

Industry Outlook: 2013 and Beyond

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Personal Lines: Demographic and Macroeconomic Drivers

Brighter Days Ahead, but Not Without Challenges

Real GDP Growth: Past Recessions and Recoveries, Yearly, 1970-2012



Source: (GDP) U.S. Department of Commerce at <u>http://www.bea.gov/national/xls/gdpchg.xls</u>.

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March 2013 Forecasts of Quarterly US Real GDP for 2013-14



Despite the sequester and other challenges to the U.S. economy, virtually every forecast in the Blue Chip universe in early March sees improvement ahead

Sources: Blue Chip Economic Indicators (3/13); Insurance Information Institute

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Projected Population Growth Rates (2010-2020) Vary Widely by State and Region*



U.S. population growth overall, 2010-2020, is projected to be 8.7%

*based on 2000 census.

Source: http://www.census.gov/population/projections/data/state/projectionsagesex.html (Table 7)

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Projected Population Growth Rates (2010-2020) Vary Widely by State and Region* (cont'd)



Source: http://www.census.gov/population/projections/data/state/projectionsagesex.html (Table 7)

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Demographic Tsunami: Average Number of People per Household, by Age of Householder, 2012



As the "baby boom" ages and households get smaller, this will spur growth of smaller homes that are more suited to their requirements.

Source: US Census Bureau at http://www.census.gov/hhes/families/data/cps2012.html Table AVG1.

State Population Growth Rate Projections, 2010-2020*



The Mountain West region is projected to grow the most from now to 2020 (up 17.6%), followed by the South Atlantic (up 14.5%) and Pacific (up 11.2%). The Mid-Atlantic is projected to be the slowest-growing region (up 1.9%).

*based on 2000 census. Source: <u>http://www.census.gov/population/projections/data/state/projectionsagesex.html</u> (Table 7)

As a Group, Households Are Still* Reducing Debt & Related Obligations

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*Includes payments on mortgage debt, homeowners' insurance, and property taxes. **Includes payments on consumer debt and automobile leases.

*through 2012:Q4 (latest data, posted on March 13, 2013). Source: Federal Reserve Board, at <u>http://www.federalreserve.gov/releases/housedebt</u>

Interest Rate on 30-Year, Fixed-Rate Conventional Home Mortgages, Monthly, 2000-2013



Monthly Change in Private Employment, 2010 - 2013



Private employers added 1.2 million jobs in just the last six months.

Seasonally adjusted. Feb 2013 and Mar 2013 are preliminary data Sources: US Bureau of Labor Statistics; Insurance Information Institute

Private Housing Unit Starts, 1990-2014F



Homeowners insurers are starting to see meaningful exposure growth for the first time since 2005. Commercial insurers with construction risk exposure, surety also benefit.

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

Housing Unit Starts: Building Momentum, Monthly, Jan 2011-Feb 2013*



The number of units in multi-unit starts more than doubled from Dec 2011 to Dec 2012. Single family start rose nicely, too.

*at annualized rate, seasonally adjusted; Feb 2013 numbers are preliminary. Source: US Census Bureau at www.census.gov/construction/nrc/pdf/newresconst.pdf.

Auto/Light Truck Sales, 1999-2014F



Job growth and improved credit market conditions will boost auto sales in 2013 and beyond, bolstering the manufacturing sector and the economy generally.

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

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Unemployment and Underemployment Rates: Stubbornly High in 2012, But Falling



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

Unemployment Rates Vary Widely by State and Region*

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*Provisional figures for February 2013, seasonally adjusted.

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

Unemployment Rates Vary Widely by State and Region* (cont'd)



*Provisional figures for February 2013, seasonally adjusted. Sources: US Bureau of Labor Statistics; Insurance Information Institute

Annual Inflation Rates, (CPI-U, %), 1990–2017F



The slack in the U.S. economy suggests that inflationary pressures should remain subdued for an extended period. 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, 3/13 (forecasts).



