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# A Firm Foundation

## How Insurance Supports the Economy



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**\*Charts from these sections, along with a selection of state-by-state charts, are included in the booklet.**

# A Firm Foundation

## How Insurance Supports the Economy



Highlights from a new Insurance Information Institute resource.  
Featured in full on the enclosed CD-ROM and on the Web at  
<http://www.economicinsurancefacts.org>.



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[www.iii.org](http://www.iii.org)

## Introduction

Insurance affects everything and everything affects insurance. It is generally understood that insurance allows those who participate in the economy to produce goods and services without the paralyzing fear that some adverse incident could leave them destitute or unable to function. However, few people are aware of the extraordinary impact the industry has on state, local and national economies.



This report covers ways in which both property/casualty and life insurance contribute to our economy far beyond their core function of helping to manage risk.

Property/casualty (auto, home and commercial) insurance allows those who are the victims of accidental loss to recover financially through the payment of claims for property damage and injury. When property/casualty insurance claims are paid, funds are transferred to local businesses in the form of payment for goods or services. Among those that receive the most revenue are auto repair shops, building contractors and the health care community.

Life insurance helps households manage their finances in the face of death and disability by minimizing disruption to a wage earner's dependents. Annuities reduce the likelihood that a retiree will run out of money. By providing a measure of financial security to individuals, life insurance products help stabilize the economy.



Insurance companies also contribute to the economy through their investments. As part of the financial services industry, insurers act as financial intermediaries, investing the funds they collect for providing insurance protection.

Insurers contribute more than \$250 billion to the nation's gross domestic product. Their taxes include special levies on insurance premiums, which amounted to almost \$14 billion in 2004, or 2.3 percent of all taxes collected by the states. They are also very large employers, providing some 2.3 million jobs, or 2.1 percent of U.S. employment.

This publication shows the myriad ways in which insurance supports the economy. Each chart illustrates one or more element. Together they tell a tale that is rarely told—that insurance helps provide the firm foundation for a functioning economy.

Gordon Stewart, President  
Insurance Information Institute

### INSURANCE SECTOR'S SHARE OF GROSS DOMESTIC PRODUCT (GDP), 2000-2004 (\$ billions)

Year	Total GDP	Insurance carriers and related activities	
		GDP	Percent of total GDP
2000	\$9,817.0	\$238.3	2.4%
2001	10,128.0	234.4	2.3
2002	10,469.6	237.4	2.3
2003	10,971.2	260.4	2.4
2004	11,734.3	269.6	2.3

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

### INSURANCE INDUSTRY TAXES, 2001-2004 (\$ millions)

	2001	2002	2003	2004
Federal and foreign income taxes (property/casualty)	-\$108.6	\$2,011.1	\$10,771.5	\$14,588.1
Federal and foreign income taxes (life)	4,845.9	3,714.0	7,891.6	10,034.3
State premium taxes, (property/casualty and life)	9,744.6	11,126.1	12,528.8	13,775.3
<b>Total</b>	<b>14,481.9</b>	<b>16,851.1</b>	<b>31,191.9</b>	<b>38,397.7</b>

Source: NAIC Annual Statement Database, via National Underwriter Insurance Data Services Highline Data (incurred income taxes); U.S. Department of Commerce, Bureau of the Census (premium taxes).





**T**he insurance industry is a key player in the capital markets, with holdings of \$3.5 trillion in stocks and bonds in 2005. Insurance companies invest premiums they collect in state and local municipal bonds, helping to fund the building of roads, schools and other public projects. They provide businesses with capital for research, expansions and other ventures through their investments in corporate equities and bonds.



Because their losses are more volatile than those in the life insurance sector, property/casualty insurers invest largely in high-quality liquid securities, which can be sold quickly to pay claims resulting from a major hurricane, earthquake or man-made disaster such as a terrorist attack. In 2005 alone, property/casualty insurers' holdings in municipal bonds totaled \$301.2 billion. Life insurers, whose benefit payments are more predictable, invest more heavily in corporate stocks and corporate and foreign bonds, with holdings in these sectors of \$1.2 trillion and \$1.9 trillion, respectively, in 2005.

