ASSURED INDUSTRY STUDY

2021 Industry Reserve Analysis

Reserve are Level Set; Bring on 2022

The year 2021 marks the 16th straight year that the U.S. P/C industry's loss reserves developed favorably (by about $11.1 billion) with pandemic plagued 2020 alone contributing nearly $8 billion.

What do we mean by referring to reserves as level-set in our title? We've concluded that the industry loss reserves are about 3% redundant ($22.3 billion), so we're not making any strong statements about the industry's reserve position or selection of ultimate loss ratios which, in turn, feed into 2022 pricing and reserving algorithms. In fact, that is the news: With the exception of workers' compensation (where we still forecast a meaningful reserve redundancy), 2022 pricing and reserving selections must stand on their own in the face of accelerating inflation and a changing economy. Releases from the back-book can't be counted on to preserve calendar year margins.

Inside there's also a new look and commentary on the impact of the pandemic on reported claims. For instance, claim counts in economically sensitive lines including private passenger, commercial auto and workers' compensation are rebounding from 2020 lows. Claim activity across special liability lines are notably higher than pre pandemic levels, while general and product liability claims remain notably suppressed. To state the obvious, claim activity influences reserving and pricing selections.

In the Study we also offer claim and reserving diagnostics with commentary on the pricing ramifications for each line of insurance during 2022 as viewed through the lens of that lines' loss reserve position.

MARCH 16, 2021

ASSURED RESEARCH

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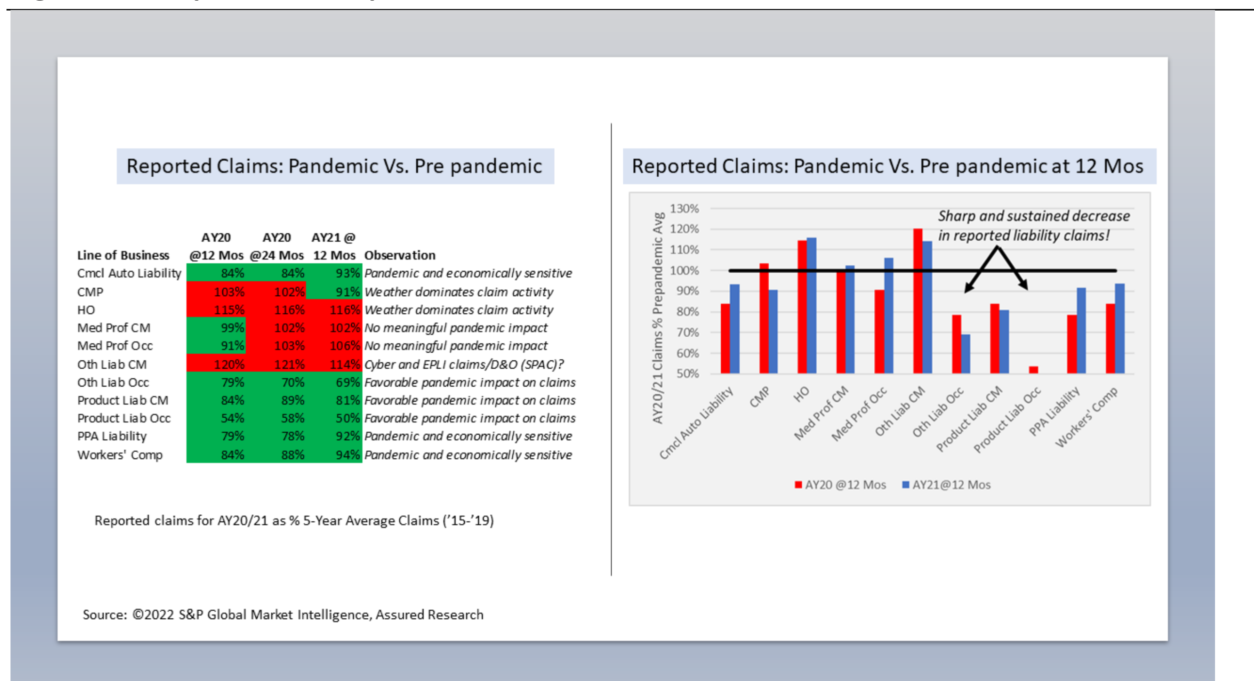
We estimate that the P/C insurance industry's U.S. loss reserves were redundant at YE21 by about $22.3 billion, or 3.0% of the carried loss reserves we reviewed (totaling $743 billion at YE2021).[1] That's down from our work at YE20 where we estimated an unusually large redundancy equal to about 4.2% of carried reserves – with much of that coming from a conservatively reserved AY20 (which did develop favorably by nearly $8 bil).[2] **The 3% figure is broadly in line with where our study has landed most years** (at a 2-3% redundancy). And while we'd like to make big news, the reality is that with the exception of workers' compensation, **we're not really making any strong statements about the industry's reserve position or selection of ultimate loss ratios which, in turn, feed into 2022 pricing and reserving algorithms**. In fact, maybe that is the news – **the industry is largely on its own to face surging inflationary pressures; there are only modest back-book reserves to be released in order to maintain calendar year margins if pricing fails to keep pace with inflation.**

Some industry professionals may not remember the days of adverse development; this was the 16th consecutive year of reserve releases at $11.1 billion in 2021.

