KPMG

P&C Industry Trends

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Insurance | Trends

01 Modernization of technology ecosystem, infrastructure, systems and tools

02 Data strategy, management and governance

03 Integration of Finance (Accounting, Tax, Reporting, Actuarial, Risk)

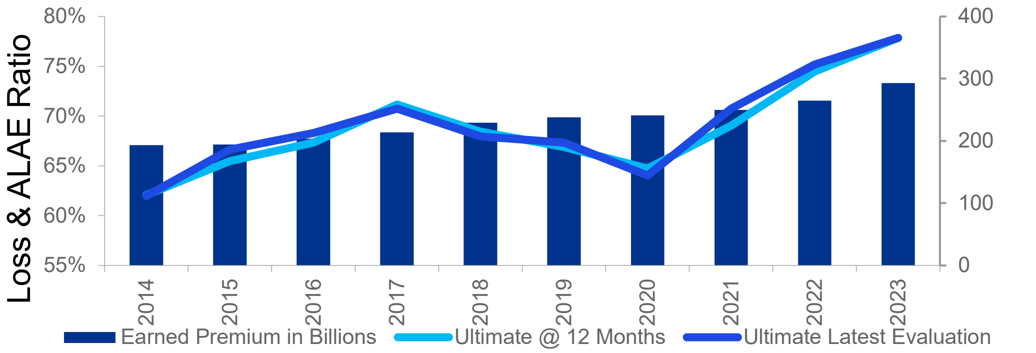
04 Managing talent and workforce for the future

05 Enhancing customer experience to orchestrating 'total' experience for a broader set of stakeholders

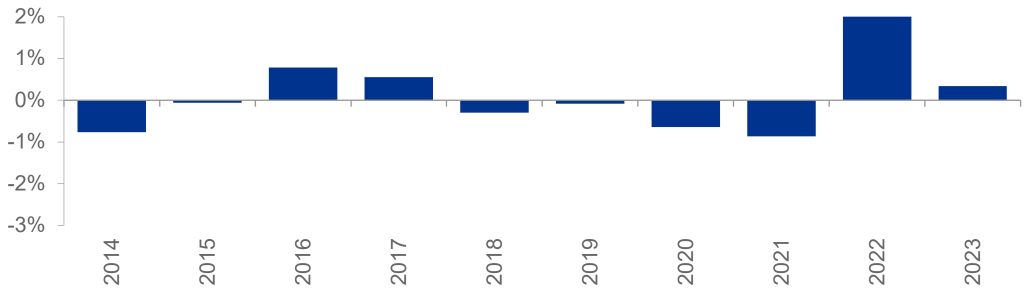
06 M&A interest and activity is picking up across the entire insurance landscape

Personal lines loss cost trends

Personal lines by accident year



Personal lines reserve runoff as % of NEP by calendar year



Source: S&P Capital IQ, Schedule P (December 2023)

Trends

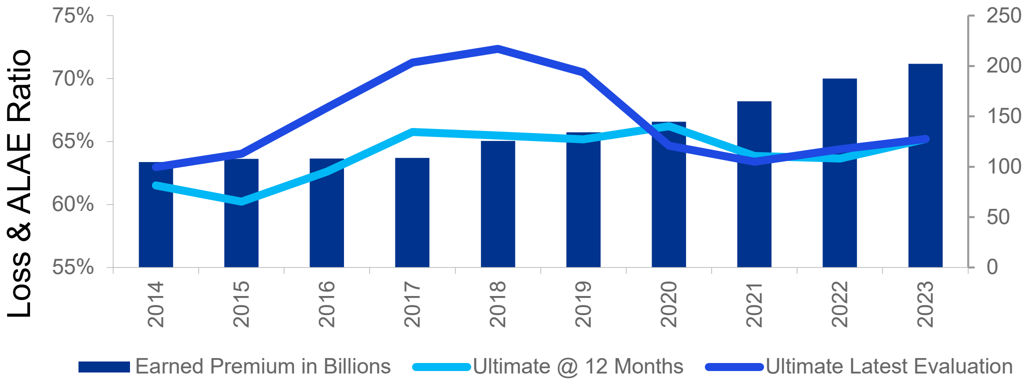
- Social inflation litigation tactics persist
- Weather is a key area of concern
- Trends moderating
- Rate persisting