### PROPERTY/CASUALTY INSURER FINANCIAL ASSET DISTRIBUTION, 2002-2005 (\$ billions)

	2002	2003	2004	2005
<b>Total financial assets</b>	<b>\$939.8</b>	<b>\$1,060.4</b>	<b>\$1,166.5</b>	<b>\$1,265.4</b>
Checkable deposits and cash	25.9	34.6	25.9	19.3
Security RPs <sup>1</sup>	44.4	52.8	63.1	72.8
Credit market instruments	558.3	625.2	698.8	780.8
U.S. government securities	174.4	180.1	183.4	202.8
Treasury	61.2	64.7	71.3	79.5
Agency- and GSE <sup>2</sup> -backed securities	113.2	115.4	112.1	123.3
Municipal securities	183.0	224.2	267.8	301.2
Corporate and foreign bonds	198.9	218.9	245.3	274.1
Commercial mortgages	2.0	2.1	2.4	2.7
Corporate equities	152.3	182.7	201.8	206.6
Trade receivables	74.8	79.3	79.6	80.3
Miscellaneous assets	84.1	85.7	97.2	105.6

<sup>1</sup>RPs are repos (repurchase agreements).

<sup>2</sup>GSE=government-sponsored enterprise.

Source: Board of Governors of the Federal Reserve System.

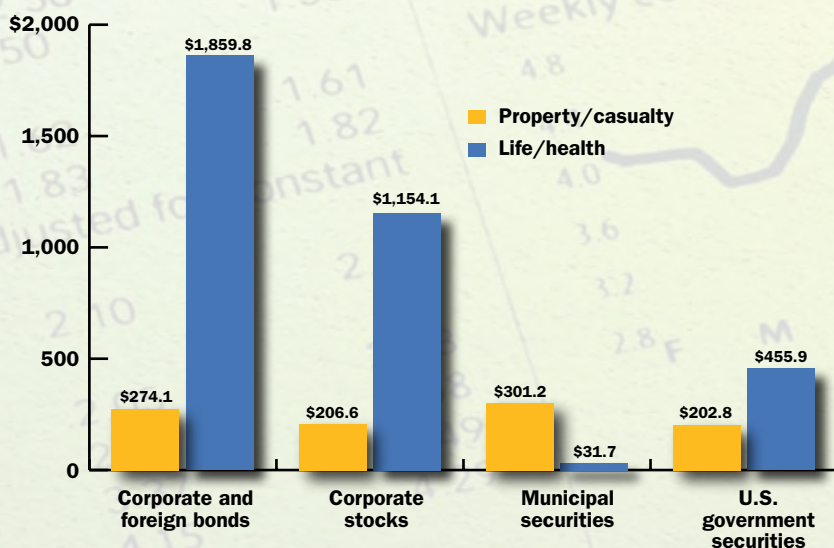
## LIFE/HEALTH INSURER FINANCIAL ASSET DISTRIBUTION, 2002-2005 (\$ billions)

	2002	2003	2004	2005
<b>Total financial assets</b>	<b>\$3,335.0</b>	<b>\$3,772.8</b>	<b>\$4,130.3</b>	<b>\$4,380.7</b>
Checkable deposits and currency	35.3	47.3	53.3	53.8
Money market fund shares	159.8	151.4	120.7	118.6
Credit market instruments	2,307.8	2,488.3	2,661.4	2,773.7
Open market paper	74.0	55.9	48.2	37.7
U.S. government securities	409.4	420.7	435.6	455.9
Treasury	78.5	71.8	78.5	81.1
Agency- and GSE <sup>1</sup> -backed securities	330.9	348.9	357.1	374.8
Municipal securities	19.9	26.1	30.1	31.7
Corporate and foreign bonds	1,449.3	1,620.2	1,768.0	1,859.8
Policy loans	105.1	104.5	106.1	105.8
Mortgages	250.0	260.9	273.3	282.7
Corporate equities	708.9	919.3	1,053.9	1,154.1
Mutual fund shares	76.6	91.7	114.4	131.2
Miscellaneous assets	46.8	74.7	126.6	149.4

<sup>1</sup>GSE=government-sponsored enterprise.

Source: Board of Governors of the Federal Reserve System.

## SELECTED INSURANCE INDUSTRY ASSETS, 2005 (\$ billions)



Source: Board of Governors of the Federal Reserve System.



When life insurance claims are paid, funds flow into the general economy, as beneficiaries spend the money they receive. When property/casualty insurance claims are paid, funds flow to the industries that supply claimants with the goods and services necessary for their recovery.

In 2004 property/casualty insurers paid out \$300 billion to settle claims. Most of this money went to businesses that help claimants get their lives back together after an accident, fire, windstorm or other incident that caused the injury or property damage.

