



Arkansas Insurance Hearing

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AM Best – March 6, 2024 Market Report (Largest Credit Rating Agency Focused on Insurance)

Personal lines insurance outlook = **Negative** (*first ever*)



- Underwriting losses: 2022-2024_(est.) = **-\$40/48/27 billion**
- “underwriting profitability... over the near term appears highly unlikely”

Auto insurance outlook = **Negative**



- Worst 3-year stretch of losses in recent memory
- Causes: Inflation, supply chain disruption, record driving, worse driving, technology costs, legal system abuse

Homeowners insurance outlook = **Negative**

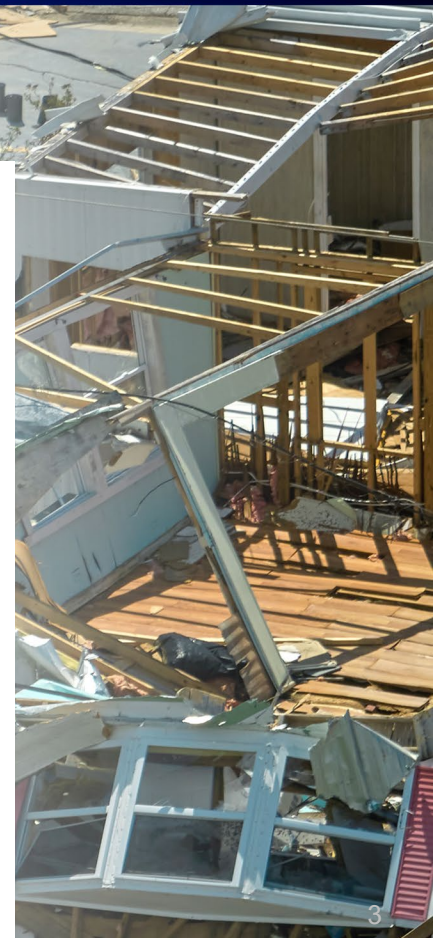
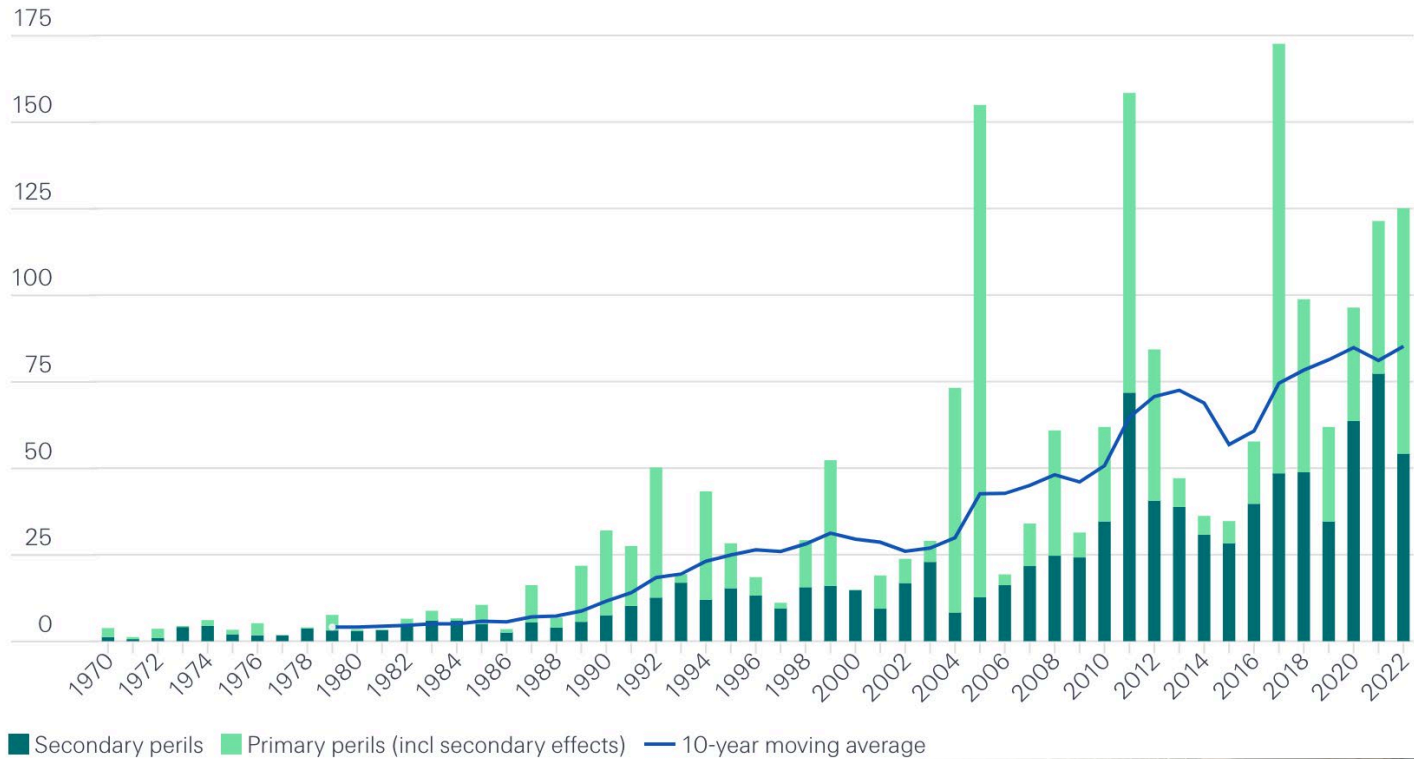


