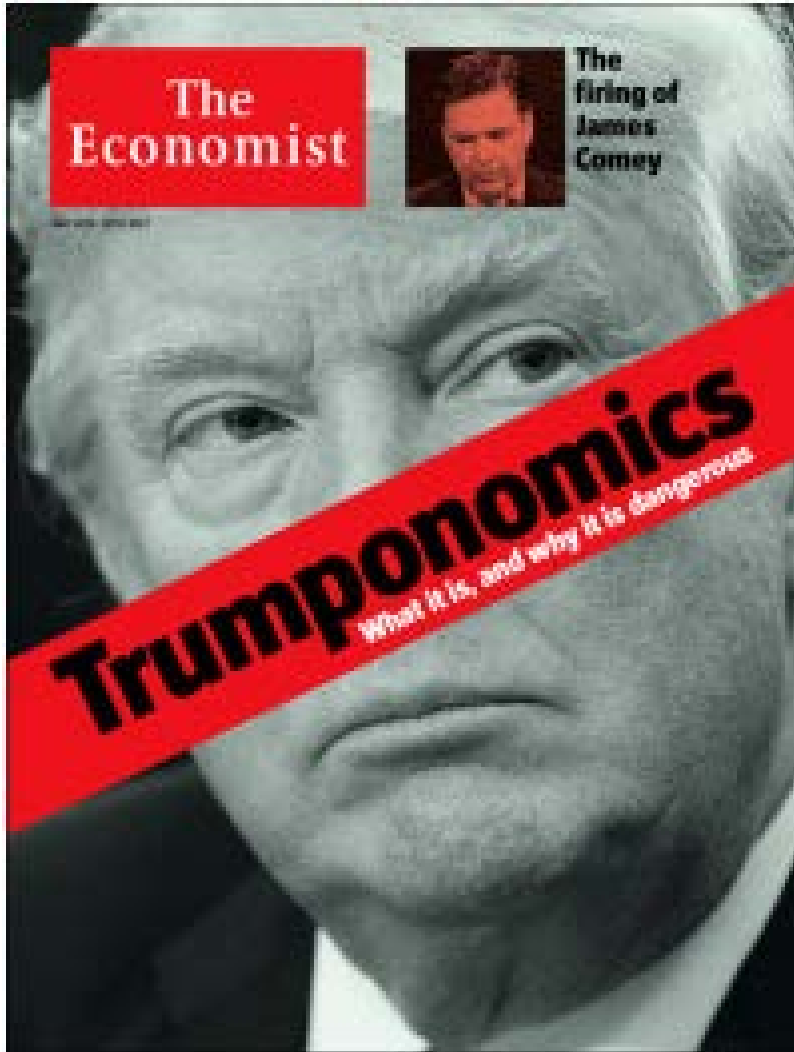
UNIVERSITY OF  
**SOUTH CAROLINA**

Darla Moore School of Business

# THE ECONOMY

***How Will “Trumponomics” Impact the Insurance Industry and the Overall Economy?***

# Trumponomics: The Essential Elements



## ■ 5 Elements

- ◆ Healthcare
- ◆ Fair Trade
- ◆ Deregulation
- ◆ Tax Reform
- ◆ Infrastructure Investment
- ◆ Immigration Reform/Enforcement

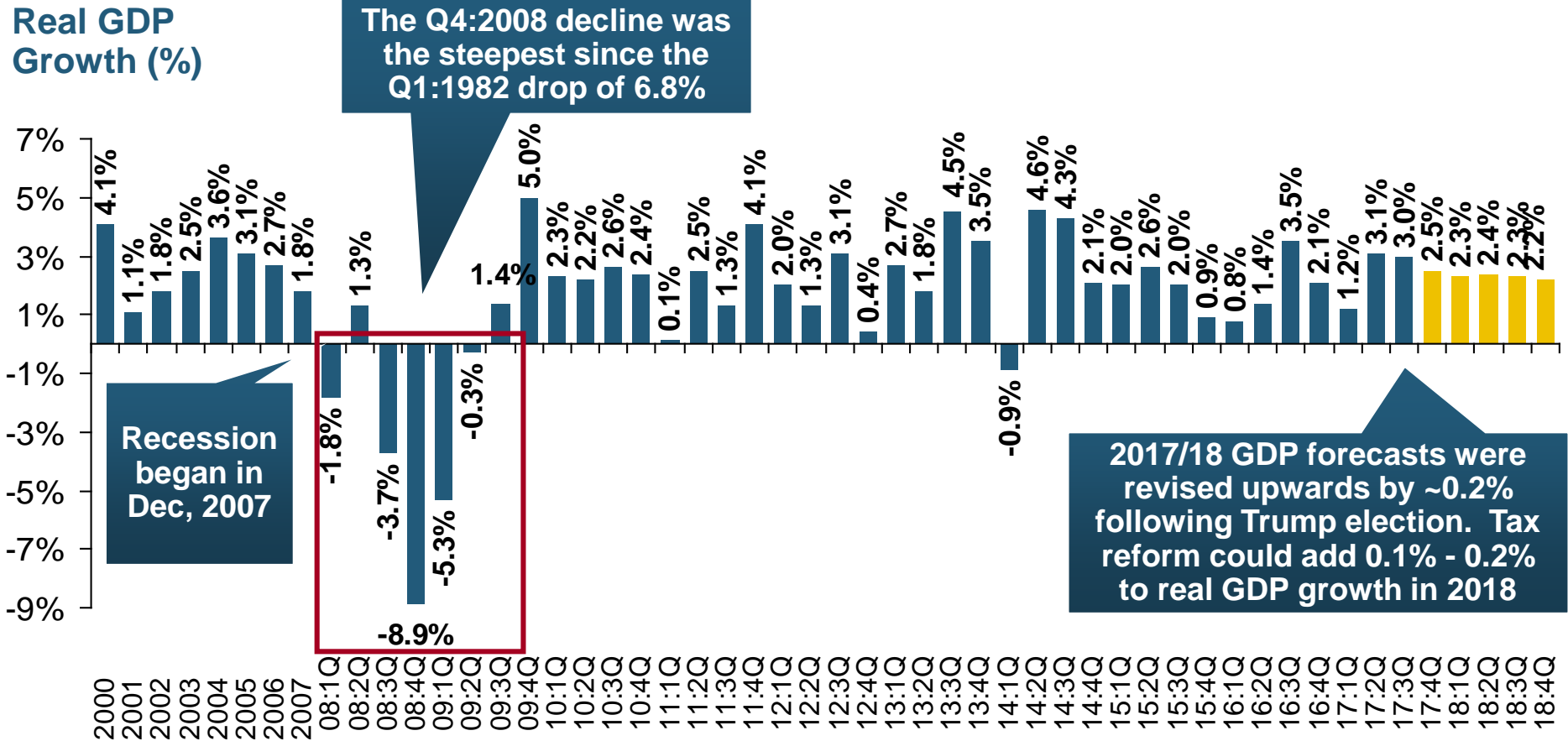
■ **Most of these have direct impacts for insurers**

# Awakening America's “Animal Spirits”

## *Economic Policy and the Insurance Industry*

**The Strength of the Economy Will  
Greatly Influence Insurer Exposure  
Base Across Most**

# US Real GDP Growth\*



**Demand for Insurance Should Increase in 2017-18 as GDP Growth Continues at a Steady, Albeit Moderate Pace and Gradually Benefits the Economy Broadly**

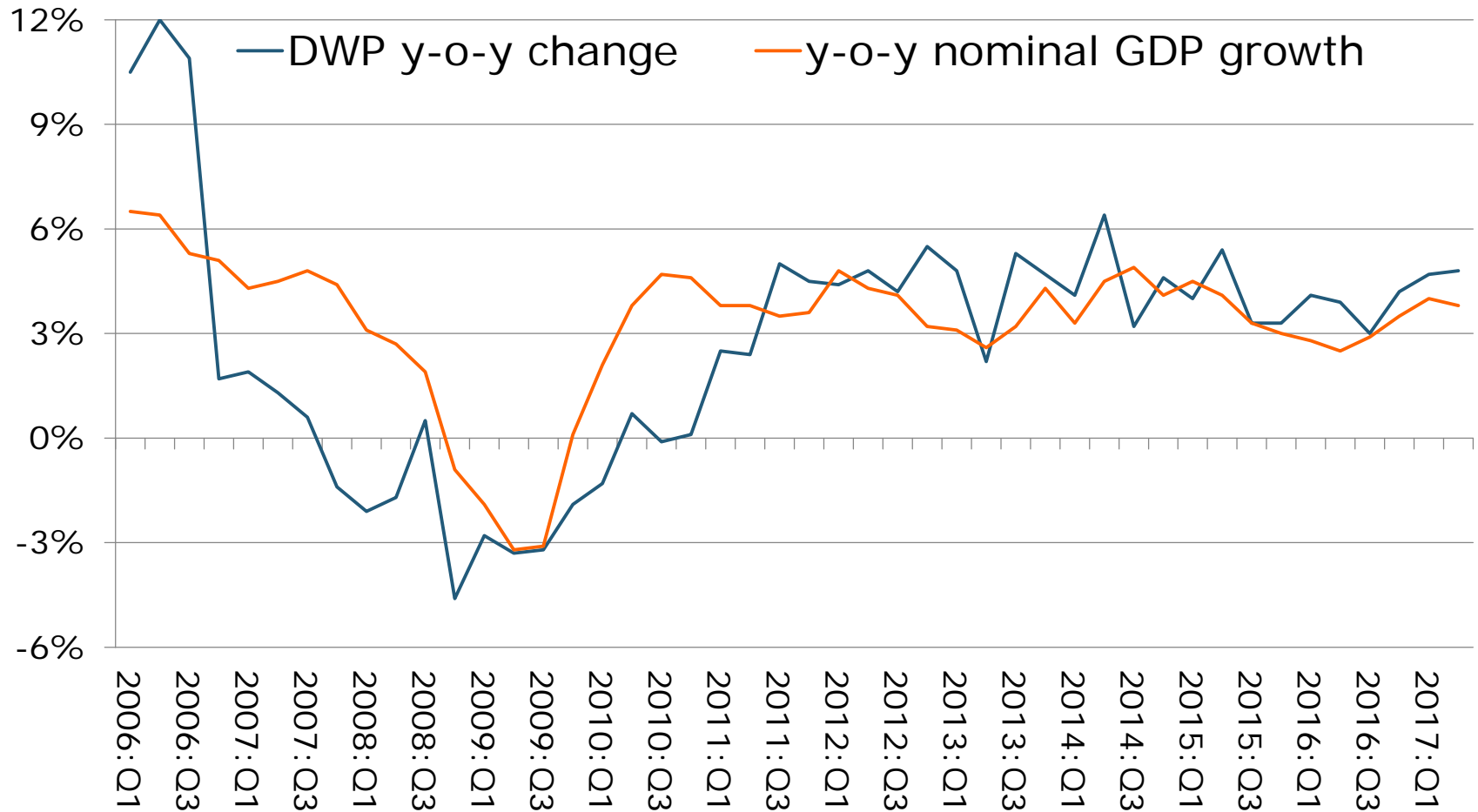
\* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 10/17; Insurance Information Institute.

# The Economy Drives P/C Insurance

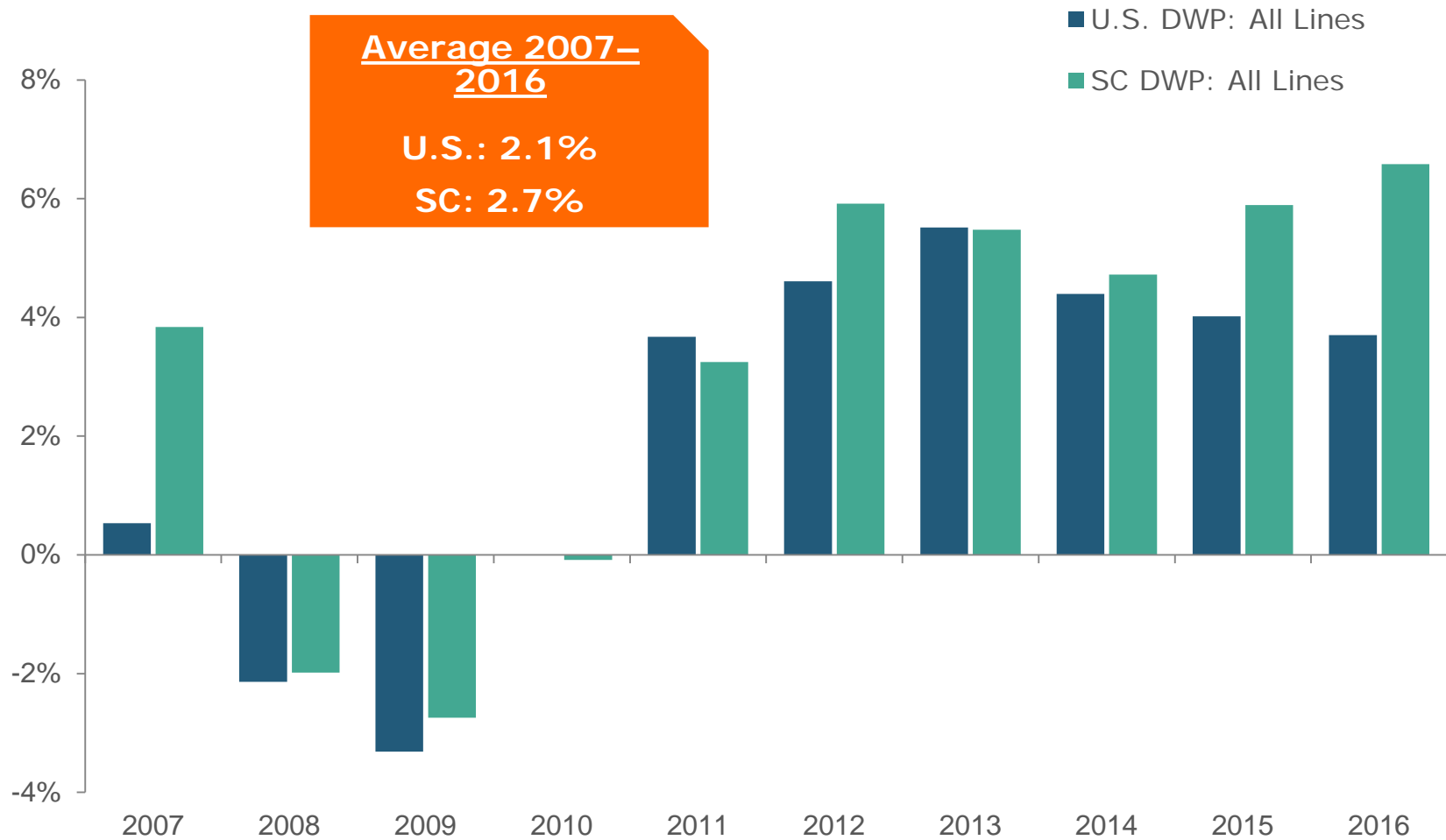
## Industry Premiums: 2006:Q1 – 2017:Q2

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



**Direct Written Premiums track Nominal GDP—not quarter by quarter but overall fairly well.**

# All Lines Direct Written Premium Growth: SC vs. U.S.: 2007–2016



# Animal Spirits: Unleashed from the Oval Office?



Donald J. Trump [@realDonaldTrump](#) · 5h

Great optimism in America – and the results will be even better!



## Optimism Among U.S. CEOs Shows Biggest Increa...

Optimism among chief executive officers of some of the largest U.S. companies jumped in the first quarter by the most since the economy was emerging from the last ...

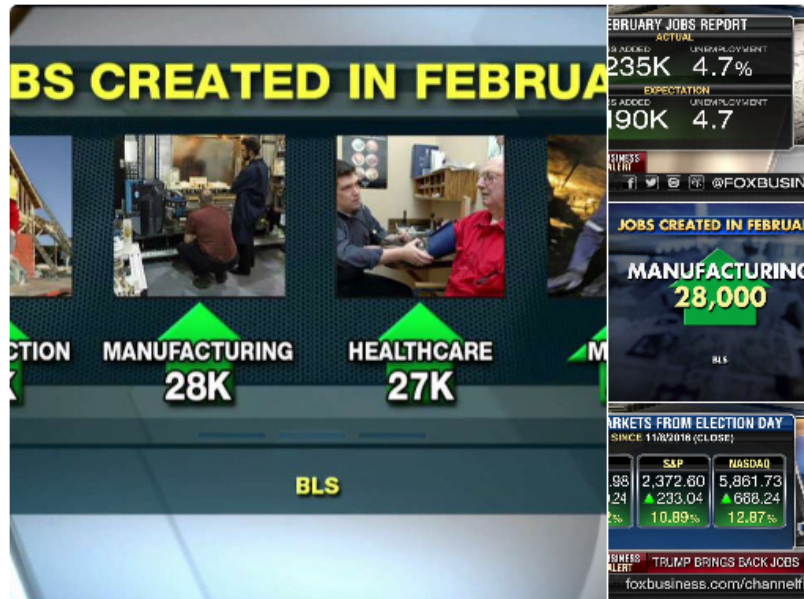
[bloomberg.com](#)

7.2K 5.5K 26K



Donald J. Trump [@realDonaldTrump](#) · 6h

JOBS, JOBS, JOBS!



