



The Surety and P/C Insurance Industries: Overview & Outlook for 2015 and Beyond *Trends, Challenges & Opportunities*

Association of General Contractors

Surety Bond & Construction Risk Management Conference

Naples, FL

February 2, 2015

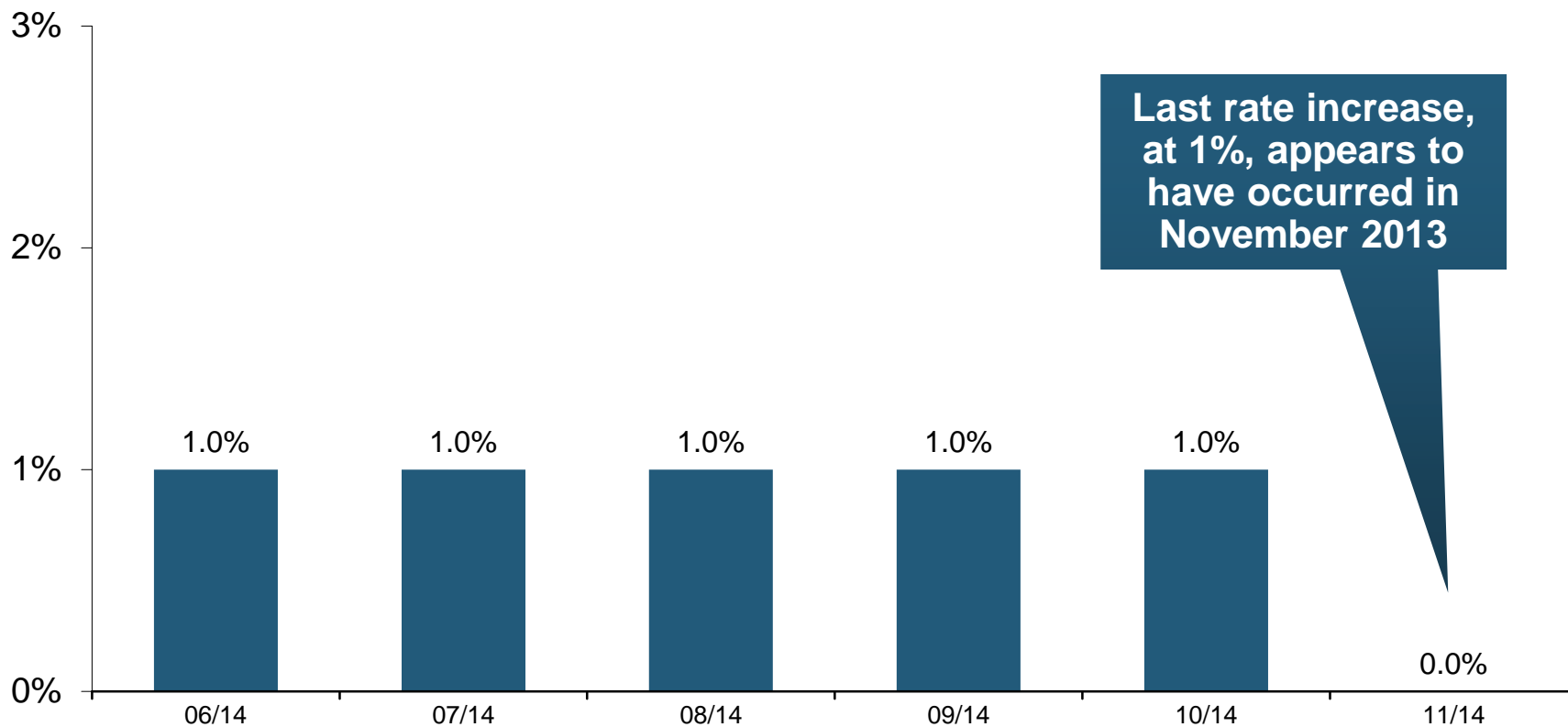
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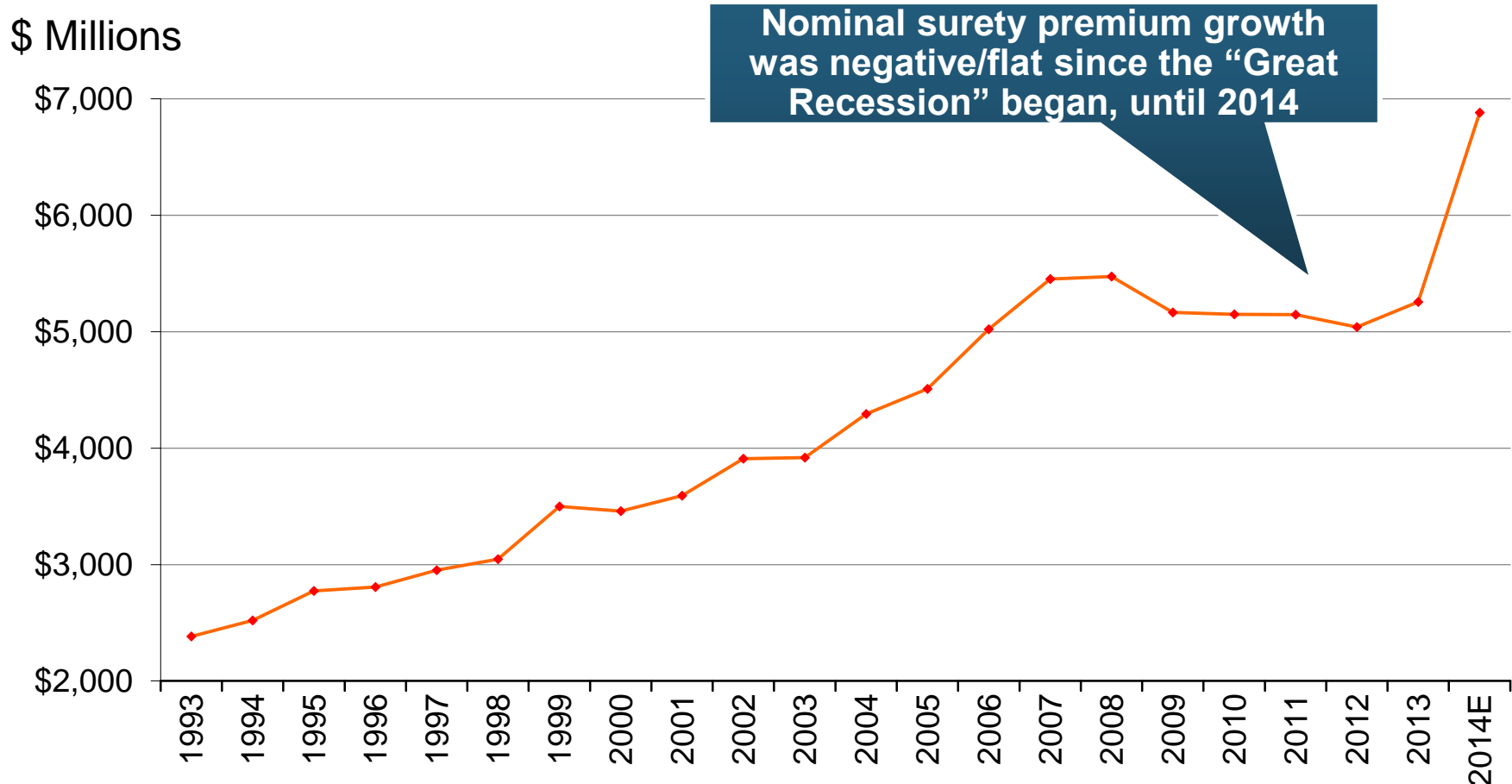
- **Surety Market Overview and Outlook**
 - ◆ **Premium Growth**
 - ◆ **Underwriting Performance**

- **P/C Insurance Industry Overview & Outlook**
 - ◆ **Growth**
 - ◆ **Underwriting**
 - ◆ **Investments**
 - ◆ **Profitability**