Personal Lines Segment Performance

Distribution of Net Premiums Written, by Segment/Line, 2011



Distribution Facts

- Personal/Commercial lines split has been about 50/50 for many years; Personal Lines overtook Commercial Lines in 2010
- Pvt. Passenger Auto is by far the largest line of insurance and is currently the most important source of industry profits
- Billions of additional dollars in homeowners insurance premiums are written by staterun residual market plans



Growth Rates of PP Auto & HO Net Written Premium, 2000–2013F





Sources: A.M. Best (2000-2012F); Insurance Information Institute (2013F).

Homeowners & PP Auto Combined Ratios: 1993–2012F





The Homeowners Combined Ratio (1993-2012 range: 89 to 122) is more volatile than the PP Auto Combined Ratio (1993-2012 range: 94 to 109).

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

Return on Net Worth: Homeowners vs. Private Passenger Auto, 1990-2010*



(Percent) -US Home -US PP Auto 20% 10% 0% -10% Hurricane Katrina, Andrew Rita, Wilma -20% -30% Average RNW: 1990-2010* -40% All P-C Lines: 7.9% **PP Auto: 8.9%** -50% Homeowners: 0.7%** -60% 04 05 90 91 02 03 06 07 **08** 92 96 97 98 **99** 01 09 10 93 95 00

Pvt. Pass. Auto has consistently outperformed the P-C industry overall. Homeowners RNW volatility is due mainly to coastal exposure issues.

*Latest available. **Excluding Hurricane Andrew produces a homeowners RNW of +3.5%. Sources: NAIC; I.I.I.



Private Passenger Auto Insurance

PP Auto NWP vs. # of Vehicles in Operation, 2001–2011





PP Auto net written premiums are starting to recover from a period of no growth attributable to the weak economy affecting new vehicle sales, car choice, and increased price sensitivity among consumers

Sources: A.M. Best; NADA, *State of the Industry Report 2012*, p. 16, at <u>www.nada.org/nadadata</u> citing R. L. Polk; Insurance Information Institute.

Prices for Hospital Services, 12-Month Change,* 1998–2013





If so, is the peak-to-peak interval 5-6 years?

*Percentage change from same month in prior year; through February 2013; seasonally adjusted Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Forces that Drive Car Repair Costs: 12-Month Change,* 2001–2013

Recession — Auto repair — Auto body work



exceeded 4%. Fixing people hurt in auto accidents costs much more.

*Percentage change from same month in prior year; through February 2013; seasonally adjusted Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institute.

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Medical Cost Inflation Has Outpaced Overall Inflation For Over 50 Years



Monthly Change* in Auto Insurance Prices, 1991–2013



'90 '91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13 Cyclical peaks in PP Auto tend to occur approximately every 10 years (early 1990s, early 2000s, and possibly the early 2010s)

*Percentage change from same month in prior year; through February 2013; seasonally adjusted

Note: Recessions indicated by gray shaded columns.

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

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Direct Premiums Written: Auto Percent Change by State, 2006-2011



Top 25 States



Direct Premiums Written: Auto Percent Change by State, 2006-2011



Bottom 25 States



Return on Net Worth: Pvt. Passenger Auto, 10-Year Average (2001-2010*): Top 25 States





*Latest available.

Source: NAIC.

Return on Net Worth: Pvt. Passenger Auto, 10-Year Average (2001-2010*): Bottom 25 States



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Claim Trends in Auto Insurance

Rising Costs Held in Check by Falling Frequency; Can That Pattern Be Sustained?

