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2024 Election Special

Strategic Issues for Insurance Industry Executives

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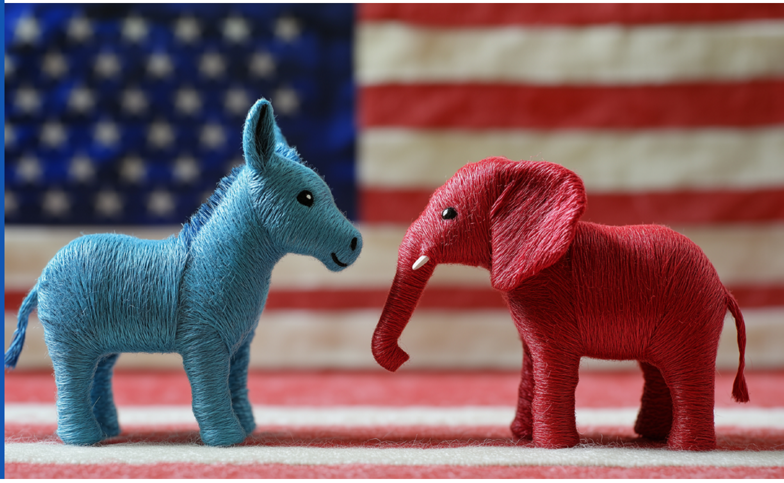

Once more into the breach...

The nation is once again engaged in its great test of democracy, conducting a national presidential election. This quadrennial event sets the regulatory agenda for the federal policy and influences state policies. This election cycle is no different.

In every election, there are clear differences between the Democratic and Republican parties on about every issue. These differences have been amplified by continued partisanship and then ramped up on steroids by social and traditional media echo chambers. As a result, there is little common ground to be found on the key issues facing the nation.

As this is written in mid-September 2024, the presidential election is too close to call. Gerrymandering has rendered most Congressional elections irrelevant. At a state level, most states are under the control of a single political party.

Our election special looks at the key issues facing the insurance industry in the presidential, Congressional, and state elections. It reviews those issues and outlines the position of each party. While we do not predict the outcome of any election, we do provide our insight and analysis of the impact of those on the insurance industry based on an election outcome.

The presidential election

Presidential elections, in theory, address the broadest possible range of issues. From foreign policy and defense to economic and domestic policy, not to mention any raging social or cultural issues of the day, nominees and their party are expected to have a clearly articulated position.

In reality, a handful of issues dominate the election, and the nominees and their parties are often less than clear and forthcoming on those issues.

From an insurance industry perspective, there are several issues of key interest, many of which are always on the list. Every election sets the direction and tone of economic policy.

Following the hottest recorded year in recent history, combined with another year of above-average natural catastrophe losses the differences in the parties' climate policies are of strong interest to the industry.

Social Security, and potential changes to it, are once again on the table. Joining the list of election issue staples are Medicare and Medicaid reform, along with immigration.

Financial regulation has made a reappearance. FinReg has increased in importance following efforts in 2023 to increase fiduciary standards and the growing scrutiny of the reinsurance market.

The new entrant in the presidential issue list is AI, specifically policies toward use and continued development. For the insurance industry looking to AI, and its supporting technologies to deliver real solutions to consumers and increase productivity, the policies in this area may prove especially important over the longer term.

Regardless of the issues, should government be divided, the probability of significant progress on any agenda item is limited.

The more likely scenario is that either administration would attempt to use agencies to bypass Congressional stalemates by regulatory fiat. However, post-Chevron, both administrations will find their ability to use agencies as a bypass limited by litigation.

One key uncertainty this year is the potential for significant civil unrest following the election. Political division in the U.S. is increasingly deep, and both ends of the political spectrum contain groups that see an opposition win in the presidential election as disastrous for the health of the country (although for very different reasons).

