MILLIMAN WHITE PAPER

P&C industry data shows deteriorating trends for general liability

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The U.S. property and casualty (P&C) insurance industry as a whole has experienced significant deterioration in loss ratios for general liability in calendar years 2015 to 2018. The loss ratio deterioration is likely to continue as the industry grapples with the extension of statutes of limitations for sexual abuse claims, opioid litigation, and generally increasing jury awards driving up the severity of claims. For opioid litigation, as an example, the insurance industry will likely expend significant amounts defending and/or litigating with policyholders in spite of having strong coverage defenses. While these factors affect the general liability segment as a whole, the deterioration is likely more extreme for those writing excess layers, as the increased severity would have a leveraged effect on such layers. (For this analysis we have relied on Annual Statement Schedule P data classified as Other Liability written on an occurrence basis.[1])

INDUSTRY-WIDE LOSS DETERIORATION

The table in Figure 1 illustrates that calendar year industry loss and allocated loss adjustment expenses (ALAE) ratios increased from 59.7% in 2013 to 74.9% in 2018, a rise of 15 points.

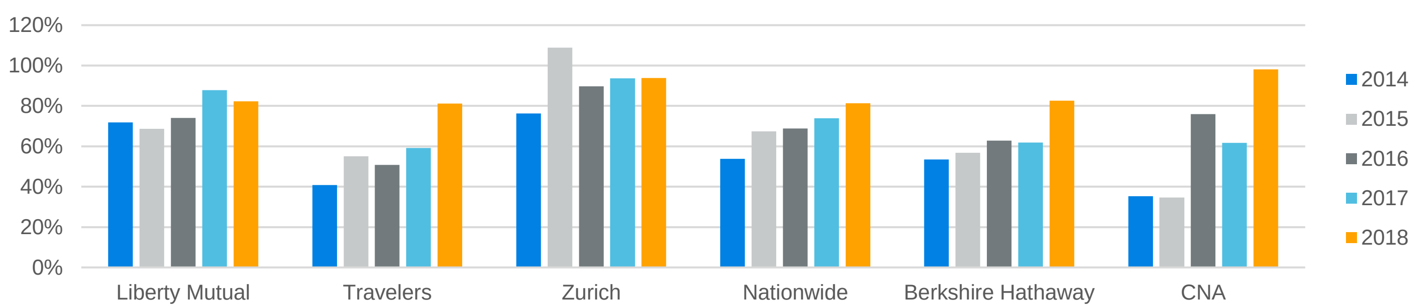
The chart in Figure 2 shows the same metrics for selected top players in the market. Many major carriers have seen upswings in their loss ratios, albeit to different extents.

FIGURE 1: INDUSTRY CALENDAR YEAR LOSS AND ALAE RATIOS FOR GENERAL LIABILITY

P&C INDUSTRY	2010	2011	2012	2013	2014	2015	2016	2017	2018
Direct Written Premium ($B)	28	29	31	34	37	40	41	43	46
Direct Loss & ALAE Ratio	69.2%	58.8%	63.3%	59.7%	61.8%	69.7%	75.5%	67.0%	74.9%

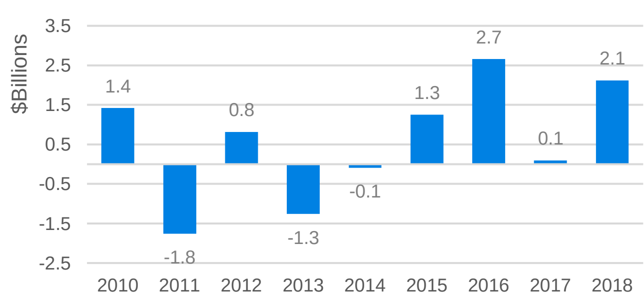
Source: SNL compiled industry data for Other Liability (Occurrence).

FIGURE 2: CALENDAR YEAR GENERAL LIABILITY DIRECT LOSS AND ALAE RATIOS FOR SELECTED TOP CARRIERS



Source: SNL compiled industry data for Other Liability (Occurrence).

