



Property & Casualty Insurance in the Era of Mega-Catastrophes: Focus on Michigan Markets

**Greater Detroit Chapter, CPCU
Detroit, MI
October 7, 2014**

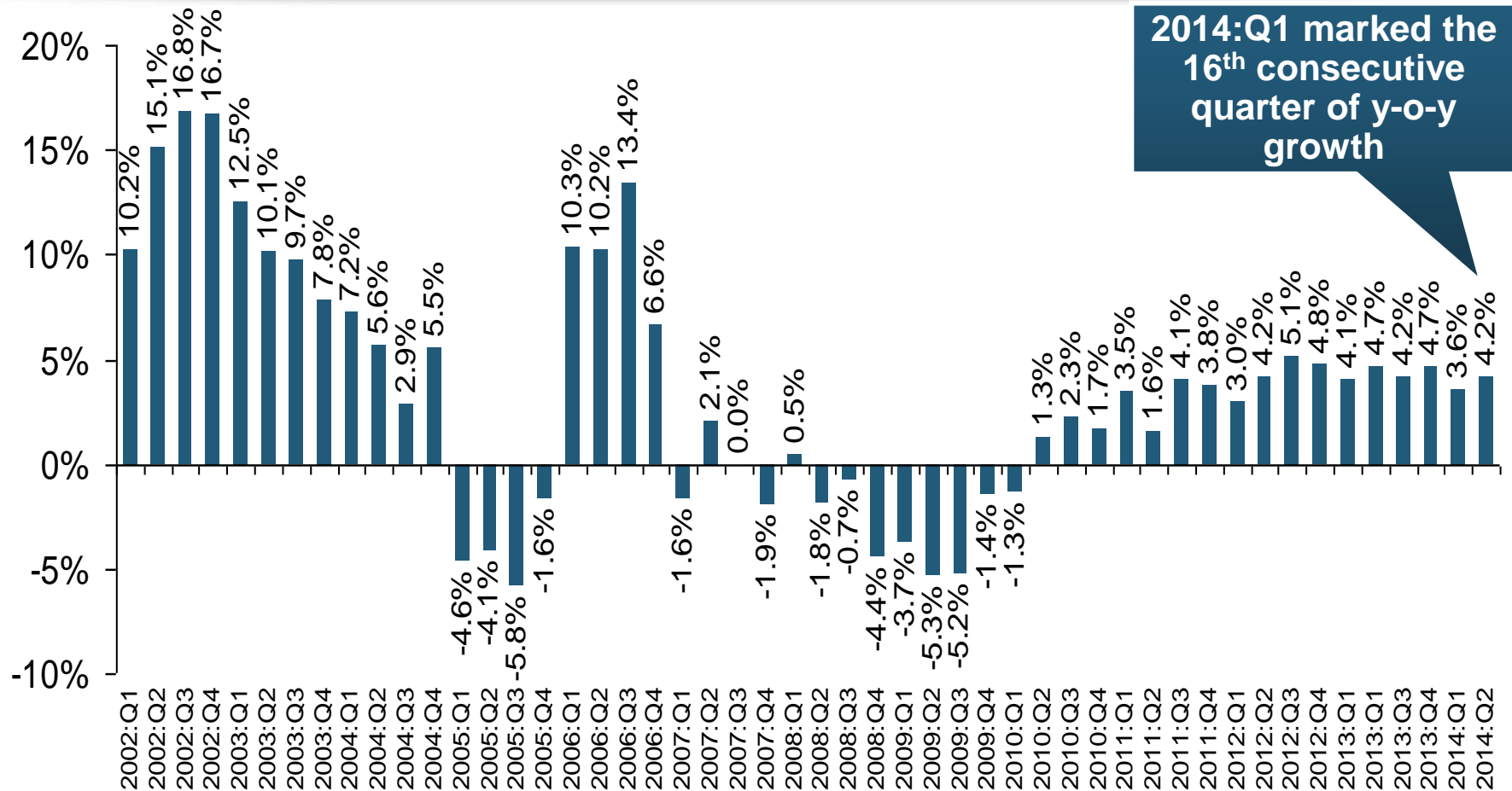
Steven N. Weisbart, Ph.D., CLU, Senior Vice President & Chief Economist
Insurance Information Institute ♦ 110 William Street ♦ New York, NY 10038

Tel: 212.346.5540 ♦ Cell: 917.494.5945 ♦ stevenw@iii.org ♦ www.iii.org

2013: Best Year (So Far) in the Post-Crisis Era

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

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

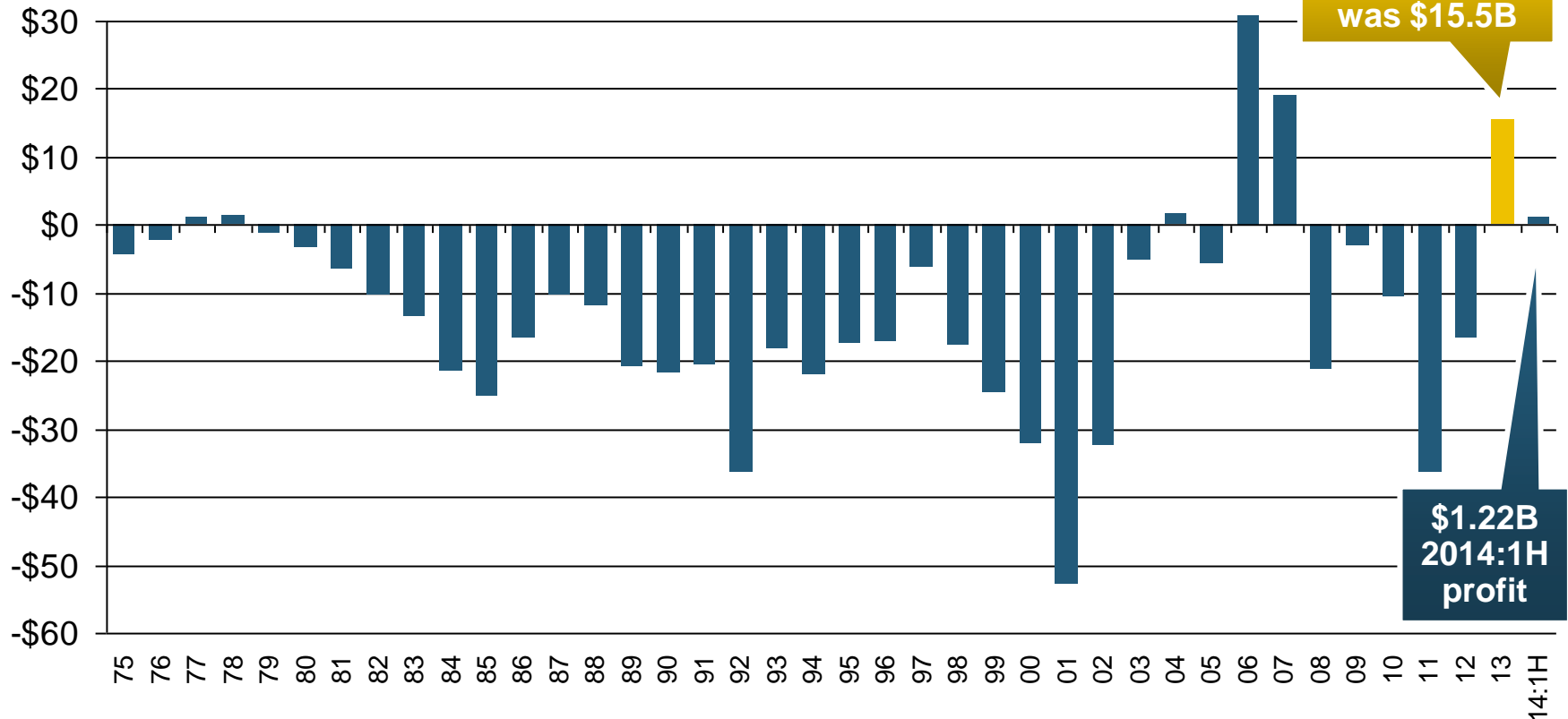


2014:Q1 marked the 16th consecutive quarter of y-o-y growth

Sustained growth in written premiums (vs. the same quarter, prior year) should continue through 2014.

Underwriting Gain (Loss) All Lines Combined, 1975–2014*

(\$ Billions)

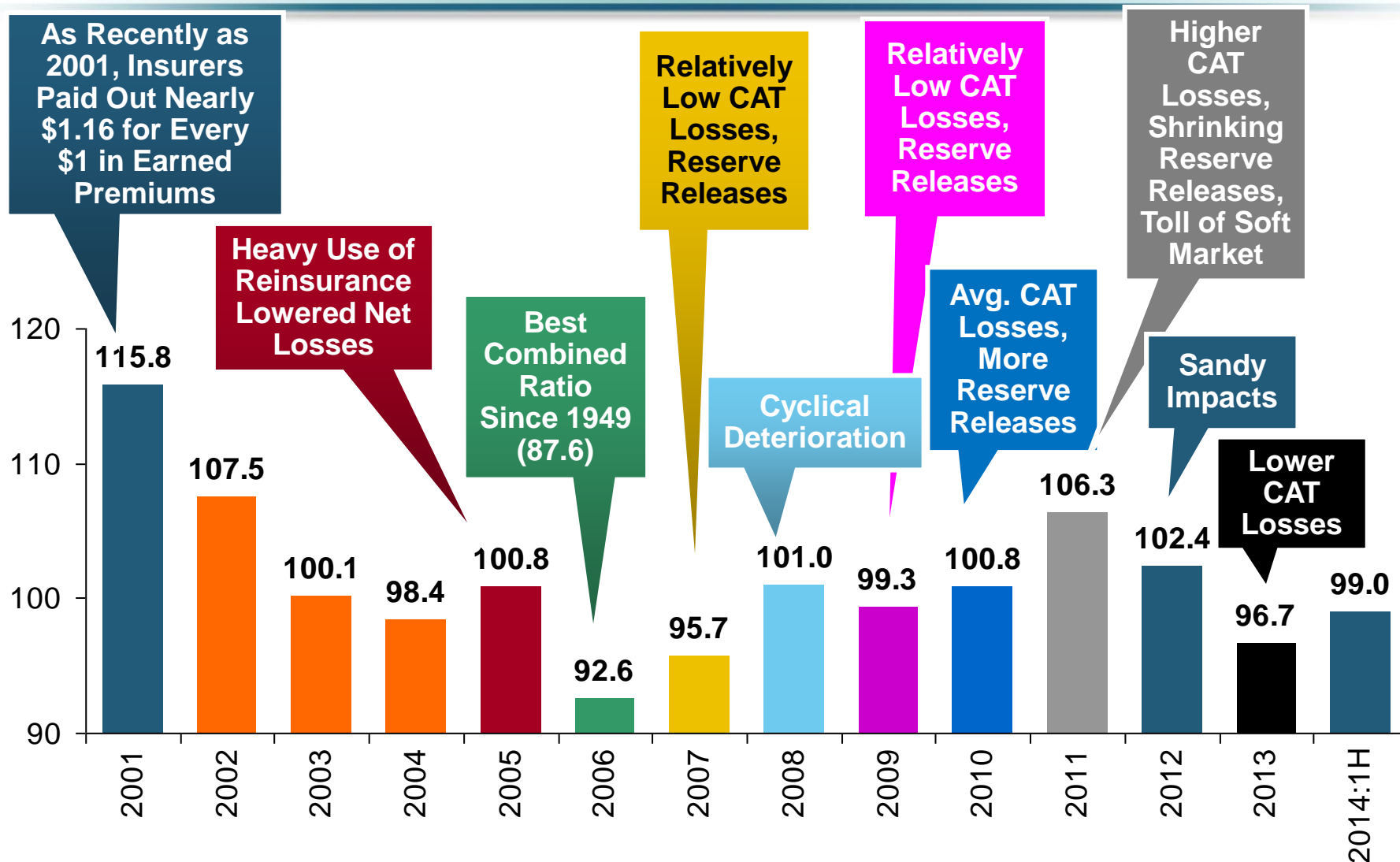


High CAT losses in 2011 led to the highest underwriting loss since 2001. Lower CAT losses in 2013 led to the highest underwriting profit since 2007.

* Includes mortgage and financial guaranty insurers in all years. 2014:1H is estimated.

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

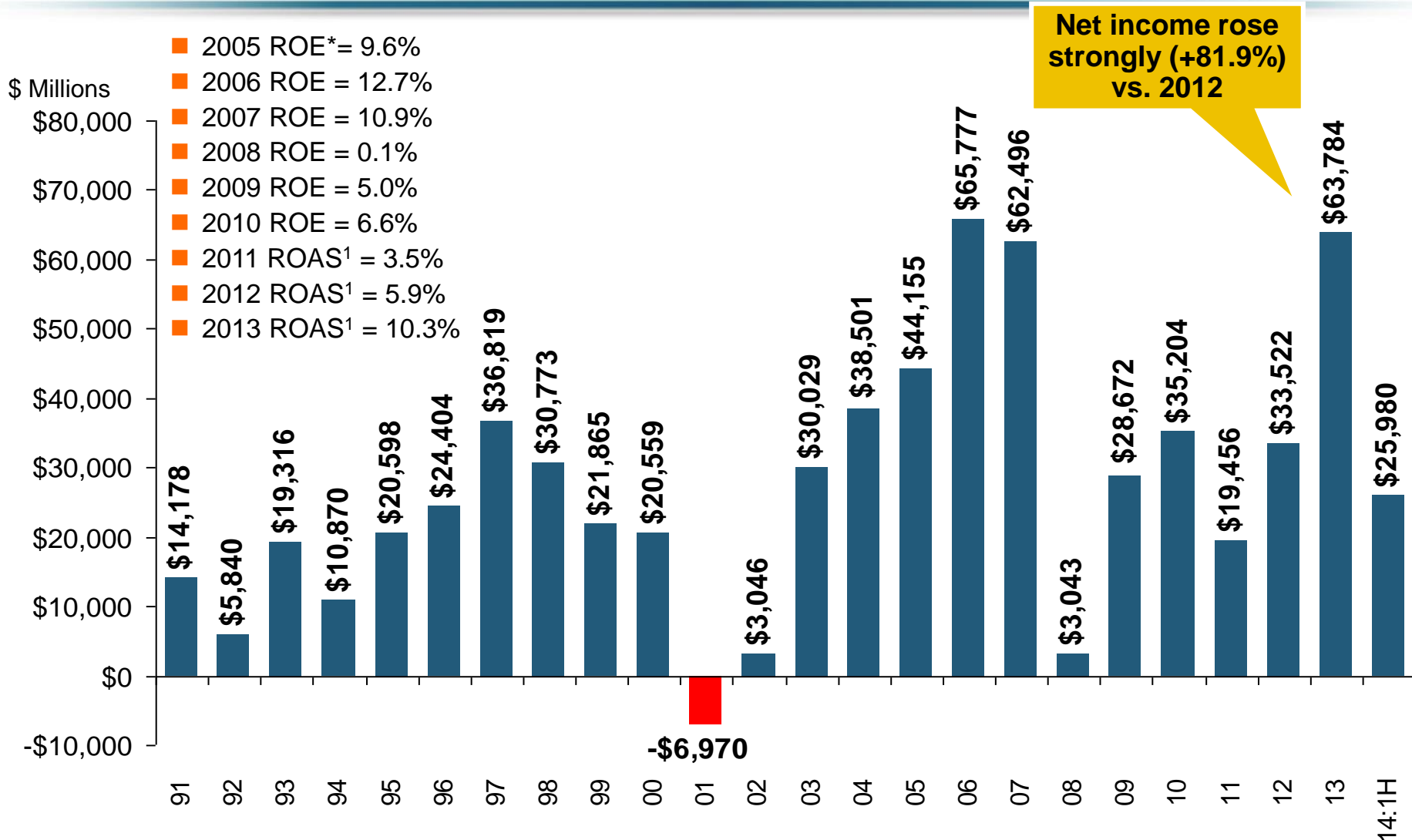
P/C Insurance Industry Combined Ratio, 2001–2014:1H



* Excludes Mortgage & Financial Guaranty insurers 2008--2012. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.1; 2012:=103.2; 2013: = 96.1; 2014.1H: 98.9

Sources: A.M. Best, ISO.

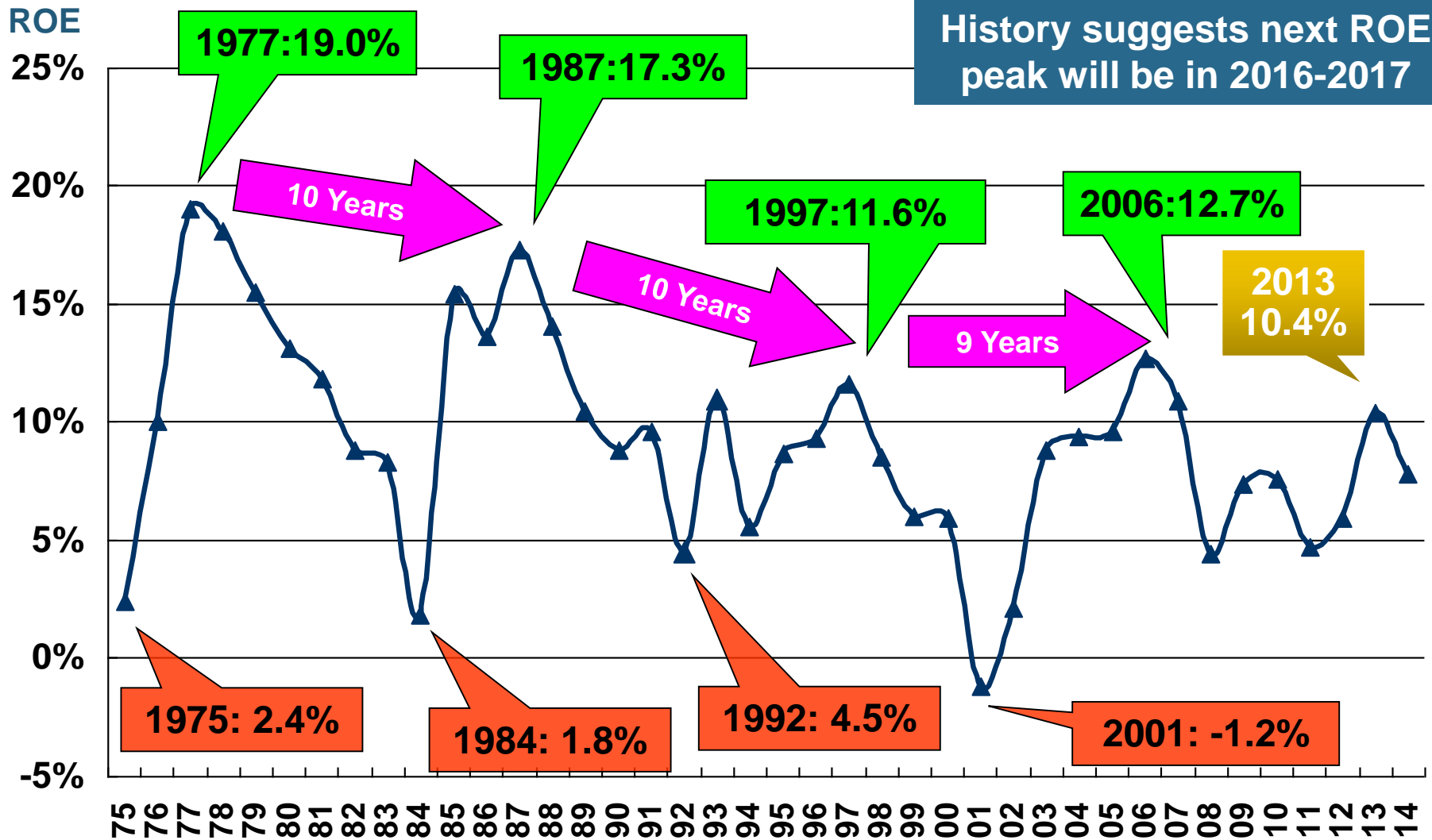
P/C Industry Net Income After Taxes 1991–2014:1H



*ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 8.9% ROAS through 2013:Q3, 6.2% ROAS in 2012, 4.7% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009.