Disrupted diagonals have, of course, been the main reserving theme since the onset of the pandemic. So before delving into our results and observations by line, we share in Figure 1 a comparison of reported claims for AYs 2020 and 2021 to pre-pandemic averages.

Figure 1: Comparison of Reported Claim Counts - Pandemic to Pre-Pandemic Years


Reported Claims: Pandemic Vs. Pre pandemic

Line of Business	AY20 @12 Mos	AY20 @24 Mos	AY21 @ 12 Mos	Observation
Cmcl Auto Liability	84%	84%	93%	*Pandemic and economically sensitive*
CMP	103%	102%	91%	*Weather dominates claim activity*
HO	115%	116%	116%	*Weather dominates claim activity*
Med Prof CM	99%	102%	102%	*No meaningful pandemic impact*
Med Prof Occ	91%	103%	106%	*No meaningful pandemic impact*
Oth Liab CM	120%	121%	114%	*Cyber and EPLI claims/D&O (SPAC)?*
Oth Liab Occ	79%	70%	69%	*Favorable pandemic impact on claims*
Product Liab CM	84%	89%	81%	*Favorable pandemic impact on claims*
Product Liab Occ	54%	58%	50%	*Favorable pandemic impact on claims*
PPA Liability	79%	78%	92%	*Pandemic and economically sensitive*
Workers' Comp	84%	88%	94%	*Pandemic and economically sensitive*

Reported claims for AY20/21 as % 5-Year Average Claims ('15-'19)

Source: ©2022 S&P Global Market Intelligence, Assured Research

[1] Throughout this report, losses and reserves include defense and cost containment expenses. Our analysis covers accident years 2012-2021 only (i.e., no prior years or legacy liabilities). ULR = ultimate loss ratio throughout.
[2] We have excluded the normally immaterial line "International" from all calculations. The line shows $4.8 bil. of adverse development owing to a '21 treaty where a U.S. company is assuming liabilities from an overseas affiliate.

Our takeaways from Figure 1:

- **Lines where the weather dominates claim patterns (HO, CMP) weren't impacted by the pandemic** (or suffer mainly from second order affects like inflation).

- **Economically sensitive lines** including **private passenger auto (PPA), workers' compensation (WC) and commercial auto liability** saw large drops in claim frequency during 2020 but **appear to be returning to pre pandemic levels**.

- **Liability lines that did not appear to benefit**, or which experienced adverse consequences include the **Medical Professional and Financial/Special Liability lines** (aka Other Liability Claims Made). The medical professional pattern is, admittedly, surprising considering the decline in healthcare utilization during 2020. The increase in claims affecting the financial lines is less surprising – cyber, EPLI, SPAC (D&O claims) are probably all contributing to the increase.

- **Liability lines exhibiting a sharp decline in claims include general liability and its much smaller cousin product liability**. The GL lines will consist of premises operations, various manufacturers and contractors forms, excess and umbrella and the like. **Executives have consistently indicated that liability claims 'weren't yet back to pre-pandemic levels'; they weren't kidding!** Is there a latent well of claims ready to spring forth when civil courts fully reopen? That's a multi-billion-dollar question – more in our line of insurance summary.

Fig 2: Reserve Indications by Line of Insurance; YE2021 $(000)

$000	Indicated Loss & DCCE Reserves	Carried Loss & DCCE Reserves	Indicated Reserve Redundancy/ (Deficiency)	Redundancy/ (Deficiency) as % of Carried Reserves
Workers' Comp	129,156,126	142,709,690	13,553,564	9.5%
Two Year Lines	53,398,845	56,802,142	3,403,297	6.0%
Comm Multi-Peril	47,165,386	48,718,370	1,552,984	3.2%
Reinsurance - Property	16,055,583	17,565,928	1,510,345	8.6%
Medical Prof Liability - Occ	8,956,993	10,340,614	1,383,621	13.4%
Medical Prof Liability - CM	16,803,652	18,004,995	1,201,343	6.7%
PP Auto Liab	129,511,446	130,607,830	1,096,384	0.8%
Special Liability	6,341,671	7,261,382	919,711	12.7%
Homeowners	34,059,247	34,894,262	835,015	2.4%
Products Liability - CM	943,338	1,252,315	308,977	24.7%
Reinsurance - Financial	562,504	731,652	169,148	23.1%
Products Liability - Occ	12,429,288	12,472,804	43,516	0.3%
Comm Auto Liab	49,611,801	49,583,645	-28,156	-0.1%
Other Liability - CM	52,870,304	52,600,745	-269,559	-0.5%
Reinsurance - Liability	35,620,744	34,172,779	-1,447,965	-4.2%
Other Liability - Occ	121,656,158	119,751,154	-1,905,004	-1.6%
International	5,470,363	5,470,363		0.0%
Totals	720,613,448	742,940,670	22,327,222	3.0%

Source: ©2022 S&P Global Market Intelligence, Assured Research.

Other Observations

- **The WC line is the industry gift that keeps on giving**. The line experienced $6.3 bil. of favorable development, and yet there seems $13.6 more to give!

Contributing factors to the gains over the past decade include Rx opioid reductions and the successes of medical cost containment measures.

