



Insuring Michigan's Future

A Look at the Economic Impact of the Insurance Industry

Lansing, MI

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■ Economic Importance of the Michigan Insurance Industry

- ◆ Property/Casualty, Life/Health Segments
- ◆ Contribution to State Economy
- ◆ Employment & Wages
- ◆ Taxes Paid

■ Insurance Financial Strength & Stability

- ◆ Performance During and After the “Great Recession”
- ◆ Consumer Benefits

■ Investment Strategy

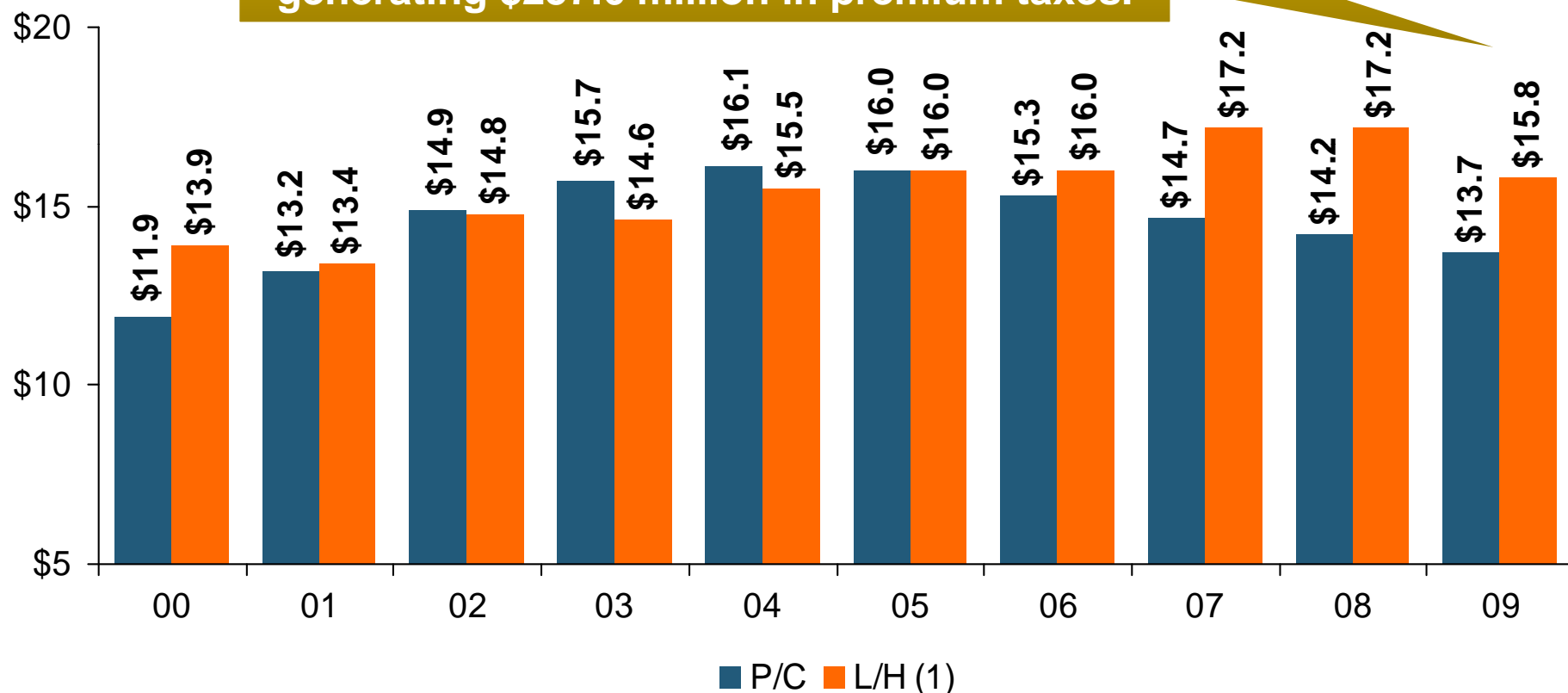
- ◆ Conservative Strategies → Stability
- ◆ Industry Role as an Institutional Investor

■ Regulatory and Legislative Issues

■ Q&A

Direct Premiums Written, Michigan, Property/Casualty and Life/Health Insurance, 2000-2009 (\$ Billions)

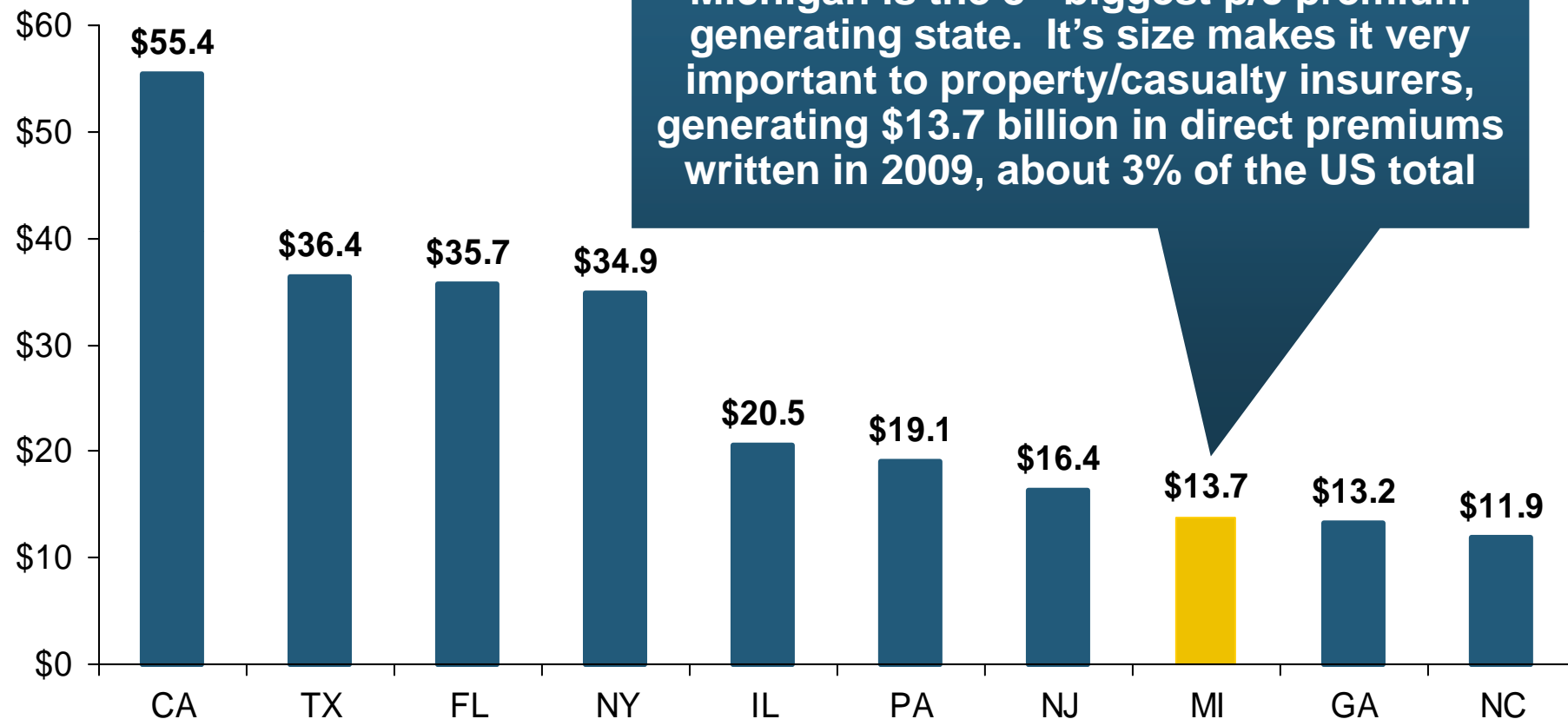
Michigan insurers (p/c, life, health) wrote \$29.5 billion in premiums in 2009, up \$3.7 billion or 14.3% from \$25.8 billion in 2000, generating \$257.6 million in premium taxes.



(1) Includes life insurance, annuities, deposit type contracts, and other considerations. Does not include accident and health.

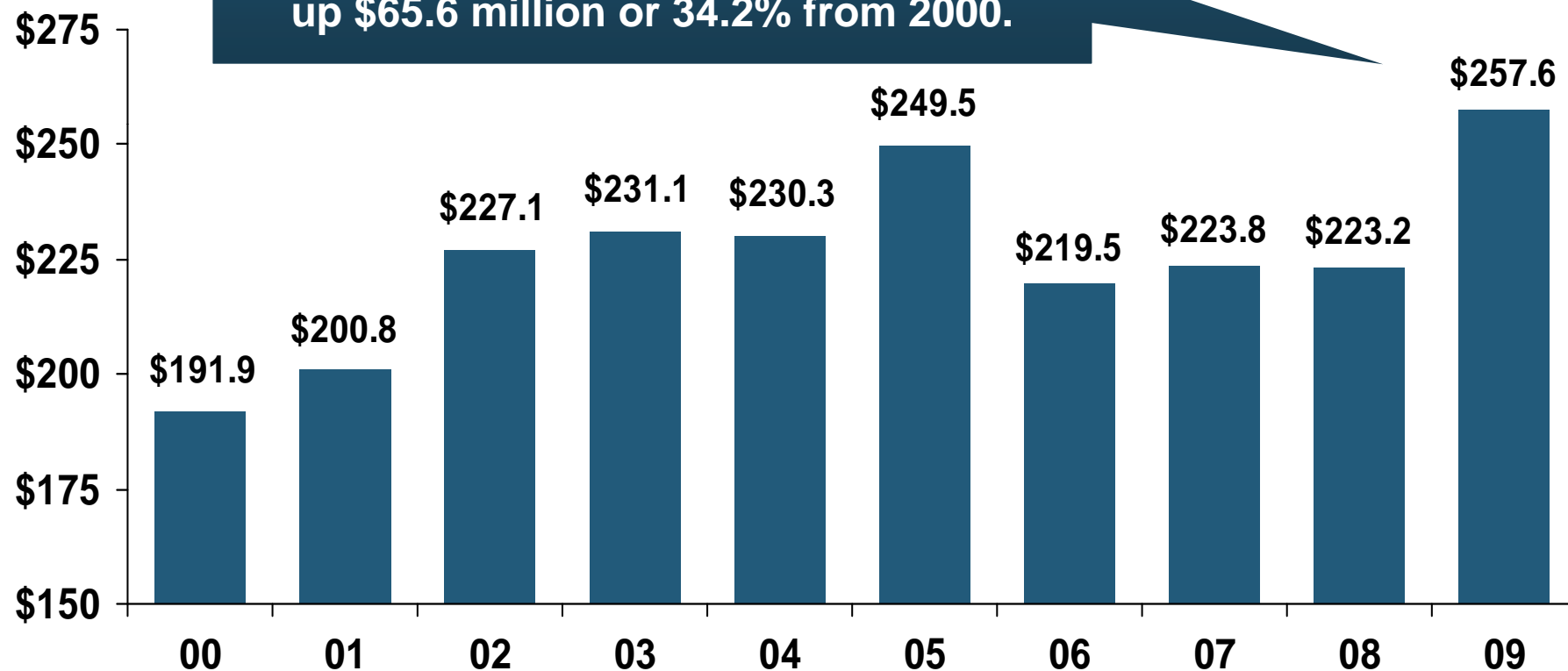
Top 10 States: P/C Insurance Premiums Written, 2009

\$ Billions



Premium Taxes Paid by P/C, L/H Insurers Operating in Michigan, 2000-2009 (\$Mill)

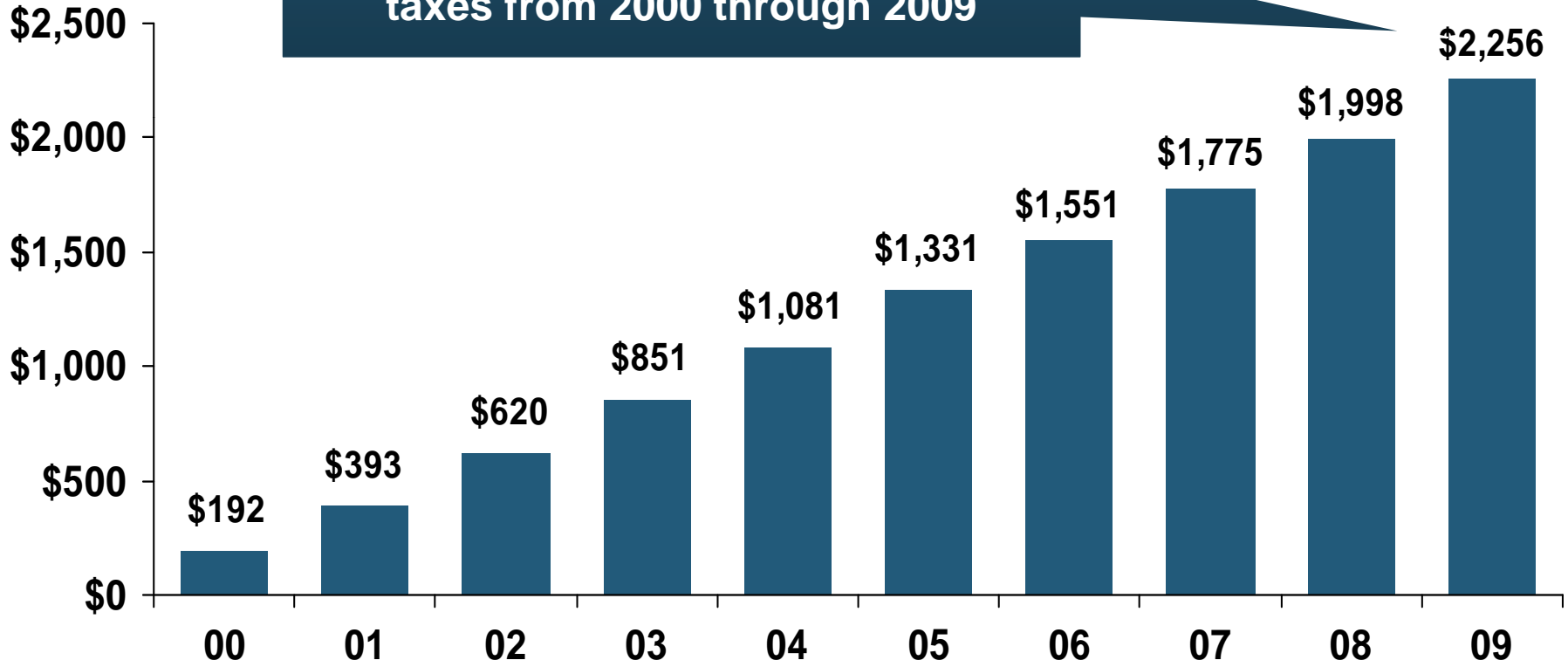
Insurers operating in Michigan (no matter where they are domiciled) paid a record \$257.6 million in premium taxes in 2009, up \$65.6 million or 34.2% from 2000.



