

# P/C Insurance Industry Overview & Outlook Focus in Insurance Markets in the Northwest US: WA, OR, ID

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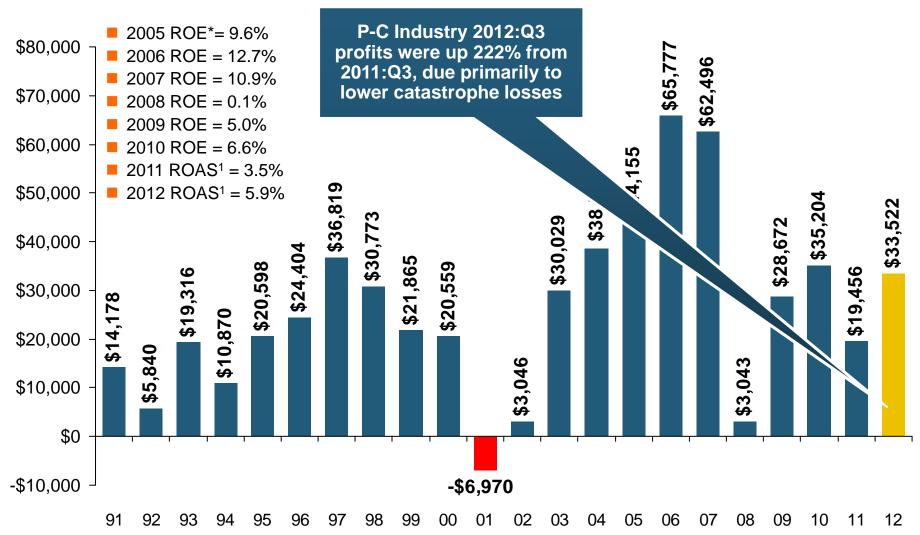


#### P/C Insurance Industry Financial Overview

# Profit Recovery in 2012 After High CAT Losses; Ultimate Impact of Sandy Still Unclear

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



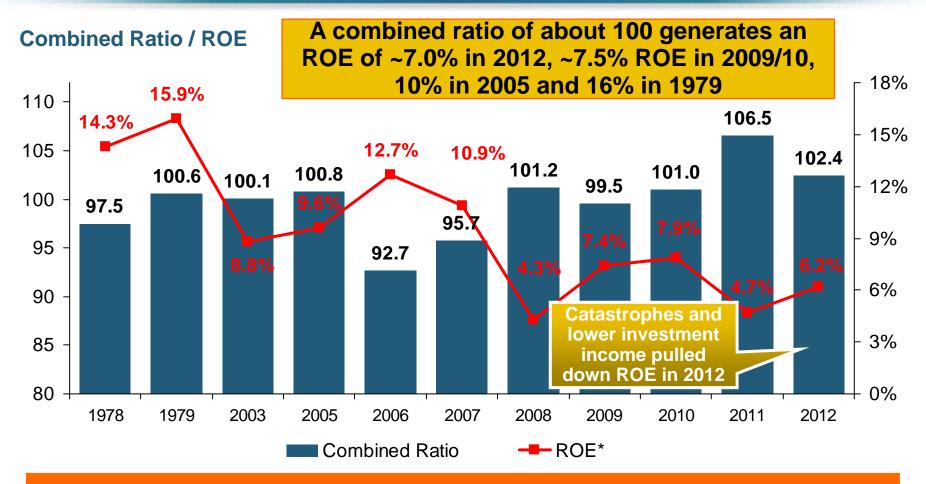


<sup>\*</sup> ROE figures are GAAP; <sup>1</sup>Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 6.2% ROAS in 2012, 4.7% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009.

Sources: A.M. Best, ISO, Insurance Information Institute

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



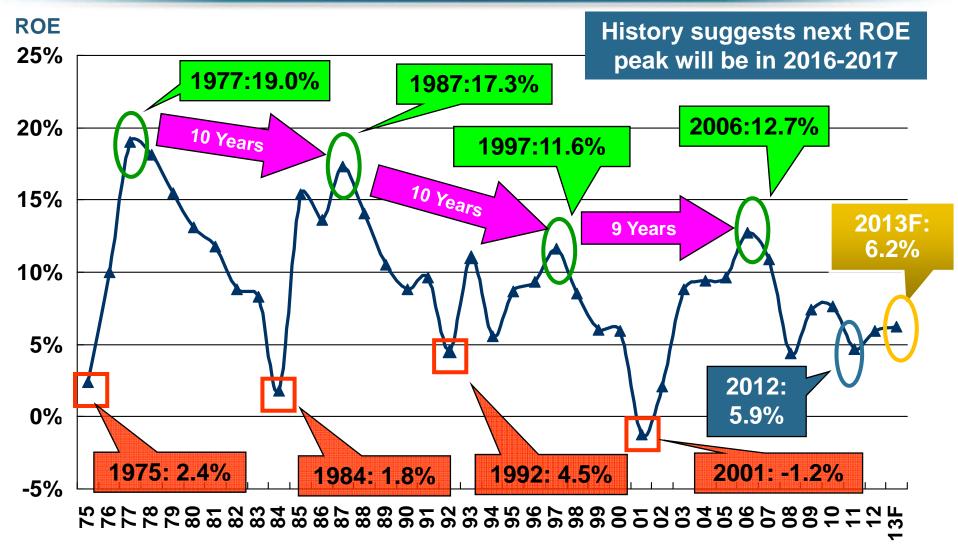


Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

<sup>\* 2008 -2012</sup> figures are return on average surplus and exclude mortgage and financial guaranty insurers. 2012 combined ratio including M&FG insurers is 103.2, 2011 combined ratio including M&FG insurers is 108.1, ROAS = 3.5%. Source: Insurance Information Institute from A.M. Best and ISO data.

# Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2013F\*





<sup>\*</sup>Profitability = P/C insurer ROEs. 2011 figure is an estimate based on ROAS data. Note: Data for 2008-2013 exclude mortgage and financial guaranty insurers. 2012:Q3 ROAS = 6.2% including M&FG. Source: Insurance Information Institute; NAIC, ISO, A.M. Best.

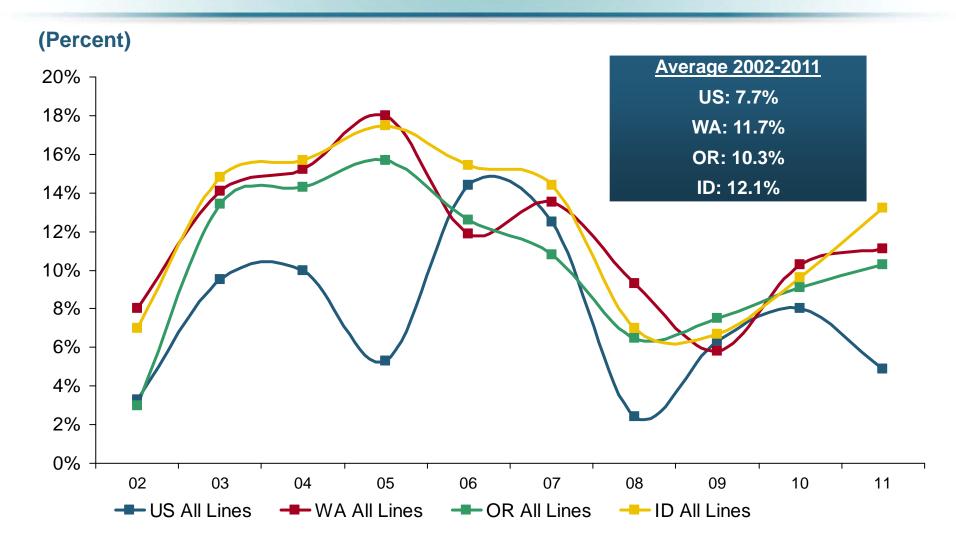


# Profitability and Growth in Washington, Oregon & Idaho P/C Insurance Markets

# **Analysis by Line and Nearby State Comparisons**

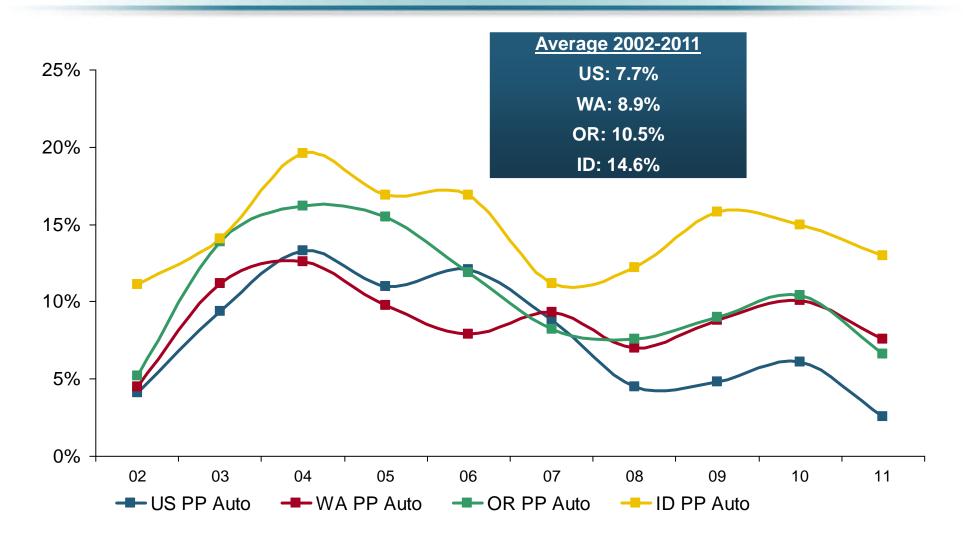
### RNW All Lines: WA, OR & ID vs. U.S., 2002-2011





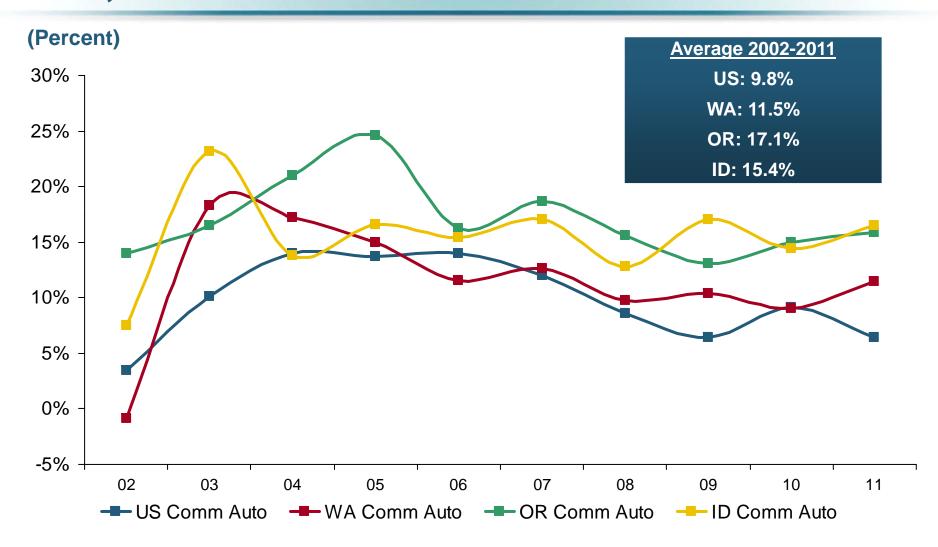
### RNW PP Auto: WA, OR & ID vs. U.S., 2002-2011





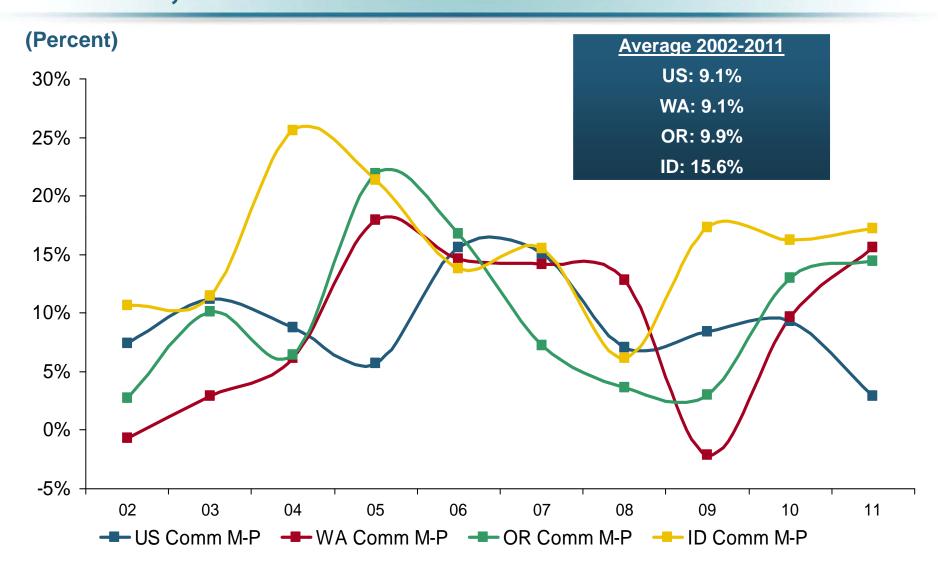
## RNW Comm. Auto: WA, OR & ID vs. U.S., 2002-2011





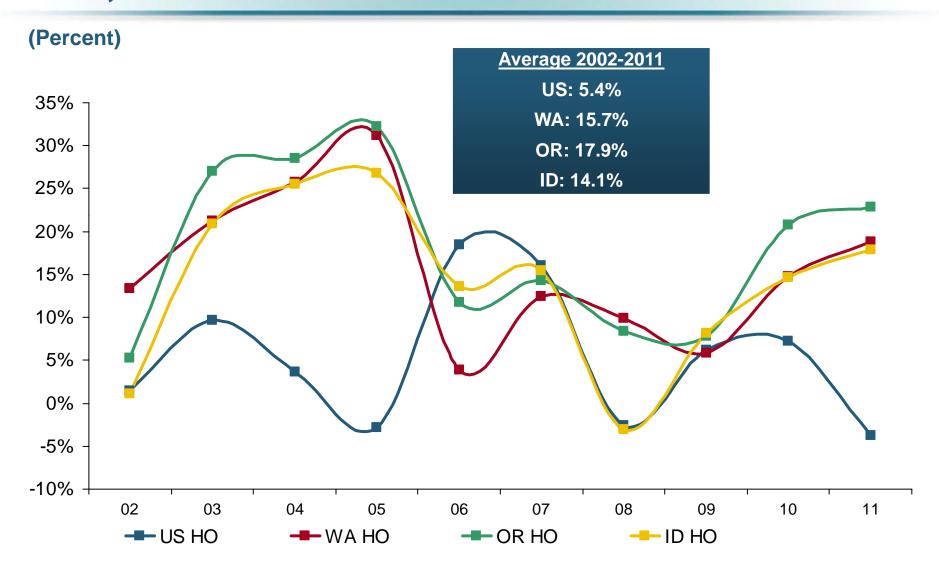
## RNW Comm. Multi-Peril: WA, OR & ID vs. U.S., 2002-2011





## RNW Homeowners: WA, OR & ID vs. U.S., 2002-2011

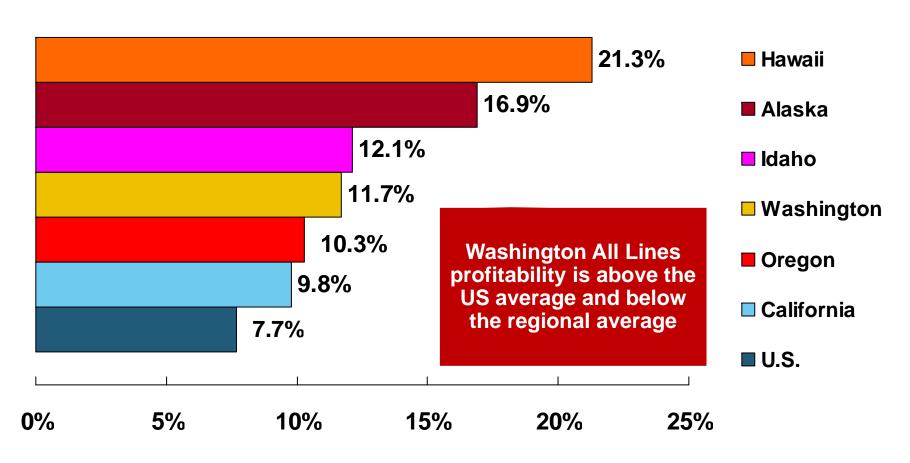




#### All Lines: 10-Year Average RNW WA & Nearby States



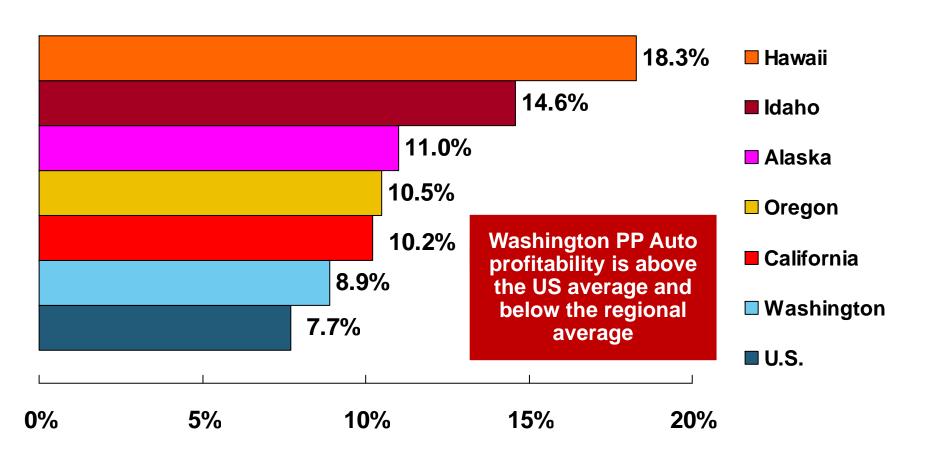




#### PP Auto: 10-Year Average RNW WA & Nearby States







#### Top Ten Most Expensive And Least Expensive States For Automobile Insurance, 2010 (1)



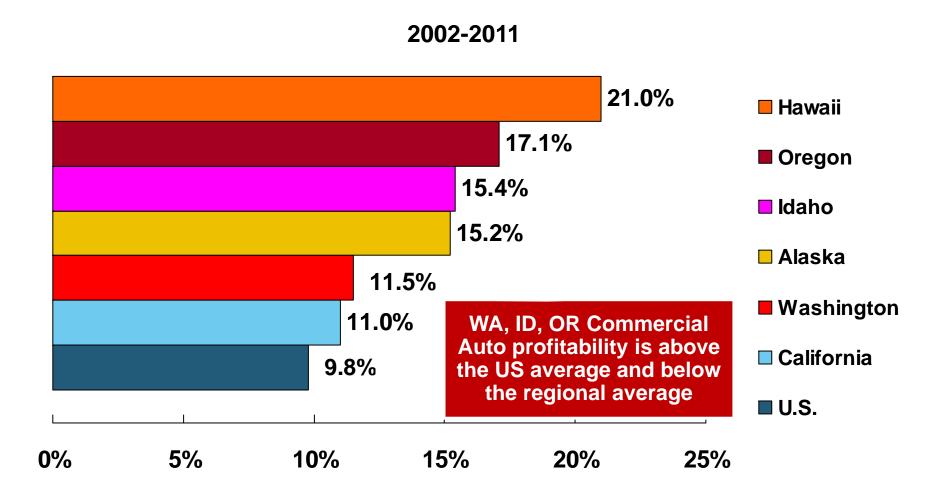
Rank	Most expensive states	Average expenditure	Rank	Least expensive states	Average expenditure
1	New Jersey	\$1,157.30	1	South Dakota	\$525.16
2	District of Columbia	1,133.87	2	North Dakota	528.81
3	Louisiana	1,121.46	3	lowa	546.59
4	New York	1,078.88	4	ldaho	547.78
5	Florida	1,036.76	5	Maine	582.29
6	Delaware	1,030.98	6	Nebraska	592.69
7	Rhode Island	984.95	7	North Carolina	599.90
8	Connecticut	965.22	8	Wisconsin	613.37
9	Maryland	947.70	9	Ohio	619.46
10	Michigan	934.60	10	Wyoming	621.08

Washington ranked 16th most expensive state in 2010, with an average expenditure for auto insurance of \$815.27.

