ASSURED INDUSTRY STUDY

2020 Industry Reserve Analysis

Conservatism will influence pricing cycle

The year 2020 marked the 15th straight year that the U.S. P/C industry's loss reserves developed favorably – by about $7 billion during 2020 or just slightly more than during 2019.

The big news to convey is that we estimate the industry moved to a significantly redundant reserve position at YE20 - $28 billion, or 4% of carried reserves across the ten most recent accident years. That's a material change from our estimated reserve deficiency last year ($5 billion) and stems primarily from what we believe is a consistent and exceptionally conservative reserve position on the pandemic plagued AY2020 loss ratio across nearly every line of insurance.

What's interesting is that much of our estimated reserve redundancy comes from short(er)-tailed lines of insurance (e.g., private passenger auto) where our work will be proven right, or wrong, and probably by the middle of 2021.

Another takeaway: Our major change in reserve position may not have the overarching cycle ramifications as it would first seem. Instead, we see different storylines developing for each line of insurance and suspect the pricing cycle could morph during 2021 from an overarching hard market into one that is nuanced by line of insurance.

In the report we will offer our commentary on the pricing ramifications for each line of insurance in 2021 and perhaps into 2022 as viewed through the lens of that lines' loss reserve position.

MARCH 15, 2021

ASSURED RESEARCH

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We estimate that the P/C insurance industry's U.S. loss reserves are redundant at YE20 by about $28.4 billion, or 4.2% of the carried loss reserves we reviewed (totaling $681 billion at YE2020).[1] That's a material change from our work at YE19 and an even larger redundancy than we showed during the handful of previous studies where for many years we pointed to reserve redundancies around $12-$15 billion, or about 2-3% of carried loss reserves. Some industry professionals may not *remember* the days of adverse development; the industry enjoyed its 15th consecutive year of reserve releases at about $7 billion in 2020.

Viewed simply, a meaningfully redundant reserve position would portend an end to the hard market (as releases come through the I/S). But we think the story is more nuanced than that, with some lines likely to recede from hard market conditions and others to extend into late 2021 or beyond.

Nearby Figure 1 shows our overall results by line of insurance (AYs 2011-2020).

Our main observations include:

- **Diagonals across most triangles showed some disruption, but they weren't busted as we had anticipated at the outset of the pandemic.** Instead, calendar year 2020 claim activity continued across most older years and lines of insurance. Our line of business (LOB) graphs will illustrate.

Fig 1: Reserve Indications by Line of Insurance; YE2020 $(000)

	Indicated Loss & DCCE Reserves	Stated Loss & DCCE Reserves	Indicated Reserve Redundancy/ (Deficiency)	Redundancy/ (Deficiency) as % of Stated Reserves
Workers' Comp	129,535,934	142,864,238	13,328,304	9.3%
PP Auto Liab	115,115,121	121,856,842	6,741,721	5.5%
Two Year Lines	43,117,828	48,121,609	5,003,781	10.4%
Homeowners	27,087,396	30,960,564	3,873,168	12.5%
Comm Multi-Peril	42,780,528	44,968,984	2,188,456	4.9%
Reinsurance - Property	13,074,838	14,601,175	1,526,337	10.5%
Medical Prof Liability - Occ	8,900,762	10,301,774	1,401,012	13.6%
Medical Prof Liability - CM	16,681,693	17,789,020	1,107,327	6.2%
Special Liability	5,729,007	6,203,613	474,606	7.7%
Products Liability - Occ	11,991,498	12,175,731	184,233	1.5%
Products Liability - CM	1,057,290	1,183,050	125,760	10.6%
Reinsurance - Financial	635,255	678,178	42,923	6.3%
International	699,425	703,878	4,453	0.6%
Reinsurance - Liability	32,885,827	32,286,643	-599,184	-1.9%
Comm Auto Liab	44,107,959	43,468,131	-639,828	-1.5%
Other Liability - CM	46,686,978	44,794,371	-1,892,607	-4.2%
Other Liability - Occ	112,657,256	108,203,018	-4,454,238	-4.1%
Totals	652,744,594	681,160,819	28,416,225	4.2%

Source: S&P Global, Assured Research.