- 5 consecutive years of underwriting losses



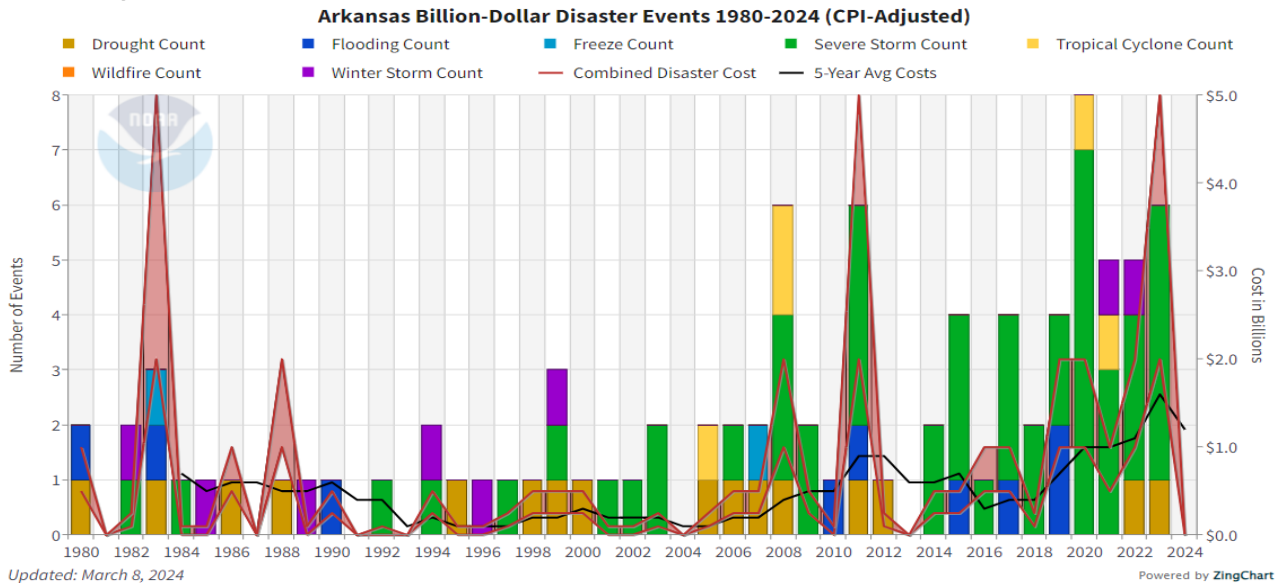
Property Insurance/Catastrophe Losses

Insured natural catastrophe losses (USD bn)





Arkansas Property Losses Escalating (esp. 2023)



Arkansas Billion-Dollar Disaster Type Counts By Month 1980-2024 (CPI-Adjusted)

- Drought
- Flooding
- Freeze
- Severe Storm
- Tropical Cyclone
- Wildfire
- Winter Storm





What is Causing Increased Property Losses

It's not just the weather!