Cumulative Premium Taxes Paid by P/C, L/H Insurers Operating in Michigan, 2000-2009 (\$Mill)



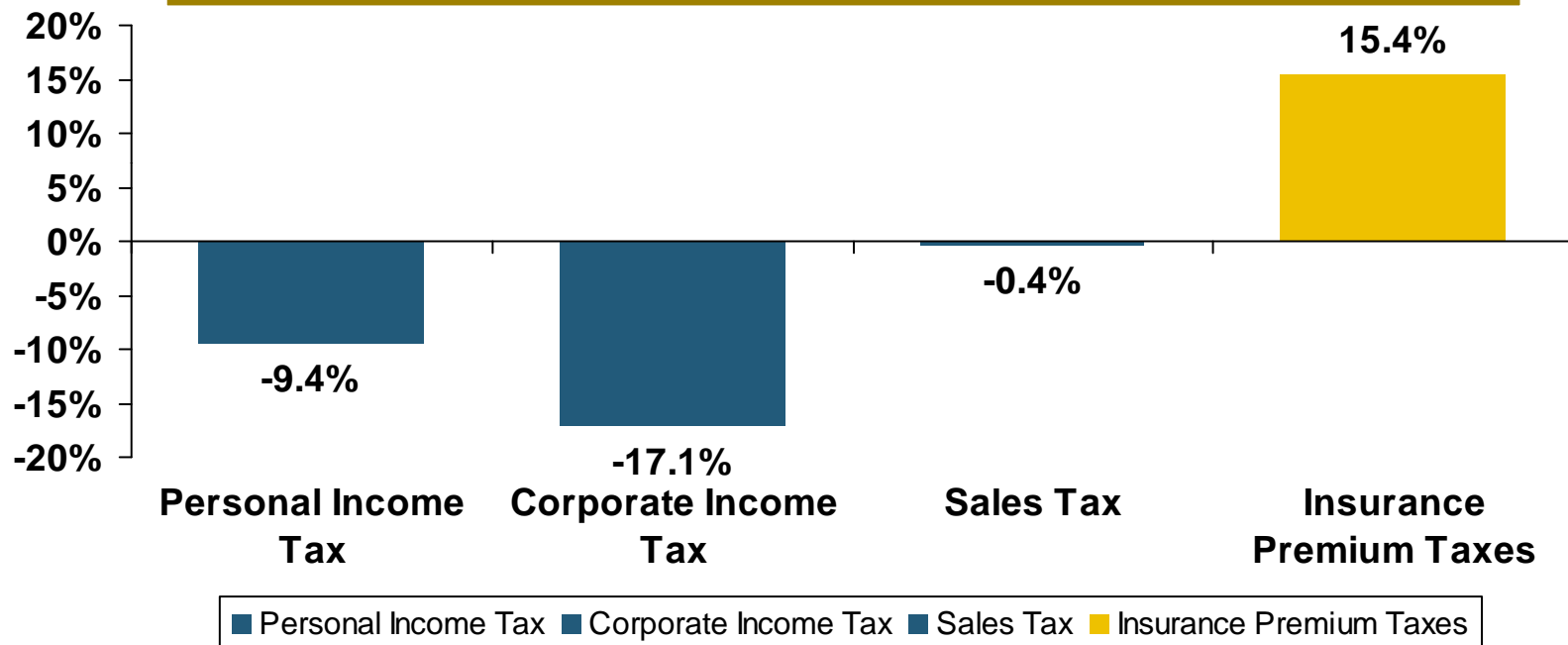
Insurers operating in Michigan (no matter where they are domiciled) paid a total of \$2.256 billion in premium taxes from 2000 through 2009



Source: U.S. Department of Commerce, Bureau of the Census; Insurance Information Institute.

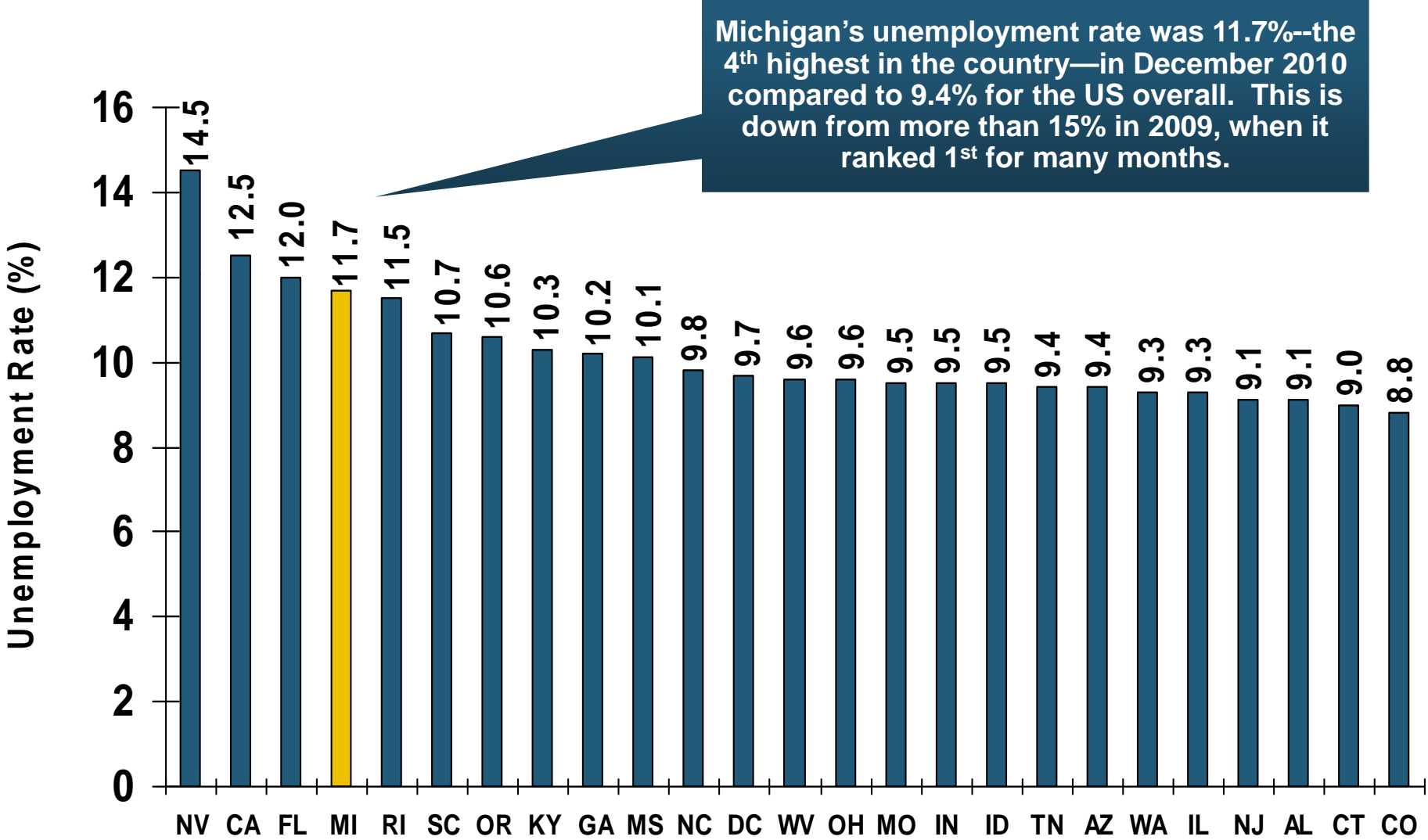
Percent Change in Michigan State Tax Receipts by Type, 2009 vs. 2008

Most types of state tax receipts crashed during the recession contributing to the state's fiscal crisis— but premium tax receipts actually increased



Premium taxes are an important and relatively stable source of state tax revenue, especially in difficult economic times

Unemployment Rates by State, December 2010: Highest 25 States*



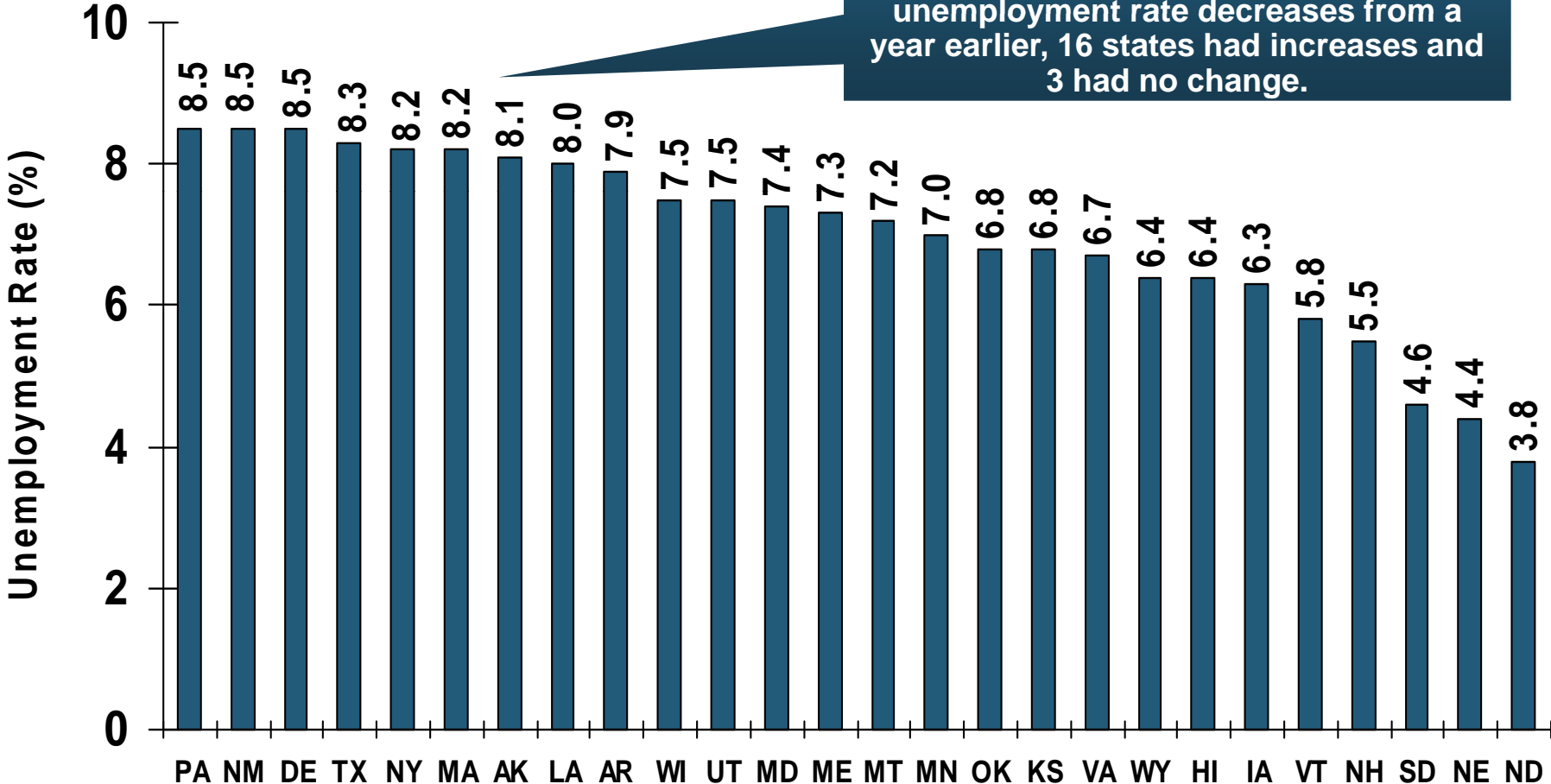
*Provisional figures for December 2010, seasonally adjusted.

Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Unemployment Rates By State, December 2010: Lowest 25 States*

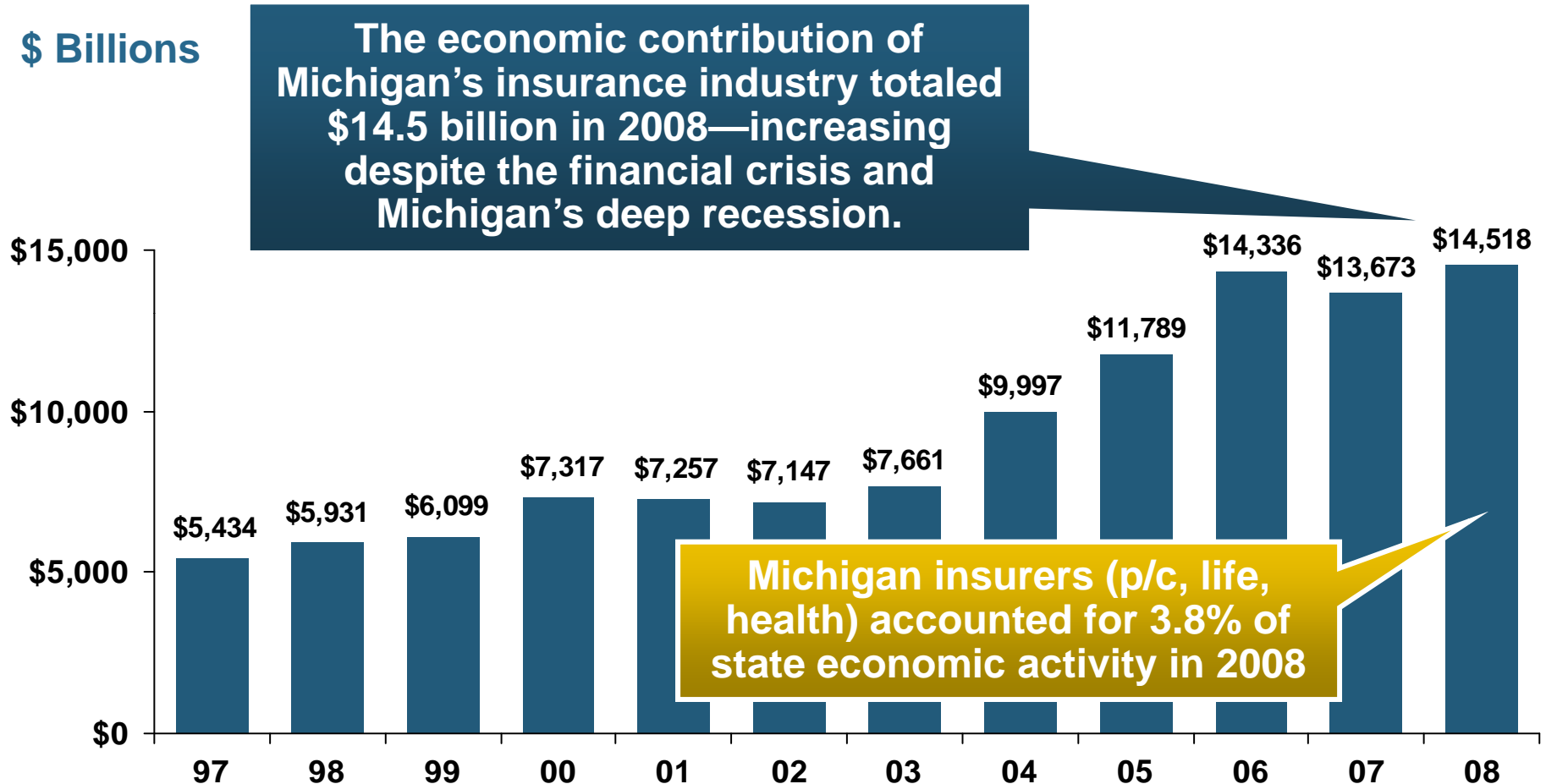


In December, state and regional unemployment rates were little changed. Some 31 states and DC reported unemployment rate decreases from a year earlier, 16 states had increases and 3 had no change.



*Provisional figures for December 2010, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Gross State Product Attributable to Insurance Carriers in Michigan,* 2000-2008 (\$ millions)

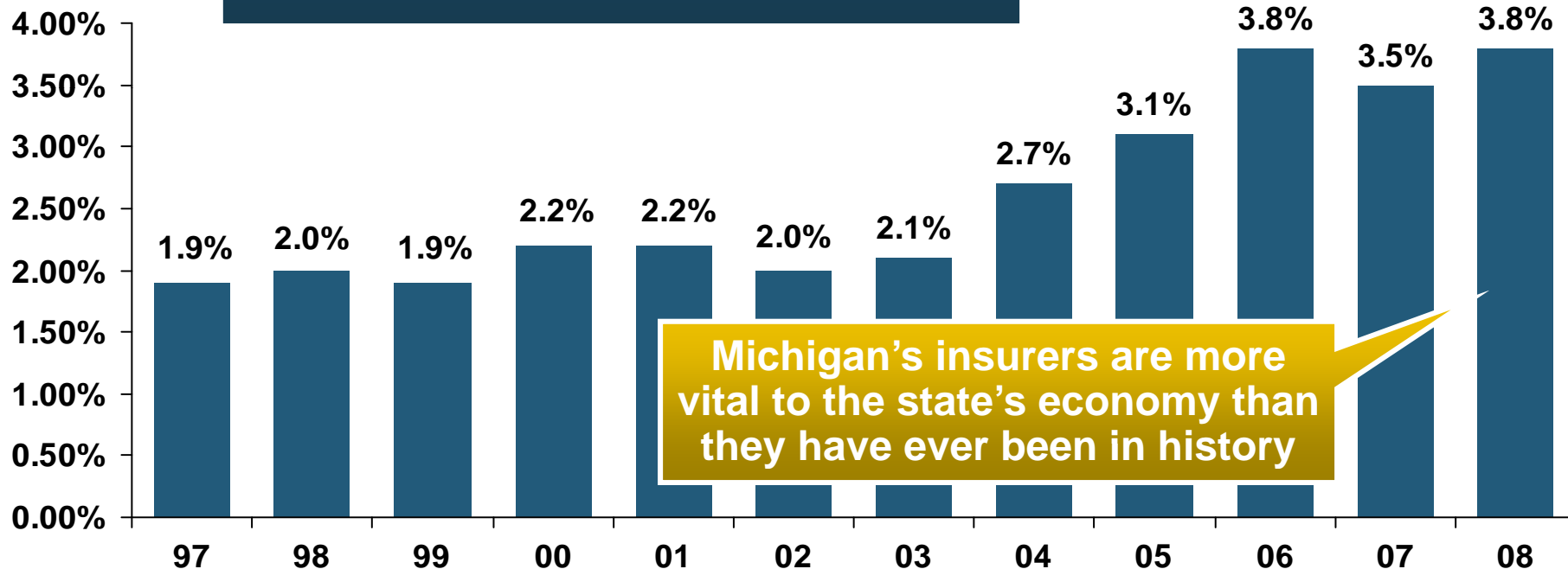


*Includes "Insurance Carriers and Related Activities."

Source: U.S. Department of Commerce, Bureau of Economic Analysis; Insurance Information Institute.

Share of Michigan Gross State Product Attributable to Insurance Carriers,* 1997-2008

The economic contribution of Michigan's insurance industry has doubled since 1997, increasing from 1.9% of state GDP to 3.8%



Michigan's insurers are more vital to the state's economy than they have ever been in history

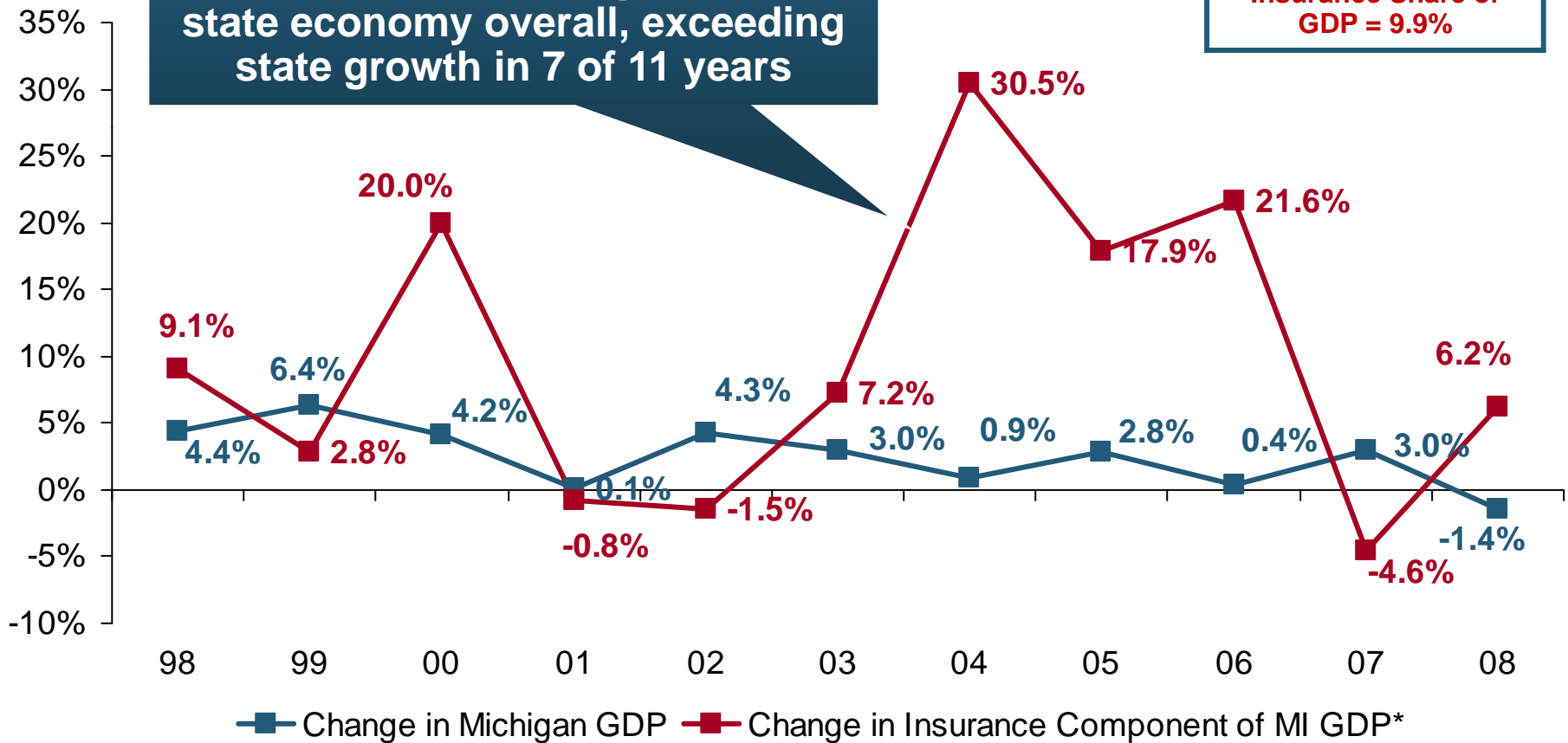
*Includes "Insurance Carriers and Related Activities."

Source: U.S. Department of Commerce, Bureau of Economic Analysis; Insurance Information Institute.

