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

## *Focus on Minnesota Markets*

**PIA of Minnesota**

**Prior Lake, MN**

**September 4, 2014**

**Download at www.iii.org/presentations**

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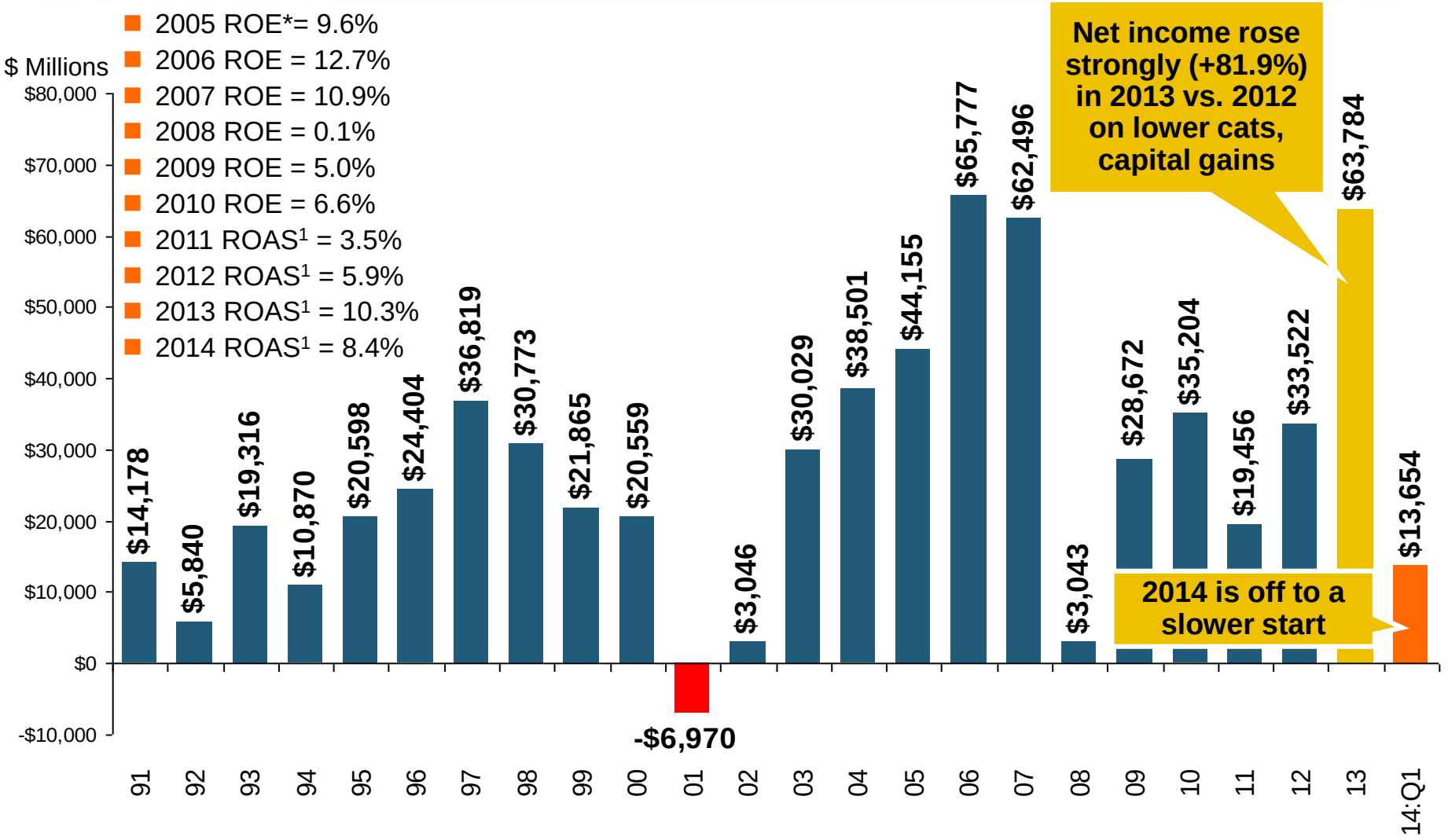
# P/C Insurance Industry: *Financial Update*

## 2013 Was the Industry's Best Year in the Post-Crisis Era

## *2014 Is Off to a Good Start*

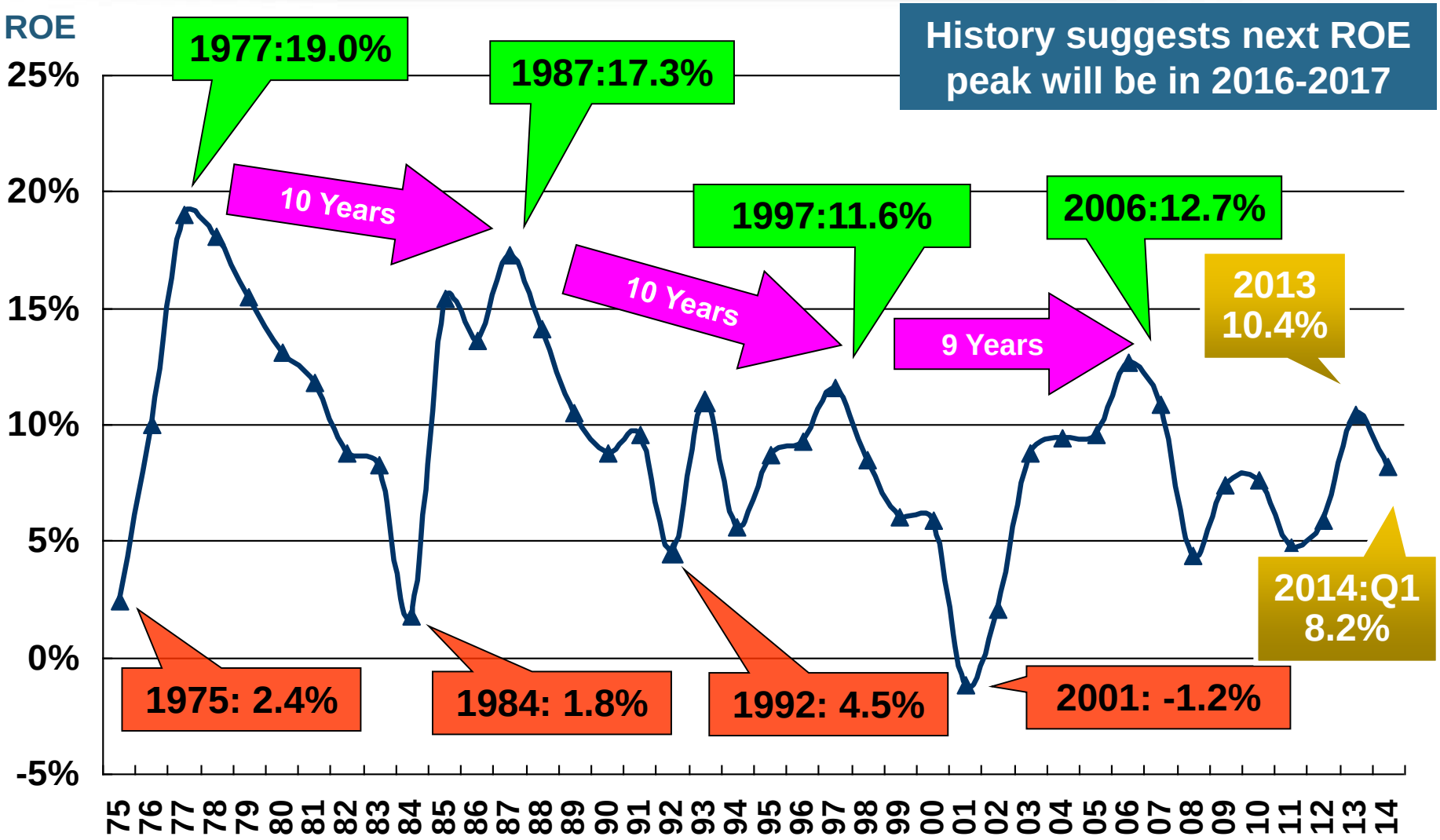
# P/C Industry Net Income After Taxes 1991–2014:Q1




•ROE figures are GAAP; [1]Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields an 8.2% ROAS through 2014:Q1, 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

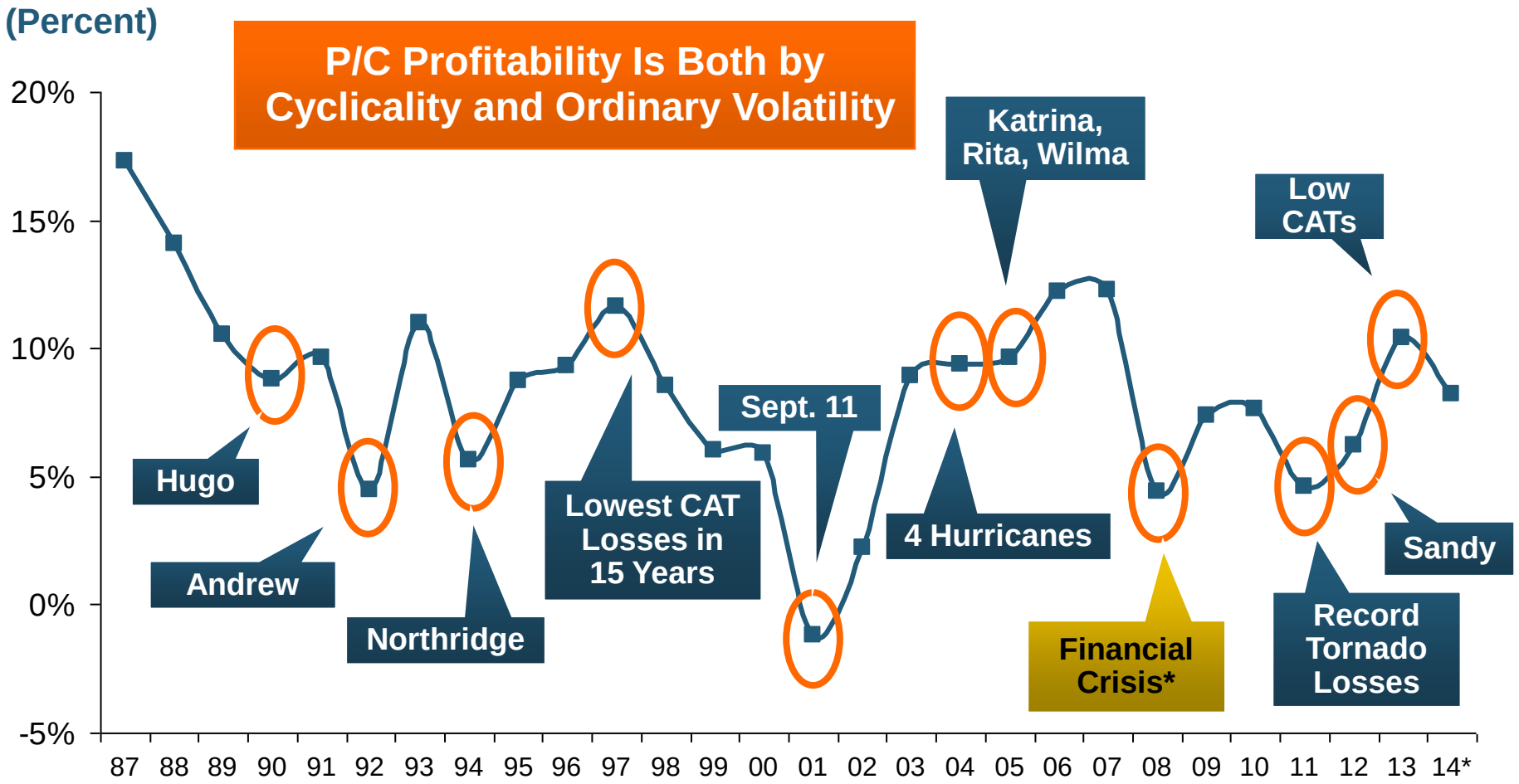
# Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2014:Q1*




*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.

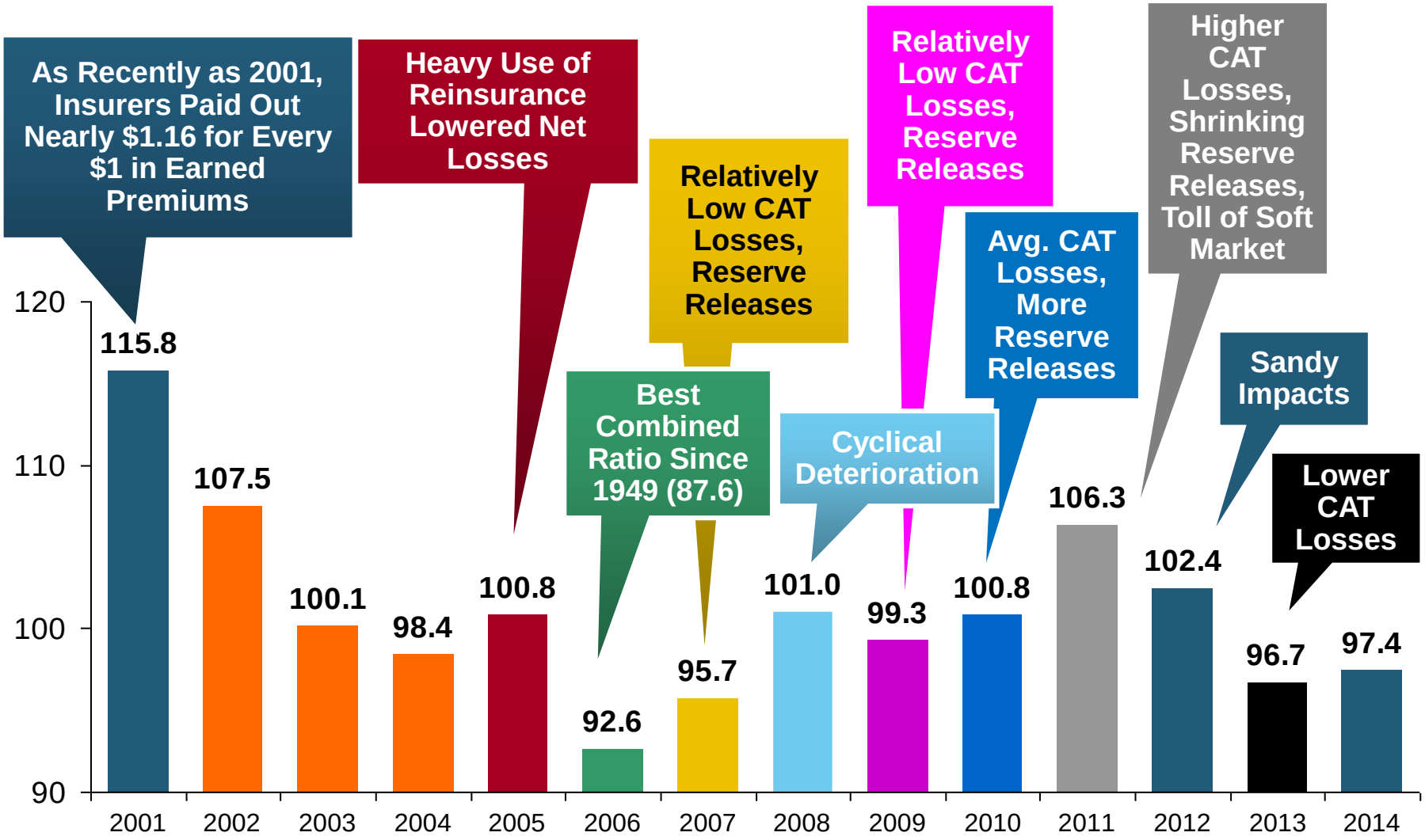
Source: Insurance Information Institute; NAIC, ISO, A.M. Best.

# ROE: Property/Casualty Insurance by Major Event, 1987–2014:Q1




* Excludes Mortgage & Financial Guarantee in 2008 – 2014. 2014 figure is through Q1:2014.
Sources: ISO, *Fortune*; Insurance Information Institute.

# P/C Insurance Industry Combined Ratio, 2001–2014:Q1*




* 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:Q1 = 97.3.

Sources: A.M. Best, ISO.

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

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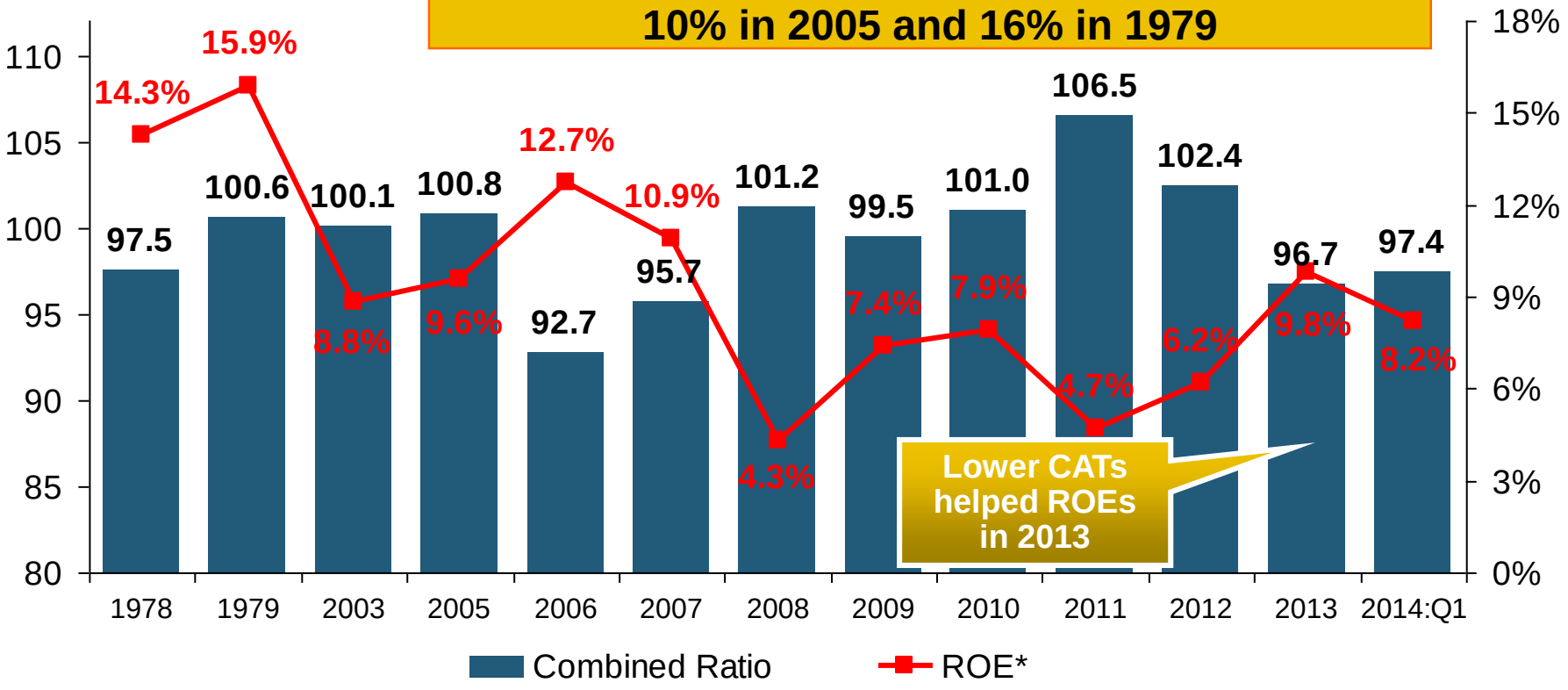
## Combined Ratio / ROE

**A combined ratio of about 100 generates an ROE of ~7.0% in 2012/13, ~7.5% ROE in 2009/10, 10% in 2005 and 16% in 1979**

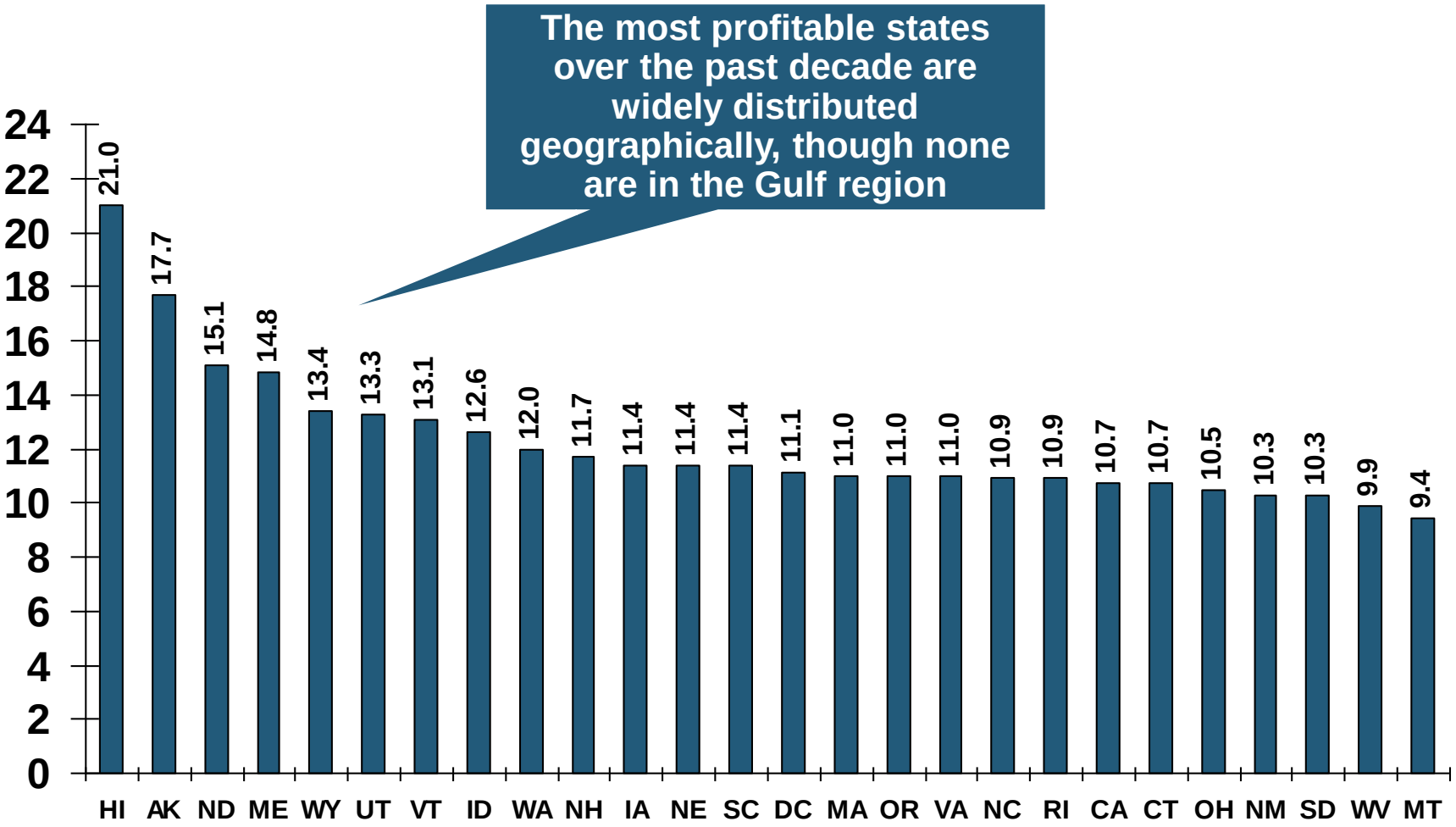



**Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs**

* 2008 -2014 figures are return on average surplus and exclude mortgage and financial guaranty insurers. 2014:Q1 combined ratio including M&FG insurers is 97.3; 2013 = 96.1; 2012 =103.2, 2011 = 108.1, ROAS = 3.5%.

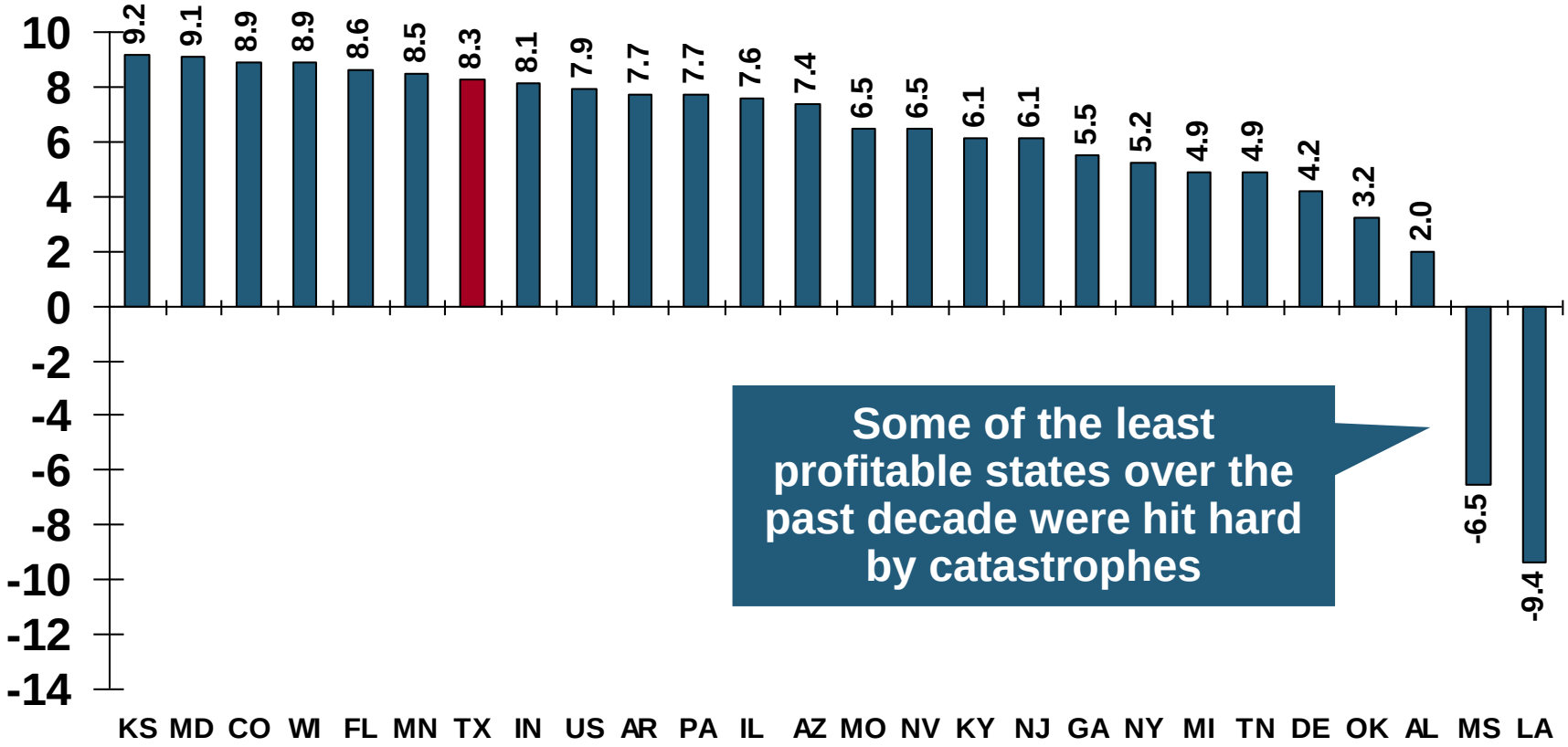
Source: Insurance Information Institute from A.M. Best and ISO Verisk Analytics data.

# RNW All Lines by State, 2003-2012 Average: Highest 25 States



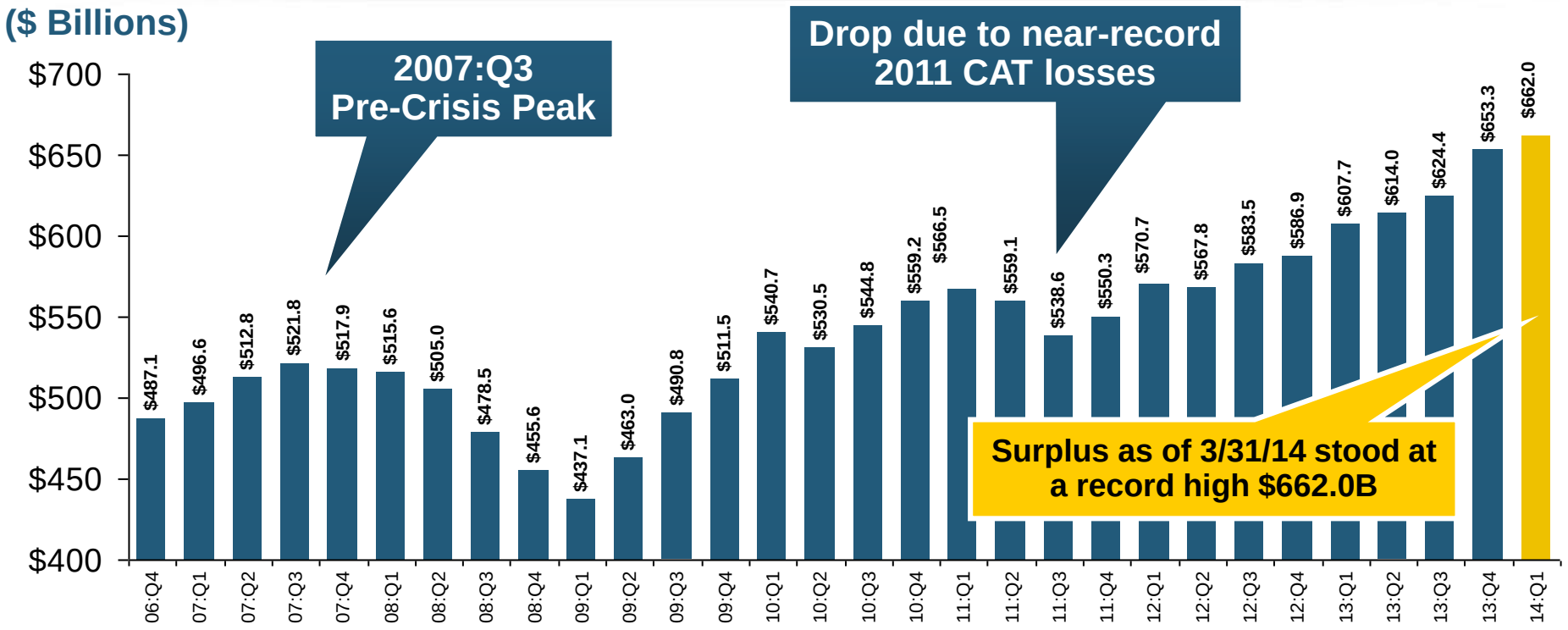

Source: NAIC; Insurance Information Institute.

# RNW All Lines by State, 2003-2012 Average: Lowest 25 States




Source: NAIC; Insurance Information Institute.

# Policyholder Surplus, 2006:Q4–2014:Q1




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

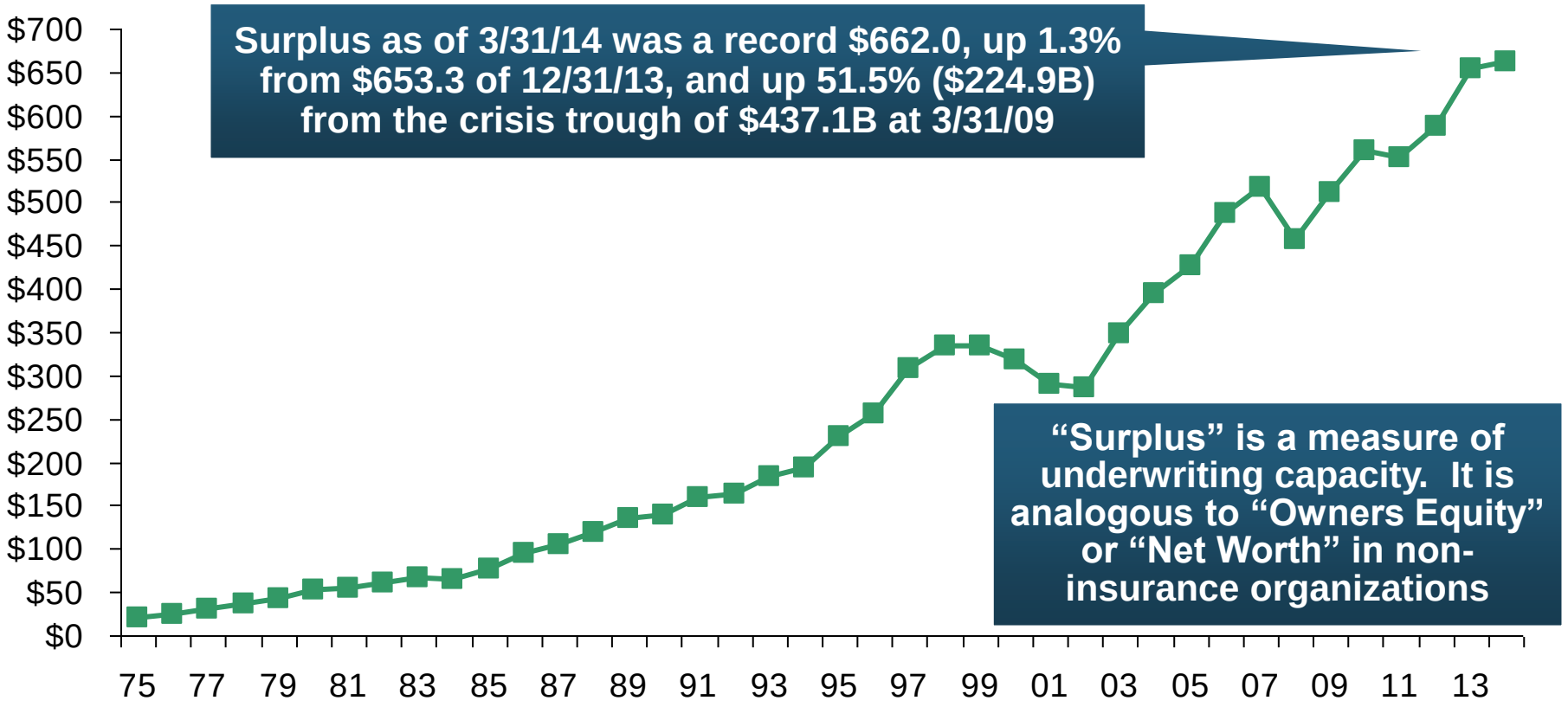
2010:Q1 data includes $22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business .

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

Sources: ISO, A.M .Best.

# US Policyholder Surplus: 1975–2014*

($ Billions)




**The Premium-to-Surplus Ratio Stood at $0.73:$1 as of 3/31/14, a Near Record Low (at Least in Recent History)**

* As of 3/31/14.

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

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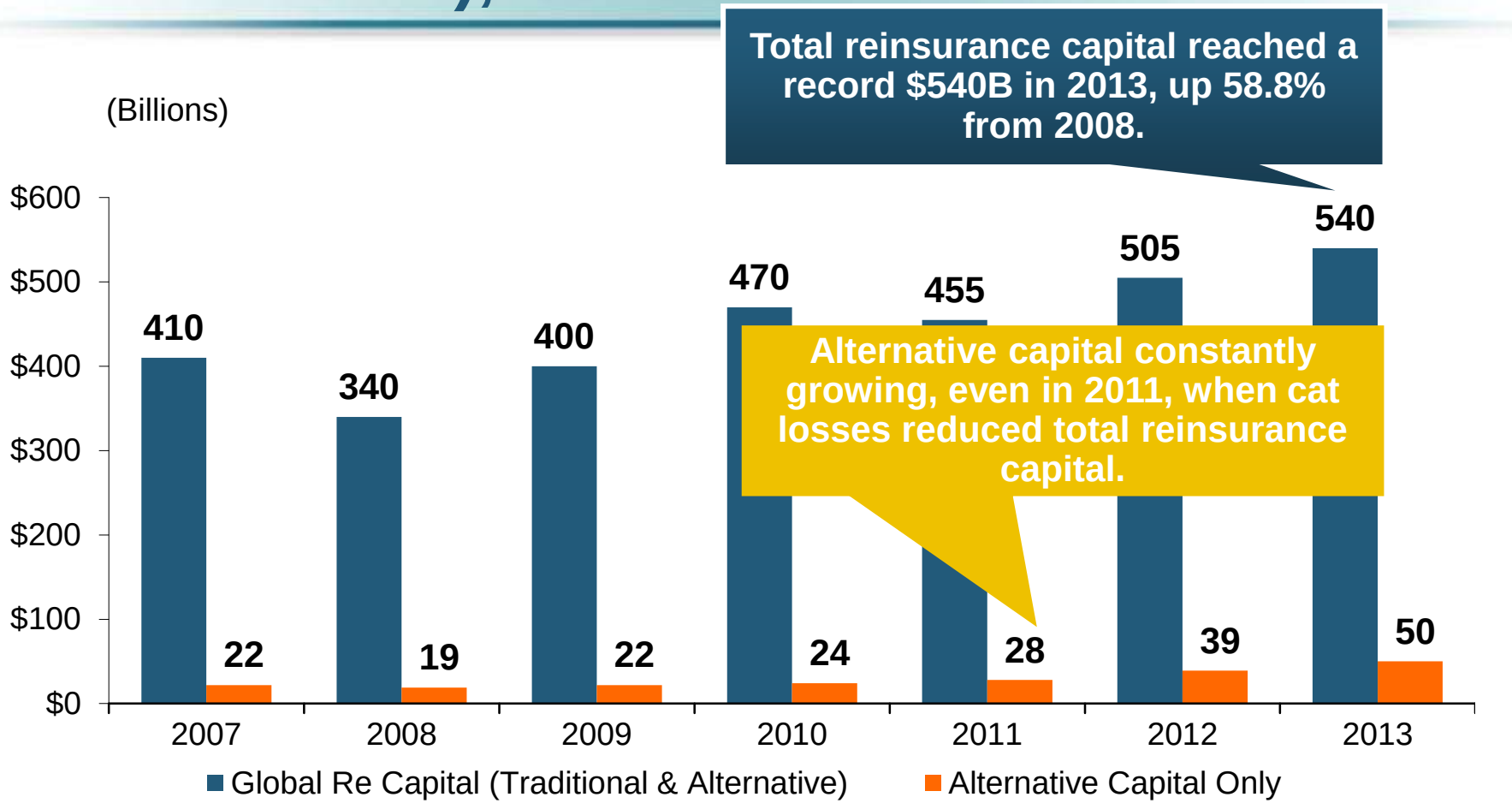
# ALTERNATIVE CAPITAL & REINSURANCE MARKETS

## Ample Capacity as Alternative Capital is Transforming the Market—And Pushing Down Reinsurance Prices

# Global Reinsurance Capital (Traditional and Alternative), 2007 - 2013




**But alternative capacity has grown 163% since 2008, to $50B. It has grown 79% in the past two years.**

Source: Aon Benfield *Reinsurance Market Outlook,* April 1, 2014; Insurance Information Institute.

# Alternative Capacity as a Percentage of Global Property Catastrophe Reinsurance Limit

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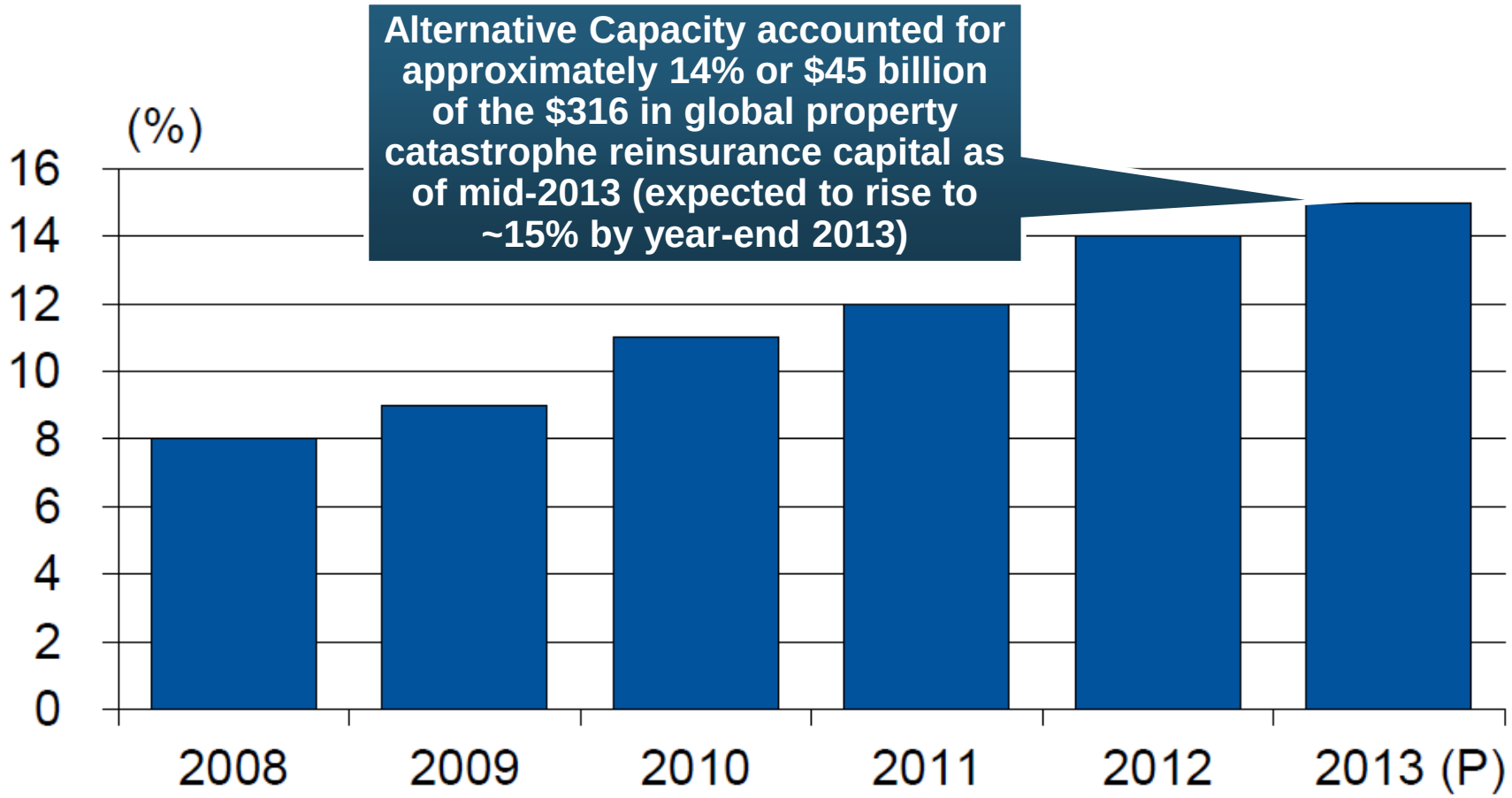
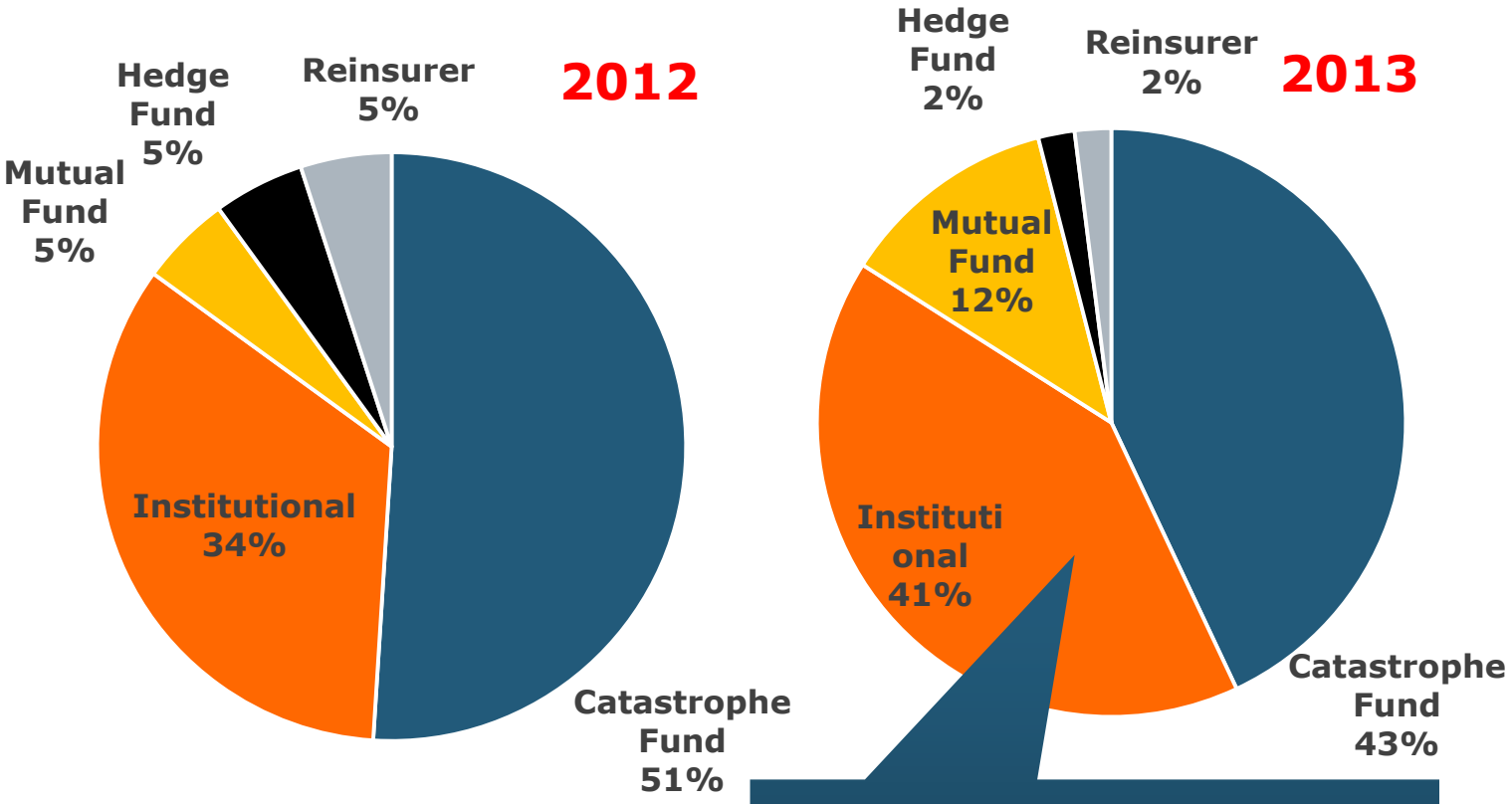
(As of Year End)




Source: Guy Carpenter

# Investor by Category

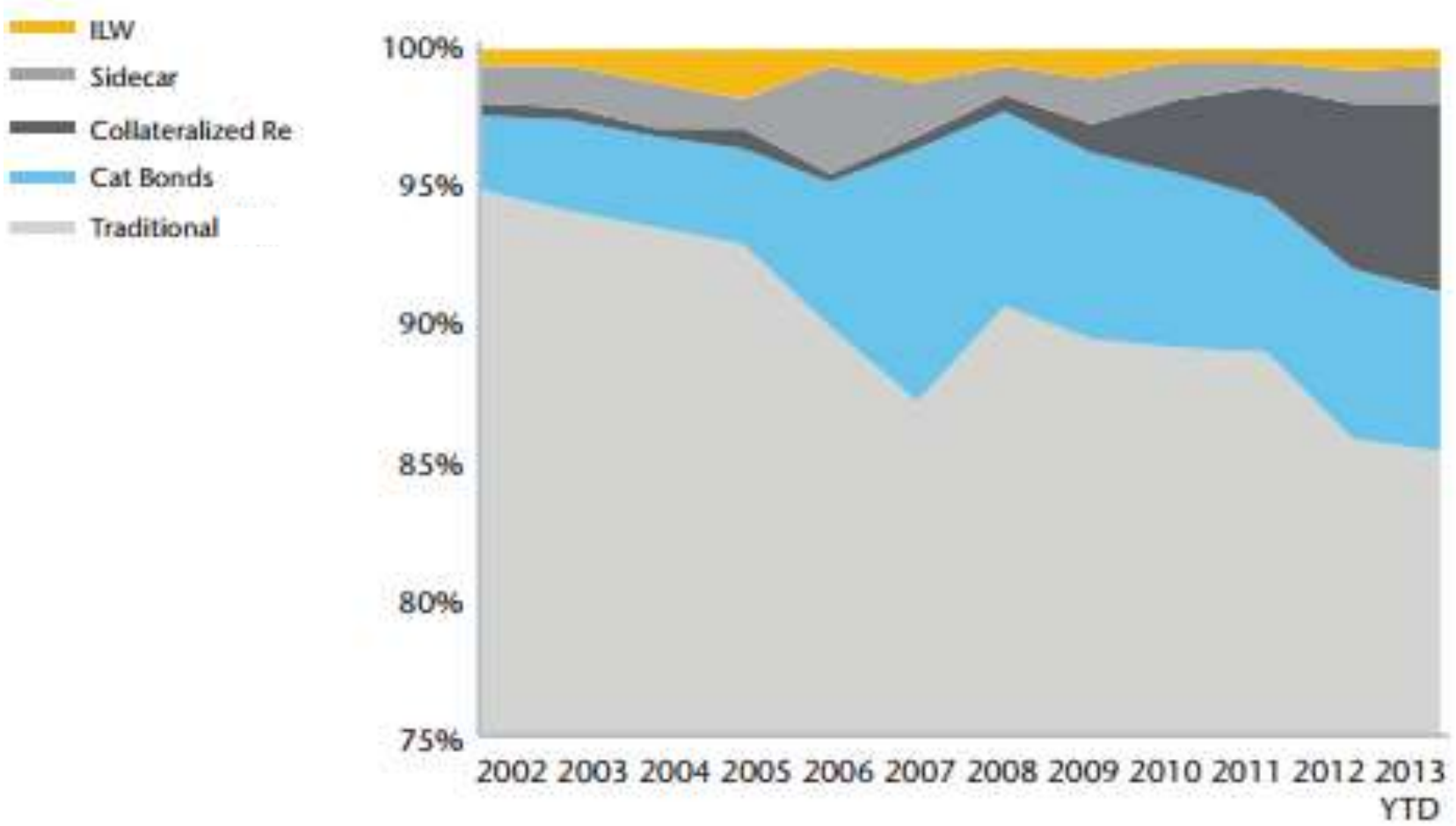



**Institutional investors are accounting for a larger share of alternative reinsurance investors**

Years ended June 30.

Source: Aon Benfield Securities; Insurance Information Institute.

# Alternative Risk Transfer: Market Growth




**Since 2009, market share of collateralized reinsurance has grown faster than cat bonds or other forms of risk transfer**

Source: Aon Benfield *Insurance-Linked Securities: Capital Revolution,* August 30, 2013; Insurance Information Institute.

# Catastrophe Bonds: Issuance and Outstanding, 1997- 2014:Q1

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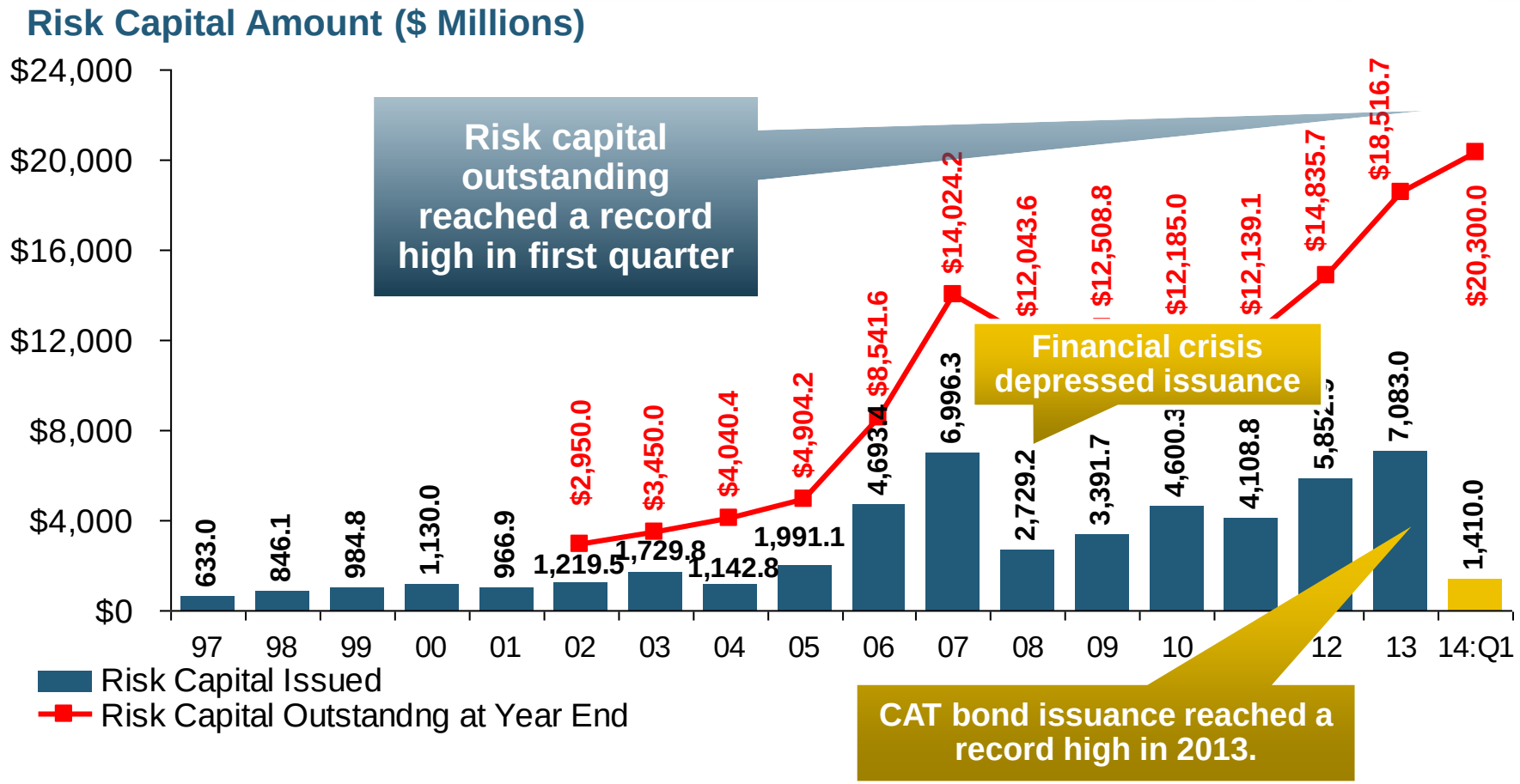


**Second Quarter 2014 Will Set a Record – Nearly $4.6 Billion Issued**

Sources: Guy Carpenter (Aon Benfield for 2014:Q1); Artemis for 2014:Q2 estimate; Insurance Information Institute.

# Catastrophe Bonds: Issuance and Outstanding, 1997- 2014:Q2*

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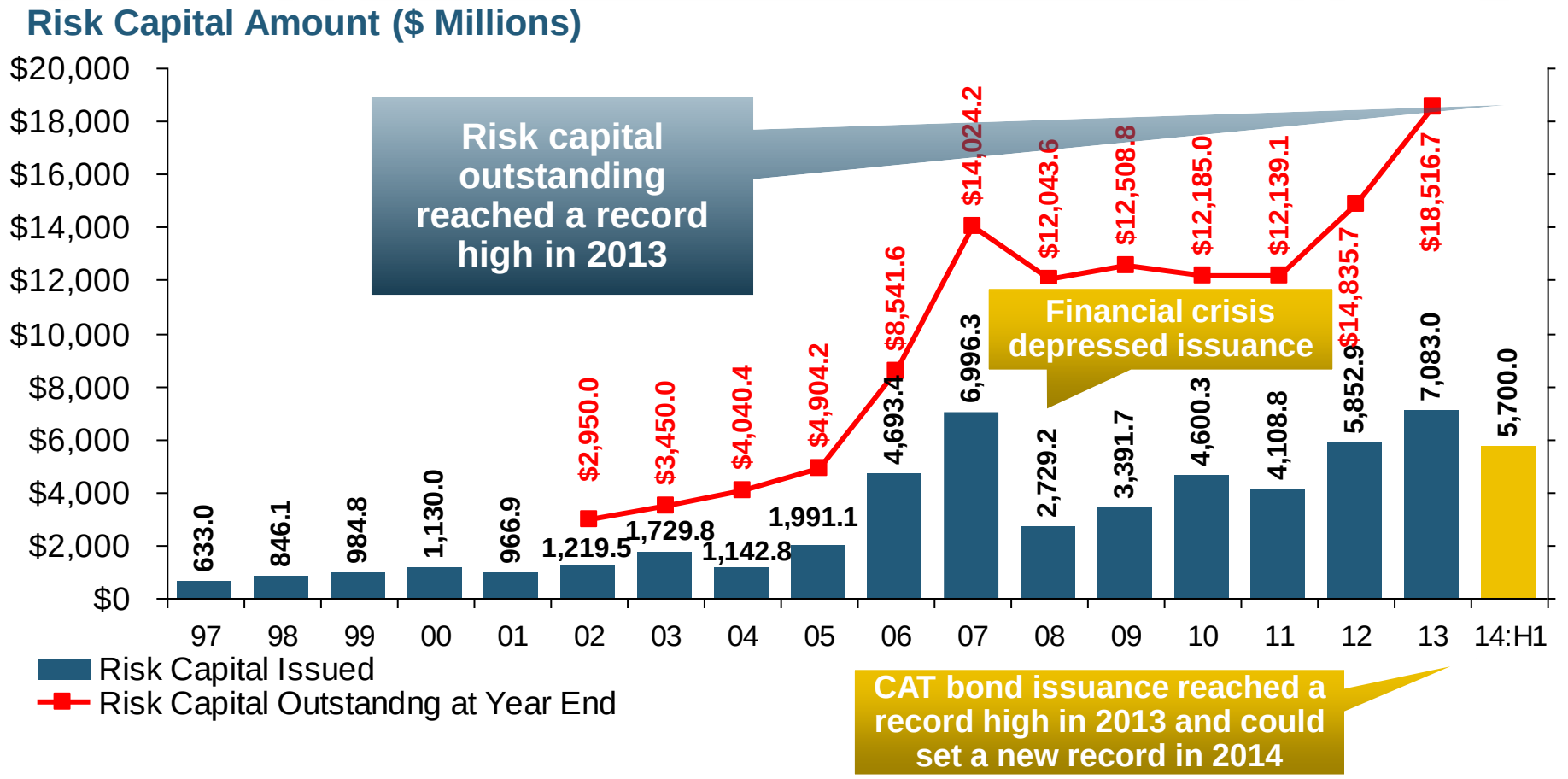
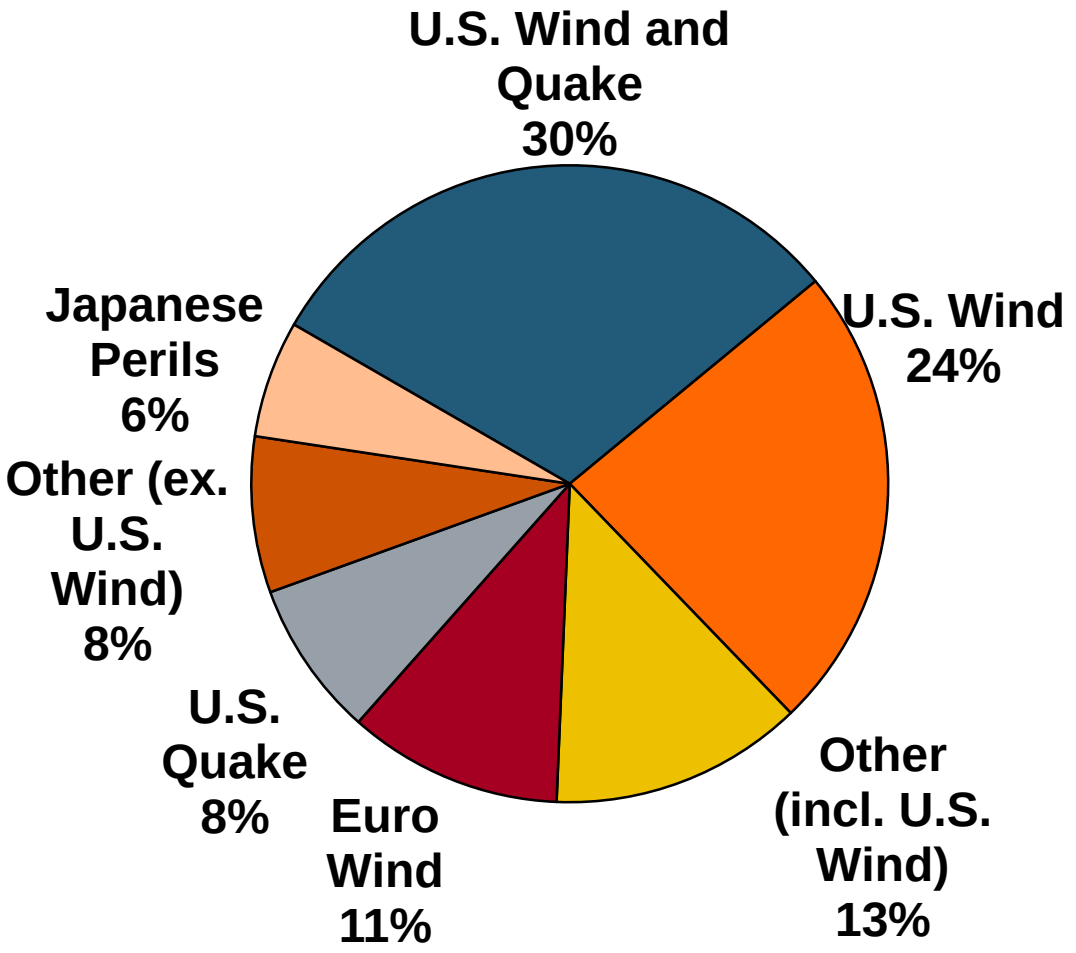



**Catastrophe Bond Issuance Is Approaching Pre-Crisis Levels While Risk Capital Outstanding Stands at an All-Time Record**

*Through June 30, 2014.
Source: Guy Carpenter; Insurance Information Institute.

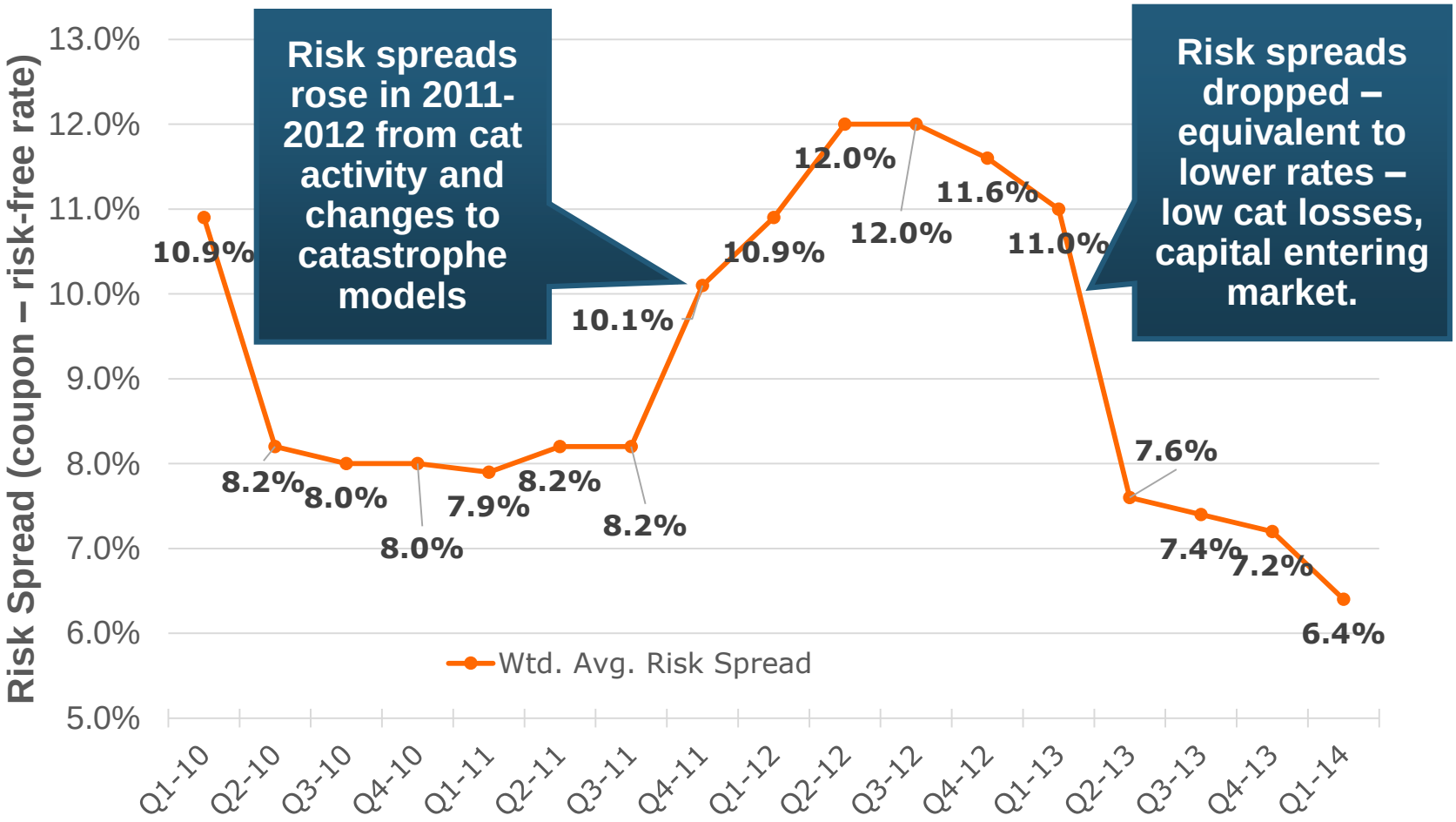
# Catastrophe Bonds Outstanding, Q1 2014

Catastrophe bonds are heavily concentrated in U.S. hurricane exposures. Two-thirds of catastrophe risks outstanding cover U.S. wind risks.




Source: Willis Capital Markets.

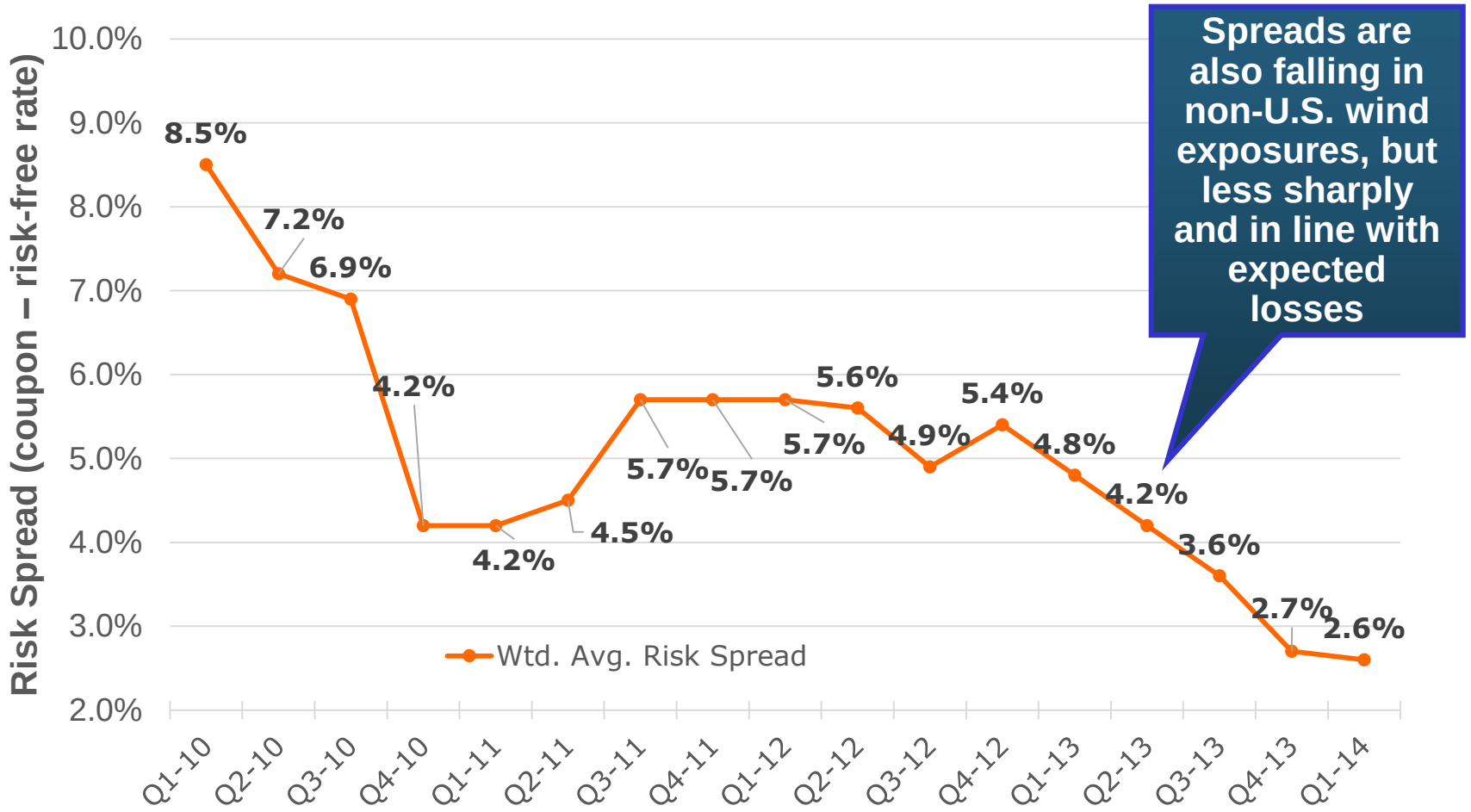
# U.S. Wind-Exposed Risk Premium* 2010:Q1 to 2014: Q1




* Trailing 12-month average

SOURCE: Willis Capital Markets, Insurance Information Institute.

# Non-U.S. Wind-Exposed Risk Premium* 2010:Q1-2014: Q1




* Trailing 12-month average.
SOURCE: Willis Capital Markets, Insurance Information Institute.

# Reinsurance Pricing: Rate-on-Line Index by Region, 1990 – 2014*

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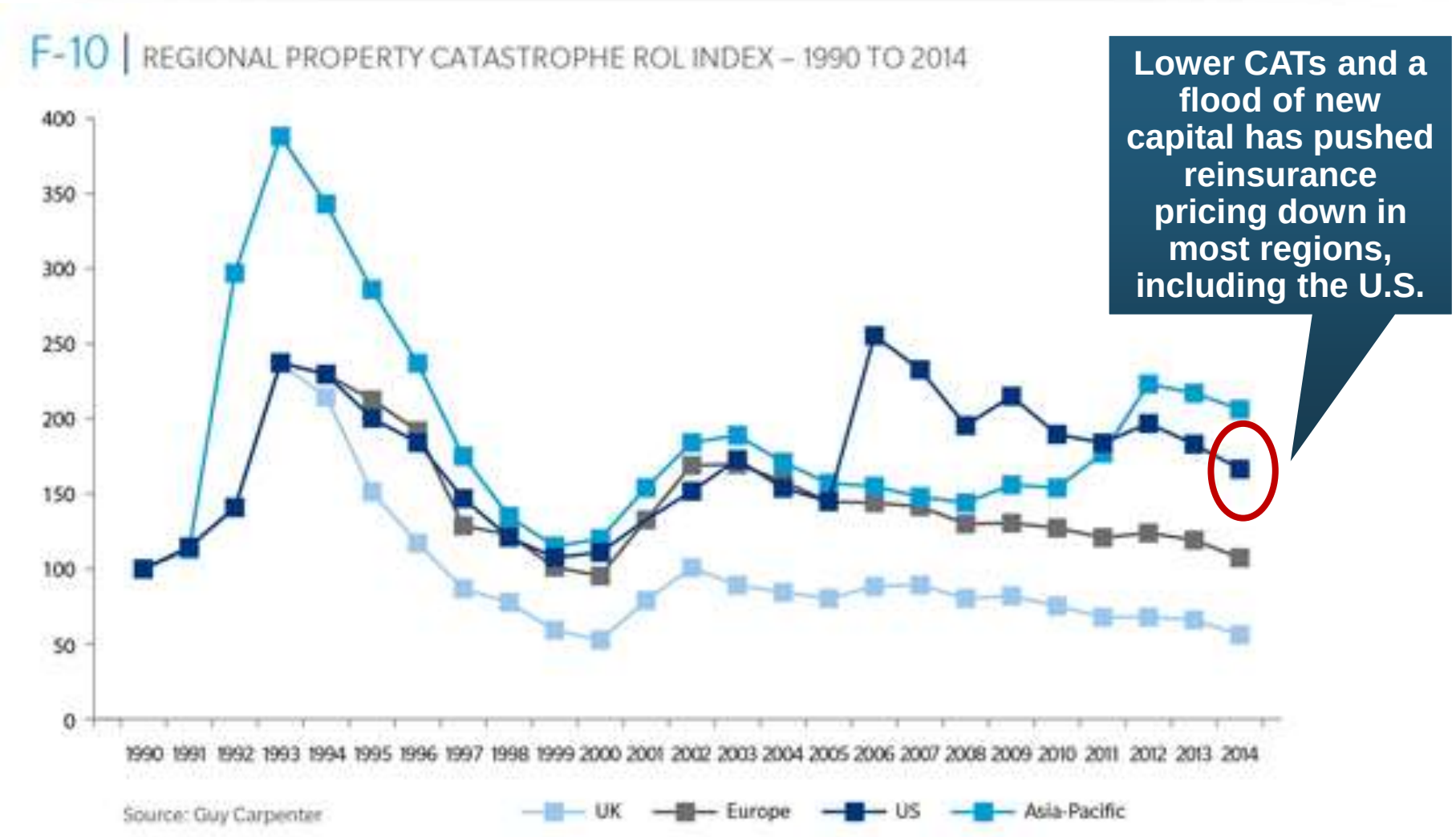


*As of Jan. 1.
Source: Guy Carpenter

# Notable Cat Bond Events

| Bond | Sponsor | Event(s) | Loss to Investors |
|---|---|---|---|
| **Kelvin Ltd.** | Koch Energy | U.S. Winter 2000-01 | $5 million |
| **George Town Re** | St. Paul Re | 9/11, Hurricane Floyd, European wind | $1 million |
| **KAMP Re** | Zurich | Hurricane Katrina (2005) | $144 million |
| **Avalon Re** | Oil Casualty | Katrina, 2005 fuel depot explosion, NYC street collapse | $13 million |
| ***Ajax*** | *Aspen Re* | *2008 Lehman bankruptcy* | *$72 million* |
| ***Carillon*** | *Munich Re* | *2008 Lehman bankruptcy* | *$31 million* |
| ***Newton Re*** | *Catlin* | *2008 Lehman bankruptcy* | *$4 million* |
| ***Willow*** | *Allstate* | *2008 Lehman bankruptcy* | *$10 million* |
| **Muteki Ltd.** | Munich Re for Zenkyoren | 2011 Tohuku earthquake | $300 million |
| **Vega Capital** | Swiss Re | 2011 Tohuku earthquake | $16 million |
| **Mariah Re** | American Family | 2011 tornadoes | $200 million[1] |
| **Vega Capital** | Swiss Re | Superstorm Sandy (2012) | $7 million |
| **Successor X** | Swiss Re | Superstorm Sandy (2012) | $15 million[2] |

**Most events have been relatively small. Four were counterparty risks related to the Lehman Brothers bankruptcy in 2008.**

1 (In litigation) 2 Estimated
Source: Munich Re

# Questions Arising from Influence of Alternative Capital

- What Will Happen When Investors Face Large-Scale Losses?
- What Happens When Interest Rates Rise?
- Does ILS Have a Higher Propensity to Litigate?
- How Much Lower Will Risk Premiums Shrink/ROLs Fall?
- Will There Be Spillover Into Casualty Reinsurance?
- Will Alternative Capital Drive Consolidation?

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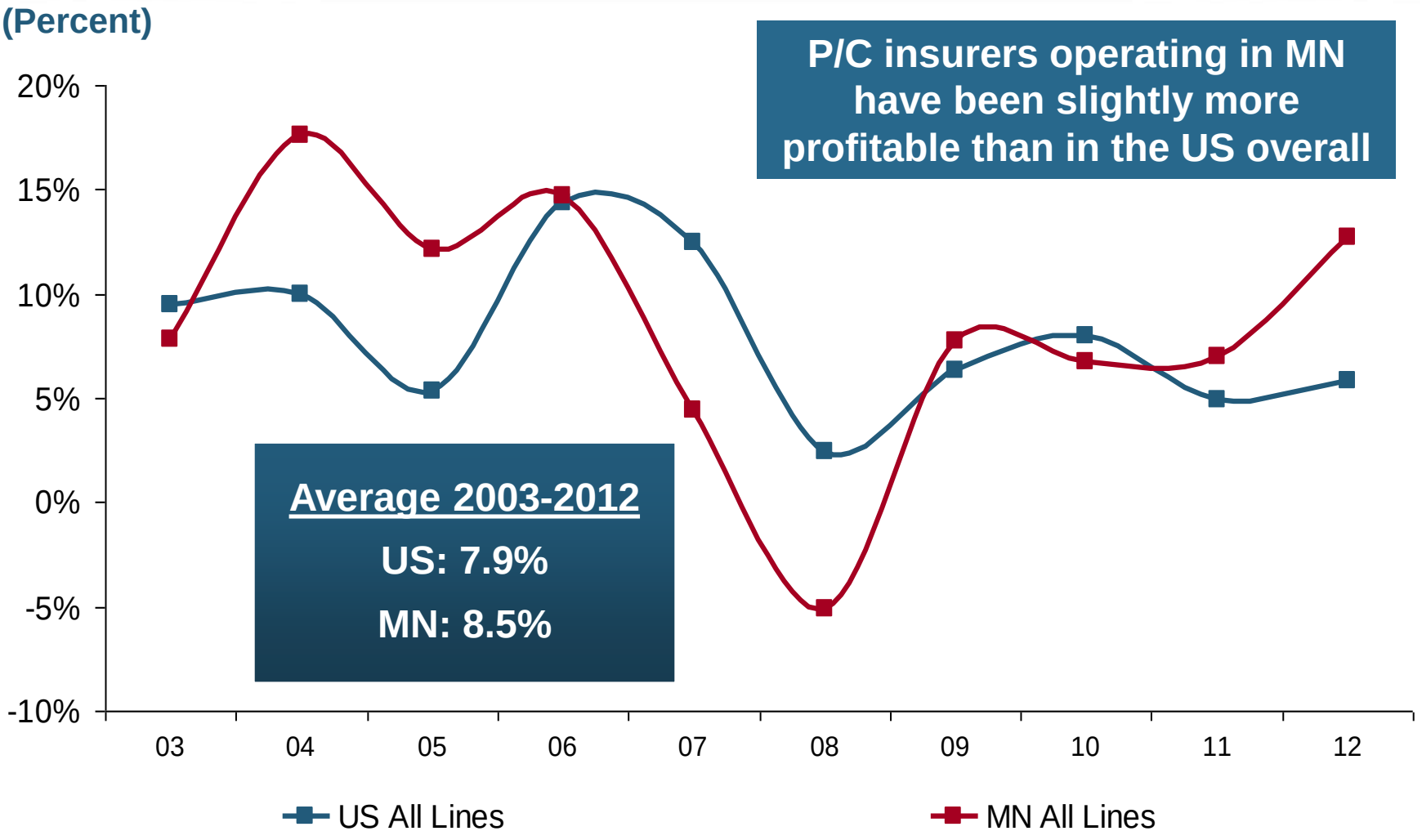
# Profitability and Growth in Minnesota P/C Insurance Markets

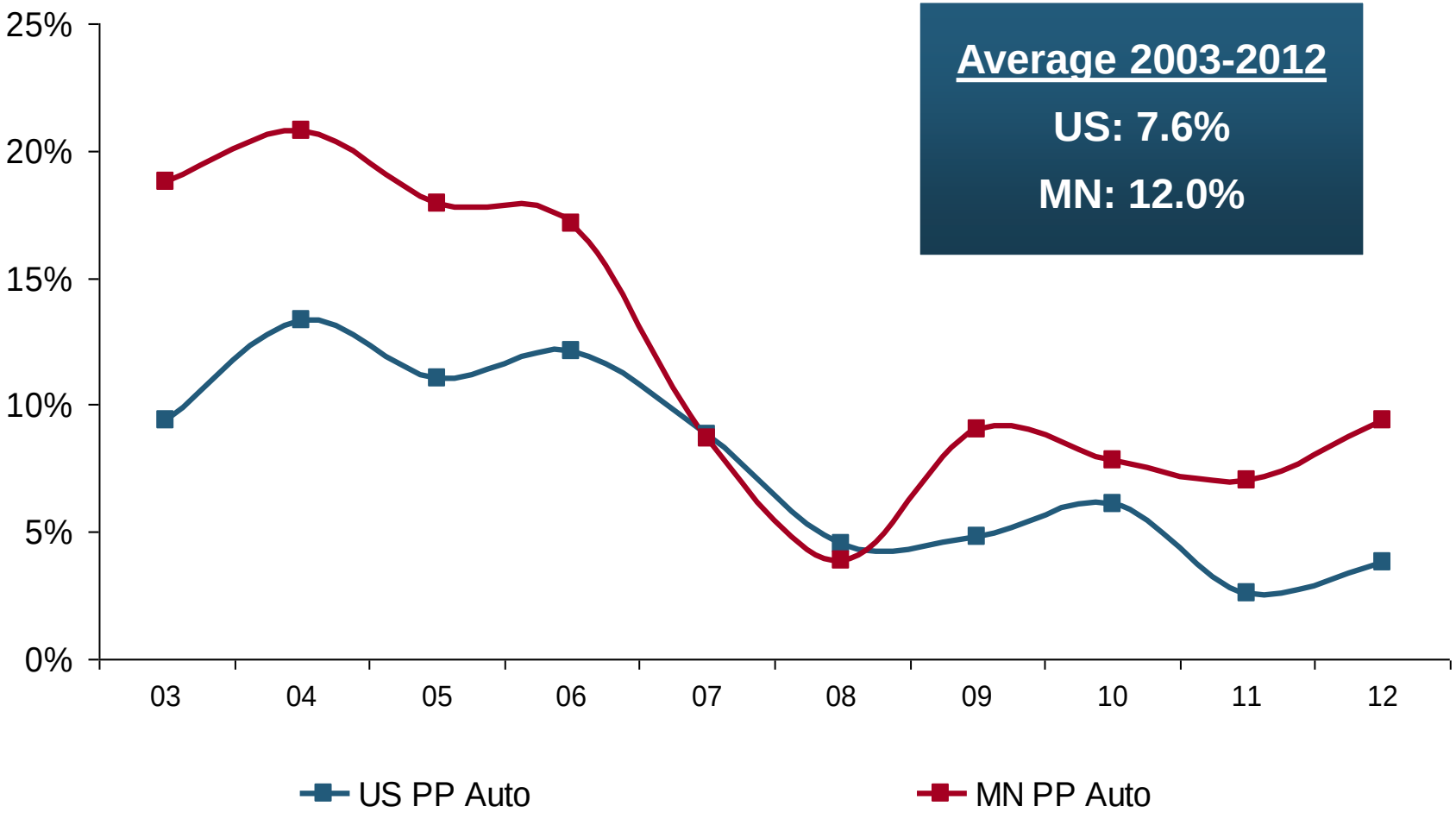
## Analysis by Line and Nearby State Comparisons

# RNW All Lines: MN vs. U.S., 2003-2012




Sources: NAIC.

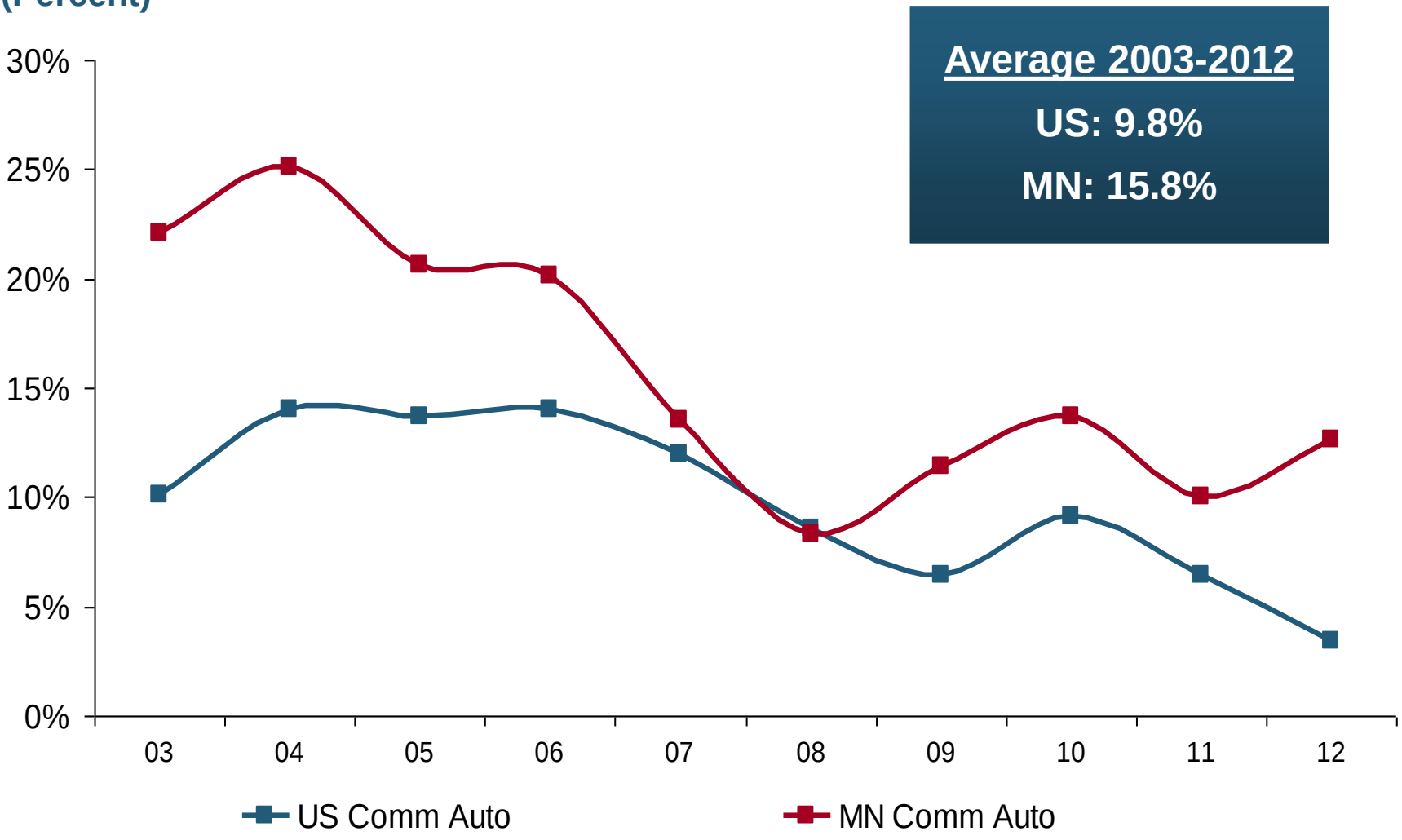
# RNW PP Auto: MN vs. U.S., 2003-2013




Sources: NAIC.

# RNW Comm. Auto: MN vs. U.S., 2003-2012

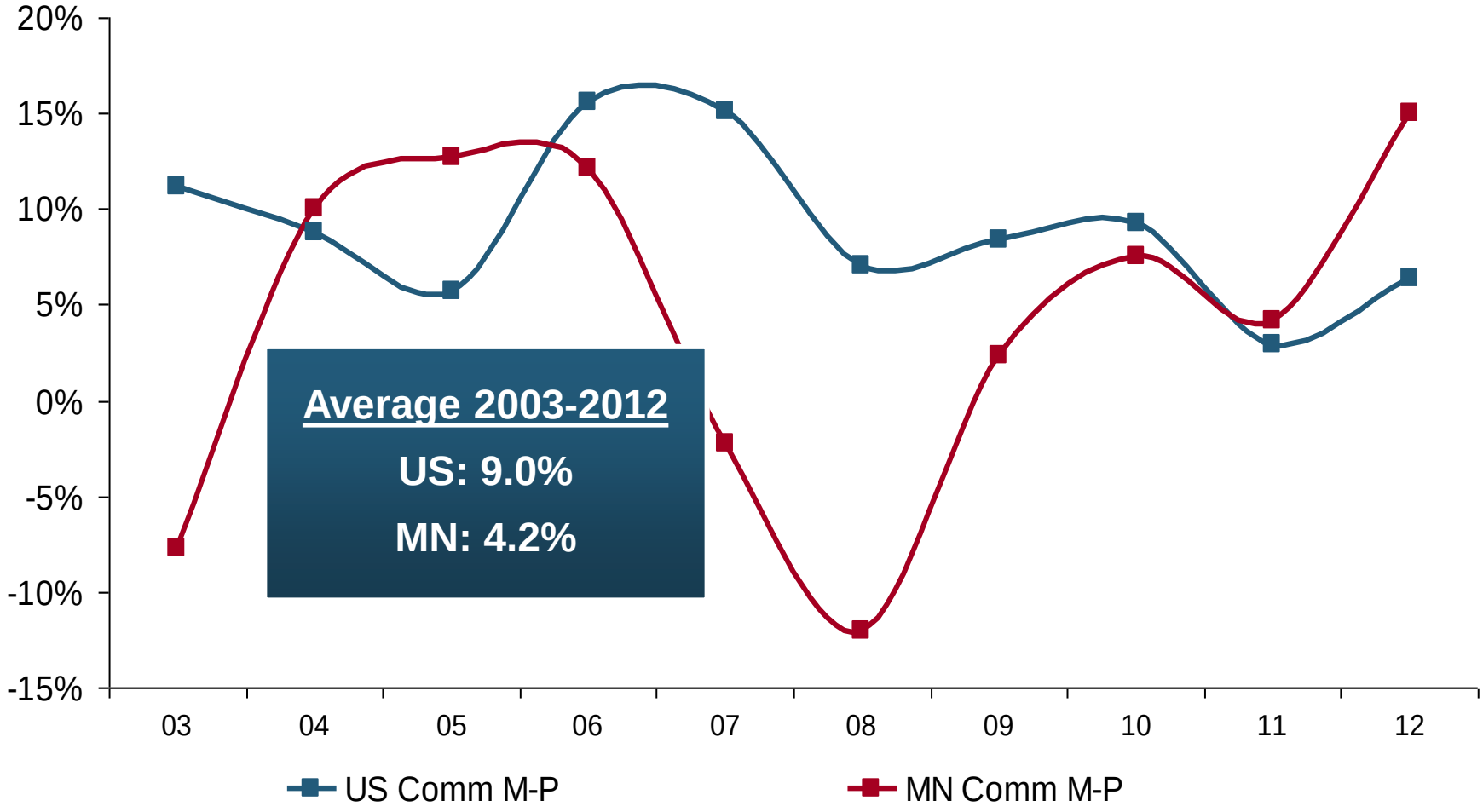
(Percent)




Sources: NAIC.

# RNW Comm. Multi-Peril: MN vs. U.S., 2003-2012

(Percent)




Sources: NAIC.

# RNW Homeowners: MN vs. U.S., 2003-2012

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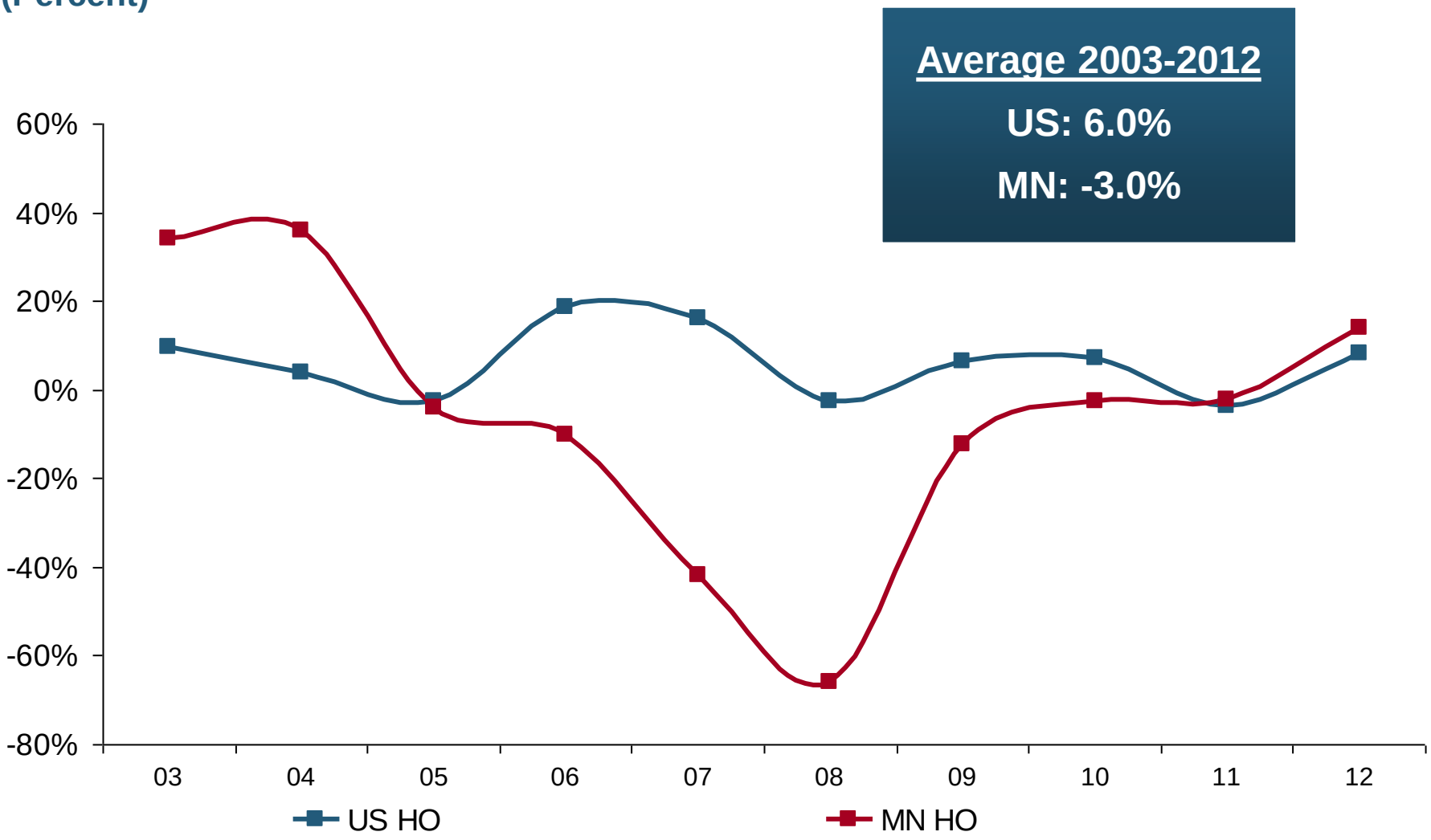
(Percent)




Sources: NAIC.