Company actions

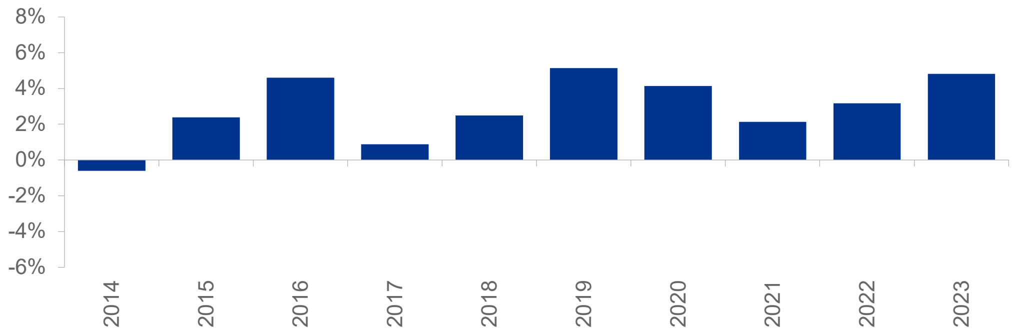
- Social inflation approaches vary
- Exposure management
- Cautious recognition of improved trends
- Data and analytics utilization increasing

Commercial lines loss cost trends

All commercial casualty (excl WC) by accident year



Commercial lines (excl WC) reserve runoff as % of NEP by calendar year



Source: S&P Capital IQ, Schedule P (December 2023)

Trends

- Social inflation litigation tactics persisting
- Adverse driven by liability lines; workers' comp continues to runoff favorably
- Rate pressure varying significantly by line of business

Company actions

- Social inflation approaches vary
- Significant non-rate underwriting actions
- Data and analytics utilization increasing

Weather and cats

Trends

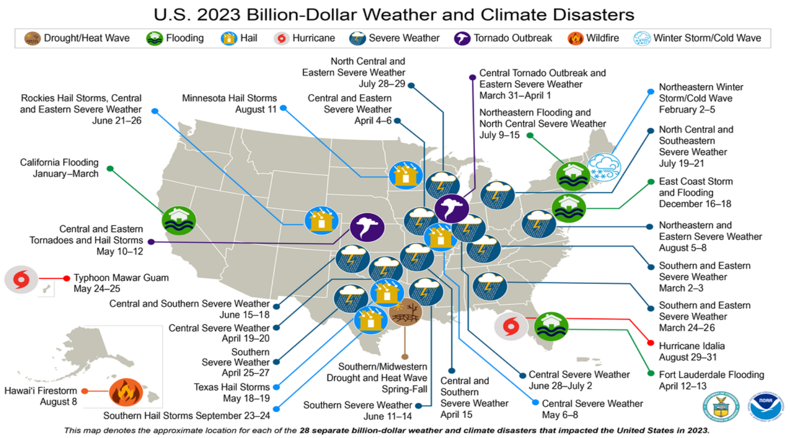
- Significant SCS activity
- Exposure concentration and rate review
- Cat models challenged

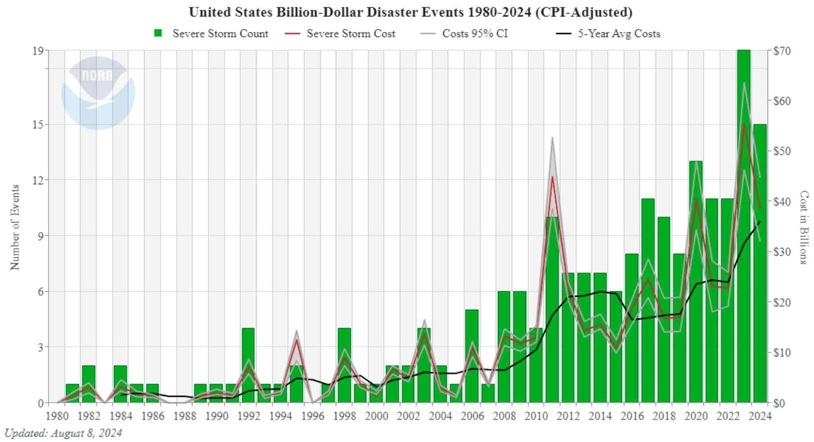
Impacts

- Rates increasing
- Reinsurance rates and coverage changes
- Some states capacity reduced
- Availability/affordability

Transformative actions

- Exposure management
- Prevention and mitigation
- Alternative solutions





Sources: NOAA National Centers for Environmental Information (NCEI) U.S. Billion-Dollar Weather and Climate Disasters (2024). https://www.ncei.noaa.gov/access/billions/, DOI: 10.25921/stkw-7w73

Social inflation and nuclear verdicts

With social inflation and the litigation environment driving costs up significantly, insurers must enhance their capabilities in data and analytics to respond.