Insured losses from riots and civil commotions (the specific policy language underlying civil unrest coverage) can be of the same magnitude as those of a major natural catastrophe. Verisk's PCS unit estimates insured losses from the George Floyd-related riots at $2.6 billion. Losses from the Los Angeles riots in 1992 (following the acquittal of the police officers involved in the Rodney King arrest) were estimated at the time to be $775 million; that equates to $1.7 billion in current dollars.

Standard commercial policies typically include coverage for physical loss or damage to the insured premises and other business property resulting from looting, vandalism, and riots. Auto comprehensive coverage and homeowners policies typically do so as well.

If Harris wins ...

A Harris administration could bring a host of regulatory, economic, and environmental changes that would have an impact on the U.S. property-casualty insurance industry as well as the life-annuity industry.

The impact on property-casualty insurers. Her track record as a senator and vice president indicates certain positions that align with progressive policies, and her presidency would likely include initiatives focusing on environmental sustainability, climate change mitigation, racial and economic equity, and worker protections. These issues are increasingly relevant to the property-casualty insurance sector, which is deeply connected to environmental risks, labor markets, and economic cycles.

An Overview of a Harris Administration Impact on Insurance

Property-Casualty Insurance

Area	Positive Impact	Negative Impact
Climate change policy and environmental regulations	Long-term climate risk mitigation may reduce losses Increased demand for coverage of renewables and green industries	Increased short-term costs
Social and economic justice initiatives	Policies to expand home ownership increase demand for insurance Increased employment protections fuels workers' compensation growth	Pressure on profit margins from higher taxes and minimum wages and benefits Housing market instability from rapid expansion of mortgage market
Infrastructure investment	Boom in construction-related insurance products Infrastructure modernization reduces risk exposure	Potential underwriting challenges from large, complex infrastructure projects

Life-Annuity Insurance

Area	Positive Impact	Negative Impact
Retirement security and income inequality	Increased demand for retirement solutions driven by tax incentives In-plan guaranteed annuities increase	Increased regulatory oversight of annuities Tax and economic policies reduce investment returns on insurer portfolios

Regulation

Area	Positive Impact	Negative Impact
Regulatory oversight	Market stability from stricter regulation	Potential rate controls Restrictions on high-fee products
Consumer protection	Strengthened consumer trust	Increased compliance costs

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On the positive side, efforts to combat climate change, improve infrastructure, and expand home ownership could result in long-term benefits for insurers through reduced risk exposures and growing markets for specialized insurance products. In addition, a proposed $50,000 tax deduction for small business could stimulate small business growth.

However, heightened regulatory scrutiny and potential economic instability could create significant challenges for the sector, particularly in terms of profitability and compliance costs.

The impact on life-annuity insurers. A Harris administration would present a mixed bag of opportunities and challenges for the U.S. life and annuity insurance industry. Her focus on health care reform, economic equity, consumer protection, and climate change would lead to shifts in how life insurers approach product development, investment strategies, and regulatory compliance. Life and annuity insurers, particularly those focused on retirement planning and long-term care, would need to adapt to a potentially more activist government and progressive regulatory environment.

While there are opportunities for growth in areas like long-term care, retirement planning, and sustainable investments, the industry would also face increased scrutiny, higher compliance costs, and potential disruptions from public sector competition or regulatory changes.

If Trump wins ...

A Trump administration could bring a host of regulatory, economic, and environmental changes that would have an impact on the U.S. property-casualty insurance industry as well as the life-annuity industry.

