



Private Passenger Auto Insurance in North Carolina: *Trends, Challenges & Comparisons with National & Regional Markets*

**2012 North Carolina Insurance Symposium
UNC-Charlotte and Appalachian State University
Charlotte, NC March 23, 2012**

Download at www.iii.org/presentations

Robert P. Hartwig, Ph.D., CPCU, President & Economist

Insurance Information Institute ♦ 110 William Street ♦ New York, NY 10038

Tel: 212.346.5520 ♦ Cell: 917.453.1885 ♦ bobh@iii.org ♦ www.iii.org

- **Structure of the North Carolina Auto Insurance Market**
 - ◆ Comparisons with overall US market
- **Auto Insurance Growth Analysis**
 - ◆ US, NC
 - ◆ Average Premium/Expenditures
- **Auto Insurance Growth Drivers**
 - ◆ Exposure, Pricing Factors
- **Profitability Analysis**
 - ◆ NC vs. US and Nearby States
- **NC Auto Claim Trends**
- **Catastrophe Impacts on Auto Line**
- **Regulatory Environment “Report Card”**
- **Q&A**

Structure of North Carolina Private Passenger Auto Insurance Market

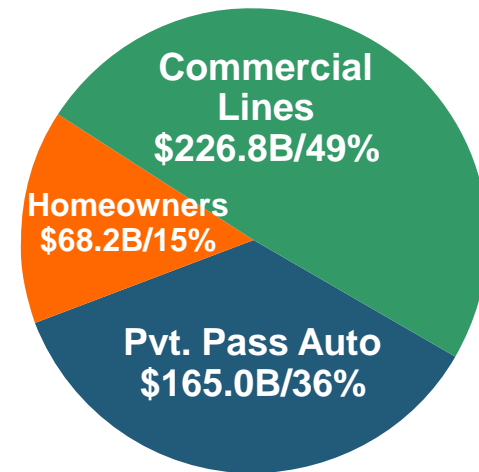
**Similarities...Yet Some Big
Differences with the US and
Other States**

Distribution of Direct Premiums Written by Segment/Line, 2010: US vs. NC

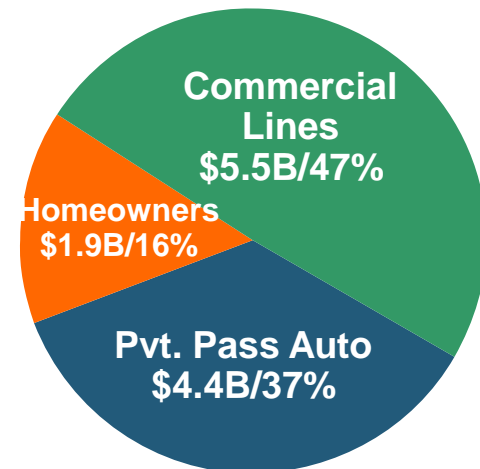
Distribution Facts

- The Personal/Commercial and Home/Auto premium distribution in NC is similar to that of the US
- Personal/Commercial lines split has been about 50/50 for many years; Personal Lines overtook Commercial Lines in 2010 (US)
- Pvt. Passenger Auto is by far the largest line of insurance, is highly competitive and is currently the most important source of industry profits at the national level
- Billions of additional dollars in homeowners insurance premiums are written by state-run residual market plans

US



NC



Top Ten Auto Insurers in NC and US, 2010*

Rank	North Carolina	Market Share (%)	Rank	US	Market Share (%)
1	Nationwide	18.86%	1	State Farm	18.11%
2	State Farm	14.01	2	Allstate	10.85
3	Allstate	10.15	3	Geico	8.64
4	NC Farm Bureau	9.87	4	Progressive	7.83
5	Geico	7.79	5	Farmers	6.06
6	Integon Natl	7.27	6	Liberty Mutual	4.57
7	USAA	5.60	7	USAA	4.39
8	Progressive	4.11	8	Nationwide	4.29
9	Liberty Mutual	3.65	9	Travelers	2.14
10	Erie Insurance	2.84	10	American Family	1.97

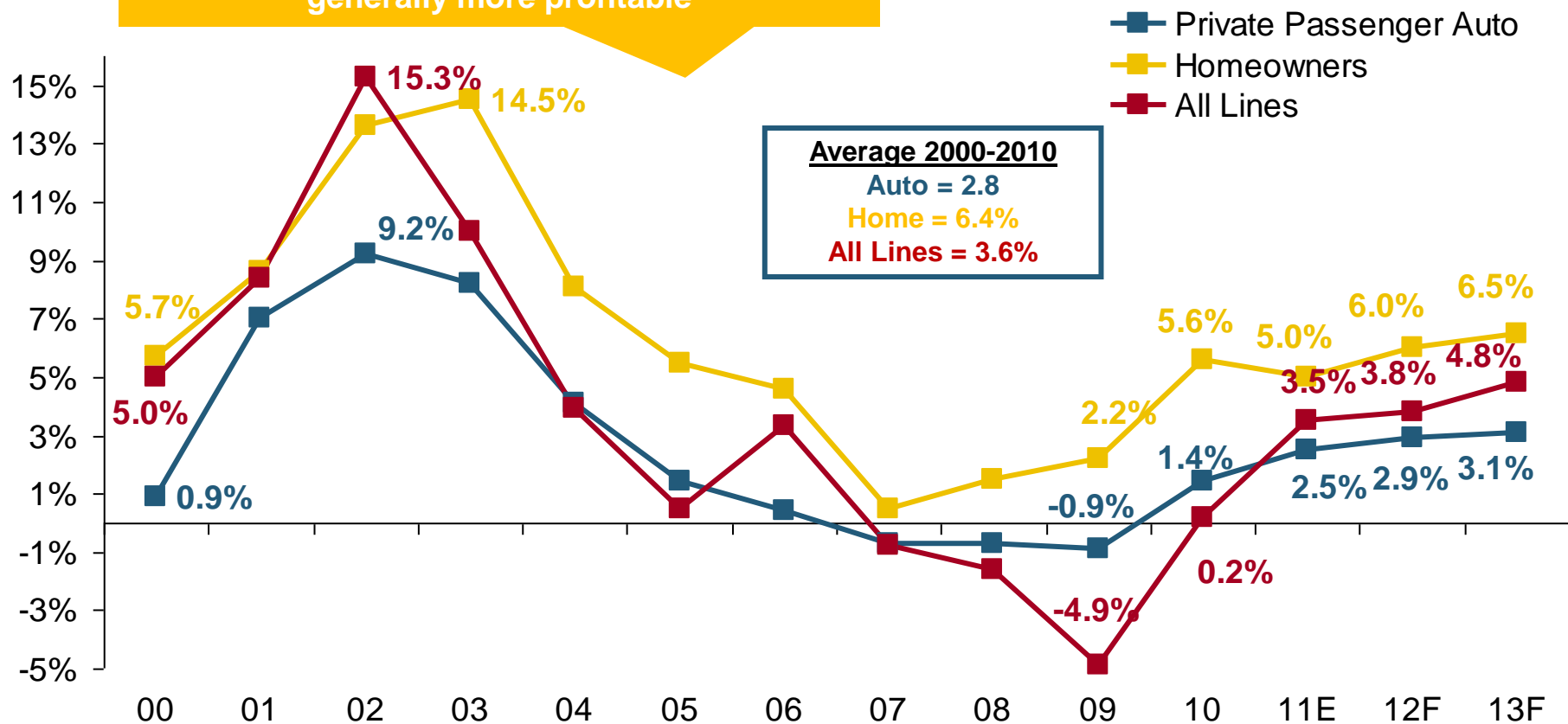
**North Carolina's Market Share Distribution Is Not Unusual in Terms of Companies or Concentration
(Herfindahl Index Value = 950→Unconcentrated)**

*Latest available.

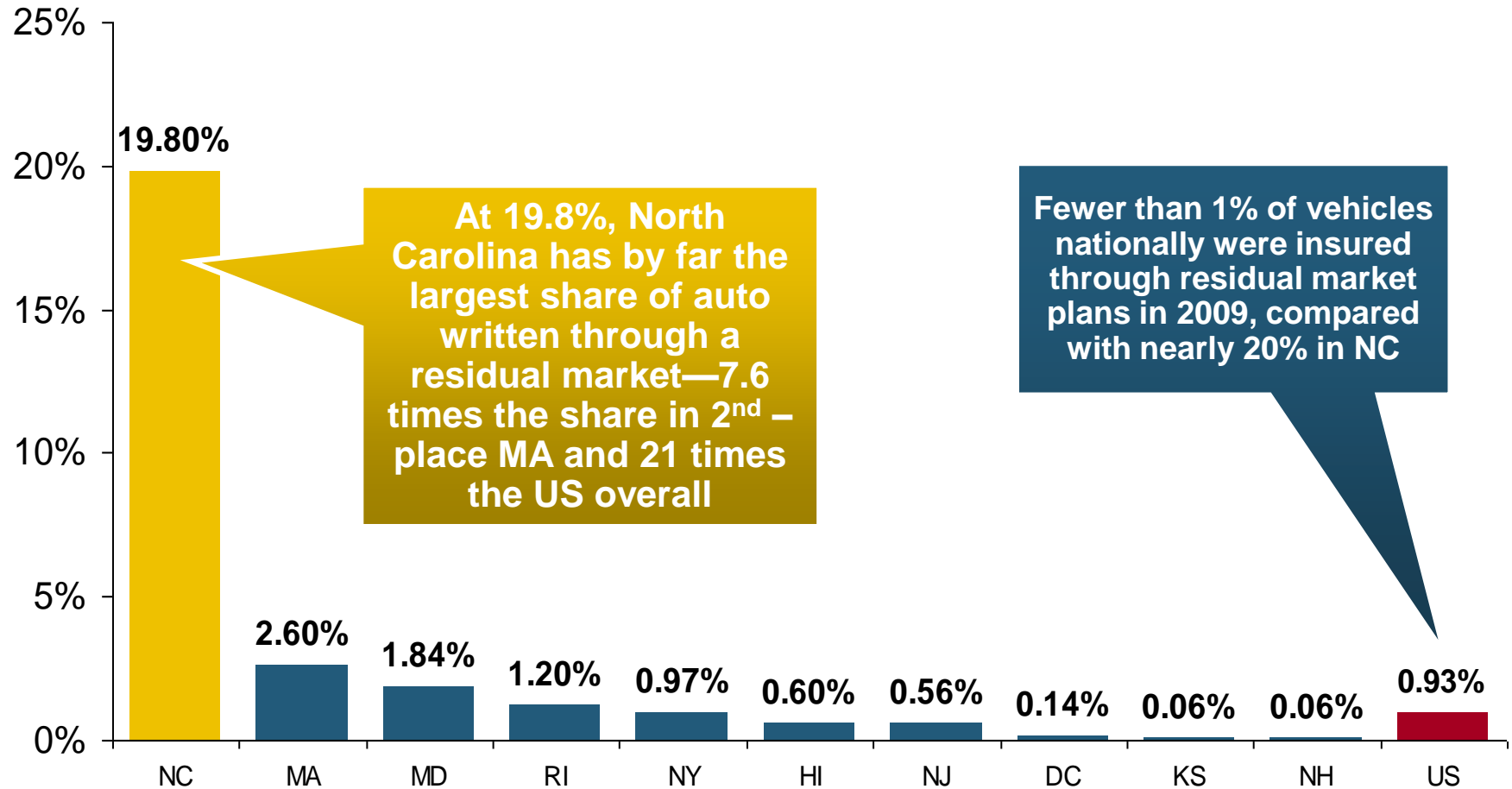
Source: SNL Financial; Insurance Information Institute.

Auto & Home vs. All Lines, Net Written Premium Growth, 2000–2013F

While homeowners insurance has grown faster than auto over the past decade, auto is generally more profitable

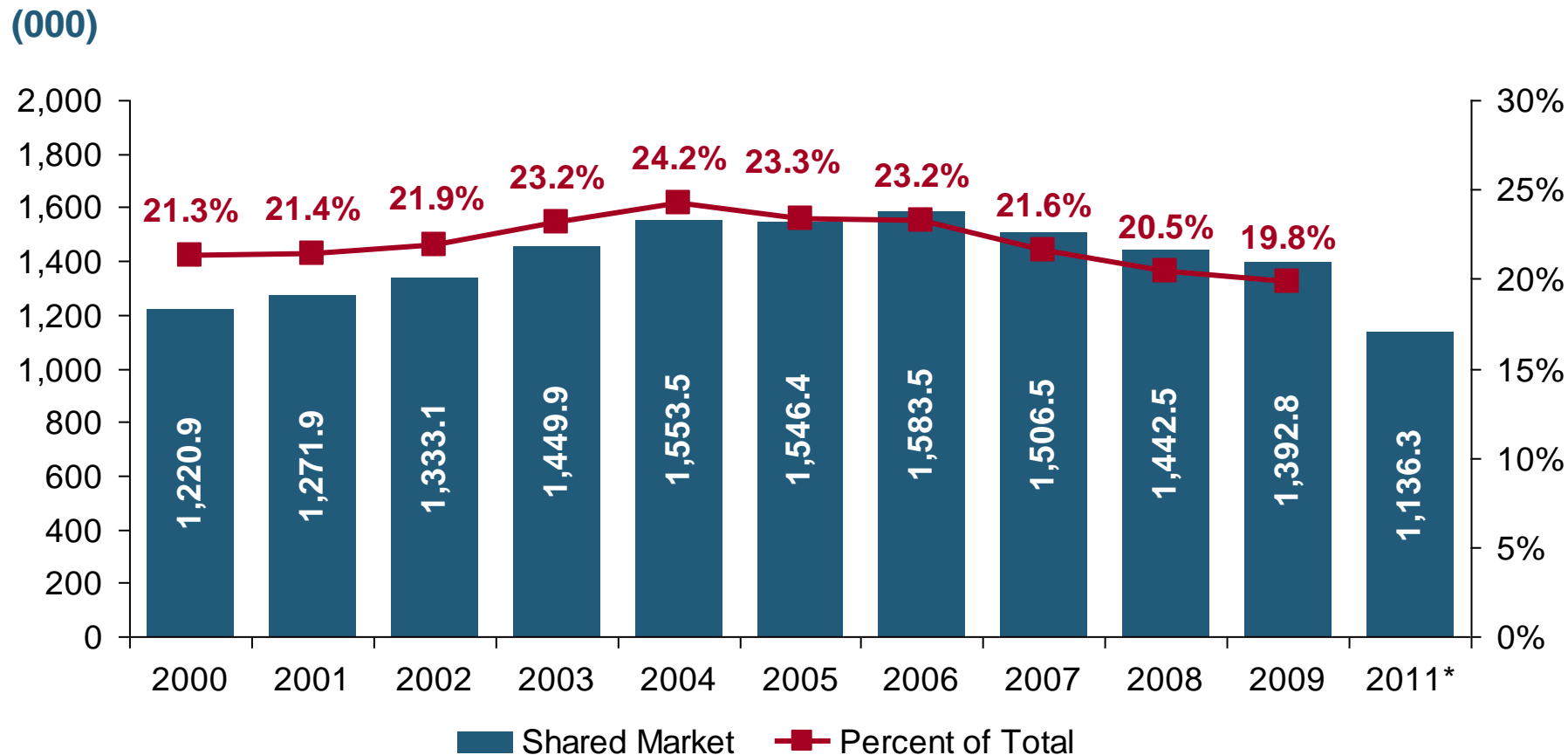


Share of Insured Vehicles in the Involuntary Market, Top 10 States vs. US Overall, 2009



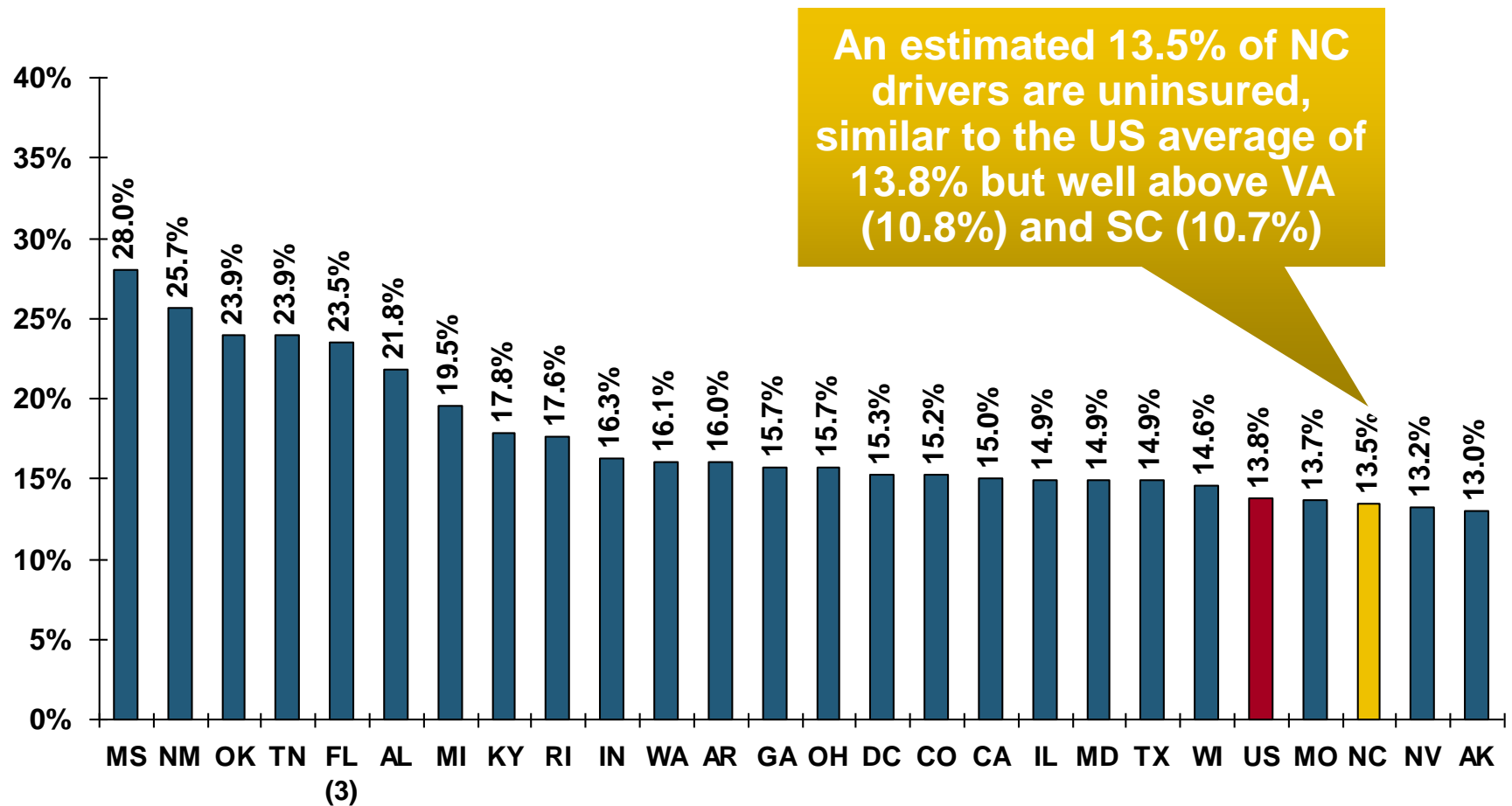
North Carolina's Auto Insurance Market Is Anomalous

Number of Cars Insured In The Shared Market in NC, 2000-2009 and 2011*



*As of Oct. 1, 2011 per North Carolina Reinsurance Facility memorandum dated Dec. 21, 2011 at www.ncrb.org.
Source: Automobile Insurance Plans Service Office; North Carolina Reinsurance Facility.

Estimated Percentage of Uninsured Motorists by State, 2009 (1): Highest 25 States (2)

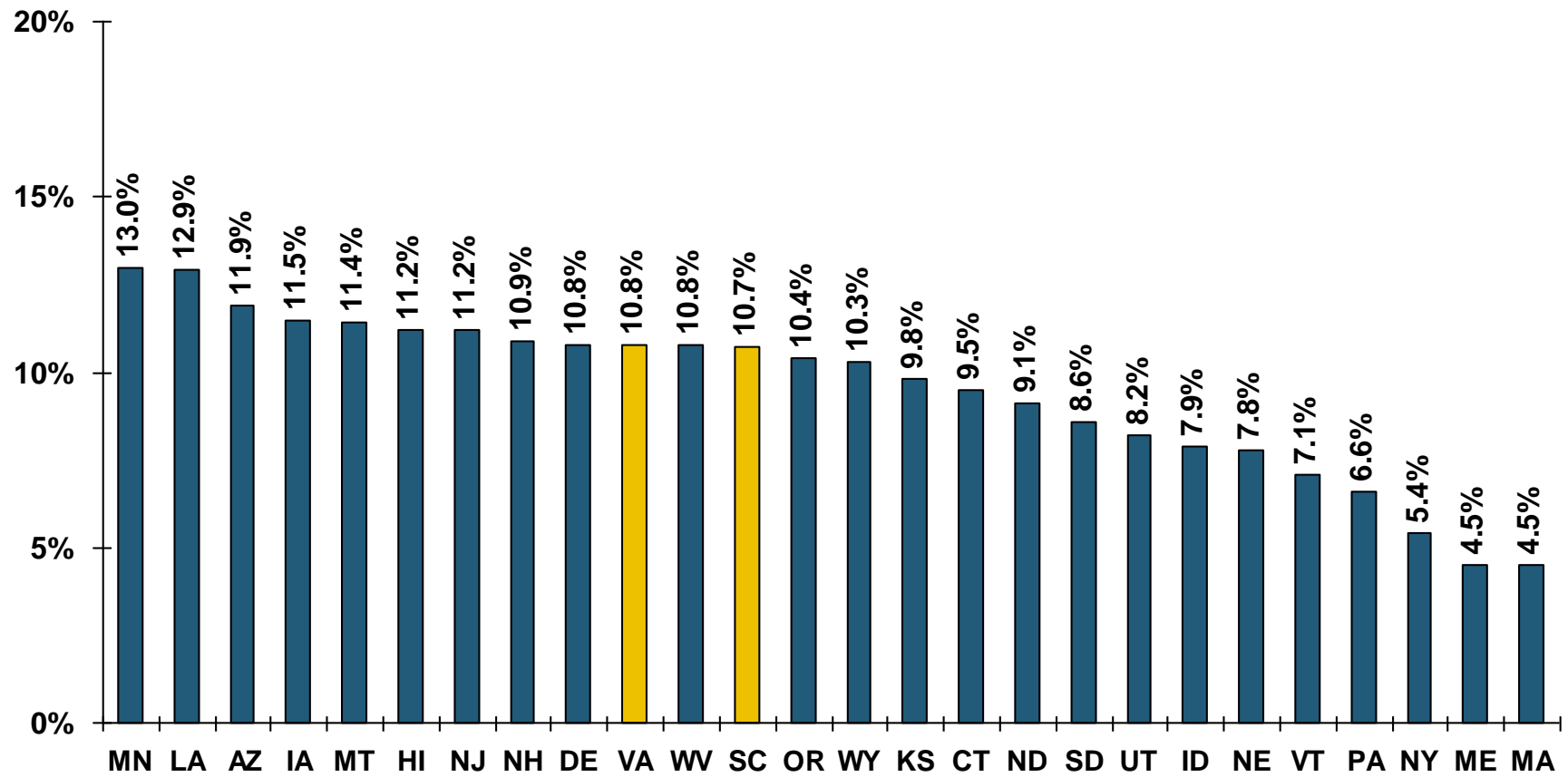


(1) Percentage of uninsured drivers, as measured by the ratio of uninsured motorists (UM) claims to bodily injury (BI) claims frequencies.

(2) Rank calculated from unrounded data.

(3) In Florida, compulsory auto laws apply to PIP and physical damage but no to third party bodily injury coverage.

Estimated Percentage of Uninsured Motorists by State, 2009 (1): Lowest 25 States (2)



(1) Percentage of uninsured drivers, as measured by the ratio of uninsured motorists (UM) claims to bodily injury (BI) claims frequencies.

(2) Rank calculated from unrounded data.

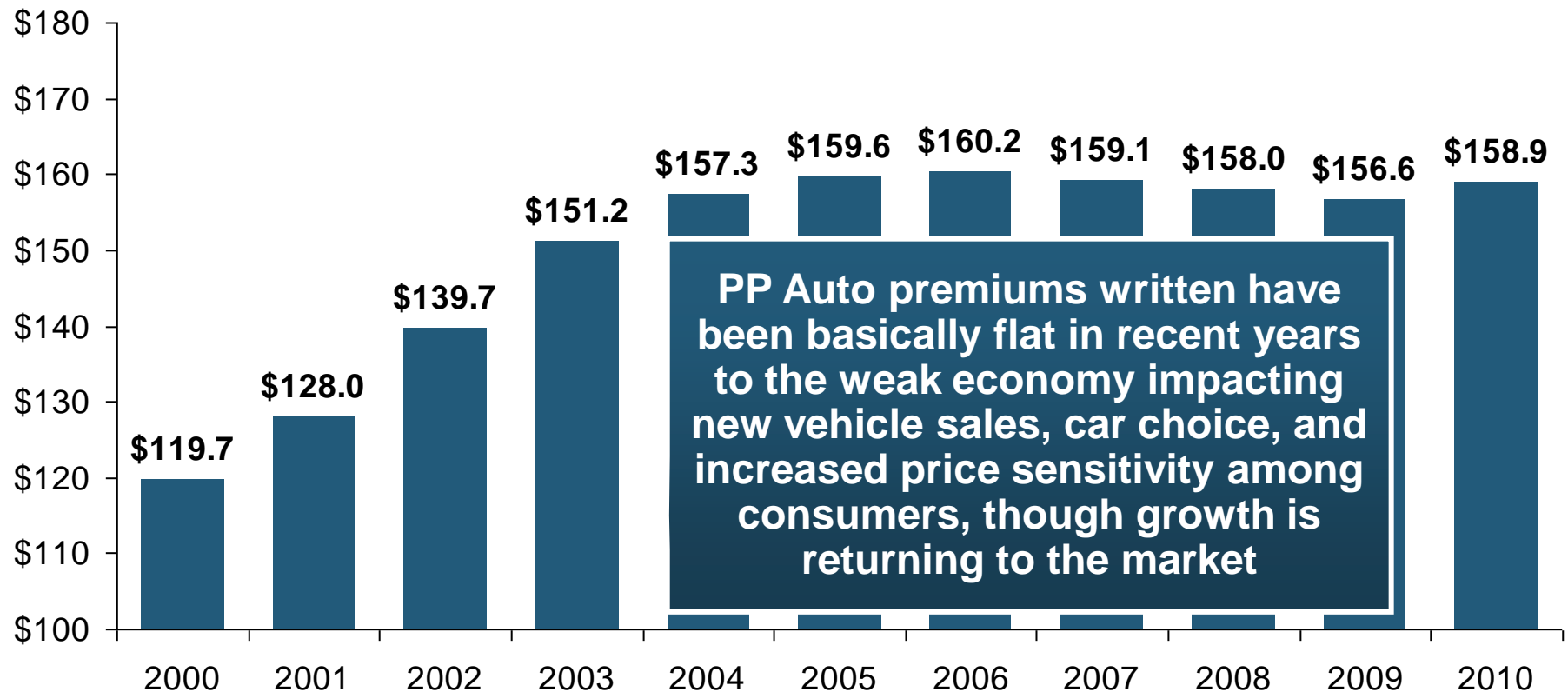
Source: Insurance Research Council.

