



Florida Insurance Markets at the Crossroads

Critical Issues in Property, Auto & Other Key Coverages in a Weak Economy

5th Annual Insurance Summit, Florida Chamber of Commerce
Orlando, FL

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Download at www.iii.org/presentations

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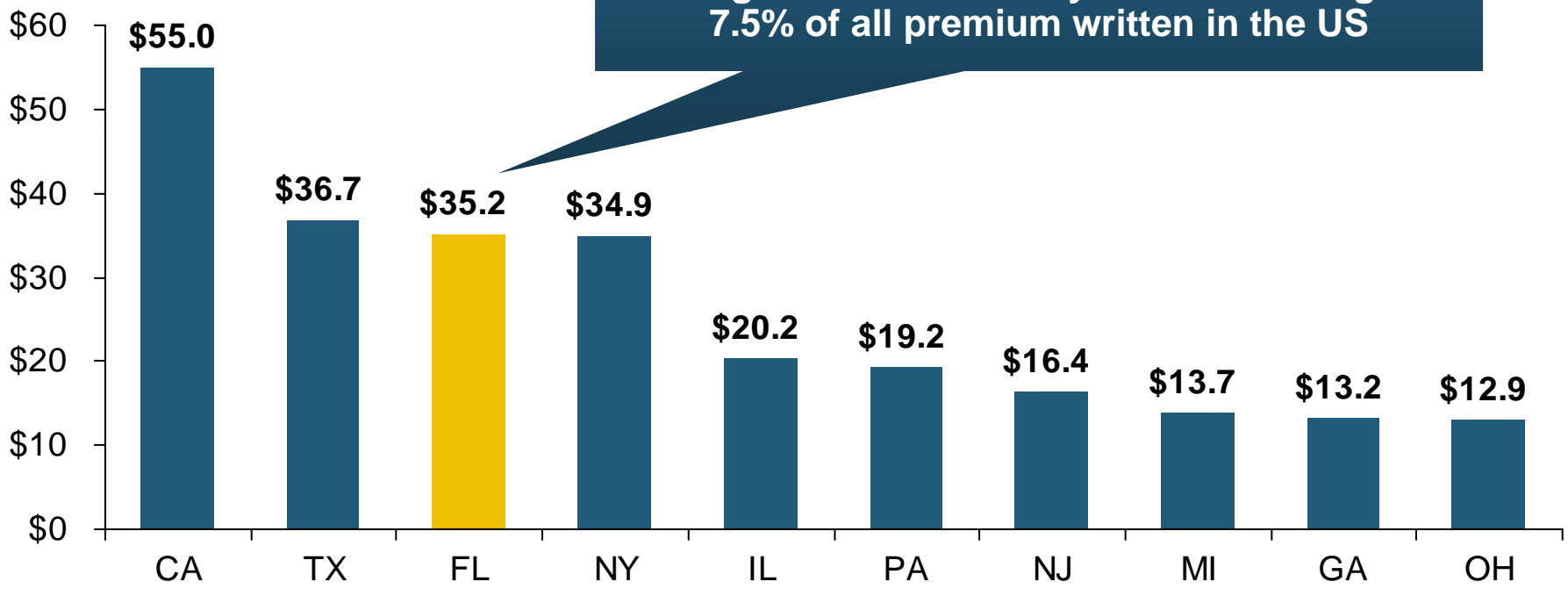
**Florida's Insurance Markets
Are Among the Biggest and
Most Volatile in the US**

**A Strong Insurance Industry Is in
the Best Interest of Policyholders
and Insurers and Is Essential to
Healthy Economy**

Top Ten States by P/C Premium Volume, 2010*



\$ Billions



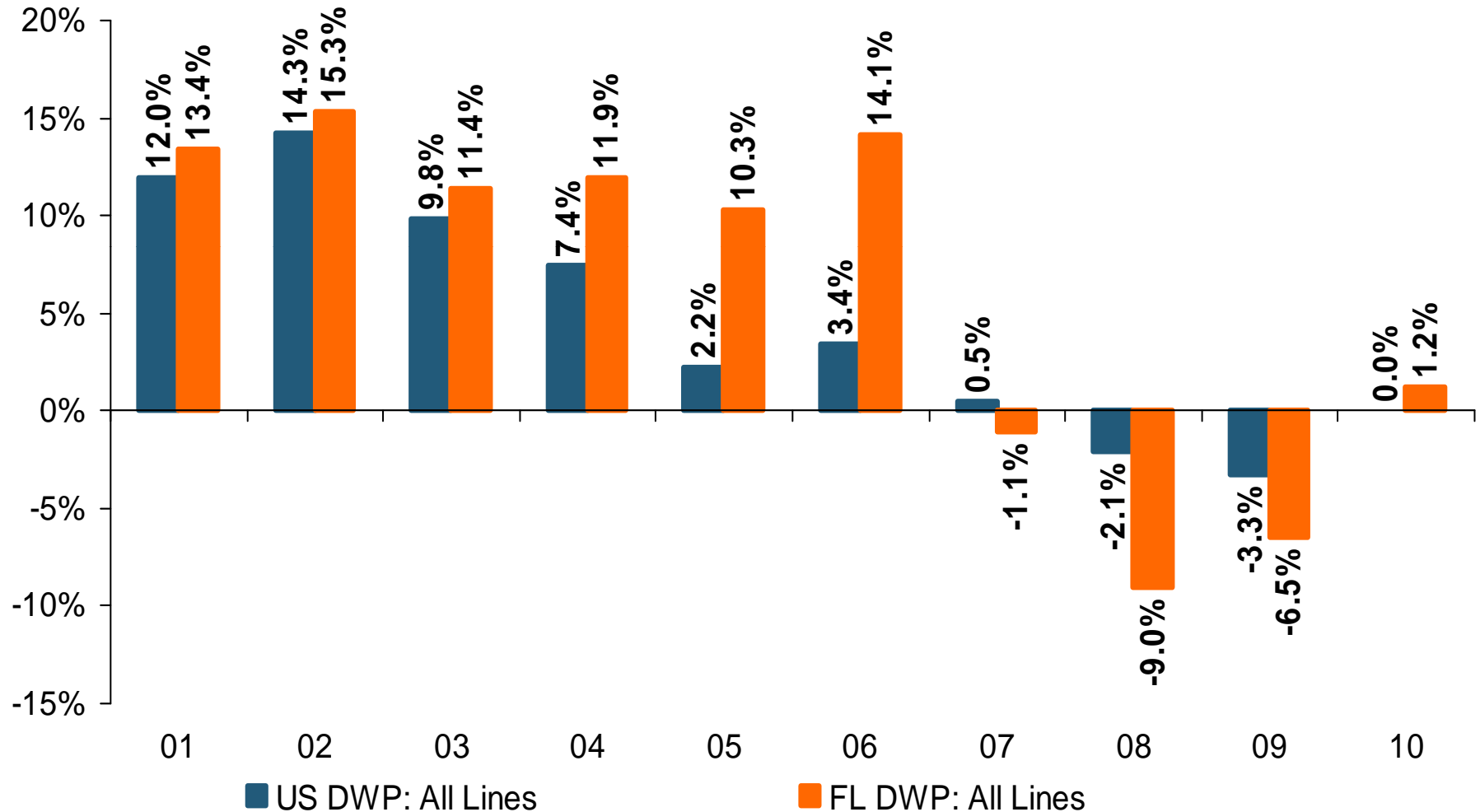
Florida is a very important state to p/c insurers, with \$35.2 billion in premiums written in 2010—3rd highest in the country and accounting for 7.5% of all premium written in the US

Florida P/C Premiums Written Fell by Approximately 17% Between 2007 and 2009 As the State's Economy Crashed

*Direct premiums written.
Source: SNL Financial; Insurance Information Institute

All Lines DWP Growth: FL vs. U.S., 2001-2010

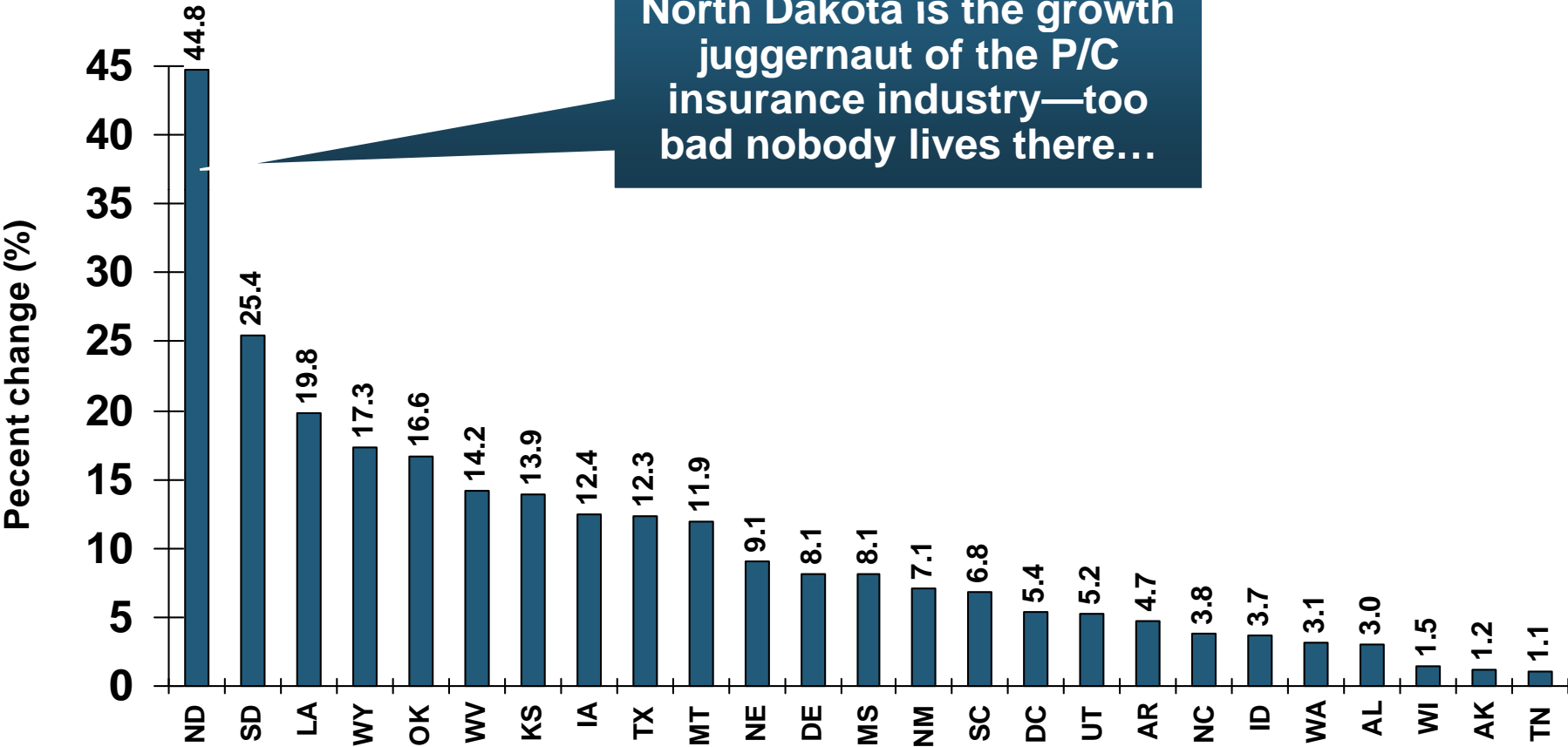
(Percent)



Direct Premiums Written: All P/C Lines Percent Change by State, 2005-2010

Top 25 States

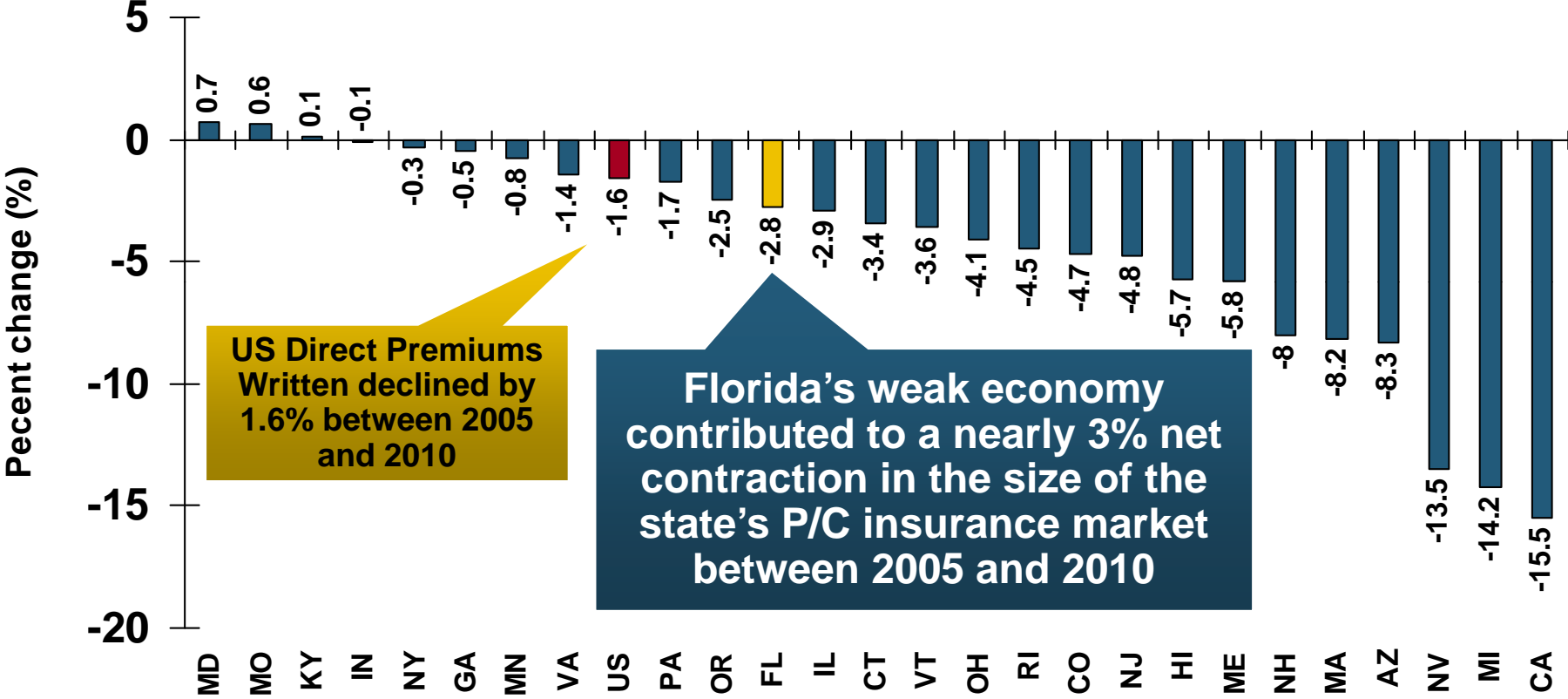
North Dakota is the growth juggernaut of the P/C insurance industry—too bad nobody lives there...



Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: All P/C Lines Percent Change by State, 2005-2010

Bottom 25 States

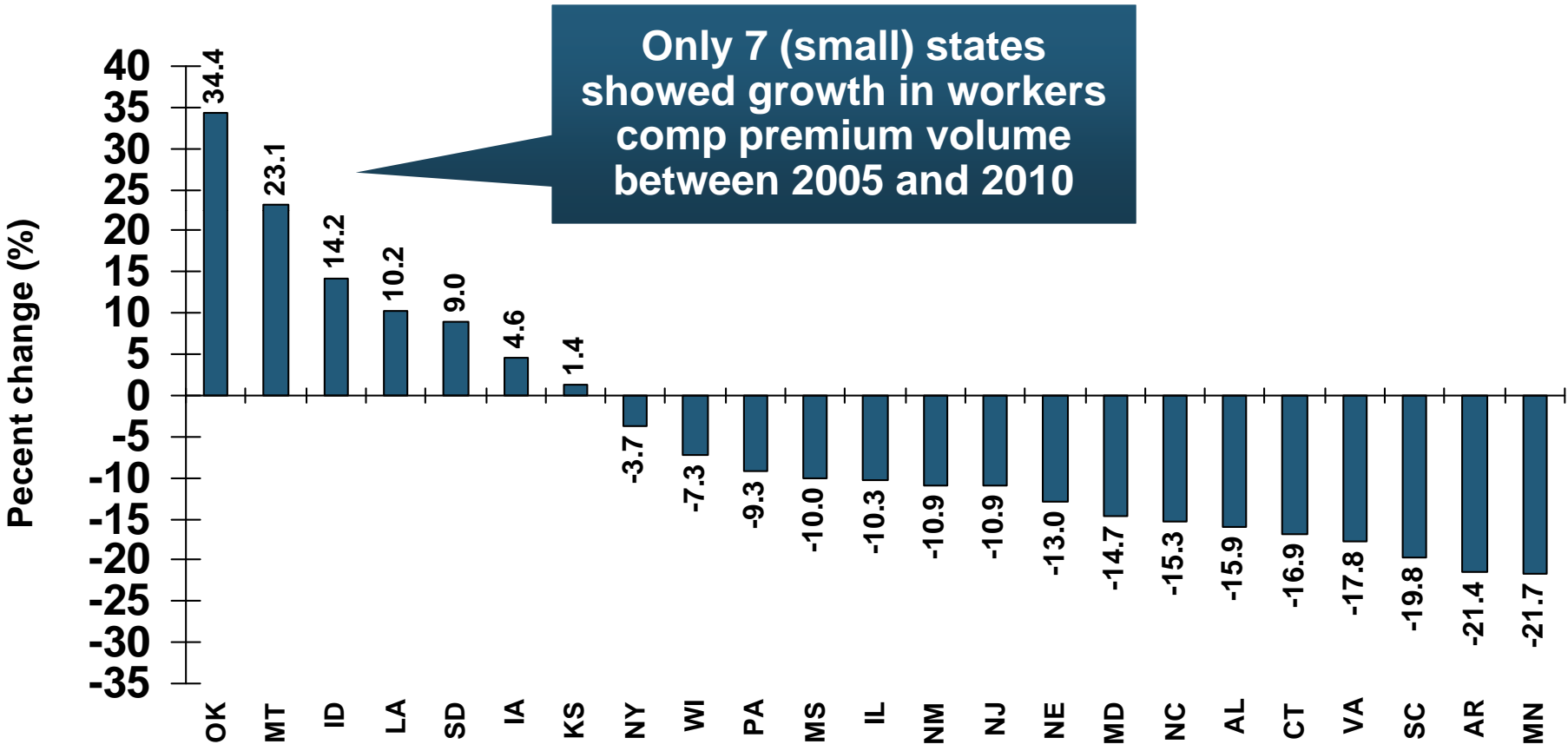


Sources: SNL Financial LC; Insurance Information Institute.

Direct Premiums Written: Worker's Comp Percent Change by State, 2005-2010*



Top 25 States

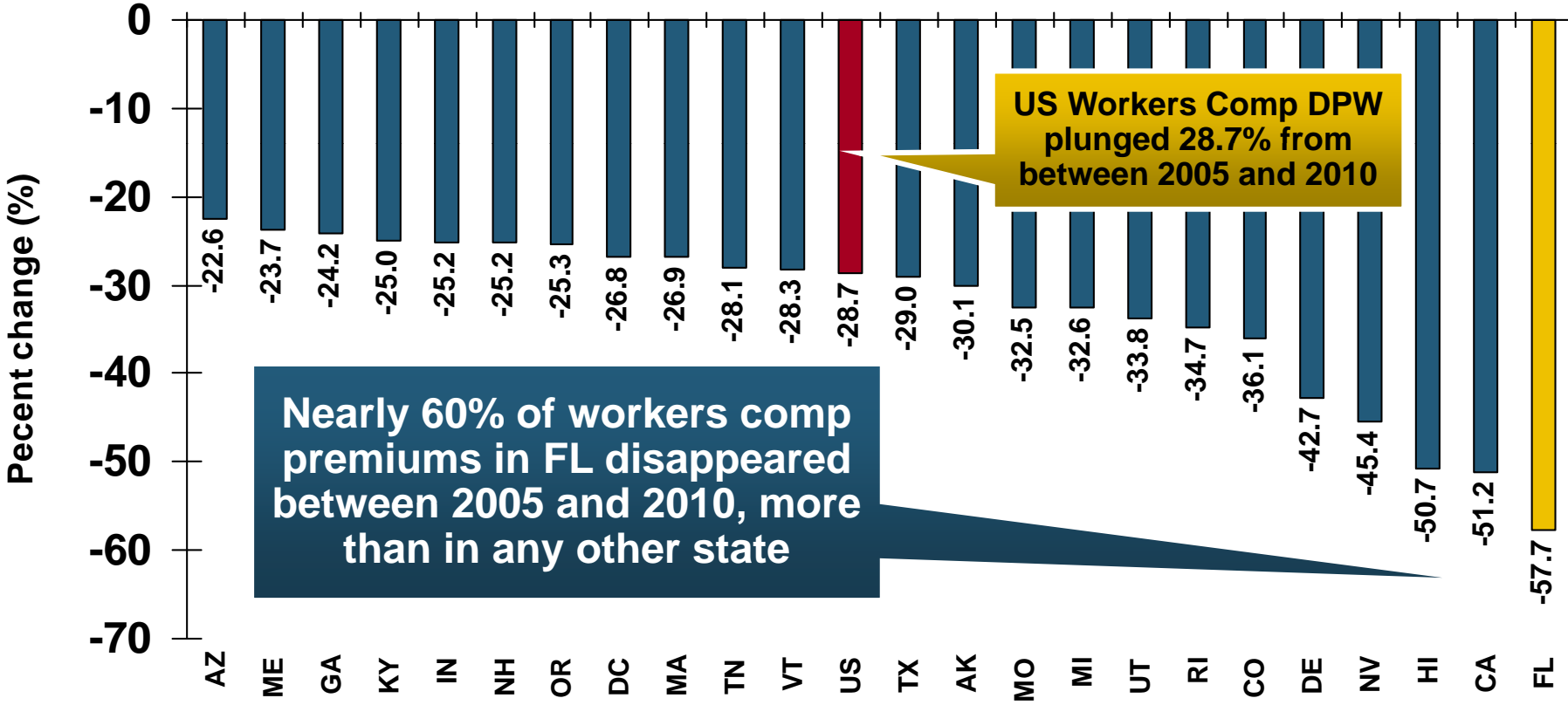


*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: Worker's Comp Percent Change by State, 2005-2010*

