



Moving Beyond the Great Recession:

***Recovery, Uncertainty and Implications for
Workers Comp & P/C Insurance Markets***

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- **U.S. Economic Overview and Outlook**
 - ◆ Summary and Consequences and Predictions for P/C Insurance
 - ◆ Labor Market “Deep Dive”
 - ◆ Labor Force (Non) Participation: Shrinkage Continues
 - ◆ Social Security Disability vs. WC: Which Is Better for Workers?
 - ◆ Economy as a Growth Engine for P/C Insurers
- **Summary of P/C Financial Performance**
 - ◆ Profits and Profitability
- **Where Will the Market Go From Here?**
 - ◆ Underwriting Loss Trends
 - ◆ Capital/Capacity
 - ◆ Reinsurance Markets
 - ◆ Pricing Discipline
- **Other Contributing Factors to Industry Financial Performance**
 - ◆ Investment Environment
 - ◆ Inflation

Economics 2013: US Economy is Stabilizing

**2013 Will Build on 2012 as Only the
Second Year of Solid Growth Since
the Great Recession**

***Enormous Consequences for
P/C Insurers***

■ Economic Growth Remains Modest but Accelerates by late 2013/14

- ◆ No Recession
- ◆ Enormous regional differences persist
- ◆ Economic wounds are increasingly self-inflicted (e.g., Sequestration)
- ◆ Modest wage and salary growth continue; Hours worked stable

■ Consumer Confidence Remains Reasonably Strong

■ Consumer Spending/Investment Will Continue to Expand

■ Consumer and Business Lending Continue to Expand

■ Housing Market Continues to Improve

- ◆ Principal driver of construction activity

■ Inflation Remains Tame

- ◆ Less pressure on claims severity

■ Private Sector Hiring Remains Consistently Positive

- ◆ Unemployment approaches 7% by year's end
- ◆ Fed's 6.5% unemployment target is hit in mid-2014

■ Issues in Europe, China Do Not Derail US Recovery

■ Soft Landing in China

■ Interest Rates Remain Low by Historical Standards; Edge Up by Year's End

■ Stock and Bond Markets More Stable, Less Volatile

■ P/C Insurance Exposures Grow Robustly

- ◆ Personal and commercial exposure growth is certain in 2013; Strongest since 2004
- ◆ But restoration of destroyed exposure will take until mid-decade

■ P/C Industry Growth in 2013 Will Be Strongest Since 2004

- ◆ Growth likely to exceed A.M. Best projection of +4.5% for 2013
- ◆ Positive pricing trends continue

■ Underwriting Fundamentals Improve Modestly

- ◆ Rate, reforms help key lines; Possibility of reduced prior-year loss reserves in some lines

■ Increasing Private Sector Hiring Will Drive Payrolls/WC Exposures

- ◆ Wage growth is also positive and could modestly accelerate
- ◆ WC remains the fastest growing P/C line for 3rd straight year

■ Increase in Demand for Commercial Insurance Could Strengthen in 2013

- ◆ Includes workers comp, property, marine, many liability coverages

■ Industry Capacity Hits a New Records in 2013 (Barring Meg-CAT)

■ Investment Environment Is/Remains Much More Favorable

- ◆ Return of realized capital gains as a profit driver
- ◆ Interest rates remain low; Some upward pressure if economic strength surprises or Fed eases on QE3 program late in 2013

■ TRIA Debate is Accelerated in the Wake of Boston Marathon Bomb Attacks

Terrorism Update

**Boston Marathon Bombings
Underscore the Need for
Extension of the Terrorism Risk
Insurance Program**

Terrorism Risk Insurance Program

■ Boston Marathon Bombing Should Help Focus Attention in Congress on TRIA

- ◆ Act expires 12/31/14
- ◆ Numerous headwinds

■ Exclusionary Language Will Be Inserted for Renewals Occurring After 1/1/14

■ Boston Marathon Issues

- ◆ Property and BI losses not large but could breach \$5 mill threshold for certification under TRIPRA
- ◆ Certification issue is generating press; No deadline to certify
- ◆ Disincentive to certify?
- ◆ Few of the impacted business had terror coverage
- ◆ Longer-term: Litigation issues (e.g., race organizers)



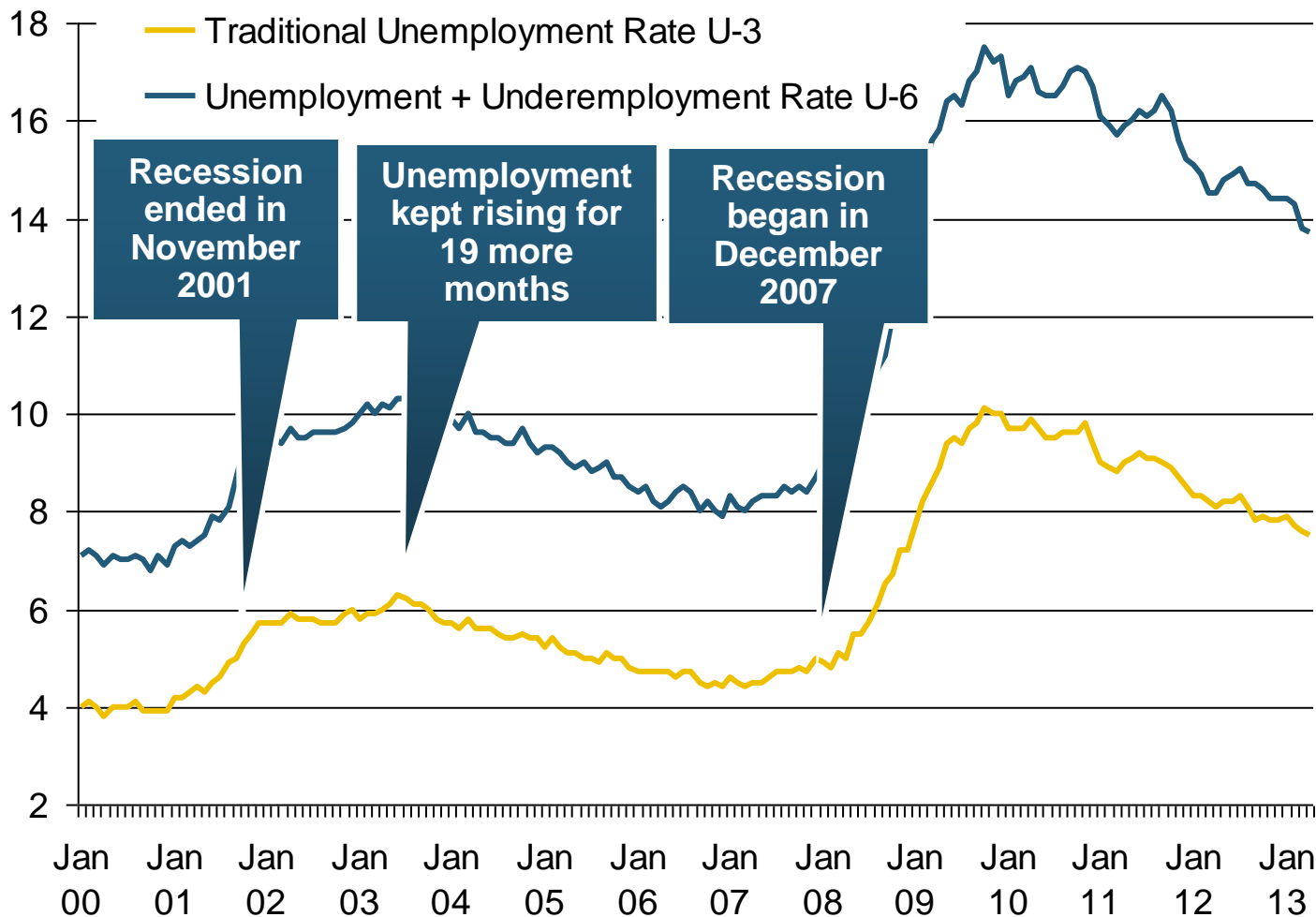
Labor Market Trends

Labor Market Is Showing Signs of Life

***Workers Comp Is the Principal
Beneficiary of Improving Job Outlook***

Unemployment and Underemployment Rates: Stubbornly High in 2012, But Falling

January 2000 through Apr. 2013, Seasonally Adjusted (%)



U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 13.7% in Apr. 2013

Unemployment stood at 7.5% in Apr. 2013—lowest in 4 years.

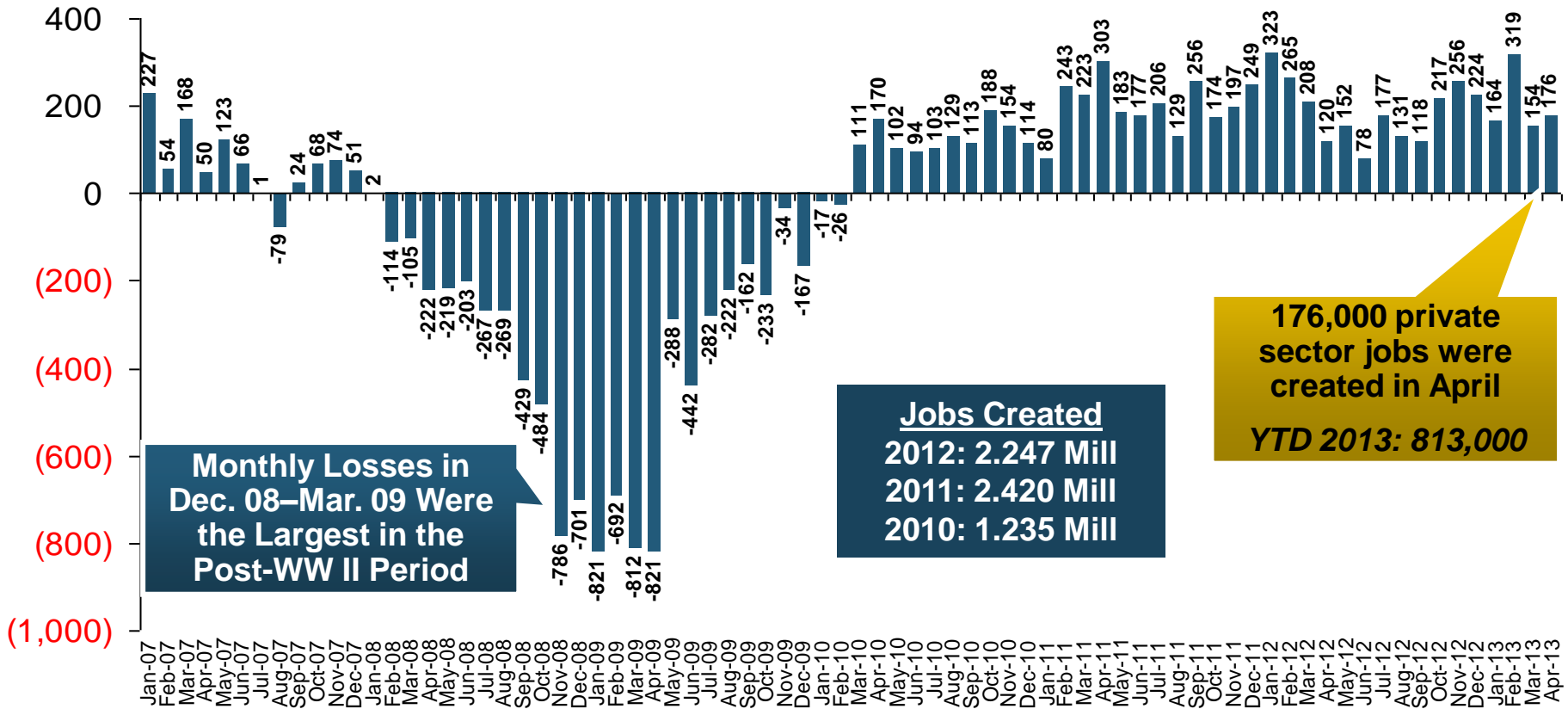
Unemployment peaked at 10.1% in October 2009, highest monthly rate since 1983.

Peak rate in the last 30 years: 10.8% in November - December 1982

Stubbornly high unemployment and underemployment constrain overall economic growth, but the job market is now clearly improving

Monthly Change in Private Employment

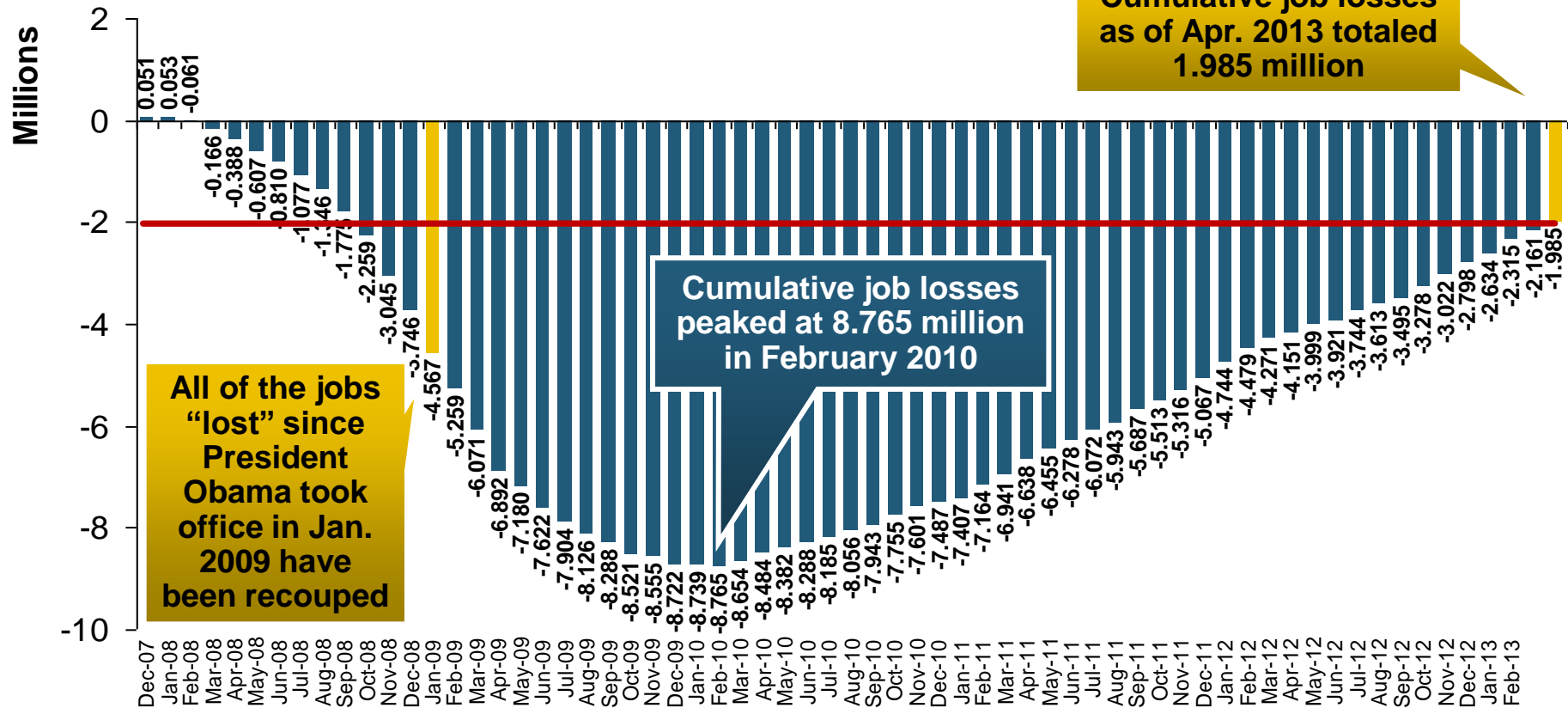
January 2007 through Apr. 2013 (Thousands)



Private Employers Added 6.74 million Jobs Since Jan. 2010 After Having Shed 4.98 Million Jobs in 2009 and 3.80 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

Cumulative Change in Private Employment: Dec. 2007—Apr. 2013

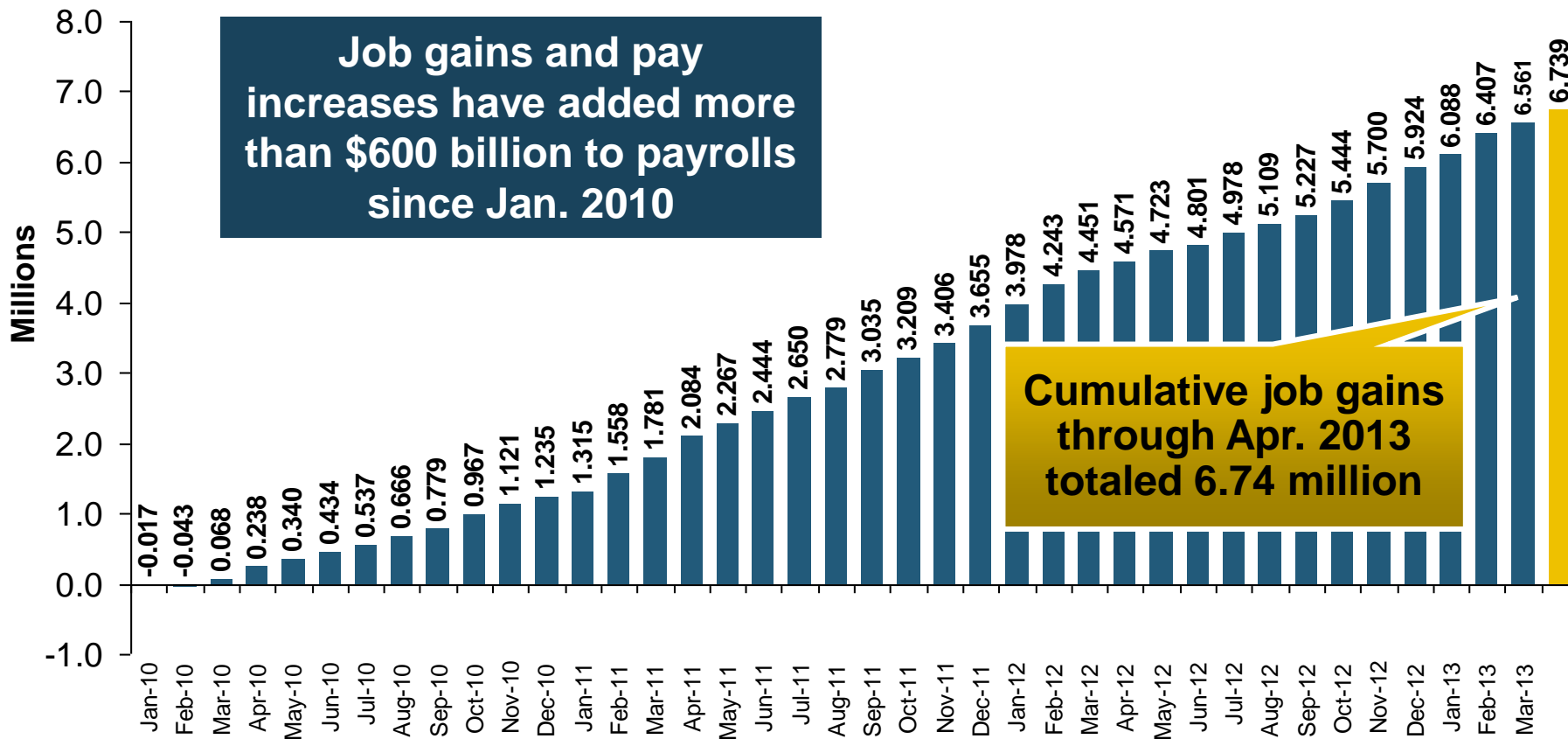
December 2007 through April 2013 (Millions)



Private Employers Added 6.74 million Jobs Since Jan. 2010 After Having Shed 4.98 Million Jobs in 2009 and 3.80 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

Cumulative Change in Private Sector Employment: Jan. 2010—Apr. 2013

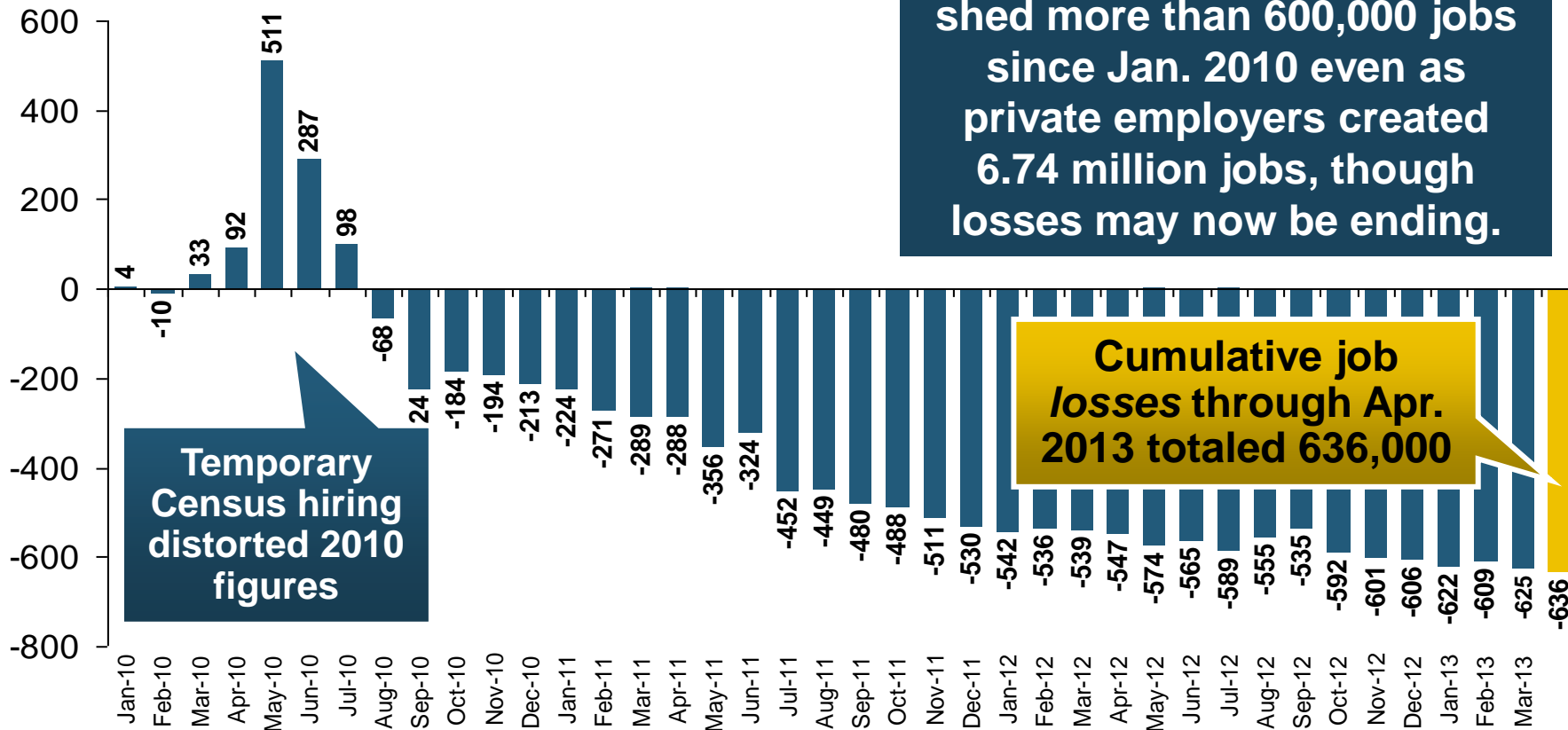
January 2010 through April 2013* (Millions)



Private Employers Added 6.74 million Jobs Since Jan. 2010 After Having Shed 4.98 Million Jobs in 2009 and 3.80 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

Cumulative Change in Government Employment: Jan. 2010—Apr. 2013

January 2010 through Apr. 2013* (Millions)

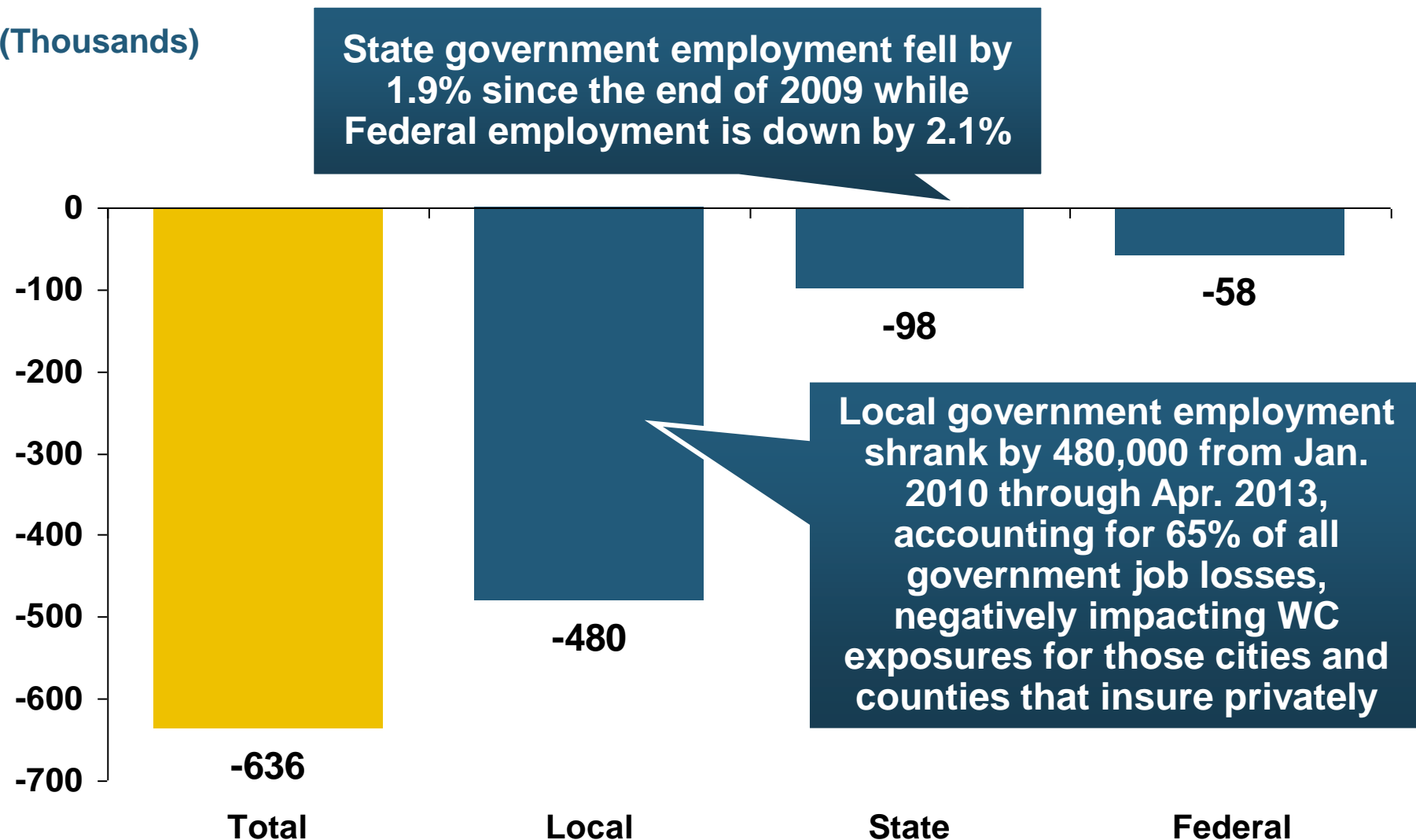


Government at all levels has shed more than 600,000 jobs since Jan. 2010 even as private employers created 6.74 million jobs, though losses may now be ending.

Governments at All Levels are Under Severe Fiscal Strain As Tax Receipts Plunged and Pension Obligations Soared During the Financial Crisis: Sequestration Will Add to this Toll

Net Change in Government Employment: Jan. 2010—Apr. 2013*

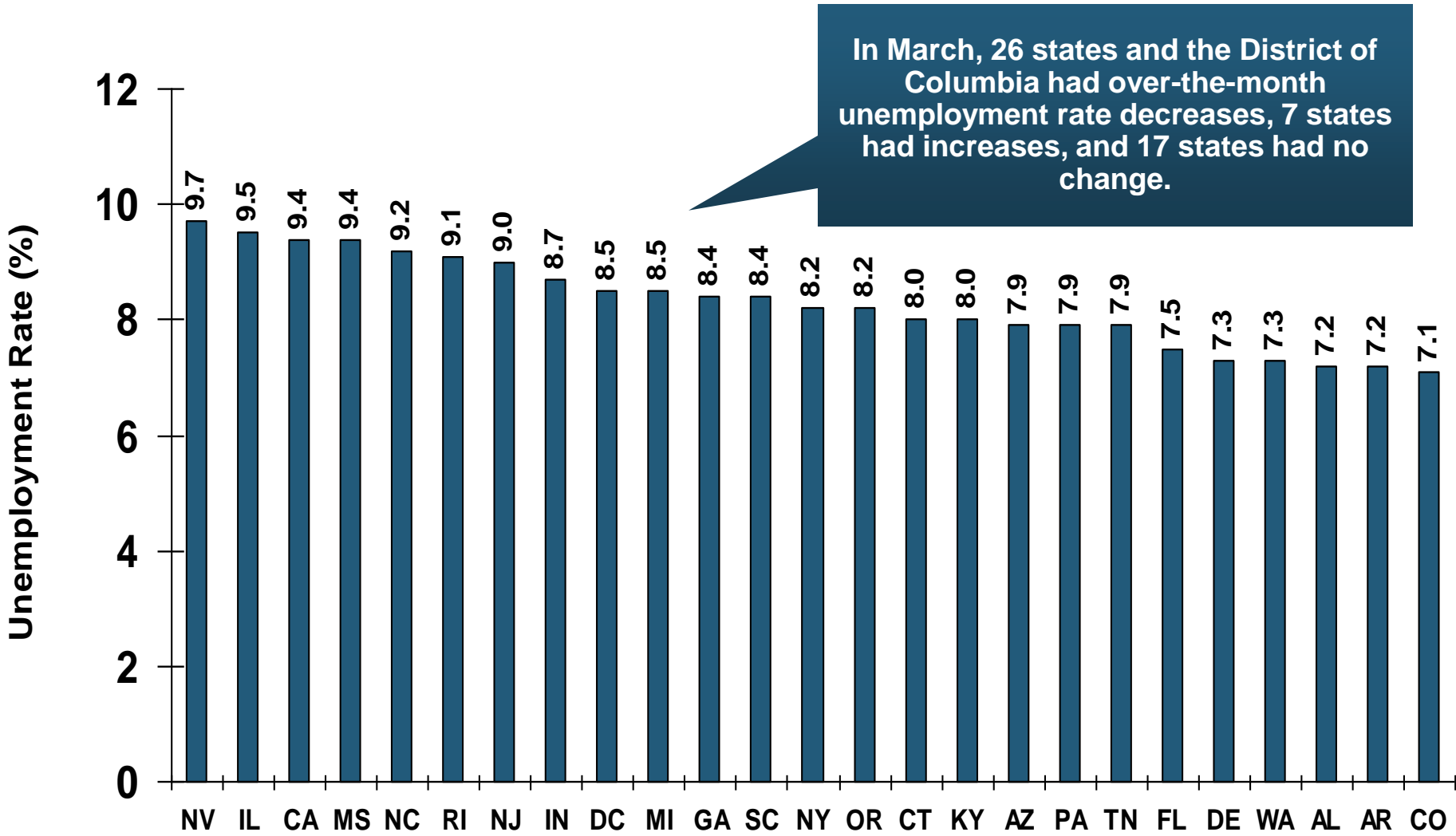
(Thousands)



*Cumulative change from prior month; Base employment date is Dec. 2009.