Verisk: The factors causing a doubling of average annual natural catastrophe losses over the last decade are (in order of importance):

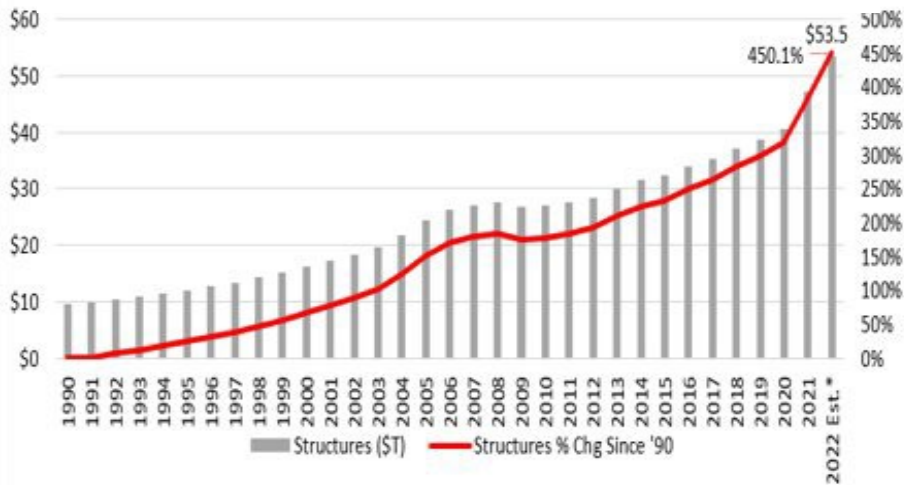
1. A rise in exposure values and replacement costs, represented both by continued construction in high-hazard areas and by high levels of inflation that are driving up repair and rebuild costs
2. The natural variability that comes from selecting any five-year sample of natural catastrophe experience
3. The effects of climate change on different atmospheric perils
4. The impacts of man-made loss drivers, such as social inflation and legal and regulatory factors



Increasing Replacement Cost of Homes

U.S. Replacement Cost of Structures

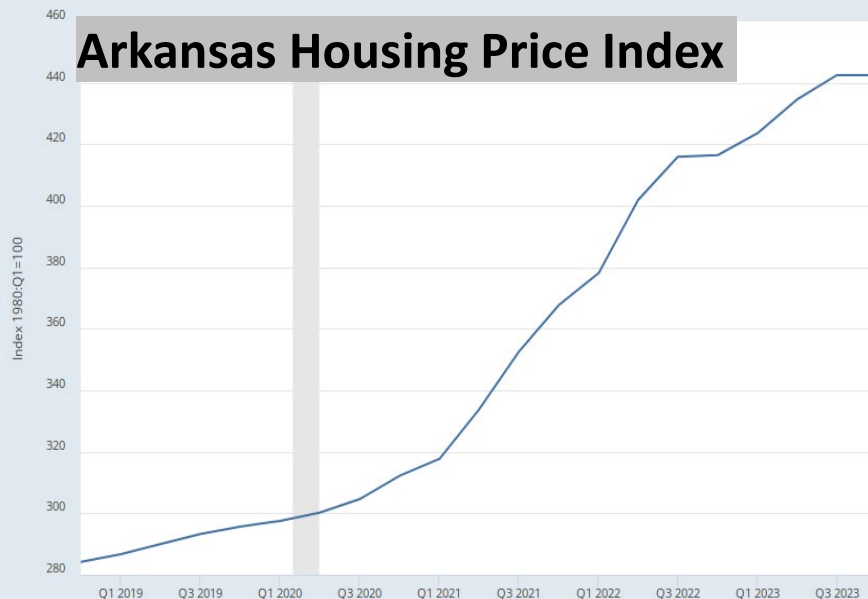
BEA Current-Cost Net Stock of Private Fixed Assets (\$T)



Source: APCI using U.S. Bureau of Economic Analysis year-end estimates; Swiss Re 2022 estimate via sigma No 1/2023. ("Structures" include residential and non-residential structures.)