- **The other economically sensitive lines - PPA and commercial auto liability lines – deserve mention** because we added a Frequency X Severity to our other development techniques this year; our aim being to explicitly account for inflation and claim severity pressures not present in the lines' recent histories. The bottom line(s): **The PPA redundancy is the lowest we've estimated in five years. And a special shout-out to commercial auto liability where our reserve estimates and ULR selections sit right on top of the industry.**

- **The two-year lines are dominated by auto physical damage and special property covers** (about 60% and 30% of the total claim volume). At YE20 we put the redundancy at around $5 billion and $5.7 bil of favorable development materialized. **This is where much of the pandemic reserving conservatism can be seen, but with our effort to account for the adverse impact of accelerating inflation the estimated redundancy has shrunk considerably at YE21**.

- **The liability lines also deserve mention – Other liability occurrence and claims made** (aka General Liability and Financial/Special Liability Lines). Don't be misled by the reserve deficiencies we estimate for each line – **the** more **important message is that the ULRs we have selected are very close to the industry indications. That means the lines have largely been level-set** and, going forward, **the ability to achieve target margins in the face of inflation and economic change will rest with the skills of underwriting, claims, and actuarial professionals at each company**.

With the exception of workers' compensation, industry reserves and ULRs are largely level-set; by which we mean the 2022 pricing and reserving selections must stand on their own in the face of accelerating inflation and a changing economy. Releases from the back-book can't be counted on to preserve calendar year margins.

We next move to our line of business analysis shown for seven of the more prominent lines studied. Readers interested in our work on these, or any other lines of business should please ask us – we're happy to share the details of our analysis.

Line of Insurance Commentary

Our line of insurance commentary is focused on seven lines of insurance where our reserve differences are most material and, of course, where the line is large enough to influence overall industry results and the pricing cycle.

We repeat throughout the report a presentation for which we can take no credit but which we think does a fabulous job of illustrating loss trends using a simple color schematic (green good, red bad). Our thanks to Intact Financial for bringing this style of analysis and presentation to our attention.

Homeowners Insurance: We show a $0.8 Bil. Redundancy (Immaterial)

Let's warm up by reviewing the industry development triangle for homeowners' (HO) insurance. **We'll include a similar style of presentation for each subsequent line so it's worth spending a minute to understand what you'll be seeing**.

The incremental, reported loss ratio (that is, paid + case reserves, no IBNR) is shown down each column, or year of loss development. Where a cell is green the loss ratio is less than the column average (i.e., less L/R development = good), or red where it is above the average. An actuary would like to see a random pattern to indicate there is no systemic underlying changes such as from an accelerating loss trend. In the grey box to the right of the triangle we show the industry's booked ULR by accident year and the implied development factor to move the 12 or 24-month reported loss ratio to its ultimate value (e.g., for AY21, 68.3%/54.4% = 1.25). Similarly, we show the 24-Ult factor implied by the industry's booked ultimate loss ratio. Why? Examining the AY20 and AY21 selections (in the face of disrupted diagonals) provides a relatively straightforward indication of the industry's relative conservatism (or lack thereof).

Figure 3: Loss Development Schematic and Industry ULR Indications: Homeowners

Accident Years	12 Months	24 Months	36 Months	48 Months	60 Months	72 Months	84 Months	96 Months	108 Months	120 Months	Industry ULR	Industry 12-Ult	Industry 24-Ult
2005	51.1%	6.8%	1.6%	0.8%	0.4%	0.2%	-0.1%	0.1%	0.0%	0.0%			
2006	46.0%	5.3%	0.9%	0.3%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%			
2007	49.3%	5.2%	0.0%	0.2%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	54.9%	1.11	1.01
2008	66.7%	7.2%	1.1%	0.3%	0.1%	0.0%	0.1%	0.0%	0.0%	0.0%	75.5%	1.13	1.02
2009	60.2%	6.5%	0.8%	0.4%	0.2%	0.1%	0.1%	0.0%	0.0%	0.0%	68.2%	1.13	1.02
2010	59.2%	6.4%	0.9%	0.4%	0.2%	0.1%	0.0%	0.0%	0.0%	0.0%	67.3%	1.14	1.03
2011	74.6%	6.4%	0.8%	0.3%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	81.1%	1.09	1.00
2012	57.4%	6.1%	1.0%	0.3%	0.2%	0.1%	0.1%	0.0%	0.0%	0.0%	65.1%	1.14	1.03
2013	47.2%	4.6%	0.7%	0.3%	0.1%	0.1%	0.1%	0.0%	0.0%		53.3%	1.13	1.03
2014	49.1%	5.2%	0.9%	0.3%	0.2%	0.1%	0.0%	0.0%			55.8%	1.14	1.03
2015	47.5%	5.8%	0.7%	0.3%	0.2%	0.1%	0.0%				54.7%	1.15	1.03
2016	48.7%	6.2%	0.9%	0.3%	0.1%	0.1%					56.5%	1.16	1.03
2017	60.3%	8.3%	0.7%	-1.2%	0.2%						68.5%	1.14	1.00
2018	56.9%	8.7%	-0.1%	-0.4%							65.7%	1.16	1.00
2019	51.9%	8.4%	1.3%								62.8%	1.21	1.04
2020	58.5%	10.5%									72.1%	1.23	1.04
2021	54.4%										68.3%	1.25	

Source: ©2022 S&P Global Market Intelligence, Assured Research

Observations: Although not exactly a random pattern of red and green, by comparison to upcoming triangles one will see there are no biases lurking behind the numbers. We can share that our estimated $3.9 billion redundancy at YE20 was an overshoot. A negligible amount of

favorable development materialized during 2021, yet our estimated redundancy falls to just $0.8 billion. The reason: **We added a frequency x severity method this year in an attempt to explicitly account for unusual inflationary pressures on O/S and IBNR claims. That effort absorbed some $2.5 billion of erstwhile redundancy had we simply used a loss development technique**.

