



# Overview & Outlook for the P/C Insurance Industry:

*Focus on Texas Markets*

Independent Insurance Agents of Texas

Joe Vincent Seminar

Austin, TX

January 29, 2013

***Download at: [www.iii.org/presentations](http://www.iii.org/presentations)***

Robert P. Hartwig, Ph.D., CPCU, President & Economist

Insurance Information Institute ♦ 110 William Street ♦ New York, NY 10038

Tel: 212.346.5520 ♦ Cell: 917.453.1885 ♦ [bobh@iii.org](mailto:bobh@iii.org) ♦ [www.iii.org](http://www.iii.org)

## ■ Economic Outlook

- ◆ Exposure and premium growth depend critically on growth trajectory for the economy

## ■ Catastrophe Loss Overview

- ◆ Hurricane Sandy guarantees that 2012 will become the 2<sup>nd</sup> or 3<sup>rd</sup> costliest year in US history in terms of insured losses

## ■ P/C Industry Performance: Overview & Outlook

- ◆ Underwriting
- ◆ Pricing
- ◆ Growth
- ◆ Capacity
- ◆ Investments

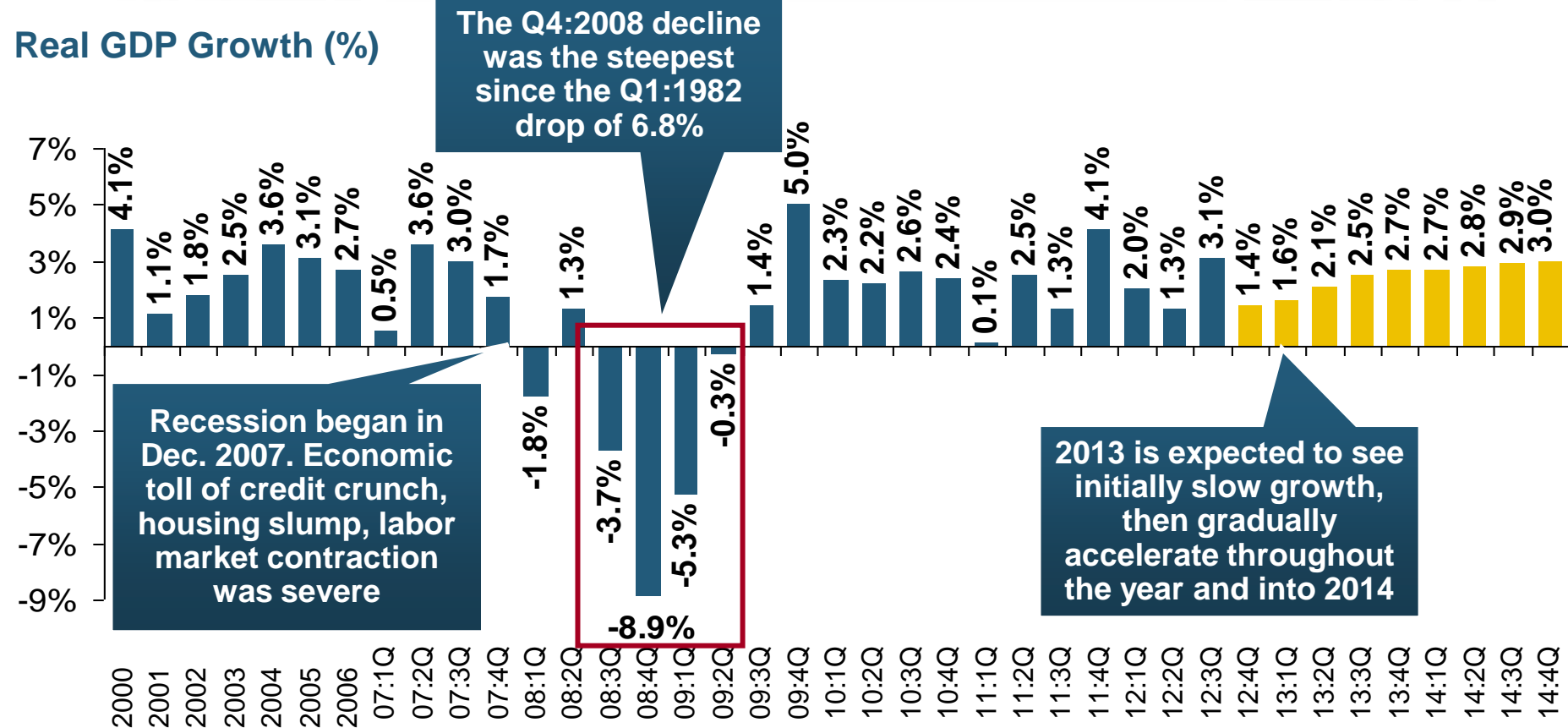
## ■ Legal Liability & Tort Environment



# **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\*



**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.

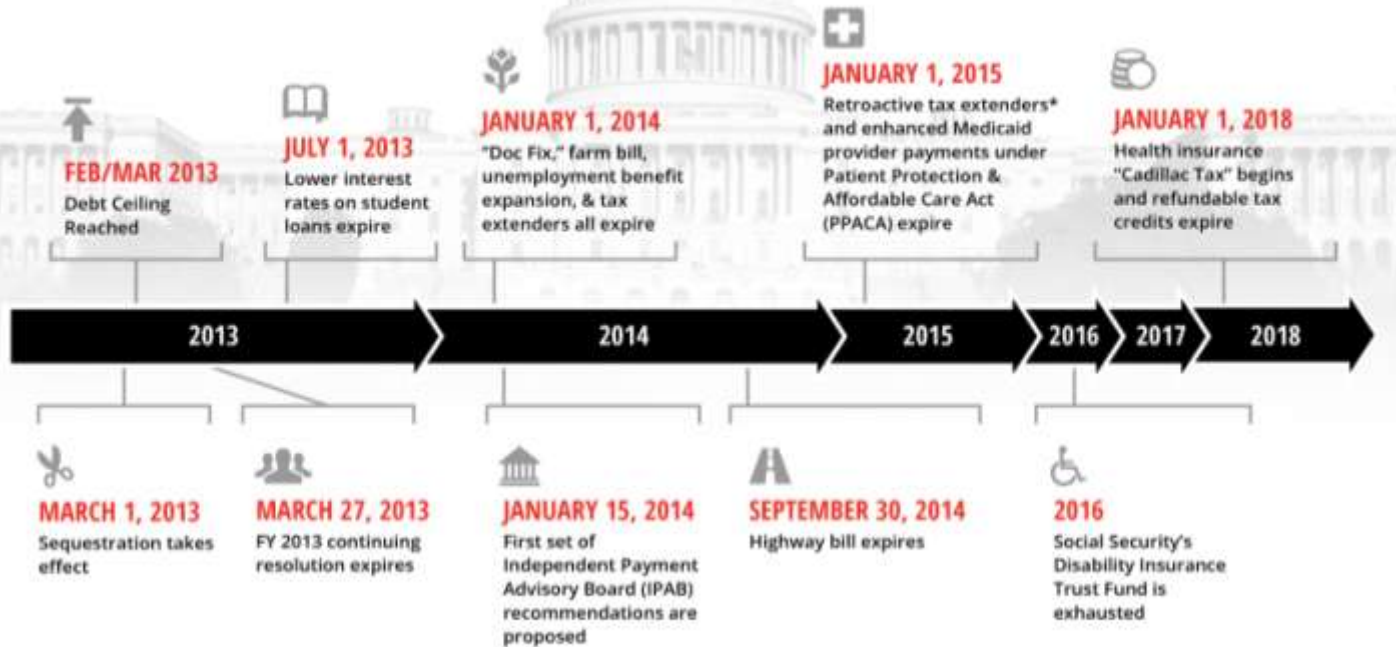
Source: US Department of Commerce, Blue Economic Indicators 1/13; Insurance Information Institute.

# The Fiscal Cliff Was Just the Beginning: Budget Battles for Years to Come?

*Poll: 94% of P/C insurance executives think looming budget battles In Washington will hurt the economy.\**

- The “Fiscal Cliff” was just the beginning
- There are 10+ “Fiscal Speed Bumps” over the next 5 years, setting up a potentially extended period of fiscal uncertainty
- Creates long-term uncertainty around federal spending, tax policy, entitlements

## Impending “Fiscal Speed Bumps” 2013–2018

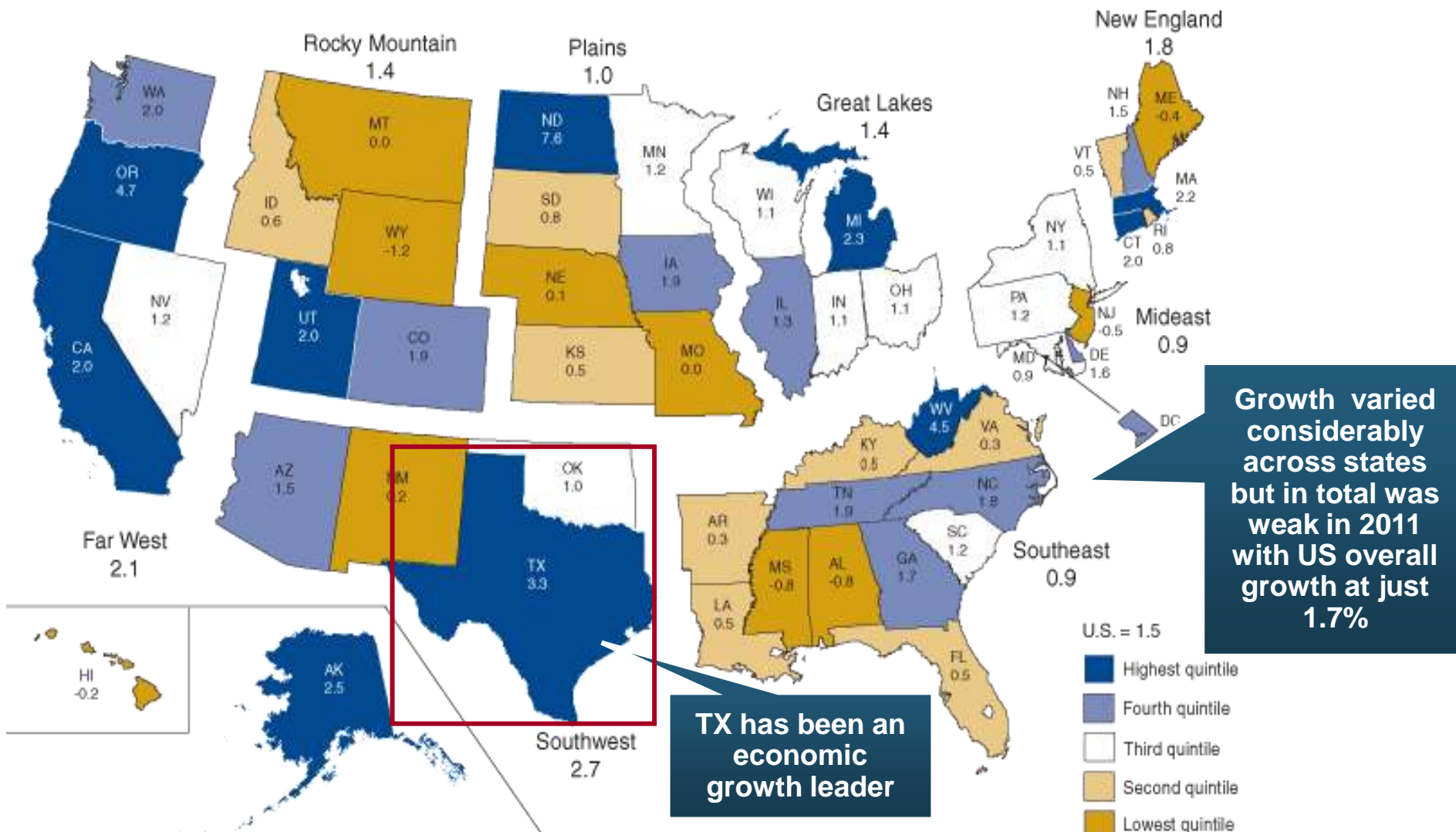


\*The tax extenders officially expire at the end of 2013, but can be restored retroactively up until this point.

\*P/C Insurance Joint Industry Forum press release ([www.iii.org/press\\_releases](http://www.iii.org/press_releases)), January 15, 2013.

Source: Fix the Debt Coalition, January 18, 2013; Insurance Information Institute

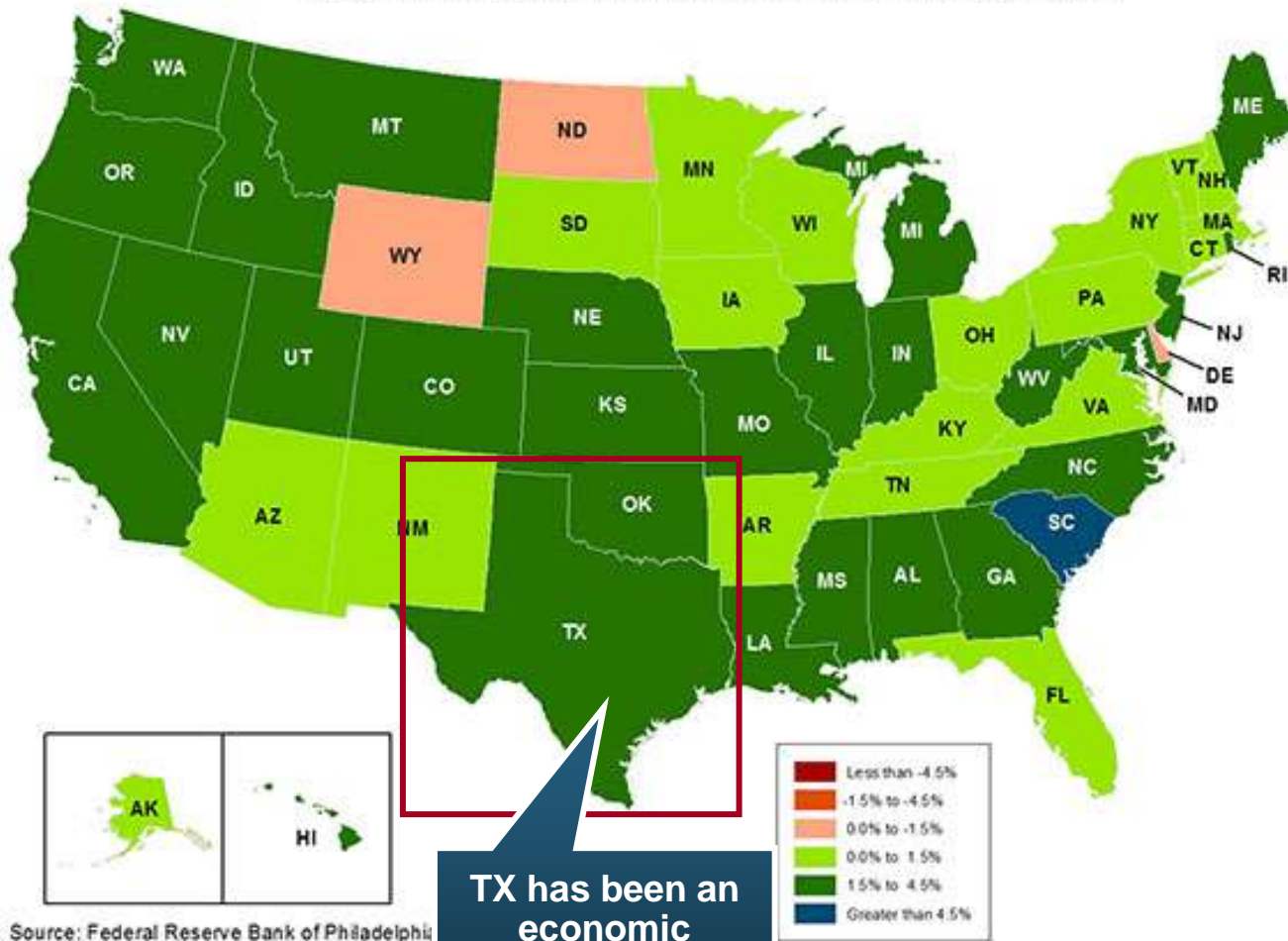
# Percent Change in Real GDP by State, 2011





# State-by-State Leading Indicators through 2013:Q1

October 2012 State Leading Indexes: 6-Month Forecast



Source: Federal Reserve Bank of Philadelphia

**TX has been an  
economic  
growth leader**

## Near-term growth forecasts vary widely by state

### 5 Fastest Growing States

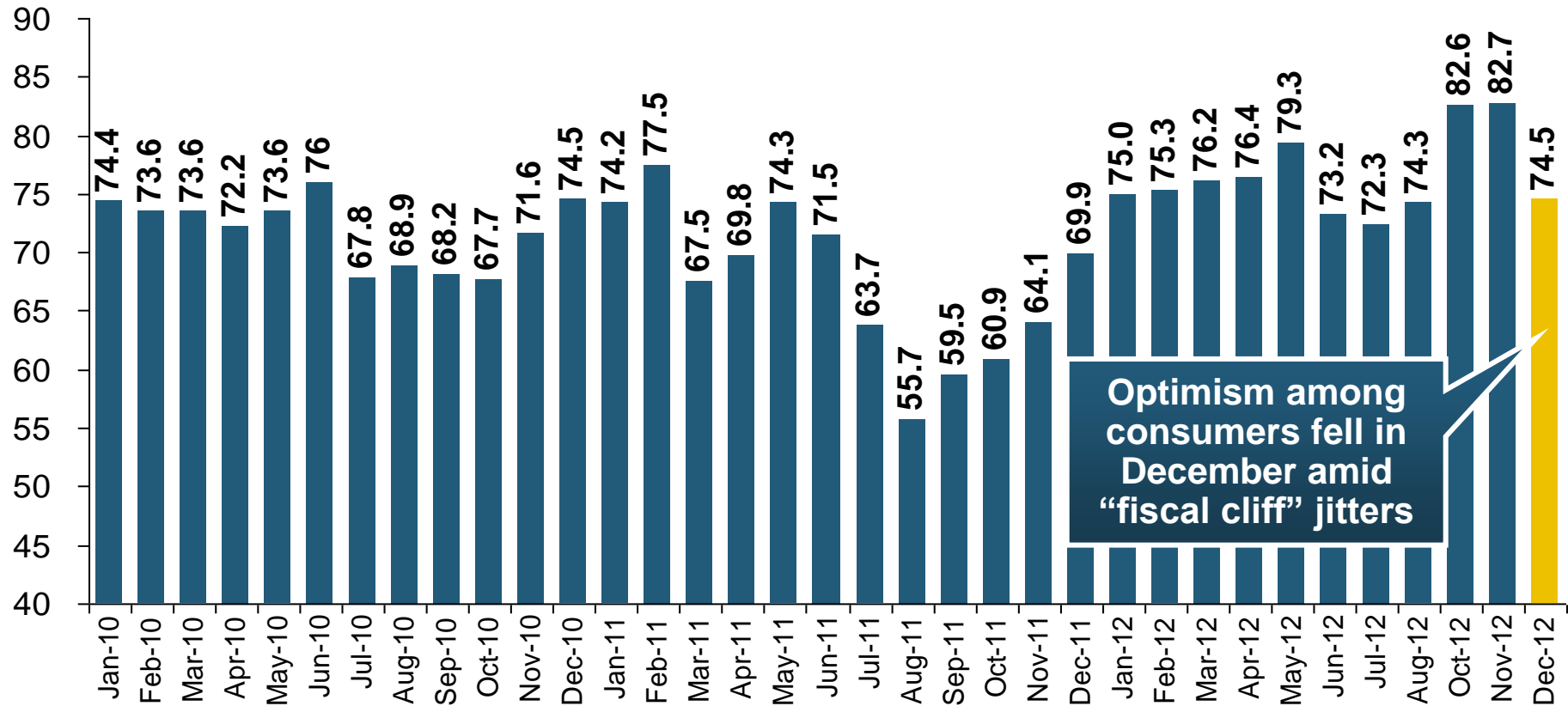
South Carolina	6.97%
Michigan	4.32%
West Virginia	3.59%
Idaho	3.14%
Georgia	3.04%

### 5 Slowest Growing States

Wyoming	-1.09%
Delaware	-0.24%
North Dakota	-0.19%
Vermont	0.09%
Minnesota	0.18%

# Consumer Sentiment Survey (1966 = 100)

January 2010 through December 2012

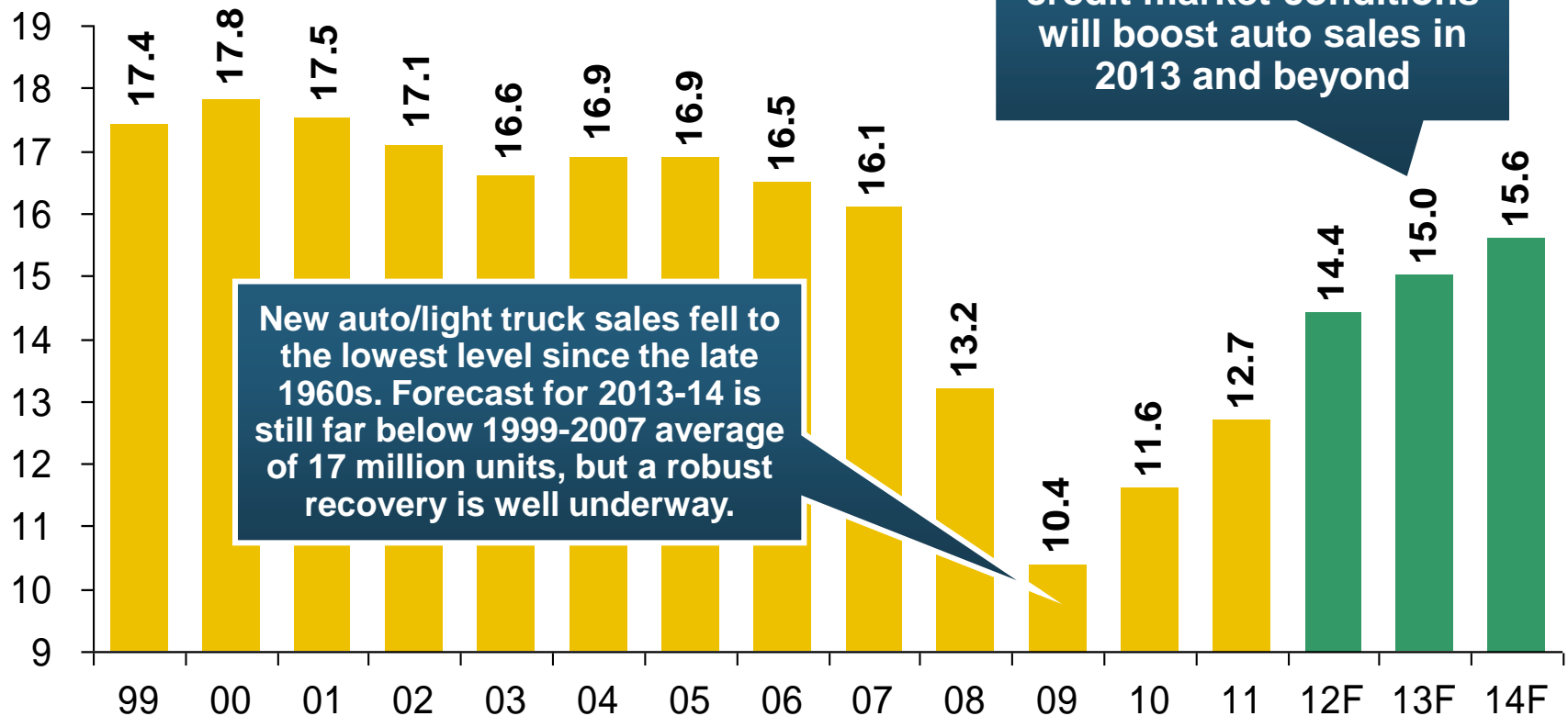


**Consumer confidence has been low for years amid high unemployment, falling home prices and other factors adversely impact consumers, but improved substantially in late 2011 and in 2012**



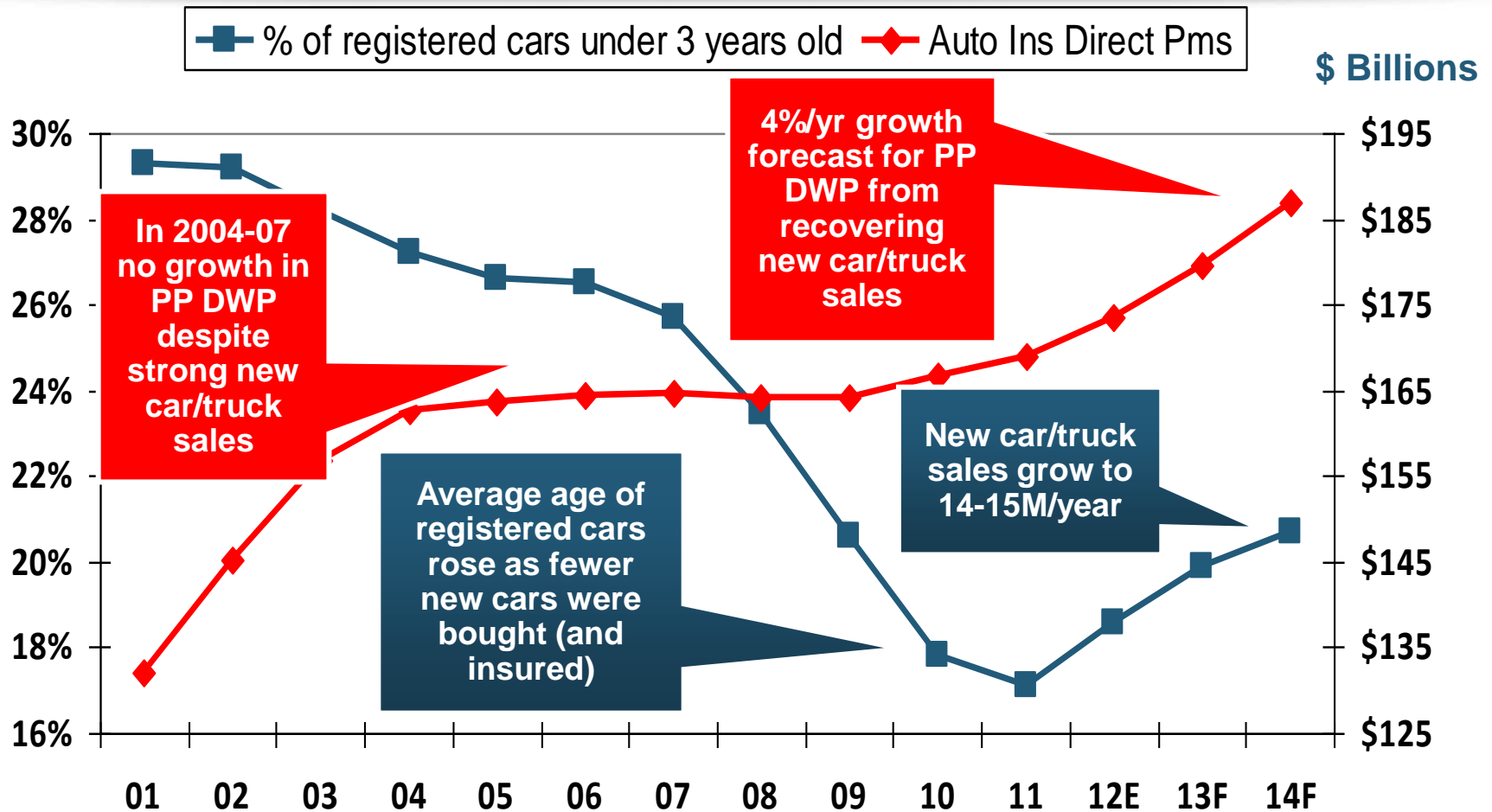
# Auto/Light Truck Sales, 1999-2022F

(Millions of Units)



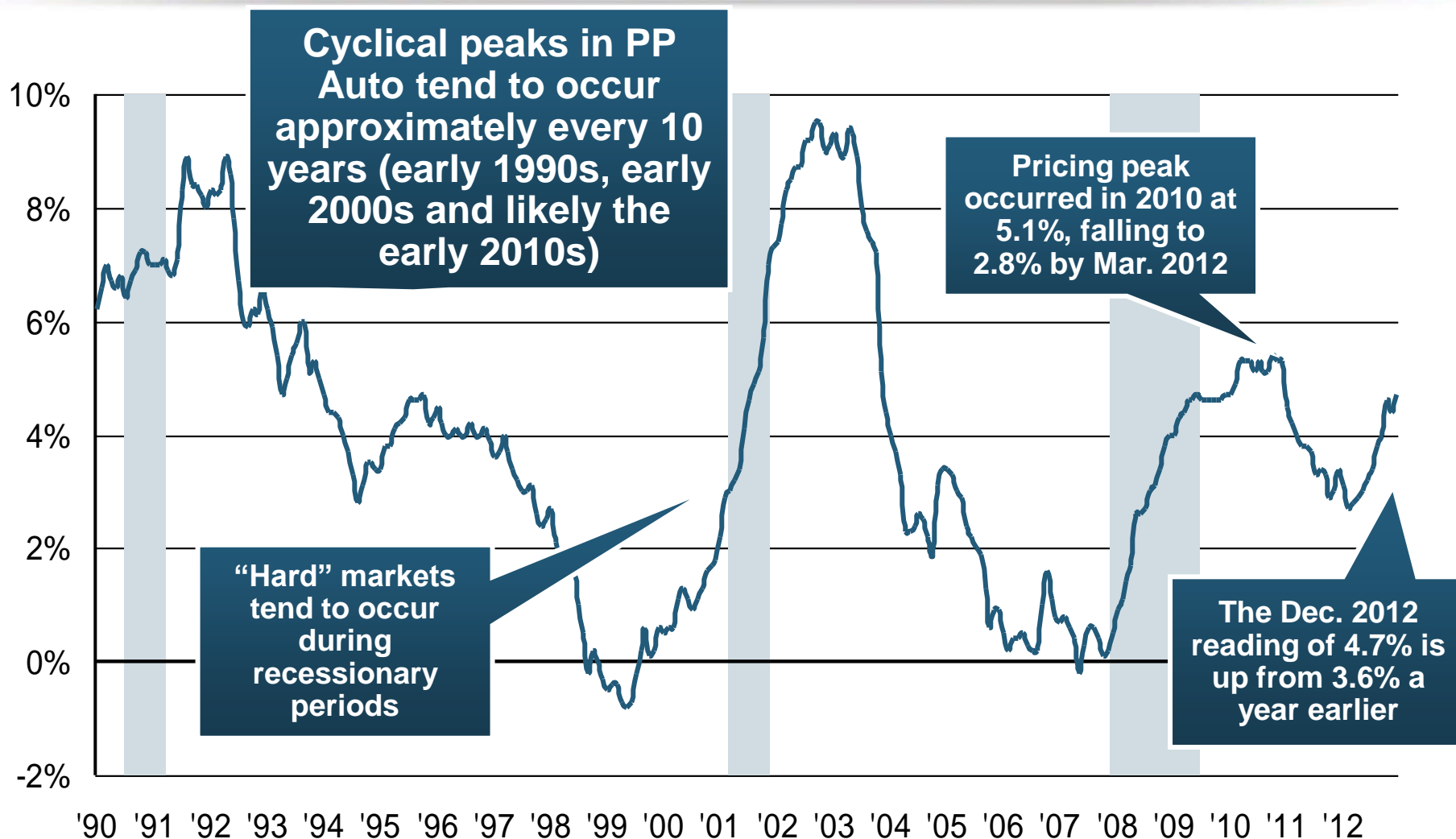
**Car/Light Truck Sales Will Continue to Recover from the 2009 Low Point, Bolstering the Auto Insurer Growth and the Manufacturing Sector.**

# Personal Auto Insurance Direct Written Premiums vs. Recently-Registered Cars



**PP DWP, flat from 2004-2009, is rising again.  
Conning forecasts growth at 3.5% in 2013 and 4.0% in 2014.**

# Monthly Change\* in Auto Insurance Prices, 1991–2012\*



\*Percentage change from same month in prior year; through Dec. 2012; seasonally adjusted

Note: Recessions indicated by gray shaded columns.

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

# Monthly Change\* in Auto Insurance Prices, January 2005 - December 2012

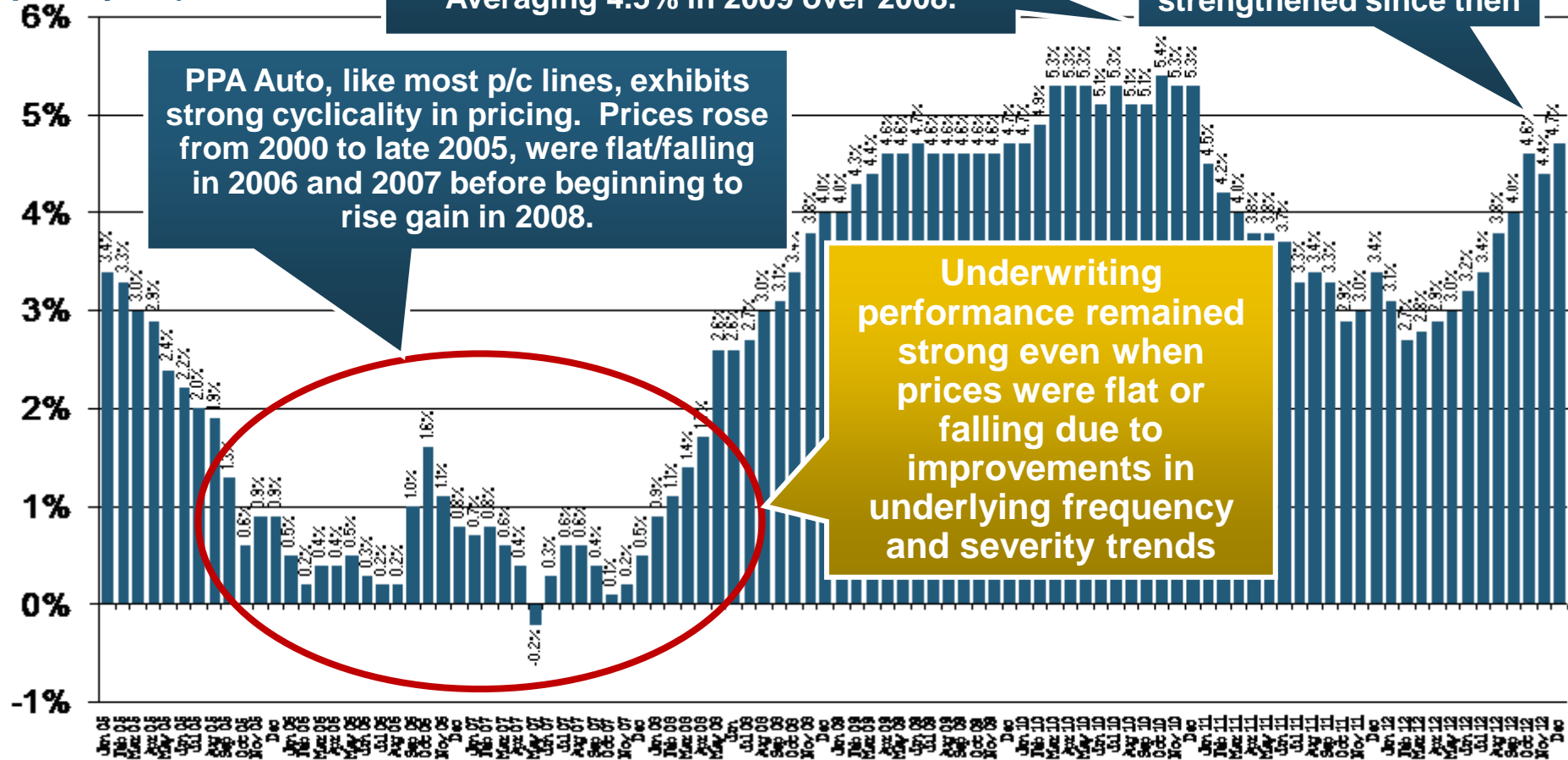
(Percent Change from same month, prior year)

Auto Insurance Price Increases Averaged 5.1% in 2010 over 2009, After Averaging 4.5% in 2009 over 2008.

Pricing weakened materially in 2011 and early 2012 but has strengthened since then

PPA Auto, like most p/c lines, exhibits strong cyclicity in pricing. Prices rose from 2000 to late 2005, were flat/falling in 2006 and 2007 before beginning to rise again in 2008.

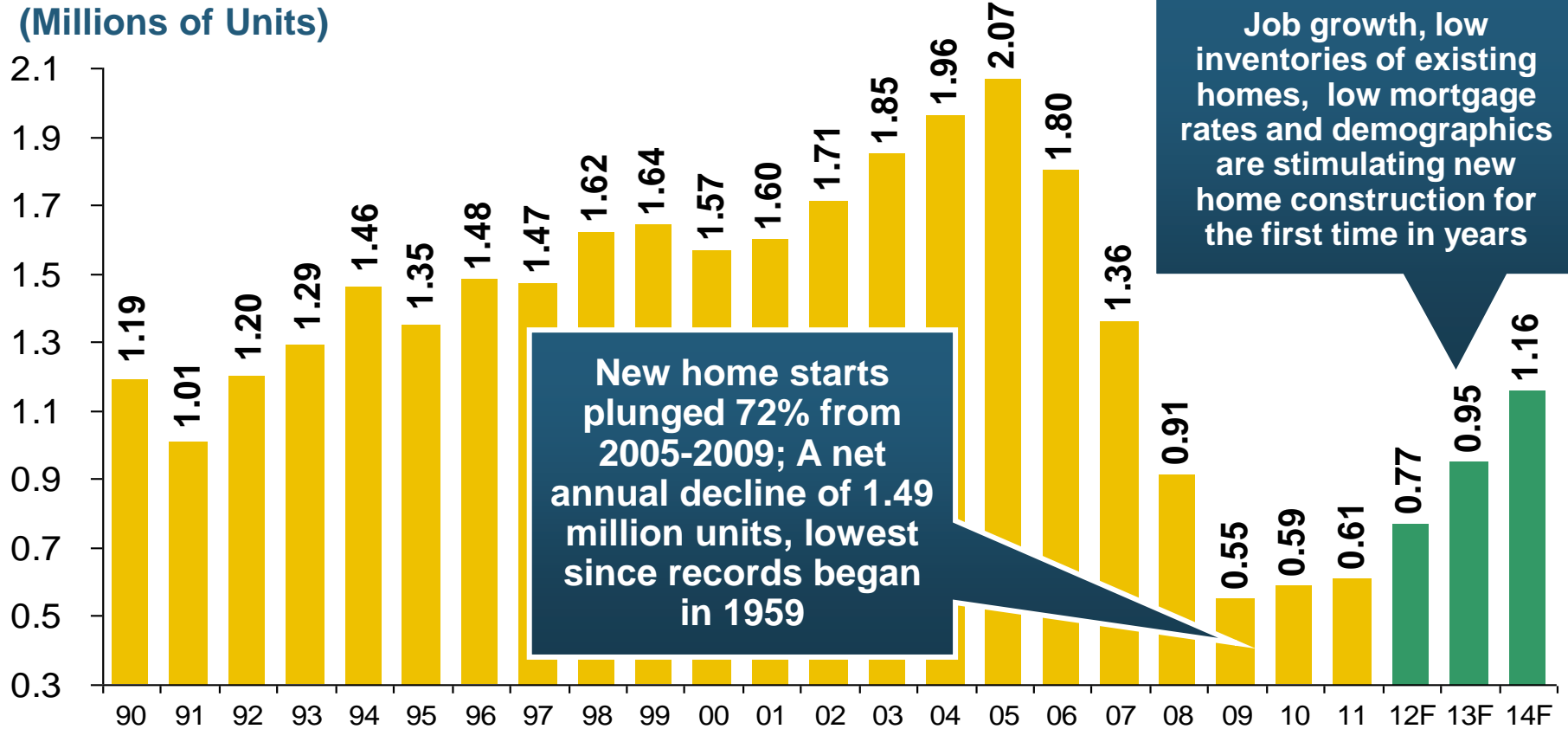
Underwriting performance remained strong even when prices were flat or falling due to improvements in underlying frequency and severity trends



\*Percentage change from same month in prior year, seasonally adjusted.

Sources: US Bureau of Labor Statistics; Insurance Information Institute

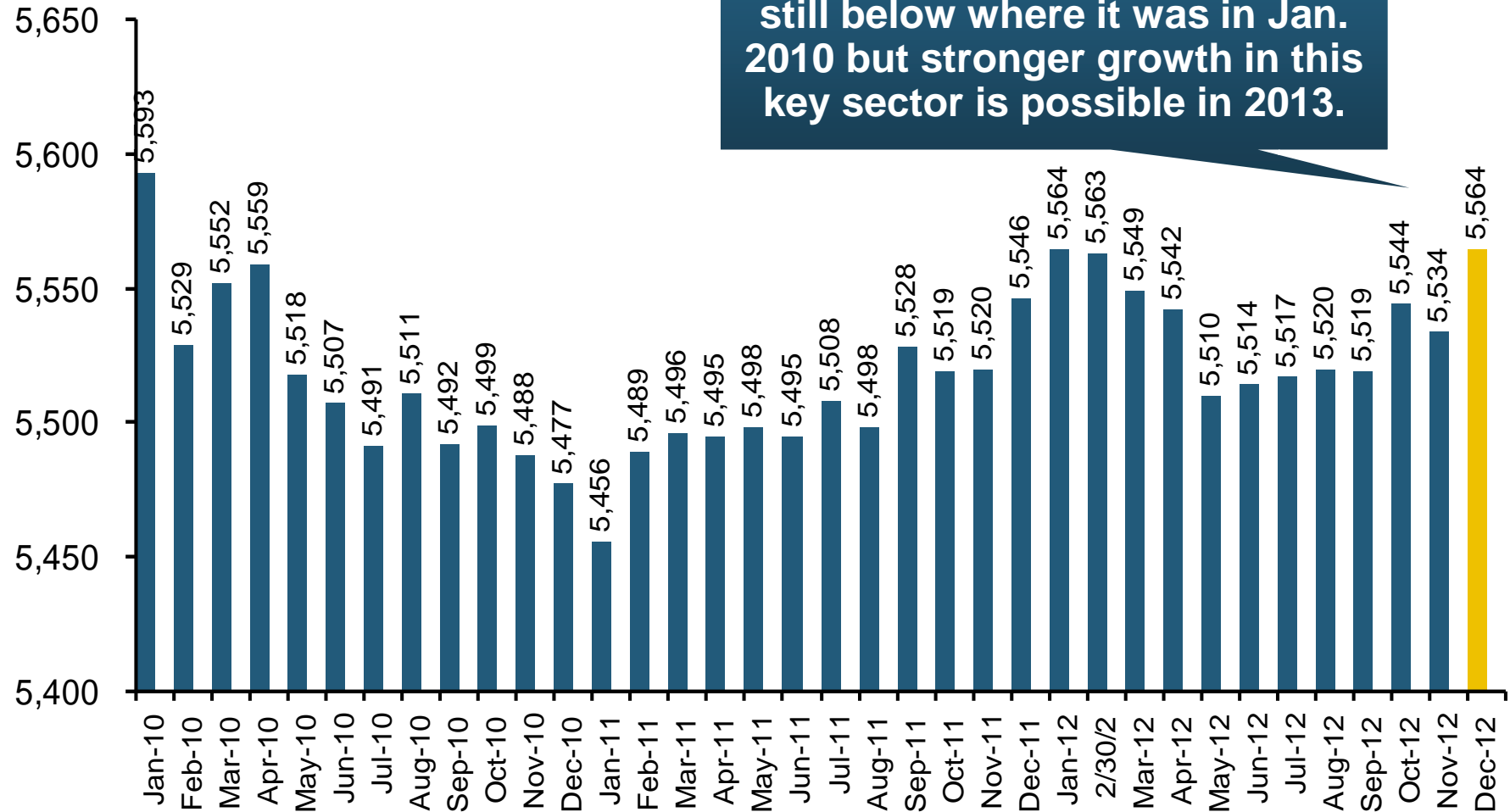
# New Private Housing Starts, 1990-2014F



**Homeowners Insurers Are Starting to See Meaningful Exposure Growth for the First Time Since 2005. Commercial Insurers with Construction Risk Exposure, Surety Also Benefit**

# Construction Employment, Jan. 2010—December 2012\*

(Thousands)



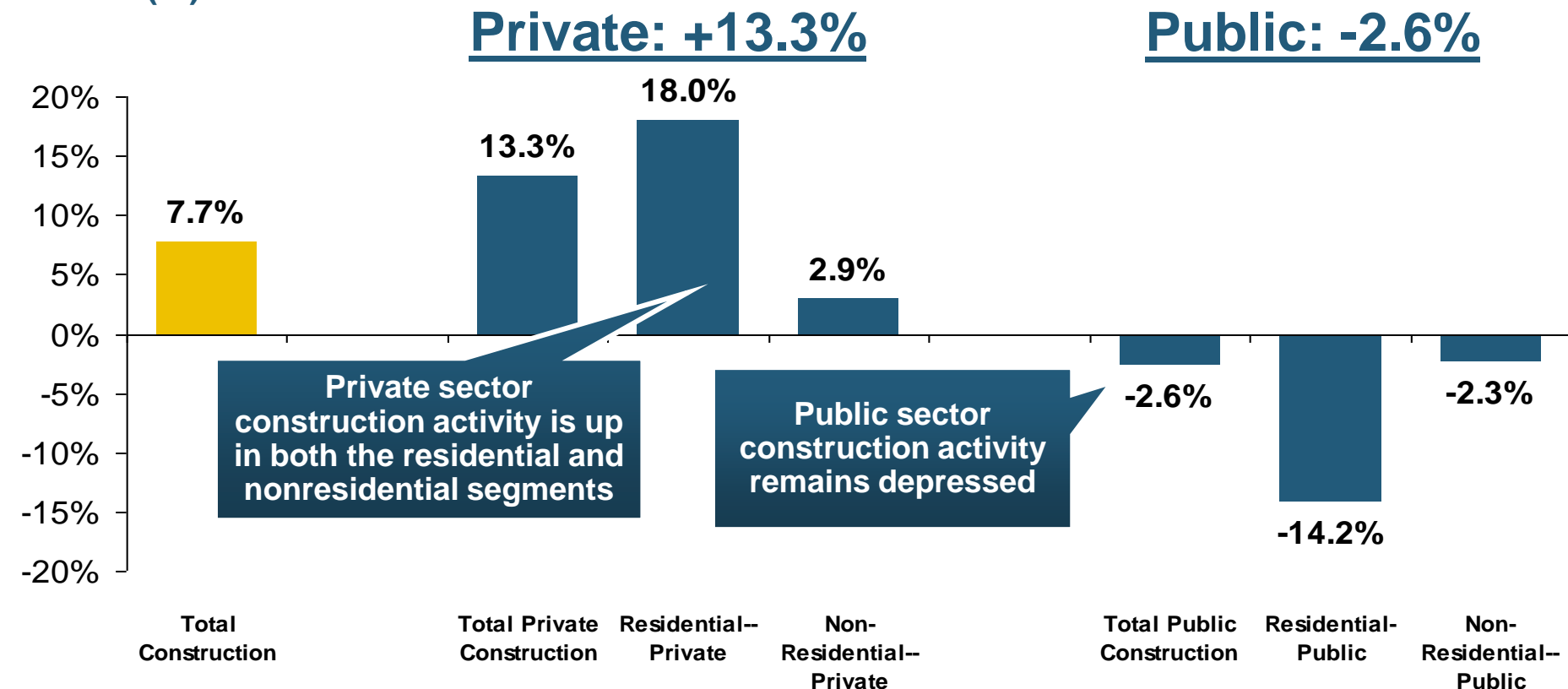
\*Seasonally adjusted

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



# Value of Construction Put in Place, November 2012 vs. November 2011\*

Growth (%)



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

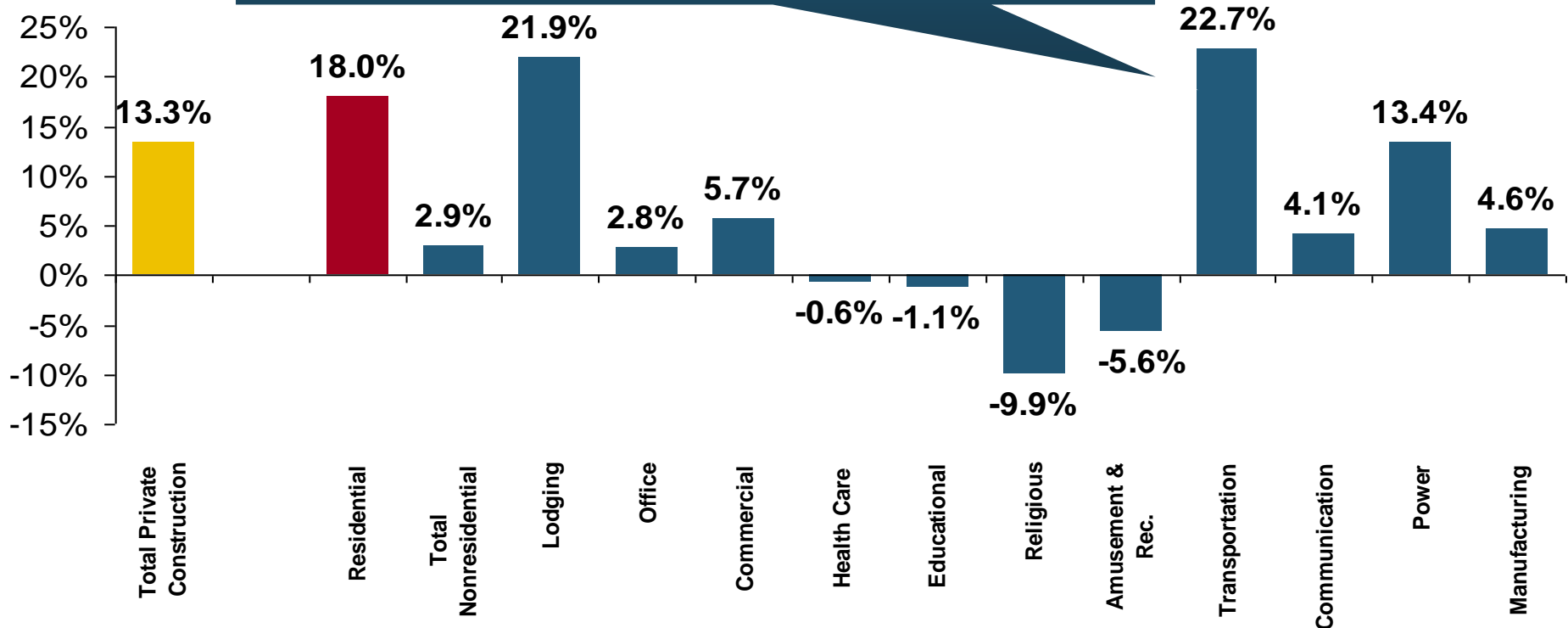
\*seasonally adjusted

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. 2012 vs. Nov. 2011\*

Growth (%)

Led by the Residential Construction, Lodging, Transportation and Power industries, Private sector construction activity is up across many segments after plunging during the "Great Recession"



**Private Construction Activity is Up in Most Segments, Including the Key Residential Construction Sector**

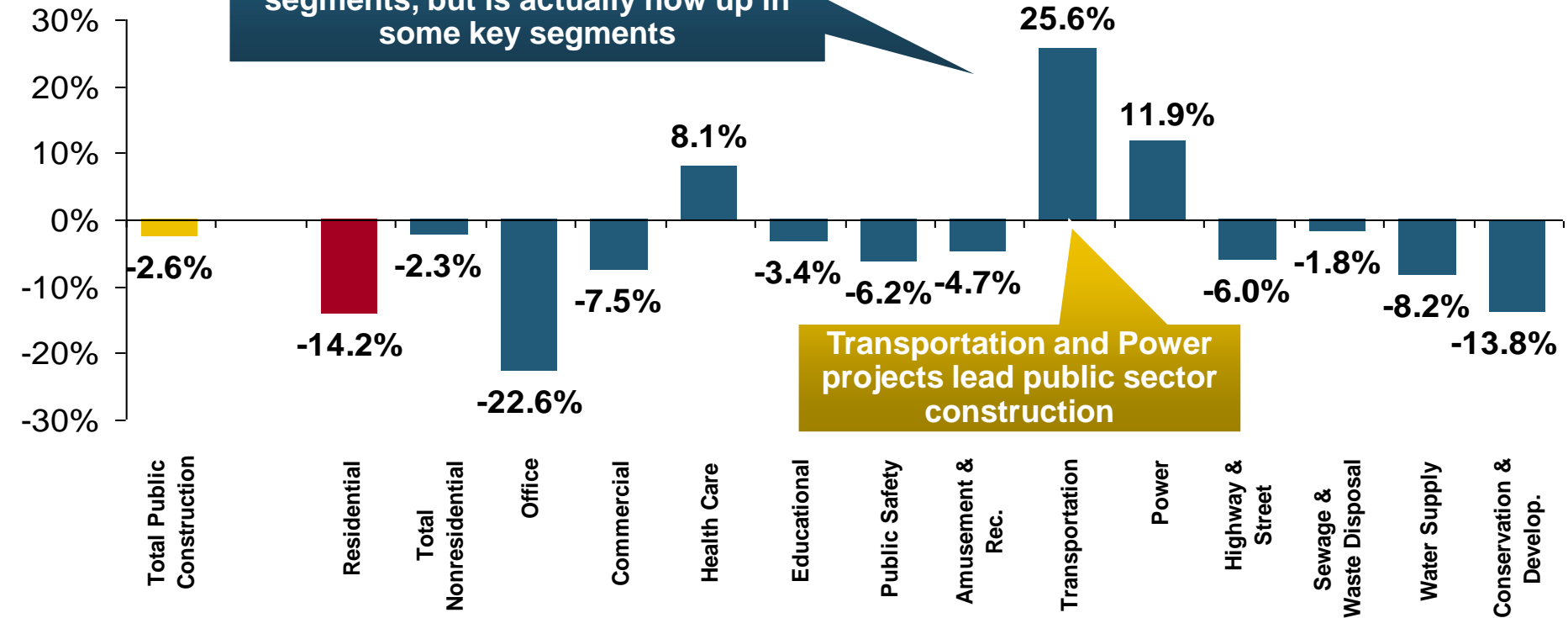
\*seasonally adjusted

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. 2012 vs. Nov. 2011\*

Growth (%)

Public sector construction activity is down substantially in many segments, but is actually now up in some key segments



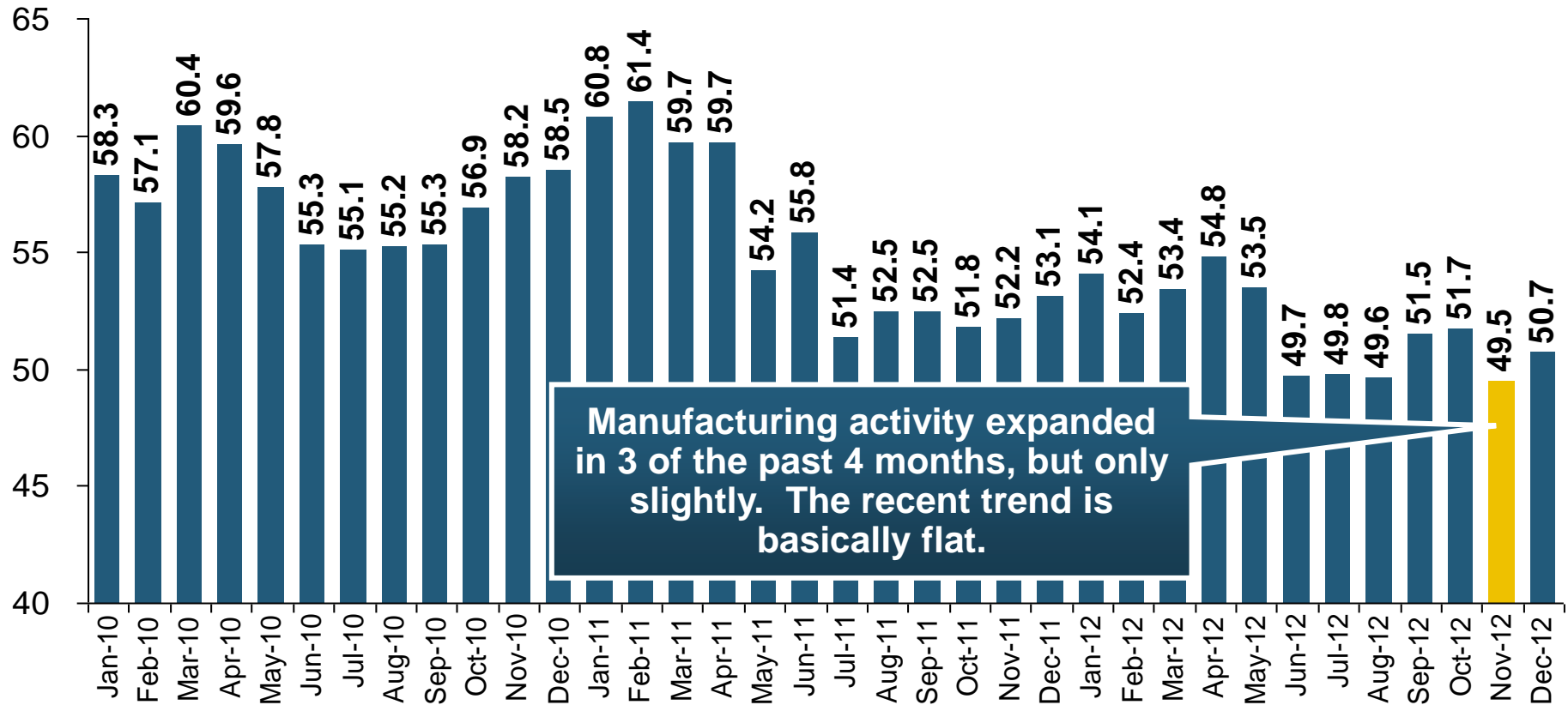
**Public Construction Activity is Down in Many Segments as State and Local Budgets Remain Under Stress; Improvement Possible in 2013.**

\*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 December 2012



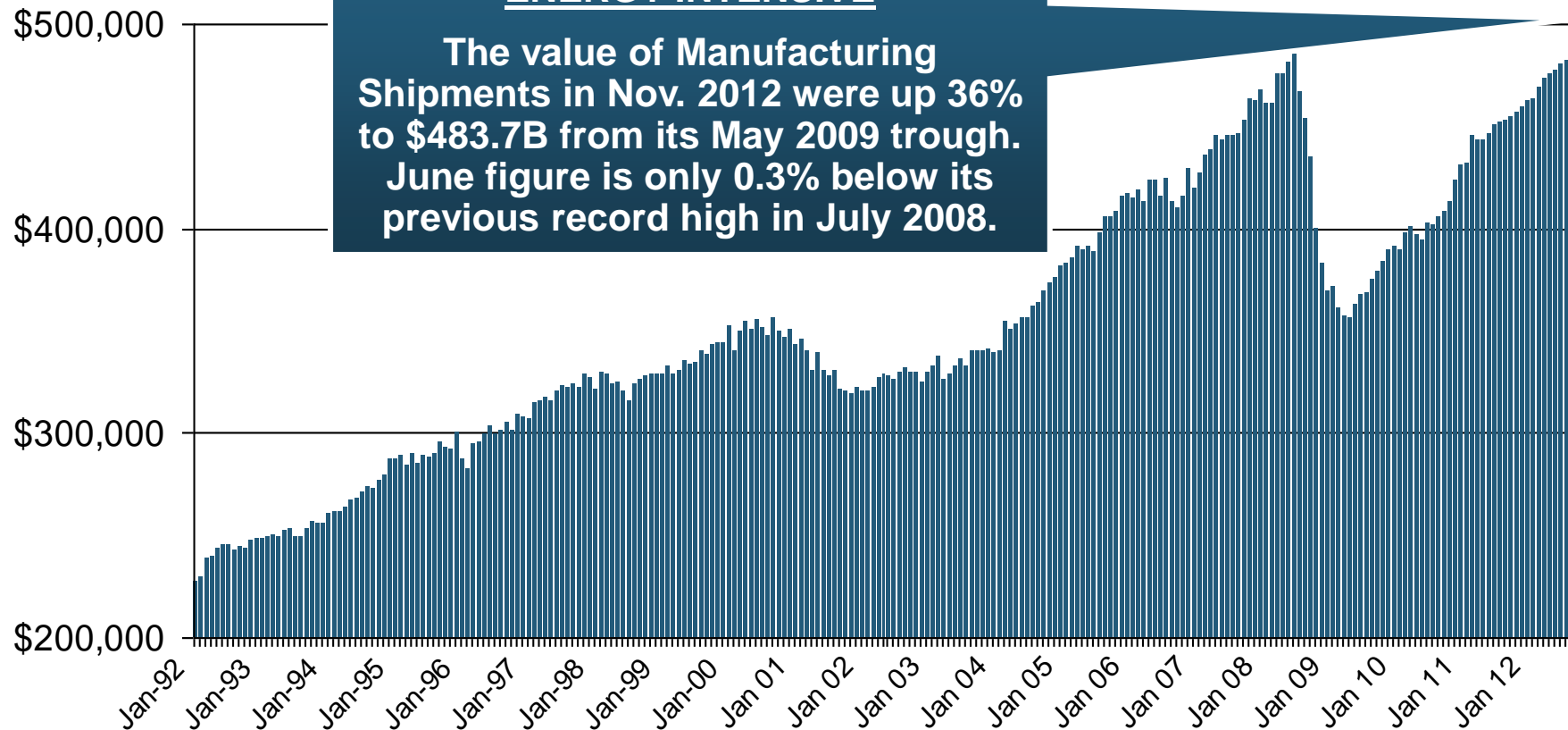
**The manufacturing sector expanded for 32 of the 36 months from Jan. 2010 through Dec. 2012. The question is whether this will continue.**

# Dollar Value\* of Manufacturers' Shipments Monthly, Jan. 1992—Nov. 2012

\$ Millions

## ENERGY INTENSIVE

The value of Manufacturing Shipments in Nov. 2012 were up 36% to \$483.7B from its May 2009 trough. June figure is only 0.3% below its previous record high in July 2008.



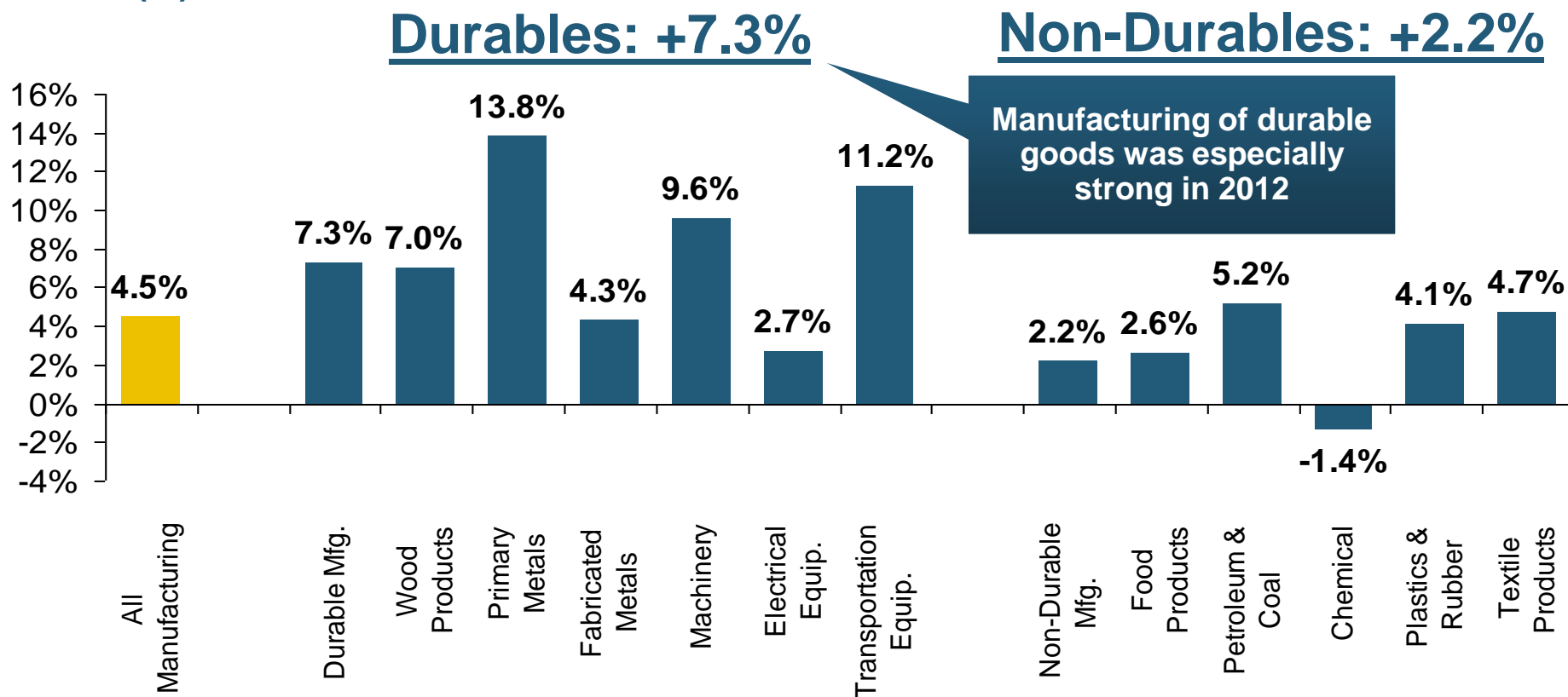
**Monthly shipments are nearly back to peak (in July 2008, 8 months into the recession). Trough in May 2009. Growth from trough to Nov. 2012 was 36%. Manufacturing is an energy intensive activity and growth leads to gains in many commercial exposures: WC, Commercial Auto, Marine, Property and Various Liability Coverages**

\*seasonally adjusted

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

# Manufacturing Growth for Selected Sectors, 2012 vs. 2011\*

Growth (%)



**Manufacturing Is Expanding Across a Wide Range of Sectors that Will Contribute to Growth in Energy Demand and Insurable Exposures Including: WC, Commercial Property, Commercial Auto and Many Liability Coverages**

\*Seasonally adjusted; Date are YTD comparing data through November 2012 to the same period in 2011.

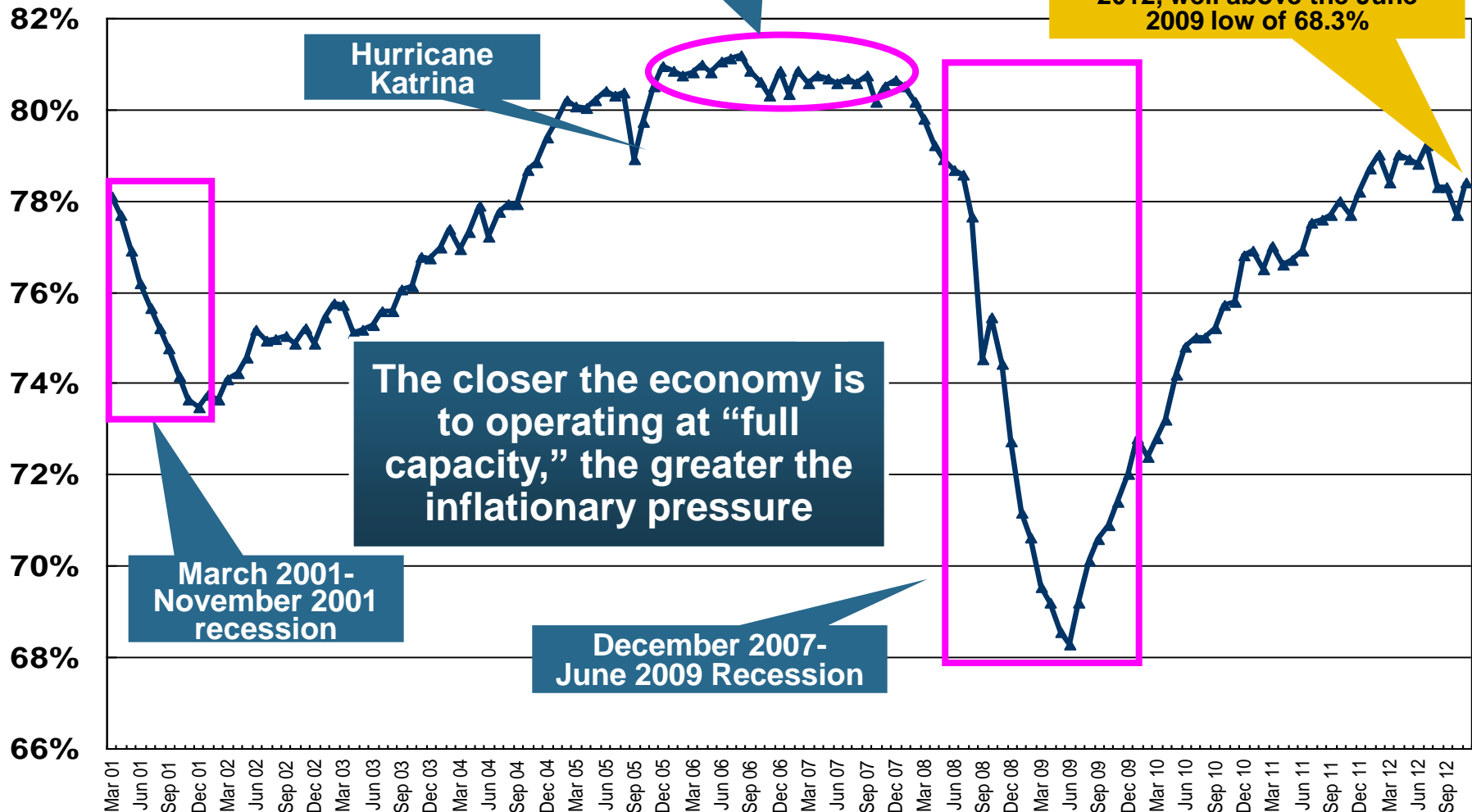
Source: U.S. Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders*, <http://www.census.gov/manufacturing/m3/>



# Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures

March 2001 through November 2012

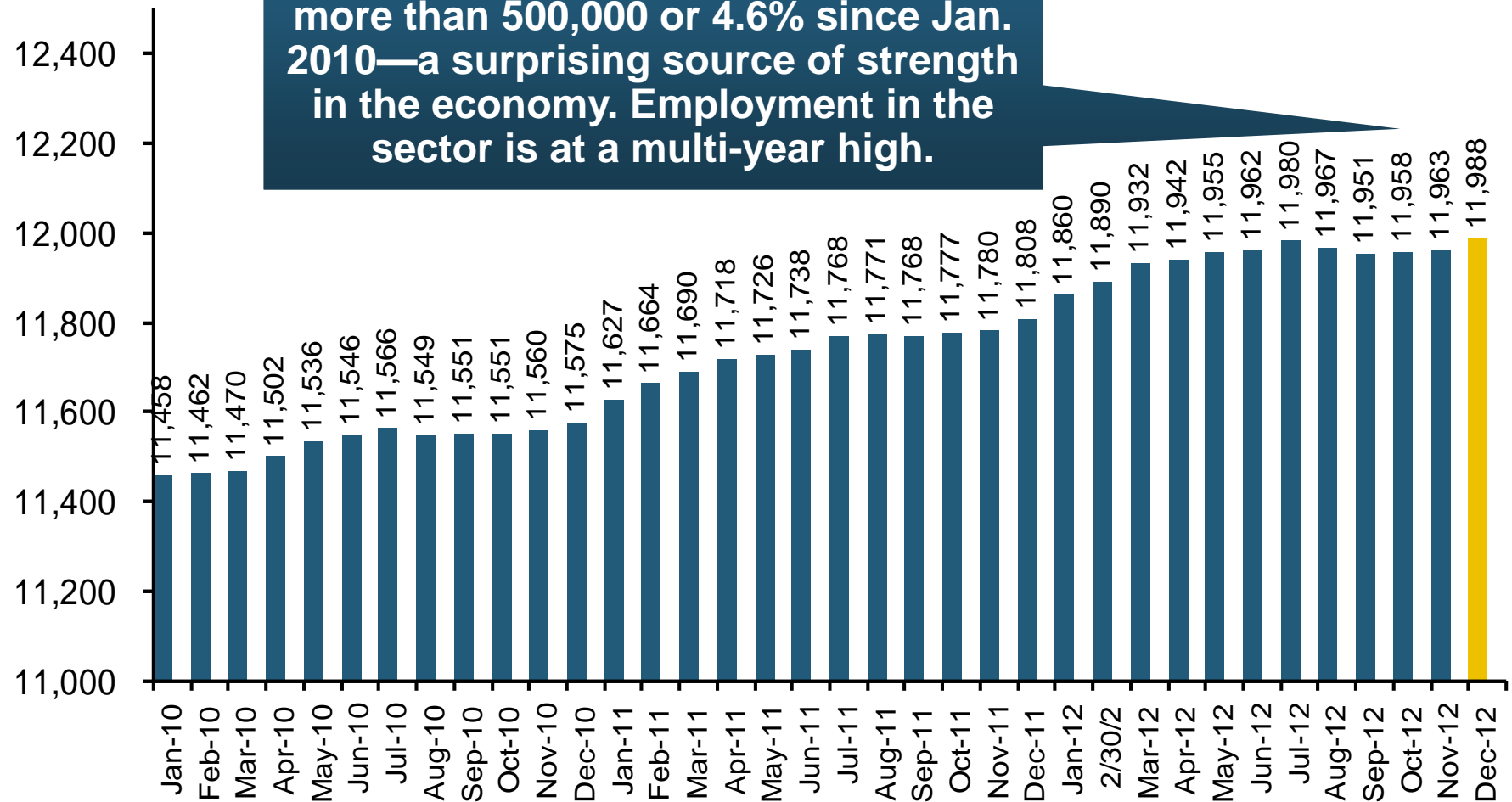
Percent of Industrial Capacity



Source: Federal Reserve Board statistical releases at <http://www.federalreserve.gov/releases/g17/Current/default.htm>.

# Manufacturing Employment, Jan. 2010—December 2012\*

(Thousands)

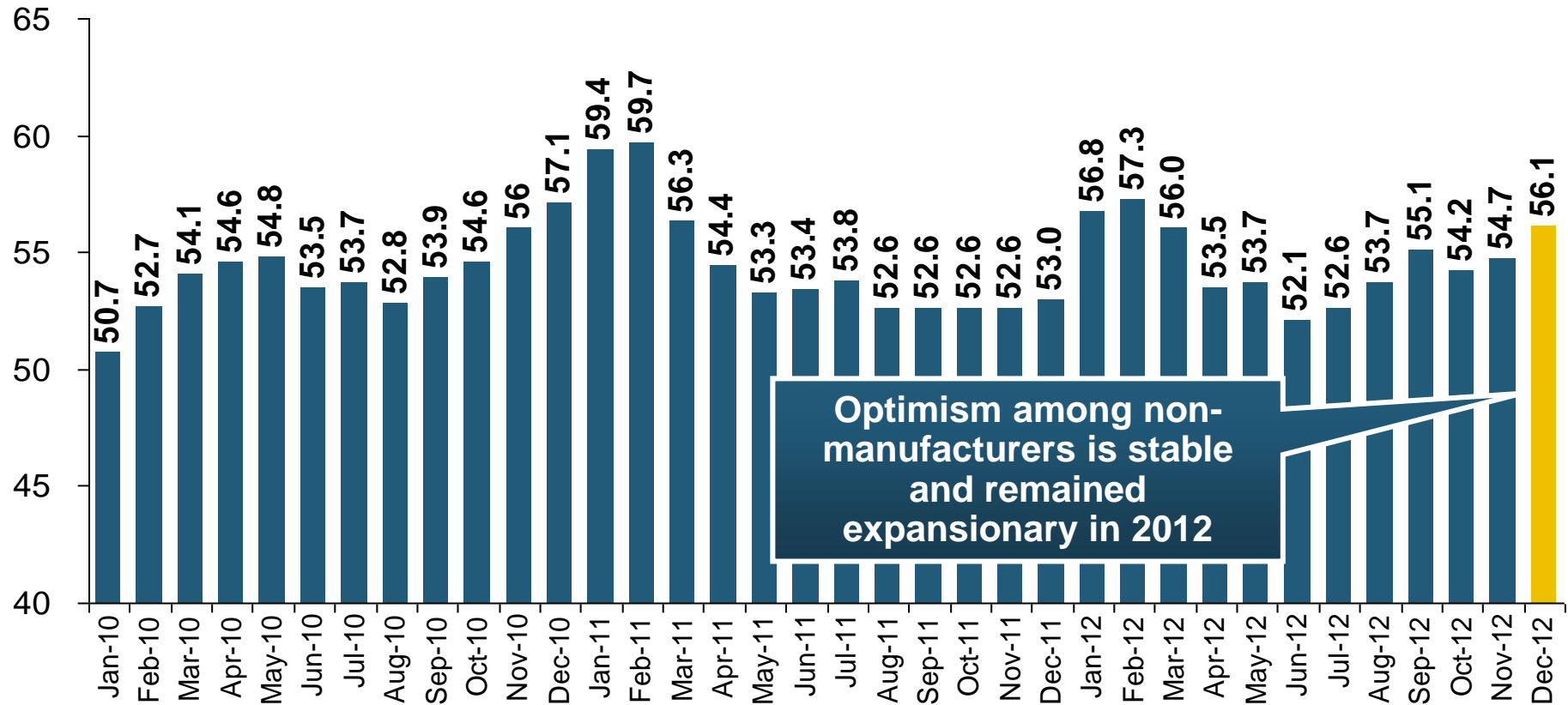


\*Seasonally adjusted

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

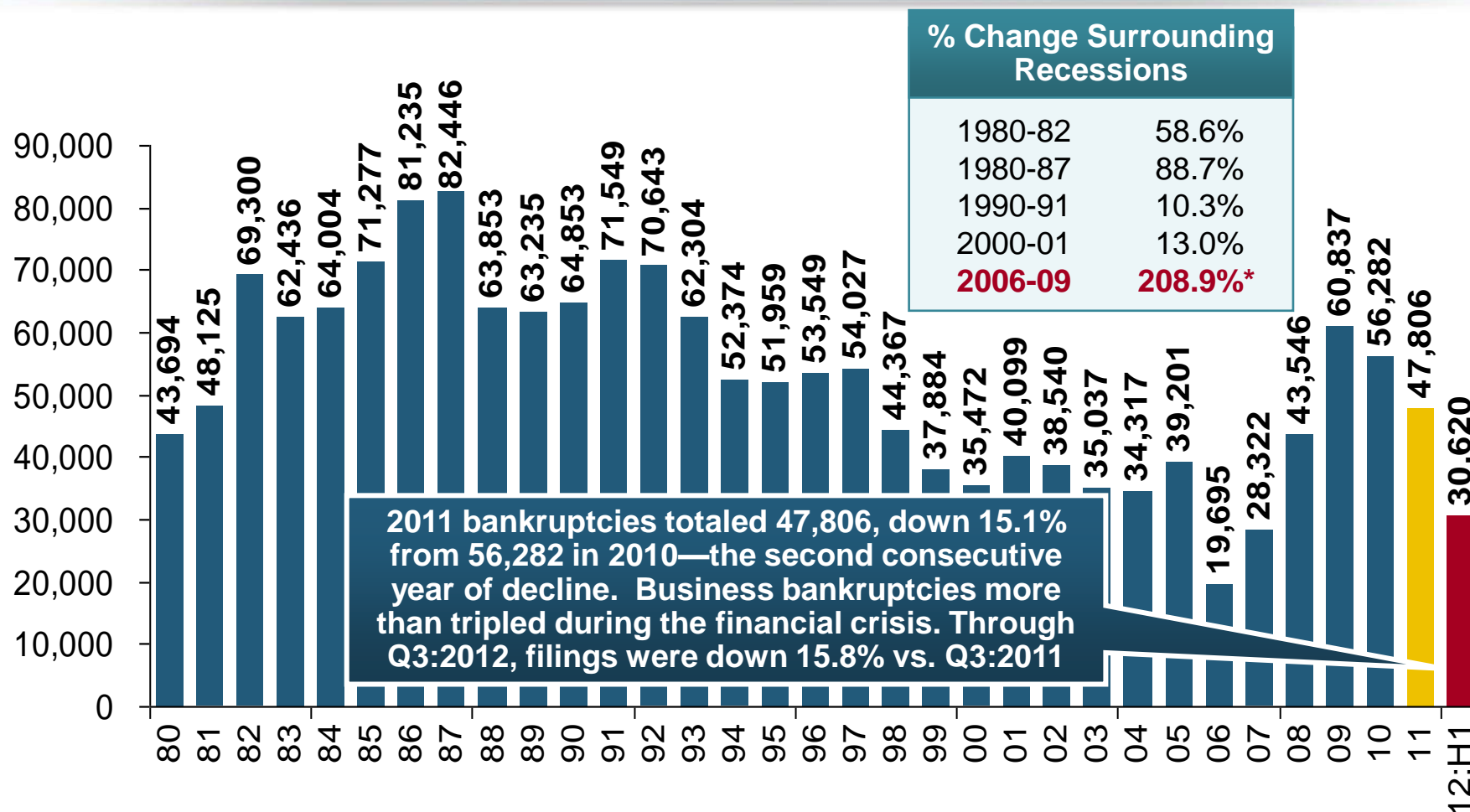
# ISM Non-Manufacturing Index (Values > 50 Indicate Expansion)

January 2010 through December 2012



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

# Business Bankruptcy Filings, 1980-2012:Q3



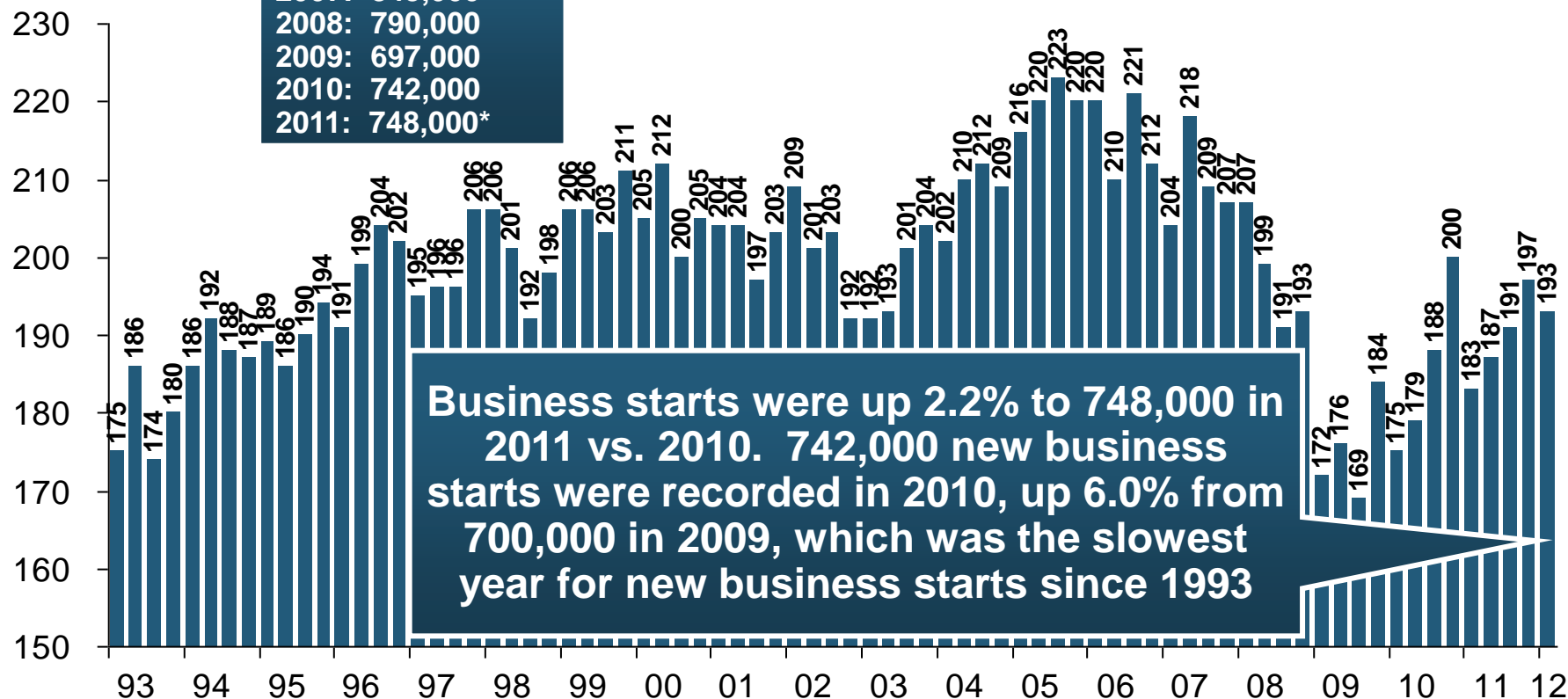
**Significant Exposure Implications for All Commercial Lines as Business Bankruptcies Begin to Decline**

# Private Sector Business Starts, 1993:Q2 – 2012:Q1\*

(Thousands)

## Business Starts

2006: 872,000  
2007: 843,000  
2008: 790,000  
2009: 697,000  
2010: 742,000  
2011: 748,000\*



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

\* Data through Mar. 31, 2012 are the latest available as of Jan. 18, 2013; Seasonally adjusted.