<sup>(1)</sup> Based on average automobile insurance expenditures.

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

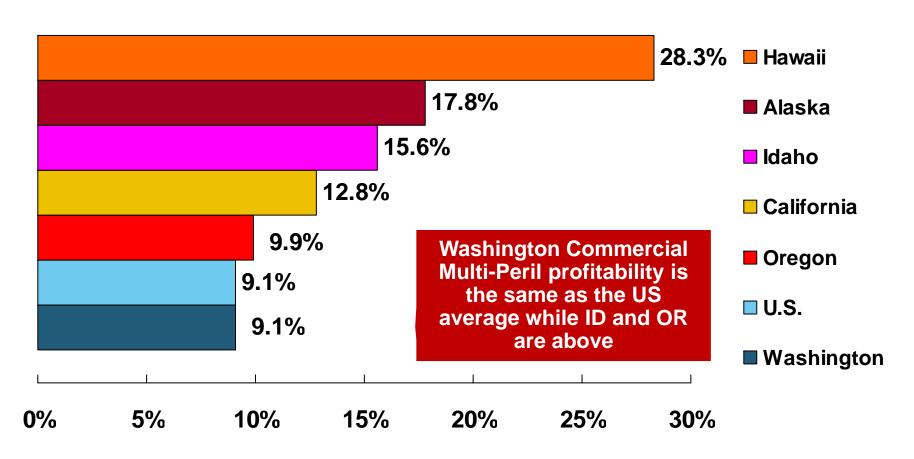




#### Comm. M-P: 10-Year Average RNW WA & The Nearby States



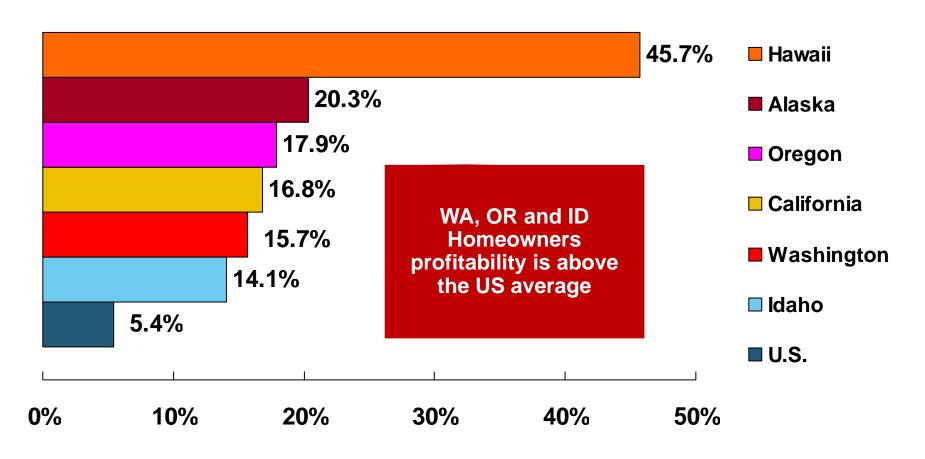




#### Homeowners: 10-Year Average RNW WA & Nearby States







#### **Top Ten Most Expensive And Least Expensive States For Homeowners Insurance, 2010 (1)**



Washington ranked as the 5th least expensive state for homeowners insurance in 2010, with an average expenditure of \$595.

Rank	Most expensive states	Average expenditure	Rank	Least expensive states	Average expenditure
1	Texas (2)	\$1,560	1	Idaho	\$500
2	Louisiana (3)	1,546	2	Oregon	535
3	Florida (4)	1,544	3	Utah	558
4	Oklahoma	1,246	4	Wisconsin	563
5	Mississippi	1,217	5	Washington	595
6	Rhode Island	1,092	6	Ohio	614
7	Kansas	1,066	7	Delaware	636
8	District Of Columbia	1,065	8	Arizona	666
9	Connecticut	1,052	9	Maine	676
10	Alabama	1,050	10	South Dakota	678

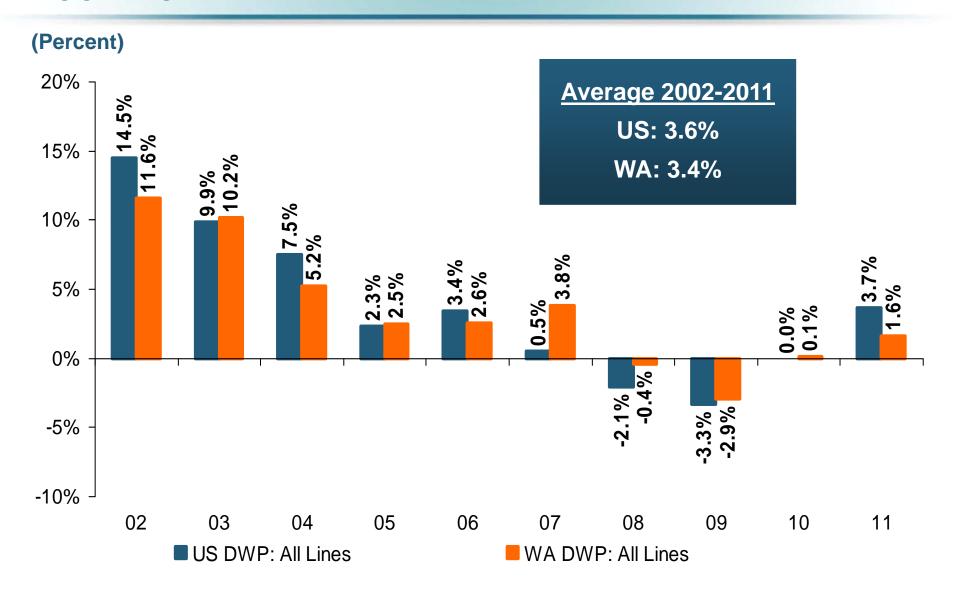
- (1) Based on the HO-3 homeowner package policy for owner-occupied dwellings, 1 to 4 family units. Provides "all risks" coverage (except those specifically excluded in the policy) on buildings and broad named-peril coverage on personal property, and is the most common package written.
- (2) The Texas Department of Insurance developed home insurance policy forms that are similar but not identical to the standard forms. 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.
- (3) Policies written by Citizens Property Insurance (Louisiana), are not included.
- (4) Policies written by Citizens Property Insurance (Florida), are not included.

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: © 2012 National Association of Insurance Commissioners (NAIC). Reprinted with permission. Further reprint or distribution strictly prohibited without written permission of NAIC.

### All Lines DWP Growth: WA vs. U.S., 2002-2011

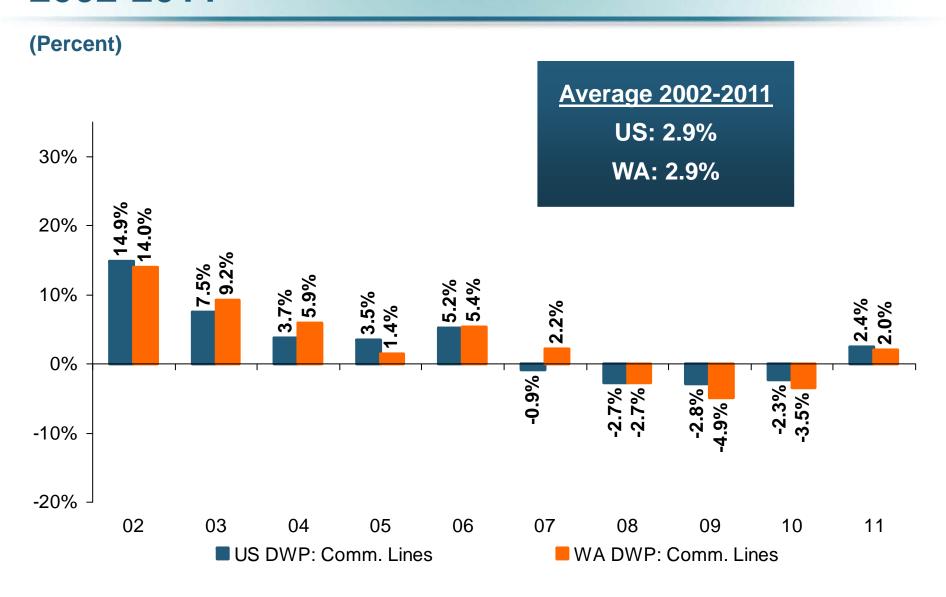




Source: SNL Financial.

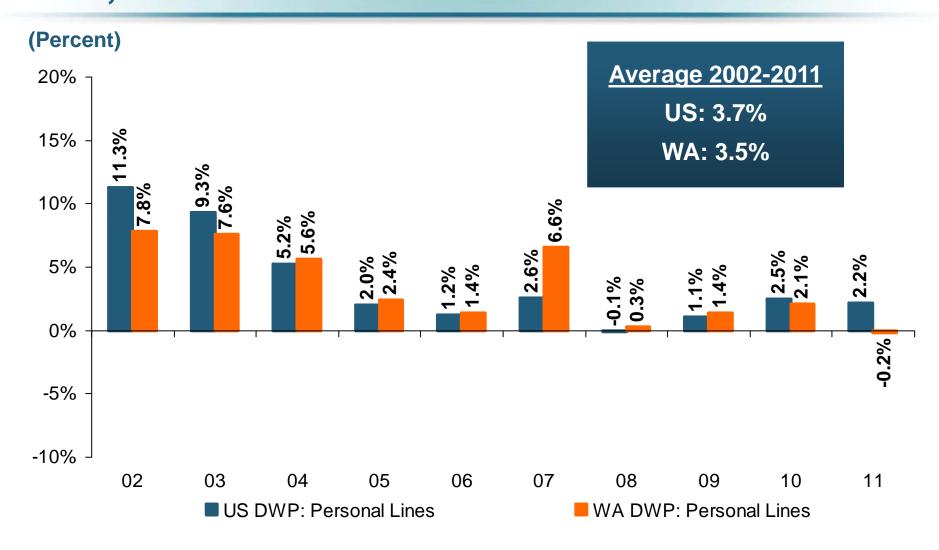
### Comm. Lines DWP Growth: WA vs. U.S., 2002-2011





# Personal Lines DWP Growth: WA vs. U.S., 2002-2011

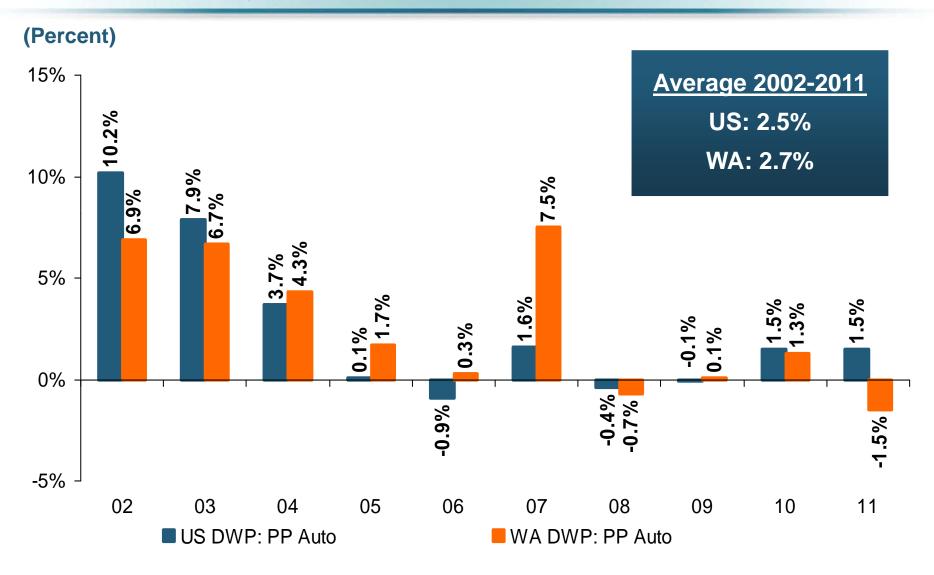




Source: SNL Financial.

# Private Passenger Auto DWP Growth: WA vs. U.S., 2002-2011

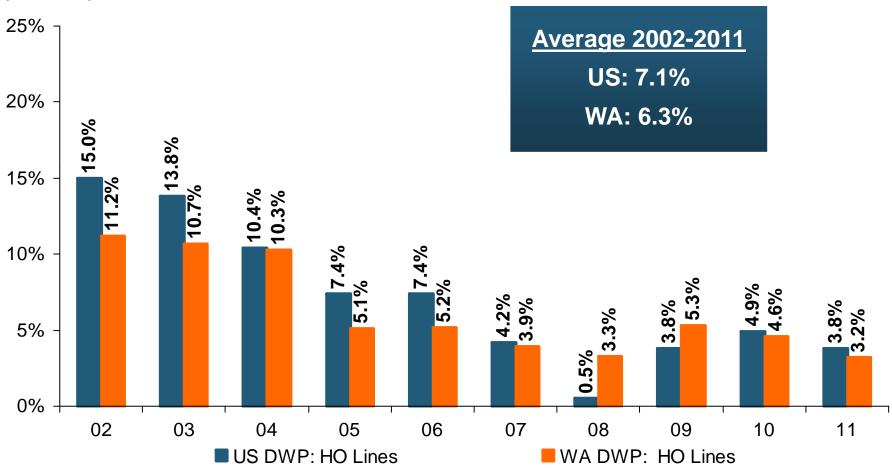




# Homeowner's MP DWP Growth: WA vs. U.S., 2002-2011







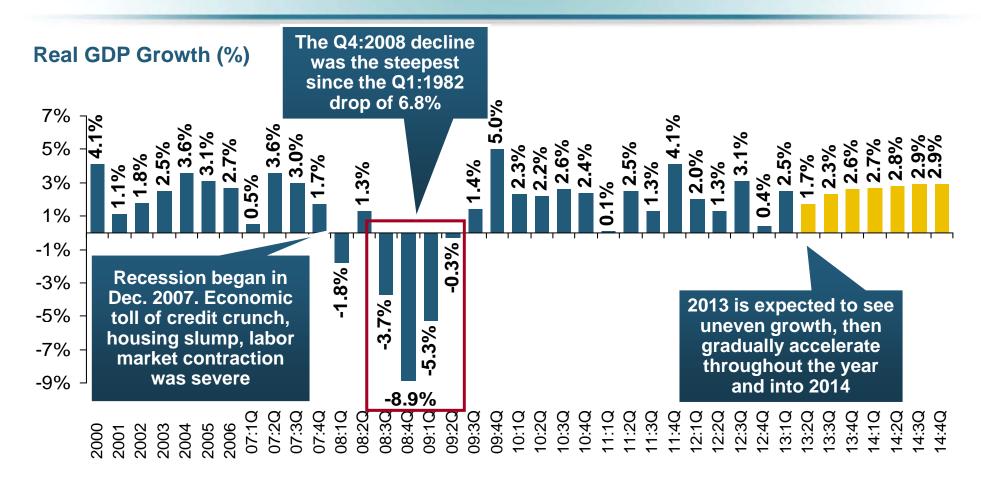


# The Strength of the Economy Will Influence P/C Insurer Growth Opportunities

# Growth Will Expand Insurer Exposure Base Across Most Lines

#### **US Real GDP Growth\***





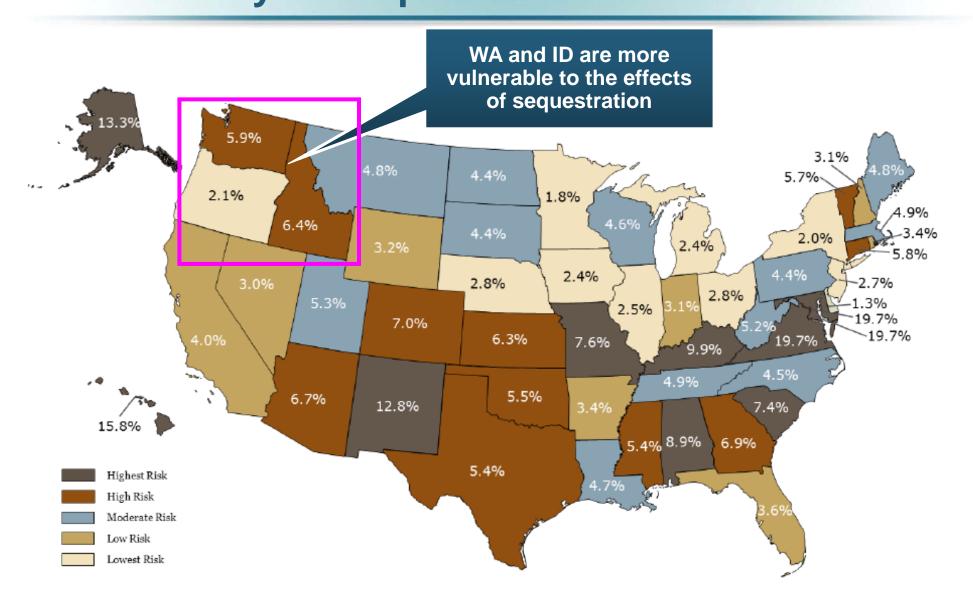
Demand for Insurance Continues To Be Impacted by Sluggish Economic Conditions, but the Benefits of Even Slow Growth Will Compound and Gradually Benefit the Economy Broadly

Source: US Department of Commerce, Blue Economic Indicators 5/13; Insurance Information Institute.

