



The P/C Insurance Industry and the U.S. Economy: Issues & Outlook

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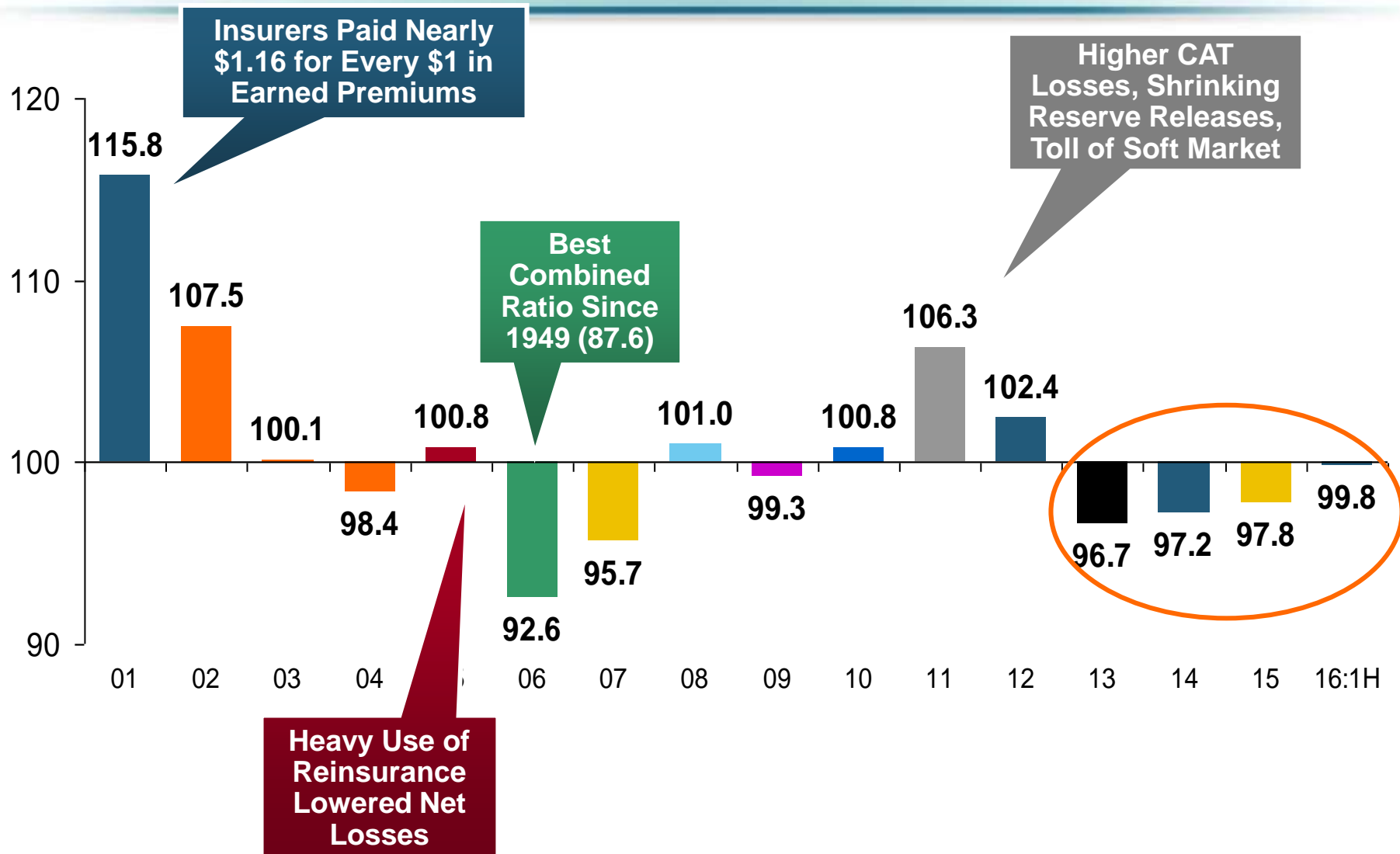
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First, the Good News about the P/C Insurance Industry:

**2013-15 Were
Three Good Years in a Row**

2016 Could Be the Fourth

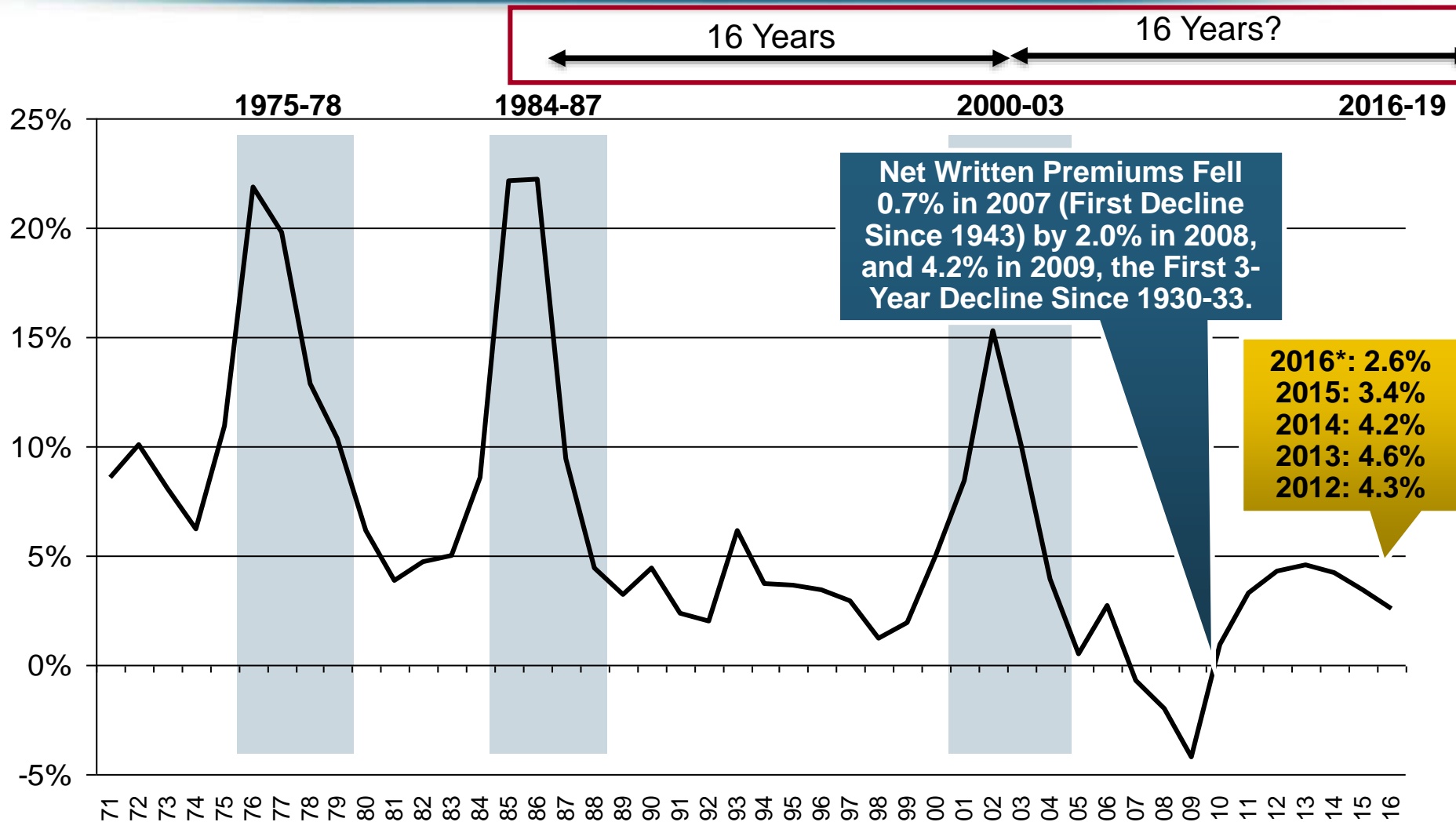
P/C Insurance Industry Combined Ratio, 2001–2016:1H*



Excludes Mortgage & Financial Guaranty insurers 2008--2014. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.1; 2012=103.2; 2013: = 96.1; 2014: = 97.0. Note: 2015:1H combined ratio was 97.6

Sources: A.M. Best, ISO.

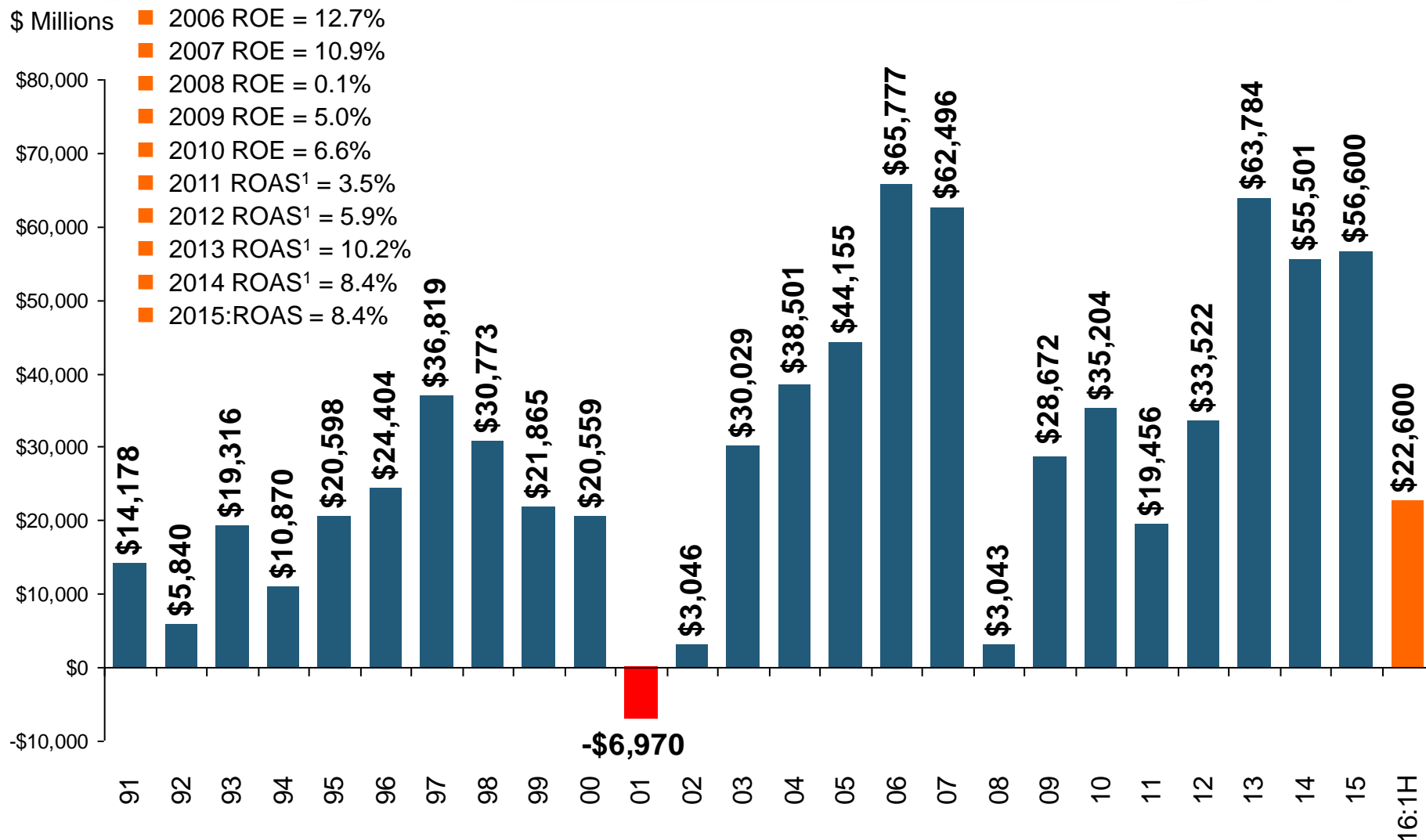
Net Written Premium Growth: Annual Change, 1971—2016:1H



Shaded areas denote "hard market" periods *first half

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

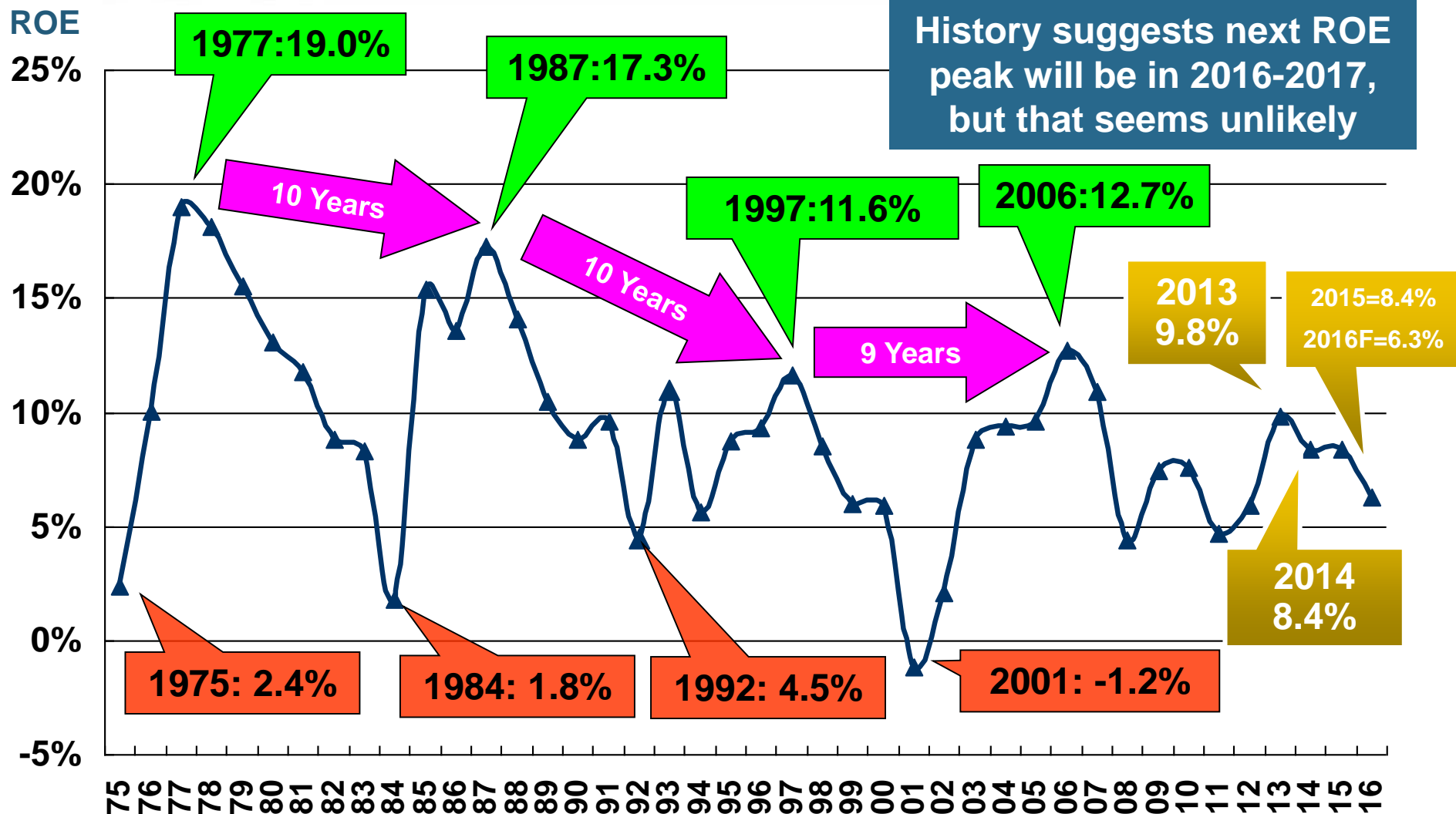
P/C Industry Net Income After Taxes 1991–2016:1H



• ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 8.2% ROAS in 2014, 9.8% ROAS in 2013, 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.

Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2016F



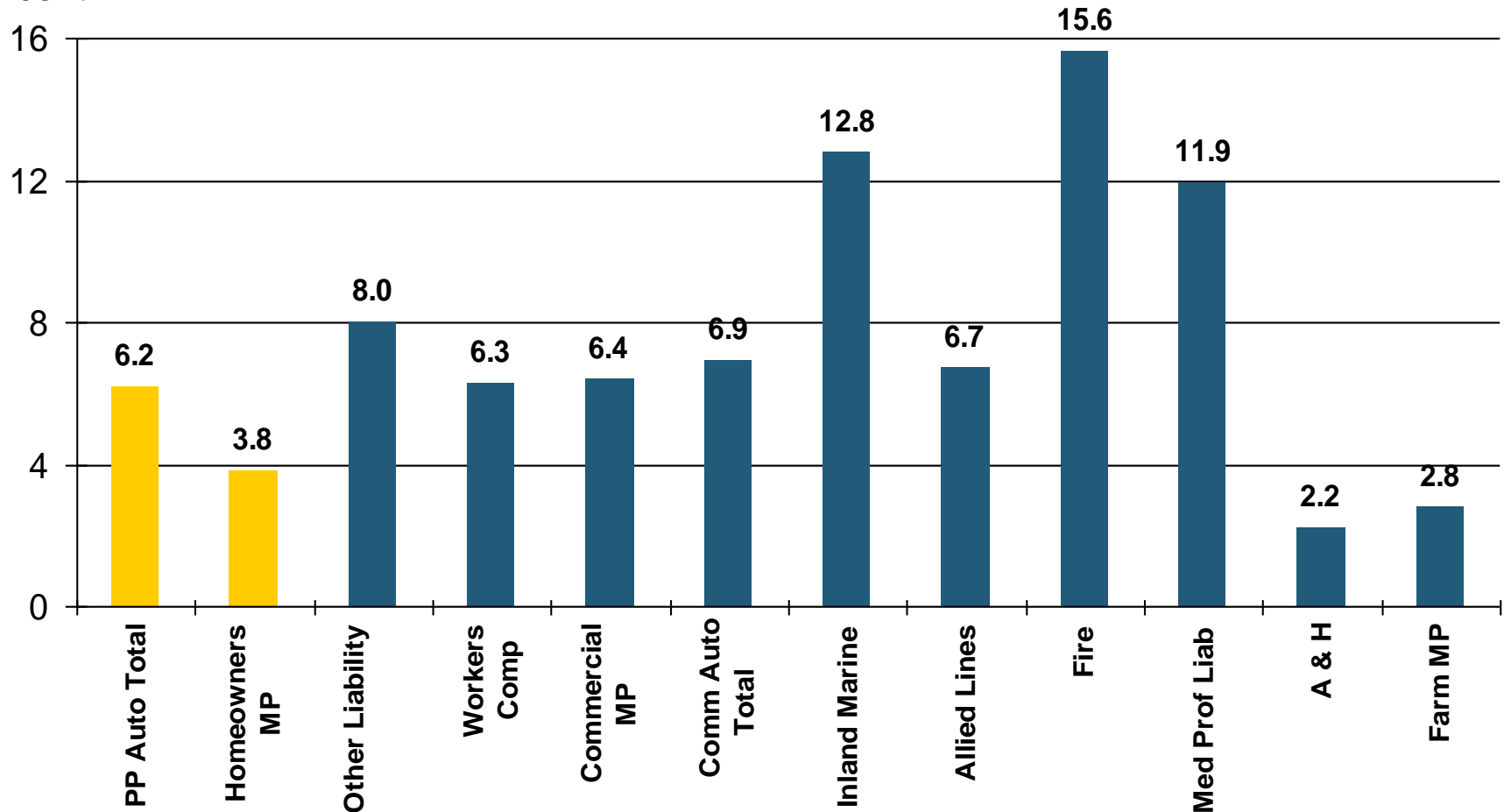
*Profitability = P/C insurer ROEs. 2011-14 figures are estimates based on ROAS data. Note: Data for 2008-2014 exclude mortgage and financial guaranty insurers.

