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P&C Industry Trends and Labor Outlook

Joint Claim Executives Association

Fall Meeting

November 1, 2023

Ward Benchmarking | Proprietary & Confidential

Agenda

1 Key Industry Trends

2 Labor Trends

3 Claims Modernization Efforts

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Key Industry Trends

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Opening Comments – Looking Back at 2022

Economy, Financial Markets and Inflation

Labor and Work Environment

Digital Transformation and Technology

Cost Pressures and Employee Compensation

Diversity, Equity and Inclusion

Industry Results – Year-End 2022

102.4
Combined Ratio

2021 99.5
2020 98.7

0.9 point
decrease in Expenses

2021: 1.8 pt decrease
2020: 0.2 pt increase

6.8%
Surplus Decline

2021: 13.4% growth
2020: 7.6% growth

$41.2B
Net Income

2021: $63.5B
2020: $61B

4 point
Increase in Direct Losses

2021: 3.0 pt increase
2020: 0.2 pt decrease

9.8%
Net Premium Growth

2021: 9.4% growth
2020: 2.8% growth

3.2%
Investment Yield

2021: 2.7%
2020: 2.8%

- 18 CAT events >$1B in Losses, historically unfavorable auto results, and rising inflation all contributed to net underwriting losses for the industry in 2022
- 2022 Underwriting loss was the largest the industry has seen since 2011
- Increases in net premiums contributed to continued decrease in expenses

Source: SNL Financial

Key Performance Measures - US

- Expenses include Underwriting, Loss Adjusting and Investment

Source: Ward's Results

Combined Ratio by Product Benchmark – All Major Lines*

* Data reflects results of companies with at least 50% of premium generated by primary line of business

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Reinsurance Market Evolution

Improving Reinsurer Results

Despite elevated natural catastrophe activity in 1H 2023, reinsurers performed well, reflecting the benefits of the shift in terms and improved investment returns.

1H 2023 Results Highlights for 30 Select Reinsurers

90%
Net combined ratio

Compared to a prior 3 year average of 97%

17.7%
Annualized ROE

Compared to a prior 3 year average of -0.5%

Capital Rebounding

Aon estimates global reinsurer capital rose by 8%, or $45bn, to $620bn in the first half of 2023

The increase was principally driven by retained earnings, recovering asset values and new inflows to the cat bond market.

Reinsurers' underwriting and operating returns have improved year-to-date showing the benefit of increased cedant retentions and improved investment income

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Key Industry Trends in 2023

Key trends to consider include rising storm activity, growth in specialty/E&S markets, inflation, and emerging AI risks

	SEVERE CONVECTIVE STORM	SPECIALTY/E&S MARKET	INFLATION	AI
KEY OBSERATVATIONS	Most of the increased severe convective storm losses stem from **exposure changes (e.g., population growth and housing development)**	Growth in specialty E&S markets **significantly outpaced admitted** growth during the recent hard market (22% CAGR 2018-2022)	After a surge in 2021-2022, inflation has trended down to around **4%, approximately double the historical average**, and **forecasted to be 2-3%** in 2024	Emerging AI related risks include **copyright infringement, loss of trade secrets and intellectual property**, and deep fakes
KEY CONSIDERAETIONS	Insurers may define rating territories that **differentiate geographic and weather influences along with peril hazard**	Although E&S is dominated by established players, the continual hard market presents an **opportunity for new entrants**	Given the volatility in inflation, insurers are considering how they **structure policies** (e.g., percentage deductibles) and **adjust insured values** using **industry/product specific inflation metrics**	Insurers should understand where there is ***silent AI* exposure in their policies**

Source(s): Aon STG Analysis, S&P Global

Key Industry Trends | Severe Convective Storms (1 of 2)

~80% of SCS loss increases are explained by exposure changes

Annual SCS Losses for Events Greater Than $100M (2006 dollars)

* FRTW is Fixed Reproducible Tangible Wealth

Growth in SCS losses must be viewed in context with exposure changes

- SCS losses are increasing by about 8% a year, on average
- 80% of this growth is due to changes in underlying exposures and valuations while the remaining 20% is unexplained by these exposure changes

Exposure changes come in different forms

- GDP and fixed reproducible tangible wealth growth account for change in how much “stuff” there is and how much it is worth
- Inflation for property building costs has generally outpaced broader inflation, especially in recent years
- Finally, the population distribution has changed over time resulting in more homes in high hazard areas like Texas