<sup>\*</sup> Estimates/Forecasts from Blue Chip Economic Indicators.

#### Federal Spending as a Share of State GDP: INSURANCE **Vulnerability to Sequestration Varies**

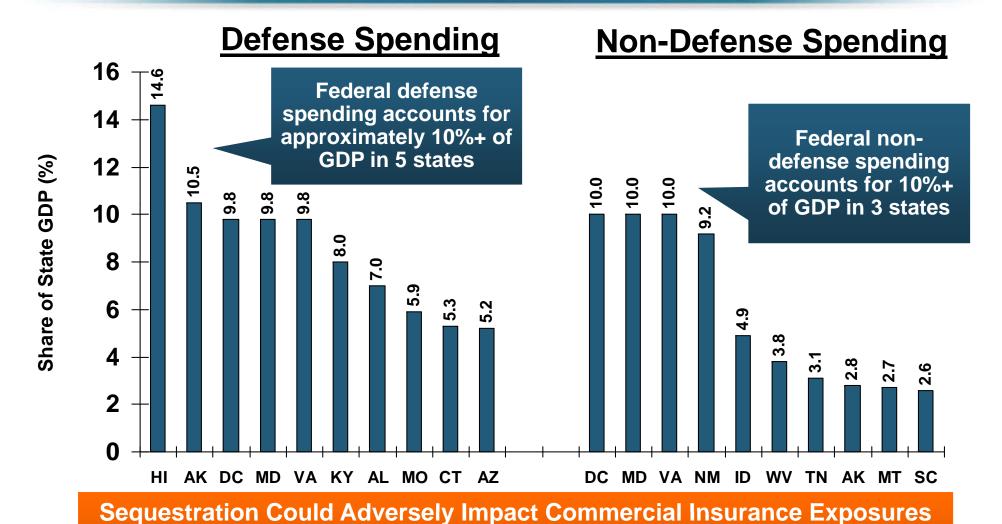




Sources: Pew Center on the States (2012) Impact of the Fiscal Cliff on the States; Wells Fargo; Insurance Information Institute.

### Defense and Non-Defense Federal Spending as a Share of State GDP: Top 10 States\*





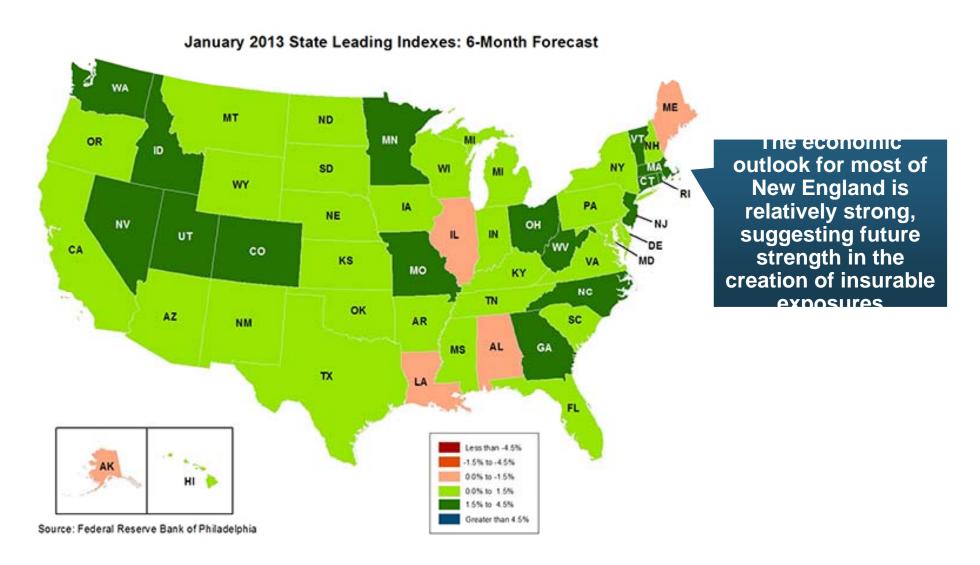
\*As of 2010.

Sources: Pew Center on the States (2012) Impact of the Fiscal Cliff on the States; Wells Fargo Securities; Insurance Information Institute.

Directly at Defense Contractors and Indirectly in Impacted Communities

# State-by-State Leading Indicators through 2013:Q2

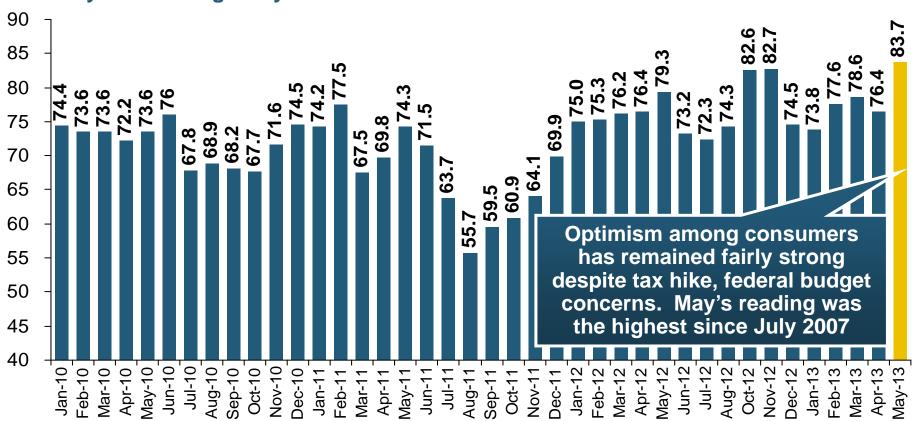




#### **Consumer Sentiment Survey** (1966 = 100)



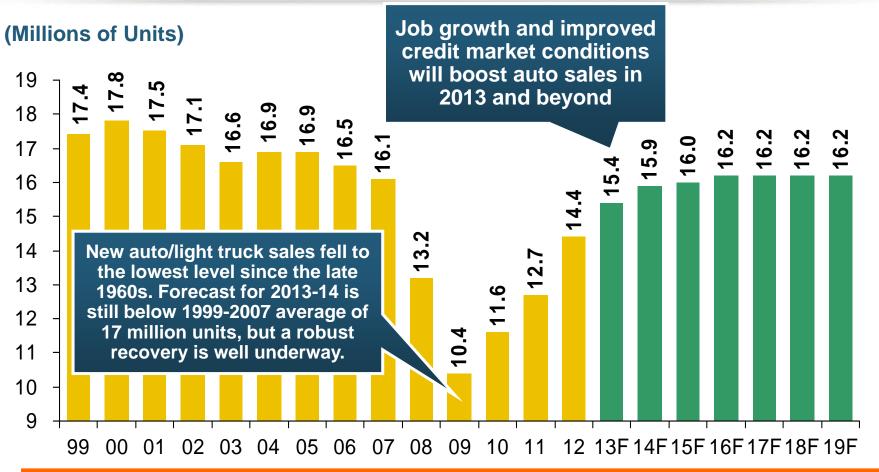




Consumer confidence has been low for years amid high unemployment, falling home prices and other factors adversely impact consumers, but improved substantially in late 2011 and in 2012

#### Auto/Light Truck Sales, 1999-2019F

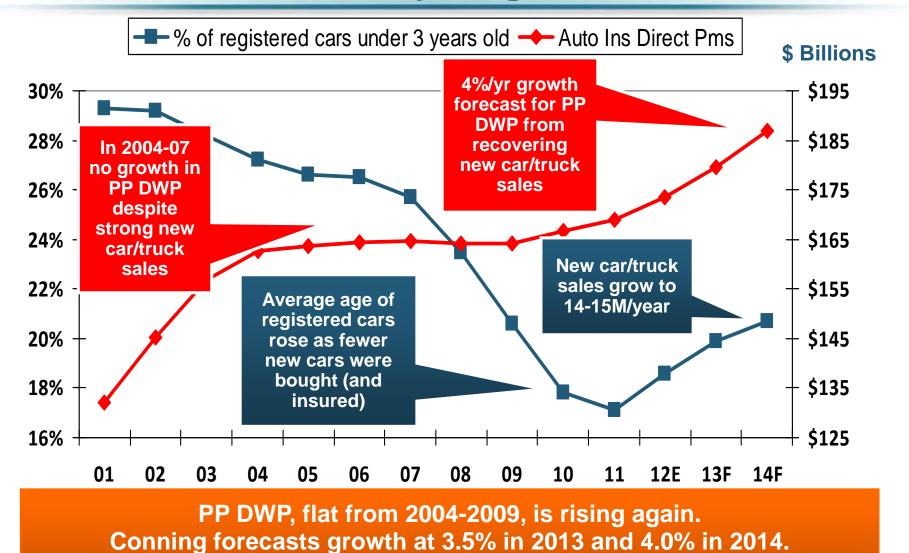




Car/Light Truck Sales Will Continue to Recover from the 2009 Low Point, Bolstering the Auto Insurer Growth and the Manufacturing Sector Along With Workers Comp Exposures

# Personal Auto Insurance Direct Written Premiums vs. Recently-Registered Cars

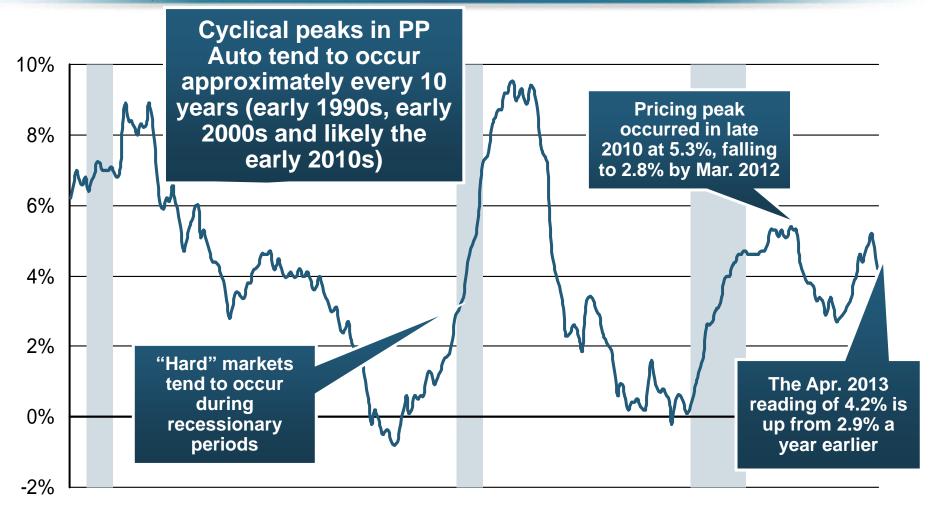




Sources: AIPSO Facts (various issues); SNL Financial; Conning Research & Consulting, *Property-Casualty Forecast and Analysis*, First Quarter 2012; Insurance Information Institute.

# Monthly Change\* in Auto Insurance Prices, 1991–2013\*





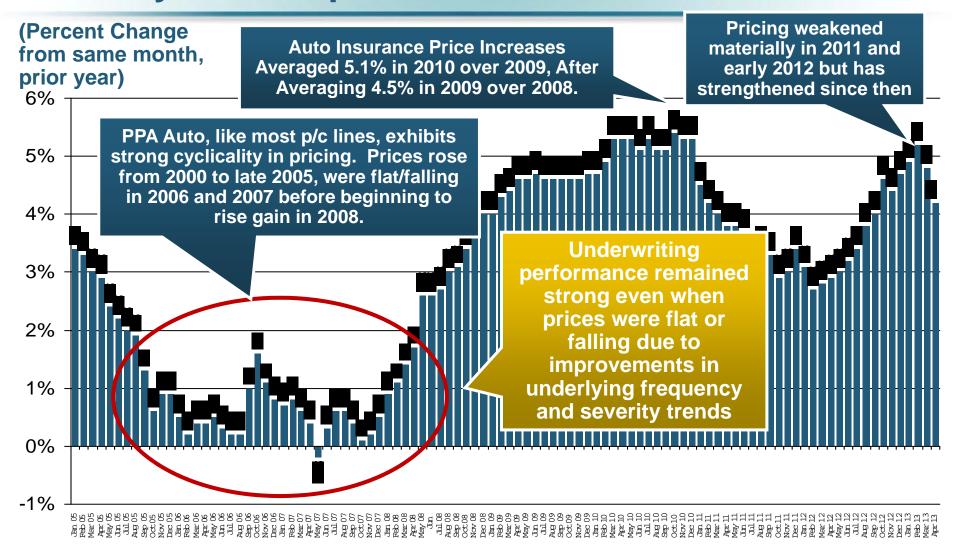
'90 '91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13

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

<sup>\*</sup>Percentage change from same month in prior year; through Apr. 2013; seasonally adjusted Note: Recessions indicated by gray shaded columns.

### Monthly Change\* in Auto Insurance Prices, January 2005 - April 2013

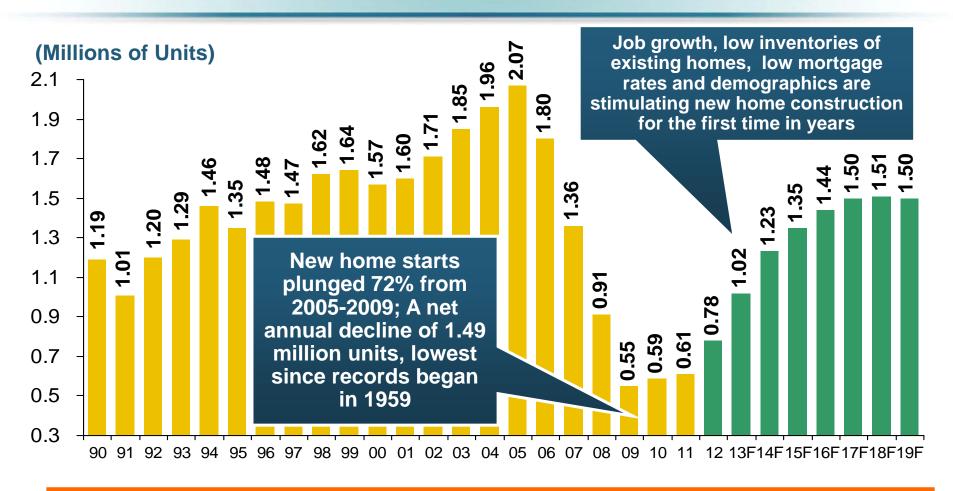




<sup>\*</sup>Percentage change from same month in prior year, seasonally adjusted. Sources: US Bureau of Labor Statistics; Insurance Information Institute

#### New Private Housing Starts, 1990-2019F

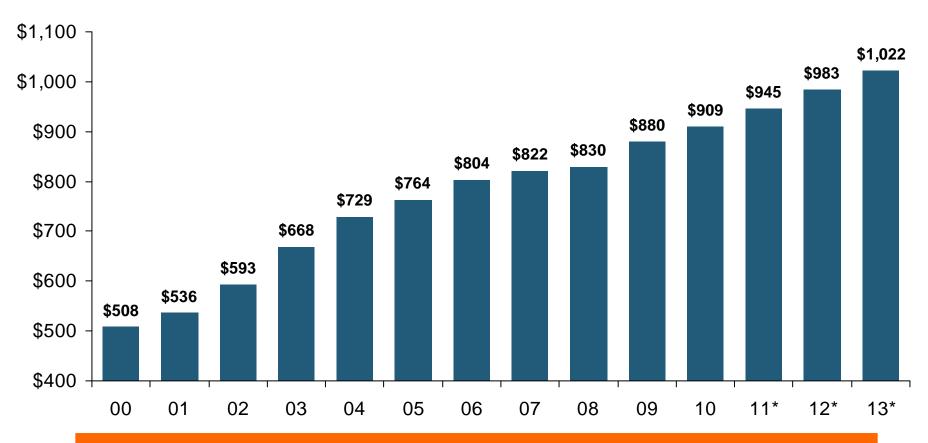




Homeowners Insurers Are Starting to See Meaningful Exposure Growth for the First Time Since 2005. Commercial Insurers with Construction Risk **Exposure, Surety; Potent Driver of Workers Comp Exposure** 

#### **Average Premium for Home Insurance Policies\*\***





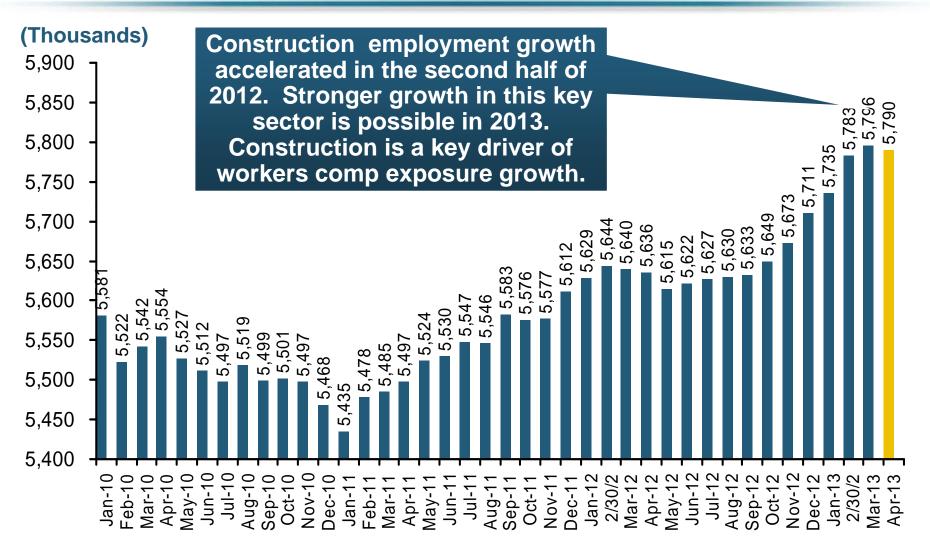
Countrywide Home Insurance Expenditures Increased by an Estimated 4.0% in 2011-2013

<sup>\*</sup> Insurance Information Institute Estimates/Forecasts \*\*Excludes state-run insurers.