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

Return on Net Worth (RNW)

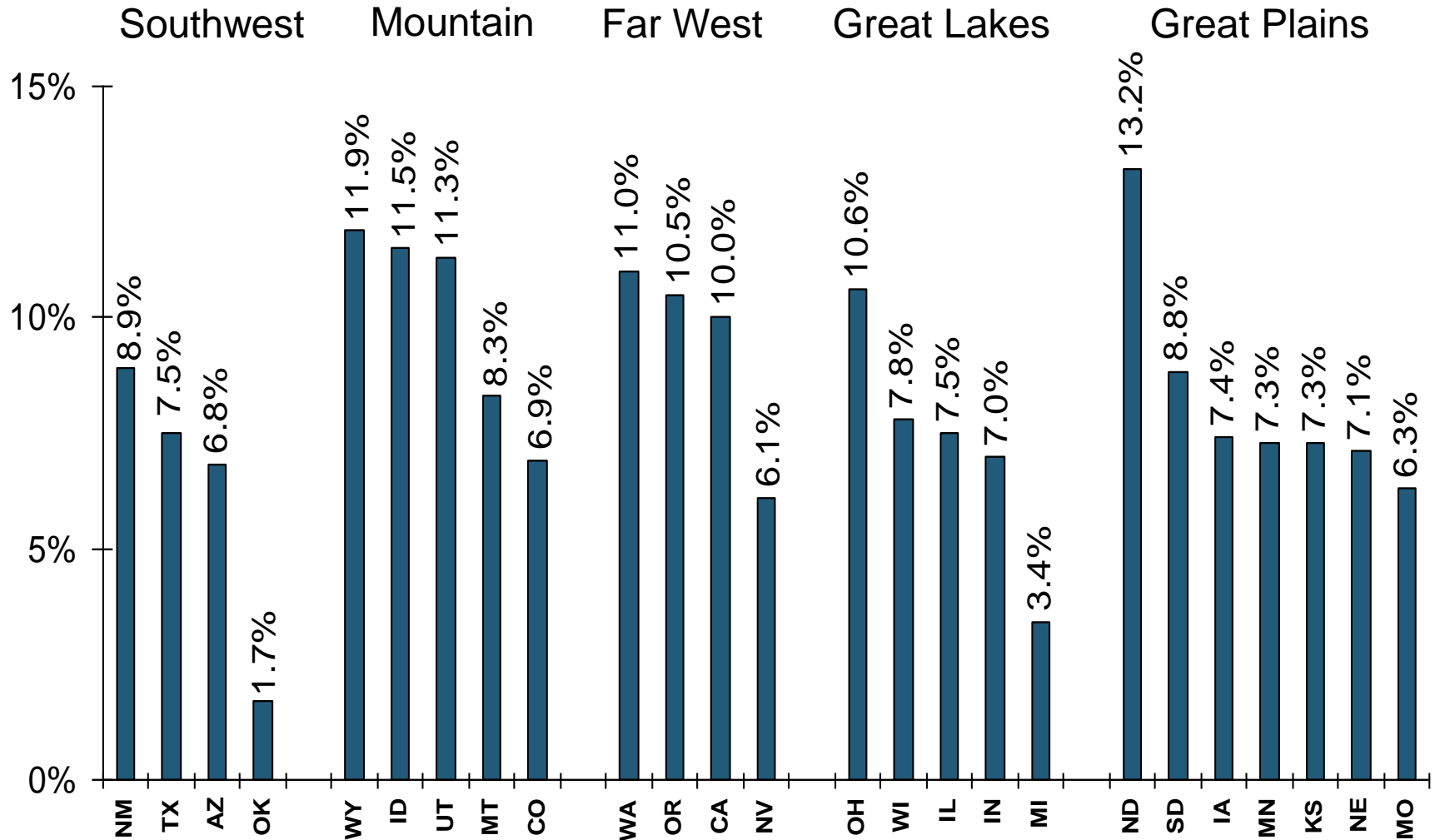
Largest Lines: 2005-2014 Average

Percent



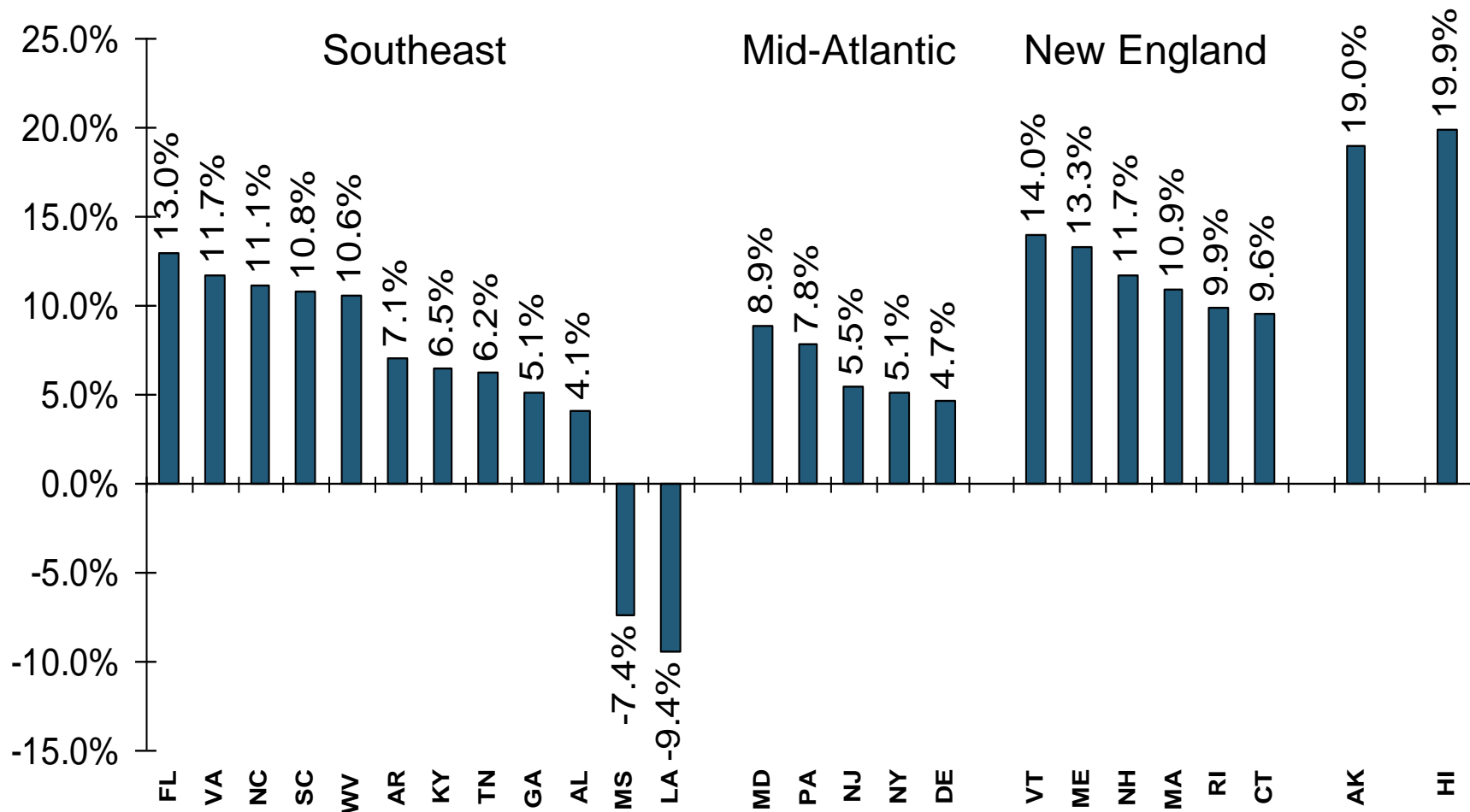
Commercial lines have tended to be more profitable than personal lines over the past decade

RNW All Lines, 2005-2014 Average, Vary Widely by State and Region



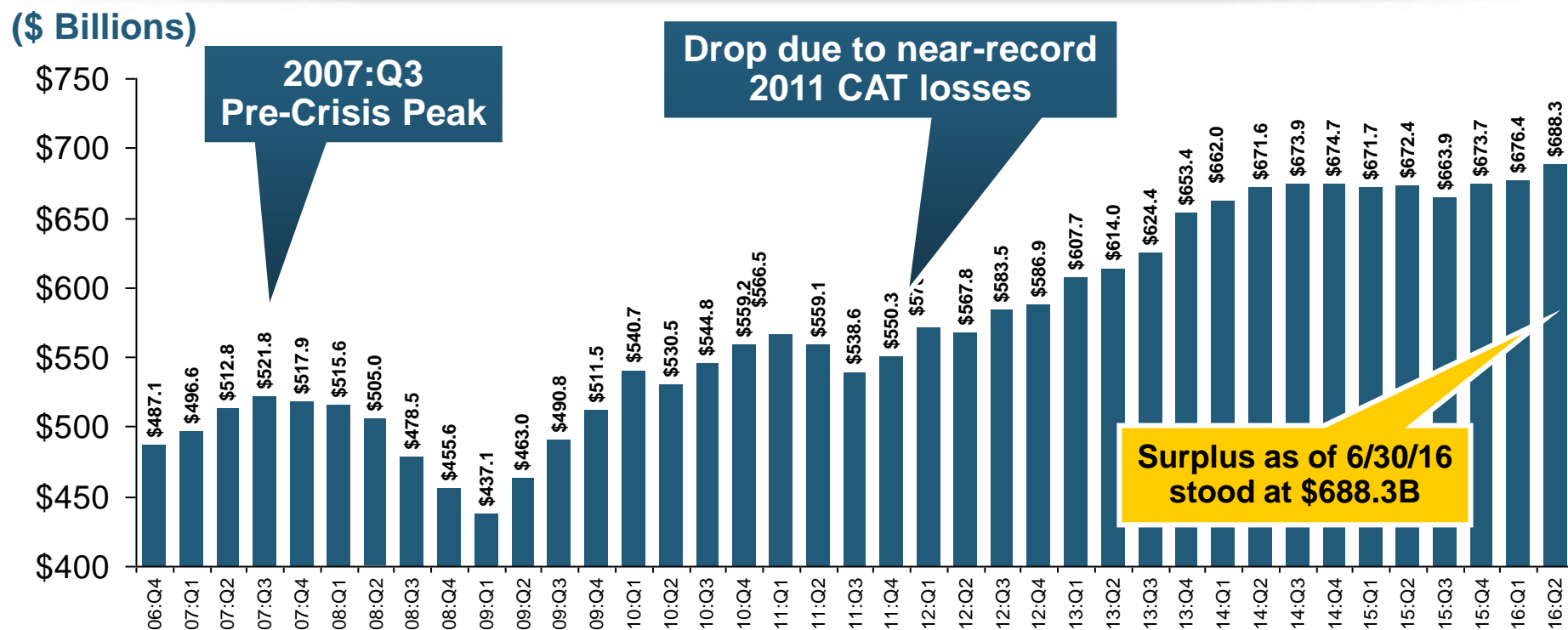
Sources: NAIC; Insurance Information Institute

RNW All Lines, 2005-2014 Average, Vary Widely by State and Region



Sources: Sources: NAIC; Insurance Information Institute.

Policyholder Surplus, 2006:Q4–2016:1H

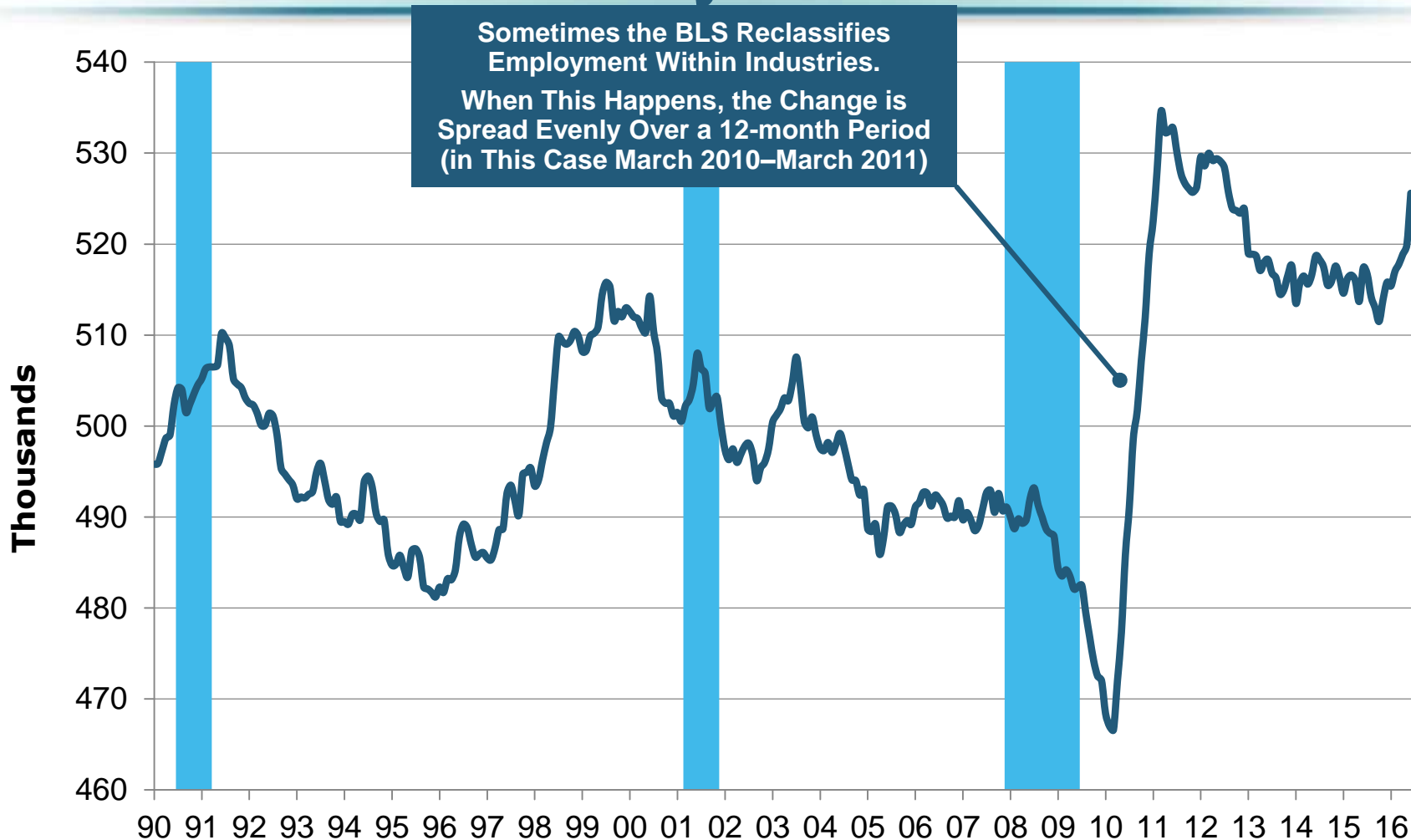


**The industry now has \$1 of surplus for every \$0.75 of NPW,
close to the strongest claims-paying status in its history.**

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.

**The P/C insurance industry entered 2016
in very strong financial condition.**

U.S. Employment in the Direct P/C Insurance Industry: 1990–2016*

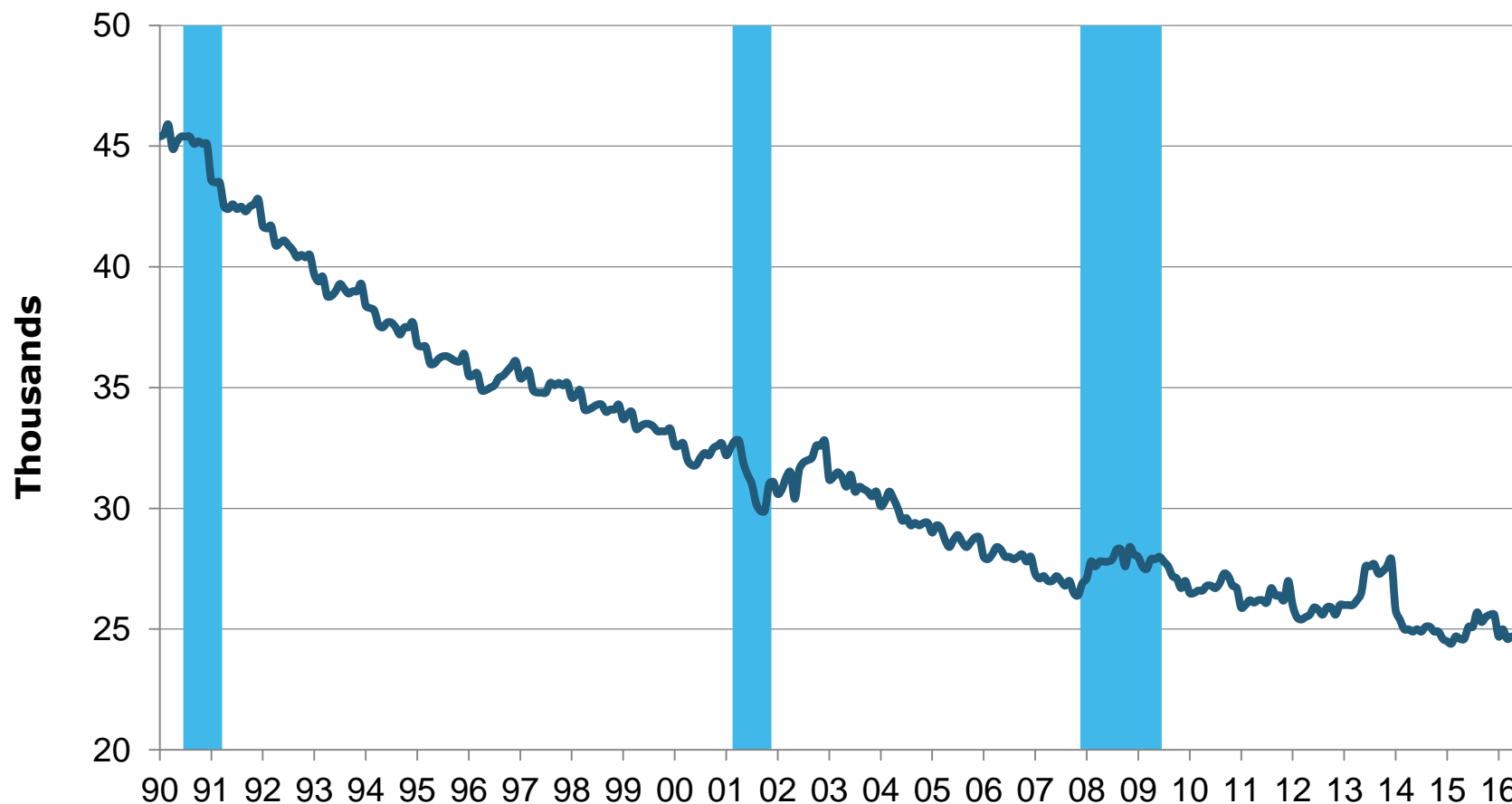


*As of June 2016; not seasonally adjusted; Does not include agents & brokers.

Note: Recessions indicated by gray shaded columns.

Sources: U.S. Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institute.

U.S. Employment in the Reinsurance Industry: 1990–2016*

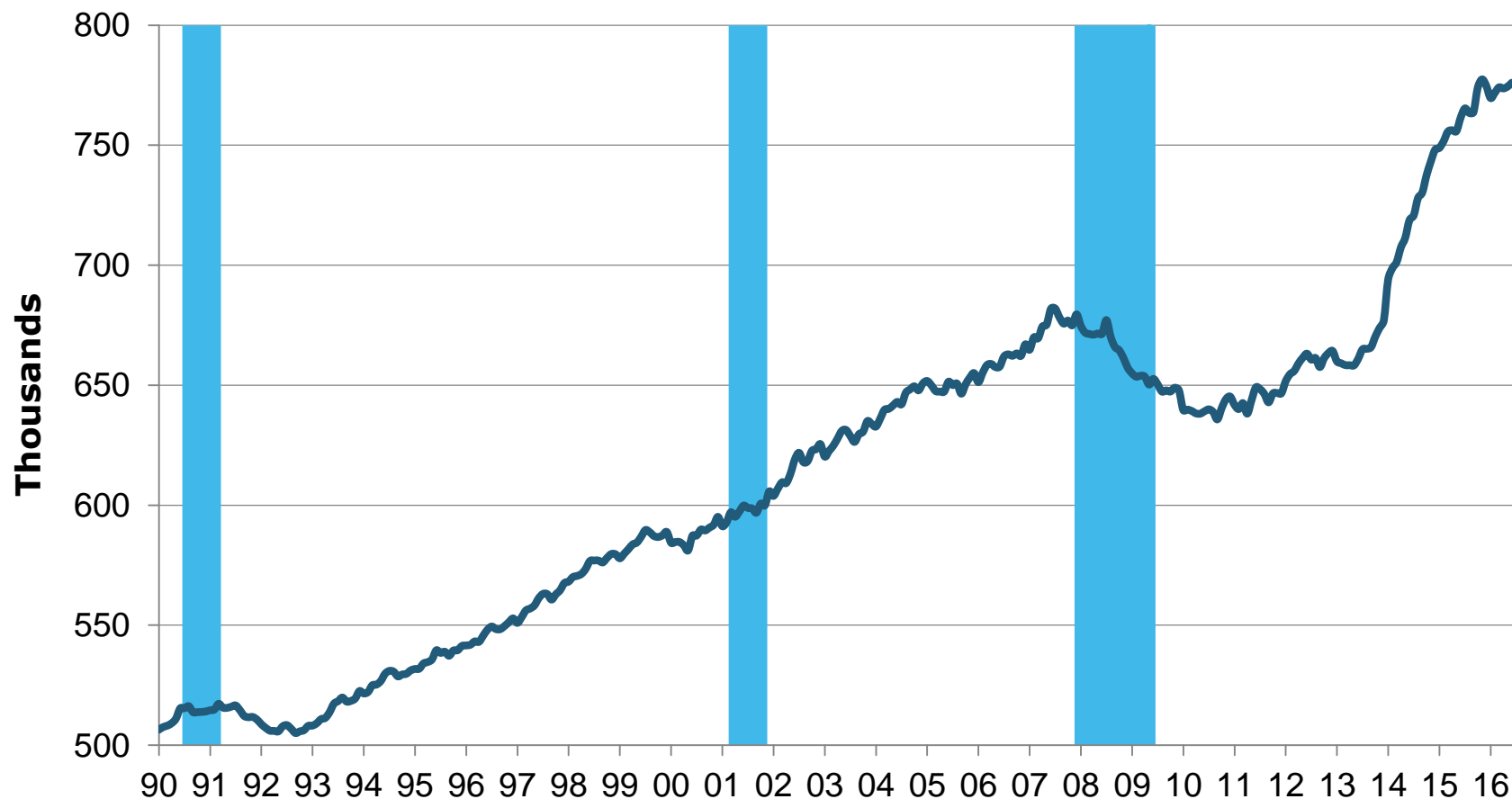


*As of June 2016; not seasonally adjusted; Does not include agents & brokers.

Note: Recessions indicated by gray shaded columns.

Sources: U.S. Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institute.

U.S. Employment in Insurance Agencies & Brokerages: 1990–2016*



*As of June 2016; not seasonally adjusted. Includes all types of insurance.

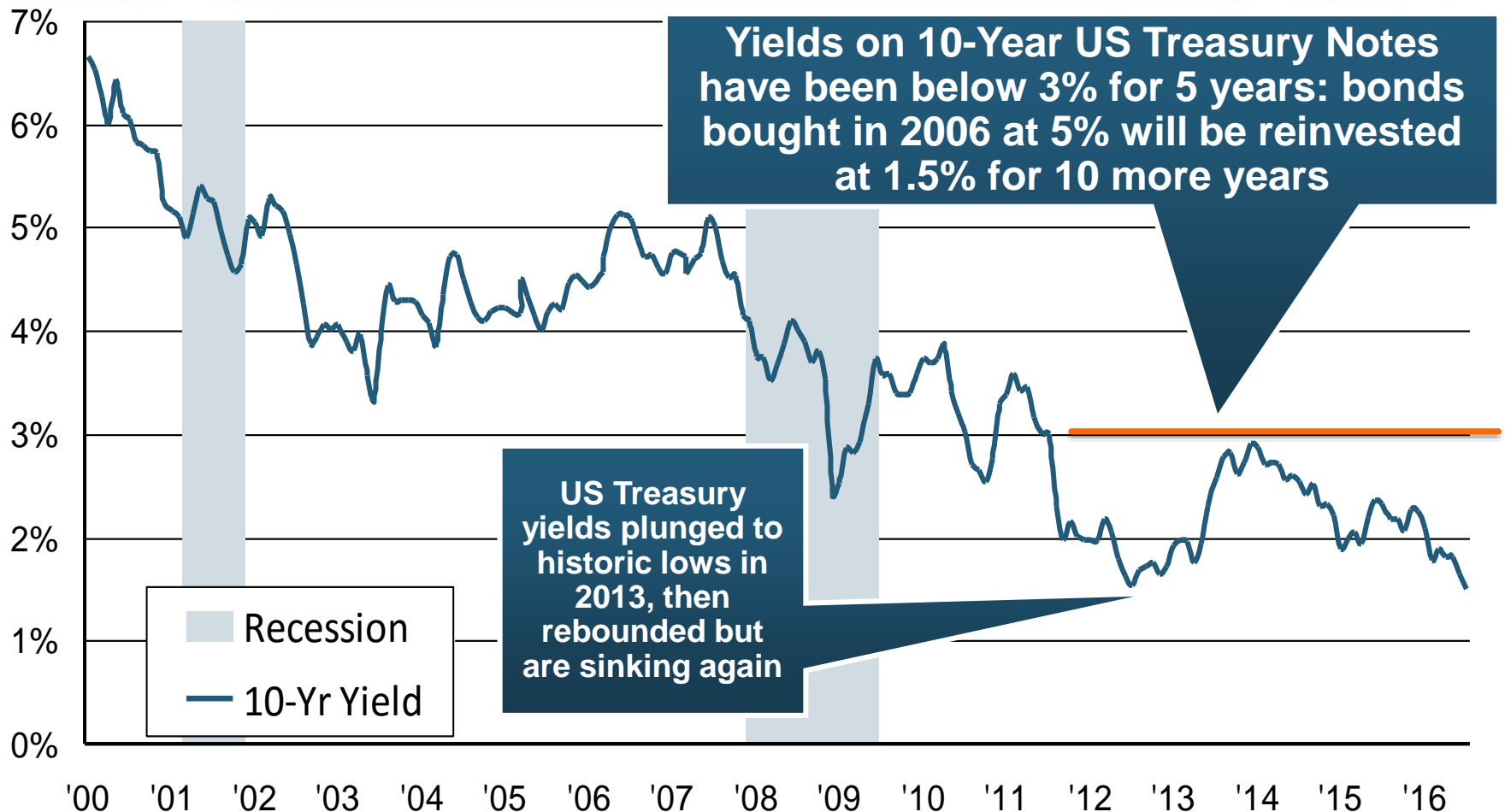
Note: Recessions indicated by gray shaded columns.