Surety LOB Rate Change, Monthly (vs. Year Earlier) June 2014-November 2014

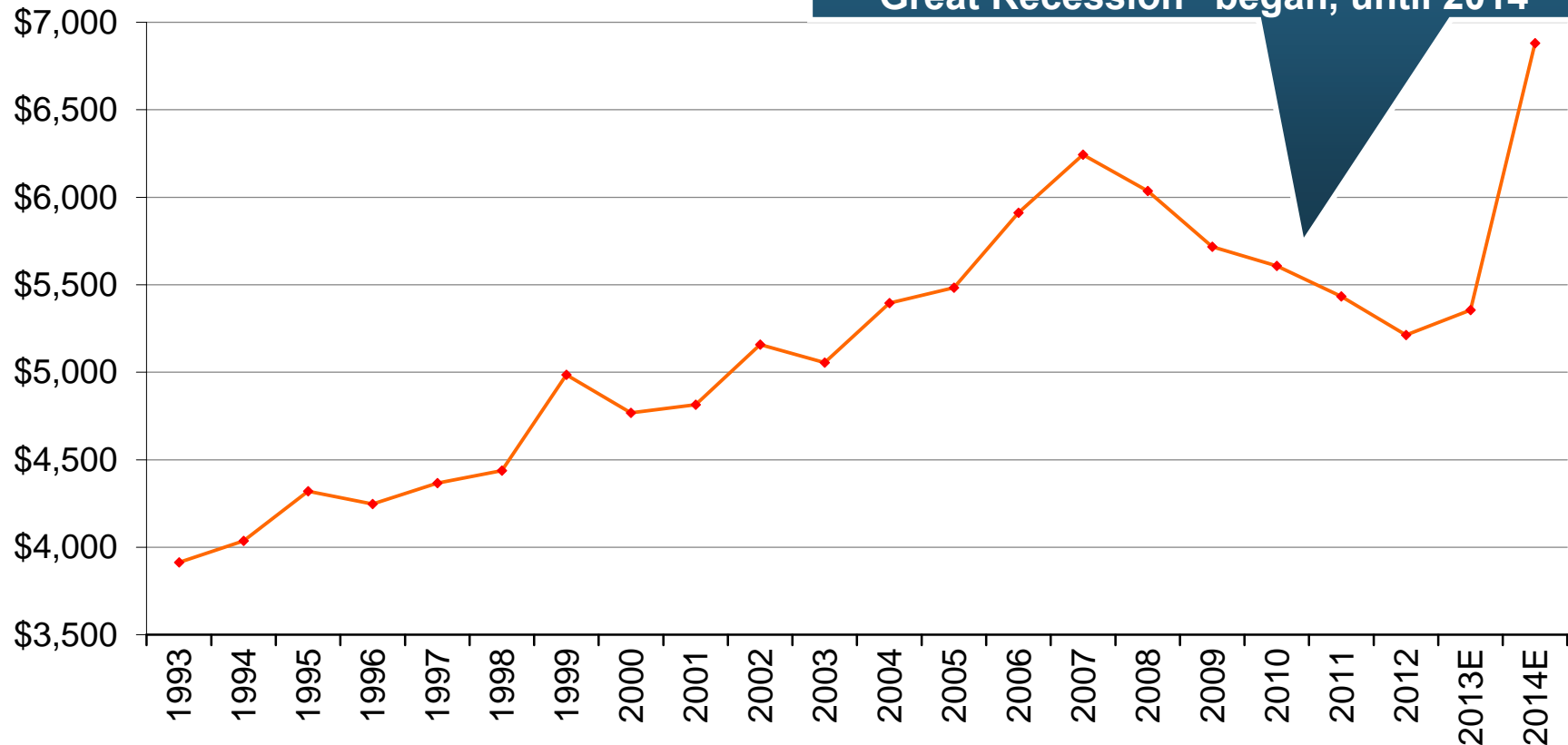


Surety Direct Premiums Written (nominal), 1993–2013E



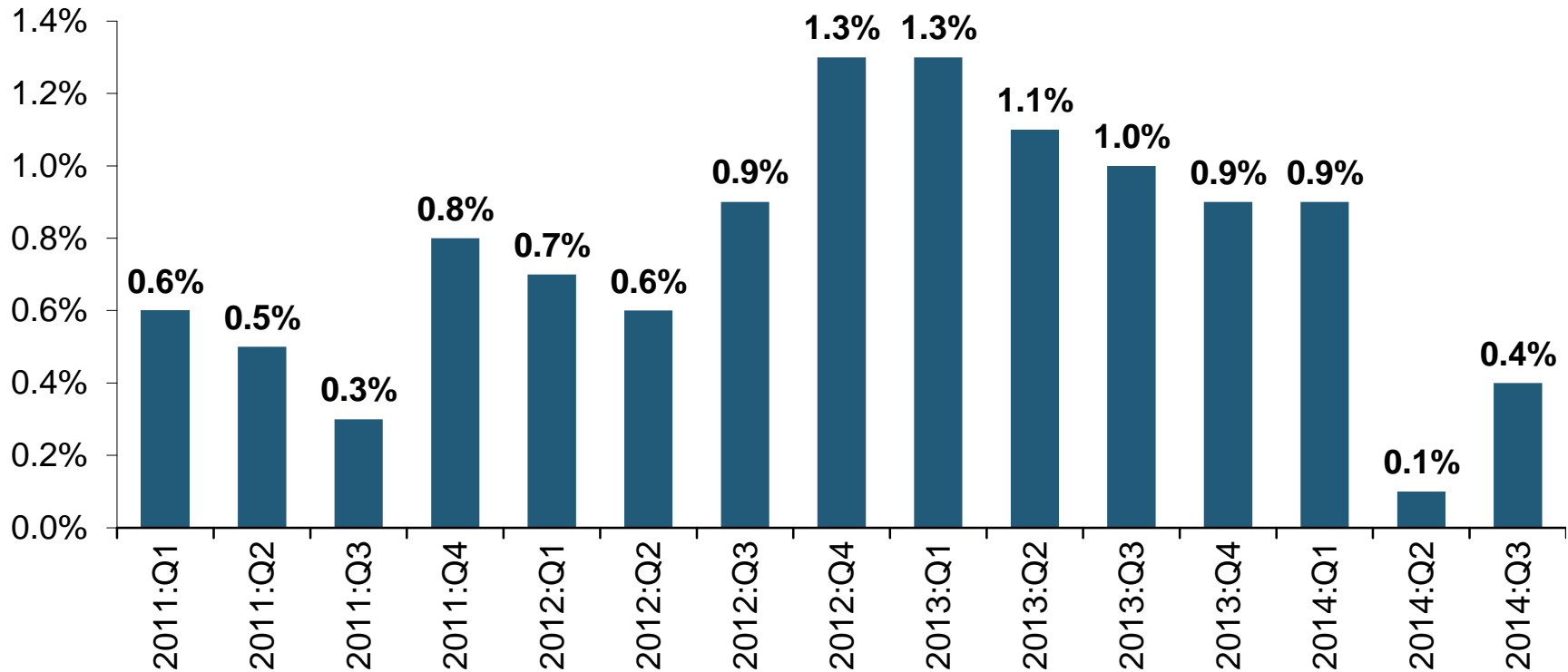
Surety, Direct and Net Premiums Written (inflation-adjusted), 1993–2013E

\$ Millions,
2014 dollars



Change in Surety Rate Renewals, Quarterly, 2011:Q1 - 2014:Q3

Percentage Change from Prior Quarter



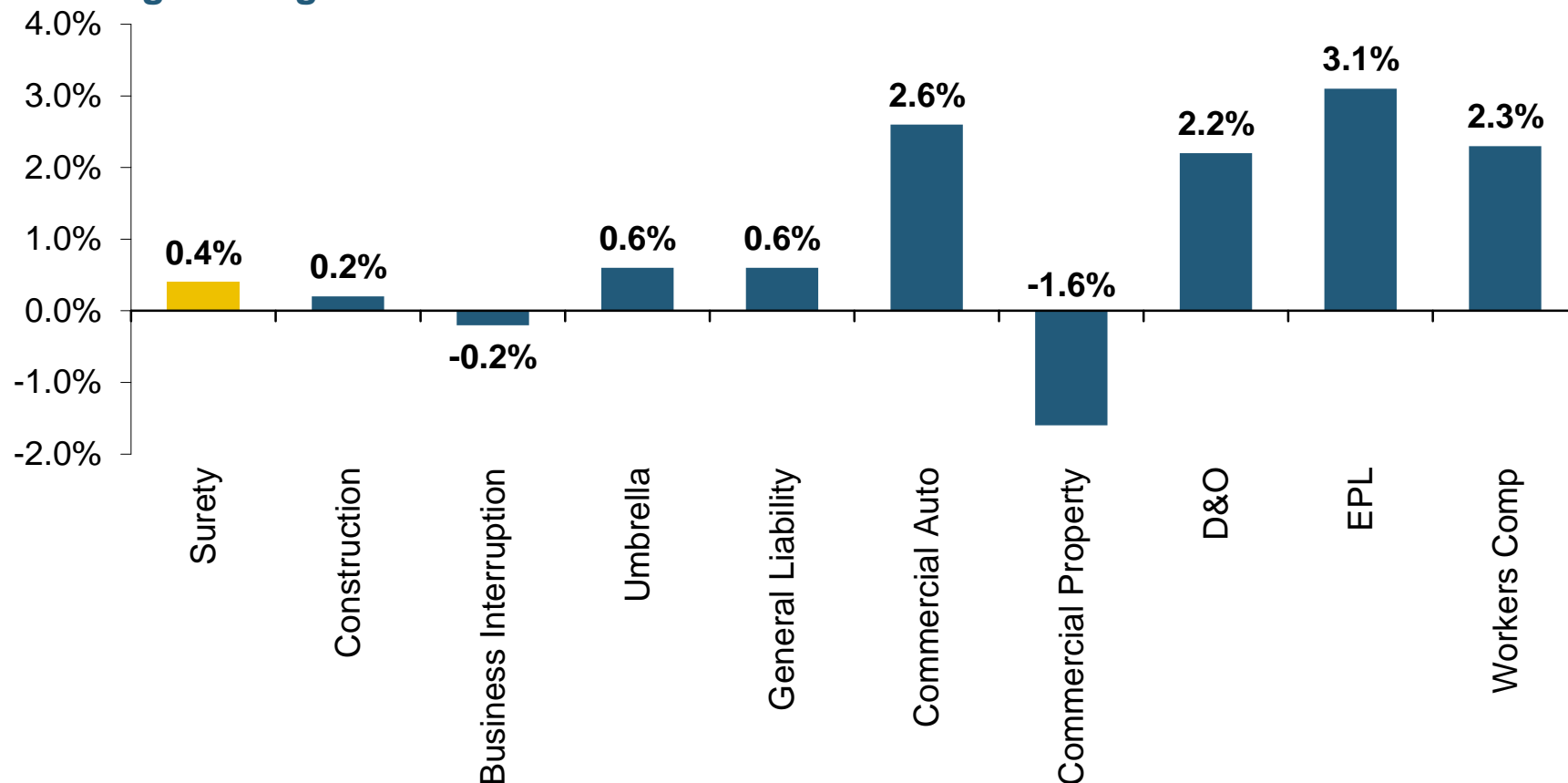
Most major commercial lines renewed upward in Q3:2014, with D&O, EPL, & Workers Comp leading the way.

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

Sources: Council of Insurance Agents and Brokers, at www.ciab.com ; Insurance Information Institute.

Change in Commercial Rate Renewals, by Line: 2014:Q3

Percentage Change



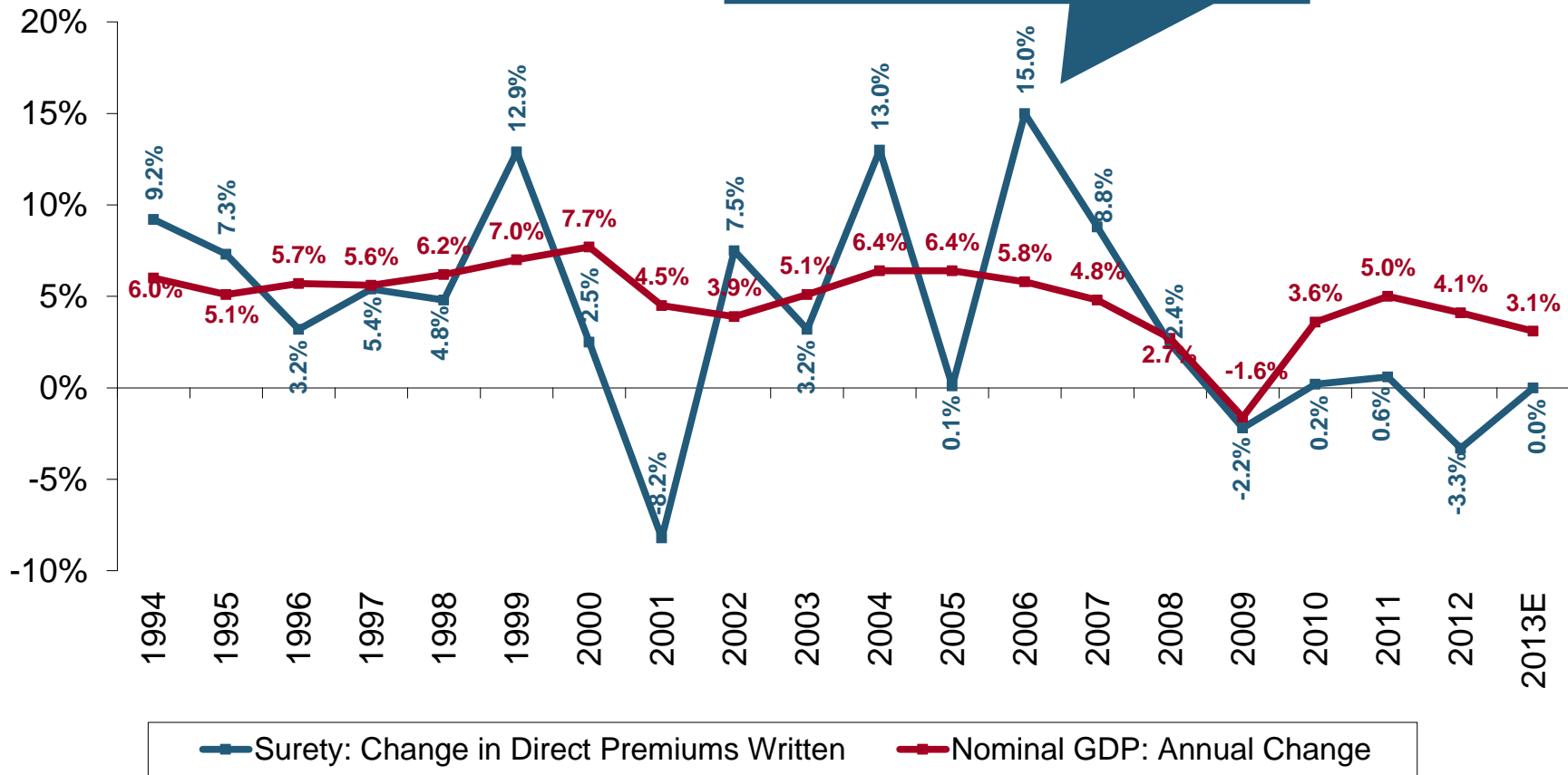
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Annual Change in Surety DWP vs. Nominal GDP, 1994-2013E