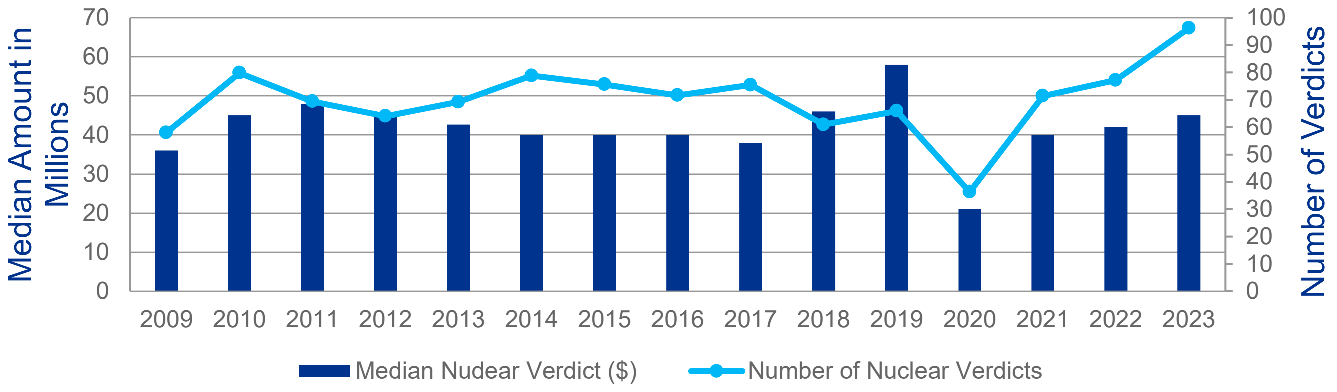
Overall trends

- **Number of corporate nuclear verdicts increased dramatically in 2023**
- **Steadily rising baseline**
- **Increased attorney representation; litigation funding spreading**

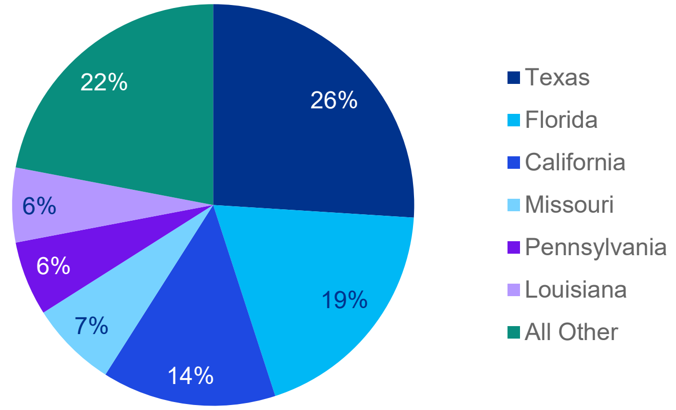
State/product trends

- **Florida dropping with tort reform**
- **Missouri top state in 2023**
- **Product liability/Intellectual property**