Private Passenger Auto: Growth Analysis

**Growth Trajectories Differ
Substantially by Line, by
State and Over Time**

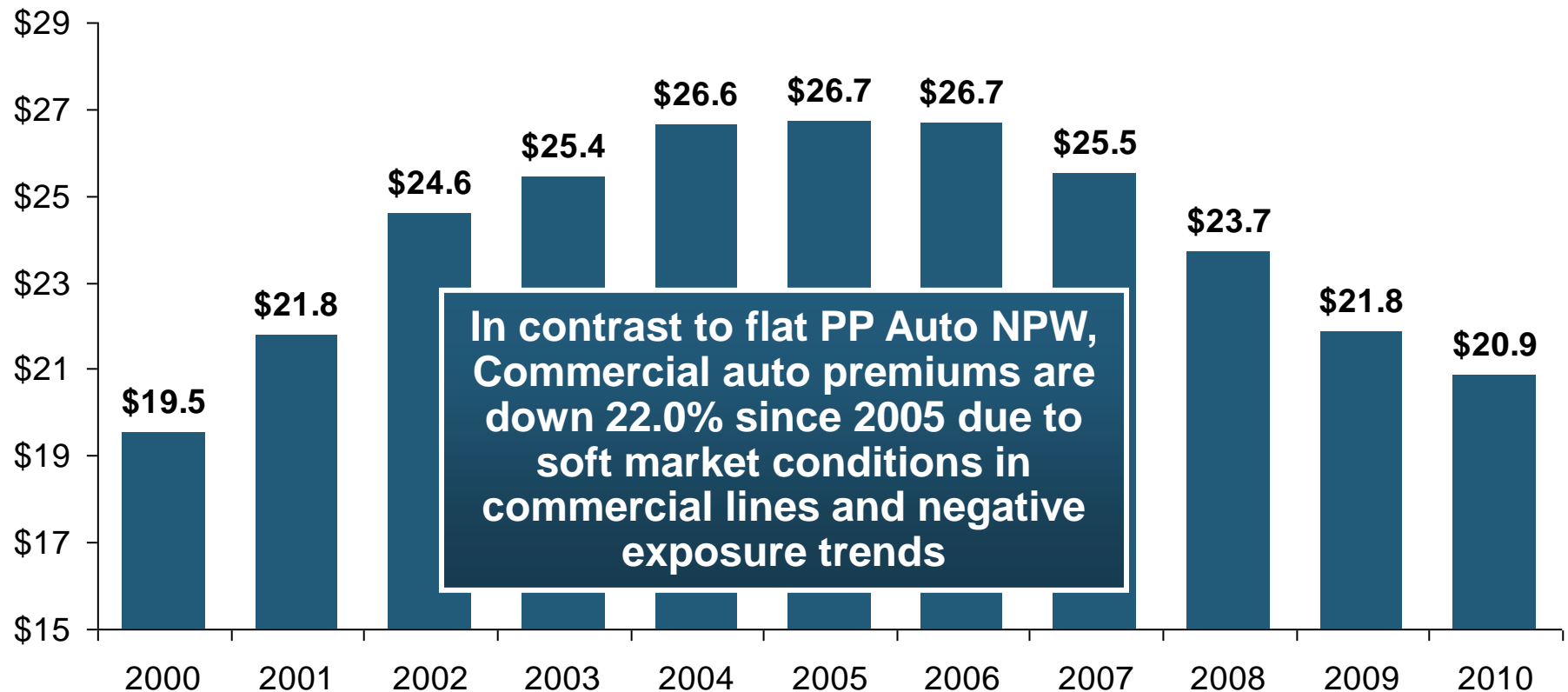
Private Passenger Auto Insurance Net Written Premium, 2000–2010

\$ Billion



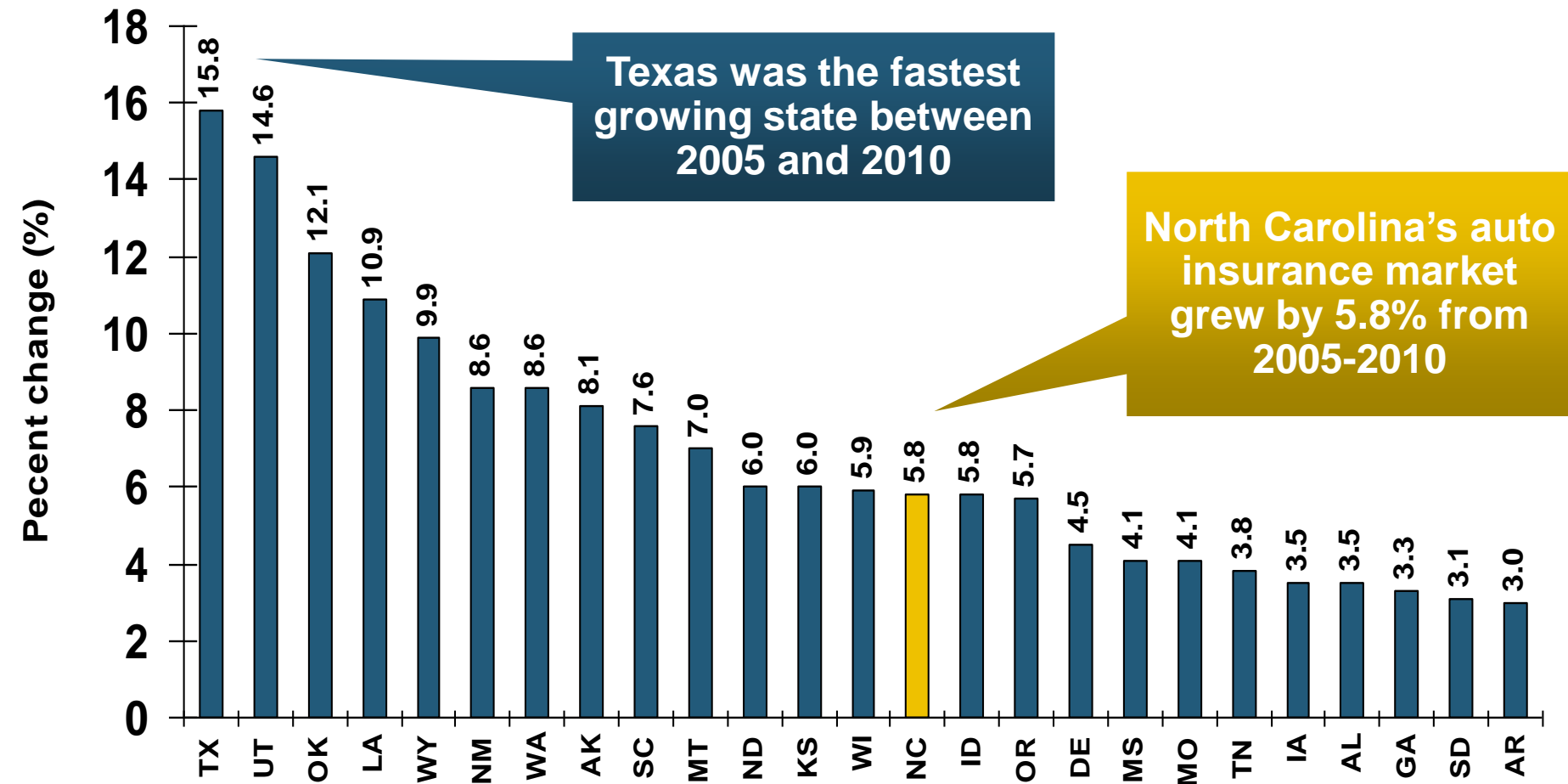
Commercial Auto Insurance Net Written Premium, 2000–2010

\$ Billion



Percent Change in DPW: Pvt. Pass. Auto by State, 2005-2010

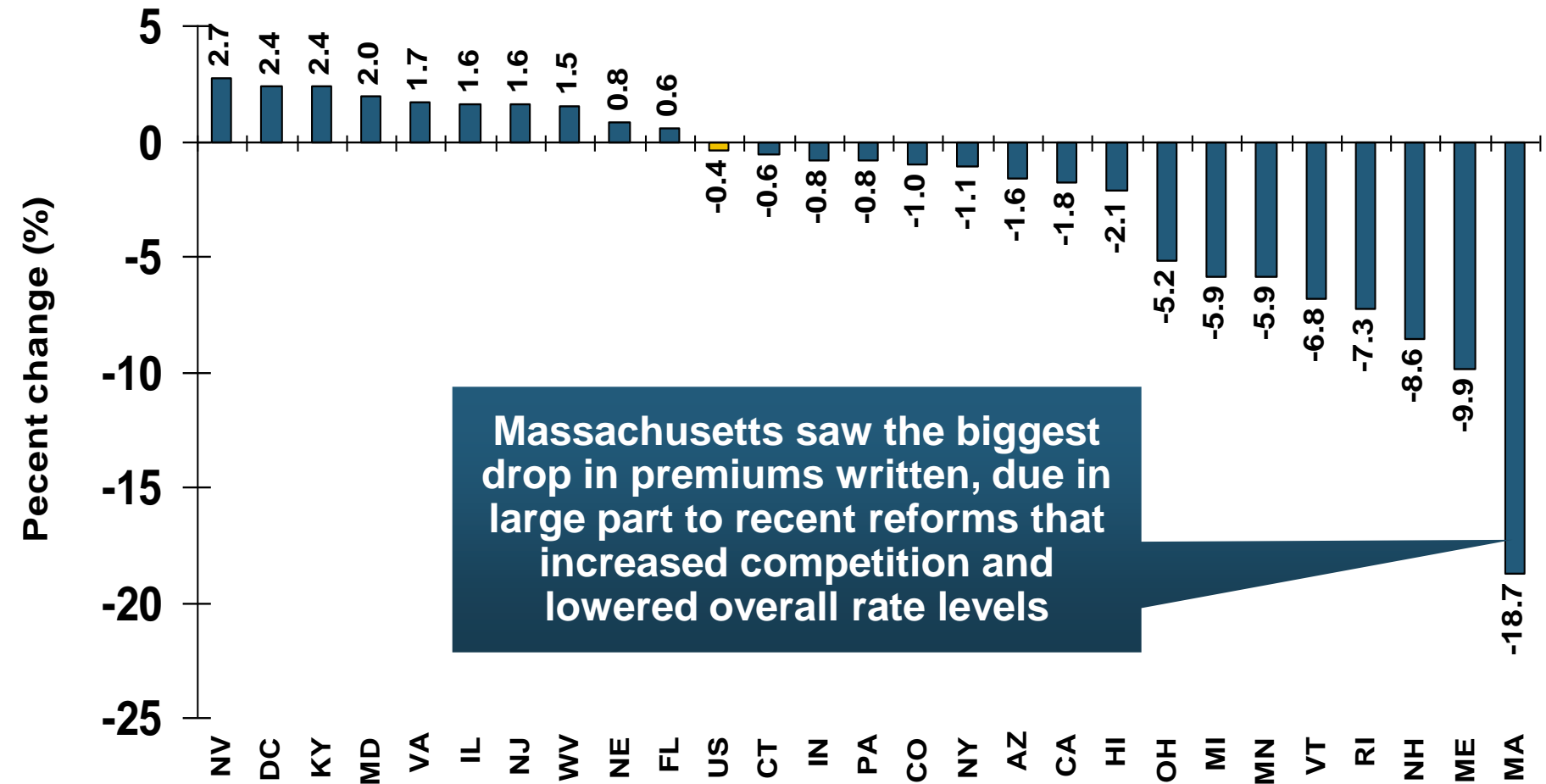
Top 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

Percent Change in DPW: Pvt. Pass. Auto by State, 2005-2010

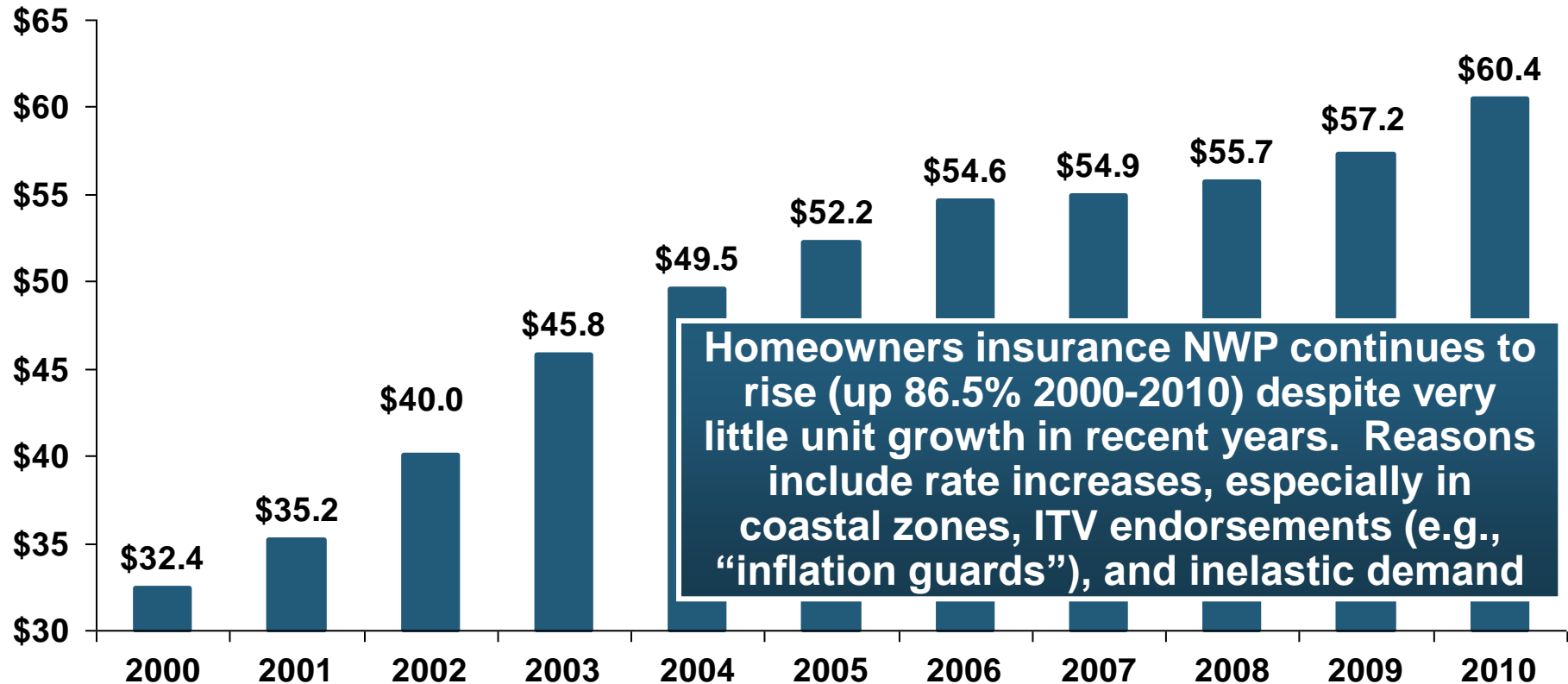
Bottom 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

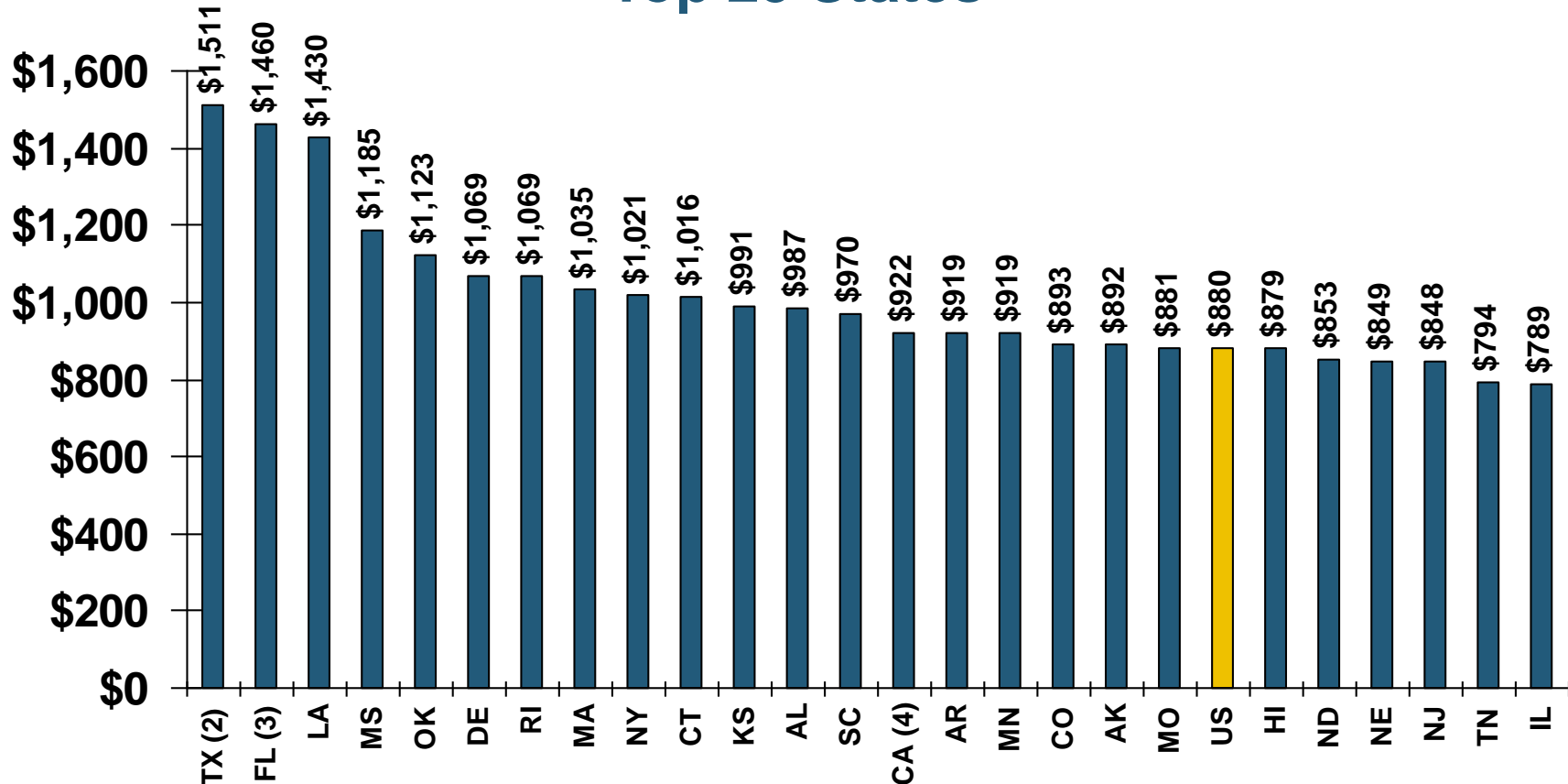
Homeowners Insurance Net Written Premium, 2000–2010

\$ Billions



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

Top 25 States



*Latest available.

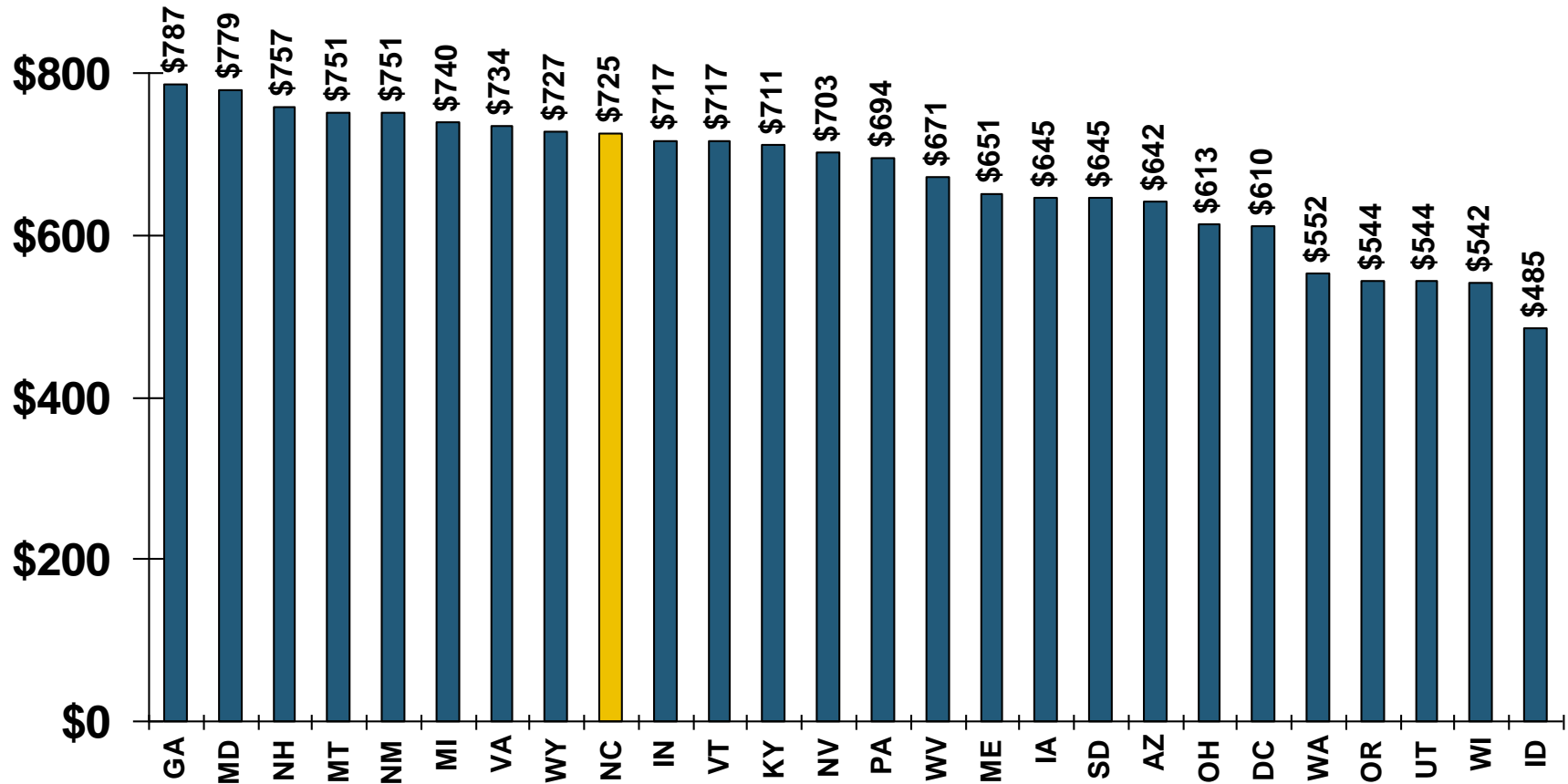
(1) Based on the HO-3 homeowner package policy for owner-occupied dwellings, 1 to 4 family units. Provides "all risks" coverage (except those specifically excluded in the policy) on buildings and broad named-peril coverage on personal property, and is the most common package written.

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

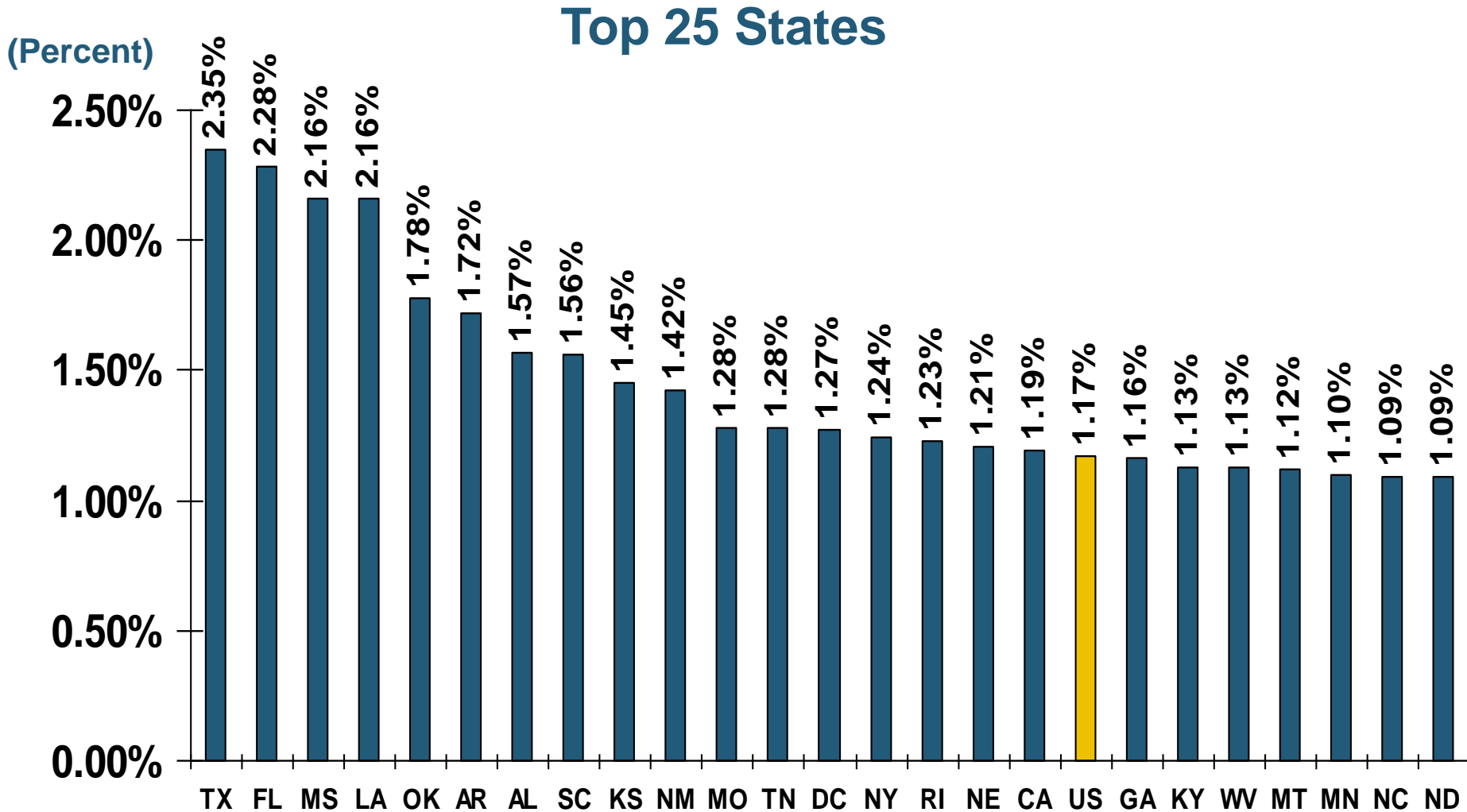


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Source: © 2010 National Association of Insurance Commissioners (NAIC). Reprinted with permission. Further reprint or distribution strictly prohibited without written permission of NAIC.