An Overview of a Trump Administration Impact on Insurance

Area	Positive Impact	Negative Impact
Property-Casualty Insurance		
Infrastructure investment	Boom in construction-related insurance Infrastructure modernization reduces risk exposure	Potential underwriting challenges from large, complex infrastructure projects
Cybersecurity and terrorism	Increased demand for cyber insurance Increased demand for terrorism insurance	Increased cyber and terror risk
Climate change	Lower compliance cost for insurers and business	Potential higher climate losses
Life-Annuity Insurance		
Area	**Positive Impact**	**Negative Impact**
Retirement security	Increased demand for retirement solutions driven by tax incentives In-plan guaranteed annuities increase	Increased regulatory oversight of annuities Tax and economic policies reduce investment returns on insurer portfolios
Health care reform	Increased demand for LTC products Increased demand for private health care among senior population	Health care market instability
Regulation		
Area	**Positive Impact**	**Negative Impact**
Deregulation	Reduced compliance costs Lower corporate taxes	Reduced oversight leading to increased risk-taking
Reduced consumer protection	Increased flexibility in product design	Increased consumer litigation against insurers and agents
Tax reform	Higher profit margins Business growth stimulant	Higher deficits Increased interest rates Economic instability

Prepared by Conning, Inc.

The impact on property-casualty insurers. A second term for Donald Trump as President of the United States would likely bring about a policy environment with a distinct focus on deregulation, tax reform, infrastructure development, and national security. Trump's first term (2017-2021) offered insights into how his administration's approach might affect the U.S. property-casualty insurance industry.

One of the hallmark policies of Trump's first administration was deregulation. Trump's commitment to reducing the regulatory burden on businesses resulted in the rollback of numerous financial, environmental, and labor-related regulations. In a second term, this deregulatory agenda would likely continue.

A second Trump administration would likely have a mixed impact on the U.S. property-casualty insurance industry, shaped by its focus on deregulation, tax reform, infrastructure development, and national security.

On the positive side, insurers could benefit from lower compliance costs and increased demand for insurance products tied to infrastructure development. The administration's pro-business stance and emphasis on economic growth would likely create new opportunities for property-casualty insurers across several sectors.

However, there are significant risks as well. Lack of attention to climate change mitigation initiatives exacerbated by a lack of regulatory action, could slow progress toward sustainability goals. Deregulation could also result in higher claims from workplace accidents and environmental hazards, placing added pressure on insurers' underwriting capabilities. Trump also emphasized protectionist policies, which could have economic impacts on business growth and inflation.

The impact on life-annuity insurers. A potential second term for Donald Trump as President of the United States would bring a combination of deregulation, tax reform, and a focus on economic growth, all of which could significantly affect the U.S. life and annuity insurance industry.

Trump's policy preferences may benefit life and annuity insurers in several ways. Policies aimed at reducing corporate taxes, stimulating economic growth, and scaling back regulations could provide a more favorable operating environment for insurers, allowing them to innovate and offer more competitive products.

However, these benefits come with risks, including potential market volatility, higher claims costs from health care and long-term care products, and challenges associated with managing investments in a rapidly changing economic and regulatory landscape.

A closer look at key issues and impacts

There a several areas where it is worth taking a closer look at where the presidential election will have a significant impact.

The economic impact

The 2024 U.S. presidential election presents important considerations for the insurance industry, encompassing both the property-casualty and life-annuity sectors. Given the substantial economic, regulatory, and geopolitical influence of the federal government, changes in administration can reshape industry dynamics in both subtle and significant ways. In particular, inflation control measures, tax policy, and trade policies are key areas where the outcome of the election could have lasting effects on insurers and their business models.

Inflation. Inflation has been one of the most pressing economic issues over the past few years, and how the next president manages inflationary pressures will have a direct impact on insurers. 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—due to natural disasters or accidents 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 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 affects 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.

The 2024 presidential election could determine the future path of inflation through a variety of monetary and fiscal policies. 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. In contrast, 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.

Tax policy. 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 change to the tax treatment of investment income could directly affect returns.

A Republican administration may push for reductions in corporate taxes, which would benefit insurers' bottom lines. Lower tax rates on investment income would enhance profitability, allowing insurers to invest more aggressively in growth areas or return more value to shareholders. Additionally, 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.

In contrast, a Democratic administration may seek to raise corporate tax rates or introduce new taxes targeting wealth and capital gains. This could reduce after-tax returns on investment portfolios, affecting both life and property-casualty insurers.

