Seminar on Reinsurance

June 5–6, 2023

Westin Philadelphia
Philadelphia, PA
C-24: Wheels – 7-year, No Warranties

June 6, 2023

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C-24 – Wheels – 7-year, No Warranties - Agenda

• Introduction

• Commercial and personal auto update
  • Overall industry results through 12/31/2022 – Covid/Heightened Inflation
  • Review trends, LDFs, loss ratios, segments, ground-up vs excess, competitive underwriting cycle, rate changes, emergence lags, ILF pressures
  • Covid and heightened inflation – considerations into 2023 and beyond

• Motor Portfolio Management perspective
  • State of the market for commercial and personal auto
  • Current and Future auto trends, supply chain disruption, severity etc…
  • Impact on portfolio loss ratios & reserving

• Liability/ Umbrella Portfolio Management perspective
  • Economic uncertainty
  • Large losses looming, social inflation remains
  • Navigating the challenging risk landscape

• Q&A
### Benchmark Assessment Matrix

**Estimating Confidences – Pre and Post Pandemic - Illustrative**

As part of an annual or quarterly Best Practices framework, after gathering all relevant internal and external information, it is useful to assess all actuarial benchmarking components. And how confident you are in each.

Some for example like LDFs and rate changes may feel quite confident, if no major disruptions. While others like ILFs may feel less confident in times of high and unknown social inflation and litigation financing impacts.

#### Source: Adapted from IT2 Intermediate / Advanced - CARe May 2014 (JBuchanan)
Update of Commercial Auto

View at 2020
There has been a steady decline in on-level results since 2009.

Overall loss ratios fell slightly for the first time in 2019 due to slightly reduced severity trend and slightly increased reduction in frequency.

Since 2009, there has been higher average severity trends (7-year trend 5.6%), lengthening tail and continued adverse actual vs. expected losses. The recent improvement in rates may be starting to reverse the higher loss levels.

The current loss ratio of 72.5%, is 14.1 points worse than longer term on-level average of 58.4%.
Renewal vs. New and Renewal rate changes show different patterns throughout the underwriting cycle.

For example, renewal policies show a reduction of about 2% in 2009 and 2010, while new and renewal (adjusted for different average attachment and limits offered), shows a reduction of closer to 7% and 5% (-8% in 2008).
Comparing to initial selected excess loss ultimate at 12 months using a mechanical 7-year average, produces adverse development all calendar years since 2012.
Commercial Auto

View at 2021 - 2023
After the steady increase in loss ratio since 2009, loss ratios fell sharply in 2020. This was due to the significant drop in frequency that was observed in 2020 as a result of the pandemic. Fewer people were driving as people were staying home and most businesses were not open. Loss ratios rebounded in 2021 and 2022 to higher than pre-pandemic levels, due to increasing severity and small rebound in frequency. Severity has continued to climb from 2020-2023 (9% 7-year trend).

The current year loss ratio is back to being higher than the all-year loss ratio (49.1% all year vs. 73.9% in 2022).
Commercial Auto – View at 2023
Sample Price Monitors - Commercial Auto Liability – New and Renewal Policies

After years of increasing rate increases since 2015, rates, while still in the high single digits, have started to see lesser increases, more so for new and renewal policies than renewal only policies.

The number of policies in 2020-2022 is also down from what was observed previously, indicating that there may have been some loss of policies during the pandemic, perhaps from businesses going out of business.

Note: Renewal Policies (Standard MarketWatch) - the # of policies underlying this policy level method is shown by the height of the grey bar. The black line represents the incremental rate changes. This method analyzes policy level data, only including policies with a common footprint from year to year for limit, attachment, capping, etc.

New and Renewal Policies (Expanded MW) - the # of policies underlying this company level method is shown by the total height of the grey and blue bars. The blue line represents the incremental rate changes. This method analyzes company level data from year to year, excluding companies for a particular year that have significant changes. This method does not include impacts due to the average number or type of exposures underlying the policy counts.