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

# NFIB Small Business Optimism Index

January 1985 through December 2012

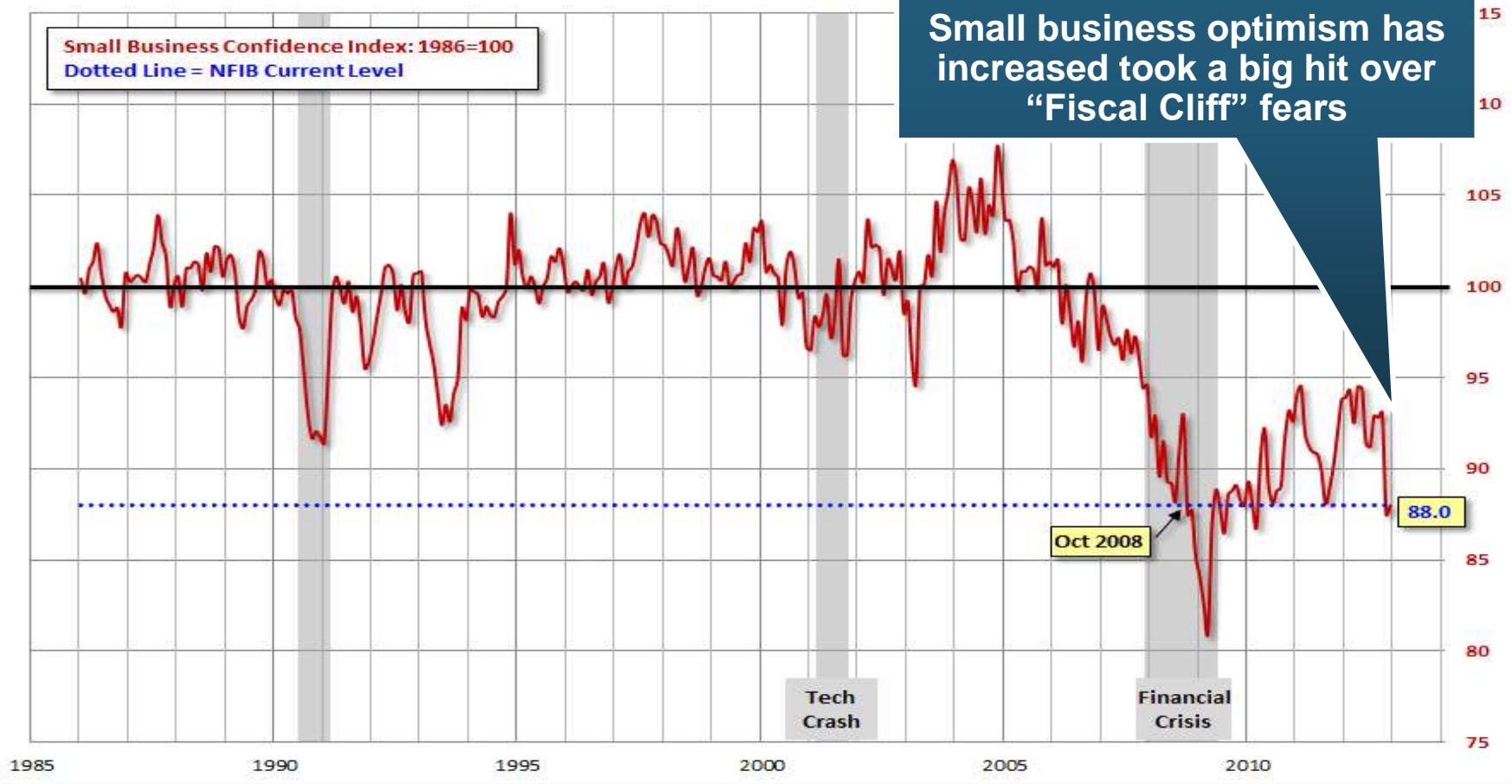
Data through  
December 2012

## NFIB Small Business Optimism Index with Recessions Highlighted

dshort.com  
January 2013

Small Business Confidence Index: 1986=100  
Dotted Line = NFIB Current Level

Small business optimism has  
increased took a big hit over  
“Fiscal Cliff” fears





# 12 Industries for the Next 10 Years: Insurance Solutions Needed

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

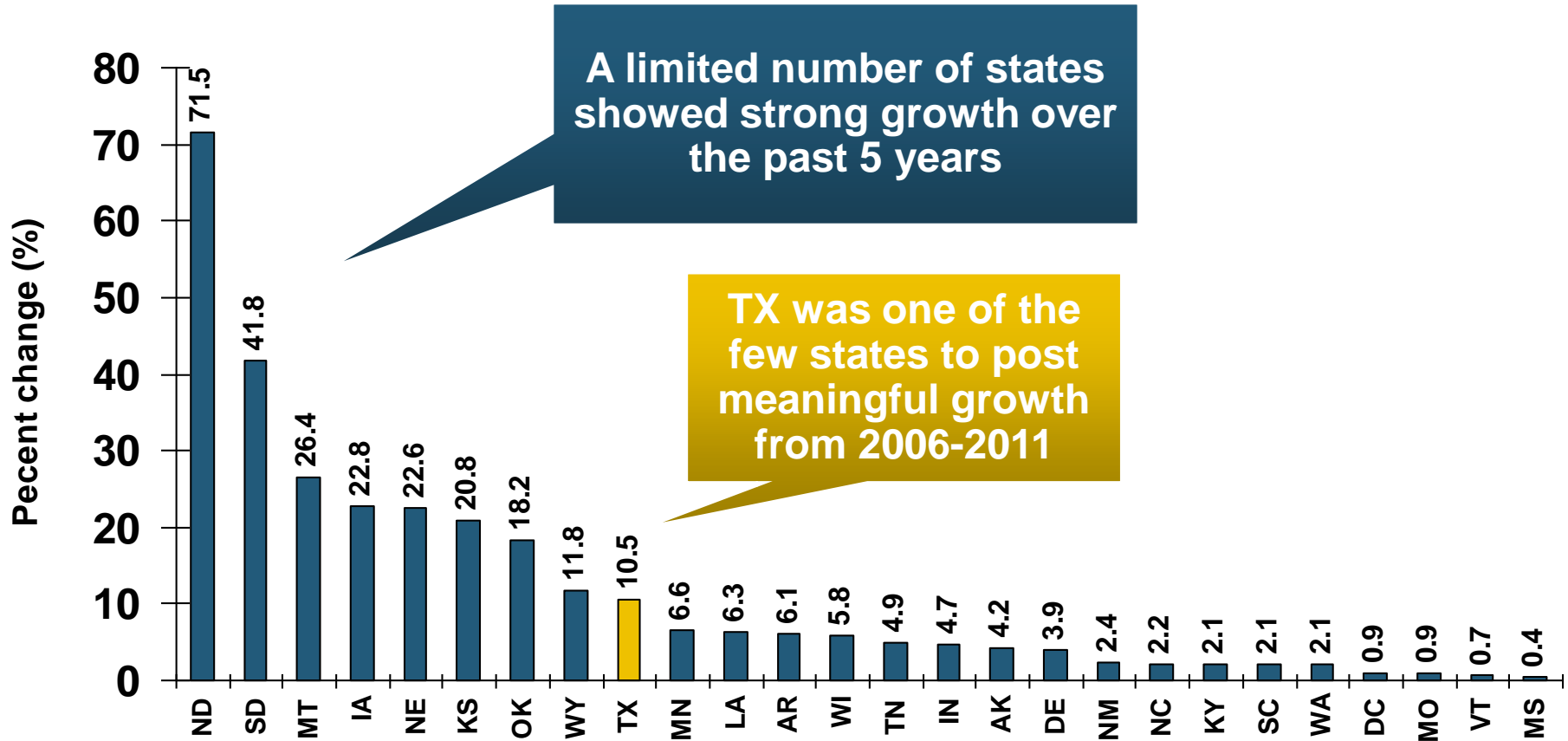
**Many industries are poised for growth, though insurers' ability to capitalize on these industries varies widely**

# **Growth Analysis by State and Business Segment**

**Premium Growth Rates Vary  
Tremendously by State**

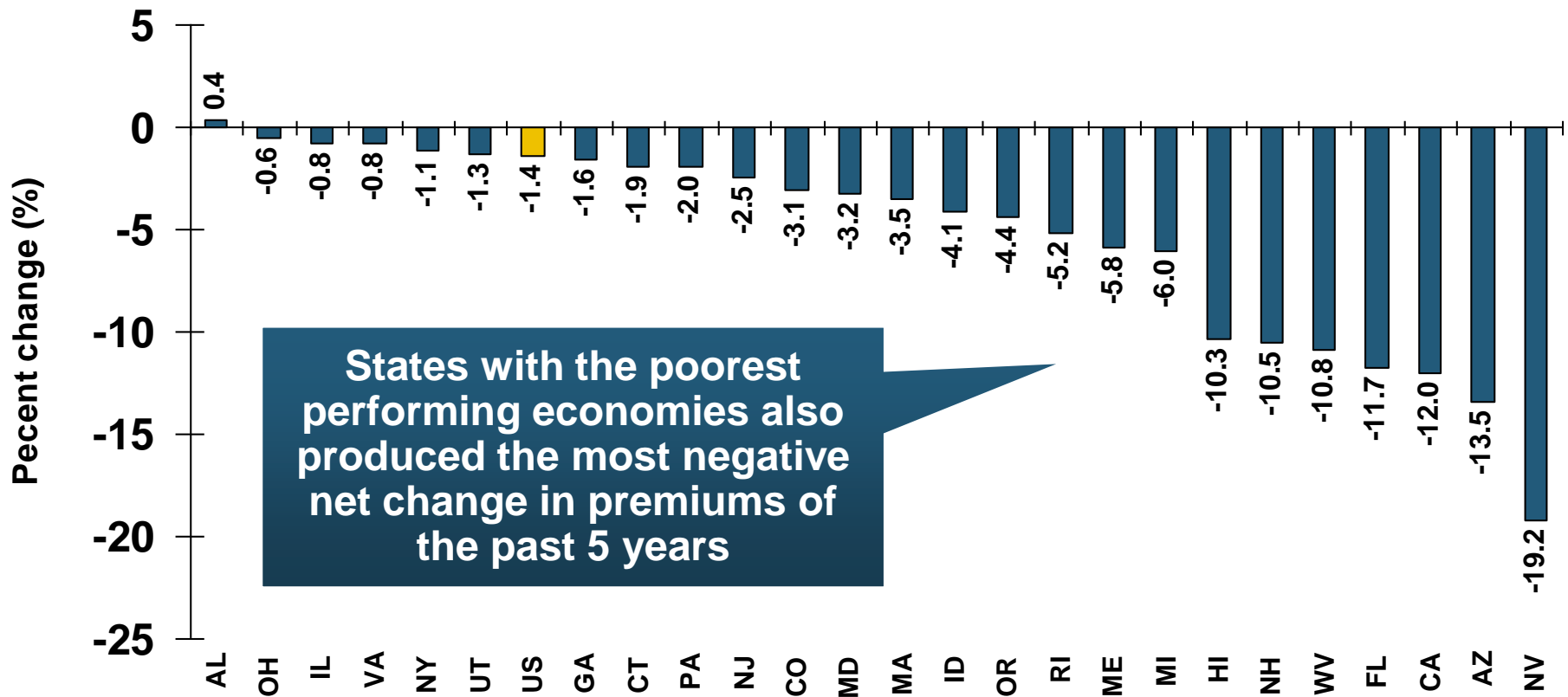
# Direct Premiums Written: Total P/C Percent Change by State, 2006-2011\*

## Top 25 States



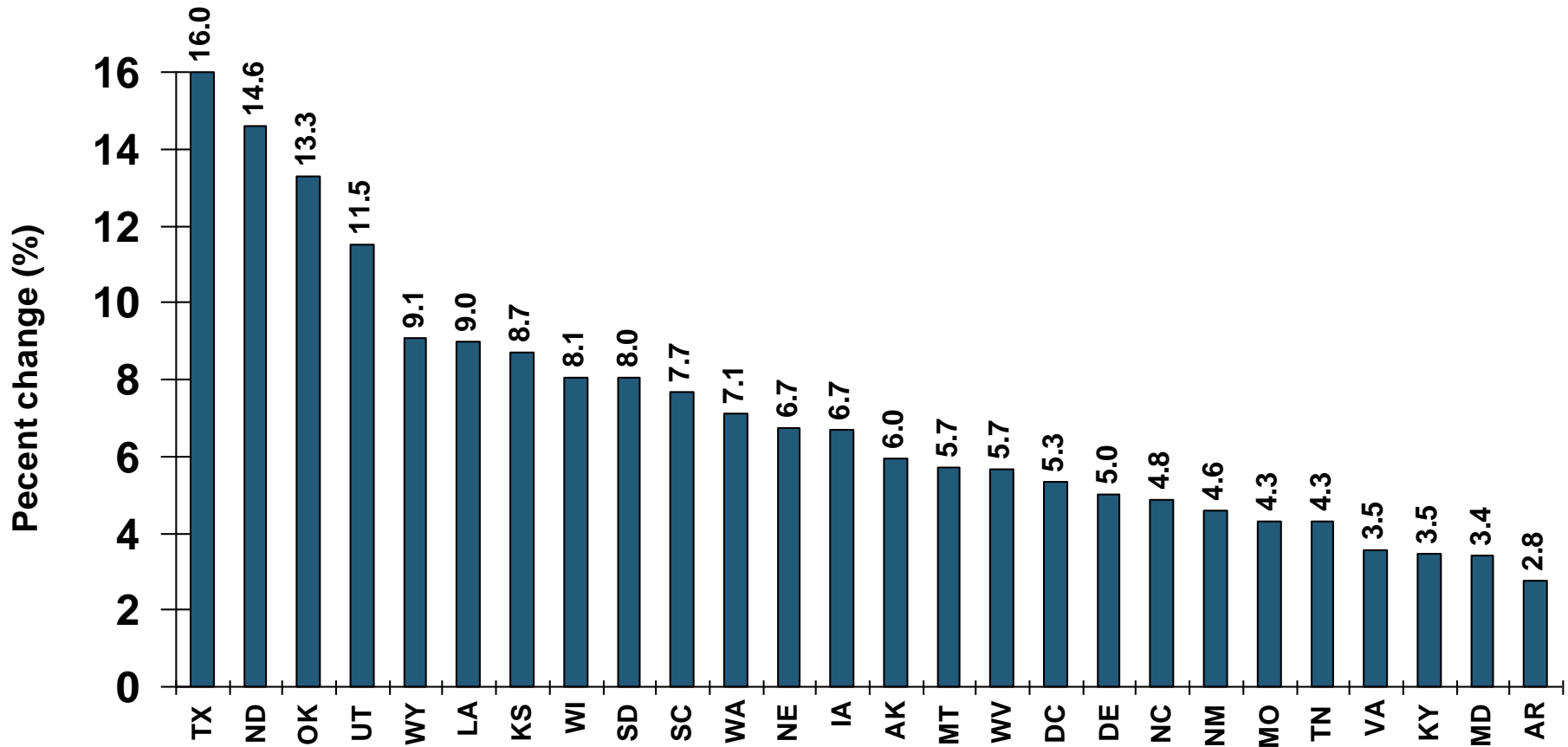
# Direct Premiums Written: Total P/C Percent Change by State, 2006-2011\*

## Bottom 25 States



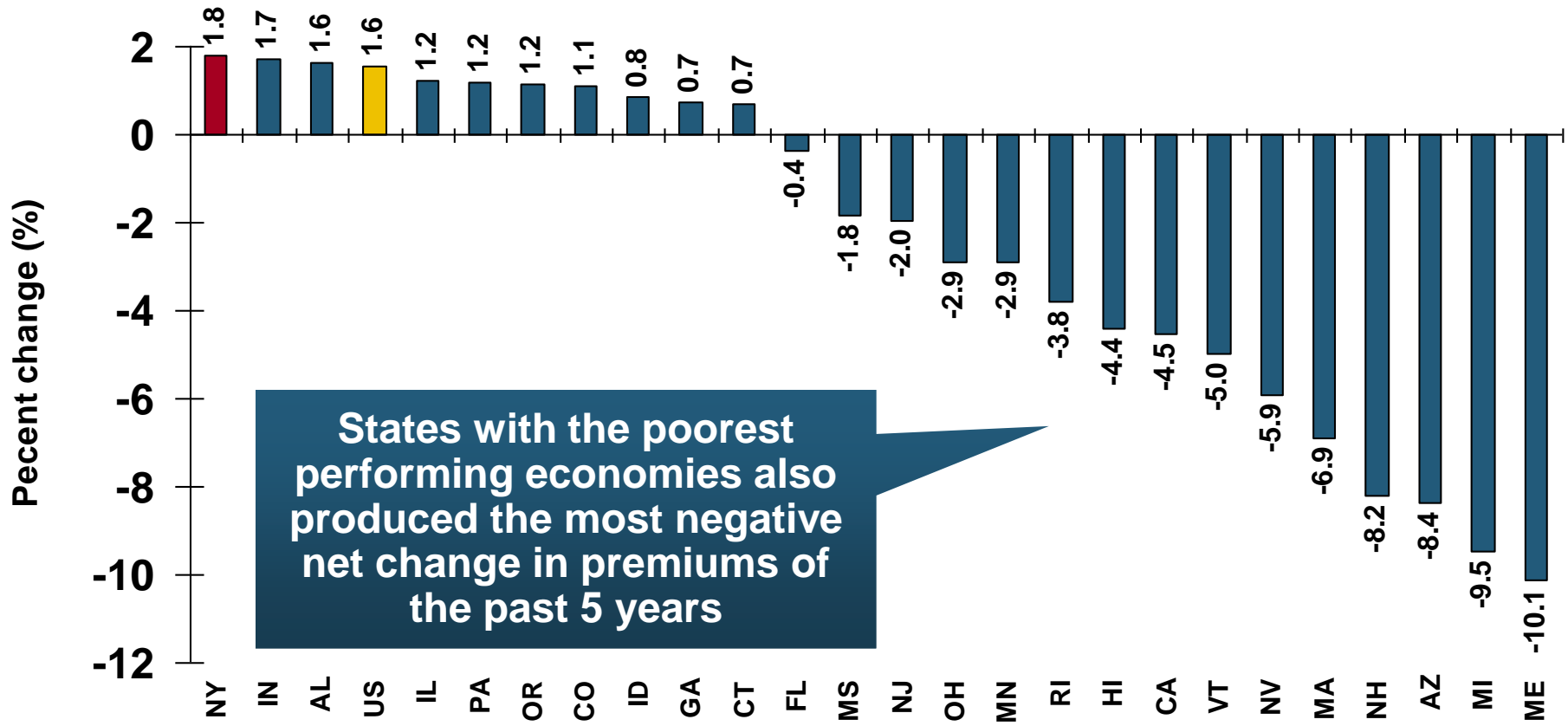
# Direct Premiums Written: PP Auto Percent Change by State, 2006-2011\*

## Top 25 States



# Direct Premiums Written: PP Auto Percent Change by State, 2006-2011\*

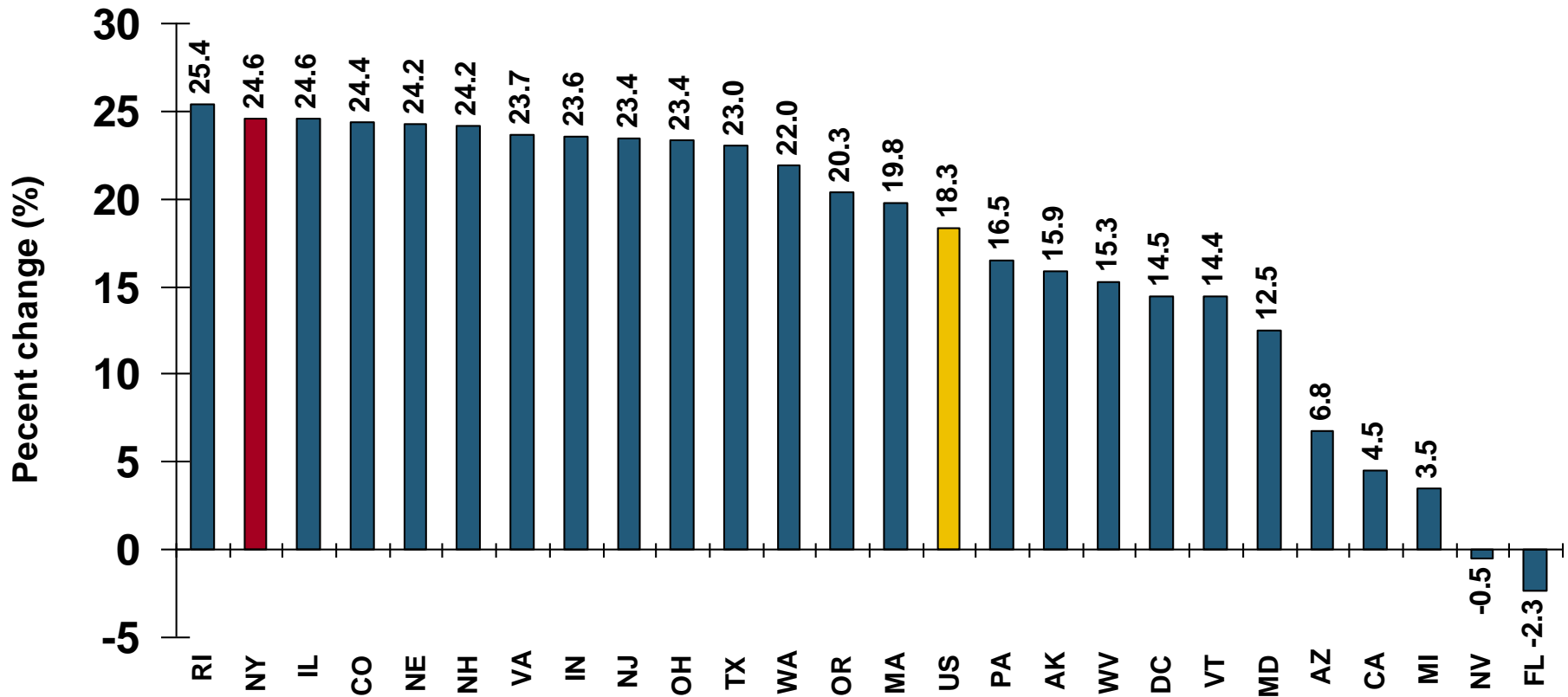
## Bottom 25 States





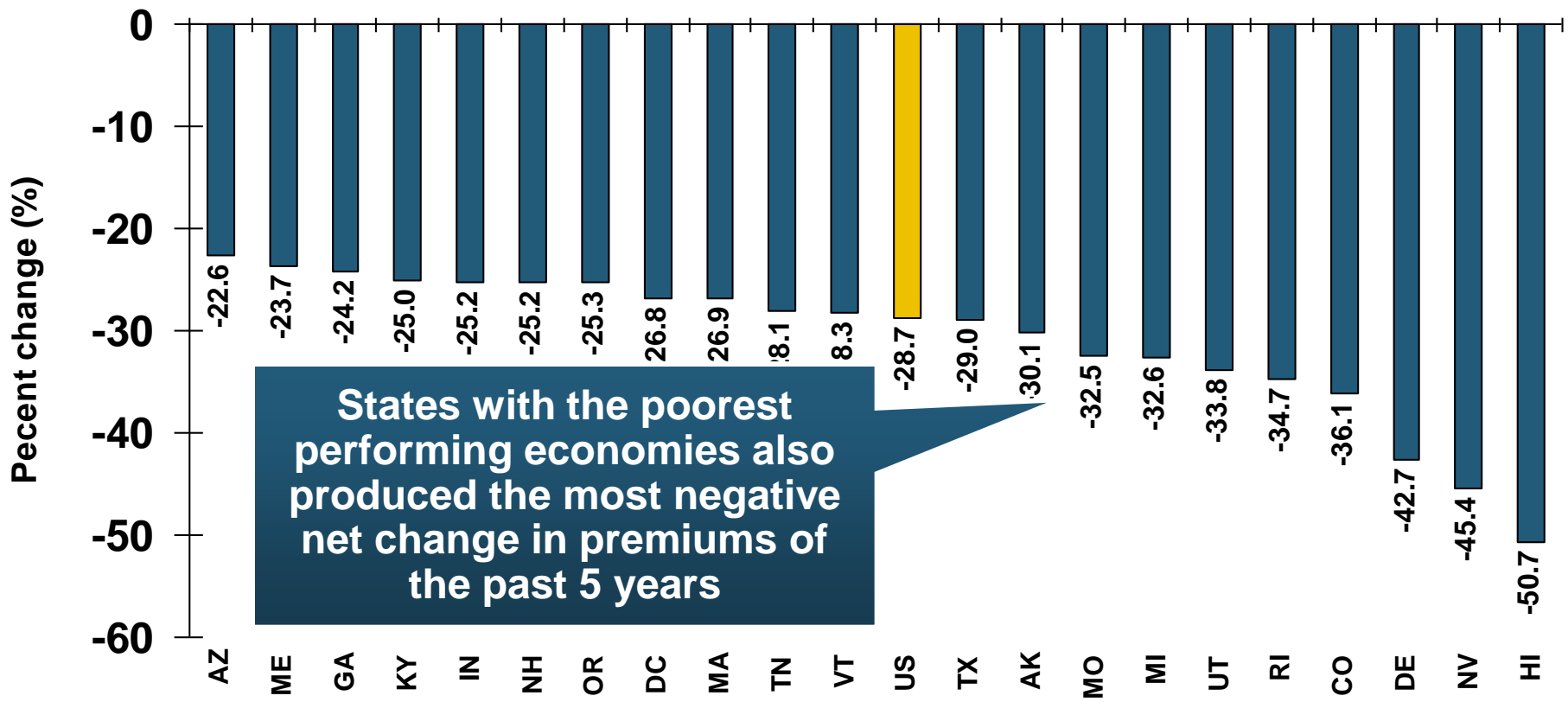
# Direct Premiums Written: Homeowners Percent Change by State, 2006-2011\*

## Top 25 States



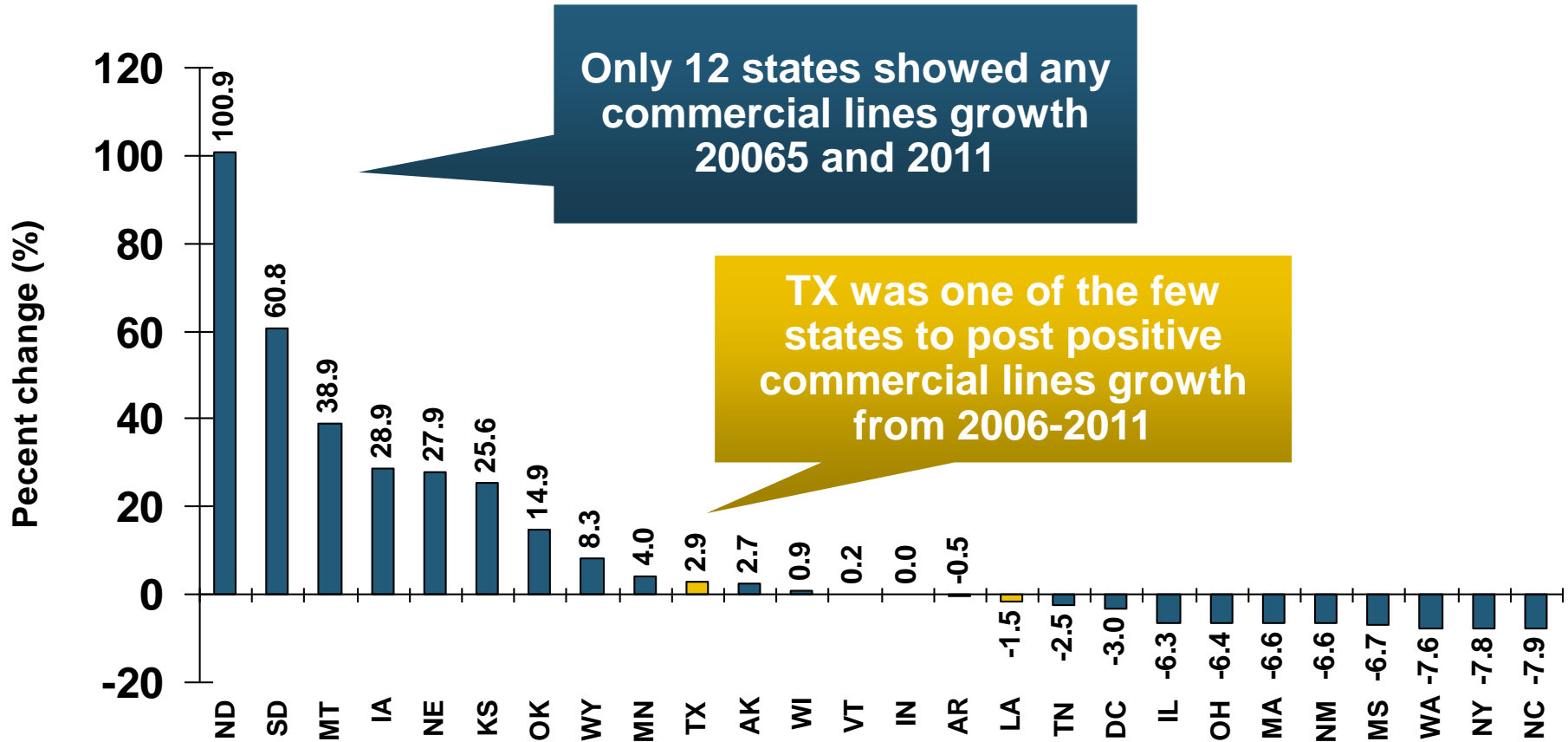
# Direct Premiums Written: Homeowners Percent Change by State, 2006-2011\*

## Bottom 25 States



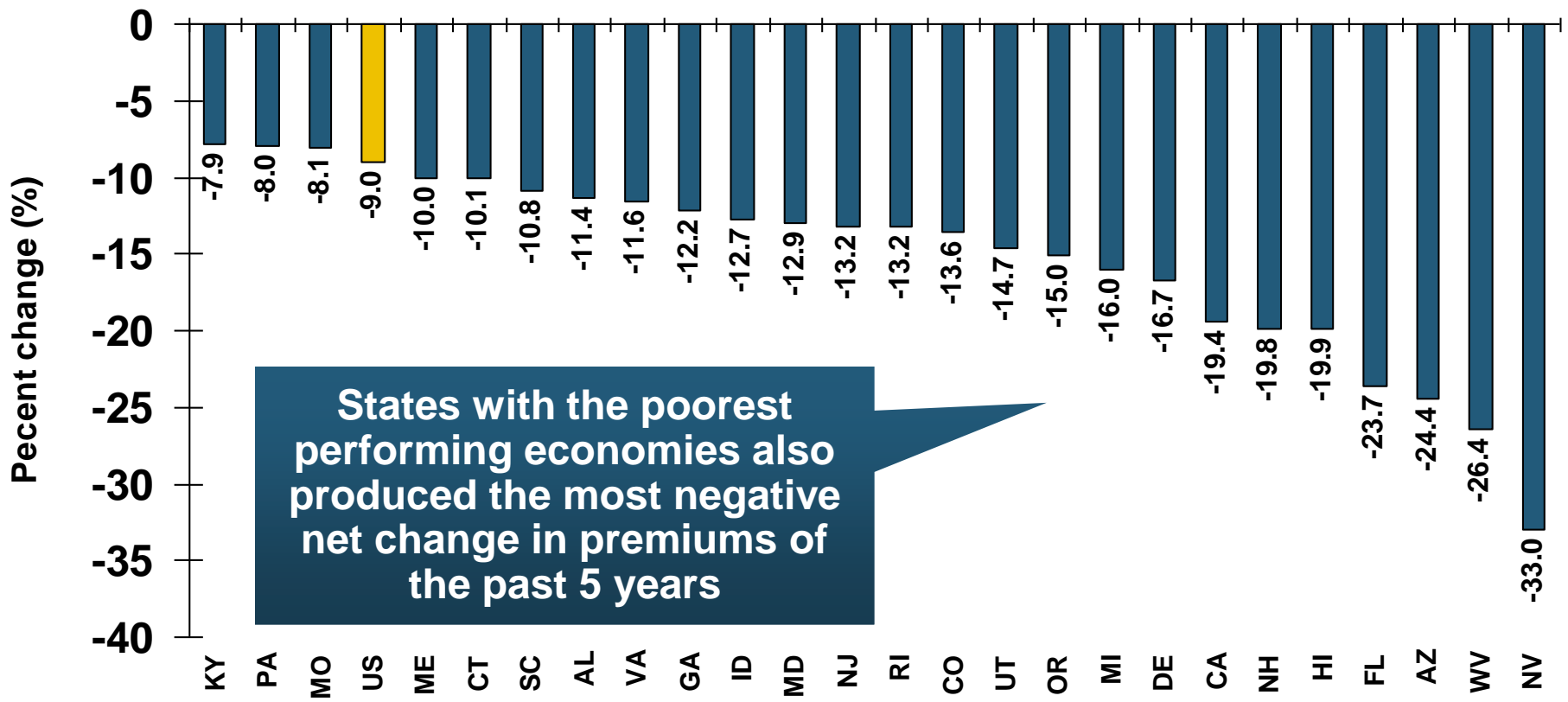
# Direct Premiums Written: Comm. Lines Percent Change by State, 2006-2011\*

## Top 25 States



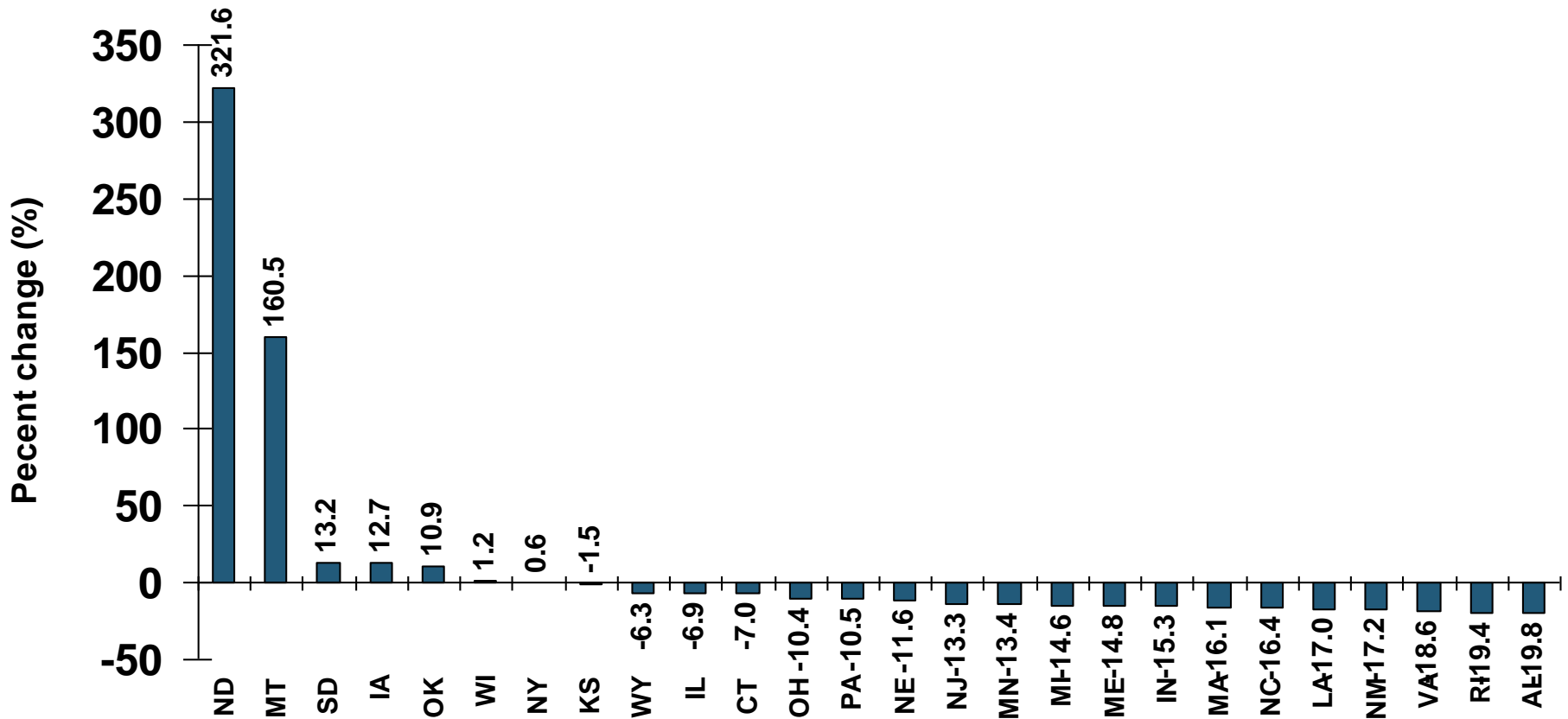
# Direct Premiums Written: Comm. Lines Percent Change by State, 2006-2011\*

## Bottom 25 States



# Direct Premiums Written: Workers' Comp Percent Change by State, 2006-2011\*

## Top 25 States

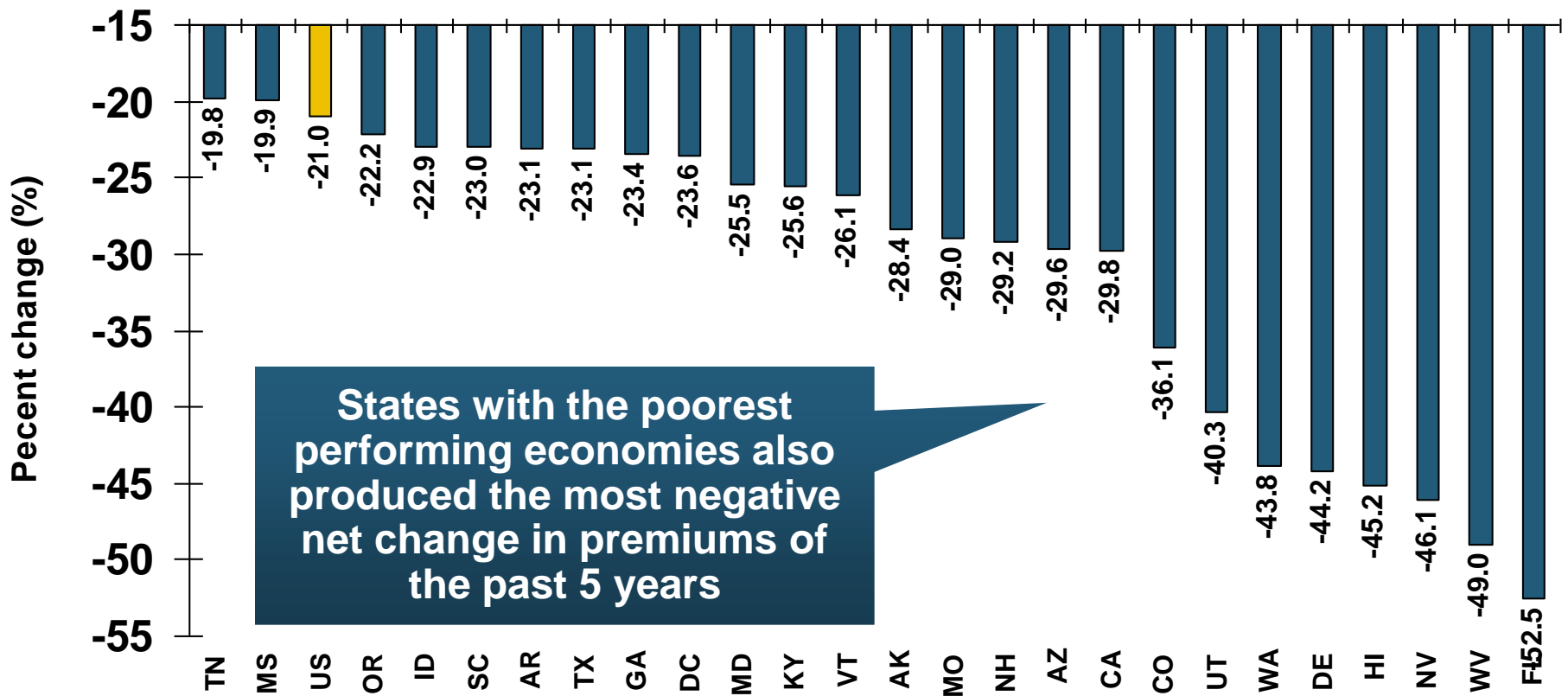


\*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

Sources: SNL Financial LC.; Insurance Information Institute.

# Direct Premiums Written: Worker's Comp Percent Change by State, 2006-2011\*

## Bottom 25 States



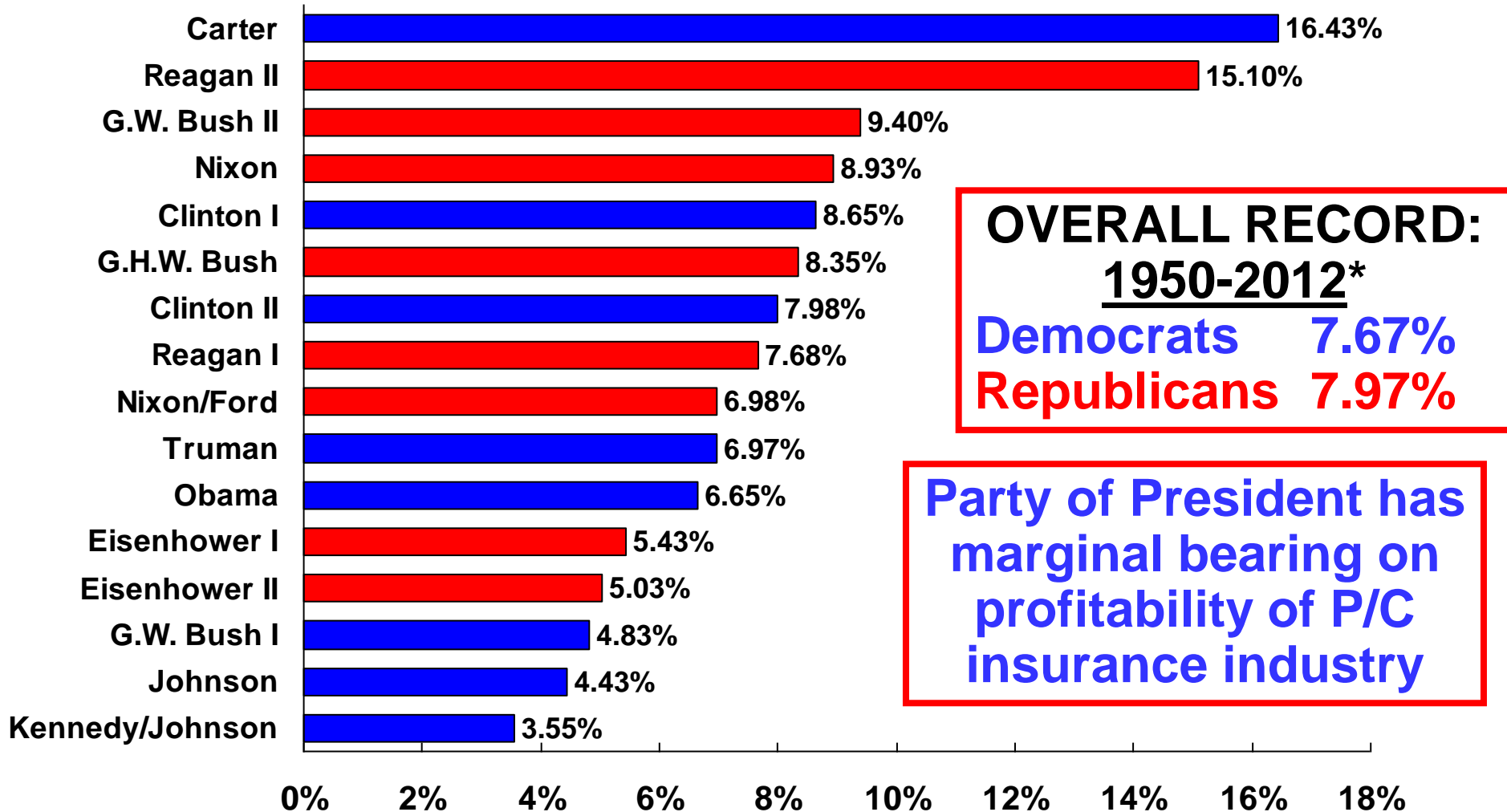
\*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

Sources: SNL Financial LC.; Insurance Information Institute.

# **Presidential Politics & the P/C Insurance Industry**

## **How Is Profitability Affected by the President's Political Party?**

# P/C Insurance Industry ROE by Presidential Administration, 1950- 2012\*



\*Truman administration ROE of 6.97% based on 3 years only, 1950-52; ROEs for the years 2008 forward exclude mortgage and financial guaranty segments. Estimated ROE for 2012 = 7.0%.

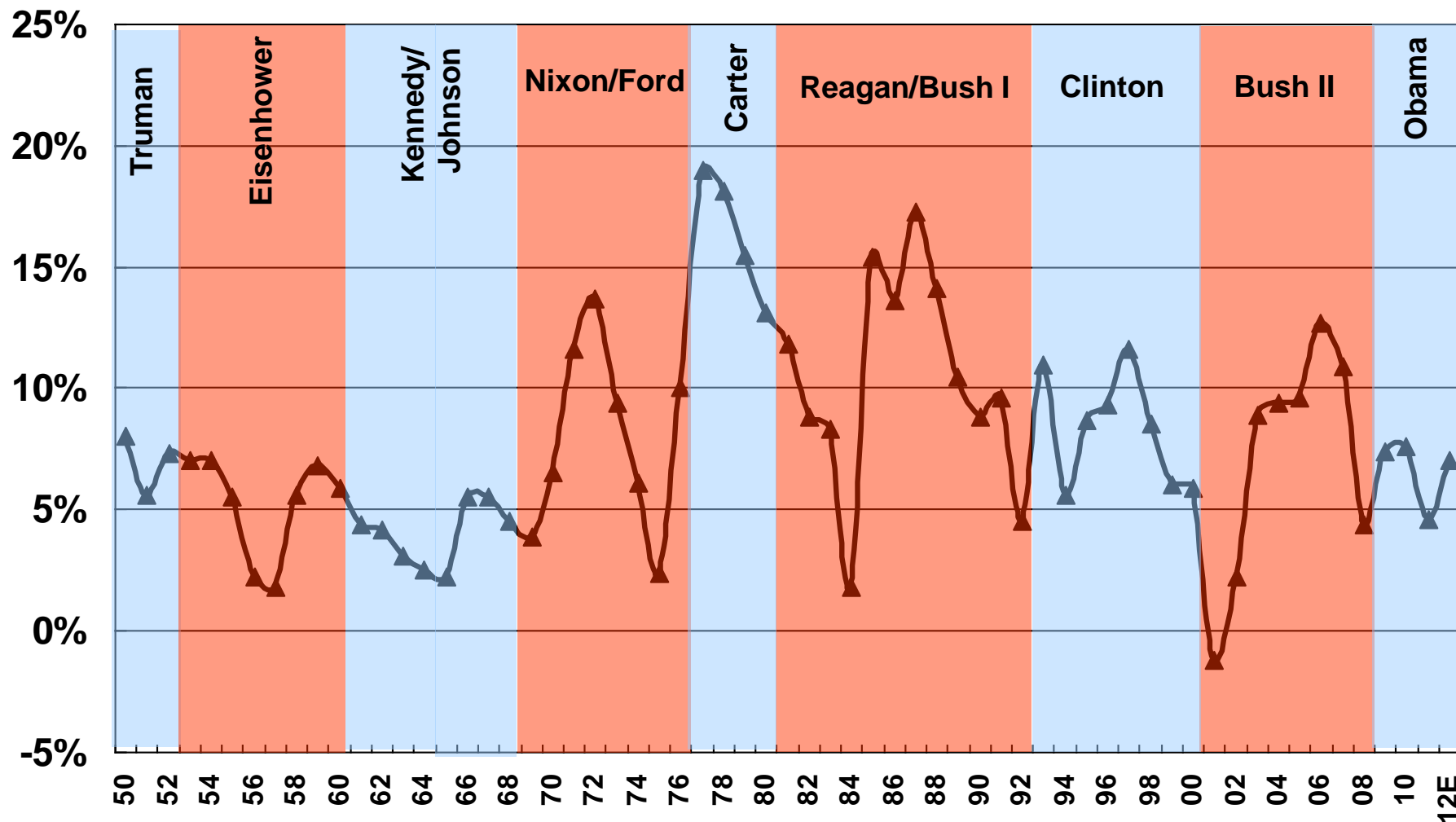
Source: Insurance Information Institute



# P/C Insurance Industry ROE by Presidential Party Affiliation, 1950- 2012\*

**BLUE** = Democratic President

**RED** = Republican President



\*ROEs for the years 2008 forward exclude mortgage and financial guaranty segments; Estimated 2012 ROE = 7.0%

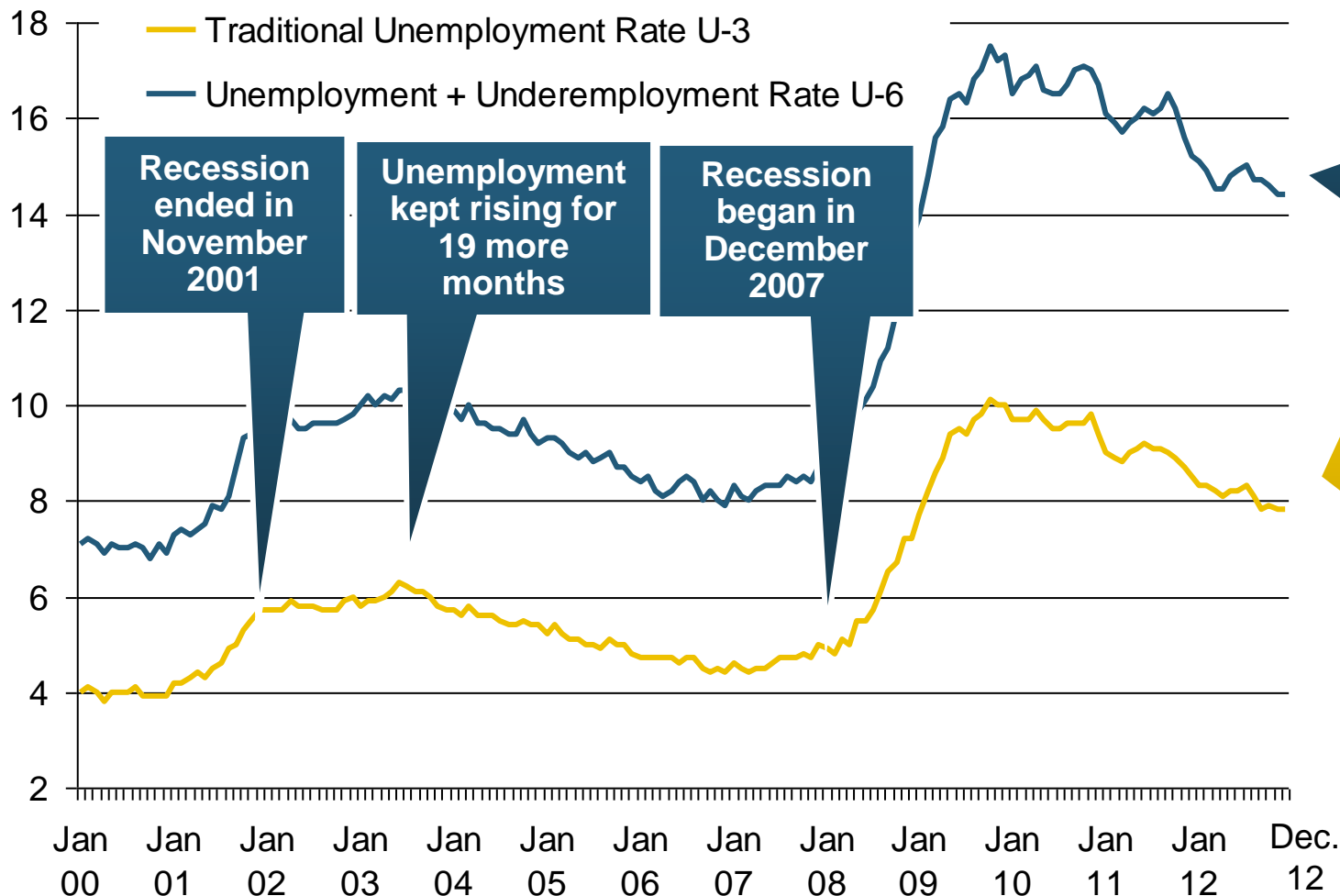
Source: Insurance Information Institute

# **Labor Market Trends**

**Massive Job Losses Sapped the  
Economy and Commercial/Personal  
Lines Exposure, But Trend is  
Improving**

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

January 2000 through Dec. 2012, Seasonally Adjusted (%)



**U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 14.4% in Dec. 2012**

**Unemployment stood at 7.8% in Nov./Dec. 2012—lowest in 4 years.**

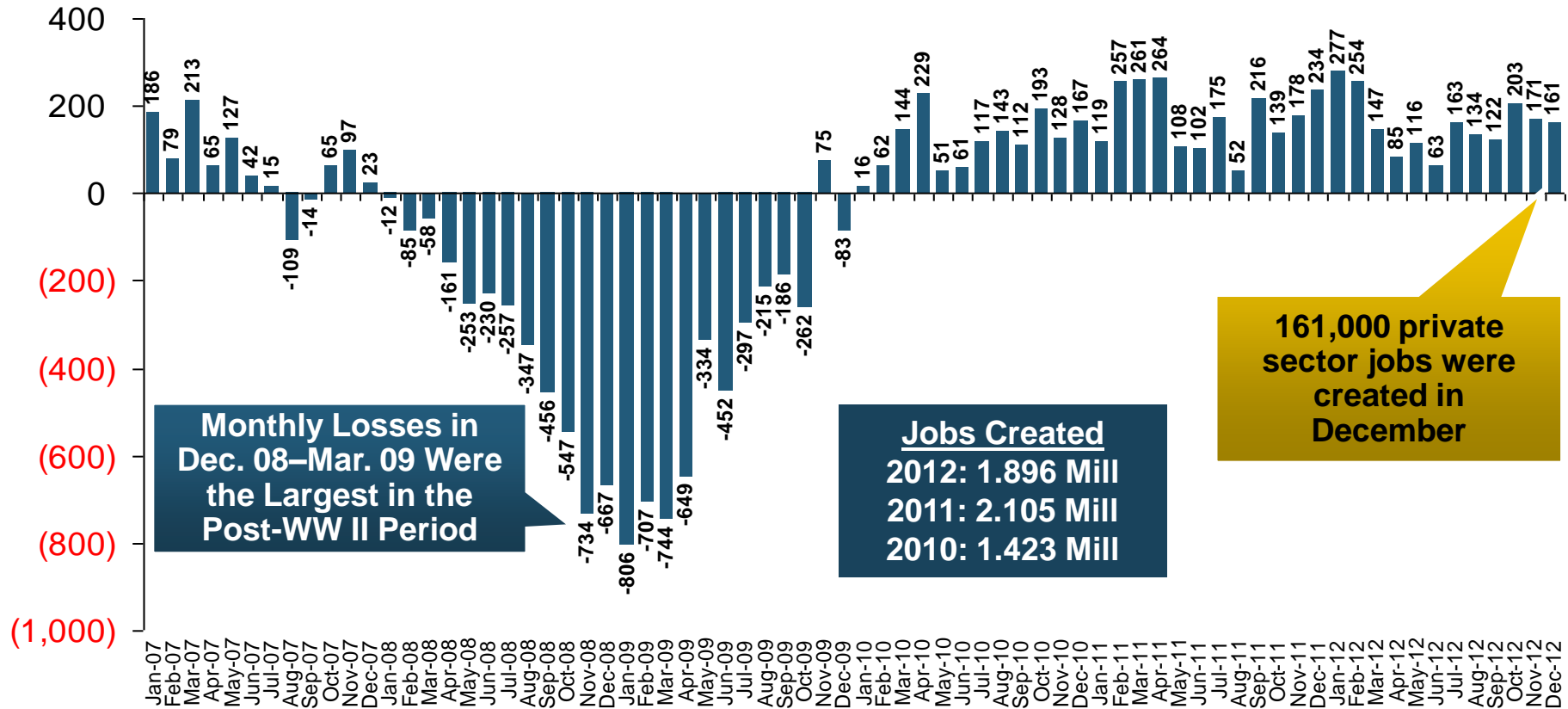
**Unemployment peaked at 10.1% in October 2009, highest monthly rate since 1983.**

**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

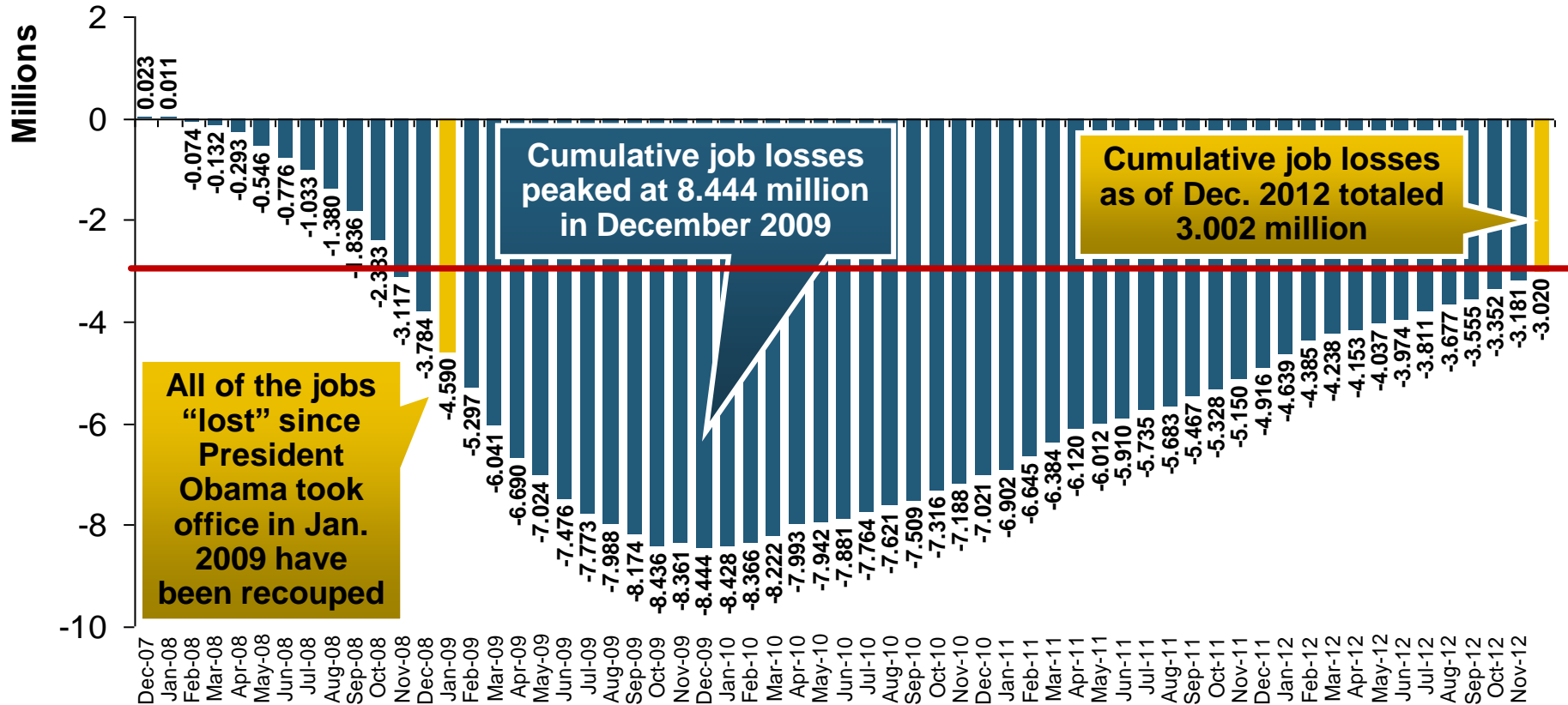
January 2008 through Dec. 2012 (Thousands)



**Private Employers Added 5.42 million Jobs Since Jan. 2010 After Having Shed 4.66 Million Jobs in 2009 and 3.81 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)**

# Cumulative Change in Private Employment: Dec. 2007—Dec. 2012

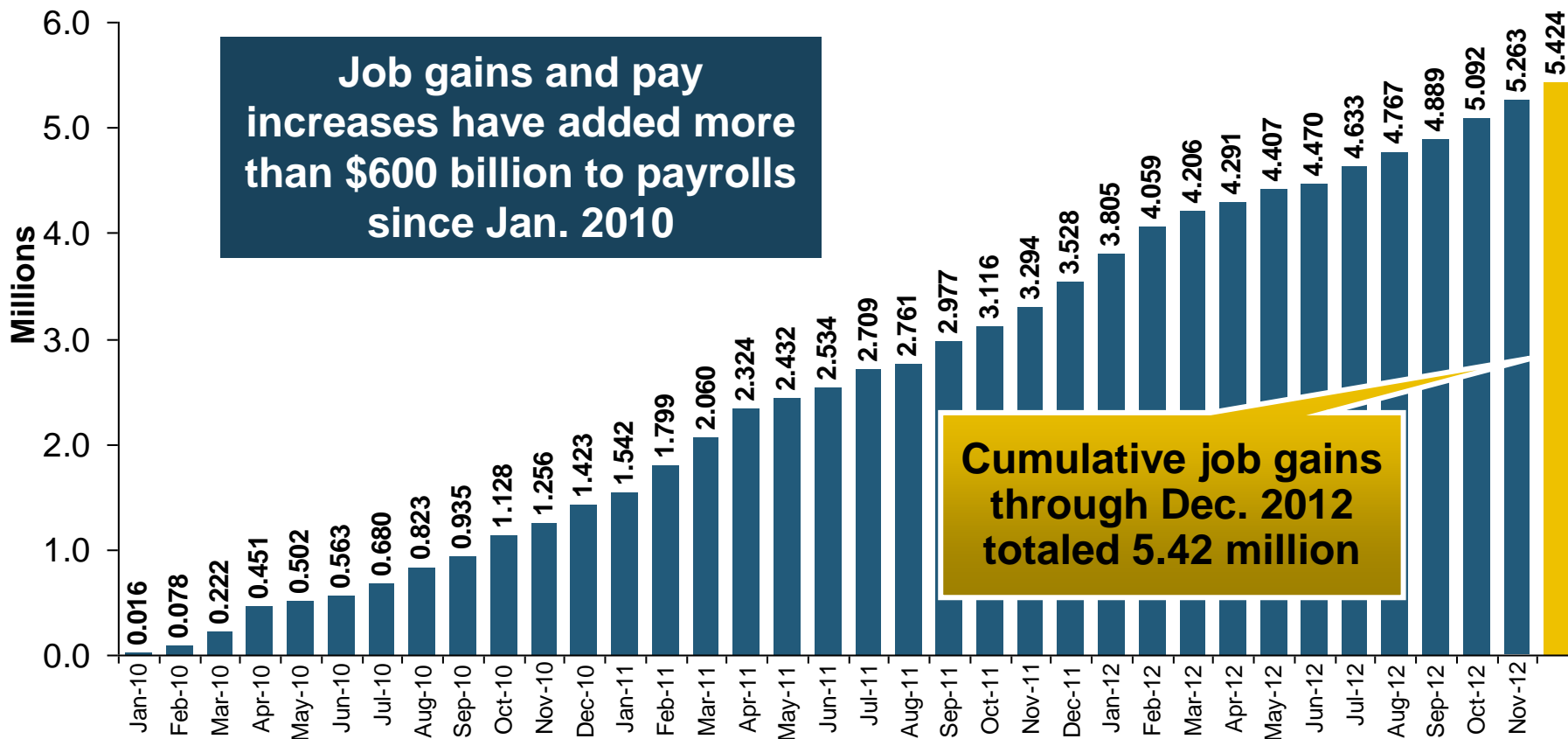
December 2007 through December 2012 (Millions)



**Private Employers Added 5.42 million Jobs Since Jan. 2010 After Having Shed 4.66 Million Jobs in 2009 and 3.81 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)**

# Cumulative Change in Private Sector Employment: Jan. 2010—Dec. 2012

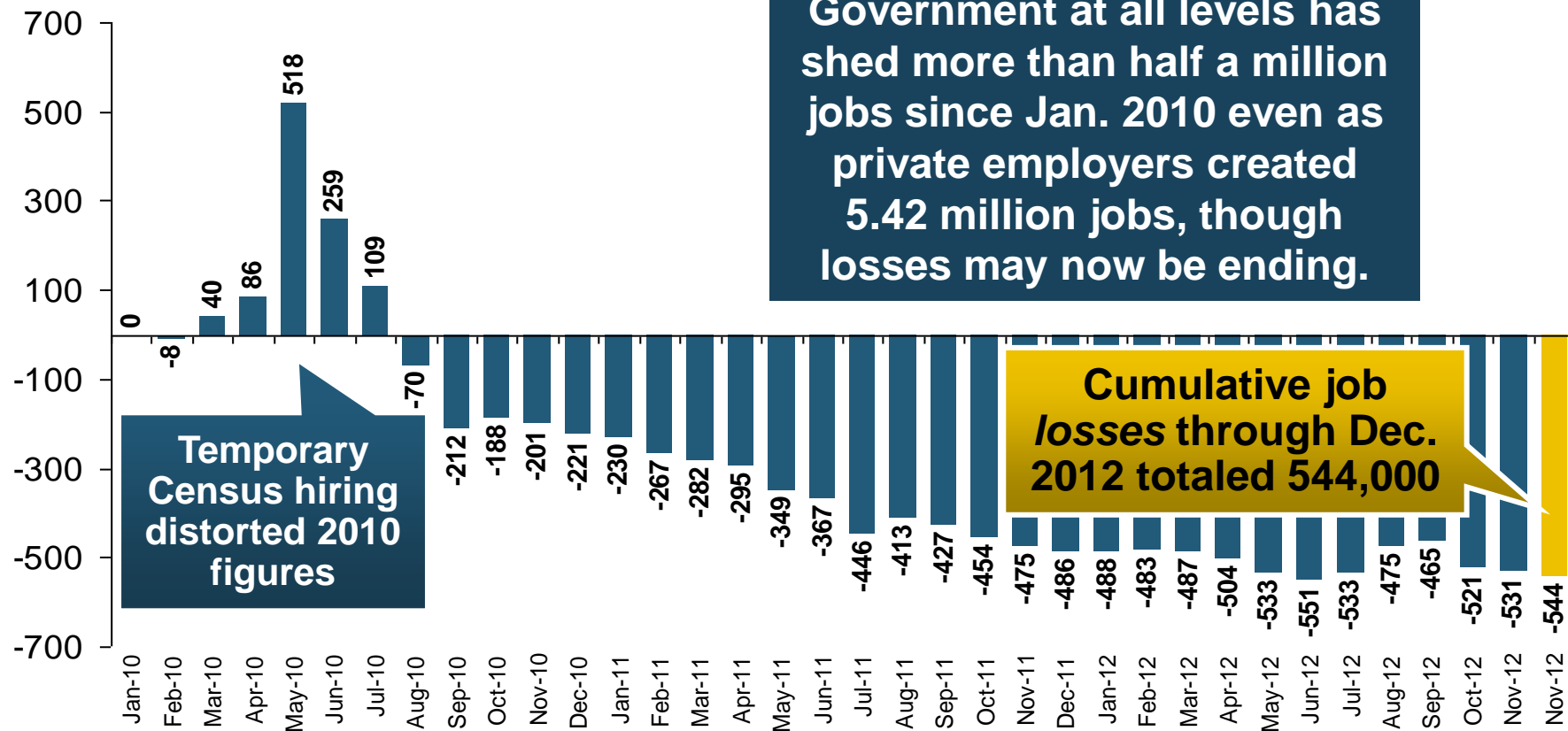
January 2010 through December 2012\* (Millions)



**Private Employers Added 5.42 million Jobs Since Jan. 2010 After Having Shed 4.66 Million Jobs in 2009 and 3.81 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)**

# Cumulative Change in Government Employment: Jan. 2010—Dec. 2012

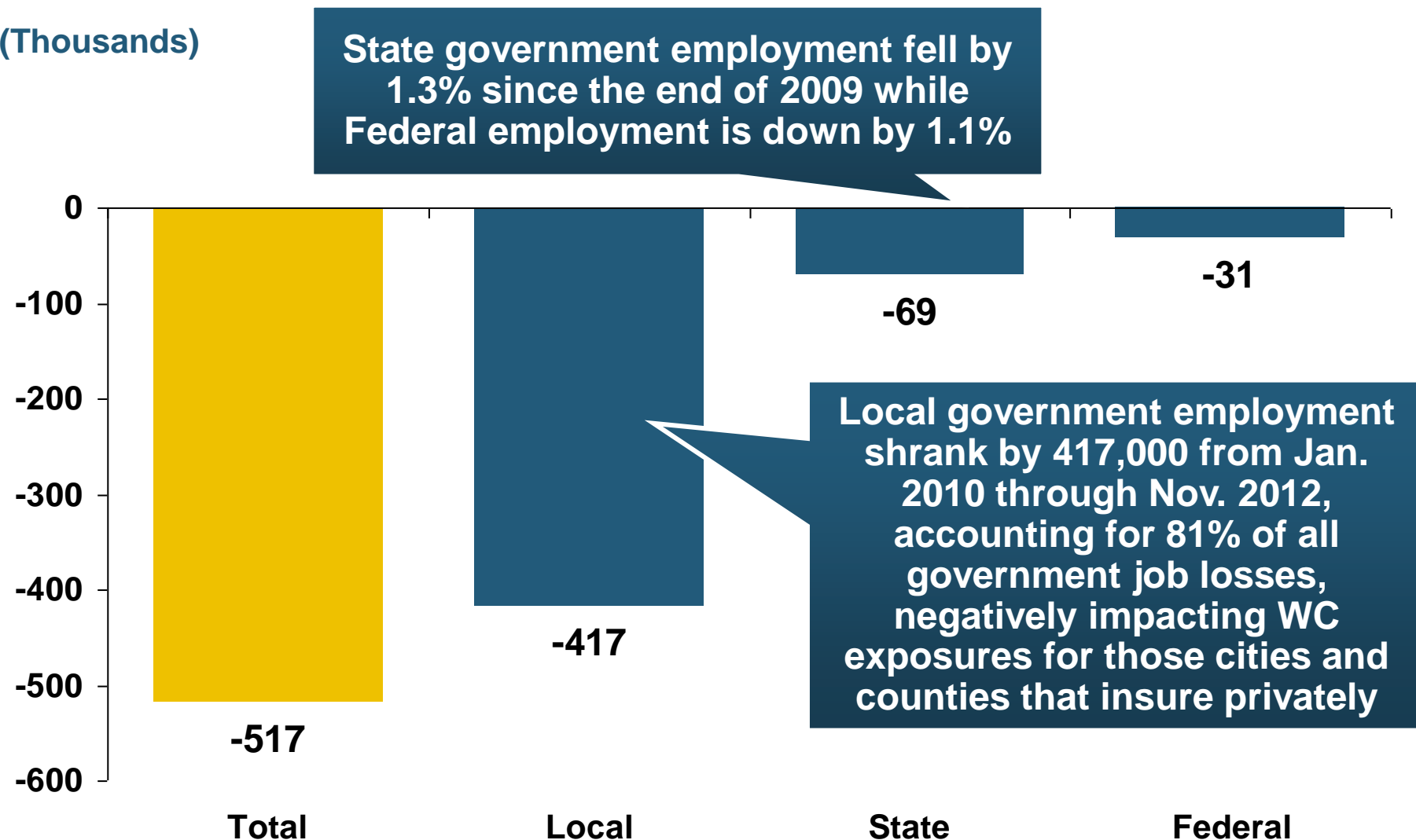
January 2010 through Dec. 2012\* (Millions)



**Governments at All Levels are Under Severe Fiscal Strain As Tax Receipts Plunged and Pension Obligations Soared During the Financial Crisis, Causing Them to Reduce Staff**

# Net Change in Government Employment: Jan. 2010—Nov. 2012\*

(Thousands)

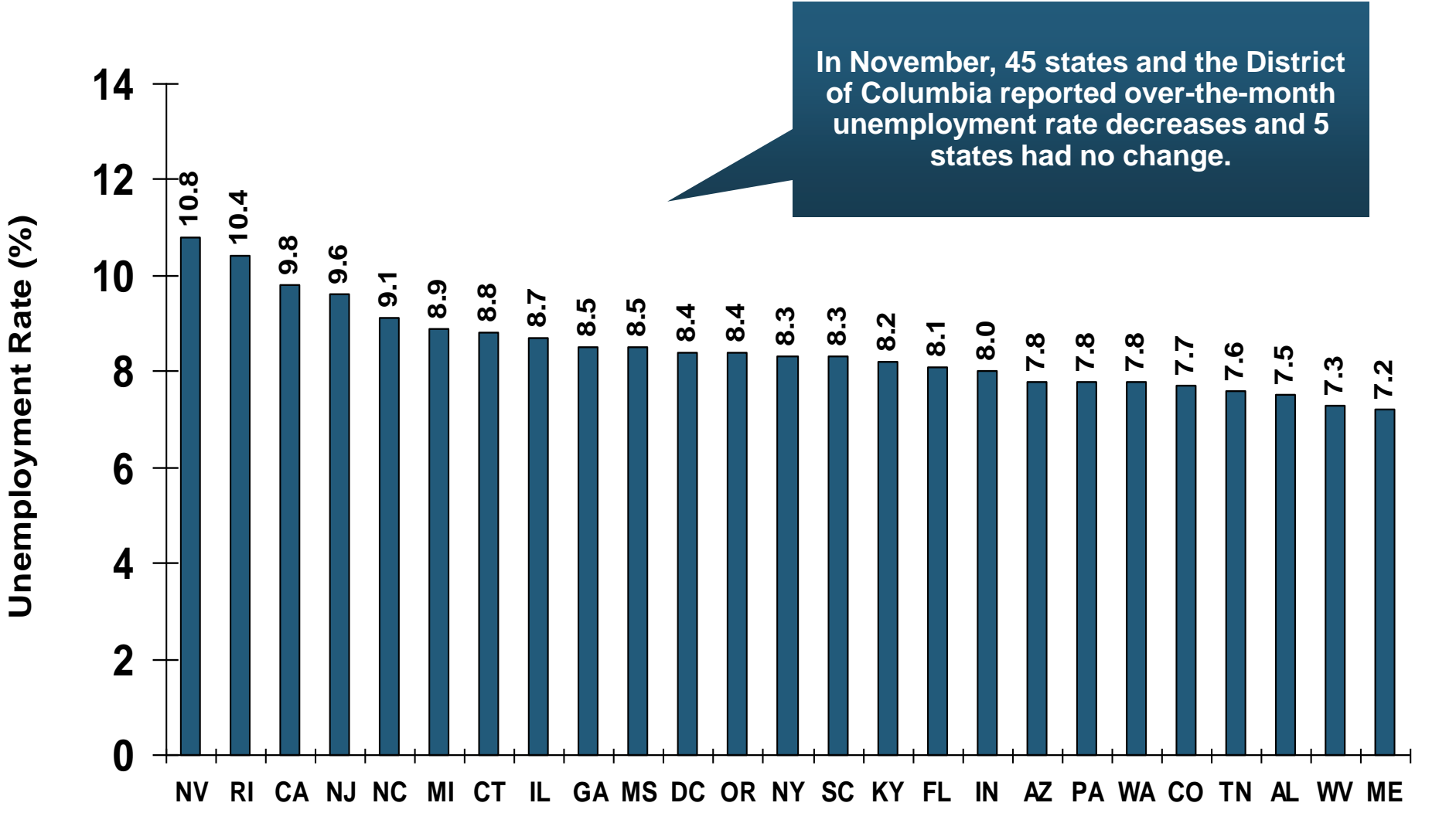


\*Cumulative change from prior month; Base employment date is Dec. 2009.