Bottom 25 States

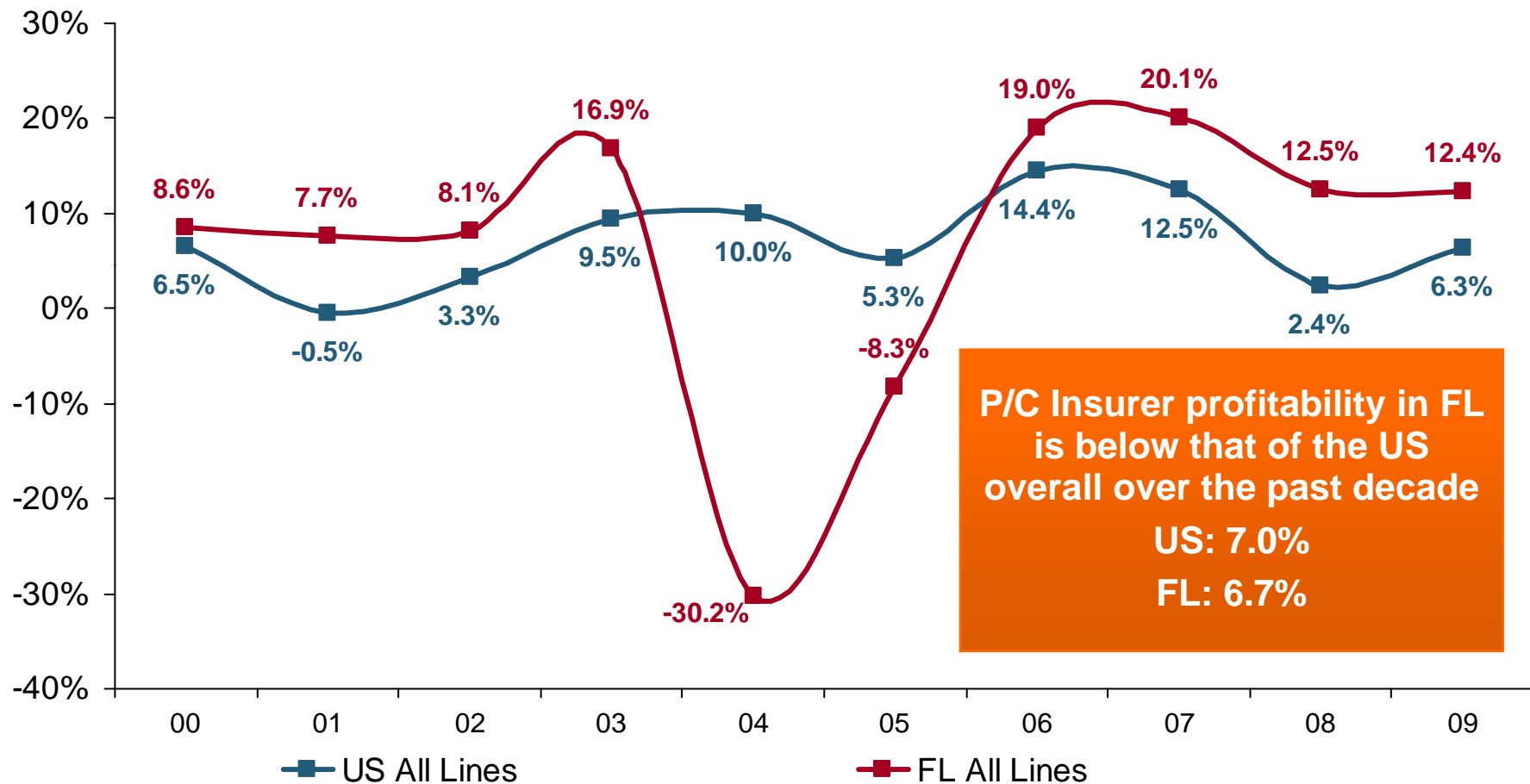


*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

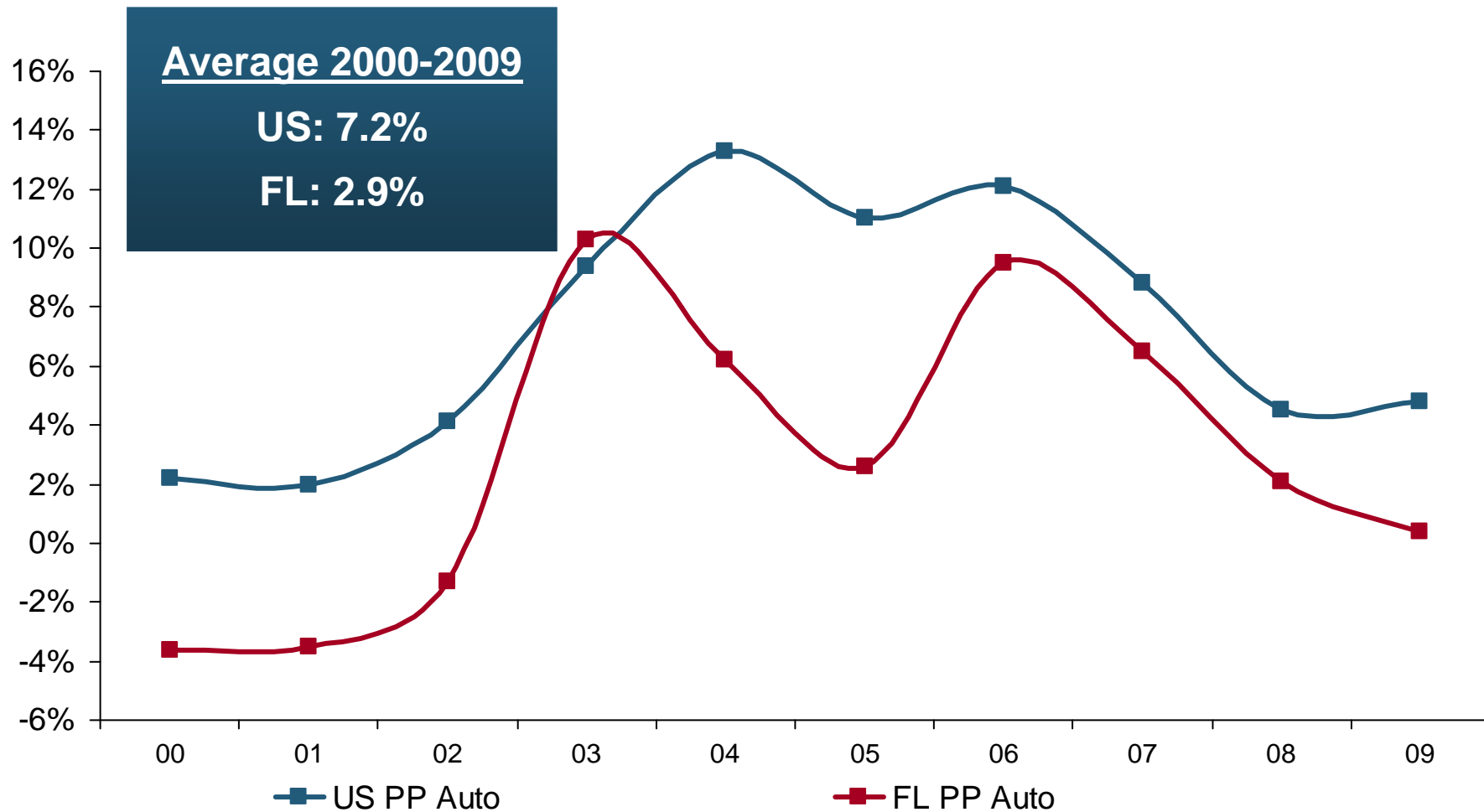
Sources: SNL Financial LC.; Insurance Information Institute.

RNW All Lines: FL vs. U.S., 2000-2009

(Percent)

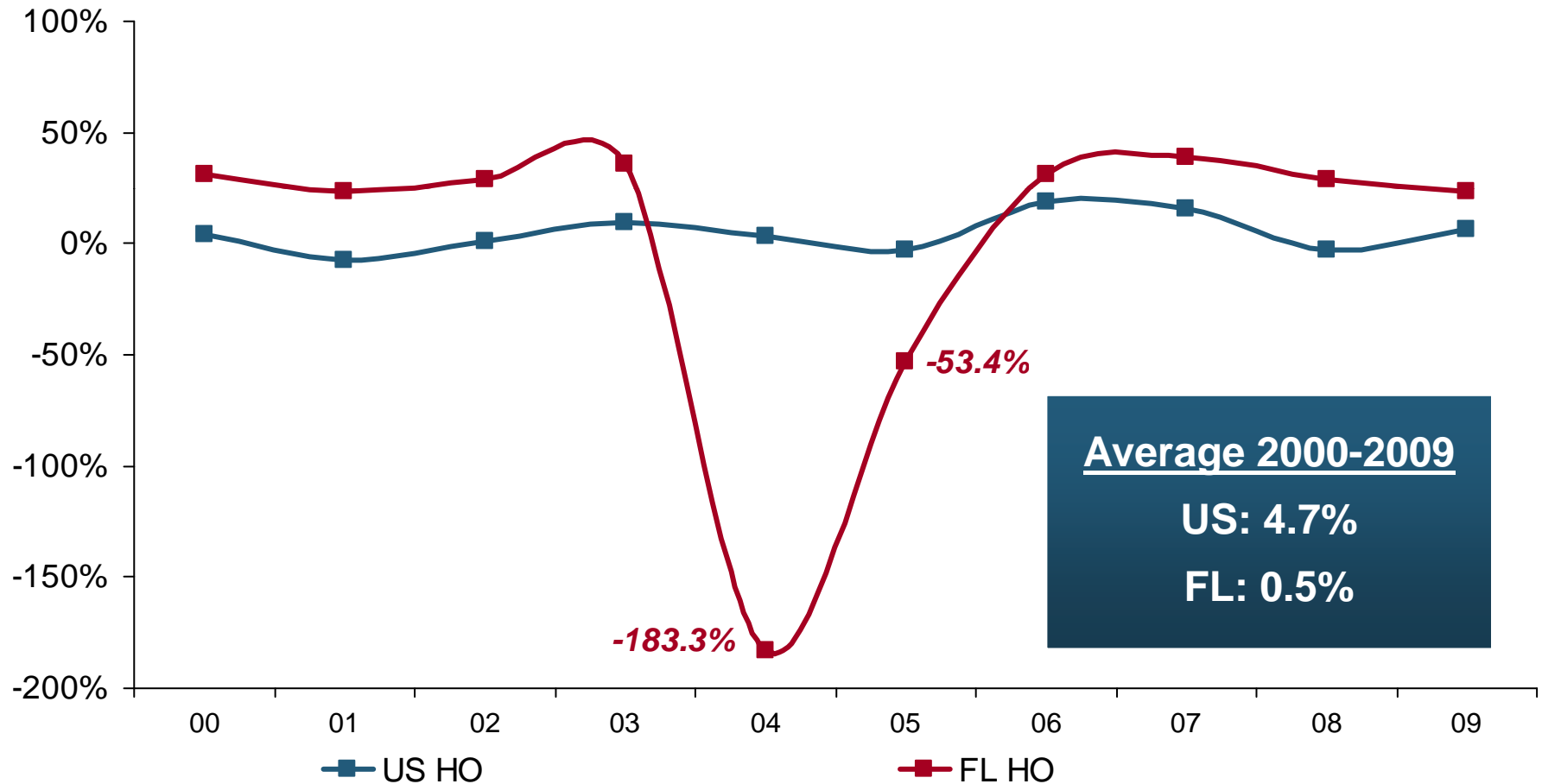


RNW PP Auto: FL vs. U.S., 2000-2009



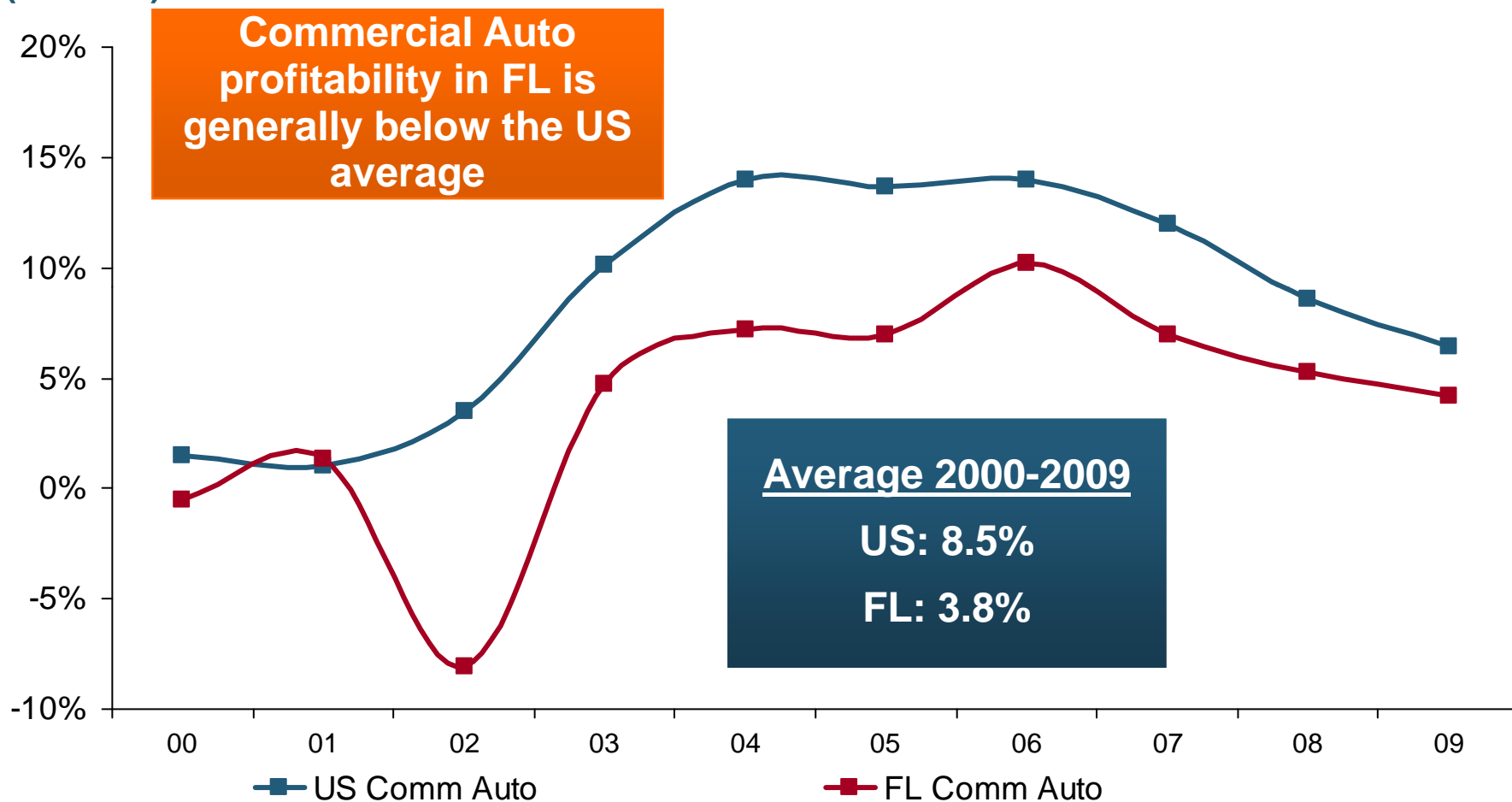
RNW Homeowners: FL vs. U.S., 2000-2009

(Percent)



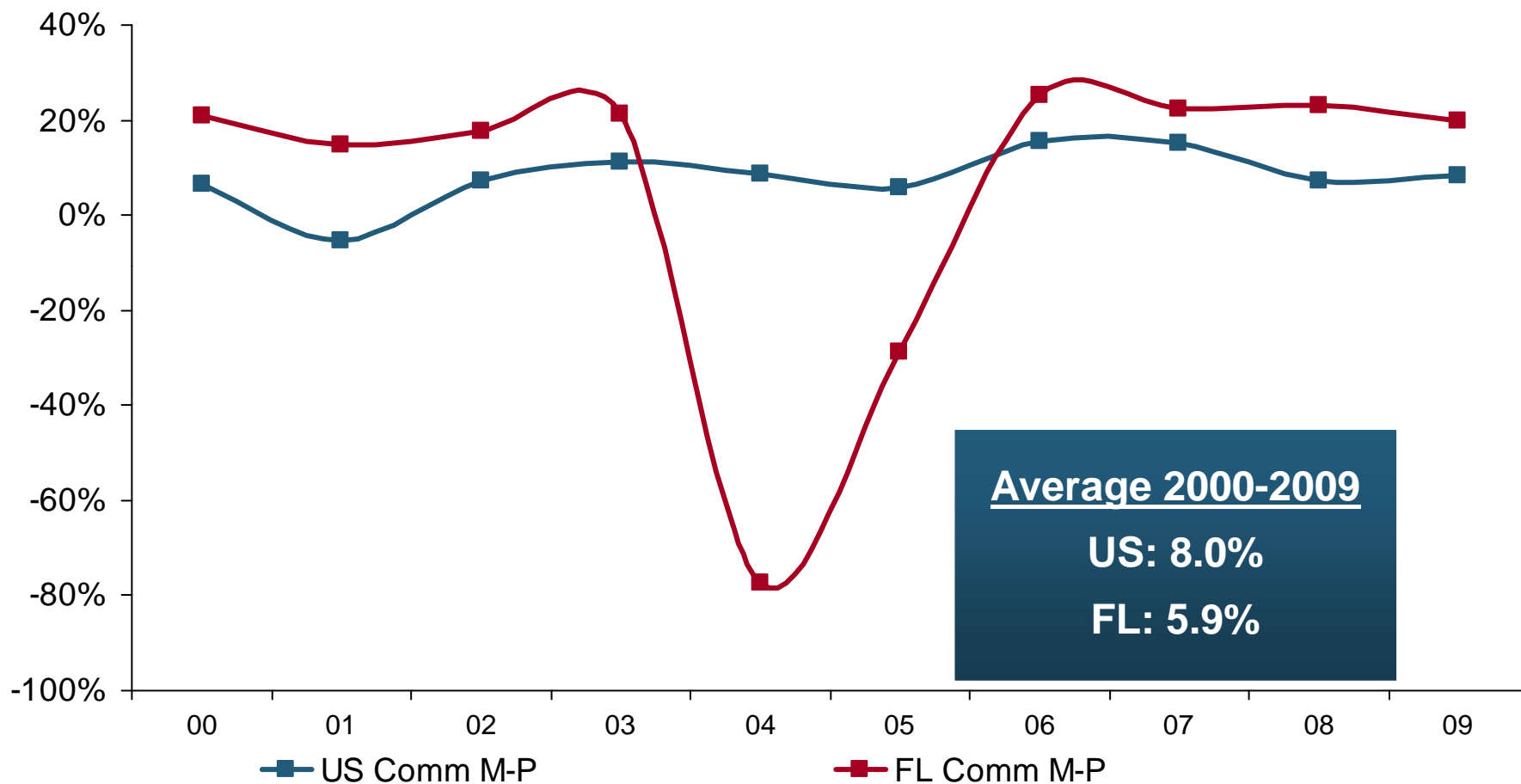
RNW Comm. Auto: FL vs. U.S., 2000-2009

(Percent)



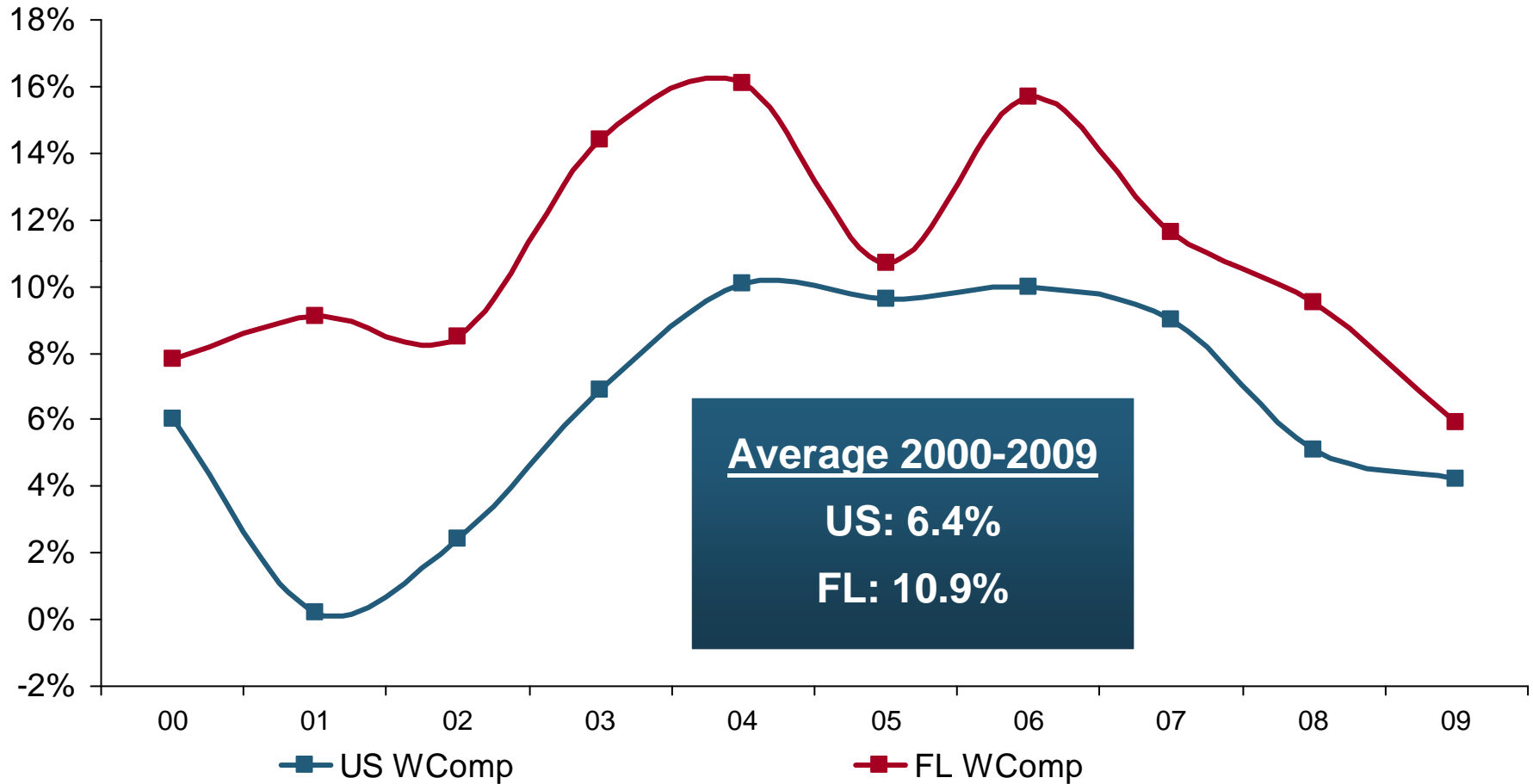
RNW Comm. Multi-Peril: FL vs. U.S., 2000-2009

(Percent)



RNW Workers Comp: FL vs. U.S., 2000-2009

(Percent)