Limit/Attachment Adjusted - includes adjustments for aggregated limit and attachment differences using MILD for casualty lines (no adjustment for property).

The total # of policies issued by line of business is the total height of all 3 bars (the bar height is the current year policy counts, rather than the prior year).

The largest reported exposure bases (by policy count) for this line are: Car Months 77%, Employee Months 20%, Named Insured Months 1%, Cost of Hire 1%
Overall increase in loss cost up by 55% per power unit, and up by 48% per on-level premium since 2013.

Both methods show a significant drop-off in 2020 (~15%) due to the significant frequency reduction due to Covid. Both methods then show an increase/rebound (~20%) after covid to levels higher than pre-pandemic.

Source: SOLM 2023v1 (Pre-Release); losses developed using 3-yr VWA; uses ISO MarketWatch 12/31/2022 rate changes – CA-TTT Liability; power units in months
Larger claim sizes had a more significant rebound in frequency than smaller claims, while the severity was not as impacted. This increase in frequency, along with stable increasing severity, has led to an increase in loss ratio to above pre-pandemic levels.

During the pandemic, fewer smaller claims were observed compared to prior years, potentially due to their being fewer cars on the road, so fewer smaller accidents (fender benders).
For all Calendar Years since 2012, we have seen adverse development. 2020 was the only year that we saw significantly lower adverse development, and the first year since CY 2011 that we see favorable development for any accident years (2016 and 2017). CY 2022 has significant adverse development.
All Accident years since 2009 show adverse development, but CY 2020 showed slight favorable development, the only year to do so. CY2022 shows adverse development at levels back to CY2016-CY2019.
PPT did not see the favorable development in 2020 that TTT saw and continues to see high adverse development in all accident and calendar years.
Commercial Auto Liability – Loss Development Factors – GU Indemnity

Since 2020Q2, development factors are noticeably higher than previously. This could be due to the shutdown of the court system or pipeline issues during the pandemic, as well as continuing backlog from the pandemic with potentially fewer resources.

Source: CAu SOLM-Qtr at 12/31/2022; Indemnity Only

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Since 2020Q2, development factors are noticeably higher than previously. This could be due to the shutdown of the court system or pipeline issues during the pandemic, as well as continuing backlog from the pandemic with potentially fewer resources.

Source: CAu SOLM-Qtr at 12/31/2022; Indemnity Only
As observed previously, in 2020 there was a significant frequency reduction driving a significant loss ratio reduction. For severity, we see YTY changes significantly higher than in the past with increases above 10% in 2020 - 2022. This large increase in severity, paired with a partial rebound in frequency led to an increase in loss ratio in 2021 and 2022 to higher than pre-pandemic levels.

NB: mechanical selection for LDFs of last 7 qtr VWA used in projections from CAu SOLM-Qtr at 12/31/2022. No tail beyond 2017 supplied. Indemnity Only uses ISO MarketWatch 6/30/2022 rate changes
TTT data shows a very similar story to Total Commercial Auto Liability. In 2020 there was a significant frequency reduction driving a significant loss ratio reduction. For severity, we see YTY changes significantly higher than in the past with increases above 10% in 2020 - 2022. This large increase in severity with slight rebound in frequency led to a rise loss ratio in 2021 and 2022 to above pre-pandemic levels.

NB: mechanical selection for LDFs of last 7 qtr VWA used in projections from CAu SOLM-Qtr at 12/31/2022. No tail beyond 2017 supplied. Indemnity Only

uses ISO MarketWatch 6/30/2022 rate changes
PPT shows the same overall pattern as TTT, but shows a more extreme drop in frequency in 2020. We see high severity changes in 2020 - 2022, but not as high as what was observed in 2019 of over a 20% increase. The beginning of a rebound in frequency in 2021 coupled with the large severity increases in recent years led to a recovery in loss ratio in 2021 and 2022 to slightly higher than pre-pandemic levels.