Number and median amount of nuclear verdicts



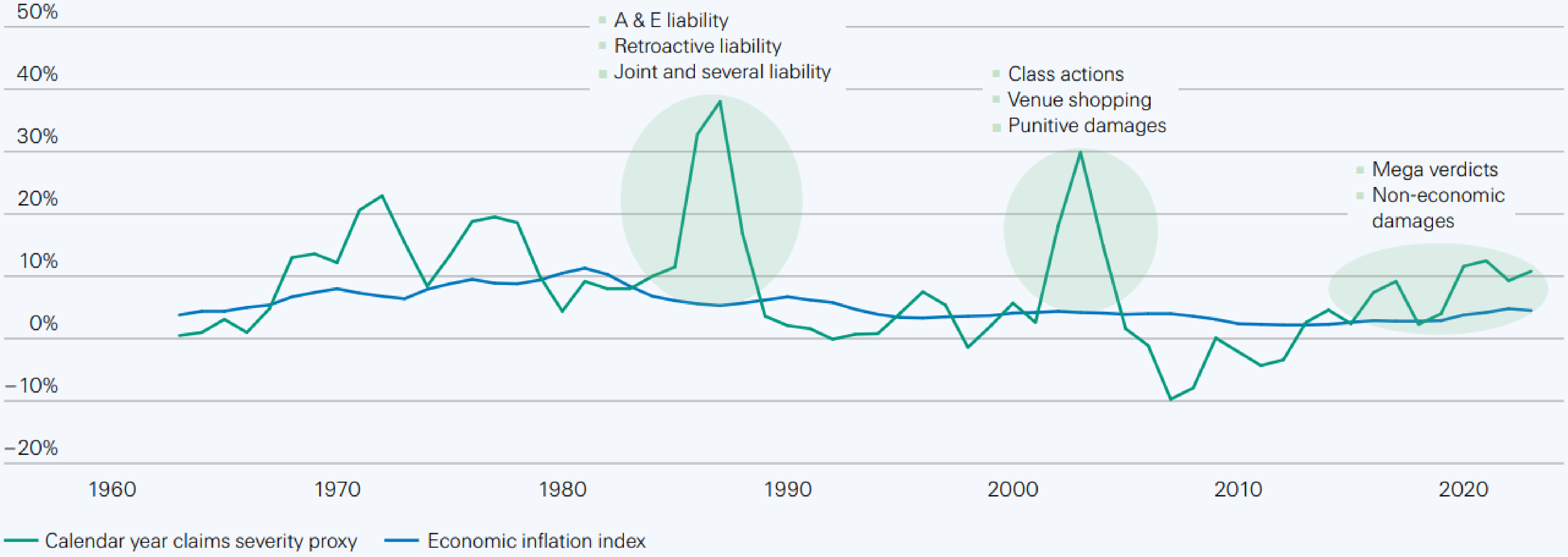
Nuclear verdicts by state 2023, $10.75B in total



Source: Corporate Verdicts Go Thermonuclear by Marathon Strategies

Social inflation impact on claim trends

Periods when US claims severity growth exceeded economic inflation, indicative of episodes of social inflation



Source: Swiss Re Institute

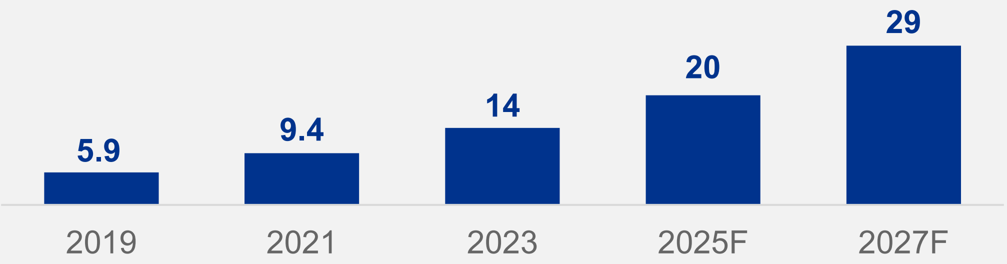
Cyber incidents: Demand continues to grow for cybersecurity

Amid escalating cyber threats, companies increasingly rely on cyber insurance for risk mitigation, subsequently stimulating market growth. Due to the lack of insurance penetration amongst the SMEs*, the industry should adapt to the evolving threat landscape.

US$8 trillion
Global annual total cost of cybercrime in 2023

US$10.5 trillion
Annual cybercrime total cost projection for 2025

Global cyber insurance market (US$ billion)



Drivers and barriers of cyber insurance

- Increased awareness of the financial repercussions of cyberattacks
- Stricter rules and mandates on cybersecurity for regulatory compliance
- Surge in the frequency of ransomware and data breaches
- Lack of cybersecurity insurance penetration particularly among SMEs

Drivers Barriers

70% of CEOs expect cyber crime and cyber insecurity to have the highest negative impact on their organization's growth. This is an increasing concern due to the rising dependence on digital technology, which heightens the risk of cyber attacks.

Note(s): *SMEs stands for Small and medium-sized enterprises.
Source(s): "Cyber Insurance Risk and Trends 2024", 04 April 2024, Munich Re, Link; "Allianz Risk Barometer 2024", 01 January 2024, Allianz, Link; "The growing need for cyber insurance products in SMEs", 26 April 2024, Willis Towers Watson, Link; "KPMG 2024 Insurance CEO Outlook".