Insurance claim payments support local businesses, enabling them to provide jobs and pay taxes that support the local economy.

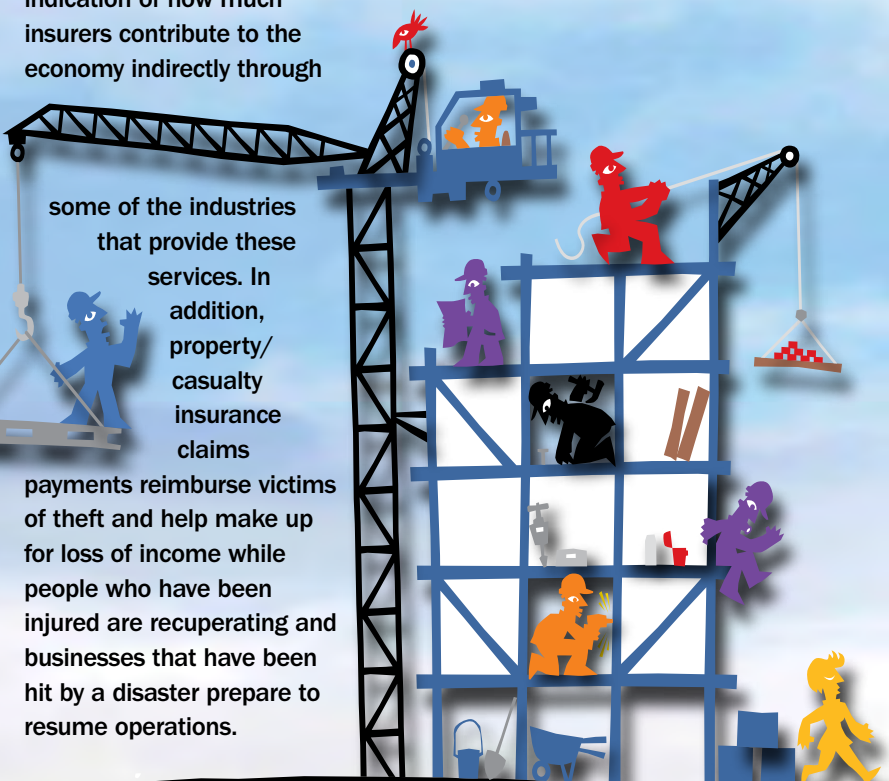
All industries benefit from property/casualty insurance because it pays for losses that might otherwise have put them out of business. But certain industries derive a good portion of their income from insurers' claim payments. These businesses include the auto parts and repair industries (auto insurance), the building construction and supply industries (homeowners and commercial property insurance), health care services (auto, workers compensation and other liability insurance coverages) and legal services.

The charts that follow provide some indication of how much insurers contribute to the economy indirectly through



some of the industries that provide these services. In addition, property/casualty insurance claims

payments reimburse victims of theft and help make up for loss of income while people who have been injured are recuperating and businesses that have been hit by a disaster prepare to resume operations.





## AUTOMOTIVE REPAIR AND MAINTENANCE INDUSTRY, 1997 AND 2002

	1997	2002
Number of establishments	164,360	166,821
Receipts/revenues (\$000)	\$62,200,597	\$75,219,140
Annual payroll (\$000)	\$16,865,209	\$21,592,456
Number of employees	815,149	871,040
Source: U.S. Department of Commerce, Bureau of the Census.		

## CONSTRUCTION INDUSTRY, 1997 AND 2002

	1997	2002
Number of establishments	656,434	710,307
Receipts/revenues (\$000)	\$858,581,046	\$1,196,555,587
Annual payroll (\$000)	\$174,184,604	\$254,292,144
Number of employees	5,664,840	7,193,069
Source: U.S. Department of Commerce, Bureau of the Census.		

## HEALTH CARE INDUSTRY, 1997 AND 2002

	1997	2002
Number of establishments	519,425	564,774
Receipts/revenues (\$000)	\$827,698,589	\$1,115,844,935
Annual payroll (\$000)	\$353,811,563	\$459,469,421
Number of employees	11,817,375	12,929,752
Source: U.S. Department of Commerce, Bureau of the Census.		

## LEGAL SERVICES INDUSTRY, 1997 AND 2002

	1997	2002
Number of establishments	176,248	179,346
Receipts/revenues (\$000)	\$128,549,213	\$182,650,380
Annual payroll (\$000)	\$49,856,688	\$69,939,404
Number of employees	1,035,408	1,169,601
Source: U.S. Department of Commerce, Bureau of the Census.		