Sources: U.S. Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Investment Performance: A Key Driver of Profitability

**Depressed Yields Will Continue
to Affect Underwriting & Pricing**

US Treasury Note 10-Year Yields: A Long Downward Trend, 2000–2016*



Since roughly 80% of P/C bond/cash investments are in 5-to-10-year durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, constant maturity, nominal rates, through July 2016.

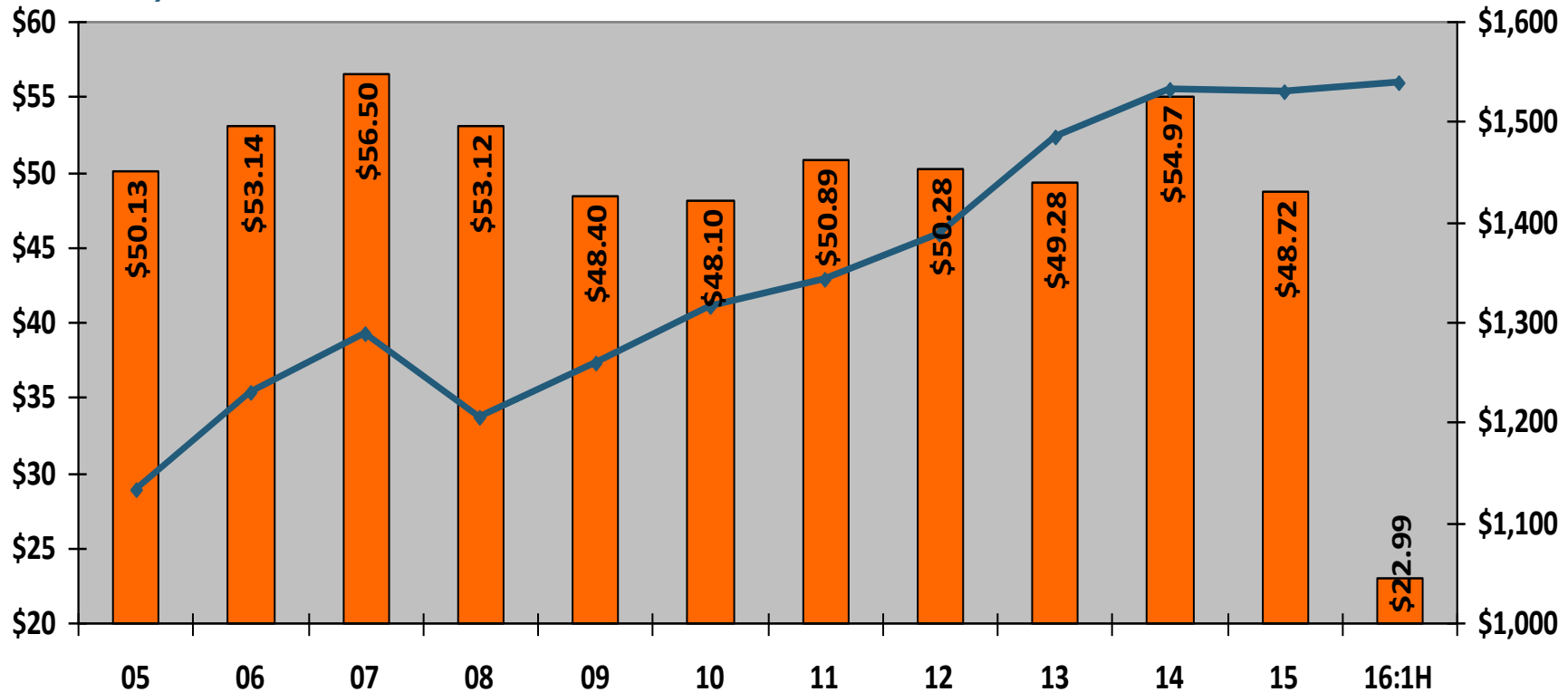
Sources: Federal Reserve Bank at <http://www.federalreserve.gov/releases/h15/data.htm>; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Property/Casualty Insurance Industry Net Investment Income: 2005–2016:1H

Investment
Income
(\$ Billions)

Net Investment Income Cash and Invested Assets

Invested
Assets
(\$ Billions)

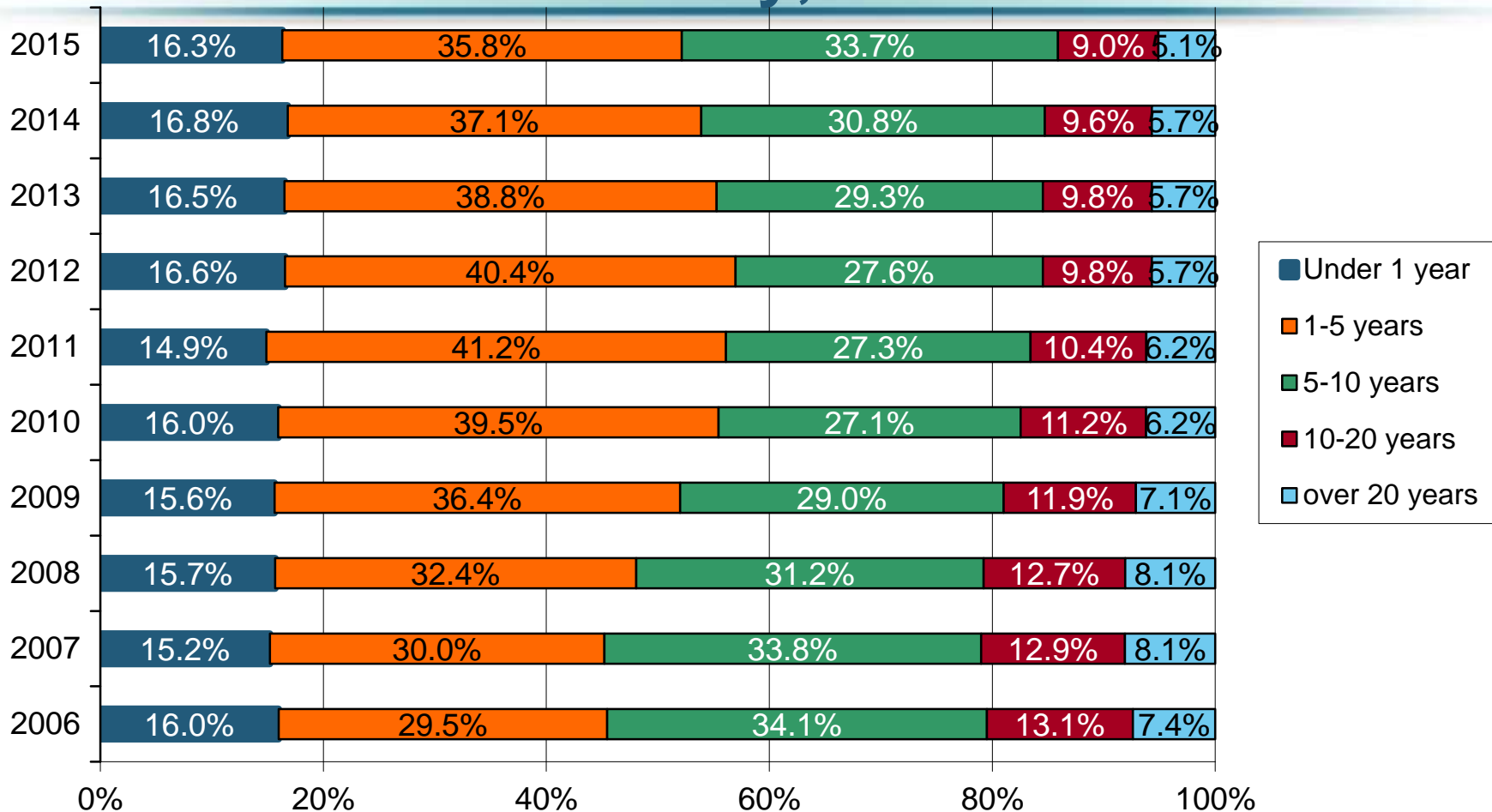


**Due mainly to persistently low interest rates,
investment income has not risen as invested assets grew.**

Investment income consists primarily of bond interest and stock dividends.

Sources: SNL Financial; Insurance Information Institute

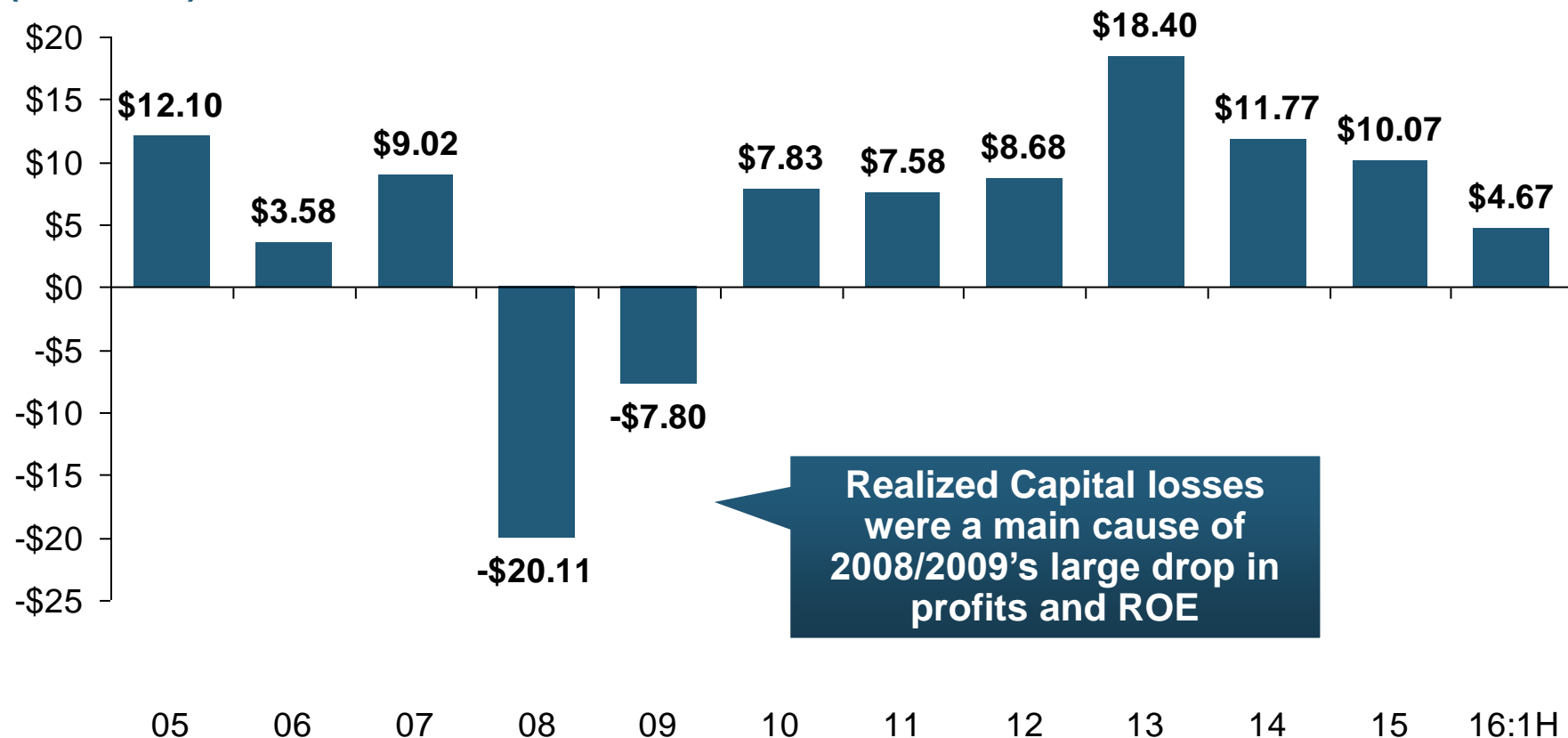
Distribution of Bond Maturities, P/C Insurance Industry, 2006-2015



Two main shifts over these years. From 2008 to 2011-12, from bonds with longer maturities to bonds with shorter maturities. But beginning in 2013, the reverse. Note, however, that the percentages in bonds with maturities over 10 years continues to drop.

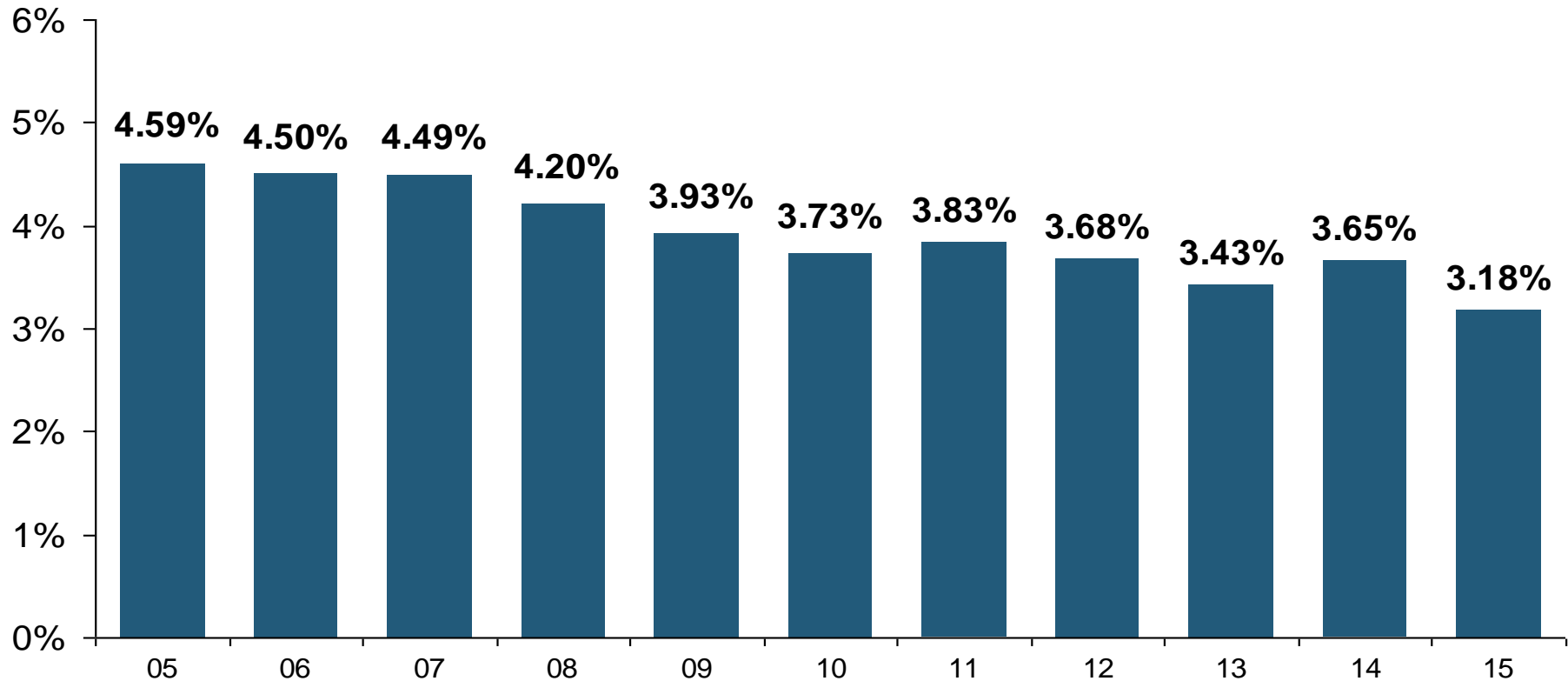
P/C Insurer Net Realized Capital Gains/Losses, 2005-2016:1H

(\$ Billions)



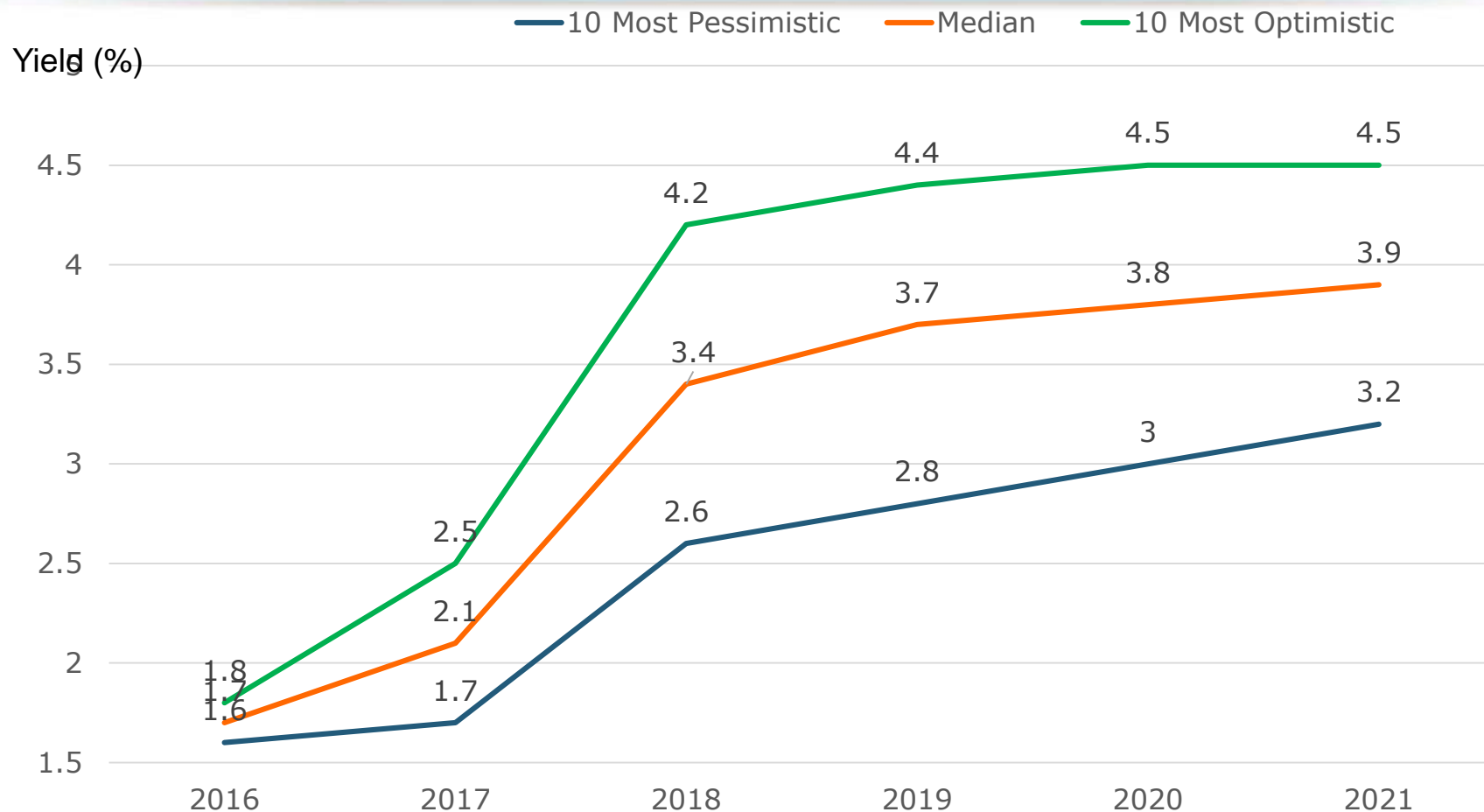
**Insurers consistently posted 6 years of Net Realized Capital Gains in 2010 - 2015 following the Financial Crisis.
If (when?) interest rates rise, this streak might end.**

P/C Insurer Portfolio Yields, 2005-2015



P/C carrier yields have been falling for over a decade, reflecting the long downtrend in prevailing interest rates. Even if prevailing rates rise in the next few years, portfolio yields are unlikely to rise quickly, since low yields of recent years are “baked in” to future returns.