# RNW Workers Comp: MN vs. U.S., 2003-2012

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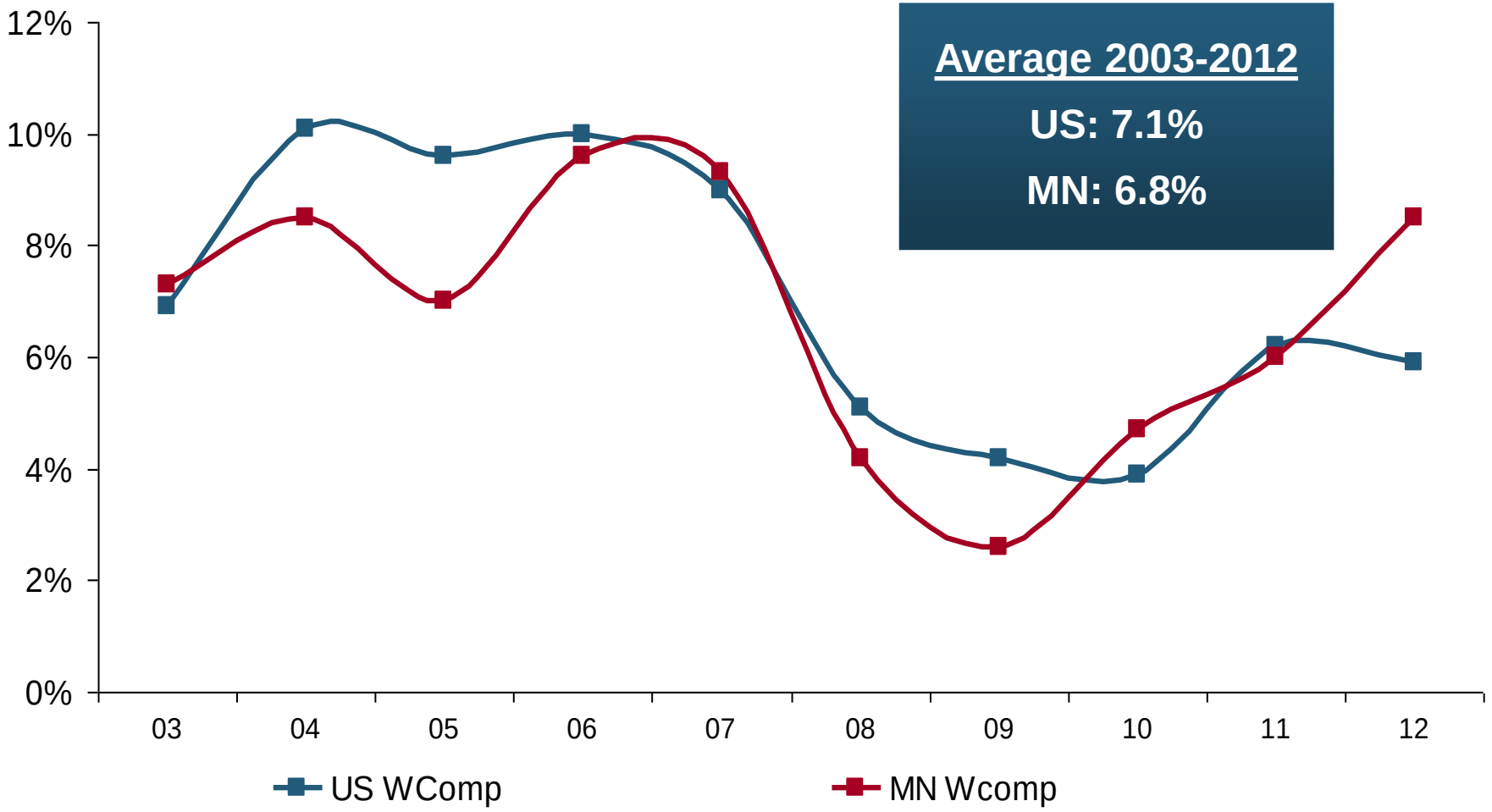
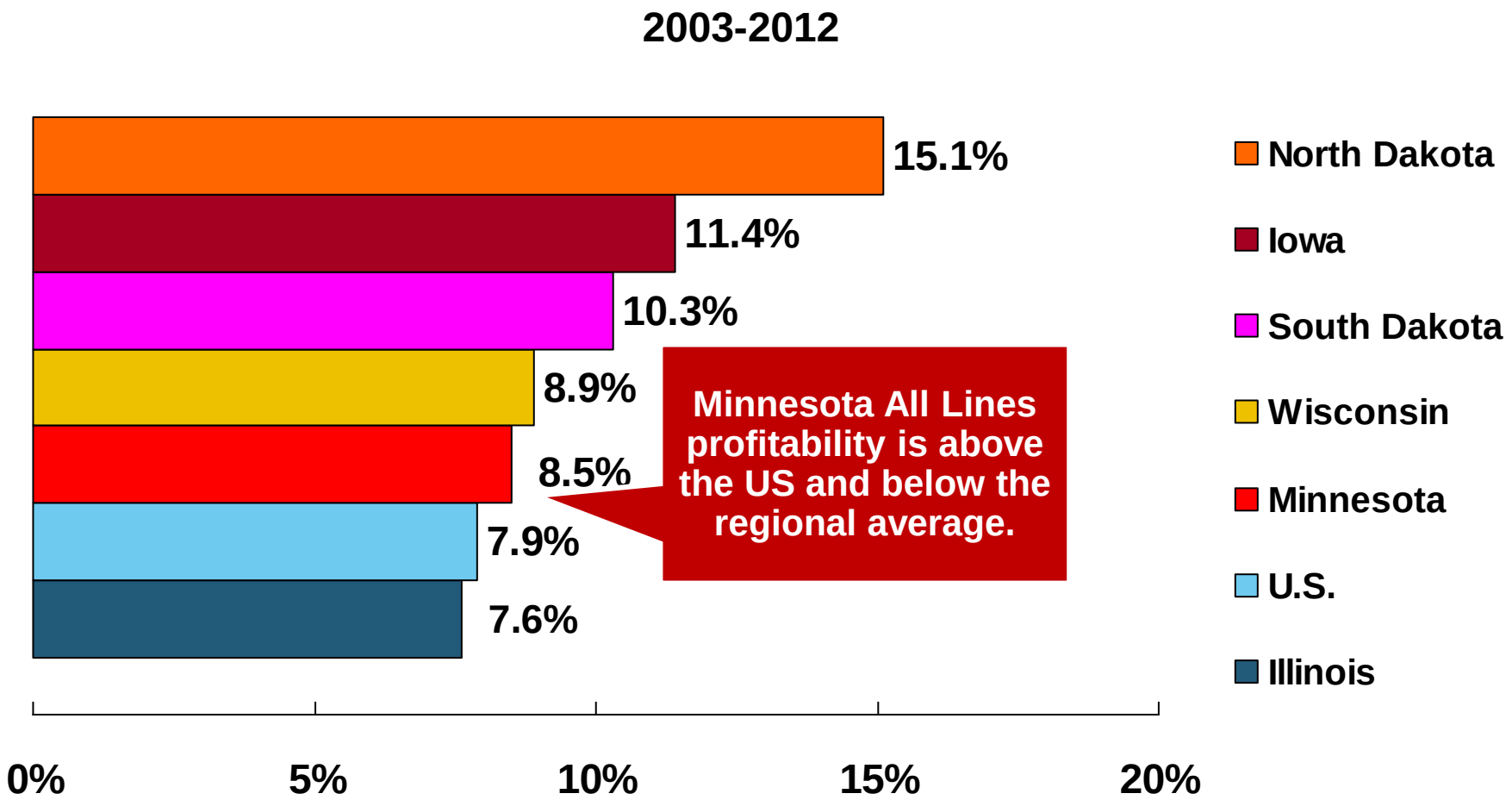
(Percent)



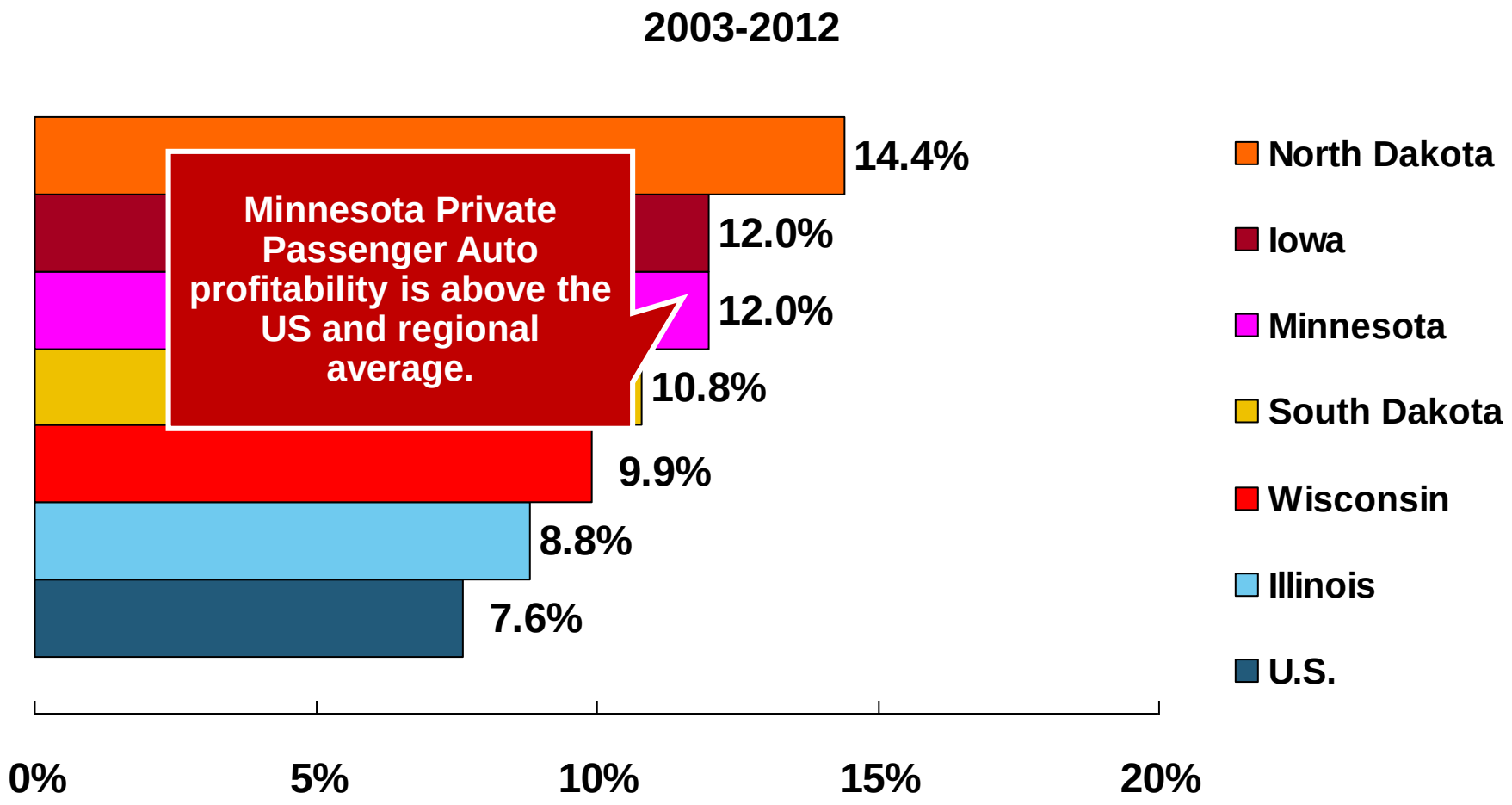

Sources: NAIC.

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




Source: NAIC, Insurance Information Institute.

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




Source: NAIC, Insurance Information Institute.

# Top Ten Most Expensive And Least Expensive States For Automobile Insurance, 2011 (1)

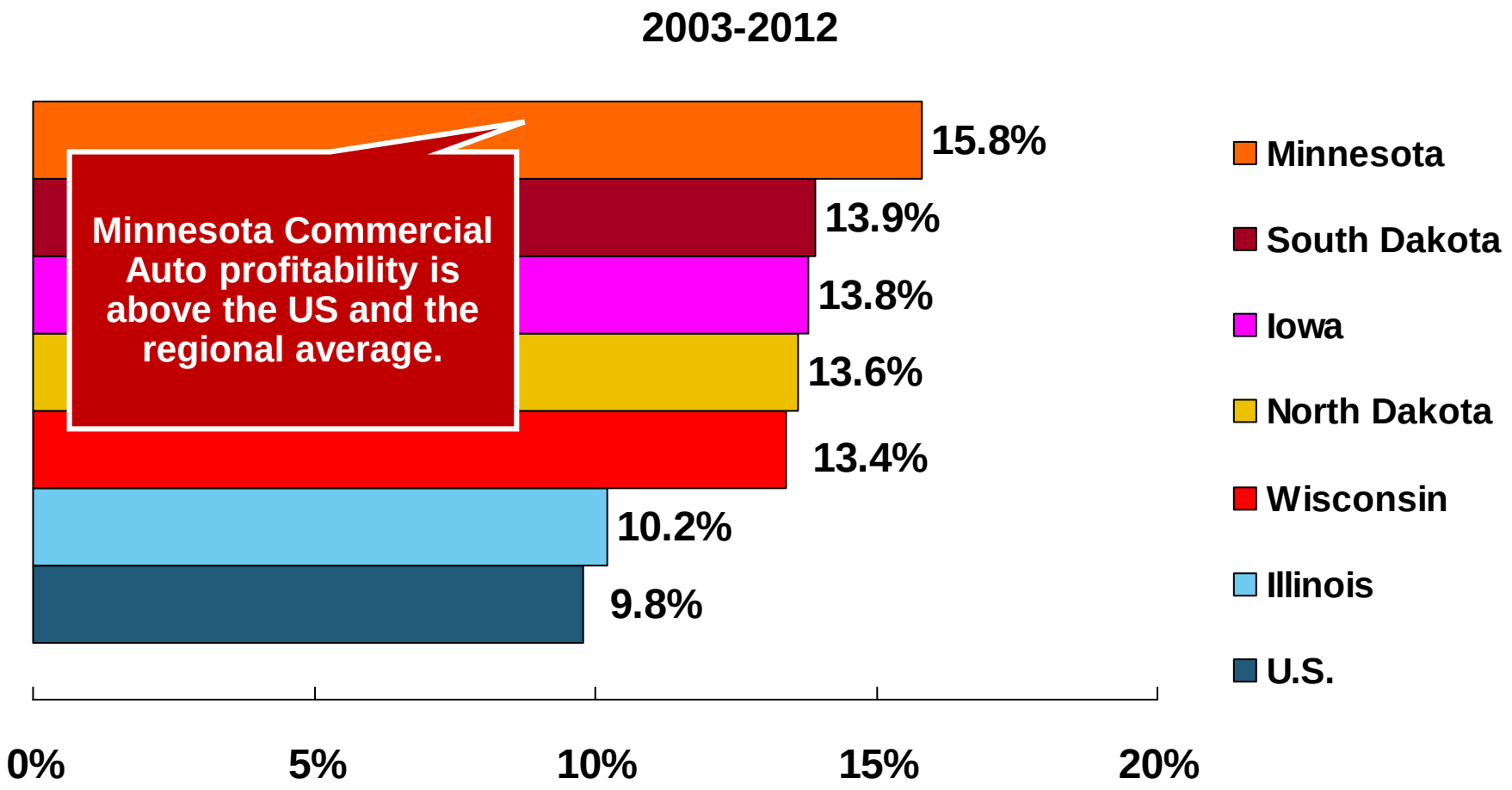
| Rank | Most expensive states | Average expenditure | Rank | Least expensive states | Average expenditure |
|---|---|---|---|---|---|
| 1 | New Jersey | $1,183.95 | 1 | Idaho | $525.15 |
| 2 | District of Columbia | 1,138.03 | 2 | South Dakota | 540.04 |
| 3 | Louisiana | 1,110.68 | 3 | North Dakota | 549.81 |
| 4 | New York | 1,108.64 | 4 | Iowa | 552.54 |
| 5 | Florida | 1,090.65 | 5 | Maine | 577.38 |
| 6 | Delaware | 1,052.28 | 6 | North Carolina | 600.33 |
| 7 | Rhode Island | 1,004.14 | 7 | Wisconsin | 601.40 |
| 8 | Michigan | 983.60 | 8 | Nebraska | 602.57 |
| 9 | Connecticut | 970.22 | 9 | Wyoming | 619.88 |
| 10 | Maryland | 956.17 | 10 | Ohio | 619.96 |

***Minnesota ranked 31st*** **as the most expensive state in 2011, with an average expenditure for auto insurance of $696.00.**

(1) Based on average automobile insurance expenditures.

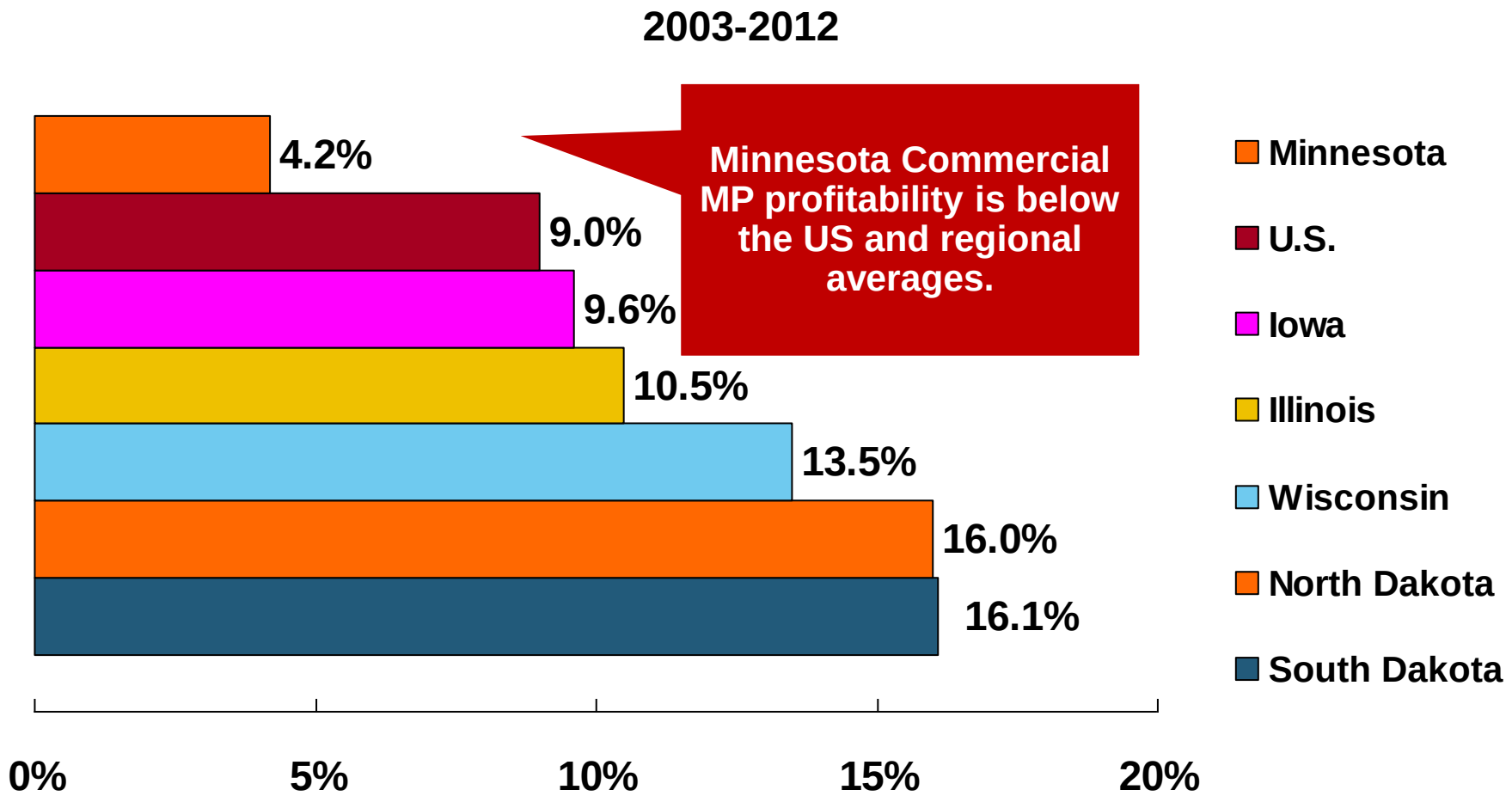
Source: © 2013 National Association of Insurance Commissioners.

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



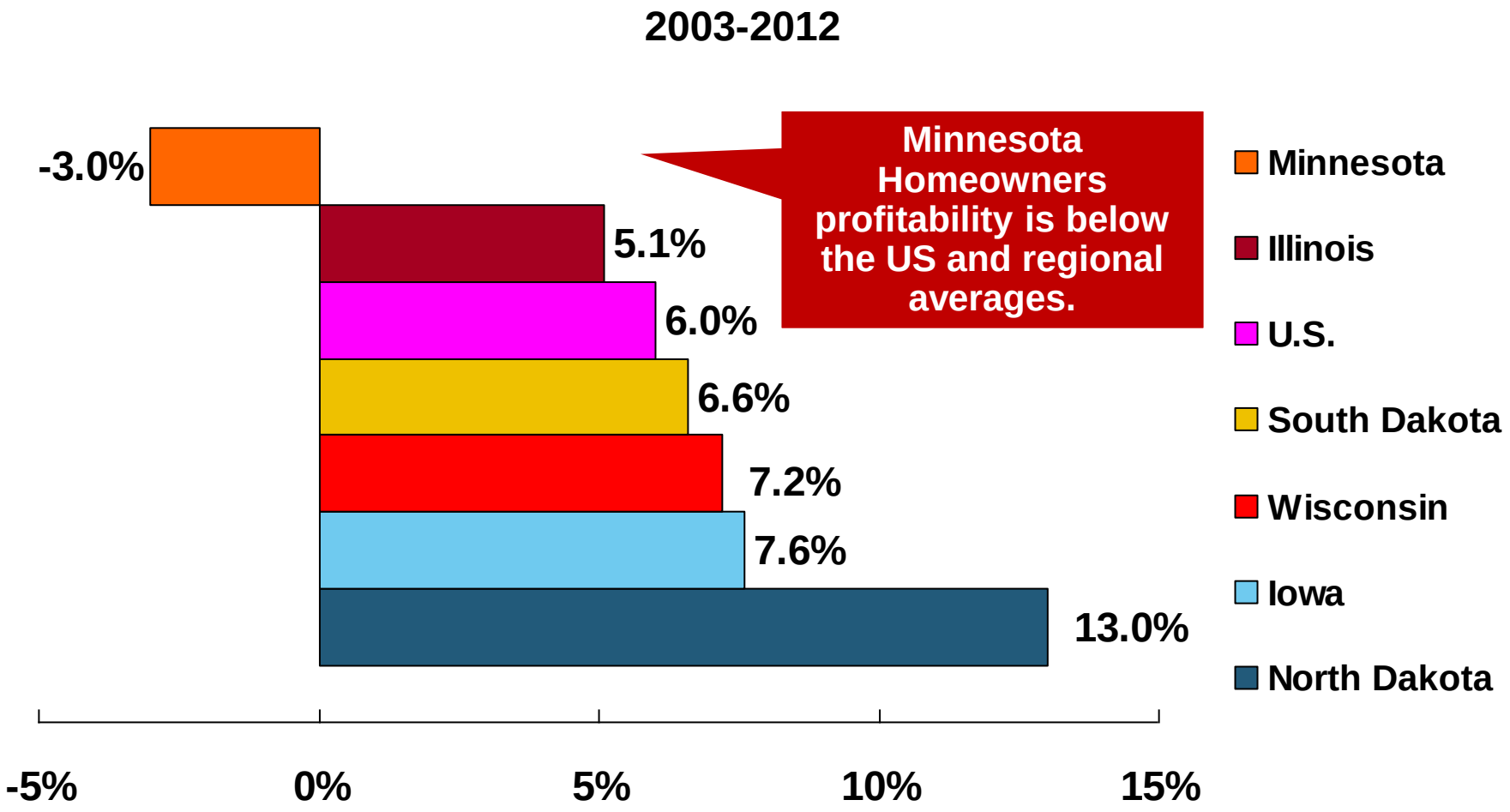

Source: NAIC, Insurance Information Institute.

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




Source: NAIC, Insurance Information Institute.

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




Source: NAIC, Insurance Information Institute.

# Top Ten Most Expensive And Least Expensive States For Homeowners Insurance, 2011 (1)

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**Minnesota ranked as the 14th most expensive state for homeowners insurance in 2011, with an average expenditure of $1,056.**

| Rank | Most expensive states | HO average premium | Rank | Least expensive states | HO average premium |
|---|---|---|---|---|---|
| 1 | Florida | $1,933 | 1 | Idaho | $518 |
| 2 | Louisiana | 1,672 | 2 | Oregon | 559 |
| 3 | Texas (2) | 1,578 | 3 | Utah | 563 |
| 4 | Mississippi | 1,409 | 4 | Wisconsin | 592 |
| 5 | Oklahoma | 1,386 | 5 | Washington | 626 |
| 6 | Alabama | 1,163 | 6 | Ohio | 644 |
| 7 | Rhode Island | 1,139 | 7 | Delaware | 664 |
| 8 | Kansas | 1,103 | 8 | Arizona | 675 |
| 9 | New York | 1,097 | 9 | Nevada | 689 |
| 10 | Connecticut | 1,096 | 10 | Iowa | 713 |

(1) Includes policies written by Citizens Property Insurance Corp. (Florida) and Citizens Property Insurance Corp. (Louisiana), Alabama Insurance Underwriting Association, Mississippi Windstorm Underwriting Association, North Carolina Joint Underwriting Association and South Carolina Wind and Hail Underwriting Association. Other southeastern states have wind pools in operation and their data may not be included in this chart. 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. In addition, due to the Texas Windstorm Association (which writes wind-only policies) classifying HO-1, 2 and 5 premiums as HO-3, the average premium for homeowners insurance is artificially high.

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.

# All Lines DWP Growth: MN vs. U.S., 2004-2013

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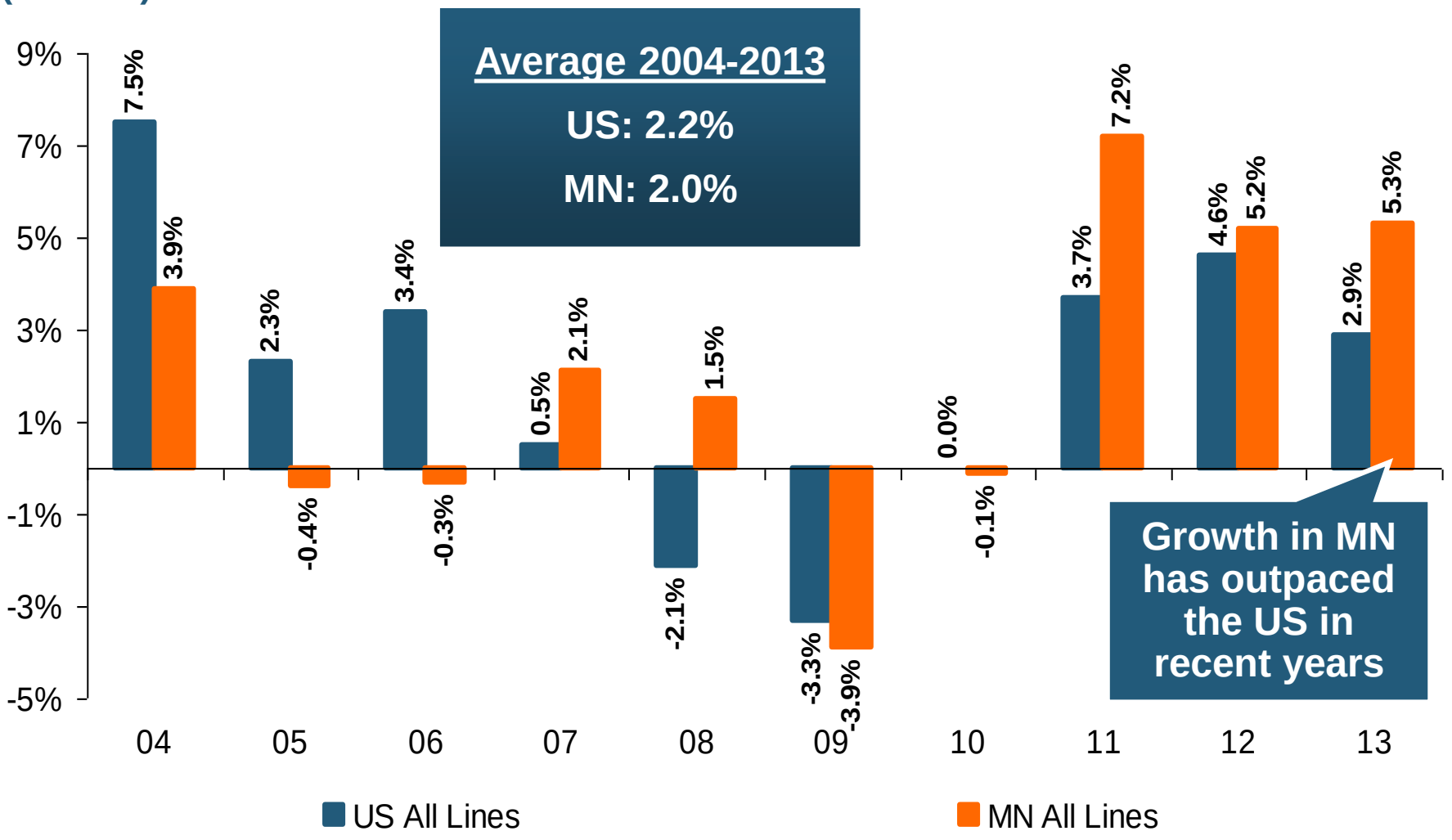
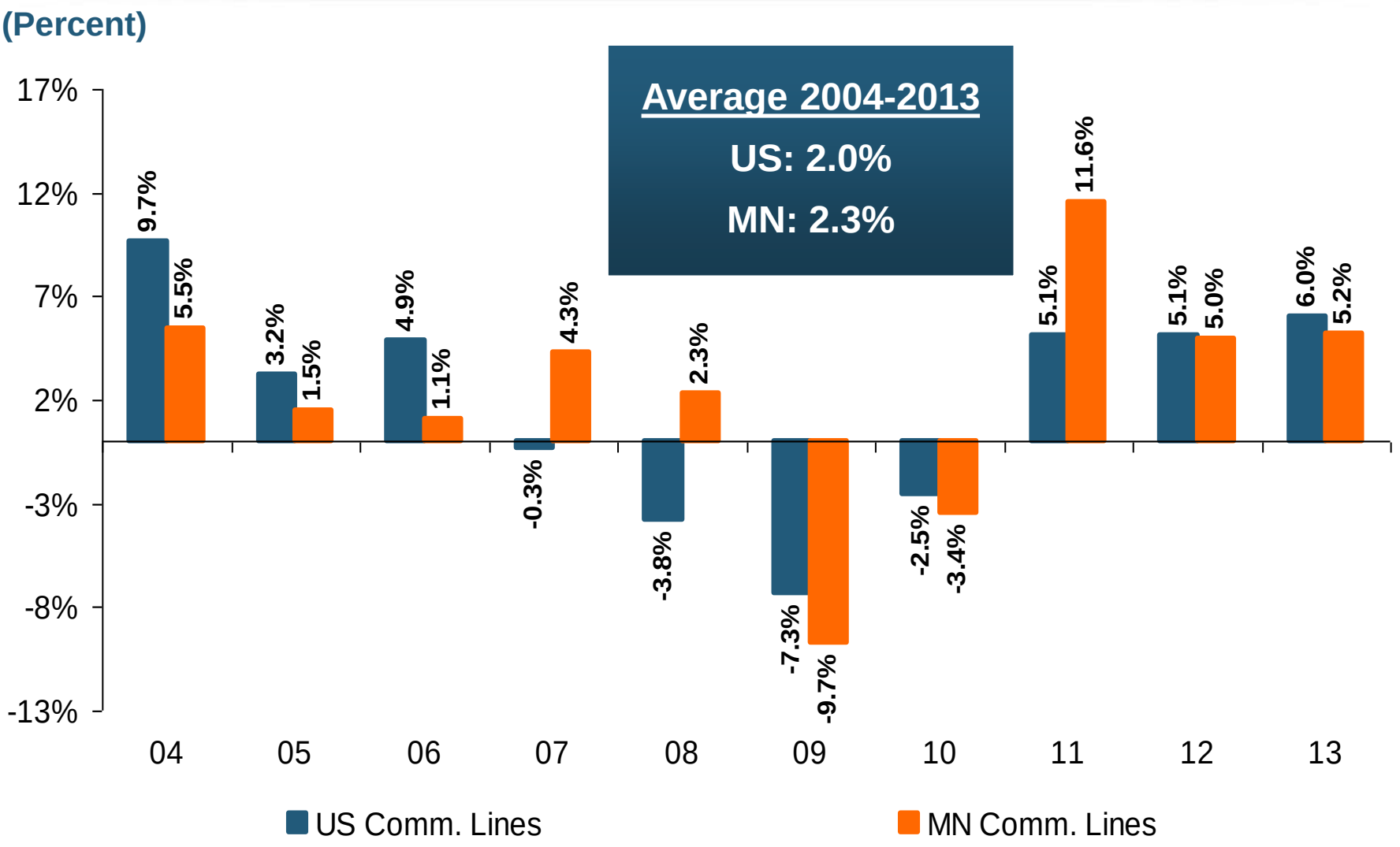



Source: SNL Financial.

# Comm. Lines DWP Growth: MN vs. U.S., 2004-2013




Source: SNL Financial.

# Personal Lines DWP Growth: MN vs. U.S., 2004-2013

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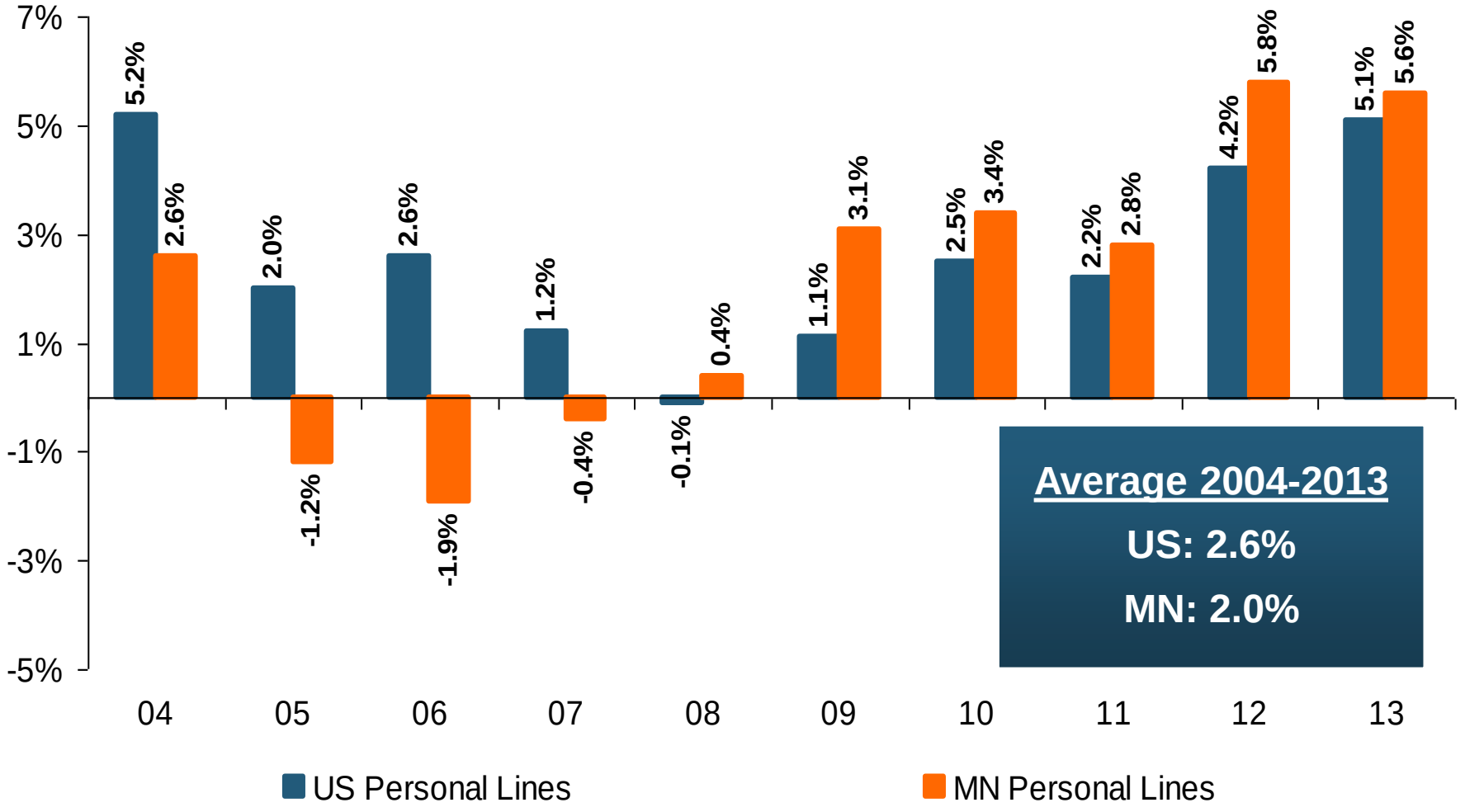
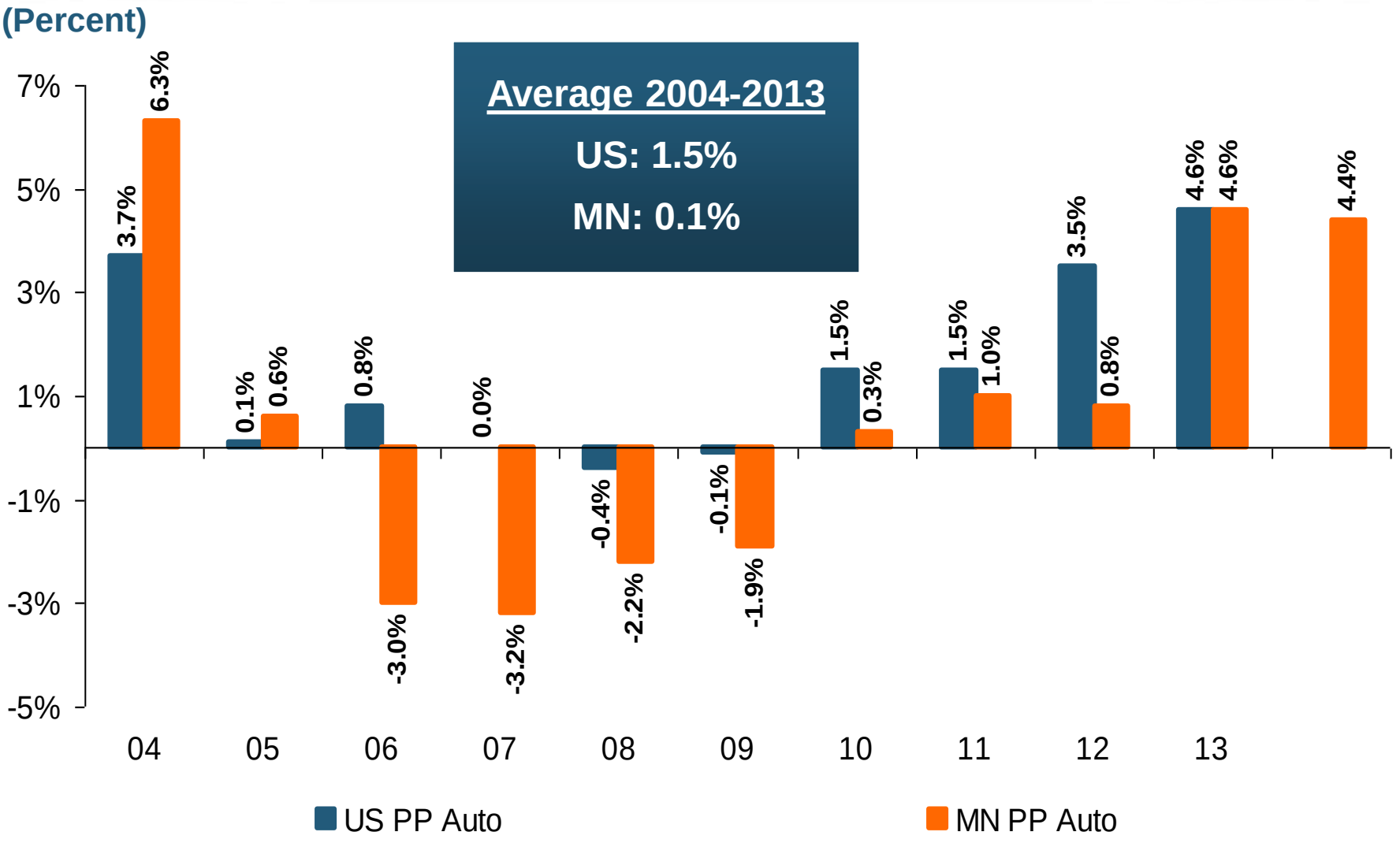
(Percent)



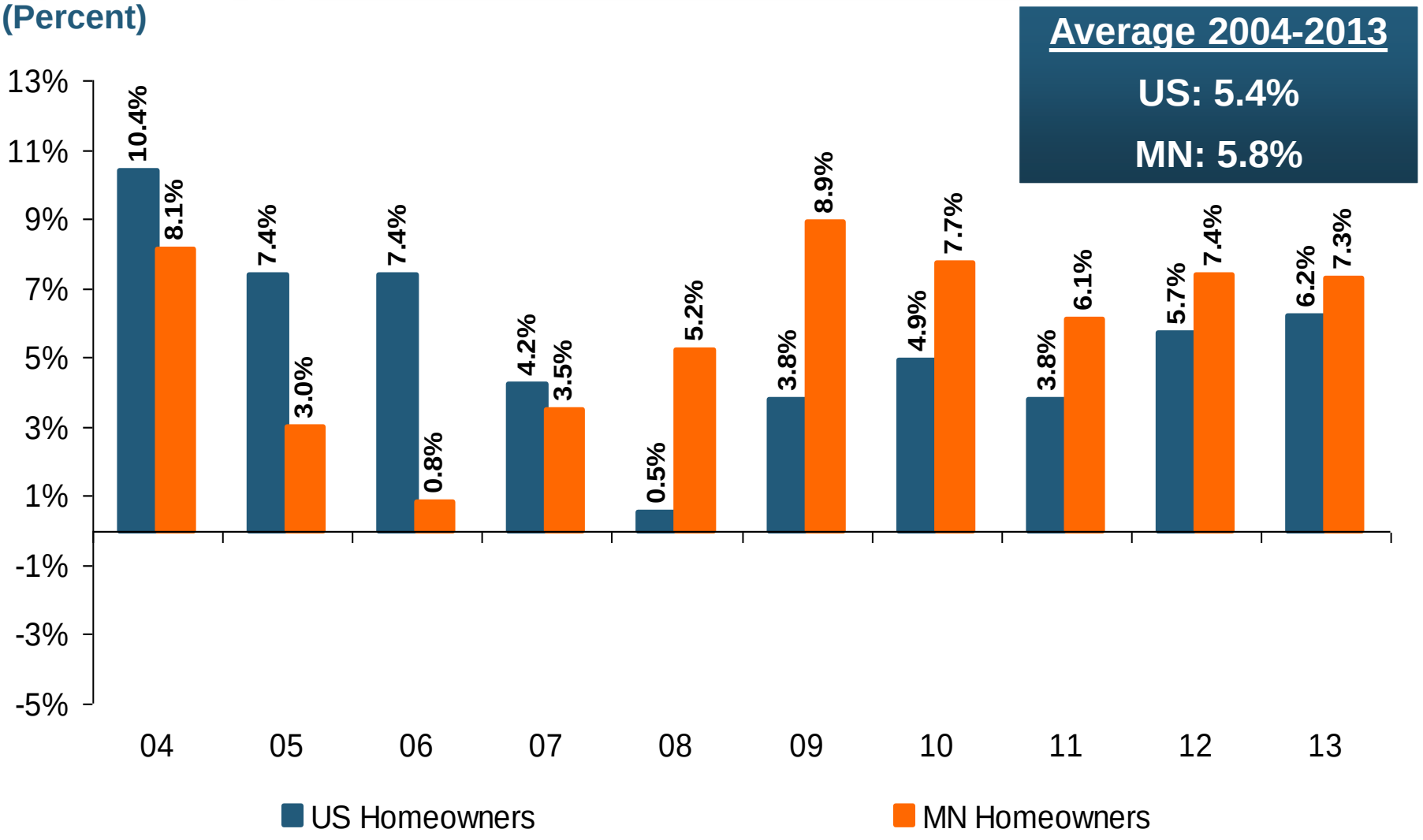

Source: SNL Financial.

# Private Passenger Auto DWP Growth: MN vs. U.S., 2004-2013




Source: SNL Financial.

# Homeowners DWP Growth: MN vs. U.S., 2004-2013




Source: SNL Financial.

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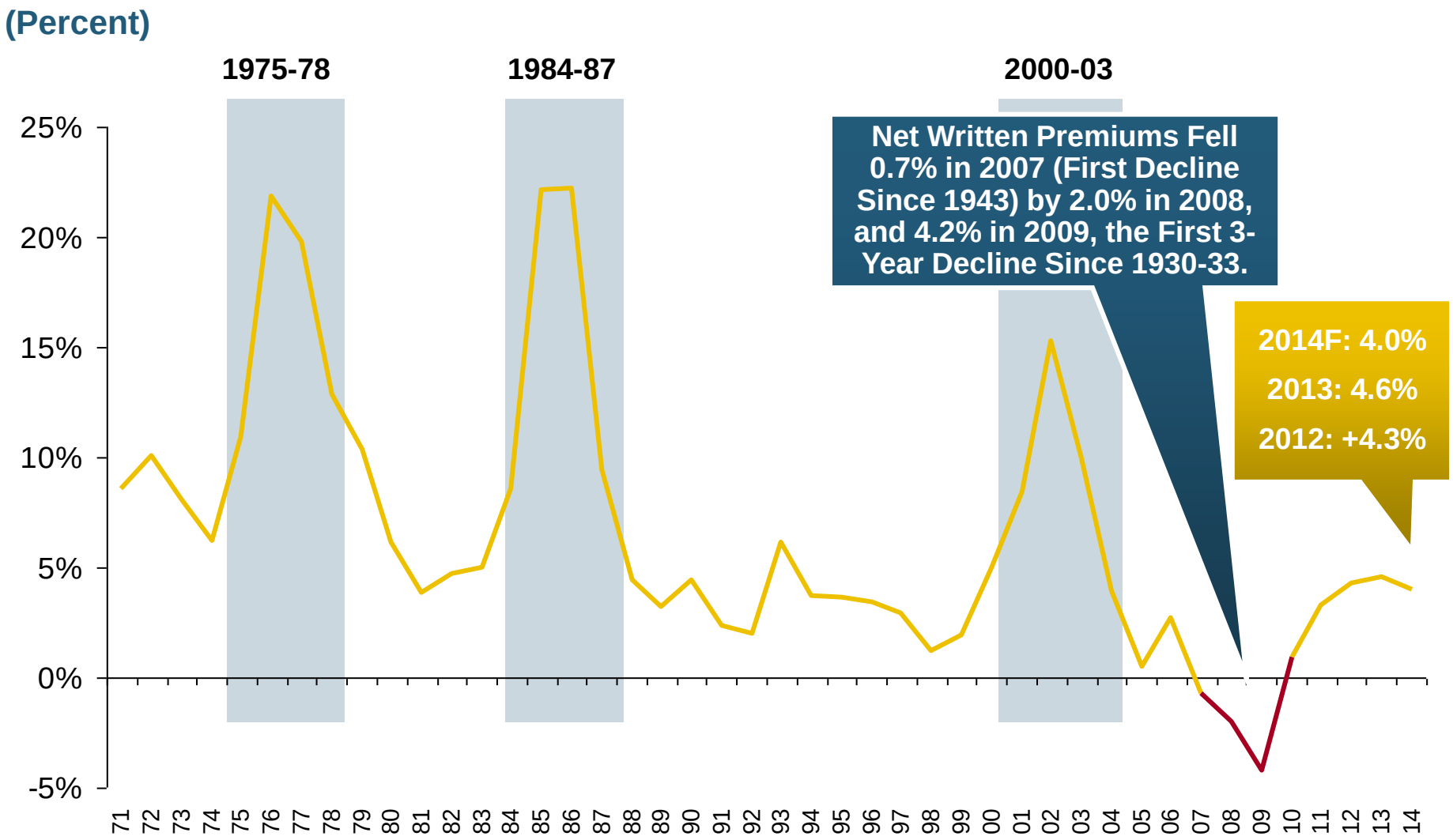
# Growth Analysis by State and Business Segment

## Post-Crisis Paradox?

## *Premium Growth Rates Vary Tremendously by State*

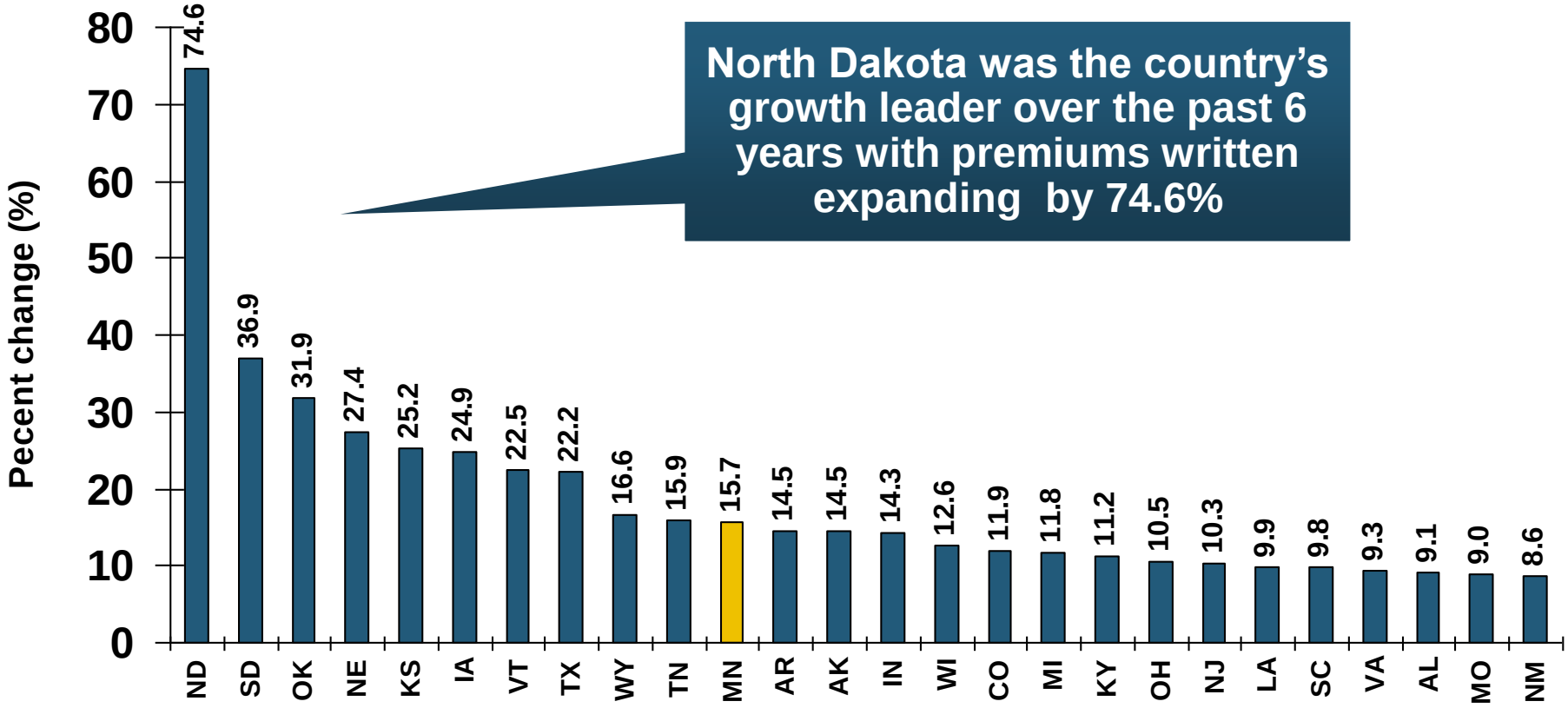
# Net Premium Growth: Annual Change, 1971—2014F




Shaded areas denote "hard market" periods
Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute.

# Direct Premiums Written: Total P/C Percent Change by State, 2007-2013

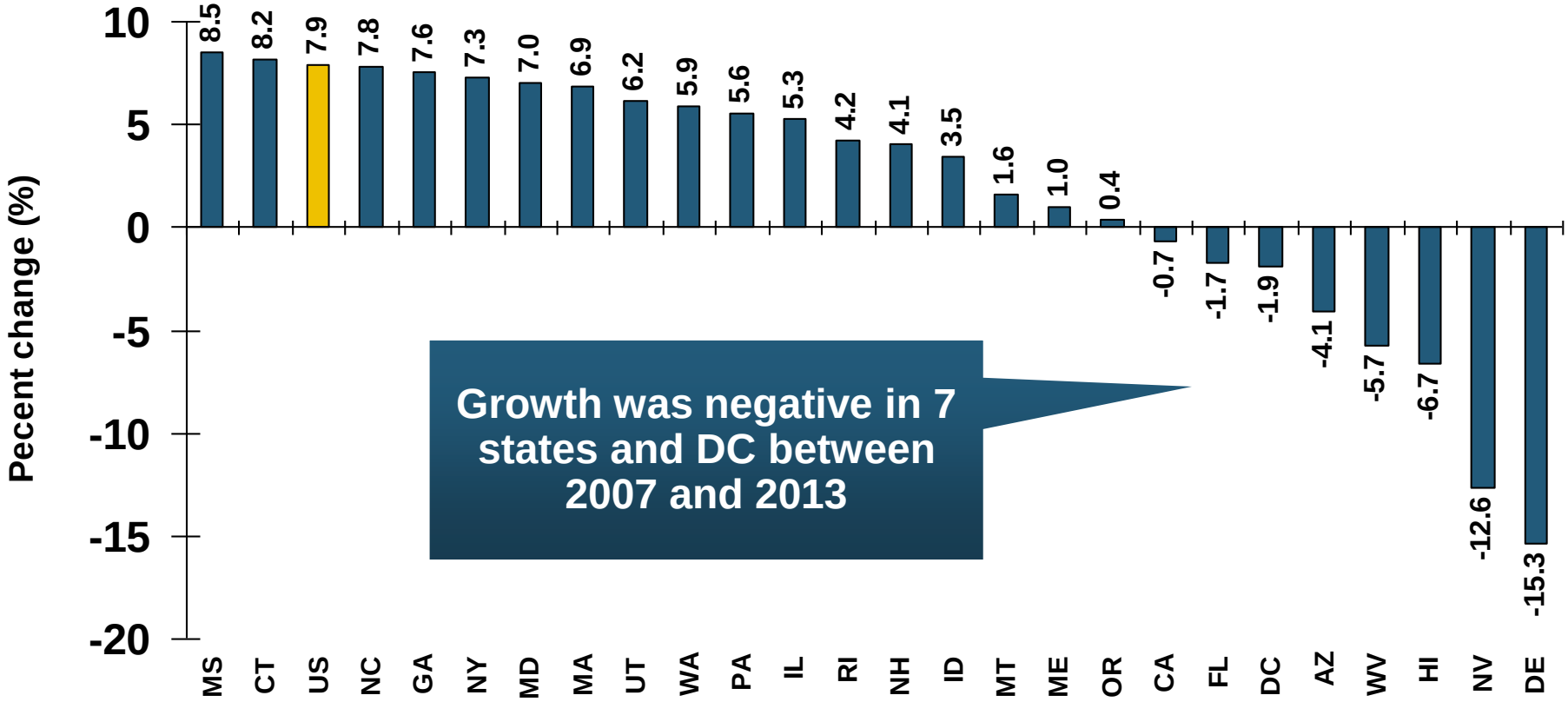
## Top 25 States




Sources: SNL Financial LC.; Insurance Information Institute.

# Direct Premiums Written: Total P/C Percent Change by State, 2007-2013

## Bottom 25 States




Sources: SNL Financial LC.; Insurance Information Institute.

# Direct Premiums Written: PP Auto Percent Change by State, 2007-2013

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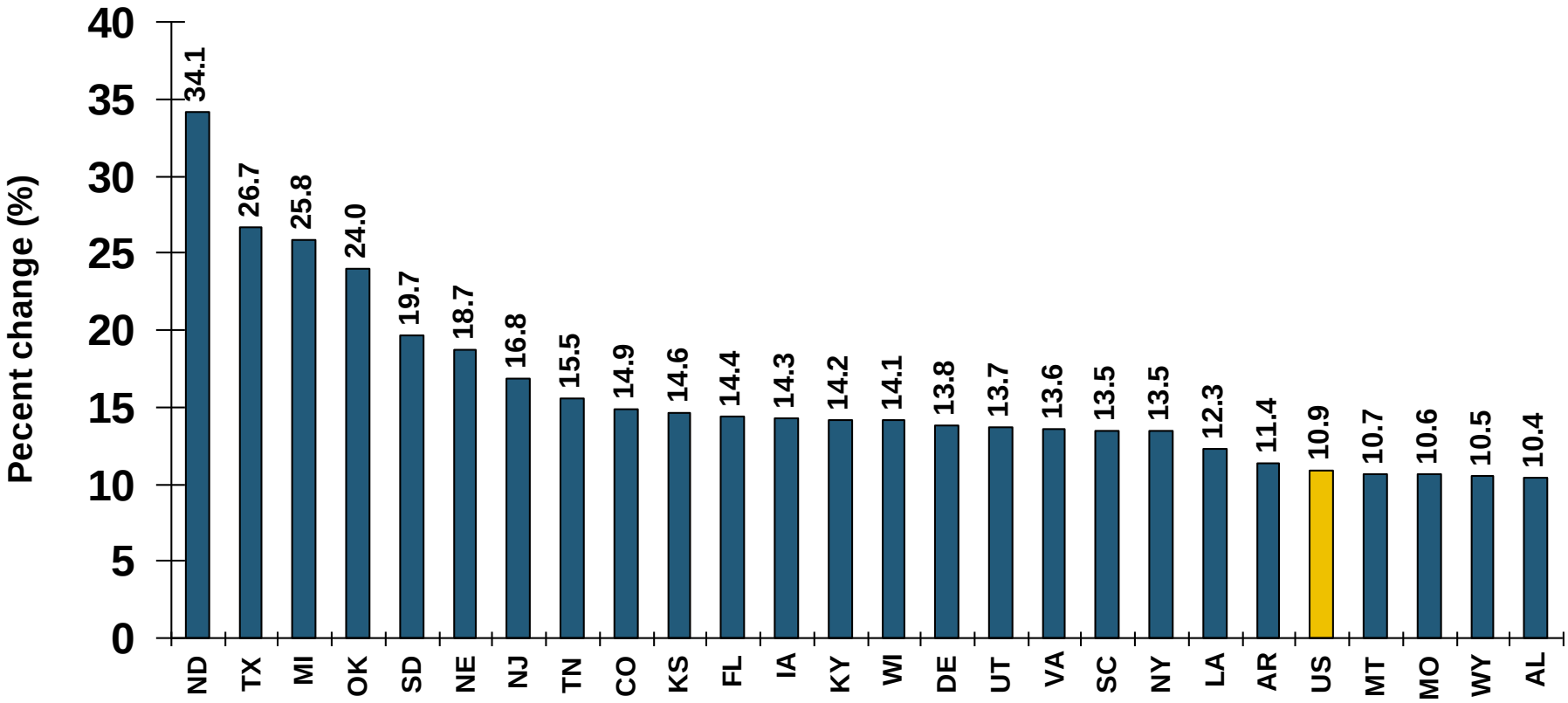
## Top 25 States




Sources: SNL Financial LC.; Insurance Information Institute.

# Direct Premiums Written: PP Auto Percent Change by State, 2007-2013

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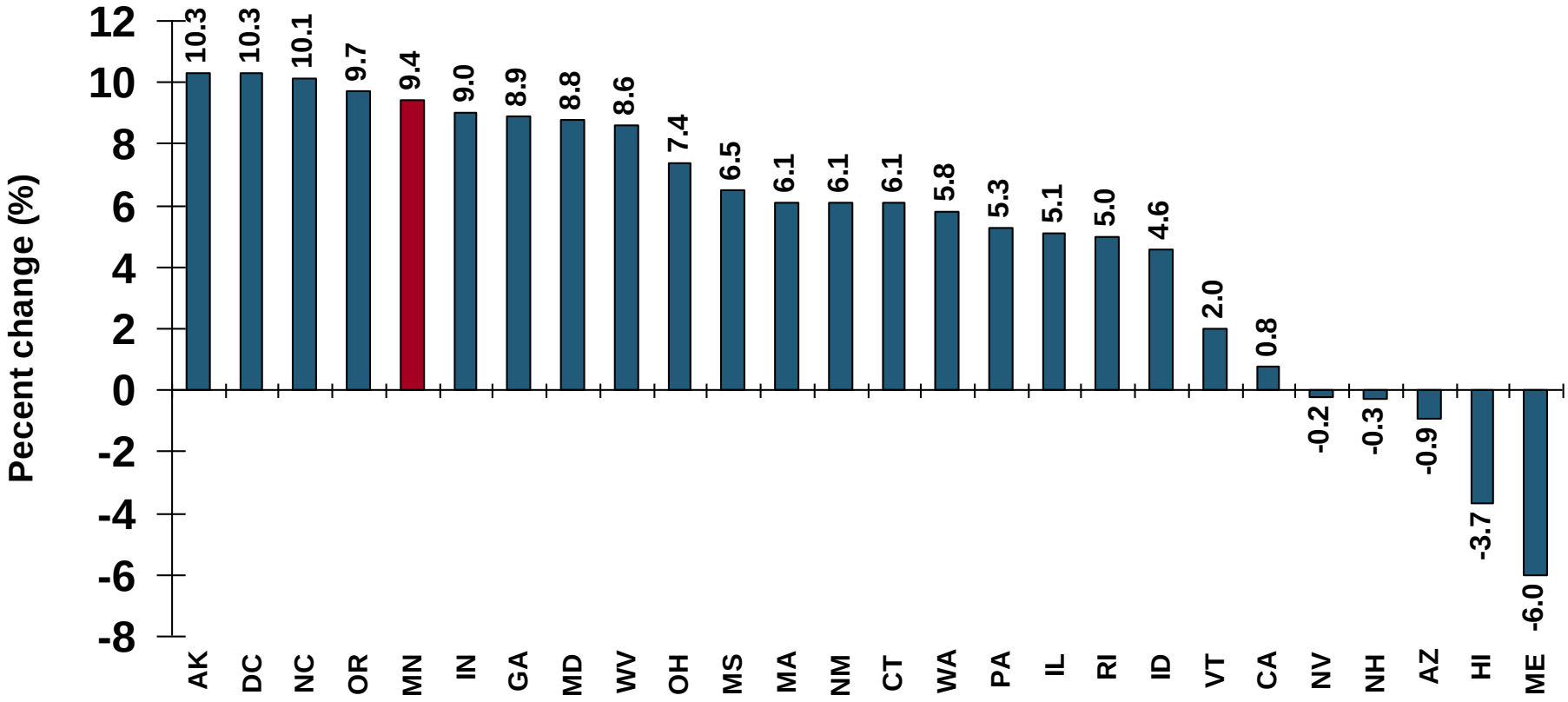
## Bottom 25 States




Sources: SNL Financial LC.; Insurance Information Institute.

# Advertising Expenditures by P/C Insurance Industry, 1999-2013

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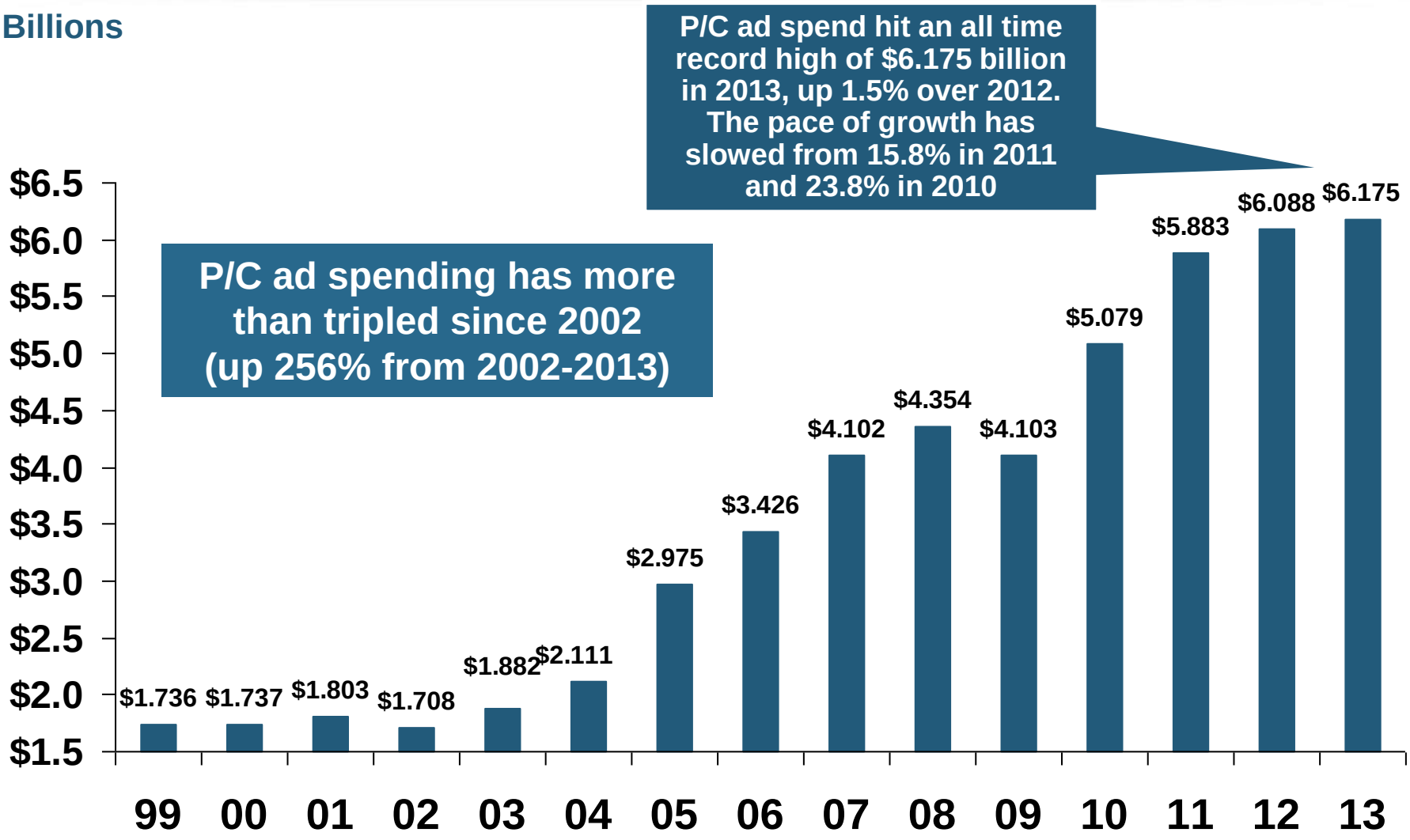
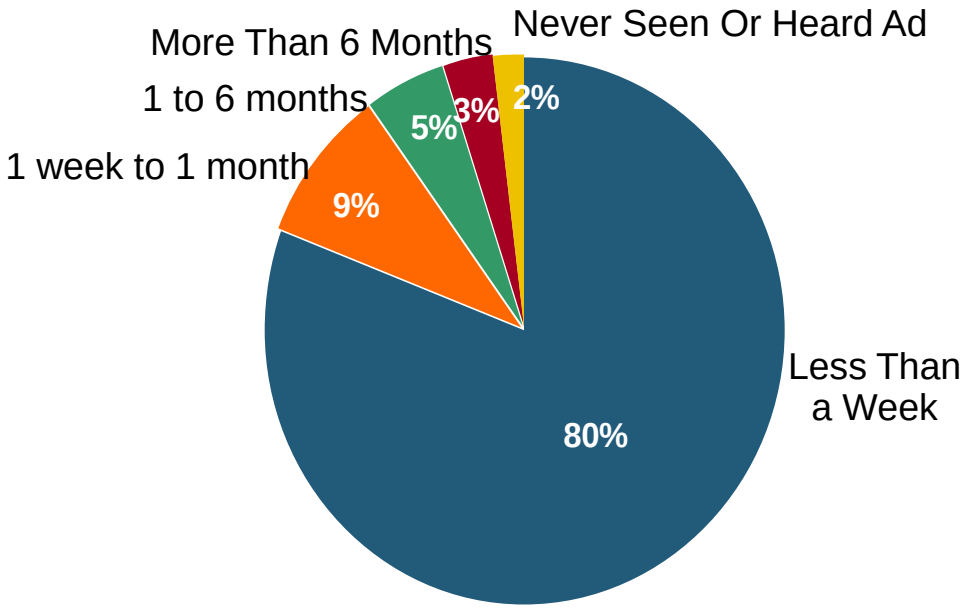



Source: Insurance Information Institute from consolidated P/C Annual Statement data, Insurance Expense Exhibit (Part I).

# I.I.I. Poll: Ads Are Everywhere

**Q. How long has it been since you have seen or heard an advertisement for auto insurance?**

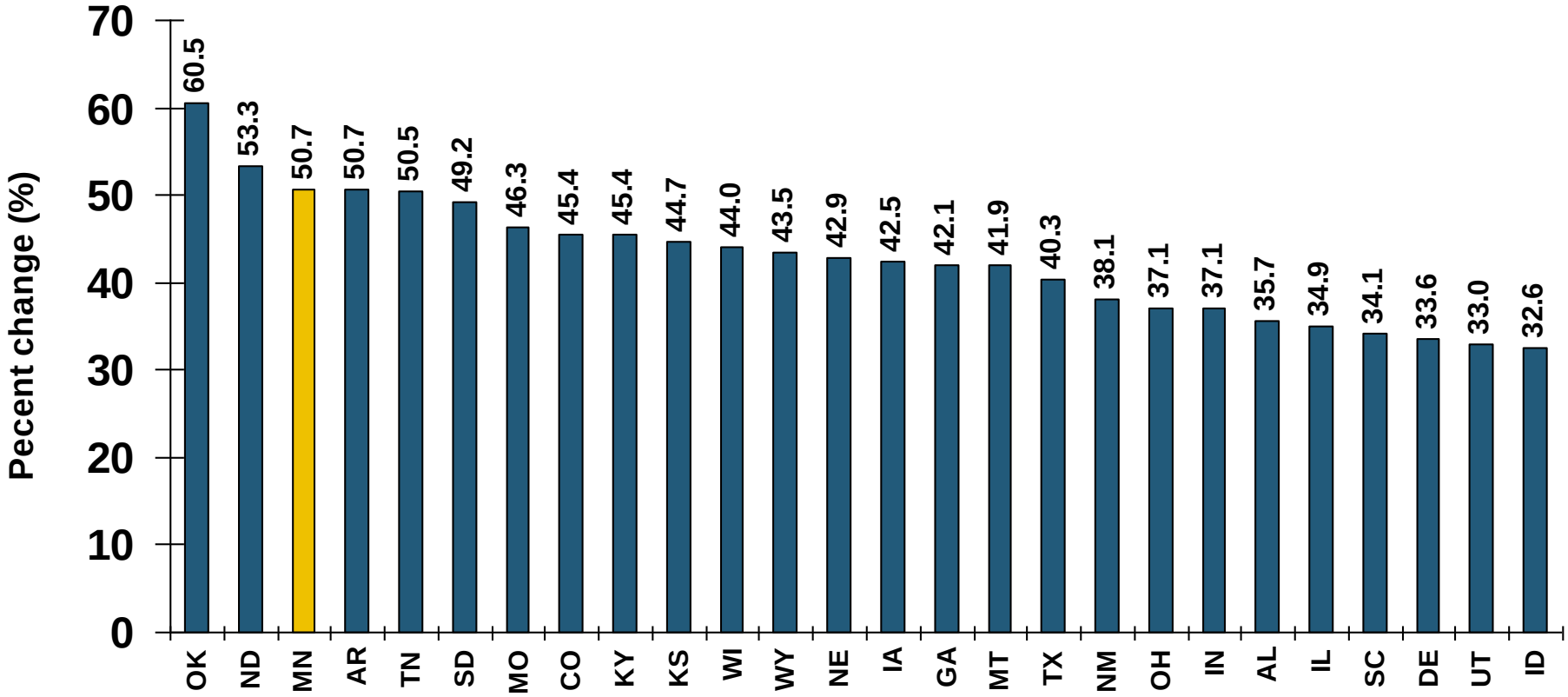



**Four Out of Five Respondents Have Seen An Auto Insurance Ad in the Past Week.**

Source: Insurance Information Institute Annual *Pulse* Survey, May 2014.

# Direct Premiums Written: Homeowners Percent Change by State, 2007-2013

## Top 25 States




Sources: SNL Financial LLC.; Insurance Information Institute.

# Direct Premiums Written: Homeowners Percent Change by State, 2007-2013

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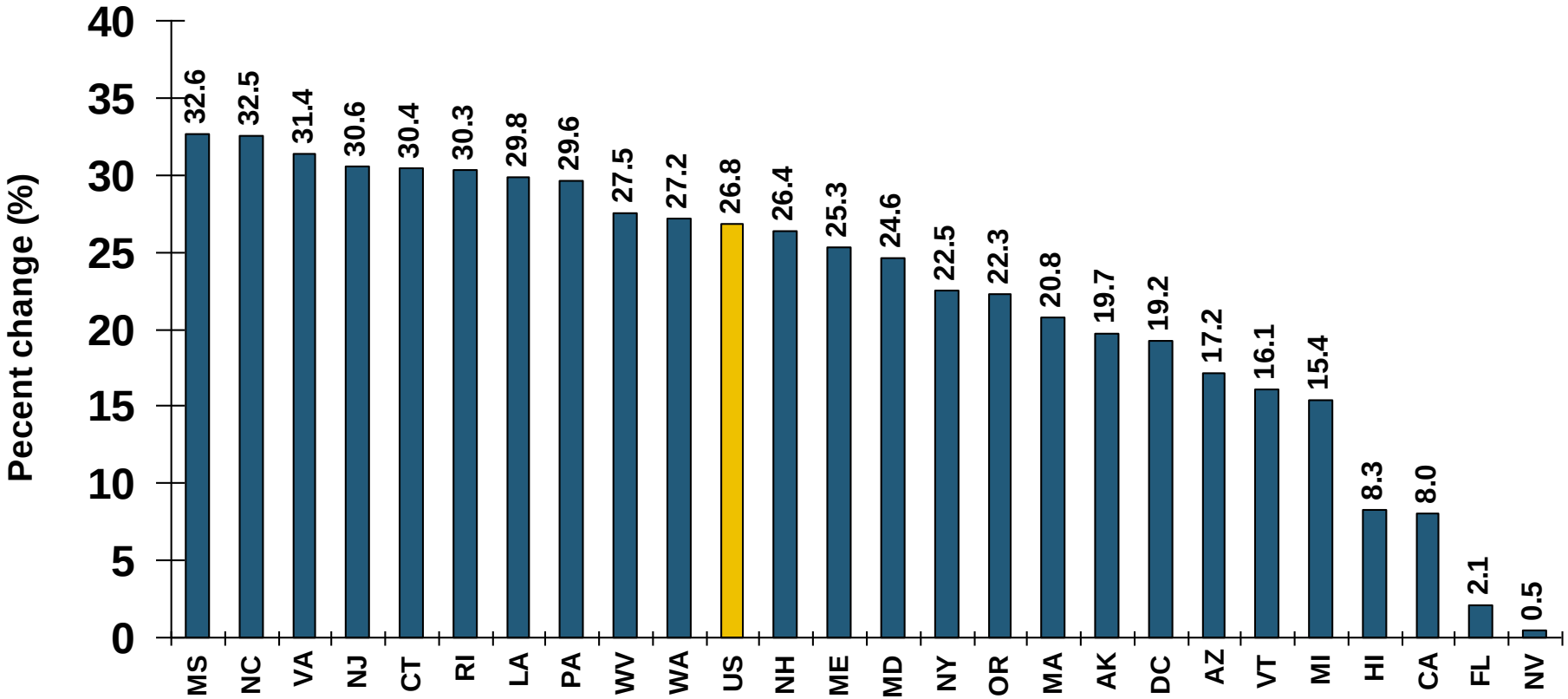
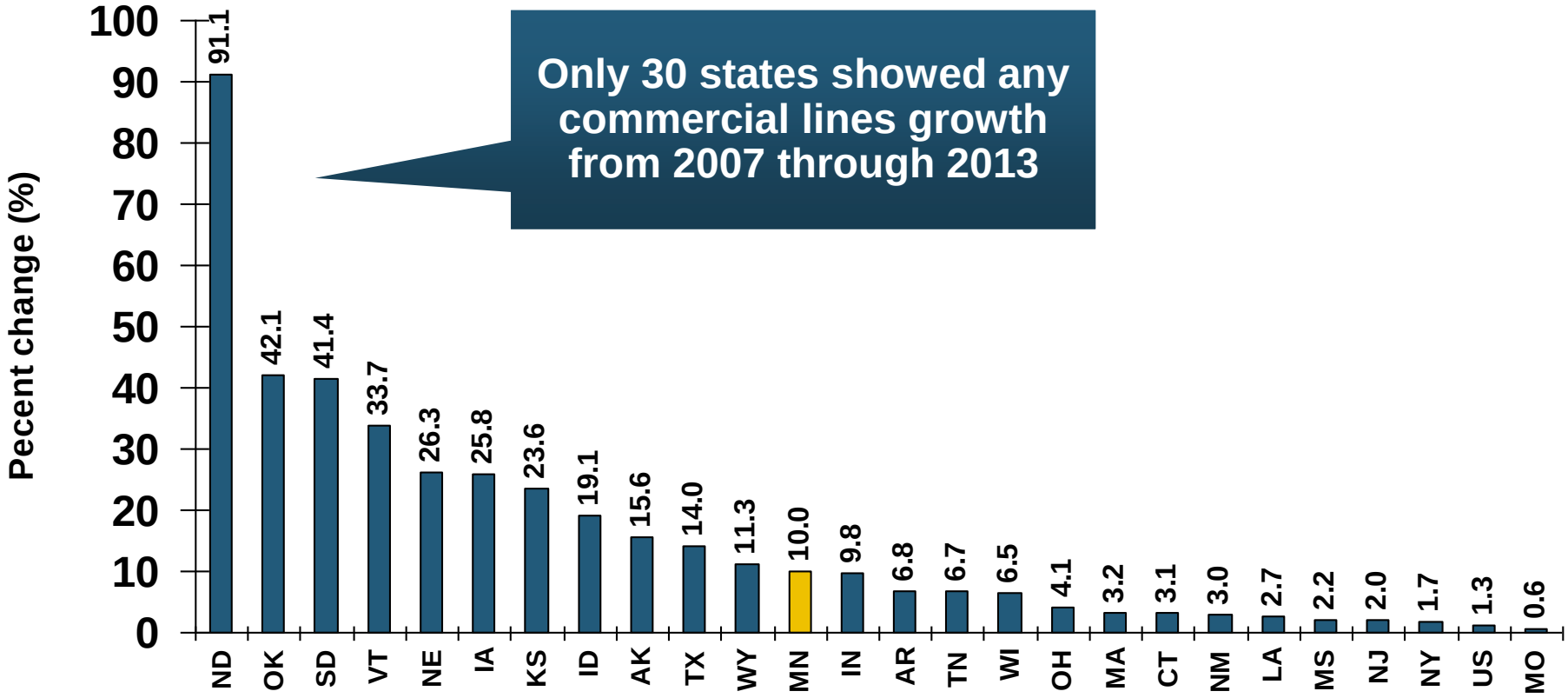
## Bottom 25 States




Sources: SNL Financial LLC.; Insurance Information Institute.

# Direct Premiums Written: Comm. Lines Percent Change by State, 2007-2013

## Top 25 States




Sources: SNL Financial LLC.; Insurance Information Institute.

# Direct Premiums Written: Comm. Lines Percent Change by State, 2007-2013

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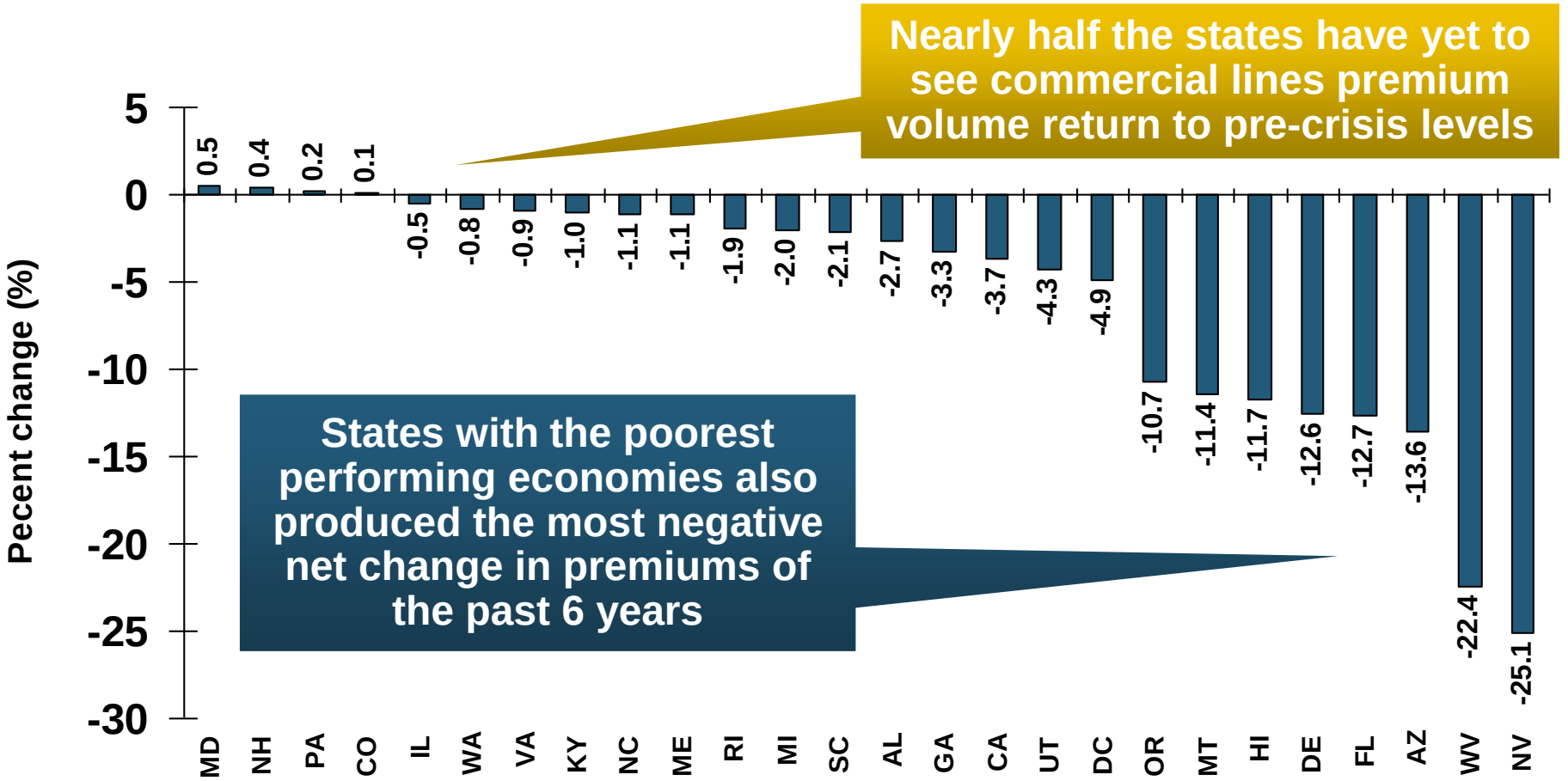
## Bottom 25 States




Sources: SNL Financial LLC.; Insurance Information Institute.

# Direct Premiums Written: Workers' Comp Percent Change by State, 2007-2013*

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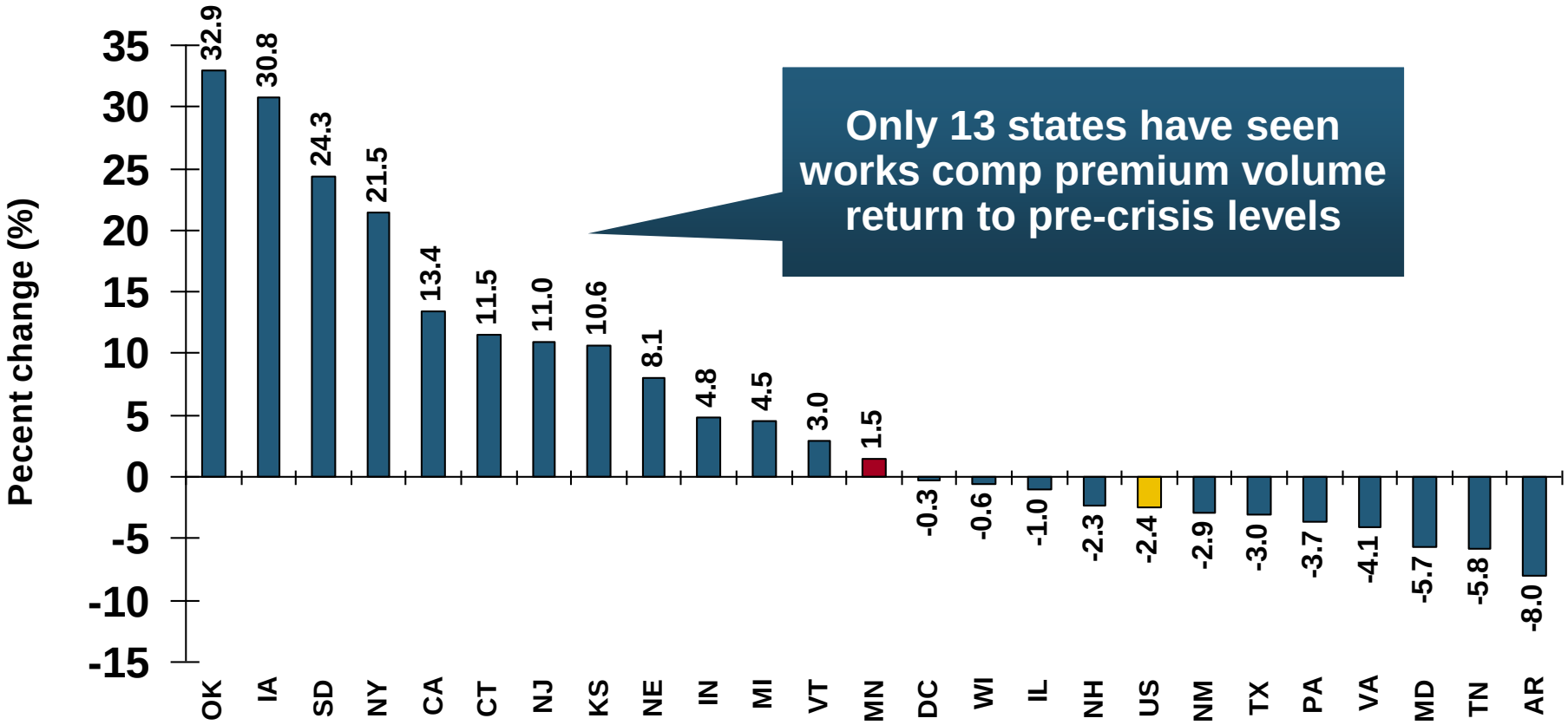
## Top 25 States




*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, 2007-2013*

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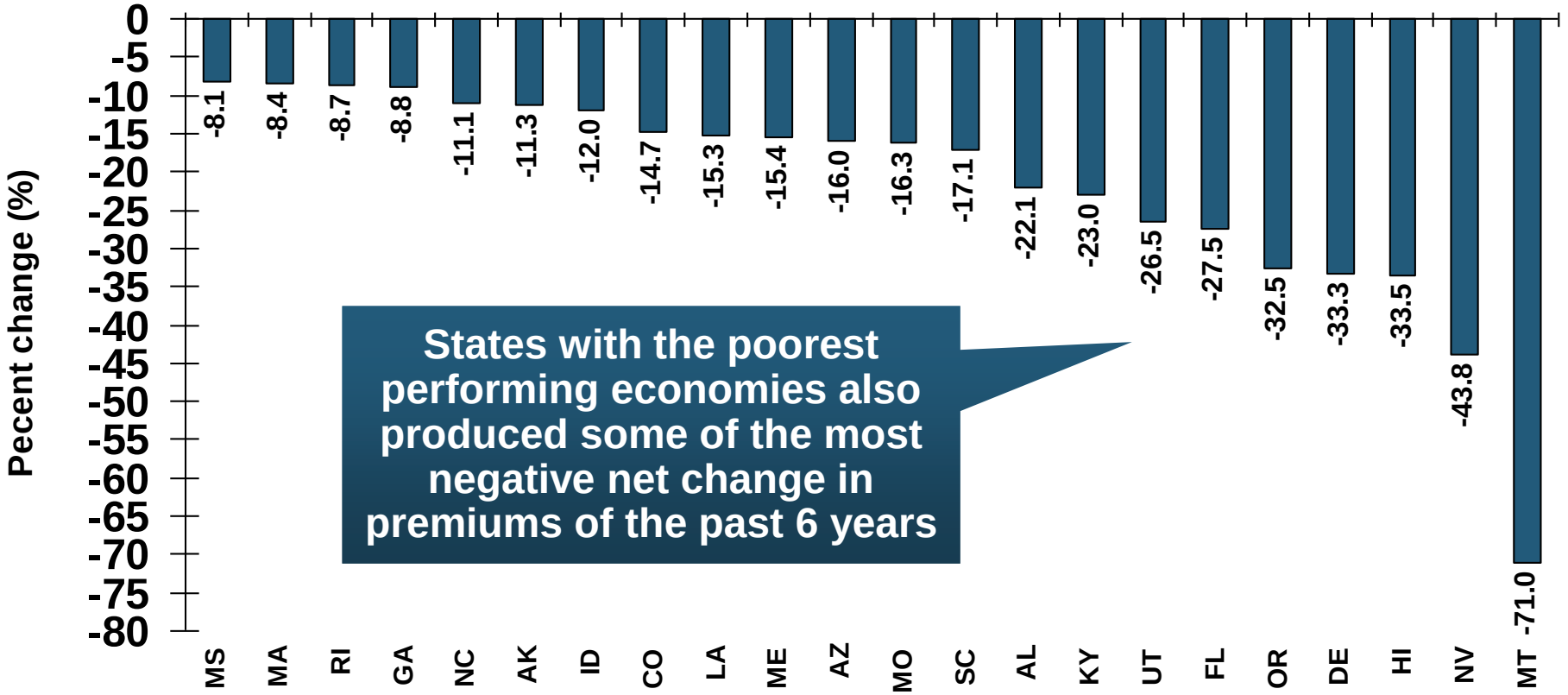
## Bottom 25 States




*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.

# Percentage of Carriers Using Predictive Analytics by Major P/C Line, 2013

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Predictive analytics is more like to be used in personal lines, but commercial lines use is growing

82% of insurers report using predicative analytics in at least one line. 18% do not use it all.

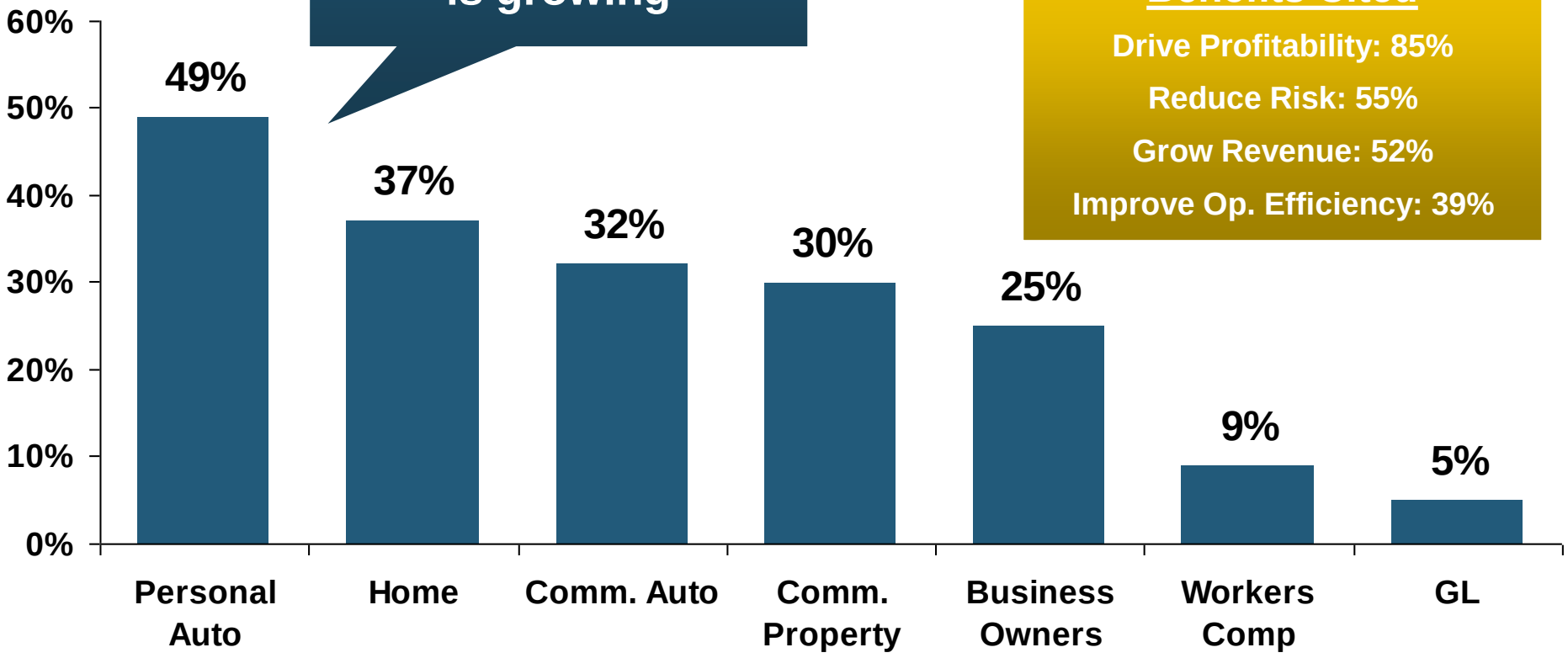
**Benefits Cited**

Drive Profitability: 85%

Reduce Risk: 55%

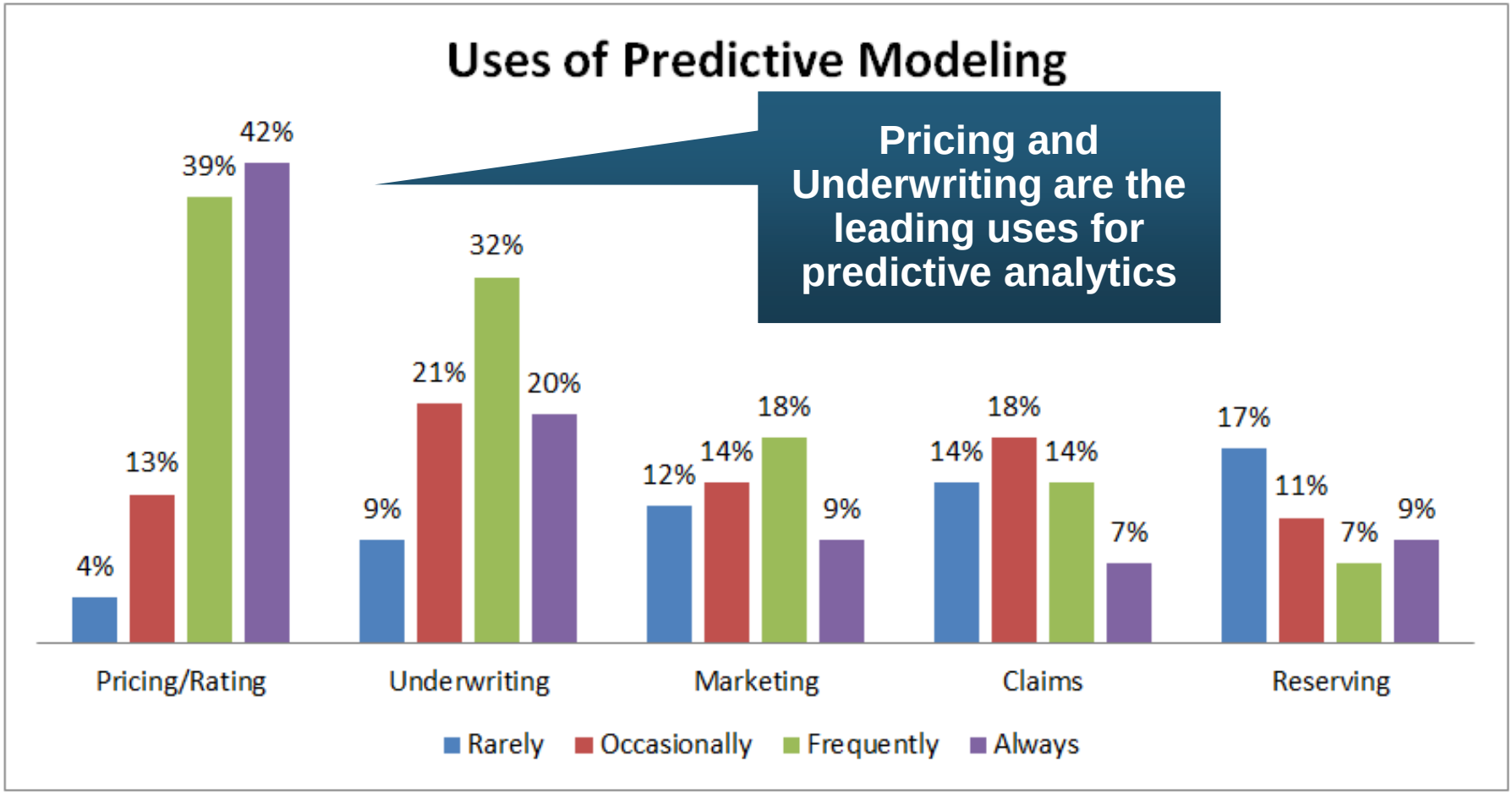
Grow Revenue: 52%

Improve Op. Efficiency: 39%




Source: ISO/Earnix Survey, September 2013; Insurance Information Institute.

