



Overview & Outlook for the Surety and P/C Insurance Industries for 2014 and Beyond

Trends, Challenges & Opportunities

Association of General Contractors

Surety Bond & Construction Risk Management Conference

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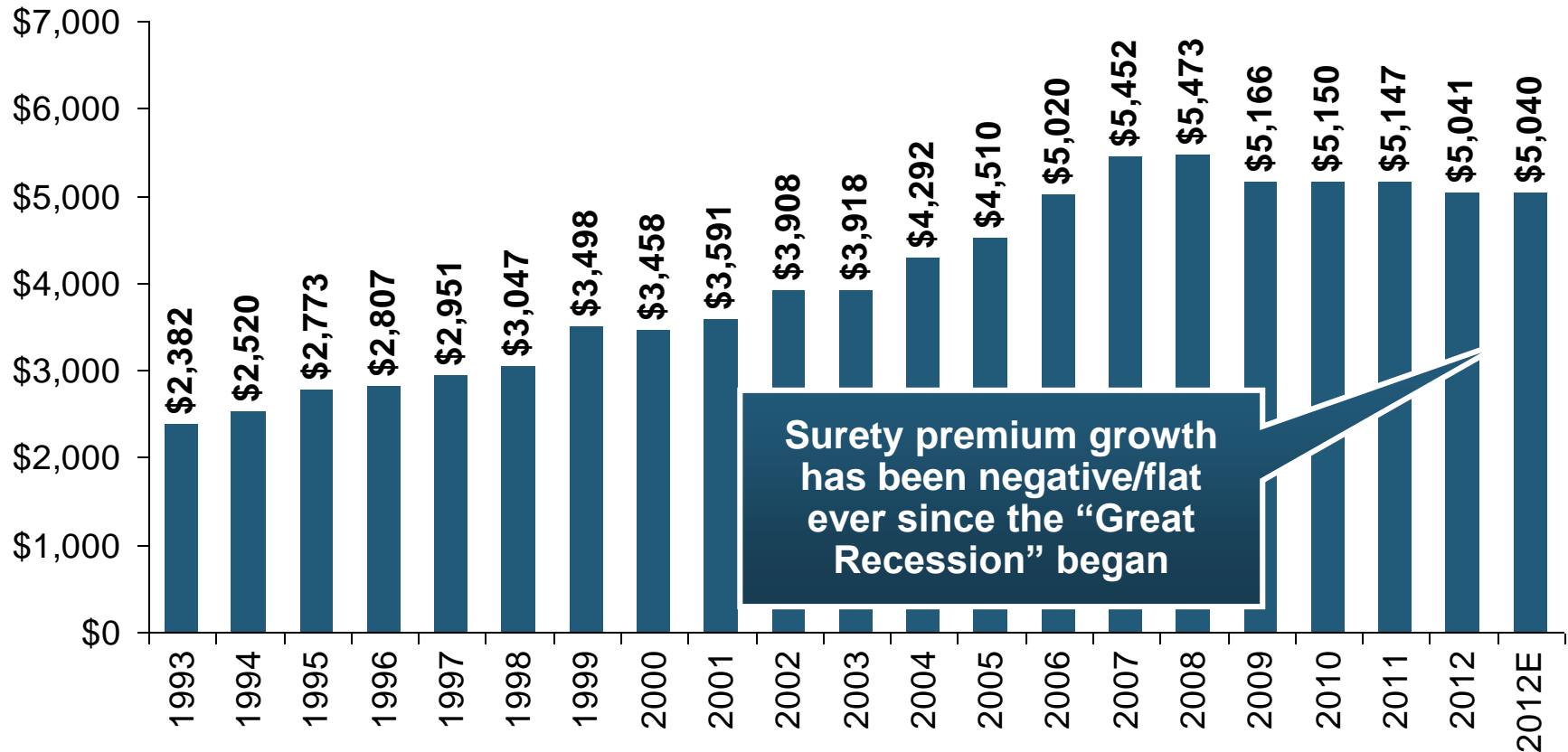
■ Surety Market Overview and Outlook

- ◆ Growth
 - Public Sector Construction Issues
- ◆ Underwriting Performance
- ◆ Economic Drivers

■ P/C Insurance Industry Overview & Outlook

- ◆ Profitability
- ◆ Underwriting
- ◆ Catastrophe Loss Trends
- ◆ Growth
- ◆ Investment Market Impacts

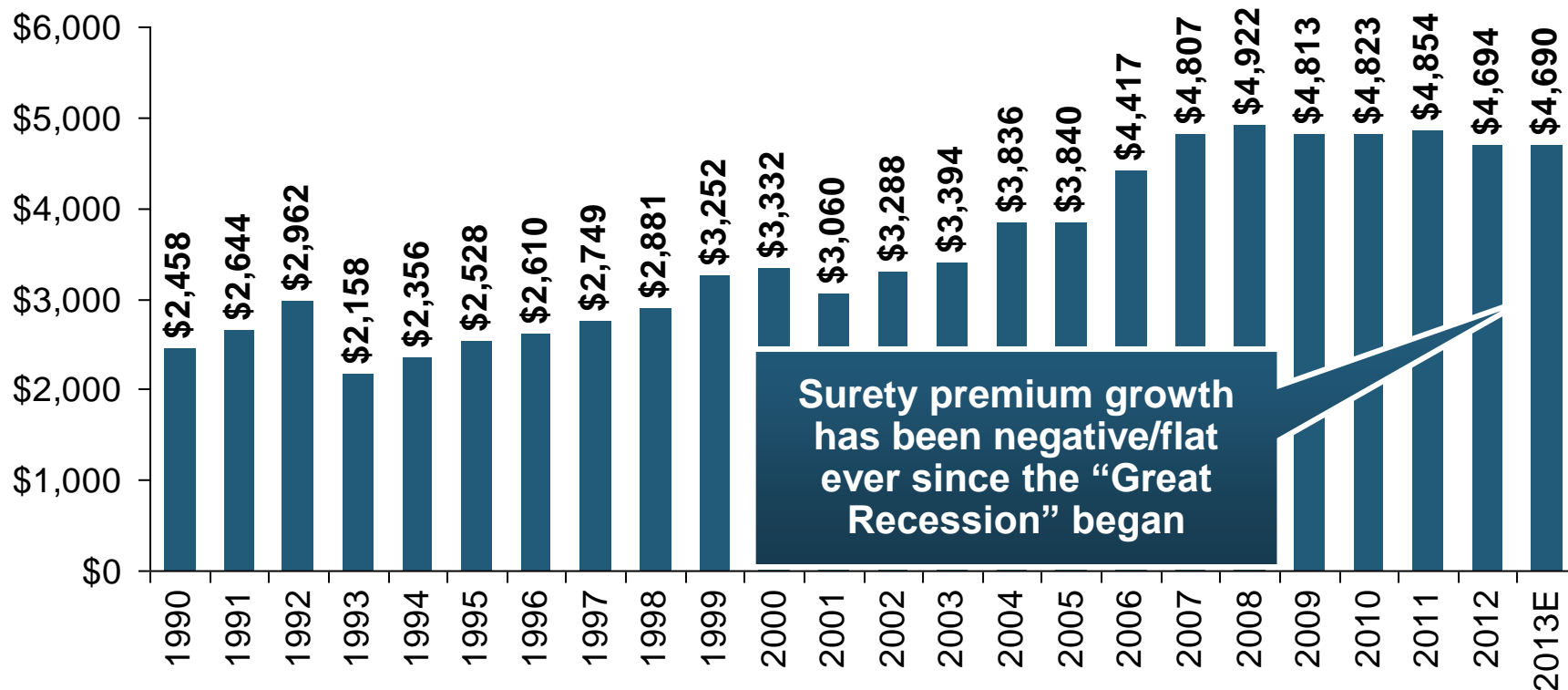
Surety, Direct Premiums Written, 1993–2013E (\$ millions)



Note: 1990-1992 includes Financial Guaranty.

Source: A.M. Best; Insurance Information Institute estimate for 2013 based on 9-month data from SNL Financial.

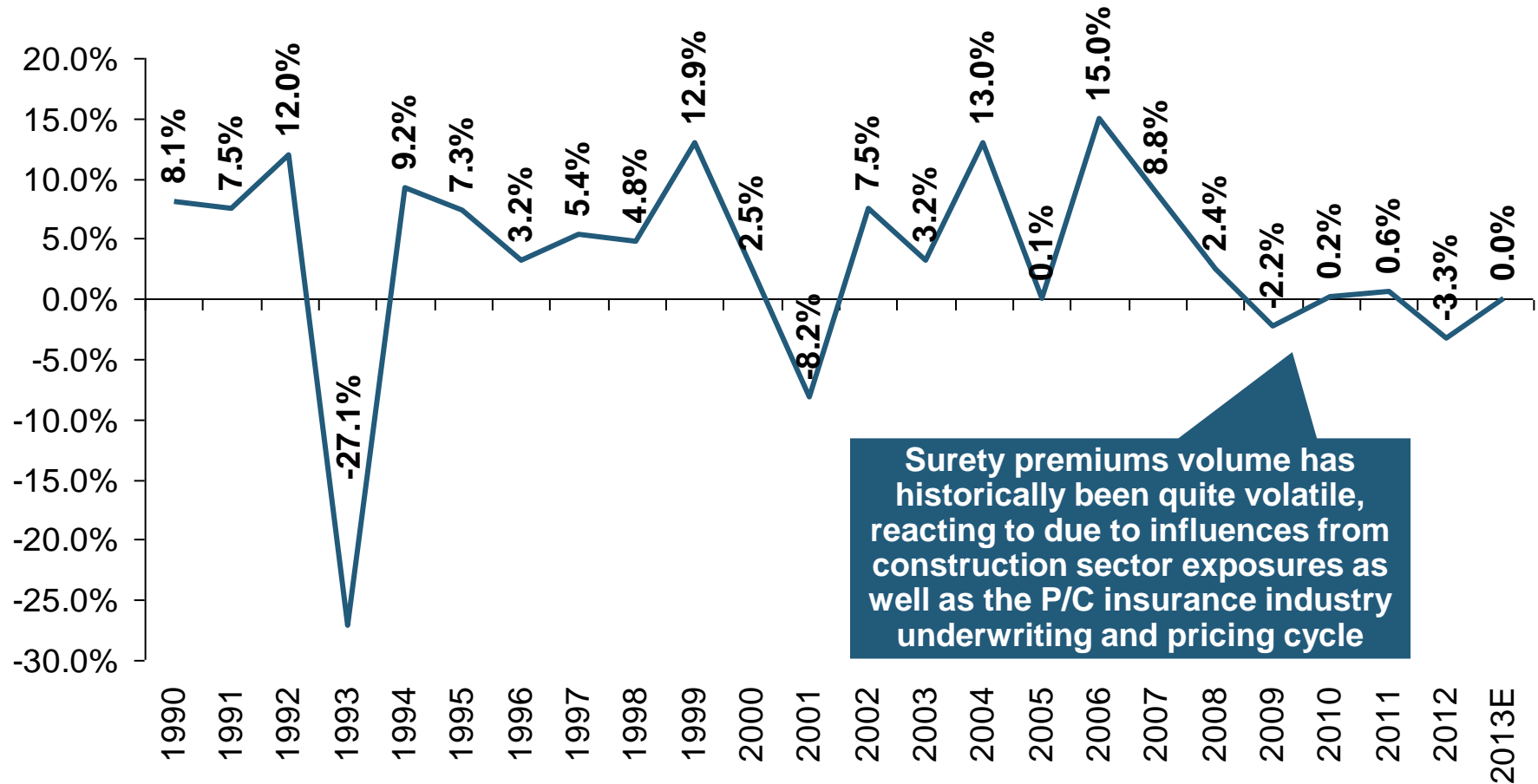
Surety, Net Premiums Written, 1990-2013E, (\$ millions)



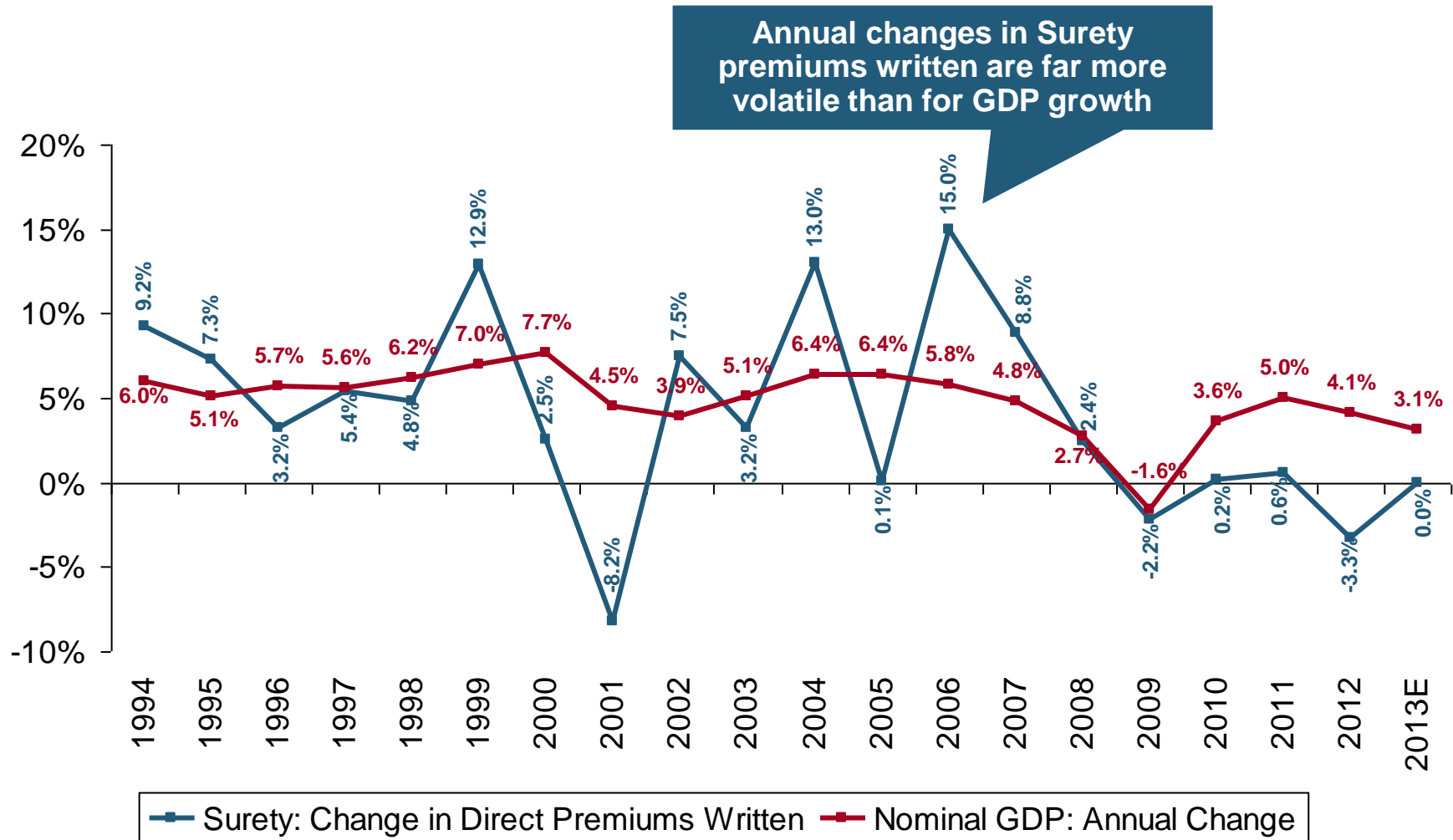
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Surety, Direct Premiums Written, Percent Change, 1990-2013E



