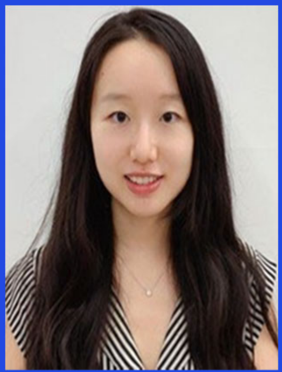
KPMG

Navigating Tides in the Insurance Sector

June 25, 2025

Today's Presenters

Ian Sterling
Actuarial Principal



Sophia Song
Actuarial Director

Agenda

01

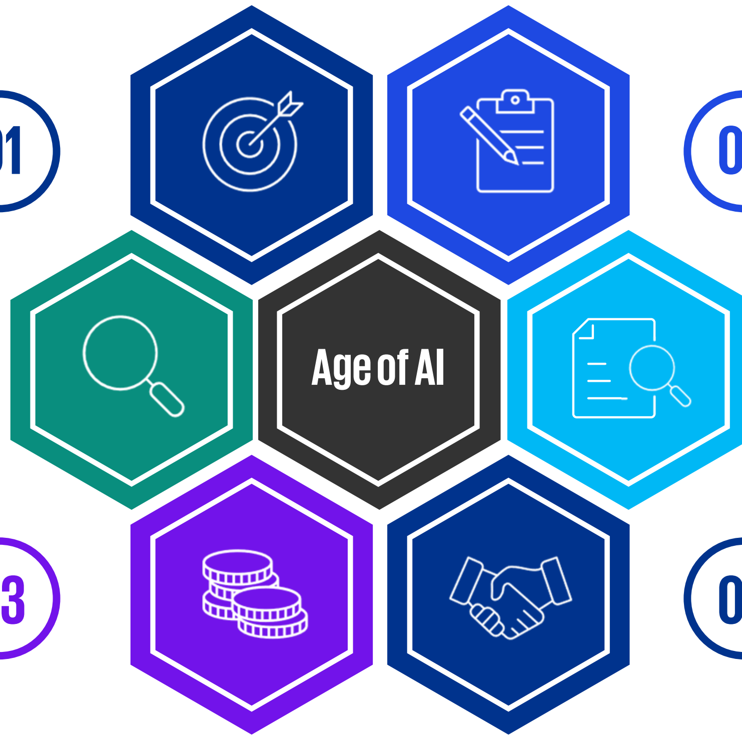
Insurance Industry Priorities

Insurance Industry | Priorities

01 Modernization of Technology & Data

02 Optimizing Risk Management

03 Tackling Everchanging External Factors



04 Shifting Talent and Workforce

05 Enhancing Customer Experience to Total Experience

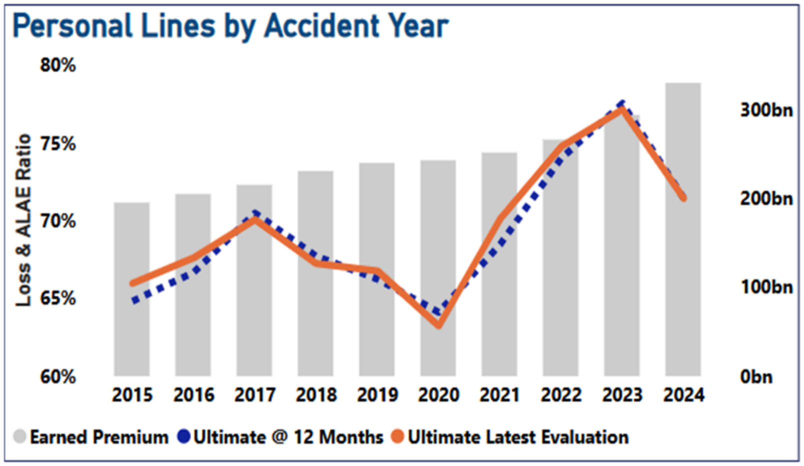
06 Complicated Deal Environment

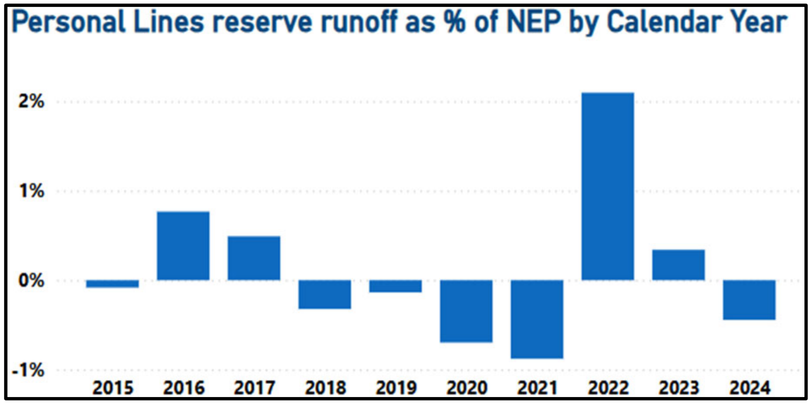
Solving the biggest challenges: affordability, coverage gap, risk, technology