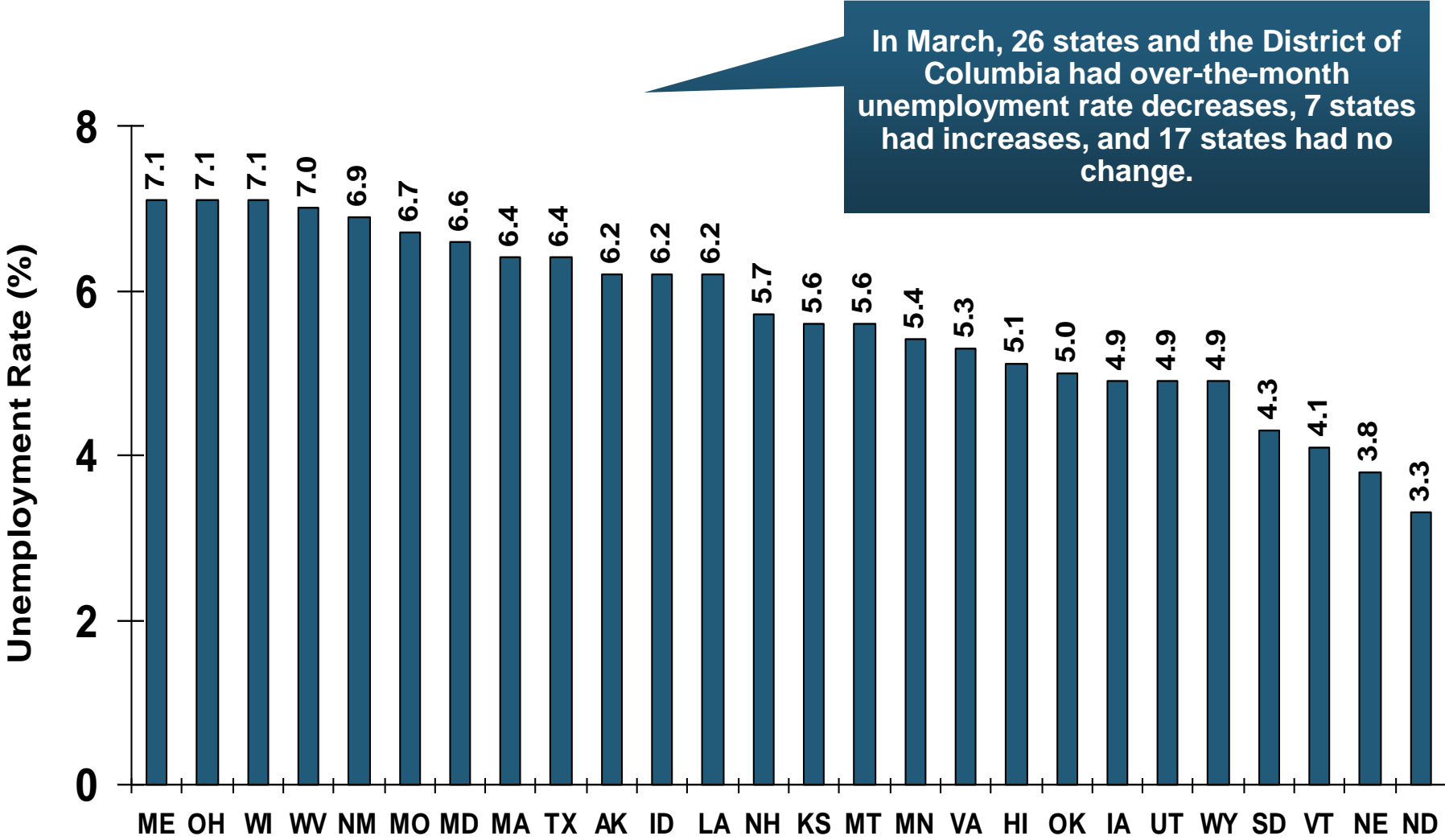
Source: US Bureau of Labor Statistics <http://www.bls.gov/data/#employment>; Insurance Information Institute

Unemployment Rates by State, March 2013: Highest 25 States*



*Provisional figures for March 2013, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

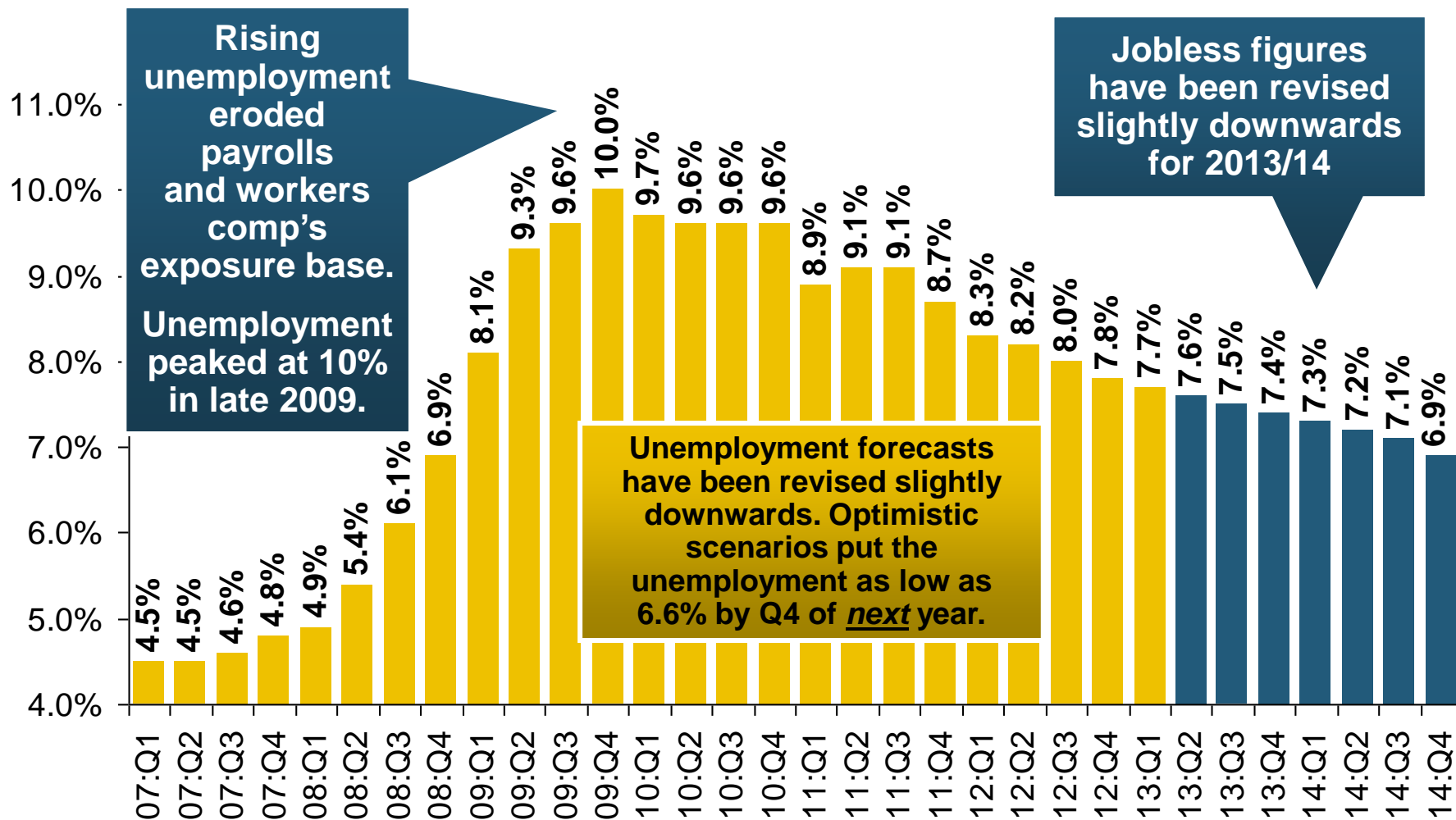
Unemployment Rates by State, March 2013: Lowest 25 States*



*Provisional figures for March 2013, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

US Unemployment Rate Forecast

2007:Q1 to 2014:Q4F*

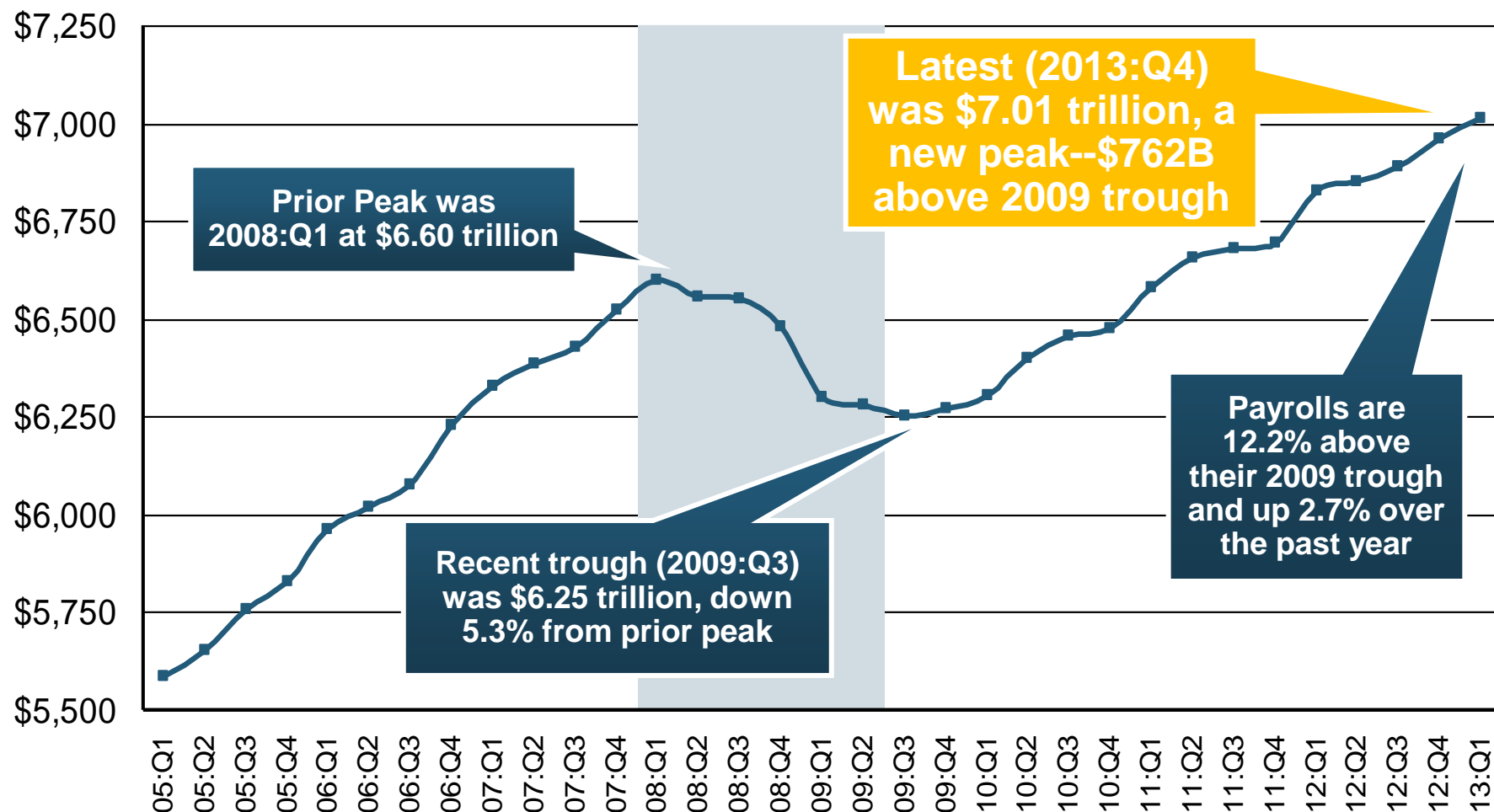


* ■ = actual; ■ = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (5/13 edition); Insurance Information Institute.

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2013:Q1

Billions



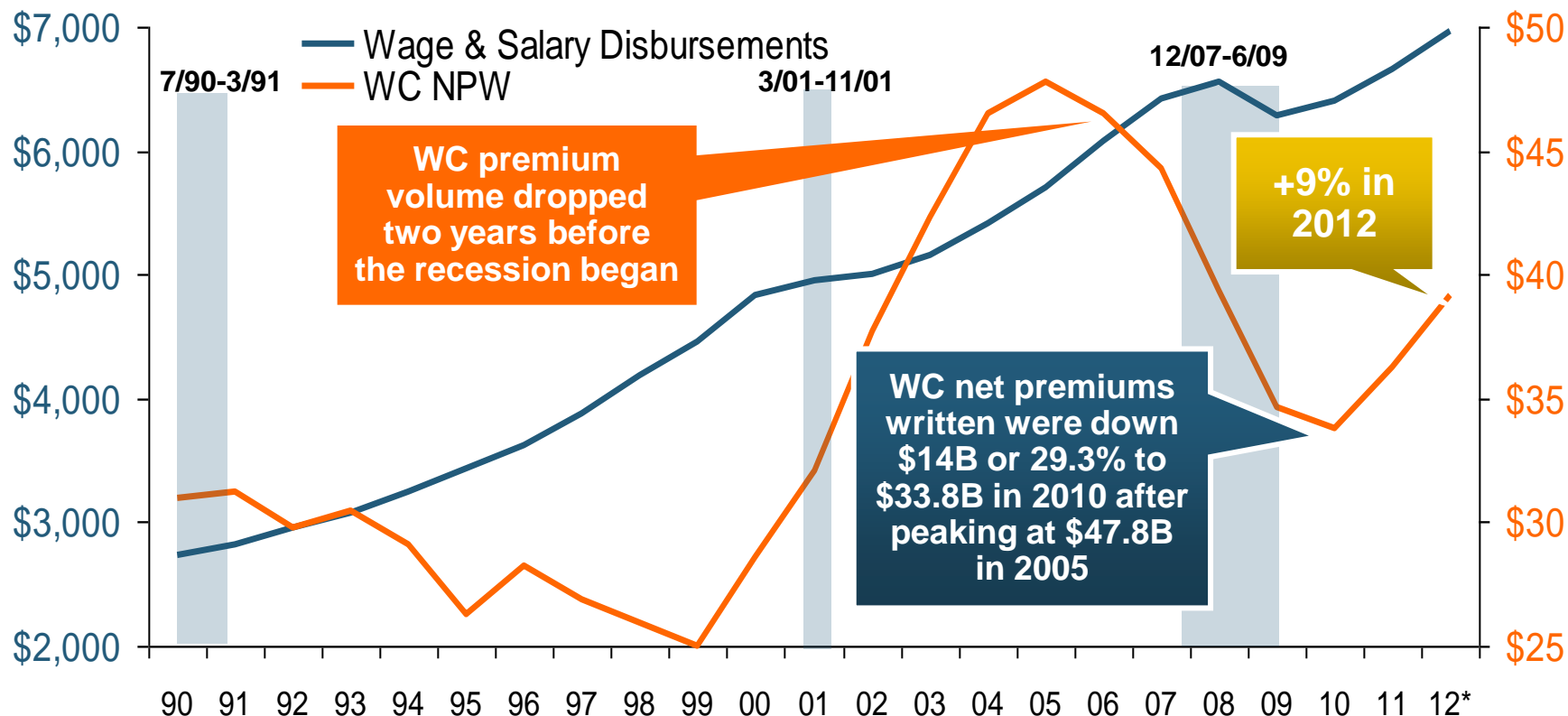
Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

Sources: <http://research.stlouisfed.org/fred2/series/WASCUR>; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Payroll vs. Workers Comp Net Written Premiums, 1990-2012

Payroll Base*
\$Billions

WC NWP
\$Billions



Continued Payroll Growth and Rate Increases Pushed WC NWP Up by 9.0% in 2012 and 8.0% in 2011 (First Gain Since 2005)

*Private employment; Shaded areas indicate recessions. WC premiums for 2012 are I.I.I. estimate based YTD 2012 actuals.

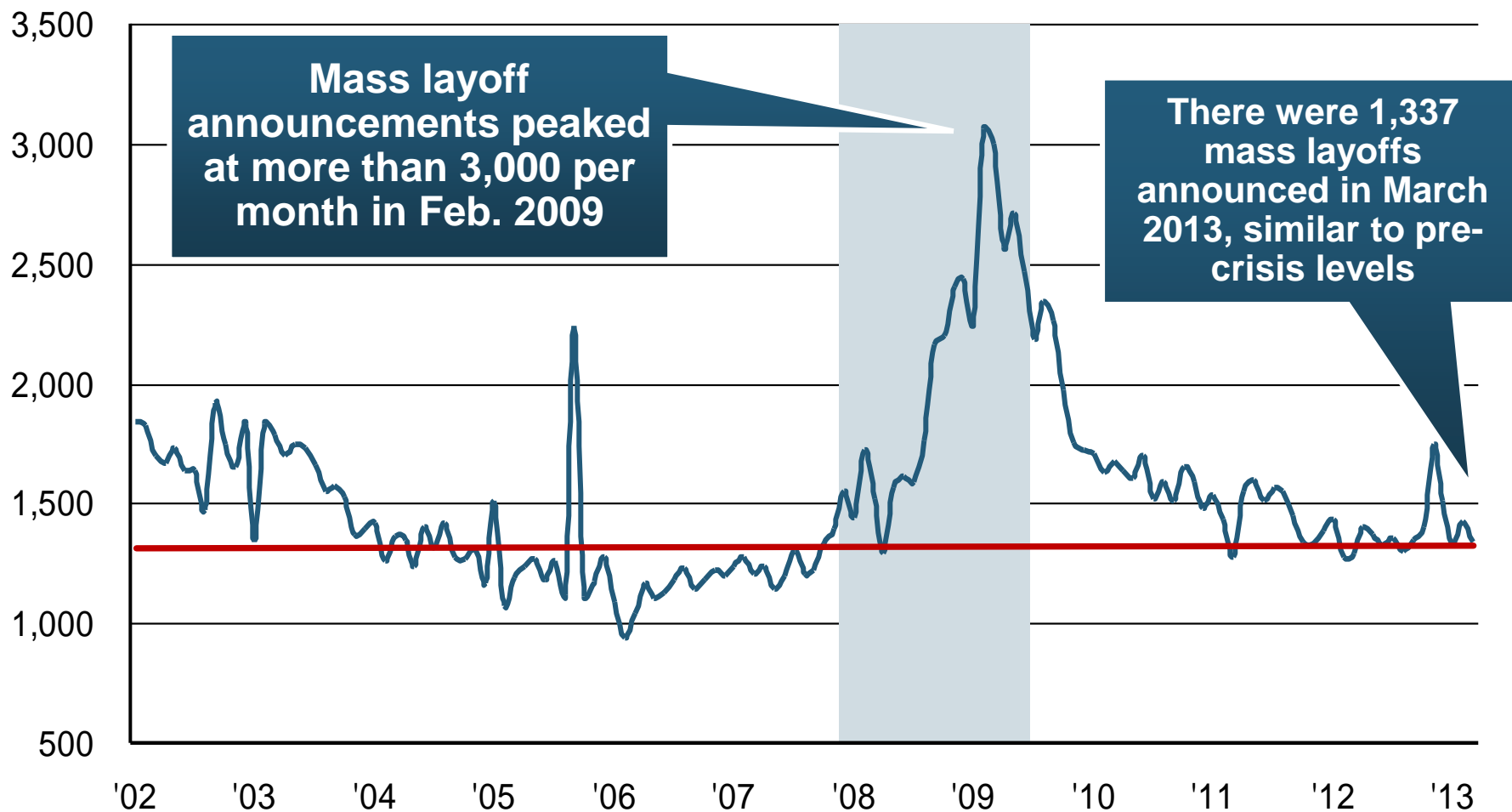
Sources: NBER (recessions); Federal Reserve Bank of St. Louis at <http://research.stlouisfed.org/fred2/series/WASCUR> ; NCCI; I.I.I.



POSITIVE LABOR MARKET DEVELOPMENTS

Key Factors Driving Workers Compensation Exposure

Mass Layoff Announcements, Jan. 2002—March 2013*



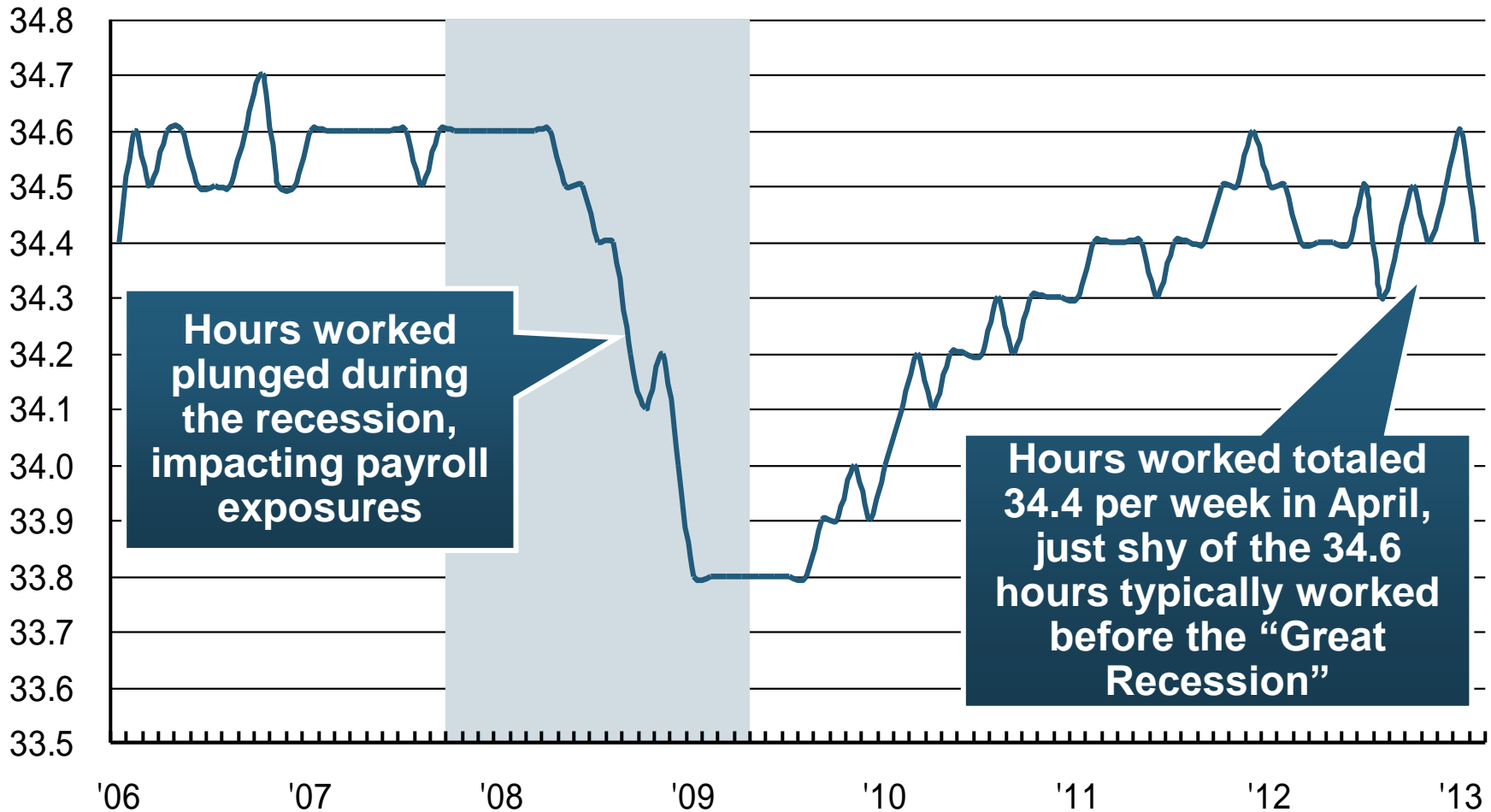
*Seasonally adjusted.

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics at <http://www.bls.gov/mls/>; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Average Weekly Hours of All Private Workers, Mar. 2006—Apr. 2013

(Hours Worked)



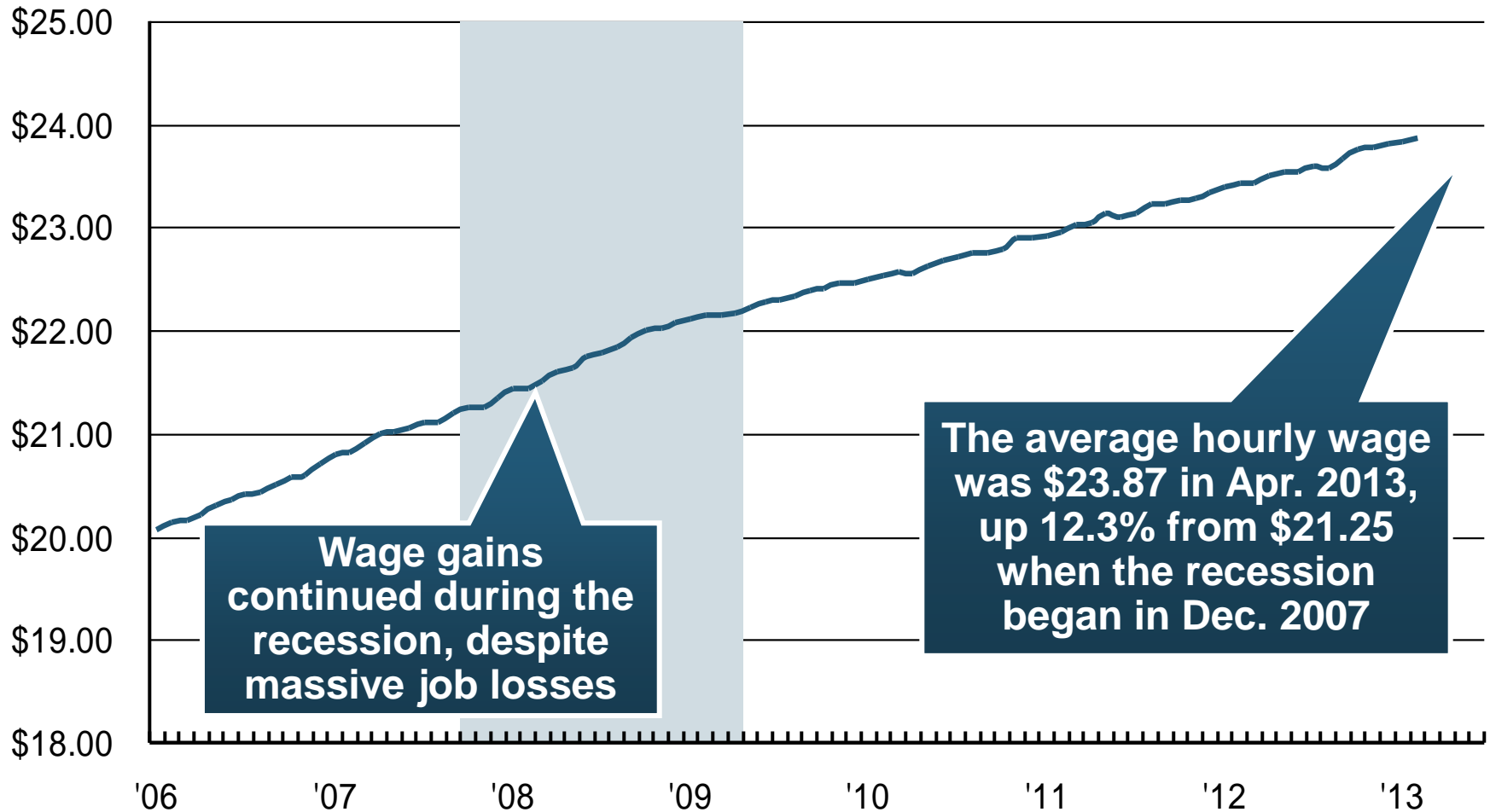
*Seasonally adjusted

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics at <http://www.bls.gov/data/#employment>; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Average Hourly Wage of All Private Workers, Mar. 2006—Apr. 2013

(Hourly Wage)



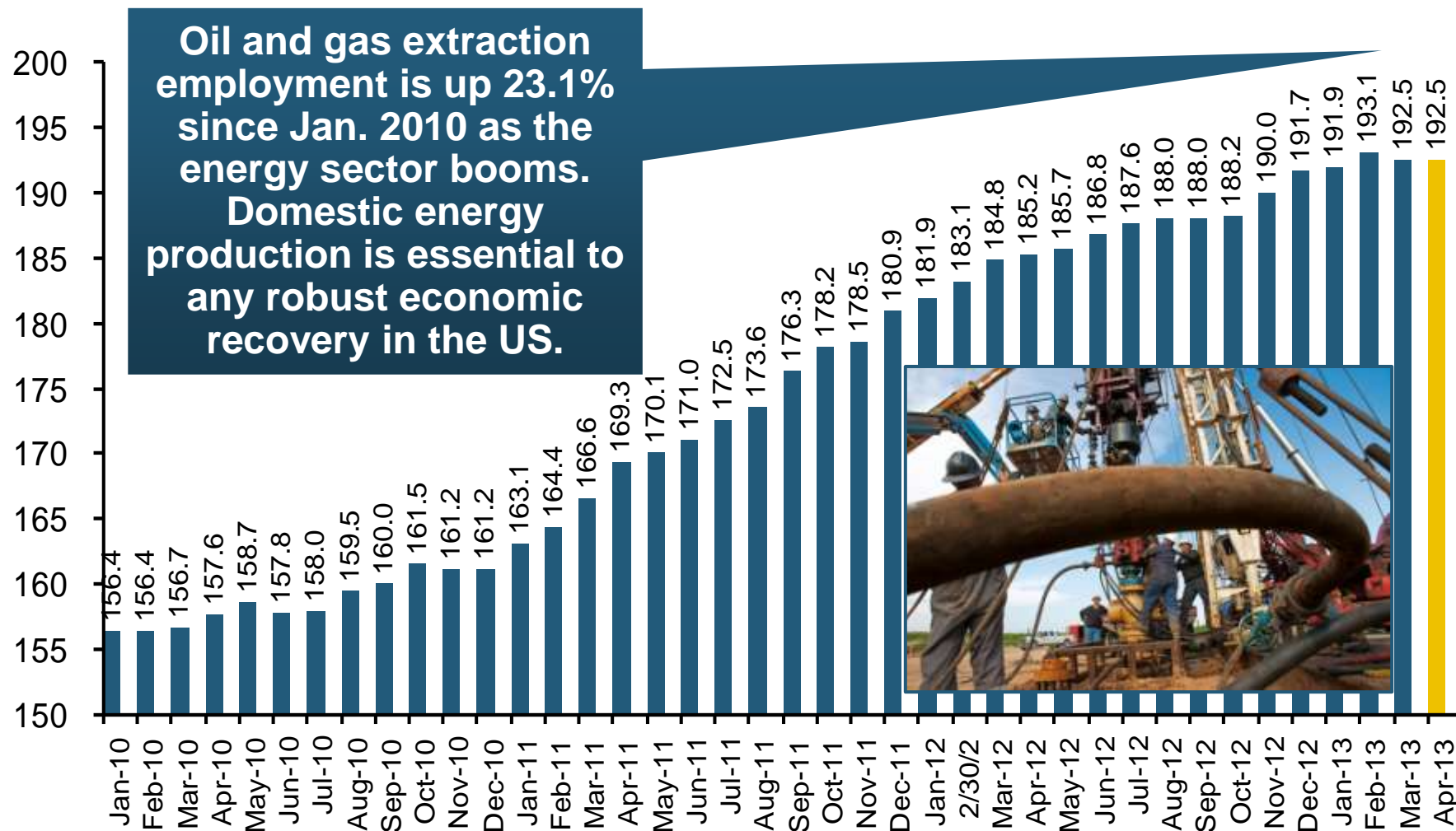
*Seasonally adjusted

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics at <http://www.bls.gov/data/#employment>; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Oil & Gas Extraction Employment, Jan. 2010—April 2013*

