

It's a Mad, Mad, Mad, Mad World: The Past, Present and Future of P/C Insurance in the US and Texas

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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; ¹Return 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.

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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



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



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



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 . Sources: ISO, A.M .Best.

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

US Policyholder Surplus: 1975–2013*





The Premium-to-Surplus Ratio Stood at \$0.78:\$1 as of 9/30/13, a Near Record Low (at Least in Recent History)*

* As of 9/30/13.

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

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





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

*Through Jan. 31, 2014. Source: Guy Carpenter; Insurance Information Institute.

Net Premium Growth: Annual Change, 1971—2014F



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



Growth Analysis by State and Business Segment

Post-Crisis Paradox? Premium Growth Rates Vary Tremendously by State

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



Top 25 States



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



Bottom 25 States



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



Top 25 States



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



Bottom 25 States



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





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

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



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



Bottom 25 States



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



Top 25 States



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



Bottom 25 States



Direct Premiums Written: Workers' Comp

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

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.



Profitability and Growth in the Texas P/C Insurance Markets

Analysis by Line and Nearby State Comparisons

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



Sources: NAIC.

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



Sources: NAIC.

INSURANCE

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



Sources: NAIC.

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



RNW Homeowners: TX vs. U.S., 2003-2012



Sources: NAIC.

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



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



Source: NAIC, Insurance Information Institute.

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

2003-2012

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Source: NAIC, Insurance Information Institute.

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



<u>Texas ranked 14th</u> as the most expensive state in 2011, with an average expenditure for auto insurance of \$842.58.

(1) Based on average automobile insurance expenditures.

Source: © 2013 National Association of Insurance Commissioners.

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



Source: NAIC, Insurance Information Institute.

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

2003-2012



Source: NAIC, Insurance Information Institute.

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



Source: NAIC, Insurance Information Institute.

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



Texas ranked as the 3rd most expensive state for homeowners insurance in 2011, with an average expenditure of \$1,578.

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.

Source: ©2013 National Association of Insurance Commissioners (NAIC). Reprinted with permission. Further reprint or distribution strictly prohibited without written permission of NAIC.

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





Source: SNL Financial.

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



Source: SNL Financial.

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





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



Source: SNL Financial.

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







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 7/14; Insurance Information Institute.

Texas vs. US Real GDP Growth





Source: US Department of Commerce; Insurance Information Institute.

State-by-State Leading Indicators through 2014:Q3





Source: Federal Reserve Bank of Philadelphia

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



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



Percent Change in Real GDP by State, 2013



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

Consumer Sentiment Survey (1966 = 100)



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: <u>http://www.federalreserve.gov/releases/z1/current/z1r-5.pdf</u>; Insurance Information Institute.

Household Financial Obligations Ratio Recently Hit A Historic Low





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

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 (7/14 and 3/13); Insurance Information Institute.

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





'90 '91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13 '14

*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.

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

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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, 7/14 (forecasts).

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

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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

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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*



Index: Jan 1994 = 100 200 180 160 140 120 100 '94 '95 '97 '99 '00' '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13 '14 '96 '98

Recession — CPI — auto insurance

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



— Auto Insurance Prices — Median weekly earnings



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



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

Private Passenger Auto: Premium Growth vs. Loss Cost Spread



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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 (7/14 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.

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



'90 '91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13 '14

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 <u>http://www.federalreserve.gov/releases/h15/data.htm</u>.; 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*



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 June 2014



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

INSURANCE INFORMATION
Business Bankruptcy Filings, 1980-2013



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.



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



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

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Health Care	Many industries are poised for growth, though insurers' ability to capitalize on these industries varies widely
Health Sciences	
Energy (Traditional)	
Alternative Energy	
Petrochemical	
Agriculture	
Natural Resources	
Technology (incl. Biotechnology)	
Light Manufacturing	
Insourced Manufacturing	
Export-Oriented Industries	
Shipping (Pail Marine Trucking Pipelines)	

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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*



Remains Well Below Pre-Crisis Peak; Residential Dominates

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

Sources: US Department of Commerce; Insurance Information Institute.

Value of Construction Put in Place, April 2014 vs. April 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, <u>http://www.census.gov/construction/c30/c30index.html</u>; Insurance Information Institute.