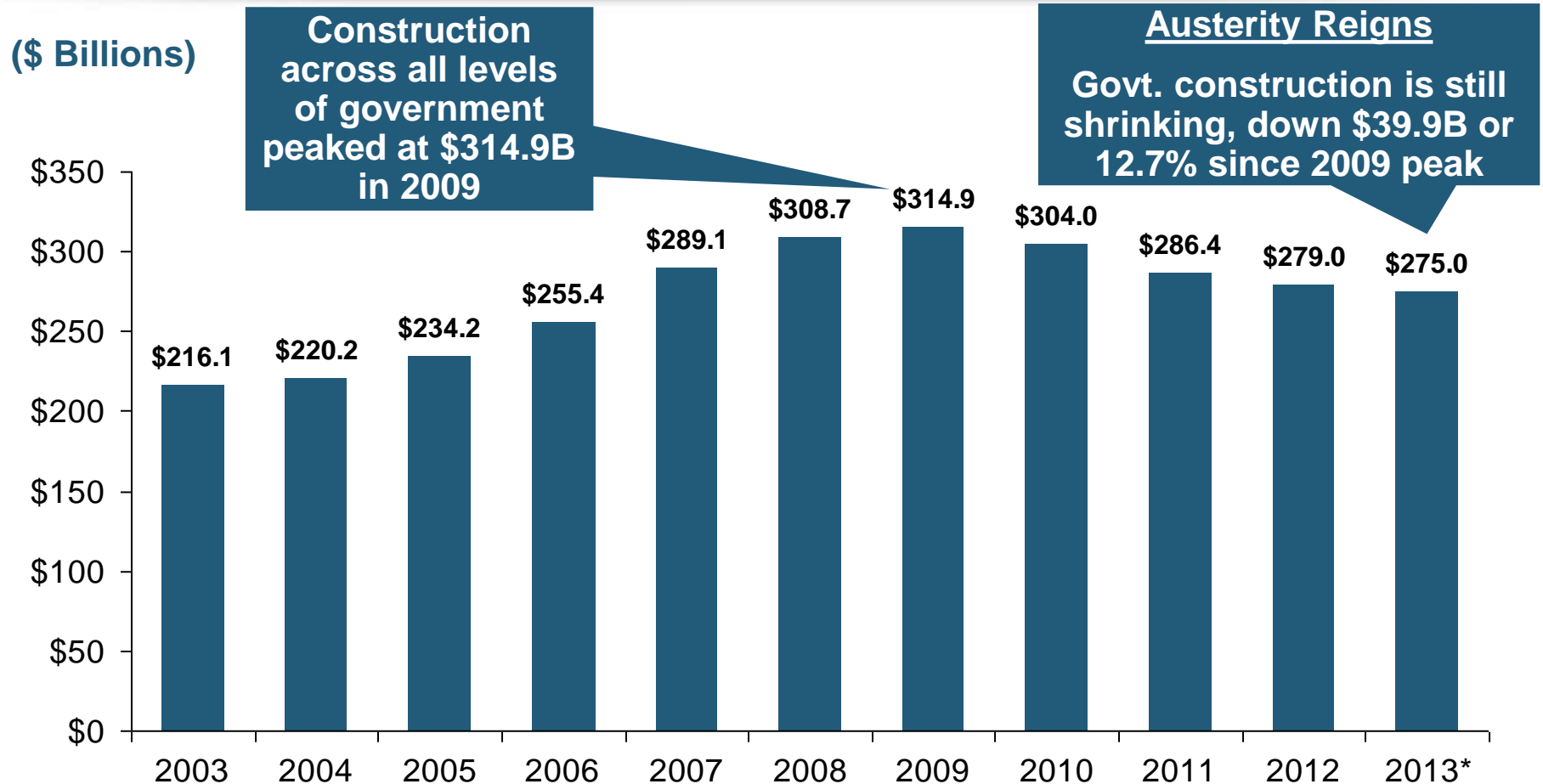
Annual Change in Surety DWP vs. Nominal GDP, 1994-2013E



Note: 1990-1992 includes Financial Guaranty.

Source: U.S. Department of Commerce; A.M. Best; Insurance Information Institute estimate for 2013 based on 9-month data from SNL Finl.

Value of New Federal, State and Local Government Construction: 2003-2013*



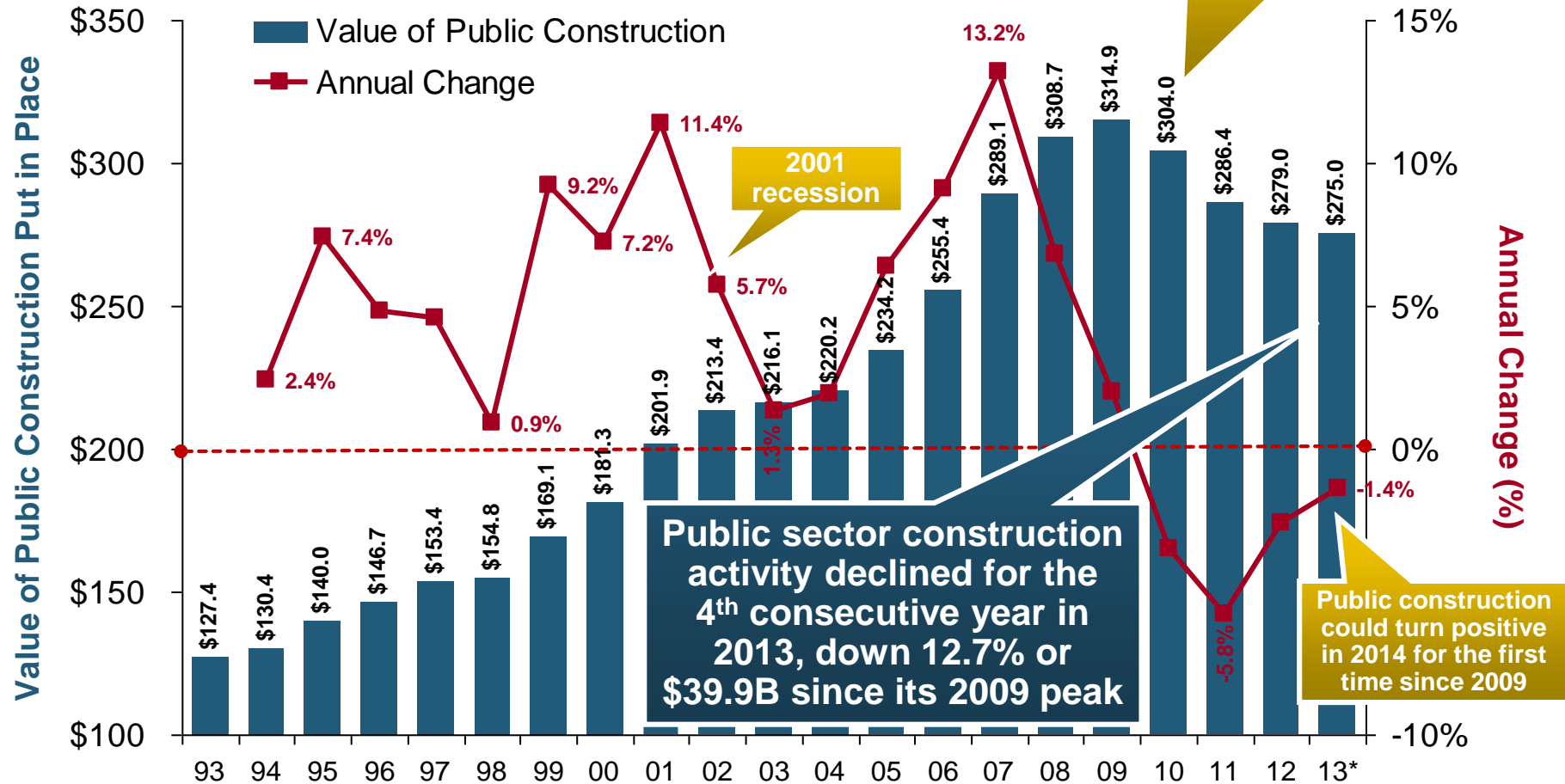
Government Construction Spending Peaked in 2009, Helped by Stimulus Spending, but Continues to Contract As State/Local Governments Grapple with Deficits and Federal Sequestration Takes Hold

*2013 figure is a seasonally adjusted annual rate as of November.

Sources: US Department of Commerce; Insurance Information Institute.

Public Sector Construction Activity, Dollar Value & Annual Change, 1993-2013*

(\$ Billions)

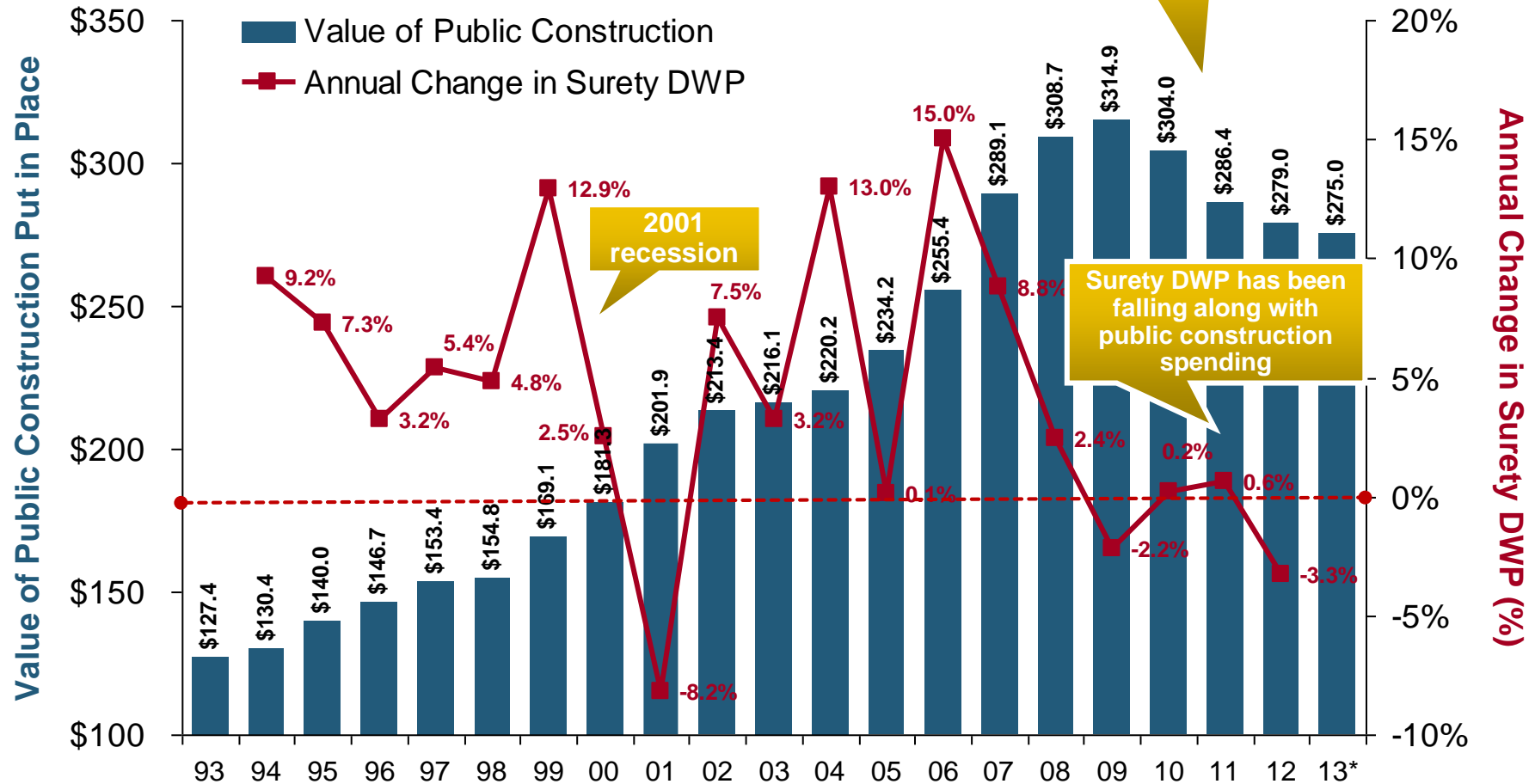


*November 2013 figure, seasonally adjusted annual rate.