- **The real story of this reserve analysis rests with the selection of the AY20 ultimate loss ratio** (ULR throughout this report). Figure 2 shows that 41% of our estimated reserve redundancy comes from AY20 and the seven lines of

[1] Throughout this report, losses and reserves include defense and cost containment expenses. Our analysis covers accident years 2011-2020 only (i.e., no prior years or legacy liabilities). Throughout ULR = ultimate loss ratio.

insurance focused on in this report. Interestingly, several of those lines are shorter-tailed and we'll be proven right, or wrong, probably by the middle of 2021.

- **The overarching cycle ramifications of this work may not be as profound as would first seem considering the material change in our** estimates from YE19 to YE20. Instead, **we** see different storylines developing for each line of insurance and **suspect the pricing cycle could morph during 2021 from an overarching hard market into one that is nuanced by line of insurance**.

Fig 2: Accident Year 2020 Only: Major Differences by LOB

	NEP	A/R ULR	Industry ULR	Delta LR	Delta Resv
HO	96,053,243	69.8%	71.2%	1.4%	1,360,461
PPA Liab	143,625,147	57.9%	60.6%	2.8%	3,988,208
WC	42,714,232	62.9%	67.6%	4.7%	2,015,016
2 Yr (APD)	180,893,997	56.8%	60.1%	3.3%	5,936,243
Cmcl Auto	28,652,693	67.3%	65.7%	-1.6%	(458,075)
OL Occ	40,797,227	68.7%	67.7%	-1.0%	(394,074)
OL CM	23,604,225	69.1%	65.5%	-3.6%	(843,771)
				Subtotal	11,604,008
				Total Delta	**28,416,225**
				% AY20	41%

Source: S&P Global, Assured Research. ULR = Ultimate Loss Ratio. The '2 Yr. Line' is dominated by auto physical damage (or, APD).

- As to **some big picture reserving points** that can be appreciated by actuaries and non-actuaries alike, we would offer these: 1) **We have tried to select conservative development factors to apply to AY20** losses recognizing that courts were closed for much of 2020 and there may simply be more development on claims from that accident year than in years immediately prior. 2) **We also tried to select conservative loss trends** where we applied a modified loss ratio approach to set reserves.

Diagonals across most triangles showed some disruption, but they weren't busted as we had anticipated one year ago. Loss development – sometimes adverse – continued during 2020. Claims adjusters may have been working from home, but they weren't sitting on their hands.

- Throughout the line of business analysis, we will draw attention to what we believe is a meaningful level of conservatism being applied by 'the industry' to accident year 2020. But **while AY20 appears to be set very conservatively, our diagnostic triangles show that social inflation and claim activity did not altogether stop during the pandemic**. We had anticipated seeing a claim slowdown across the diagonal of most triangles but instead see that claims continue to develop – sometimes adversely. **Claims adjusters may have been working from home last year, but they weren't sitting on their hands!**

We next move directly to our line of business analysis shown for each of the seven lines included in Figure 2. 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 this year 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 $3.9 Bil. Redundancy

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-month reported loss ratio to its ultimate value (e.g., for AY20, 71.2%/58.5% = 1.22).

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
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
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
2009	60.1%	6.5%	0.8%	0.4%	0.2%	0.1%	0.1%	0.0%	0.0%	0.0%	68.2%	1.13
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
2011	73.3%	6.4%	0.8%	0.3%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	81.1%	1.11
2012	57.1%	6.2%	1.0%	0.3%	0.2%	0.1%	0.1%	0.0%	0.0%		64.9%	1.14
2013	47.1%	4.7%	0.8%	0.3%	0.1%	0.1%	0.1%	0.0%			53.2%	1.13
2014	49.0%	5.2%	0.9%	0.3%	0.2%	0.1%	0.0%				55.7%	1.14
2015	47.5%	5.8%	0.7%	0.3%	0.2%	0.1%					54.8%	1.15
2016	48.7%	6.3%	0.9%	0.3%	0.1%						56.6%	1.16
2017	60.3%	8.3%	0.8%	-1.2%							68.8%	1.14
2018	56.9%	8.8%	-0.1%								66.9%	1.18
2019	51.8%	8.5%									62.9%	1.21
2020	58.5%										71.2%	1.22

Source: S&P Global, Assured Research

Observations: Although not exactly random, by comparison to upcoming triangles one will see there are no biases lurking behind the numbers. But we'll draw attention to AY2020 where most of our redundancy resides. The reported loss ratio for AY20 is just a bit less than another bad year for catastrophes – 2017, at 58.5% vs. 60.3%. And yet, the industry provides for the loss ratio to develop upward by a factor of 1.22 compared to a development factor of 1.14 for 2017.

