Industry Outlook: 2013 and Beyond

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Personal Lines:  
Demographic and Macroeconomic Drivers

Brighter Days Ahead, but Not Without Challenges

In most recoveries, real yearly GDP growth is often 4% or more

In the current recovery, real yearly GDP growth has been 2.4% or less

But, following the 1991 and 2001 recessions, real yearly GDP growth was weaker than 4%

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
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](http://www.census.gov/population/projections/data/state/projectionsagesex.html) (Table 7)
Projected Population Growth Rates (2010-2020) Vary Widely by State and Region* (cont’d)

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Southwest</td>
<td>27.4%</td>
</tr>
<tr>
<td>Mountain</td>
<td>16.2%</td>
</tr>
<tr>
<td>Far West</td>
<td>28.3%</td>
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<tr>
<td>Great Lakes</td>
<td>13.6%</td>
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<tr>
<td>Great Plains</td>
<td>10.9%</td>
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Demographic Tsunami: Average Number of People per Household, by Age of Householder, 2012

Average Household Size

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

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: [http://www.census.gov/population/projections/data/state/projectionsagesex.html](http://www.census.gov/population/projections/data/state/projectionsagesex.html) (Table 7)
As a Group, Households Are Still* Reducing Debt & Related Obligations

Debt Service as a Percent of Personal Disposable Income

*Includes payments on mortgage debt, homeowners’ insurance, and property taxes.

**Includes payments on consumer debt and automobile leases.

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

Source: Federal Reserve Board, at http://www.federalreserve.gov/releases/h15/data.htm
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
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.
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.
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.
Unemployment and Underemployment Rates: Stubbornly High in 2012, But Falling

January 2000 through Mar. 2013, Seasonally Adjusted (%)

- "Headline" Unemployment Rate U-3
- Unemployment + Underemployment Rate U-6

"Headline" unemployment stood at 7.6% in Mar. 2013.

The Federal Reserve’s target for ending “easy money” is 6.5% (assuming inflation remains within its 2% target).

Stubbornly high unemployment and underemployment constrain overall economic growth, but the job market is now clearly improving.

Unemployment Rates Vary Widely by State and Region*

*Provisional figures for February 2013, seasonally adjusted.
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
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.

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 state-run residual market plans

Sources: A.M. Best; Insurance Information Institute research.
Growth Rates of PP Auto & HO Net Written Premium, 2000–2013F

Homeowners insurance has grown faster than PP Auto over the past dozen years, but auto is generally more profitable.
Homeowners & PP Auto Combined Ratios: 1993–2012F


Sources: A.M. Best (1990-2012E); Insurance Information Institute.
Return on Net Worth: Homeowners vs. Private Passenger Auto, 1990-2010*

Average RNW: 1990-2010*
- All P-C Lines: 7.9%
- PP Auto: 8.9%
- Homeowners: 0.7%**

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 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.

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

Are price changes for Hospital Services cyclical? If so, is the peak-to-peak interval 5-6 years?

*Percentage change from same month in prior year; through February 2013; seasonally adjusted
Forces that Drive Car Repair Costs: 12-Month Change,* 2001–2013

At their worst, these prices rose at an annual rate of 5-6%

During the recession, more people kept old cars, pushing repair prices up

Lately rising at about 2% or less

12-month price changes for auto repair and body work have rarely exceeded 4%. Fixing people hurt in auto accidents costs much more.

*Percentage change from same month in prior year; through February 2013; seasonally adjusted
Medical Cost Inflation Has Outpaced Overall Inflation For Over 50 Years

A claim that cost $1,000 in 1961 would cost nearly $17,500 based on medical cost inflation trends over the past 51 years.

Source: Department of Labor (Bureau of Labor Statistics)

Pricing data:
PPA Auto, like most p/c lines, exhibits strong cyclicality in pricing.

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.
Top 25 States

Texas was the fastest growing state between 2006 and 2011

Sources: SNL Financial LLC; Insurance Information Institute.
Maine saw the biggest drop in premiums written between 2006 and 2011.
For a decade, PP Auto Return on Net Worth in these 4 states averaged more than 14%

In the 25 states with the highest RNW for the decade, every one hit 9% or better

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

The U.S. weighted annual average RNW for PP Auto Insurance in 2001-2010 was 7.6%

For a decade, PP Auto Return on Net Worth on these states averaged less than 5.5%

*Latest available.
Sources: NAIC
Claim Trends in Auto Insurance

Rising Costs Held in Check by Falling Frequency; Can That Pattern Be Sustained?
In the past 30 days, how often have you talked on the phone while you were driving?