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

Public Sector Construction Spending vs. Surety Premium Growth, 1993-2013*

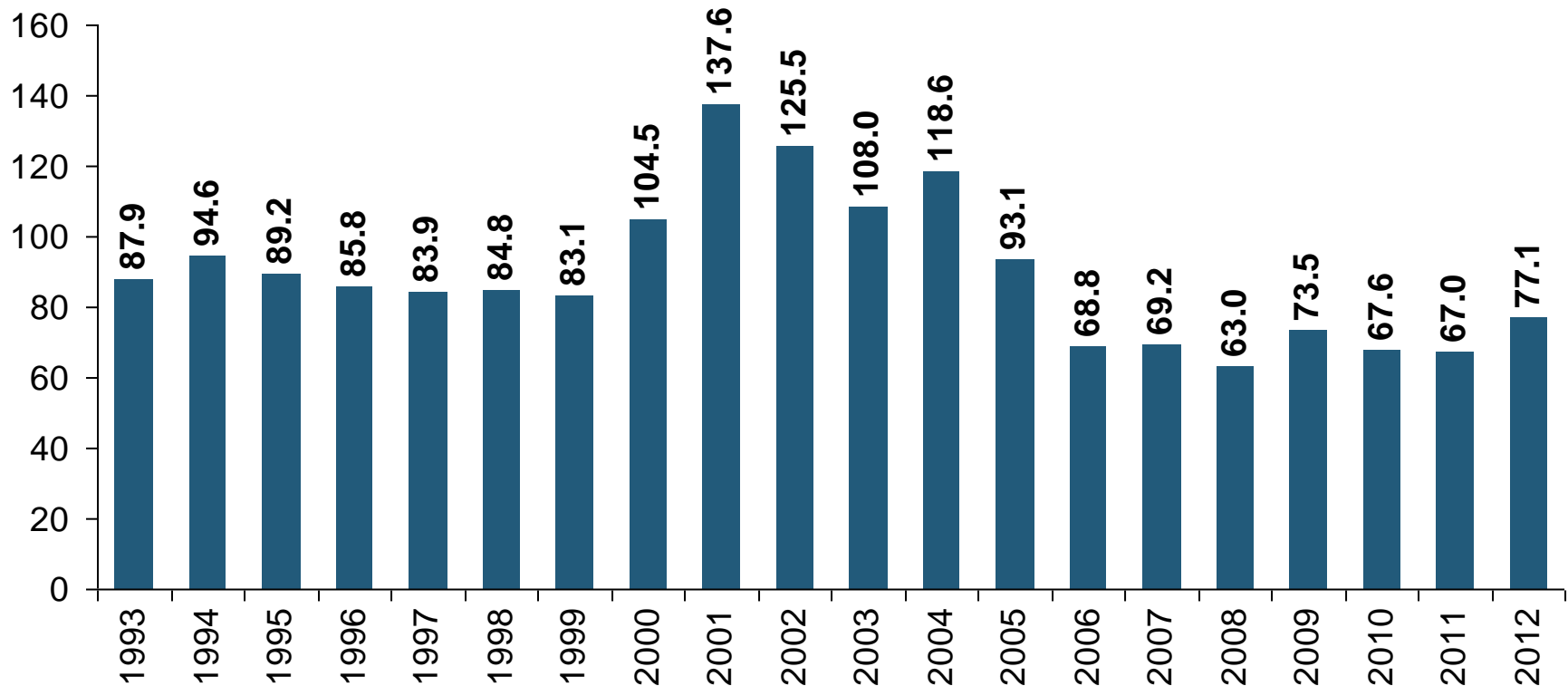
(\$ Billions)



*November 2013 figure, seasonally adjusted annual rate.

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

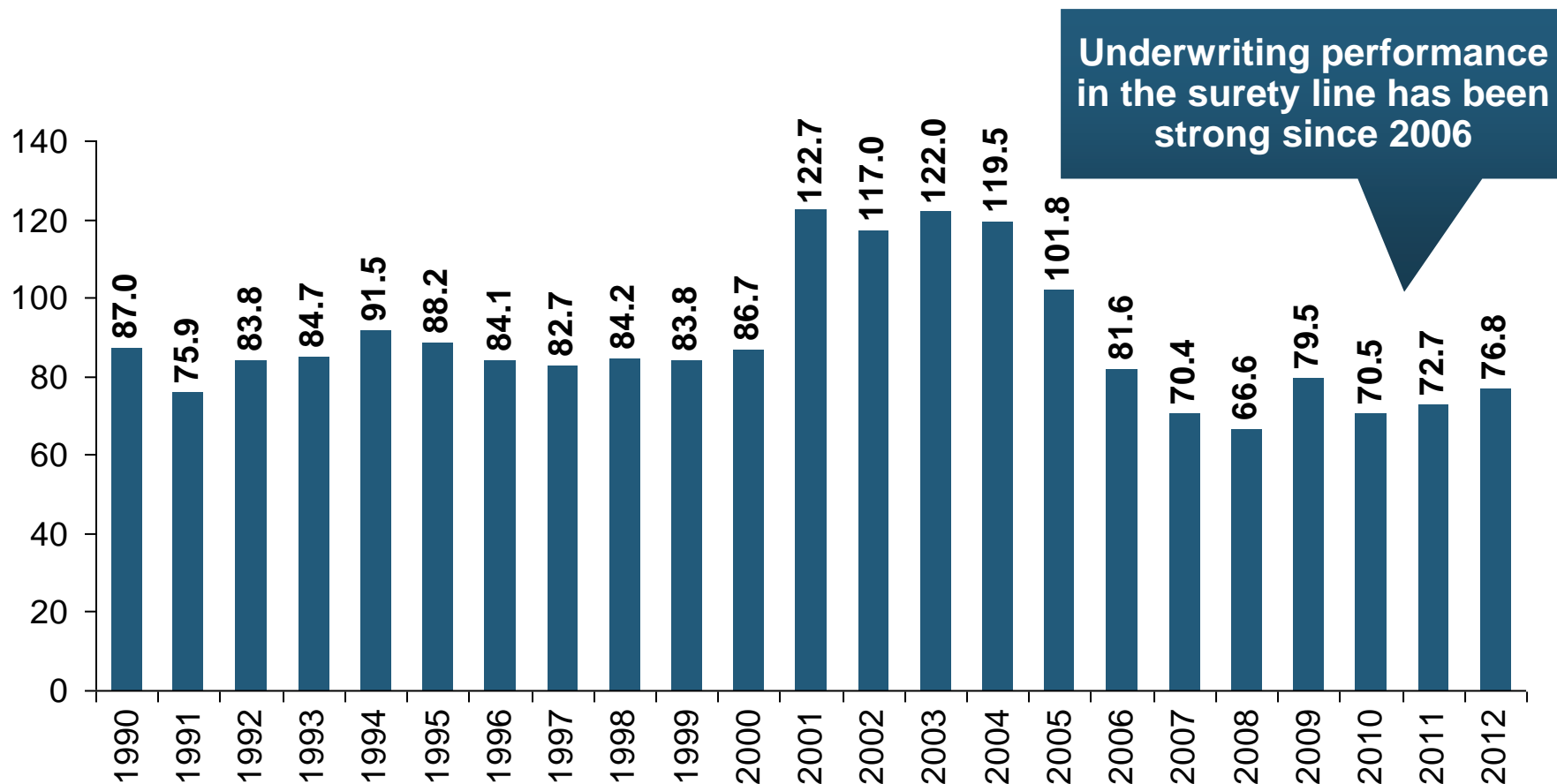
Surety Combined Ratio, 1993–2012



Note: Direct basis.

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

Surety Combined Ratio, 1990-2012*



*Net basis.

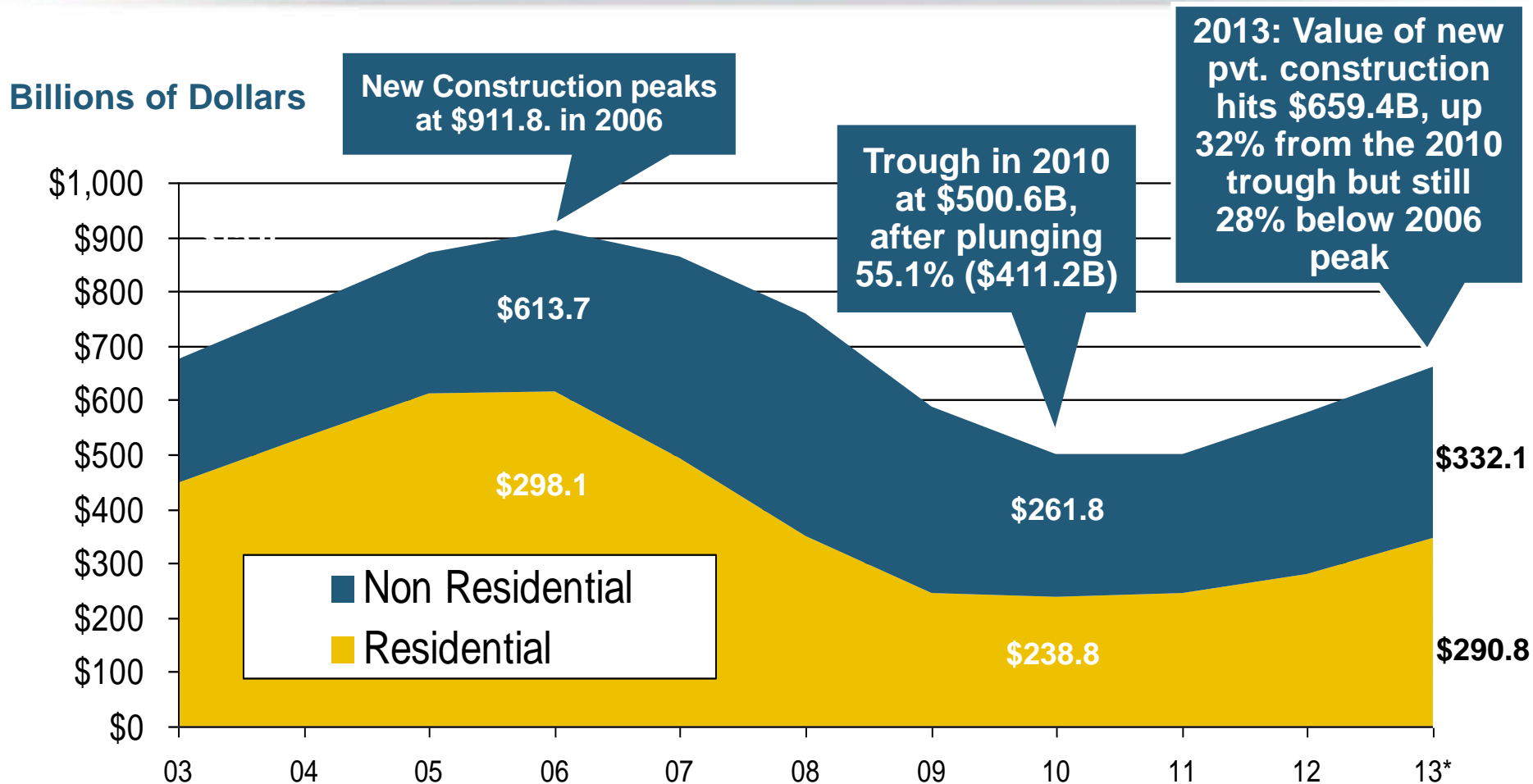
Note: 1990-1992 includes Financial Guaranty.

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

CONSTRUCTION INDUSTRY: MAJOR DRIVER OF SURETY EXPOSURE

**The Construction Sector Is
Critical to the Economy, the
P/C Insurance Industry & the
Surety Exposures**

Value of New Private Construction: Residential & Nonresidential, 2003-2013*



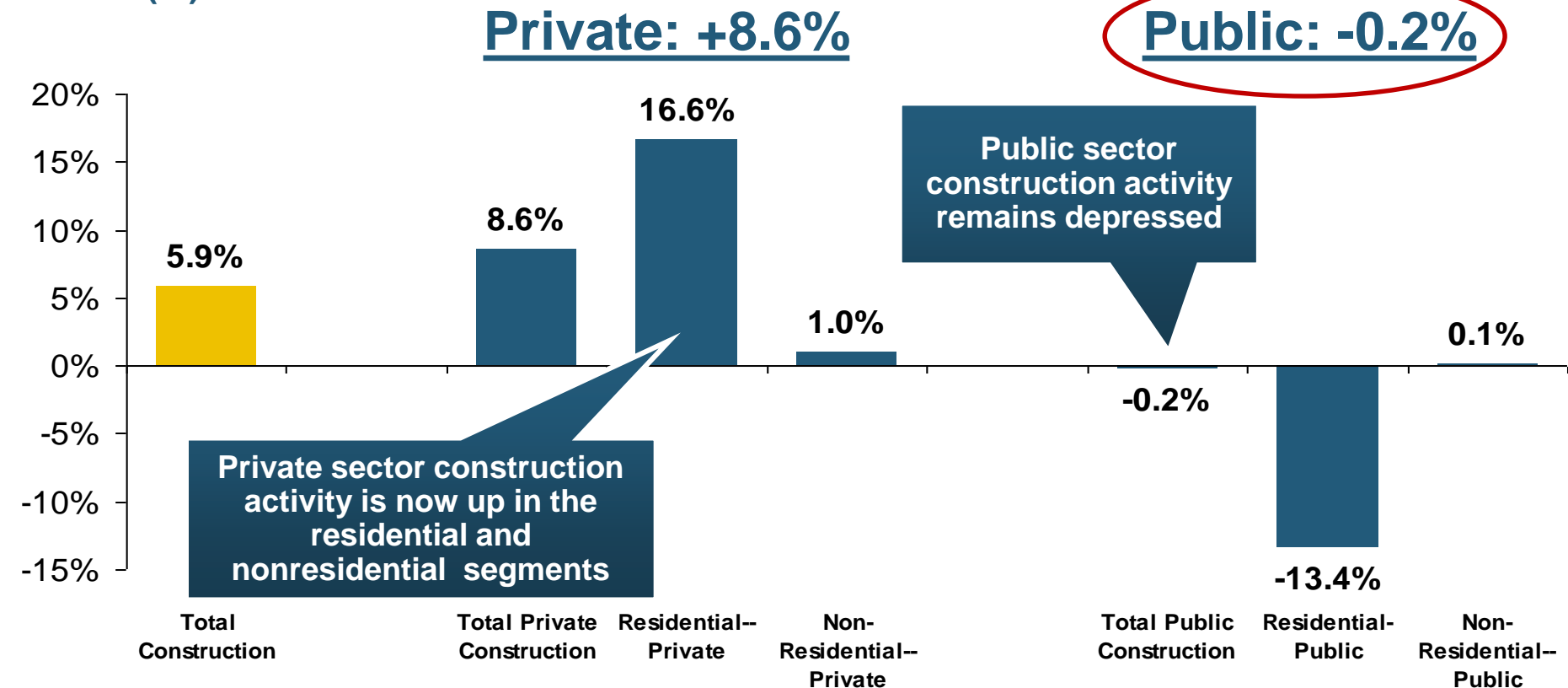
Private Construction Activity Is Moving in a Positive Direction though Remains Well Below Pre-Crisis Peak; Residential Dominates

*2013 figure is a seasonally adjusted annual rate as of November.

Sources: US Department of Commerce; Insurance Information Institute.