Pricing Cycle Ramifications: We don't see any material pricing cycle ramifications from our work. **As to HO pricing trends generally, the catastrophe burden continues to rise as more people and property move into harm's way and inflationary pressures on building materials and wages will manifest in 2022. With reinsurance costs likely to rise throughout 2022, count us among those believing HO rates will continue to climb**.

Private Passenger Auto Liability: We show a $1.1 Bil. Redundancy

Private passenger auto is on the 'front lines' as to the impact of the pandemic on driving patterns and inflationary pressures. Interestingly, we see in Figure 4 the systemic underpricing from the last soft cycle in this line (2015-2017) as well as the adverse impact of medical utilization and bodily injury severity on open claims from AYs 2018 and 2019.

Figure 4: Loss Development Schematic and Industry ULR Indications: PPA Liability

Accident Years	12 Months	24 Months	36 Months	48 Months	60 Months	72 Months	84 Months	96 Months	108 Months	120 Months	Industry ULR	Industry 12-Ult	Industry 24-Ult
2005	49.3%	7.8%	3.2%	1.7%	0.6%	0.3%	0.1%	0.1%	0.1%	0.0%			
2006	48.9%	8.4%	3.4%	1.5%	0.6%	0.2%	0.1%	0.1%	0.0%	0.0%			
2007	51.1%	9.2%	3.3%	1.6%	0.6%	0.2%	0.1%	0.1%	0.0%	0.0%	66.6%	1.30	1.10
2008	51.4%	9.1%	3.3%	1.4%	0.6%	0.3%	0.1%	0.1%	0.0%	0.0%	66.8%	1.30	1.10
2009	54.9%	9.0%	3.2%	1.6%	0.7%	0.4%	0.2%	0.1%	0.1%	0.1%	70.6%	1.28	1.10
2010	55.5%	8.7%	3.3%	1.9%	0.7%	0.4%	0.2%	0.1%	0.1%	0.1%	71.2%	1.28	1.11
2011	54.1%	9.2%	3.9%	1.8%	0.9%	0.4%	0.2%	0.1%	0.1%	0.0%	70.4%	1.30	1.11
2012	53.7%	9.3%	3.6%	2.0%	0.8%	0.3%	0.1%	0.1%	0.0%	0.0%	70.3%	1.31	1.12
2013	54.7%	9.5%	4.1%	2.0%	0.8%	0.3%	0.3%	0.1%	0.1%		72.1%	1.32	1.12
2014	49.7%	9.0%	3.8%	1.9%	0.7%	0.3%	0.2%	0.1%			66.0%	1.33	1.12
2015	55.9%	10.7%	4.5%	2.0%	0.9%	0.4%	0.2%				75.0%	1.34	1.13
2016	56.0%	11.4%	4.5%	2.3%	0.9%	0.6%					76.3%	1.36	1.13
2017	52.4%	10.8%	4.5%	2.0%	1.1%						71.8%	1.37	1.14
2018	49.8%	10.8%	4.2%	2.0%							69.1%	1.39	1.14
2019	50.6%	10.6%	4.6%								70.1%	1.38	1.15
2020	41.3%	9.1%									59.2%	1.43	1.17
2021	49.1%										69.8%	1.42	

Source: ©2022 S&P Global Market Intelligence, Assured Research

Observations: Focusing on the pandemic years, the dip in claims and the loss ratio in 2020 is evident, as is the return to (near) normal in 2021. **We can see from the development factors highlighted in yellow that the industry's reserves are probably *somewhat* conservative** (i.e., they're allowing for more upward development than in years past) …**but not excessively so**.

Pricing Cycle Ramifications: **We don't expect reserve true ups during 2022 to meaningfully influence auto insurance pricing; it'll all be about accounting for inflationary pressures**. Interestingly, we've heard executives at Allstate and Progressive mention higher rates of medical inflation and consumption in the context of more severe bodily injuries. We don't doubt that medical consumption is higher, but medical inflation reported by WC writers

remains benign. Of course, healthcare organizations aren't immune from wage pressures or rising input costs; we'll be monitoring the trends during 2022 as best we are able.

Two Year Lines (Dominated by Auto Physical Damage): We show a $3.4 Bil. Redundancy

At YE20 we estimated a $5 billion reserve redundancy and $5.7 billion materialized. But we're far from omniscient, this auto physical damage/special property composite has generated an average of $5.2 billion of favorable development over the past four years.