Ratio of Avg. Premium for Homeowners Insurance to Median Family Income, 2009



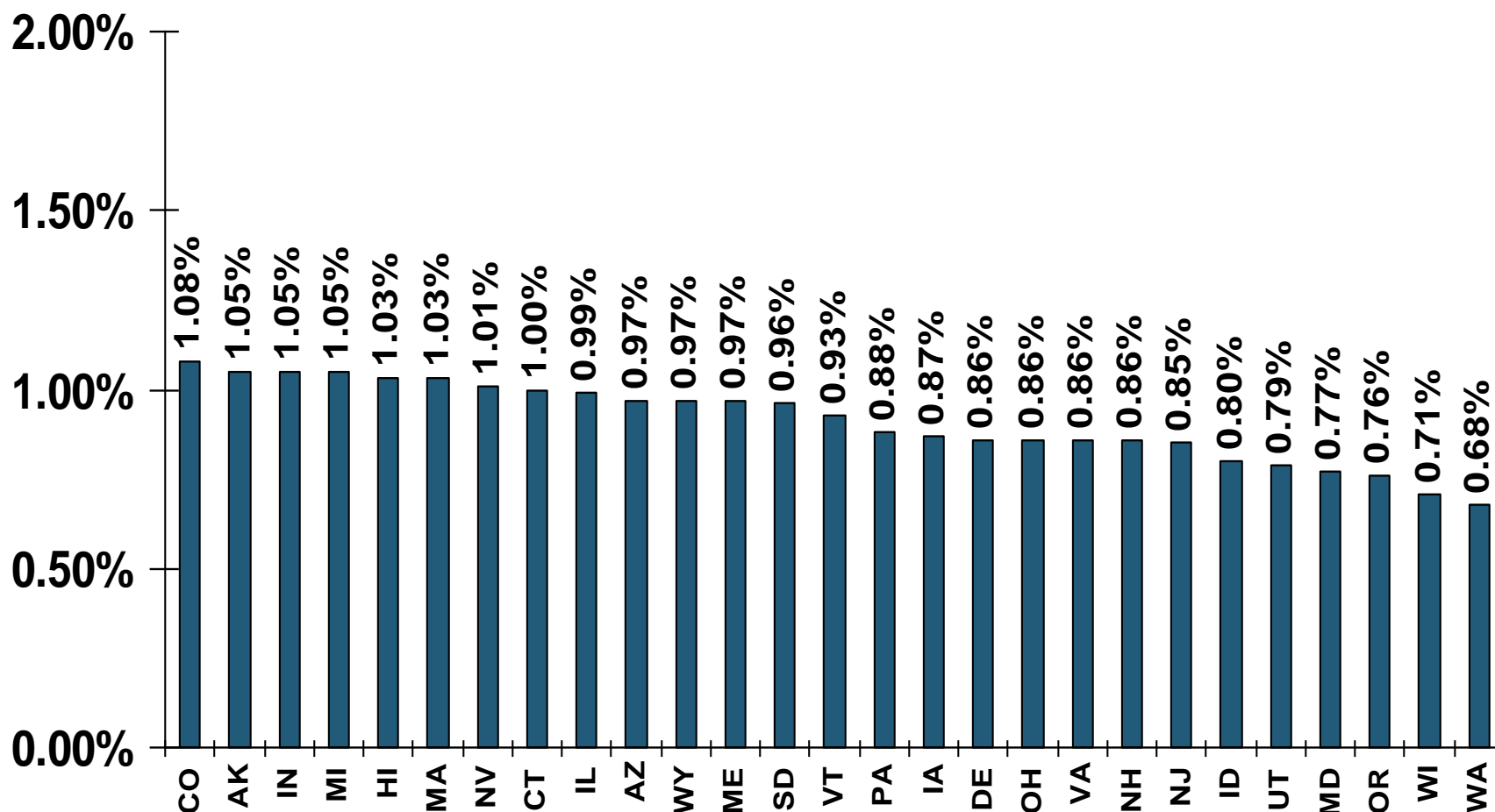
*Average homeowners insurance expenditure as a percentage of the 2009 median income for a family of four

Sources: Prepared by the Insurance Information Institute, based on data from the U.S. Census and the National Association of Insurance Commissioners.

Ratio of Avg. Premium for Homeowners Insurance to Median Family Income, 2009

(Percent)

Bottom 25 States



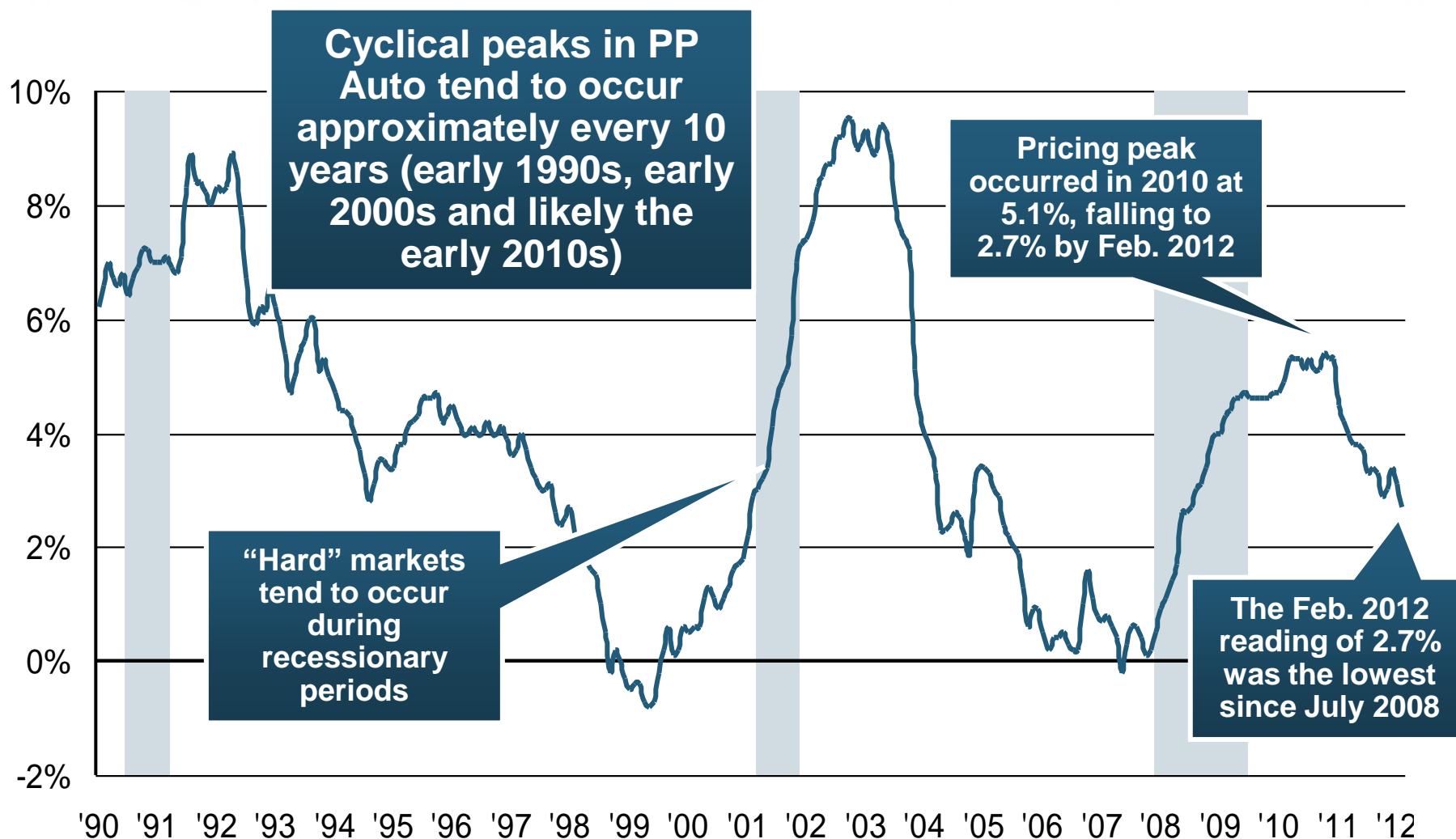
*Average homeowners insurance expenditure as a percentage of the 2009 median income for a family of four

Sources: Prepared by the Insurance Information Institute, based on data from the U.S. Census and the National Association of Insurance Commissioners.

Private Passenger Auto Growth Drivers

**Rate is Presently a Bigger
Driver than Exposure**

Monthly Change* in Auto Insurance Prices, 1991–2012*



*Percentage change from same month in prior year; through February 2012; seasonally adjusted

Note: Recessions indicated by gray shaded columns.

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

Monthly Change* in Auto Insurance Prices, January 2005 - February 2012

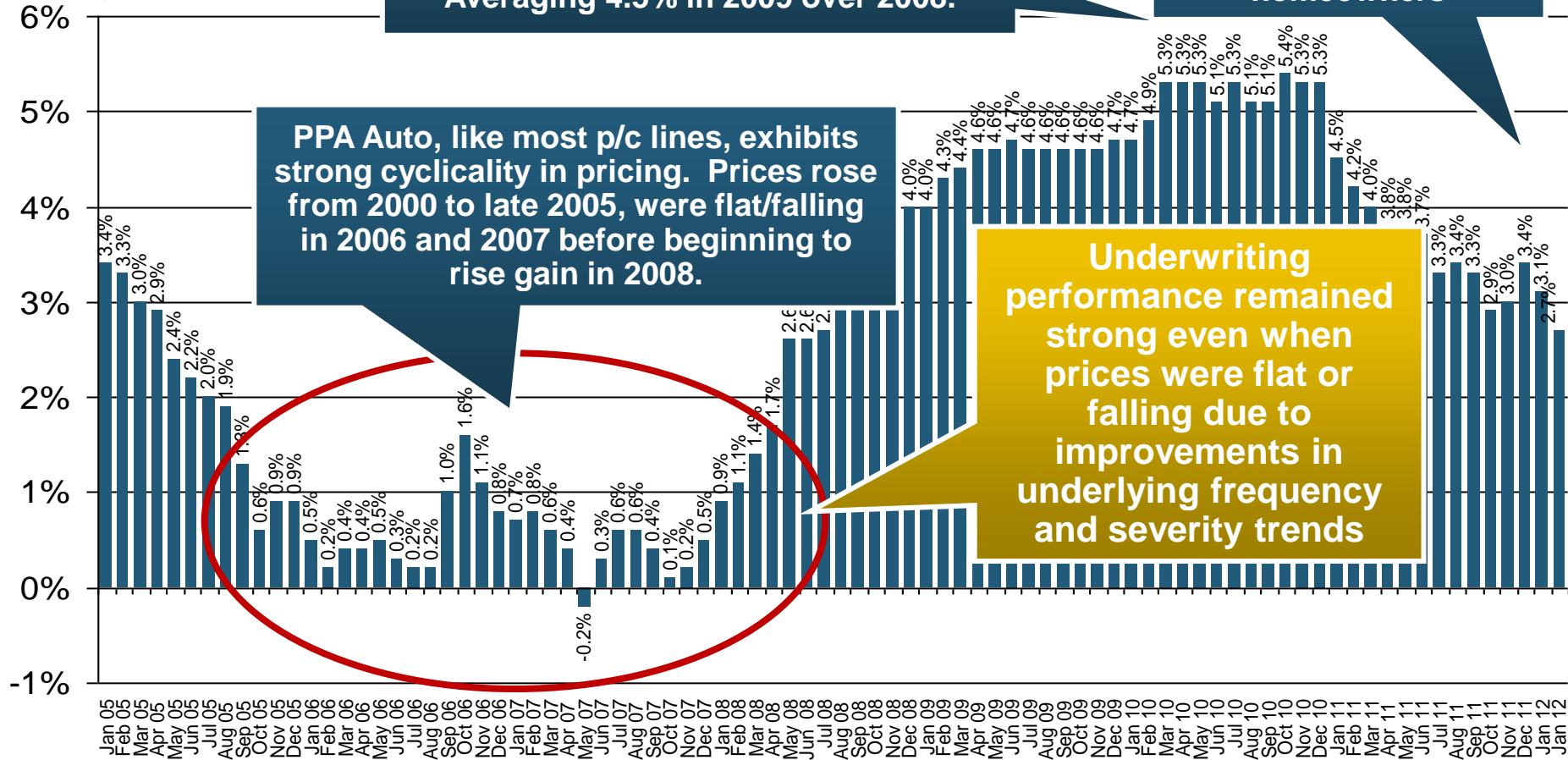
(Percent Change from same month, prior year)

Auto Insurance Price Increases Averaged 5.1% in 2010 over 2009, After Averaging 4.5% in 2009 over 2008.

Pricing weakened materially in 2011/12 and growth now lags homeowners

PPA Auto, like most p/c lines, exhibits strong cyclical in pricing. Prices rose from 2000 to late 2005, were flat/falling in 2006 and 2007 before beginning to rise gain in 2008.

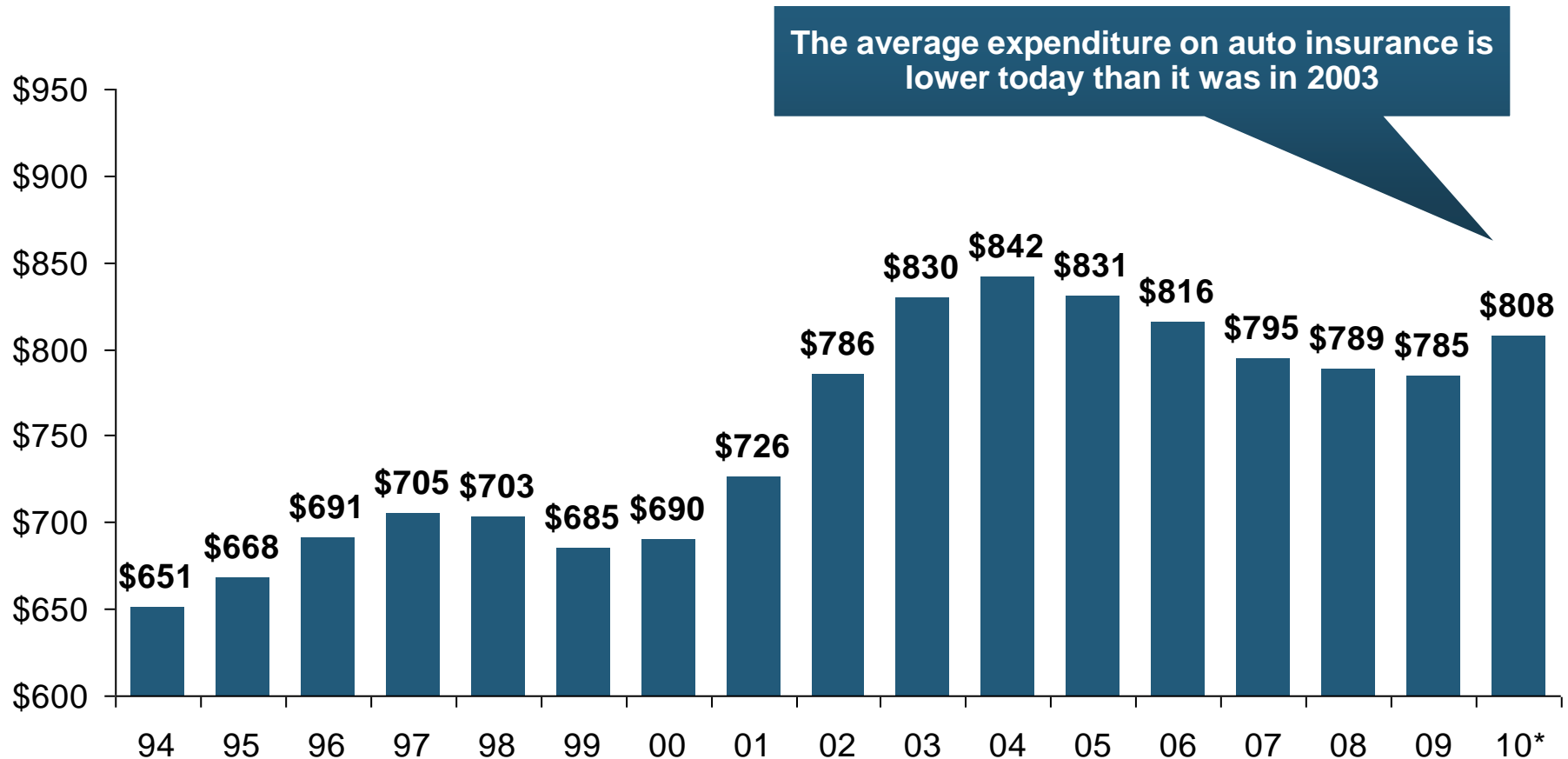
Underwriting performance remained strong even when prices were flat or falling due to improvements in underlying frequency and severity trends



*Percentage change from same month in prior year, seasonally adjusted.

Sources: US Bureau of Labor Statistics; Insurance Information Institute

Average Expenditures on Auto Insurance



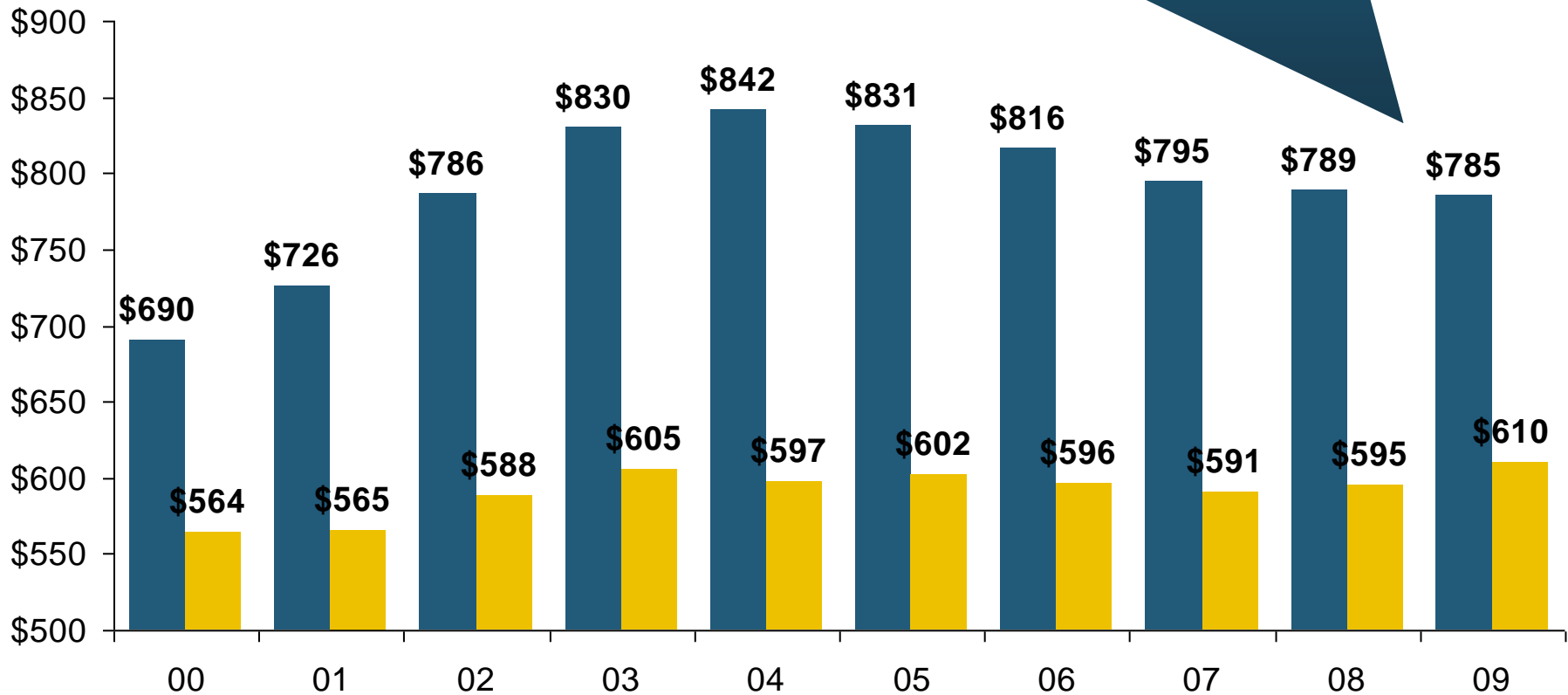
Countrywide Auto Insurance Expenditures Decreased by 0.8% in 2008 and 0.5% in 2009 and Increased 3.0% in 2010 (est.)

* Insurance Information Institute Estimates/Forecasts

Source: NAIC, Insurance Information Institute estimate for 2010 based on CPI and other data.

Average Expenditures on Auto Insurance: US vs. NC, 2000-2009

The average expenditure on auto insurance is lower in NC than the US overall, but the underlying reasons are complex and the full costs of coverage may not be built in to these figures

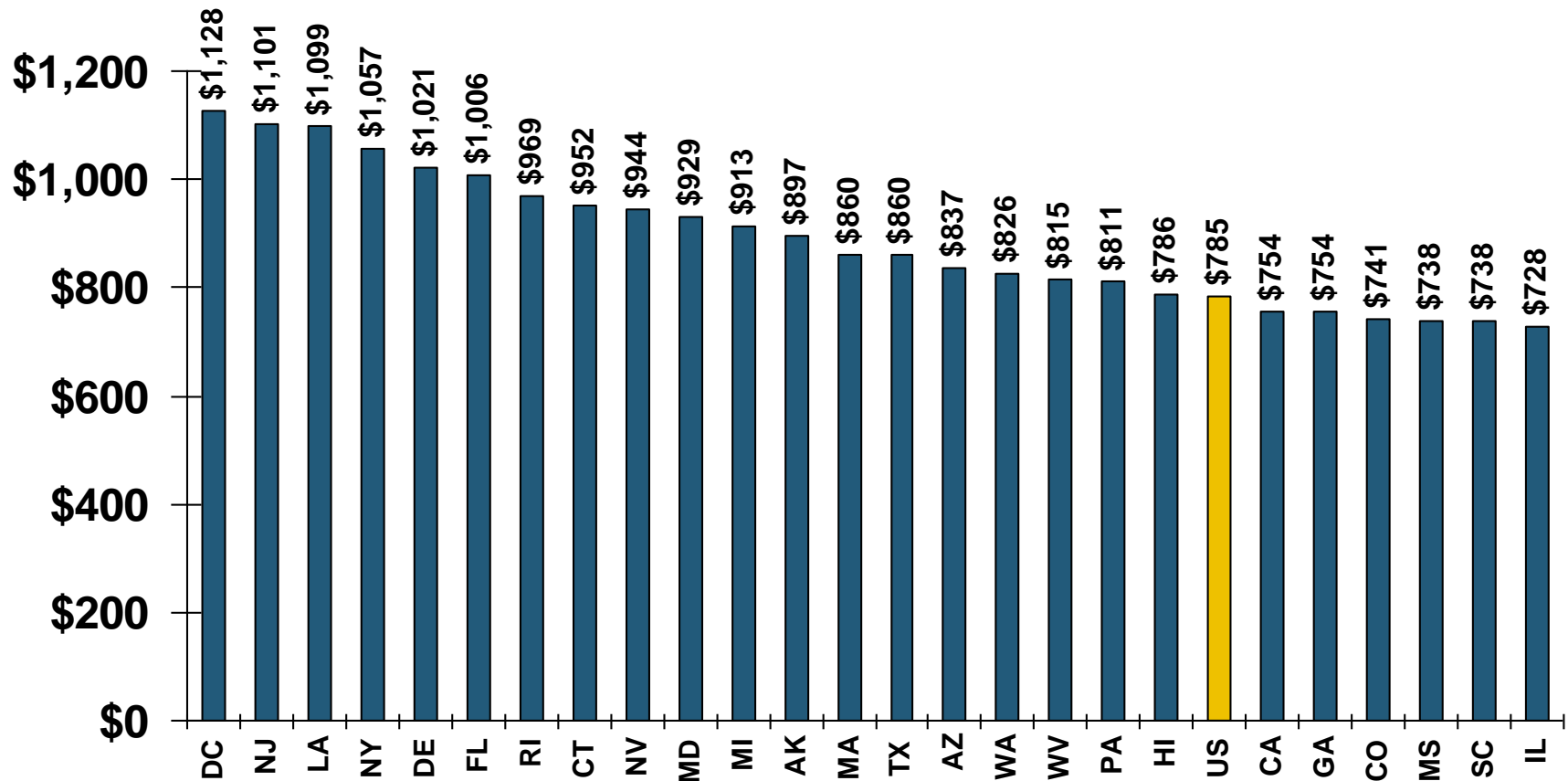


*

Source: NAIC, Insurance Information Institute.

Average Expenditures For Auto Insurance By State, 2009

Top 25 States

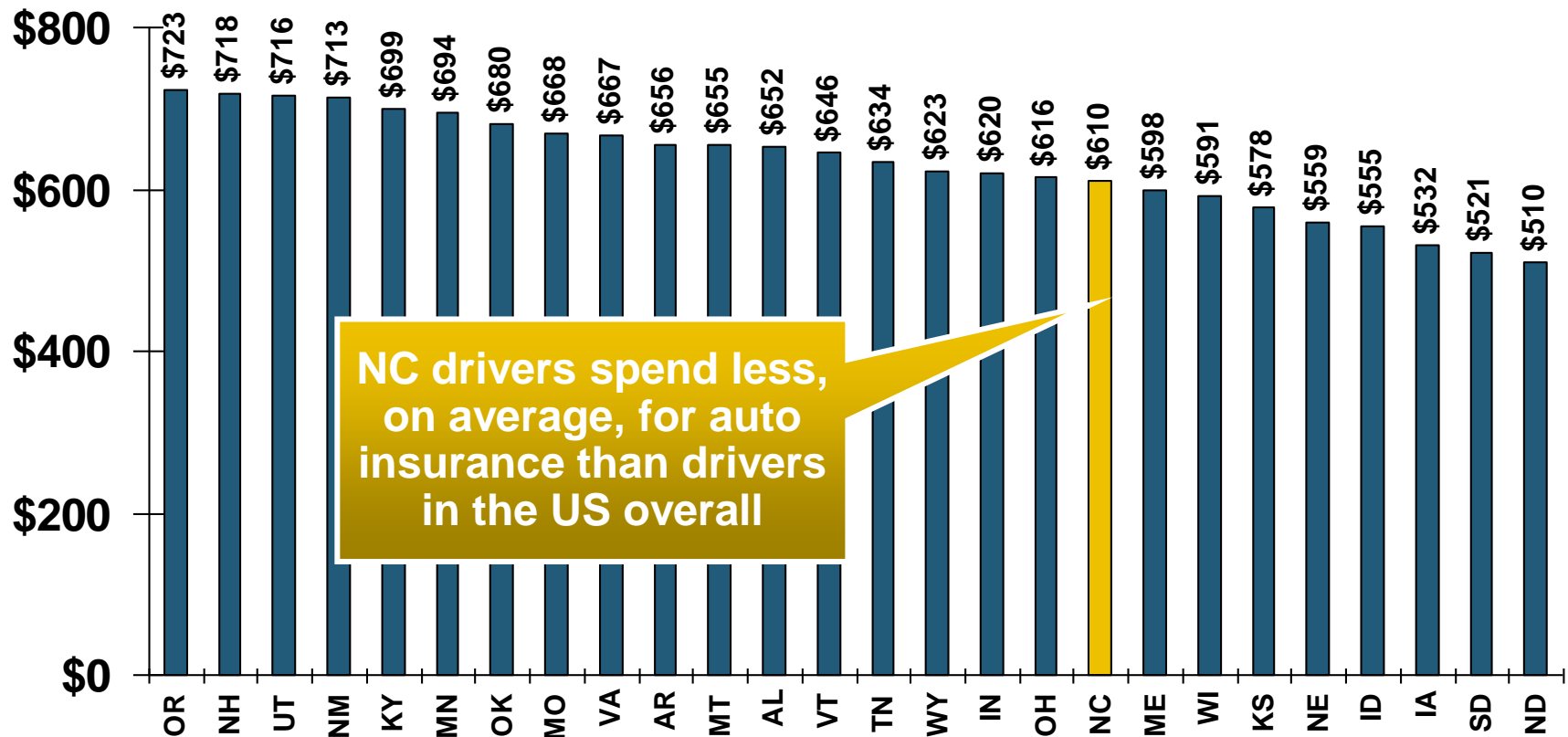


Note: Average expenditure=Total written premium/liability car years. A car year is equal to 365 days of insured coverage for a single vehicle.

Source: © 2010 National Association of Insurance Commissioners.