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

Growth (%)



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

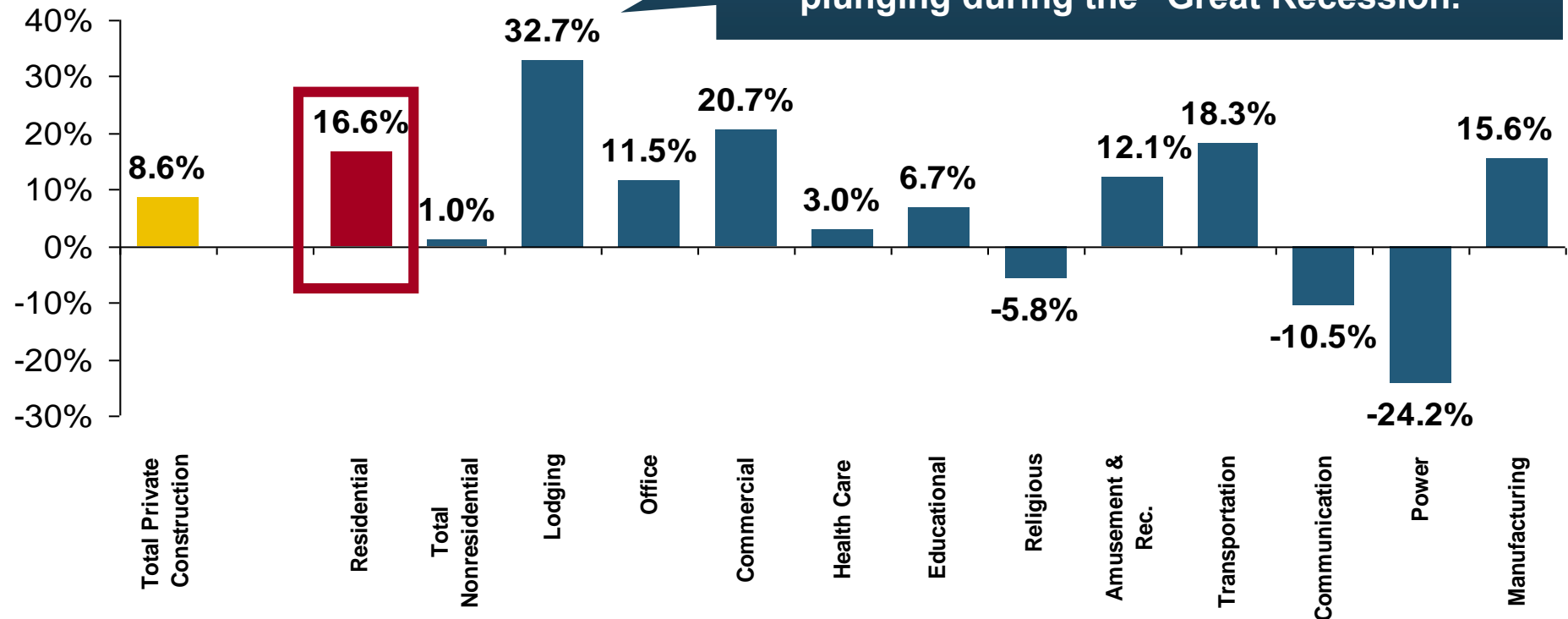
*seasonally adjusted

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, Nov. 2013 vs. Nov. 2012*

Growth (%)

Led by the Residential Construction, Lodging, Power and Transportation segments, Private sector construction activity is rising after plunging during the “Great Recession.”

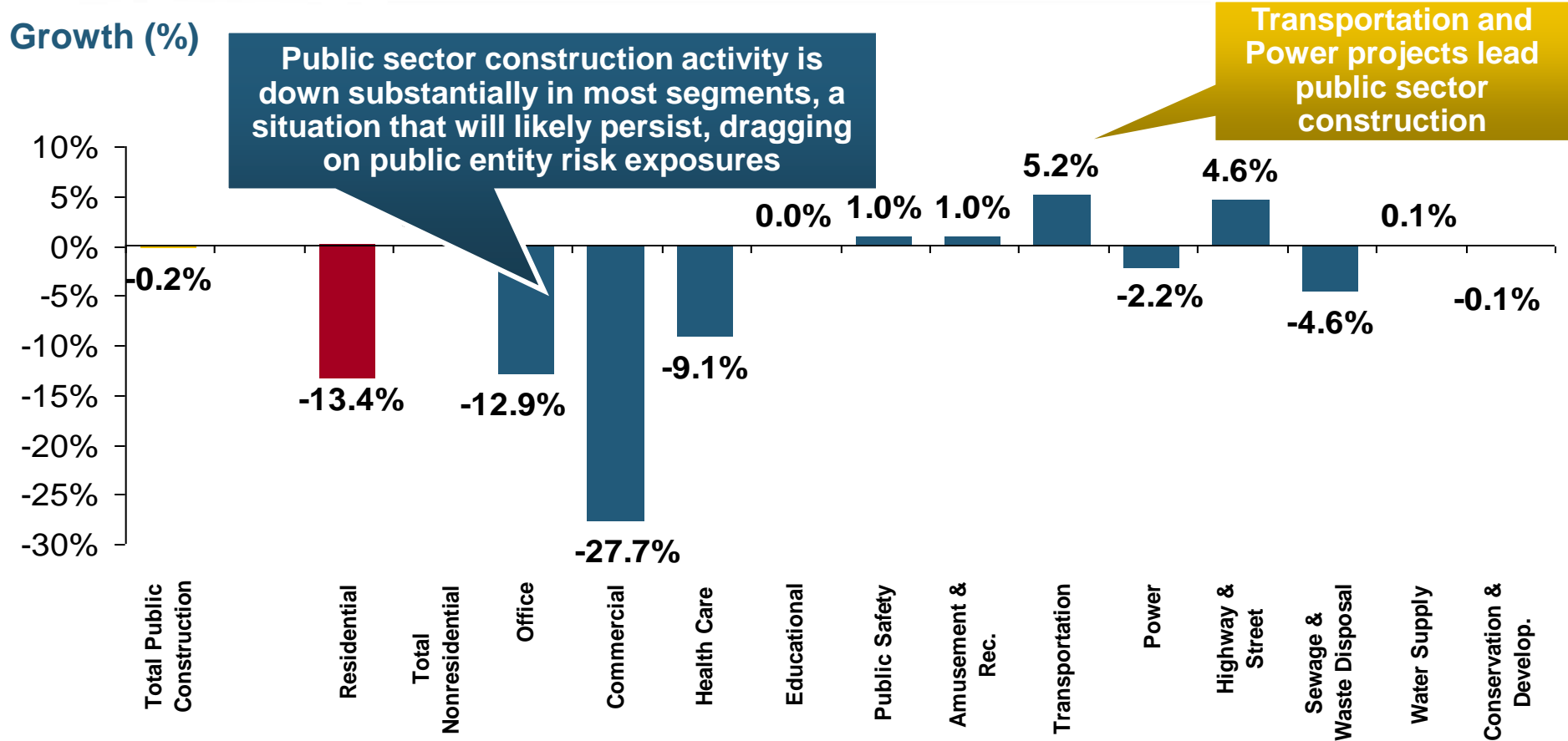


Private Construction Activity is Up in Most Segments, Including the Key Residential Construction Sector; Bodes Well for Early 2014

*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, Nov. 2013 vs. Nov. 2012*

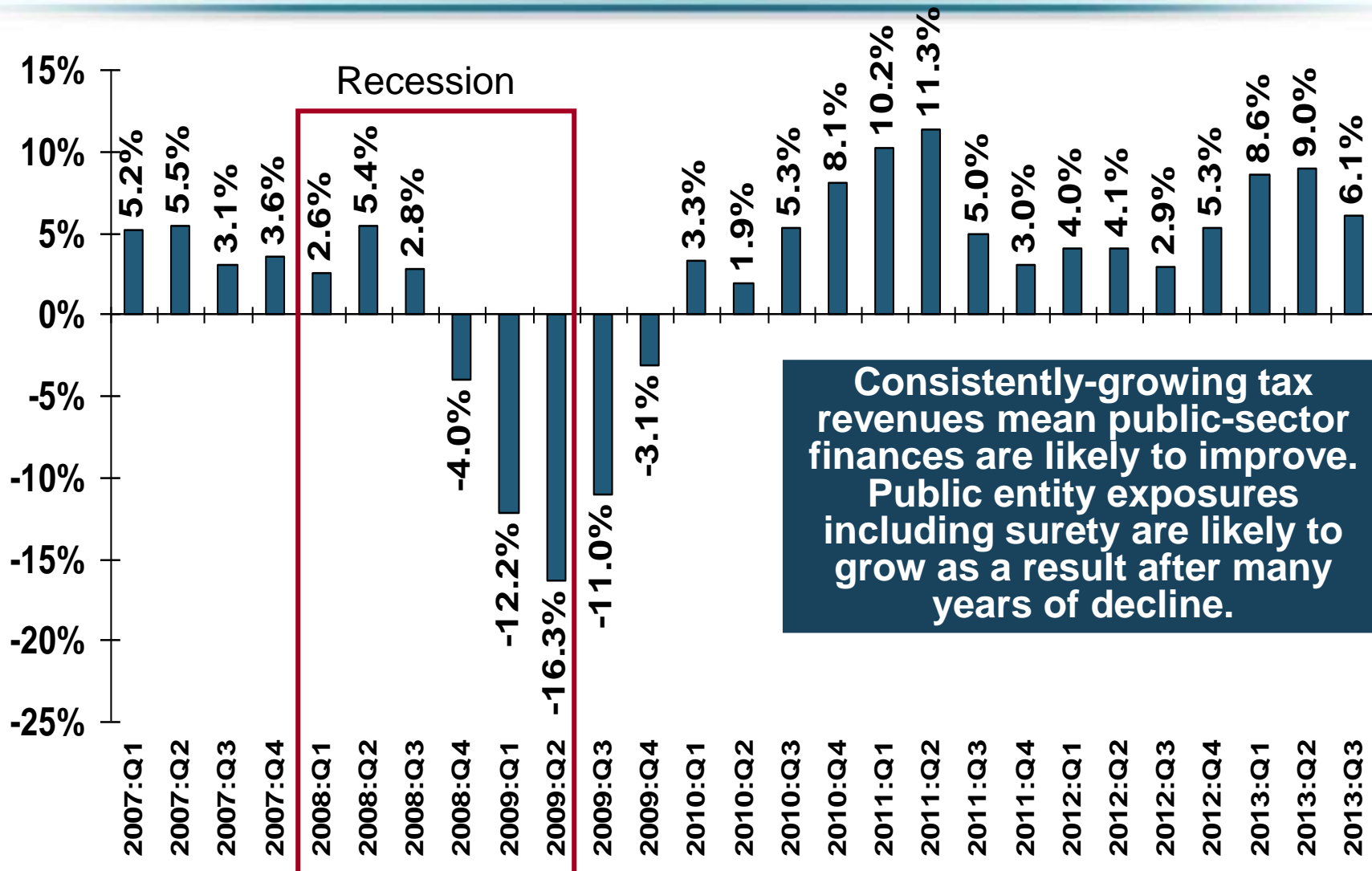


Public Construction Activity is Down in Many Segments as State and Local Budgets Remain Under Stress; Improvement Possible in 2014.

*seasonally adjusted

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

Quarterly Change* in State Income and Sales Tax Revenues, 2007:Q1 – 2013:Q3



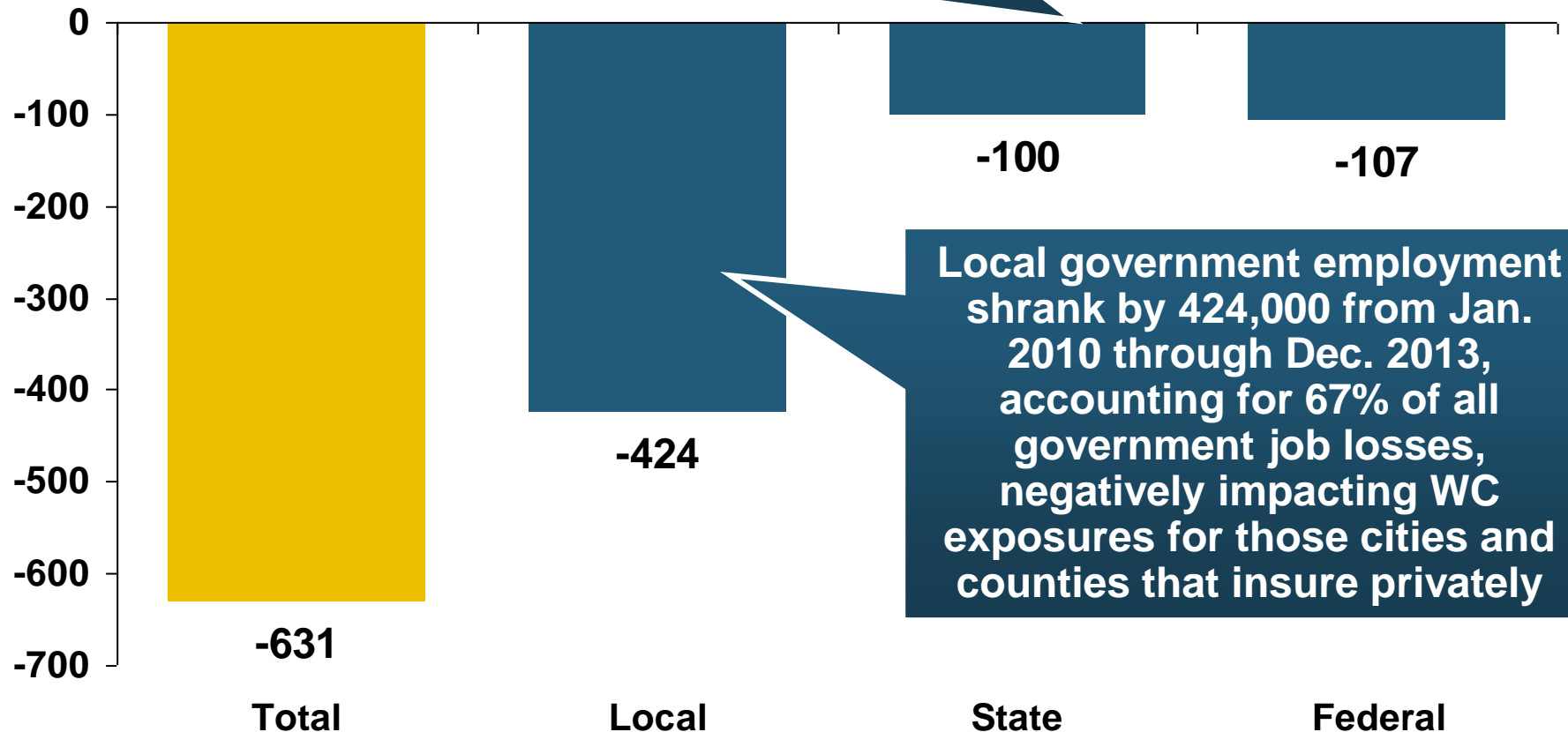
*versus same quarter in prior year

Sources: The Nelson A. Rockefeller Institute of Government, Special State Revenue Report, No. 94, published December 19, 2013, Table 1 (citing data from the U.S. Census Bureau); I.I.I.

