



**INSURANCE
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Hard Market, Soft Market

Casualty Actuarial Society Spring Meeting

Boston, MA

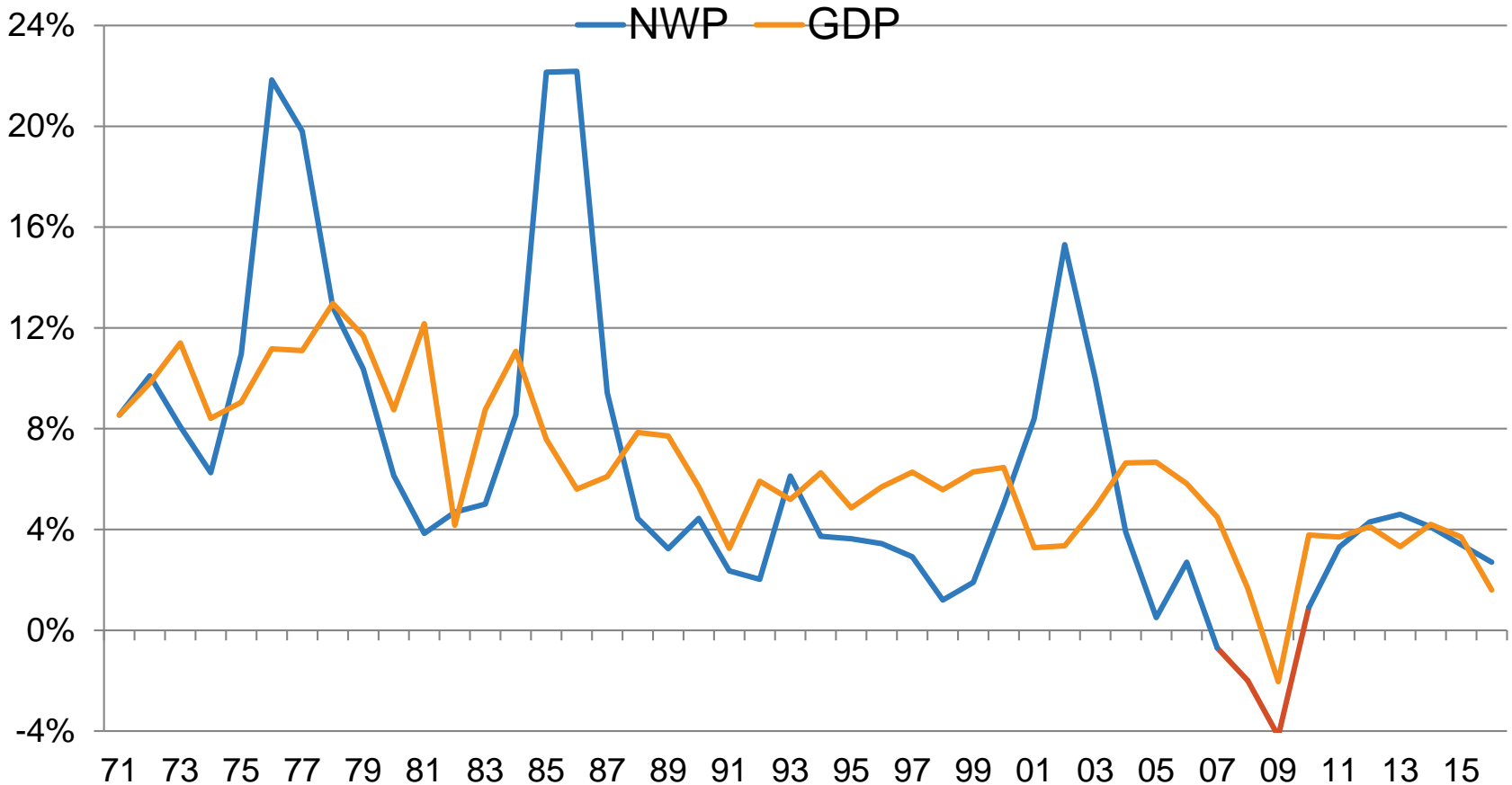
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Three “Hard Markets” in the Last 45 Years

