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It's Strategy Time:
Is Your Underwriting Appetite
Positioned for Profitable Growth?

Verisk Webinar Series
Presented by Underwriting Solutions

6/06/2022

Today's Speaker

Eric Price-Glynn

Senior Principal and Head of the Division
MarketStance, a Verisk Business

Eric oversees the development of tools that provide highly granular estimates of market opportunities in commercial lines.

He specializes in analyzing the consequences of macroeconomic and social trends for lines of business by location, size, and industry of account, and capitalizing on the breadth of available data for modeling commercial lines.

Strategy, Underwriting Appetite, and Market Data

Commercial Market Underwriting Appetite
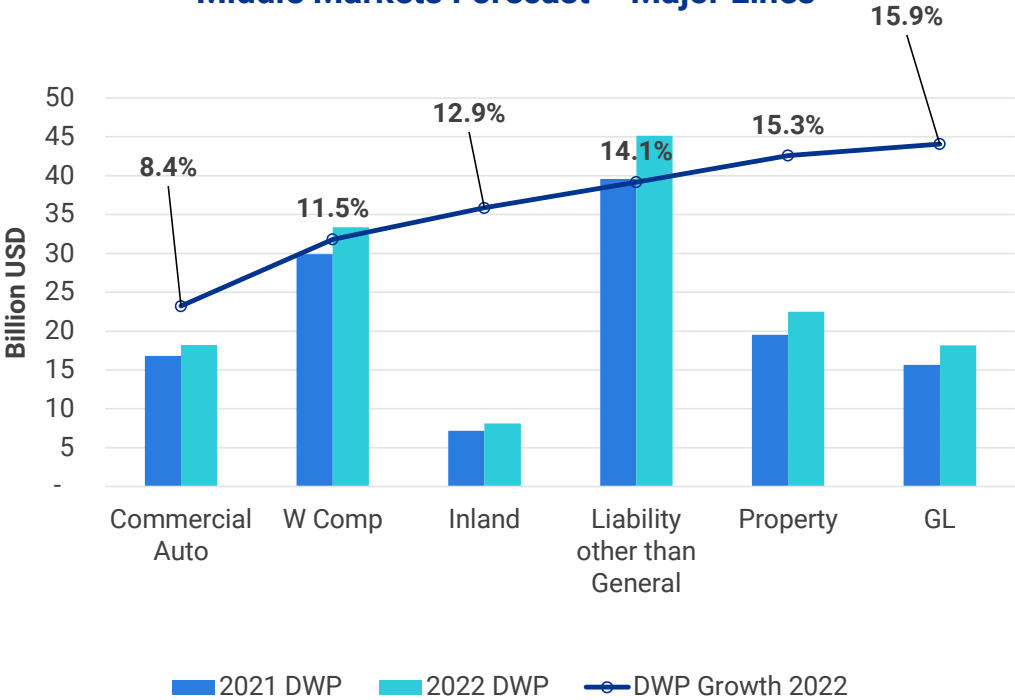
A key strategic* output

What is your underwriting appetite?

- Lines of business
- Account sizes
- States/counties
- Classes of business

Given your underwriting appetite

- What makes your products distinctive?
- What capabilities give you a competitive advantage?
- How will you sustain these advantages?

*See David Kryscynski, "What is Strategy?"
(https://www.youtube.com/watch?v=TD7WSLeQtVw)

Middle Markets Forecast – Major Lines

Legend: 2021 DWP | 2022 DWP | DWP Growth 2022

Chart values (growth line): 8.4%, 11.5%, 12.9%, 14.1%, 15.3%, 15.9%

Categories: Commercial Auto, W Comp, Inland, Liability other than General, Property, GL

Y-axis: Billion USD

Source: Verisk / MarketStance

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Commercial Lines Strategy
Rethinking Risk Post-Pandemic

Strategic planning is expected to be even more vital for commercial lines insurers post-pandemic given the scope of the disruption and the still-evolving nature of the threat.

The Challenge for Commercial Lines:
Growing Profitably in a Dynamic Market

Only 13 percent of carriers believe they have the data needed to effectively drive strategy and growth initiatives*

48 percent of carriers require better data resources and visualization tools**

Respondents of a 2019 SIR study defined the primary functions of market research as:				
Driving informed business decisions	Expanding the viewpoint and perspectives of senior management and other departments	Representing the voice of the customer	Identifying new business opportunities	Driving change

*PC360 and ISO MarketStance 2019 Survey

**Society of Insured Research (SIR) and Zeldis Research 2019 Survey

Market Data
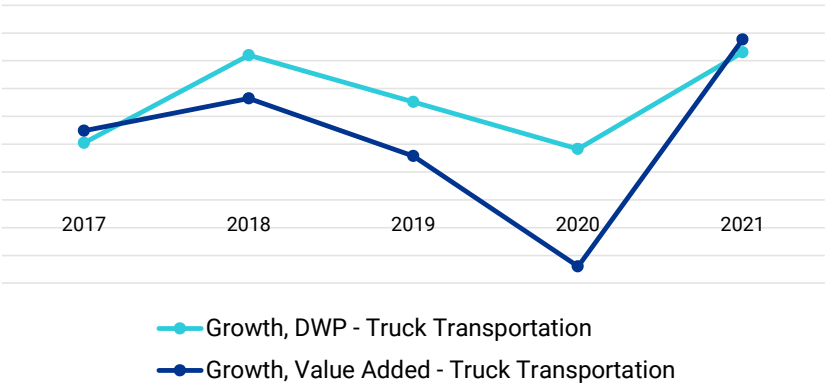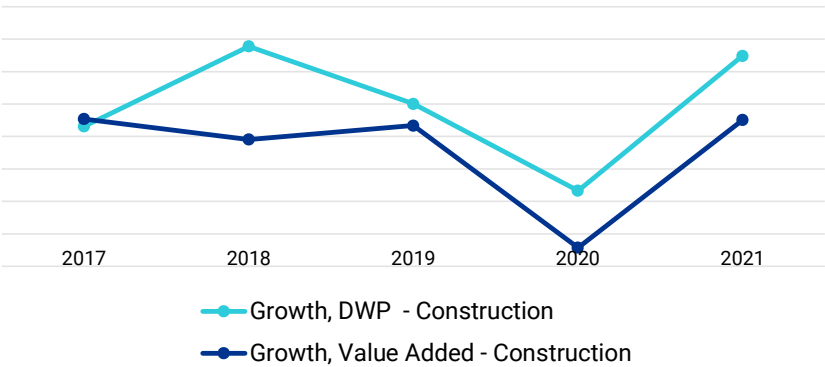
Where does it come from now?

Book of business

Annual statements

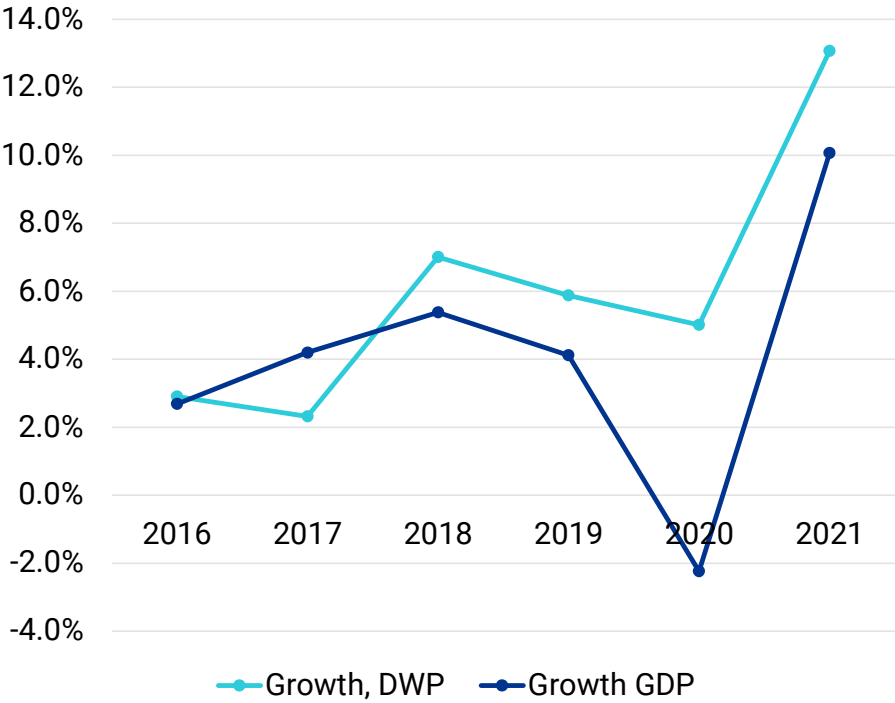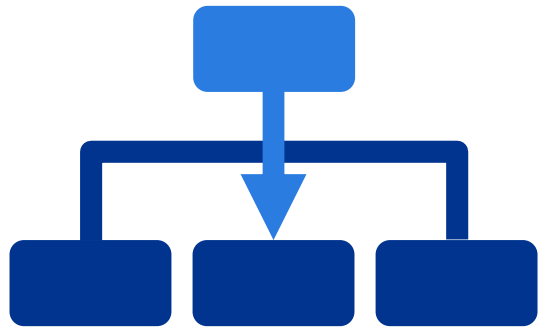Economic forecasts

Surveys and specialty publications

Understanding the Market: Top-Down or Bottom-Up?