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

(Thousands)

State government employment fell by 1.9% since the end of 2009 but is recovering while Federal employment is down by 3.8% and deteriorating



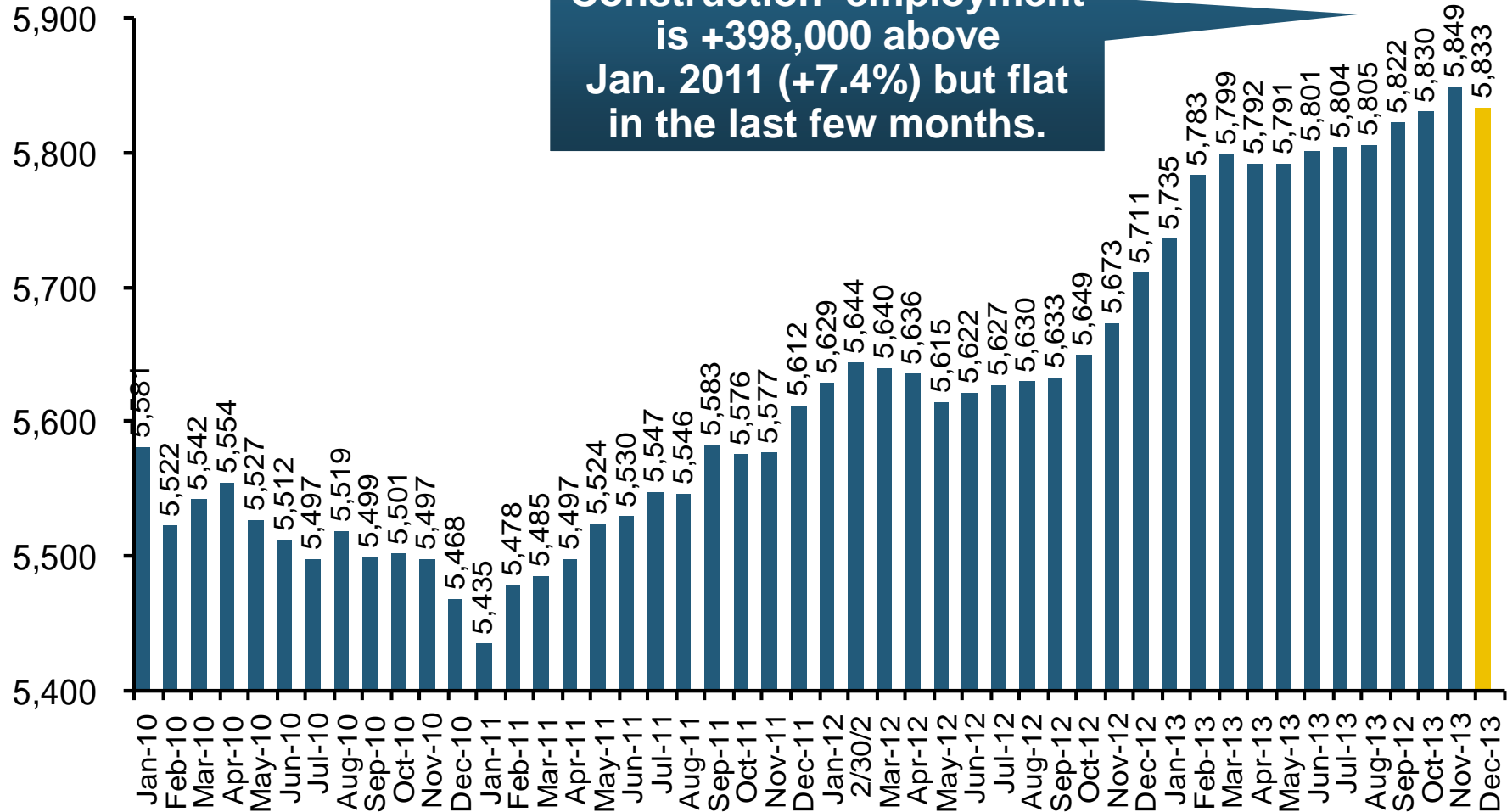
*Cumulative change from prior month; Base employment date is Dec. 2009.

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

Construction Employment, Jan. 2010—December 2013*

(Thousands)

Construction employment
is +398,000 above
Jan. 2011 (+7.4%) but flat
in the last few months.



Construction and manufacturing employment constitute 1/3 of all payroll exposure.

*Seasonally adjusted; Dec and Nov 2013 are preliminary

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

Construction Employment, Jan. 2003–December 2013

(Thousands)



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

Note: Recession indicated by gray shaded column.

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

12 Industries for the Next 10 Years: Some Exposure Growth Leaders

Health Care

Health Sciences

Energy (Traditional)

Petrochemical

Agriculture

Natural Resources

Technology (incl. Biotechnology)

Light & Insourced Manufacturing

Export-Oriented Industries

Shipping (Rail, Marine, Trucking, Pipelines)

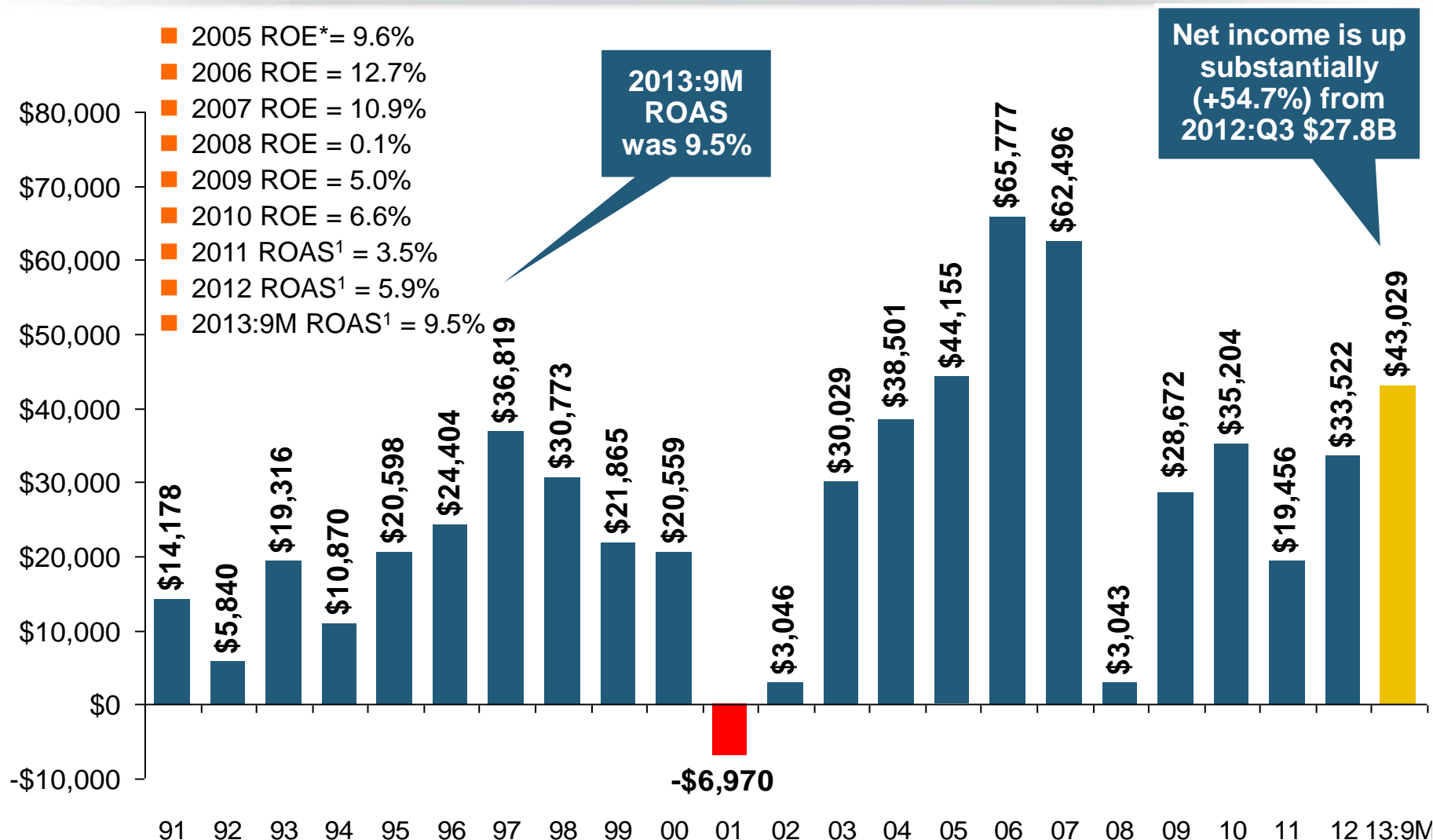
Many industries are poised for growth, though insurers' ability to capitalize on these industries varies widely

P/C Insurance Industry Financial Overview

**2013: Best Year in the
Post-Crisis Era**

**Performance Improved with
Lower CATs, Strong Markets**

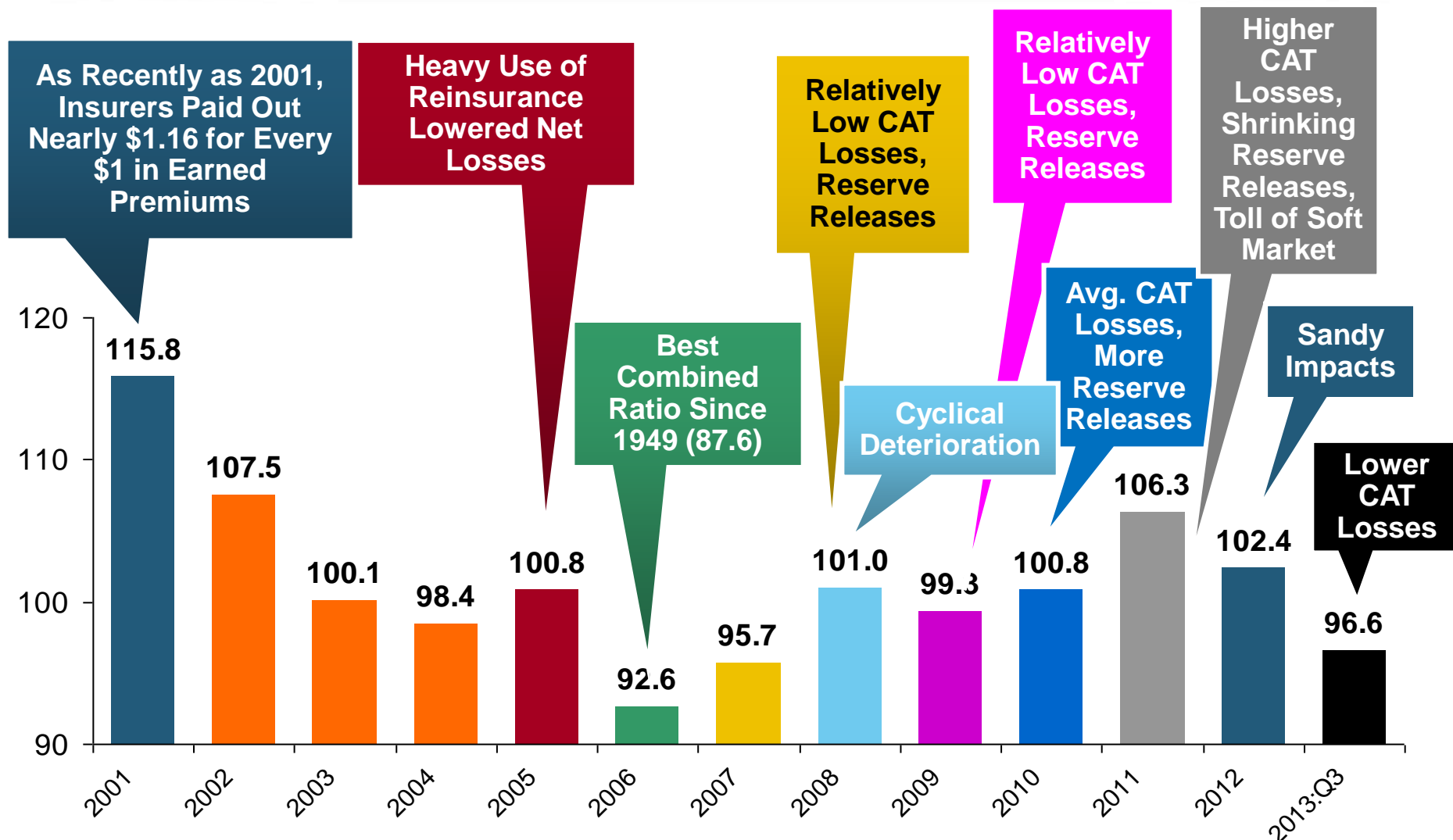
P/C Net Income After Taxes 1991–2013:Q3 (\$ Millions)



*ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 8.9% ROAS through 2013:Q3, 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

P/C Insurance Industry Combined Ratio, 2001–2013:Q3*

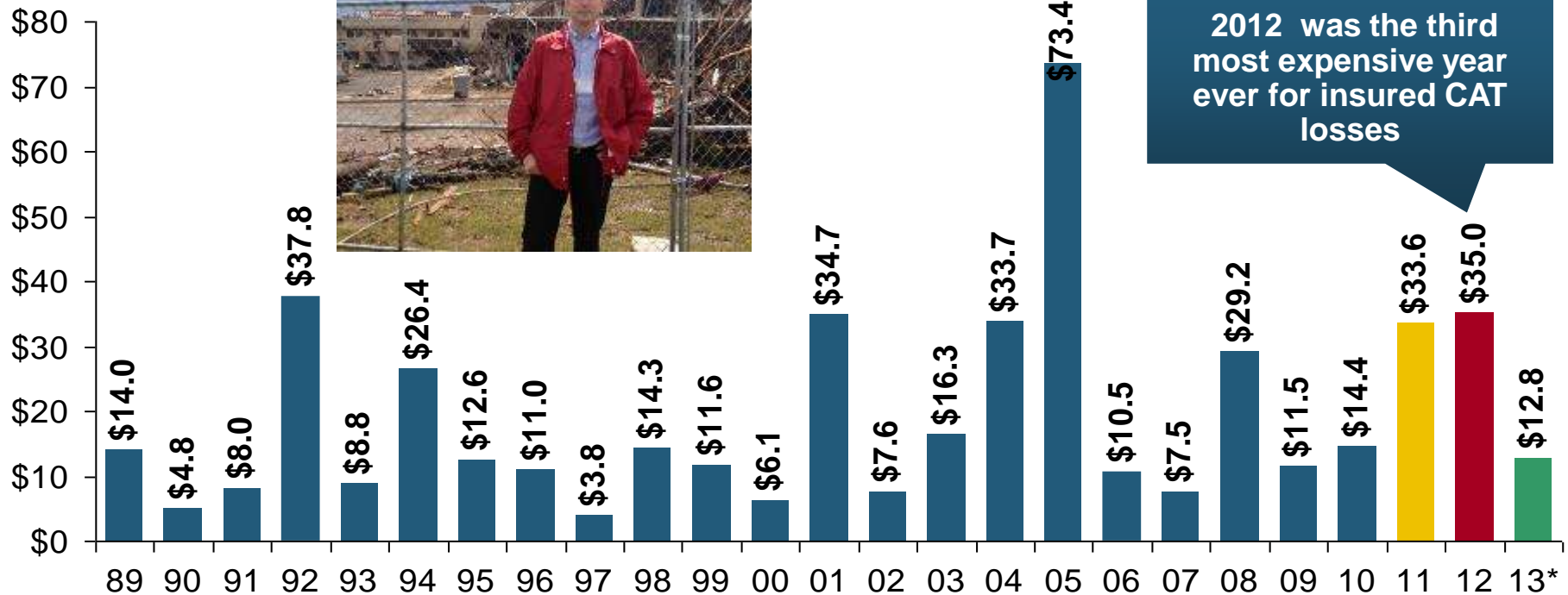


* Excludes Mortgage & Financial Guaranty insurers 2008--2012. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.1, 2012=103.2; 2013:Q3 = 95.8.