However, 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 also could 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.

Trade policy. The U.S. insurance industry is not isolated from global markets; trade policies play an essential role in shaping the opportunities for growth abroad, 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. Moreover, if U.S. insurers are seen as being less competitive due to tariffs or other restrictions, foreign competitors may gain market share domestically.

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.

Interest rates and monetary policy. The next administration's approach to inflation and monetary policy will shape the direction of interest rates. Fixed-income asset managers, including insurers, prefer a stable or rising interest rate environment because it allows them to generate higher returns on bond portfolios. Life insurers, in particular, rely heavily on the yields from bonds to back long-term liabilities, so prolonged periods of low interest rates, as experienced in the past decade, have posed a challenge for the industry.

A more conservative administration focused on tightening monetary policy to control inflation could lead to higher interest rates, benefiting fixed-income investors like insurers by increasing yields. This would enhance the profitability of annuity products, which rely on steady returns from bond portfolios, and help insurers better match their long-term liabilities.

Conversely, if the new administration adopts a more accommodative stance on monetary policy—either to stimulate economic growth or as a response to future economic crises—interest rates could remain low, putting further pressure on insurers to find alternative ways to meet their investment goals. Low interest rates could also reduce demand for traditional fixed-income products, prompting insurers to seek out higher-yield, higher-risk investments.

Fiscal policy and government debt. Another key factor in the fixed-income landscape is the fiscal policy of the next administration. Increased government spending or large-scale fiscal stimulus could raise the federal deficit, driving up the supply of government bonds. This could lead to higher interest rates, benefiting fixed-income investors, but it also raises questions about the long-term sustainability of U.S. debt levels.

A Democratic administration, particularly one focused on infrastructure spending or social programs, might lead to increased issuance of government bonds, offering insurers more investment opportunities but also raising the risk of inflationary pressures that erode bond returns. A Republican administration might prioritize deficit reduction, limiting the issuance of government debt but potentially offering more stability to the fixed-income markets.

Fixed-income asset managers also invest heavily in corporate bonds, and the creditworthiness of companies will be affected by the broader economic policies of the next administration. Policies that boost economic growth and support corporate profitability will reduce credit risk, making corporate bonds a safer investment for insurers. Conversely, an administration that introduces more regulations or increases taxes on corporations could heighten credit risk, requiring insurers to be more cautious in their bond portfolio allocations.

Regulatory environment

Regulation is always a significant concern for the insurance industry, which is governed by a combination of federal oversight and state-level regulations. The 2024 election could shift the balance of regulation, depending on whether the next administration favors deregulation or increased scrutiny of the financial sector.

A Republican victory may bring with it 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 insurance technology (InsurTech) solutions.

Conversely, 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. Enhanced regulations on climate risk could significantly affect the property-casualty industry, particularly in high-risk areas prone to natural disasters. Insurers may be required to disclose more data on their exposure to climate risks and adjust their underwriting standards accordingly, which could either increase premiums or force insurers to withdraw from certain markets.

The potential for increased regulatory focus on systemic risk is particularly relevant for large life insurers deemed "too big to fail." Stricter oversight and capital requirements could constrain the profitability of these companies, although it may also provide more stability to the market overall.

Two areas of particular focus for the insurance industry are financial regulations and AI. Financial regulations affect a range of issues crucial to insurers, from distribution to investments. Emerging AI regulations will determine how the industry can use AI to improve product, services, and profitability.

Financial regulation. 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. Efforts are underway at the federal and state levels to improve oversight on the types of investments insurers could use in their portfolios. Reinsurance has emerged as a key area of interest for regulators, especially in the life-annuity market, but also in the property-casualty sector. In the 2024 presidential race, the two nominees have divergent views on financial regulation, which could have substantial impacts on the financial industry.

If Harris wins. 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.

For financial firms, particularly those involved in green finance or sustainable investing, Harris's policies could create new market opportunities. Firms that focus on consumer protection and compliance would also benefit from enhanced regulatory clarity.