# Uses of Predictive Analytics by Function




Source: Earnix/ISO September 2013 Survey

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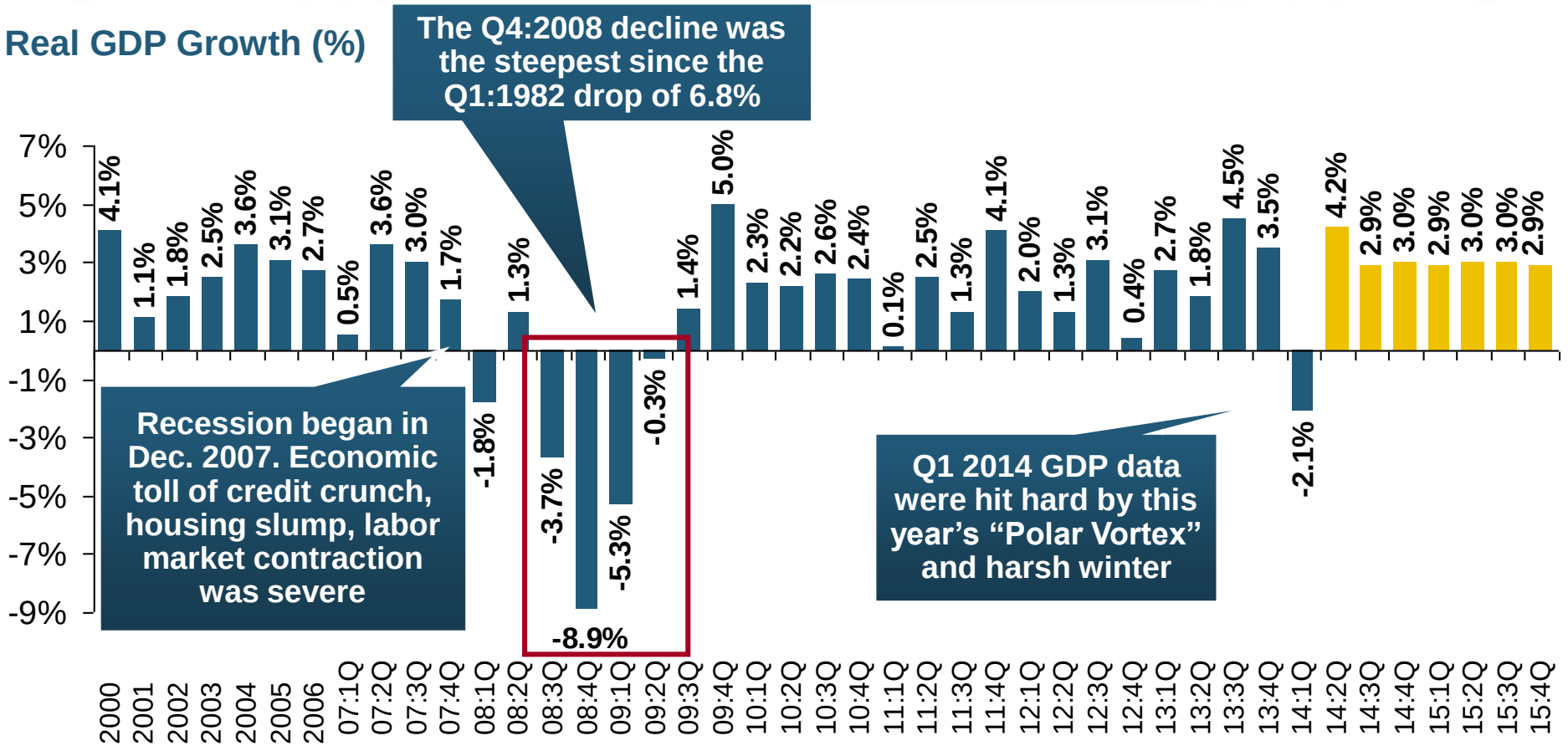
# The Strength of the Economy Will Influence P/C Insurer Growth Opportunities

## Growth Will Expand Insurer Exposure Base Across Most Lines

## *Texas Remains a Growth Leader*

# US Real GDP Growth*

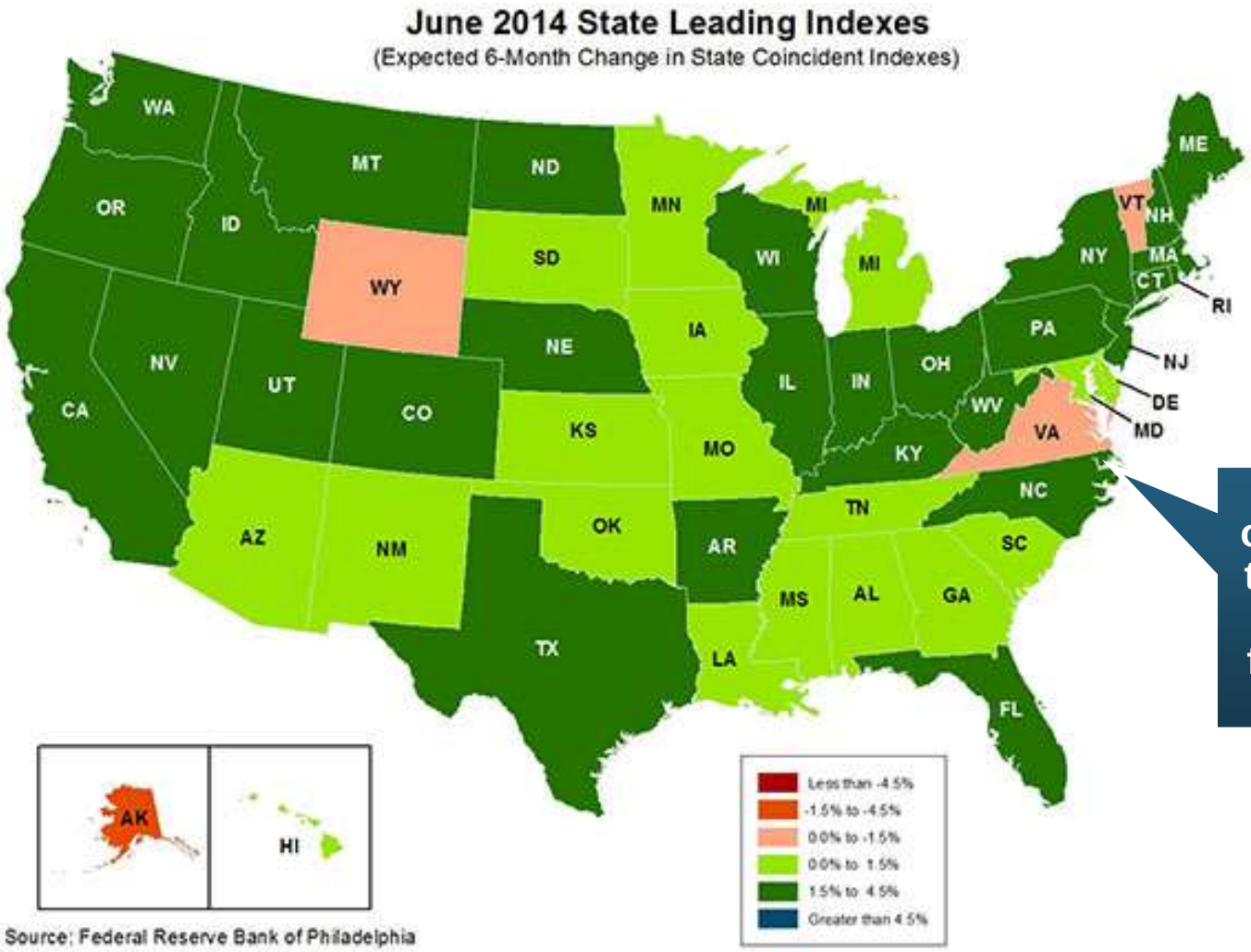



**Demand for Insurance Should Increase in 2014/15 as GDP Growth Accelerates Modestly and Gradually Benefits the Economy Broadly**

* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 8/14; Insurance Information Institute.

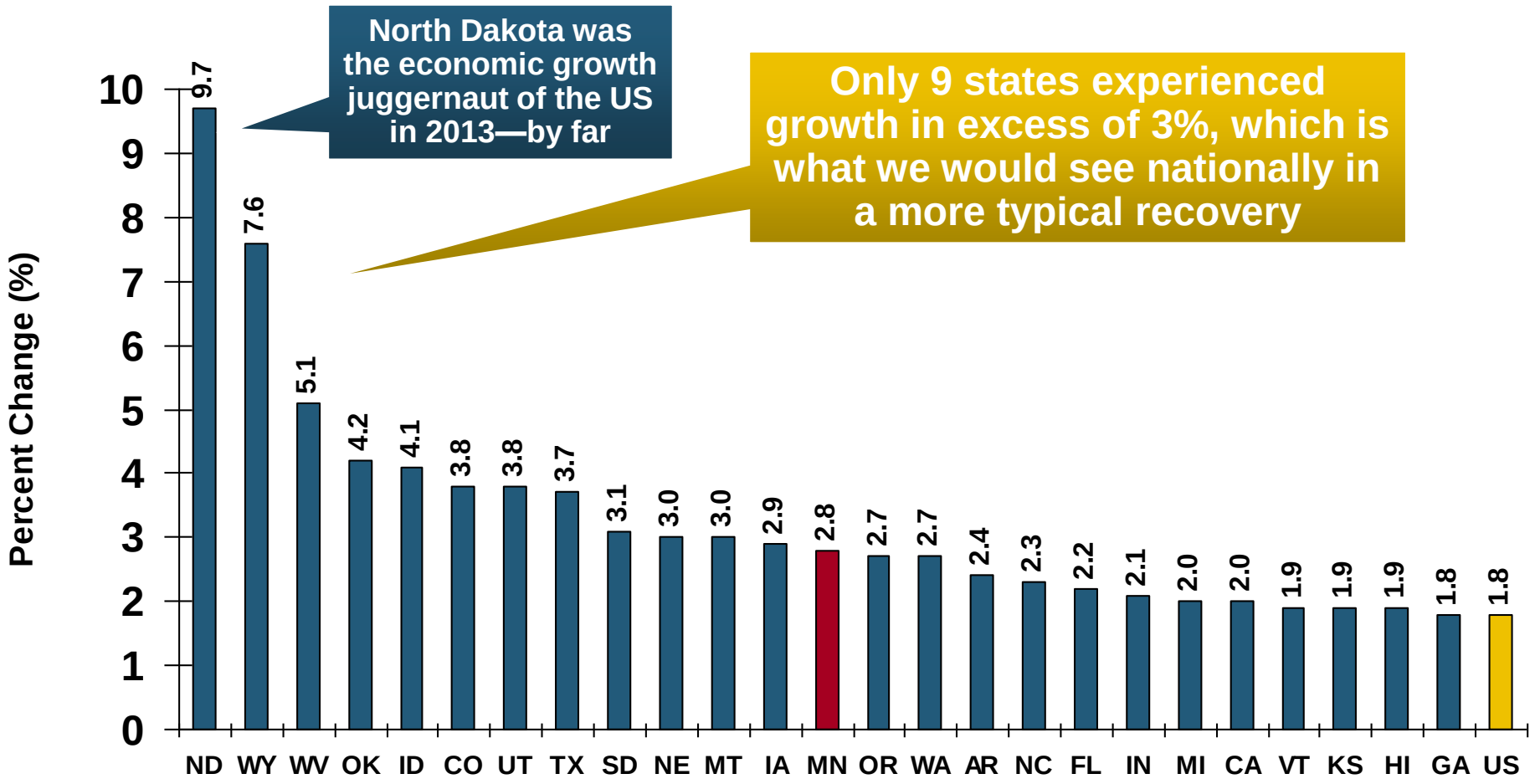
# State-by-State Leading Indicators through 2014:Q4




**The economic outlook for most of the US is generally positive, though flat-to-negative for 4 states**

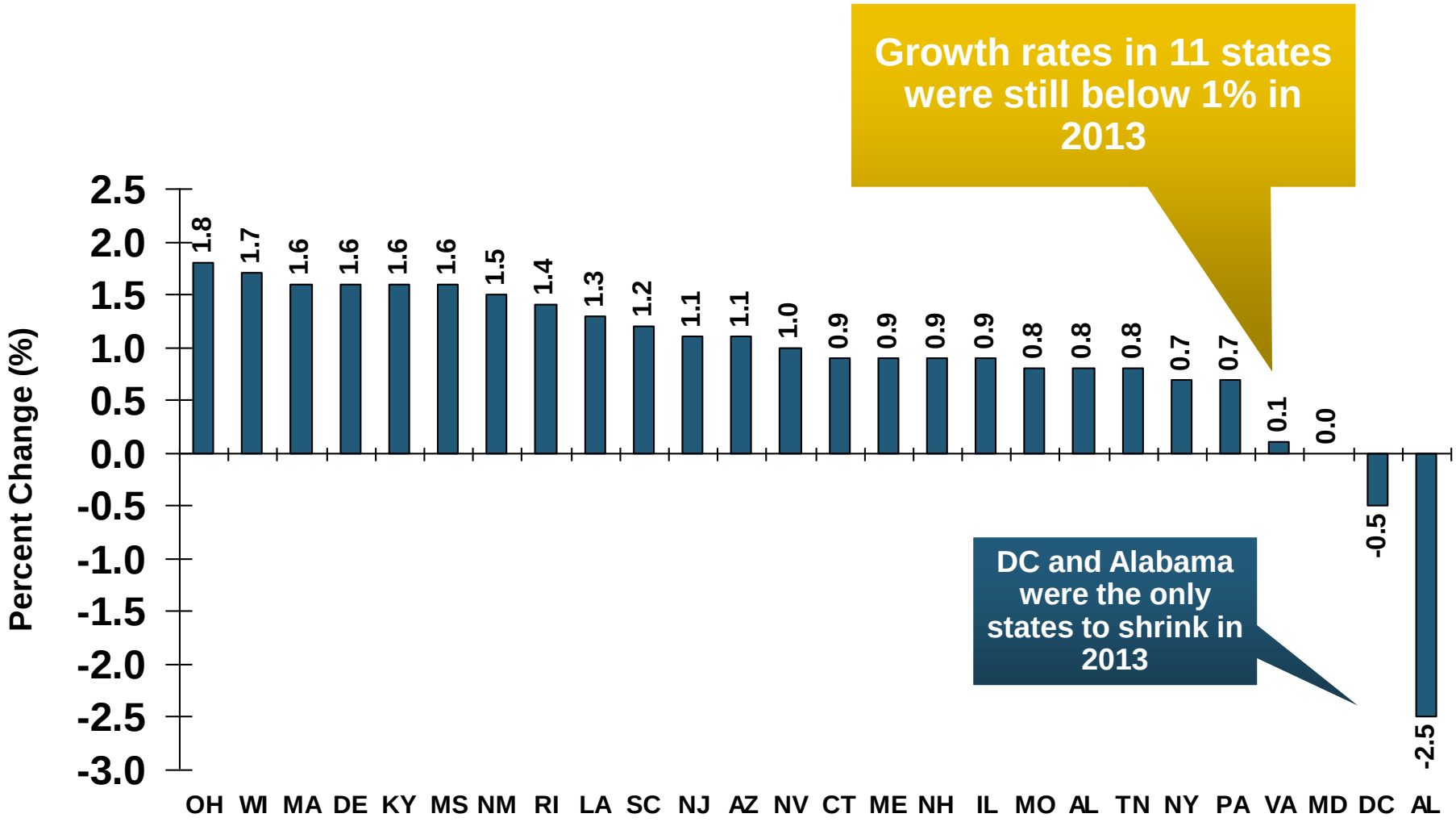
Sources: Federal Reserve Bank of Philadelphia at http://www.philadelphiafed.org/index.cfm ;Insurance Information Institute.

# Real GDP by State Percent Change, 2013: Highest 25 States



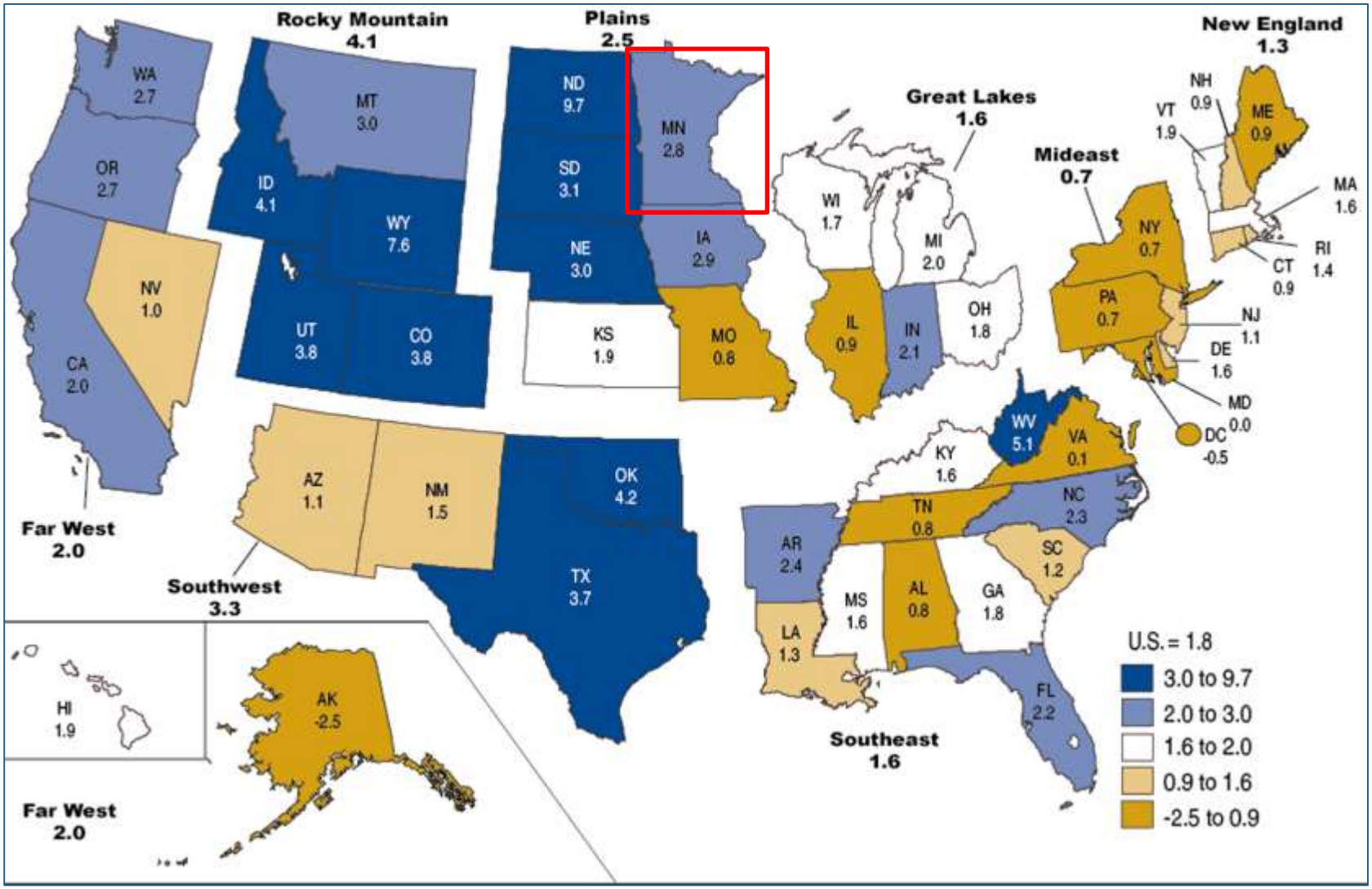

Sources: U.S. Bureau of Economic Analysis; Insurance Information Institute.

# Real GDP by State Percent Change, 2013: Lowest 25 States



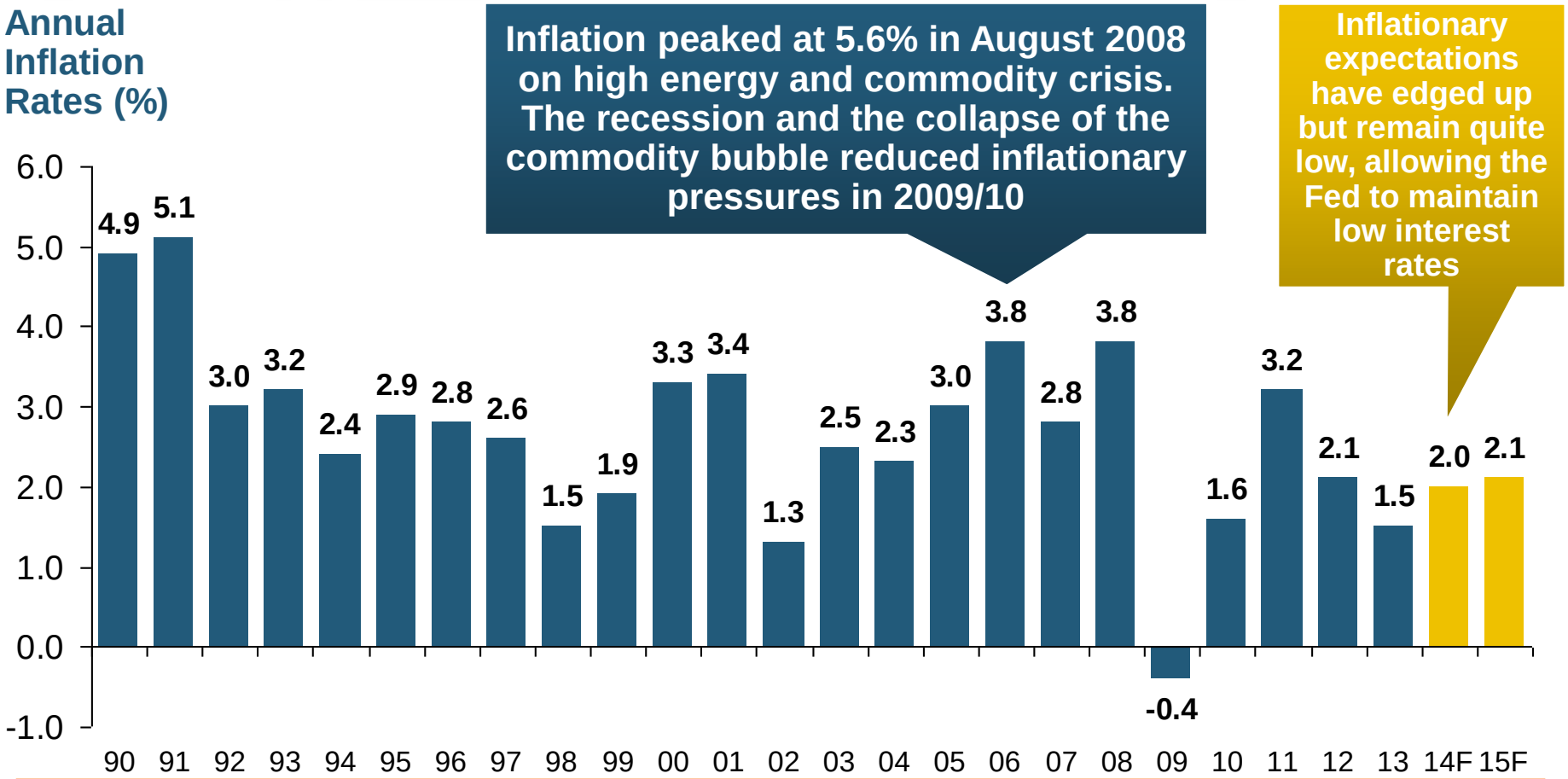

Sources: US Bureau of Economic Analysis; Insurance Information Institute.

# Percent Change in Real GDP by State, 2013




Sources: US Bureau of Economic Analysis; Insurance Information Institute.

# Annual Inflation Rates, (CPI-U, %), 1990–2015F




**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**

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators, 8/14 (forecasts).

# Consumer Sentiment Survey *(1966 = 100)*

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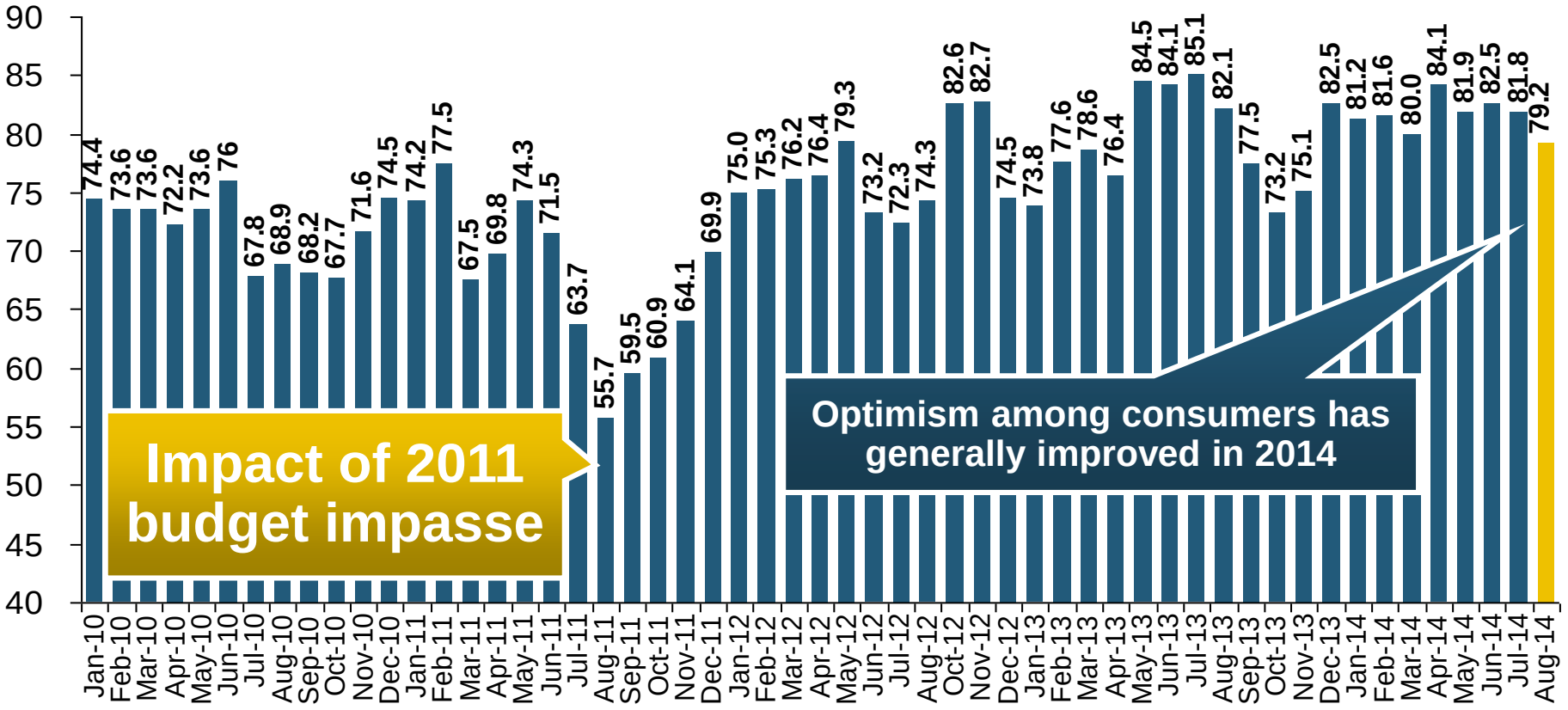
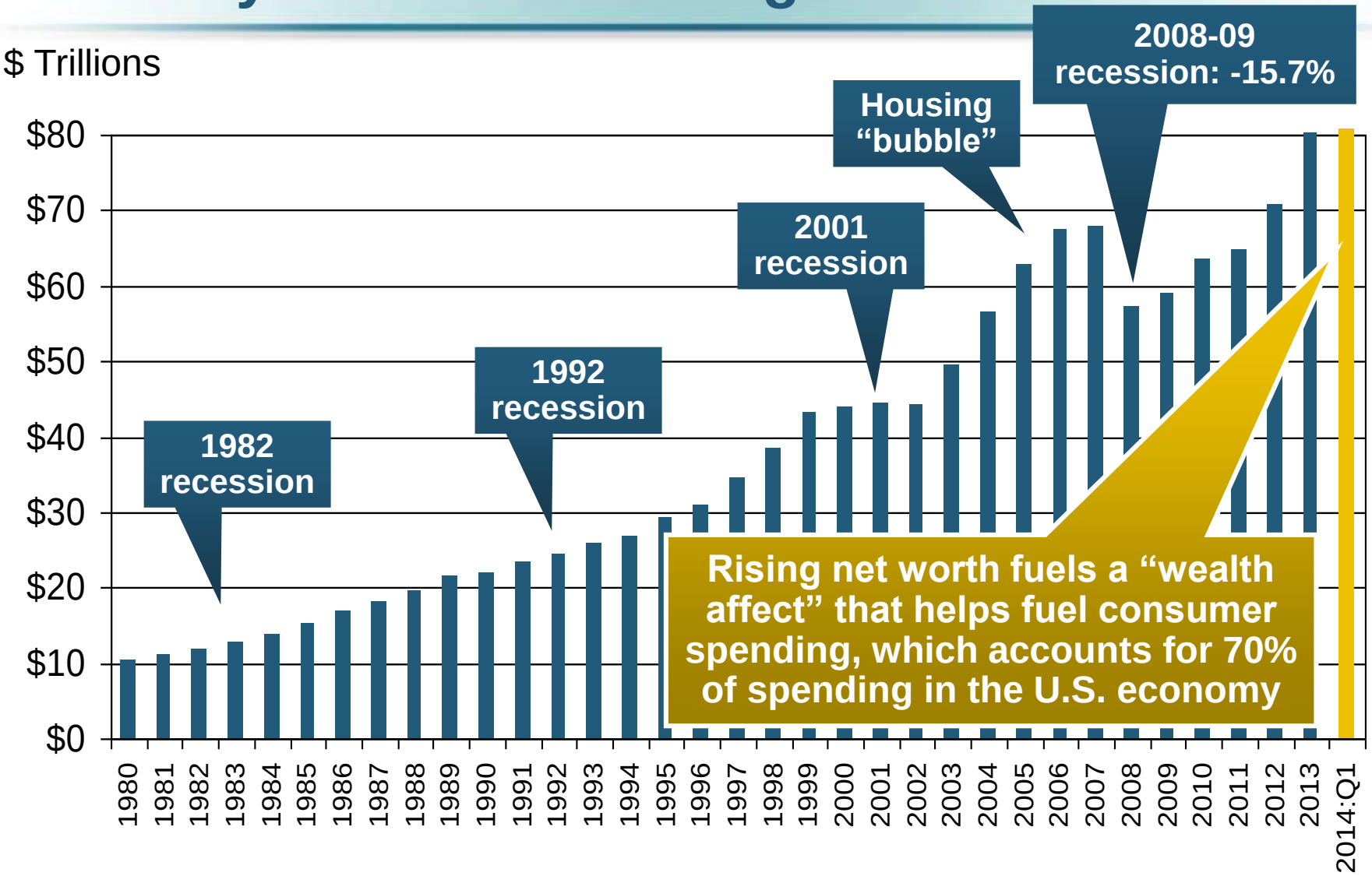
## January 2010 through August 2014




**Consumer confidence has been low for years amid high unemployment, falling home prices and other factors adversely impact consumers, but improved substantially over the past 2+ years, though uncertainty in Washington sometimes takes a toll.**

Source: University of Michigan; Insurance Information Institute

# Net Worth of Households* Recently Hit A Historic High




*Includes nonprofit organizations. Data are not seasonally adjusted or inflation-adjusted.
Source: Federal Reserve Board: http://www.federalreserve.gov/releases/z1/current/z1r-5.pdf ; Insurance Information Institute.

# Household Financial Obligations Ratio Recently Hit A Historic Low

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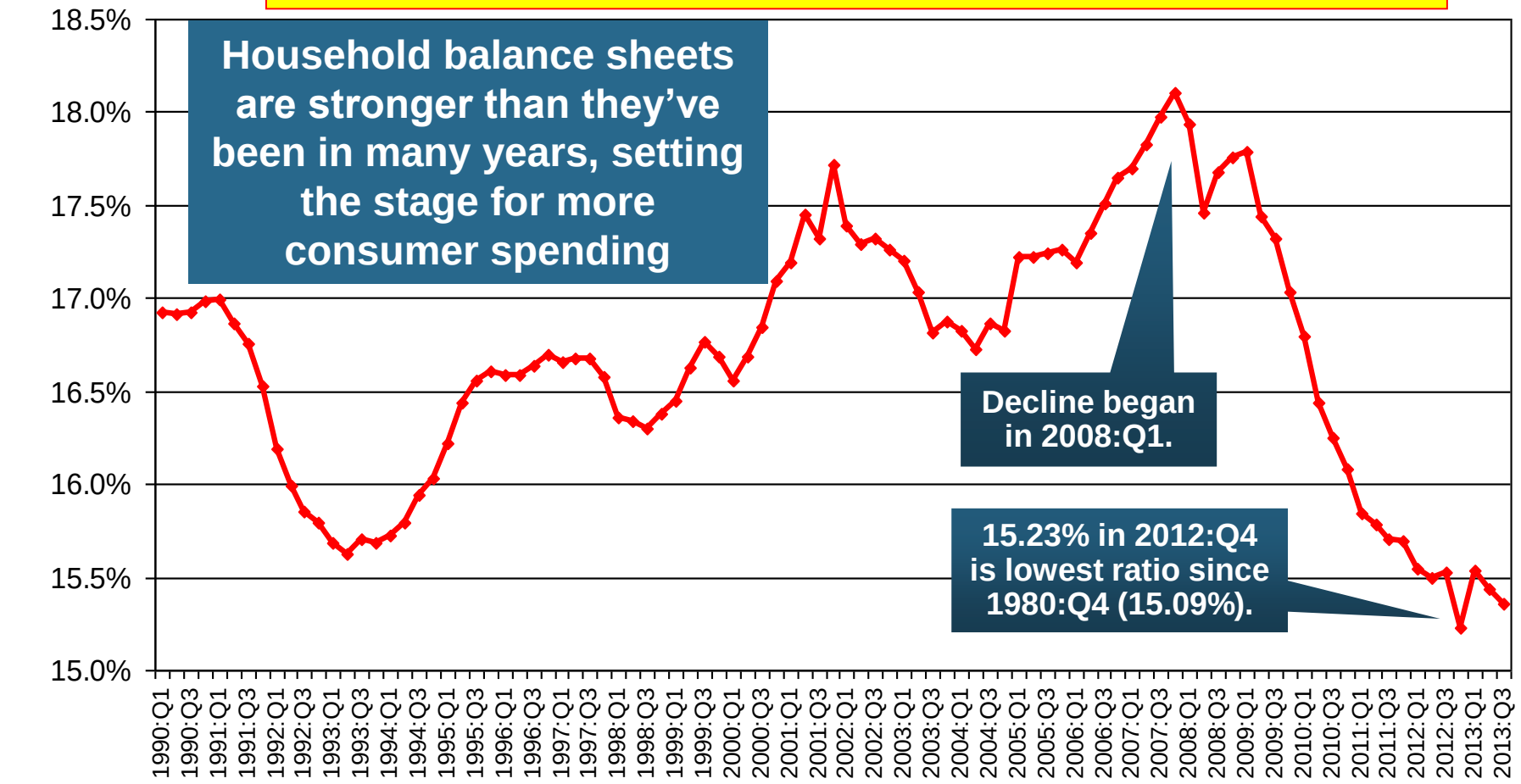
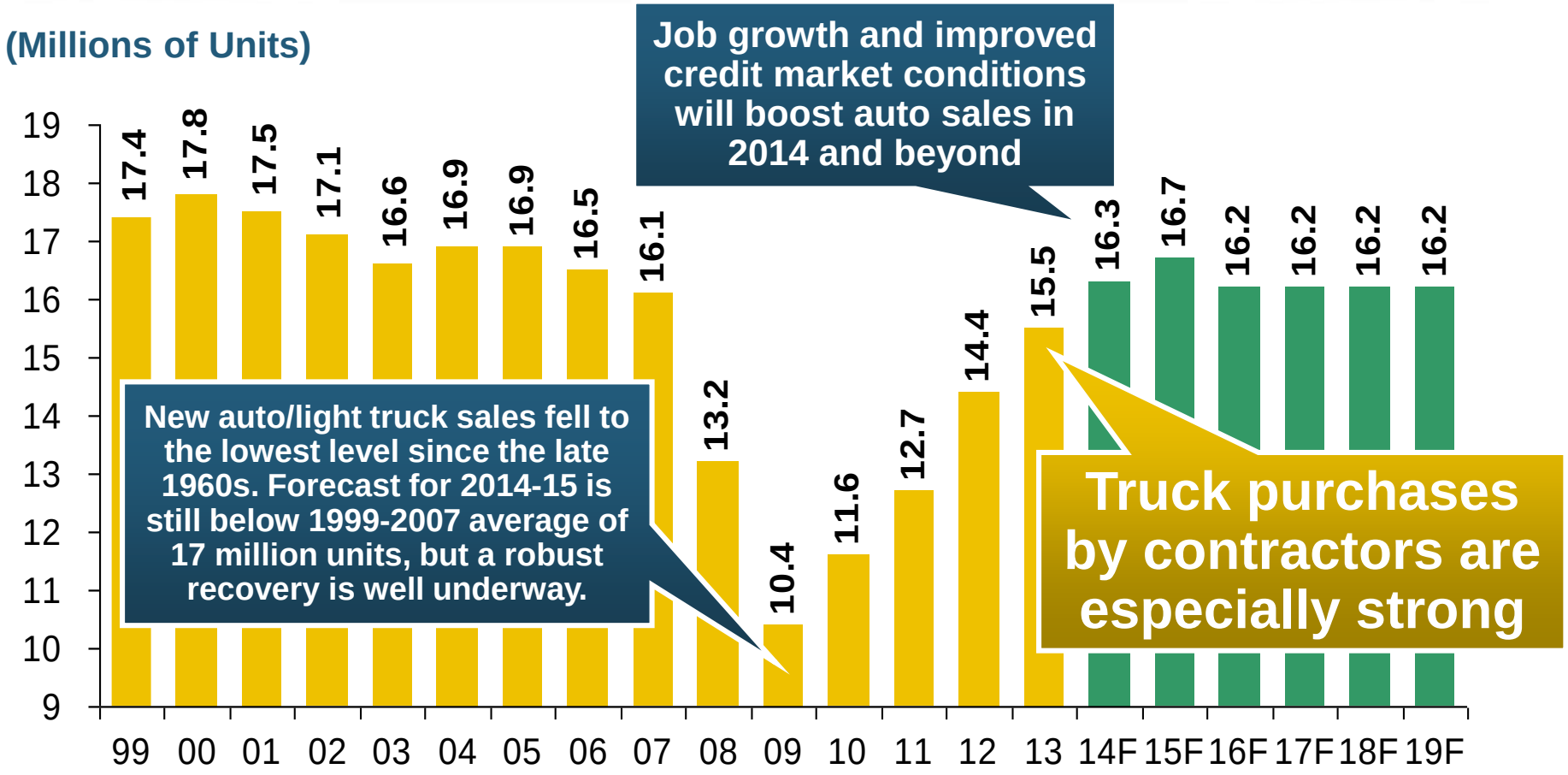
**Financial Obligations Ratio**: debt service (mortgage and consumer debt), auto lease, residence rent, HO insurance, and property tax payments as % of personal disposable income.




*through 2013:Q3 (data posted on Dec 13, 2013)
Source: Federal Reserve Board, at http://www.federalreserve.gov/releases/housedebt

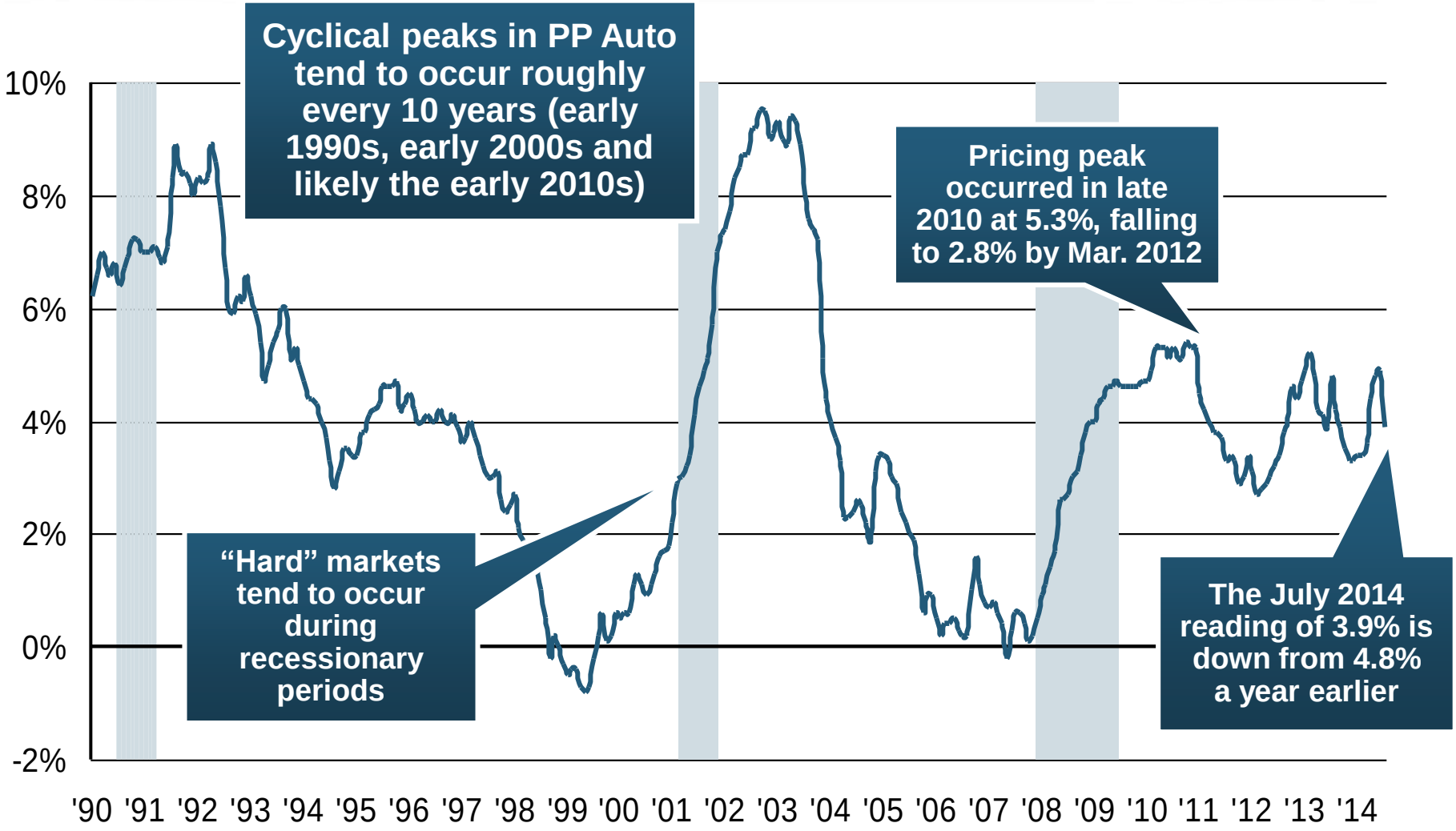
# Auto/Light Truck Sales, 1999-2019F




**Car/Light Truck Sales Will Continue to Recover from the 2009 Low Point, Bolstering the Auto Insurer Growth and the Manufacturing Sector Along With Workers Comp Exposures**

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (8/14 and 3/13); Insurance Information Institute.

# Monthly Change* in Auto Insurance Prices, 1991–2014*

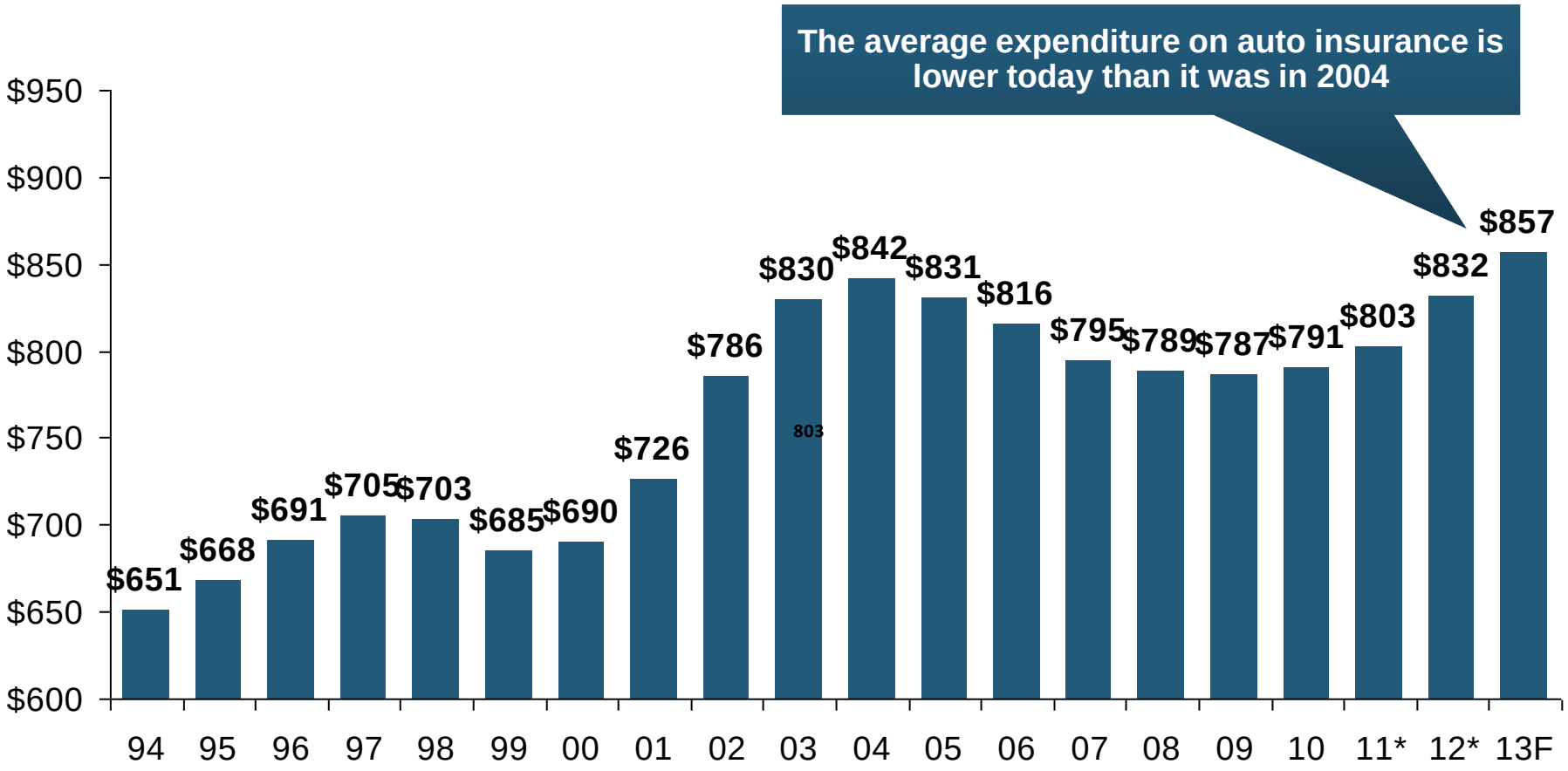



*Percentage change from same month in prior year; through May 2014; seasonally adjusted

Note: Recessions indicated by gray shaded columns.

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

# Average Expenditures on Auto Insurance




**Countrywide Auto Insurance Expenditures Decreased by 0.8% in 2008 and 0.5% in 2009 and Increased 0.5% in 2010, 1.5% in 2011 (est.), 2.0% in 2012 and 2.2% in 2013 (forecast)**

* Insurance Information Institute Estimates/Forecasts
Source: NAIC, Insurance Information Institute estimate for 2011-2013 based on CPI and other data.

# Top Ten Most Expensive And Least Expensive States For Automobile Insurance, 2011 (1)

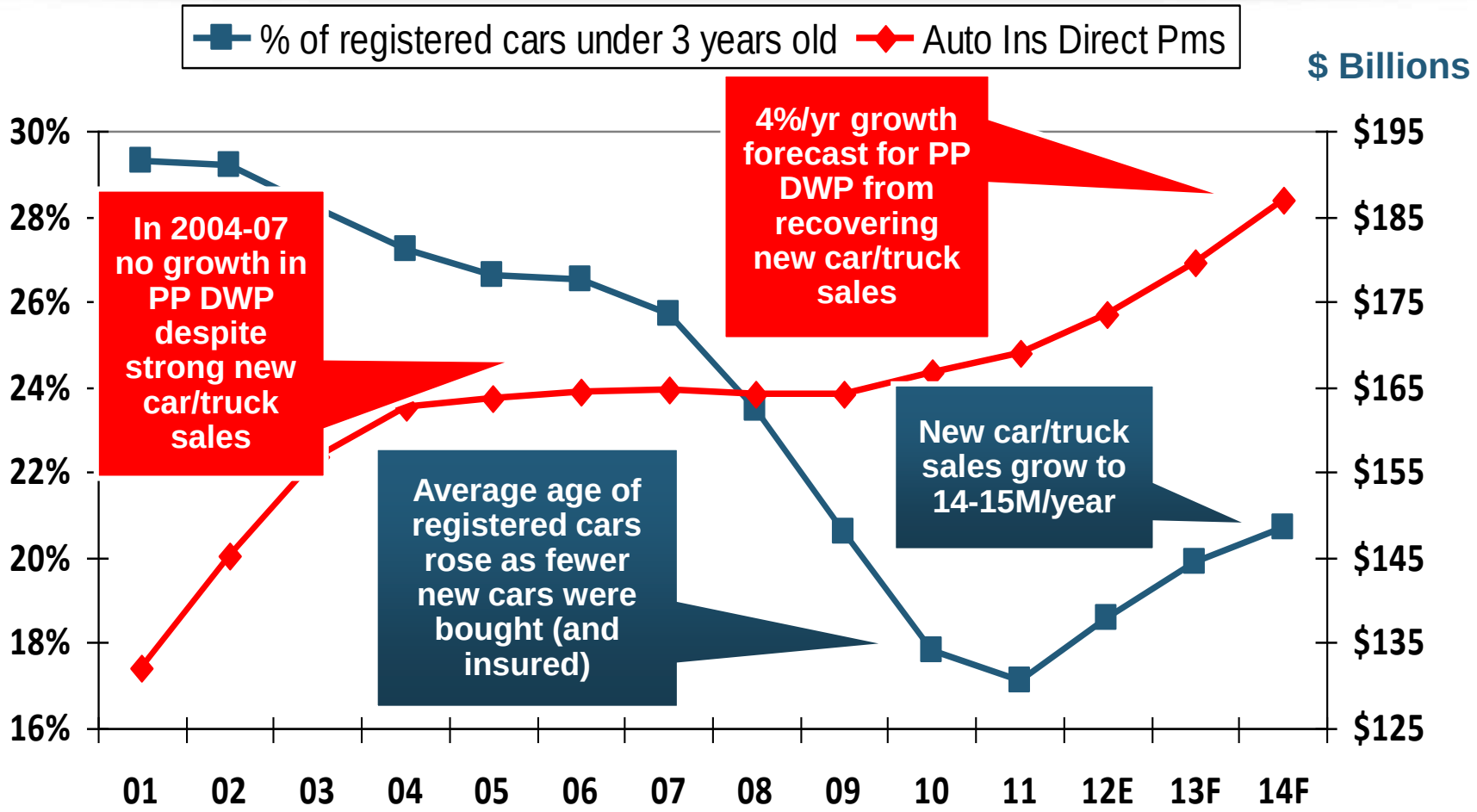
| Rank | Most expensive states | Average expenditure | Rank | Least expensive states | Average expenditure |
|---|---|---|---|---|---|
| 1 | New Jersey | $1,183.95 | 1 | Idaho | $525.15 |
| 2 | District of Columbia | 1,138.03 | 2 | South Dakota | 540.04 |
| 3 | Louisiana | 1,110.68 | 3 | North Dakota | 549.81 |
| 4 | New York | 1,108.64 | 4 | Iowa | 552.54 |
| 5 | Florida | 1,090.65 | 5 | Maine | 577.38 |
| 6 | Delaware | 1,052.28 | 6 | North Carolina | 600.33 |
| 7 | Rhode Island | 1,004.14 | 7 | Wisconsin | 601.40 |
| 8 | Michigan | 983.60 | 8 | Nebraska | 602.57 |
| 9 | Connecticut | 970.22 | 9 | Wyoming | 619.88 |
| 10 | Maryland | 956.17 | 10 | Ohio | 619.96 |

***Minnesota ranked 31st*** **as the most expensive state in 2011, with an average expenditure for auto insurance of $696.00.**

(1) Based on average automobile insurance expenditures.

Source: © 2013 National Association of Insurance Commissioners.

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



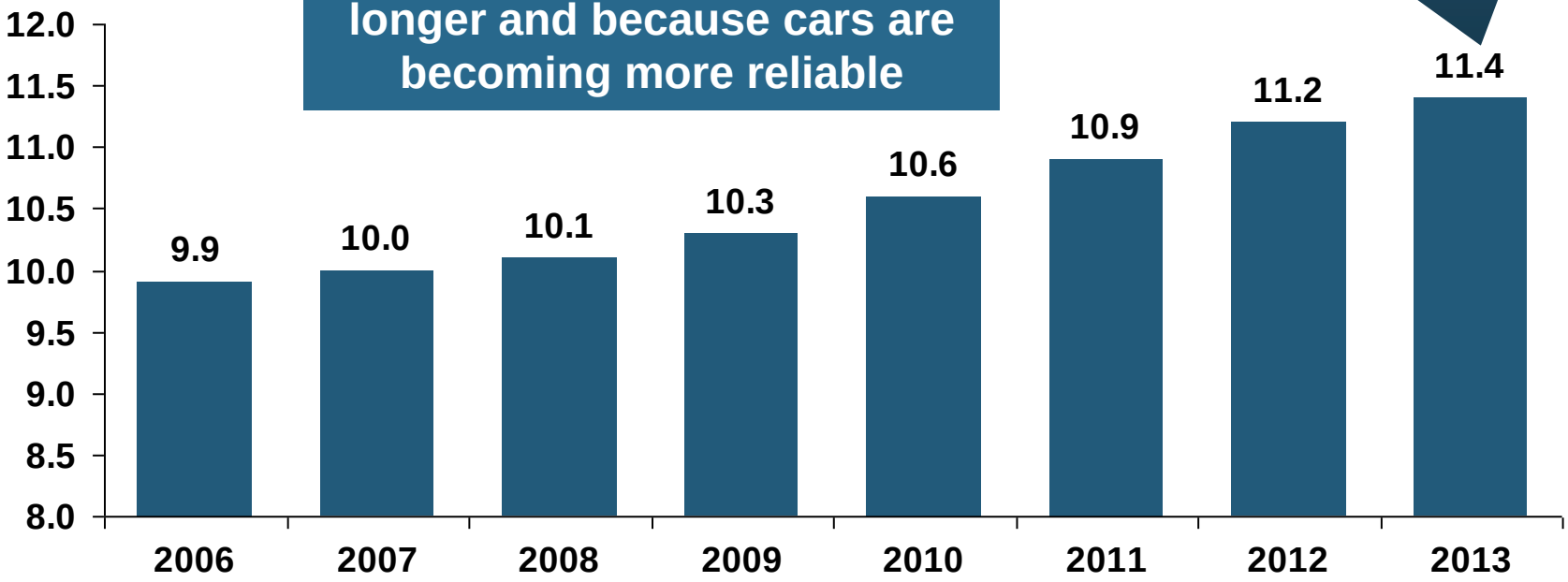

**PP DWP, flat from 2004-2009, is rising again.**
**Conning forecasts growth at 3.5% in 2013 and 4.0% in 2014.**

Sources: AIPSO Facts (various issues); SNL Financial; Conning Research & Consulting, *Property-Casualty Forecast and Analysis*, First Quarter 2012; Insurance Information Institute.

# Average Age of Vehicles on the Road, 2006—2013

Average vehicle age continues to increase because the slow economy leads many drivers to keep cars on the road longer and because cars are becoming more reliable

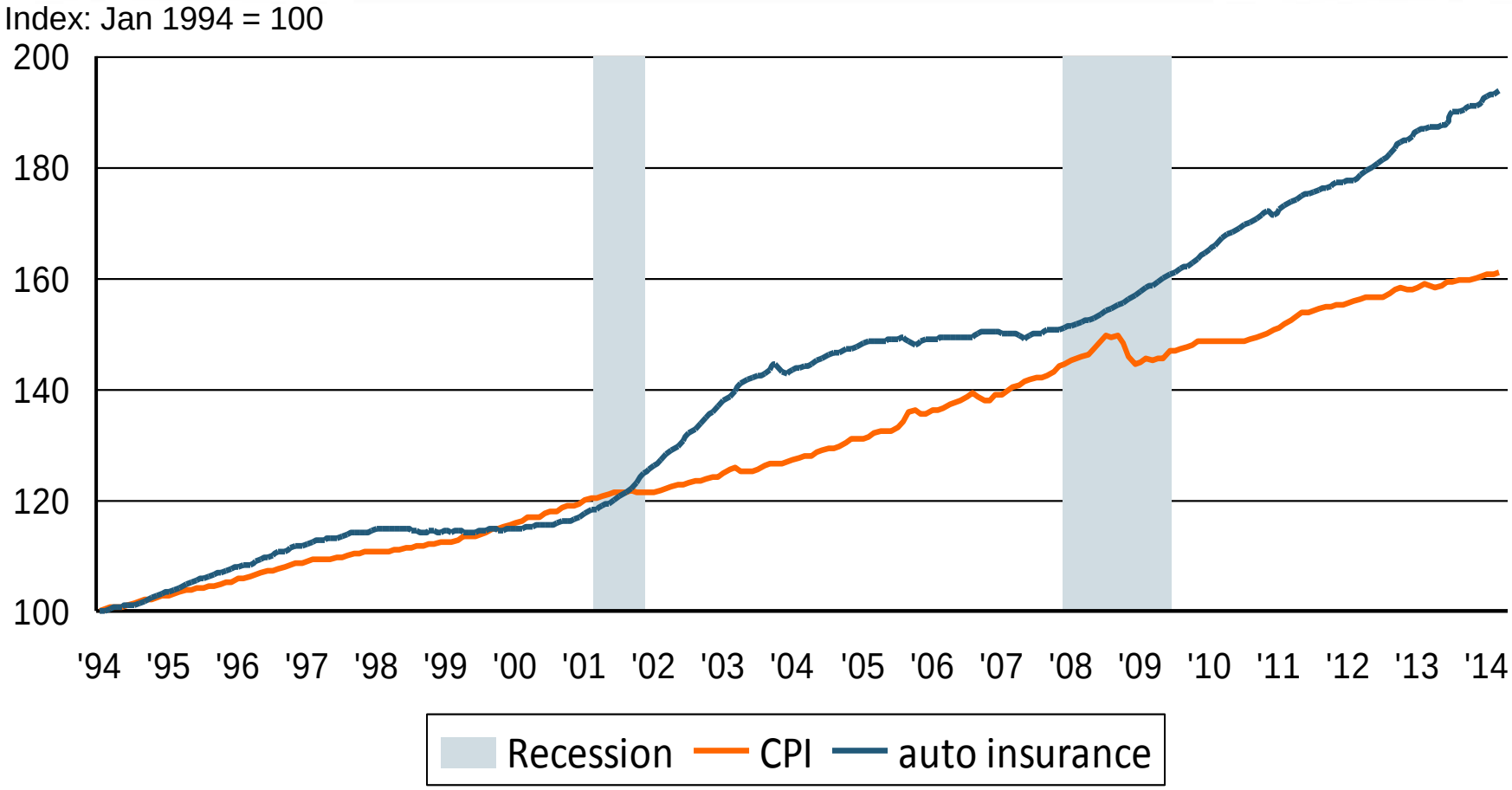
The average vehicle age reached a record 11.4 years in 2013




The average age of a vehicle on the road is is expected to continue to increase until 2018. By 2018, the number of vehicles 12+ years old is expected to rise 11.6% from 2013 and the number that are under 5 years old is expected to increase by 41%

Sources: Polk, August 2013 Survey; Insurance Information Institute.

# Auto Insurance Price Index vs. CPI, 1994–2014*

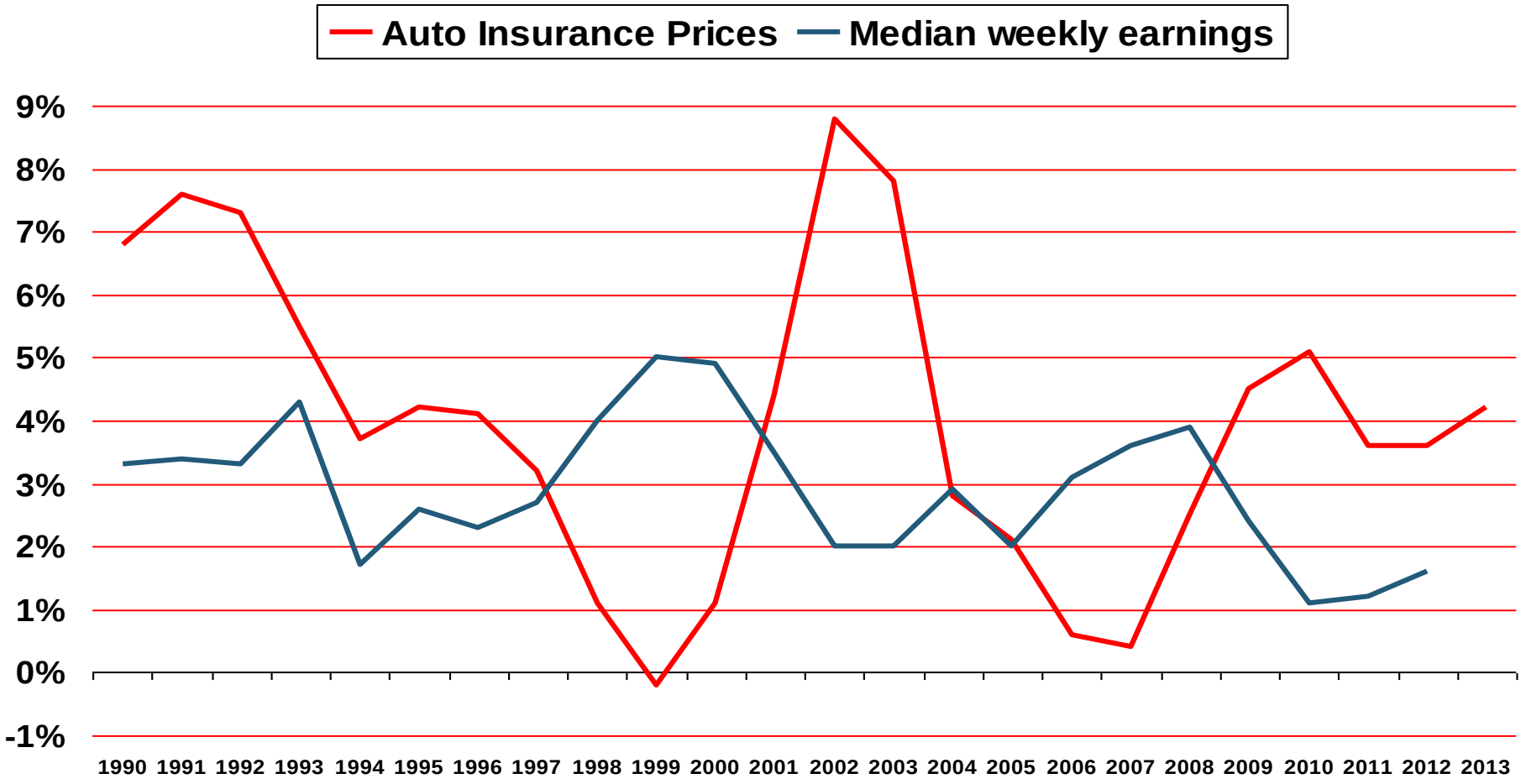



**Annual average growth rate of the CPI from 1994 to now: 2.5%.**
**Annual average growth rate of auto insurance prices from 1994 to now: 3.3%.**

*Seasonally adjusted, through March 2014

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

# Yearly Change in Auto Insurance Prices vs. Median Weekly Earnings




Sources: US Bureau of Labor Statistics; Insurance Information Institute

# Monthly Change* in Auto Insurance Prices, January 2005 - December 2013

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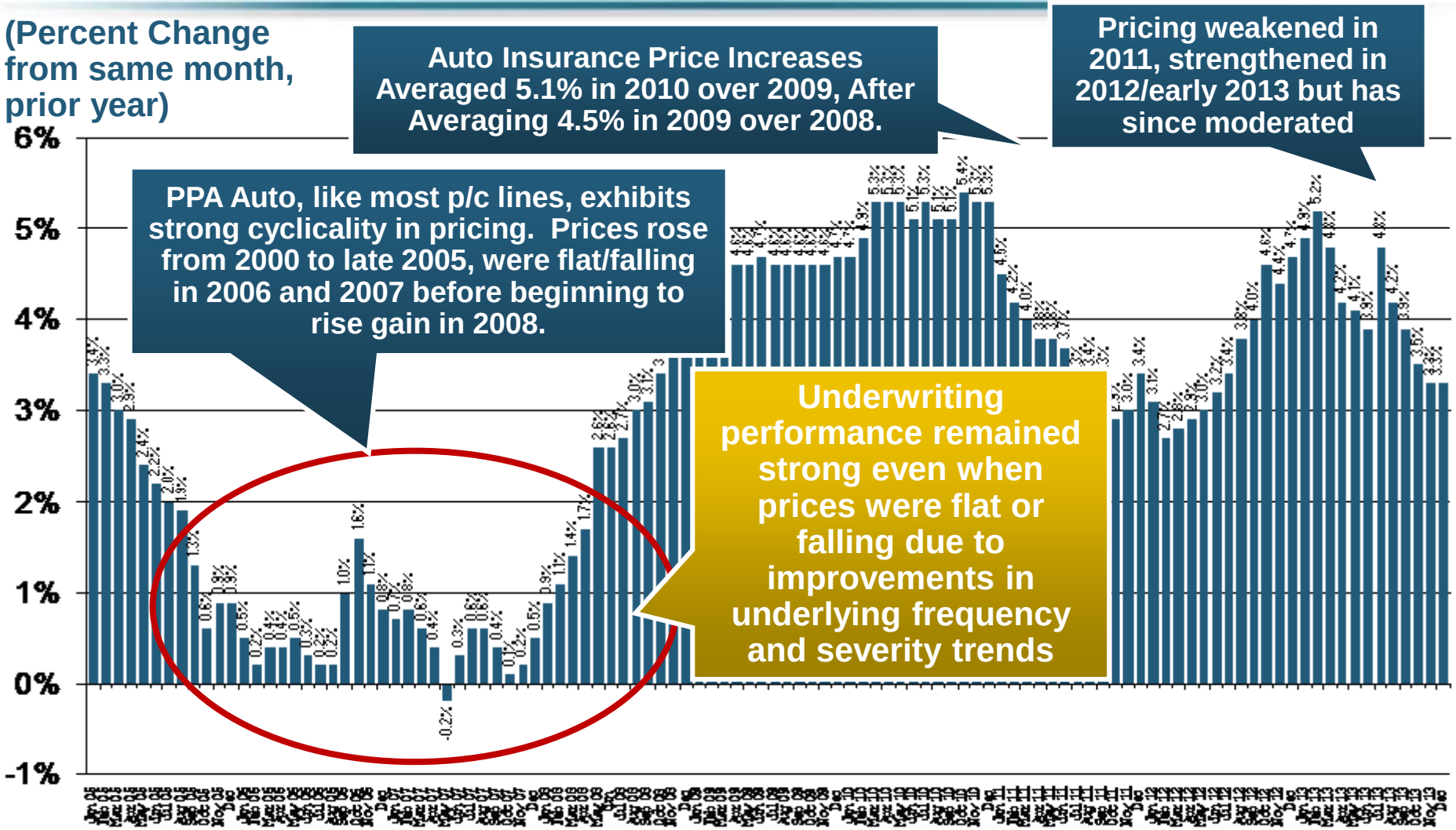
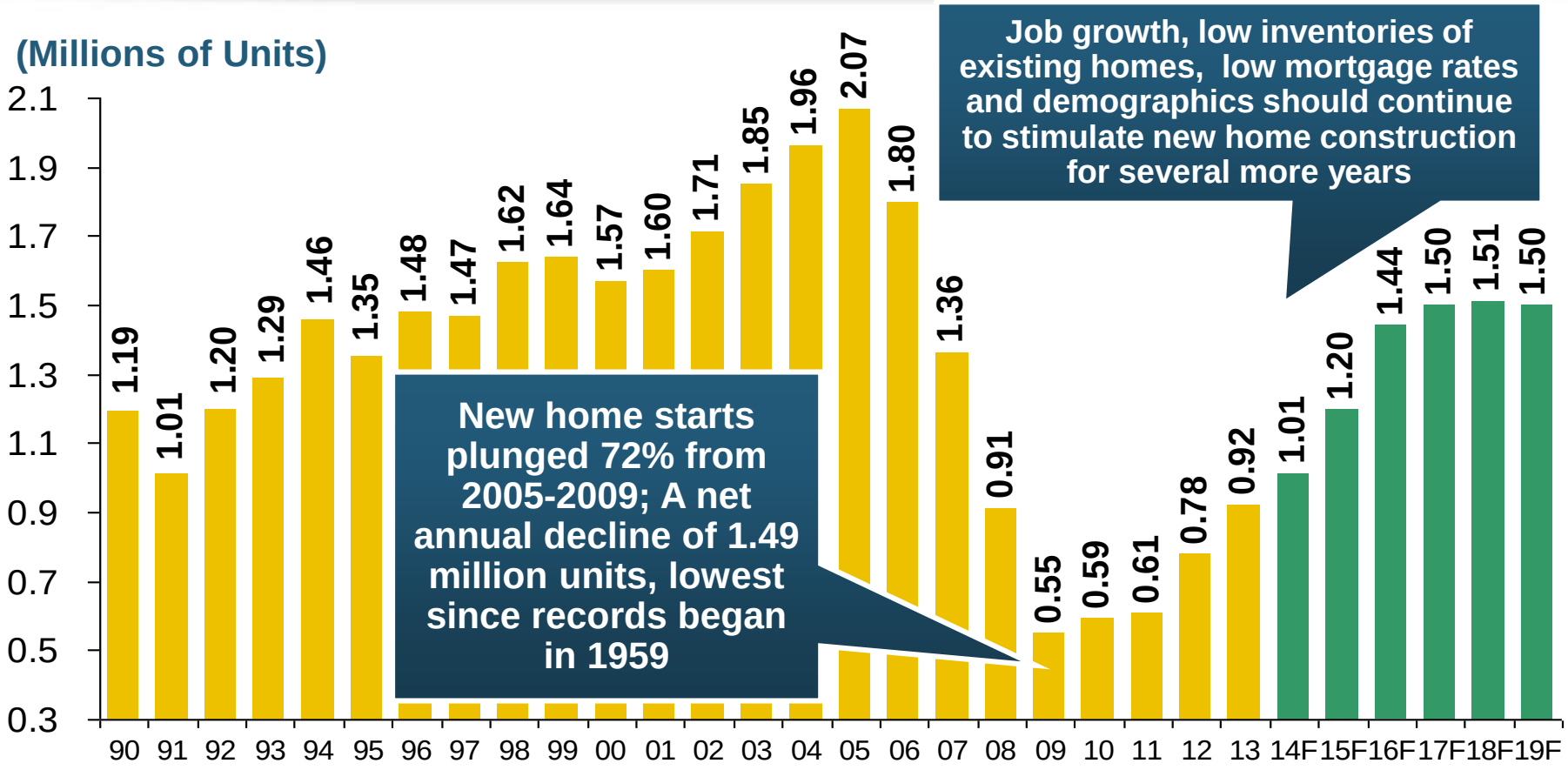
(Percent Change from same month, prior year)




*Percentage change from same month in prior year, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute

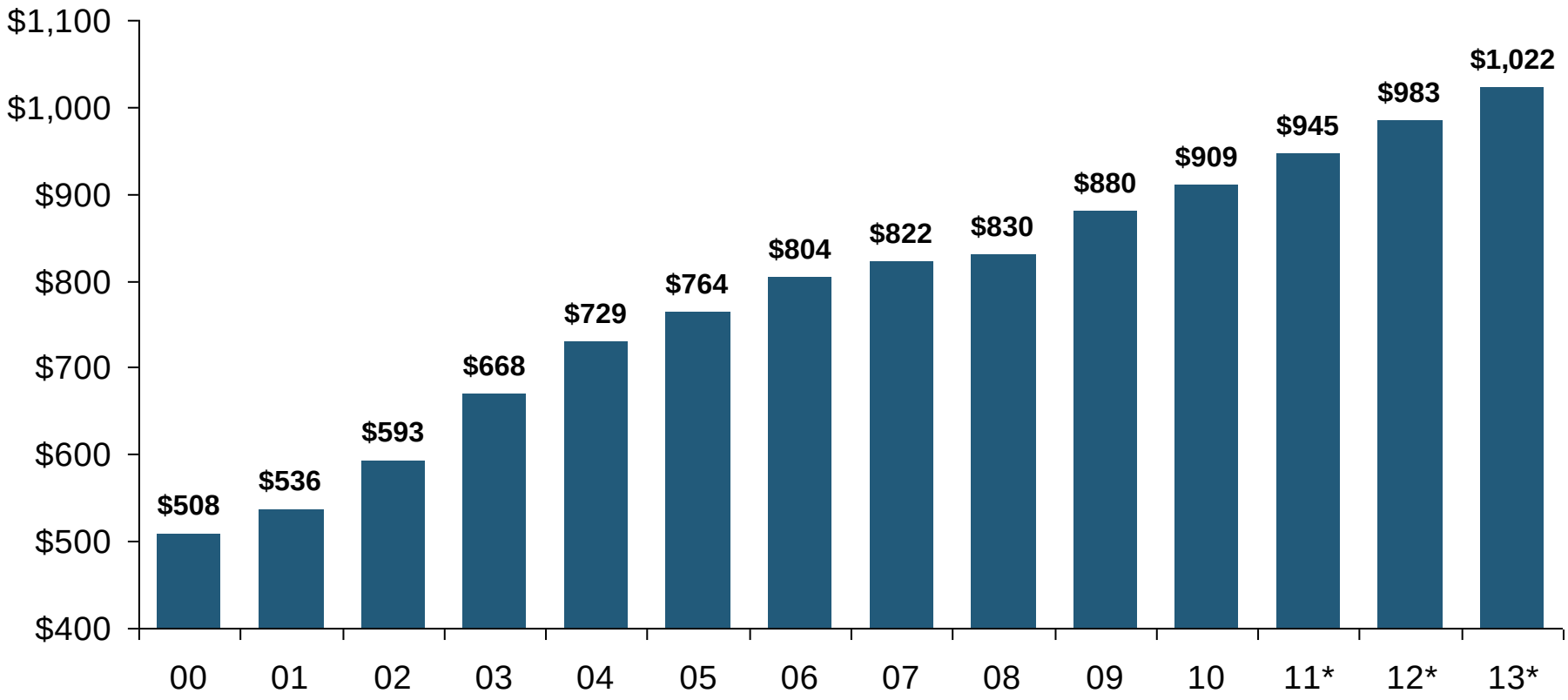
# New Private Housing Starts, 1990-2019F




**Insurers Are Continue to See Meaningful Exposure Growth in the Wake of the "Great Recession" Associated with Home Construction: Construction Risk Exposure, Surety, Commercial Auto; Potent Driver of Workers Comp Exposure**

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (8/14 and 3/13); Insurance Information Institute.

# Average Premium for Home Insurance Policies**




**Countrywide Home Insurance Expenditures Increased by an Estimated 4.0% in 2011-2013**

* Insurance Information Institute Estimates/Forecasts **Excludes state-run insurers.
Source: NAIC, Insurance Information Institute estimates for 2011-2013 based on CPI data and other data.

# Top Ten Most Expensive And Least Expensive States For Homeowners Insurance, 2011 (1)

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**Minnesota ranked as the 14th most expensive state for homeowners insurance in 2011, with an average expenditure of $1,056.**

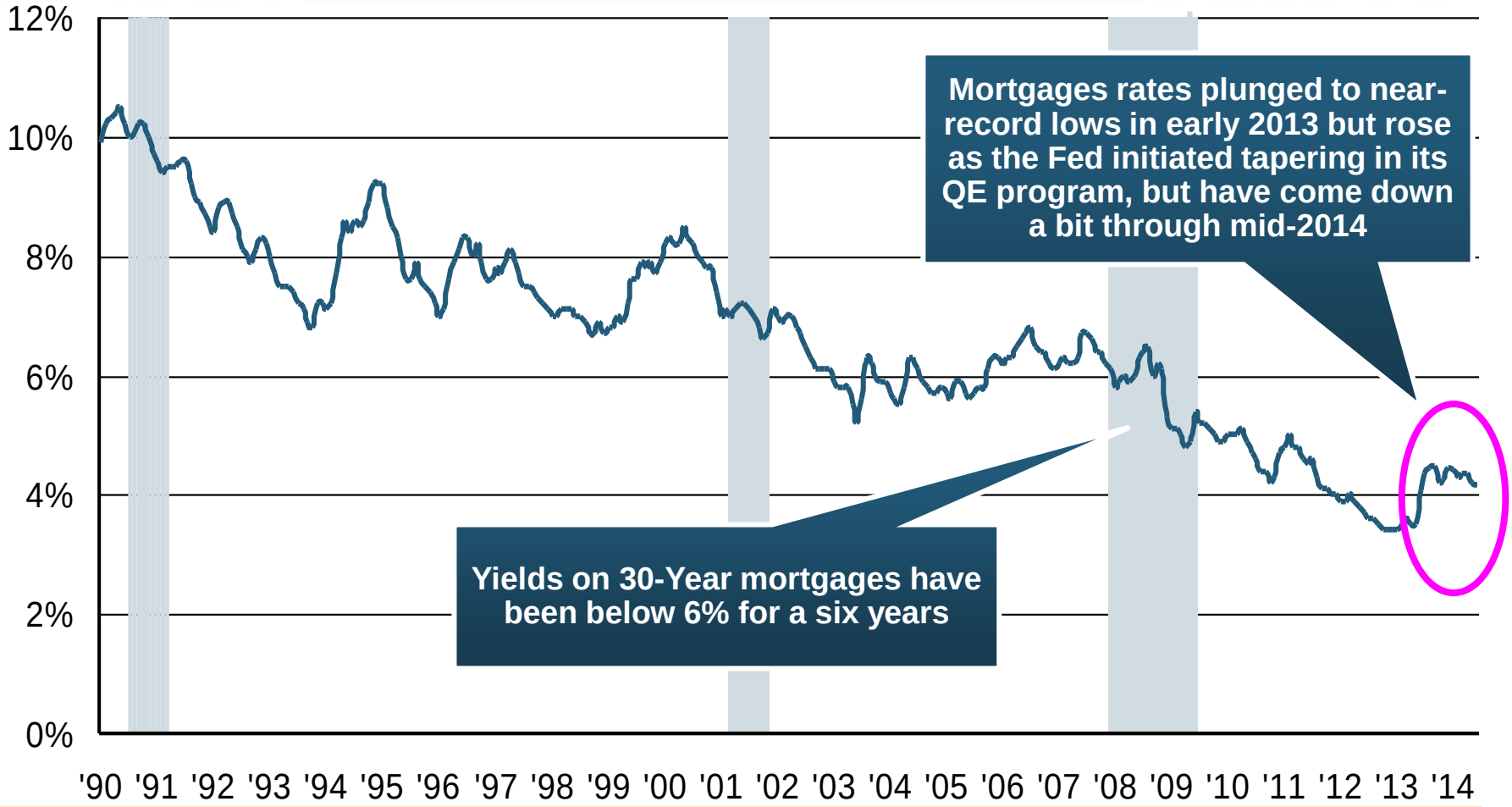
| Rank | Most expensive states | HO average premium | Rank | Least expensive states | HO average premium |
|---|---|---|---|---|---|
| 1 | Florida | $1,933 | 1 | Idaho | $518 |
| 2 | Louisiana | 1,672 | 2 | Oregon | 559 |
| 3 | Texas (2) | 1,578 | 3 | Utah | 563 |
| 4 | Mississippi | 1,409 | 4 | Wisconsin | 592 |
| 5 | Oklahoma | 1,386 | 5 | Washington | 626 |
| 6 | Alabama | 1,163 | 6 | Ohio | 644 |
| 7 | Rhode Island | 1,139 | 7 | Delaware | 664 |
| 8 | Kansas | 1,103 | 8 | Arizona | 675 |
| 9 | New York | 1,097 | 9 | Nevada | 689 |
| 10 | Connecticut | 1,096 | 10 | Iowa | 713 |

(1) Includes policies written by Citizens Property Insurance Corp. (Florida) and Citizens Property Insurance Corp. (Louisiana), Alabama Insurance Underwriting Association, Mississippi Windstorm Underwriting Association, North Carolina Joint Underwriting Association and South Carolina Wind and Hail Underwriting Association. Other southeastern states have wind pools in operation and their data may not be included in this chart. 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. In addition, due to the Texas Windstorm Association (which writes wind-only policies) classifying HO-1, 2 and 5 premiums as HO-3, the average premium for homeowners insurance is artificially high.

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.

# Interest Rate on Convention 30-Year Mortgages: Up a Bit, 1990–2014*

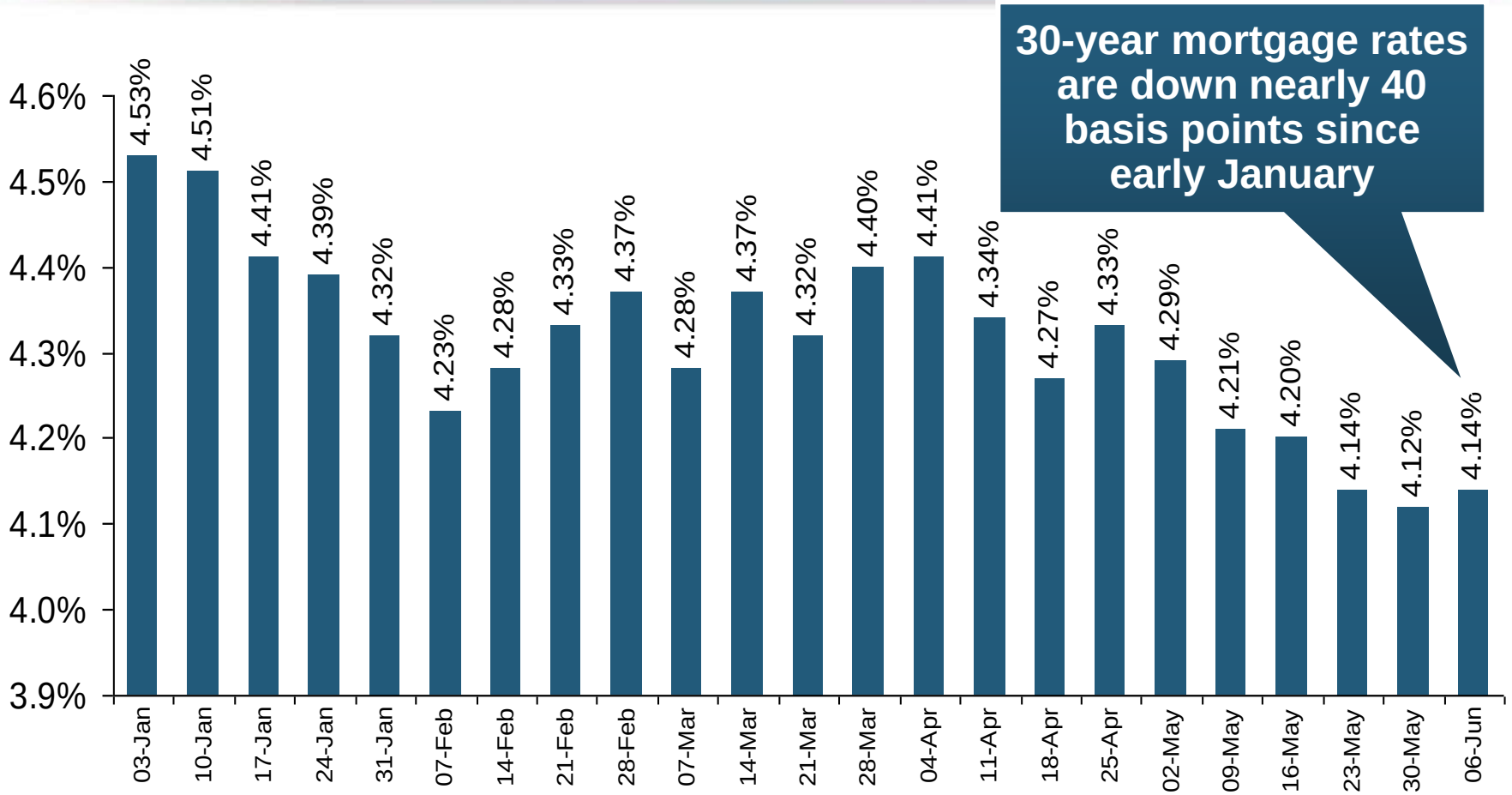



**Rising mortgage interest rates have impacted home sales but are unlikely to derail the recovery on housing**

*Monthly, through June 2014. 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.

# 30-Year Mortgages in 2014 Are Falling! What Will Be the Impact on Construction?

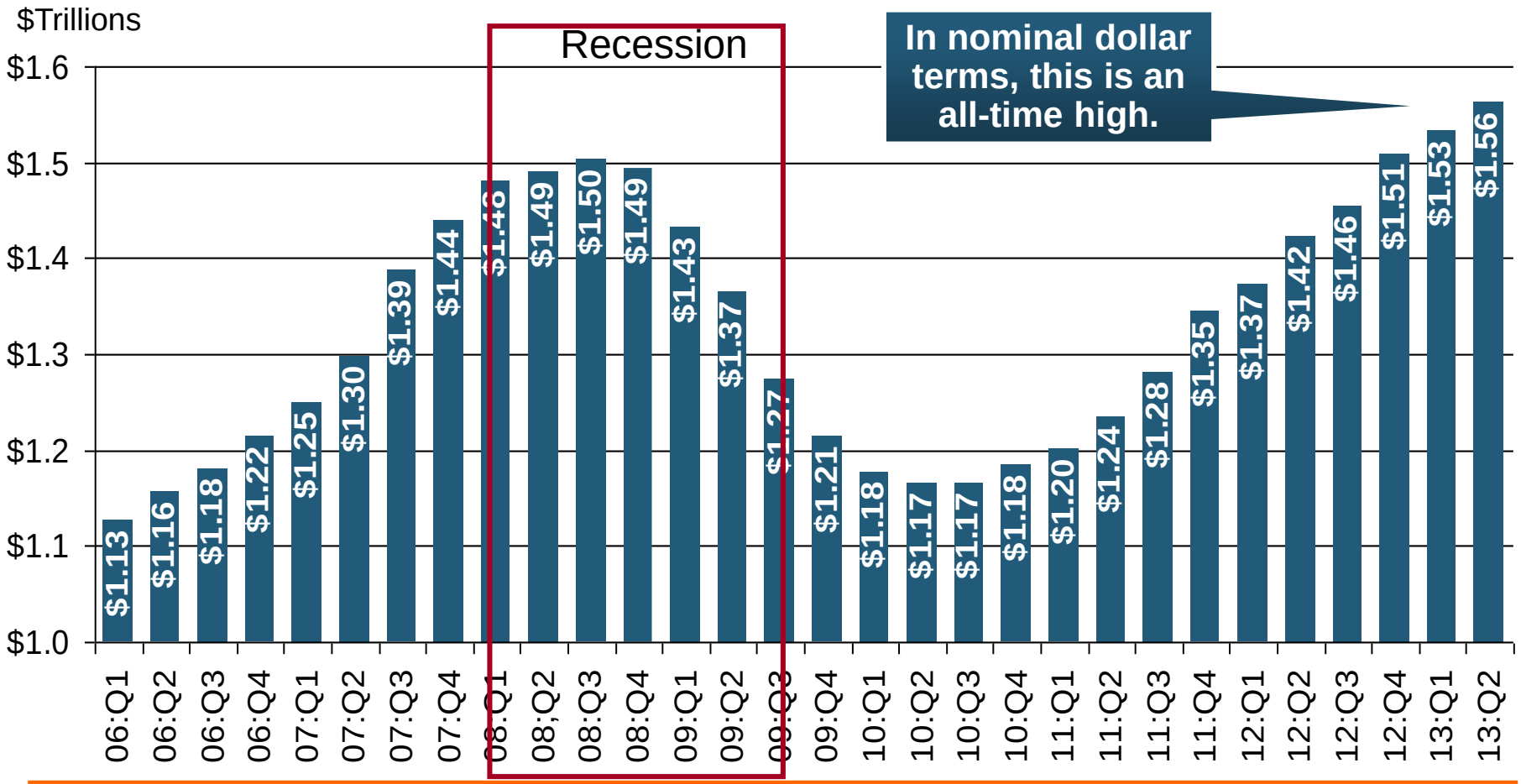



**Mortgage Interest Rates Were Expected to Continue to Rise as the Fed Pursued Tapering and the Economy Recovered; Rates Are Still Low by Historical Standards**

*Weekly through June 5, 2014.

Sources: Federal Reserve Bank at http://www.federalreserve.gov/releases/h15/data.htm.; Insurance Information Institutes.

# Commercial & Industrial Loans Outstanding at FDIC-Insured Banks, Quarterly, 2006-2013*




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

*Latest data as of 9/8/2013.
Source: FDIC at http://www2.fdic.gov/qbp/ (Loan Performance spreadsheet); Insurance Information Institute.

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

## Quarterly, 2006-2013:Q2*

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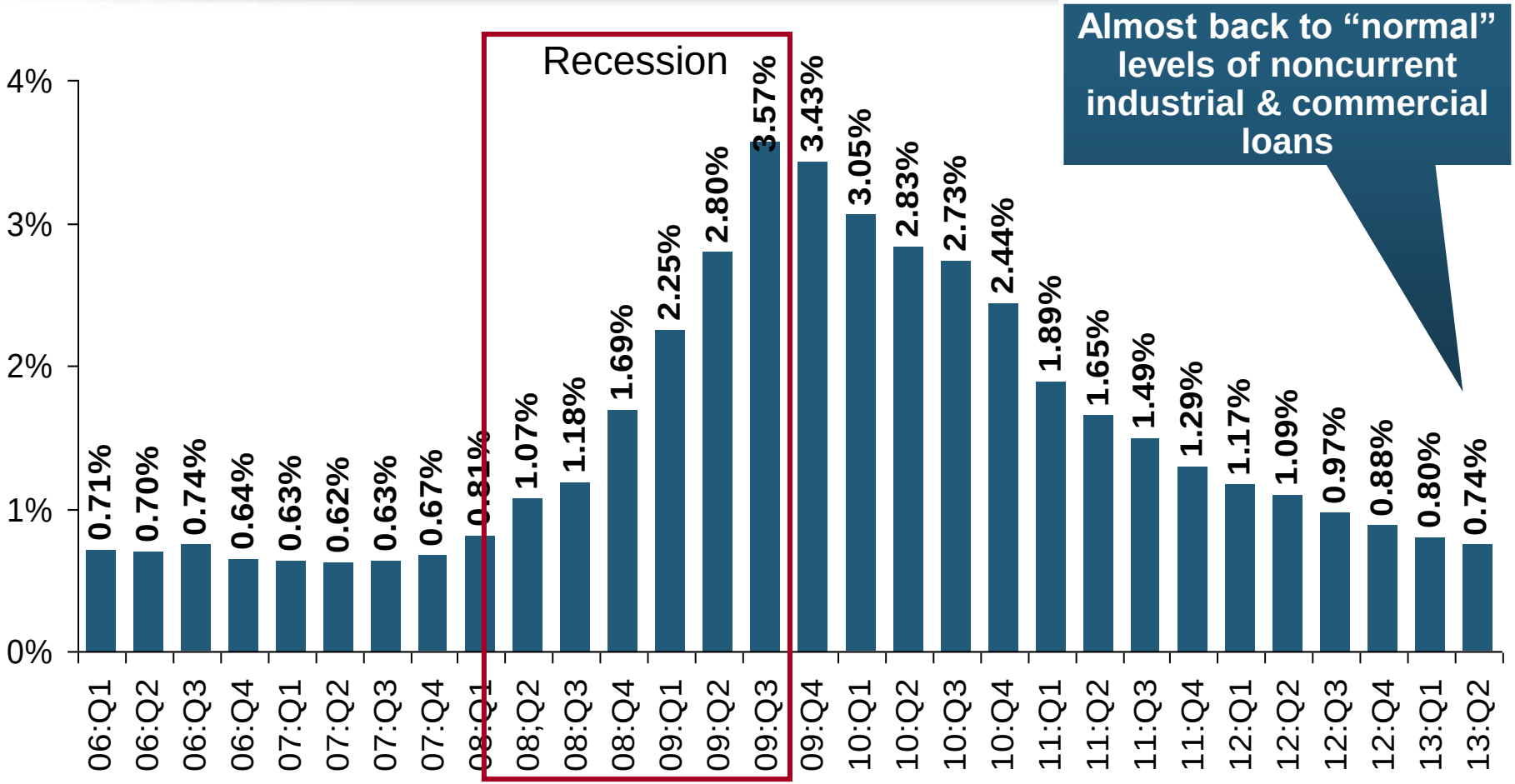
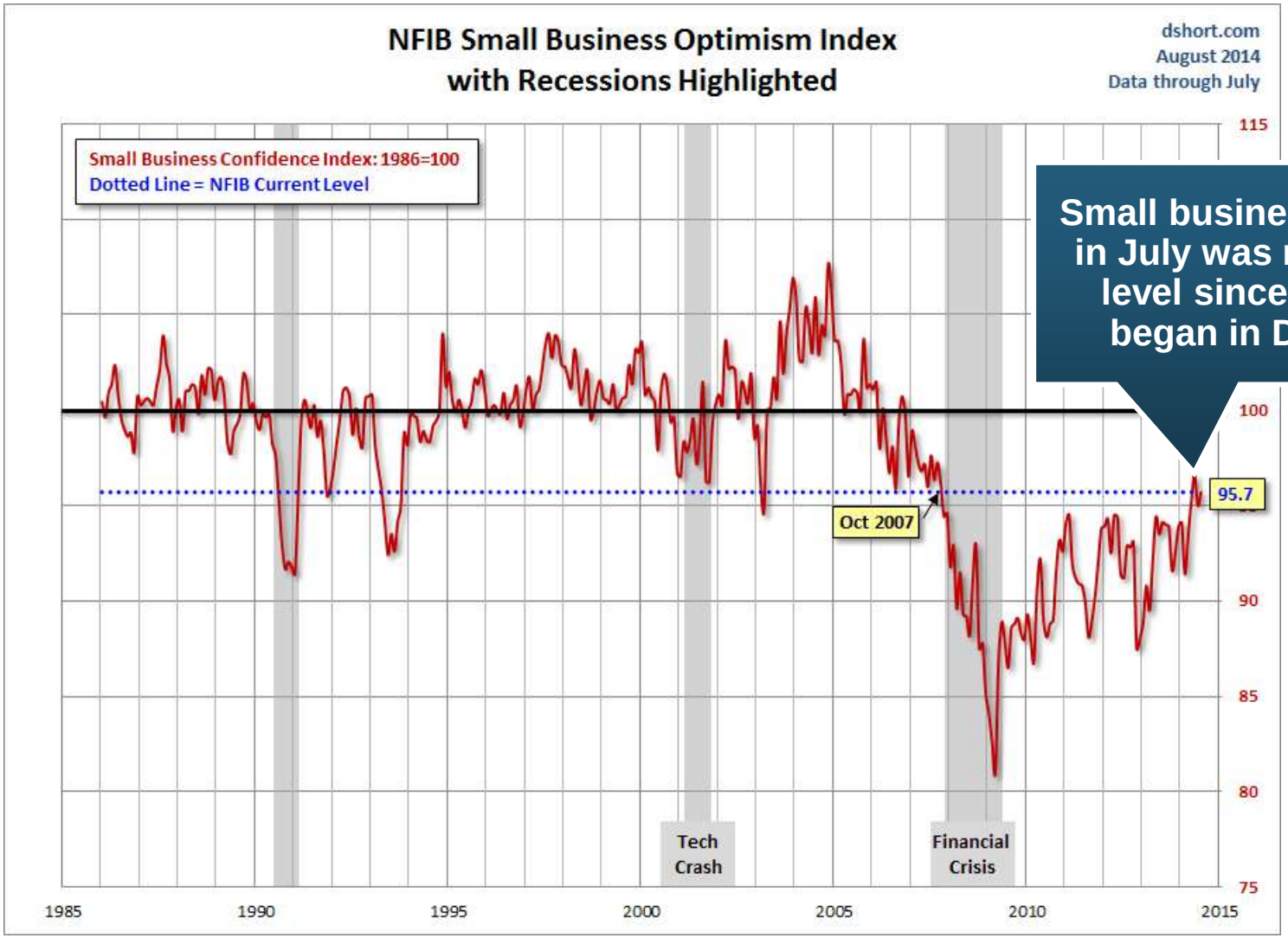



**Non-current loans (those past due 90 days or more or in nonaccrual status) are nearly back to early-recession levels, fueling bank willingness to lend.**

*Latest data as of 9/8/2013.
Source: FDIC at http://www2.fdic.gov/qbp/ (Loan Performance spreadsheet); Insurance Information Institute.