Growth in Michigan GDP vs. Insurance Component* of Economy, 1998–2008

Between 1998 and 2008, the insurance component of Michigan's economy grew nearly 4 times faster on average than the state economy overall, exceeding state growth in 7 of 11 years

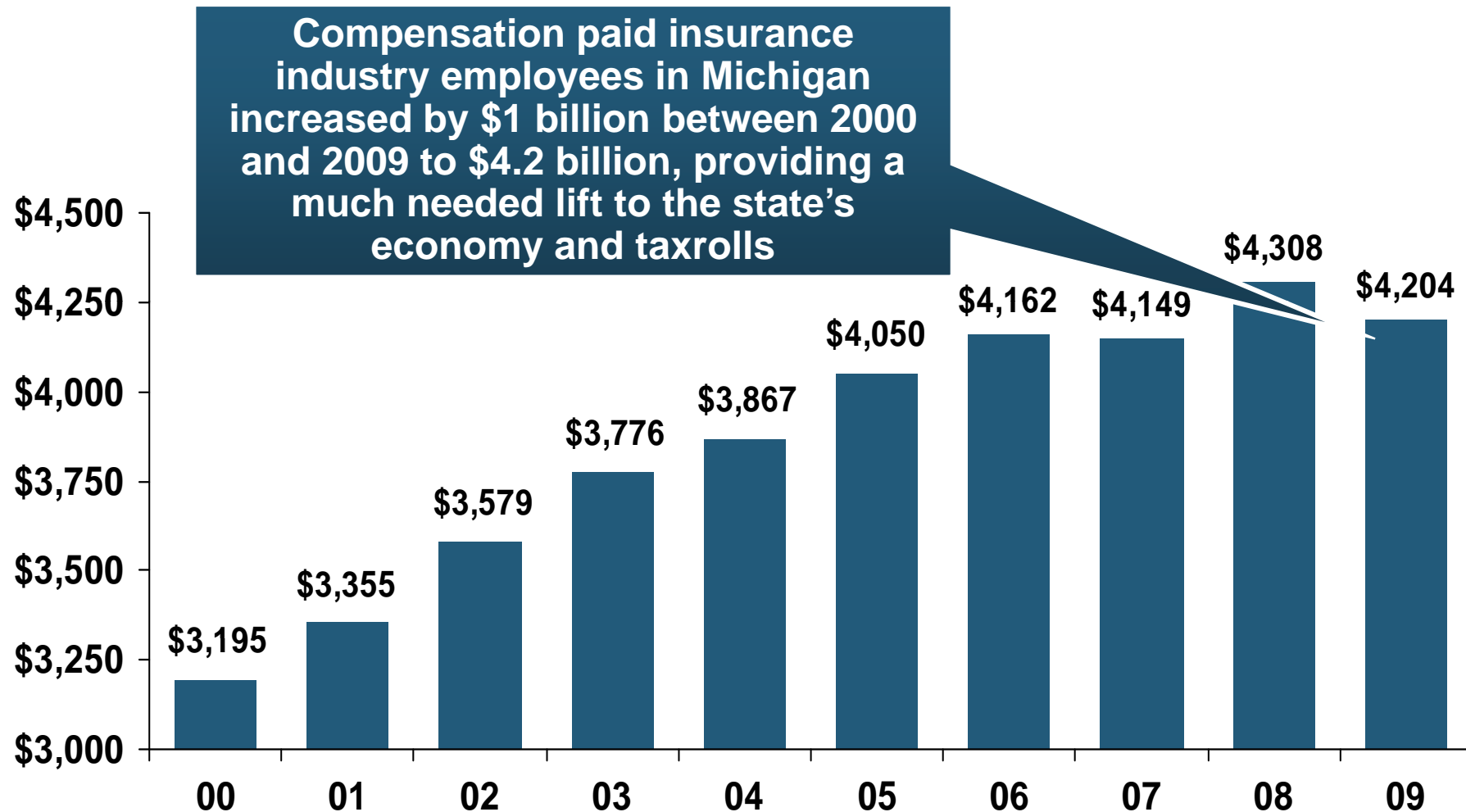
Average 1998-2008
 MI GDP = 2.5 %
 Insurance Share of GDP = 9.9%



*Includes "Insurance Carriers and Related Activities."

Source: U.S. Department of Commerce, Bureau of Economic Analysis; Insurance Information Institute.

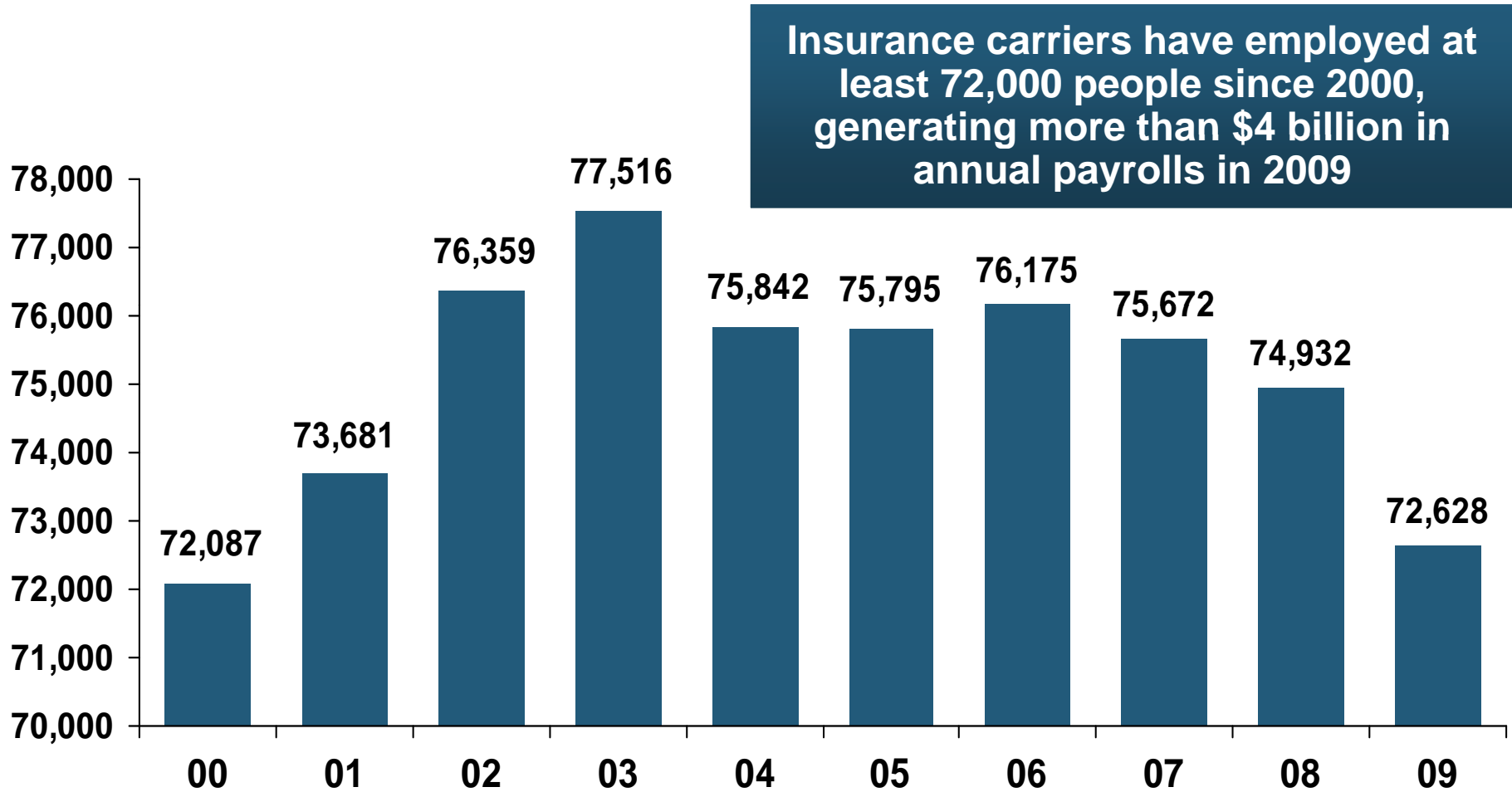
Employee Compensation at Michigan Insurance Carriers, 2000-2009 (\$ Millions)*



*Includes "Insurance Carriers and Related Activities."

Source: U.S. Department of Commerce, Regional Economic Info. System, Bureau of Economic Analysis; Insurance Information Institute.

Insurance Carrier Employment in Michigan, 2000-2009 (\$ millions)

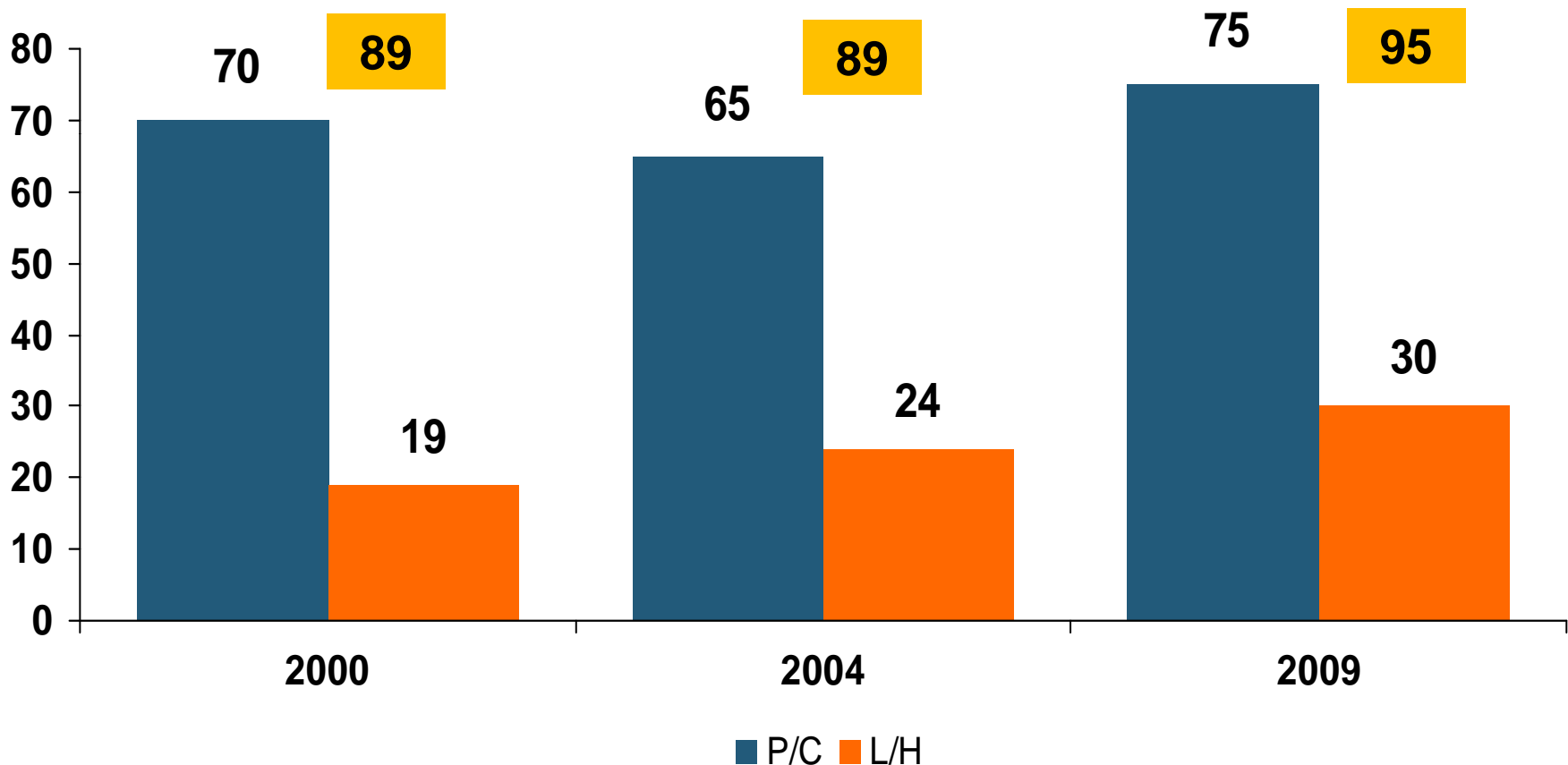


*Includes "Insurance Carriers and Related Activities."

Source: U.S. Department of Commerce, Regional Economic Info. System, Bureau of Economic Analysis; Insurance Information Institute.

Michigan Domiciled Insurance Companies Property/Casualty and Life/Health Insurance, 2000-2009

95 p/c and life/health insurers
were domiciled in Michigan in
2009, up from 89 in 2000



Source: Insurance Department Resources Report, published by the National Association of Insurance Commissioners. Reprinted with permission. Further reprint or redistribution strictly prohibited without written permission of NAIC.

Top 20 Property/Casualty Companies Domiciled in Michigan, 2009



Rank	Company	Group	Direct premiums written (\$000)
1	Auto-Owners Insurance Co.	Auto-Owners Insurance Co.	\$2,014,858
2	Foremost Ins Co. Grand Rapids	Zurich Financial Services Ltd	1,035,609
3	Home-Owners Insurance Co.	Auto-Owners Insurance Co.	926,872
4	Citizens Insurance Co. of Am	Hanover Insurance Group Inc.	923,381
5	Auto Club Group Insurance Co.	Auto Club Insurance Assoc Group	659,445
6	MemberSelect Insurance Co.	Auto Club Insurance Assoc Group	541,290
7	Frankenmuth Mutual Ins Co.	Frankenmuth Mutual Insurance Co.	405,136
8	Star Insurance Co.	Meadowbrook Insurance Group	390,542
9	Accident Fund Ins Co. of Am	Accident Fund Group	359,413
10	Progressive Michigan Ins Co.	Progressive Corp.	354,396
11	Farm Bureau Genl Ins Co. of MI	Michigan Farm Bureau	335,782
12	MIC P&C Insurance Corp.	GMAC Insurance Group	309,315
13	Hastings Mutual Insurance Co.		308,421
14	Amerisure Mutual Insurance Co.	Amerisure Mutual Insurance Co.	292,257
15	Auto Club Insurance Assn.	Auto Club Insurance Assoc Group	281,705
16	Amerisure Insurance Co.	Amerisure Mutual Insurance Co.	238,642
17	Motors Insurance Corp.	GMAC Insurance Group	223,266
18	MEEMIC Insurance Co.	Auto Club Insurance Assoc Group	178,246
19	Southern-Owners Insurance Co.	Auto-Owners Insurance Co.	164,175
20	Progressive Marathon Ins Co.	Progressive Corp.	161,995

(1) Based on premiums on all states.

Source: SNL Financial LC.