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



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, <u>http://www.census.gov/construction/c30/c30index.html</u>; Insurance Information Institute.

Value of Public Construction Put in Place, by Segment, Apr. 2014 vs. Apr. 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, <u>http://www.census.gov/construction/c30/c30index.html</u>; Insurance Information Institute.

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

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



*Through Q1 2014.

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

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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*



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 April; <u>http://www.census.gov/construction/c30/historical_data.html</u> 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 (7/14 and 3/13); Insurance Information Institute.

Florida Total Private Housing Starts, 2000 – 2017F



Construction Employment, Jan. 2010—June 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–June 2014





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: <u>http://www.agc.org/galleries/news/Metro_Empl_1404_Rank.pdf;</u> Ins. Information Institute.

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



'90 '91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13 '14

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 <u>http://www.federalreserve.gov/releases/h15/data.htm</u>.; Insurance Information Institutes.

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

(Thousands)



*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.

Value of Construction Put in Place, November 2013 vs. November 2012*



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

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



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. Natural Gas Marketed Production, 1900 - 2013

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

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—June 2014*





*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.



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)



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

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US Natural Gas Production and Non-Hydro INSURANCE INFORMATION **Renewable Electricity Generation, 1990-2035P**



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

Wind is expected to account

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



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



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*



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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/* 108
Dollar Value* of Manufacturers' Shipments Monthly, Jan. 1992—Apr. 2014





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/ 109

Manufacturing Employment, Jan. 2010—June 2014*





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)



The manufacturing sector expanded for 51 of the 53 months from Jan. 2010 through May 2014. Pace of recovery has been uneven due to economic turbulence in the U.S., Europe and China

Source: Institute for Supply Management at <u>http://www.ism.ws/ismreport/mfgrob.cfm</u>; 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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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



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

US Unemployment Rate Forecast



= actual; = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (7/14 edition); Insurance Information Institute.

Unemployment Rates by State, May 2014: Highest 25 States*



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

Unemployment Rates by State, May 2014: Lowest 25 States*





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

Monthly Change in Private Employment



Private Employers Added 9.67 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: <u>http://www.bls.gov/ces/home.htm;</u> Insurance Information Institute

Cumulative Change in Private Employment: Dec. 2007—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

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



(Millions)



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 State government employment fell by (Thousands) 1.5% since the end of 2009 but is recovering while Federal employment is down by 5.3% and deteriorating 0 -100 -79 -152 -200 Local government employment -300 shrank by 380,000 from Jan. 2010 through Apr. 2014, -400 accounting for 62% of all -380 government job losses, -500 negatively impacting WC exposures for those cities and -600 counties that insure privately -611

State

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

Local

-700

Total

Federal

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



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*





*Seasonally adjusted

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

US Unemployment Rate Forecasts

Quarterly, 2013:Q1 to 2014:Q4



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Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2014:Q1



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

Sources: <u>http://research.stlouisfed.org/fred2/series/WASCUR;</u> National Bureau of Economic Research (recession dates); Insurance Information Institute.

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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 <u>http://research.stlouisfed.org/fred2/series/WASCUR</u>; 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

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*



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



Accident Year

*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.

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Workers Compensation Medical Severity Moderate Increase in 2013



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.



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



*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



\$ Millions



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. INSURANCE

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

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



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

Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1994–2013¹



- 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

INSURANCE INFORMATION INSTITUTE

(Insured Losses, 2013 Dollars, \$ Billions)



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

Natural Disasters in the United States, 1980 – 2013 Number of Events (Annual Totals 1980 – 2013)



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





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

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(Insured Losses, 2013 Dollars, \$ Billions)



*Figures do not include federally insured flood losses.

Sources: Munich Re; Swiss Re; Insurance Information Institute research.
Natural Loss Events: Full Year 2013





• Natural catastrophes

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- Selection of significant

 Mete
 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, NatCatSERVICE – as of January 2014.