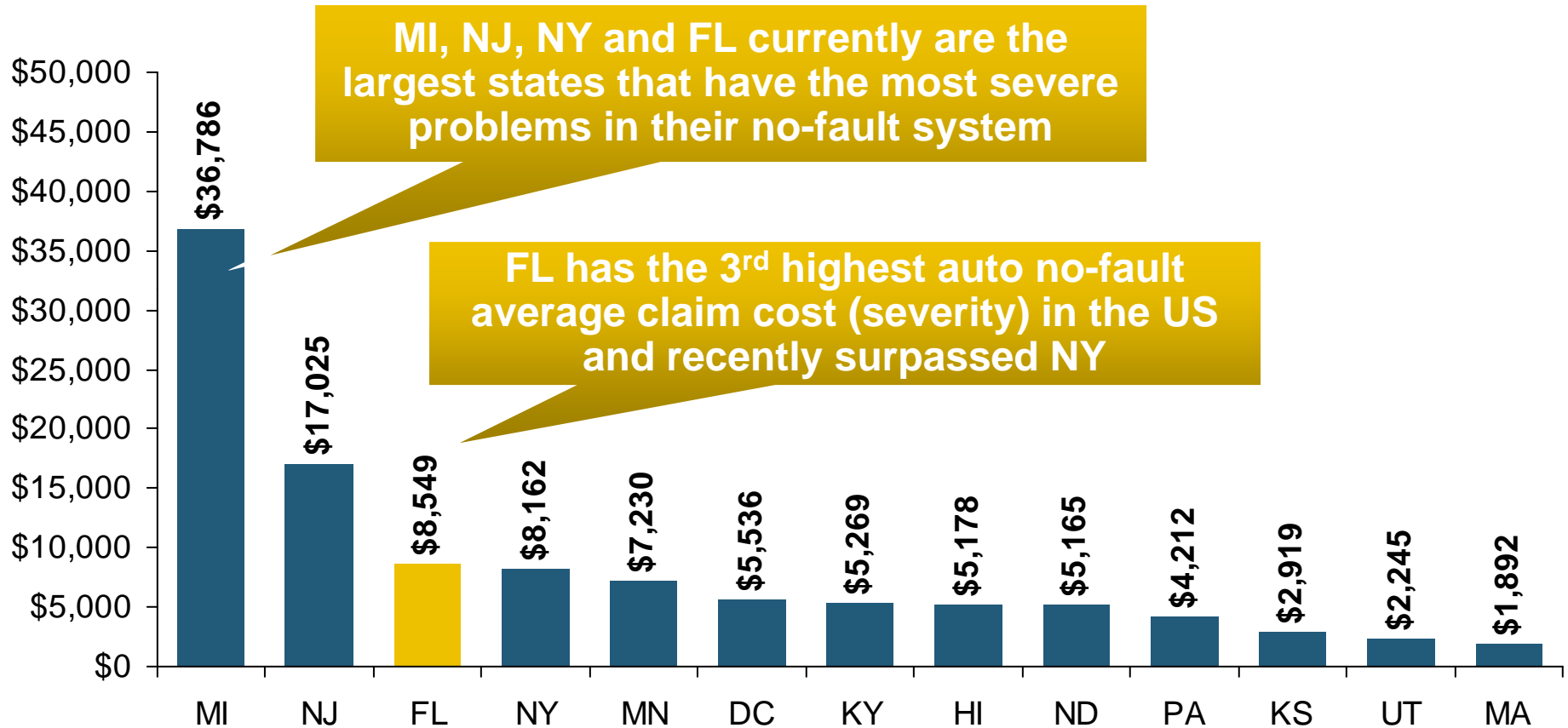




Florida No-Fault (PIP) Fraud Update

**Fraud and Abuse Have Cost
Floridians More Than
\$1 Billion Since 2009**

Average No-Fault Claim Severity, 2011:Q2*

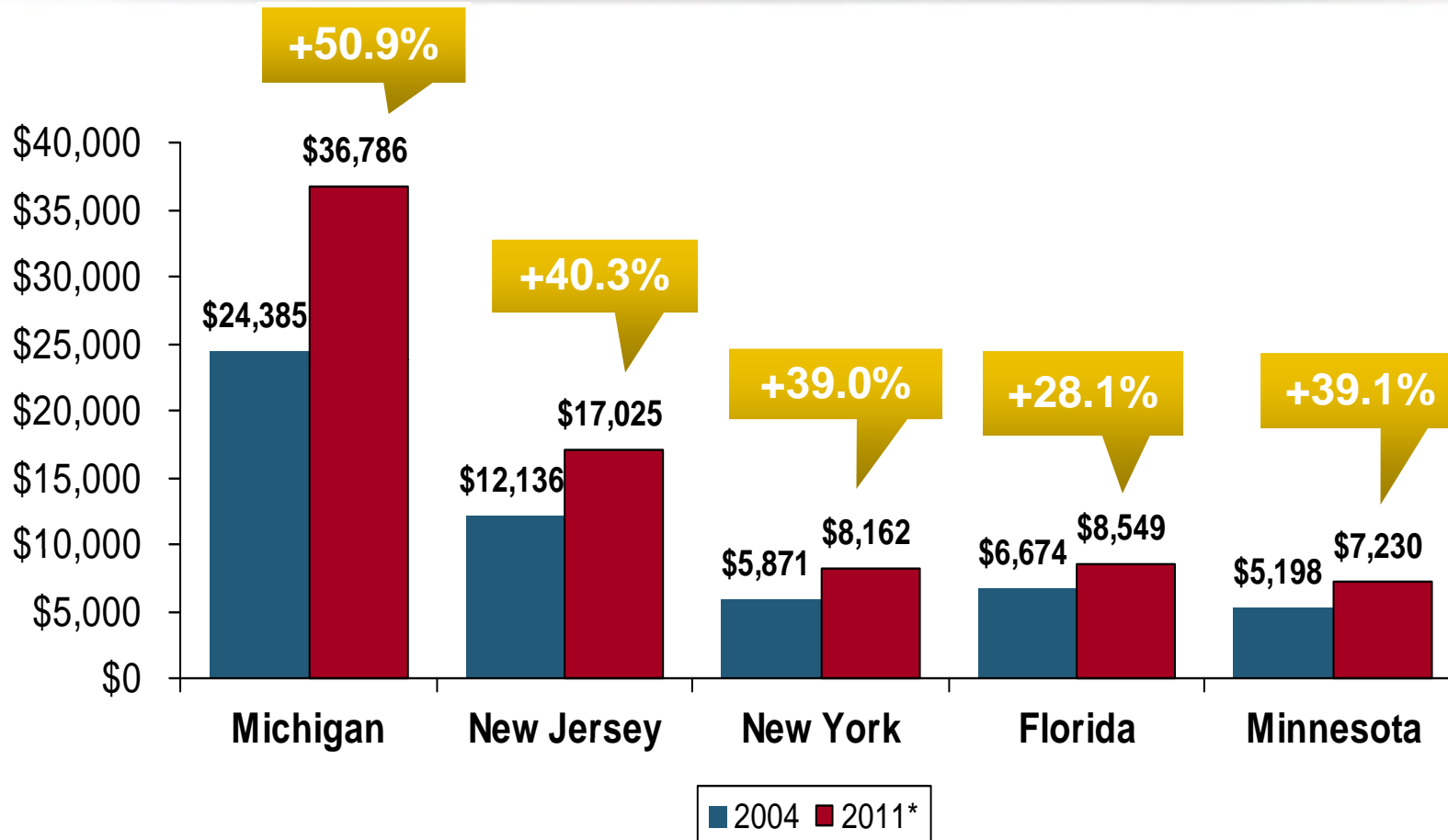


Several States Including FL Have Severe and Growing Problems With Rampant Fraud and Abuse in their No-Fault Systems. Claim Severities Are Up Sharply.

*Average of the four quarters ending 2011:Q2.

Source: ISO/PCI *Fast Track* data; Insurance Information Institute.

Increase in No-Fault Claim Severity: Selected States, 2004-2011*



The no-fault systems in MI, NJ, NY, FL, and MN are under stress due to rising fraud and abuse, which leads to higher premiums for honest drivers.

*2011 figures are for the 4 quarters ending 2011:Q2.

Sources: Insurance Information Institute research from ISO/PCI *Fast Track* data.

Top Ten Most Expensive And Least Expensive States For Automobile Insurance, 2008 (1)

Rank	Most expensive states	Average expenditure	Rank	Least expensive states	Average expenditure
1	D.C.	\$1,126	1	North Dakota	\$503
2	Louisiana	1,105	2	Iowa	519
3	New Jersey	1,081	3	South Dakota	520
4	Florida	1,055	4	Nebraska	547
5	New York	1,044	5	Idaho	562
6	Delaware	1,007	6	Kansas	576
7	Rhode Island	986	7	Wisconsin	581
8	Nevada	970	8	North Carolina	595
9	Connecticut	950	9	Maine	600
10	Maryland	922	10	Indiana	612

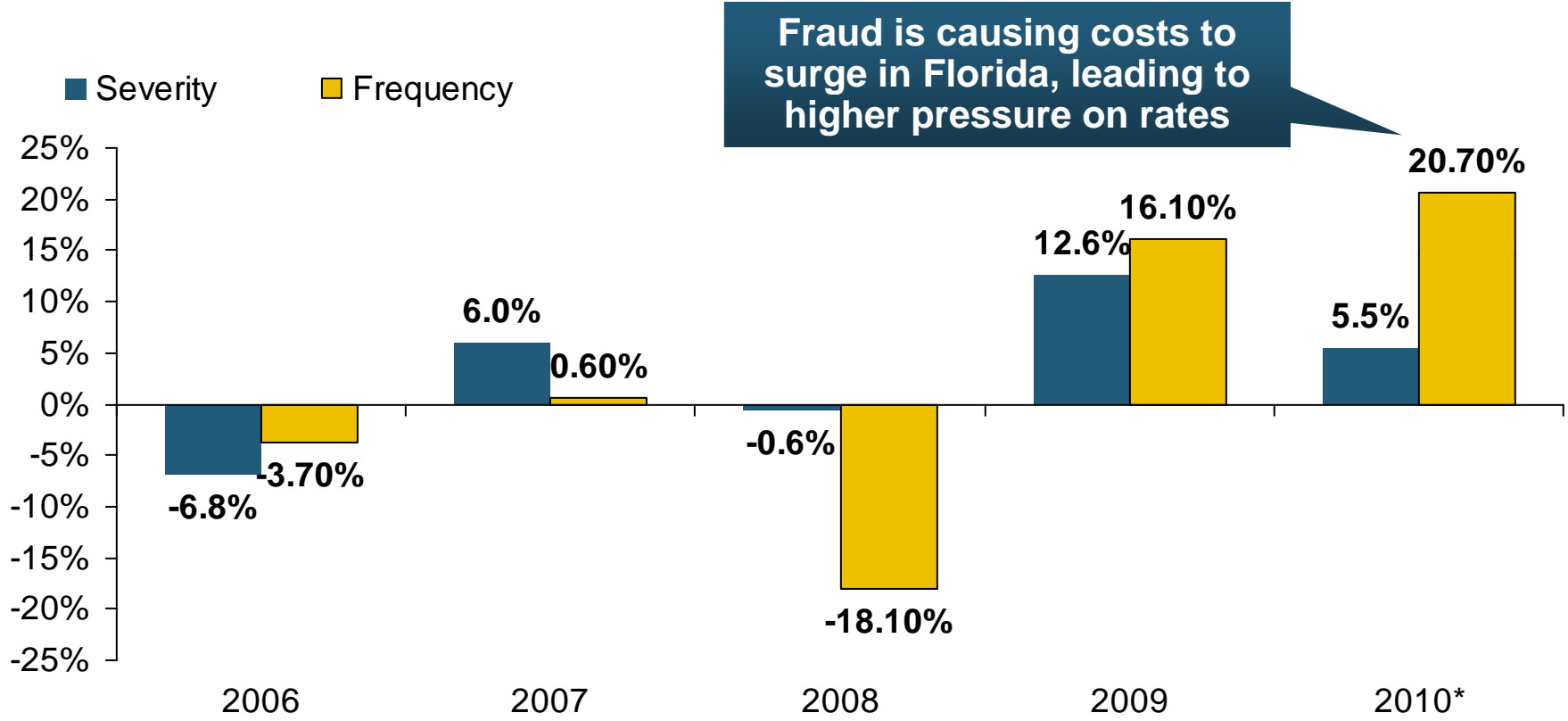
Florida Is Now Ranked as the 3rd Most Expensive State for Auto Insurance, Recently Overtaking NY, With an Average Expenditure of \$1,055. FL Could Become the Most Expensive State in the US if Nothing Is Done to Control No-Fault Fraud and Abuse

(1) Based on average automobile insurance expenditures.

Source: © 2010 National Association of Insurance Commissioners.

Florida No-Fault (PIP) Liability: Frequency and Severity Trends Are Adverse*

Annual Change, 2006 through 2010*



Fraud is causing costs to surge in Florida, leading to higher pressure on rates

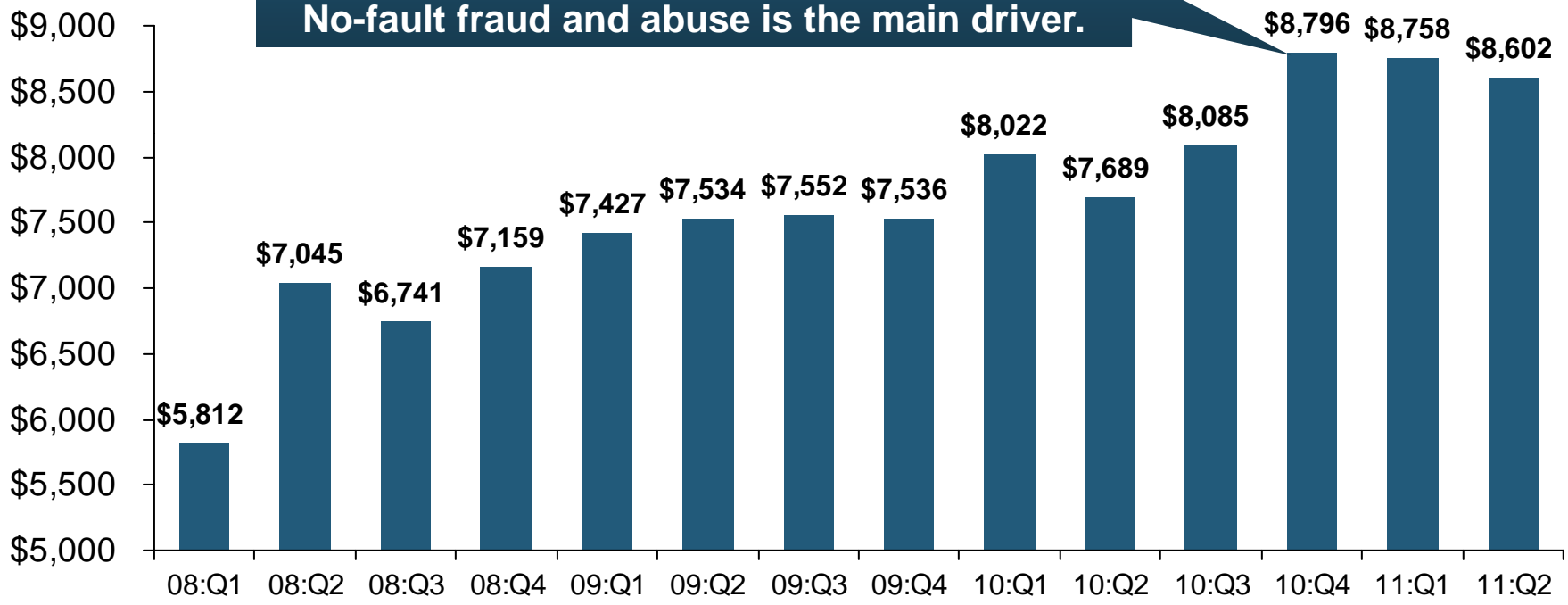
Both the Number and Average Cost of FL No-Fault Claims Are Rising Rapidly

Source: ISO/PCI *Fast Track* data; Insurance Information Institute

Florida No-Fault (PIP) Claim Severity Is Trending Sharply Upward*

2008:Q4 through 2011:Q2

No-Fault claim severity (average cost per claim) is up 48.0% between Q1 2008 and Q2 2011 to a near-record high \$8,602 per claim. No-fault fraud and abuse is the main driver.



The Average Cost of FL No-Fault Claims Is Rising Rapidly

*Claim frequency is defined as the number of claims per 100 earned car years.

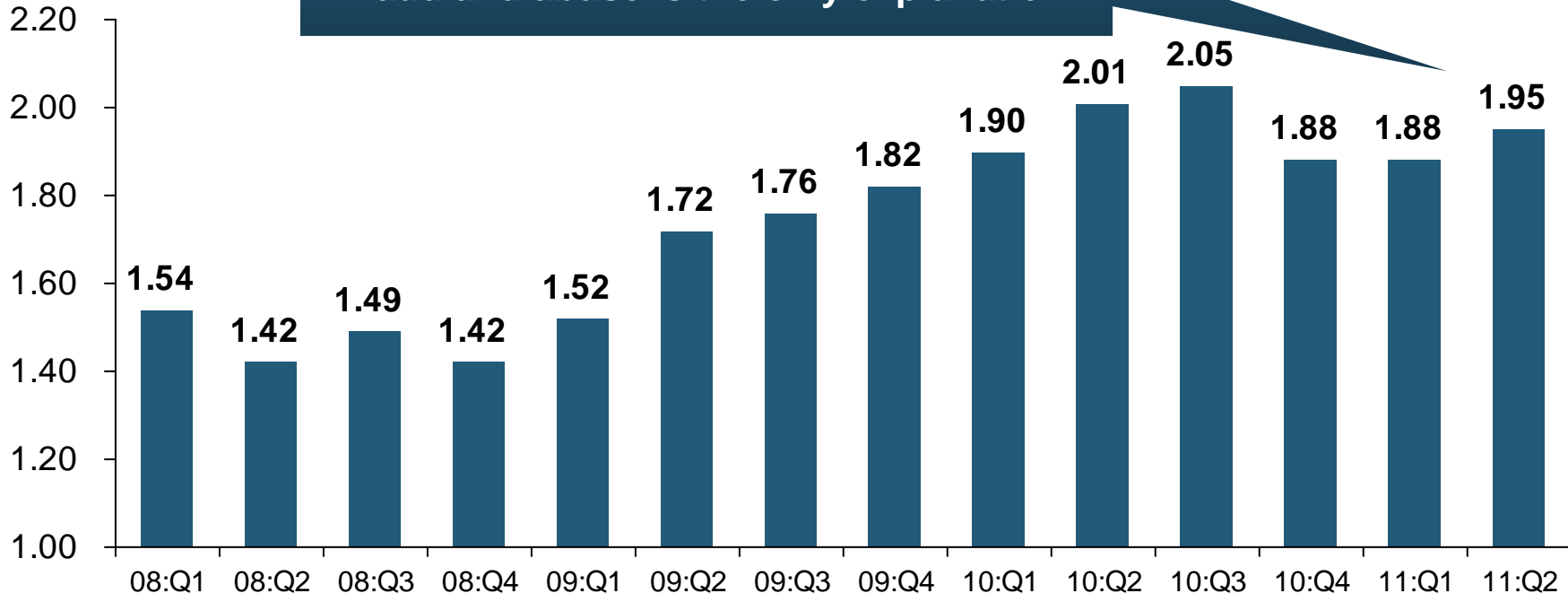
Source: ISO/PCI *Fast Track* data; Insurance Information Institute

Florida No-Fault (PIP) Claim Frequency Is Trending Sharply Upward*



2008:Q4 through 2011:Q2

No-Fault claim frequency surged by 37.3% between Q2 2008 and Q2 2011. No-fault fraud and abuse is the only explanation



Both the Number and Average Cost of FL No-Fault Claims Are Up Sharply Since Mid-2008

*Claim frequency is defined as the number of claims per 100 earned car years.

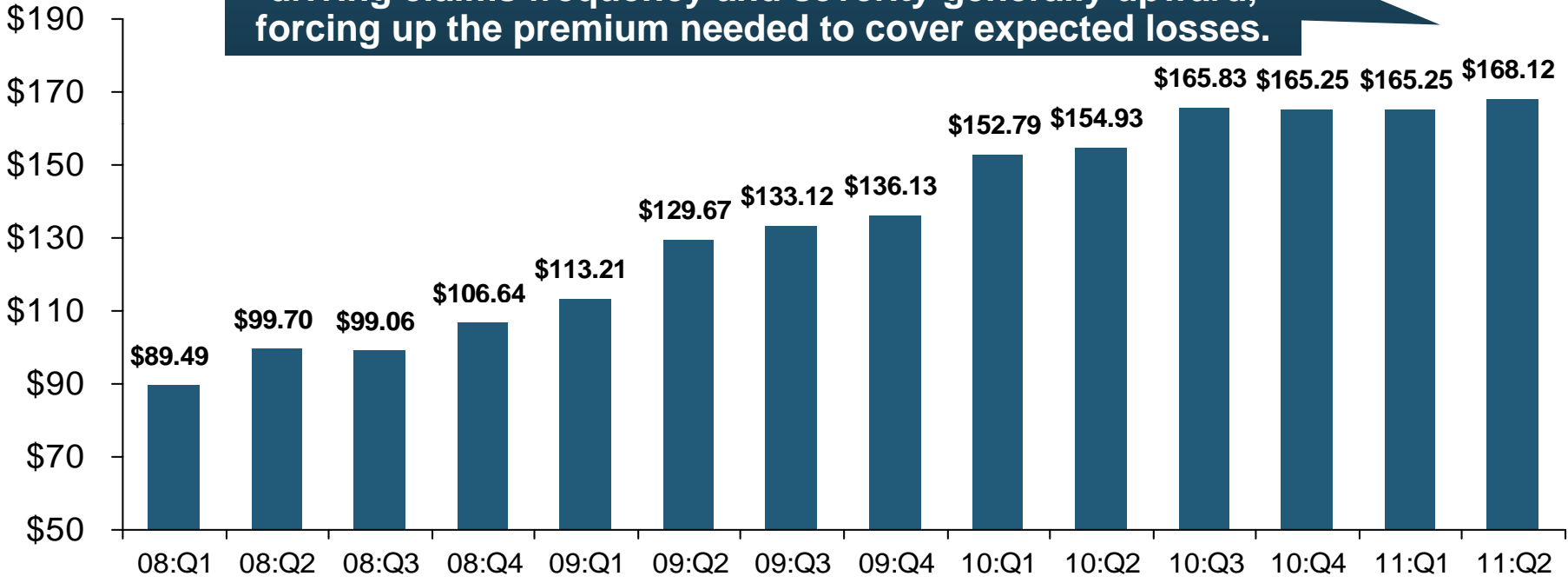
Source: ISO/PCI *Fast Track* data; Insurance Information Institute

Florida No-Fault (PIP) Pure Premiums Are Trending Sharply Upward*



2008:Q4 through 2011:Q2

The premium required to cover the expected cost of a no-fault claim soared by 87.9% between the beginning of 2008:Q1 and 2011:Q2, hitting a new record high. Fraud is driving claims frequency and severity generally upward, forcing up the premium needed to cover expected losses.



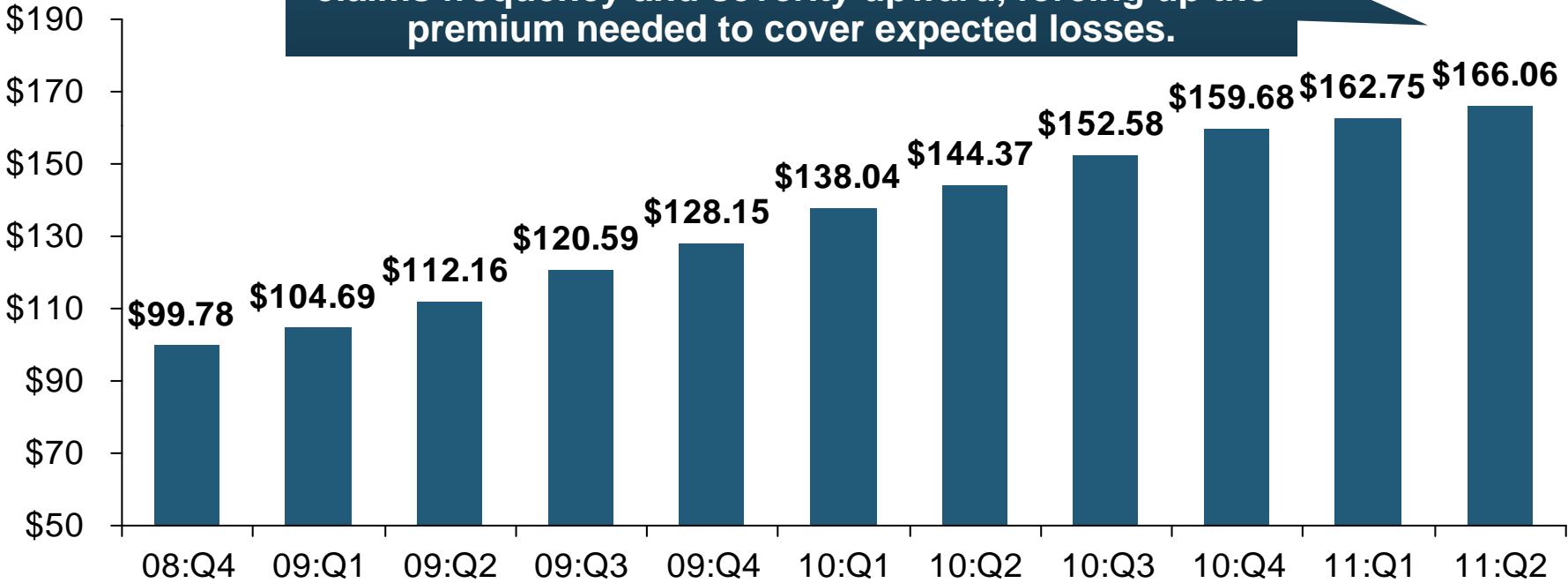
Both the Number and Average Cost of FL No-Fault Claims Are Much Higher than in the Past, Pressuring Premiums

*Pure Premium is defined as the premium that is required to pay the expected loss. It excludes expenses and other costs of doing business. Source: ISO/PCI *Fast Track* data; Insurance Information Institute

Florida No-Fault (PIP) Pure Premiums Are Trending Sharply Upward*

2008:Q4 through 2011:Q2**

The premium required to cover the expected cost of a no-fault claim soared by 66.4% between the 2008 and 2011:Q2, hitting a new record high. Fraud is driving claims frequency and severity upward, forcing up the premium needed to cover expected losses.



Both the Number and Average Cost of FL No-Fault Claims Are Much Higher than in the Past, Pressuring Premiums

*Pure Premium is defined as the premium that is required to pay the expected loss. It excludes expenses and other costs of doing business.