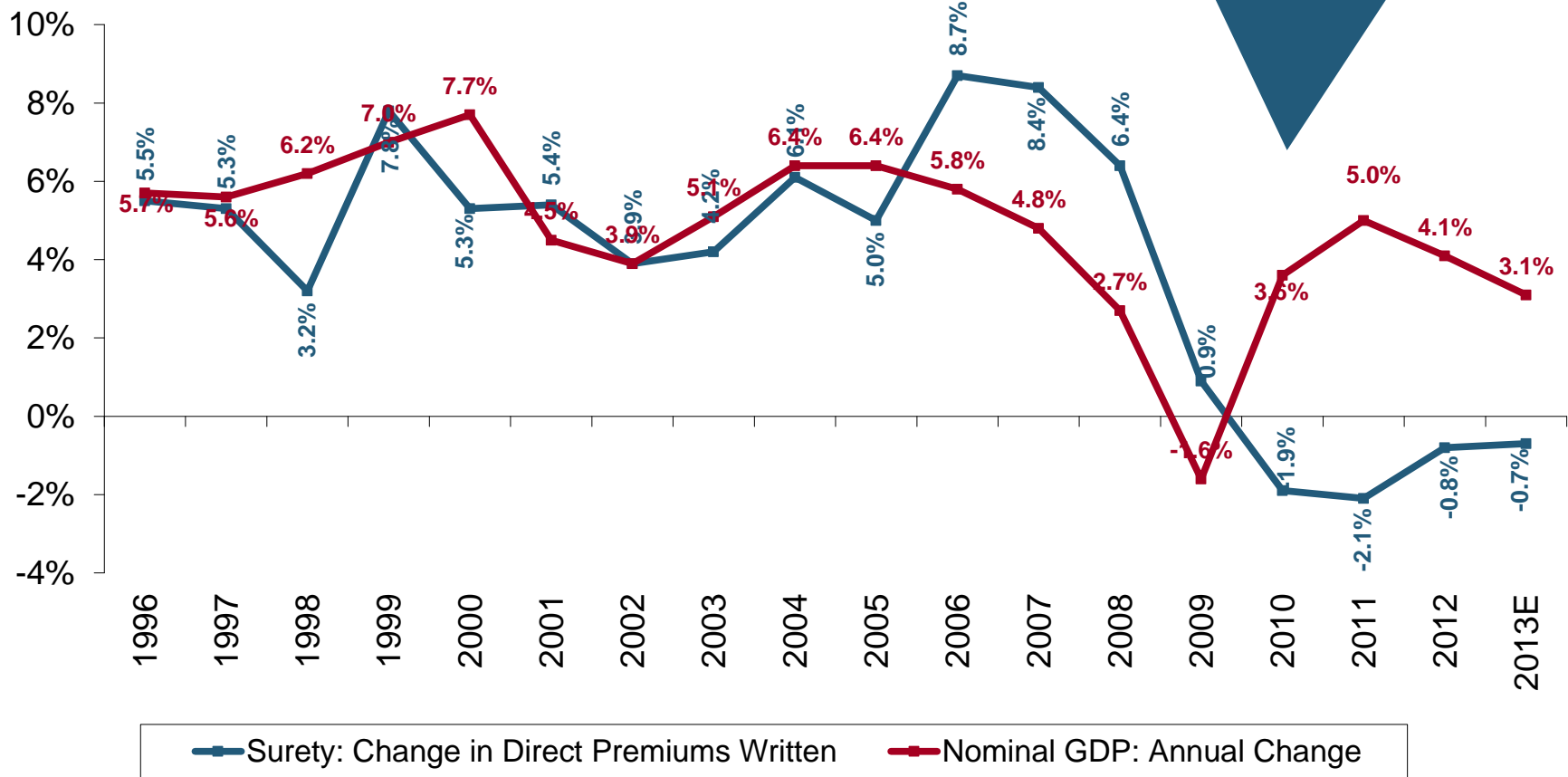
Annual changes in Surety premiums written are far more volatile than for GDP growth



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

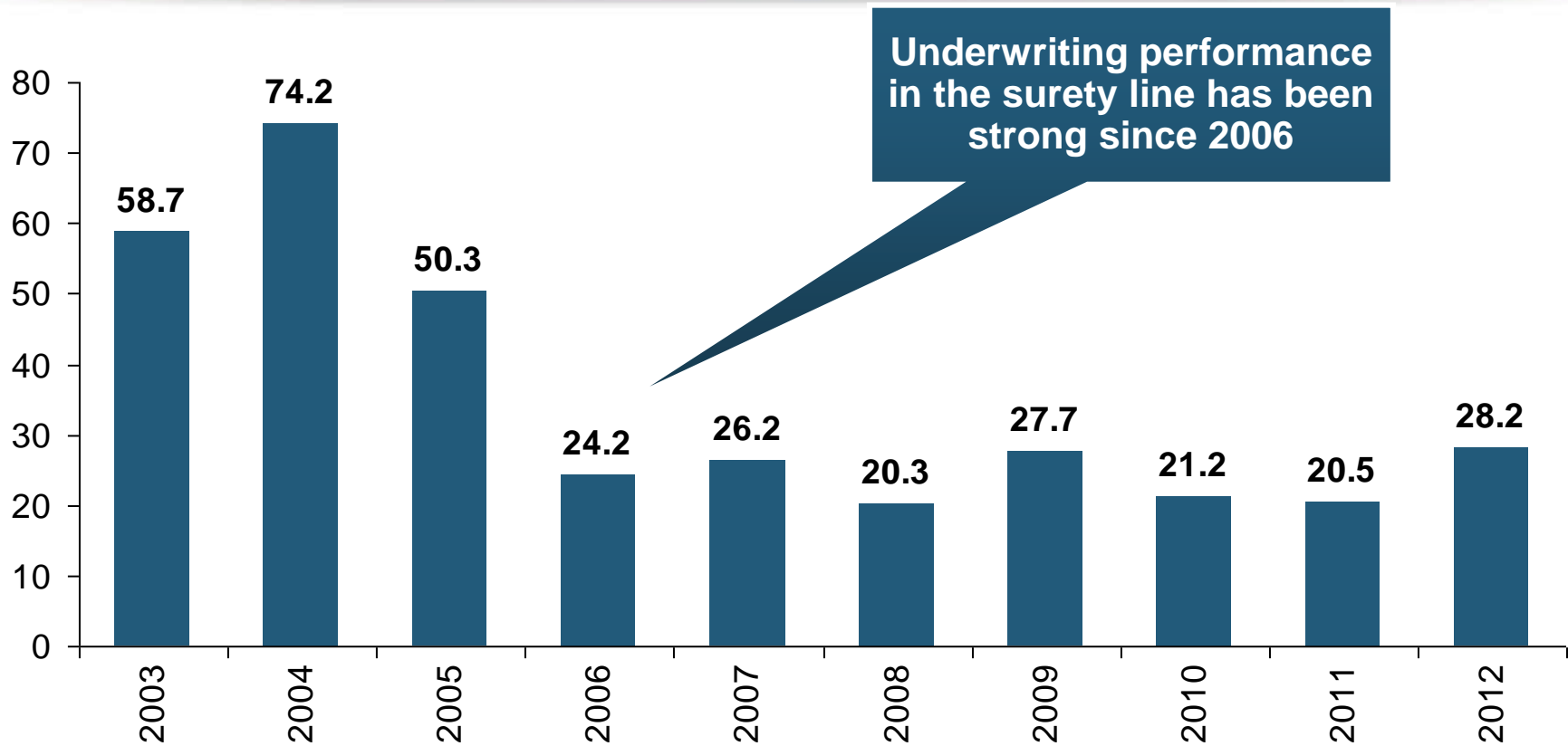
Annual Change in 3-Year Total of Surety DWP vs. Nominal GDP, 1994-2013E

Annual changes in 3-year rolling totals of direct surety premiums written tracked nominal GDP growth until the Great Recession ended

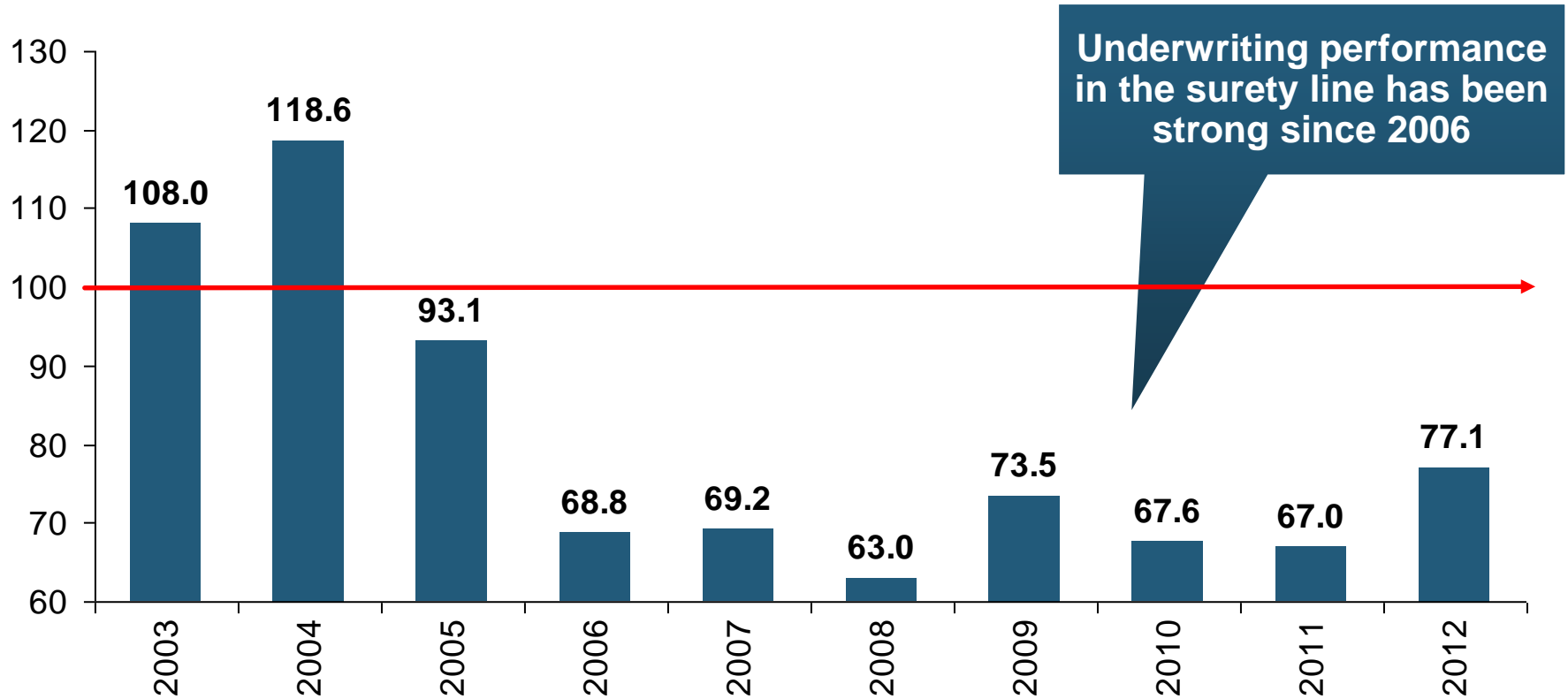


Sources: U.S. Department of Commerce; A.M. Best; Insurance Information Institute estimate for 2013 based on 9-month data from SNL Finl.

Surety Loss+LAE Ratio, 2003-2012



Surety Combined Ratio, Net Basis, 2003-2012



Y-o-Y Percentage Change: Construction Spending vs. Surety DWP, 2001-2012*





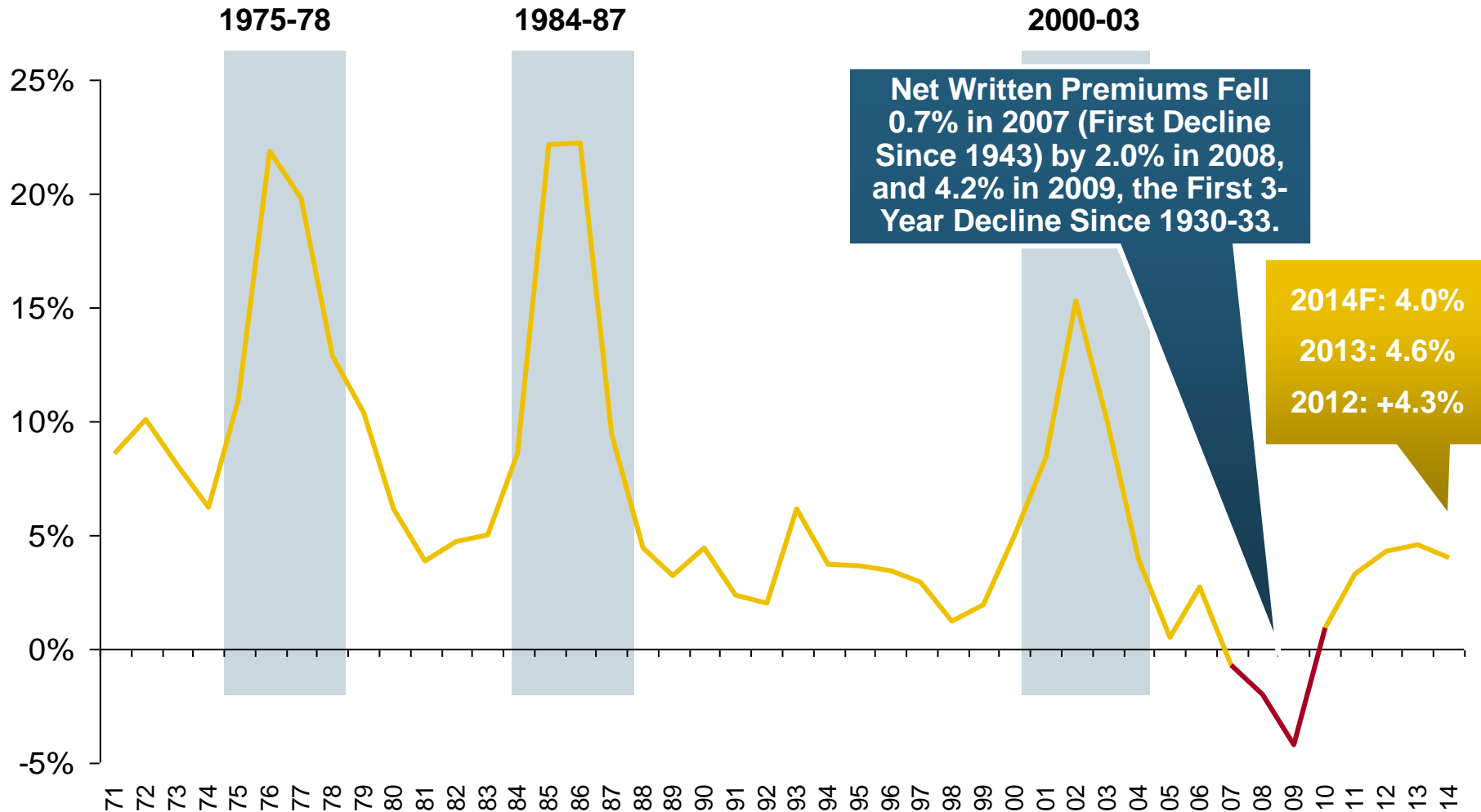
P/C Insurance Industry Financial Overview