# NFIB Small Business Optimism Index

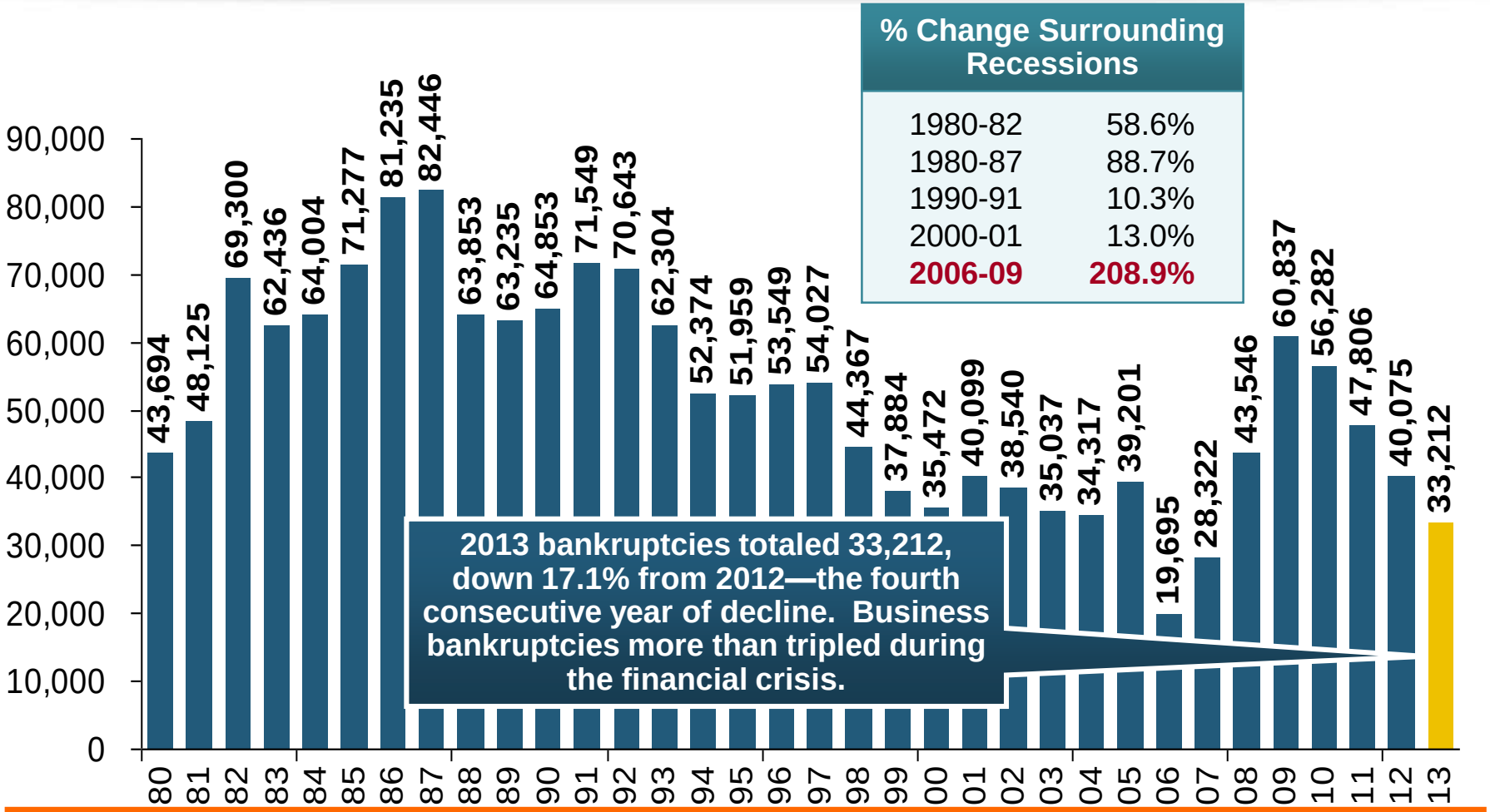
## January 1985 through July 2014




Source: National Federation of Independent Business at http://www.advisorperspectives.com/dshort/charts/indicators/Sentiment.html?NFIB-optimism-index.gif ; Insurance Information Institute.

# Business Bankruptcy Filings, 1980-2013

INSURANCE INFORMATION INSTITUTE




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

Sources: American Bankruptcy Institute (1980-2012) at http://www.abiworld.org/AM/AMTemplate.cfm?Section=Home&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=61633; 2013 data from United States Courts at http://news.uscourts.gov; Insurance Information Institute.

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

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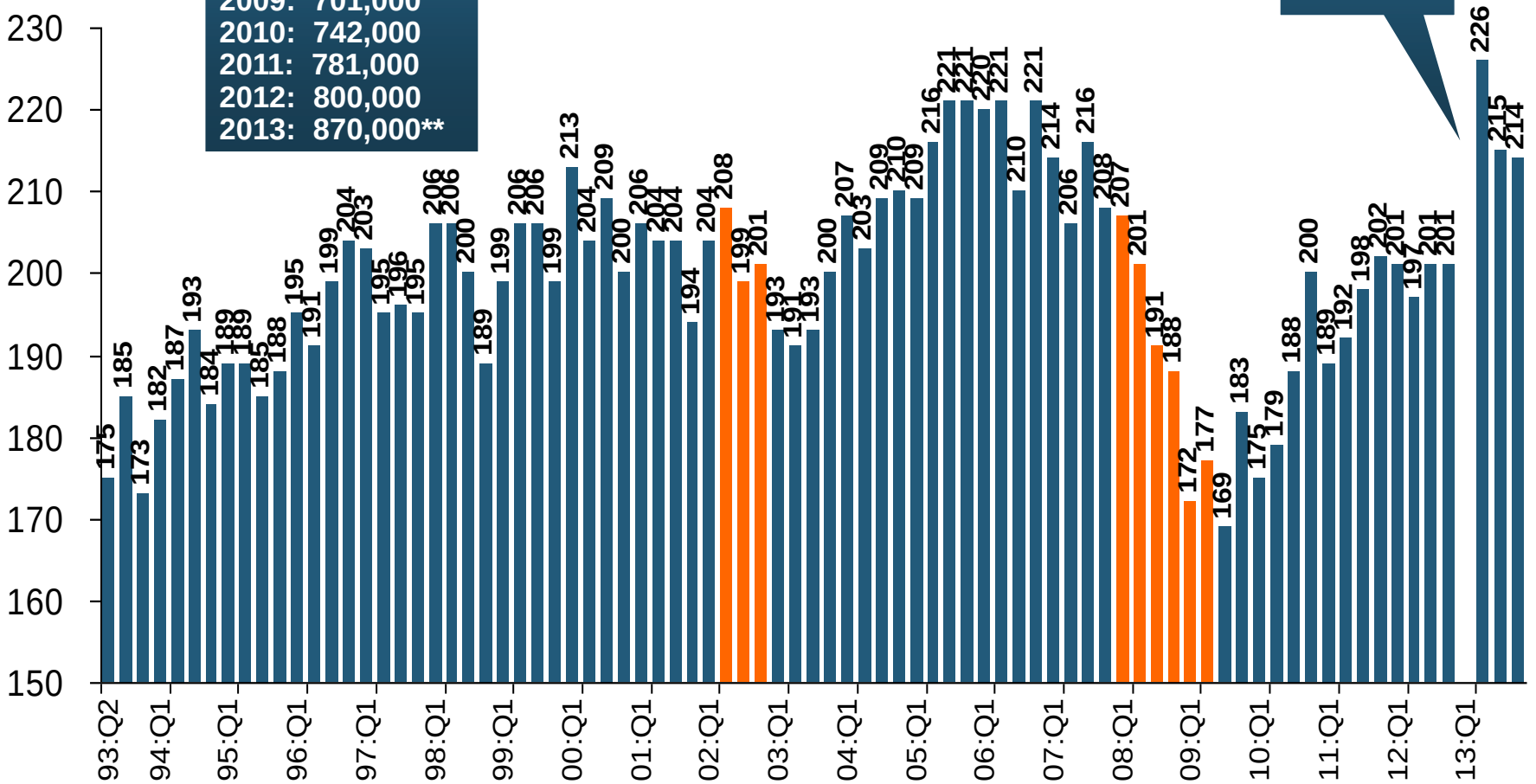
**Business Starts**
2006: 861,000
2007: 844,000
2008: 787,000
2009: 701,000
2010: 742,000
2011: 781,000
2012: 800,000
2013: 870,000**

Recessions in orange

2013:Q1 578,000 business starts*



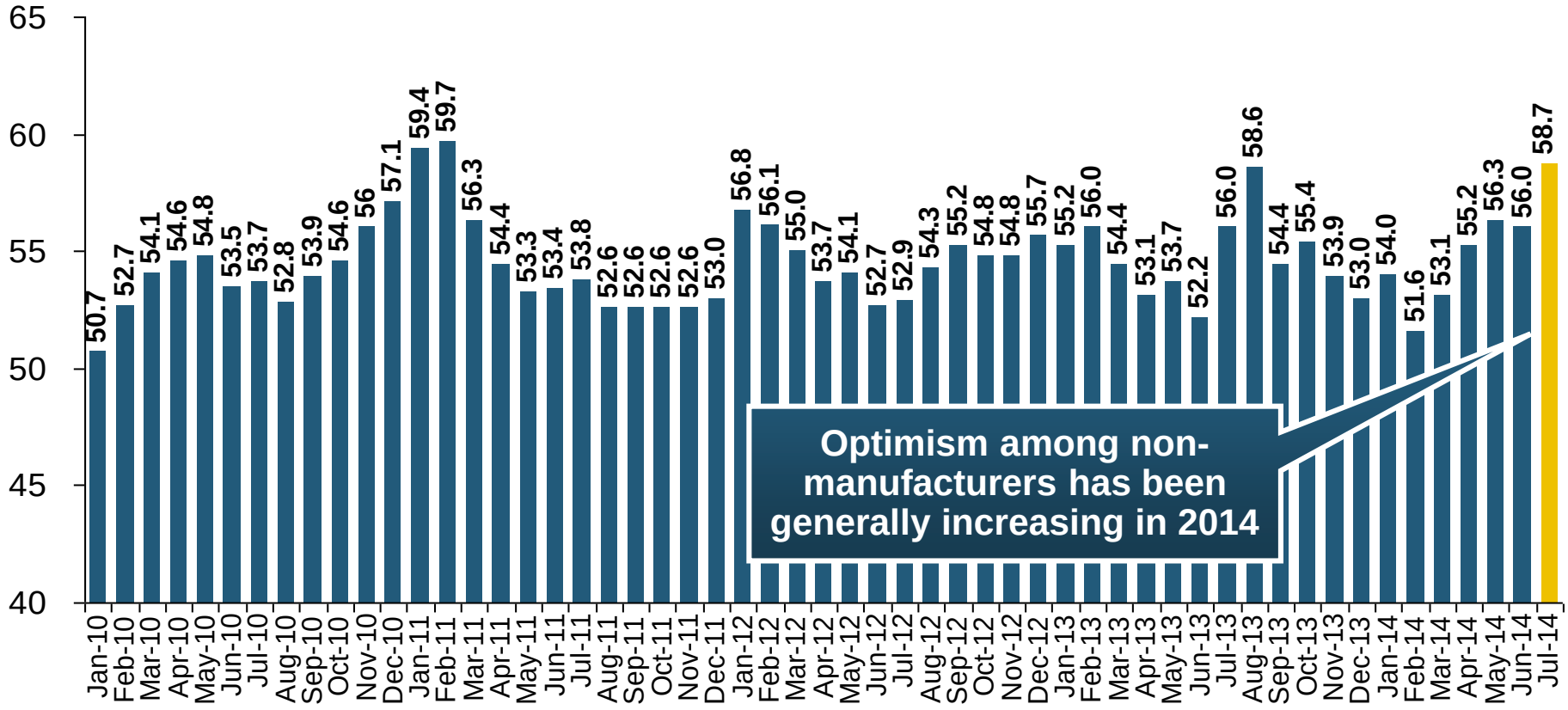

*Data posted Apr 29, 2014, the latest available; a classification change in 2013:Q1 resulted in a report of 578,000 businesses started in that quarter. Seasonally adjusted. **2014 number assumes 1st quarter equaled average of other three quarters

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

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

INSURANCE INFORMATION INSTITUTE

## January 2010 through July 2014




**Non-manufacturing industries have been expanding and adding jobs. This trend is likely to continue through 2014.**

Source: Institute for Supply Management at http://www.ism.ws/ismreport/nonmfgrob.cfm; Insurance Information Institute.

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

INSURANCE INFORMATION INSTITUTE

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

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

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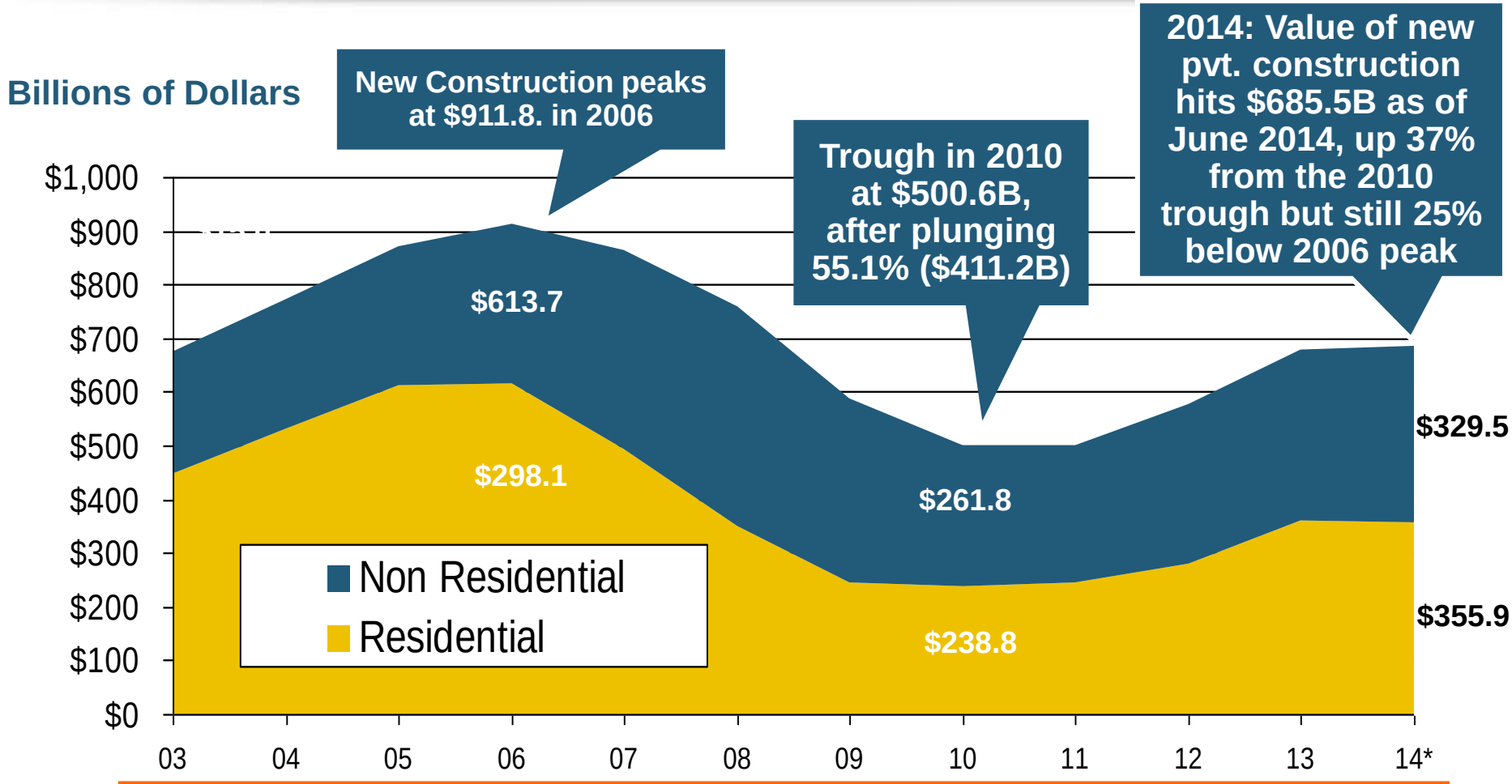
# CONSTRUCTION INDUSTRY OVERVIEW & OUTLOOK

## The Construction Sector Is Critical to the Economy and the P/C Insurance Industry

# Value of New Private Construction: Residential & Nonresidential, 2003-2014*

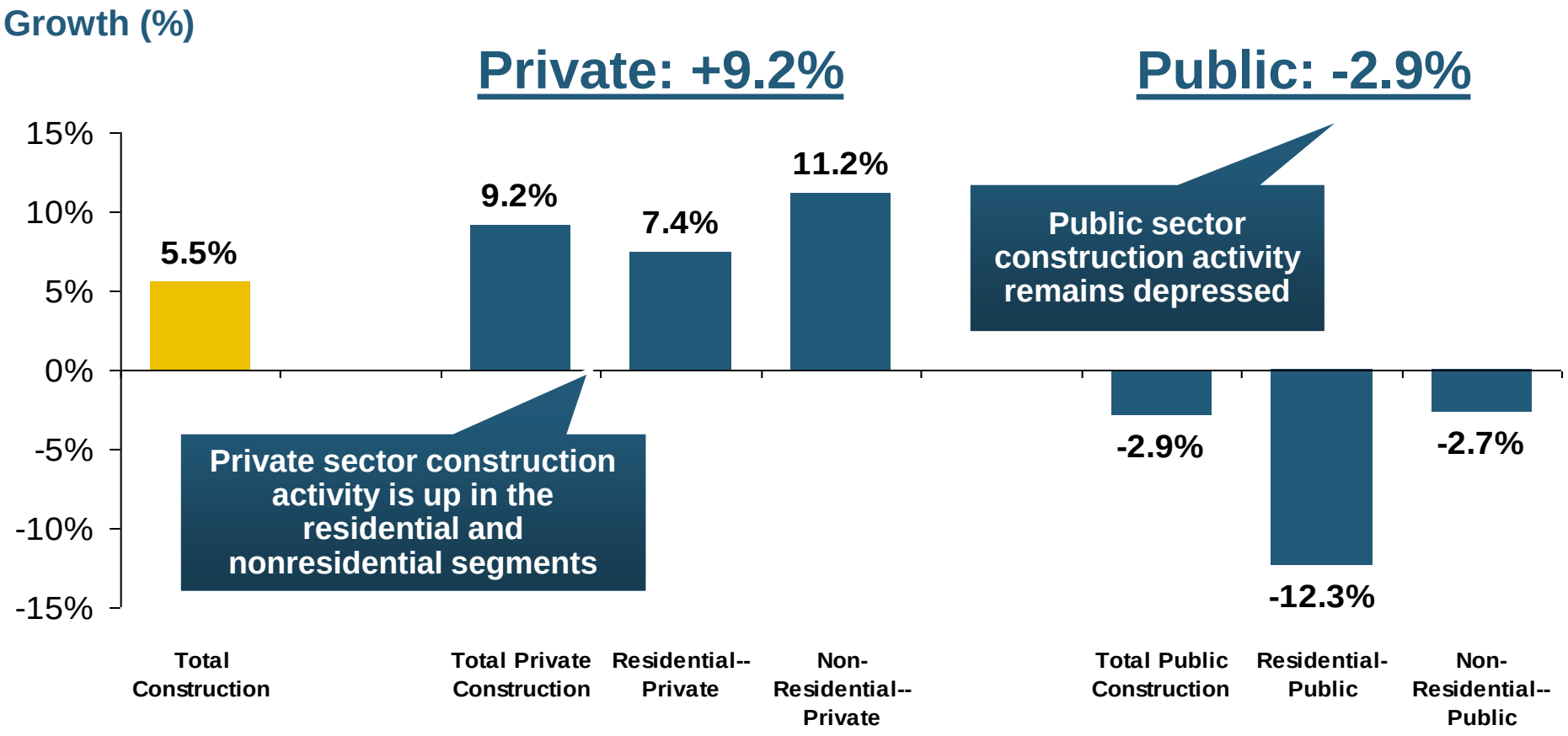



**Private Construction Activity Is Moving in a Positive Direction though Remains Well Below Pre-Crisis Peak; Residential Dominates**

*2014 figure is a seasonally adjusted annual rate as of June.

Sources: US Department of Commerce; Insurance Information Institute.

# Value of Construction Put in Place, June 2014 vs. June 2013*




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

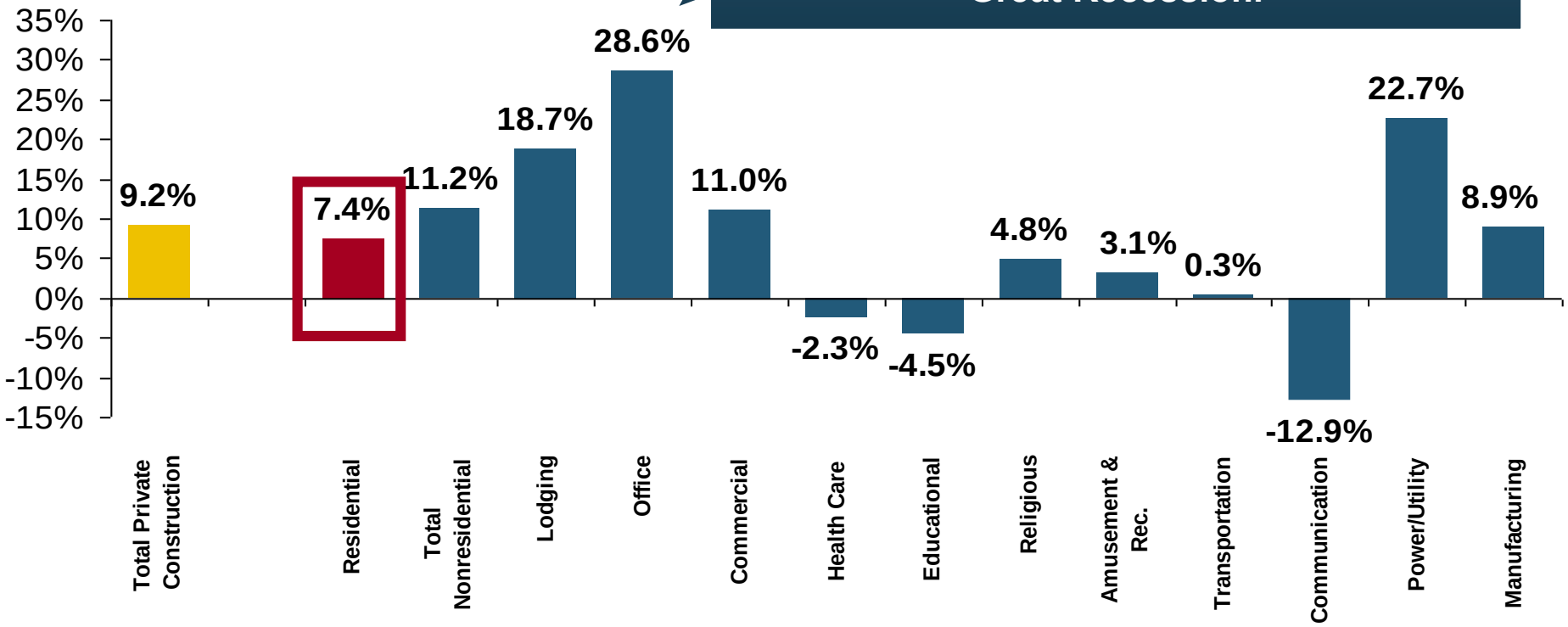
*seasonally adjusted
Source: U.S. Census Bureau, http://www.census.gov/construction/c30/c30index.html ; Insurance Information Institute.

# Value of Private Construction Put in Place, by Segment, June 2014 vs. June 2013*

INSURANCE INFORMATION INSTITUTE

Growth (%)

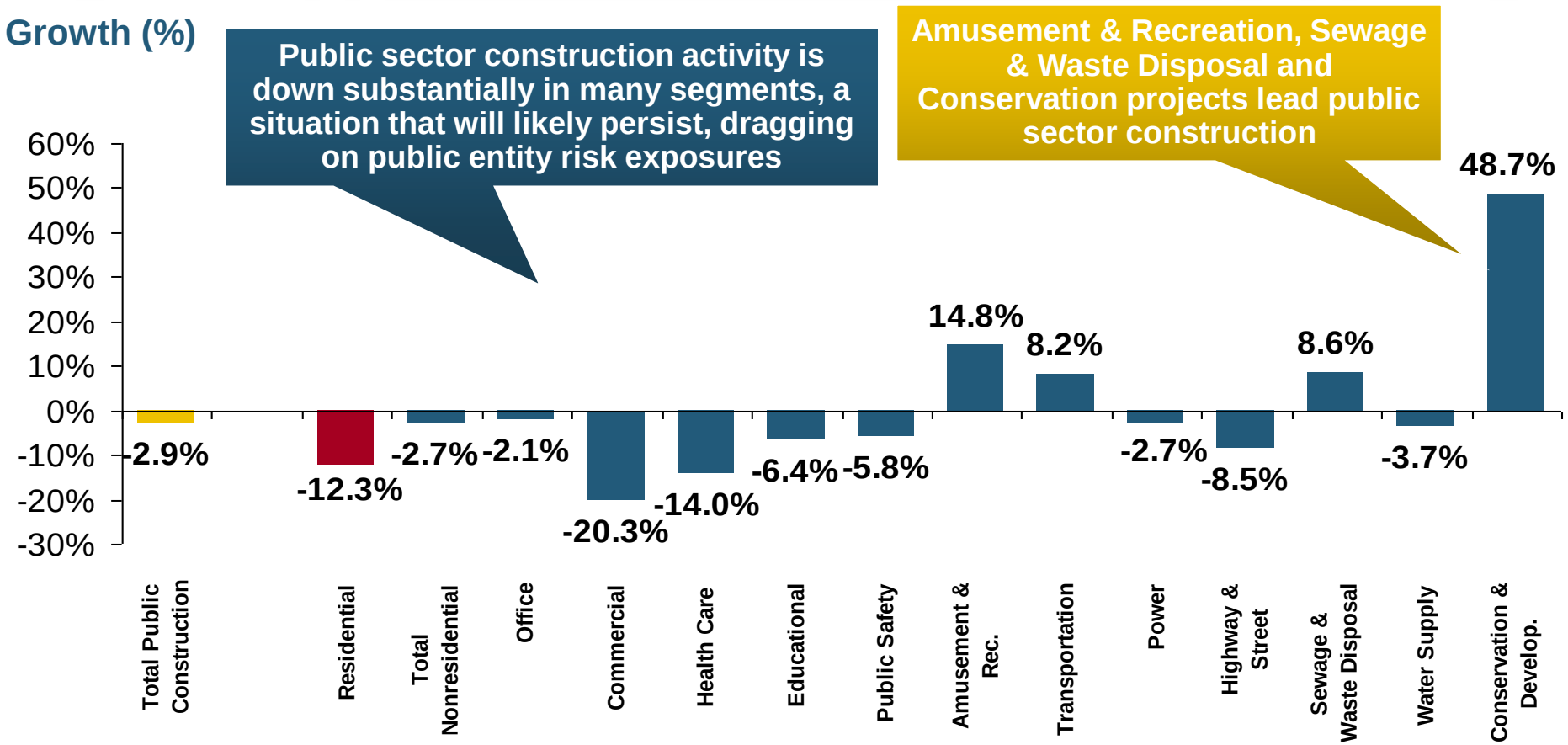
Led by the Office, Lodging and Power/Utility segments, Private sector construction activity is rising after plunging during the "Great Recession."




**Private Construction Activity is Up in Many Segments, Including the Key Residential Construction Sector; Bodes Well for the Remainder of 2014**

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

# Value of Public Construction Put in Place, by Segment, June 2014 vs. June 2013*



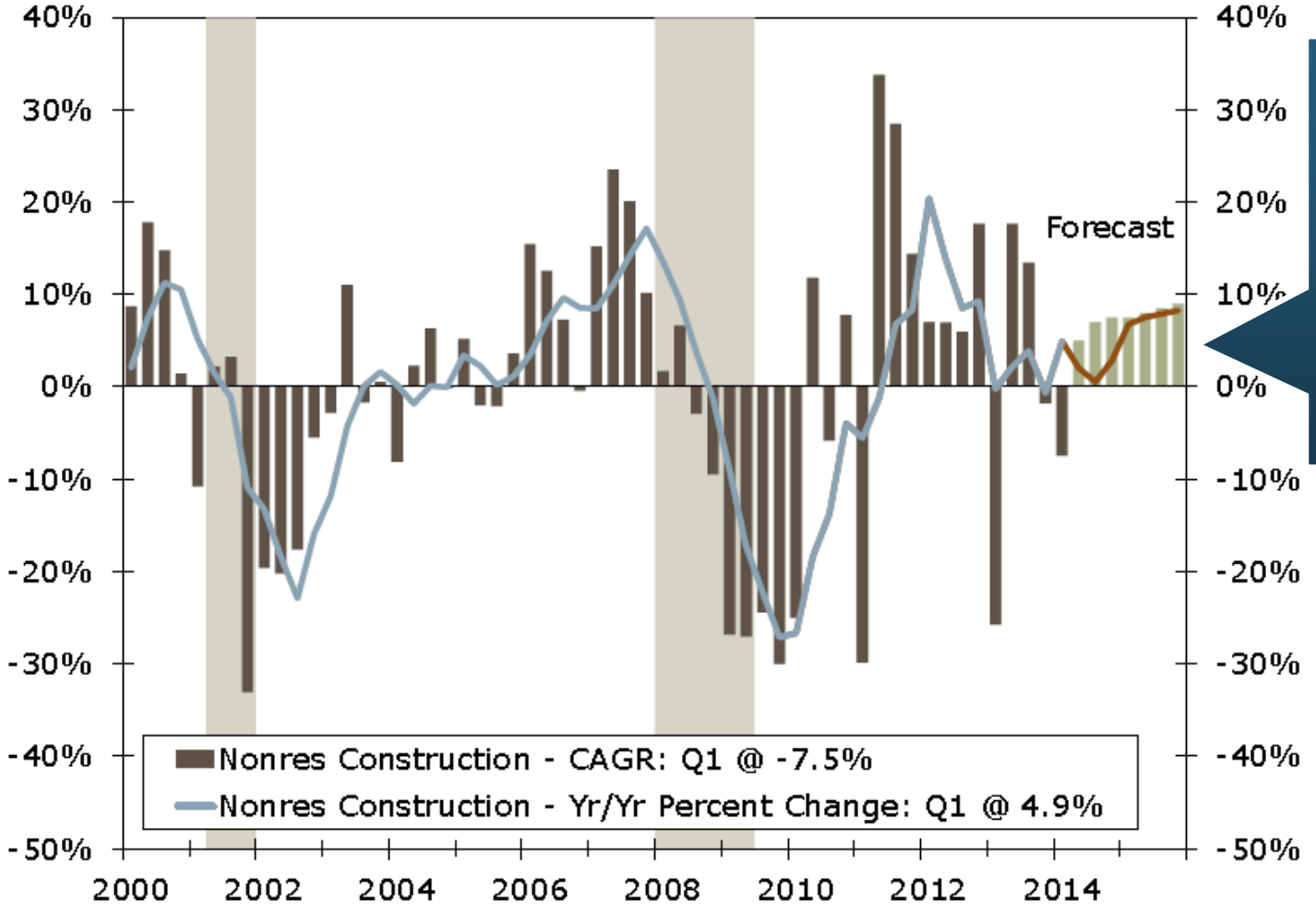

**Public Construction Activity is Down in Many Segments as State and Local Budgets Remain Under Stress; Improvement Possible in 2015.**

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

# Real (Inflation-Adjusted) Nonresidential Construction, 2000-2014*

INSURANCE INFORMATION INSTITUTE

(Bar = CAGR; Line = Y/Y Growth Rate)

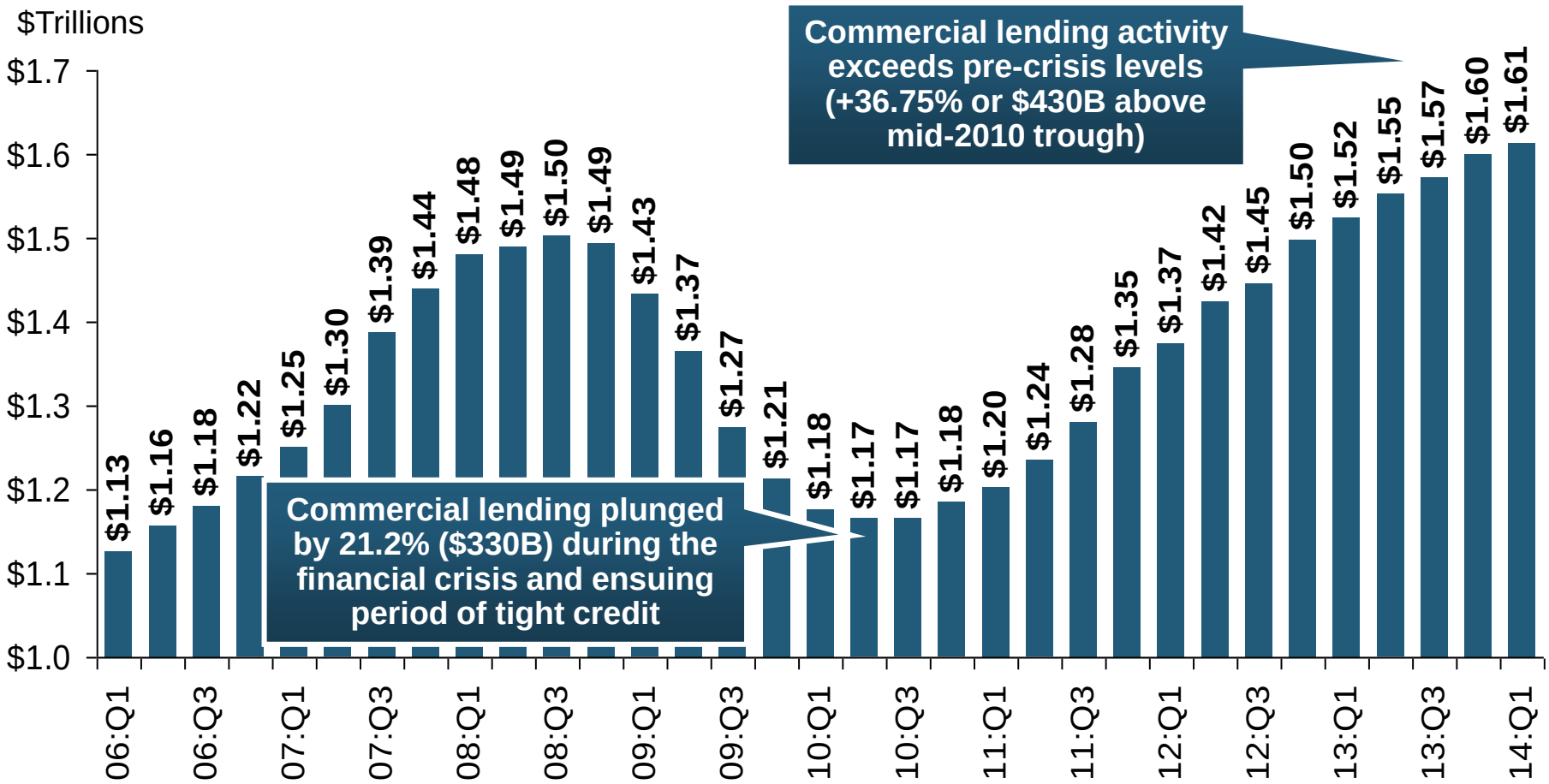



Construction activity has generally been positive since late 2010 but has occasionally be erratic. Forecast is for slowing improving growth

*Through Q1 2014.

Source: US Dept. of Commerce; Wells Fargo Securities (June 6, 2014 research report).

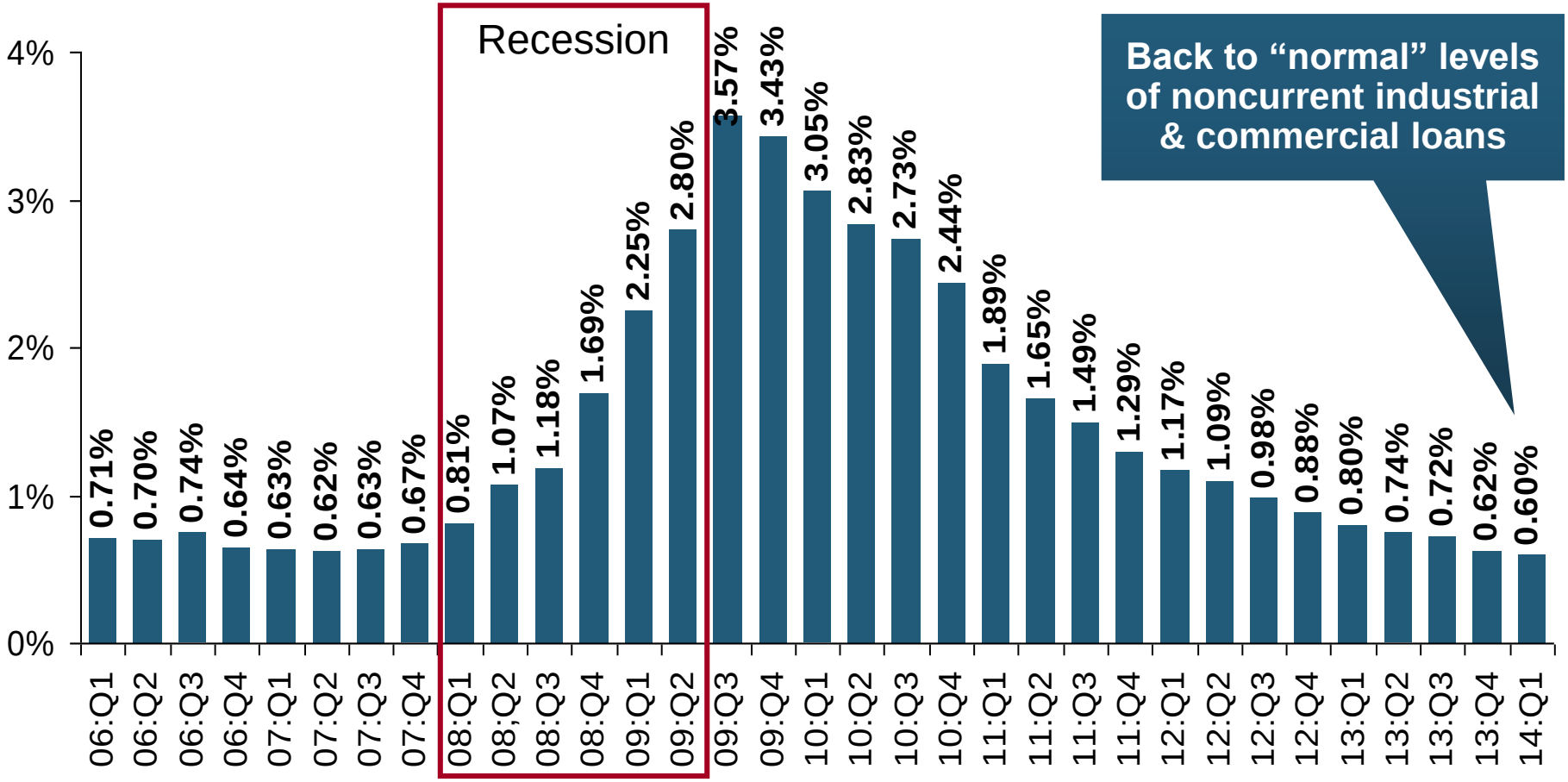
# Commercial & Industrial Loans Outstanding at FDIC-Insured Banks, Quarterly, 2006-2014:Q1




**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.

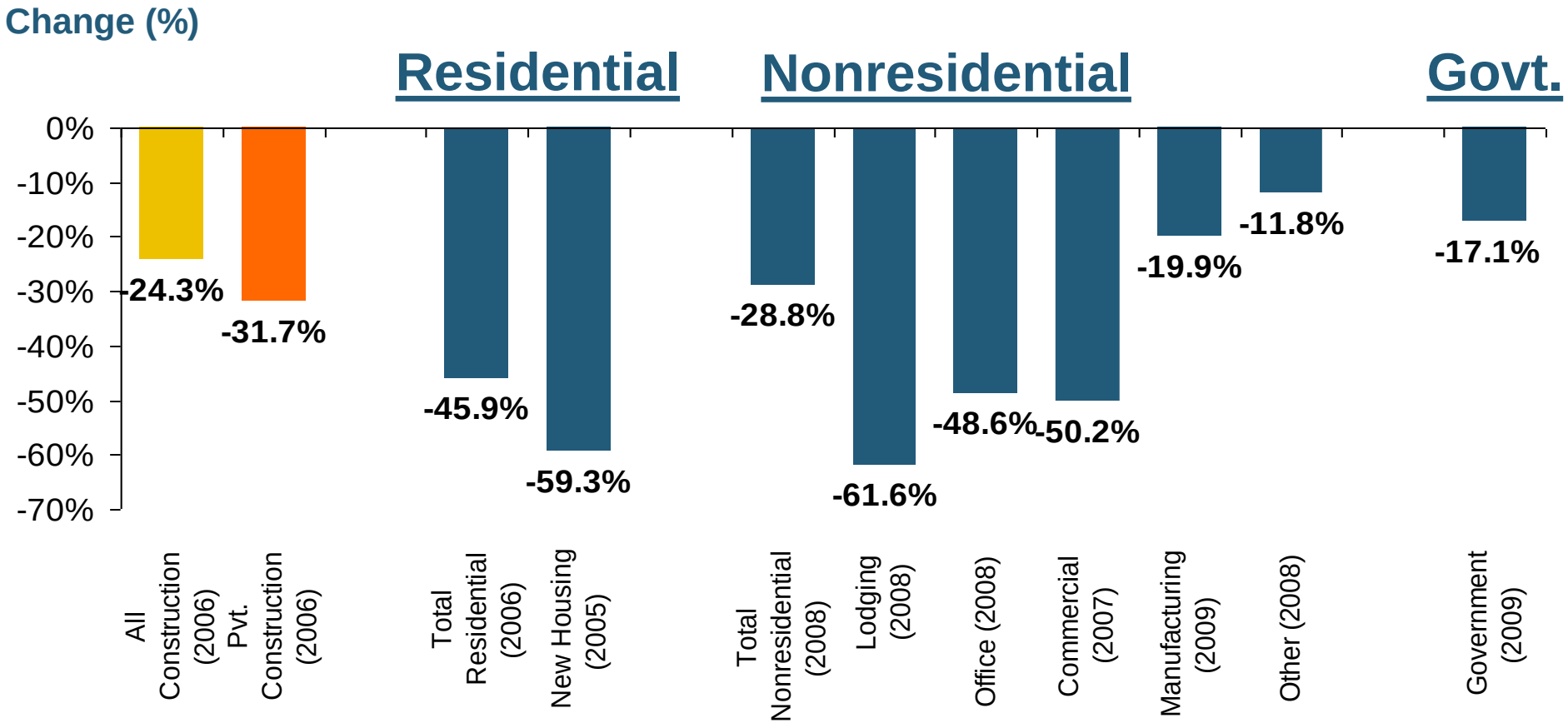
# Percent of Non-current Commercial & Industrial Loans Outstanding at FDIC-Insured Banks,
## Quarterly, 2006-2014:Q1




**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.**

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

# Change from Peak in New Construction Expenditures to 2013*




**Despite Recent Improvements, Construction Activity (and Employment) Remains Far Below Pre-Crisis Peaks**

Note: Year in parentheses is the year of peak expenditure.
*2013 figure is a seasonally adjusted annual rate as of June.
Sources: US Department of Commerce; Insurance Information Institute.

# Value of New Federal, State and Local Government Construction: 2003-2014*

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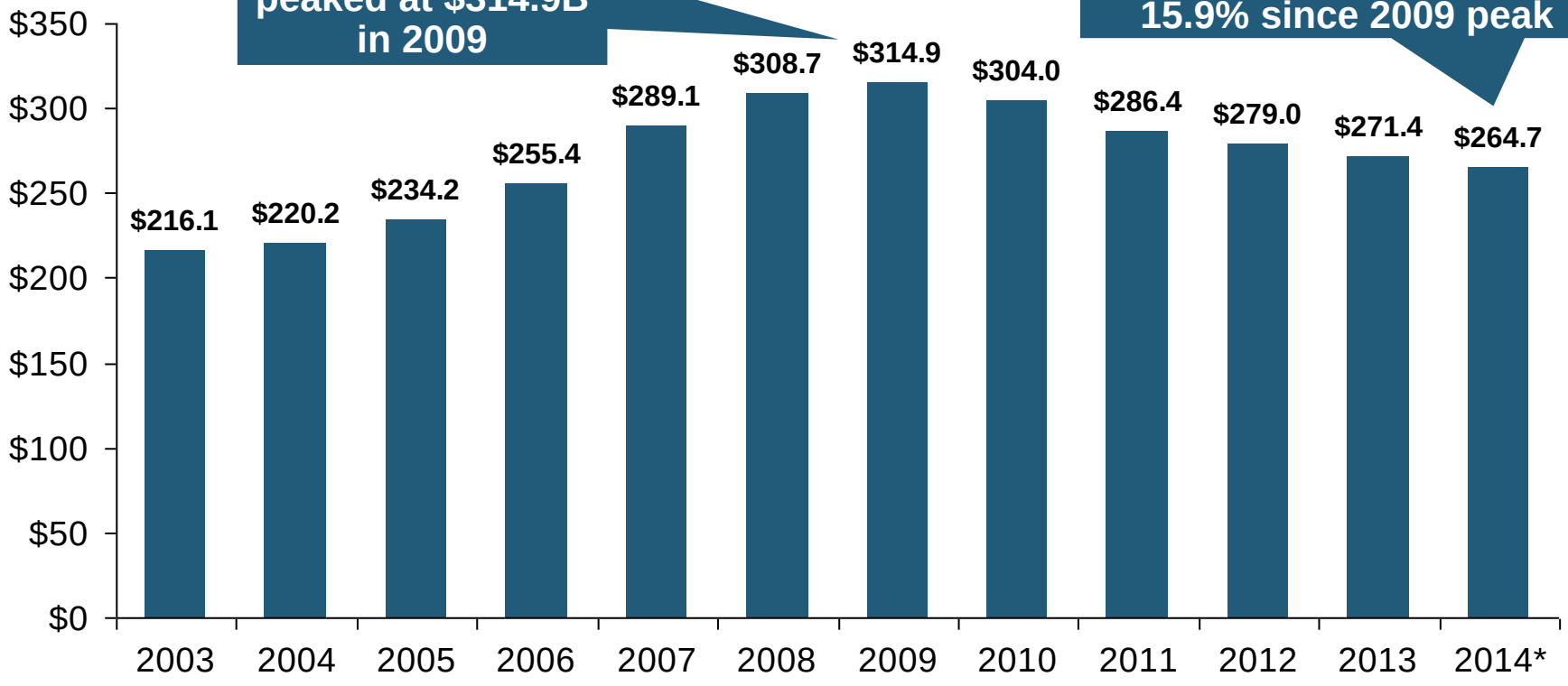
($ Billions)

Construction across all levels of government peaked at $314.9B in 2009

**Austerity Reigns**

Govt. construction is still shrinking, down $50.2B or 15.9% since 2009 peak

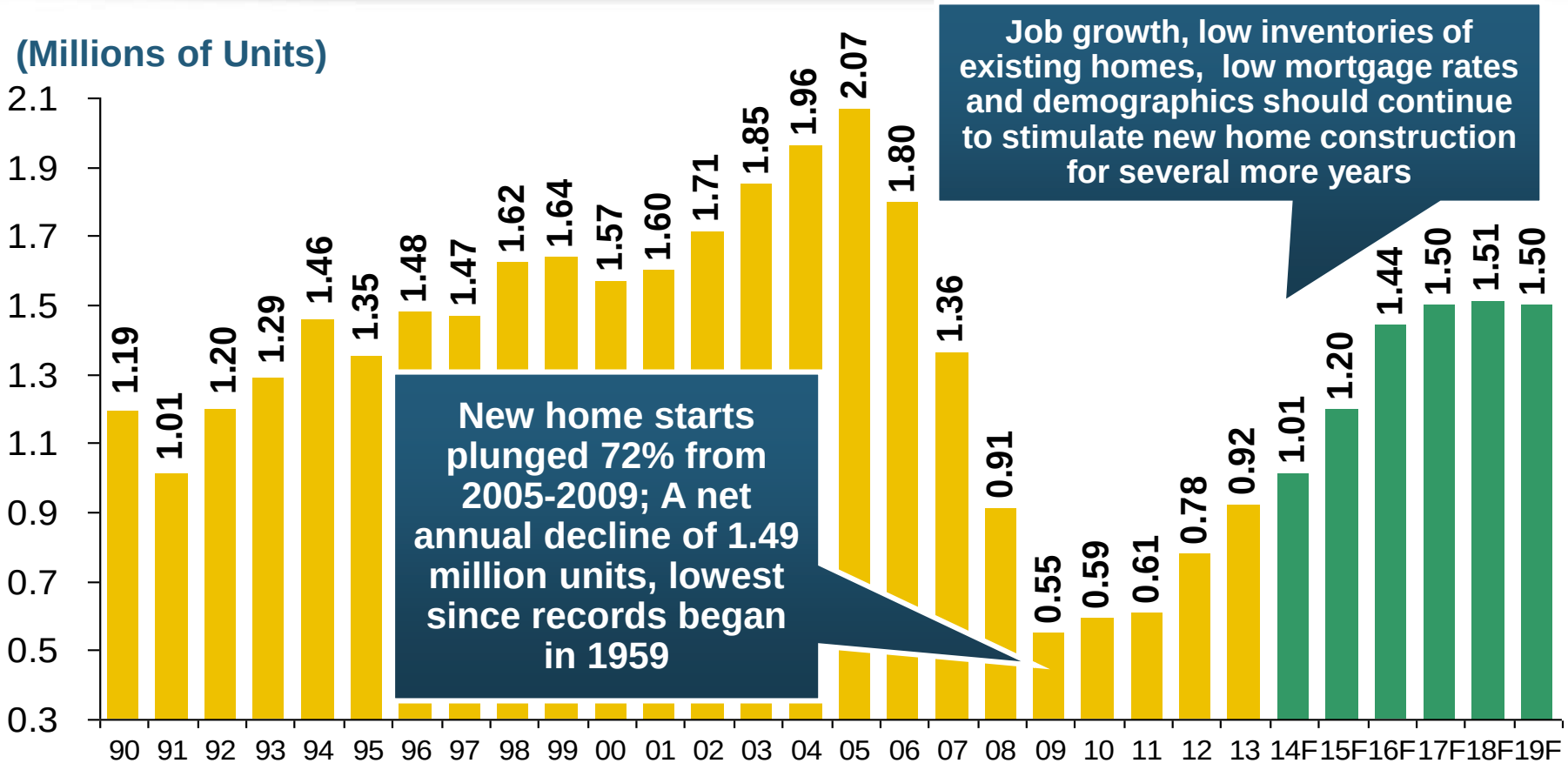



**Government Construction Spending Peaked in 2009, Helped by Stimulus Spending, but Continues to Contract As State/Local Governments Grapple with Deficits and Federal Sequestration Takes Hold**

*2014 figure is a seasonally adjusted annual rate as of June; http://www.census.gov/construction/c30/historical_data.html

Sources: US Department of Commerce; Insurance Information Institute.

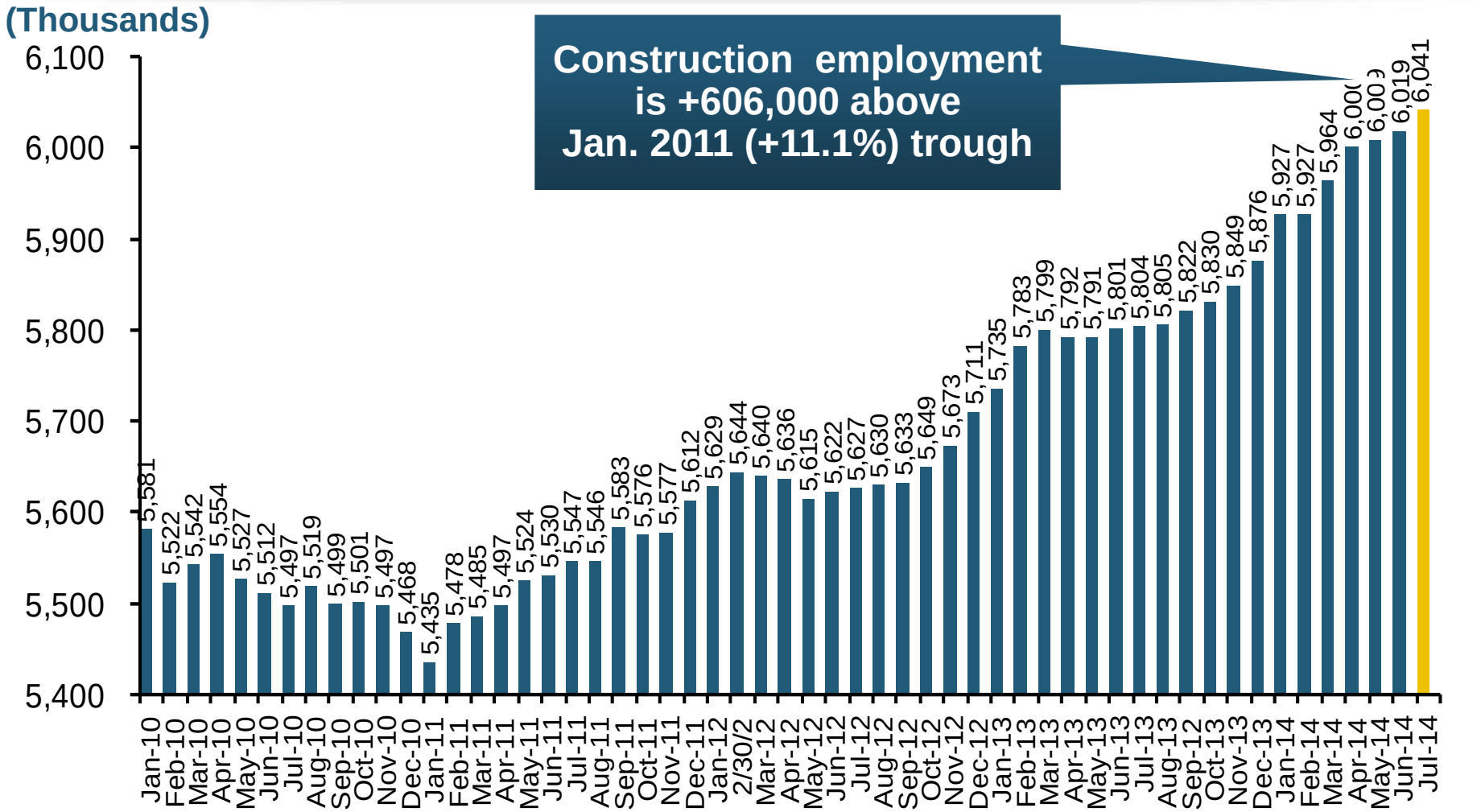
# New Private Housing Starts, 1990-2019F




**Insurers Are Continue to See Meaningful Exposure Growth in the Wake of the "Great Recession" Associated with Home Construction: Construction Risk Exposure, Surety, Commercial Auto; Potent Driver of Workers Comp Exposure**

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (8/14 and 3/13); Insurance Information Institute.

# Construction Employment, Jan. 2010—July 2014*

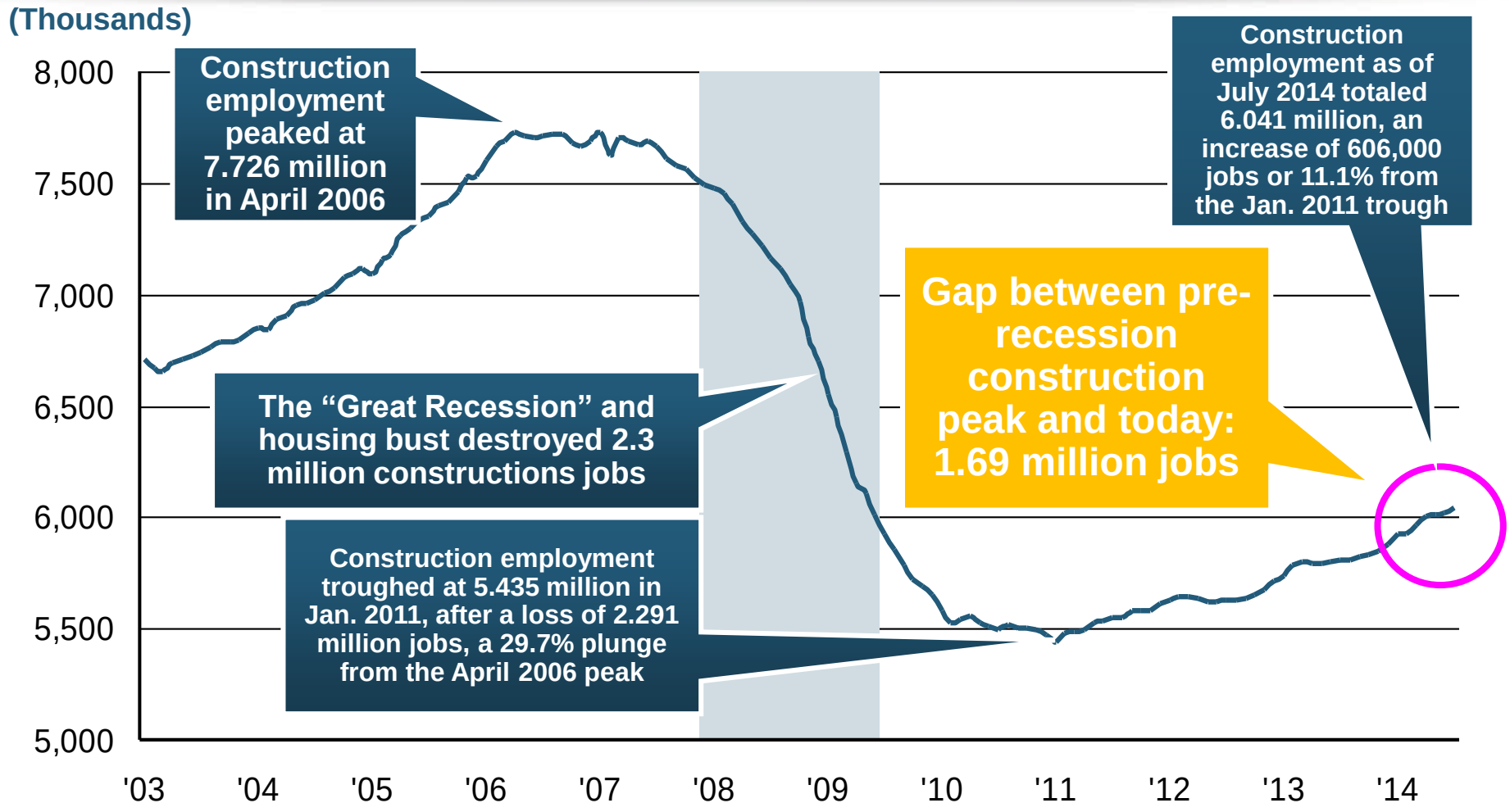



**Construction and manufacturing employment constitute 1/3 of all payroll exposure.**

*Seasonally adjusted.

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

# Construction Employment, Jan. 2003–July 2014

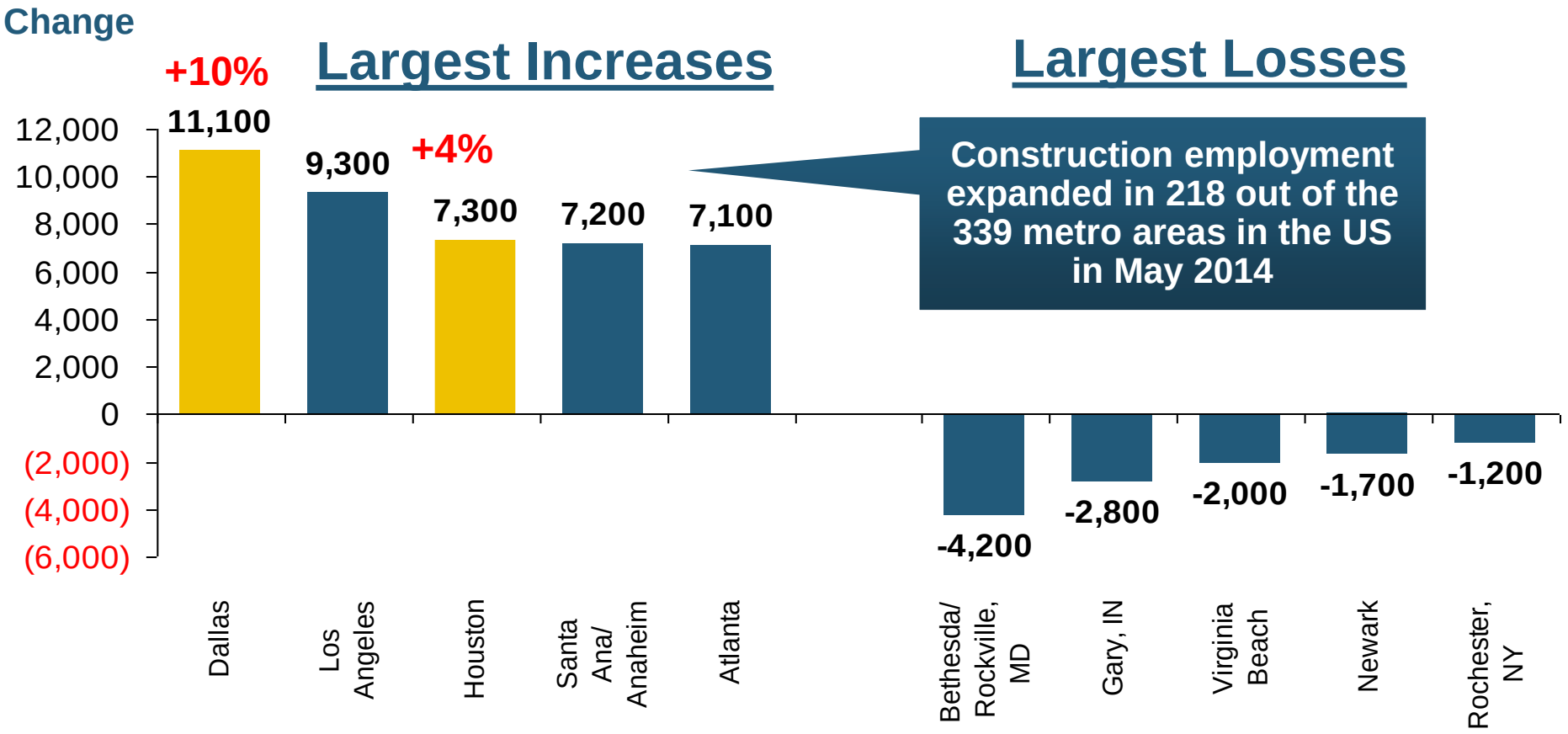



**The Construction Sector Could Be a Growth Leader in 2014 as the Housing Market, Private Investment and Govt. Spending Recover. WC Insurers Will Benefit.**

Note: Recession indicated by gray shaded column.

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

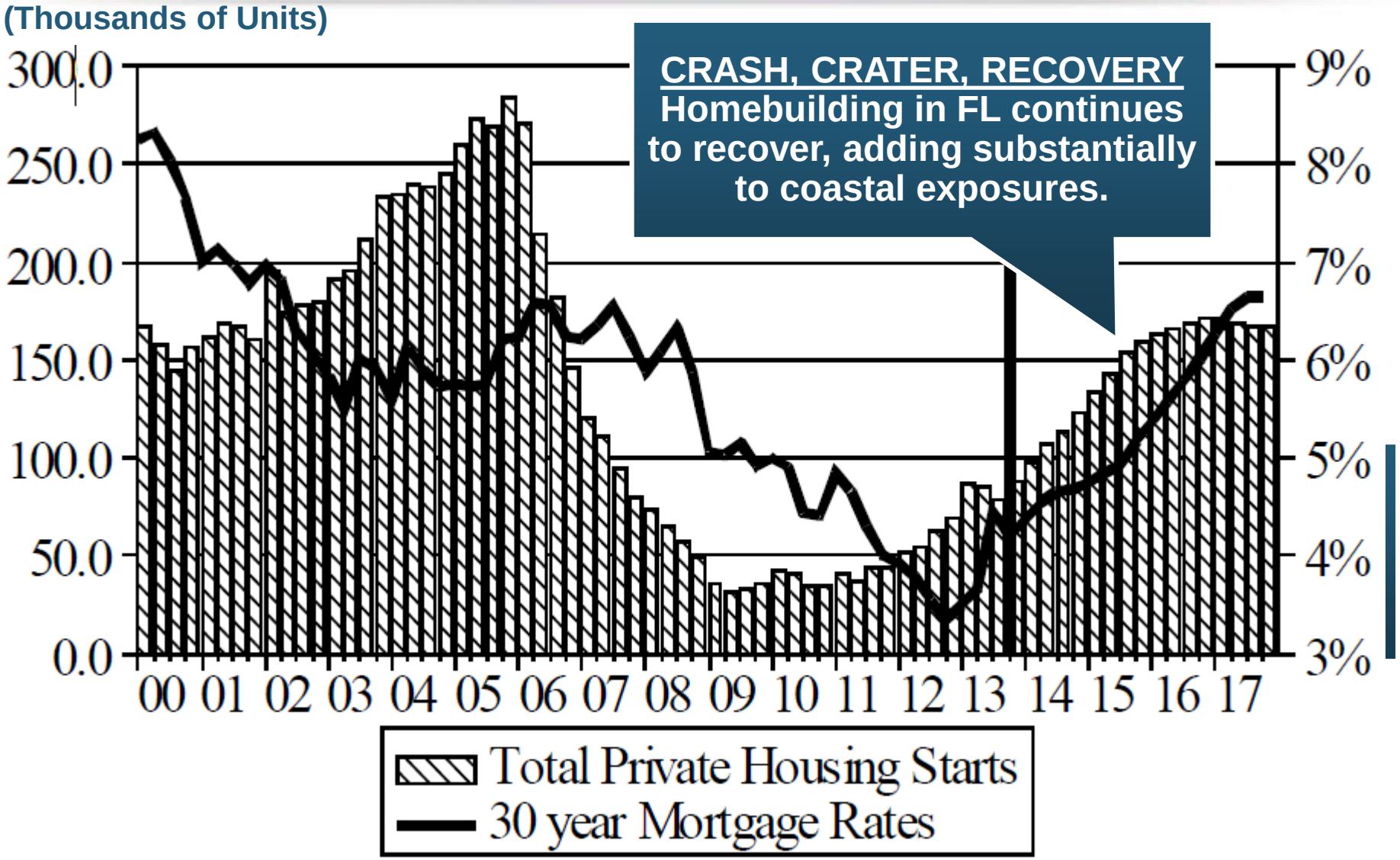
# Construction Jobs: Largest Gains & Losses by Metro Area, May 2014 vs. May 2013*




**Construction Employment Is Expanding—Albeit Modestly—in Much of the US**

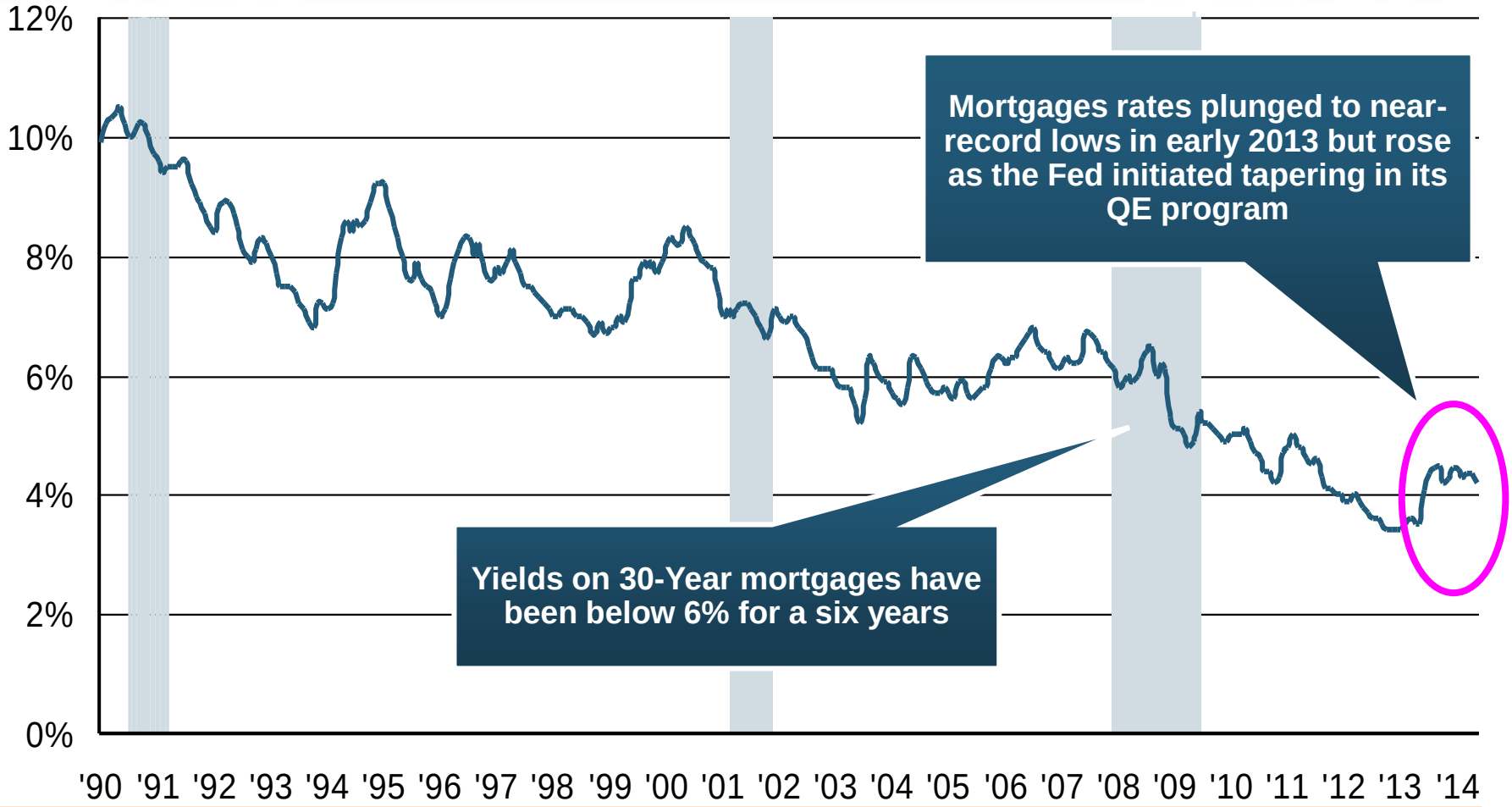
*Seasonally adjusted;
Source: Associated General Contractors: http://www.agc.org/galleries/news/Metro_Empl_1404_Rank.pdf; Ins. Information Institute.

# Florida Total Private Housing Starts, 2000 – 2017F




Source: University of Central Florida Institute for Economic Competitiveness: http://iec.ucf.edu/post/2014/01/07/Florida-Metro-Forecast-December-2013.aspx

# Interest Rate on Convention 30-Year Mortgages: Up a Bit, 1990–2014*

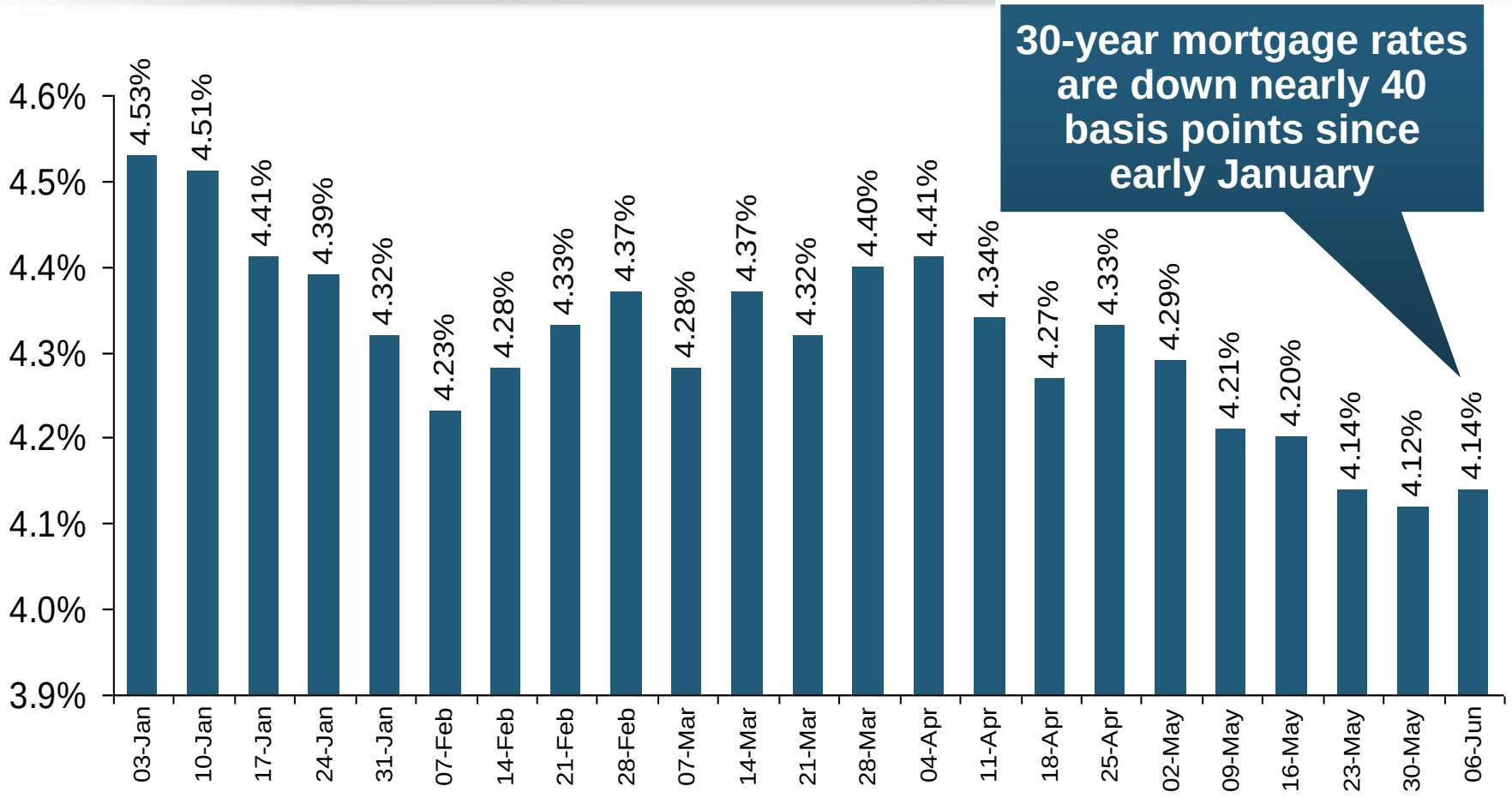



**Rising mortgage interest rates have impacted home sales but are unlikely to derail the recovery on housing**

*Monthly, through May 2014. 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.

# 30-Year Mortgages in 2014 Are Falling! What Will Be the Impact on Construction?

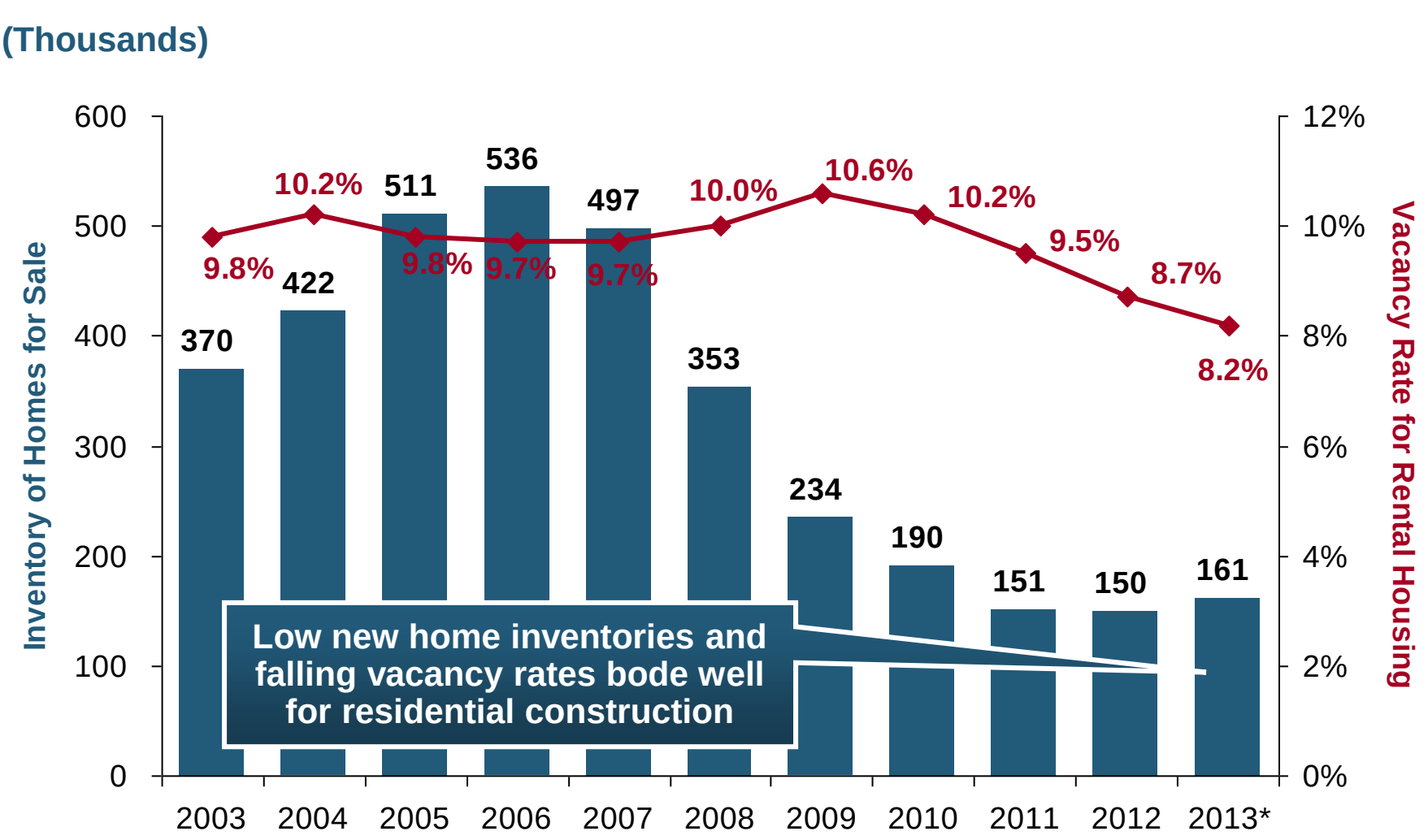



**Mortgage Interest Rates Were Expected to Continue to Rise as the Fed Pursued Tapering and the Economy Recovered; Rates Are Still Low by Historical Standards**

*Weekly through June 5, 2014.

Sources: Federal Reserve Bank at http://www.federalreserve.gov/releases/h15/data.htm.; Insurance Information Institutes.

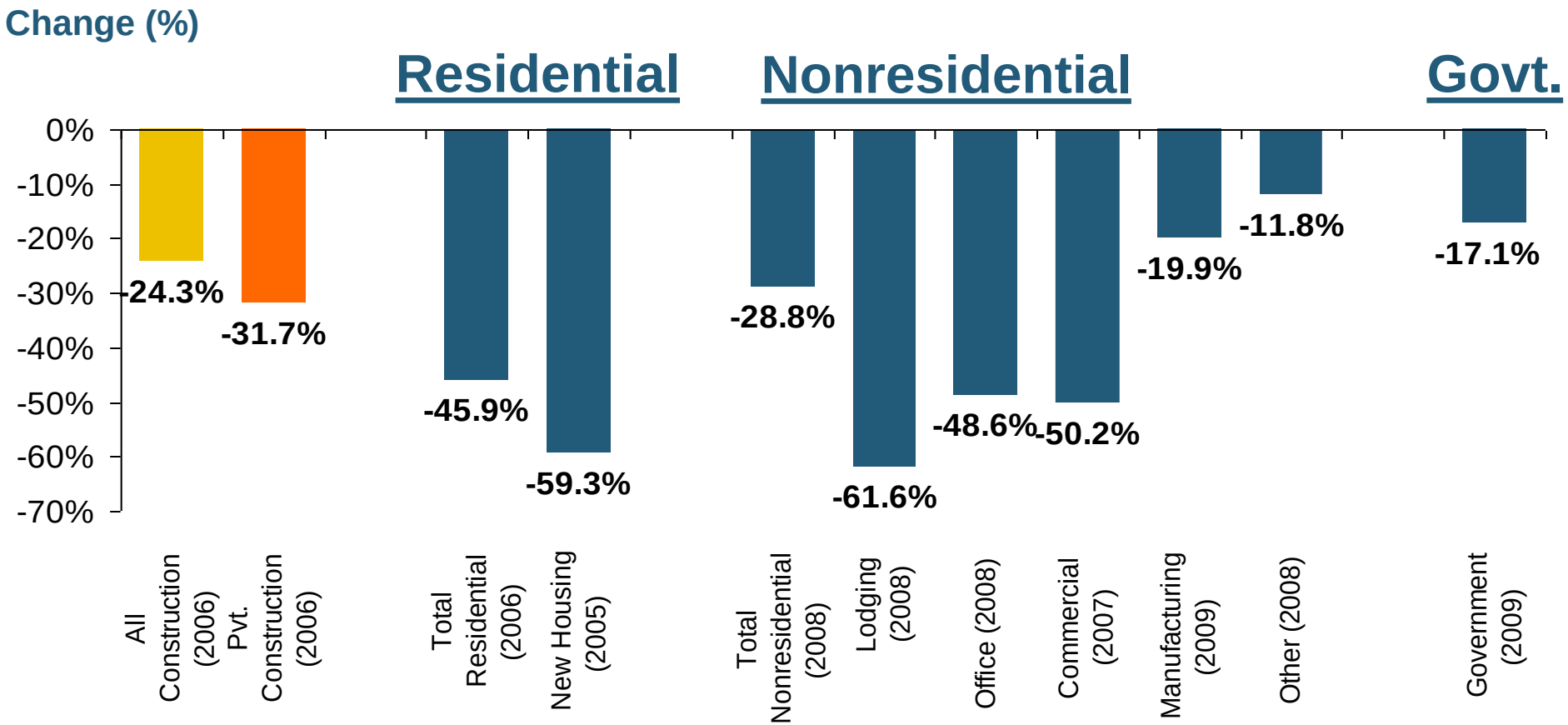
# New Home Inventories and Rental Vacancy Rates, 2003-2013*




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

Sources: US Department of Commerce; Insurance Information Institute.

# Change from Peak in New Construction Expenditures to 2013*




**Despite Recent Improvements, Construction Activity (and Employment) Remains Far Below Pre-Crisis Peaks**

Note: Year in parentheses is the year of peak expenditure.
*2013 figure is a seasonally adjusted annual rate as of June.
Sources: US Department of Commerce; Insurance Information Institute.

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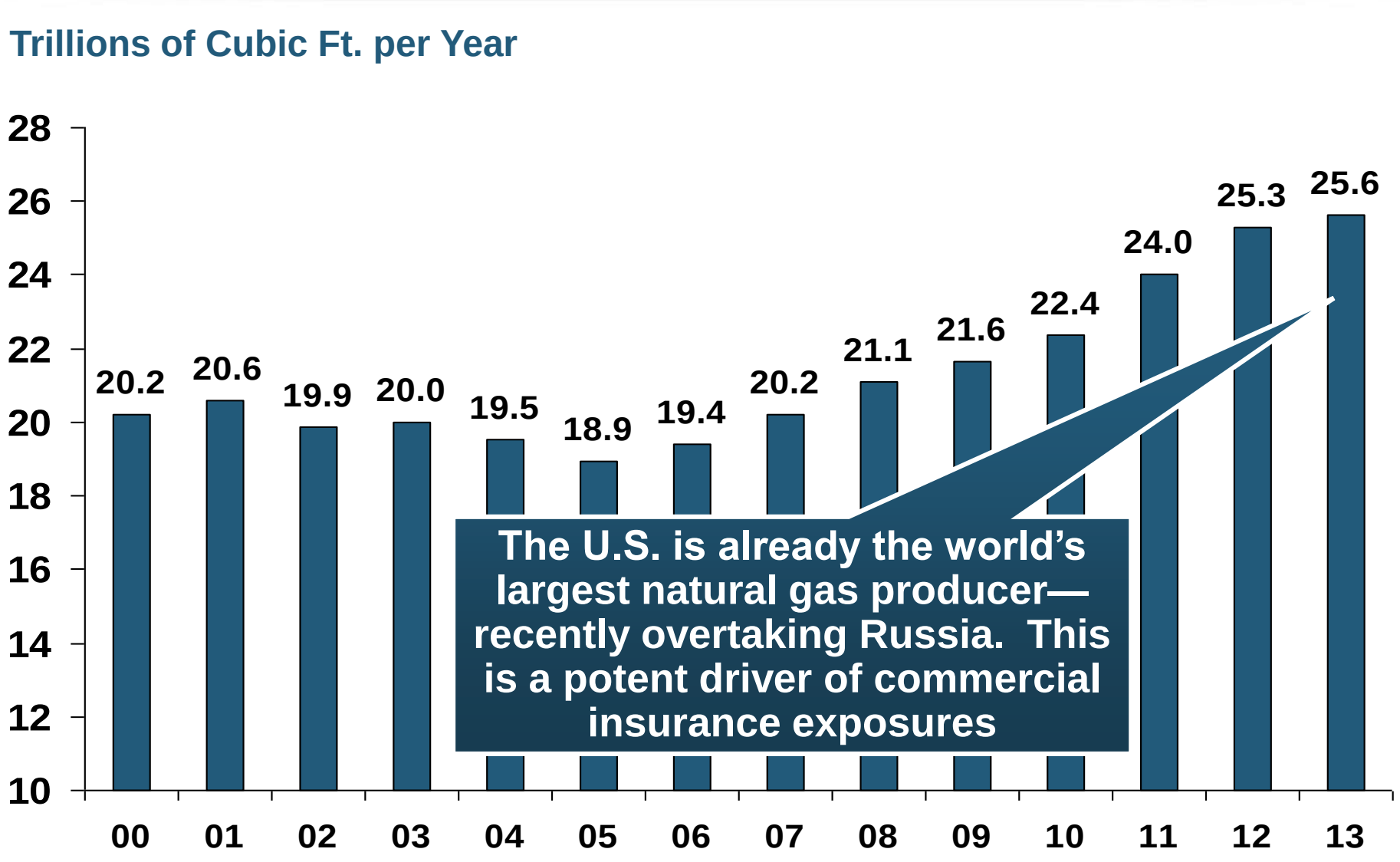
# ENERGY SECTOR: OIL & GAS INDUSTRY FUTURE IS BRIGHT

## US Is Becoming an Energy Powerhouse; Domestic Demand and Exports Are Key

## *Need Infrastructure Investment*

# U.S. Natural Gas Production, 2000-2013




Source: Energy Information Administration, *Short-Term Energy Outlook* (April 8, 2014) , Insurance Information Institute.

# U.S. Crude Oil Production, 2005-2015P

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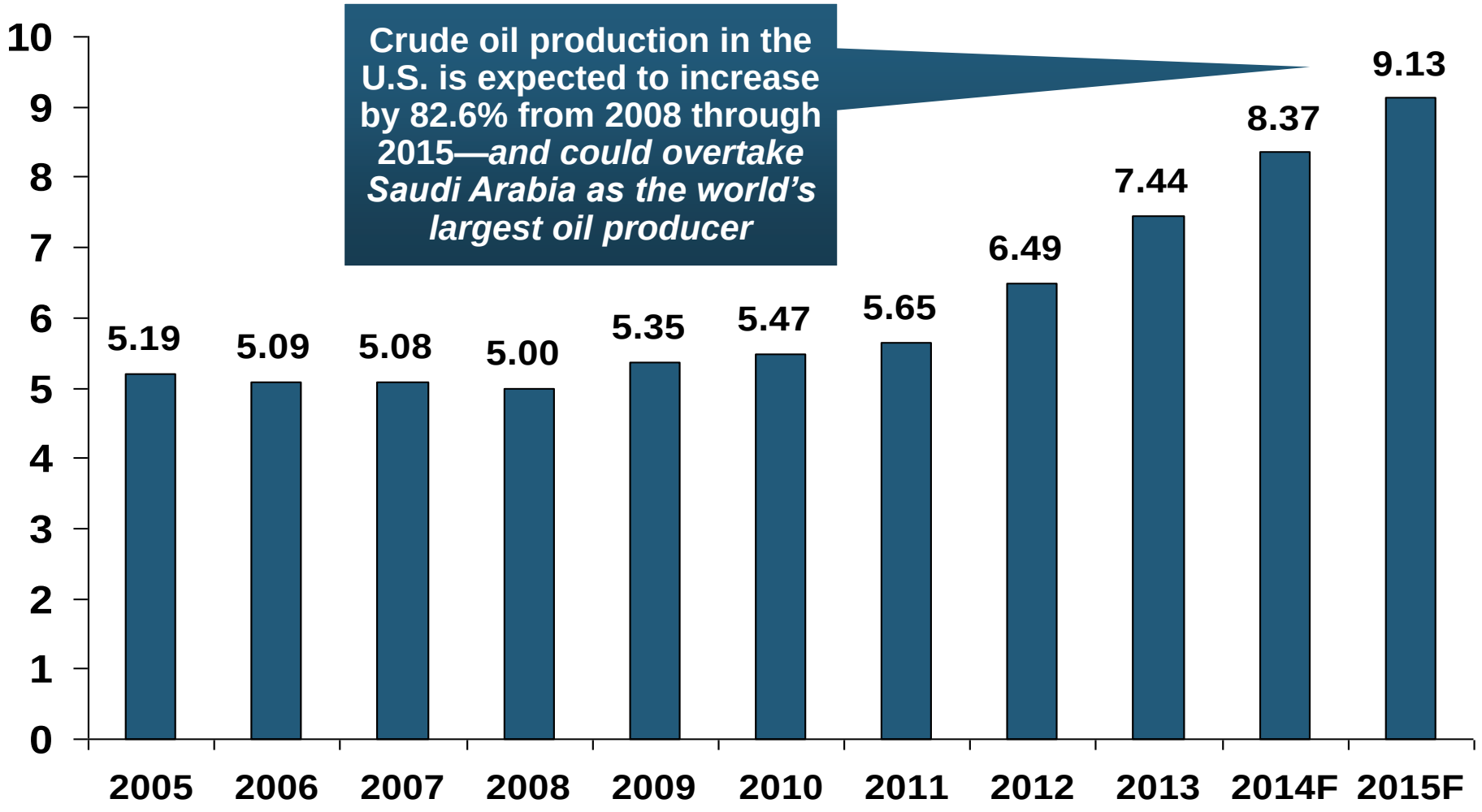
## Millions of Barrels per Day




Source: Energy Information Administration, *Short-Term Energy Outlook* (April 8, 2014) , Insurance Information Institute.

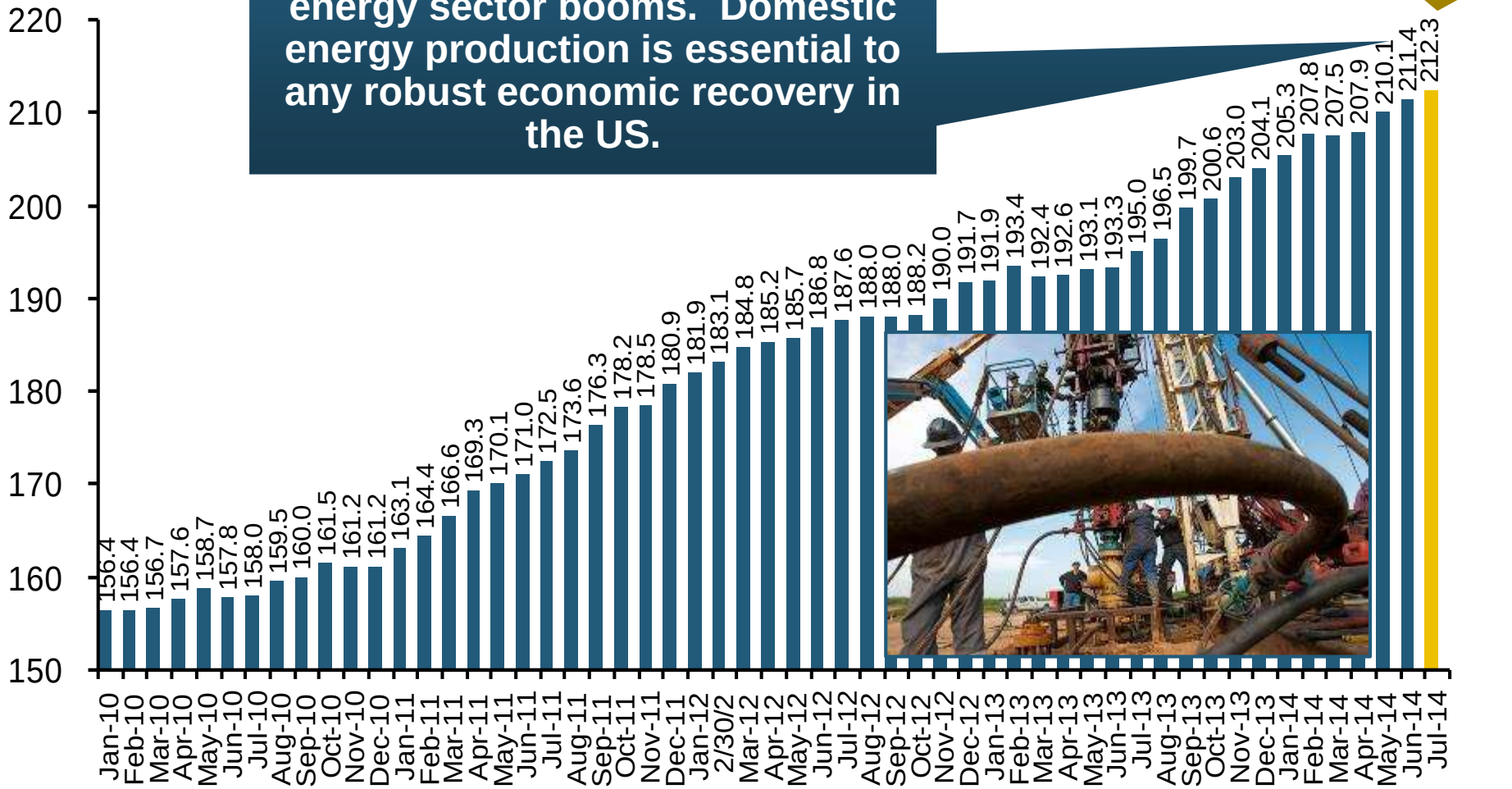
# Oil & Gas Extraction Employment, Jan. 2010—July 2014*

INSURANCE INFORMATION INSTITUTE

(Thousands)

**Oil and gas extraction employment is up 35.7% since Jan. 2010 as the energy sector booms. Domestic energy production is essential to any robust economic recovery in the US.**

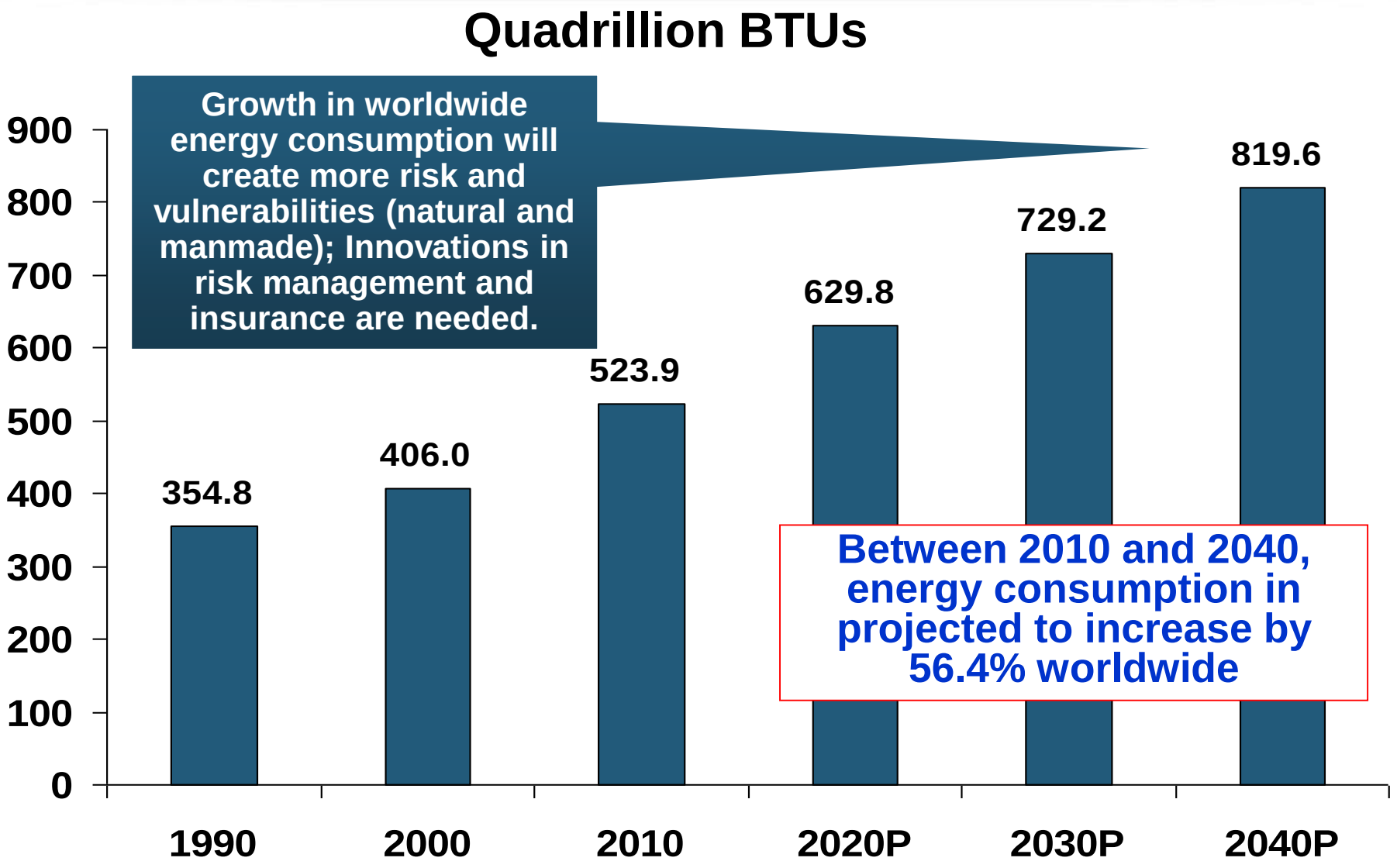
**Highest since July 1986**




*Seasonally adjusted

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

# World Primary Energy Consumption, 1990-2040P

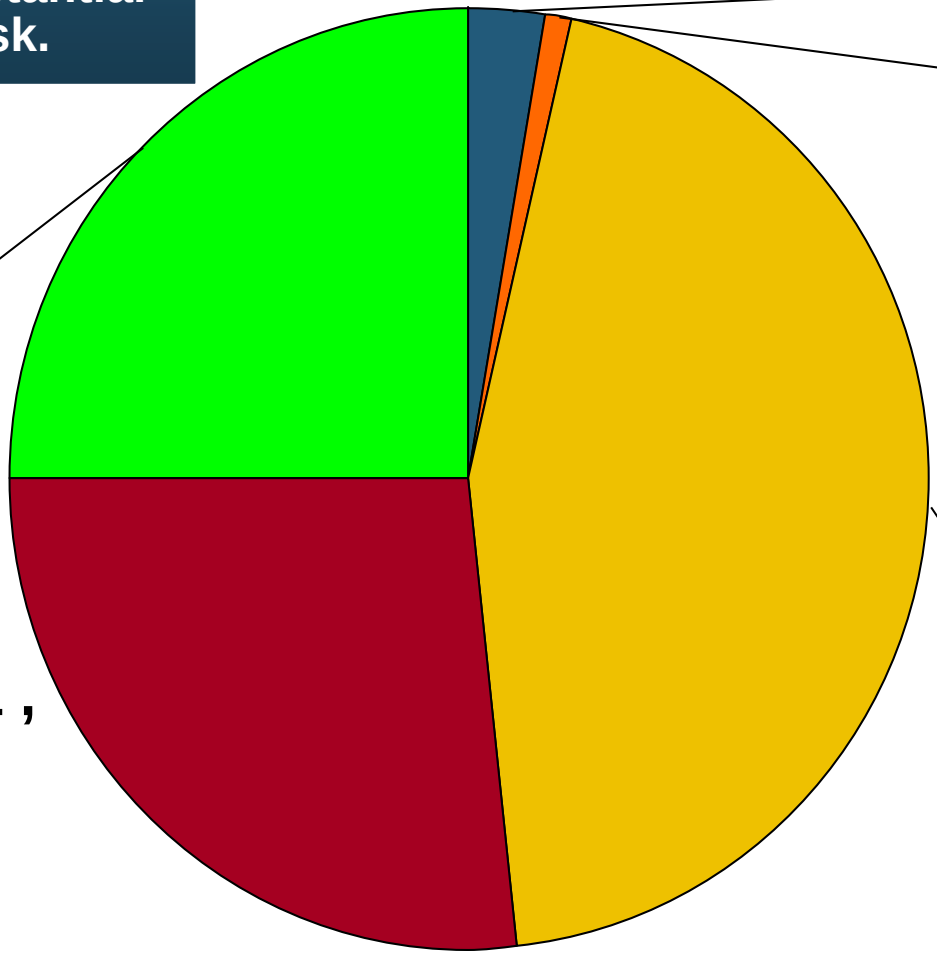



Source: Energy Information Administration, *2013 International Energy Outlook*, Insurance Information Institute.