Source: NAIC, Insurance Information Institute estimates for 2011-2013 based on CPI data and other data.

# Construction Employment, Jan. 2010—April 2013\*





<sup>\*</sup>Seasonally adjusted

### Construction Employment, Jan. 2003–Apr. 2013





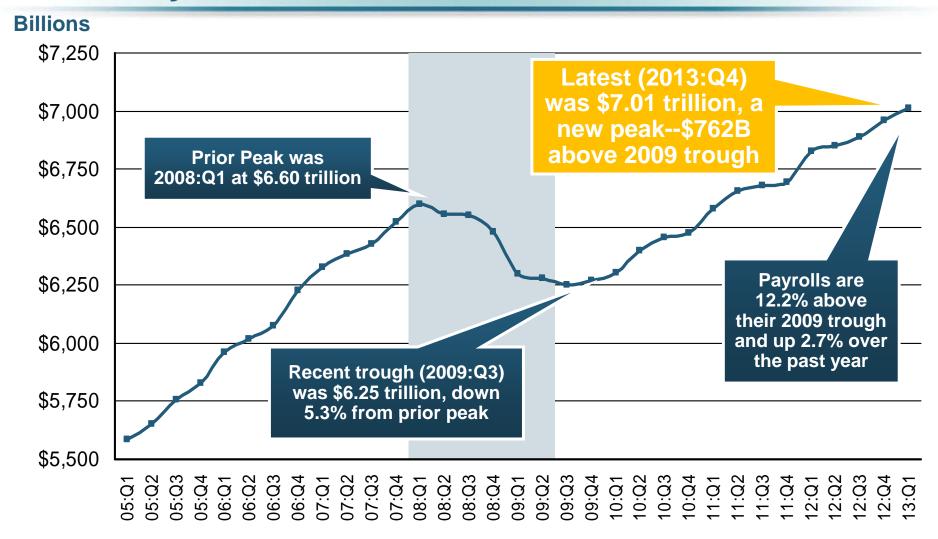
The Construction Sector Could Be a Growth Leader in 2013 and 2014 as the Housing Market and Private Investment Recover. WC Insurers Will Benefit.

Note: Recession indicated by gray shaded column.

Sources: U.S. Bureau of Labor Statistics; Insurance Information Institute.

### Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2013:Q1



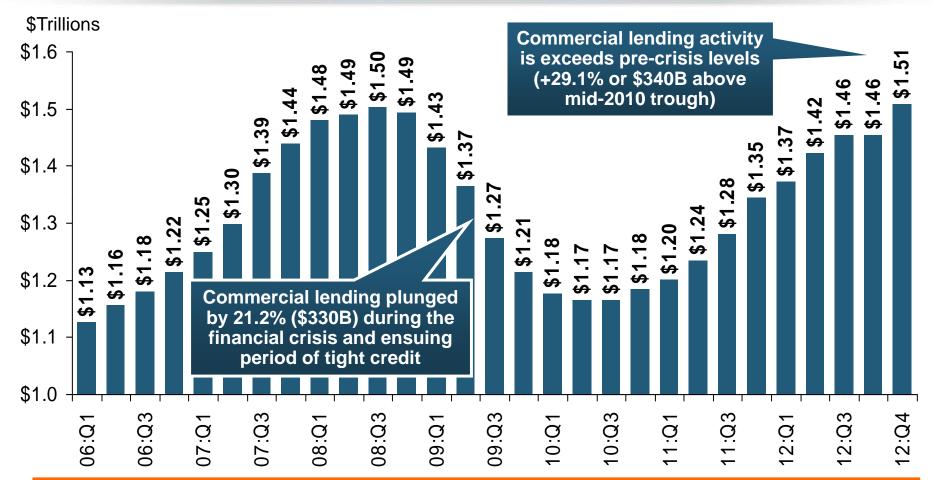


Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

Sources: <a href="http://research.stlouisfed.org/fred2/series/WASCUR">http://research.stlouisfed.org/fred2/series/WASCUR</a>; National Bureau of Economic Research (recession dates); Insurance Information Institute.

### Commercial & Industrial Loans Outstanding at FDIC-Insured Banks, Quarterly, 2006-2012:Q4\*





Outstanding Commercial Loan Volume Has Been Growing for Over Two Years and Is Now Nearly Back to Early Recession Levels. Bodes Very Well for the Creation of Current and Future Commercial Insurance Exposures

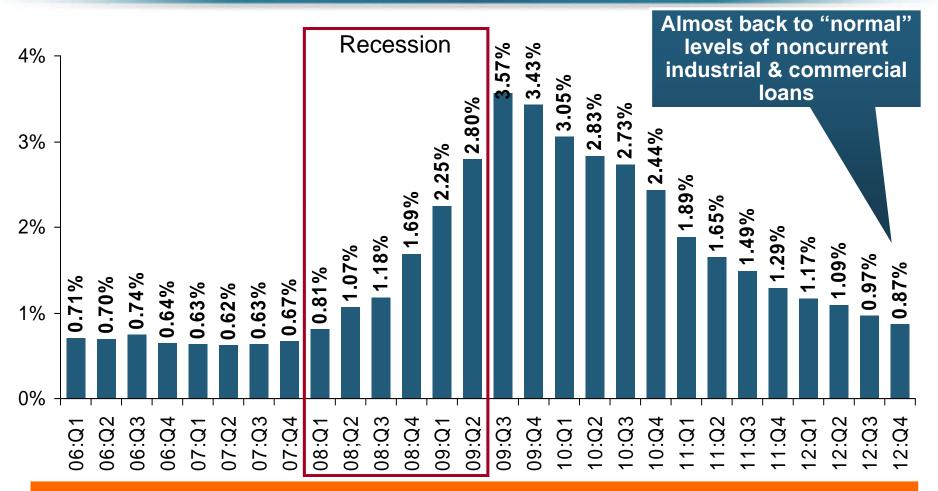
\*Latest data as of 3/18/2013.

Source: FDIC at <a href="http://www2.fdic.gov/qbp/">http://www2.fdic.gov/qbp/</a> (Loan Performance spreadsheet); Insurance Information Institute.

### Percent of Non-current Commercial & Industrial Loans Outstanding at FDIC-Insured Banks,



Quarterly, 2006-2012:Q4\*



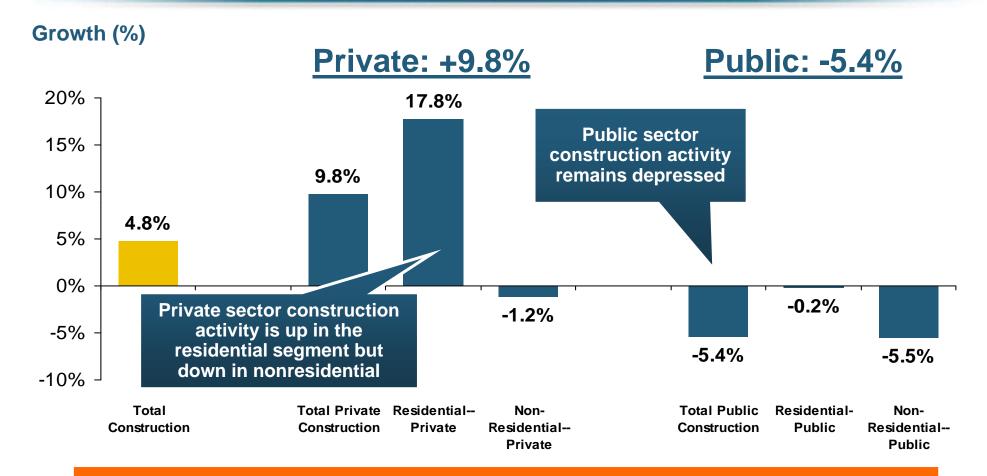
Non-current loans (those past due 90 days or more or in nonaccrual status) are back to early-recession levels, fueling bank willingness to lend.

\*Latest data as of 3/18/2013.

Source: FDIC at <a href="http://www2.fdic.gov/qbp/">http://www2.fdic.gov/qbp/</a> (Loan Performance spreadsheet); Insurance Information Institute.

### Value of Construction Put in Place, March 2013 vs. March 2012\*





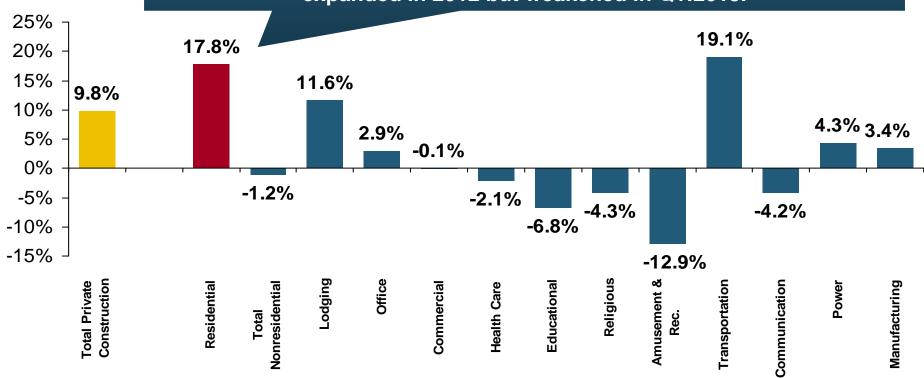
Overall Construction Activity is Up, But Growth Is Entirely in the Private Sector as State/Local Government Budget Woes Continue

### Value of Private Construction Put in Place, by Segment, Mar. 2013 vs. Mar. 2012\*



Growth (%)

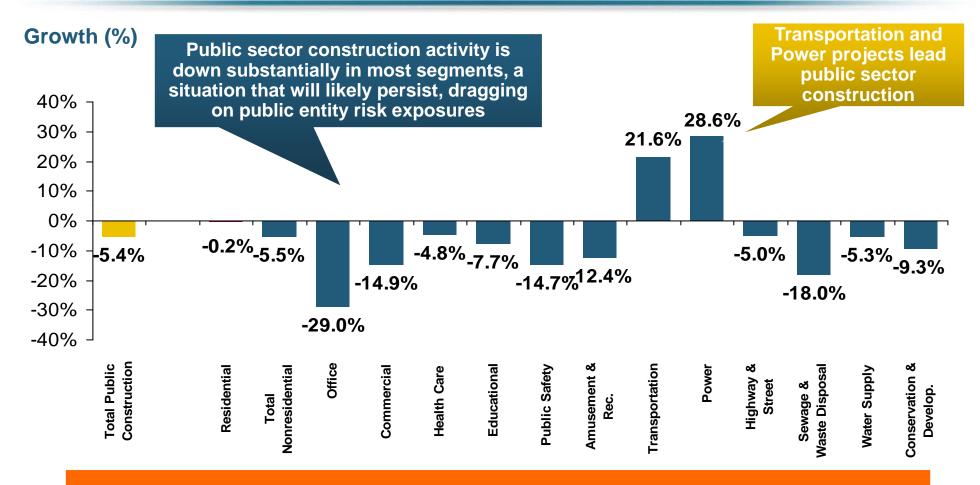
Led by the Residential Construction, Lodging, Office, and Transportation industries, Private sector construction activity is mixed up across many segments after plunging during the "Great Recession." Most segments expanded in 2012 but weakened in Q1:2013.



Private Construction Activity is Up Some Segments, Including the Key Residential Construction Sector, But Weakening in Early 2013

### Value of Public Construction Put in Place, by Segment, Mar. 2013 vs. Mar. 2012\*



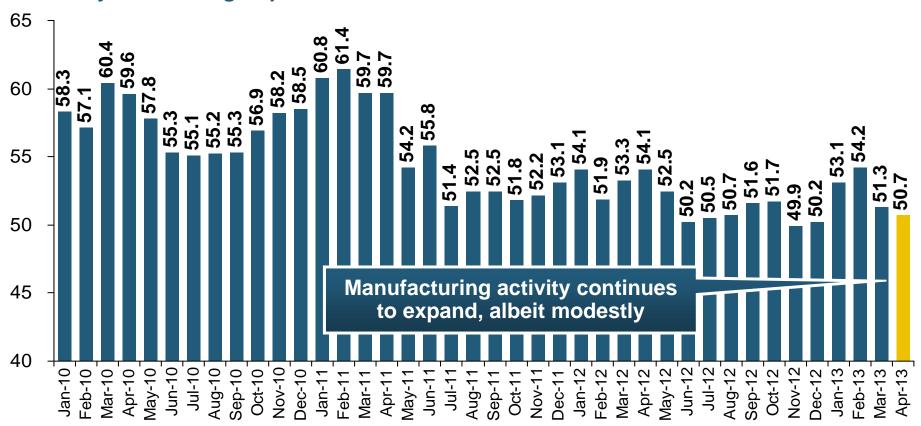


Public Construction Activity is Down in Many Segments as State and Local Budgets Remain Under Stress; Improvement Possible in 2013.

### ISM Manufacturing Index (Values > 50 Indicate Expansion)



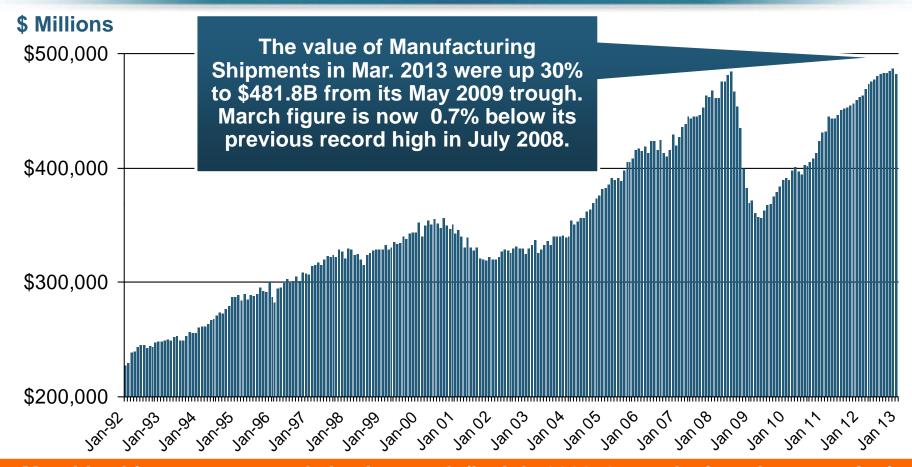
#### January 2010 through April 2013



The manufacturing sector expanded for 39 of the 40 months from Jan. 2010 through Apr. 2013. The expectation is that this will continue.