(Thousands)



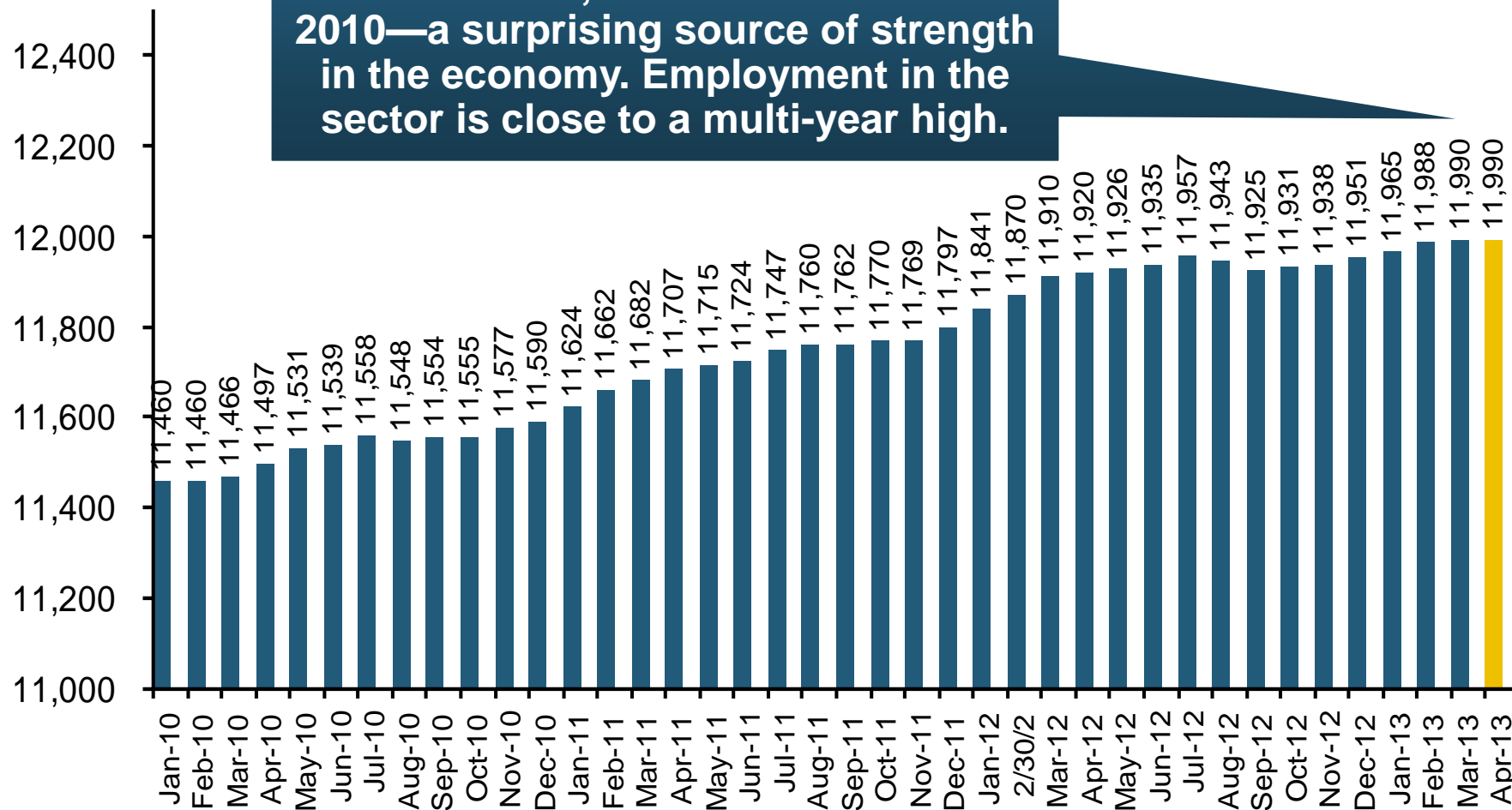
*Seasonally adjusted

Sources: US Bureau of Labor Statistics at <http://data.bls.gov>; Insurance Information Institute.

Manufacturing Employment, Jan. 2010—April 2013*

(Thousands)

Manufacturing employment is up by more than 500,000 or 4.6% since Jan. 2010—a surprising source of strength in the economy. Employment in the sector is close to a multi-year high.



*Seasonally adjusted

Sources: US Bureau of Labor Statistics at <http://data.bls.gov>; Insurance Information Institute.

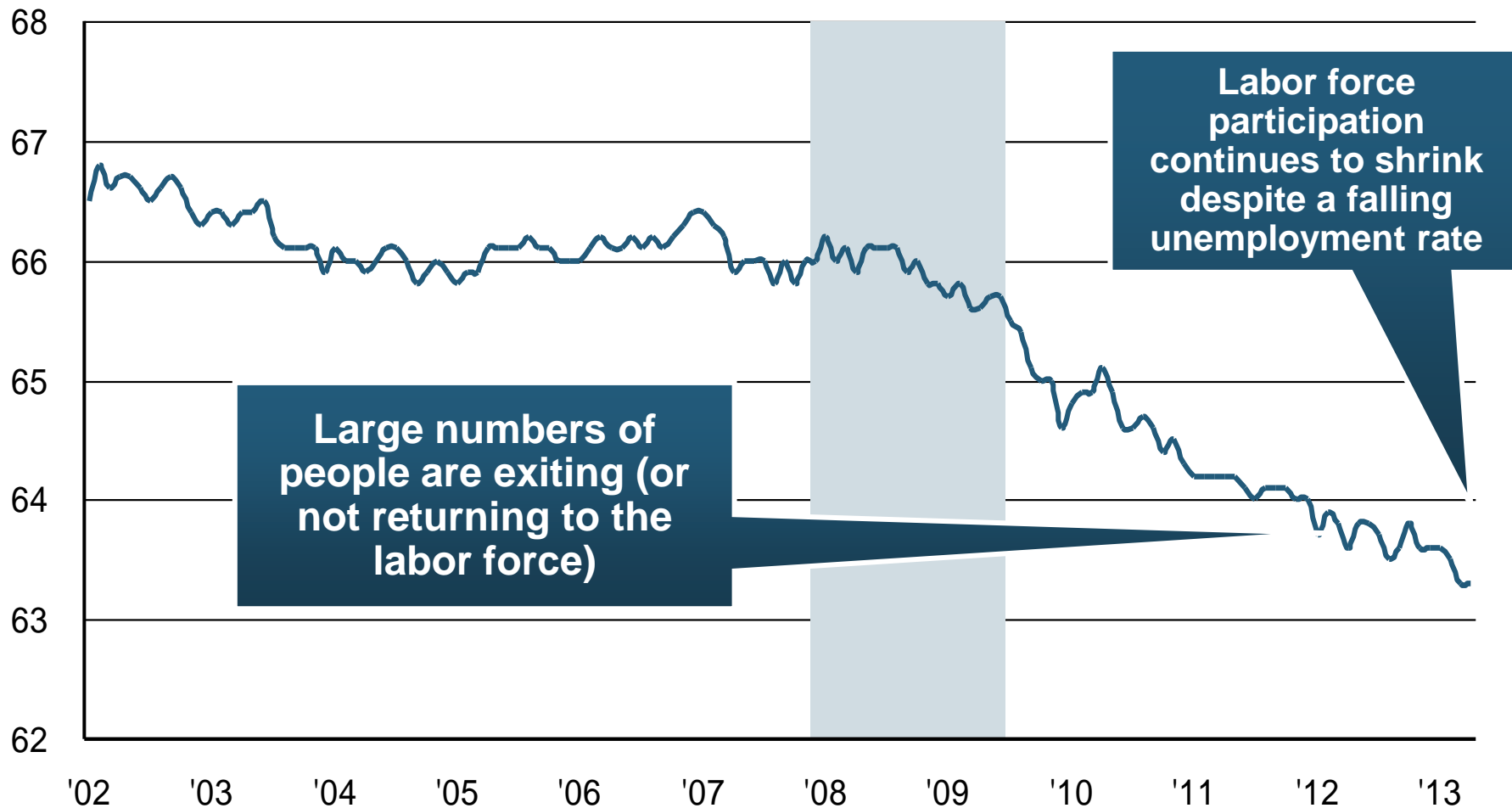


ADVERSE LONG-TERM LABOR MARKET DEVELOPMENTS

**Key Factors Harming Workers
Compensation Exposure and the
Overall Economy**

Labor Force Participation Rate, Jan. 2002—Apr. 2013*

Labor Force Participation as a % of Population



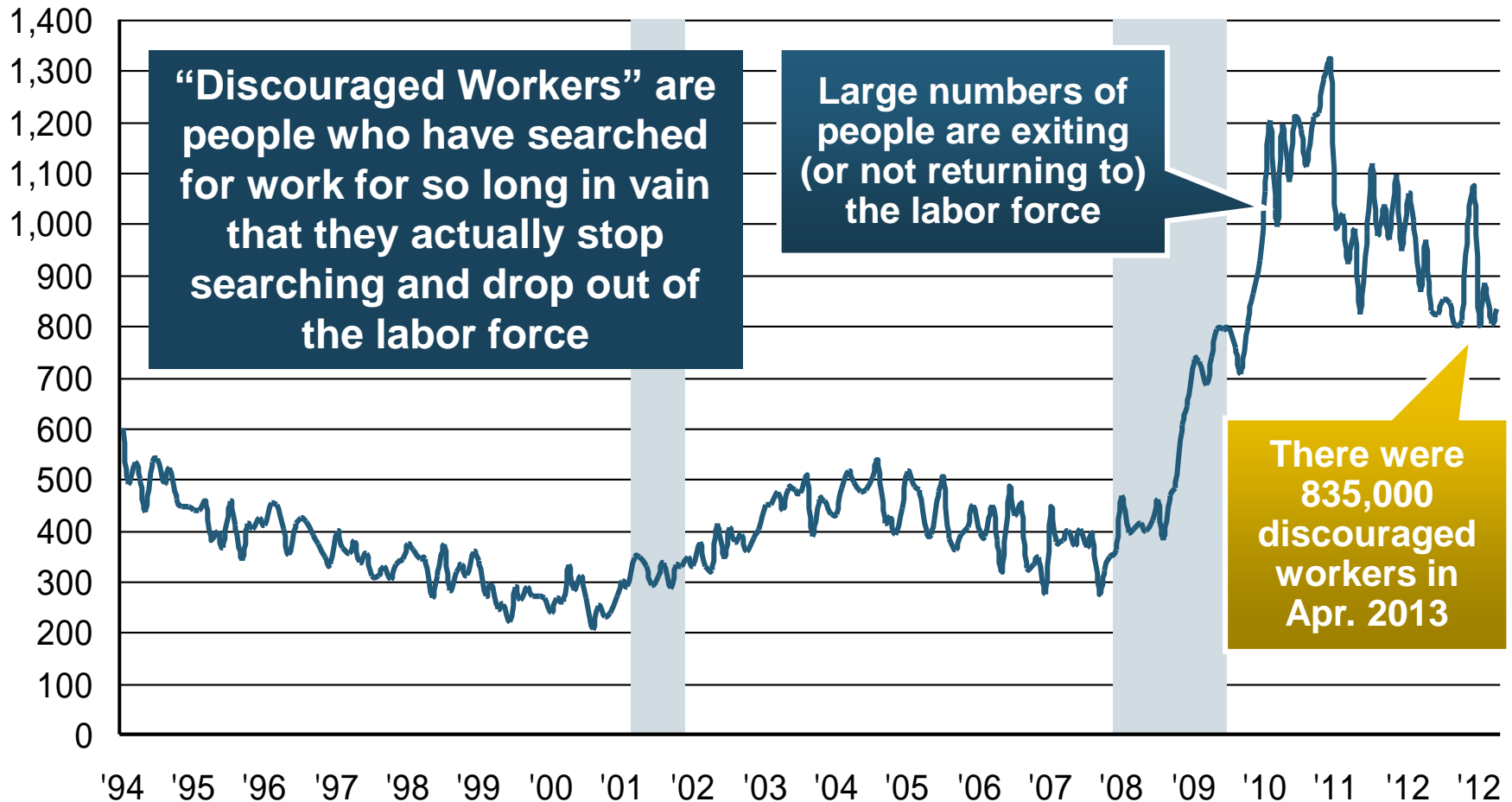
*Defined as the percentage of working age persons in the population who are employed or actively seeking work.

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics at <http://www.bls.gov/mls/>; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Number of “Discouraged Workers,” Jan. 2002—April 2013

Thousands



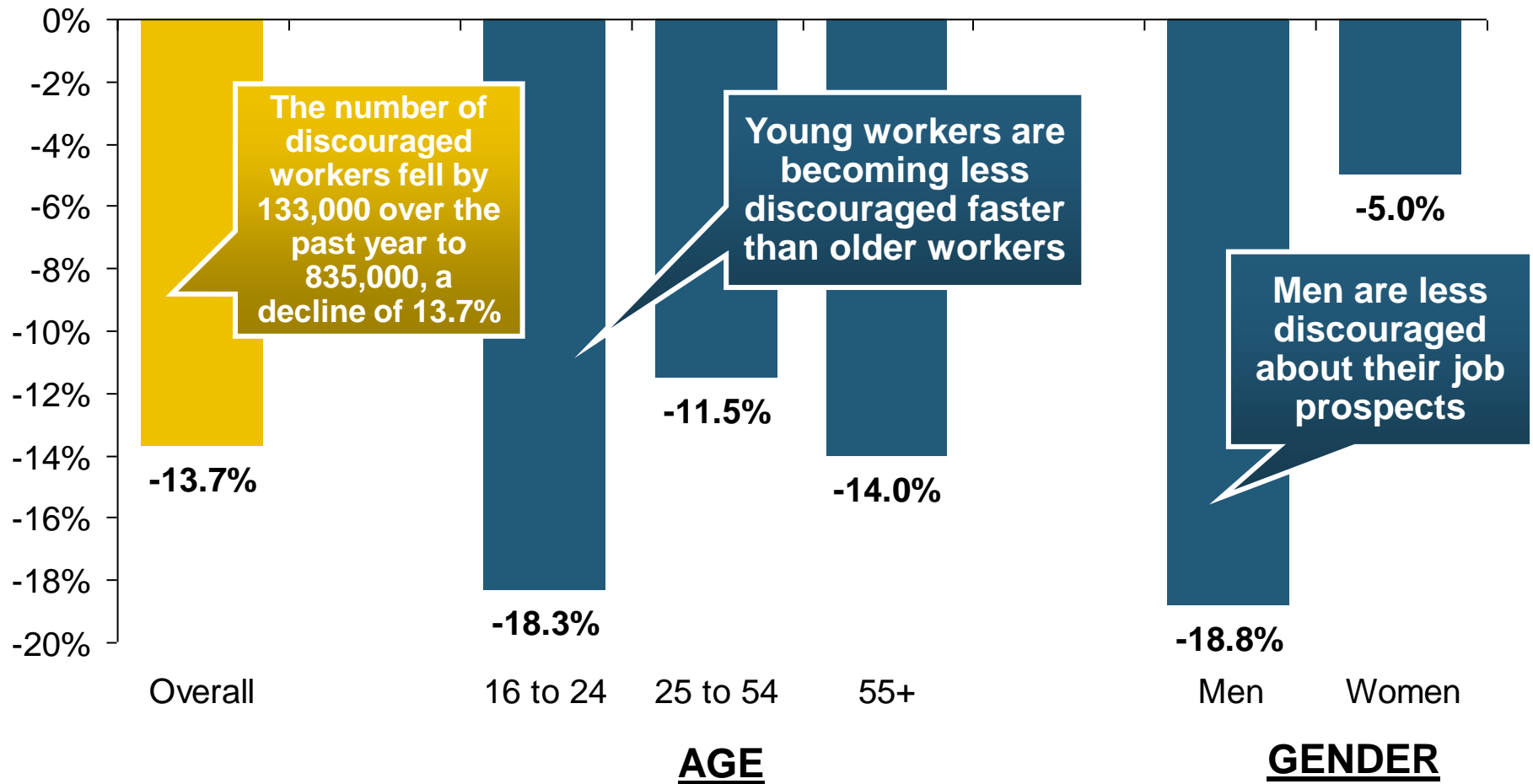
In recent good times, the number of discouraged workers ranged from 200,000-400,000 (1995-2000) or from 300,000-500,000 (2002-2007).

Notes: Recessions indicated by gray shaded columns. Data are seasonally adjusted.

Sources: Bureau of Labor Statistics <http://www.bls.gov/news.release/empsit.a.htm> ; NBER (recession dates); Ins. Info. Inst.

Change in Number of Discouraged Workers: Apr. 2012 vs. Apr. 2013

(Percent Change)



Discouraged Workers by Gender (as of April 2013)

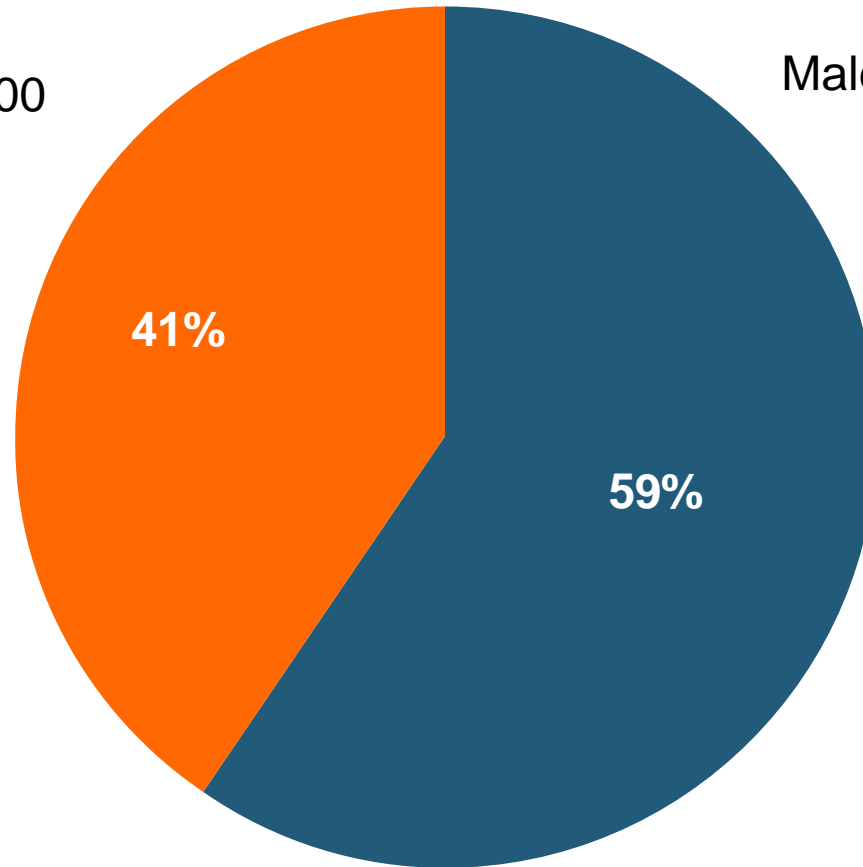
The overwhelming of discouraged workers are male, for a variety of reasons

Female = 339,000

Male = 496,000

Reasons for Lower Female Discouragement Rate

- *Less likely to work in heavily impacted industries such as construction*
- *More likely to retrain*
- *More likely to retrain quickly*
- *Better educated*



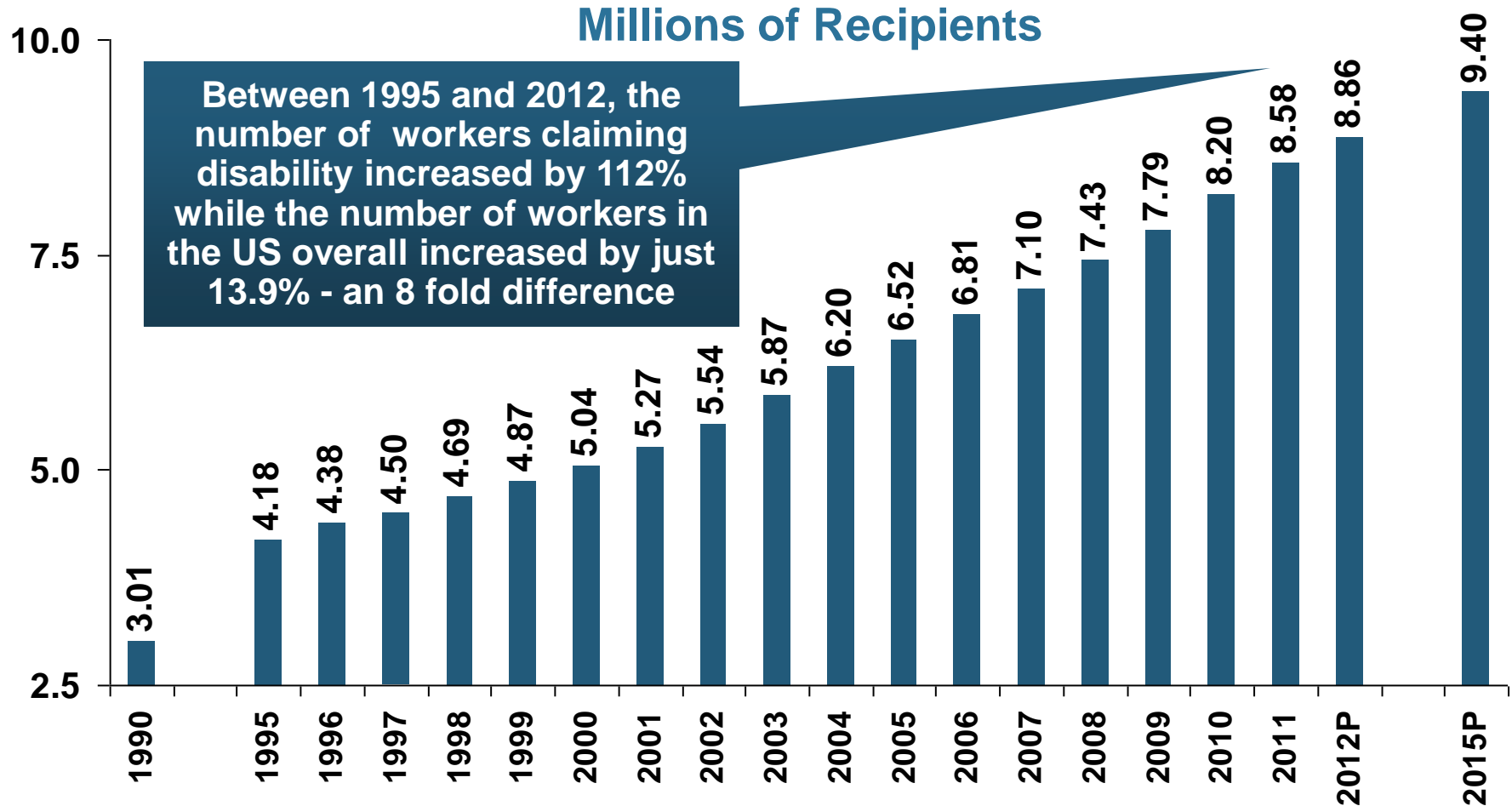
TOTAL = 835,000

Social Security Disability: Explosive Growth

**Growth in this System Is Harming the
Economy, Contributing to Fiscal Imbalances**

Could Learn a Thing or Two from WC

Number of Social Security Disability Income Recipients, 1990-2015P*

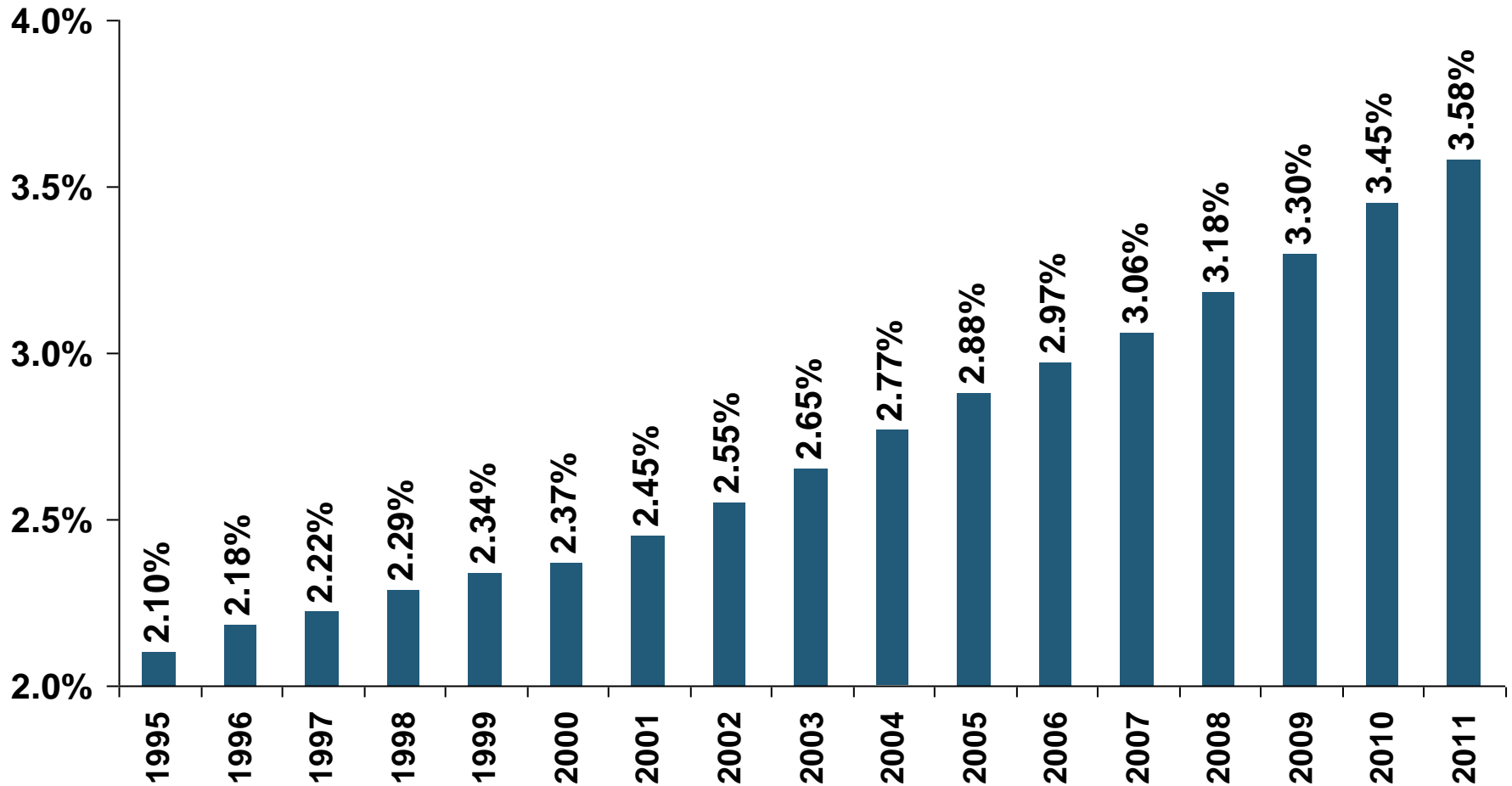


Growth in the Number SSDI Recipients is Growing Rapidly Pace and Seems Impervious to Improvements in the Labor Market—Both Are Suggestive of Fraud and Abuse.

*End of year. Does not include children or widows.