Average Expenditures For Auto Insurance By State, 2009

Bottom 25 States

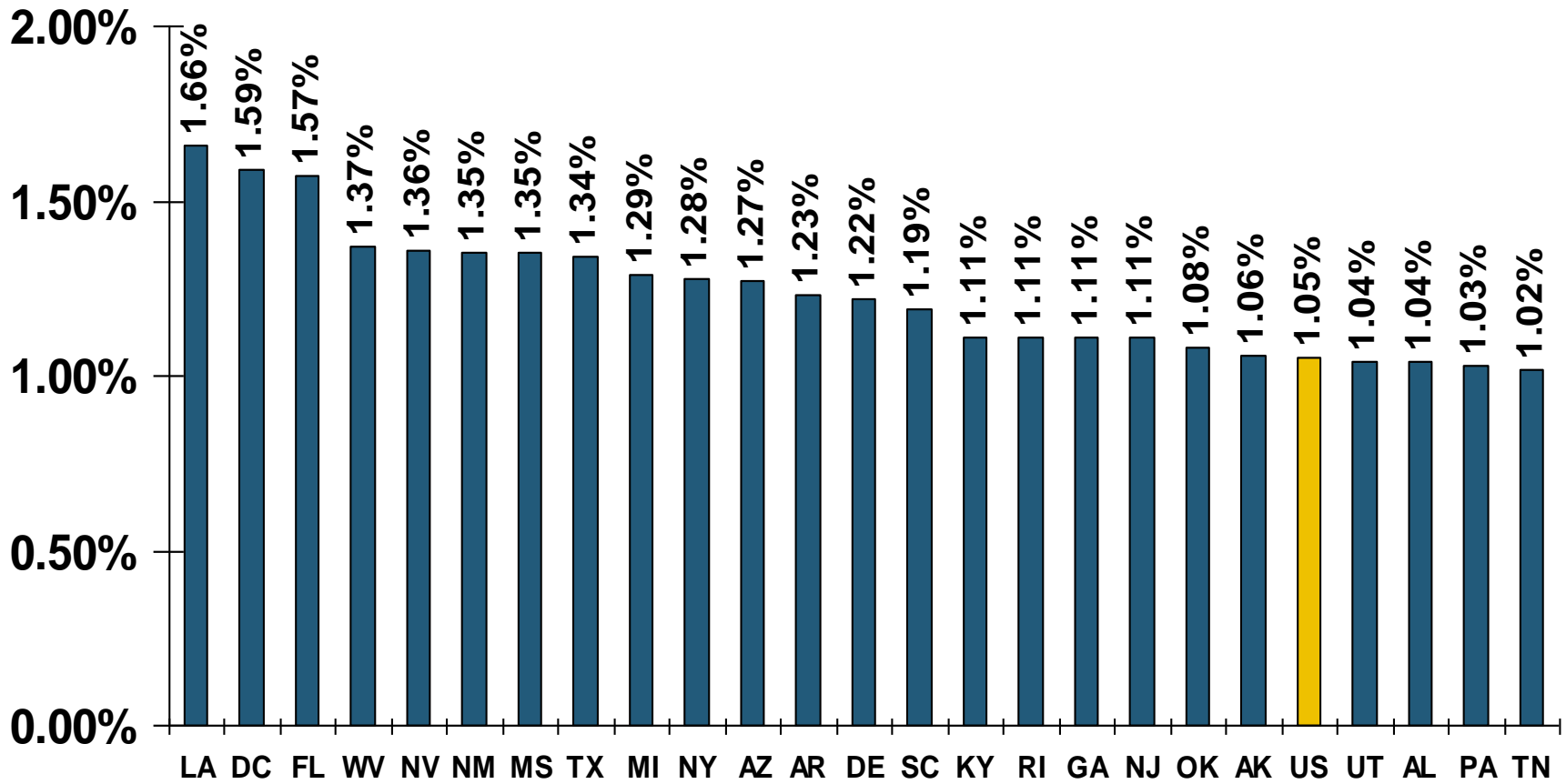


Note: Average expenditure=Total written premium/liability car years. A car year is equal to 365 days of insured coverage for a single vehicle.

Source: © 2010 National Association of Insurance Commissioners.

Ratio of Avg. Expenditure for Pvt. Passenger Auto Insurance to Median Family Income, 2009

(Percent) Top 25 States



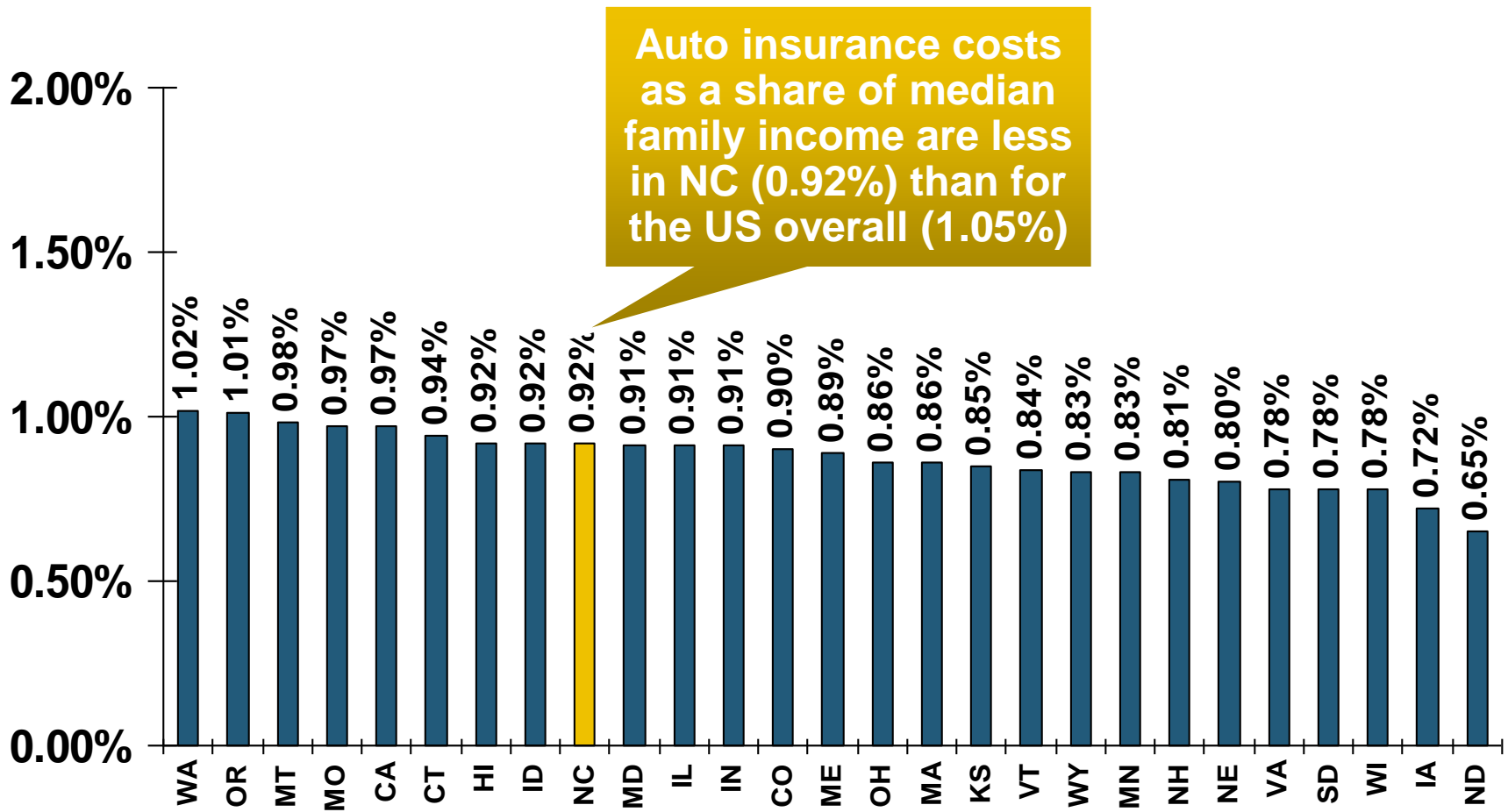
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Ratio of Avg. Expenditure for Pvt. Passenger Auto Insurance to Median Family Income, 2009

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Bottom 25 States

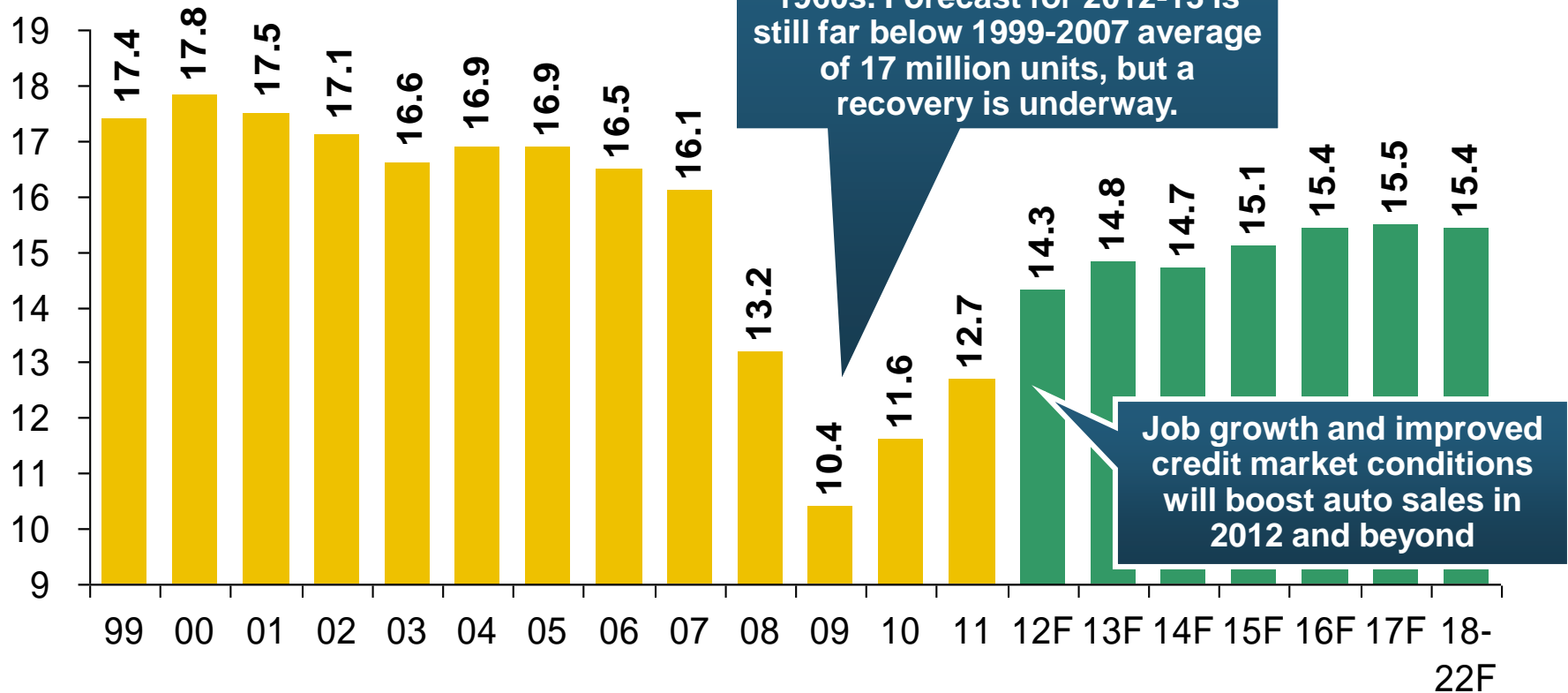


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Auto/Light Truck Sales, 1999-2022F

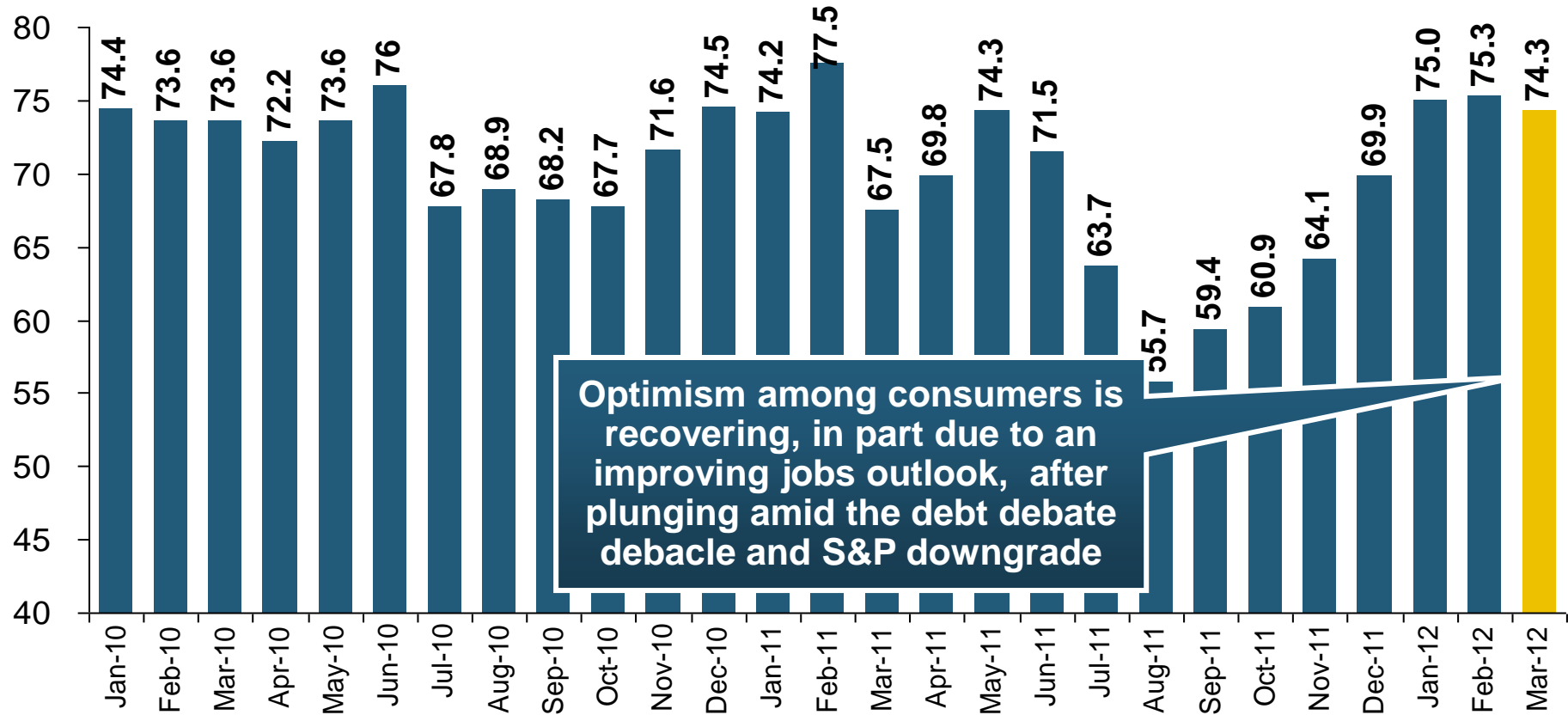
(Millions of Units)



Car/Light Truck Sales Will Continue to Recover from the 2009 Low Point, Bolstering the Auto Insurer Growth and the Manufacturing Sector.

Consumer Sentiment Survey (1966 = 100)

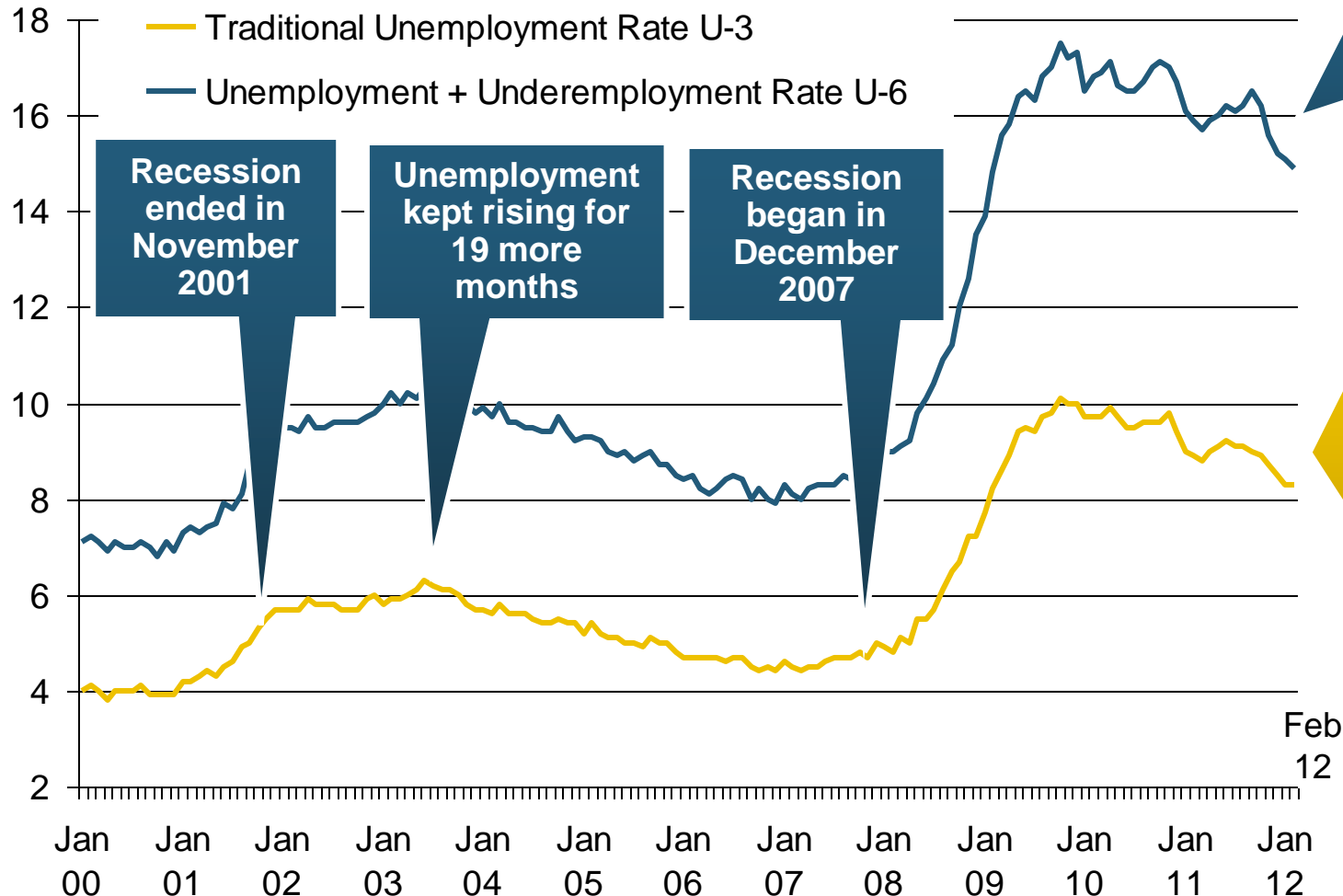
January 2010 through March 2012



Consumer confidence has been low for years amid high unemployment, falling home prices and other factors adversely impact consumers, but improved substantially in late 2011 and early 2012

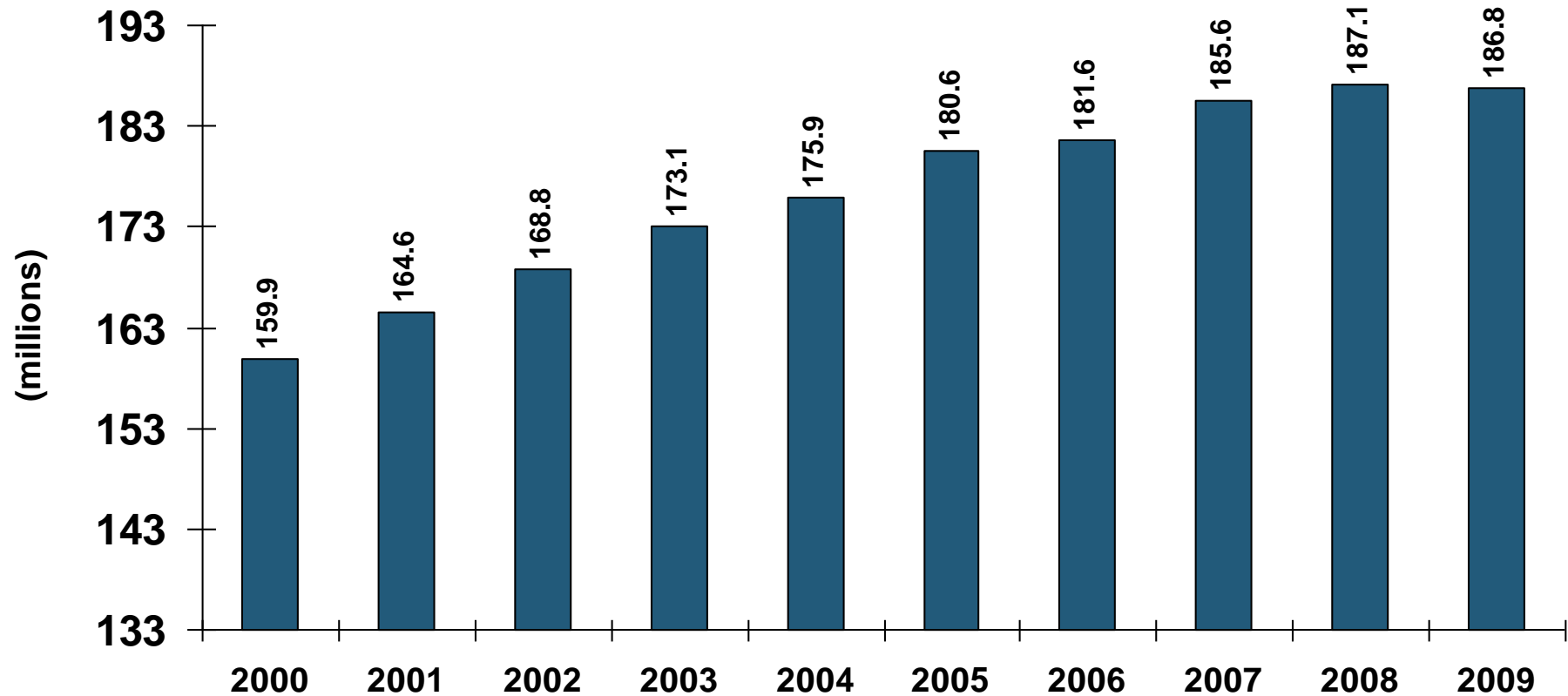
Unemployment and Underemployment Rates: Stubbornly High in 2012, But Falling

January 2000 through February 2012, Seasonally Adjusted (%)



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

Number of Insured Vehicles in the US, 2000-2009*



The Number of Insured Passenger Vehicles Stopped Growing During the Economic Downturn. Growth Has Likely Returned.

*Latest available as of Nov. 2011.

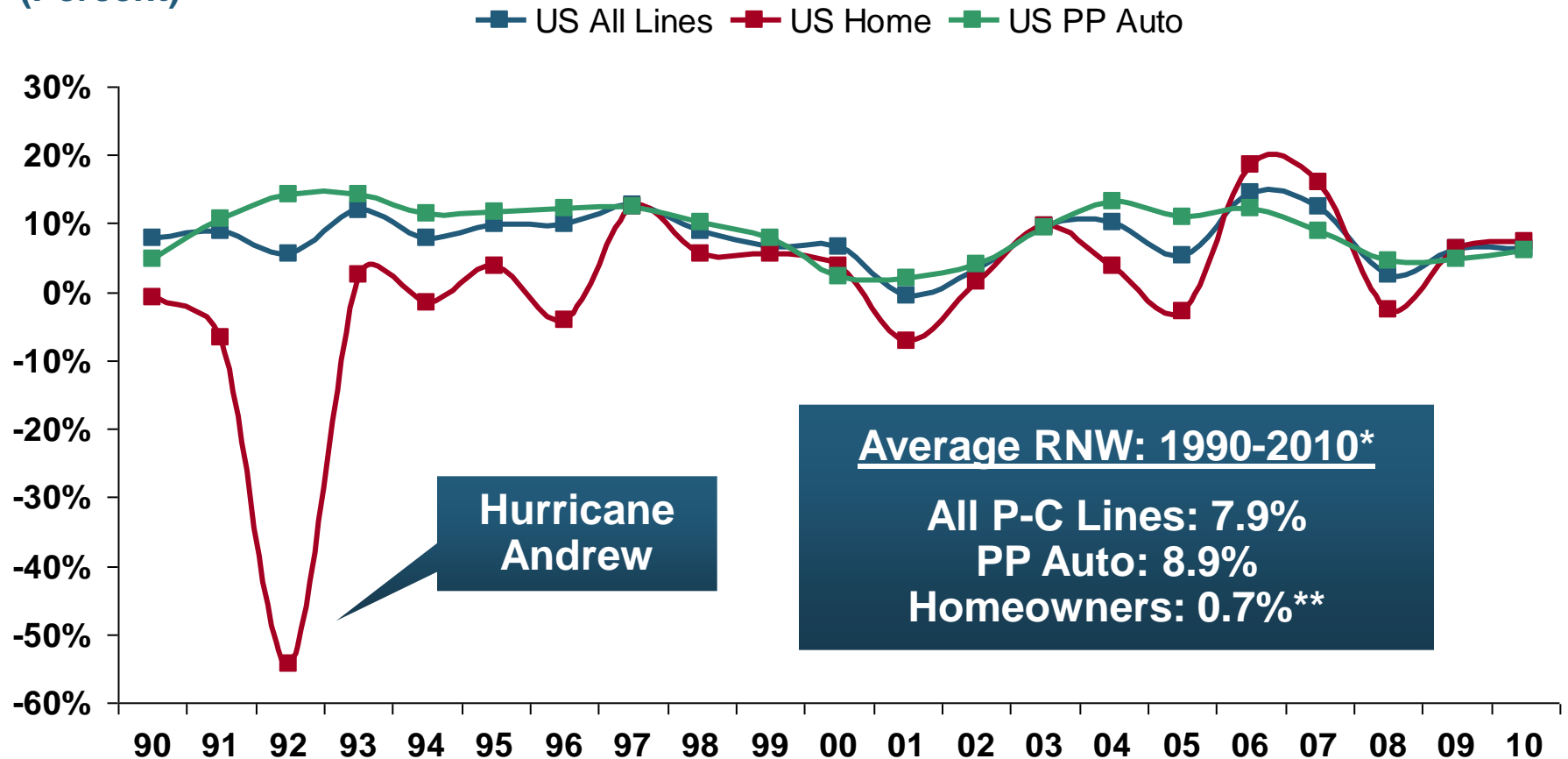
Source: Automobile Insurance Plans Service Office.

