



# Property and casualty: A changing landscape

## Shifting risks and evolving strategies for P&C insurers



### P&C insurance overview

In the current insurance landscape, insurers are confronted with a multitude of factors that are significantly impacting their operations. Economic and social inflation and convective storms are major cost drivers in property and casualty (P&C), impacting both personal and commercial line companies. These diverse elements contribute to a myriad of consequences for the industry, such as profitability challenges, price increases for customers, reinsurance rate hikes, and limitations on insurance capacity in certain markets or geographic regions. As insurers strive to maintain financial stability and deliver excellent service, they need to account for these complexities and develop adaptable strategies that strike a delicate balance between offering competitive premiums and safeguarding their bottom lines.



The increasing frequency of excessive jury verdicts, or 'nuclear verdicts,' is of growing concern, as they can result in severely underpriced risk.

— **Joe Milicia**, Chief Reserving Actuary  
at QBE



### Key drivers influencing the P&C insurance industry:

**Economic inflation:** The P&C insurance industry faces significant challenges due to economic inflation, which has led to higher costs, changing closure rates, and increased difficulties in predicting trends. The impact of economic inflation on different exposures is constantly changing. To tackle these challenges, insurers must prioritize rate adequacy and adapt to changing loss patterns.

**Social inflation/litigation trends:** The insurance sector is grappling with pre-existing social inflation and litigation trends, which have been exacerbated by the reopening of courts following the COVID-19 pandemic and increasing involvement of litigation funding. High inflation rates impact claim severity and settlement times, and ultimately lead to more frequent and costly claims litigation. Insurers also need to consider unique regional challenges and advocate for public policy changes to address social inflation and provide better protection to their clients.

**Climate and weather-related impacts:** Increasingly severe weather events in recent years have resulted in substantial financial losses for the P&C insurance industry, with no geographical region spared. To address the risks associated with extreme changing weather patterns, companies must adapt their operating models, revise underwriting guidelines, and implement prevention measures such as improving resilience to wind and hail and ensuring buildings are fortified accordingly.

### Seizing opportunities with tech and data in insurance

In response to evolving challenges in the insurance industry, transforming the operating model is crucial. Leveraging technology and data, including advanced analytical modeling and innovative digital solutions, empowers insurers to enhance efficiency, make informed decisions, and adapt adeptly. This shift equips insurers to navigate complexities, respond to market changes, deliver value to customers, and address challenges posed by high jury verdicts. With a heightened reliance on technology, firms are incorporating artificial intelligence (AI) and integrating new data sources to further enhance business models and analytics. For example, machine learning models have been used to identify granular segmentations of profitable/unprofitable business, which has led to

re-underwriting and profitable growth. Also, many companies are exploring broader use of machine learning claim level modeling to refine the reserving process to be more responsive to changing trends and drive more insights, as well as similar models to enhance claim strategies around litigation. It is imperative for companies to use these measures more to reduce loss ratios and mitigate risks in the P&C sector.

### Tackling emerging risks in the industry

P&C insurers are constantly evolving to keep up with new threats and opportunities that emerge with advancing technologies and changing social, economic, and environmental landscapes. Here are some of the emerging risks that insurance carriers need to be aware of and prepared for:

**Cybersecurity risks:** Amid significant risks, the cyber risk landscape offers vast opportunities for companies in the P&C insurance industry. To bolster their cyber premium and ensure business protection, insurance carriers must provide comprehensive coverage against cyberattacks and data breaches. With cyber risk expected to double in the coming years, companies eagerly explore this high-stakes domain for growth prospects.

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Many companies are currently looking to enhance their models and analytics by utilizing AI and incorporating new data sources. This is being done to improve efficiency, reduce the reliance on expert manual work, and drive more informed decision-making, leading to improved profitability.

— Ian Sterling, Actuarial Principal, KPMG LLP

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**Mass torts:** Emerging mass torts, such as opioids, present significant challenges for insurers as they have long-tail risks and uncertainty around the potential losses.

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**Climate change:** The implications of climate change, such as sea-level rise, natural disasters, and economic disruption, pose significant challenges for the insurance industry, particularly P&C. Carriers need to adjust their underwriting and pricing models to reflect these risks better.

**Biometric Information Protection Act (BIPA):** The legal implications of BIPA, which aims to protect biometric information from third parties without express consent, remain unclear and expose companies to significant financial loss and reputational damage.

**AI liability exposure:** The use of AI and automation presents new risks for insurers, especially in cases of biases or data breaches. These risks need to be analyzed and priced adequately to avoid significant losses.

In response to the changing landscape, insurance carriers must continue to adjust and innovate their products and services to keep pace with the evolving market. Keeping a forward-thinking approach and investing in technologies, advanced analytical modeling, and risk management strategies will be crucial to future growth in the industry.

## KPMG. Make the Difference.

Curious about strategies to outperform the competition in the ever-evolving P&C insurance industry?

KPMG offers innovative solutions for economic inflation, social inflation, and shifting weather patterns while enhancing risk management, pricing, and analytics. In short, we make the difference.

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