NB: mechanical selection for LDFs of last 7 qtr VWA used in projections from CAu SOLM-Qtr at 12/31/2022. No tail beyond 2017 supplied. Indemnity Only uses ISO MarketWatch 6/30/2022 rate changes
When looking at Total Commercial Auto Liability BI, we see the same trends as for All Causes of Loss. Frequency dropped significantly in 2020 followed by increases in 2021 and 2022. Severity shows large increases of close over 10% or higher in both 2020 - 2022. These frequency and severity changes led to a large decline in loss ratio in 2020 and an increase in 2021 and 2022 to higher than pre-pandemic levels.

NB: mechanical selection for LDFs of last 7 qtr VWA used in projections from CAu SOLM-Qtr at 12/31/2022. No tail beyond 2017 supplied. Indemnity Only uses ISO MarketWatch 6/30/2022 rate changes
Not all segments are seeing the large increase in severity. Property Damage claims >10k are a good example. In 2020, we still saw the large drop in frequency, but there was not much of an impact to severity, leading to a drop in loss ratio. 2021 and 2022 saw large increases in frequency leading to an increase in loss ratio above pre-pandemic levels.

NB: mechanical selection for LDFs of last 7 qtr VWA used in projections from CAu SOLM-Qtr at 12/31/2022. No tail beyond 2017 supplied. Indemnity Only uses ISO MarketWatch 6/30/2022 rate changes
Commercial Auto Physical Damage shows a very similar story to Commercial Auto Liability. While still showing a significant frequency decrease in 2020 and increasing severity in 2020-2022, these impacts are not as significant as for liability.

NB: mechanical selection for LDFs of last 7 qtr VWA used in projections from CAu SOLM-Qtr at 12/31/2022. No tail beyond 2017 supplied. Indemnity Only

uses ISO MarketWatch 6/30/2022 rate changes
Looking at the ratio of closed claims to incurred claims, the closure rate in accident quarters since 2021Q2 and calendar years since the start of COVID, has slowed down from what it had been previously for Commercial Auto Liability.

Source: CAu SOLM-Qtr at 12/31/2022
When comparing incremental closed claims and paid indemnity to ultimate values, in the 8 quarters following the start of the pandemic, closure and payment rates fell from what they had been pre-pandemic. After those initial 8 quarters, closure rates began to increase again in many cases to higher than pre-pandemic levels. Closure rates remain low in the 3 month evaluation perhaps indicating a push to close older claims first.

NB: mechanical selection for LDFs of last 7 qtr VWA used in projections from CAu SOLM-Qtr at 12/31/2022. No tail beyond 2017 supplied. Indemnity Only
This figure shows the dampening impact of the pandemic on settling claims starting in calendar quarter 2020Q2, affecting almost all the accident quarters. The delayed settlements continue to significantly affect the average settlements.

Average Severities have been increasing YOY on every quarter since the start of the pandemic at a higher rate than pre-pandemic average of around 6%.
For Personal Auto Liability, we see the large decline in frequency in 2020 that we see generally across most lines of business. In 2021, there is a bigger recovery in frequency than what was seen for Commercial Auto. This recovery continued into 2022 through Q3. Severity increases in 2020-2022Q3 are not very different (even lower in some cases) than what was observed since 2017. The changes in frequency drove the loss ratio to fall in 2020 and then recover back to pre-pandemic levels in 2021 and 2022 through Q3.

NB: mechanical selection for LDFs of last 7 qtr VWA used in projections from PAu SOLM-Qtr at 9/30/2022. No tail beyond 2017 supplied. Indemnity Only uses ISO MarketWatch 6/30/2022 rate changes
For Personal Auto Physical Damage, like with liability, we see the large decline in frequency in 2020 and the start of the recovery in 2021 and continuing into 2022 through Q3. Severity in 2021 also jumped significantly from what had been observed in the past. Severity was up again in 2022 through Q3, less so than in 2021, but higher than pre-pandemic levels. This led to a large increases in loss ratio in 2021 and 2022 through Q3 to higher than pre-pandemic levels.