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



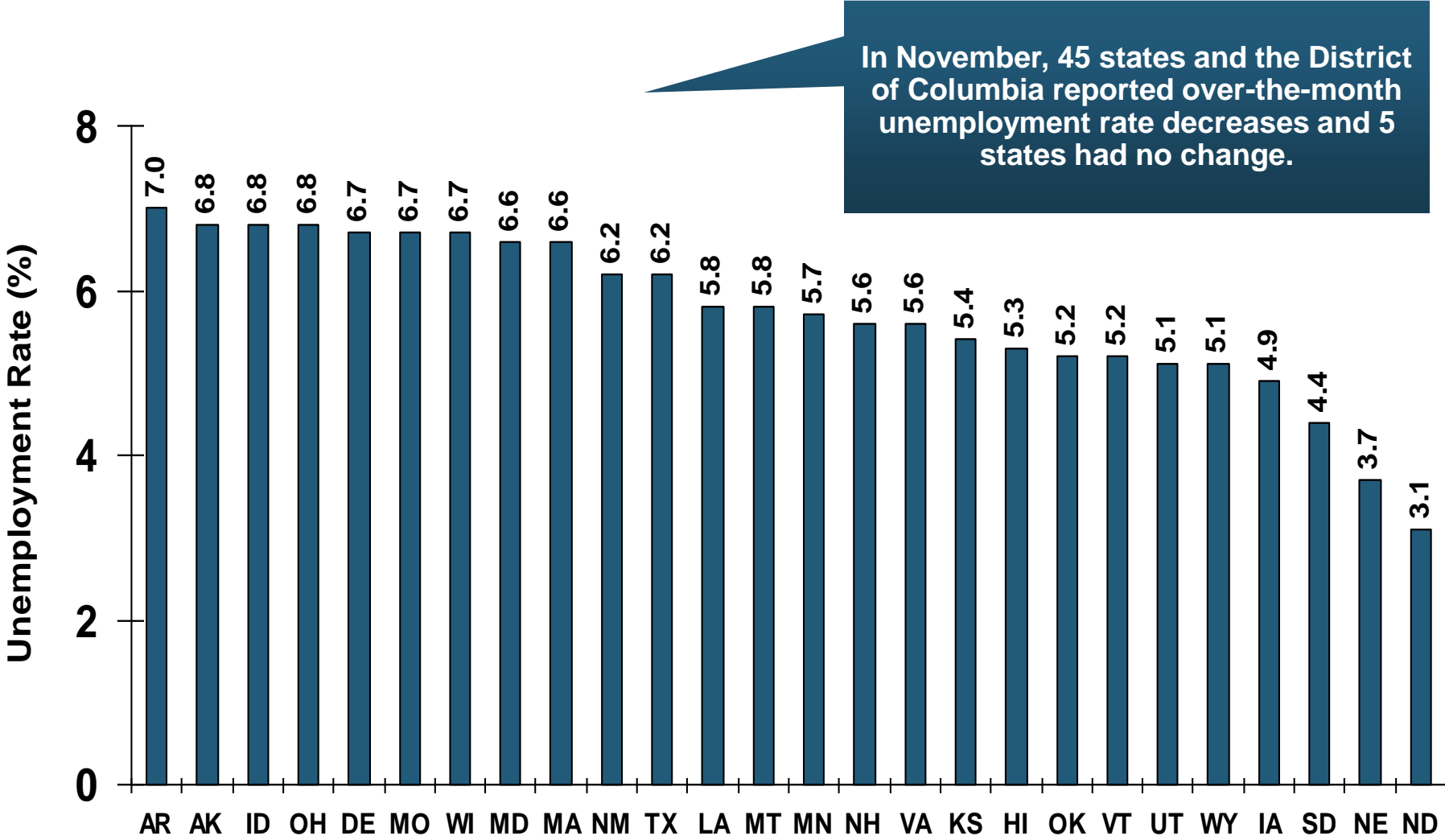
# Unemployment Rates by State, November 2012: Highest 25 States\*



\*Provisional figures for November 2012, seasonally adjusted.  
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

# Unemployment Rates by State, November 2012:

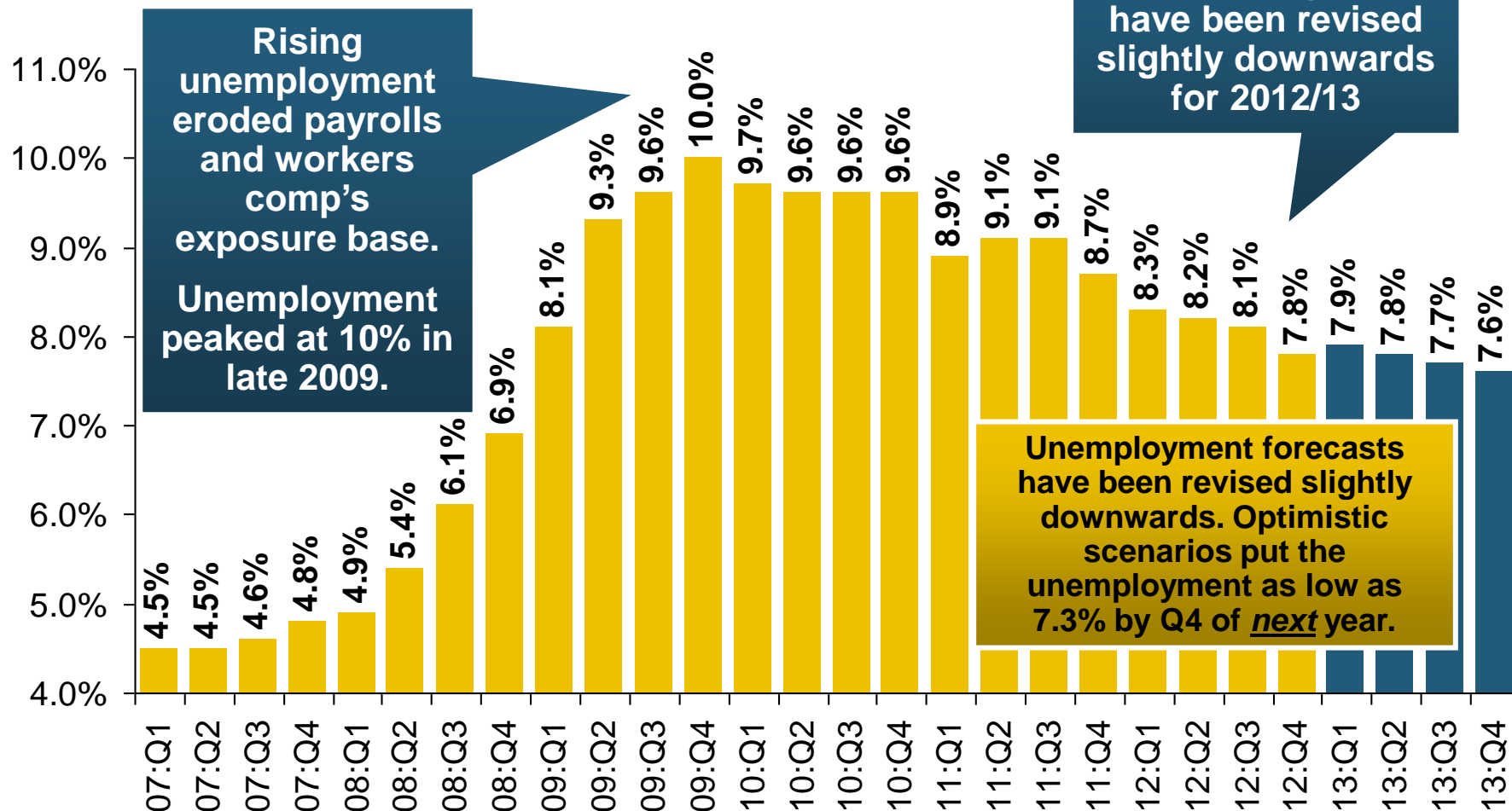
## Lowest 25 States\*



\*Provisional figures for November 2012, seasonally adjusted.  
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

# US Unemployment Rate Forecast

2007:Q1 to 2013:Q4F\*

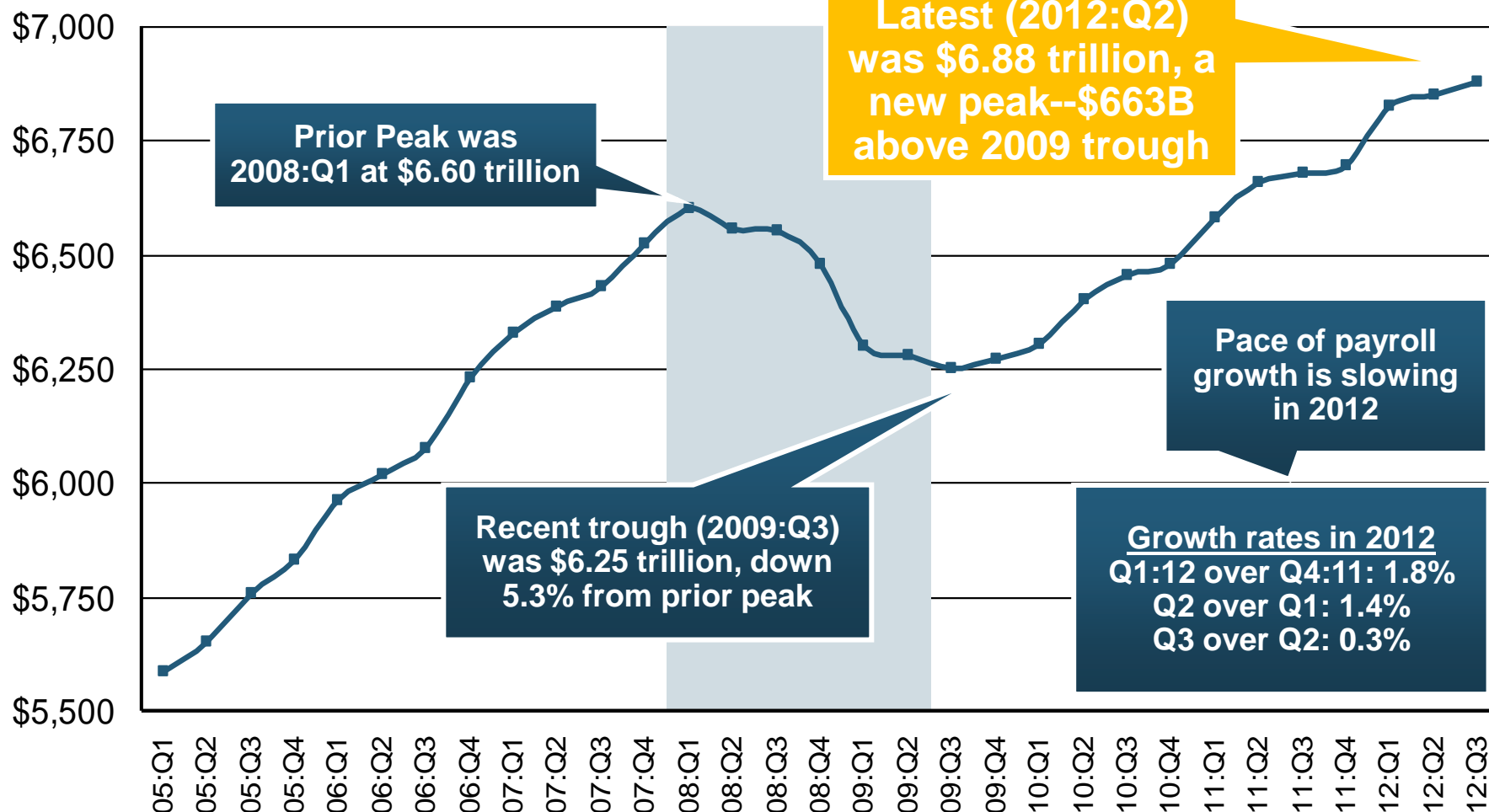


\* ■ = actual; ■ = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (12/12 edition); Insurance Information Institute.

# Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2012:Q3

Billions



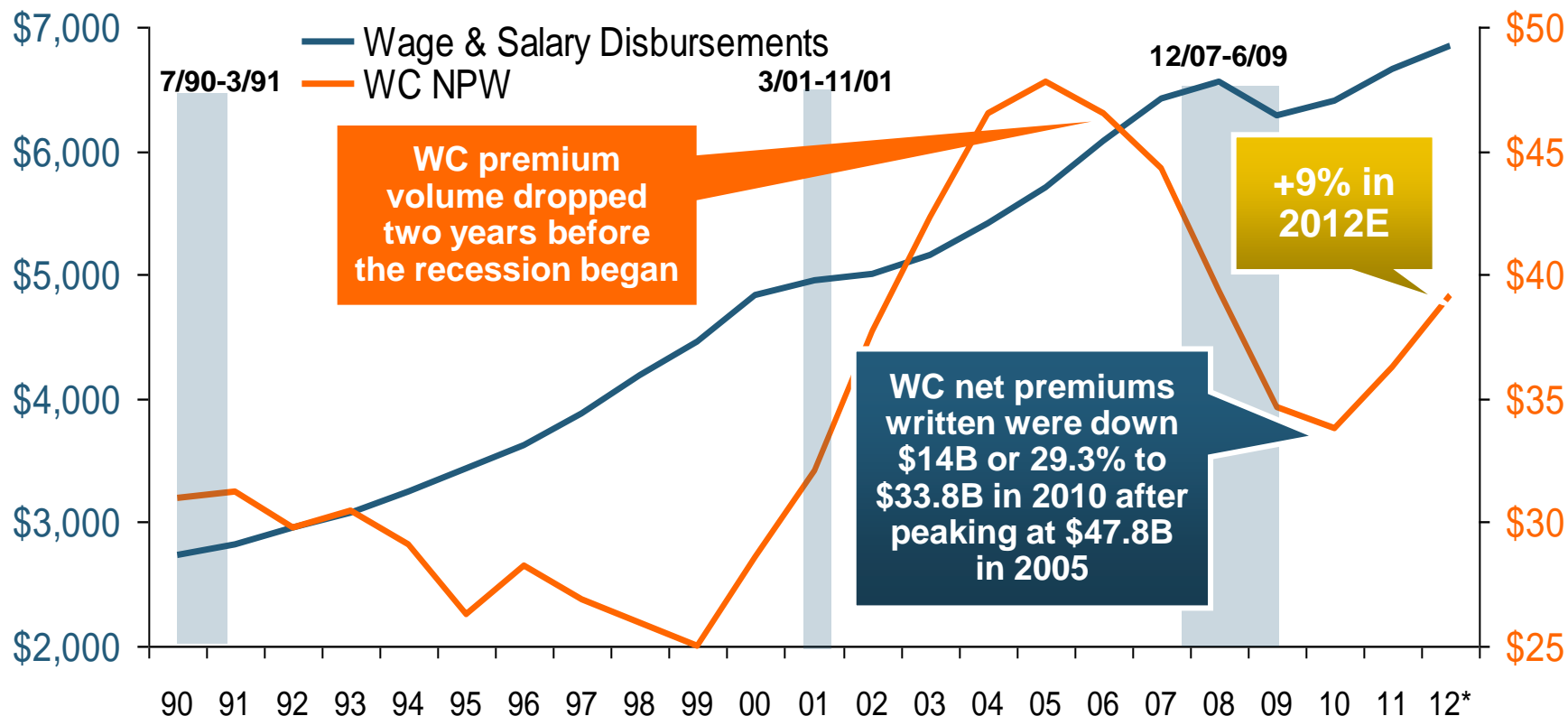
Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

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, 1990-2012E

**Payroll Base\***  
**\$Billions**

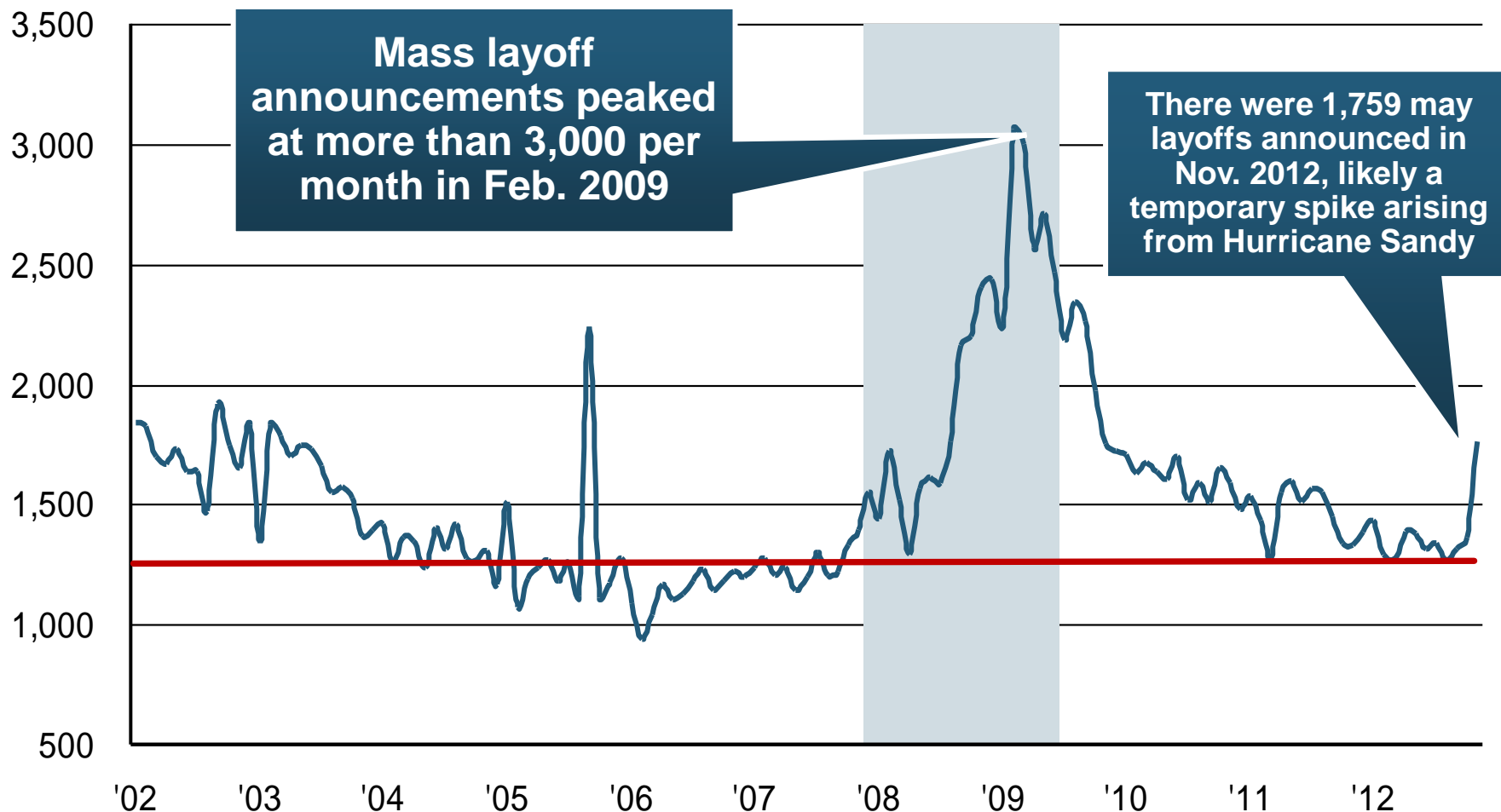
**WC NWP**  
**\$Billions**



**Continued Payroll Growth and Rate Increases Suggest WC NWP Will Grow Again in 2012; +7.9% Growth in 2011 Was the First Gain Since 2005**

\*Private employment; Shaded areas indicate recessions. Payroll and WC premiums for 2012 is 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.

# Mass Layoff Announcements, Jan. 2002—November 2012\*



\*Seasonally adjusted.

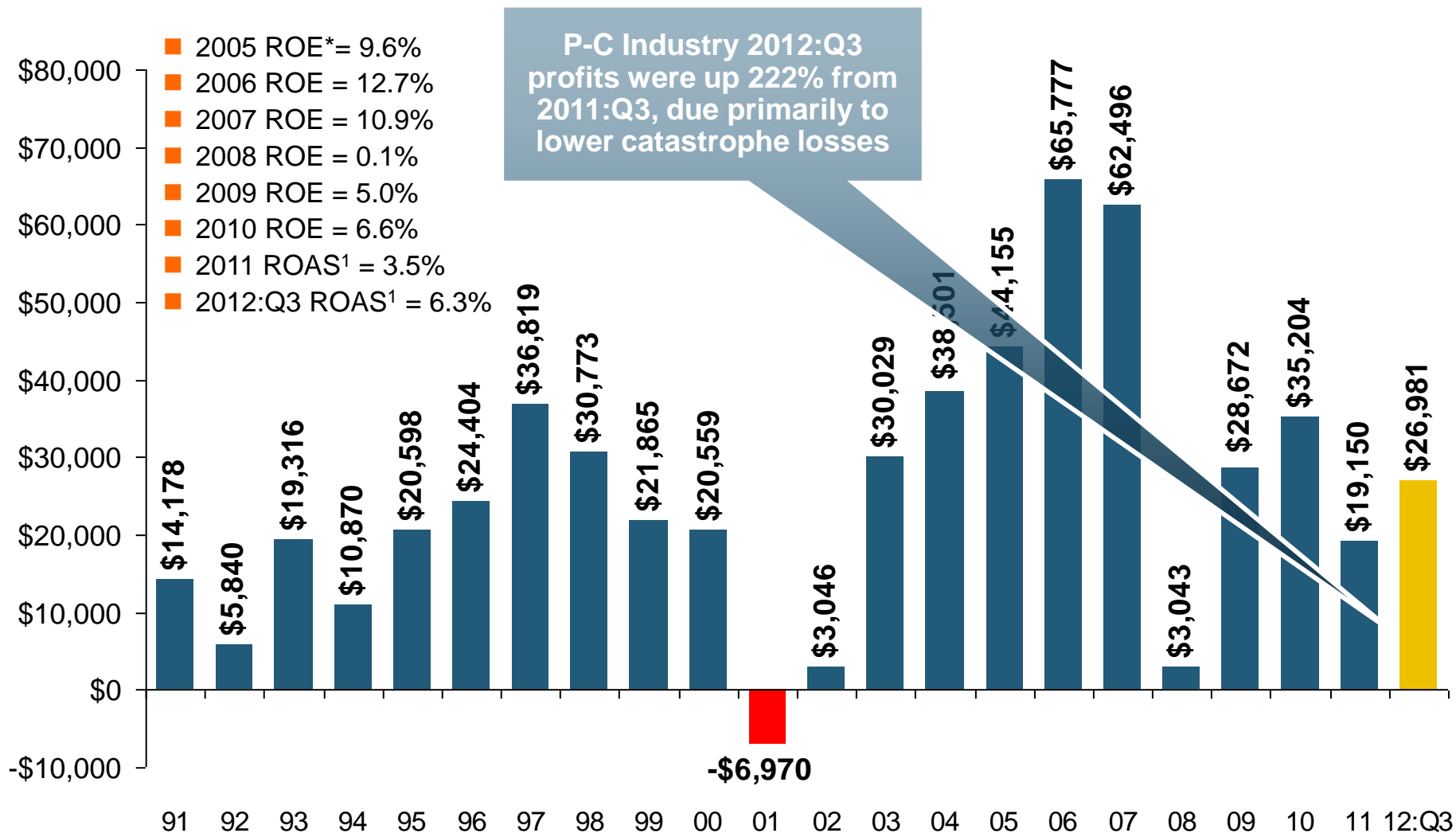
Note: Recessions indicated by gray shaded columns.

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

# **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:Q3 (\$ Millions)



\* ROE figures are GAAP; <sup>1</sup>Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 6.6% ROAS through 2012:Q3, 4.6% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009.

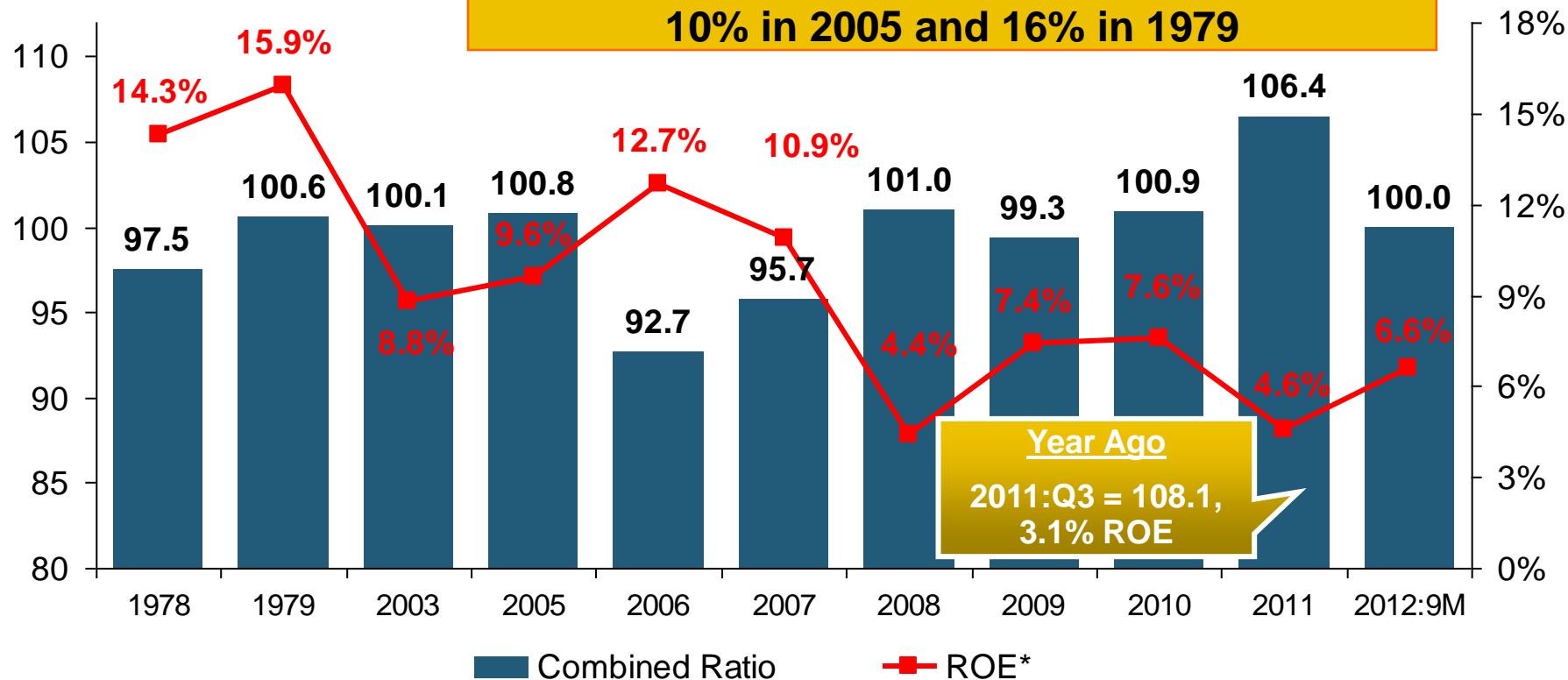
Sources: A.M. Best, ISO, Insurance Information Institute



# 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 ~6.6% in 2012, ~7.5% ROE in 2009/10, 10% in 2005 and 16% in 1979**

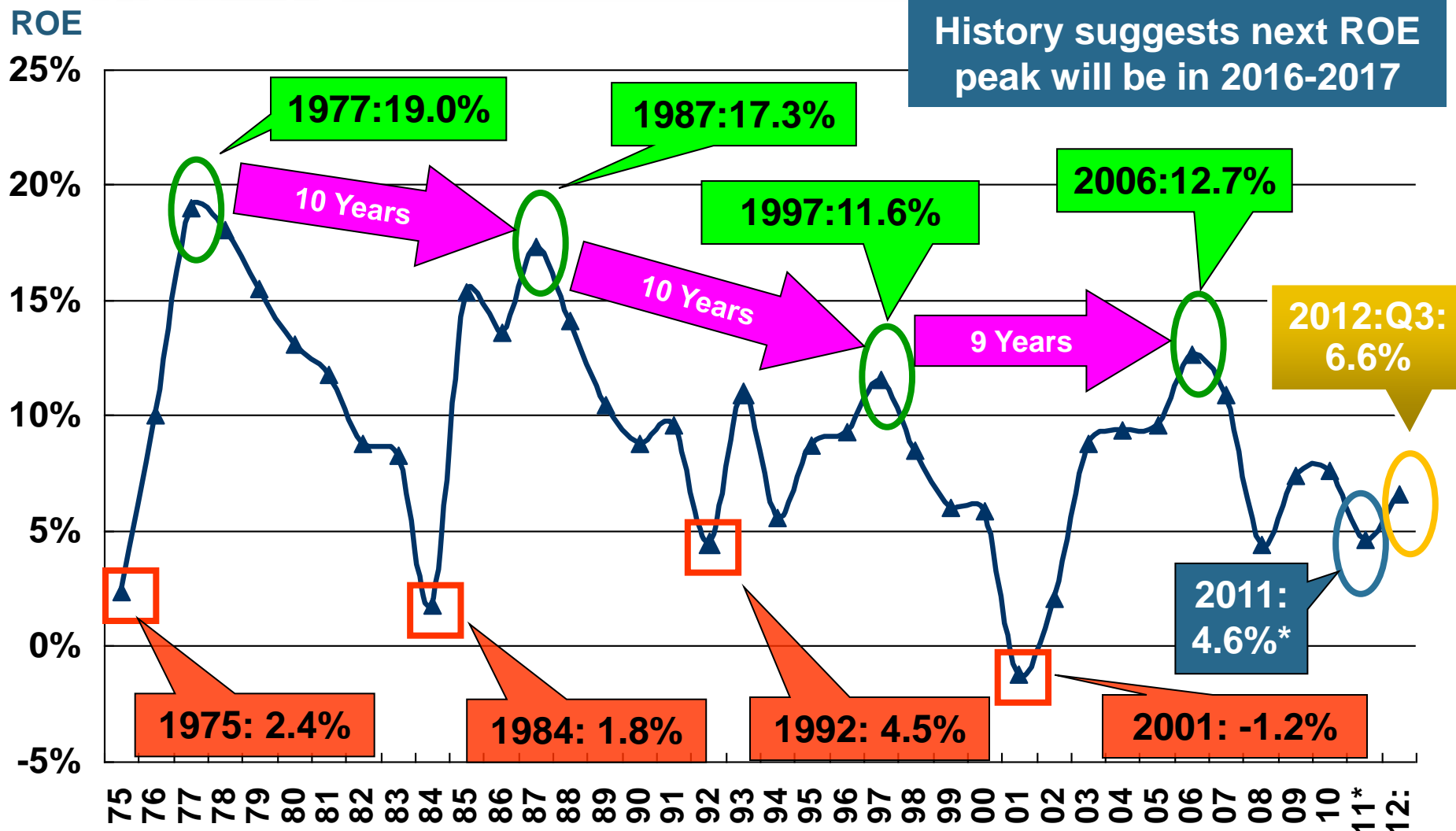


**Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs**

\* 2008 -2012 figures are return on average surplus and exclude mortgage and financial guaranty insurers. 2012:Q3 combined ratio including M&FG insurers is 100.9, ROAS = 6.3%; 2011 combined ratio including M&FG insurers is 108.2, ROAS = 3.5%.

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

# Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2012:Q3\*

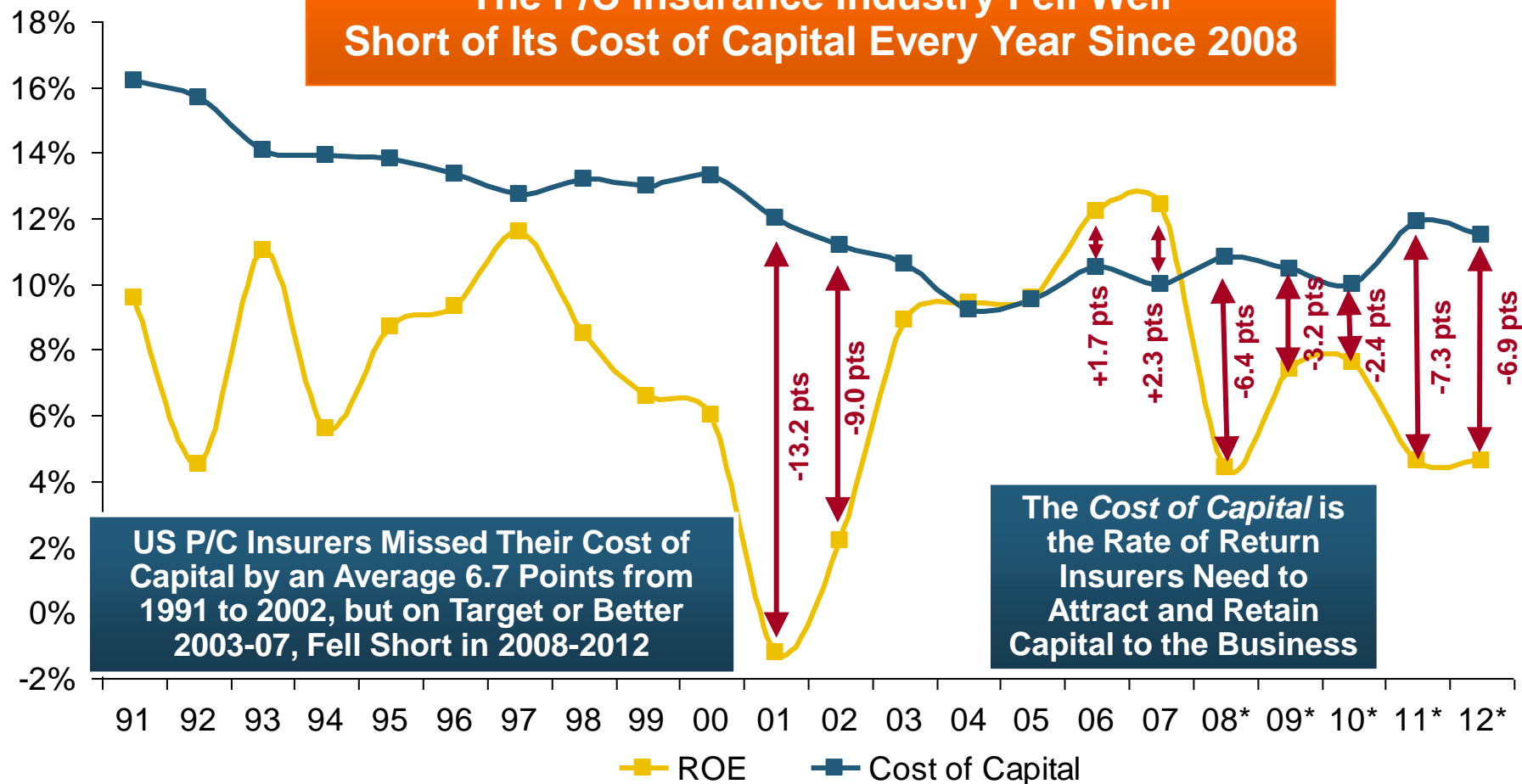


\*Profitability = P/C insurer ROEs. 2011 figure is an estimate based on ROAS data. Note: Data for 2008-2012 exclude mortgage and financial guaranty insurers. 2012:Q3 ROAS = 6.2% including M&FG.

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

# ROE vs. Equity Cost of Capital: U.S. P/C Insurance:1991-2012\*

(Percent)



\* Return on average surplus in 2008-2012 excluding mortgage and financial guaranty insurers. 2012 figures are III estimates.  
Source: The Geneva Association, Insurance Information Institute

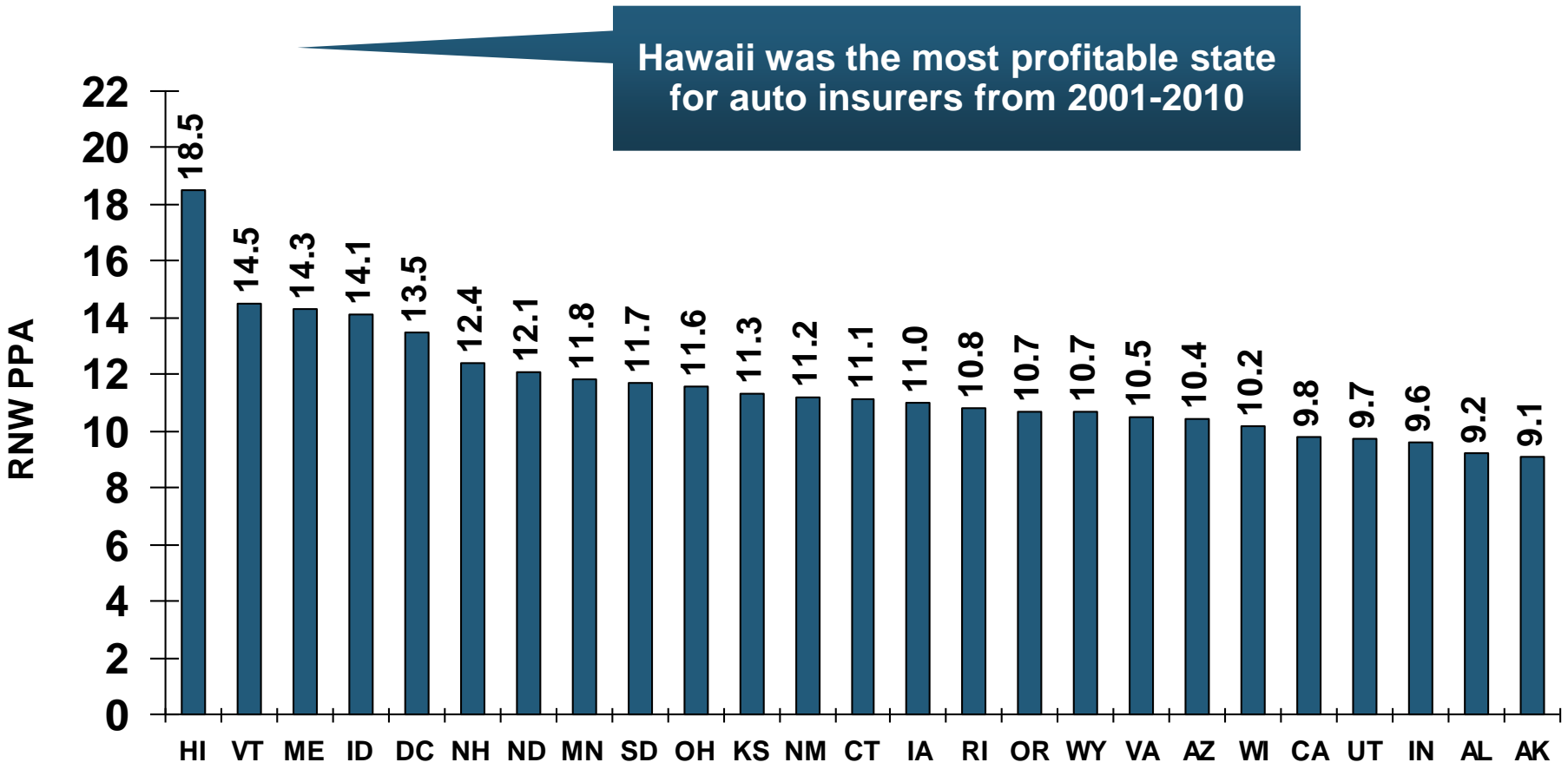
# **Personal Lines Profitability Analysis**

**Significant Variability Over  
Time and Across States**

# Return on Net Worth: Pvt. Passenger Auto, 10-Year Average (2001-2010\*)

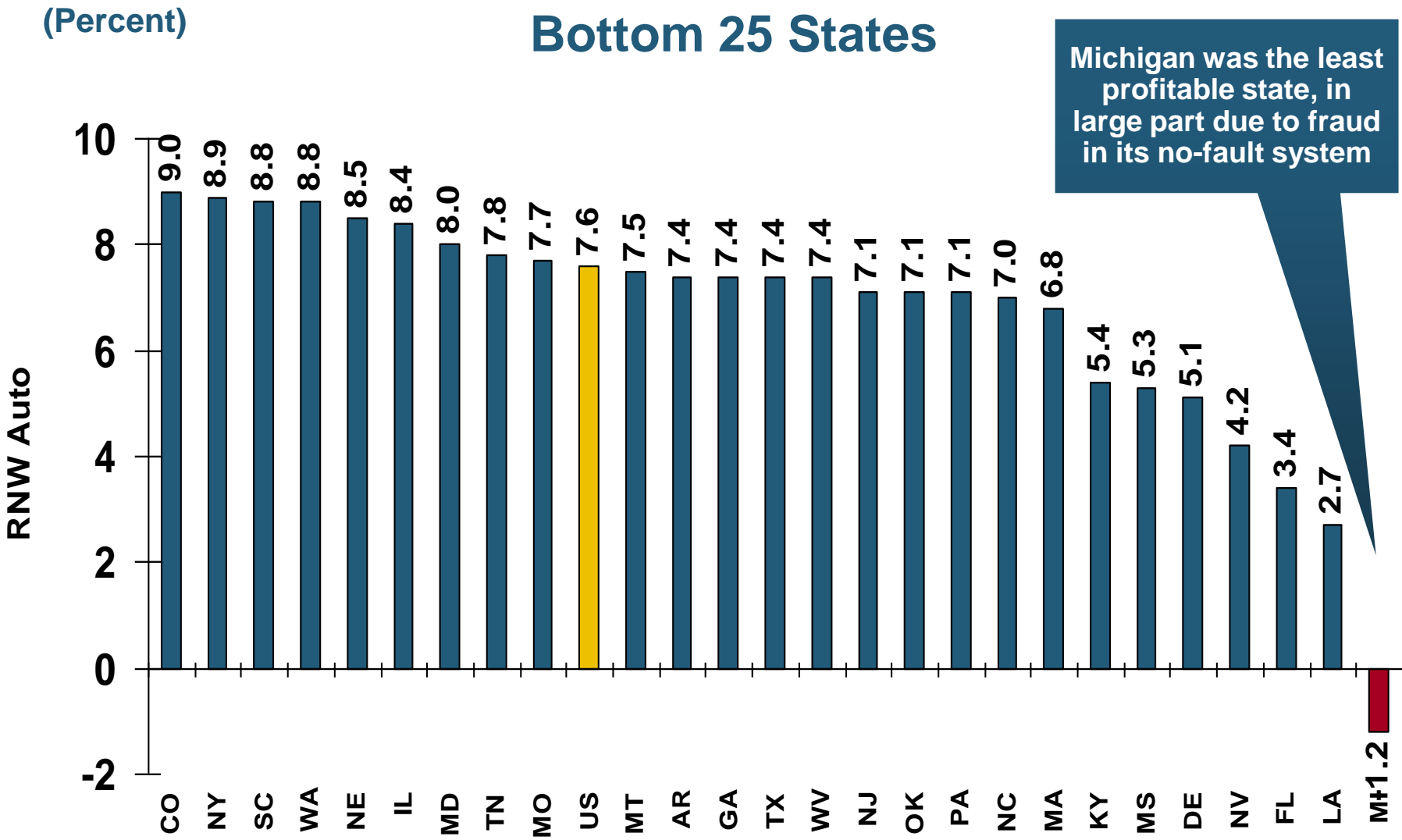
## Top 25 States

(Percent)



\*Latest available.  
Sources: NAIC.

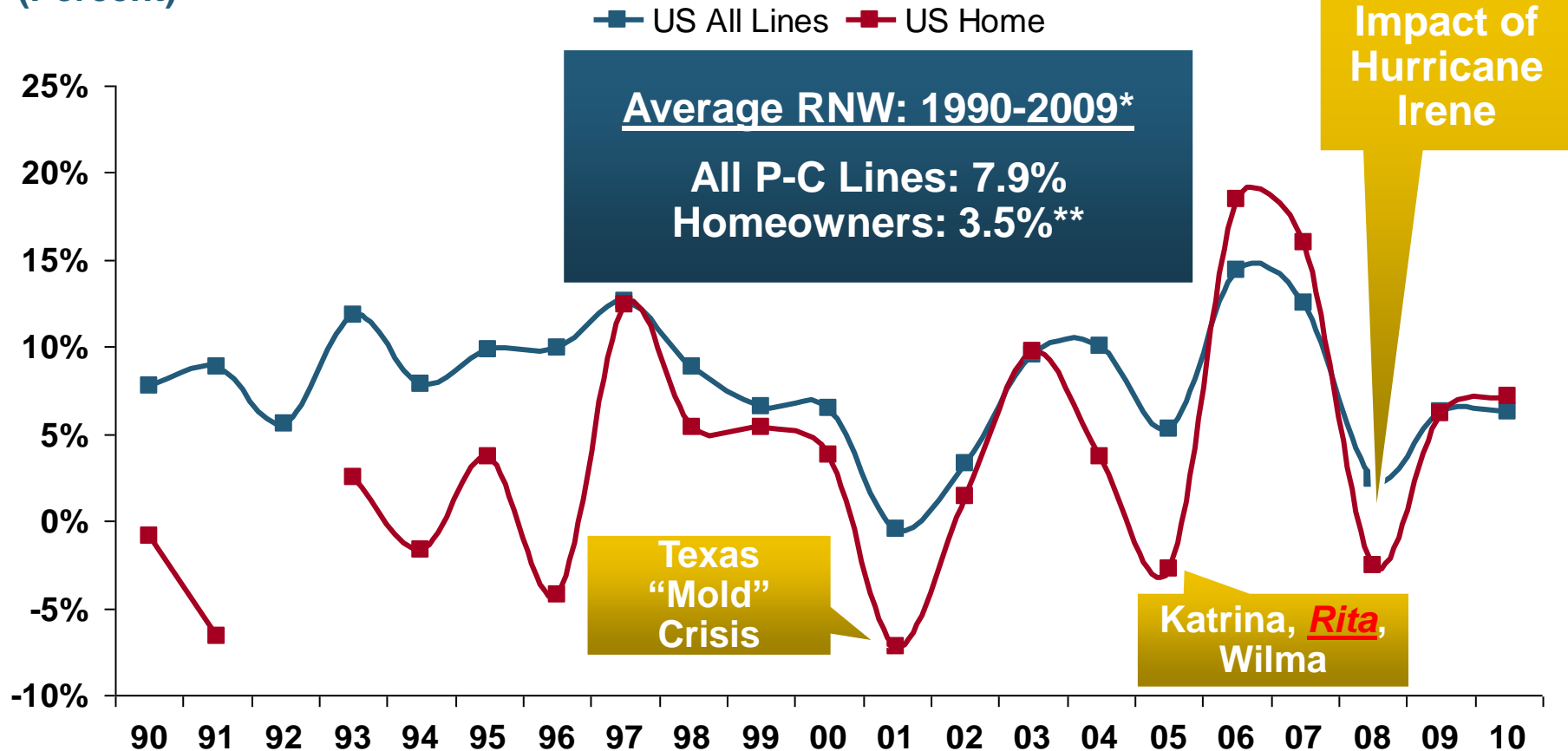
# Return on Net Worth: Pvt. Passenger Auto, 10-Year Average (2001-2010\*)



\*Latest available.  
Sources: NAIC

# Return on Net Worth: All P-C Lines vs. Homeowners, 1990-2010\*

(Percent)



**Homeowners Insurance Is Considerably More Volatile than the Market Overall Due to Coastal Exposure and Interior Wind/Hail Events**

\*Latest available.

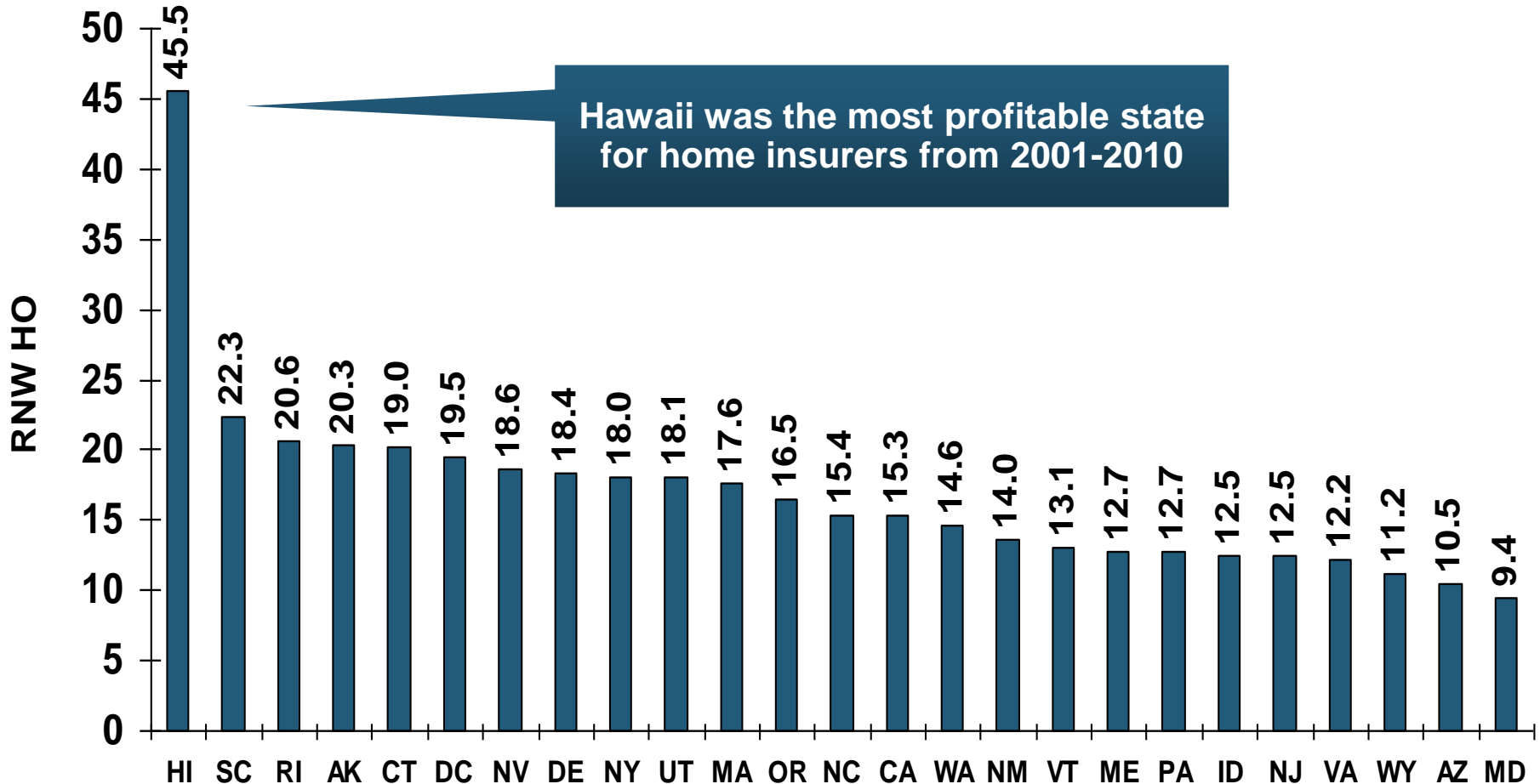
\*\*Excluding Hurricane Andrew (1992); including 1992 produces an average homeowners RNW of 0.7%.

Sources: NAIC.

# Return on Net Worth: Homeowners Insurance, 10-Year Average (2001-2010\*)

## Top 25 States

(Percent)

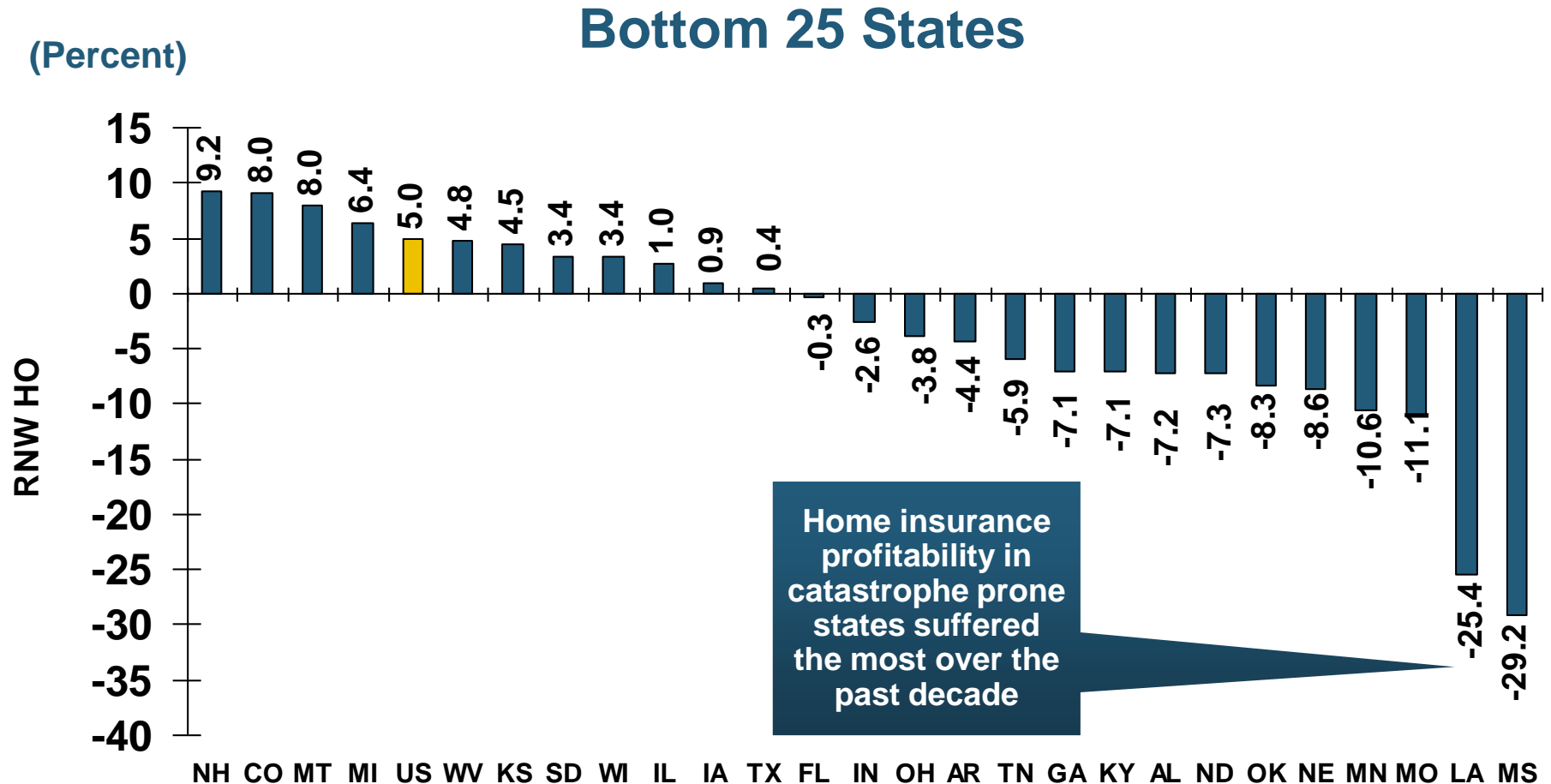


\*Latest available.

Sources: NAIC.



# Return on Net Worth: Homeowners Insurance, 10-Year Average (2001-2010\*)

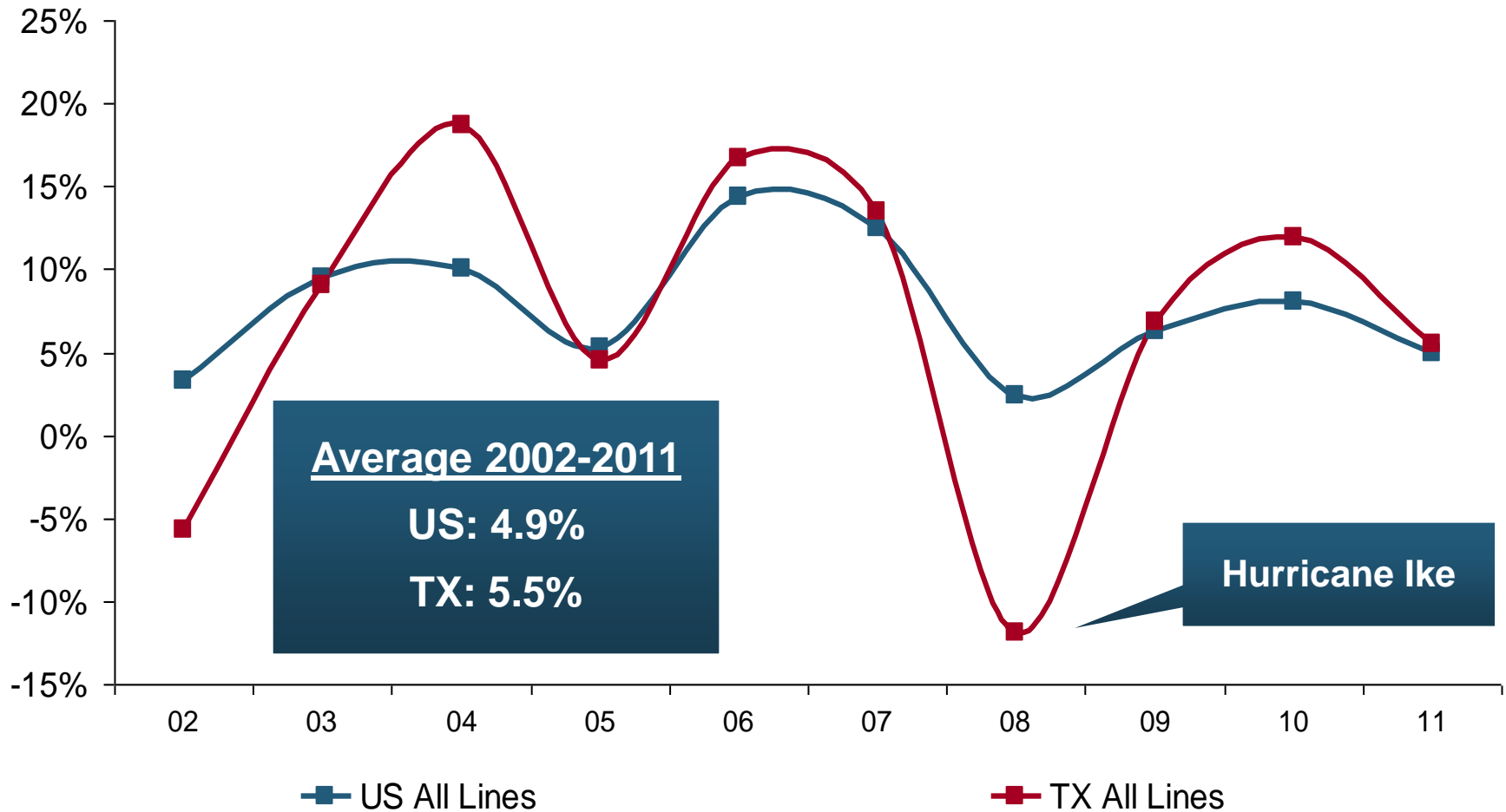


# **Profitability and Growth in the Texas P/C Insurance Markets**

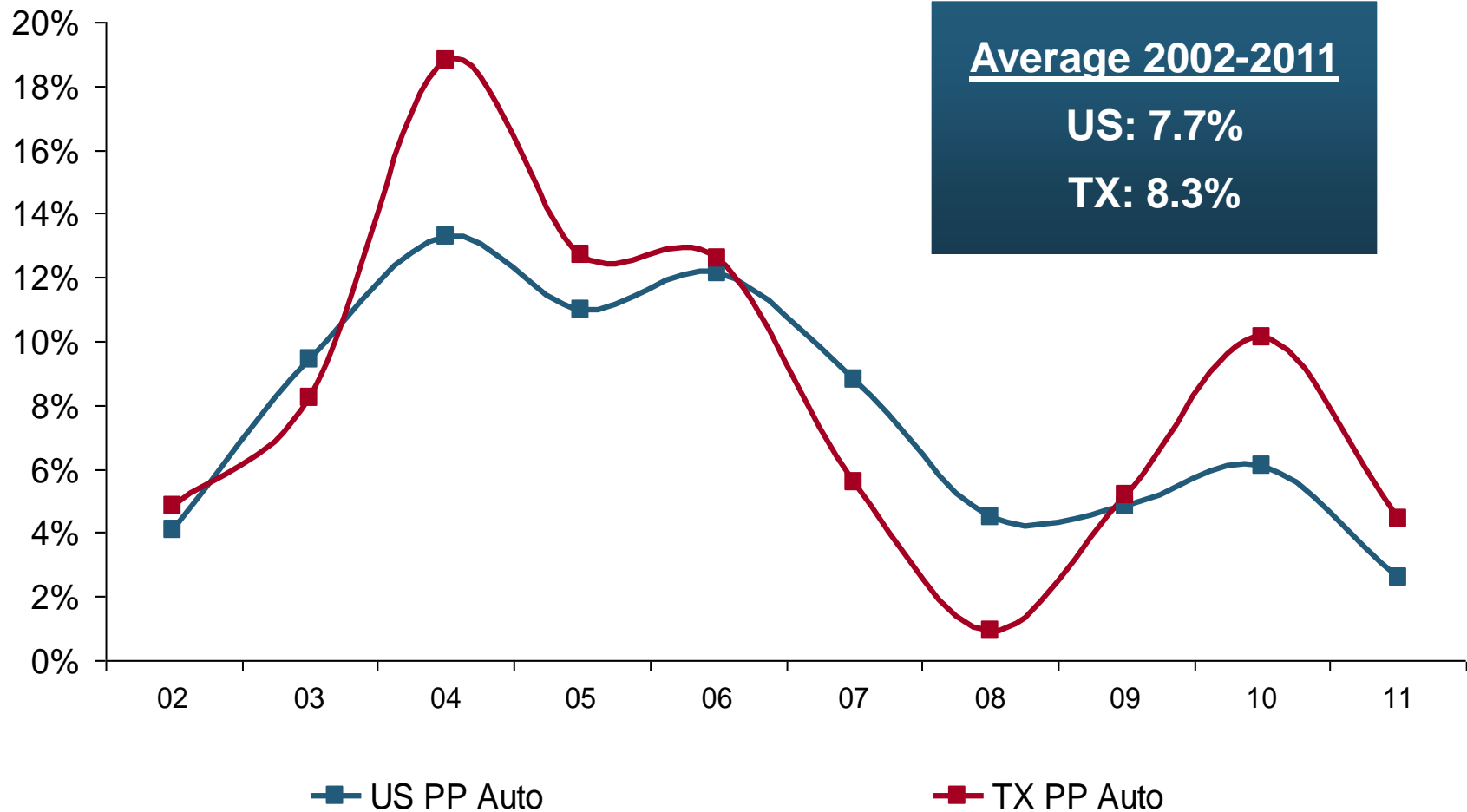
## **Analysis by Line and Nearby State Comparisons**

# RNW All Lines: TX vs. U.S., 2002-2011

(Percent)

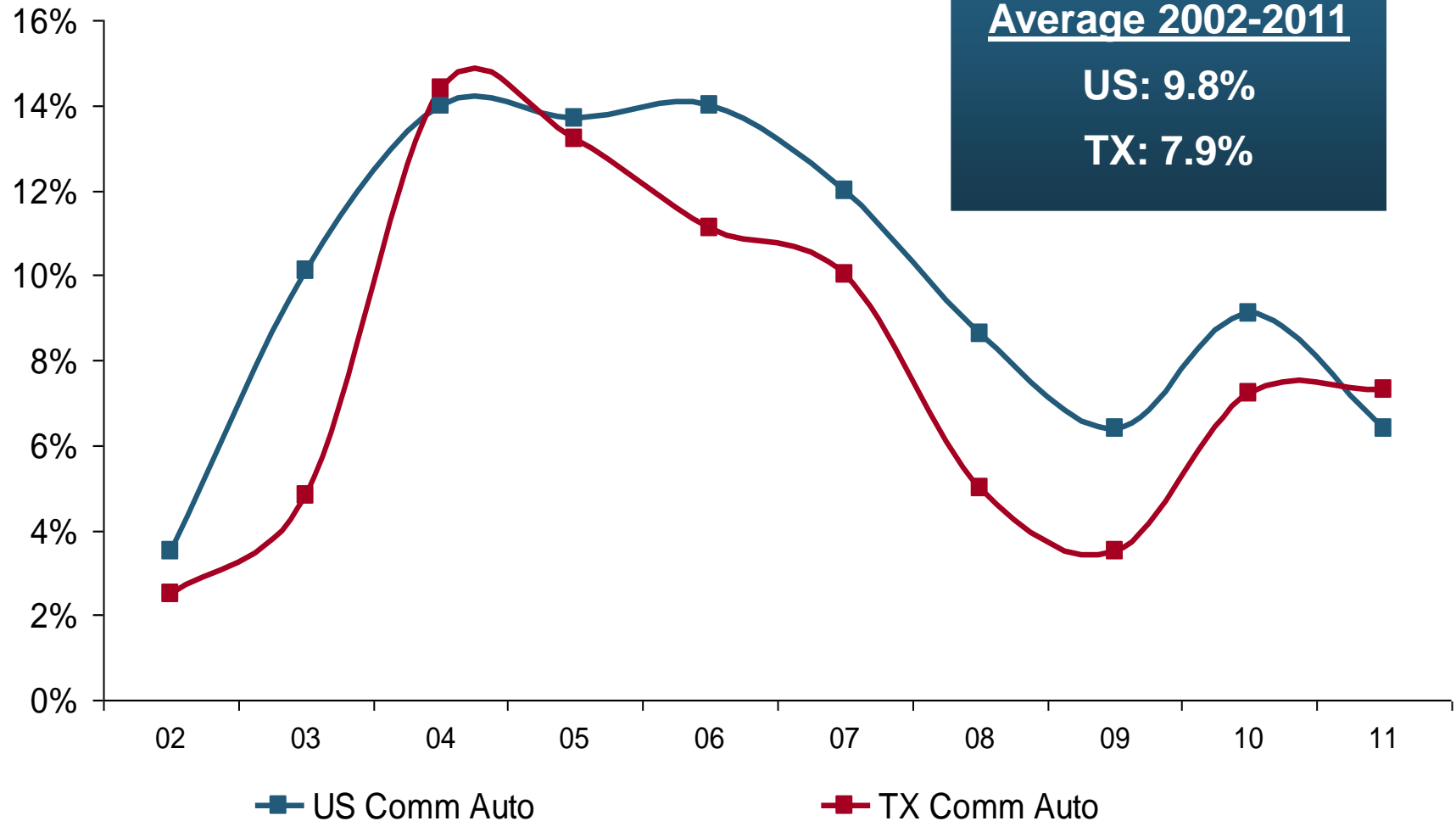


# RNW PP Auto: TX vs. U.S., 2002-2011



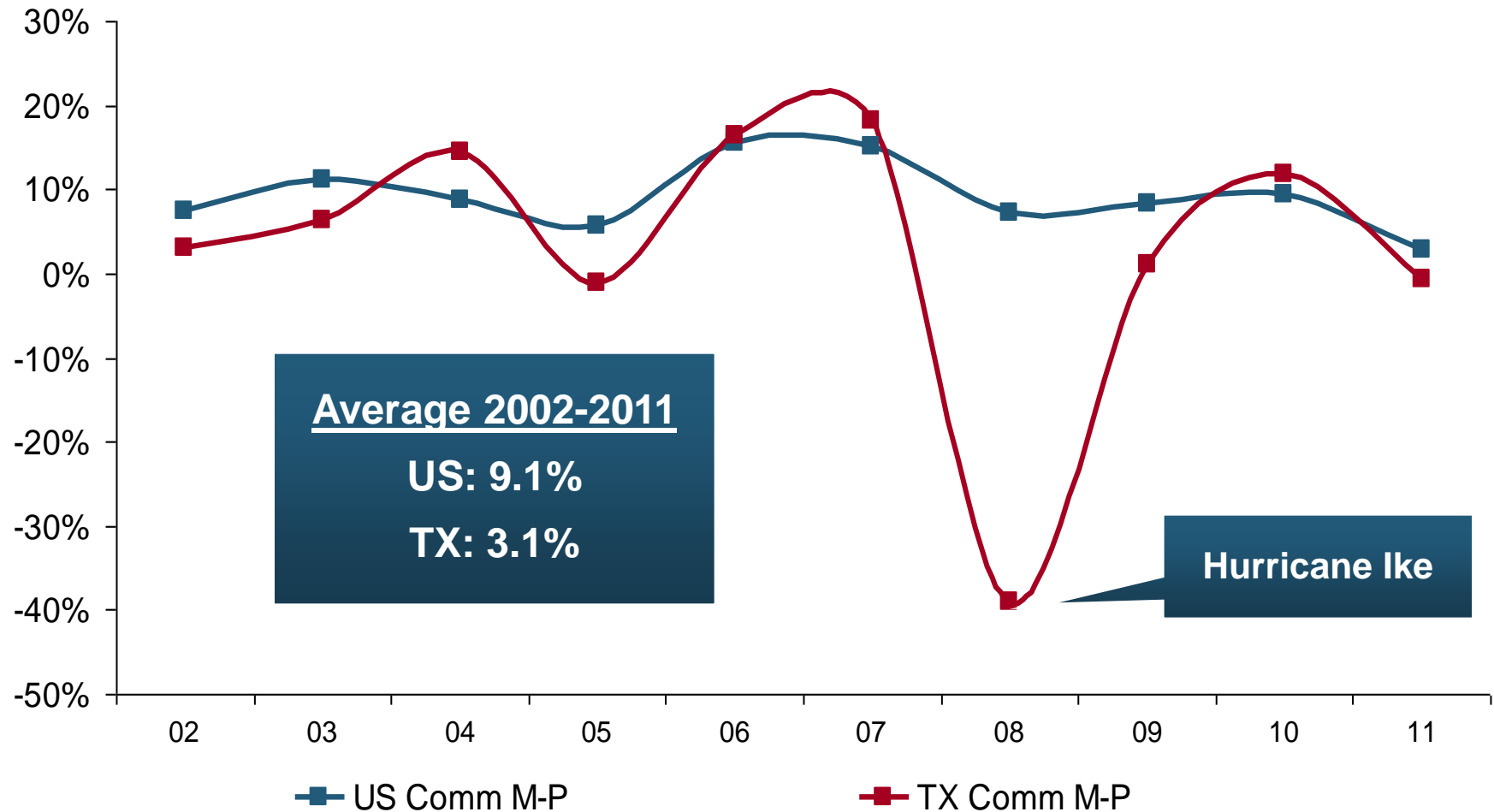
# RNW Comm. Auto: TX vs. U.S., 2002-2011

(Percent)



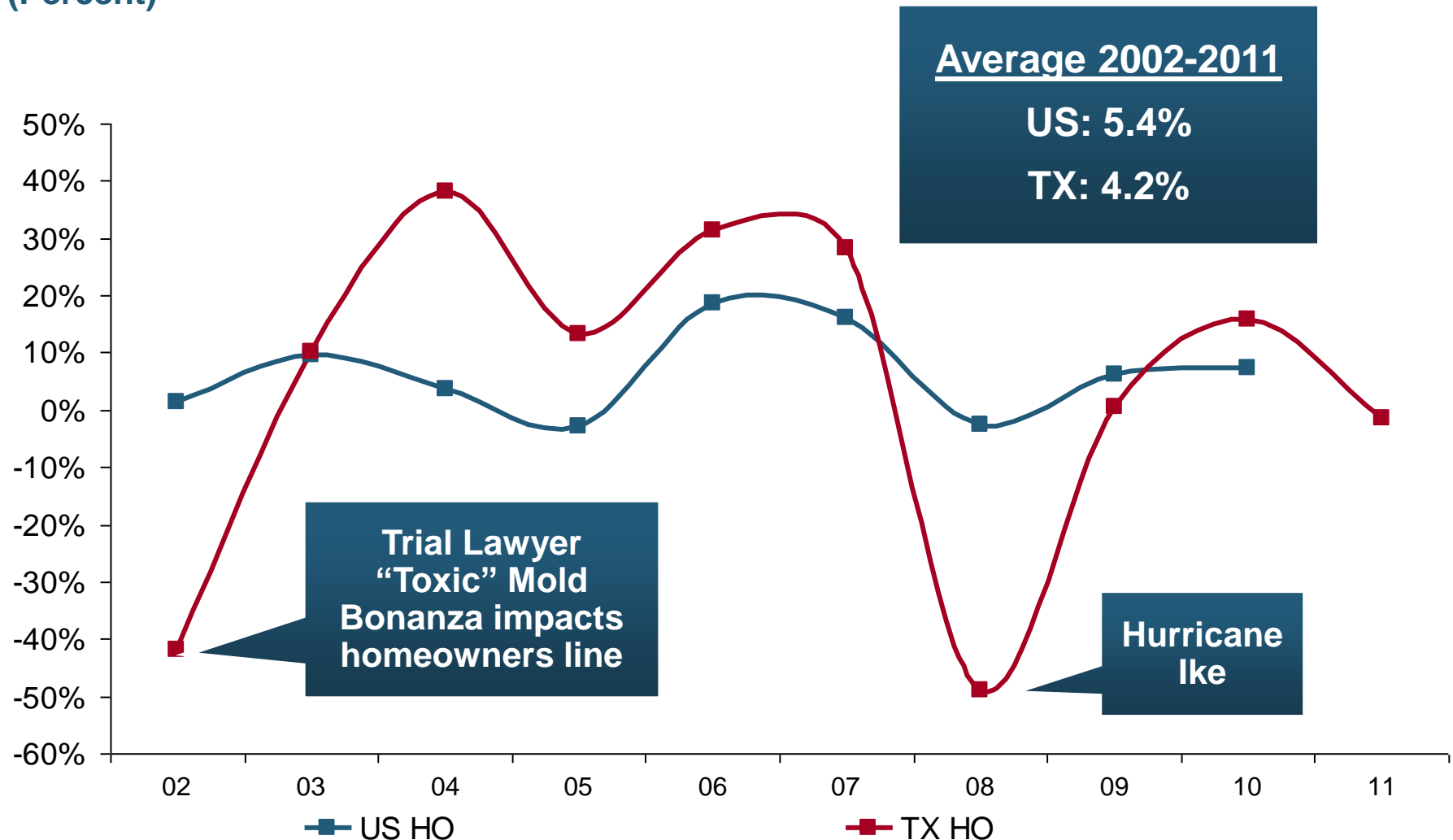
# RNW Comm. Multi-Peril: TX vs. U.S., 2002-2011

(Percent)



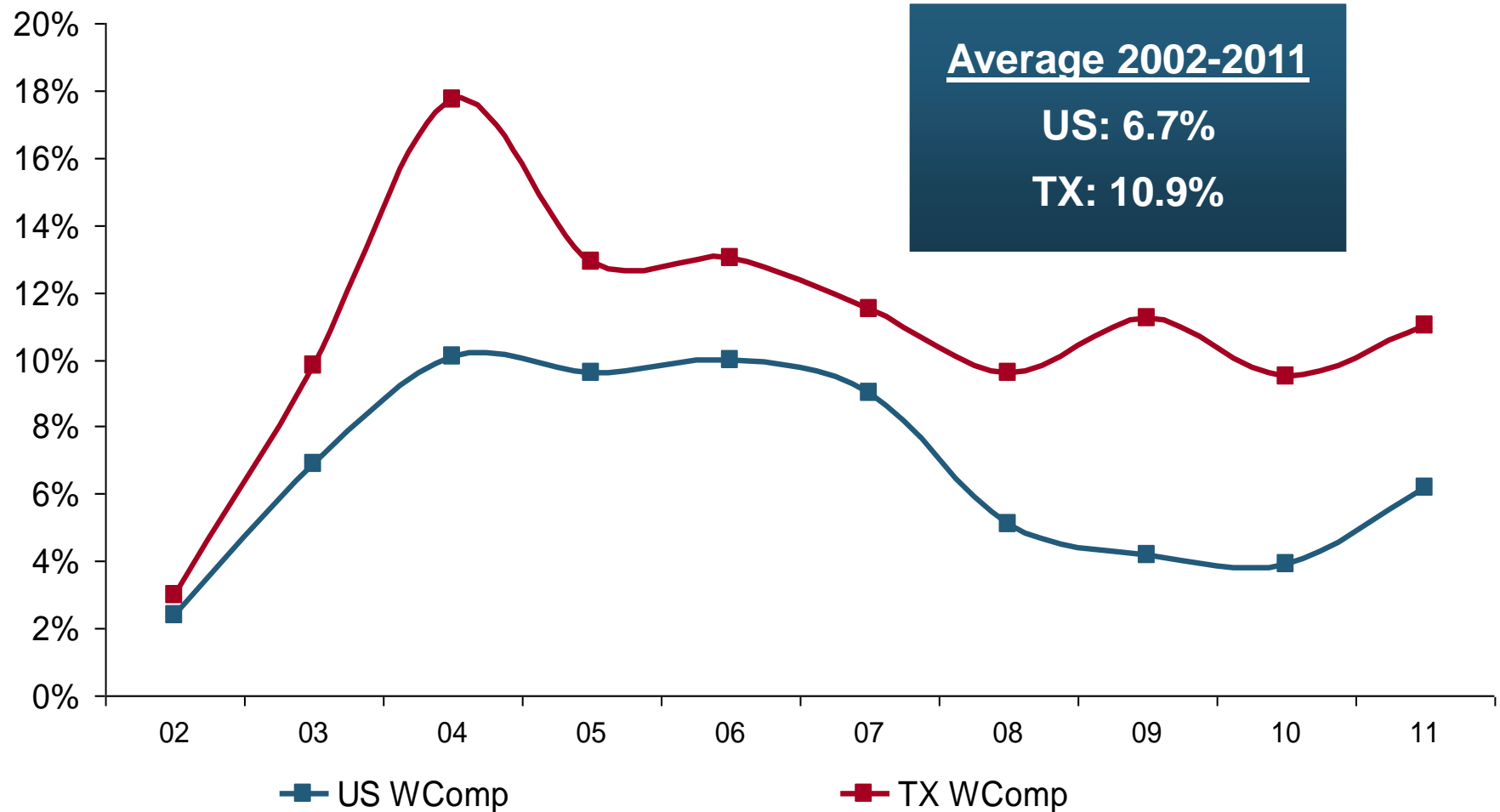
# RNW Homeowners: TX vs. U.S., 2002-2011

(Percent)



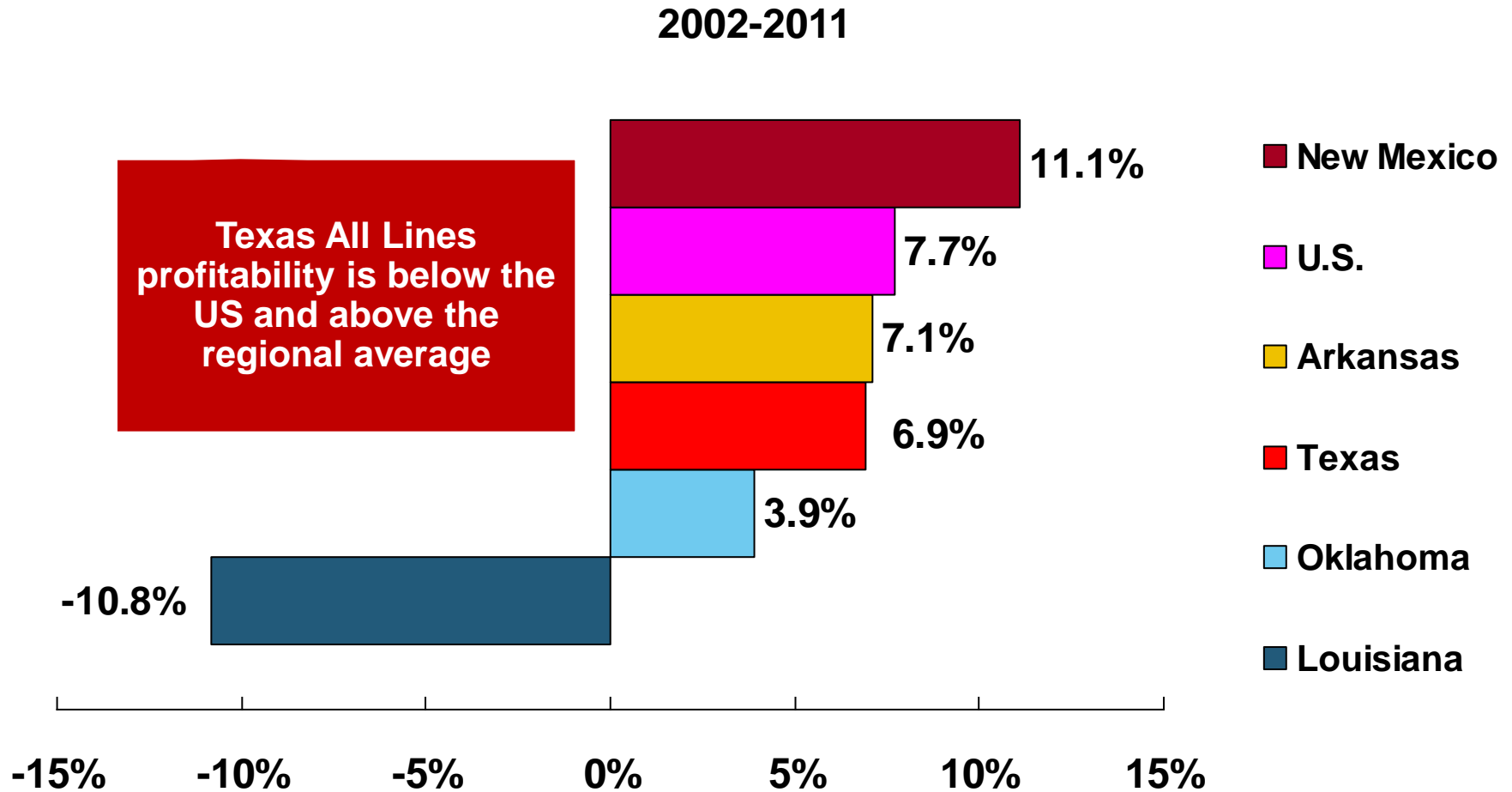
# RNW Workers Comp: TX vs. U.S., 2002-2011

(Percent)





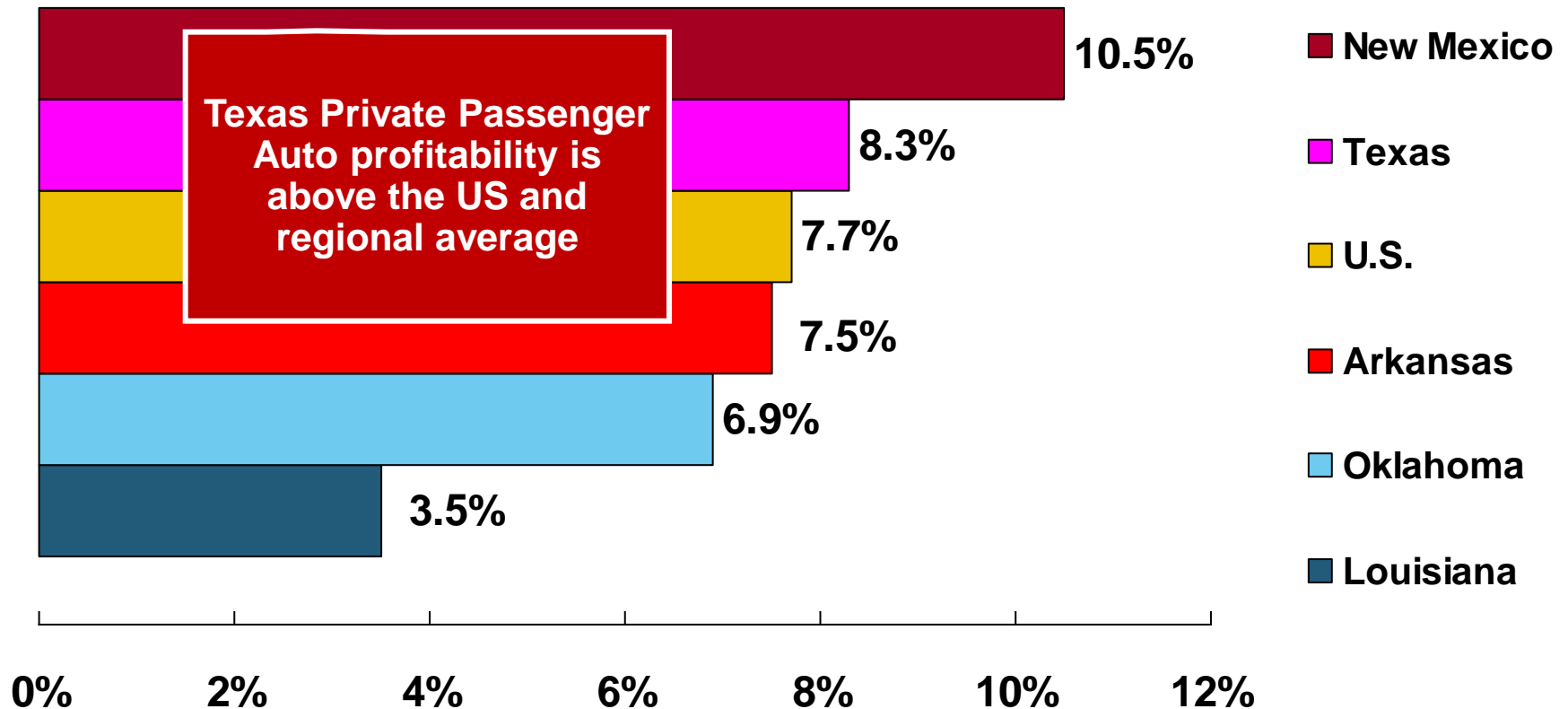
# All Lines: 10-Year Average RNW TX & Nearby States



Source: NAIC, Insurance Information Institute

# PP Auto: 10-Year Average RNW TX & Nearby States

2002-2011



Source: NAIC, Insurance Information Institute

# Top Ten Most Expensive And Least Expensive States For Automobile Insurance, 2010 (1)

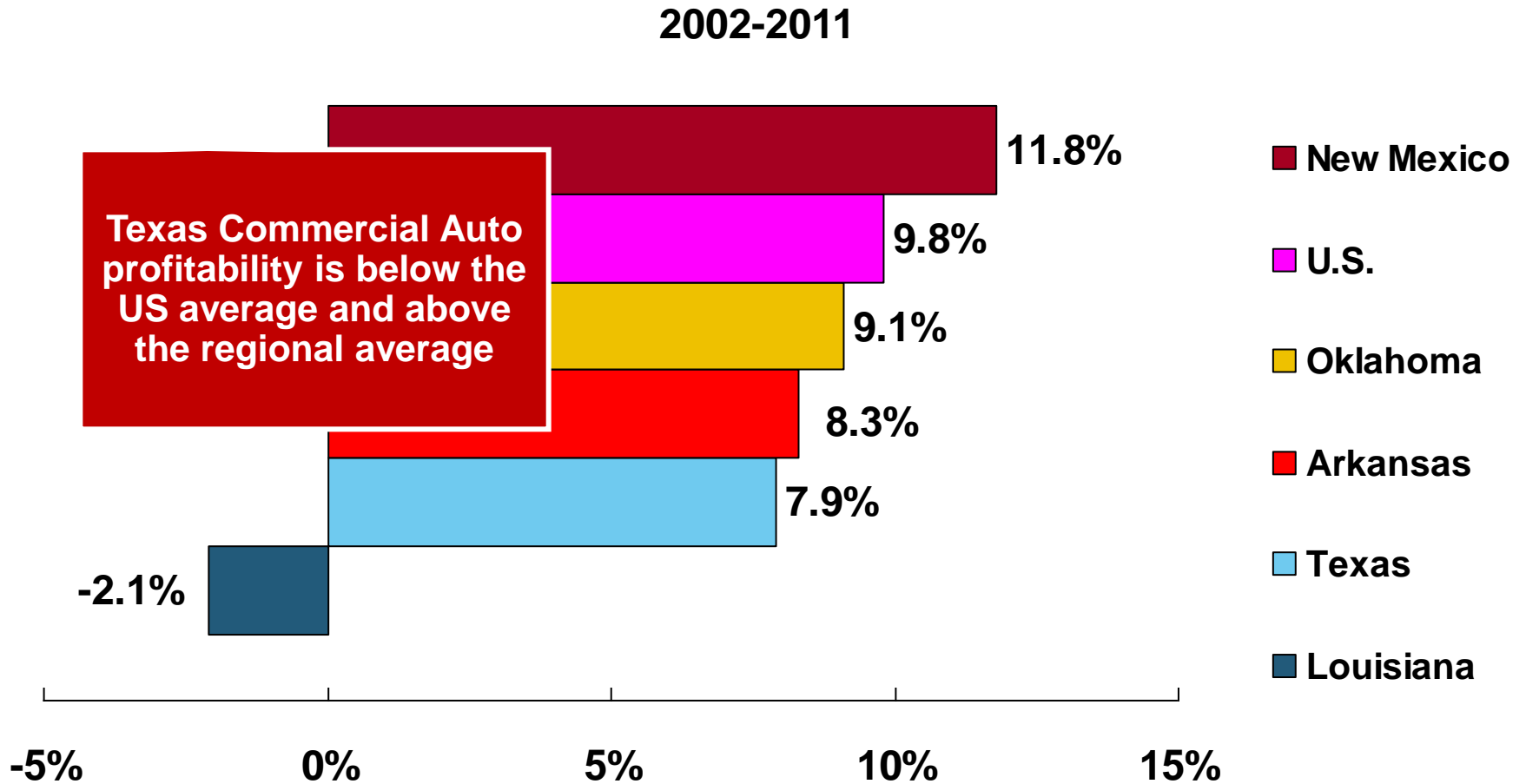
Rank	Most expensive states	Average expenditure	Rank	Least expensive states	Average expenditure
1	New Jersey	\$1,157.30	1	South Dakota	\$525.16
2	District of Columbia	1,133.87	2	North Dakota	528.81
3	Louisiana	1,121.46	3	Iowa	546.59
4	New York	1,078.88	4	Idaho	547.78
5	Florida	1,036.76	5	Maine	582.29
6	Delaware	1,030.98	6	Nebraska	592.69
7	Rhode Island	984.95	7	North Carolina	599.90
8	Connecticut	965.22	8	Wisconsin	613.37
9	Maryland	947.70	9	Ohio	619.46
10	Michigan	934.60	10	Wyoming	621.08

**Texas ranked as the 14th most expensive state in 2010, with an average expenditure for auto insurance of \$848.11.**

(1) Based on average automobile insurance expenditures.