Forecasts of Avg. Yield of 10-Year US Treasury Notes

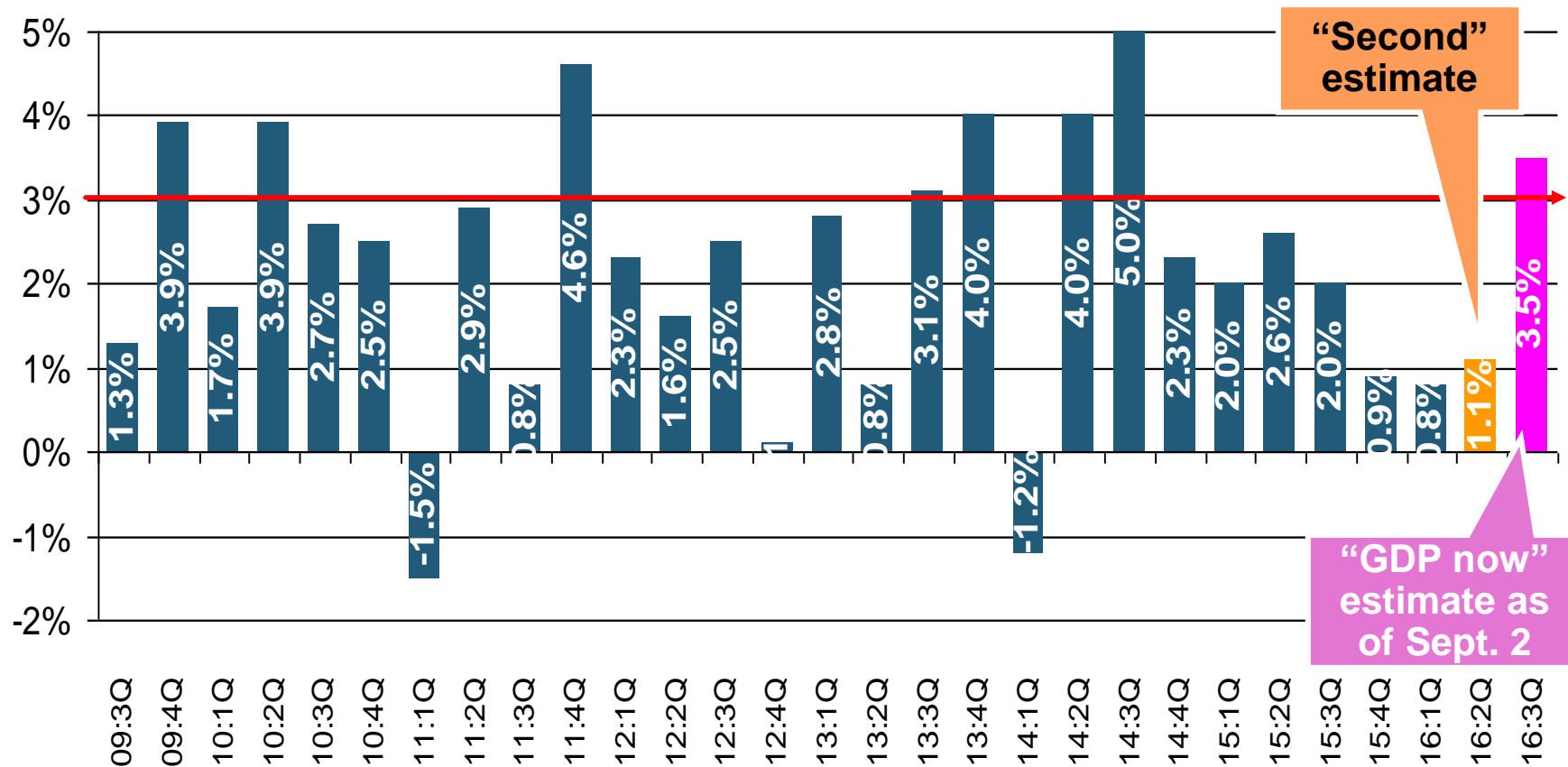


Virtually every one of the 53 forecasts in the Blue Chip survey anticipates that long-term interest rates will stay at unusually low levels through 2017

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

**Growth, Although Weak,
Will Expand Insurer Exposure Base
Across Most Lines**

Real U.S. Quarterly GDP Growth Since the “Great Recession

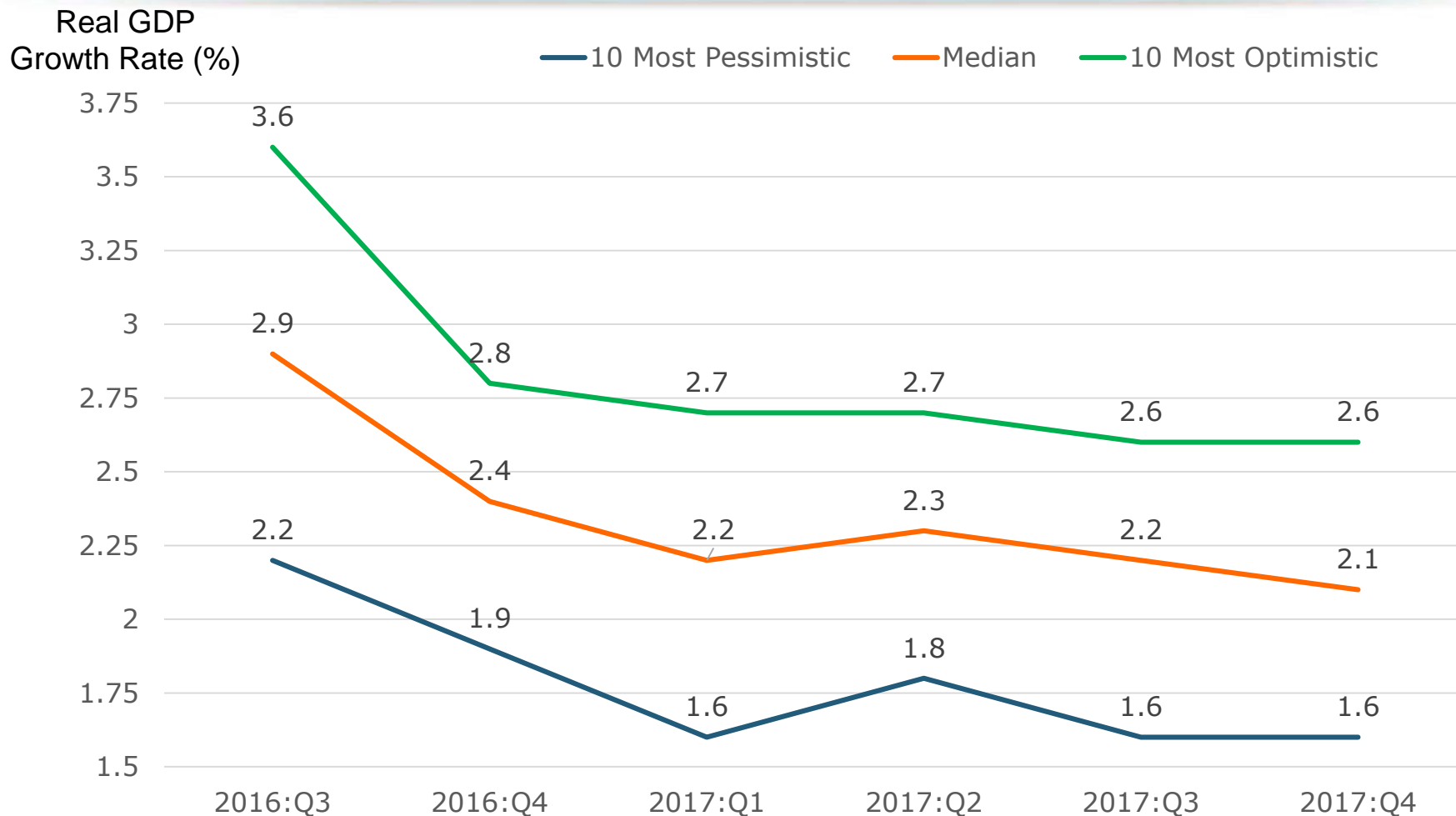


Since the Great Recession ended, even 3% real growth (at an annual rate) in a quarter has been unusual. Through 2016:Q2, it happened only 7 times in 28 quarters—and not once in the most recent 7 quarters.

Data are quarterly changes at annualized rates.

Sources: US Department of Commerce, at <http://www.bea.gov/national/index.htm#gdp> ; Insurance Information Institute.

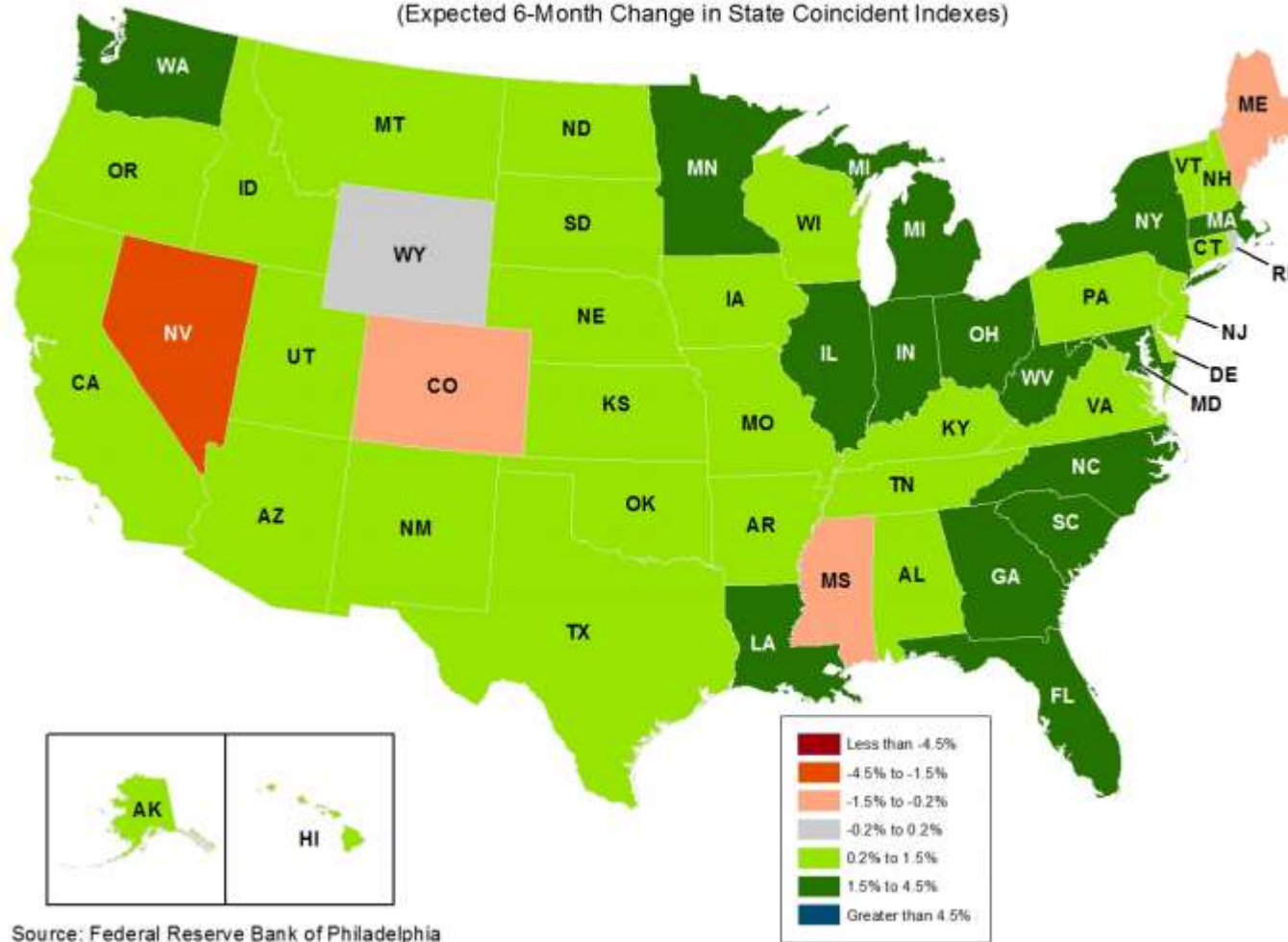
Quarterly US Real GDP for 2016-17: September 2016 Forecasts



Many of the 53 forecasts in the Blue Chip survey expect good growth in the third quarter of 2016 and slower growth in 2017.

State-by-State Leading Indicators through December 2016

June 2016 State Leading Indexes
(Expected 6-Month Change in State Coincident Indexes)

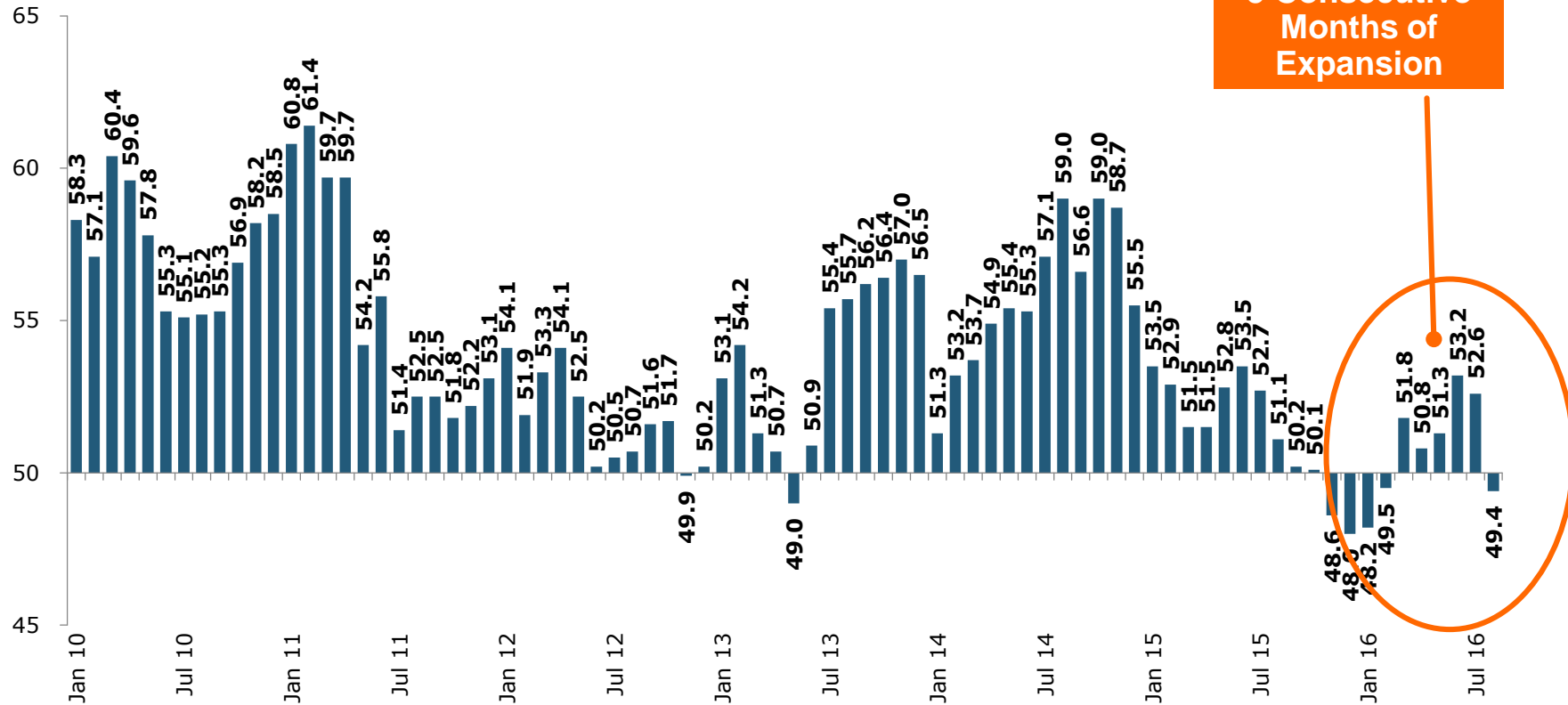


Source: Federal Reserve Bank of Philadelphia

Near-term growth forecasts vary widely by state. Strongest growth = dark green (1.5%-4.5%); then light green; then gray; weakest = red

ISM Manufacturing Index (Values > 50 Indicate Expansion), Jan. 2010-Aug. 2016

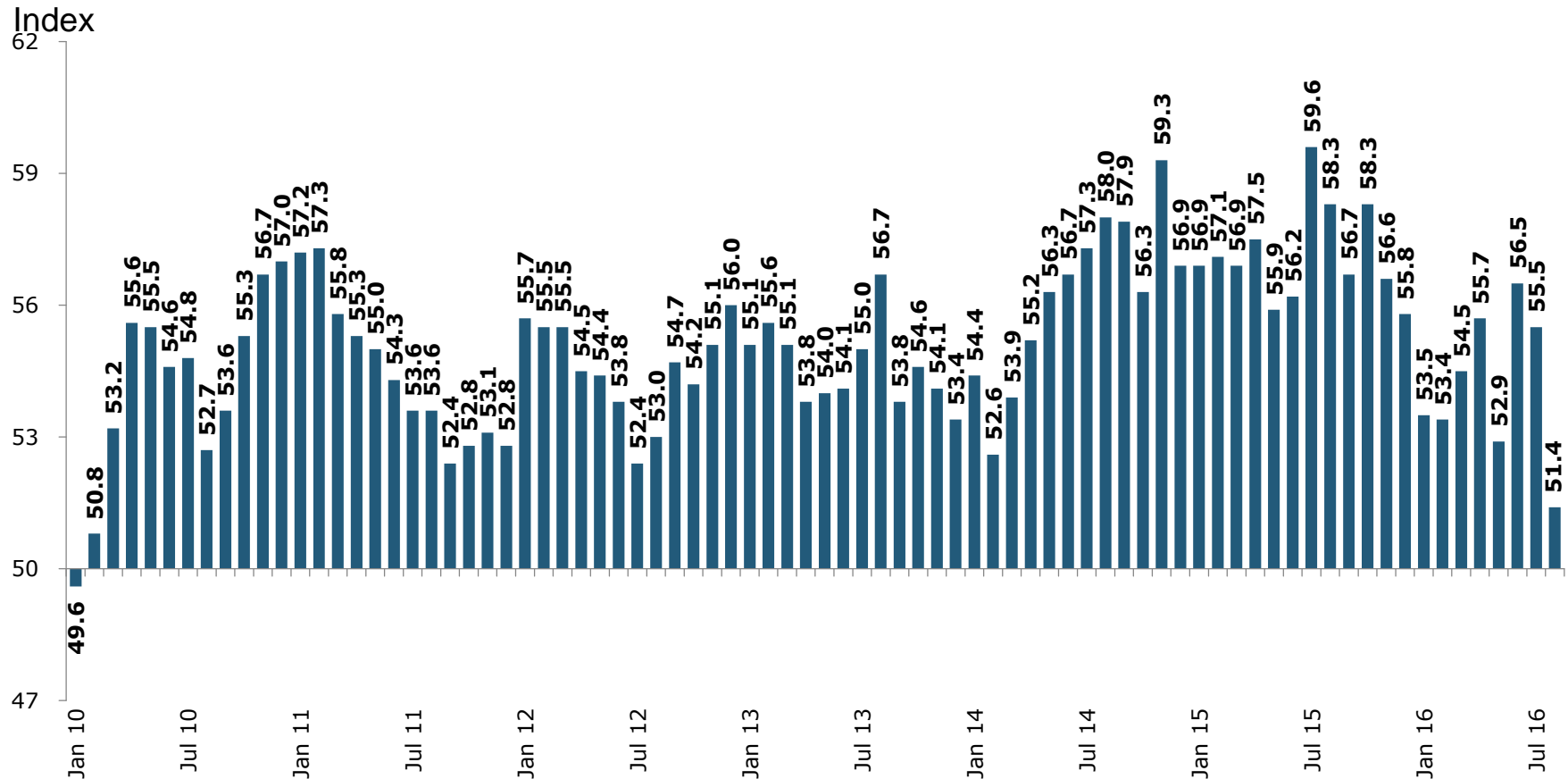
Index



As of July,
5 Consecutive
Months of
Expansion

The Manufacturing Sector Expanded for 68 of the 72 Months from January 2010 Through December 2015. Manufacturing Contracted in 2015:Q4 and 2016:Q1 but was Expanding until August.

ISM Non-Manufacturing Index (Values > 50 Indicate Expansion), January 2010-August 2016



The Non-Manufacturing (Services) Sector Expanded in Every Month After January 2010. Compared to 2014-15, the Pace of Expansion Has Slowed in 2016 But Not Ended.

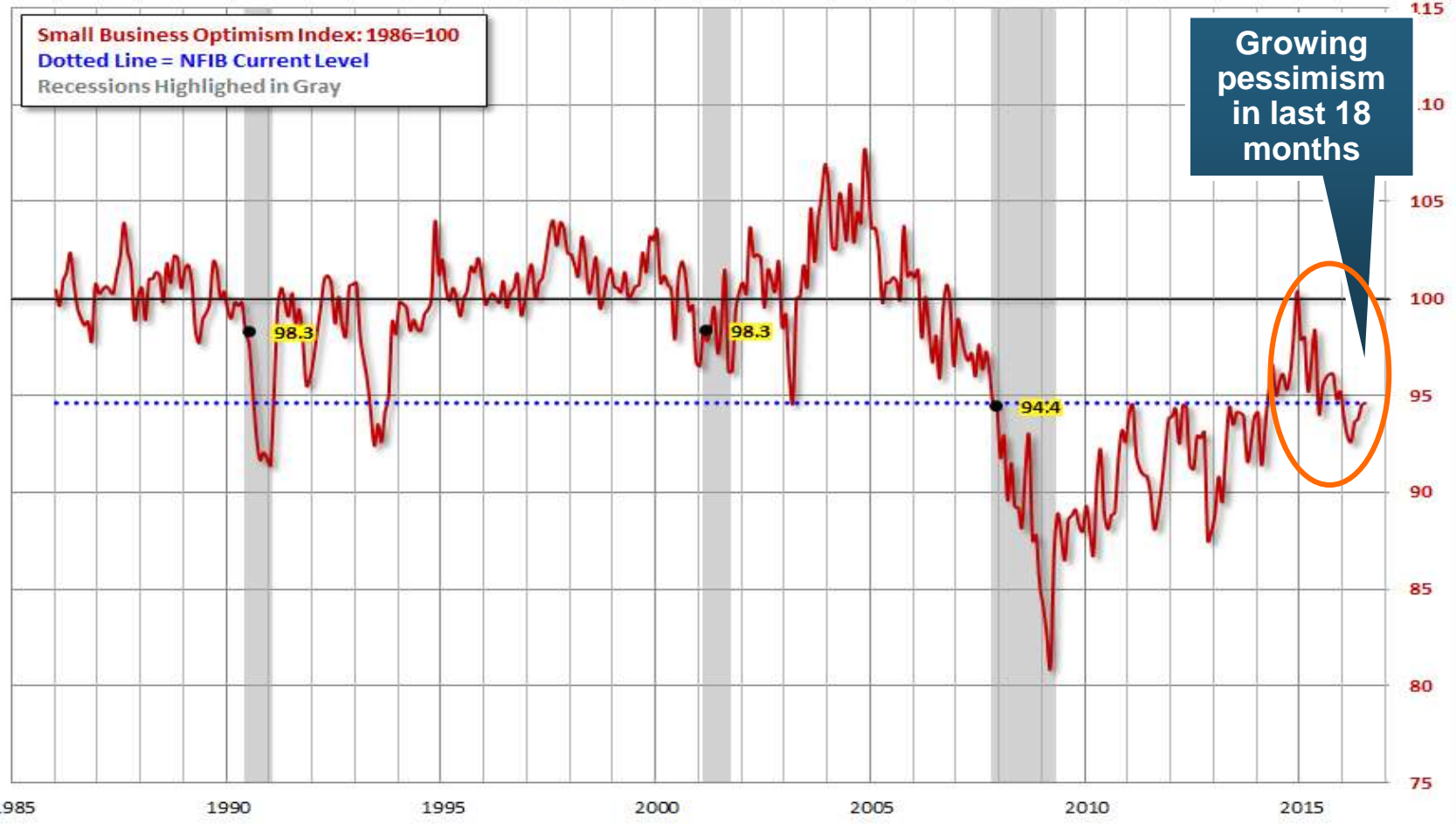
NFIB Small Business Optimism Index

January 1985 through July 2016

NFIB Small Business Optimism Index

dshort.com
August 2016
Data through July

..... Current Level is now at 94.6 ● Recession Starts



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NFIB Small Business Survey: Single Most Important Problem, July 2016