Specialized insurance products protect lenders and borrowers, shielding businesses such as exporters from customer defaults and facilitating the financing of mortgages and other transactions.

Mortgage Guaranty Insurance

Private mortgage insurance (PMI), known as mortgage guaranty insurance, guarantees that, in the event of a default, the insurer will pay the mortgage lender for any loss resulting from property foreclosure up to a specific amount. PMI, which is purchased by the borrower but protects the lender, is sometimes confused with mortgage insurance, a life insurance product that pays off the mortgage if the borrower dies before the loan is repaid.

Banks generally require PMI for all borrowers with down payments of less than 20 percent. With PMI, therefore, prospective homeowners with only enough cash for a 5 percent down payment may still be able to buy a home immediately.



MORTGAGE GUARANTY INSURANCE, 2001-2004<sup>1</sup>  
(\$000)

	2001	2002	2003 <sup>2</sup>	2004 <sup>2</sup>
Net premiums written	\$3,656,387	\$3,789,257	\$3,482,519	\$3,336,039
Net premiums earned	3,649,250	3,835,948	3,385,414	3,395,419
Losses	681,539	831,973	870,861	1,136,214
Expenses	806,767	899,493	787,649	789,190
Underwriting income	2,160,944	2,104,483	1,375,427	1,309,478
Loss ratio	18.68%	21.69%	25.72%	33.46%
Expense ratio	22.06	23.74	22.62	23.66
Combined ratio	40.74	45.43	48.34	57.12

<sup>1</sup>As reported by members of the Mortgage Insurance Companies of America, representing seven private mortgage insurance companies.

<sup>2</sup>Includes six private mortgage insurance companies. Data for 2003-2004 not strictly comparable with earlier data.

Source: Mortgage Insurance Companies of America.

## Credit Insurance for Short-Term Trade Receivables

Credit insurance protects the policyholder (the product seller) against the risk of a customer's default on its obligation to pay for goods or services or its insolvency. Credit insurance covers outstanding receivables over and above the level of losses for which a company would typically set up bad debt reserves and often is sold with a large package of credit management services. Credit insurance facilitates financing, enabling insured companies to get better credit terms from banks.

### CREDIT INSURANCE, 2000-2004 (\$000)

Year	Direct premiums written	Annual percent change
2000	\$511,416	10.3%
2001	620,554	21.3
2002	731,798	17.9
2003	801,826	9.6
2004	1,053,996	31.4

Source: NAIC Annual Statement Database, via National Underwriter Insurance Data Services/Highline Data.

## Credit Life Insurance

Credit life insurance, a form of decreasing term insurance, protects creditors such as banks. The borrower pays the premium, generally as part of the credit transaction, to cover the outstanding loan in the event he or she dies. The face value of a policy decreases as the loan is paid off until both equal zero. When loans are paid off early, premiums for the remaining term are returned to the policyholder. Credit accident and health, a similar product, provides a monthly income in the event the borrower becomes disabled.

### CREDIT LIFE AND ACCIDENT AND HEALTH INSURANCE DIRECT PREMIUMS WRITTEN, 2000-2004 (\$000)

Year	Life	Accident and health
2000	\$2,372,473	\$2,515,554
2001	2,006,309	2,275,416
2002	1,486,992	1,893,662
2003	1,147,397	1,438,215
2004	1,150,159 <sup>1</sup>	1,156,527 <sup>1</sup>

<sup>1</sup> NAIC Annual Statement Database, via National Underwriter Insurance Data Services/Highline Data.

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The insurance industry safeguards the assets of its policyholders, helping them and their families get their lives back on track and allowing them to continue to contribute to the economy after a disabling injury or the death of a family member. In addition, insurers' annuity products help retired workers maintain their standard of living.



**LIFE INSURANCE PAYOUTS, 2001-2004**  
**(\$ millions)**

	2001	2002	2003	2004
Death benefits	\$46,684.8	\$47,213.6	\$49,514.5	\$49,388.1
Annuity benefits	53,634.3	52,786.1	53,733.5	58,078.2
Matured endowments	550.7	533.6	510.3	551.1
Disability and accident and health benefits	77,858.0	80,270.7	82,265.4	89,935.6
Coupons, guaranteed annual pure endowments and similar benefits	12.0	11.6	14.4	227.9
Surrender benefits and withdrawals for life contracts	183,284.0	175,871.3	173,160.2	195,139.0
Payment on supplementary contracts with life contingencies	1,752.6	2,365.9	2,218.6	1,899.6
<b>Total</b>	<b>363,776.4</b>	<b>359,052.8</b>	<b>361,416.9</b>	<b>394,219.5</b>

Source: NAIC Annual Statement Database, via National Underwriter Insurance Data Services/Highline Data.