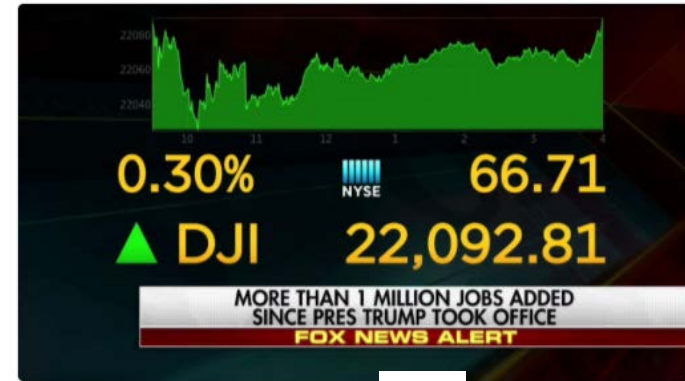
12K 14K 53K

Donald J. Trump Retweeted

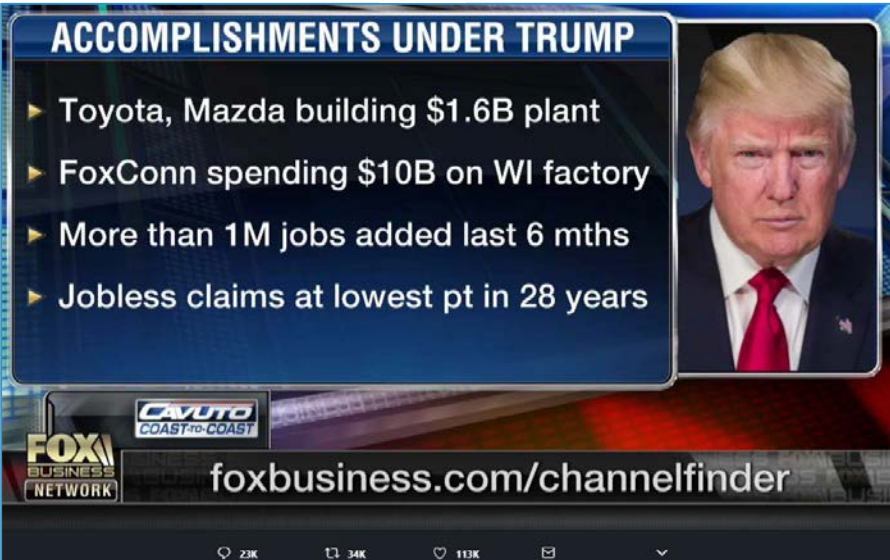


Fox News [@FoxNews](#) · Aug 4

More than 1 million jobs added since @POTUS took office. [bit.ly/2ffker3](#)



6.7K 11K 35K

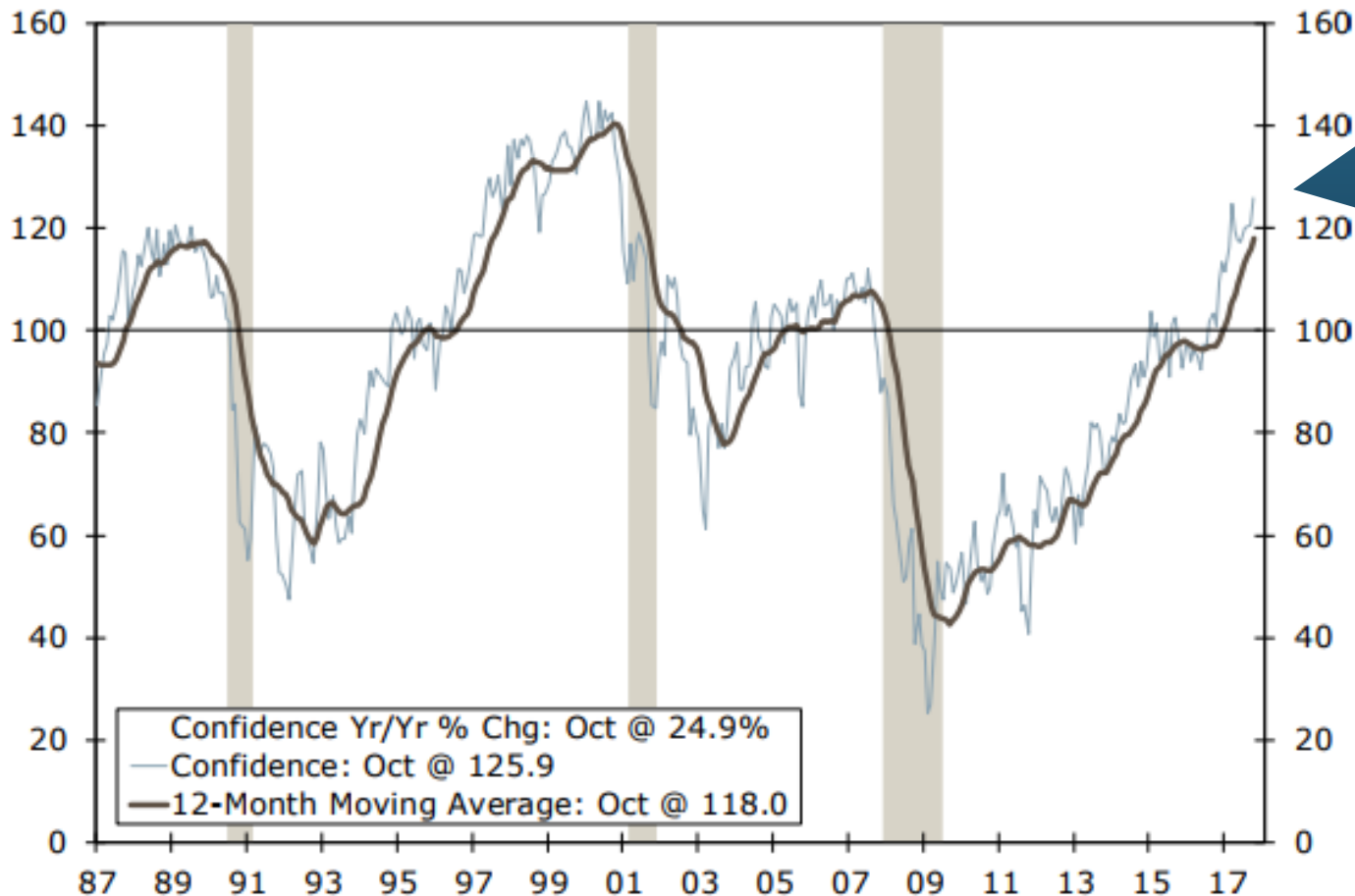


23K 34K 113K





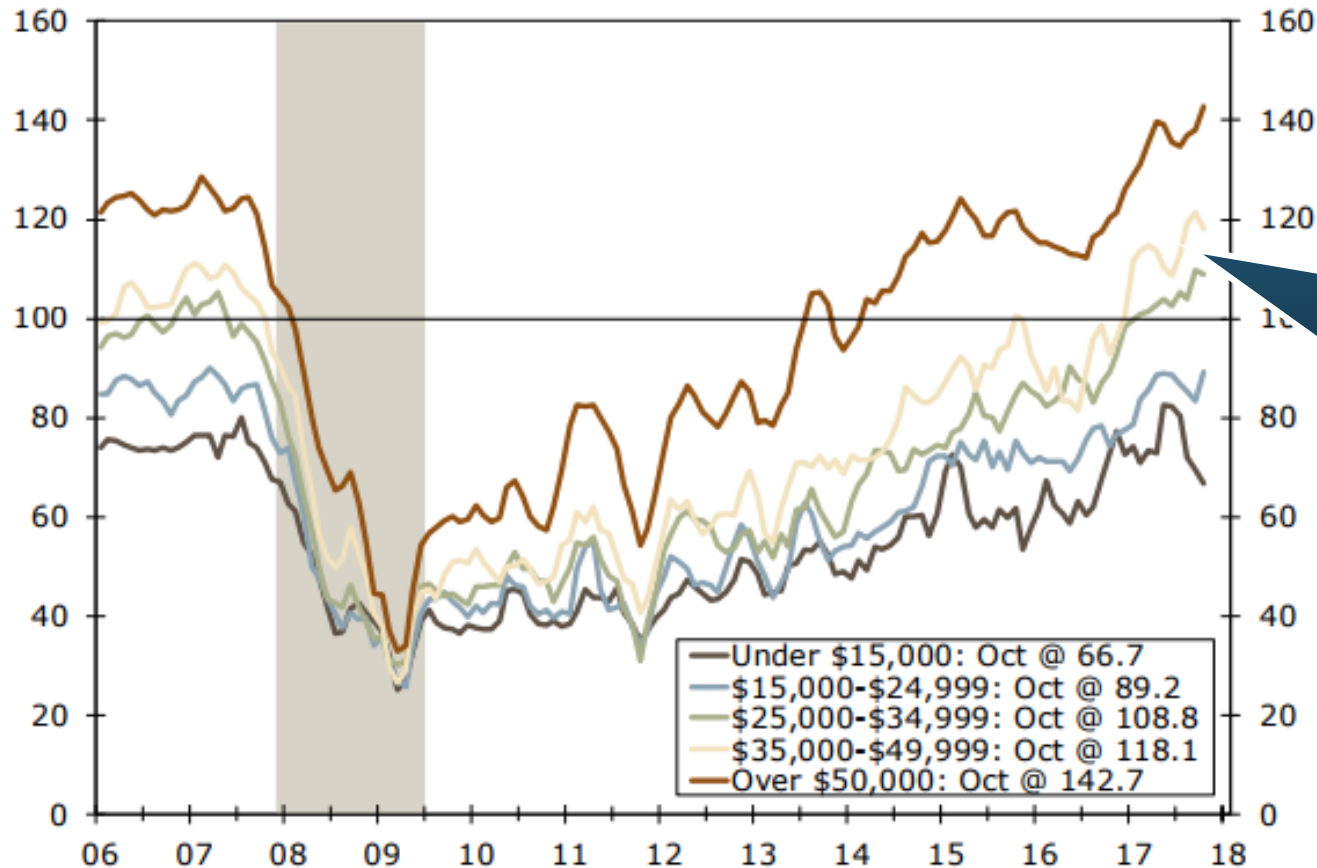
# Consumer Confidence Index: Jan. 1987 – Oct. 2017



The Conference Board's Consumer Confidence Index stood at 125.9 in Oct., a post-recession high

**Outlook: Consumers are optimistic about the future, which is consistent with expectations for stronger economic growth (consumers account for nearly 70% of all spending in the economy). Should positively influence business investment.**

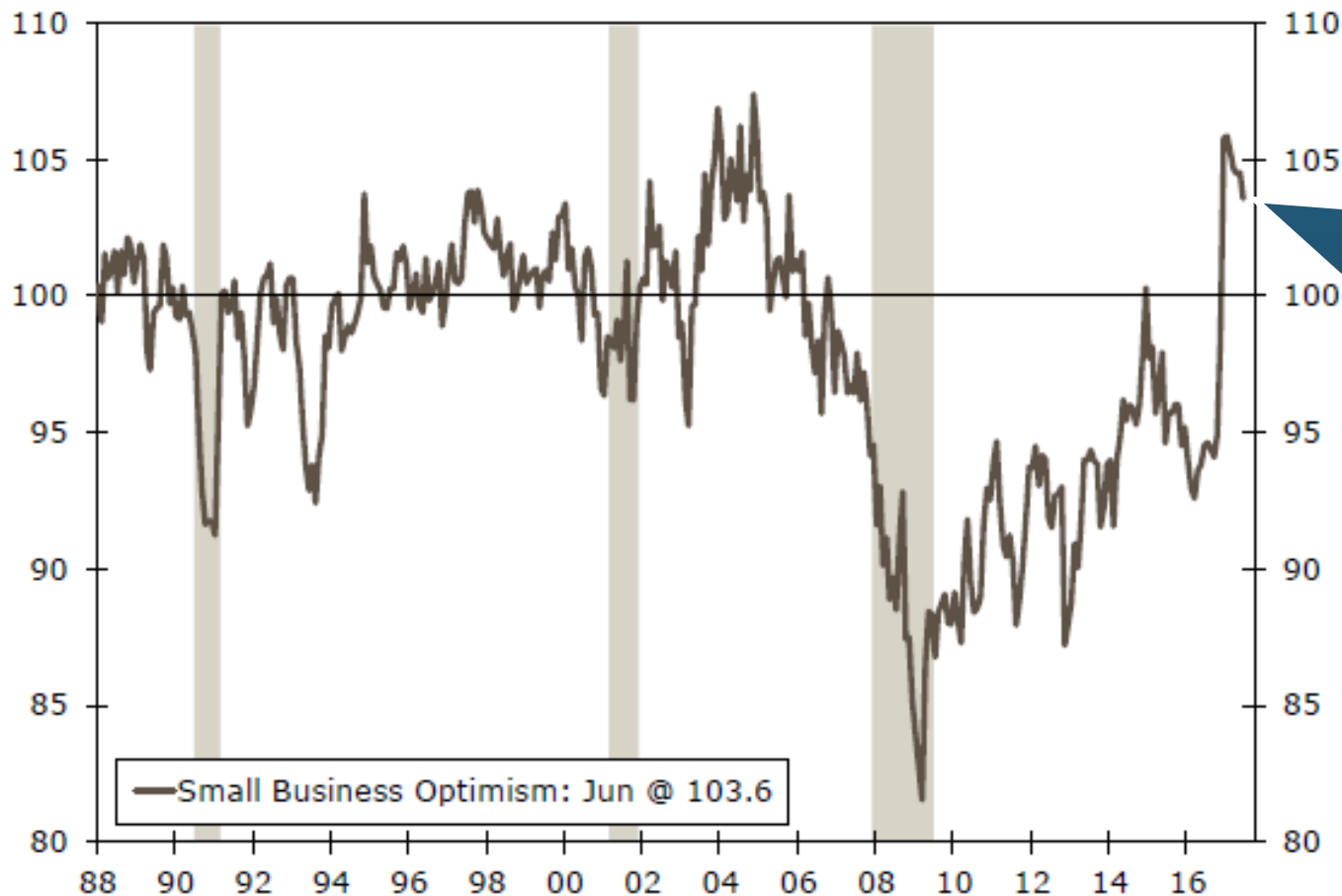
# Consumer Confidence by Household Income: Jan. 1985 – Oct. 2017



Optimism is up across all income levels, though those with incomes below \$25K are lagging behind

**Outlook: Consumers are optimistic about the future, which is consistent with expectations for stronger economic growth (consumers account for nearly 70% of all spending in the economy). Should positively influence business investment.**

# NFIB Small Business Optimism Index: Jan. 1988 – June 2017

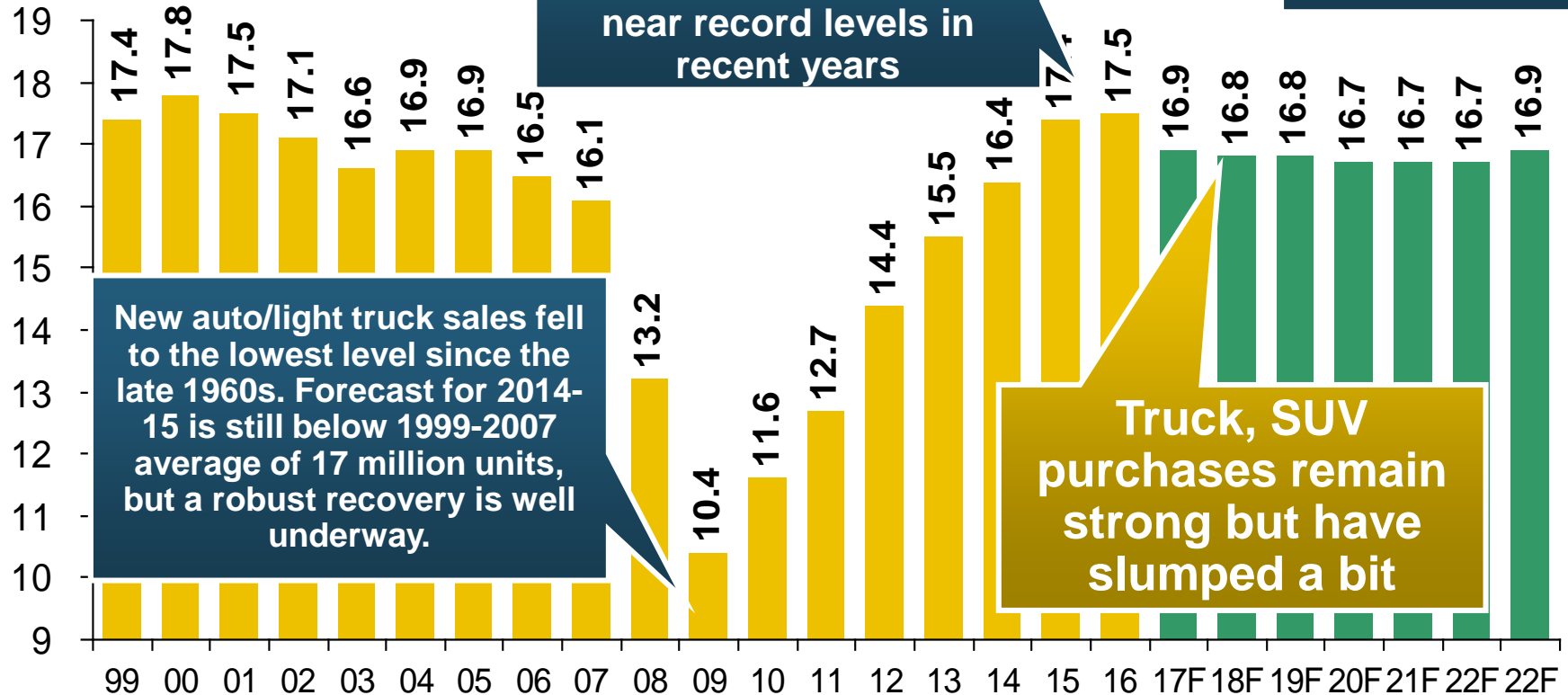


The NFIB's Index of Small Business Optimism remains near recent highs, but slipped in June as hopes for significant regulatory and tax reform fade