FIGURE 3: P&C INDUSTRY ONE-YEAR GENERAL LIABILITY RESERVE DEVELOPMENT REPORTED IN CALENDAR YEAR



Source: SNL compiled industry data

RESERVE POSITION AND ACCIDENT YEARS 2015-18

P&C carriers have been reporting adverse reserve development over the past few years. As shown in Figure 3, the industry combined one-year reserve development has been unfavorable for four consecutive calendar years since 2015. In 2018, the industry increased its booked ultimate loss and ALAE by $2.1 billion, or 2% of the overall loss and LAE carried reserves.

Of the $2.1 billion increase in calendar year 2018, $1.3 billion arises from accident years 2015 to 2017. The industry in the

[1] Although general liability predominates this data, a large number of other coverages may also be coded to "Other Liability" and therefore are part of the data. The most significant "Other Liability" coverages other than general liability are predominantly written on a claims-made basis, and only amounts recorded as occurrence for such coverages are included in the data herein.

aggregate has recognized that accident years 2015 to 2018 have been performing worse than the preceding accident years. The table in Figure 4 illustrates the increase in industry ultimate loss ratios for accident years 2015 to 2018 compared to earlier accident years.

Although the industry has booked higher loss ratios for recent accident years as compared to accident years 2013 and 2014, the question remains whether the current reserves are sufficient or further reserve strengthening will be needed in the future for those accident years. As shown in Figure 4, the industry recognizes that the ultimate loss ratios of 64.4% to 65.1% for accident years 2015 to 2018 are worse than those for accident years 2013 and 2014 of 62.9% and 63.5%, respectively, and are close to those for accident years 2010 to 2012. The picture, however, appears bleaker when looking at the early loss experience indicated by case incurred and paid loss ratios, as shown in Figure 5. For example, the case incurred and paid loss ratios at 48 months maturity for accident year 2015 are higher than any of the preceding years since 2009.

FIGURE 4: P&C INDUSTRY ULTIMATE GENERAL LIABILITY LOSS & DCC RATIOS

Accident Year	12	24	36	48	60	72	84	96	108	120
2009	69.1%	68.4%	66.2%	63.9%	62.9%	61.8%	61.0%	61.3%	60.5%	60.3%
2010	68.3%	67.9%	67.8%	66.4%	65.9%	65.3%	65.3%	64.5%	64.4%	
2011	66.9%	66.9%	67.0%	66.9%	66.9%	67.2%	66.5%	66.5%		
2012	64.7%	64.7%	64.1%	64.6%	64.5%	64.9%	64.4%			
2013	62.3%	61.6%	62.4%	63.7%	63.3%	63.5%				
2014	61.7%	61.1%	62.8%	62.0%	62.9%					
2015	61.7%	63.6%	63.1%	64.4%						
2016	63.7%	64.0%	65.1%							
2017	63.1%	64.9%								
2018	64.5%									

Source: 2018 Schedule P, Other Liability (Occurrence).

FIGURE 5: P&C INDUSTRY GENERAL LIABILITY CASE INCURRED AND PAID LOSS & DCC RATIOS

Case Incurred Loss & DCC Ratios

Accident Year	12	24	36	48	60	72	84	96	108	120
2009	16.4%	28.1%	36.5%	43.9%	48.5%	51.4%	53.1%	54.9%	56.5%	57.3%
2010	16.0%	28.3%	39.2%	46.5%	51.6%	54.4%	57.3%	59.4%	60.6%	
2011	15.7%	28.4%	39.0%	47.3%	52.7%	56.6%	59.6%	61.5%		
2012	14.6%	26.7%	37.3%	46.1%	51.0%	55.8%	58.0%			
2013	13.6%	25.6%	36.7%	45.2%	51.5%	55.3%				
2014	14.4%	26.7%	37.7%	46.5%	52.2%					
2015	14.3%	28.0%	39.5%	49.3%						
2016	14.3%	27.4%	38.4%							
2017	13.6%	28.9%								
2018	14.4%									

Paid Loss & DCC Ratios

Accident Year	12	24	36	48	60	72	84	96	108	120
2009	7.9%	16.2%	25.2%	34.0%	41.1%	45.9%	49.0%	52.0%	54.0%	55.5%
2010	6.3%	15.0%	25.8%	35.3%	43.4%	48.2%	52.3%	55.9%	57.8%	
2011	5.9%	14.7%	24.9%	34.9%	43.7%	50.1%	54.4%	57.5%		
2012	5.5%	13.9%	23.8%	33.9%	42.4%	49.4%	53.3%			
2013	4.4%	13.0%	23.7%	34.3%	43.4%	49.0%				
2014	5.7%	14.0%	24.9%	36.0%	44.3%					
2015	5.4%	15.5%	26.4%	38.2%						
2016	5.3%	14.4%	25.5%							
2017	5.2%	14.7%								
2018	5.4%									

Source: 2018 Schedule P, Other Liability (Occurrence).