UM/UIM and insurance affordability

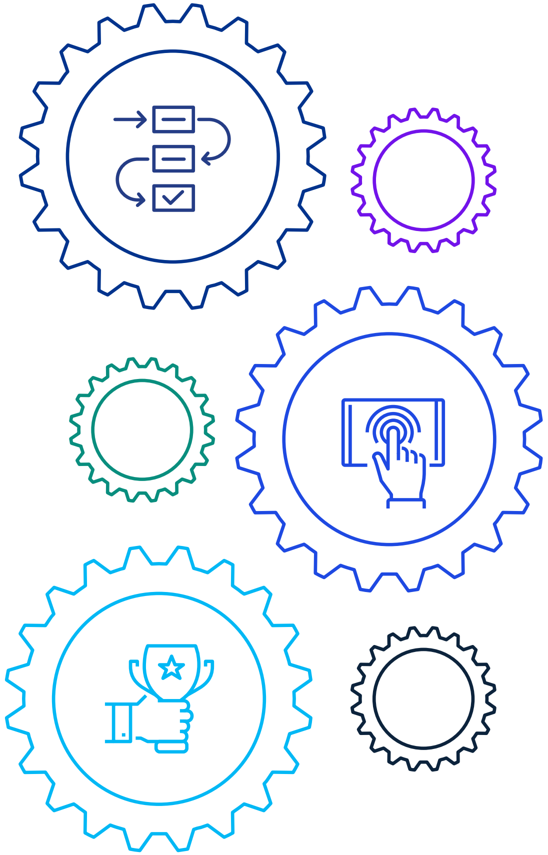
- Many insurers have noted deterioration in their UM/UIM book of business.
- A particular concern is a rise in frequency of late-reported claims with attorney representation.
- According to the Insurance Research Council, the percentage of uninsured motorists has increased steadily countrywide since 2017, although percentages vary widely by state.
- Given the linkage between insurance affordability and UM/UIM, KPMG has recommended a response which includes 3 components.

	Componen	Benefits
01	**Underwriting enhancement**	• Include regional affordability of insurance as an explicit factor in underwriting • Develop a policyholder-specific UW score to measure propensity to generate a UM/UIM claim • Tailor coverage offerings and rates accordingly
02	**Pending claims modeling**	• Analyze pending claim/notice inventory and identify claims with higher likelihood of developing into UM/UIM claim • Generally should involve predictive modeling • Link the risk score to different claims handling teams/strategies
03	**Environmental scan**	• Enhance ability to identify unreported claims • Reach affected parties and satisfactorily settle claims before attorneys become involved • By developing an understanding of techniques used by attorney firms, carriers can shift from a reactive to proactive approach to claims identification

Modernization and innovation

Innovators are adapting existing tools creatively and creating a new set of processes and analytical approaches to:

- Execute more efficiently
- Better utilize data (internal and external)
- Move insight to action
- Align across the organization to be responsive