However, the increased regulation could raise compliance costs for financial institutions. Policies such as higher corporate taxes may also reduce profitability for certain firms, particularly those heavily reliant on traditional financial services.

Harris's policies broadly focus on:

» **Strengthening financial oversight**. Harris supports stronger regulatory enforcement to ensure transparency in financial markets, particularly in the areas of consumer protection, climate-related financial risks, and corporate accountability.

» **Reforming banking practices**. Harris is expected to advocate for reforms that ensure banks and financial institutions prioritize customers over profits, similar to actions taken during the Biden administration regarding fair lending practices and fees.

» **Addressing economic inequality**. Harris supports regulatory reforms that aim to reduce economic inequality, such as increasing taxes on the wealthy and corporations to fund social programs. This might include raising the corporate tax rate to 28% from its current level of 21%.

If Trump wins. Trump's platform calls for a significant rollback of financial regulations, building on his first term's efforts to deregulate key sectors of the economy. Trump's deregulatory agenda could lower compliance costs and increase profitability, particularly for sectors that are currently heavily regulated, such as investment banking and asset management. His policies could also lead to more flexibility for banks and financial institutions to innovate, particularly in fintech and digital currencies.

That said, reduced oversight might lead to greater risks for consumers and investors, which could, in the long run, harm market stability. Additionally, deregulation could increase scrutiny from international markets that favor stronger financial oversight

Trump's policies broadly focus on:

- **Deregulation and cutting red tape**. Trump advocates for reducing regulatory burdens on businesses, particularly in the financial services sector. This includes repealing or revising Biden-era regulations related to ESG (environmental, social, and governance) factors in investing and financial reporting.
- **Encouraging private sector growth**. Trump supports reducing corporate taxes and financial regulations to spur economic growth. His plan includes lowering the corporate tax rate to between 15% and 20% and making permanent the tax cuts introduced during his first term under the Tax Cuts and Jobs Act.
- **Limiting federal oversight**. Trump's platform suggests reducing the federal government's role in financial markets, allowing market forces to dictate industry standards and promoting private sector-driven innovation, especially in emerging fields like cryptocurrency and fintech.

AI regulation. As with every technology that has emerged since the 1960s, the insurance industry 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. 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. In the 2024 U.S. presidential election, Kamala Harris and Donald Trump have distinct positions on the regulation of AI, reflecting their broader political and economic ideologies.

If Harris wins. Harris has taken a leadership role in shaping AI policy within the Biden administration, and her approach focuses on responsible development and risk mitigation. Her platform emphasizes the need for AI governance to address issues such as safety, security, and transparency. Harris 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.

Key elements of her AI policy include:

- **Mandating transparency**. Under Biden, an executive order was passed requiring developers of advanced AI systems to share safety test results with the U.S. government and implement standards for privacy and security. Harris supports continuing this approach to ensure AI is developed safely and ethically.
- **Global cooperation**. Harris has engaged in multilateral efforts, such as partnerships with the EU and the U.K., to create global standards for AI safety. Her administration would likely continue prioritizing international collaboration on AI governance.
- **Protecting consumers and civil rights**. A Harris administration would continue using AI regulation to protect consumers, focusing on preventing bias in AI systems and ensuring that AI technologies respect civil liberties and privacy.

If Trump wins. Trump, conversely, advocates for a deregulatory approach to AI, emphasizing innovation and reducing government interference. Trump would likely adopt a more laissez-faire approach, aiming to reduce regulatory burdens and prioritize economic growth over safety and risk concerns.

His platform includes:

» **Rescinding current AI regulations**. Trump has promised to repeal Biden's AI executive order, which he views as stifling innovation. He criticizes the use of AI in government censorship, particularly regarding free speech on social media platforms.

» **Supporting innovation**. Trump's platform promotes AI development as a driver of economic growth and national security. His focus is on maximizing economic benefits and ensuring the U.S. remains a global leader in AI technology.