Source: Social Security Trustees Report, 2012, p. 131

Percent of the Civilian Non-Institutional Population that Received SS Disability Income, 1995-2011

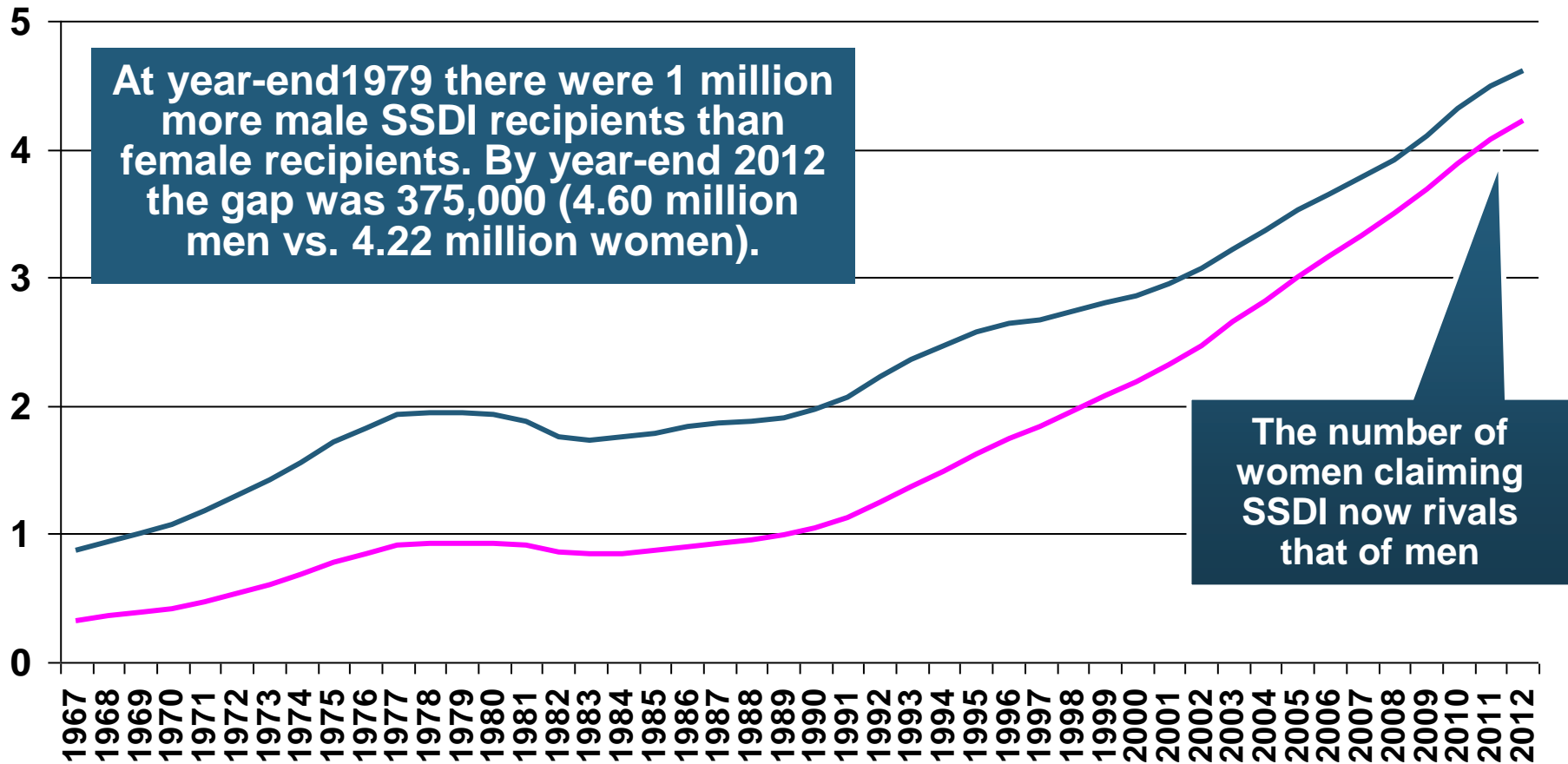


The Share of the Population Receiving SSDI Benefits Has Increased Dramatically

Number* Receiving SS Disability Income, 1990-2012

Millions

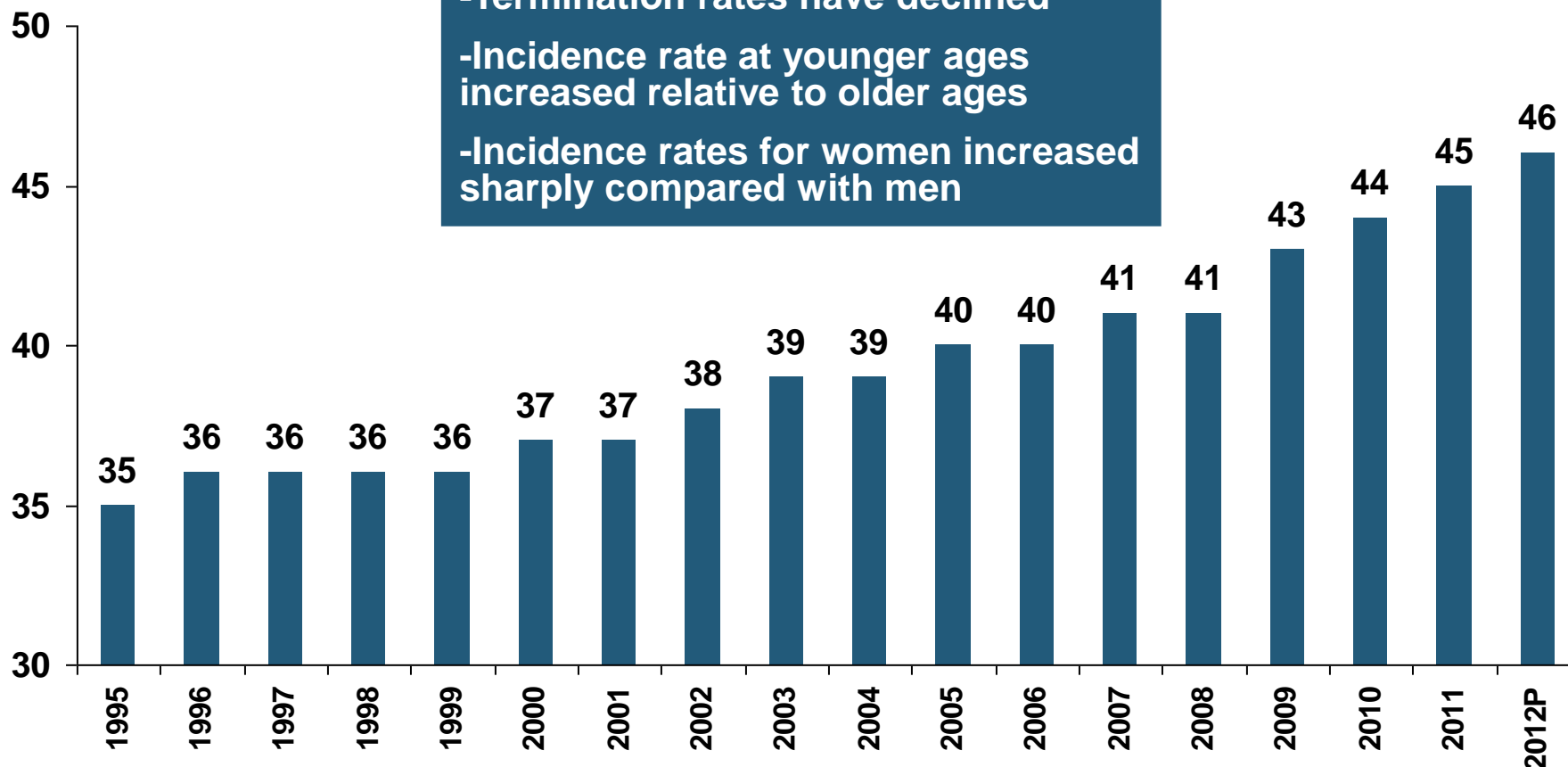
— Men — Women



As More Women Worked Long Enough to Become SSDI Eligible, More Qualified for SSDI When They Became Totally Disabled.

Disability Prevalence Rates (Age-Sex-Adjusted), 1995-2012P

Rate per thousand
persons insured



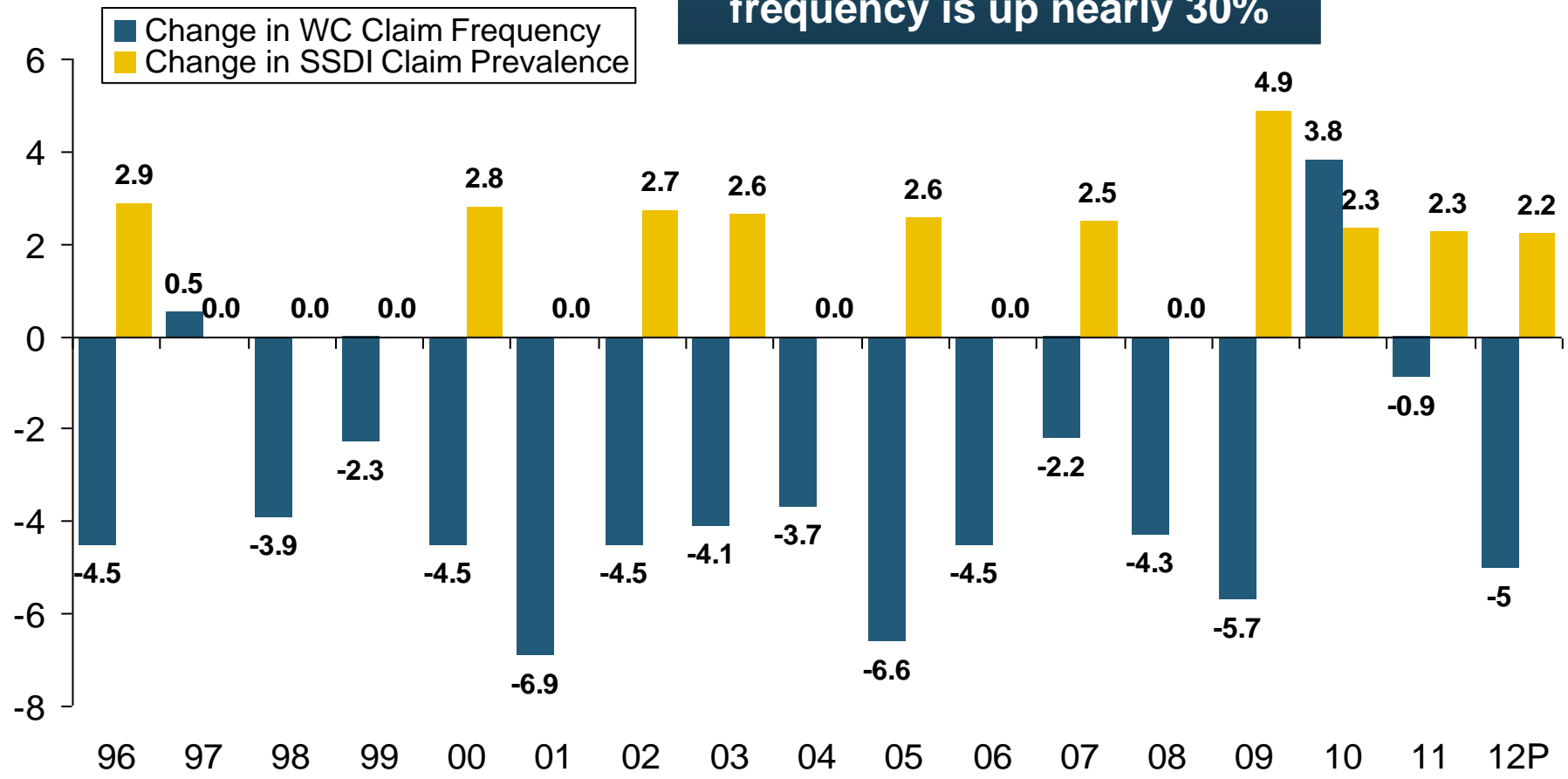
*The Disability Prevalence Rate is the number of disabled-worker beneficiaries as a percentage of the number insured for SSDI benefits.
Sources: Social Security Trustees Report, 2012, p. 131 and 133.

Workers Compensation Does a Much Better Job of Returning People to Work/Life than SSDI



Change in Claim Frequency

Since 1996, WC lost-time claim frequency is down by more than 50% while SSDI claim frequency is up nearly 30%



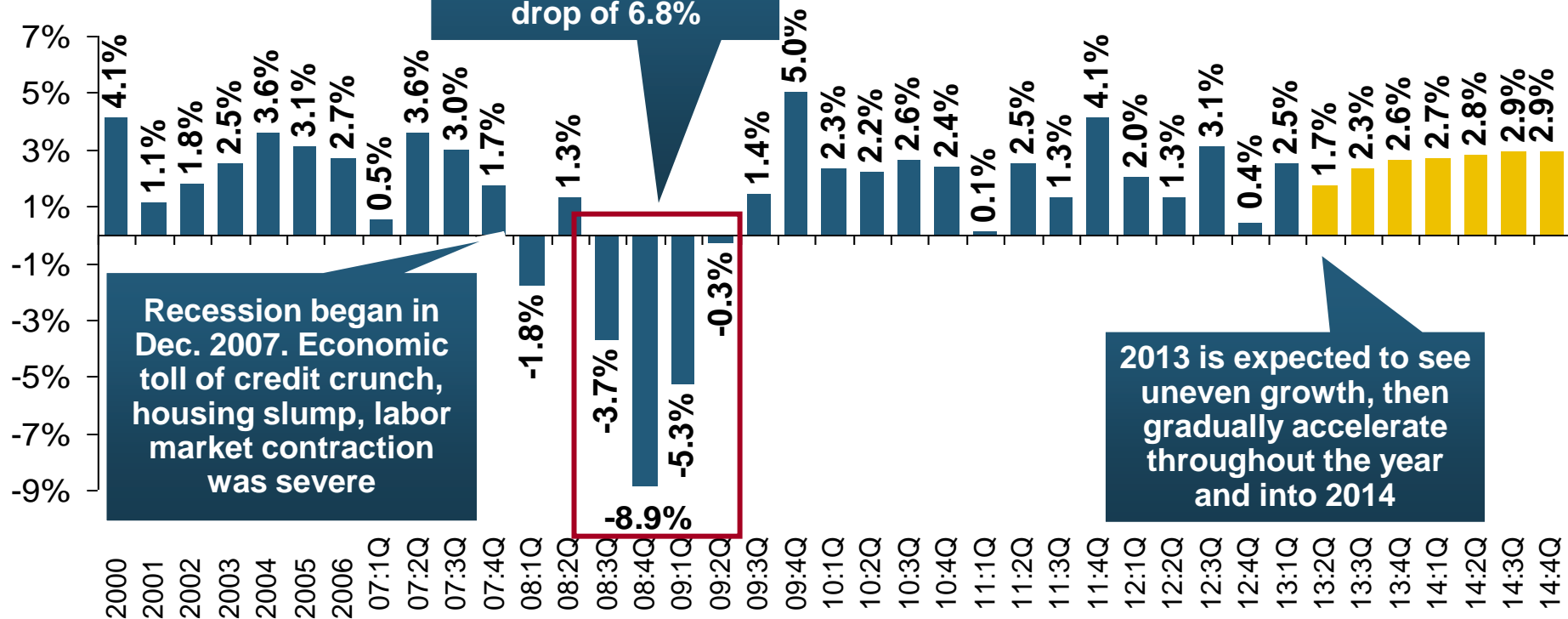
*Workers comp data are for lost-time claims only.
Sources: Insurance Information Institute from Social Security Trustees Report, 2012, p. 131; NCCI.

The Strength of the Economy Will Influence P/C Insurer Growth Opportunities

**Growth Will Expand Insurer Exposure
Base Across Most Lines**

US Real GDP Growth*

Real GDP Growth (%)

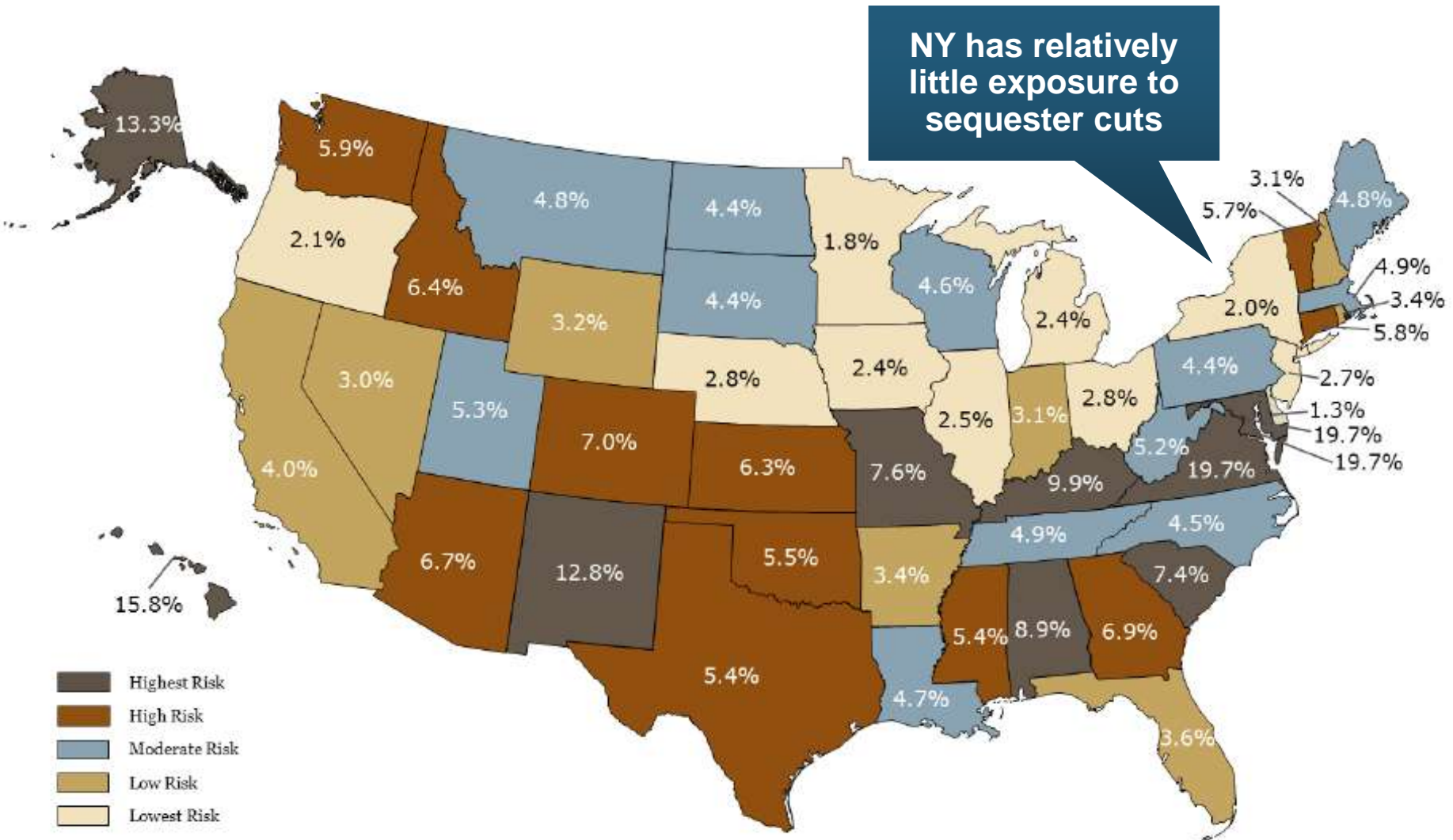


Demand for Insurance Continues To Be Impacted by Sluggish Economic Conditions, but the Benefits of Even Slow Growth Will Compound and Gradually Benefit the Economy Broadly

* Estimates/Forecasts from Blue Chip Economic Indicators.

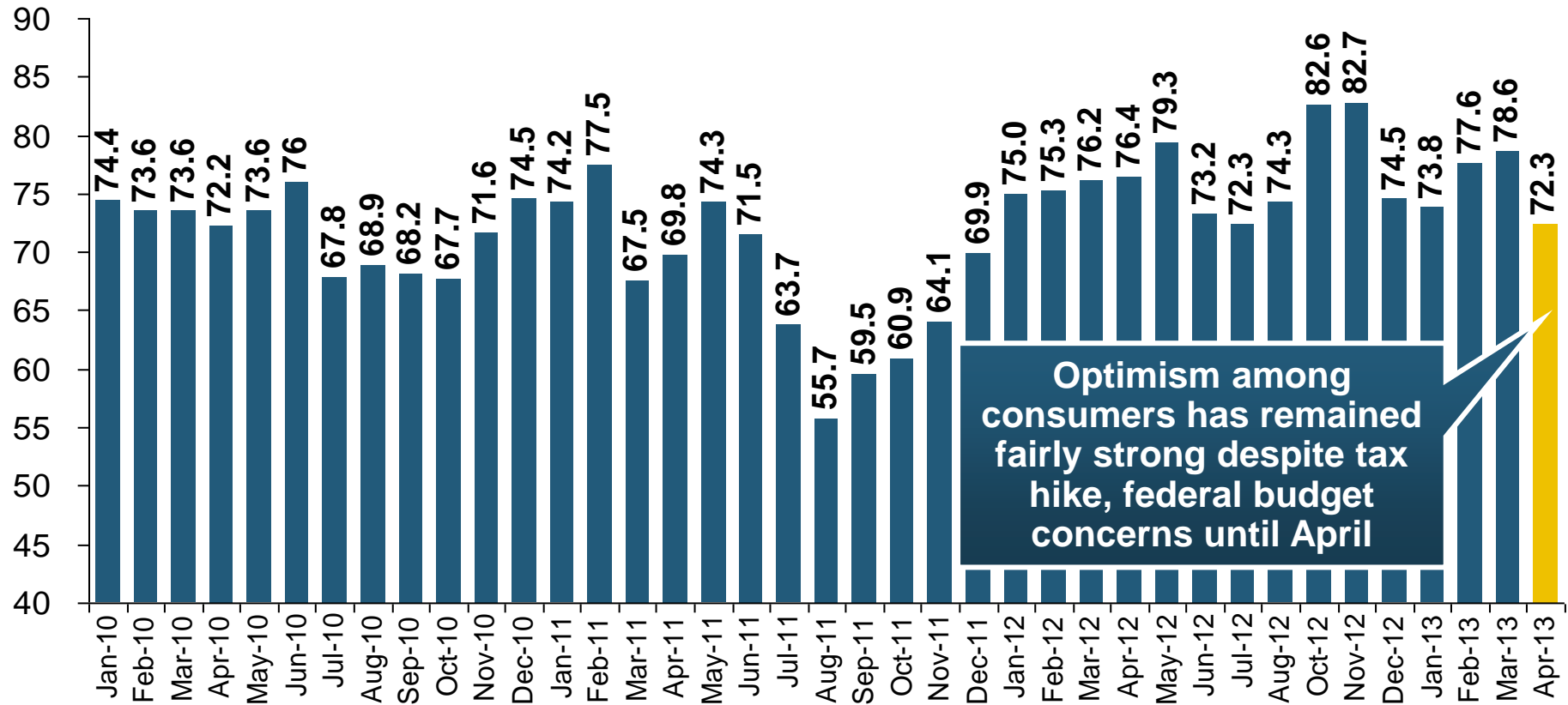
Source: US Department of Commerce, Blue Economic Indicators 5/13; Insurance Information Institute.

Federal Spending as a Share of State GDP: Vulnerability to Sequestration Varies



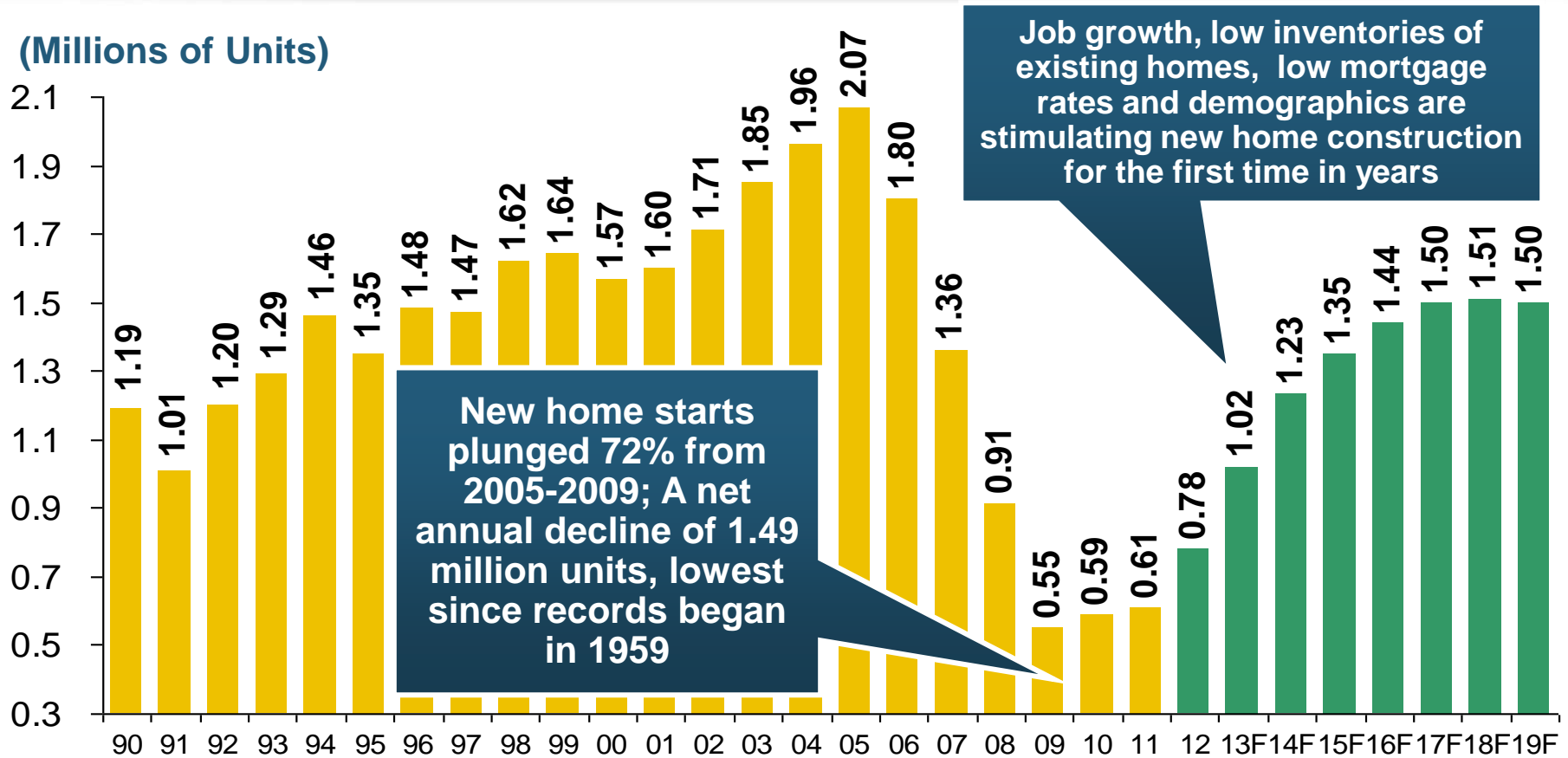
Consumer Sentiment Survey (1966 = 100)

January 2010 through April 2013



Consumer confidence has been low for years amid high unemployment, falling home prices and other factors adversely impact consumers, but improved substantially in late 2011 and in 2012

New Private Housing Starts, 1990-2019F

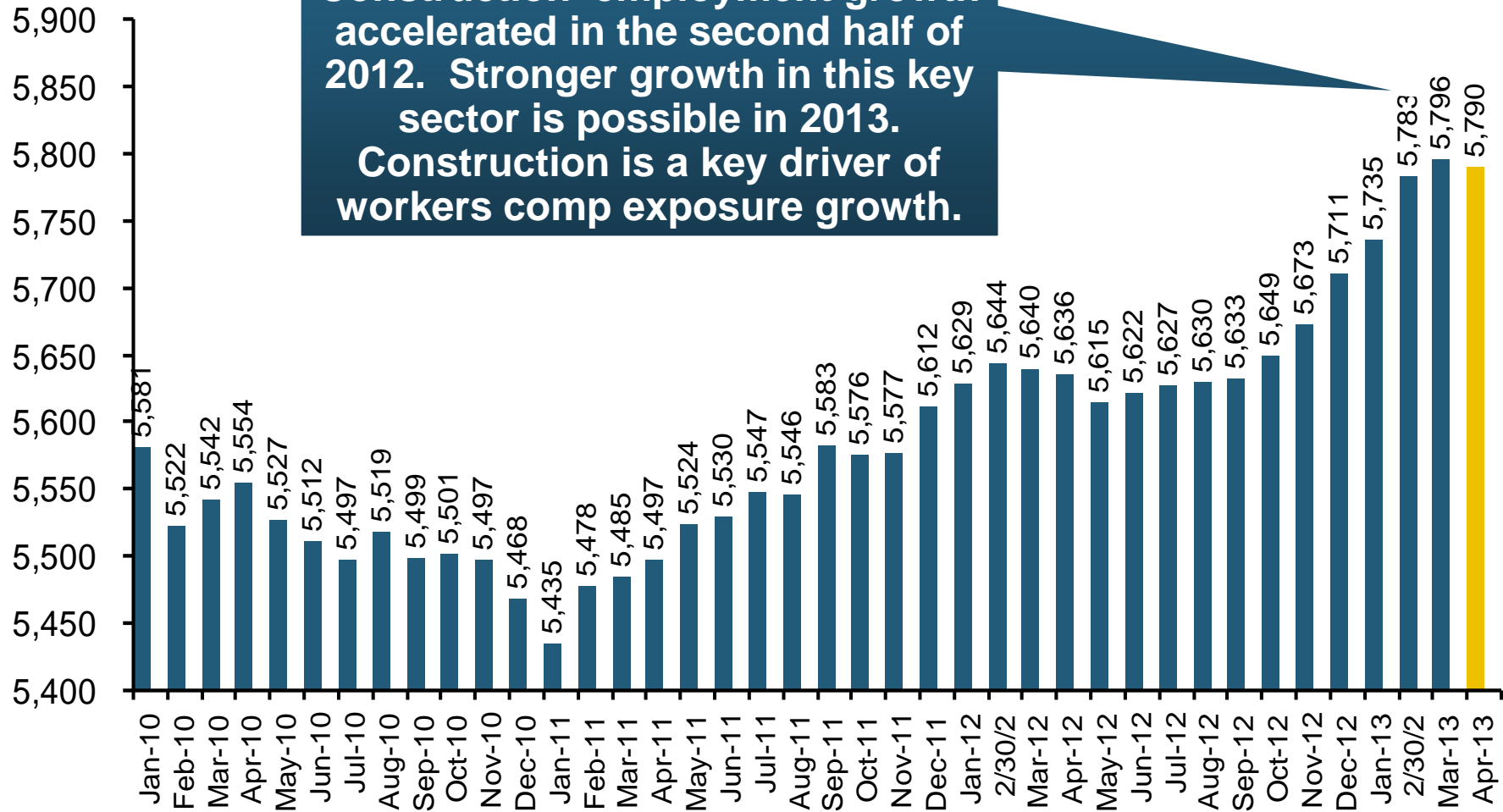


Homeowners Insurers Are Starting to See Meaningful Exposure Growth for the First Time Since 2005. Commercial Insurers with Construction Risk Exposure, Surety; Potent Driver of Workers Comp Exposure

Construction Employment, Jan. 2010—April 2013*

(Thousands)

Construction employment growth accelerated in the second half of 2012. Stronger growth in this key sector is possible in 2013. Construction is a key driver of workers comp exposure growth.



*Seasonally adjusted

Sources: US Bureau of Labor Statistics at <http://data.bls.gov>; Insurance Information Institute.

Construction Employment, Jan. 2003–Apr. 2013

(Thousands)



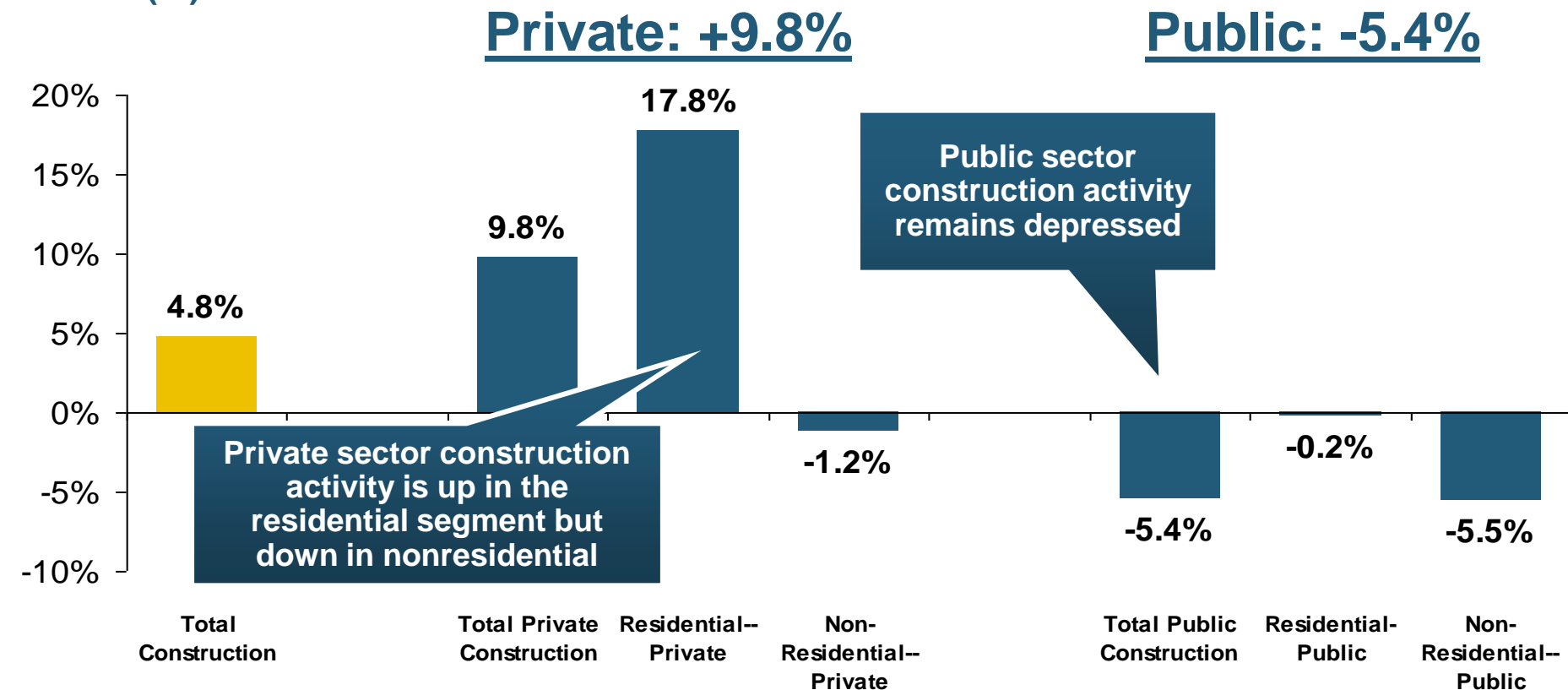
The Construction Sector Could Be a Growth Leader in 2013 and 2014 as the Housing Market and Private Investment Recover. WC Insurers Will Benefit.