NB: mechanical selection for LDFs of last 7 qtr VWA used in projections from PAu SOLM-Qtr at 9/30/2022. No tail beyond 2017 supplied. Indemnity Only uses ISO MarketWatch 6/30/2022 rate changes
Looking at the ratio of closed claims to incurred claims, the closure rate in accident quarters since 2021Q2 and calendar years since the start of COVID, has slowed down from what it had been previously for Personal Auto Liability.

Source: PAu SOLM-Qtr at 9/30/2022
When comparing incremental closed claims and paid indemnity to ultimate values, in the 4 quarters following the start of the pandemic, closure and payment rates fell from what they had been pre-pandemic. After those initial 4 quarters, closure rates began to increase again in many cases to higher than pre-pandemic levels. Closure rates remain low in the 3 month evaluation perhaps indicating a push to close older claims first.

NB: mechanical selection for LDFs of last 7 qtr VWA used in projections from PAu SOLM-Qtr at 9/30/2022. No tail beyond 2017 supplied. Indemnity Only.
State of the Auto Market
Motor Trends

- Litigation Funding
- Supply Chain Issues
- Microchip Shortage
- Worker Shortages
- Wage Inflation
- Increasing Attorney Rep. rate
- Elevated Used car values
- General and widespread inflation for materials
- Medical inflation
- Frequency returning to pre-pandemic levels
- Higher baseline for Gas
- Social unrest
- Ukraine-Russia conflict / Global instability
General Observations
Commercial Auto

• Elevated loss & combined ratios due to social inflation and adverse development
• Rising rates; high single/ double digit but unfortunately, rates still inadequate
• Litigation funding becoming the norm
• Slow uptake of technology – telematics haven't produced the loss ratio lift expected
• Cameras gaining use, but a double-edged sword
• TNC business has not performed well and continues to struggle with rate, product and regulations
General Observations
Personal Auto

• Brief COVID benefit in 2020 on the frequency side has proven to be a significant anomaly
• Severity increased dramatically through the pandemic and has continued to grow through 2023
• Continuing supply chain and inflationary issues are creating increased loss costs, especially for APD exposures
• Worker shortages, social inflation and lit funding are further eroding personal motor results
• Amount of rate needed to return to profitability has been slow to come and will continue to lag emerging trends – California
In uncertain times for the **Personal Auto** business...

Personal Auto insurers’ margins are under the pressure of higher loss costs and limited rate increases approved by regulators. Rate increases are projected to catch up with loss inflation by end of 2024, depending on state mix.

**Loss severity on the rise**

While loss frequency is back to pre-pandemic levels, physical damage loss severity has increased dramatically driven by higher costs for repairs, car parts, and the price of used vehicles.

Social inflation trends are also impacting the severity of liability losses, in particular third party litigation funding.

**Rate increases still to catch up**

Rate activity picked up in the second half of 2021 and continues in 2023, though regulatory backlog is slowing the rate approval process in some heavily impacted states. Projection is that rate will catch up by the end of 2024, depending on state mix. Margins will remain under pressure until the new rate has earned through.

**Impact of geopolitical situation on loss inflation**

Ukraine-Russia conflict impacting production and distribution of key materials (e.g. neon and palladium) fueling continued market shortages and more supply chain disruptions for automakers. Microchip shortage still exists, but manufacturers are starting to get some relief. Higher energy costs have not had a material impact on vehicle miles travelled.

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*Industry average of approved rate filings for all Personal Auto products, across all states

Current Auto Trends

Supply Chain - Continued supply chain issues creating increased loss costs, longer wait times for parts and increased cost of those parts. Rental cars are needed longer while repair work is being done.

Microchip Shortages - Micro-chip production, and many of the key components needed to build them, has been hit hard in the recent past but the industry is getting relief and production facilities planned in the US by 2028.

Gas Prices - Gas price has risen to historical levels but appears to have stabilized somewhat. Reduced miles driven does not appear to have materialized to any significant degree while gas prices were at their highest. Hybrid work/remote work has dampened work travel and changed busy periods on major roads, but overall miles driven have not dropped in any material way.