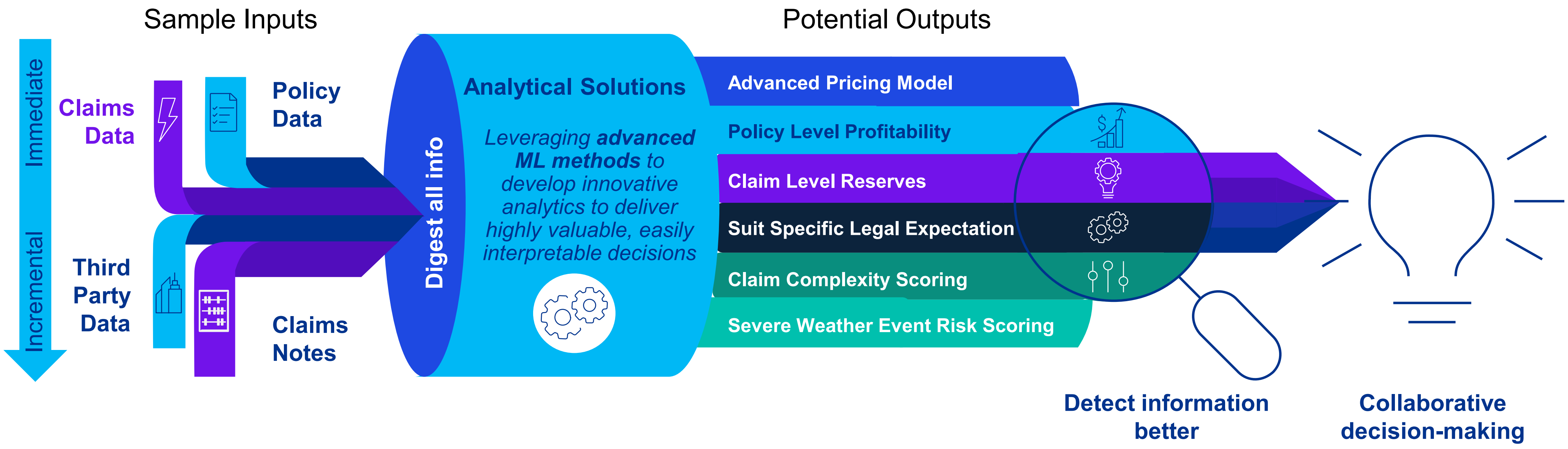
Innovation accelerators

- Low code automation
- Process mining
- NextGen data visualization
- Machine learning modeling and analytics
- External signals data
- Chat GPT

Claim level predictive analytics

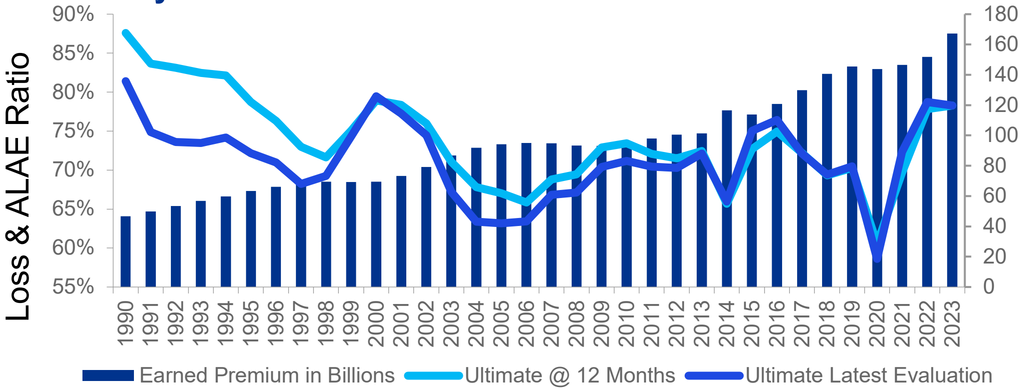
Differentiation from traditional approaches:

- Mining all available data at once
- Utilizing machine learning techniques
- Detecting hidden predictors
- Deriving insights at the claim and policy level
- Considers reported and unreported claims



Personal auto liability loss cost trends

Private passenger auto liability by accident year



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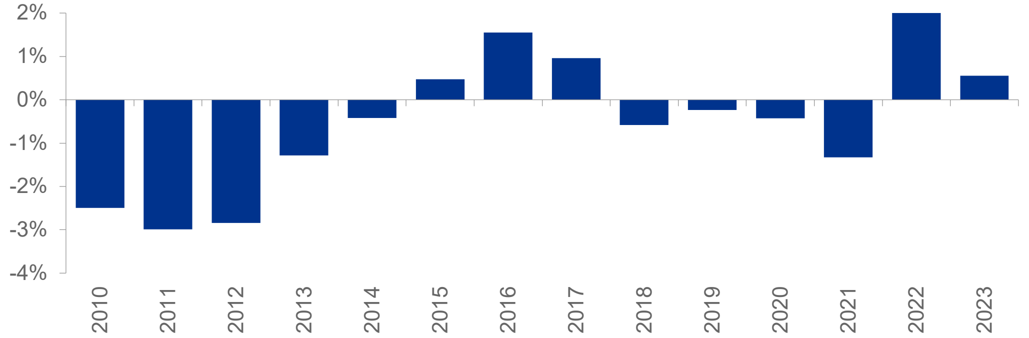
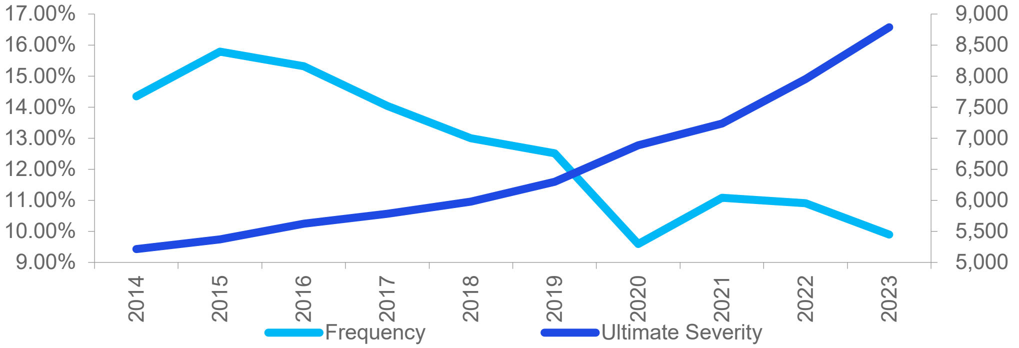


