



Pandemic Impacts, Insights, and Strategies for Facing the "New Normal"

CAS Annual Meeting
November 8, 2021

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Impacts from the Pandemic

- Auto
- Property
- Liability

Challenges for the P&C Insurance Industry

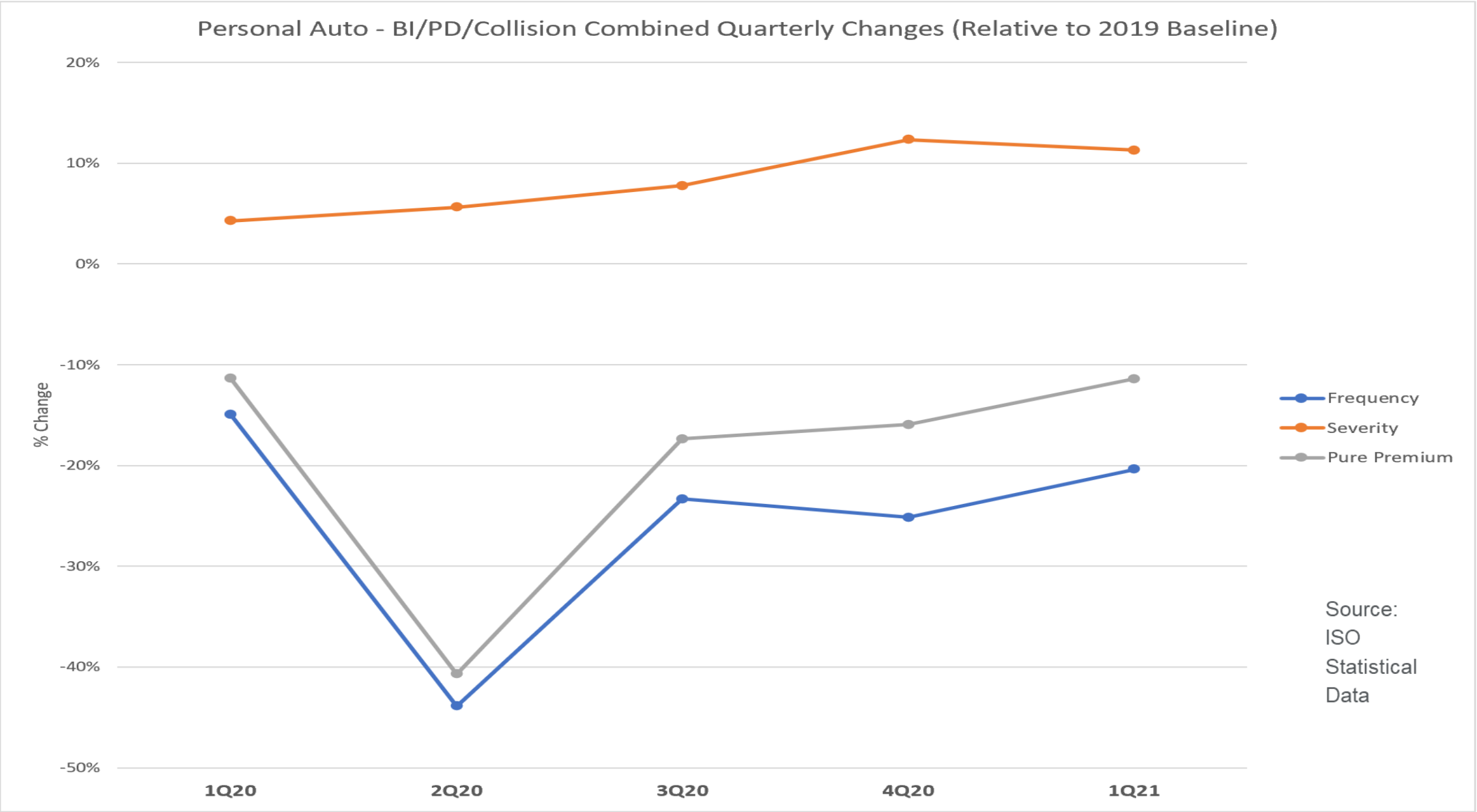
- Property
- Liability/Auto

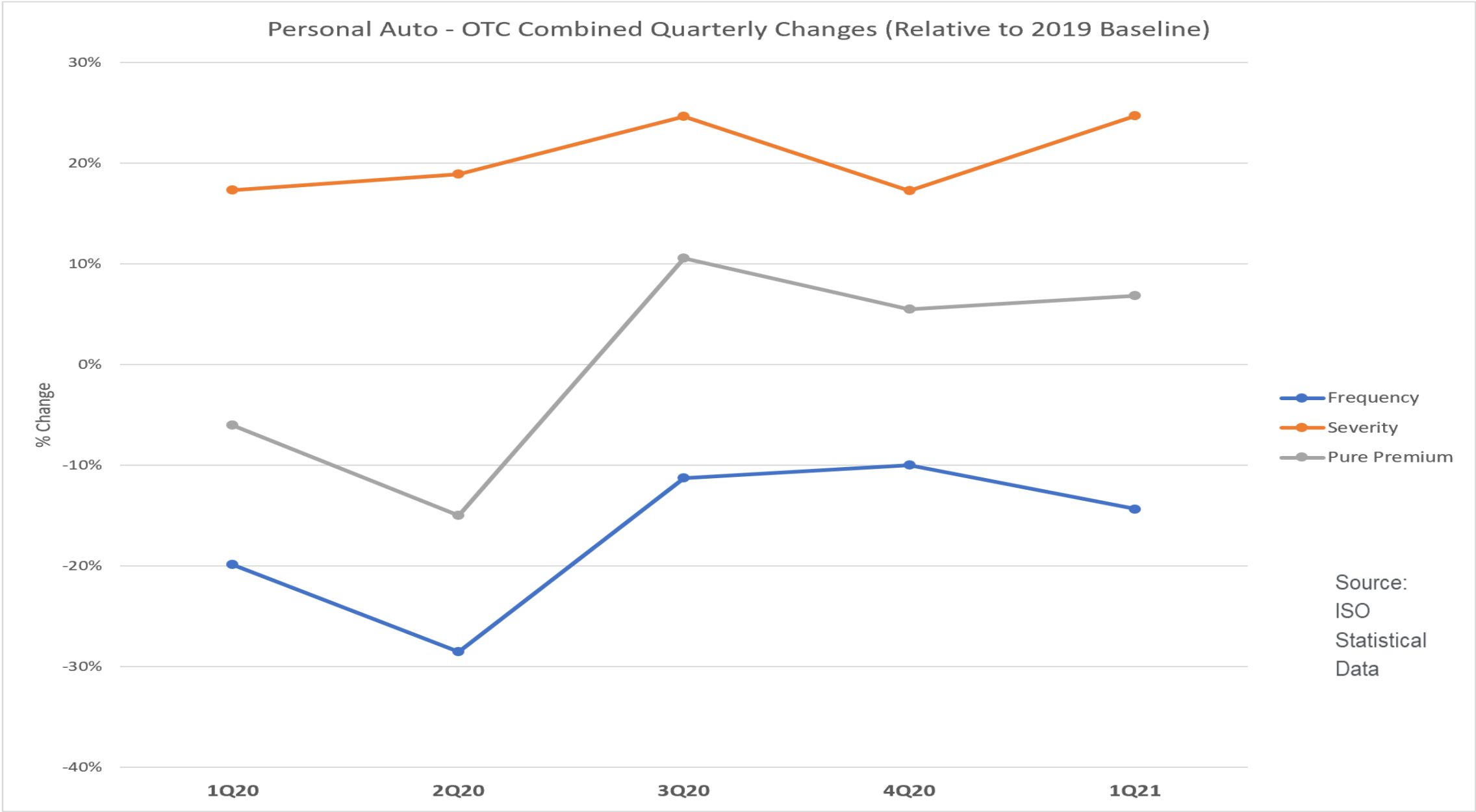
Potential Strategies For the New Normal

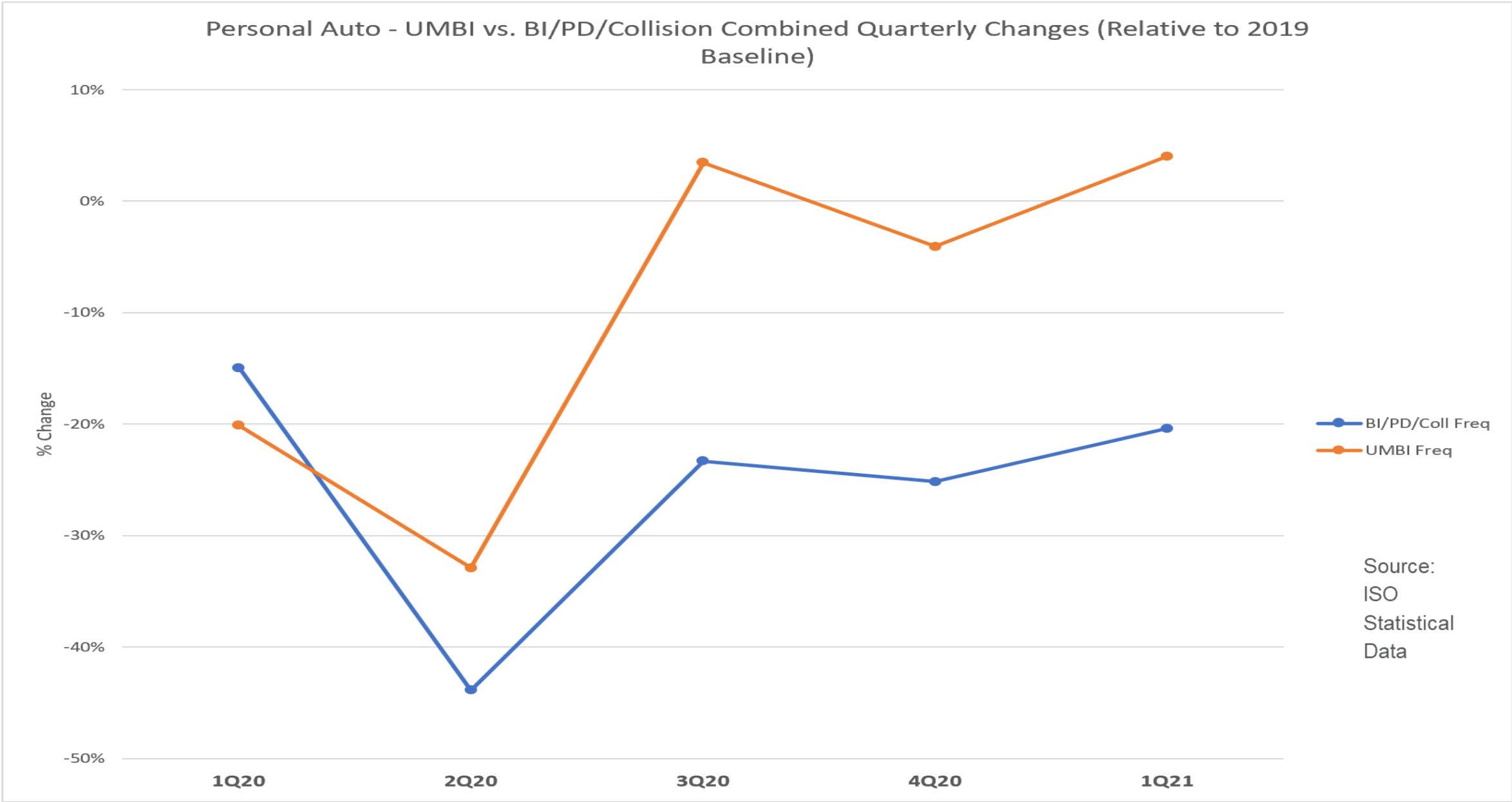
- Actuarial
- Coverage
- Underwriting
- Claims