CDC Report: Cell Phone Use While Driving, US and Europe, Fall 2011



Sources: "Mobile Device Use While Driving—United States and Seven European Countries, 2011," in *Morbidity and Mortality Weekly Report*, Centers for Disease Control and Prevention, Vol. 62, No. 10, (March 15, 2013) available at http://www.cdc.gov/mmwr/preview/mmwrhtml/mm6210a1.ht5m?s_cid=6210a1_e ;Insurance Information Institute

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Bodily Injury Claims: Frequency and Severity Trends Still Up



Cost Pressures Will Increase if BI Severity Increases Continue or Frequency Ticks Up

*2012 figure is for the 4 quarters ending with 2012:Q3. Source: ISO/PCI *Fast Track* data; Insurance Information Institute NSURANCE
Property Damage Liability: Severity is Up, Frequency Trend Mixed





Severity/Frequency Trends Have Been Volatile, But Rising Frequency & Severity in 2012 Is a Concern

*2012 figure is for the 4 quarters ending with 2012:Q3. Source: ISO/PCI *Fast Track* data; Insurance Information Institute

No-Fault (PIP) Liability: Severity Trend Remains Adverse*



Annual Change, 2005 through 2012**



Multiple States Are Experiencing Severe Fraud and Abuse Problems in their No-Fault Systems, Especially FL, MI, NY and NJ

*No-fault states included are: FL, HI, KS, KY, MA, MI, MN, NY, ND and UT.

**2012 figure is for the 4 quarters ending in 2012:Q1.

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

Collision Coverage Claims Trends: Severity Rising Again, Frequency Low



Annual Change, 2005 through 2012*



The recession, high fuel prices have helped temper frequency and severity, but this trend will likely reverse based on evidence from past recoveries

*2012 figure is for the 4 quarters ending with 2012:Q3. Source: ISO/PCI *Fast Track* data; Insurance Information Institute

Comprehensive Coverage: Frequency and Severity Trends Are Unfavorable



Weather Creates Volatility for Comprehensive Coverage; Recession Has Helped Push Down Frequency and Temper Severity, But This Factor Will Weaken as Economy Recovers

*2012 figure is for the 4 quarters ending with 2012:Q1. Source: ISO/PCI *Fast Track* data; Insurance Information Institute NSURANCE



Usage-Based Insurance (UBI): Telematics

UBI Is Catching On Among Insurers and Consumers

Why Is UBI Game-Changing?



- Differentiates product offering by offering additional services
- Significantly increases pricing accuracy
- Appeals to consumers as it makes sense, is controllable and minimizes reliance on controversial proxies
- Attracts lower-risk insureds via self-selection
- Allows customers to understand and eliminate risky behaviors, reduce accident frequency
- May improve claims handling

Can improve retention and profits



Source: Towers Watson presentation at Casualty Actuarial Society PRM Conference, March 20, 2012: Usage-Based Insurance: Are You Ready?" by Robin Harbage, FCAS, MAAA.

Top 50 U.S. Private Passenger Auto Companies



- At least 7 top-10 personal auto insurers have implemented programs in at least one state
- U.S. companies representing over 75% of the market already have programs or are actively pursuing them



"UBI device sales rocketing from \$50 million in 2011 to approximately \$2.6 billion by 2015." — FC Business Intelligence

Source: Towers Watson presentation at Casualty Actuarial Society PRM Conference, March 20, 2012: Usage-Based Insurance: Are You Ready?" by Robin Harbage, FCAS, MAAA.

Appeals To The "Right" Consumers

- Improves driving behavior
- Controllable and enables potentially large premium savings
- Makes sense and reduces reliance on proxies
 - Insurance credit scores
 - Driver assignment
 - Charges for relatively rare accidents, convictions
- Ancillary services



Source: Towers Watson presentation at Casualty Actuarial Society PRM Conference, March 20, 2012: Usage-Based Insurance: Are You Ready?" by Robin Harbage, FCAS, MAAA.

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UBI Implementation Challenges

- UBI projects are extremely complex and require cross-functional teams
- Product must appeal to your market while still being profitable
- Managing the legal and regulatory hurdles
- Determining which of the multitude of devices available will best meet the needs of the program
- Extensive IT infrastructure required to collect driving data, to integrate UBI scores with the current system and to give driving feedback
- No publicly available data to jump-start a program
- Danger of wasting time and money collecting the wrong data
- Driving data is much different than traditional experience data and requires special data scrubbing and analysis techniques Define Collect,

Legal &

Regulatory

Goals/Build

Proposition

Use Results

Scrub &

Analyze Data

Technology

UBI In Personal Auto Around The Globe



Source: Towers Watson presentation at Casualty Actuarial Society PRM Conference, March 20, 2012: Usage-Based Insurance: Are You Ready?" by Robin Harbage, FCAS, MAAA.