### Dollar Value\* of Manufacturers' Shipments Monthly, Jan. 1992—Mar. 2013





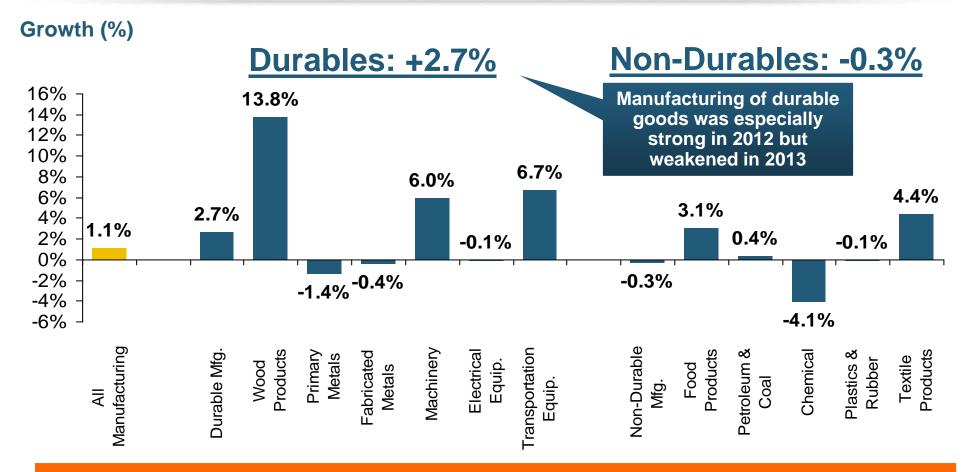
Monthly shipments are nearly back to peak (in July 2008, 8 months into the recession). Trough in May 2009. Growth from trough to Mar. 2013 was 30%. Manufacturing is an energy intensive activity and growth leads to gains in many commercial exposures: WC, Commercial Auto, Marine, Property and Various Liability Coverages

\*seasonally adjusted

Source: U.S. Census Bureau, Full Report on Manufacturers' Shipments, Inventories, and Orders, http://www.census.gov/manufacturing/m3/

### Manufacturing Growth for Selected Sectors, 2013 vs. 2013\*



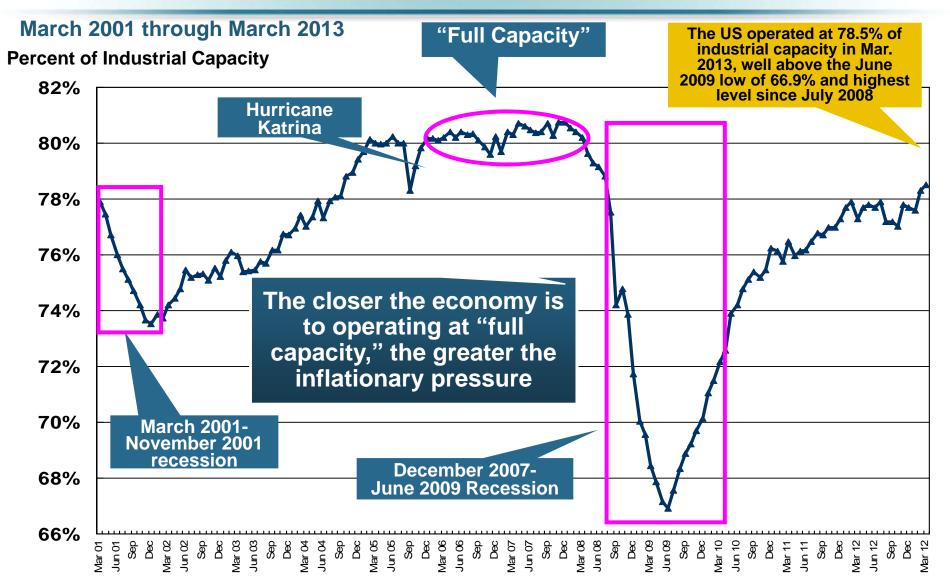


Manufacturing Is Expanding—Albeit More Slowly—Across a Number of Sectors that Will Contribute to Growth in Insurable Exposures Including: WC, Commercial Property, Commercial Auto and Many Liability Coverages

\*Seasonally adjusted; Date are YTD comparing data through February 2013 to the same period in 2012. Source: U.S. Census Bureau, Full Report on Manufacturers' Shipments, Inventories, and Orders, <a href="http://www.census.gov/manufacturing/m3/">http://www.census.gov/manufacturing/m3/</a>

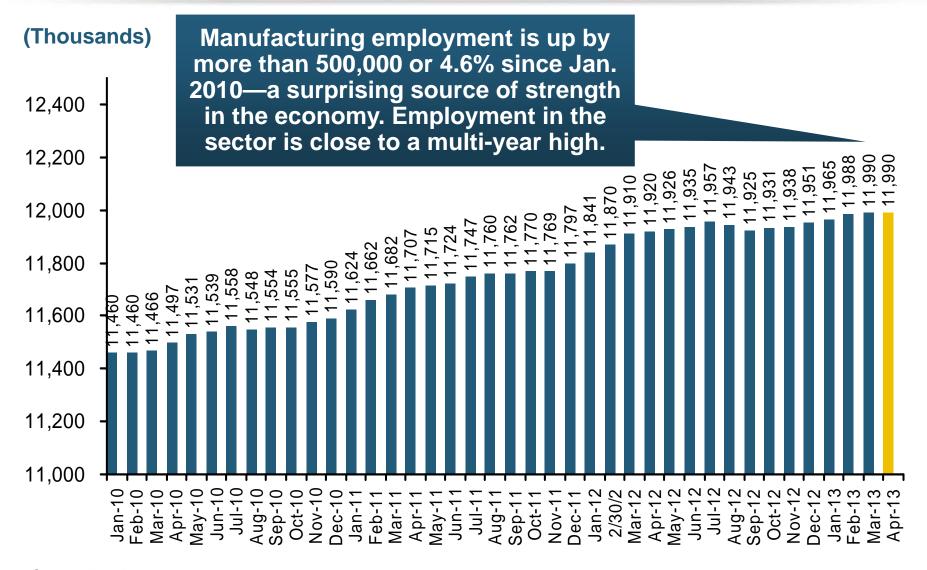
### Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures





### Manufacturing Employment, Jan. 2010—April 2013\*



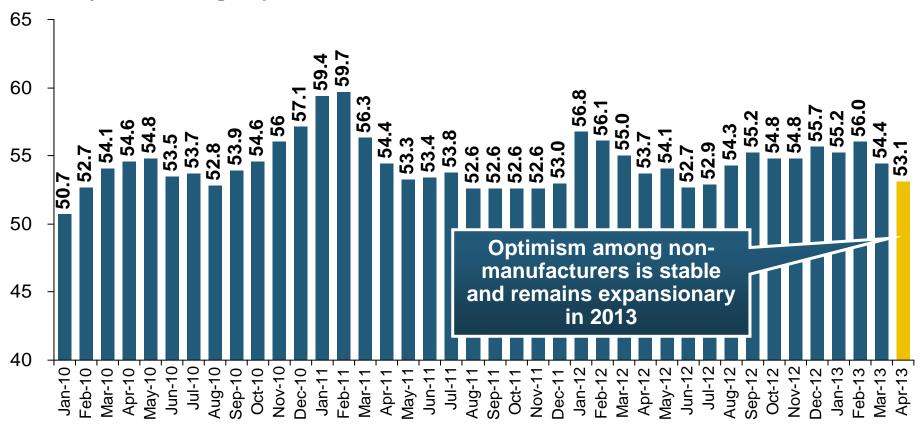


<sup>\*</sup>Seasonally adjusted

### ISM Non-Manufacturing Index (Values > 50 Indicate Expansion)



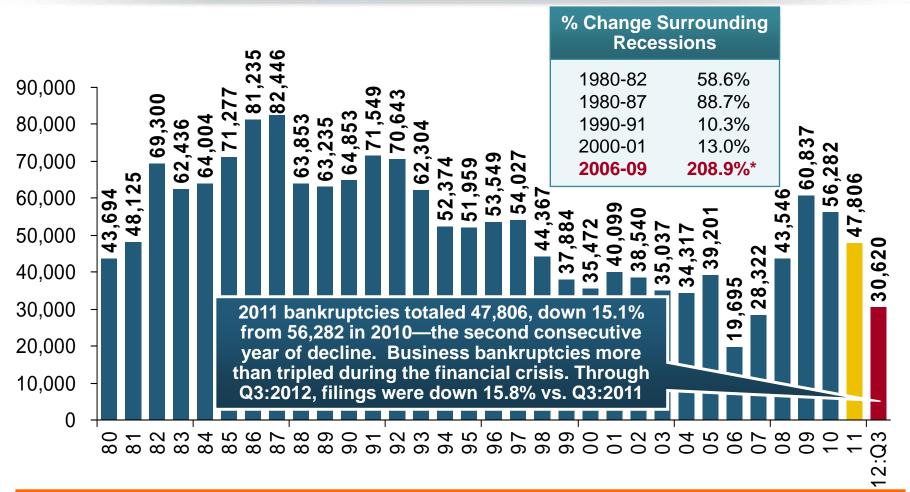
#### January 2010 through April 2013



Non-manufacturing industries have been expanding and adding jobs. The question is whether this will continue.

### Business Bankruptcy Filings, 1980-2012:Q3



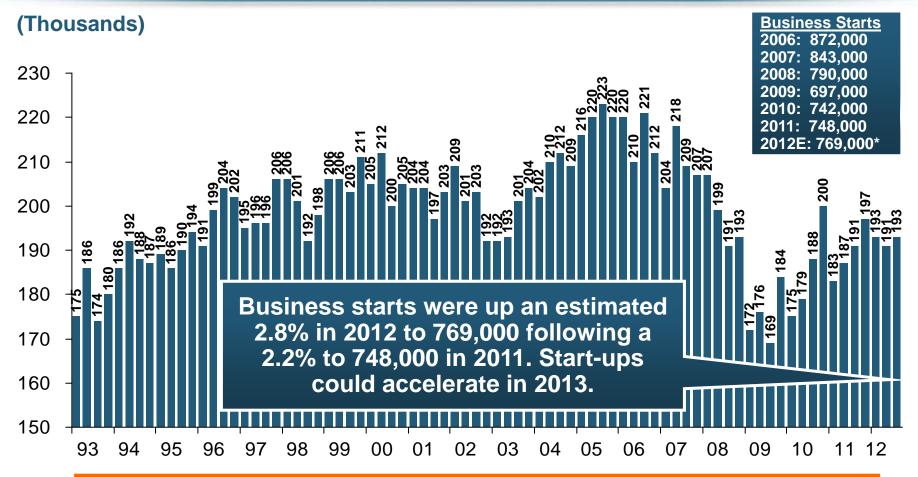


Significant Exposure Implications for All Commercial Lines as Business Bankruptcies Begin to Decline

Sources: American Bankruptcy Institute at <a href="http://www.abiworld.org/AM/AMTemplate.cfm?Section=Home&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=61633">http://www.abiworld.org/AM/AMTemplate.cfm?Section=Home&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=61633</a>; Insurance Information Institute

### Private Sector Business Starts, 1993:Q2 – 2012:Q3\*





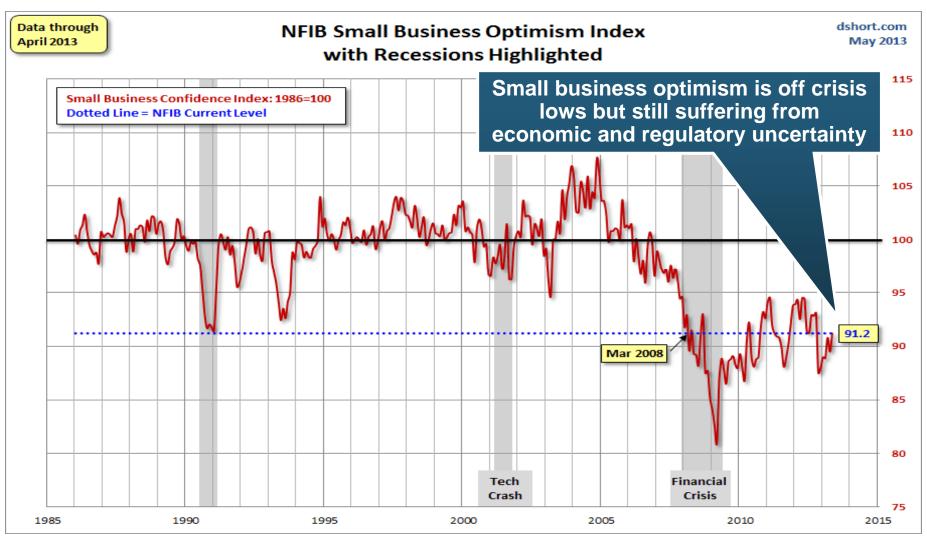
Business Starts Were Down Nearly 20% in the Recession, Holding Back Most Types of Commercial Insurance Exposure, But Are Recovering Slowly

<sup>\*</sup> Data through Sep. 30, 2012 are the latest available as of May 13, 2013; Seasonally adjusted. Source: Bureau of Labor Statistics, http://www.bls.gov/news.release/cewbd.t08.htm.

#### **NFIB Small Business Optimism Index**



#### **January 1985 through April 2013**



Source: National Federation of Independent Business at <a href="http://www.advisorperspectives.com/dshort/charts/indicators/Sentiment.html?NFIB-optimism-index.gif">http://www.advisorperspectives.com/dshort/charts/indicators/Sentiment.html?NFIB-optimism-index.gif</a>; Insurance Information Institute.

### 12 Industries for the Next 10 Years: Insurance Solutions Needed



**Health Care** 

**Health Sciences** 

**Energy (Traditional)** 

**Alternative Energy** 

**Petrochemical** 

**Agriculture** 

**Natural Resources** 

**Technology (incl. Biotechnology)** 

**Light Manufacturing** 

**Insourced Manufacturing** 

**Export-Oriented Industries** 

**Shipping (Rail, Marine, Trucking, Pipelines)** 

Many
industries are
poised for
growth,
though
insurers'
ability to
capitalize on
these
industries
varies widely

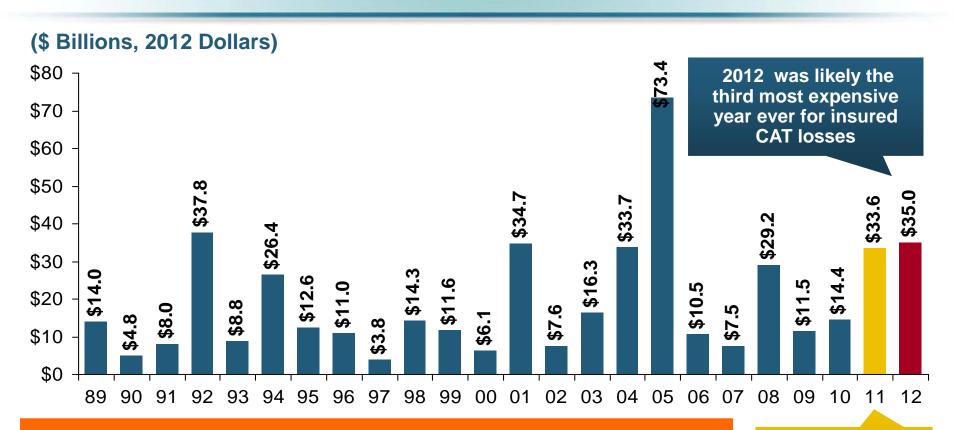


## U.S. Insured Catastrophe Loss Update

2012 Catastrophe Losses Were Close to "Average" Until Sandy Hit 2011 Was the 5<sup>th</sup> Most Expensive Year on Record

#### **US Insured Catastrophe Losses**





2012 Was the 3<sup>rd</sup> Highest Year on Record for Insured Losses in US History on An Inflation-Adjusted Basis. 2011 Losses Were the 6<sup>th</sup> Highest.

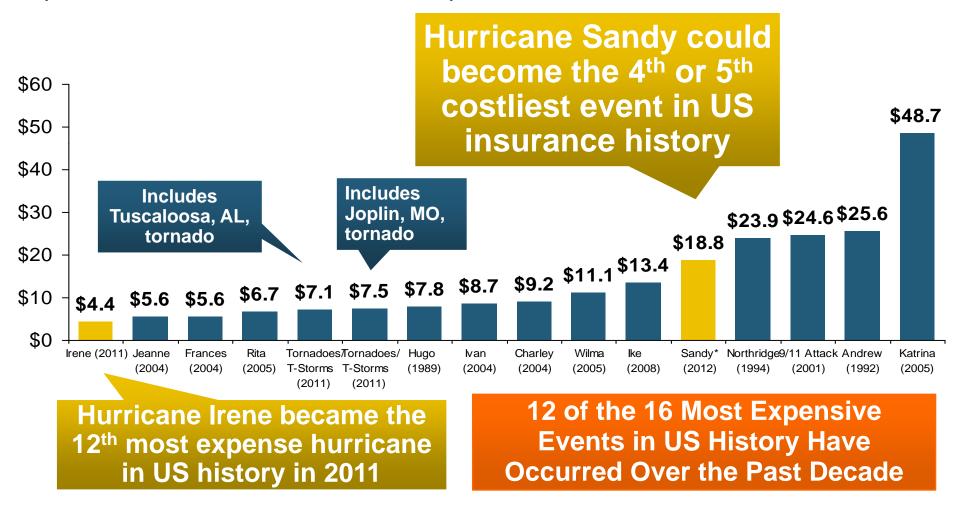
Record Tornado Losses Caused 2011 CAT Losses to Surge

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.

### Top 16 Most Costly Disasters in U.S. History



(Insured Losses, 2012 Dollars, \$ Billions)

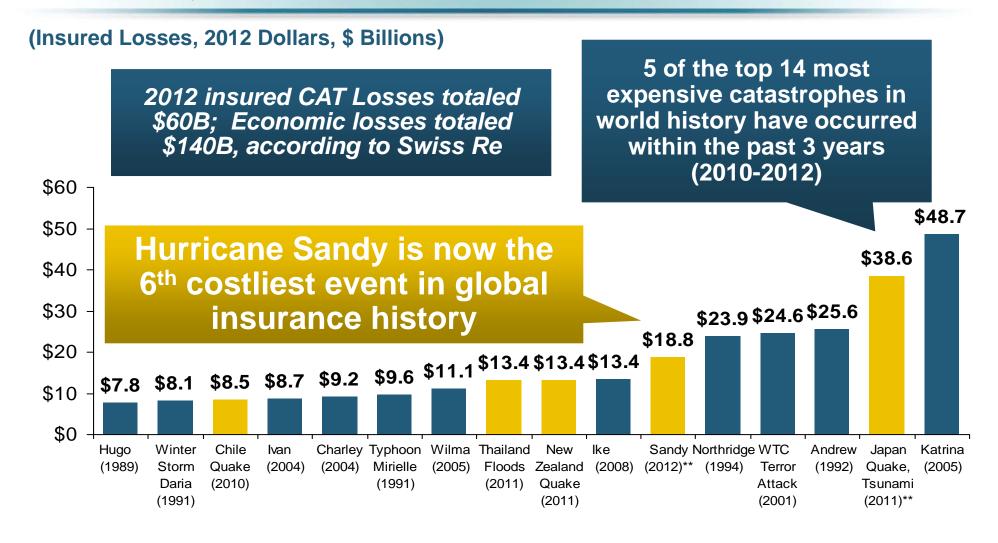


<sup>\*</sup>PCS estimate as of 4/12/13.

Sources: PCS; Insurance Information Institute inflation adjustments to 2012 dollars using the CPI.

### Top 16 Most Costly World Insurance Losses, 1970-2012\*





<sup>\*</sup>Figures do not include federally insured flood losses.

Sources: Munich Re; Swiss Re; Insurance Information Institute research.

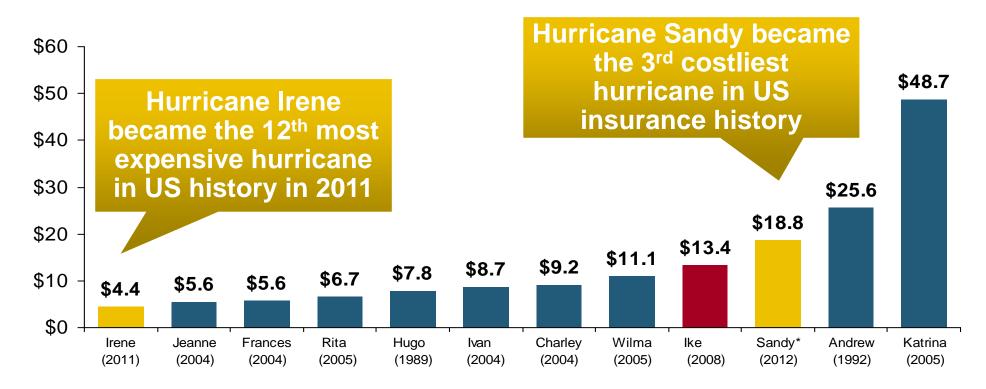
<sup>\*\*</sup>Estimate based on PCS value of \$18.75B as of 4/12/13.