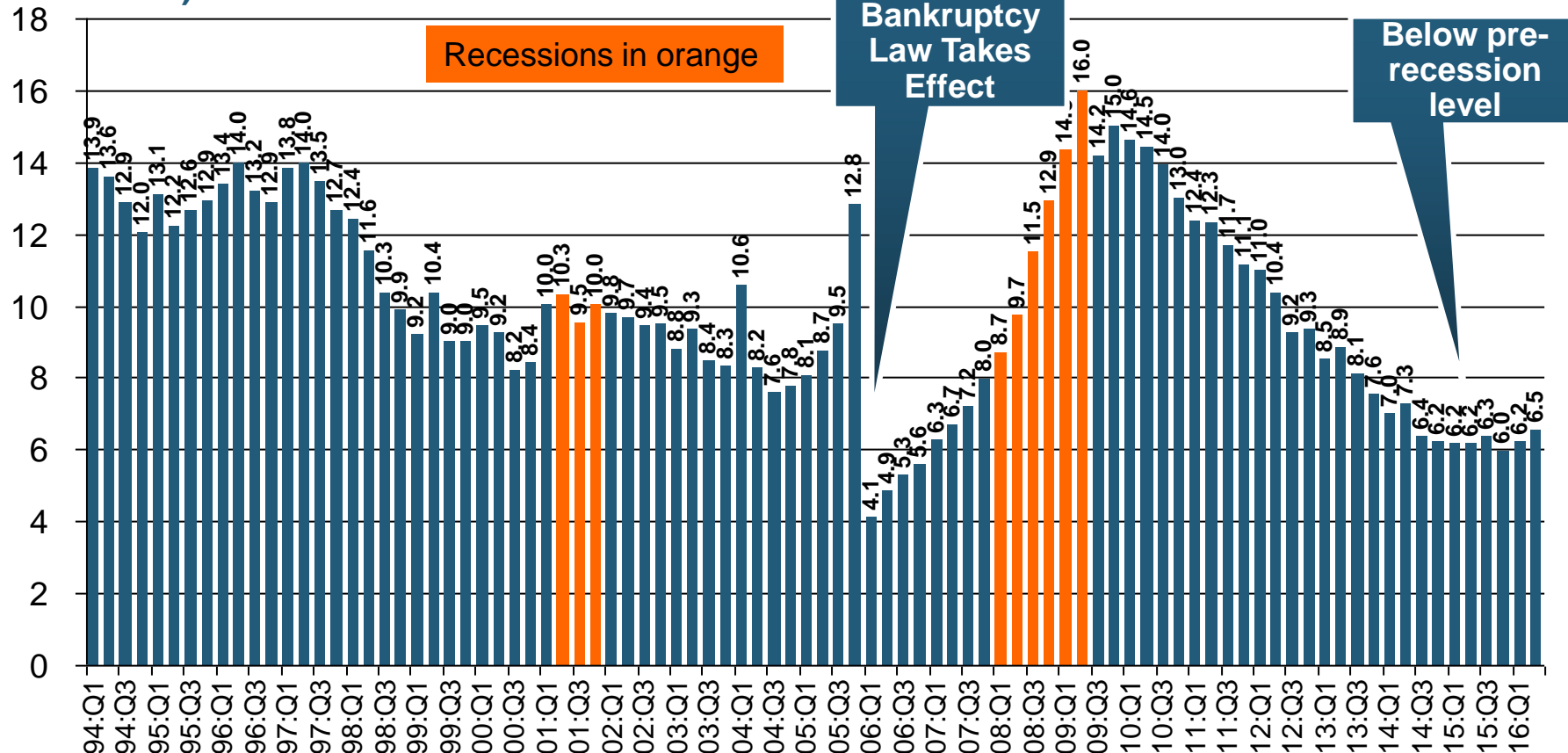
SINGLE MOST IMPORTANT PROBLEM

July 2016

| Problem | Percent Current | One Year Ago | Survey High | Survey Low |
|--------------------------|-----------------|--------------|-------------|------------|
| Taxes | 20 | 22 | 32 | 8 |
| Inflation | 2 | 3 | 41 | 0 |
| Poor Sales | 12 | 10 | 33 | 2 |
| Fin. & Interest Rates | 2 | 2 | 37 | 2 |
| Cost of Labor | 6 | 6 | 9 | 2 |
| Govt. Regs. & Red Tape | 22 | 21 | 27 | 4 |
| Comp. From Large Bus. | 7 | 8 | 14 | 4 |
| Quality of Labor | 14 | 13 | 23 | 3 |
| Cost/Avail. of Insurance | 8 | 8 | 29 | 4 |
| Other | 7 | 7 | 31 | 2 |

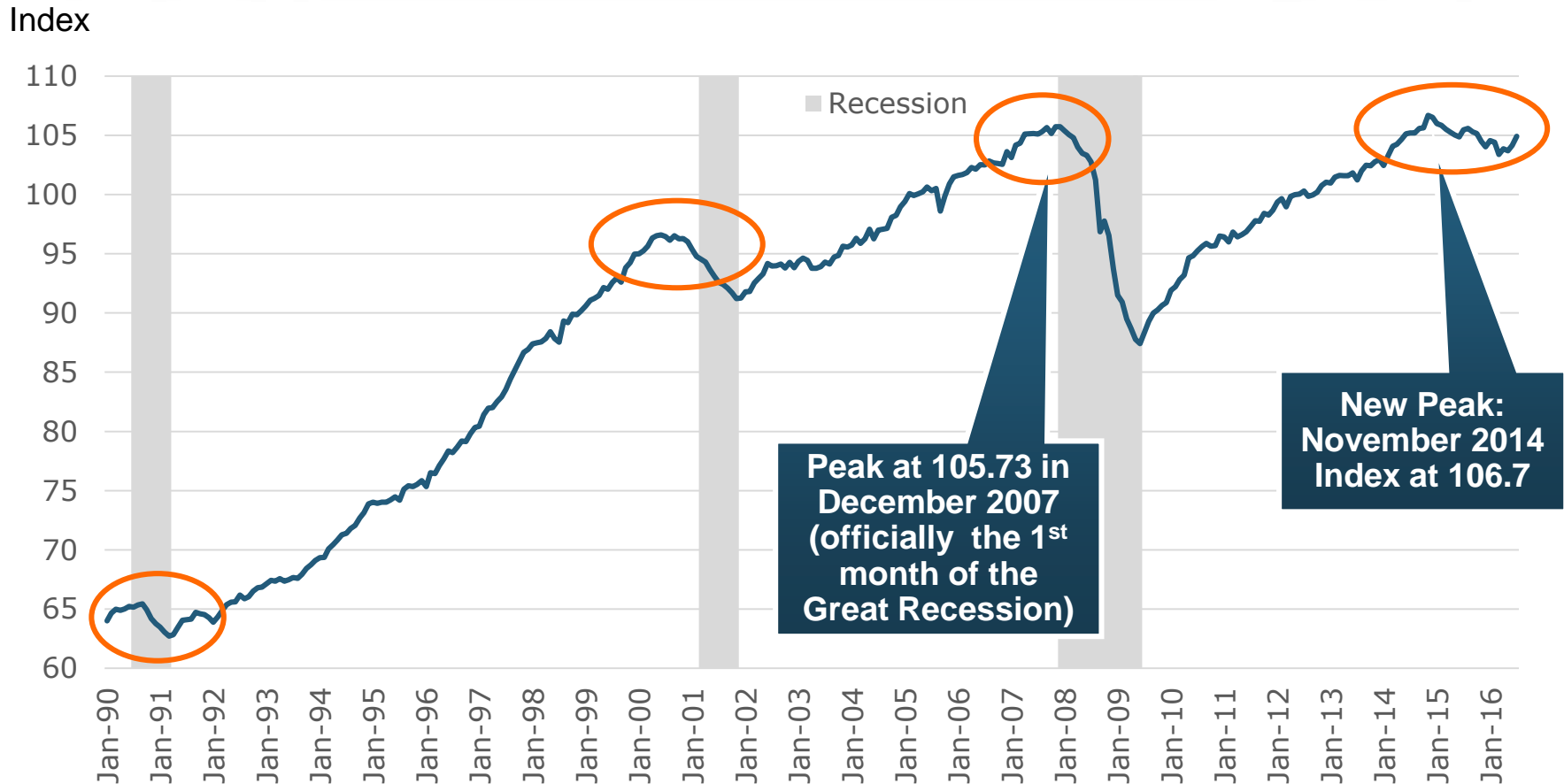
Business Bankruptcy Filings: Two Years at a Remarkably Low Level (1994:Q1 – 2016:Q2)

(Thousands)



Business bankruptcies in 2014-16 were below both the Great Recession levels and the 2003:Q3-2005:Q1 period (the best five-quarter stretch in the last 20 years). Bankruptcies restrict exposure growth in all commercial lines.

Index of Total Industrial Production:* A Peak in November 2014



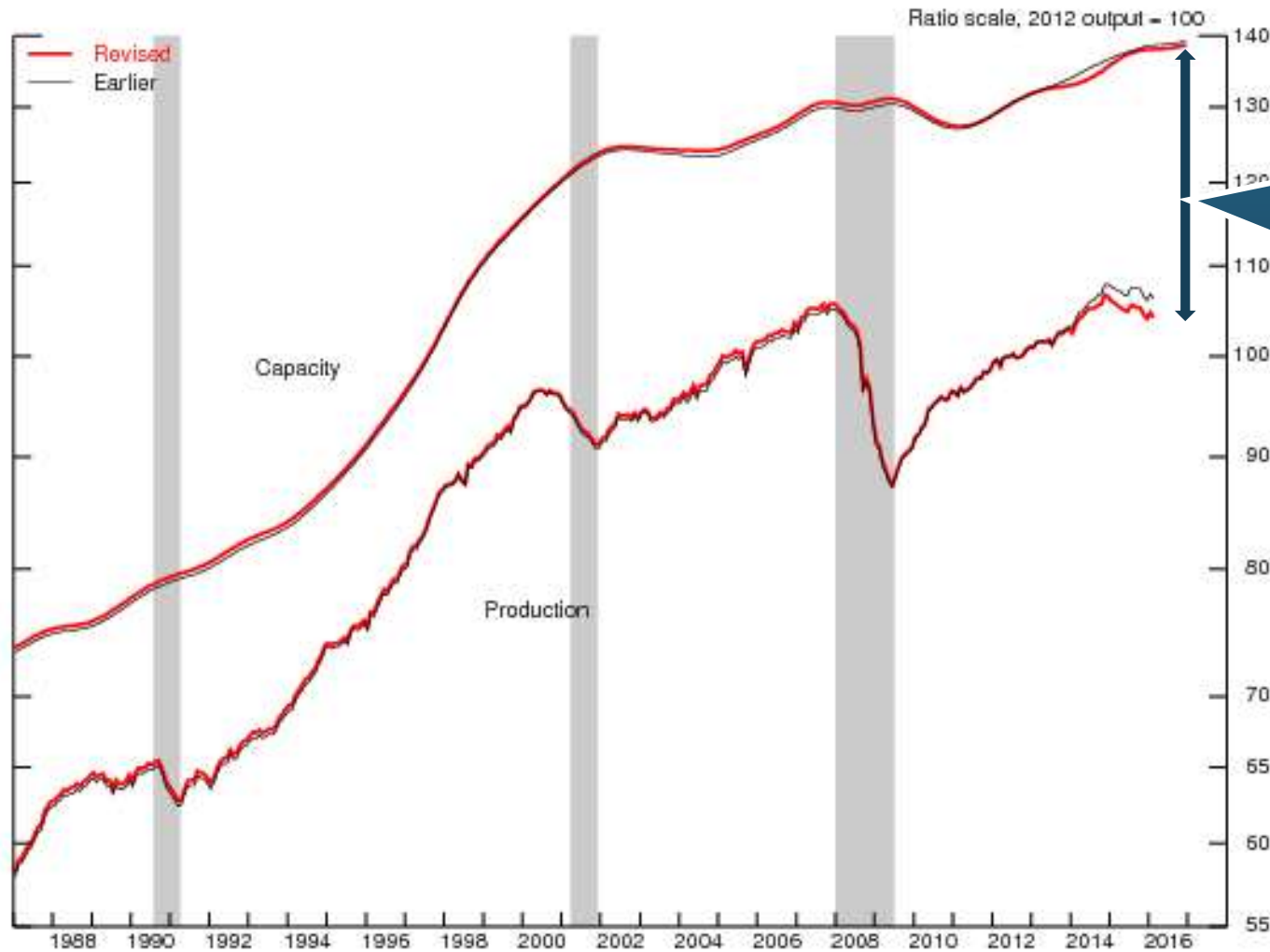
Some of the downturn in industrial production in 2015 and 2016 is due to slow growth in exports, thanks to the rise in the value of the U.S. dollar and slowing economies world-wide. Little relief is forecast for the near term.

*Monthly, seasonally adjusted, through July 2016 (which is preliminary). Index based on year 2012 = 100

Sources: Federal Reserve Board at http://www.federalreserve.gov/releases/g17/ipdisk/ip_sa.txt.

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

The Gap Between Industrial Production and Capacity Appears to be Widening



Even in boom times, we never use all of our industrial capacity, but lately the gap appears to be widening

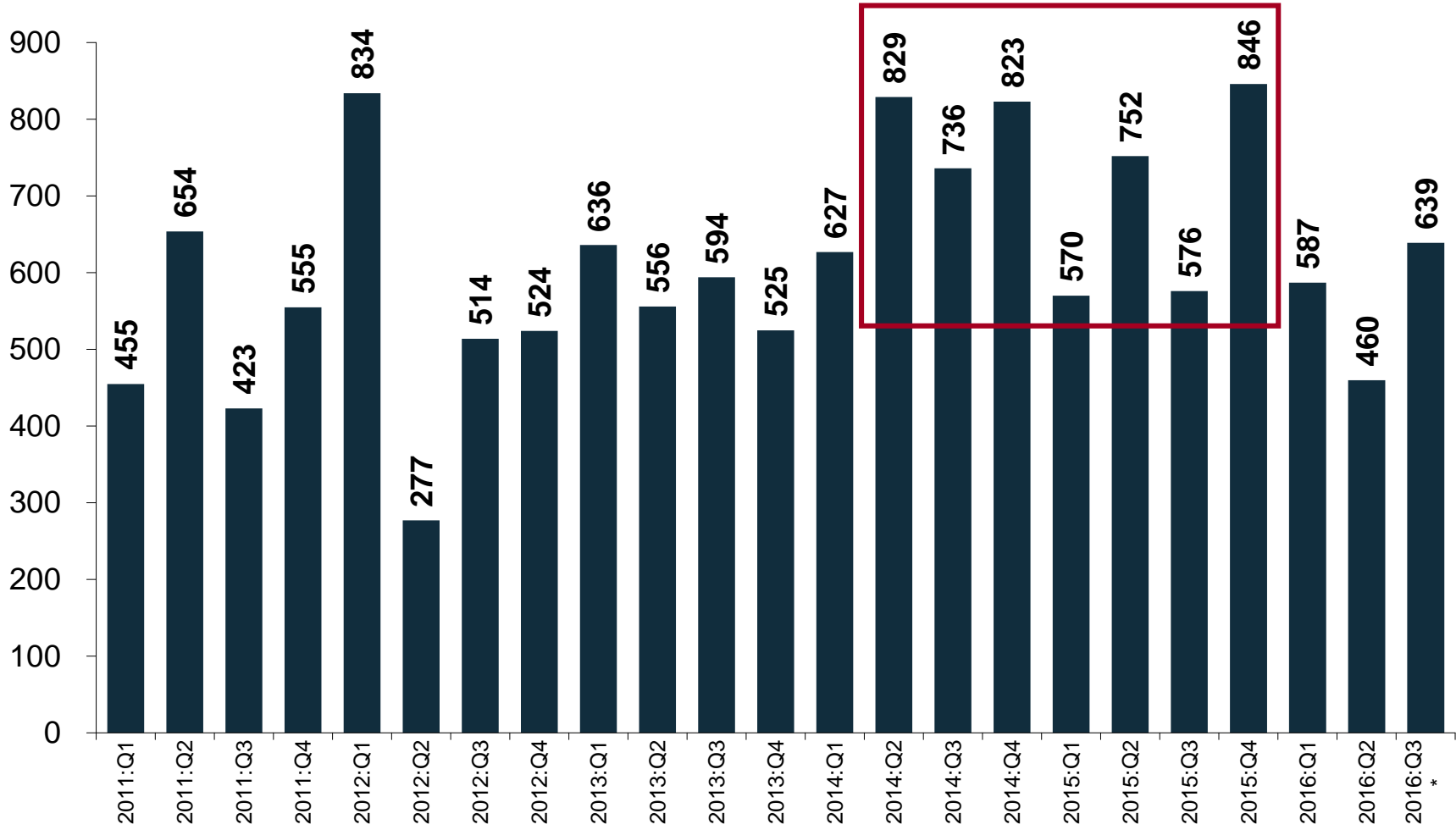
Sources: Federal Reserve Board at http://www.federalreserve.gov/releases/g17/ipdisk/ip_sa.txt .
National Bureau of Economic Research (recession dates); Insurance Information Institute.

Labor Market Trends

**We're Now Gaining Jobs at a Good Pace,
but We're Not at "Full Employment" Yet,
and There are Signs of Softening**

Nonfarm Employment, Quarterly Change, 2011 – 2016*

Thousands

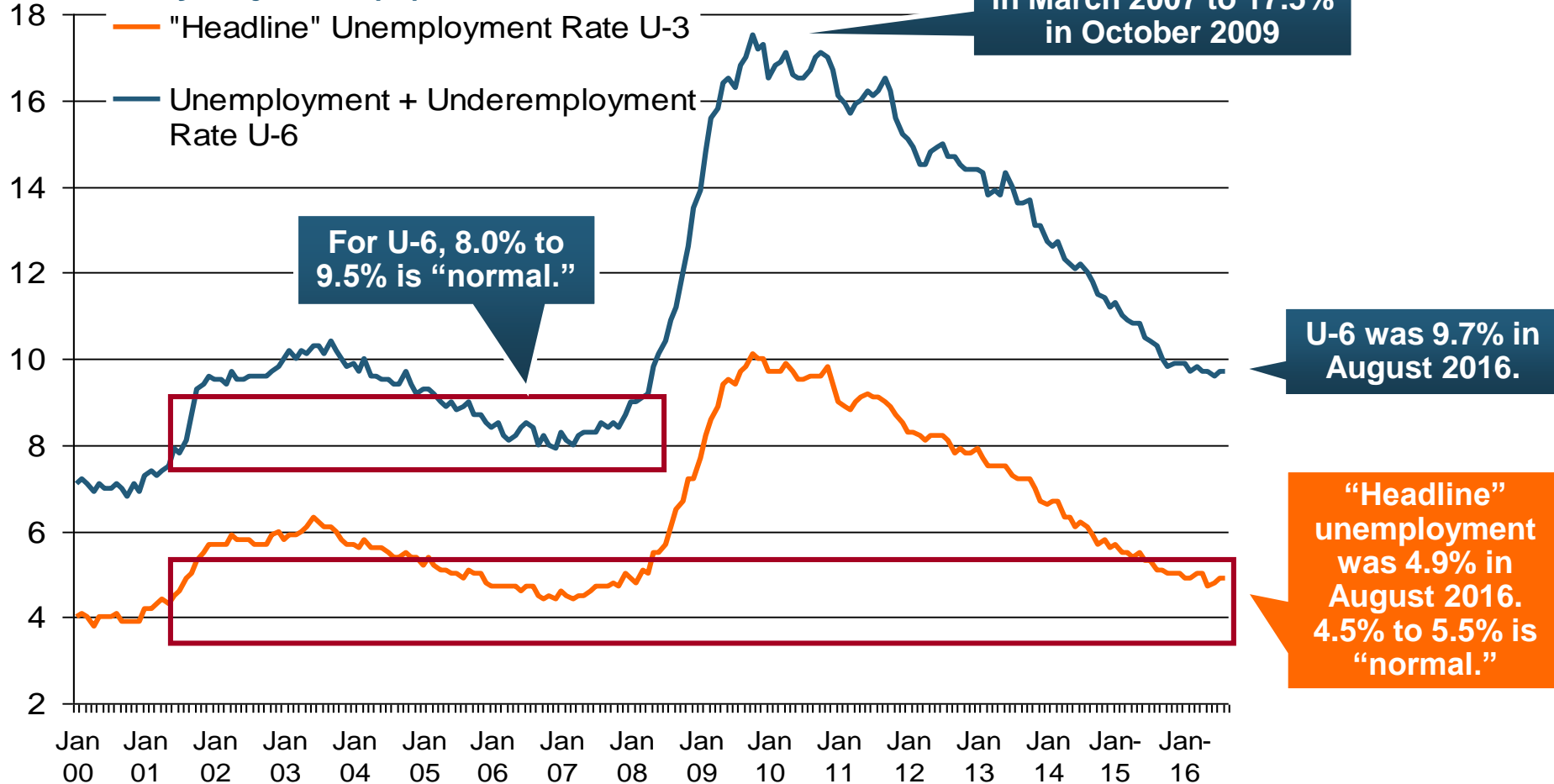


After a strong 2014-15, the pace of job growth has slowed somewhat.

