

The P/C Insurance Industry: Overview and Outlook

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

Growth Will Expand the Insurer Exposure Base Across Most Lines

Real GDP Growth: Past Recessions and Recoveries, Yearly, 1970-2012



Source: (GDP) U.S. Department of Commerce at <u>http://www.bea.gov/national/xls/gdpchg.xls</u>.

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April 2013 Forecasts of Quarterly US Real GDP for 2013-14



Sources: Blue Chip Economic Indicators (4/13); Insurance Information Institute

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State-by-State Leading Indicators, 2013:Q2-Q3





March 2013 State Leading Indexes: 6-Month Forecast

Near-term growth forecasts vary widely by state. Strongest growth = dark green; weakest = beige

Sources: Federal Reserve Bank of Philadelphia at www.philadelphiafed.org/index.cfm; Insurance Information Institute. Next release is May 28, 2013

Source: Federal Reserve Bank of Philadelphia

Leading Indicator Indexes Vary Widely by State and Region



Data from March 2013

Sources: Federal Reserve Bank of Philadelphia at <u>www.philadelphiafed.org/index.cfm</u>; Insurance Information Institute.

Leading Indicator Indexes Vary Widely by State and Region





Data for March 2013

Sources: Federal Reserve Bank of Philadelphia at <u>www.philadelphiafed.org/index.cfm</u>; Insurance Information Institute.

Monthly Change in Private Employment, 2010 - 2013



Private employers added 1.2 million jobs in just the last six months.

Seasonally adjusted. Mar 2013 and Apr 2013 are preliminary data Sources: US Bureau of Labor Statistics; Insurance Information Institute

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



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

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

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Commercial & Industrial Loans Outstanding at FDIC-Insured Banks, Quarterly, 2006-2012*





Outstanding loan volume has been growing for over two years and (as of year-end 2012) has surpassed previous peak levels.

*Latest data as of 5/2/2013.

Source: FDIC at http://www2.fdic.gov/qbp/ (Loan Performance spreadsheet); Insurance Information Institute.

Percent of Non-current Commercial & Industrial Loans Outstanding at FDIC-Insured Banks,

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Quarterly, 2006-2012*



Non-current loans (those past due 90 days or more or in nonaccrual status) are back to early-recession levels, fueling bank willingness to lend.

*Latest data as of 5/2/2013.

Source: FDIC at http://www2.fdic.gov/qbp/ (Loan Performance spreadsheet); Insurance Information Institute.

The Architecture Billings Index: a Leading Indicator for Commercial Real Estate





Business Bankruptcy Filings: Falling but Still High in 2012 (1994:Q1 – 2012:Q3)





Business bankruptcies were down 42% in 2012:Q3 vs. recent peak in 2009:Q2 but were still higher than 2008:Q1, the first full quarter of the Great Recession. Bankruptcies restrict exposure growth in all commercial lines.

Sources: American Bankruptcy Institute at

www.abiworld.org/AM/AMTemplate.cfm?Section=Home&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=61633; Insurance Information Institute.

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





* Data through Jun 30, 2012 are the latest available (posted Jan 29, 2013); Seasonally adjusted. Sources: Bureau of Labor Statistics, <u>www.bls.gov/news.release/cewbd.t08.htm</u>; NBER (recession dates).

Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures March 2001 through Mar. 2013



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P/C Insurance Industry Financial Overview

High catastrophe losses in 2011 and 2012 affected the industry's profit performance

P/C Net Premiums Written: % Change, Quarter vs. Year-Prior Quarter, 2002–2012



Finally! A sustained period (11 quarters) of growth in net premiums written (vs. same quarter, prior year).

Sources: ISO; Insurance Information Institute.

Underwriting is Rarely a Profit Source Gain (Loss)*1975–2012



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75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12

Average yearly underwriting loss in the 2008-2012 low-interest-rate environment? \$17.2B. With interest rates this low, large persistent underwriting losses are not a recipe for success.

*Includes mortgage and financial guaranty insurers in all years. Sources: A.M. Best; ISO; Insurance Information Institute.

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=108.2; 2012=103.2. Sources: A.M. Best; ISO.

P/C Net Income After Taxes 1991–2012



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

P/C Industry Net Income, Quarterly, 2007:Q1-2012:Q4



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P/C Industry Net Income, Quarterly, 2007:Q1-2012:Q4



Over the past 6 years, no calendar quarter has been consistently profitable.