Homeowners Insurance

Homeowners Insurance Net Written Premium, 2000–2011



Homeowners insurance NWP continues rising (up 95% 2000-2011) despite very little unit growth in recent years. Reasons include rate increases, especially in coastal zones, ITV endorsements (e.g., "inflation guards"), and inelastic demand

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

Monthly Change* in HO-4 Insurance Prices, 1998–2013





*Percentage change from same month in prior year; through February 2013; not seasonally adjusted; first data point is Dec 1998; Recessions indicated by gray shaded columns.

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

Average Premiums For Home Insurance By State, 2009* (1)



*Latest available.

(1) 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.

Note: Average premium=Premiums/exposure per house years. A house year is equal to 365 days insured coverage for a single dwelling.

Source: NAIC; Insurance Information Institute.

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Average Premiums For Home Insurance By State, 2009* (1)





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

Avg. Premium for Homeowners Insurance as Pct. of Median Family Income, 2009





*Average homeowners insurance expenditure as a percentage of the 2009 median income for a family of four Sources: Prepared by the Insurance Information Institute, based on data from the U.S. Census and the National Association of Insurance Commissioners.

Avg. Premium for Homeowners Insurance as Pct. of Median Family Income, 2009



*Average homeowners insurance expenditure as a percentage of the 2009 median income for a family of four Sources: Prepared by the Insurance Information Institute, based on data from the U.S. Census and the National Association of Insurance Commissioners.

Average Premium for Home Insurance Policies**





* Insurance Information Institute Estimates/Forecasts **Excludes state-run insurers. Source: NAIC, Insurance Information Institute estimates 2010-2012 based on CPI and other data.

U.S. Residual Market: Total Policies In-Force at Year-End (1999-2011)





U.S. Residual Market Exposure to Loss



In the 12-year period 2000 through 2011, total exposure to loss in the residual market (FAIR & Beach/Windstorm Plans) quadrupled (from \$221.3 billion in 2000 to a record high of \$884.7 billion in 2011).

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Return on Net Worth: Homeowners Insurance, 10-Year Average (2001-2010*)



*Latest available.

Sources: NAIC.

Return on Net Worth: HO Insurance, 10-Year Average (2001-2010*)





NH COMT MI US WV KS SD WI IL IA TX FL IN OH AR TN GA KY AL ND OK NE MN MO LA MS



Catastrophes

Joplin Home Damage Claims Consumed a Large Share of MO's Homeowners Premiums



Sources: SNL Securities (Homeowners DPW for MO); Catastrophe loss data is from PCS as of May 10, 2012; Insurance Information Inst. 60

Joplin Tornado Claims Consumed a Large Share of MO's P/C Insurance Premiums



Sources: SNL Securities (Homeowners DPW for MO); Catastrophe loss data is from PCS as of May 10, 2012; Insurance Information Inst. 61

The Dozen Most Costly Hurricanes in U.S. History



10 of the 12 most costly hurricanes in insurance history occurred in the past 9 years (2004—2012)

*Estimate as of 12/09/12 based on estimates of catastrophe modeling firms and reported losses as of 1/12/13. Estimates range up to \$25B. Sources: PCS; Insurance Information Institute inflation adjustments to 2012 dollars using the CPI.

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If They Hit Today, the Dozen Costliest (to Insurers) Hurricanes in U.S. History



When you adjust for the damage prior storms could have done if they occurred today, Hurricane Katrina slips to a tie for 6th among the most devastating storms.

*Estimate as of 12/09/12 based on estimates of catastrophe modeling firms and reported losses as of 1/12/13. Estimates range up to \$25B. Sources: Karen Clark & Company, *Historical Hurricanes that Would Cause \$10 Billion or More of Insured LossesToday*, August 2012; I.I.I.