### Top 12 Most Costly Hurricanes in U.S. History



(Insured Losses, 2012 Dollars, \$ Billions)

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



<sup>\*</sup>PCS estimate as of 4/12/13.

Sources: PCS; Insurance Information Institute inflation adjustments to 2012 dollars using the CPI.

### Outlook for 2013 Hurricane Season: 75% Worse Than Average



Forecast Parameter	<b>Median</b> (1981-2010)	2013F
Named Storms	12.0	18
Named Storm Days	60.1	95
Hurricanes	6.5	9
Hurricane Days	21.3	40
Major Hurricanes	2.0	4
Major Hurricane Days	3.9	9
Accumulated Cyclone Energy	92.0	165
Net Tropical Cyclone Activity	103%	175%

Source: Philip Klotzbach and Dr. William Gray, Colorado State University, April 10, 2013, accessed at <a href="http://tropical.atmos.colostate.edu/forecasts/2013/apr2013/apr2013.pdf">http://tropical.atmos.colostate.edu/forecasts/2013/apr2013/apr2013.pdf</a>; Insurance Information Institute..

### Landfall Probabilities for 2013 Hurricane Season: Above Average



	Average*	2013F
Entire US East & Gulf Coasts	52%	72%
US East Coast Including Florida Peninsula	31%	48%
Gulf Coast from Florida Panhandle to Brownsville	30%	47%
Caribbean	42%	61%

Source: Philip Klotzbach and Dr. William Gray, Colorado State University, April 10, 2013.

<sup>\*</sup>Average over the past century.

### Natural Disaster Losses in the United States: 2012



As of January 1, 2013	Number of Events	Fatalities	Estimated Overall Losses (US \$m)	Estimated Insured Losses (US \$m)
Tropical Cyclone	4	143	52,240	26,360
Severe Thunderstorm	115	118	27,688	14,914
Drought	2	0	20,000	16,000 <sup>†</sup>
Wildfire	38	13	1,112	595
Winter Storm	2	7	81	38
Flood	19	3	13	<b>0</b> ††
TOTALS	184	284	\$101,134	\$57,907

#### Significant Natural Catastrophes, 2012



(Events with \$1 billion economic loss and/or 50 fatalities)

Date	Event	Estimated Economic Losses (US \$m)	Estimated Insured Losses (US \$m)
June – Sept 2012	Central US Drought	20,000	16,000 <sup>†</sup>
March 2 - 3	Thunderstorms	5,000	2,500
April 2 – 4	Thunderstorms	1,550	775
April 13- 15	Thunderstorms	1,800	910
April 28 – 29	Thunderstorms	4,500	2,500
May 25 – 30	Thunderstorms	3,400	1,700
June 6 – 7	Thunderstorms	1,400	1,000
June 11 – 13	Thunderstorms	1,900	950
June 28 – July 2	Thunderstorms	4,000	2,000
August 26 - 30	Hurricane Isaac	2,000	1,220
October 28 - 30	Hurricane Sandy	50,000	25,000 <sup>††</sup>

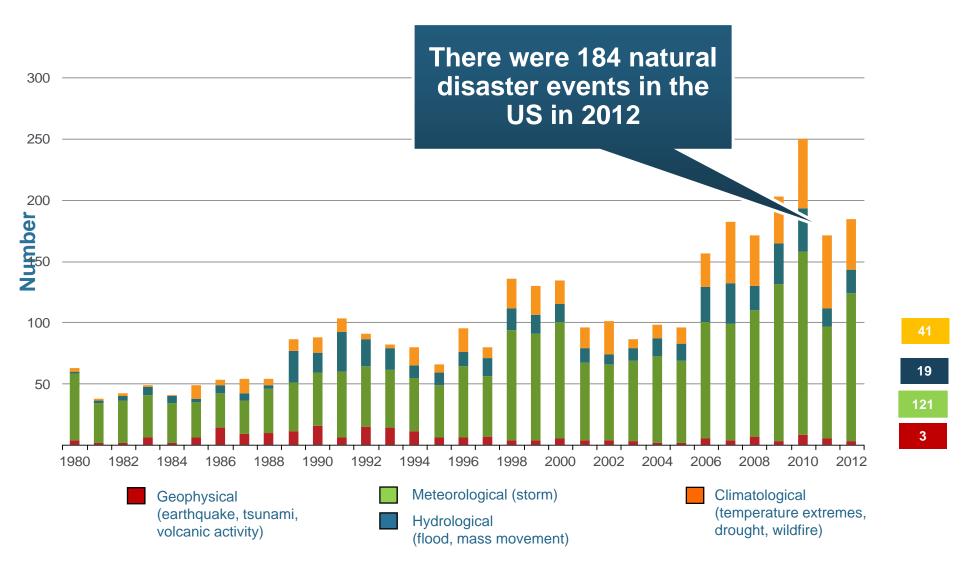
Source: MR NatCatSERVICE

<sup>† -</sup> Includes Federal Crop Insurance Losses.; † † - Excludes NFIP losses.

### Natural Disasters in the United States, 1980 – 2012



Number of Events (Annual Totals 1980 – 2012)

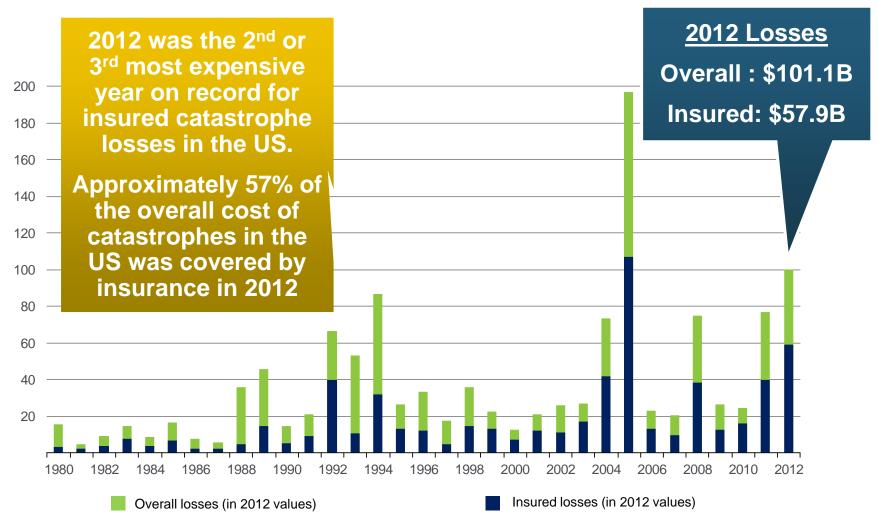


### Losses Due to Natural Disasters in the US, 1980–2012 (Overall & Insured Losses)



(Overall and Insured Losses)

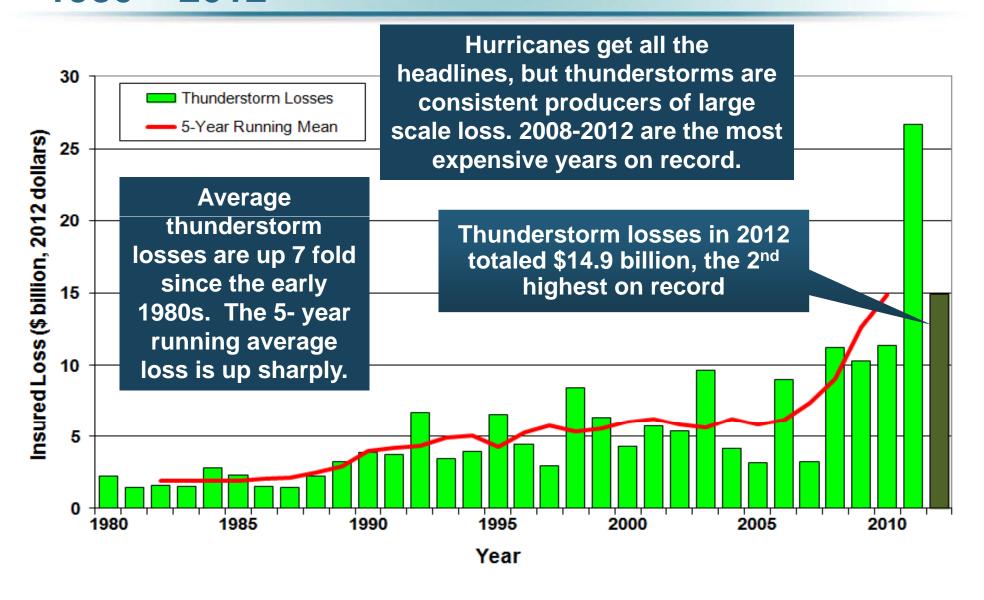
(2012 Dollars, \$ Billions)



Source: MR NatCatSERVICE

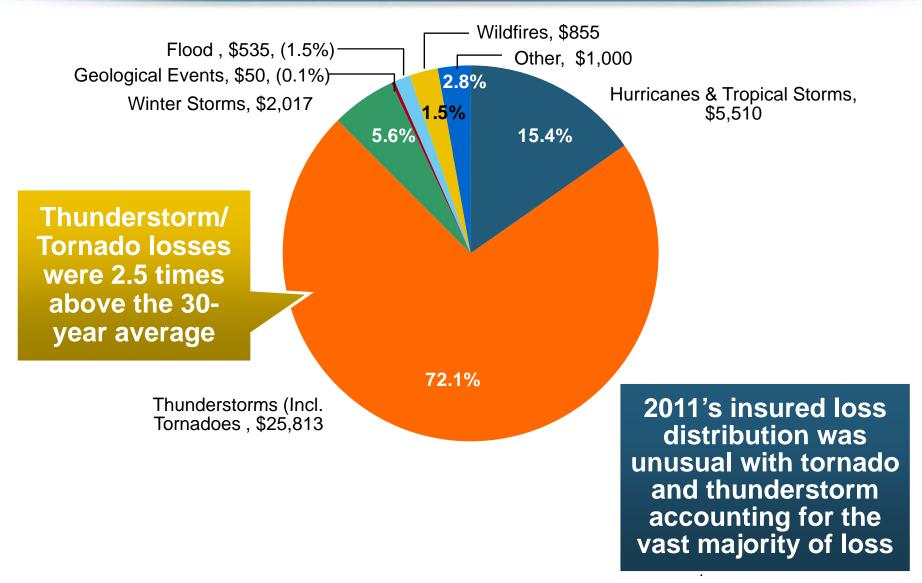
#### U.S. Thunderstorm Loss Trends, 1980 – 2012





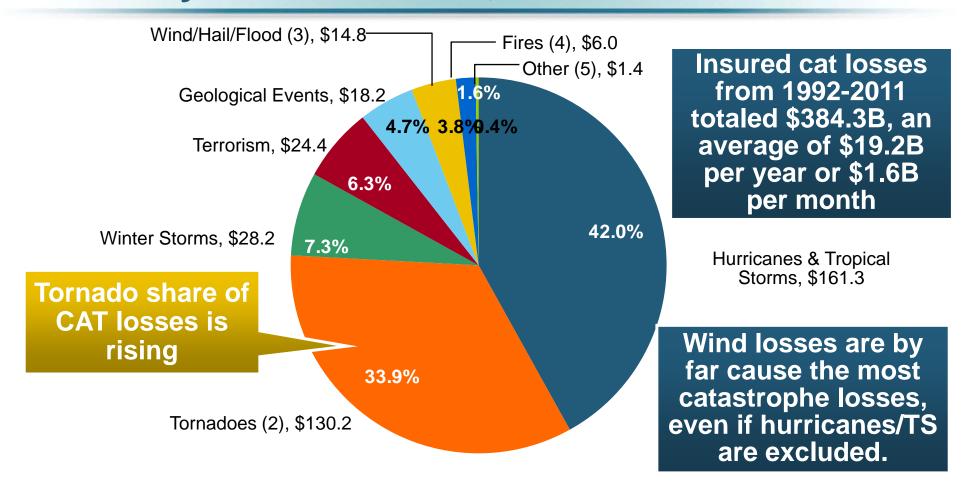
### U.S. Insured Catastrophe Losses by Cause of Loss, 2011 (\$ Millions)





### Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1992–2011<sup>1</sup>

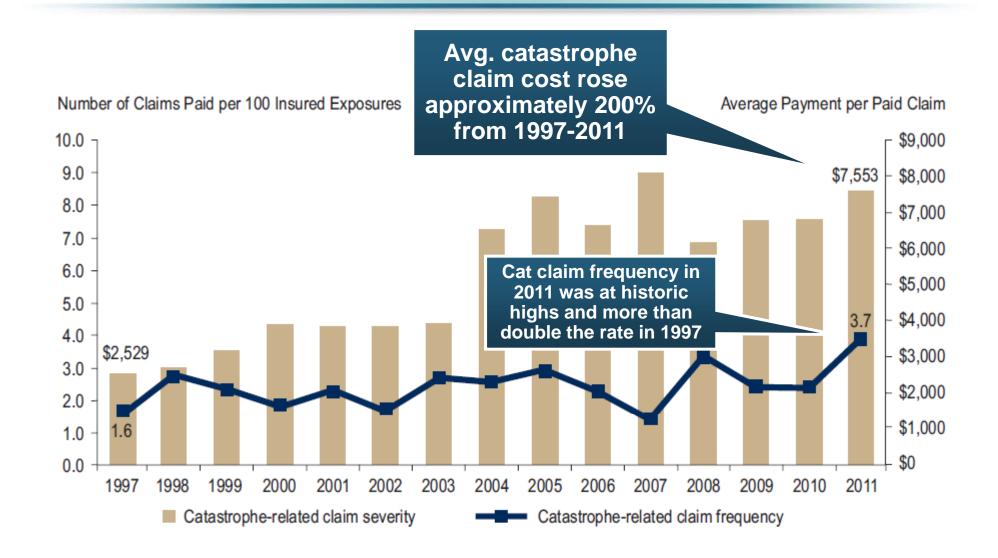




- 1. Catastrophes are defined as events causing direct insured losses to property of \$25 million or more in 2009 dollars.
- Excludes snow.
- Does not include NFIP flood losses
- Includes wildland fires
- 5. Includes civil disorders, water damage, utility disruptions and non-property losses such as those covered by workers compensation. Source: ISO's Property Claim Services Unit.

### Homeowners Insurance Catastrophe-Related Claim Frequency and Severity, 1997—2012\*



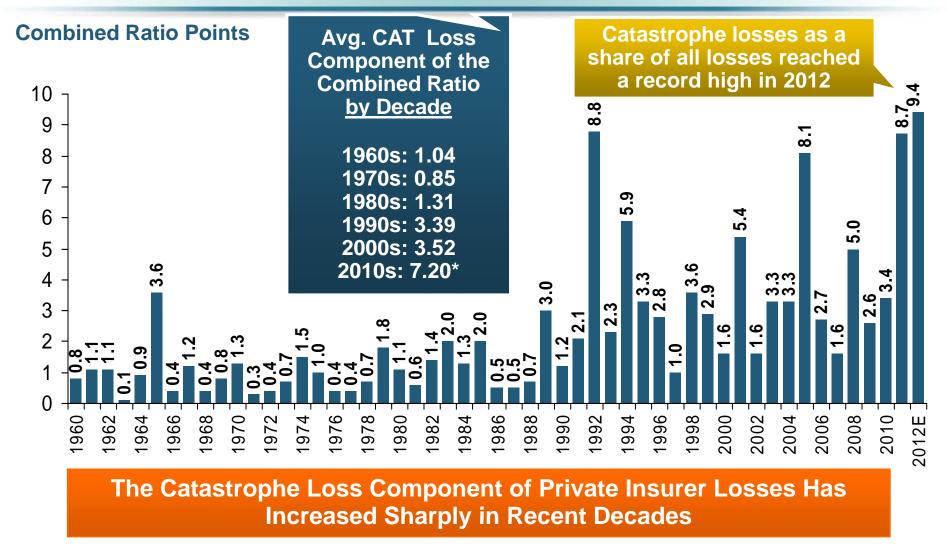


<sup>\*</sup>All policy forms combined, countrywide.

Source: Insurance Research Council, Trends in Homeowners Insurance Claims, Sept. 2012 from ISO Fast Track data.

### Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2012\*



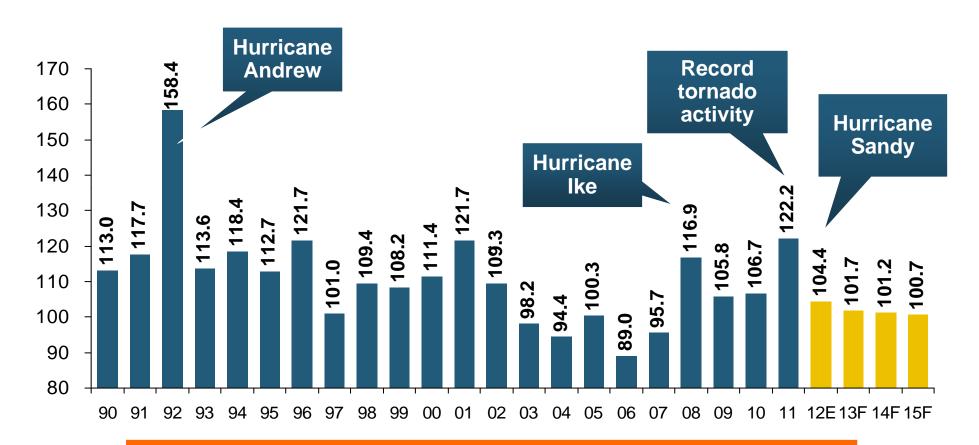


Notes: Private carrier losses only. Excludes loss adjustment expenses and reinsurance reinstatement premiums. Figures are adjusted for losses ultimately paid by foreign insurers and reinsurers.

Source: ISO (1960-2011); A.M. Best (2012E) Insurance Information Institute.