Too conservative? We'll probably know by the middle of 2021 or shortly thereafter!

Pricing Cycle Ramifications: We don't see any material pricing cycle ramifications from our work (it's simple to understand, which is why we used it as a warmup). **As to HO pricing trends generally, the catastrophe burden continues to rise as more people and property move into harm's way. And with reinsurance costs likely to rise throughout 2021, count us among those believing HO rates will continue to climb**.

Private Passenger Auto Liability: We show a $6.7 Bil. Redundancy

Many readers will know our view: Auto insurers appropriately rebated premiums at the outset of the pandemic, but as the year 2020 progressed and it was clear that crash frequencies were down some 30%, many opted to keep their base rates high (pushing drivers toward telematic programs), and ultimately kept a material volume of 'excess' profits for themselves.

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
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
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
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
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
2011	53.9%	9.1%	3.9%	1.8%	0.9%	0.4%	0.2%	0.1%	0.1%	0.0%	70.4%	1.31
2012	53.6%	9.3%	3.7%	2.0%	0.9%	0.3%	0.1%	0.1%	0.0%		70.3%	1.31
2013	54.7%	9.5%	4.1%	2.0%	0.8%	0.3%	0.3%	0.1%			72.1%	1.32
2014	49.7%	9.0%	3.8%	1.9%	0.7%	0.3%	0.2%				66.1%	1.33
2015	55.9%	10.7%	4.5%	2.0%	0.9%	0.4%					75.0%	1.34
2016	56.0%	11.3%	4.6%	2.3%	0.9%						76.0%	1.36
2017	52.4%	10.7%	4.4%	2.0%							71.7%	1.37
2018	49.8%	10.7%	4.2%								69.0%	1.39
2019	50.6%	10.5%									70.2%	1.39
2020	41.3%										60.6%	1.47

Source: S&P Global, Assured Research

Observations: The decline in auto liability claims is evident – notice the 9.3 point decline in the 12-month reported loss ratio from AY19 to AY20. But the industry develops the reported loss ratio using a factor of 1.47 – much higher than any of the preceding years. Is there a worrisome level of severity on AY20 claims? Yes. Is there reason to believe liability claims from AY20 will be reported later, on average, than earlier years? Yes. But 1.47? It's difficult to know. Our corresponding 'factor' (not shown) is 1.40 leading to a 57.9% ULR on AY20.

Pricing Cycle Ramifications: Regulators in California are already demanding that insurers remit to policyholders some portion of their 'excess' profits earned during 2020. Other states may follow. **If auto insurers release material levels of reserves on AY20 during the 1H of 2021, the ire of those regulators will only rise**.

If we are right and vaccinations quickly boost national driving to (new) normal levels; auto insurers may find that requests for rate increases fall on deaf ears.

Two Year Lines (Dominated by Auto Physical Damage): We show a $5.0 Bil. Redundancy

$5 billion is a big number, but we'll note that the industry has released an average of $5.1 billion from this auto physical damage-dominated composite over the past three 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
2011	62.5%	4.4%	0.5%	0.3%	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	68.0%	1.09
2012	59.9%	4.8%	0.5%	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%		65.6%	1.09
2013	57.2%	3.1%	0.4%	0.2%	0.1%	0.0%	0.1%	0.1%			61.0%	1.07
2014	55.2%	2.8%	0.1%	0.5%	-0.2%	0.1%	0.3%				58.8%	1.07
2015	55.2%	2.3%	0.7%	0.2%	0.2%	0.0%					58.5%	1.06
2016	58.2%	2.6%	0.2%	0.1%	0.1%						61.4%	1.06
2017	62.3%	2.9%	0.5%	0.0%							66.3%	1.06
2018	56.8%	3.1%	0.0%								60.6%	1.07
2019	56.4%	2.0%									59.8%	1.06
2020	52.4%										60.1%	1.15

Source: S&P Global, Assured Research. APD is about 2/3 of this composite line. Specialty property (e.g., flood) is the next largest

Observations: The source of our difference is easy to spot. The industry's 12-month loss ratio for AY20 is about 4 points below the two preceding years, and yet the ULR – at 60.1% - is virtually the same. The implied development of 1.15 is materially higher than any year before.