Figure 5: Loss Development Schematic and Industry ULR Indications: 2 Year Lines (Auto PD)

Accident Years	12 Months	24 Months	36 Months	48 Months	60 Months	72 Months	84 Months	96 Months	108 Months	120 Months	Industry ULR	Industry 12-Ult	Industry 24-Ult
2011	63.4%	4.5%	0.5%	0.3%	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	68.0%	1.07	1.00
2012	59.9%	4.8%	0.4%	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	65.5%	1.09	1.01
2013	57.2%	3.0%	0.4%	0.1%	0.1%	0.0%	0.1%	0.1%	-0.1%		60.8%	1.06	1.01
2014	55.2%	2.8%	0.1%	0.5%	-0.2%	0.1%	0.3%	0.3%			59.2%	1.07	1.02
2015	55.2%	2.3%	0.7%	0.2%	0.2%	0.0%	-0.2%				58.4%	1.06	1.01
2016	58.1%	2.7%	0.2%	0.1%	0.1%	0.0%					61.4%	1.06	1.01
2017	62.1%	3.0%	0.5%	0.0%	0.1%						66.1%	1.06	1.01
2018	56.7%	3.2%	0.1%	0.1%							60.5%	1.07	1.01
2019	56.4%	2.1%	0.3%								59.5%	1.05	1.02
2020	52.4%	2.7%									57.7%	1.10	1.05
2021	59.8%										66.9%	1.12	

Source: ©2022 S&P Global Market Intelligence, Assured Research. Specialty property (e.g., allied lines) is the next largest

<u>Observations</u>: So **why the lower estimated redundancy at YE21? Our attempt to account for accelerating inflation explains much of the decrease**. The industry is also reserving more conservatively than in years past; note the higher development factors implicit in the AY21 (1.12x) and AY20 (1.05x) ULR selections.

<u>Pricing Cycle Ramifications</u>: As described in the Auto liability section, **we don't think reserving true ups will hold much sway over pricing during 2022**. Inflation, inflation, inflation.

Workers' Compensation: We Show (another) Big $13.6 Bil. Redundancy

Incredible. This line has released an average of $6.7 billion over each of the past four years, yet our estimated reserve redundancy holds firm at $13.6 billion, (last year, $13.3 billion).

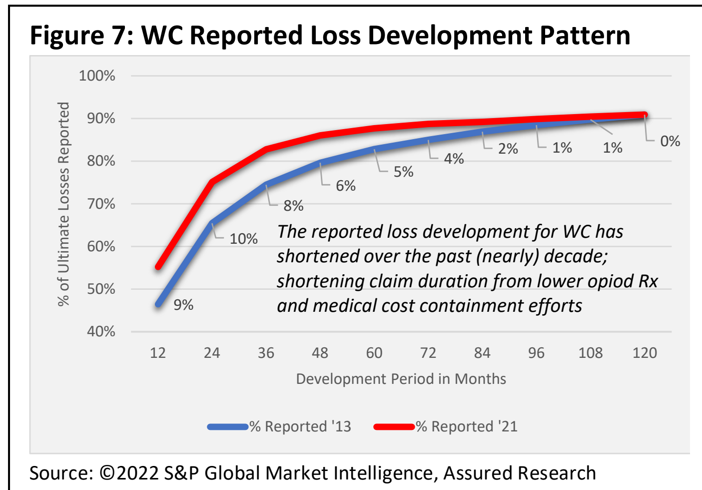
Figure 6: Loss Development Schematic and Industry ULR Indications: Workers' Compensation

Accident Years	12 Months	24 Months	36 Months	48 Months	60 Months	72 Months	84 Months	96 Months	108 Months	120 Months	Industry ULR	Industry 12-Ult	Industry 24-Ult
2005	28.8%	9.0%	4.2%	2.6%	1.5%	1.6%	1.1%	0.8%	0.6%	0.3%			
2006	29.3%	10.6%	5.5%	2.9%	2.2%	1.4%	1.1%	1.0%	0.4%	0.4%			
2007	32.5%	12.8%	5.8%	3.6%	2.2%	1.6%	1.3%	0.7%	0.5%	0.4%	67.2%	2.07	1.48
2008	35.0%	13.9%	6.7%	3.9%	2.4%	1.4%	1.4%	0.9%	0.7%	0.3%	72.9%	2.09	1.49
2009	35.3%	14.3%	6.8%	3.9%	2.4%	1.9%	1.0%	1.0%	0.6%	0.3%	73.8%	2.09	1.49
2010	38.1%	16.1%	7.6%	4.1%	2.7%	1.5%	1.3%	0.8%	0.2%	0.5%	79.6%	2.09	1.47
2011	37.4%	15.4%	7.0%	4.1%	2.5%	1.7%	0.9%	0.3%	0.6%	0.4%	76.3%	2.04	1.44
2012	33.9%	13.8%	5.9%	1.4%	3.4%	1.5%	0.5%	0.5%	0.5%	0.1%	68.5%	2.02	1.43
2013	31.5%	12.9%	5.0%	2.7%	1.8%	0.6%	0.3%	0.4%	0.3%		62.5%	1.98	1.41
2014	30.2%	11.5%	4.4%	2.7%	1.2%	0.6%	0.5%	0.3%			58.4%	1.93	1.40
2015	28.8%	11.1%	4.8%	1.9%	1.1%	0.5%	0.0%				56.1%	1.95	1.40
2016	28.9%	9.9%	3.9%	1.8%	0.8%	0.6%					55.3%	1.91	1.42
2017	28.9%	10.0%	4.6%	1.6%	0.8%						56.6%	1.96	1.46
2018	29.4%	10.6%	3.8%	1.7%							59.1%	2.01	1.47
2019	31.4%	11.2%	4.1%								62.7%	2.00	1.47
2020	30.3%	11.1%									65.5%	2.16	1.58
2021	31.9%										67.2%	2.11	

Source: ©2022 S&P Global Market Intelligence, Assured Research

<u>Observations</u>: There is lots of green in this triangle and as most will know that comports with favorable WC loss trends for much of the past decade (think declining prescriptions of opioids which lengthen claim duration and severity when prescribed as well as the effectiveness of medical cost containment laws). Nearby Figure 6 shows how the loss development pattern has shortened over the past decade.