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





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



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





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



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

Significant Natural Catastrophes, 2013





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

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



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



Sources: Property Claims Service, Munich Re NatCatSERVICE, NFIP

Total Value of Insured Coastal Exposure in 2012

(2012, \$ Billions)



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



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



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Convective Loss Events in the U.S. Number of events 1980 – 2012 and First Half 2013



Number



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



Convective Loss Events in the U.S. Overall and insured losses 1980 – 2012 and First Half 2013





New Research Suggests Increase in Convective Activity Is Costly for Insurers



- 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





• Natural catastrophes

Selection of significant

Natural catastrophes

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- 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, NatCatSERVICE – as of January 2014.

Total Value of Insured Coastal Exposure in 2007

(2007, \$ Billions)



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

(\$ 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





Wildfire Outlook for the Western US is Grave but Improving in TX



INSURANCE INFORMATION

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



*All policy forms combined, countrywide.

Source: Insurance Research Council, Trends in Homeowners Insurance Claims, Sept. 2012 from ISO Fast Track data.

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



Increased Sharply in Recent Decades

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

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

Homeowners Insurance Combined Ratio: 1990–2015F

Hurricane Record 170 158.4 Andrew tornado 160 activity Hurricane 150 Sandy Hurricane 140 lke 122.2 121.7 121.7 118.4 130 16.9 113.6 13.0 112.7 111.4 109.3 109.4 108.2 120 105.8 106.7 104.4 101.0 101.7 101.2 100.3 100.7 110 98.2 95.7 94.4 100 89.0 90 80 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12E13F14F15F 91 90

> 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.



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 July 16, 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 July 16, 2014. Includes Puerto Rico and the District of Columbia.

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

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



*Through July 16, 2014. Includes Puerto Rico and the District of Columbia.

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



SEVERE WEATHER REPORT UPDATE: 2014

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

Location of Tornado Reports in 2014: Through July 14, 2014





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

U.S. Tornado Count, 2005-2014*

INSURANCE INFORMATION INSTITUTE



*Through July 15, 2014. Source: <u>http://www.spc.noaa.gov/wcm/</u>.

Location of Large Hail Reports: Through July 14, 2014





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

Location of High Wind Reports: Through July 14, 2014





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

Severe Weather Reports: Through July 14, 2014

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

Severe Weather Reports in Texas: Through July 14, 2014



939 severe weather reports through 7/14/14 53 Tornadoes 473 Large Hail Reports 413 High Wind Events



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.

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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.



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	6.5 14	
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

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	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%		
ALSOAbove-Average Maior 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

(2012, \$ Billions)



Total Value of Insured Coastal Exposure in 2007

(2007, \$ Billions)





Terrorism Update

TRIA's Success Consequences of Expiration Download III's Terrorism Insurance Report at: <u>http://www.iii.org/white_papers/terrorism-</u> <u>risk-a-constant-threat-2014.html</u>

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



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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 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

Terrorism Insurance Take-Up Rates by State for 2013*



The overall US takeup 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. INSURANCE

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I.I.I. White Paper (March 2014): Terrorism Risk: A Constant Threat





TERRORISM RISK: A CONSTANT THREAT

Impacts for Property/Casualty Insurers

MARCH 2014

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Claire Wikinson Consultant (5.17.) 459-6497 claire w@il.org

Detailed history of TRIA

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

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



- 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.



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





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: 2000–2014¹



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. Sources: ISO; Insurance Information Institute. *2014 investment income is estimated Q1, annualized.

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



90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 1314: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: 1994–2013¹

(\$ 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.

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.

U.S. 10-Year Treasury Note Yields: A Long Downward Trend, 1990–2014*



'90 '91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13 '14

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 <u>http://www.federalreserve.gov/releases/h15/data.htm</u>. National Bureau of Economic Research (recession dates); Insurance Information Institutes. INSURANCE

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



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

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



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







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





73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10

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



	Best States		Worst States		tes	
_		New in 2012				
1.	Delaware	Wyoming	41.	Florida	Newly Notorious	
2.	Nebraska	MinnesotaKansas	42.	Oklahoma	Oklahoma	
3.	Wyoming	Idaho	43.	Alabama		
4.	Minnesota		44.	New Mexico		
5.	Kansas	Drop-offs	45.	Montana	Rising Above	
6.	Idaho	IndianaColorado	46.	Illinois	Arkansas	
7.	Virginia	Massachusetts	47.	California		
8.	North Dakota	South Dakota	48.	Mississippi		
9.	Utah		49.	Louisiana		

50.

West Virginia

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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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