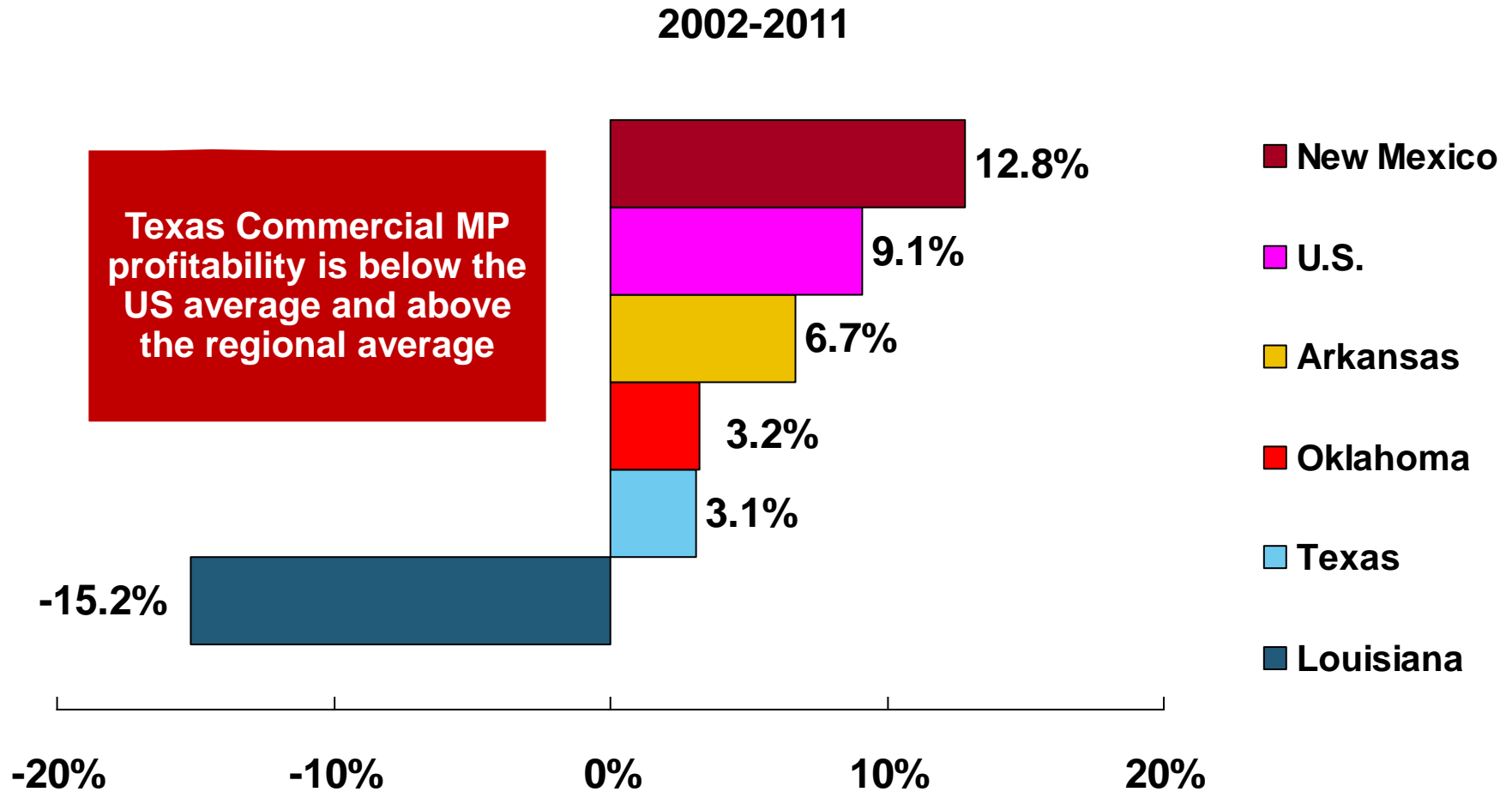
Source: © 2012 National Association of Insurance Commissioners.

# Comm. Auto: 10-Year Average RNW TX & Nearby States



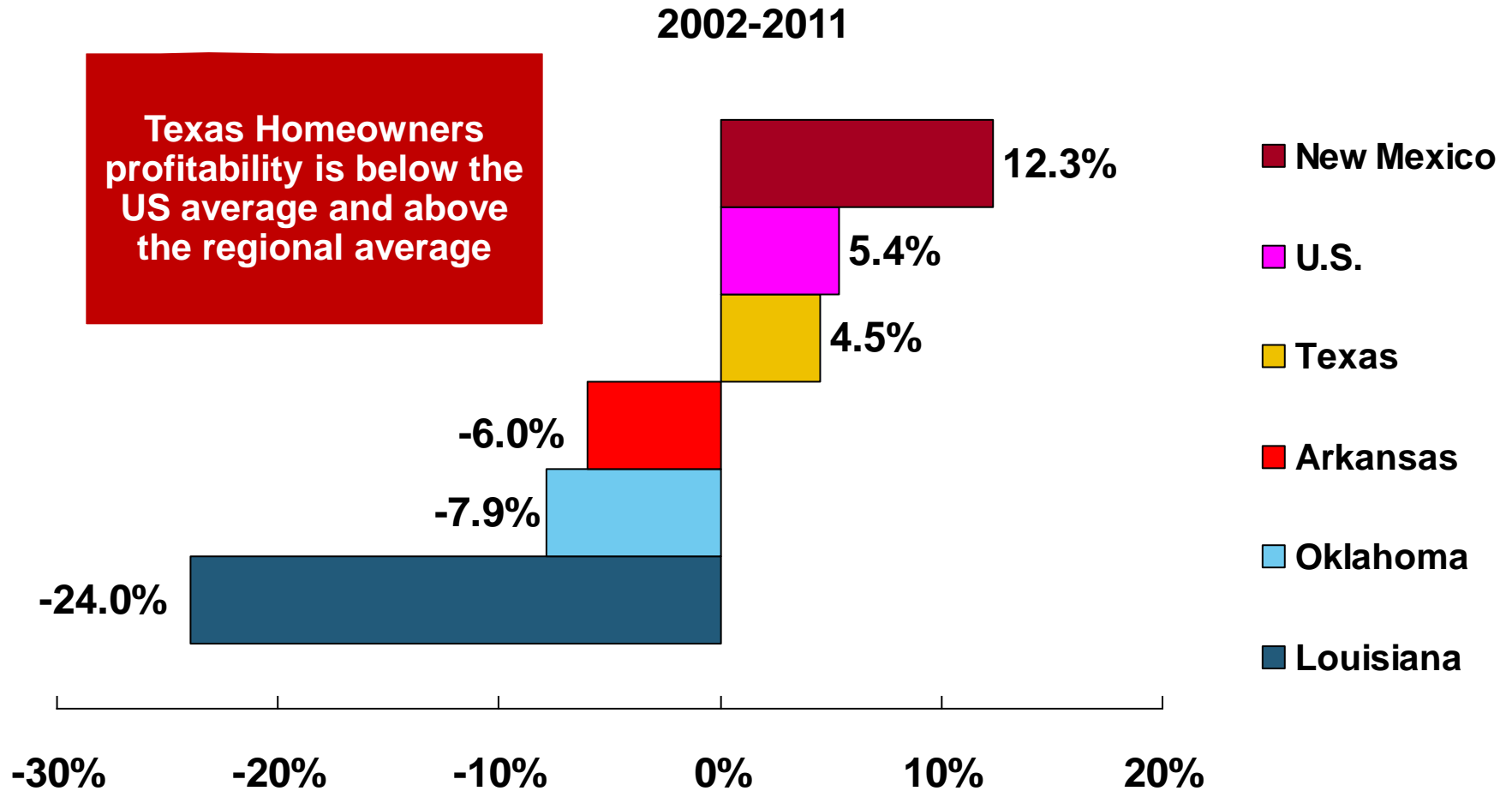
Source: NAIC, Insurance Information Institute

# Comm. M-P: 10-Year Average RNW TX & Nearby States



Source: NAIC, Insurance Information Institute

# Homeowners: 10-Year Average RNW TX & Nearby States



Source: NAIC, Insurance Information Institute

# Top Ten Most Expensive And Least Expensive States For Homeowners Insurance, 2010

**Texas ranked as the most expensive state for homeowners insurance in 2010, with an average expenditure of \$1,560.**

Rank (1)	Most expensive states	HO average premium (2)	Rank	Least expensive states	HO average premium (2)
1	<b>Texas (2)</b>	<b>\$1,560</b>	1	Idaho	\$500
2	Louisiana (3)	1,546	2	Oregon	535
3	Florida (4)	1,544	3	Utah	558
4	Oklahoma	1,246	4	Wisconsin	563
5	Mississippi	1,217	5	Washington	595
6	Rhode Island	1,092	6	Ohio	614
7	Kansas	1,066	7	Delaware	636
8	District Of Columbia	1,065	8	Arizona	666
9	Connecticut	1,052	9	Maine	676
10	Alabama	1,050	10	South Dakota	678

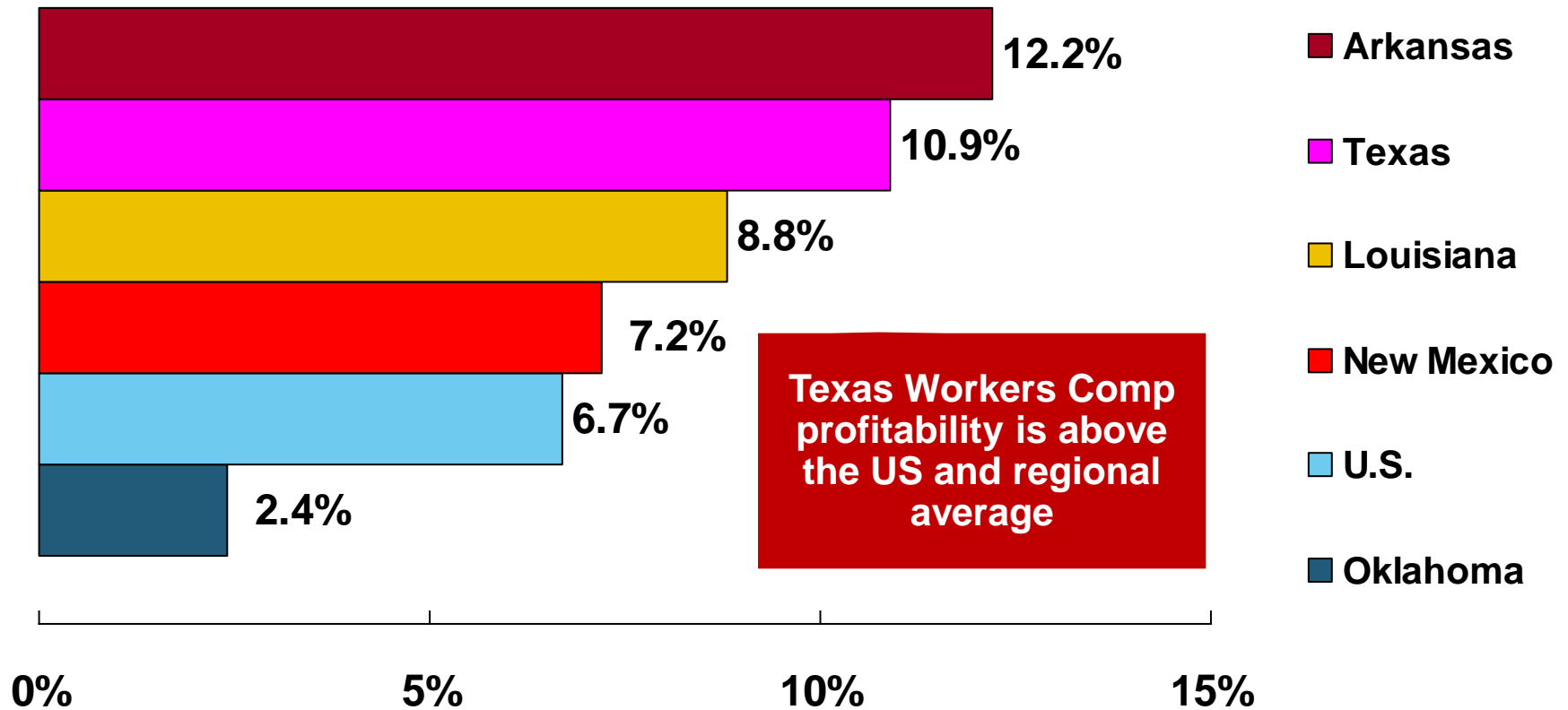
- (1) Based on the HO-3 homeowner package policy for owner-occupied dwellings, 1 to 4 family units. Provides “all risks” coverage (except those specifically excluded in the policy) on buildings and broad named-peril coverage on personal property, and is the most common package written.
- (2) The Texas Department of Insurance developed home insurance policy forms that are similar but not identical to the standard forms. Note: Average premium=Premiums/exposure per house years. A house year is equal to 365 days of insured coverage for a single dwelling. The NAIC does not rank State Average Expenditures and does not endorse any conclusions drawn from this data.
- (3) Policies written by Citizens Property Insurance (Louisiana), are not included.
- (4) Policies written by Citizens Property Insurance (Florida), are not included.

Note: Average premium=Premiums/exposure per house years. A house year is equal to 365 days of insured coverage for a single dwelling. The NAIC does not rank state average expenditures and does not endorse any conclusions drawn from this data.

Source: © 2012 National Association of Insurance Commissioners (NAIC). Reprinted with permission. Further reprint or distribution strictly prohibited without written permission of NAIC.

# Workers Comp: 10-Year Average RNW TX & Nearby States

2002-2011

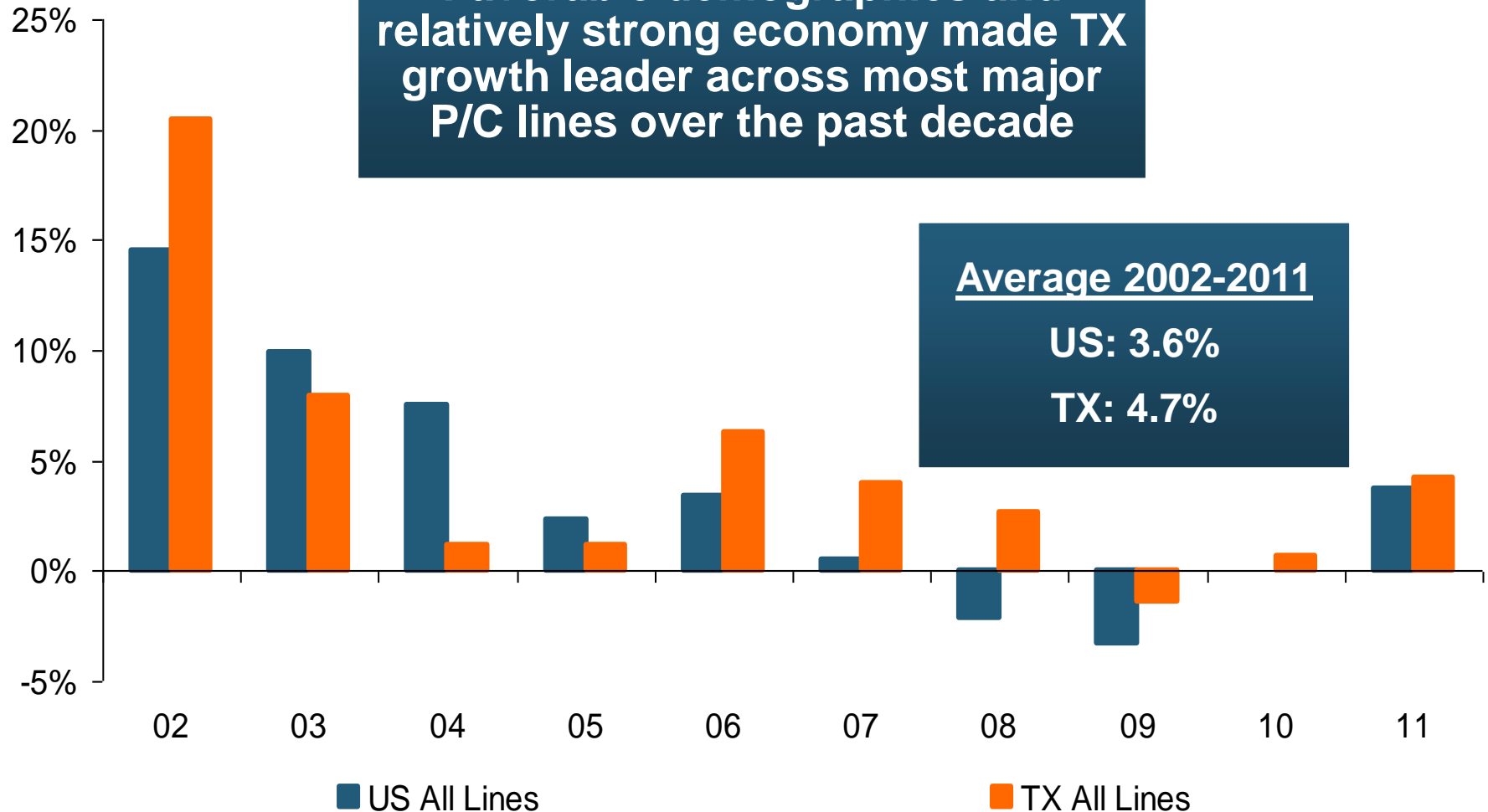


Source: NAIC, Insurance Information Institute



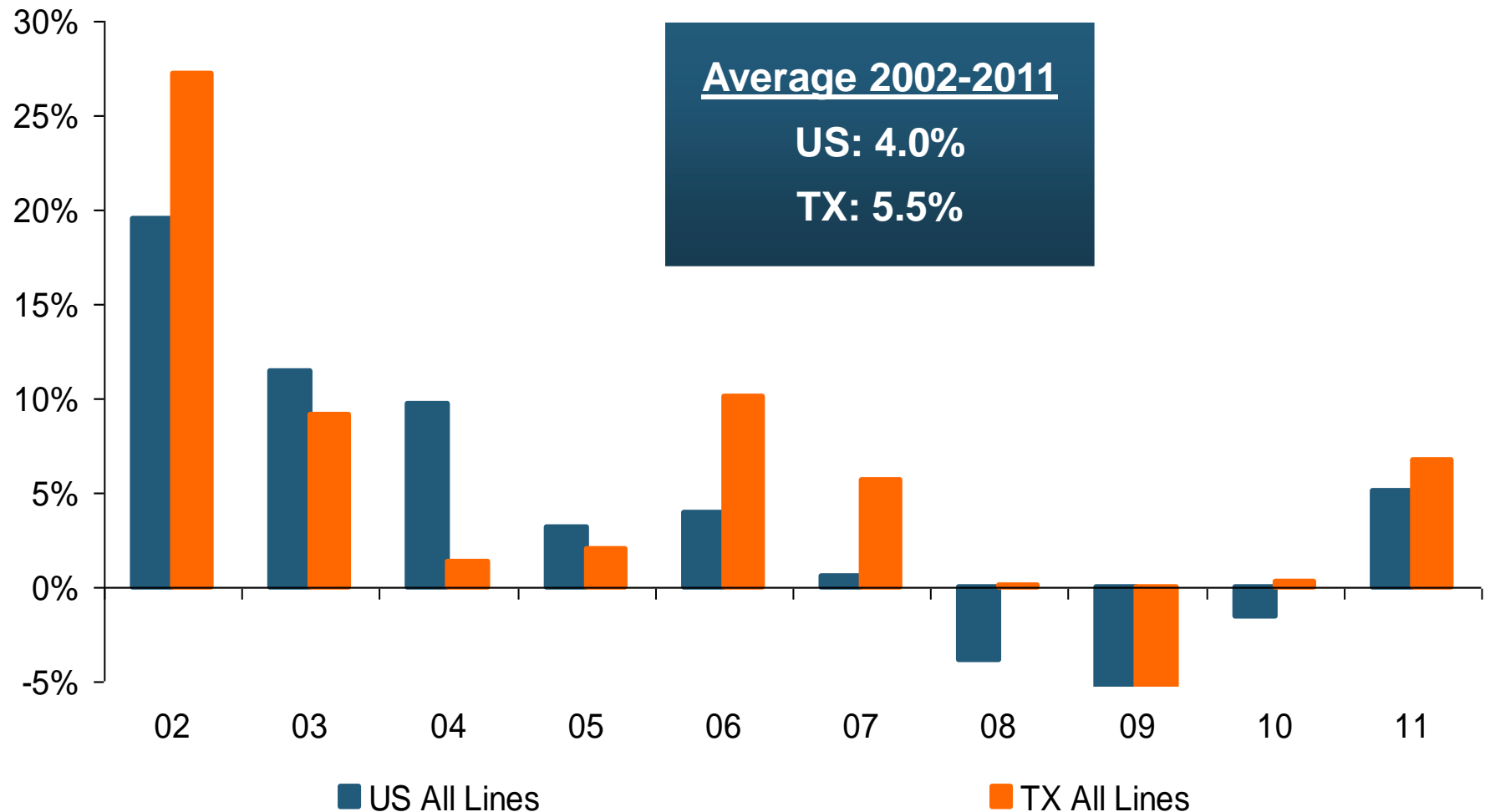
# All Lines DWP Growth: TX vs. U.S., 2002-2011

(Percent)



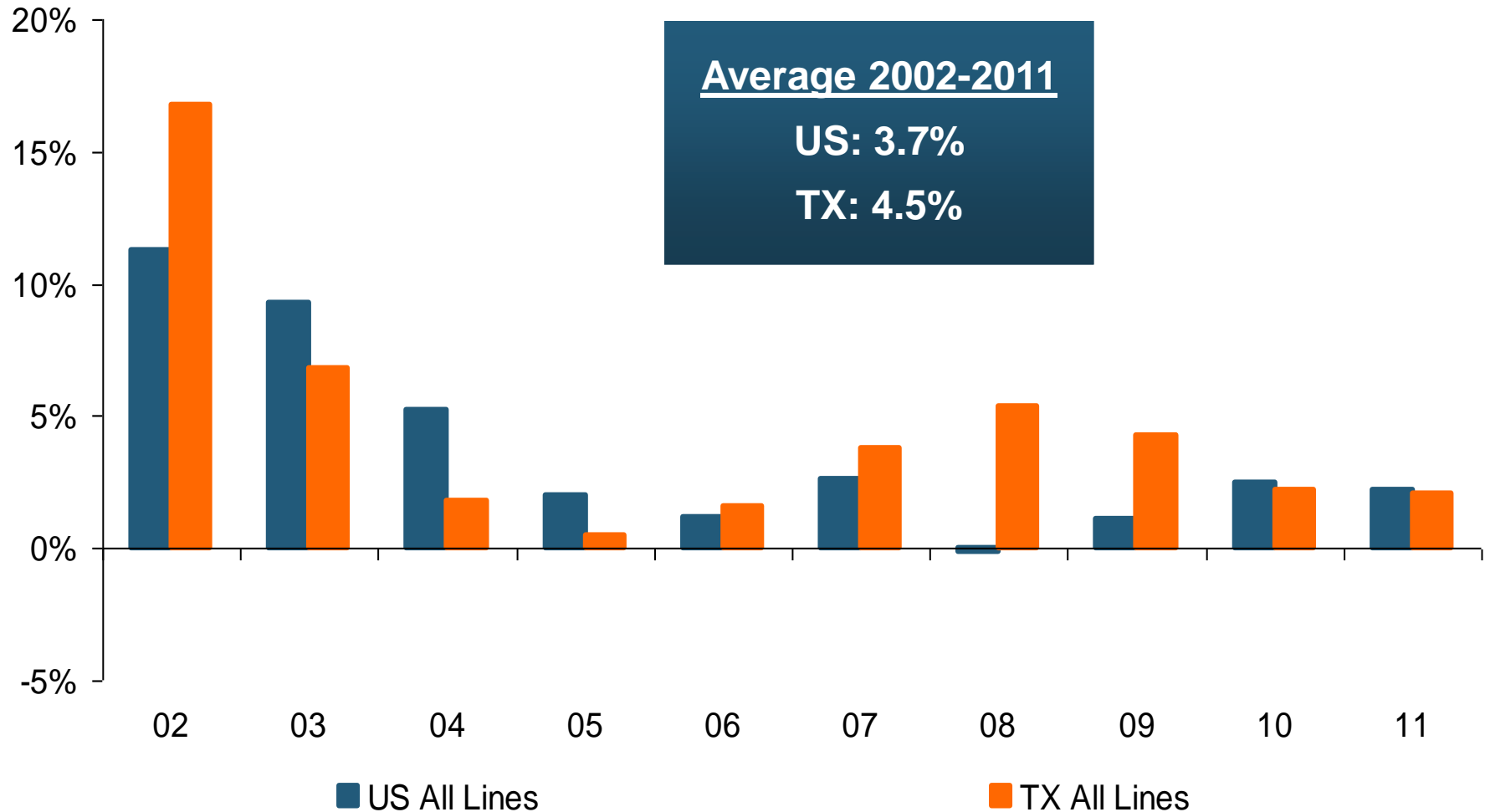
# Comm. Lines DWP Growth: TX vs. U.S., 2002-2011

(Percent)



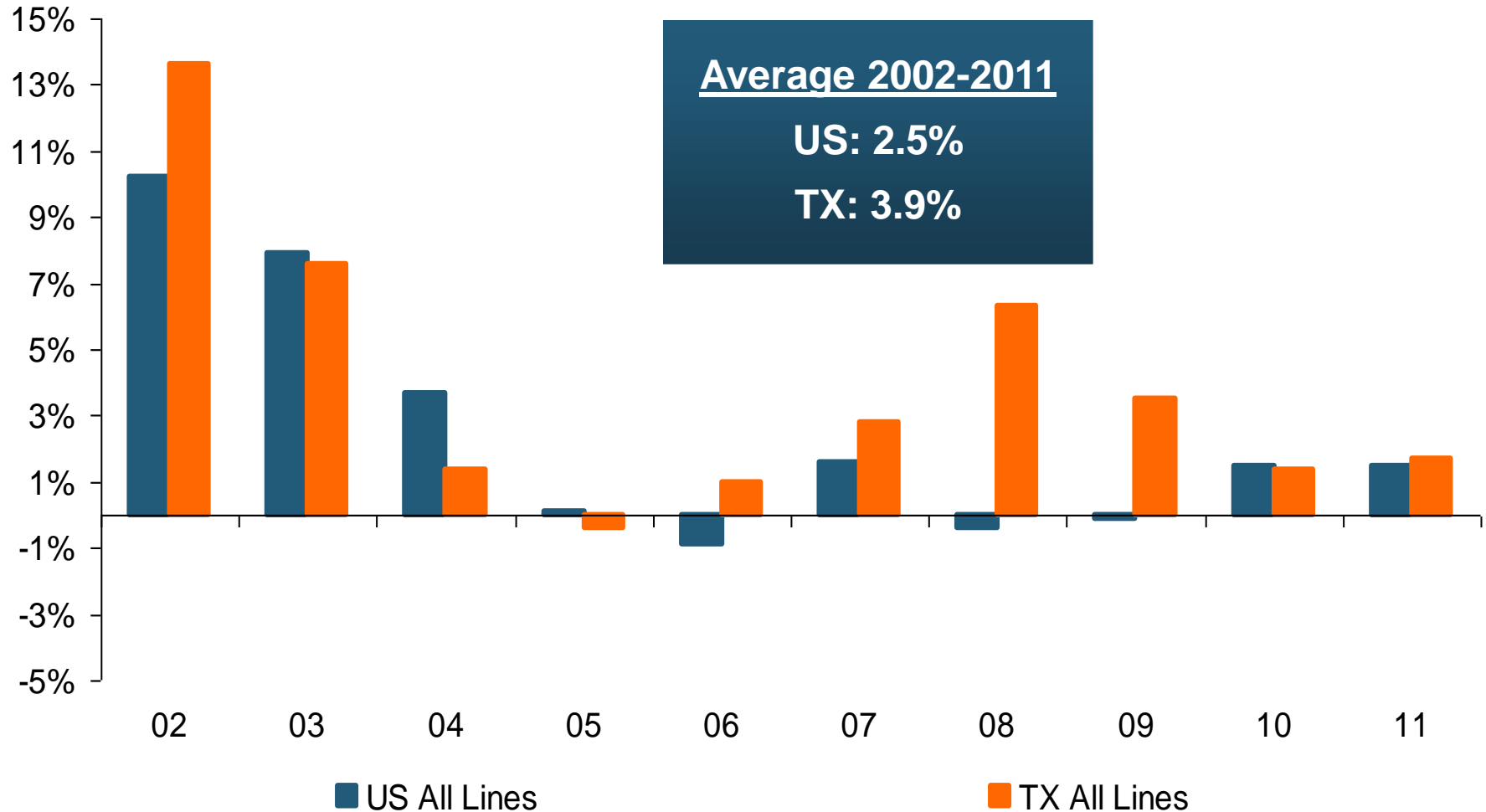
# Personal Lines DWP Growth: TX vs. U.S., 2002-2011

(Percent)



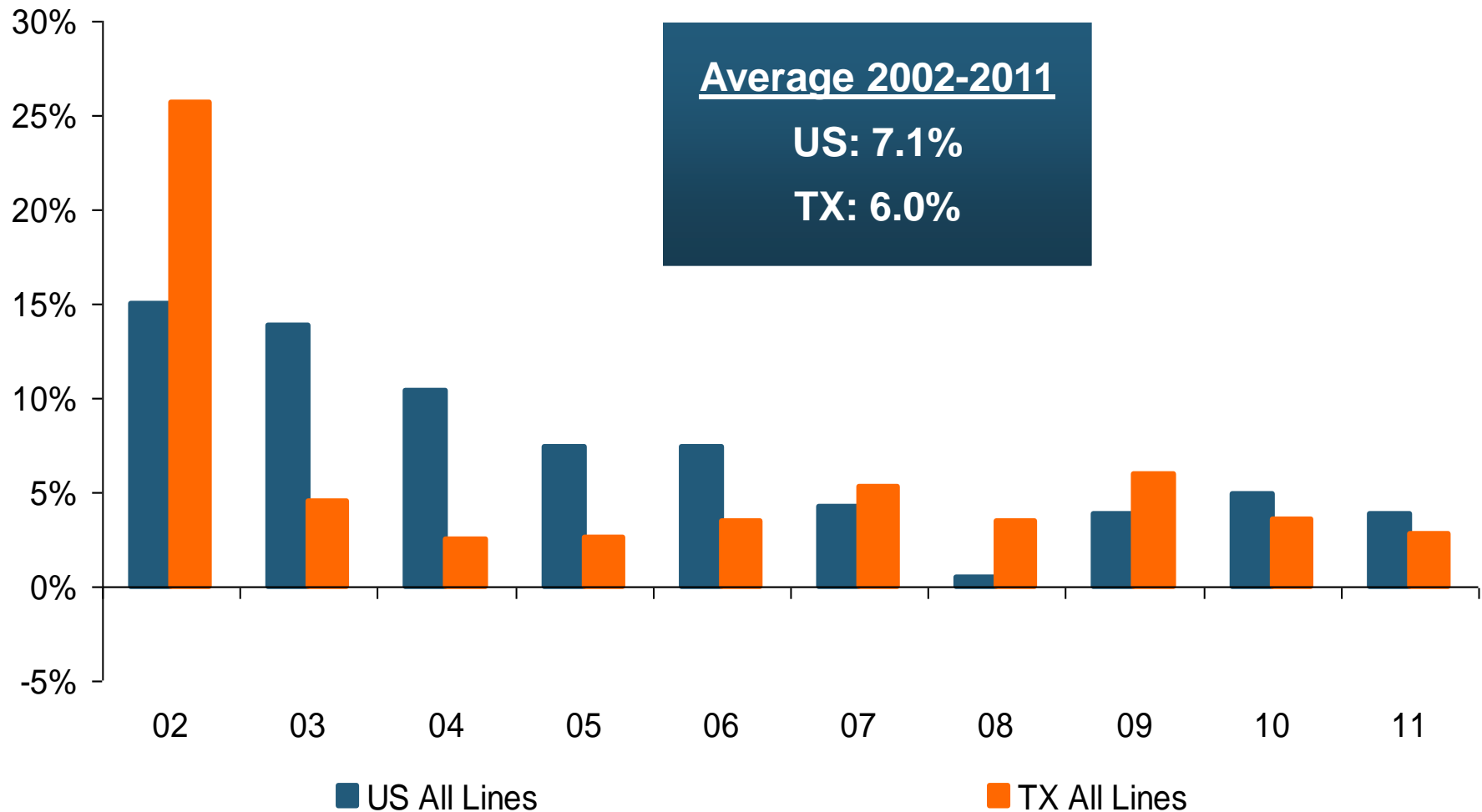
# Private Passenger Auto DWP Growth: TX vs. U.S., 2002-2011

(Percent)



# Homeowners DWP Growth: TX vs. U.S., 2002-2011

(Percent)





# Hurricane Sandy Summary

**Sandy Will Become One of the  
Most Expensive Events in  
Insurance History**

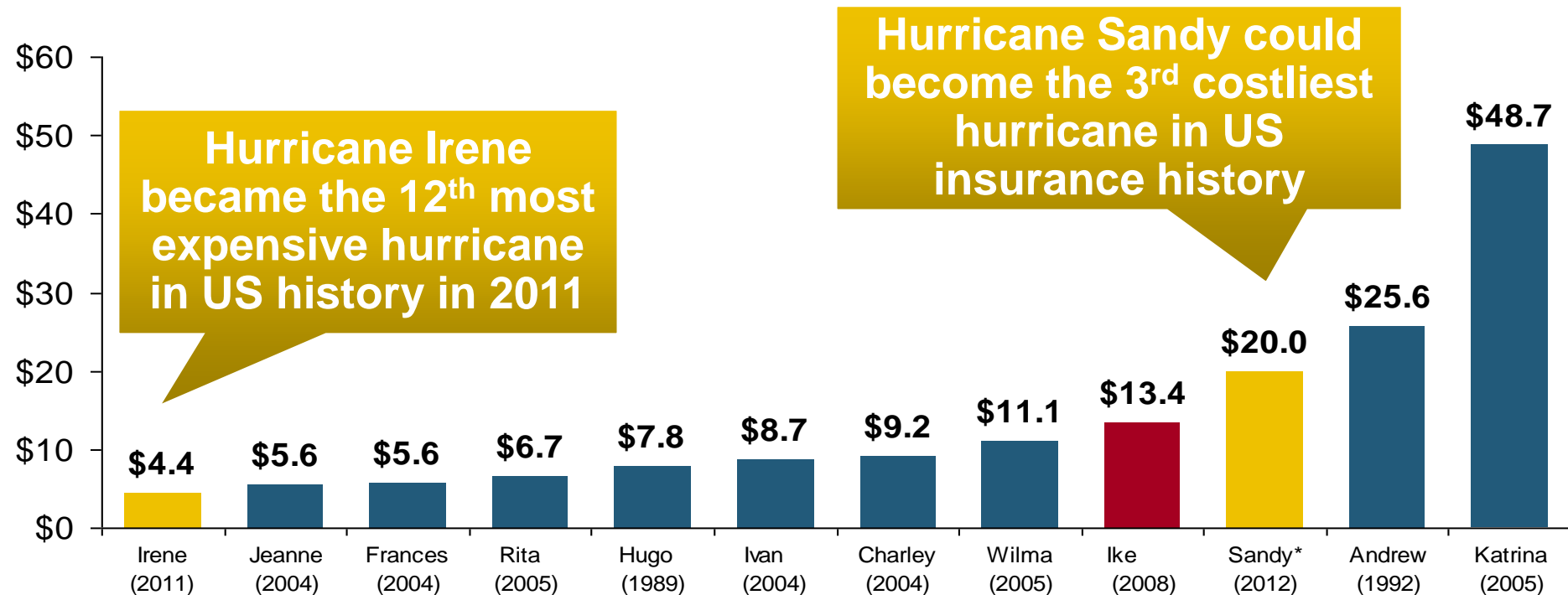
## ■ Catastrophe Communications: US & Global

- **U.S. Focus:** ~\$37-\$42B = 2<sup>nd</sup> Most Costliest Year Ever for Insured Catastrophe Loss (Behind 2005)
  - Economic Losses = \$101B
  - Crop = Additional ~\$16B (\$7B-\$8B privately insured)
  - NFIP Flood = Additional \$9B+
  - Flood losses/NFIP/FEMA has been the #1 communications “issue” in the wake of Sandy
- **Global Focus:** \$65B in Insured Losses → Well Below \$105B in 2011 but Above 10-Yr. Avg. of \$50B
  - Cats abroad did not drive media cycle in 2012, save ongoing Fukushima issues; Climate change
- **Market Consequences:** Primary & Reinsurance
  - Impacts on price, availability

# Top 12 Most Costly Hurricanes in U.S. History

(Insured Losses, 2012 Dollars, \$ Billions)

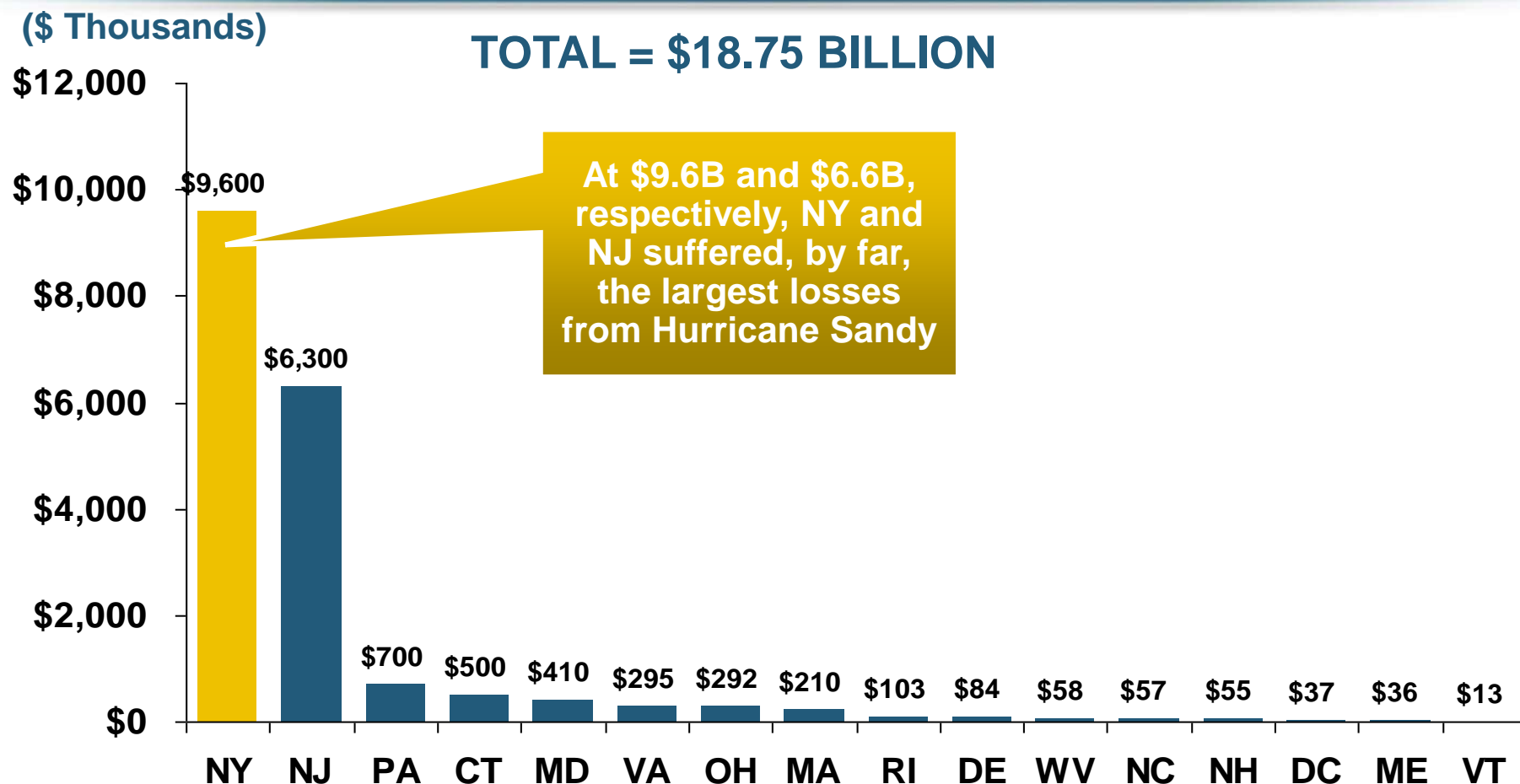
**10 of the 12 most costly hurricanes in insurance history occurred over the past 9 years (2004—2012)**



\*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.



# Hurricane Sandy: Claim Payments to Policyholders, by State

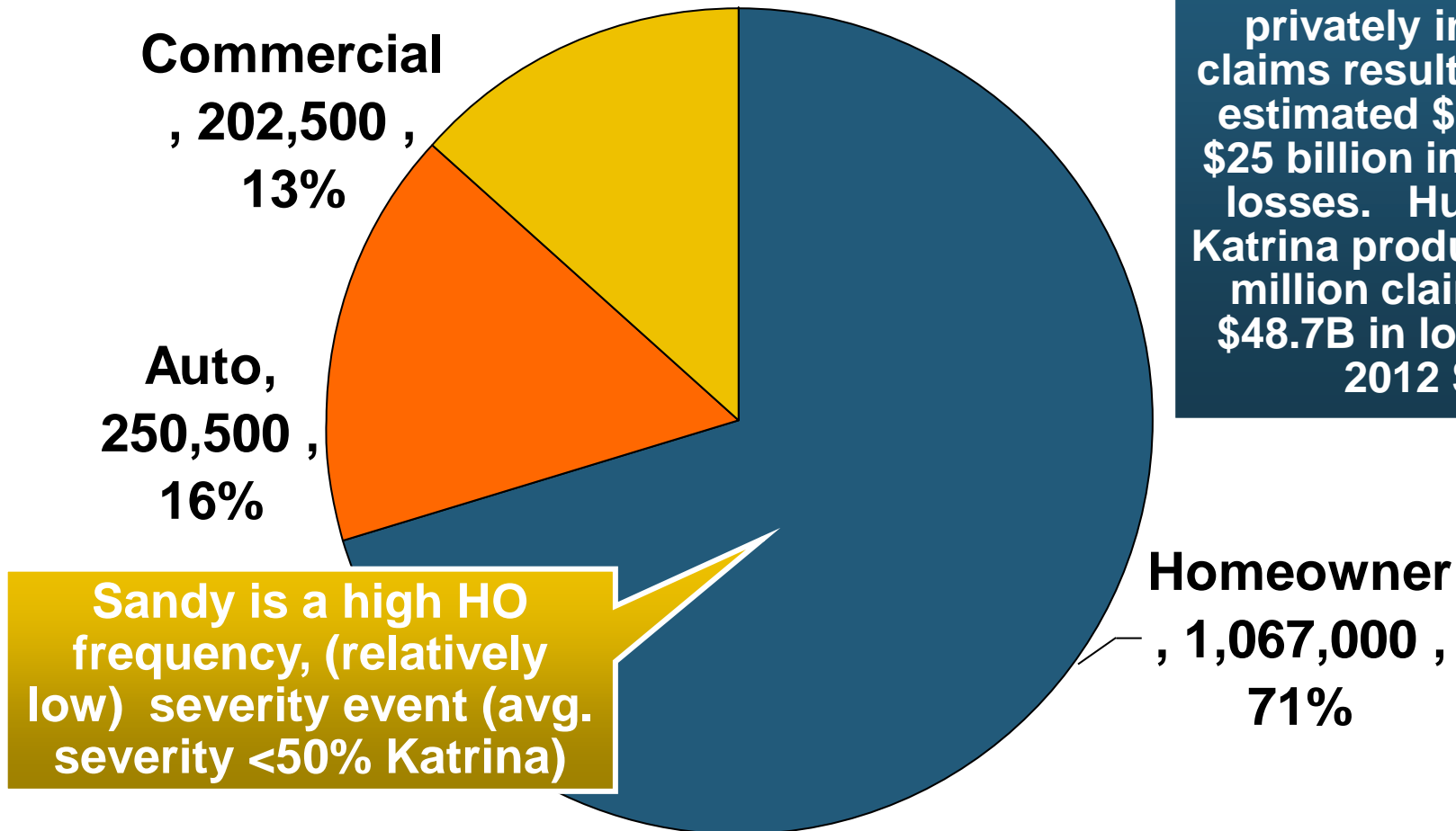


**Insurers Will Pay at Least \$18.75 Billion to 1.52 Million Policyholders Across 15 States and DC in the Wake of Hurricane Sandy**

# Hurricane Sandy: Number of Claims by Type\*

Total Claims = 1.52 Million\*

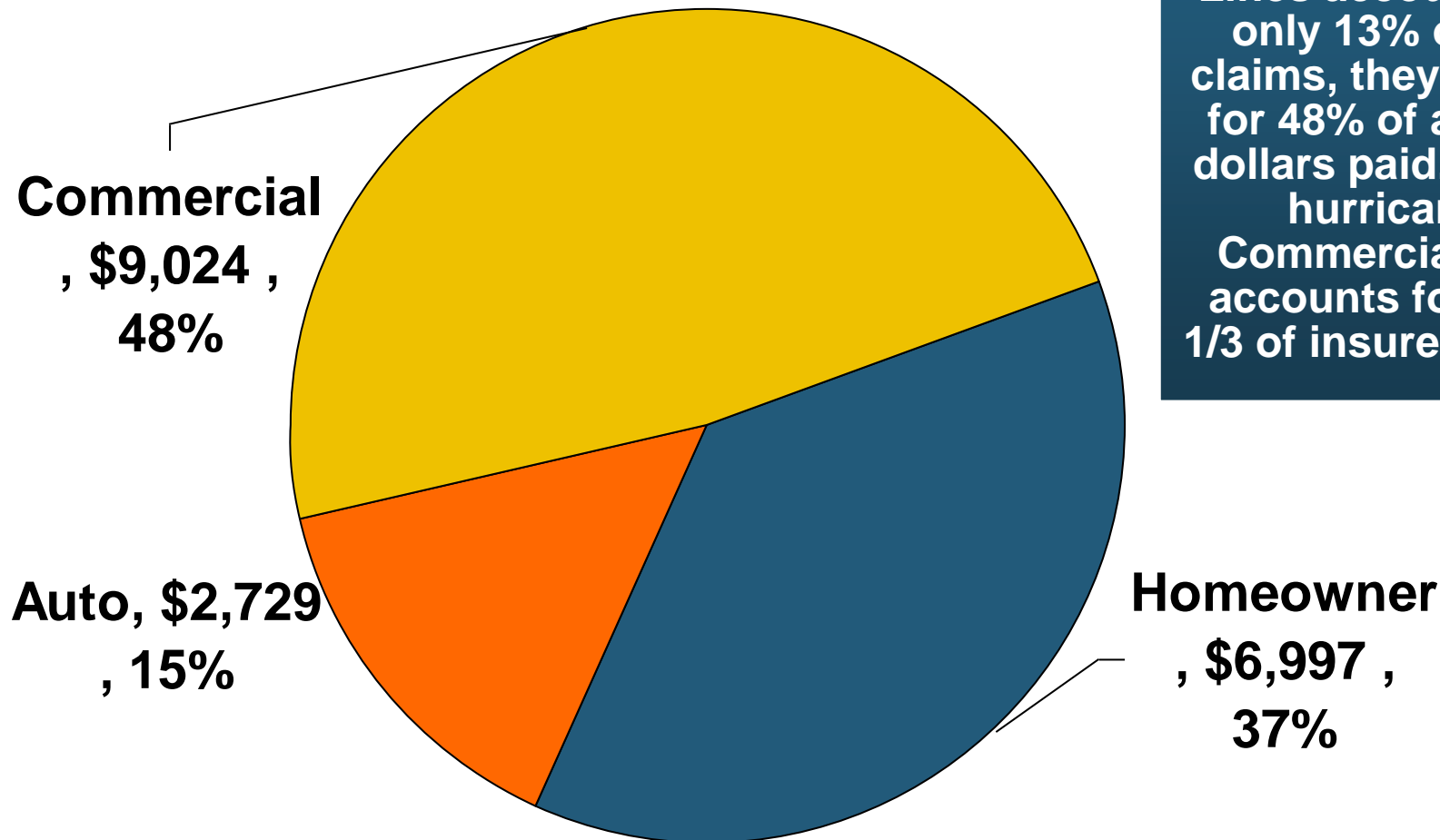
Hurricane Sandy resulted in an estimated 1.52 million privately insured claims resulting in an estimated \$18.75 to \$25 billion in insured losses. Hurricane Katrina produced 1.74 million claims and \$48.7B in losses (in 2012 \$)



\*PCS claim count estimate s as of 1/18/13. Loss estimate represents PCS total (\$18.75B) and upper end of range estimates by risk modelers RMS, Eqecat and AIR. All figures exclude losses paid by the NFIP.  
Source: PCS; AIR, Eqecat, AIR Worldwide; Insurance Information Institute.

# Hurricane Sandy: Insured Loss by Claim Type\* (\$ Millions)

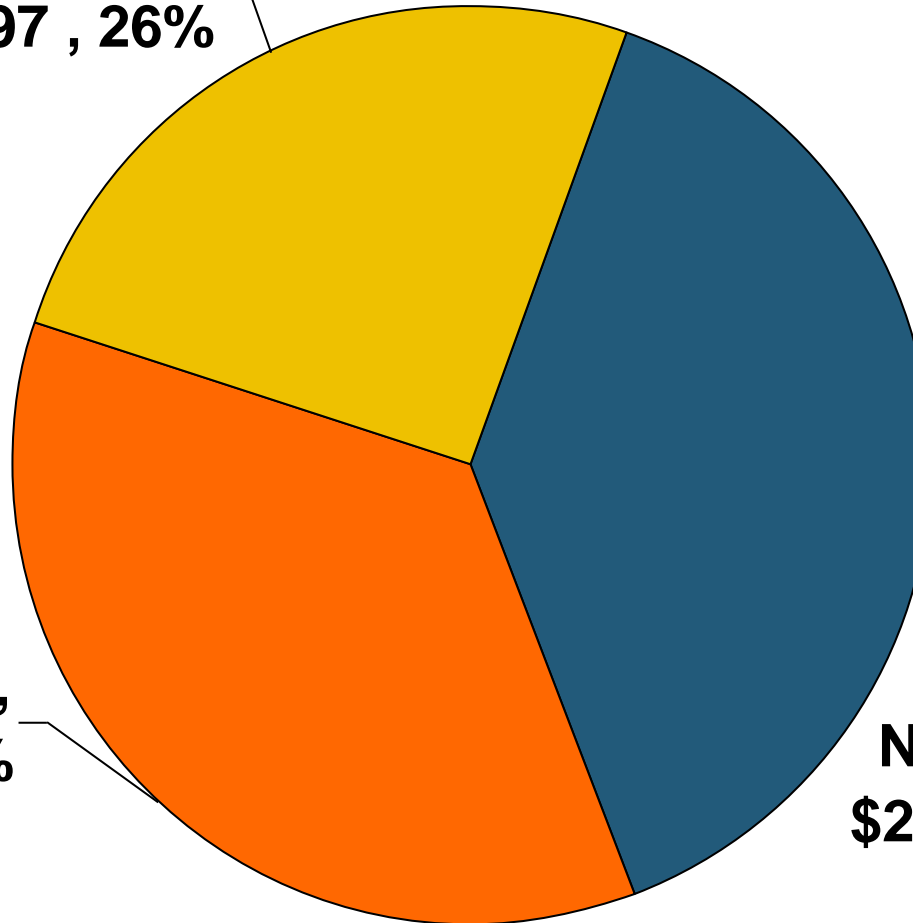
Total Claim Value = \$18.75 Billion\*



Although Commercial Lines accounted for only 13% of total claims, they account for 48% of all claim dollars paid. In most hurricanes, Commercial Lines accounts for about 1/3 of insured losses.

# Hurricane Sandy: Value of Homeowners Claims Paid, by State\* (\$ Millions)

**All Other,  
\$1,797 , 26%**



**New Jersey,  
\$2,500 , 36%**

**New York,  
\$2,700 , 38%**

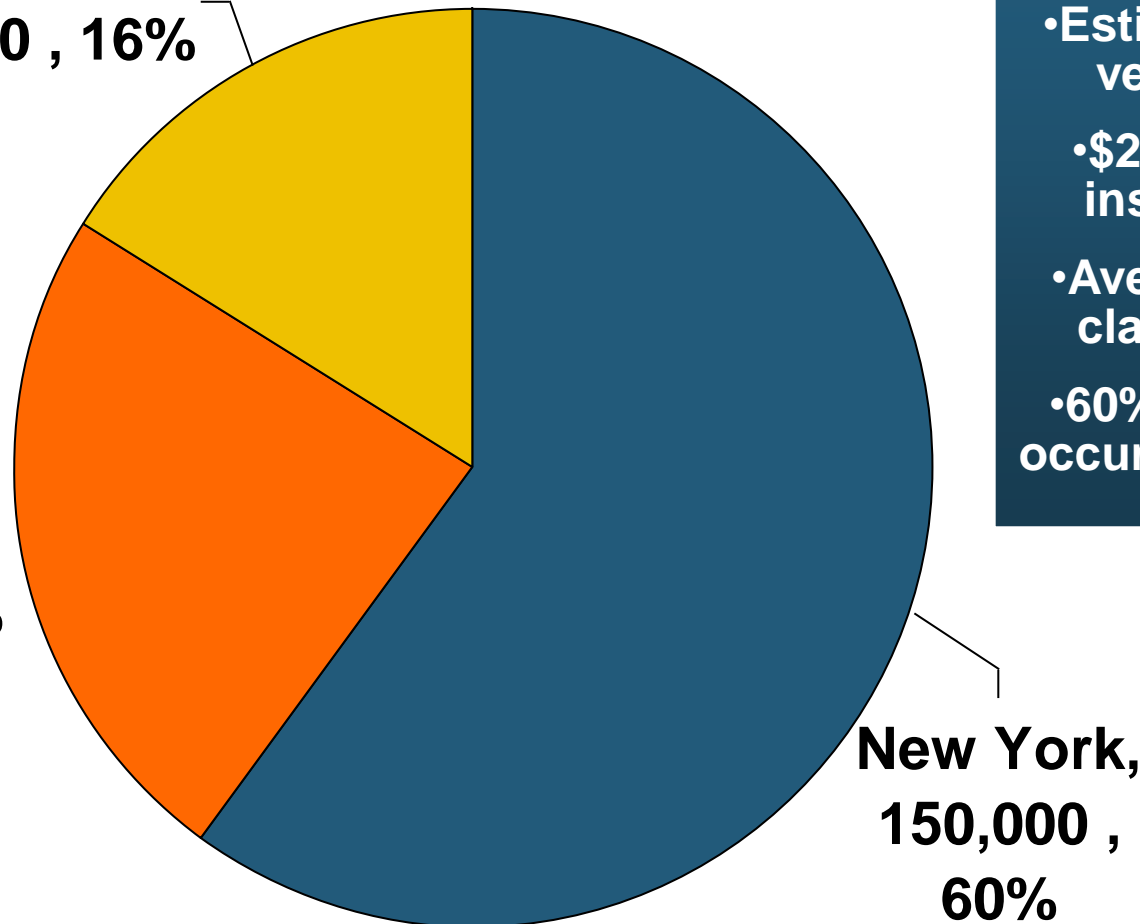
## Hurricane Sandy

- Estimated 1,067,000 homeowners claims\*\*
- \$7.0 billion in insured losses.
- Average loss per claim is \$6,558
- Claims in NJ estimated at \$2.5 billion (36%) and \$2.7 billion in NY (38%)

# Hurricane Sandy: Number of Auto Claims by State\*

**All Other,  
40,500 , 16%**

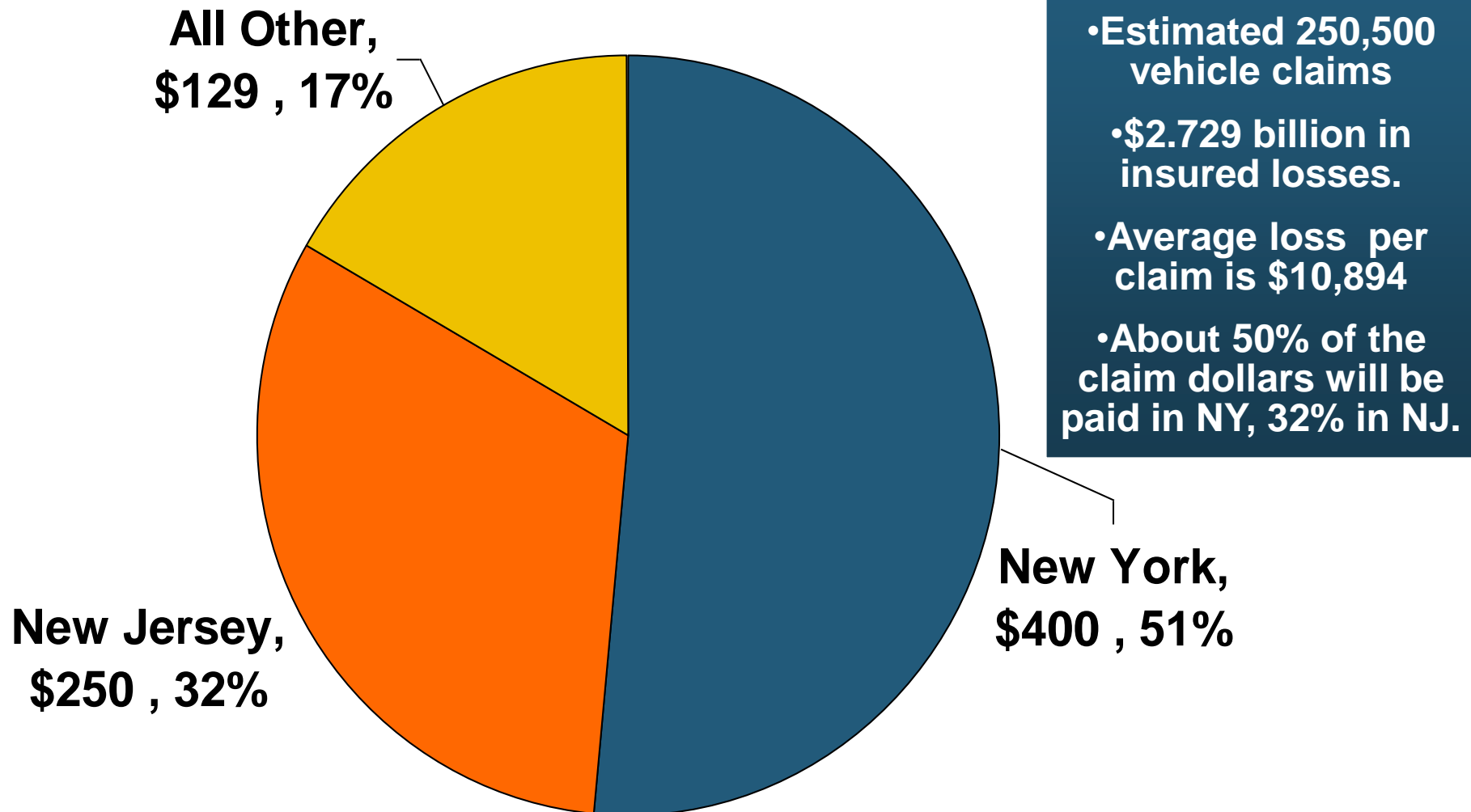
**New Jersey,  
60,000 , 24%**



## Hurricane Sandy

- Estimated 250,500 vehicle claims
- \$2.729 billion in insured losses.
- Average loss per claim is \$10,894
- 60% of the claims occurred in NY state.

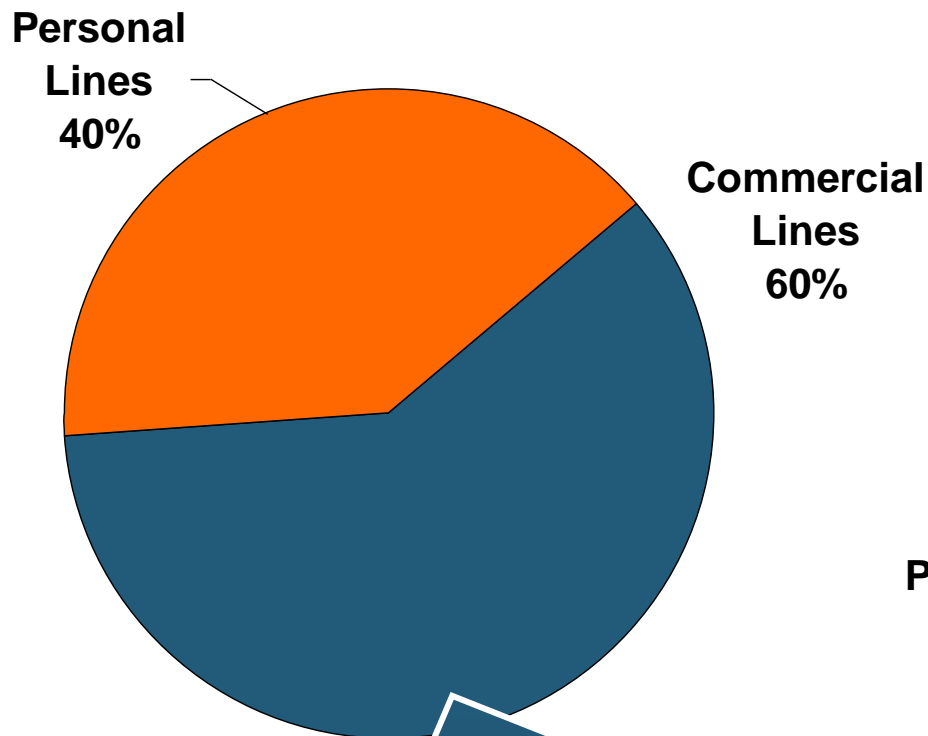
# Hurricane Sandy: Value of Auto Claims Paid, by State\* (\$ Millions)



\*Preliminary as of 1/18/13.  
Source: PCS.

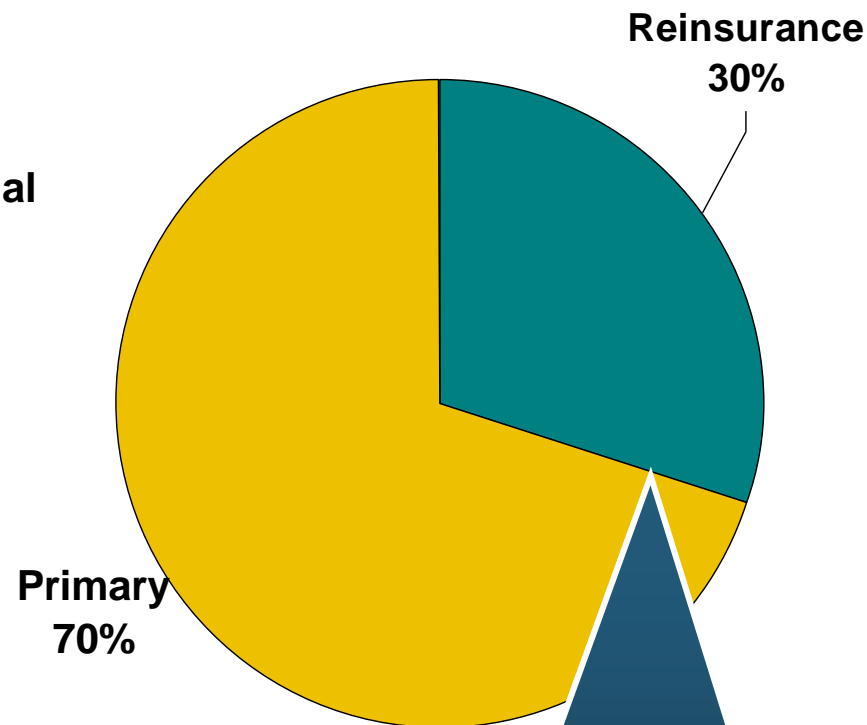
# Hurricane Sandy: Loss Distribution by Commercial/Personal Lines and Reinsurance vs. Primary Insurer

## Personal vs. Commercial Lines\*



**~60-65% of Sandy losses appear to be commercial lines, and 35-40% personal, the opposite of the norm for hurricane losses**

## Primary vs. Reinsurer Share\*\*

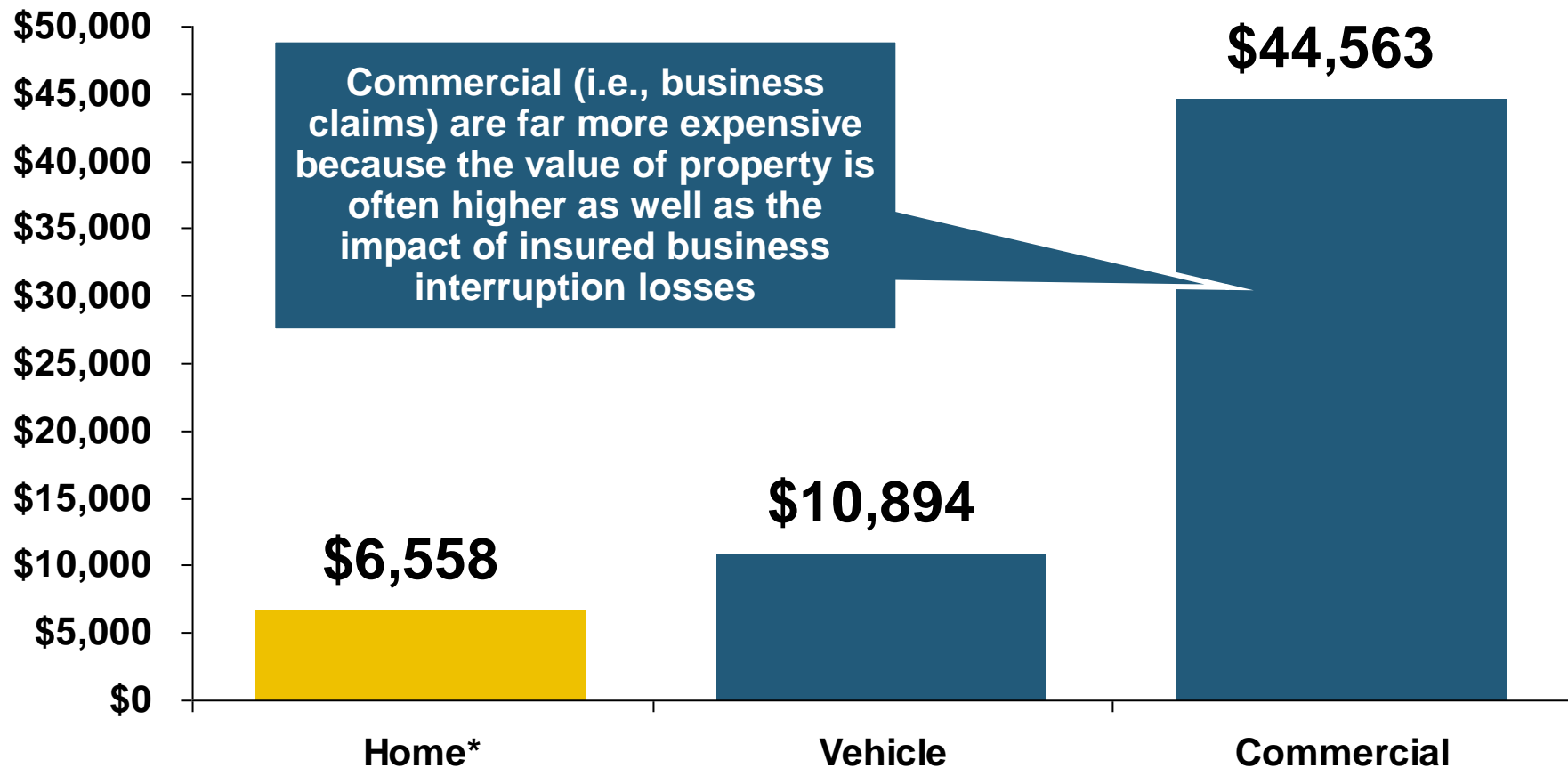


**Reinsurers' share of Sandy losses appears to be in the 30% range, though this is highly preliminary**

\*Fitch Ratings assigns a range of 60-65% commercial and 35-40% personal lines., *Hurricane Sandy Update*, January 8, 2013.

\*\*Source: Insurance Information Institute rough estimate based on company reports as of January 13, 2013. Actual number will vary.

# Hurricane Sandy: Average Claim Payment by Type of Claim



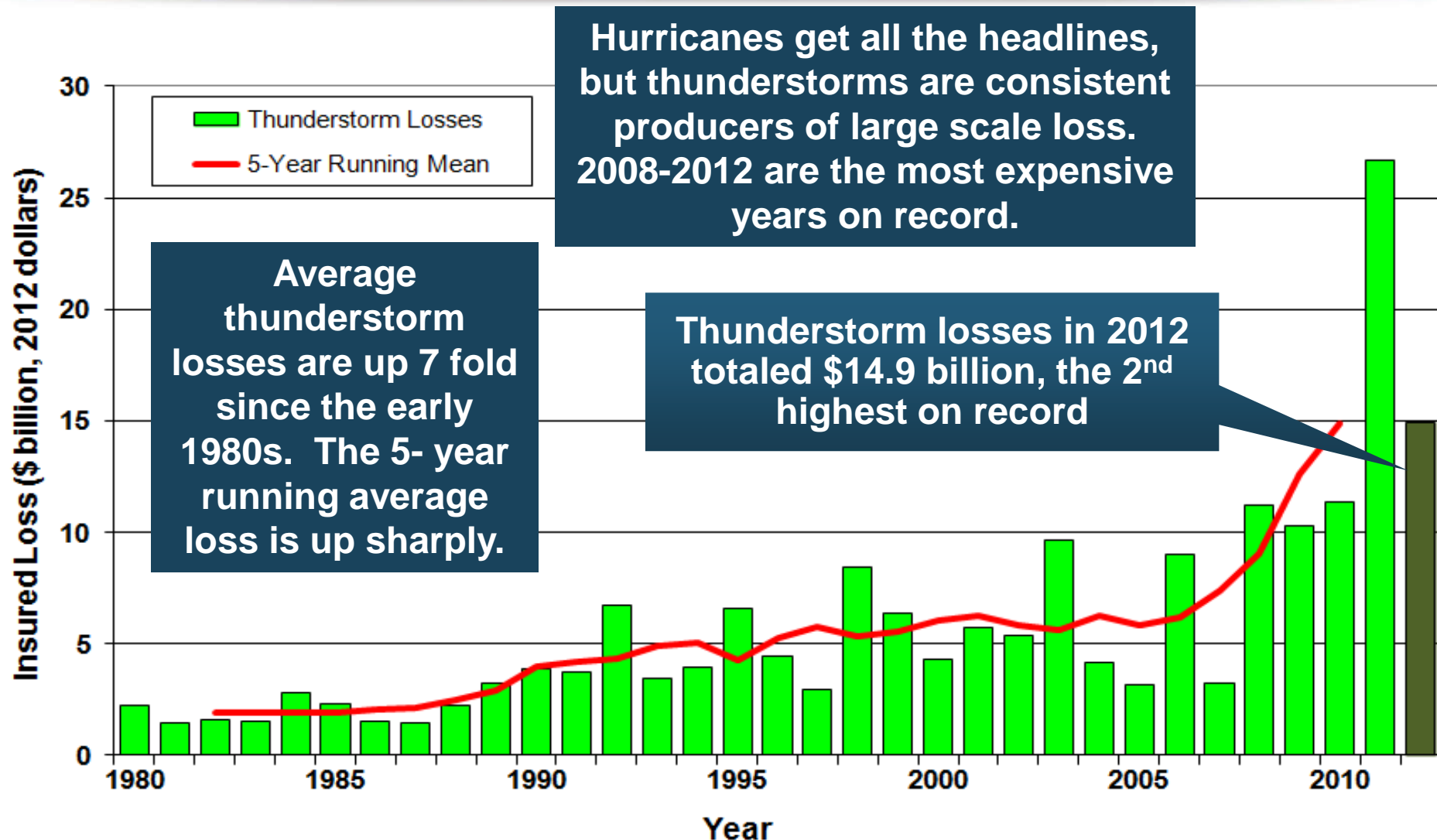
**Commercial (Business) Claims Were Nearly Seven Times More Expensive than Homeowners Claims; Vehicle Claims Were Unusually Expensive Due to Extensive Flooding**

\*Includes rental and condo policies.

Sources: Catastrophe loss data is for Catastrophe Serial No. 90 (Oct. 28 – 31, 2012) from PCS as of Jan. 18, 2013; Insurance Information Institute .