Figure 7: WC Reported Loss Development Pattern



Source: ©2022 S&P Global Market Intelligence, Assured Research

<u>Pricing Cycle Ramifications</u>: Most companies have taken to reporting rate increases excluding the impact of the downward-to-neutral pricing pressure on WC. Of course, few exclude WC when reporting their operating profits, reserve development, or combined ratios! **We expect reserve releases to continue at rates similar to recent years** ($6-$7 billion). We're watching employment trends and the economy; the glass-half-empty analyst in us says that the accident year loss ratio will continue to climb.

Commercial Auto: Adequate!

Last year, we wrote: "It's been a long time coming – commercial auto is finally looking better! With continued rate increases and with some help from the pandemic, it looks like this line is finally turning the corner." We're happy to have gotten *something* right: We estimated a $0.7 billion deficiency and (almost) exactly $0.7 billion of adverse development materialized. (We should quit while we're ahead.)

Figure 8: Loss Development Schematic and Industry ULR Indication: Commercial Auto Liability

Accident Years	12 Months	24 Months	36 Months	48 Months	60 Months	72 Months	84 Months	96 Months	108 Months	120 Months	Industry ULR	Industry 12-Ult	Industry 24-Ult
2005	34.0%	11.0%	5.7%	3.3%	1.4%	0.6%	0.2%	0.1%	-0.1%	0.0%			
2006	34.5%	10.9%	5.8%	3.1%	1.4%	0.4%	0.4%	0.1%	0.0%	0.1%			
2007	34.7%	11.9%	6.3%	3.6%	1.3%	0.9%	0.2%	0.1%	0.1%	0.1%	59.5%	1.71	1.27
2008	35.2%	11.9%	6.2%	3.4%	1.9%	0.6%	0.4%	0.2%	0.2%	0.0%	60.1%	1.71	1.28
2009	34.3%	11.8%	6.3%	4.0%	1.8%	0.9%	0.3%	0.1%	0.2%	0.1%	60.0%	1.75	1.30
2010	37.6%	13.5%	8.1%	4.5%	2.6%	0.9%	0.4%	0.2%	0.2%	0.1%	68.3%	1.82	1.34
2011	39.2%	15.7%	8.7%	5.1%	2.8%	1.1%	0.5%	0.4%	0.2%	0.1%	72.7%	1.85	1.32
2012	38.2%	15.2%	8.8%	5.4%	2.7%	1.1%	0.5%	0.3%	0.1%	0.0%	72.6%	1.90	1.36
2013	37.4%	15.4%	9.4%	6.0%	2.9%	1.1%	0.9%	0.2%	0.0%		73.9%	1.97	1.40
2014	37.0%	15.4%	9.9%	6.5%	3.4%	1.3%	0.5%	0.3%			74.9%	2.02	1.43
2015	37.4%	16.4%	10.2%	6.7%	3.4%	1.2%	0.7%				76.7%	2.05	1.43
2016	38.9%	16.6%	10.9%	6.8%	3.0%	1.4%					79.2%	2.03	1.43
2017	38.9%	16.9%	10.9%	6.0%	3.2%						78.5%	2.02	1.41
2018	37.3%	17.5%	10.5%	6.4%							77.3%	2.07	1.41
2019	37.2%	17.3%	10.0%								76.2%	2.05	1.40
2020	30.2%	13.3%									64.4%	2.13	1.48
2021	33.1%										67.7%	2.05	

Source: ©2022 S&P Global Market Intelligence, Assured Research

<u>Observations</u>: This triangle makes clear the dark (that is, red) and unprofitable years from immediately after the Great Recession to the onset of the pandemic. But interestingly, the

reserving parameters governing AYs 20 and 21 appear, to us, prudent…not overly conservative (e.g., the 2.05 for AY21 is broadly in line with many prior years).

<u>Pricing Cycle Ramifications</u>: As long as economic and social inflation remain in the news, we expect most writers of commercial auto will continue to push for mid-to-upper single digit rate increases -as they should. We'll note, however, that this is how price increases move from being flexible to sticky. That is, rising insurance costs are being baked into transportation costs, in turn passed to retailers and on to both you and us in the prices we pay at our local stores.

Other Liability Occurrence (aka General Liability): We show a Modest $1.9 Bil. Deficiency

'Surprising stability' best describes this composite line of liability insurance. With a bit of rounding, last year we estimated a $4 billion deficiency and $2 billion of adverse development materialized during 2021. This year, our estimated deficiency stands near a clean $2 billion.

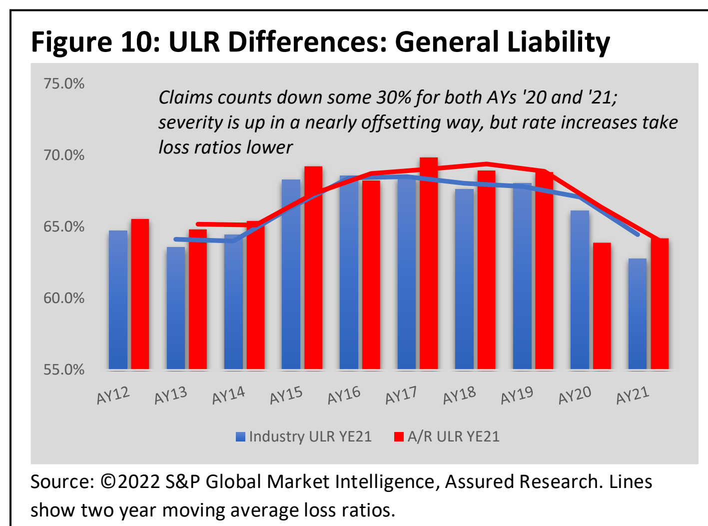
Figure 9: Loss Development Schematic and Industry ULR Indication: General Liability