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

Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2014:1H*

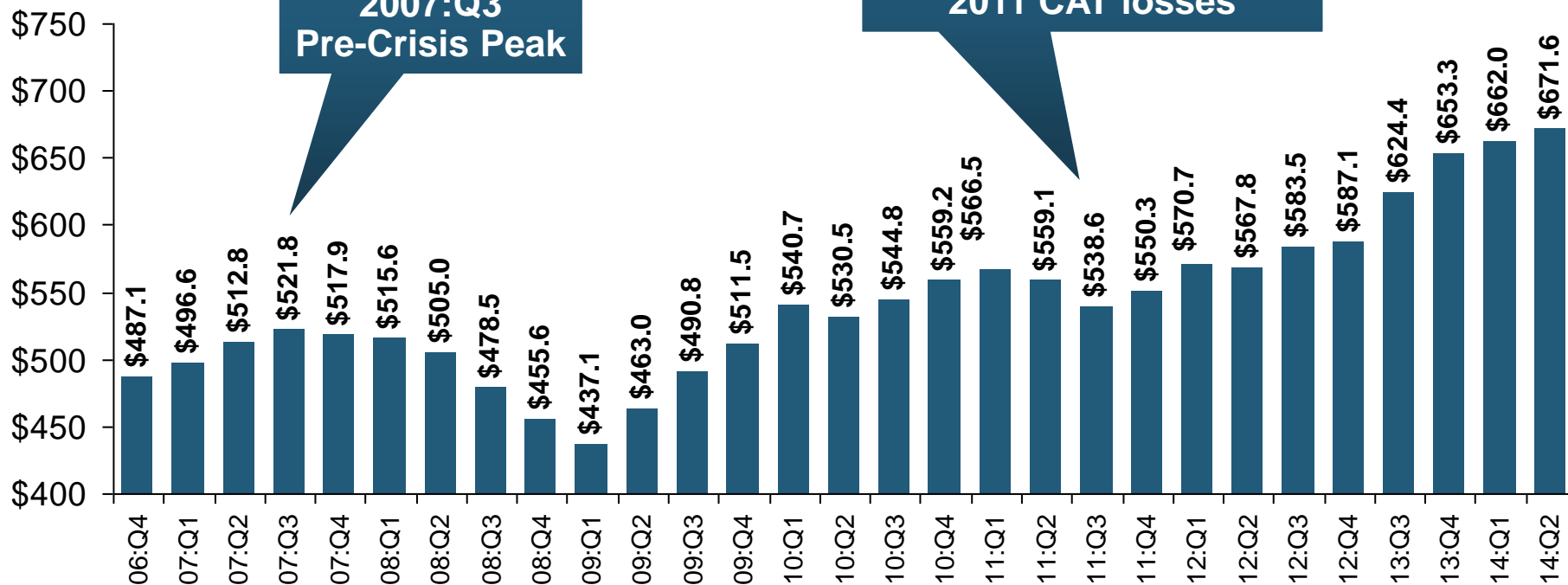


*Profitability = P/C insurer ROEs. 2011-13 figures are estimates based on ROAS data. Note: Data for 2008-2013 exclude mortgage and financial guaranty insurers.

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

Policyholder Surplus, 2006:Q4–2014:1H

(\$ Billions)



The industry now has \$1 of surplus for every \$0.73 of NPW, the strongest claims-paying status in its history.

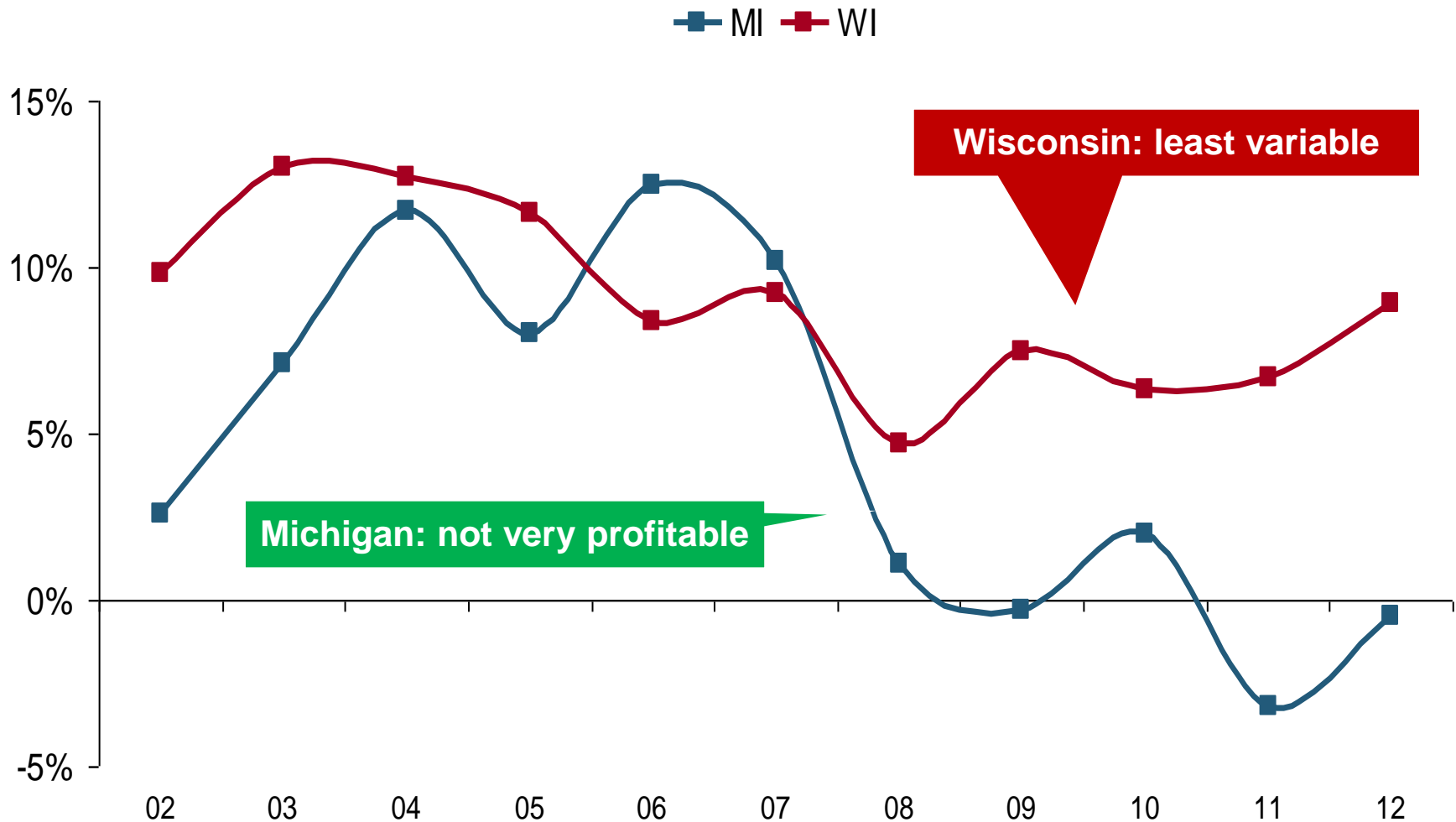
2010:Q1 data includes \$22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business.

The P/C insurance industry entered the second half of 2014 in very strong financial shape.

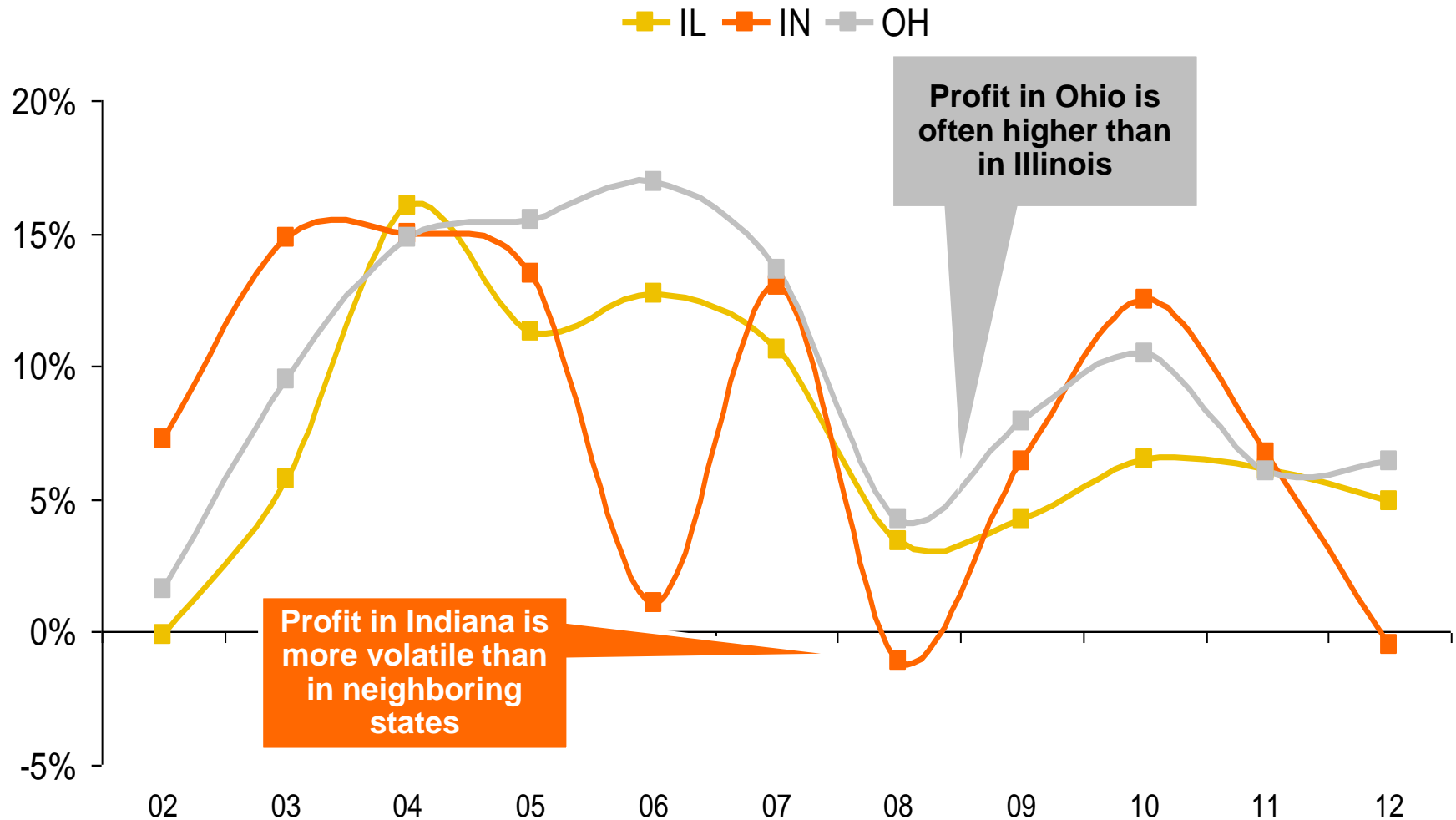
Profitability and Growth in the Midwest P/C Insurance Markets

Analysis by Line and State

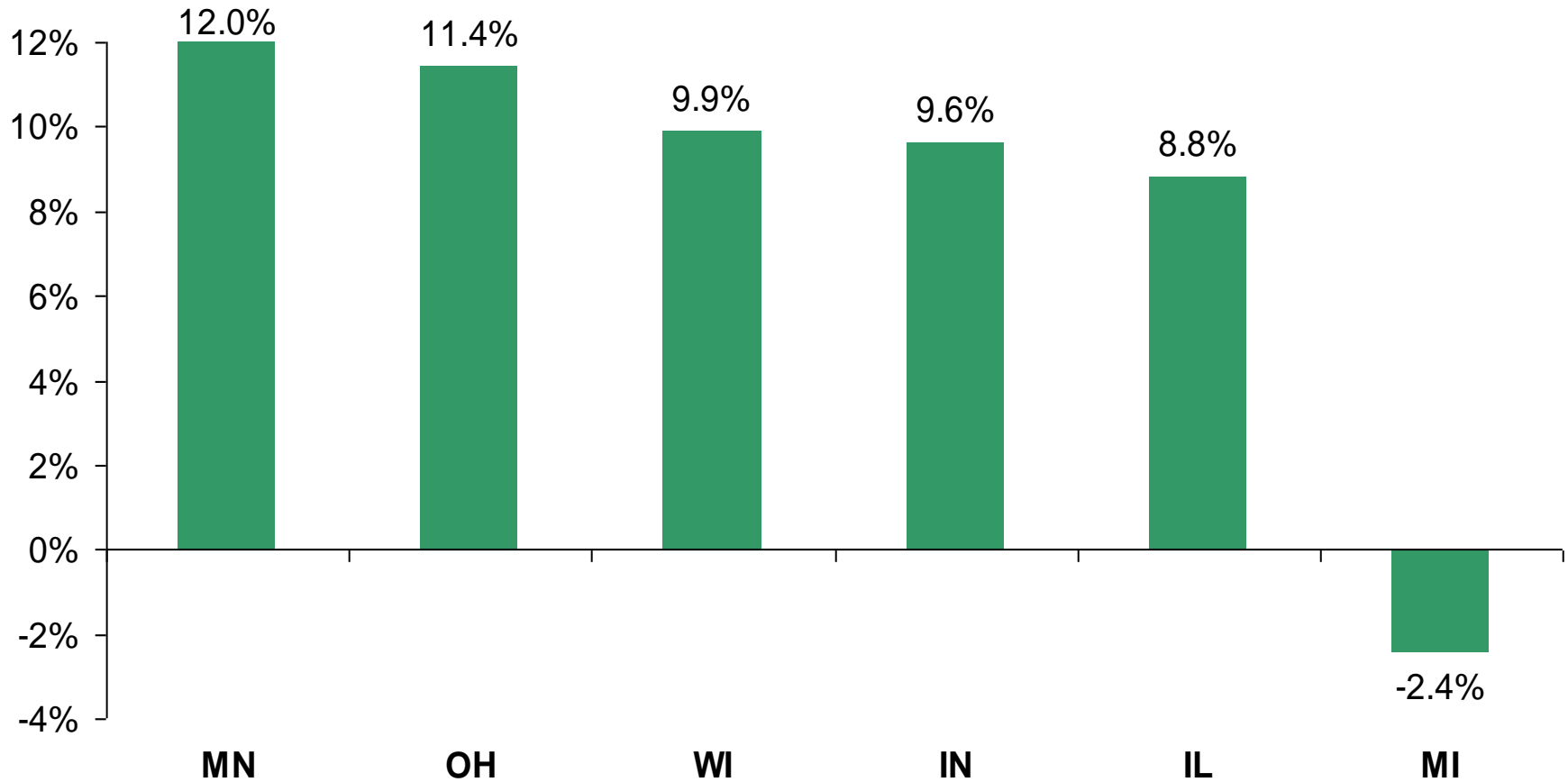
Return on Net Worth, All Lines: 2002-2012



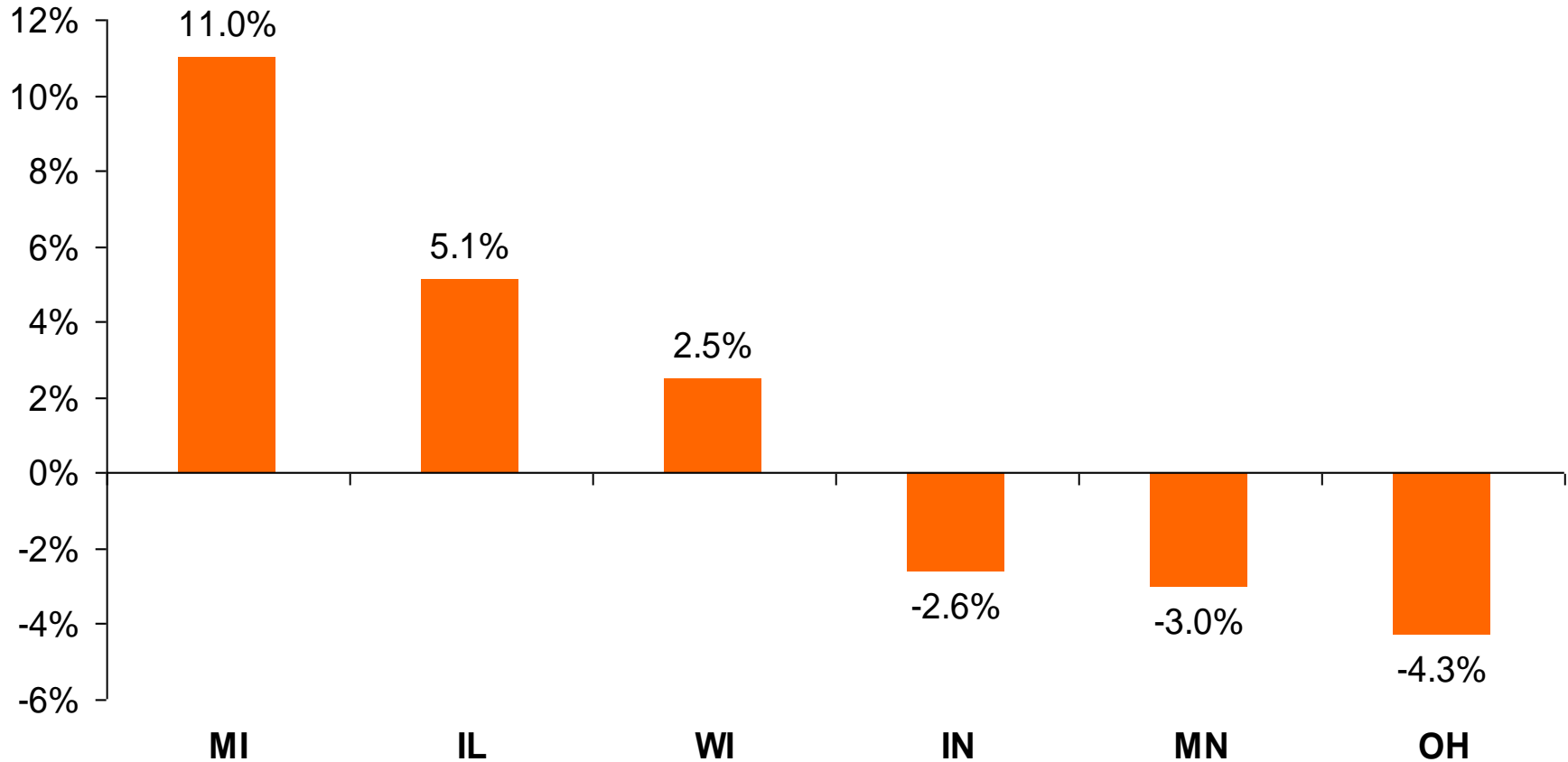
Return on Net Worth, All Lines: 2002-2012