**Outlook: Small businesses are much more optimistic about the future**

# Auto/Light Truck Sales, 1999-2023F

(Millions of Units)



Job growth and improved credit market conditions boosted auto sales to near record levels in recent years

Sales have returned to pre-crisis levels

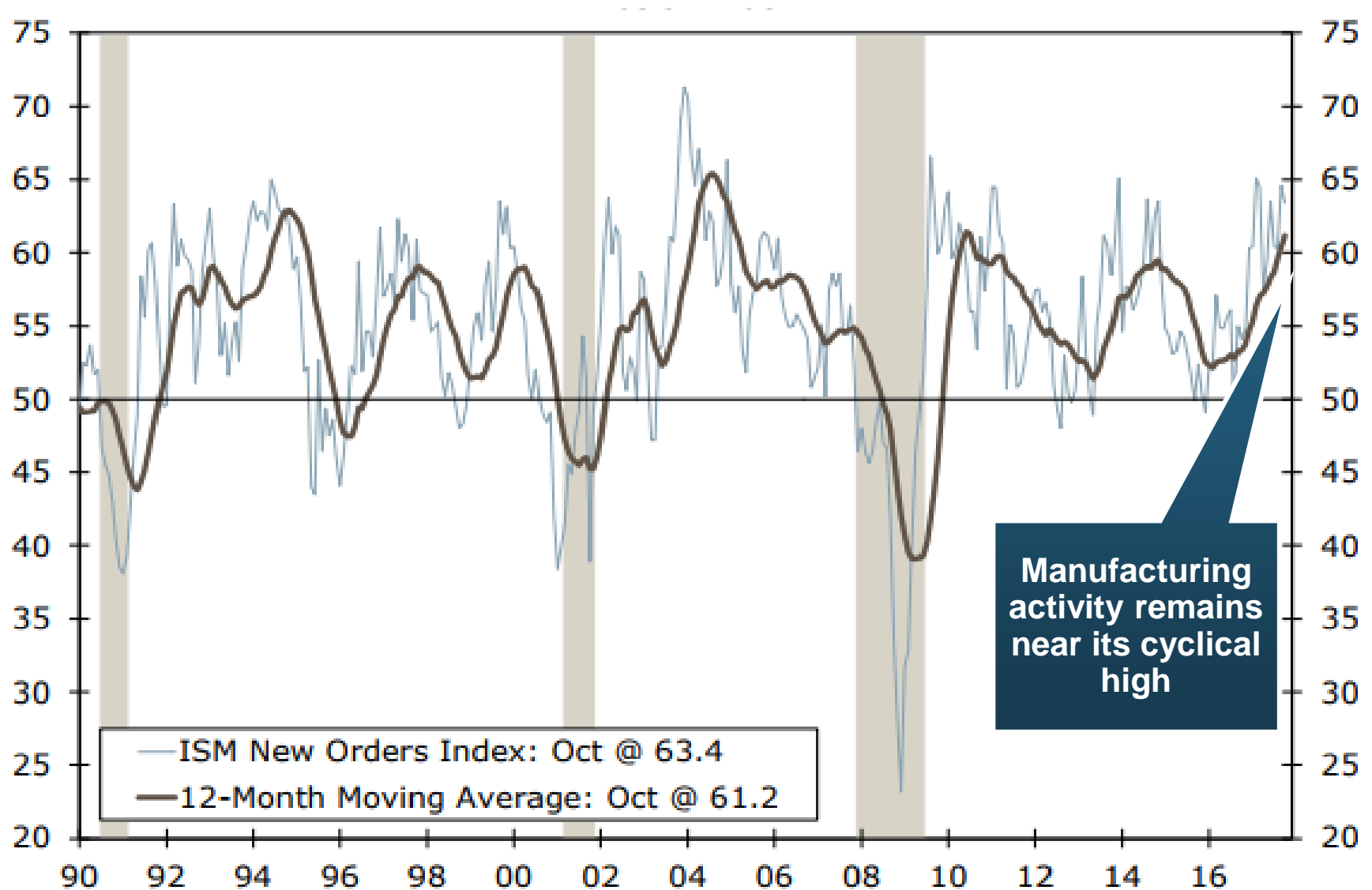
New auto/light truck sales fell to the lowest level since the late 1960s. Forecast for 2014-15 is still below 1999-2007 average of 17 million units, but a robust recovery is well underway.

Truck, SUV purchases remain strong but have slumped a bit

Yearly car/light truck sales are slowing slightly, as demand tapers following the recovery from the recession. PP Auto premium might grow by 3.5% - 5%.

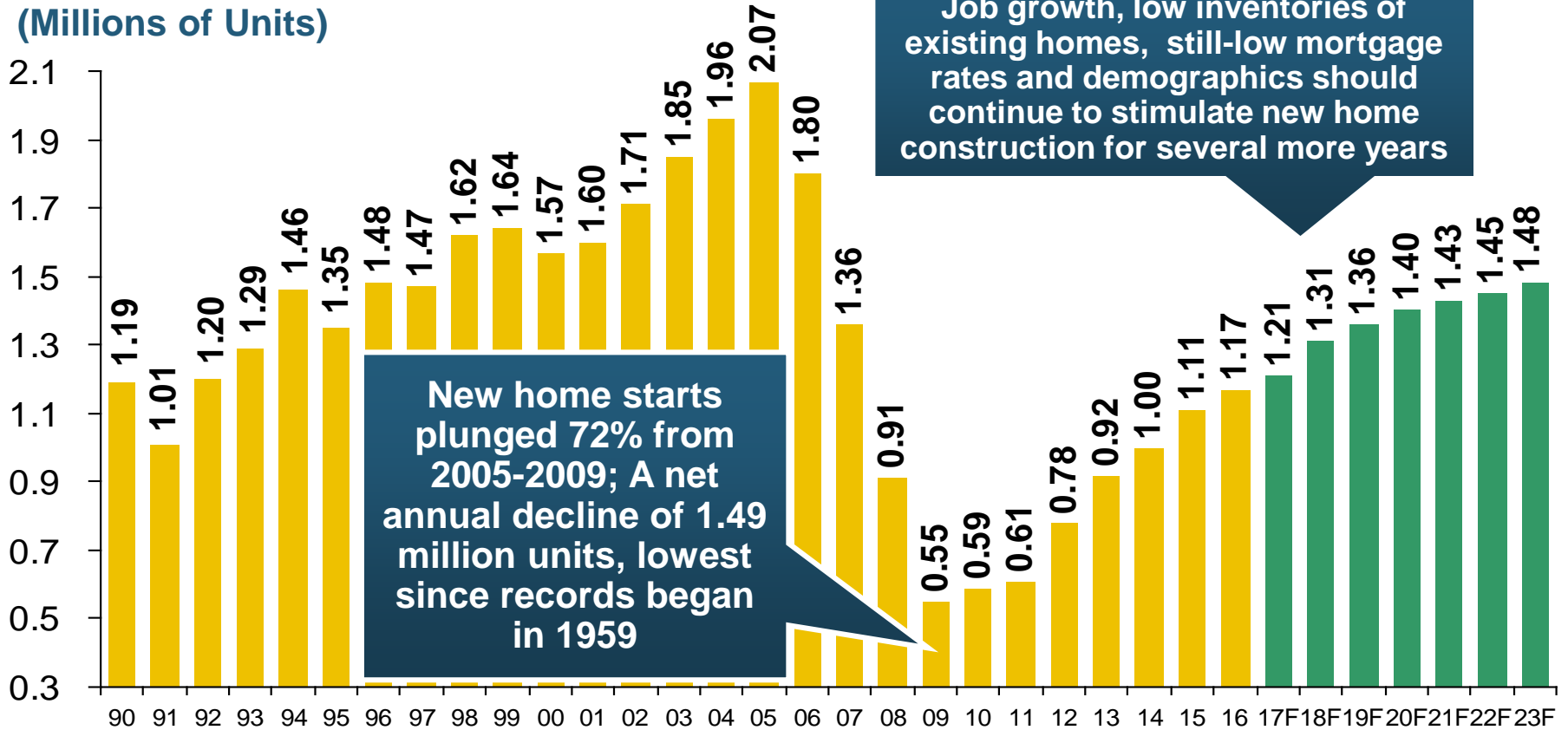
# Manufacturing: ISM New Orders Index

## Jan. 1990 – Oct. 2017 (>50 implies expansion)



# New Private Housing Starts, 1990-2023F

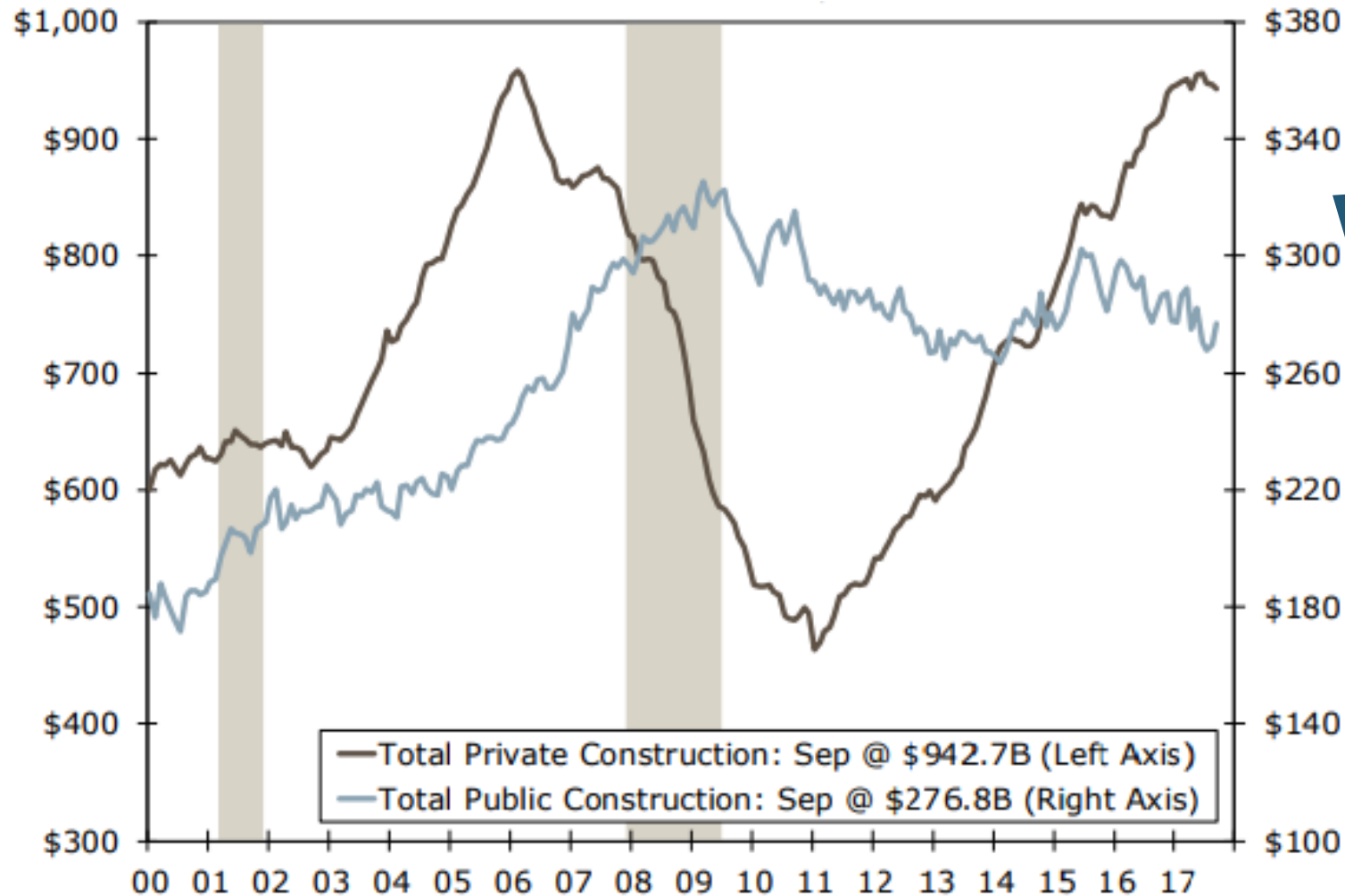
(Millions of Units)



**Insurers Are Continue to See Meaningful Exposure Growth in the Wake of the “Great Recession” Associated with Home Construction: Construction Risk Exposure, Surety, Commercial Auto; Potent Driver of Workers Comp Exposure**

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (19/17 for 2017-18; 10/17 for 2018-23F; Insurance Information Institute.

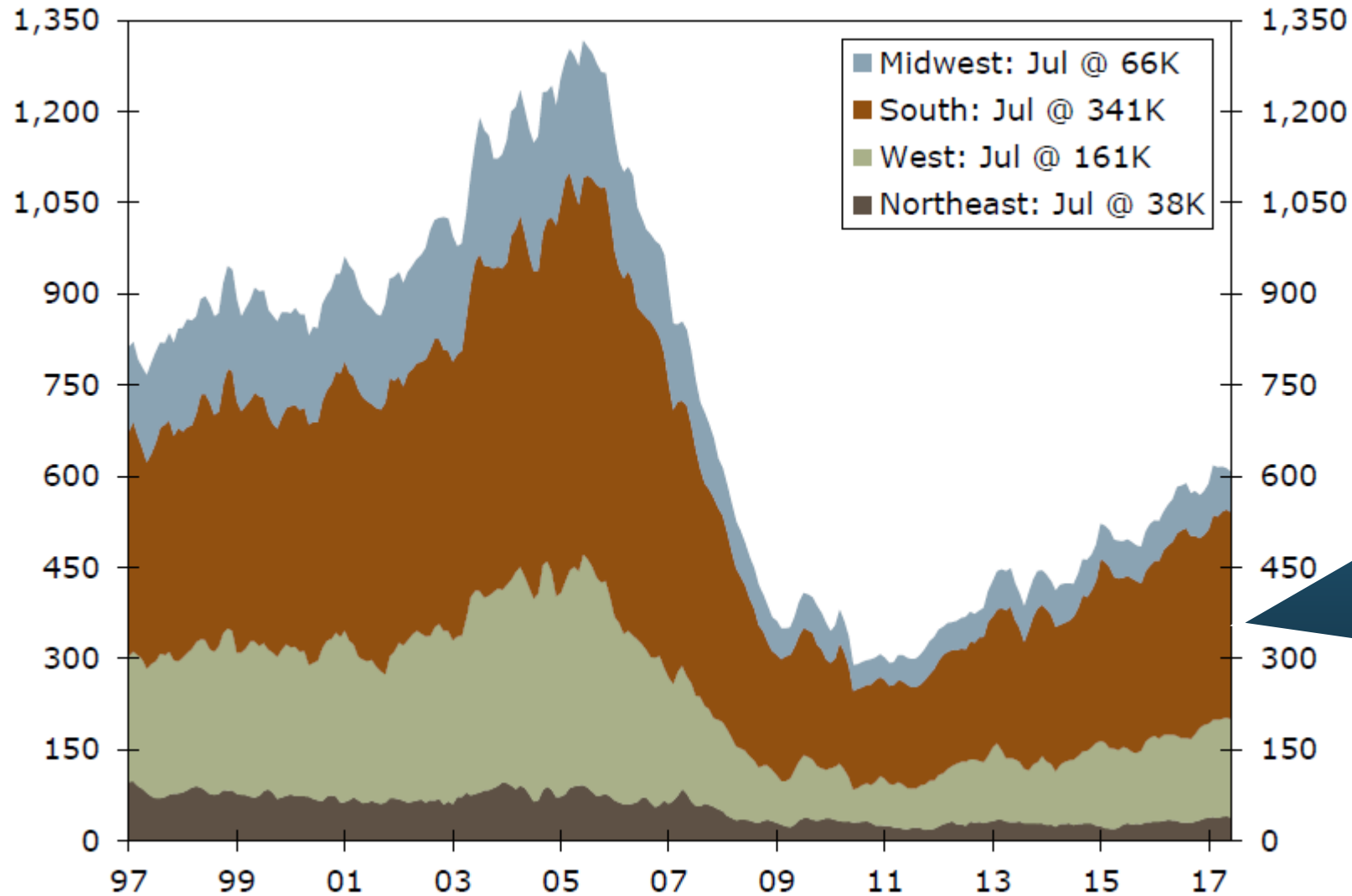
# Construction Spending: Jan. 2000 – Oct. 2017 (\$ Bill)