Hmmmm…we know monthly-reporter Progressive showed noticeably higher auto claims in January, 2021 from AY20. No specific explanation was given – we assume it was a combination of bad weather in late December and Covid-related issues. But *historically* bad loss development? Maybe…we'll know very soon.

Pricing Cycle Ramifications: Auto physical damage claims account for about 2/3 of the losses in this line of insurance. Our auto liability comments are operative here as well.

Workers' Compensation: We show a $13.3 Bil. Redundancy

$13.3 billion is a big number as well, but we'll note that the industry has released an average of nearly $7 billion from this line over each of the past three years.

Figure 5: 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
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
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
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
2010	38.0%	16.0%	7.6%	4.1%	2.7%	1.4%	1.3%	0.8%	0.2%	0.5%	79.6%	2.10
2011	37.2%	15.1%	6.9%	4.0%	2.4%	1.7%	0.9%	0.3%	0.6%	0.4%	76.3%	2.05
2012	34.1%	13.7%	5.9%	1.3%	3.7%	1.3%	0.5%	0.6%	0.5%		69.1%	2.03
2013	31.6%	12.8%	5.0%	3.0%	1.5%	0.6%	0.3%	0.4%			63.4%	2.01
2014	30.1%	11.6%	4.8%	2.4%	1.2%	0.7%	0.5%				59.2%	1.97
2015	28.8%	11.6%	4.4%	1.8%	1.2%	0.5%					57.3%	1.99
2016	28.9%	9.9%	3.7%	2.0%	0.8%						56.6%	1.96
2017	28.9%	10.5%	4.1%	1.6%							58.2%	2.02
2018	29.4%	10.6%	3.8%								60.8%	2.07
2019	31.4%	11.2%									64.4%	2.05
2020	30.4%										67.6%	2.23

Source: S&P Global, Assured Research

Observations: 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. As to AY20, the slight downtick in the AY20 loss ratio (30.4% vs. 31.4% for AY19 at 12-months) shows that the decline in claims from the slowed economy outweighed new covid claims despite lots of handwringing by industry analysts and other pundits over Covid-presumption laws. Will AY20 losses develop upward by a factor of 2.23x – higher than any earlier year? We're skeptical.

Pricing Cycle Ramifications: A recent study published by the NCCI forecasts an 86% combined ratio for AY20, just one point higher than the 85% for 2019. With a combined ratio that low, more favorable reserve development, and (we can all hope) the quick disappearance of most Covid WC claims (since healthcare workers - the largest source of Covid WC claims - will have been vaccinated for much of 2021), **we think rates are likely to drift lower. It will probably take a quickly reaccelerating economy and rising claim counts to reverse that trend**.

Commercial Auto: We show a $0.7 Bil. Deficiency

It's been a long time coming – **commercial auto is finally looking better!** At YE19 we estimated a $4 billion reserve shortfall on this line and the industry experienced $2 billion of adverse development during calendar year 2020 (that's been the average for the past 3 years). But **with continued rate increases and with some help from the pandemic, it looks like this line is finally turning the corner**.

Figure 6: 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
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
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
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
2010	37.0%	13.2%	8.0%	4.5%	2.5%	0.9%	0.4%	0.2%	0.2%	0.1%	68.3%	1.84
2011	38.4%	15.2%	8.6%	5.1%	2.8%	1.2%	0.5%	0.4%	0.1%	0.1%	72.7%	1.89
2012	38.1%	15.1%	8.8%	5.4%	2.8%	1.0%	0.5%	0.3%	0.1%		72.6%	1.91
2013	37.4%	15.4%	9.4%	6.2%	2.8%	1.1%	0.9%	0.2%			74.1%	1.98
2014	37.0%	15.4%	10.2%	6.3%	3.4%	1.3%	0.5%				75.0%	2.03
2015	37.4%	16.7%	9.9%	6.6%	3.3%	1.2%					76.4%	2.04
2016	39.0%	16.5%	10.8%	6.8%	3.0%						78.8%	2.02
2017	38.9%	16.8%	10.8%	6.1%							77.8%	2.00
2018	37.3%	17.3%	10.5%								76.0%	2.04
2019	37.1%	17.2%									74.2%	2.00
2020	30.1%										65.7%	2.18