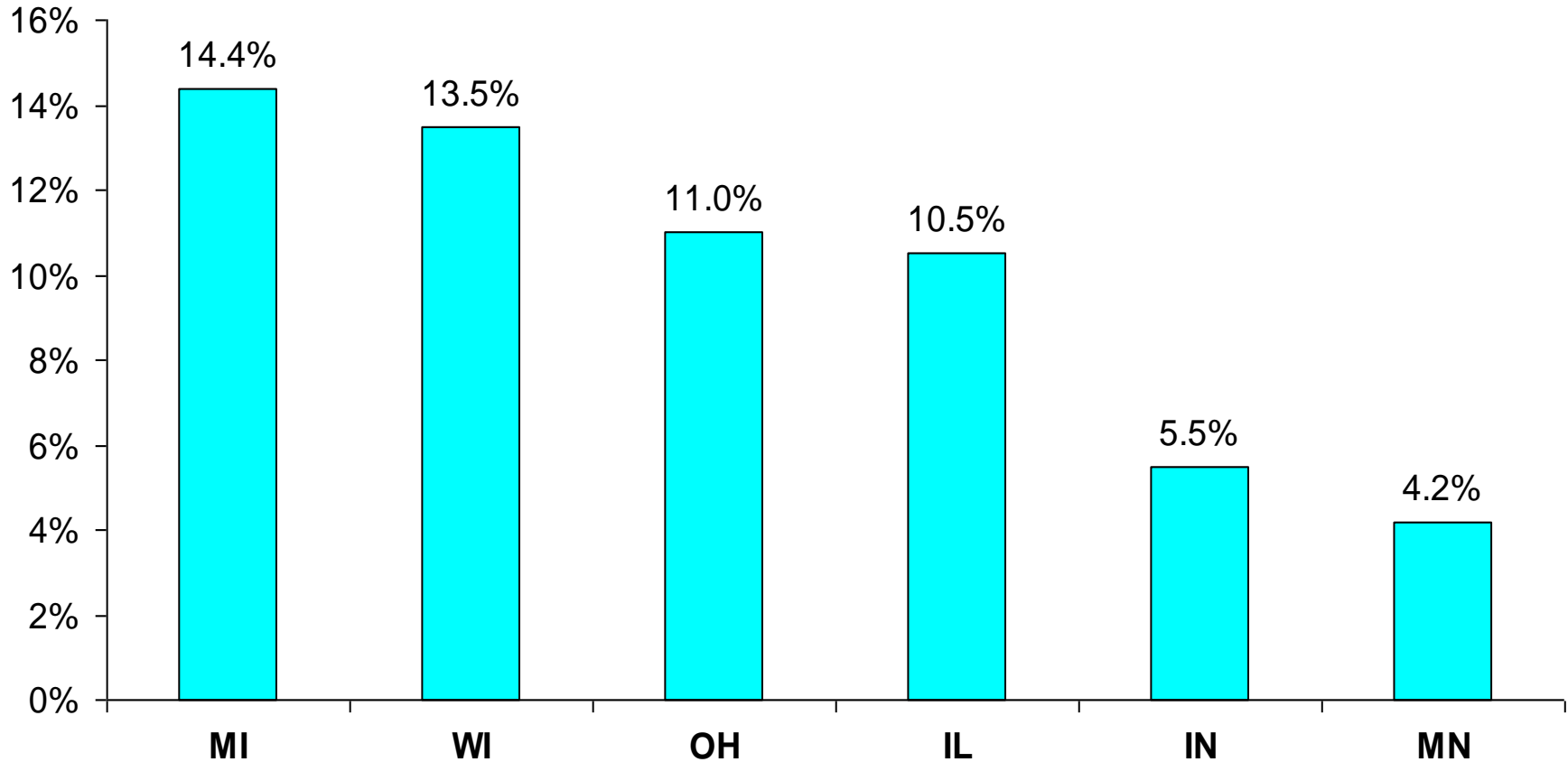
RNW PP Auto: MAF States, 2003-2012, 10-year average



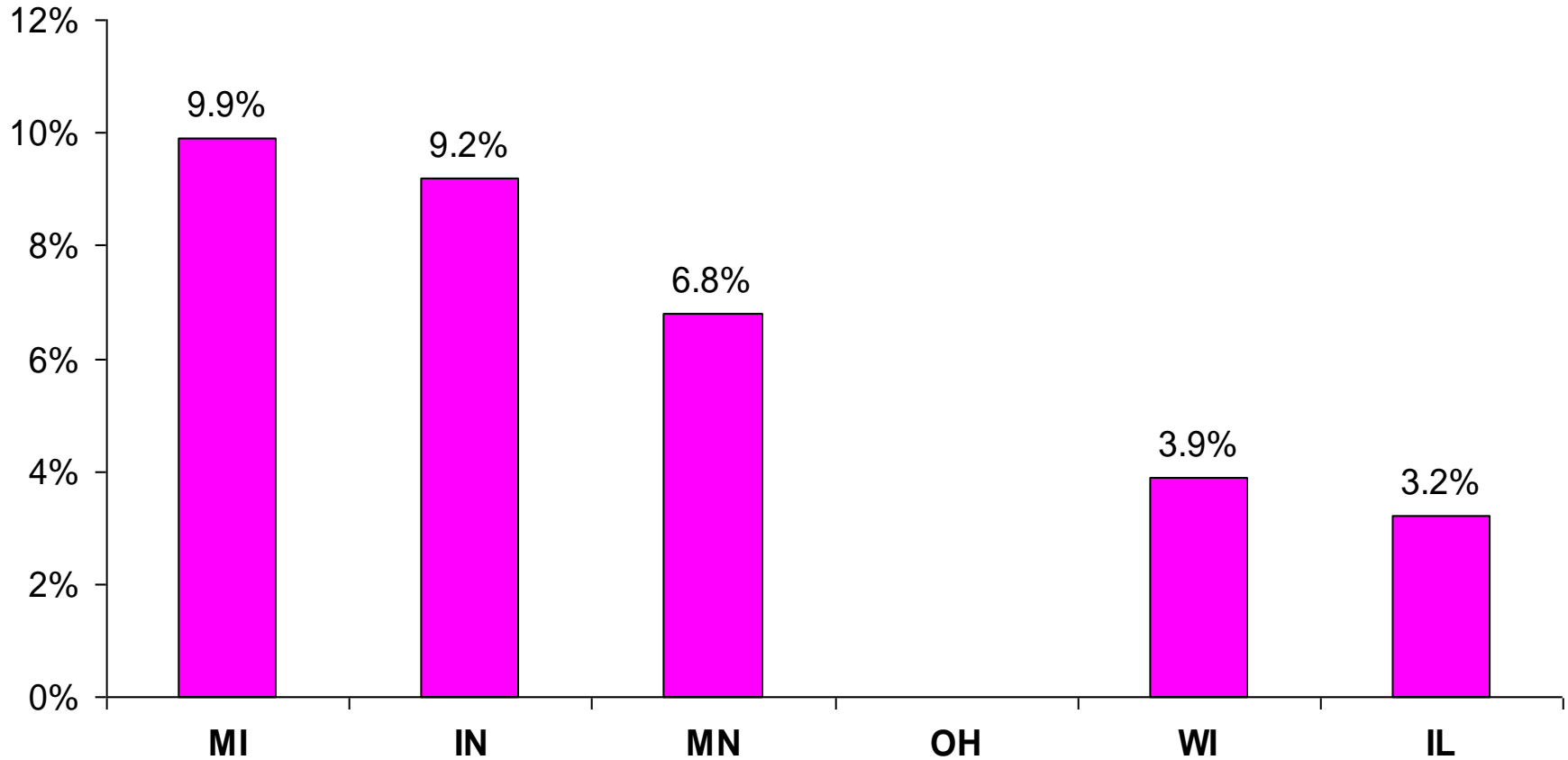
RNW HO: MAF States, 2003-2012, 10-year average



RNW CMP: MAF States, 2003-2012, 10-year average



RNW WC: MAF States, 2002-2011, 10-year average

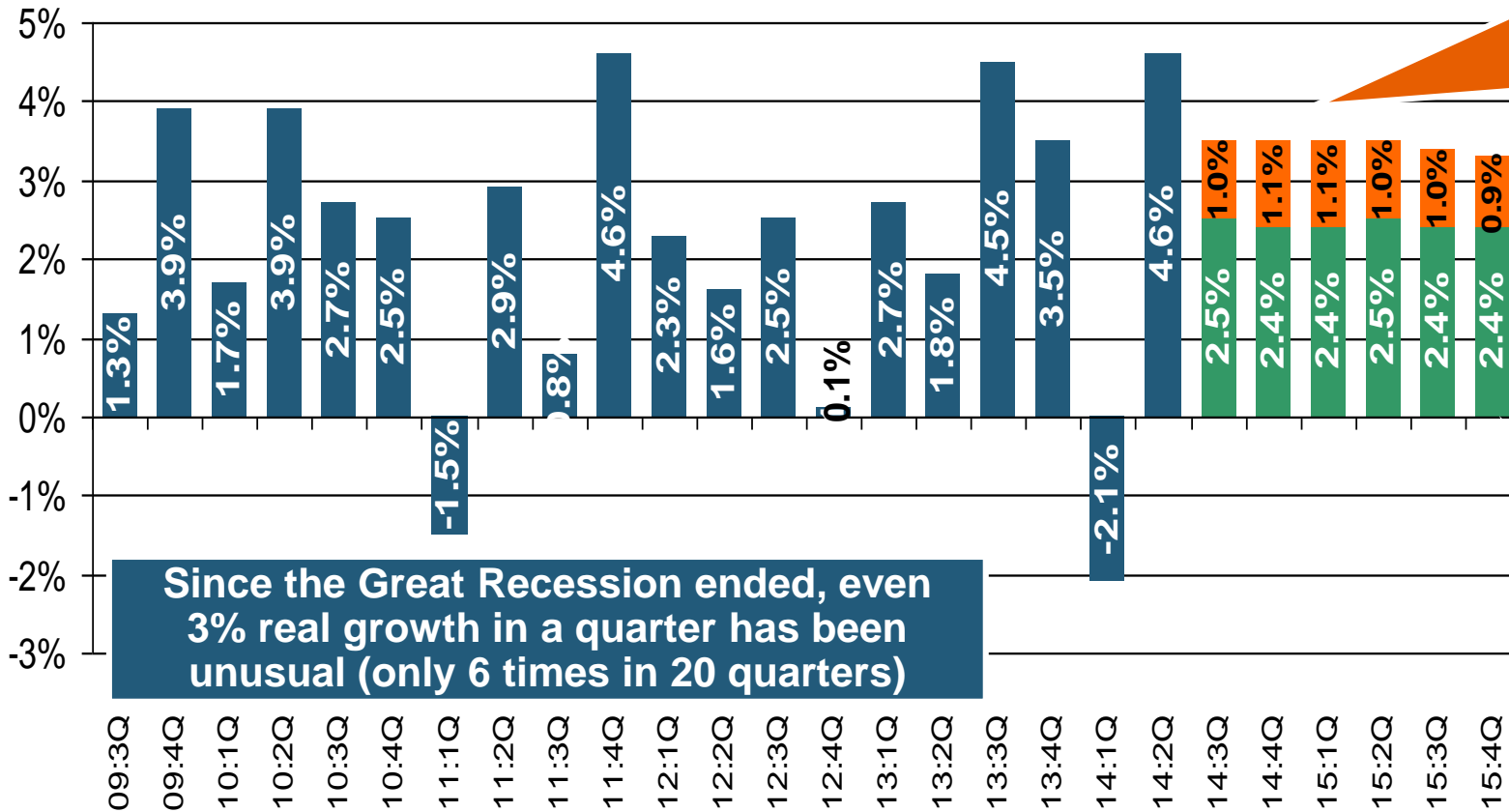




The Strength of the Economy Will Influence P/C Insurer Growth Opportunities

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

Real Quarterly GDP Growth Since the “Great Recession, and Forecast



Additional growth forecast by average of 10 most optimistic models

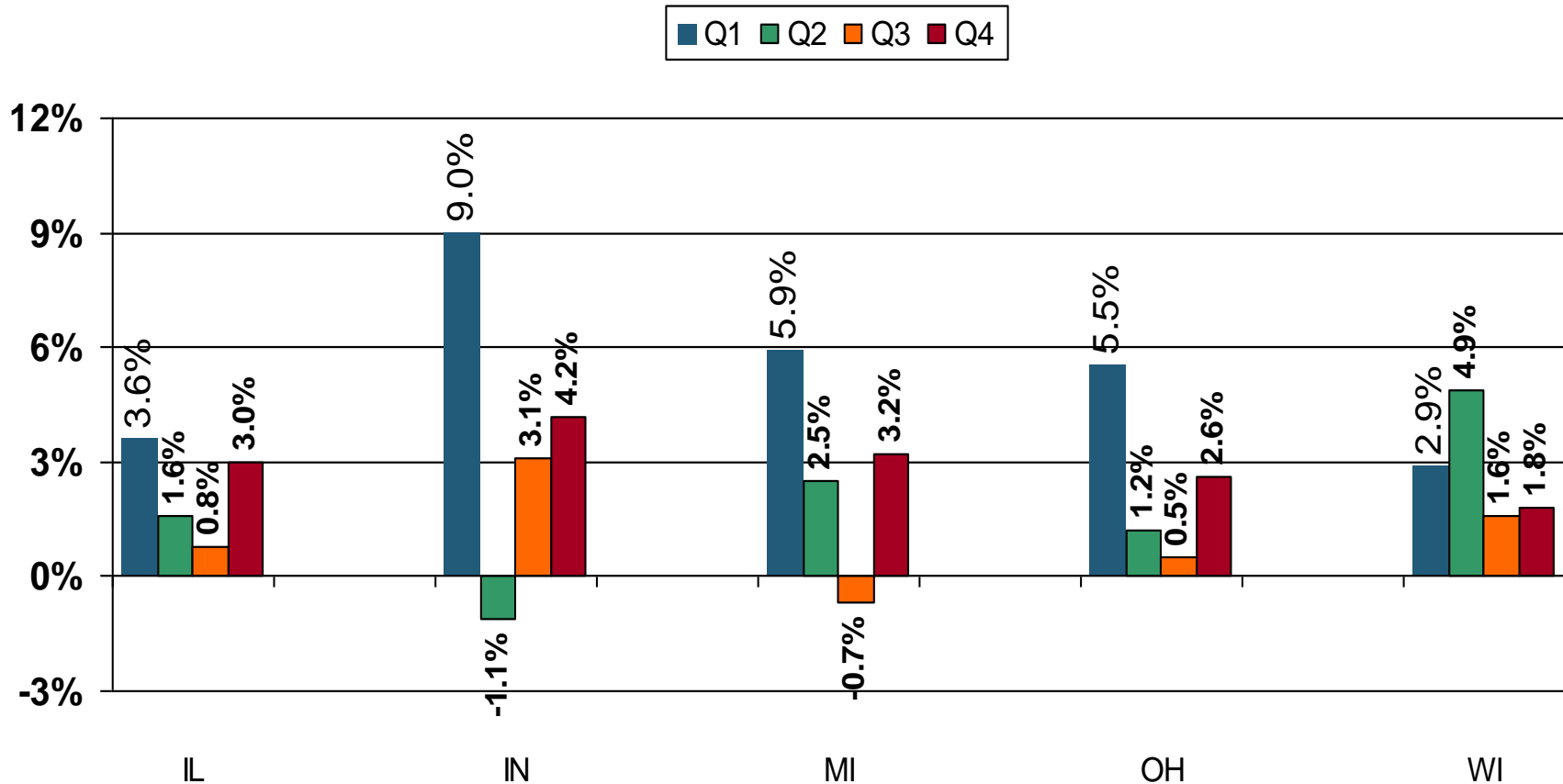
Growth forecast by average of 10 least optimistic models

Since the Great Recession ended, even 3% real growth in a quarter has been unusual (only 6 times in 20 quarters)

Demand for insurance continues to be affected by sluggish economic conditions, but the benefits of even slow growth will compound and gradually benefit the economy broadly.

Forecasts from Blue Chip Economic Indicators; data are quarterly changes at annualized rate.
 Sources: (history) US Department of Commerce, at <http://www.bea.gov/national/index.htm#gdp> ; (forecasts) Blue Chip Economic Indicators 9/14; Insurance Information Institute.

Real Quarterly GDP Growth by State, 2013



Economic growth varied widely among the Great Lakes states in 2013. Not only were the rates of growth different from state to state, but even the direction of growth differed.

Data are seasonally-adjusted quarterly changes at annualized rates

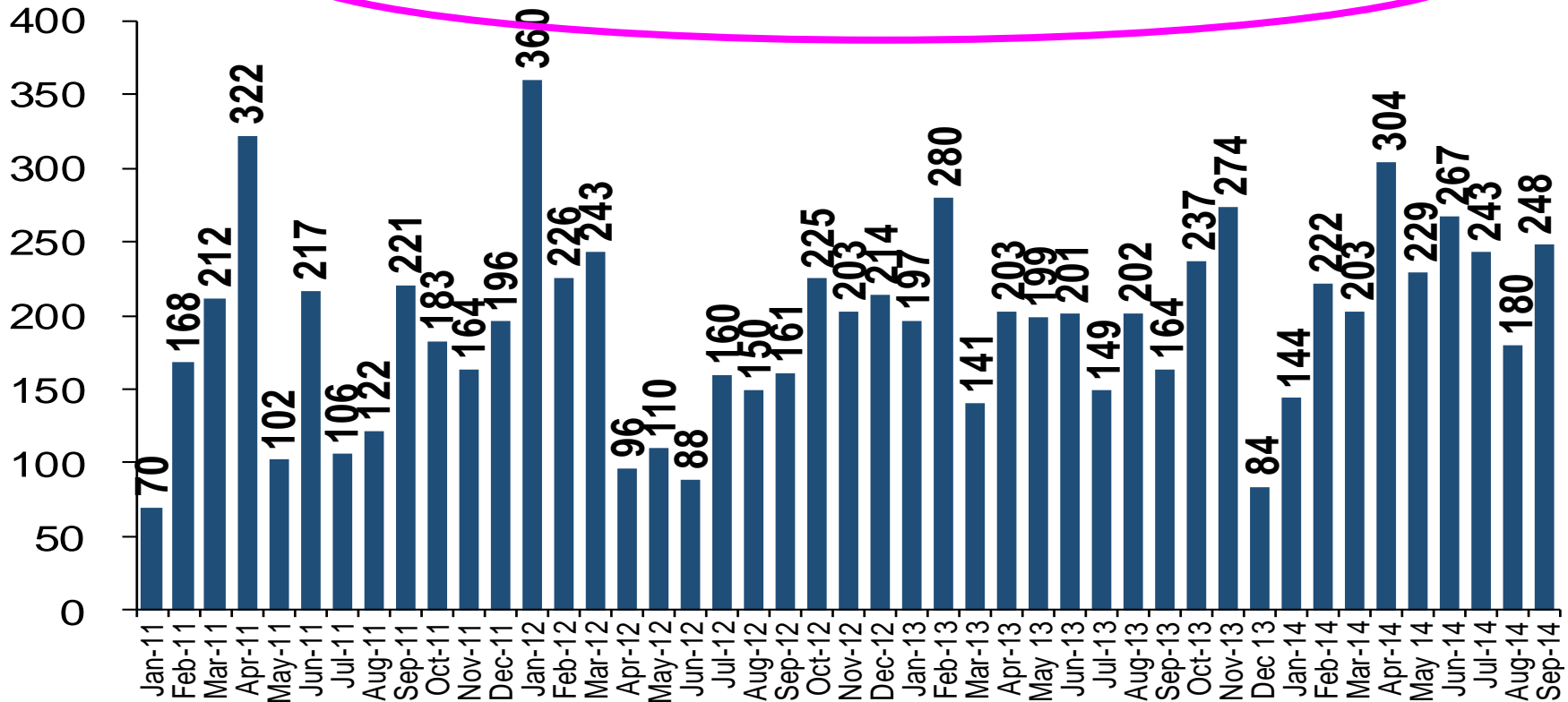
Source: US Department of Commerce, at http://www.bea.gov/newsreleases/regional/gdp_state/2014/pdf/qgsp0814.pdf

Monthly Change in Nonfarm Employment, 2011 - 2014

Thousands

Average Monthly Gain

2011: 173,600 2012: 186,300 2013: 194,250 2014*: 226,700



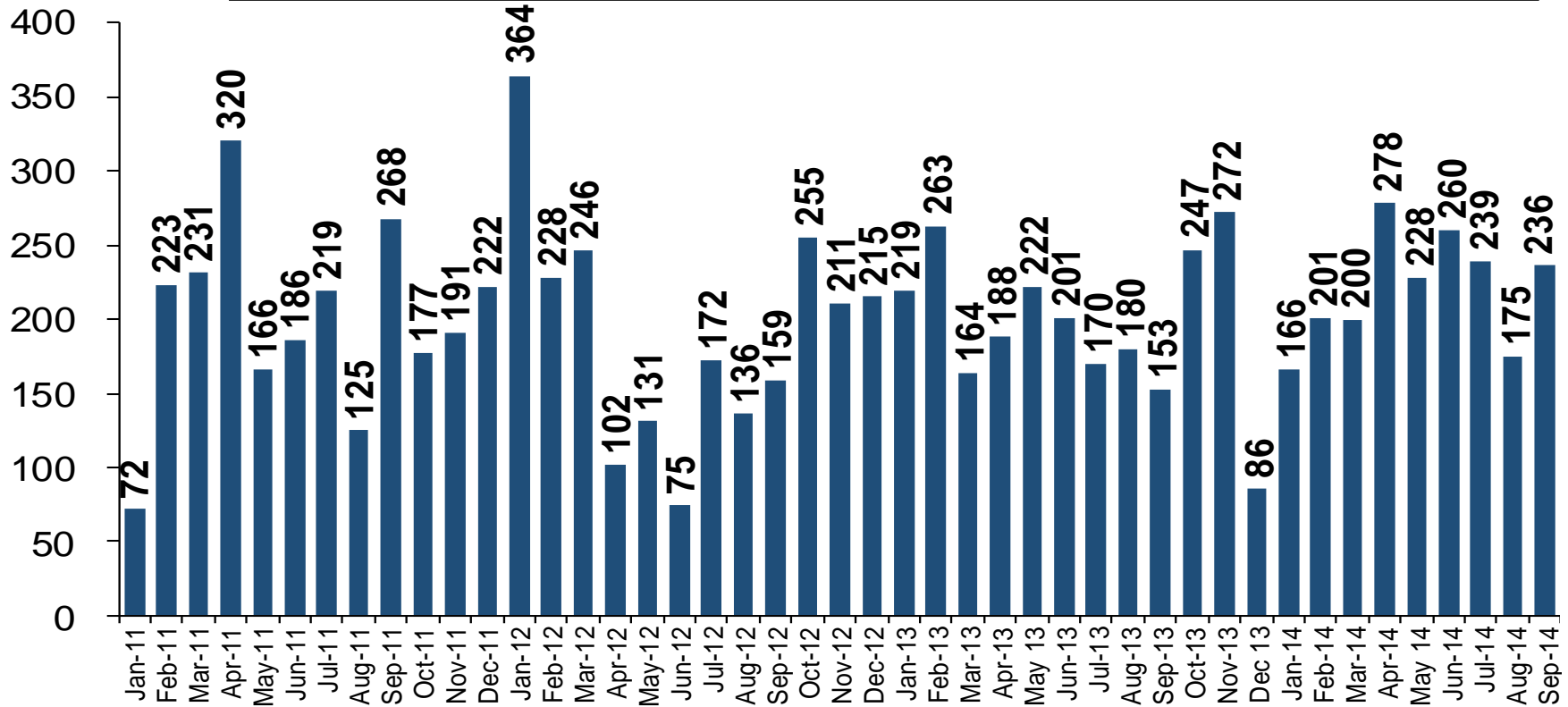
The pace of job growth varies considerably from month to month.