- U.S.: 27.5%
- U.K.: 7.8%
- Germany: 8.8%
- France: 10.4%
- Spain: 12.8%
- Belgium: 15.7%
- Netherlands: 19.5%
- Portugal: 20.4%

In the past 30 days, how often have you sent a text message or e-mail while you were driving?

- U.S.: 7.7%
- U.K.: 2.5%
- Germany: 4.3%
- France: 2.8%
- Spain: 4.3%
- Belgium: 5.2%
- Netherlands: 8.1%
- Portugal: 5.9%

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
Property Damage Liability: Severity is Up, Frequency Trend Mixed

Annual Change, 2005 through 2012*

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*

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

Annual Change, 2005 through 2012*

Main cause of the 2011 spike in both frequency and severity? Severe weather

2012 percentages are down only in comparison with 2011

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
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

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

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

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

Source: Towers Watson.
UBI In Personal Auto Around The Globe

Homeowners Insurance
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.

Sources: A.M. Best; Insurance Information Institute.
Since 1998, the 12-month change in HO-4 prices has rarely been above 3% (and from Oct 2005 through Sept 2006 was negative!)

*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.

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

Top 25 States

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

Bottom 25 States

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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

Top 25 States

(Percent)

0.0% 0.5% 1.0% 1.5% 2.0% 2.5%

TX FL MS LA OK AR AL SC KS NM MO TN DC NY RI NE CA US GA KY WV MT MN NC ND

*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

Bottom 25 States

*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**

Home insurance premiums are rising in response to higher catastrophe losses.

* Insurance Information Institute Estimates/Forecasts **Excludes state-run insurers.
Source: NAIC, Insurance Information Institute estimates 2010-2012 based on CPI and other data.
In the 10-year period 2001 to 2011, the total number of policies in-force in the residual market (FAIR & Beach/Windstorm Plans) roughly tripled.

Source: PIPSO; Insurance Information Institute
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).

Top 25 States

Hawaii was the most profitable state for home insurers from 2001-2010 due to the absence of hurricanes during this period.

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*)

Bottom 25 States

Hurricanes Katrina & Rita made Louisiana and Mississippi the least profitable states for home insurers from 2001-2010.

Except for 2004 and Wilma in 2005, Florida dodged major hurricanes in the 2001-2010 decade. So HO RNW in Florida for the decade averaged -0.3%.

Note: these are annual averages for a decade!

*Latest available.       Source: NAIC
Catastrophes
Joplin Home Damage Claims Consumed a Large Share of MO’s Homeowners Premiums

Catastrophe losses paid to homeowners arising from the May 22 Joplin tornado consumed 44% of all homeowners premiums written throughout the state in 2011.

2011 Homeowners Insurance Direct Premiums Written*

2011 Insured Homeowners Catastrophe Losses

Insurers ROE in the MO Homeowners Line in 2011 Will be Negative by Several Hundred Percent

Sources: SNL Securities (Homeowners DPW for MO); Catastrophe loss data is from PCS as of May 10, 2012; Insurance Information Inst.
Joplin Tornado Claims Consumed a Large Share of MO’s P/C Insurance Premiums

Insurers ROE in the MO Property/Casualty Insurance Market in 2011 Will be Very Low, If Not Negative

Sources: SNL Securities (Homeowners DPW for MO); Catastrophe loss data is from PCS as of May 10, 2012; Insurance Information Inst.
The Dozen Most Costly Hurricanes in U.S. History

Insured Losses, 2012 Dollars, $ Billions

Sandy will likely become the 3rd costliest hurricane in US insurance history

Irene became the 12th most expensive hurricane in US 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.
If They Hit Today, the Dozen Costliest (to Insurers) Hurricanes in U.S. History

Insured Losses, 2012 Dollars, $ Billions

<table>
<thead>
<tr>
<th>Hurricane</th>
<th>Year</th>
<th>Insured Losses</th>
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</thead>
<tbody>
<tr>
<td>Sandy*</td>
<td>2012</td>
<td>$20</td>
</tr>
<tr>
<td>Betsy</td>
<td>1965</td>
<td>$20</td>
</tr>
<tr>
<td>Hazel</td>
<td>1954</td>
<td>$20</td>
</tr>
<tr>
<td>Donna</td>
<td>1960</td>
<td>$25</td>
</tr>
<tr>
<td>New England</td>
<td>1938</td>
<td>$35</td>
</tr>
<tr>
<td>Katrina</td>
<td>2005</td>
<td>$40</td>
</tr>
<tr>
<td>Galveston</td>
<td>1915</td>
<td>$40</td>
</tr>
<tr>
<td>Andrew</td>
<td>1992</td>
<td>$50</td>
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<tr>
<td>south-Florida</td>
<td>1947</td>
<td>$50</td>
</tr>
<tr>
<td>Galveston</td>
<td>1900</td>
<td>$50</td>
</tr>
<tr>
<td>mid-Florida</td>
<td>1928</td>
<td>$65</td>
</tr>
<tr>
<td>Miami</td>
<td>1926</td>
<td>$125</td>
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</table>

Storms that hit long ago had less property and businesses to damage, so simply adjusting their actual claims for inflation doesn’t capture their destructive power. Karen Clark’s analysis aims to overcome that.