Private Passenger Auto: US Profitability Analysis

Significant Variability Over Time and Across States

Return on Net Worth: All P-C Lines vs. Homeowners & Pvt. Pass. Auto, 1990-2010*

(Percent)



Pvt.Pass. Auto Has Consistently Outperformed the P-C Industry as a Whole. Homeowners Volatility is Associated Primarily With Coastal Exposure Issues

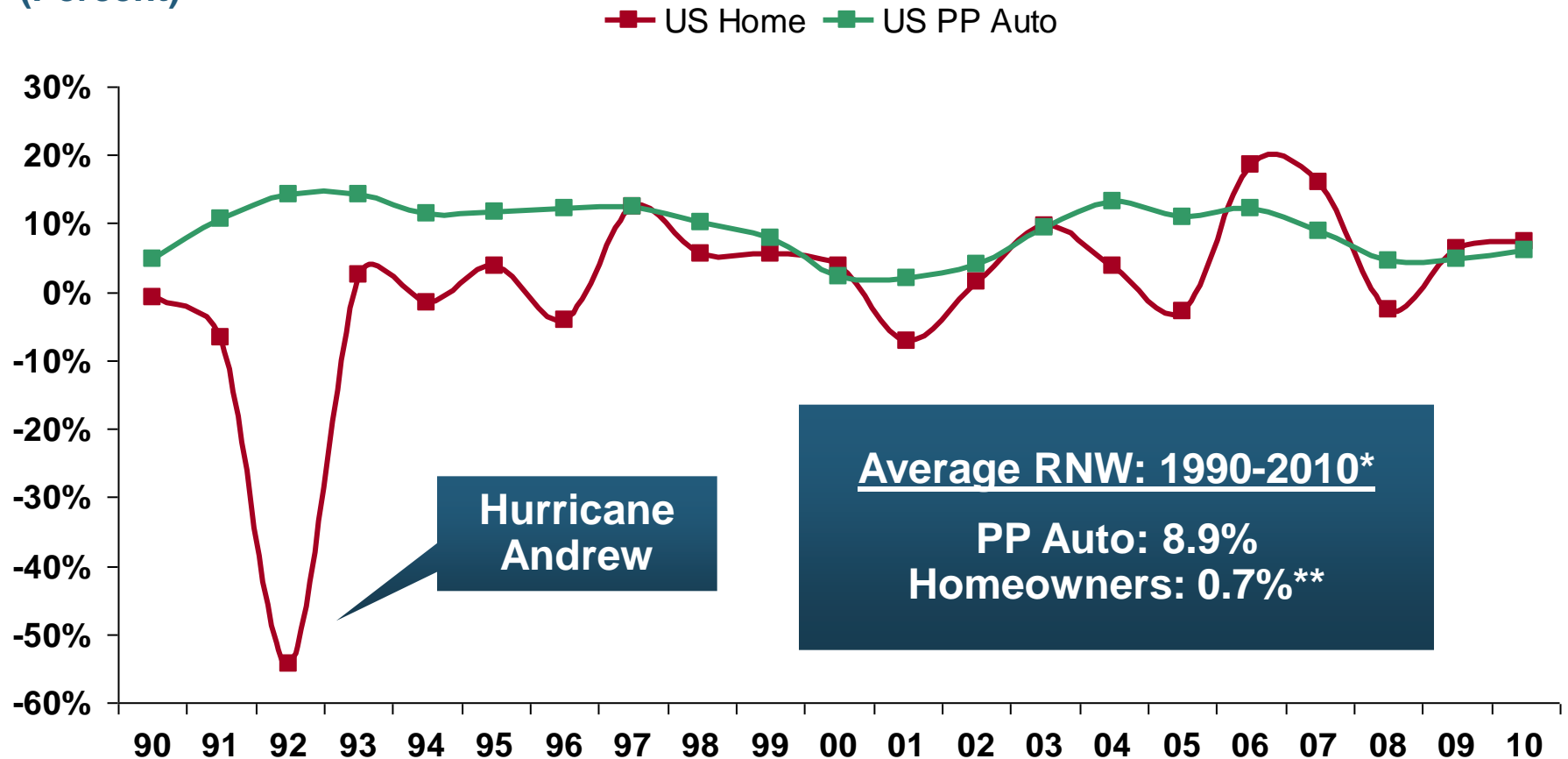
*Latest available.

**Excluding 1992, the Hurricane Andrew, produces a homeowners RNW of 3.5%.

Sources: NAIC.

Return on Net Worth: Pvt. Pass. Auto vs. Homeowners, 1990-2010*

(Percent)



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Homeowners Volatility is Associated Primarily With Coastal Exposure Issues**

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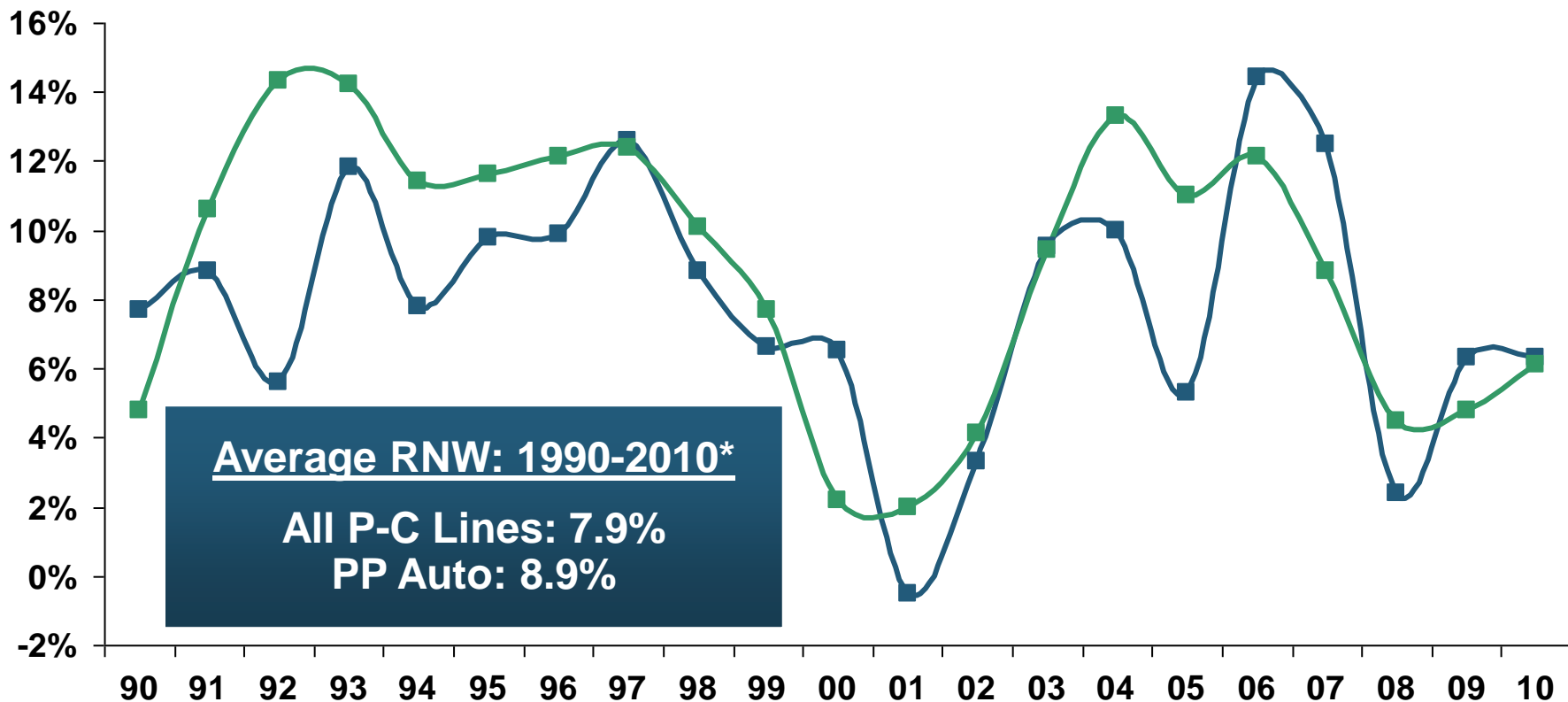
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Return on Net Worth: All P-C Lines vs. Pvt. Pass. Auto, 1990-2010*

(Percent)

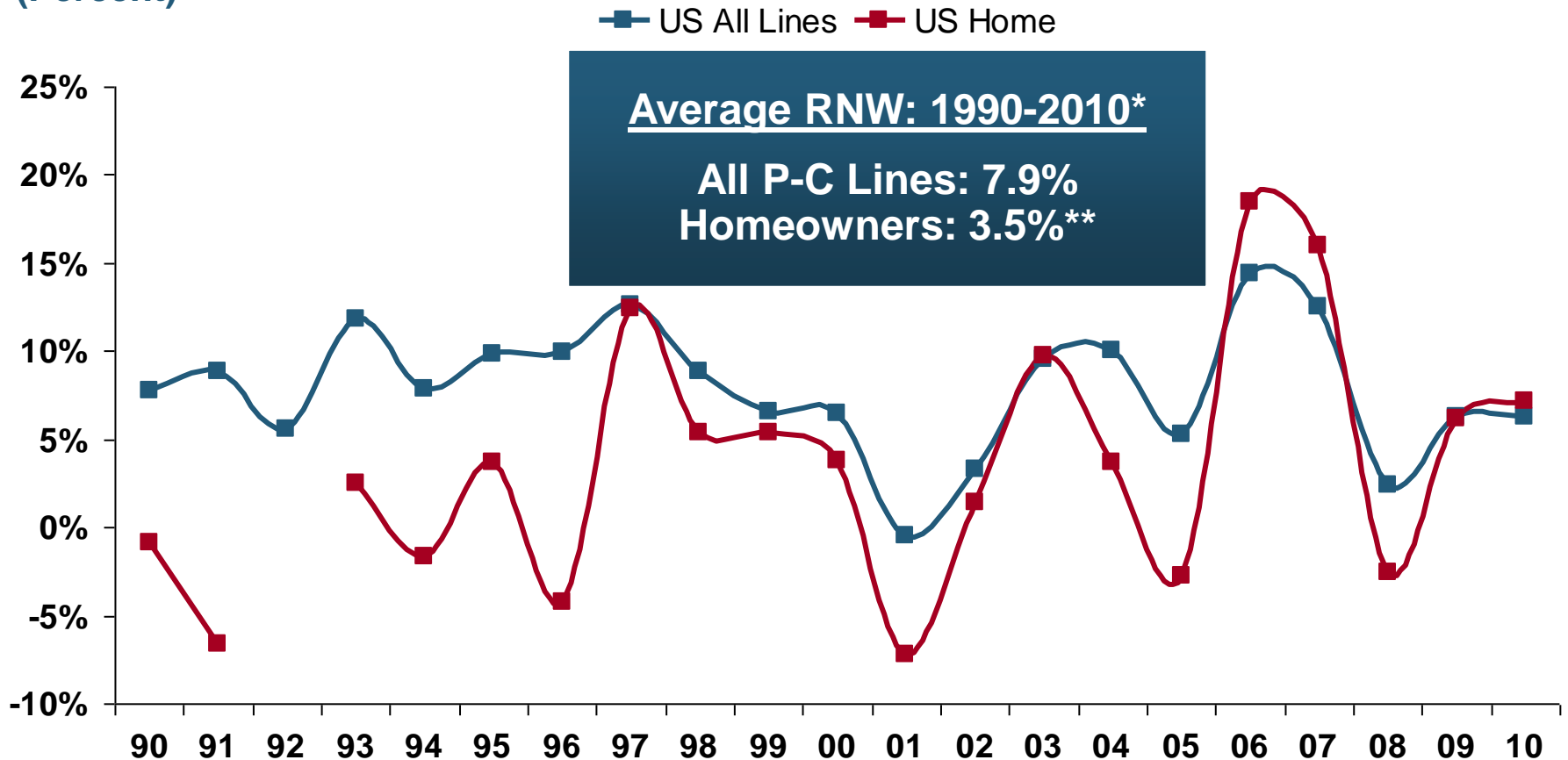
■ US All Lines ■ US PP Auto



Pvt.Pass. Auto Profitability Has Exceeded the P-C Industry as a Whole in 13 of the 21 Years from 1990-2010 (Inclusive)

Return on Net Worth: All P-C Lines vs. Homeowners, 1990-2010*

(Percent)



Homeowners Insurance Is Considerably More Volatile than the Market Overall Due to Coastal Exposure and Interior Wind/Hail Events

*Latest available.

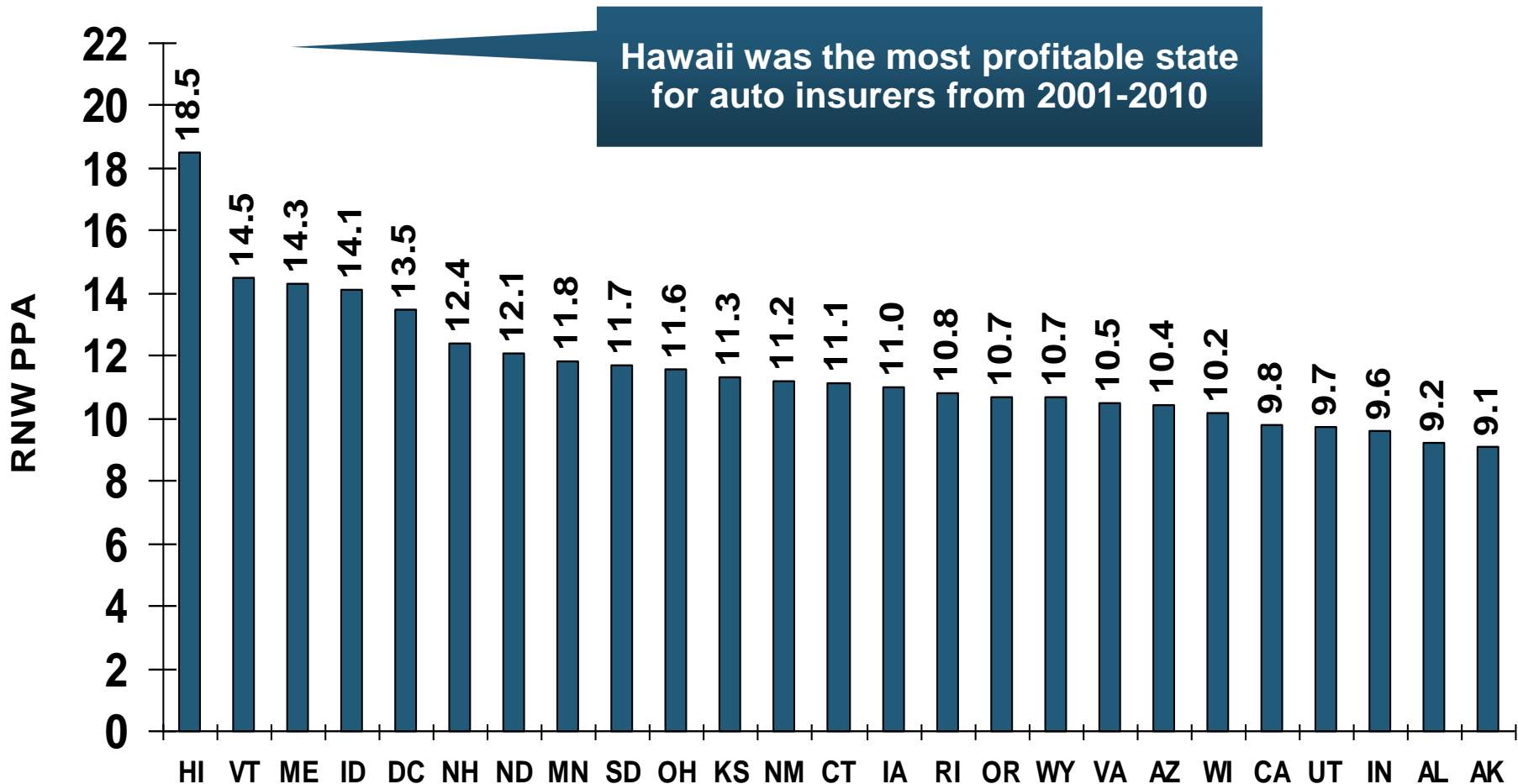
**Excluding Hurricane Andrew (1992); including 1992 produces an average homeowners RNW of 0.7%.

Sources: NAIC.

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

Top 25 States

(Percent)



*Latest available.

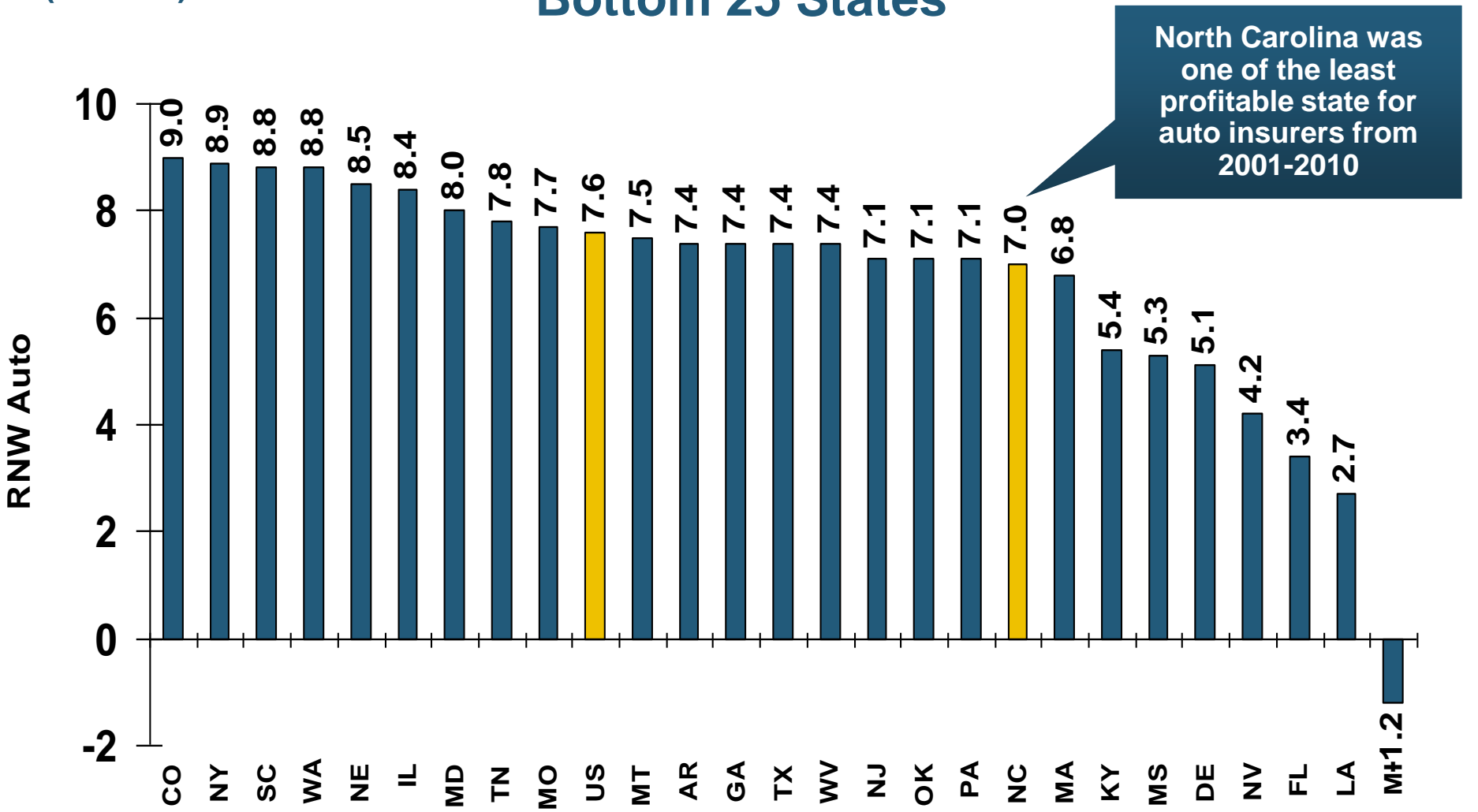
Sources: NAIC.

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



(Percent)

Bottom 25 States

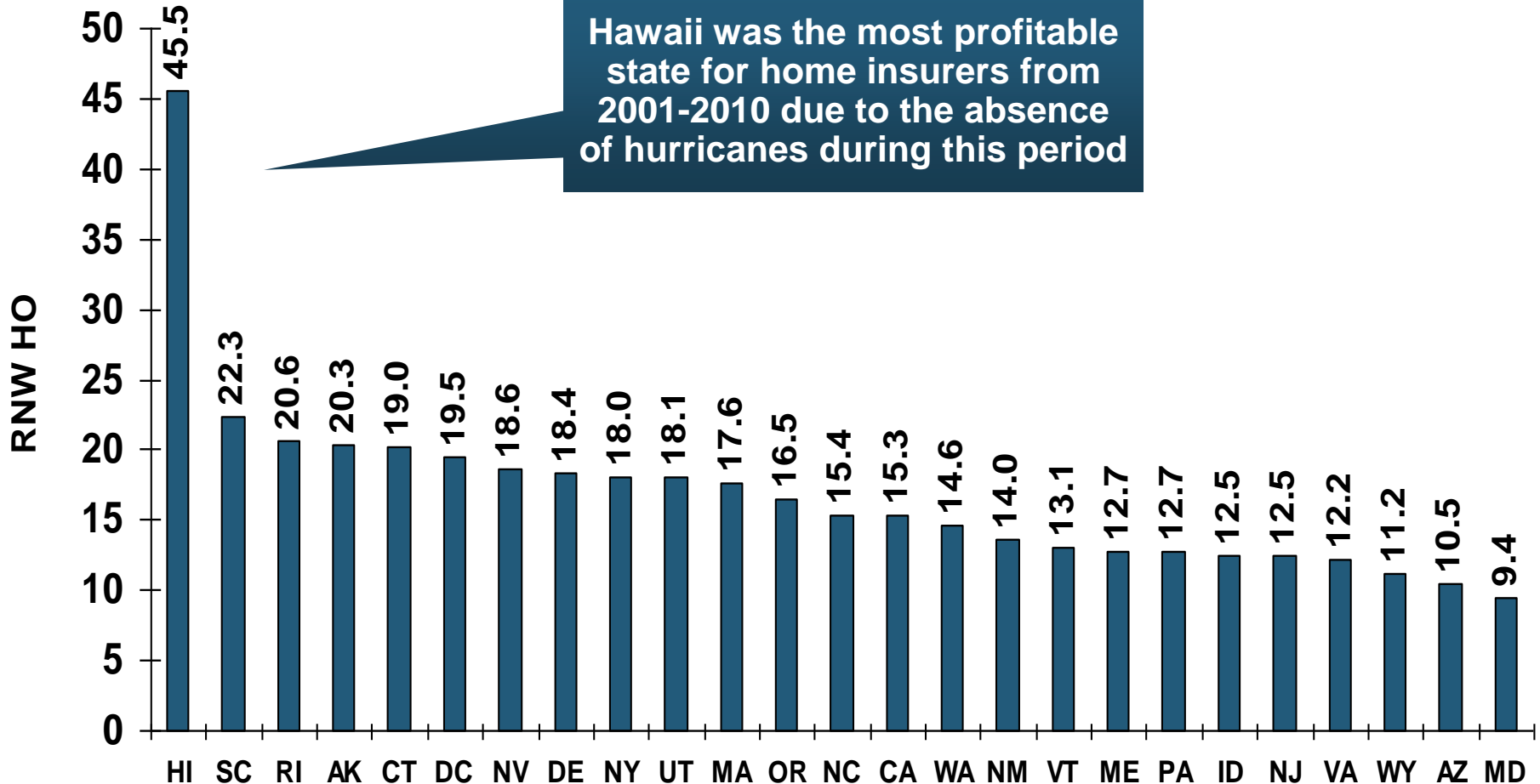


*Latest available.
Sources: NAIC

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

Top 25 States

(Percent)



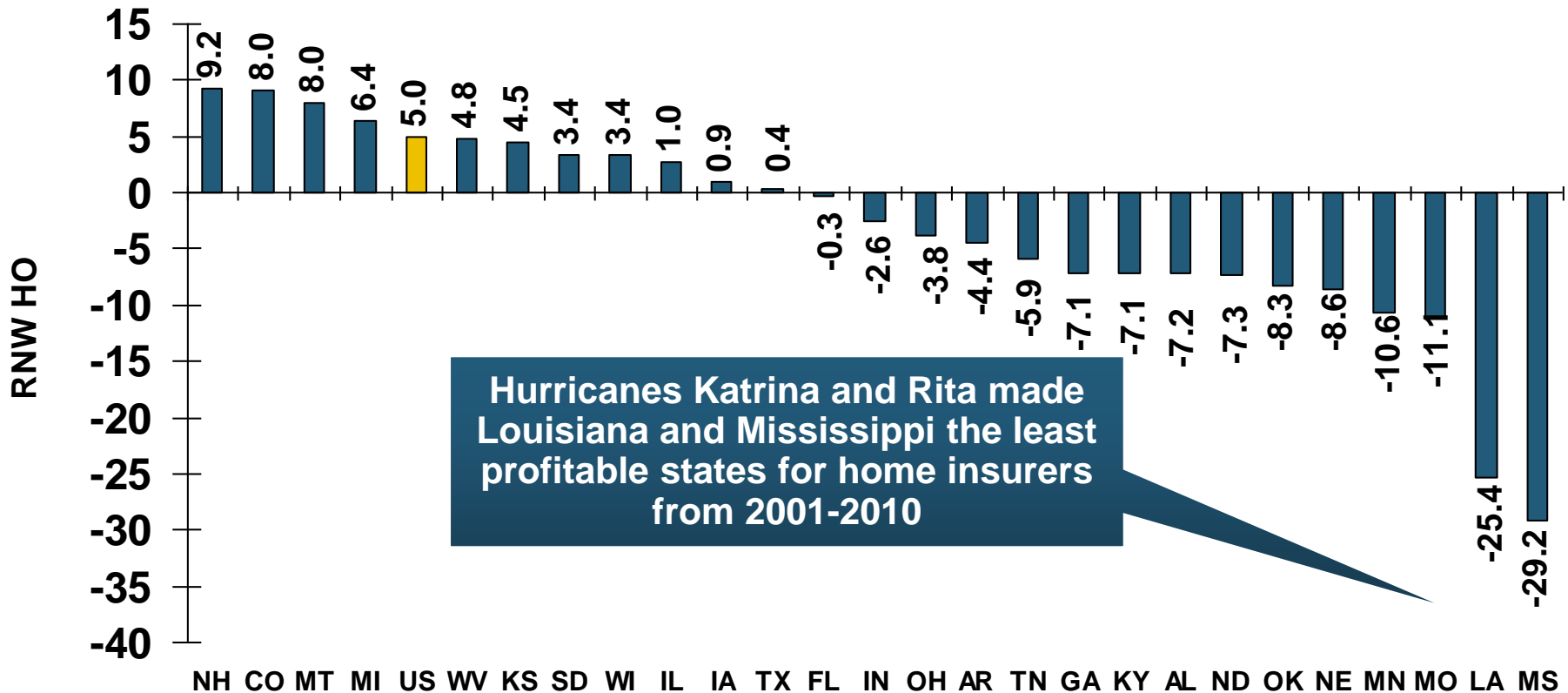
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Sources: NAIC.