» **Limited oversight**. Trump's AI policy centers around limiting federal involvement, allowing market forces to dictate AI development. This includes promoting private sector innovation without heavy-handed regulation.

Climate

The 2024 U.S. presidential election could significantly shape the country's approach to climate risk and policy. The outcome of the election will influence how the U.S. addresses climate change, both domestically and globally. The financial cost of increasing climate risk is of growing importance to the property-casualty sector. From 1991 to 2016, losses from natural catastrophes averaged 3.9% of the industry's direct premiums written. However, in the past seven years, this figure has more than doubled to an average of 8.5%. Depending on which party's nominee wins the 2024 election, the following policies and positions might get advocated.

If Harris wins:

» **Global climate leadership**. President Harris would likely aim to restore or strengthen the U.S. position in global climate leadership, reaffirming commitments to international agreements such as the Paris Agreement.

» A Harris administration might push for more ambitious carbon reduction targets and international climate finance, particularly for developing nations.

» **Regulatory action**. A Harris administration would likely use regulatory bodies such as the EPA (Environmental Protection Agency) to aggressively enforce rules to cut greenhouse gas emissions, phase out fossil fuels, and limit pollution from industries like oil, gas, and coal.

» **Climate legislation & investment**. A Harris administration would likely continue pushing for stronger national climate legislation, following the momentum of the Biden administration's Inflation Reduction Act, which provided historic investments in clean energy. The focus would be on expanding renewable energy, decarbonizing key sectors like transportation and industry, and continuing to invest in green jobs.

» **Environmental justice**. Issues of climate equity would likely increase in importance under a Harris administration, with a focus on helping frontline communities—those most vulnerable to climate impacts. Addressing pollution in low-income and minority communities and investing in resilience for these populations could become key policy pillars.

If Trump wins:

- **Skepticism of climate science or global agreements.** A Trump administration would signal a shift to more skepticism toward the urgency of climate action. President Trump 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.
- **Rollback of climate regulations.** President Trump would seek to scale back environmental regulations, loosening restrictions on industries to reduce the financial burden of compliance. This could include relaxing emissions standards and promoting fossil fuel infrastructure like pipelines and refineries.
- **Energy independence & fossil fuels.** A Trump administration would likely emphasize traditional energy sources, including expanding fossil fuel production. Policies could focus on deregulation of the oil and gas sectors, promoting domestic energy independence through fossil fuel extraction, and reducing reliance on renewable energy subsidies.
- **Focus on adaptation over mitigation.** Rather than aggressive carbon reduction measures, a Trump administration could focus on adapting to climate change's effects, such as infrastructure improvements to handle extreme weather events, while avoiding deeper investment in decarbonization.

The quadrennial trifecta

Every recent presidential election includes a debate over Social Security, Medicare, and Medicaid reform. Predictably, 2024 is no exception. As always with the debate over these three issues, the two nominees talk a lot, but rarely state specific plans or goals.

If Harris wins:

Harris has supported legislation like the Social Security 2100 Act, which would apply payroll taxes to higher incomes to stabilize the program. Currently, those payroll taxes stop at $168,000. As a Senator, Harris introduced legislation in 2019 that would have raised taxes to a $250,000 income level. President Biden suggested a $400,000 cap on Social Security taxes.

A Harris administration would continue to support efforts to expand health care.

If Trump wins:

President Trump's campaign has said little about any specific plan about Social Security.

A Trump administration would likely attempt to reduce Medicaid coverage and lower Medicare benefits.

Immigration policy

Immigration has become one of the most polarizing issues in U.S. politics, but its impact on the insurance industry is more subtle and multifaceted than often recognized. It is an issue that is especially important to the property-casualty sector because of the increased risks it creates. For that sector, those risks may well outweigh any perceived benefit from having more immigration.

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.