02

Industry Trends

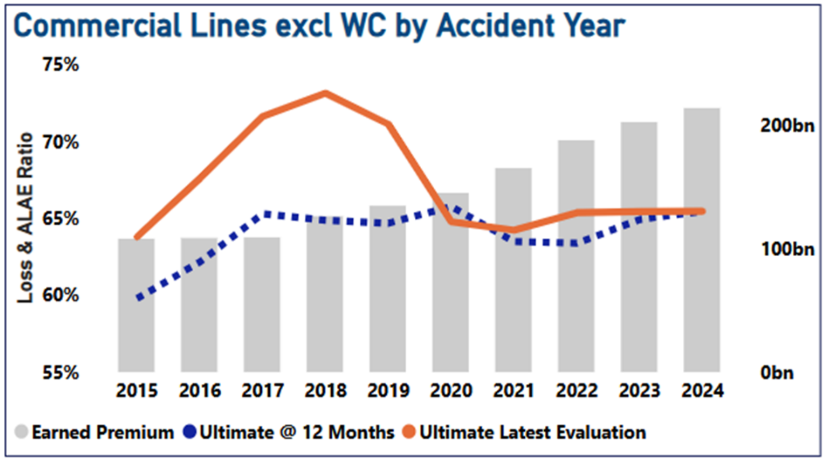
Personal lines trends

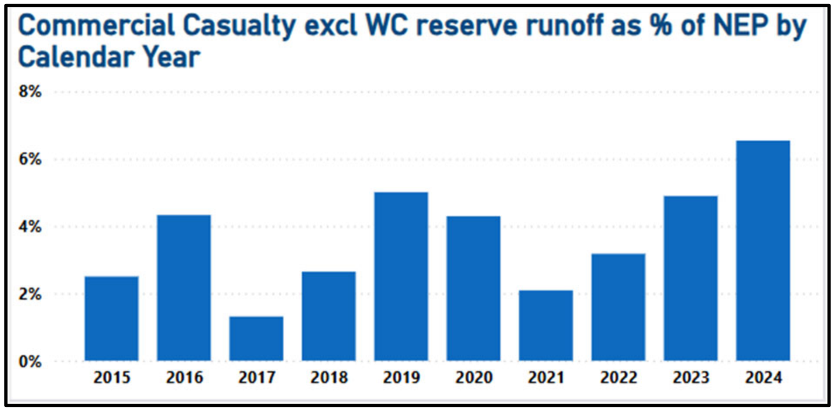




Source: S&P Capital IQ, Schedule P (December 2024)