# Cumulative Projected Investment in Global Energy Infrastructure, 2011-2035 ($ Trill.)

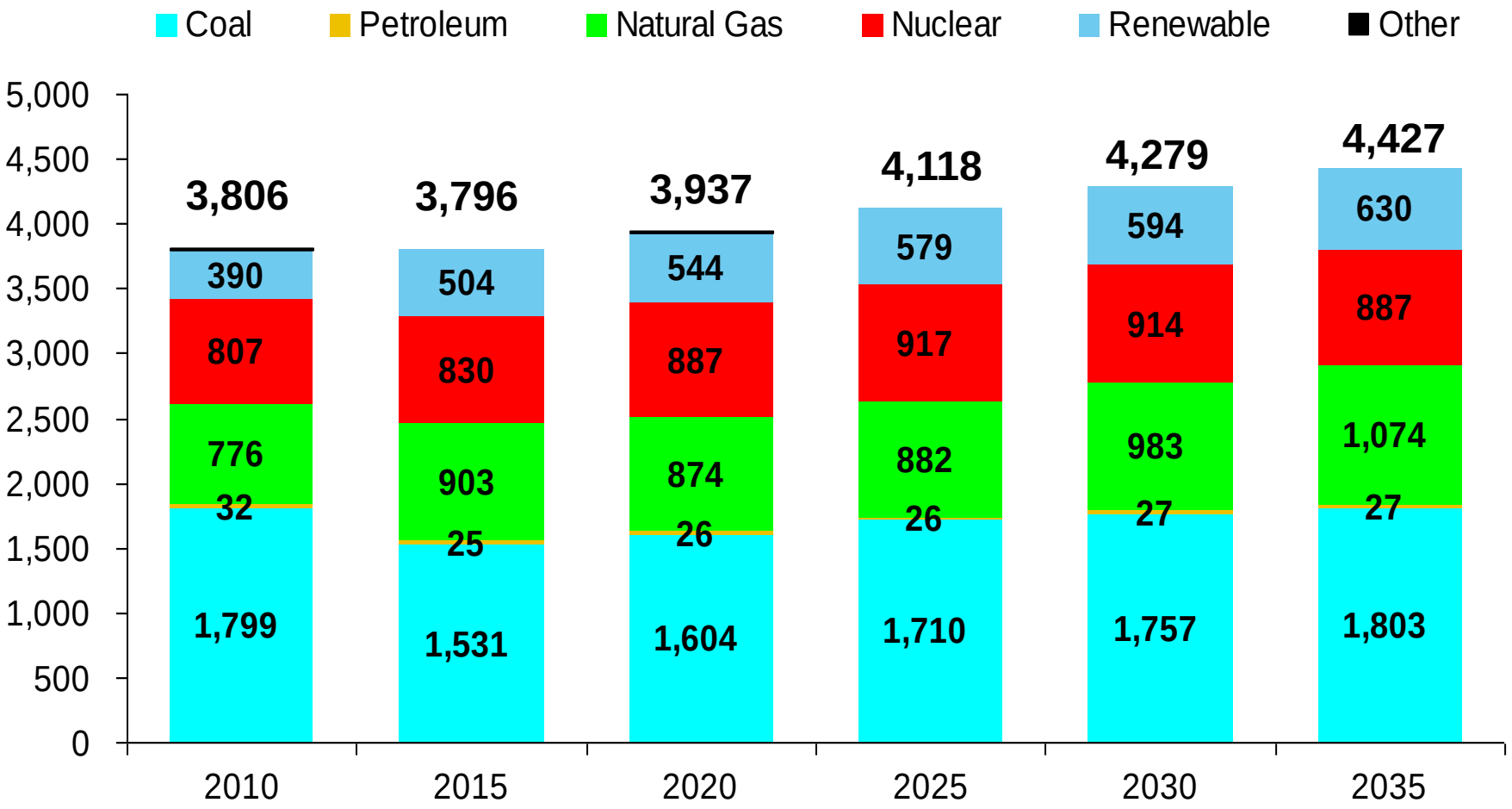
INSURANCE INFORMATION INSTITUTE

**Projected energy infrastructure investment through 2035 total $38 trillion; Implies substantial incurrence of risk.**




Source: International Energy Agency, *World Energy Outlook 2011.*

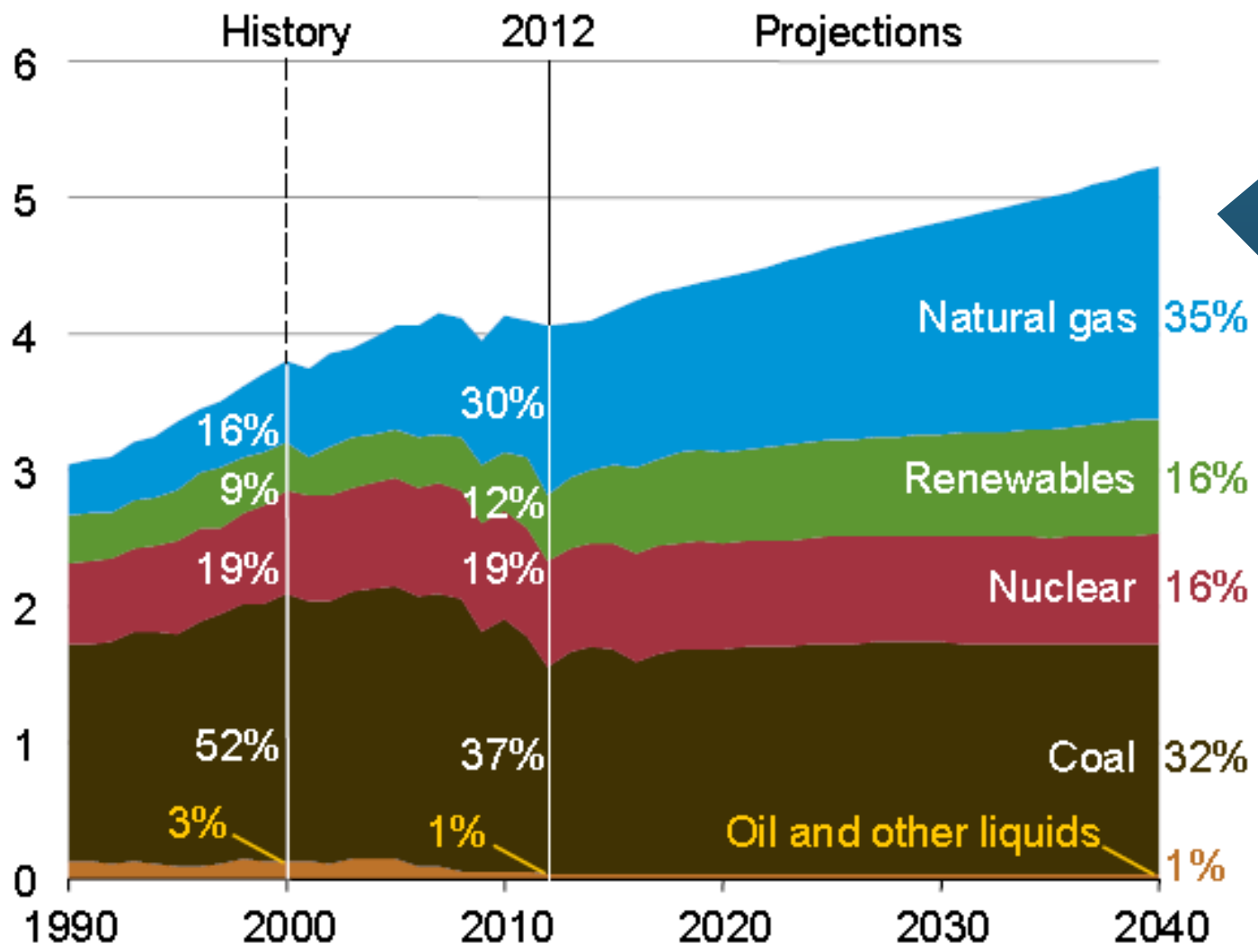
# US Electric Power Generation by Fuel Source, 2010-2035F (Billions of Kilowatt Hours)




**Demand for Electricity Is Expected to Grow at a 0.6% Annual Rate Through 2035. Renewables and Natural Gas Will Account for an Increasing Share of Fuel Source**

Source: US Energy Information Administration, *Annual Energy Outlook 2012,* Appendix A7.

# U.S. Electricity Generation by Fuel, 1990-2040F (Trillions of Kilowatt Hours)




**Natural gas share of fossil fired generation will grow rapidly (more investment needed). Coal fired generation will remain flat but its share will fall due to abundant gas and EPA carbon regulations**

Source: US Energy Information Administration, *2014 Annual Energy Outlook Early Release Overview*; Insurance Information Institute.

# US Natural Gas Production and Non-Hydro Renewable Electricity Generation, 1990-2035P

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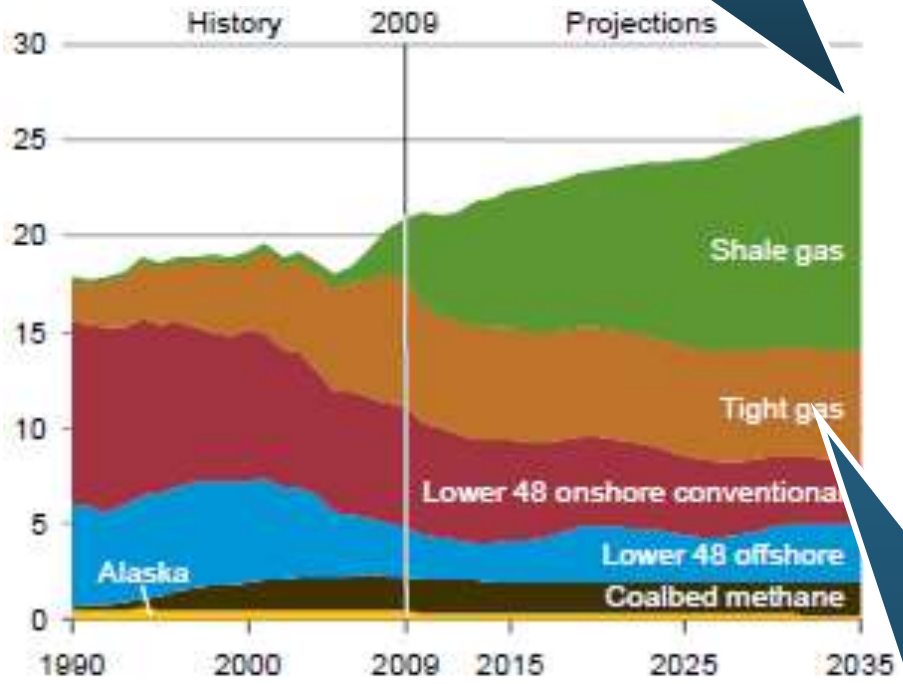
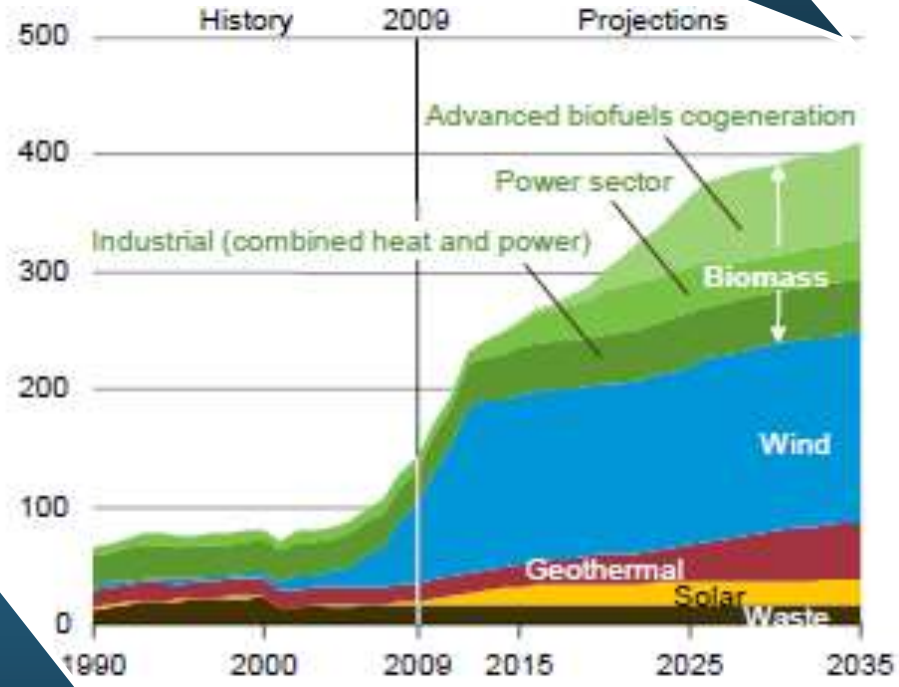
**Shale gas production is expected to grow rapidly in the US**




**Wind is expected to account for the majority of renewable electricity generation**

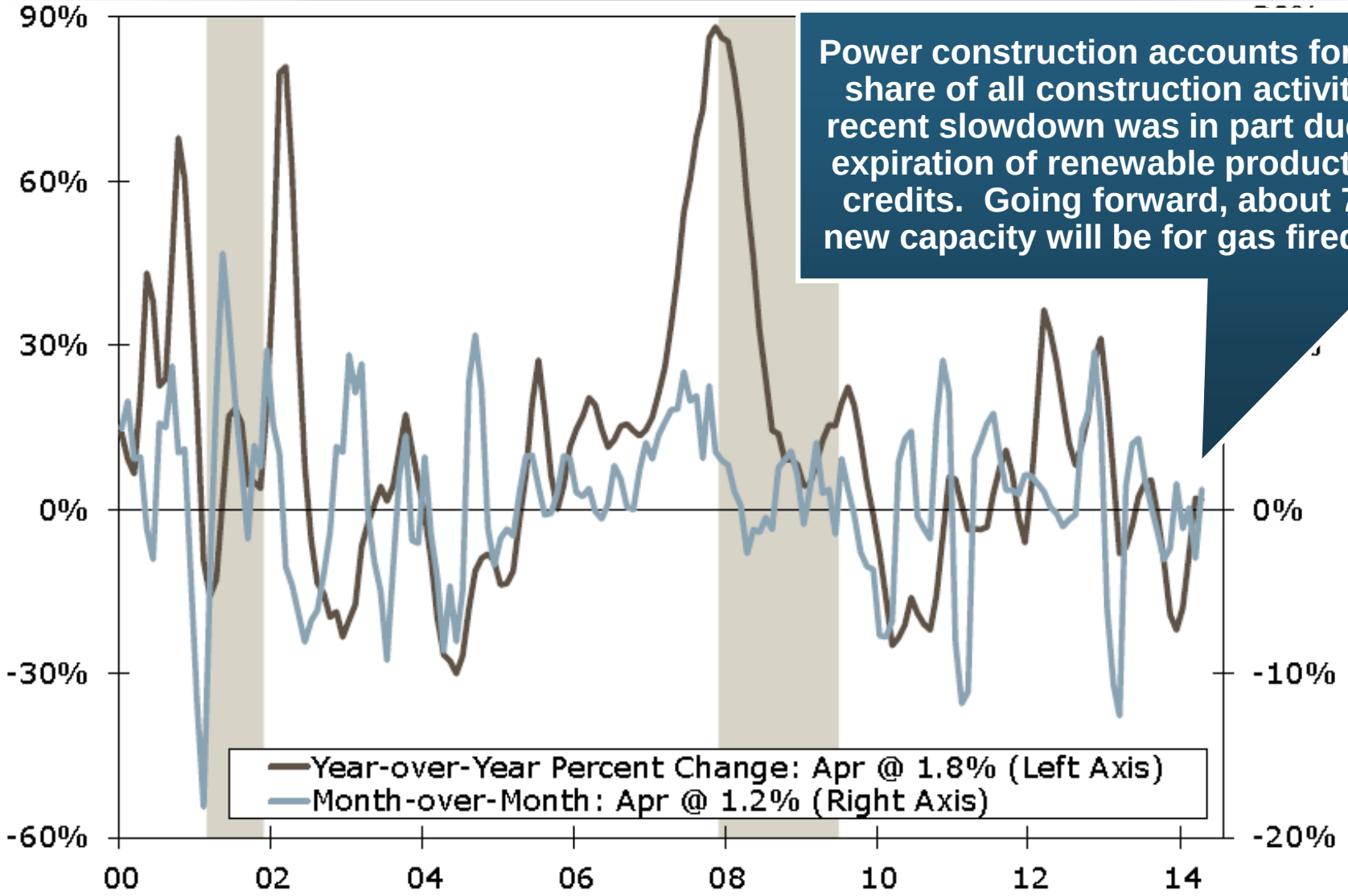



**Tight gas production involves controversial hydraulic fracturing (fracking) techniques**

Source: US Energy Information Administration, *Annual Energy Outlook 2011*; Insurance Information Institute.

# U.S. Private Power Construction, 2000-2014* (% Change, 3-Month Moving Avg.)

INSURANCE INFORMATION INSTITUTE




**Power construction accounts for a large share of all construction activity. The recent slowdown was in part due to the expiration of renewable production tax credits. Going forward, about 75% of new capacity will be for gas fired plants**

*Through April 2014.

Source: US Dept. of Commerce; Energy Information Administration, Wells Fargo Securities (June 6, 2014 research report).

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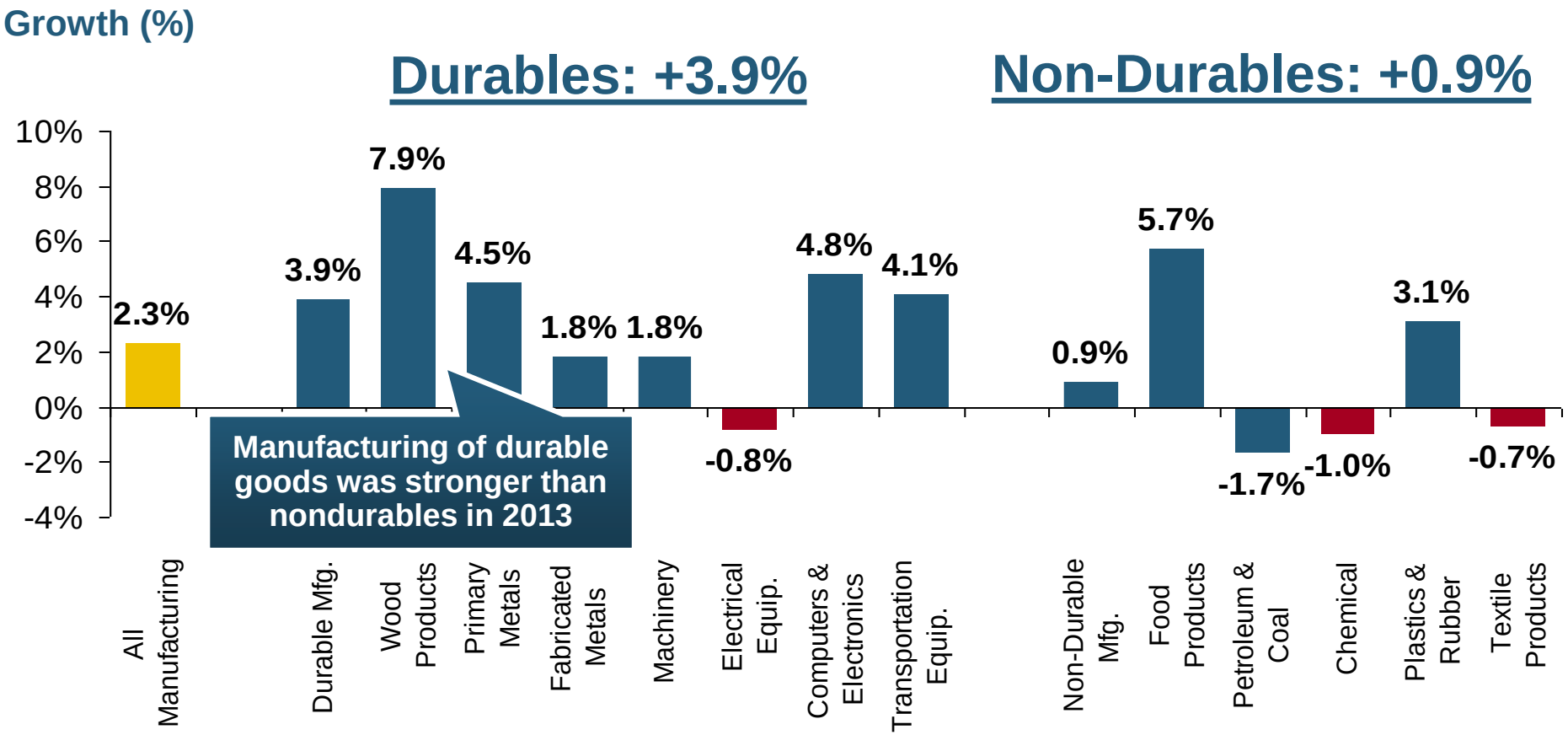
# MANUFACTURING SECTOR OVERVIEW & OUTLOOK

## The U.S. Is Experiencing a Mini Manufacturing Renaissance That Is Benefitting the US Economy and the P/C Insurance Industry

# Manufacturing Growth for Selected Sectors, 2014 vs. 2013*

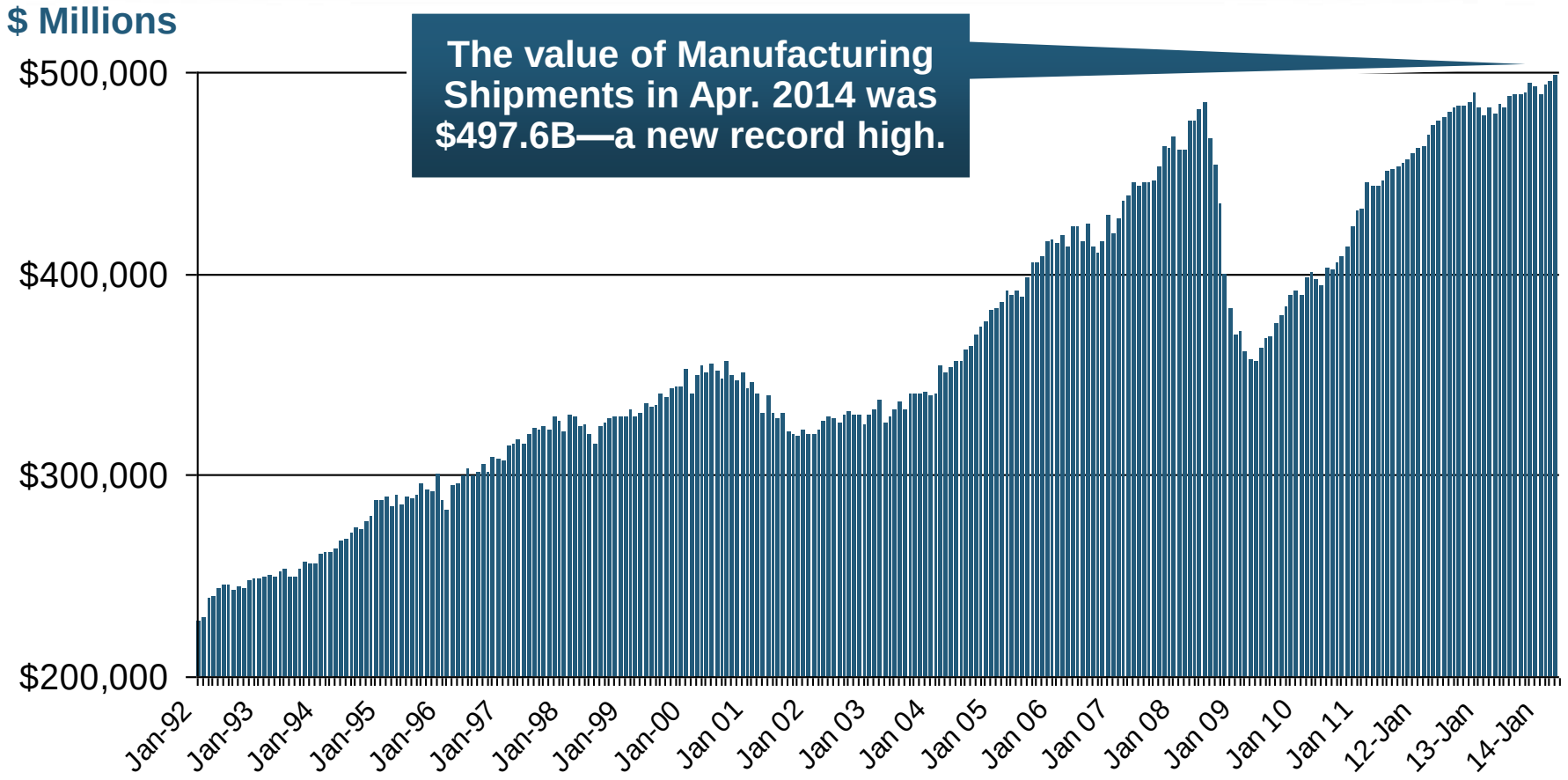



**Manufacturing Is Expanding—Albeit Slowly—Across a Number of Sectors that Will Contribute to Growth in Insurable Exposures Including: WC, Commercial Property, Commercial Auto and Many Liability Coverages**

*Seasonally adjusted; Date are YTD comparing data through May 2014 to the same period in 2013.
Source: U.S. Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders,* http://www.census.gov/manufacturing/m3/

# Dollar Value* of Manufacturers' Shipments Monthly, Jan. 1992—Apr. 2014

INSURANCE INFORMATION INSTITUTE




**Monthly shipments in Apr. 2014 exceeded the pre-crisis (July 2008) peak. Manufacturing is energy-intensive and growth leads to gains in many commercial exposures: WC, Commercial Auto, Marine, Property, and various Liability Coverages.**

* Seasonally adjusted; Data published June 3, 2014.
Source: U.S. Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders,* http://www.census.gov/manufacturing/m3/

# Manufacturing Employment, Jan. 2010—July 2014*

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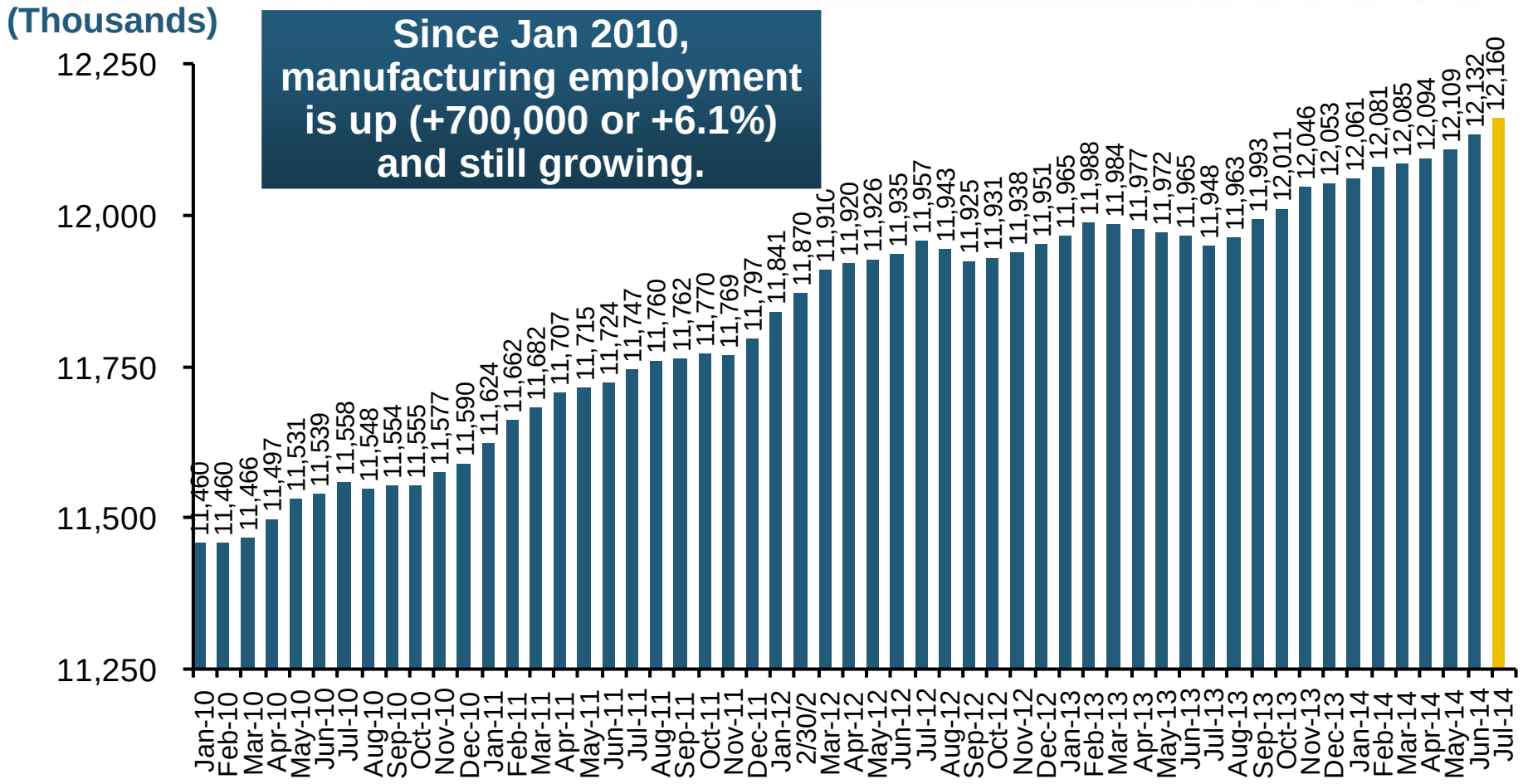



**Manufacturing employment is a surprising source of strength in the economy. Employment in the sector is at a multi-year high.**

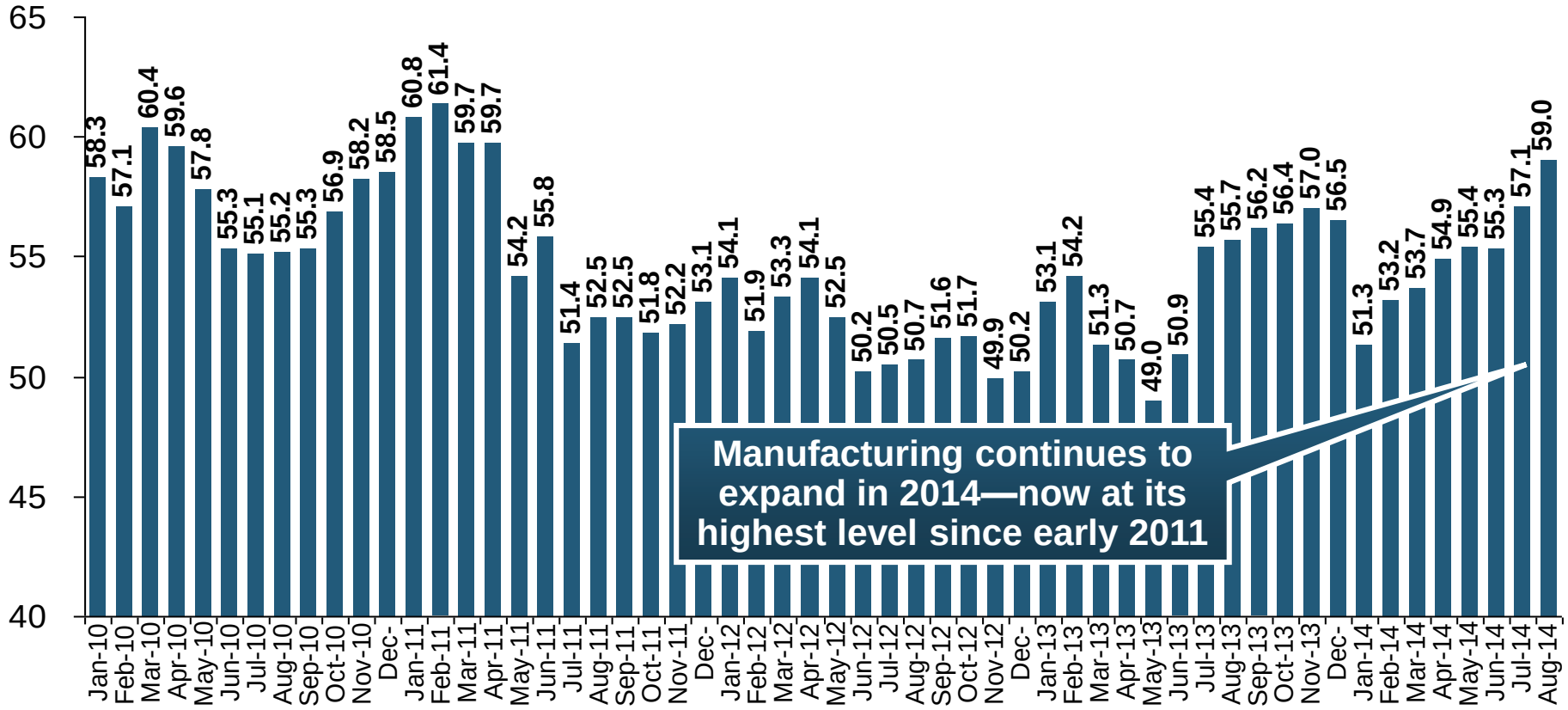
*Seasonally adjusted.

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

# ISM Manufacturing Index *(Values > 50 Indicate Expansion)*

INSURANCE INFORMATION INSTITUTE

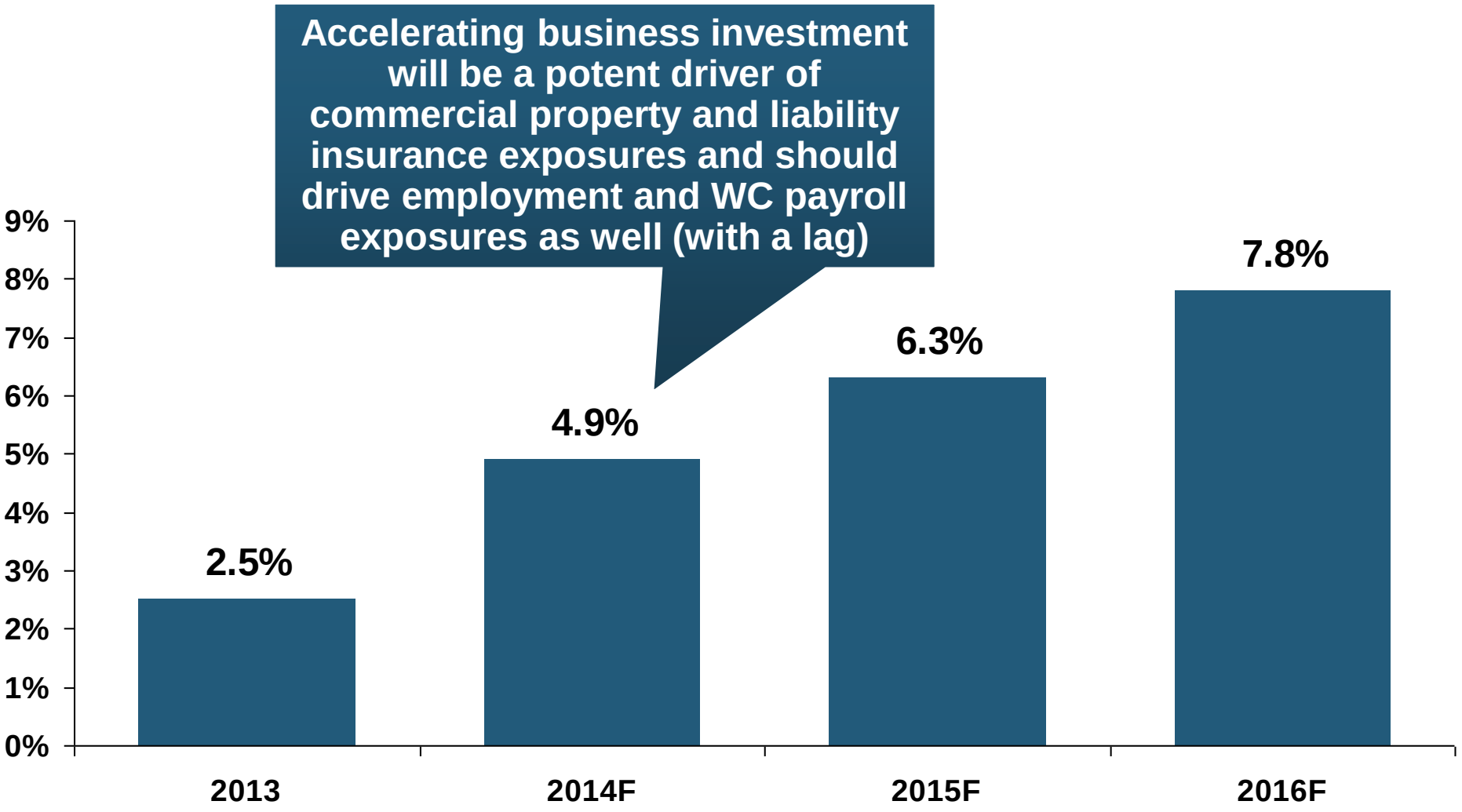
## January 2010 through August 2014




**The manufacturing sector expanded for 54 of the 56 months from Jan. 2010 through Aug. 2014. Pace of recovery has been uneven due to economic turbulence in the U.S., Europe and China.**

Source: Institute for Supply Management at http://www.ism.ws/ismreport/mfgrob.cfm; Insurance Information Institute.

# Business Investment: Expected to Accelerate, Fueling Commercial Exposure Growth




Source: IHS Global Insights as of Jan. 13, 2014; Insurance Information Institute.

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

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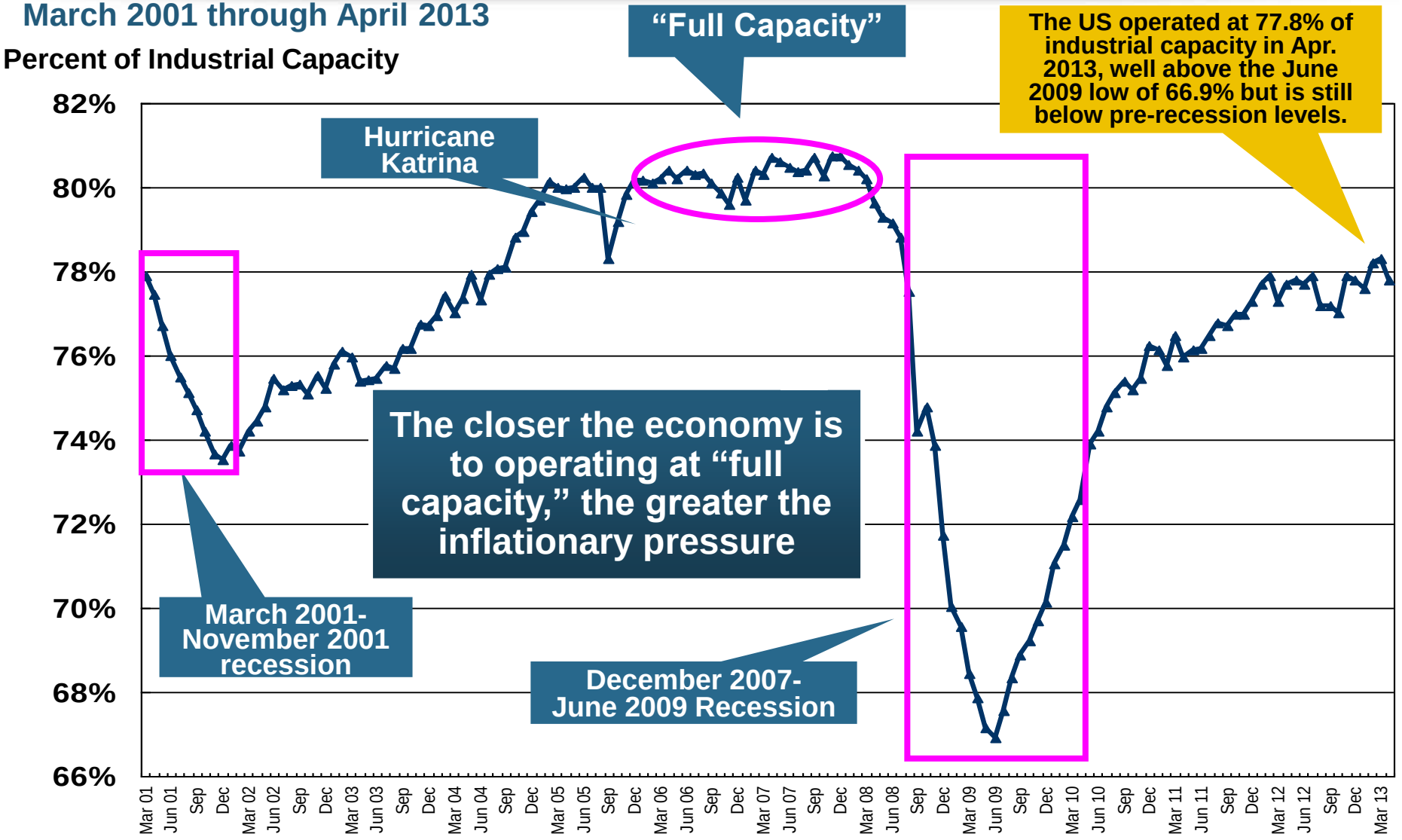
## March 2001 through April 2013




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



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# Labor Market Trends

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

# Unemployment and Underemployment Rates: Still Too High, But Falling

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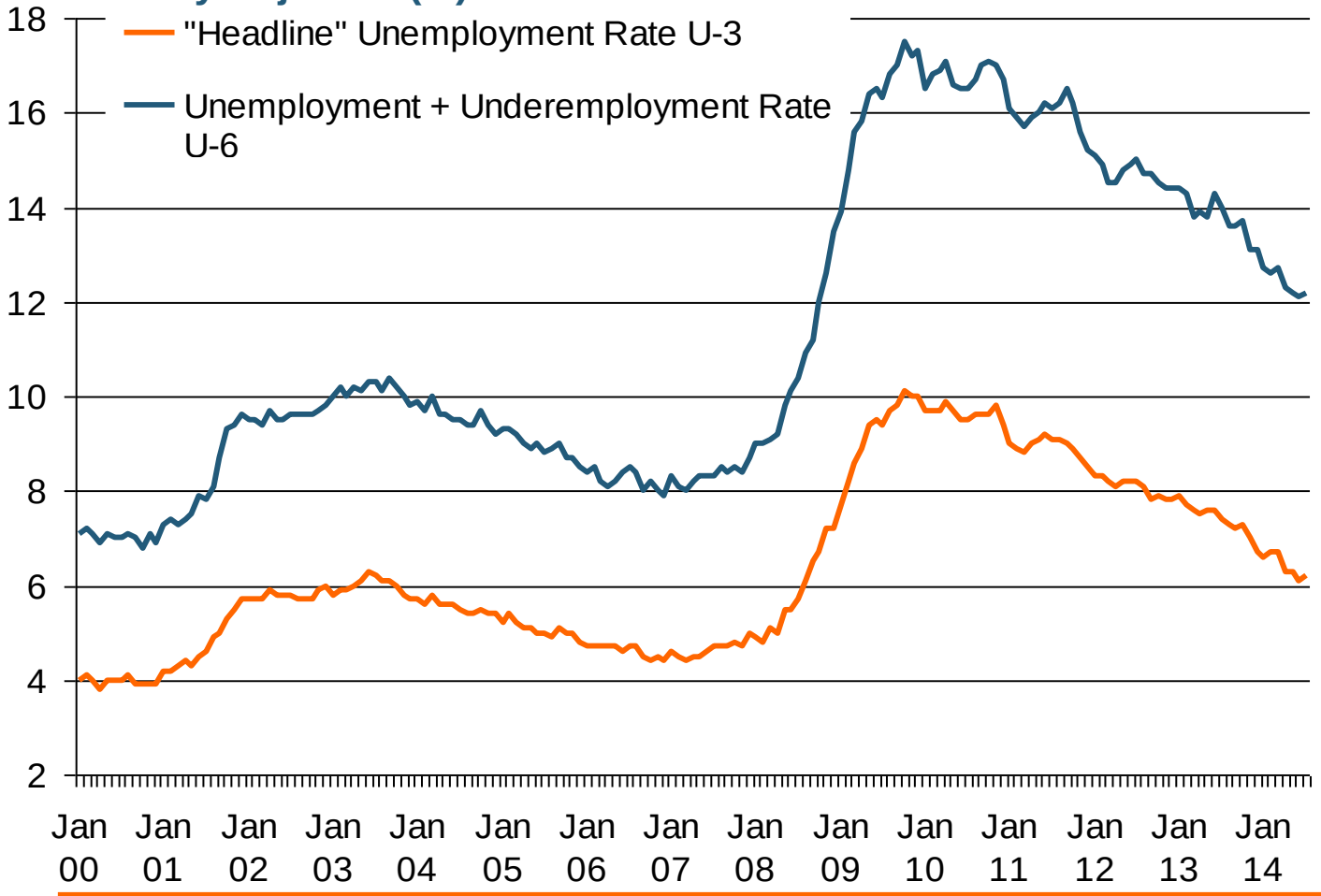
**January 2000 through July 2014, Seasonally Adjusted (%)**




**U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 12.2% in July 2014. 8% to 10% is "normal."**

**"Headline" unemployment was 6.2% in July 2014. 4.5% to 6% is "normal."**

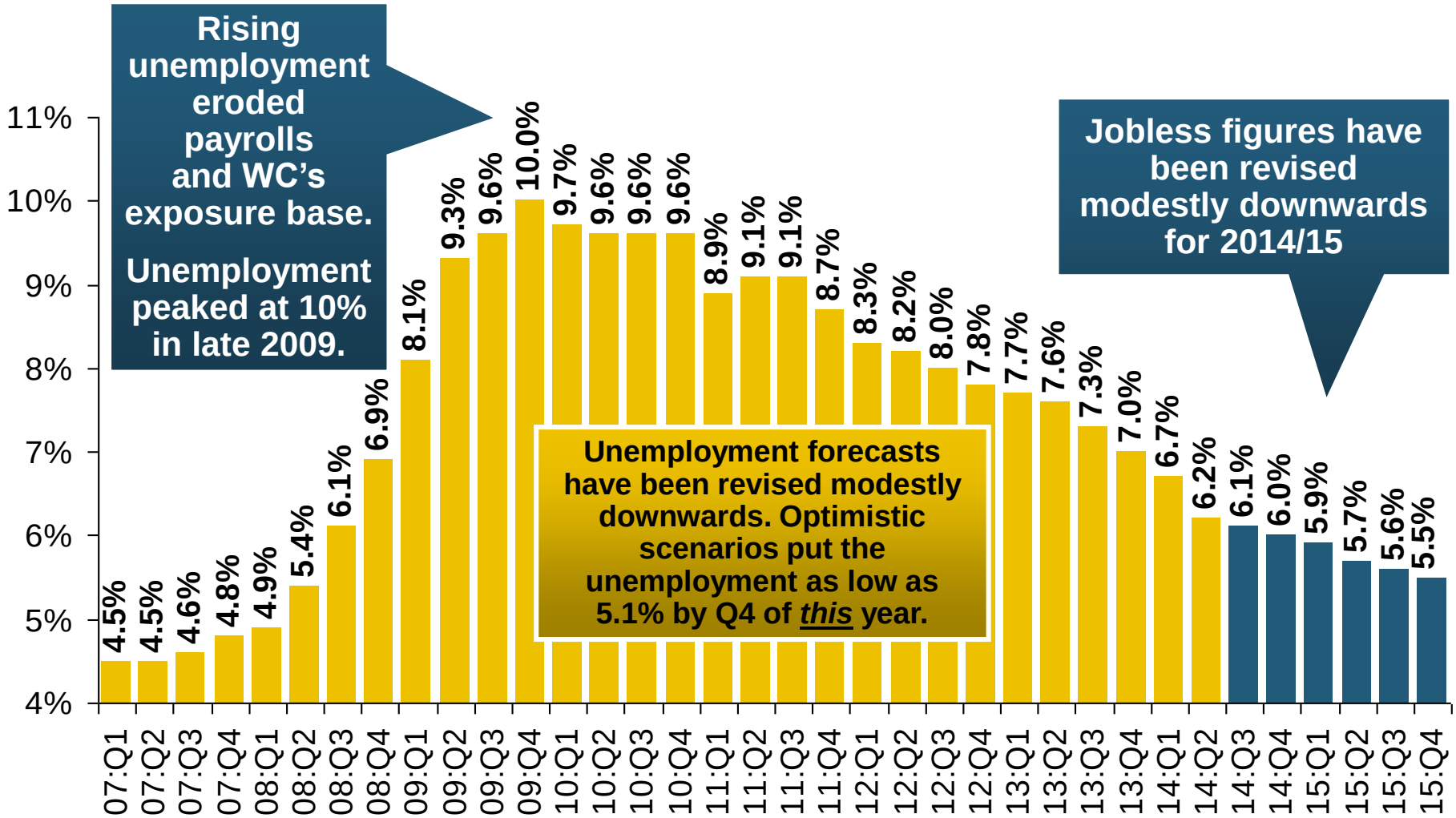
**Stubbornly high unemployment and underemployment constrain overall economic growth, but the job market is now clearly improving.**

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

# US Unemployment Rate Forecast

INSURANCE INFORMATION INSTITUTE

## 2007:Q1 to 2015:Q4F*



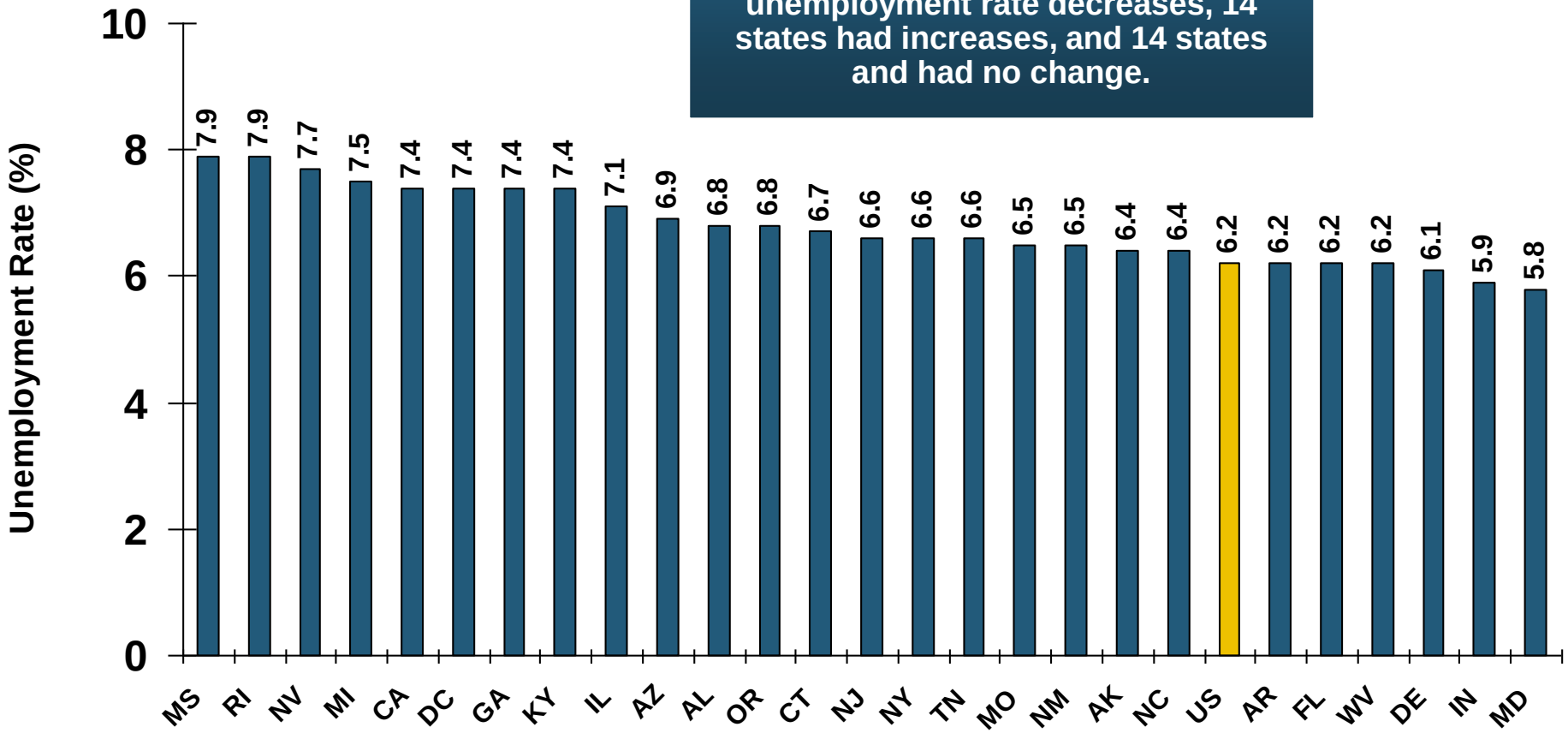

* = actual; = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (8/14 edition); Insurance Information Institute.

# Unemployment Rates by State, June 2014: Highest 25 States*

INSURANCE INFORMATION INSTITUTE

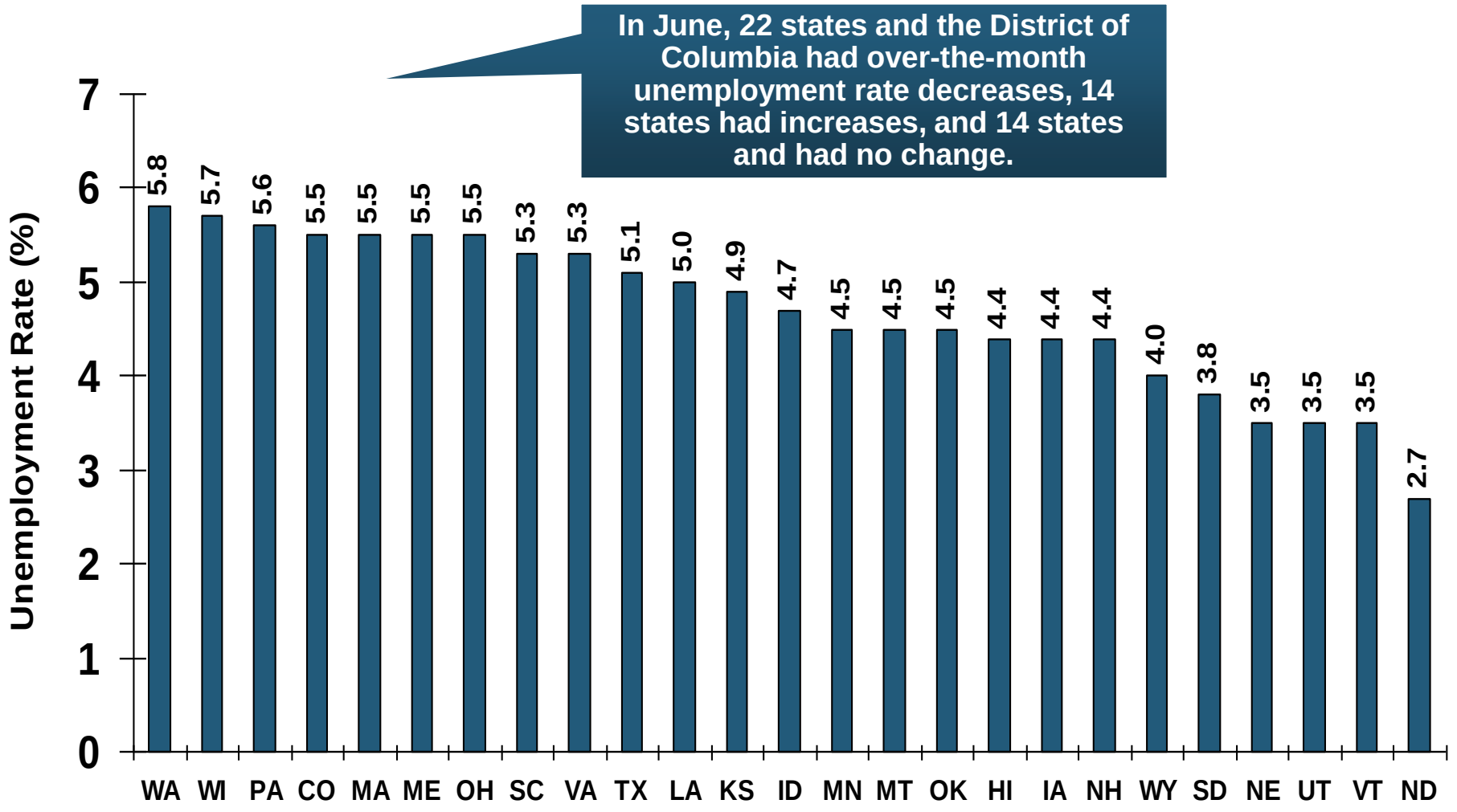
In June, 22 states and the District of Columbia had over-the-month unemployment rate decreases, 14 states had increases, and 14 states and had no change.




*Provisional figures for June 2014, seasonally adjusted.

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

# Unemployment Rates by State, June 2014: Lowest 25 States*

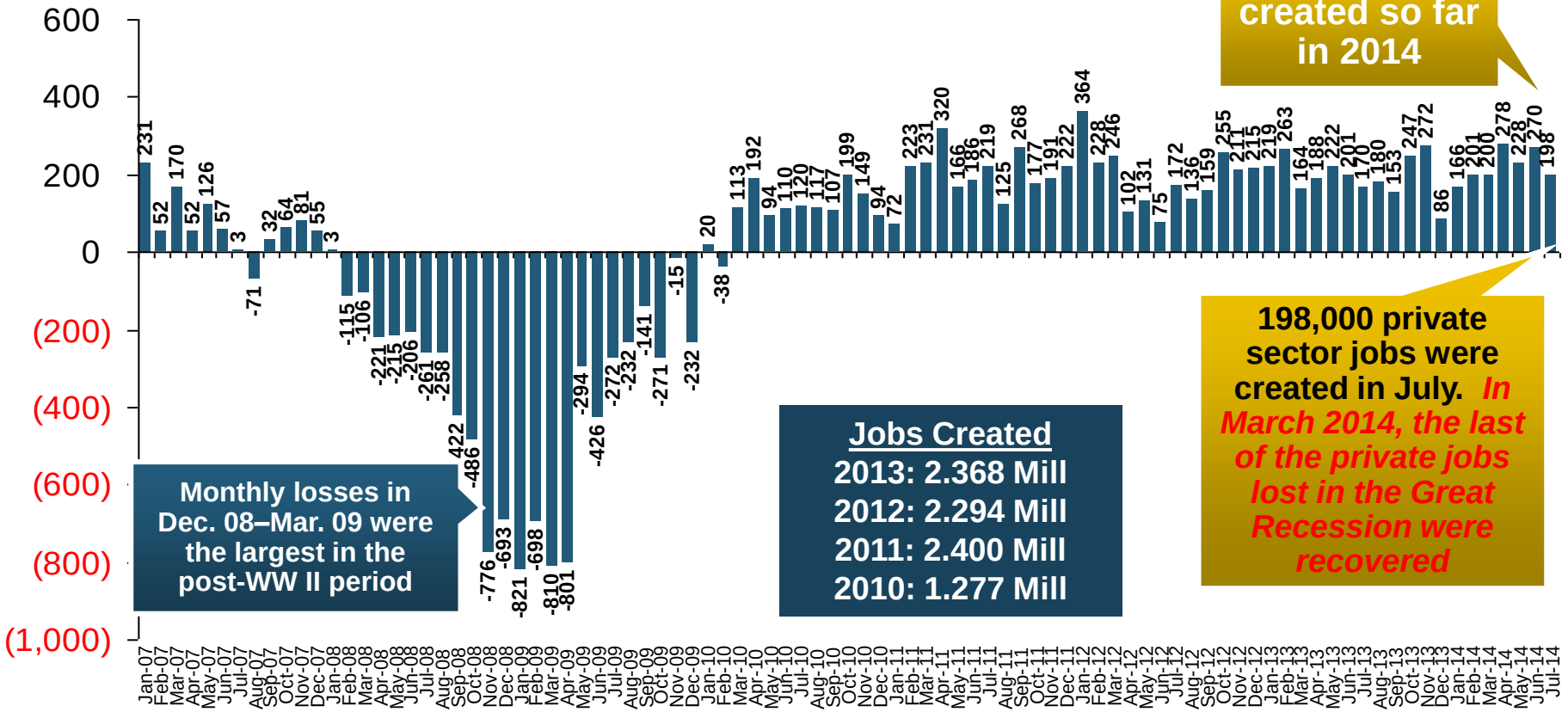



*Provisional figures for June 2014, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

# Monthly Change in Private Employment

INSURANCE INFORMATION INSTITUTE

## January 2007 through July 2014 (Thousands, Seasonally Adjusted)



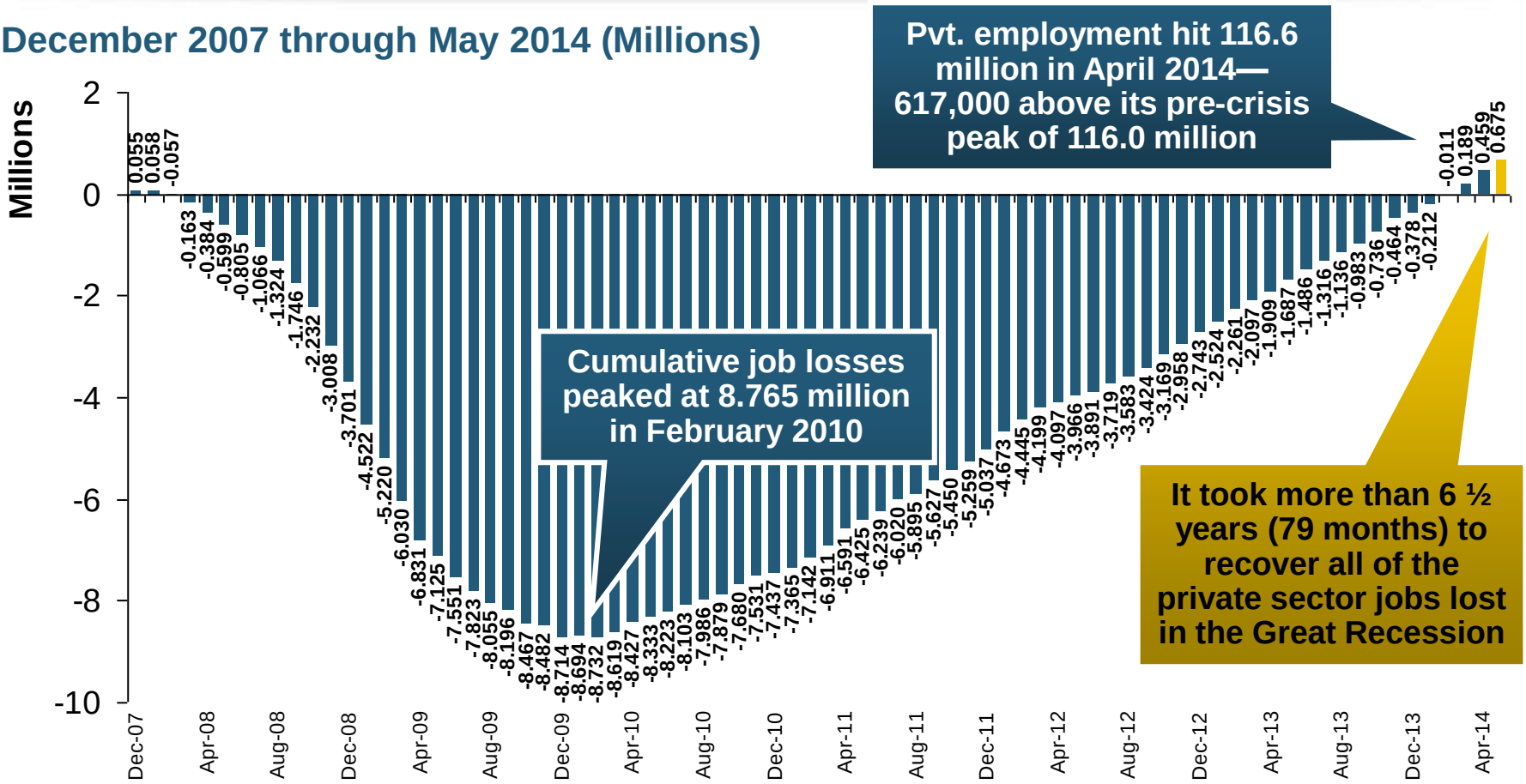

**Private Employers Added 9.88 million Jobs Since Jan. 2010 After Having Shed 5.01 Million Jobs in 2009 and 3.76 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)**

Source: US Bureau of Labor Statistics: http://www.bls.gov/ces/home.htm; Insurance Information Institute

# Cumulative Change in Private Employment: Dec. 2007—May 2014

INSURANCE INFORMATION INSTITUTE

## December 2007 through May 2014 (Millions)




**Pvt. employment hit 116.6 million in April 2014—617,000 above its pre-crisis peak of 116.0 million**

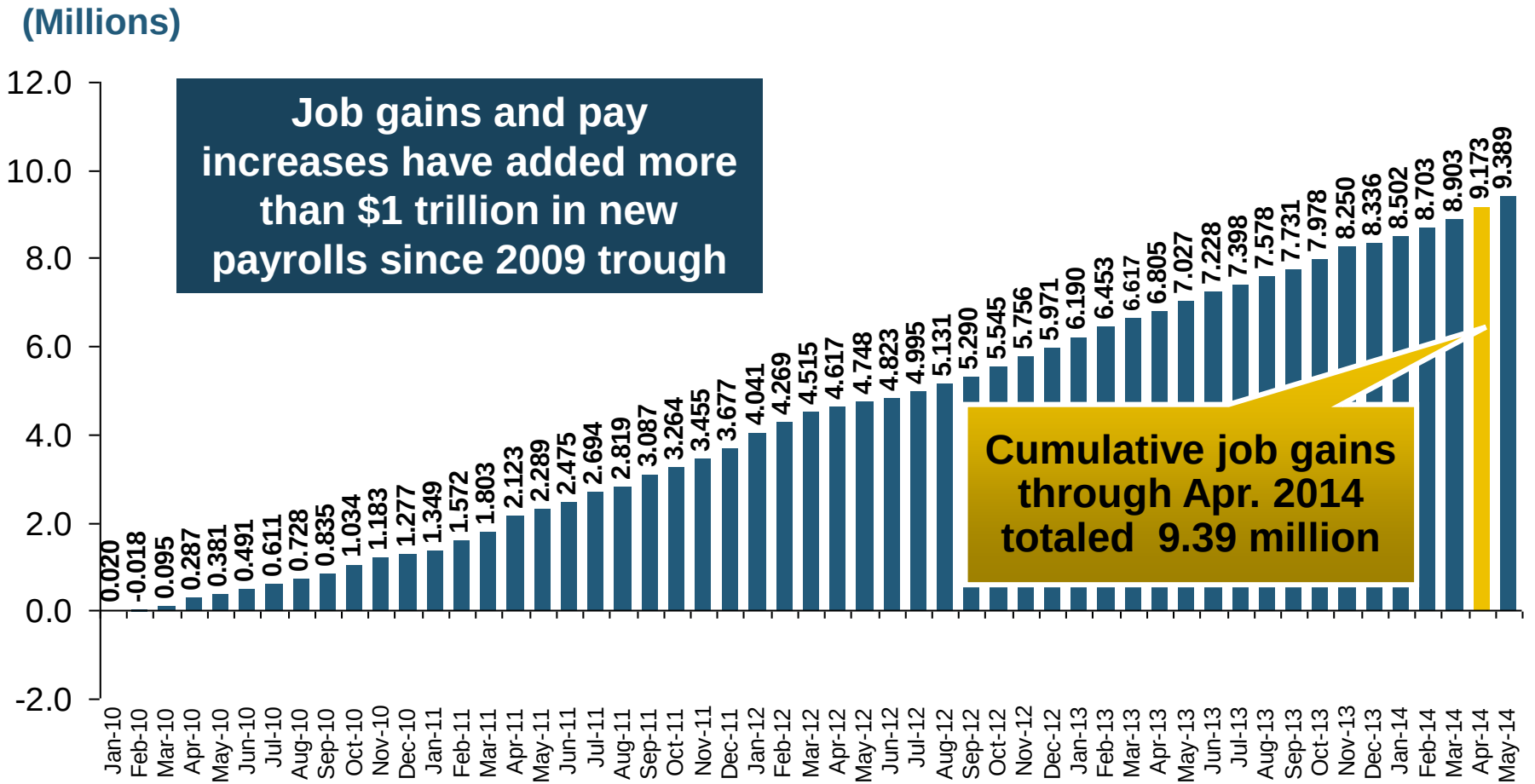
**Cumulative job losses peaked at 8.765 million in February 2010**

**It took more than 6 ½ years (79 months) to recover all of the private sector jobs lost in the Great Recession**

**Private Employers Added 9.39 million Jobs Since Jan. 2010 After Having Shed 4.98 Million Jobs in 2009 and 3.80 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)**

Source: US Bureau of Labor Statistics: http://www.bls.gov/ces/home.htm; Insurance Information Institute

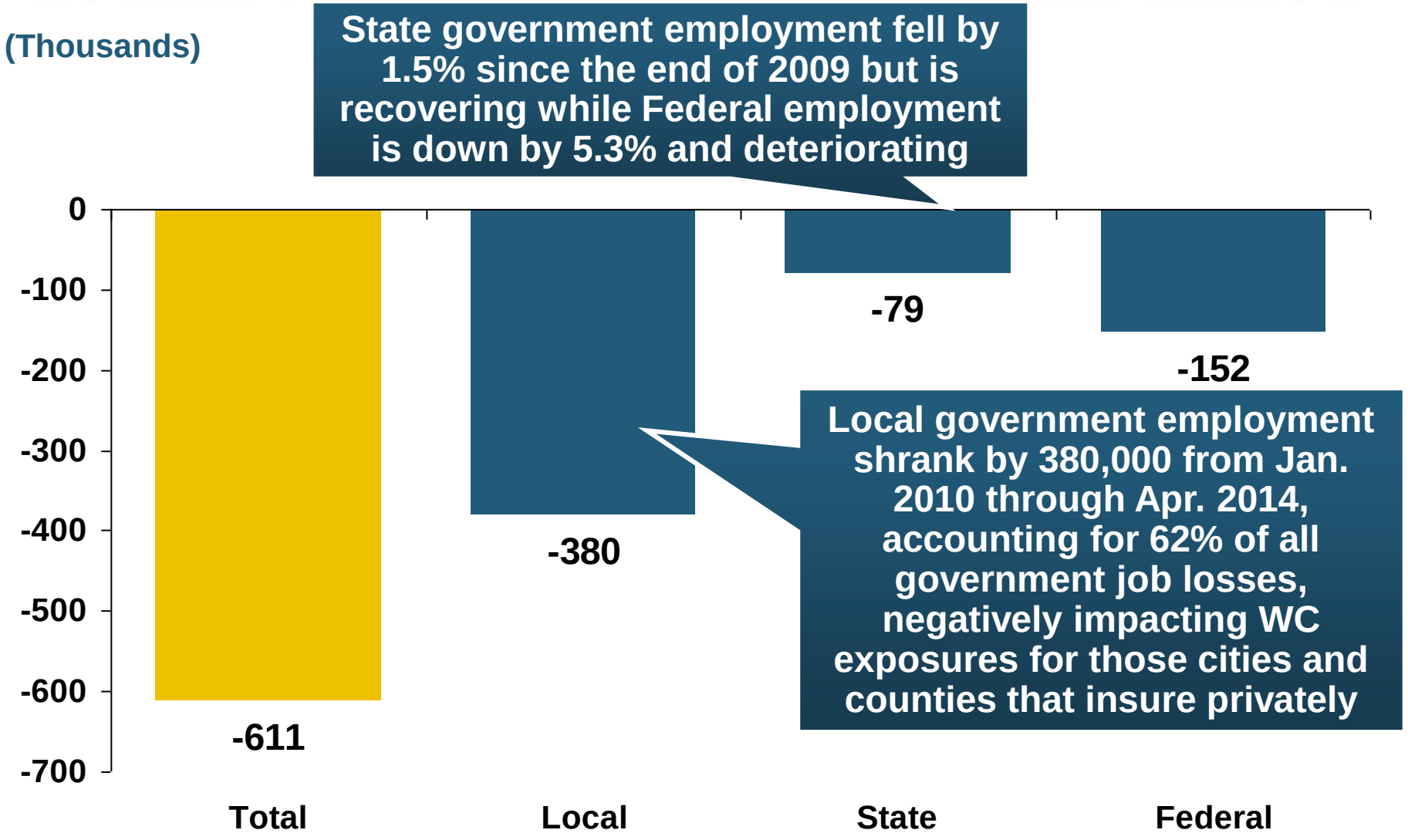
# Cumulative Change in Private Sector Employment: Jan. 2010—May 2014




**Private Employers Added 9.39 million Jobs Since Jan. 2010 After Having Shed 4.98 Million Jobs in 2009 and 3.80 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)**

Source: US Bureau of Labor Statistics: http://www.bls.gov/ces/home.htm; Insurance Information Institute

# Net Change in Government Employment: Jan. 2010—Apr. 2014

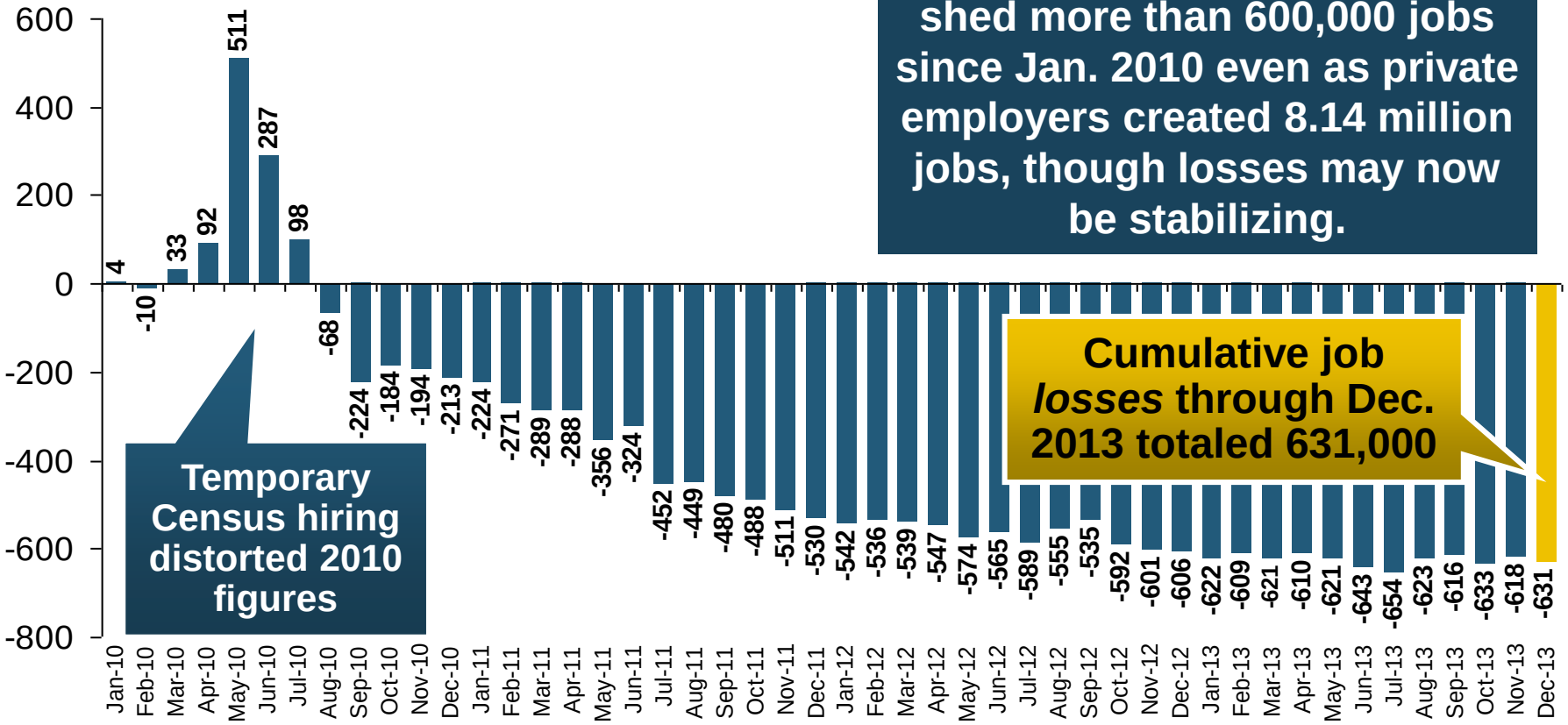



Source: US Bureau of Labor Statistics http://www.bls.gov/data/#employment; Insurance Information Institute

# Cumulative Change in Government Employment: Jan. 2010—Dec. 2013

INSURANCE INFORMATION INSTITUTE

January 2010 through Dec. 2013* (Millions)




**Government at all levels has shed more than 600,000 jobs since Jan. 2010 even as private employers created 8.14 million jobs, though losses may now be stabilizing.**

**Temporary Census hiring distorted 2010 figures**

**Cumulative job *losses* through Dec. 2013 totaled 631,000**

**Governments at All Levels are Under Severe Fiscal Strain As Tax Receipts Plunged and Pension Obligations Soared During the Financial Crisis: Sequestration Will Add to this Toll**

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

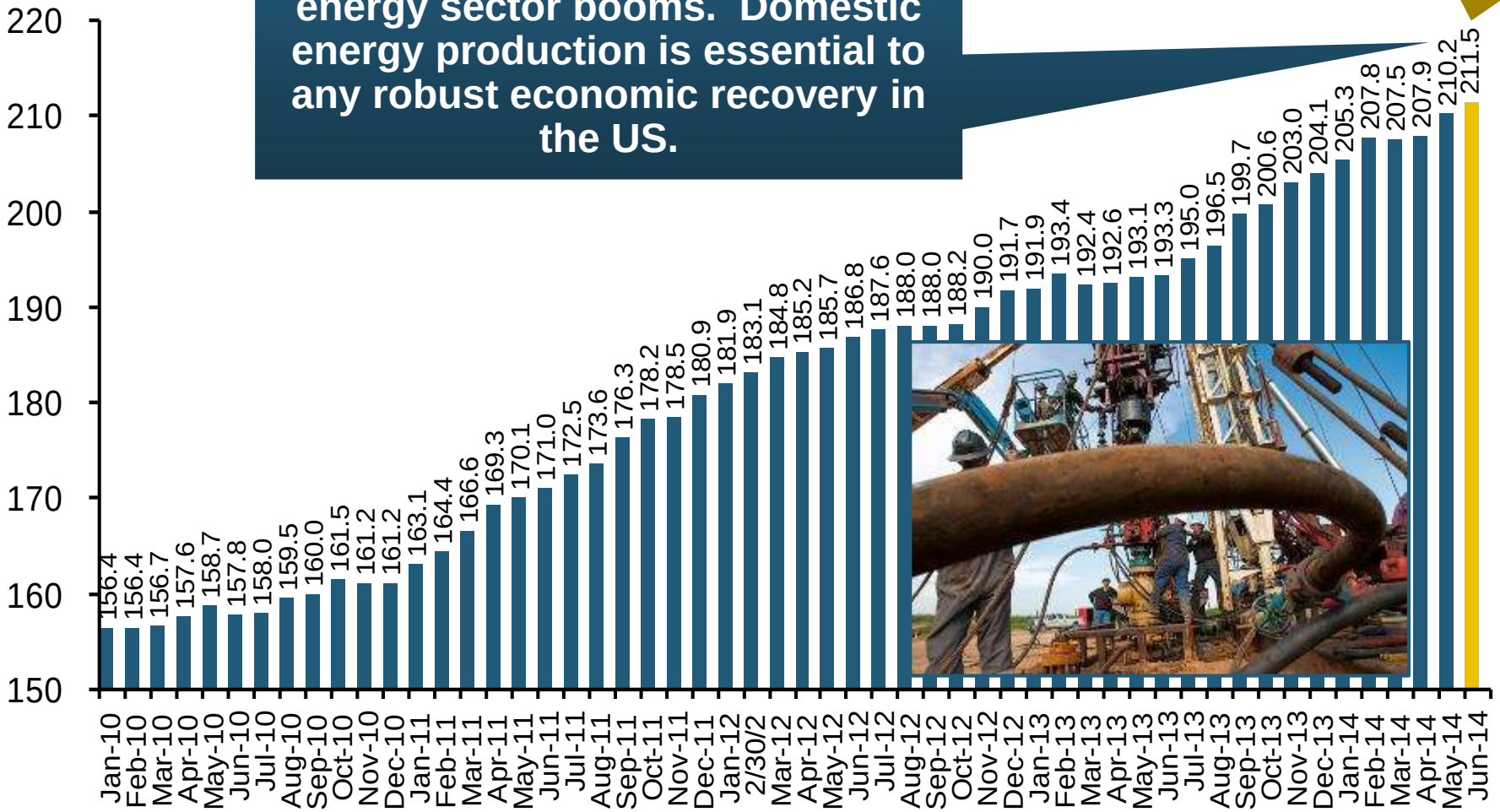
# Oil & Gas Extraction Employment, Jan. 2010—June 2014*

INSURANCE INFORMATION INSTITUTE

(Thousands)

**Oil and gas extraction employment is up 35.2% since Jan. 2010 as the energy sector booms. Domestic energy production is essential to any robust economic recovery in the US.**

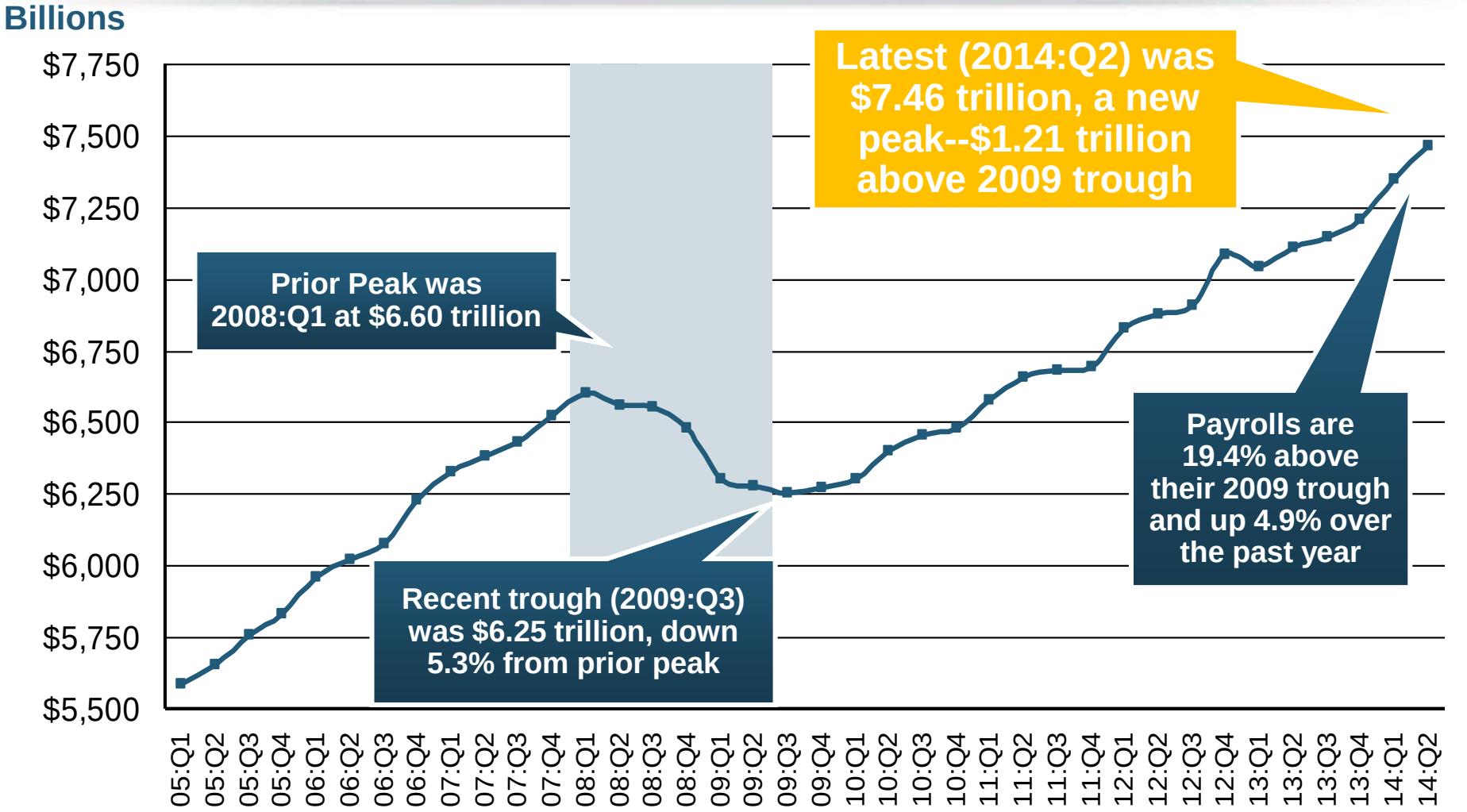
**Highest since Aug. 1986**




*Seasonally adjusted

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

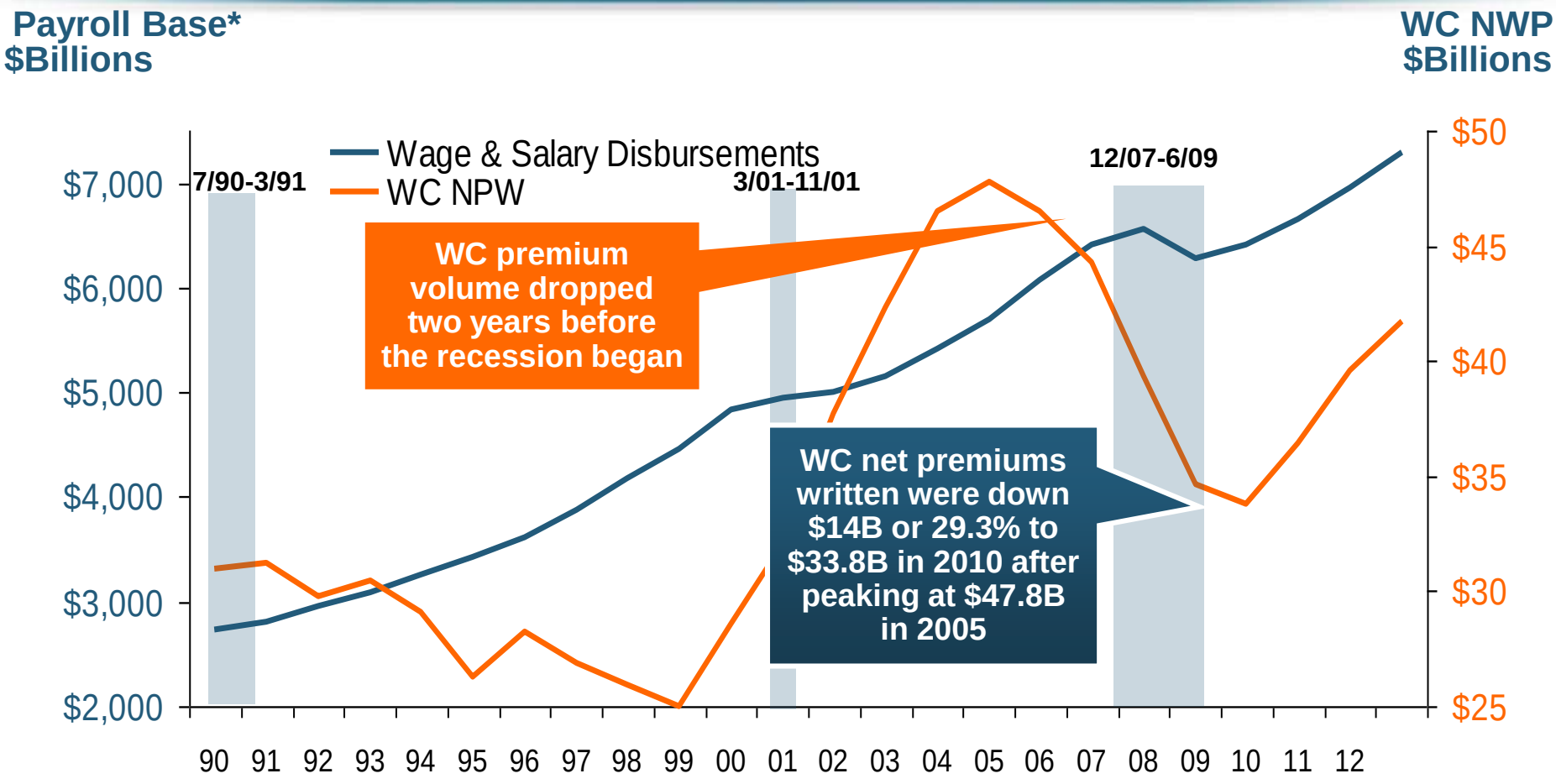
# Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2014:Q2




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.

# Payroll vs. Workers Comp Net Written Premiums, 1990-2013P




**Continued Payroll Growth and Rate Gains Suggest WC NWP Will Grow Again in 2014; +8.6% Growth Estimated for 2013**

*Private employment; Shaded areas indicate recessions. WC premiums for 2012 are I.I.I. estimate based YTD 2013 actuals.
Sources: NBER (recessions); Federal Reserve Bank of St. Louis at http://research.stlouisfed.org/fred2/series/WASCUR ; NCCI; I.I.I.

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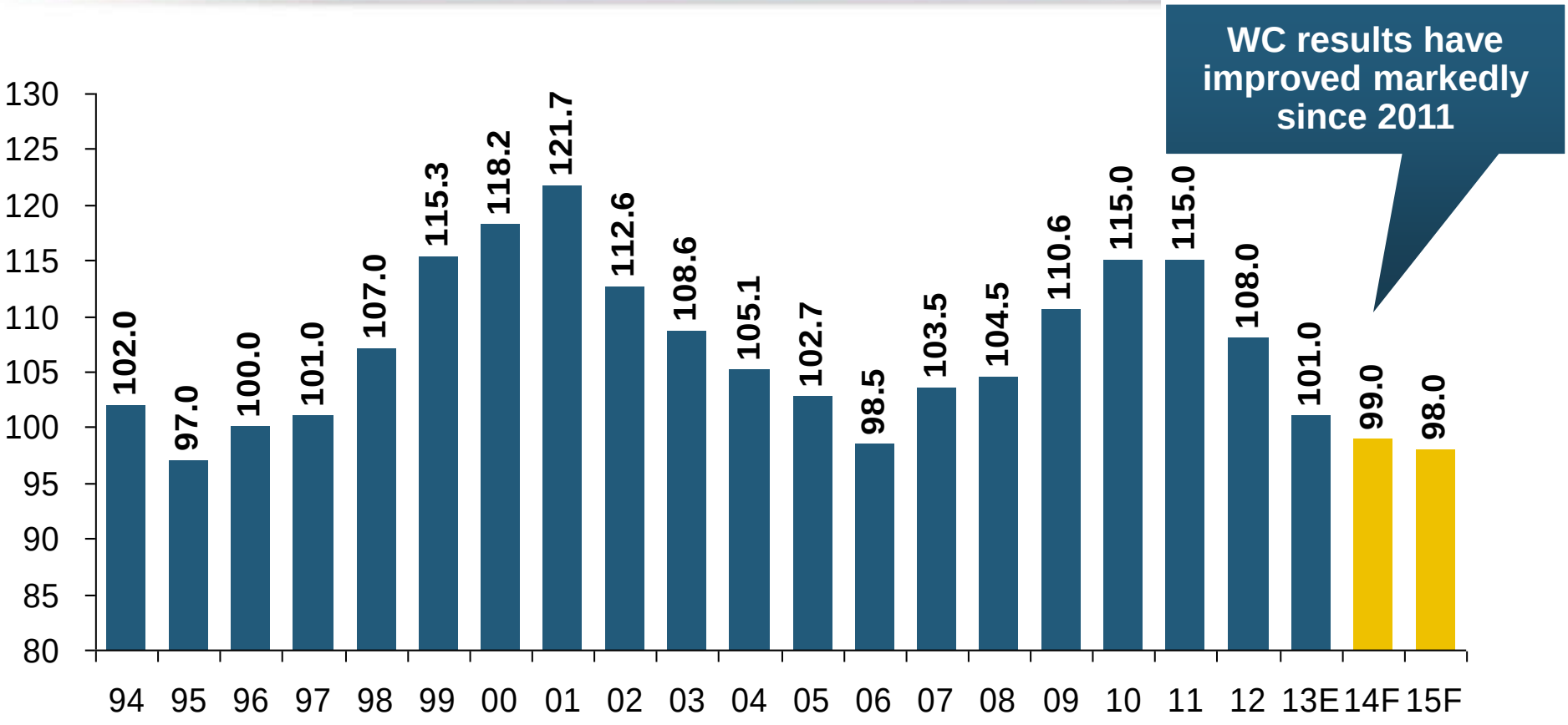
# Workers Compensation Operating Environment

## Workers Comp Results Have Improved Substantially in Recent Years

# Workers Compensation Combined Ratio: 1994–2015F




**Workers Comp Results Began to Improve in 2012. Underwriting Results Deteriorated Markedly from 2007-2010/11 and Were the Worst They Had Been in a Decade.**

Sources: A.M. Best (1994-2009); NCCI (2010-2013P) and are for private carriers only; Insurance Information Institute (2014-15).