Accident Years	12 Months	24 Months	36 Months	48 Months	60 Months	72 Months	84 Months	96 Months	108 Months	120 Months	Industry ULR	Industry 12-Ult	Industry 24-Ult
2005	16.8%	9.7%	6.7%	5.8%	3.7%	1.4%	1.7%	1.7%	1.1%	1.0%			
2006	15.4%	9.5%	7.8%	5.4%	3.1%	2.3%	2.1%	0.8%	0.6%	1.1%			
2007	16.0%	10.9%	8.2%	5.5%	4.3%	3.6%	1.7%	1.1%	1.1%	0.7%	57.0%	3.57	2.12
2008	15.1%	11.5%	8.8%	6.4%	5.4%	2.6%	2.2%	1.1%	1.3%	1.2%	59.1%	3.92	2.23
2009	16.6%	11.9%	8.4%	7.5%	4.7%	2.9%	1.8%	1.8%	1.6%	0.8%	61.0%	3.68	2.14
2010	16.2%	12.4%	11.0%	7.4%	5.1%	2.9%	3.0%	2.1%	1.2%	0.1%	65.3%	4.03	2.28
2011	16.1%	13.1%	10.8%	8.6%	5.5%	4.0%	3.1%	1.9%	0.6%	0.8%	68.7%	4.27	2.36
2012	14.3%	12.2%	10.7%	8.8%	4.3%	5.4%	2.2%	1.0%	0.6%	0.8%	64.7%	4.54	2.45
2013	13.4%	12.0%	11.2%	7.9%	7.1%	3.8%	2.3%	0.8%	0.5%		63.6%	4.75	2.50
2014	14.2%	12.3%	10.3%	9.7%	5.9%	3.5%	1.6%	1.2%			64.5%	4.53	2.43
2015	14.1%	12.8%	12.5%	10.0%	6.4%	2.8%	1.9%				68.3%	4.83	2.54
2016	14.3%	13.0%	11.3%	9.9%	5.3%	3.5%					68.6%	4.78	2.51
2017	13.9%	14.2%	12.6%	7.7%	6.2%						68.5%	4.92	2.44
2018	14.5%	13.6%	10.8%	8.6%							67.6%	4.66	2.41
2019	15.2%	12.9%	10.5%								68.0%	4.48	2.42
2020	12.8%	10.8%									66.1%	5.16	2.80
2021	11.4%										62.8%	5.50	

Source: ©2022 S&P Global Market Intelligence, Assured Research

<u>Observations</u>: The adverse impacts of social inflation and underpricing is evident across AYs 2017-2019; the years most commonly cited by executives as being 'problematic'. But **the green cells for AYs 20 & 21 should not be surprising considering the incredible low reporting of claims (compared to pre-pandemic levels) seen in Figure 1 of this report**. Executives aren't kidding when they say they won't fall for that 'head fake' if latent AY20/21 claims surface as civil courts fully reopen – **look at the conservative reserving factors (5.5x and 2.8x)** for AYs 20 & 21; much higher than years past. And don't be misled by our small

Figure 10: ULR Differences: General Liability



Source: ©2022 S&P Global Market Intelligence, Assured Research. Lines show two year moving average loss ratios.

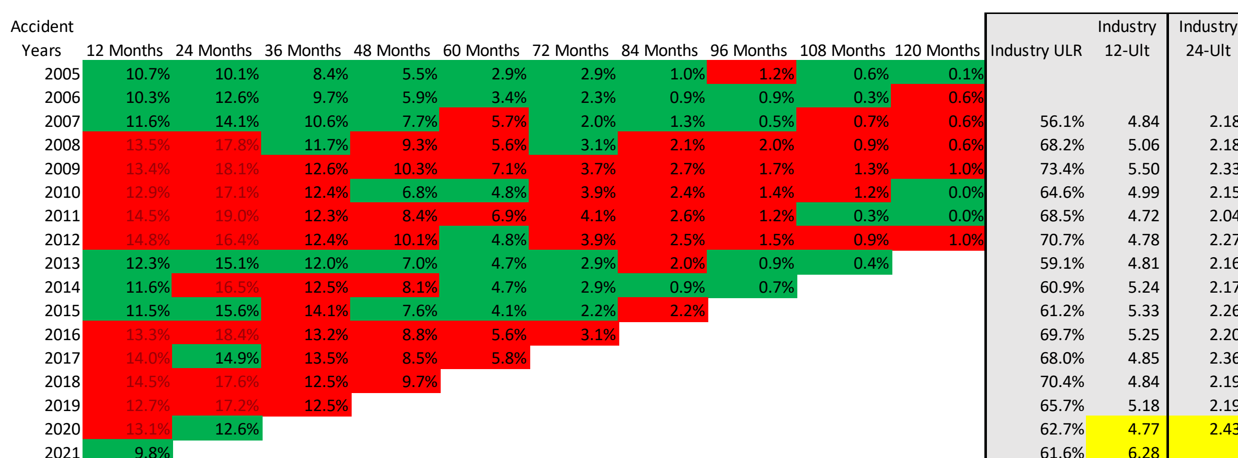
reserve deficiency. As Fig. 10 shows, our ULRs are mostly within 1-2 points of the industry.