*Seasonally adjusted. Aug 2014 and Sept 2014 are preliminary data. Monthly gain for 2014 is average for January-August
Sources: US Bureau of Labor Statistics; Insurance Information Institute

Monthly Change in Private Employment, 2011 - 2014

Thousands

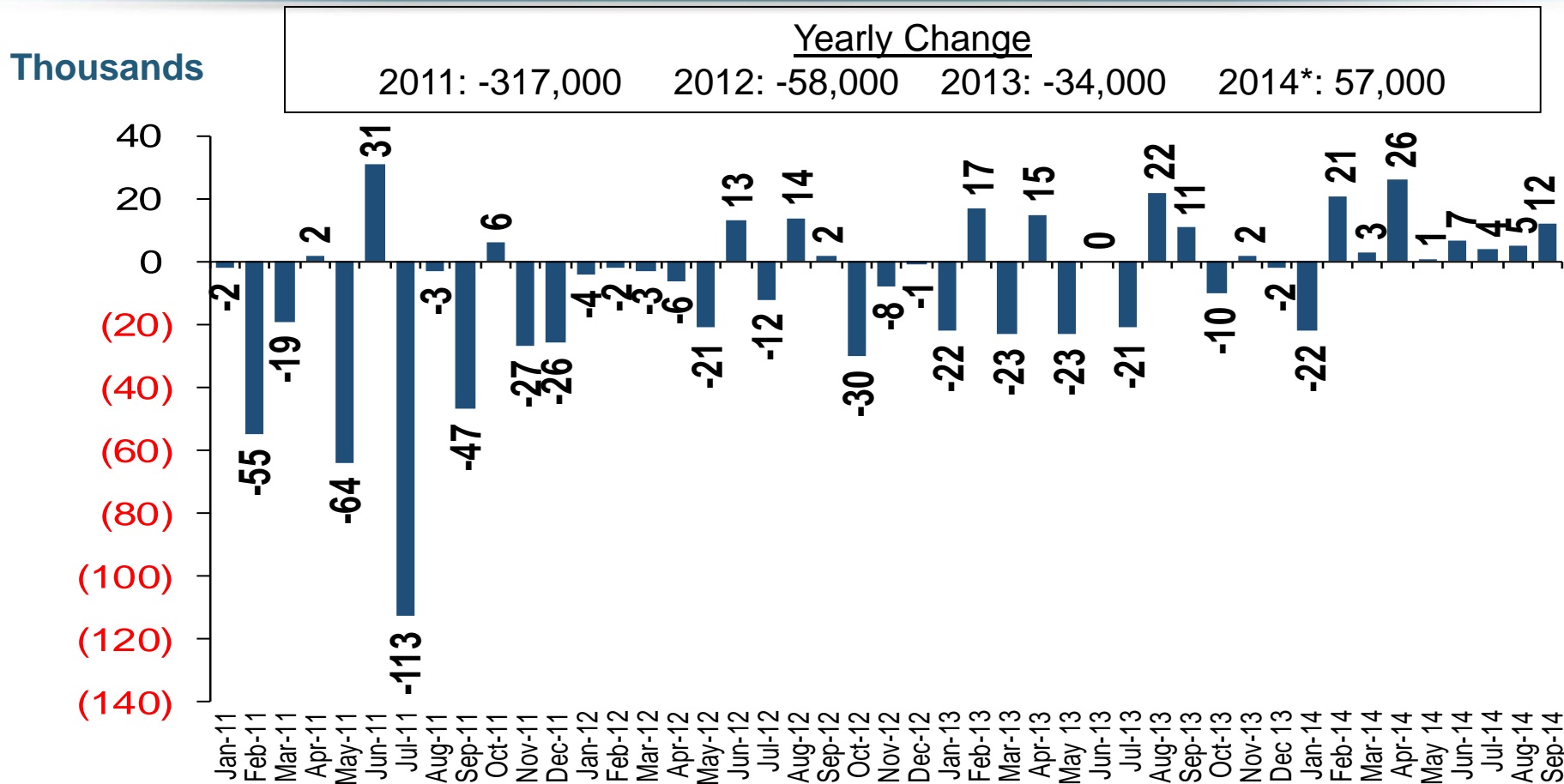
Yearly Gain			
2011: 2,400,000	2012: 2,294,000	2013: 2,365,000	2014*: 2,644,000



The pace of job growth varies considerably from month to month.

*Seasonally adjusted. Aug 2014 and Sept 2014 are preliminary data. Yearly gain for 2014 is based on for January-September
 Sources: US Bureau of Labor Statistics; Insurance Information Institute

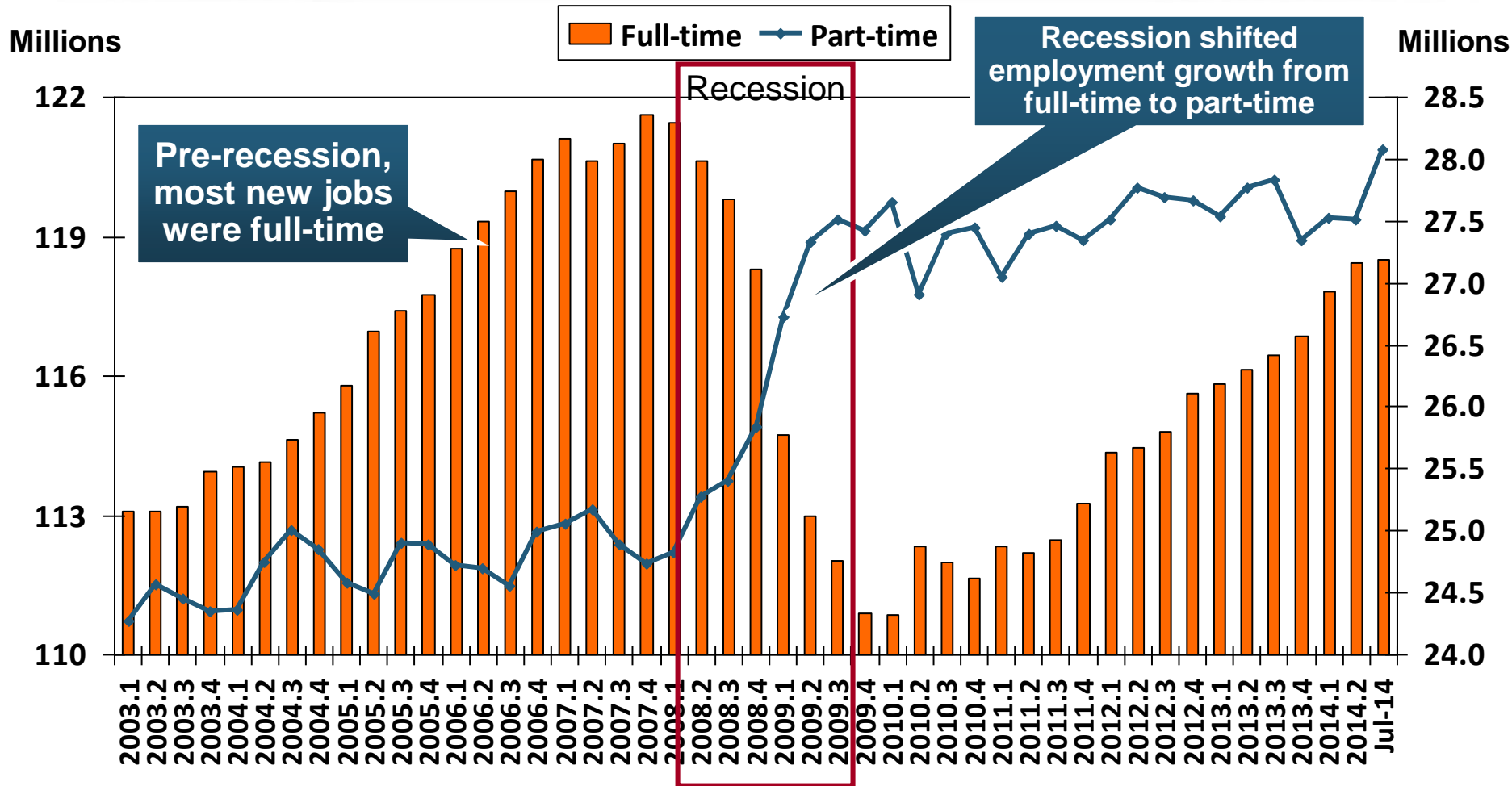
Monthly Change in Government Employment, 2011 - 2014



The pace of job growth varies considerably from month to month.

*Seasonally adjusted. Aug 2014 and Sept 2014 are preliminary data. Yearly gain for 2014 is January-August
 Sources: US Bureau of Labor Statistics; Insurance Information Institute

Full-time vs. Part-time Employment, Quarterly, 2003-2014: WC Implications

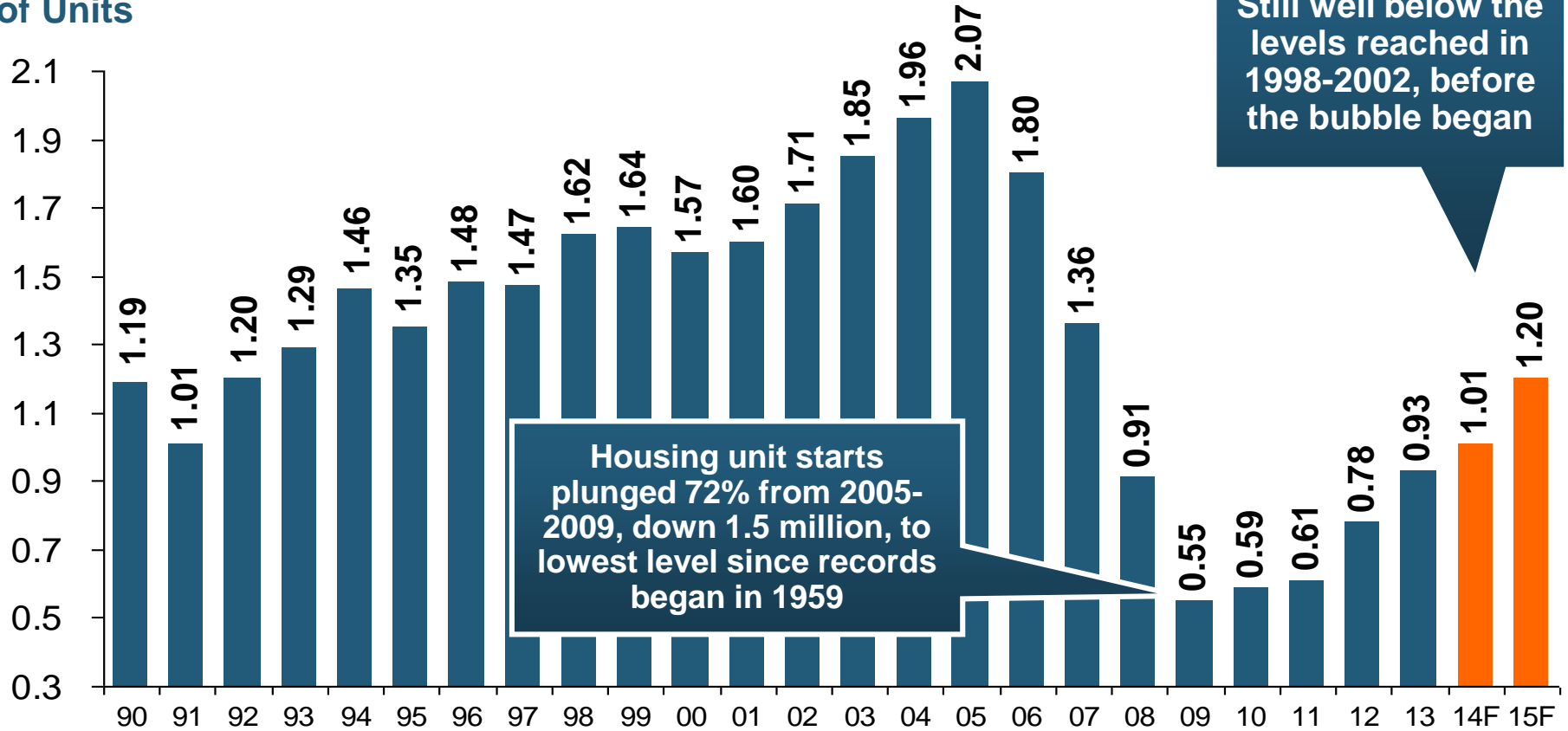


The Great Recession shifted employment from full-time to part-time, and the recovery to date hasn't changed that. Full-time employment is still 3.2 million below its pre-recession peak, but part-time recently reached a new peak.

Forces Affecting Personal Lines

Private Housing Unit Starts, 1990-2015F

Millions of Units



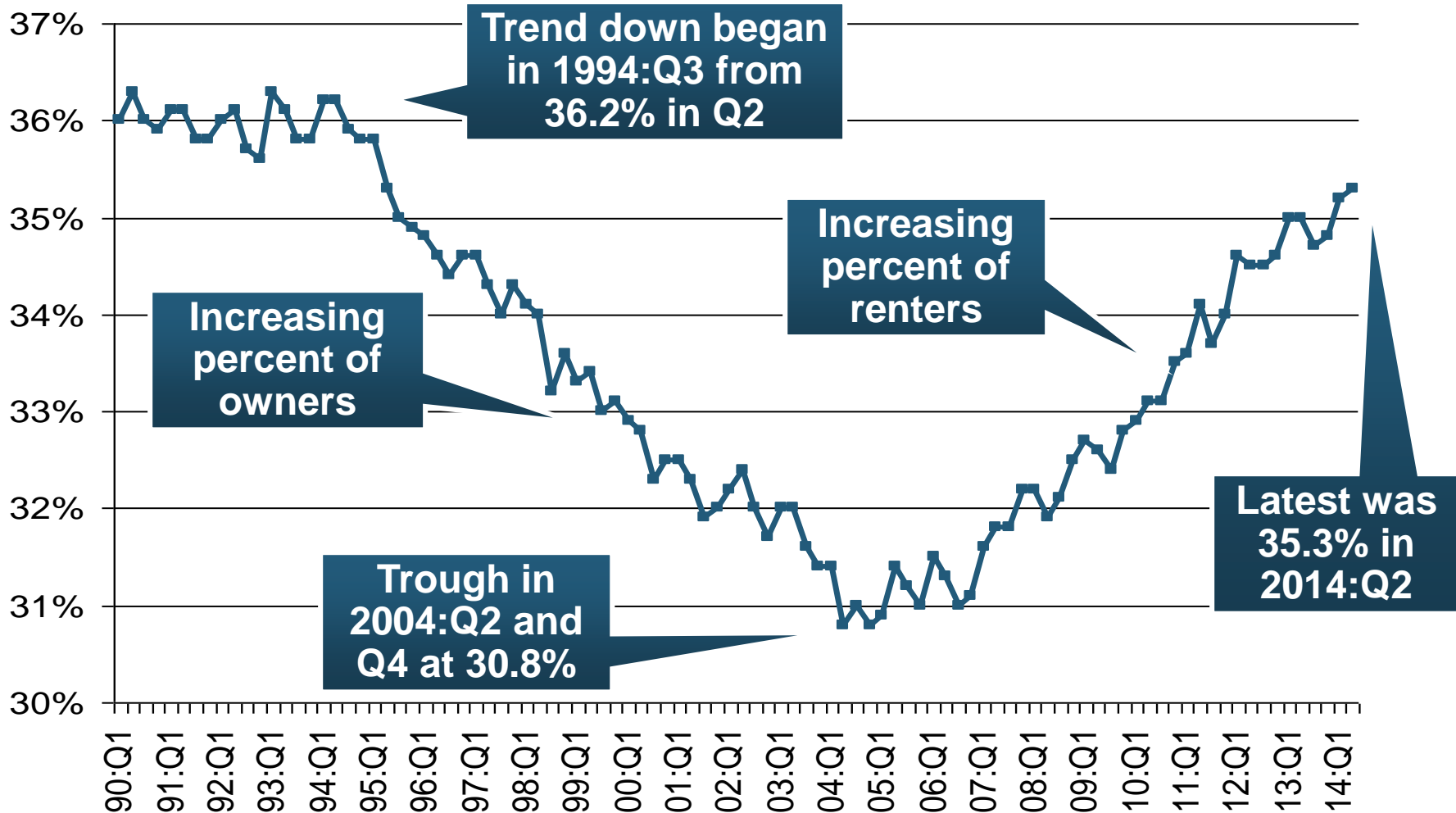
Still well below the levels reached in 1998-2002, before the bubble began

Housing unit starts plunged 72% from 2005-2009, down 1.5 million, to lowest level since records began in 1959

Housing starts are rising, but this could be retarded by rising mortgage interest rates. Recently, the fastest growth is in multi-unit residences. Personal lines exposure will grow, and commercial insurers with Workers Comp, Construction risk exposure, and Surety also benefit.

Sources: U.S. Department of Commerce; Blue Chip Economic Indicators (8/14); Insurance Information Institute.