Any Questions?

Impacts from the Pandemic







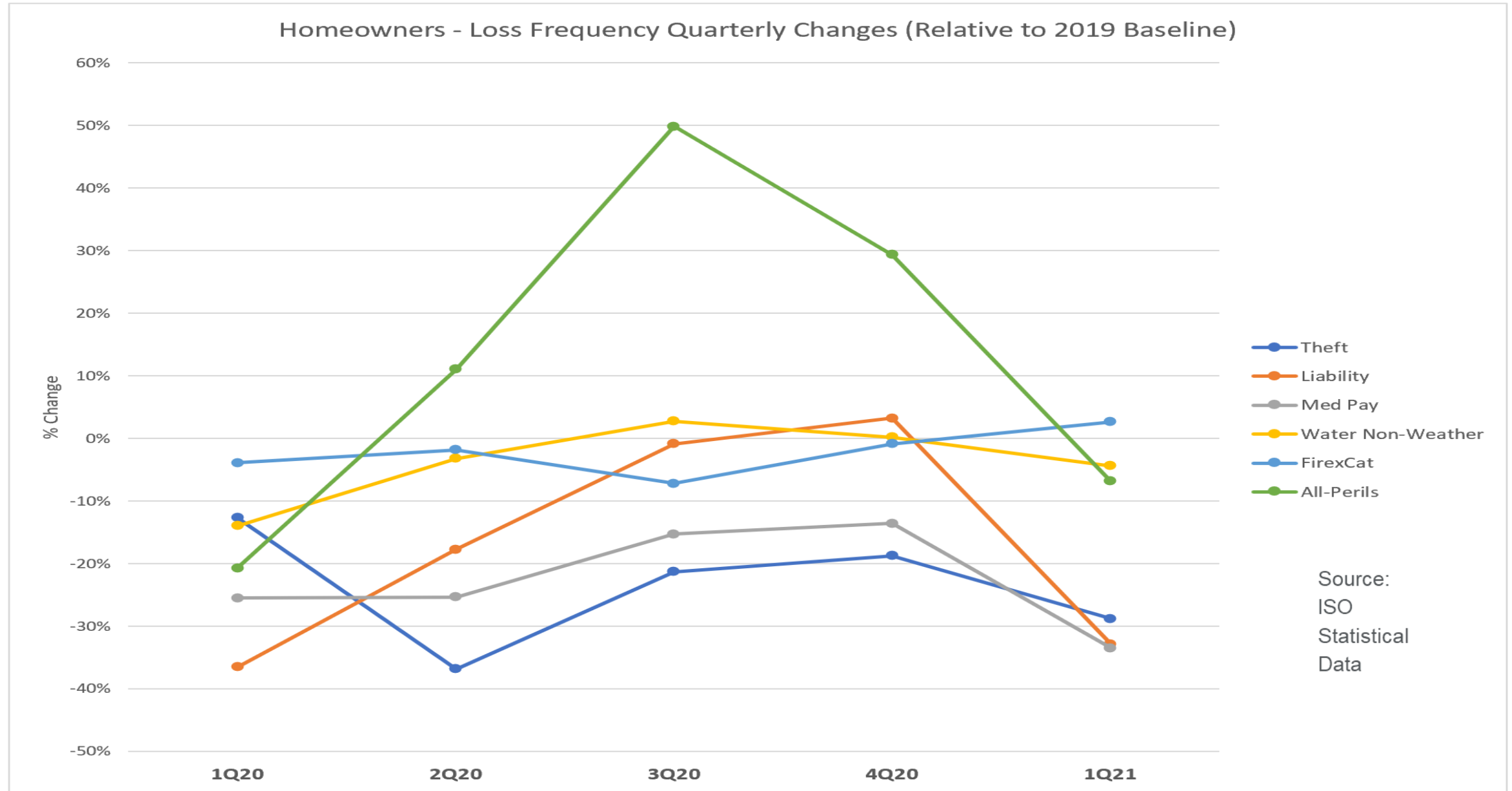
• Frequency:

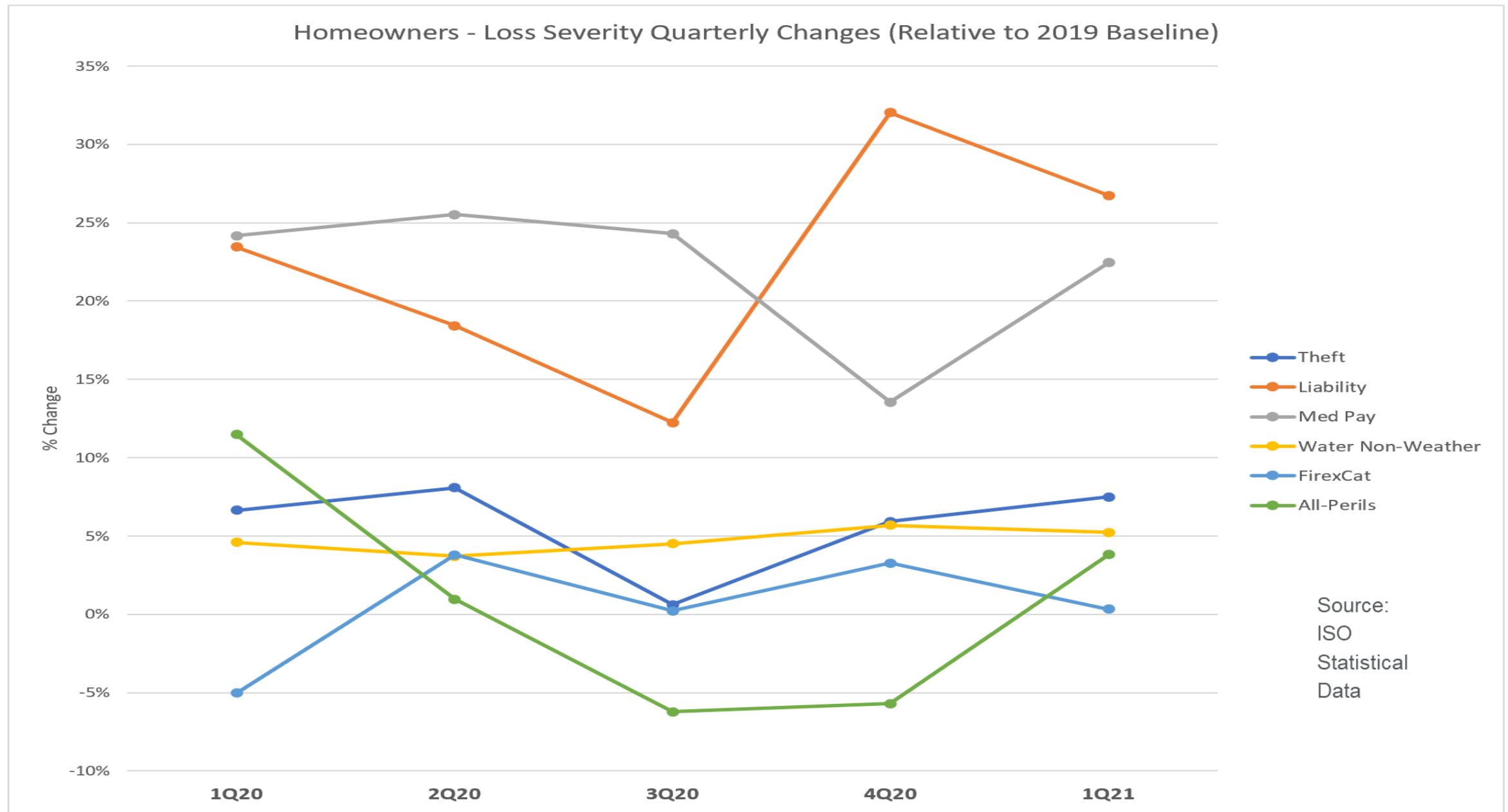
- Down (approx. 10%), even as mileage returns to pre-pandemic level

• Severity:

- BI mostly unaffected
- PD severities up
 - Reduction in small fender benders
 - Increasing costs of parts







• Fire-related losses:

- Q2 2020:
 - approximately a 10% decrease in fire claims reported to ISO from prior years
 - approximately a 15% increase in claim severity
- Further quarters show typical variance

• Total theft losses:

- Approximately a 70% increase for Q2/Q3 2020
- Early Q4 2020 indications show theft losses may be returning to pre-March 2020 levels

• *Weather-related perils:*

- *Same variance that would be expected in typical years*



• Frequency:

- Q2 2020: approximately a 45% decrease in claims reported to ISO from prior years
- More recent quarters: smaller decreases in claims compared to prior periods

• Severity:

- Monitoring closely given the long-tailed nature of the LOB



Challenges for the P&C Industry

Property

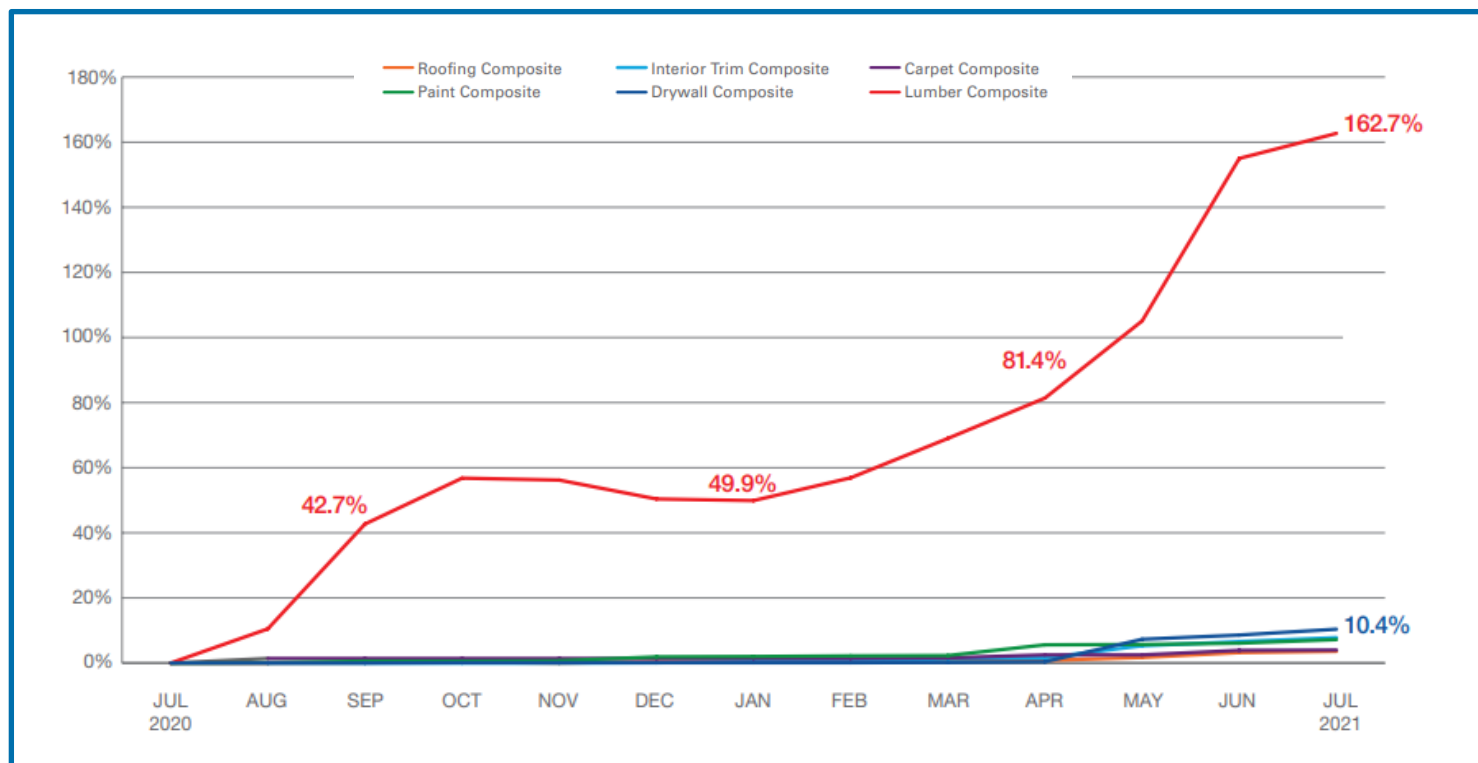


From July 2020 to July 2021, total reconstruction costs (including materials and labor) **rose 16.7%!**

Main driver: lumber costs **rose 162.7%** during that time!

Caused by increased building activity, supply shortages due to pandemic-related shutdowns, and reduced production.

Reconstruction Costs Continue to Rise as Lumber Prices Reach New Heights: Percentage change in costs by month



Lumber rose 162.7%, as the market reflected high demand from the ongoing boom in building and renovation activity, supply shortages driven by pandemic-related shutdowns, and production not keeping up with demand.

Source: 360Value, Q2 2021 Quarterly Cost Update, Verisk Analytics, July 2021, <https://www.verisk.com/siteassets/media/underwriting-v/resources/360value-quarterly/360value-q2-2021-usa-report.pdf>, accessed July 27, 2021.

