

What's the Impact on Insurance?

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The Price of Oil and Insurance

- › The Economy Connection
- › Impact of Scarcity of Oil

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Recession (USA)

"... a significant decline in economic activity spread across the economy lasting more than a few months, normally visible in a real GDP, real income, employment, industrial production, and wholesale-retail sales."

<http://www.nber.org/>

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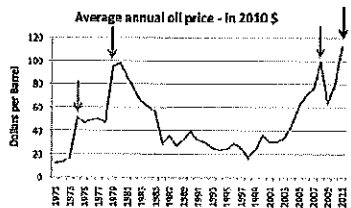
The Price of Oil and Recessions

Last six recessions	Price of oil 6 months prior
November 1973 – March 1975	Rising steeply
January 1980 – July 1980	Rising steeply
July 1981 – November 1982	Flat
July 1990 – March 1991	Flat
March 2001 – November 2001	Flat to Rising
December 2007 – June 2009	Rising steeply

Recessions do not require rising oil prices, but rising oil prices tend to be followed by recession

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Are we due again?



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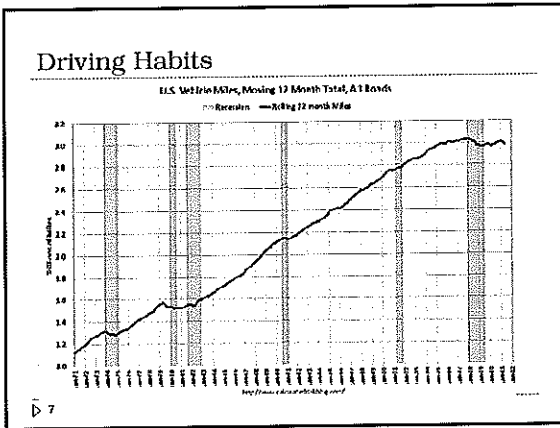
The Economy and Insurance -

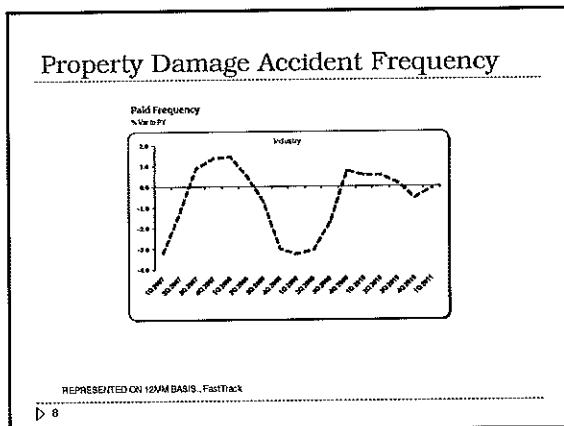
Review of Research

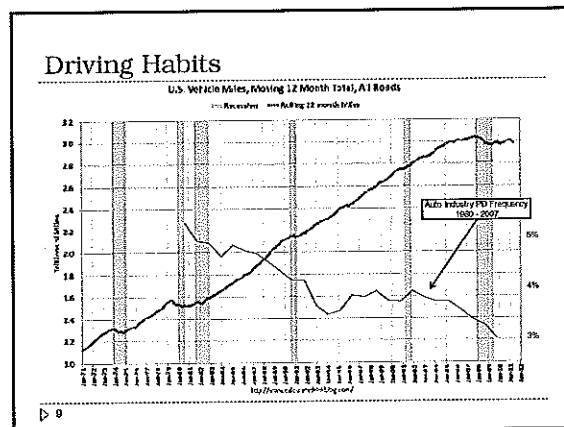
Strong correlations

	Real GDP	Consumer Price Index	Unemployment Rate
Automobile frequency			
1 st party	+/-	+/-	+
3 rd party	+	-	+
Automobile severity			
1 st party	+	+	N/A
3 rd party	+	+	+
Homeowners frequency	-	N/A	N/A
Homeowners severity	-	+	+
Workers compensation frequency	-	+	-
Workers compensation severity	+	-	+

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Consumer Spending

- ▶ Reduced disposable income
 - ▶ Insured elect higher deductibles, lower limits
 - ▶ Reduced property maintenance
- ▶ Use of disposable income

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Industrial Production

- ▶ Cliff Risk: Increased corporate bankruptcies due to increased cost of goods sold and asset losses
 - ▶ Asset write downs, arguably heavier in Municipal Bonds
 - ▶ Financial guaranty, D&O losses
 - ▶ Increased insolvency fund assessments

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The Pace of Change

- ▶ Environmentally conscious public
 - ▶ Solar panels, charging stations
- ▶ Technology
 - ▶ Autonomous cars, Telematics
- ▶ Reinventing Insurance
 - ▶ New methods of oil drilling
 - ▶ Protecting value versus protecting property

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And just some thoughts...

- ▶ Is the price of our products fundamentally driven by the natural resource consumption of the products?
 - ▶ Asphalt, Synthetic rubber, Synthetic fibers

- ▶ How much of unexpected variation is a function of the economy or natural resources?
 - ▶ New York PIP
 - ▶ Florida sinkholes

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