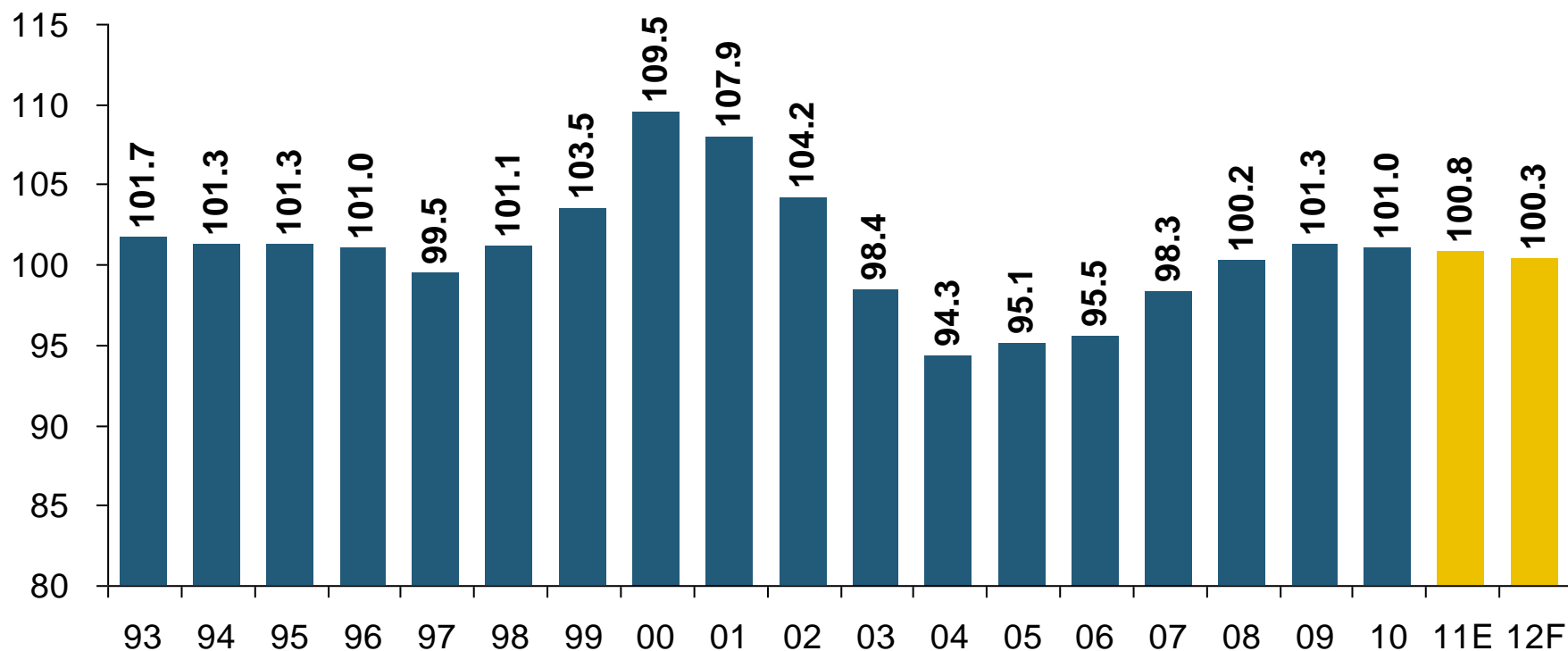
Return on Net Worth: Homeowners Insurance, 10-Year Average (2001-2010*)

Bottom 25 States

(Percent)

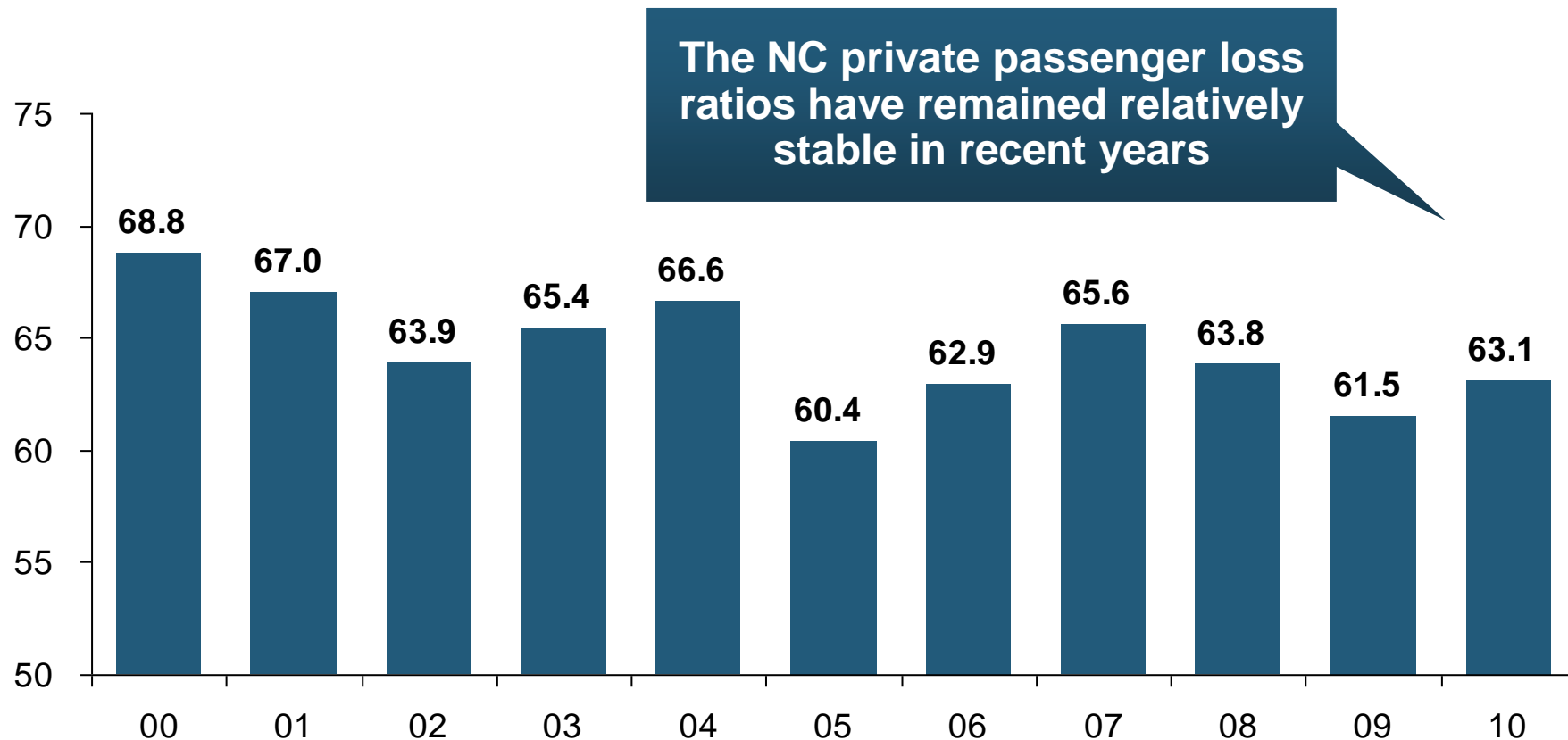


Private Passenger Auto Combined Ratio: 1993–2012P



Private Passenger Auto Accounts for 34% of Industry Premiums and Remains the Profit Juggernaut of the P/C Insurance Industry

NC Private Passenger Auto Direct Incurred Loss Ratio: 2000-2010



Private Passenger Auto Accounts for 34% of Industry Premiums and Remains the Profit Juggernaut of the P/C Insurance Industry

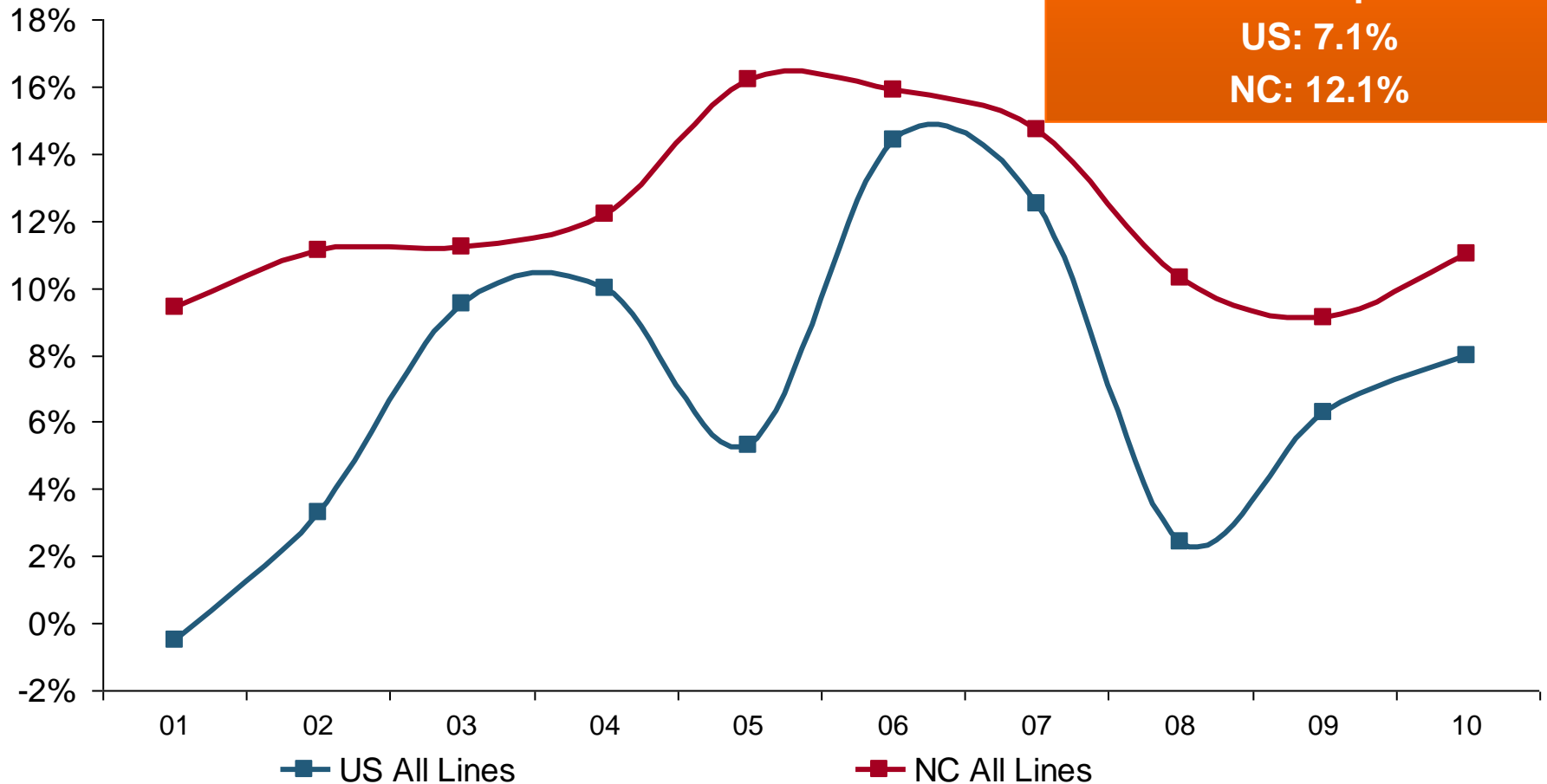


Profitability and Growth in North Carolina P/C Insurance Markets

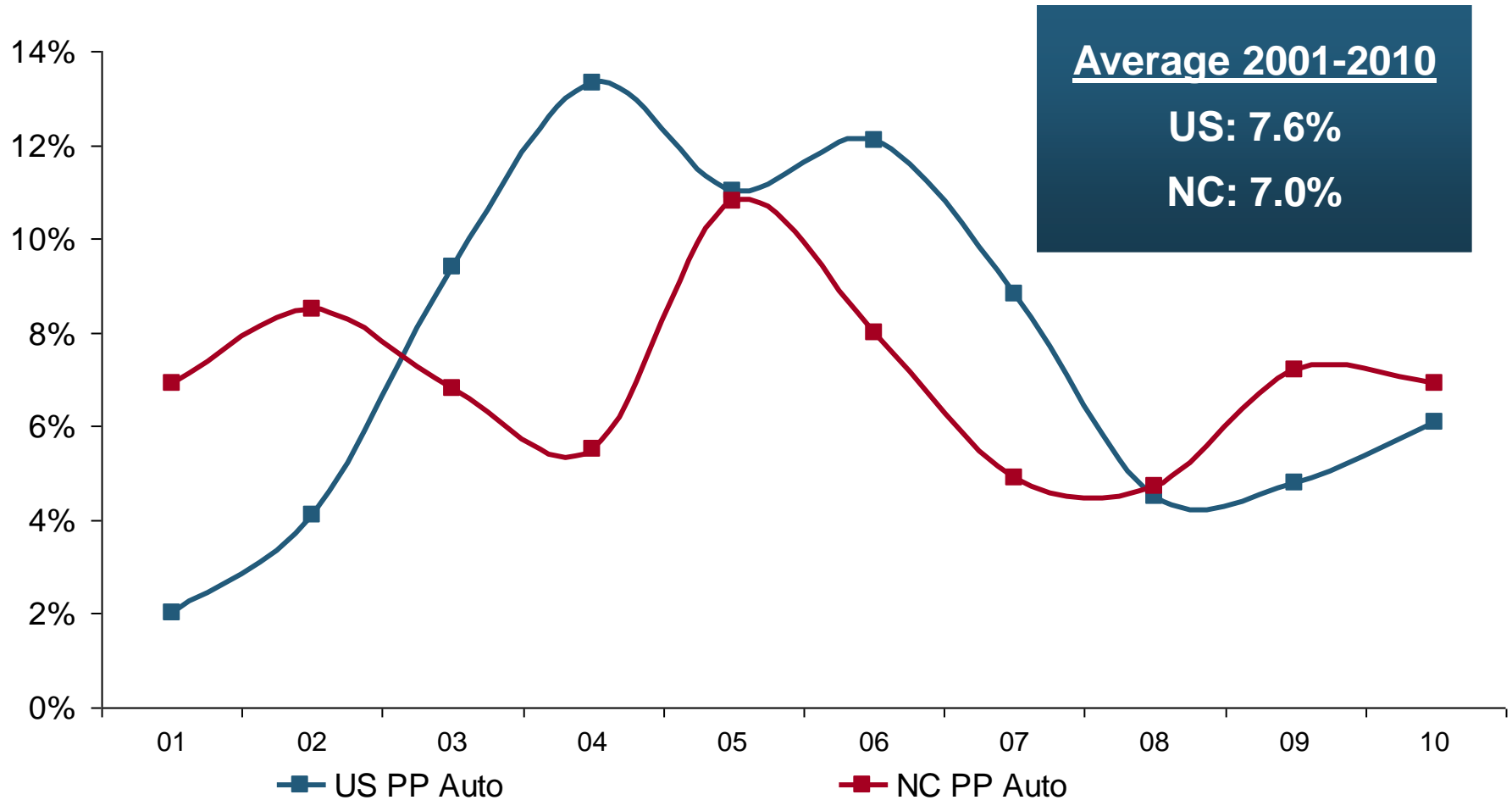
Analysis by Line and Nearby State Comparisons

RNW All Lines: NC vs. U.S., 2001-2010

(Percent)

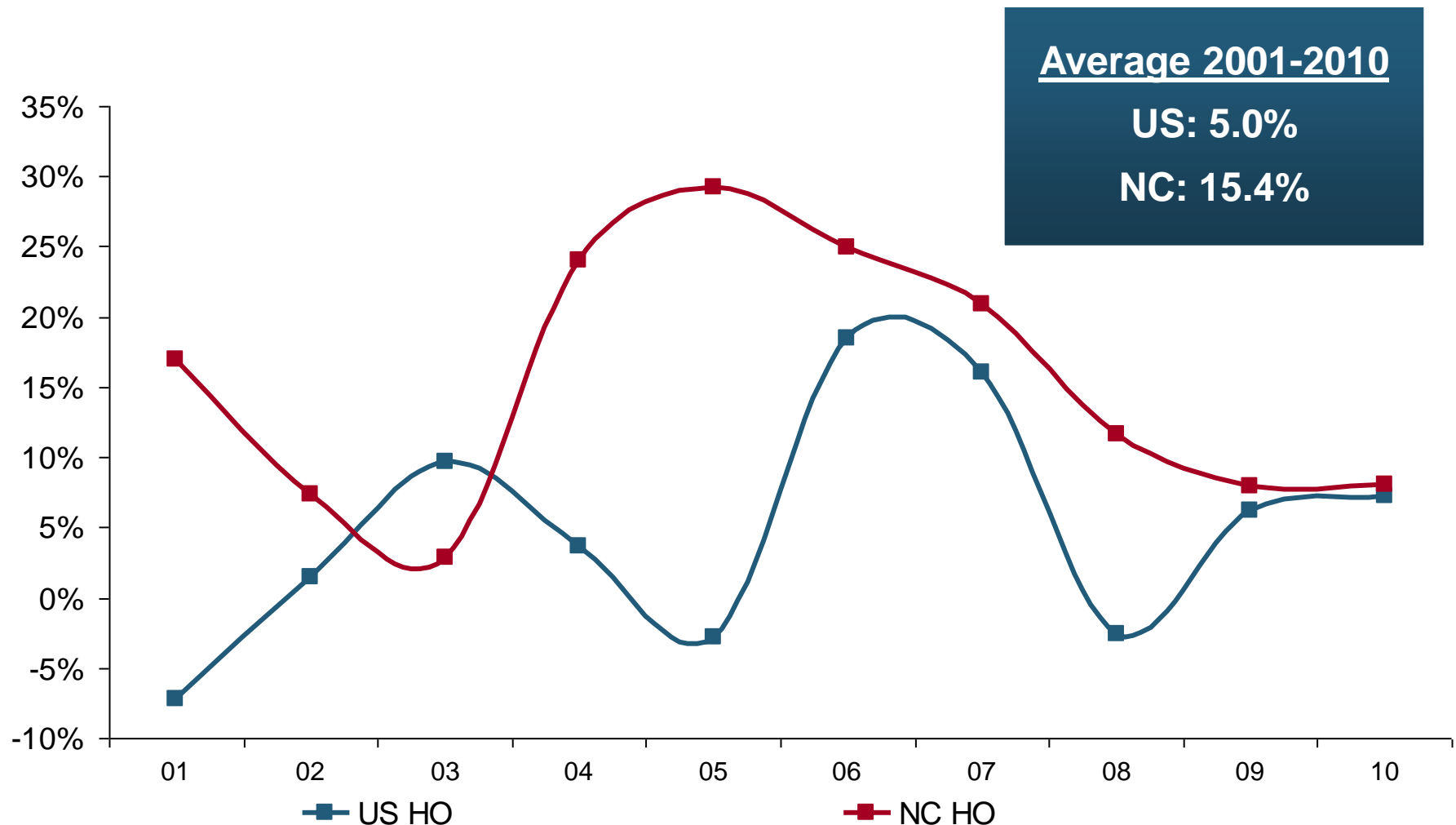


RNW PP Auto: NC vs. U.S., 2001-2010



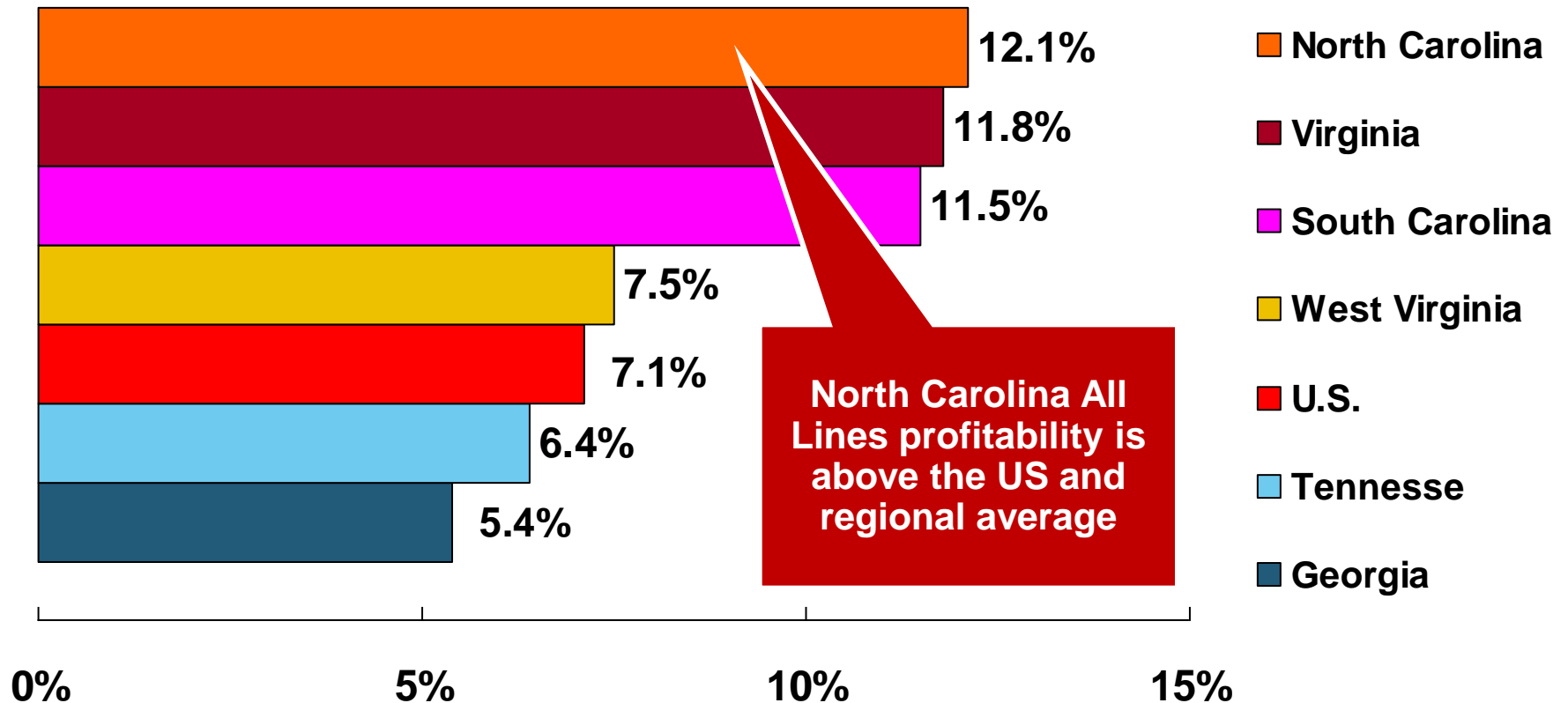
RNW Homeowners: NC vs. U.S., 2001-2010

(Percent)



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

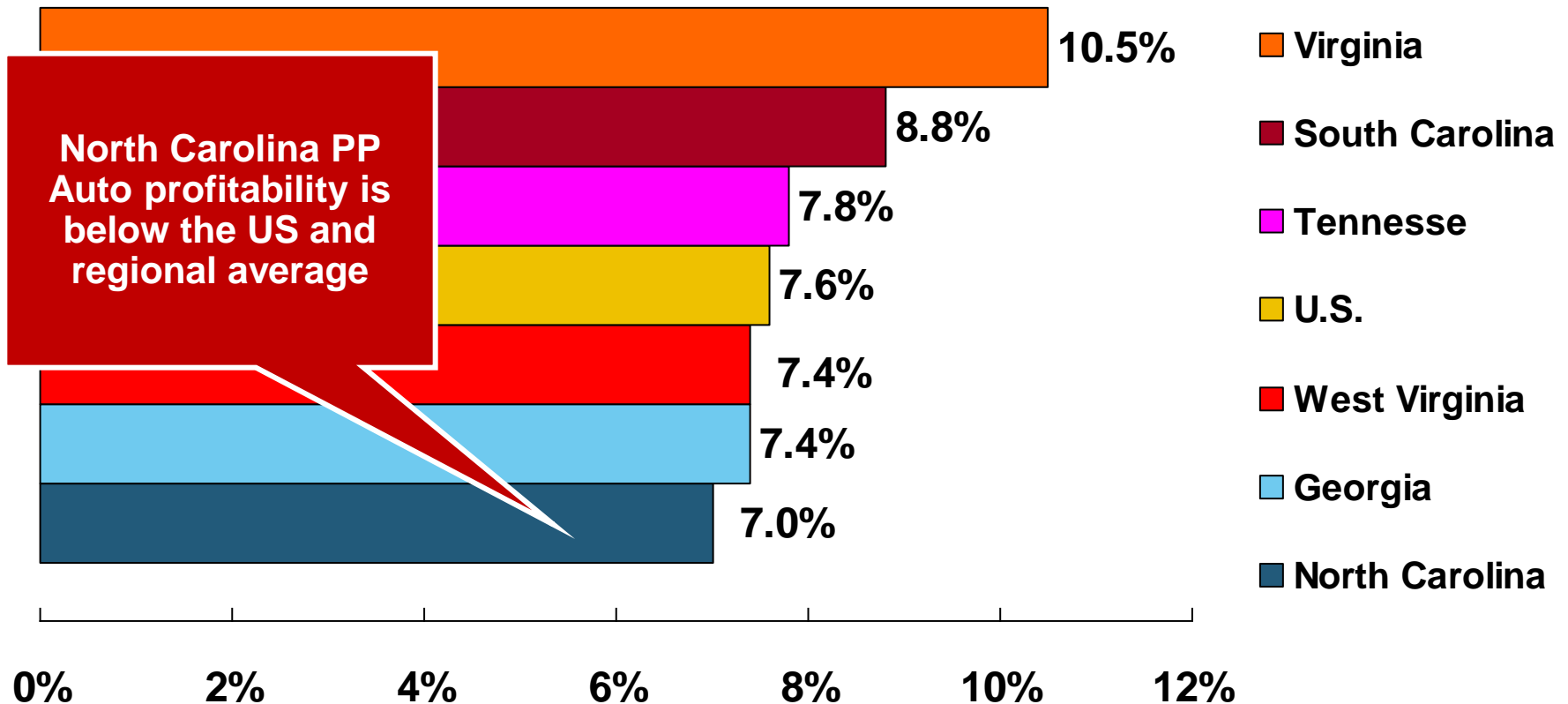
2001-2010



Source: NAIC, Insurance Information Institute

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

2001-2010



Source: NAIC, Insurance Information Institute

Top Ten Most Expensive And Least Expensive States For Automobile Insurance, 2009 (1)

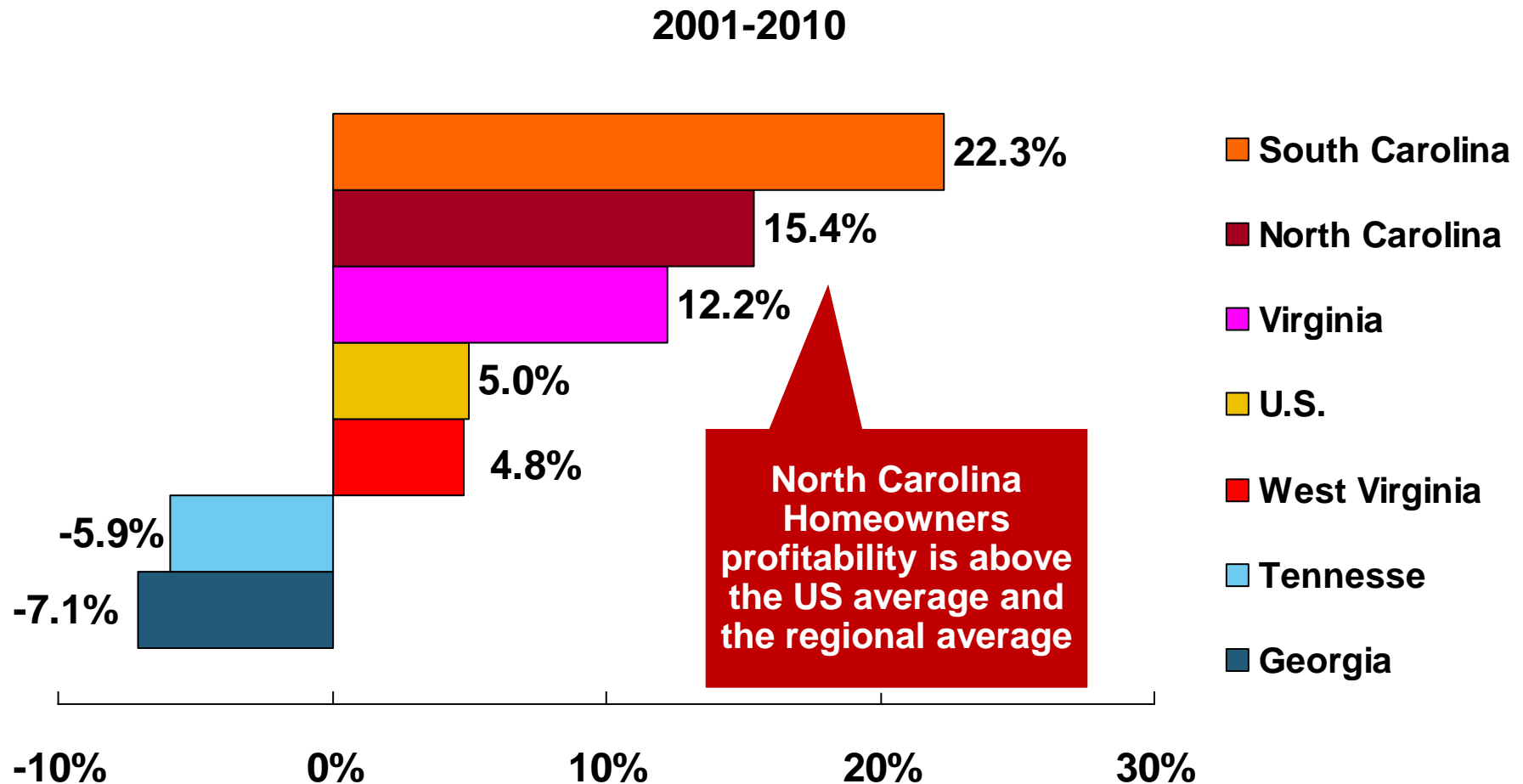
Rank	Most expensive states	Average expenditure	Rank	Least expensive states	Average expenditure
1	District of Columbia	\$1,128	1	North Dakota	\$510
2	New Jersey	1,101	2	South Dakota	521
3	Louisiana	1,099	3	Iowa	532
4	New York	1,057	4	Idaho	555
5	Delaware	1,021	5	Nebraska	559
6	Florida	1,006	6	Kansas	578
7	Rhode Island	969	7	Wisconsin	591
8	Connecticut	952	8	Maine	598
9	Nevada	944	9	North Carolina	610
10	Maryland	929	10	Ohio	616

North Carolina ranked 9th least expensive in 2009, with an average expenditure for auto insurance of \$610.