The table in Figure 6 shows case incurred and paid loss ratio triangles for several top primary carriers, along with their booked ultimate loss ratios. Many carriers indicate higher case incurred or paid loss ratios for accident years 2015 to 2018 compared to prior years at the same maturities, suggesting potential deterioration of loss ratio experience.

FIGURE 6: GENERAL LIABILITY LOSS RATIOS FOR SELECTED TOP INSURERS

Chubb

Incurred Loss & DCC Ratios							Ult
AY	12	24	36	48	60	72	LR
2009	7.3%	15.8%	24.2%	30.7%	36.8%	38.3%	53.6%
2010	5.7%	16.5%	29.9%	38.9%	44.6%	48.3%	63.5%
2011	6.9%	19.0%	30.3%	38.9%	44.9%	47.5%	62.6%
2012	6.9%	21.2%	32.4%	42.4%	47.5%	52.2%	65.5%
2013	6.2%	18.8%	31.4%	40.5%	50.8%	56.1%	72.3%
2014	5.7%	19.8%	34.9%	45.6%	51.8%		72.1%
2015	6.0%	19.7%	31.9%	44.0%			71.8%
2016	7.4%	22.2%	36.6%				72.9%
2017	6.8%	19.9%					73.5%
2018	9.9%						76.3%

Paid Loss & DCC Ratios						
AY	12	24	36	48	60	72
2009	1.9%	6.8%	13.8%	23.1%	30.3%	34.7%
2010	1.3%	7.5%	20.9%	30.1%	36.9%	42.5%
2011	2.9%	9.5%	20.9%	30.5%	38.0%	43.6%
2012	1.9%	11.4%	21.9%	32.4%	40.4%	46.0%
2013	2.1%	10.2%	23.5%	32.0%	42.9%	50.6%
2014	2.0%	10.6%	23.3%	36.8%	44.2%	
2015	2.1%	10.7%	21.3%	35.0%		
2016	2.5%	13.1%	25.0%			
2017	2.9%	12.5%				
2018	3.7%					

Liberty Mutual

Incurred Loss & DCC Ratios							Ult
AY	12	24	36	48	60	72	LR
2009	14.2%	24.0%	34.9%	44.5%	50.8%	53.4%	63.0%
2010	13.4%	24.9%	36.6%	46.9%	51.9%	55.8%	67.6%
2011	15.5%	29.1%	41.6%	53.4%	58.8%	62.8%	76.4%
2012	14.8%	33.3%	46.5%	54.2%	59.6%	63.8%	78.6%
2013	17.0%	30.3%	41.3%	50.4%	56.0%	61.8%	73.9%
2014	14.7%	26.4%	38.0%	47.1%	54.5%		70.0%
2015	14.0%	28.8%	40.7%	54.7%			69.5%
2016	14.8%	25.0%	41.2%				64.8%
2017	8.6%	33.9%					70.1%
2018	11.6%						69.3%

Paid Loss & DCC Ratios						
AY	12	24	36	48	60	72
2009	2.8%	9.3%	19.3%	31.5%	41.0%	46.9%
2010	2.9%	9.8%	21.9%	33.0%	41.9%	46.8%
2011	3.0%	11.6%	23.5%	36.1%	47.6%	54.9%
2012	4.9%	16.9%	27.2%	39.9%	49.2%	55.4%
2013	8.4%	18.4%	27.4%	39.2%	45.1%	52.8%
2014	3.6%	11.5%	22.1%	29.3%	44.1%	
2015	4.3%	14.3%	22.6%	39.3%		
2016	4.4%	7.2%	23.0%			
2017	1.6%	16.4%				
2018	-0.7%					