Sources: A.M. Best, ISO.

U.S. Insured Catastrophe Losses

(\$ Billions, \$ 2012)



2012 was the third most expensive year ever for insured CAT losses

2012 Was the 3rd Highest Year on Record for Insured Losses in U.S. History on an Inflation-Adj. Basis. 2011 Losses Were the 6th Highest. YTD 2013 Running Well Below 2011 and 2012 YTD Totals.

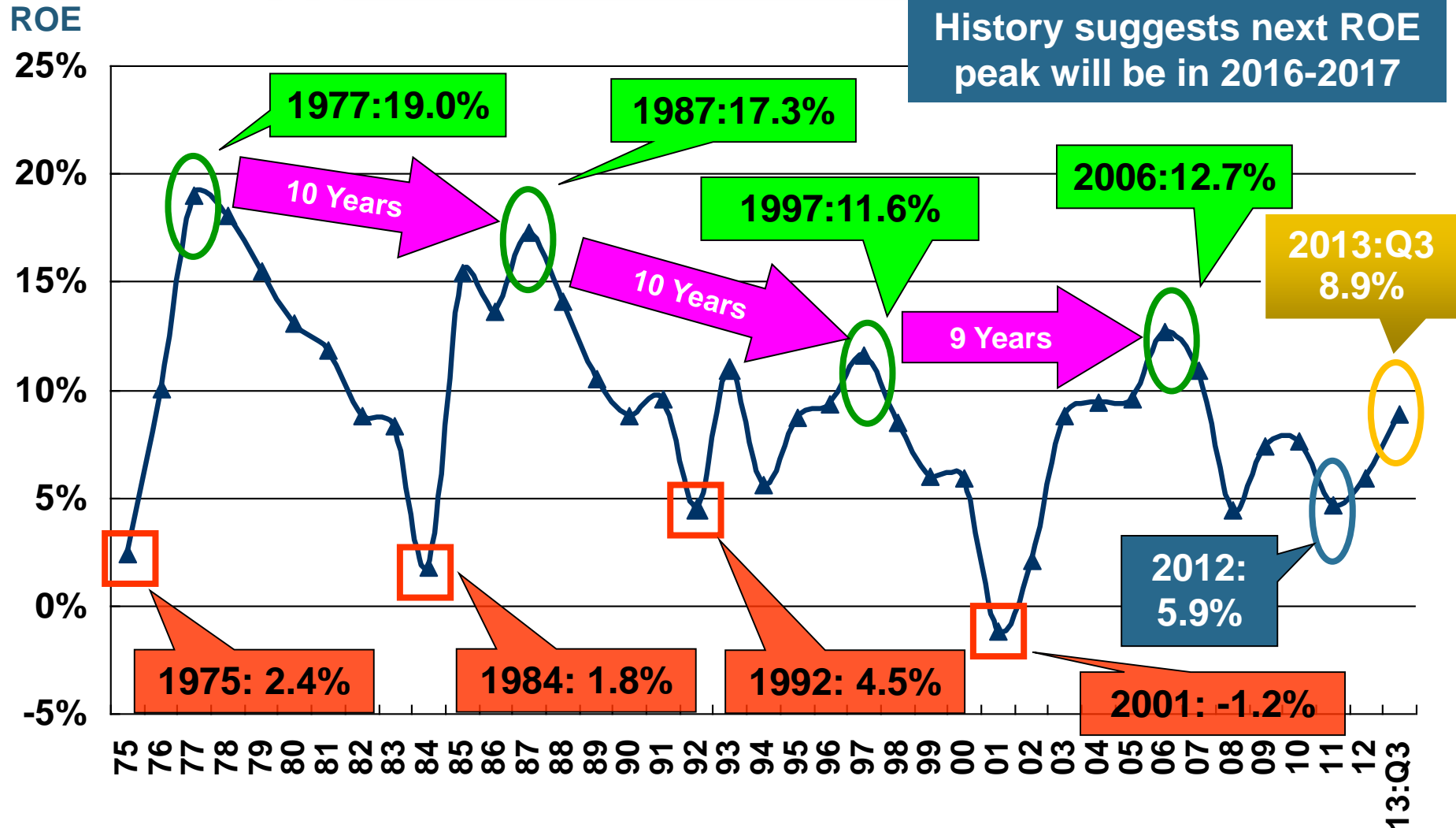
Record tornado losses caused 2011 CAT losses to surge

*Through 12/31/13.

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.

Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2013:Q3*



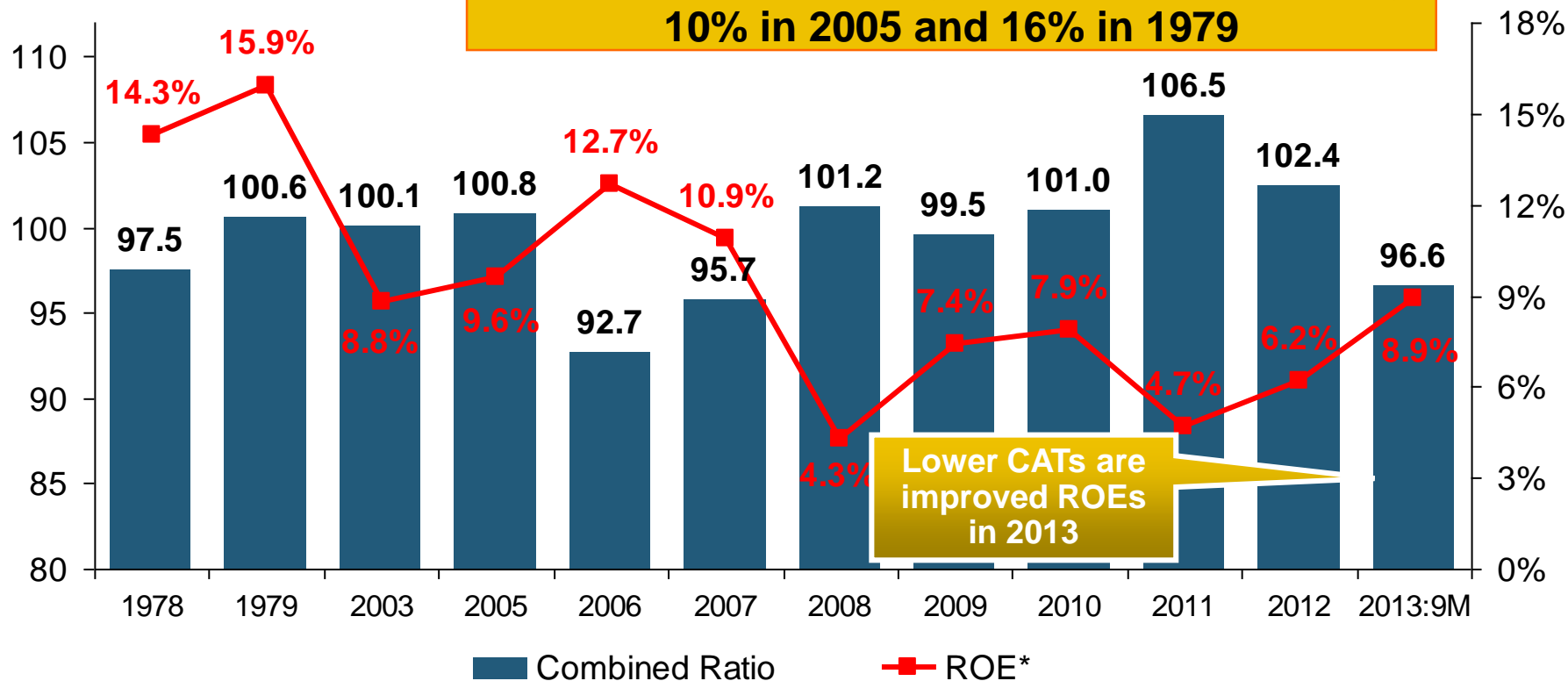
*Profitability = P/C insurer ROEs. 2011-13 figures are estimates based on ROAS data. Note: Data for 2008-2013 exclude mortgage and financial guaranty insurers.

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

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



Lower CATs are improved ROEs in 2013

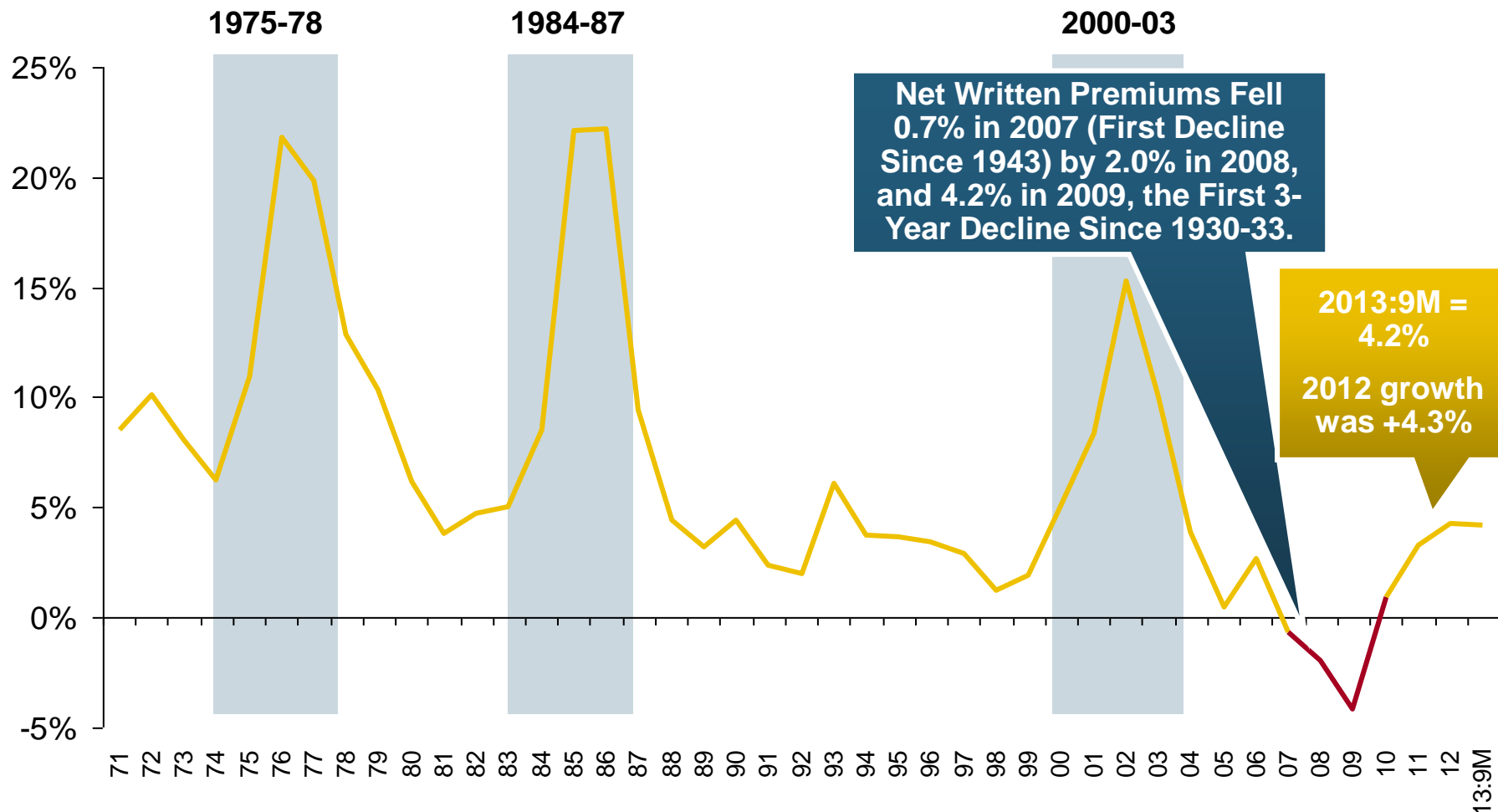
Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2008 -2013 figures are return on average surplus and exclude mortgage and financial guaranty insurers. 2013:9M combined ratio including M&FG insurers is 95.8; 2012 =103.2, 2011 = 108.1, ROAS = 3.5%.

