



Episode 17: Insights on U.S. commercial insurance pricing trends

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JARRETT CABELL: Hello, everyone and welcome to (Re)Thinking Insurance. I'm your host Jarrett Cabell. So today, I'm delighted to be joined by my guest Jeff Carlson and Yi Jing. Jeff leads Willis Towers Watson's point of view initiative monitoring all major US lines of P&C insurance and maintaining viewpoints on industry trends affecting financial results. Jeff specializes in P&C reserving, consulting, serving as the appointed actuary for many companies over the years. Jeff also leads the team that provides guidance and training to all of our consultants that issue reserve opinions.

Yi leads Willis Towers Watson Commercial Lines Price Survey within Willis Towers Watson Insurance, Consulting and Technology division. She specializes in P&C reserving, M&A due diligence, large account pricing, and capital modeling. Yi also leads the firm's point of view on the workers compensation line. Good afternoon, Jeff and Yi. How's it going today?

JEFF CARLSON: Oh, it's going great. Thanks. Great to be here with one of my favorite actuaries, Yi Jing.

YI JING: Thanks, Jeff. Glad to be here too with two of my favorite actuaries.

JARRETT CABELL: Oh. Thanks. Thank you. Appreciate that. So certainly, commercial lines pricing is certainly a hot topic right now amongst underwriters, actuaries, and insurance professionals. And

Willis Towers Watson's Commercial Lines Pricing Survey or CLIPS is one way in which this pricing is monitored. And Jeff and Yi, I know you both have extensive experience working in and providing solutions in this space. I'm very excited to be speaking with you today on all of this.

But before we dive into that discussion, I wanted to find out a little bit more about both of you. So I did a little bit of research here within Google. So if we start with you, Jeff, I see a couple of interesting things. So I see an American science fiction and thriller author. I see an ice hockey and American football player with your namesake. I see an accomplished New York City real estate professional. So there's a lot there. But what would you like to come up when one Googles Jeff Carlson?

JEFF CARLSON: I'd like you to find lots of plaudits about Jeffrey D. Carlson, who is a brilliant PhD mathematician. He's a professor. And I'd like you to hope that that's me moonlighting from my day job as an actuary. Because I'm Jeffrey R. Carlson.

JARRETT CABELL: Ah, not D.

JEFF CARLSON: No.

JARRETT CABELL: And Yi, if I go with you, so I do see an article on claim reserving co-authored by you. I see an actress. I see an asset-based lending field examiner. Again, kind of run the gamut there. So what would you like Google to reveal about you?

YI JING: Well, I was hoping that you won't find me on Google. And I was actually suspecting that you may not be able to find me because it's a Chinese name. It's kind of short and simple, especially when you spell it in English letters. I'm sure there are many Chinese words that have the exact or same spelling as my name. So I was hoping you may not be able to find me. But that's a fact you do find me with some kind of article.

JARRETT CABELL: Yeah, did a little bit of digging there. Did a little bit.

YI JING: Yeah.

JARRETT CABELL: So thanks, everybody. So I guess, Yi, could you give our listeners here, I guess, a little bit of background on the commercial lines pricing survey.

YI JING: Sure. Well, Commercial Lines Insurance Pricing Survey, we usually call it CLIPS. You know? That's the short name for that. That's a survey we generally do on a quarterly basis. We use the survey to collect actuarial pricing data from those participating insurance companies. And then we aggregate it using the data the company submitted. And that will help us understand the sort of general pricing movement in the insurance industry.

So we have been getting the historical change in the prices and as well as the loss costs. And what we do is compare that to the same period in the prior year. So that will give us the price movements. And we currently have about 40 companies participating in the survey. They do vary by size. And then the information we gather from the participants are at by line of business. And we also have information varying by size of the accounts. So that's how generally they submit their information.

The lines of business we cover in the survey are major commercial lines by the name. They generally include workers comp, commercial auto, commercial multi-peril, general liability, excess, and some specialty lines, which is, you know, D&O and professional liability. So usually, we publish our overall results at a high level early March, June, September, and December. And then it's no cost for the insurance companies to participate other than they have to certainly take efforts to get data and then submit the data to us.

But as a benefit, each participant does get a customized report that has a bit more details for the lines they submit data for. So I would add the number of participants had been relatively stable in the recent years. However, I actually have seen some increased sort of interest in participating from insurance companies. I've also seen increased interest from other parties because we do have other parties, like investment analysts. They use that information as they follow the insurance industry.

JARRETT CABELL: OK.

JEFF CARLSON: Yeah, and I might add, just because I've been around a little longer than Yi, but we sat around talking about putting together this survey back in 2004. And then we started it off in 2005. So it's been, what, 16 years now.

JARRETT CABELL: Oh, yeah.

JEFF CARLSON: And we felt at the time it probably was a gap in sort of industry market information on pricing and pricing trends. There were some sort of broker-based surveys out there. But we felt that if we could do something a little different, get information directly from the insurance companies directly from the underwriter who are providing the coverage, that would maybe give us a little different spin on things and maybe a more accurate view on what the price changes—

JARRETT CABELL: Right.