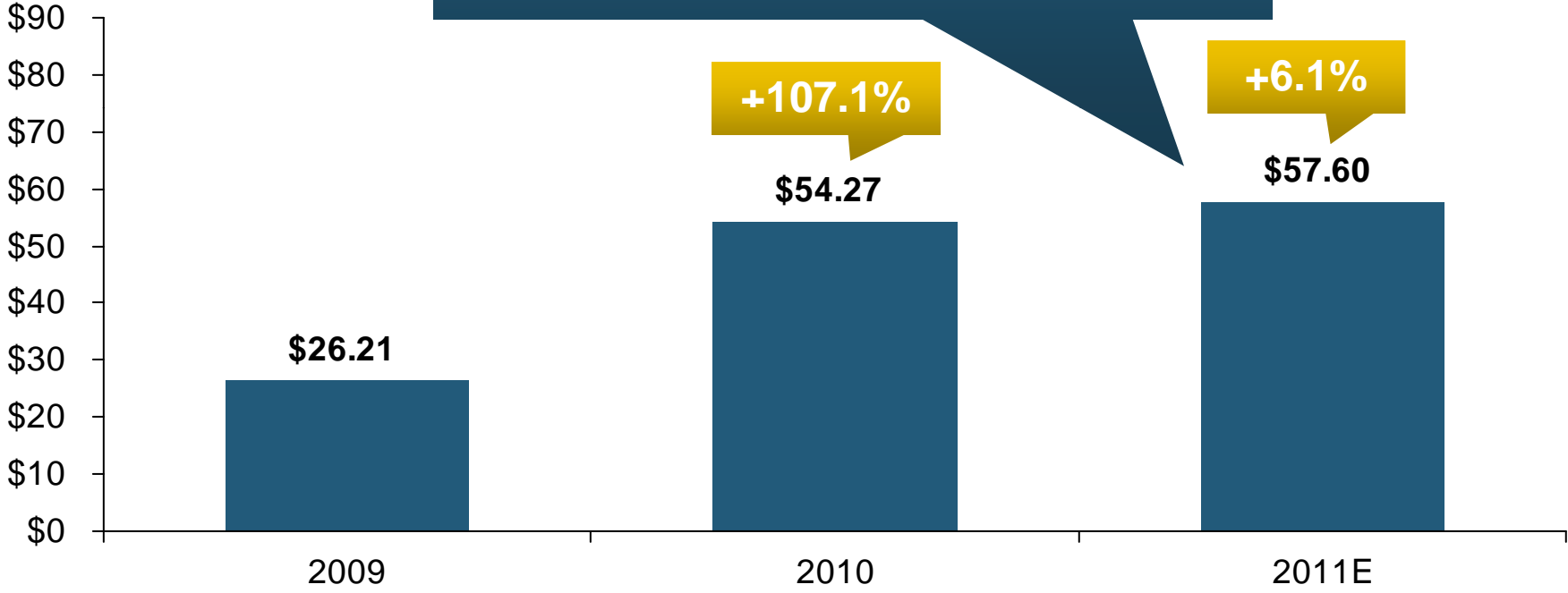
**Figures are for the 4 prior quarters ending in the period.

Source: ISO/PCI *Fast Track* data; Insurance Information Institute

Florida's No-Fault Fraud Tax: Estimated Cost per Insured Vehicle, 2009-2011E

Fraud Tax Per Vehicle

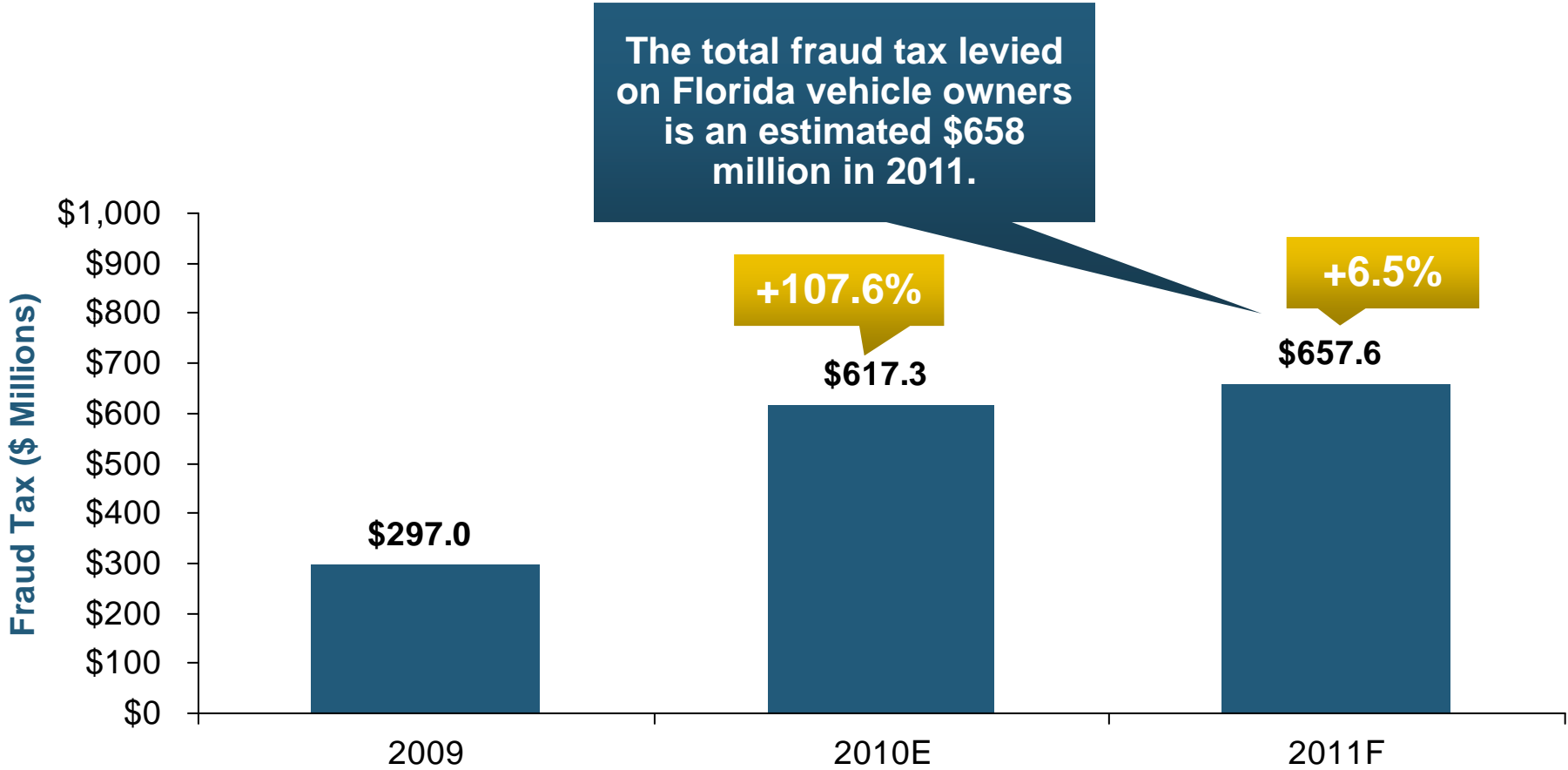
In 2011, the estimated average Florida driver's fraud tax is \$57.60 per vehicle. This means that the fraud tax on a typical family with 2 cars is more than \$115 this year last year, more than doubling since 2009



Unscrupulous Medical Providers and Attorneys Are Costing Honest Florida Drivers Hundreds of Millions of Dollars

*2011 estimate is based on data through Q2:2011.
Source: Insurance Information Institute calculations and research.

Florida's No-Fault Fraud Tax: Estimated Aggregate Annual Cost, 2009-2011E (\$ Millions)



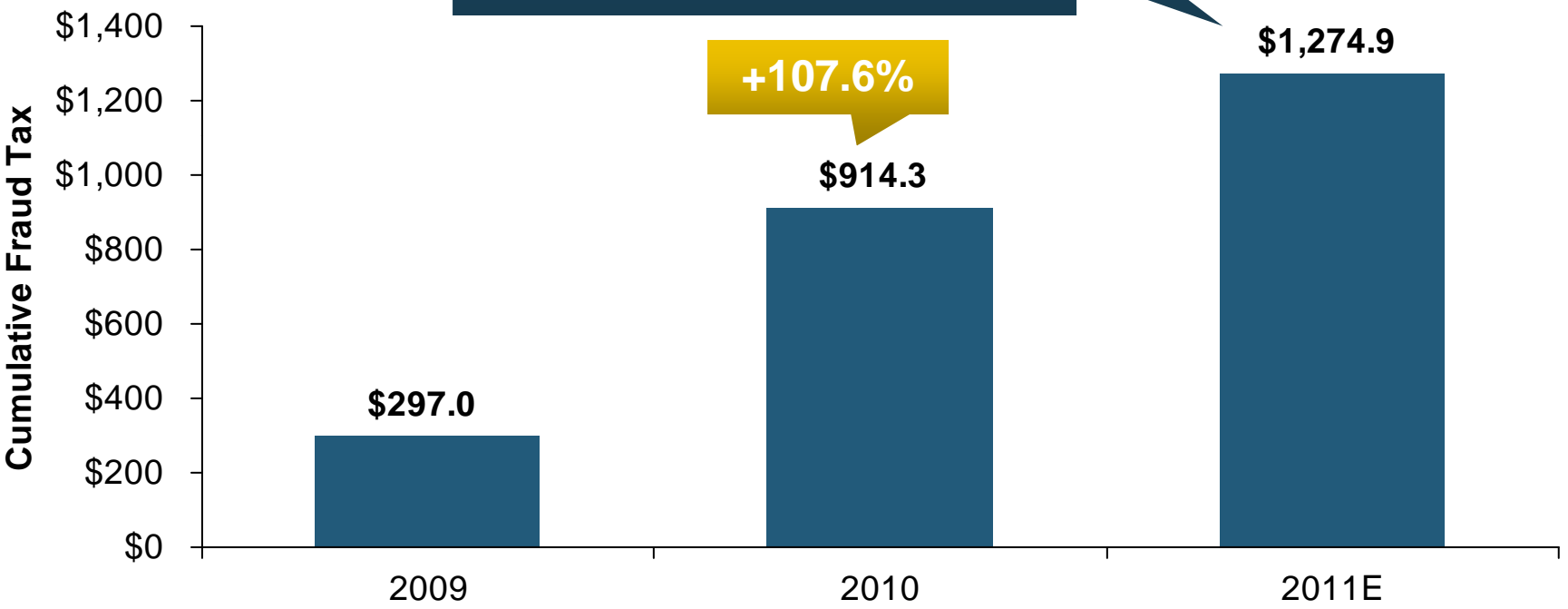
Unscrupulous Medical Providers and Attorneys Are Costing Honest Florida Drivers Hundreds of Millions of Dollars

*2011 estimate is based on data through Q2:2011.
Source: Insurance Information Institute calculations and research from ISO/PCI and AIPSO data.

Florida's No-Fault Fraud Tax: Estimated Cumulative Cost, 2009-2011E (\$ Millions)

Cumulative Fraud Tax

The cumulative fraud tax levied on Florida vehicle owners is estimated at \$1.275 billion from 2009 through 2011



Unscrupulous Medical Providers and Attorneys Could Cost Honest Florida Drivers Billions of Dollars

*2011 estimate is based on data through Q2:2011.

Source: Insurance Information Institute calculations and research from ISO/PCI and AIPSO data.



Florida Property Insurance Market Update Update

**More Than Six Years After the
Last Major Storm Hit Florida,
Deep Problems Remain**

Insured Losses for Top 12 Most Costly Disasters in U.S. History

FLORIDA IMPACT

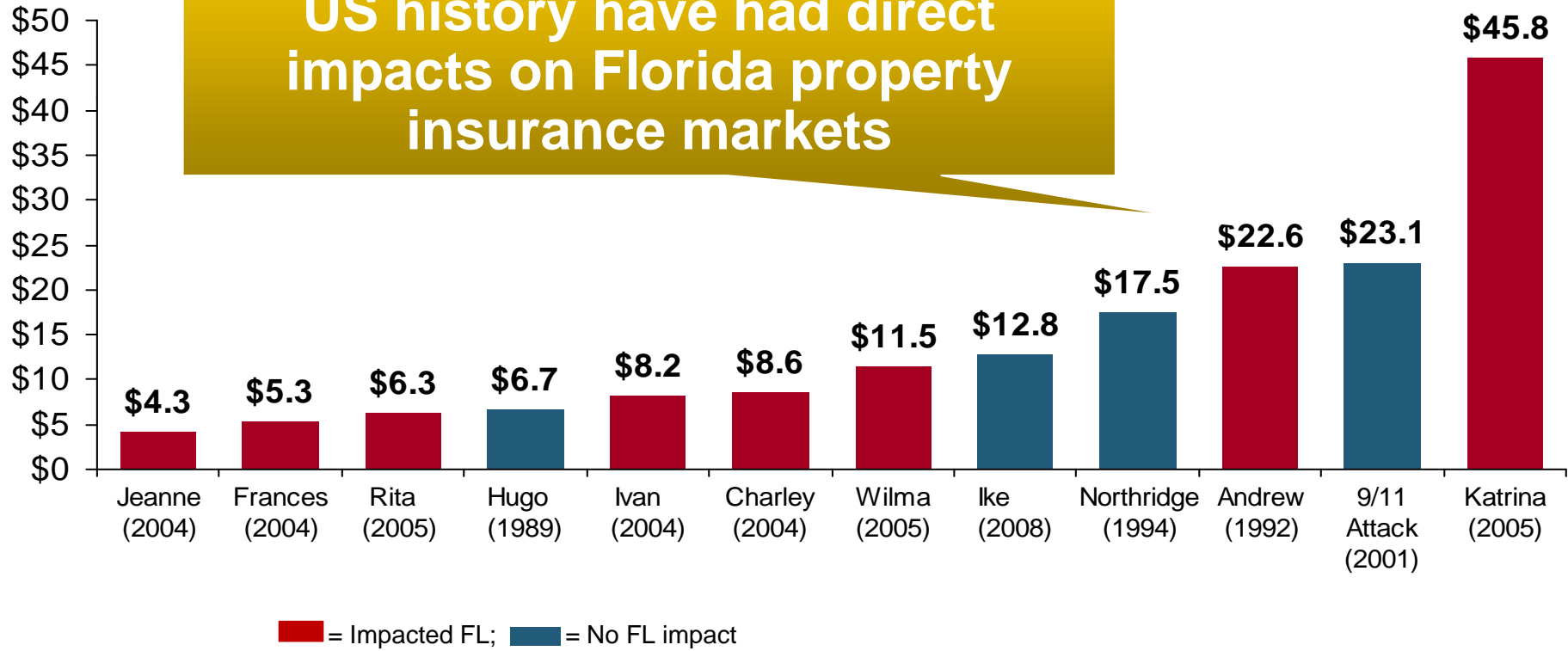


EVENT	\$ Billions (in \$ 2010)
Hurricane Katrina, 2005	\$45.8
9/11 Attacks, 2001	\$23.1
Hurricane Andrew, 1992	\$22.6
Northridge Earthquake, 1994	\$17.5
Hurricane Ike, 2008	\$12.8
Hurricane Wilma, 2005	\$11.5
Hurricane Charley, 2004	\$8.6
Hurricane Ivan, 2004	\$8.2
Hurricane Hugo, 1989	\$6.7
Hurricane Rita, 2005	\$6.3
Hurricane Frances, 2004	\$5.3
Hurricane Jeanne, 2004	\$4.3

Top 12 Most Costly Disasters in U.S. History: Most Impacted Florida

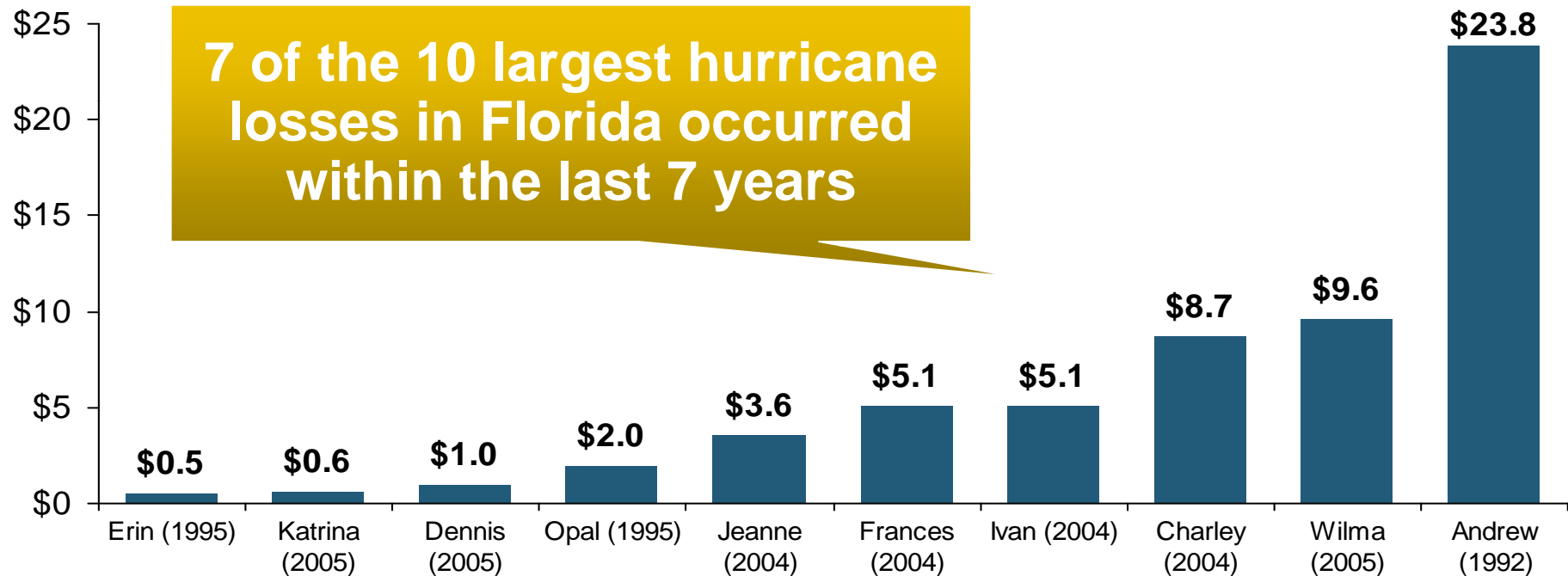
(Insured Losses, 2010 Dollars, \$ Billions)

8 of the 12 largest catastrophes in US history have had direct impacts on Florida property insurance markets



Top 10 Most Expensive Hurricanes: Florida's Share of Loss Only

(Insured Losses, 2010 Dollars, \$ Billions)

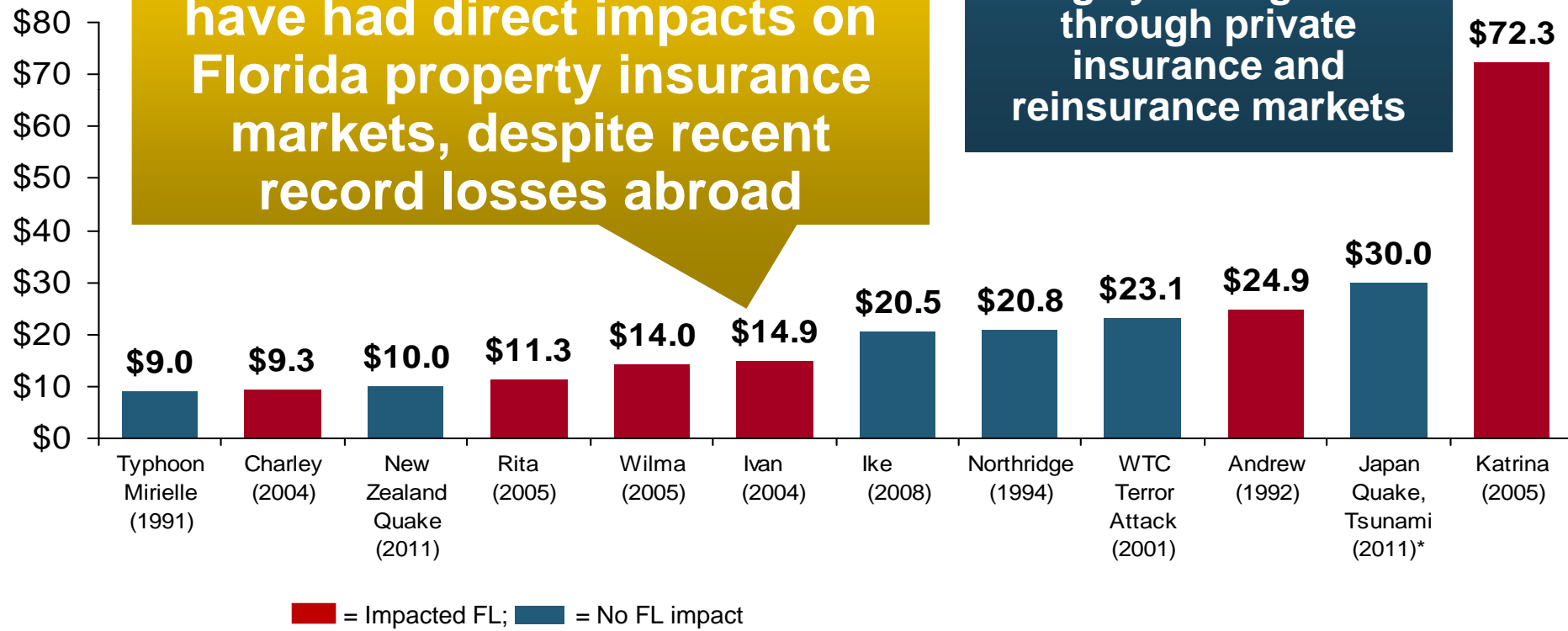


Top 15 Most Costly World Insurance Losses, 1970-2011*

(Insured Losses, 2010 Dollars, \$ Billions)

6 of the 12 largest catastrophes in global history have had direct impacts on Florida property insurance markets, despite recent record losses abroad

Florida is clearly one of the riskiest place on earth for insurers to operate, but the risk is largely manageable through private insurance and reinsurance markets

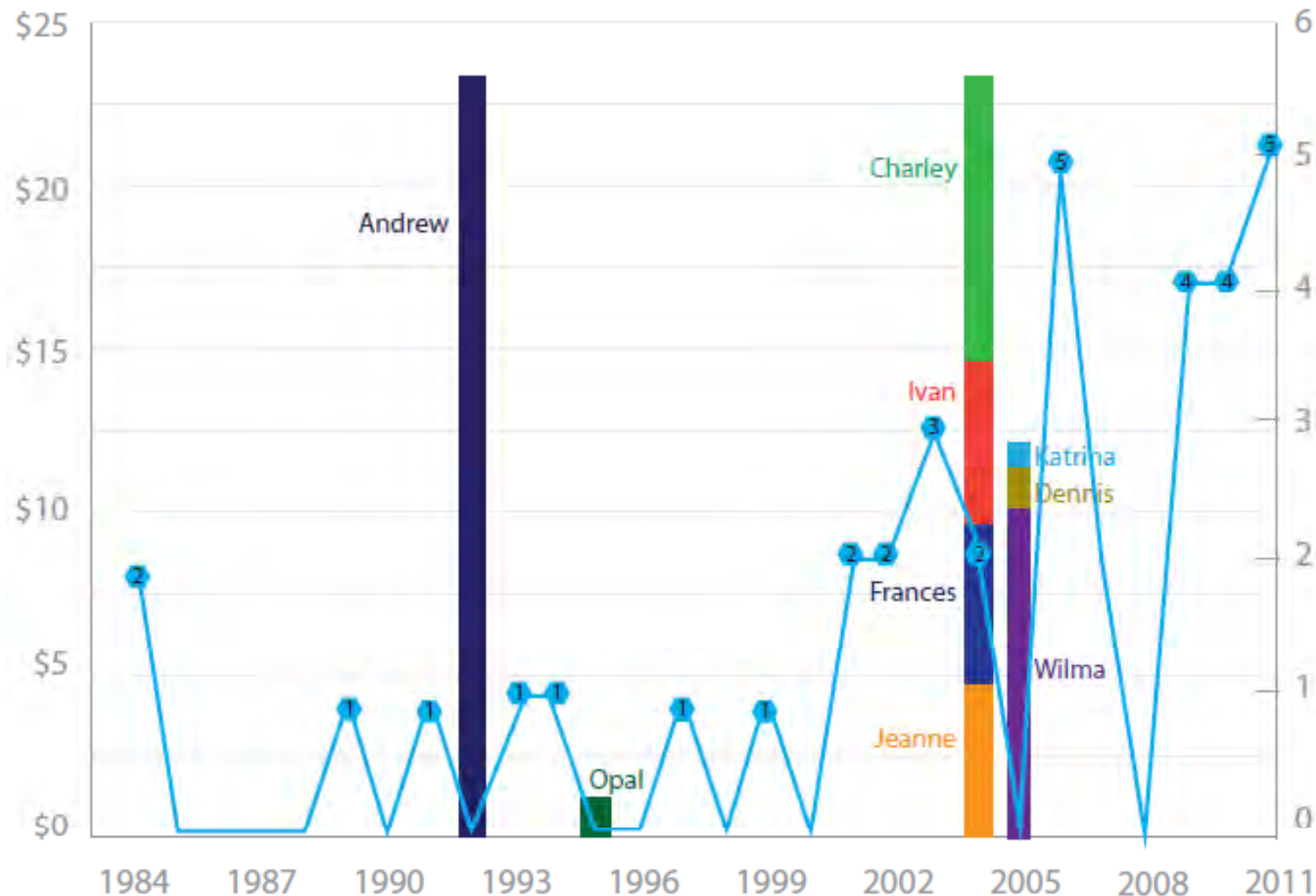


*Through June 20, 2011. 2011 disaster figures are estimates; Figures include federally insured flood losses, where applicable. Sources: Swiss Re *sigma* 1/2011; Munich Re, AIR Worldwide, RMS, Eqecat; Insurance Information Institute.