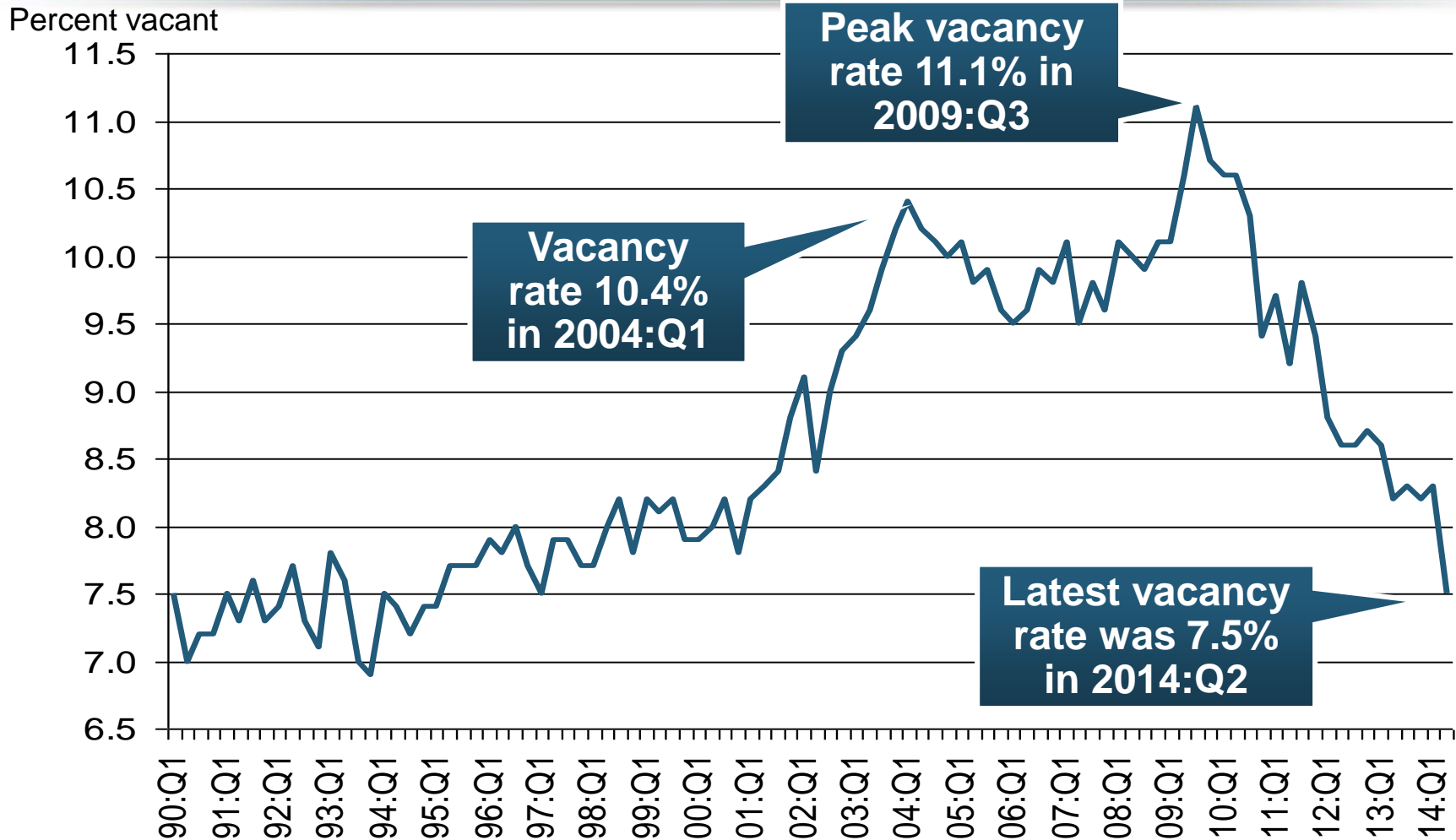
Rental-Occupied Housing Units as % of Total Occupied Units, Quarterly, 1990-2014



Since the Great Recession ended, renters occupied 3.6 million more units (+9.9%)
 —outstripping population growth (+2.9%)

Sources: US Census Bureau, *Residential Vacancies & Home Ownership in the Second Quarter of 2014* (released July 29, 2014) and earlier issues; Insurance Information Institute. **Next Census Bureau report to be released on October 28, 2014.**

Rental Vacancy Rates, Quarterly, 1990-2014

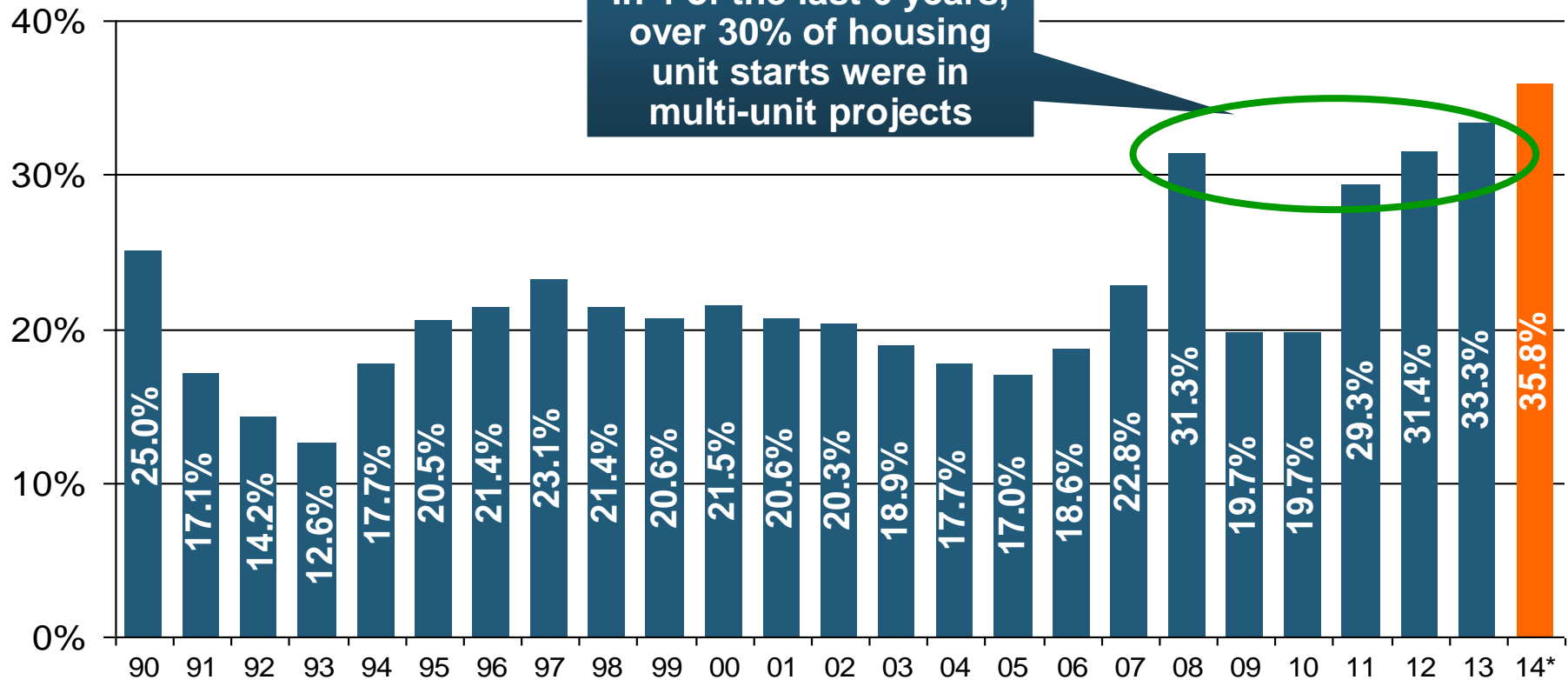


Before the 2001 recession, rental vacancy rates were 8% or less. We're close to those levels again. => More multi-unit construction?

Sources: US Census Bureau, *Residential Vacancies & Home Ownership in the Second Quarter of 2014* (released July 29, 2014) and earlier issues; Insurance Information Institute. **Next Census Bureau report to be released on October 28, 2014.**

US: Pct. Of Private Housing Unit Starts In Multi-Unit Projects, 1990-2014*

Units in Multiple-Unit Projects as Percent of Total



A NEW NORMAL?
In 4 of the last 6 years, over 30% of housing unit starts were in multi-unit projects

For the U.S. as a whole, the trend toward multi-unit housing projects (vs. single-unit homes) is recent. Commercial insurers with Workers Comp, Construction risk exposure, and Surety benefit.

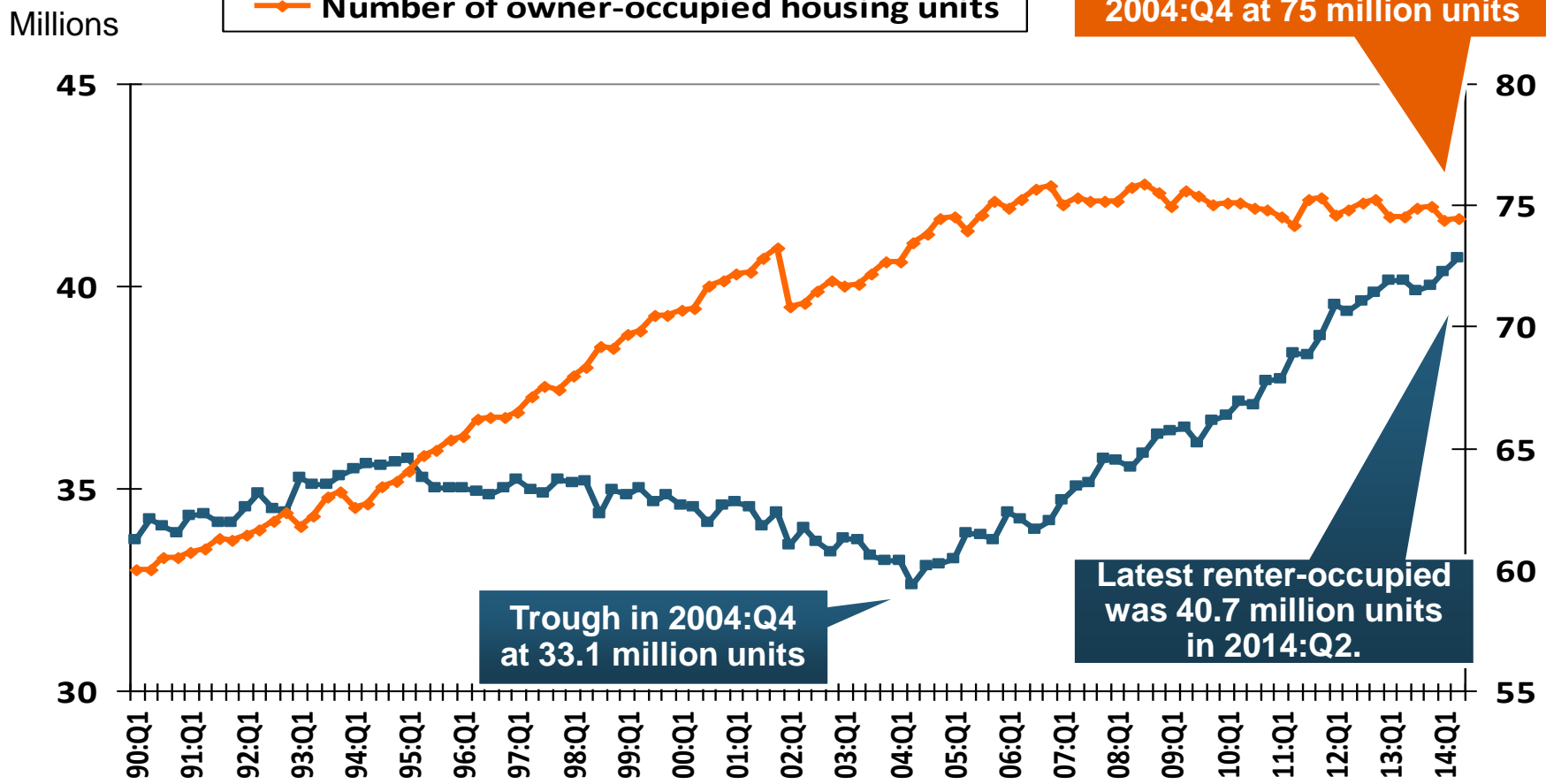
*through July 2014

Sources: U.S. Census Bureau; Insurance Information Institute.

Number of Rental- and Owner-Occupied Housing Units, Quarterly, 1990-2014

—■ Number of renter-occupied housing units
—◆ Number of owner-occupied housing units

Number of owner-occupied units has been flat since 2004:Q4 at 75 million units



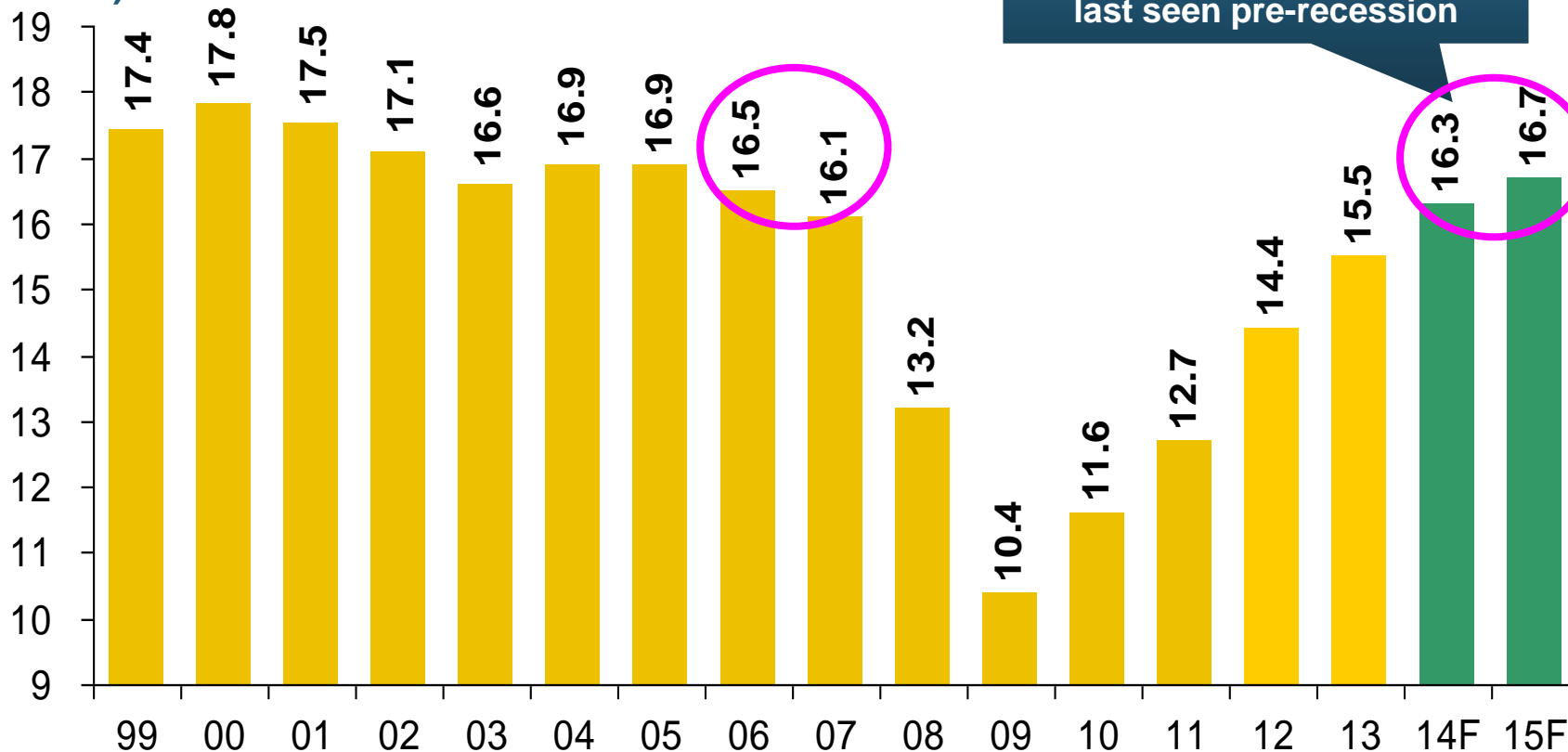
Trough in 2004:Q4 at 33.1 million units

Latest renter-occupied was 40.7 million units in 2014:Q2.

There has been no growth in the number of owner-occupied housing units in nearly 10 years. All the growth since then has been in renter-occupied housing. When will this end?

Auto/Light Truck Sales, 1999-2015F

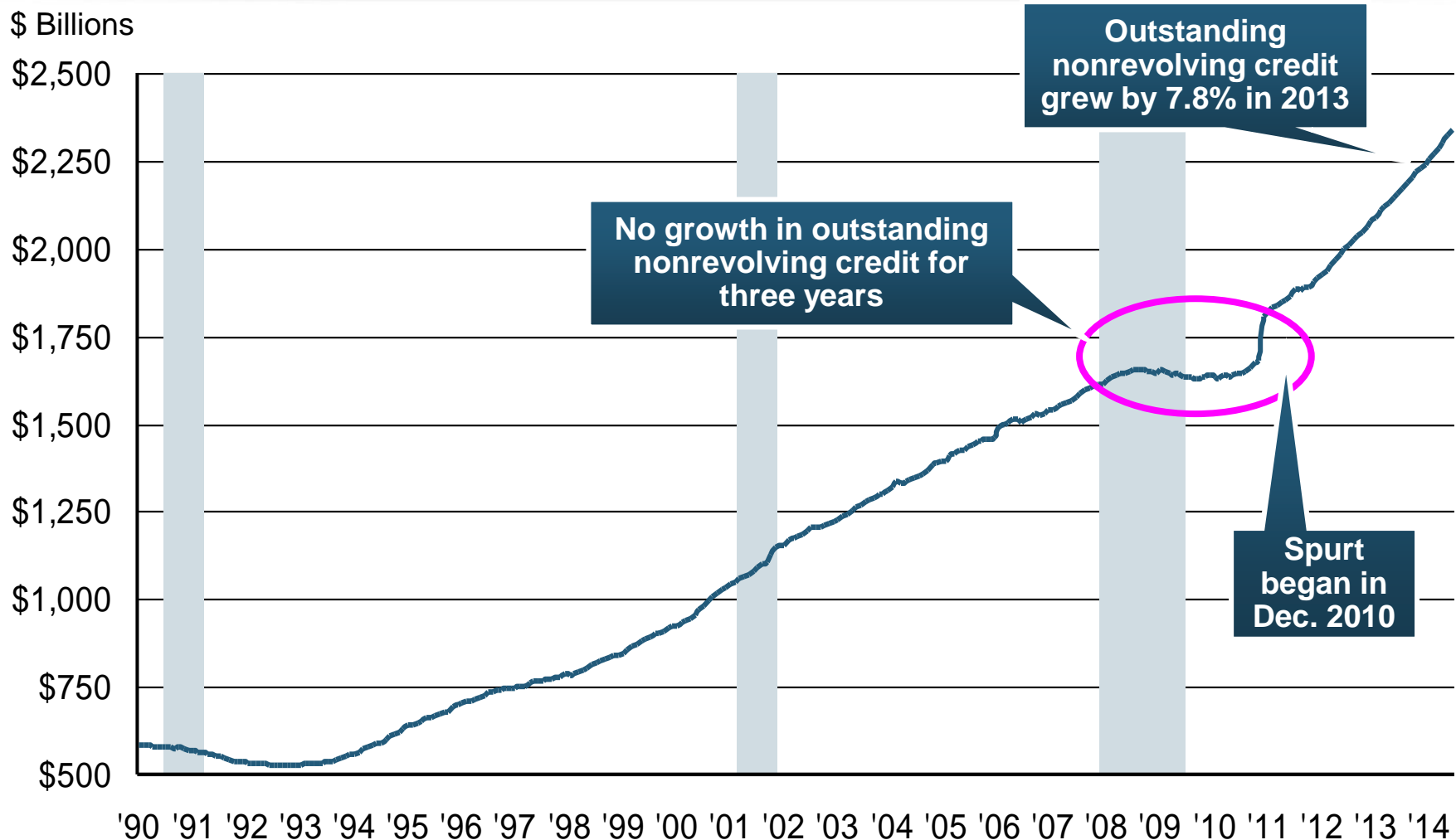
(Millions
of Units)



It seems likely that we're back to new vehicle sales levels last seen pre-recession

Yearly car/light truck sales will keep rising, in part replacing cars that were held onto in 2008-12. New vehicles will generate more physical damage insurance coverage but will be more expensive to repair. PP Auto premium might grow by 6%.