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

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

P/C Net Premium Growth: Annual Change, 1971—2014F

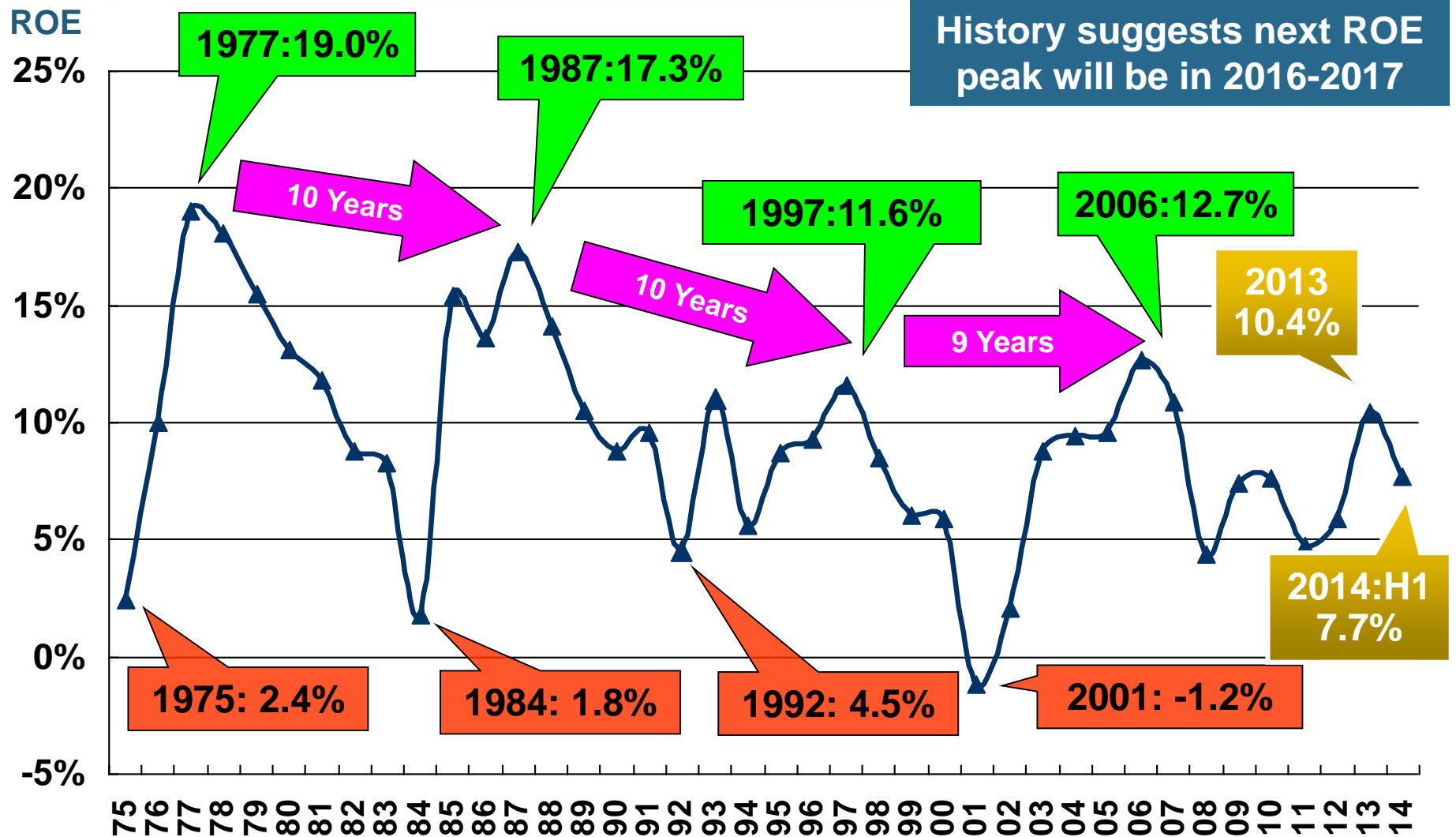
(Percent)



Shaded areas denote "hard market" periods

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

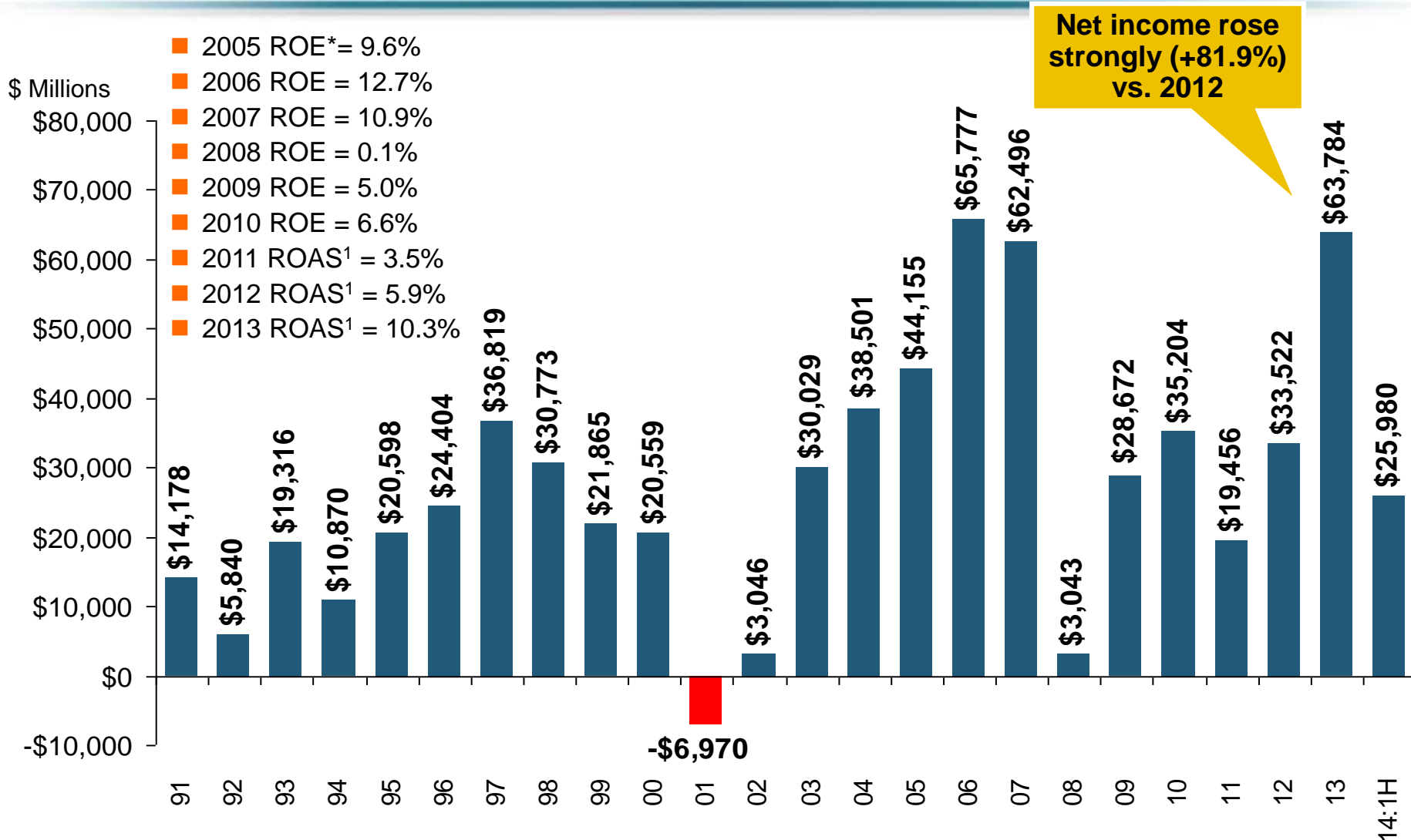
Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2014:H1*



*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.

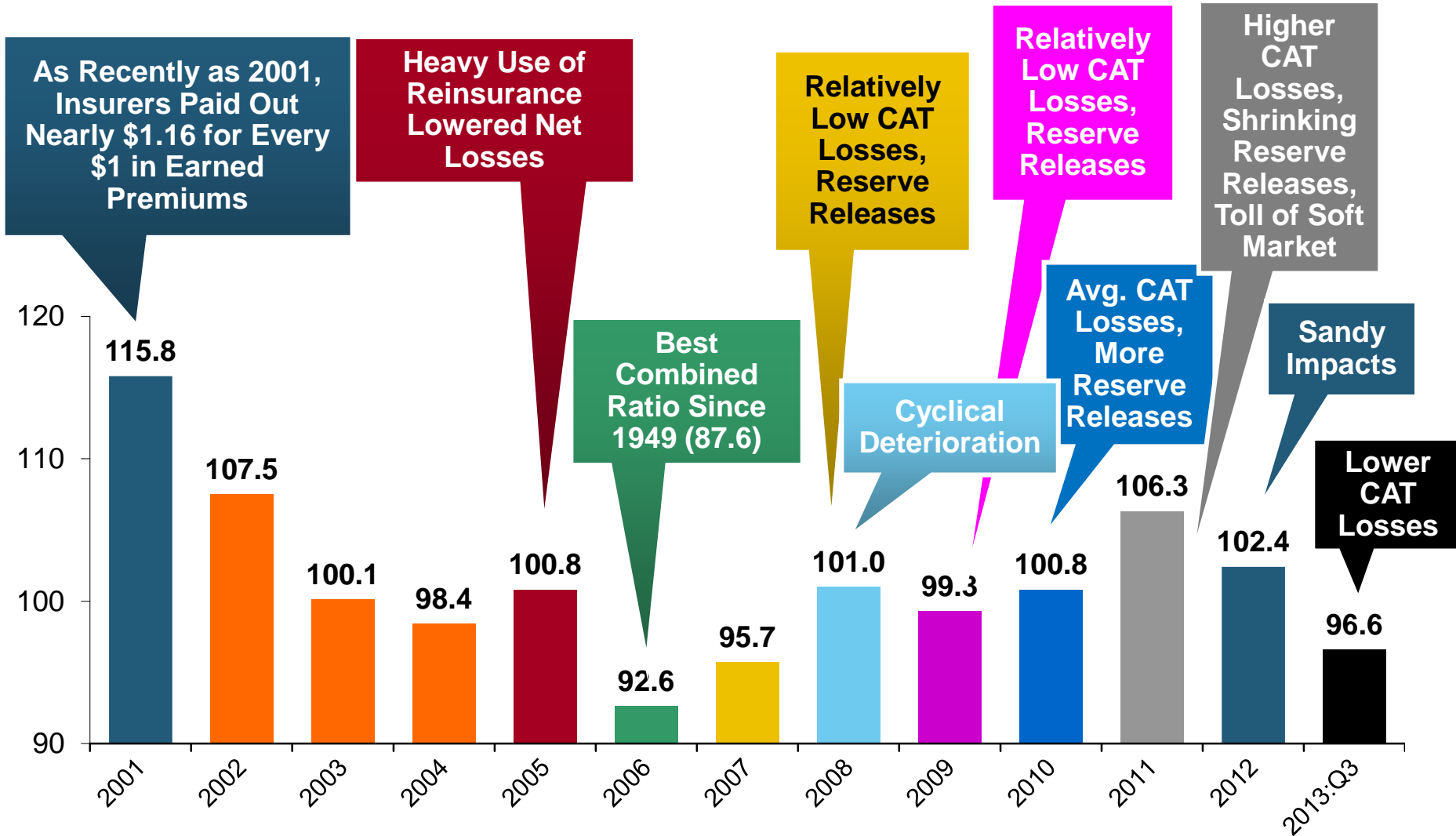
P/C Industry Net Income After Taxes 1991–2014:1H