Inflation – Wage, Medical, & Social. Number of medical procedures increasing, and they are being ordered faster. Worker shortages driving wage inflation, trucking hit especially hard. Social inflation continues to create adverse development, even in the personal lines space.

Advanced Technology - ADAS features should continue to help with frequency and severity on the liability side, but for first party covers, these features make cars more expensive to fix, increasing comprehensive loss costs. Adoption will be slower than projected due to car shortages. Average age of vehicles continues to go up which slows adoption of ADAS features overall.

Rate Changes - Commercial lines carriers have achieved a lot of rate over the last decade, but nuclear verdicts continue to erode any gains. Many personal lines carriers issued refunds during the pandemic, but loss costs started to heat up in Q2 2021 and have continued to climb. Some reacted with rate increases in late 2022 and early 2023, but DOI’s have been slow to approve rate increases. CA especially problematic as they are just now approving filings from 2019. More rate needed across the board.

Severity - Severity started to increase during the pandemic and continuing to rise. Less traffic causing less congestion and higher rates of speed. Fatality rate higher than it’s been in 40 years. Alcohol related accidents up. Unclear how marijuana will impact severity long term. Litigation funding coming into the personal lines space quickly.
The Road Ahead
Future Auto Trends

Plaintiff Attorney focus on motor and nuclear verdicts. Plaintiff’s bar focus on traditional bodily injury and motor, de-sensitized and anti-corporate juries, and complexity are driving increase in large losses.

Distracted Driving. Distracted Driving is expected to continue. However, smartphone penetration has little room to increase and vehicle cockpit innovations continue to be prevalent.

Soaring Repair Costs. Supply chain issues, worker shortages and tech advances in vehicles will continue to drive up costs.

Telematics and Usage Based Insurance. Telematics and UBI uptake continues, and should improve loss costs. Telematics heavily used in commercial motor, but hasn’t produced the magnitude of savings expected. Telematics continues to grow in personal as cars become more connected. UBI became more popular during the pandemic, but insurtech’s continue to struggle with profitability.

Ride Share & Micromobility. Ride share is the norm, but profitability has been elusive. Micro-mobility gaining popularity (scooters) but understanding the exposures and properly underwriting them has proven to be difficult.

Safety Innovation & Autonomous Vehicles. Highly autonomous vehicles expected in the next decade with full automation much further out. Average age of a vehicle increasing since the 1990’s has risen steadily. AV will trickle into the population, more slowly now than ever, delaying full benefits. Fully Autonomous vehicles, ‘bot’ vehicles, being piloted for delivery services for small radius trips.

Medical Inflation. Innovation and enhanced protocols are driving higher utilization of medical services, treatment costs and life expectancy, increasing severity. Plaintiffs bar also driving up medical costs.

Marijuana. Legalization for recreational use is expected to continue in more states. Results on loss costs unclear but will need long term studies to fully understand.

Cyber. Cyber is not expected to be a covered motor exposure, but in the case of a mass hack creating an aggregate event, Motor will be expected to respond initially with ultimate liability being sorted out in the courts over many years.
What about Umbrella?
Key Points:

• The market has hardened since 2019; original rate increases and frequency reductions during the pandemic have benefited liability
• Caution around over-exuberance due to strong rates, the post-Covid environment is uncertain
• 2020-22 looking profitable, but rate increases slowed in 2022 and 2023
• The risk and competitive landscape + economic conditions will continue to challenge the industry
Commercial rate outlook
Property increases surge, casualty short-changed (again!)