FRED — All-Transactions House Price Index for Arkansas

Arkansas Housing Price Index

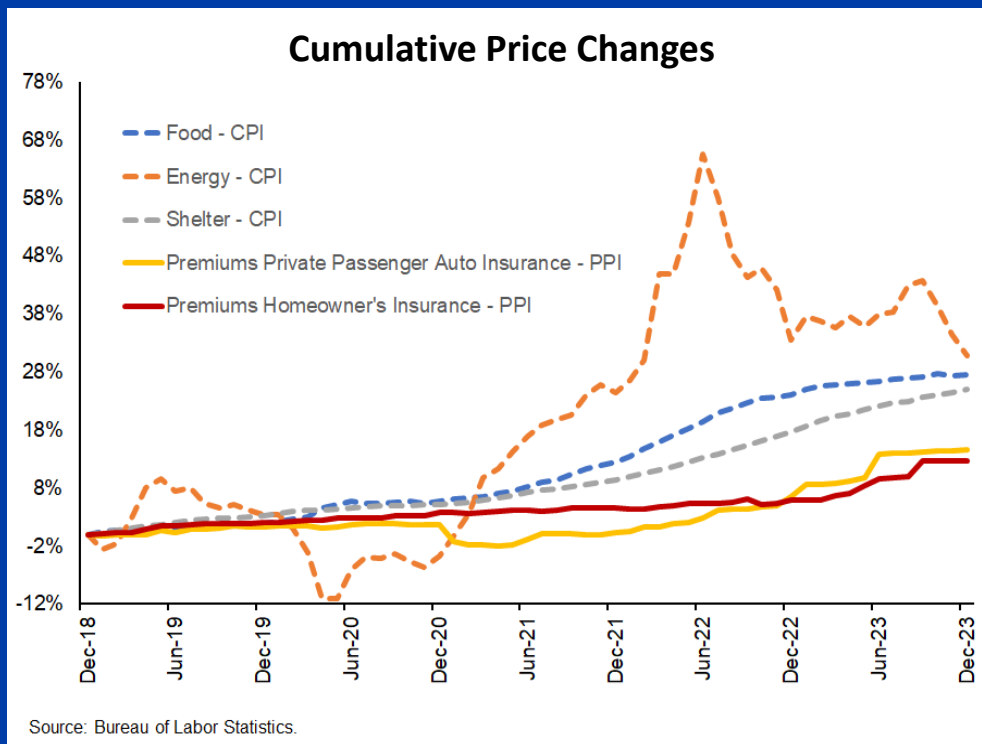


Source: U.S. Federal Housing Finance Agency

myf.red/g/1i6oy



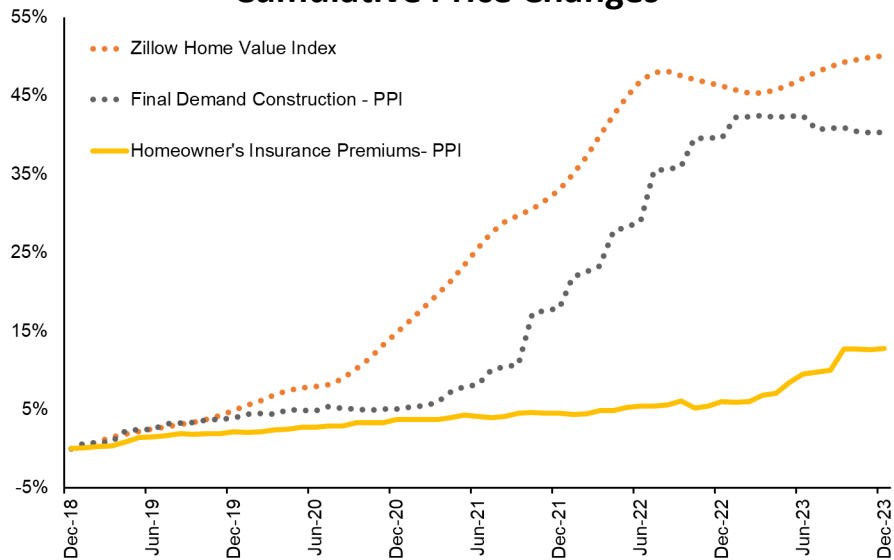
Increasing Inflation = 40-Year Record High