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

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

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

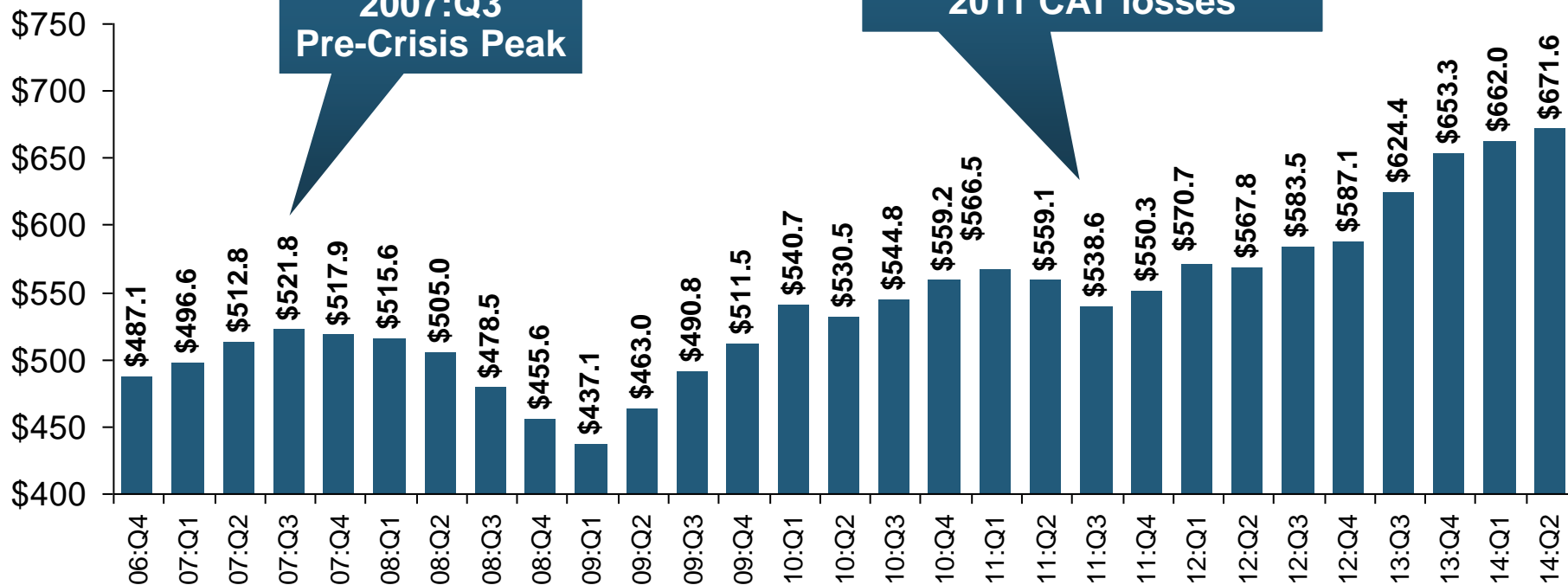


* Excludes Mortgage & Financial Guaranty insurers 2008--2012. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.1; 2012:=103.2; 2013:Q3 = 95.8.

Sources: A.M. Best, ISO.

Policyholder Surplus, 2006:Q4–2014:1H

(\$ Billions)



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

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

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

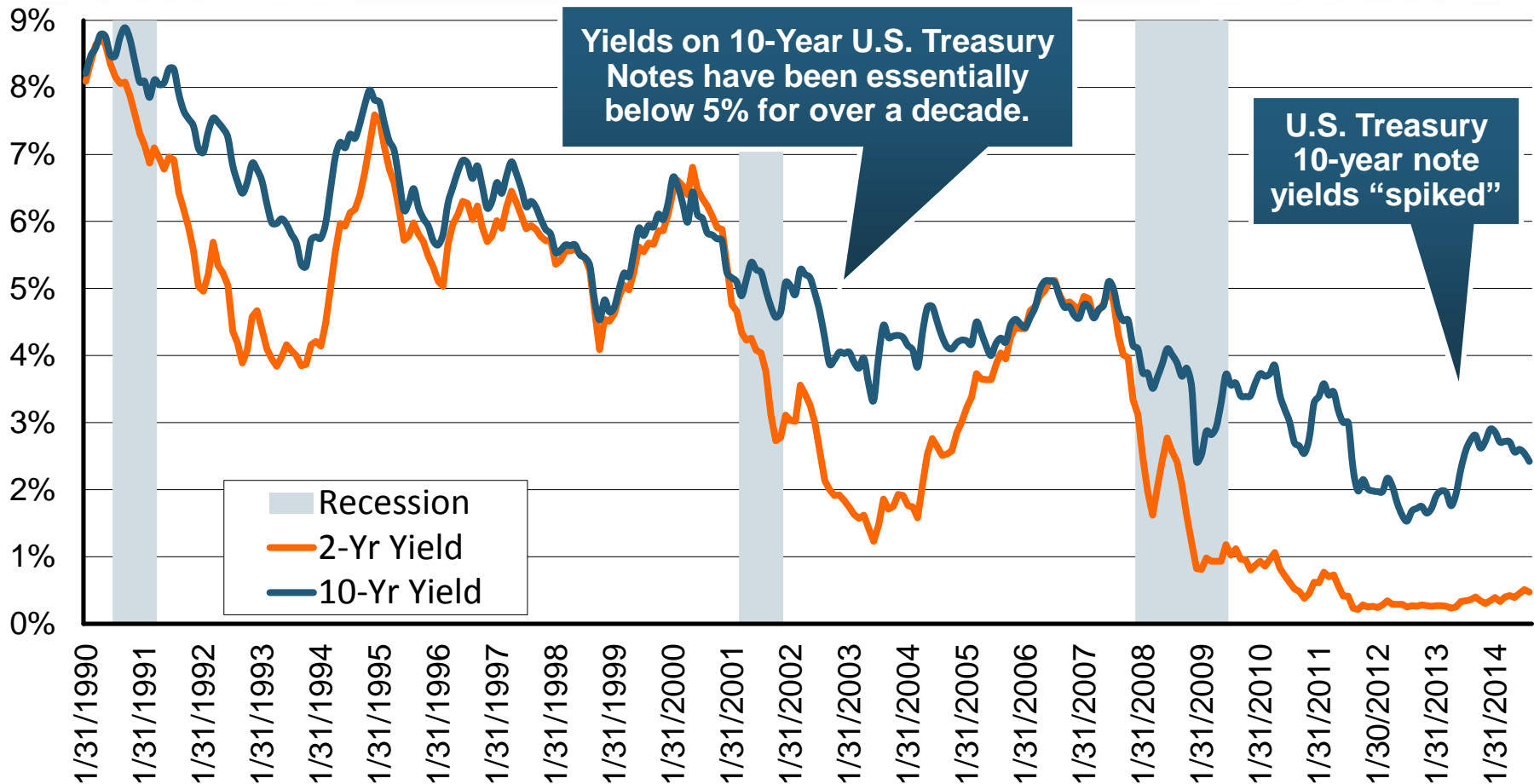


The Investment Story: Low Interest Rates, Past and Future

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

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

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

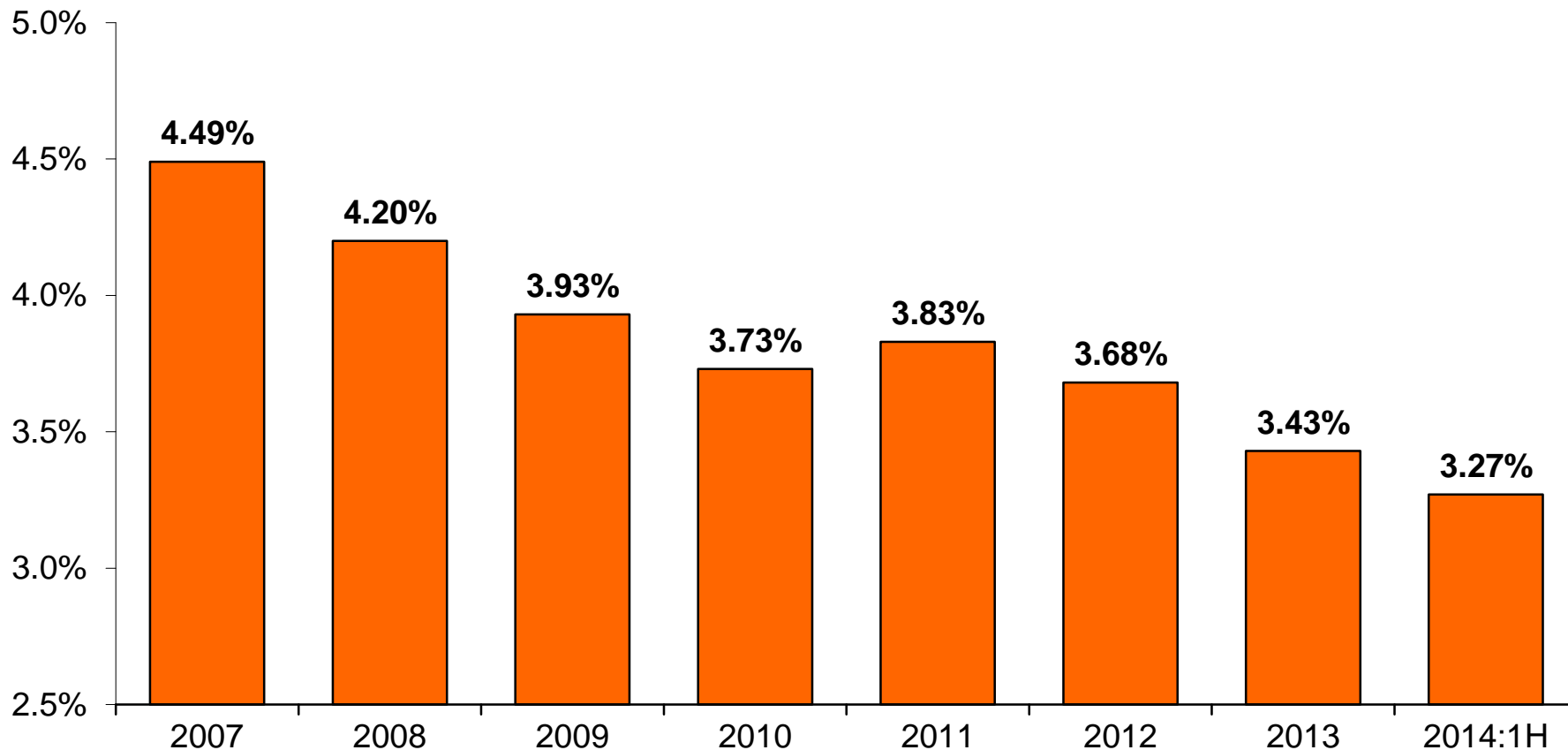


Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

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

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

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

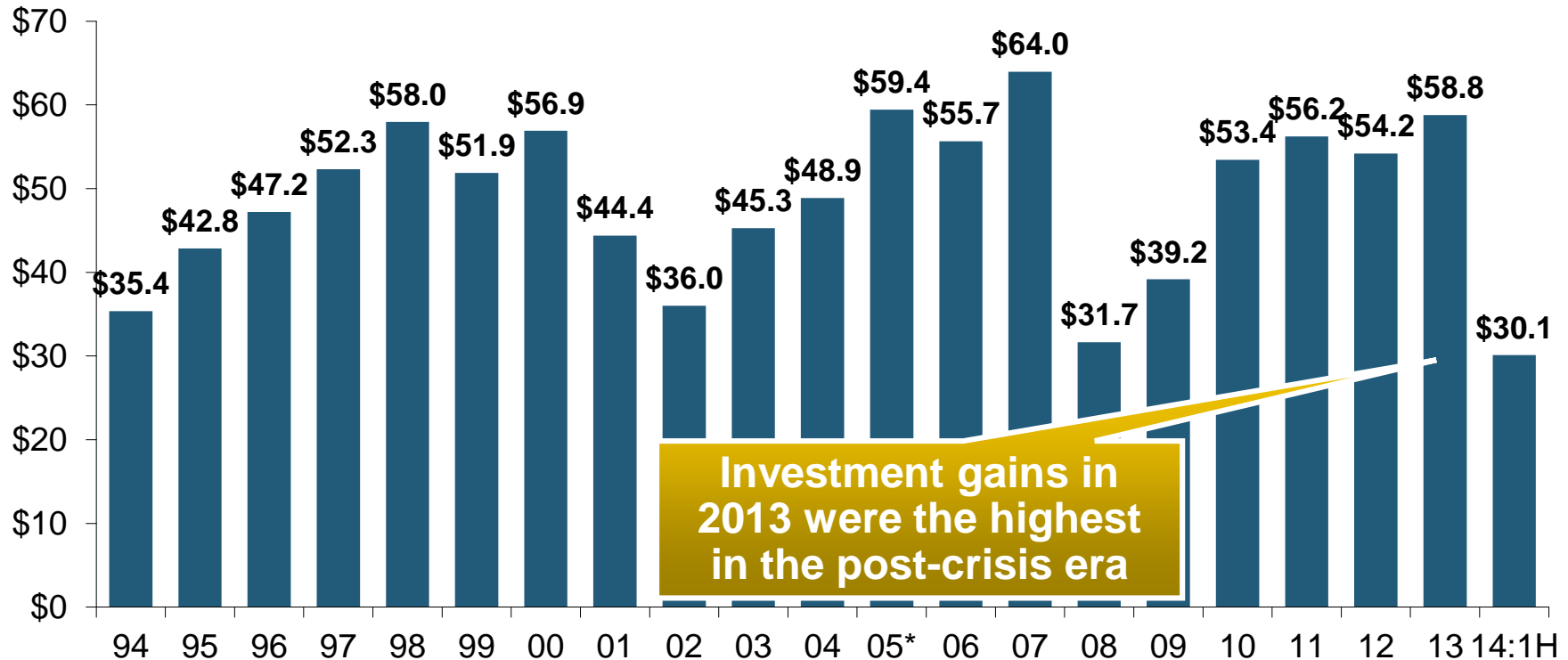


Since year-end 2007, P/C Insurer net yields dropped by 132 basis points. This downtrend is likely to continue as older, higher-yielding bonds mature and are replaced by lower-yielding ones.