Top Ten Life/Health Companies Domiciled in Michigan, 2009

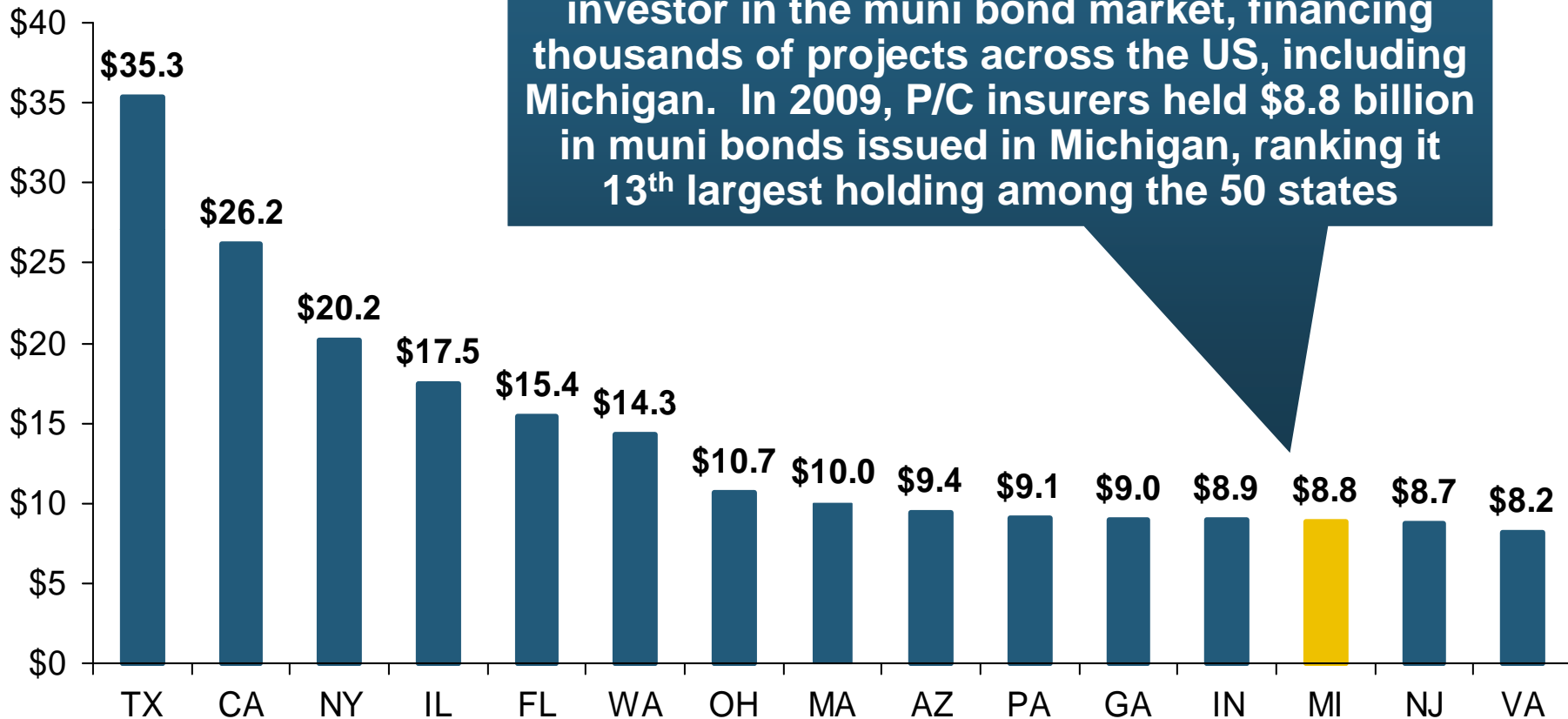
Rank (1)	Companies	Direct premiums written (\$000)
1	Jackson National Life Insurance Co.	\$13,419,931
2	John Hancock Life Insurance Co.	12,933,691
3	Sun Life Assurance Co. of Canada	2,600,058
4	Auto-Owners Life Insurance Co.	429,526
5	American Community Mutual Insurance Co.	363,840
6	Household Life Insurance Co.	207,113
7	Farm Bureau Life Insurance Co. of Michigan	167,326
8	Priority Health Insurance Co.	130,426
9	Alliance Health & Life Insurance Co.	121,589
10	AAA Life Insurance Co.	105,366

(1) Based on premiums on all states.

Source: SNL Financial LC.

Top 15 States: P/C Insurer Municipal Bond Holdings, 2009

\$ Billions



Insurance Industry Investments in Municipal Bonds, 2009 (\$ billions)

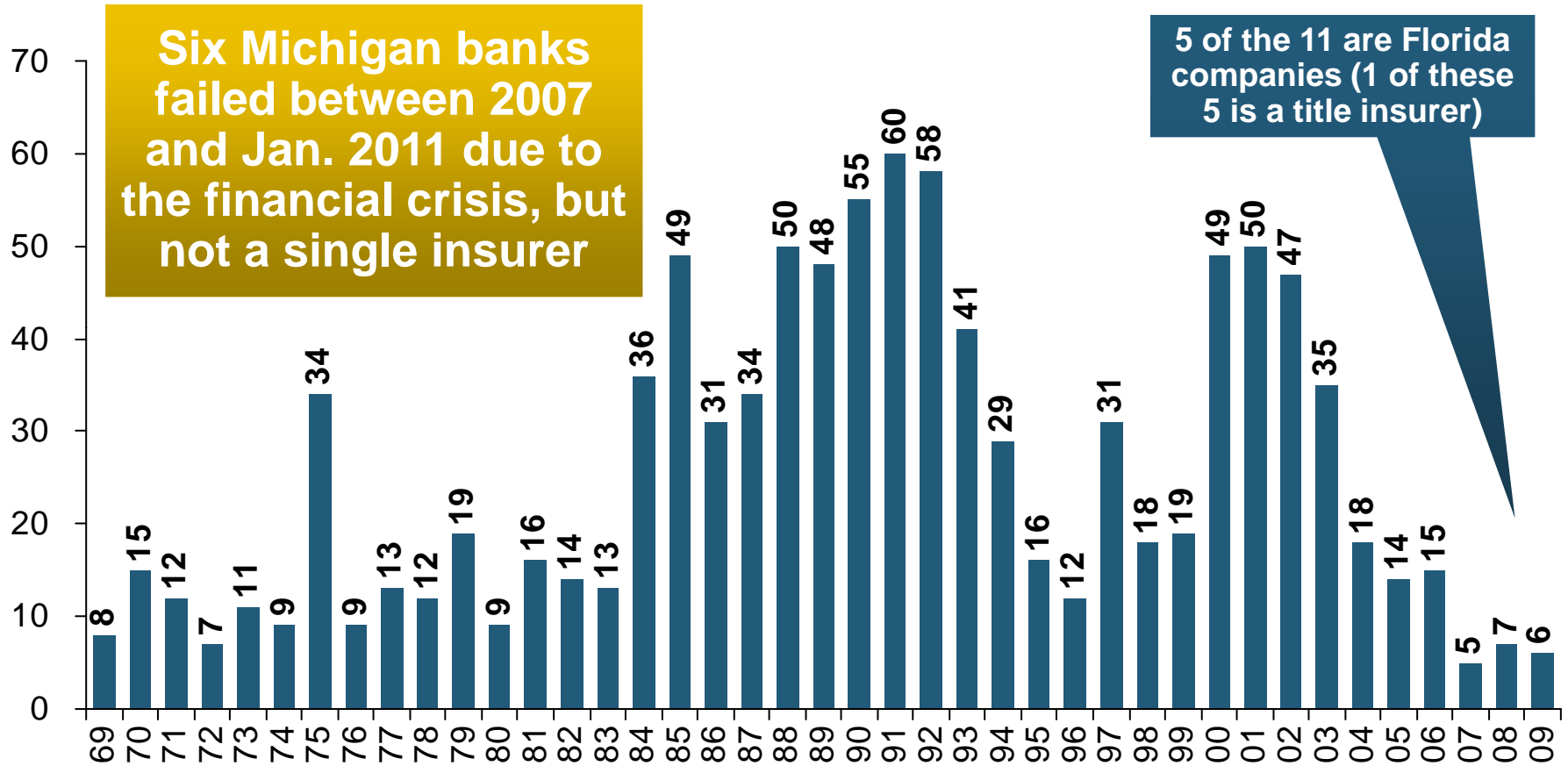
Rank	State	P/C	Rank	State	P/C
28	Alabama	\$3.6	49	Montana	\$0.6
37	Alaska	2.2	33	Nebraska	2.6
9	Arizona	9.4	24	Nevada	4.7
43	Arkansas	1.2	41	New Hampshire	1.4
2	California	26.2	14	New Jersey	8.7
16	Colorado	7.0	36	New Mexico	2.4
25	Connecticut	4.4	3	New York	20.2
42	Delaware	1.4	18	North Carolina	6.5
32	District of Columbia	2.7	47	North Dakota	0.6
5	Florida	15.4	7	Ohio	10.7
11	Georgia	9.0	38	Oklahoma	2.0
35	Hawaii	2.4	26	Oregon	4.3
46	Idaho	0.8	10	Pennsylvania	9.1
4	Illinois	17.5	39	Rhode Island	1.7
12	Indiana	8.9	19	South Carolina	6.0
40	Iowa	1.6	48	South Dakota	0.6
30	Kansas	3.2	20	Tennessee	6.0
31	Kentucky	2.9	1	Texas	35.3
27	Louisiana	3.6	29	Utah	3.2
44	Maine	1.1	50	Vermont	0.6
23	Maryland	5.4	15	Virginia	8.2
8	Massachusetts	10.0	6	Washington	14.3
13	Michigan	8.8	45	West Virginia	0.9
21	Minnesota	5.7	17	Wisconsin	6.6
34	Mississippi	2.5	51	Wyoming	0.4
22	Missouri	5.6		Total	\$320.0



**Financial Strength of Insurers is
Key to Their Success,
Benefiting Consumers**

**Insurers Performed Better than Any
Other Financial Services Segment
During the “Great Recession”**

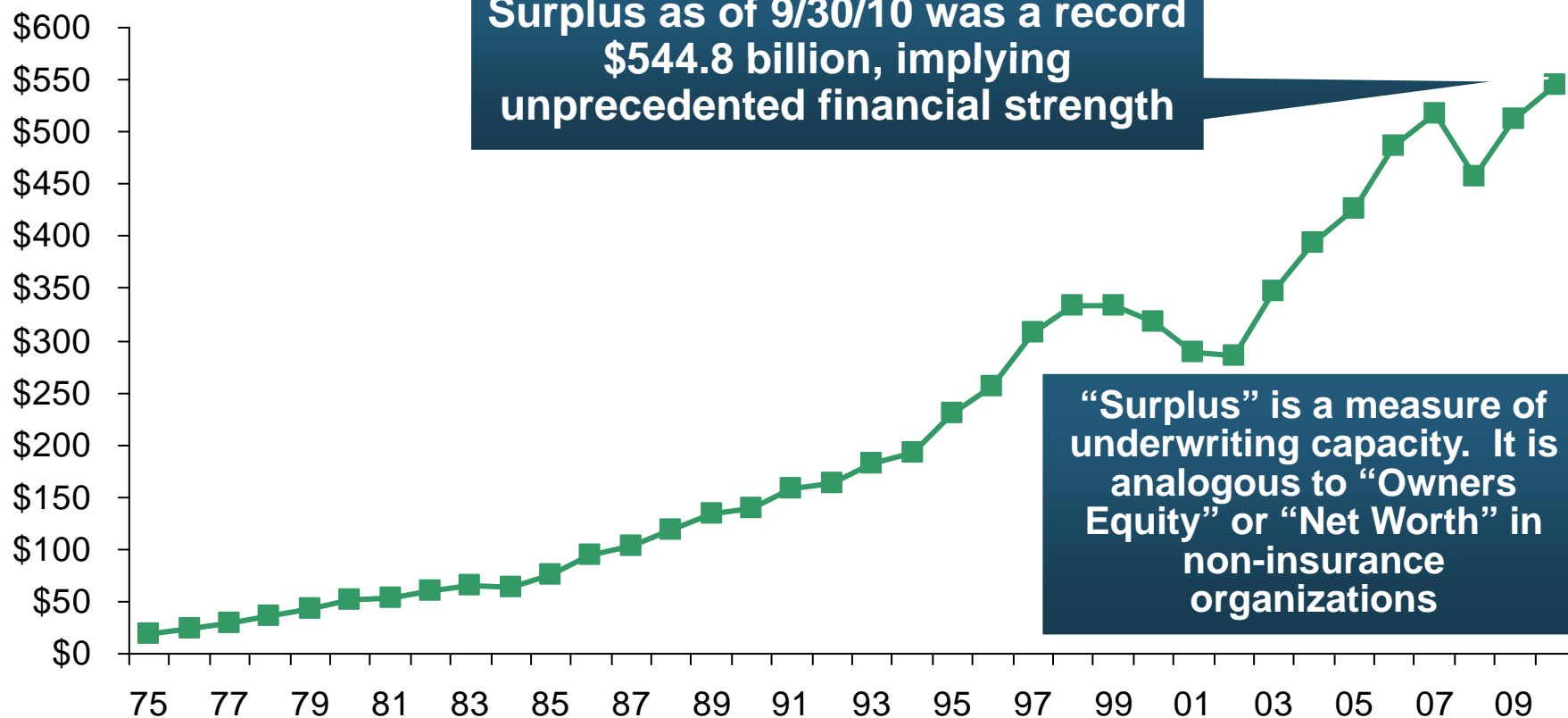
P/C Insurer Impairments, 1969–2009



The Number of Impairments Varies Significantly Over the P/C Insurance Cycle, With Peaks Occurring Well into Hard Markets