GDP, Commercial Lines DWP Growth Is Well Correlated . . .

Growth, DWP — Growth GDP

Growth, DWP - Construction — Growth, Value Added - Construction

Growth, DWP - Truck Transportation — Growth, Value Added - Truck Transportation

Source: Verisk / MarketStance, U.S. Bureau of Economic Analysis

. . . But Correlations Are Weaker in Critical Sectors

Growth, DWP - Manufacturing
Growth, Value Added - Manufacturing

2017 2018 2019 2020 2021

Growth, DWP - Real Estate
Growth, Value Added - Real Estate

2017 2018 2019 2020 2021

Growth, DWP - Health Care
Growth, Value Added - Health Care

2017 2018 2019 2020 2021
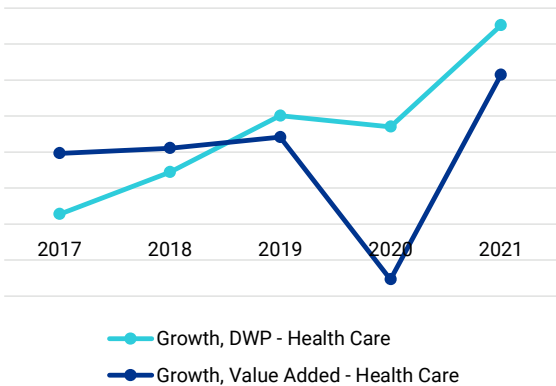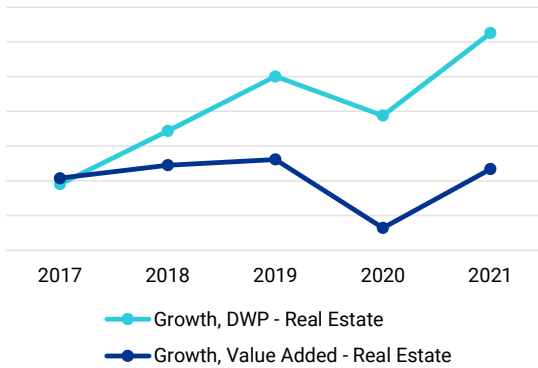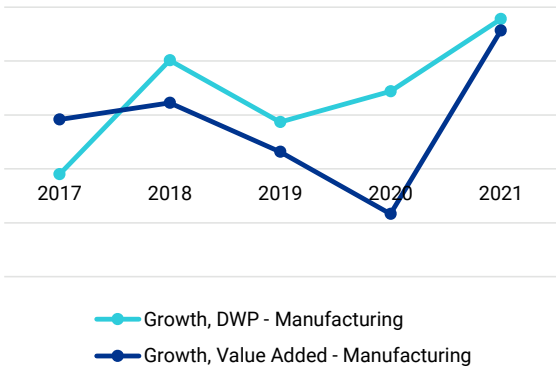
GDP growth, Total CL premium growth well-correlated (0.70)

Some key correlations:
- Construction (0.76)
- Trucking (0.94)

Several CL drivers, less so
- Manufacturing (0.49)
- Health Care (0.37)
- Real Estate (0.22)

Top-down GDP forecasts may provide less actionable information for CL

Source: Verisk / MarketStance, U.S. Bureau of Economic Analysis

US Commercial Lines Forecast
Source: Verisk / MarketStance

US Commercial Lines DWP 2017-24

Legend:
- ■ Growth, US Commercial Lines DWP
- — Total, US Commercial Lines DWP (billions)

Data points:
- 2017: 2.3%, $265
- 2018: 7.0%, $284
- 2019: 5.9%, $301
- 2020: 5.0%, $316
- 2021: 13.1%, $357
- 2022: 11.8%, $399
- 2023: 8.8%, $434
- 2024: 7.2%, $465

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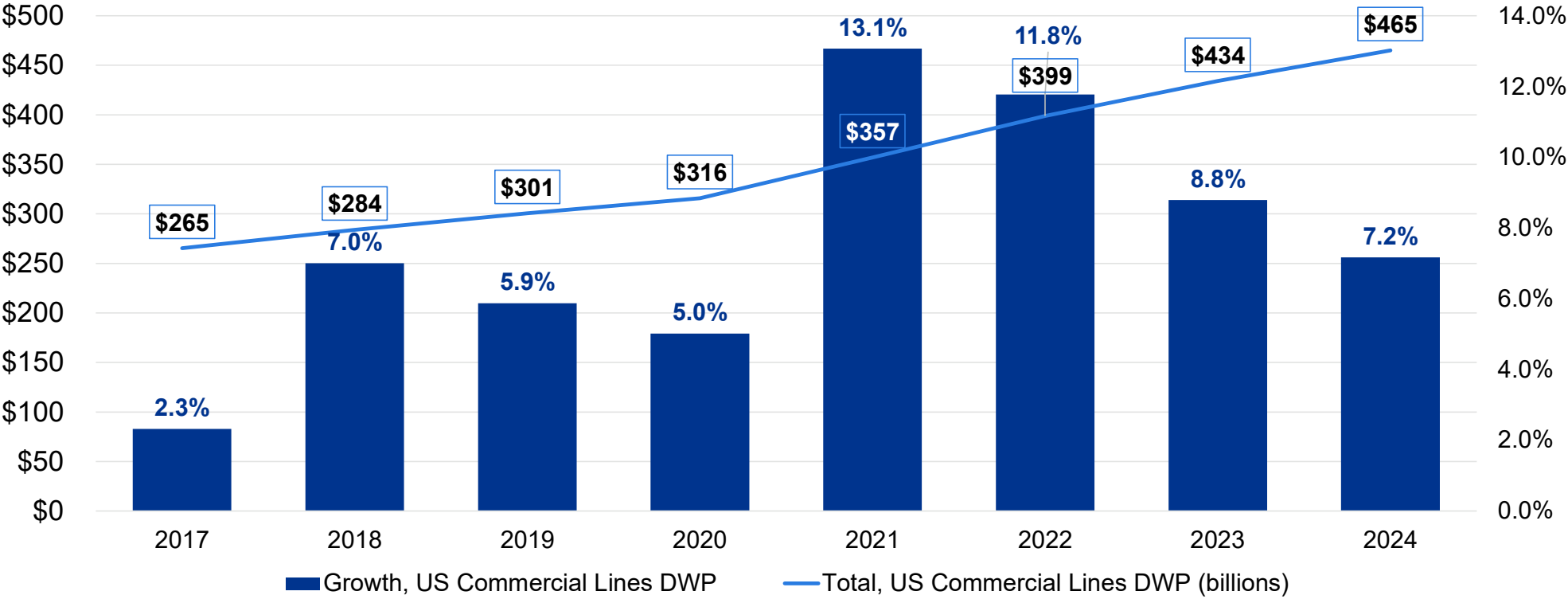
US Commercial Lines Forecast
A bottom-up approach

- Over 4.5 million risk clusters, anchored in the bedrock of federal business statistics, industry data
  - Size
  - County
  - Industry

- For each risk cluster:
  - Premium and exposure base forecasts by LOB, including core, specialty
  - Credibility adjusted reference year losses for core (excluding workers' compensation) and composite

- Updated / refined monthly

- Benchmarked to annual statements, supplements
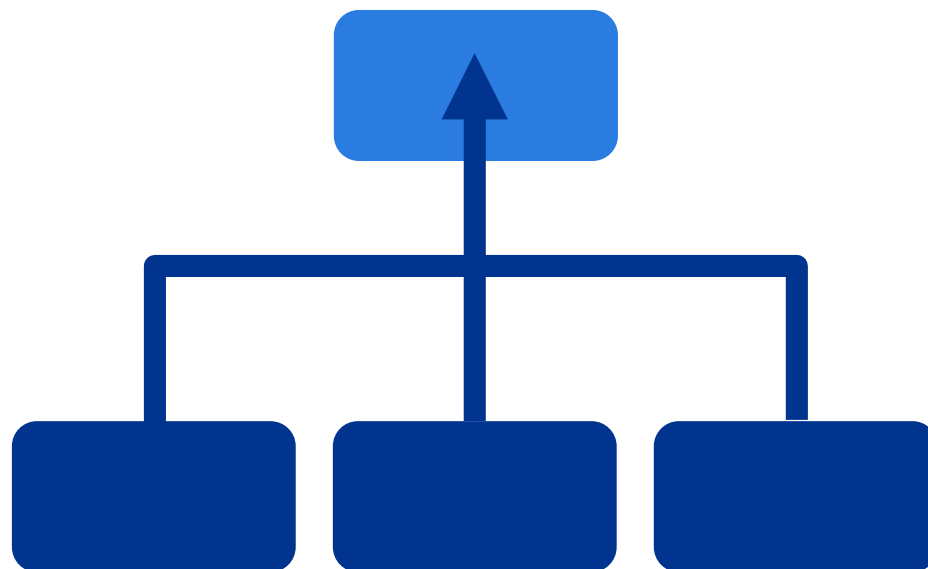
Needed: Actionable Market Information