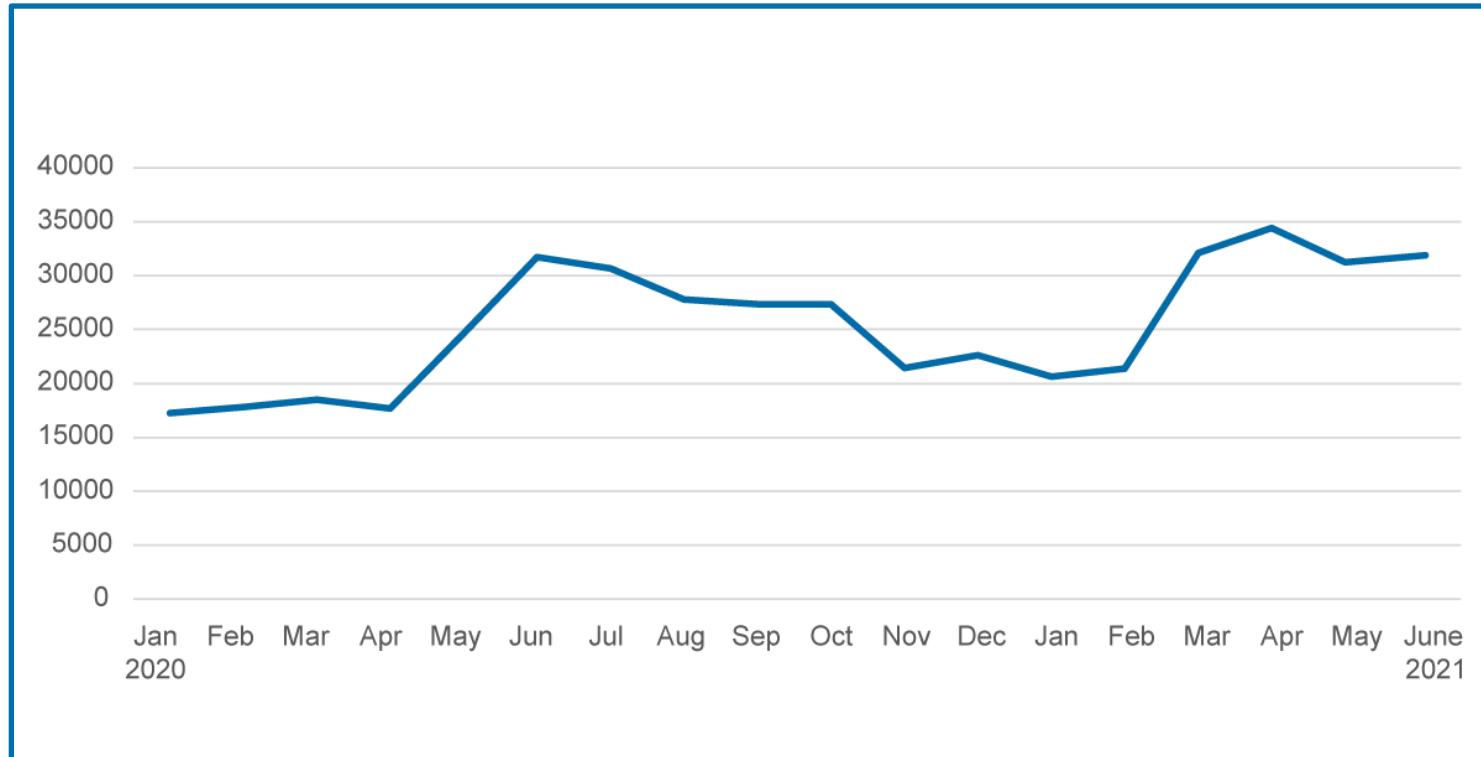


Source: tradingeconomics.com/commodity/lumber

- Pricing – trend selections
- Policy Quoting
 - Timing – current cost vs. average over policy period vs. long-term
 - Rate Competitiveness (vs. accurate pricing of risks)