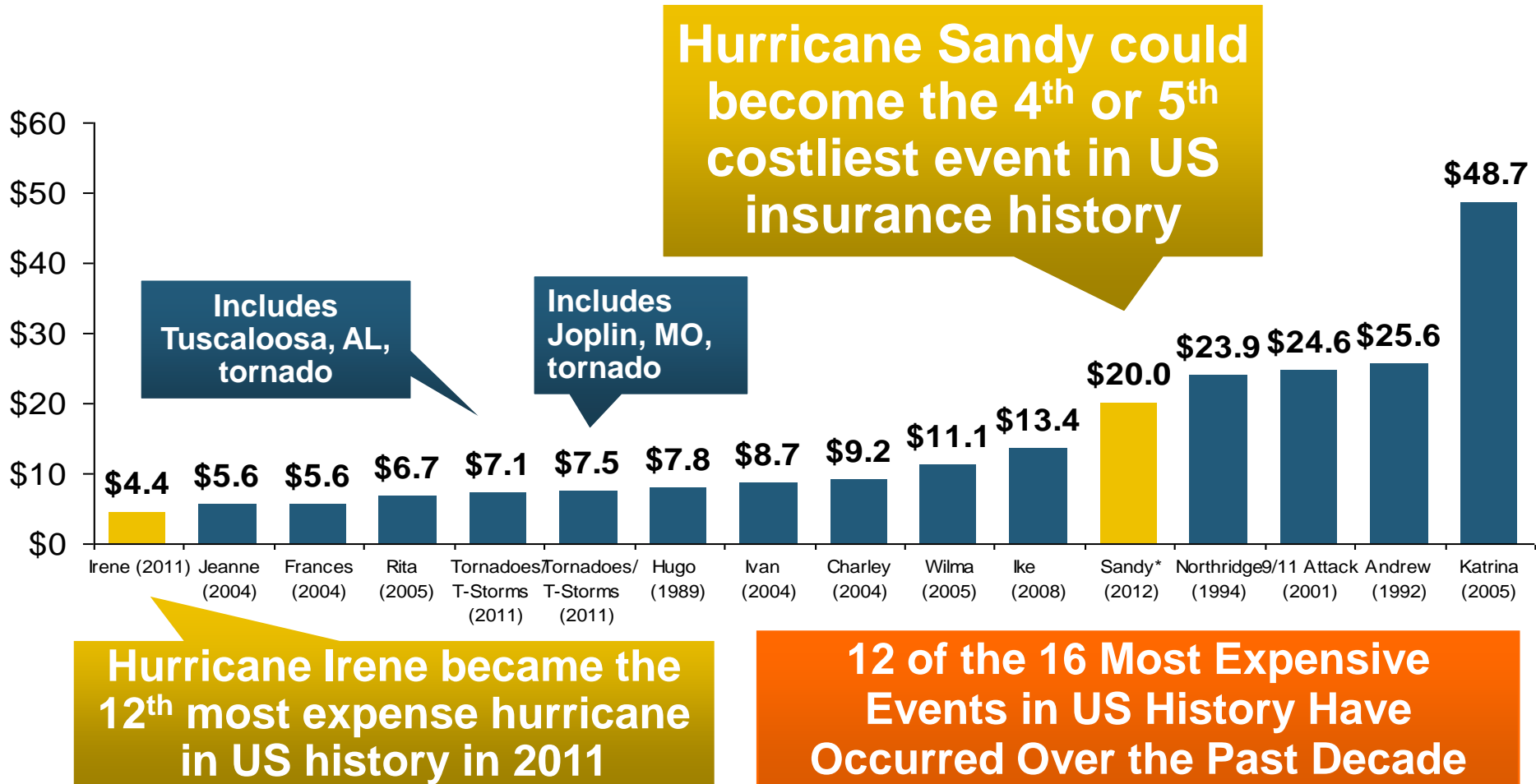


# U.S. Thunderstorm Loss Trends, 1980 – 2012



# Top 16 Most Costly Disasters in U.S. History

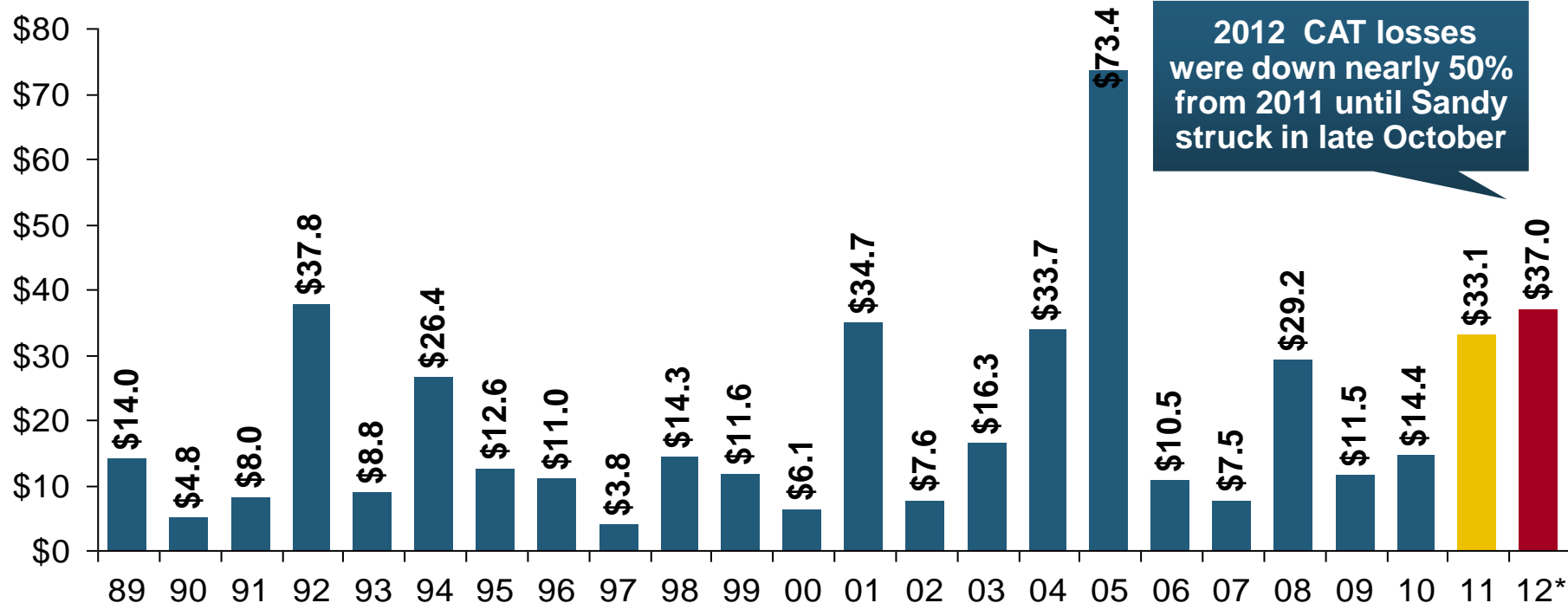
(Insured Losses, 2012 Dollars, \$ Billions)



\*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.

# US Insured Catastrophe Losses

(\$ Billions, 2012 Dollars)



**US CAT Losses in 2012 Will Likely Become the 2<sup>nd</sup> or 3<sup>rd</sup> Highest in US History on An Inflation-Adjusted Basis (Pvt Insured). 2011 Losses Were the 5<sup>th</sup> Highest**

**Record Tornado Losses Caused 2011 CAT Losses to Surge**

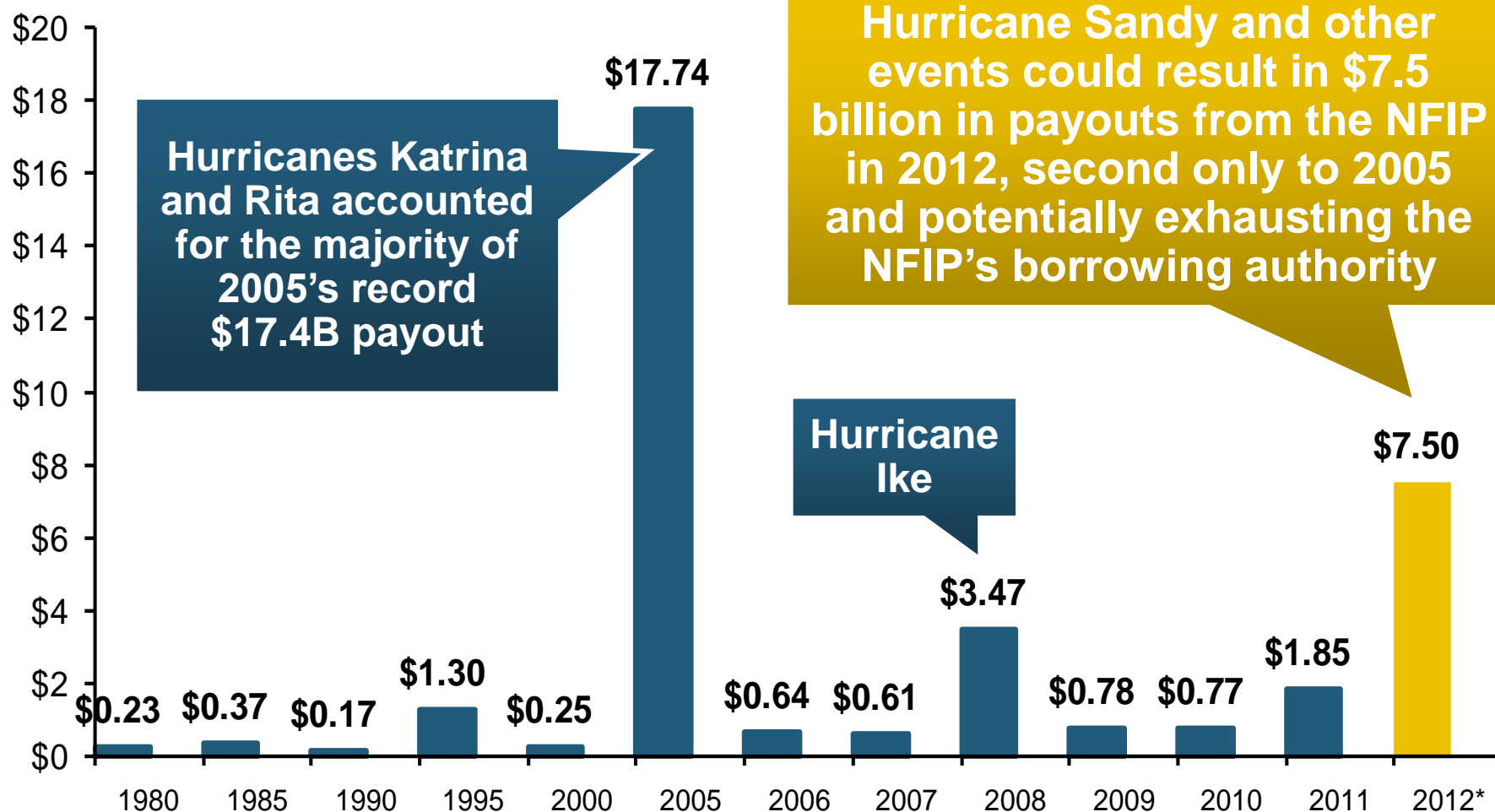
\*As of 1/2/13. Includes \$20B gross loss estimate for Hurricane Sandy.

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.

# Flood Loss Paid by the National Flood Insurance Program, 1980-2012E

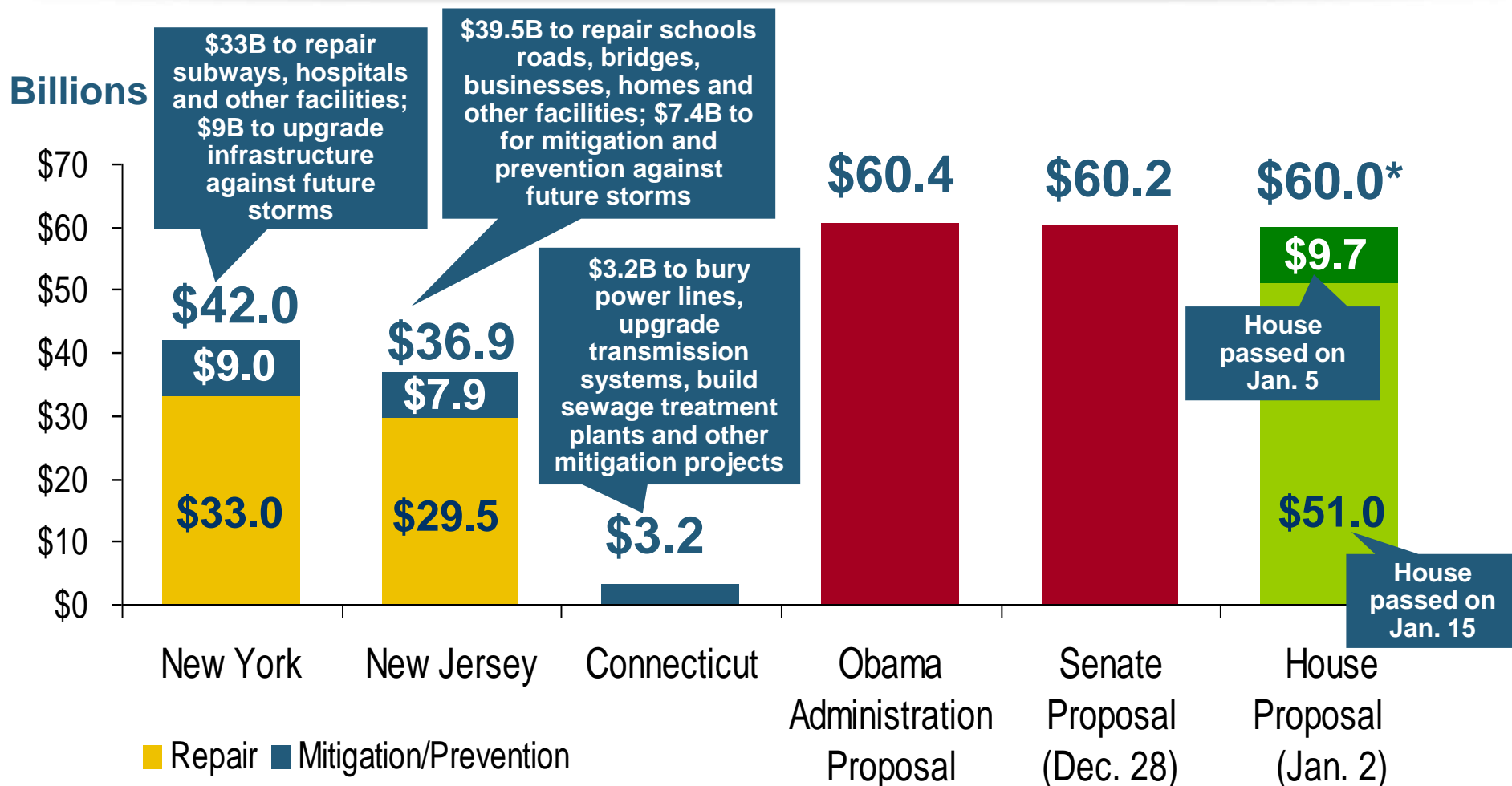
Billions (Original Values)



\*Estimate as of 11/25/12.

Sources: Department of Homeland Security, Federal Emergency Management Agency, NFIP; Insurance Information Institute.

# Federal Aid Requests for States With Greatest Sandy Impact & Federal Aid Proposals (as of 1/6/13)



**States Requested Enormous Sums in Sandy Aid in the Middle of the “Fiscal Cliff” Debate, Causing Delays**

\*As of Jan. 2, 2013.

Source: *New York Times*, Dec. 6, 2012; Insurance Information Institute research.

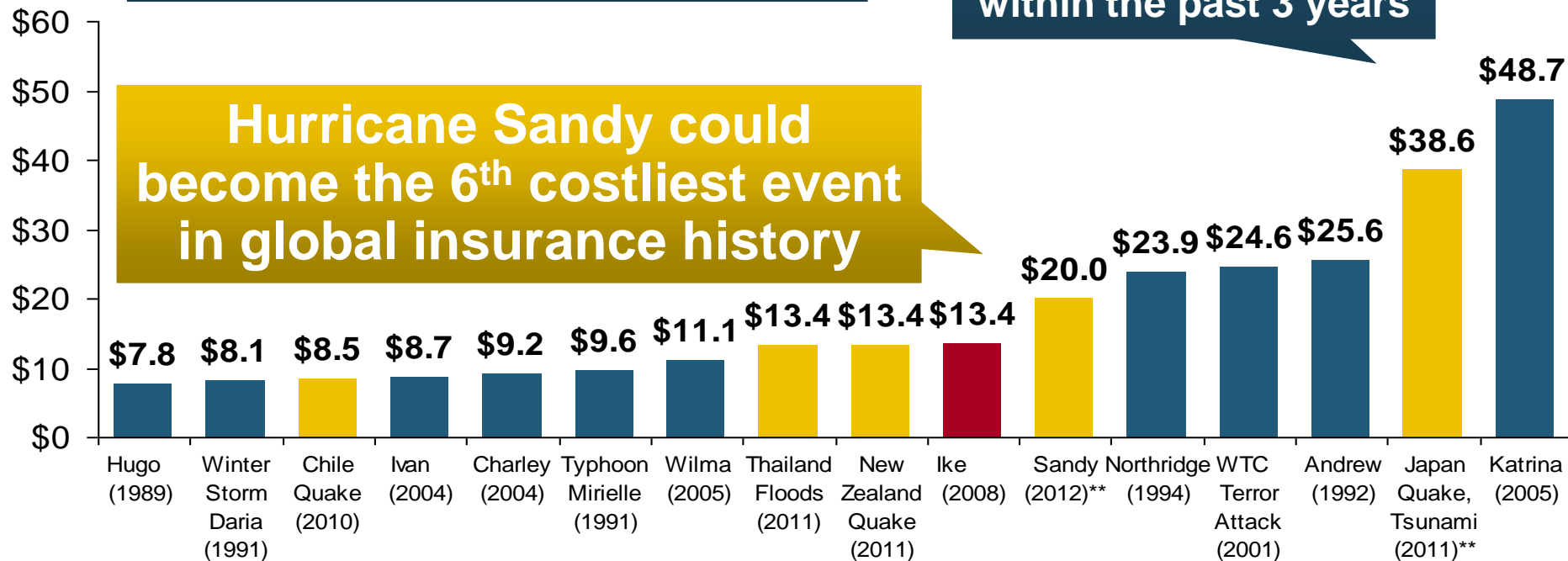
# Top 16 Most Costly World Insurance Losses, 1970-2012\*

(Insured Losses, 2012 Dollars, \$ Billions)

**2012 insured CAT Losses totaled \$60B; Economic losses totaled \$140B, according to Swiss Re**

**5 of the top 14 most expensive catastrophes in world history have occurred within the past 3 years**

**Hurricane Sandy could become the 6<sup>th</sup> costliest event in global insurance history**



\*Figures do not include federally insured flood losses.

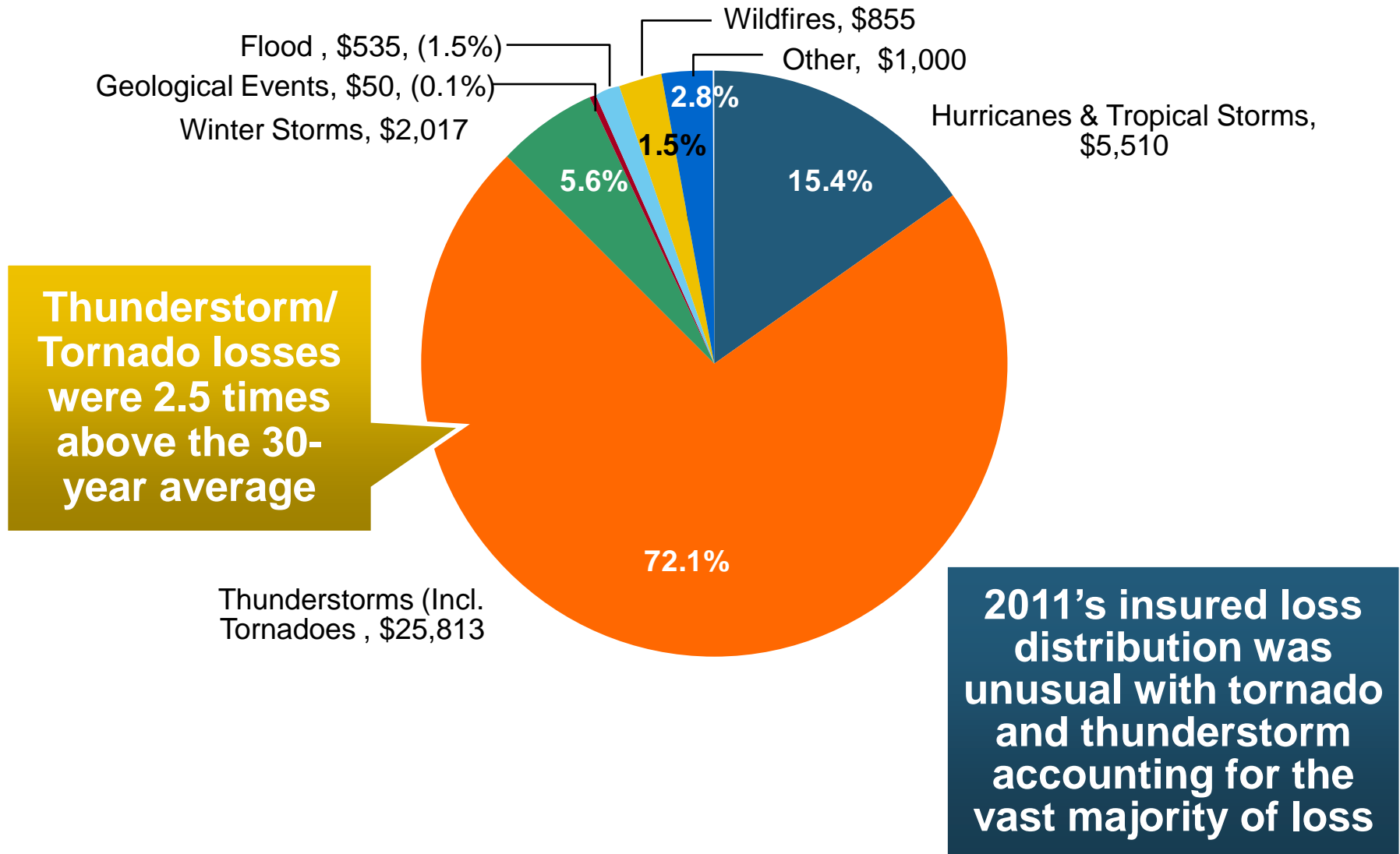
\*\*Estimate based on PCS value of \$18.75B as of 1/18/13 and assumption of upward development based on catastrophe modeler estimates ranging as high as \$25B.

Sources: Swiss Re *sigma* 1/2011; Munich Re; Insurance Information Institute research.

# U.S. Insured Catastrophe Loss Update

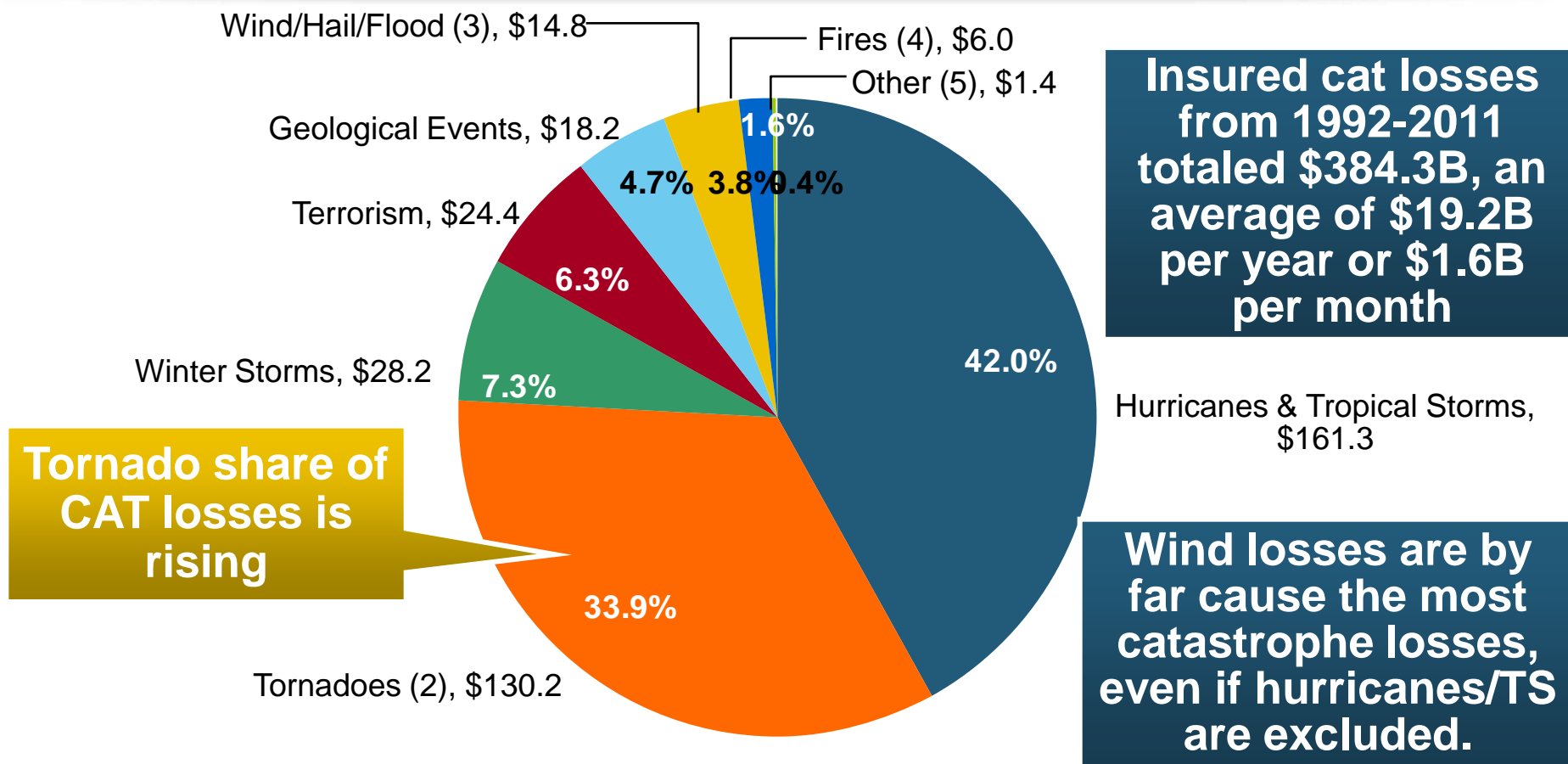
**2012 Catastrophe Losses Were Close to  
“Average” Until Sandy Hit  
*2011 Was the 5<sup>th</sup> Most Expensive  
Year on Record***

# U.S. Insured Catastrophe Losses by Cause of Loss, 2011 (\$ Millions)





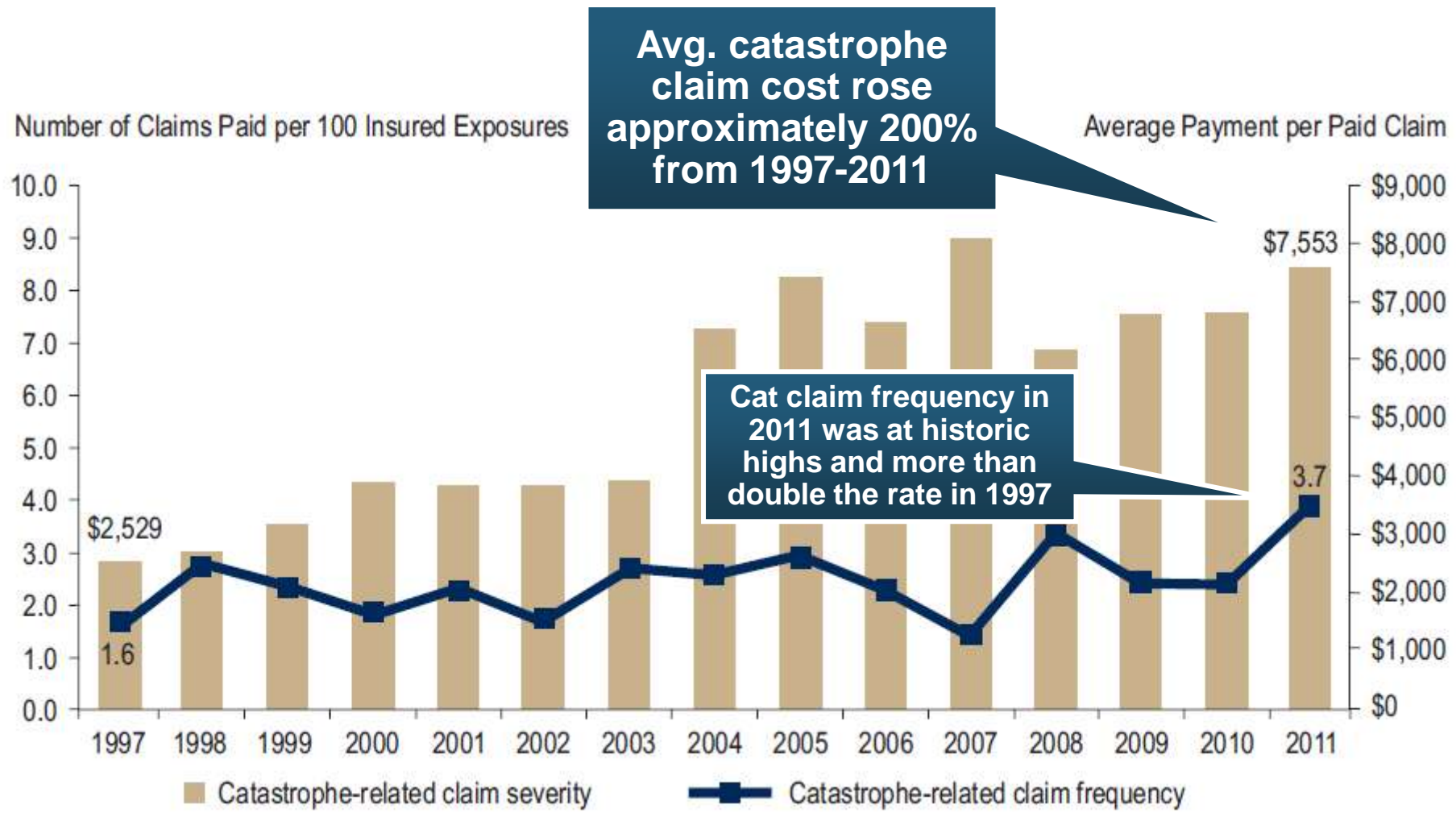
# Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1990–2011<sup>1</sup>



1. Catastrophes are defined as events causing direct insured losses to property of \$25 million or more in 2009 dollars.
2. Excludes snow.
3. Does not include NFIP flood losses
4. Includes wildland fires
5. Includes civil disorders, water damage, utility disruptions and non-property losses such as those covered by workers compensation.

Source: ISO's Property Claim Services Unit.

# Homeowners Insurance Catastrophe-Related Claim Frequency and Severity, 1997—2012\*



\*All policy forms combined, countrywide.  
Source: Insurance Research Council, *Trends in Homeowners Insurance Claims*, Sept. 2012 from ISO Fast Track data.

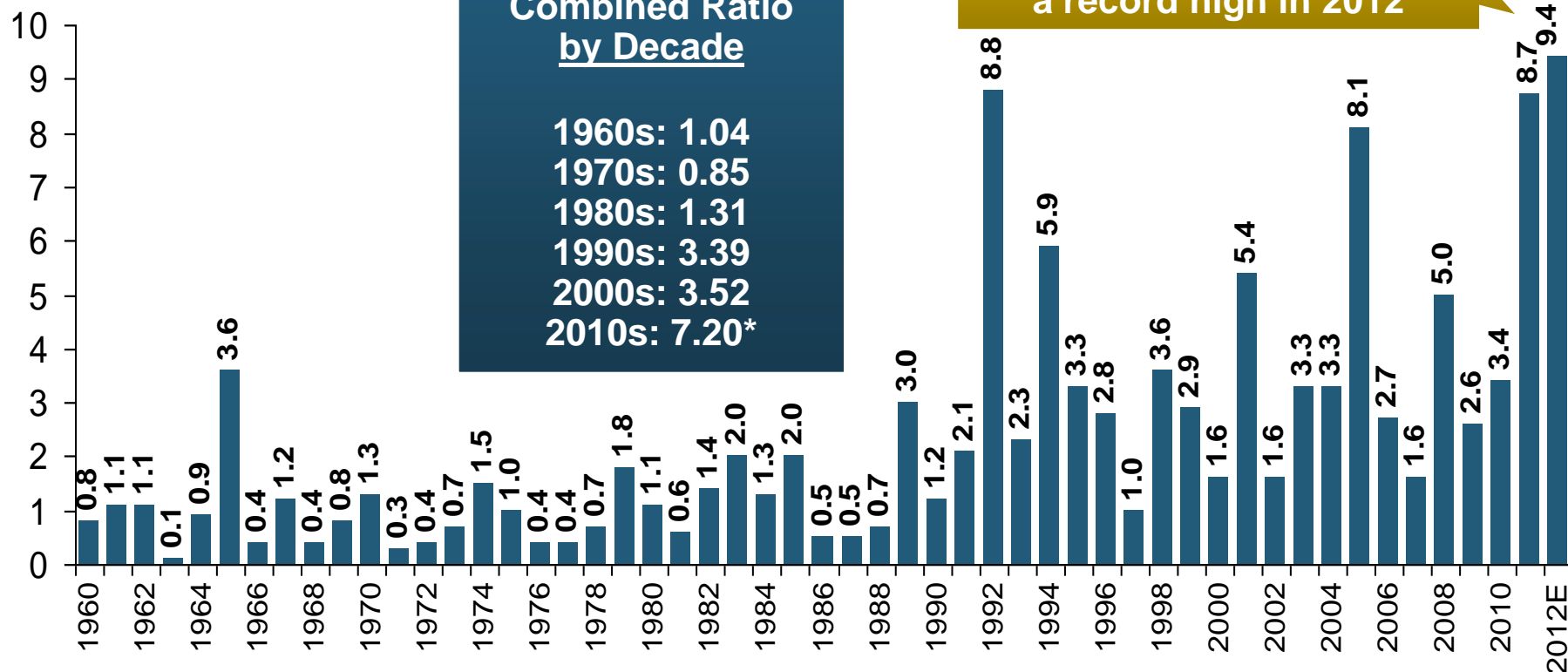
# Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2012\*

## 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**

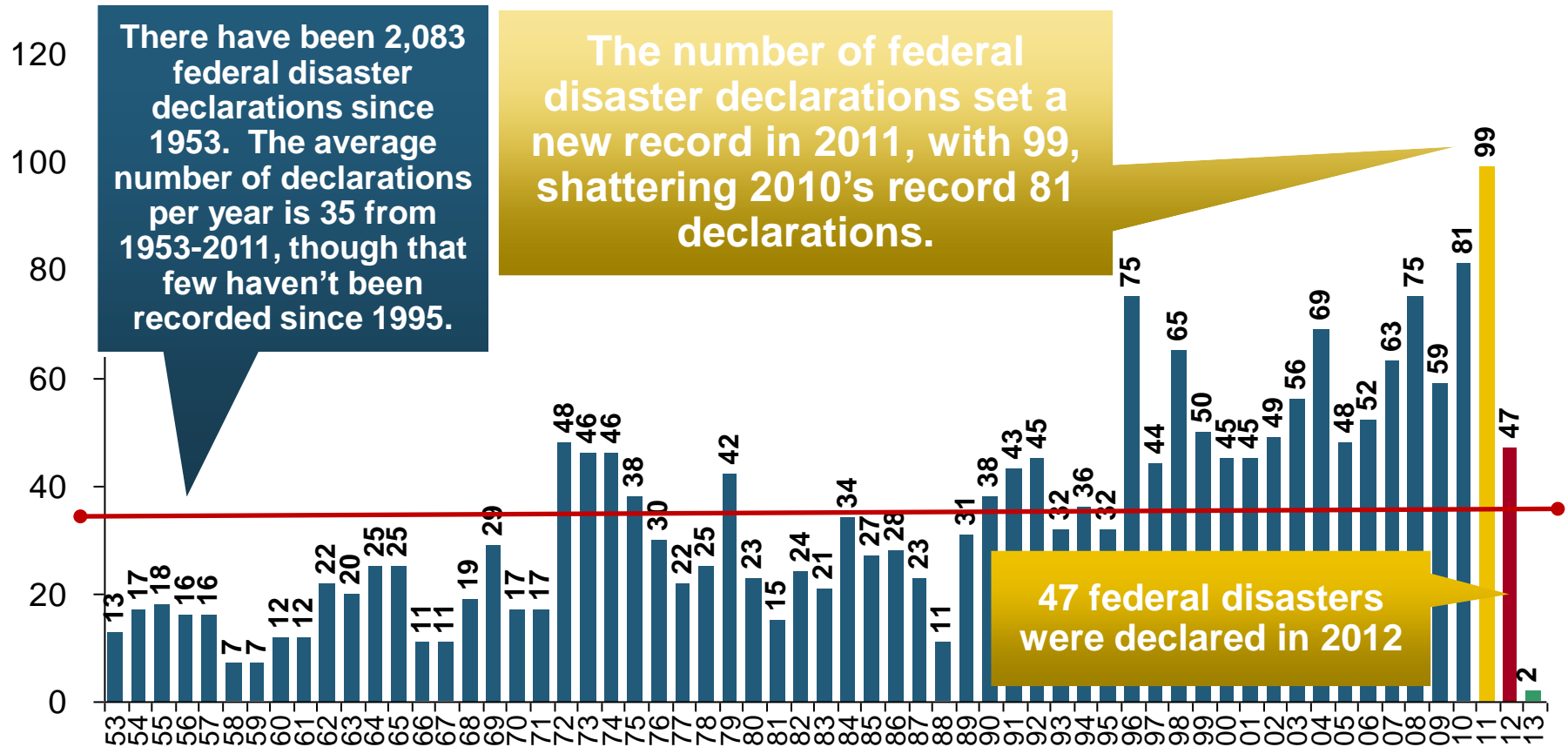
Notes: Private carrier losses only. Excludes loss adjustment expenses and reinsurance reinstatement premiums. Figures are adjusted for losses ultimately paid by foreign insurers and reinsurers.

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

# **Federal Disaster Declarations Patterns: 1953-2012**

**Despite 11 Sandy Declarations,  
Fewer Disasters Were Declared in  
2012 than the Record Number of  
Declarations in 2010 and 2011**

# Number of Federal Disaster Declarations, 1953-2013\*

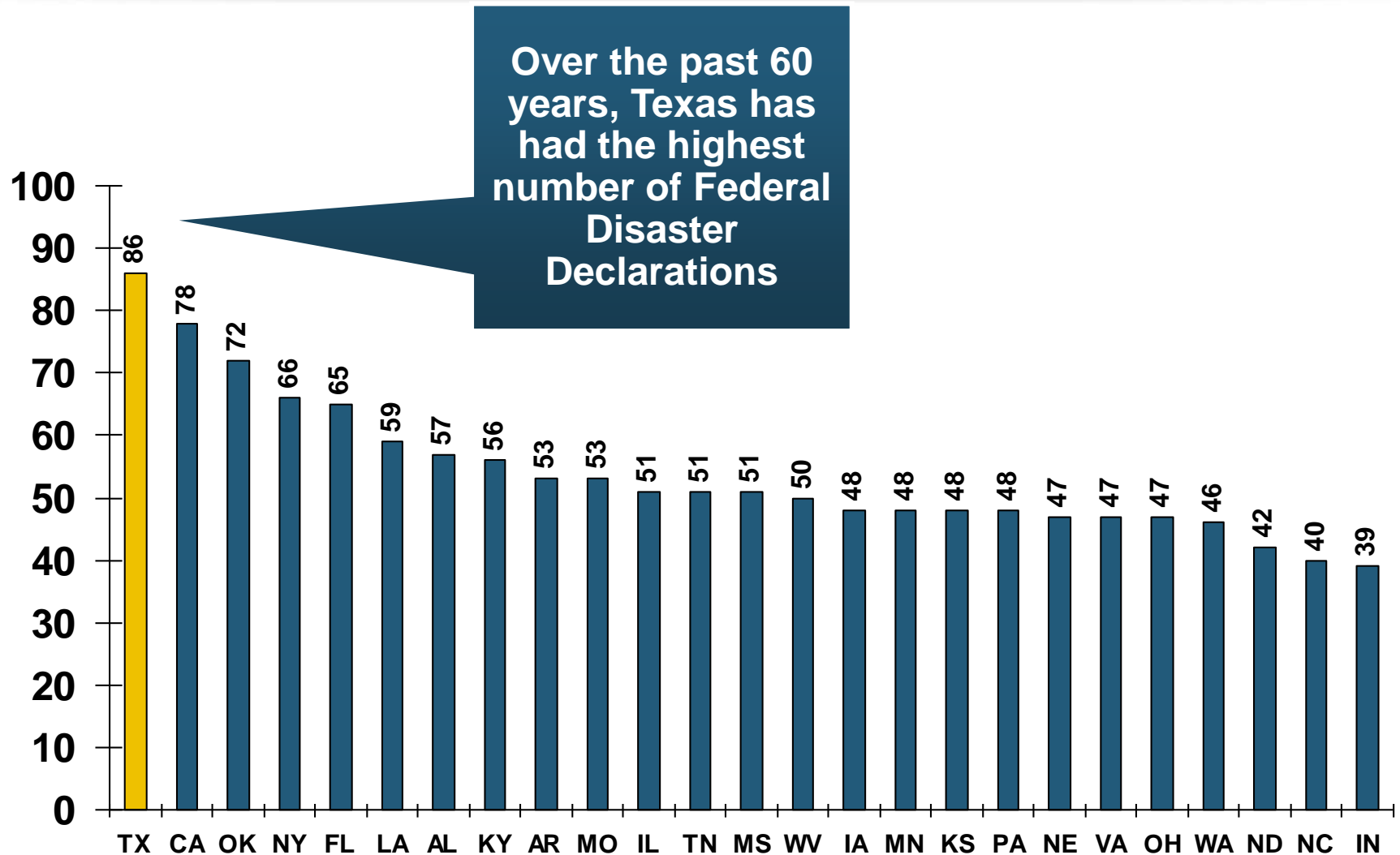


**The Number of Federal Disaster Declarations Is Rising and Set New Records in 2010 *and* 2011. Hurricane Sandy Produced 13 Declarations in 2012/13.**

\*Through Jan. 18, 2013.

Source: Federal Emergency Management Administration; <http://www.fema.gov/disasters>; Insurance Information Institute.

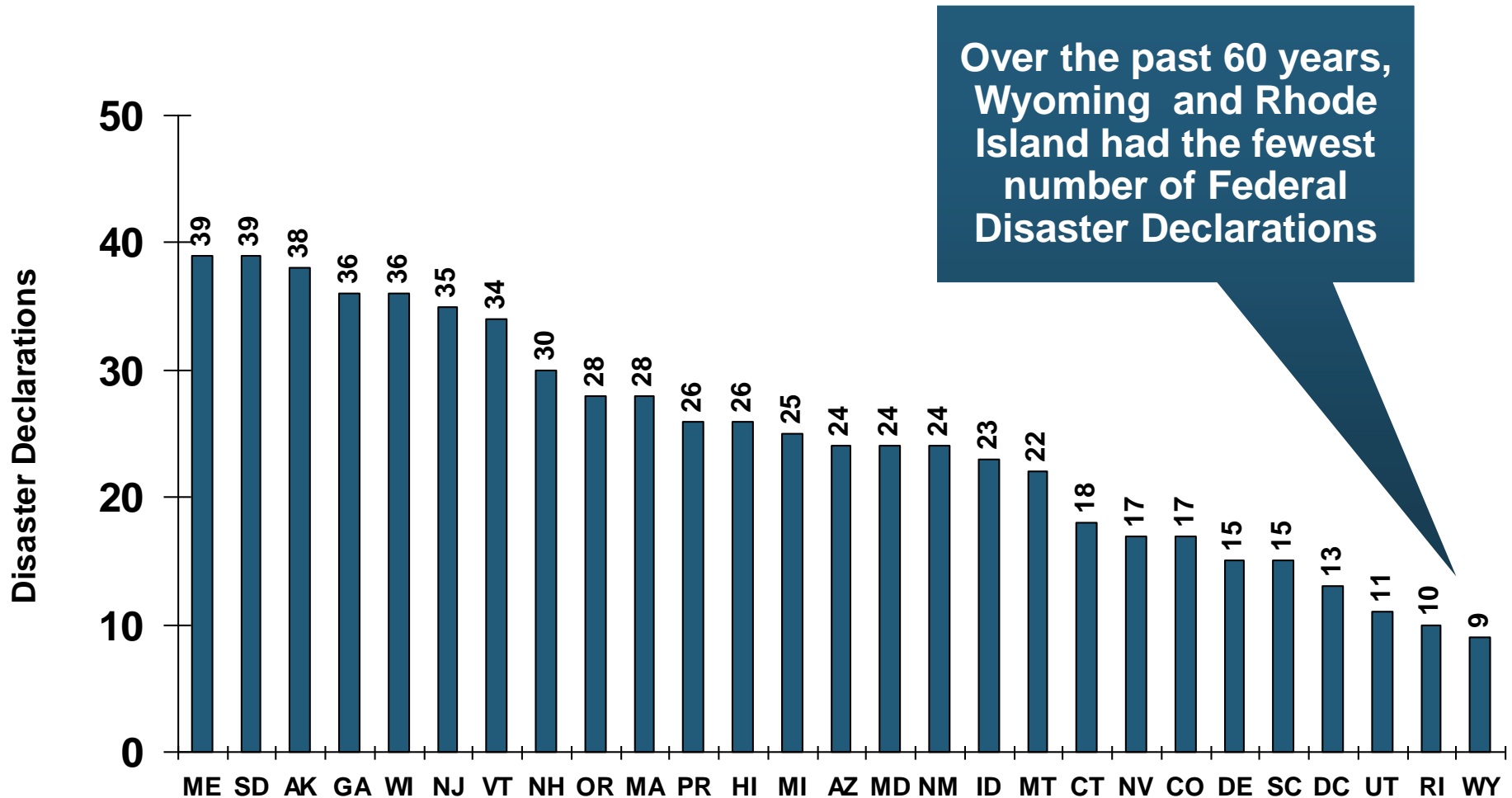
# Federal Disasters Declarations by State, 1953 – 2013: Highest 25 States\*



\*Through Jan. 18, 2012. Includes Puerto Rico and the District of Columbia.

Source: FEMA: [http://www.fema.gov/news/disaster\\_totals\\_annual.fema](http://www.fema.gov/news/disaster_totals_annual.fema); Insurance Information Institute.

# Federal Disasters Declarations by State, 1953 – 2012: Lowest 25 States\*



\*Through Jan. 18, 2013. Includes Puerto Rico and the District of Columbia.

Source: FEMA: [http://www.fema.gov/news/disaster\\_totals\\_annual.fema](http://www.fema.gov/news/disaster_totals_annual.fema); Insurance Information Institute.

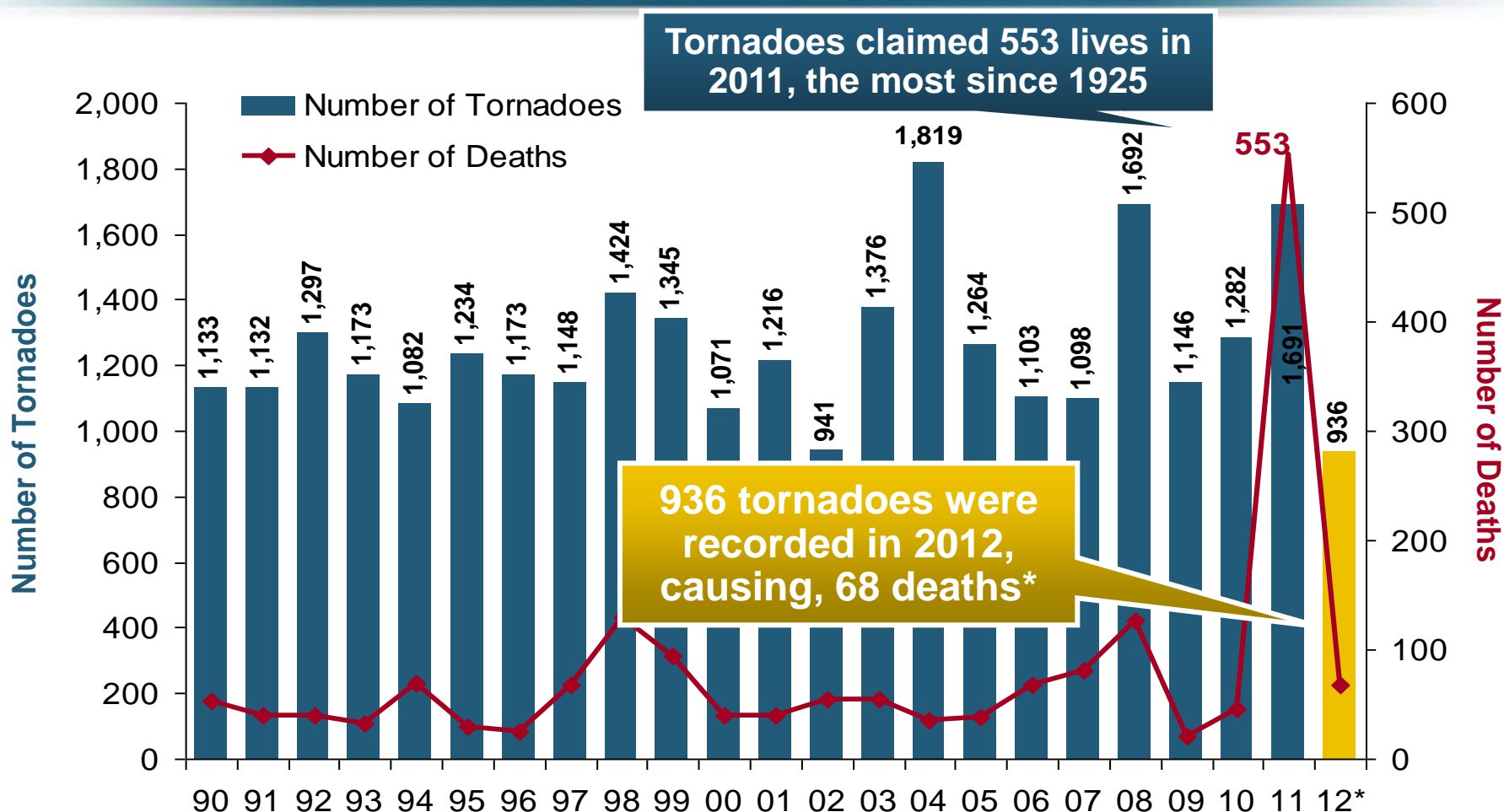


## **2012 TORNADO & SEVERE STORM SUMMARY**

**2012 Got Off to a Worrisome Start,  
But Is No Repeat of 2011**



# Number of Tornadoes and Related Deaths, 1990 – 2012\*

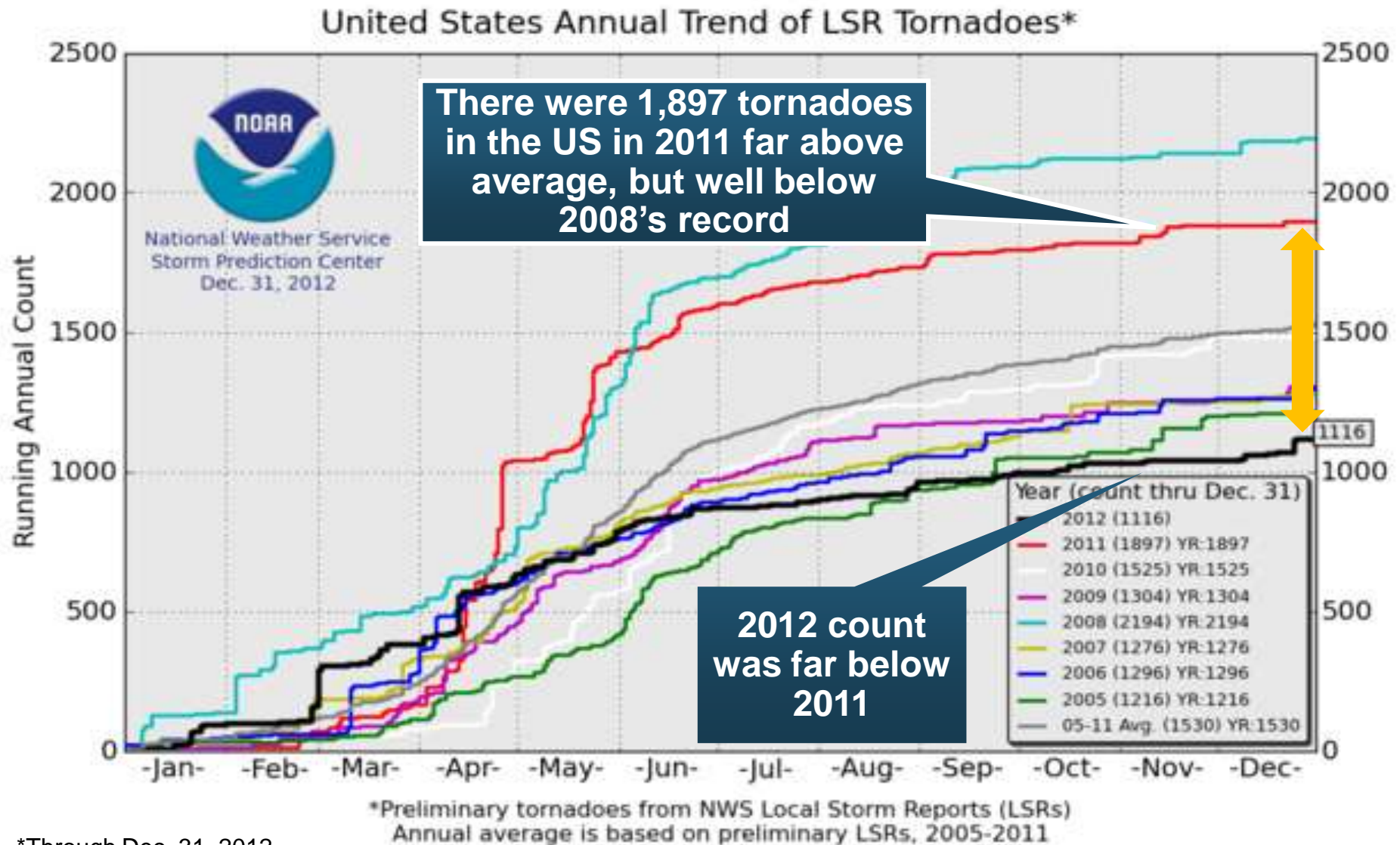


**2012 Tornado Losses Got Off to an Ominous Beginning, but Slowed. Yet Despite Fewer Tornadoes, Overall Insured Losses from Thunderstorms Totaled \$14.9B, the 2<sup>nd</sup> Highest on Record.**

\*Through Dec. 31, 2012.

Source: U.S. Department of Commerce, Storm Prediction Center, National Weather Service at <http://www.spc.noaa.gov/climo/online/monthly/newm.html> 113

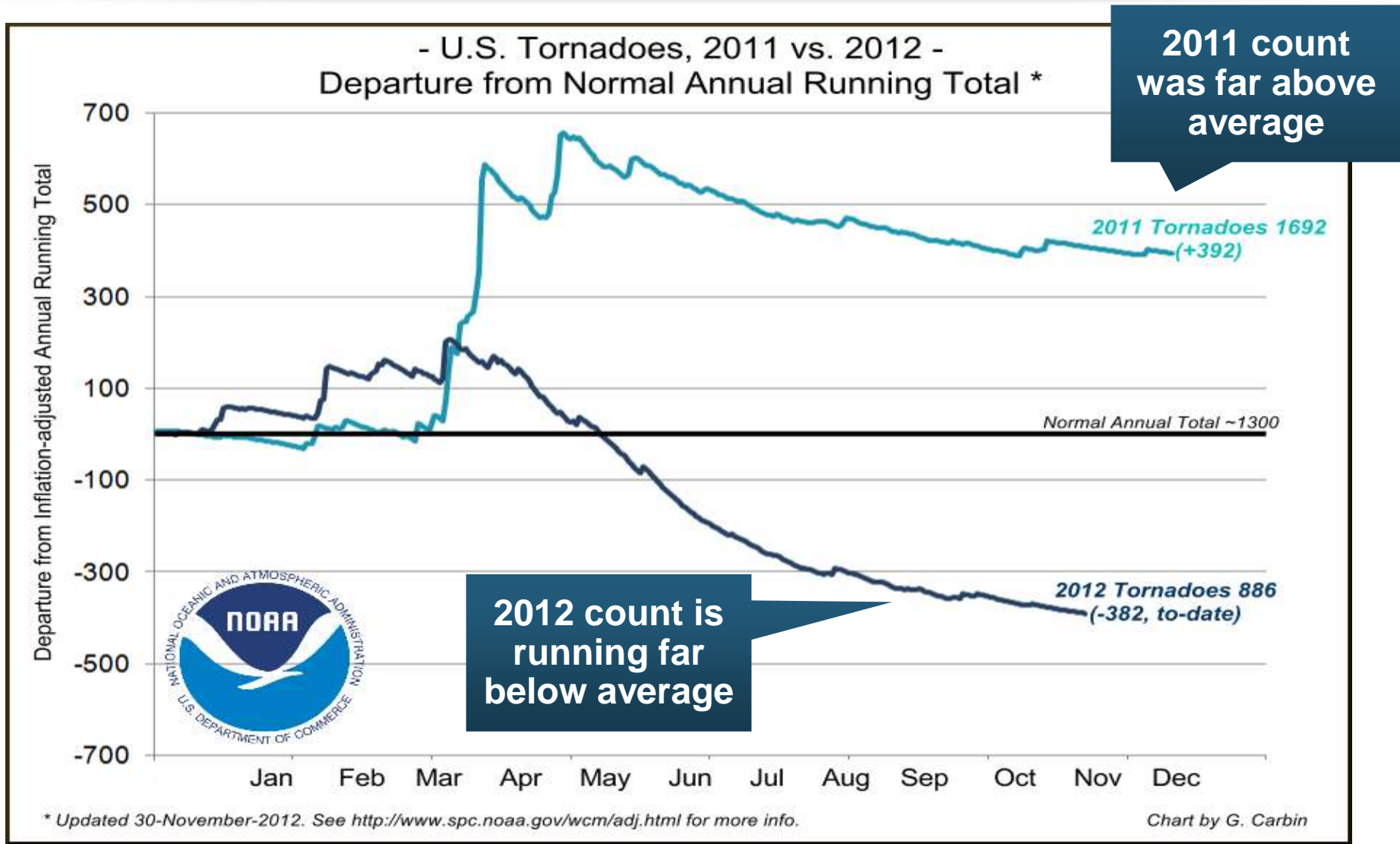
# U.S. Tornado Count, 2005-2012\*



\*Through Dec. 31, 2012.

Source: <http://www.spc.noaa.gov/wcm/>

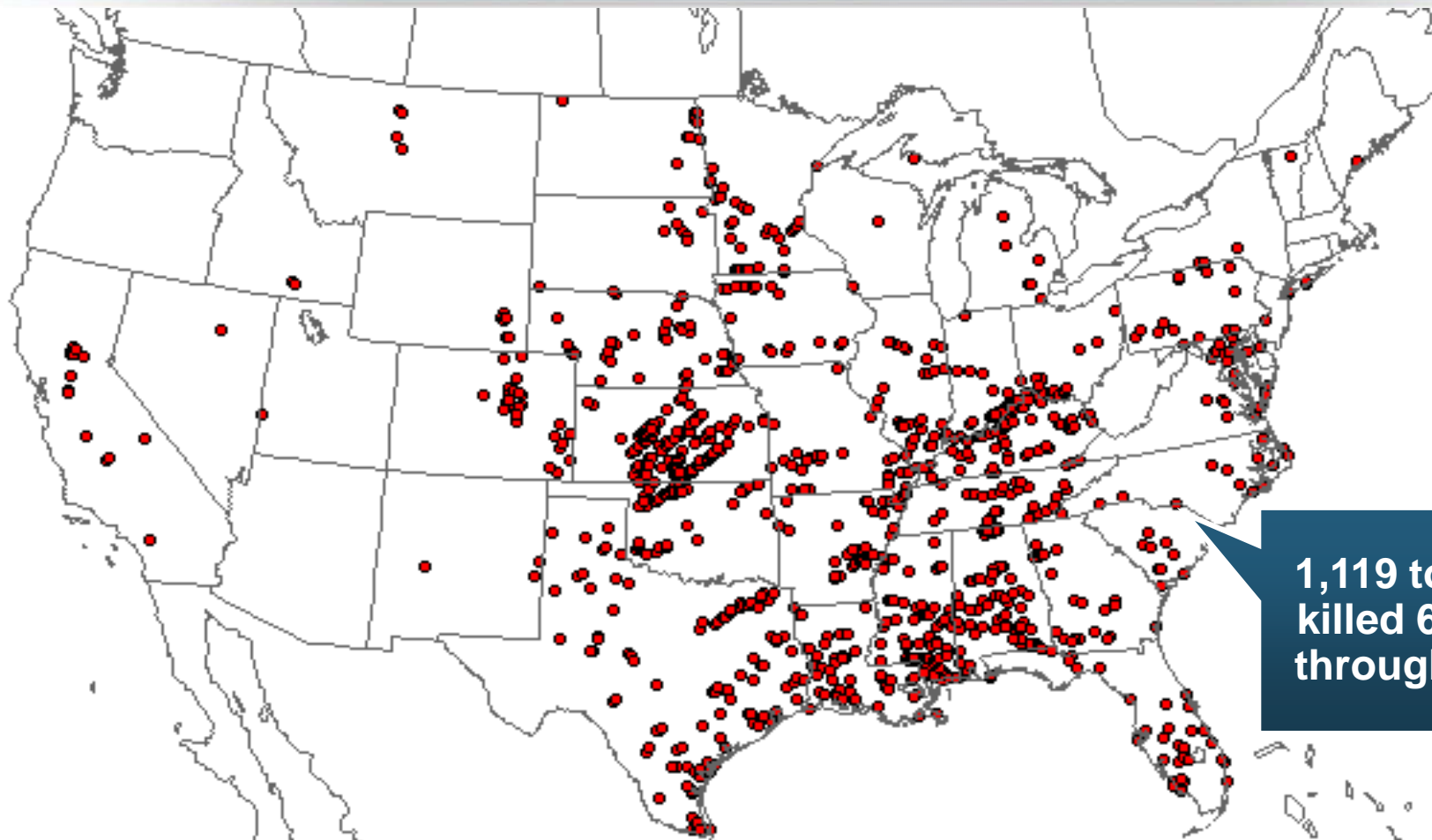
# U.S. Tornado Count, Departure from Inflation-Adjusted Running Total, 2011 vs. 2012\*



\*Through Nov. 30, 2012.

Source: <http://www.spc.noaa.gov/wcm/>

# Location of Tornadoes in the US, 2012\*



1,119 tornadoes  
killed 68 people  
through Dec. 31



**PRELIMINARY SEVERE WEATHER  
REPORT DATABASE (ROUGH LOG)**

NOAA/Storm Prediction Center Norman, Oklahoma

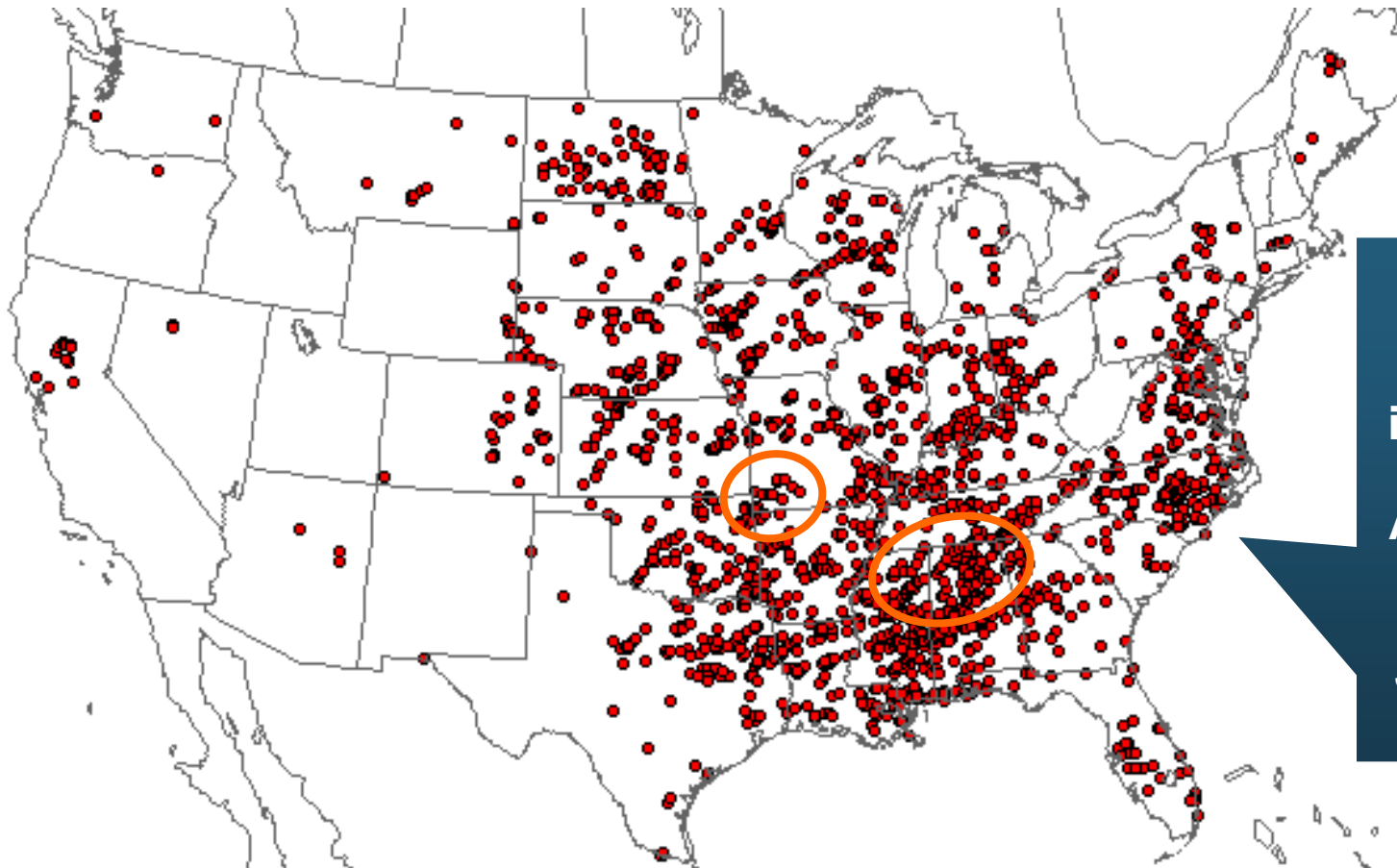
**Tornado Reports  
January 01, 2012 - December 31, 2012**

Updated: Sunday January 06, 2013 02:10 CT

\*Through Dec. 31, 2012.

Source: NOAA Storm Prediction Center; [http://www.spc.noaa.gov/climo/online/monthly/2012\\_annual\\_summary.html#](http://www.spc.noaa.gov/climo/online/monthly/2012_annual_summary.html#)

# Location of Tornadoes in the US, 2011



1,894 tornadoes killed 553 people in 2011, including at least 340 on April 26 mostly in the Tuscaloosa area, and 130 in Joplin on May 22



PRELIMINARY SEVERE WEATHER  
REPORT DATABASE (ROUGH LOG)

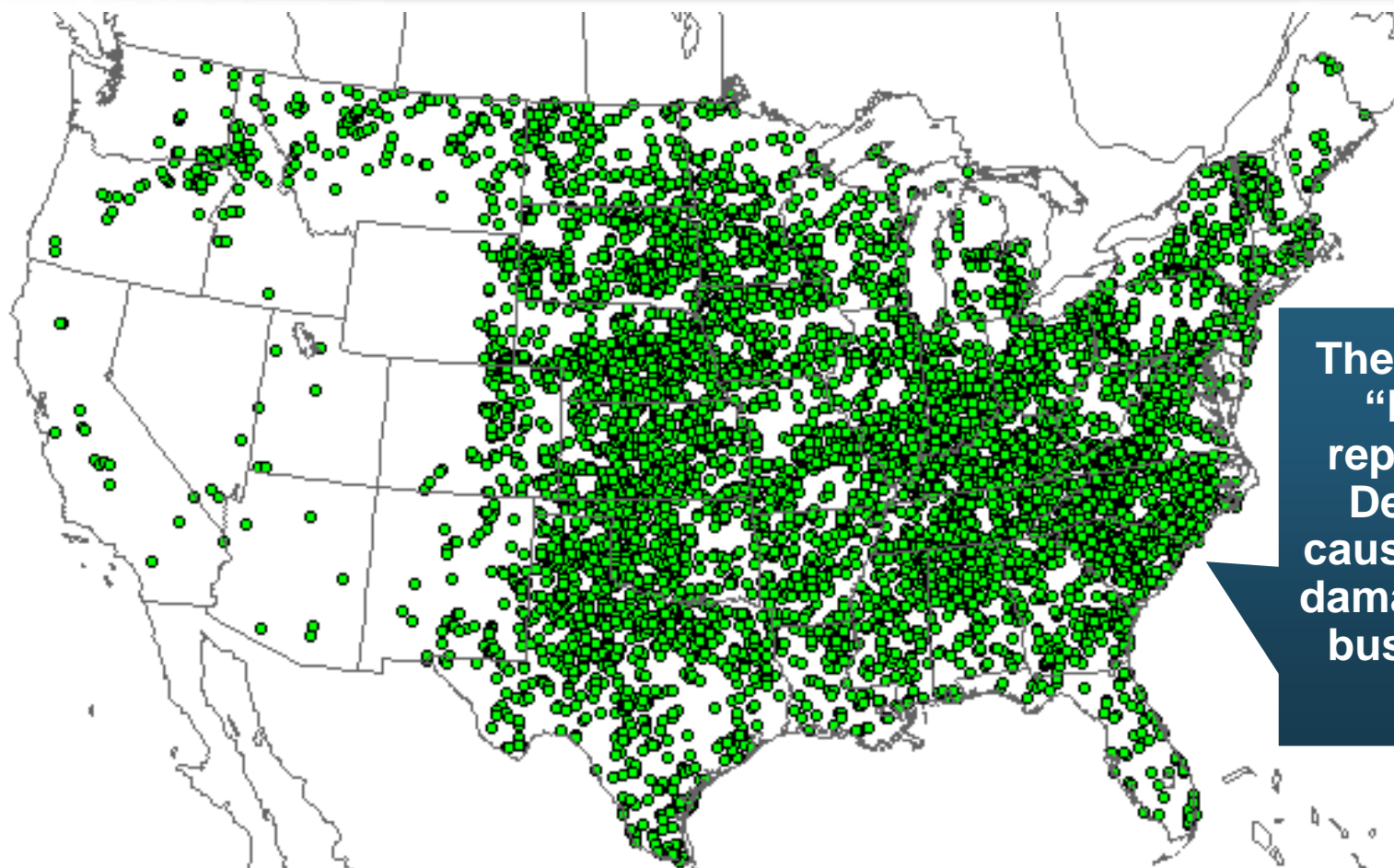
NOAA/Storm Prediction Center Norman, Oklahoma

Tornado Reports  
January 01, 2011 - December 27, 2011

Updated: Tuesday December 27, 2011 16:35 CT



# Location of Large Hail Reports in the US, 2012\*



There were 7,033  
“Large Hail”  
reports through  
Dec. 31, 2012,  
causing extensive  
damage to homes,  
businesses and  
vehicles



PRELIMINARY SEVERE WEATHER  
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

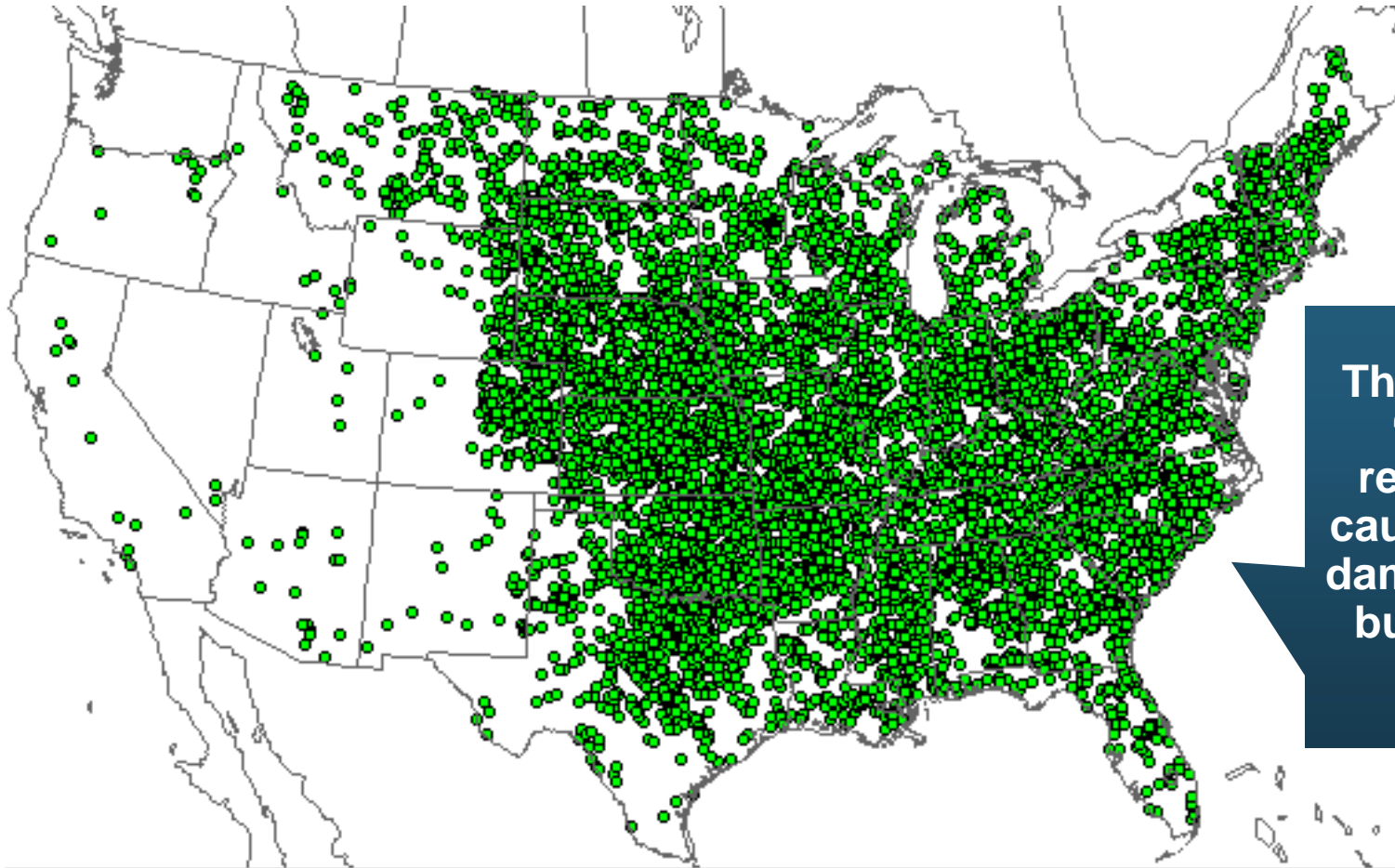
Hail Reports  
January 01, 2012 - December 31, 2012

Updated: Sunday January 06, 2013 02:10 CT

\*Through Dec. 31, 2012.

Source: NOAA Storm Prediction Center; [http://www.spc.noaa.gov/climo/online/monthly/2012\\_annual\\_summary.html#](http://www.spc.noaa.gov/climo/online/monthly/2012_annual_summary.html#)

# Location of Large Hail Reports in the US, 2011



There were 9,417  
“Large Hail”  
reports in 2011,  
causing extensive  
damage to homes,  
businesses and  
vehicles



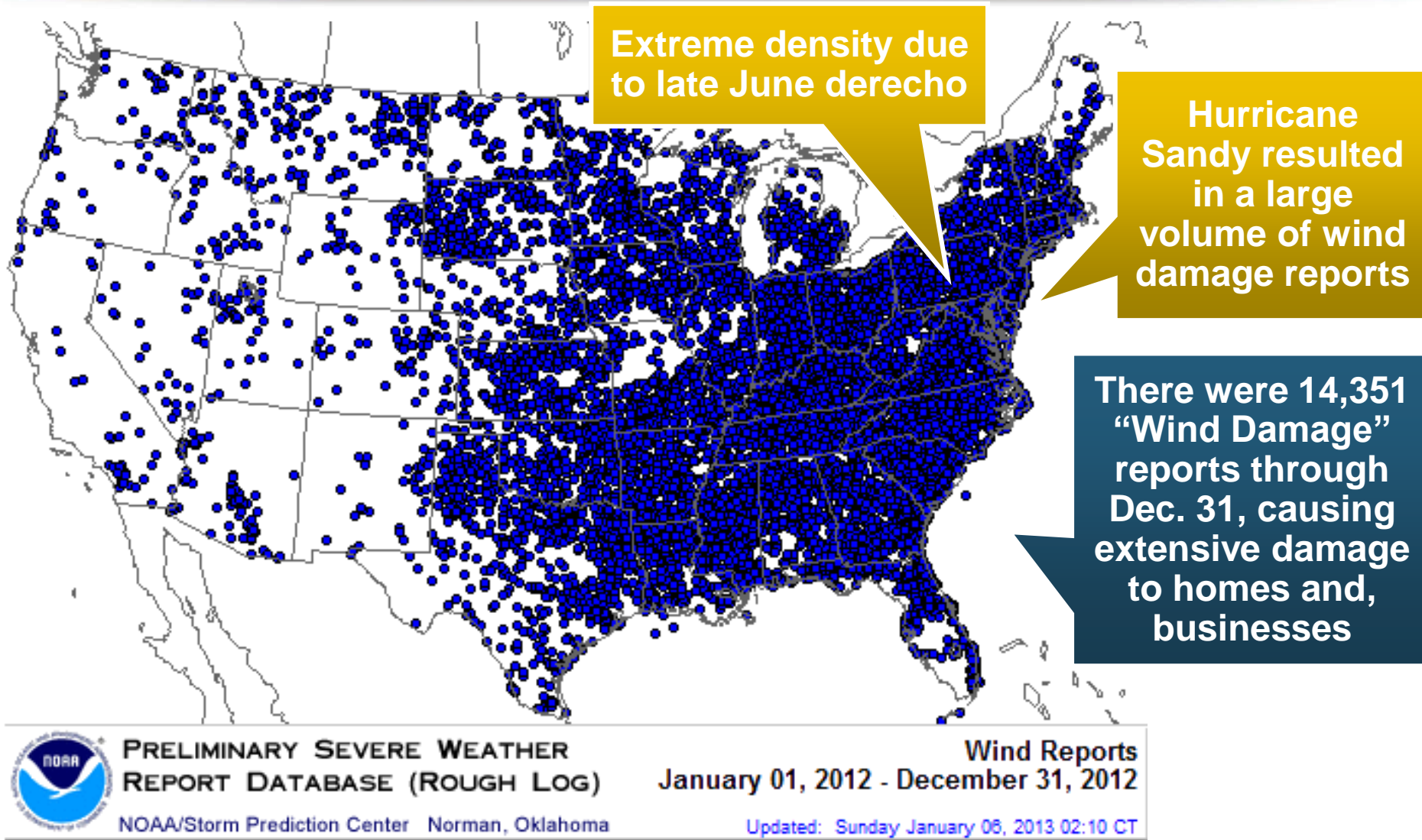
PRELIMINARY SEVERE WEATHER  
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Hail Reports  
January 01, 2011 - December 27, 2011

Updated: Tuesday December 27, 2011 16:35 CT

# Location of Wind Damage Reports in the US, 2012\*

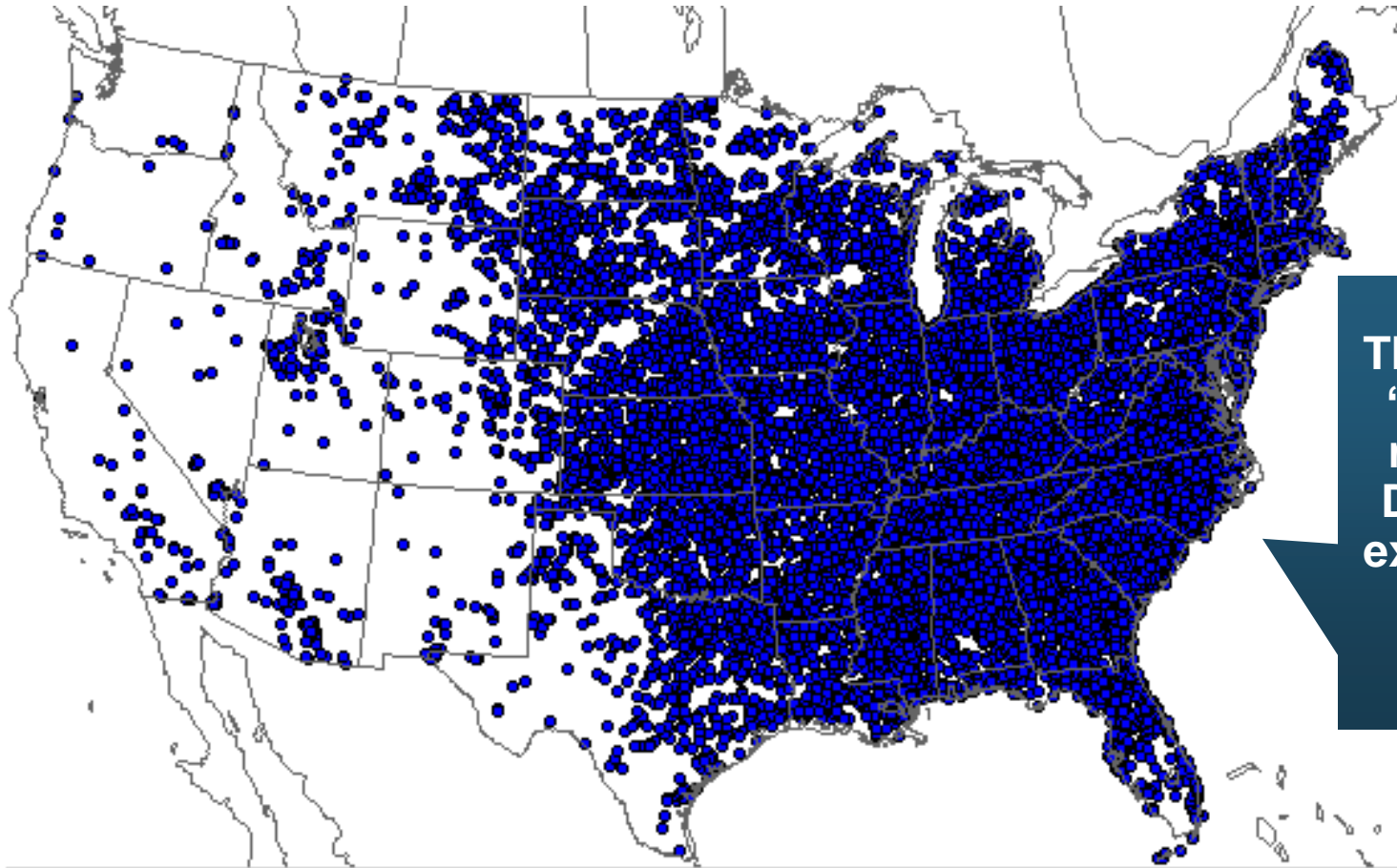


\*Through Dec. 31, 2012.