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Superstorm Sandy: Number of Claims by Type*





*PCS claim count estimate as of 11/26/12. Loss estimate represents high and low end estimates by risk modelers RMS, Eqecat and AIR. PCS estimate of insured losses as of 11/26/12 \$11 billion. All figures exclude losses paid by the NFIP. Source: PCS; AIR, Eqecat, AIR Worldwide; Insurance Information Institute.

US Insured Catastrophe Losses



Highest in US History on An Inflation-Adjusted Basis (Pvt Insured). 2011 Losses Were the 5th Highest Record Tornado Losses Caused 2011 CAT Losses to Surge

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*As of 1/2/13. Includes \$20B gross loss estimate for Hurricane Sandy.

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.



Share of Flood Damaged Structures with Flood Insurance: Long Island





Source: Newsday, 1/14/13 from FEMA and Small Business Administration.

Residential NFIP Flood Take-Up Rates in NY, CT (2010) & Sandy Storm Surge





Source: Wharton Center for Risk Management and Decision Processes, Issue Brief, Nov. 2012; Insurance Information Institute.

P/C Industry Homeowners Claim Frequency, INSURANCE US, 1997-2011



Sources: Insurance Research Council, "Trends in Homeowners Insurance Claims," p.29; Insurance Information Institute

P/C Industry Homeowners Average Claim Severity, 1997-2011



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Sources: Insurance Research Council, "Trends in Homeowners Insurance Claims," p. 29, BLS inflation calculator, and Insurance Information Institute



Investments: The New Reality

Investment Performance is a Key Driver of Profitability

U.S. 10-Year Treasury Note Yields: A Long Downward Trend, 1990–2013



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

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.

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.

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Insurers Have Not Yet Fully Adapted to a Persistently Low Interest Rate Environment

- They Didn't Expect Rates to be
 - Pushed to Such Low Levels
 - Pushed Down so Rapidly
 - Held to Such Low Levels for So Long
 - Suppressed via Unprecedented Aggressiveness of the Federal Reserve
- Ability to Release Prior Reserves Eased Urgency
- **OFFSETTING FACTORS**
- Capitalization Still Solid
- Emergence of Sophisticated Price Monitoring and Underwriting Tools

Distribution of Bond Maturities, P/C Insurance Industry, 2003-2011





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 16.9% in 2011) and then trimmed bonds in the 5-10-year category. Falling average maturity of the P/C industry's bond portfolio is contributing to a drop in investment income along with lower yields.

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

Property/Casualty Insurance Industry Investment Gain: 1994–2012F¹





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In 2012 (1st three quarters) both investment income and realized capital gains were lower than in the comparable period in 2011. And because the Federal Reserve Board aims to keep interest rates exceptionally low through mid-2015, maturing bonds will be re-invested at even lower rates.

¹Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.
 *2005 figure includes special one-time dividend of \$3.2B; 2012F figure is I.I.I. estimate based on annualized actual 2012:Q3 result of \$38.089B. Sources: ISO; Insurance Information Institute.

An Insightful Book Published About 4 Years Ago



"The ideas in this book will help you see the world in a new way."-Bill Clinton



the small forces / behind tomorrow's big changes

Mark Penn's book cites 75 MicroTrends



1. Sex-Ratio Singles (Single Women)

- For the first time in America, there are more single women than ever who are likely to stay that way.
- From shortly after birth, women outnumber men, and men are more likely to be homosexual than women are
 - In 2005, single women were the 2nd largest group of home buyers, just behind married couples.
 - They bought 1.5 million homes, more than twice as many as single men.
 - The number of single women bearing/adopting children in 2005 tripled since the early 1990s





- Dual-career couples who maintain two households
- In 1990: 1.7 million people
 In 2005: 3.5 million
- All ages the number of married people over 50 who live separately tripled between 2001 and 2005



3. 30-Winkers

- The number of people who sleep fewer than 6 hours/night is rising fast
 - 1998: 12%
 - 2005: 16% (34 million people)
- In the 2005 "Sleep in America" poll,
 - 37% said they've nodded off or fallen asleep while driving
- Less sleep leads to
 - Less productivity
 - Increased obesity
 - New businesses to help people get more sleep
- Should sleep be an underwriting factor?