Travelers

Incurred Loss & DCC Ratios							Ult
AY	12	24	36	48	60	72	LR
2009	8.2%	18.9%	26.2%	30.4%	32.3%	33.5%	36.7%
2010	10.4%	21.4%	32.5%	36.2%	39.7%	41.1%	46.4%
2011	10.7%	23.6%	33.3%	38.7%	41.5%	41.8%	48.0%
2012	10.3%	21.4%	31.6%	37.6%	38.9%	43.7%	49.8%
2013	12.9%	23.8%	33.1%	38.3%	42.3%	45.5%	50.6%
2014	10.1%	20.9%	30.1%	37.4%	42.3%		51.0%
2015	9.7%	20.3%	31.2%	41.2%			51.1%
2016	9.2%	22.0%	34.7%				54.8%
2017	8.7%	22.0%					55.3%
2018	8.5%						58.1%

Paid Loss & DCC Ratios						
AY	12	24	36	48	60	72
2009	1.7%	8.8%	16.3%	22.7%	26.9%	30.1%
2010	1.9%	7.8%	17.9%	26.5%	33.5%	37.5%
2011	2.9%	11.3%	20.8%	30.6%	35.3%	38.6%
2012	1.9%	9.1%	17.4%	27.4%	32.6%	38.7%
2013	2.3%	10.0%	20.9%	28.0%	35.3%	40.6%
2014	2.3%	8.8%	17.6%	28.1%	34.9%	
2015	2.3%	7.8%	19.0%	31.3%		
2016	2.0%	10.8%	23.1%			
2017	2.2%	9.8%				
2018	1.9%					

Zurich

Incurred Loss & DCC Ratios							Ult
AY	12	24	36	48	60	72	LR
2009	11.2%	23.3%	36.4%	49.7%	57.9%	61.5%	75.4%
2010	11.2%	27.5%	47.4%	63.1%	72.4%	76.7%	93.6%
2011	9.8%	20.8%	43.3%	58.5%	66.2%	72.8%	90.4%
2012	7.9%	23.5%	42.0%	54.6%	62.0%	70.6%	84.8%
2013	9.2%	28.2%	50.2%	64.7%	72.0%	78.5%	93.8%
2014	9.4%	24.9%	40.6%	53.5%	64.8%		87.2%
2015	14.5%	27.6%	40.9%	54.2%			83.7%
2016	9.7%	24.1%	39.0%				87.1%
2017	12.4%	28.7%					89.7%
2018	14.5%						83.2%

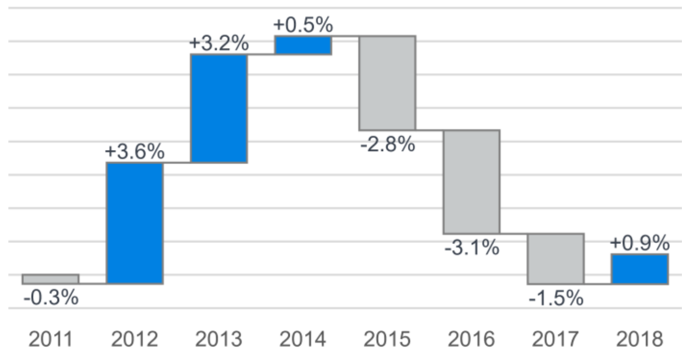
Paid Loss & DCC Ratios						
AY	12	24	36	48	60	72
2009	4.0%	11.6%	22.5%	34.6%	47.3%	53.8%
2010	2.4%	14.1%	29.6%	46.9%	59.1%	65.3%
2011	3.5%	10.3%	23.0%	35.9%	51.7%	59.0%
2012	2.3%	10.0%	24.0%	38.5%	48.4%	57.7%
2013	2.2%	13.3%	32.7%	46.2%	57.9%	66.1%
2014	1.8%	8.2%	22.6%	35.3%	48.6%	
2015	4.0%	13.7%	25.0%	38.2%		
2016	2.5%	8.7%	21.6%			
2017	1.9%	12.2%				
2018	2.6%					

Source: 2018 Schedule P, Other Liability (Occurrence)

RATE MOVEMENTS

Part of the rise in loss ratios for recent accident years may be attributable to rate decreases. According to data compiled by the Council of Insurance Agents and Brokers (CIAB), general liability rates have dropped between 2014 and 2017, as shown in Figure 7 below.