Source: NOAA Storm Prediction Center; [http://www.spc.noaa.gov/climo/online/monthly/2012\\_annual\\_summary.html#](http://www.spc.noaa.gov/climo/online/monthly/2012_annual_summary.html#)



# Location of Wind Damage Reports in the US, 2011



There were 18,685  
“Wind Damage”  
reports through  
Dec. 27, causing  
extensive damage  
to homes and,  
businesses



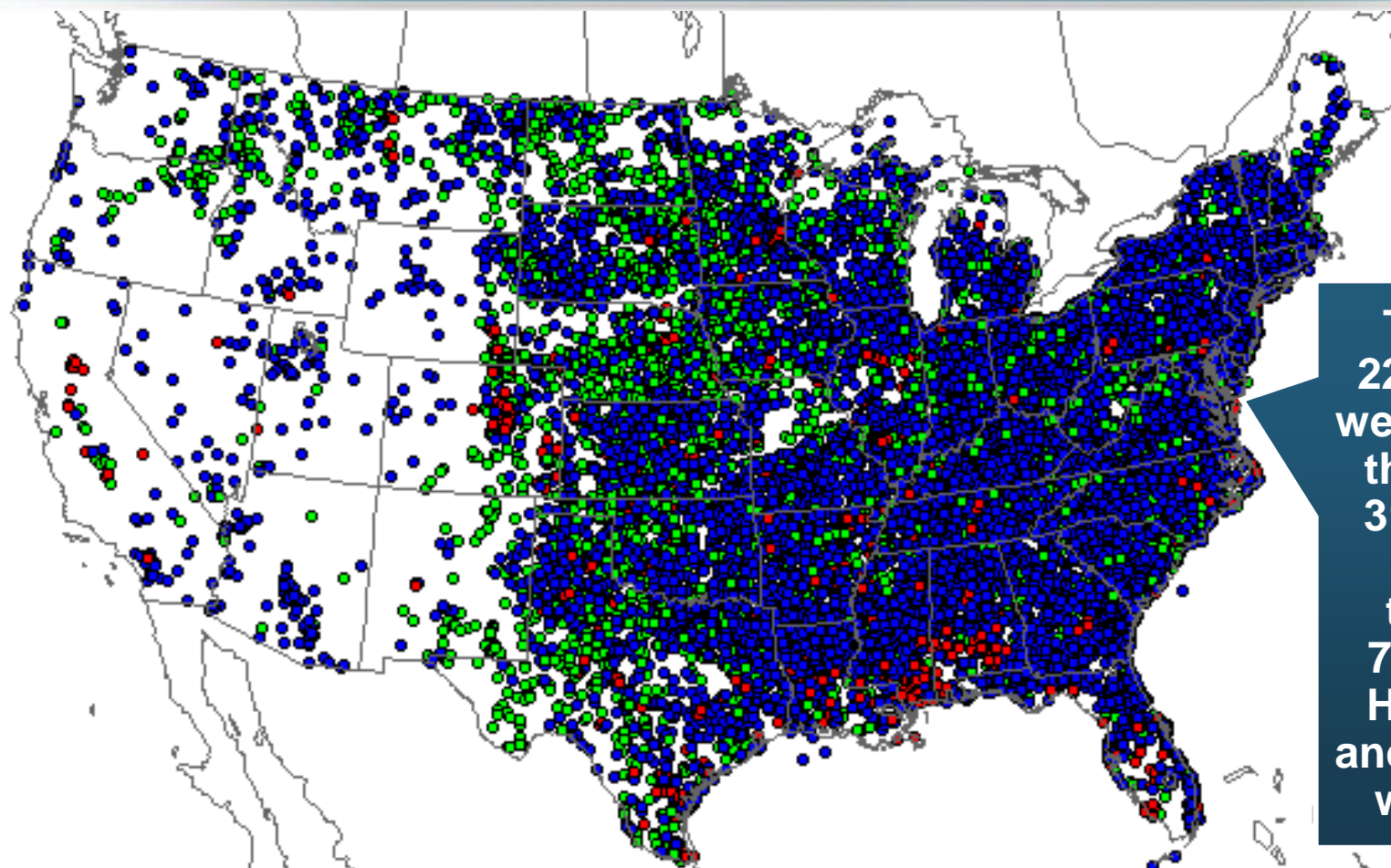
PRELIMINARY SEVERE WEATHER  
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Wind Reports  
January 01, 2011 - December 27, 2011

Updated: Tuesday December 27, 2011 16:35 CT

# Severe Weather Reports, 2012\*



There were  
22,503 severe  
weather reports  
through Dec.  
31; including  
1,119  
tornadoes;  
7,033 “Large  
Hail” reports  
and 14,351 high  
wind events



PRELIMINARY SEVERE WEATHER  
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

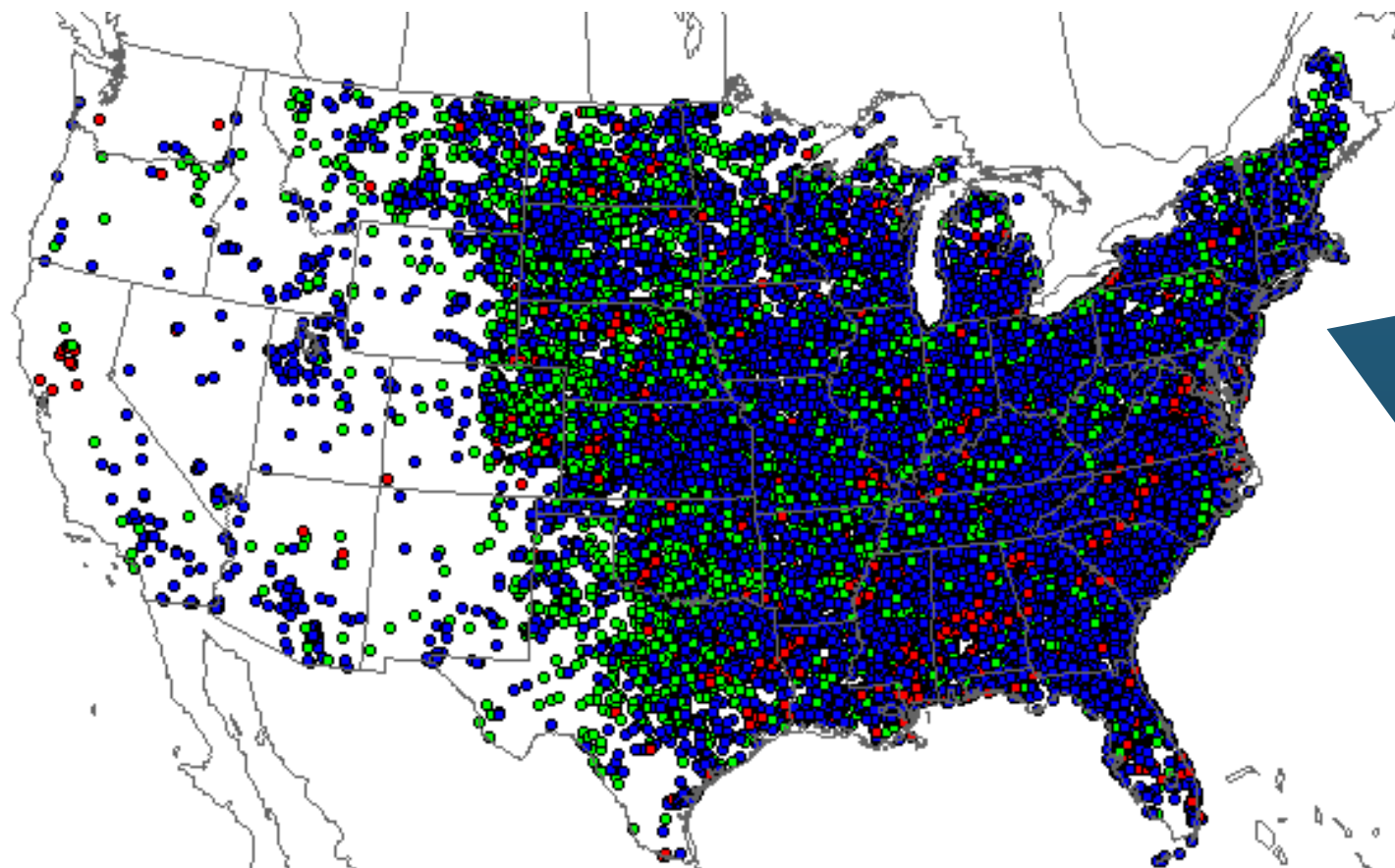
Severe Weather Reports  
January 01, 2012 - December 31, 2012

Updated: Sunday January 06, 2013 02:10 CT

\*Through Dec. 31, 2012.

Source: NOAA Storm Prediction Center; [http://www.spc.noaa.gov/climo/online/monthly/2012\\_annual\\_summary.html#](http://www.spc.noaa.gov/climo/online/monthly/2012_annual_summary.html#)

# Severe Weather Reports, 2011



There were  
29,996 severe  
weather reports  
in 2011;  
including 1,894  
tornadoes;  
9,417 “Large  
Hail” reports  
and 18,685 high  
wind events



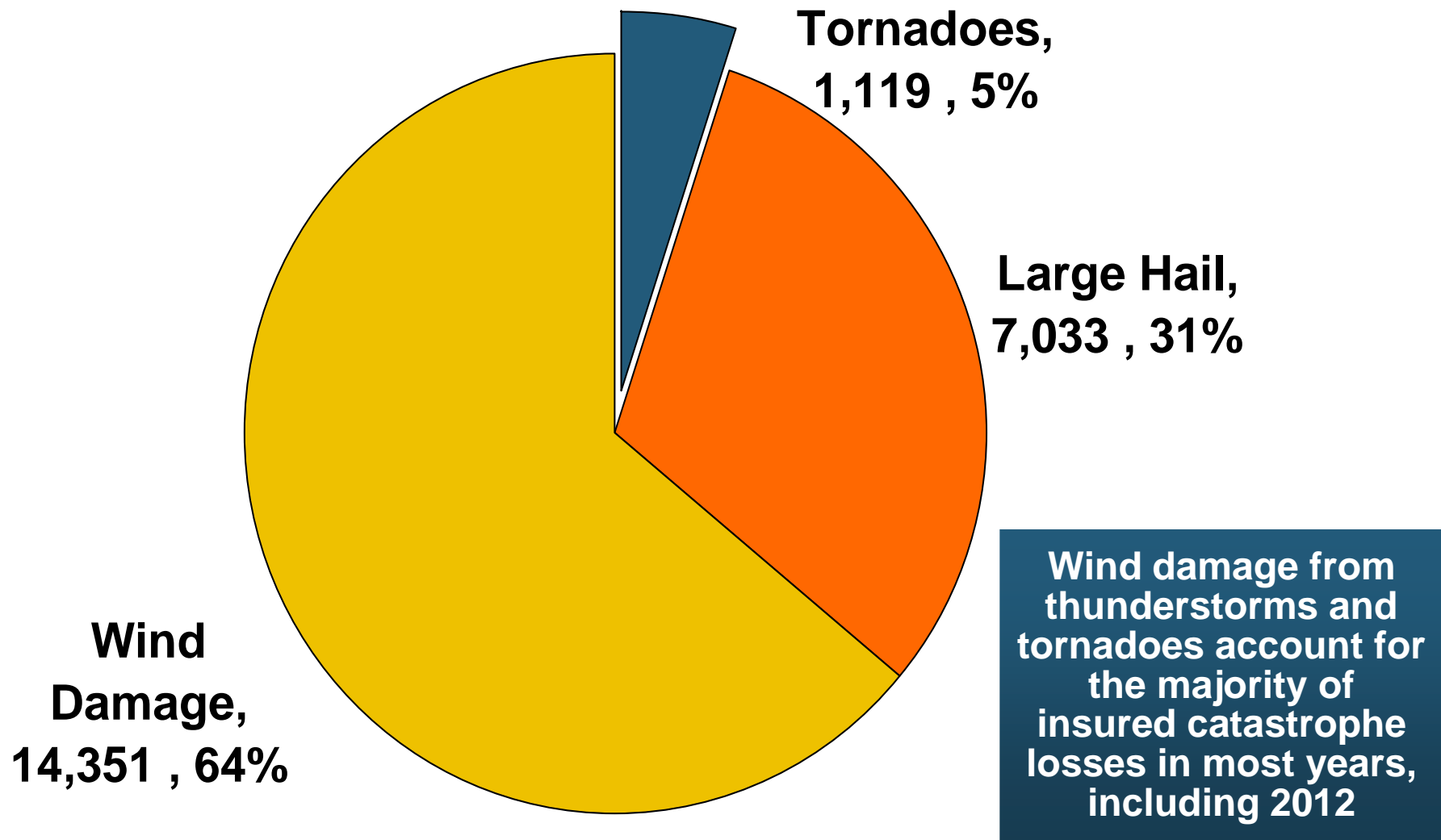
PRELIMINARY SEVERE WEATHER  
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Severe Weather Reports  
January 01, 2011 - December 27, 2011

Updated: Tuesday December 27, 2011 16:35 CT

# Number of Severe Weather Reports in US, by Type, 2012



# 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***



# Historical Criteria for a “Market Turn”: Low Interest Rates Add New Pressure

Criteria	Status	Comments
<b>Sustained Period of Large Underwriting Losses</b>	<i>Large CAT Losses in 2011/12 Pushed Up Combined</i>	<ul style="list-style-type: none"> <li>•CAT Losses contributing to higher underwriting losses</li> <li>•Apart from CAT losses, overall p/c underwriting losses remain modest</li> <li>•Combined ratios (ex-CATs) still in low 100s (vs. 110+ at onset of last hard market); CR= 101.1 in H1:2012 (ex-M&amp;FG)</li> <li>•Prior-year reserve releases continue to reduce u/w losses, boost ROEs, though more modestly</li> </ul>
<b>Material Decline in Surplus/ Capacity</b>	<i>Small Decline Due to 2011 Cats; Could drop in 2012</i>	<ul style="list-style-type: none"> <li>•Fell 1.6% in 2011 due to CATs</li> <li>•Surplus reached record as of 9/30/12 record \$583.5B</li> <li>•Likely drop as of 12/31/12 due to Sandy impact</li> <li>•Modest growth in demand for insurance should begin to absorb some capacity</li> </ul>
<b>Tight Reinsurance Market</b>	<i>Somewhat in Place</i>	<ul style="list-style-type: none"> <li>•Ample capacity</li> <li>•Market is generally flat except up for cat-impacted accounts</li> <li>•Lower prices in Europe</li> </ul>
<b>Renewed Underwriting &amp; Pricing Discipline</b>	<i>Firming Broad, Sustained, esp. in Property, WC</i>	<ul style="list-style-type: none"> <li>•Commercial lines pricing is consistently and uniformly across all major lines, esp. Property &amp; WC;</li> <li>•Markets remain competitive in most segments</li> </ul>

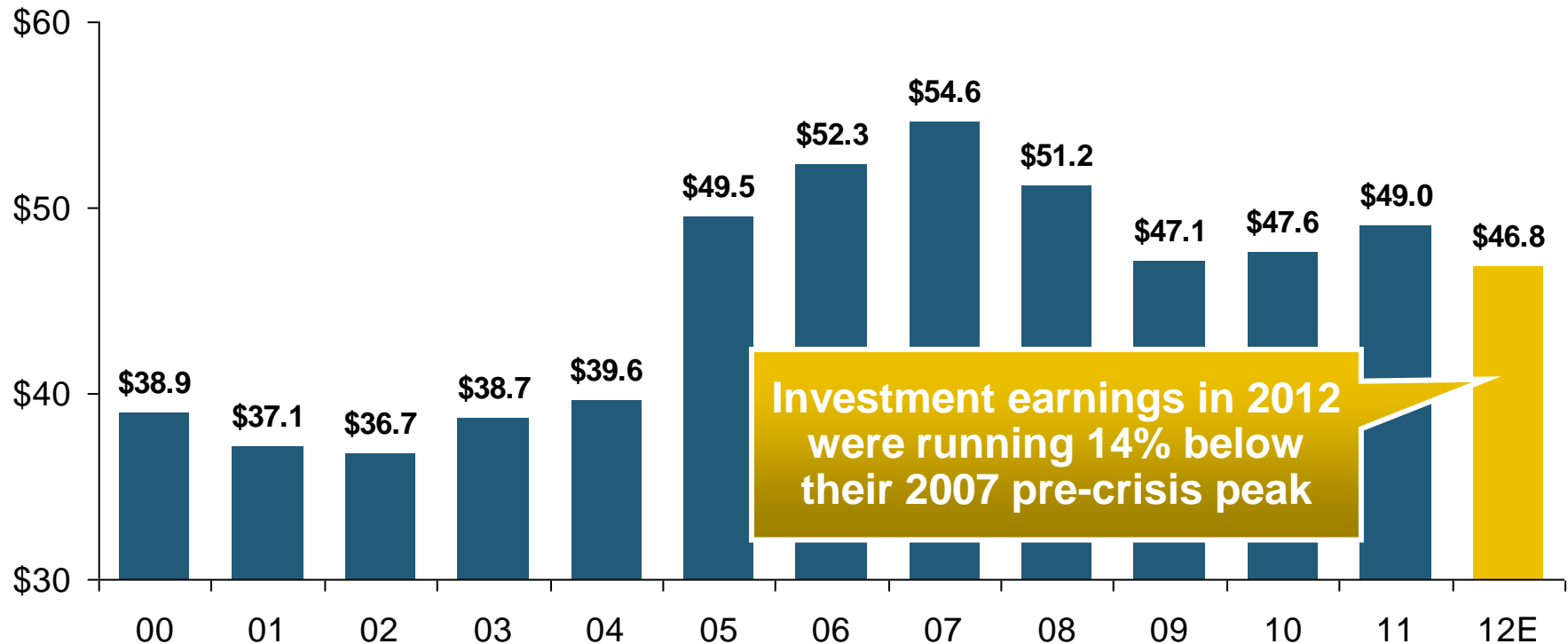
# **INVESTMENTS: THE NEW REALITY**

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

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

# Property/Casualty Insurance Industry Investment Income: 2000–2012E<sup>1</sup>

(\$ Billions)



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

<sup>1</sup> Investment gains consist primarily of interest and stock dividends.

\*2012F is based on annualized 9M:2012 actual figure of \$35.131B.

Sources: ISO; Insurance Information Institute.



# Property/Casualty Insurance Industry Investment Gain: 1994–2012F<sup>1</sup>

(\$ Billions)



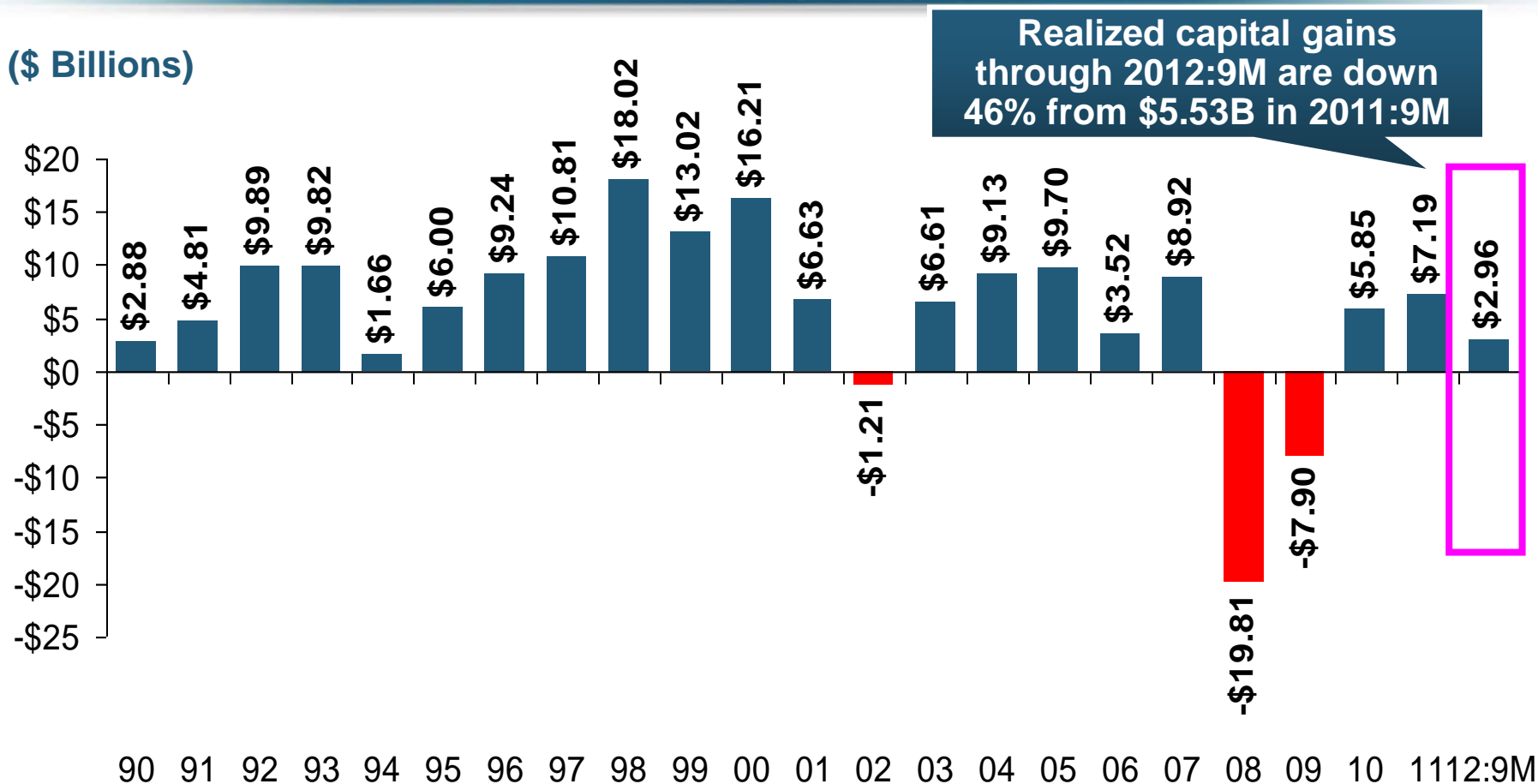
**Investment Gains Are Slipping in 2012 as Low Interest Rates Reduce Investment Income and Lower Realized Investment Gains; The Financial Crisis Caused Investment Gains to Fall by 50% in 2008**

<sup>1</sup> Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.

\* 2005 figure includes special one-time dividend of \$3.2B; 2012F figure is III estimate based on annualized actual 9M:2012 result of \$38.089B.  
Sources: ISO; Insurance Information Institute.

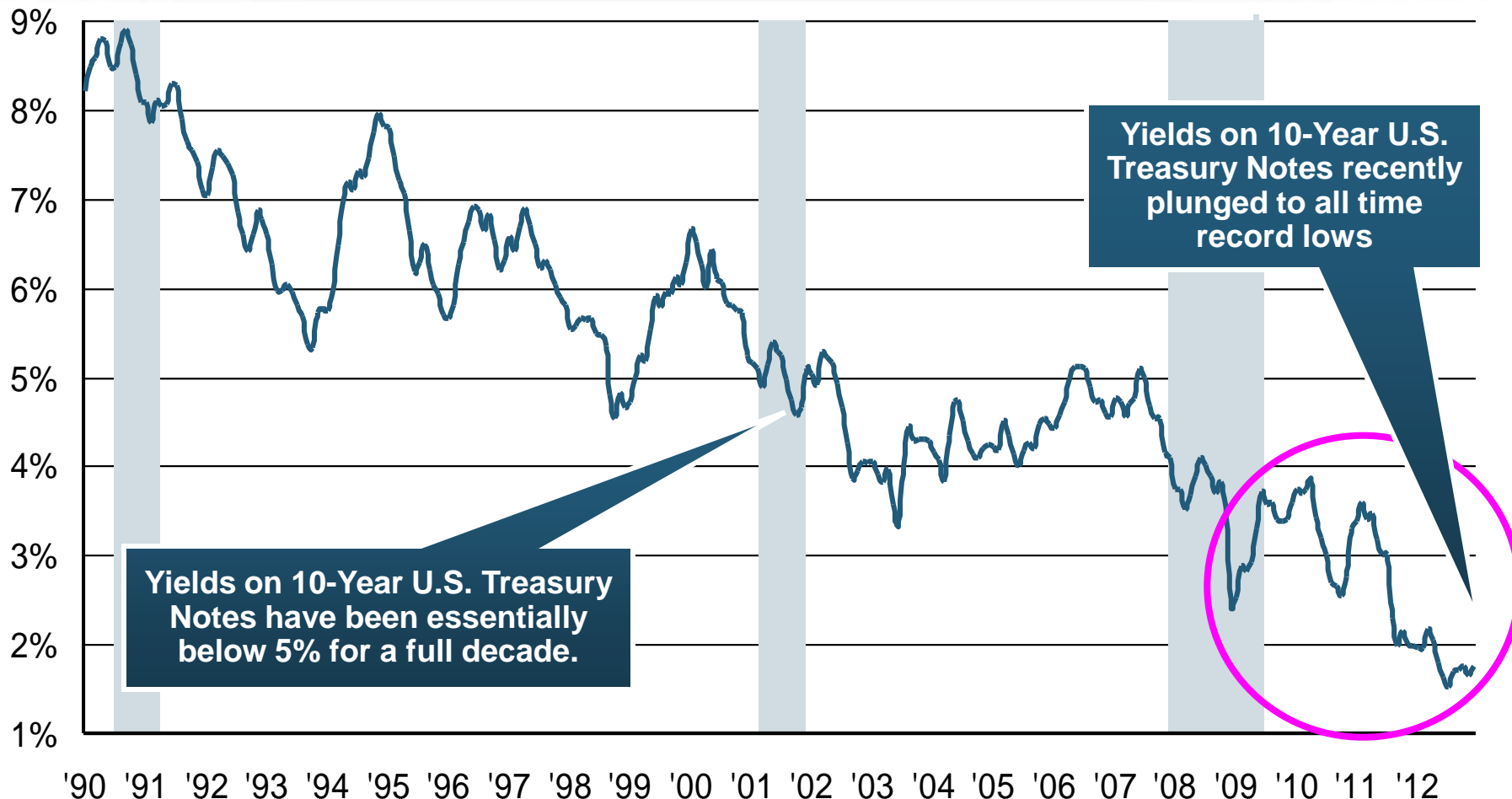
# P/C Insurer Net Realized Capital Gains/Losses, 1990-2012:Q3

(\$ Billions)



**Insurers Posted Net Realized Capital Gains in 2010, 2011 and 2012 Following Two Years of Realized Losses During the Financial Crisis. Realized Capital Losses Were the Primary Cause of 2008/2009's Large Drop in Profits and ROE**

# U.S. 10-Year Treasury Note Yields: A Long Downward Trend, 1990–2012\*



**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 Dec. 2012.

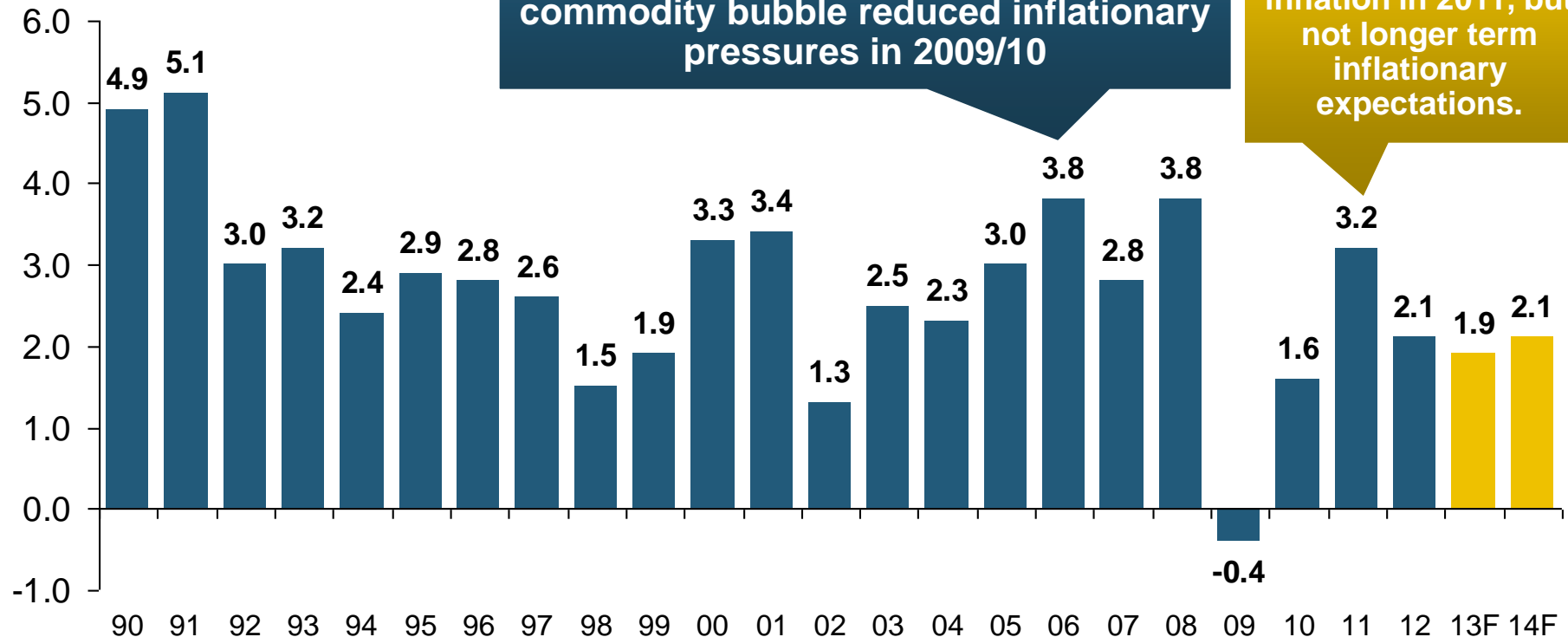
Note: Recessions indicated by gray shaded columns.

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

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

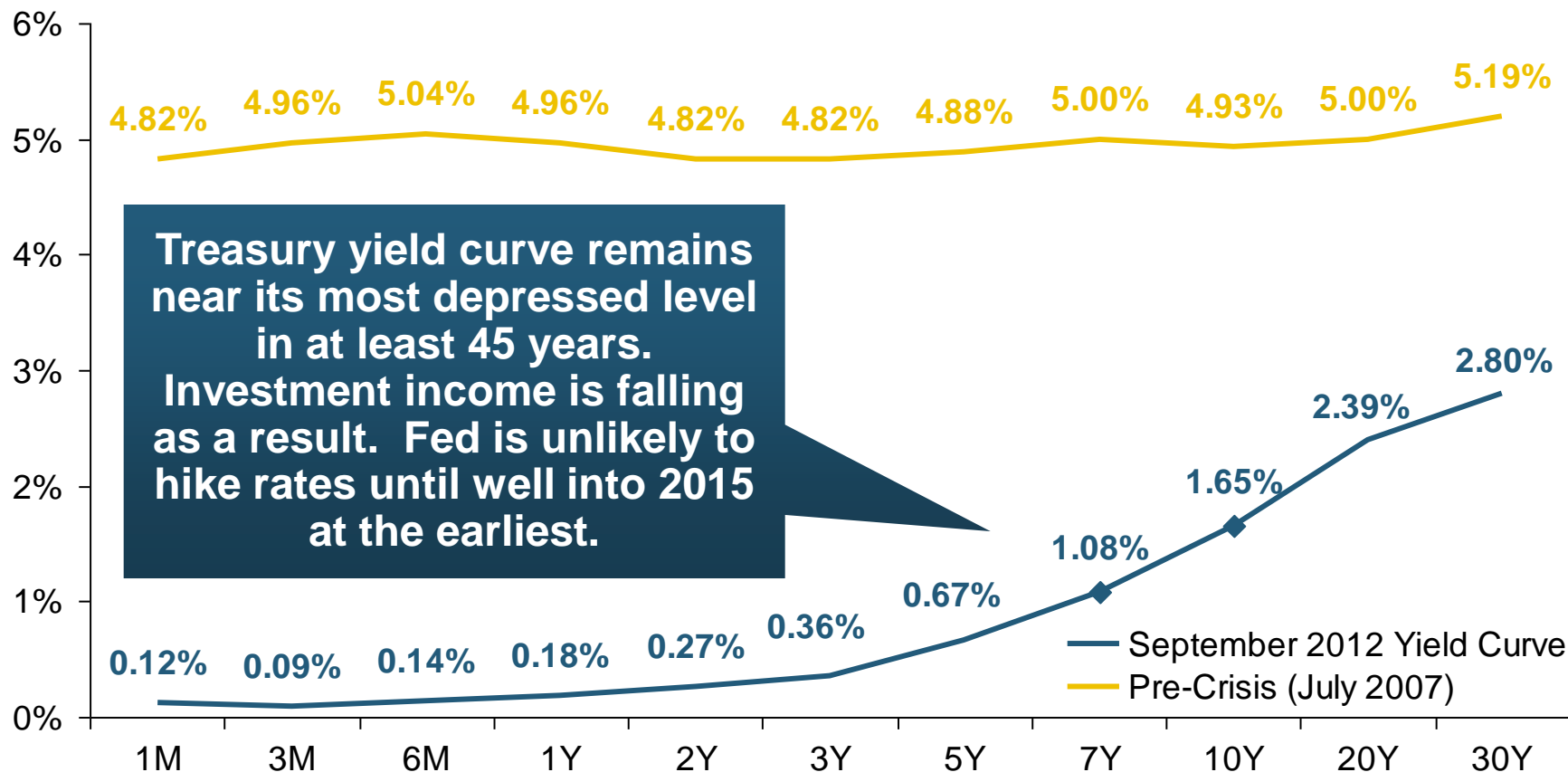
# Annual Inflation Rates, (CPI-U, %), 1990–2014F

## Annual Inflation Rates (%)



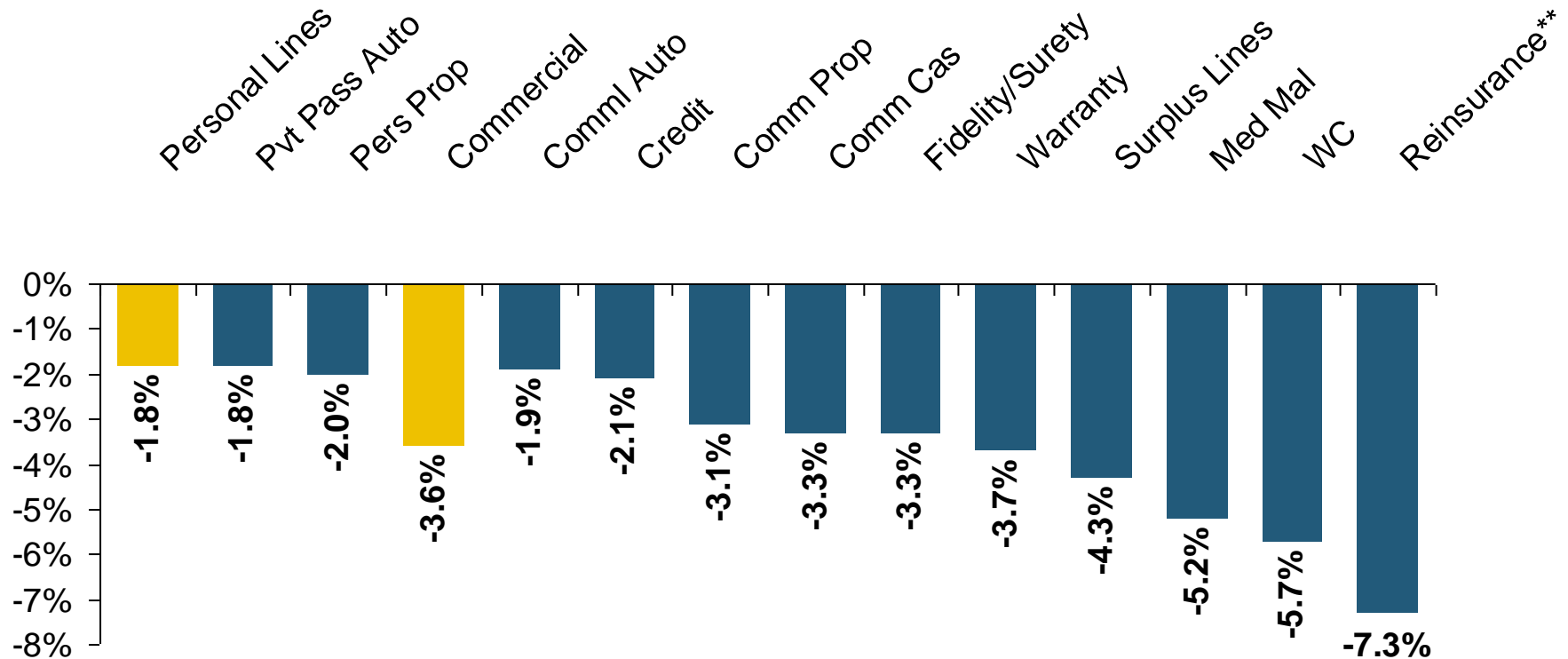
The slack in the U.S. economy suggests that inflationary pressures should remain subdued for an extended period of times. Energy, health care and commodity prices, plus U.S. debt burden, remain longer-run concerns

# Treasury Yield Curves: Pre-Crisis (July 2007) vs. Nov. 2012



**The Fed Is Actively Signaling that it Is Determined to Keep Rates Low Through Mid-2015; This Adds to Pricing Pressure for Insurers.**

# 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

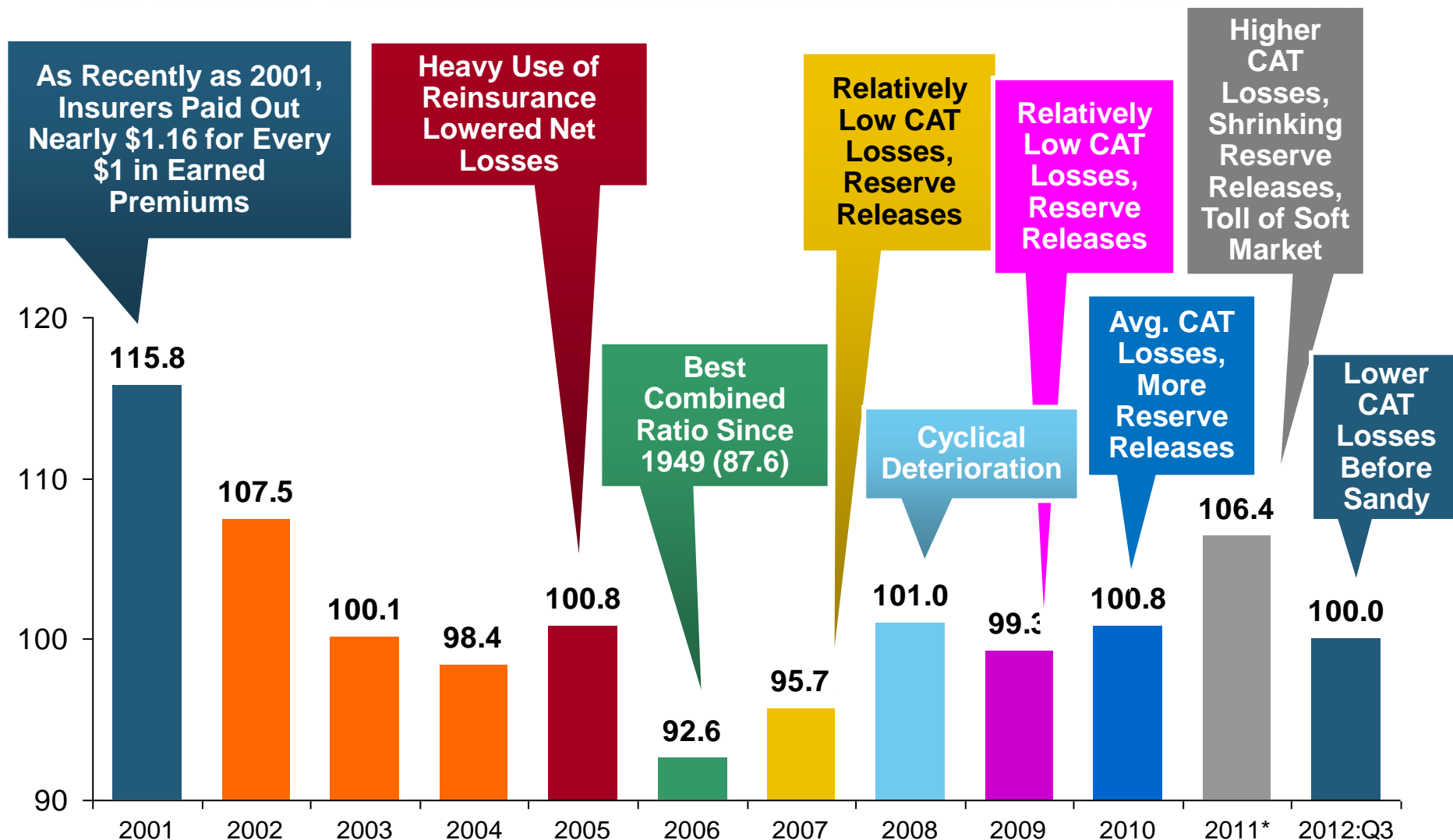
\*\*US domestic reinsurance only

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

# **1. UNDERWRITING**

**Underwriting Losses in 2011  
and 2012 Are Elevated by High  
Catastrophe Losses**

# P/C Insurance Industry Combined Ratio, 2001–2012:Q3\*



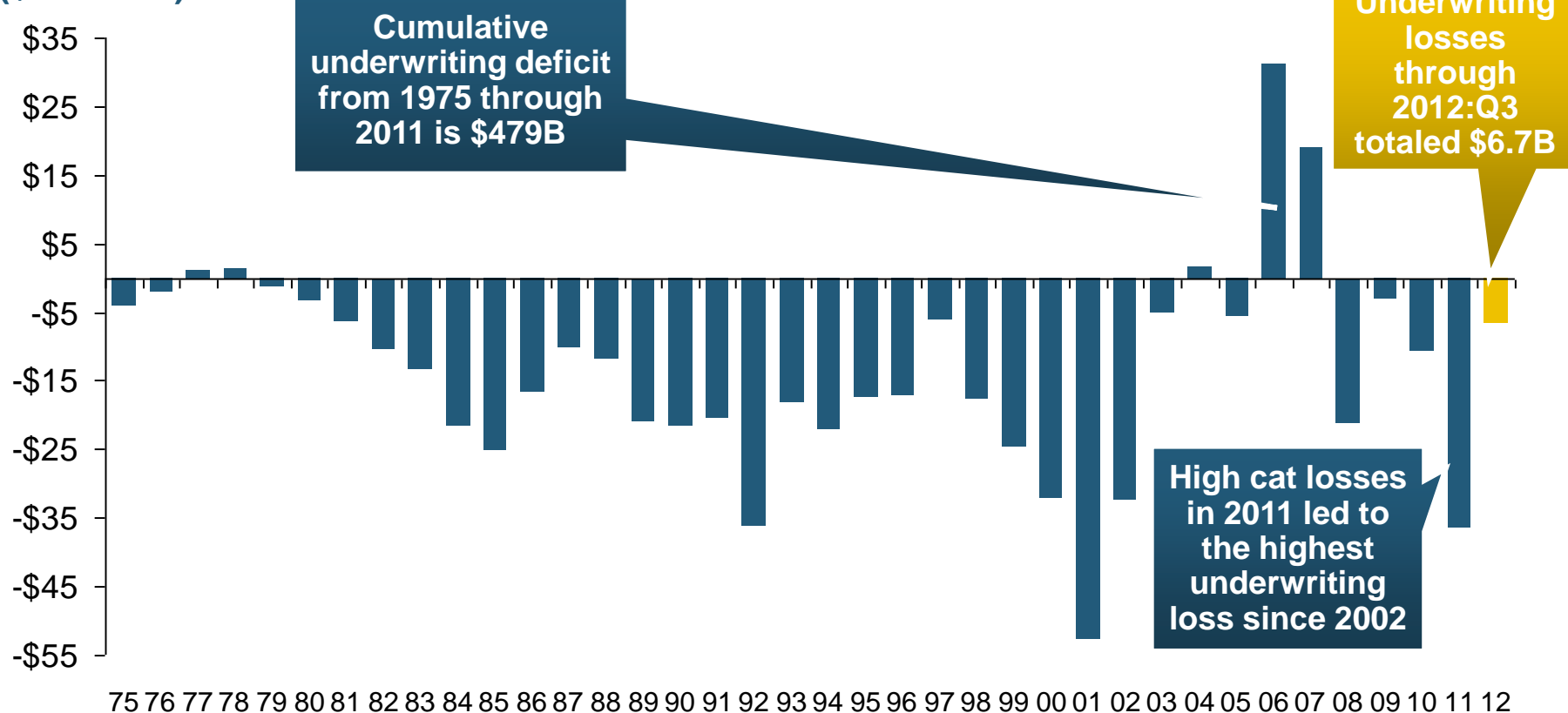
\* Excludes Mortgage & Financial Guaranty insurers 2008--2012. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.2; 2012:Q3=100.0.

Sources: A.M. Best, ISO.



# Underwriting Gain (Loss) 1975–2012:Q3\*

(\$ Billions)



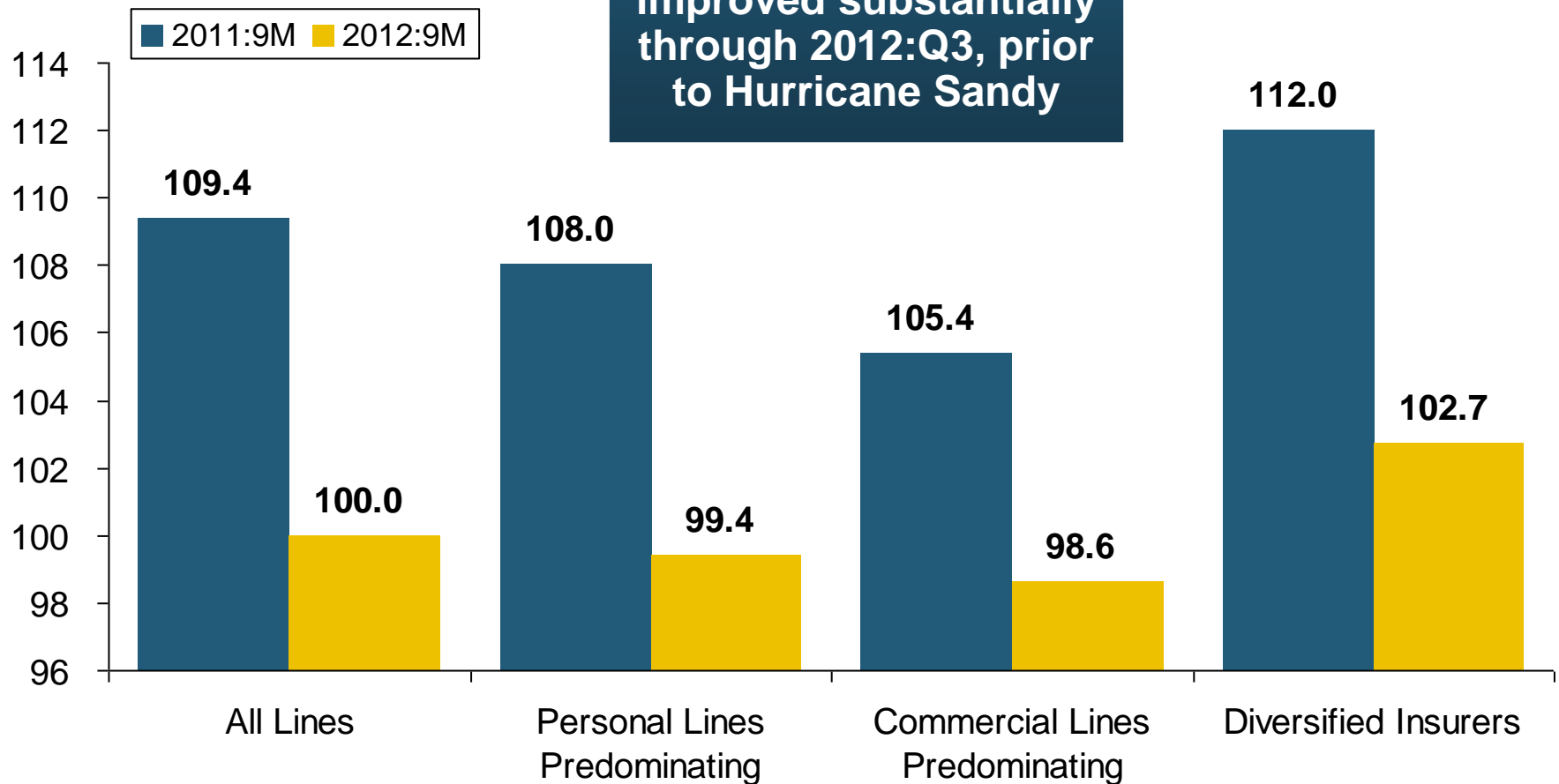
**Large Underwriting Losses Are *NOT* Sustainable  
in Current Investment Environment**

\* Includes mortgage and financial guaranty insurers in all years.

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

# Combined Ratios by Predominant Business Segment, 2012:9 Mos. vs. 2011:9 Mos.\*

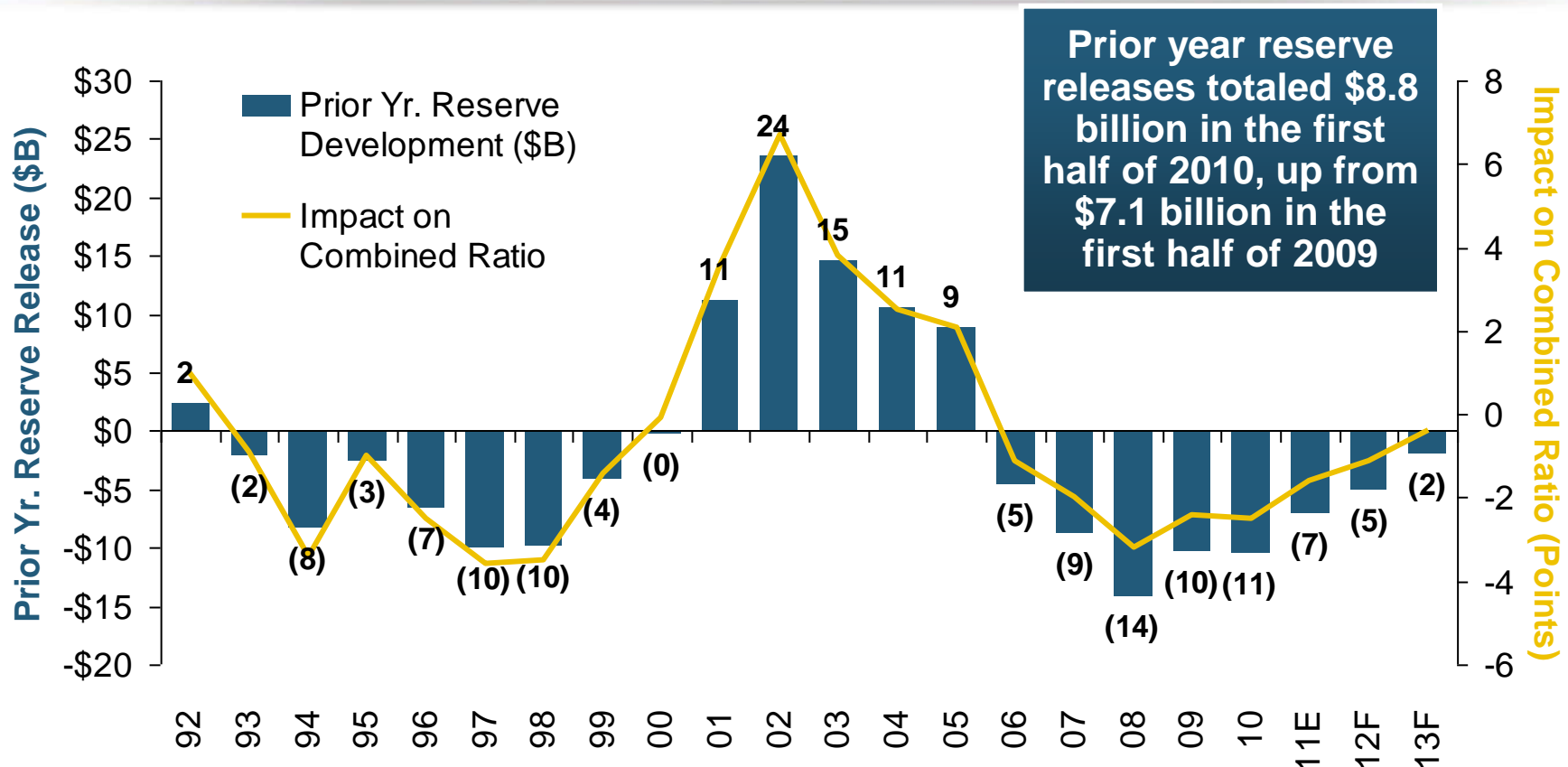
(Percent)



\*Excludes mortgage and financial guaranty insurers.

Source: ISO/PCI; Insurance Information Institute

# P/C Reserve Development, 1992–2013F



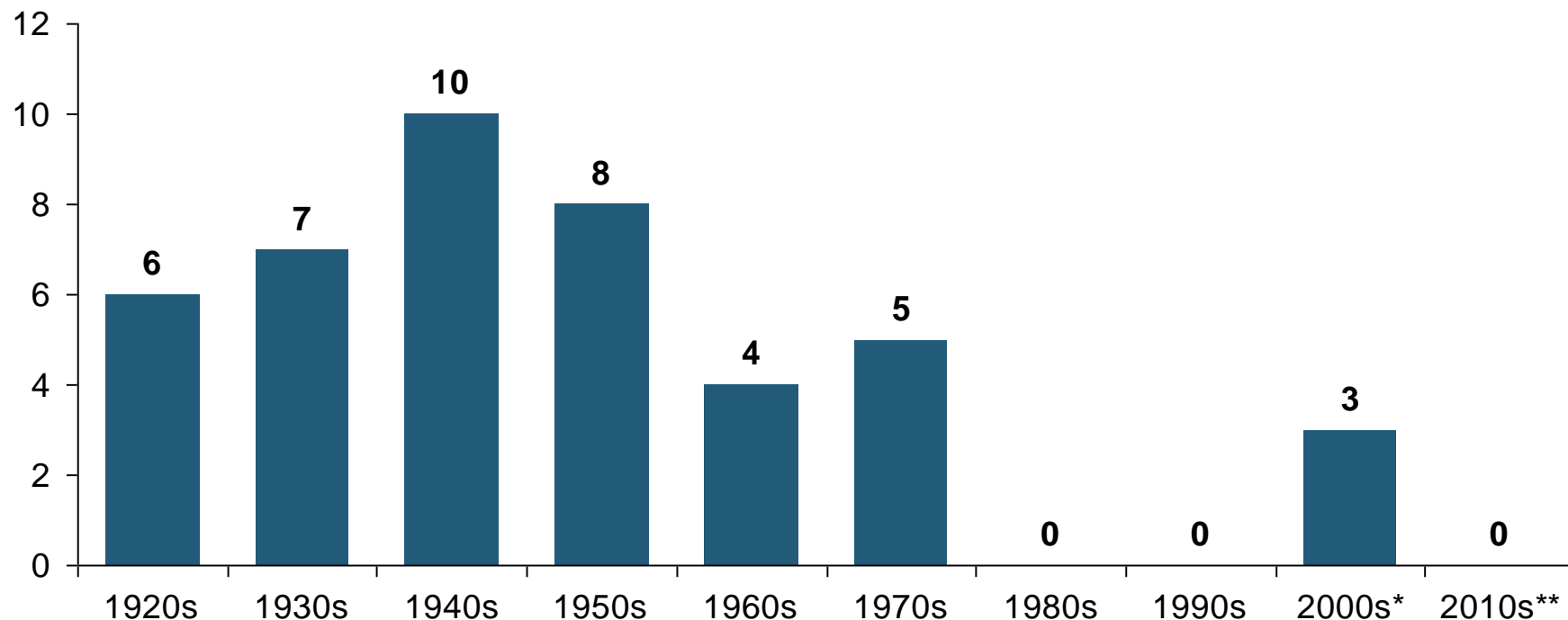
**Reserve Releases Remained Strong in 2010 But Tapered Off in 2011. Releases Are Expected to Further Diminish in 2012 and 2103**

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.

# Number of Years with Underwriting Profits by Decade, 1920s–2010s

Number of Years with Underwriting Profits



**Underwriting Profits Were Common Before the 1980s (40 of the 60 Years Before 1980 Had Combined Ratios Below 100) – But Then They Vanished. Not a Single Underwriting Profit Was Recorded in the 25 Years from 1979 Through 2003**

\* 2009 combined ratio excl. mort. and finl. guaranty insurers was 99.3, which would bring the 2000s total to 4 years with an u/w profit.

\*\*Data for the 2010s includes 2010 and 2011.

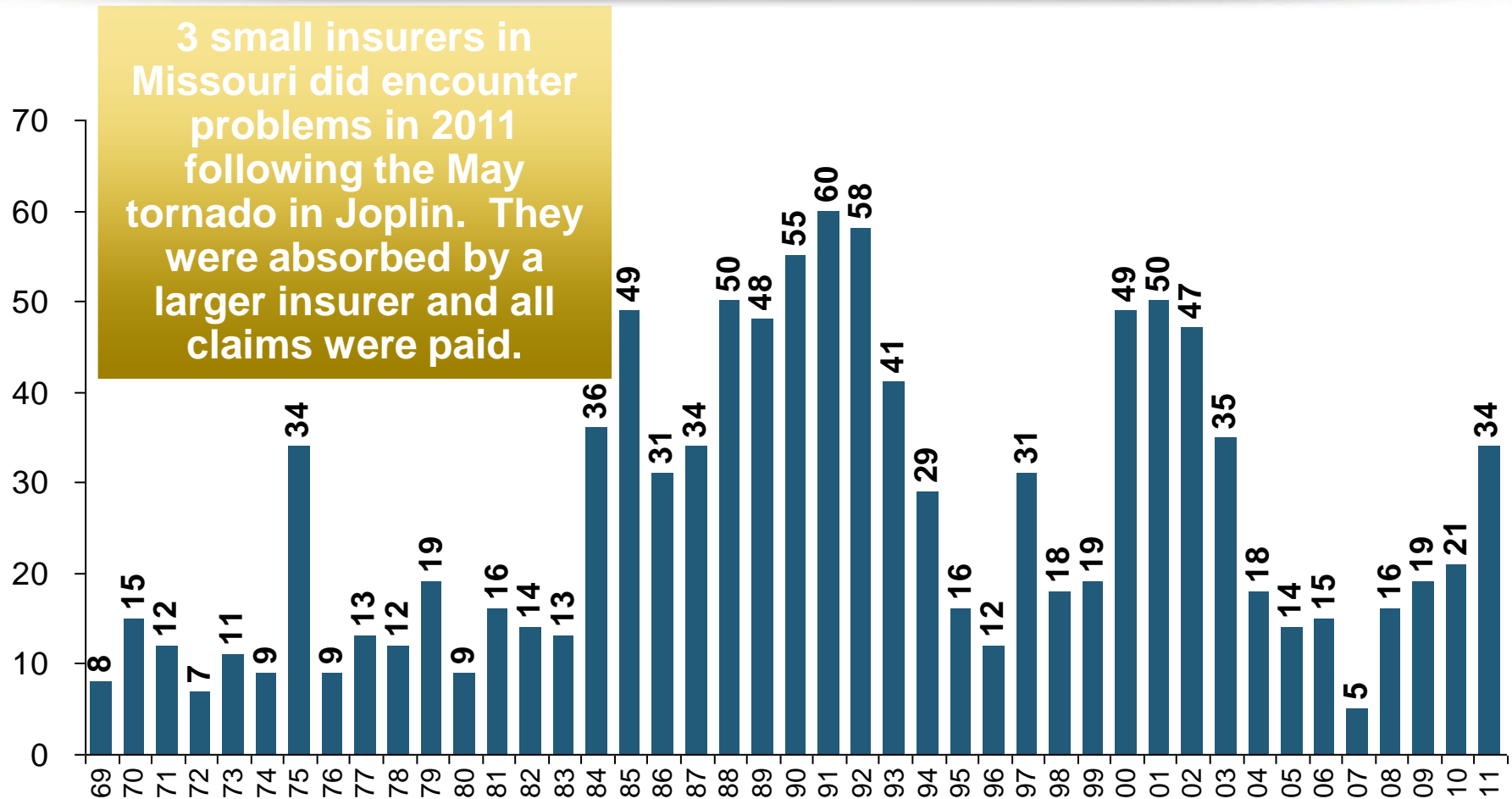
Note: Data for 1920–1934 based on stock companies only.

Sources: Insurance Information Institute research from A.M. Best Data.

# **Financial Strength & Underwriting**

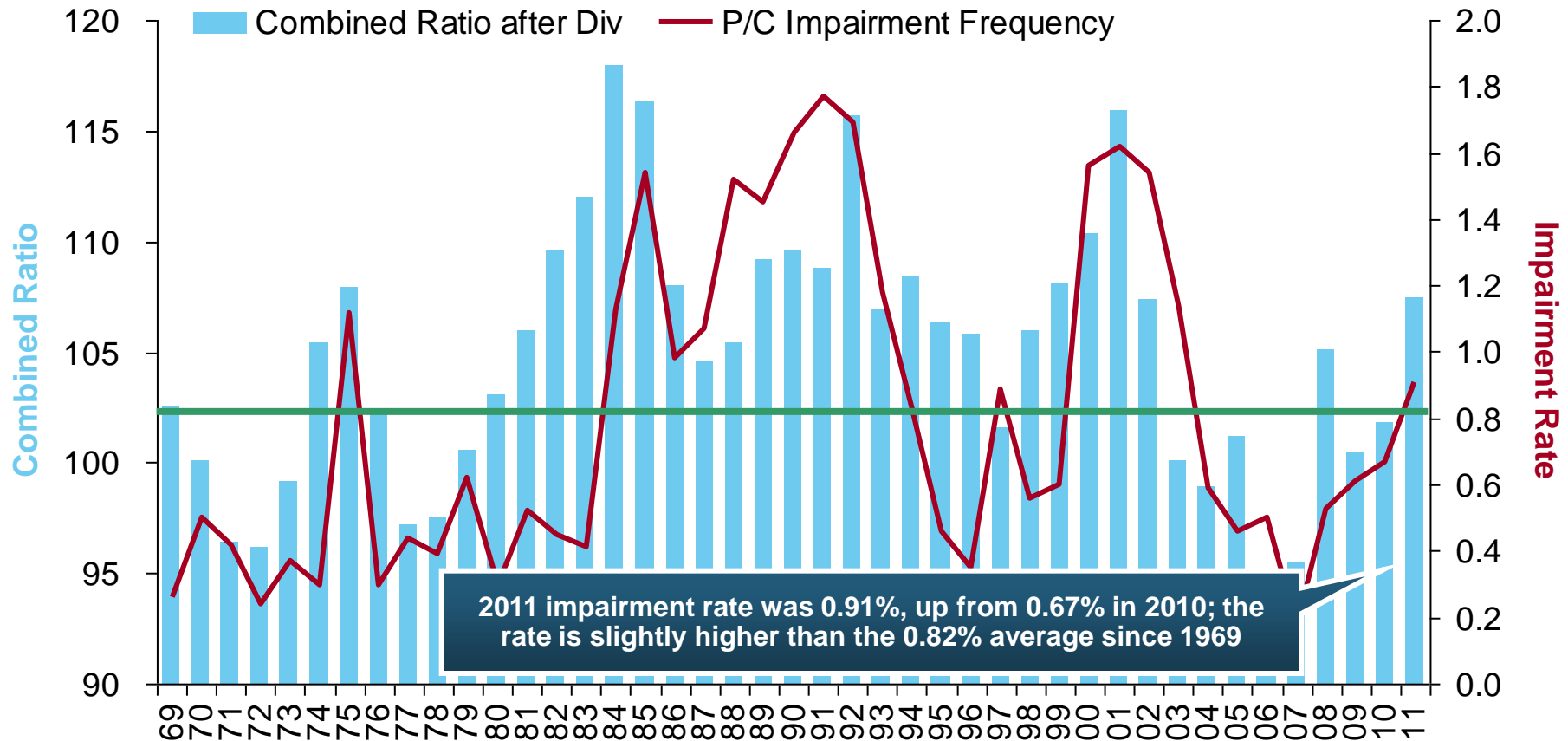
**Cyclical Pattern is P-C Impairment  
History is Directly Tied to  
Underwriting, Reserving & Pricing**

# P/C Insurer Impairments, 1969–2011



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

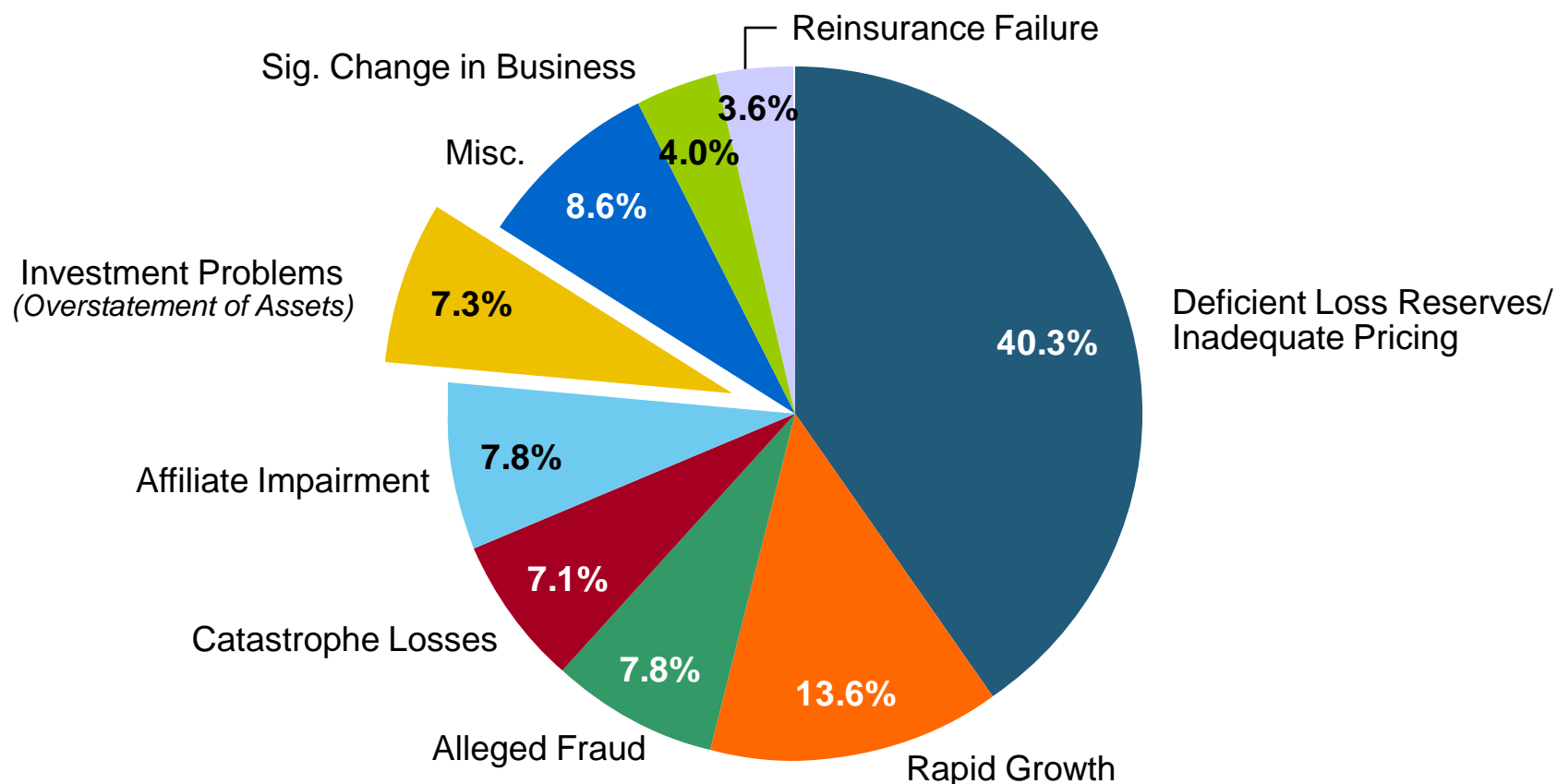
# P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2011



**Impairment Rates Are Highly Correlated With Underwriting Performance and Reached Record Lows in 2007; Recent Increase Was Associated Primarily With Mortgage and Financial Guaranty Insurers and Not Representative of the Industry Overall**

# Reasons for US P/C Insurer Impairments, 1969–2010

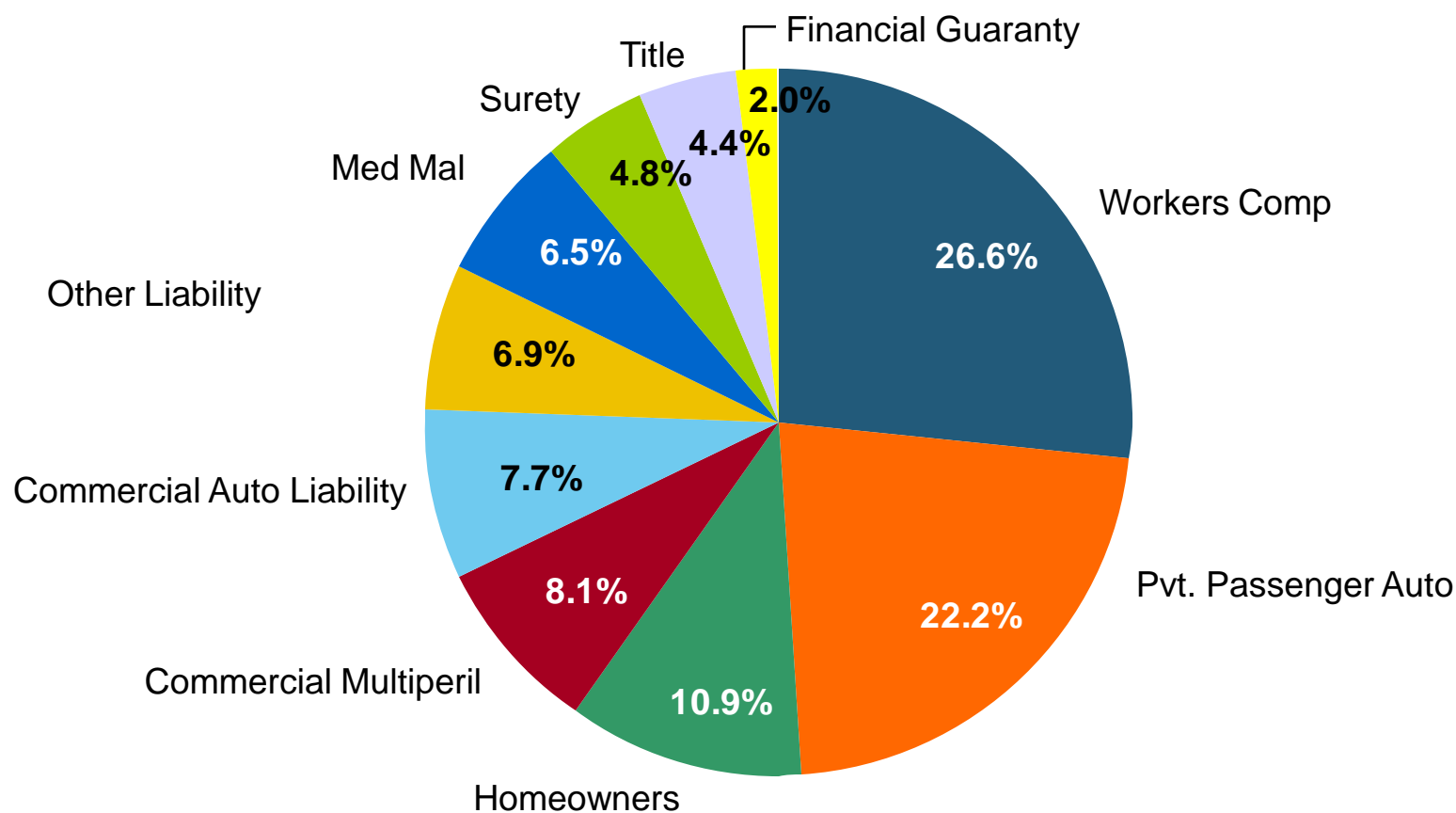
**Historically, Deficient Loss Reserves and Inadequate Pricing Are By Far the Leading Cause of P-C Insurer Impairments. Investment and Catastrophe Losses Play a Much Smaller Role**





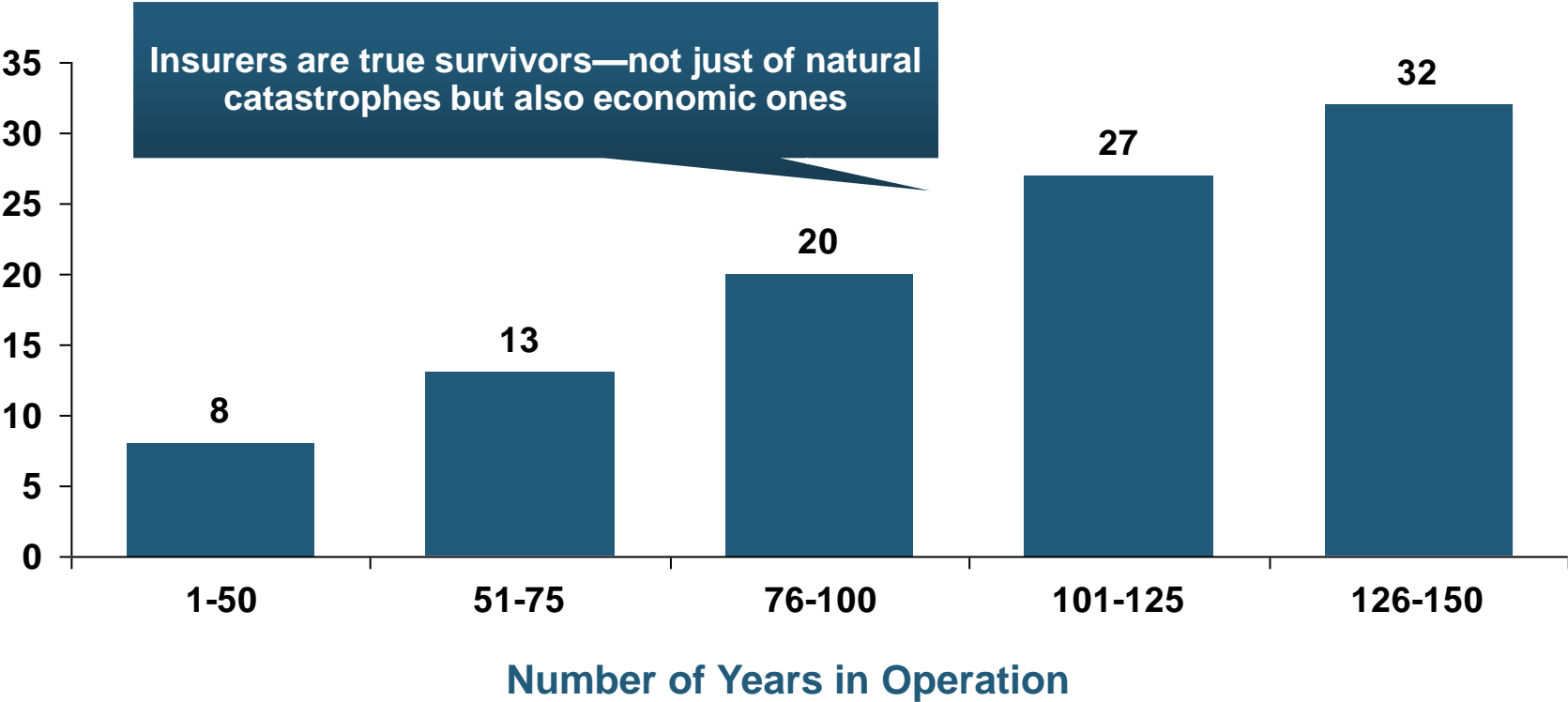
# Top 10 Lines of Business for US P/C Impaired Insurers, 2000–2010

**Workers Comp and Pvt. Passenger Auto Account for Nearly Half of the Premium Volume of Impaired Insurers Over the Past Decade**