# Workers Compensation Premium: Third Consecutive Year of Increase

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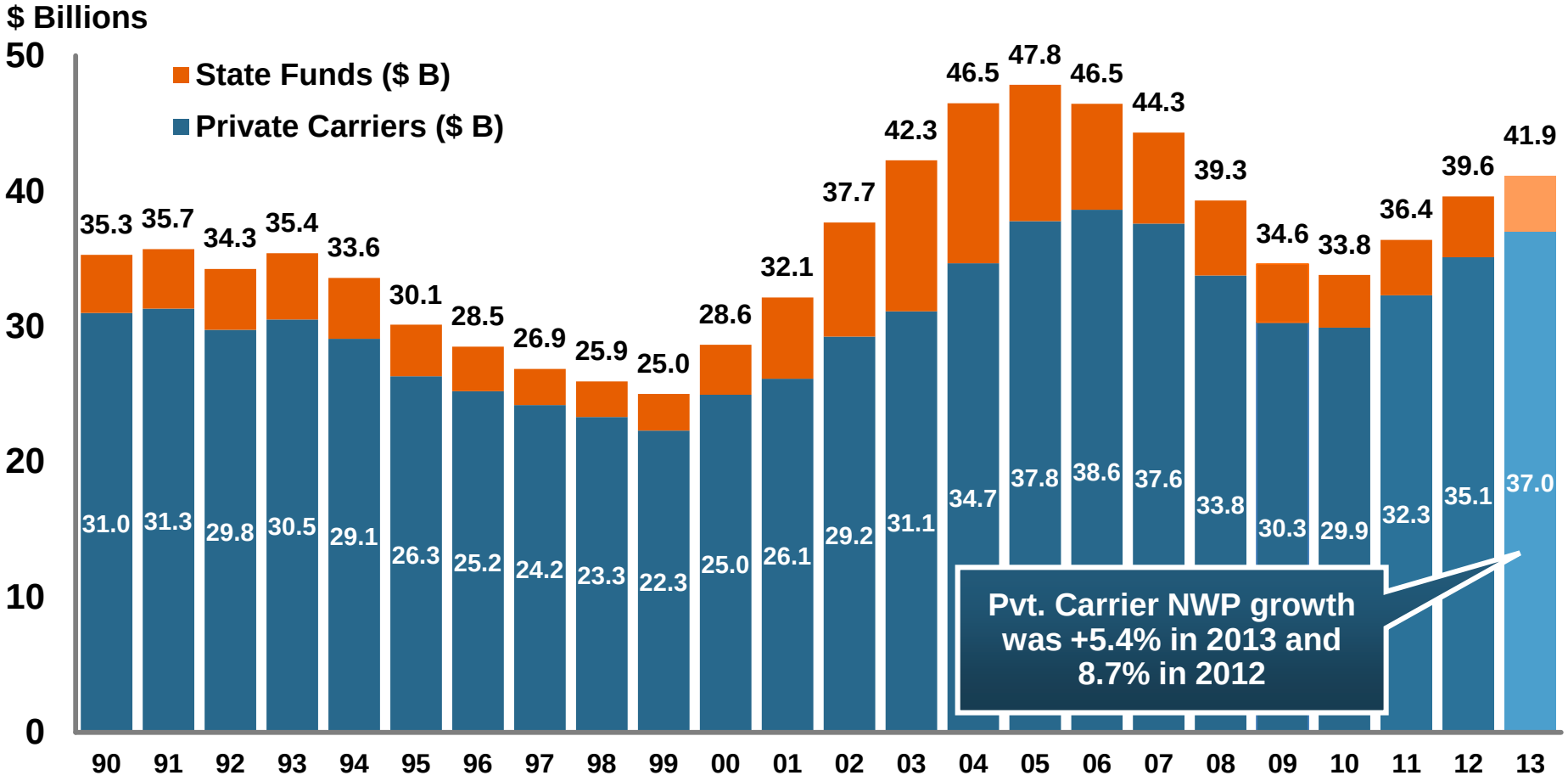
## Net Written Premium




p Preliminary

Source: 1990–2013p Private Carriers, Annual Statement Data, NCCI.
1996–2013p 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

# 2013 Workers Compensation Direct Written Premium Growth, by State*

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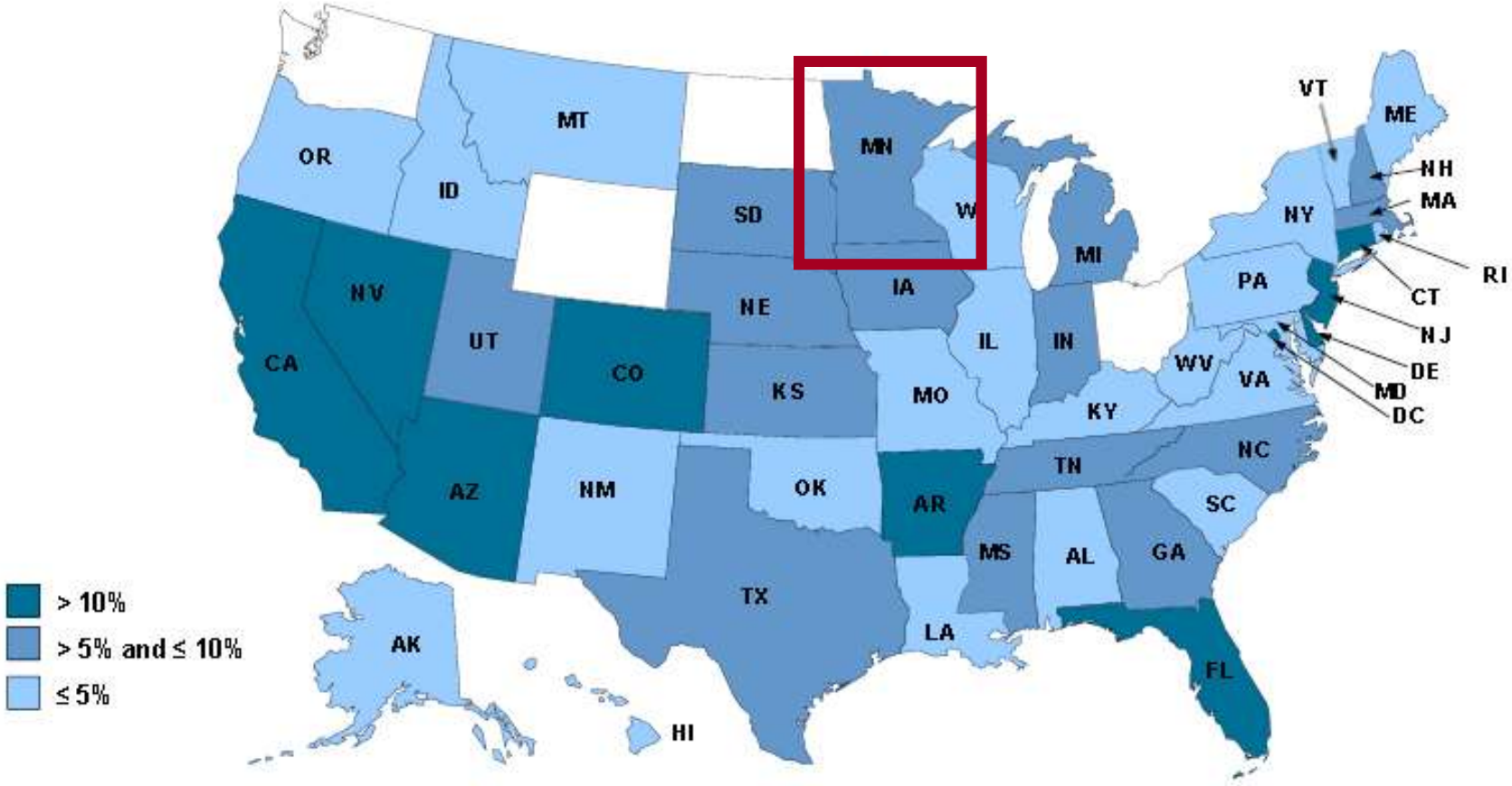
## PRIVATE CARRIERS: Overall 2013 Growth = +5.4%

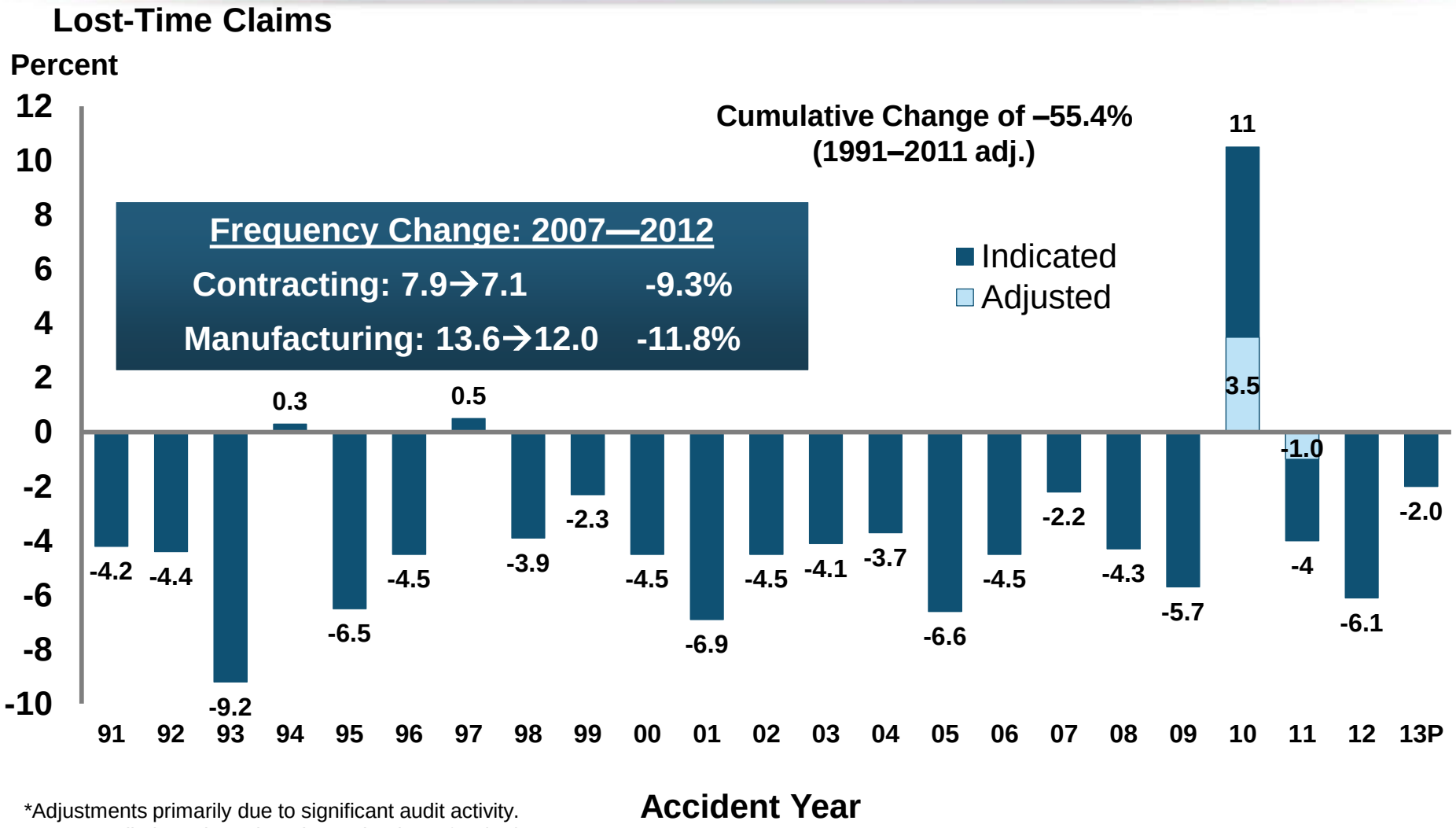
**While growth rates varied widely, all states experienced positive growth in 2013**




*Excludes monopolistic fund states (in white): OH, ND, WA and WY.

Source: NCCI.

# Workers Compensation Lost-Time Claim Frequency Declined in 2013




*Adjustments primarily due to significant audit activity.
2013p: Preliminary based on data valued as of 12/31/2013
1991–2012: Based on data through 12/31/2012, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies
Frequency is the number of lost-time claims per $1M pure premium at current wage and voluntary loss cost level
Source: NCCI.

# Workers Compensation Medical Severity Moderate Increase in 2013

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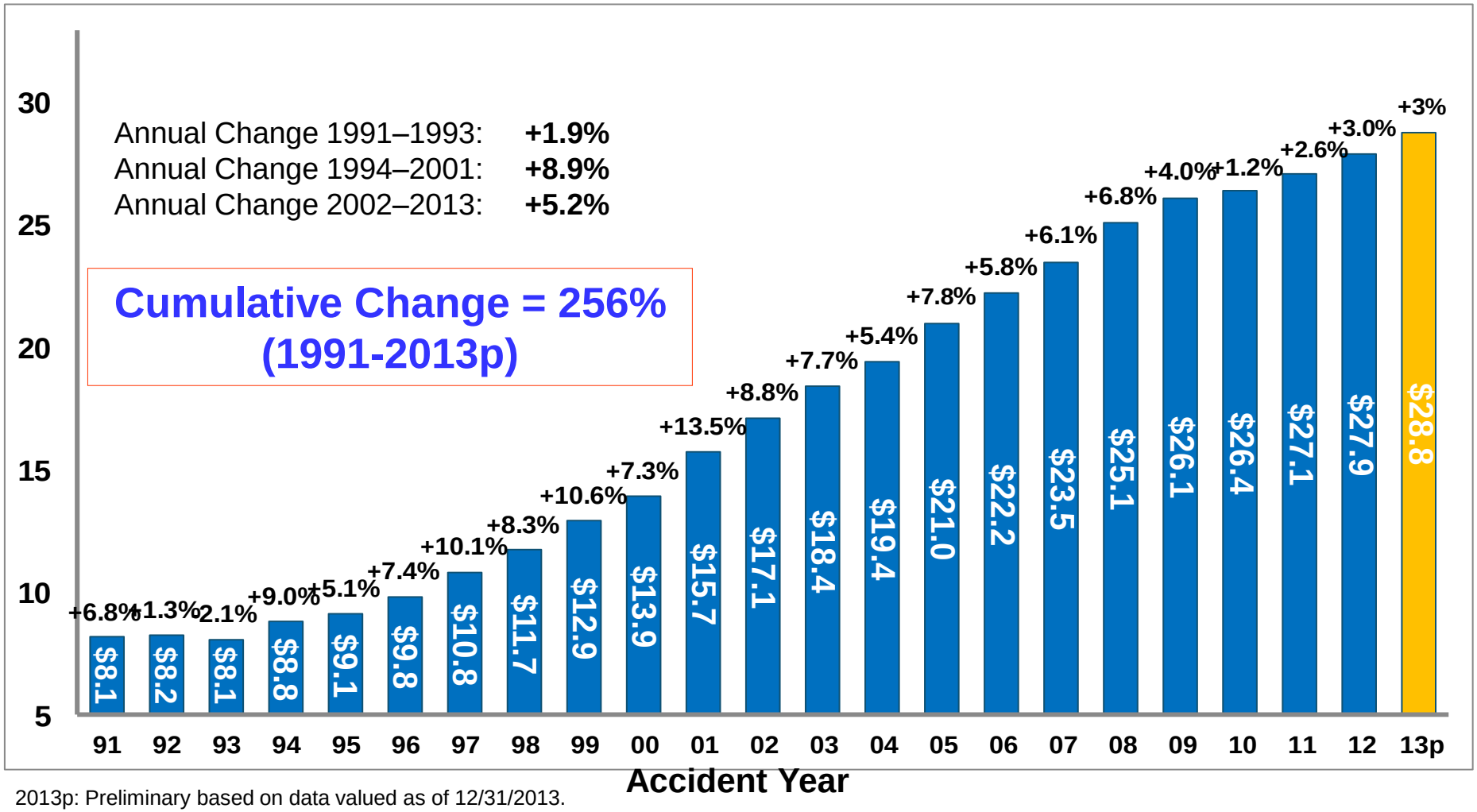


2013p: Preliminary based on data valued as of 12/31/2013.
1991-2012: Based on data through 12/31/2012, developed to ultimate
Based on the states where NCCI provides ratemaking services including state funds, excluding WV; Excludes high deductible policies.

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# U.S. Insured Catastrophe Loss Update

## 2013 Was a Welcome Respite from the High Catastrophe Losses in Recent Years

***2014 Is Off to a Modest Beginning***

# U.S. Insured Catastrophe Losses

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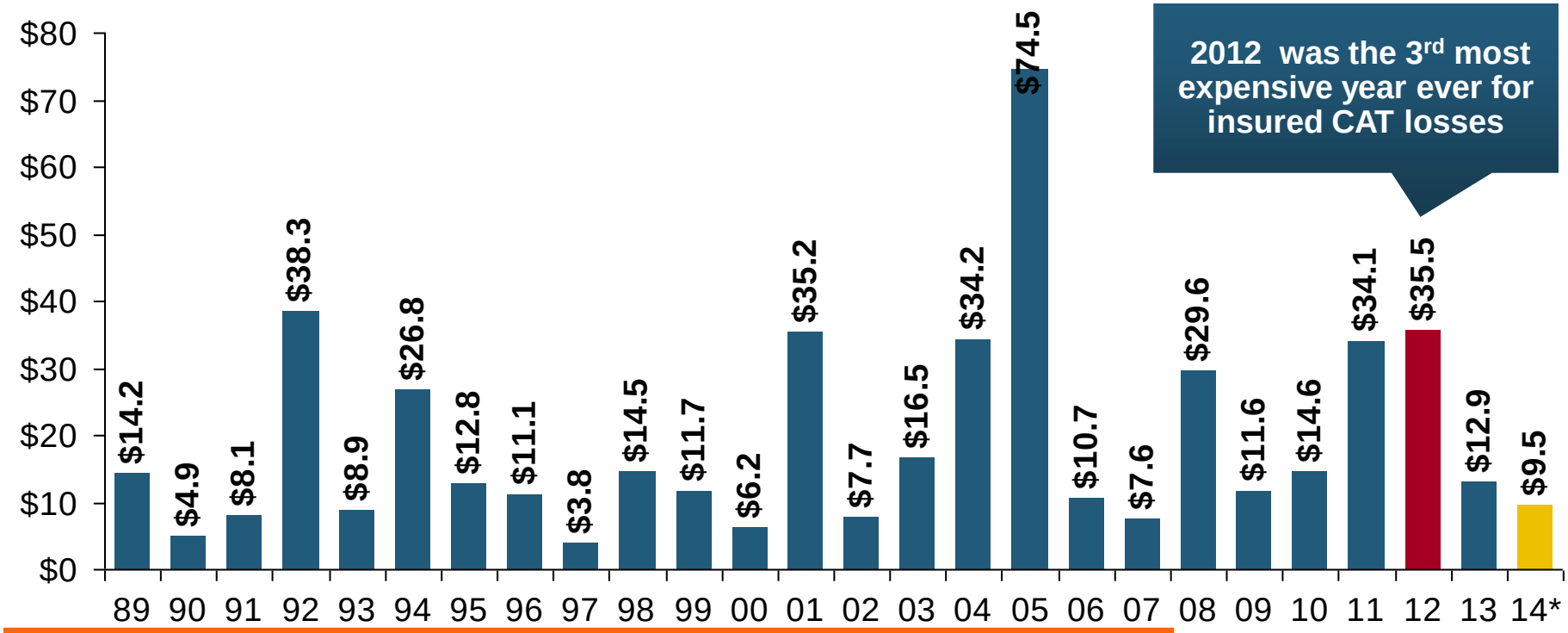
**($ Billions, $ 2013)**




**2013 Was a Welcome Respite from 2012, the 3rd Costliest Year for Insured Disaster Losses in US History. Longer-term Trend is for more—not fewer—Costly Events**

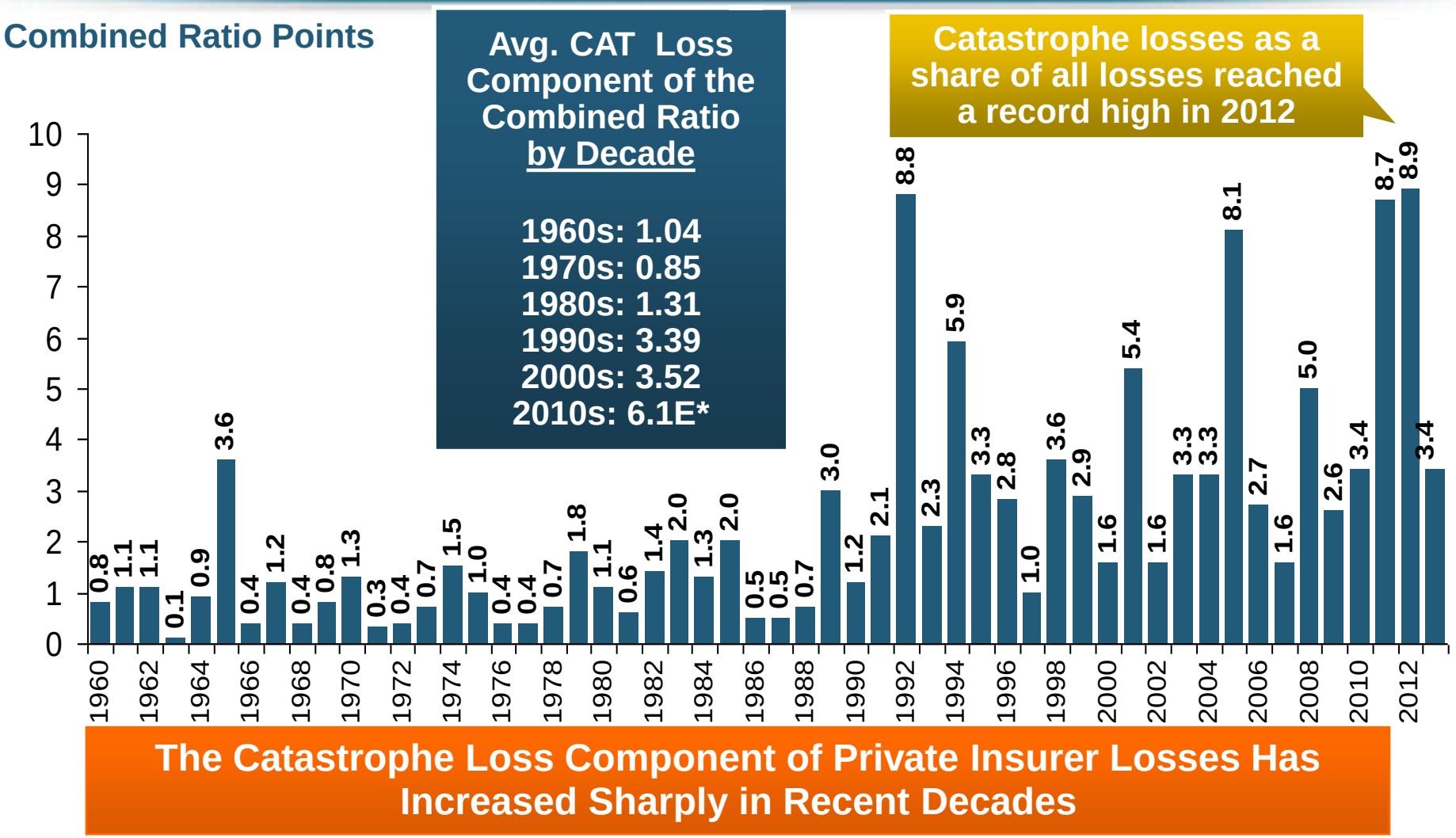
**$9.5 billion in insured CAT losses through June 30**

*Through 6/30/14.

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 – 2013*




*2010s represent 2010-2013.

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.

# Top 8 States for Insured Catastrophe Losses, 2013

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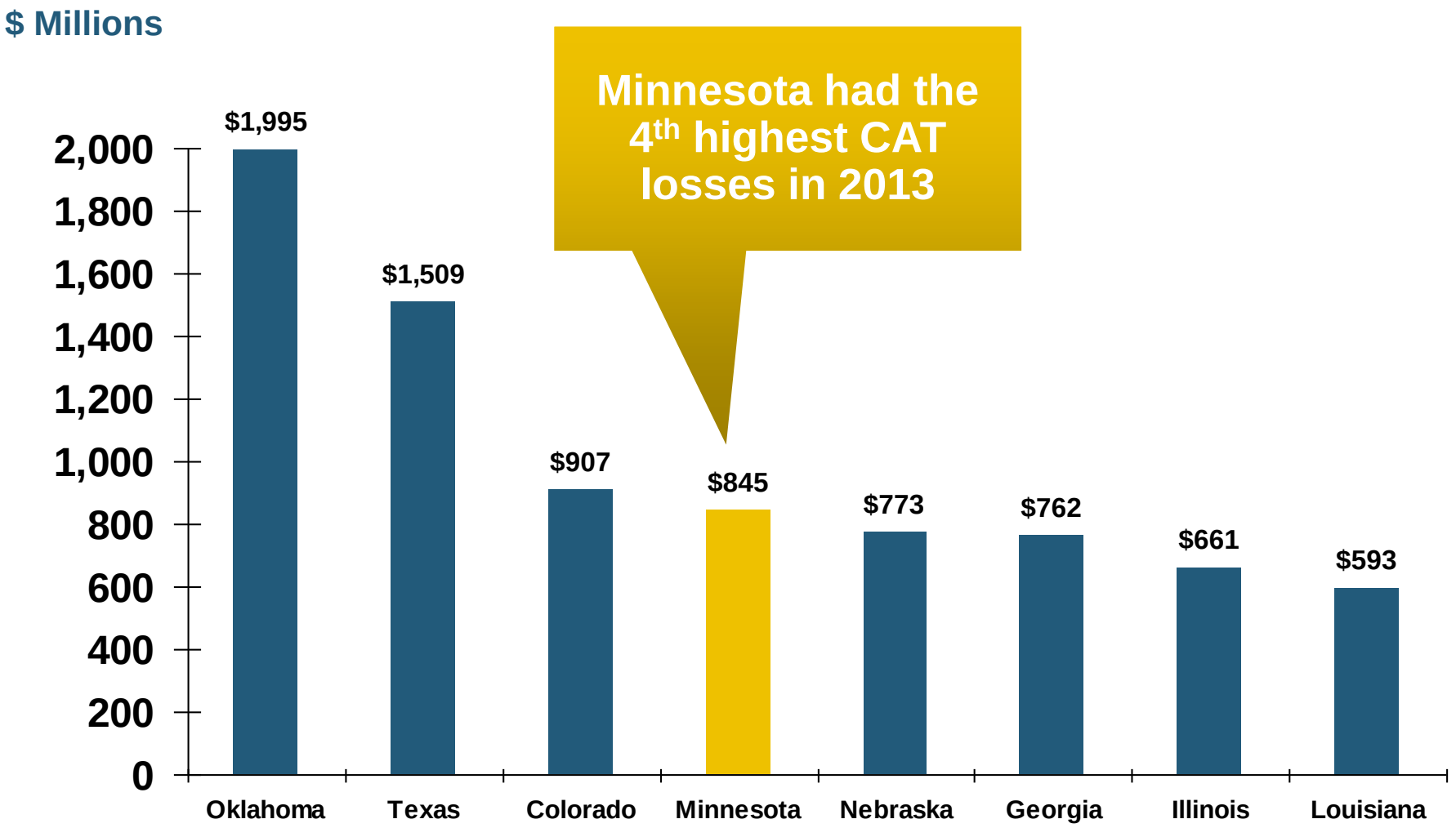
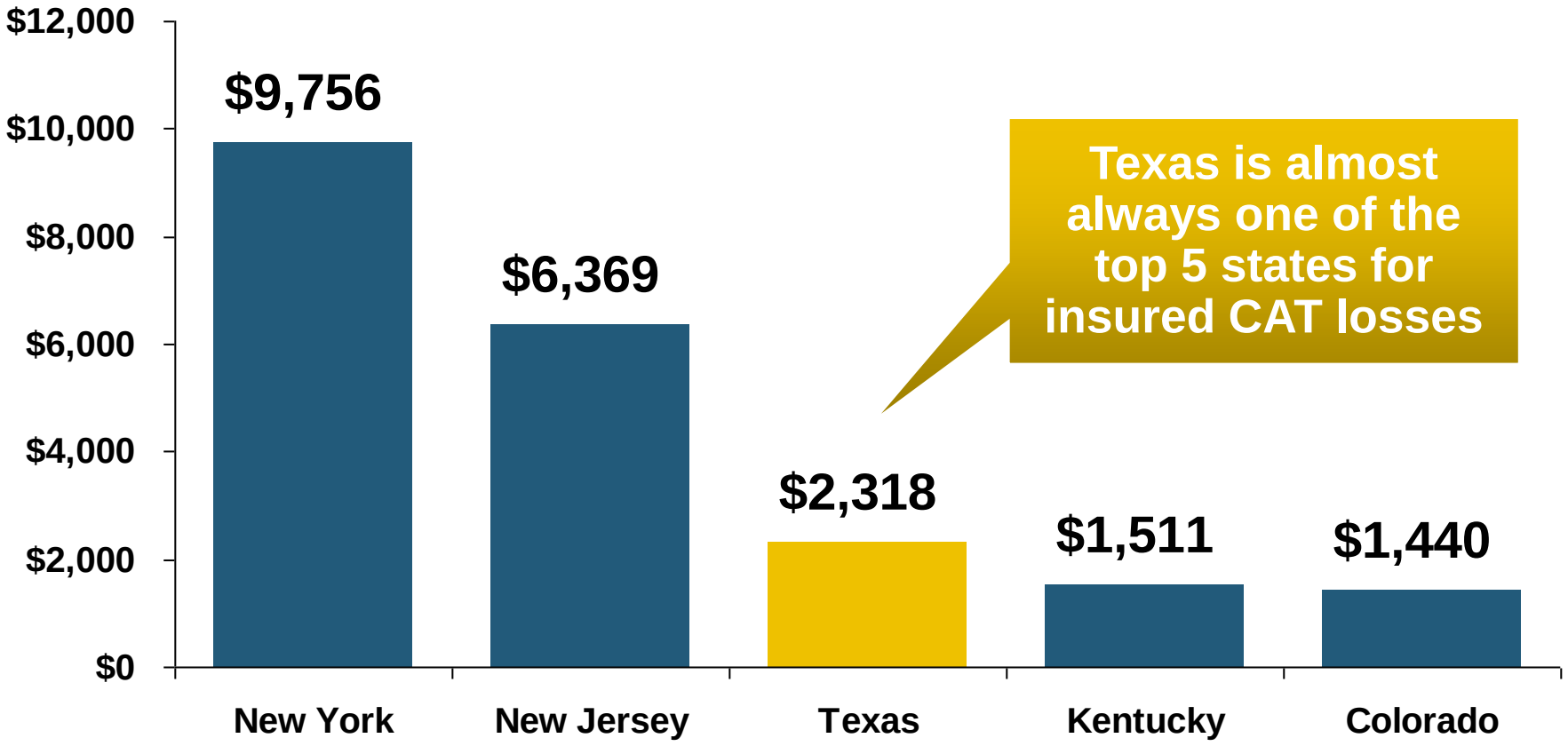



Source: The Property Claim Services (PCS) unit of ISO, a Verisk Analytics company.

# Top 5 States by Insured Catastrophe Losses in 2012*

(2012, $ Billions)




*Includes catastrophe losses of at least $25 million.

Sources: PCS unit of ISO; Insurance Information Institute.

# Top States by Inflation-Adjusted Insured Catastrophe Losses, 1983–2012

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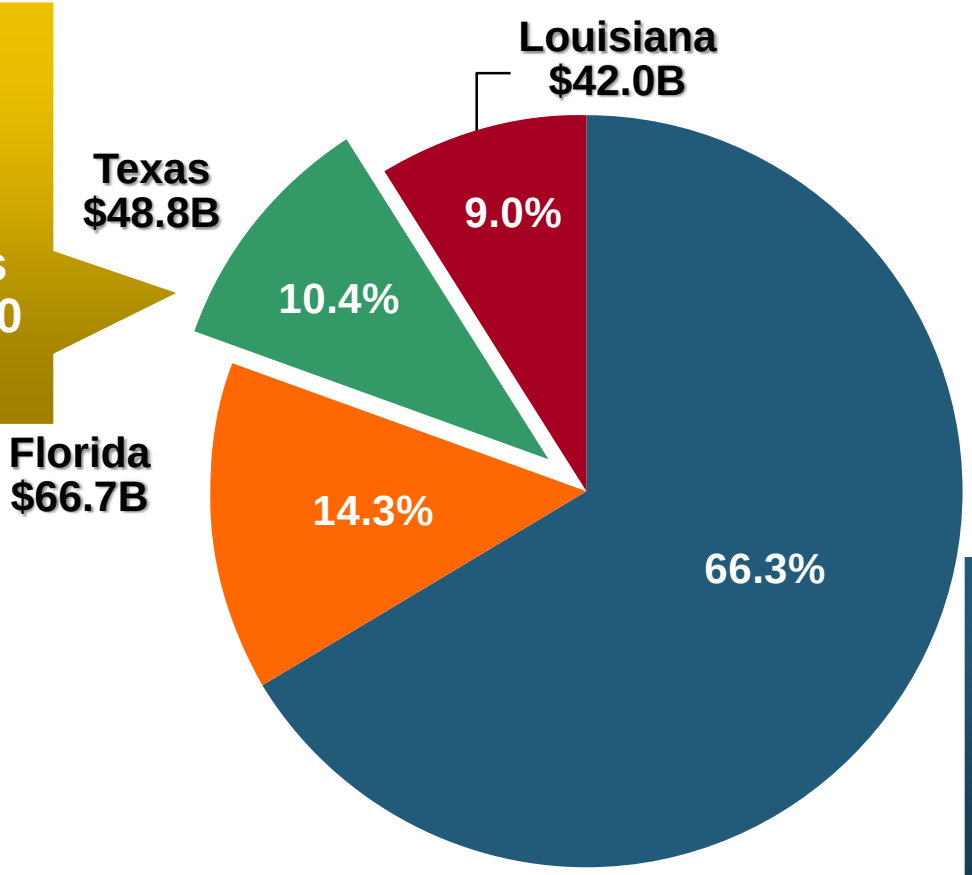
**Over the Past 30 Years Florida Has Accounted for the Largest Share of Catastrophe Losses in the U.S., Followed by Texas and Louisiana**

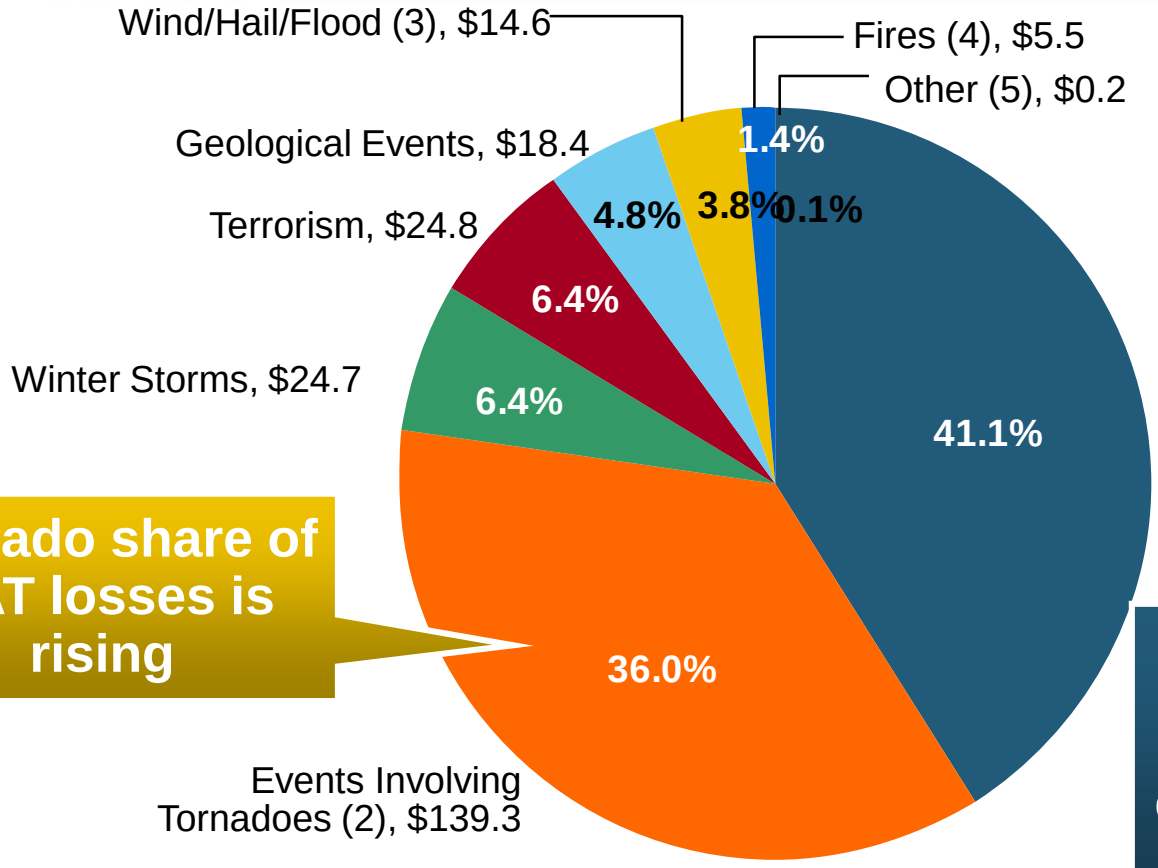
**TX is the 2nd costliest state for CATs, with nearly $50B in insured losses over the past 30 years**




**Total: $467.5 Billion, an average of $16.6B per year or $1.3B per month**

Source: PCS unit of ISO, Verisk Company.; Insurance Information Institute.

# Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1994–2013[1]




**Insured cat losses from 1993-2012 totaled $386.7B, an average of $19.3B per year or $1.6B per month**

**Tornado share of CAT losses is rising**

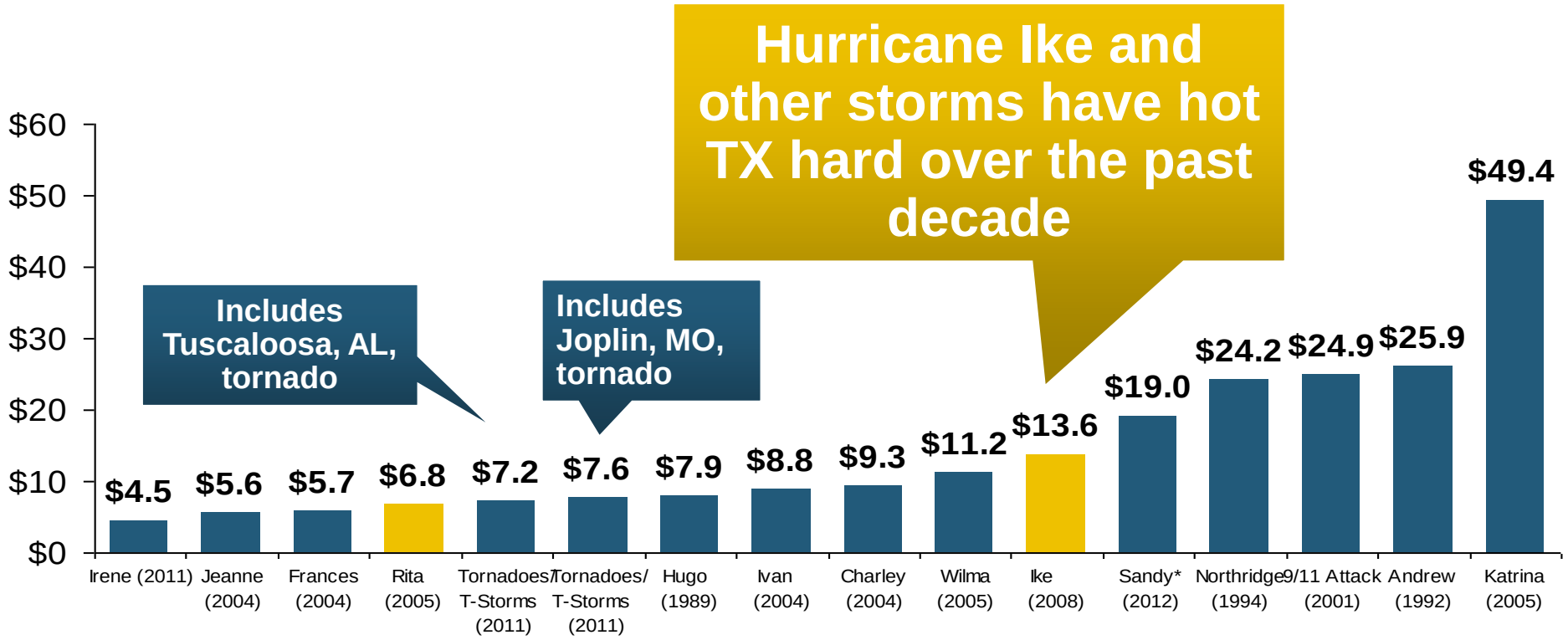
**Wind losses are by far cause the most catastrophe losses, even if hurricanes/TS are excluded.**

1. Catastrophes are defined as events causing direct insured losses to property of $25 million or more in 2013 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.

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

(Insured Losses, 2013 Dollars, $ Billions)

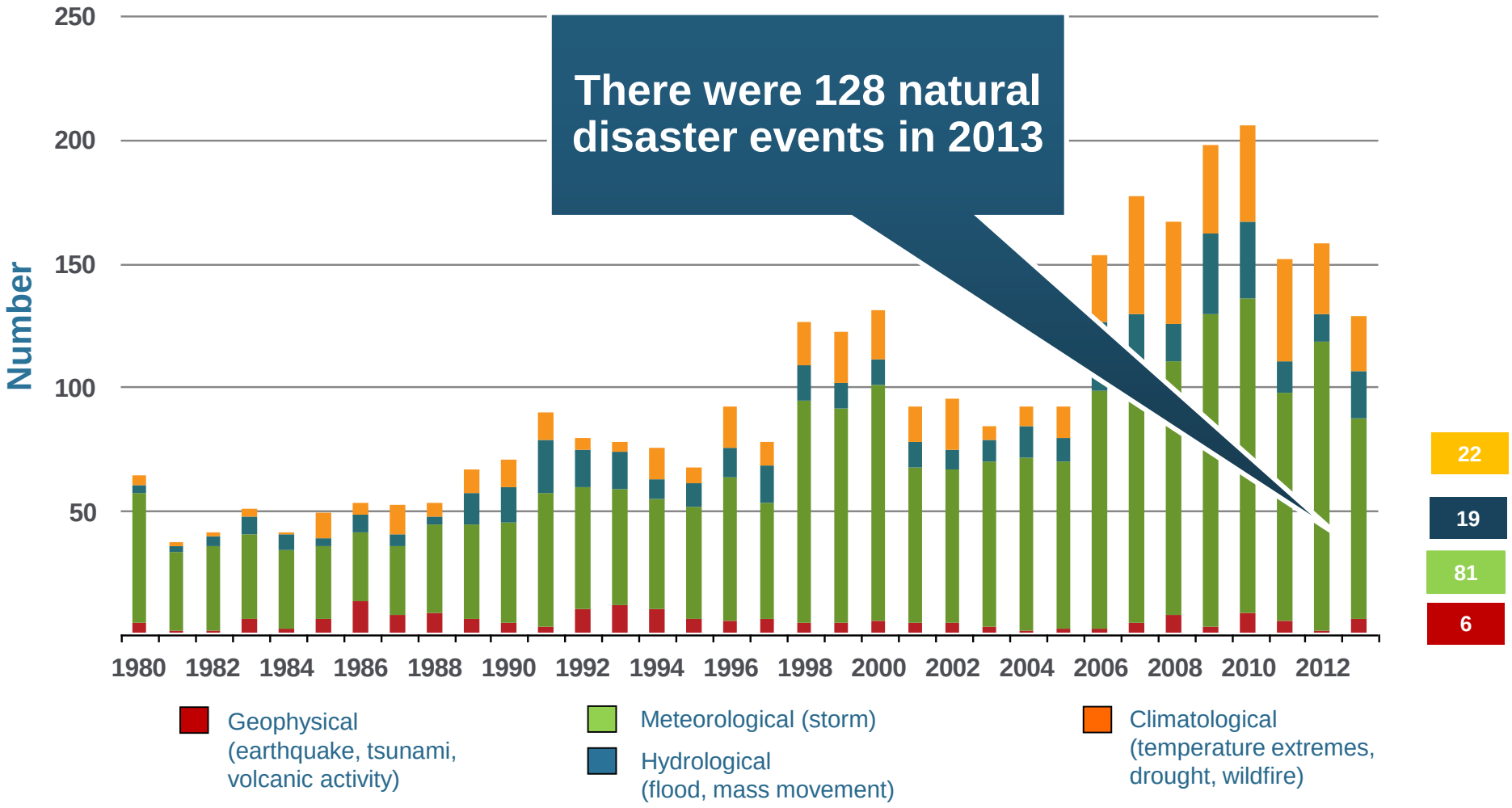



**12 of the 16 Most Expensive Events in US History Have Occurred Over the Past Decade**

Sources: PCS; Insurance Information Institute inflation adjustments to 2013 dollars using the CPI.

# Natural Disasters in the United States, 1980 – 2013

## Number of Events (Annual Totals 1980 – 2013)

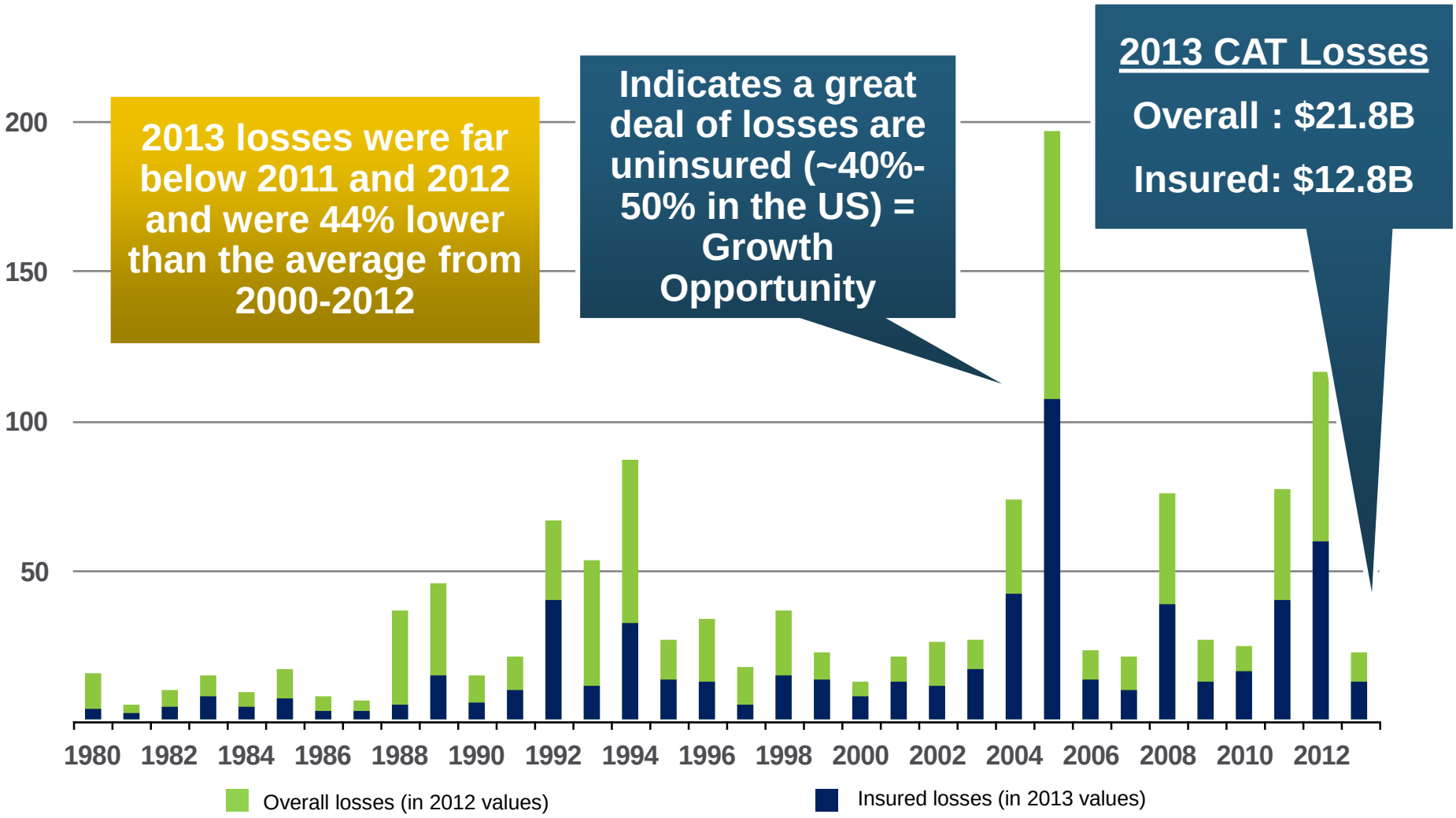



Source: MR NatCat*SERVICE*

# Losses Due to Natural Disasters in the US, 1980–2013

INSURANCE INFORMATION INSTITUTE

(2013 Dollars, $ Billions) (Overall and Insured Losses)




Source: MR NatCat*SERVICE*

# Top 16 Most Costly World Insurance Losses, 1970-2013*

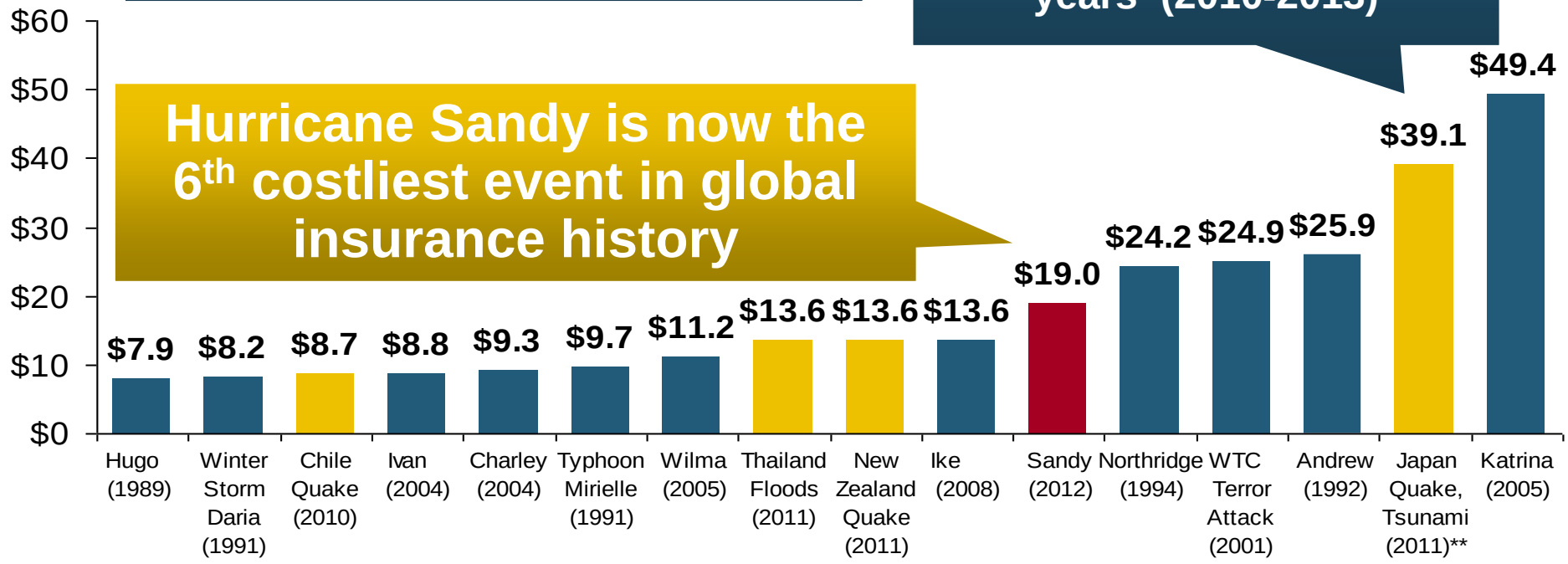
INSURANCE INFORMATION INSTITUTE

**(Insured Losses, 2013 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 most recent 4 years (2010-2013)**

**Hurricane Sandy is now the 6th costliest event in global insurance history**




*Figures do not include federally insured flood losses.

Sources: Munich Re; Swiss Re; Insurance Information Institute research.

# Natural Loss Events: Full Year 2013

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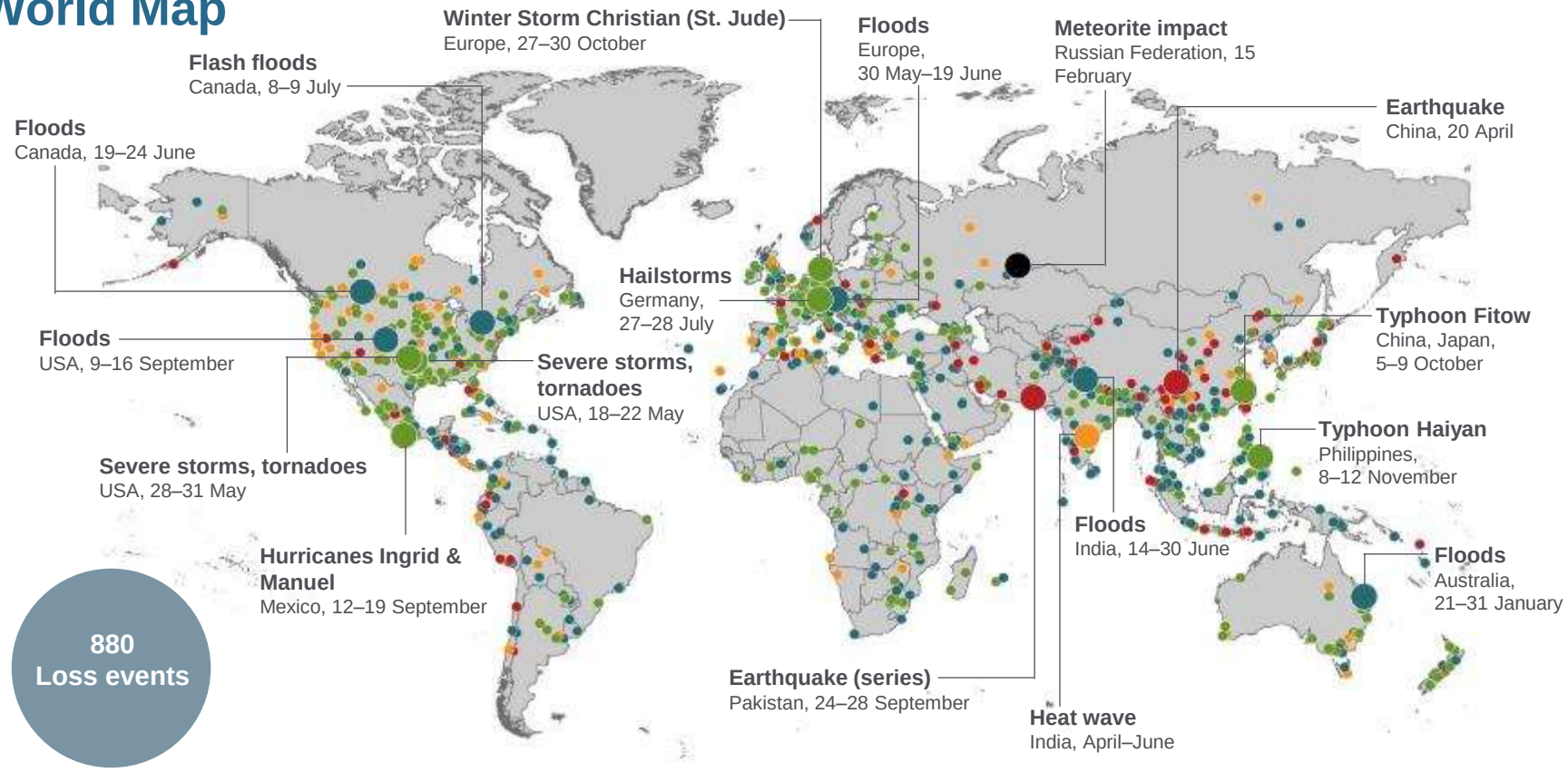
## World Map

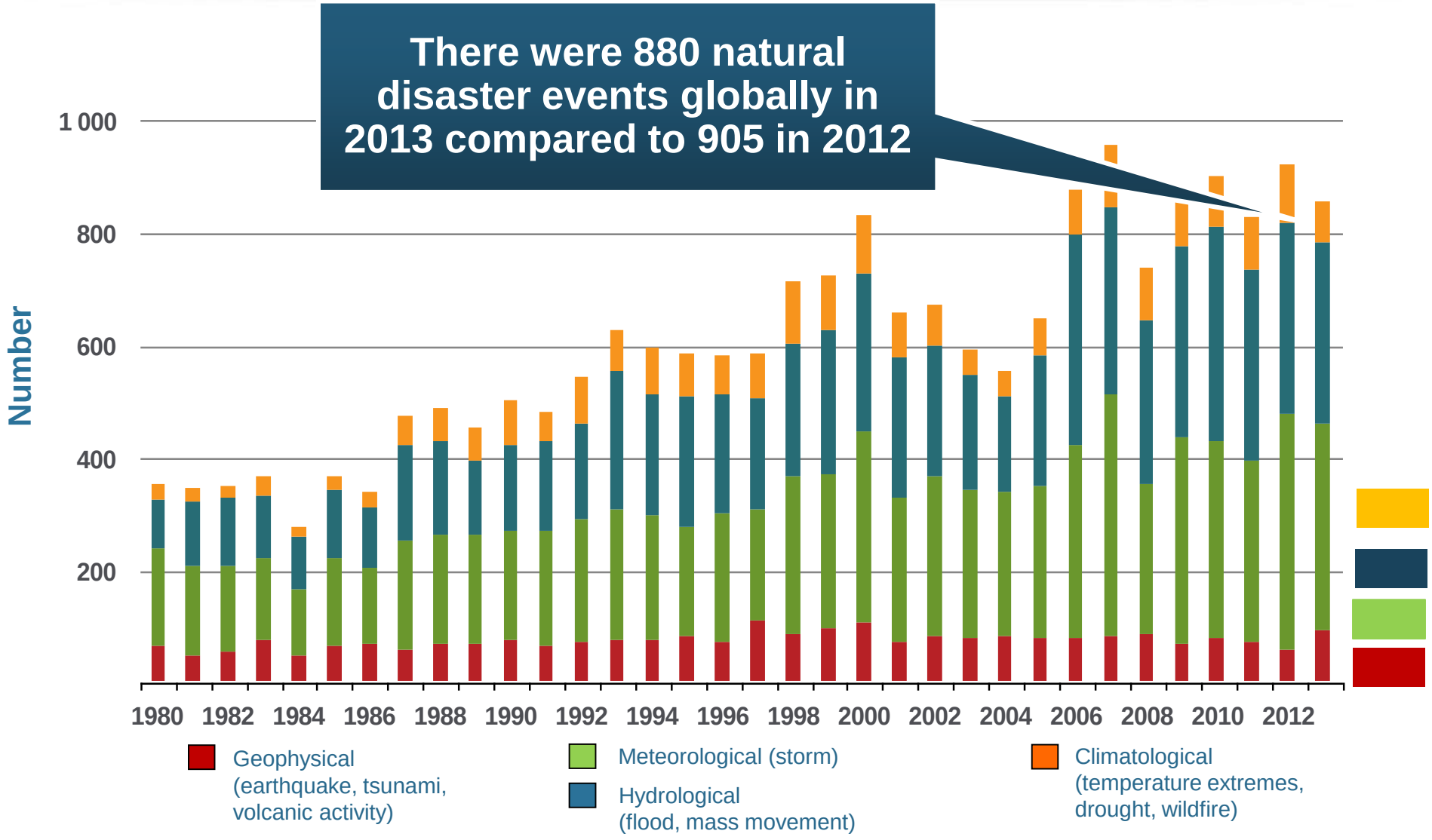



- Natural catastrophes
- Selection of significant Natural catastrophes
- **Geophysical events** (earthquake, tsunami, volcanic activity)
- **Meteorological events** (storm)
- **Hydrological events** (flood, mass movement)
- **Climatological events** (extreme temperature, drought, wildfire)
- **Extraterrestrial events** (Meteorite impact)

Source: Munich Re Geo Risks Research, NatCat*SERVICE* – as of January 2014.

# Natural Disasters Worldwide, 1980 – 2013 (Number of Events)

INSURANCE INFORMATION INSTITUTE



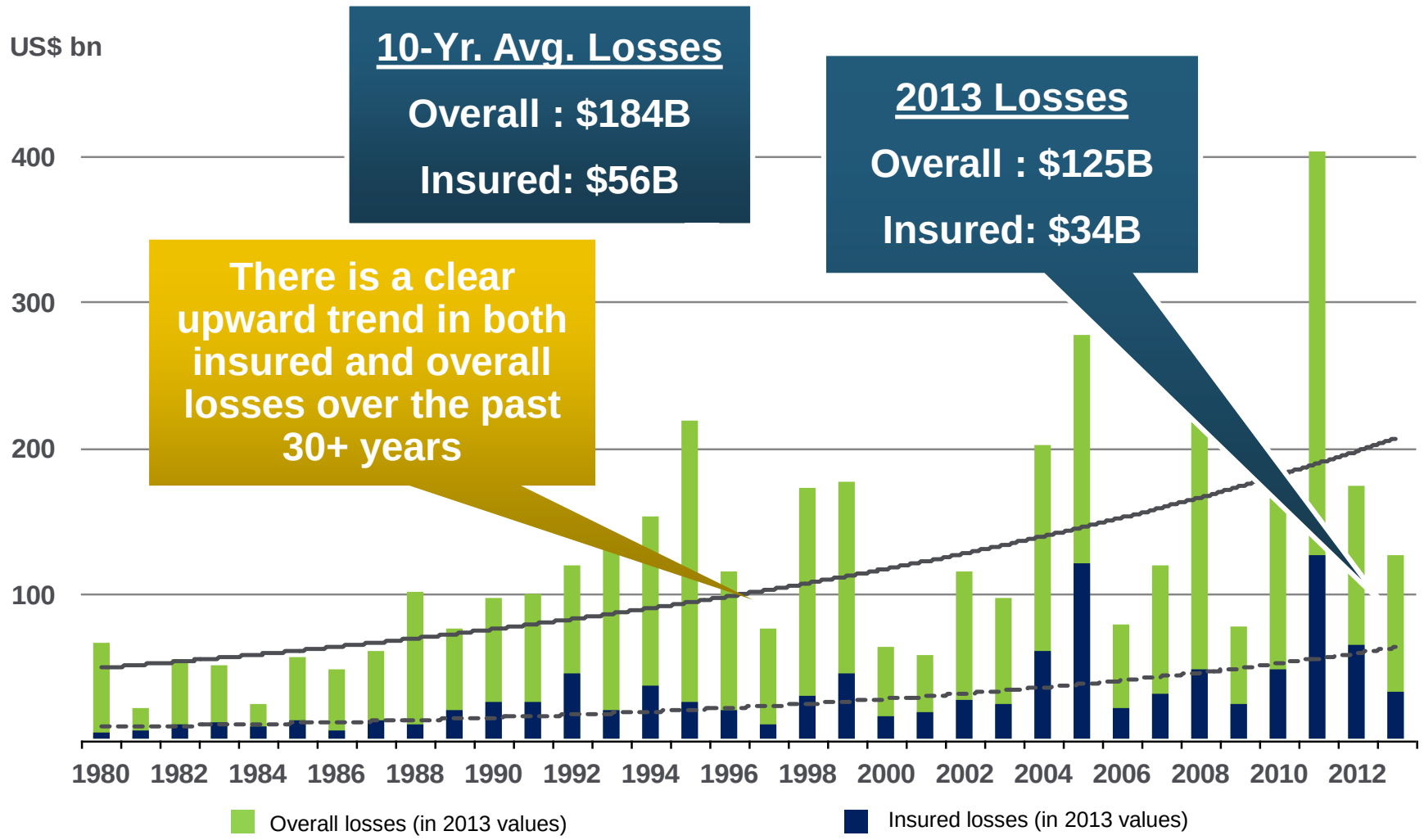

Source: MR NatCat*SERVICE*

# Losses Due to Natural Disasters Worldwide, 1980–2013 (Overall & Insured Losses)

INSURANCE INFORMATION INSTITUTE

## (Overall and Insured Losses)

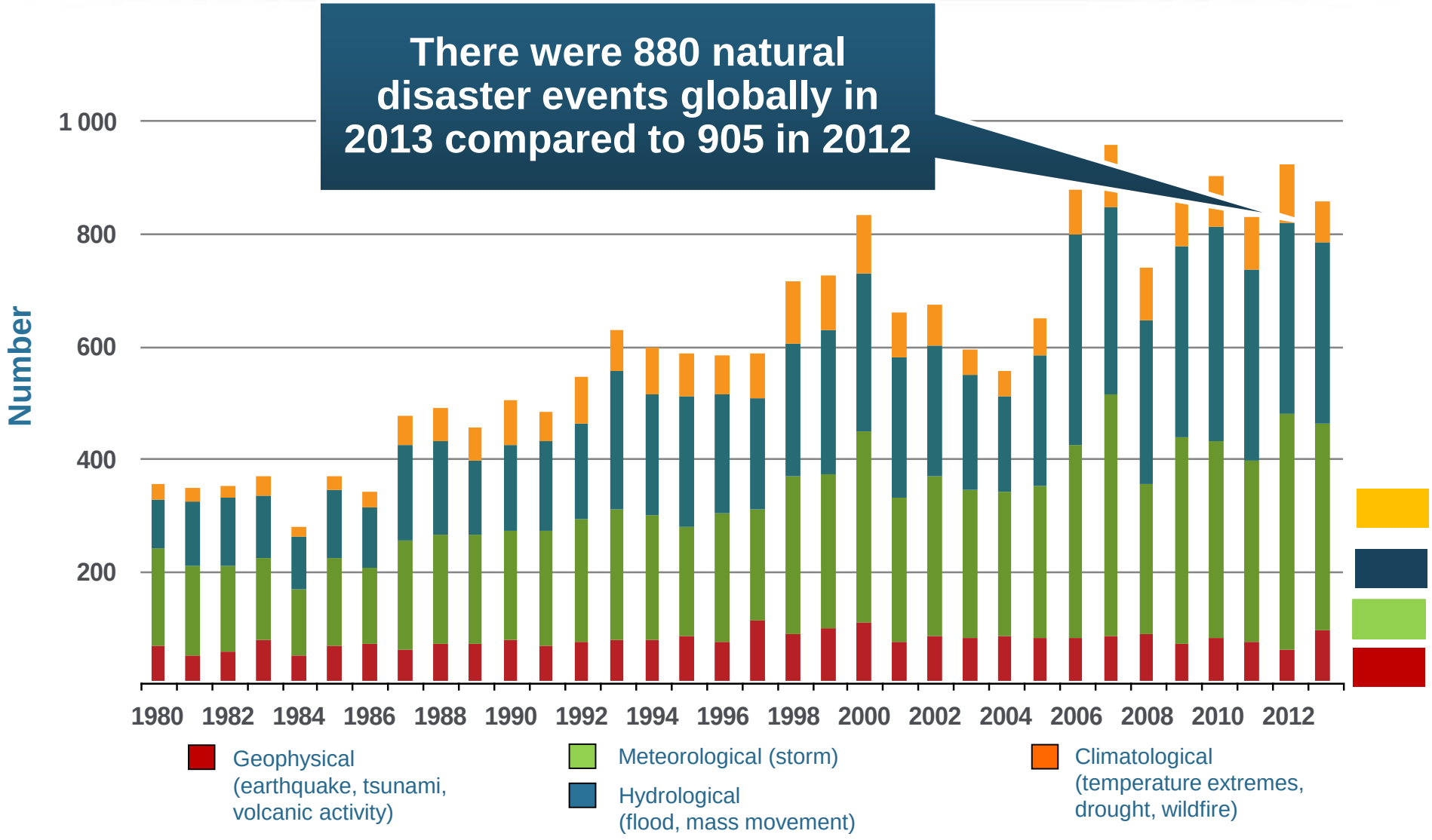
(2013 Dollars, $ Billions)




Source: MR NatCat*SERVICE*

# Natural Disasters Worldwide, 1980 – 2013 (Number of Events)

INSURANCE INFORMATION INSTITUTE



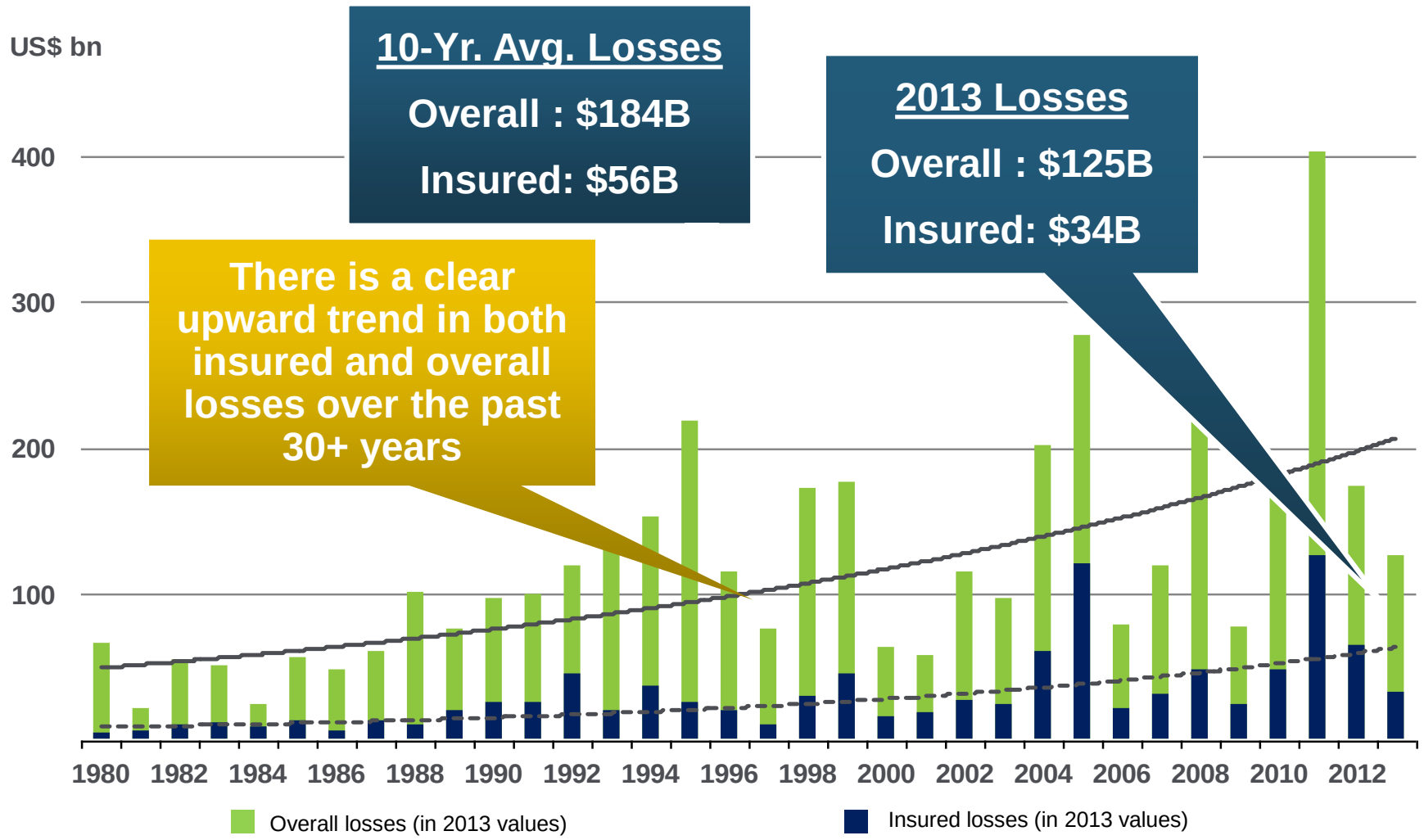

Source: MR NatCat*SERVICE*

# Losses Due to Natural Disasters Worldwide, 1980–2013 (Overall & Insured Losses)

INSURANCE INFORMATION INSTITUTE

## (Overall and Insured Losses)

(2013 Dollars, $ Billions)




Source: MR NatCat*SERVICE*

# Natural Disaster Losses in the US, by Type, Jan. 1 – June 30, 2014

| As of July 1, 2014 | Number of Events | Fatalities | Estimated Overall Losses (US $m) | Estimated Insured Losses (US $m) |
|---|---|---|---|---|
| **Severe Thunderstorm** | 33 | 65 | 9,100 | 6,700 |
| **Winter Storms & Cold Waves** | 11 | 84 | 3,400 | 2,400 |
| **Flood, flash flood** | 10 | 1 | 10 | - |
| **Earthquake & Geophysical, landslides** | 5 | 44 | 20 | - |
| **Tropical Cyclone** | - | - | - | - |
| **Wildfire, Heat Waves, & Drought** | 8 | 1 | 770 | - |
| **Totals** | **67** | **195** | **13,300** | **9,100** |

Source: Munich Re NatCat*SERVICE*

# Natural Disaster Losses in the United States, by Type, 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** |

Source: Munich Re NatCat*SERVICE*

# Significant Natural Catastrophes, 2013

## (Events with $1 billion economic loss and/or 50 fatalities)

INSURANCE INFORMATION INSTITUTE

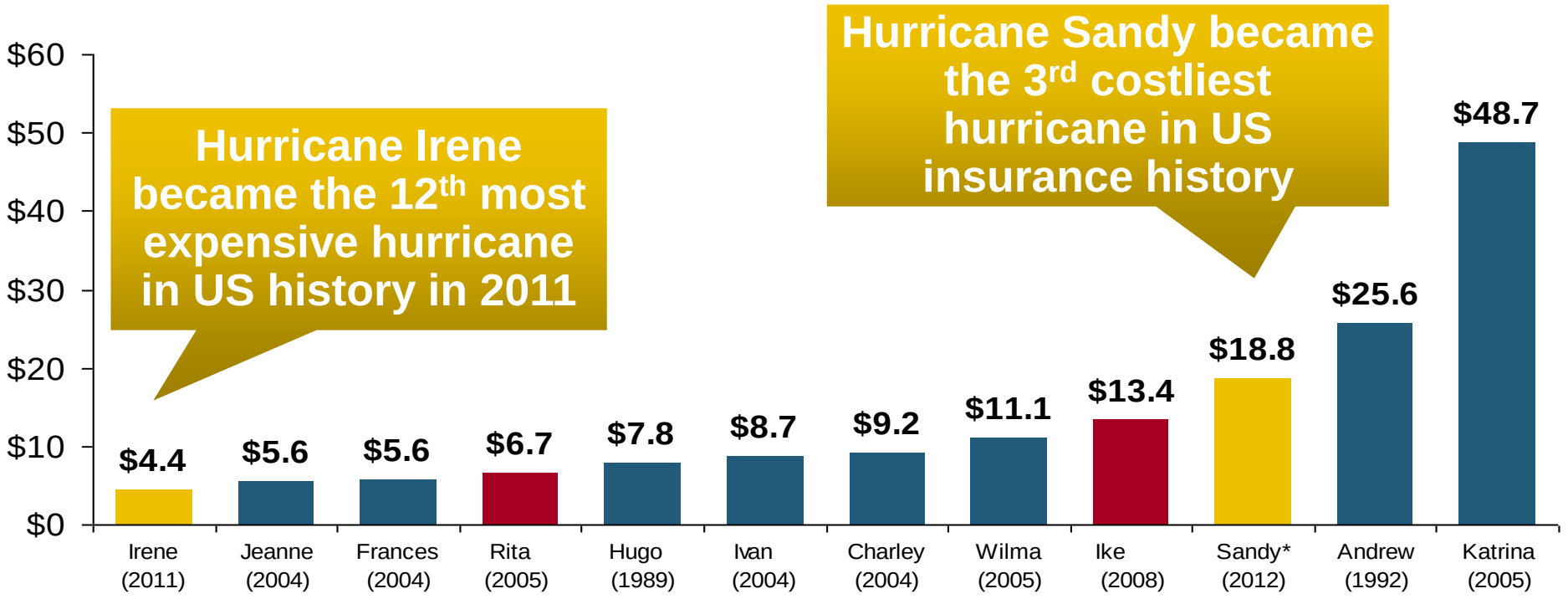
| Date | Event | Estimated Economic Losses (US $m) | Estimated Insured Losses (US $m) |
|---|---|---|---|
| February 24 – 25 | Winter Storm | 1,300 | 690 |
| March 18 – 19 | Thunderstorms | 2,200 | 1,600 |
| April 7 – 11 | Winter Storm | 1,600 | 1,200 |
| April 16 – 18 | Thunderstorms | 1,100 | 560 |
| 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 |

Source: Munich Re NatCat*SERVICE*

# 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)**



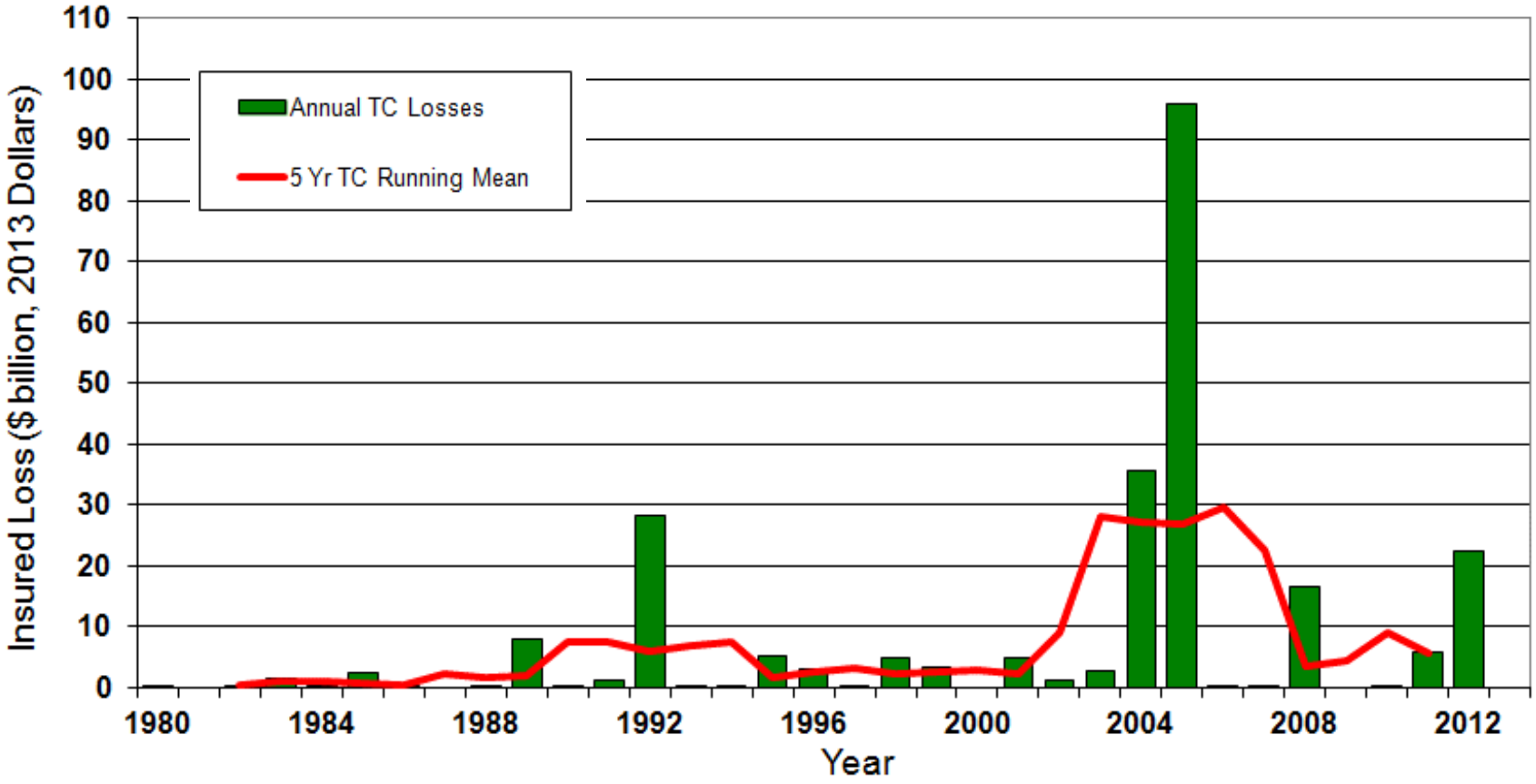

*PCS estimate as of 4/12/13.

Sources: PCS; Insurance Information Institute inflation adjustments to 2012 dollars using the CPI.

# Insured US Tropical Cyclone Losses, 1980 - 2013

INSURANCE INFORMATION INSTITUTE

**The current 5-year average (2008 - 2013) insured tropical cyclone loss is $5.6 billion per year.**

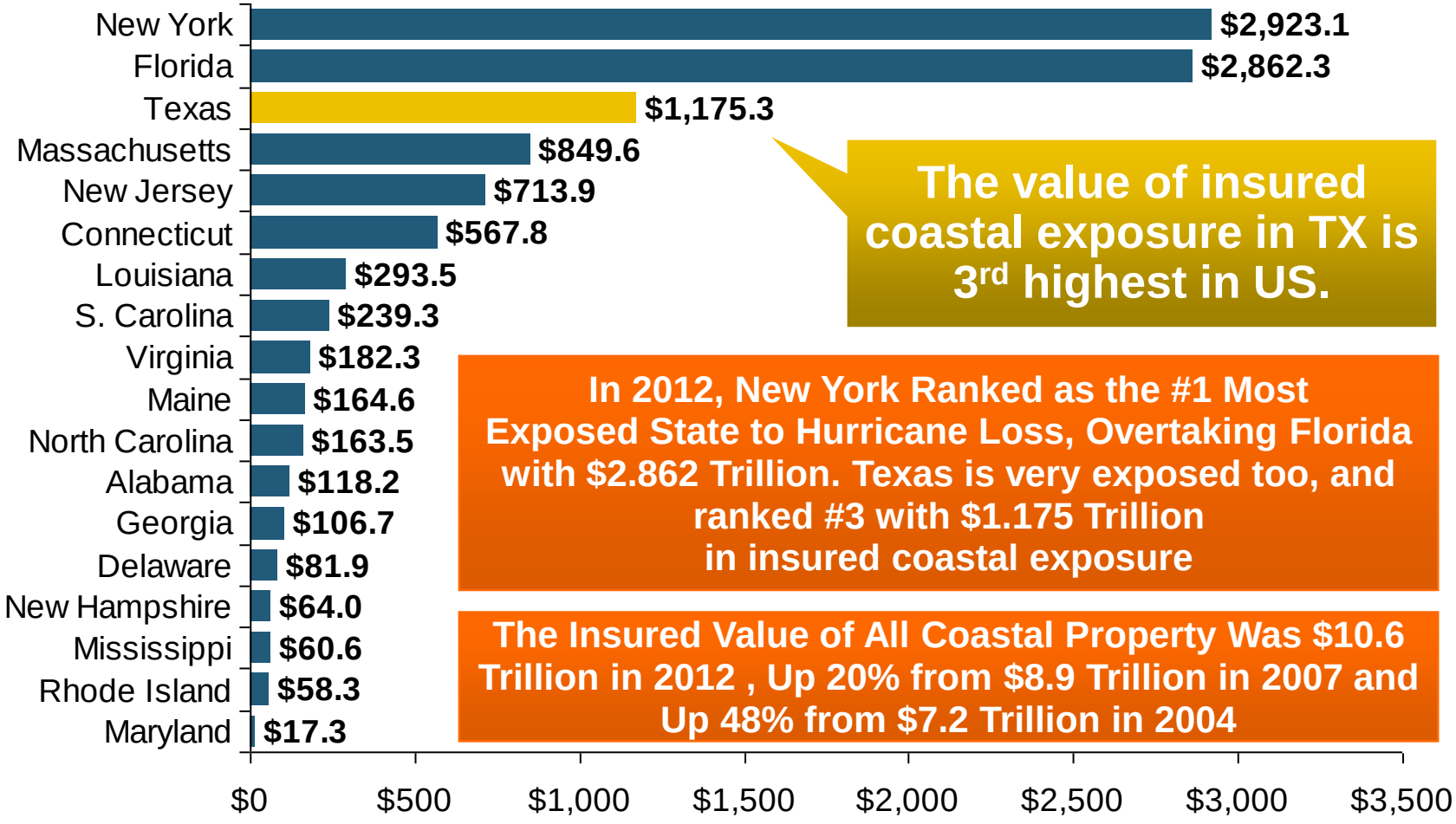



Sources: Property Claims Service, Munich Re NatCat*SERVICE,* NFIP

# Total Value of Insured Coastal Exposure in 2012

INSURANCE INFORMATION INSTITUTE

**(2012, $ Billions)**



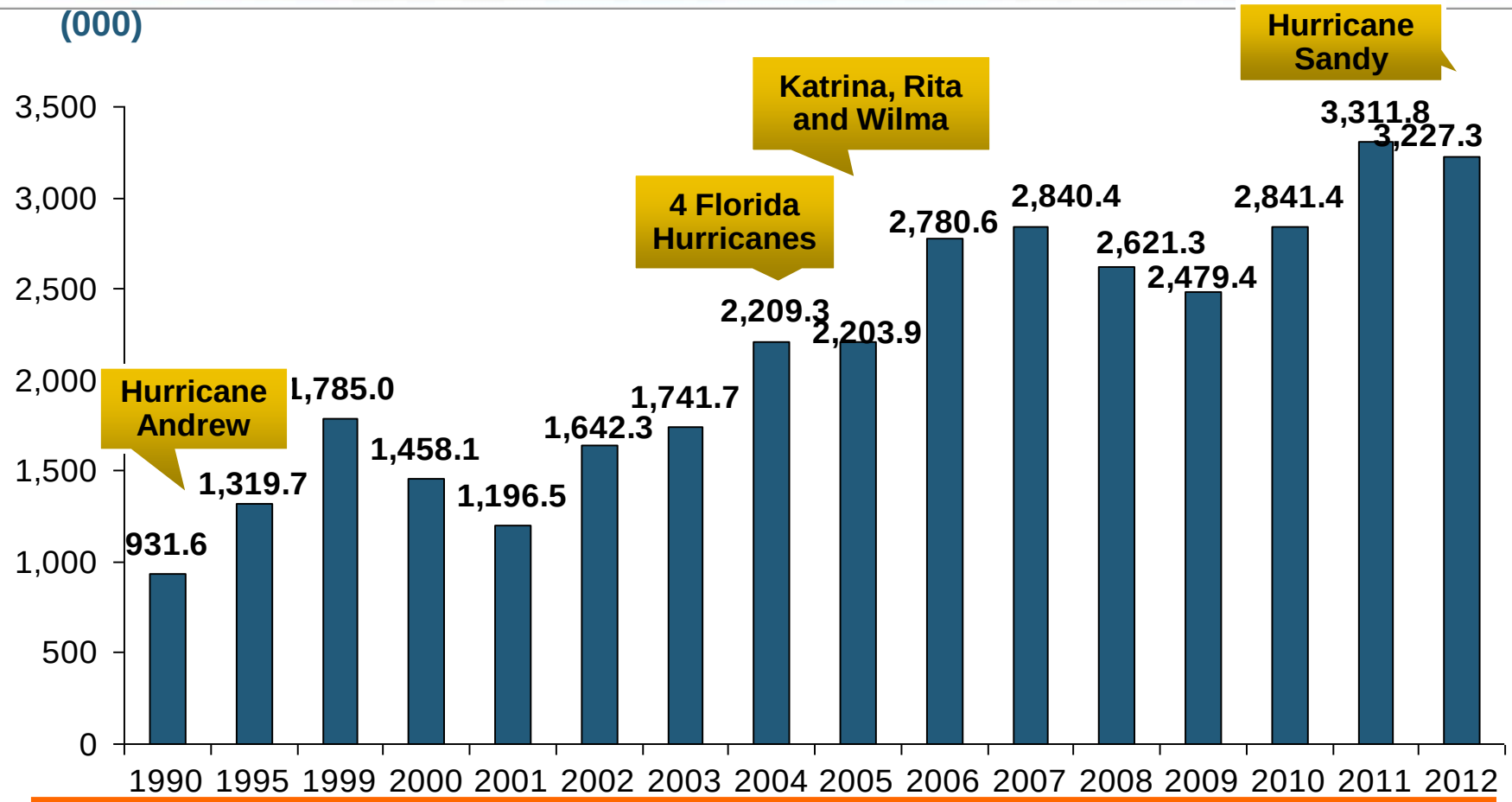

**The value of insured coastal exposure in TX is 3rd highest in US.**

**In 2012, New York Ranked as the #1 Most Exposed State to Hurricane Loss, Overtaking Florida with $2.862 Trillion. Texas is very exposed too, and ranked #3 with $1.175 Trillion in insured coastal exposure**

**The Insured Value of All Coastal Property Was $10.6 Trillion in 2012 , Up 20% from $8.9 Trillion in 2007 and Up 48% from $7.2 Trillion in 2004**

Source: AIR Worldwide

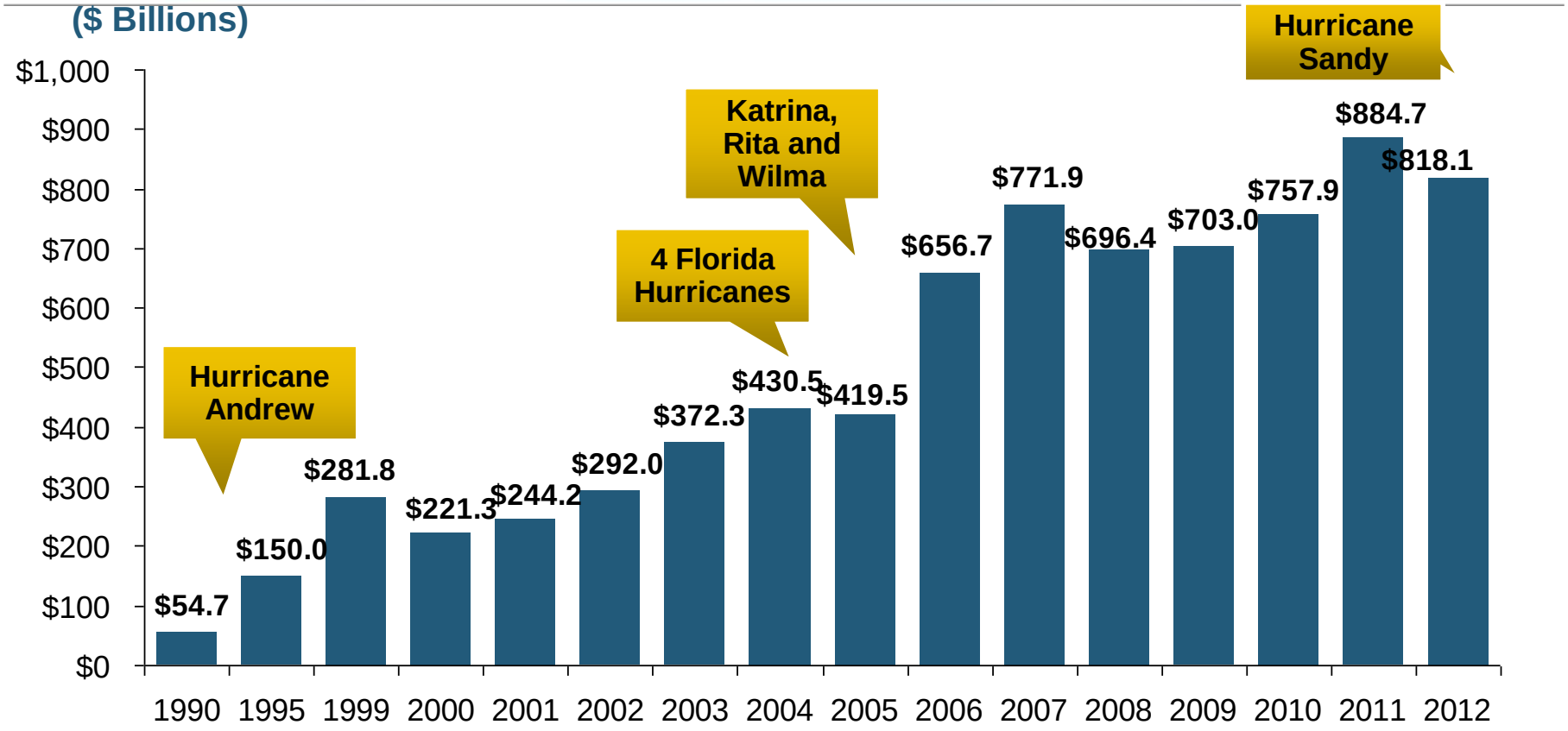
# U.S. Residual Market: Total Policies In-Force (1990-2012) (000)




**In the 23-year period between 1990 and 2012, the total number of policies in-force in the residual market (FAIR & Beach/Windstorm) Plans has more than tripled.**

Source: PIPSO; Insurance Information Institute

# U.S. Residual Market Exposure to Loss (1990-2012) ($ Billions)

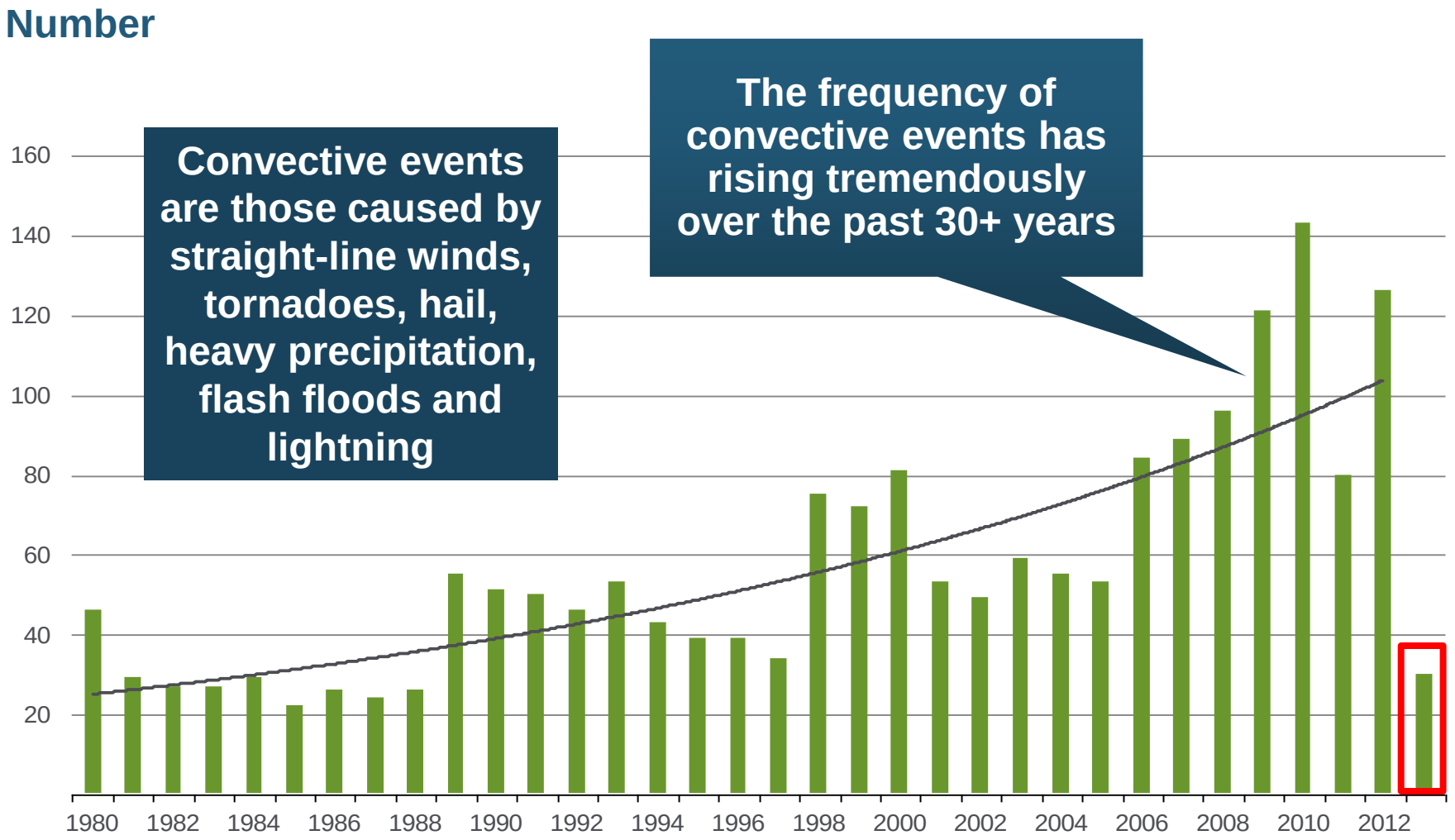



**In the 23-year period between 1990 and 2012, total exposure to loss in the residual market (FAIR & Beach/Windstorm) Plans has surged from $54.7 billion in 1990 to $818.1 billion in 2012.**

Source: PIPSO; Insurance Information Institute (I.I.I.).