If Harris wins. Vice President Kamala Harris has reiterated Biden's stance that the US immigration system is broken and requires a legislative fix.

Harris has made the failed bipartisan border deal a centerpiece of her platform, underscoring that it would have increased funding for border agents, detention facilities, and fentanyl detection technology. She has also distinguished herself from Biden by adopting an enforcement-first approach to immigration. The failed border deal, therefore, likely reflects Harris's immigration agenda for 2025: a mix of tough border restrictions and policies favored by immigration advocates.

If Trump wins. Trump is planning, if elected, to implement a historically restrictive U.S. immigration agenda starting in 2025. He promises to carry out the "largest domestic deportation operation in American history," which would require relocating military troops to the U.S.-Mexico border, authorizing ICE (Immigration and Customs Enforcement) raids of workplaces, denying due process to unauthorized migrants, constructing additional ICE detention facilities along the southern border, and overturning the Flores settlement, which provides protections for migrant children. Importantly, both the military and National Guard would be used to round up and deport unauthorized migrants. Trump also intends to end birthright citizenship for the children of undocumented parents, deport and revoke the visas of foreign pro-Palestinian student protestors, revoke humanitarian parole, and impose "ideological screening." To date, Trump has announced only one proposal to increase immigration: automatic green cards for noncitizen graduates of U.S. 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 U.S. 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.

The outlook for Congress

Key pending legislation

As of mid-September 2024, there are several pieces of legislation pending in Congress that are of particular interest to the insurance industry.

INSURE Act. The INSURE Act (Insurance for Natural Catastrophe Endorsement) was introduced by Rep Adam Schiff (D-CA) in January 2024. The INSURE Act aims to provide a federal reinsurance backstop for natural catastrophe risks, including hurricanes and wildfires, to make coverage more available and affordable in disaster-prone areas. It also proposes that insurers offer multiyear policies to stabilize coverage availability and premiums.

Critics argue that the bill may encourage irresponsible development in high-risk areas and could burden taxpayers with potentially massive liabilities. Additionally, there are concerns about its effect on private markets, which might be undermined by government involvement.

As of mid-September 2024, the bill is in committee, and discussions are ongoing about its structure and potential effects on both the insurance industry and taxpayers.

The Business of Insurance Regulatory Reform Act. Introduced by Senators Tim Scott (R-SC) and Joe Manchin (D-WV) in January 2024, the bill seeks to clarify the limits of the Consumer Financial Protection Bureau's authority over insurance matters, reinforcing state-level regulation of the insurance industry. The bill emphasizes that insurance should continue to be regulated by the states, not the federal government, to prevent regulatory overlap and duplication.

The bill has widespread support from industry associations, including the APCIA (American Property Casualty Insurance Association) and the NAIC (National Association of Insurance Commissioners). The bill has been reintroduced in both the Senate and House and is pending committee review.

These two bills reflect ongoing debates over federal involvement in catastrophe reinsurance and insurance regulation. The INSURE Act, in particular, could significantly affect how insurers manage risks in disaster-prone regions, while the Business of Insurance Regulatory Reform Act seeks to limit federal oversight of insurance markets in favor of state-based regulation.

Potential legislative priorities for a new Congress

In 2025, if both houses of Congress are controlled by the Republicans, several potential insurance-related legislative initiatives might be introduced, reflecting traditional GOP priorities such as deregulation, tort reform, and health care market reforms.

Under a Republican-controlled Congress, life and annuity insurers could see several legislative proposals aimed at deregulation, fostering private market solutions for retirement savings, and encouraging financial innovation.

Should Democrats control both houses of Congress in 2025, major insurance legislation affecting property-casualty insurers would likely focus on climate risk and catastrophe insurance, social equity in insurance practices, stronger regulation of cyber insurance, and expanded consumer protections. Climate-related risks would be a central theme, with reforms aimed at addressing both the affordability and availability of coverage in high-risk areas. Additionally, Democrats are likely to pursue policies that address inequities in insurance pricing and access while introducing stronger federal oversight of the property-casualty insurance sector.