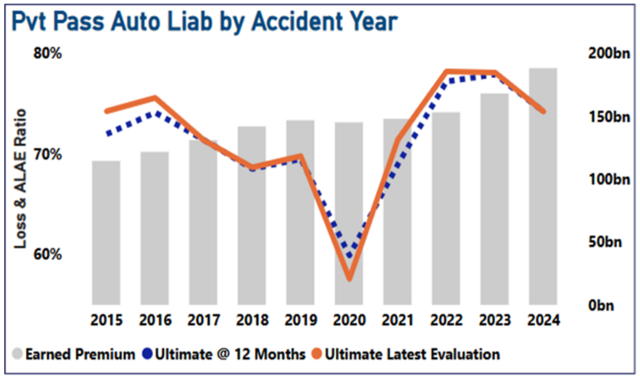
Commercial lines excl WC trends

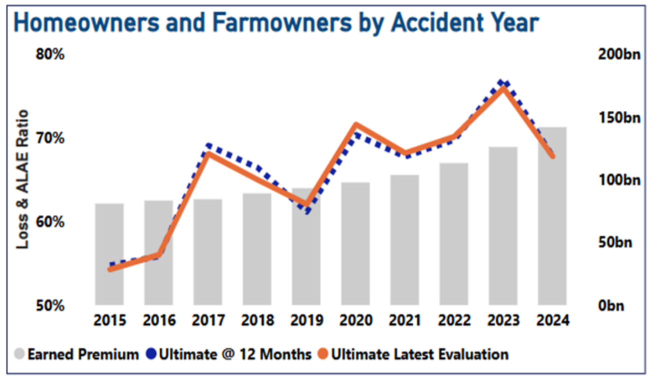


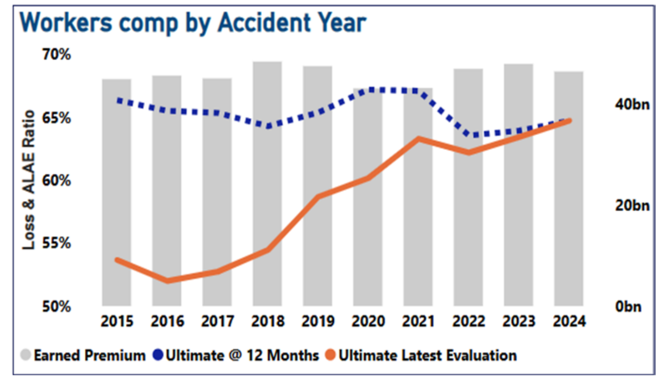


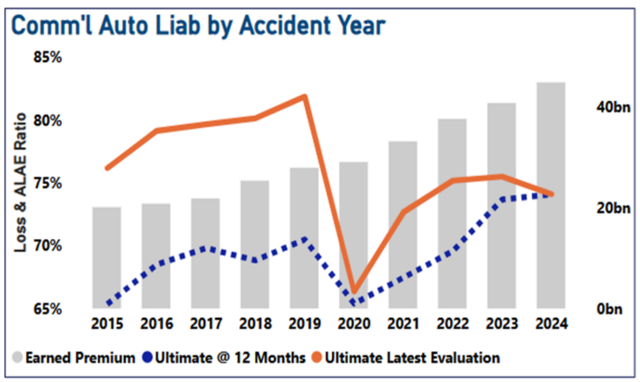
Source: S&P Capital IQ, Schedule P (December 2024)