(1) Based on average automobile insurance expenditures.

Source: © 2012 National Association of Insurance Commissioners.

Homeowners: 10-Year Average RNW NC & Nearby States



Source: NAIC, Insurance Information Institute

Top Ten Most Expensive And Least Expensive States For Homeowners Insurance, 2009 (1)

North Carolina ranked as the 31st least expensive state for homeowners insurance in 2009, with an average expenditure of \$725.

Rank	Most expensive states	Average expenditure	Rank	Least expensive states	Average expenditure
1	Texas (3)	\$1,511	1	Idaho	\$485
2	Florida (4)	1,460	2	Wisconsin	542
3	Louisiana	1,430	3	Oregon	544
4	Mississippi	1,185	3	Utah	544
5	Oklahoma	1,123	4	Washington	552
6	D.C.	1,069	5	Delaware	610
6	Rhode Island	1,069	6	Ohio	613
7	Massachusetts	1,035	7	Arizona	642
8	New York	1,021	8	Iowa	645
9	Connecticut	1,016	8	South Dakota	645

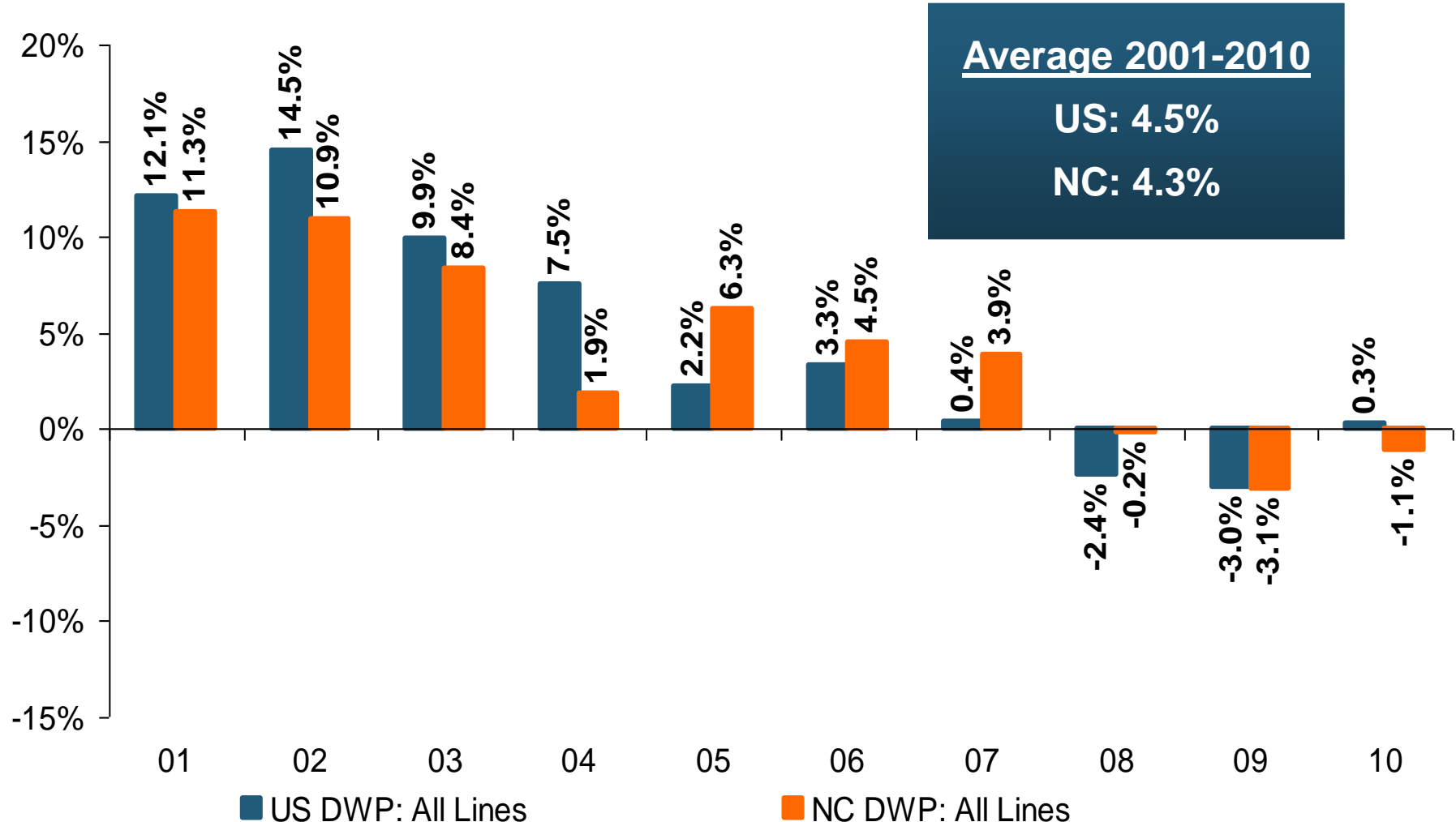
- (1) States with the same premium receive the same rank.
- (2) Based on the HO-3 homeowner package policy for owner-occupied dwellings, 1 to 4 family units. Provides “all risks” coverage (except those specifically excluded in the policy) on buildings and broad named-peril coverage on personal property, 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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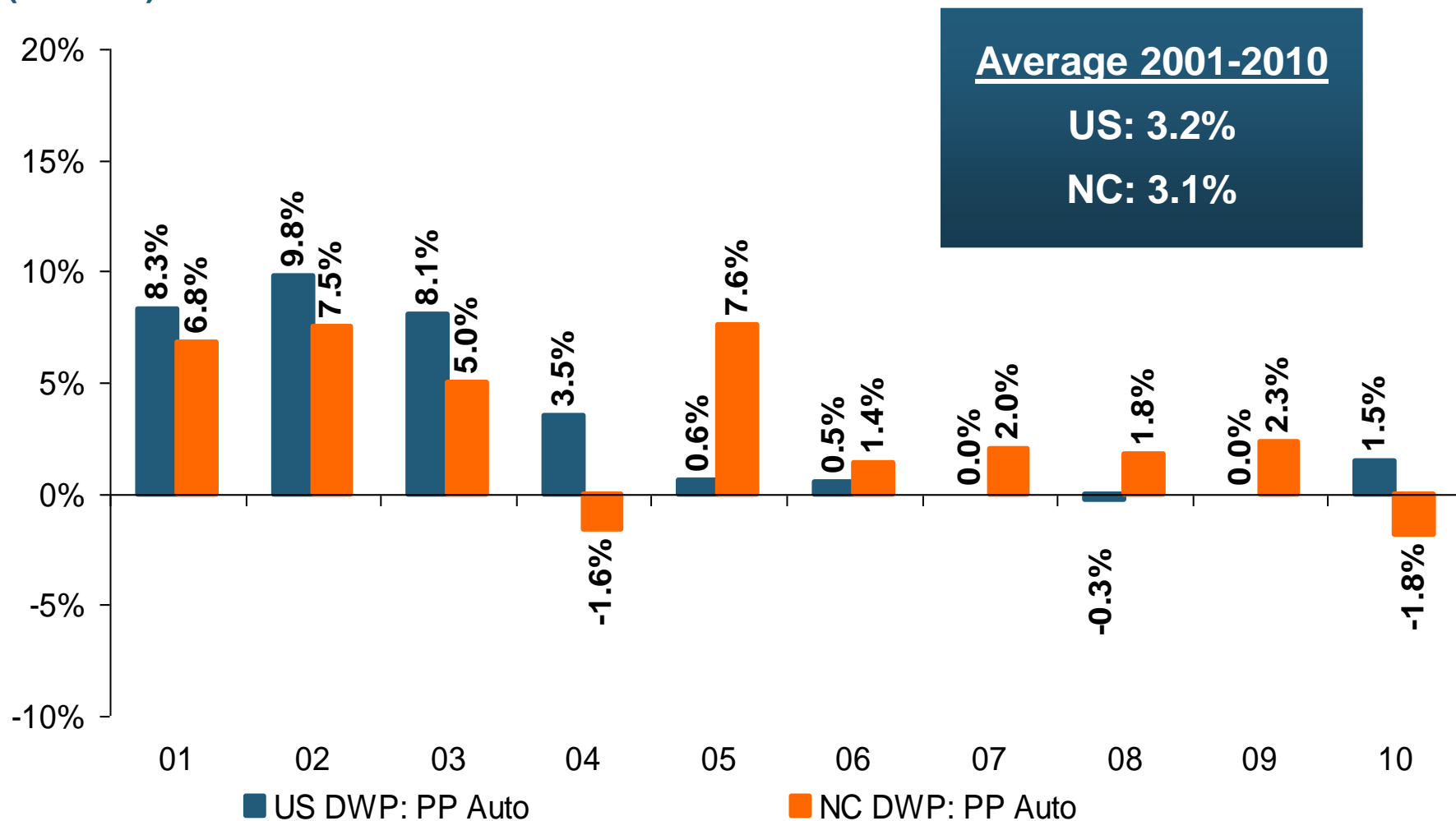
All Lines DWP Growth: NC vs. U.S., 2001-2010

(Percent)



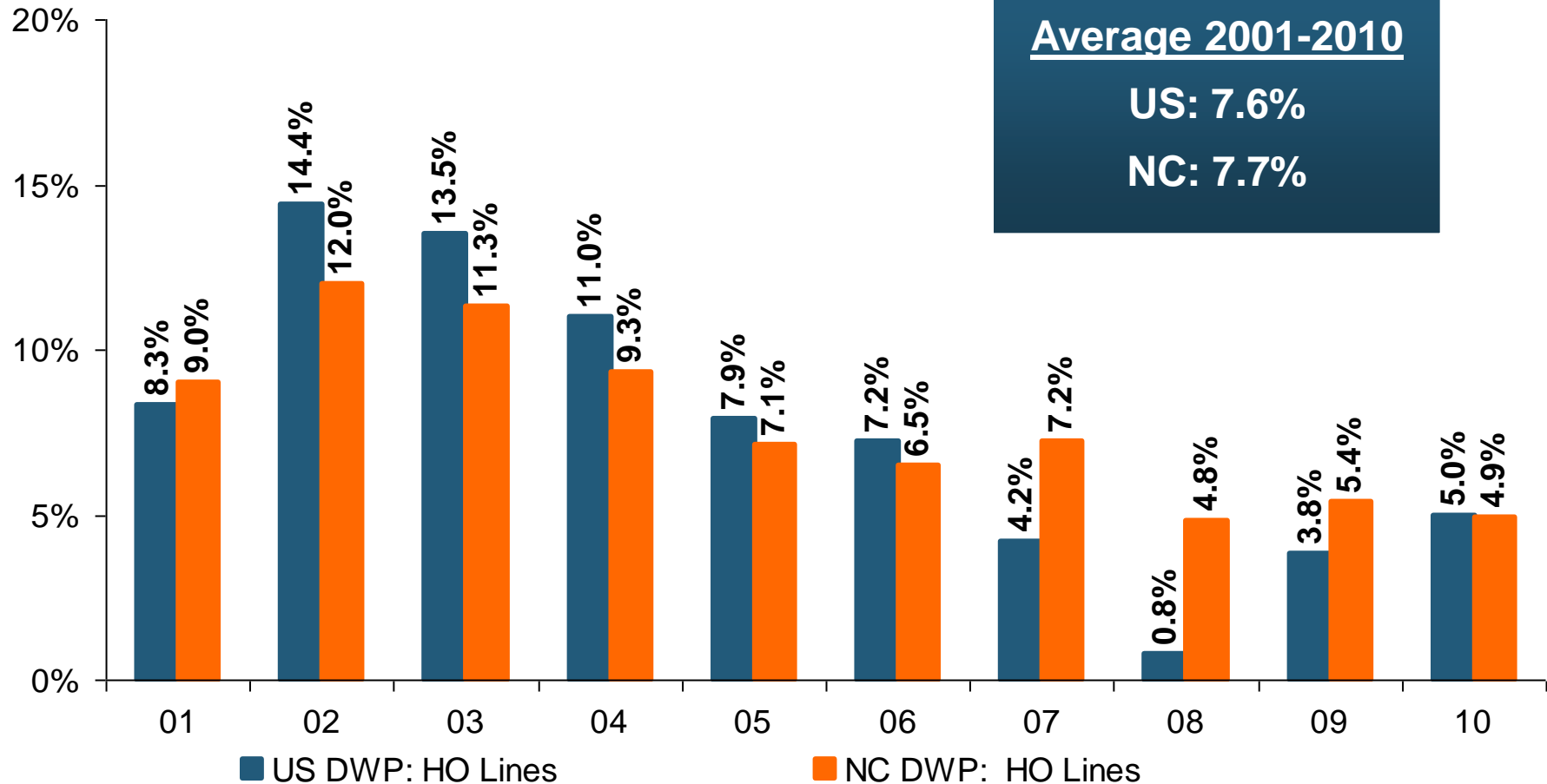
Private Passenger Auto DWP Growth: NC vs. U.S., 2001-2010

(Percent)



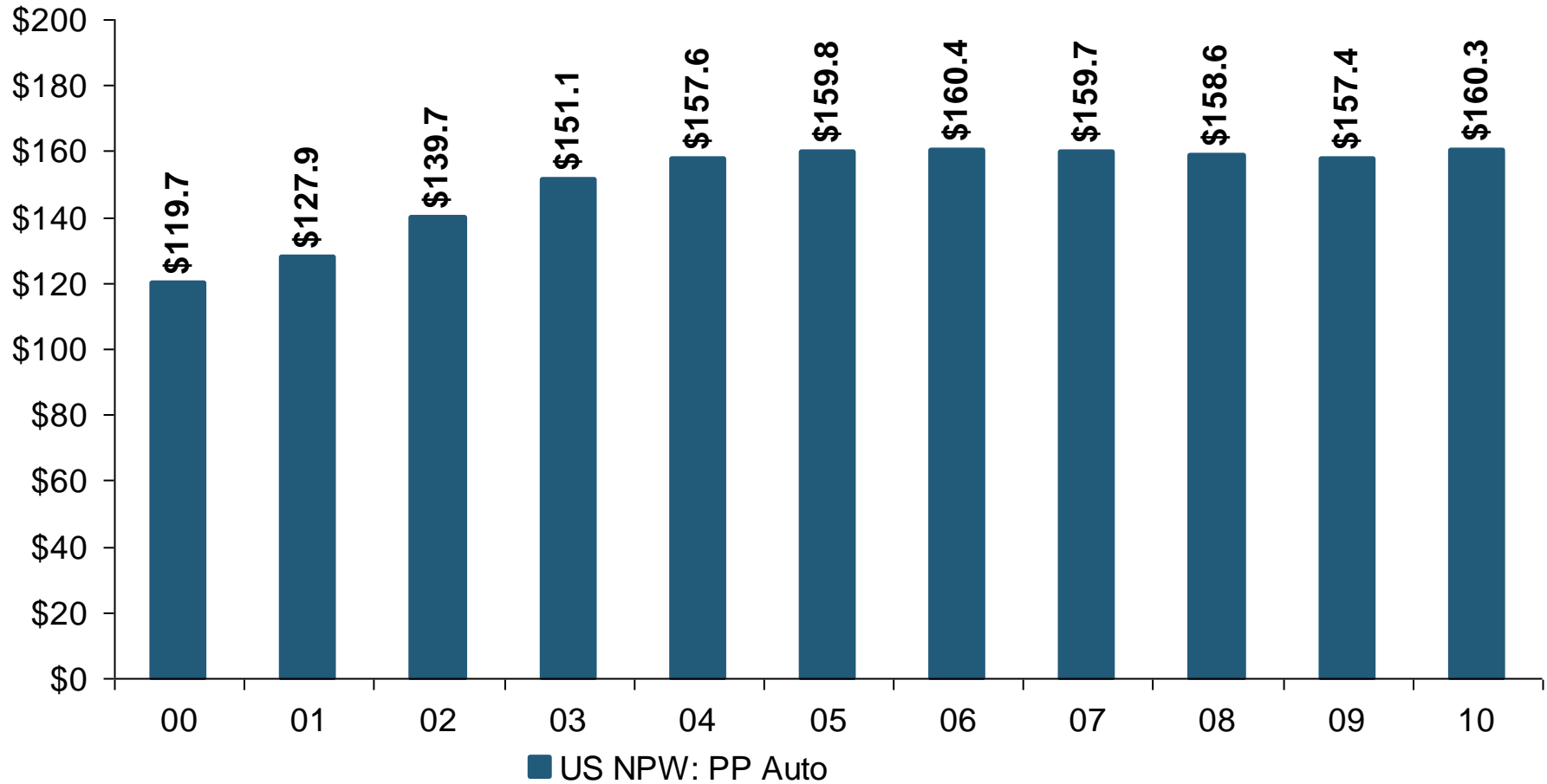
Homeowner's MP DWP Growth: NC vs. U.S., 2001-2010

(Percent)



PP Auto NPW: 2000-2010

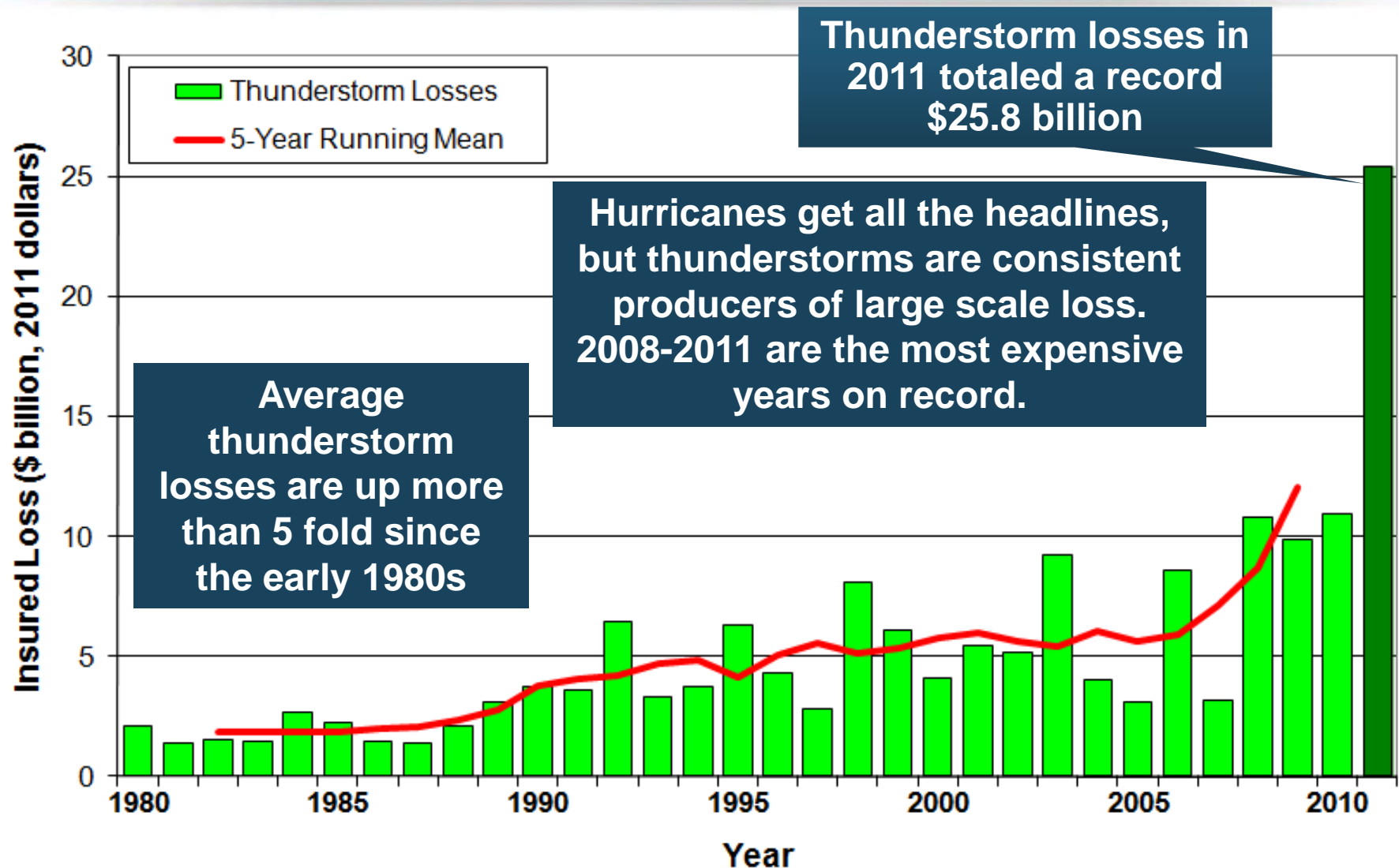
(\$ billions)



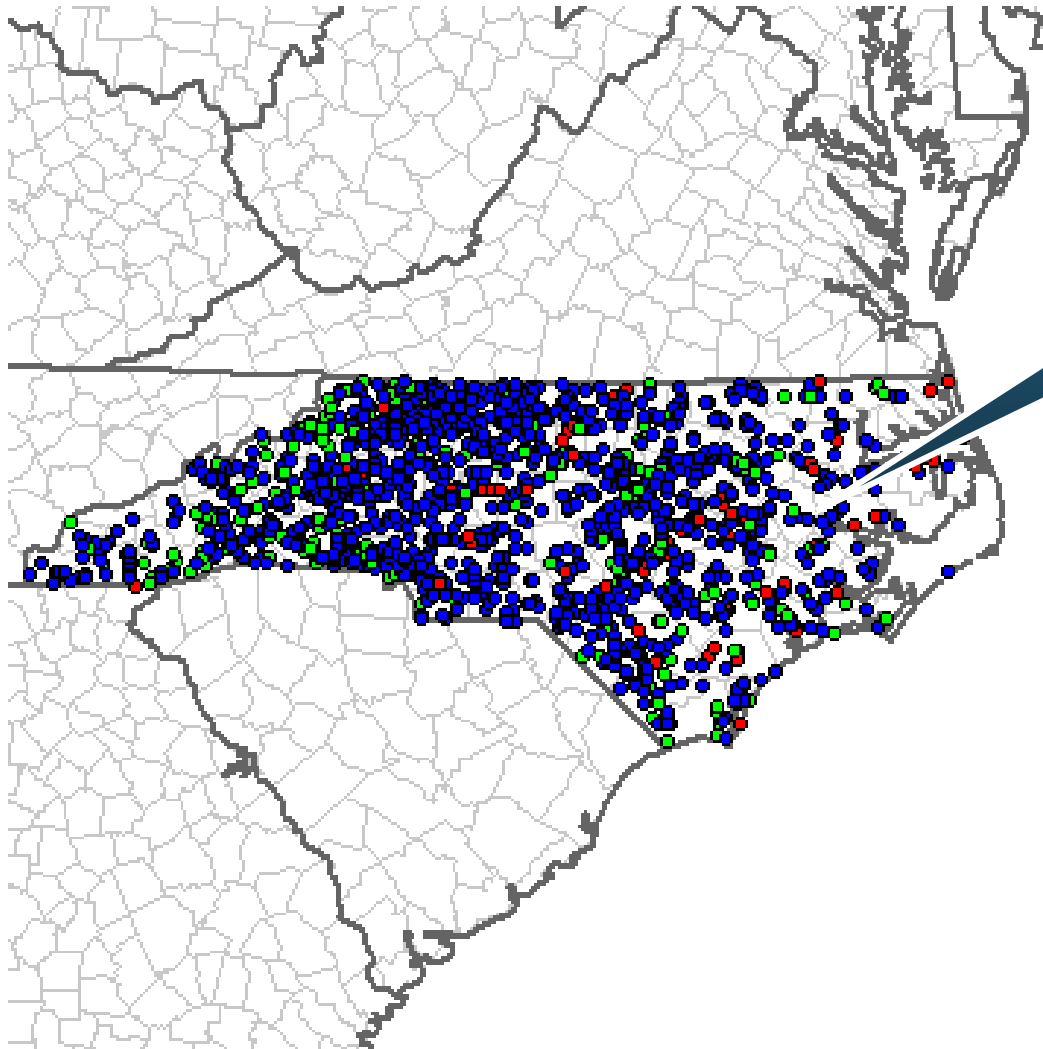
Mother Nature Hates North Carolina's Cars Too

**NC Is No Stranger to Catastrophe—
It's Not Just Homes that Are
Damaged**

U.S. Thunderstorm Loss Trends, 1980 – 2011



Severe Weather Reports in North Carolina, January 1—December 31, 2011



There were 1,687
severe weather
reports in NC in 2011

NC

Total Reports = 1,687

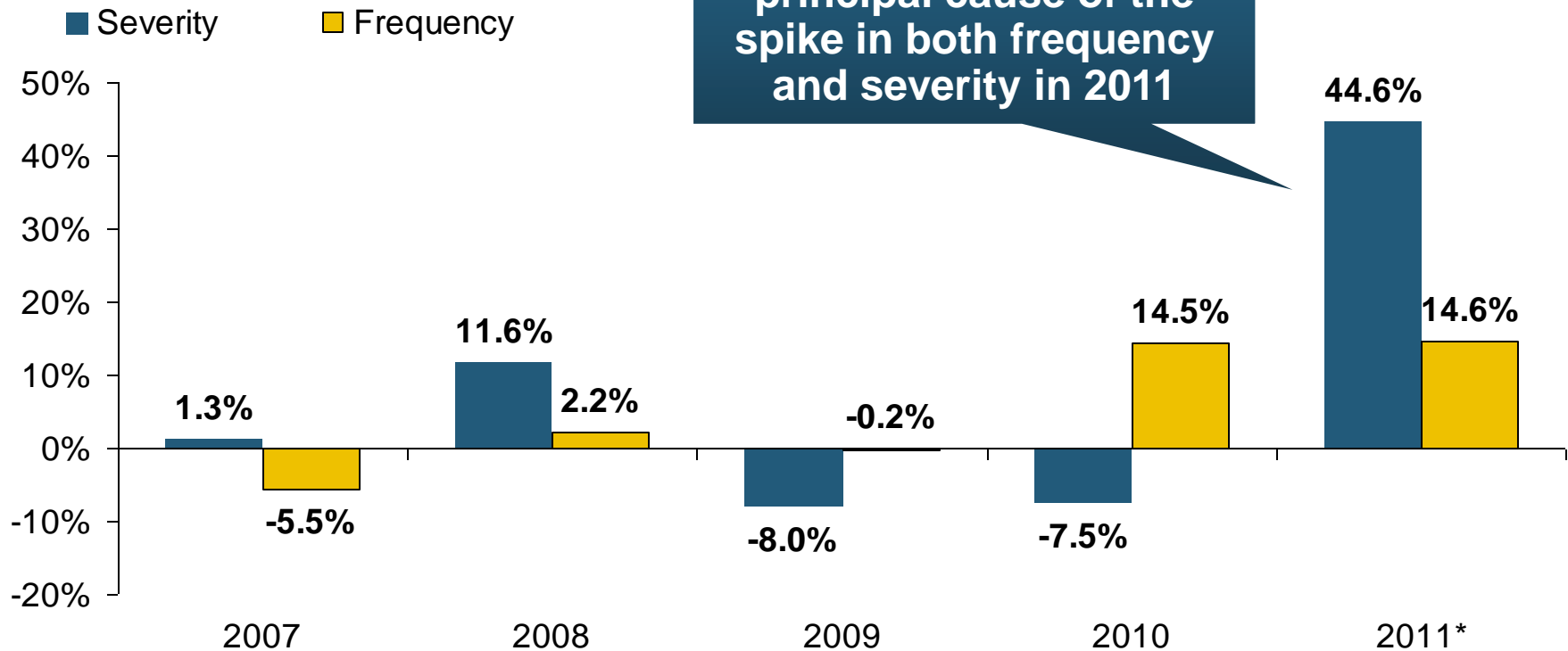
Tornadoes = 113 (Red)

Hail Reports = 347 (Green)

Wind Reports = 1,226 (Blue)

NC Comprehensive Coverage: Frequency and Severity Trend in 2011 is Unfavorable

Annual Change, 2007 through 2011*



Weather Creates Volatility for Comprehensive Coverage; Hail, Wind and Tornadoes Caused Significant Vehicle Damage in NC

*For 2011, data are for the 4 quarters ending with 2011:Q3.