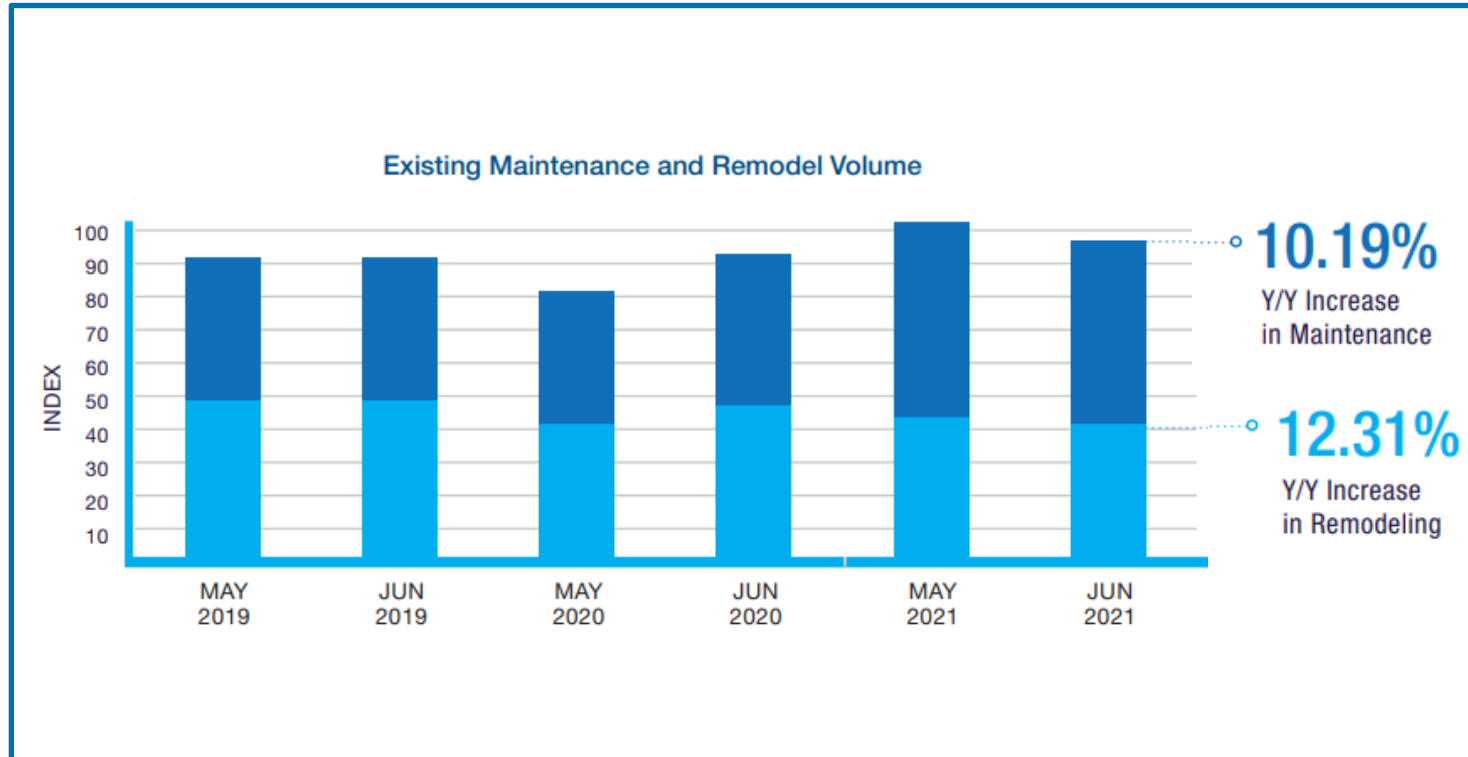


- Other Structures (Coverage B): 2020 - 2021



Verisk's permit data also shows an increase in permits for other structures that are typically included under Coverage B of a policy, where homeowners may add structures on the property beyond the home, including fences, detached garages, and pool houses.

Source: <https://www.verisk.com/insurance/visualize/the-big-build-how-a-rise-in-renovations-may-affect-property-insurance/>



Maintenance volume and spend increased 10.19% and 29.26%, respectively, year over year. Remodel volume and spend—a subset of maintenance that includes renovations, additions, and alterations—increased 12.31% and 31.24%, respectively, year over year.

Source: BuildFax, May 2021 Housing Health Report, Verisk Analytics, <https://www.buildfax.com/housing-health-reports/>, accessed July 27, 2021



Escalating values pose risks from both perspectives

Homeowners face potential underinsurance exposure

while...