• Property rates drove a re-acceleration of overall commercial lines price increases, rising over 20% in 1Q23
• Overall rates increased 8.8% in 1Q23, up from 8.0% in 4Q22
• However, Umbrella and GL rate increases continue to moderate, reinforcing concern that loss trends exceed rate levels

US commercial insurance rate changes

Sources: CIAB, Swiss Re Institute
Medical Inflation rising and expected to persist above pre-Covid Average
The medical sub-components in CPI show an incomplete picture (wage effect)

**US – medical sub-components in CPI**

- y-o-y % change

**US Healthcare Expenditure (HCE) annual growth, %**

Source: Bloomberg, Swiss Re Institute

Source: US BEA, Swiss Re Institute
Claims inflation drivers

Social Inflation

Social Sentiment
- Low confidence in big business
- Erosion of trust in US institutions, especially by millennials
- Rising inequality

Plaintiff’s Bar
- Highly coordinated
- Apply psychological tactics (reptile theory)
- Attorney advertising
- Systematic use of data and analytics

Litigation Funding
- Provision of capital by a third party in exchange for a share in the proceeds
- Amplifies some of the other drivers of social inflation

Litigation Funding
- Expanding liability theories like public nuisance applied to casualty losses; bounty laws
- Assignment of benefits

Juries
- Emotions and beliefs impact jurors’ decisions
- Trend towards more plaintiff-friendly attitudes
- Generational shift
- Social media influence
High severity claims are stuck in the Post-Covid court backlog
Expect more nuclear verdicts to follow as social inflation picks up again

Civil case filings in state courts dropped 28% during the pandemic. However, casing filings for insurance relevant tort cases only dropped 6.5%.

Filing dynamics differ significantly by state

**Impact:** Tort case filings dropped far less than what would be expected from the impact of the pandemic. Expect those cases to work their way through the court system over the next years.

Court closures during the pandemic lead to the build-up of a significant case backlog.

We expect the backlog to have grown by approx. 50k cases during the pandemic and will take 1.5 to 3 years to clear.

**Nuclear verdicts** have significantly decreased during the pandemic.

**Impact:** While settlement conditions were favorable for small/mid-size claims, high severity claims remain stuck in the court system. Claims duration has increased.

The reprieve on social inflation trends from the shutdown appears to be over.

The **proportion of large verdicts is escalating** again, following pre-pandemic trends.

The drivers underlying social inflation have not abated, propensity to sue is increasing and our **outlook remains negative.**

**Impact:** Expect continued pressure from social inflation on the high severity case backlog flowing through the court system.

**Actions**
- Prudent portfolio steering considering current UW uncertainty
- Costing parameters must adequately reflect social inflation trends
- Lags should be adjusted to reflect longer claim duration
- Experience costing should consider that pandemic years probably appear better than they are
California: Large case clearance rate at all-time low, Court backlogs persist

Only minor drop in tort filings

Zoom in: Filed tort cases in CA vs the US (indexed: 2014=1)

CA small cases clearance rate

<table>
<thead>
<tr>
<th>Year</th>
<th>Clearance rate for cases less than $10K in value (%)</th>
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</thead>
<tbody>
<tr>
<td>2016</td>
<td>115</td>
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<tr>
<td>2018</td>
<td>120</td>
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<tr>
<td>2020</td>
<td>125</td>
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<tr>
<td>2022</td>
<td>130</td>
</tr>
</tbody>
</table>

CA medium cases clearance rate

<table>
<thead>
<tr>
<th>Year</th>
<th>Clearance rate for cases between $10K and $25K in value (%)</th>
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</thead>
<tbody>
<tr>
<td>2016</td>
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<tr>
<td>2018</td>
<td>120</td>
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<tr>
<td>2020</td>
<td>130</td>
</tr>
<tr>
<td>2022</td>
<td>150</td>
</tr>
</tbody>
</table>

CA large cases clearance rate

<table>
<thead>
<tr>
<th>Year</th>
<th>Clearance rate for cases greater than $25K in value (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>100</td>
</tr>
<tr>
<td>2018</td>
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<td>2020</td>
<td>130</td>
</tr>
<tr>
<td>2022</td>
<td>150</td>
</tr>
</tbody>
</table>

Disposition rates fell slightly during the pandemic leading to a small increase to the backlog of open cases.

Once courts reopened, clearance rates increased to 143%.

Impact: 99% of small cases are settled before reaching trial

Disposition rates for medium claims fell to a greater degree than small claims. The clearance rate for medium claims has not exceeded 100% since 2016 and was 91% in 2022.