Net Premium Growth (All P/C Lines) vs. Nominal GDP: Annual Change, 1971-2016



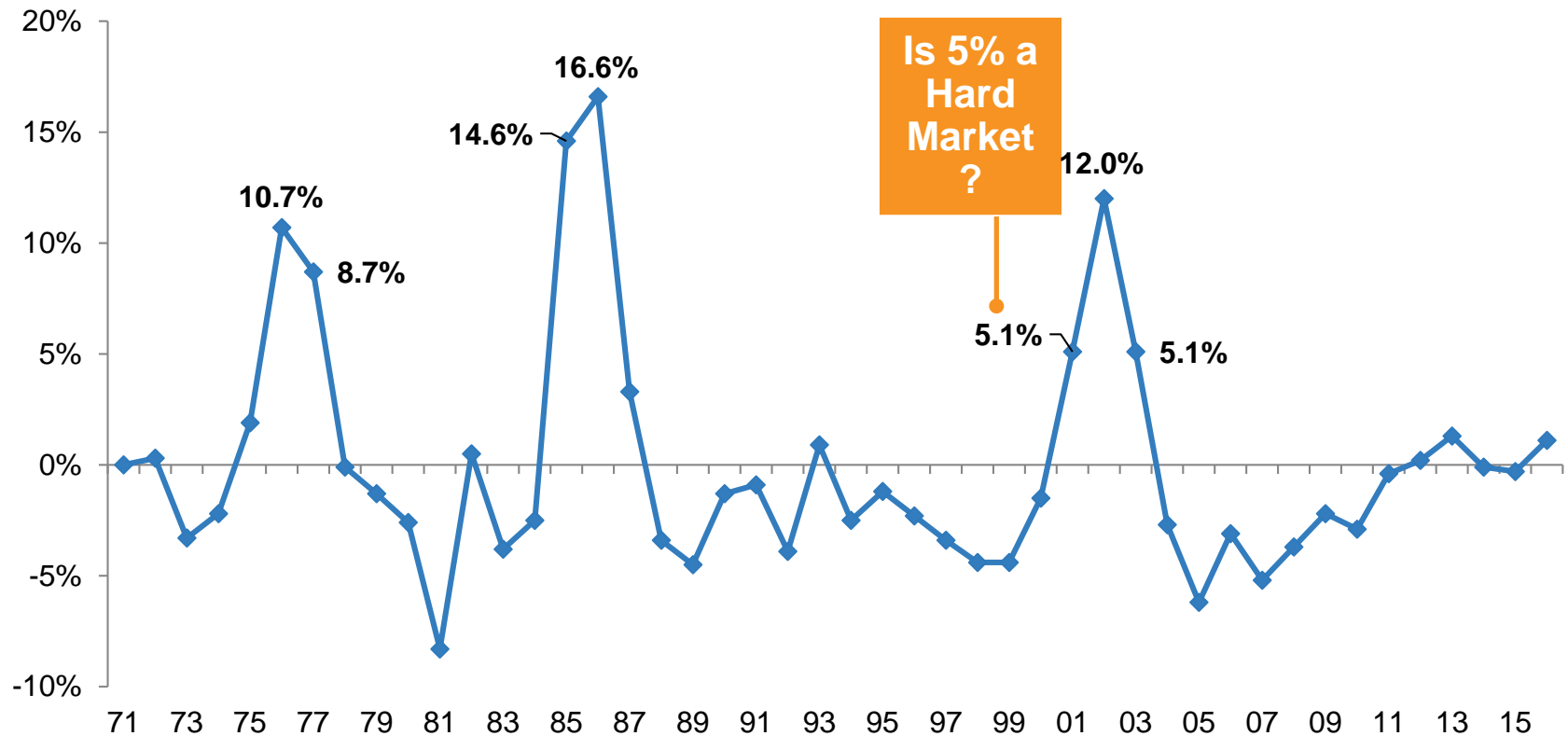
▼ The three “hard markets” in this 45-year span were in 1976–77, 1985–86, and 2001–03.



Sources: A.M. Best (1971-2013), ISO (2014-16); U.S. Commerce Dept., Bureau of Economic Analysis; I.I.I.

Three Hard Markets in the Last 45 Years

Net Premium Growth (All P/C Lines) Minus Nominal GDP, Annual Change



▼ The three “hard markets” in this 45-year span were in 1976–77, 1985–86, and 2002 (+/-1).



Sources: A.M. Best (1971-2013), ISO (2014-16); U.S. Commerce Dept., Bureau of Economic Analysis; Insurance Information Institute calculations.

I.I.I. Hypotheses

What causes a hard market?

- ▲ Return on equity falls to 4% or below?
- ▲ Surplus drops due to financial market declines and/or significant underwriting losses?
- ▲ Unusually large losses due to catastrophes?



P/C Industry ROE and Hard Markets

Year	ROE	NWP-GDP Growth in Following Year	Hard Market?
1975	2.4%	10.7%	Yes
1984	1.8%	14.6%	Yes
2001	-1.2%	12.0%	Yes
2002	2.1%	5.1%	Sort of
2017	5.0%	?	?

▼ Low ROE: Good Predictor of Hard Markets.



Policyholder Surplus and Hard Markets

Year	Surplus Decline	NWP-GDP Growth in Following Year	Hard Market?
1984	-2.7%	14.6%	Yes
1999	-0.9%	-1.5%	No
2000	-4.7%	5.1%	Yes
2001	-8.0%	12.0%	Yes
2008	-12.5%	-2.2%	No
2011	-0.8%	0.2%	No
2017	6.8%	?	?

▼ Declining Surplus: Some False Positives



CAT Claims and Hard Markets

Year	CAT Claims Over \$25 billion (2016 Adjusted)	NWP-GDP Growth in Following Year	Hard Market?
1992	\$39.6	0.9%	No
1994	\$27.7	-1.2%	No
2001	\$36.4	12.0%	Yes
2004	\$36.4	-6.2%	No
2005	\$77.1	-3.1%	No
2008	\$30.7	-2.2%	No
2011	\$35.2	0.2%	No
2012	\$36.8	1.3%	No
2017	\$90.5	?	?



▼ Heavy Cat Years: Not a Good Predictor

Hard Market in 2017?

- ▲ **Strong indicator: $\leq 4\%$ ROE**
 - ◆ Consistent hard markets.
- ▲ **Indifferent indicator: Surplus Increase/Decrease**
 - ◆ Inconsistent hard/soft markets.
- ▲ **Weak indicator: Large Cat Losses**
 - ◆ Has predicted nine hard markets. Right one time.

Additional Thoughts

- ▲ Low ROE Seems Sufficient. Is it Necessary?
- ▲ Testing by Line of Business





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Thank you!

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