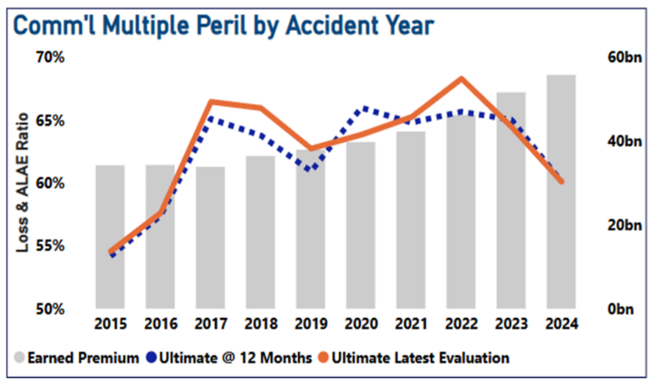
Industry trends
Loss Ratio

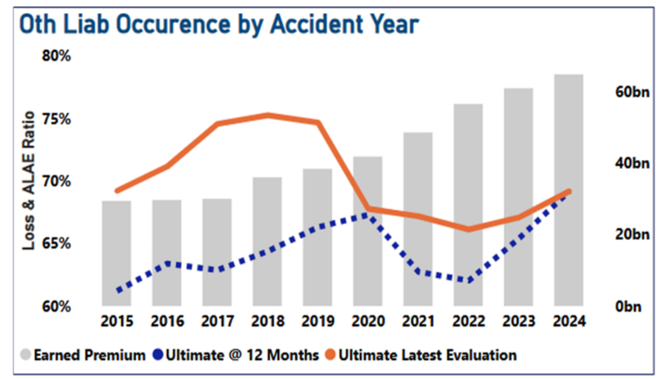




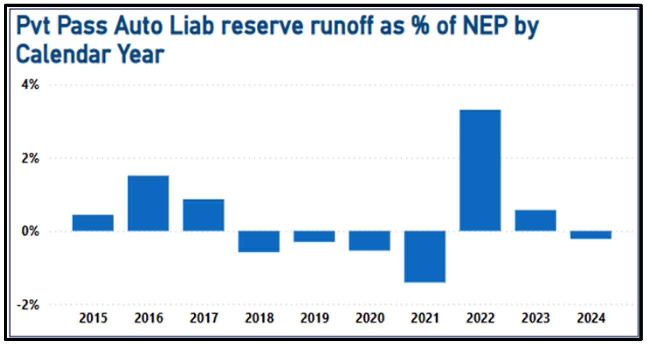


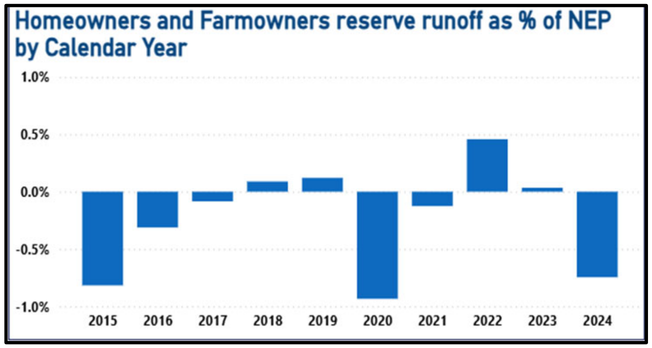


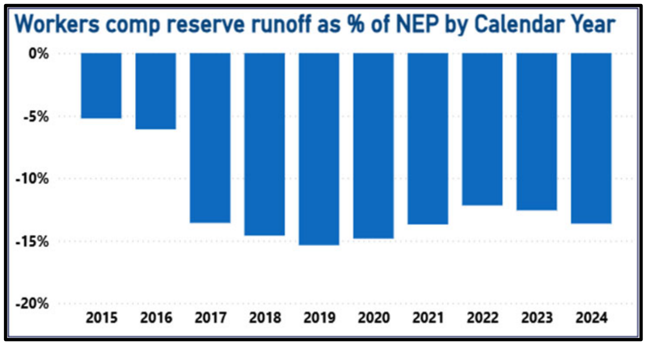


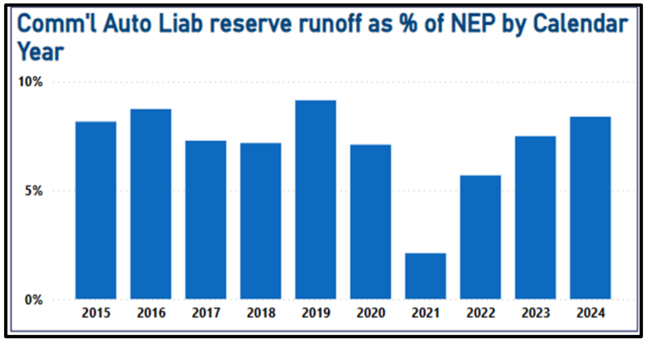


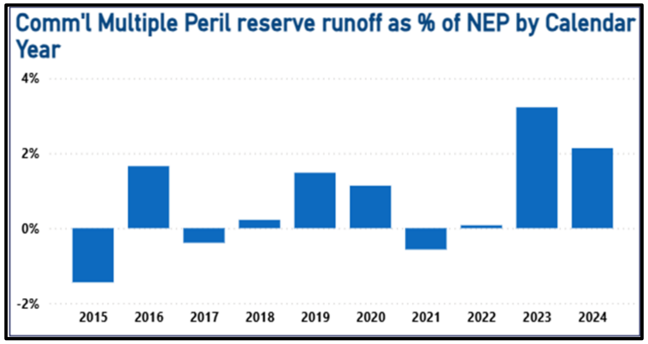
Industry trends
Reserve runoff

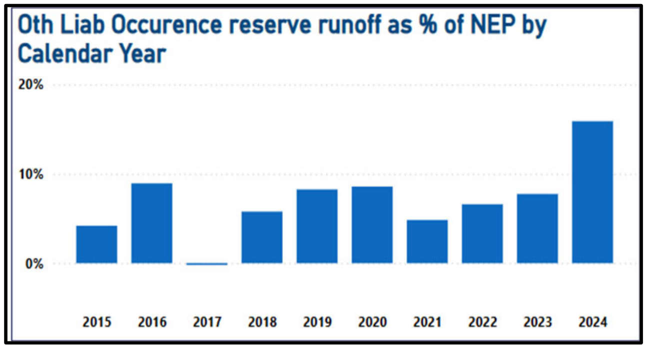












Personal Umbrella Market Trends

Personal umbrella insurance, which offers additional liability protection beyond standard homeowners and auto policies, has been significantly influenced by several emerging trends. These trends stem from heightened litigation, increased loss ratios, a shrinking market capacity, and new risks associated with digital activities.

Key takeaways

- Personal lines losses are on the rise due to social inflation, escalating medical expenses and high repair costs.
- The rising costs in underlying insurance have led to increased frequency and severity of personal umbrella claims. Our observations indicate that a significant contributor to this increased exposure is related to the auto sector.
- This has resulted in capacity constraints in the market.
- Emerging liability risks from social media and other online activities are increasingly becoming a concern for personal umbrella insurers.

Increasing loss ratios across personal lines are driving up the frequency of umbrella claims. Loss ratio increases are driven by:

Attorney representation rates

More plaintiffs are seeking legal representation, contributing to higher defense and settlement costs.

Increased litigation

A general increase in litigation frequency has compounded the liability exposure for insurers.

Nuclear verdicts

These exceptionally high jury awards are becoming more frequent and exert upward pressure on settlement values across all claims.

Increased medical expenses

The cost of medical care continues to rise, inflating the value of liability claims.

High repair costs

Inflation and supply chain disruptions are driving up the cost of home repairs, while advancements in vehicle technology and rising auto repair costs also contribute to higher claim payouts.

Constricted market capacity

In recent years, the capacity in the personal umbrella market has constricted, with a notable decline in the number of carriers willing to offer these policies. This is particularly evident in the higher-limits segment, where policies offering coverage above $5 million have become increasingly scarce.