US Policyholder Surplus: 1975–2010*

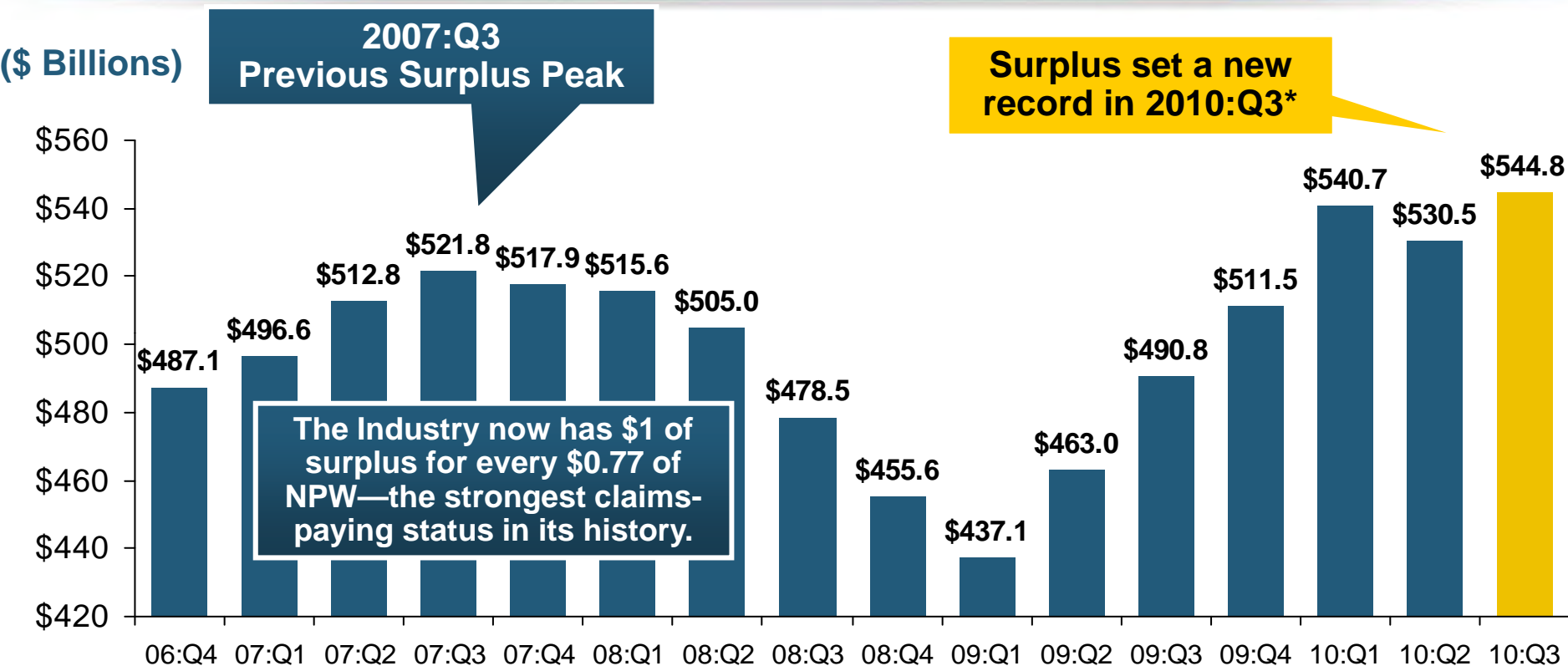
(\$ Billions)



* As of 9/30/10.

Source: A.M. Best, ISO, Insurance Information Institute.

Policyholder Surplus, 2006:Q4–2010:Q3



Quarterly Surplus Changes Since 2007:Q3 Peak

09:Q1: -\$84.7B (-16.2%)

10:Q1: +\$18.9B (+3.6%)

09:Q2: -\$58.8B (-11.2%)

10:Q2: +\$8.7B (+1.7%)

09:Q3: -\$31.0B (-5.9%)

10:Q3: +\$23.0B (+4.4%)

09:Q4: -\$10.3B (-2.0%)

*Includes \$22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business in early 2010.

How P/C Insurance Industry Stability Has Benefitted Consumers

Bottom Line:

- Insurance markets – unlike banking – are operating *normally*
- The basic function of insurance – the orderly transfer of risk from client to insurer – *continues uninterrupted*
- This means that insurers continue to:
 - ◆ Pay claims (whereas 232 banks have gone under as of 1/21/11)
 - *The promise is being fulfilled*
 - ◆ Renew existing policies (*banks are reducing and eliminating lines of credit*)
 - ◆ Write new policies (*banks are turning away people and businesses who want or need to borrow*)
 - ◆ Develop new products (*banks are scaling back the products they offer*)
 - ◆ Compete intensively (*banks are consolidating, reducing consumer choice*)

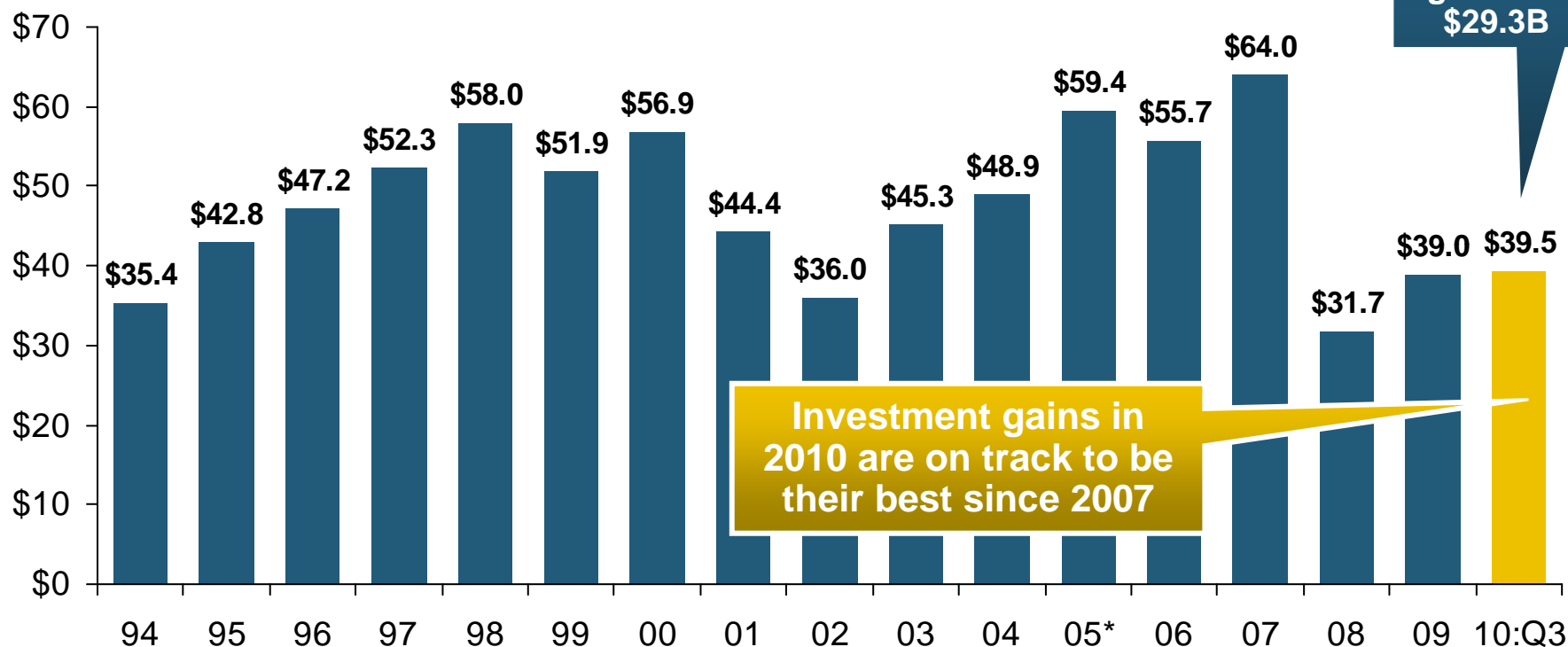


Conservative Investments: Another Key to Insurer Stability

**Conservative Investment Strategies
Means that Insurers' Investment
Performance Remained Relatively
Strong During the Crisis**

Property/Casualty Insurance Industry Investment Gain: 1994–2010:Q3¹

(\$ Billions)



2009:Q3
gain was
\$29.3B

Investment gains in
2010 are on track to be
their best since 2007

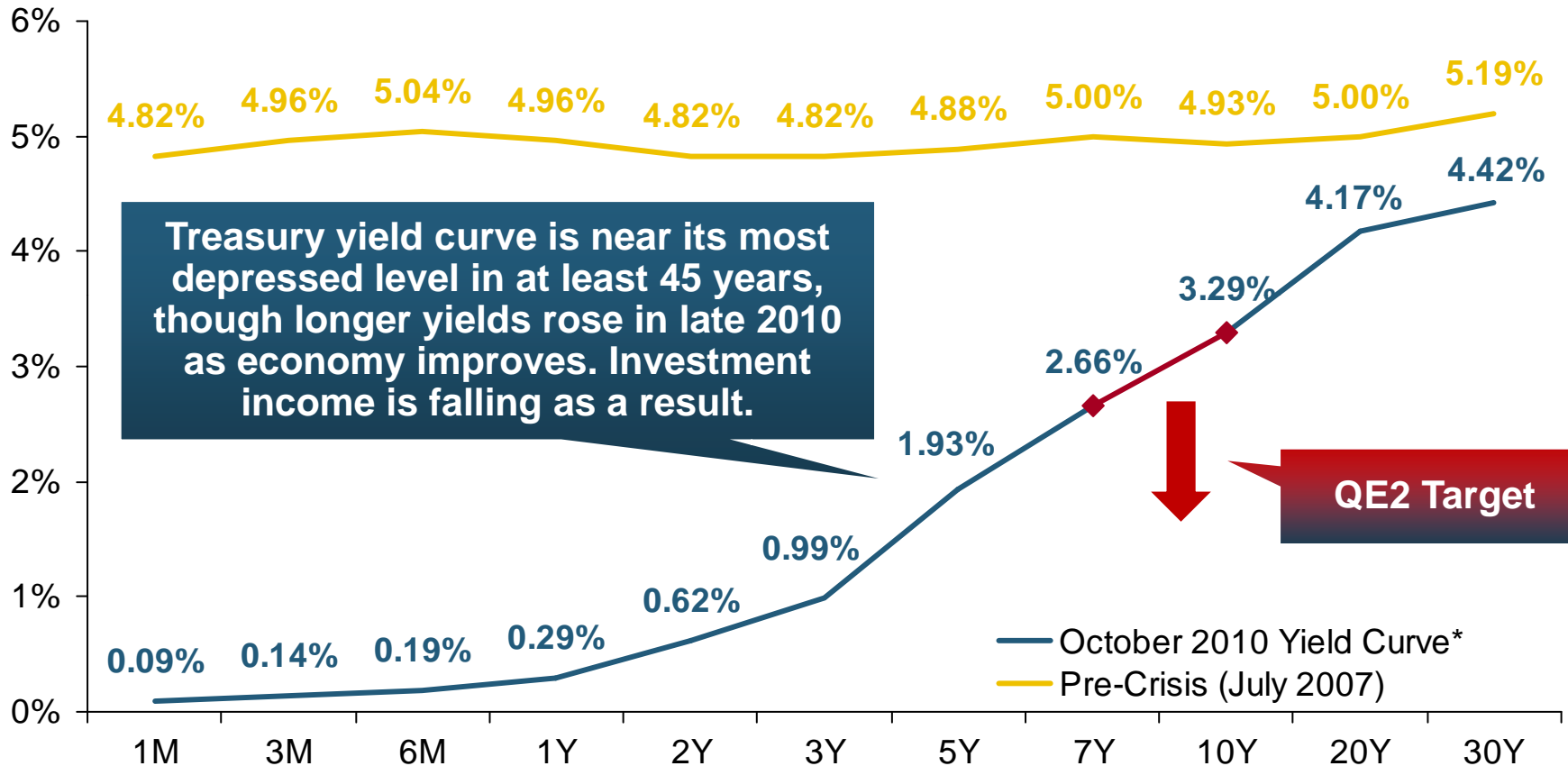
In 2008, Investment Gains Fell by 50% Due to Lower Yields and Nearly \$20B of Realized Capital Losses
2009 Saw Smaller Realized Capital Losses But Declining Investment Income
Investment Gains Recovered Significantly in 2010

¹ Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.

* 2005 figure includes special one-time dividend of \$3.2B.

Sources: ISO; Insurance Information Institute.