Industry frequency and severity by accident year



* Frequency is calculated as a percentage of earned premium

Challenging 2023

Generally, recent trends more favorable than planned

UM/UIM seeing adverse experience

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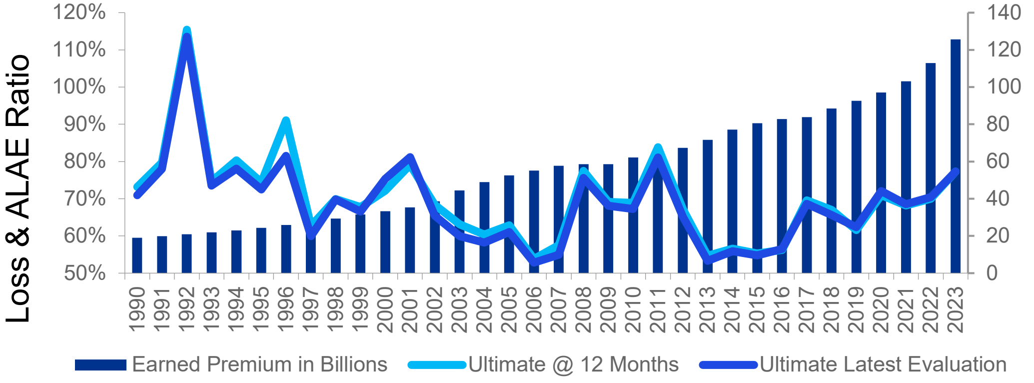
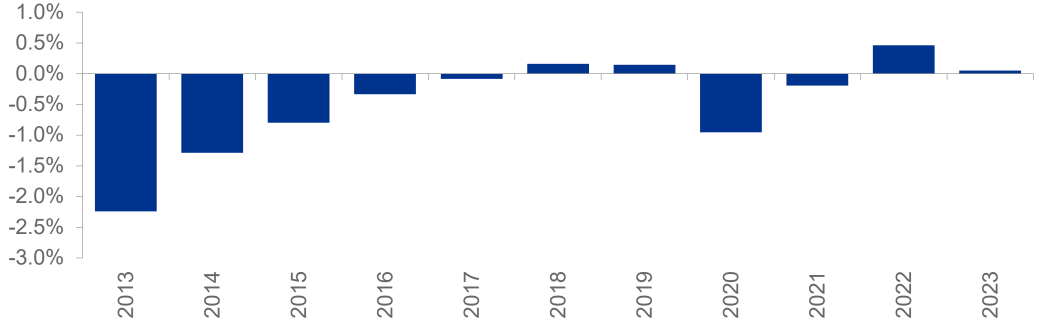
Homeowners loss cost trends