Life and annuity insurers could face a mix of regulatory reforms if Democrats control the Congress in 2025. Potential legislative areas could be increased consumer protections, and initiatives to promote social equity and retirement security. Proposals may focus on expanding access to annuities and life insurance for underserved populations, strengthening disclosure and fiduciary standards, addressing climate-related risks, and enhancing retirement income security through public and private solutions. Additionally, life insurers may see pressure to integrate climate risk into their investment strategies and face more scrutiny on the tax advantages of certain high-net-worth-focused products.

The outlook for the states

While national elections garner most of the attention, state elections often have profound implications for the regulatory environment, policy frameworks, and legal landscapes in which insurance companies operate. With states wielding substantial power in insurance regulation, the outcomes of these races could shape everything from health care markets to property insurance rates and climate change policies.

The 2024 state elections will have wide-ranging impacts on the insurance industry, particularly in states where property, health care, and climate risks are at the forefront of the policy agenda. Insurers should closely monitor these races, as the outcomes will shape the regulatory and business environments in which they operate for years to come.

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Conning's New and Upcoming Releases

Fronting Sector More Complex Than Meets the Eye

Conning takes stock of the status of the fronting market in its upcoming third installment of this report series. The report will analyze underlying trends driving continued growth, transaction activity, and many other performance indicators for 2023. The analysis will delve into the shifts in fronting company retention strategies and reinsurance usage, among other trends driving how business is transacted and what is in store for this sector. Released July 2024

The Big Payout: The Need for Capital

Baby Boomer retirement, pension risk transfers, and guaranteed income solutions inside 401(k)s are growing opportunities for annuity insurers. However, with the growth in sales comes an increase in pricing, investment, and risk management challenges. We reviewed these challenges in our 2012 study, "The Big Payout: growing individual retirement income opportunities." Since then, the annuity industry has significantly changed, with new firms entering the market and investment strategies diversifying in response to the low interest rate environment. This study examines how insurers are adapting and responding to those changes. Coming Soon

Property-Casualty Expense Analysis

In 2023, insurers found themselves in a difficult position—beset on all sides by pressures largely beyond the their near-term control: natural catastrophes, inflation, reinsurance capacity constraints, and pricing pressures. In response, management turned to a variable still within its control: expense management. The study examines efforts insurers are taking to control expenses in 2024, including workforce reductions, adopting technology for increased productivity, outsourcing, and advertising pullbacks. Coming Soon

Climate Risk Survey

Assessing and managing climate change risk have become increasingly important in the insurance industry. Potential impacts of climate change range from extreme weather events to changes in ecosystems and human livelihoods. The growing threats of extreme weather and climate tipping points create risks to financial markets and are causing increasing concern about their impact on the insurance industry. Conning's Insurance Research and Risk Solutions groups have partnered to conduct a survey of insurers to gauge the sentiments of industry executives on climate risk. In this annual survey on climate risk, a staggering 91% of respondents expressed "significant" concern over the impacts of climate as a physical and transitional risk for their businesses, with the remaining 9% acknowledging at least minor risks. Coming Soon

Homeowners Insurance

The evolving natural catastrophe threat is producing adverse results in the homeowners line. Insurers have been responding in standard fashion by raising rates and tightening underwriting restrictions, but also by pulling back capacity in a number of markets. In California, nearly half of the market chose to stop writing new homeowners business, while in the Midwest, reinsurance capacity is diminishing, creating capacity problems for regional reinsurers—particularly for small mutuals. Natural catastrophe risk may be changing, but that does not mean they are necessarily becoming uninsurable. The industry will need to respond in these markets with risk management solutions before legislative or regulatory solutions are imposed. The report examines the impact of evolving natural catastrophe events on the market for homeowners insurance and discusses potential elements of a risk management based solution to the emerging homeowners insurance crisis. Coming Soon

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