Note: Recession indicated by gray shaded column.

Sources: U.S. Bureau of Labor Statistics; Insurance Information Institute.

Value of Construction Put in Place, March 2013 vs. March 2012*

Growth (%)



Overall Construction Activity is Up, But Growth Is Entirely in the Private Sector as State/Local Government Budget Woes Continue

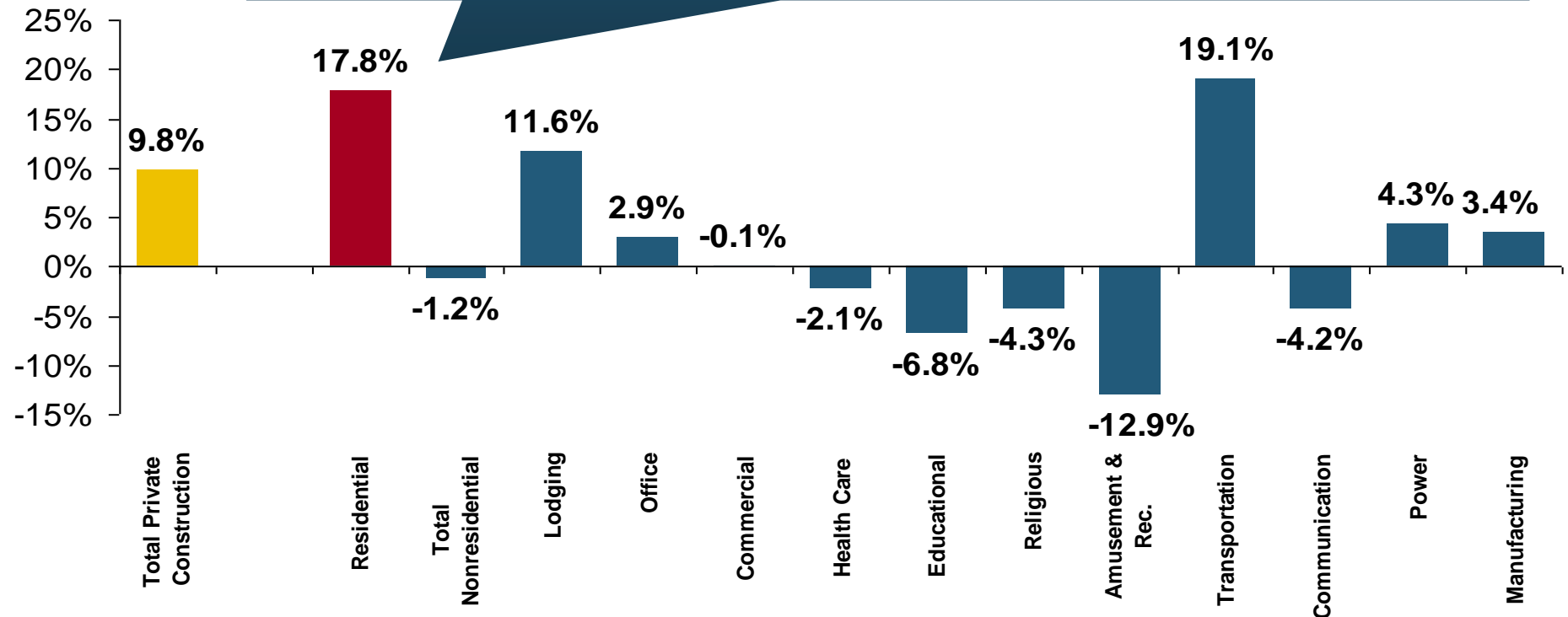
*seasonally adjusted

Source: U.S. Census Bureau, <http://www.census.gov/construction/c30/c30index.html> ; Insurance Information Institute.

Value of Private Construction Put in Place, by Segment, Mar. 2013 vs. Mar. 2012*

Growth (%)

Led by the Residential Construction, Lodging, Office, and Transportation industries, Private sector construction activity is mixed up across many segments after plunging during the “Great Recession.” Most segments expanded in 2012 but weakened in Q1:2013.



Private Construction Activity is Up Some Segments, Including the Key Residential Construction Sector, But Weakening in Early 2013

*seasonally adjusted

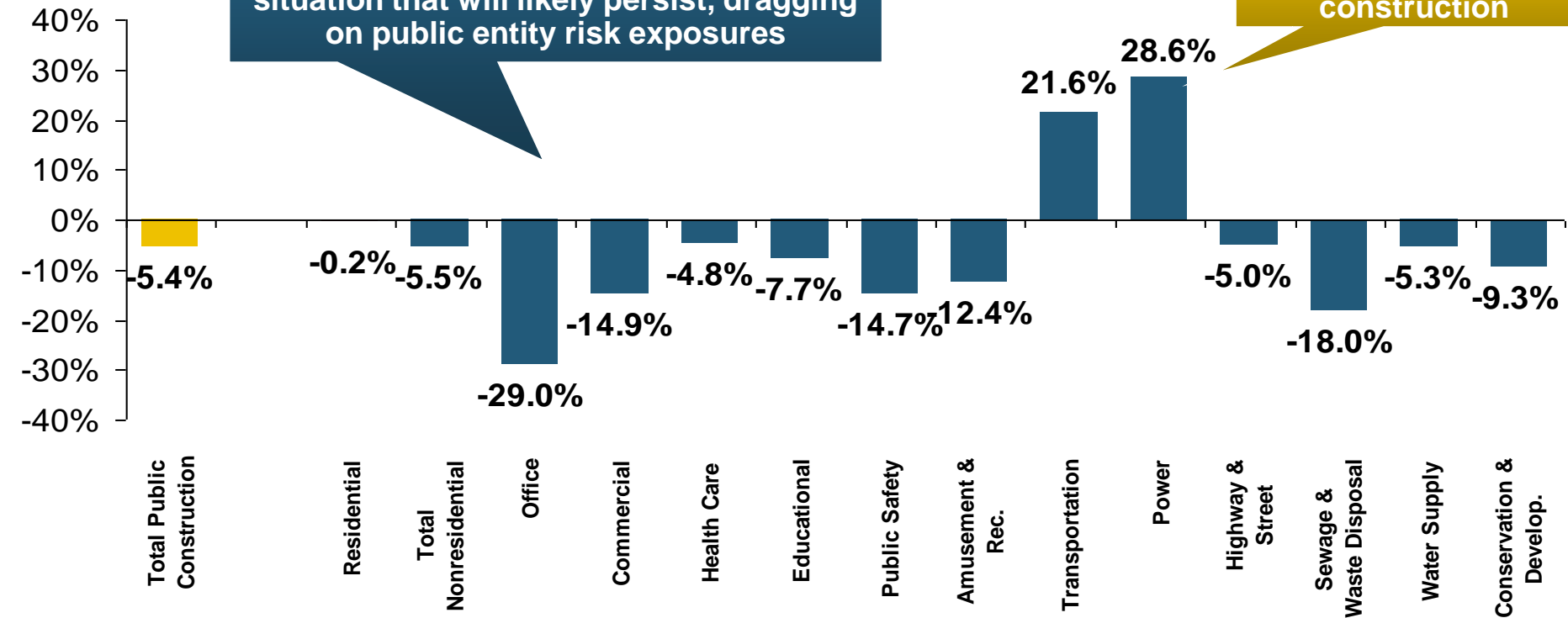
Source: U.S. Census Bureau, <http://www.census.gov/construction/c30/c30index.html> ; Insurance Information Institute.

Value of Public Construction Put in Place, by Segment, Mar. 2013 vs. Mar. 2012*

Growth (%)

Public sector construction activity is down substantially in most segments, a situation that will likely persist, dragging on public entity risk exposures

Transportation and Power projects lead public sector construction



Public Construction Activity is Down in Many Segments as State and Local Budgets Remain Under Stress; Improvement Possible in 2013.

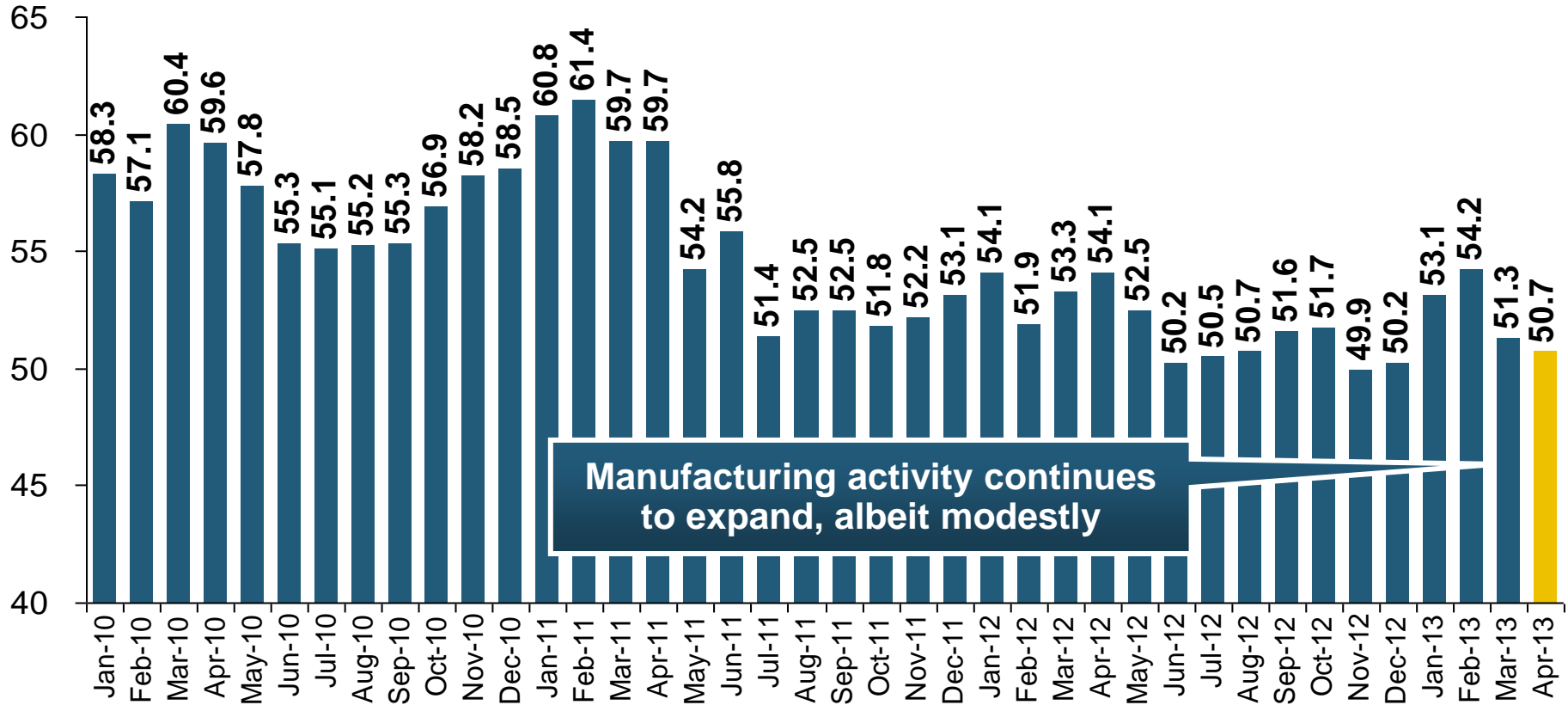
*seasonally adjusted

Source: U.S. Census Bureau, <http://www.census.gov/construction/c30/c30index.html> ; Insurance Information Institute.

ISM Manufacturing Index

(Values > 50 Indicate Expansion)

January 2010 through April 2013



The manufacturing sector expanded for 39 of the 40 months from Jan. 2010 through Apr. 2013. The expectation is that this will continue.

Dollar Value* of Manufacturers' Shipments Monthly, Jan. 1992—Mar. 2013

\$ Millions

\$500,000

\$400,000

\$300,000

\$200,000

Jan-92 Jan-93 Jan-94 Jan-95 Jan-96 Jan-97 Jan-98 Jan-99 Jan-00 Jan-01 Jan-02 Jan-03 Jan-04 Jan-05 Jan-06 Jan-07 Jan-08 Jan-09 Jan-10 Jan-11 Jan-12 Jan-13

The value of Manufacturing Shipments in Mar. 2013 were up 30% to \$481.8B from its May 2009 trough. March figure is now 0.7% below its previous record high in July 2008.

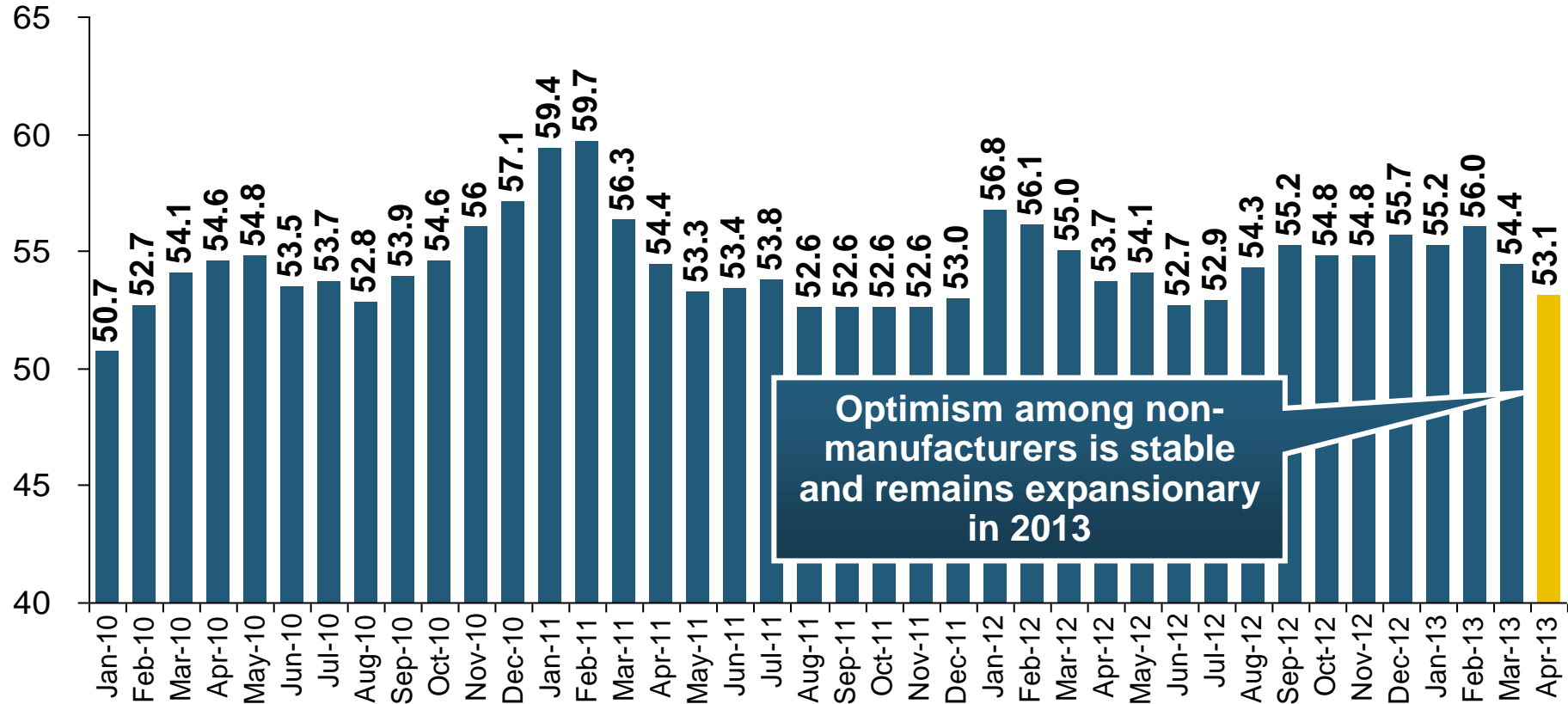
Monthly shipments are nearly back to peak (in July 2008, 8 months into the recession). Trough in May 2009. Growth from trough to Mar. 2013 was 30%. Manufacturing is an energy intensive activity and growth leads to gains in many commercial exposures: WC, Commercial Auto, Marine, Property and Various Liability Coverages

*seasonally adjusted

Source: U.S. Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders*, <http://www.census.gov/manufacturing/m3/>

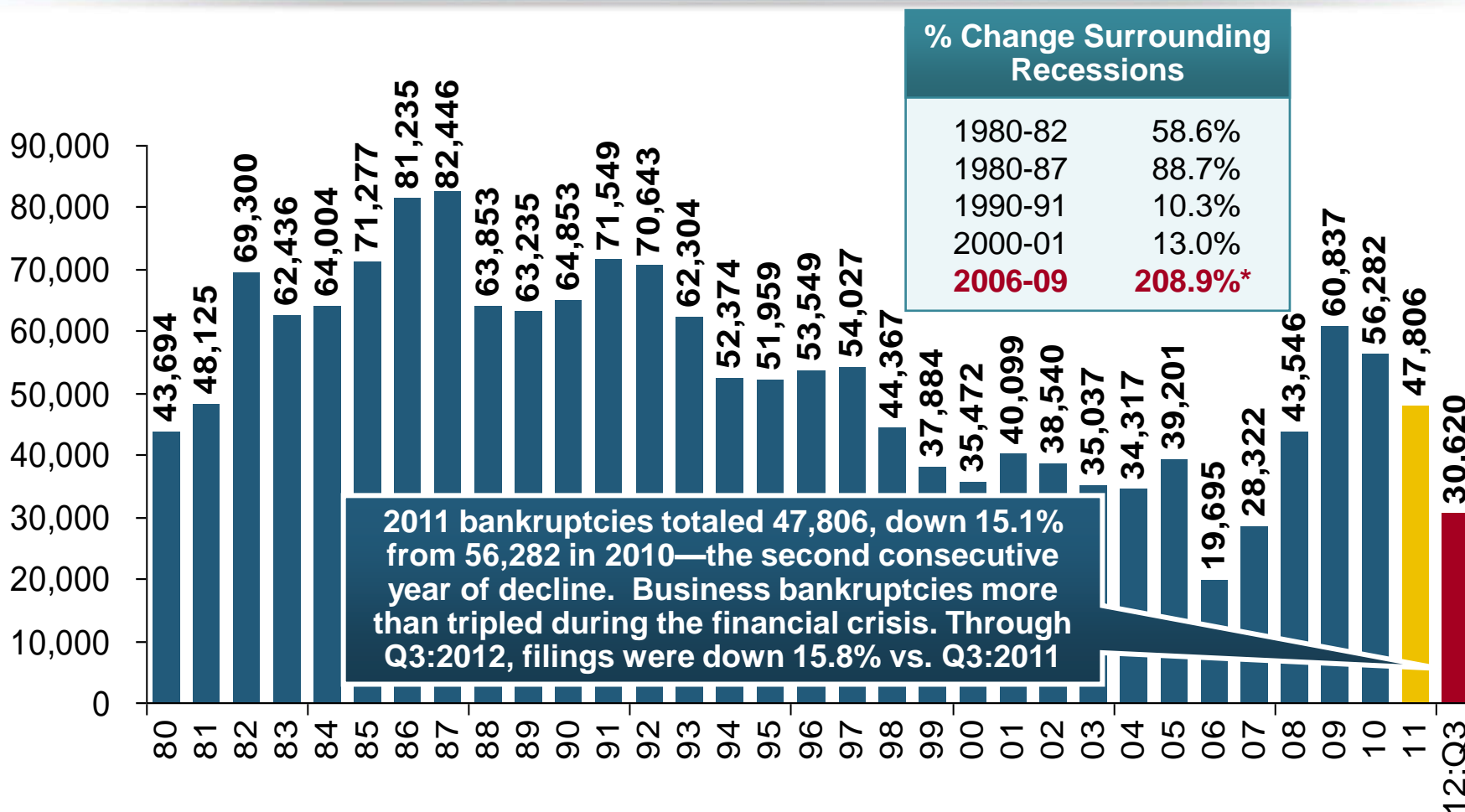
ISM Non-Manufacturing Index (Values > 50 Indicate Expansion)

January 2010 through April 2013



Non-manufacturing industries have been expanding and adding jobs. The question is whether this will continue.

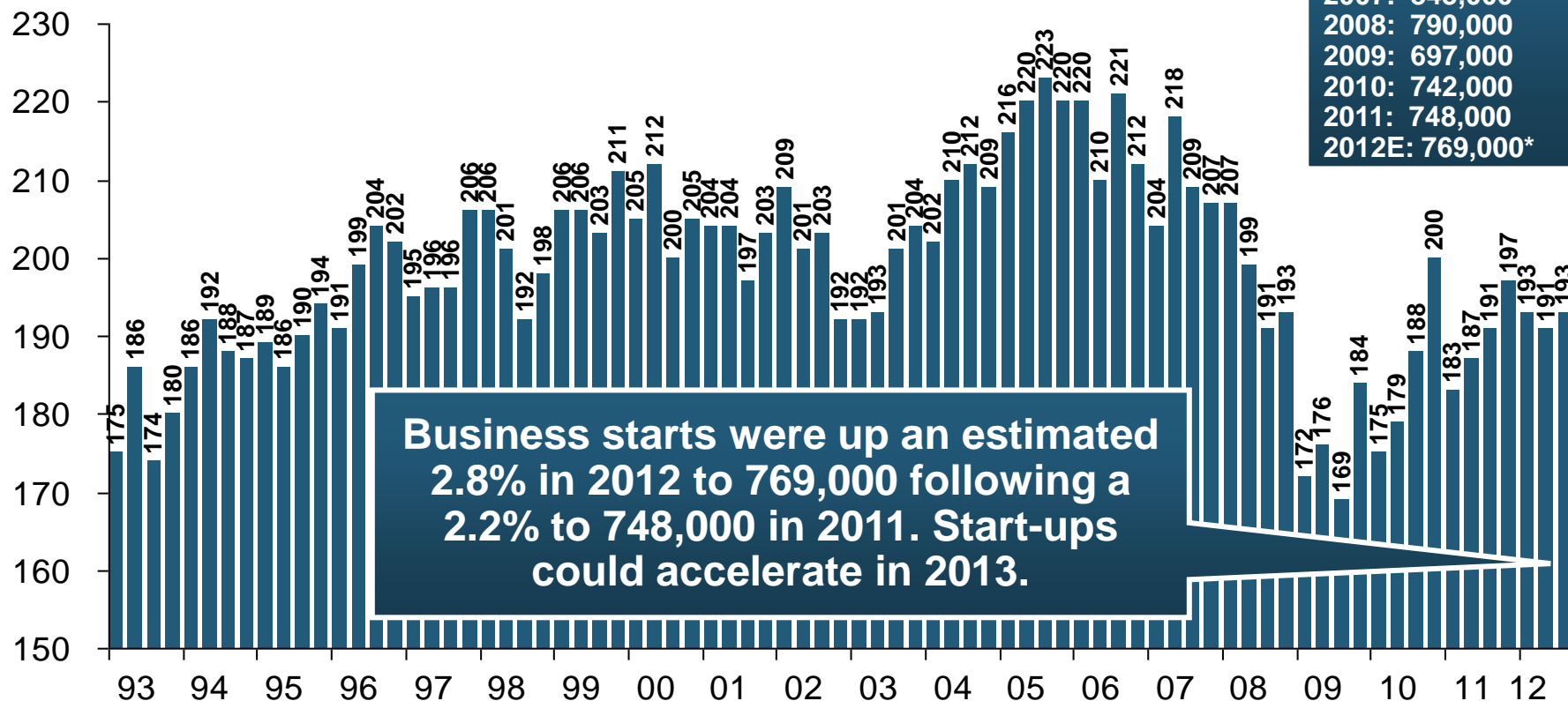
Business Bankruptcy Filings, 1980-2012:Q3



Significant Exposure Implications for All Commercial Lines as Business Bankruptcies Begin to Decline

Private Sector Business Starts, 1993:Q2 – 2012:Q3*

(Thousands)



**Business Starts Were Down Nearly 20% in the Recession,
Holding Back Most Types of Commercial Insurance Exposure, But
Are Recovering Slowly**

* Data through Sep. 30, 2012 are the latest available as of May 13, 2013; Seasonally adjusted.

Source: Bureau of Labor Statistics, <http://www.bls.gov/news.release/cewbd.t08.htm>.

12 Industries for the Next 10 Years: Insurance Solutions Needed

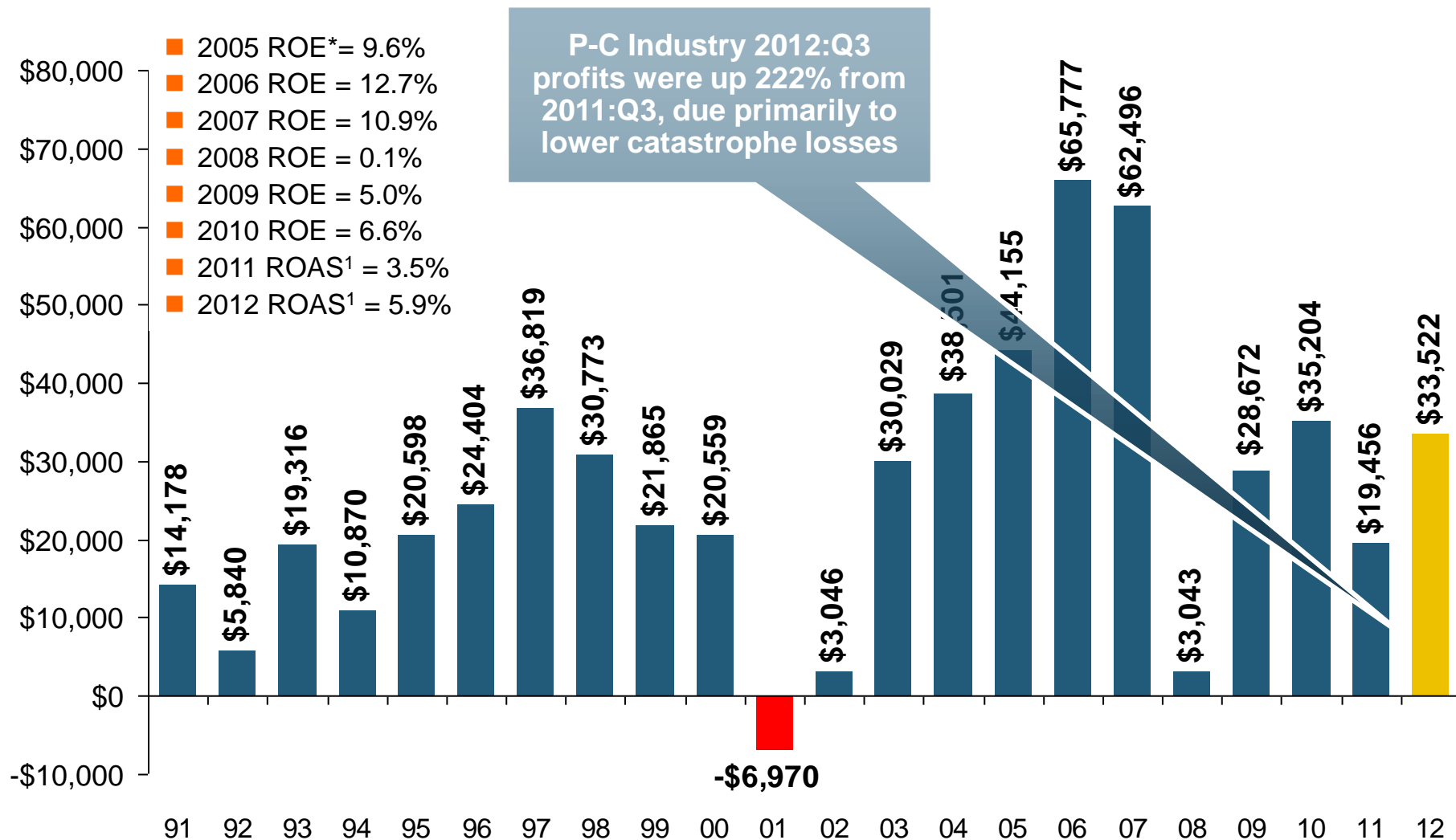
Health Care
Health Sciences
Energy (Traditional)
Alternative Energy
Petrochemical
Agriculture
Natural Resources
Technology (incl. Biotechnology)
Light Manufacturing
Insourced Manufacturing
Export-Oriented Industries
Shipping (Rail, Marine, Trucking, Pipelines)

Many industries are poised for growth, though insurers' ability to capitalize on these industries varies widely

P/C Insurance Industry Financial Overview

**Profit Recovery in 2012 After
High CAT Losses; Ultimate
Impact of Sandy Still Unclear**

P/C Net Income After Taxes 1991–2012 (\$ Millions)



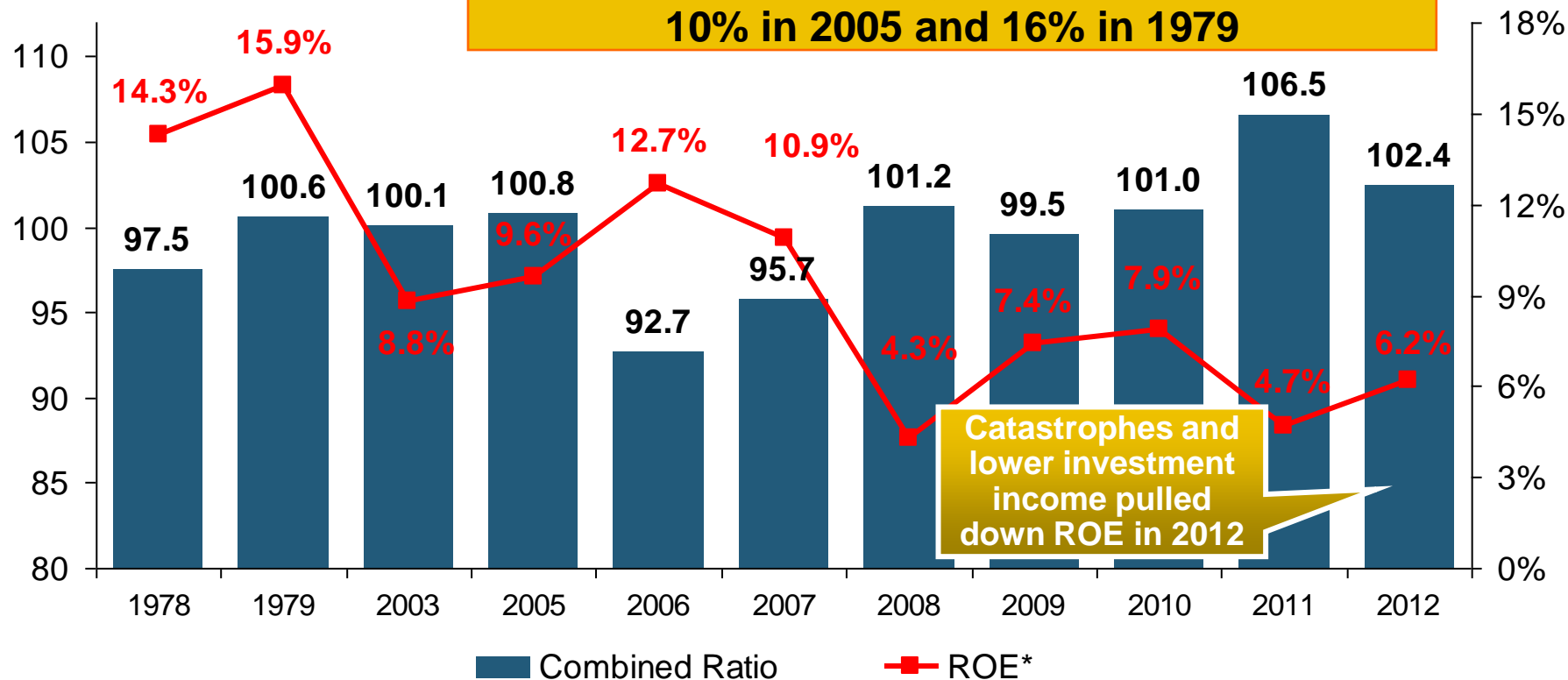
* ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 6.2% ROAS in 2012, 4.7% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009.