### Homeowners Insurance Combined Ratio: 1990–2015F





Homeowners Performance in 2011/12 Impacted by Large Cat Losses. Extreme Regional Variation Can Be Expected Due to Local Catastrophe Loss Activity

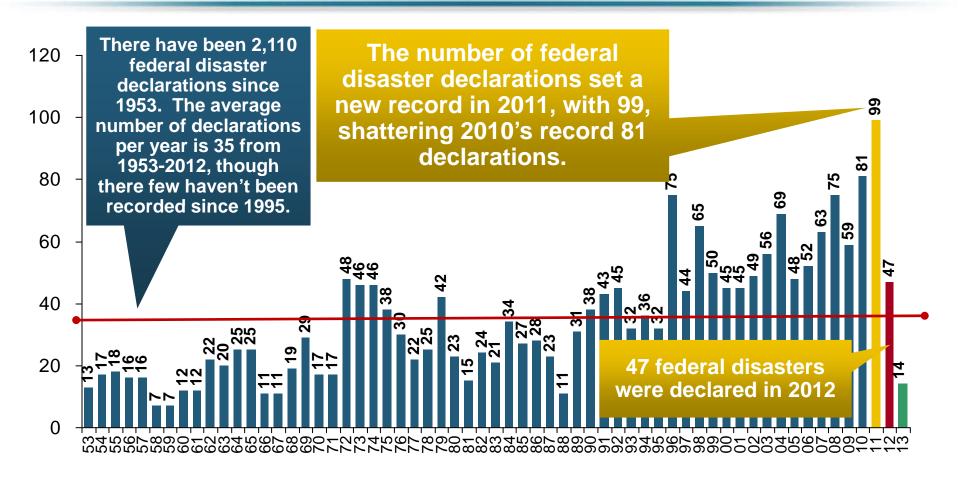


# Federal Disaster Declarations Patterns: 1953-2013

Despite 11 Sandy Declarations, Fewer Disasters Were Declared in 2012 than the Record Number of Declarations in 2010 and 2011

### Number of Federal Disaster Declarations, 1953-2013\*



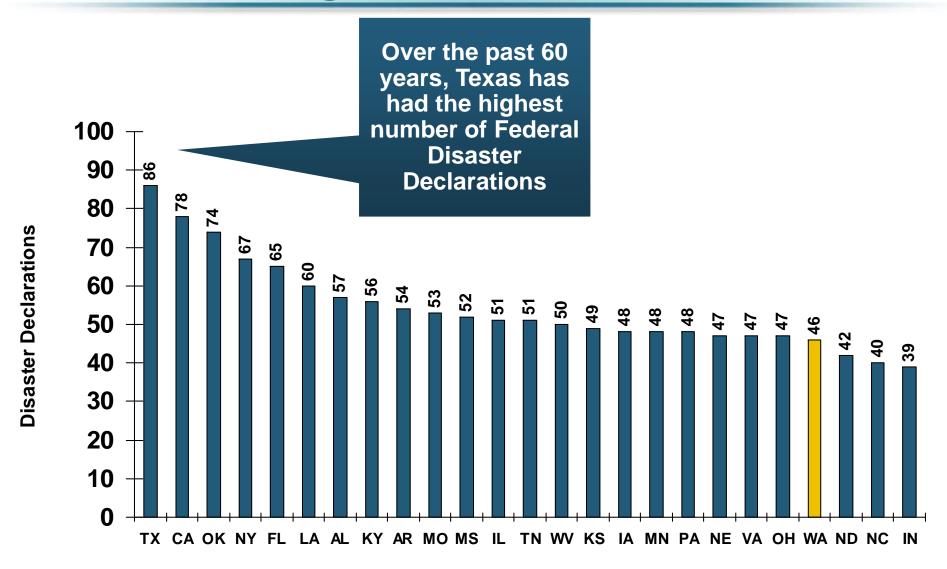


The Number of Federal Disaster Declarations Is Rising and Set New Records in 2010 and 2011. Hurricane Sandy Produced 13 Declarations in 2012/13.

<sup>\*</sup>Through May 28, 2013.

# Federal Disasters Declarations by State, 1953 – 2013: Highest 25 States\*



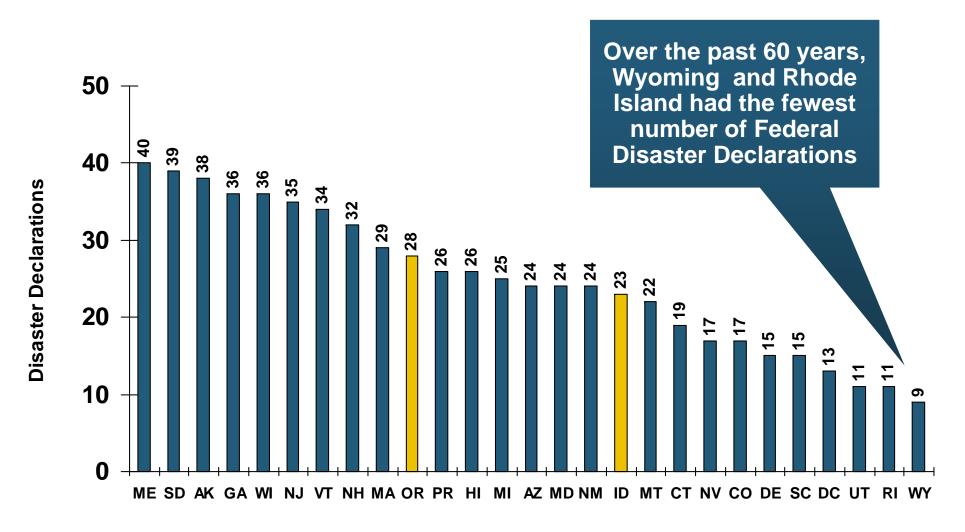


<sup>\*</sup>Through May 28, 2013. Includes Puerto Rico and the District of Columbia.

Source: FEMA: http://www.fema.gov/news/disaster\_totals\_annual.fema; Insurance Information Institute.

### Federal Disasters Declarations by State, 1953 – 2013: Lowest 25 States\*





<sup>\*</sup>Through May 28, 2013. Includes Puerto Rico and the District of Columbia.

Source: FEMA: http://www.fema.gov/news/disaster\_totals\_annual.fema; Insurance Information Institute.

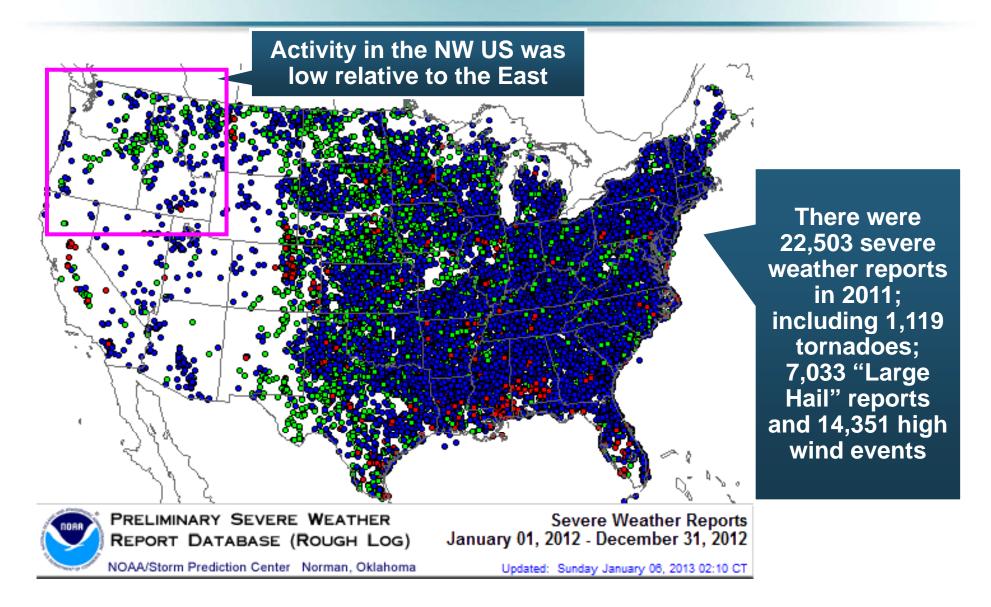


### CATASTROPHE ACTIVITY IN WA, OR and ID

Catastrophe Losses in the (North)
West Have Been Lighter than in
Much of the US East of the Rockies

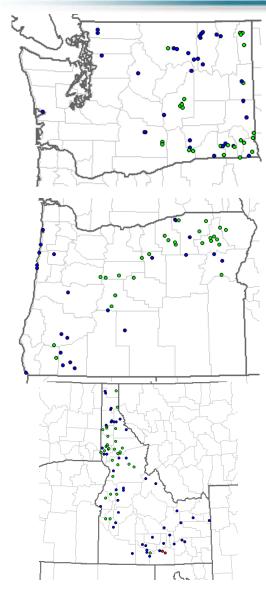
### **Severe Weather Reports, 2012**





# Severe Weather Reports in WA, OR & ID: January 1—December 31, 2012





#### **WASHINGTON**

Total Reports = 59

Tornadoes = 0 (Red)

Hail Reports = 28 (Green)

Wind Reports = 31 (Blue)

#### **OREGON**

Total Reports = 52

Tornadoes = 0 (Red)

Hail Reports = 26 (Green)

Wind Reports = 26 (Blue)

There were a combined 197 severe weather reports in 2012 in WA, OR and ID—accounting for just 0.9% of the 22,503 reports countrywide

#### <u>IDAHO</u>

Total Reports = 86

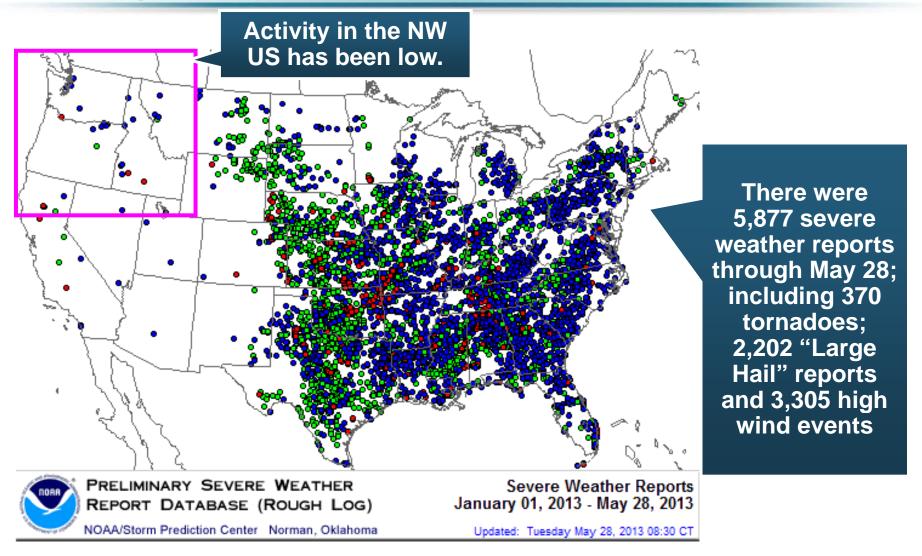
Tornadoes = 2 (Red)

Hail Reports = 35 (Green)

Wind Reports = 49 (Blue)

# Severe Weather Reports: Through May 28, 2013







### **Terrorism Update**

# Boston Marathon Bombings Underscore the Need for Extension of the Terrorism Risk Insurance Program

### **Terrorism Risk Insurance Program**



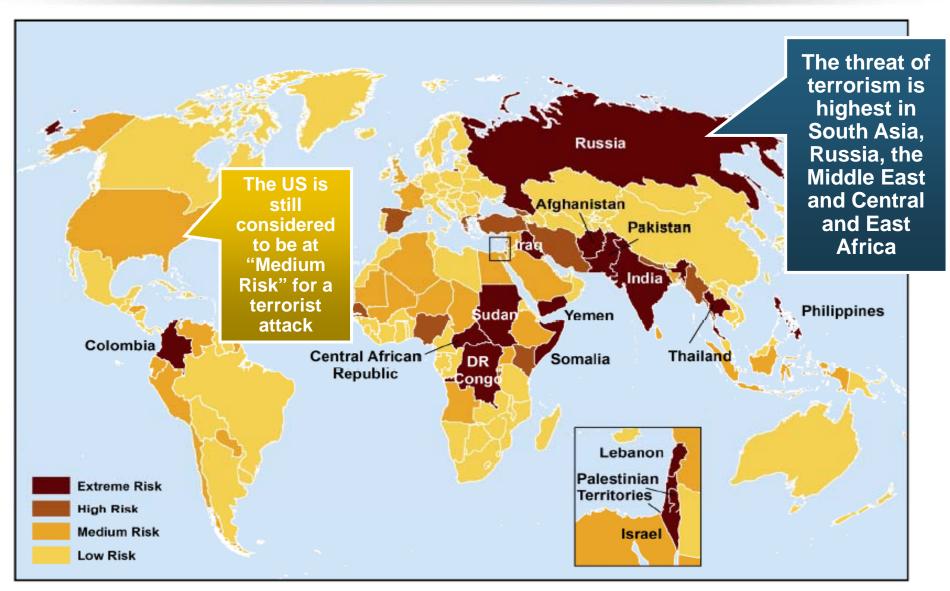
Boston Marathon Bombing Should Help Focus Attention

in Congress on TRIA

- Act expires 12/31/14
- Numerous headwinds
- Exclusionary Language Will Be Inserted for Renewals Occurring After 1/1/14
- Boston Marathon Issues
  - Property and BI losses not large but could breach \$5 mill threshold for certification under TRIPRA
  - Certification issue is generating press; No deadline to certify
  - Disincentive for Treasury (and Sec. of State and US AG) to certify?
  - Many of the impacted business had terror coverage
  - Longer-term: Litigation issues (e.g., race organizers)

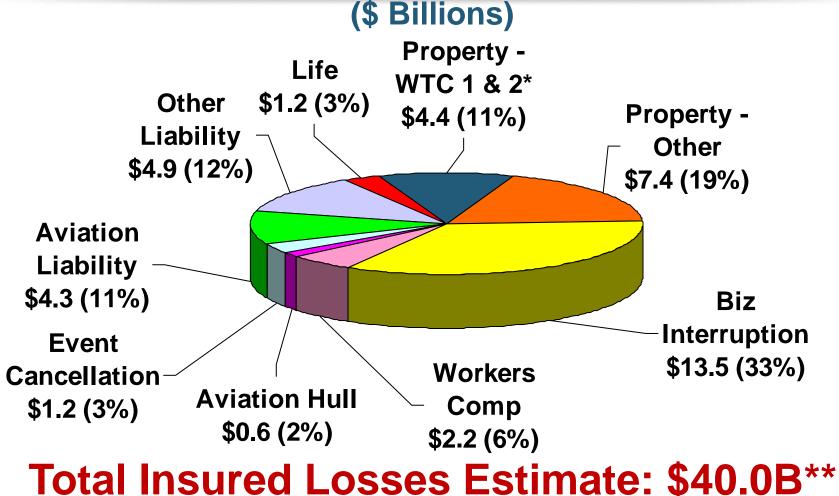
### **Terrorist Risk Index**





### Loss Distribution by Type of Insurance from Sept. 11 Terrorist Attack (\$ 2011)





\*Loss total does not include March 2010 New York City settlement of up to \$657.5 million to compensate approximately 10,000 Ground Zero workers or any subsequent settlements.

Source: Insurance Information Institute.

<sup>\*\*\$32.5</sup> billion in 2001 dollars.

# Terrorism Violates Traditional Requirements for Insurability



Requirement	Definition	Violation
Estimable Frequency	•Insurance requires large number of observations to develop predictive rate- making models (an actuarial concept known as credibility)	<ul> <li>Very few data points</li> <li>Terror modeling still in infancy, untested.</li> <li>Inconsistent assessment of threat</li> </ul>
Estimable Severity	•Maximum possible/ probable loss must be at least estimable in order to minimize "risk of ruin" (insurer cannot run an unreasonable risk of insolvency though assumption of the risk)	<ul> <li>Potential loss is virtually unbounded.</li> <li>Losses can easily exceed insurer capital resources for paying claims.</li> <li>Extreme risk in workers compensation and statute forbids exclusions.</li> </ul>

Source: Insurance Information Institute

# Terrorism Violates Traditional Requirements for Insurability (cont'd)



Requirement	Definition	Violation
Diversifiable Risk	<ul> <li>Must be able to spread/distribute risk across large number of risks</li> <li>"Law of Large Numbers" helps makes losses manageable and less volatile</li> </ul>	concentrated geographically or
Random Loss Distribution/ Fortuity  Source: Insurance Information Institute	<ul> <li>Probability of loss occurring must be purely random and fortuitous</li> <li>Events are individually unpredictable in terms of time, location and magnitude</li> </ul>	



### **Hurricane Sandy Summary**

# Sandy Will Become One of the Most Expensive Events in Insurance History

### **2012 Catastrophe Summary**



### Catastrophe Communications: US & Global

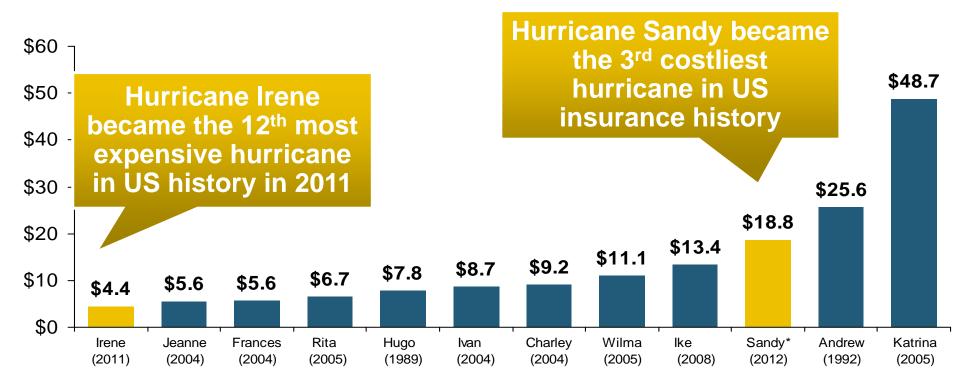
- ►U.S. Focus: ~\$37-\$42B = 2<sup>nd</sup> Most Costliest Year Ever for Insured Catastrophe Loss (Behind 2005)
  - Economic Losses = \$101B
  - Crop = Additional ~\$16B (\$7B-\$8B privately insured)
  - NFIP Flood = Additional \$9B+
  - Flood losses/NFIP/FEMA has been the #1 communications "issue" in the wake of Sandy
- ➤Global Focus: \$65B in Insured Losses → Well Below \$105B in 2011 but Above 10-Yr. Avg. of \$50B
  - Cats abroad did not drive media cycle in 2012, save ongoing Fukishima issues; Climate change
- ➤ Market Consequences: Primary & Reinsurance
  - Impacts on price, availability

# Top 12 Most Costly Hurricanes in U.S. History



(Insured Losses, 2012 Dollars, \$ Billions)

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

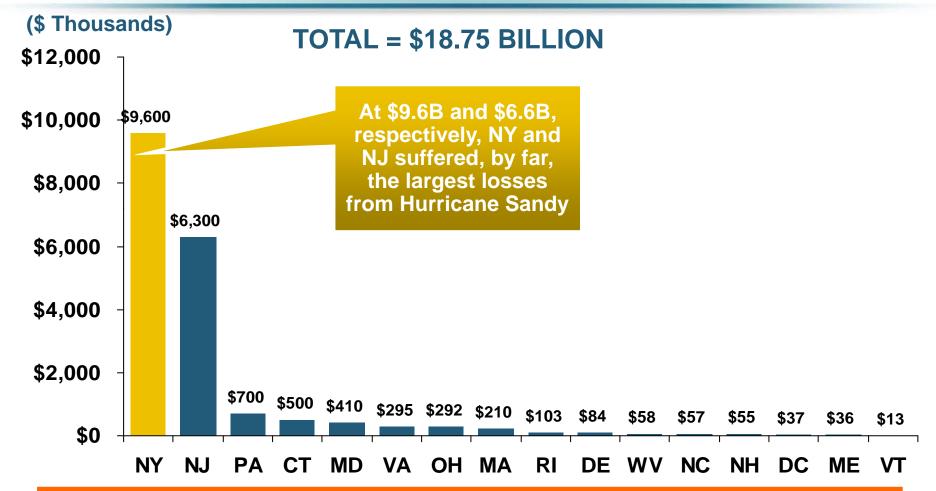


\*PCS estimate as of 4/12/13.