Sources: SNL Financial; Insurance Information Institute

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Profitability (ROE) Peaks & Troughs, P/C Insurance Industry, 1975 – 2012





*Profitability = P/C insurer ROEs. 2012 is an estimate based on ROAS data. Note: Data for 2008-2012 exclude mortgage and financial guaranty insurers. 2012 ROAS = 5.9% including M&FG. Sources: Insurance Information Institute; NAIC; ISO; A.M. Best.

Policyholder Surplus, Quarterly, 2006:Q4–2012:Q4





The industry now (at year-end 2012) has \$1 of surplus for every \$0.78 of NPW, the strongest claims-paying status in its history.

Sources: ISO; A.M .Best.

US Policyholder Surplus: 1975–2012*





The Industry's Claims Paying Resources Reached an All-Time Record High as of Q3 2012, Just Before Sandy Struck, A Vivid Demonstration of the Strength

* As of 9/30/12.

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

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



Top 25 States



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



Bottom 25 States



Direct Premiums Written: Comm. Lines Percent Change by State, 2007-2012



Top 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: Comm. Lines Percent Change by State, 2007-2012



Bottom 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: Workers' Comp





*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period. Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: Worker's Comp

Bottom 25 States



*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period. Sources: SNL Financial LC.; Insurance Information Institute.

Commercial Lines Combined Ratio, 1990-2013F*





Sources: A.M. Best; Insurance Information Institute

Commercial Auto Combined Ratio: 1993–2014F



Commercial Auto is Expected to Improve as Rate Gains Outpace Any Adverse Frequency and Severity Trends

Sources: A.M. Best (1990-2013F); Conning (2014F); Insurance Information Institute.

Commercial Multi-Peril Combined Ratio: 1995–2013F



Commercial Multi-Peril Underwriting Performance is Expected to Improve in 2013 Assuming Normal Catastrophe Loss Activity

*2012-2013 figures are A.M. Best estimate/forecast for the combined liability and non-liability components. Sources: A.M. Best; Insurance Information Institute.

General Liability Combined Ratio: 2005–2014F



Commercial General Liability Underwriting Performance Has Been Volatile in Recent Years

Source: Conning Research and Consulting.

Inland Marine Combined Ratio: 1999–2014F



Inland Marine is Expected to Remain Among the Most Profitable of All Lines

Sources: A.M. Best (1999-2011); Insurance Information Institute (2012F); Conning (2013F-2014F)

Surety Bonds Combined Ratio, 2002–2011



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Workers Compensation Combined Ratio: 1994–2014F



Workers Comp underwriting results are expected to begin improving in 2013. They deteriorated markedly since 2007 and in 2012 are estimated to have hit their worst level in a decade.

Sources: A.M. Best (1994-2013F); Insurance Information Institute (2014F).



Catastrophes

US Insured Catastrophe Losses





US CAT losses in 2012 marked the sixth year in the past 12 that privatelyinsured CAT claims topped \$29 billion (on an inflation-adjusted basis). That happened only once in the prior dozen years (1989-2000).

*As of 1/2/13. Includes \$20B gross loss estimate for Hurricane Sandy. 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.

Natural Disasters in the United States, 1980 – 2012



The Dozen Most Costly Hurricanes in U.S. History





10 of the 12 most costly hurricanes in insurance history occurred in the past 9 years (2004–2012)

*Estimate as of 12/09/12 based on estimates of catastrophe modeling firms and reported losses as of 1/12/13. Estimates range up to \$25B. Sources: PCS; Insurance Information Institute inflation adjustments to 2012 dollars using the CPI.

If They Hit Today, the Dozen Costliest (to Insurers) Hurricanes in U.S. History



When you adjust for the damage prior storms could have done if they occurred today, Hurricane Katrina slips to a tie for 6th among the most devastating storms.

*Estimate as of 12/09/12 based on estimates of catastrophe modeling firms and reported losses as of 1/12/13. Estimates range up to \$25B. Sources: Karen Clark & Company, *Historical Hurricanes that Would Cause \$10 Billion or More of Insured LossesToday*, August 2012; I.I.I.

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Location of Tornadoes, Large Hail, and Wind Reports in OH, 2012





18 tornadoes in OH in 2012, 195 large hail reports, and 533 high wind reports.