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

A 100 Combined Ratio Isn't What It Once Was: Investment Impact on ROEs

Combined Ratio / ROE

A combined ratio of about 100 generates an ROE of ~7.0% in 2012, ~7.5% ROE in 2009/10, 10% in 2005 and 16% in 1979



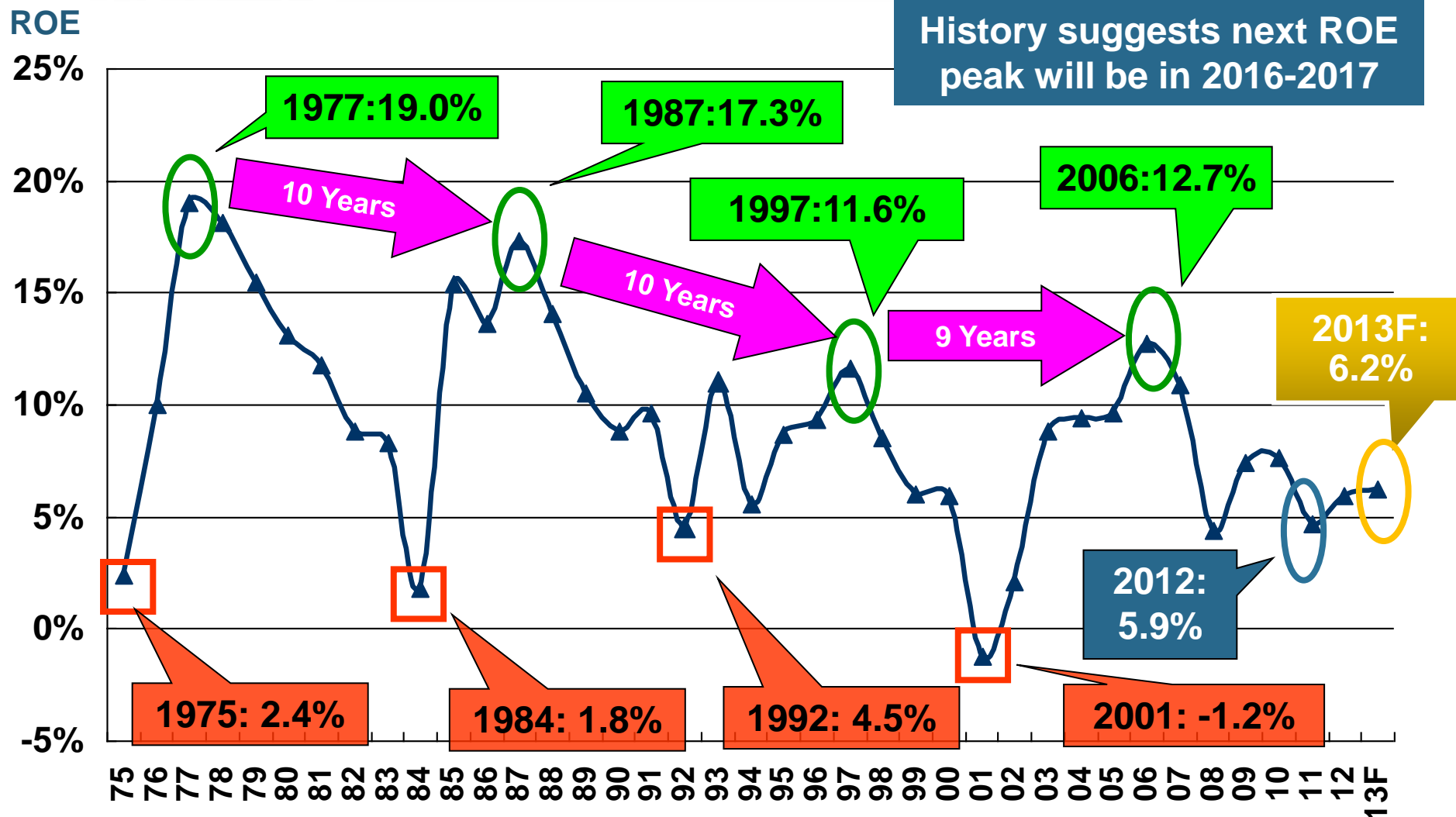
Catastrophes and lower investment income pulled down ROE in 2012

Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2008 -2012 figures are return on average surplus and exclude mortgage and financial guaranty insurers. 2012 combined ratio including M&FG insurers is 103.2, 2011 combined ratio including M&FG insurers is 108.1, ROAS = 3.5%.

Source: Insurance Information Institute from A.M. Best and ISO data.

Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2013F*

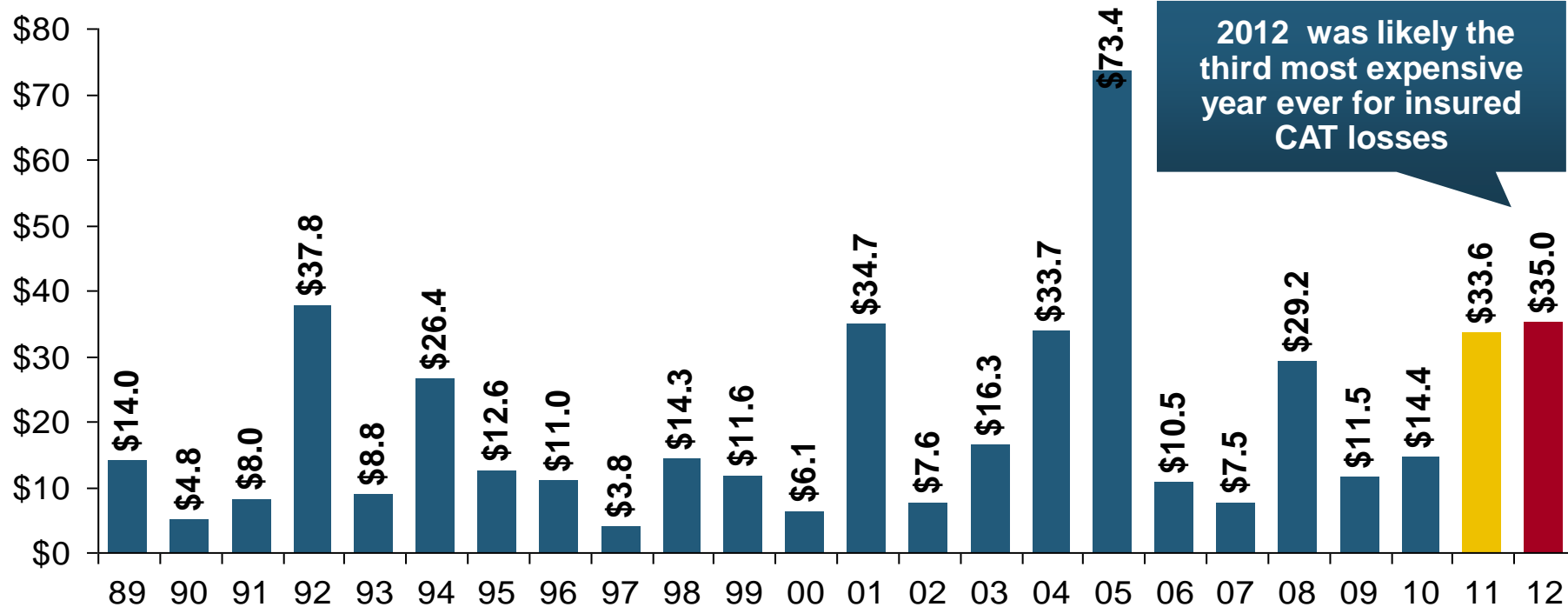


*Profitability = P/C insurer ROEs. 2011 figure is an estimate based on ROAS data. Note: Data for 2008-2013 exclude mortgage and financial guaranty insurers. 2012:Q3 ROAS = 6.2% including M&FG.

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

US Insured Catastrophe Losses

(\$ Billions, 2012 Dollars)



2012 Was the 3rd Highest Year on Record for Insured Losses in US History on An Inflation-Adjusted Basis. 2011 Losses Were the 6th Highest.

Record Tornado Losses Caused 2011 CAT Losses to Surge

Note: 2001 figure includes \$20.3B for 9/11 losses reported through 12/31/01 (\$25.9B 2011 dollars). Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = \$12.2B (\$15.6B in 2011 dollars.)

Sources: Property Claims Service/ISO; Insurance Information Institute.

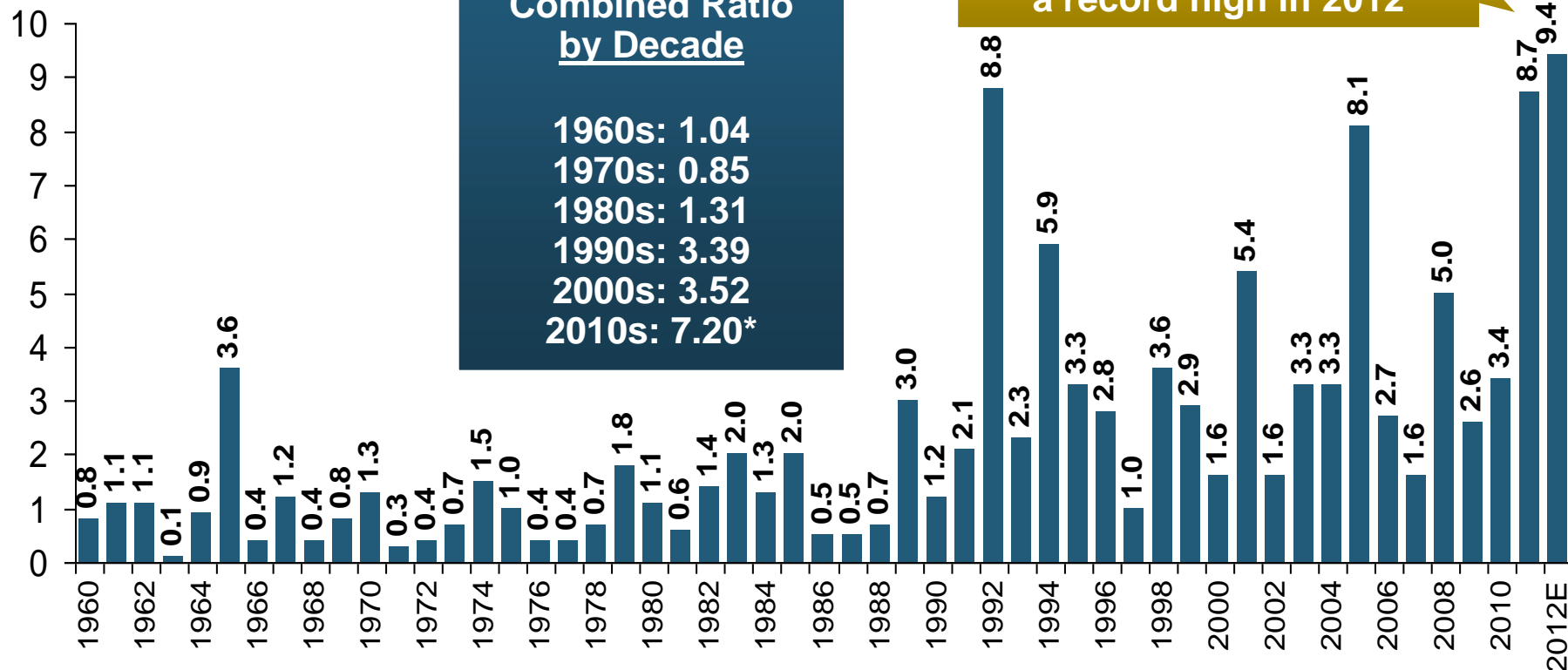
Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2012*

Combined Ratio Points

**Avg. CAT Loss
Component of the
Combined Ratio
by Decade**

1960s: 1.04
1970s: 0.85
1980s: 1.31
1990s: 3.39
2000s: 3.52
2010s: 7.20*

**Catastrophe losses as a
share of all losses reached
a record high in 2012**



The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades

Notes: Private carrier losses only. Excludes loss adjustment expenses and reinsurance reinstatement premiums. Figures are adjusted for losses ultimately paid by foreign insurers and reinsurers.

Source: ISO (1960-2011); A.M. Best (2012E) Insurance Information Institute.

The BIG Question: Where Is the Market Heading?

**Catastrophes and Other Factors Are
Pressuring Insurance Markets**

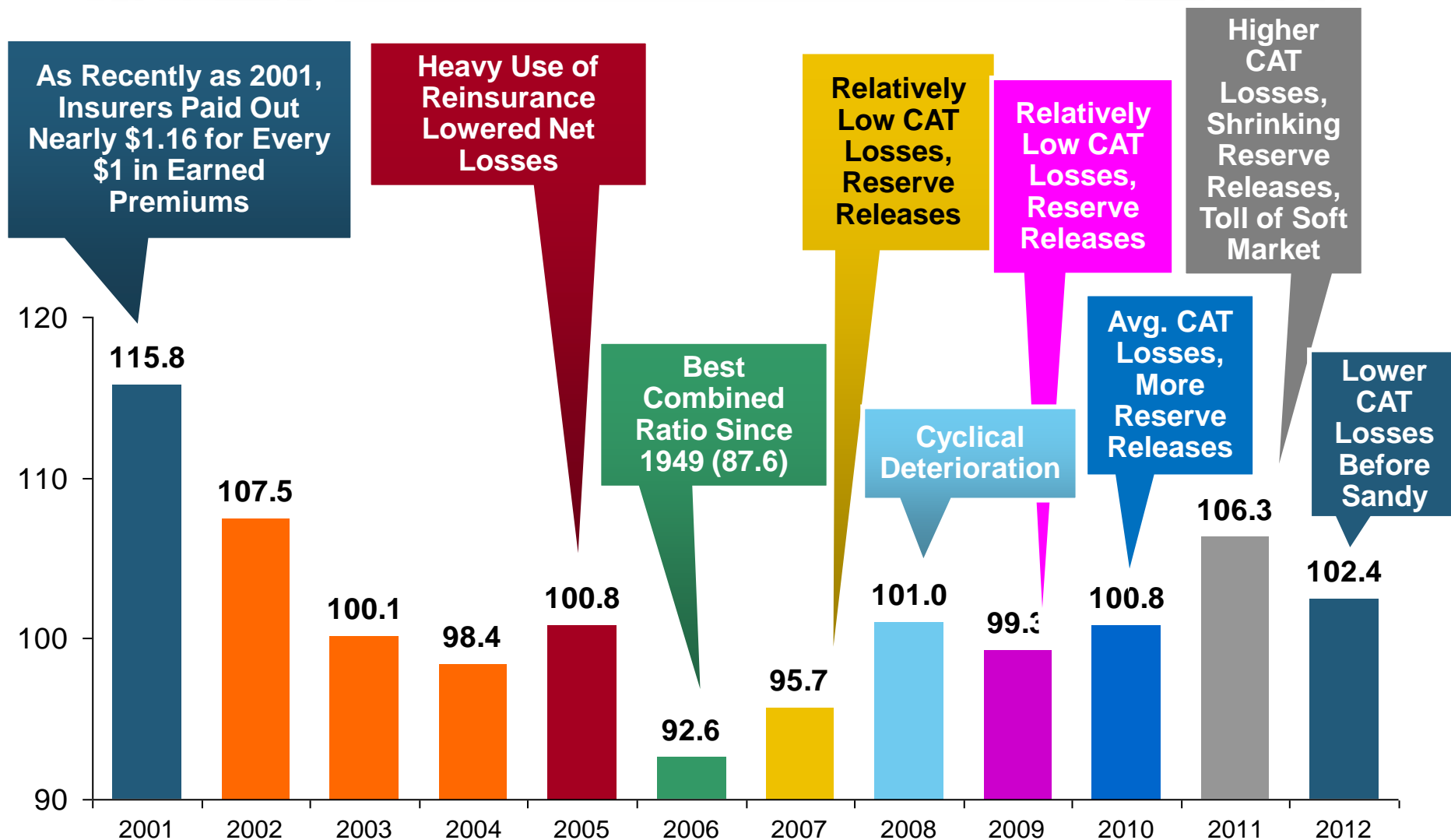
***New Factor: Record Low Interest
Rates Are Contributing to
Underwriting and Pricing Pressures***

UNDERWRITING

**Underwriting Results in 2012
Improved Despite High
Catastrophe Losses**

WC Was One Reason Why

P/C Insurance Industry Combined Ratio, 2001–2012*

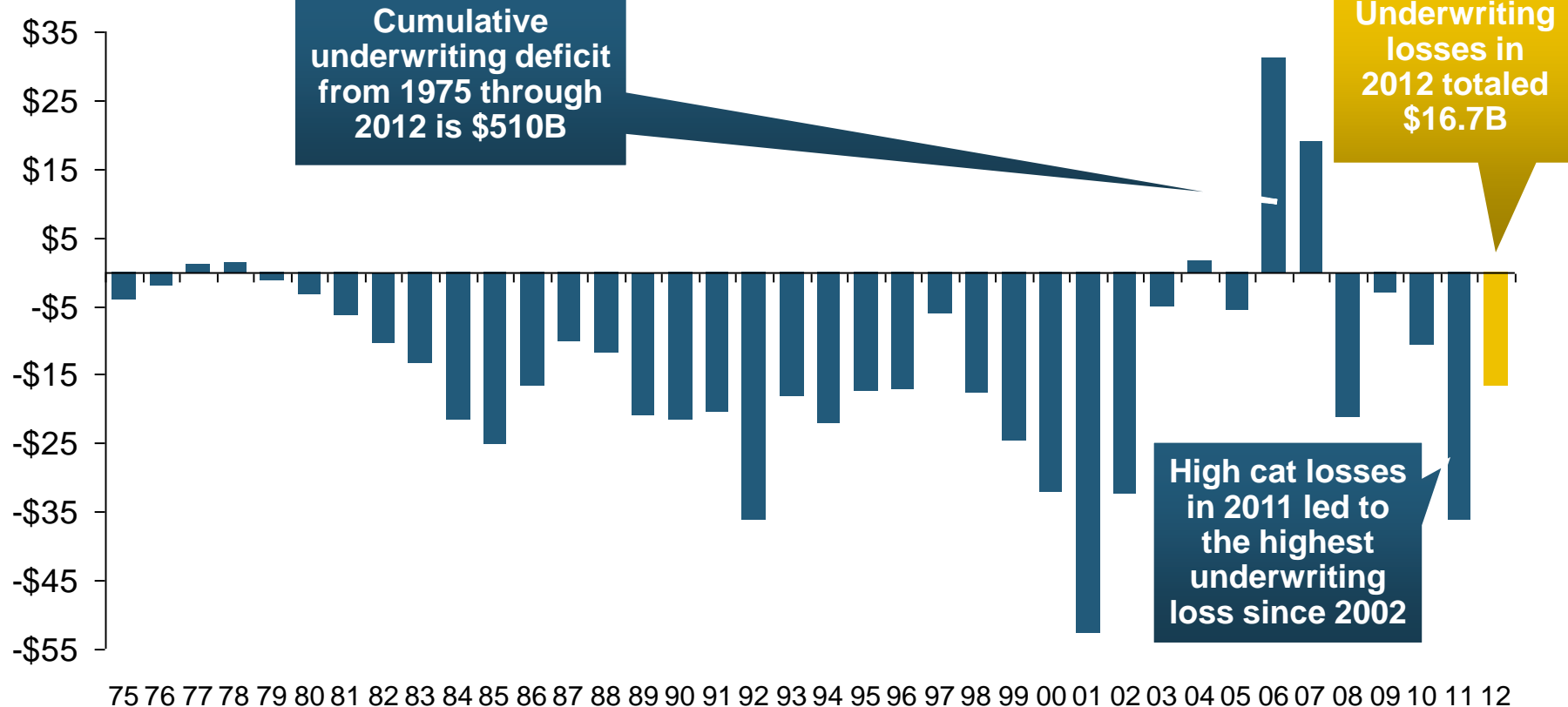


* Excludes Mortgage & Financial Guaranty insurers 2008--2012. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.1; 2012=103.2.

Sources: A.M. Best, ISO.

Underwriting Gain (Loss) 1975–2012*

(\$ Billions)

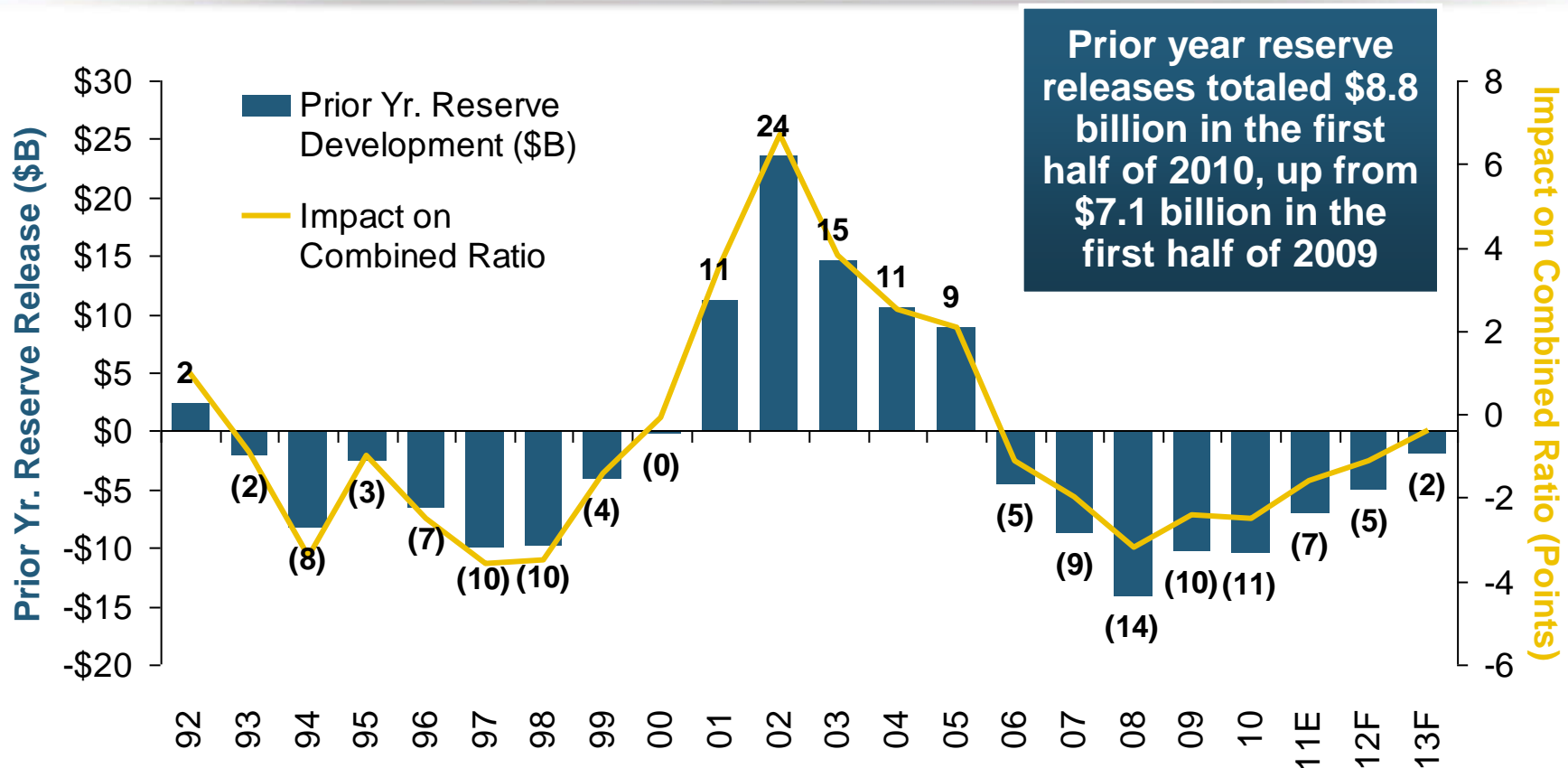


**Large Underwriting Losses Are *NOT* Sustainable
in Current Investment Environment**

* Includes mortgage and financial guaranty insurers in all years.

Sources: A.M. Best, ISO; Insurance Information Institute.

P/C Reserve Development, 1992–2013F

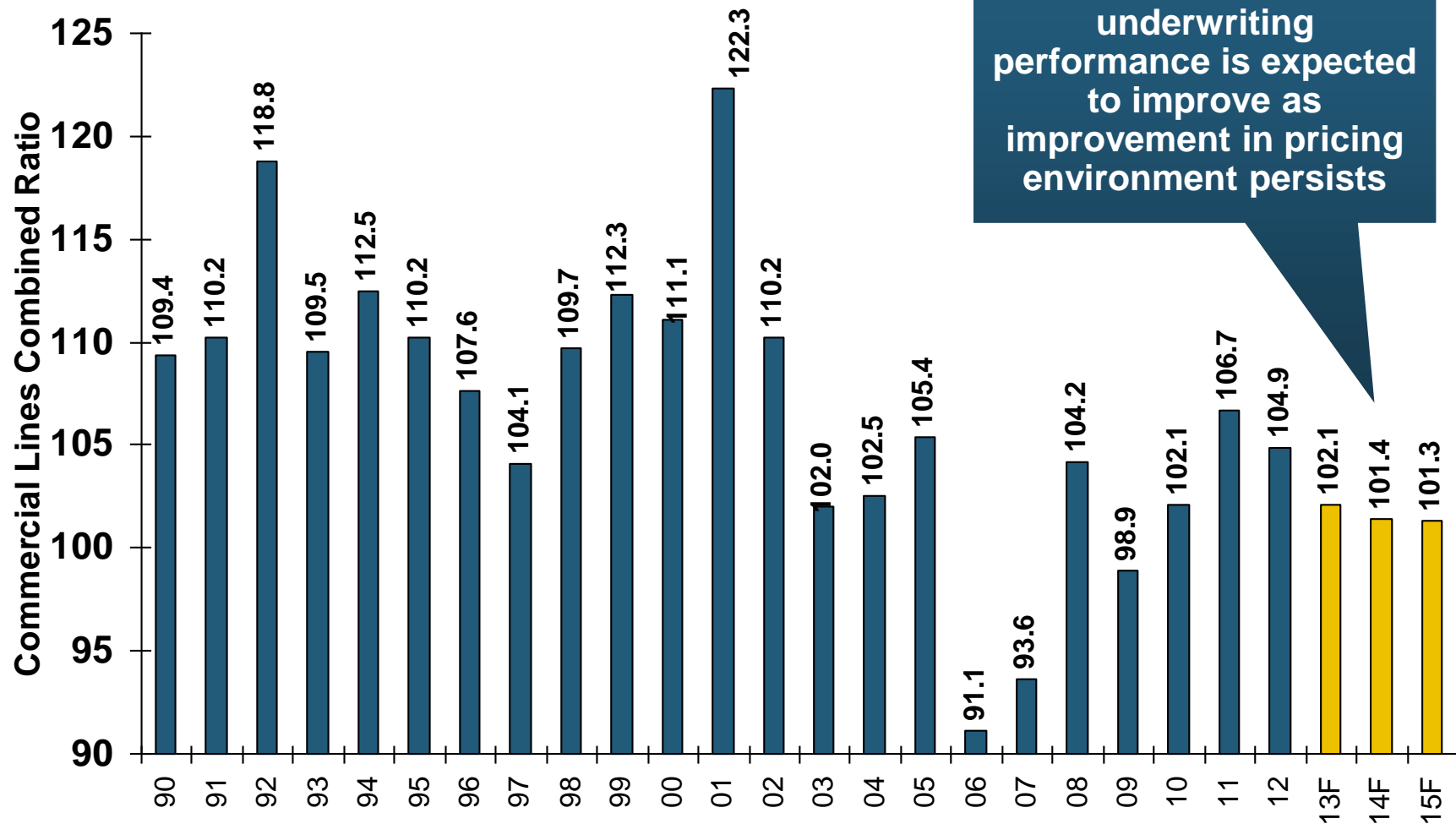


Reserve Releases Remained Strong in 2010 But Tapered Off in 2011. Releases Are Expected to Further Diminish in 2012 and 2103

Note: 2005 reserve development excludes a \$6 billion loss portfolio transfer between American Re and Munich Re. Including this transaction, total prior year adverse development in 2005 was \$7 billion. The data from 2000 and subsequent years excludes development from financial guaranty and mortgage insurance.

Sources: Barclays Capital; A.M. Best.