Hurricanes, Insolvencies and Insured Losses, 1984-2011

Insured Loss (\$ Bill, 2009 Dollars)

No. of Insolvent Insurers



Sources: Florida TaxWatch, *Risk & Reform: A Florida TaxWatch Analysis of Florida's Property Insurance System*, November 2011, citing the Insurance Information Institute and the Florida Hurricane Fact File.

Top Ten Most Expensive And Least Expensive States For Homeowners Insurance, 2008 (1)

Florida ranked as the 2nd most expensive state for homeowners insurance in 2008, with an average expenditure of \$1,390.

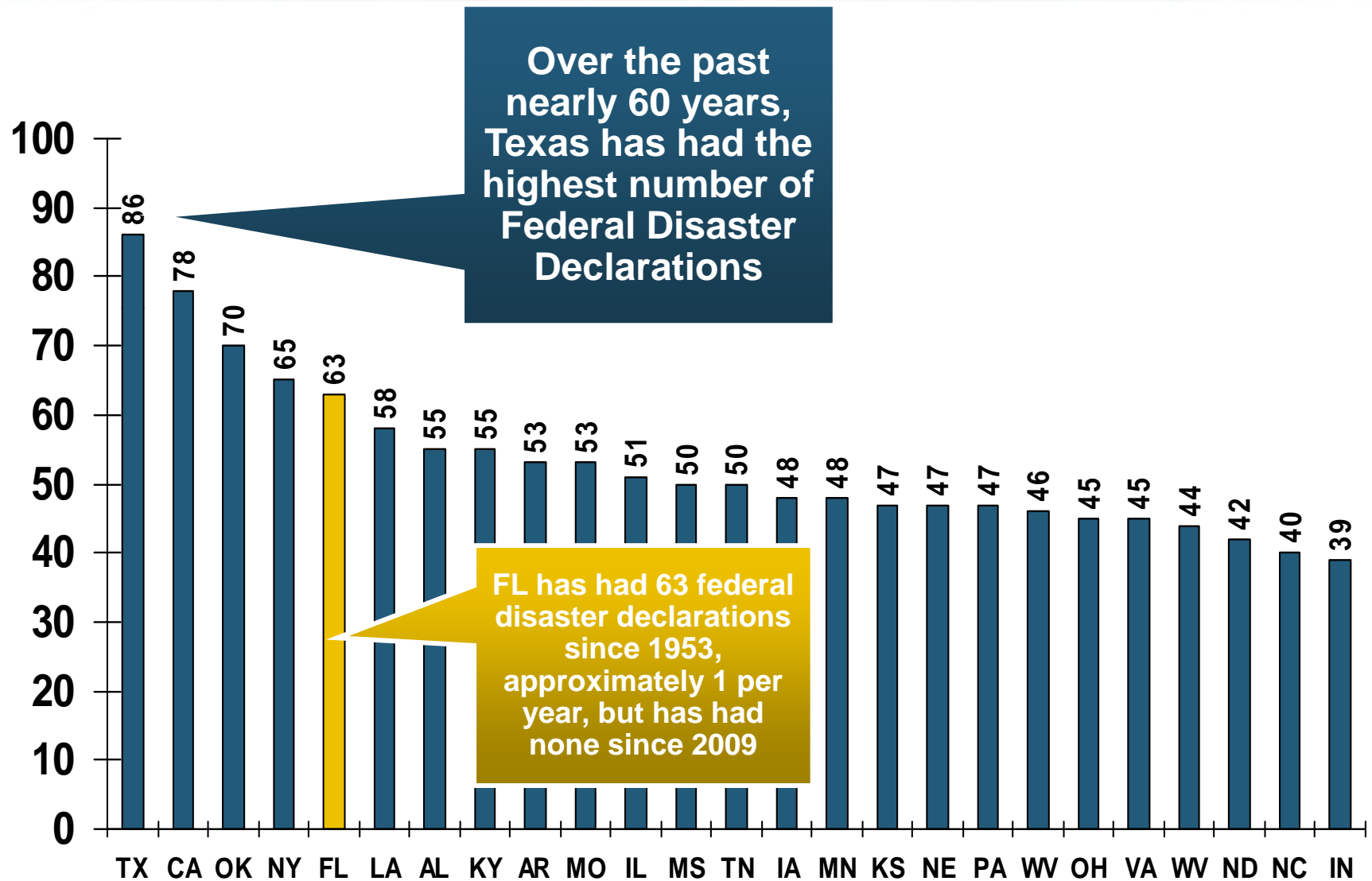
Rank	Most expensive states	Average expenditure	Rank	Least expensive states	Average expenditure
1	Texas (3)	\$1,460	1	Idaho	\$387
2	Florida (4)	1,390	2	Utah	432
3	Louisiana	1,155	3	Oregon	439
4	Oklahoma	1,048	4	Washington	471
5	Massachusetts	1,026	5	Wisconsin	503
6	New York	983	6	Delaware	535
7	Connecticut	980	7	Ohio	565
8	Mississippi	980	8	Maine	572
9	D.C.	926	9	Pennsylvania	586
10	Kansas	916	10	Kentucky	601

- (1) States with the same premium receive the same rank.
- (2) 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.
- (3) The Texas Department of Insurance developed home insurance policy forms that are similar but not identical to the standard forms.
- (4) Florida data excludes policies written by Citizen’s Property Insurance Corporation, the state’s insurer of last resort, and therefore are not directly comparable to other states.

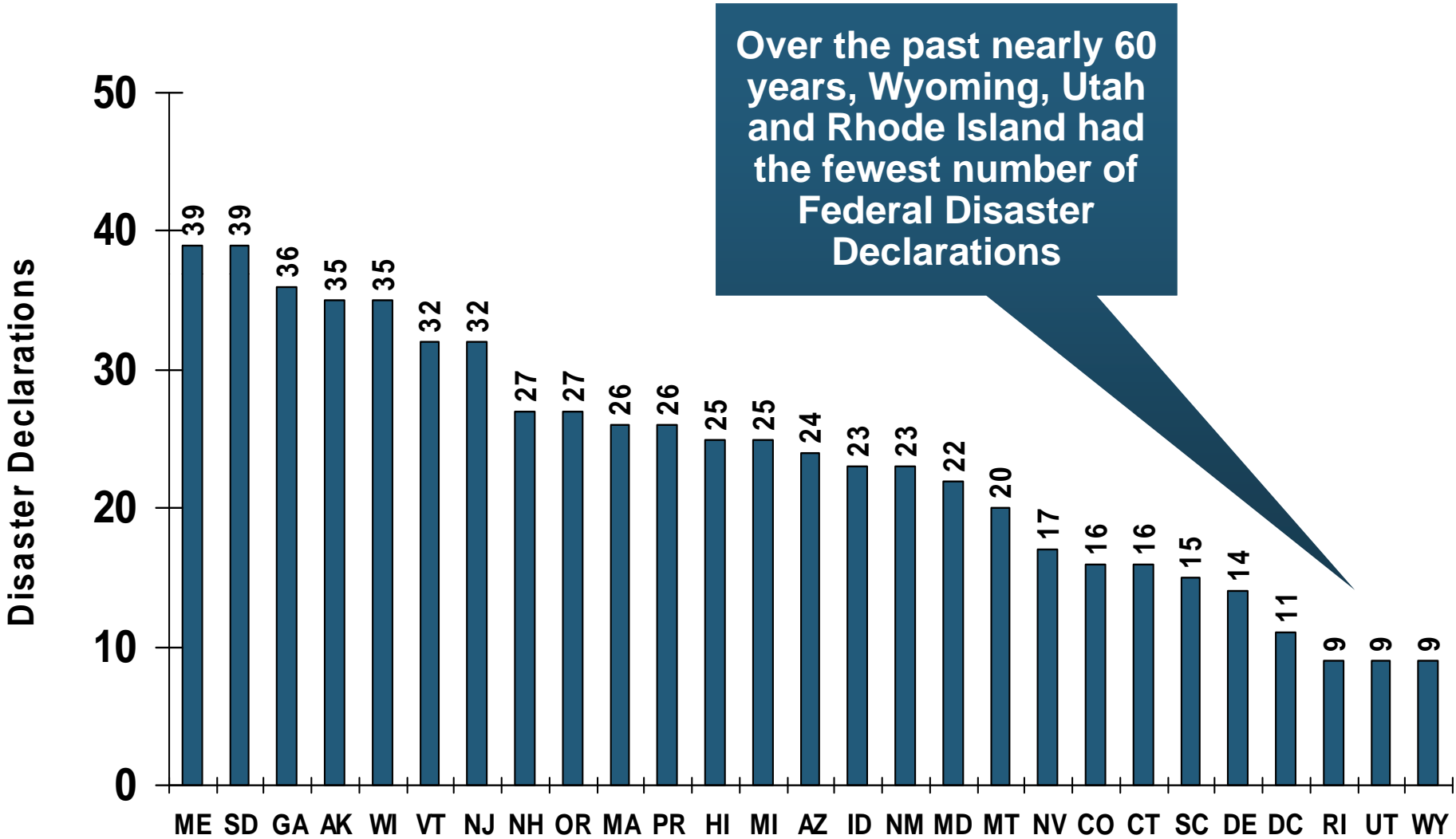
Note: Average premium=Premiums/exposure per house years. A house year is equal to 365 days of insured coverage for a single dwelling. The NAIC does not rank State Average Expenditures and does not endorse any conclusions drawn from this data.

Source: © 2010 National Association of Insurance Commissioners (NAIC). Reprinted with permission. Further reprint or distribution strictly prohibited without written permission of NAIC.

Federal Disasters Declarations by State, 1953 – Nov. 13, 2011: Highest 25 States



Federal Disasters Declarations by State, 1953 – Nov. 13, 2011: Lowest 25 States*



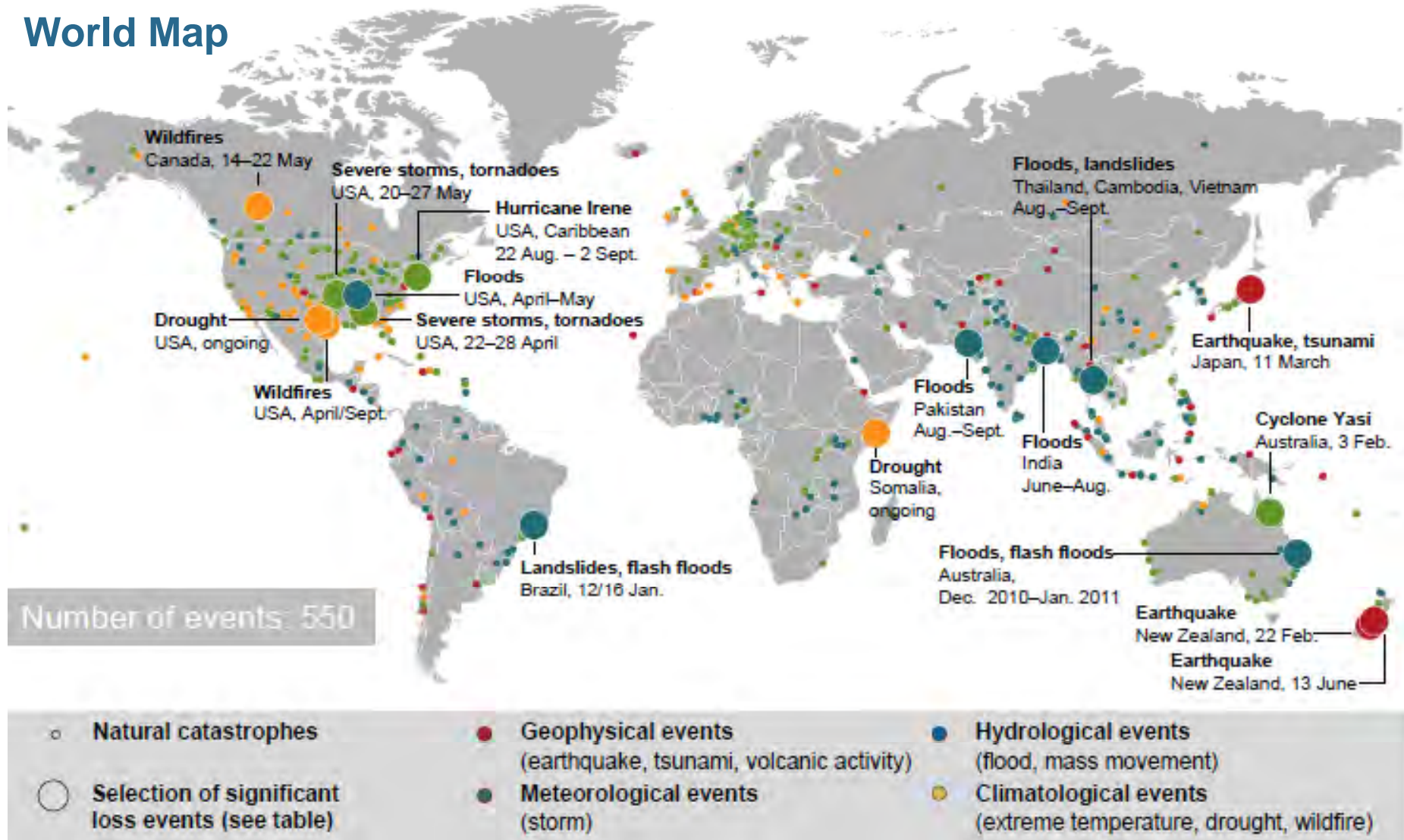
Over the past nearly 60 years, Wyoming, Utah and Rhode Island had the fewest number of Federal Disaster Declarations

*Includes Puerto Rico and the District of Columbia.

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

Natural Loss Events, January – September 2011

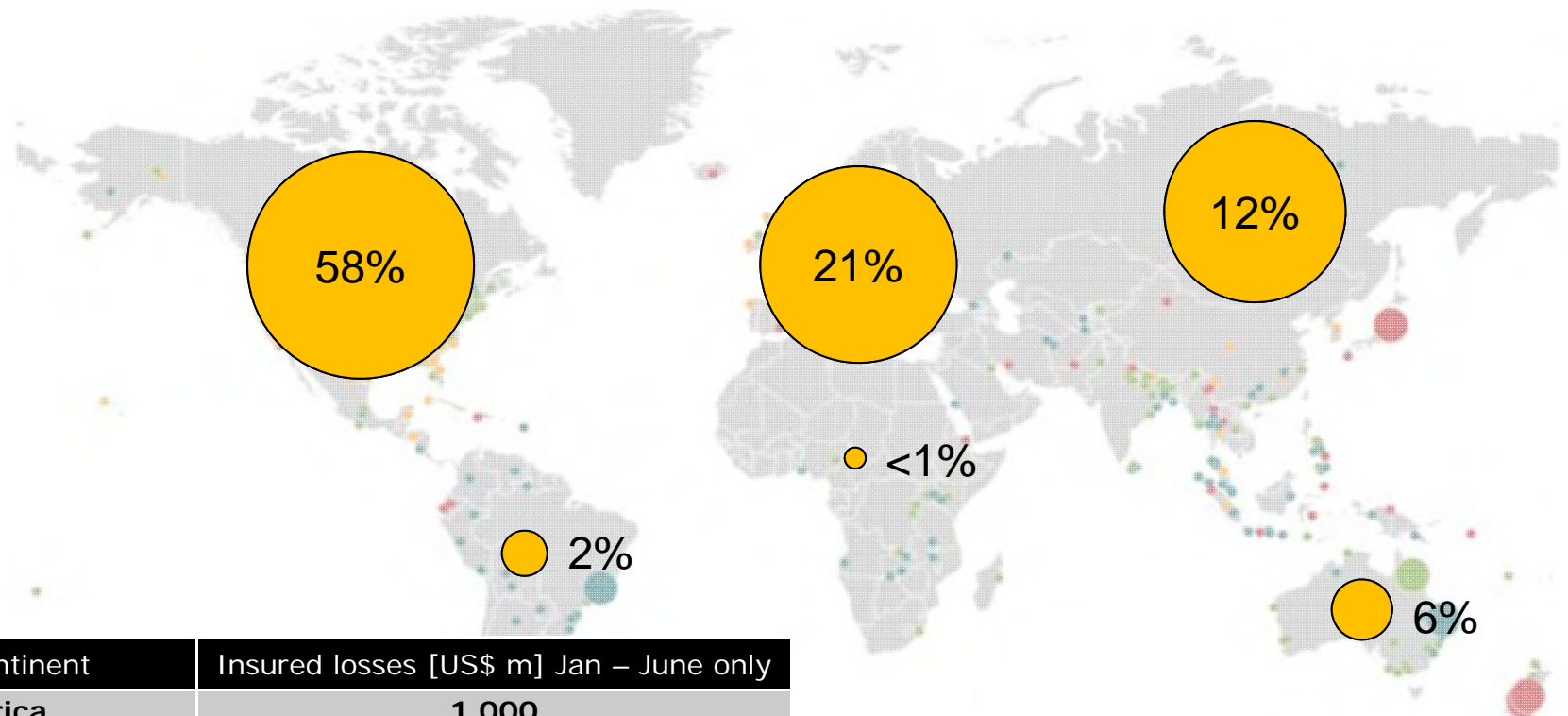
World Map



Worldwide Natural Disasters, 1980-2011

% Distribution of Insured Losses Per Continent (January – June only)

Insured losses 1980 - 2011 (January – June only): US\$ 389bn



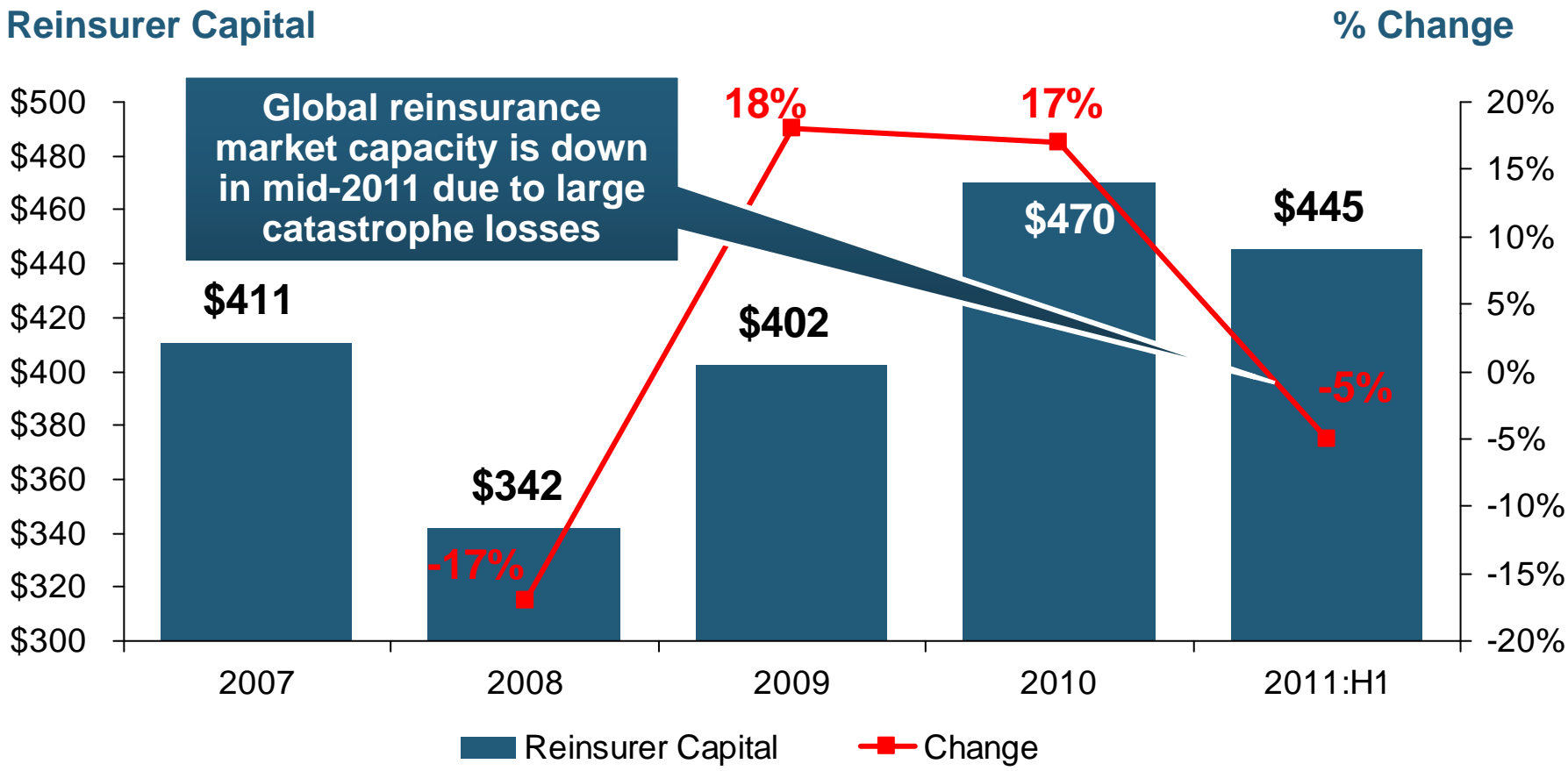
Continent	Insured losses [US\$ m] Jan – June only
Africa	1,000
America	237,200
Asia	45,100
Australia/ Oceania	25,100
Europe	80,900

Global Property Catastrophe Rate on Line Index, 1990-2011 YTD (6/1/11)

A modest increase in global property catastrophe reinsurance pricing was evident in June 1 renewals in the wake of record global catastrophe losses. Larger increase could occur for the Jan.1, 2012 renewals



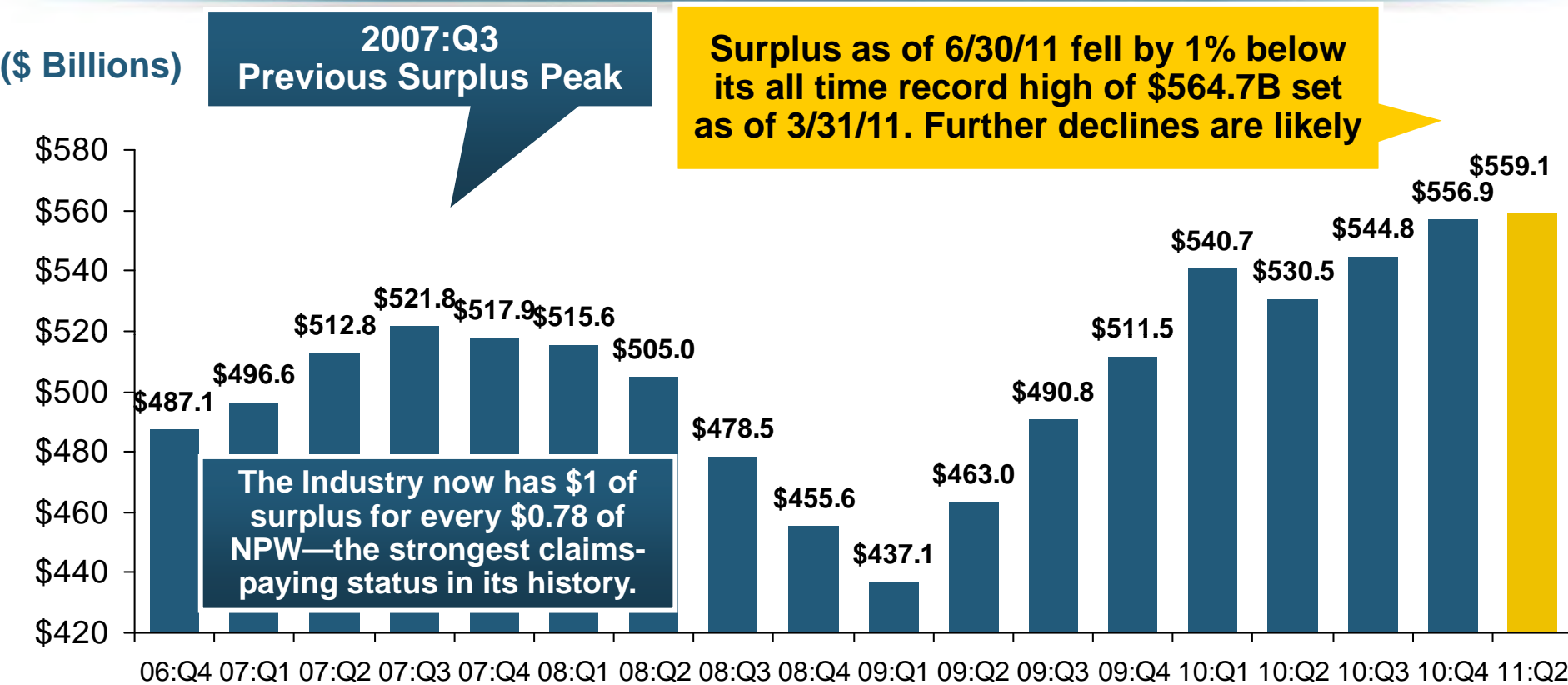
Global Reinsurance Capital, 2007-2011:H1



High Global Catastrophe Losses Have Had a Modest Adverse Impact on Global Reinsurance Market Capacity

Source: Aon Reinsurance Market Outlook, September 2011 from Individual Company and AonBenfield Analytics; Insurance Information Institute.