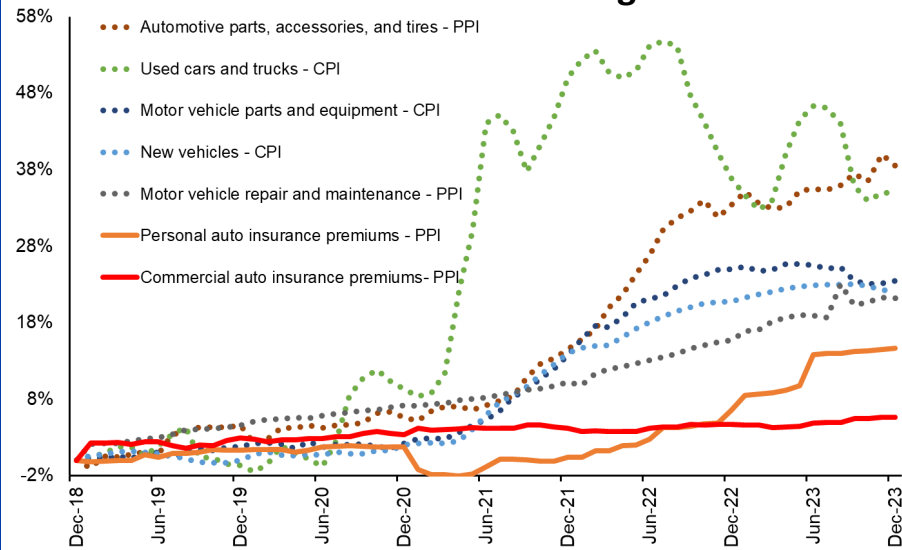


Increasing Insurance Cost Inputs (Greater Cumulative Increase than Rates)