Source: S&P Global, Assured Research

Observations: This triangle shows that two dynamics can coexist: 1) Inflationary pressures continue to adversely impact older, presumably more severe claims along the diagonal of the triangle. In our upcoming *Assured Briefing,* we'll discuss traumatic brain injuries (or, TBIs); they're being added to many severe commercial auto claims and probably helping to keep the diagonal shaded red. 2) But at the same time, the AY20 loss ratio is green – commercial trucks were on the road during 2020 but there were far fewer personal autos to collide with.

Pricing Cycle Ramifications: Our forecast calls for decelerating rate increases in 2021 (said another way, **the second derivative of rate increases turns negative**). The spoiler – an accelerating economy, more crashes and nuclear verdicts.

Other Liability Occurrence (aka General Liability): We show a $4.5 Bil. Deficiency

This line marks the largest change from our work one year ago. At that time, we estimated a $16 billion deficiency, and indeed $3.6 billion of adverse development came through the income statement. But we did lower our ULRs from last year's study – partly due to a methodology change and partly because of lower claim activity. In the end, we lowered our ULR indications by more than the industry raised theirs (via adverse reserve development).

Figure 6: 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
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
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
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
2010	15.6%	12.4%	11.0%	7.4%	5.1%	2.8%	3.0%	2.1%	1.2%	0.1%	65.3%	4.18
2011	15.3%	12.8%	10.7%	8.6%	5.5%	4.0%	3.0%	1.9%	0.6%	0.8%	67.4%	4.41
2012	14.2%	12.2%	10.8%	8.9%	5.0%	4.9%	2.2%	1.1%	0.6%		64.5%	4.55
2013	13.3%	12.1%	11.2%	8.7%	6.4%	3.8%	2.4%	0.8%			63.8%	4.79
2014	14.2%	12.3%	11.2%	8.9%	5.8%	3.6%	1.5%				64.4%	4.54
2015	14.2%	13.8%	11.6%	9.8%	6.6%	2.8%					68.6%	4.84
2016	14.3%	13.1%	11.1%	10.1%	5.3%						68.8%	4.81
2017	13.7%	15.4%	11.8%	7.6%							68.1%	4.97
2018	14.6%	13.6%	10.8%								67.4%	4.63
2019	15.2%	12.9%									67.5%	4.43
2020	12.8%										67.7%	5.30

Source: S&P Global, Assured Research

Observations: Last year this diagonal was almost entirely red; now we begin to see some (green) light. Perhaps this line was particularly impacted by the closed courts and activity and developments on claims (new and old) will begin to rise again during 2021? That seems to be what the industry is betting on with an implied 12-ultimate development factor of 5.3x – higher than even the oft-cited poorly underwritten and priced years of 2015-2018.

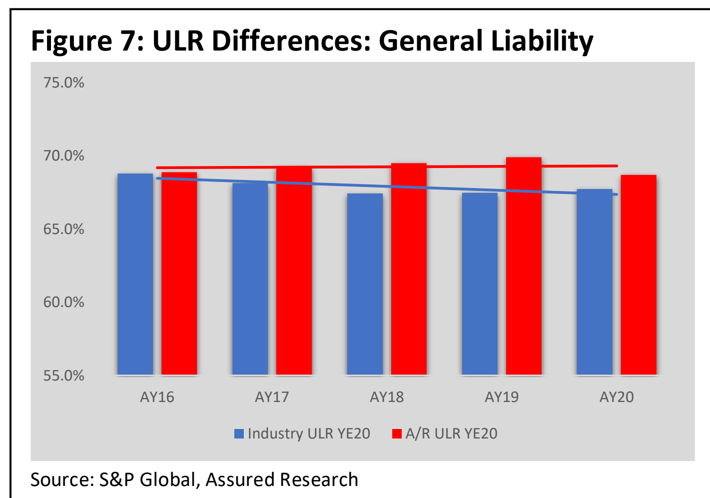


Figure 7: ULR Differences: General Liability

Source: S&P Global, Assured Research

Pricing Cycle Ramifications: Exercising a bit of hyperbole, **we've said that favorable reserve development on AY20 in general liability will be the death knell of the pricing cycle**. There is some truth to that, we think, but here time is on the industry's side. With valid concerns over a reacceleration of social inflation, the earliest that (most) insurers may feel pressure to lower

loss reserves on AY20 will be with YE21 reserve studies. **Our forecast: Rising liability rates throughout 2021…though we suspect the pace of rate increases will plateau this year**.