Private (but not public) construction spending remains relatively strong. Public construction spending could benefit from a boost in infrastructure investment

# New Home Sales: By Region

## Jan. 1989 – July 2017 (thousands, annual rate)

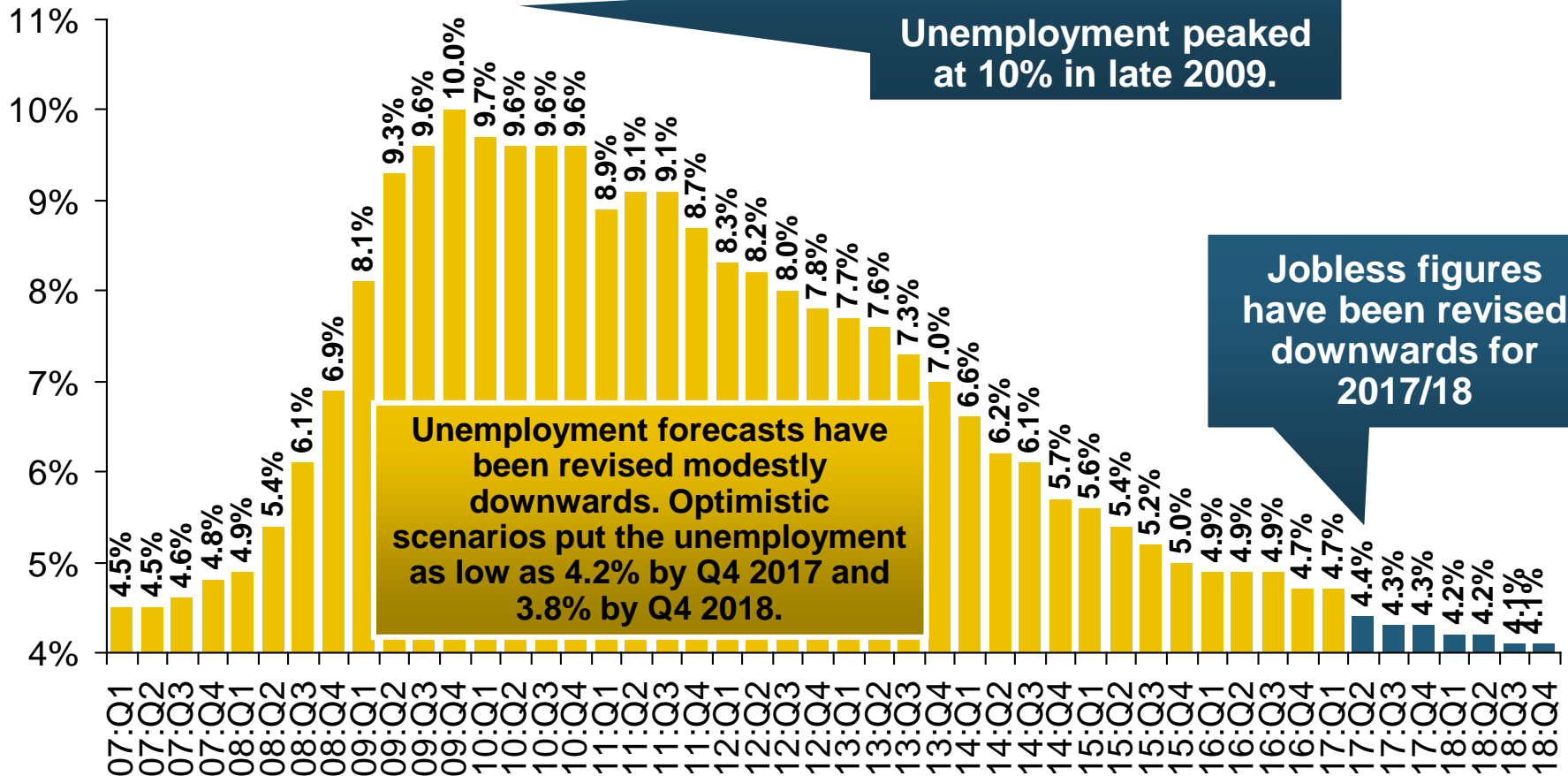


New home sales are strongest in the South, West



# US Unemployment Rate Forecast

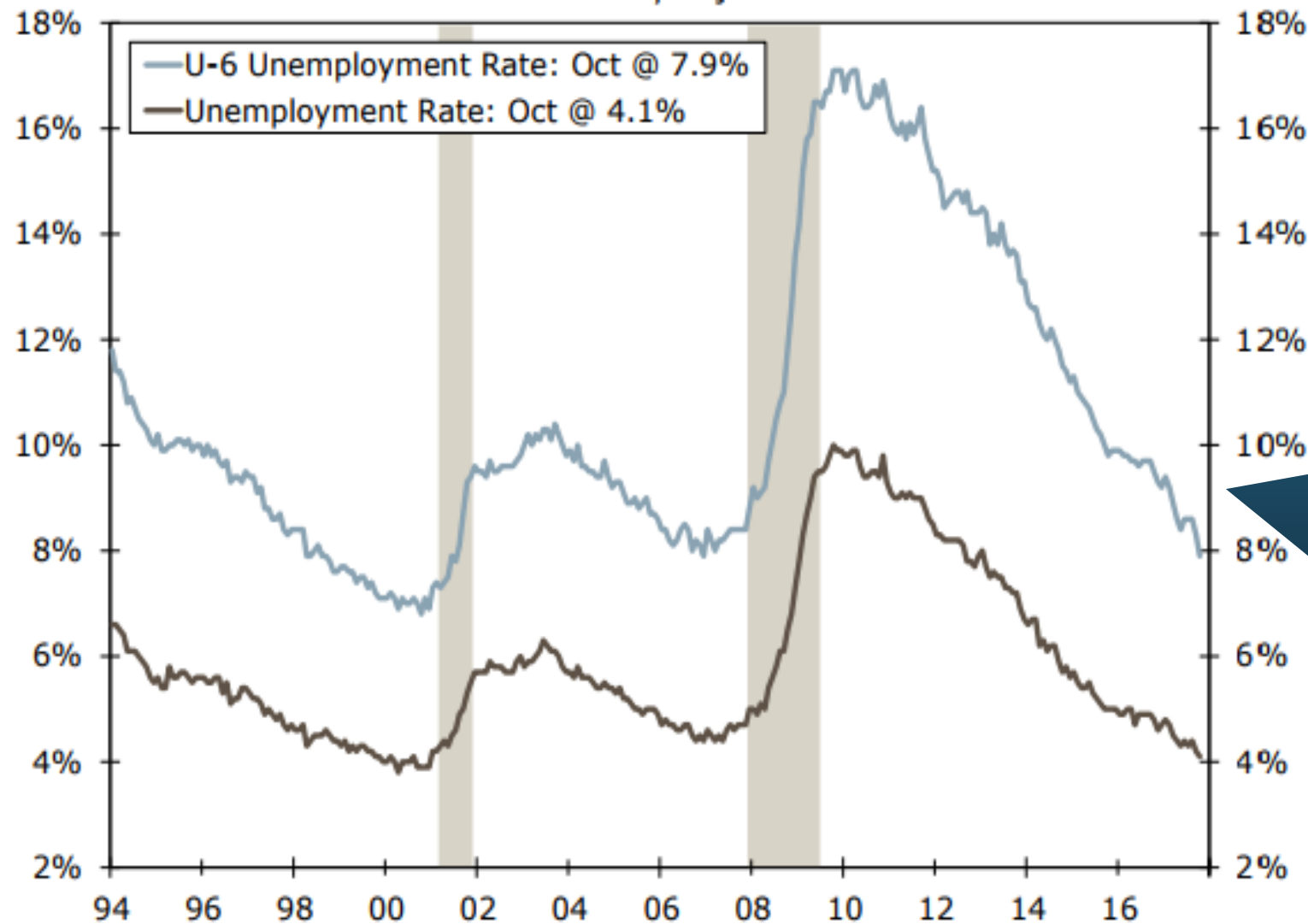
2007:Q1 to 2018:Q4F\*



\* ■ = actual; ■ = forecasts

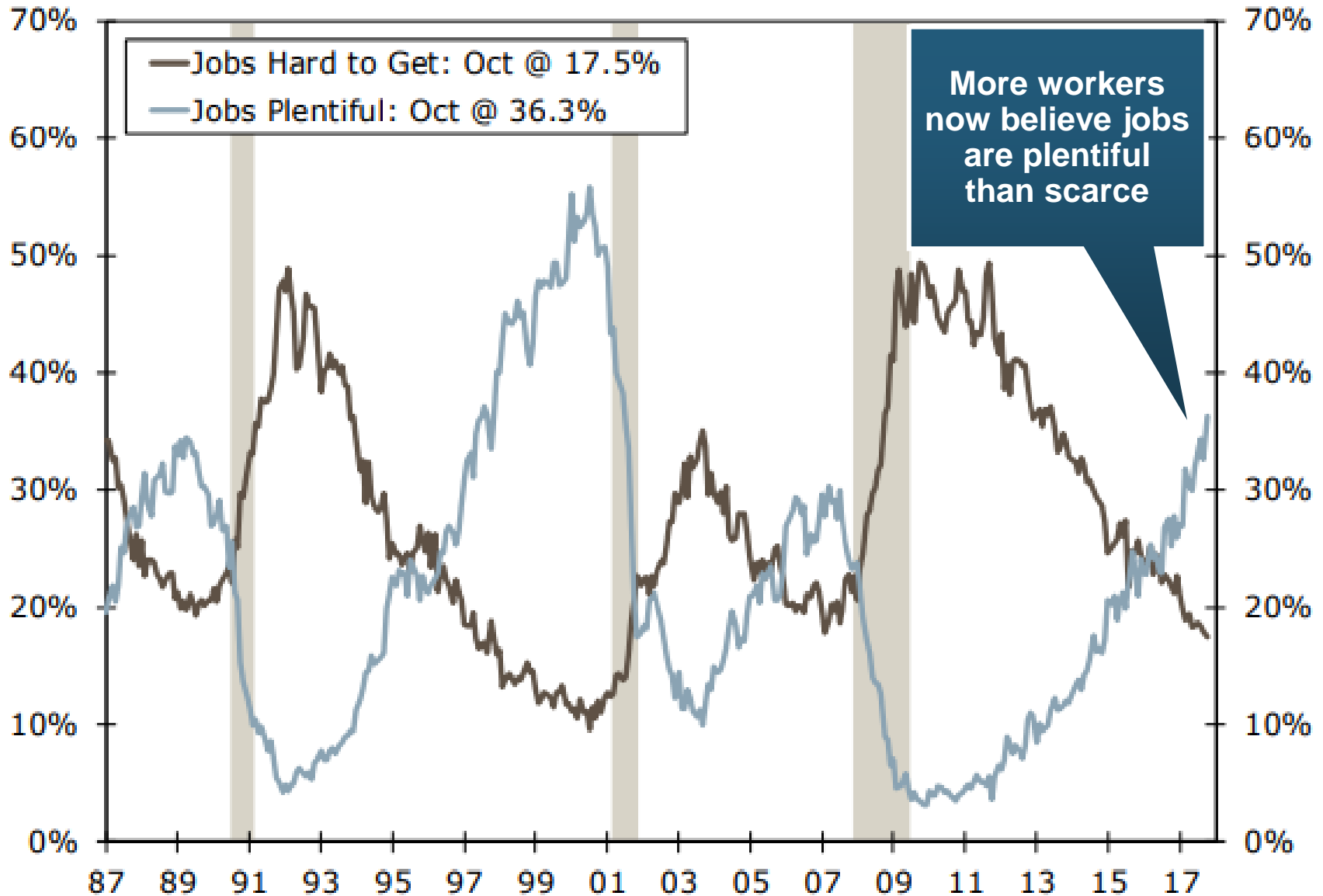
Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (10/17 edition); Insurance Information Institute.

# Unemployment vs. Underemployment: Jan. 1994 – Oct. 2017 (\$ Bill)



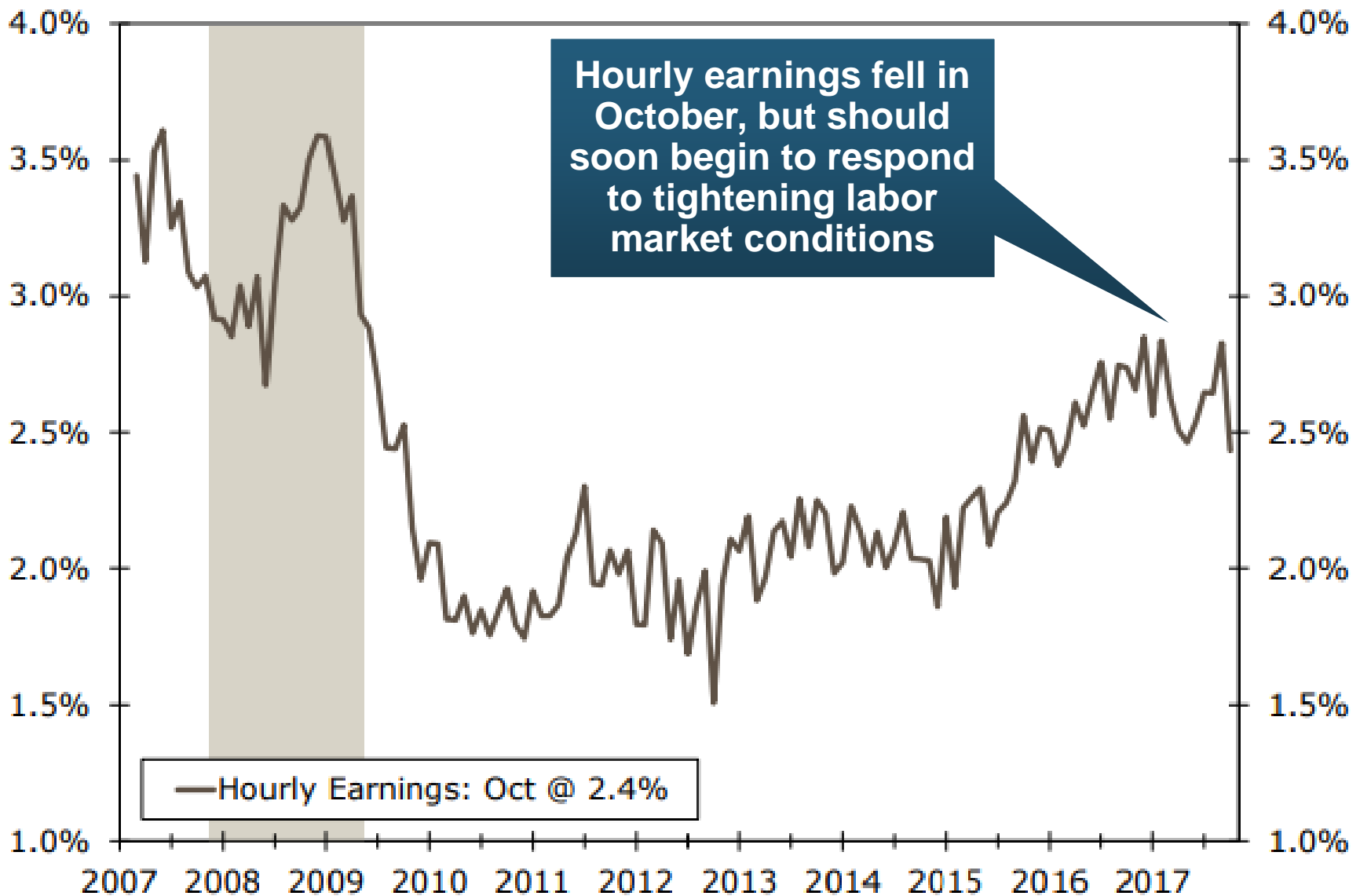
The number of “discouraged workers” continues to fall, from nearly 18% in 2010 to 7.9% in Oct. 2017