# Number of Recessions Endured by P/C Insurers, by Number of Years in Operation

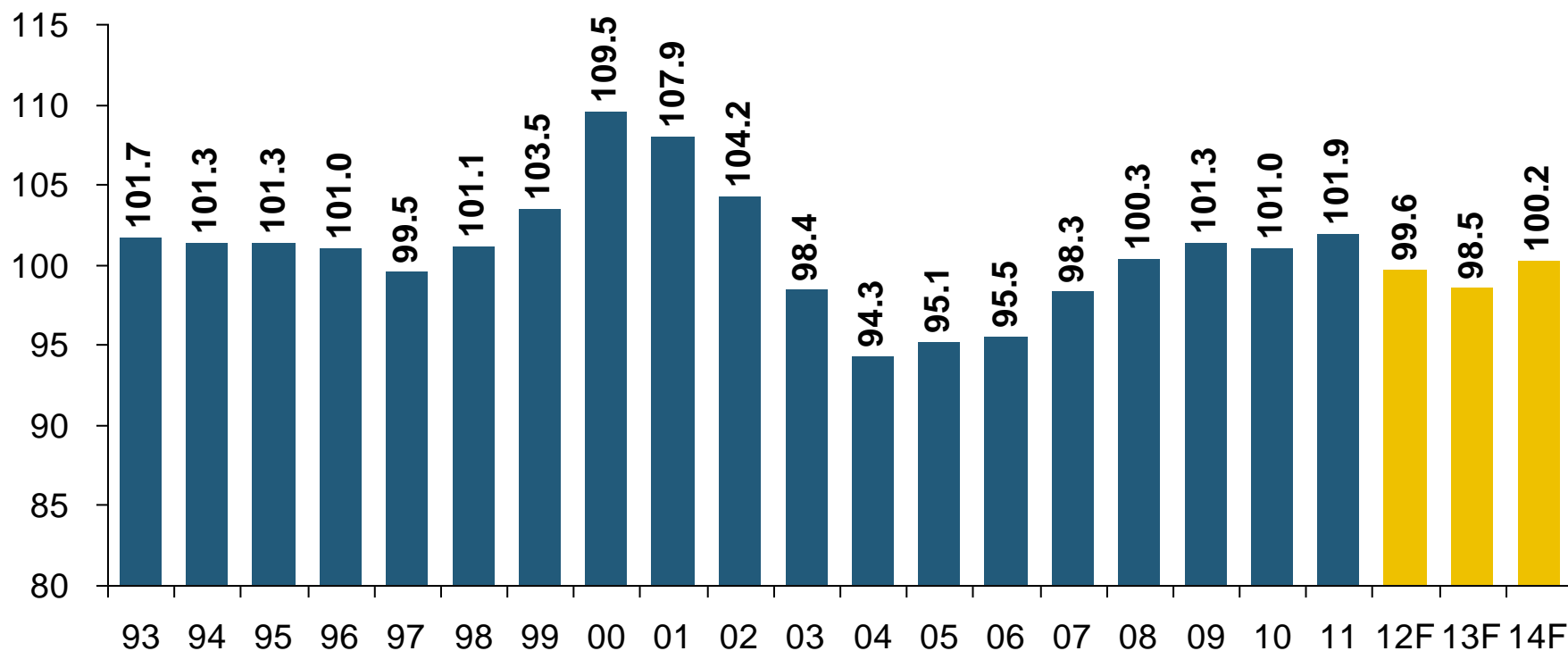
Number of Recessions Since 1860



Many US Insurers Are Close to a Century Old or Older

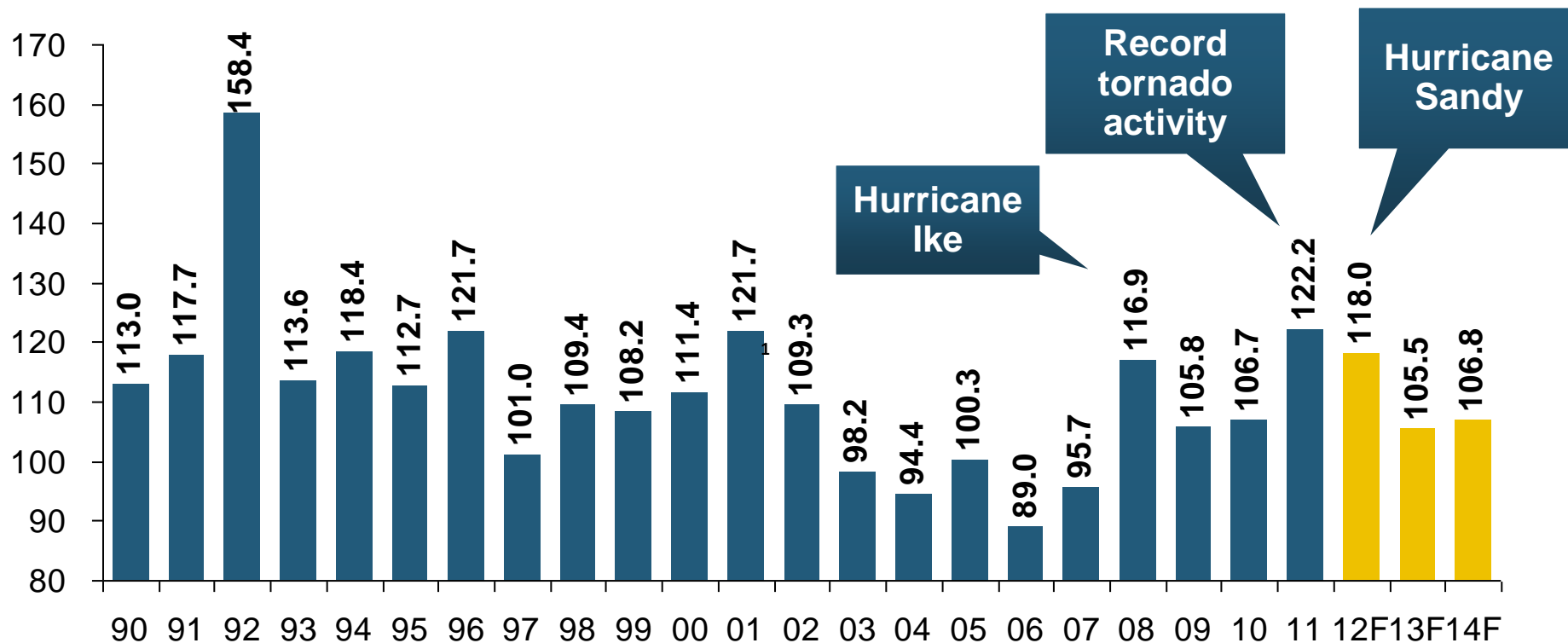
# Performance by Segment

# Private Passenger Auto Combined Ratio: 1993–2014F



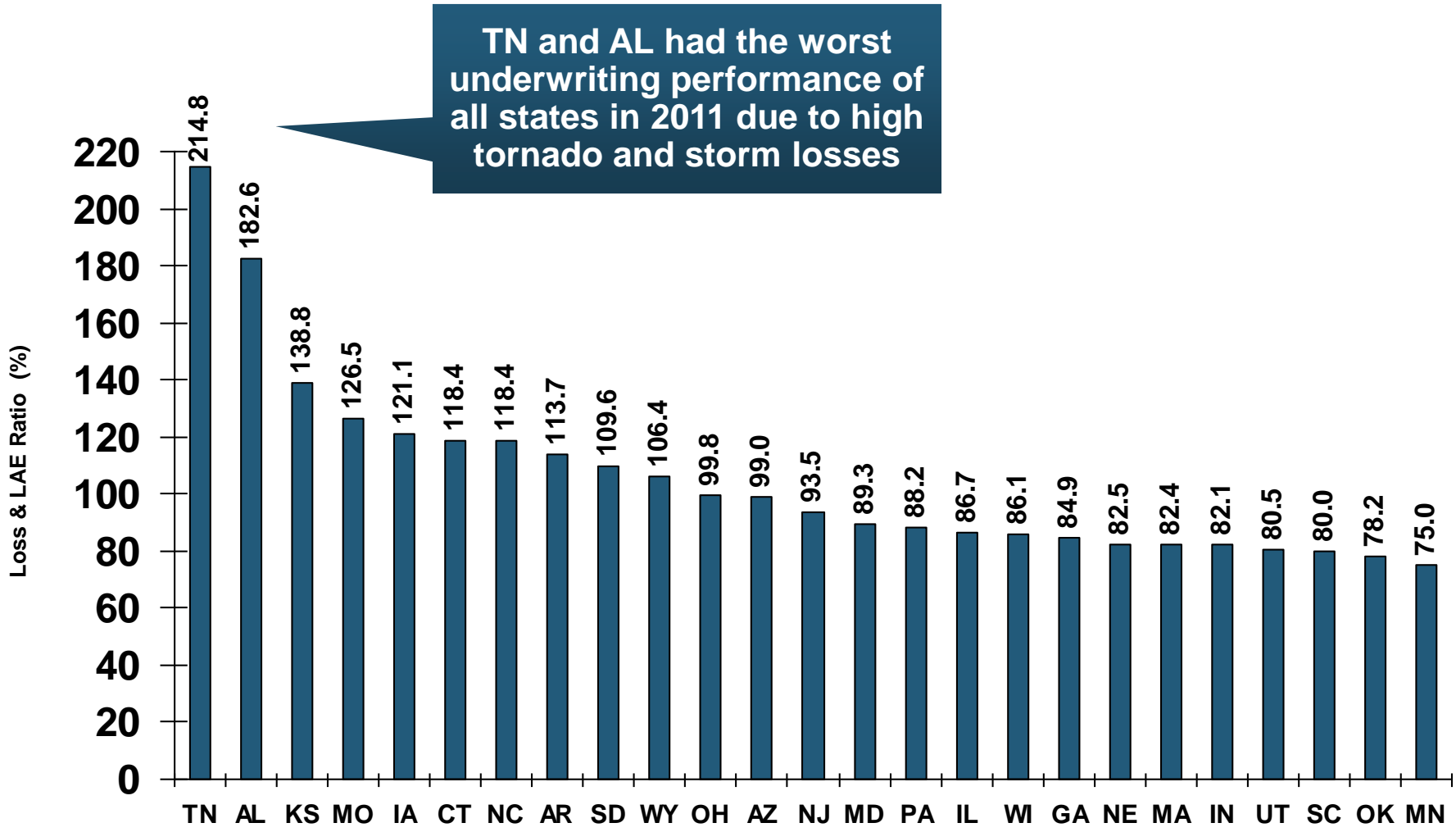
**Private Passenger Auto Accounts for 34% of Industry Premiums and Remains the Profit Juggernaut of the P/C Insurance Industry**

# Homeowners Insurance Combined Ratio: 1990–2014F

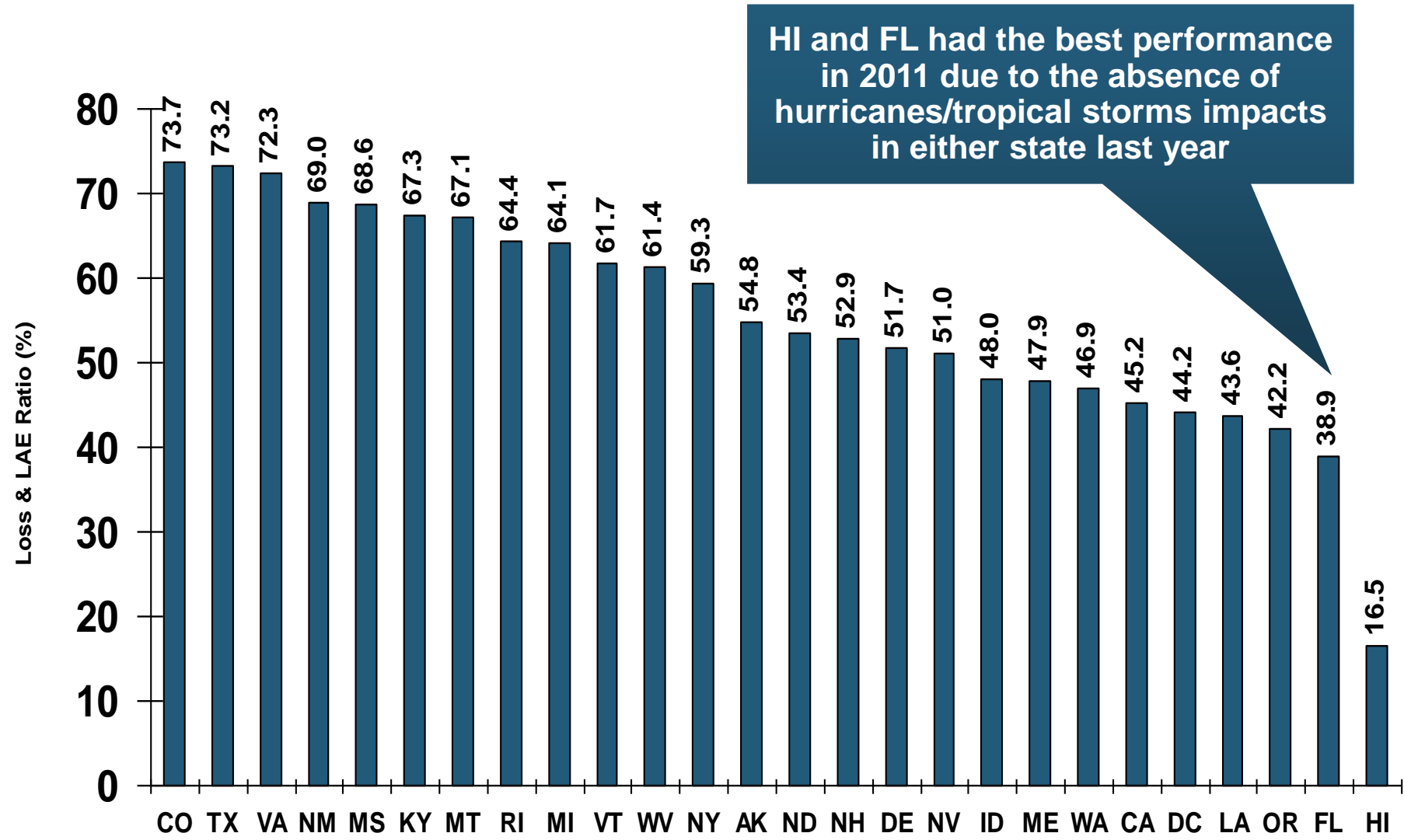


**Homeowners Performance Deteriorated in 2011/12 Due to Large Cat Losses. Extreme Regional Variation Can Be Expected Due to Local Catastrophe Loss Activity**

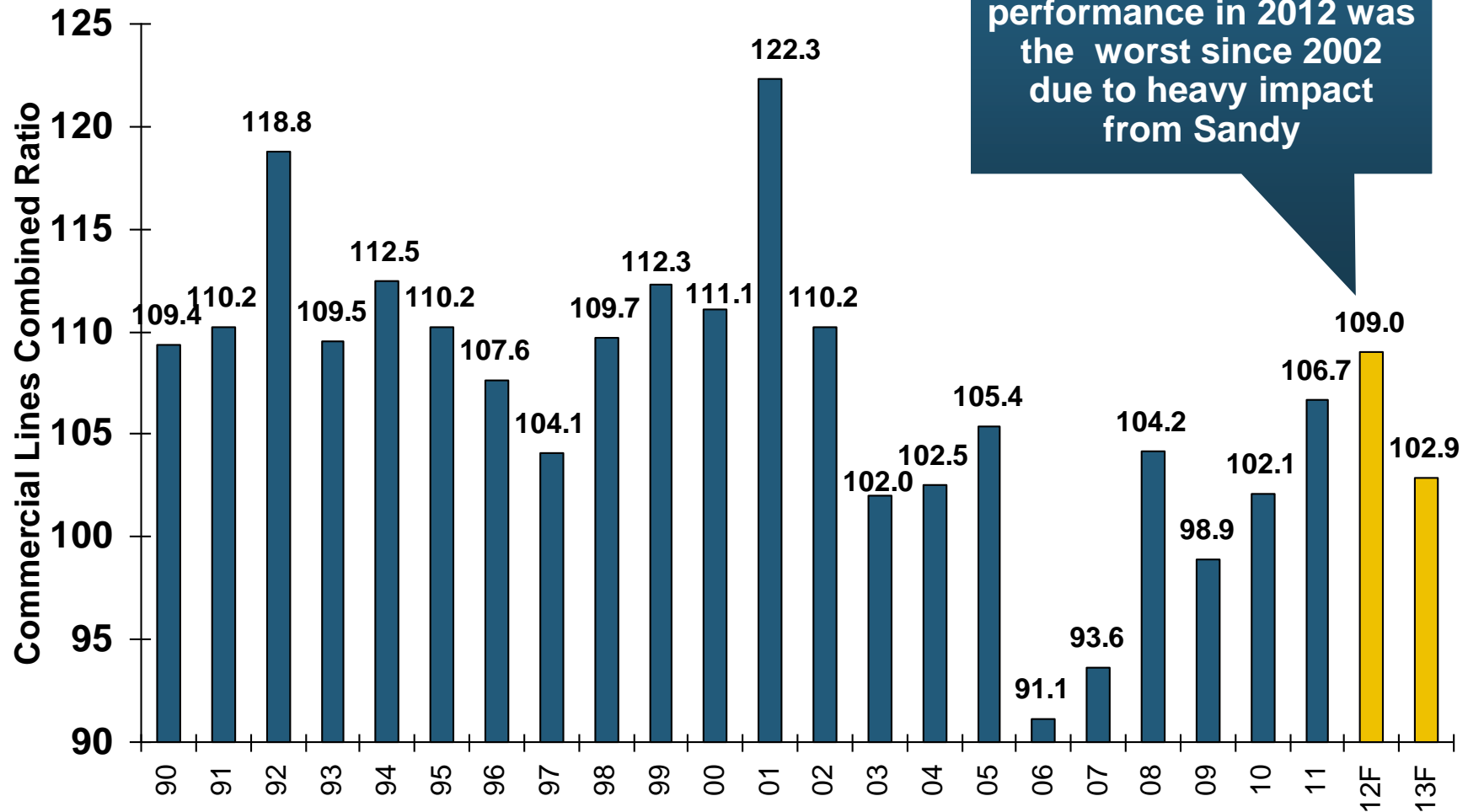
# Homeowners Multi-Peril Loss & LAE Ratio, 2011: Highest 25 States



# Homeowners Multi-Peril Loss & LAE Ratio, 2011: Lowest 25 States



# Commercial Lines Combined Ratio, 1990-2013F\*

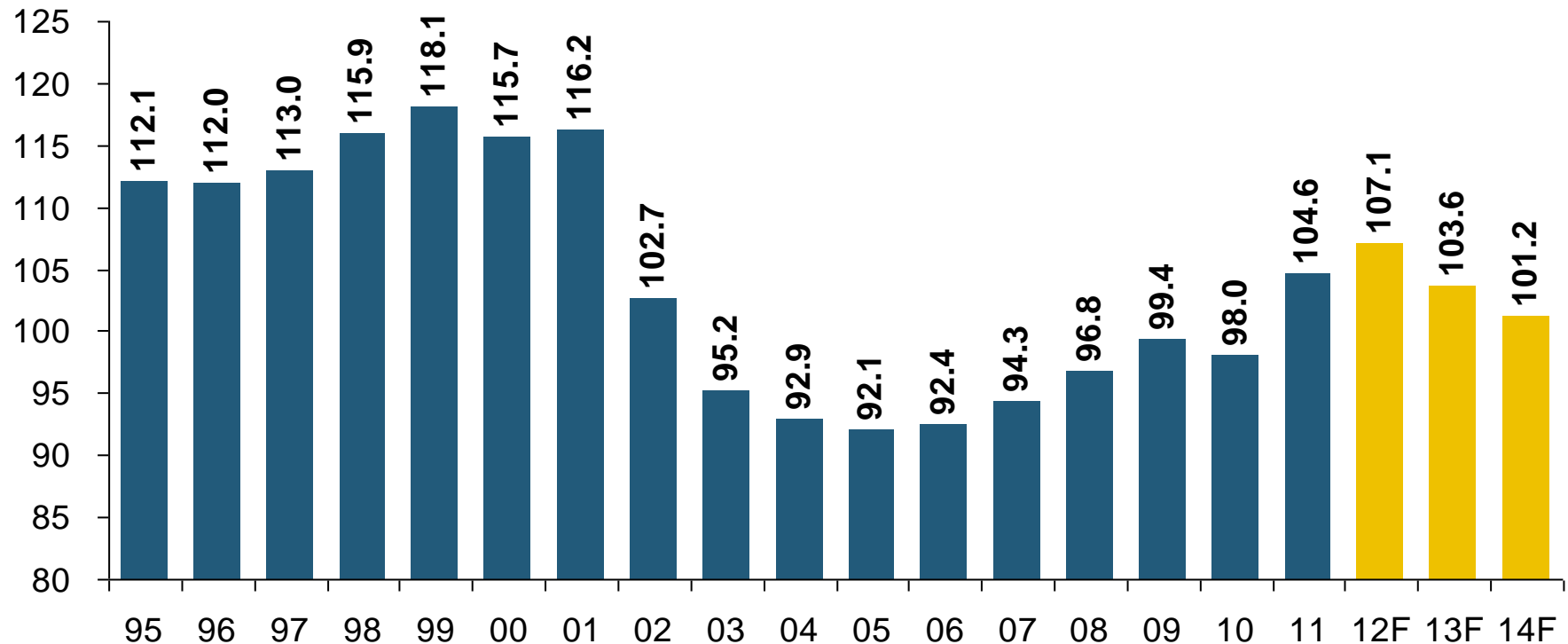


\*2007-2013F figures exclude mortgage and financial guaranty segments.

Source: A.M. Best; Insurance Information Institute

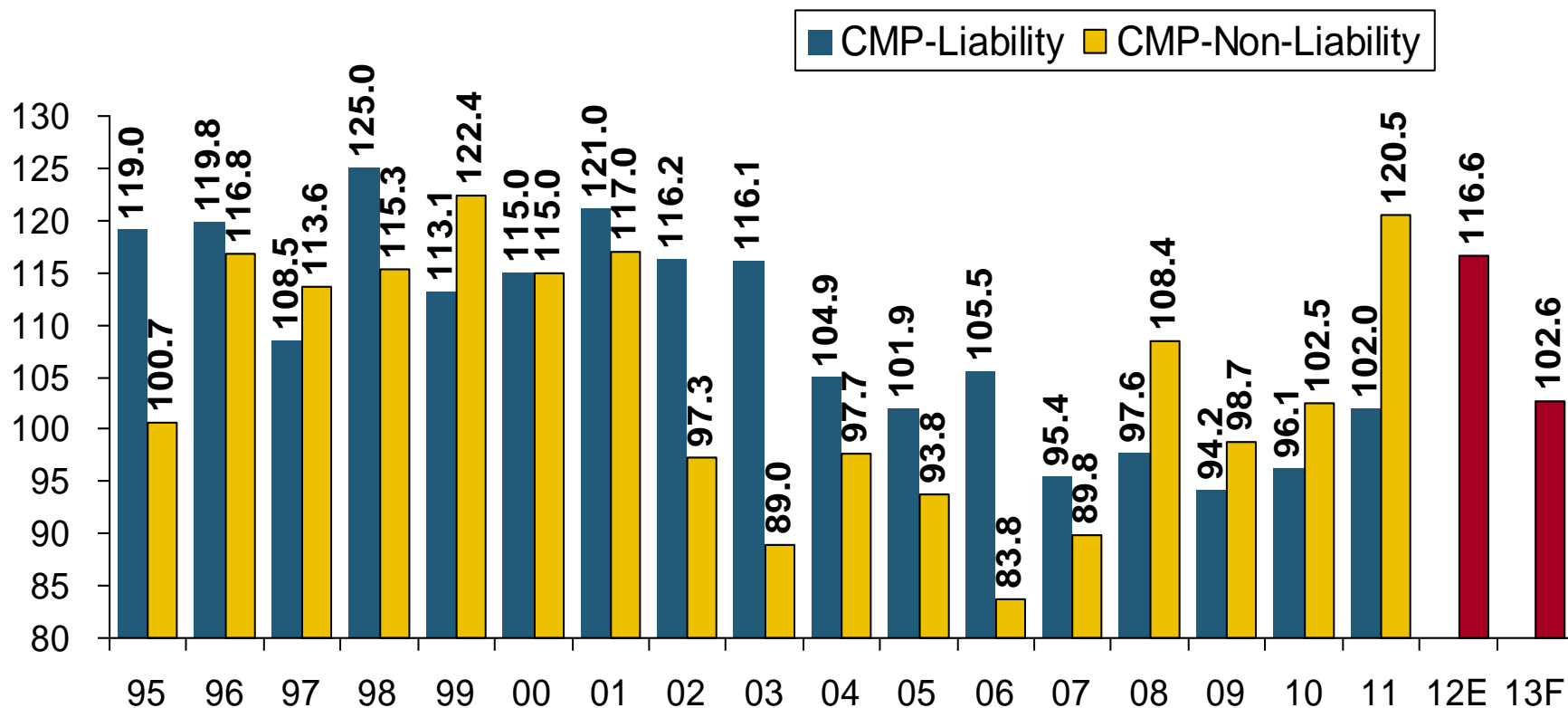


# Commercial Auto Combined Ratio: 1993–2014F



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

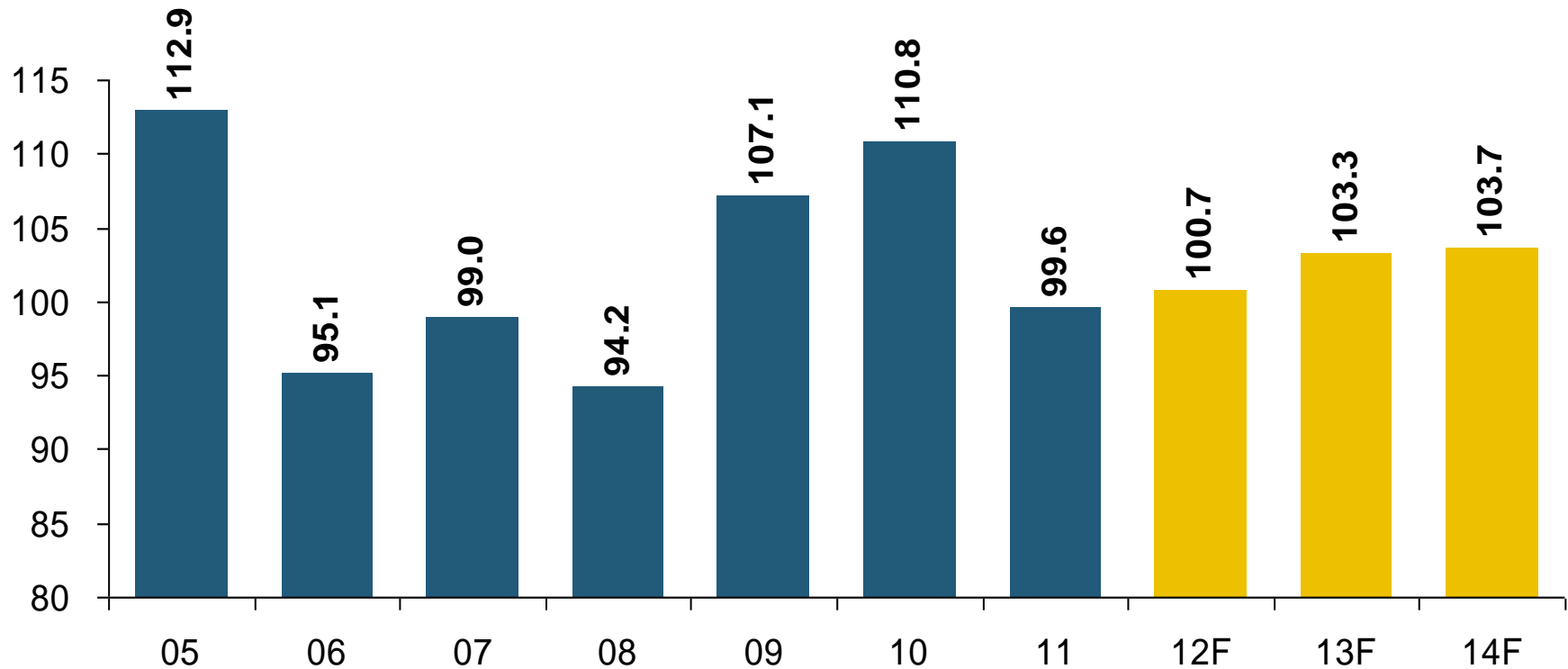
# Commercial Multi-Peril Combined Ratio: 1995–2013F



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

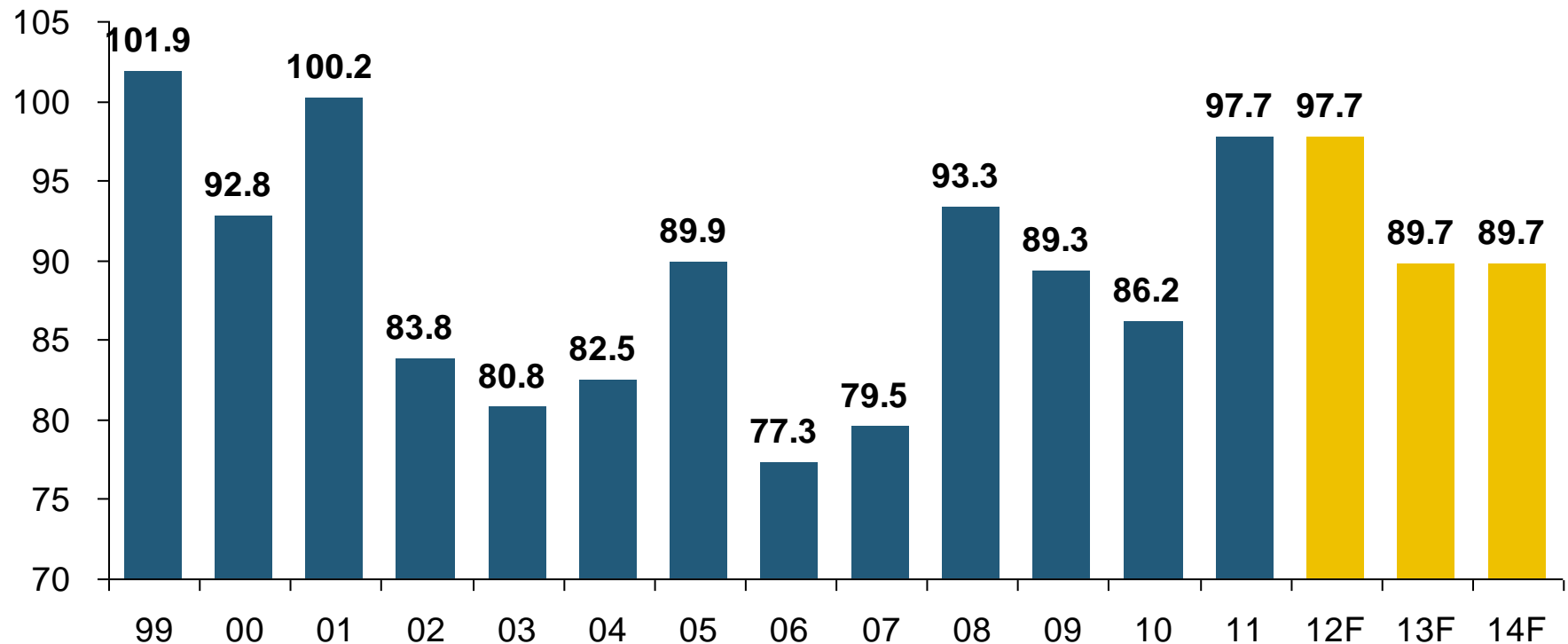
\*2012-2013 figures are A.M. Best estimate/forecast for the combined liability and non-liability components.  
Sources: A.M. Best; Insurance Information Institute.

# General Liability Combined Ratio: 2005–2014F



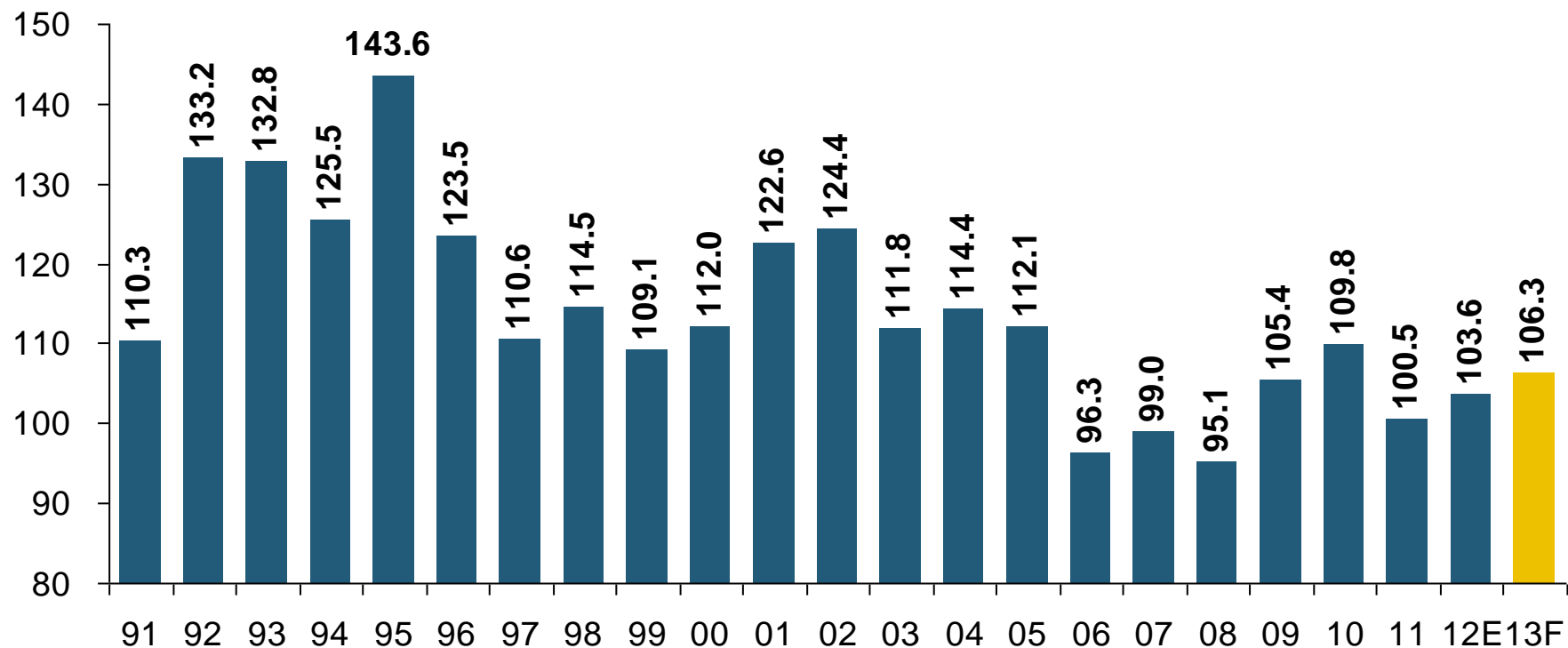
**Commercial General Liability Underwriting  
Performance Has Been Volatile in Recent Years**

# Inland Marine Combined Ratio: 1999–2014F



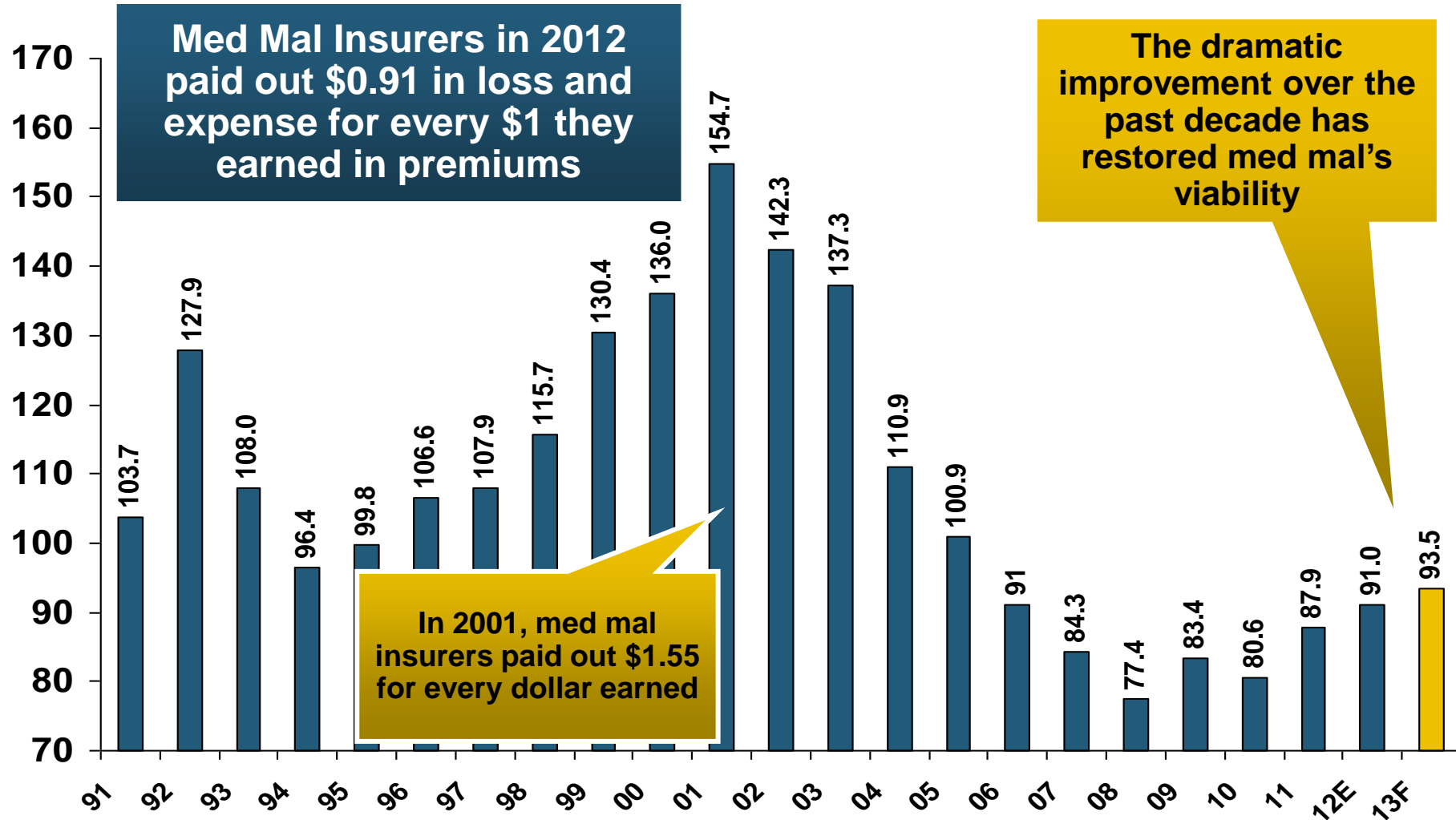
**Inland Marine is Expected to Remain Among the Most Profitable of All Lines**

# Other & Products Liability Combined Ratio: 1991–2013F



**Liability Lines Have Performed Better in the Post-Tort Reform Era (~2005), but There Has Been Some Deterioration in Recent Years**

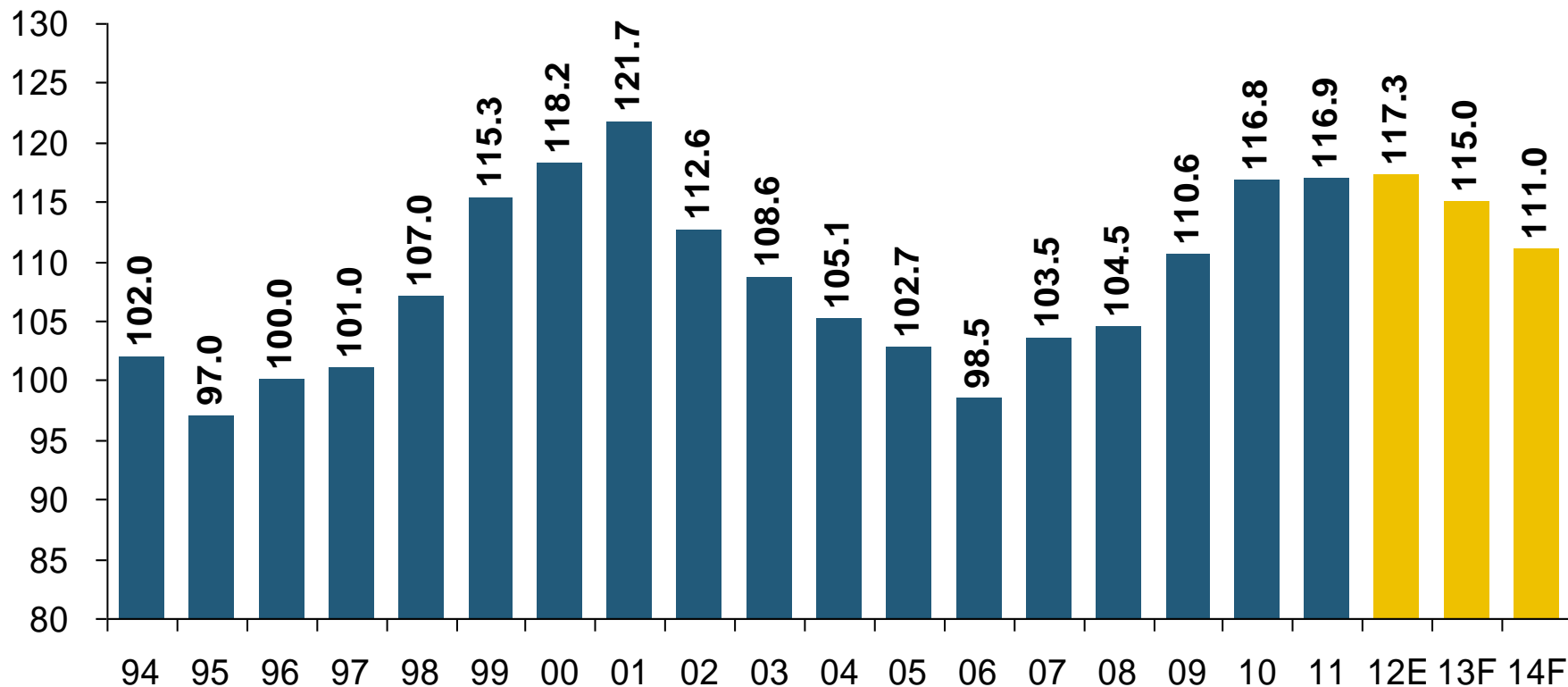
# Medical Malpractice Combined Ratio vs. All Lines Combined Ratio, 1991-2013F



# **Workers Compensation Operating Environment**

**The Weak Economy and Soft Market Have  
Made the Workers Comp Operating  
Increasingly Challenging**

# Workers Compensation Combined Ratio: 1994–2014F



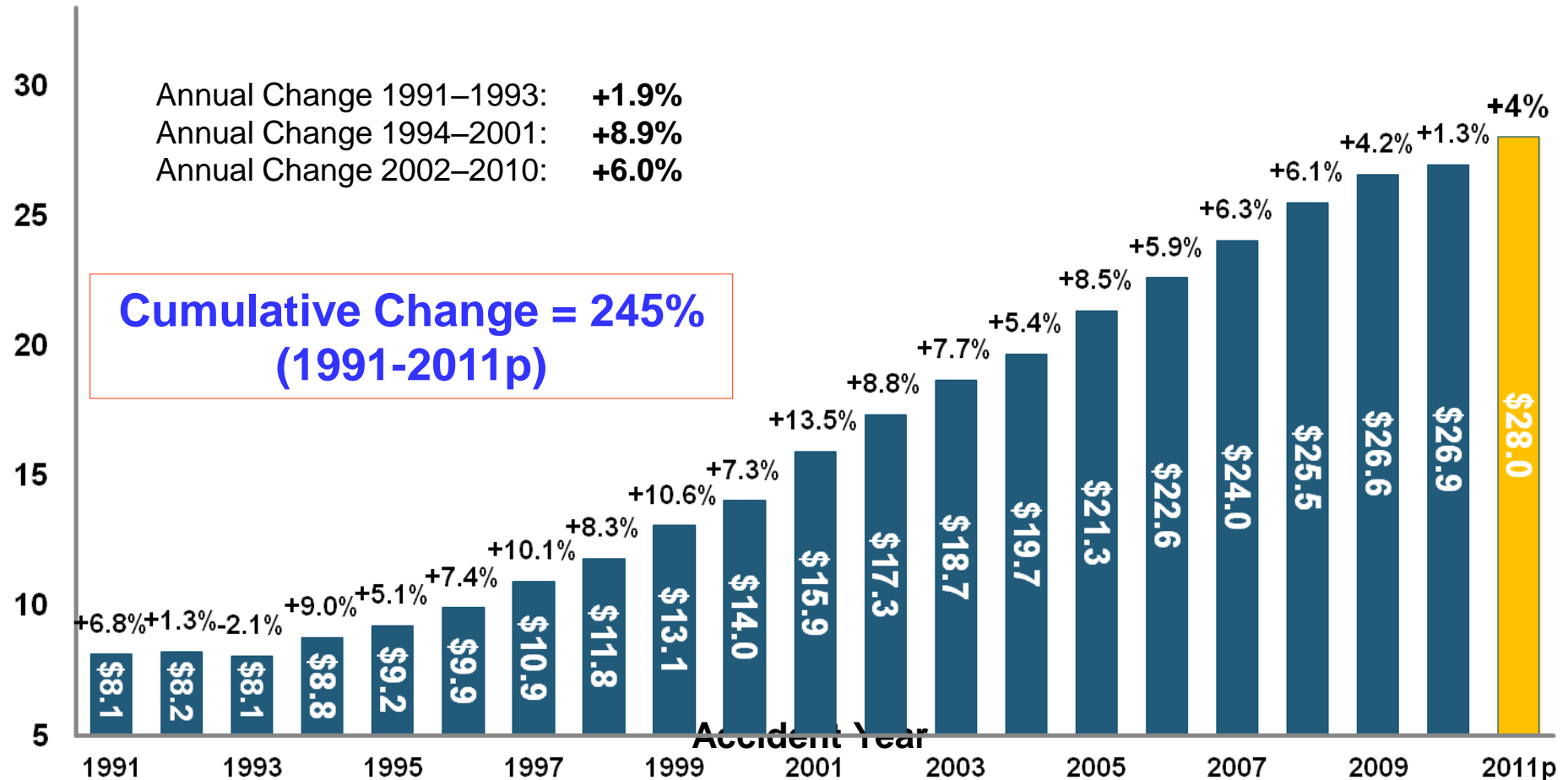
**Workers Comp Results Should Begin to Improve in 2013. Underwriting Results Deteriorated Markedly from 2007-2012 and Were the Worst They Had Been in a Decade.**



# Workers Compensation Medical Severity Moderate Increase in 2011

## Average Medical Cost per Lost-Time Claim

Medical  
Claim Cost (\$000s)



2011p: Preliminary based on data valued as of 12/31/2011

1991-2010: Based on data through 12/31/2010, developed to ultimate

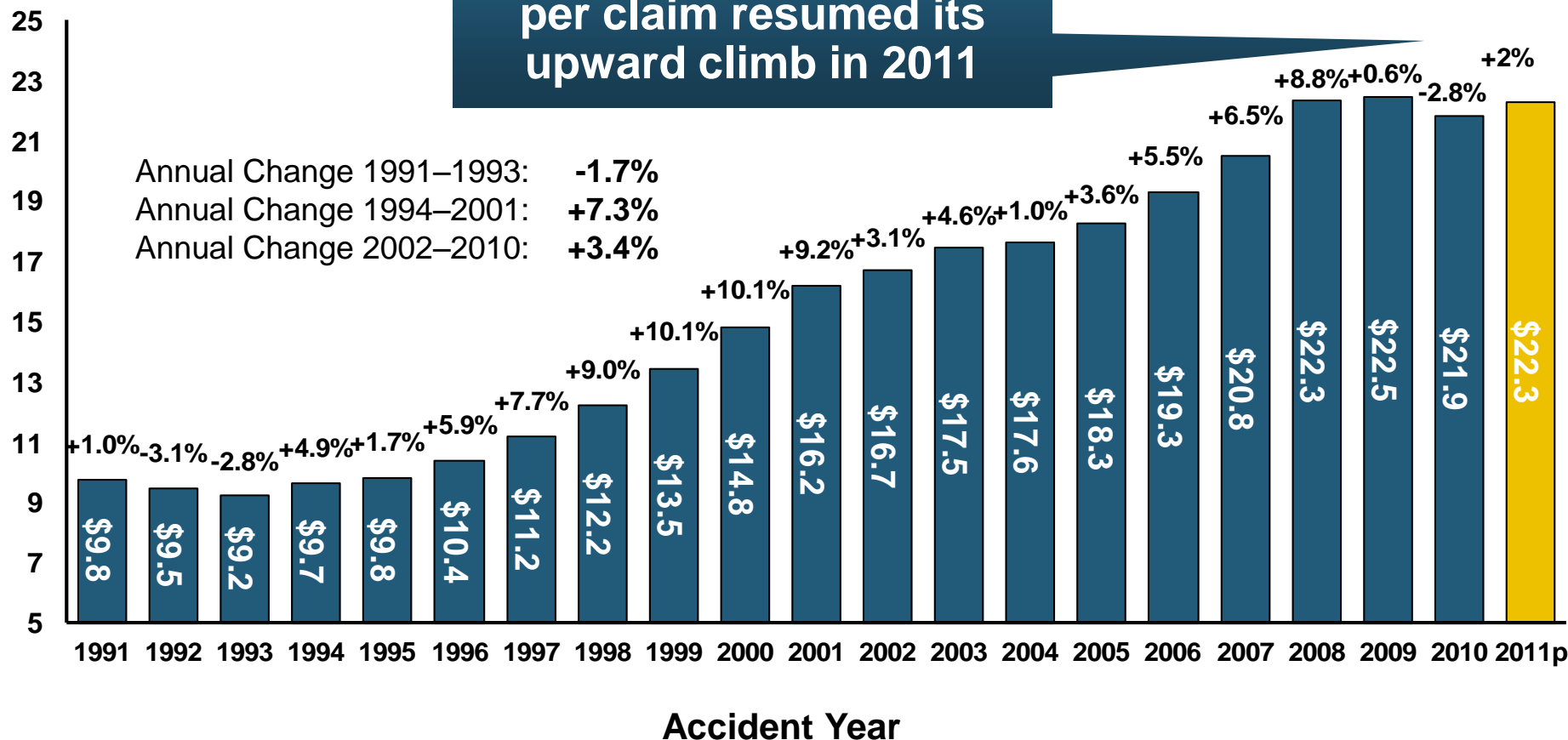
Based on the states where NCCI provides ratemaking services; Excludes high deductible policies

# Workers Comp Indemnity Claim Costs: Modest Increase in 2011

## Average Indemnity Cost per Lost-Time Claim

Indemnity  
Claim Cost (\$ 000s)

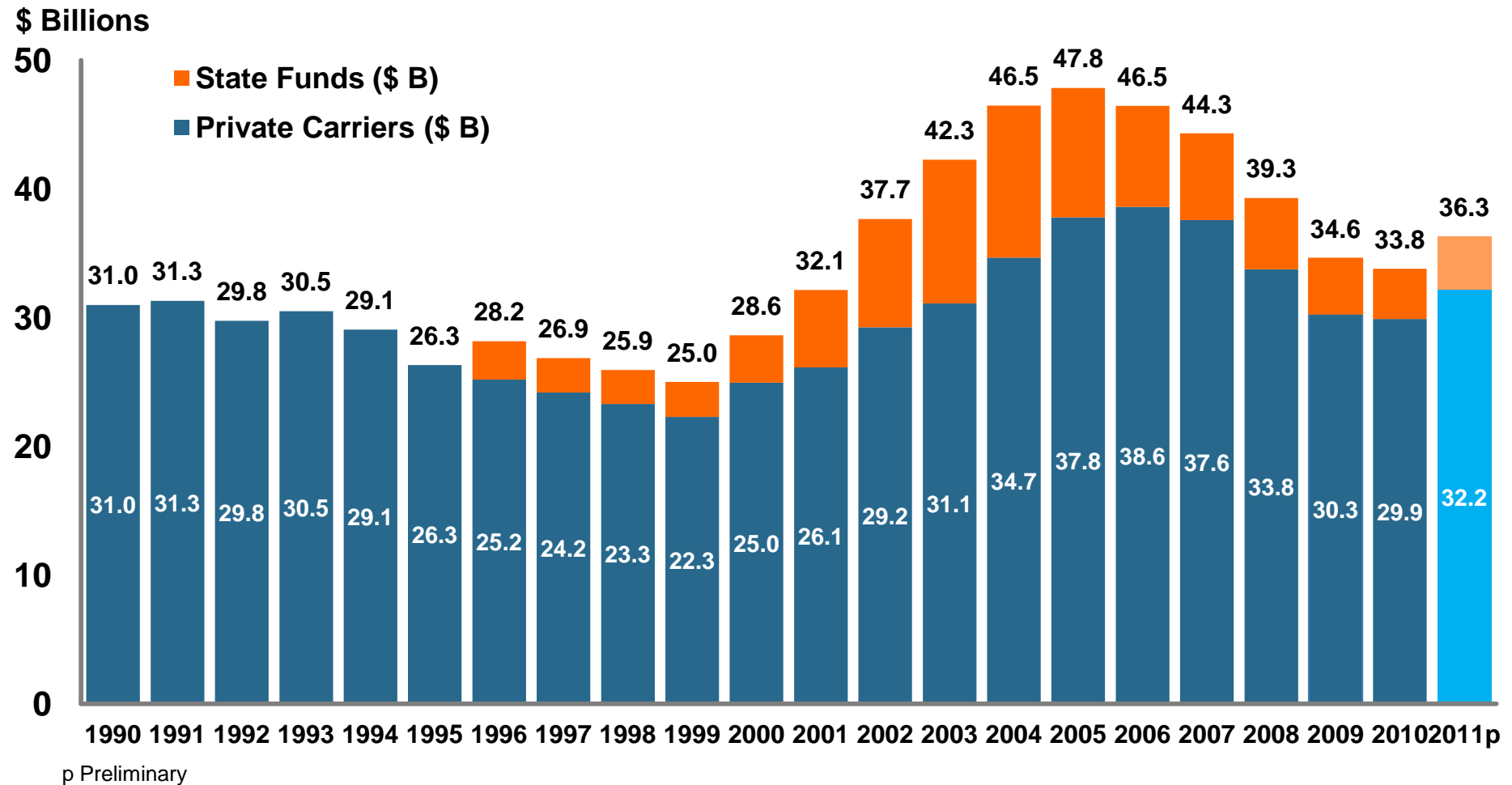
Average indemnity costs  
per claim resumed its  
upward climb in 2011



2010p: Preliminary based on data valued as of 12/31/2011  
1991–2010: Based on data through 12/31/2010, developed to ultimate  
Based on the states where NCCI provides ratemaking services  
Excludes high deductible policies

# Workers Compensation Premium: First Increase in Years

## Net Written Premium

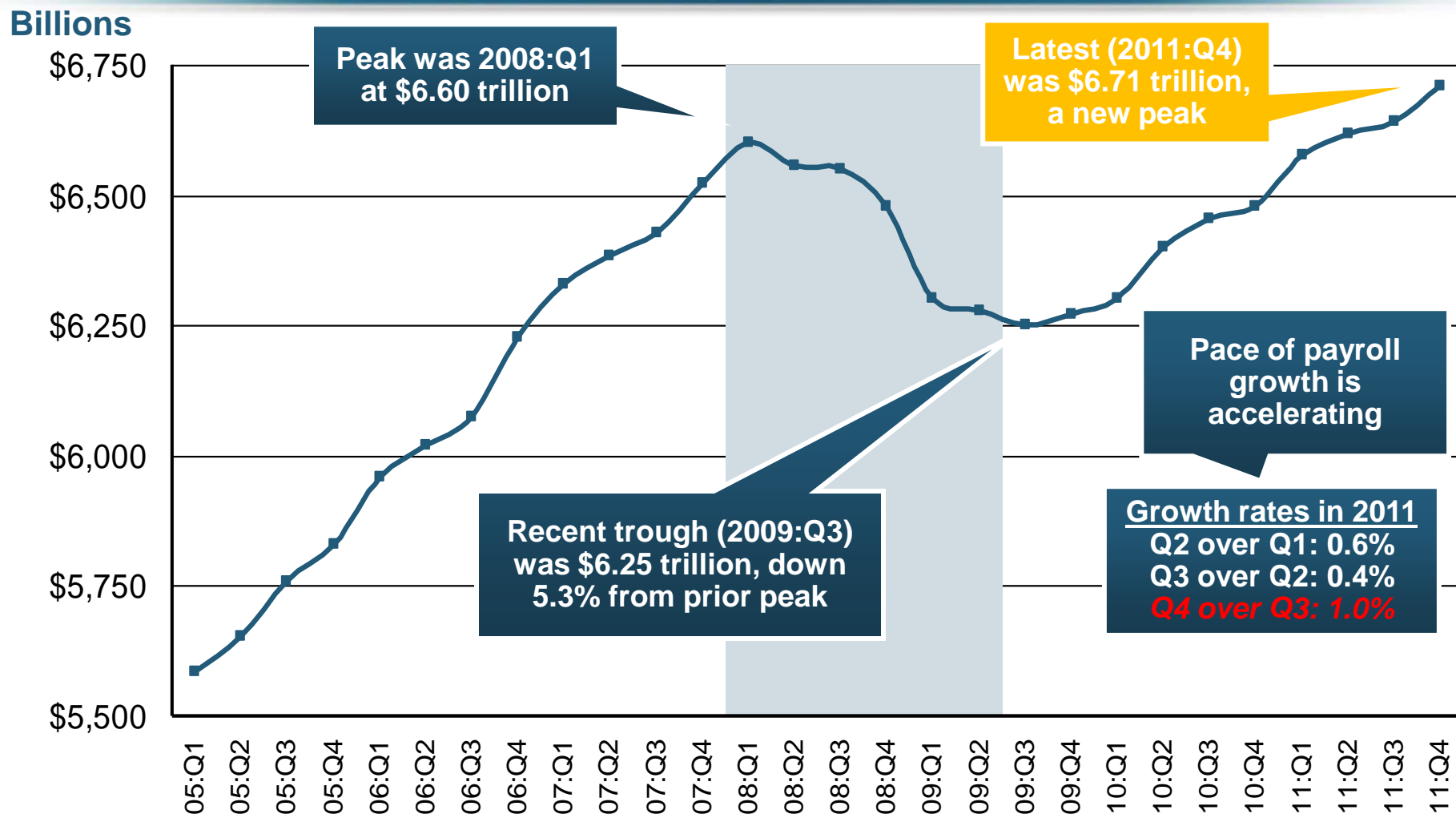


Source: 1990–2010 Private Carriers, *Best's Aggregates & Averages*; 2011p, NCCI

1996–2011p State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

State Funds available for 1996 and subsequent

# Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2011:Q4



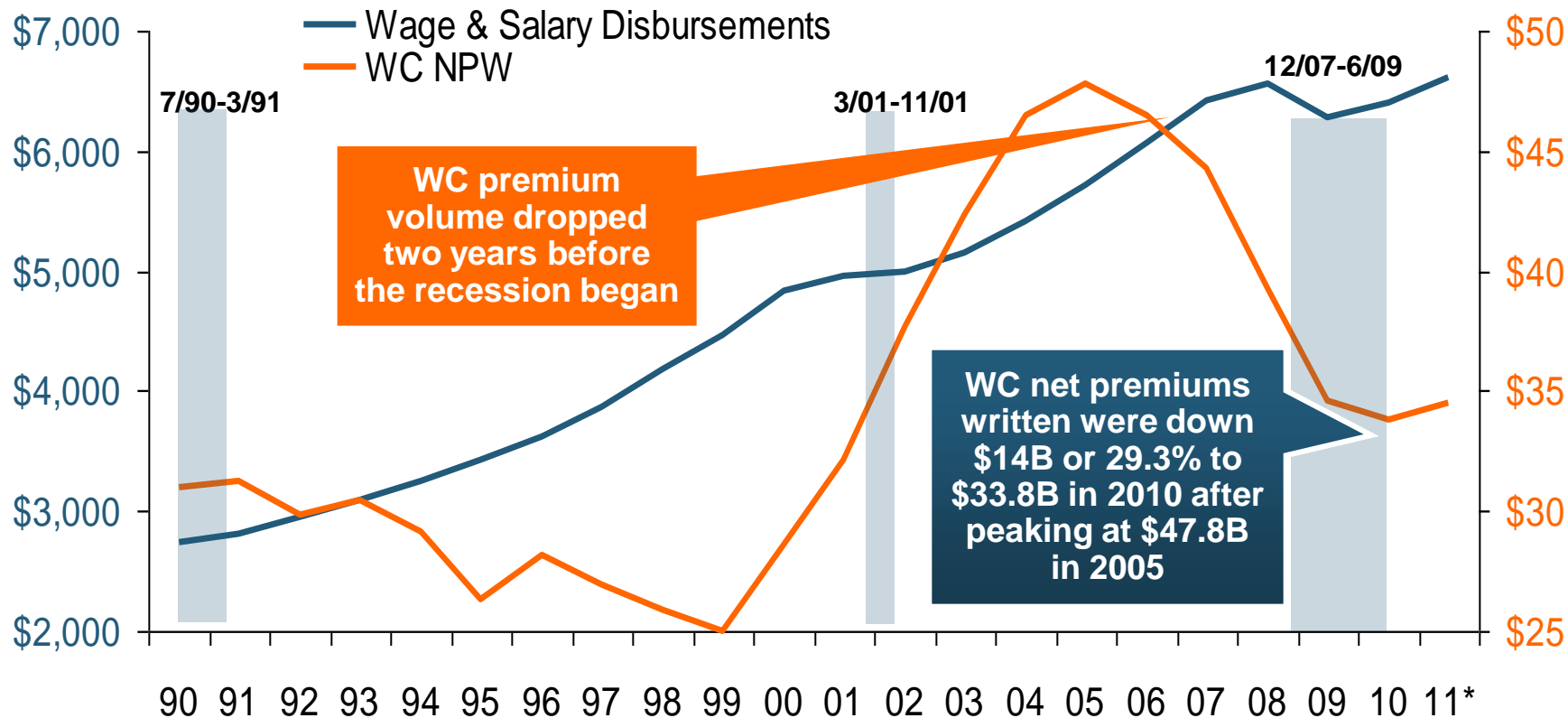
Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

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, 1990-2011

**Payroll Base\***  
**\$Billions**

**WC NWP**  
**\$Billions**



**Resumption of payroll growth and rate increases suggests WC NWP will grow again in 2012**

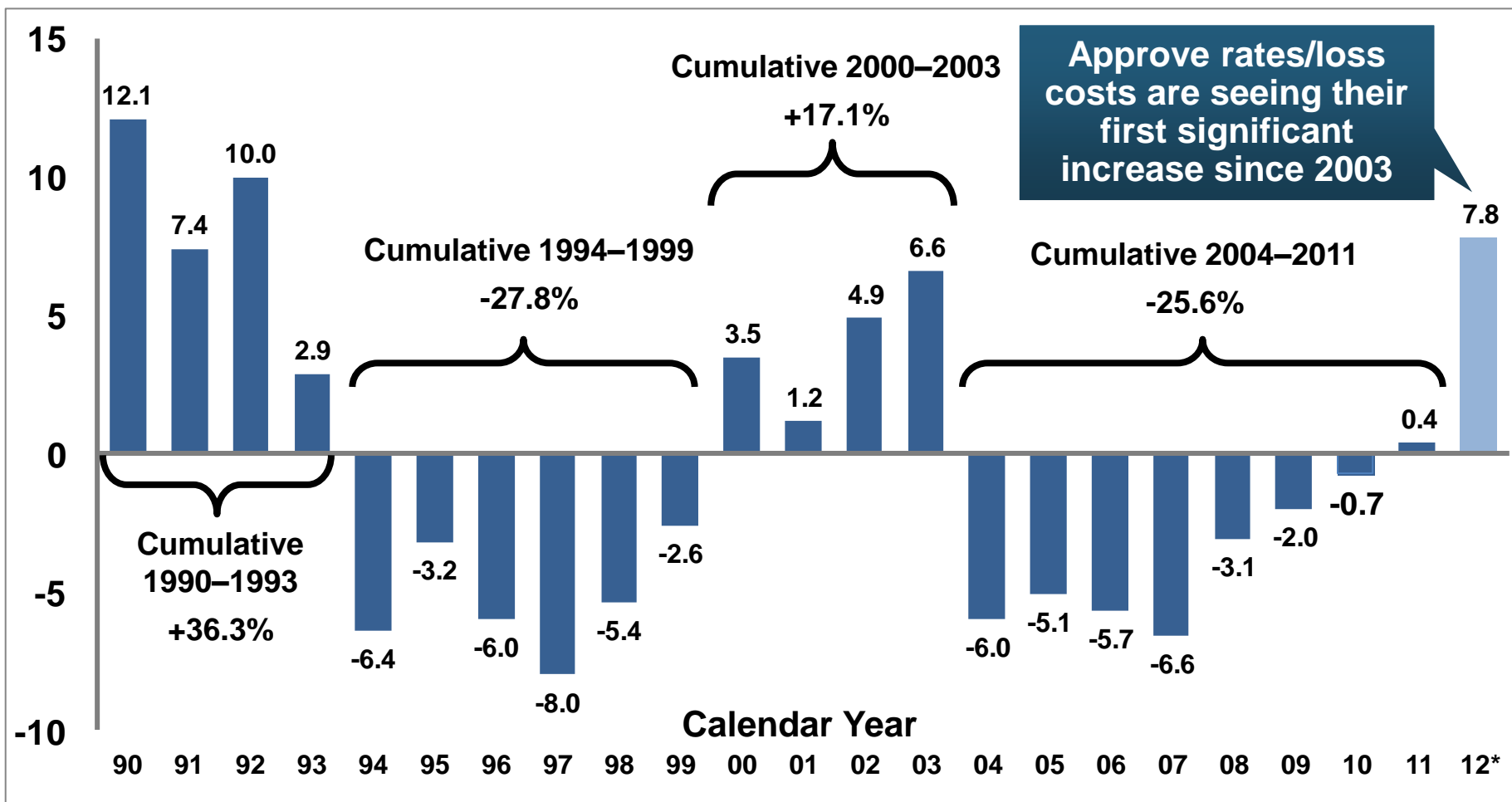
\*Private employment; Shaded areas indicate recessions. Payroll and WC premiums for 2011 is I.I.I. estimate

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

# Average Approved Bureau Rates/Loss Costs

## History of Average WC Bureau Rate/Loss Cost Level Changes

Percent



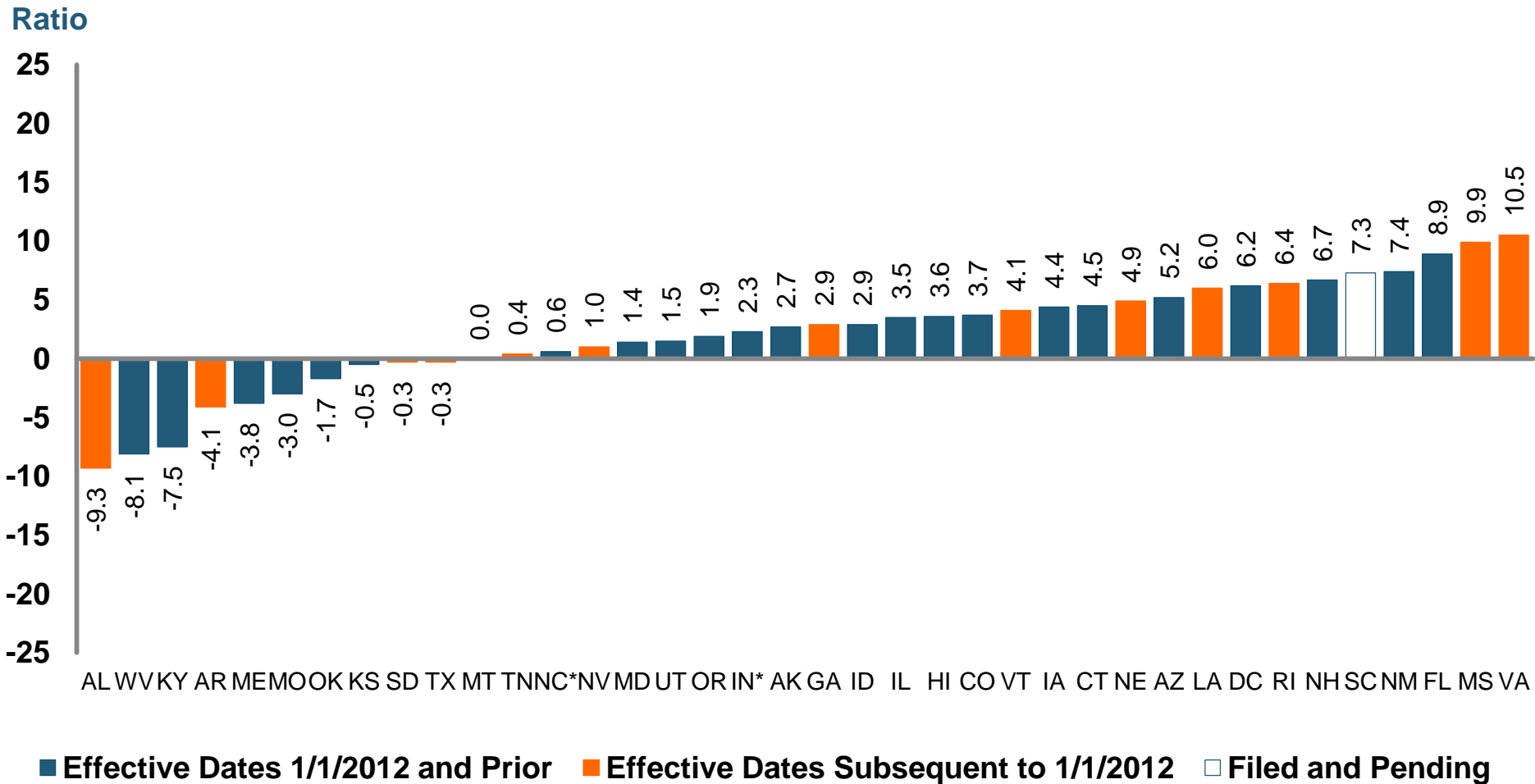
\*States approved through 7/31/12.

Note: Countrywide approved changes in advisory rates, loss costs and assigned risk rates as filed by applicable rating organization.

Source: NCCI.

# Current NCCI Voluntary Market Filed Rate/Loss Cost Changes

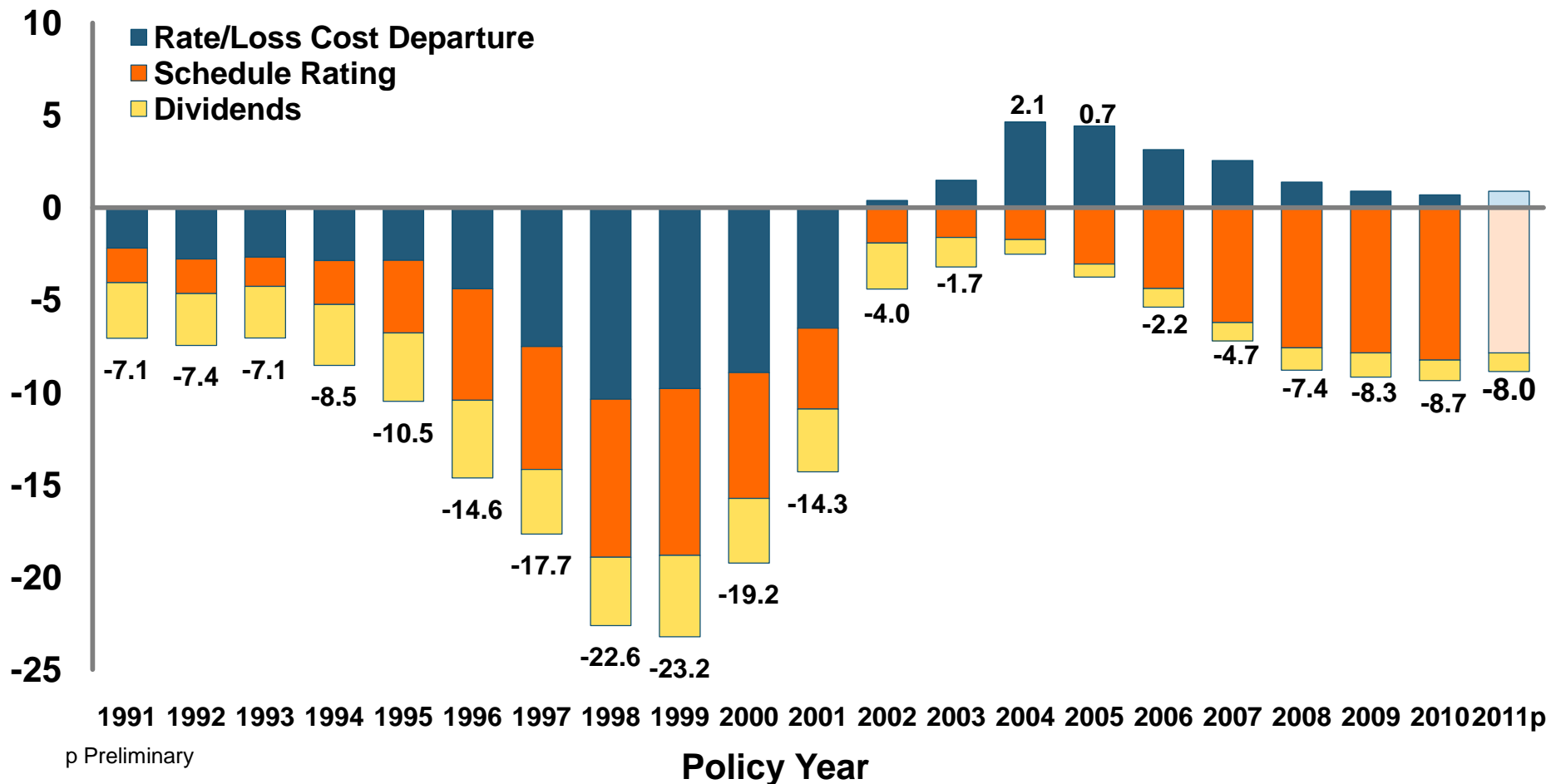
(Excludes Law-Only Filings)



# Impact of Discounting on Workers Compensation Premium

## NCCI States—Private Carriers

Percent



p Preliminary

Dividend ratios are based on calendar year statistics

NCCI benchmark level does not include an underwriting contingency provision

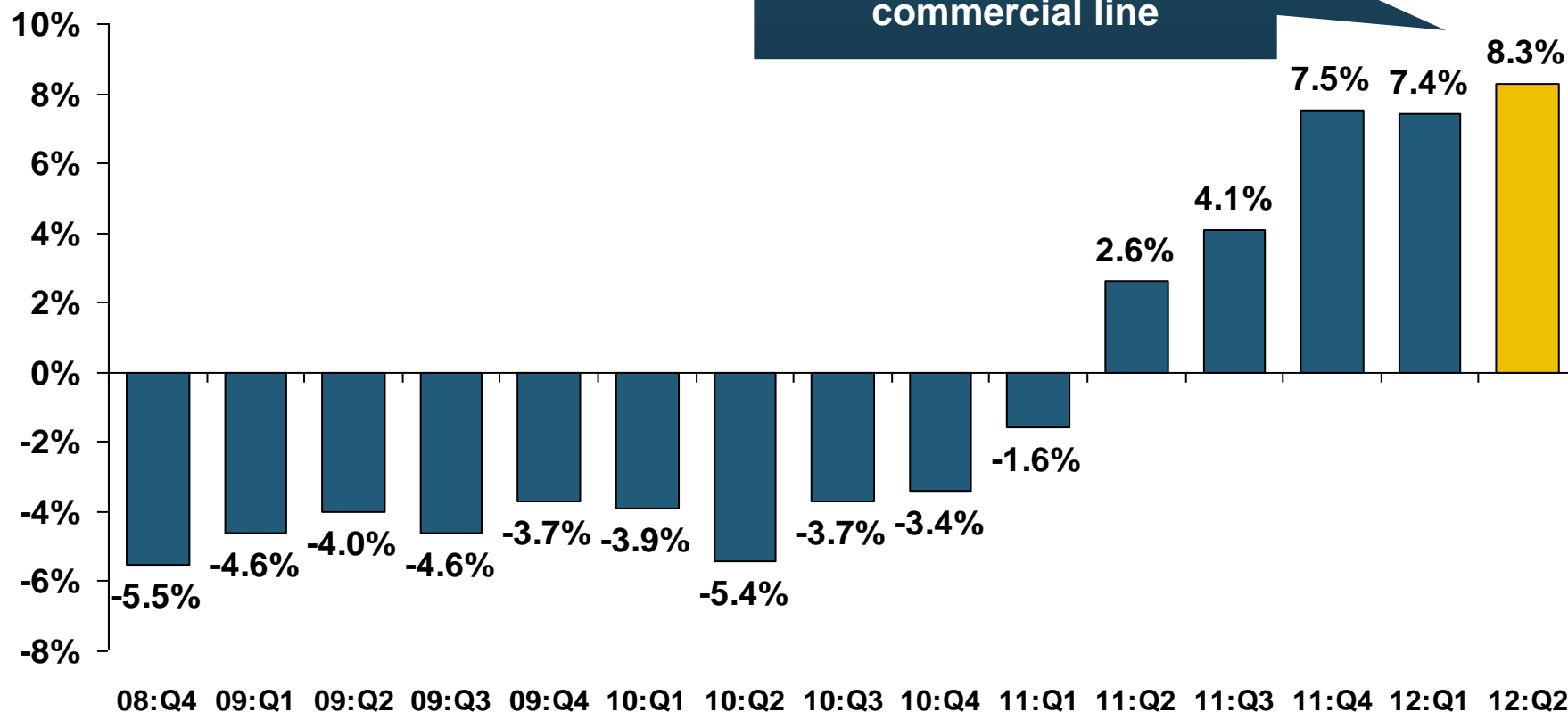
Based on data through 12/31/2011 for the states where NCCI provides ratemaking services

Source: NCCI.



# Workers Comp Rate Changes, 2008:Q4 – 2012:Q2

(Percent  
Change)

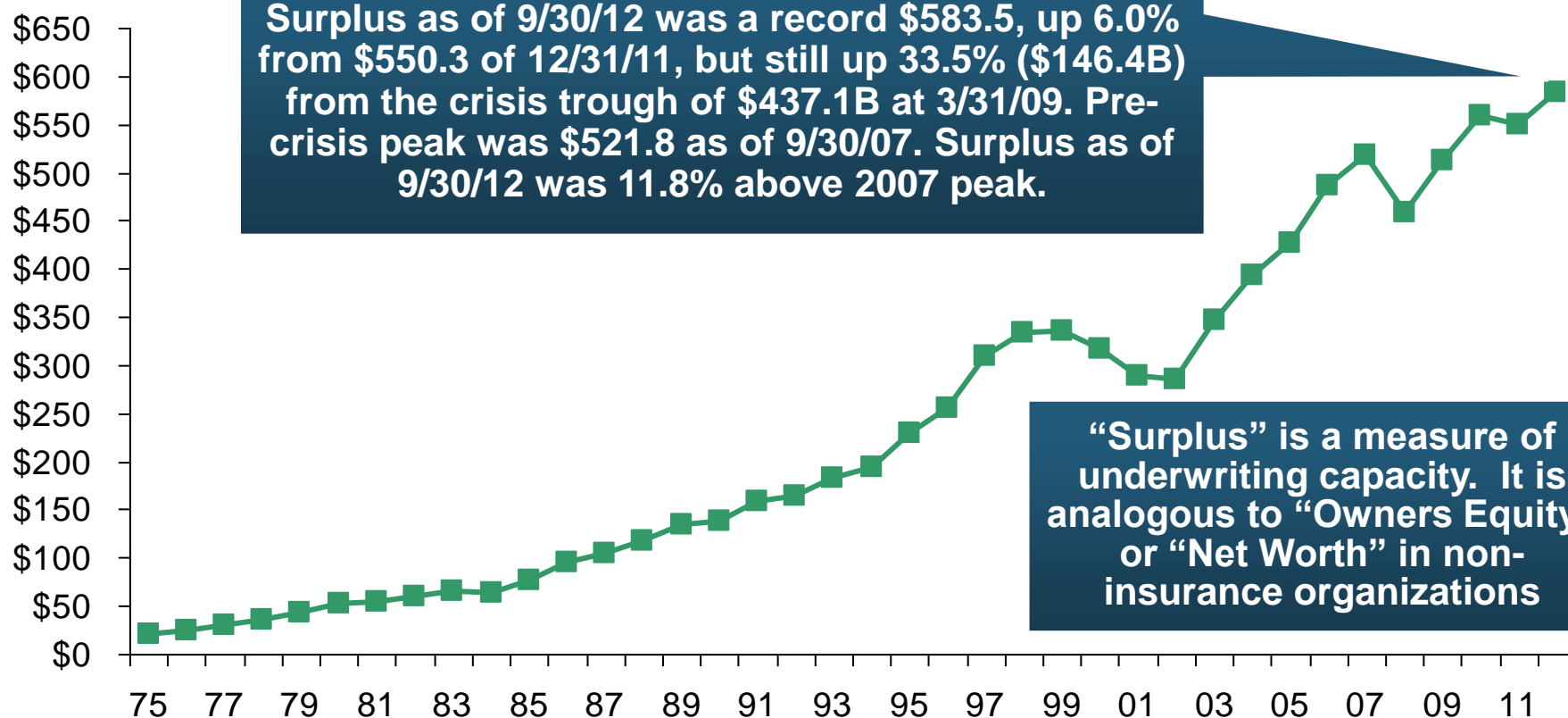


## **2. SURPLUS/CAPITAL/CAPACITY**

**How Will Large Catastrophe Losses  
Impact Capacity?**

# US Policyholder Surplus: 1975–2012\*

(\$ Billions)



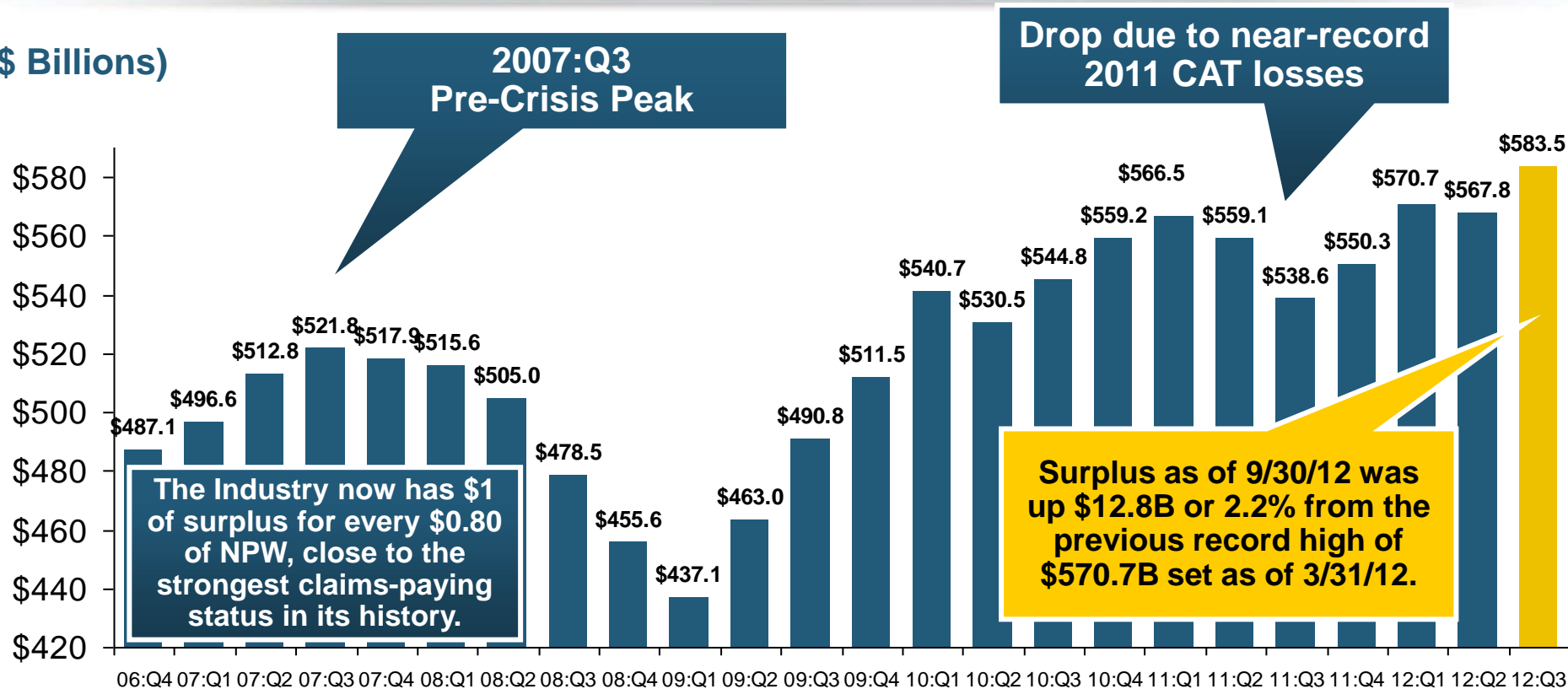
**The Premium-to-Surplus Ratio Stood at \$0.80:\$1 as of 9/30/12, A Near Record Low (at Least in Recent History)\***

\* As of 9/30/12.