Pricing Cycle Ramifications: General liability (occurrence) developed adversely overall, but AY20 developed favorably – the ultimate loss estimate was lowered by almost 2%. And while we expect rate increases during 2022 to stay ahead of perceived inflationary trends, **if at YE22 both AY20 and AY21 develop favorably maintaining pricing discipline will be become harder (particularly if overall operating returns are healthy and in the low-to-mid teens).**

Other Liability Claims Made: We show a $0.3 Bil. Deficiency (Negligible)

As with its larger Occurrence-cousin, **the main takeaway from our analysis of this line is our similarities (to the industry ULRs), not our differences**. With myriad causes of loss accelerating during '20/'21 (securities claims, Covid-fueled EPLI claims from layoffs and new regulations, cyber claims, etc.), we were surprised at YE20 not to see the industry strike a more overtly conservative reserving posture; that appears to have been reversed at YE21.

Figure 11: Loss Development Schematic/Industry ULR Indication: Other Liability Claims Made

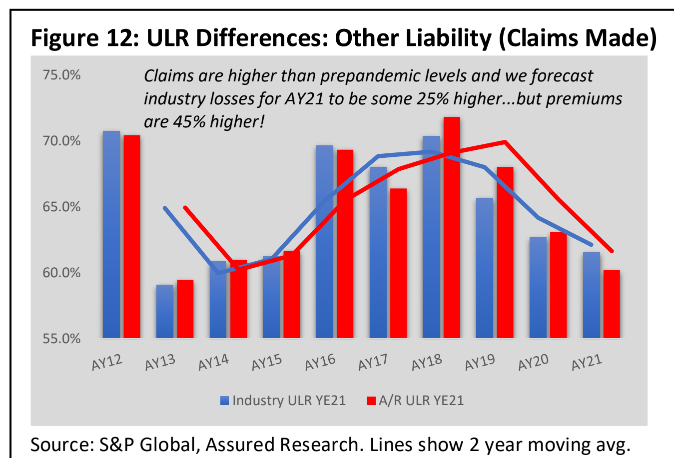


Accident Years	12 Months	24 Months	36 Months	48 Months	60 Months	72 Months	84 Months	96 Months	108 Months	120 Months	Industry ULR	Industry 12-Ult	Industry 24-Ult
2005	10.7%	10.1%	8.4%	5.5%	2.9%	2.9%	1.0%	1.2%	0.6%	0.1%			
2006	10.3%	12.6%	9.7%	5.9%	3.4%	2.3%	0.9%	0.9%	0.3%	0.6%			
2007	11.6%	14.1%	10.6%	7.7%	5.7%	2.0%	1.3%	0.5%	0.7%	0.6%	56.1%	4.84	2.18
2008	13.5%	17.8%	11.7%	9.3%	5.6%	3.1%	2.1%	2.0%	0.9%	0.6%	68.2%	5.06	2.18
2009	13.4%	18.1%	12.6%	10.3%	7.1%	3.7%	2.7%	1.7%	1.3%	1.0%	73.4%	5.50	2.33
2010	12.9%	17.1%	12.4%	6.8%	4.8%	3.9%	2.4%	1.4%	1.2%	0.0%	64.6%	4.99	2.15
2011	14.5%	19.0%	12.3%	8.4%	6.9%	4.1%	2.6%	1.2%	0.3%	0.0%	68.5%	4.72	2.04
2012	14.8%	16.4%	12.4%	10.1%	4.8%	3.9%	2.5%	1.5%	0.9%	1.0%	70.7%	4.78	2.27
2013	12.3%	15.1%	12.0%	7.0%	4.7%	2.9%	2.0%	0.9%	0.4%		59.1%	4.81	2.16
2014	11.6%	16.5%	12.5%	8.1%	4.7%	2.9%	0.9%	0.7%			60.9%	5.24	2.17
2015	11.5%	15.6%	14.1%	7.6%	4.1%	2.2%	2.2%				61.2%	5.33	2.26
2016	13.3%	18.4%	13.2%	8.8%	5.6%	3.1%					69.7%	5.25	2.20
2017	14.0%	14.9%	13.5%	8.5%	5.8%						68.0%	4.85	2.36
2018	14.5%	17.6%	12.5%	9.7%							70.4%	4.84	2.19
2019	12.7%	17.2%	12.5%								65.7%	5.18	2.19
2020	13.1%	12.6%									62.7%	4.77	2.43
2021	9.8%										61.6%	6.28	

Source: ©2022 S&P Global Market Intelligence, Assured Research

Observations: Our red/green schematic highlights the adverse development across AYs 2016-2019, while Fig. 12 shows we're now generally within 1-2 points of the industry ULR.

Figure 12: ULR Differences: Other Liability (Claims Made)



Source: S&P Global, Assured Research. Lines show 2 year moving avg.

Pricing Cycle Ramifications: With myriad causes of loss still firing and uncertainties around both professional liability and cyber claims, **we think the hard market continues throughout 2022**.

Summary

The industry reserves and ULRs are largely level-set; it's up to industry professionals to price (and reserve) in this most dynamic loss environment.