# Jobs Plentiful vs. Hard to Get: Jan. 1987 – Oct. 2017 (\$ Bill)



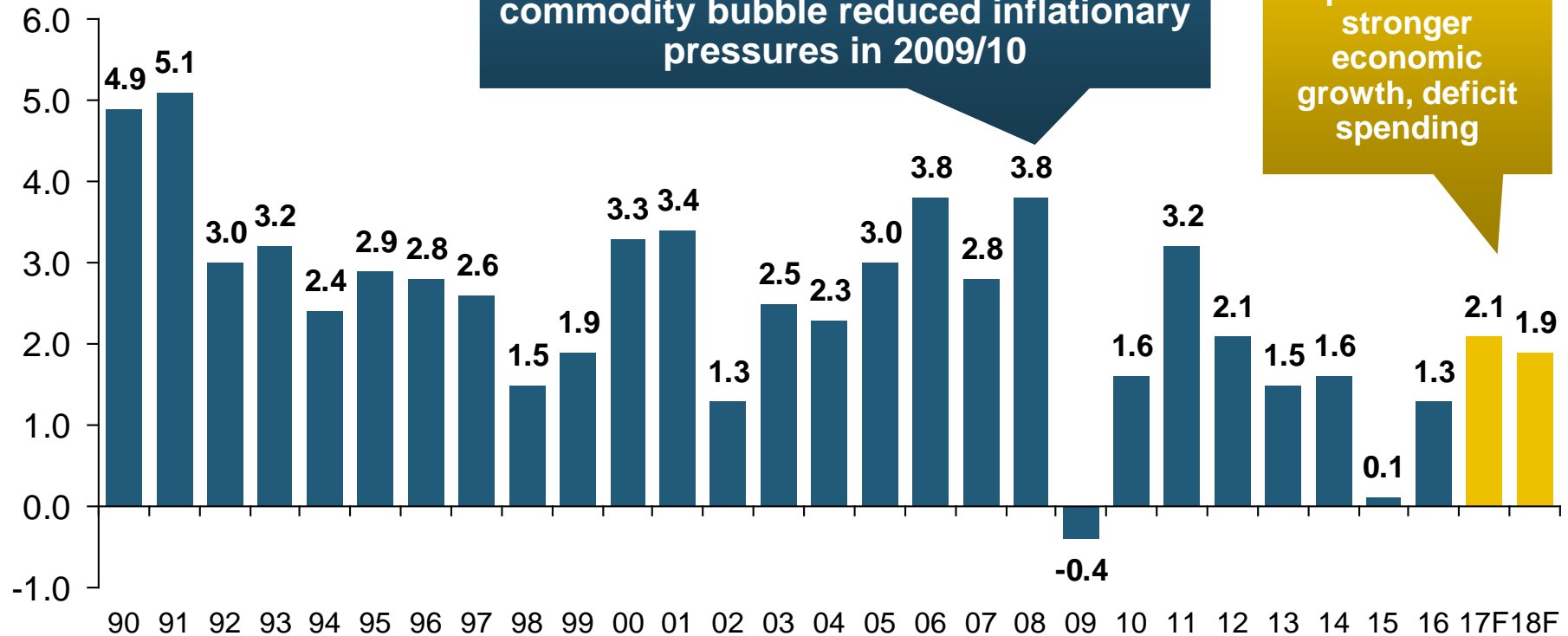
Source: The Conference Board; Wells Fargo Research.

# Average Hourly Earnings: Jan. 2007 – Oct. 2017 (\$ Bill)



# Annual Inflation Rates, (CPI-U, %), 1990–2018F

Annual Inflation Rates (%)



Inflation peaked at 5.6% in August 2008 on high energy and commodity crisis. The recession and the collapse of the commodity bubble reduced inflationary pressures in 2009/10

Inflationary expectations are up on expectations of stronger economic growth, deficit spending

Slack in the U.S. economy and falling energy prices suggests that inflationary pressures should remain subdued for an extended period of times

# INVESTMENTS: THE NEW REALITY

**Investment Performance is a Key  
Driver of Insurer Profitability**

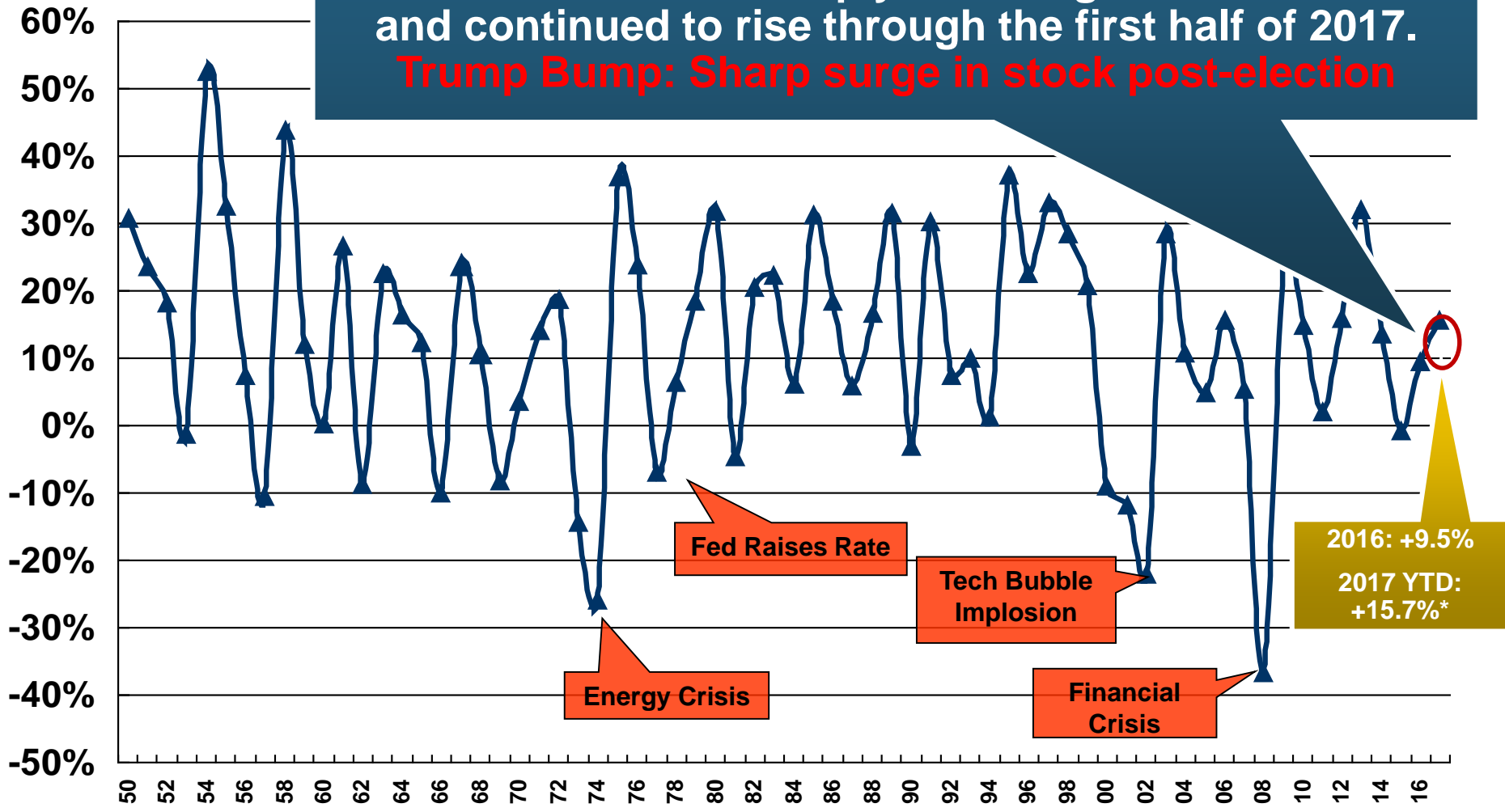
***The “Trump Bump” Has Lifted  
Stock Markets and Interest Rates***

***Will the Gains Help Insurers?***

# S&P 500 Index Returns, 1950 – 2017\*

Stock markets rose sharply following the 2016 election and continued to rise through the first half of 2017.  
**Trump Bump: Sharp surge in stock post-election**

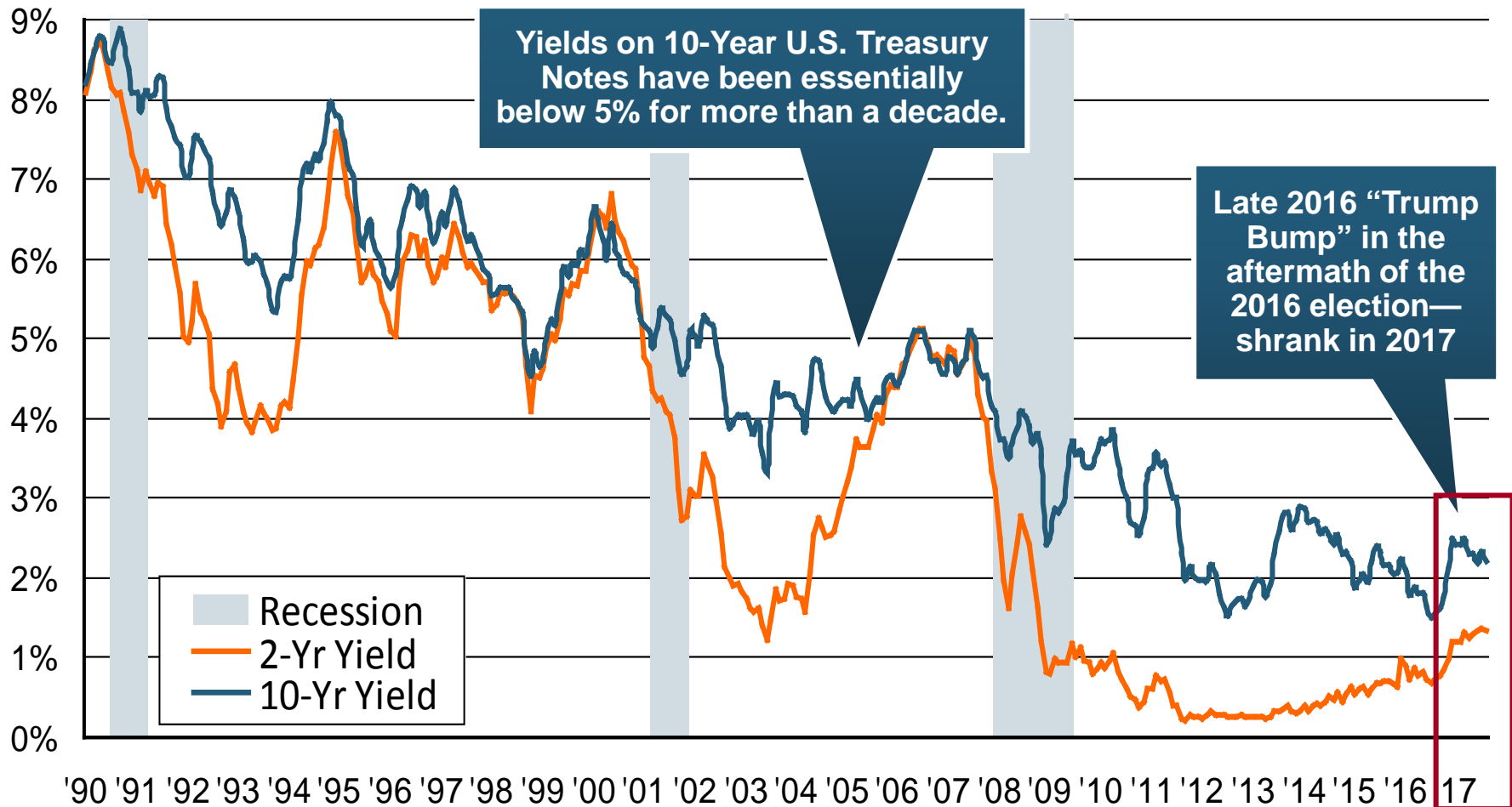
Annual Return



\*Through Nov. 7, 2017.

Source: NYU Stern School of Business: [http://pages.stern.nyu.edu/~adamodar/New\\_Home\\_Page/datafile/histretSP.html](http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html) Ins. Info. Inst.

# U.S. Treasury Security Yields: A Long Downward Trend, 1990–2017\*



**Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.**

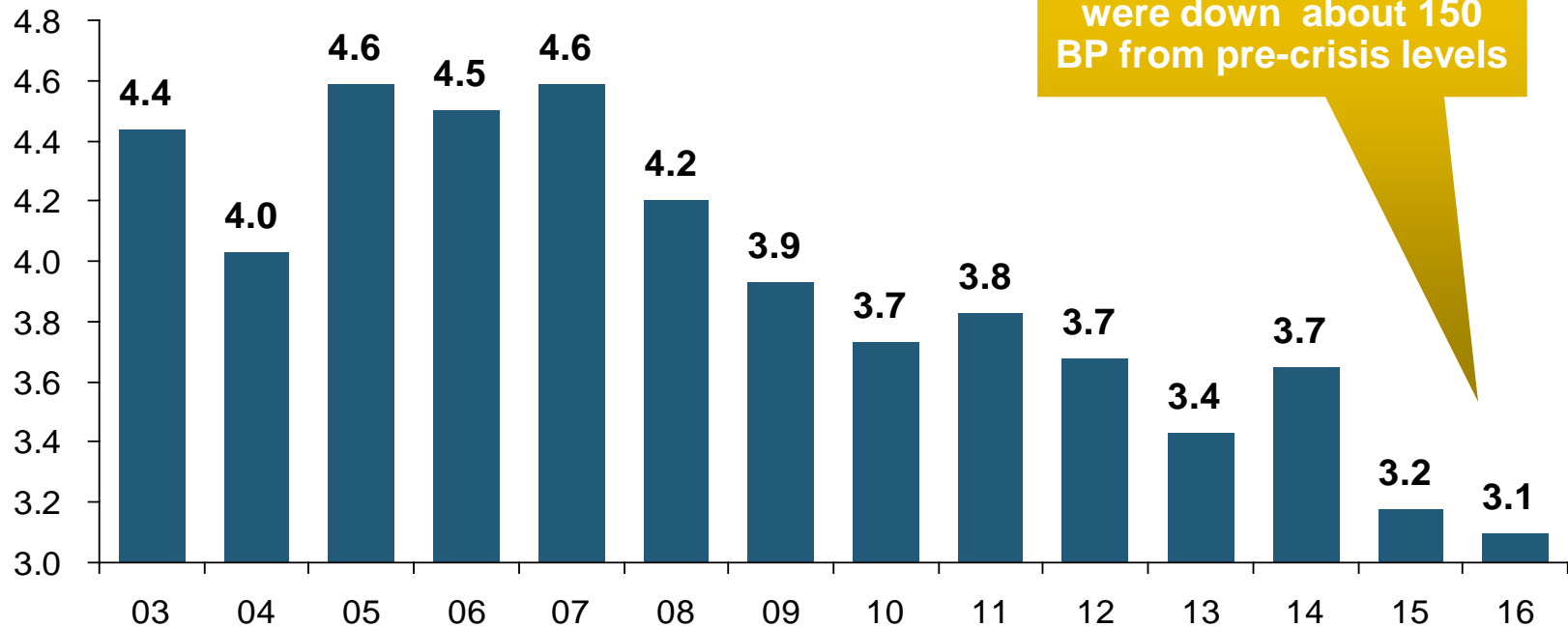
\*Monthly, constant maturity, nominal rates, through August 2017.

Sources: Federal Reserve Bank at <http://www.federalreserve.gov/releases/h15/data.htm>. National Bureau of Economic Research (recession dates); Insurance Information Institute.