Dispositions declined by 60% between 2019 and 2022.

Impact: Medium claims taking longer to progress through litigation leading to higher claims values.

Disposition rates for “Unlimited” cases (damages greater than $25K) have fallen the most.

The current clearance rate is just 74%.

Impact: Low clearance rates combined with minimal reduction to case filings in this category = longer tail, masked severity and greater uncertainty.

Filing dynamics differ significantly by state, dropping by 6.5% countrywide vs. 8.8% in California during Covid

Further variation exists by size of case. All sizes decreased; small by 151%, medium by 17%, and large by 3%

Impact: Even the pandemic didn’t dampen litigation for large claims in CA

Note: clearance rate = total dispositions/total filings
Texas: Larger cases progressing, court backlogs reducing, severity increasing

Filing dynamics differ significantly by state, dropping by 6.5% countrywide, while Texas tort filings increased by 2.4% (!). Filings for small/medium cases remained stable, while filings for large cases increased by 5%.

Impact: Even the pandemic didn’t dampen litigation for large claims in TX.

During the pandemic small/medium cases saw a small decrease in clearance rates. These cases comprise approximately 75% of total tort case filings since 2015.

Once TX courts adjusted, smaller cases were cleared from the docket very quickly.

Impact: Sm/Med cases are adjudicated in roughly 12-18 months after filing. Large cases can take an additional 24 months to adjudicate.

Large case clearance rates were stable to slightly increasing towards the end of 2021.

Clearance rates start from a low level of only 75% from 2016-2020 with the overall clearance never exceeding 100% since prior to 2015.

Impact: Clearence rates have accelerated by 21% to 91% @ YE 2022 suggesting increased severity as larger claims are resolved.

Other notable state developments

- Note: FL and NY tort cases are not stratified by damage amounts. All torts are lumped together.
- The clearance rate in FL courts for all tort cases dropped 153% during the pandemic, while filings dropped by only 8%.
- Data for New York is only through YE 2021. Clearance rates fell by 45% through the pandemic while filings only decreased by 3%.
- Other states reported varying clearance rates from 2019-2021, ranging from 145% (HI) to just 2% (SC).
- These numbers are just a snapshot of the nuances in the US state court system, making accurate lag selections very challenging.
Adverse development from this line during CY2022 came mainly from the problematic 2016-2019 accident years where social inflation is biting and liability policy limits were still substantial. Our work suggests that there could be more adverse development from 2019 (our L/R is 2.2 points above the booked figure). But more problematic are two observations: 1) The diagonal is consistently red; a sign to us that inflation for wage, labor, and medical costs (the stuff of liability claims) is outstripping the provisions embedded in development factors. And 2) We think the ultimate L/Rs for AY21 and 22 are 2-3 points higher than booked. Our provision for accelerated inflation is $5.7 bil, which accounts for most of this L/R difference.
## Navigating an Uncertain Casualty Landscape

<table>
<thead>
<tr>
<th>SIGNAL</th>
<th>CHALLENGE</th>
<th>ACTION</th>
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<tbody>
<tr>
<td>Claims duration</td>
<td>Prolonged duration for medium-large claims</td>
<td>Lengthen loss development patterns</td>
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<tr>
<td>Nuclear verdicts</td>
<td>Possible wave of large verdicts</td>
<td>Reserving and Costing parameters need to reflect the new reality</td>
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<tr>
<td>Uncertainty</td>
<td>Explosive mix of economic and social inflation</td>
<td>Higher trend factors and a priori loss ratios</td>
</tr>
<tr>
<td>Claims filings</td>
<td>Propensity to litigate is up, driven by aggressive advertising of the plaintiff’s bar</td>
<td>Reflect in forward looking trend parameters</td>
</tr>
<tr>
<td>“Green diagonal”</td>
<td>Recent years may look better than they are due to court backlogs</td>
<td>Cautious approach in releasing reserves due to favorable experience</td>
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Questions?
Thank you!

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