Note: Losses are PCS Wind and Thunderstorm Events with event losses greater than $100M in 2006 dollars (trended using CPI)

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Key Industry Trends | Severe Convective Storms (2 of 2)

Population and housing counts in the storm track have grown 150+% in last 30 years

Metric	1990	2020	Δ
Housing Units in Track	1,003	2,492	148.5%
Population in Track	2,697	7,067	162.1%

Considerable population growth and housing development has occurred in the area of the Plainfield tornado

- The “bullseye” area has increased as a result
- Any similar storm will have much larger losses solely due to the increased exposure

Analysis uses census block group (CBG) level population and housing unit counts from the 1990 and 2020 decennial censuses

- CBGs are the highest resolution geography available for both censuses
- CBGs were intersected with the tornado extent and counts were allocated based on proportion of CBG area that fell within the tornado path

Key Industry Trends | Specialty/E&S Market

E&S premiums comprise ~10% of US market premiums in 2022, nearly doubling over a 10-year period, as non-admitted lines saw 22% compound annual growth through the hard market

ADMITTED VS. NON-ADMITTED (E&S) PREMIUM GROWTH INDICES | 2013 – 2022

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
E&S Premiums	$27.3 b	$28.9 b	$29.8 b	$29.9 b	$31.5 b	$34.6 b	$40.3 b	$47.6 b	$62.9 b	$75.5 b
Admitted Premiums	$510.3 b	$532.3 b	$554 b	$575.4 b	$602.7 b	$633.9 b	$661.2 b	$669.8 b	$721.9 b	$786.6 b

Note(s): Premiums are inclusive of all lines of business, both personal and commercial

Source(s): Statutory Filings, Aon STG analysis

Key Industry Trends | Inflation

While inflation has trended downwards since mid-2022 to around 4%, insurers are considering how they structure policies (e.g., percentage deductibles) and adjust insured values using industry/product specific inflation metrics

US Historical and Projected Inflation Rate

Inflation Trends

The US inflation rate surged in 2021-2022 amid supply chain issues and a large stimulus following COVID. Property inflation (including construction goods and labor prices) reached 15% in 2022 but has since fallen to about 2%

Overall inflation has come down significantly in 2023 and is forecasted to be between 2-3% in 2024

Managing Inflation Risk

Inflation drivers differ by line. Consider the appropriate inflation metric to use per line. Within auto insurance, used vehicles saw ~40% inflation during 2021-2022, while wages and medical costs saw much lower inflation

Percentage deductible and rate increases. Consider using a percentage deductible, which automatically protects against inflation, in conjunction with rate increases to combat rising claims

Claims management. Aon STG Claims program can help target 2-4% in loss ratio improvement [see appendix for more detail]

Source(s): S&P Global, Aon Practitioner Insight

Key Industry Trends | How To Make Better AI Decisions?

Although we are just starting the AI journey, we can leverage lessons learned from the rise of internet cyber risks and solutions, including Internet of Things' combinations of intangible and tangible perils and solutions

Identify, Access and Quantify AI Use

- Manage access to generative AI in accordance with your organization's policies
- Understand copyright ownership of AI–generated materials
- Use actuarial modelling
- Follow industry and AI trends

Mitigate

- B2B contractual limitation of liability
- Vendor risk management
- Maintain human oversight
- Check deliverable before distribution
- Require NDA from recipients if you want trade secret protection

Transaction Solutions

- Mergers and acquisitions checklist
- Litigation protection
- Legal, claims and insurance review
  - Engage a qualified attorney, tax expert and accountant

Risk Transfer

- Insurance
- Captive or self-insurance
- Alternative risk transfer (parametric, insurance linked securities)

Source(s): Aon Practitioner Insight

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Labor Trends

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Shift in Power Balance

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The 5 Top HR Trends Now

01

COST

People Costs are continuing to rise in the wake of 2022 that saw a mix of rising inflation, persistent people turnover and economic uncertainty

02

WELLBEING

Wellbeing will continue to remain a key priority

03

PAY PARITY

Pay compression will be become increasingly problematic for organizations that paid a premium for talent with upcoming legislation on pay transparency

04

SKILLS

Defining, aligning and hiring for future skills to better align with people/ HR strategies

05

FUTURE OF WORK IS FOR EVERYONE

A “one-size-fits-all” approach to Employee Value Proposition (EVP) no longer works as we see the personalizing of employee experience becoming increasingly popular

Future Workforce Readiness by Industry – Are we ready ?