Other Liability Claims Made: We show a $2.0 Bil. Deficiency

Our $2 billion estimated deficiency is commensurate with levels from studies past, and indeed the industry has recorded $0.4 billion of adverse development the past two calendar years. **What's surprising to us**: With myriad causes of loss accelerating during 2020 (securities claims from shuttered businesses, Covid-fueled EPLI claims from mass layoffs and new regulations, cyber claims, etc.) **why wasn't the industry more conservative in its reserving posture?**

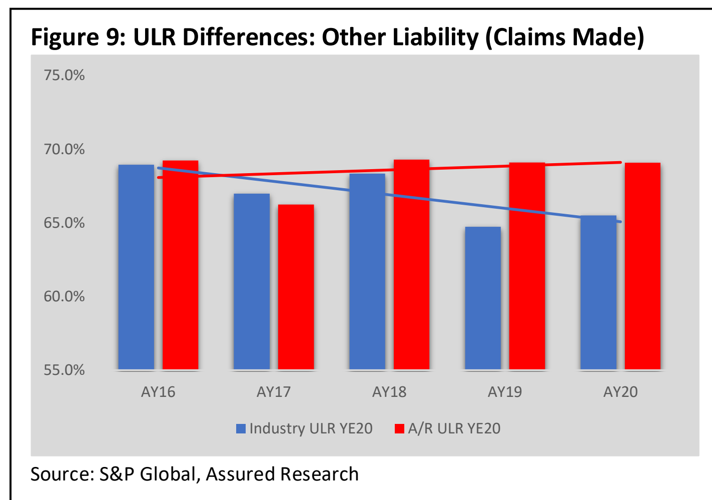
Figure 8: Loss Development Schematic/Industry ULR Indication: Other Liability Claims Made

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
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
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
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
2010	12.9%	17.0%	12.3%	6.8%	4.8%	3.9%	2.4%	1.4%	1.2%	0.0%	64.6%	5.02
2011	14.0%	18.3%	11.5%	8.3%	6.4%	4.2%	2.5%	1.2%	0.3%	0.0%	68.5%	4.89
2012	14.9%	16.3%	12.4%	10.3%	4.8%	4.0%	2.6%	1.5%	0.9%		70.7%	4.73
2013	12.3%	15.3%	12.1%	6.9%	4.7%	2.9%	1.9%	0.9%			59.6%	4.85
2014	11.7%	16.3%	12.5%	8.2%	4.8%	3.0%	0.9%				61.0%	5.24
2015	11.6%	15.4%	14.1%	7.6%	4.2%	2.2%					60.8%	5.26
2016	13.3%	18.3%	13.2%	8.9%	5.6%						69.0%	5.19
2017	15.4%	13.5%	13.8%	8.5%							67.0%	4.35
2018	15.0%	17.4%	12.6%								68.3%	4.55
2019	13.3%	16.8%									64.7%	4.88
2020	13.6%										65.5%	4.83

Source: S&P Global, Assured Research

Observations: Those who have been studying our red/green schematics will immediately notice how this line is different. First, the 12-month loss ratio for AY20 is *higher* than AY19 (13.6% vs. 13.3%). Pandemic-fueled D&O claims, EPLI claims, cyber…all are probably contributing. And second, notice that the 4.83 shaded development factor for AY20 is lower than most other years before it. Surprising!

Figure 9: ULR Differences: Other Liability (Claims Made)



Source: S&P Global, Assured Research

Pricing Cycle Ramifications: Myriad causes of loss are still firing, pressures from social inflation, reinsurance rate increases, low interest rates, and reserve deficiencies? **The hard market in this line continues into 2022**.

Summary

With the exception of private passenger auto and WC, we think insurance rates will continue to move higher during 2021. Across most lines, however, we expect, the pace of rate increases will plateau.