Emerging liability risks from social media and online activities

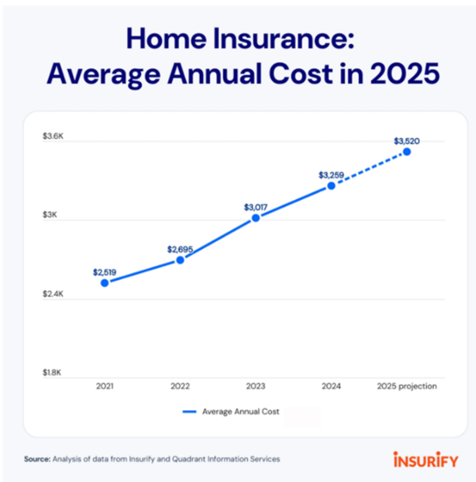
Social media and online activities have introduced new liability risks that were previously unforeseen. Incidents of defamation and privacy breaches are becoming more common and can lead to substantial financial losses. These digital-age risks are now a significant consideration for personal umbrella insurers, further complicating the underwriting and risk management processes.

Considerations to combat rising umbrella loss ratios

To address the increasing umbrella loss ratios, one should consider the following: implementing more granularity in reserve segmentation, updating pricing more frequently, and enhancing underwriting analytics and metrics.

Personal lines pricing

- **Personal auto** prices rose 20-30% across 2022 and 2023 under pressure from rising severity and prior year development, although tempered some in 2024.
- **Homeowners** insurance prices rose 8% in 2024, with catastrophes and inflation driving property costs higher. Rates are expected to continue to increase in 2025

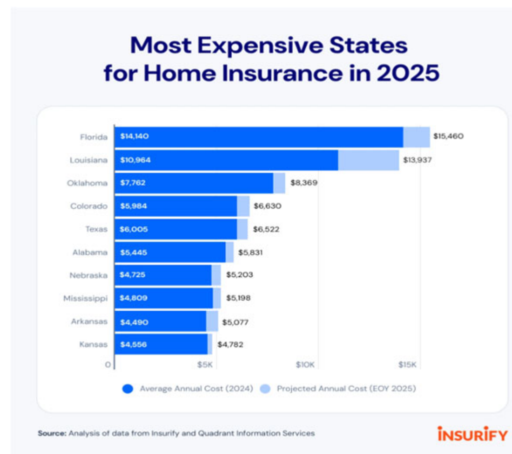


Source: [Home Insurance Rates to Rise 8% in 2025, After a 20% Increase in the Last Two Years | Insurify (Insurify.com)]

Top 10 Private Auto Insurer's Effective Rate of Change Since 2019 (%)

Insurer	Effective Rate Change						Cumulative Change	
	2019	2020	2021	2022	2023	YTD 2024	2023 - YTD 2024	2019 - YTD 2024
Company 1	-3.5	-10.9	3.8	9.9	18.3	8.3	28.1	25.6
Company 2	-1.3	-2.9	3.9	10.1	17.0	2.9	20.4	34.7
Company 3	0.2	3.1	1.6	17.2	13.1	2.8	16.4	44.1
Company 4	2.7	1.1	-0.9	14.5	14.6	10.5	26.6	50.4
Company 5	3.3	1.4	-0.7	8.2	18.0	2.6	21.1	36.4
Company 6	2.2	1.1	2.5	12.9	18.0	10.9	30.9	56.6
Company 7	4.1	1.4	2.9	14.5	17.9	9.2	28.7	59.8
Company 8	1.1	0.0	0.1	10.0	18.9	13.0	34.3	57.1
Company 9	8.2	0.6	0.0	7.5	14.1	7.0	22.2	36.0
Company 10	0.5	1.8	1.7	9.4	20.6	9.6	32.1	50.4

Source: S&P Global Market Intelligence



Drivers: Hurricanes, Tornadoes, Wildfires

Commercial Rates and Pricing

U.S. Rates

- **Commercial Property** insurance prices **declined 9%,** driven by increased insurer competition and decreasing reinsurance costs.
- **Casualty** insurance prices rose 8%, excluding workers' compensation. **Excess liability and Umbrella** rates increased 16%.