Future Readiness

To assess the positioning regarding digital readiness of the insurance industry in comparison to other industries Aon considered the planned investments and the current readiness status

* Source: Investment trends based on PWC and Gartner analysis regarding technology investment trends for a short and long term perspective; Readiness to the new normal based on Aon Digital Readiness Survey

Employee Turnover

Key Points

- Overall turnover **increased 5.4% since 2020**. Lower voluntary turnover rates in 2020 were likely due to COVID-19, however total turnover remains higher than pre-pandemic levels.

Source: Ward HR and Employee Benefits Study, 2023

Staffing Trends

Staffing anticipated to decrease slightly with expected revenue increases

Companies expecting revenue growth declining

Companies expecting to increase FTEs down since Jan

Companies expecting to decrease FTEs stayed flat

Other Notable Trends from January 2022 to January 2023

Total Industry grew 1.83% vs. anticipated rate of 1.84%

P&C Industry grew 1.92% vs. anticipated rate of 2.60%

L&H Industry grew 1.27% vs. anticipated rate of 1.69%

Total Industry turnover (including voluntary and involuntary) was 14.7% (2.6% voluntary, 11.7% involuntary)

Source: Ward and Jacobson Group Labor Market Study

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Likelihood of Increasing Staff

Source: Ward and Jacobson Group Labor Market Study, Q3 2023

Most in Demand → Least in Demand

Most roles saw a decrease in likelihood of increase staff

Analytics has shifted from 5th to 4th place as most in demand

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Recruiting Difficulty Remains High But Easing

Source: The Jacobson Group and Ward Insurance Labor Market Study – Q1, 2023

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Total U.S. and Insurance Unemployment Trends

Unemployment remains near record lows

U.S. Unemployment Rates

Source: U.S. Bureau of Labor Statistics

Ability to Hire Talent Compared to One Year Prior

16% of companies feel the ability to hire talent has become more difficult compared to the prior year. This is down from 48% in July 2022. 35% feel it became less difficult

Source: The Jacobson Group and Ward Insurance Labor Market Study – Q3, 2023

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Insurance Carrier and Underwriter Labor Trends

Employment rates increasing post COVID-19

Insurance Carrier Employment

The total number of employees was 1,633,000 in June, 2023

Insurance Underwriter Employment – Carrier and Brokers

The total number of insurance underwriters grew to 95,950 in 2022

Source: U.S. Bureau of Labor Statistics

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Job Openings and 12-Month Staffing Plans

Demand for insurance talent remains high

Job Openings in Finance and Insurance 2009 – 2022

Source: U.S. Bureau of Labor Statistics

12-Month Staffing Plans PC Vs LH

Source: The Jacobson Group and Ward Insurance Labor Market Study – Q1, 2023

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Employee Types Most Likely to Be Added

- Technical roles such as Actuary, Product Management and IT are most likely to add experienced staff.
- Operations, Claims and Underwriting roles are more likely than technical roles to hire entry-level positions.

*Percentages above rounded to nearest whole number

Source: The Jacobson Group and Ward Insurance Labor Market Study – Q3, 2023

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Age Distribution of Overall Benchmark

Key Points

- Employees continue to work longer than historical retirement ages. Employees over 60 years represent 12.3% of the workforce compared to 12.7% in 2020.
- The **average age decreased 0.4 years in 2022** (45.7 versus 46.1 2020).
- 64% of employees were over 40 in 2022, compared to 65% in 2020.

Source: Ward HR and Employee Benefits Study, 2023

Employee Tenure and Succession Planning

- Carriers reported **an average tenure of 9.4 years**. This is slightly down from the 2021 study at 10.3 years

Source: Ward HR and Employee Benefits Study, 2023

Labor Trends and Historical Costs

Headcount Movement- Benchmark

Salary & Benefits Expense as % of Net Premiums Written

Source: Ward CEO Benchmarking
U.S. Bureau of Labor Statistics

What matters today in our Employee Value Proposition (EVP)?

Redefining the Employee Value Proposition Post-Pandemic

Flexible Working
73%

Work-Life Balance
72%

Career Development
71%

Benefits
68%

Compensation
63%

Recognition
59%

Employee Experience

Remote Experience
69%

Onsite Experience
54%

Flexibility and better understanding of employee segments' needs is one of the key trends to be considered in a post-pandemic market environment in order to secure key talent

Sources: Aon Global HR Pulse-8

Work Arrangements

Employee Work Location Distribution

Key Points

- 84% of employees at participating companies had a flexible work arrangement where they either worked from home permanently or had a hybrid arrangement.
- Non-metro and large companies had the highest percentage of employees who worked in the office full time at 23% and 20%, respectively.
- 26% of companies provided a stipend to cover internet / phone costs. The average stipend was $76.