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

Net Premium Growth: Annual Change, 1971—2013:Q3

(Percent)

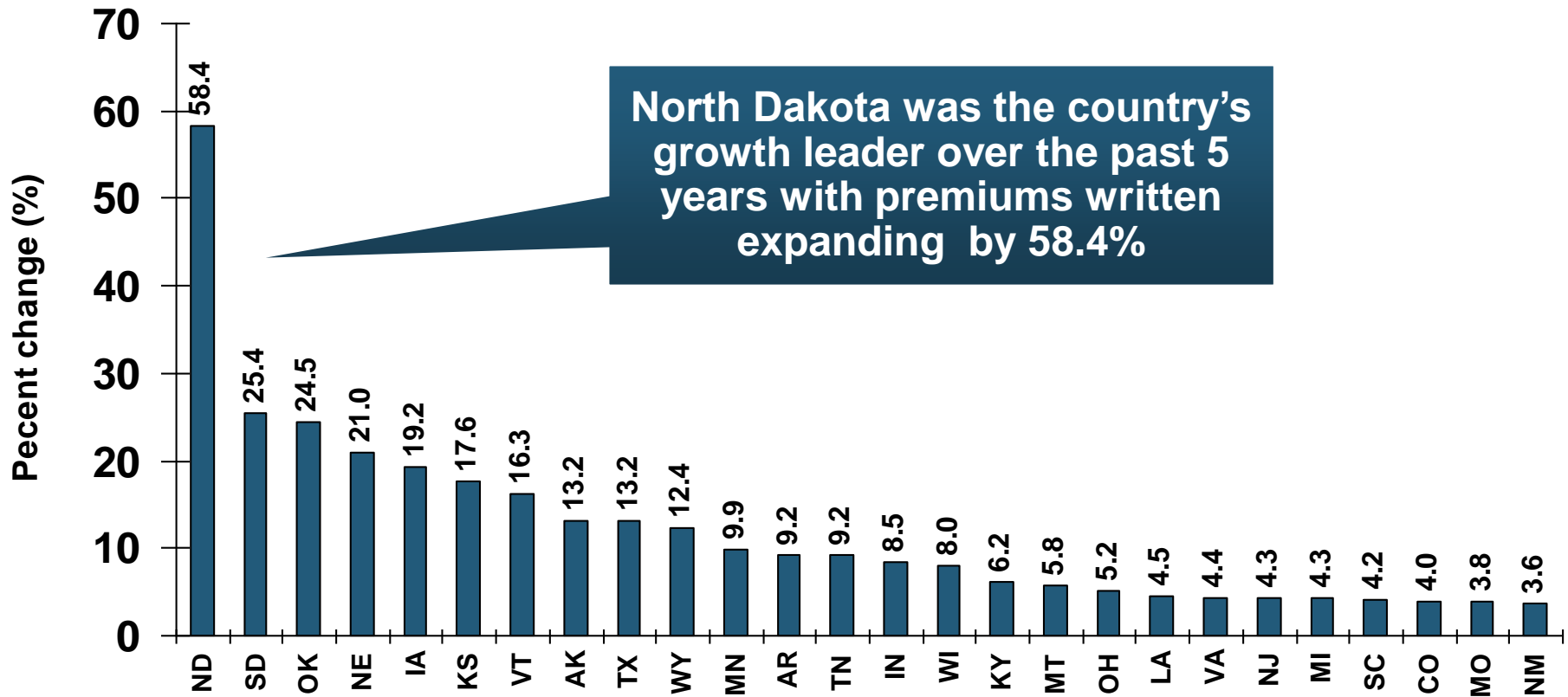


Shaded areas denote "hard market" periods

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

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

Top 25 States

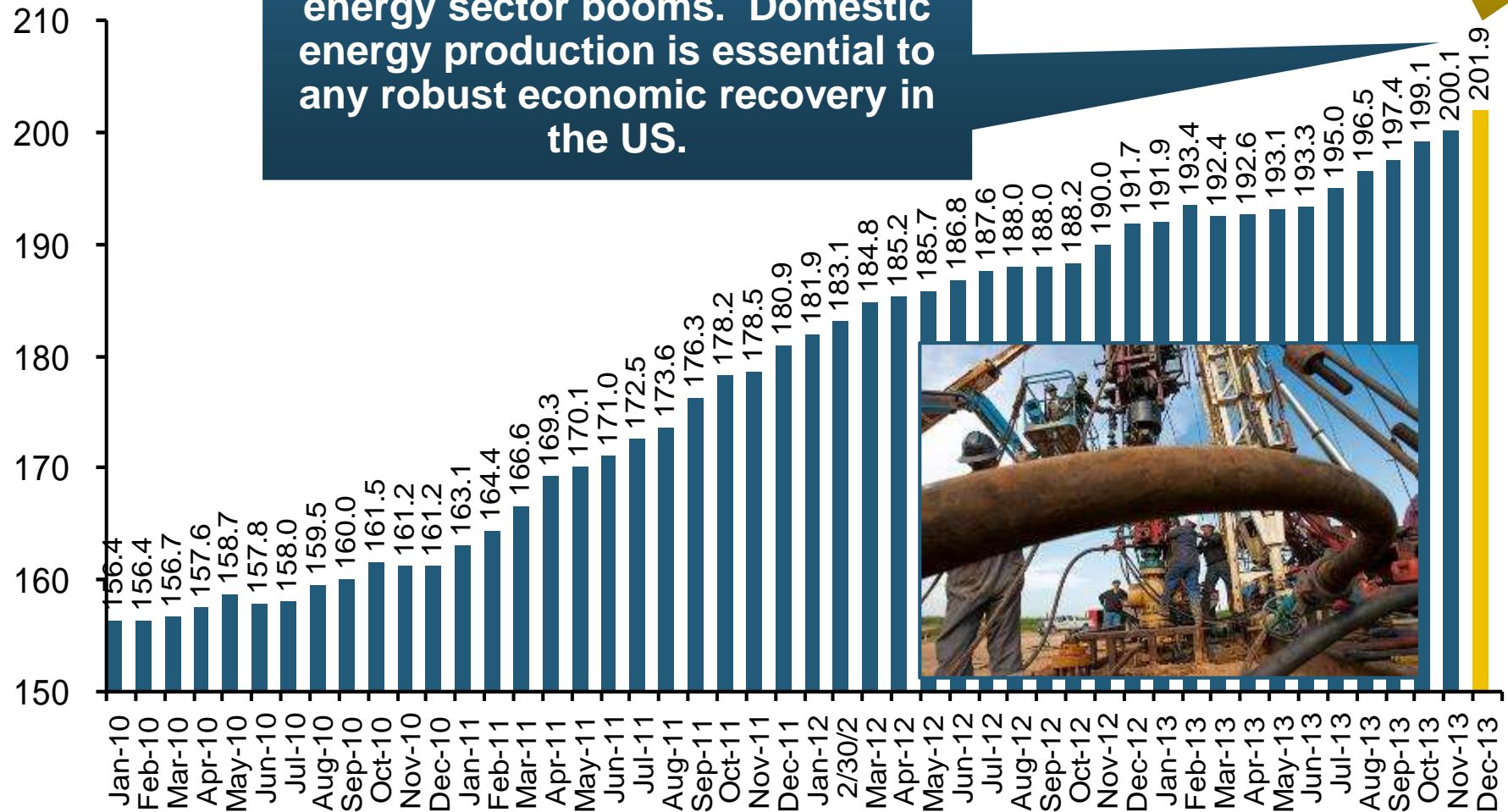


Oil & Gas Extraction Employment, Jan. 2010—Dec. 2013*

(Thousands)

Oil and gas extraction employment is up 29.1% since Jan. 2010 as the energy sector booms. Domestic energy production is essential to any robust economic recovery in the US.

Highest since Nov. 1986

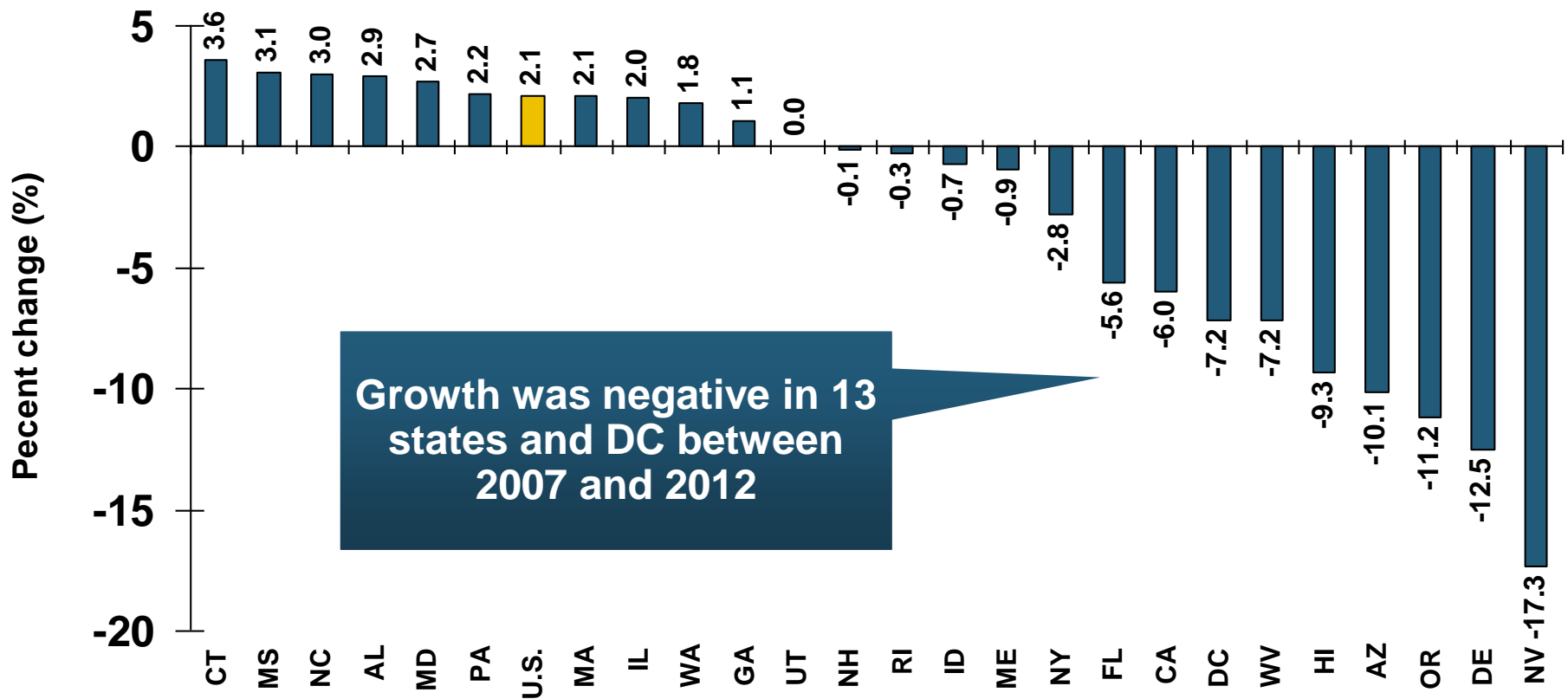


*Seasonally adjusted

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

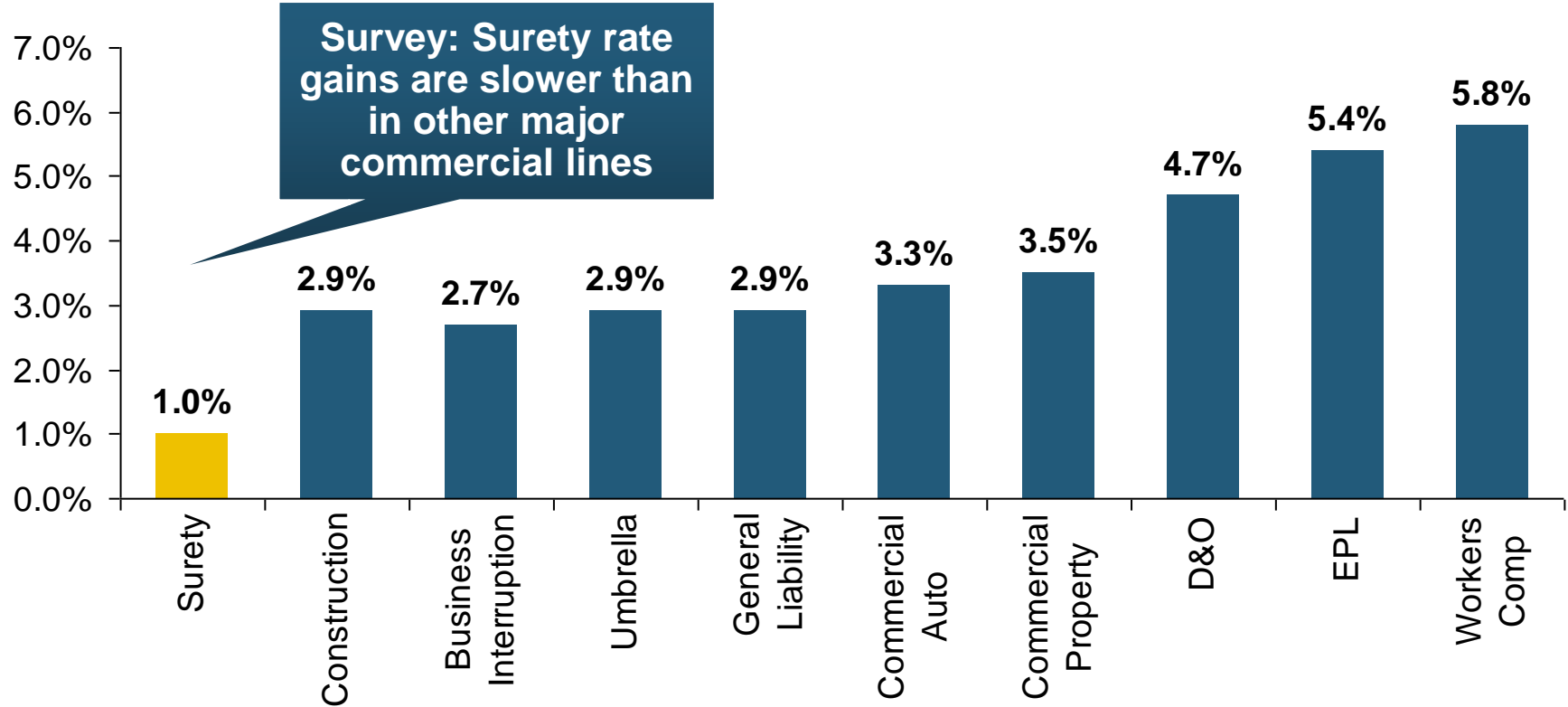
Direct Premiums Written: Total P/C Percent Change by State, 2007-2012*

Bottom 25 States



Change in Commercial Rate Renewals, by Line: 2013:Q3

Percentage Change (%)