**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 Losses Today, August 2012; I.I.I.
Hurricane Sandy resulted in an estimated 1.4 million privately insured claims resulting in an estimated $15 to $25 billion in insured losses. Hurricane Katrina produced 1.74 million claims and $47.6B in losses (in 2011 $)

Superstorm Sandy: Number of Claims by Type*

- **Homeowner**: 982,000, 71%
- **Auto**: 230,500, 17%
- **Commercial**: 167,500, 12%

*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.

Sandy is a high frequency, (relatively low) severity event (avg. severity <50% Katrina)
US Insured Catastrophe Losses

($ Billions, 2012 Dollars)

US CAT Losses in 2012 Will Likely Become the 2nd or 3rd Highest in US History on An Inflation-Adjusted Basis (Pvt Insured). 2011 Losses Were the 5th Highest

*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.
Natural Disasters in the United States, 1980 – 2012
Number of Events (Annual Totals 1980 – 2012)

There were over 150 natural disaster events in the US every year since 2006. That hadn’t happened in any year before.

Source: MR NatCatSERVICE
Only 37.5% of flood damaged buildings in Nassau County were insured for flood, 62.5% uninsured.

27.6% of flood damaged buildings in Suffolk County were insured for flood, 73.4% uninsured.

The Maximum FEMA Grant is $31,900. The Average Grant Award to Homeowners and Renters on Long Island is About $7,300.

Source: Newsday, 1/14/13 from FEMA and Small Business Administration.
Flood coverage penetration rates were extremely low in many very vulnerable areas of NY and CT, with take-up rates far below 50% in many areas.

Claims Paid per 100 Exposures

CAT-related claims
Non-CAT-related claims
All Claims

Sources: Insurance Research Council, “Trends in Homeowners Insurance Claims,” p.29; Insurance Information Institute
P/C Industry Homeowners Average Claim Severity, 1997-2011

HO average claim severity is now three times what it was in 1997.

Investments: The New Reality

Investment Performance is a Key Driver of Profitability
Yields on 10-Year U.S. Treasury Notes recently plunged to all time record lows.

Yields on 10-Year U.S. Treasury Notes have been essentially below 5% for a full decade.

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.
National Bureau of Economic Research (recession dates); Insurance Information Institutes.
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
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.
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.

Investment gains in 2012 are running approximately 20% below their pre-crisis peak.

Investment 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

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
2. Commuter Couples

• 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

- 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 or 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

- Combined Ratio / ROE

A combined ratio of about 100 generates an ROE of ~7.0% in 2012, ~7.5% ROE in 2009/10, 10% in 2005 and 16% in 1979.

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

This upward trend is likely to continue as the economy's recovery strengthens.

Sources: ISO; Insurance Information Institute.
Direct Premiums Written: Total P/C Percent Change by State, 2006-2011

Top 25 States

Nine states showed strong growth over the past 5 years

Sources: SNL Financial, LLC.; Insurance Information Institute.
Bottom 25 States

States with the poorest performing economies also produced the most negative net change in premiums of the past 5 years.

Sources: SNL Financial, LLC.; Insurance Information Institute.
Through the first three quarters of 2012, P/C Industry profits were up 222% from the comparable period in 2011, mainly due to lower CAT losses in 2012:Q2 and Q3.

* ROE figures are GAAP; \(^1\) Return 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*

ROE
25%
20%
15%
10%
5%
0%
-5%

1975: 2.4%
1984: 1.8%
1992: 4.5%
2001: -1.2%

1977: 19.0%
1987: 17.3%
1997: 11.6%
2006: 12.7%
2012:Q3: 6.3%

2011: 4.6%

*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.

The industry now has $1 of surplus for every $0.80 of NPW, the strongest claims-paying status in its history.

Drop due to near-record 2011 CAT losses

Surplus as of 9/30/12 was a new peak

Sources: ISO; A.M. Best.
Key Takeways
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!