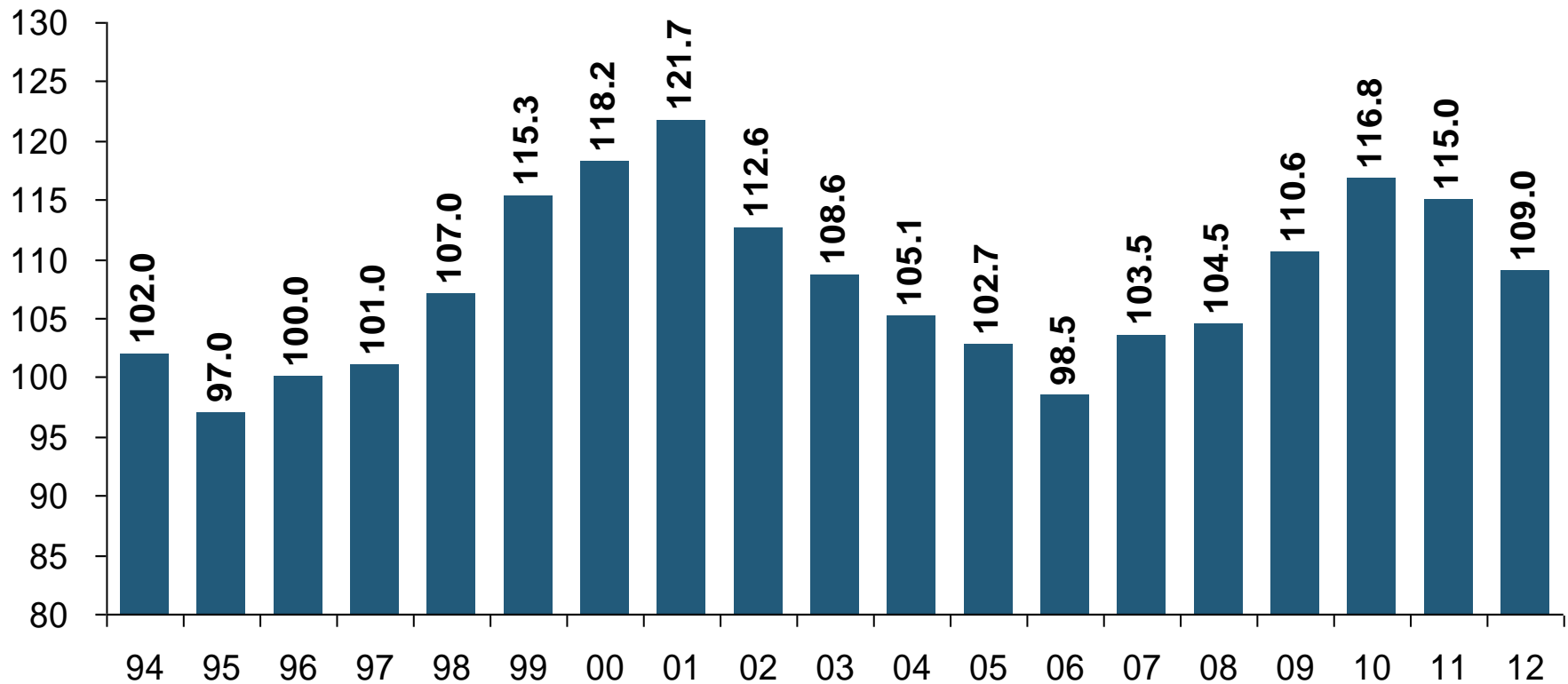
Commercial Lines Combined Ratio, 1990-2015F*



*2007-2012 figures exclude mortgage and financial guaranty segments.

Source: A.M. Best (1990-2011); Conning (2012-2015F) Insurance Information Institute

Workers Compensation Combined Ratio: 1994–2012P



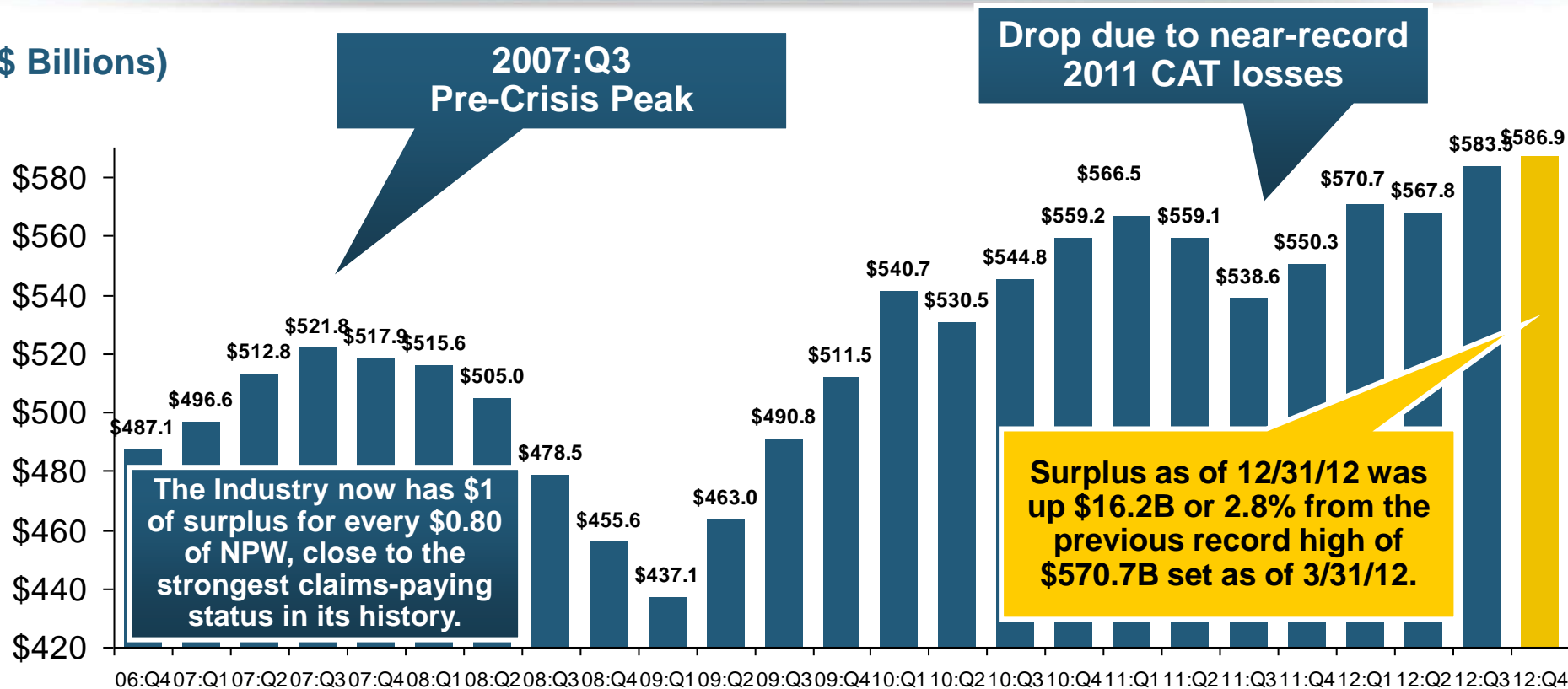
Workers Comp Results Began to Improve in 2011-2012. Underwriting Results Deteriorated Markedly from 2007-2010 and Were the Worst They Had Been in a Decade.

SURPLUS/CAPITAL/CAPACITY

How Will Large Catastrophe Losses Impact Capacity?

Policyholder Surplus, 2006:Q4–2012:Q4

(\$ Billions)



*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.

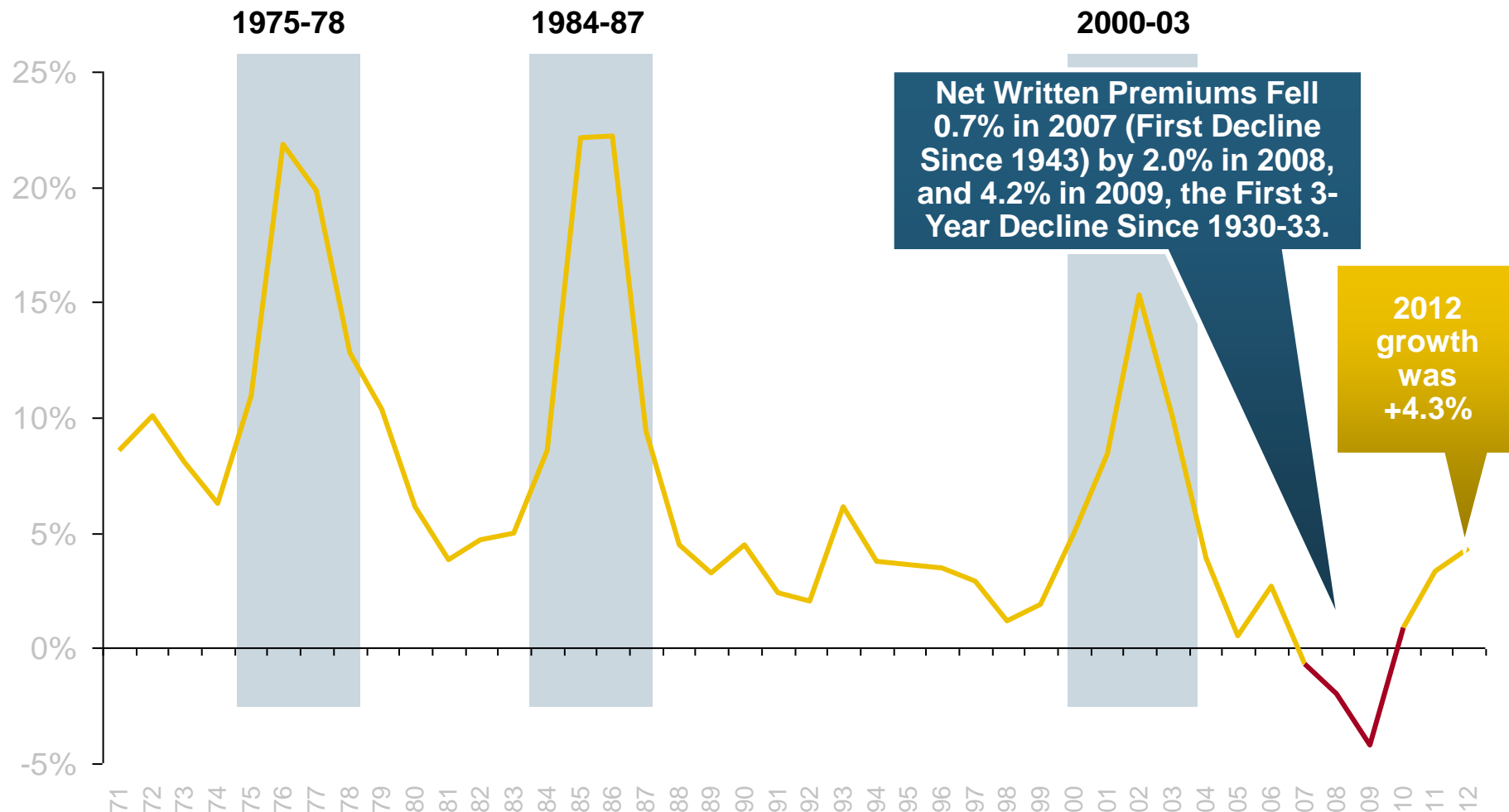
The P/C Insurance Industry Both Entered and Emerged from the 2012 Hurricane Season Very Strong Financially.

4. RENEWED PRICING DISCIPLINE

**Evidence of a Broad and
Sustained Shift in Pricing**

Net Premium Growth: Annual Change, 1971—2012

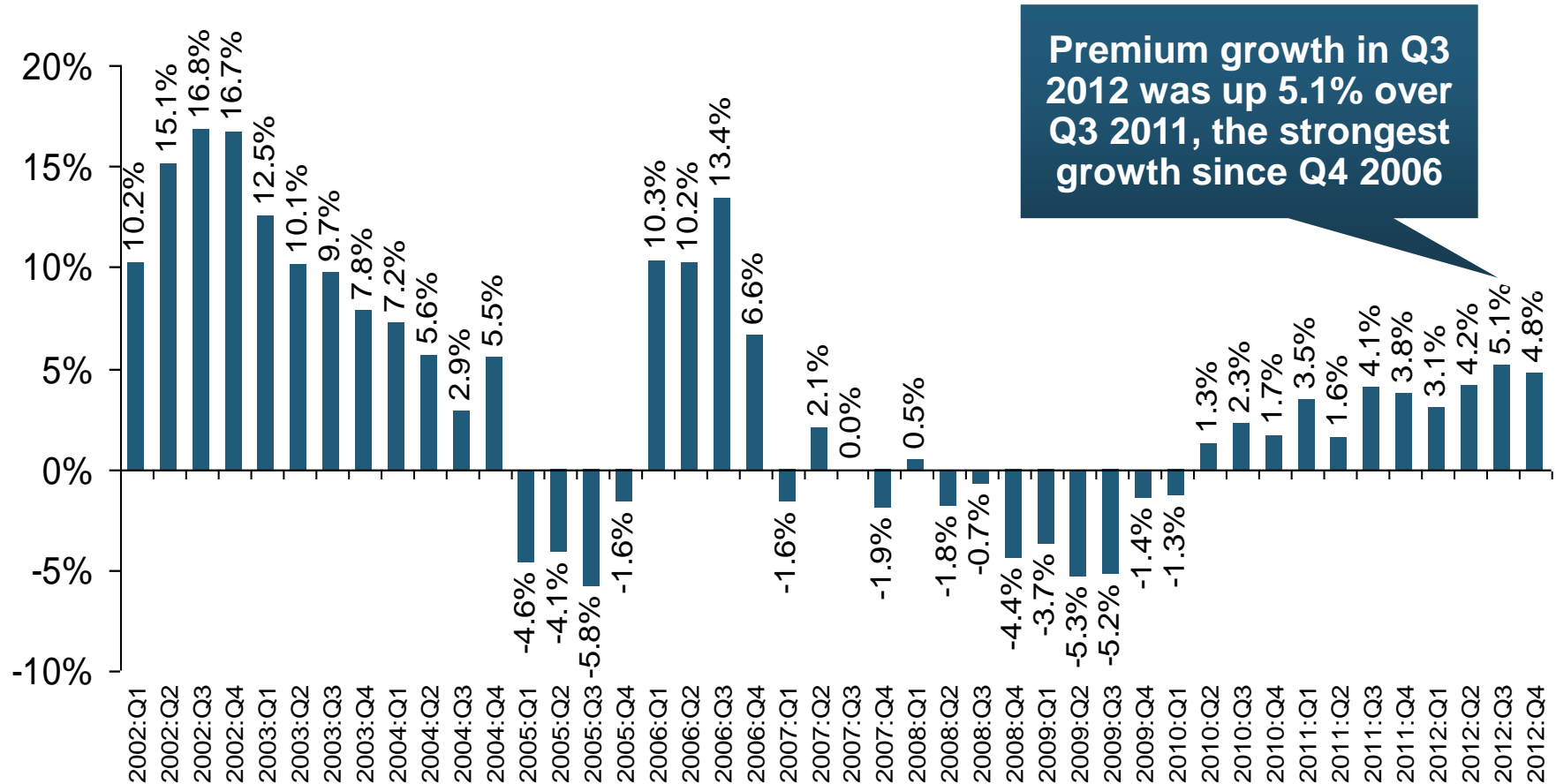
(Percent)



Shaded areas denote “hard market” periods

Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute.

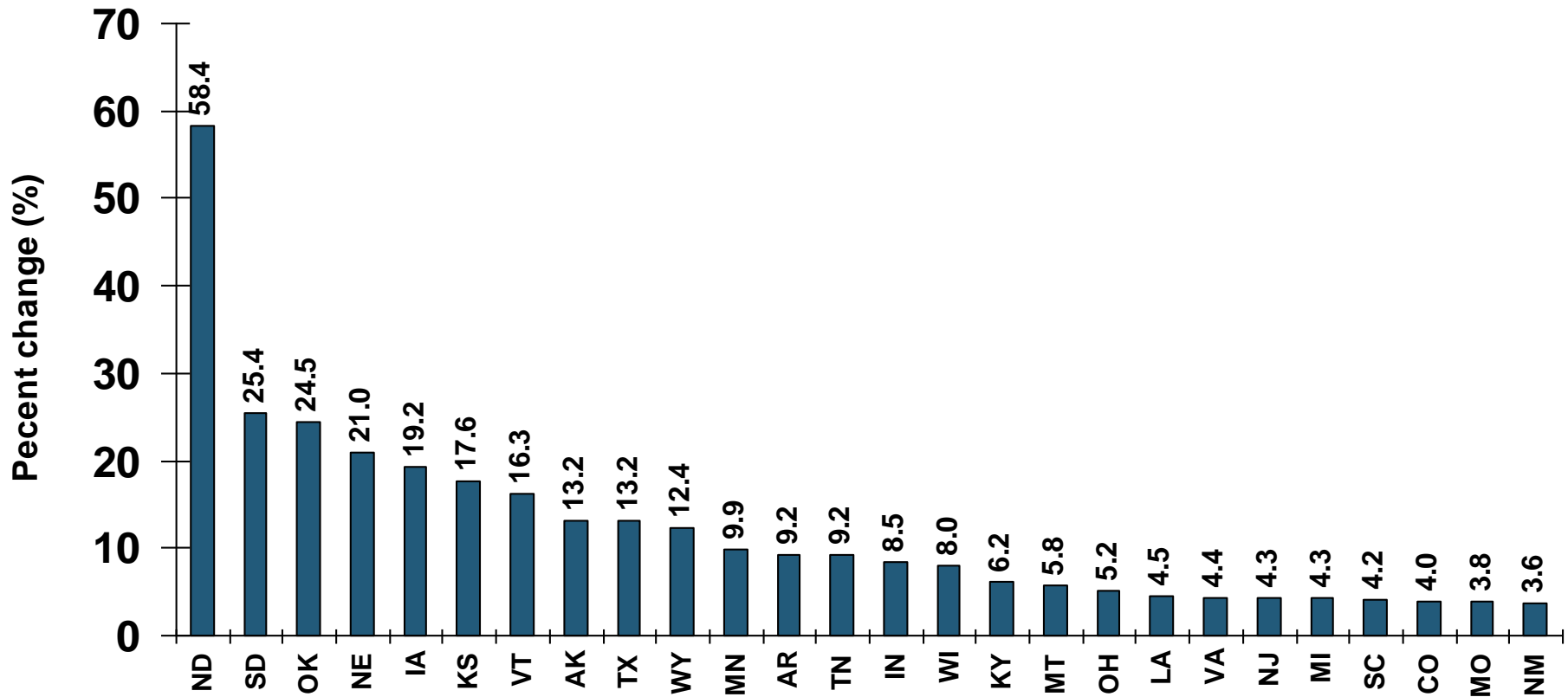
P/C Net Premiums Written: % Change, Quarter vs. Year-Prior Quarter



**Sustained Growth in Written Premiums
(vs. the same quarter, prior year) Will Continue through 2013**

Direct Premiums Written: Total P/C Percent Change by State, 2007-2012*

Top 25 States

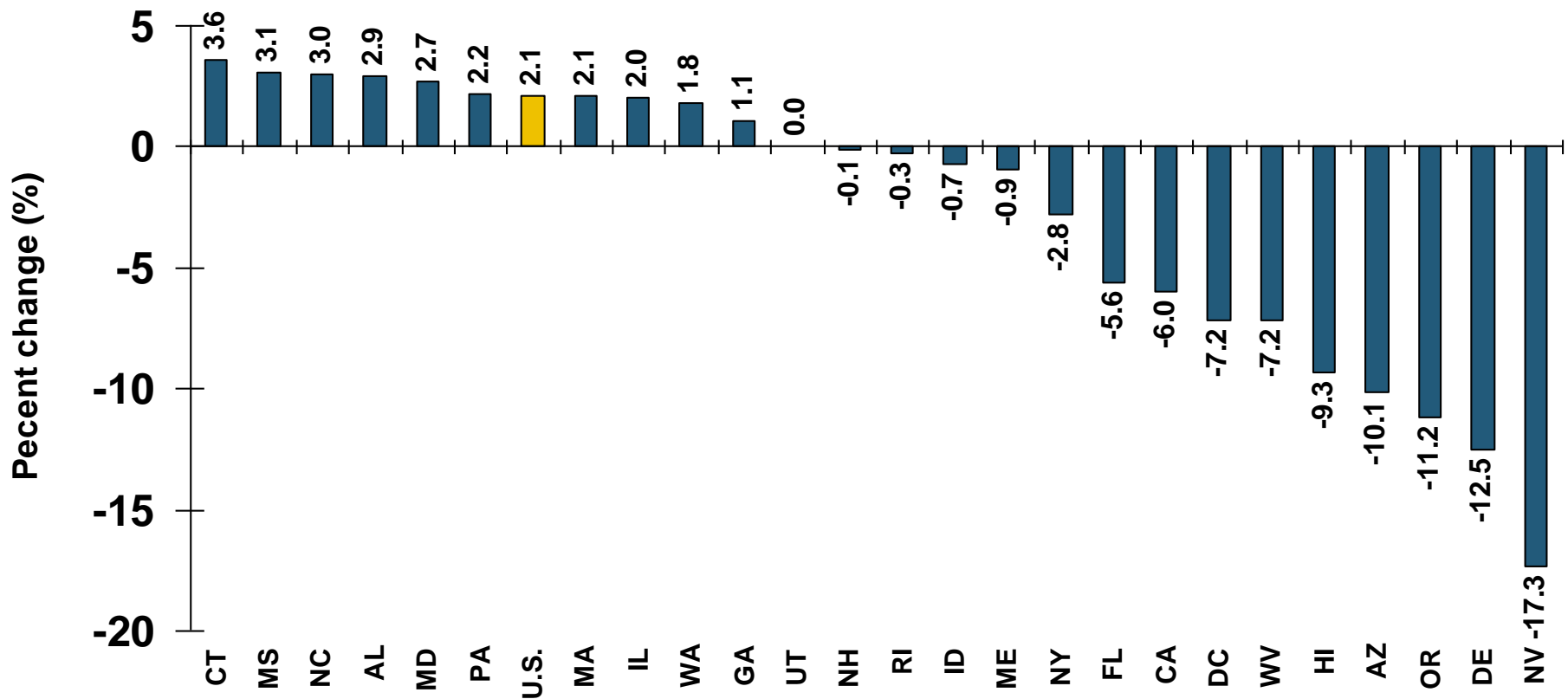


*Data are preliminary as of 5/1/13 and do not yet fully reflect the impact of state-run pools and plans.

Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: Total P/C Percent Change by State, 2007-2012*

Bottom 25 States

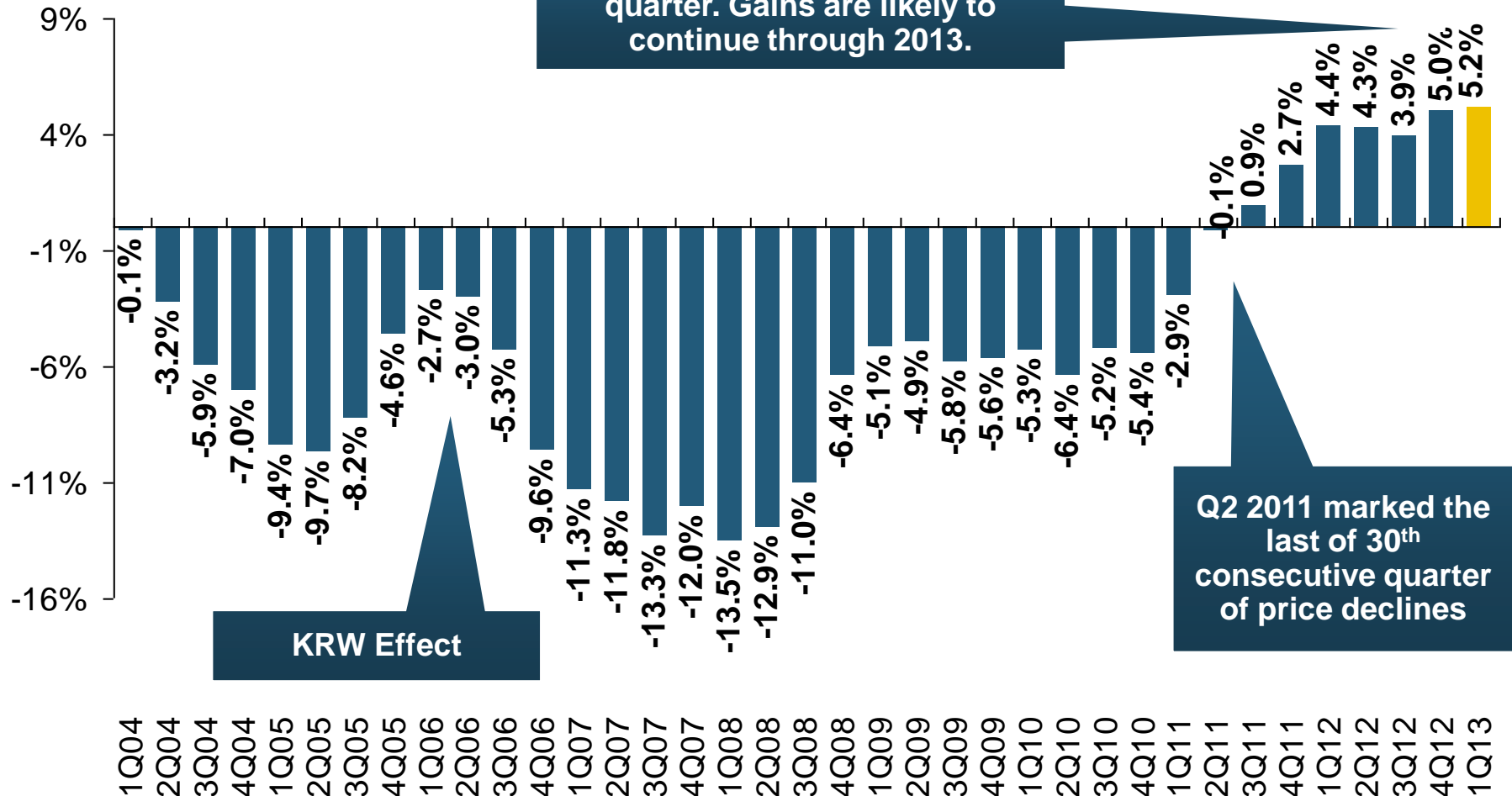


*Data are preliminary as of 5/1/13 and do not yet fully reflect the impact of state-run pools and plans.

Sources: SNL Financial LC.; Insurance Information Institute.

Average Commercial Rate Change, All Lines, (1Q:2004–1Q:2013)

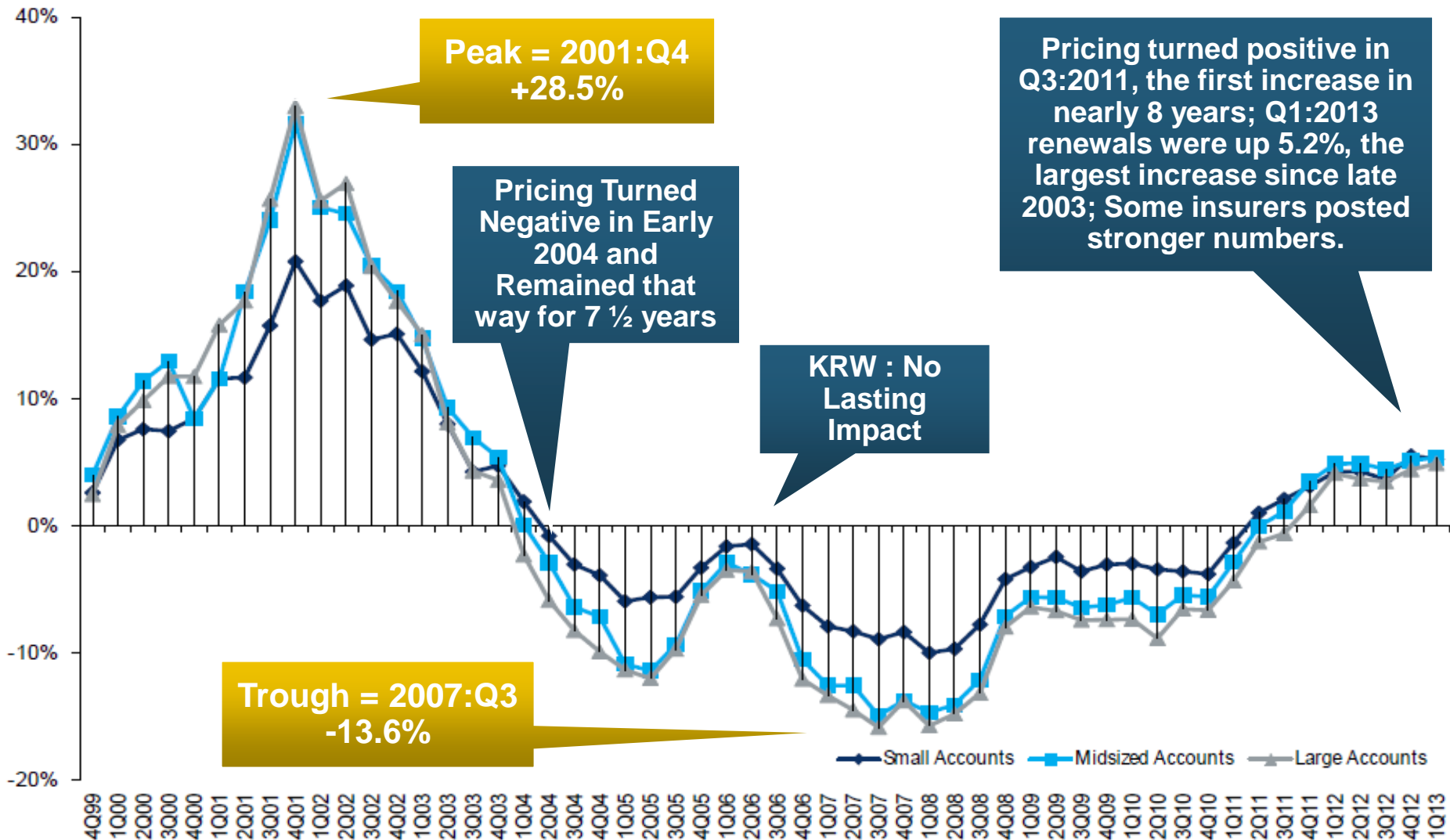
(Percent)



Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents & Brokers; Insurance Information Institute

Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2013:Q1

Percentage Change (%)



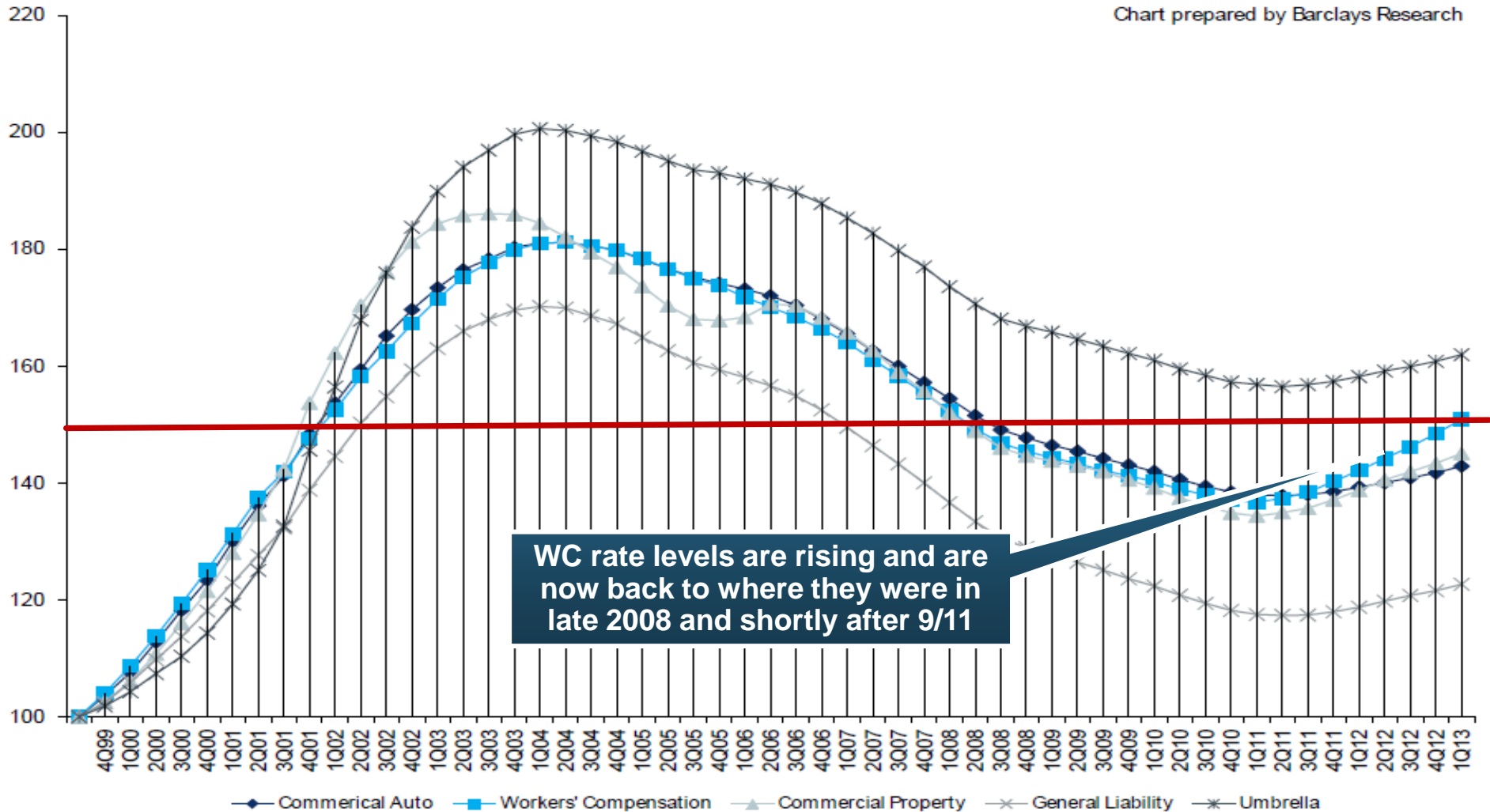
Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.