JEFF CARLSON: --really are. Most companies are monitoring their price changes anyway if they're managing their business well. And it started a little slow, but it grew pretty quickly. And we've been well over 30 participants for many, many years now. And like Yi said, very recently now interest seems to be going up again.

YI JING: Yep.

JARRETT CABELL: Sounds like there's a lot there. Are there trends that you all have observed with commercial insurance prices?

YI JING: Sure. As Jeff kind of mentioned, we started the survey back in 2004, so it's been quite a few years. If I had to plot these many years or quarters of rate changes on the chart, you can certainly see the underwriting cycles from that. So when we started the survey, the industry had pretty solid rate increase back in 2003 or '04. And then and then the rates started to decrease or flatten. And that kind of happened until 2010. And then between 2011 and 2019, the industry kind of has achieved, on average, some modest rate increases.

However, in 2020 we have seen the kind of most significant rate changes since we started the survey. I think, on average, the results showed that we achieved about an average of 10% rate increase in the last three quarters of 2020. And then pretty much most of the served lines have achieved a fairly large rate increases.

In terms of what's driving it, I just want to point out we get the actual price change from the participants, but we certainly don't get information about why they have those rate changes, right? So we get the numbers, but from our point of view, we think the most recent rate increases we've seen are pretty much driven by-- I mean, it varies by line, right? But it's, generally, the performance of the line of business. There are concerns out there about social inflation, especially for long-tail lines. And then we have property lines, which are generally short-tail, but there have been quite some number of natural catastrophe events in the past few years.

JARRETT CABELL: Right, right.

YI JING: So we think these trends could be driven by those factors.

JEFF CARLSON: Right and then there are some lines, though, that have been outliers over time that are probably worth noting. So for instance, workers' compensation, back around 2015, workers' comp started seeing some negative price changes, more so than any other line. And those price decreases have continued to the present day. So we've got six, seven years running of price decreases for workers' comp.

Whereas most every other line of business has had price increases for the last several years. And again, like Yi said, participants don't tell us why worker's comp is different. But our view is that the price changes are probably following the financial results of the line. And workers' comp was unique in that back in the early parts of the prior decade it was starting to see some favorable trends. Loss cost trends coming in lower than expected. Frequency continuing to decline. Severity trends coming in low, low inflation. And then also the loss development was not emerging as expected. So the patterns are getting shorter for those of you that work with loss development issues.

And I think gradually companies recognized these improvements, which continued to come in year after year. And they probably concluded that their prices really had been more adequate than they had planned. And then that tends to lead to them making adjustments to the prices. So workers' comp has been going a different direction than most of the other lines of business in recent years.

And another outlier, unfortunately, in the other direction is commercial auto. So commercial auto, back 10 years ago, approximately, price changes started turning positive, just like other lines were at the same time. But then as the other lines went down again in the price changes, commercial auto never did. It continued to have very strong price increases, again, up to the present day. And in the last couple of years, we're seeing double digit price increases quarter after quarter in this line. And probably the same causes as workers' comp, but in the opposite direction. Because the whole industry just saw some bad adverse loss trends in that line of business, both plan frequency and claim severity. And it's taken a long time for companies to catch up with that. They've been gradually raising

prices, but the trends have continued poorly. And so still catching up. In our viewpoint, outside of CLIPS, but our viewpoint is that for the commercial auto line, there's still a little more catching up to do.

YI JING: Yeah. I just wanted to add that a couple of other outliers we saw in 2020 are in the lines, like excess liability, D&O, and general liability. Those lines have at least reported very, very significant rate increases in 2020 year. So much higher than some other lines we've seen.

JARRETT CABELL: Did note earlier that the CLIPS information is also collected at the account size level. What pricing trends have you observed for small, mid-market, large accounts? Essentially, trends by policy size.

JEFF CARLSON: So what we've noticed, and if you look at it over the long-term it becomes pretty obvious, is that the large accounts pricing cycle, if you will, the ups and downs in the price changes, tend to have a lot, I guess what I'd call, a greater amplitude than the smaller accounts. So in times of rising prices, the large accounts tend to have the largest price increases. And then similarly in times of lower price changes or even price decreases, large accounts tend to have the lowest price changes. At the bottom of the last cycle, which was within 2016, small accounts average price changes never got down to zero. They never went negative. So they've been getting positive all the way along. But for large accounts, according to our survey, average price changes were negative for 10 consecutive quarters during that period.

So in terms of explaining that, I think my general personal viewpoint is that the large account market, I just think it tends to be more price competitive than for smaller accounts. And so when times are good, the companies are really going after that business. But then sooner or later, that's going to come back. And they have to make up for it with the price increases.

JARRETT CABELL: Very, very interesting observations there both of you all have shared. Thank you so much, Jeff and Yi, for your time today. I think this was a very engaging discussion.

YI JING: Thanks, Jarrett. Thanks for having us today. It's a great opportunity to say a few words about CLIPS.

JEFF CARLSON: Yeah, appreciate it, Jarrett. Our pleasure. And you're doing a great job hosting.

JARRETT CABELL: Definitely appreciate that, you all. And thank you, everyone for joining this episode. And we look forward to you listening to us again on (Re)Thinking Insurance.

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