U.S. Policyholder Surplus, 2006:Q4–2011:Q2



Quarterly Surplus Changes Since 2007:Q3 Peak	
09:Q1: -\$84.7B (-16.2%)	10:Q2: +\$8.7B (+1.7%)
09:Q2: -\$58.8B (-11.2%)	10:Q3: +\$23.0B (+4.4%)
09:Q3: -\$31.0B (-5.9%)	10:Q4: +\$35.1B (+6.7%)
09:Q4: -\$10.3B (-2.0%)	11:Q1: +\$42.9B (+8.2%)
10:Q1: +\$18.9B (+3.6%)	11:Q2: +\$37.3B (+7.1%)

*Includes \$22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business in early 2010.

Sources: ISO, A.M. Best.



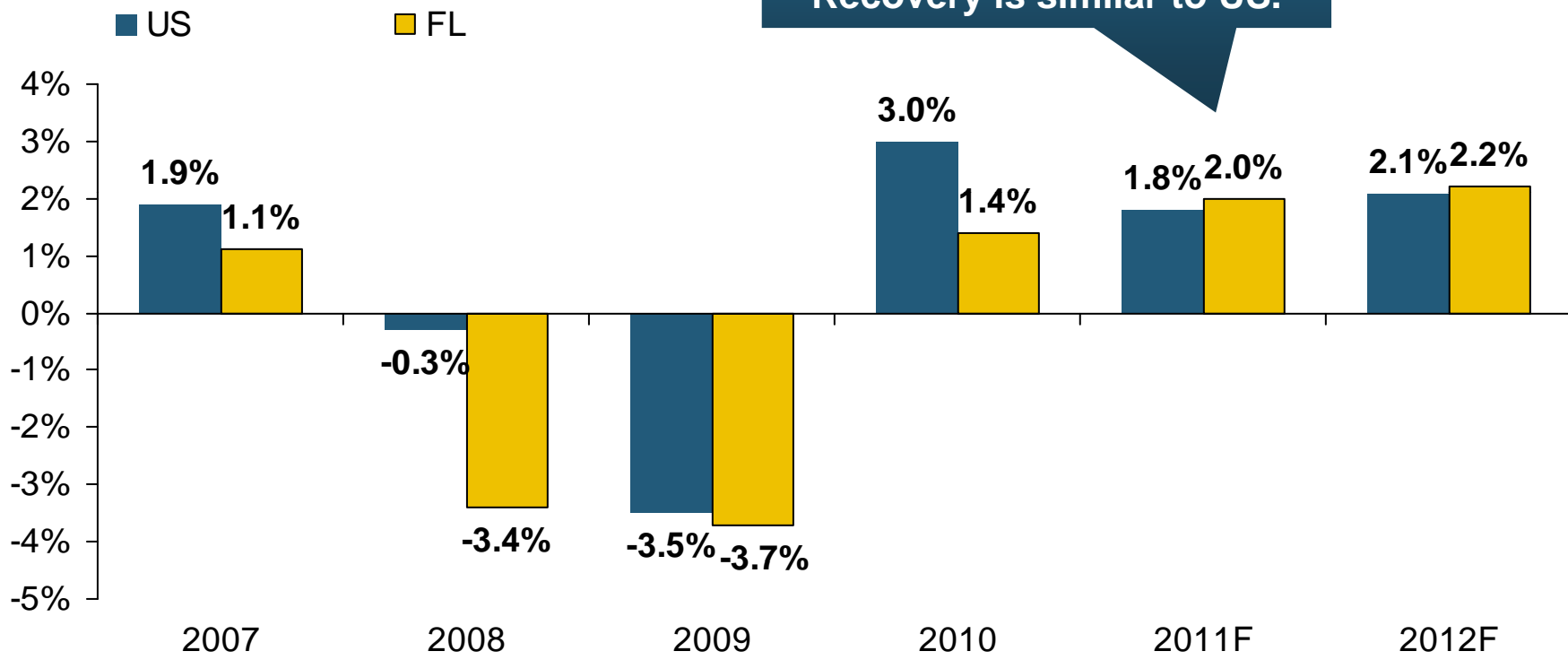
Florida's Economy: Weakness Hurts Insurer Growth Prospects

**Insurance Will Help Facilitate
Accommodate Future Growth
in the Florida Economy**

Real GDP Growth: Florida vs. US, 2007-2012F

Annual Change, 2007 through 2012F

FL economy sank faster than the US during the crisis; Recovery is similar to US.



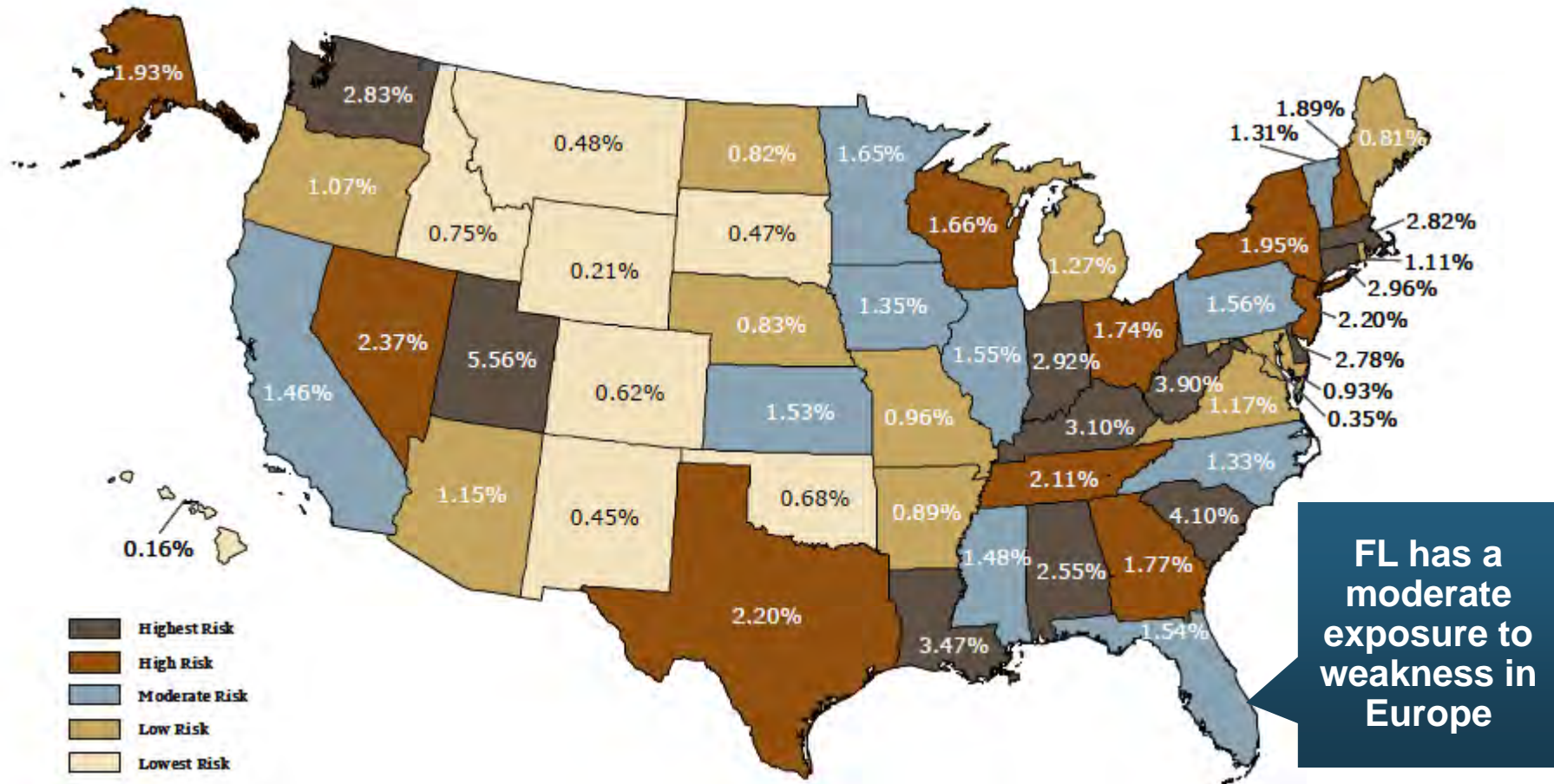
Faster Growth Will Benefit All Floridians as Well as Their Insurers

Source: US Dept. of Labor, US Dept. of Commerce (historical); Wells Fargo Securities (FL forecasts) as of September 2011; Blue Chip Economic Indicators (US Forecast, Nov. 2011); Insurance Information Institute.

European Exports as a Percent of State GDP

Insured Loss (\$ Bill, 2009 Dollars)

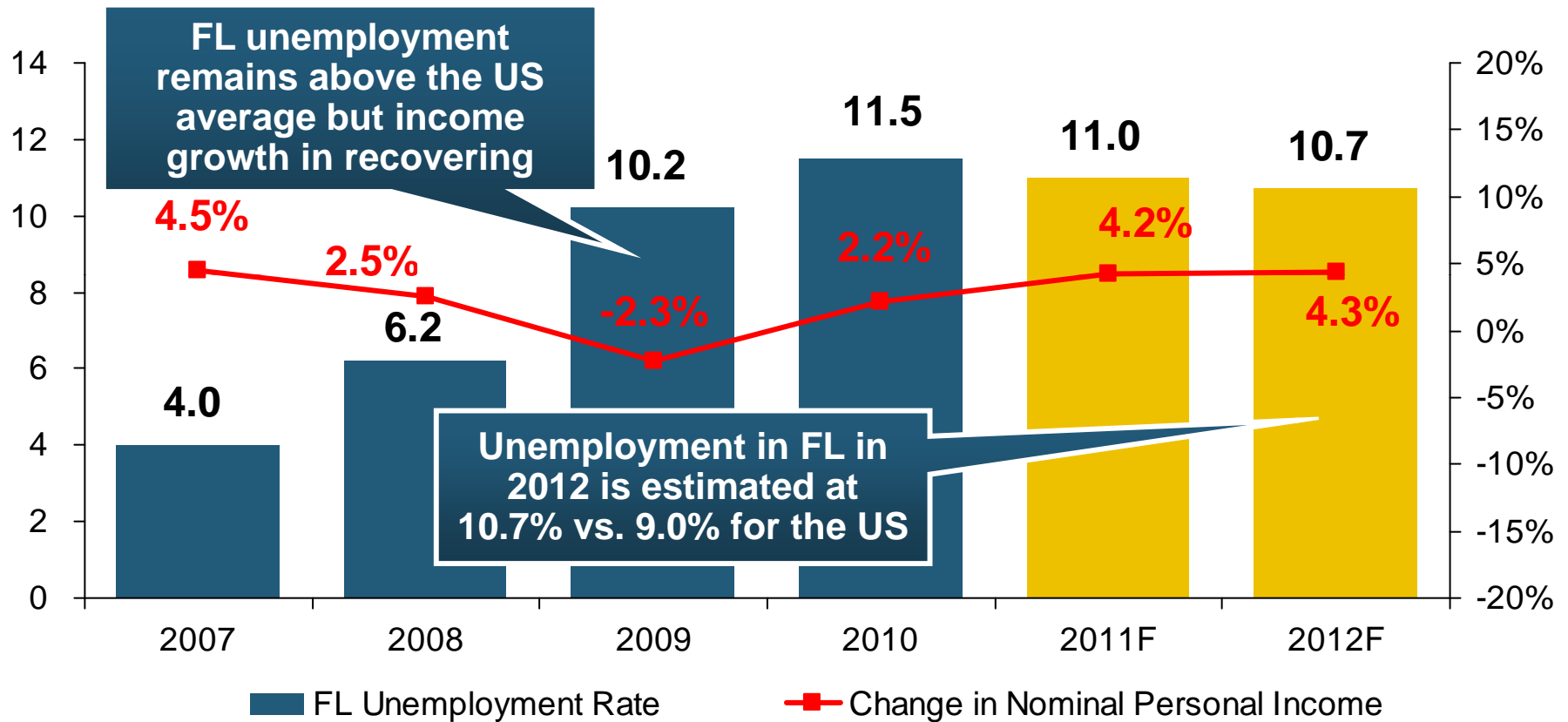
No. of Insolvent Insurers



Unemployment Surged, Incomes Plunged in FL As the Real Estate Bubble Collapsed

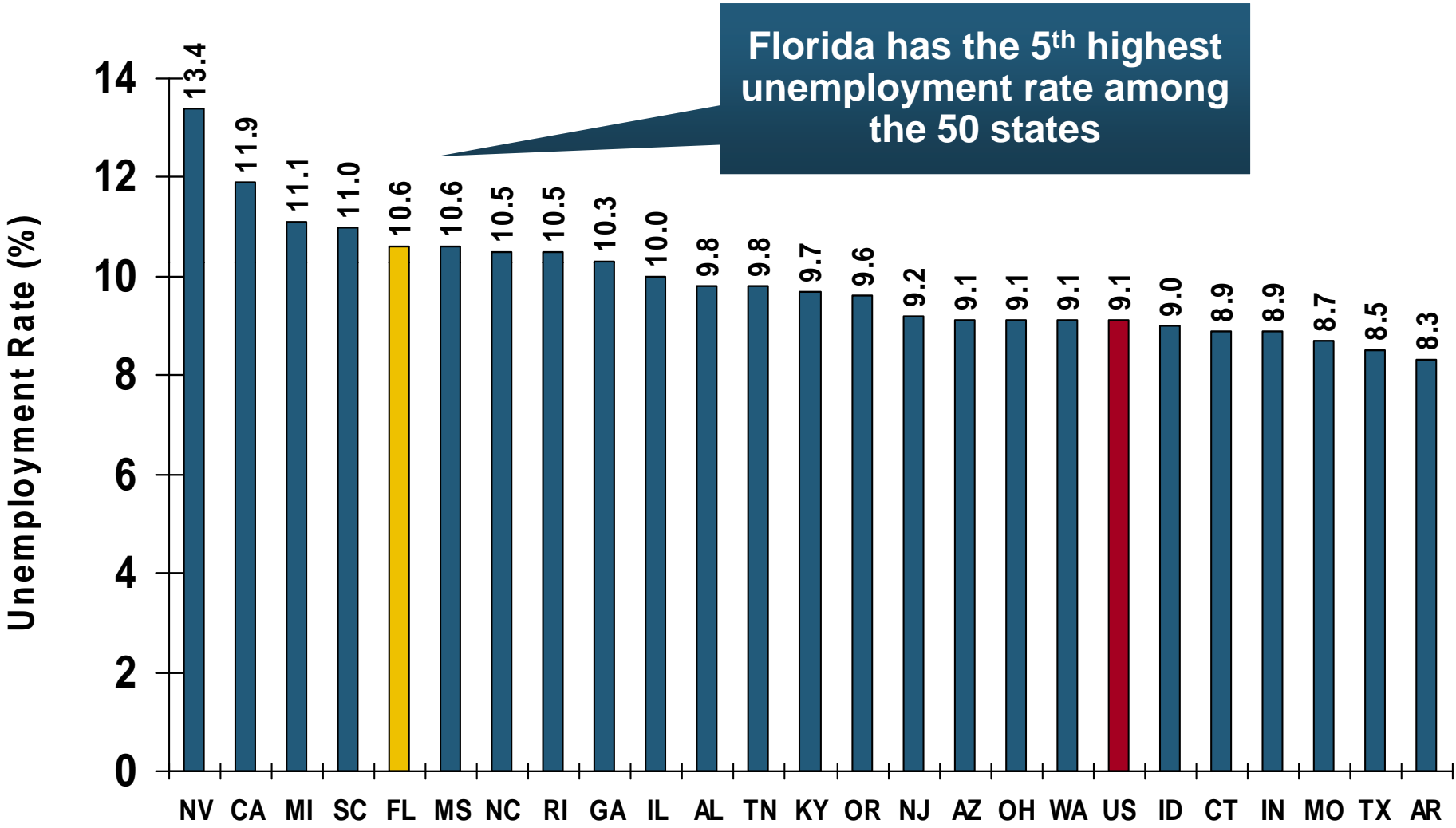
Unemployment Rate (%)

% Change in Nominal Personal Income



High Unemployment and Lower Income Are a Drag on Florida's Economy

Unemployment Rates by State, September 2011: Highest 25 States*

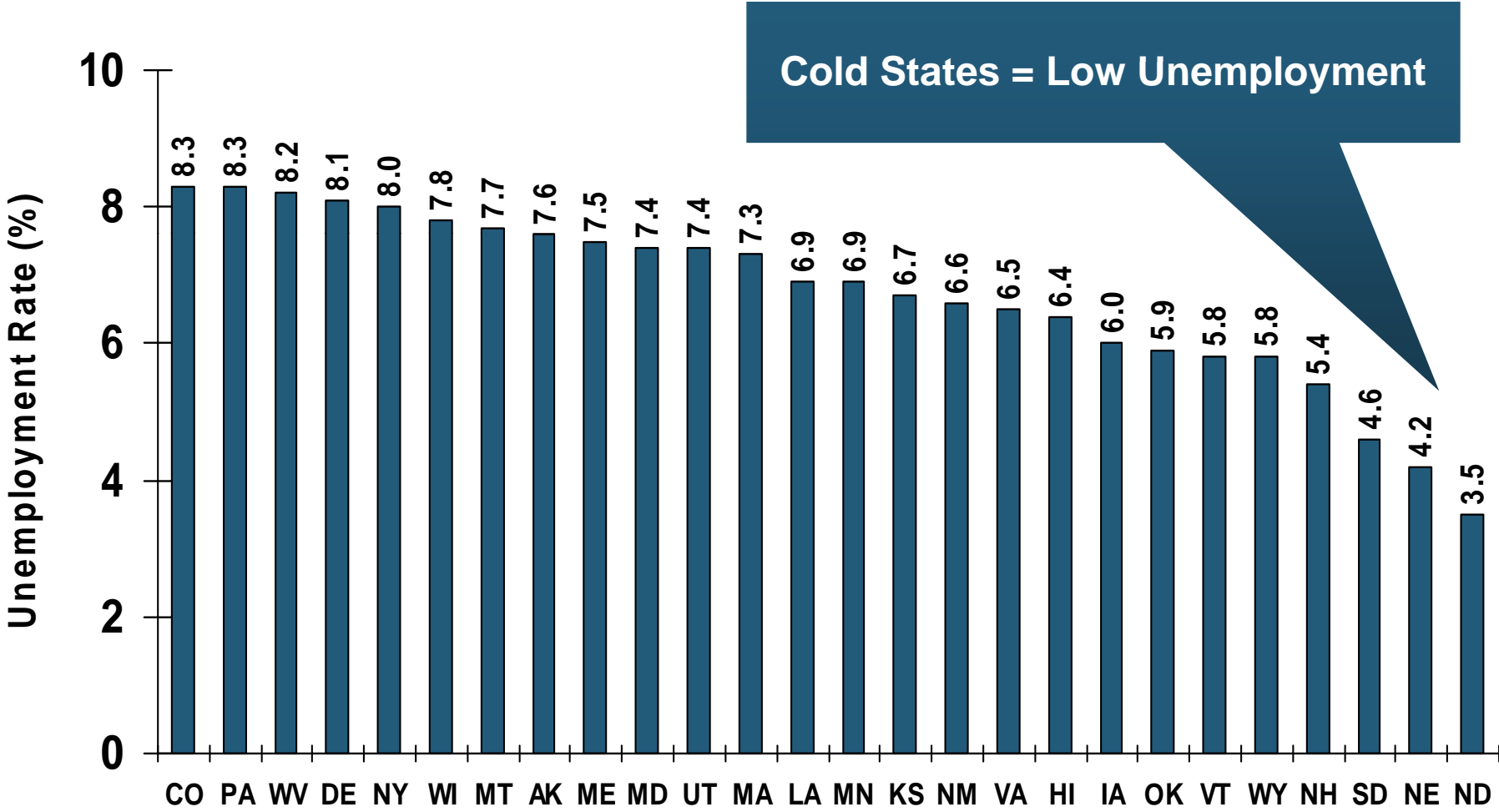


Florida has the 5th highest unemployment rate among the 50 states

*Provisional figures for September 2011, seasonally adjusted.