US Commercial Lines Forecast by 1-Digit Industry
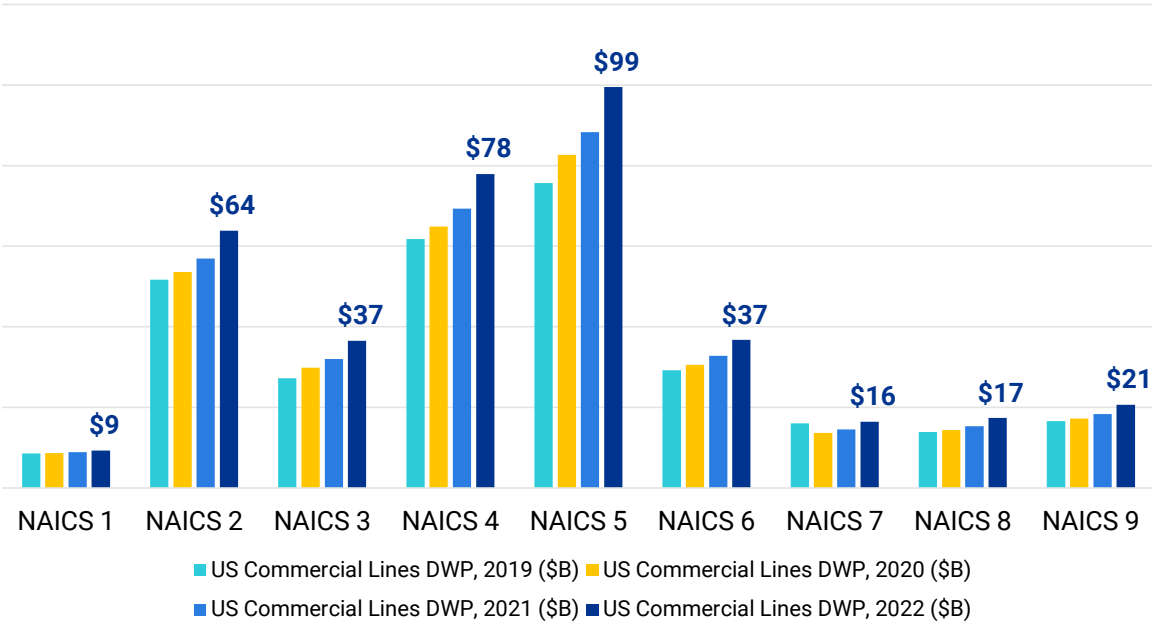
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Chart legend:
- US Commercial Lines DWP, 2019 ($B)
- US Commercial Lines DWP, 2020 ($B)
- US Commercial Lines DWP, 2021 ($B)
- US Commercial Lines DWP, 2022 ($B)

Values shown (2022, $B): NAICS 1: $9; NAICS 2: $64; NAICS 3: $37; NAICS 4: $78; NAICS 5: $99; NAICS 6: $37; NAICS 7: $16; NAICS 8: $17; NAICS 9: $21

NAICS 1: Agriculture, Forestry, Fishing and Hunting
NAICS 2: Construction, Utilities, and Mining
NAICS 3: Manufacturing
NAICS 4: Trade, Transportation, and Warehousing
NAICS 5: Information, Finance, Insurance, and Real Estate and Rental and Leasing, and Professional and Business Services

NAICS 6: Educational Services, Healthcare, and Social Assistance
NAICS 7: Arts, Entertainment, Recreation, Accomodation, and Food Service
NAICS 8: Other Services
NAICS 9: State and Local Government

Key insights:

- High COVID-impact sectors -- restaurants, hotels, entertainment, personal services (NAICS 7 & 8) <u>not</u> CL premium drivers

- Core CL sectors – NAICS 2, 4, 5 – 2021 growth expected to be 6.3% versus 4.2% in 2020, accelerating to ~f12% in 2022

- Core CL outgrew the rest of the market in 2020 by 3.9 percent

- 2021-22 *far more broadly based* both core/noncore growing ~12 percent in 2022

Understanding and acting on industry, geographic differences and tailwinds can help make all the difference in growing top-line DWP

Source: Verisk / MarketStance

2020 Small Commercial Account Growth, Profitability by 1-Digit Industry

Growth Rate, Insured Businesses, 2020
Growth Rate, Insured Businesses, 2021
Composite loss ratio (GL, BOP)
Composite loss ratio (Auto, GL, BOP)

NAICS 1: Agriculture, Forestry, Fishing and Hunting
NAICS 2: Construction, Utilities, and Mining
NAICS 3: Manufacturing
NAICS 4: Trade, Transportation, and Warehousing
NAICS 5: Information, Finance, Insurance, and Real Estate and Rental and Leasing, and Professional and Business Services

NAICS 6: Educational Services, Healthcare, and Social Assistance
NAICS 7: Arts, Entertainment, Recreation, Accomodation, and Food Service
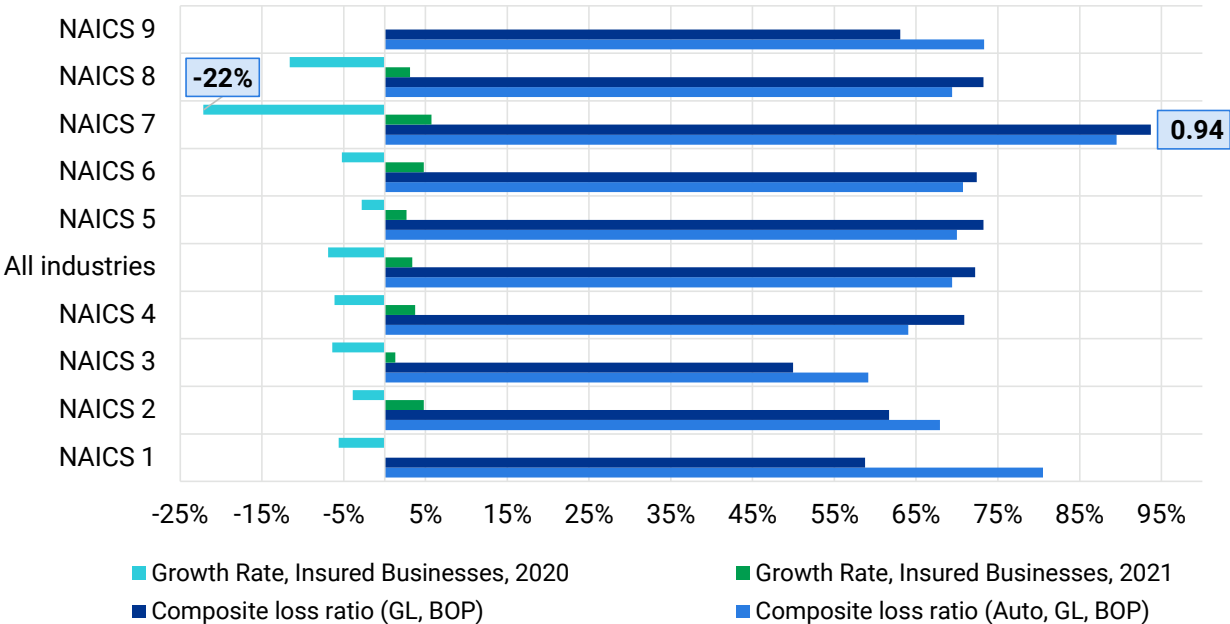**NAICS 8:** Other Services
NAICS 9: State and Local Government

Key insights:

- Over 400k small commercial (1-49 employee) accounts were lost in 2020 – about half of them in NAICS 7 & 8

- Small commercial accounts in high COVID-impact sectors (restaurants, hotels) have had profitability challenges, pre-COVID (composite LR>0.9)

- Apart from construction, commercial auto did not drive small commercial composite (GL, BOP, Auto) loss experience prior to the pandemic

MarketStance Growth and Profitability Sample: Select Contractors

General Liability DPW (bil.)
Select Contractors

- 2016: $1.1
- 2017: $1.1
- 2018: $1.2
- 2019: $1.4
- 2020: $1.7
- 2021: $2.0
- 2022: $2.2
- 2023: $2.4
- 2024: $2.6