*Seasonally adjusted; 2016:Q3 is July and August projected to the full quarter. August and July 2016 data are preliminary
Sources: US Bureau of Labor Statistics; Insurance Information Institute

Unemployment and Underemployment Rates: Still Falling

January 2000 through August 2016,
Seasonally Adjusted (%)



**Based on the latest readings,
it appears that the job market is now close to "normal"**

Labor Market Slack: Elevated Number of Involuntary Part-time Workers

Part Time for Economic Reasons

Recession Part Time Current level

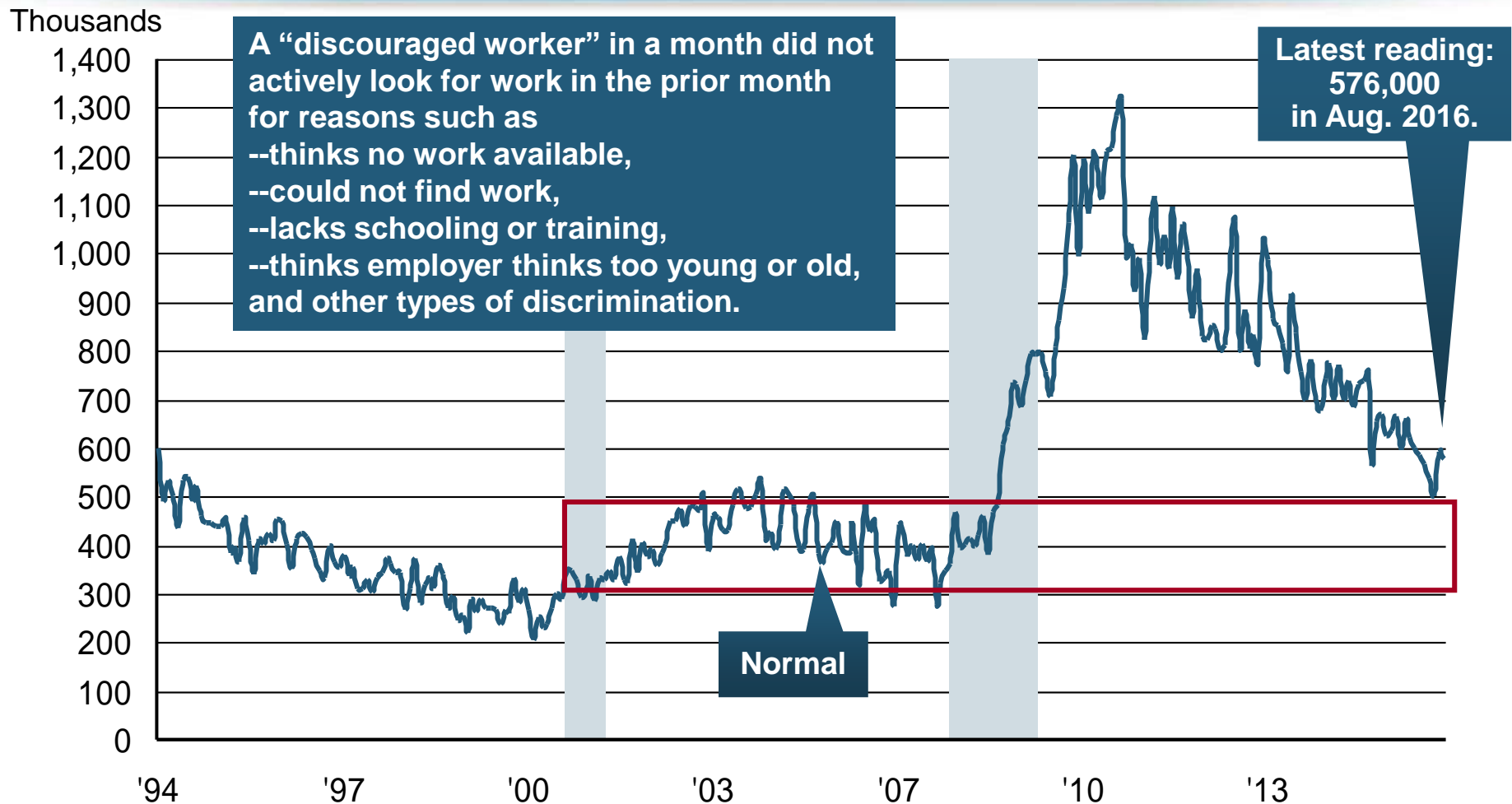
Aug. 2016:
6.05 million

In less than 18 months, 4.5 million additional people were involuntarily working part time

The "normal" range (since 1992)



Number of “Discouraged Workers”: Elevated, but Dropping Jan 1994 – August 2016

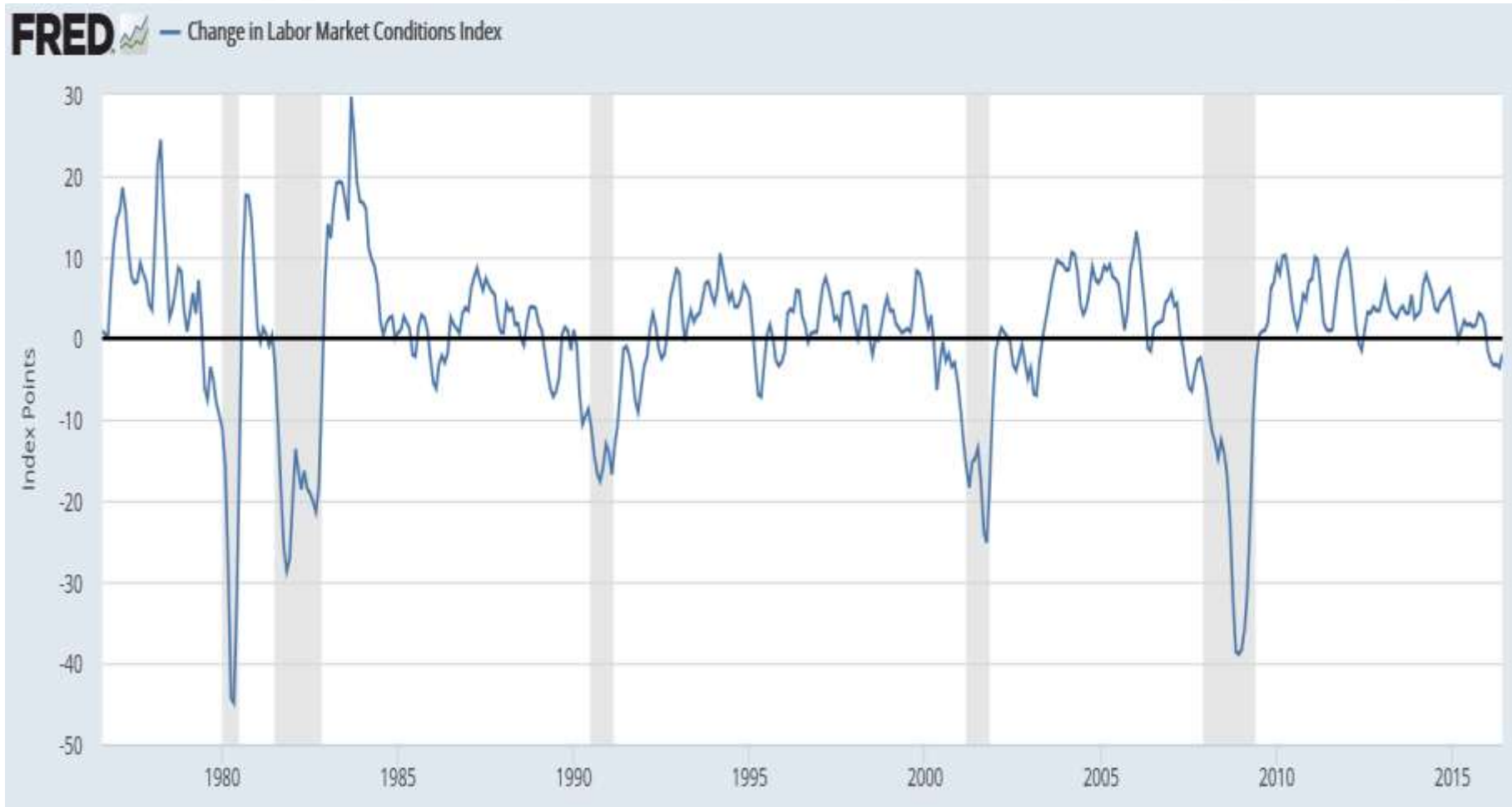


In recent good times, the number of discouraged workers ranged from 200,000-400,000 (1995-2000) or from 300,000-500,000 (2002-2007).

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

Sources: Bureau of Labor Statistics; National Bureau of Economic Research (recession dates).

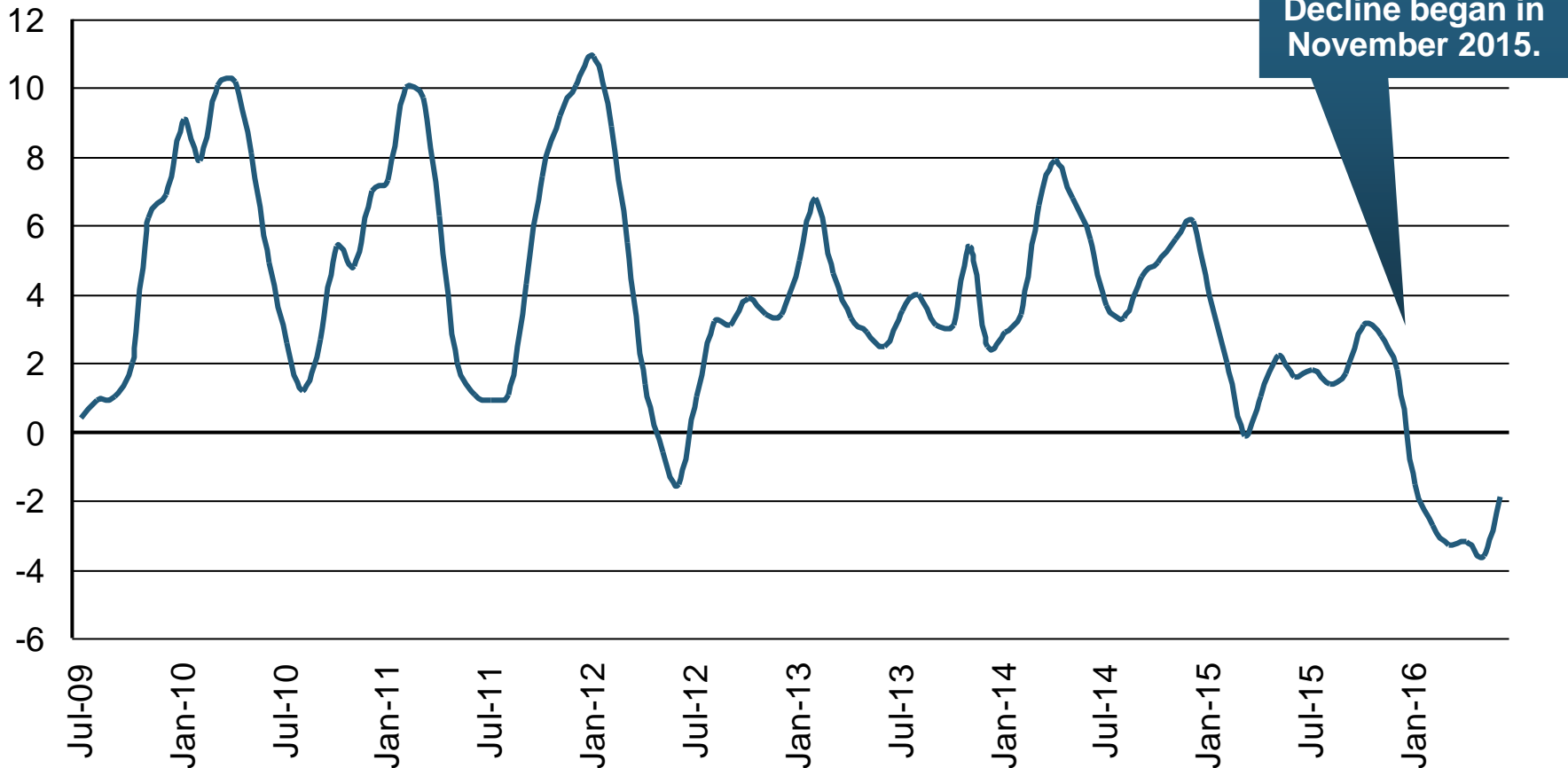
The Fed's Labor Market Conditions Index Combines 19 Labor Market Indicators



**Since 1976, we've had a recession whenever the Index drops below -17.6.
As of June 2016 the Index was at -1.9 and appeared to be heading up.**

Labor Market Conditions Index Since the Recession Ended

Index Value

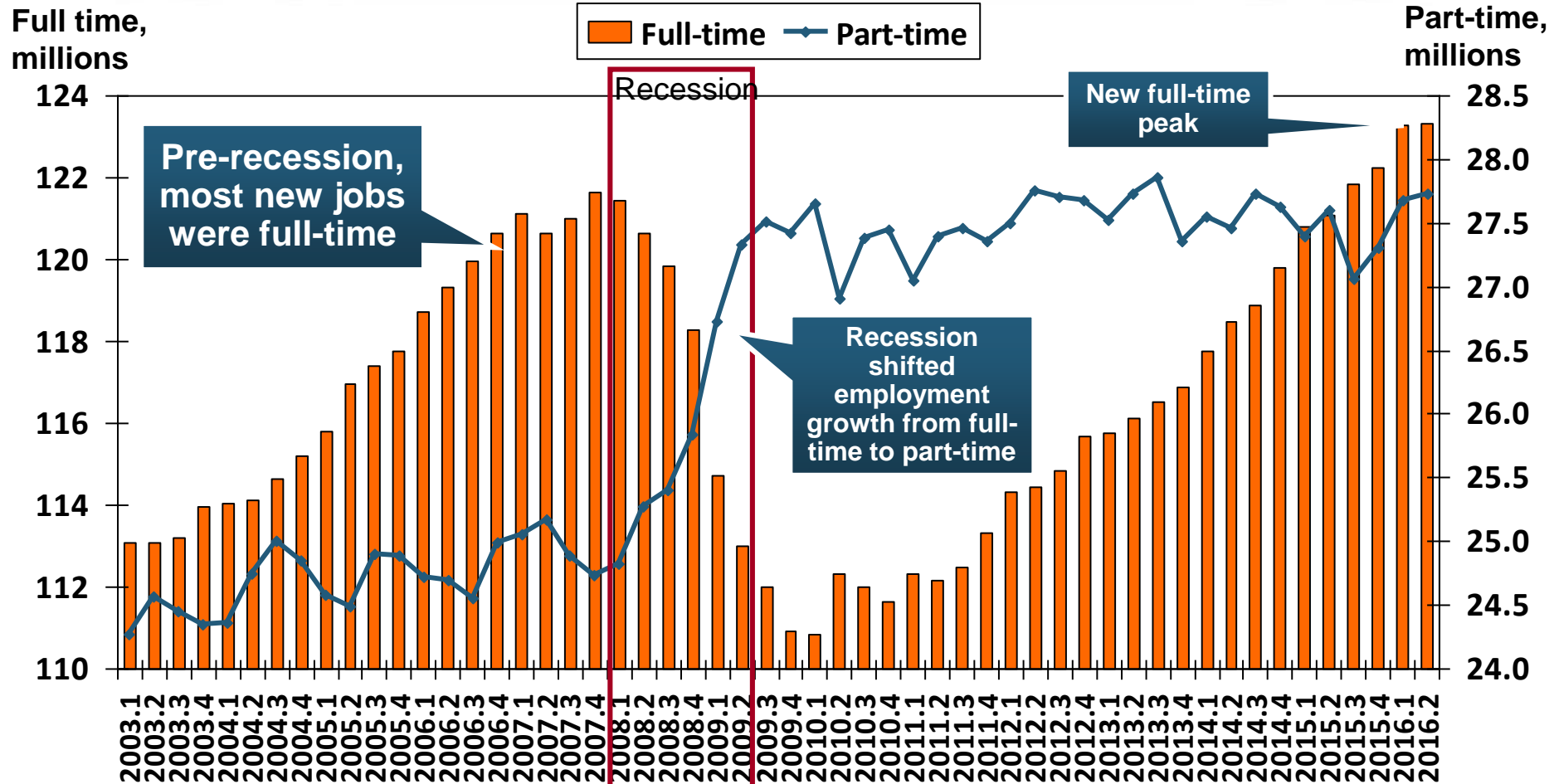


Based on history of the last 40 years, there's no recession in sight.

Notes: Data are seasonally adjusted. The entire dataset is subject to revision, but that usually affects only the most recent 6 months.

Sources: <https://research.stlouisfed.org/fred2/series/FRBLMCI>

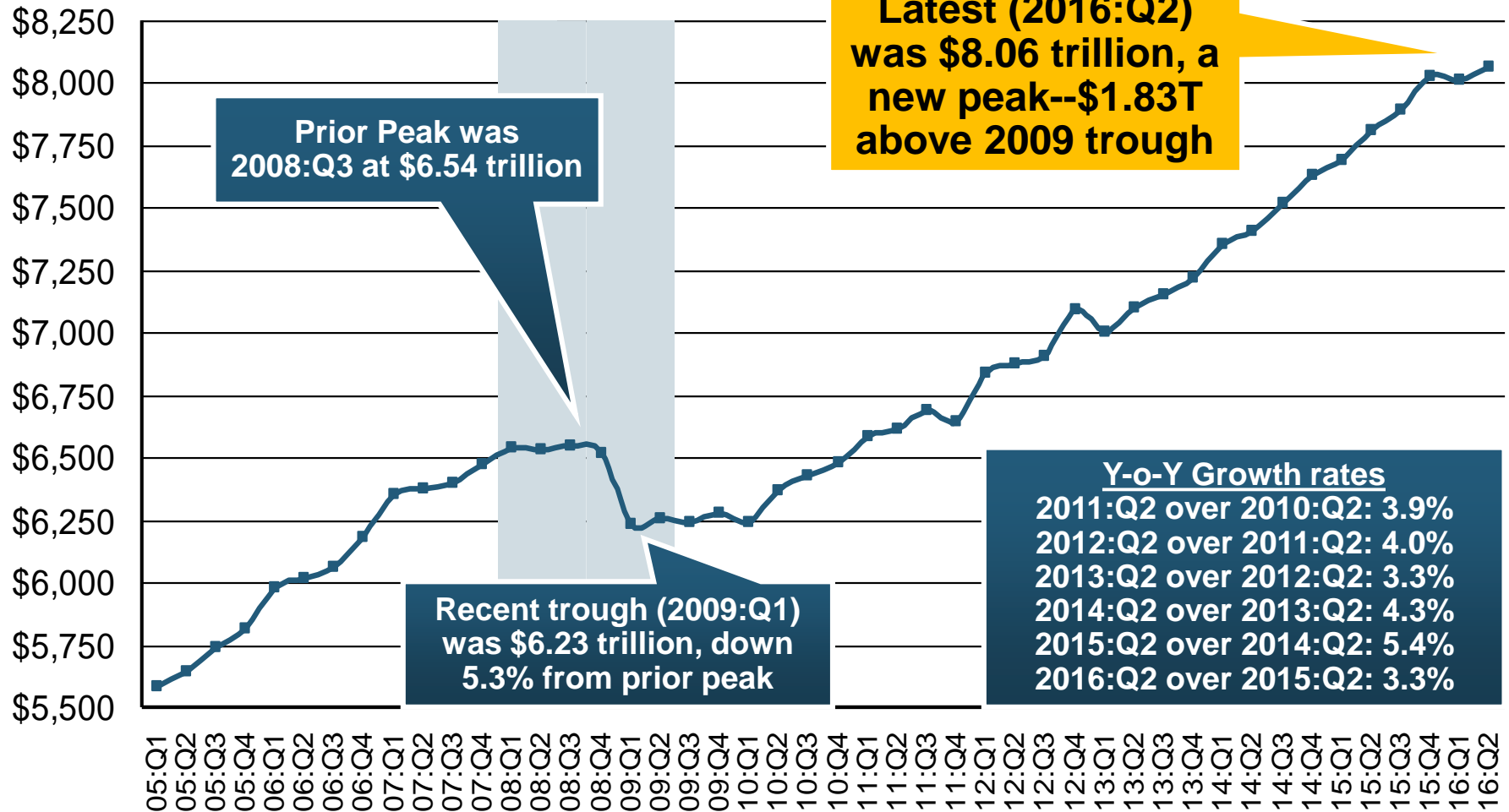
Full-time vs. Part-time Employment, Quarterly, 2003-2016:Q2



The Great Recession shifted employment from full-time to part-time. Full-time employment is finally above its pre-recession peak, but part-time hasn't receded.

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2016:Q2

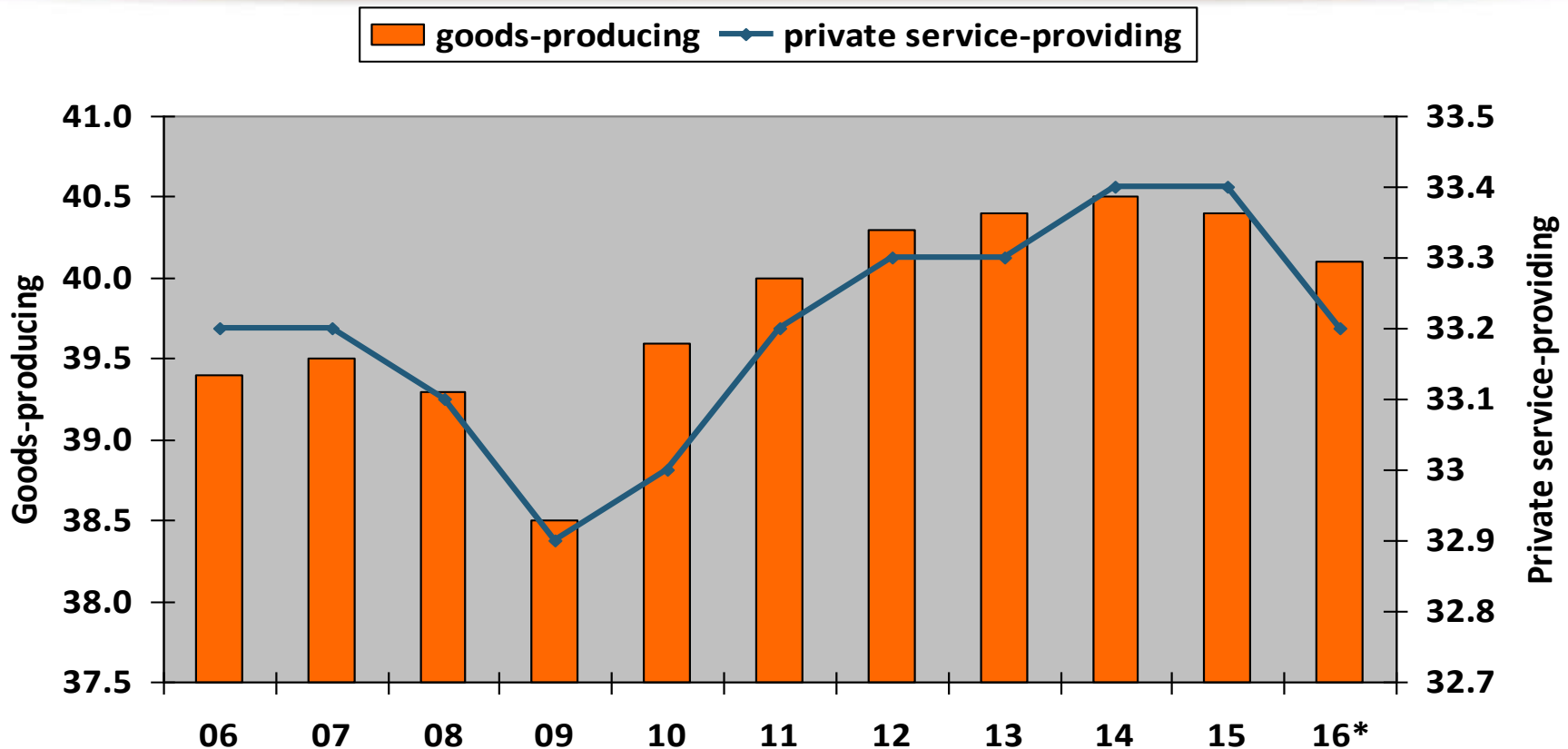
Billions



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.

Average Weekly Hours Worked,* Yearly, 2006—2015



The average work-week rose sharply in 2010-2012 and is now above levels prevailing before the Great Recession (which began in December 2007). Note that service-providing workers work a 7-hour shorter week than goods-producing workers.

*Seasonally adjusted. Data for 2016 are based on Jan-July; June and July are preliminary

Note: Recessions indicated by gray shaded columns.