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

Property/Casualty Insurance Industry Investment Gain: 1994–2014:1H¹

\$ Billions



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

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

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

Sources: ISO; Insurance Information Institute.

Insurance Information Institute Online:

www.iii.org

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

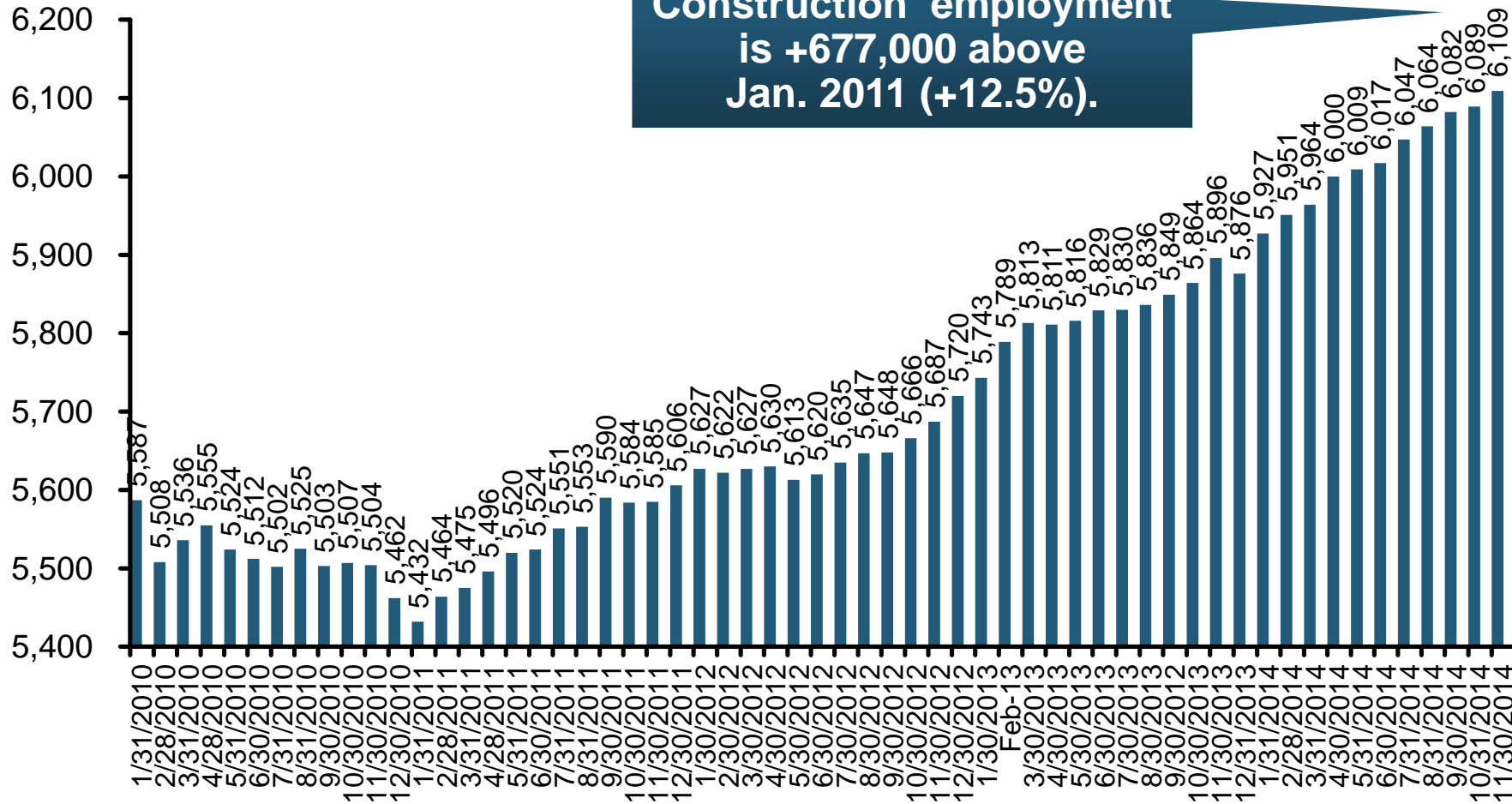


The Construction Industry: A Major Driver of Surety Exposure

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

Construction Employment, Jan. 2010—November 2014*

(Thousands)



Construction employment is +677,000 above Jan. 2011 (+12.5%).

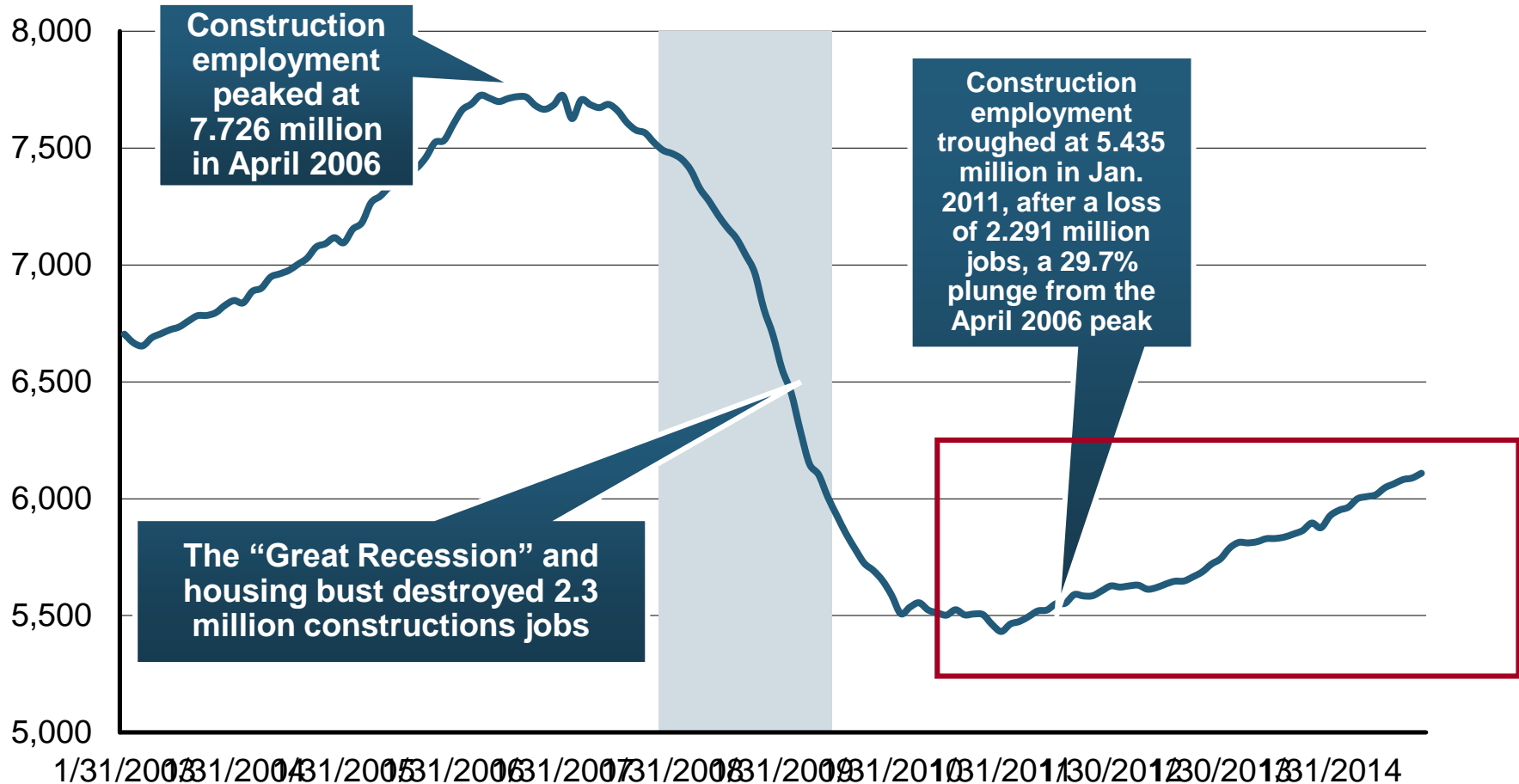
Construction and manufacturing employment constitute 1/3 of all workers comp payroll exposure.

*Seasonally adjusted; Oct and Nov 2014 are preliminary

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

Construction Employment, Jan. 2003–November 2014

(Thousands)



The Construction Sector Could Be a Growth Leader in 2015 as the Housing Market, Private Investment and Govt. Spending Recover.

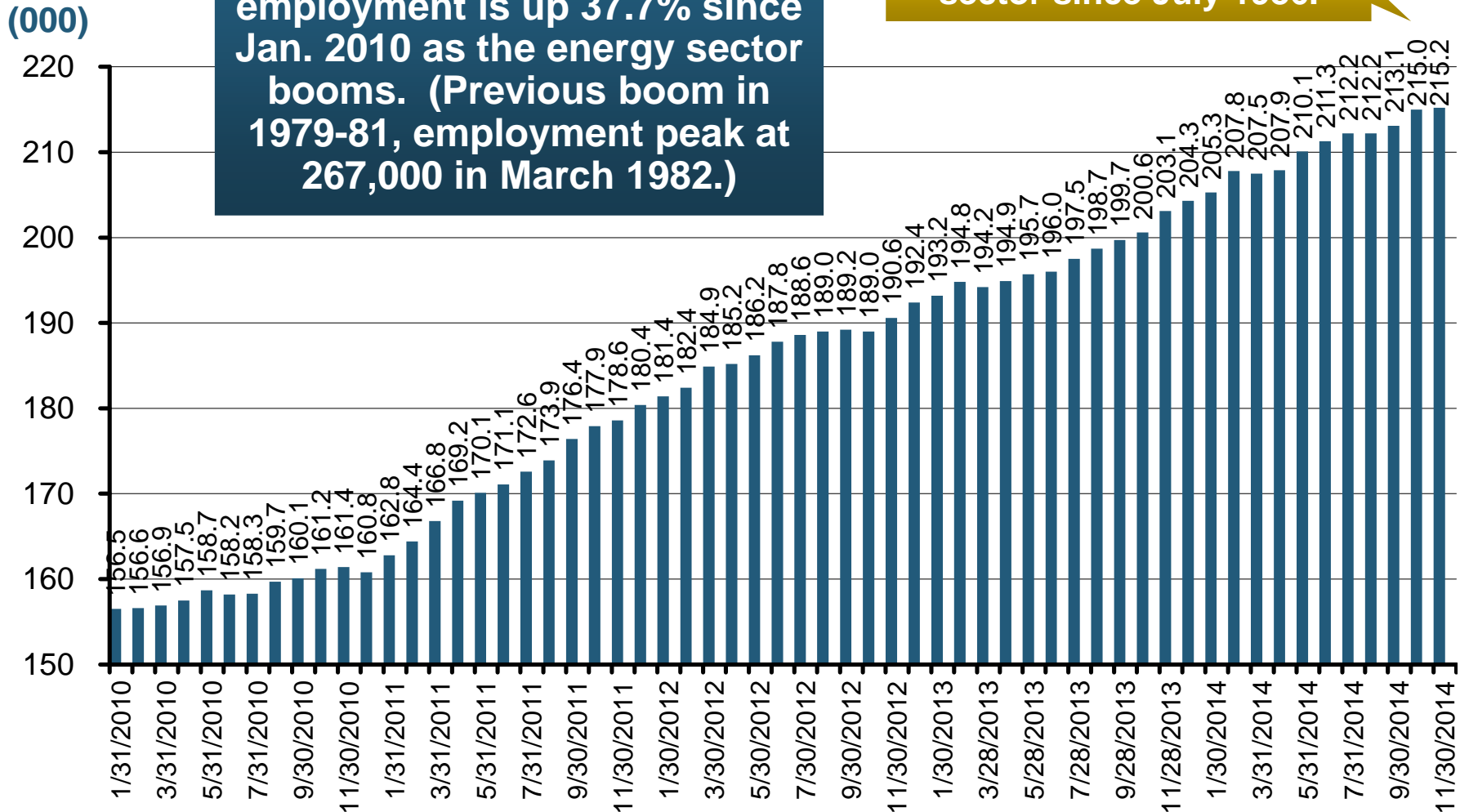
Note: Recession indicated by gray shaded column.