2022 Growth, DWP (vertical axis, 0%–18%)
GL Loss Ratio (horizontal axis, 0.30–0.90)

Bubbles:
- Lawn and Garden Services (SIC 078200)
- Other Plumbing, Heating, and Air-Conditioning Contractors (SIC 171100)
- Carpentry Work Special Trade Contractors...
- Excavation Work (SIC 179400)
- Finish Carpentry Contractors (SIC 175110)
- Floor Laying and Other Floor Work, N.E.C. (SIC 175200)
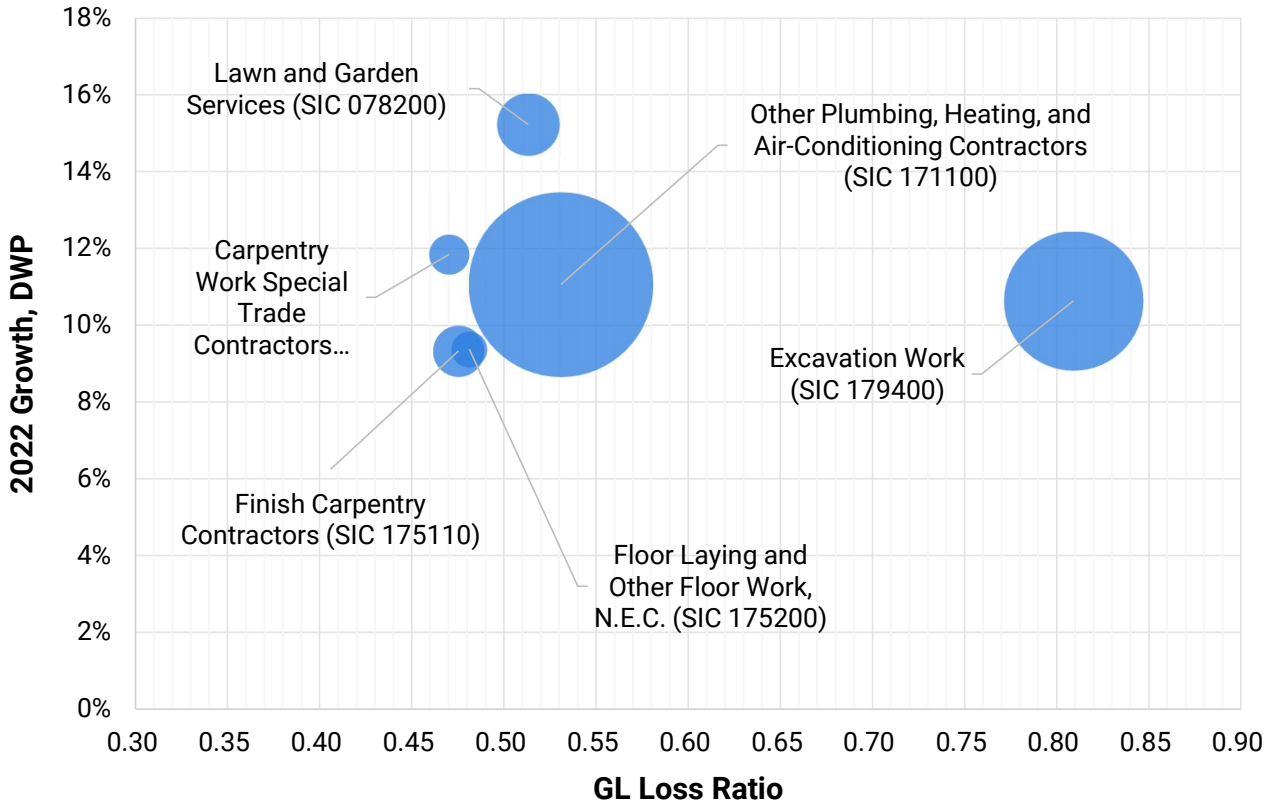
*Source: Verisk / MarketStance*

Your Appetite and Start-Up Activity

Historically Strong Business Formation 2022-23

Reflects U.S. Census projections of new business formation in the next 4-8 quarters

South leading the way, but all regions are far above average

2-Year Business Formation, U.S. Regions

■ Pct. (+/-) long-term average since April 2020

- Northeast 12%
- Midwest 17%
- West 20%
- All Regions 23%
- South 35%
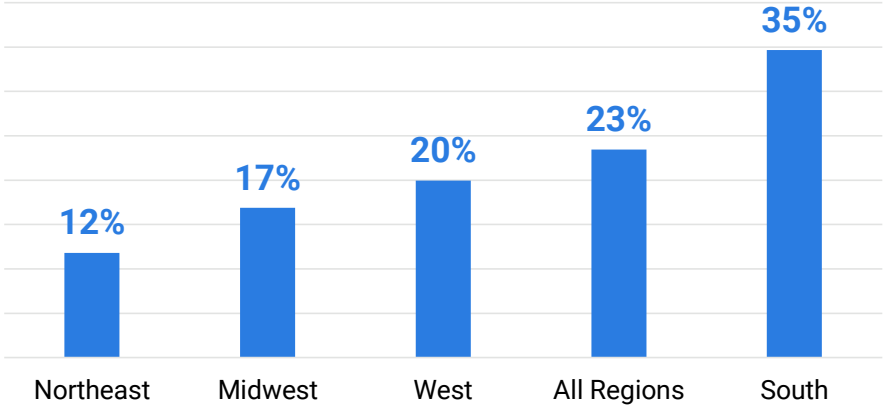
2-Year Business Formation, Select Industries

■ Pct. (+/-) long-term average since April 2020

- Wholesale Trade -15%
- Manufacturing -8%
- Accomodation and Food Service -2%
- Construction 16%
- Professional Services 18%
- Retail Trade 22%
- All Industries 23%
- Health Care and Social Assistance 26%
- Real Estate 31%
- Administration & Support 37%
- Other Services 40%
- Transportation & Warehousing 87%
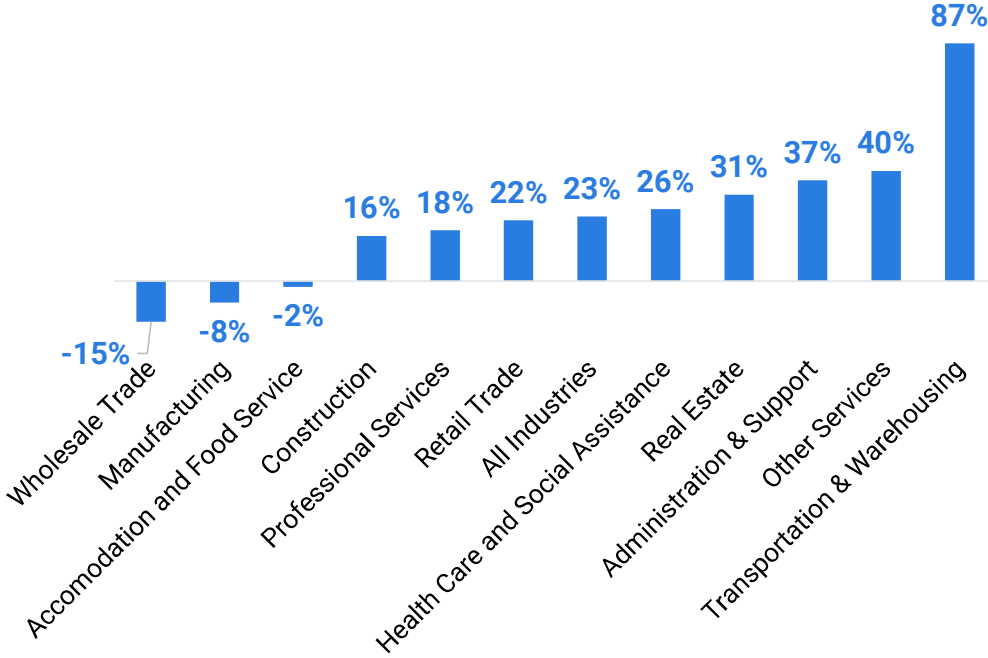
Source: U.S. Census Bureau

A Closer Look at Business Formation and the Top Five Commercial Lines Sectors

- Emphasis of top-line premium growth

- **Competing over new business**
  - Transportation

- **Competing over existing accounts**
  - Manufacturing, health care

**United States:
2-year business formation rate**

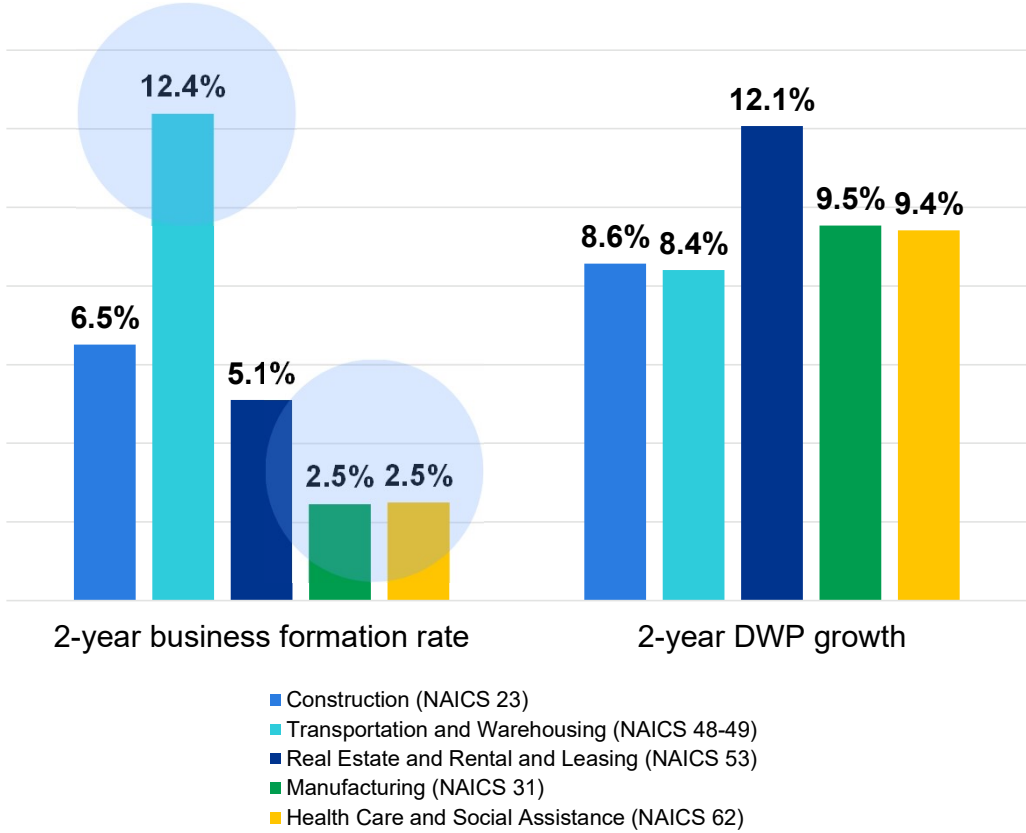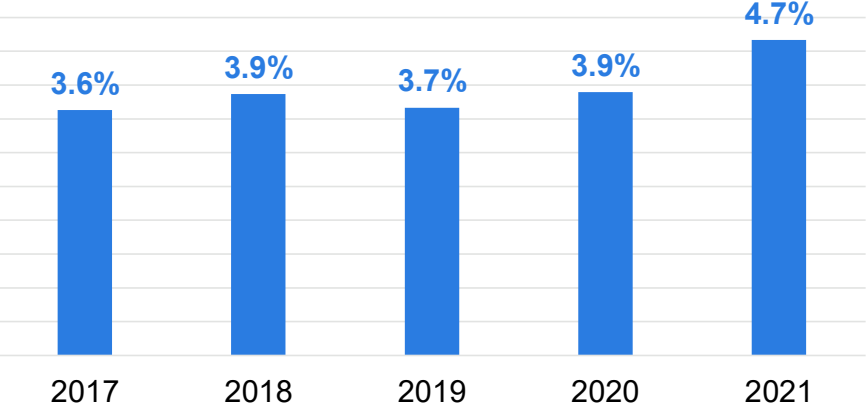| Year	Rate
2017	3.6%
2018	3.9%
2019	3.7%
2020	3.9%
2021	4.7%

