Beyond the Text Podcast

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TRANSCRIPT

Election - The impact on insurance

Beyond the Text is a Conning podcast that features insights from its Insurance Research Department. Hosted by Alyssa Gittleman, a Director and Head of Consulting and Customer Operations for Conning Insurance Research. Alyssa will invite analysts and guests to provide insights on recent publications and emerging industry trends.

Beyond the Text is intended to provide just that: going beyond Conning's typical research. Conning's analysts have deep industry knowledge and come from various backgrounds providing a greater level of context on industry trends for insurance professionals.

[Alyssa Gittleman (AG)]

Hello, and welcome to Beyond the Text, a Conning podcast featuring insights from our Insurance Research department.

I'm your host, Alyssa Gittleman, a director and head of Consulting and Customer Operations here at Conning.

Join me as I welcome analysts and guests to provide insights on recent publications and emerging industry trends.

Today I am here with Scott Hawkins, Managing Director and Head of Insurance Research at Conning. Also joining the conversation is Alan Dobbins, a director at Conning and lead analyst. I wanted to bring these two together today to discuss the upcoming election.

As we all know the election is approaching fast, and there are clear differences between the Democratic and Republican parties on about all the key issues. At Conning, of course, our focus is on those issues with the potential to affect the insurance industry—so we are following issues relating to the economy and climate policy. Immigration is an issue that cannot be ignored, with implications for insurers—and financial regulation has emerged as a key issue as well. Perhaps we could take a look at each of these. Alan, what are the big economic issues and policy differences in play this election that could have an impact on the insurance industry?

[Alan Dobbins (AD)] (Time stamp - 1:20)

I think some of the areas where the parties differ that could affect the industry include how to approach the persistent inflation problem----clearly tax policy---- and trade policy are key areas where the outcome of the election could have lasting effects on insurers.

Inflation has been –-maybe the most pressing economic issues over the past few years. Inflation erodes the value of long-term investments, which are vital for the profitability of both property-casualty and life-annuity companies.

The property-casualty sector is particularly vulnerable to inflation in the short term, as it affects both claims and premium pricing. Rising material and labor costs associated with repairing property damages—such as homes and vehicles—can substantially increase claims expenses. Auto insurers, for instance, have faced significant losses due to inflationary pressures on the cost of parts and repairs. These rising costs—in turn—drive up the need for higher premiums, which may result in reduced policyholder retention if the public is already financially strained.

In the life-annuity sector, inflation directly impacts the purchasing power of policyholders' retirement savings and reduces the attractiveness of fixed-income investment products. As life insurers rely heavily on long-term bonds for capital growth, prolonged inflation could make it difficult to match asset performance with future liabilities, forcing companies to rethink their product offerings.

A president who prioritizes controlling inflation through tighter monetary policies or deficit reduction could benefit insurers by stabilizing pricing environments and restoring confidence in fixed-income investments. On the other hand, an administration that leans into more aggressive stimulus spending or looser fiscal controls may continue to fuel inflationary pressures, forcing insurers to adapt to a more volatile economic landscape.

[AG] (3:30)

And what about tax policy.

[AD] (3:34)

Tax policy is a critical concern for the insurance industry, as changes in corporate tax rates, investment income taxation, and incentives for retirement savings all play a role in determining profitability and product structure. Insurers are major institutional investors, holding trillions of dollars in assets, and any changes to the tax treatment of investment income could directly impact returns.

A Republican administration may push for reductions in corporate taxes, which would benefit insurers' bottom lines. Tax incentives aimed at increasing private retirement savings could bolster the life-annuity sector, driving demand for individual retirement accounts, annuities, and life insurance products tied to long-term financial planning.

On the other hand, the Democratic agenda plans to raise corporate tax rates and introduce new taxes targeting wealth and capital gains. This could reduce after-tax returns on investment portfolios, impacting both life and property-casualty insurers. BUT--- such an administration may also push for enhanced retirement savings incentives through programs like auto-enrollment in retirement accounts, which could benefit life and annuity insurers in the long run by increasing participation rates in employer-sponsored plans.

Changes in estate tax policy could also have ramifications for life insurance, as life policies are often used as tools for estate planning and wealth transfer. A reduction in estate tax exemptions, for example, could drive greater demand for life insurance products designed to manage estate tax liabilities.