Location of Severe Weather Reports in OH, 2013 (through May 1)





No tornadoes in OH so far in 2013, but 34 large hail reports and 33 high wind reports.

Location of Tornadoes in the US, 2012





Location of Large Hail Reports in the US, 2012





Location of Wind Damage Reports in the US, 2012





Severe Weather Reports, 2012





P/C Industry Homeowners Claim Frequency, US, 1997-2011



Sources: Insurance Research Council, "Trends in Homeowners Insurance Claims," p.29; Insurance Information Institute

P/C Industry Homeowners Average Claim Severity, 1997-2011



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Sources: Insurance Research Council, "Trends in Homeowners Insurance Claims," p. 29, BLS inflation calculator, and Insurance Information Institute



Inflation and Claims Trends

Change* in the Consumer Price Index, 2004–2013



*Monthly, year-over-year, through March 2013. Not seasonally adjusted.

Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

Prices for Hospital Services: 12-Month Change,* 1998–2013







Cyclical peaks in PP Auto tend to occur approximately every 10 years (early 1990s, early 2000s, and possibly the early 2010s)

*Percentage change from same month in prior year; through January 2013; seasonally adjusted Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Forces that Drive Car Repair Costs: 12-Month Change,* 2001–2013



Recession — Auto repair — Auto body work



*Percentage change from same month in prior year; through January 2013; seasonally adjusted Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Change* in Price Index for Lumber: A Downward Trend but Sudden Spikes, 2004–2013



*Monthly, year-over-year, through March 2013. Not seasonally adjusted. Dec. 2012 and Jan., Feb., and Mar. prices are preliminary. Sources: US Bureau of Labor Statistics, Producer Price Index series WPS0811; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

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Change* in Price Index for Plywood: A Downward Trend but Sudden Spikes, 2004–2013



*Monthly, year-over-year, through March 2013. Not seasonally adjusted. Dec. 2012 and Jan., Feb., and Mar. prices are preliminary. Sources: US Bureau of Labor Statistics, Producer Price Index series WPU083; National Bureau of Economic Research (recession dates); Insurance Information Institutes.



Investments: How Long will Rates Stay This Low?

Investment Performance is a Key Driver of Insurer Profitability

U.S. Treasury Security Yields*: A Long Downward Trend, 1990–2013



*Monthly, constant maturity, nominal rates, through March 2013.

Sources: Federal Reserve Bank at <u>http://www.federalreserve.gov/releases/h15/data.htm</u>. National Bureau of Economic Research (recession dates); Insurance Information Institutes. NSURANCE NFORMATION

Distribution of Bond Maturities, P/C Insurance Industry, 2003-2011





The main shift over these years has been from bonds with longer maturities to bonds with shorter maturities. The industry first trimmed its holdings of over-10-year bonds (from 24.6% in 2003 to 16.9% in 2011) and then trimmed bonds in the 5-10-year category. Falling average maturity of the P/C industry's bond portfolio is contributing to a drop in investment income along with lower yields.

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

Property/Casualty Insurance Industry Investment Gain: 1994–2012F¹



In 2012 investment gains were roughly the same as in 1997—15 years earlier. Adjusted for inflation, 2012 gains were equivalent in purchasing power to the \$35 billion in 1994.

¹Investment 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.

To Maintain Constant ROE, Combined Ratio Drop Needed to Offset 1% Decline in Investment Yield, 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.

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



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

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



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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:H1 combined ratio including M&FG insurers is 102.2, ROAS = 5.9%; 2011 combined ratio including M&FG insurers is 108.2, ROAS = 3.5%. Source: Insurance Information Institute from A.M. Best and ISO data.



Key Take-aways

Take-aways: Insurance Industry Predictions for 2013



P/C Insurance Exposures Will Grow With the U.S. Economy

- Personal and commercial exposure growth is likely in 2013
 - But restoration of destroyed exposure will take until mid-decade
- Wage growth is also positive and could modestly accelerate

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

- Growth likely to exceed A.M. Best projection of +3.8% for 2012
- No traditional "hard market" emerges in 2013

Underwriting Fundamentals Weak But Improving

- Some pressure from claim frequency, severity in some key lines
- But WC will be tough to fix
- Industry Capacity Hits a New Record by Year-End 2013 (Barring Meg-CAT)
- Investment Environment Is/Remains Challenging
 - Interest rates remain low



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