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

# Policyholder Surplus, 2006:Q4–2012:Q3

(\$ 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.

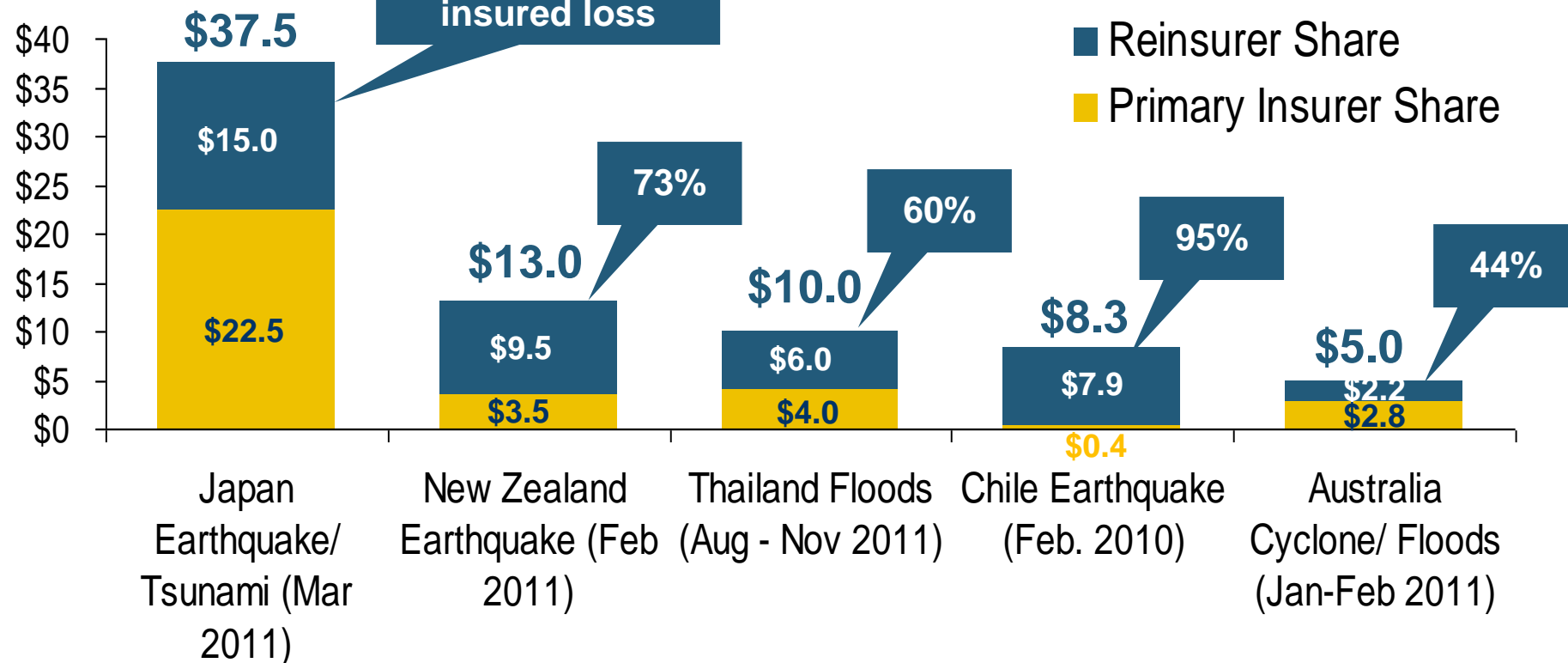
**The P/C Insurance Industry Both Entered and Emerged from the 2012 Hurricane Season Very Strong Financially. There is No Insurance Industry "Fiscal Cliff"**

## **3. REINSURANCE MARKET CONDITIONS**

**Record Global  
Catastrophes Activity is  
Pressuring Pricing**

# Reinsurer Share of Recent Significant Market Losses

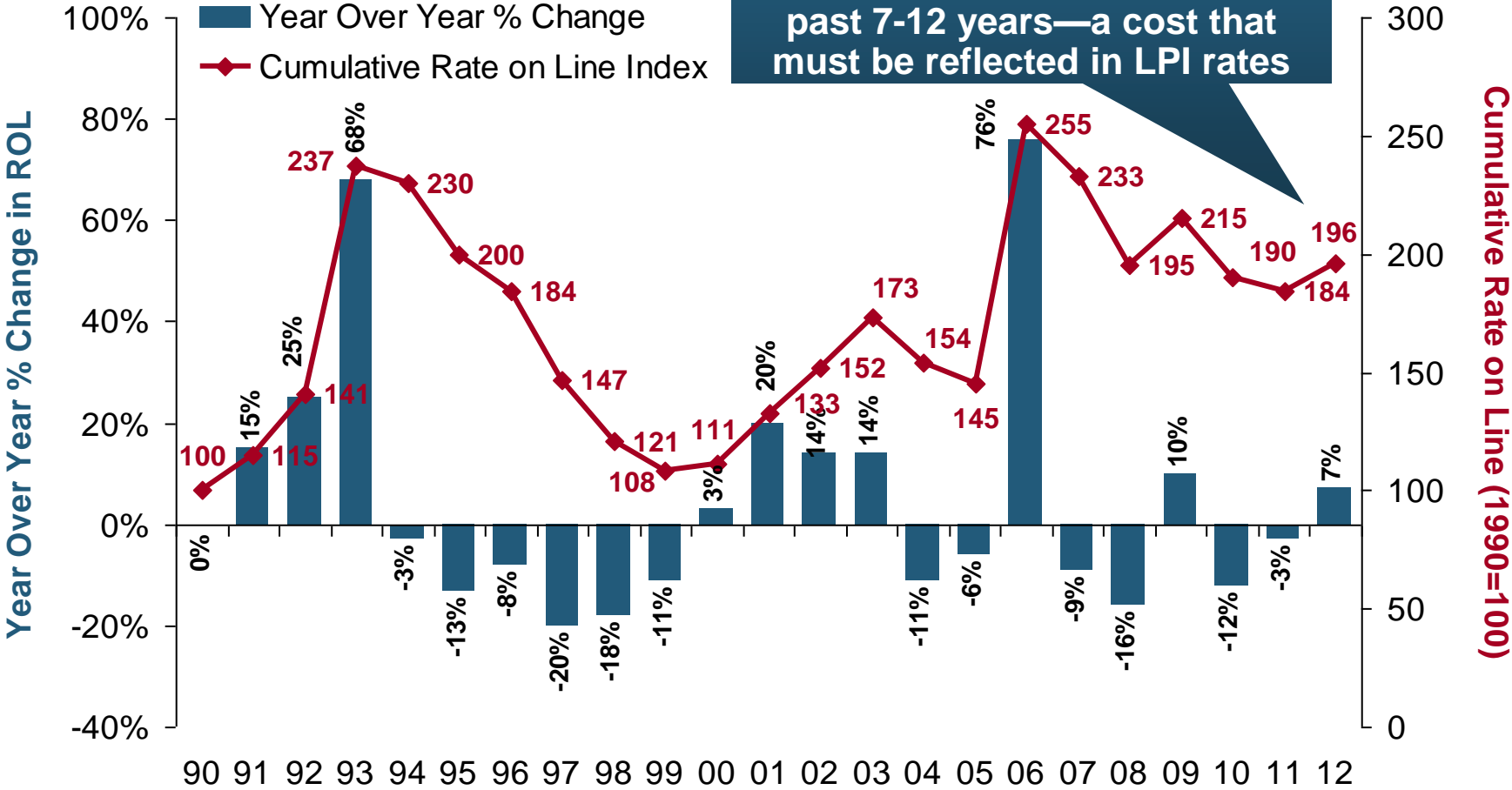
Billions of 2011  
Dollars



**Reinsurers Paid a High Proportion of Insured Losses Arising from Major Catastrophic Events Around the World in Recent Years**

# Global Property Catastrophe Rate on Line Index, 1990—2012 (as of July 1)

Property-Cat reinsurance pricing is up about 7% as of 7/1/12 but much more over the past 7-12 years—a cost that must be reflected in LPI rates



Sources: Guy Carpenter; Insurance Information Institute.

## **4. RENEWED PRICING DISCIPLINE**

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

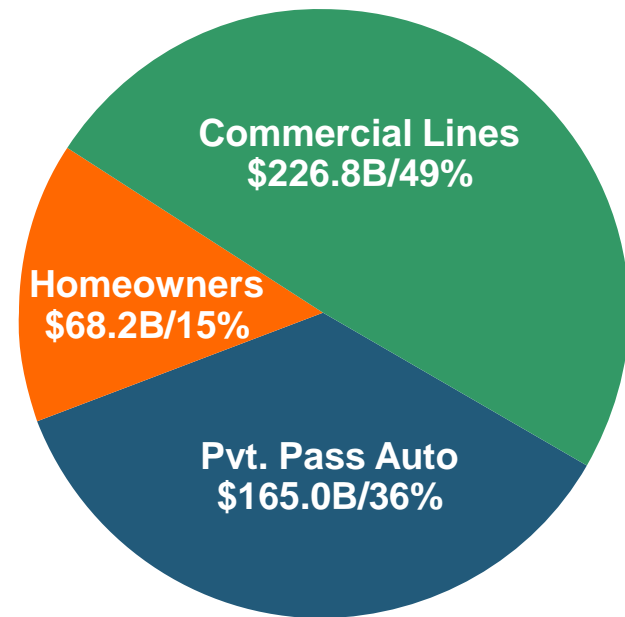


# Distribution of Direct Premiums Written by Segment/Line, 2010

## Distribution Facts

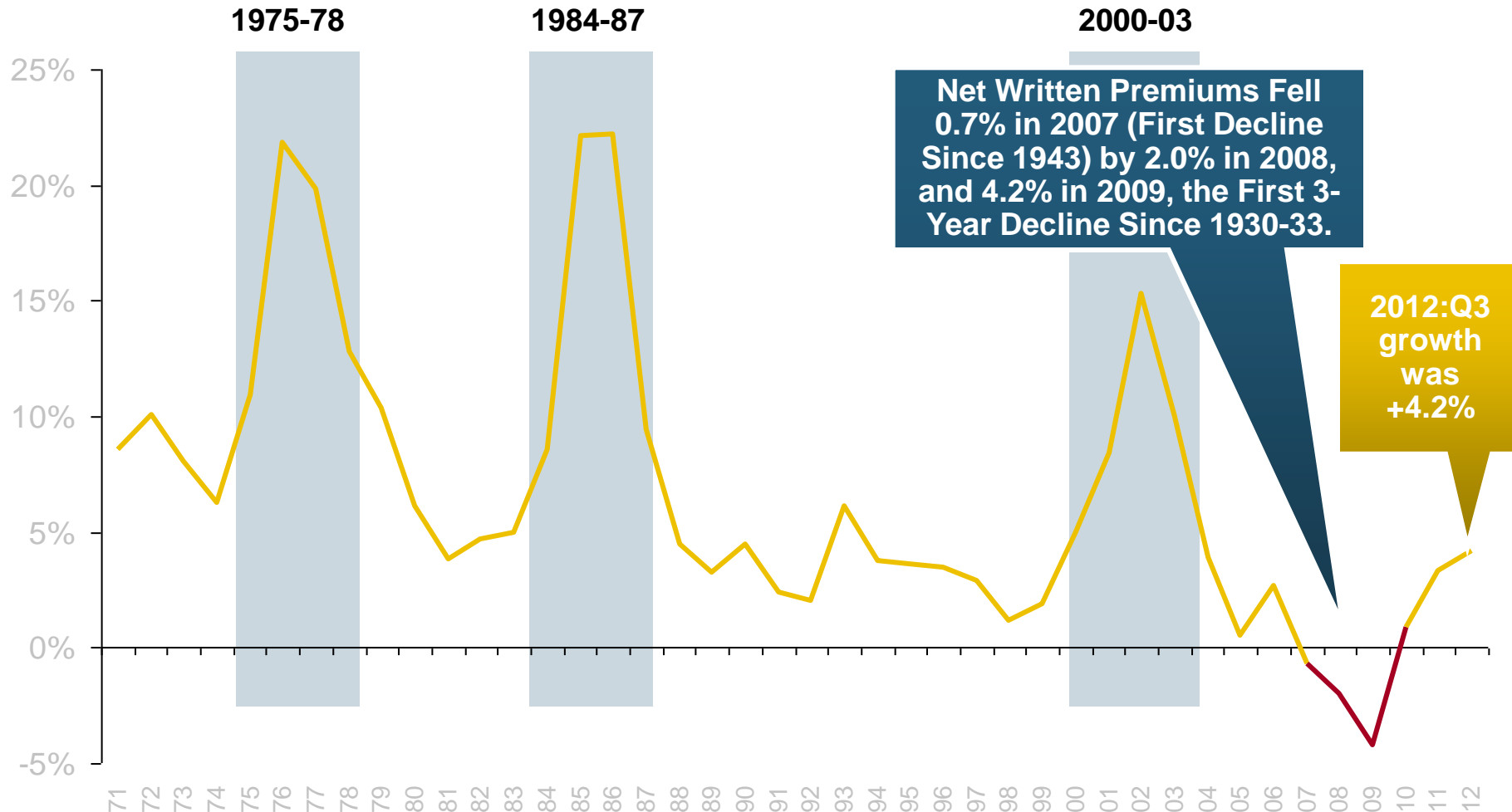
- Personal/Commercial lines split has been about 50/50 for many years; Personal Lines overtook Commercial Lines in 2010
- Pvt. Passenger Auto is by far the largest line of insurance and is currently the most important source of industry profits
- Billions of additional dollars in homeowners insurance premiums are written by state-run residual market plans

2010



# Net Premium Growth: Annual Change, 1971—2012:Q3

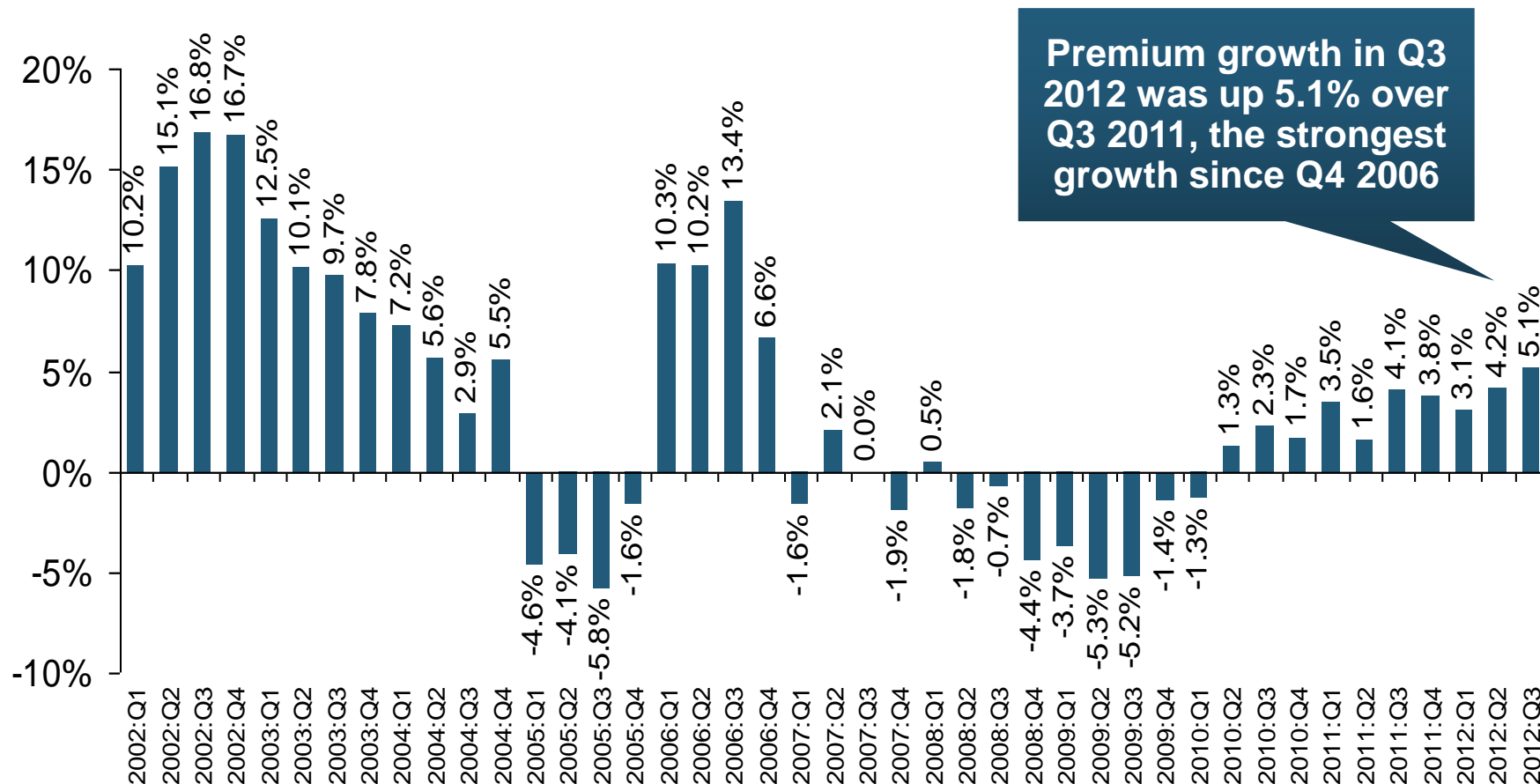
(Percent)



Shaded areas denote "hard market" periods

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

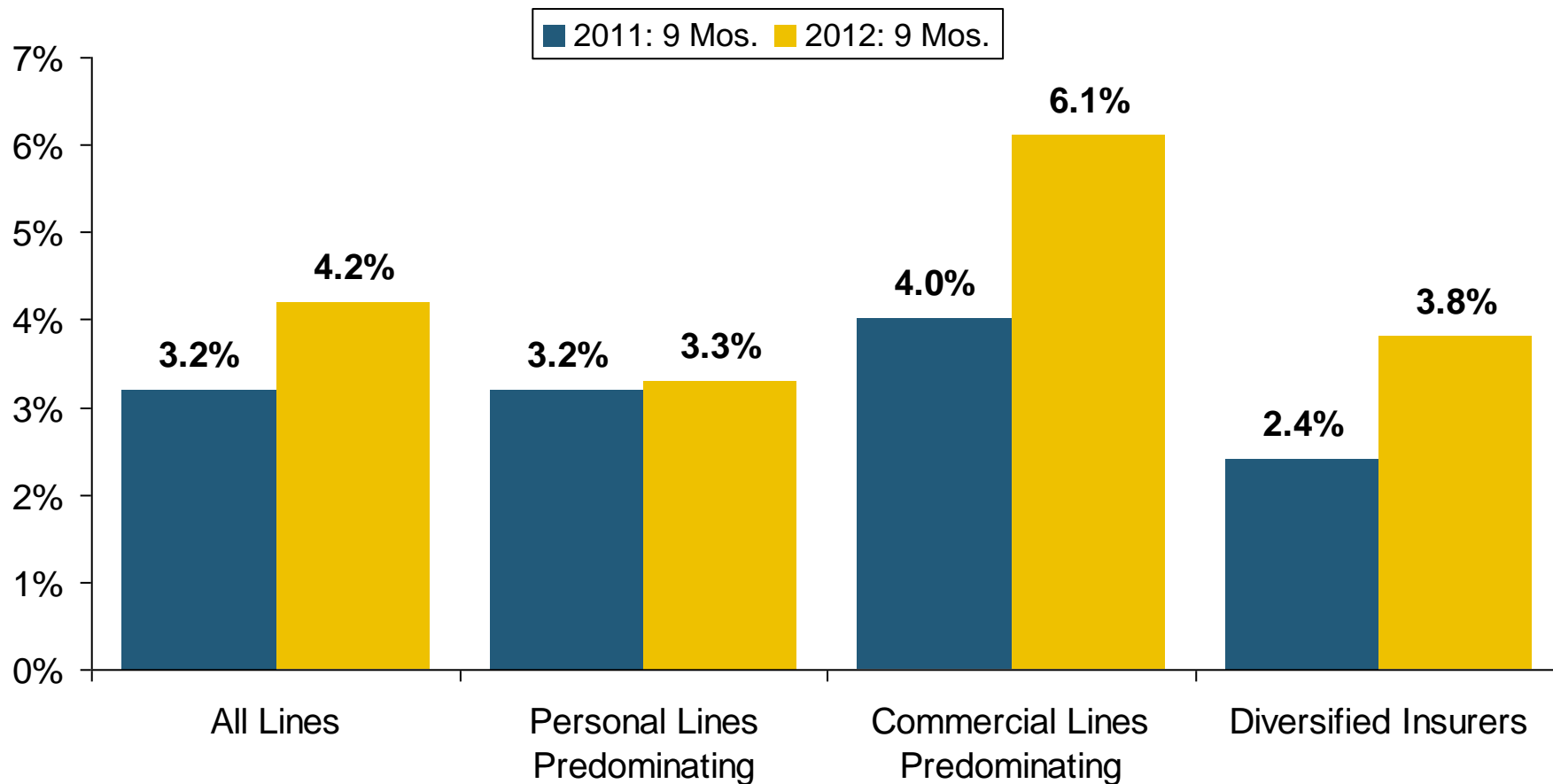
# P/C Net Premiums Written: % Change, Quarter vs. Year-Prior Quarter



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

# Growth in Net Written Premium by Segment, 2012:9 Mos. vs. 2011:9 Mos.\*

(Percent)

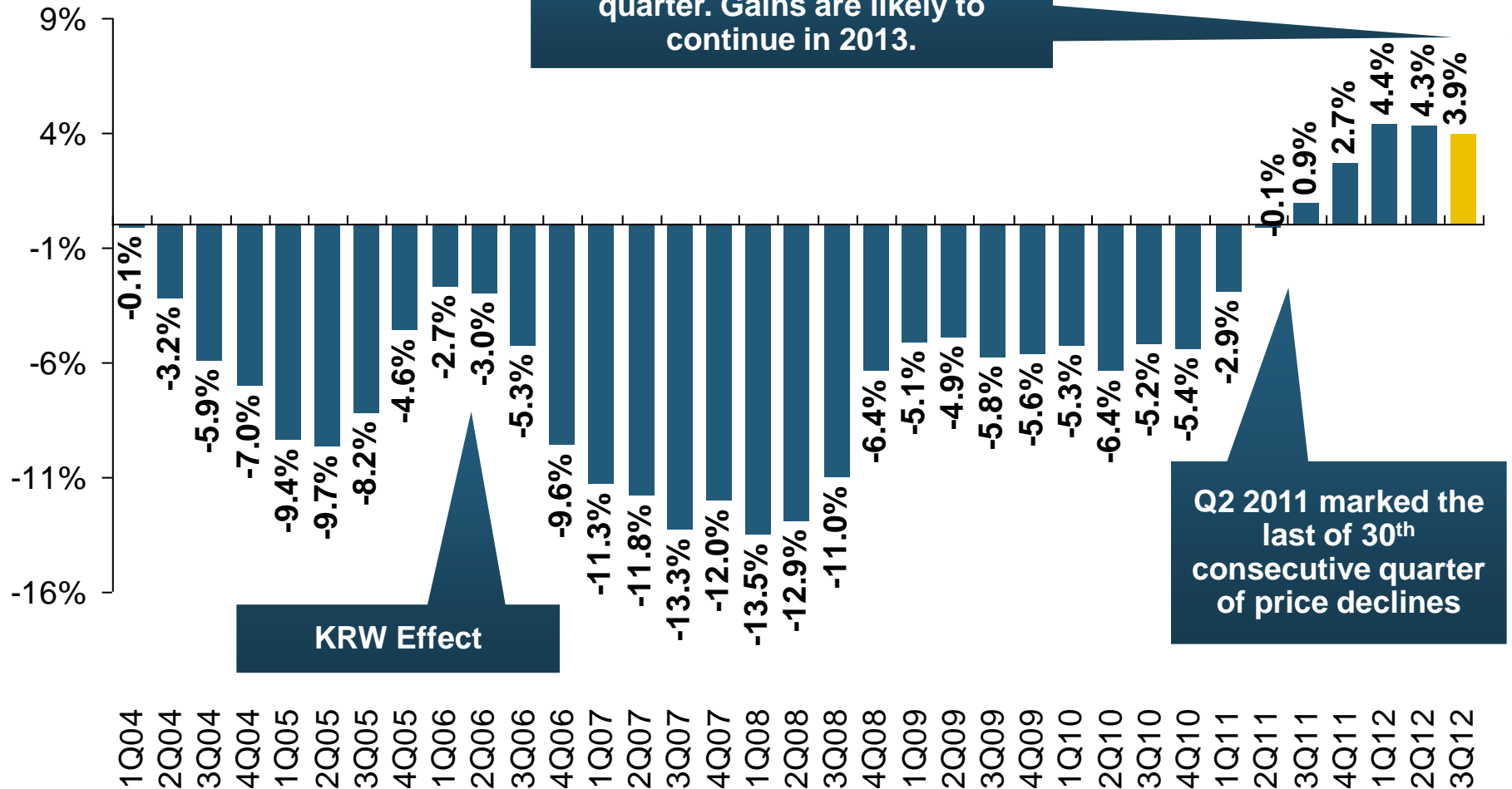


\*Excludes mortgage and financial guaranty insurers.

Source: ISO/PCI; Insurance Information Institute

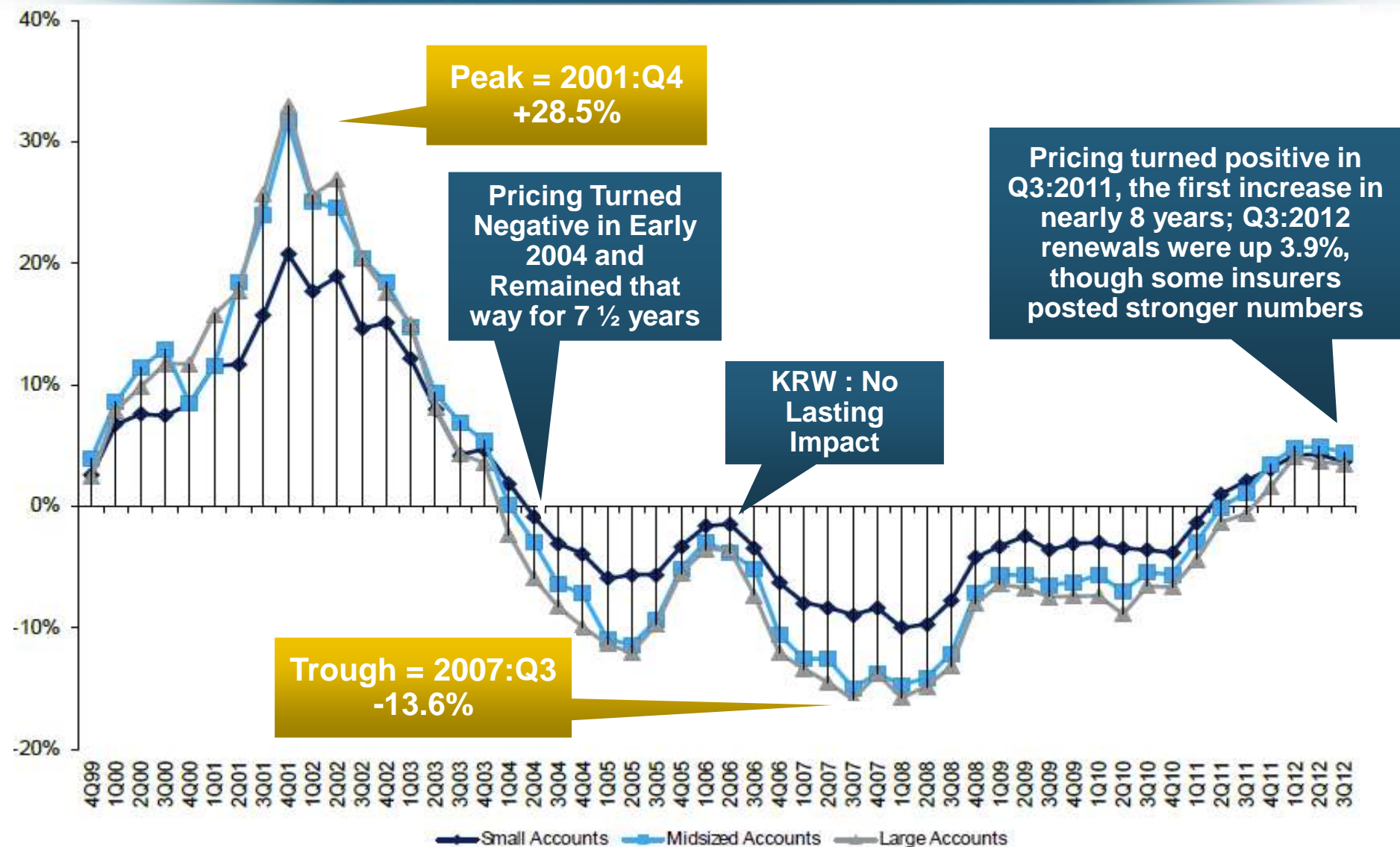
# Average Commercial Rate Change, All Lines, (1Q:2004–3Q:2012)

(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 2012:Q3

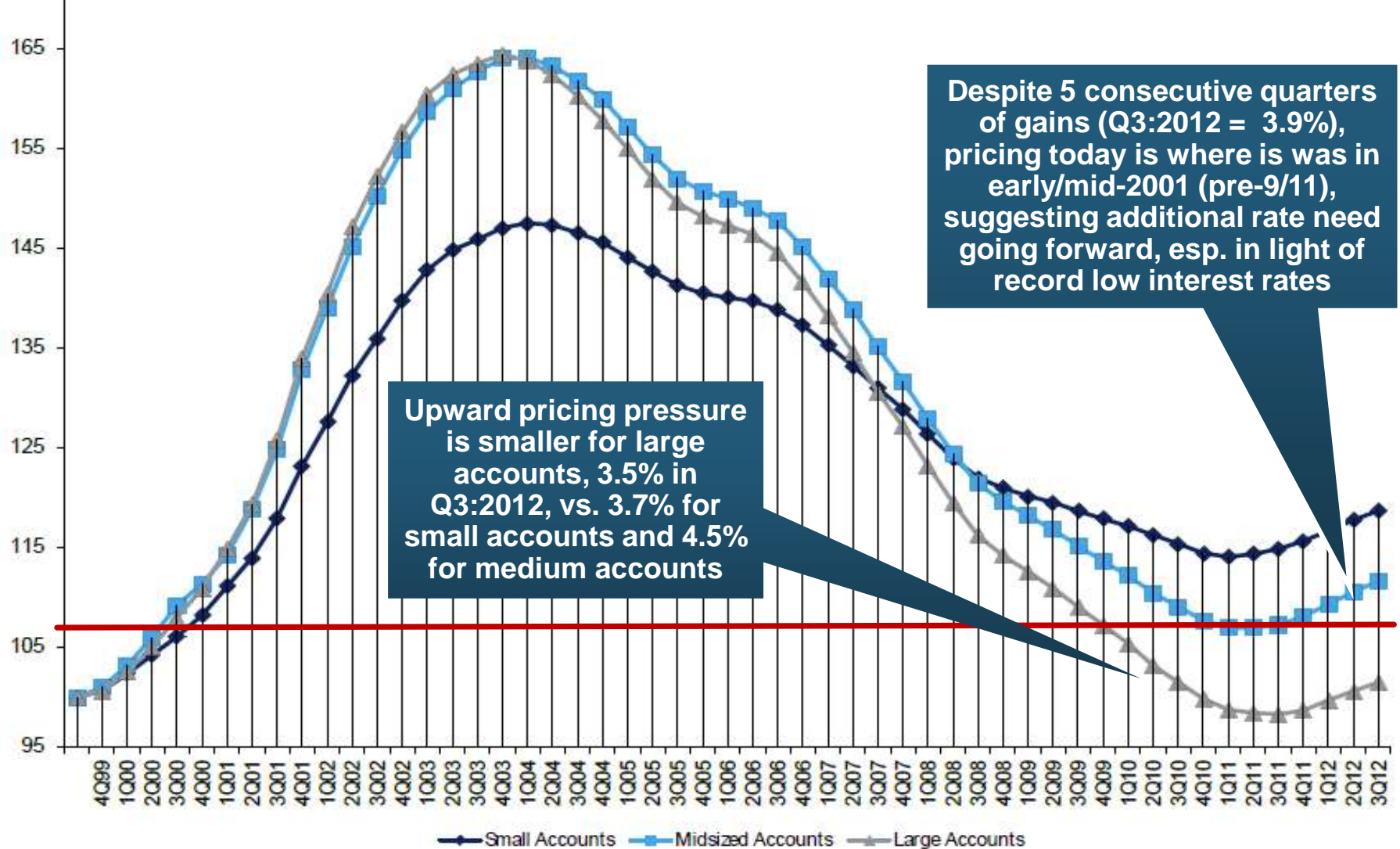


Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.

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

# Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2012:Q3

1999:Q4 = 100

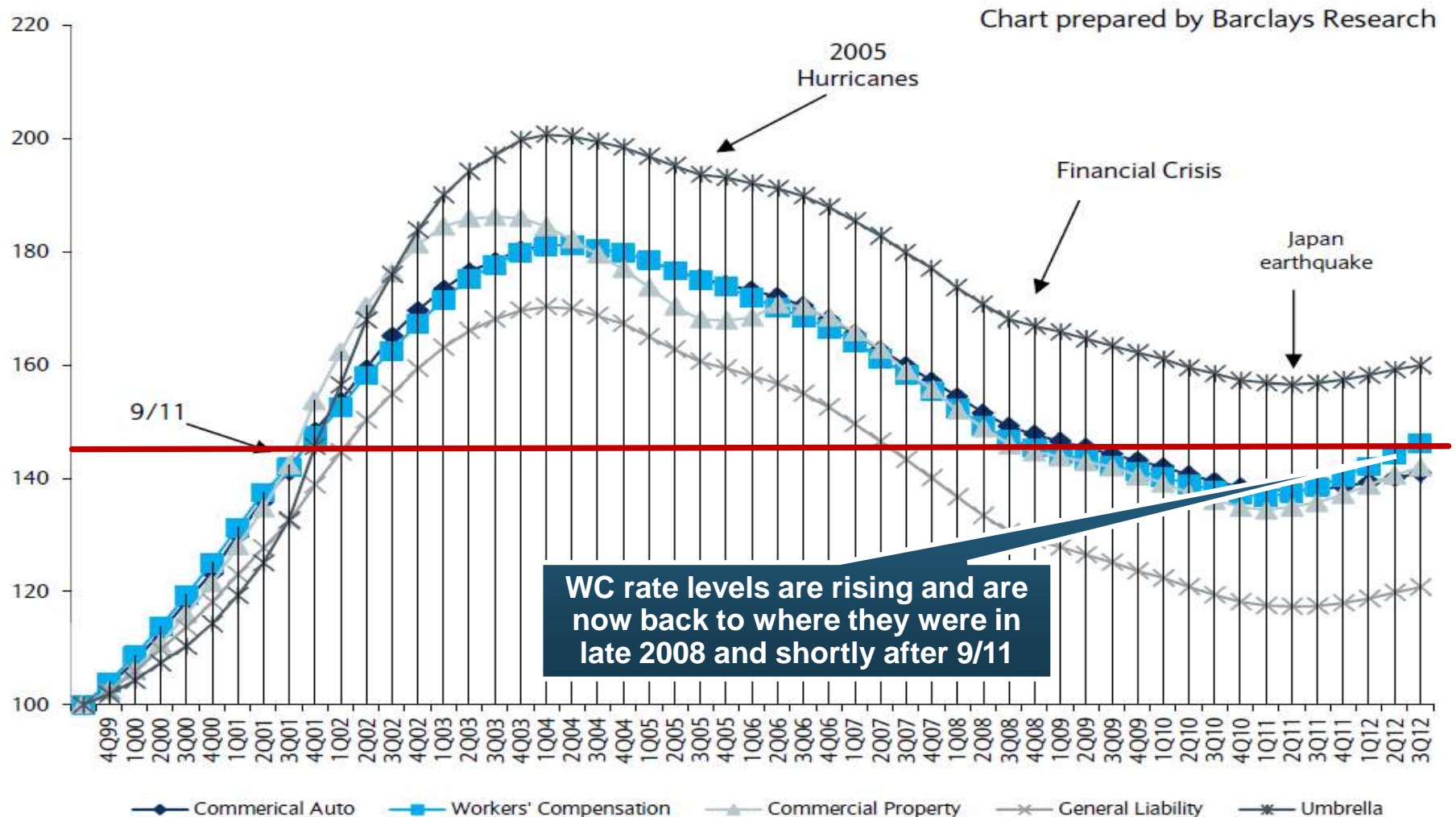


Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.  
Source: Council of Insurance Agents and Brokers; Barclay's Capital; Insurance Information Institute.



# Cumulative Qtrly. Commercial Rate Changes, by Line: 1999:Q4 to 2012:Q3

1999:Q4 = 100

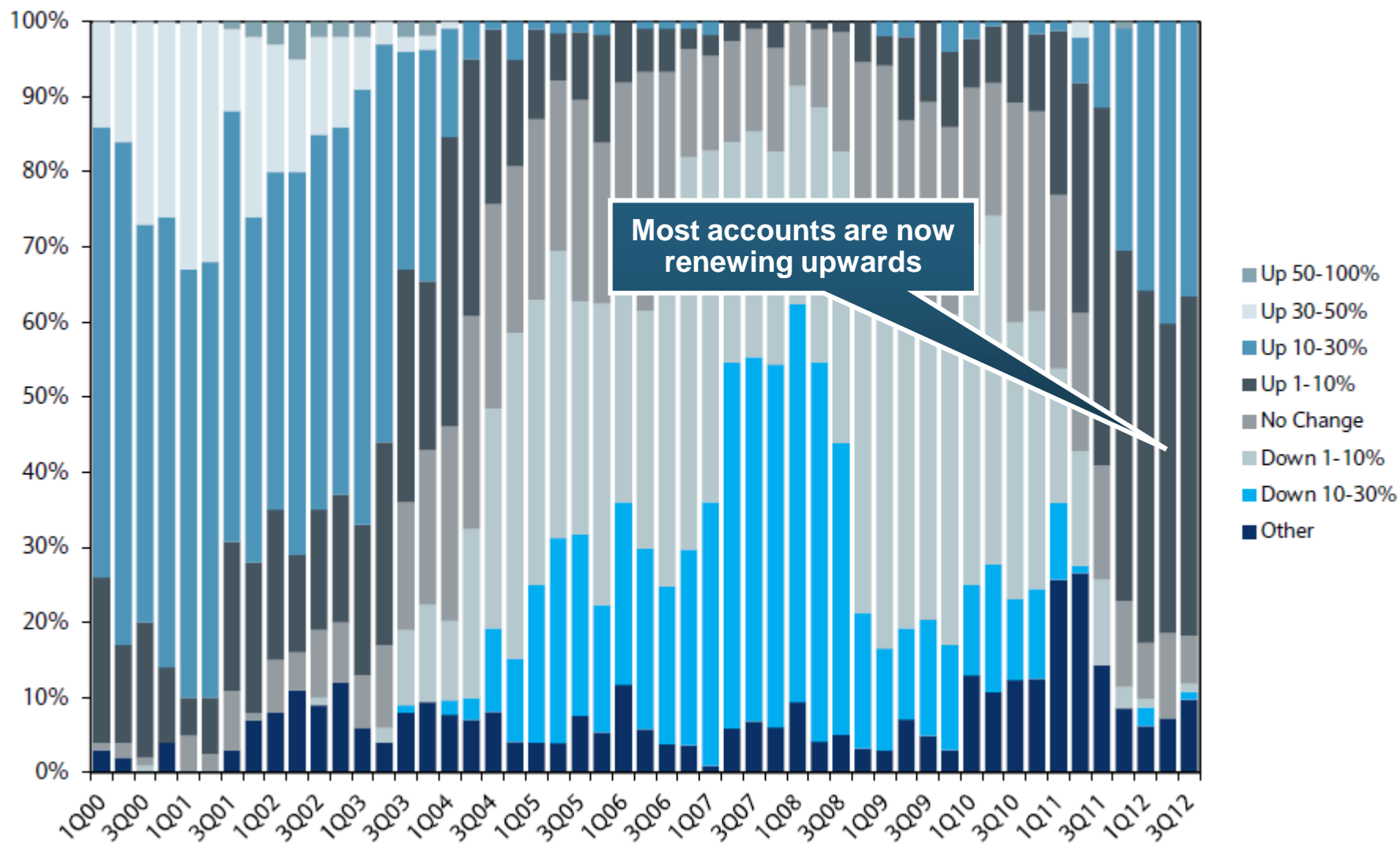


Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.  
Source: Council of Insurance Agents and Brokers; Barclay's Capital; Insurance Information Institute.



# Workers Comp. Quarterly Rate Changes, by Line: 2000:Q1 to 2012:Q3

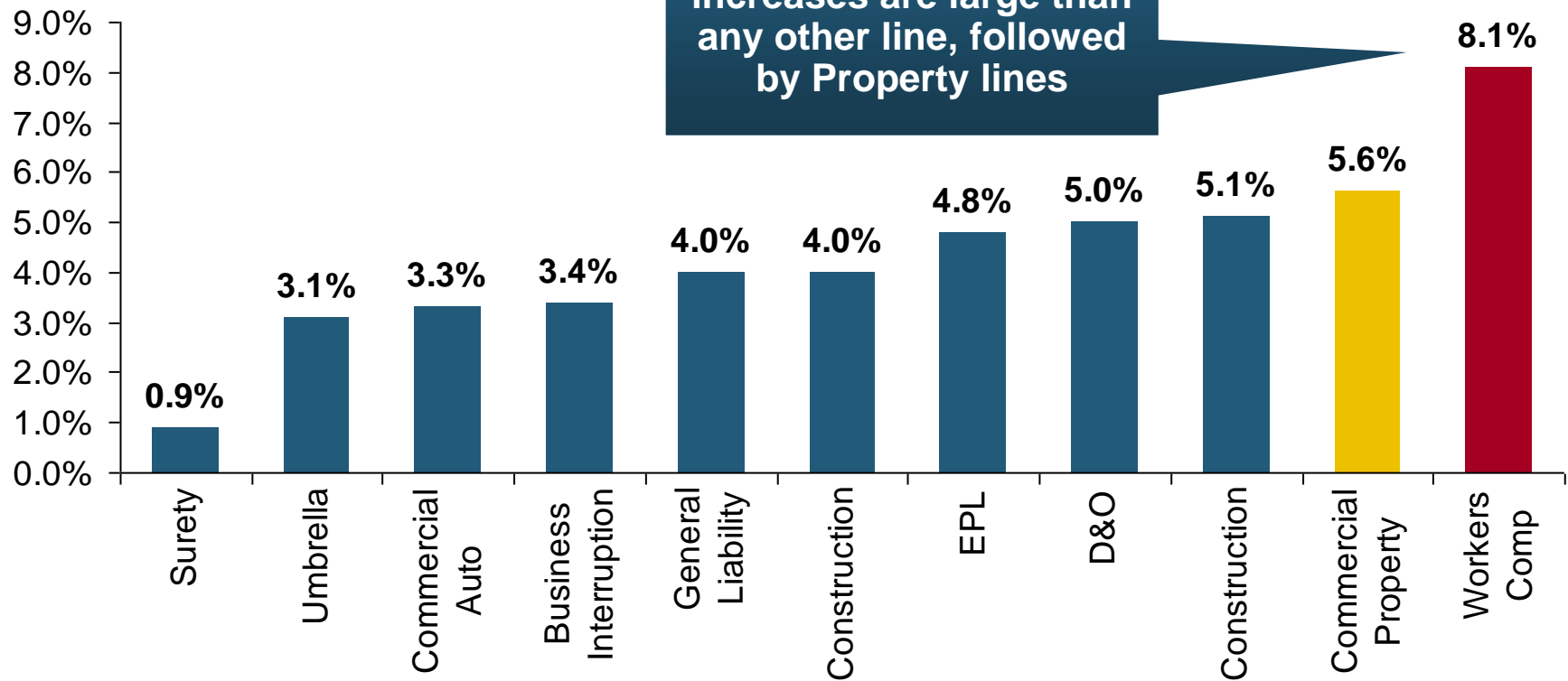
1999:Q4 = 100



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: 2012:Q3

## Percentage Change (%)

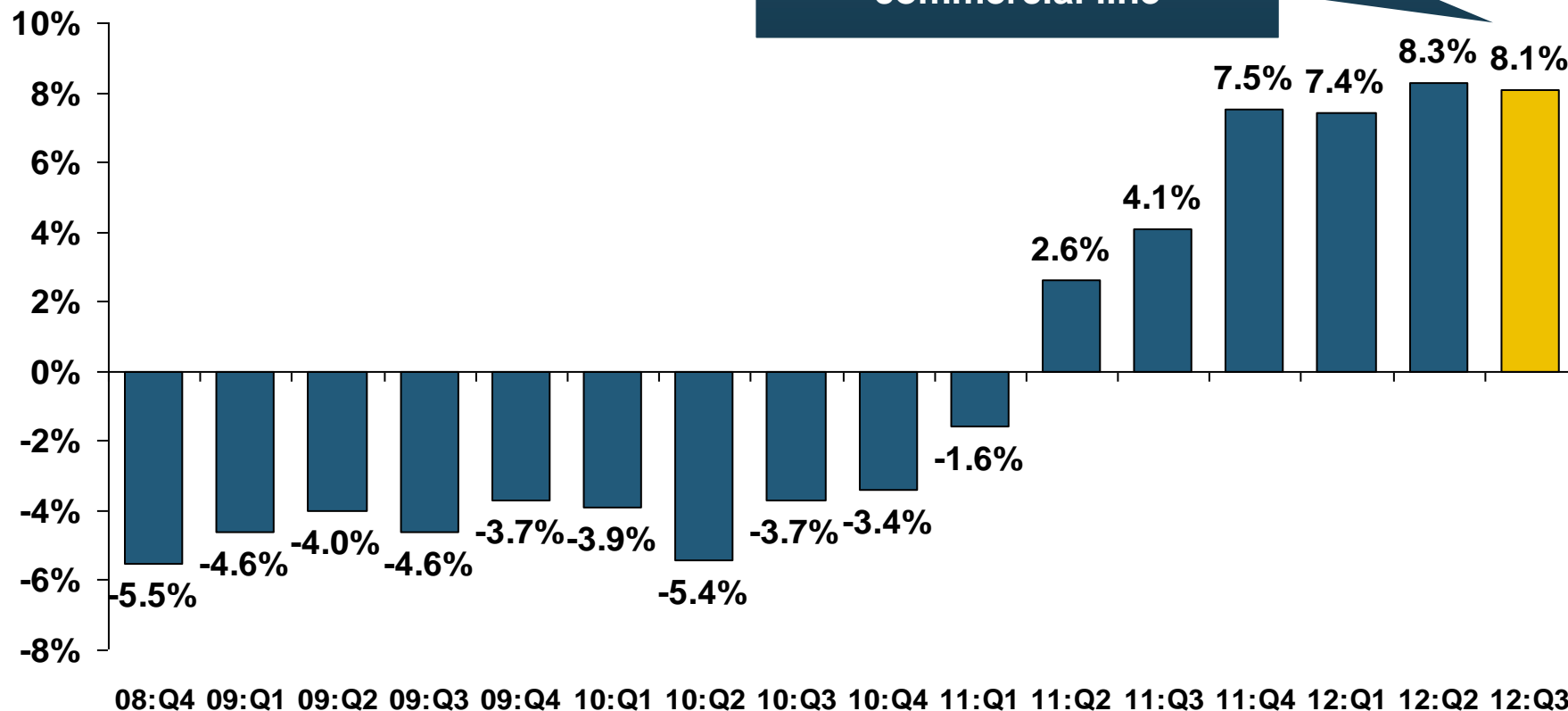


**Major Commercial Lines Renewed Uniformly Upward in Q3:2012 for the Fifth Consecutive Quarter Since 2003; Property Lines & Workers Comp Leading the Way; Cat Losses and Low Interest Rates Provide Momentum Going Forward**

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 – 2012:Q3

(Percent  
Change)



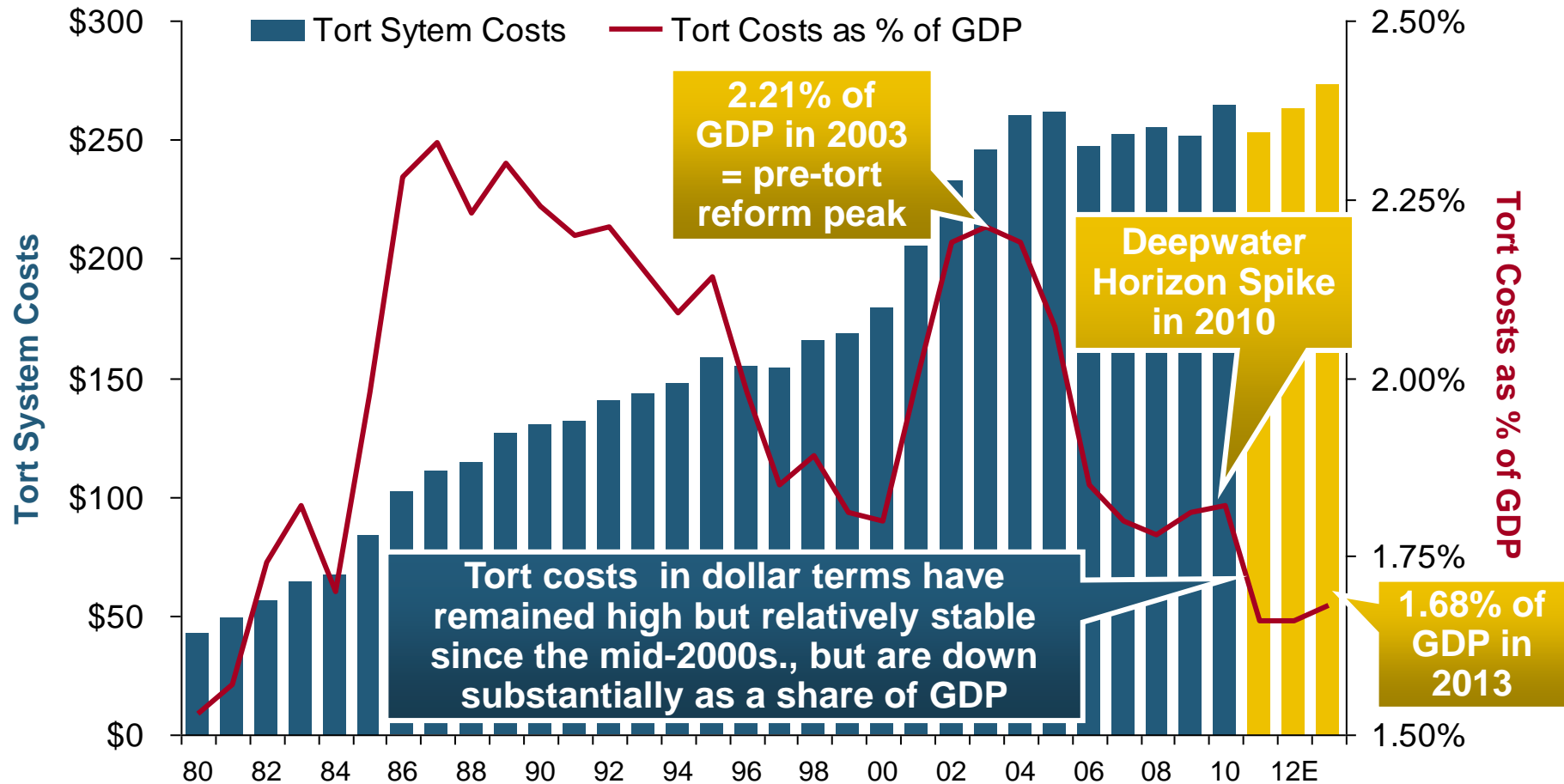
Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.  
Source: Council of Insurance Agents and Brokers; Information Institute.

# **Shifting Legal Liability & Tort Environment**

## **Is the Tort Pendulum Swinging Against Insurers?**

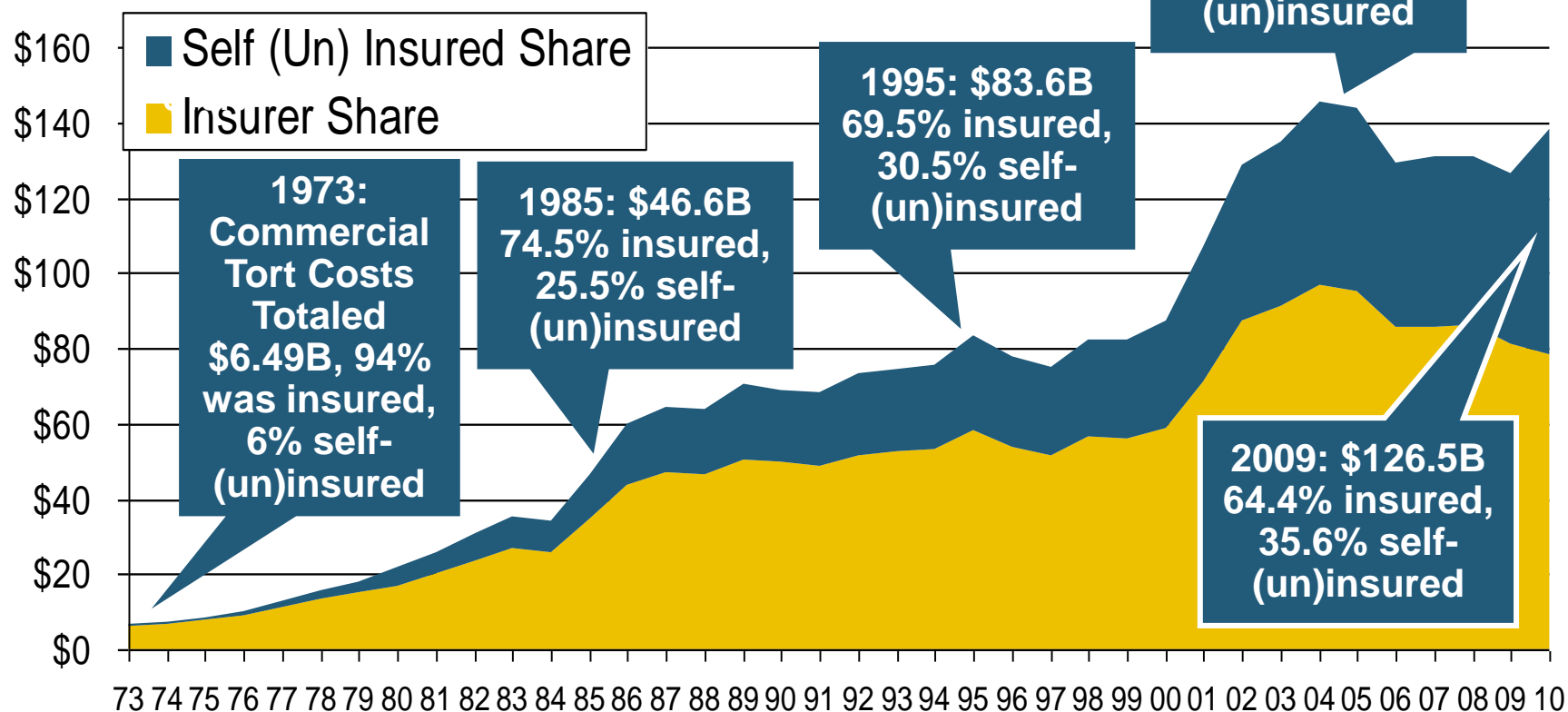
# Over the Last Three Decades, Total Tort Costs as a % of GDP Appear Somewhat Cyclical, 1980-2013E

(\$ Billions)



# Commercial Lines Tort Costs: Insured vs. Self-(Un)Insured Shares, 1973-2010

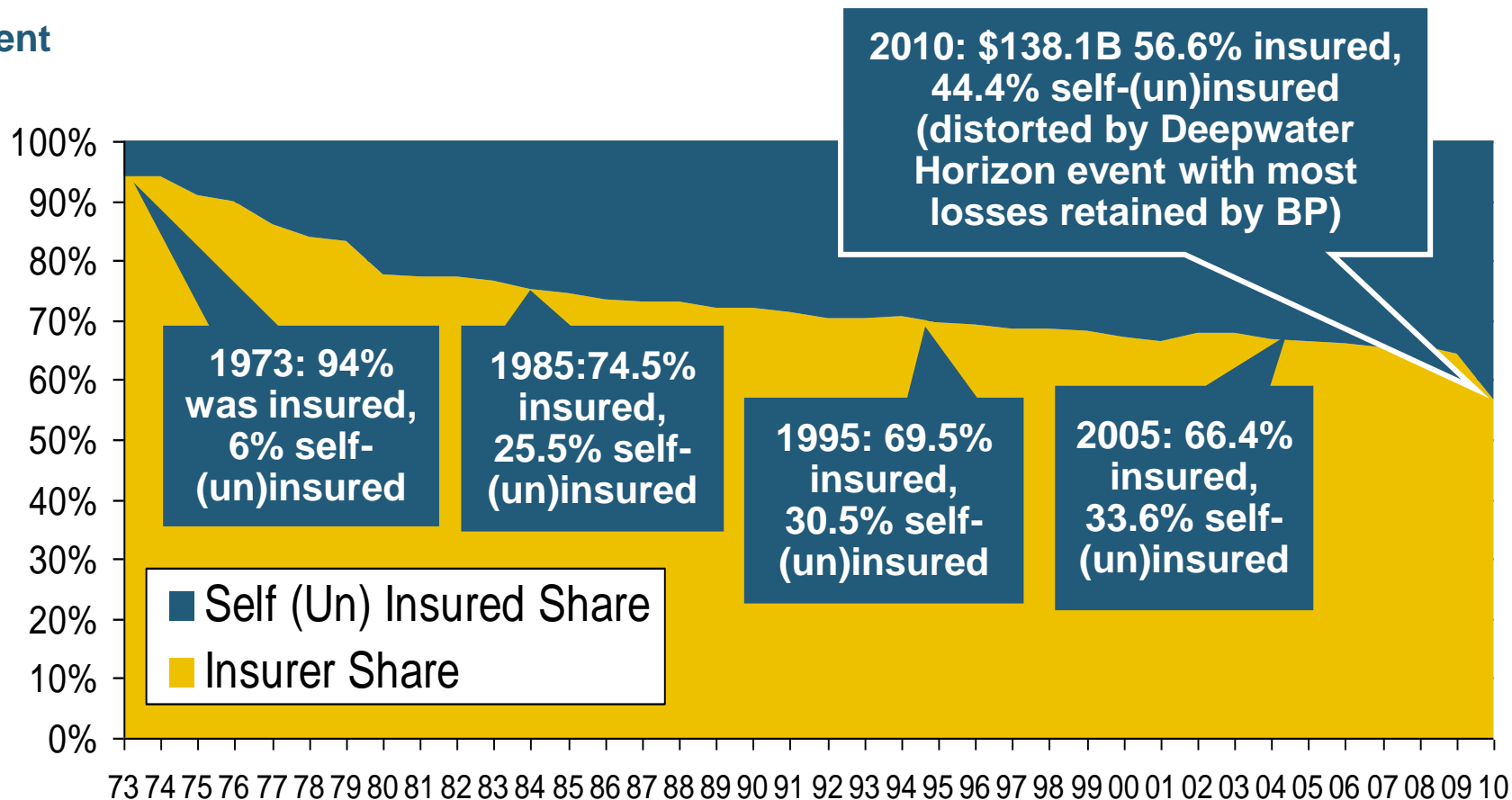
Billions of Dollars



**Tort Costs and the Share Retained by Risks Both Grew Rapidly from the mid-1970s to mid-2000s, When Tort Costs Began to Fall But Self-Insurance Shares Continued to Rise**

# Commercial Lines Tort Costs: Insured vs. Self-(Un)Insured Shares, 1973-2010

Percent



**The Share of Tort Costs Retained by Risks Has Been Steadily Increasing for Nearly 40 Years. This Trend Contributes Has Left Insurers With Less Control Over Pricing.**

# Business Leaders Ranking of Liability Systems in 2012

## ■ Best States

1. Delaware
2. Nebraska
3. Wyoming
4. Minnesota
5. Kansas
6. Idaho
7. Virginia
8. North Dakota
9. Utah

### New in 2012

- Wyoming
- Minnesota
- Kansas
- Idaho

### Drop-offs

- Indiana
- Colorado
- Massachusetts
- South Dakota

**10. Iowa**

## ■ Worst States

41. Florida
42. Oklahoma
43. Alabama
44. New Mexico
45. Montana
46. Illinois
47. California
48. Mississippi
49. Louisiana
50. West Virginia

### Newly Notorious

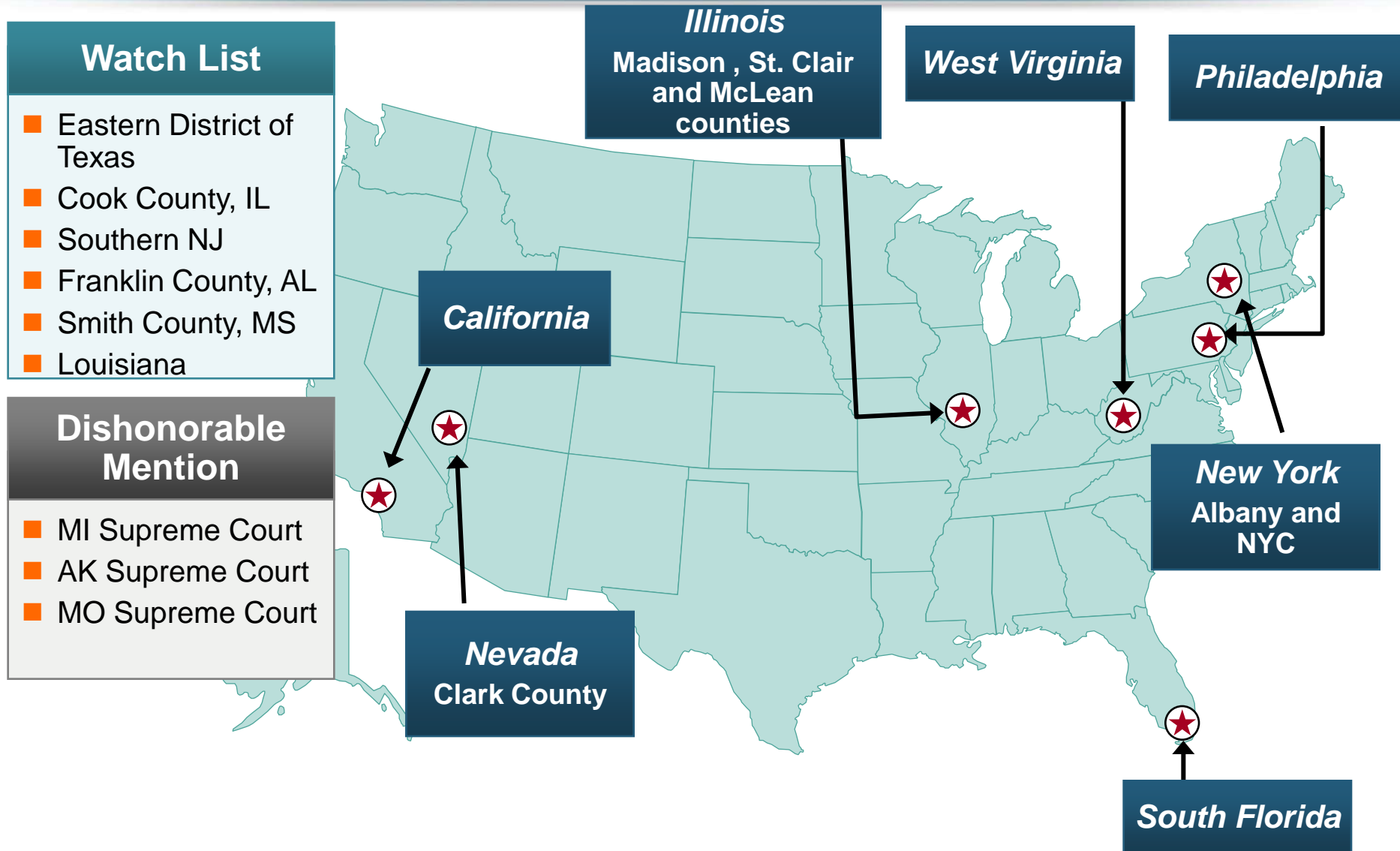
- Oklahoma

### Rising Above

- Arkansas



# The Nation's Judicial Hellholes: 2011

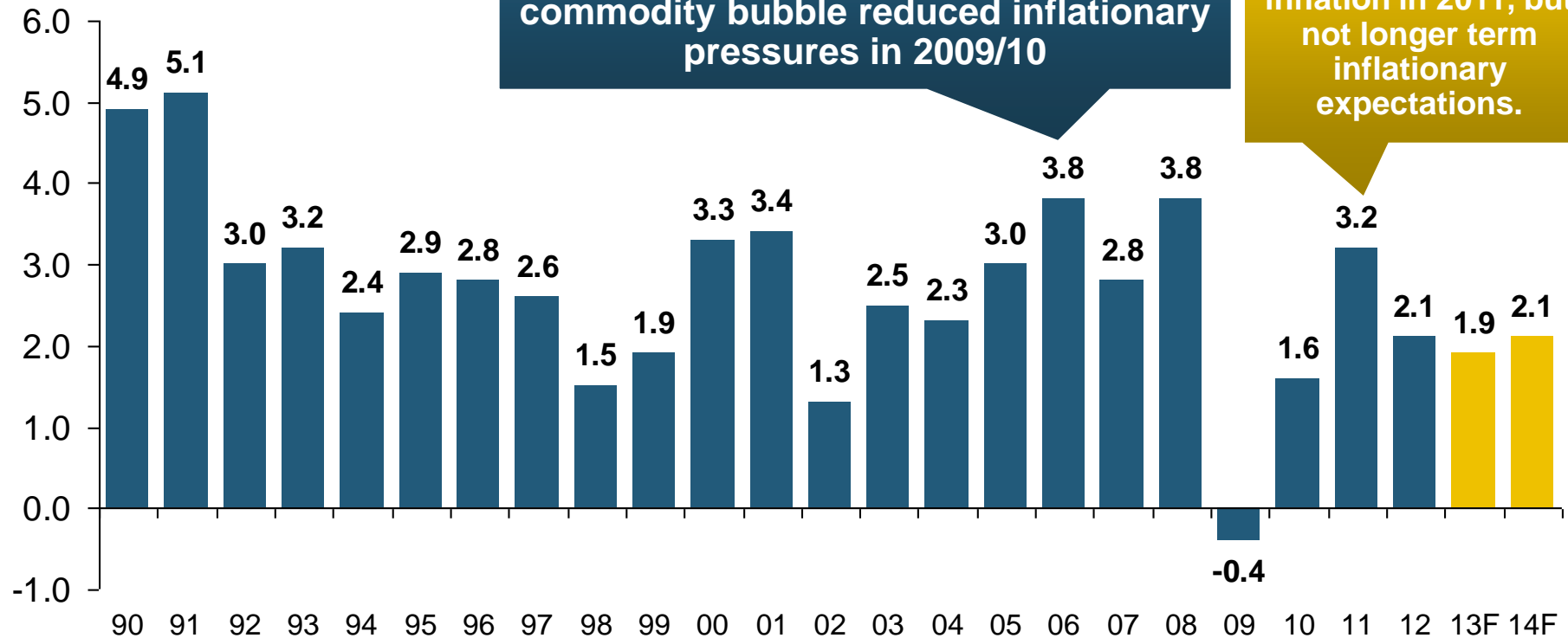


# **Inflation**

**Is it a Threat to Claim Cost  
Severities**

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

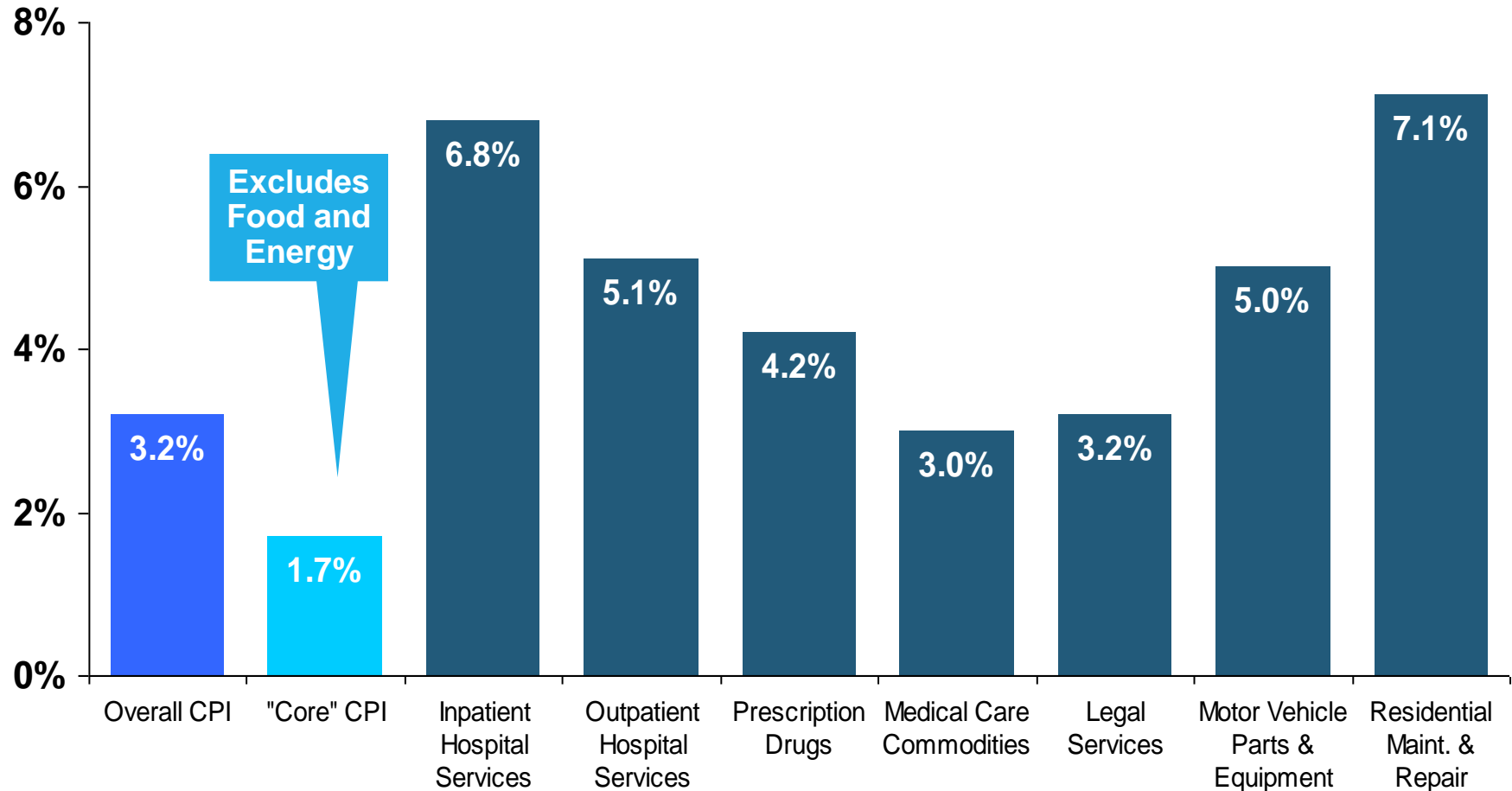
## Annual Inflation Rates (%)



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

# P/C Personal Insurance Claim Cost Drivers Grow Faster Than the Core CPI Suggests

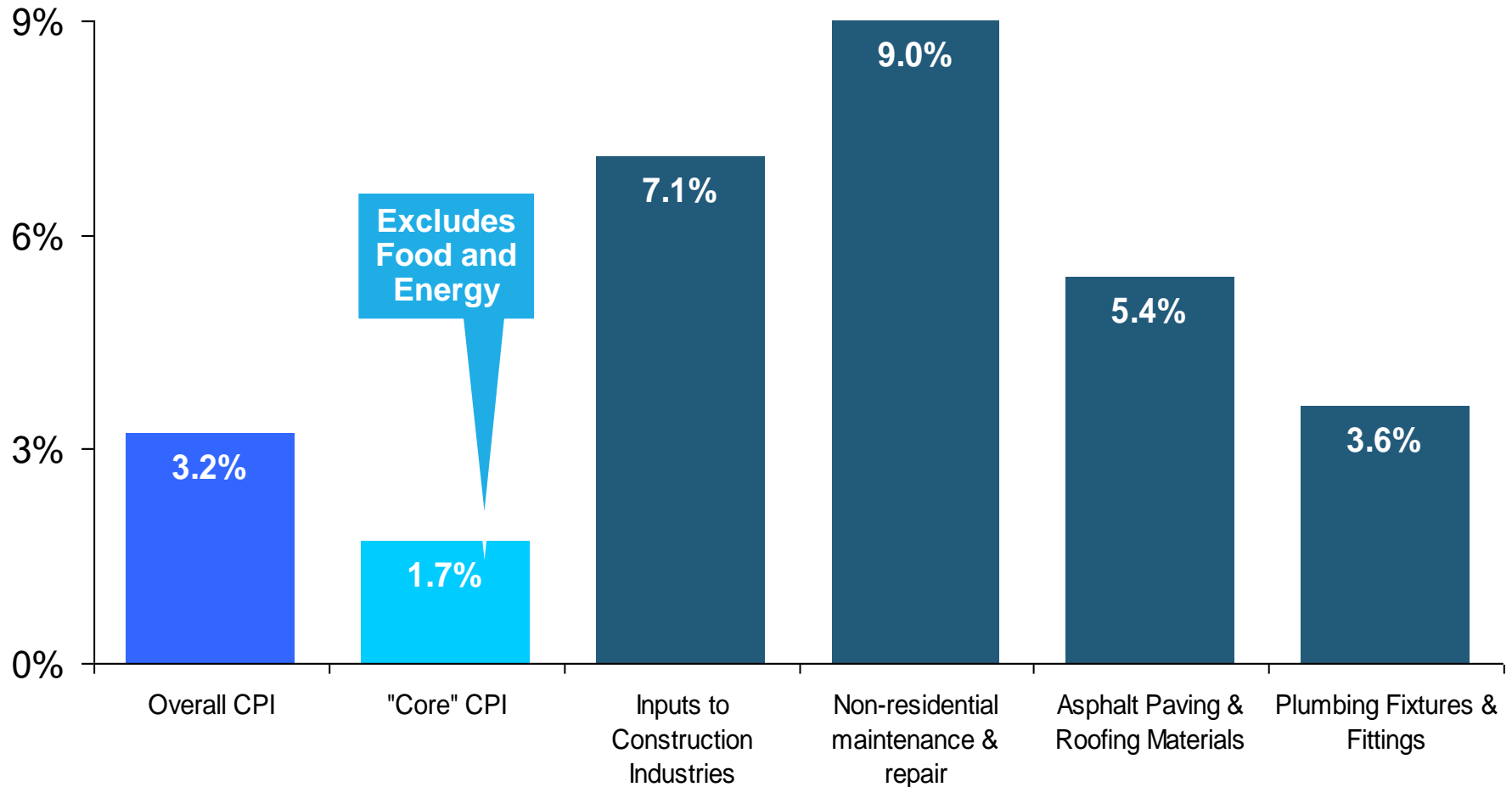
Price Level Change: 2011 vs. 2010



**Healthcare costs are a major liability, med pay, and PIP claim cost driver. They are likely to grow faster than the CPI for the next few years, at least**

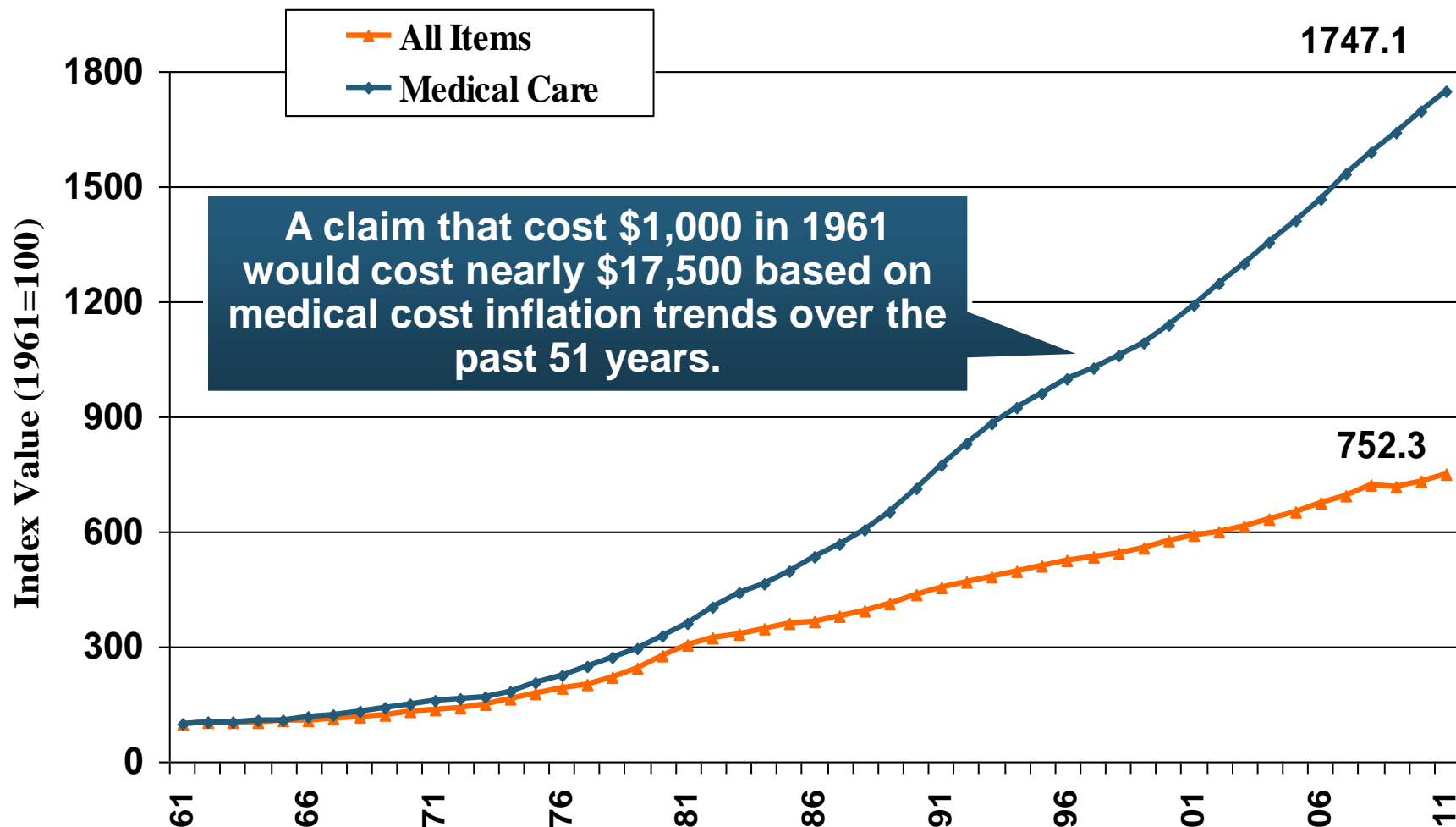
# P/C Commercial Property Insurance Claim Cost Drivers Grow Faster than the Overall CPI Suggests

Price Level Change: 2011 vs. 2010



**Copper prices spiked and retreated in 2011. In July its price was 33% higher than a year earlier; by November it cost 8% less than in November 2010.**

# Medical Cost Inflation Has Outpaced Overall Inflation For Over 50 Years



Source: Department of Labor (Bureau of Labor Statistics)

Insurance Information Institute Online:

**www.iii.org**

*Thank you for your time  
and your attention!*

**Twitter:** [twitter.com/bob\\_hartwig](https://twitter.com/bob_hartwig)

**Download at:** [www.iii.org/presentations](http://www.iii.org/presentations)