2-year business formation rate

- Construction (NAICS 23): 6.5%
- Transportation and Warehousing (NAICS 48-49): 12.4%
- Real Estate and Rental and Leasing (NAICS 53): 5.1%
- Manufacturing (NAICS 31): 2.5%
- Health Care and Social Assistance (NAICS 62): 2.5%

2-year DWP growth

- Construction (NAICS 23): 8.6%
- Transportation and Warehousing (NAICS 48-49): 8.4%
- Real Estate and Rental and Leasing (NAICS 53): 12.1%
- Manufacturing (NAICS 31): 9.5%
- Health Care and Social Assistance (NAICS 62): 9.4%

Legend:
- Construction (NAICS 23)
- Transportation and Warehousing (NAICS 48-49)
- Real Estate and Rental and Leasing (NAICS 53)
- Manufacturing (NAICS 31)
- Health Care and Social Assistance (NAICS 62)

Sources: U.S. Census Bureau, U.S. Bureau of Labor Statistics, Verisk / MarketStance estimates

Your Appetite and Construction

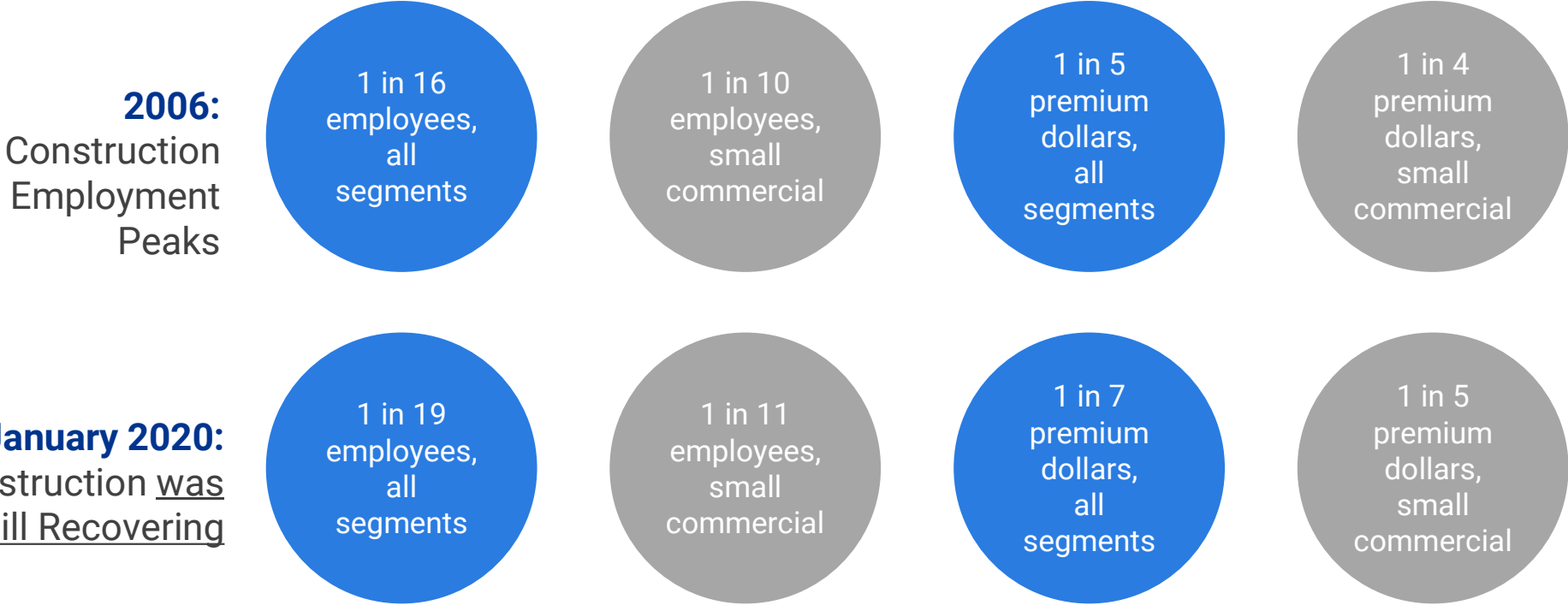# Before COVID, Construction Below Prior Peaks . . .

Nonfarm employees, construction employees (000s)
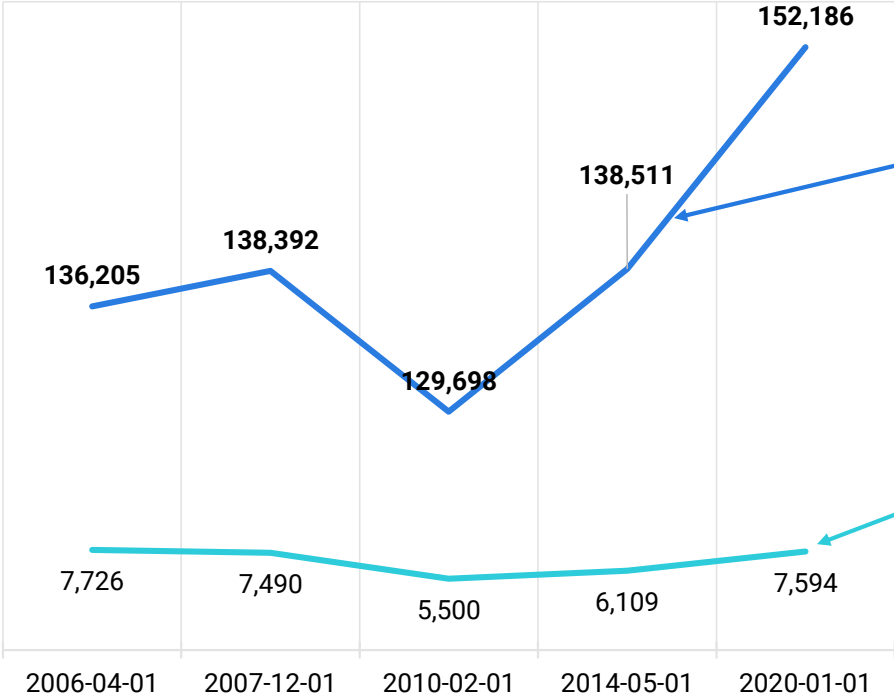
Nonfarm employment: *Surpasses previous peak May 2014*

Construction employment: *Still below previous peak, pre-pandemic*

Data points:
- 136,205 (2006-04-01)
- 138,392 (2007-12-01)
- 129,698 (2010-02-01)
- 138,511 (2014-05-01)
- 152,186 (2020-01-01)
- 7,726 (2006-04-01)
- 7,490 (2007-12-01)
- 5,500 (2010-02-01)
- 6,109 (2014-05-01)
- 7,594 (2020-01-01)

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Source: U.S Bureau of Labor Statistics

...As a Result, the Pre-COVID CL Market Is Less Construction Dense

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2006: Construction Employment Peaks

- 1 in 16 employees, all segments
- 1 in 10 employees, small commercial
- 1 in 5 premium dollars, all segments
- 1 in 4 premium dollars, small commercial

2018-January 2020: Construction <u>was</u> Still Recovering

- 1 in 19 employees, all segments
- 1 in 11 employees, small commercial
- 1 in 7 premium dollars, all segments
- 1 in 5 premium dollars, small commercial

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Source: Verisk / MarketStance

Residential Market Was Primed For Growth in 2022

Chart y-axis values: 350, 300, 250, 200, 150, 100, 50, -

Chart x-axis labels: 1990Q4, 1992Q2, 1993Q4, 1995Q2, 1996Q4, 1998Q2, 1999Q4, 2001Q2, 2002Q4, 2004Q2, 2005Q4, 2007Q2, 2008Q4, 2010Q2, 2011Q4, 2013Q2, 2014Q4, 2016Q2, 2017Q4, 2019Q2, 2020Q4