Auto Loans and other Nonrevolving Credit Outstanding, 1990–2014*



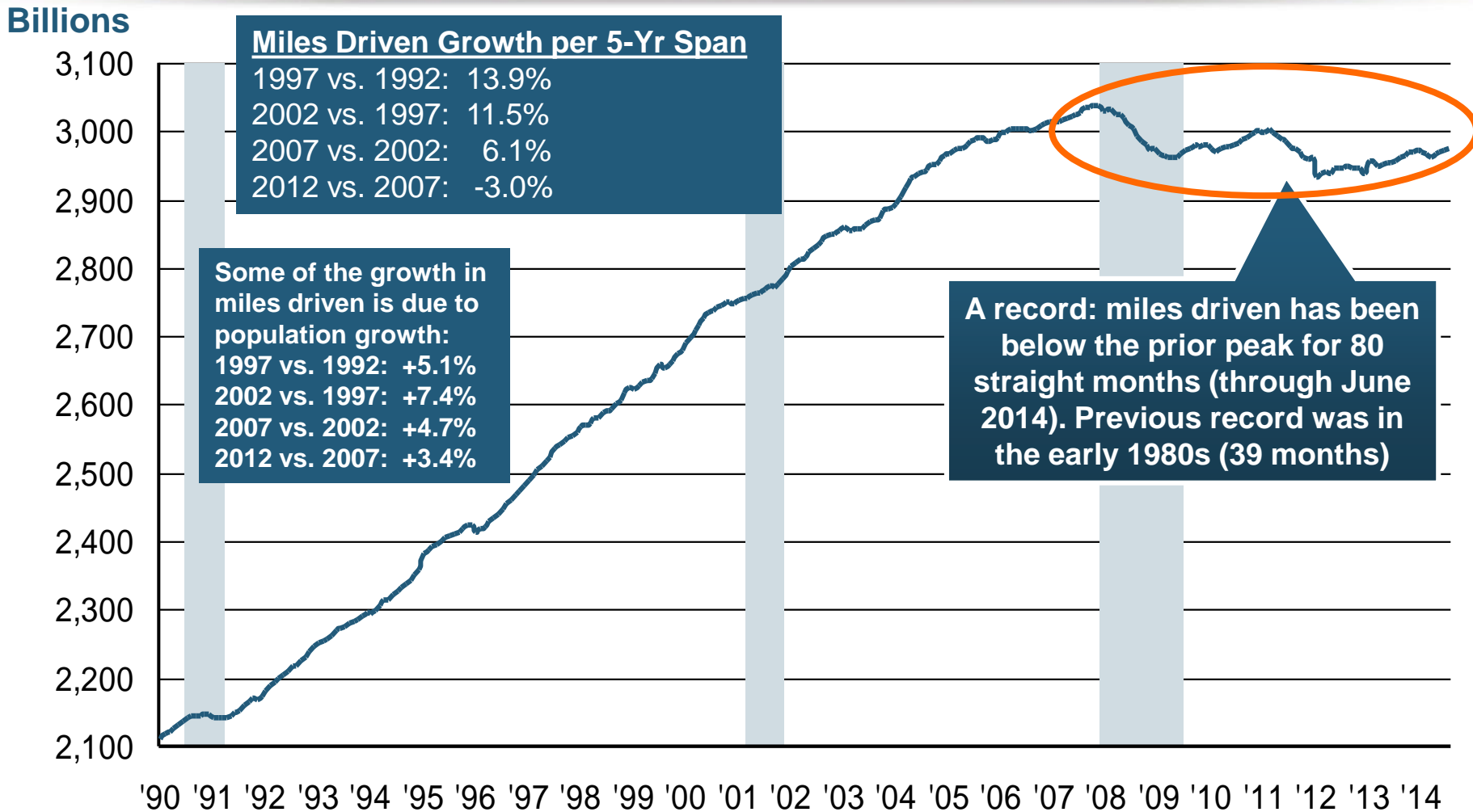
Note: Recessions indicated by gray shaded columns. *Seasonally adjusted; Latest data is for June 2014, preliminary

Sources: Federal Reserve at

<http://www.federalreserve.gov/datadownload/Download.aspx?rel=G19&series=8ee7aa36107a130bcc862d44824a3b86&lastObs=&from=&to=&filetype=csv&label=include&layout=seriescolumn&type=package>

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

Something Unusual is Happening: Miles Driven*, 1990–2014

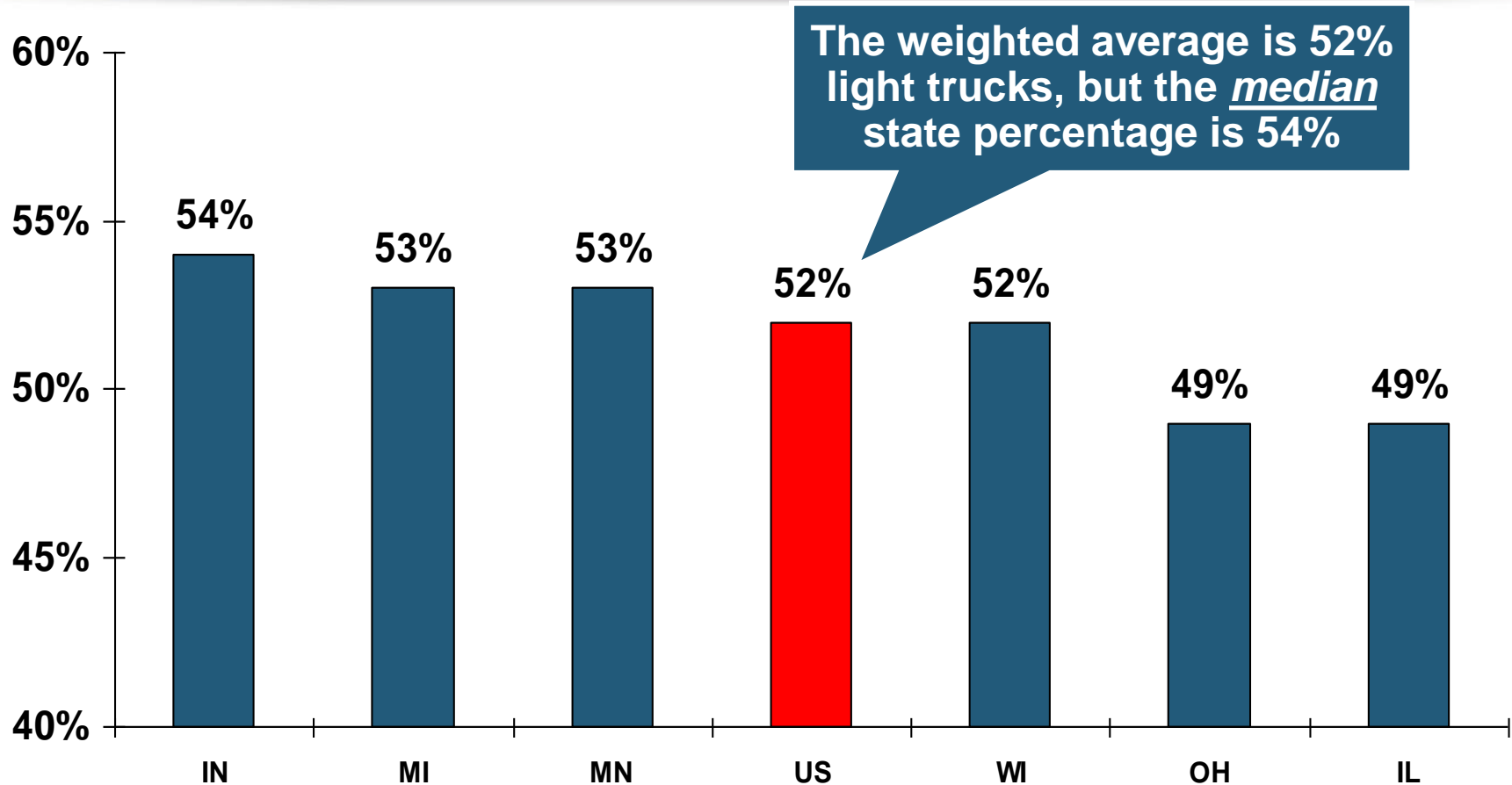


*Moving 12-month total. The latest data is for July 2014.

Note: Recessions indicated by gray shaded columns..

Sources: Federal Highway Administration (<http://www.fhwa.dot.gov/ohim/tvtw/tvtpage.cfm>); National Bureau of Economic Research (recession dates); Insurance Information Institute.

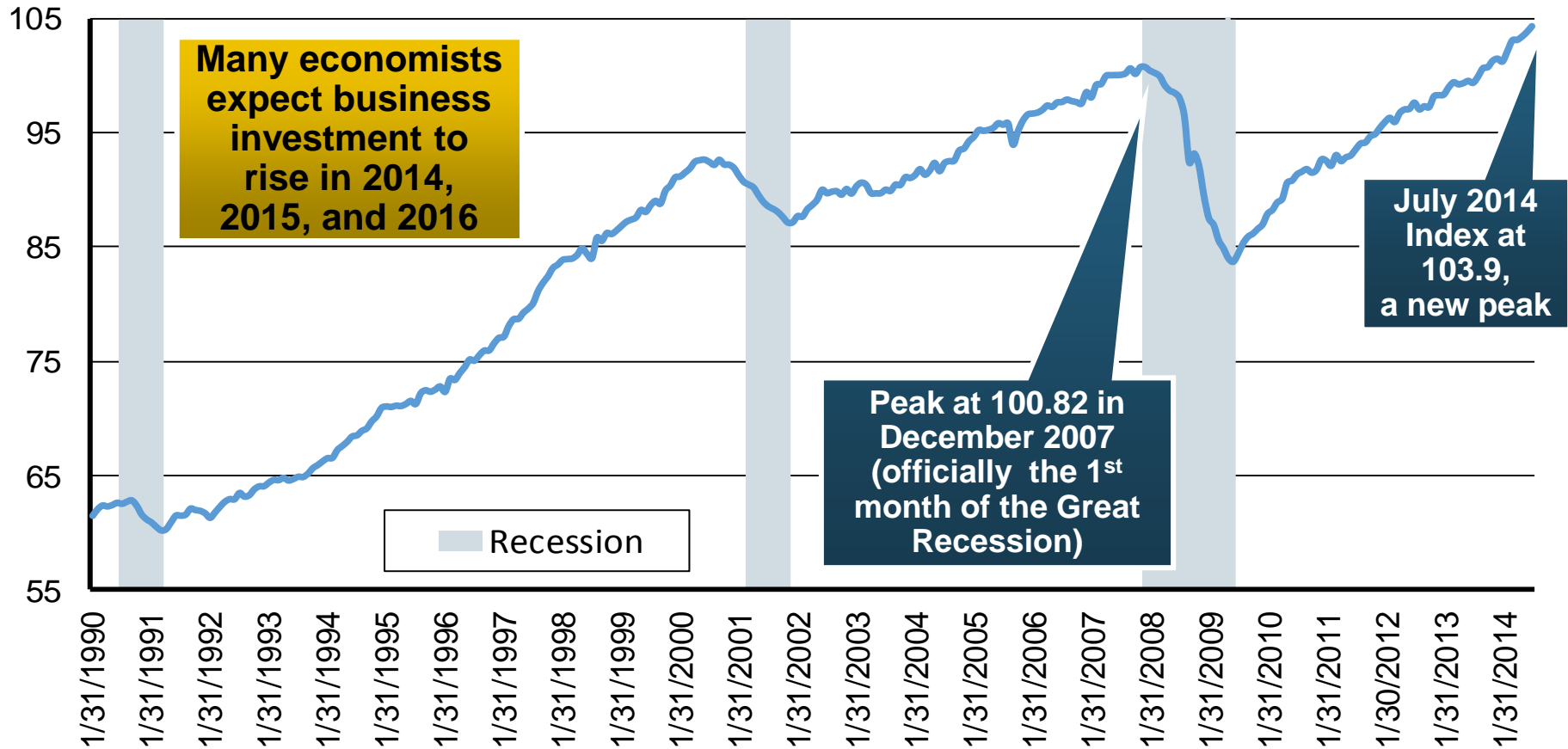
Light Trucks as Pct. Of Light Vehicles in Use: MAF States



PP Auto premiums will vary by state based on the mix of light trucks (SUVs, minivans, and pickup trucks) vs. passenger cars.

Forces Affecting Commercial Lines

Index of Total Industrial Production:* A New Peak in July 2014



Insurance exposures for industrial production will continue growing in 2014, and commercial insurance premium volume with them.

*Monthly, seasonally adjusted, through July 2014 (which is preliminary). Index based on year 2007 = 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.

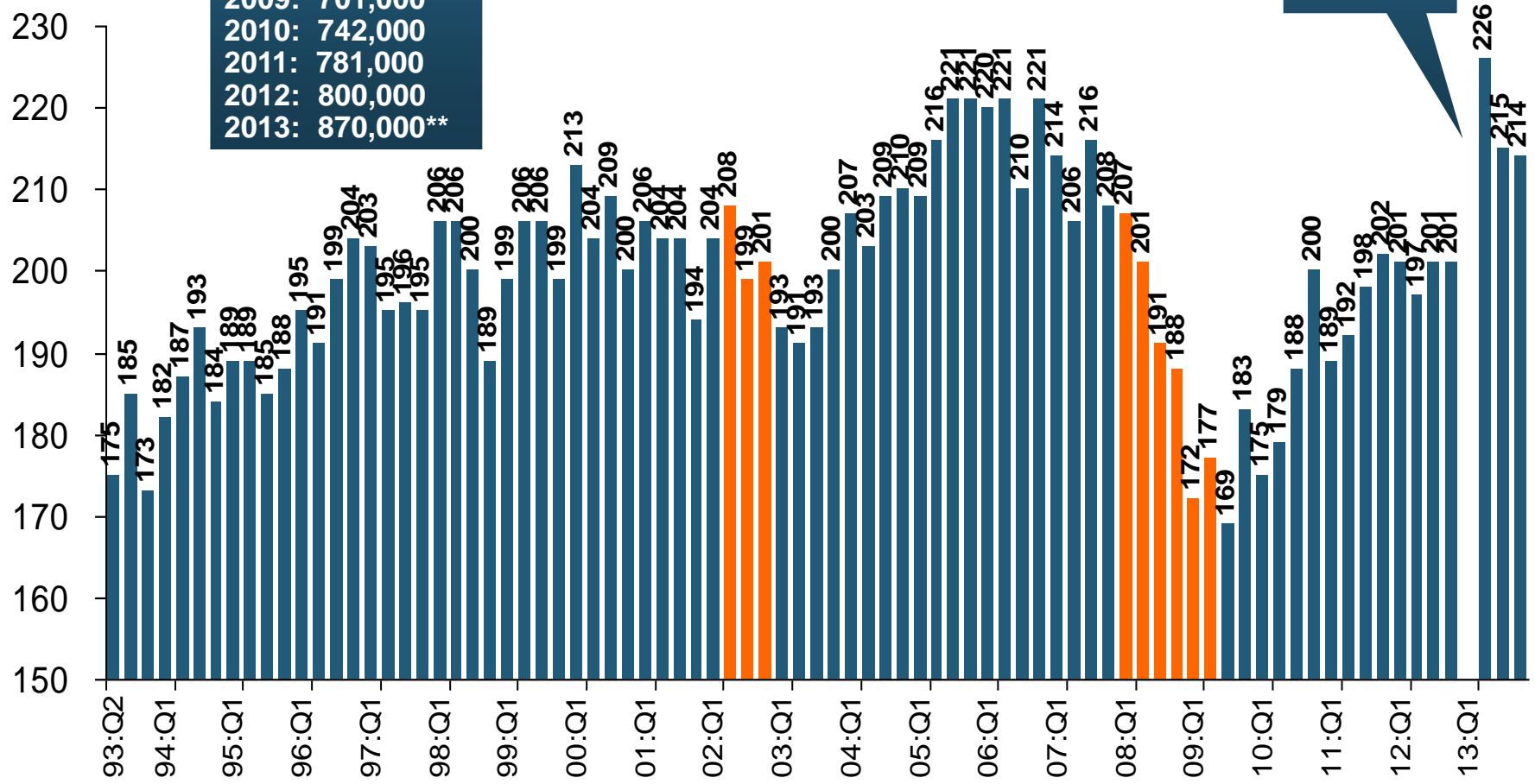
Private Sector Business Starts: 1993:Q2 – 2013:Q4* As Strong as Ever?

Recessions in orange

2013:Q1
578,000
business
starts*

Business Starts	
2006:	861,000
2007:	844,000
2008:	787,000
2009:	701,000
2010:	742,000
2011:	781,000
2012:	800,000
2013:	870,000**

Thousands



*Data posted Jul 30, 2014, the latest available; a classification change in 2013:Q1 resulted in a report of 578,000 businesses started in that quarter. Seasonally adjusted. **2013 number assumes 1st quarter equals average of second-through-fourth quarters

Sources: Bureau of Labor Statistics, <http://www.bls.gov/news.release/cewbd.t08.htm>. NBER (recession dates)

Dollar Value* of Manufacturers' Shipments Monthly, January 1992—June 2014

\$ Millions

\$500,000

\$400,000

\$300,000

\$200,000

The value of Manufacturing Shipments in June 2014 was \$499.8B—a new record high.

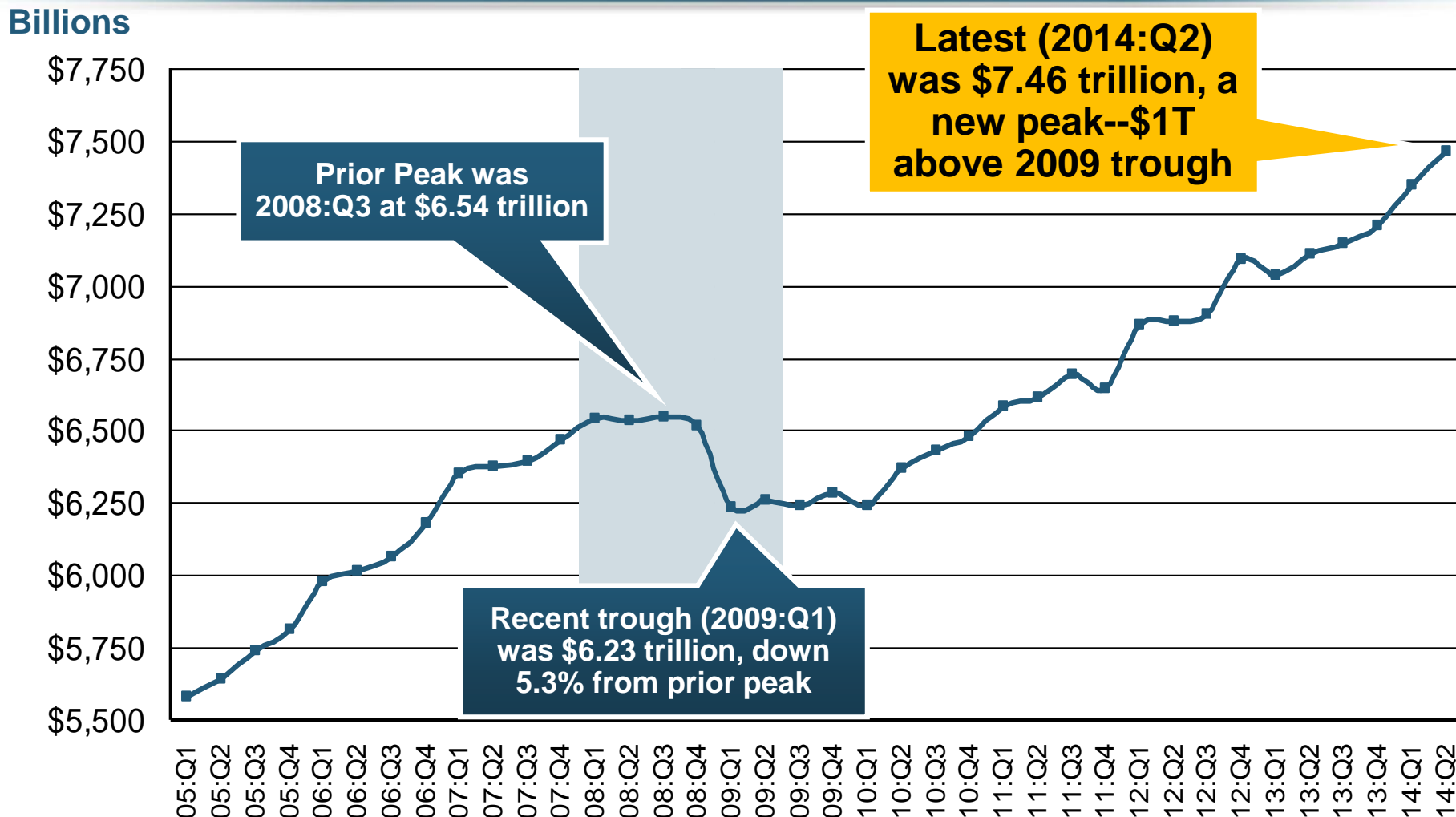
Jan-92 Jan-93 Jan-94 Jan-95 Jan-96 Jan-97 Jan-98 Jan-99 Jan-00 Jan-01 Jan-02 Jan-03 Jan-04 Jan-05 Jan-06 Jan-07 Jan-08 Jan-09 Jan-10 Jan-11 12-Jan Jan-13 Jan-14

Monthly shipments in November 2013 exceeded the pre-crisis (July 2008) peak; December 2013, January 2014, and February 2014 slipped a bit. March 2014, then April, then May, then June 2014 (prelim.) set new record highs.