Source: Ward HR and Employee Benefits Study, 2023

Pay Considerations

Base Salary -- Average Annual Merit Increases

- Many companies implemented lower increases in pay in 2020 and 2021 in response to economic uncertainty
- While many companies were planning for 3% merit increases in 2022, many market increases

Median Base Salary Movement – 2021 - 2022

- Senior roles within organizations remain in high demand and experiencing higher increases in total pay, in part due to higher increase in incentive compensation

Source: Ward HR and Employee Benefits Study, 2021
:McLagan 2021 P&C Compensation Survey

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Claims Modernization Trends

Claims Modernization

8%
Planning to Replace in next 3 yrs

39%
Currently Replacing System

15
Average age of Claims systems

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Mobile Apps

Mobile apps are gaining popularity, particularly among personal lines carriers, but utilization rates remain very low

The most common functionality of mobile apps include electronic ID cards and bill payment.

Direct/captive and Large carriers have a higher offering than Independent or Smaller counterparts

Source: Ward Digital Capability and Customer Engagement Study, 2023

E-Signatures

As companies incorporate more straight-through processing into their underwriting and claims processes, we expect e-signatures adoption to quickly gain momentum

Large (75%) and personal lines (67%) carriers utilizing e-signature offerings for new business more than small (40%) and commercial lines (50%).

Source: Ward Digital Capability and Customer Engagement Study, 2023

Claims Capabilities and Processes – Two-Way Texting

Two-way texting adoption increased from 19% in 2019

Utilization increased from 26% in 2021

Claims two-way texting is commonplace as most carriers in almost every segment reporting having capabilities

Although Personal-Focused carriers have a higher adoption percentage, the actual utilization is lower than other groups

0% of companies reported using chat bots to respond to customer inquiries. This could change as AI becomes more refined and widespread

Source: Ward Digital Capability and Customer Engagement Study, 2023

Claims Capabilities and Processes – Digital Inspections

Mobile photo submission offering increased from 69% in 2021

Photo submissions remain the most popular capability offered, however video submissions and Insuretech offerings providing measurement estimates are gaining in popularity

Commercial auto and commercial property were the only lines providing live remote video inspections with a claims adjuster

While 100% of companies reported utilizing a purchased anti-fraud solution, only 10% reported having a digital anti-fraud photo solution in place

Source: Ward Digital Capability and Customer Engagement Study, 2023

Personal Lines FNOL Reporting as a Percentage of PL Claims

Policyholders prefer to report losses directly to the carrier via phone for both personal (44%) and commercial (24%) lines.

Web/email submissions are more popular for commercial lines than personal lines

Source: Ward Digital Capability and Customer Engagement Study, 2023

FNOL Reporting Innovation

Claims Modernization Enabling Companies to Quickly Embrace Innovation

Note: Percentages represent current capabilities for companies currently offering mobile

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Claims Capabilities and Processes – Payment Options and Utilization

Claims modernization efforts have allowed carriers to expand their claim payment options to include alternative options to paper checks

While alternative payment options have expanded, they still only account for account about 5% of all claim payments

Source: Ward Digital Capability and Customer Engagement Study, 2023

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Outlook

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Outlook Factors

2023 Outlook

- Despite financial challenges in 2023 for the P&C industry, the financial position of the industry as a whole remains strong. However, volatility in losses, rising costs of reinsurance and inability to get adequate is beginning to stress the financial strength for some companies
- Many companies are evaluating their product / geographic portfolio and may rebalance to focus on the more profitable and sustainable lines
- Labor market is more favorable to employer with recent layoffs within the insurance industry, however, the lack of talent availability will require companies to invest more in training and staff development
- Workforce transition to hybrid work environment expected to remain in place but companies are starting to push for more in office work
- Investments in AI and digital transformation are expected to be a higher proportion of the technology portfolio

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About Ward Benchmarking

We are the leading provider of benchmarking and best practices studies for the insurance industry. Our team analyzes staff levels, compensation, business practices, and expenses for all areas of company operations and helps insurers to measure results compared to peer groups, optimize performance, and improve profitability. Since 1991, we have performed more than 3,000 operational and compensation benchmarking exercises for companies of all sizes, including more than half of the top 100 U.S. insurance carriers. For more information, please visit ward.aon.com.

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