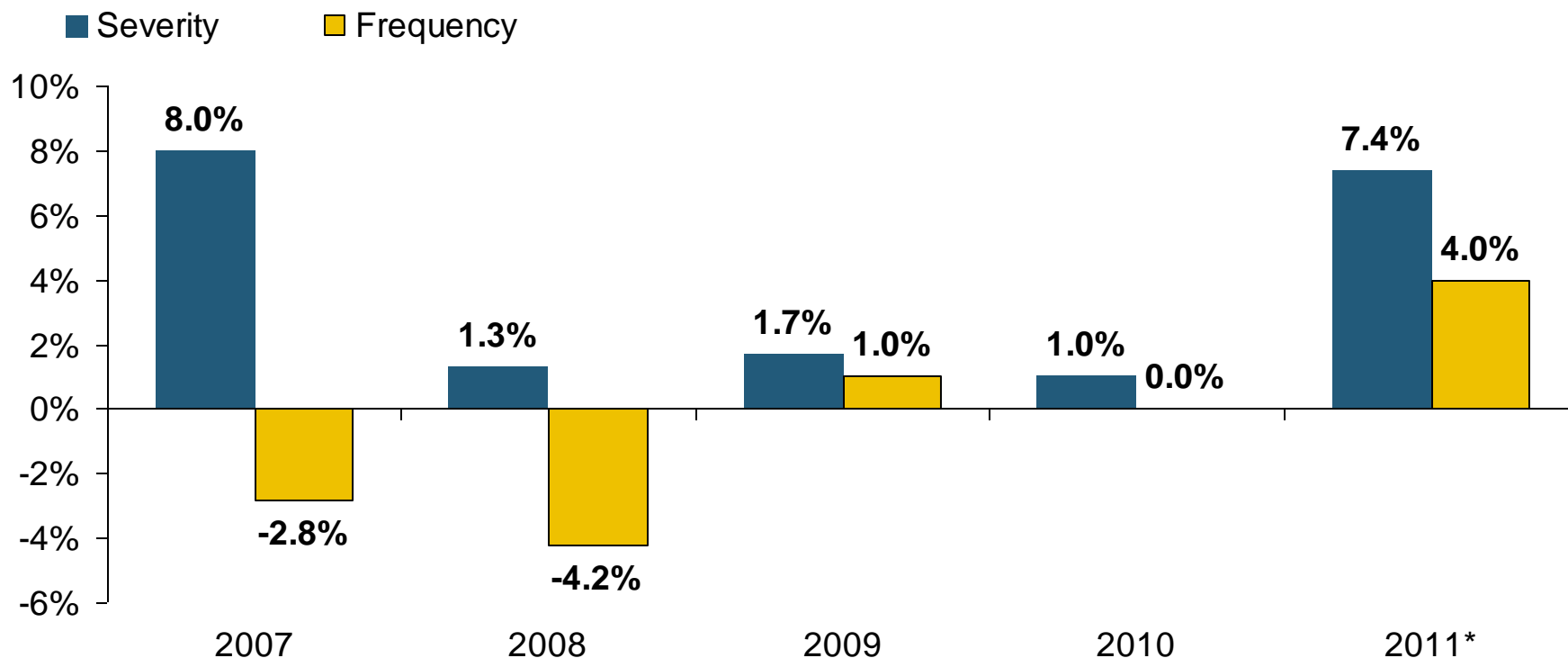
Source: ISO/PCI *Fast Track* data; Insurance Information Institute

Claim Trends in Auto Insurance

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

NC Bodily Injury: Severity Trend Rising, Frequency Decline Has Ended

Annual Change, 2007 through 2011*



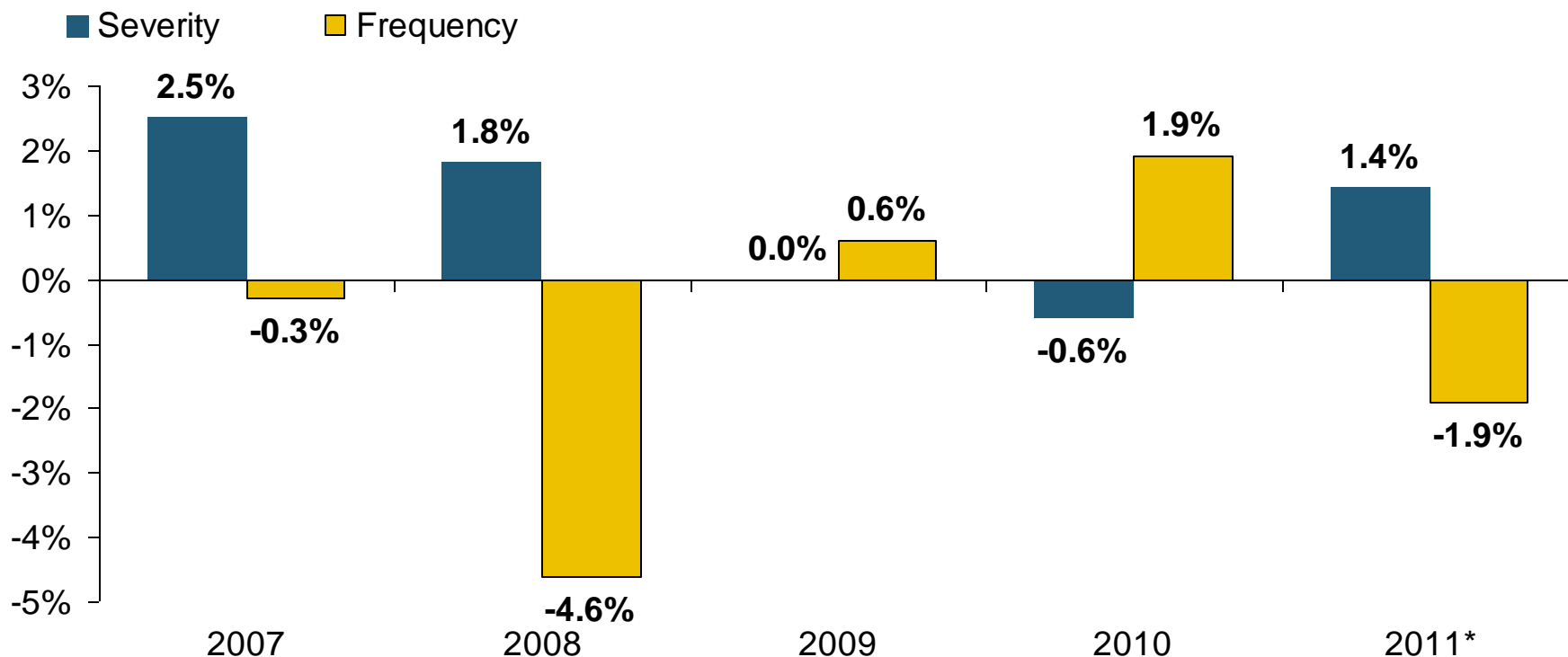
Cost Pressures Will Increase if BI Severity Frequency Increases Continue

*For 2011, data are for the 4 quarters ending with 2011:Q3.

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

NC Property Damage Liability: Severity, Frequency Nearly Flat on Net Since 2009

Annual Change, 2007 through 2011*



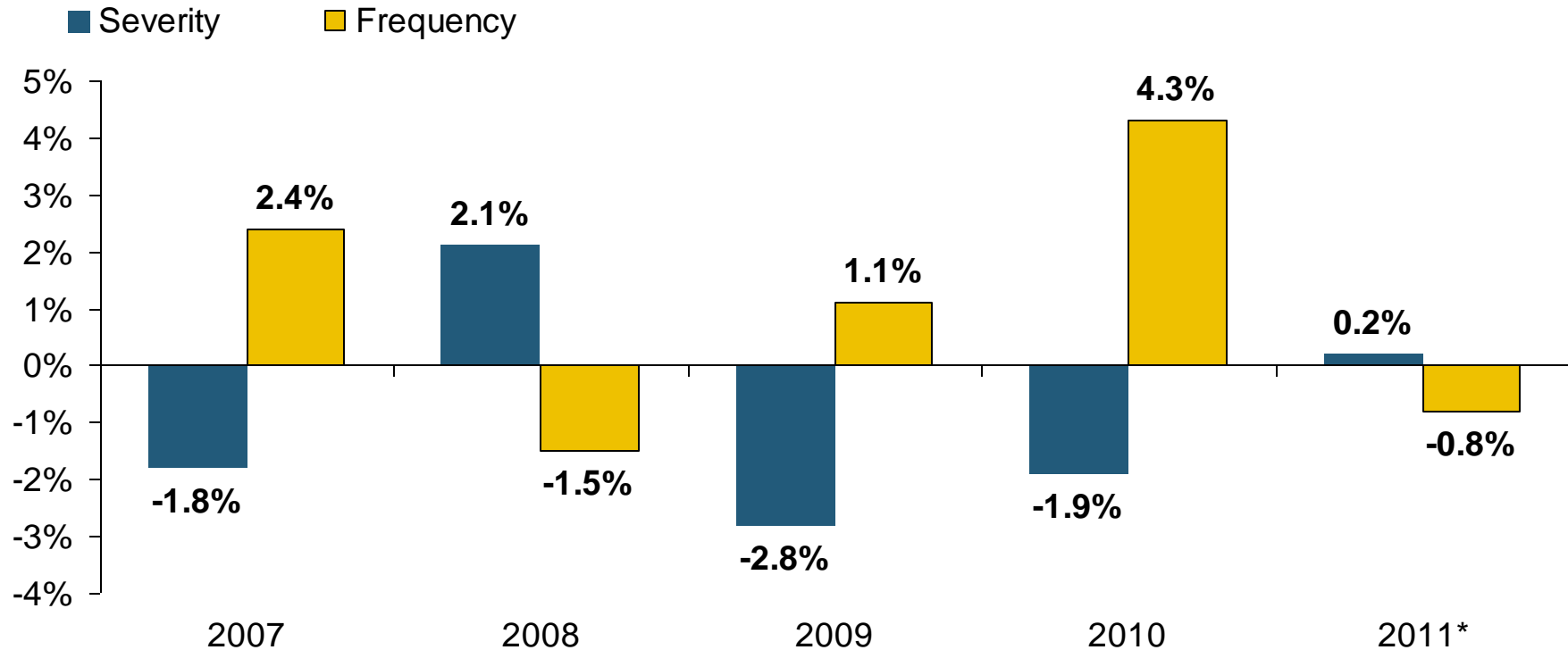
Severity/Frequency Trends Were Relatively Stable Through 2011, Though Concerns About Rising Severities Exist

*For 2011, data are for the 4 quarters ending with 2011:Q3.

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

NC Collision Coverage: Frequency and Severity Trends Were Flat in 2011*

Annual Change, 2007 through 2011*



The Recession, High Fuel Prices Have Helped Temper Frequency and Severity, But this Trend Will Likely Be Reversed Based on Evidence from Past Recoveries

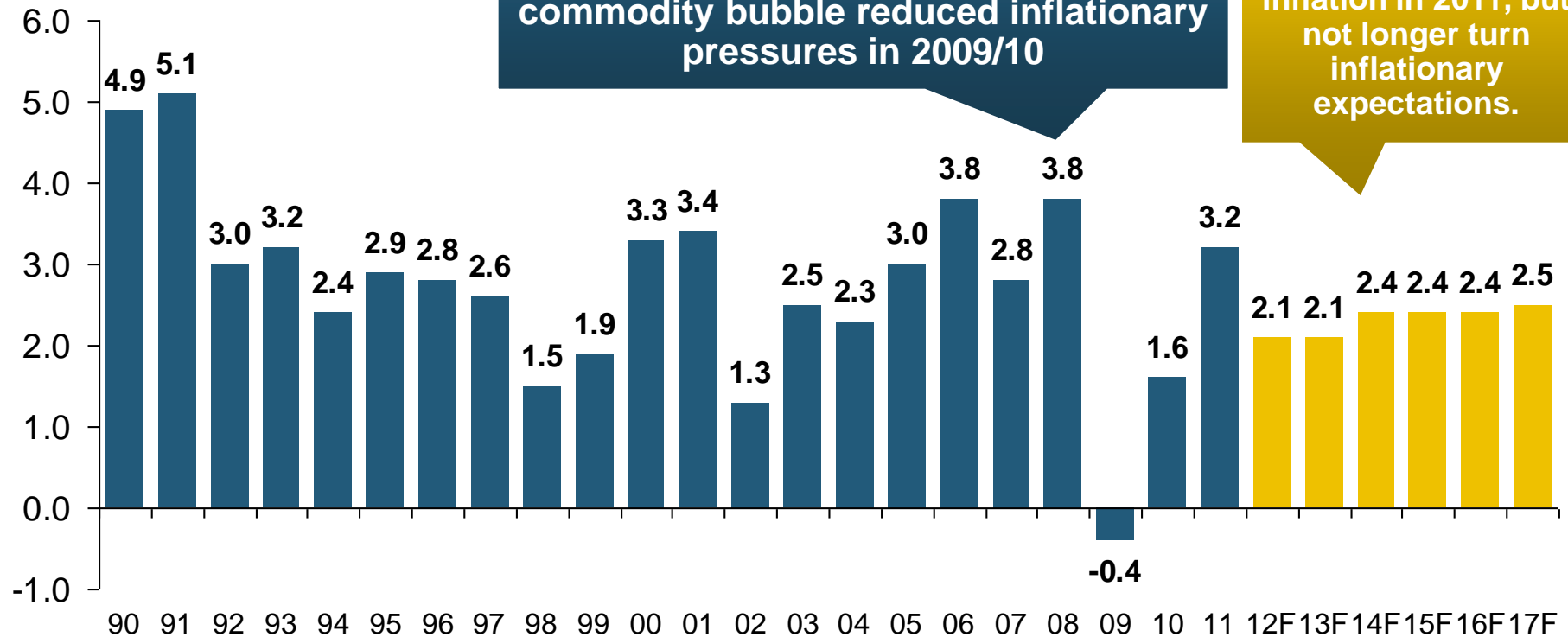
*For 2011, data are for the 4 quarters ending with 2011:Q3.
 Source: ISO/PCI *Fast Track* data; Insurance Information Institute

Inflation

**Is it a Threat to Claim Cost
Severities?**

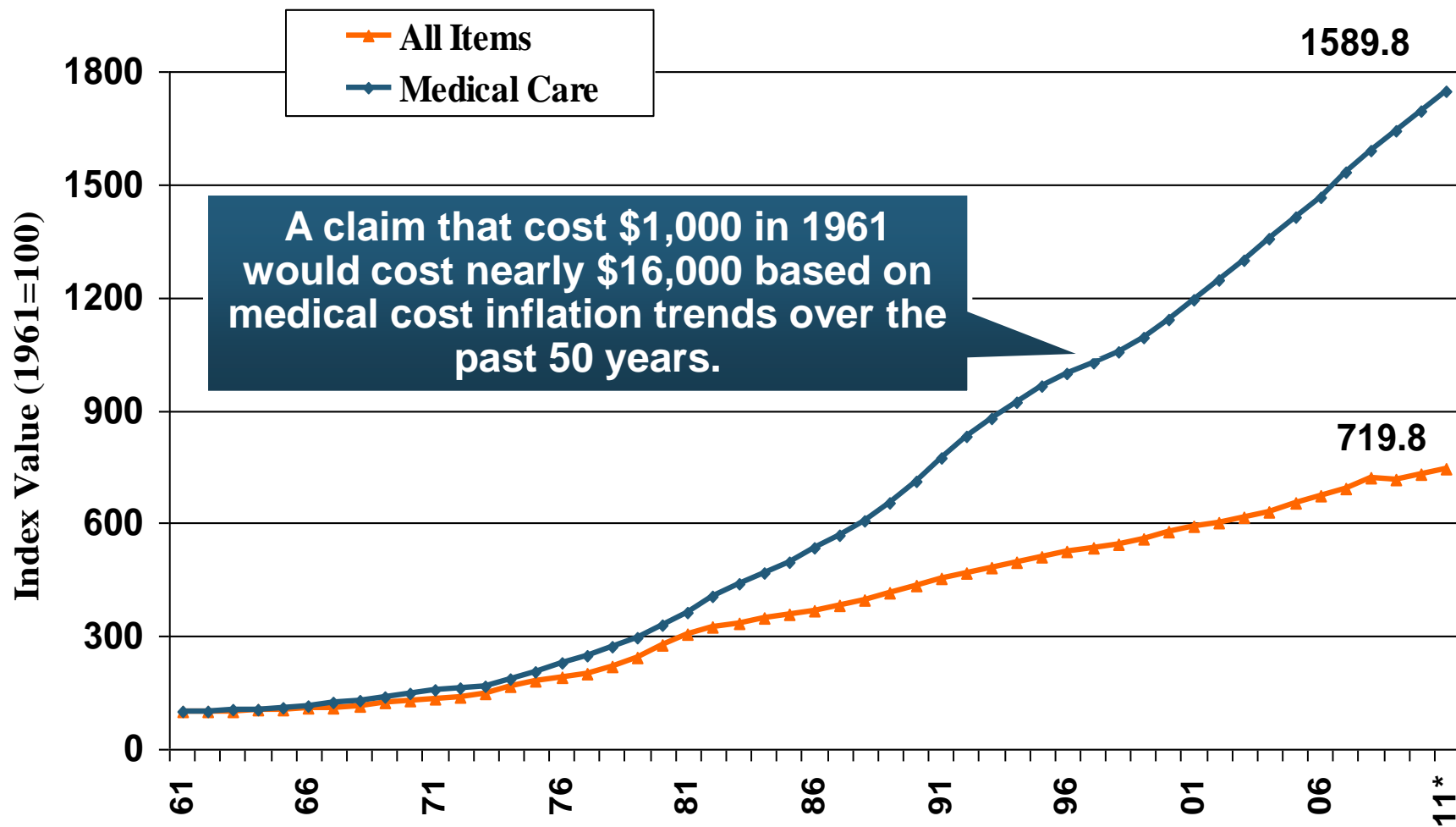
Annual Inflation Rates, (CPI-U, %), 1990–2017F

Annual Inflation Rates (%)



The slack in the U.S. economy suggests that inflationary pressures should remain subdued for an extended period of times. Energy, health care and commodity prices, plus U.S. debt burden, remain longer-run concerns

Medical Cost Inflation Has Outpaced Overall Inflation Over 50 Years

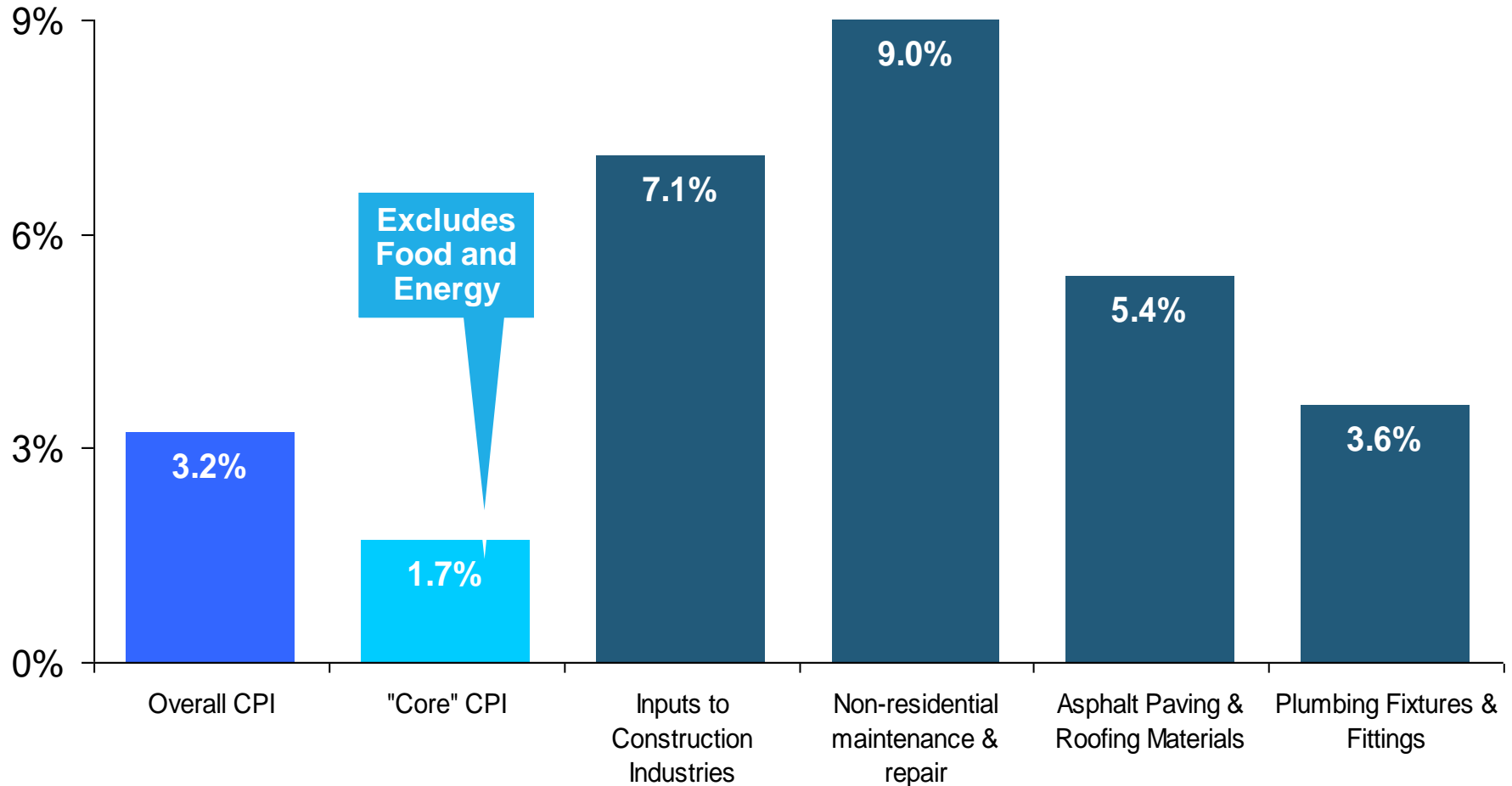


*Based on change from Feb. 2011 to Feb. 2010 (latest available)

Source: Department of Labor (Bureau of Labor Statistics)

P/C Commercial Property Insurance Claim Cost Drivers Grow Faster than the Overall CPI Suggests

Price Level Change,
2011 vs. 2010



Copper prices spiked and retreated in 2011. In July its price was 33% higher than a year earlier; by November it cost 8% less than in November 2010.

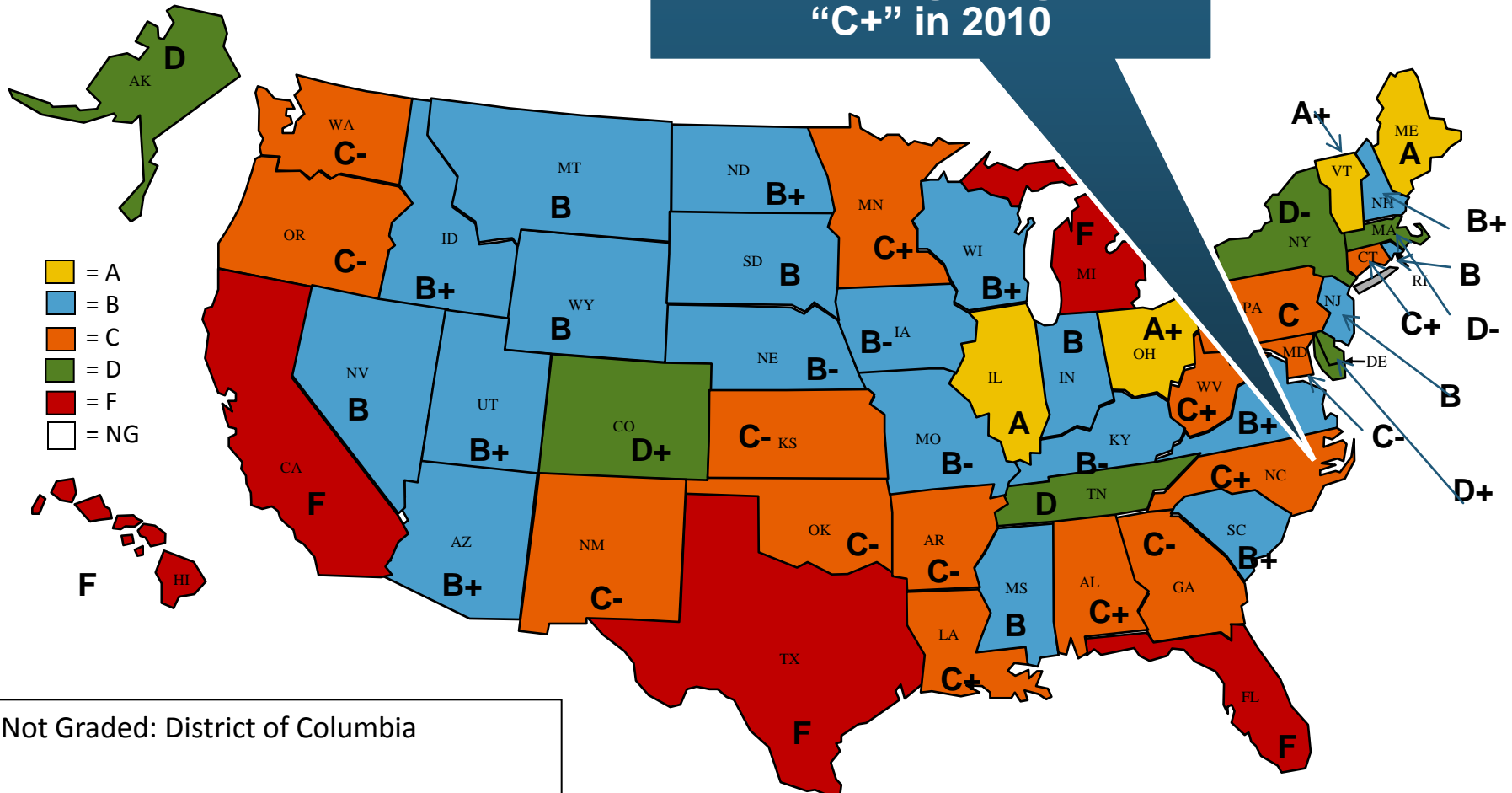


Regulatory Environment & Financial Services Reform

**State Regulatory Environments
Vary Tremendously and Can
Impact Insurer Profitability and
Ability to Compete**

2010 Property and Casualty Insurance Regulatory Report Card

North Carolina's regulatory environment got a grade of "C+" in 2010



Insurance Information Institute Online:

www.iii.org

***Thank you for your time
and your attention!***

Twitter: twitter.com/bob_hartwig