FIGURE 7: P&C INDUSTRY GENERAL LIABILITY RATE CHANGES



Source: CIAB Commercial Property/Casualty Market Index

Despite rates decreasing approximately 7% between 2014 and 2017, aggregate premium increased approximately 16% over that same time period per Figure 1 above. The combination of aggregate premium rising while rates decline implies significant exposure growth, a phenomenon that complicates the estimation of rate changes, the impact of rate changes on the loss ratio, and the insurer ultimate loss ratios themselves.

INCREASED SEVERITY

An additional driver of the increase in loss ratios may be a rise in claim severity. As shown in Figure 8, the P&C industry average reported claim severity for accident years 2015 to 2018 is much higher compared to those of accident years 2012 to 2014.

FIGURE 8: P&C INDUSTRY GENERAL LIABILITY REPORTED CLAIM SEVERITY ($000)

AY	12	24	36	48	60	72	84
2012	1.3	2.0	3.1	3.4	3.3	2.6	2.5
2013	1.3	2.5	3.1	3.4	3.0	3.0	
2014	1.2	2.4	3.1	3.5	3.6		
2015	1.9	3.0	3.5	3.8			
2016	2.2	2.9	3.7				
2017	1.6	2.5					
2018	1.6						

Source: 2018 Schedule P, Other Liability (Occurrence)

What is causing this increase in severity? The general liability market is susceptible to social, economic, and legal dynamics. A few noteworthy trends are discussed below.

- **Medical costs:** Medical costs have risen faster than general inflation, contributing to increases in general liability claim severity. These increases are associated with items such as advances in medical technology and the rising costs of prescription drugs. As medical technology advances further in the future, more expensive medical procedures can increase in both frequency and severity.
- **Litigation funding:** Recent years have seen an increase in outside investors fronting legal fees for plaintiffs in exchange for a share of the settlement or judgment. With these arrangements more prevalent, plaintiffs who in the past may have settled for smaller amounts are now more willing to go to trial, and are more likely to push for costlier and perhaps unnecessary medical treatment. Plaintiff lawyers are similarly more likely to pursue litigation as a result.
- **Increased jury awards:** The frequency of large awards is higher than ever before. There is a widespread notion of the public distrusting big business, and such distrust can lead to higher awards. As Millennials make up a larger portion of the jury pool their views on social responsibility influence judgments. The ratio of noneconomic to economic damages for claims that go to verdict is increasing, driving up claim valuations.
- **Traumatic brain injuries:** As the public becomes more aware of the danger of brain injuries, these injuries are alleged more frequently than in the past, with even less serious slips, falls, and auto accidents now including allegations of brain injuries, resulting in the consideration of potentially higher future medical costs than contemplated in the past for similar injuries.

It is possible that the incurred, paid, and projected ultimate loss ratios do not yet reflect these issues, as they are reliant to some extent on past patterns where these phenomena were not present to the same degree.

OTHER EMERGING ISSUES

While the phenomena noted above contribute to rising claim severity in recent accident years, additional emerging issues can impact not only recent accident years, but older ones as well, contributing to increased calendar year loss ratios.

- **Sexual abuse claims:** Many states have recently passed legislation extending the statutes of limitations for bringing litigation related to sexually based offenses, such as the New York Child Victims Act passed in February of this year. This will likely lead to a spike in such claims, particularly for carriers with significant exposure to schools, municipalities, and religious institutions.
- **Opioids:** The industry is gearing up for an increase in opioid-related claims due to an increase in litigation aimed at opioid manufacturers, distribution services, retail pharmacies, hospitals, and other parties.

LEVERAGED EFFECT ON EXCESS CARRIERS AND REINSURERS

Rising claim severity has a magnifying impact on excess carriers and reinsurers writing their general liability business at higher attachment points. To the extent the reinsurers react with material increases in rates charged for reinsurance, it could portend even further worsening of net experience for primary carriers.

OUTLOOK

Despite a weakening in profitability, the U.S. general liability market has been growing at an average annual rate of 6% since 2014 as measured by direct written premium. A steady economic growth forecasted at 2% to 3% in the near term will likely create more demand for general liability coverage. As shown in Figure 7 above, the pattern of rate decreases beginning in 2015 are beginning to reverse, with rate increases having been reported for 2018. The question remains whether these increases will be sufficient to offset the adverse loss ratio trends and other emerging issues noted above. For insurers, the keys to profitability are underwriting strategies, improved risk modeling, and pricing that takes into consideration the unfavorable emerging trends.

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