# Net Investment Yield on Property/ Casualty Insurance Invested Assets, 2007–2016\*

(Percent)



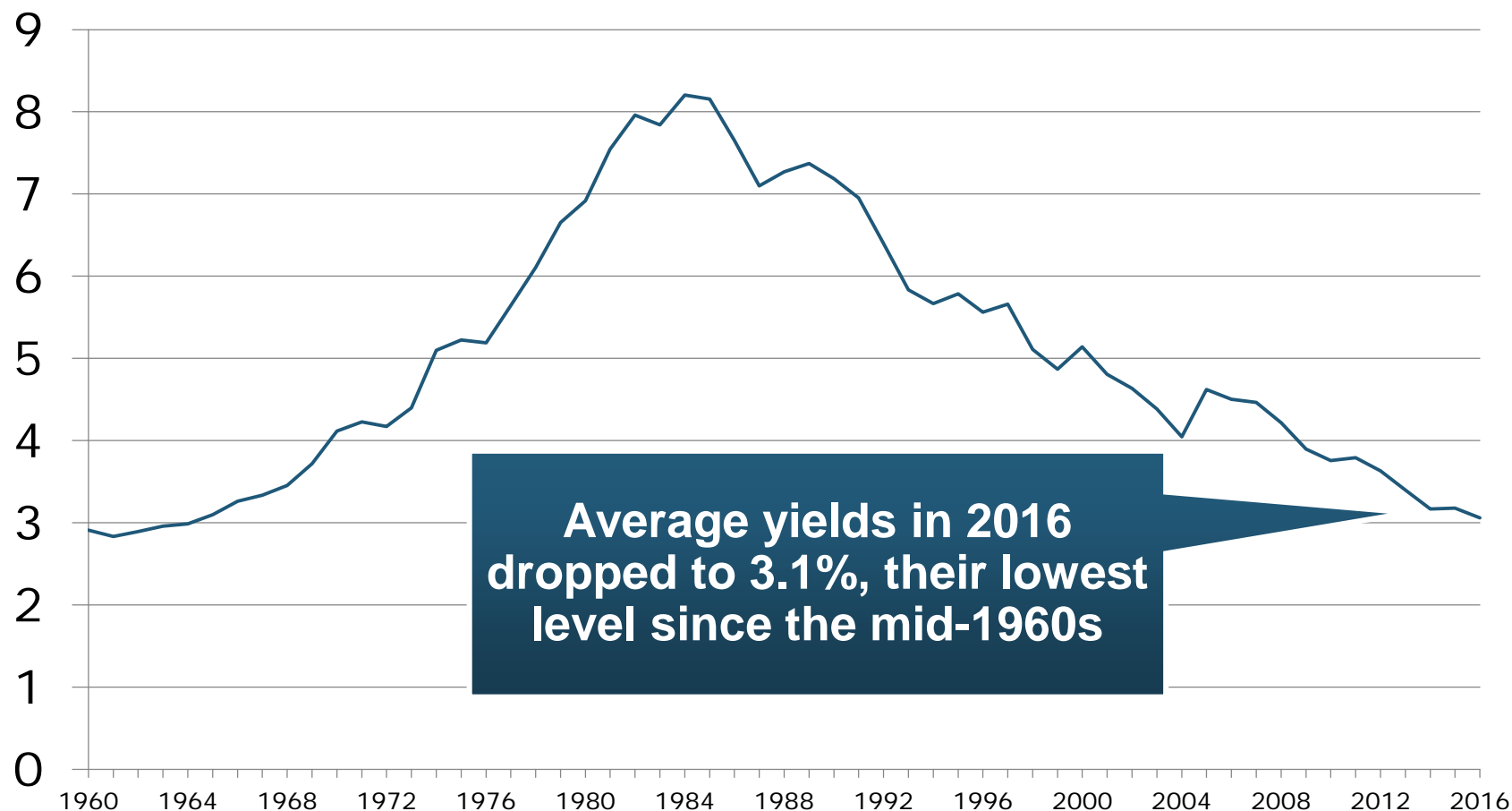
The yield on invested assets remains low relative to pre-crisis yields. Fed rate increases beginning in late 2015 have pushed up some yields, albeit quite modestly.



# P/C Insurer Investment Yields: Lowest in Half a Century

Yield on average cash and investment assets, %

% Change

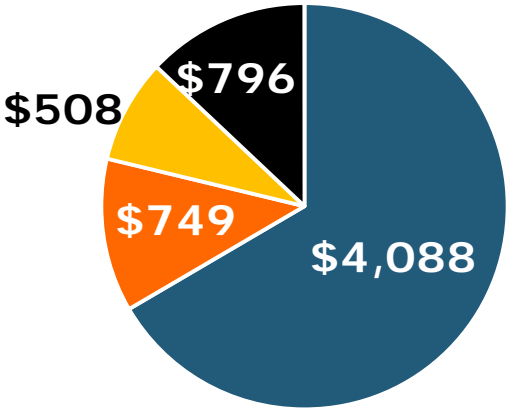


**Average yields in 2016  
dropped to 3.1%, their lowest  
level since the mid-1960s**

# Insurers Are Major Investors, 2016\*

## Categories of Investments (\$billions)

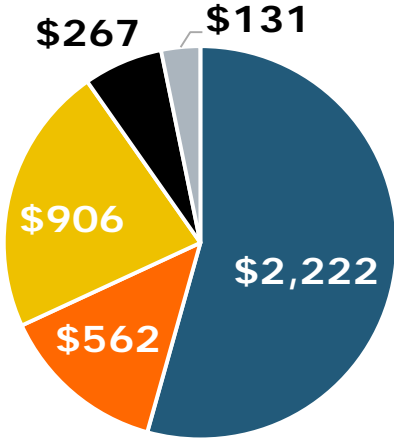
Total invested assets: \$6.1 trillion\*



- Bonds
- Stock
- Mortgages & Real Estate
- Other

## Categories of Bonds (\$billions)

22% of corporate bonds outstanding  
15% of municipal bonds outstanding

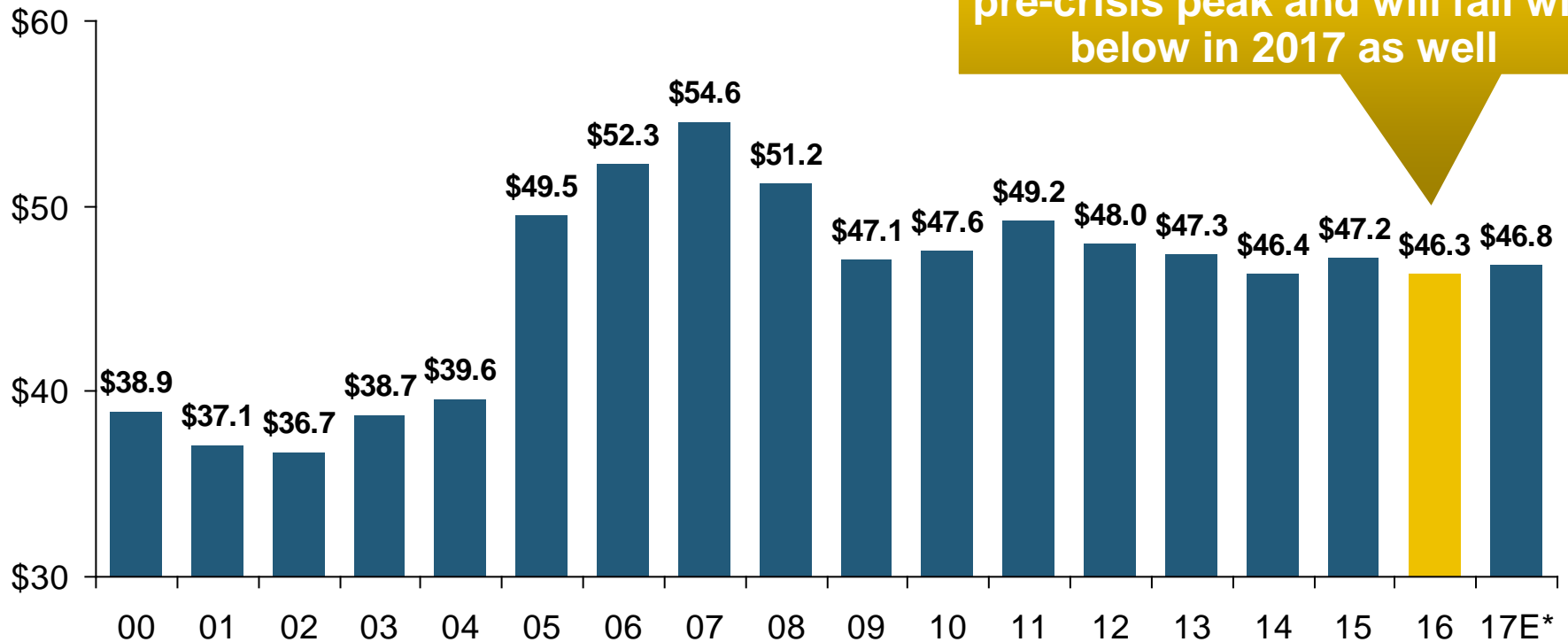


- Corporates
- Munis
- Mortgage & Asset-Backed
- US Gov't
- Other

\*Includes affiliated and unaffiliated investments. All segments of the insurance industry.  
Sources: NAIC (the Center for Insurance Policy and Research, August 24, 2017) via SNL Financial; I.I.I.

# Property/Casualty Insurance Industry Investment Income: 2000–2017E\*

(\$ Billions)



Investment earnings in 2016 were still 15% below their 2007 pre-crisis peak and will fall below in 2017 as well

Due to persistently low interest rates, investment income fell in 2012, 2013 and 2014 but showed a small (1.7%) increase in 2015—though 2016 experienced another decline.

<sup>1</sup> Investment gains consist primarily of interest and stock dividends. Sources: ISO; Insurance Information Institute.

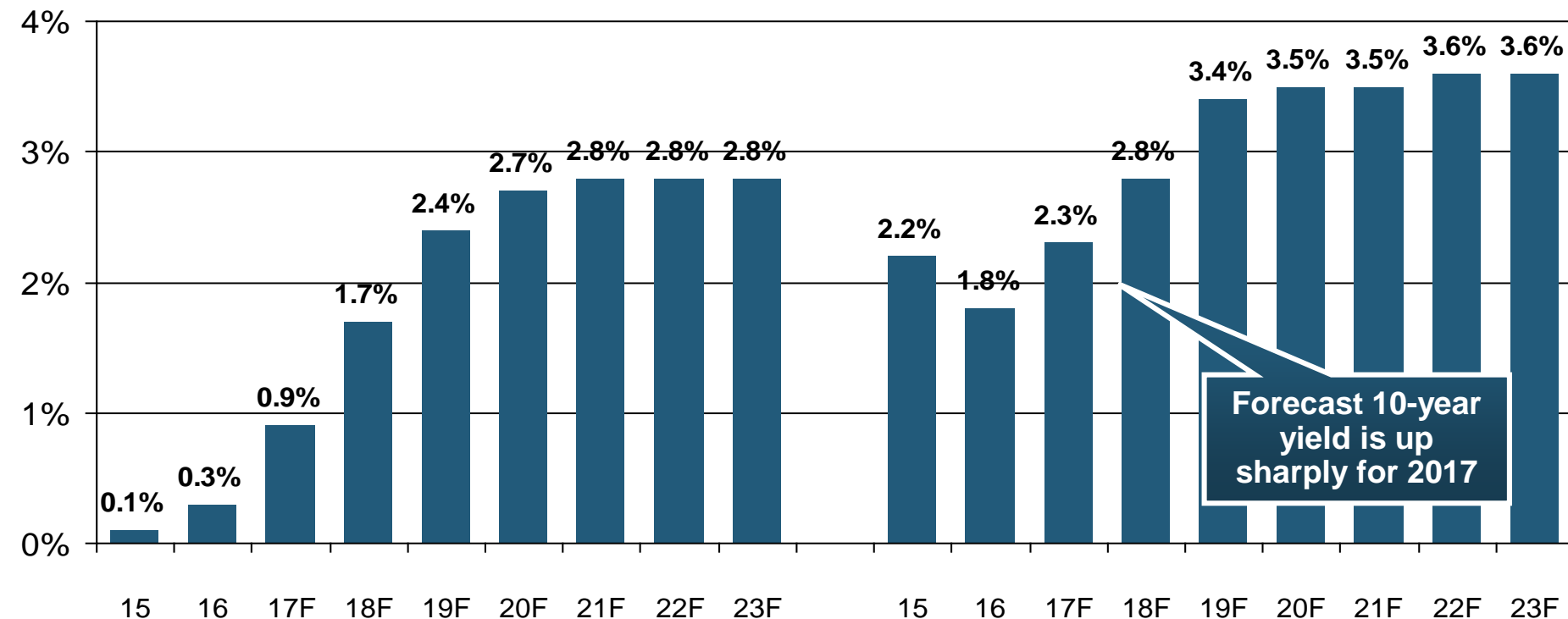
\*2017 estimate based on annualized \$23.4B actual figure for 1<sup>st</sup> Half 2017.

# Interest Rate Forecasts: 2017F – 2023F

Yield (%)

## 3-Month Treasury

## 10-Year Treasury



Forecast 10-year yield is up sharply for 2017

**A full normalization of interest rates is unlikely until the early/mid-2020s, more than a decade after the onset of the financial crisis.**

# Insured Catastrophe Losses

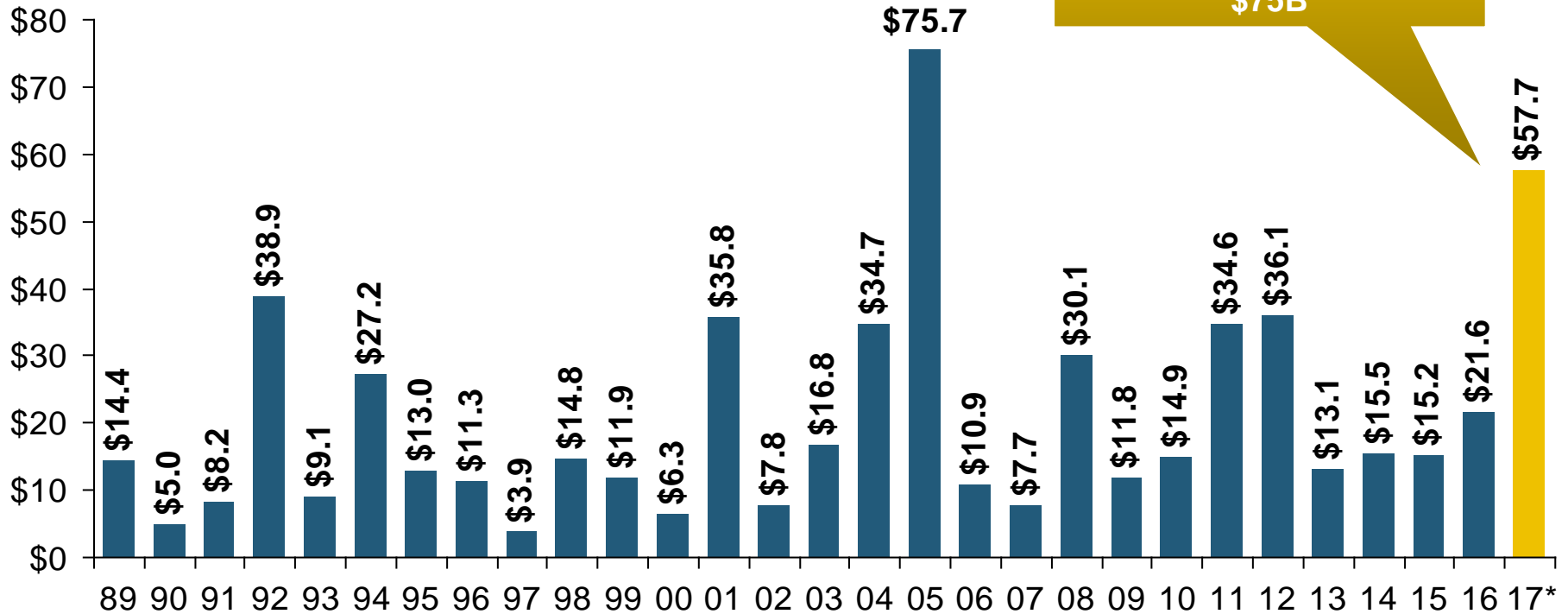
**2017 Will Become One of the Costliest  
Years Ever for US Insurers**

***Hurricanes Harvey and Irma Exact  
a Big Toll***

# U.S. Insured Catastrophe Losses, 1989 – 2017E

2017 is likely to become the second most costly year ever for insured CAT losses, behind only 2005. Maria losses in PR could push this figure beyond \$75B

(\$ Billions, \$ 2015)

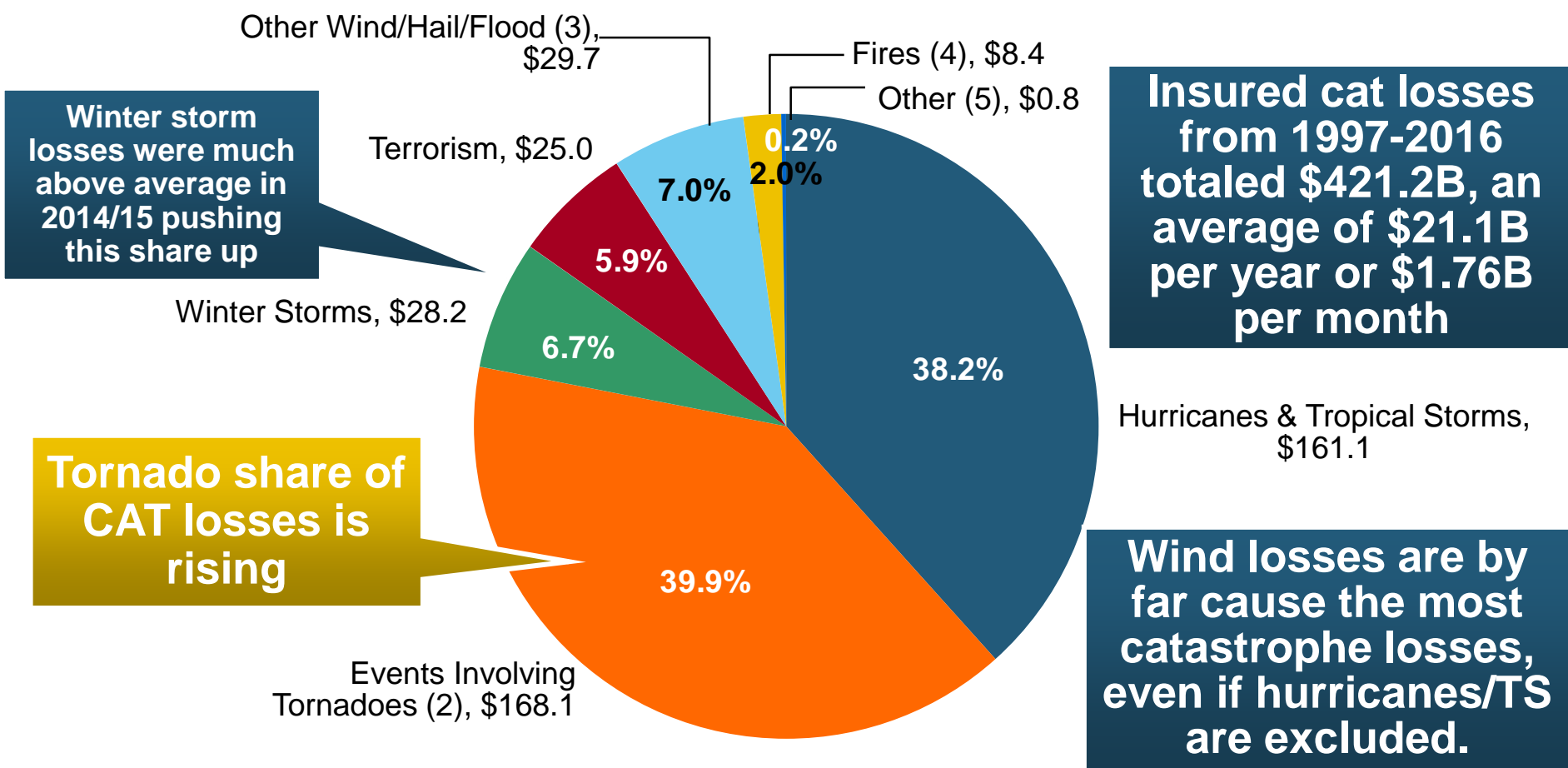


\*Includes PCS H1 insured losses of \$17.7B, estimated Hurricane Harvey and Irma insured losses of \$20B and \$18B, respectively. Stated in 2017 dollars. Excludes NFIP losses.