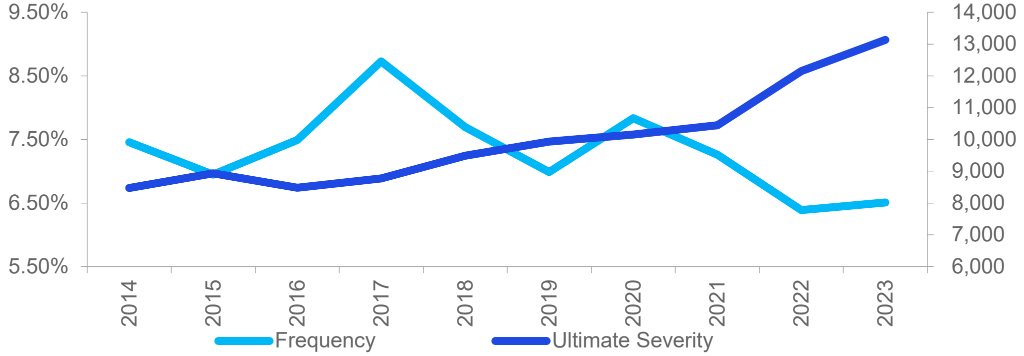
Homeowners by accident year



Homeowners reserve runoff as % of NEP by calendar year



Industry frequency and severity by accident year



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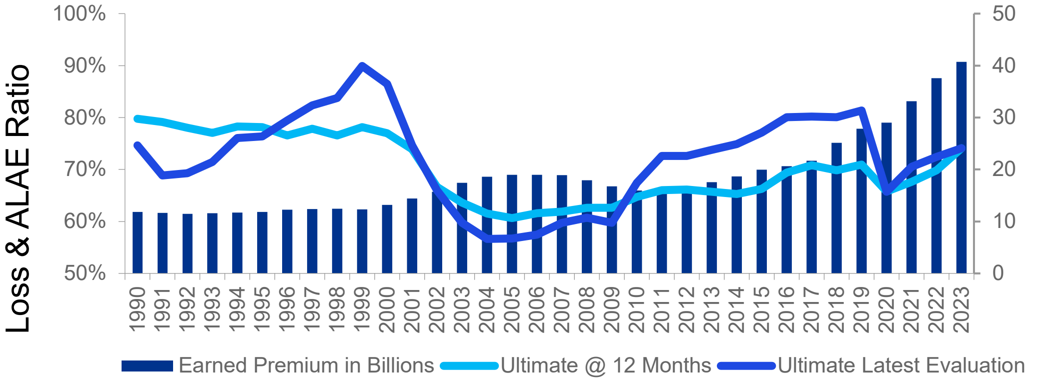
Severity continuing to increase

Elevated weather activity in 2023 and 2024

Significant rate increases

Commercial auto liability loss cost trends

Commercial auto by accident year



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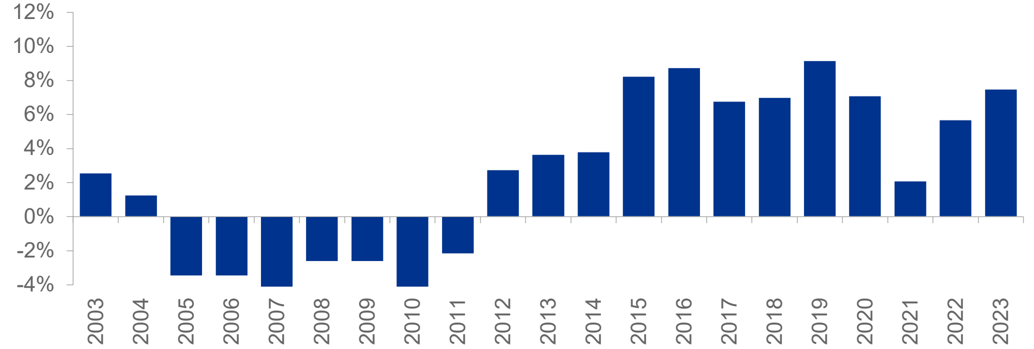

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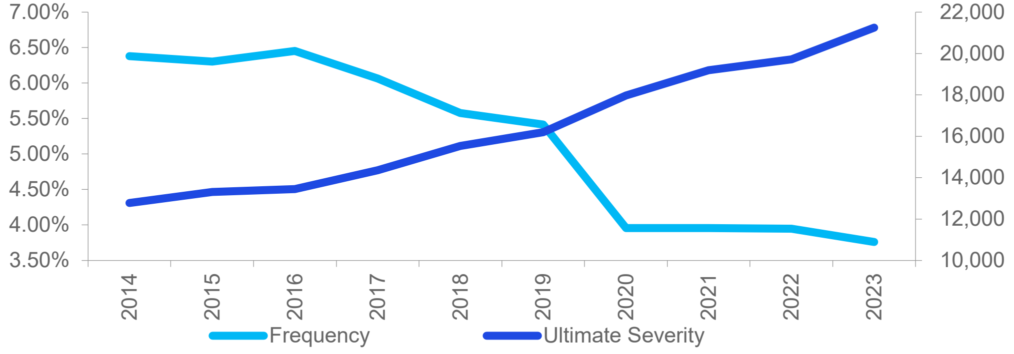

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Continued adverse emergence

Social inflation impact remains high

Strong rate increases continue

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