Legend:
— Homeowner Vacancy Rate for the United States (NSA)
— Rental Vacancy Rate for the United States (NSA)
— S&P/Case-Shiller U.S. National Home Price Index (NSA)
— CPI-U Owners' Equivalent Rent of Residences in U.S. City Average (SA)
······ Linear (S&P/Case-Shiller U.S. National Home Price Index (NSA))
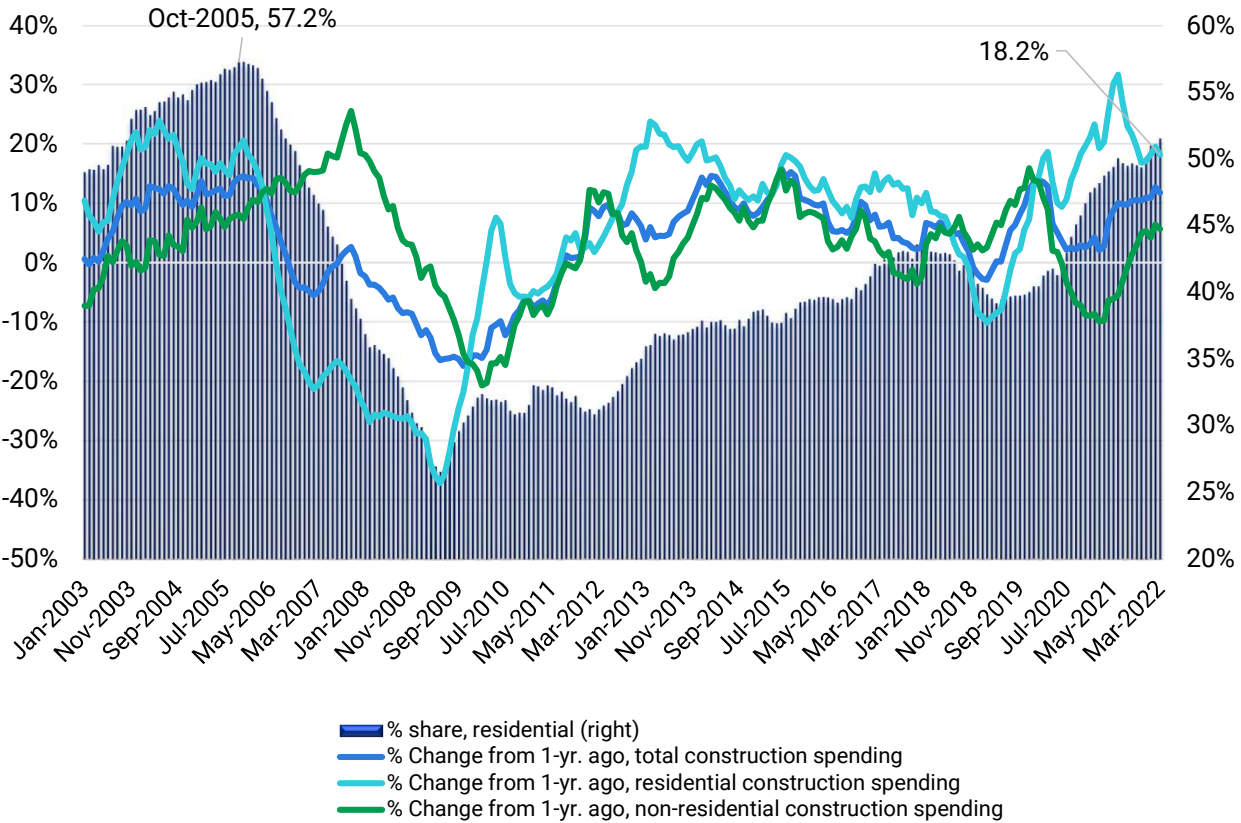······ Linear (CPI-U Owners' Equivalent Rent of Residences in U.S. City Average (SA))

Key insights:
- US home prices on a tear since 2013
- Rising price/rent ratio suggests housing bubble
- Vacancy rates at multi-decade lows, unlike Great Recession
- **New construction – and new construction accounts – are likely the key to rebalancing the market**

Sources: U.S. Census Bureau, S&P, U.S Bureau of Labor Statistics

No Surprise: Residential Construction Spending Has Been the Leader

Oct-2005, 57.2%

18.2%

- % share, residential (right)
- % Change from 1-yr. ago, total construction spending
- % Change from 1-yr. ago, residential construction spending
- % Change from 1-yr. ago, non-residential construction spending

Residential – big driver for 2021 and 2022

Residential construction spending typically averages 41 percent of total

Residential 51.5 percent of total construction by March 2022 – although below the peak of 57.2 percent in 2005

Y/Y residential construction growth averaging 19.2 percent since pandemic

Y/Y non-residential growing 6 percent

Source: U.S. Census Bureau

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Construction Accounts Showing Strong Growth Through the Pandemic
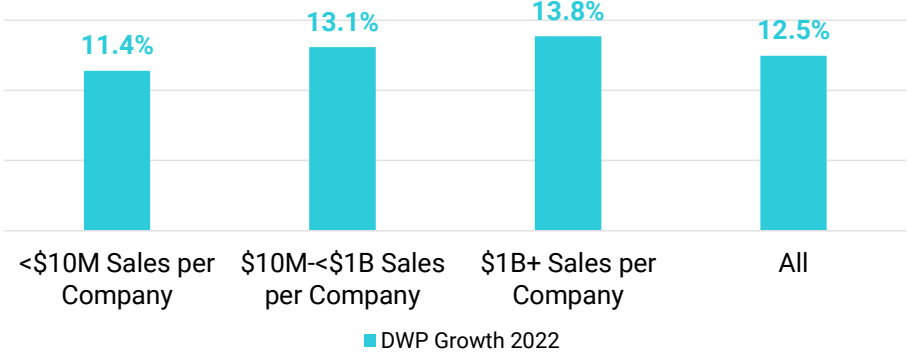
2022 Construction Growth and Profitability

Heavy and Civil Engineering Construction, 7.6

Nonresidential Building Construction, 4.9

Specialty Trade Contractors, 27.7

Residential Building Construction, 6.1

DWP Growth (y-axis): 10.0%, 10.5%, 11.0%, 11.5%, 12.0%, 12.5%, 13.0%

Composite Loss Ratio - Auto, GL, BOP (x-axis): 64%, 66%, 68%, 70%, 72%, 74%, 76%, 78%, 80%
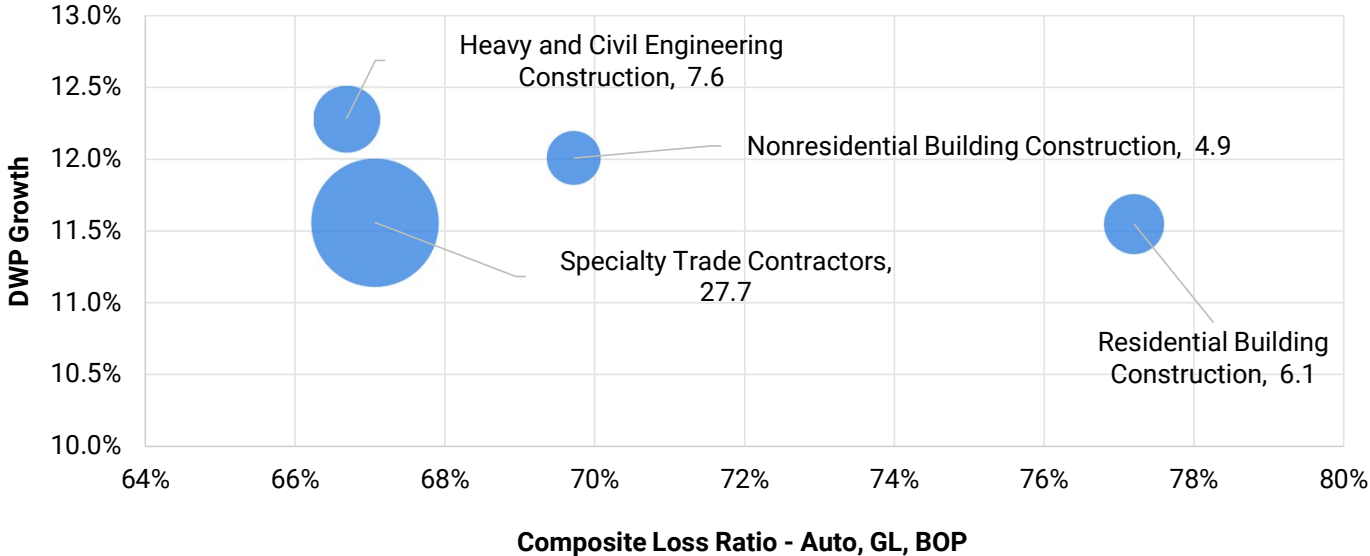
Key insights:

- Specialty trades, residential construction premiums growing 10%+ this year

- Residential construction historical loss experience about 6 points worse on a composite basis

- Residential new account growth may pose a profitability challenge
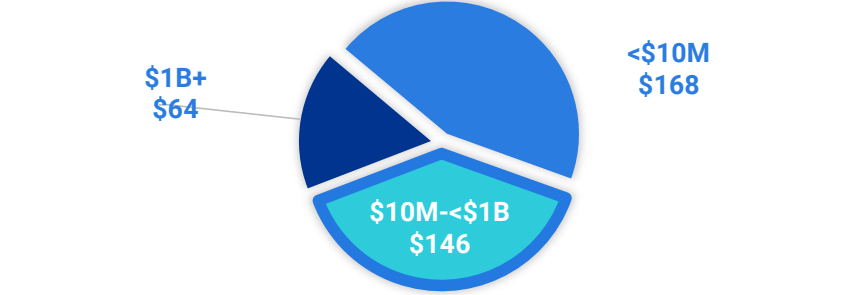
Source: Verisk / MarketStance