Cumulative Price Changes



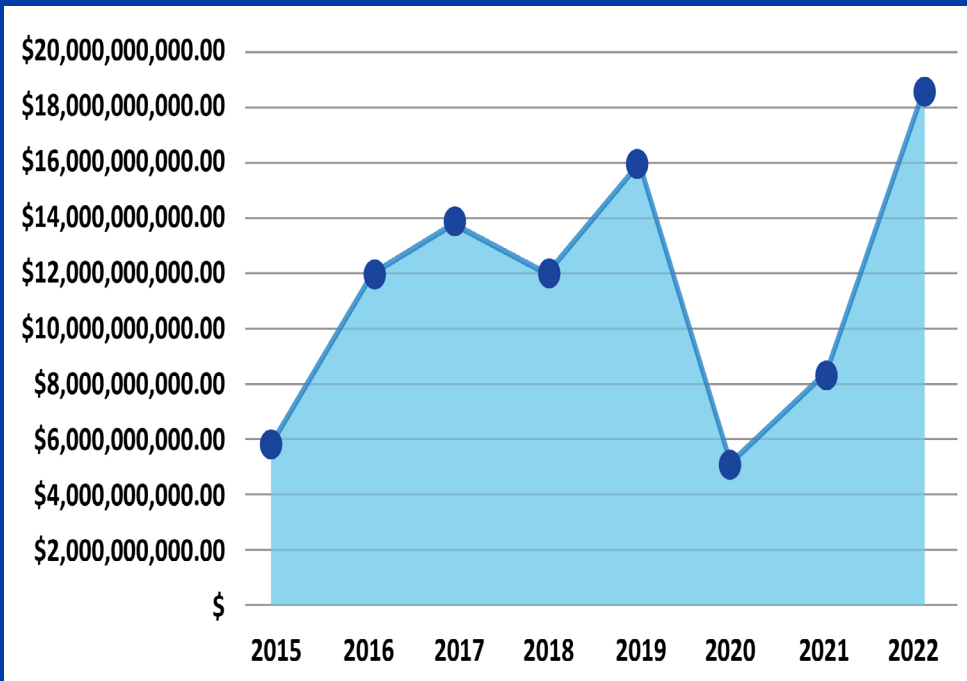
Cumulative Price Changes



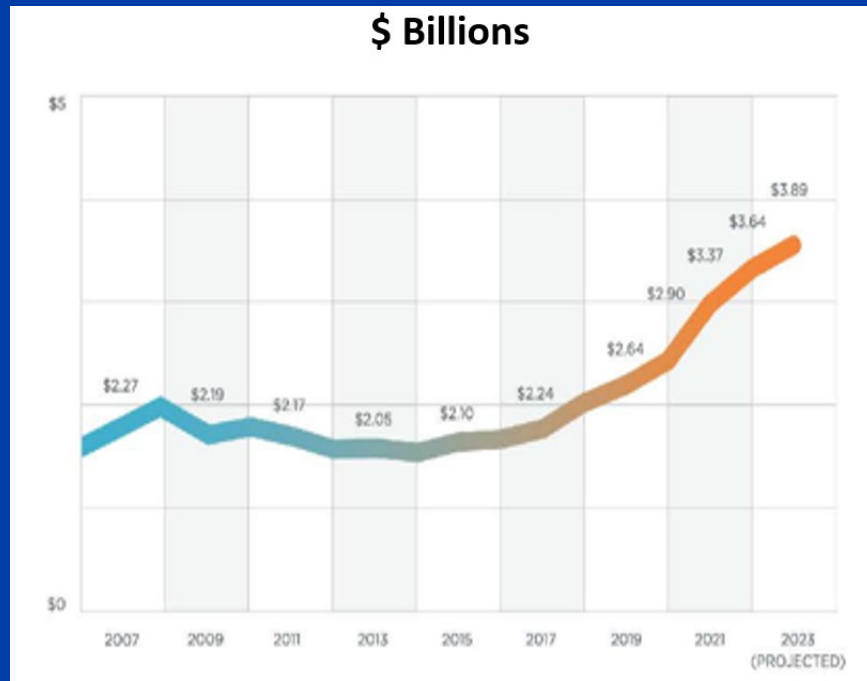


Increasing Costs: Legal System Abuse

Sum of Corporate Nuclear Verdicts: 2015-2022



U.S. Corporate Legal Spending on Class Actions



Source: 2023 Carlton Fields Class Action Survey

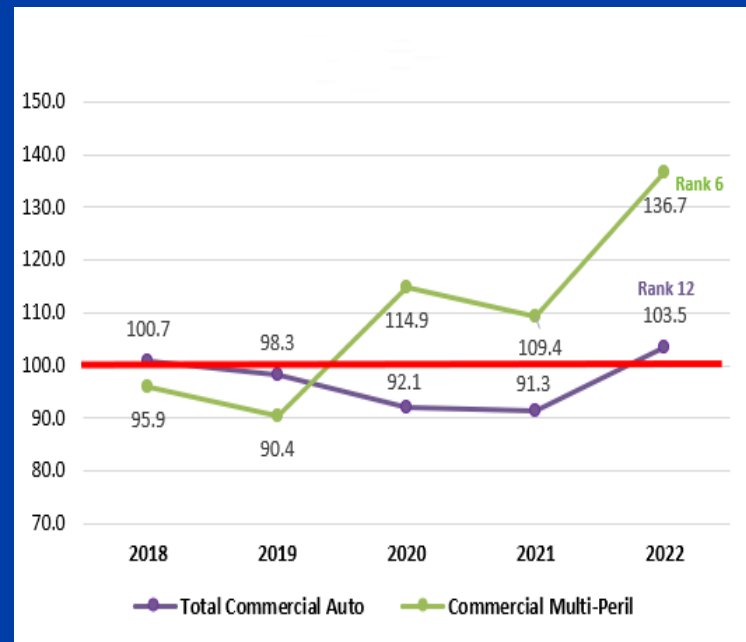
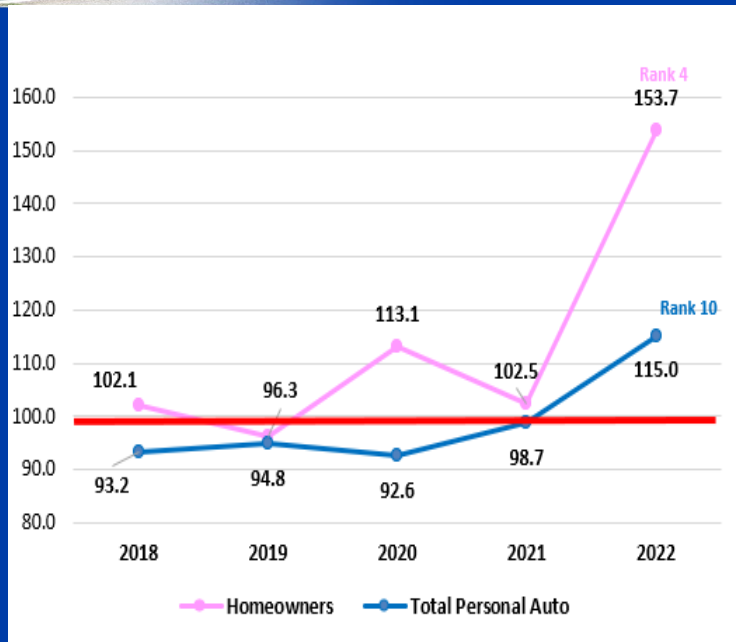