Commercial Property: -9%

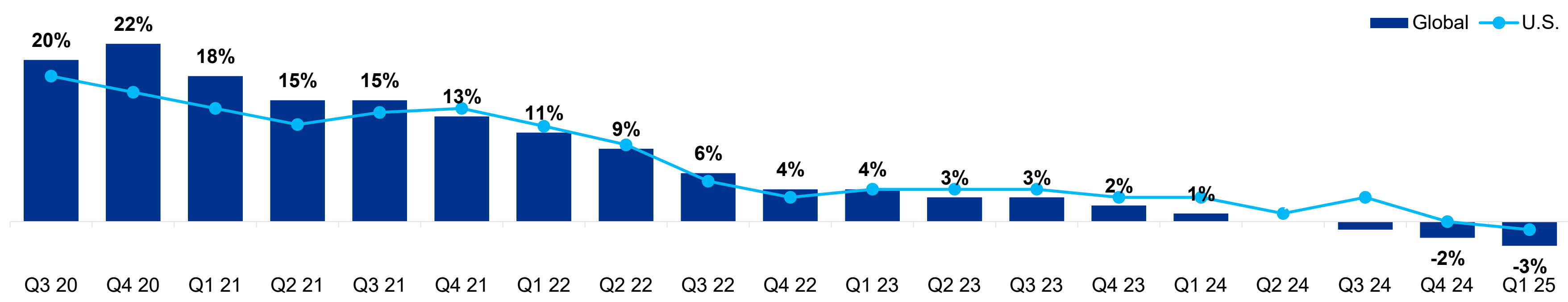
Financial and professional lines: -3%

US

Casualty: +8%

Cyber: -4%

U.S. composite insurance pricing change



Source: Marsh specialty and Global Placement

03

Headline News

Weather and Cats

Trends

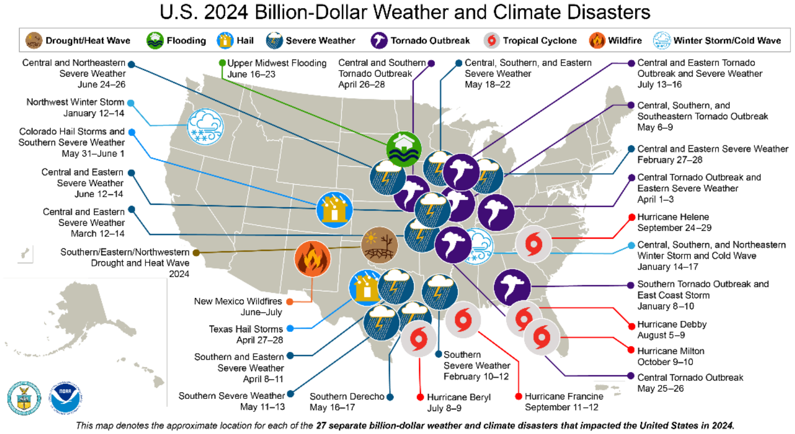
- Significant SCS activity
- Wildfire risk
- Cat models challenged

Impacts

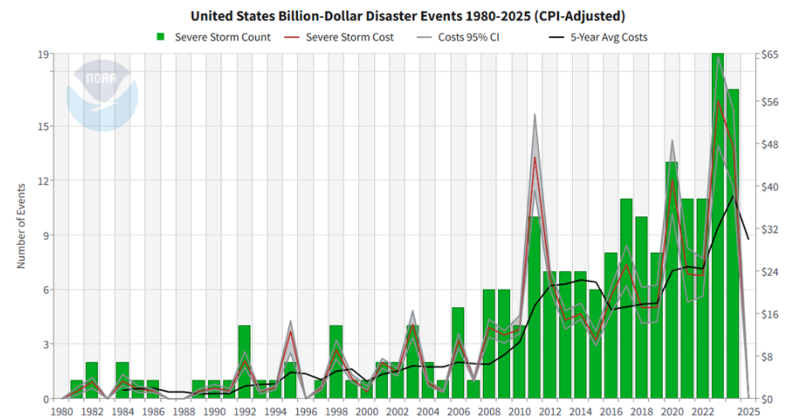
- Reinsurance rates and coverage changes
- Some states capacity reduced
- Availability / affordability

Transformative Actions

- Exposure Management
- Prevention & Mitigation
- Alternative Solutions



Source: Billion-Dollar Weather and Climate Disasters | National Centers for Environmental Information (NCEI) (noaa.gov)



Social inflation and nuclear verdicts

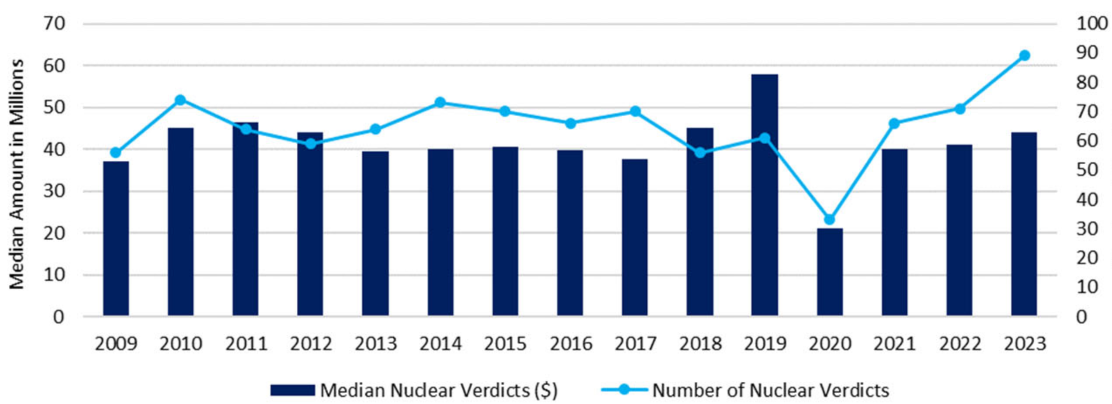
Drivers

- Shifting Jury Attitudes & Social Media
- Nuclear Verdicts
- Third-Party Litigation Funding