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

Average Weekly Hours of All Private Workers, Mar. 2006—July 2016

Hours Worked*



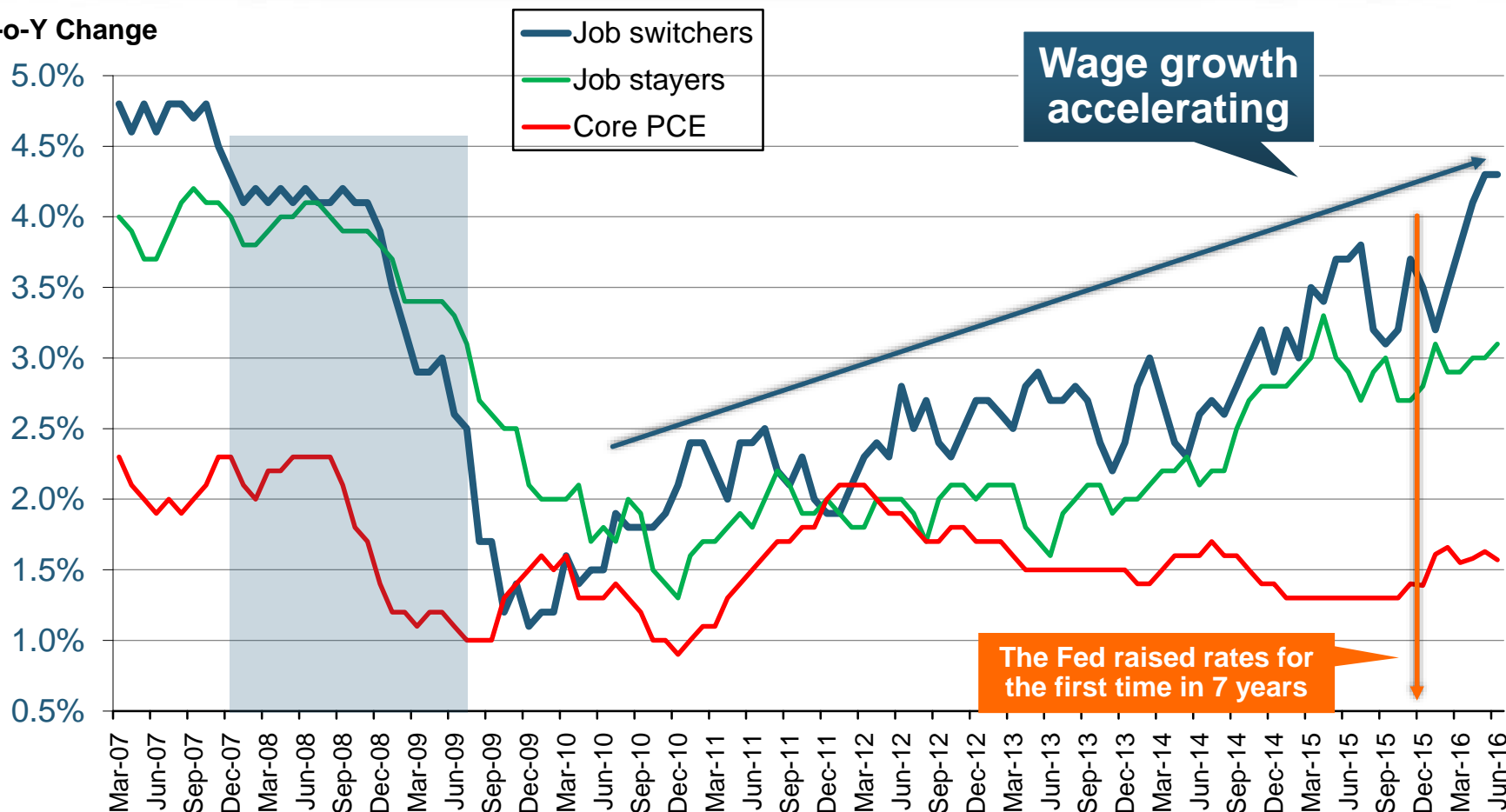
*Seasonally adjusted

Note: Recessions indicated by gray shaded columns.

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

Since 2012-13, Wages Have Grown Faster Than Inflation,* 2007-2016

Y-o-Y Change



*Seasonally adjusted; year-over-year; Shaded area indicates recession.

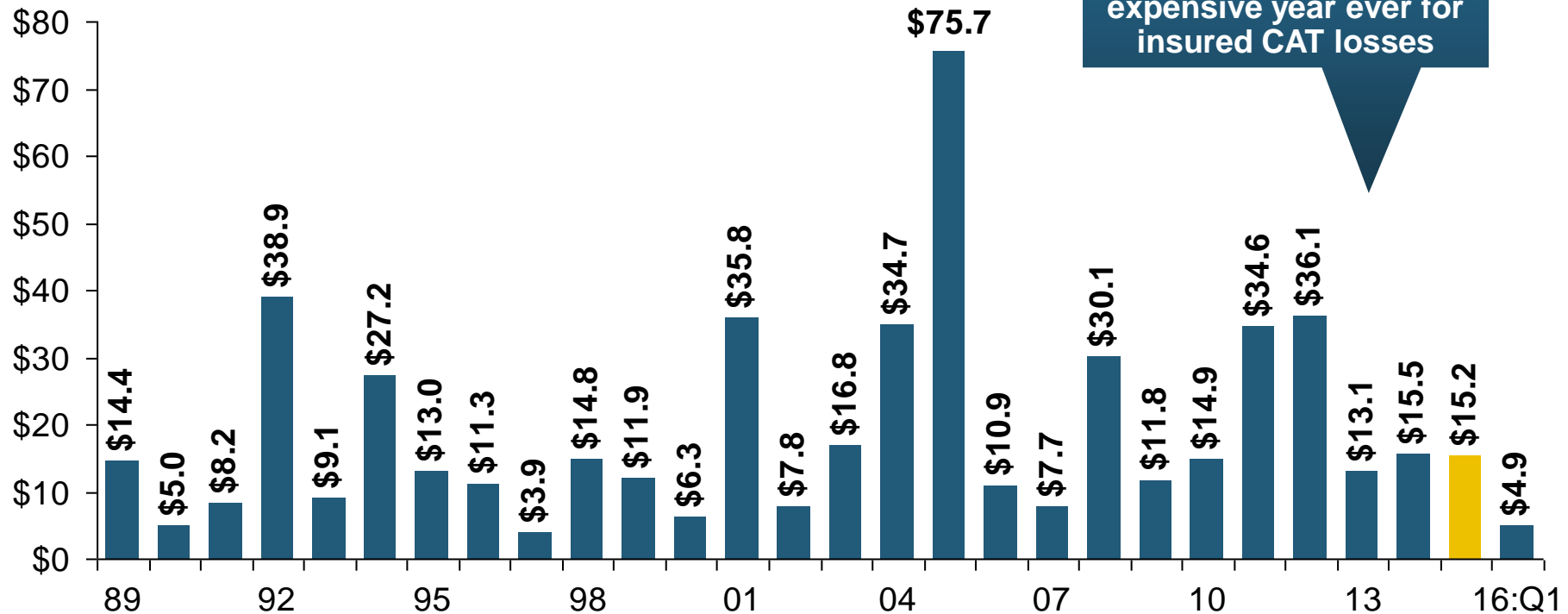
Sources: NBER (recessions); <https://www.frbatlanta.org/chcs/wage-growth-tracker.aspx?panel=1> ; I.I.I.

U.S. Insured Catastrophe Loss Update

**2014-15 Had Below-Average CAT
Activity**

U.S. Insured Catastrophe Losses

(\$ Billions, \$ 2015)



2013/14/15 were welcome respites from 2011/12—the latter being among the costliest years for insured disaster losses in US history. The longer-term trend is for more costly events.

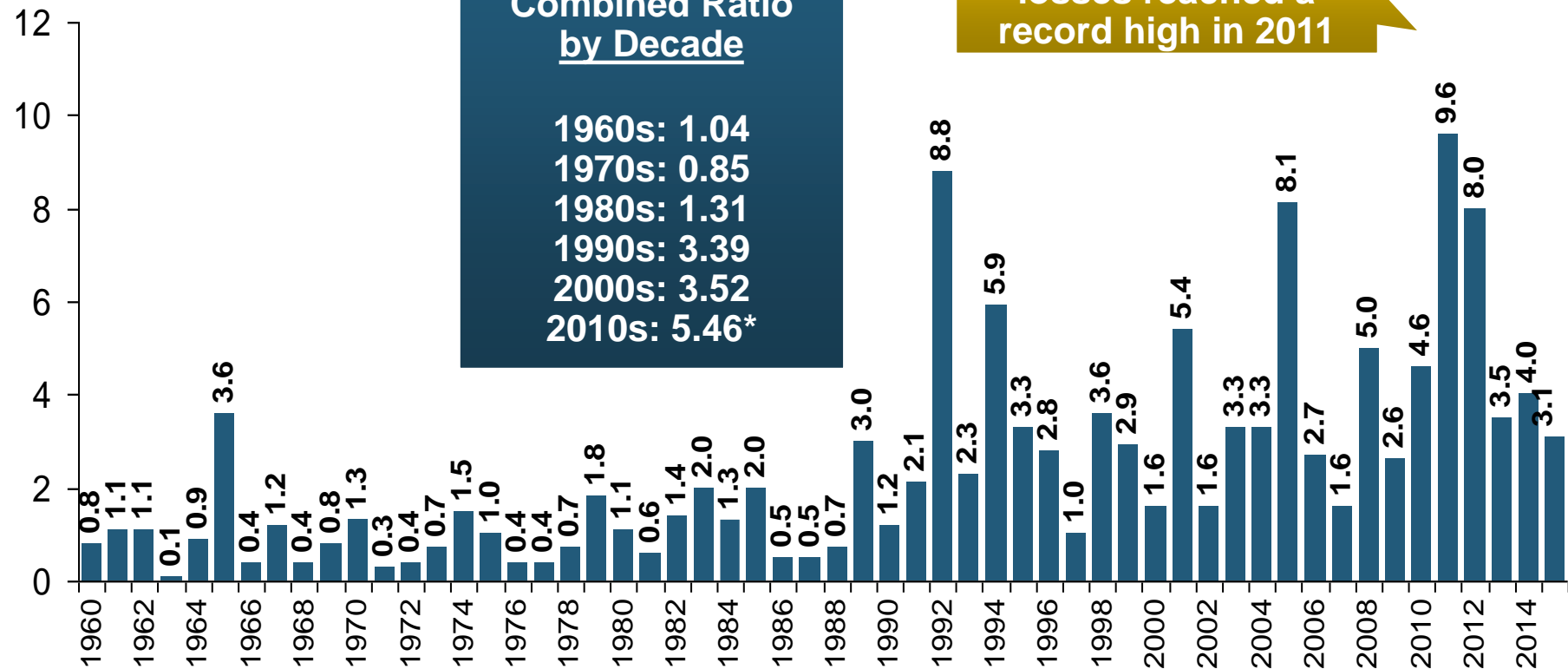
*Estimate through 3/31/16 in 2015 dollars.

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

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

Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2015E*

Combined Ratio Points



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

*2010s represent 2010-2015E.

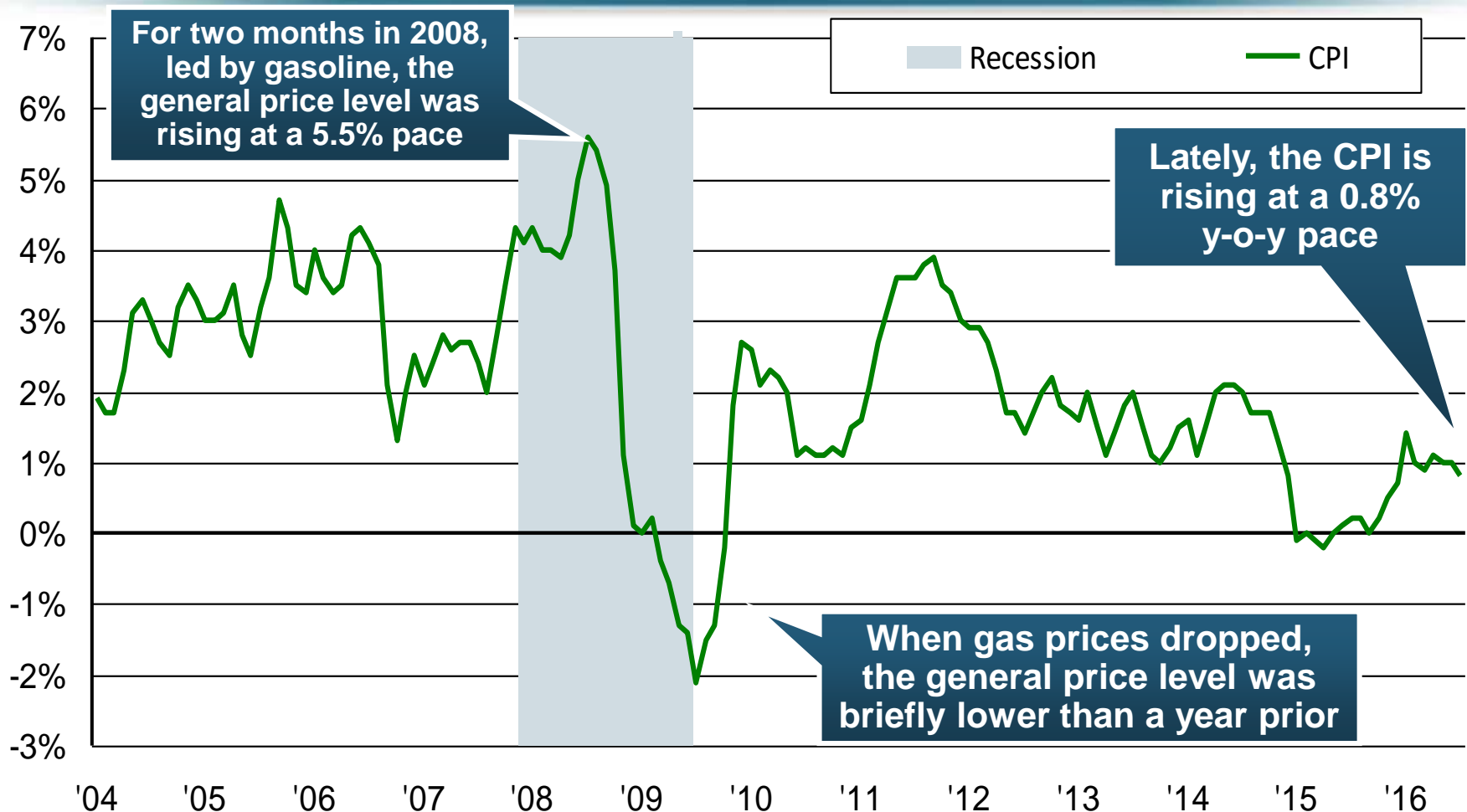
Notes: Private carrier losses only. Excludes loss adjustment expenses and reinsurance reinstatement premiums. Figures are adjusted for losses ultimately paid by foreign insurers and reinsurers.

Source: ISO (1960-2009); A.M. Best (2010-15E) Insurance Information Institute.

Inflation

**Inflation Affects P/C Pricing, Reserving,
Investing, and Compensation.
So What to Watch For?**

Change* in the Consumer Price Index, 2004–2016

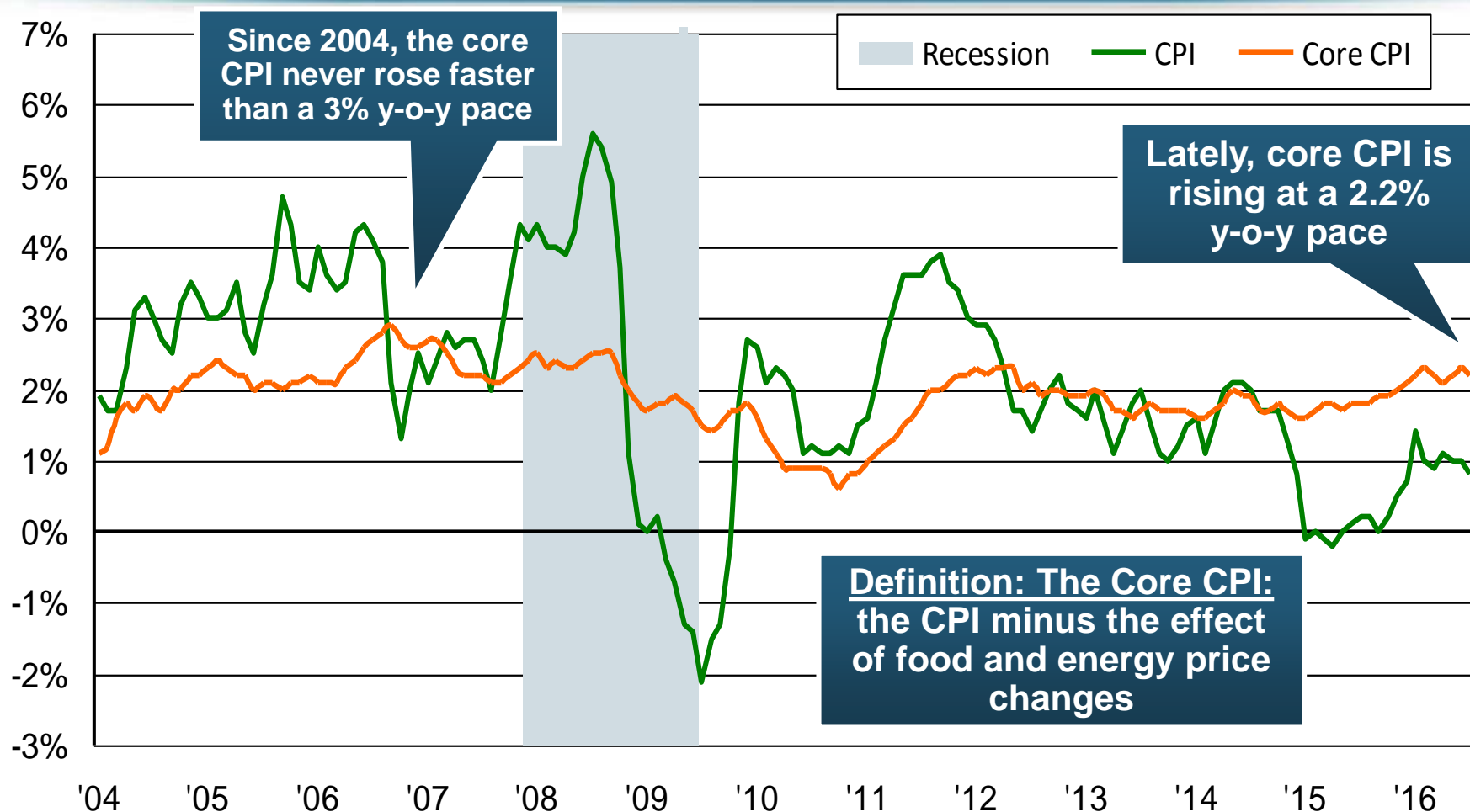


Over the last decade, prices generally rose about 2% per year.

*Monthly, year-over-year, through July 2016. Not seasonally adjusted.

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

Change* in the Consumer Price Index, 2004–2016

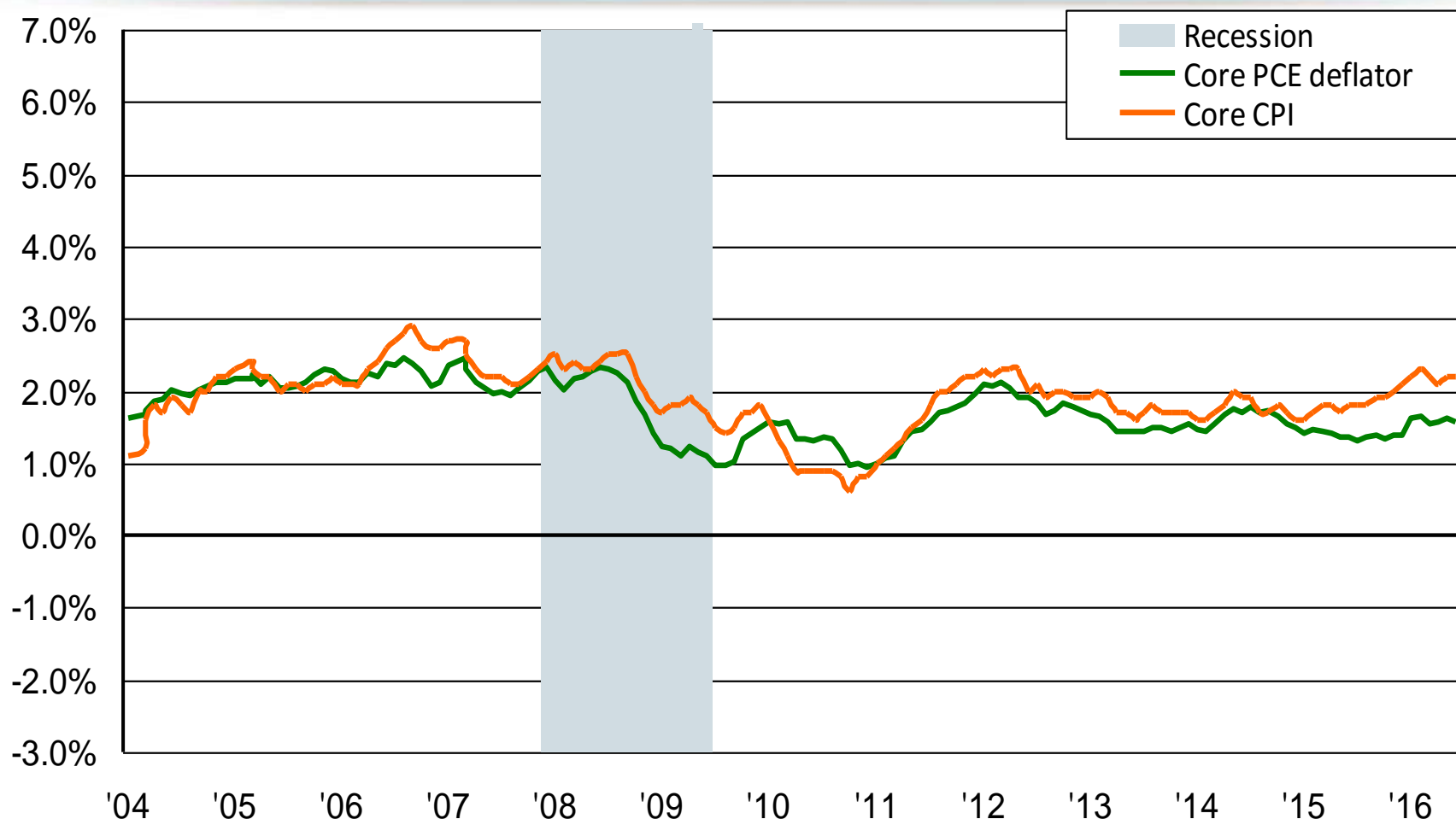


Over the last decade, “core” prices generally rose about 2% per year.

*Monthly, year-over-year, through July 2016. Not seasonally adjusted.