Treasury Yield Curves: Pre-Crisis (July 2007) vs. December 2010



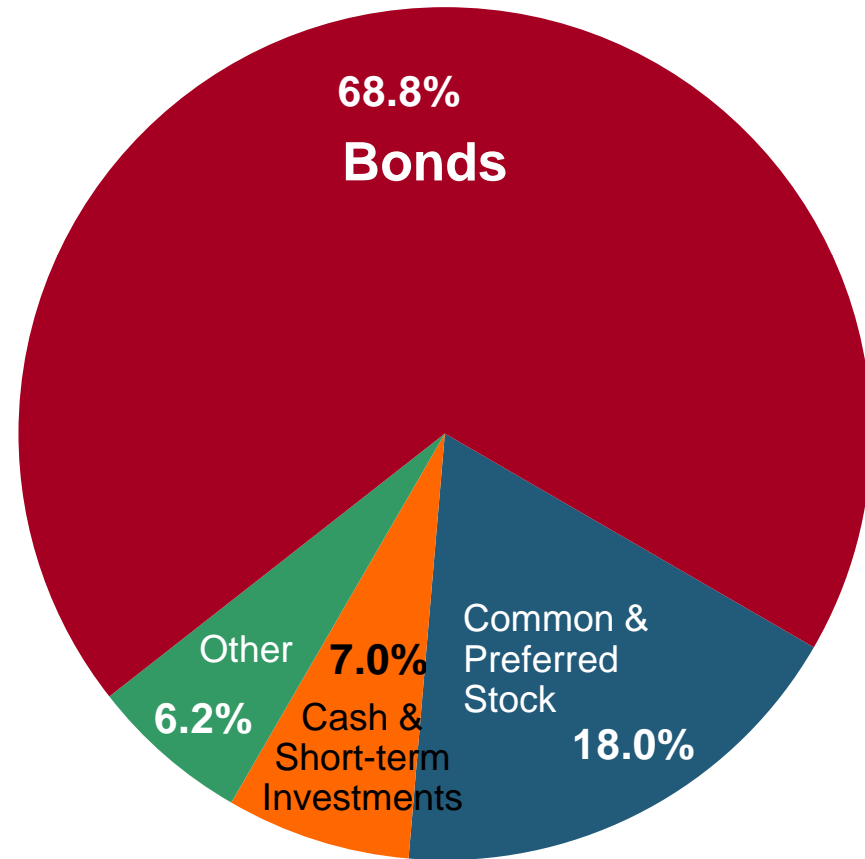
The Fed's Announced Intention to Pursue Additional Quantitative Easing Could Further Depress Rates in the 7 to 10-Year Maturity Range

Distribution of P/C Insurance Industry's Investment Portfolio

Portfolio Facts as of 12/31/2009

- Invested assets totaled \$1.26 trillion
- Generally, insurers invest conservatively, with over 2/3 of invested assets in bonds
- Only 18% of invested assets were in common or preferred stock

As of December 31, 2009



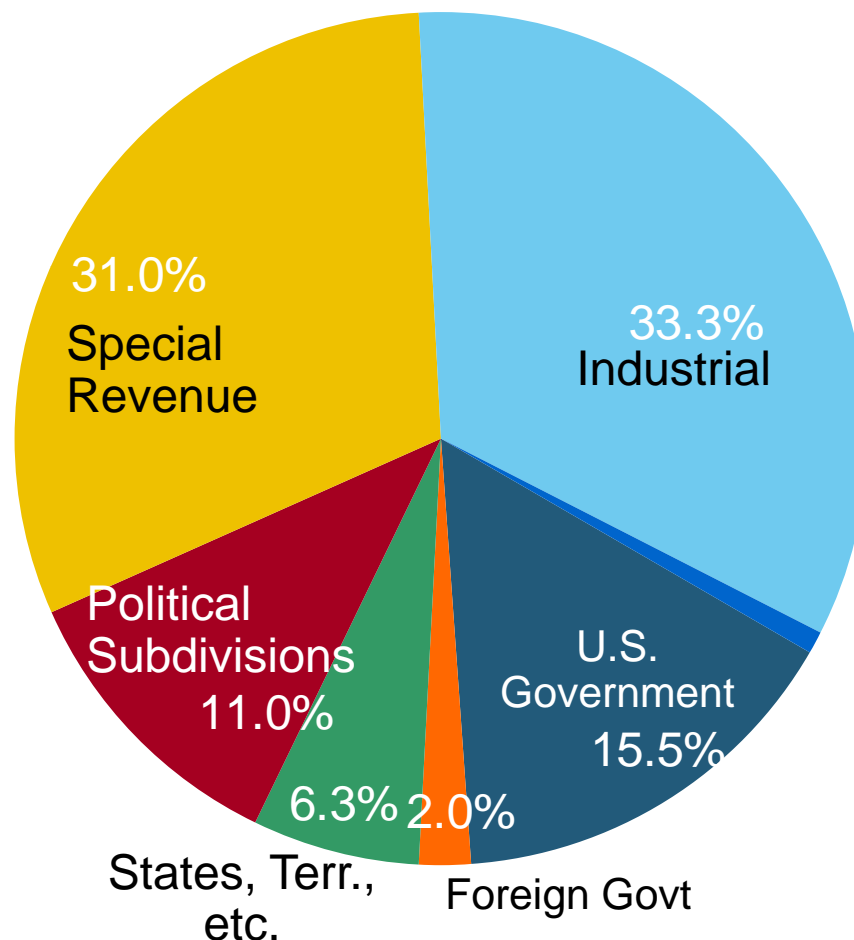
2011 Financial Overview

About Half of the P/C Insurance Industry's Bond Investments Are in Municipal Bonds

Bond Investment Facts as of 12/31/09

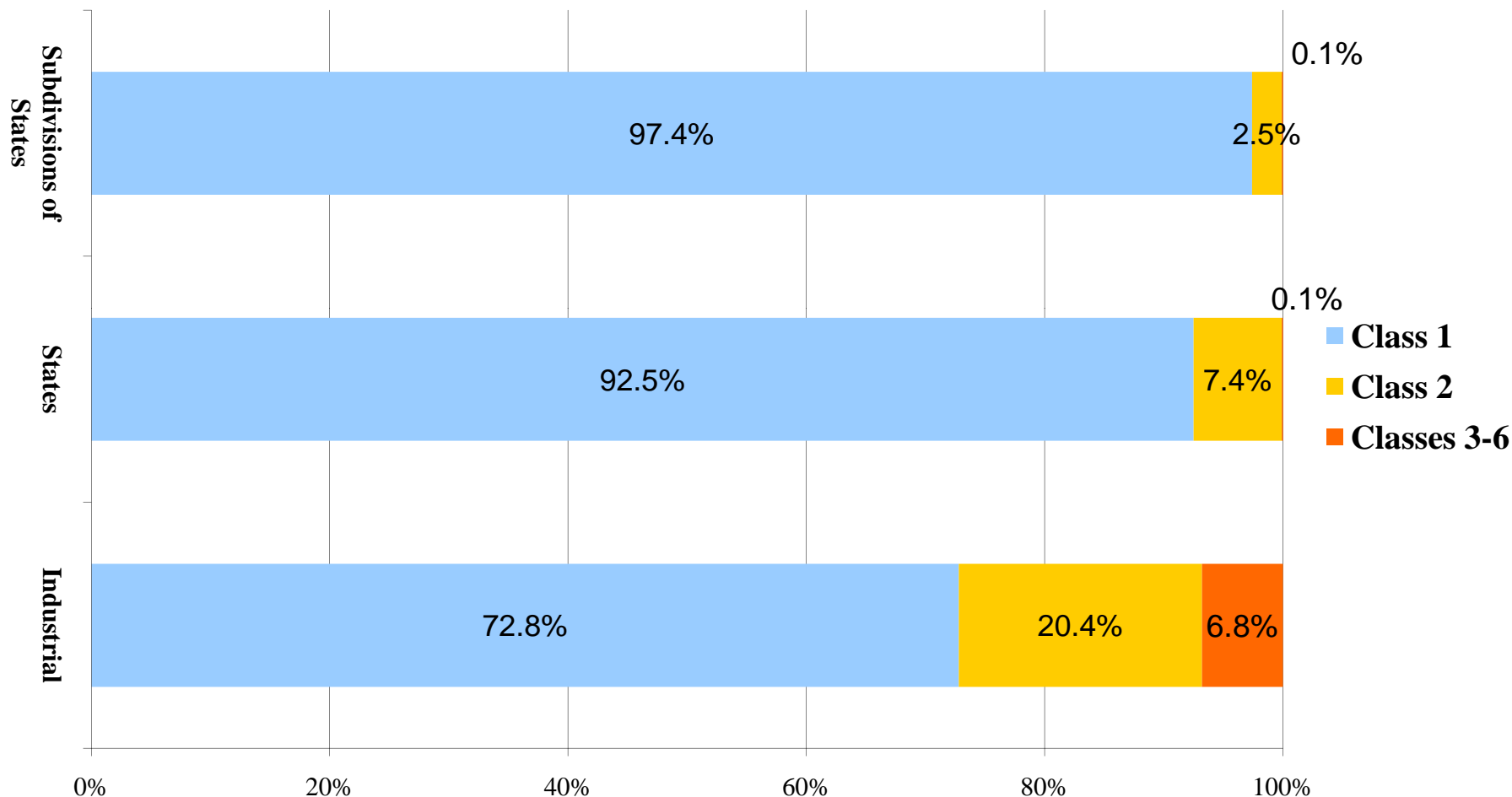
- Investments in "Political Subdivision [of states]" bonds were \$102.5 billion
- Investments in "States, Territories, & Possessions" bonds were \$58.9 billion
- Investments in "Special Revenue" bonds were \$288.2 billion
- All state, local, and special revenue bonds totaled 48.2% of bonds, about 35.7% of total invested assets

As of December 31, 2009



2011 Financial Overview

When P/C Insurers Invest in Higher Risk Bonds, It's Corporates, Not Munis



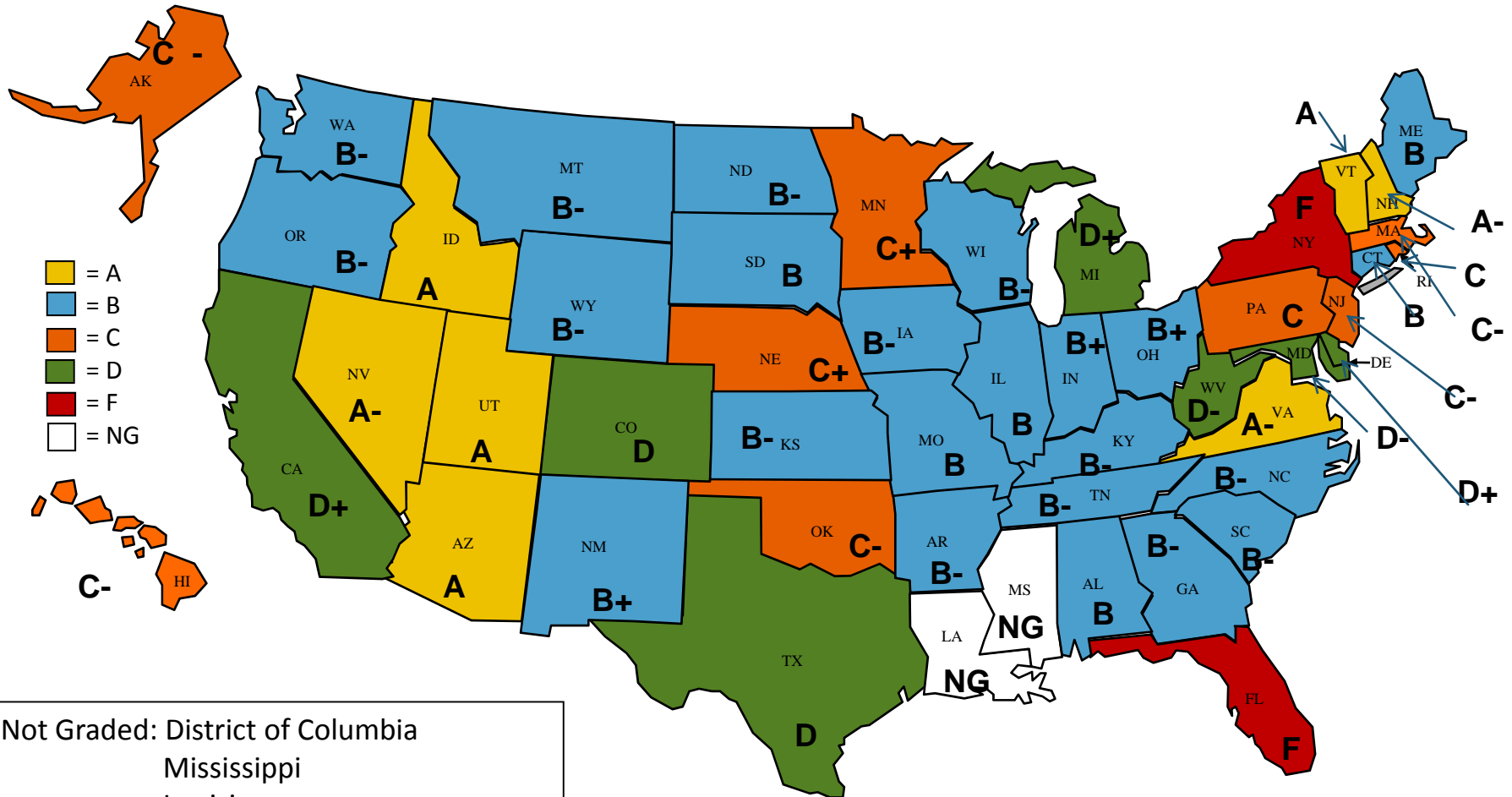
The NAIC's Securities Valuation Office puts bonds into one of 6 classes: class 1 has the lowest expected impairments; successively higher numbered classes imply increasing impairment likelihood.