# Convective Loss Events in the U.S.

## Number of events 1980 – 2012 and First Half 2013

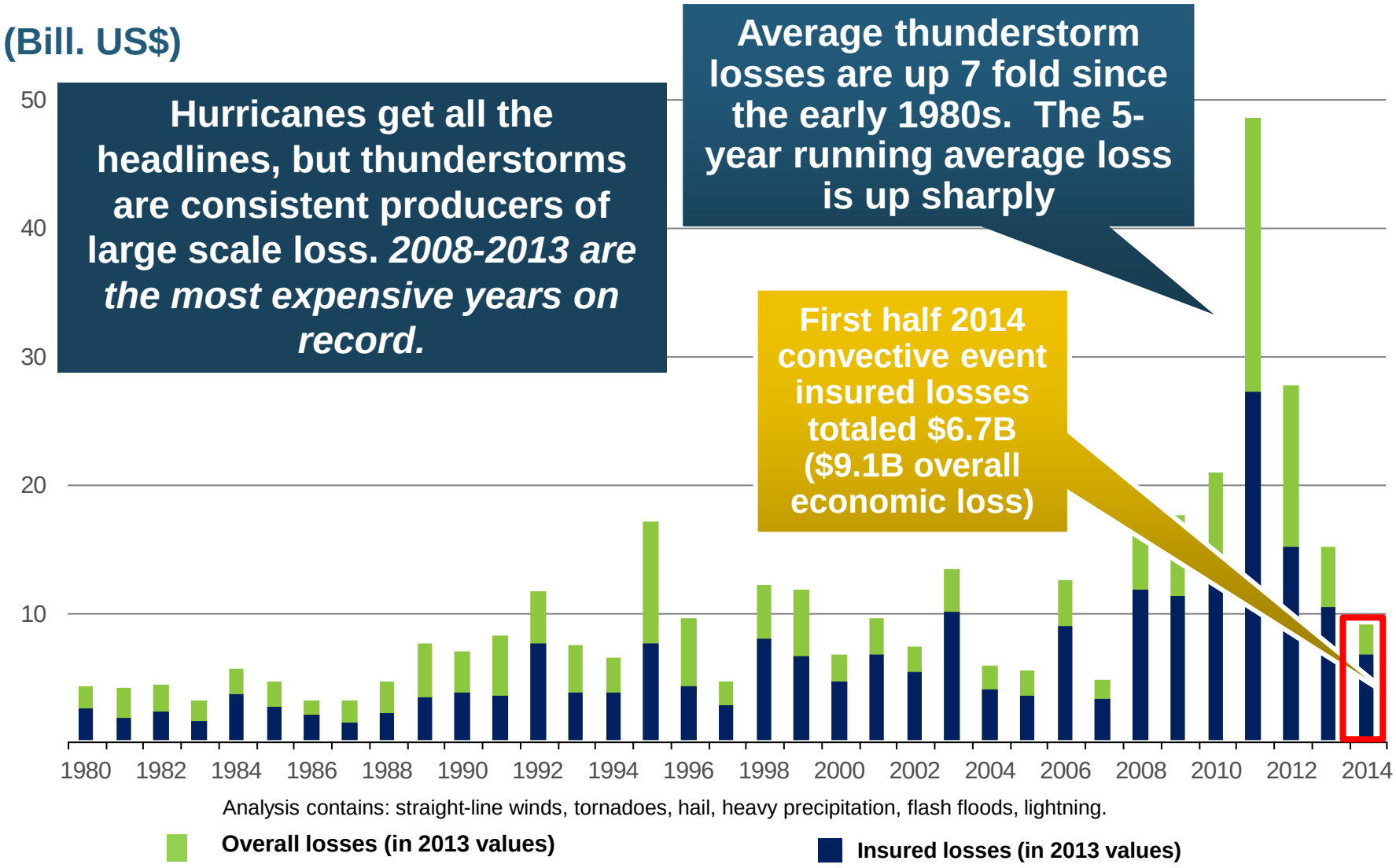



Source: Geo Risks Research, NatCatSERVICE – As at July 2013

# Convective Loss Events in the U.S.

## Overall and insured losses 1980 – 2013 and First Half 2014

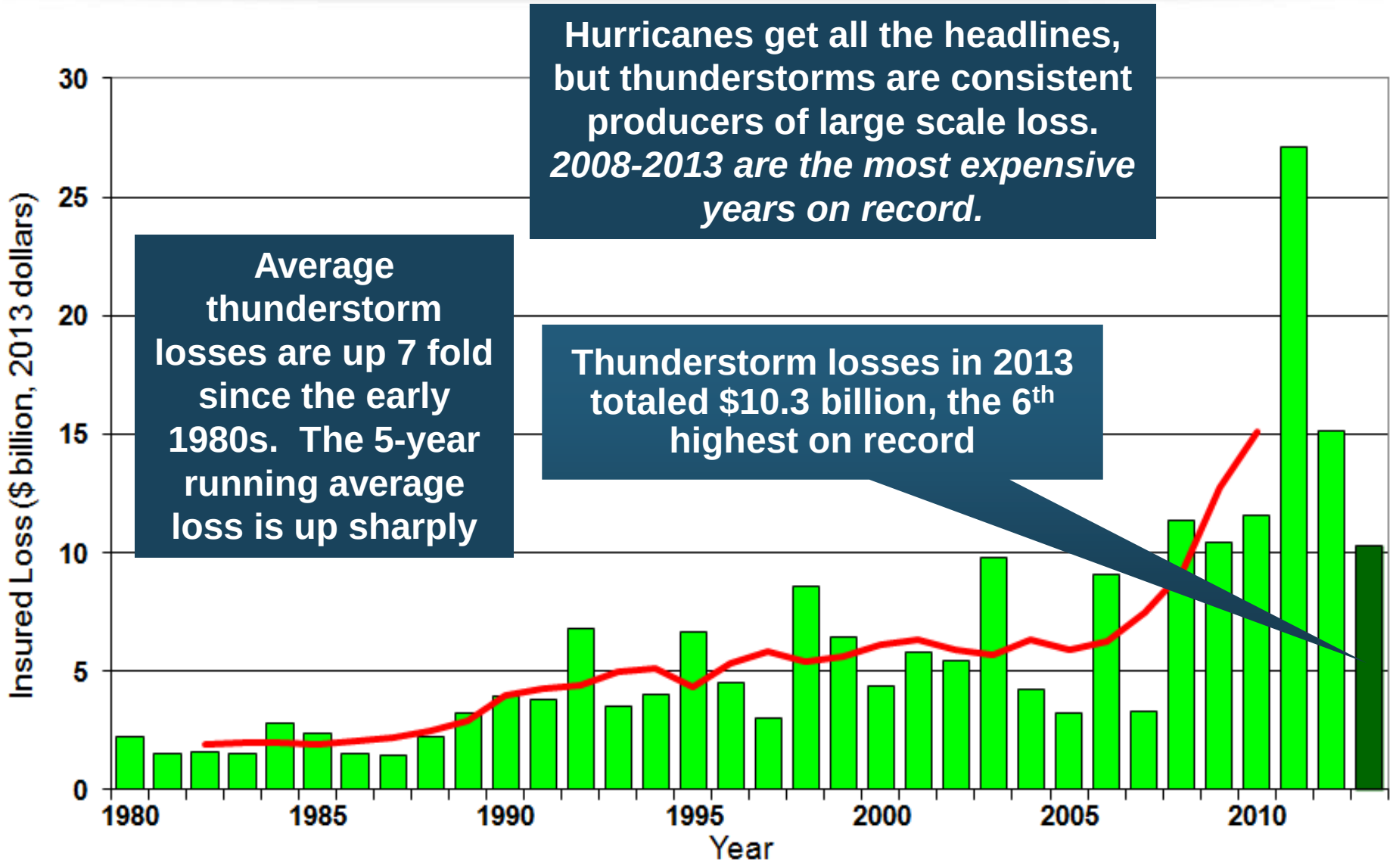
INSURANCE INFORMATION INSTITUTE




Source: Geo Risks Research, Munich Re NatCatSERVICE – As at July 2014

# U.S. Thunderstorm Insured Loss Trends, 1980 – 2013

INSURANCE INFORMATION INSTITUTE



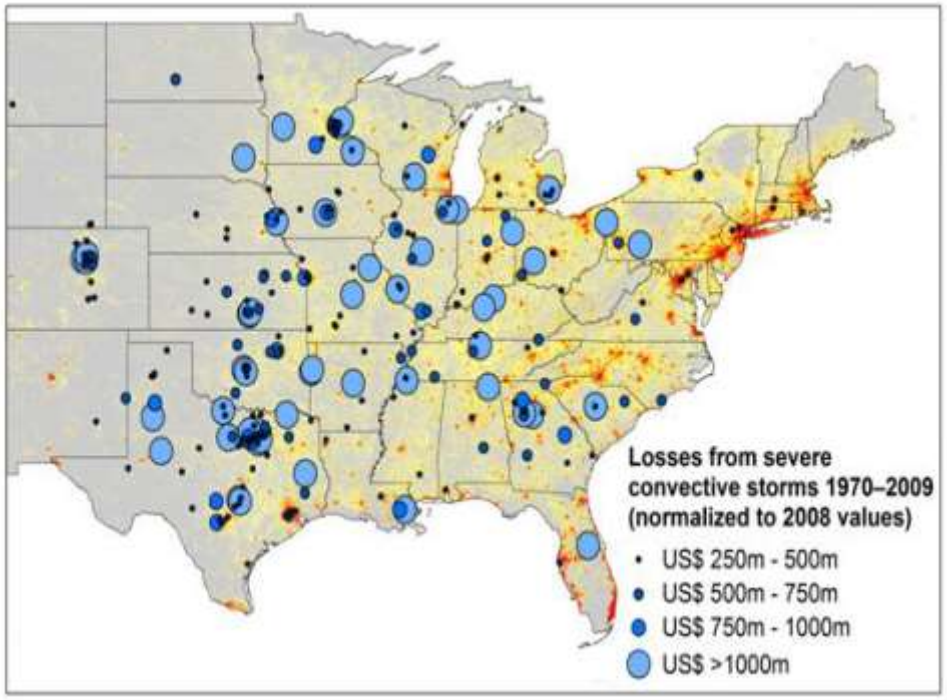

Source: Property Claims Service, MR NatCat*SERVICE*

# New Research Suggests Increase in Convective Activity Is Costly for Insurers

INSURANCE INFORMATION INSTITUTE

- **Study examines convective (hail, tornado, thundersquall and heavy rainfall) events in the US with losses exceeding US$ 250m in the period 1970–2009 (80% of all losses)**
- **Past losses are normalized (i.e., adjusted) to currently exposed values**
- **After normalization there are still increases of losses**
- **Increases are correlated with the increase in the meteorological potential for severe thunderstorms and its variability**

***For the first time research shows that climatic changes have already influenced US thunderstorm losses***

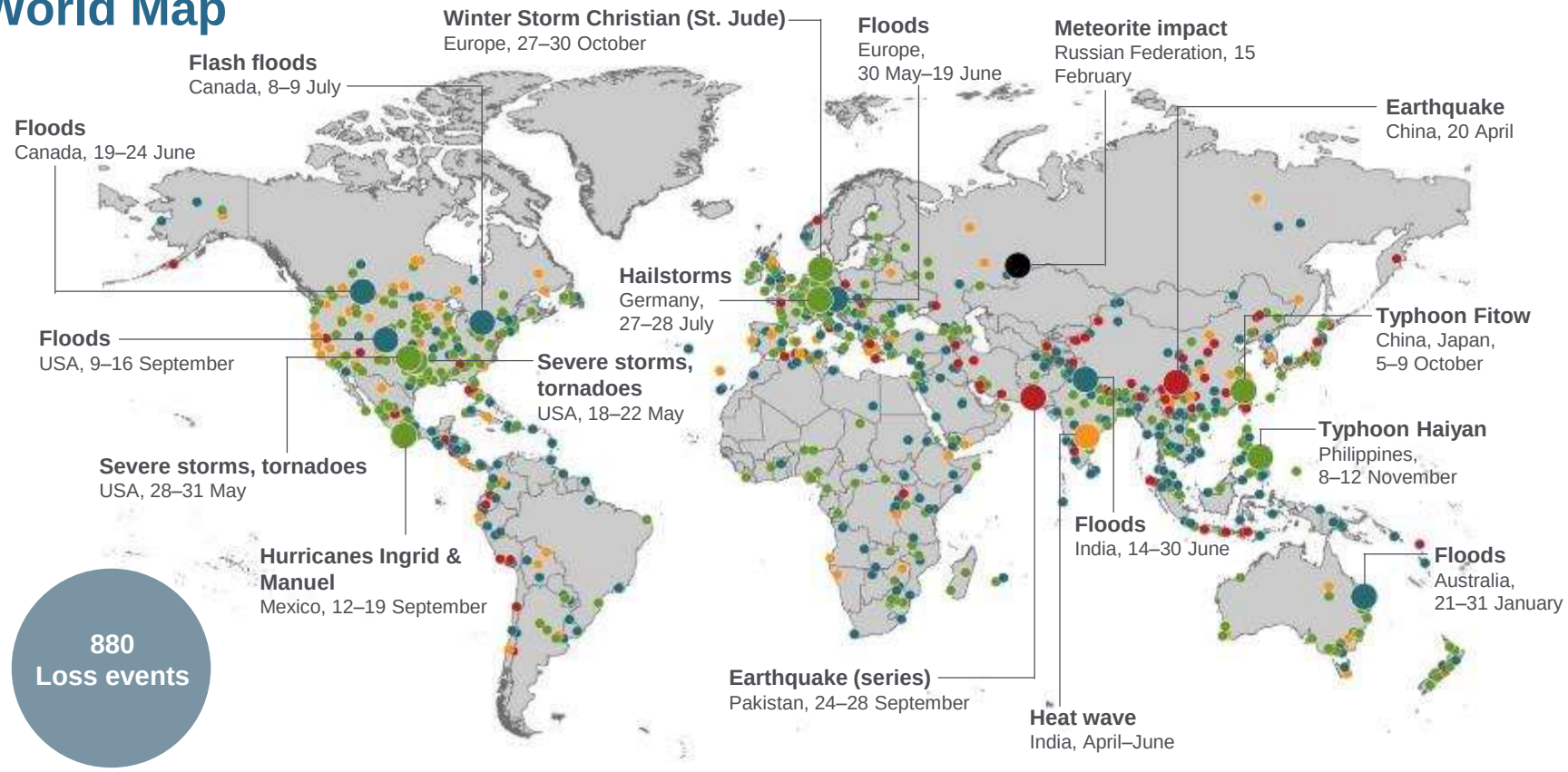



Source: Munich Re research paper, Marhc 18, 2013: *Rising Variability in Thunderstorm-Related U.S. Losses as a Reflection of Changes in Large-Scale Thunderstorm Forcing*.

# Natural Loss Events: Full Year 2013

INSURANCE INFORMATION INSTITUTE

## World Map



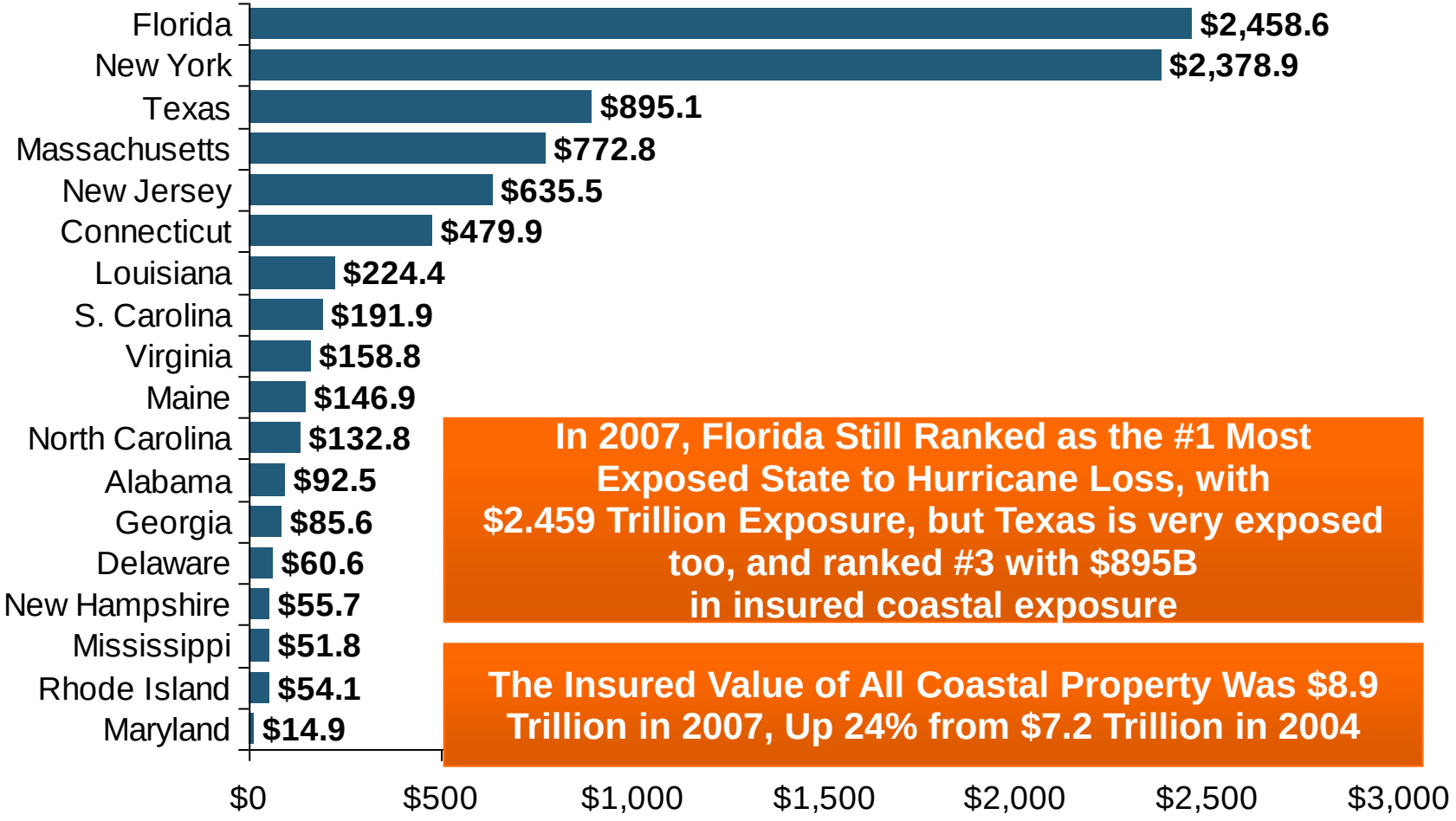

- Natural catastrophes
- Selection of significant Natural catastrophes
- **Geophysical events** (earthquake, tsunami, volcanic activity)
- **Meteorological events** (storm)
- **Hydrological events** (flood, mass movement)
- **Climatological events** (extreme temperature, drought, wildfire)
- **Extraterrestrial events** (Meteorite impact)

Source: Munich Re Geo Risks Research, NatCat*SERVICE* – as of January 2014.

# Total Value of Insured Coastal Exposure in 2007

INSURANCE INFORMATION INSTITUTE

**(2007, $ Billions)**




**In 2007, Florida Still Ranked as the #1 Most Exposed State to Hurricane Loss, with $2.459 Trillion Exposure, but Texas is very exposed too, and ranked #3 with $895B in insured coastal exposure**

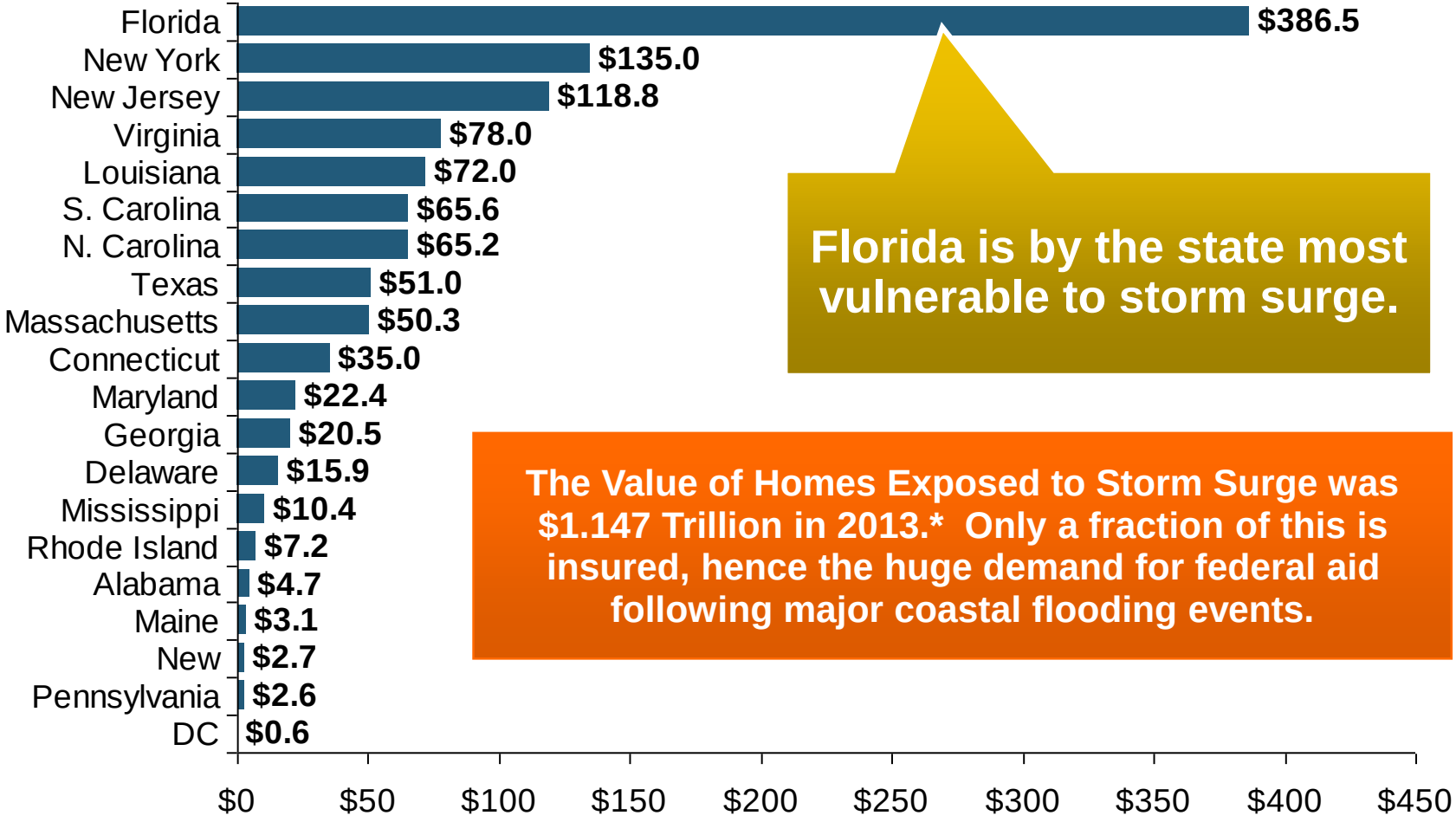
**The Insured Value of All Coastal Property Was $8.9 Trillion in 2007, Up 24% from $7.2 Trillion in 2004**

Source: AIR Worldwide

# Total Potential Home Value Exposure to Storm Surge Risk in 2013*

INSURANCE INFORMATION INSTITUTE

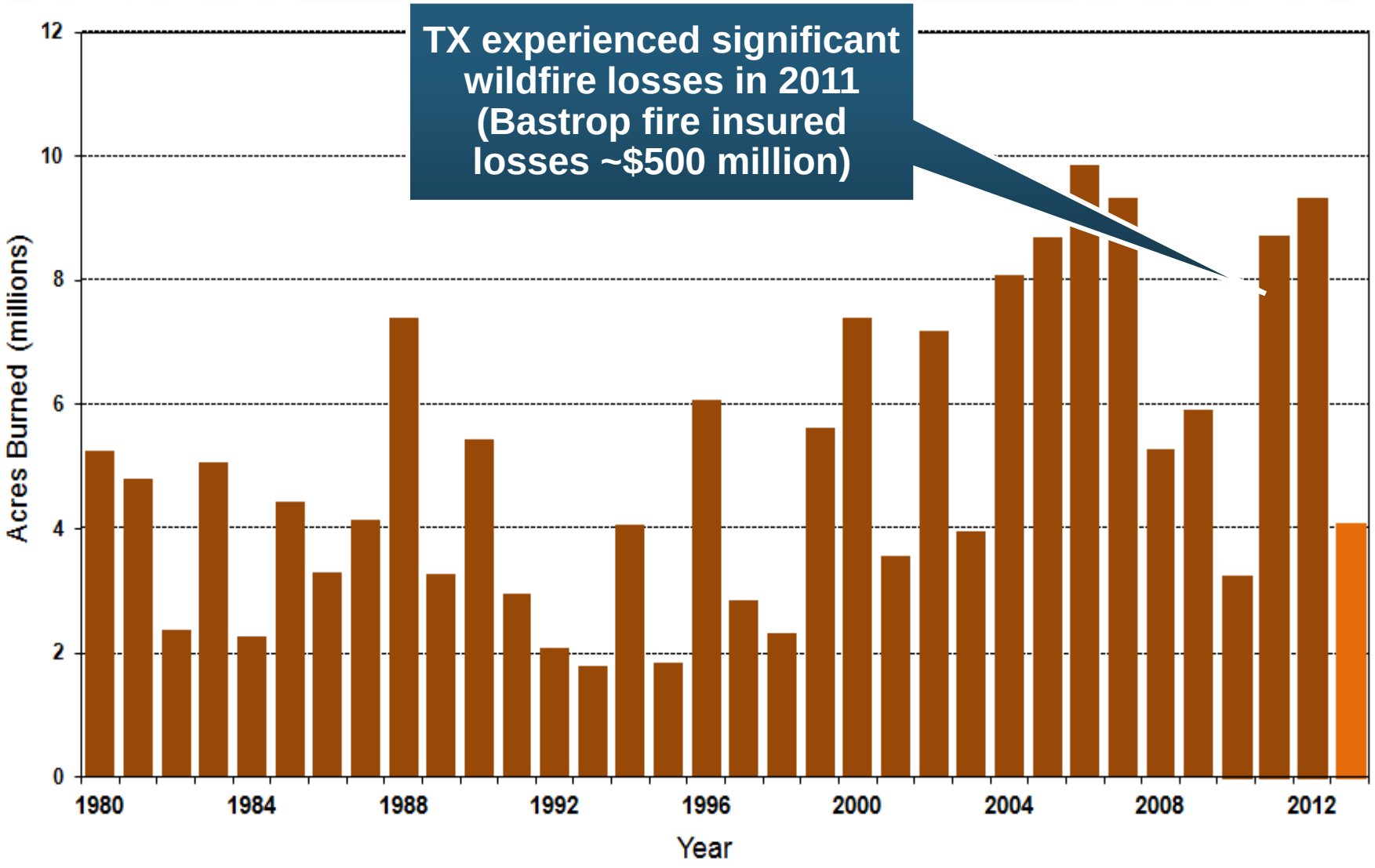
**($ Billions)**




*Insured and uninsured property. Based on estimated property values as of April 2013.

Source: *Storm Surge Report 2013,* CoreLogic.

# Number of Acres Burned in Wildfires, 1980 – 2013

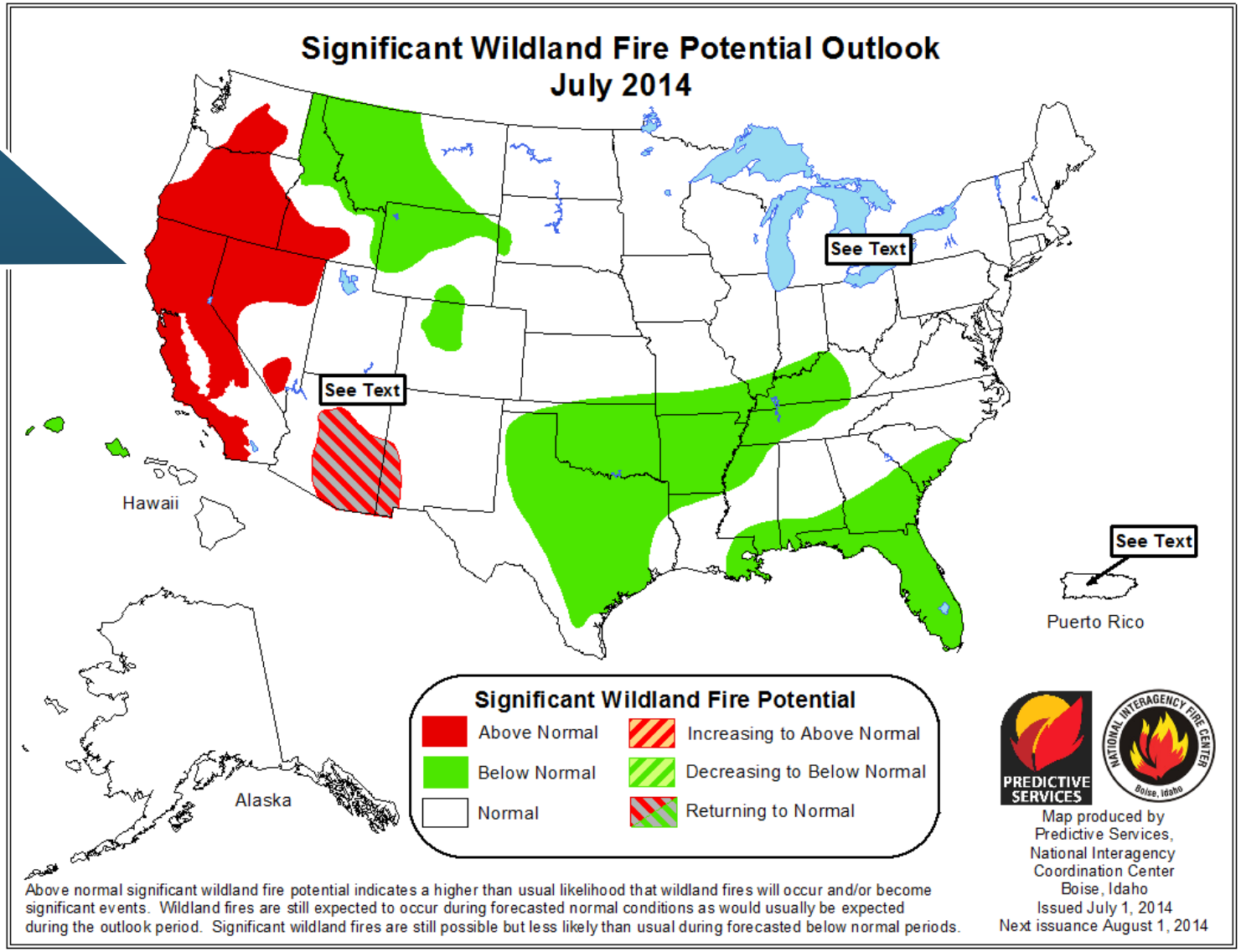



Source: National Interagency Fire Center

# Wildfire Outlook for the Western US is Grave but Better in the East

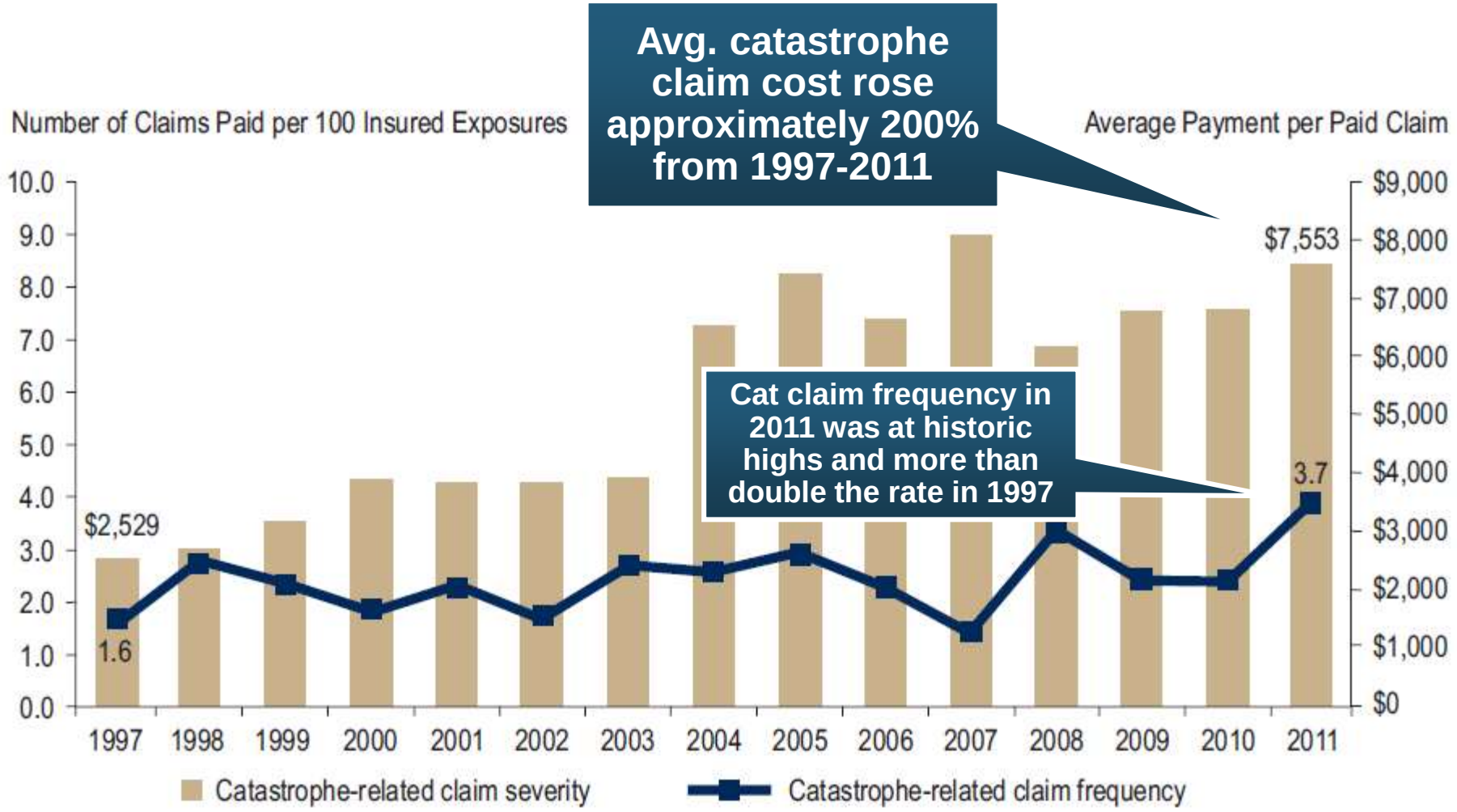
INSURANCE INFORMATION INSTITUTE

**Much of the West and Northwest US is at an elevated risk for wildfire due to prolonged drought and high temperatures**



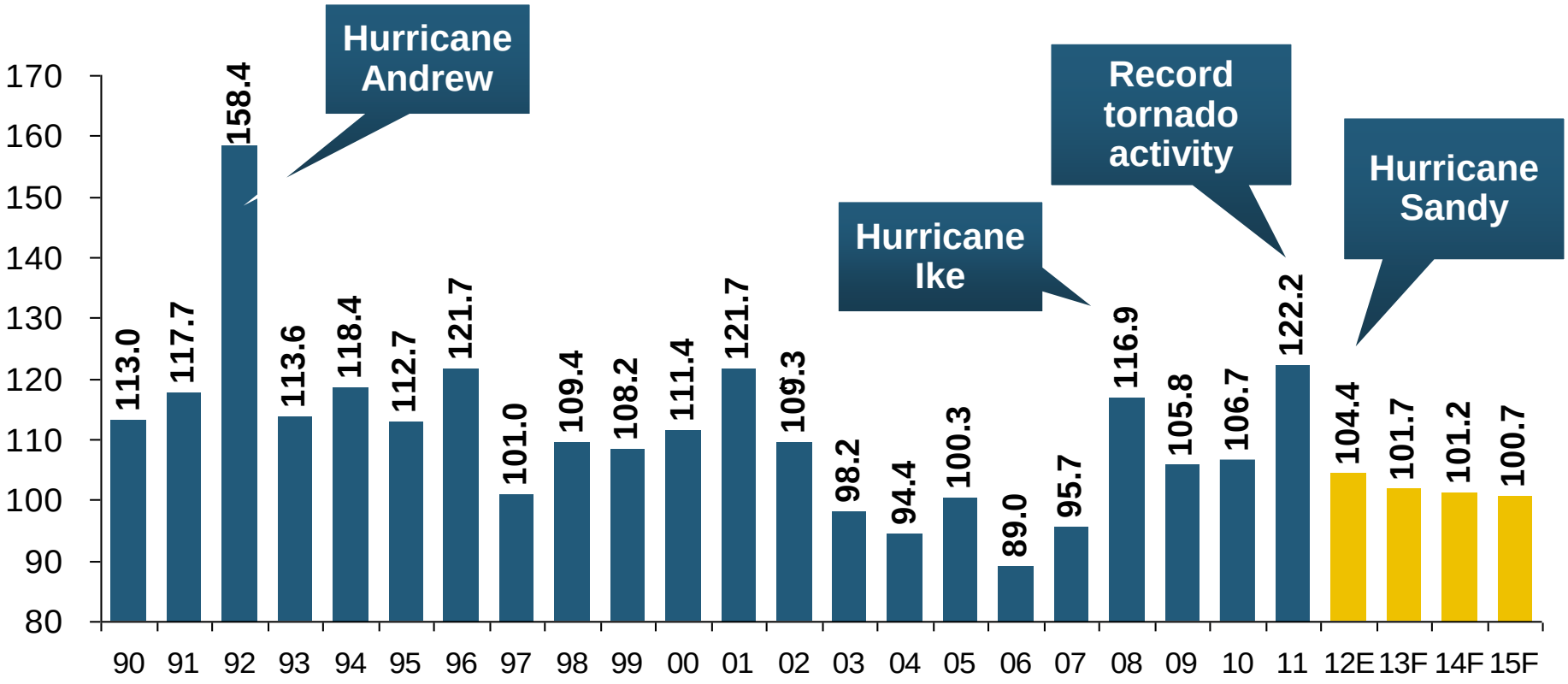

Source: National Interagency Fire Center

# 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.

# Homeowners Insurance Combined Ratio: 1990–2015F




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

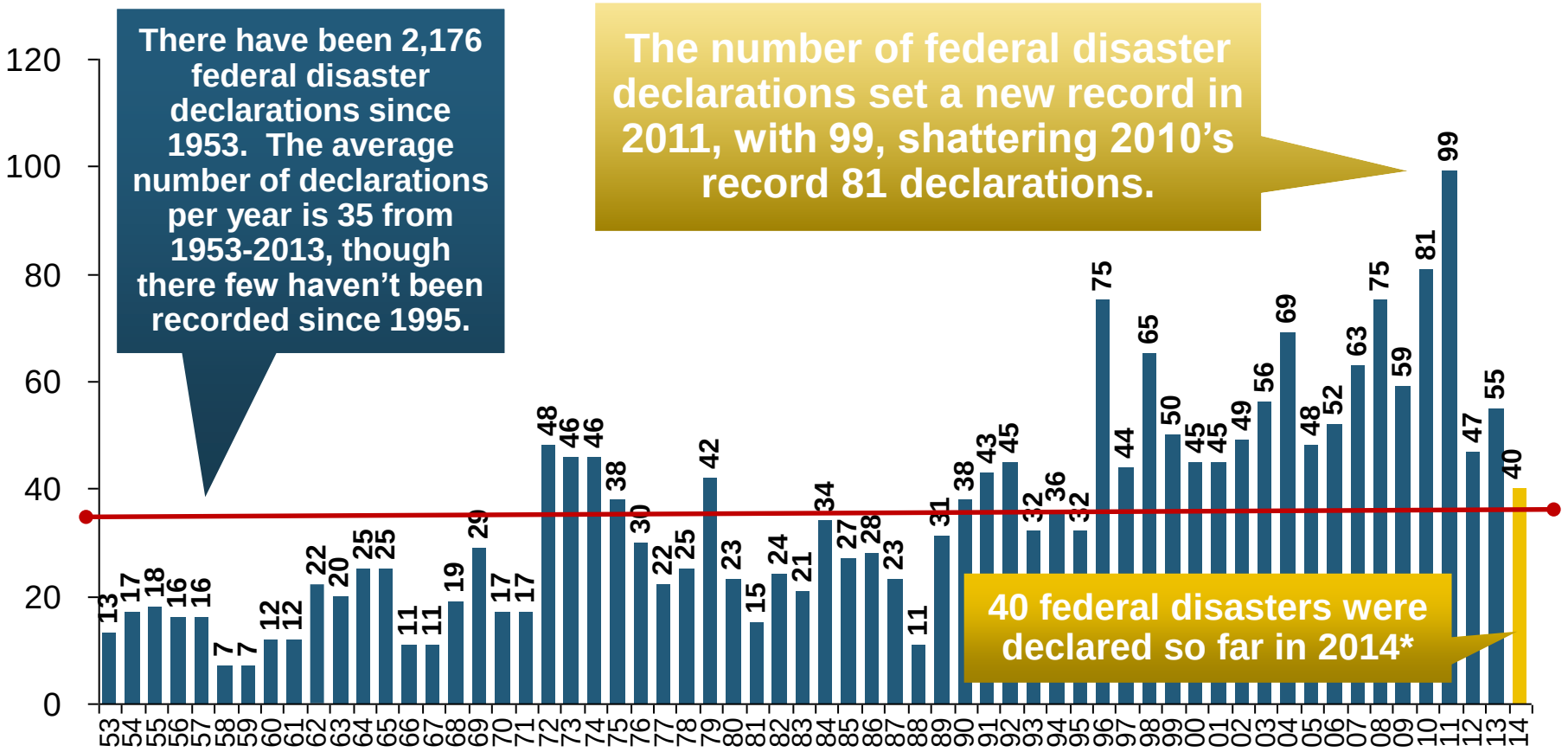
Sources: A.M. Best (1990-2011);Conning (2012E-2015F); Insurance Information Institute.

INSURANCE INFORMATION INSTITUTE

# Federal Disaster Declarations Patterns: 1953-2014

## Disaster Declarations Set New Records in Recent Years

# Number of Federal Major Disaster Declarations, 1953-2014*

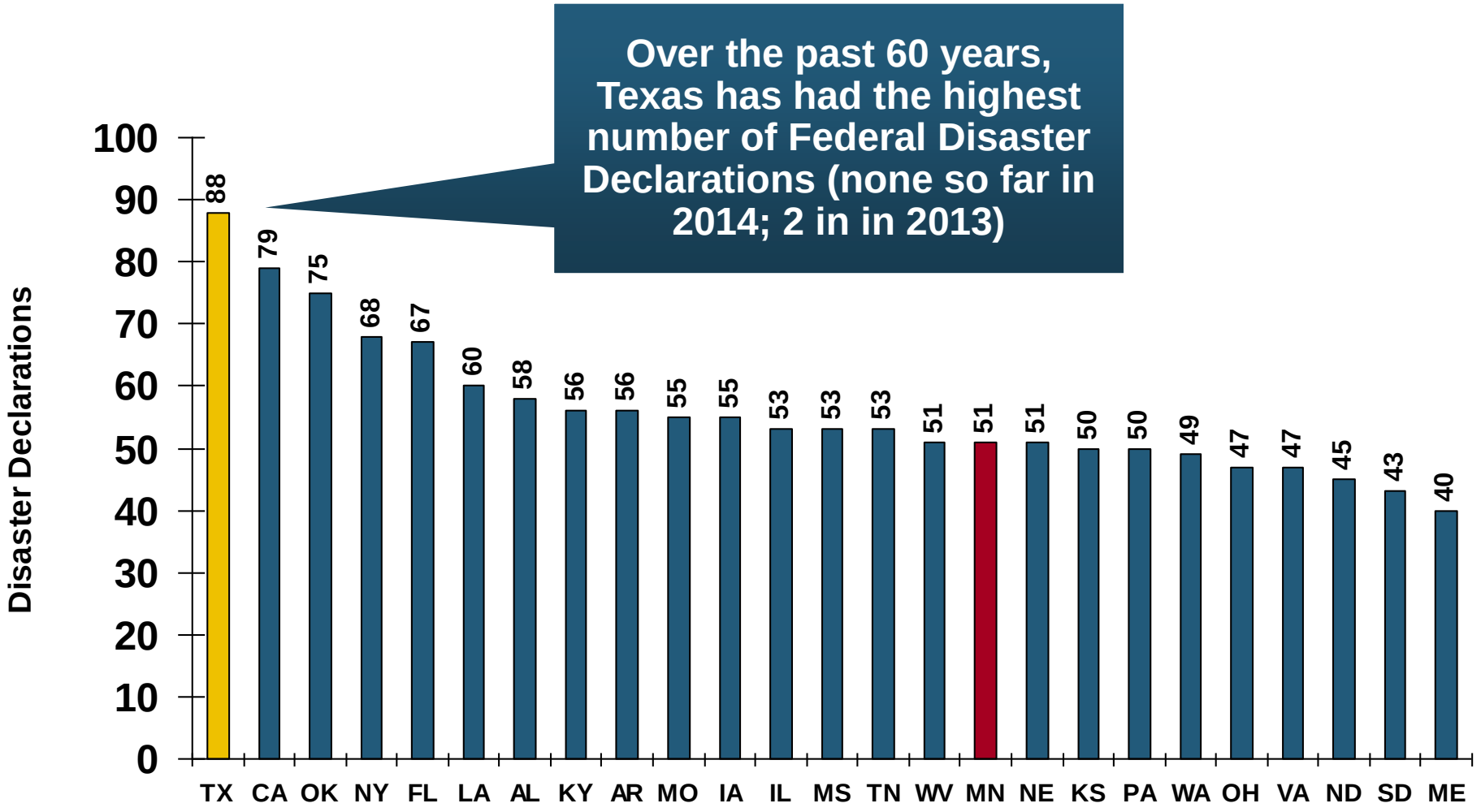



**The Number of Federal Disaster Declarations Is Rising and Set New Records in 2010 *and* 2011 Before Dropping in 2012/13**

*Through September 2, 2014.

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

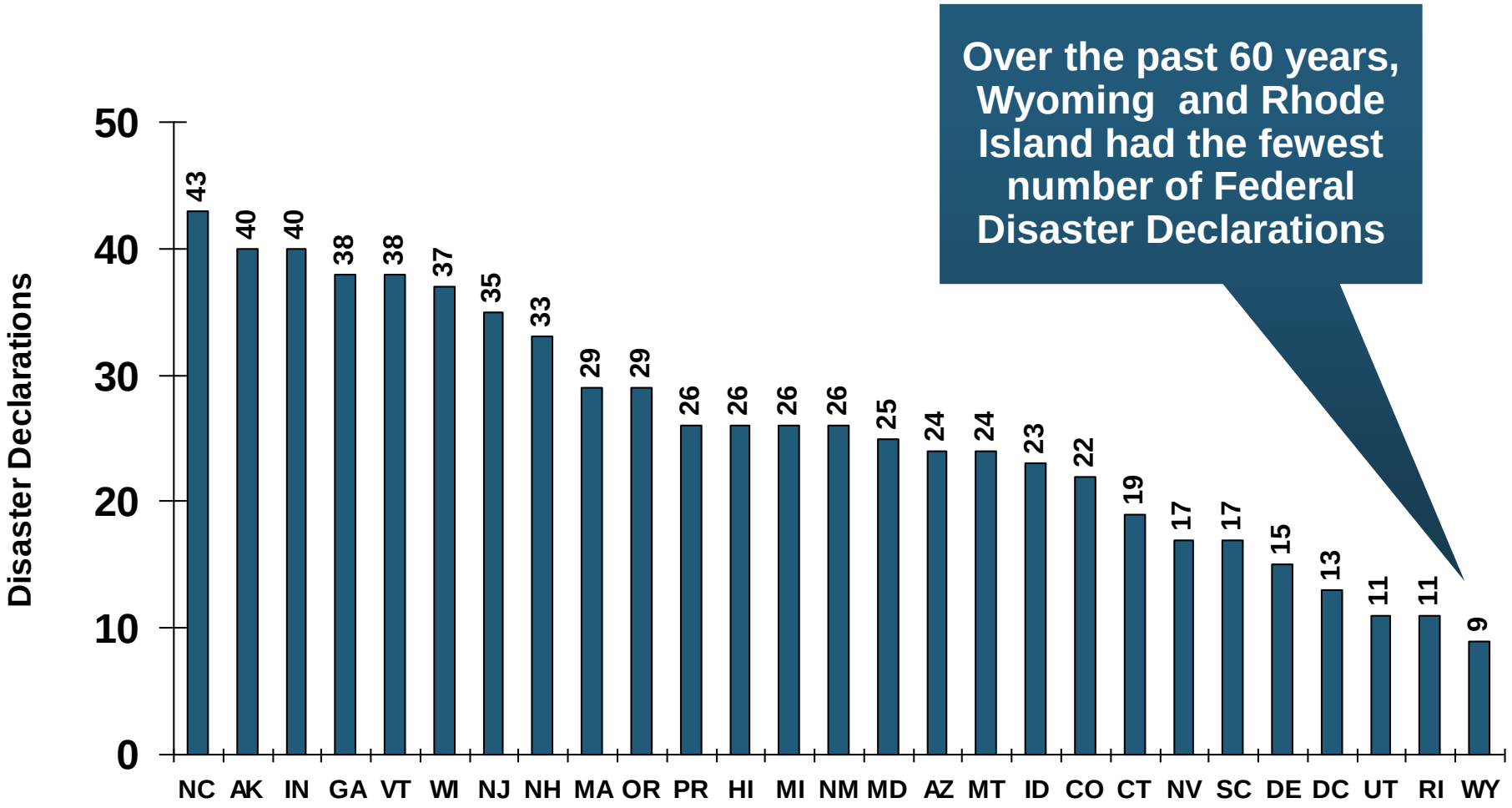
# Federal Disasters Declarations by State, 1953 – 2014: Highest 25 States*




*Through Sept. 2, 2014. Includes Puerto Rico and the District of Columbia.

Source: FEMA: http://www.fema.gov/news/disaster_totals_annual.fema; Insurance Information Institute.

# Federal Disasters Declarations by State, 1953 – 2014: Lowest 25 States*




*Through Sept. 2, 2014. Includes Puerto Rico and the District of Columbia.

Source: FEMA: http://www.fema.gov/news/disaster_totals_annual.fema; Insurance Information Institute.

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# SEVERE WEATHER REPORT UPDATE: 2014

## *Damage from Tornadoes, Large Hail and High Winds Keep Insurers Busy*

# Location of Tornado Reports in 2014: Through September 2, 2014

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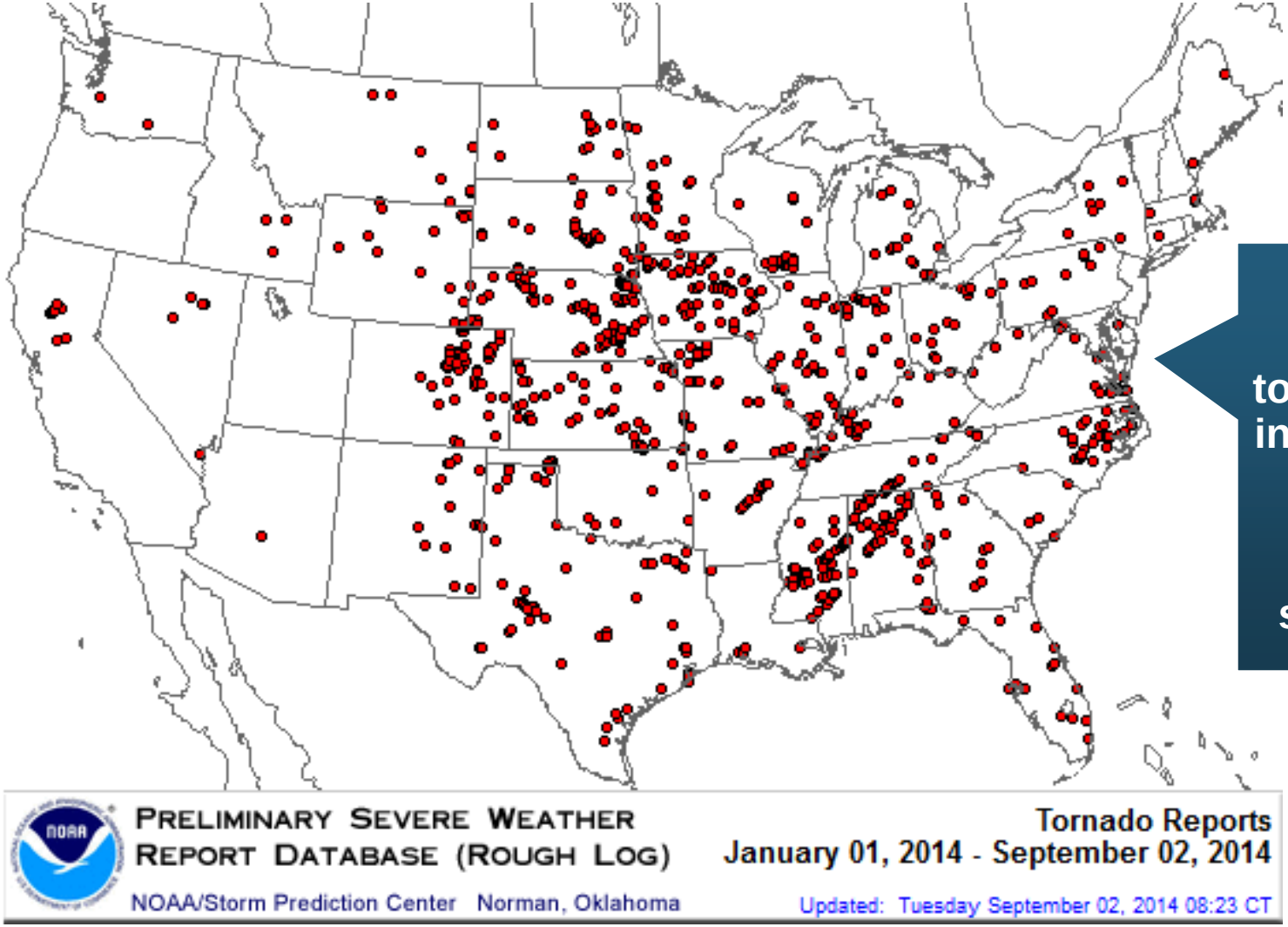
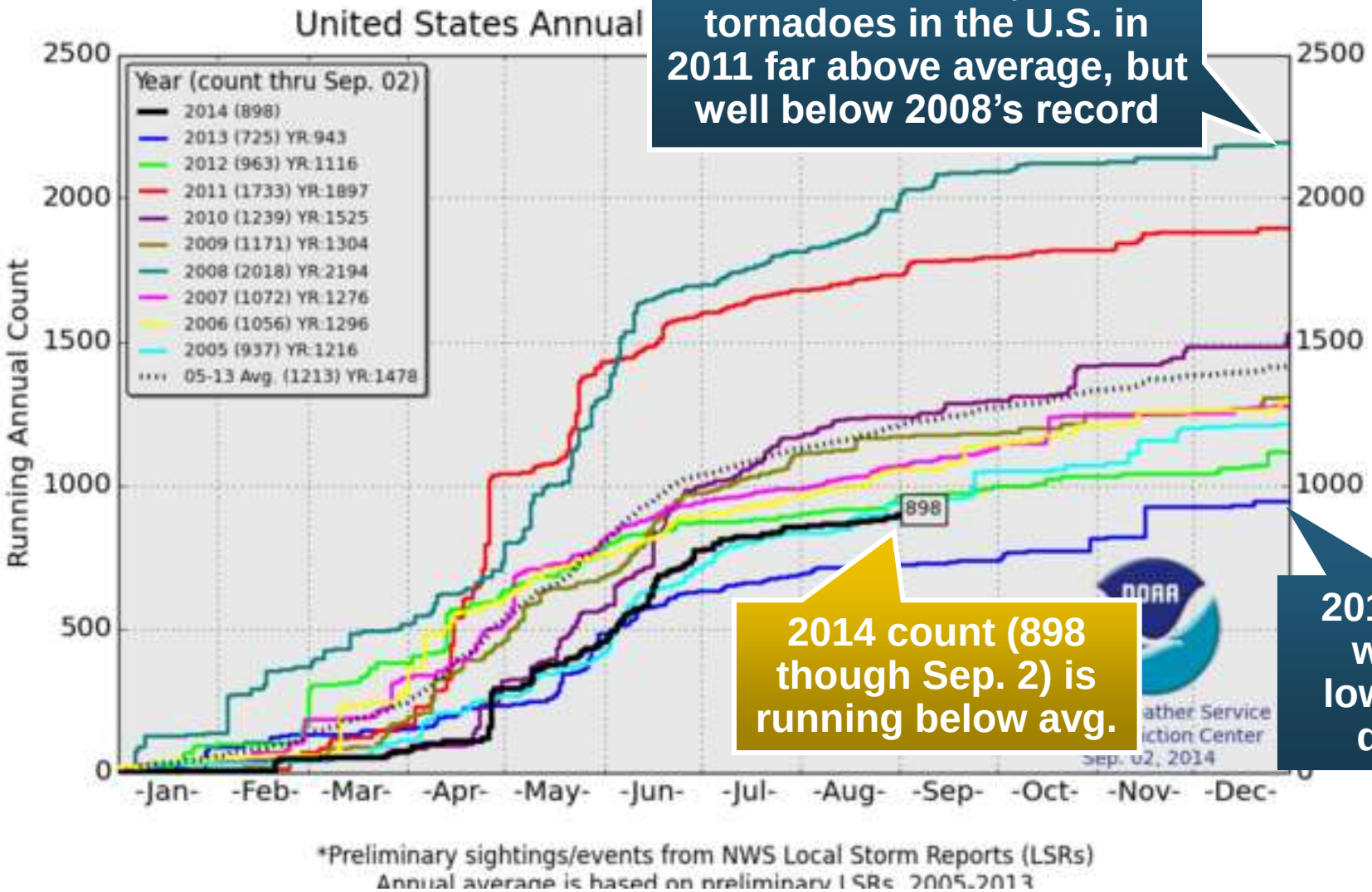



**There have been 894 tornadoes so far in 2014, causing extensive property damage in several states**

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2014_annual_summary.html#; PCS.

# U.S. Tornado Count, 2005-2014*

INSURANCE INFORMATION INSTITUTE

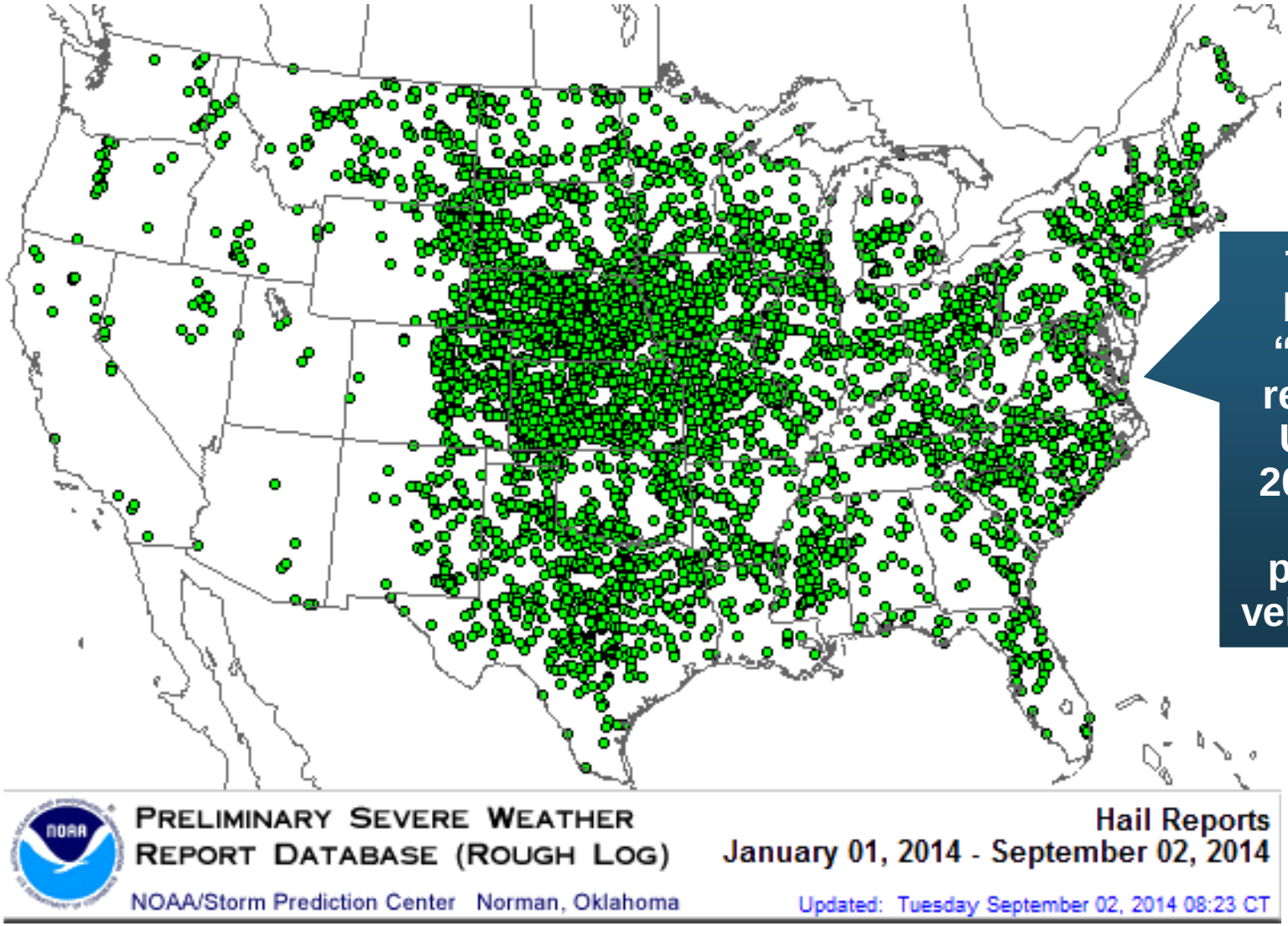



*Through Sept. 2, 2014.

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

# Location of Large Hail Reports: Through September 2, 2014

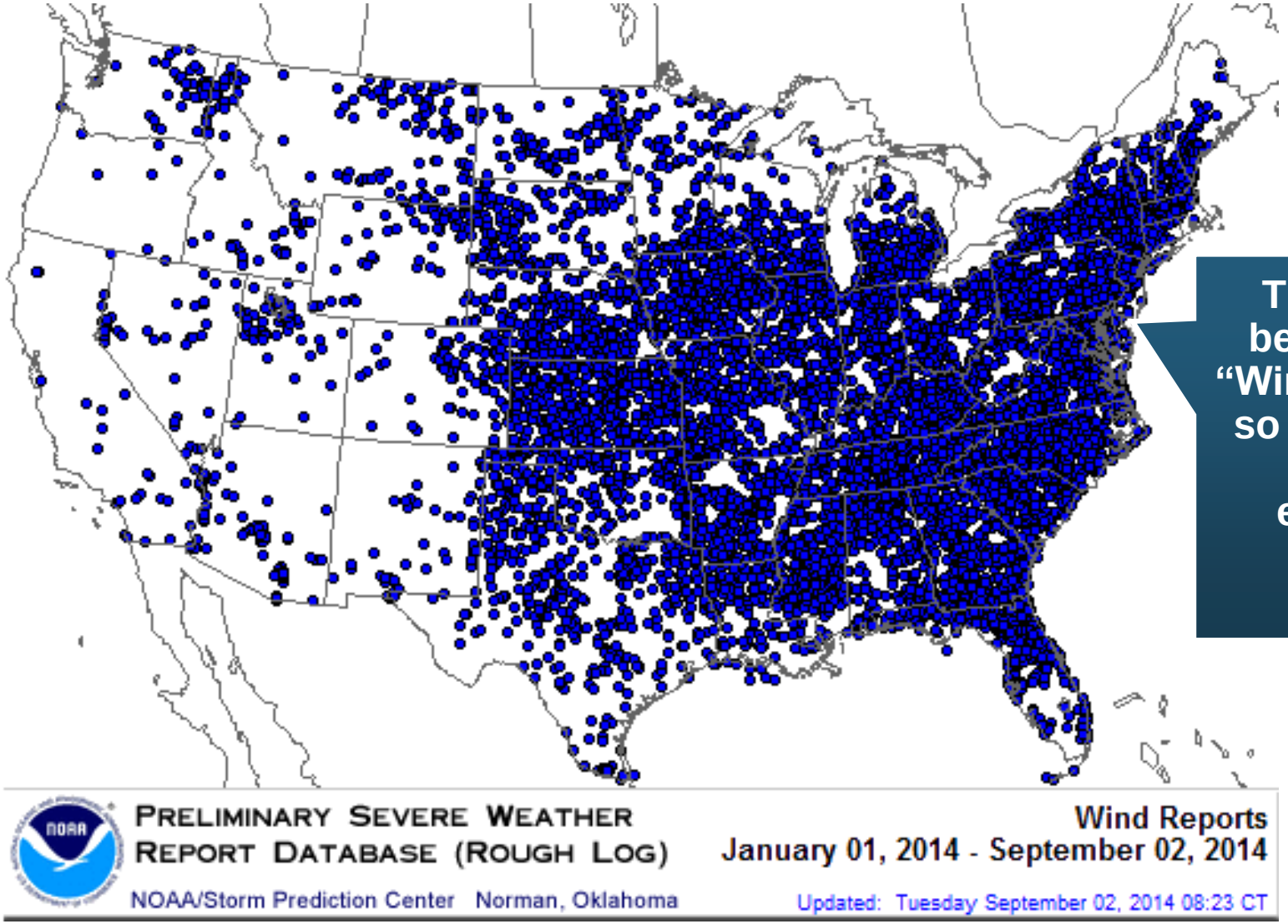
INSURANCE INFORMATION INSTITUTE




**There have been 4,972 "Large Hail" reports in the US so far in 2014, causing extensive property and vehicle damage**

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2014_annual_summary.html#

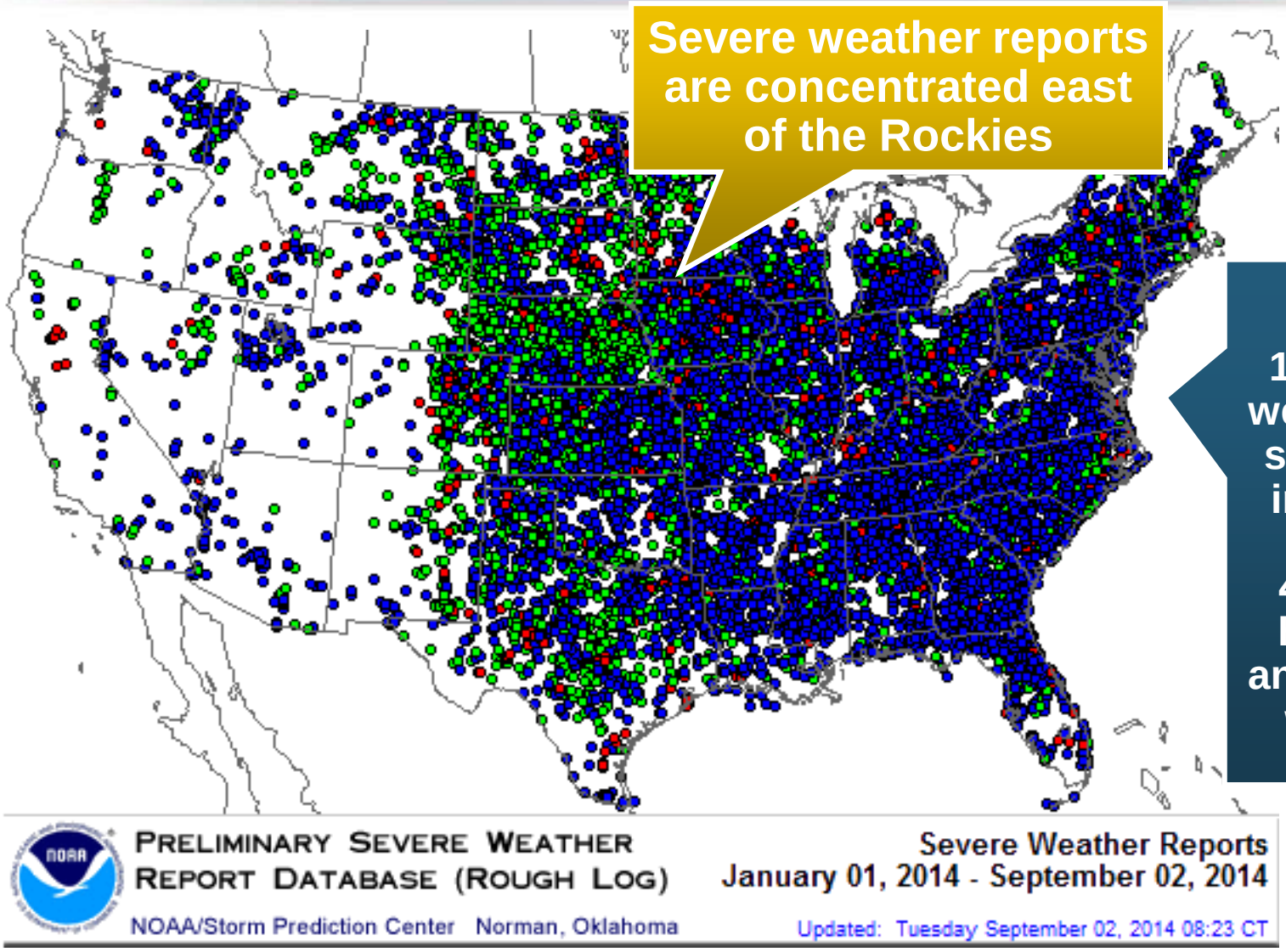
# Location of High Wind Reports: Through September 2, 2014




**There have been 10,294 "Wind Damage" so far in 2014, causing extensive property damage**

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2014_annual_summary.html#

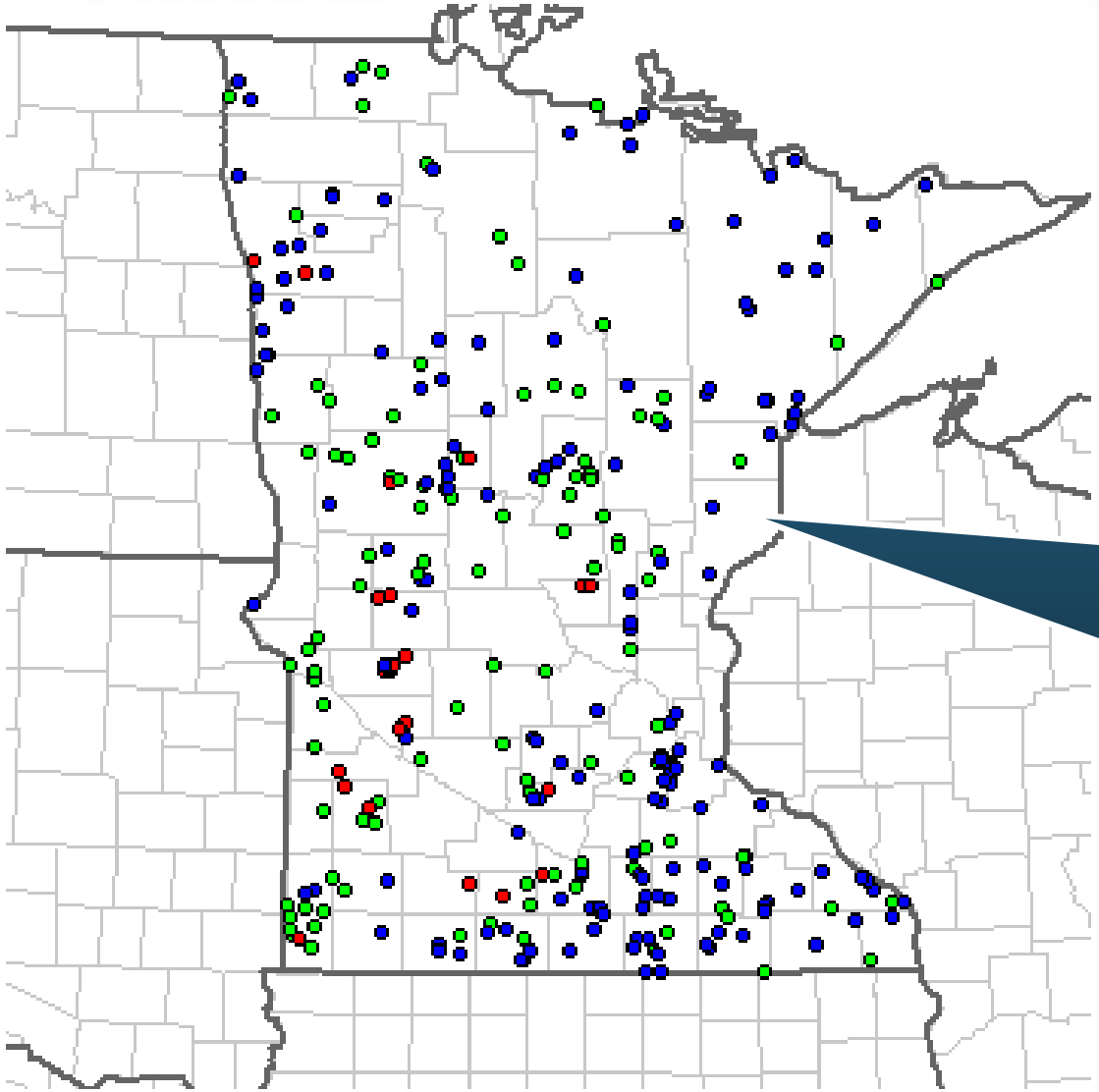
# Severe Weather Reports: Through September 2, 2014




Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2014_annual_summary.html#

# Severe Weather Reports in Minnesota: Through September 2, 2014

INSURANCE INFORMATION INSTITUTE



**308 severe weather reports through 9/2/14**

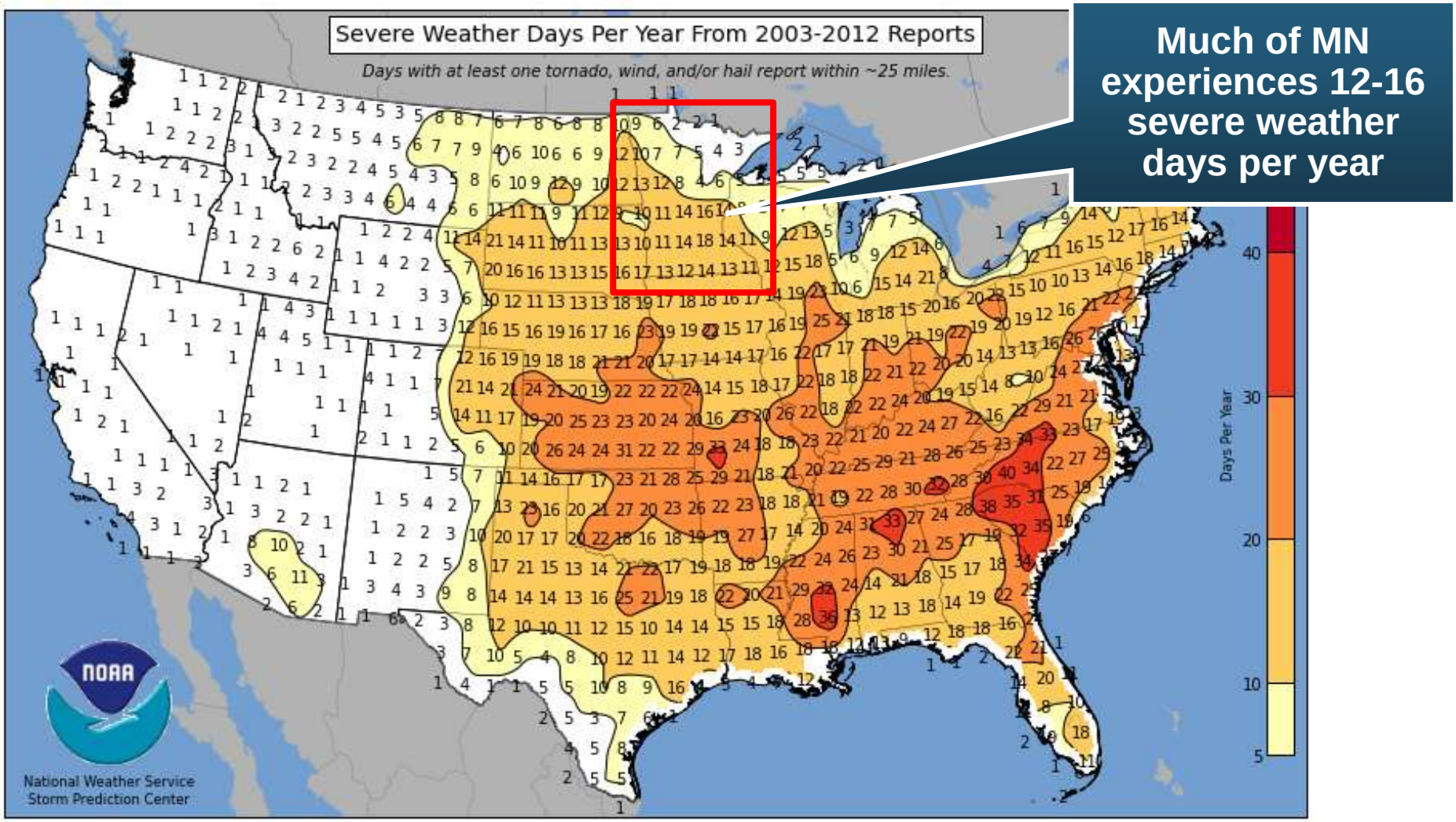
**23 Tornadoes**

**126 Large Hail Reports**

**159 High Wind Events**

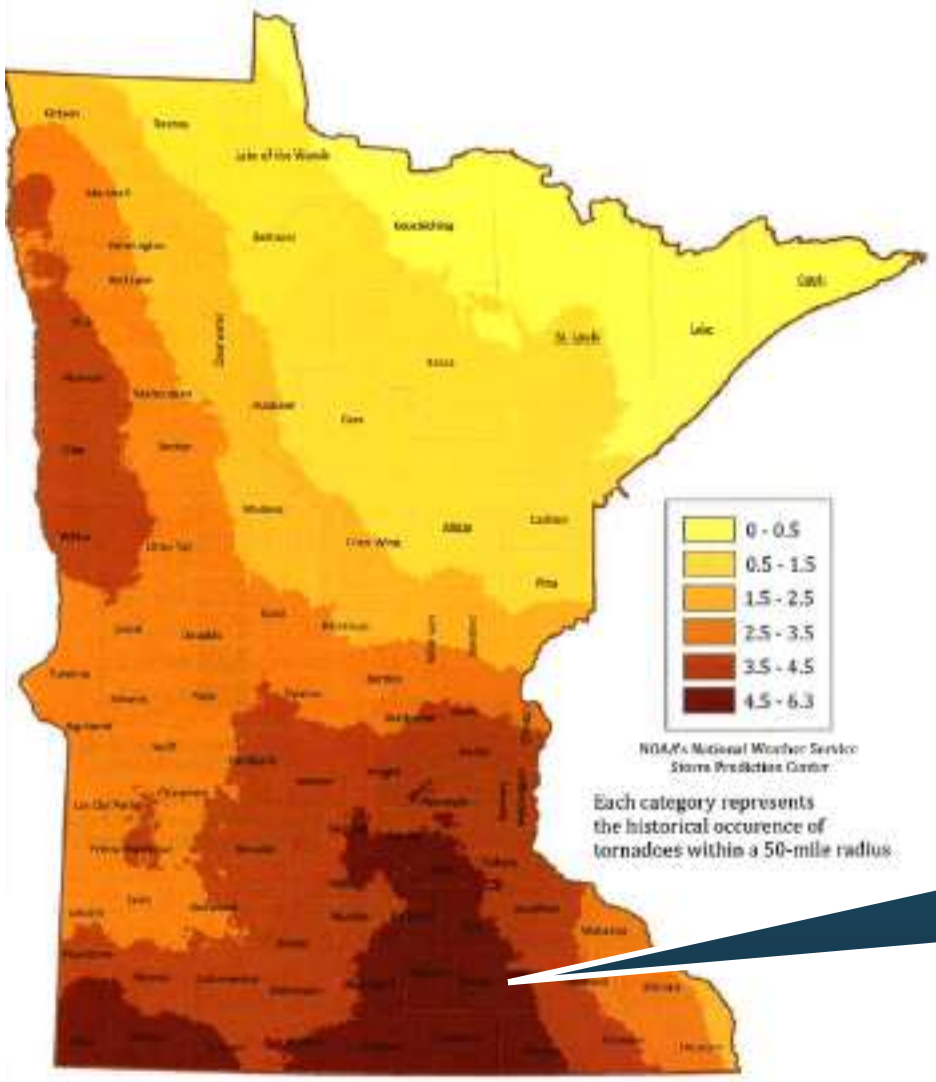
Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2014_annual_summary.html#

# Severe Weather Days in Minnesota: Annual Average, 2003-2012




Source: National Weather Service Storm Prediction Center at http://www.spc.noaa.gov/wcm/; Insurance Information Institute.

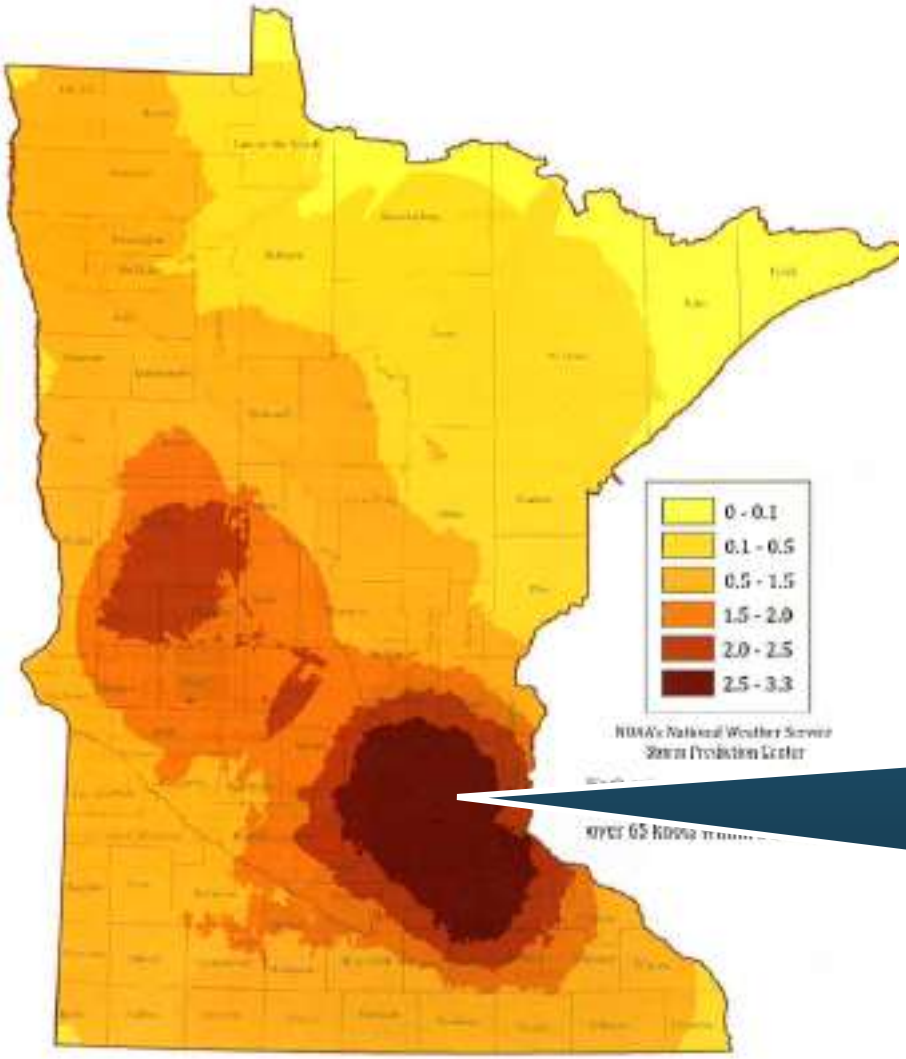
# Historical Tornado Frequency per Year, 1950-2012




**Tornado frequency in MN is highest in the south central parts of the state**

Source: Minnesota All Hazards Mitigation Plan, p.120; Insurance Information Institute.

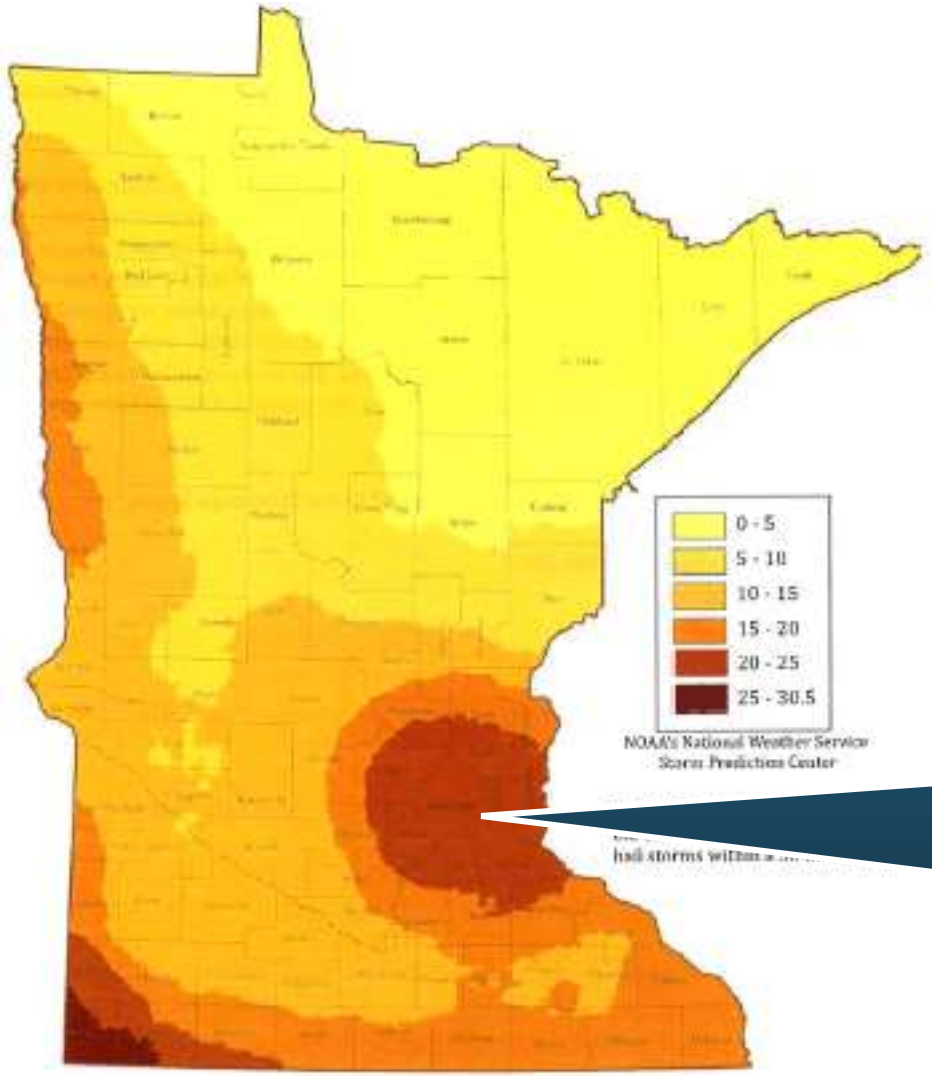
# Annual Frequency of Winds Speeds Greater than 65 Knots, 1955-2012




**The highest winds in MN tend to occur in and around the more densely populated MSP area, where property values are the highest**

Source: Minnesota All Hazards Mitigation Plan, p.120; Insurance Information Institute.

# Occurrences of Hail Storms Within 50 Miles

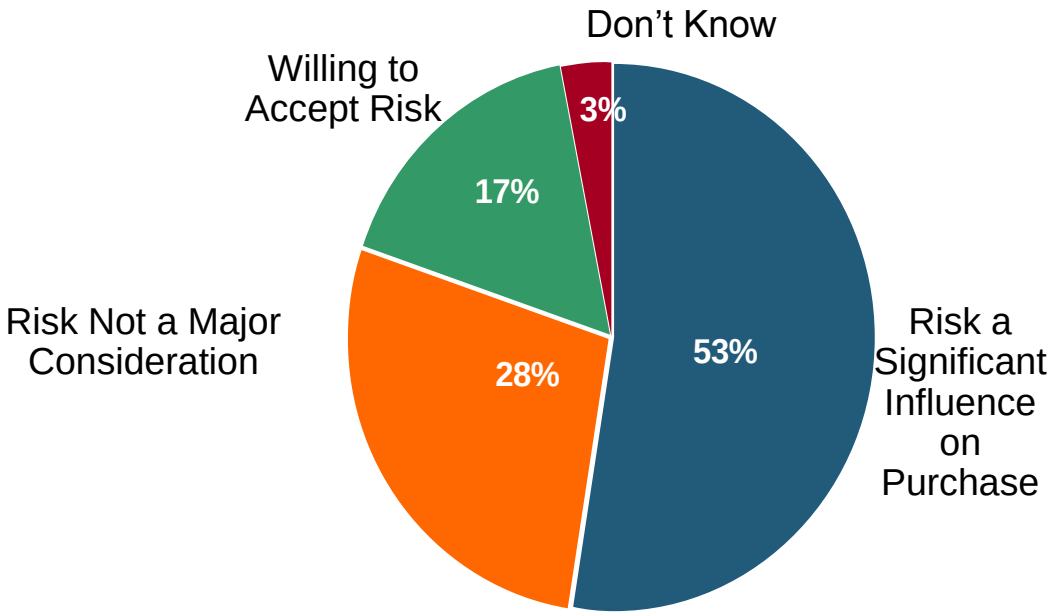



**Hail storms events occur most commonly in the densely populated MSP area and in the extreme southwest of the state**

Source: Minnesota All Hazards Mitigation Plan; Insurance Information Institute.

# I.I.I. Poll: Homes Near Hazards

**Q. If you were to purchase a home today, which of the following summarizes your views on that home's risk of damage from natural disasters . . . and your decision to purchase that home?**

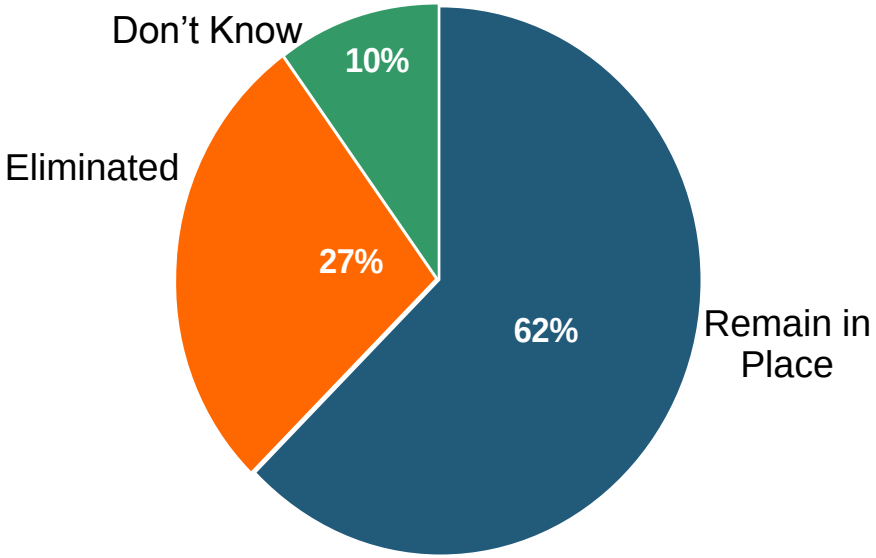



**More Than Half of the Public Would Be Significantly Influenced by Risk of Damage from Natural Disasters. Close to a Third Do Not Regard Such a Risk To Be a Major Consideration.**

Source: Insurance Information Institute Annual *Pulse* Survey.

# I.I.I. Poll: Flood Insurance Rates

**Q. Congress recently passed a law that will roll back some of the rate increases it put in place for homeowers who purchase subsidized flood insurance from the government . . . . Do you think the recent rate rollback and subsidies should remain in place for most homeowners who purchase flood insurance; or the rollbacks and subsidies should be eliminated; or don't know?**




**Most Americans Support the Flood Insurance Rate Rollback.**

Source: Insurance Information Institute Annual *Pulse* Survey.

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# Outlook for the 2014 Atlantic Hurricane Season

## Somewhat Below Average Activity, Fewer Landfalls Expected

# Outlook for 2014 Hurricane Season: 30% *Less* Active Than Typical Year

| | Median* | 2005 (Katrina Year) | 2014F |
|---|---|---|---|
| Named Storms | 12.0 | 28 | 10 |
| Named Storm Days | 60.1 | 115.5 | 40 |
| Hurricanes | 6.5 | 14 | 4 |
| Hurricane Days | 21.3 | 47.5 | 15 |
| Major Hurricanes | 2.0 | 7 | 1 |
| Major Hurricane Days | 3.9 | 7 | 3 |
| Accumulated Cyclone Energy | 92.0 | NA | 65 |
| Net Tropical Cyclone Activity | 103% | 275% | **70%** |

*Over the period 1981-2010.
Source: Dr. Philip Klotzbach and Dr. William Gray, Colorado State University, June 2, 2014.

# Probability of Major Hurricane Landfall (CAT 3, 4, 5) in 2014

| | Average* | 2014F |
|---|---|---|
| Entire US Coast | 52% | 40% |
| **US East Coast Including Florida Peninsula** | 31% | 22% |
| Gulf Coast from FL Panhandle to Brownsville, TX | 30% | 23% |
| ***ALSO…Above-Average Major Hurricane Landfall Risk in Caribbean for 2011 (32% vs. 42%)*** | | |

*Average over the past century.

Source: Dr. Philip Klotzbach and Dr. William Gray, Colorado State University, June 2, 2014.