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

Change* in the Core CPI vs. Core PCE deflator, 2004–2016

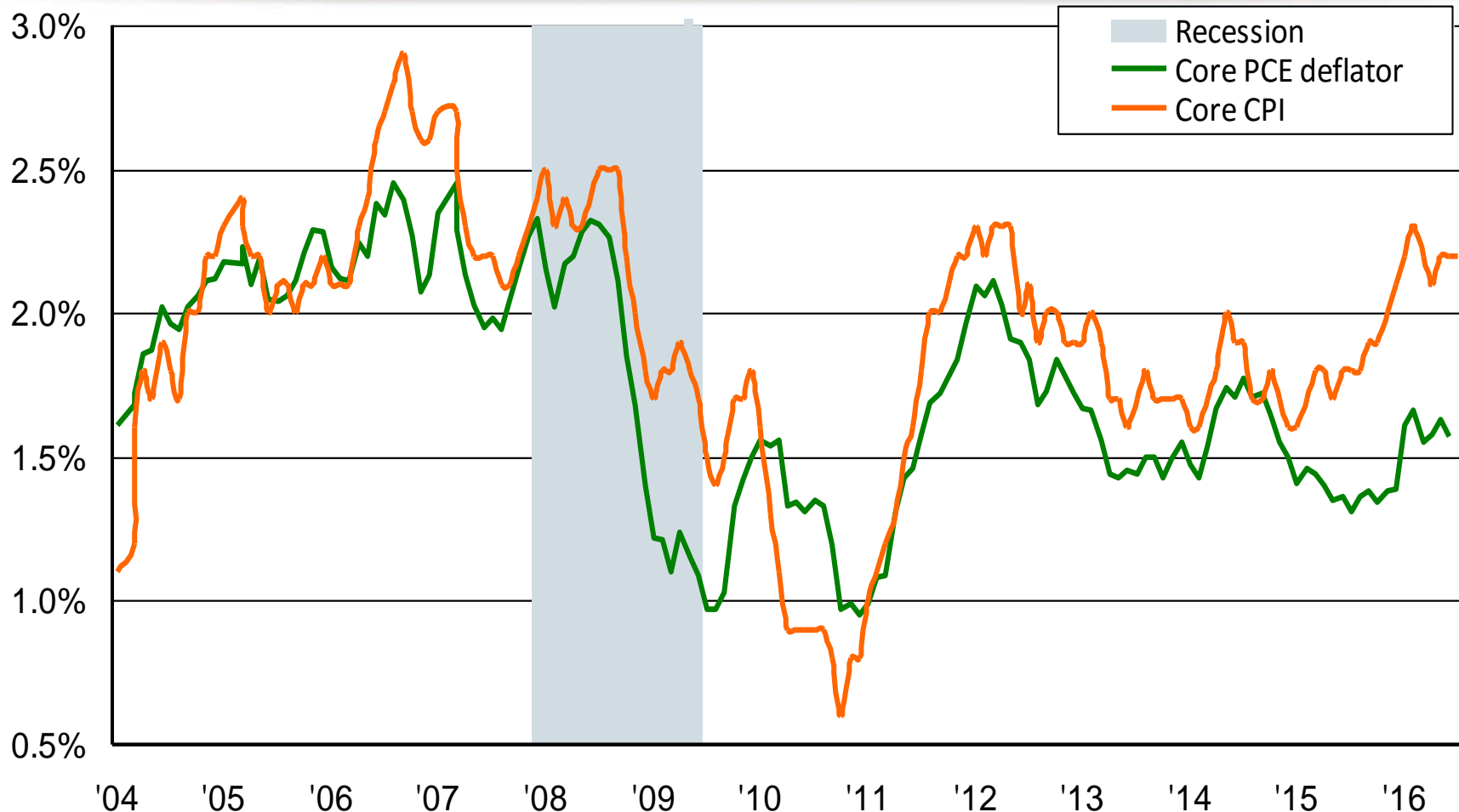


**Since 2011, the Core PCE deflator has been even with, or below, the Core CPI.
Since October 2008, except for 2 months, it has been below 2%.**

*Monthly, year-over-year, through Jun 2016 (PCE deflator) and July 2016 (Core CPI). Seasonally adjusted.

Sources: US Bureau of Labor Statistics; Federal Reserve Bank of St. Louis; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

Change* in the Core CPI vs. Core PCE deflator, 2004–2016

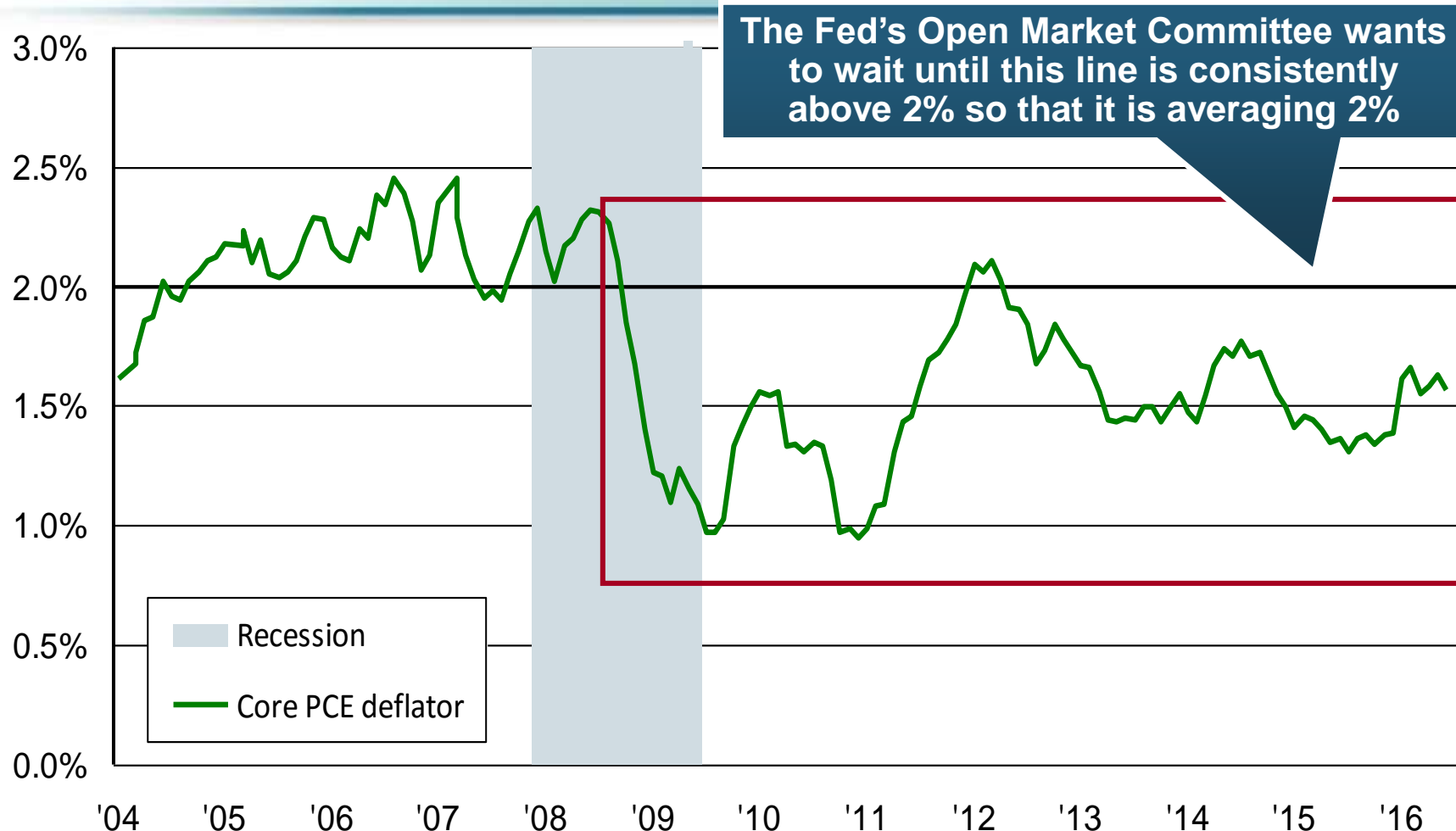


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Change* in the Core PCE deflator, 2004–2016

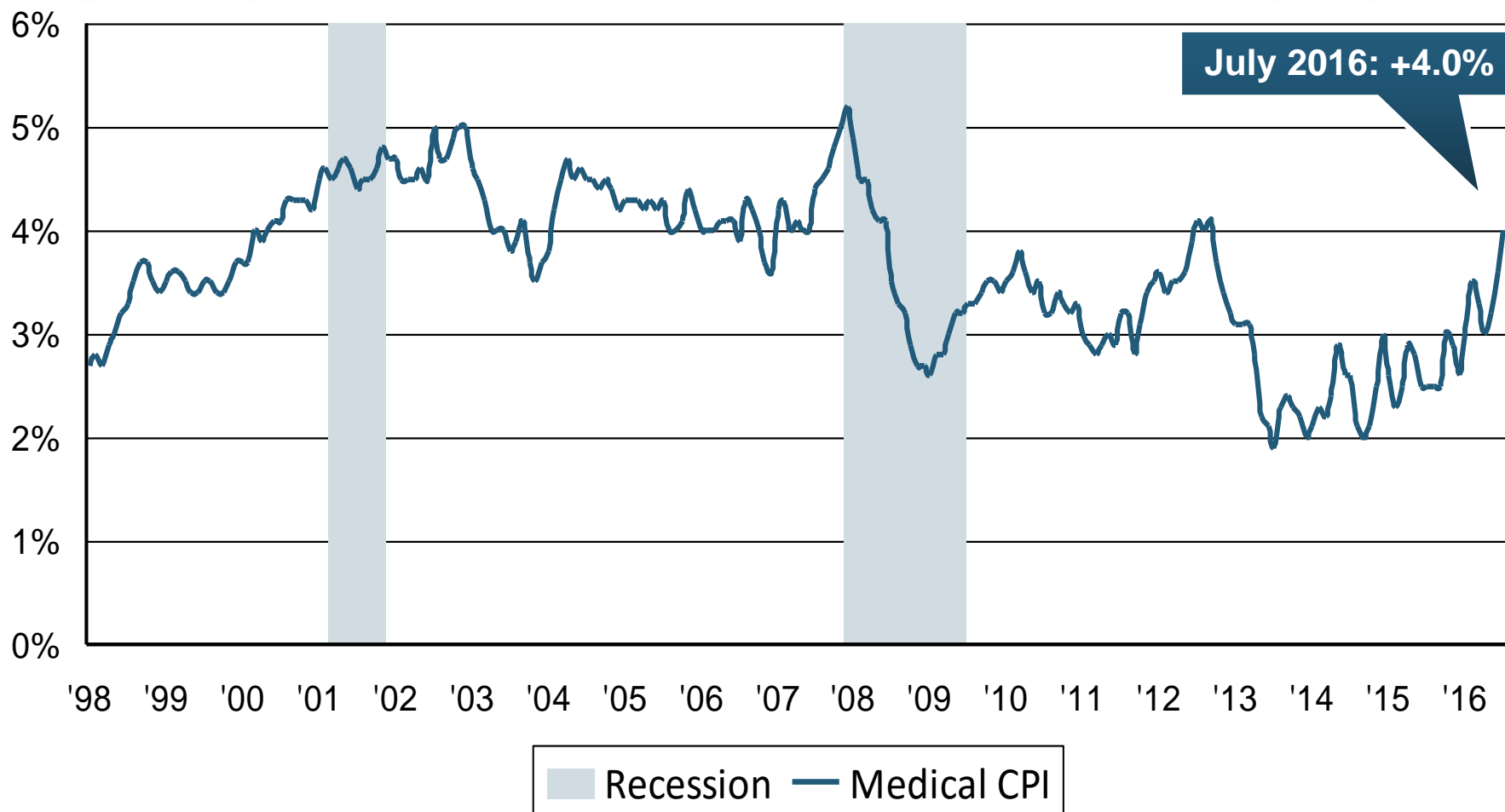


Since October 2008, except for 2 months, it has been below 2%.

*Monthly, year-over-year, through Jun 2016 (PCE deflator). Seasonally adjusted.

Sources: Federal Reserve Bank of St. Louis; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Price Changes* for Medical Care (the Medical CPI): 1998–2016

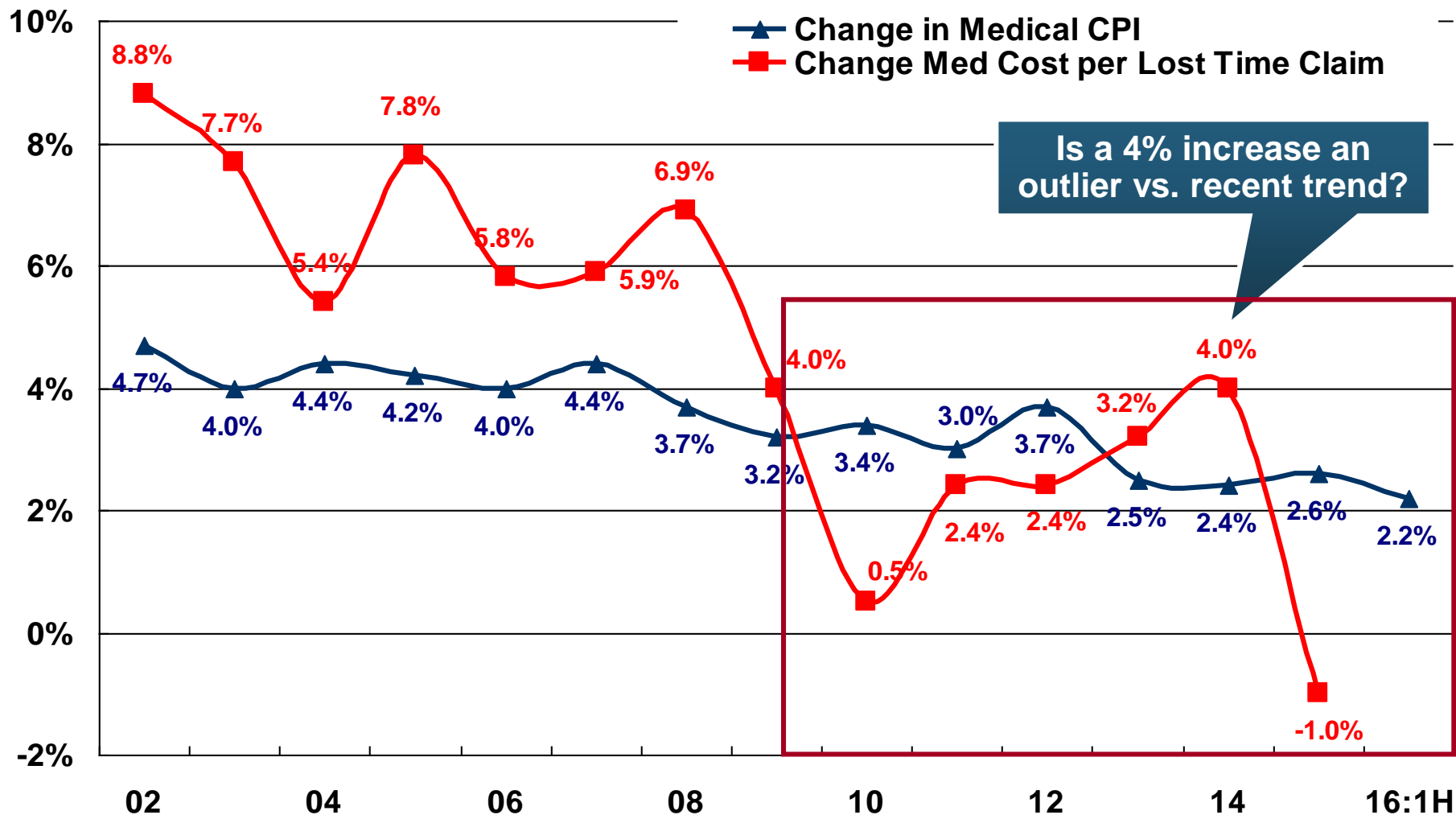


Prices for all medical services rose at an annual rate of 4% (and sometimes more) until the Great Recession; since then it's generally risen at 3% or less

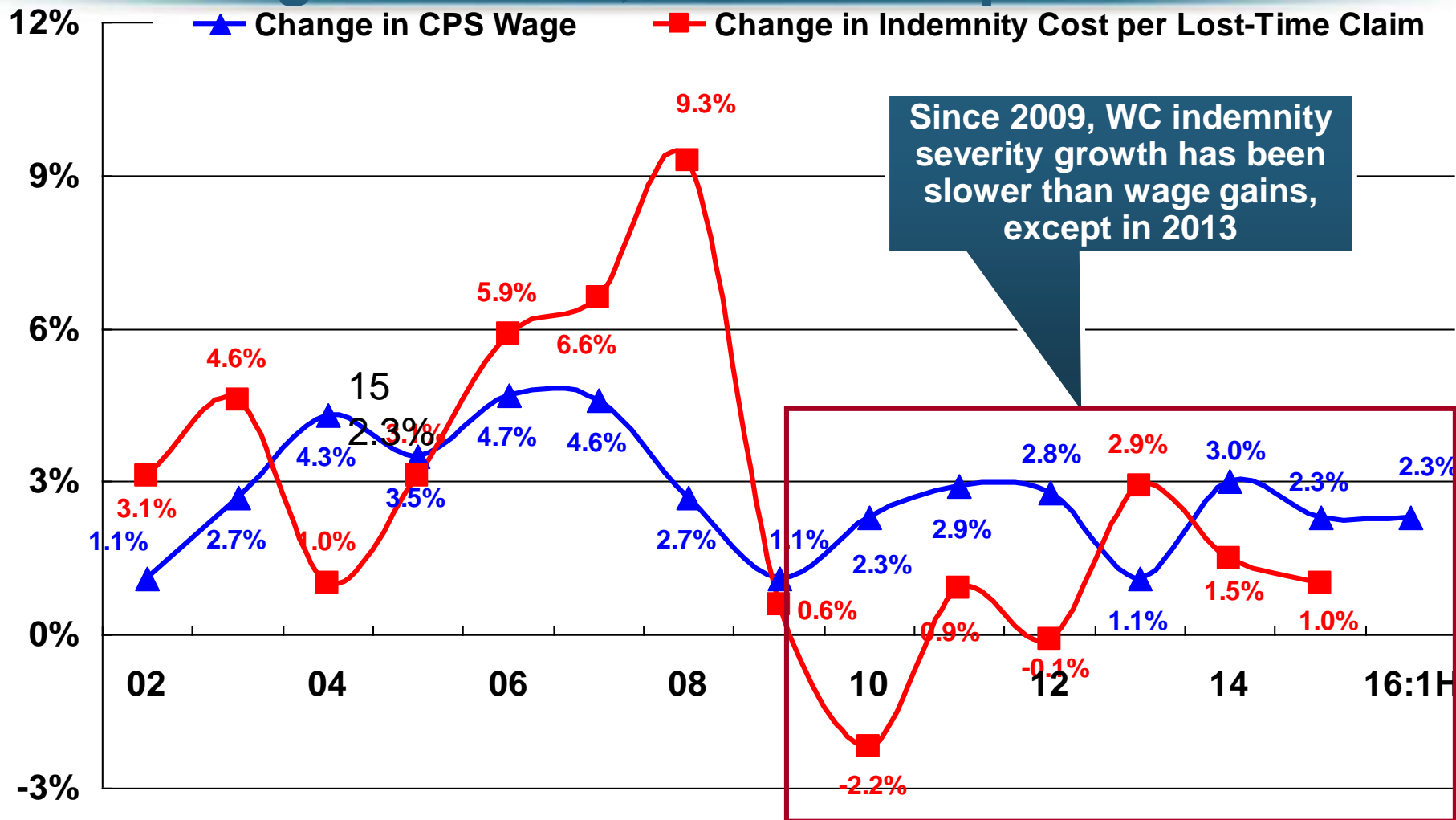
*Percentage change from same month in prior year; through July 2016; seasonally adjusted

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

WC Medical Severity vs. the Medical CPI Rate, 2002-2016



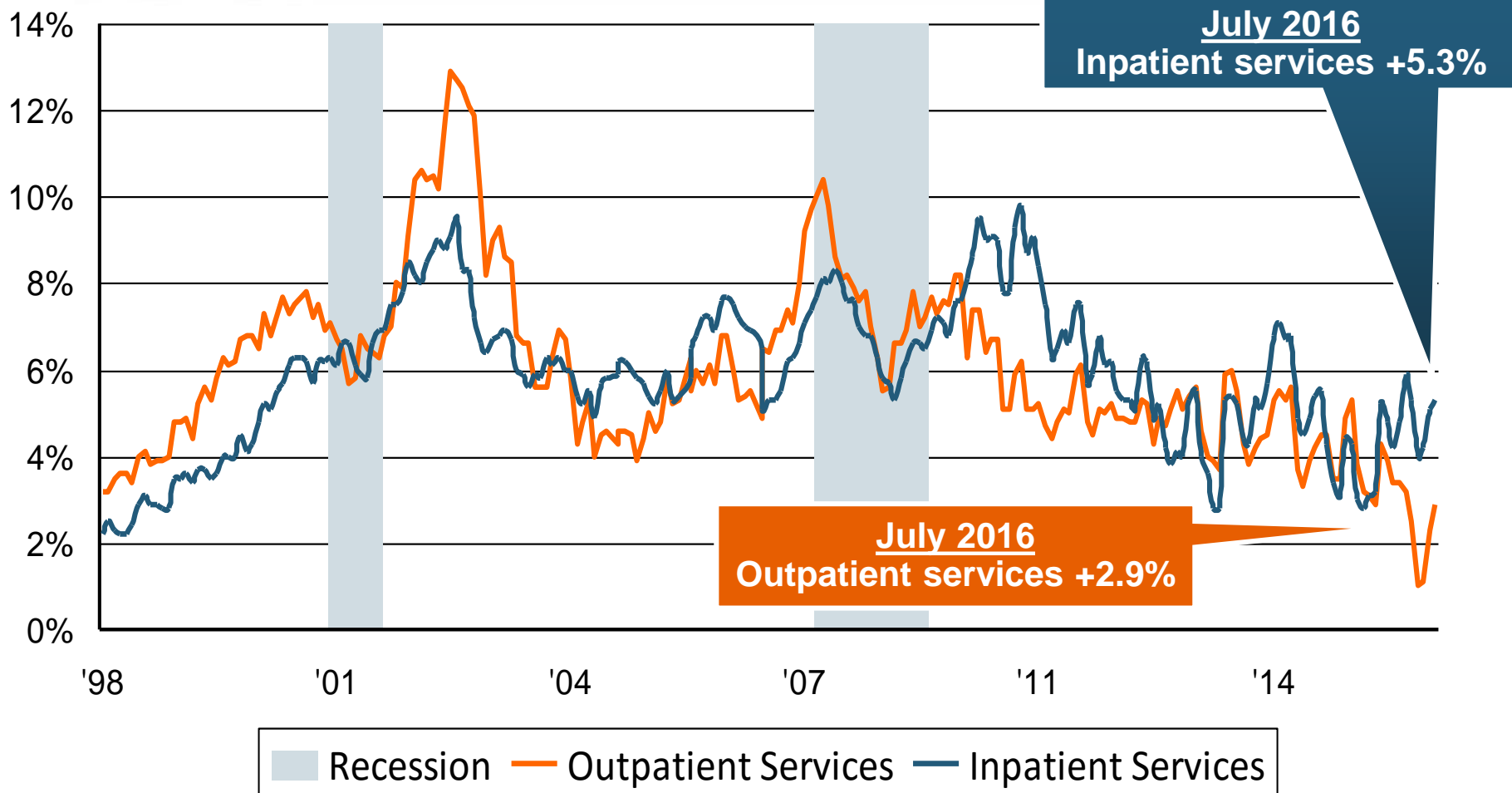
WC Indemnity Severity Growth vs. Wage Inflation, 2002 -2015p



2014: Indemnity cost is preliminary based on data valued as of 12/31/2014; 1991-2010: Based on data through 12/31/2010, developed to ultimate. Based on the states where NCCI provides ratemaking services. Excludes the effects of deductible policies. CPS = Current Population Survey.

Source: NCCI; Insurance Information Institute

Prices for Hospital Services: 12-Month Change,* 1998–2016



Prices for Hospital Services have risen at an annual rate of 4% (and often more) for the last 15 years, while the general price level rose by 2%/year.

*Percentage change from same month in prior year; through July 2016; seasonally adjusted

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

Insurance Information Institute Online:

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***Thank you for your time
and your attention!***