Insurance Regulatory Environment in Michigan

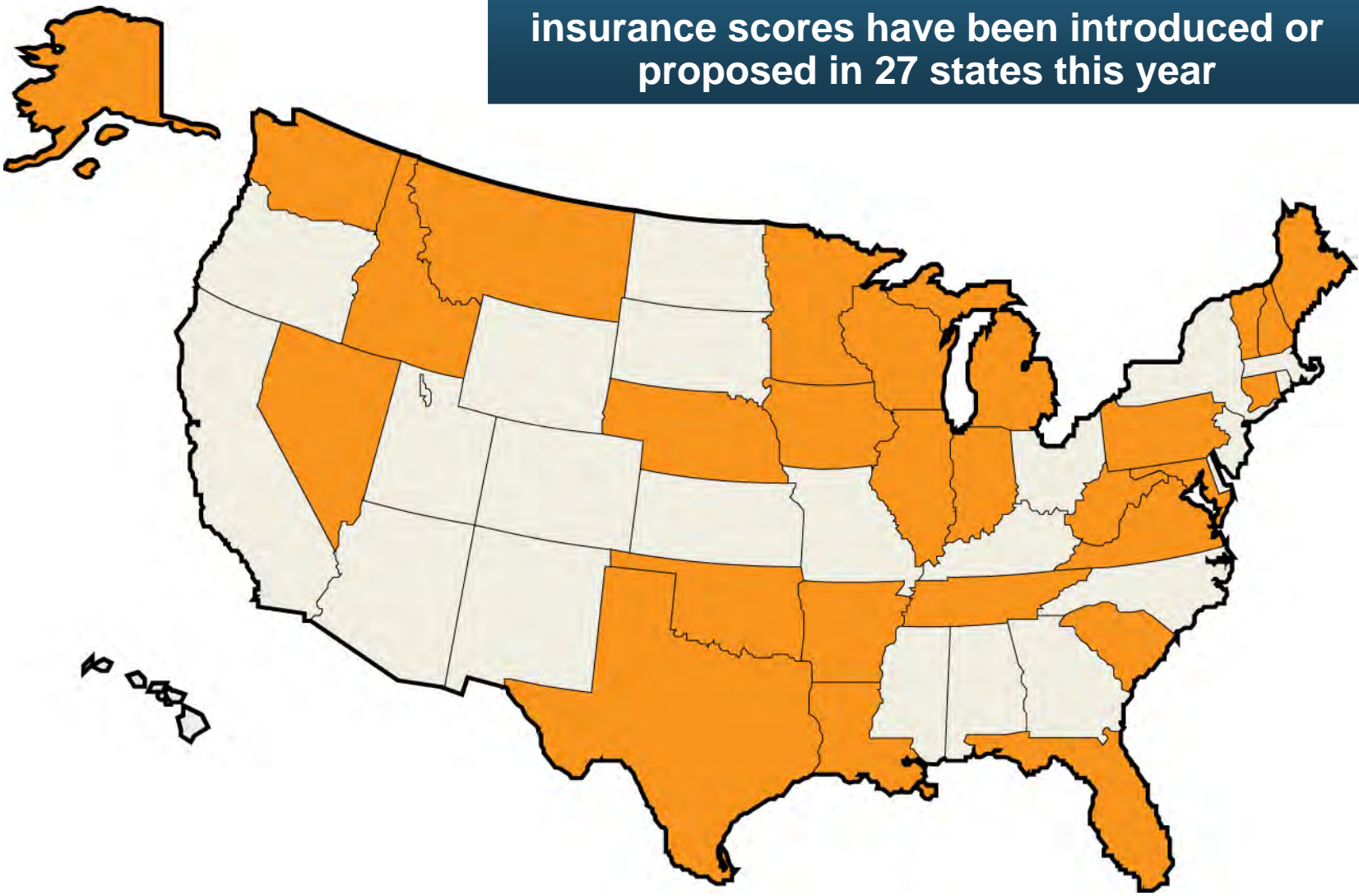
**Michigan's Insurance Markets
Have Had Some Problems in
Recent Years**

2010 Property and Casualty Insurance Report Card



Insurance Scoring: A Perennial Problem for Insurers

Bills adverse to insurers' use of credit-based insurance scores have been introduced or proposed in 27 states this year



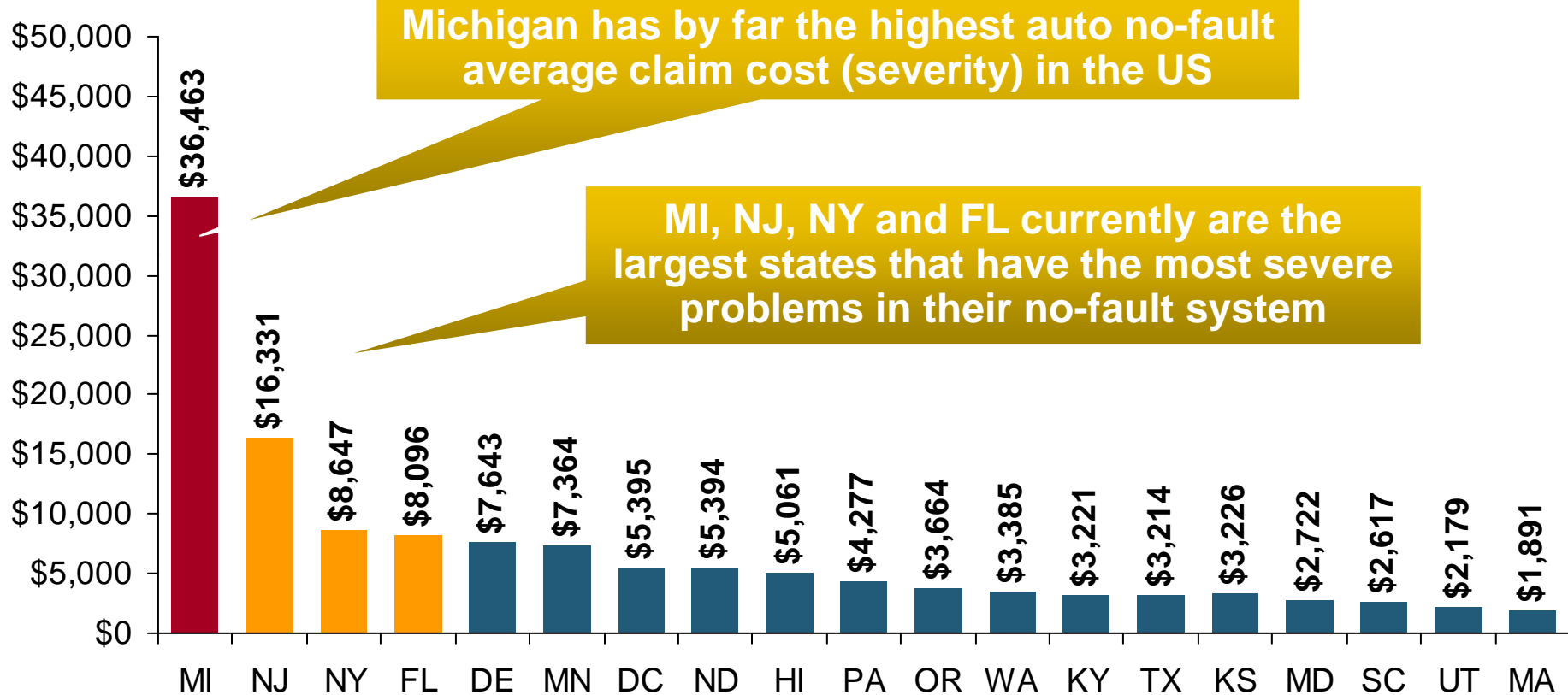
Source: PCI.



Legislative Action is Required to Bring Michigan's Auto No-Fault Crisis Under Control

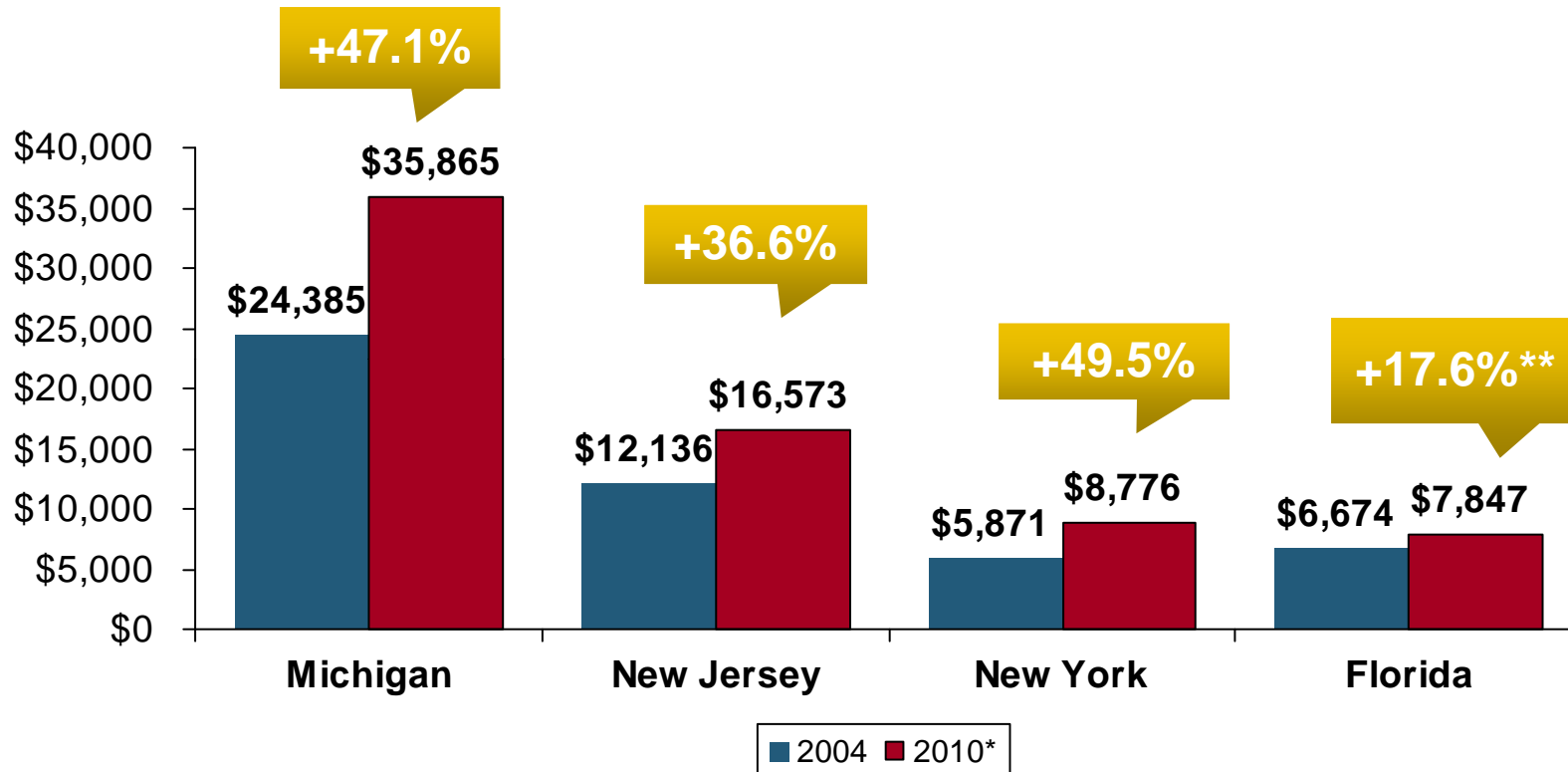
Rampant Fraud & Abuse, Motivated by Michigan's Unlimited No-Fault Benefit and Lack of Costs Controls, Are Driving Costs Upward

Average No-Fault Claim Severity, 2010:Q3



Several States Have Severe and Growing Problems With Rampant Fraud and Abuse in their No-Fault Systems. Claim Severities Are Up Sharply.

Increase in No-Fault Claim Severity: 2004-2010*



Michigan's average no-fault claim cost is up nearly 50% since 2004

*2009 figure is for the 4 quarters ending 2010:Q3.

**Since 2006 the increase in Florida was 23.7% (average severity that year was \$6,344).

Sources: Insurance Information Institute research from ISO/PCI *Fast Track* data.

- **Michigan's Insurance Markets Are Large and Important to P/C and L/H Insurers Alike**
- **Insurers Are an Increasingly Important to Michigan's Economy, Now Accounting for Nearly 4% of Economic Activity in the State**
- **Insurance is a Stable Industry**
- **More Than 72,000 People Are Employed Generating More than \$4 Billion in Annual Payrolls**
- **Premiums Tax Receipts Totaled \$2.3 Billion from 2000 – 2009 and Were Proved to Be a Much More Stable Revenue Stream than Many Other State Revenue Sources During the Great Recession**
- **Insurer Operations Continued Uninterrupted During the Financial Crisis**
- **Insurers Emerged from the Crisis Strong with P/C Insurers Enjoying Record Capital Strength**
- **Michigan is in Need of Some Regulatory and Legislative Reform Related to its No-Fault Auto Insurance System**

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