*seasonally adjusted; June 2014 is preliminary; data published July 25, 2014.

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

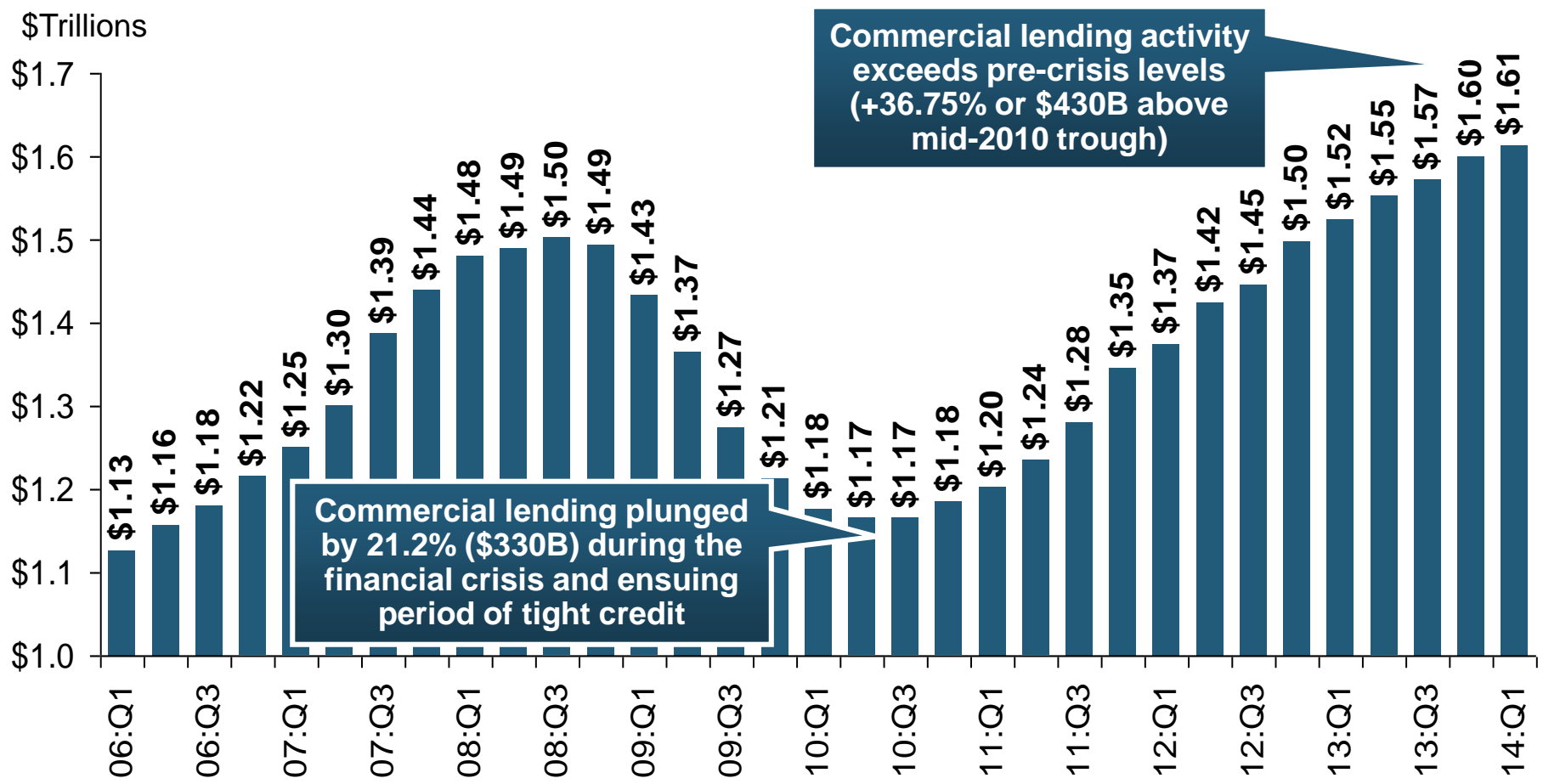
Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2014:Q2



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.

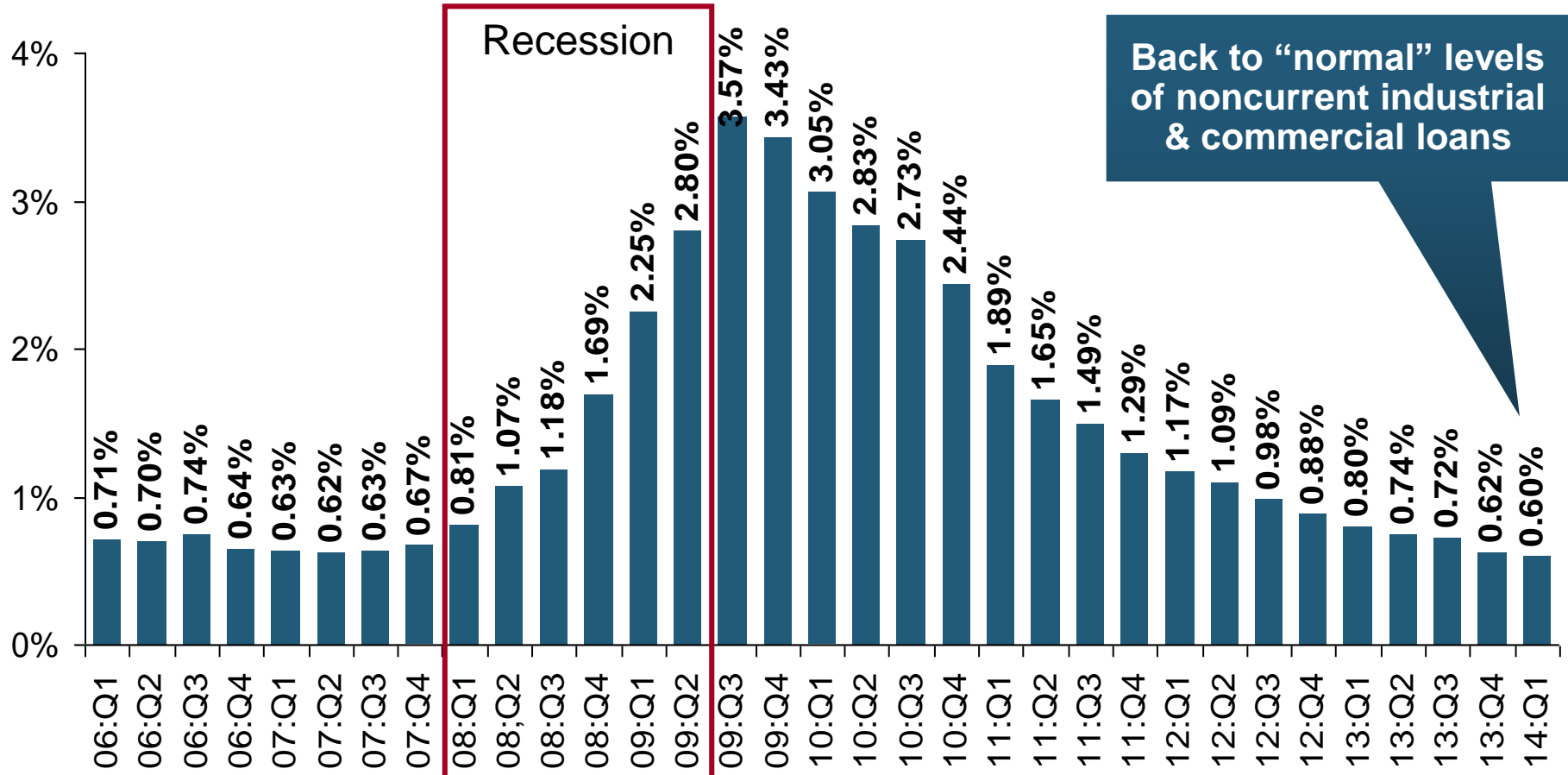
Commercial & Industrial Loans Outstanding at FDIC-Insured Banks, Quarterly, 2006-2014:Q1



Outstanding Commercial Loan Volume Has Been Growing for Over Two Years and Is Now Nearly Back to Early Recession Levels. Bodes Very Well for the Creation of Current and Future Commercial Insurance Exposures

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

Percent of Non-current Commercial & Industrial Loans Outstanding at FDIC-Insured Banks, Quarterly, 2006-2014:Q1



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

Winter Storms and Other Natural Catastrophes

**Have You Noticed It's Been Cold
and Snowy Lately?**

Significant Natural Catastrophes in 2013

(\$1 billion economic loss and/or 50 fatalities)



Date	Event	Estimated Economic Losses (US \$m)	Estimated Insured Losses (US \$m)
February 24 – 25	Winter Storm	1,300	690
March 18 – 19	Thunderstorms	2,200	1,600
April 7 – 11	Winter Storm	1,600	1,200
April 16 – 18	Thunderstorms	1,100	560
May 18 – 20	Thunderstorms	3,100	1,800
May 28 – 31	Thunderstorms	2,800	1,400
August 6 – 7	Thunderstorms	1,300	740
September 9 – 16	Flooding	1,500	160
November 17 - 18	Thunderstorms	1,300	931

Natural Disaster Losses in the United States, 2013

As of December 31, 2013	Number of Events	Fatalities	Estimated Overall Losses (US \$m)	Estimated Insured Losses (US \$m)
Severe Thunderstorm	69	110	16,341	10,274
Winter Storm	11	43	2,935	1,895
Flood	19	23	1,929	240
Earthquake & Geophysical	6	1	Minor	Minor
Tropical Cyclone	1	1	Minor	Minor
Wildfire, Heat, & Drought	22	29	620	385
Totals	128	207	21,825	12,794

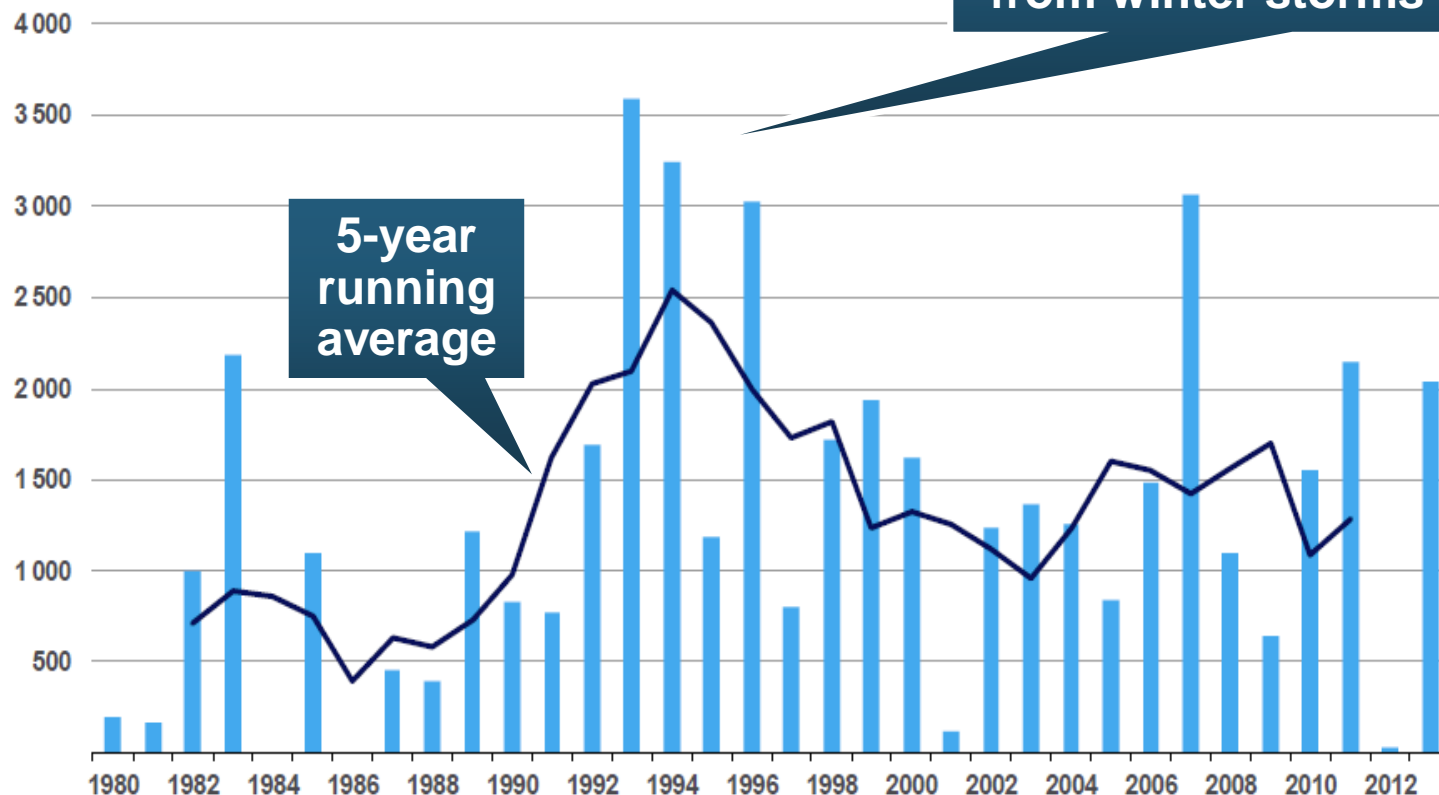
Largest Insured Claims, Individual Winter Storms, US & Canada, 1980-2013

Storm Dates	Economic Loss (\$2013, mil)	Insured Loss (\$2013, mil)	Deaths
Mar. 11-14, 1983	\$8,061	\$3,224	270
Dec. 17-30, 1983	\$2,339	\$2,058	500
Apr. 13-17, 2007	\$2,247	\$1,775	23
Dec. 10-13, 1992	\$4,981	\$1,660	19
Jan. 5-12, 1998	\$4,146	\$1,644	45
Feb. 10-12, 1994	\$4,716	\$1,258	9
Jan. 17-20, 1994	\$1,572	\$1,258	70
Apr. 7-11, 2013	\$1,600	\$1,200	N/A
Jan. 1-4, 1999	\$1,398	\$1,084	25
Jan 31-Feb 2, 2011	\$1,346	\$1,010	36

Sources: Munich Re NatCatSERVICE, Insurance Information Institute

Winter Storm and Winter Damage Events in the US and Canada, 1980-2013 (2013 US\$)

Insured Losses (Millions, \$ 2013)



1993, '94, & '96: 3 of the 4 costliest years for insured losses from winter storms and damage.

5-year running average

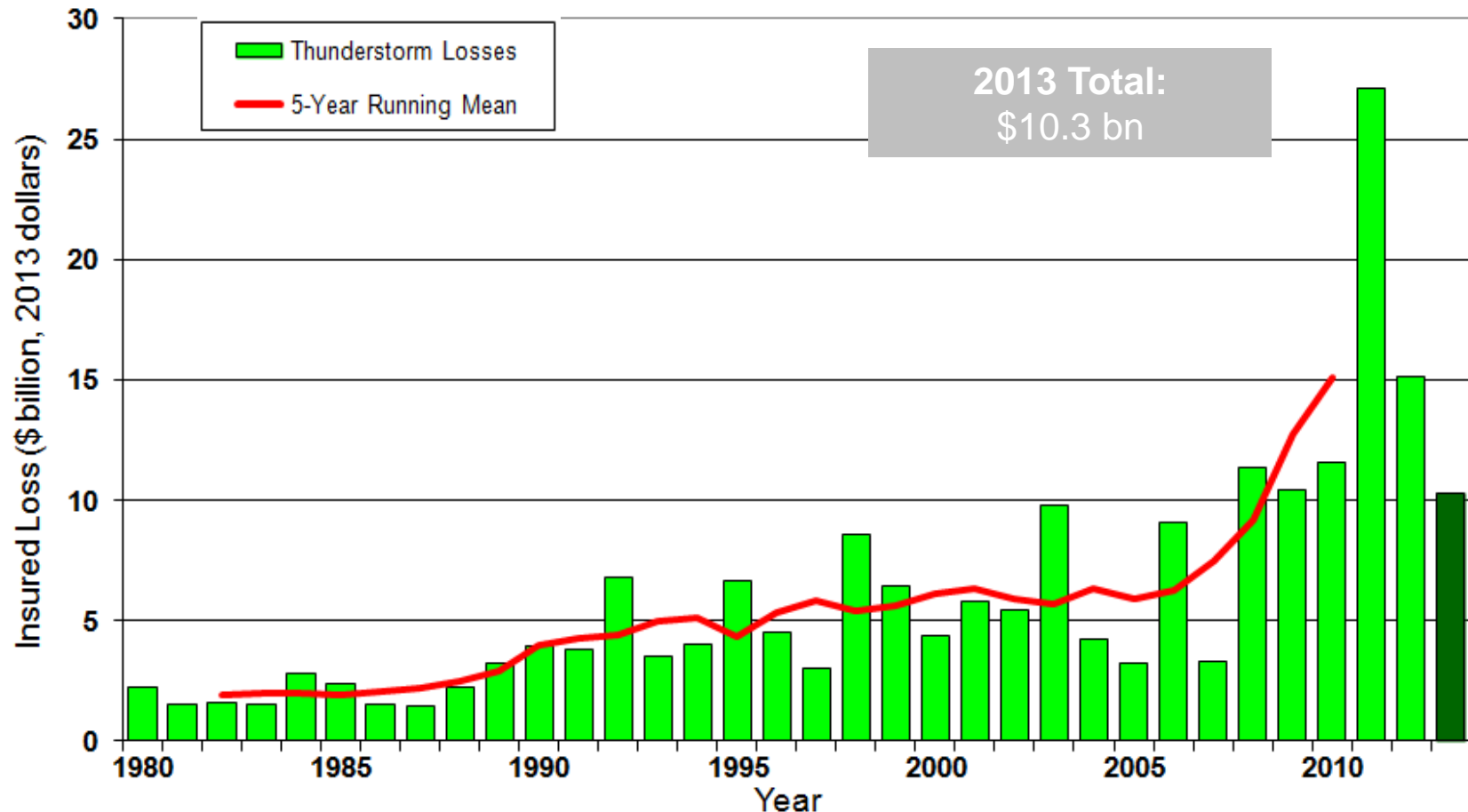
In 2013, insured losses from severe winter events: \$2 billion.