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

Employment in Oil & Gas Extraction, Jan. 2010—Nov. 2014*

Oil and gas extraction employment is up 37.7% since Jan. 2010 as the energy sector booms. (Previous boom in 1979-81, employment peak at 267,000 in March 1982.)

Highest employment in this sector since July 1986.

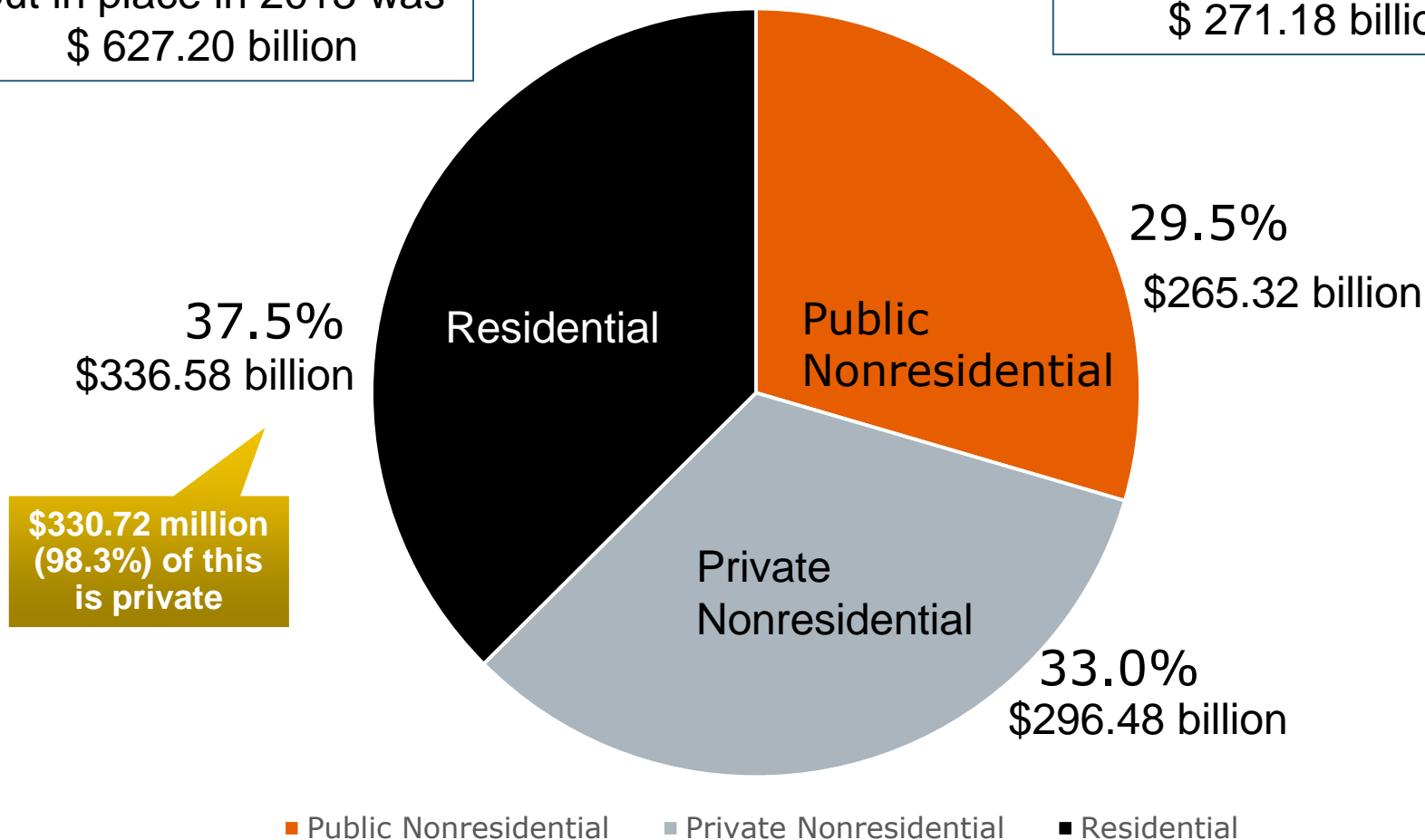


*Seasonally adjusted

Value of Public/Private and Residential/ Nonresidential Construction Put in Place, 2013

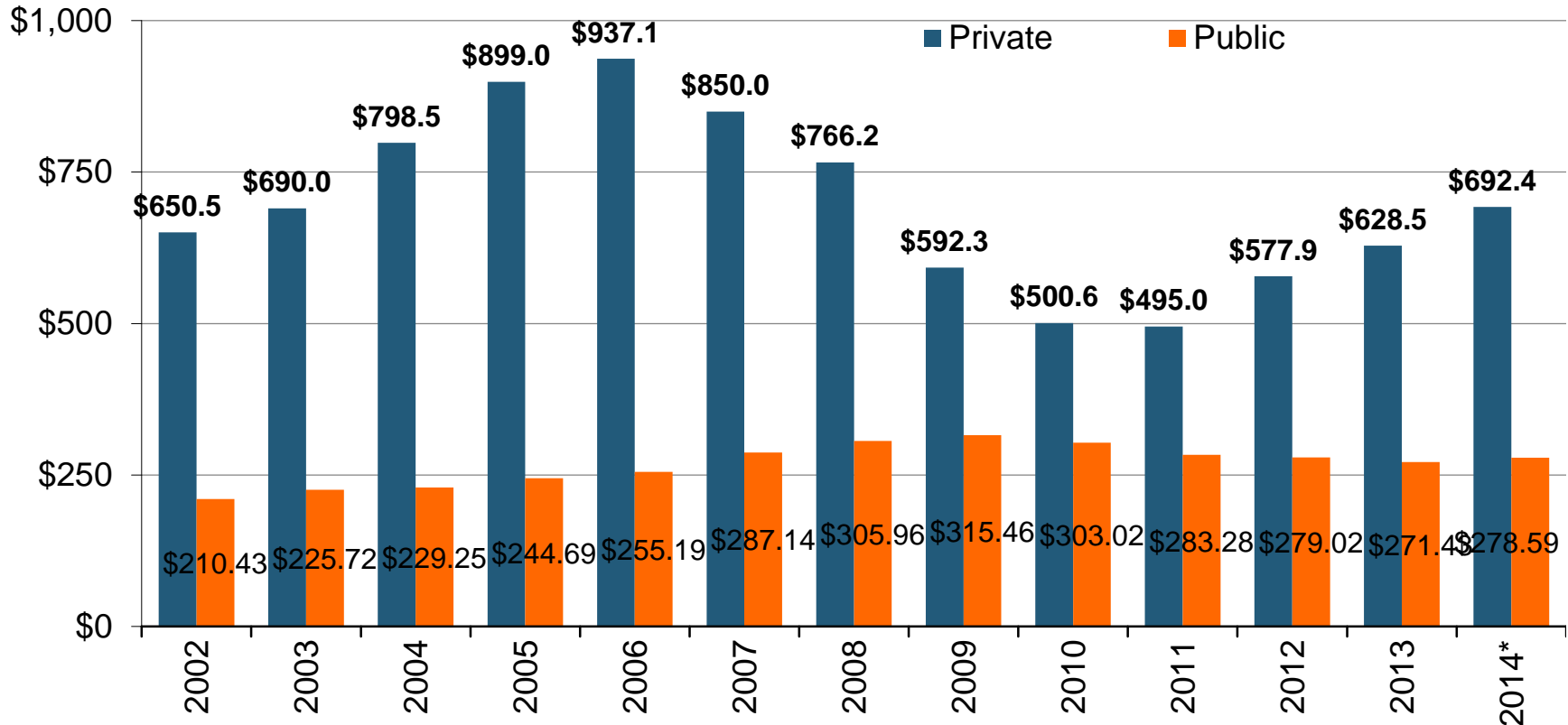
Total private construction
put in place in 2013 was
\$ 627.20 billion

Total public construction
put in place in 2013 was
\$ 271.18 billion



Annual Value of Construction Put in Place, Private vs. Public, 2002-2014*

\$ Billions



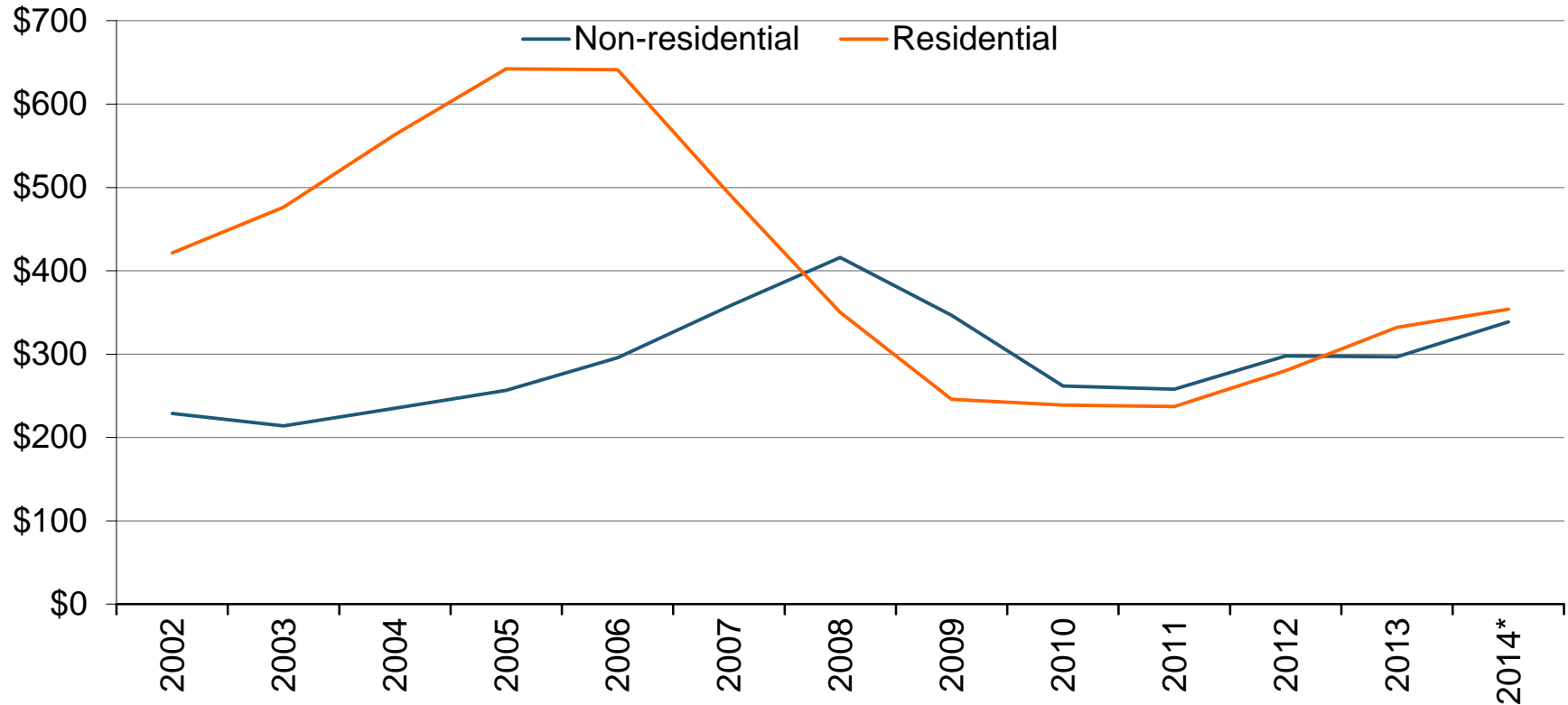
The annual value of public construction has been fairly steady despite sharply varying economic conditions. Not so with private construction.