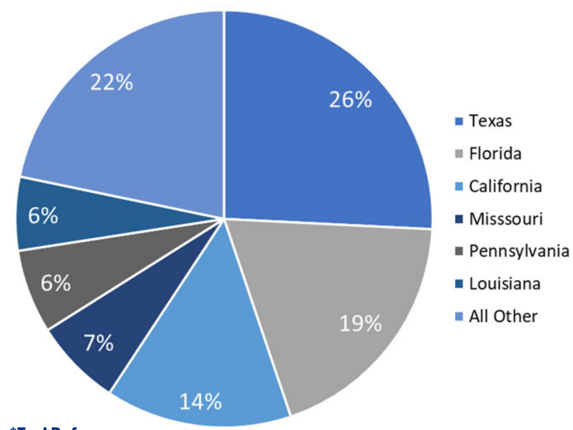
Products Most Impacted

- Commercial Auto
- Product Liability
- Intellectual property

Number and median amount of nuclear verdicts



Nuclear verdicts by state 2009-2023; $175B in total



*Tort Reforms

Source: Corporate Verdicts Go Thermonuclear by Marathon Strategies

04

P&C Tariff Impact

P&C Tariff Impact

Property and casualty (P&C) insurance carriers are facing increased uncertainty and significant challenges from the current U.S. tariff environment, which includes broad-based and country specific tariffs on imported goods. These tariffs are likely to have both a direct and indirect impact on claim costs, as well as increase operational pressures for insurers.

Key Takeaways

- Tariffs will have a **direct** impact on several coverages (e.g. auto physical damage, homeowners, UM/UIM, commercial property, workers' compensation, commercial auto) with increases in building materials, auto parts and medical supplies.
- There will also likely be an **indirect** impact on several coverages (Bodily Injury, Umbrella, Workers' compensation, D&O) with supply chain, labor shortages, labor wages, economic recession, insurance affordability, and social inflation.

Recommended Actions

While there are many unknows (e.g. tariff %, business responses) immediate action is needed to estimate the impact, regularly monitor and update projections, and make strategic decision to mitigate the impact.

Policy Language

- Consider revising policy language to account for tariff-adjusted valuations and potential exclusions related to supply chain disruptors

Product and Underwriting

- Assess and refresh (as needed) current product principles
- Update monitoring metrices to include tariff related diagnostics

Actuarial Reserving

- Assess impact on current unpaid claim liabilities and incorporate into IBNR estimates; monitor and adjust over time
- Document for auditors
- Make appropriate disclosures in financials

Pricing

- Update baseline pricing models with forecast trend assumptions
- Update predictive models with tariff related variables
- Prepare documentation supporting indicated rate changes

Policyholders

- Clearly communicate premium increases and coverage adjustments to members, emphasizing the factors driving these changes

Baseline Forecast

- Build and validate forecast model(s) to assess plan loss ratio and severity trend impact by coverage based on current exposures (e.g vehicle mix of members) from direct impacts
- Consider and incorporate indirect impacts
- Perform sensitivity testing by altering assumptions

Tax strategies and optimization

- Assess impact of tariffs in tax forecasting models to ensure utilization of tax attributes
- Review cross-border business plans for global minimum taxes, transfer pricing, and indirect tax

Robust 'Real Time' Monitoring

- Data-driven 'real time' monitoring to assess cost impact as trade agreements are negotiated and business responses are implemented by country and product
- Feed results into a Dynamic Forecast model

Claims

- Assess changes in parts/material costs and time to repair driven by tariff impacts that impacts claim costs and claim duration
- Develop claims handling action plan to make strategic decisions to mitigate cost impact (e.g. when to total a car)
- Collaborate with external parties (e.g. TPAs) to develop strategies to mitigate costs