[AG] (5:20)

And what about Trade Policy?

[AD] (5:24)

The U.S. insurance industry is certainly not isolated from global markets; trade policies play an essential role in shaping the opportunities for growth, particularly for large multinational insurers. The outcome of the 2024 election will influence how insurers operate internationally and how foreign competitors interact with the U.S. market.

A protectionist trade policy, such as one that raises tariffs or restricts foreign investment, could hinder the ability of U.S. insurers to expand into emerging markets. For property-casualty insurers, this could limit the availability of new premium income from foreign markets, particularly in regions with growing infrastructure needs. Life insurers could face similar constraints, especially in regions where the demand for retirement products and long-term financial planning solutions is increasing.

Conversely, a president who prioritizes open trade and fosters international agreements could create new opportunities for U.S.-based insurers to expand globally. For life insurers, this could mean access to growing middle-class populations in Asia, Africa, and Latin America, where demand for long-term financial products is rising. Open trade policies would also likely benefit the reinsurance sector, as international capital would more easily flow into U.S. markets to absorb catastrophe risks, potentially lowering costs for U.S. primary insurers.

[AG] (6:49)

So it's clear the election will shape the economic environment. Scott, regulation is always a significant concern for the insurance industry, which is governed by a combination of federal oversight and state-level regulations. What are you watching from a regulation standpoint?

[Scott Hawkins (SH)] (7:06)

A lot.

At a high level, a Republican victory may bring a more deregulatory approach, which would benefit insurers by allowing them more flexibility in product offerings, pricing, and investment strategies.

For example, a rollback of certain Dodd-Frank provisions could free insurers from stringent capital requirements, allowing them to be more competitive. Additionally, a deregulatory push could accelerate the approval of innovative insurance products like parametric insurance and InsurTech solutions.

On the other hand, a Democratic administration might take a more stringent regulatory stance, especially in areas related to consumer protection, climate risk, and systemic risk. This could lead to stricter oversight of how insurers manage their reserves, price their products, and invest their capital.

We think two regulatory areas of particular interest to insurers are financial regulations and AI. Financial regulations impact a range of issues crucial to insurers, from distribution to investments. Emerging AI regulations will determine how the industry can use AI to improve products, services, and profitability.

[AG] (8:05)

Scott, can you talk a bit more about AI and financial regulation?

[SH] (8:10)

Glad to. Financial regulation has been on an upswing under the Biden administration. The DOL resurrected its fiduciary rule for the third time, and saw it struck down for the third time. And we wouldn't be surprised to see it come back again under a Harris administration.

Efforts are also underway at the federal and state levels to improve oversight on the types of investments insurers could use in their portfolios.

And reinsurance has emerged as a key area of interest for regulators, especially in the life-annuity market, but also in the P&C sector.

When it comes to AI regulation, Harris's approach to financial regulation reflects a continuation of the policies of the Biden administration. Her platform focuses on increasing consumer protections, regulating emerging industries such as cryptocurrency, and implementing stricter oversight to address income inequality.

Trump's platform calls for a significant rollback of financial regulations, we saw that in his first term's efforts to deregulate key sectors of the economy. This could lower compliance costs and increase profitability, and lead to more flexibility for insurers to innovate, particularly in fintech and digital currencies

[AG] (9:20)

And AI regulation?

[SH] (9:26)

You know Alyssa, the insurance industry has embraced every technology that has emerged since the 1960s, and it is rapidly embracing AI.

That said, the nation has turned more skeptical about the harms AI could bring. In response, regulators at all levels are playing catch up and trying to develop new regulations to reduce or eliminate harms created by AI.

So we think insurers may find themselves torn between conflicting regulations created by different regulators. For example, Governor Gavin Newson vetoed an AI bill in California, but New York and Colorado have moved ahead with regulations in their states.

These regulations could limit the types of technology being used as well as the ways those technologies could be implemented. In addition, insurers may find themselves limited in the types of data and information they could use with their AI systems.

Harris has had a leadership role in shaping AI policy within the Biden administration, and her administration would likely continue pushing for strong AI oversight to manage risks, particularly around privacy, security, and bias, potentially leading to stricter regulations for tech companies and AI developers.