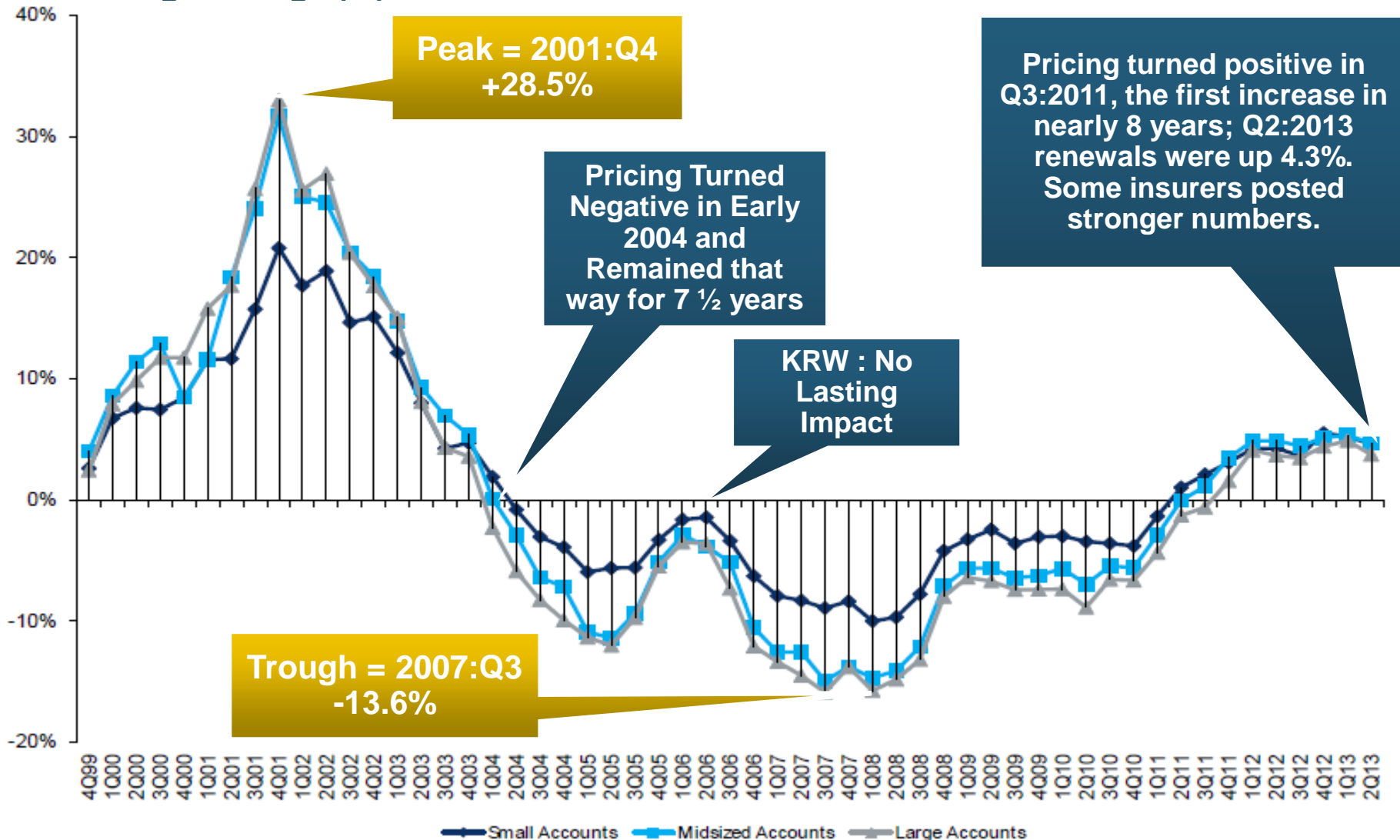


Major Commercial Lines Renewed Uniformly Upward in Q3:2013 for the 9th Consecutive Quarter; Property Lines & Workers Comp Leading the Way; Cat Losses and Low Interest Rates Provide Momentum Going Forward

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.

Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2013:Q2

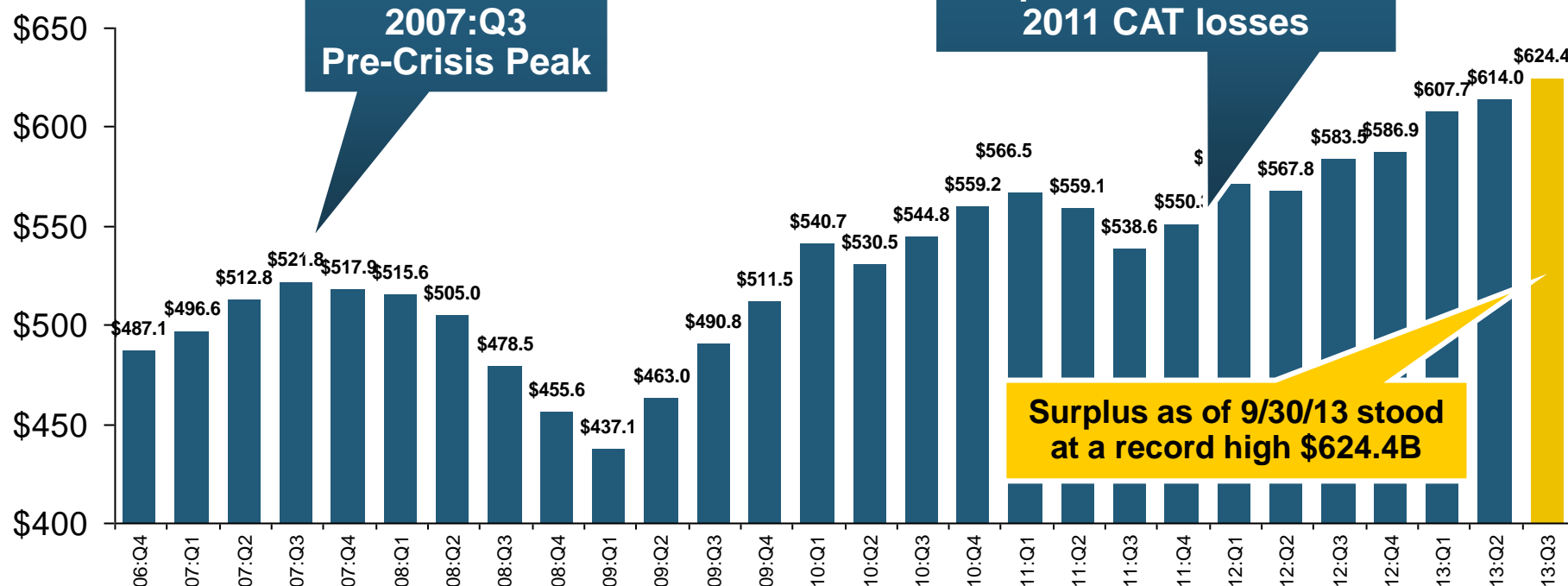
Percentage Change (%)



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.

Policyholder Surplus, 2006:Q4–2013:Q3

(\$ Billions)



The industry now has \$1 of surplus for every \$0.78 of NPW, close to the strongest claims-paying status in its history.

2010:Q1 data includes \$22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business.

Sources: ISO, A.M. Best.

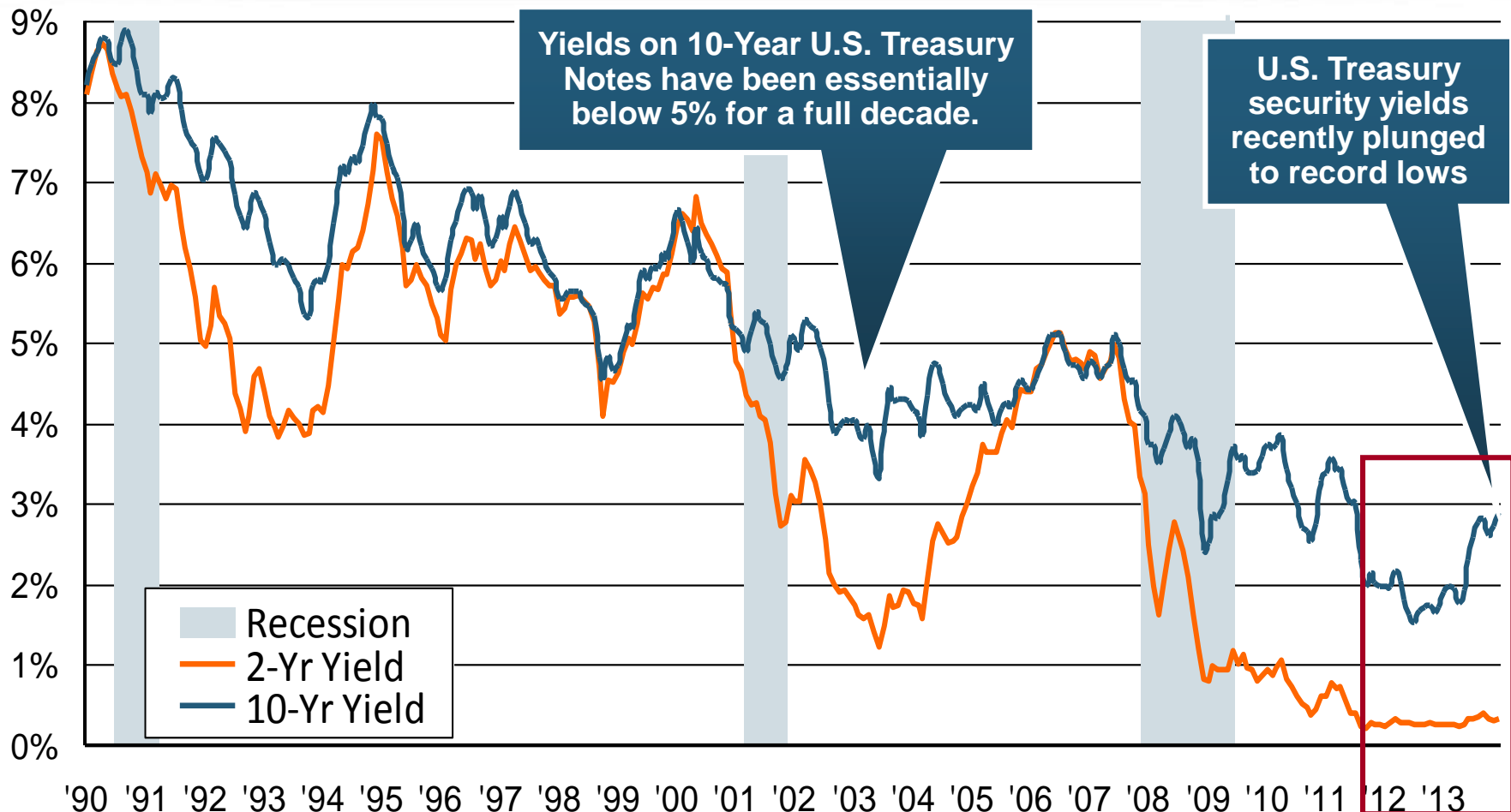
The P/C insurance industry entered 2014 in very strong financial condition.

INVESTMENTS: THE NEW REALITY

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

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

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



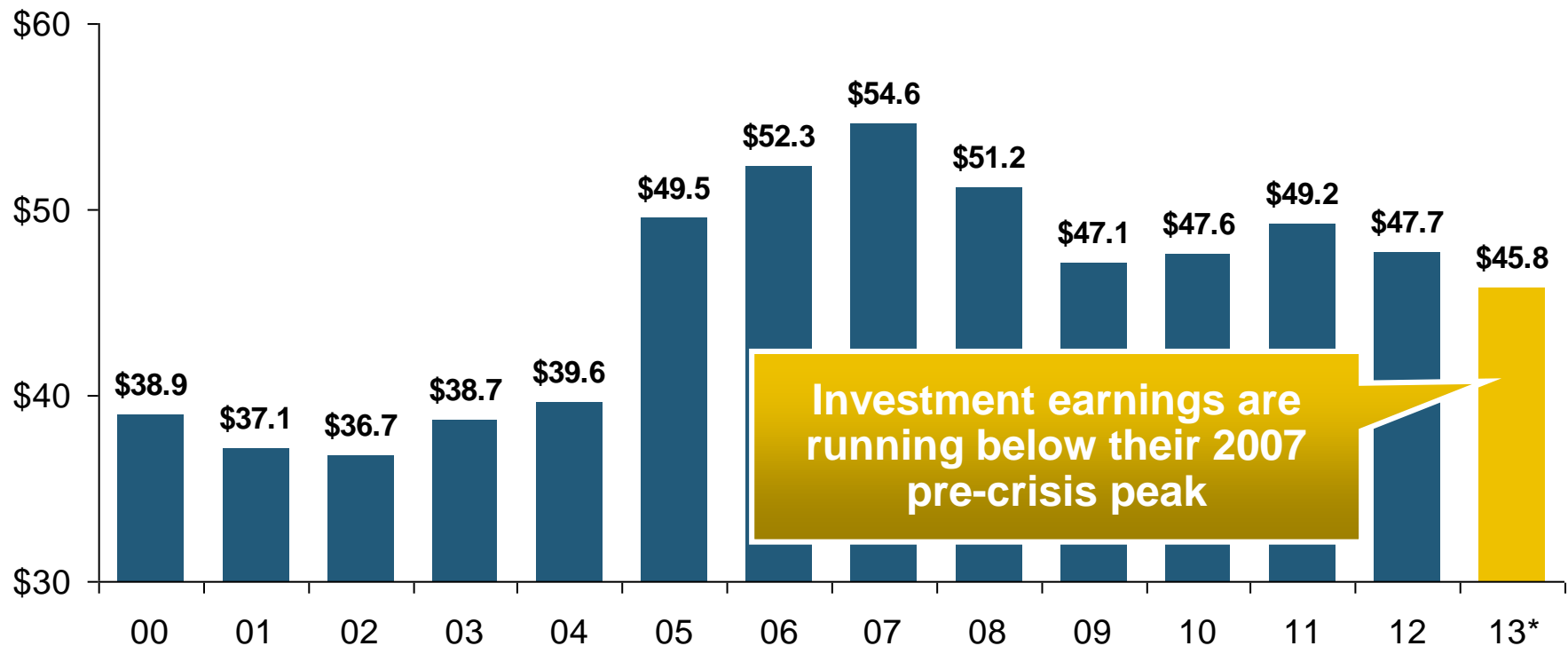
Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

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

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

Property/Casualty Insurance Industry Investment Income: 2000–2013*¹

(\$ Billions)



Investment Income Fell in 2012 and is Falling in 2013 Due to Persistently Low Interest Rates, Putting Additional Pressure on (Re) Insurance Pricing

¹ Investment gains consist primarily of interest and stock dividends..

*Estimate based on annualized actual 9M:2013 investment income of \$34.338B.

Sources: ISO; Insurance Information Institute.

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