Increasing Costs: Regulation

- Property Casualty (P&C) insurance is extremely competitive:
 - Several thousand P&C insurers (3332)
 - Herfindahl-Hirschman Index (HHI) of 72 - 337;
($< 1,500$ “Not Concentrated”)
- Yet many states suppress or delay P&C rate increases
- States suppressing rates have market failures
 - Insurers limit underwriting in states with most oppressive price controls
 - FL went from 94% of HO policies written by national insurers to 18%
 - LA had two dozen insurers withdraw or go insolvent in the last 3 years
 - *CA had most top HO and several auto insurers limit underwriting*



Arkansas Insurance Costs > Premiums (Auto & Property Combined Ratios)





Insurance Availability Pressures

Property insurance demand and costs are increasing; capital is decreasing

DEMAND = INCREASING

- Higher Rebuilding Values
- Demographic growth/shifts
- Inflation
- Worsening weather
- Legal System Abuse



SUPPLY = DECREASING

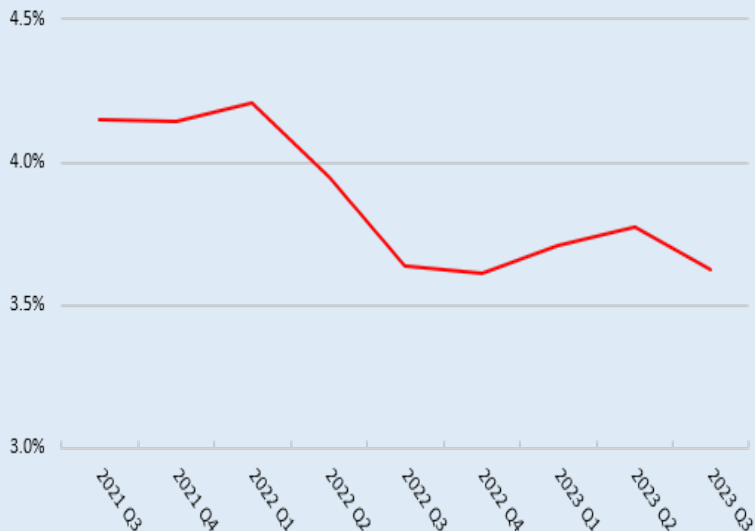
- Rate suppression/delays
(1 to 2-year lag time for rate filings, approvals, and rolling into new policies)
- Premiums falling behind losses
- Less surplus
- Lack of profitability + volatility = Deters new investment capital





Demand/Supply Mismatch = Unavailability

Capital & Surplus (Supply) vs. GDP (Demand)



Global reinsurance capital vs exposure growth: a mismatch that looks set to stay

Demand for coverage for natural disasters had risen on evidence of increased catastrophe activity, and because of higher insurable values of buildings and other fixed assets. At the same time, catastrophe claims pay outs have reduced the supply of re/insurance capital. Rising interest rates and lower financial asset values have also contributed to supply constraints. Risk appetite has further decreased due to poor property re/insurance underwriting results in recent years, and widely held perceptions that risk assessments are underestimating actual loss experience. This is leading to hesitation on the part of capital providers to commit new funds to re/insurance risks and replenish the industry capacity.

Global reinsurance capital vs exposure growth, 2018=100



Source: AM Best, Swiss Re Institute



Insurability Solutions – Mitigation and Resiliency

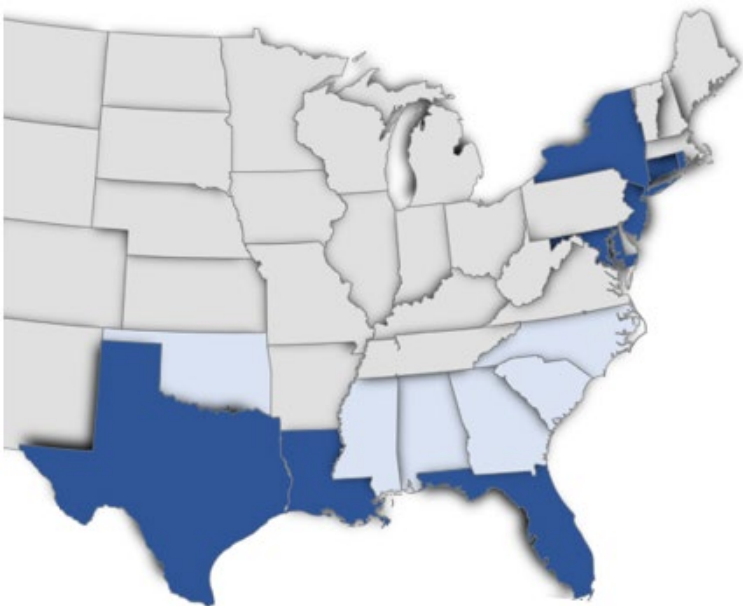
Insurers are leading efforts to make communities more resilient and to mitigate risks