Trump, on the other hand, advocates for a deregulatory approach to AI. His administration would likely aim to reduce regulatory burdens and prioritize economic growth over safety and risk concerns.

[AG] (10:52)

Thank you. The parties clearly differ on their approach to climate policy. Scott, let me turn to you again—where are the two candidates with respect to the climate and what can we expect?

[SH] (11:06)

Given that we're recording a week after Hurricane Milton made landfall, the impact of climate risk is certainly top of mind, especially among P&C insurers. Think about this, from 1984 through 2016, the average annual loss from secondary perils was about $7 billion.

From 2017 through 2023 that annual average was almost $37 billion—a five-fold increase.

So from an impact on the insurance industry, the 2024 U.S. Presidential election could significantly influence how the U.S. addresses climate change, both domestically and globally.

A Harris administration might push for more ambitious carbon reduction targets and international climate finance, particularly for developing nations. And use regulatory bodies such as the EPA to aggressively enforce rules to cut greenhouse gas emissions, phase out fossil fuels, and limit pollution from industries like oil, gas, and coal.

We wouldn't be surprised to see those efforts constrained by the Chevron decision.

A Trump administration would signal a shift to more skepticism toward the urgency of climate action. He would likely prioritize economic growth and job creation over aggressive climate action, possibly rolling back U.S. commitments to international climate agreements or renegotiating them to prioritize national interests.

[AG] (12:27)

Ok. Let's turn to immigration. This is one of the biggest issues being discussed in the campaign, and perhaps the source of the starkest difference between the two presidential candidates. Alan, how can immigration policy affect the industry and what are the differences between the two candidates.

[AD] (12:45)

The property-casualty sector, in the longer-term, would benefit from higher demand for homeowners and auto insurance, as new arrivals establish themselves within the U.S. In cases where undocumented immigrants work in hazardous or low-paying jobs, there may be an increase in workers' compensation claims, including fraudulent ones. The lack of clear records for employment could make it more difficult for insurers to detect and prevent fraud. Additionally, businesses employing immigrant labor are a growing source of workers' compensation and general liability exposures.

For the life and annuities sector, a growing and younger immigrant population would be a critical demographic. Many immigrants are in the prime working-age group, representing a larger pool of potential policyholders looking for long-term financial security, retirement planning, and life insurance products. However, illegal immigrants lack access to the American banking system making them ineligible for most life insurance or saving products.

Vice President Kamala Harris has reiterated Biden's stance that the US immigration system is broken and requires a legislative fix. She has distinguished herself from Biden by adopting an enforcement-first approach to immigration.

Former President Trump is planning, if elected, to implement a historically restrictive US immigration agenda. To date, Trump has only announced one proposal to increase immigration: automatic green cards for noncitizen graduates of US colleges and universities. Trump also plans to restore all of his first-term immigration policies. He once again plans to "build the wall" along the US southern border, restrict both legal and illegal immigration, reinstate the "Remain in Mexico" and "Safe Third Country" agreements, and subject visa applicants to "extreme vetting," among other policies.

[AG] (14:28)

Thank you. While the media coverage is dominated by the national election, for insurance, which is regulated at the state level, a lot of important things happen at the state level. Scott – can you provide a summary of what to watch for at the state level?

[SH] (14:43)

You're right about the impact of the states on insurers. They are active in both financial regulation and AI regulation.

So the 2024 state elections will have wide-ranging impacts on the insurance industry, particularly in states where property, healthcare, and climate risks are at the forefront of the policy agenda. Think Florida, Georgia, Texas, and California.

Insurers should closely monitor these races, as the outcomes will shape the regulatory and business environments in which they operate for years to come.

[AG] (15:13)

Any particular trends you'd watch at the state level?

[SH] (15:17)

I'd look for upsets in states where there been one party rule, either Republican or Democratic. In states where one party controls both executive and legislative branches, it's easier to push through significant, and perhaps more extreme, changes to current regulation.

In states where governing is split, the potential for that type of regulation to pass is reduced.

[AG] (15:40)

Alan and Scott, thank you for sharing these insights. And we want to remind our listeners to get out and vote.

I'm Alyssa Gittleman, on behalf of Conning and this is Beyond the Text.

Thank you.