05

Actions to Respond

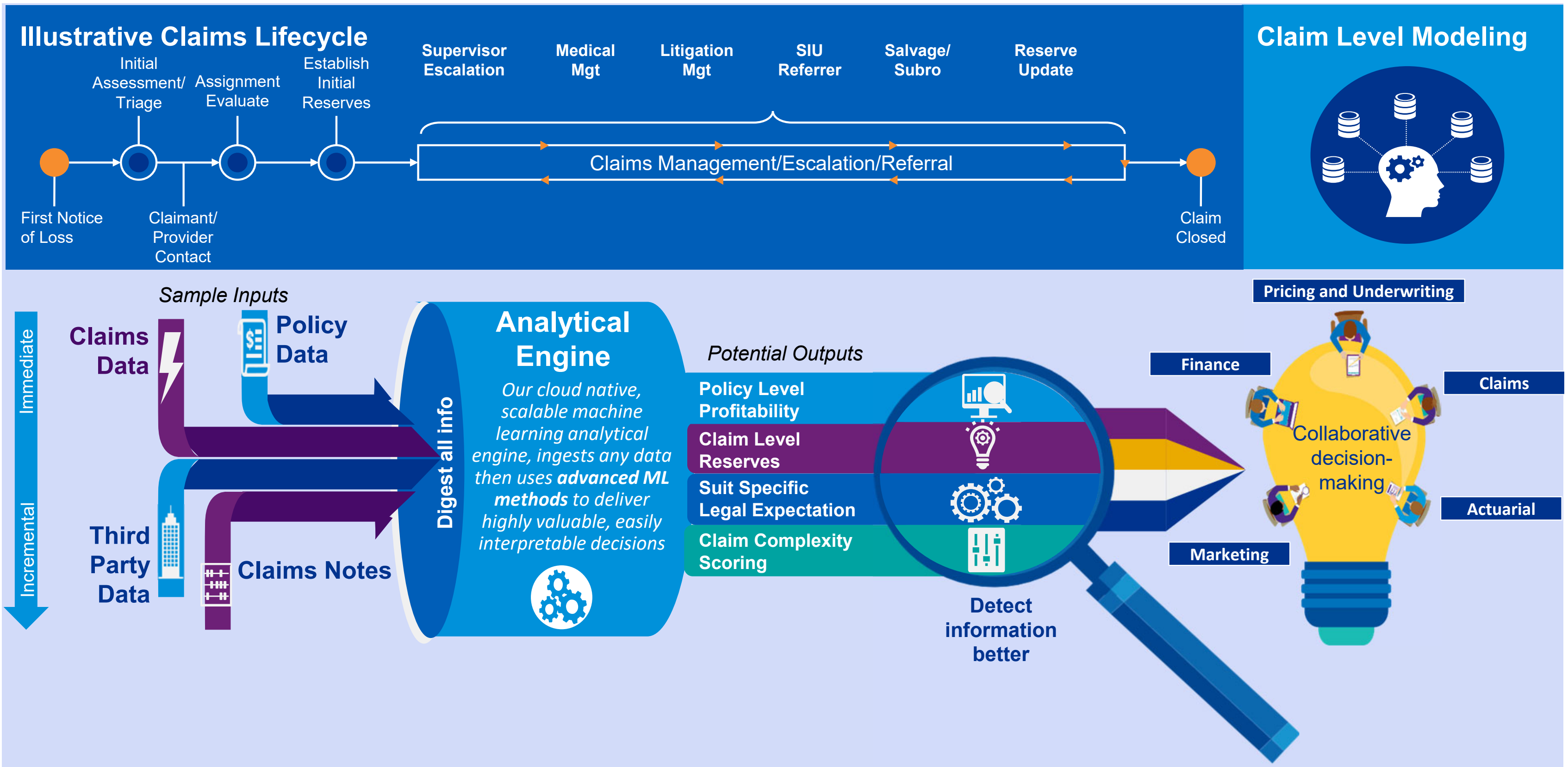
Claim Level Modeling

Claim level modeling leverages big data and state-of-art technologies to provide in-depth claim reserving at the most granular level.

Claim Level modeling differentiates from traditional methods by:

- Mining all available data at once
- Utilizing machine learning techniques
- Detecting hidden predictors
- Insights at the claim and policy level
- Considers reported and unreported claims

- Accelerated recognition of trends
- Growth opportunities
- Improve product risk selection
- Facilitate cross-sharing of decisioning



Service Delivery Model

- To meet the heightened expectations of stakeholders, it is important to assess different types of strategic sourcing models.
- Some goals you may want to achieve include optimizing value derived and risk coverage, gaining access to the right level of skill sets and tools needed to execute your department strategy, and to attain an optimal mix of internal/external resources for staffing flexibility.

In-house model

Company

Company **Company**

Company internally staffs 100% of functions. May rely on contractors or loaned staff for surge support.

Surge support

Co-sourced model

Company & service provider

Company **Vendor**

The service provider would serve as an extension of Company's internal function, working collaboratively with team members of the in-house department as needed. This model has many variations.

Outsourced model

Service provider

Vendor **Vendor**

Service provider performs the functions of the internal company function, providing end-to-end services working closely with, and reporting to, the in-house function lead(s).

Q&A

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