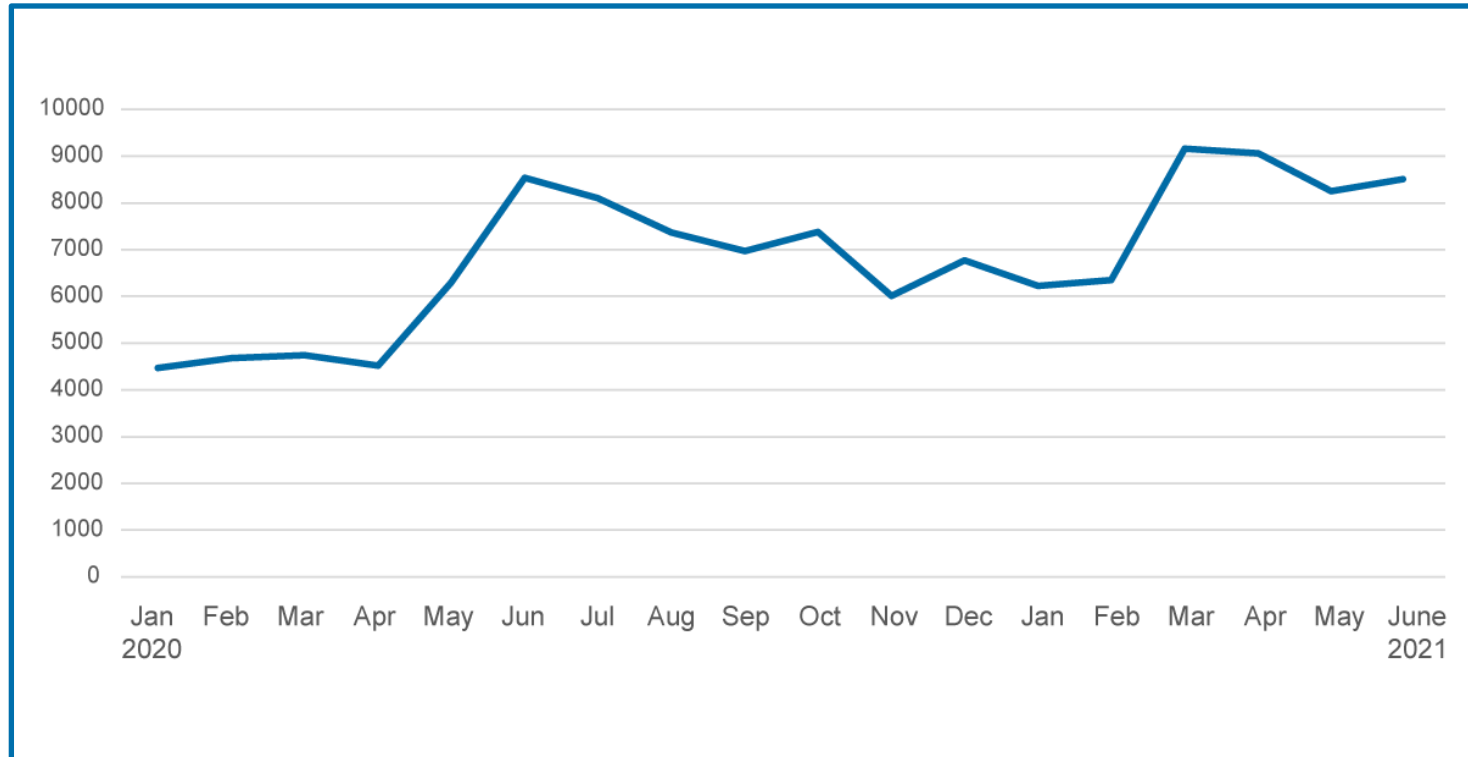
Insurers suffer premium leakage

***Challenge – align insurance to value
as quickly as possible!***



Liability/Auto

Pool Permits: 2020 - 2021



The number of pool permits nationally increased by nearly 57 percent year over year in the first five months of 2020 and 2021, with CA, FL, and TX seeing heightened activity in closing out the year.

Source: <https://www.verisk.com/insurance/visualize/the-big-build-how-a-rise-in-renovations-may-affect-property-insurance/>

Potential Increases in Liability/MP Exposures

In addition to an increase in pools:

- Other backyard toys, “Yay!!” (trampolines, bounce castles, playsets, etc.)¹
- Increased pet ownership²
- Will the hosting and entertaining of guests spring back above and beyond pre-pandemic levels?

Challenge – accounting for these additional liability exposures

1. <https://www.wnep.com/article/news/local/lackawanna-county/outdoor-toy-sales-jump-sky-high/523-490783bd-e88c-436a-b512-702ef4d1cb33>
2. <https://www.petfoodindustry.com/articles/10325-new-us-pet-ownership-study-confirms-pandemic-led-growth>



Defense costs related to business interruption
and employment-related practices liability

Potential for increased cyber-related exposures
related
to increased use of technology and devices in homes

Variations in mileage and shifts towards telematics and other usage-based insurance, including pay-per-mile programs



Changes in vehicle usage: From pleasure use to delivery driver



Availability of parts for repairs



Shortage of new car inventory (e.g. chip shortage)



Rising costs in used car market



Growth in on-demand economy

Potential auto insurance challenges around:

- risk misclassification/premium leakage
- commercial driver exposures
- changing/expanding liability and contract requirements

Segmentation and risk identification remain extremely important



Potential Strategies For the New Normal



AUTO

- 2020 loss experience very good: Insurers need to account for this in prospective ratemaking (adjust trend factors, re-evaluate accident year weights, etc.)
- Continued monitoring of variations in vehicle usage (mileage, blend of commercial with personal)

PROPERTY

Continue monitoring potential impacts from variable reconstruction costs and potential changes in property values

LIABILITY

Loss development: Potential disruption in 2020 accident year data due to court closures and changes in claims handling



AUTO

Exclusions and related cover options for on-demand delivery exposures

HOME

- Pool/Home Sharing policy provisions and options
- On-demand and home business exposures
- Cyber considerations: remote work/school

COMMERCIAL

- Micro-BOP and evolution towards entrepreneurial work
- Changing nature of business operations

The On-Demand Economy Impact

Bring it to me!

Amazon

Target

Walmart

Home Depot

Take me to it!

Uber

Lyft

HopSkipDrive

Side Car

Feed me!

DoorDash

Instacart

Grubhub

UberEats

Do it for me!

Plowz&Mowz

Homee

Spiffy

TaskRabbit

Move it around!

Uber Freight

TQL

DAT

Lyft Freight

- Scenarios
 - Extreme price competition
 - Accelerating digital investment
 - Workforce transformation
- Transform or be disrupted

Consumer Expectations



Always on



Speed



Accurate

Carrier Needs



Hook



Combat Fraud



Identifying changes to properties, both at post-bind and renewal, has been accompanied by challenges due to the pandemic



**User-supplied imagery
can validate and verify
data provided at time
of quote/bind**



Properties change over time, and utilizing virtual inspection data can help improve estimates of a policy's future loss potential

Concerns around human contact due to the pandemic have also led to an increased focus on digital solutions for claims handling.

Benefits may include:

- Lower expenses due to reduced travel
 - Reduced carbon footprint
- Faster handling, e.g. following catastrophic events
- Quicker estimation (and settlement)



For questions or feedback please contact:

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