## Workers Compensation

There are two components to workers compensation claims costs: payments for lost income (which are usually linked to a state's average weekly wage), known as indemnity costs, and payments for medical care. Two decades ago indemnity costs made up the greater part of total losses. In 1983, for example, indemnity represented 56 percent of the total. By 2003 indemnity and medical had changed places. Indemnity was only 45 percent of losses.



**WORKERS COMPENSATION INDEMNITY  
COSTS PER CLAIM, 1991-2004<sup>1</sup>**  
(\$000)



<sup>1</sup>Indemnity costs per lost-time claim.  
<sup>2</sup>Preliminary.

Source: NCCI Holdings, Inc.

**INSURANCE CARRIERS AND RELATED ACTIVITIES  
EMPLOYMENT, 2002**

State	Number of establishments	Number of employees	Annual payroll (\$000)
Alabama	2,422	26,001	\$1,264,765
Alaska	267	1,885	88,706
Arizona	3,303	<sup>1</sup>	<sup>2</sup>
Arkansas	1,650	9,871	378,136
California	16,262	241,894	13,376,245
Colorado	3,574	39,391	1,856,416
Connecticut	2,023	84,984	5,669,572
Delaware	434	8,035	352,792
D.C.	200	<sup>3</sup>	<sup>2</sup>
Florida	11,050	124,384	5,496,438
Georgia	4,858	69,850	3,422,123
Hawaii	477	6,519	292,436
Idaho	889	6,139	222,528
Illinois	8,440	140,386	7,491,780
Indiana	3,908	45,319	2,115,787
Iowa	2,679	43,280	1,890,414
Kansas	2,472	23,106	1,031,565
Kentucky	2,209	22,407	1,010,897
Louisiana	2,715	25,429	1,050,482
Maine	690	11,620	520,297
Maryland	2,777	<sup>1</sup>	<sup>2</sup>
Massachusetts	3,569	74,953	4,411,346
Michigan	5,499	69,289	3,389,501
Minnesota	4,167	68,628	3,671,437
Mississippi	1,497	10,551	401,813
Missouri	4,322	50,284	2,291,425

State	Number of establishments	Number of employees	Annual payroll (\$000)
Montana	813	4,432	\$139,892
Nebraska	1,868	25,639	1,013,484
Nevada	1,192	9,900	431,729
New Hampshire	729	14,137	776,262
New Jersey	3,899	83,353	5,151,795
New Mexico	949	8,466	317,790
New York	9,412	171,557	10,470,375
North Carolina	4,671	52,409	2,347,546
North Dakota	716	5,031	175,127
Ohio	7,386	109,728	4,920,403
Oklahoma	2,339	20,534	747,660
Oregon	2,364	27,506	1,248,083
Pennsylvania	6,995	136,026	6,789,151
Rhode Island	543	10,888	556,871
South Carolina	2,074	26,453	1,004,623
South Dakota	806	5,195	180,982
Tennessee	3,201	41,572	1,707,361
Texas	12,636	164,027	7,454,247
Utah	1,481	12,358	491,529
Vermont	406	4,159	197,039
Virginia	4,105	56,705	2,630,356
Washington	3,460	42,011	2,028,277
West Virginia	953	7,758	229,240
Wisconsin	3,782	70,588	3,431,920
Wyoming	387	2,077	70,430
<b>United States</b>	<b>169,520</b>	<b>2,406,089</b>	<b>120,630,679</b>

<sup>1</sup> 25,000 to 49,999 employees.

<sup>2</sup> Withheld to avoid disclosing data for individual companies; data are included in higher level totals.

<sup>3</sup> 2,500 to 4,999 employees.

Source: U.S. Bureau of the Census, 2002 Economic Census.