4. Hard-of-Hearers

- Roughly 1/3 of people over 65 (about 35 million) are hard-of-hearing
 - But many with hearing loss are under 65
 - Hearing loss varies by race, geography, gender
- Occupational/Business Impact: Overcoming hearing loss will be a hot industry in the next few decades
 - New technology (who will lead this? Apple? Bose? Sony? Ford? New entrepreneurs?)
- Public policy/Insurance impact
 - An anti-noise campaign similar to anti-smoking?
 - Do the hard-of-hearing cause more accidents?



5. Old New Dads

- Births to men aged 50 or older
 - In 1980: 1 in 23
 - In 2002: 1 in 18
- Births to men age 40-44: up 32%
- Births to men age 45-49: up 21%
- Old dads will likely
 - Work longer
 - Retire later
 - Drive at older ages

6. Newly Released Ex-Cons



- 650,000 people (90% men, avg. age 34) released from prison of jail each year
- These people generally have little connection with economic society:
 - Little education
 - Few job prospects
 - Many employers won't hire them
- Likely results:
 - Increasing crime
 - Worsening public cost of family support "financial safety net"
- Are these people insurable in the voluntary market?

7. High School Moguls

- A dozen years ago 8% of all teens (1.6 million) were making money on the internet
- The top 100 entrepreneurs aged 8-18 in 2001 earned total profits of \$7 million
- In 2006 the U.S. Small Business Administration launched "Mind Your Own Business," an online resource to help teenagers develop their start-ups
- How much do teen business owners know about insurance? How well are we reaching them?



P/C Insurance Industry Financial Overview

Profit Recovery Was Set Back in 2011 by High Catastrophe Loss & Other Factors

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



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

* 2008 -2012 figures are return on average surplus and exclude mortgage and financial guaranty insurers. 2012:H1 combined ratio including M&FG insurers is 102.2, ROAS = 5.9%; 2011 combined ratio including M&FG insurers is 108.2, ROAS = 3.5%. Source: Insurance Information Institute from A.M. Best and ISO data.

P/C Net Premiums Written: % Change, Quarter vs. Year-Prior Quarter, 2002–2012



Finally! A sustained period (10 quarters) of growth in net premiums written (vs. same quarter, prior year), and strengthening.

Sources: ISO; Insurance Information Institute.

Direct Premiums Written: Total P/C Percent Change by State, 2006-2011



Top 25 States



Direct Premiums Written: Total P/C Percent Change by State, 2006-2011



Bottom 25 States



P/C Net Income After Taxes 1991–2012:Q3 (\$ Millions)



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* ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 6.2% ROAS for 2012:H1, 4.6% 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 – 2012:Q3*



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*Profitability = P/C insurer ROEs. 2012 is an estimate based on ROAS data. Note: Data for 2008-2012 exclude mortgage and financial guaranty insurers. 2012:H1 ROAS = 5.9% including M&FG. Sources: Insurance Information Institute; NAIC; ISO; A.M. Best.

Policyholder Surplus, 2006:Q4–2012:Q3







Key Takaways

Takeaways: Insurance Industry Predictions for 2013



P/C Insurance Exposures Will Grow With the U.S. Economy

- Personal lines exposure growth is likely in 2013
- Wage growth is also positive and could modestly accelerate

P/C Industry Growth in 2013 Will Be Strongest Since 2004

- Growth likely to exceed A.M. Best projection of +3.8% for 2012
- No traditional "hard market" emerges in 2013

Underwriting Fundamentals Deteriorate Modestly

- Some pressure from claim frequency, severity in some key lines
- Industry Capacity Hits a New Record by Year-End 2013 (Barring Meg-CAT)
- Investment Environment Is/Remains Challenging
 - Interest rates remain low



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Thank you for your time and your attention!