Note: 2001 figure includes \$20.3B for 9/11 losses reported through 12/31/01 (\$25.9B 2011 dollars). Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = \$12.2B (\$15.6B in 2011 dollars.)

Sources: Property Claims Service/ISO; Insurance Information Institute.

# Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1997–2016<sup>1</sup>



Winter storm losses were much above average in 2014/15 pushing this share up

Insured cat losses from 1997-2016 totaled \$421.2B, an average of \$21.1B per year or \$1.76B per month

Tornado share of CAT losses is rising

Wind losses are by far cause the most catastrophe losses, even if hurricanes/TS are excluded.

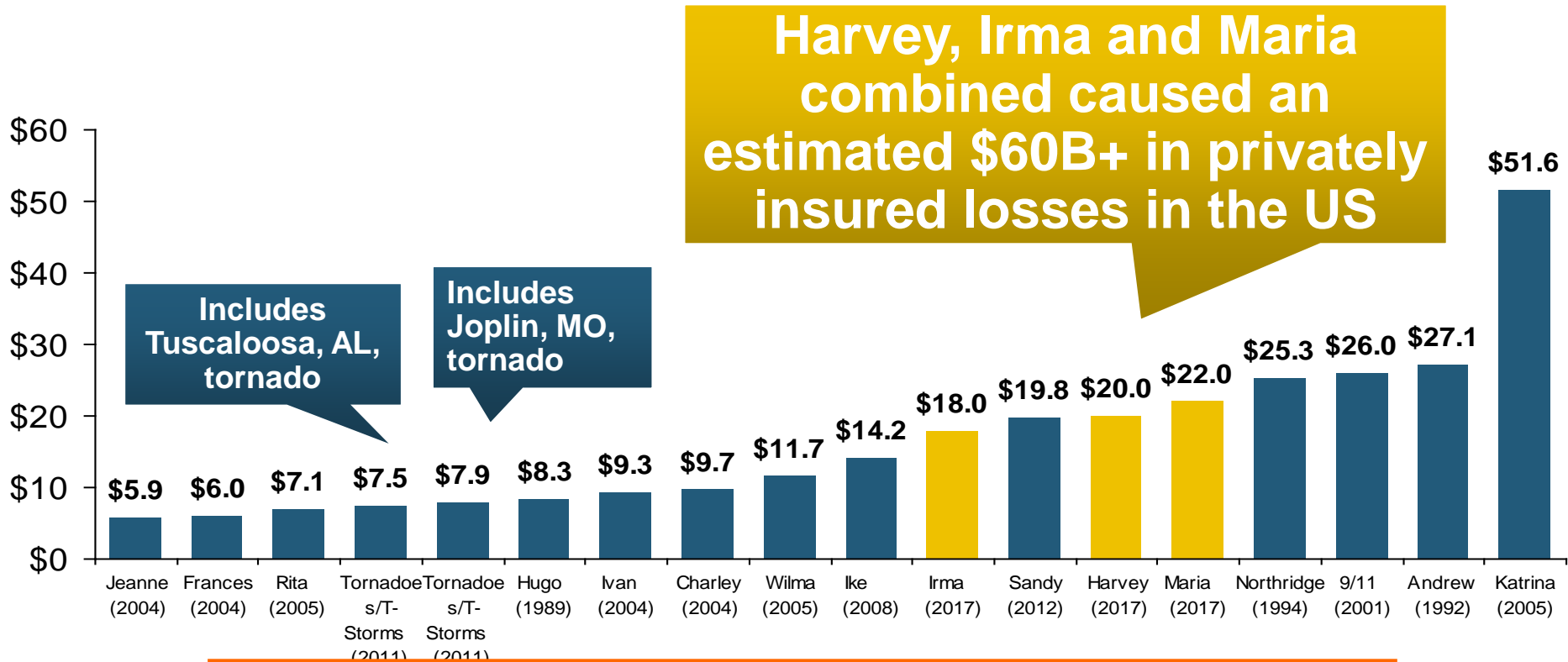
1. Catastrophes are defined as events causing direct insured losses to property of \$25 million or more in 2016 dollars.
2. Excludes snow.
3. Does not include NFIP flood losses
4. Includes wildland fires
5. Includes civil disorders, water damage, utility disruptions and non-property losses such as those covered by workers compensation.

Source: ISO's Property Claim Services Unit.



# Top 18 Most Costly Disasters in U.S. History—Katrina Still Ranks #1

(Insured Losses, 2017 Dollars, \$ Billions)\*



**15 of the 18 Most Expensive Insurance Events in US History Have Occurred Since 2004—3 of those in 2017**

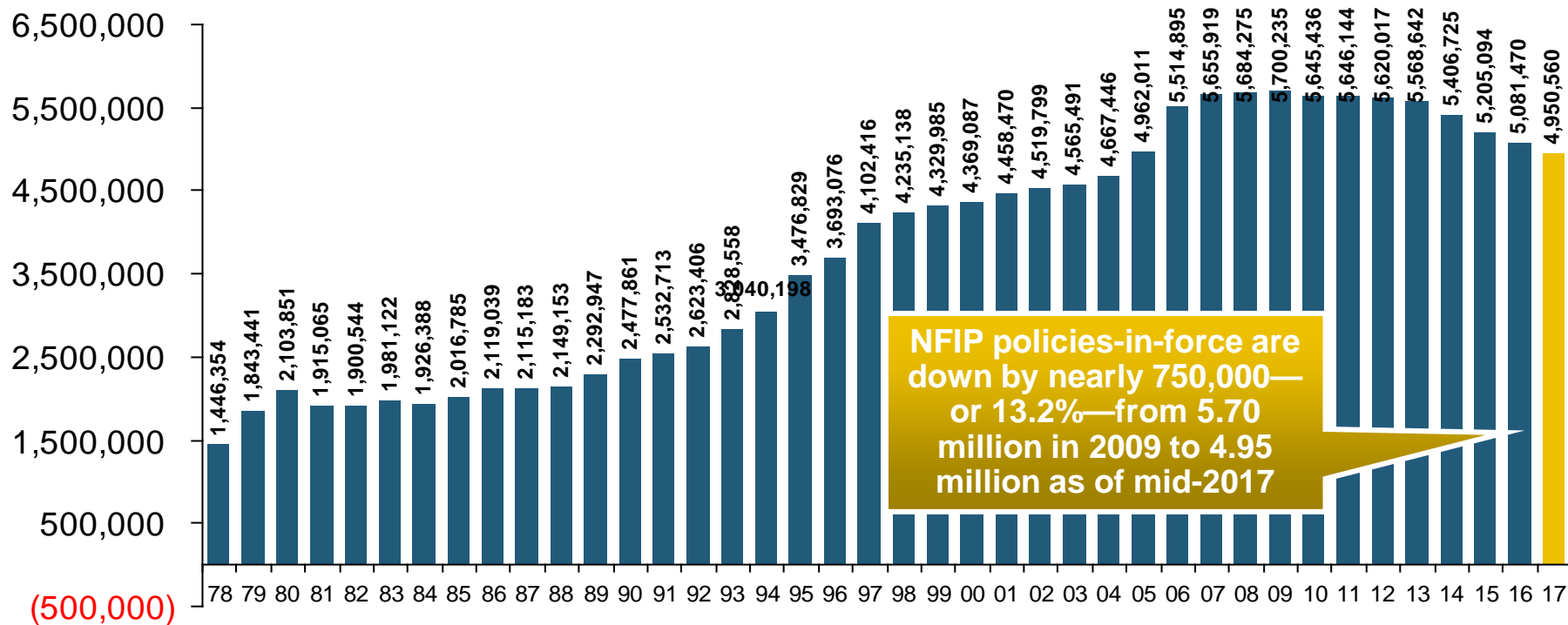
\*Adjusted to June 2017 values.

Sources: PCS, RMS, Karen Clark & Co; USC Center for Risk and Uncertainty Management adjustments to 2017 dollars using the CPI.

# NFIP Policies in Force, 1979 – 2017\*

Before Harvey and Irma, the NFIP was already \$24.9B in debt. Harvey NFIP claims are expected total \$7-\$10B with Irma adding to this total. NFIP will need to borrow, likely pushing its debt load well above \$35B

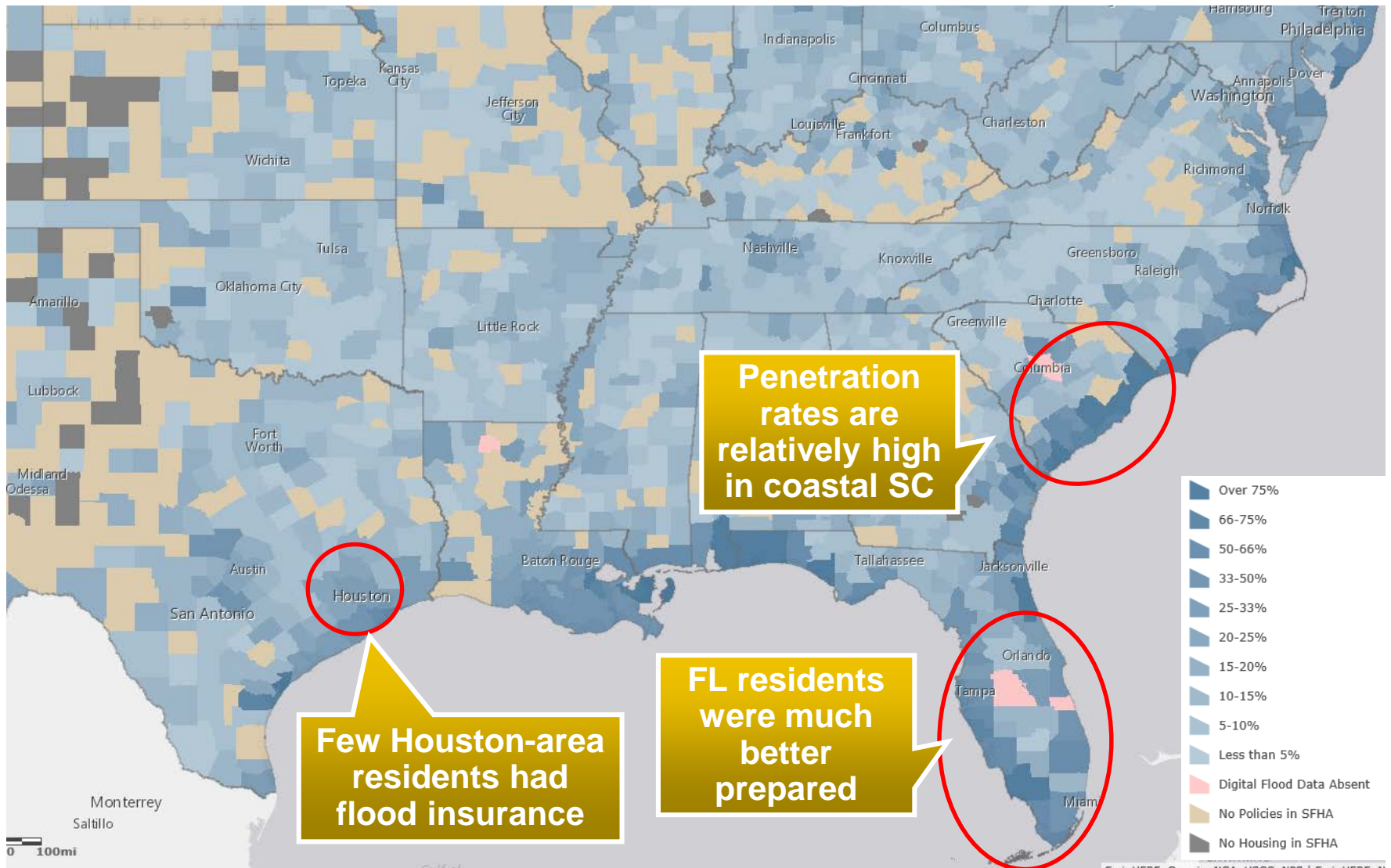
(Policies in Force)



\*As of June 30, 2017

Sources: NFIP/FEMA accessed 9/18/17 at: <https://www.fema.gov/total-policies-force-calendar-year>; USC Risk and Uncertainty Management Center.

# Residential NFIP Penetration Rates, August 2016



Source: NFIP accesses 9/18/17 at:

<https://fema.maps.arcgis.com/home/webmap/viewer.html?webmap=3d76edf9bd0642109b60ffaceead76fd>

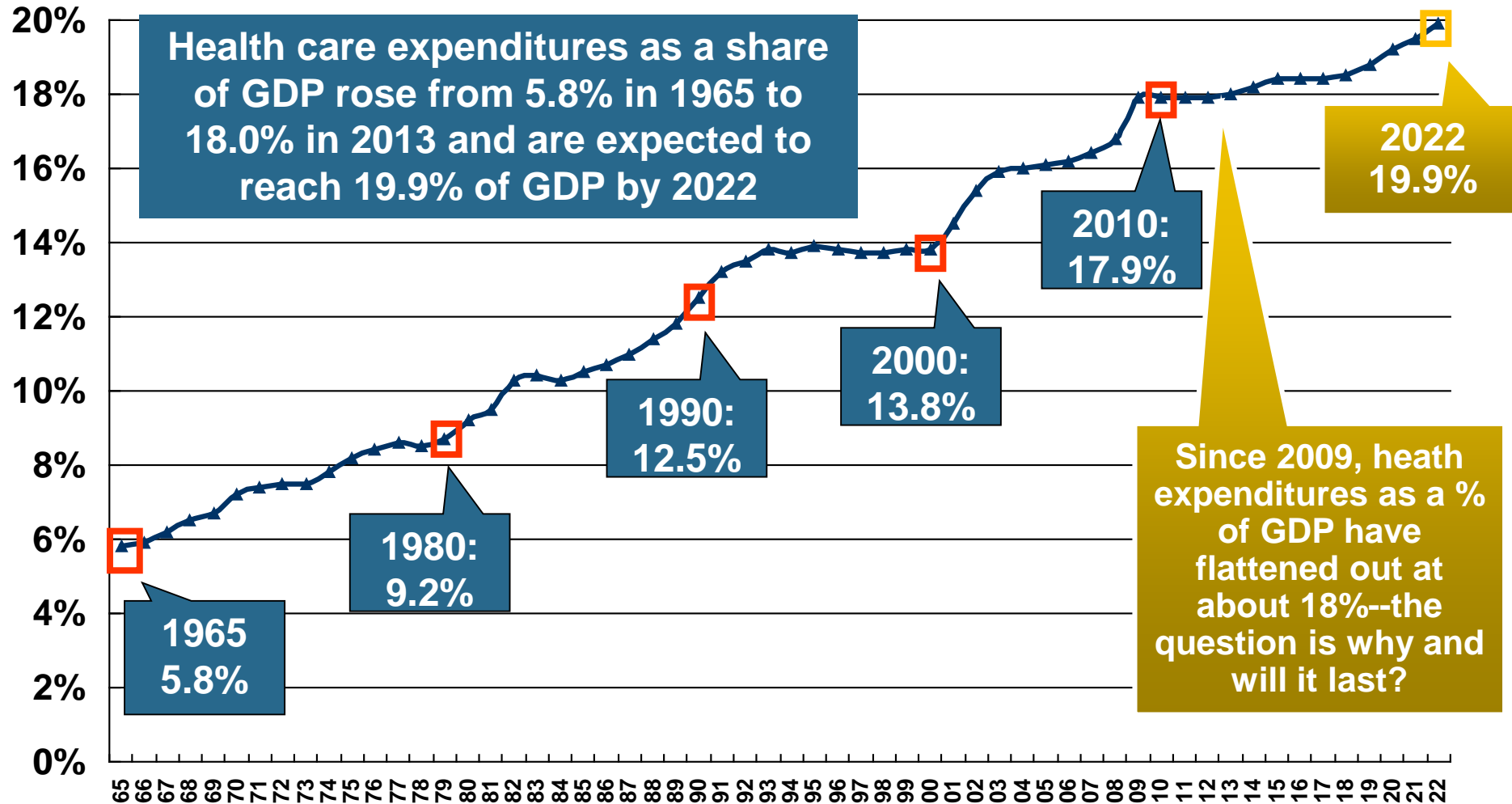
# Health Insurance Markets

**Decades-Old Problem in Search of  
an Economically and Politically  
Viable Solution**

***Adverse Selection Death Spiral?***

# National Health Care Expenditures as a Share of GDP, 1965 – 2022F\*

% of GDP



# Example of Health Insurance Exchange Monthly Premiums in SC from HealthCare.gov

25-Year Old Single Adult, No Tobacco Use

Richland County								
2017					2018			
Metal Levels	# Plans	Min. Premium	Max. Premium	Avg. Premium	# Plans	Min. Premium	Max. Premium	Avg. Premium
Platinum Plans	None Available				None Available			
Gold Plans	5	\$ 400.85	\$ 418.79	\$ 412.12	4	\$ 463.33	\$ 486.88	\$ 477.77
Silver Plans	15	\$ 316.64	\$ 352.39	\$ 333.67	14	\$ 441.17	\$ 452.75	\$ 446.15
Bronze Plans	5	\$ 291.42	\$ 295.59	\$ 293.31	5	\$ 309.07	\$ 325.38	\$ 316.77
Catastrophic Plans	1	\$ 237.96	\$ 237.96	\$ 237.96	1	\$ 223.62	\$ 223.62	\$ 223.62

Average Silver Plan monthly premium in 2018 for 25-yr. old single adult will rise by 33.7%, to \$446.15 from \$333.67.