# Total Value of Insured Coastal Exposure in 2012

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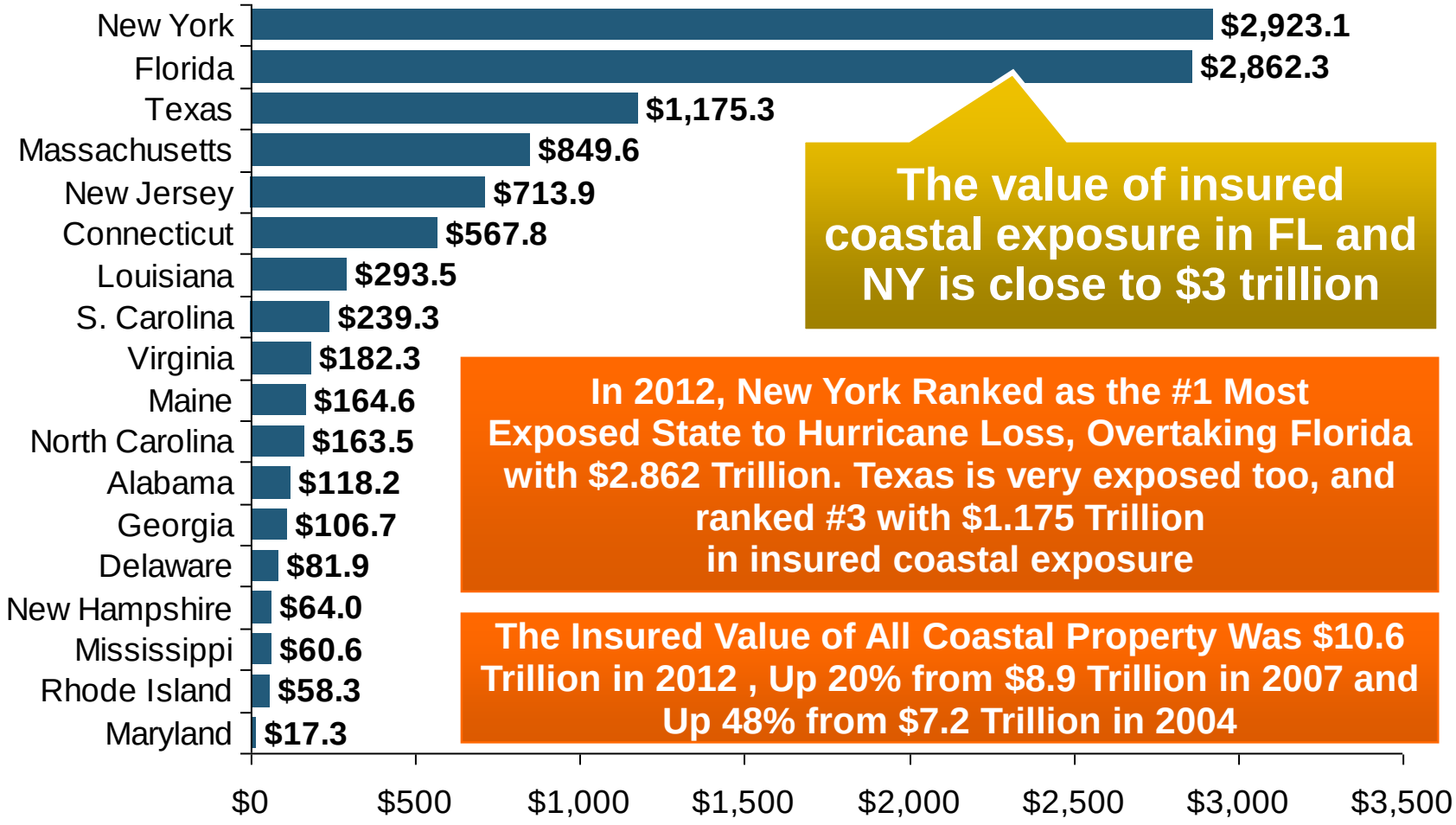
**(2012, $ Billions)**




**The value of insured coastal exposure in FL and NY is close to $3 trillion**

**In 2012, New York Ranked as the #1 Most Exposed State to Hurricane Loss, Overtaking Florida with $2.862 Trillion. Texas is very exposed too, and ranked #3 with $1.175 Trillion in insured coastal exposure**

**The Insured Value of All Coastal Property Was $10.6 Trillion in 2012 , Up 20% from $8.9 Trillion in 2007 and Up 48% from $7.2 Trillion in 2004**

Source: AIR Worldwide

# Total Value of Insured Coastal Exposure in 2007

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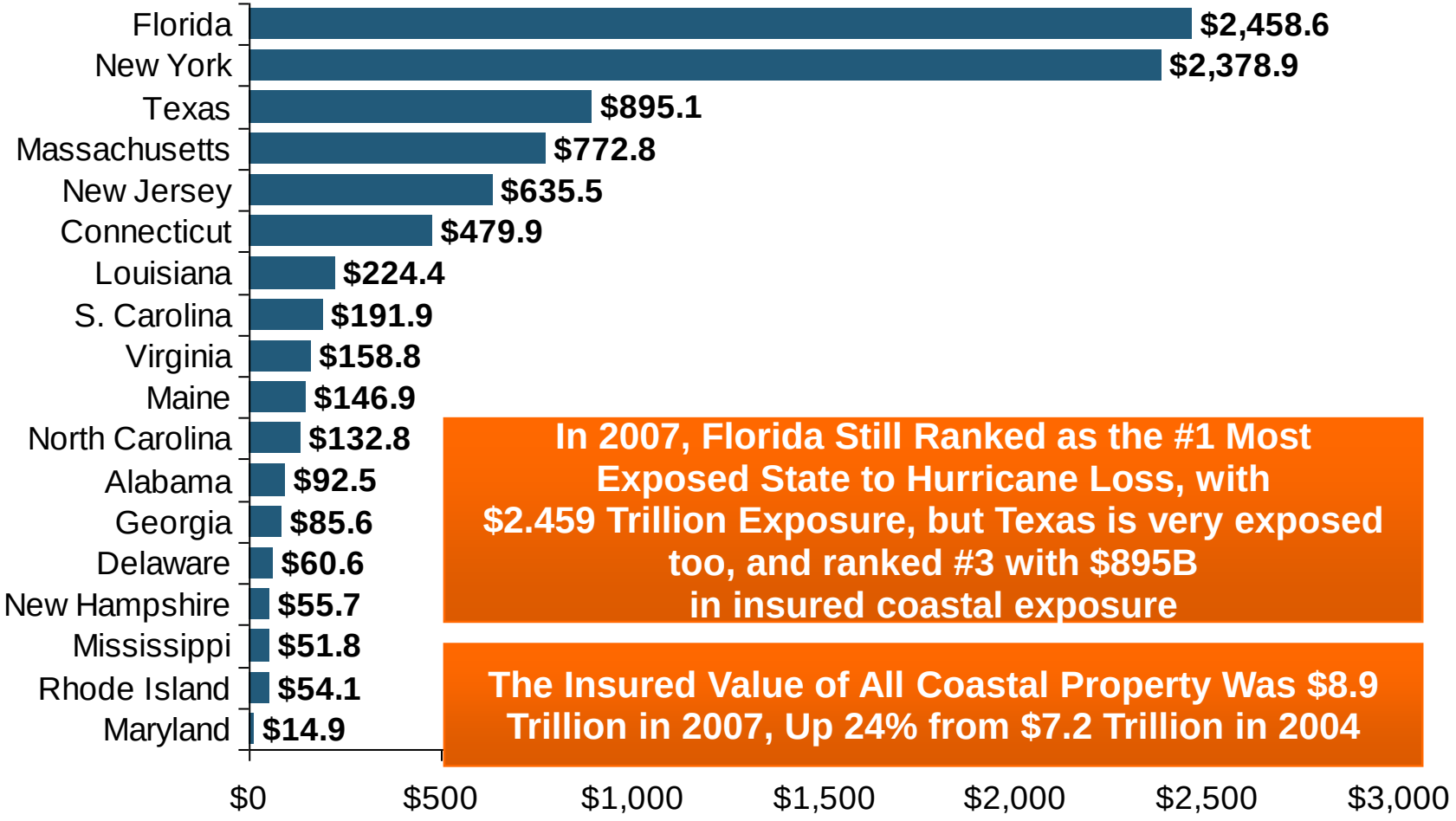
**(2007, $ Billions)**




**In 2007, Florida Still Ranked as the #1 Most Exposed State to Hurricane Loss, with $2.459 Trillion Exposure, but Texas is very exposed too, and ranked #3 with $895B in insured coastal exposure**

**The Insured Value of All Coastal Property Was $8.9 Trillion in 2007, Up 24% from $7.2 Trillion in 2004**

Source: AIR Worldwide

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# Terrorism Update

## TRIA's Success

## Consequences of Expiration

***Download III's Terrorism Insurance Report at:***
***http://www.iii.org/white_papers/terrorism-risk-a-constant-threat-2014.html***

# Loss Distribution by Type of Insurance from Sept. 11 Terrorist Attack ($ 2013)

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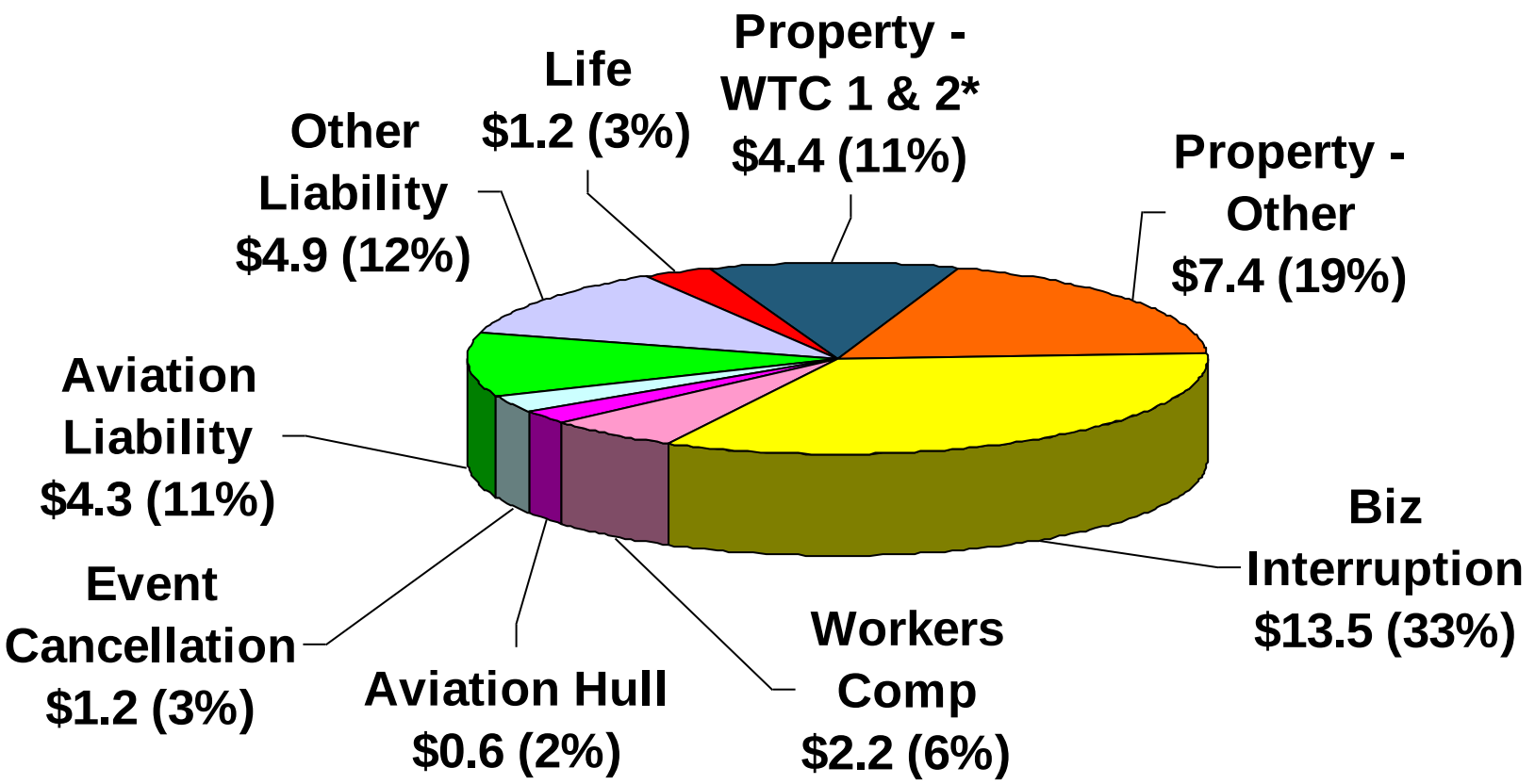
## ($ Billions)



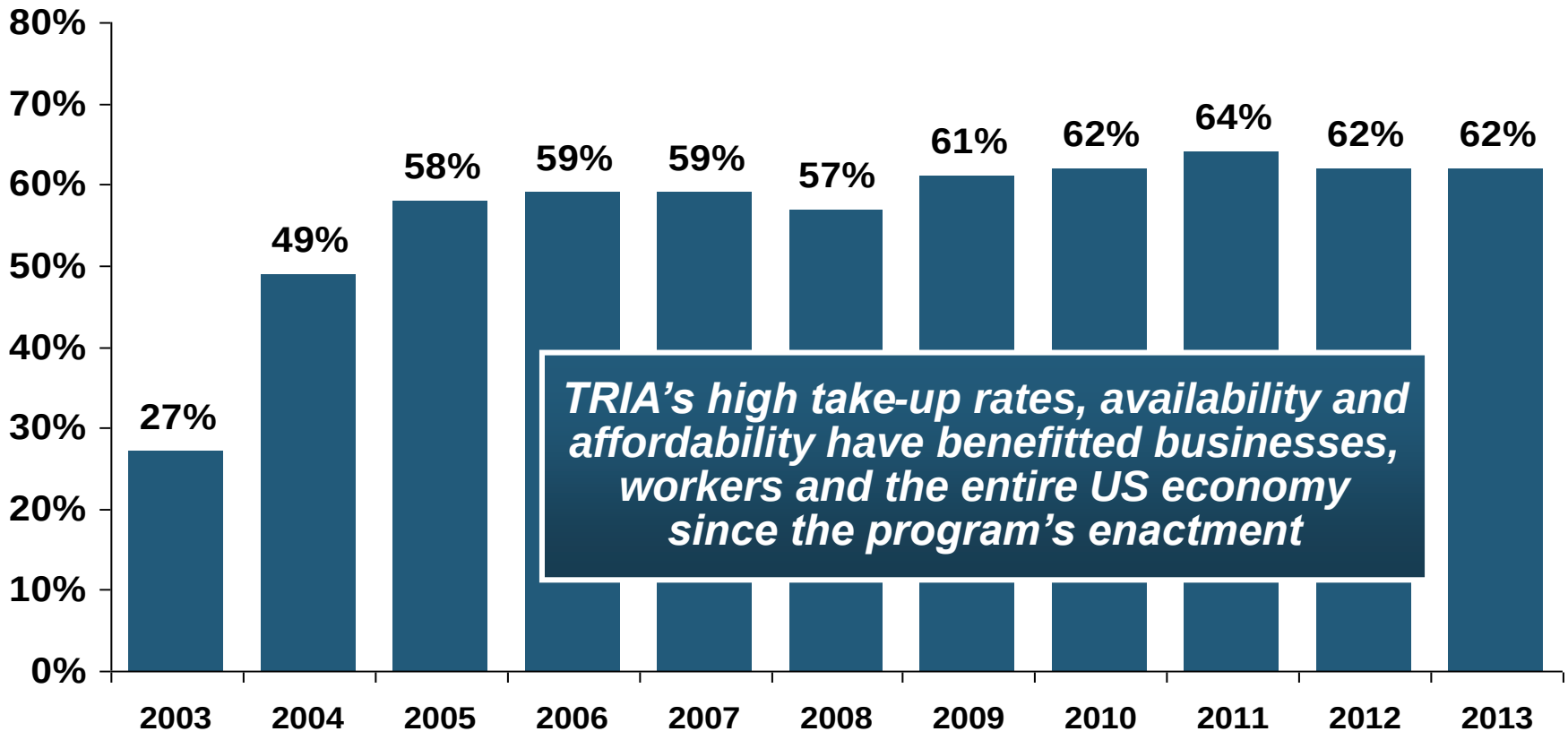

## Total Insured Losses Estimate: $42.9B**

*Loss total does not include March 2010 New York City settlement of up to $657.5 million to compensate approximately 10,000 Ground Zero workers or any subsequent settlements.

**$32.5 billion in 2001 dollars.

Source: Insurance Information Institute.

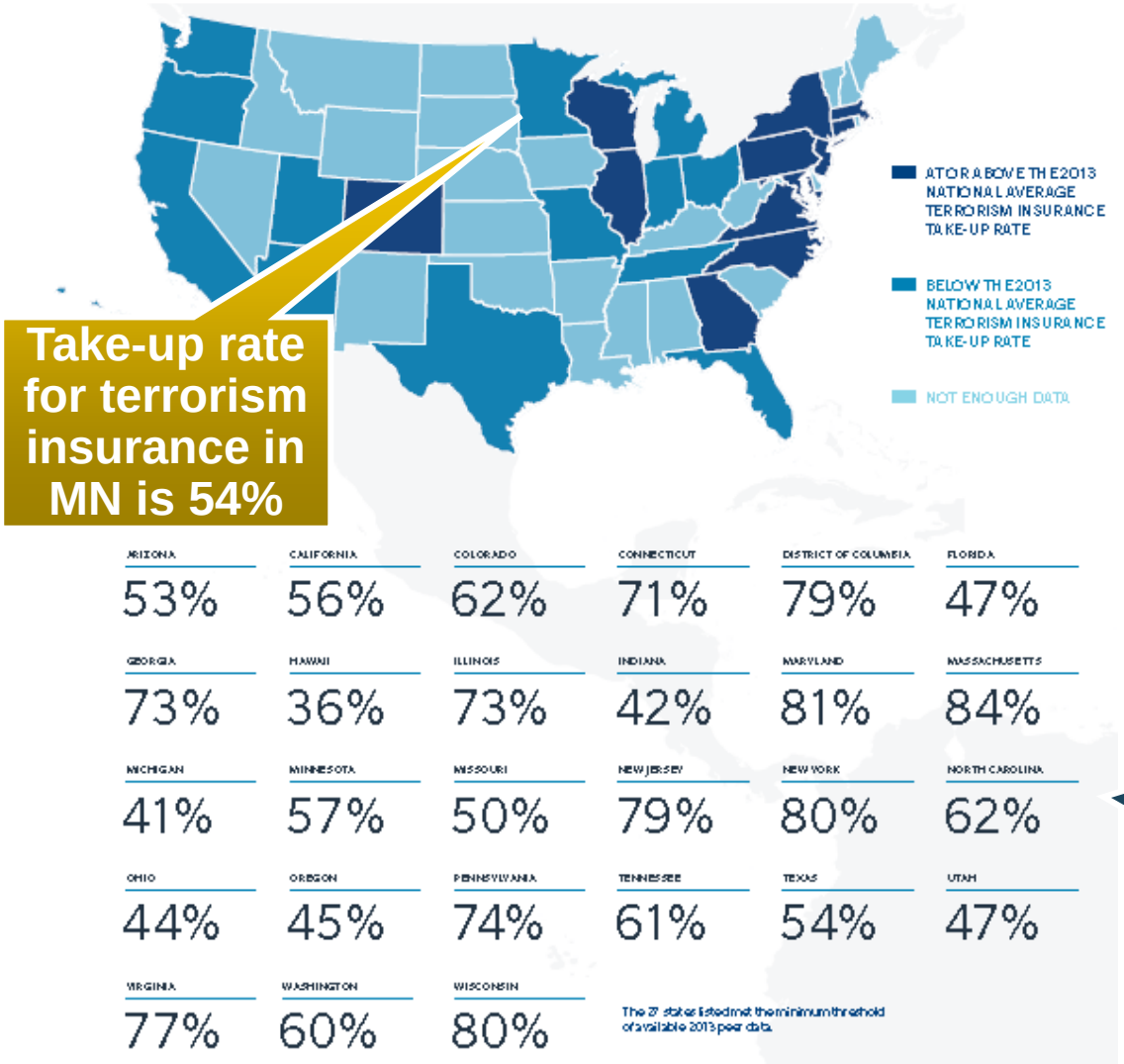
# Terrorism Insurance Take-up Rates, By Year, 2003-2013




**In 2003, the first year TRIA was in effect, the terrorism take-up rate was 27 percent. Since then, it has increased steadily, remaining in the low 60 percent range since 2009.**

Source: Marsh Global Analytics, *2014 Terrorism Risk Insurance Report,* April 2014 and earlier editions.

# Terrorism Insurance Take-Up Rates by State for 2013*




**The overall US take-up rate for terrorism coverage was 62% in 2013 and ranged from a lows of 41% in Michigan to a high of 84% in Massachusetts (where demand likely increased due to the April 2013 Boston Marathon bombing)**

*Data for 27 states with sufficient data.

Source: Marsh *2014 Terrorism Risk Insurance Report*; Insurance Information Institute.

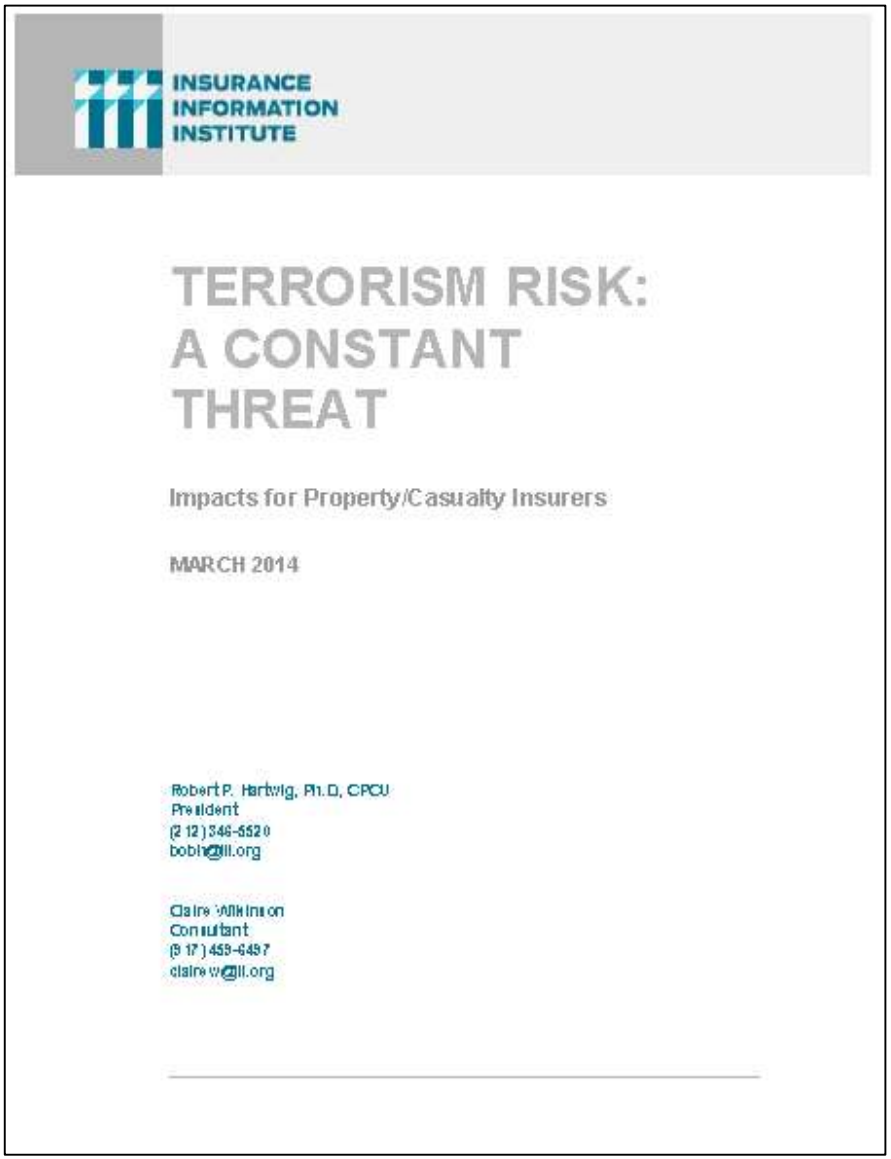
# Terrorism Risk Insurance Program

- Testified before House Financial Services Nov. 2013
- Testified before Senate Banking Cmte. in Sept. 2013
- Provided testimony at NYC hearing in June 2013
- Provided Capitol Hill Joint House/Senate Staff Briefing in April 2014
- I.I.I. Published Several Updates to its Study on Terrorism Risk and Insurance


Senate Banking Committee, 9/25/13


House Financial Services Subcommittee, 11/13/13

# I.I.I. White Paper (March 2014): *Terrorism Risk: A Constant Threat*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TERRORISM RISK: A CONSTANT THREAT

Impacts for Property/Casualty Insurers

MARCH 2014

Robert P. Hartwig, Ph.D., CPCU
President
(212) 346-5520
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Claire Wilkinson
Consultant
(917) 453-6497
clairew@iii.org

- **Detailed history of TRIA**
- **How TRIA works**
- **Assessing the threat of terrorism**
- **Terrorism market conditions**
- **Global perspective**
- **Download at *http://www.iii.org/white_papers/terrorism-risk-a-constant-threat-2014.html***

# Summary of President's Working Group Report on TRIA (April 2014)

- **Insurance for terrorism risk is available and affordable**
  - **Availability/affordability have has not changed appreciably since 2010**
- **Prices for terrorism risk insurance vary considerably depending on the policyholder's industry and location of risk**
- **Prices have declined since TRIA was enacted**
  - **Currently ~3% to 5% of commercial property insurance premiums**
- **Take-up rates have improved since adoption of TRIA**
  - **Overall take-up rate is steady at ~60% (62% in 2013 per Marsh)**
- ***Market capacity is currently tightening given uncertainty over TRIA reauthorization***
- ***The private market does not have the capacity to provide reinsurance for terror risk to the extent currently provided by TRIA***
- ***In the absence of TRIA, terrorism risk insurance would likely be less available. Coverage that would be available likely would be more costly and/or limited in scope***

Source: Report of the President's Working Group on Financial Markets, *The Long-Term Availability and Affordability of Insurance for Terrorism Risk*, April 2014.

# Framing the Issue and Educating Policymakers: A Timeline

- Education Efforts Pay Off
  - Senate Banking Committee unanimously reports out TRIA bill 22-0
  - House Financial Services Committee passes bill
  - Senate passes bill with strong support; Votes 93-4 to reauthorize on 7/17
- Key addition to bills: clarification on certification process, cyber terrorism
- Where do we go from here? Are difference between the bills bridgeable?
  - Reauthorization terms differ (Senate: 7yrs; House: 5yrs)
  - Bifurcation of NBCR and conventional
  - Trigger points ($100M vs. $500M)
- Clock is running: After July 31, the House is in session for only 12 days before the election
  - Lame duck for enactment

Source: Marsh

# Initial Market Response to Potential TRIA Expiration

- Carriers monitoring and modeling WC exposure aggregations across their portfolio and correlated lines of business such as property or life and health (both on an individual client basis and in the aggregate)
- Carrier declinations have occurred because they are “overlined” in a particular zip code or city
- Many carriers attached NCCI Endorsement WC00 01 14 (Notification Endorsement of Pending Law Change to Terrorism Risk Insurance Program Reauthorization Act of 2007) or an equivalent for non-NCCI states.
- For some high-profile clients or those in urban areas and/or with high employee concentrations, carriers issued short term policies set to expire at the same time as TRIPRA
- Regarding non-WC lines (including select XSWC placements), policyholders were faced with new or broadened exclusionary wording on GL, umbrella, and XS forms

Source: Marsh

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# CAT OF THE FUTURE?
# *CYBER RISK*

## Cyber Risk is a Rapidly Emerging Exposure for Businesses Large and Small in Every Industry

**NEW III White Paper:**
**http://www.iii.org/assets/docs/pdf/paper_CyberRisk_2013.pdf**

# Data Breaches 2005-2013, by Number of Breaches and Records Exposed

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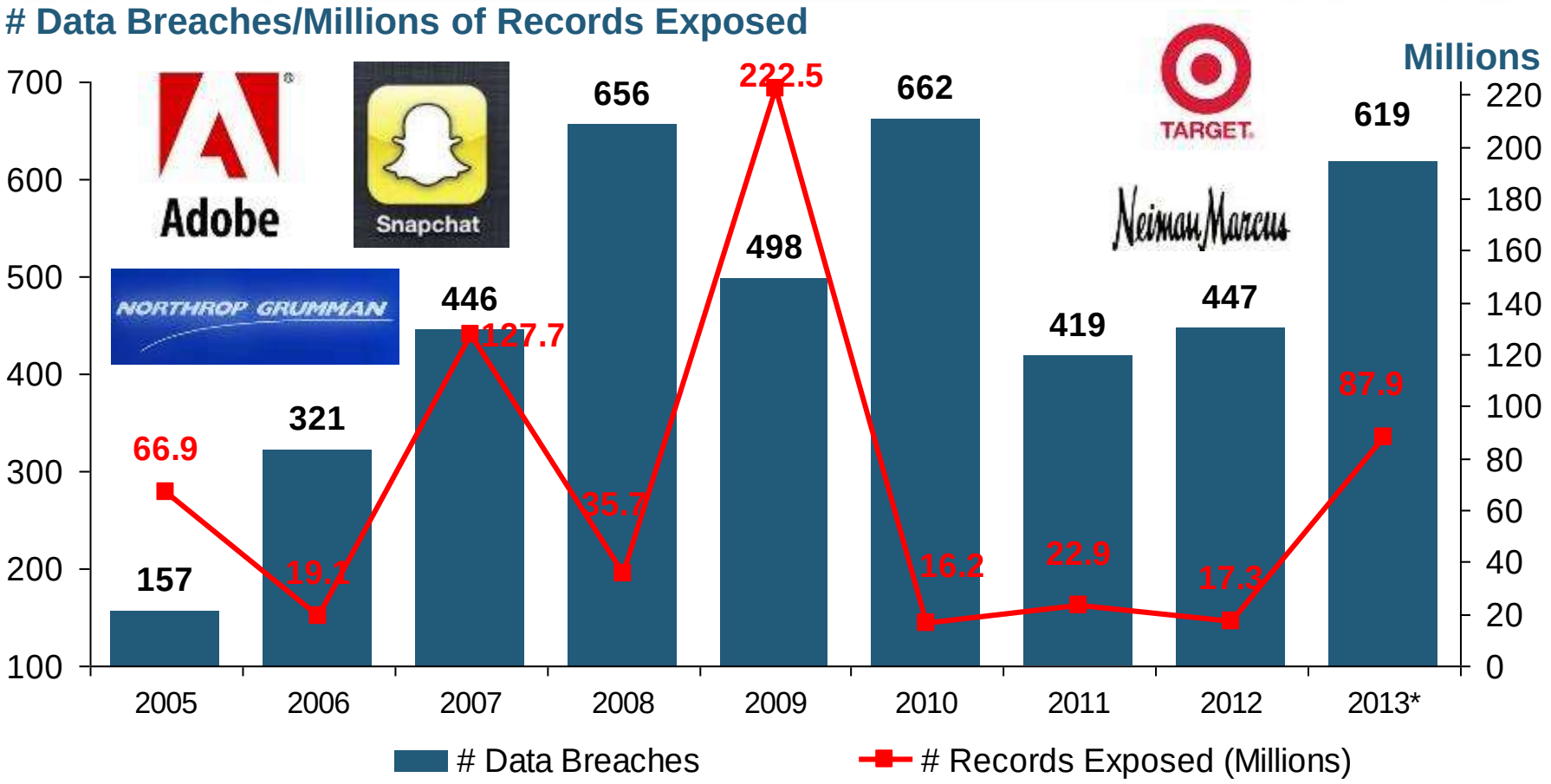
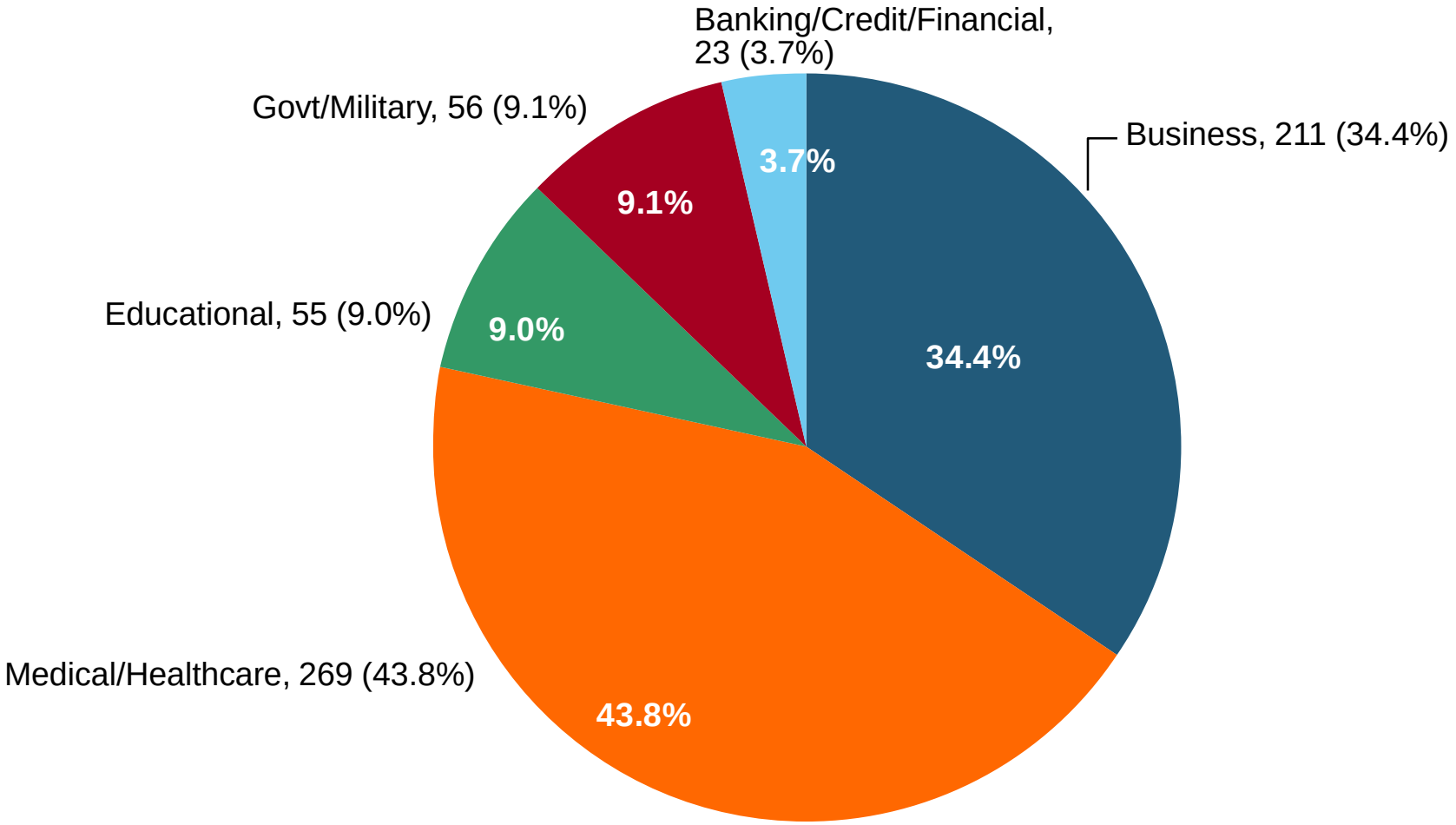



**The Total Number of Data Breaches (+38%) and Number of Records Exposed (+408%) in 2013 Soared**

* 2013 figures as of Jan. 1, 2014 from the ITRC updated to an additional 30 million records breached (Target) as disclosed in Jan. 2014.
Source: Identity Theft Resource Center.

# 2013 Data Breaches By Business Category, By Number of Breaches

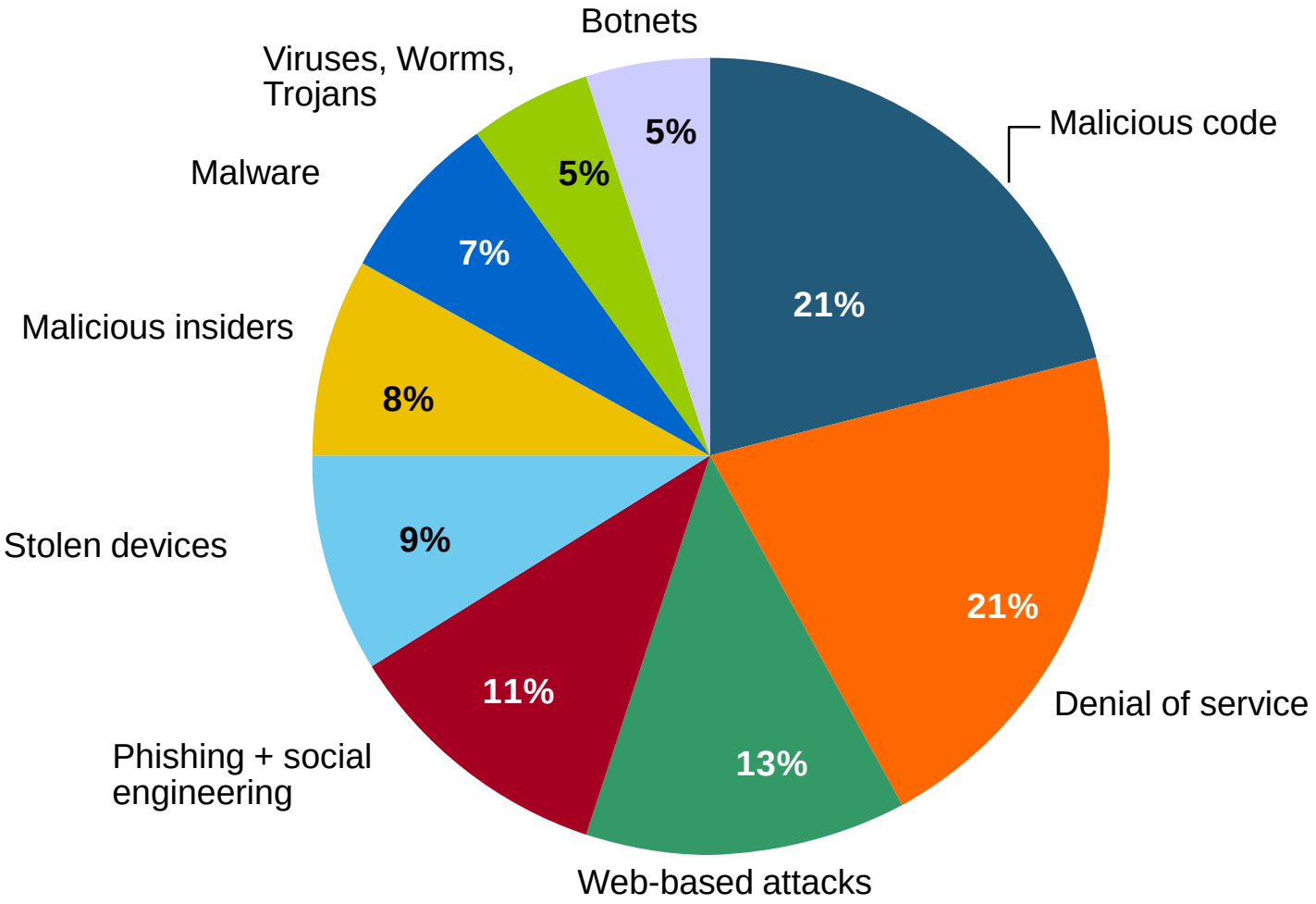
**The majority of the 614 data breaches in 2013 affected business and medical/healthcare organizations, according to the Identity Theft Resource Center.**




Source: Identity Theft Resource Center, http://www.idtheftcenter.org/images/breach/2013/UpdatedITRCBreachStatsReport.pdf

# The Most Costly Cyber Crimes, Fiscal Year 2013

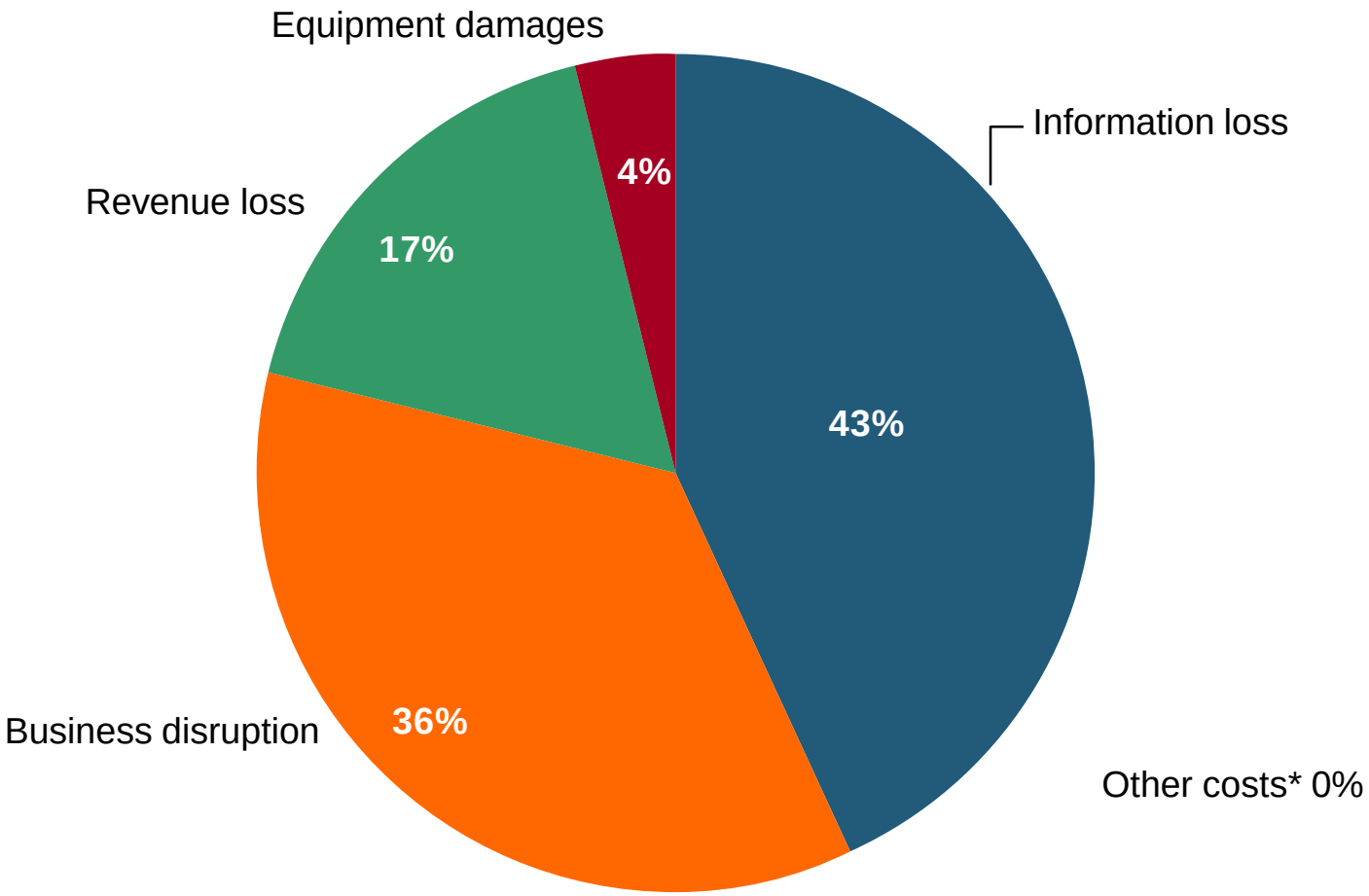
**Denial of service, malicious code and web-based attacks account for more than 55 percent of all cyber costs per U.S. organization on an annual basis.**




Source: *2013 Cost of Cyber Crime: United States*, Ponemon Institute.

# External Cyber Crime Costs: Fiscal Year 2013

**Information loss (43%) and business disruption or lost productivity (36%) account for the majority of external costs due to cyber crime.**




* Other costs include direct and indirect costs that could not be allocated to a main external cost category

Source: *2013 Cost of Cyber Crime: United States*, Ponemon Institute.

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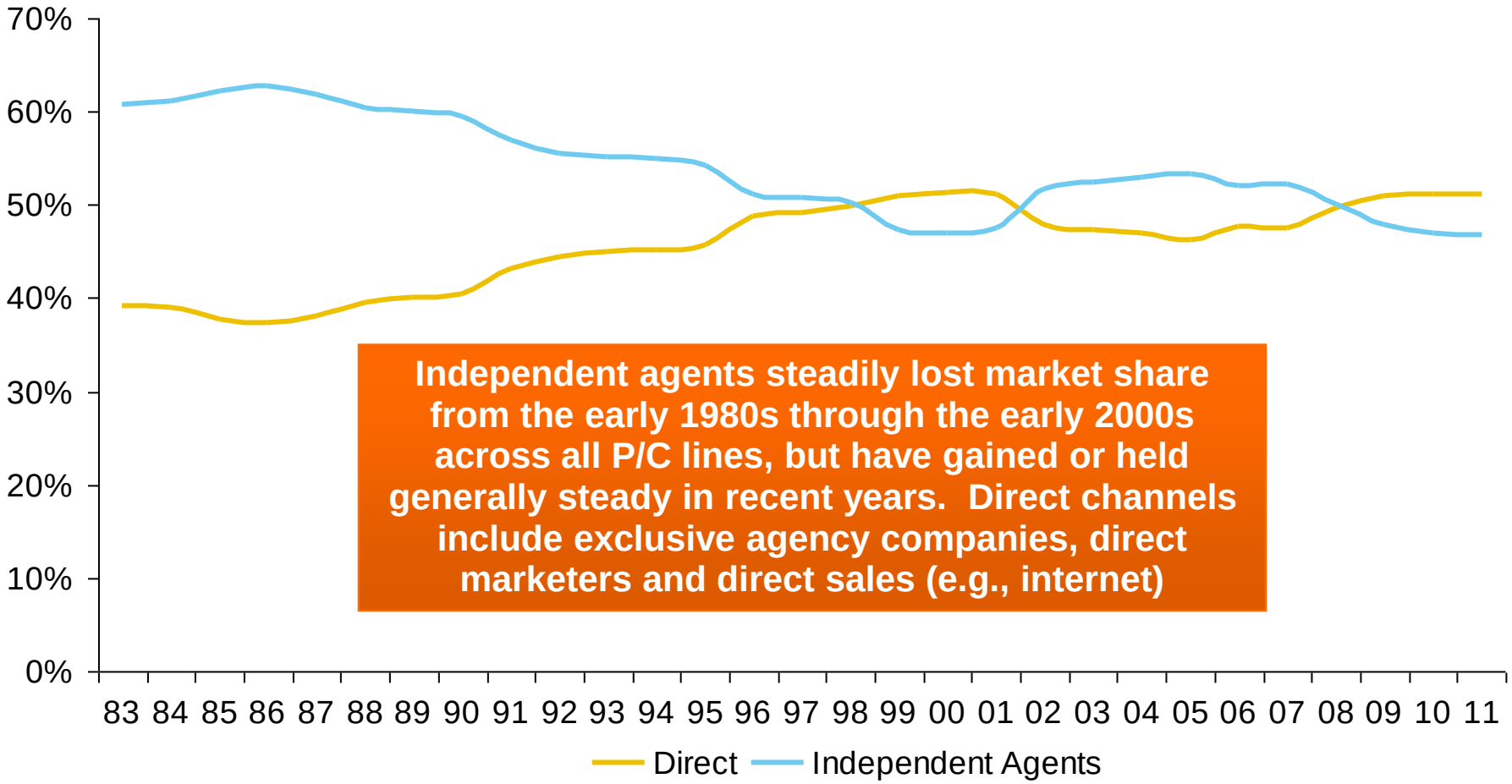
# Distribution Trends

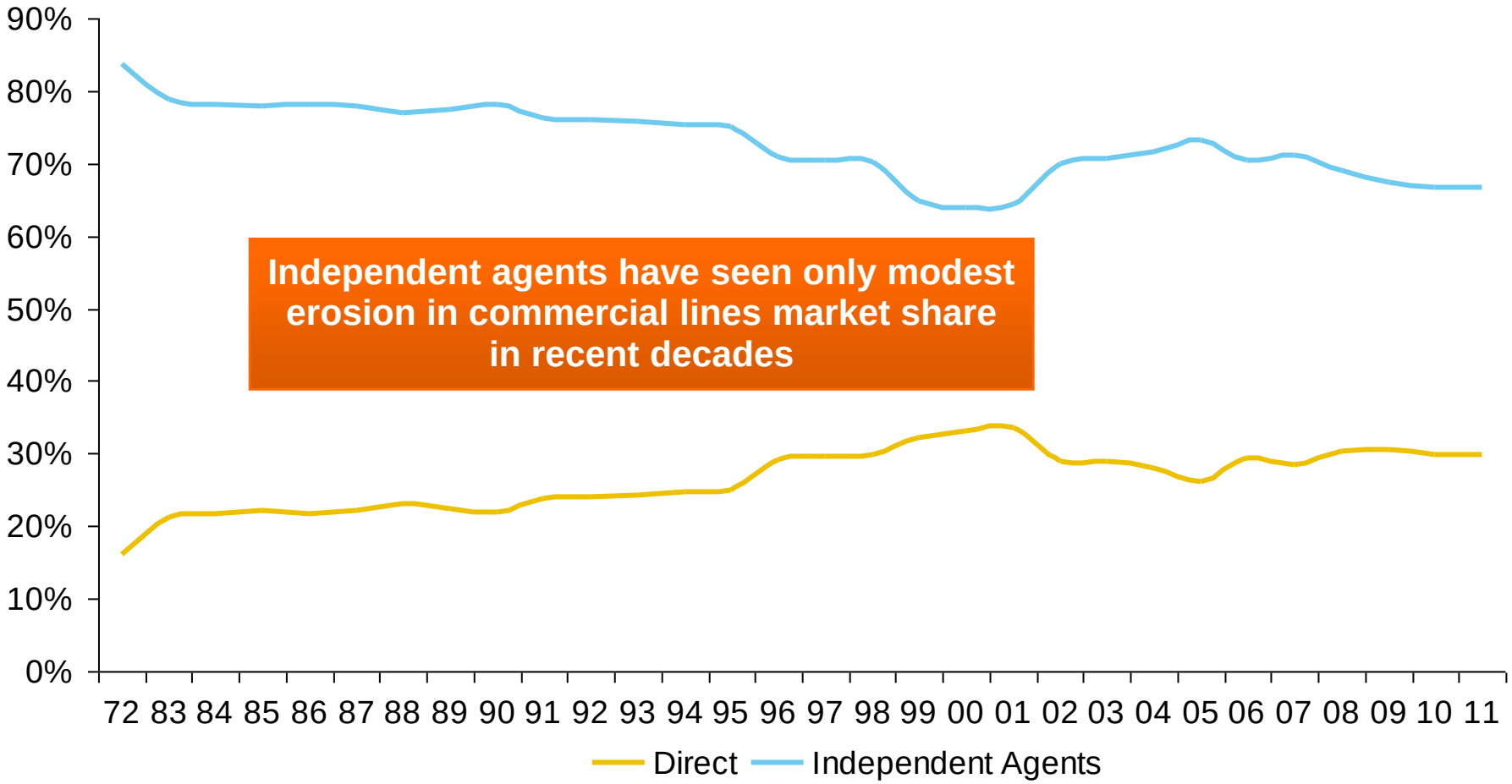
## Distribution by Channel Type Continues to Evolve Around the World

# All P/C Lines Distribution Channels, Direct vs. Independent Agents



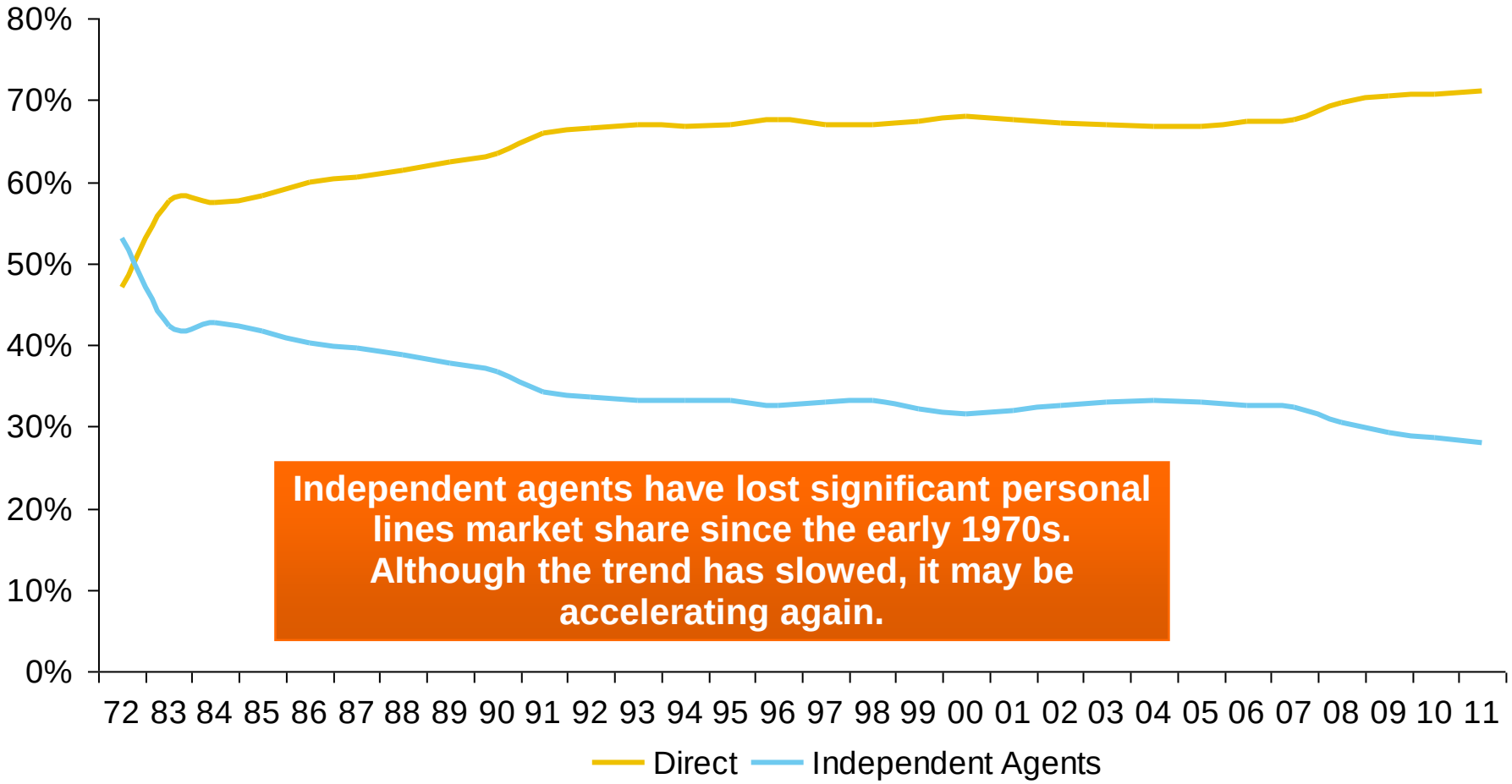

Source: Insurance Information Institute; based on data from Conning and A.M. Best.

# Commercial P/C Distribution Channels, Direct vs. Independent Agents




Source: Insurance Information Institute; based on data from Conning and A.M. Best.

# Personal Lines Distribution Channels, Direct vs. Independent Agents




Source: Insurance Information Institute; based on data from Conning and A.M. Best.

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# 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: 2000–2014[1]

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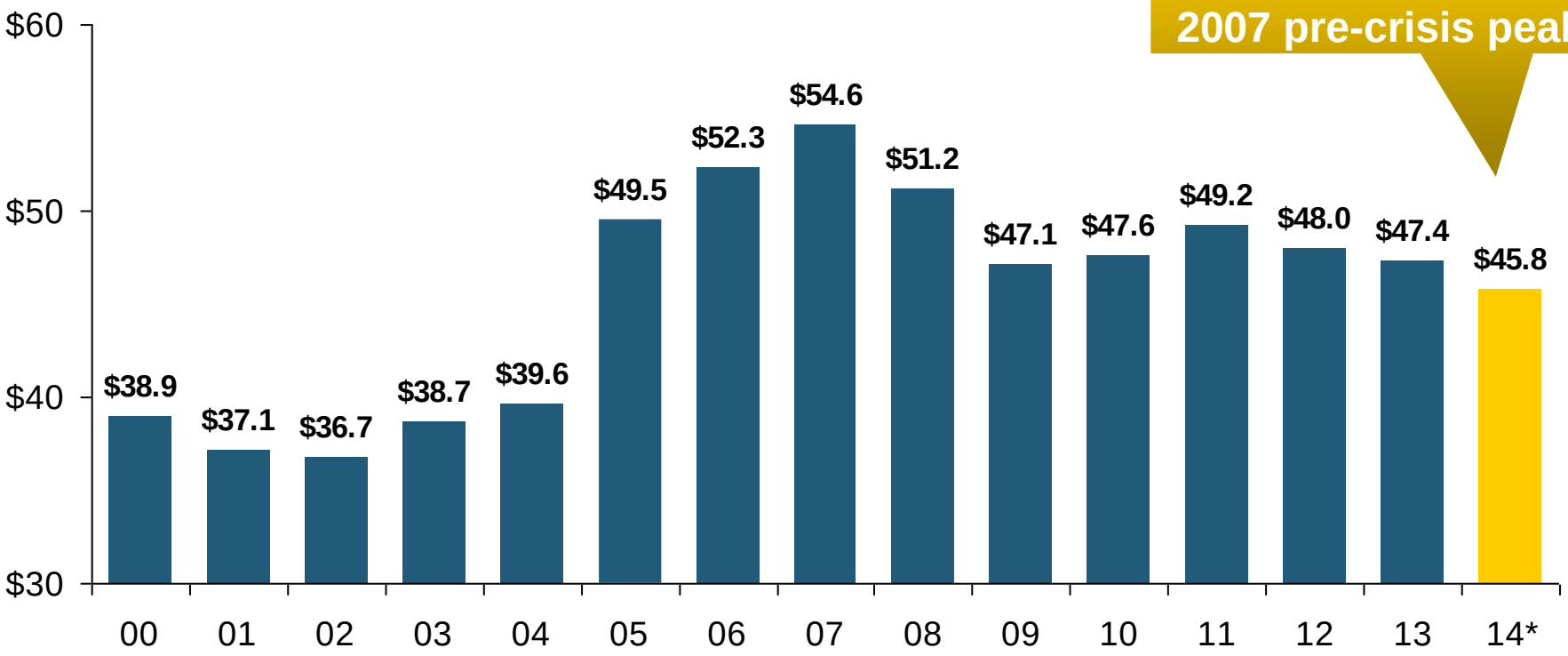
($ Billions)



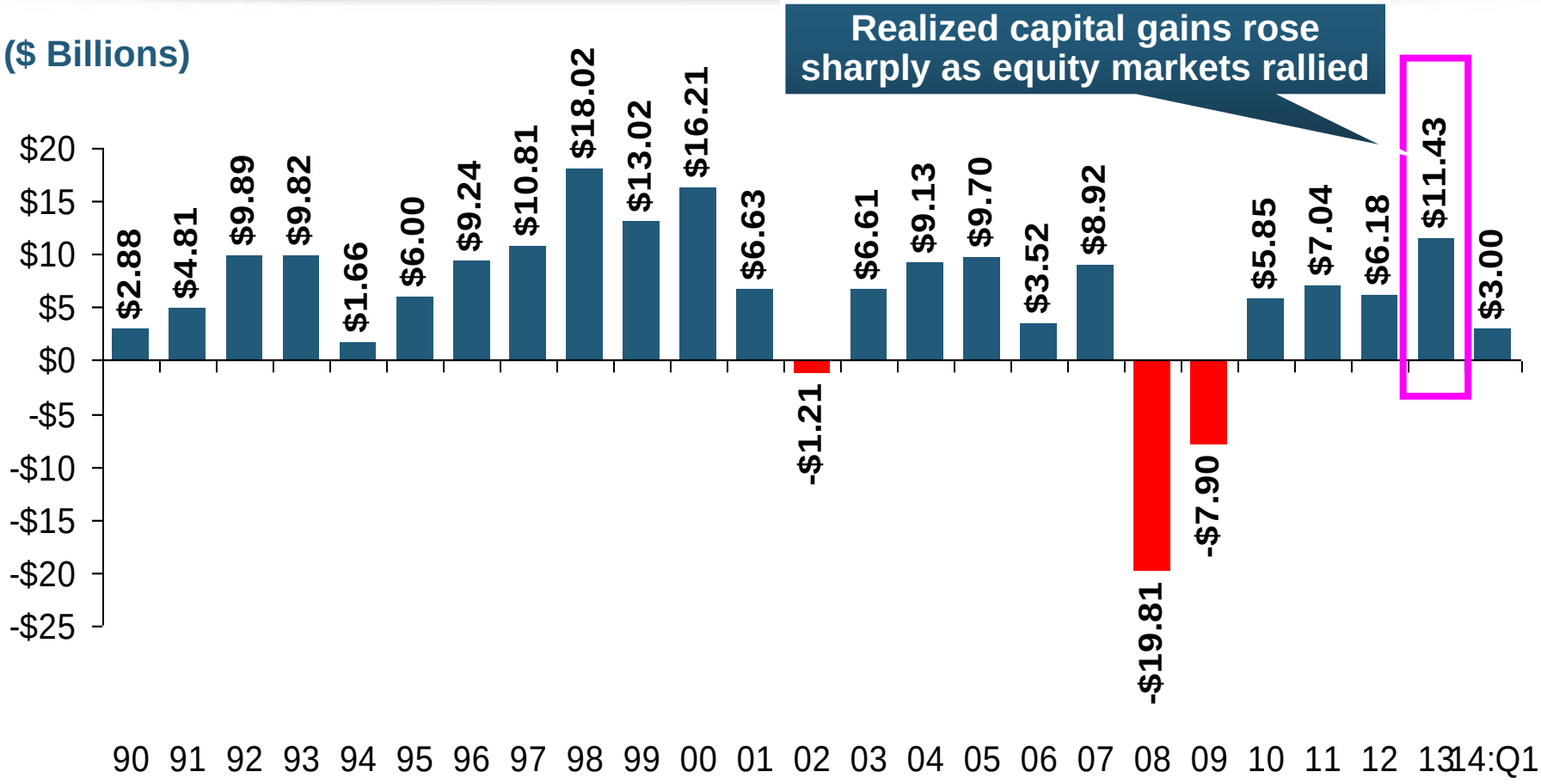

**Due to persistently low interest rates, investment income fell in 2012 and in 2013 and is falling again in 2014.**

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

*2014 investment income is estimated Q1, annualized.

Sources: ISO; Insurance Information Institute.

# P/C Insurer Net Realized Capital Gains/Losses, 1990-2014:Q1




**Insurers Posted Net Realized Capital Gains in 2010 - 2013 Following Two Years of Realized Losses During the Financial Crisis. Realized Capital Losses Were a Primary Cause of 2008/2009's Large Drop in Profits and ROE**

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

# Property/Casualty Insurance Industry Investment Gain: 1994–2014:Q1[1]

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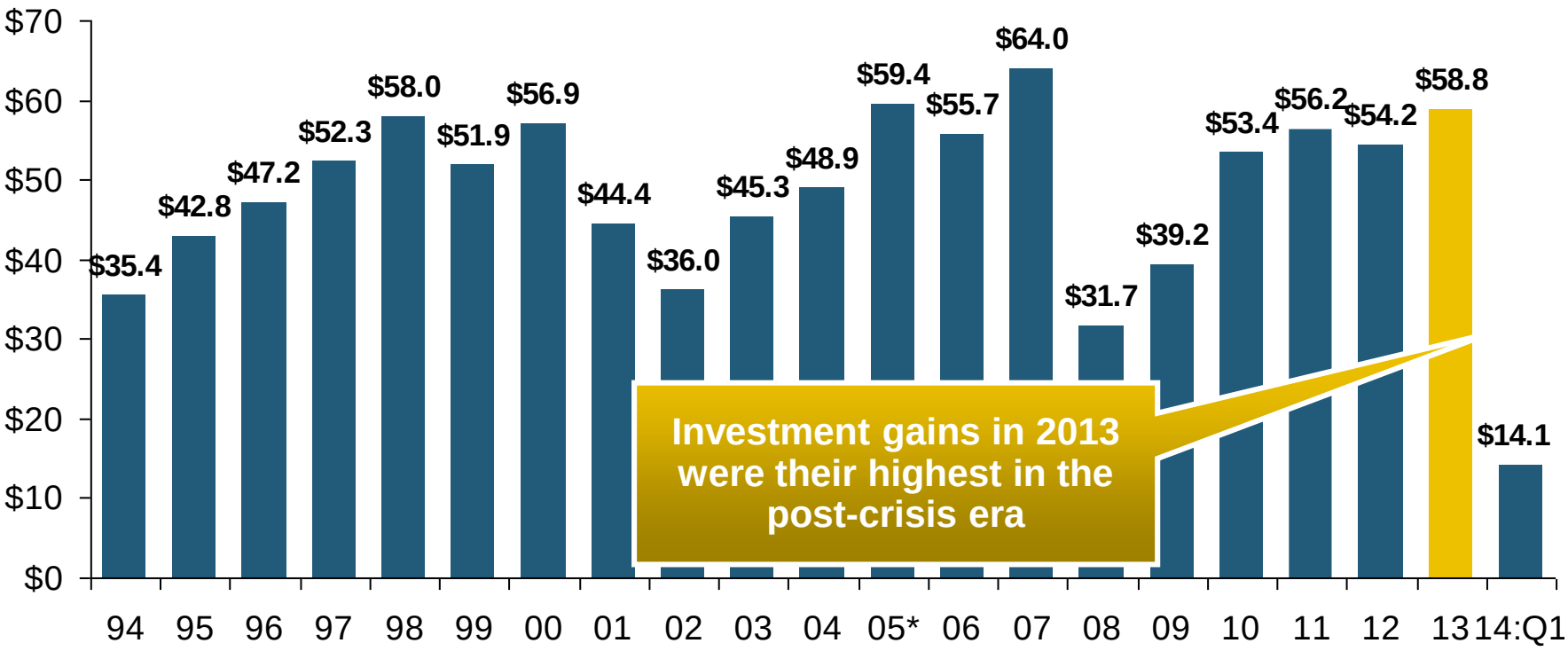
($ Billions)




**Investment Income Continued to Fall in 2013 Due to Low Interest Rates 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. 10-Year Treasury Note Yields: A Long Downward Trend, 1990–2014*

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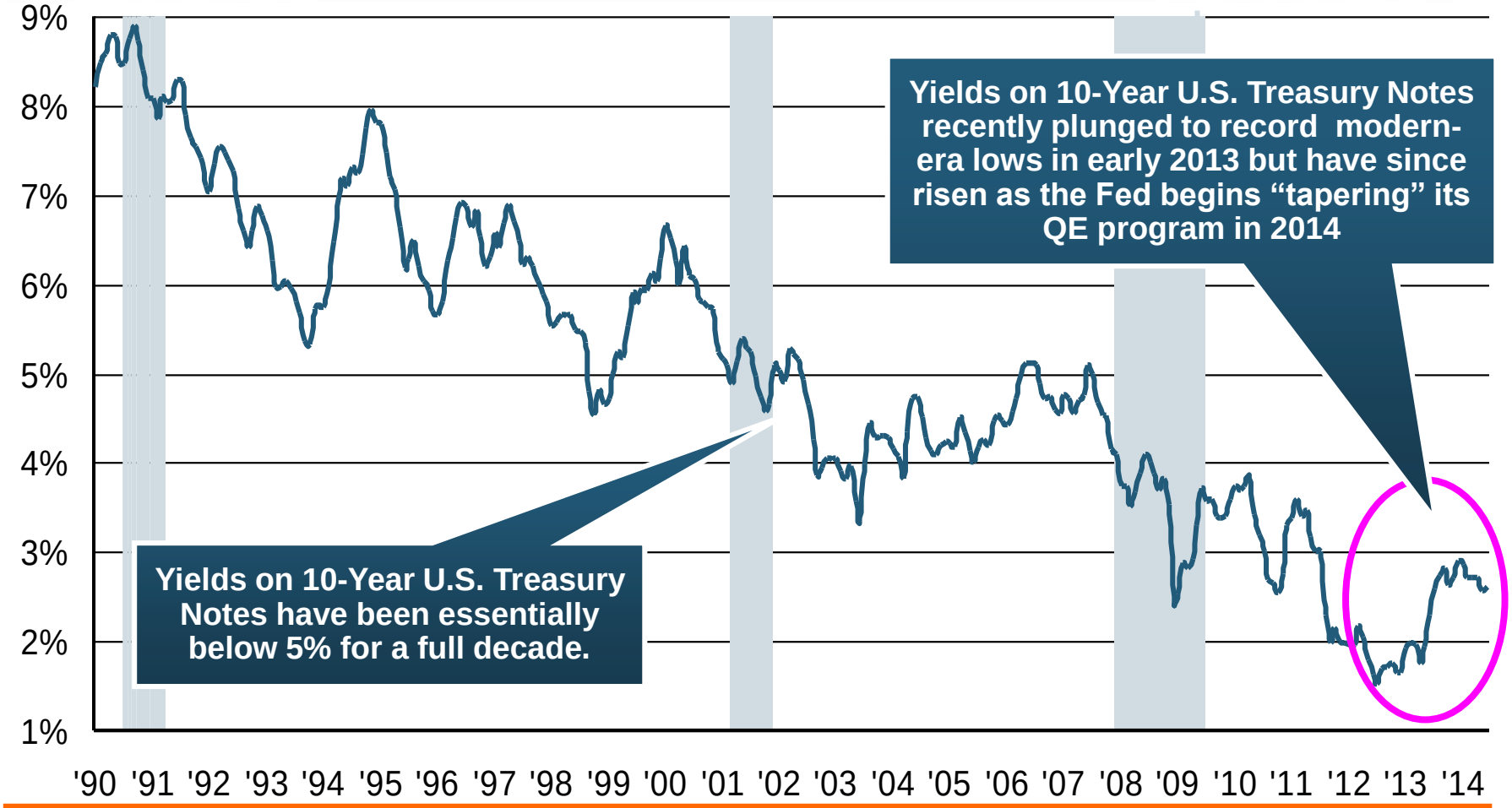


**Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.**

*Monthly, through June 2014. 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.

# U.S. Treasury Security Yields: A Long Downward Trend, 1990–2014*

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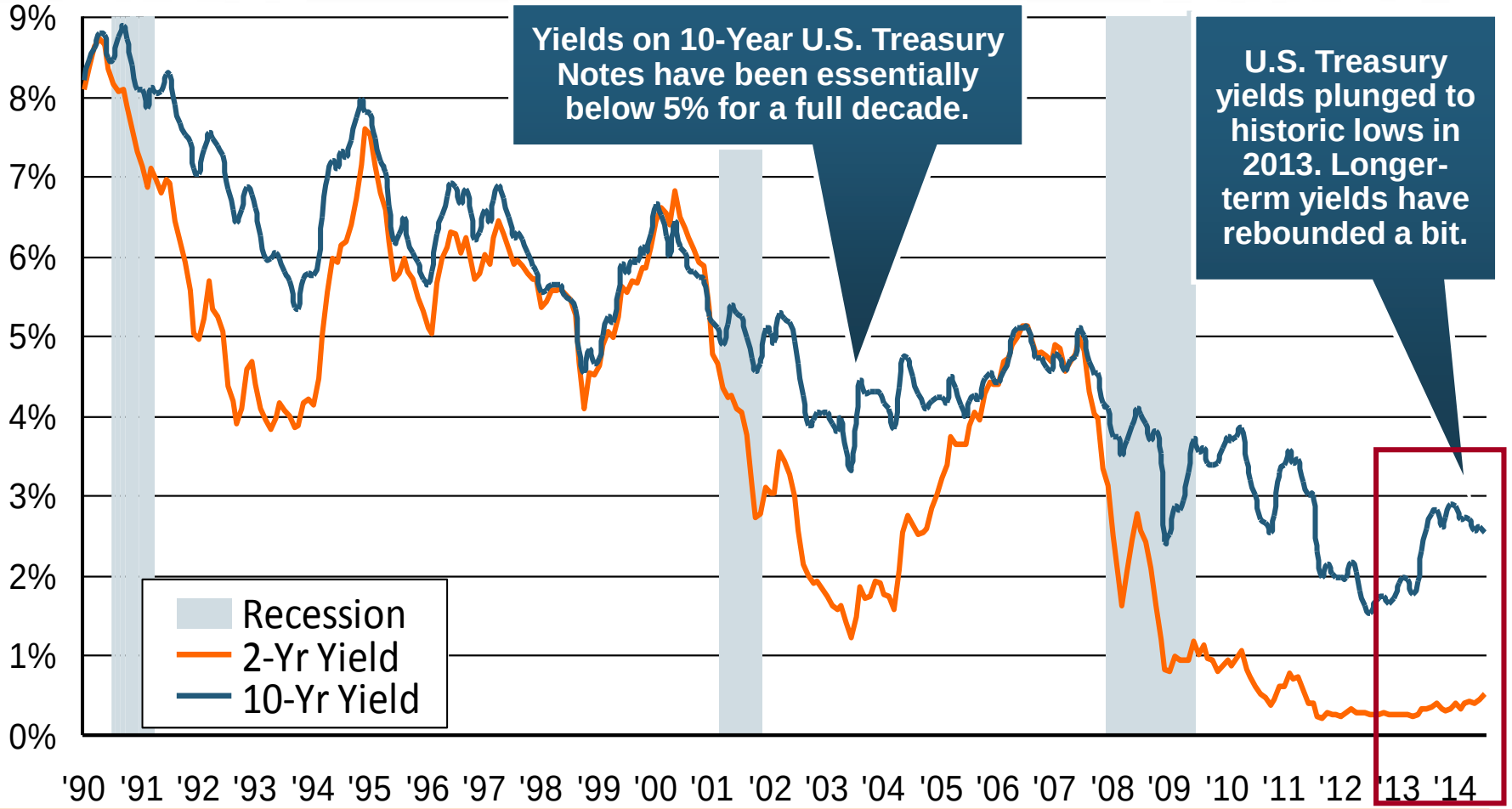
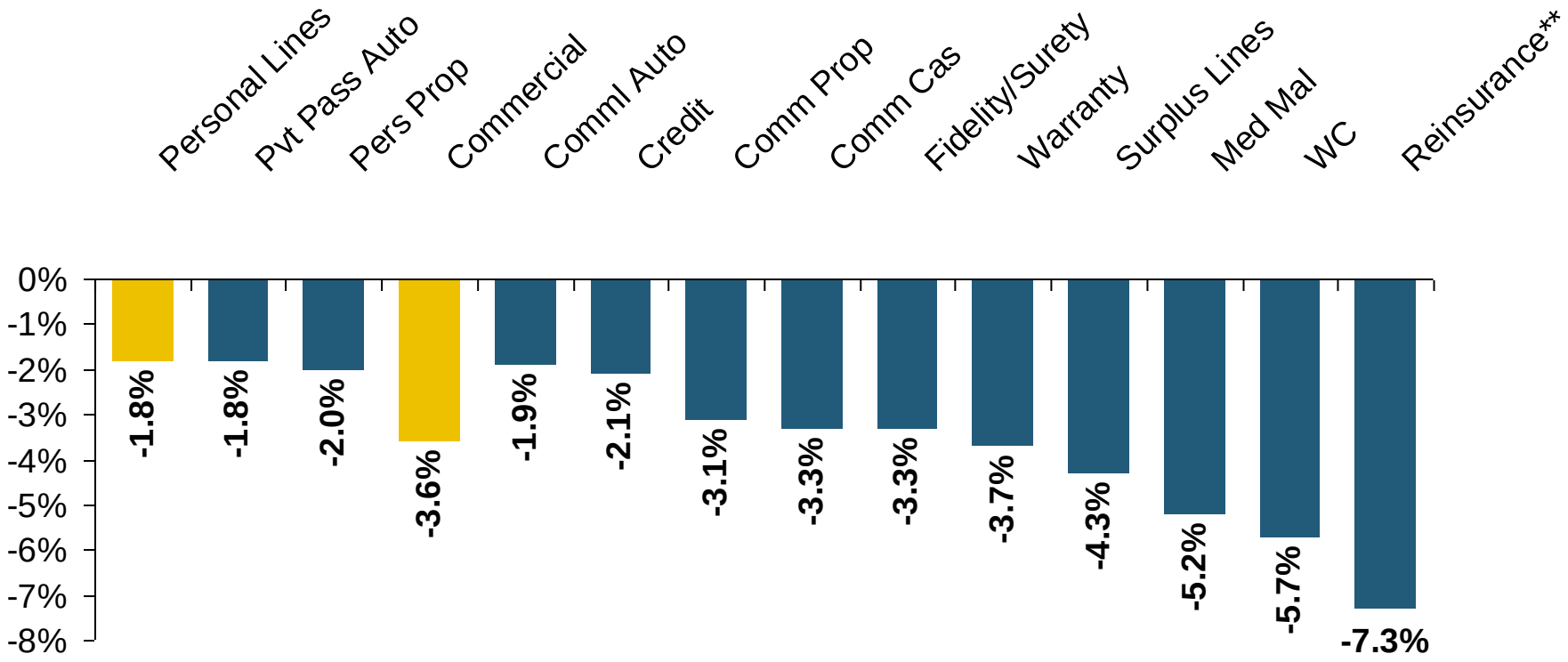



**Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.**

*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 Institute.

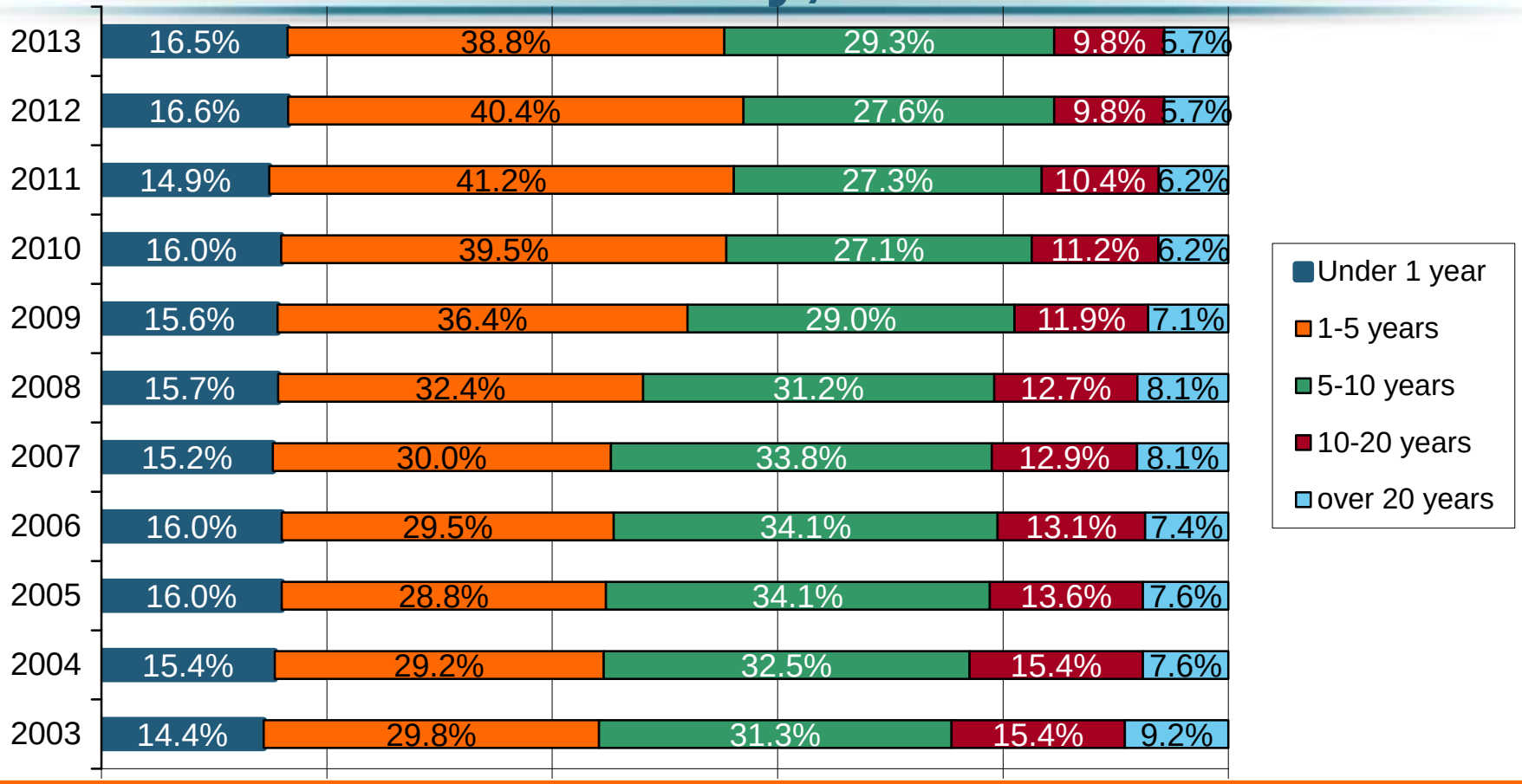
# Reduction in Combined Ratio Necessary to Offset 1% Decline in Investment Yield to Maintain Constant ROE, by Line*




**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.

# Distribution of Bond Maturities, P/C Insurance Industry, 2003-2013




**The main shift over these years has been from bonds with longer maturities to bonds with shorter maturities. The industry first trimmed its holdings of over-10-year bonds (from 24.6% in 2003 to 15.5% in 2012) and then trimmed bonds in the 5-10-year category (from 31.3% in 2003 to 27.6% in 2012) . Falling average maturity of the P/C industry's bond portfolio is contributing to a drop in investment income along with lower yields.**

Sources: SNL Financial; Insurance Information Institute.

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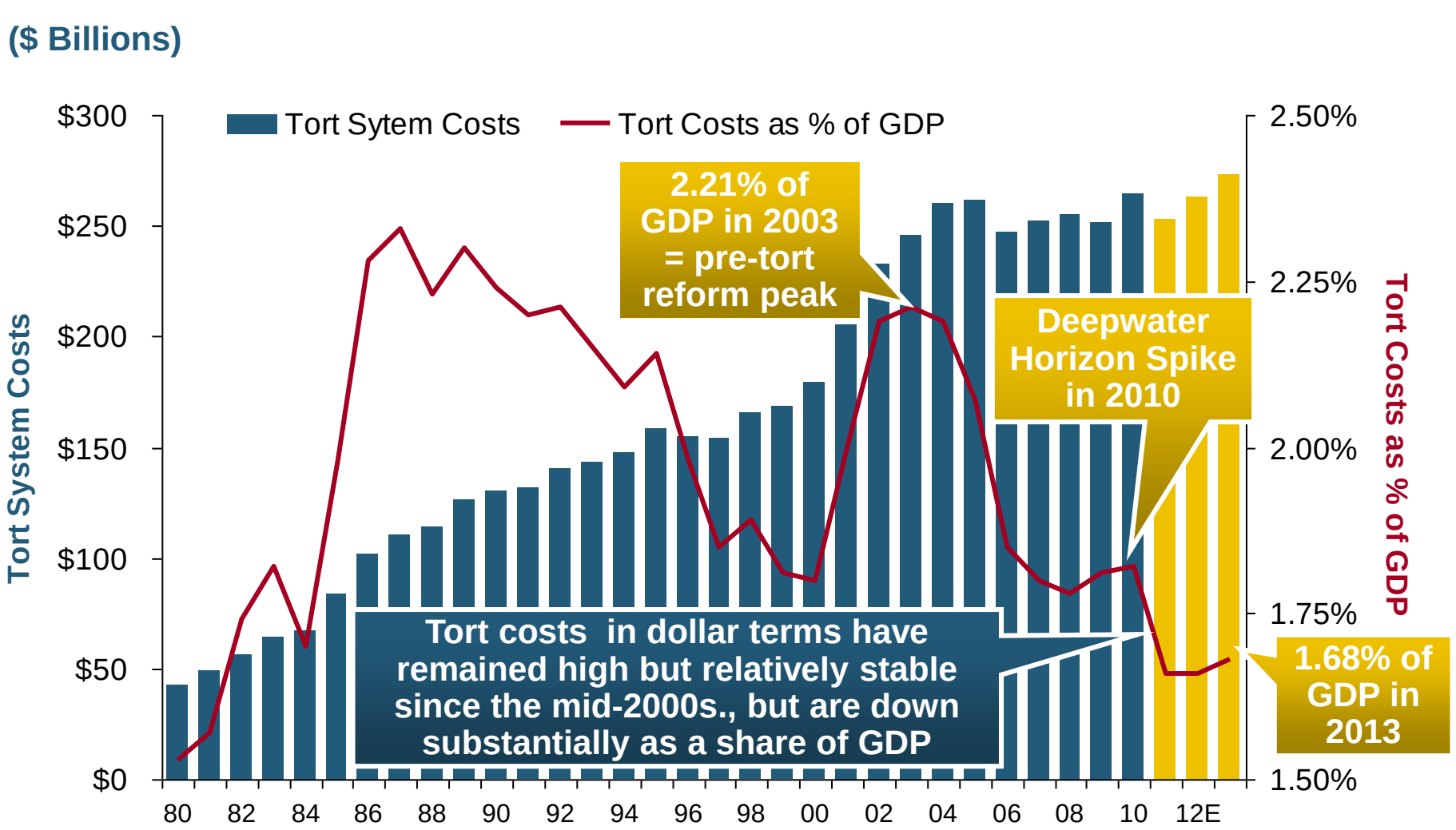
# Shifting Legal Liability & Tort Environment

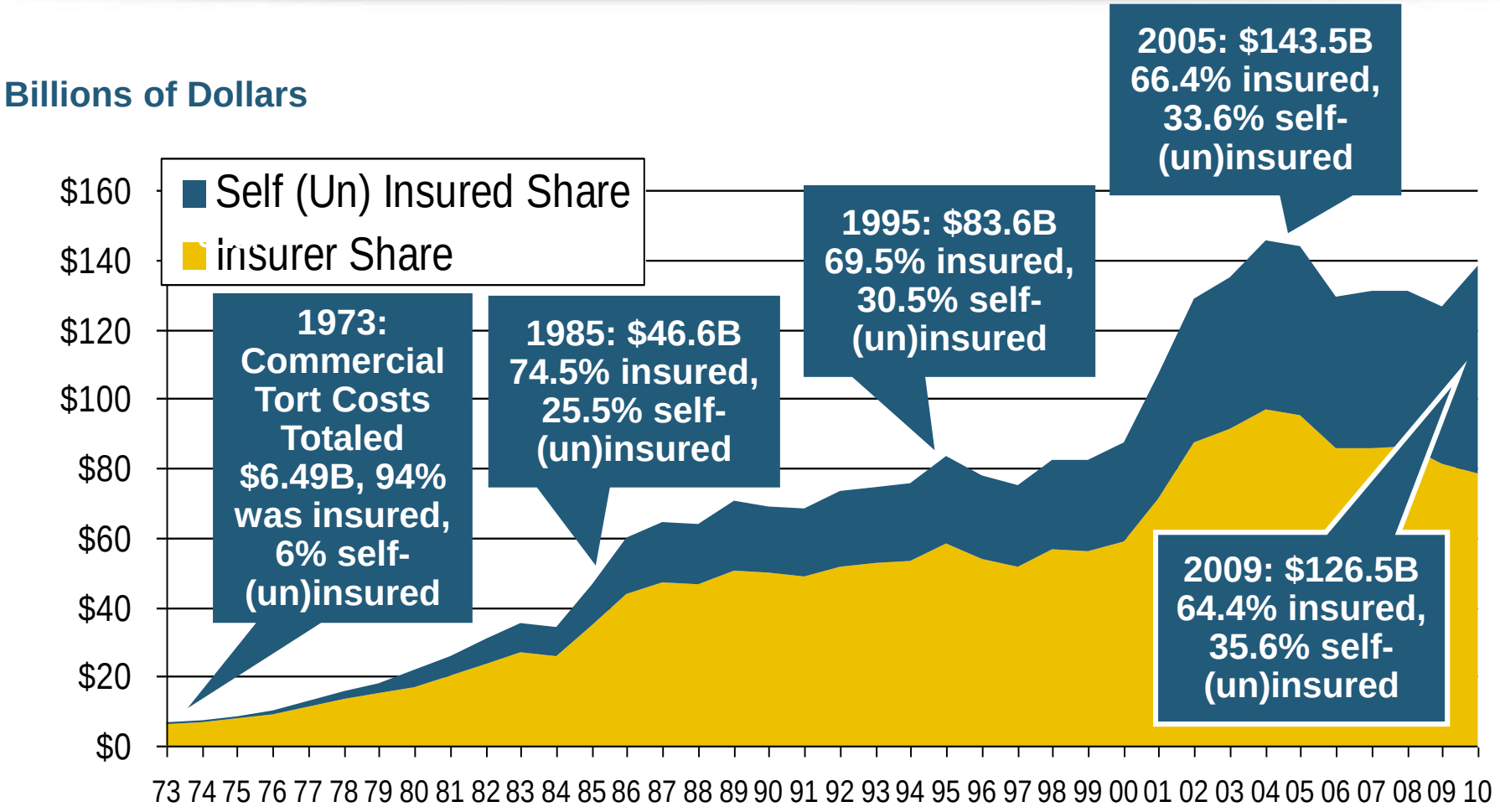
## Is the Tort Pendulum Swinging Against Insurers?

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




Sources: Towers Watson, *2011 Update on US Tort Cost Trends*, Appendix 1A

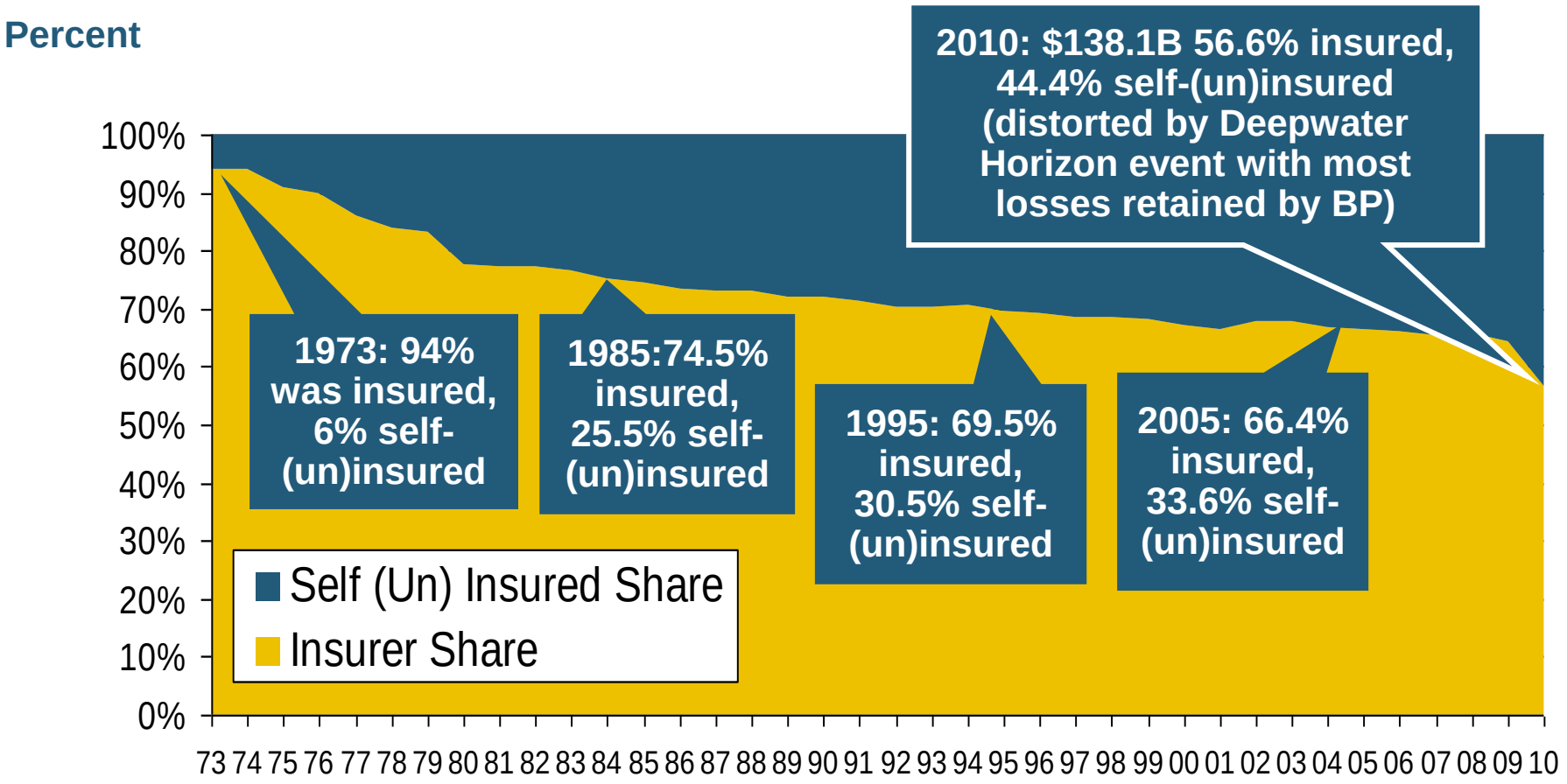
# Commercial Lines Tort Costs: Insured vs. Self-(Un)Insured Shares, 1973-2010




**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**

Sources: Towers Watson, *2011 Update on US Tort Cost Trends*, III Calculations based on data from Appendix 4.

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




**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.**

Sources: Towers Watson, *2011 Update on US Tort Cost Trends*, III Calculations based on data from Appendix 4.

# Business Leaders Ranking of Liability Systems in 2012

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## Best States

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

### New in 2012

- Wyoming
- Minnesota
- Kansas
- Idaho

### Drop-offs

- Indiana
- Colorado
- Massachusetts
- South Dakota

## 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

Source: US Chamber of Commerce 2012 State Liability Systems Ranking Study; Insurance Info. Institute.

# The Nation's Judicial Hellholes: 2012/2013

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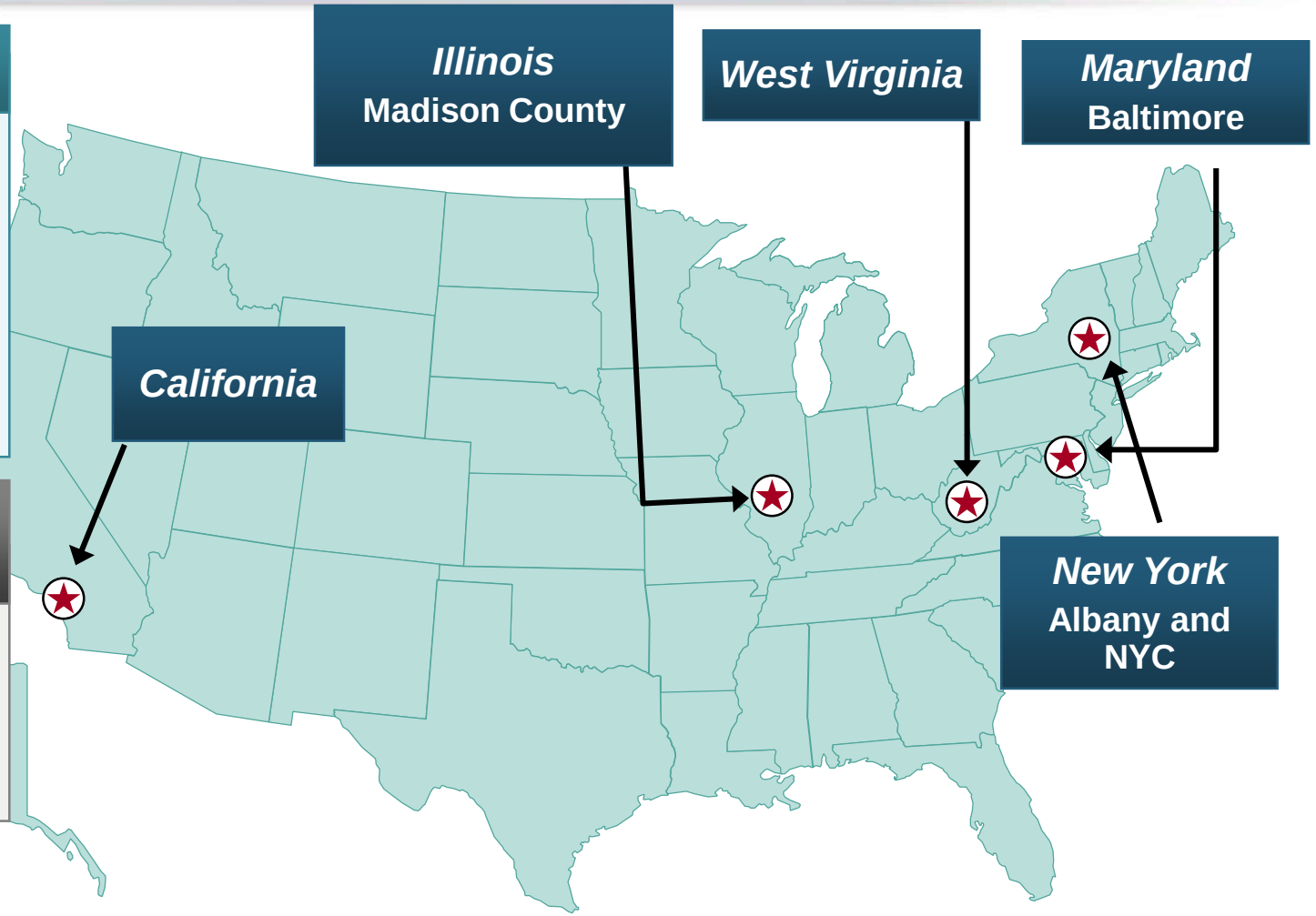
## Watch List

- Philadelphia, Pennsylvania
- South Florida
- Cook County, Illinois
- New Jersey
- Nevada
- Louisiana

## Dishonorable Mention

- MO Supreme Court
- WA Supreme Court




Source: American Tort Reform Association; Insurance Information Institute

## Insurance Information Institute Online:

# www.iii.org

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

***Twitter: twitter.com/bob_hartwig***

***Download at www.iii.org/presentations***