Insured winter storm and damage losses in Jan. 2014 already totaled \$1.5 billion. Continued severe weather since then makes it likely that 2014 will become one of the top 5 costliest winters since 1980.

US Thunderstorm Loss Trends

Insured Annual Totals 1980 – 2013

Average insured thunderstorm losses have increased sevenfold since 1980.

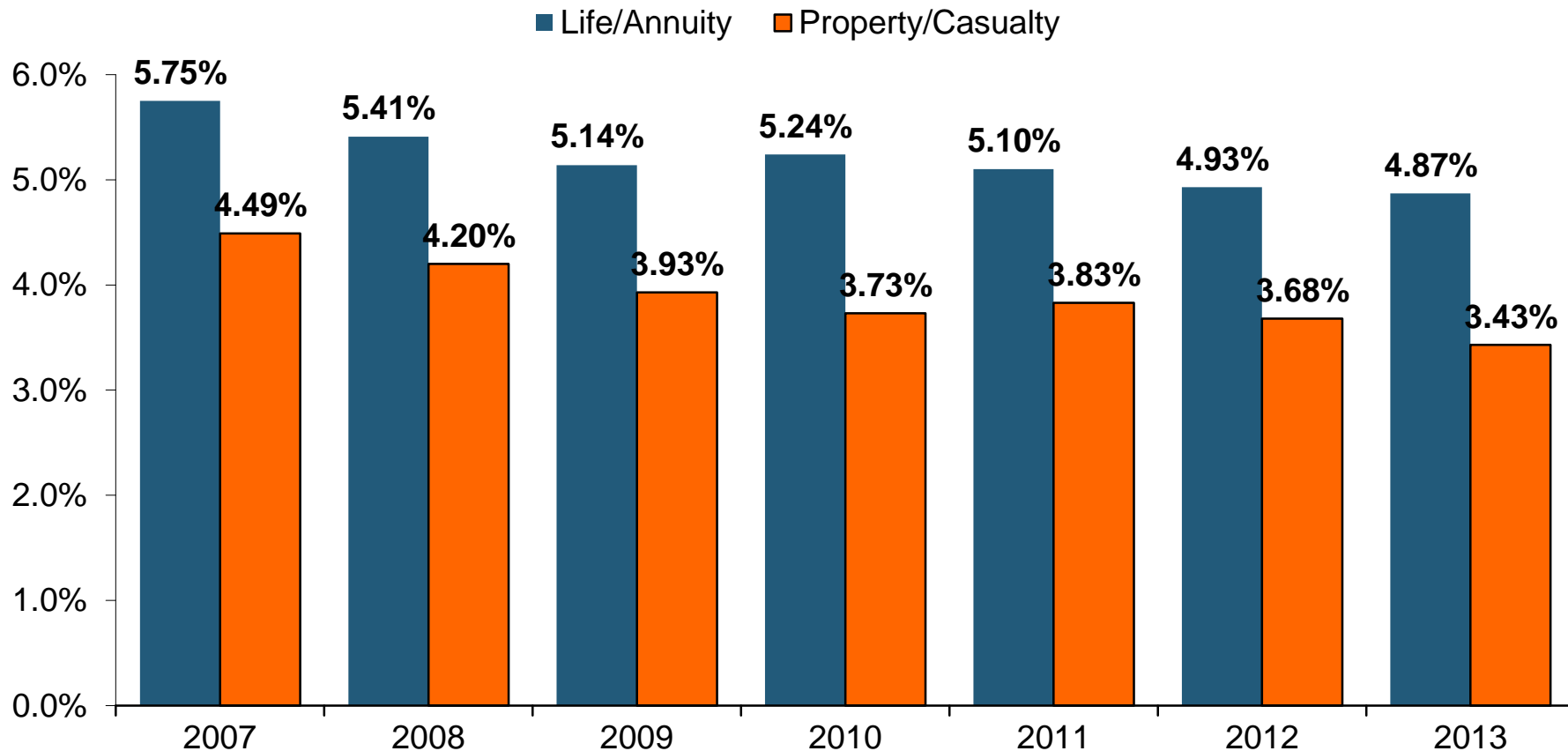




Investment Performance: a Key Driver of Profitability

*Depressed Yields Influence
Underwriting & Pricing*

Net Yield on Insurer Invested Assets, 2007-2014:1H

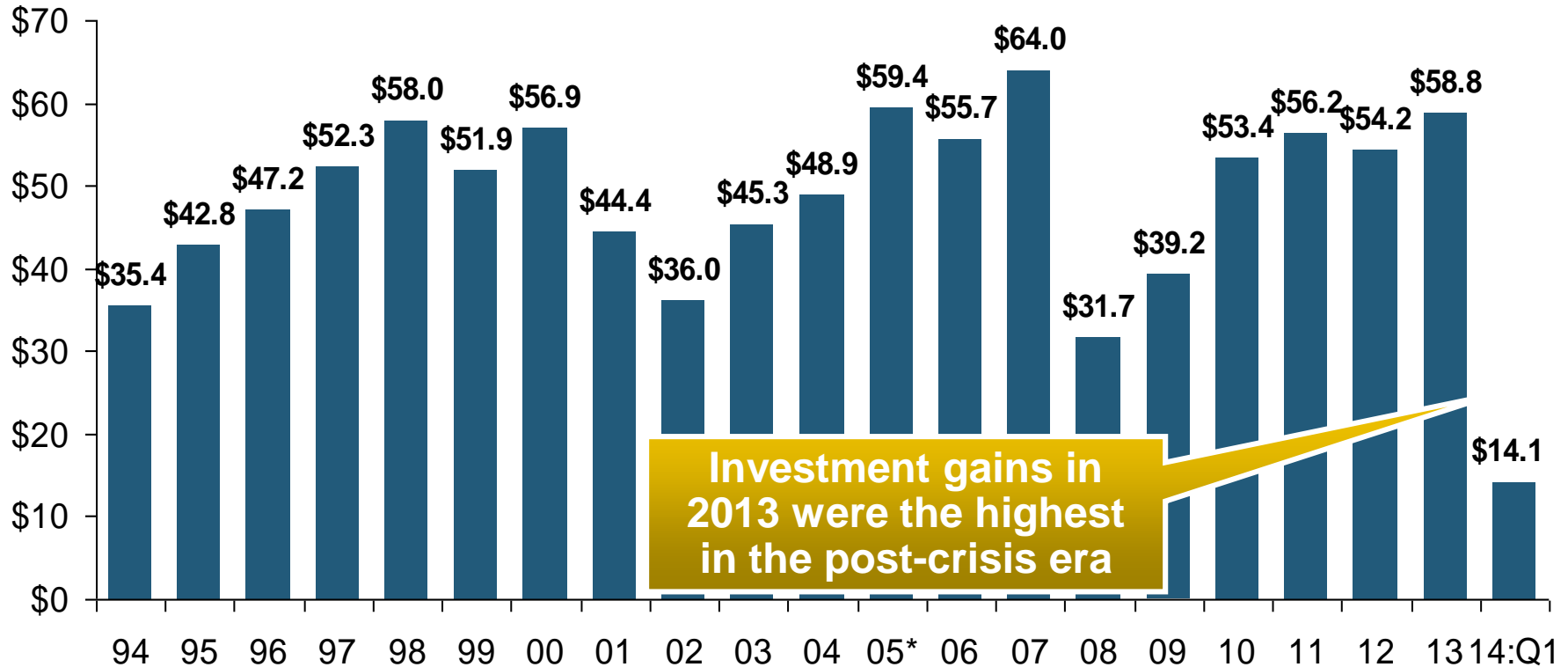


P/C Insurer net yields to date dropped by 106 basis points since year-end 2007.

Sources: NAIC, via SNL Financial; I.I.I.

Property/Casualty Insurance Industry Investment Gain: 1994–2014:Q1¹

\$ Billions



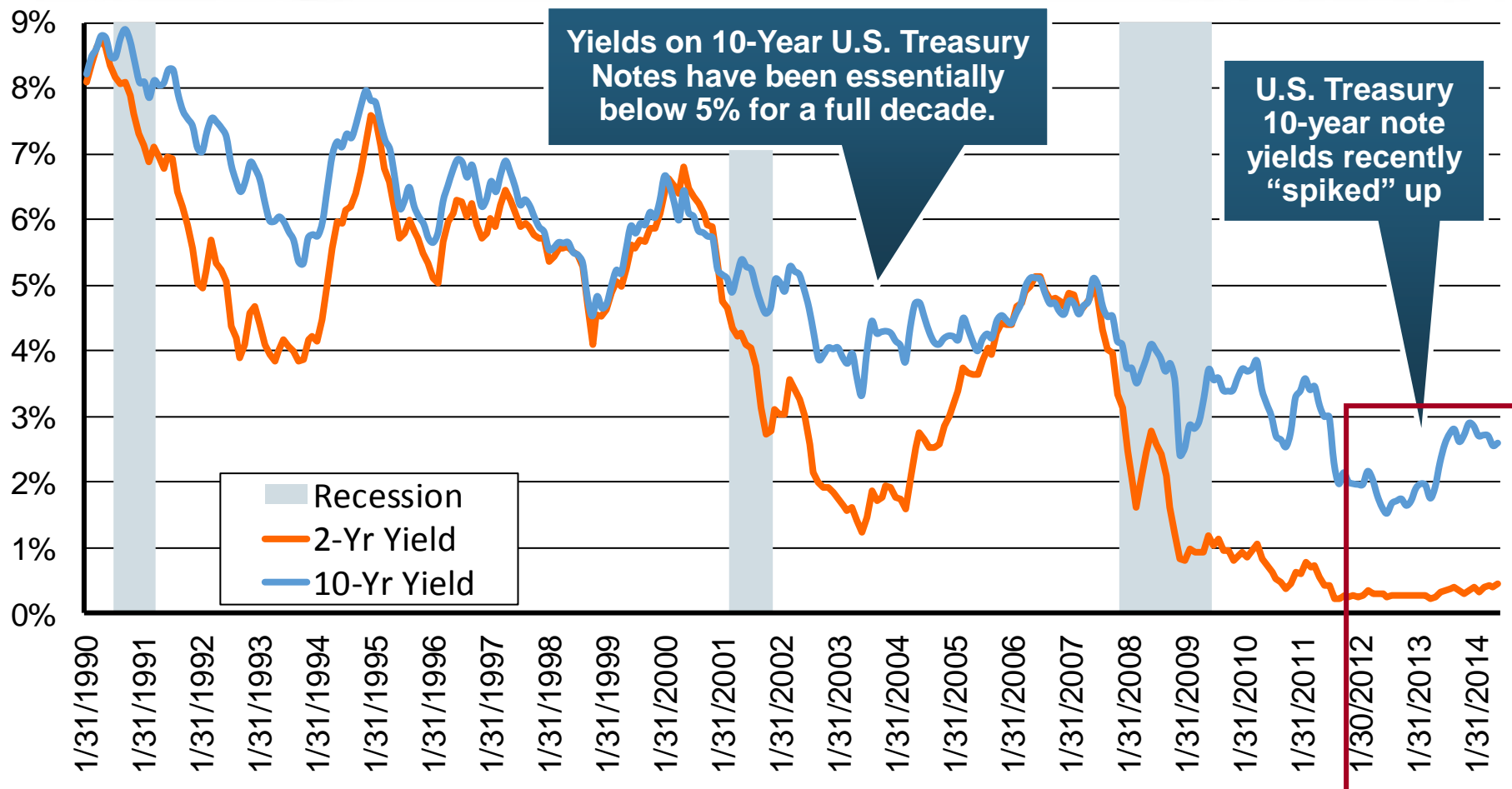
Low interest rates in 2013 caused investment income to keep falling but realized investment gains were up sharply.
The financial crisis caused investment gains to fall by 50% in 2008.

¹ Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.

* 2005 figure includes special one-time dividend of \$3.2B;

Sources: ISO; Insurance Information Institute.

U.S. Treasury 2- and 10-Year Note Yields*: 1990–2014

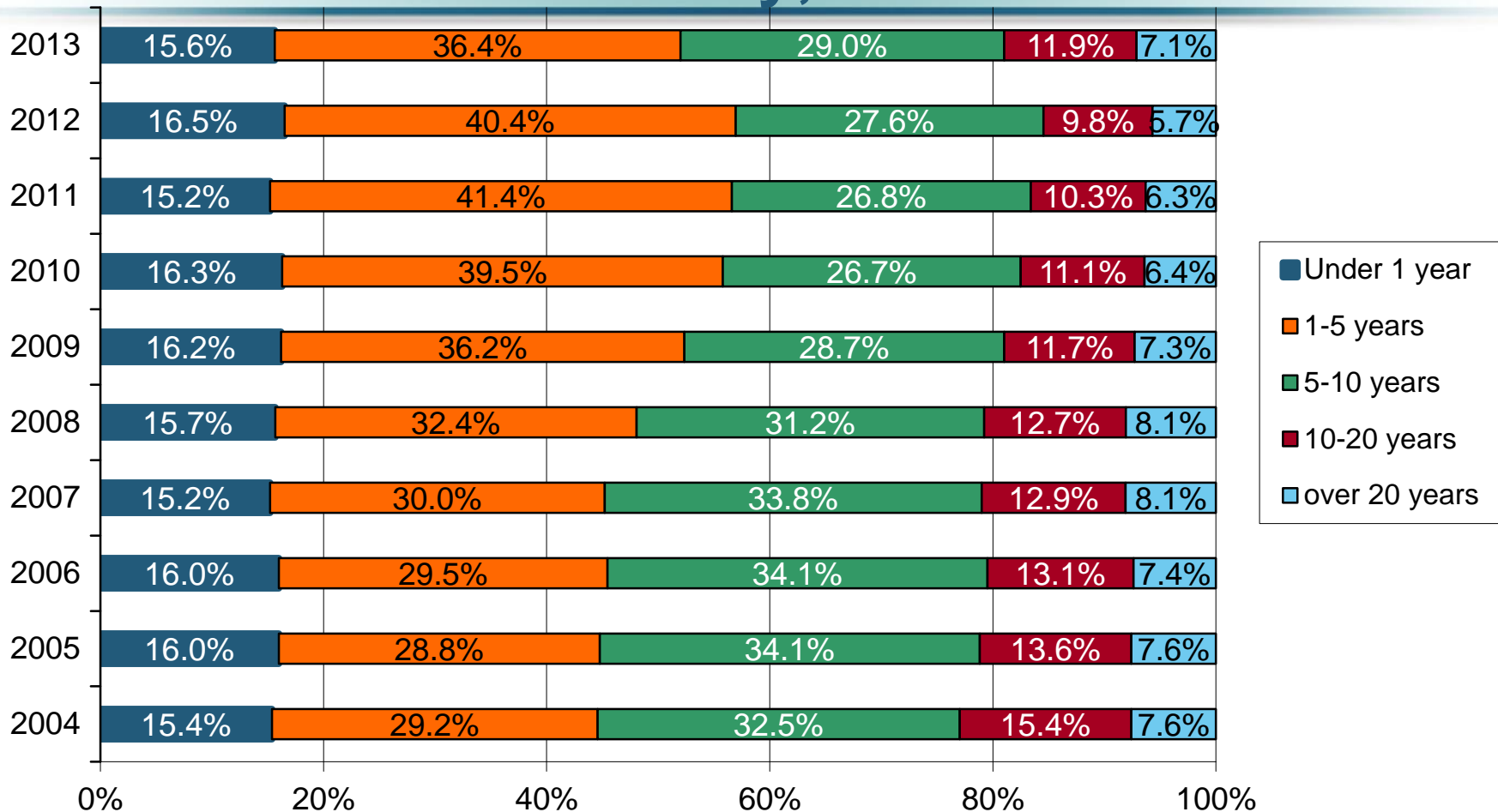


Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, constant maturity, nominal rates, through July 2014.

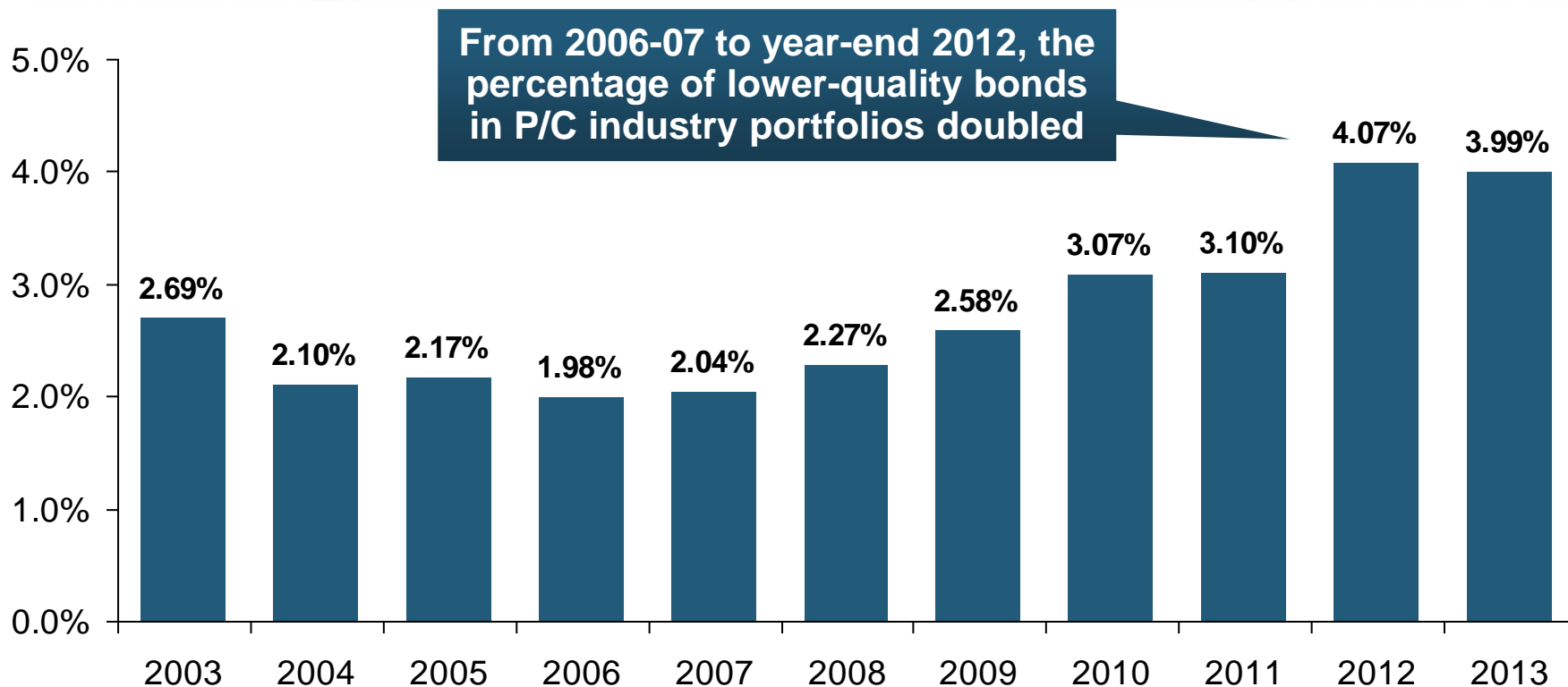
Sources: Federal Reserve Bank at <http://www.federalreserve.gov/releases/h15/data.htm>.
National Bureau of Economic Research (recession dates); Insurance Information Institutes.

Distribution of Bond Maturities, P/C Insurance Industry, 2004-2013



The main shift over these years has been from bonds with longer maturities to bonds with shorter maturities. The industry trimmed its holdings of over-10-year bonds (from 23.0% in 2004 to 15.5% in 2012) and trimmed bonds in the 5-10-year category (from 32.5% in 2004 to 27.6% in 2012). A shift back began in 2013.

Bonds Rated NAIC Quality Category 3-6 as a Percent of Total Bonds, 2003–2013



There are many ways to capture higher yields on bond portfolios. One is to accept greater risk, as measured by NAIC bond ratings. The ratings range from 1 to 6, with the highest quality rated 1. Even in 2012-13, over 95% of the industry's bonds were rated 1 or 2.

Insurance Information Institute Online:

www.iii.org

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