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

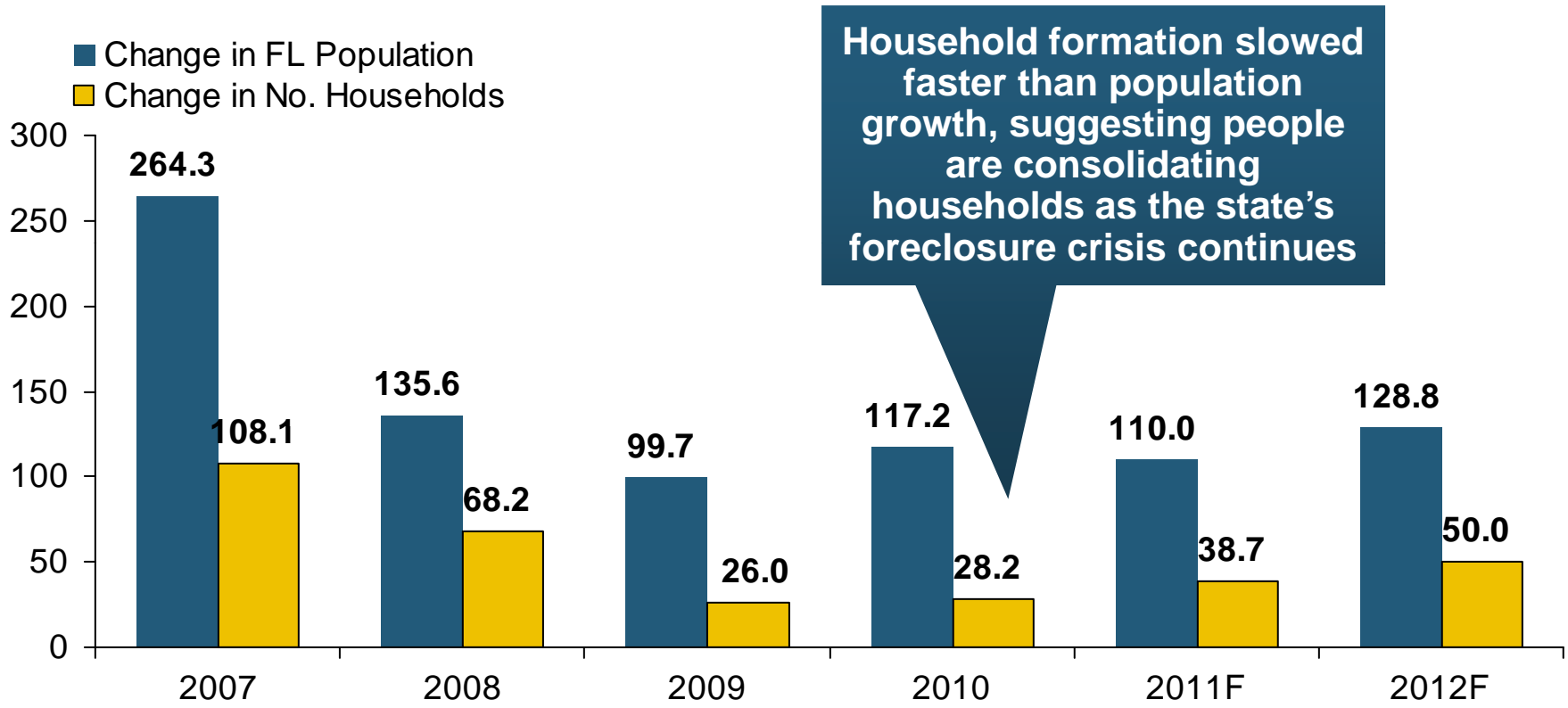
Unemployment Rates By State, September 2011: Lowest 25 States*



*Provisional figures for September 2011, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Weak Population Growth, Slow Household Formation Is Tempering FL Growth

Thousands

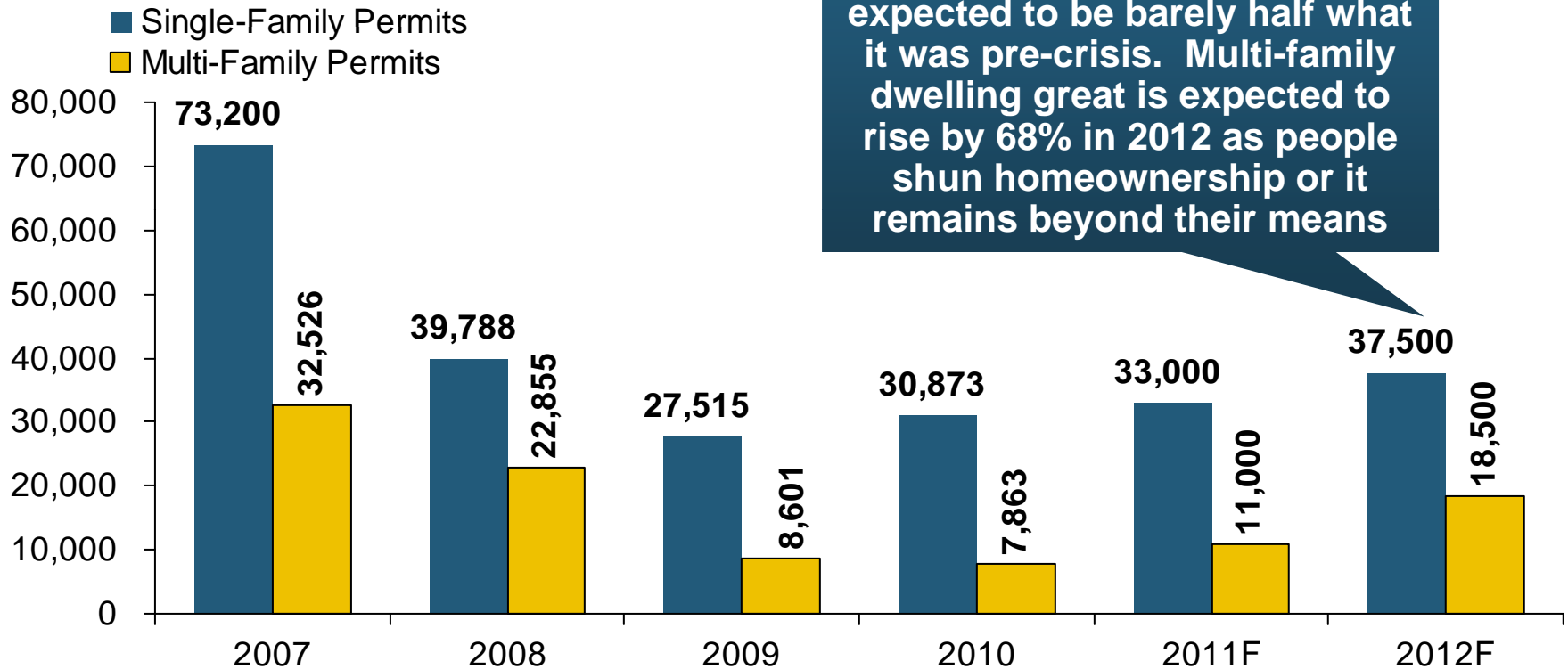


FL's Construction Sector, One of Most Critical of FL's Growth Engines, Remains in a Deep Recession

Source: Dept. of Commerce (historical); Wells Fargo Securities (FL forecasts) as of September 2011; Insurance Information Institute.

Housing Permits: Multi-Family Unit Growth Poised to Soar, Single-Family Weak

Annual Change, 2007 through 2012F



Single-family home construction in 2012 is expected to be barely half what it was pre-crisis. Multi-family dwelling great is expected to rise by 68% in 2012 as people shun homeownership or it remains beyond their means

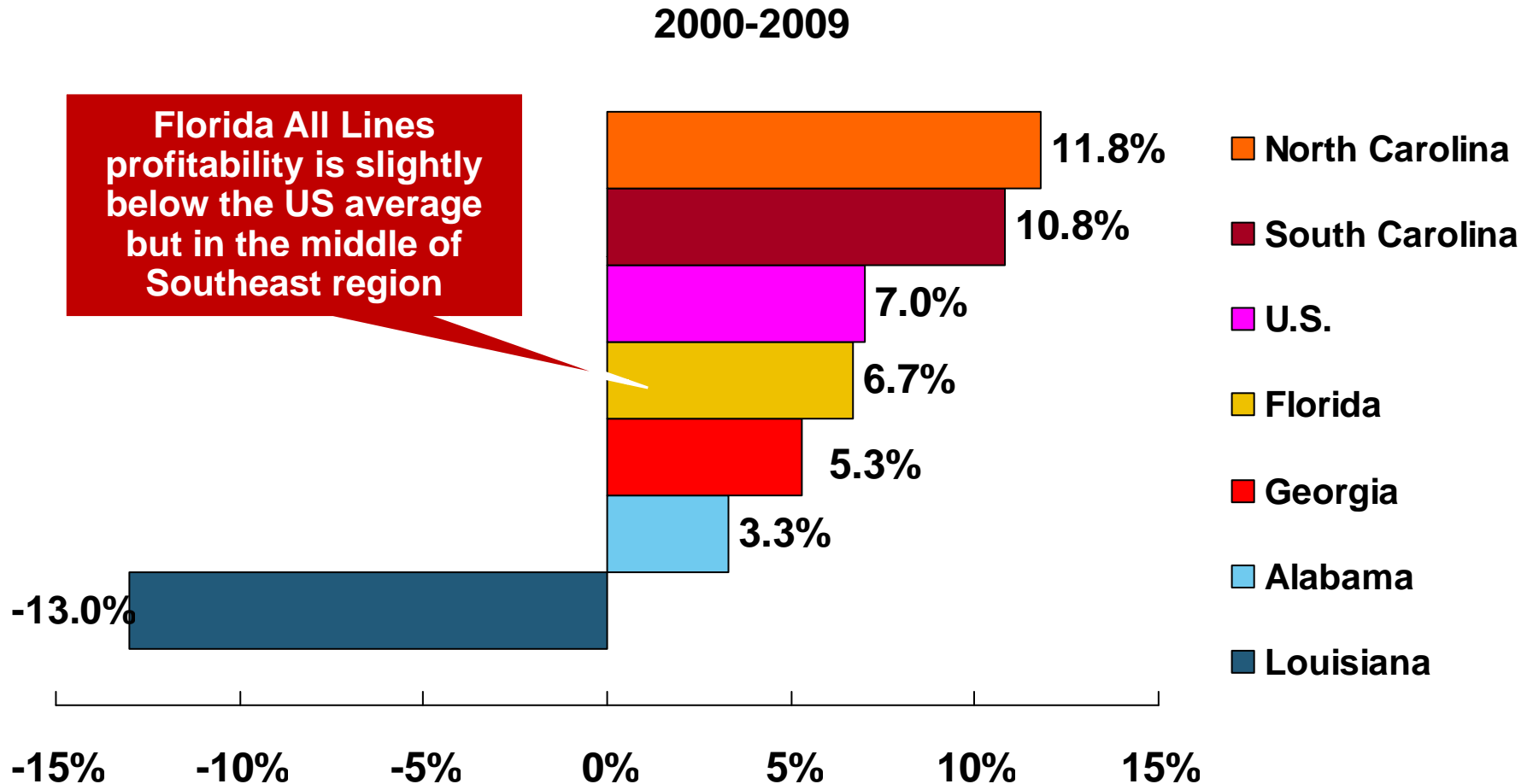
FL's Construction Sector, One of Most Critical of FL's Growth Engines, Remains in a Deep Recession



Profitability and Growth in Florida P/C Insurance Markets

Analysis by Line and Nearby State Comparisons

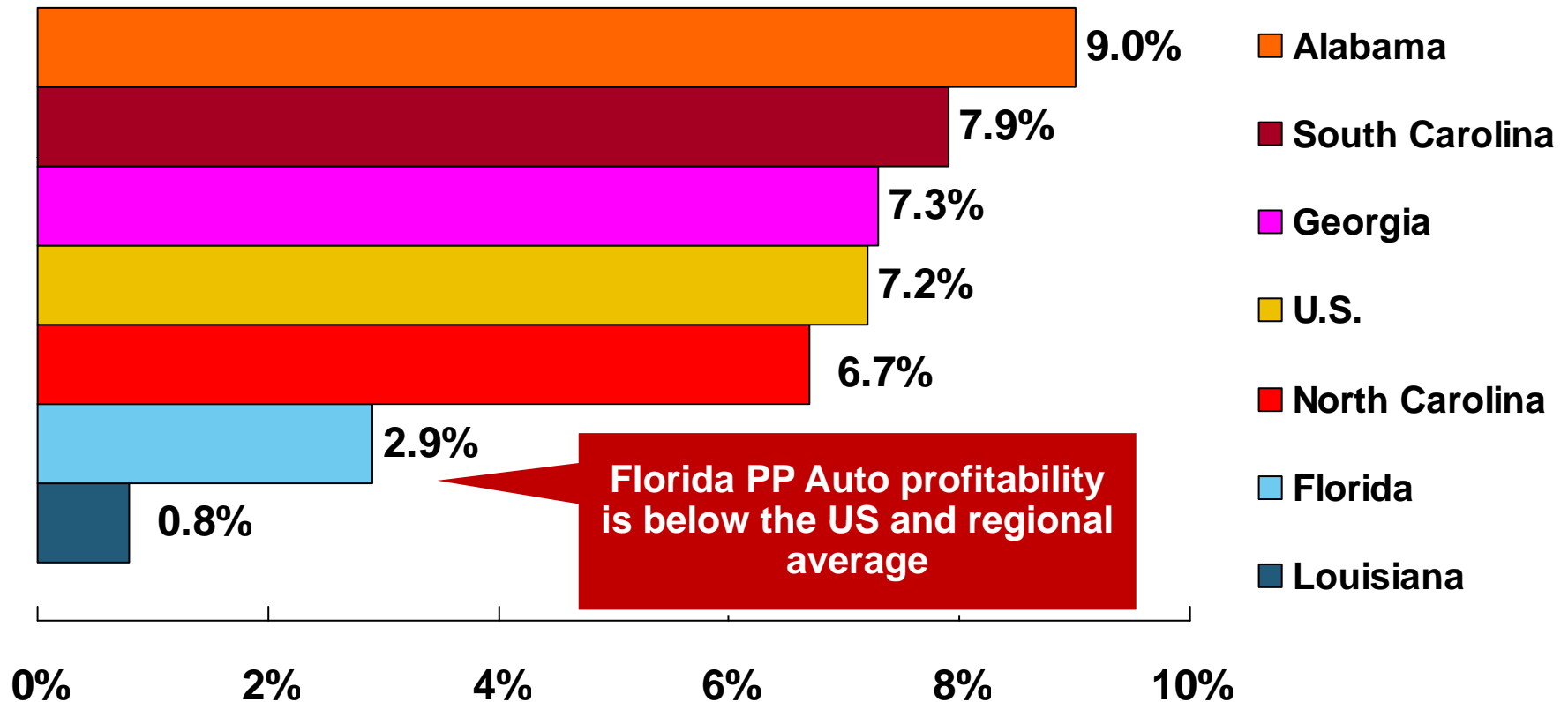
All Lines: 10-Year Average RNW FL & Nearby States



Source: NAIC, Insurance Information Institute

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

2000-2009



Source: NAIC, Insurance Information Institute

Top Ten Most Expensive And Least Expensive States For Automobile Insurance, 2008 (1)

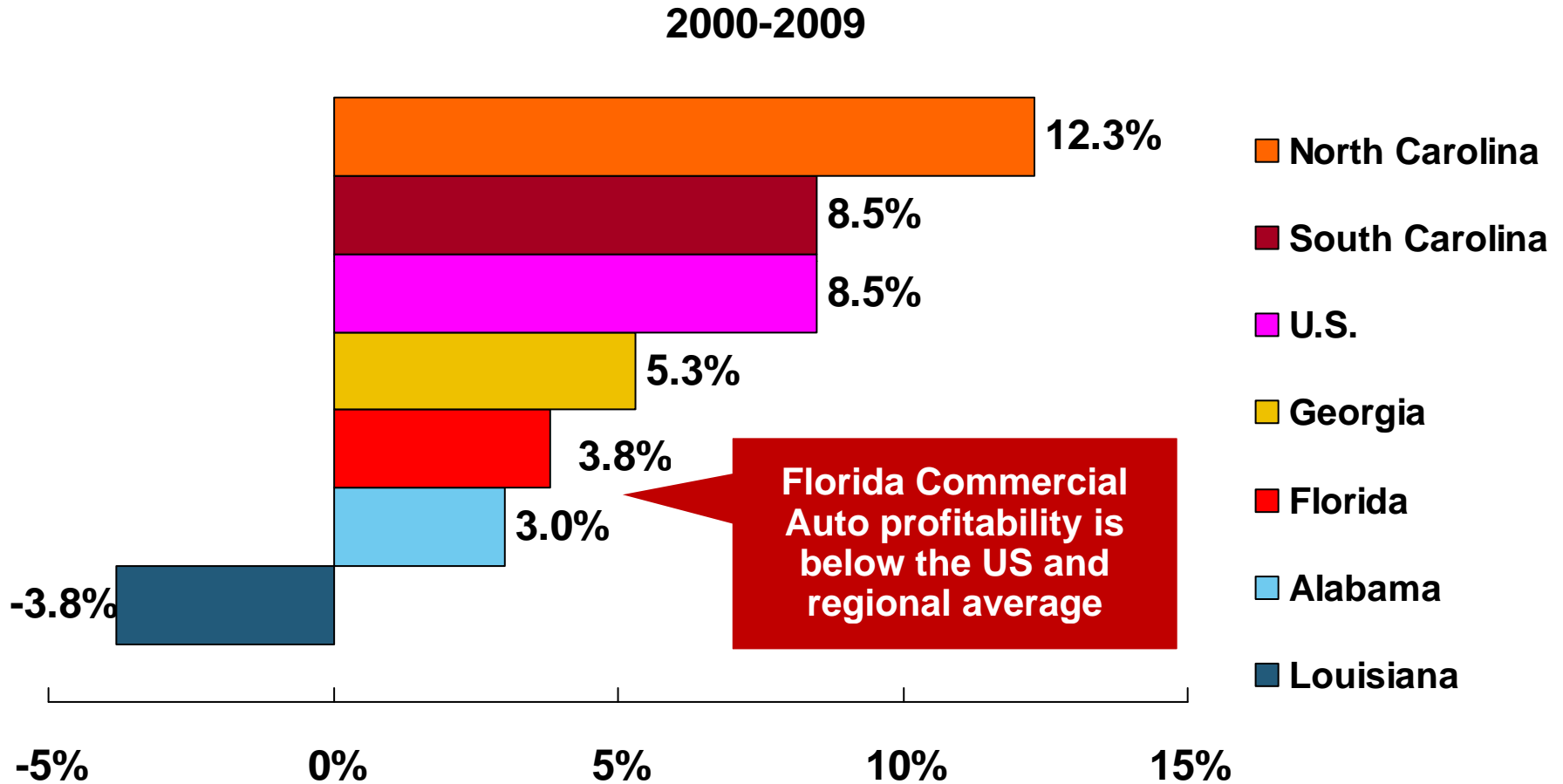
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3	New Jersey	1,081	3	South Dakota	520
4	Florida	1,055	4	Nebraska	547
5	New York	1,044	5	Idaho	562
6	Delaware	1,007	6	Kansas	576
7	Rhode Island	986	7	Wisconsin	581
8	Nevada	970	8	North Carolina	595
9	Connecticut	950	9	Maine	600
10	Maryland	922	10	Indiana	612

Florida ranked 4th in 2008, with an average expenditure for auto insurance of \$1,055.

(1) Based on average automobile insurance expenditures.

Source: © 2010 National Association of Insurance Commissioners.

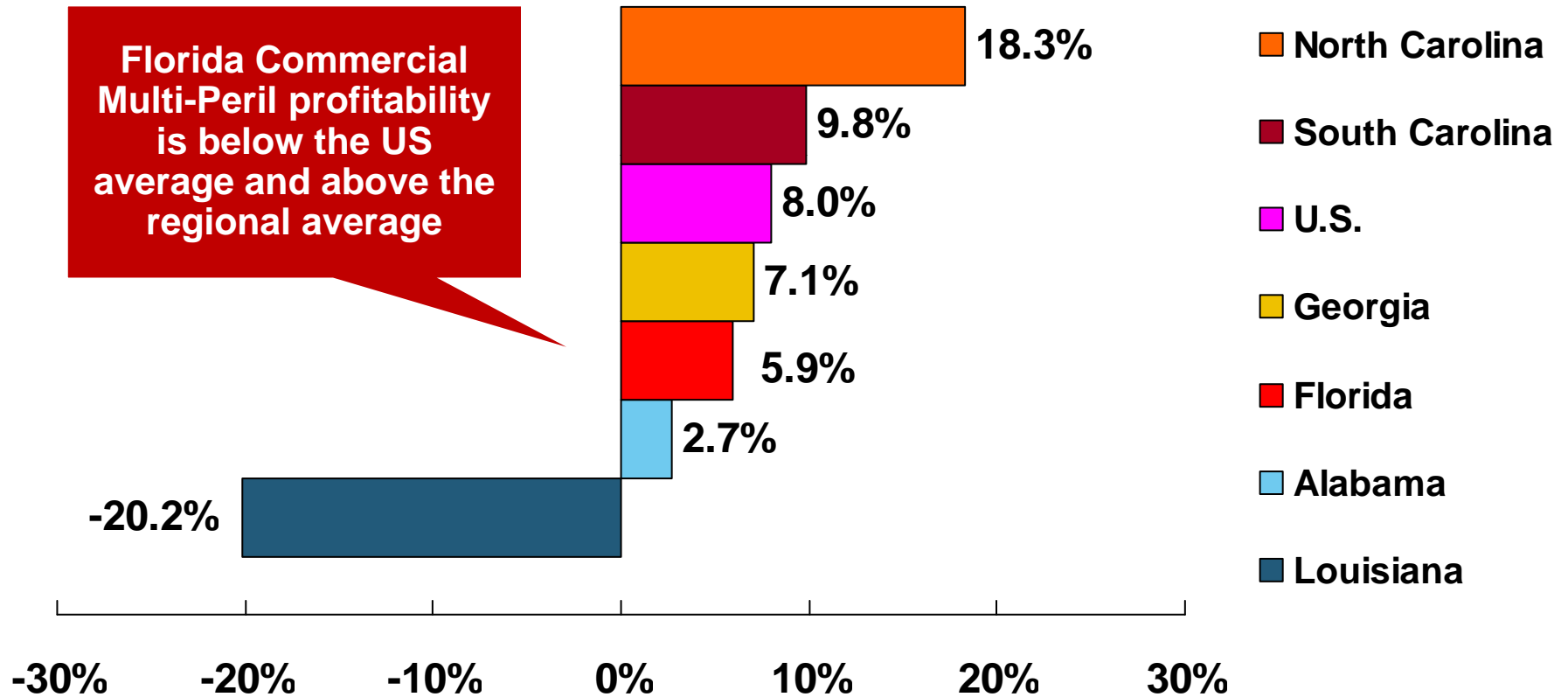
Comm. Auto: 10-Year Average RNW FL & Nearby States



Source: NAIC, Insurance Information Institute

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

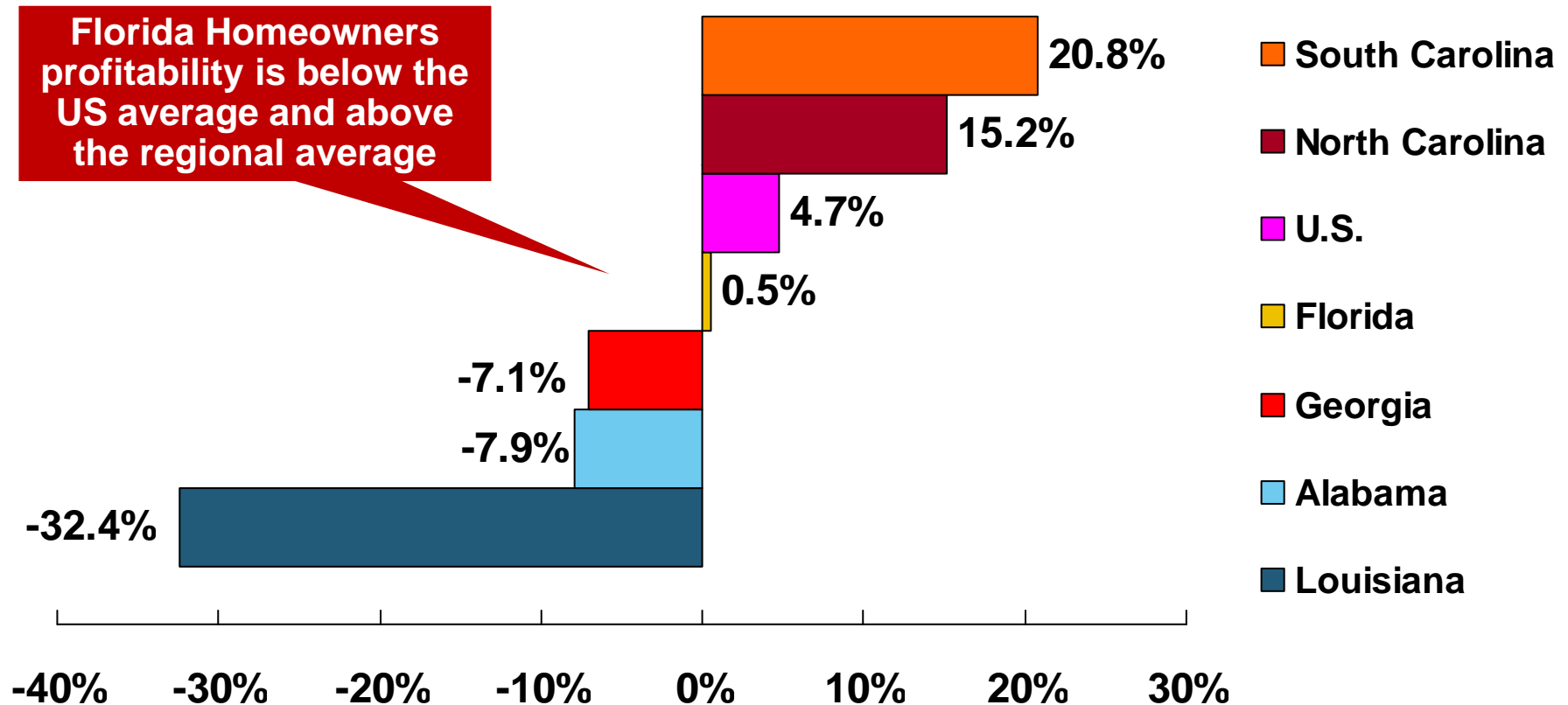
2000-2009



Source: NAIC, Insurance Information Institute

Homeowners: 10-Year Average RNW FL & Nearby States

2000-2009



Source: NAIC, Insurance Information Institute

Top Ten Most Expensive And Least Expensive States For Homeowners Insurance, 2008 (1)

Florida ranked as the 2nd most expensive state for homeowners insurance in 2008, with an average expenditure of \$1,390.