Your Appetite and Middle Market Expansion
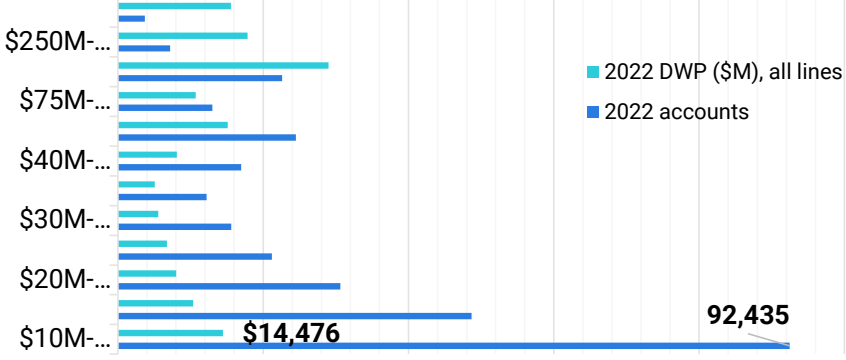
Commercial Lines Forecast 2022
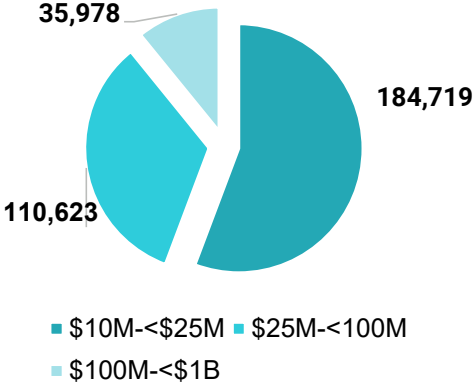
Forecast by Sales Size Group

- 11.4% — <$10M Sales per Company
- 13.1% — $10M-<$1B Sales per Company
- 13.8% — $1B+ Sales per Company
- 12.5% — All

■ DWP Growth 2022

MM DWP, Accounts By Sales Size Range

- $250M-…
- $75M-…
- $40M-…
- $30M-…
- $20M-…
- $10M-…

■ 2022 DWP ($M), all lines
■ 2022 accounts

$14,476   92,435

2022 DWP ($B) BY SALES SIZE GROUP

- $1B+ $64
- <$10M $168
- $10M-<$1B $146

2022 Accounts

- 35,978
- 184,719
- 110,623

■ $10M-<$25M   ■ $25M-<100M
■ $100M-<$1B

2022 DWP ($B)

- $33
- $62
- $51

■ $10M-<$25M   ■ $25M-<100M
■ $100M-<$1B

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Source: Verisk / MarketStance
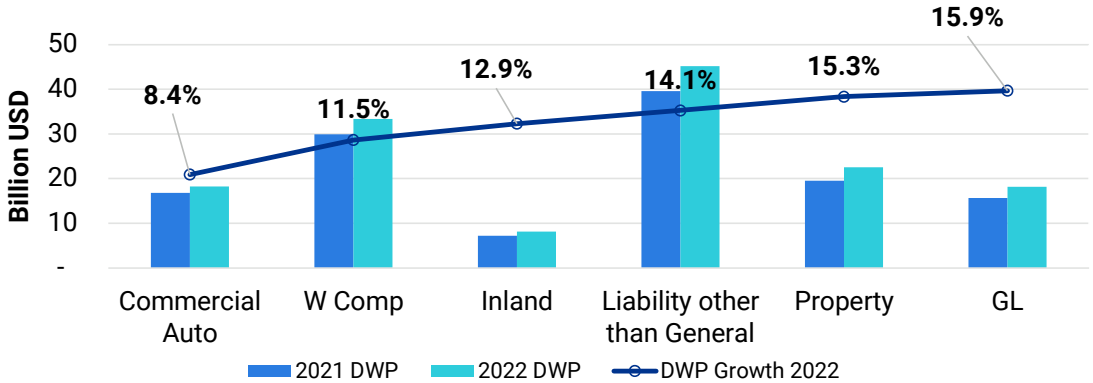
27
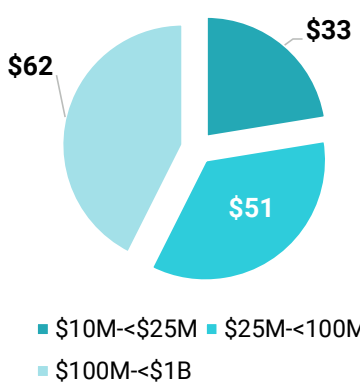
Middle Markets Forecast Growth: Major Lines

2022 growth in property, liability lines forecast to be particularly strong

Liability lines GL, other than General will likely continue to be a critical driver of premium volume in MM
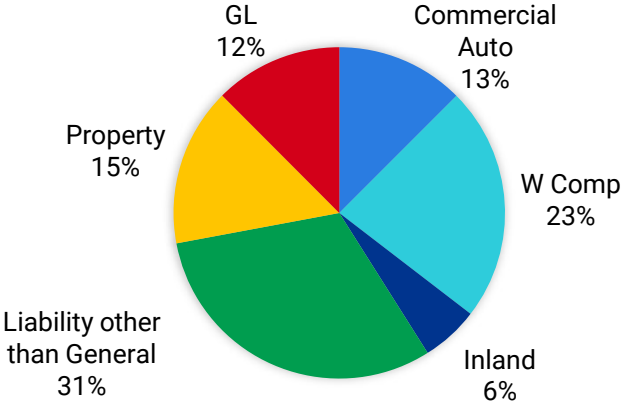
MM account composition by line very different from small commercial, particularly above 25M revenue

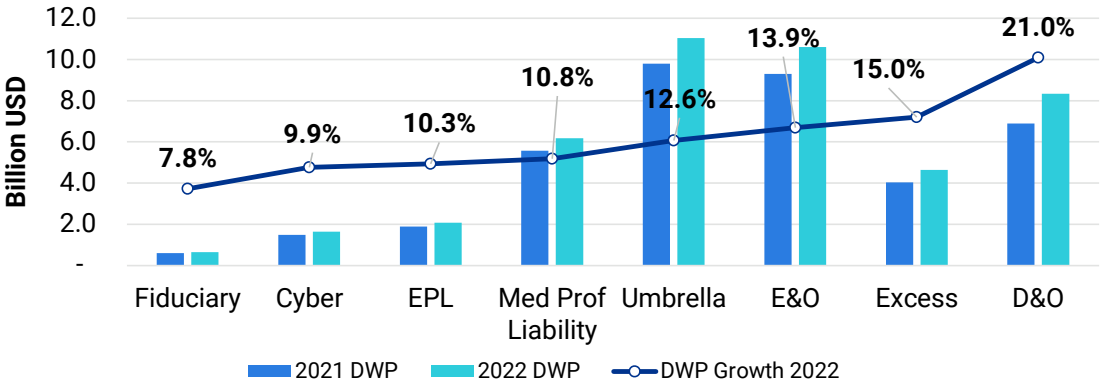**MM also shielded from some of the small commercial churn, volatility, particularly relevant now**

2022 MM outlook shaped by three things

Market rate trends show little sign of abating, especially in certain lines such as D&O, Umbrella
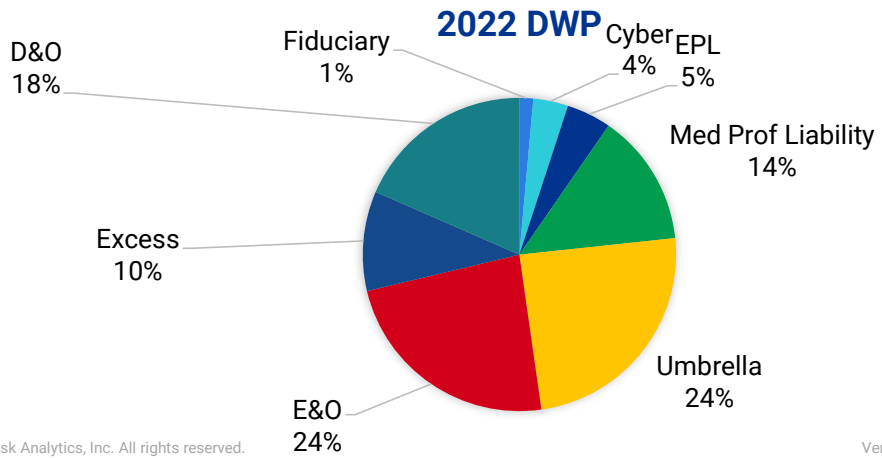
Breadth of economic recovery, fiscal stimulus

Source: Verisk / MarketStance

Middle Markets Forecast Growth: Liability Lines, Other Than General

Chart: Billion USD by line (2021 DWP, 2022 DWP, DWP Growth 2022)