Source: Council of Insurance Agents and Brokers; Barclay's Capital; Insurance Information Institute.

Cumulative Qtrly. Commercial Rate Changes, by Line: 1999:Q4 to 2013:Q1

1999:Q4 = 100

Chart prepared by Barclays Research

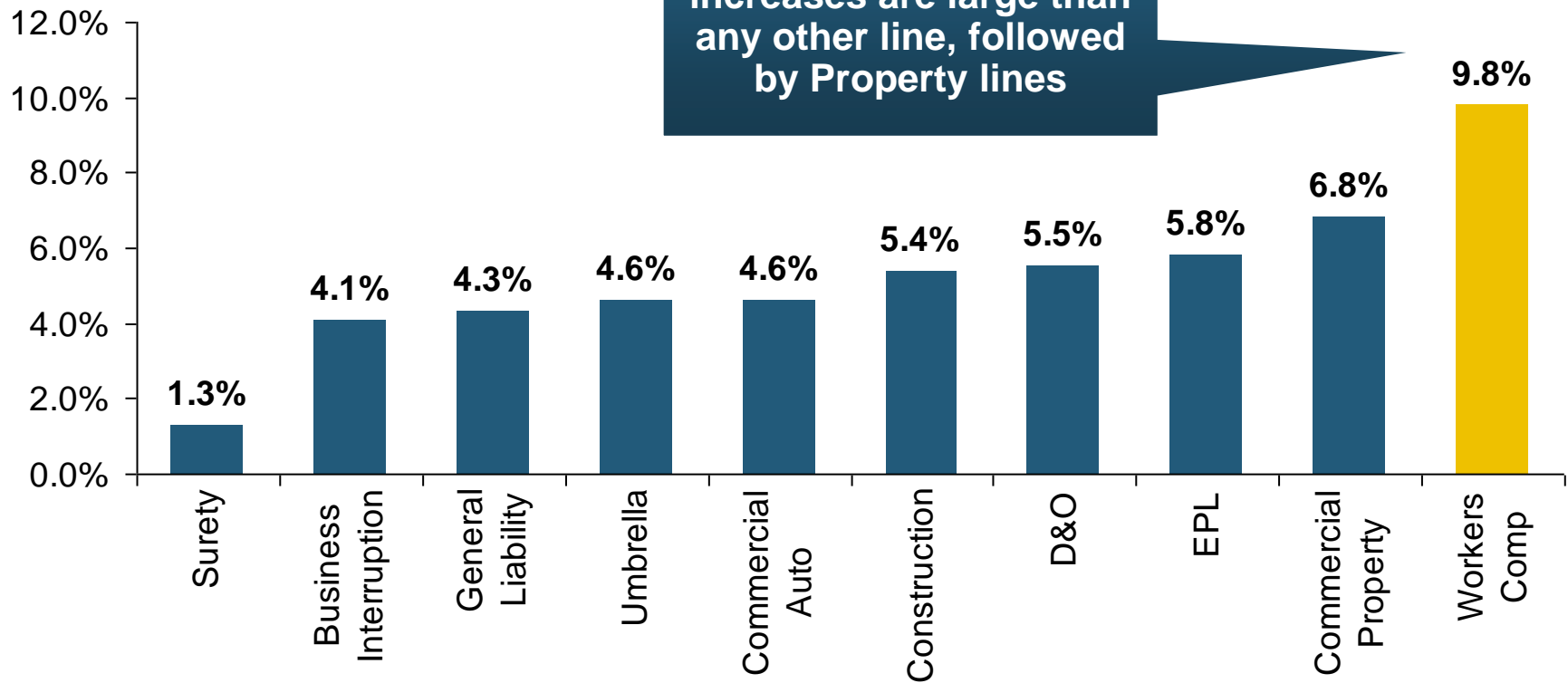


WC rate levels are rising and are now back to where they were in late 2008 and shortly after 9/11

Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents and Brokers; Barclay's Capital; Insurance Information Institute.

Change in Commercial Rate Renewals, by Line: 2013:Q1

Percentage Change (%)

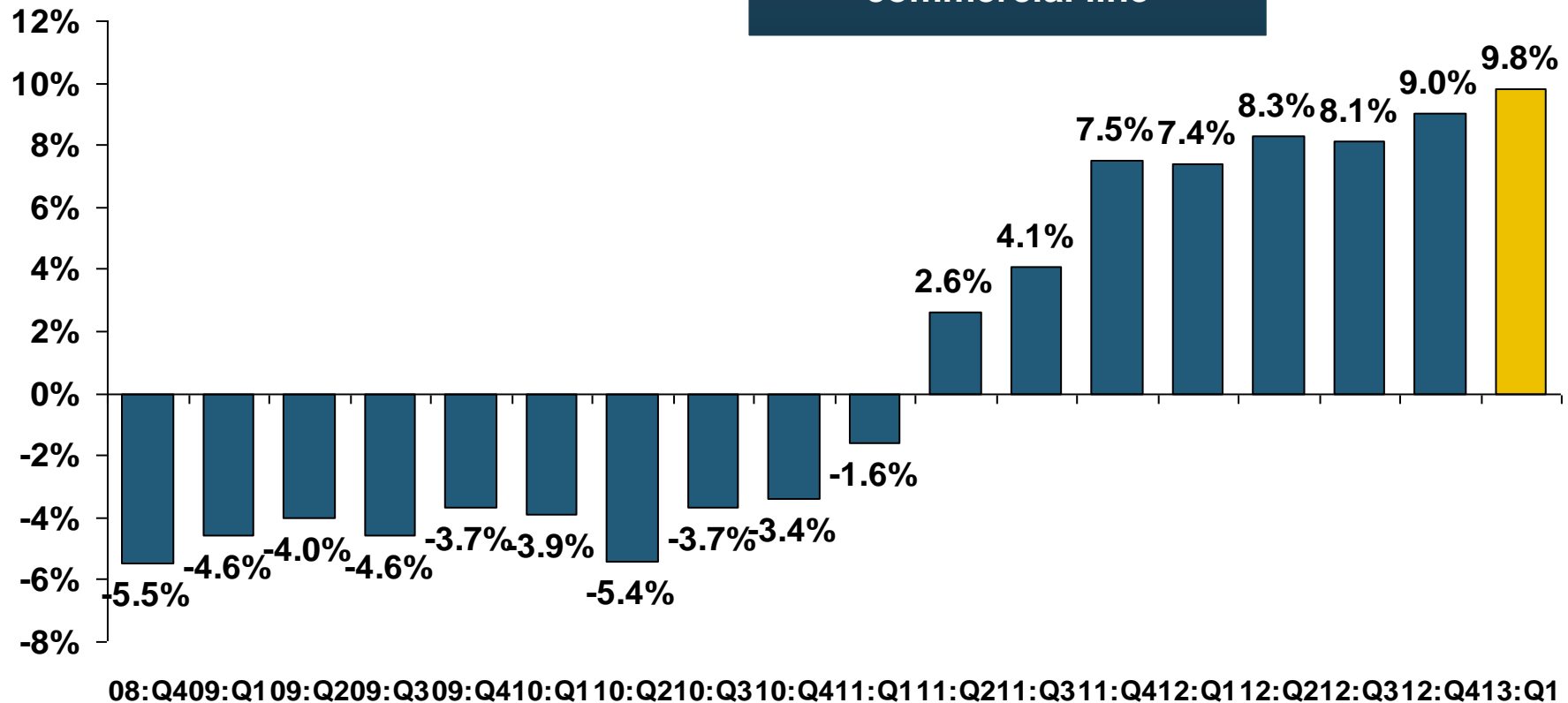


Major Commercial Lines Renewed Uniformly Upward in Q1:2013 for the 8th Consecutive Quarter; Property Lines & Workers Comp Leading the Way; Cat Losses and Low Interest Rates Provide Momentum Going Forward

Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents and Brokers; Insurance Information Institute.

Workers Comp Rate Changes, 2008:Q4 – 2013:Q1

(Percent
Change)



Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents and Brokers; Information Institute.

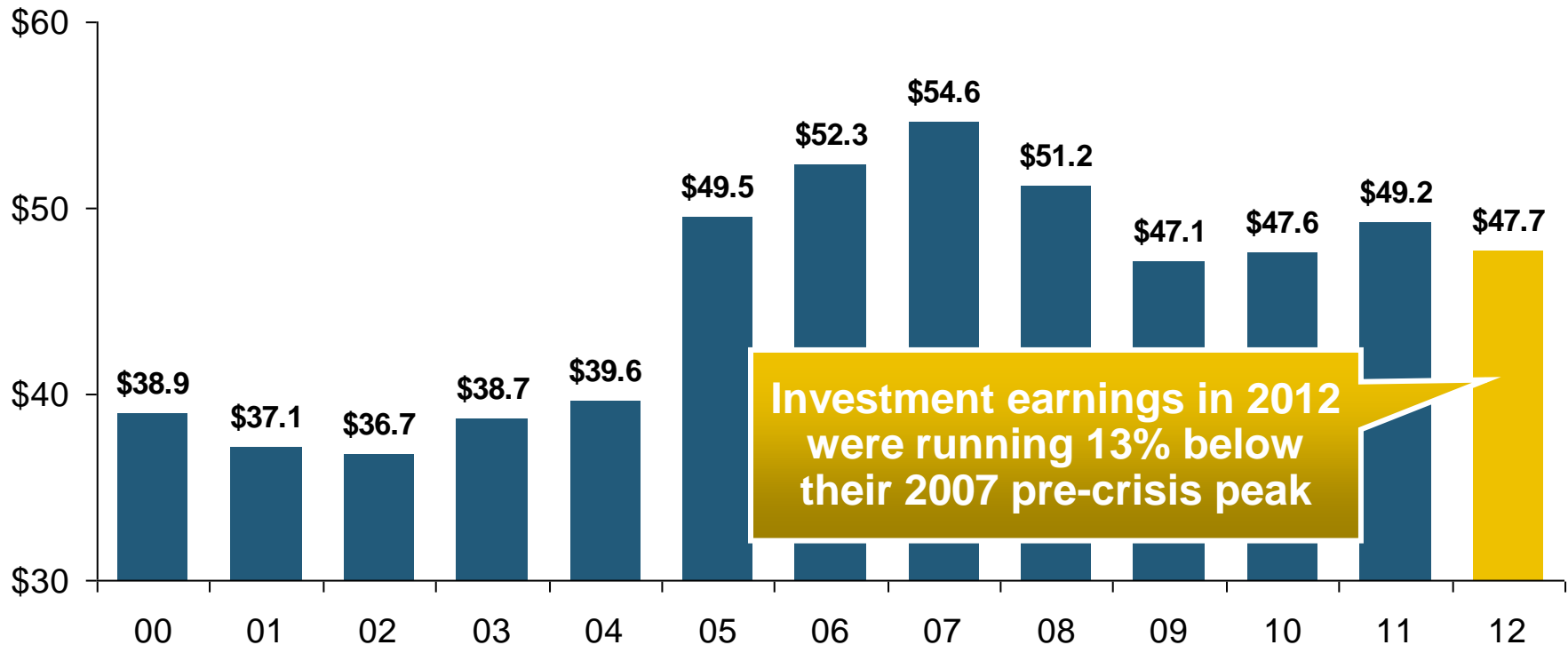
INVESTMENTS: THE NEW REALITY

**Investment Performance is a Key
Driver of Profitability**

***Depressed Yields Will Necessarily
Influence Underwriting & Pricing***

Property/Casualty Insurance Industry Investment Income: 2000–2012¹

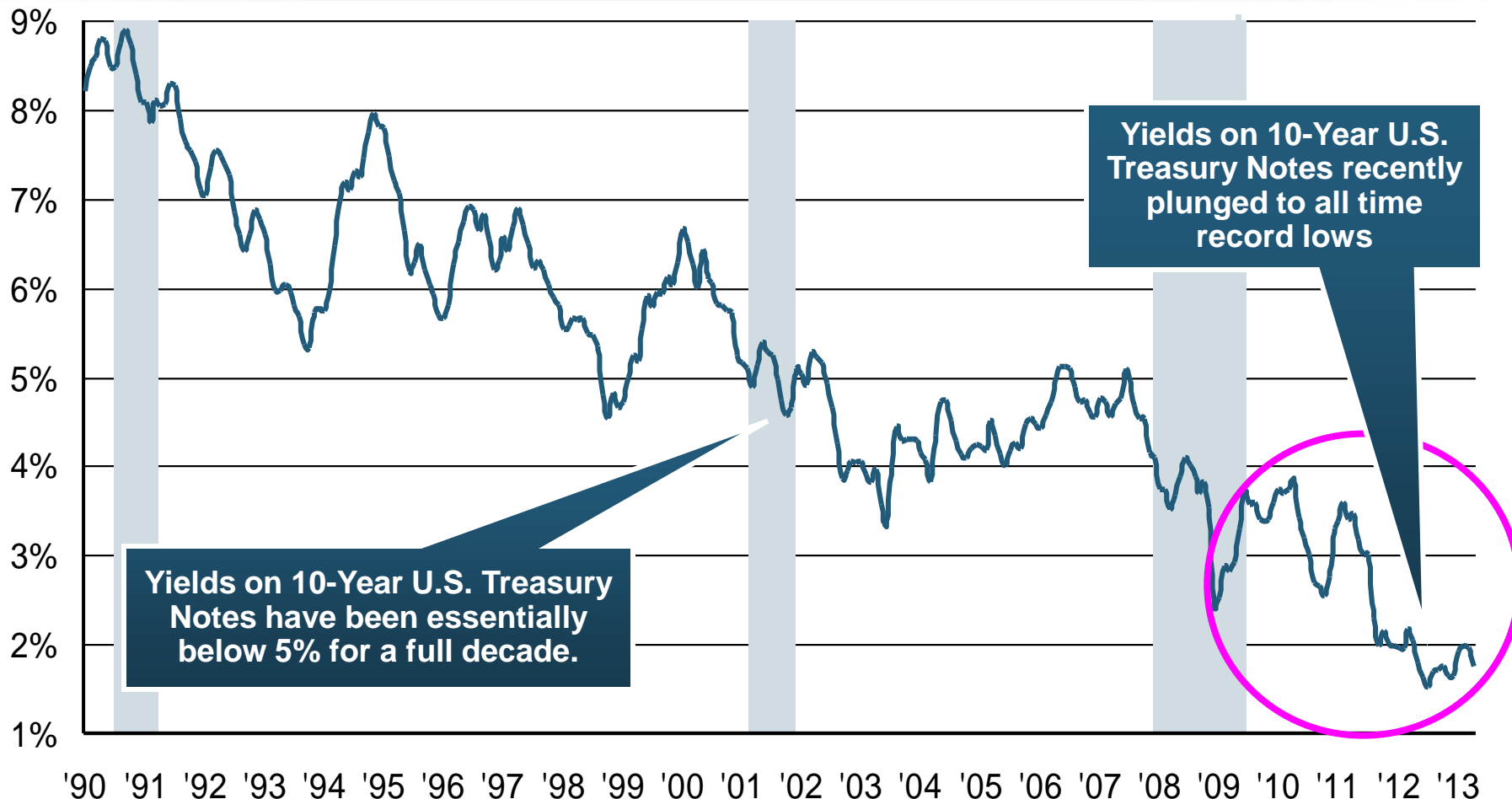
(\$ Billions)



Investment Income Fell in 2012 Due to Persistently Low Interest Rates, Putting Additional Pressure on (Re) Insurance Pricing

¹ Investment gains consist primarily of interest and stock dividends..
Sources: ISO; Insurance Information Institute.

U.S. 10-Year Treasury Note Yields: A Long Downward Trend, 1990–2013*



Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, through Apr. 2013.

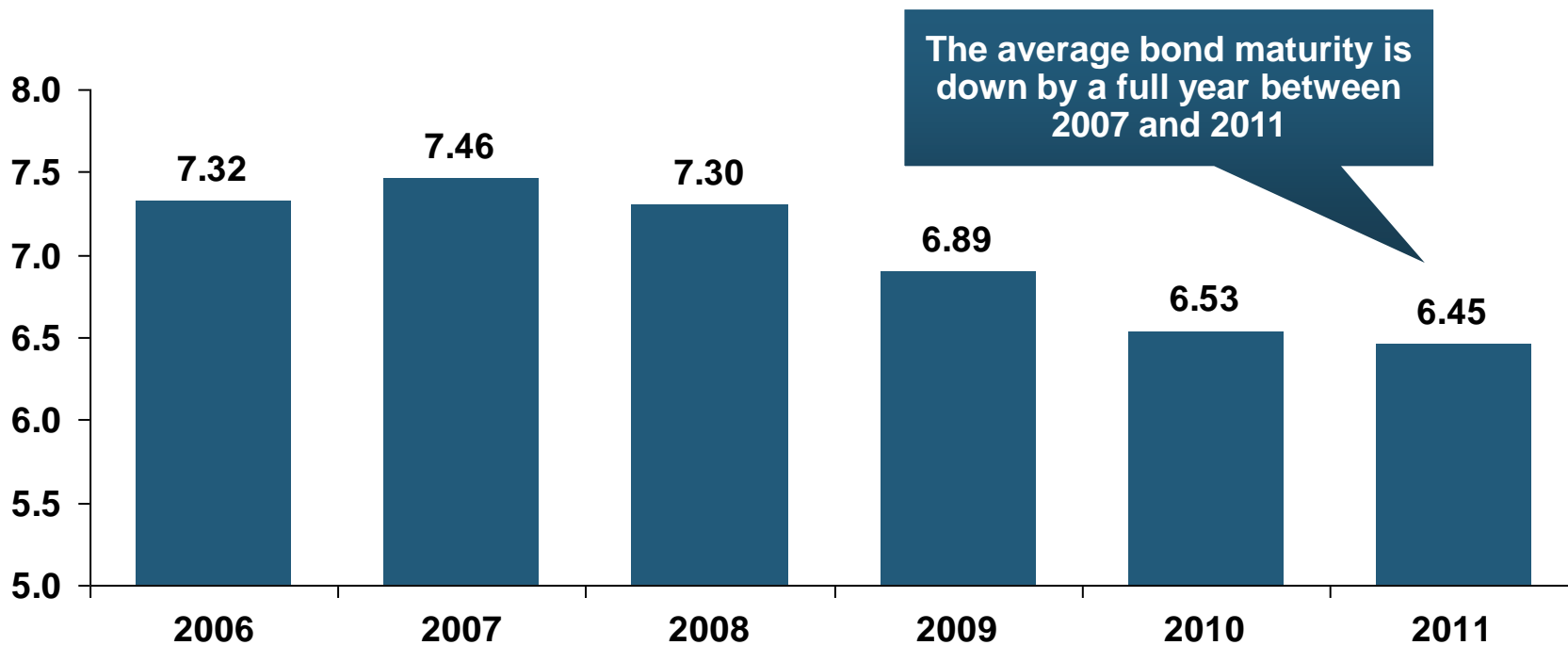
Note: Recessions indicated by gray shaded columns.

Sources: Federal Reserve Bank at <http://www.federalreserve.gov/releases/h15/data.htm>.

National Bureau of Economic Research (recession dates); Insurance Information Institutes.

Average Maturity of Bonds Held by US P/C Insurers, 2006—2011*

Average Maturity (Years)

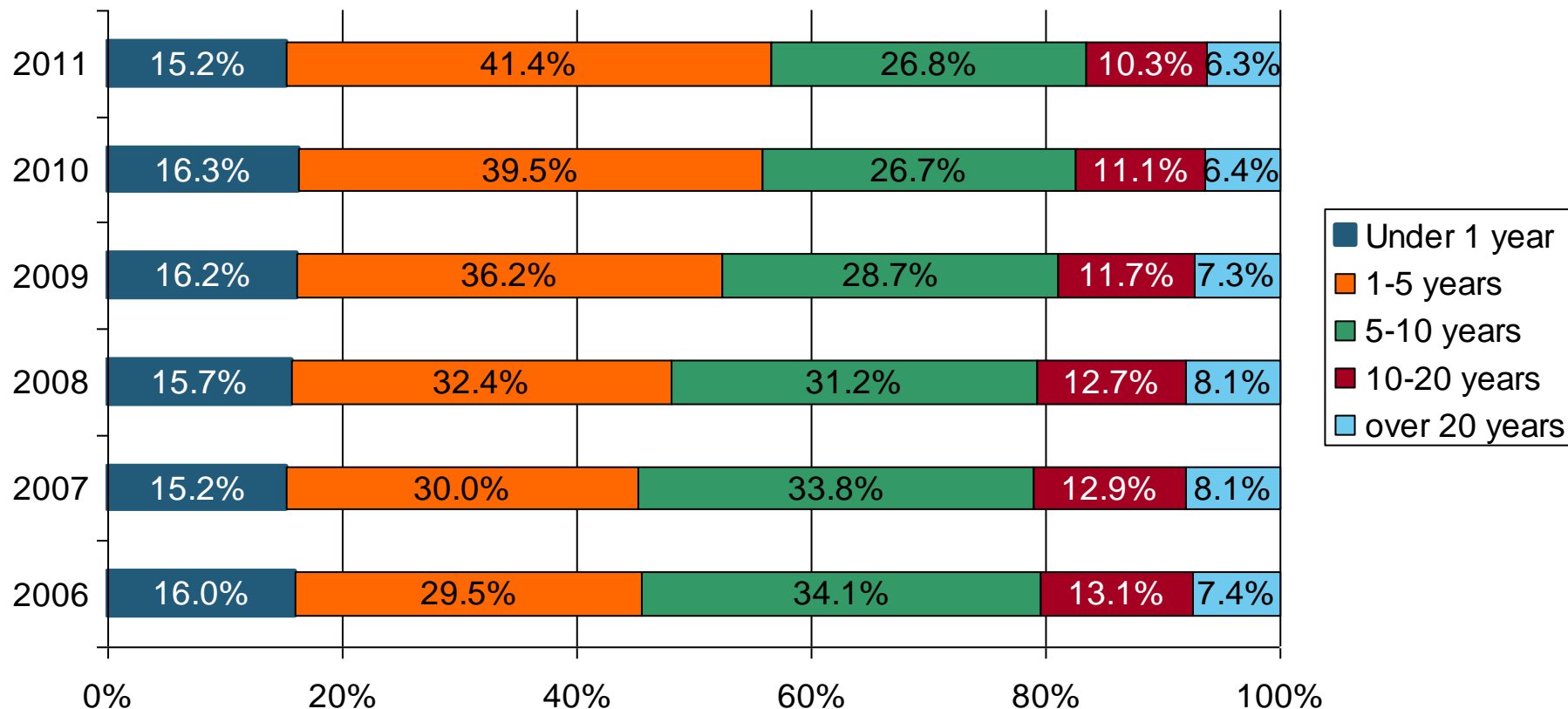


Falling Average Maturity (and Duration) of the P/C Industry's Bond Portfolio is Contributing to the Drop in Investment Income Along With Lower Yields

*Year-end figures. Latest available.

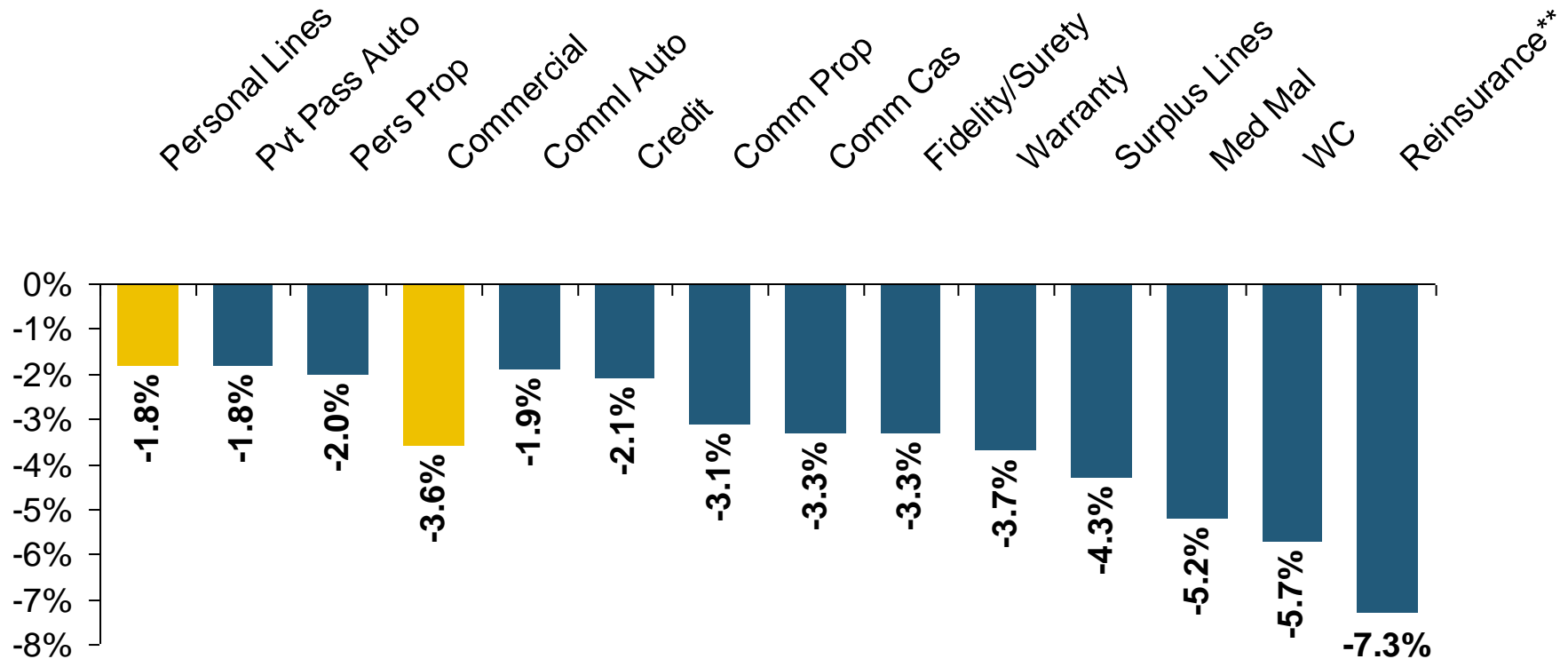
Sources: Insurance Information Institute calculations based on A.M. Best data.

Distribution of Bond Maturities, P/C Insurance Industry, 2006-2011



The main shift over these 6 years has been from bonds with 5-10 years of maturity to bonds with 1-5 years of maturity. The industry also slightly trimmed its holdings of bonds in the 10-20-year maturity category and bonds in the longest-maturity category.

Reduction in Combined Ratio Necessary to Offset 1% Decline in Investment Yield to Maintain Constant ROE, by Line*



Lower Investment Earnings Place a Greater Burden on Underwriting and Pricing Discipline

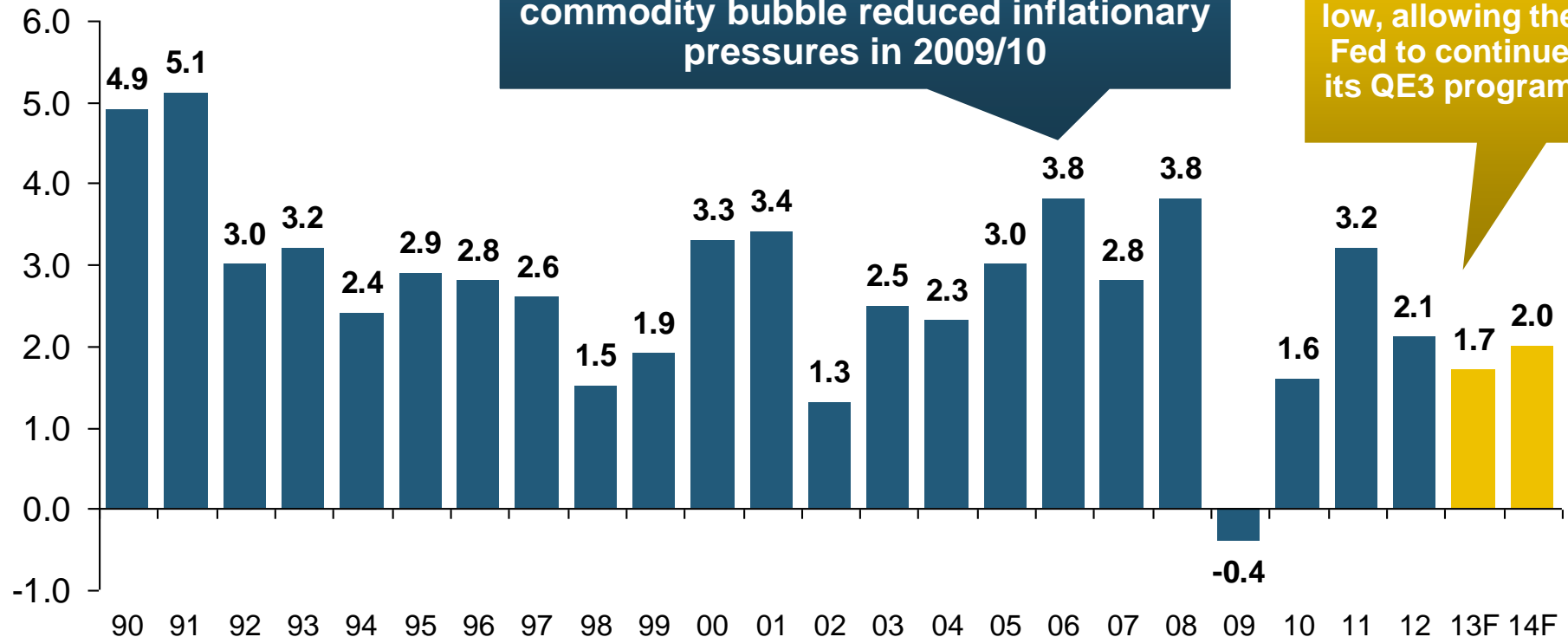
*Based on 2008 Invested Assets and Earned Premiums

**US domestic reinsurance only

Source: A.M. Best; Insurance Information Institute.

Annual Inflation Rates, (CPI-U, %), 1990–2014F

Annual Inflation Rates (%)



The slack in the U.S. economy suggests that inflationary pressures should remain subdued for an extended period of times. Energy, health care and commodity prices, plus U.S. debt burden, remain longer-run concerns

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