- Working with federal & state policymakers
- Supporting resiliency & mitigation programs, such as infrastructure improvements and wildfire solutions
- Advocating for stronger building codes & land use policies
- Funding science-based research into risk mitigation
- Advocating for financial support to increase resilience for vulnerable populations





Mitigation/Resiliency Models – Nearby States Provide Science-Based Incentives



State-specific incentives

Insurance discounts, grants and/or tax credits are available to help offset the costs of upgrading to the FORTIFIED standard. Additionally, FORTIFIED endorsements may be available, as well.

Other incentives

Items consistent with the FORTIFIED standard, like impact-resistant shingles, hurricane shutters, or pressure-rated garage doors can result in insurance discounts, grants and/or tax credits.

- **IBHS FORTIFIED** homes meet a standard that is *scientifically proven* to be more resilient than homes built to ordinary building codes.
- Four states also offer tax credits – which can be as high as \$5000 – to homeowners who strengthen their homes against storms.
- In some states, insurance discounts may be offered for specific upgrades included in the FORTIFIED standard.

<https://fortifiedhome.org/incentives/>



Mitigation Impact Potential

Benefit-To-Cost Ratios

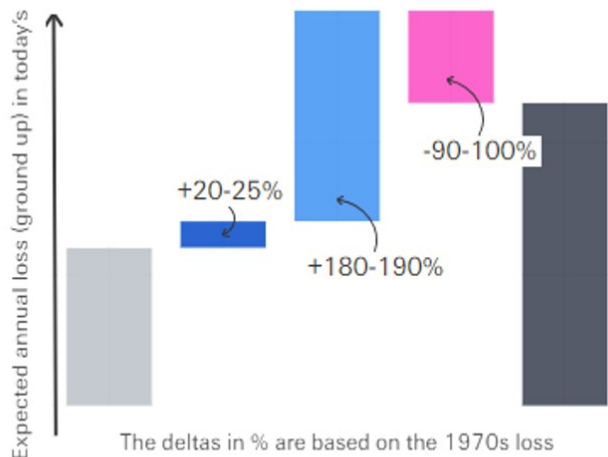
	Overall	Riverine Flood	Hurricane Surge	Wind	EQ	Wildland-Urban Interface Fire
Retrofit vital infrastructure	4:1	8:1	N/A	7:1	3:1	N/A
Retrofit existing buildings	4:1	6:1	N/A	6:1	13:1	2:1
New builds meet codes	11:1	6:1	N/A	10:1	12:1	N/A
New builds exceed codes	4:1	5:1	7:1	5:1	4:1	4:1

Source: APCIA via National Institute of Building Sciences and Swiss Re; vital infrastructure includes utilities, roads, other.



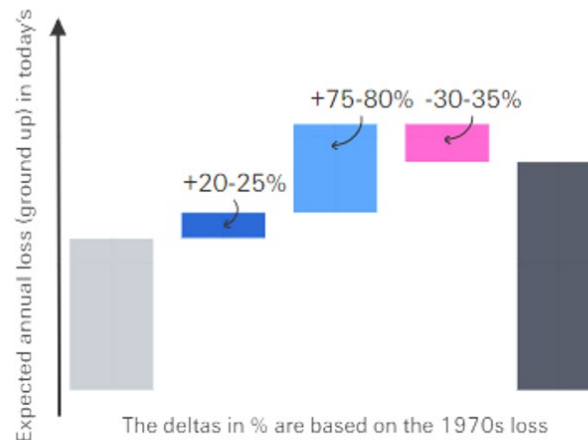
Quantifying Cost Drivers (Hurricane Ian 1970s vs Today)

Florida



<https://www.swissre.com/risk-knowledge/mitigating-climate-risk/hurricane-ian-revisited.html>

Gulf Coast



- 1970s
- Change in hurricane activity
- Change in property value due to pop. growth
- Change due to improvements in building standards
- Today



Questions?

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