Rank	Most expensive states	Average expenditure	Rank	Least expensive states	Average expenditure
1	Texas (3)	\$1,460	1	Idaho	\$387
2	Florida (4)	1,390	2	Utah	432
3	Louisiana	1,155	3	Oregon	439
4	Oklahoma	1,048	4	Washington	471
5	Massachusetts	1,026	5	Wisconsin	503
6	New York	983	6	Delaware	535
7	Connecticut	980	7	Ohio	565
8	Mississippi	980	8	Maine	572
9	D.C.	926	9	Pennsylvania	586
10	Kansas	916	10	Kentucky	601

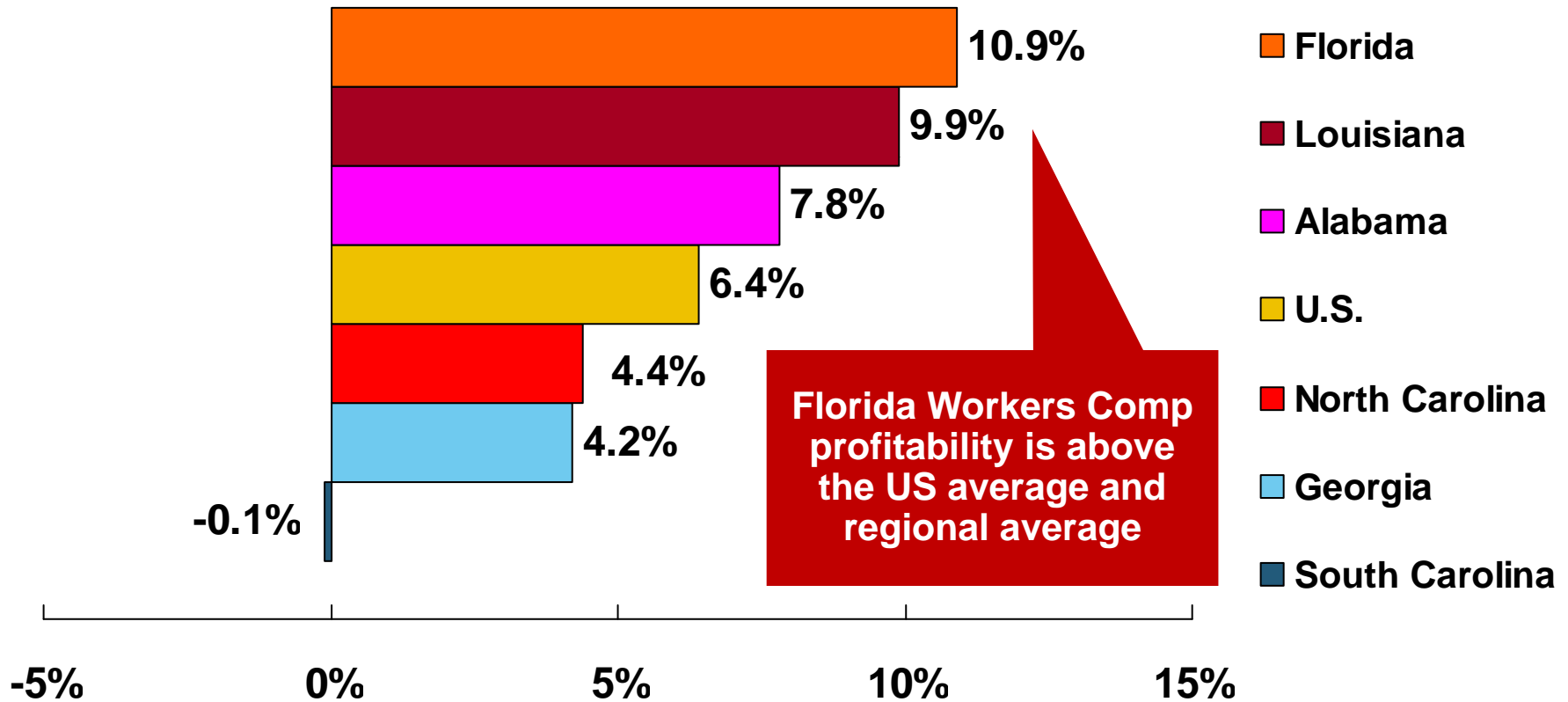
- (1) States with the same premium receive the same rank.
- (2) Based on the HO-3 homeowner package policy for owner-occupied dwellings, 1 to 4 family units. Provides “all risks” coverage (except those specifically excluded in the policy) on buildings and broad named-peril coverage on personal property, and is the most common package written.
- (3) The Texas Department of Insurance developed home insurance policy forms that are similar but not identical to the standard forms.
- (4) Florida data excludes policies written by Citizen’s Property Insurance Corporation, the state’s insurer of last resort, and therefore are not directly comparable to other states.

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.

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Workers Comp: 10-Year Average RNW FL & Nearby States

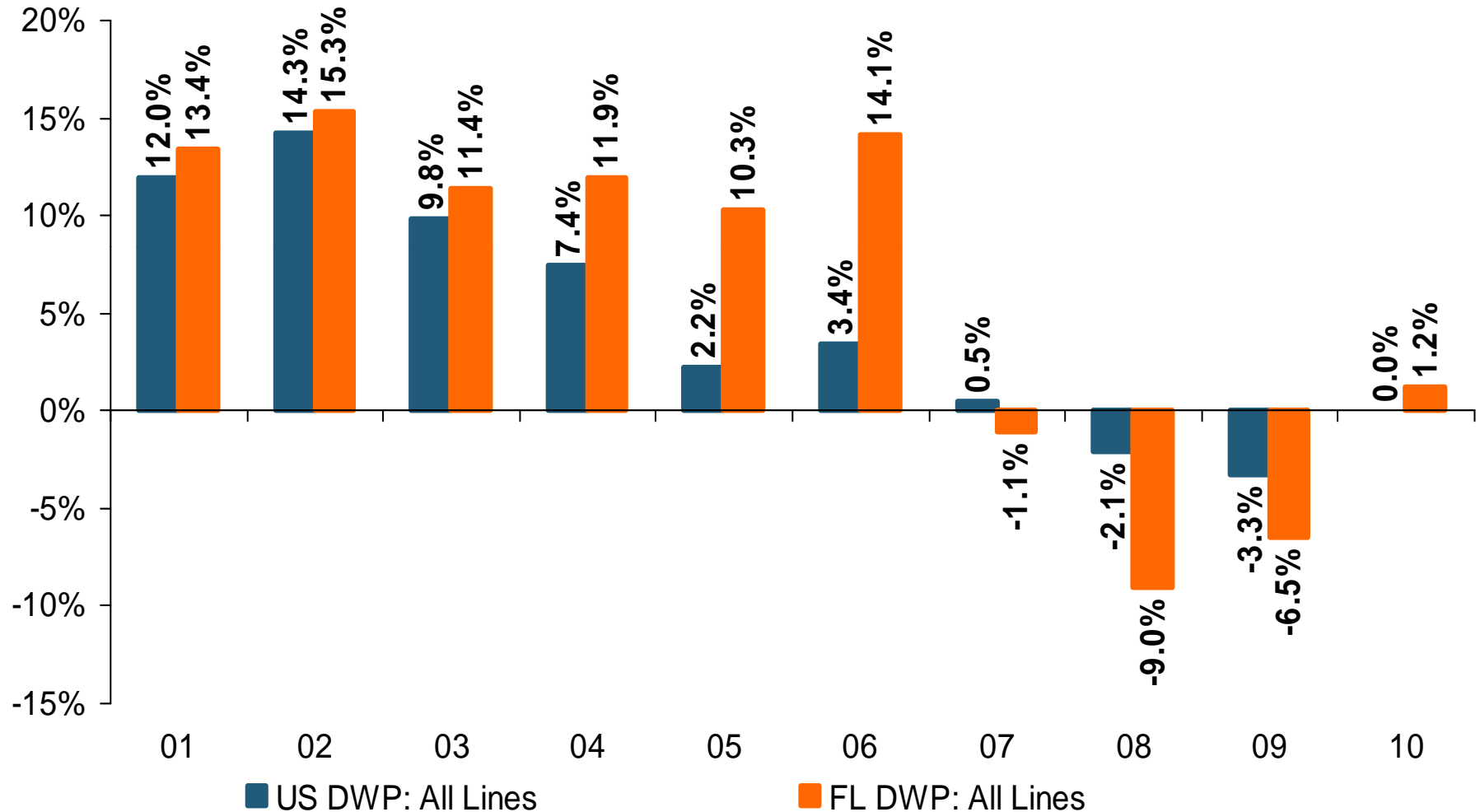
2000-2010



Source: NAIC, Insurance Information Institute

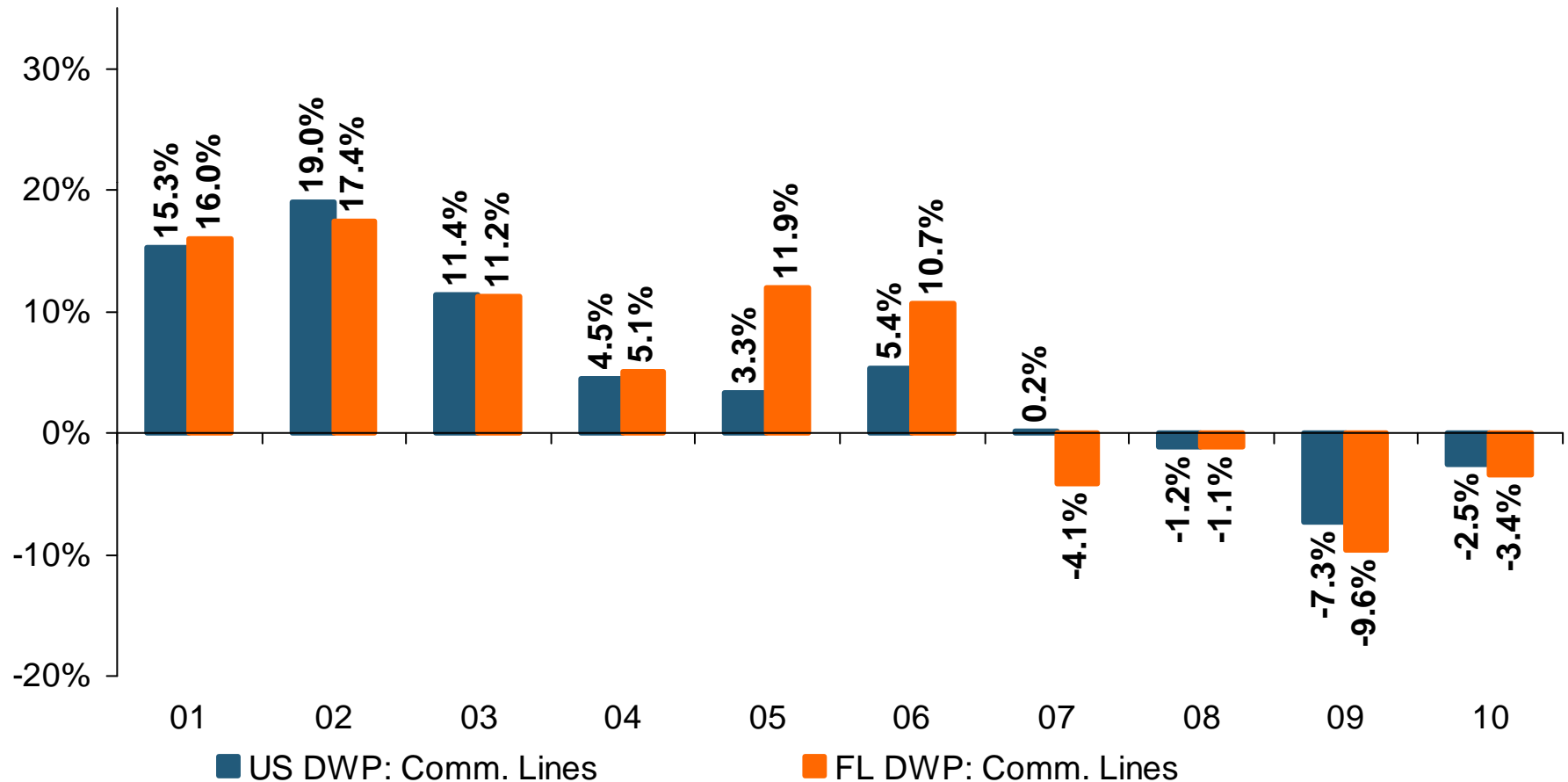
All Lines DWP Growth: FL vs. U.S., 2001-2010

(Percent)



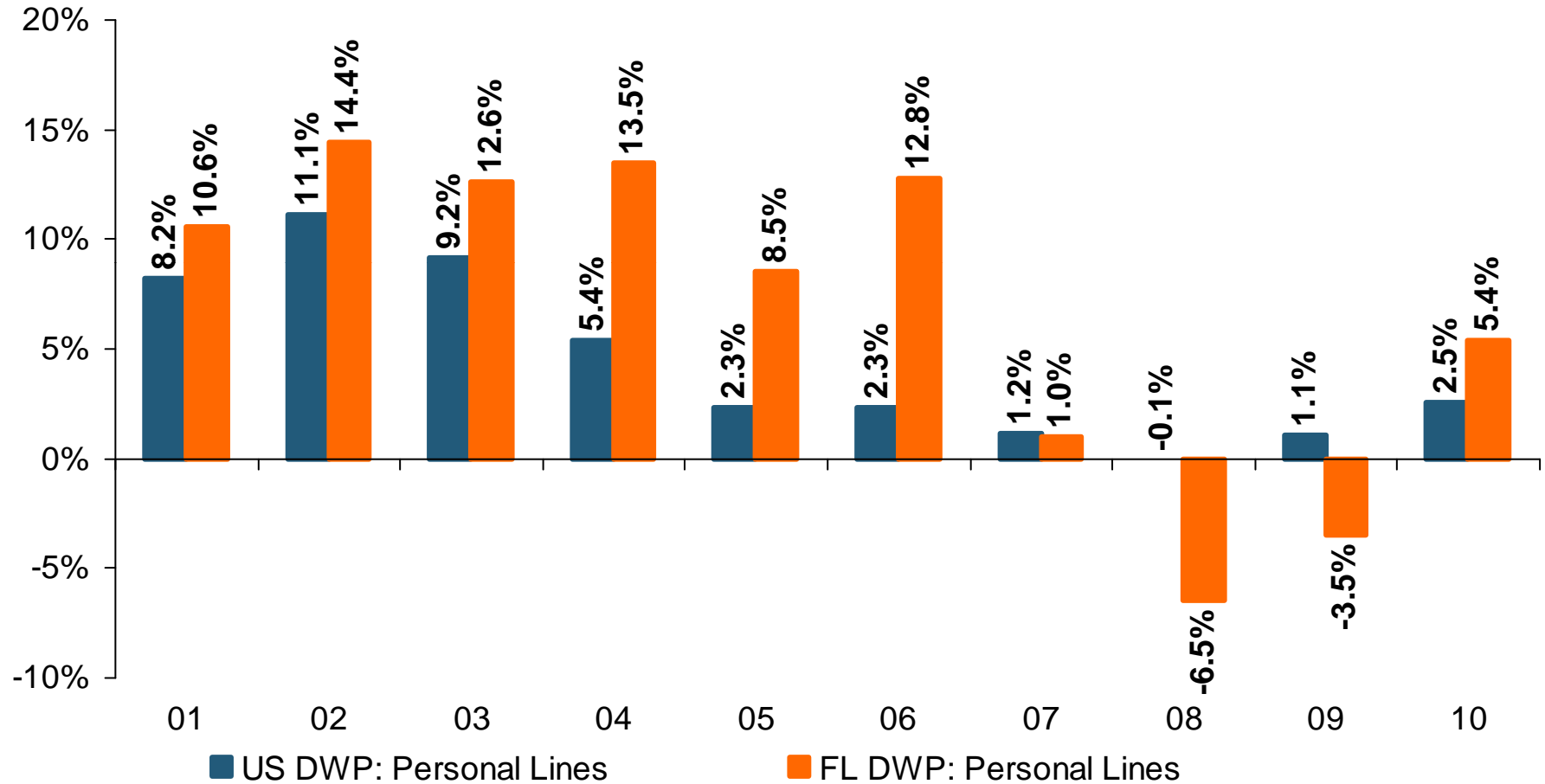
Comm. Lines DWP Growth: FL vs. U.S., 2001-2010

(Percent)



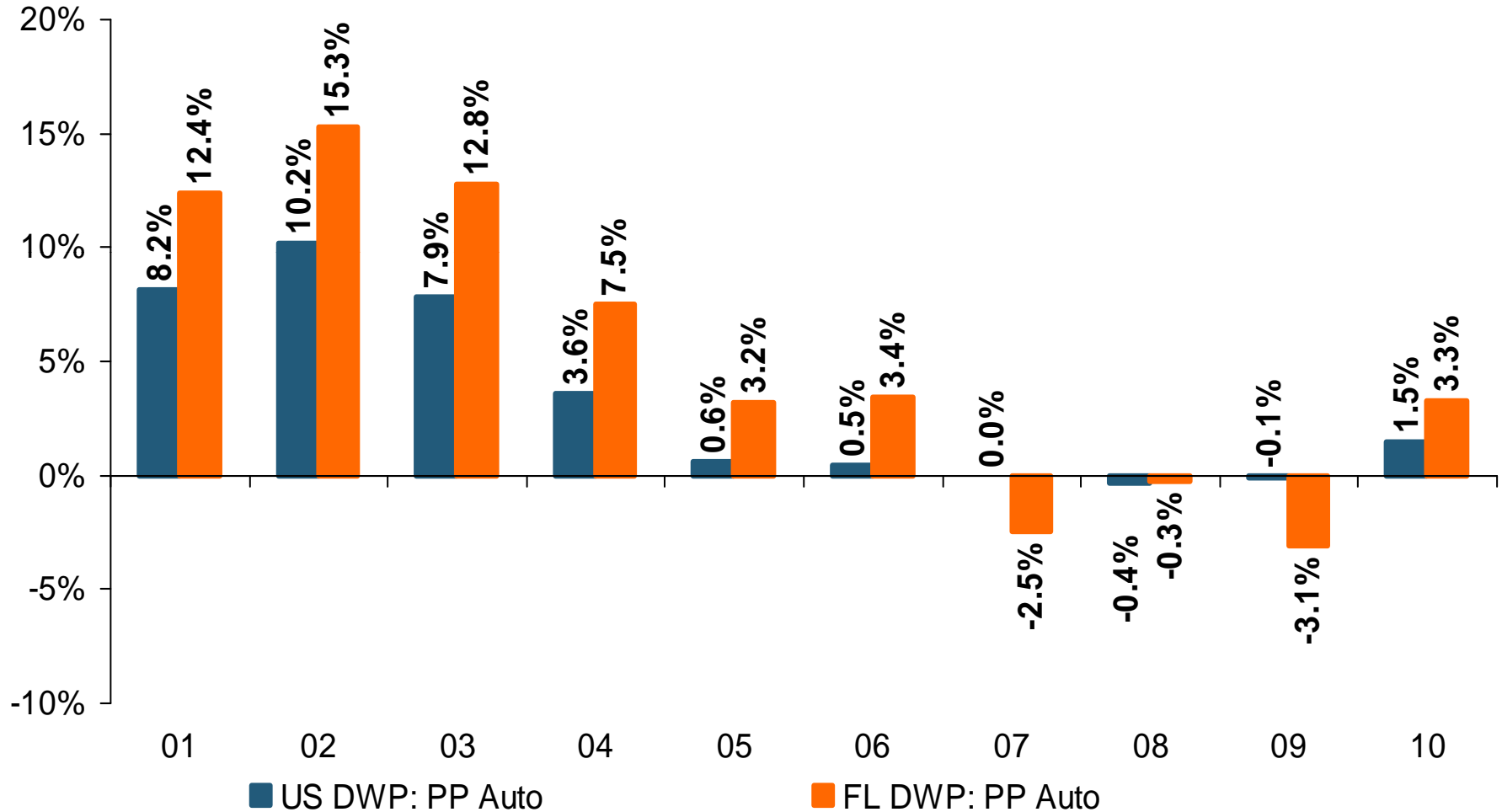
Personal Lines DWP Growth: FL vs. U.S., 2001-2010

(Percent)



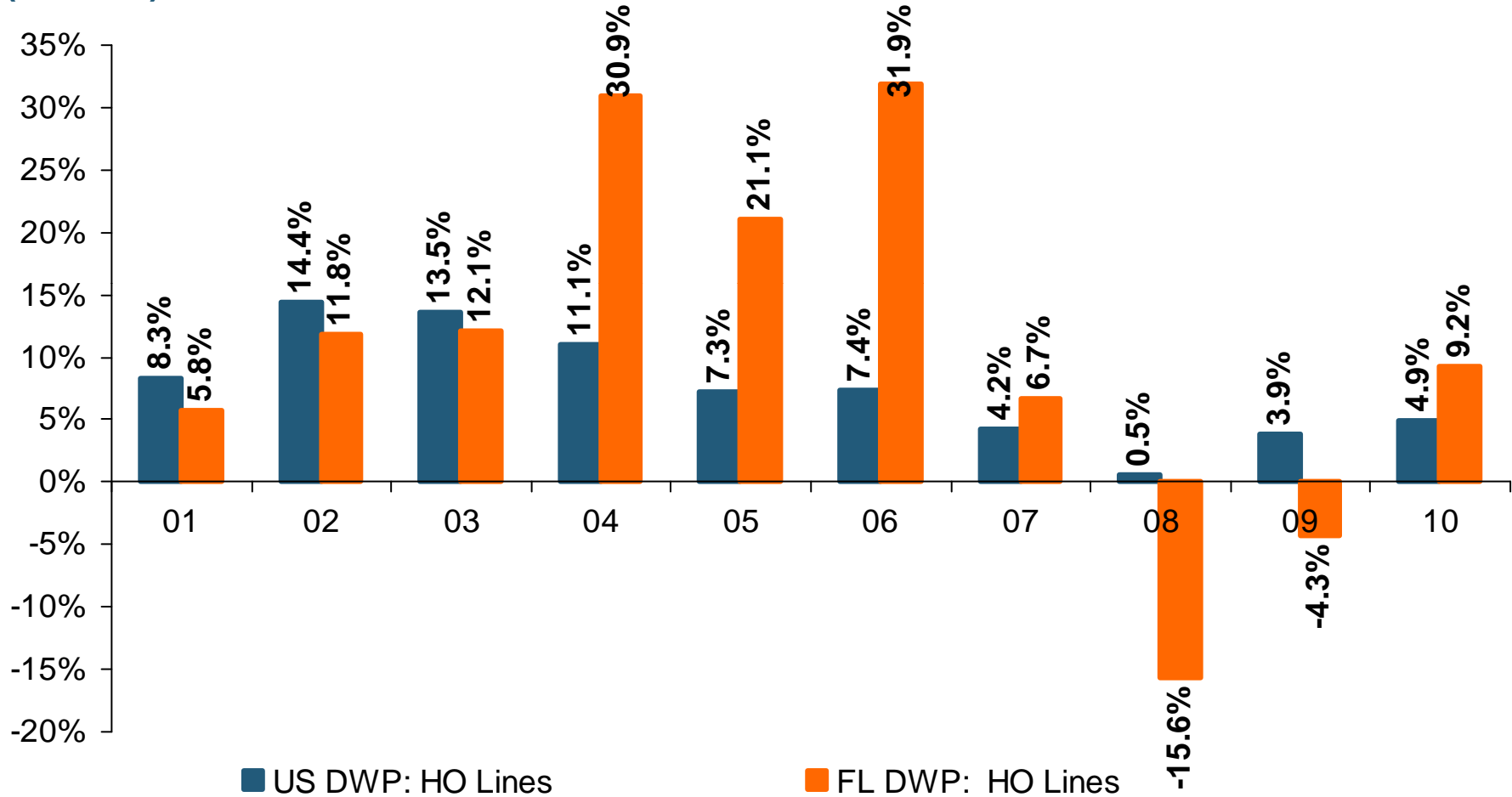
Private Passenger Auto DWP Growth: FL vs. U.S., 2001-2010

(Percent)



Homeowner's MP DWP Growth: FL vs. U.S., 2001-2010

(Percent)



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