*2014 is October at annual rate; data are seasonally adjusted

Sources: US Census Bureau at <http://www.census.gov/construction/c30/prpdf.html> ; Insurance Information Institute.

Annual Value of Construction Put in Place, Private Residential & Nonresidential, 2002-2014*

\$ Billions



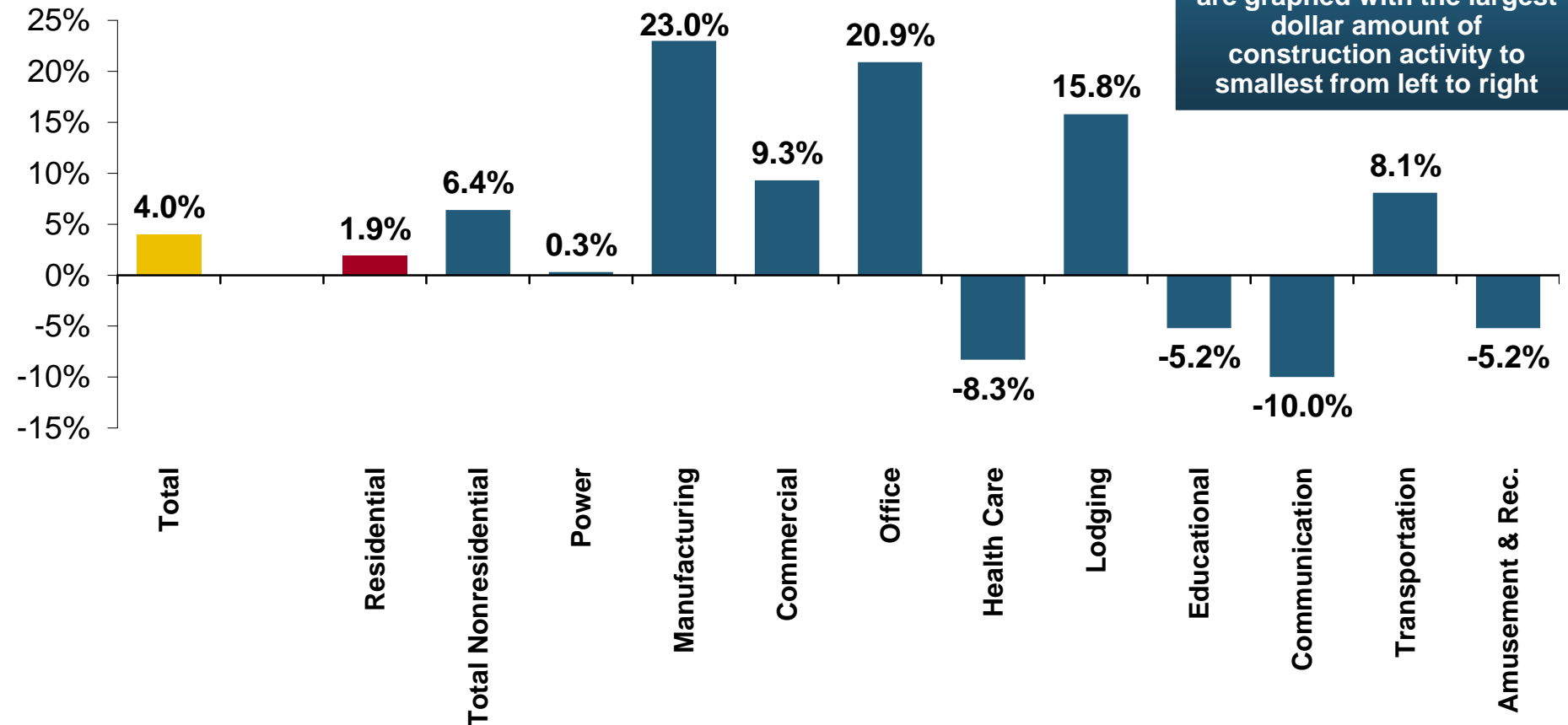
Private construction activity is rising but remains well below pre-recession (bubble?) peak; residential construction no longer dominates.

*2014 is October at annual rate; data are seasonally adjusted

Sources: US Census Bureau at <http://www.census.gov/construction/c30/prpdf.html> ; Insurance Information Institute.

Change in Value of Private Construction Put in Place, by Segment, Oct. 2014 vs. Oct. 2013*

Percent Change



Private construction activity is strong in Manufacturing and Office segments, weak in many others, including the key residential sector. Construction in Power remains high but isn't growing further.

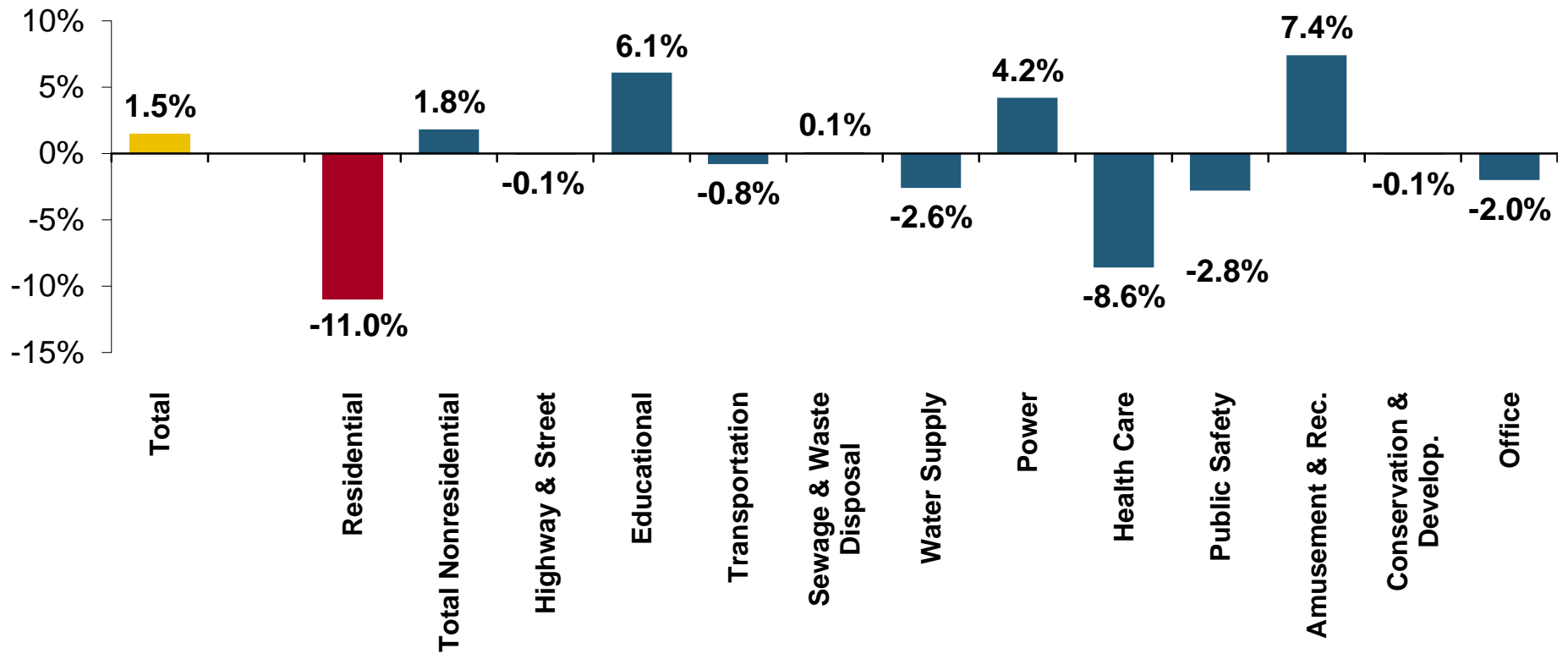
*seasonally adjusted

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

Change in Value of Public Construction Put in Place, by Segment, Oct. 2014 vs. Oct. 2013*

The nonresidential segments are graphed with the largest dollar amount of construction activity to smallest from left to right

Percent change

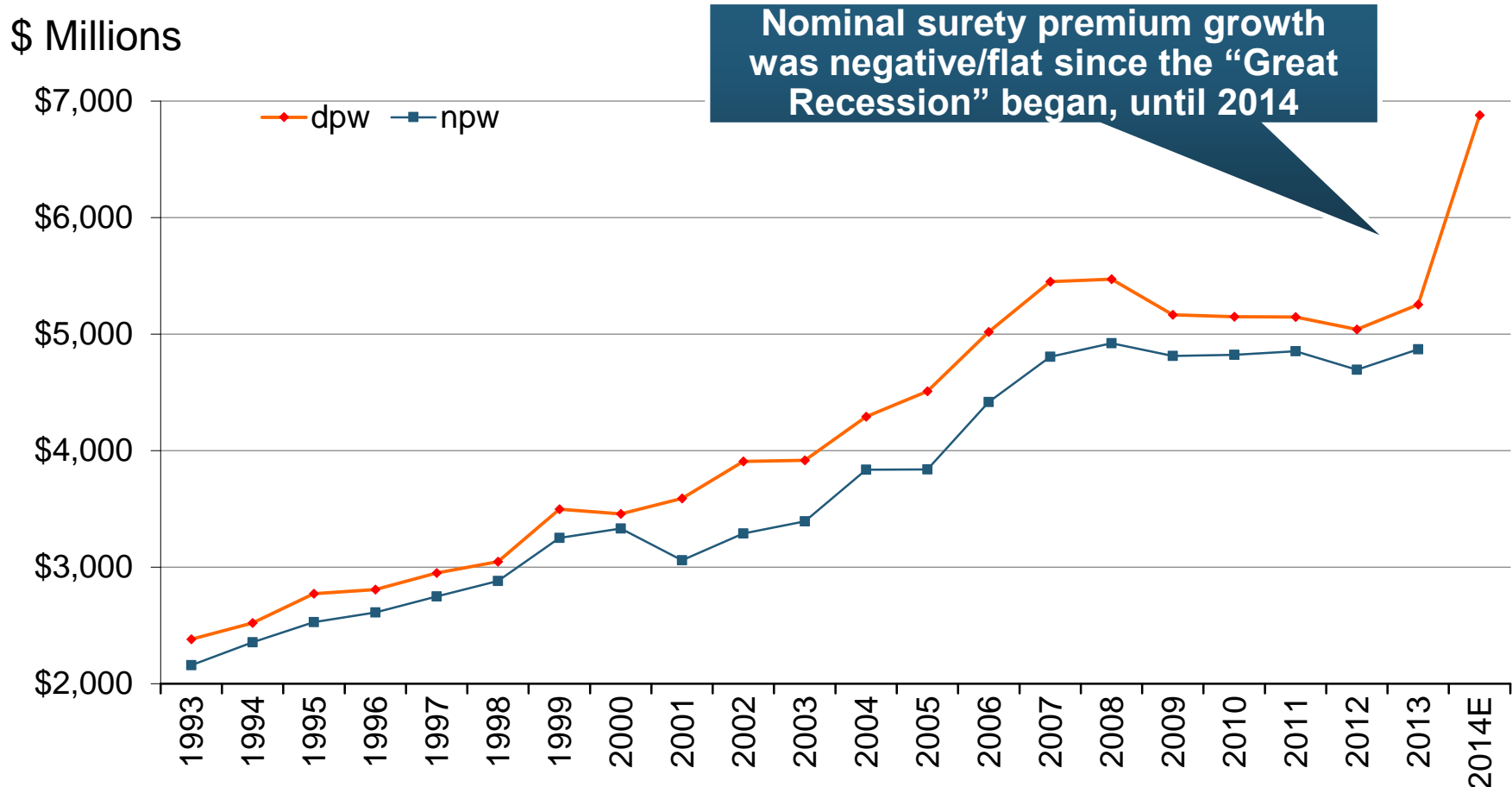


Public sector construction activity is down in many of the largest segments, a situation that likely will persist, dragging on public entity risk exposures

*seasonally adjusted

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

Surety, Direct and Net Premiums Written (nominal), 1993–2013E



Surety, Direct and Net Premiums Written (inflation-adjusted), 1993–2013E

\$ Millions,
2014 dollars

Adjusted for inflation, Surety premium growth was negative ever since the “Great Recession” began, until 2014