### GROSS STATE PRODUCT, INSURANCE CARRIERS AND RELATED ACTIVITIES, 2003 (\$ millions)

State	Gross state product	State	Gross state product
Alabama	\$2,251	Montana	\$413
Alaska	408	Nebraska	2,854
Arizona	4,327	Nevada	1,230
Arkansas	1,092	New Hampshire	1,495
California	24,926	New Jersey	10,375
Colorado	3,931	New Mexico	699
Connecticut	12,808	New York	23,272
Delaware	3,393	North Carolina	4,775
D.C.	674	North Dakota	487
Florida	10,946	Ohio	10,496
Georgia	5,704	Oklahoma	1,800
Hawaii	725	Oregon	2,259
Idaho	627	Pennsylvania	12,409
Illinois	16,493	Rhode Island	1,169
Indiana	5,309	South Carolina	2,153
Iowa	6,541	South Dakota	471
Kansas	2,190	Tennessee	3,592
Kentucky	2,220	Texas	16,885
Louisiana	2,150	Utah	1,171
Maine	1,123	Vermont	514
Maryland	4,641	Virginia	4,122
Massachusetts	9,174	Washington	4,253
Michigan	7,162	West Virginia	652
Minnesota	7,332	Wisconsin	6,627
Mississippi	1,105	Wyoming	151
Missouri	4,433	<b>United States</b>	<b>256,010</b>

Source: U.S. Department of Commerce, Bureau of Economic Analysis.



## I.I.I. Member Companies

ACE USA	Missouri Employers Mutual Insurance
Acuity	Nationwide
Aegis Insurance Services Inc.	The Norfolk & Dedham Group
Alea Group	North Pointe Insurance Group
Allianz of America, Inc.	Ohio Mutual Insurance Group
Allstate Insurance Group	OneBeacon Insurance Group
American Agricultural Insurance Company	Palisades Safety and Insurance Association
American International Group, Inc.	Pennsylvania Lumbermens Mutual Insurance Company
American Re-Insurance Company	Plymouth Rock Assurance Corporation
Atlantic Mutual Companies	Safeco Insurance Companies
Auto Club South Insurance Company	St. Paul Travelers
Beazley Group	Scor U.S. Corporation
Bituminous Insurance Companies	Selective Insurance Group
Chubb Group of Insurance Companies	State Farm Mutual Automobile Insurance Company
Church Mutual Insurance Company	The Sullivan Group
CNA	Swiss Reinsurance America Corporation
CUMIS Insurance Society, Inc.	TIAA-CREF
De Smet Farm Mutual Insurance Company of South Dakota	The Tokio Marine and Fire Insurance Co., Ltd.
Dryden Mutual Insurance Company	Unitrin Property and Casualty Insurance Group
Erie Insurance Group	USAA
Farmers Group, Inc.	Utica National Insurance Group
Foundation Reserve Insurance Company	Westfield Group
GE Insurance Solutions	W.R. Berkley Corporation
GEICO	XL Global Services
Gen Re	XL Insurance Company, Ltd.
Germania Insurance	Zurich North America
Grange Insurance Companies	
The Hanover Insurance Group Inc.	
The Harford Mutual Insurance Companies	
The Hartford Financial Services Group	
Holyoke Mutual Insurance Company	
James River Group	
Liberty Mutual Group	
Lloyd's	
Marsh Inc.	
MetLife Auto & Home	
Millville Mutual Insurance Company	

### Associate Members

Allegany Co-op Insurance Company  
Farmers Mutual Fire Insurance of  
Tennessee  
Livingston Mutual Insurance Company  
Mutual Assurance Society of Virginia  
Randolph Mutual Insurance Company  
Sompo Japan Research Institute, Inc.

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1. Insert the Firm Foundation disk into the CD-ROM drive.
2. Open your Web browser.
3. Click on File/Open.
4. Browse files to locate “index.html” on your CD-ROM drive (usually “D” or “E”).
5. Click on “index.html,” then click on OK to load.

**Note:** You may also copy the contents of the CD to your local intranet, personal Web server or hard drive.



## **A Firm Foundation How Insurance Supports the Economy**

**F**ew people are aware of the extraordinary impact insurance has on state, local and national economies. This resource shows the myriad ways in which insurance provides economic support—from offering employment and fueling the capital markets, to providing financial security and income to individuals and local businesses through the payment of claims.

- Insurers contribute more than \$250 billion to the nation's gross domestic product each year
- They provide some 2.3 million jobs, or 2.1 percent of U.S. employment
- In 2004, insurers paid over \$38 billion in taxes

These facts and many more can be found in this booklet, which highlights the extensive compendium—including a wealth of state-by-state statistics—featured in its entirety on the enclosed CD-ROM. Also available on the Web at [www.economicinsurancefacts.org](http://www.economicinsurancefacts.org).



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