- Fiduciary – 7.8%
- Cyber – 9.9%
- EPL – 10.3%
- Med Prof Liability – 10.8%
- Umbrella – 12.6%
- E&O – 13.9%
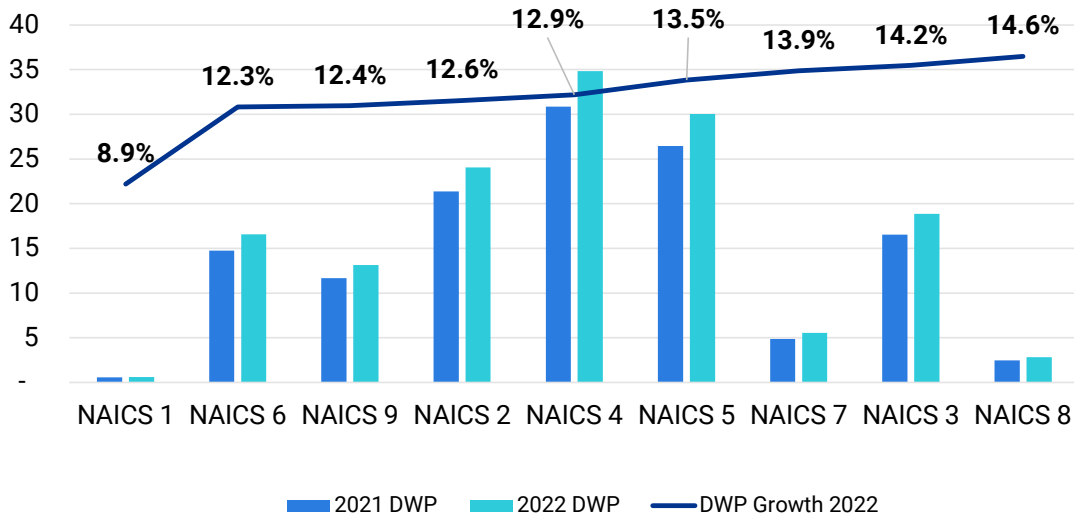- Excess – 15.0%
- D&O – 21.0%

Legend: 2021 DWP | 2022 DWP | DWP Growth 2022

$45B DWP in lines Other than GL

Key volume driver in MM

Private company D&O, Umbrella/Excess, E&O, Cyber critical growth drivers

2022 DWP

Pie chart:
- D&O 18%
- Fiduciary 1%
- Cyber 4%
- EPL 5%
- Med Prof Liability 14%
- Umbrella 24%
- E&O 24%
- Excess 10%

Source: Verisk / MarketStance

Middle Markets Forecast by 1-Digit NAICS

Chart — axis values: 40, 35, 30, 25, 20, 15, 10, 5, -

Data labels (DWP Growth 2022): 8.9%, 12.3%, 12.4%, 12.6%, 12.9%, 13.5%, 13.9%, 14.2%, 14.6%

Categories: NAICS 1, NAICS 6, NAICS 9, NAICS 2, NAICS 4, NAICS 5, NAICS 7, NAICS 3, NAICS 8

Legend: ■ 2021 DWP ■ 2022 DWP — DWP Growth 2022

NAICS 1: Agriculture, Forestry, Fishing and Hunting
NAICS 2: Construction, Utilities, and Mining
NAICS 3: Manufacturing
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NAICS 6: Educational Services, Healthcare, and Social Assistance
NAICS 7: Arts, Entertainment, Recreation, Accomodation, and Food Service
NAICS 8: Other Services
NAICS 9: State and Local Government

Hospitality, entertainment, personal services and travel related accounts (NAICS 7 & 8)

Big pandemic headlines, but minor CL market

Survivors staging a strong come-back

Both residential and civil construction spending powering MM **construction** (NAICS 2)

Infrastructure spending
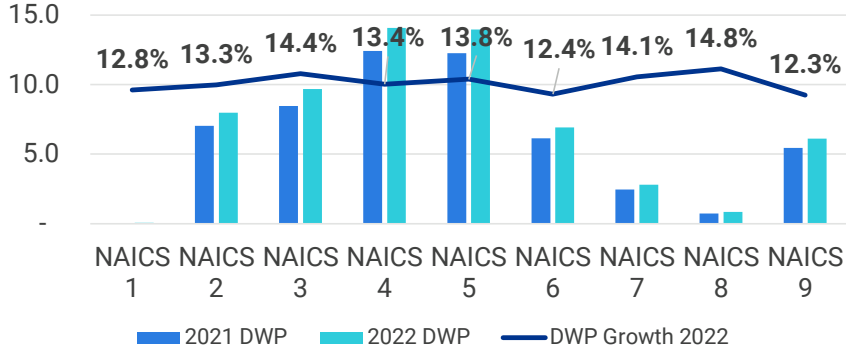
Excess demand for housing

Top-half of MM DWP:

Concentrated in 75k accounts with >$75M annual sales
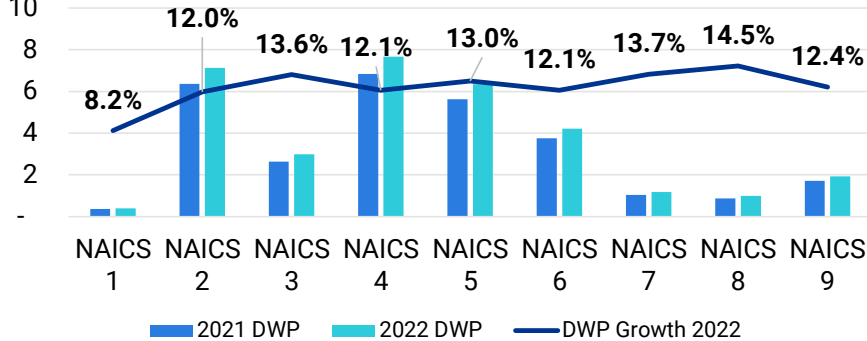
Manufacturing DWP growth very strong

Widely dispersed from an industry standpoint

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Source: Verisk / MarketStance

Middle Market Accounts: Industry Composition Varies With Size

Accounts with $100M-<$1B Sales

12.8% 13.3% 14.4% 13.4% 13.8% 12.4% 14.1% 14.8% 12.3%

Legend: 2021 DWP | 2022 DWP | DWP Growth 2022

X-axis: NAICS 1, NAICS 2, NAICS 3, NAICS 4, NAICS 5, NAICS 6, NAICS 7, NAICS 8, NAICS 9

Accounts with $10M-$25M sales

8.2% 12.0% 13.6% 12.1% 13.0% 12.1% 13.7% 14.5% 12.4%

Legend: 2021 DWP | 2022 DWP | DWP Growth 2022

X-axis: NAICS 1, NAICS 2, NAICS 3, NAICS 4, NAICS 5, NAICS 6, NAICS 7, NAICS 8, NAICS 9

Difference in MM DWP Composition, Moving Up-Market
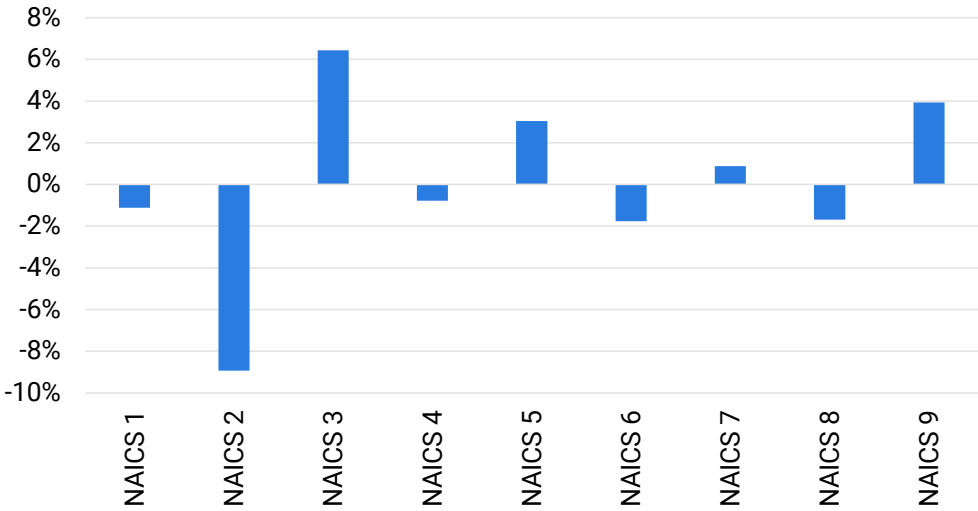
X-axis: NAICS 1, NAICS 2, NAICS 3, NAICS 4, NAICS 5, NAICS 6, NAICS 7, NAICS 8, NAICS 9

NAICS 1: Agriculture, Forestry, Fishing and Hunting
NAICS 2: Construction, Utilities, and Mining
NAICS 3: Manufacturing
NAICS 4: Trade, Transportation, and Warehousing
NAICS 5: Information, Finance, Insurance, and Real Estate and Rental and Leasing, and Professional and Business Services
NAICS 6: Educational Services, Healthcare, and Social Assistance
NAICS 7: Arts, Entertainment, Recreation, Accomodation, and Food Service
NAICS 8: Other Services
NAICS 9: State and Local Government

Source: Verisk / MarketStance

Questions and Feedback

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Contact Us	**Next Session**	**Check Out**
Eric Price-Glynn eglynn@verisk.com	Taking Back Control: How Verisk's WCMSA Services Help you Reduce Costs and Get Claims Settled! **Thursday, June 9** 2:00pm ET **verisk.com/ws**	For more information about **MarketStance**, visit: **verisk.com/marketstance**

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