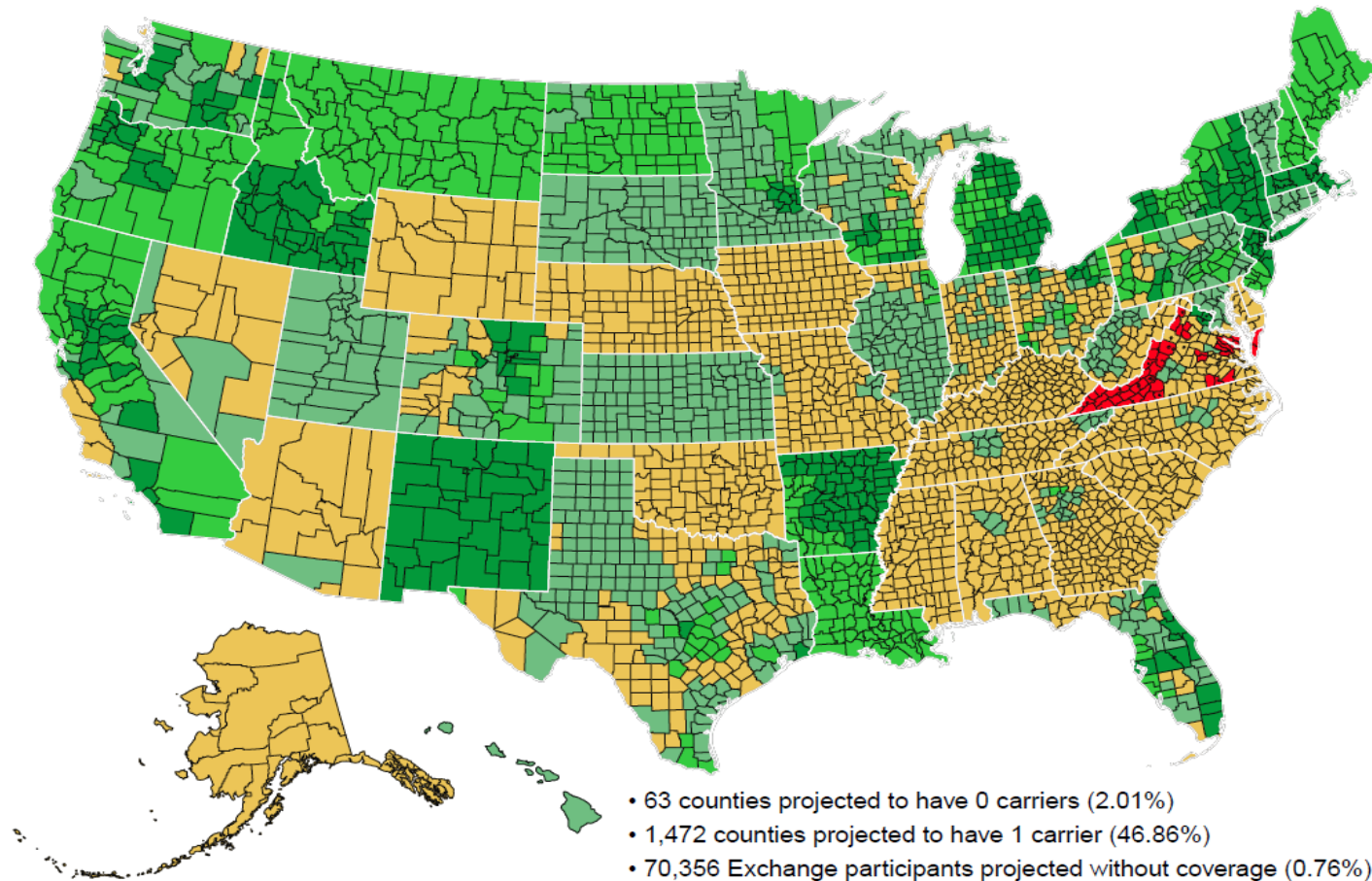
60-Year Old Single Adult, No Tobacco Use

Richland County								
2017					2018			
Metal Levels	# Plans	Min. Premium	Max. Premium	Avg. Premium	# Plans	Min. Premium	Max. Premium	Avg. Premium
Platinum Plans	None Available				None Available			
Gold Plans	5	\$ 1,083.56	\$ 1,132.07	\$ 1,114.03	4	\$ 1,252.47	\$ 1,316.13	\$ 1,291.51
Silver Plans	15	\$ 855.93	\$ 952.57	\$ 901.97	14	\$ 1,192.56	\$ 1,223.86	\$ 1,206.03
Bronze Plans	5	\$ 787.75	\$ 799.03	\$ 792.86	5	\$ 835.49	\$ 879.57	\$ 856.29

Silver Plan for a 60-yr. old single adult will rise by 33.7%, to \$1,206.03 from \$901.97.

NOTE: All plans are offered through BC/BS of SC, the only exchange insurer in SC. Source: SC DOI: <http://doi.sc.gov/DocumentCenter/View/10319> accessed 9/26/17.

# Number of ACA Exchange Insurers by County for 2018



Exchange Carrier Number ■ 0 Carriers (63 Counties) ■ 1 Carrier ■ 2 Carriers ■ 3 Carriers ■ > 3 Carriers

# **Claim Trends in SC Private Passenger Auto Insurance**

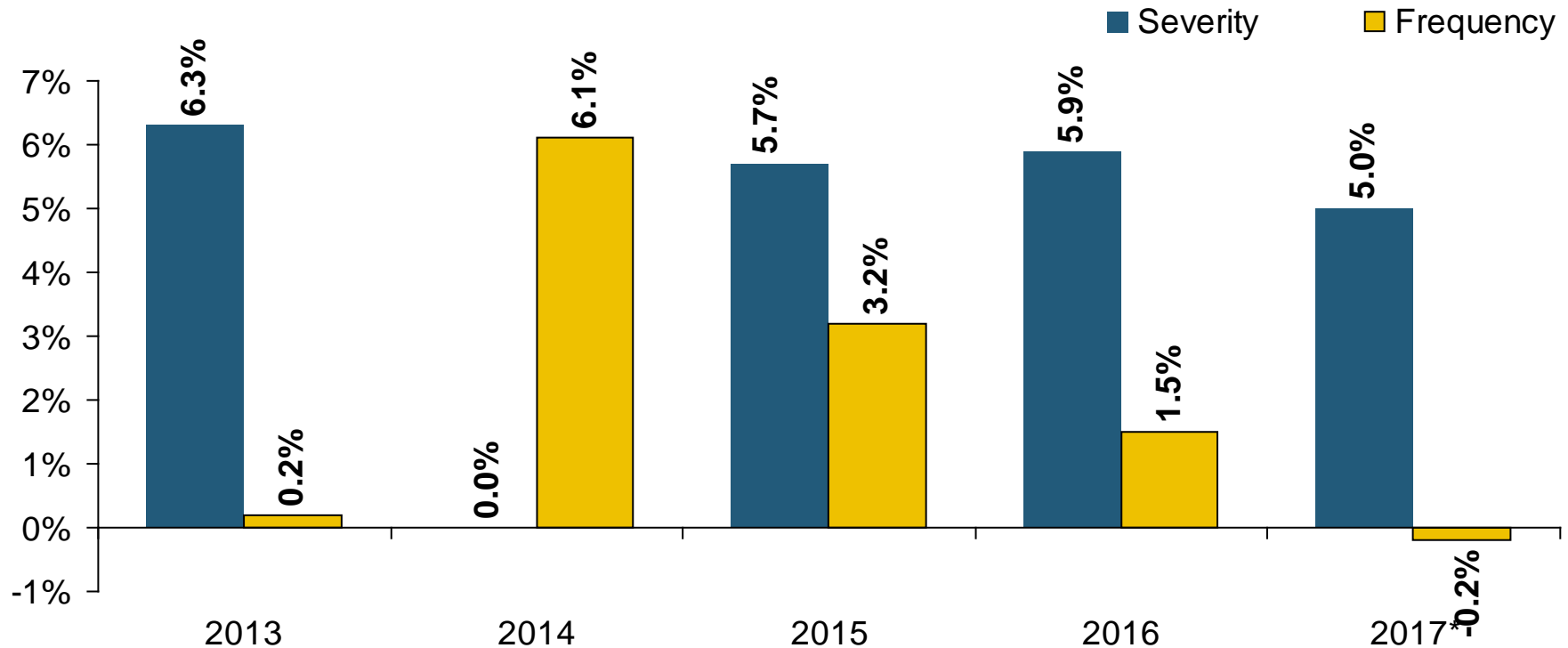
**Rising Frequencies and Severities  
in Many Coverages**

**Will that Pattern Be Sustained?**



# SC Coverage: Collision Severity Is Sharply Higher in Recent Years\*

Annual Change, 2013 through 2017\*



**Improving Economy, Distracted Driving, DUI Are Just a Few of the Numerous Factors Pushing Collision Claim Severity Higher**

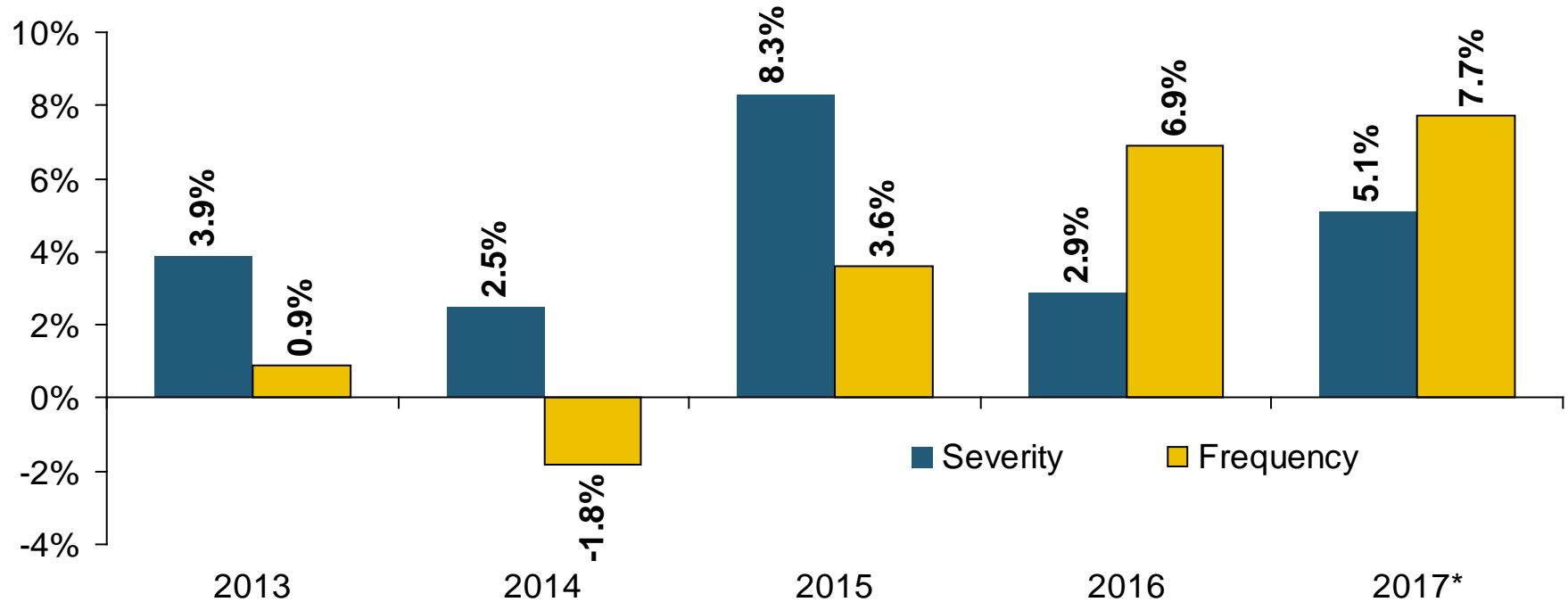
\*2017 data are for the 4 quarters ending March 31, 2017.

Source: ISO/PCI *Fast Track* data; Insurance Information Institute

# SC Coverage: BI Severity & Frequency

## Trends Are Both Higher in Recent Years\*

Annual Change, 2013 through 2017\*



**Improving Economy, Distracted Driving, DUI Are Just a Few of the Numerous Factors Pushing Bodily Injury Claim Frequency and Severity Higher**

\*2017 data are for the 4 quarters ending March 31, 2017.

Source: ISO/PCI *Fast Track* data; Insurance Information Institute

# USC's Inaugural RMI Newsletter

(<http://us16.campaign-archive1.com/?u=de4d9fc579ae40ab21b8a5d36&id=28137b2148>)



## RISK and Uncertainty Management Center

Darla Moore School of Business | University of South Carolina

August 25, 2017

### Introducing the RMI Newsletter

Darla Moore School of Business, University of South Carolina

*A quarterly glimpse of recent happenings for the Risk and Uncertainty Management Center, Gamma Iota Sigma members, Risk Management and Insurance (RMI) Majors, Minors, and Alumni.*



We are pleased to announce that the Darla Moore School of Business has been awarded the prestigious Global Centers of Insurance Excellence (GCIE) designation by the International Insurance Society

### RMI-DAY | Oct 25

sponsored by



Gamma Iota Sigma

And the

### RISK and Uncertainty Management Center

Mark your calendars for



A big **THANKS** goes out to Auto-Owners Insurance and Regional Vice President, Jay Lannin for their generous donation to USC's Risk and Uncertainty Management Center!



The Risk Management and Insurance program at the University of South Carolina wants to thank the **Council of Insurance Agents and Brokers** for their outstanding support.

### RISK and Uncertainty Management Center

**Contact us** to learn more about the Risk and Uncertainty Management Center and **get your business involved!**

Benefits include access to the latest research in risk management and opportunities to engage with and hire top talent in risk management and insurance.

## THE WALL STREET JOURNAL.

Check out the June 24th article from the front page of the Wall Street Journal featuring RMI professor, Robert Hartwig.

### Insurance Is a Fun Career! Just Consider the Zombies and Bacon

Insurers use extreme measures to lure new hires, from ghoulish videos to free beer. Allstate's 'happiness guru'



Since joining the USC faculty last year, RMI Professor **Robert Hartwig** has been interviewed by local, state and national media more than 100 times on a wide variety of issues, earning the Moore School and USC mentions in publications, on television and radio across the country. Recent

To Subscribe: <http://www.us16.list-manage.com/subscribe?u=de4d9fc579ae40ab21b8a5d36&id=ed2ba62eac>



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*Thank you for your time  
and your attention!*

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