Sources: PCS; Insurance Information Institute inflation adjustments to 2012 dollars using the CPI.

# Hurricane Sandy: Claim Payments to Policyholders, by State



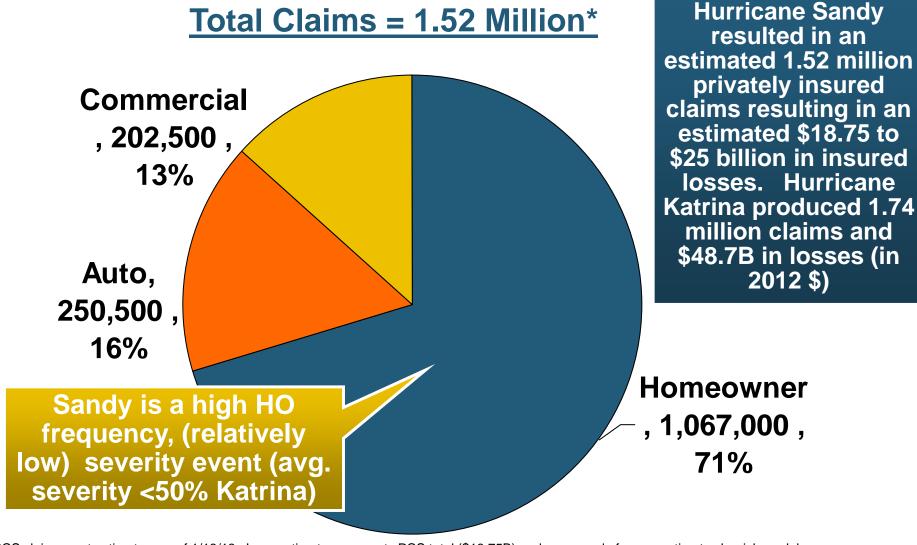


Insurers Will Pay at Least \$18.75 Billion to 1.52 Million Policyholders
Across 15 States and DC in the Wake of Hurricane Sandy

Sources: Catastrophe loss data is for Catastrophe Serial No. 90 (Oct. 28 – 31, 2012) from PCS as of Jan. 18, 2013; Insurance Information Institute .

# Hurricane Sandy: Number of Claims by Type\*



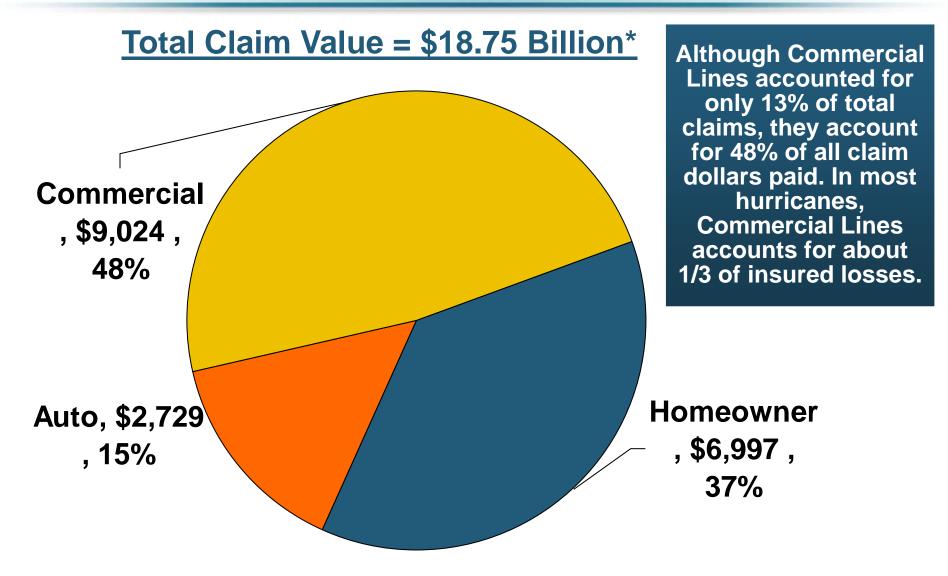


\*PCS claim count estimate s as of 1/18/13. Loss estimate represents PCS total (\$18.75B) and upper end of range estimates by risk modelers RMS, Eqecat and AIR. All figures exclude losses paid by the NFIP.

Source: PCS; AIR, Eqecat, AIR Worldwide; Insurance Information Institute.

# Hurricane Sandy: Insured Loss by Claim Type\* (\$ Millions)

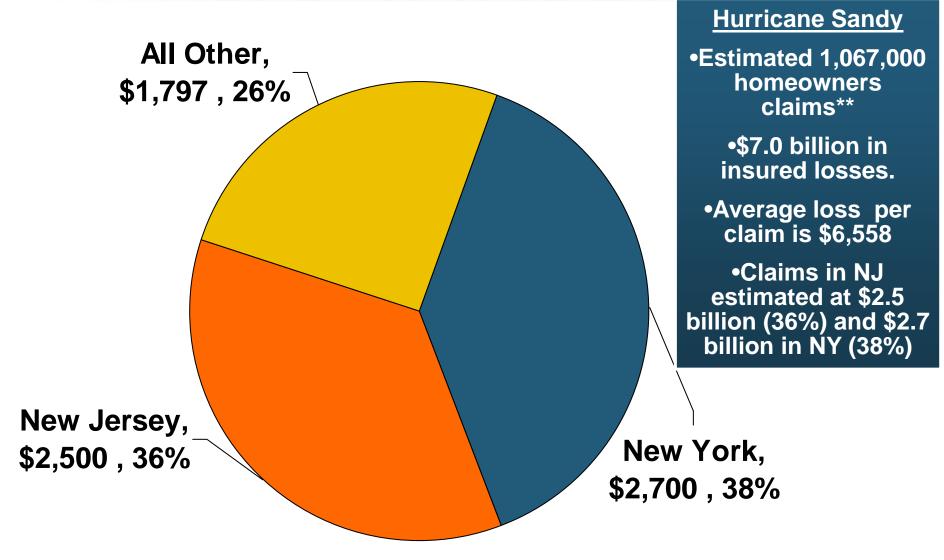




<sup>\*</sup>PCS insured loss estimates as of 1/18/13. Catastrophe modeler estimates range up to \$25 billion. All figures exclude losses paid by the NFIP. Source: PCS; Insurance Information Institute.

# Hurricane Sandy: Value of Homeowners Claims Paid, by State\* (\$ Millions)

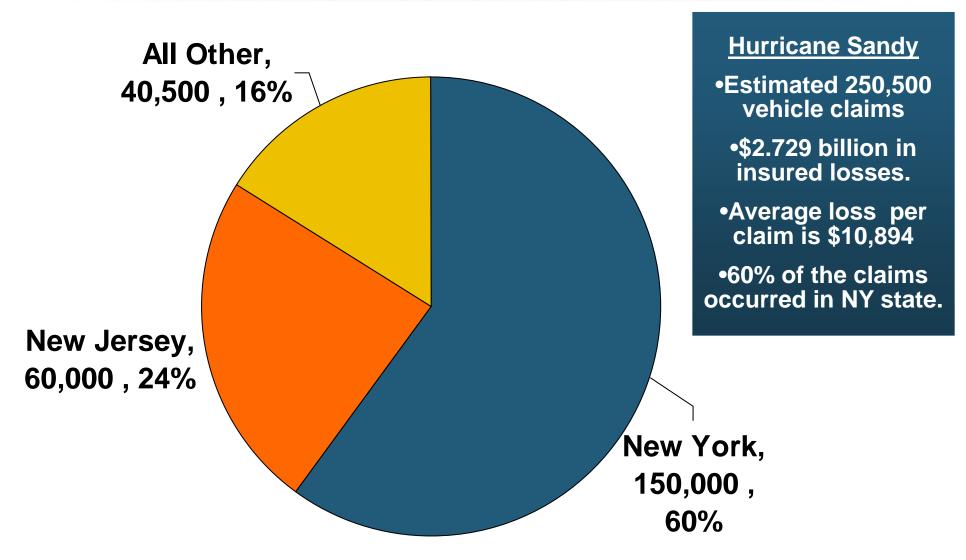




\*Preliminary as of 1/18/13. Source: PCS.

### Hurricane Sandy: Number of Auto Claims by State\*

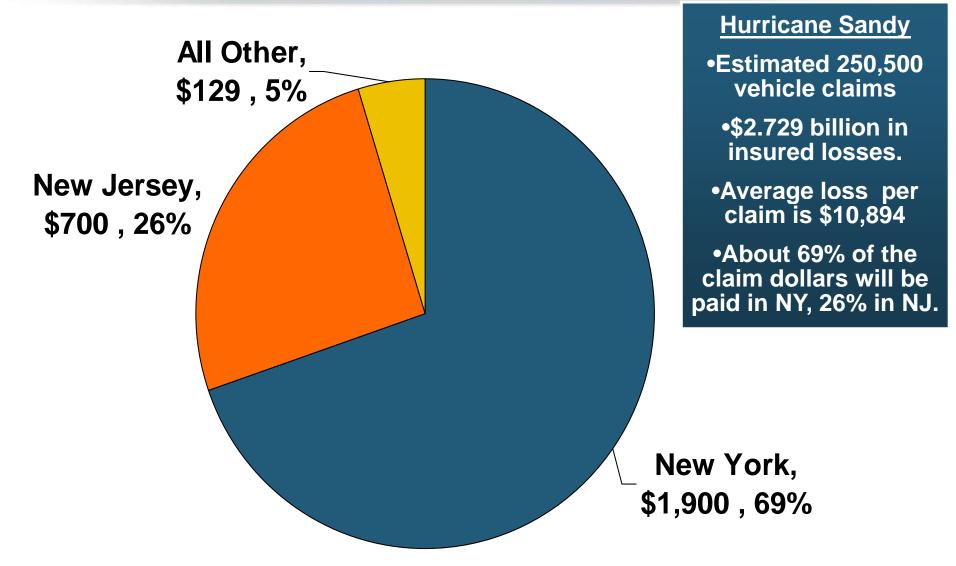




\*Preliminary as of 1/18/13. Source: PCS.

# Hurricane Sandy: Value of Auto Claims Paid, by State\* (\$ Millions)





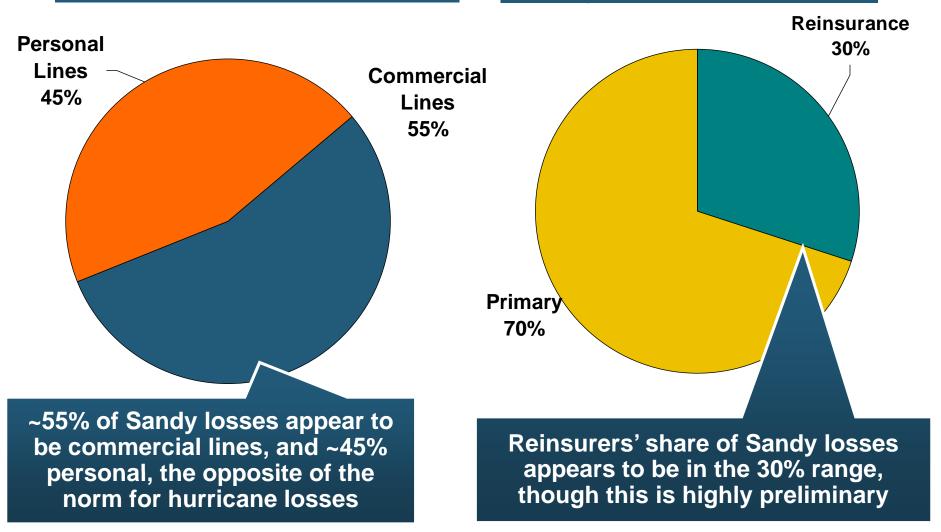
\*Preliminary as of 1/18/13. Source: PCS.

# Hurricane Sandy: Loss Distribution by Commercial/Personal Lines and Reinsurance vs. Primary Insurer



#### Personal vs. Commercial Lines\*

### **Primary vs. Reinsurer Share\*\***

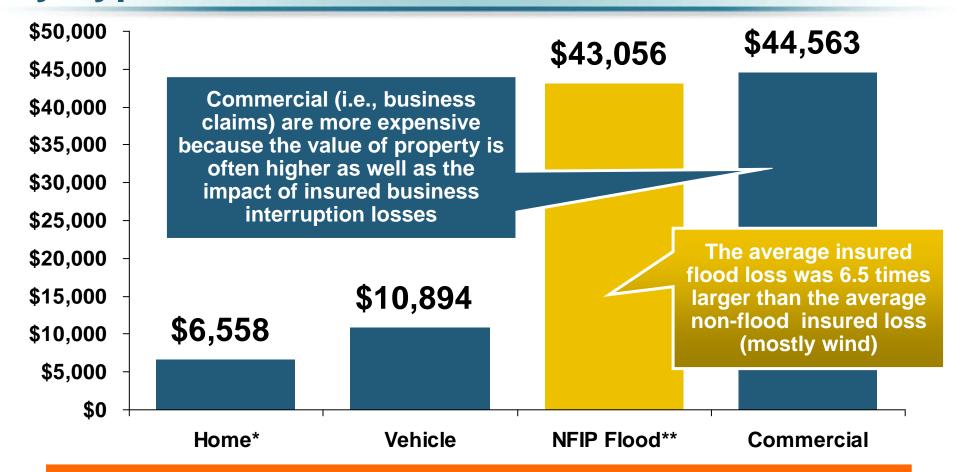


<sup>\*</sup>Fitch Ratings assigns a range of 60-65% commercial and 35-40% personal lines., Hurricane Sandy Update, January 8, 2013.

<sup>\*\*</sup>Source: Insurance Information Institute rough estimate based on company reports as of January 13, 2013. Actual number will vary.

### Hurricane Sandy: Average Claim Payment by Type of Claim





Commercial (Business) Claims Were Nearly Seven Times More Expensive than Homeowners Claims; Vehicle Claims Were Unusually Expensive Due to Extensive Flooding

Sources: Catastrophe loss data is for Catastrophe Serial No. 90 (Oct. 28 – 31, 2012) from PCS as of Jan. 18, 2013; Insurance Information Institute .

<sup>\*</sup>Includes rental and condo policies (excludes NFIP flood). \*\*As of Feb. 20, 2013.

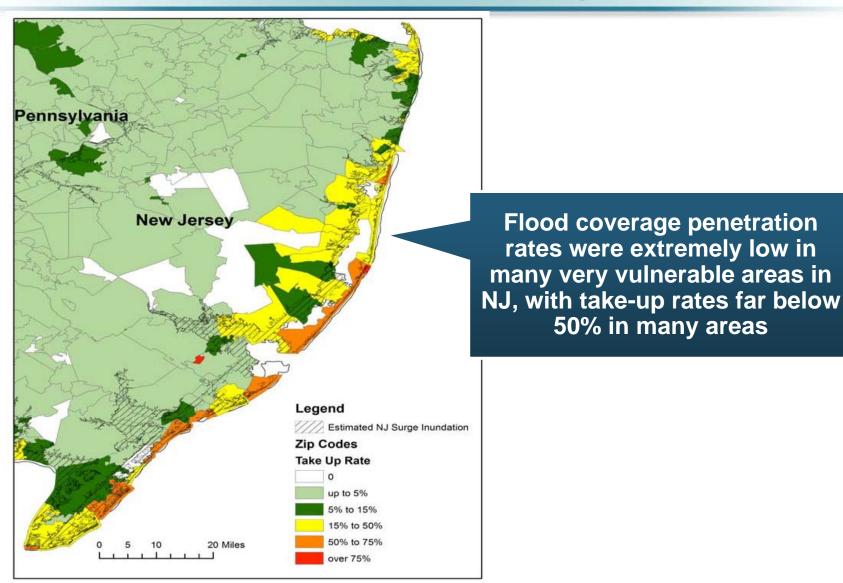


### **Hurricane Sandy: Flood Issues**

# Most of the Uninsured Direct Losses Are Due to Flooding

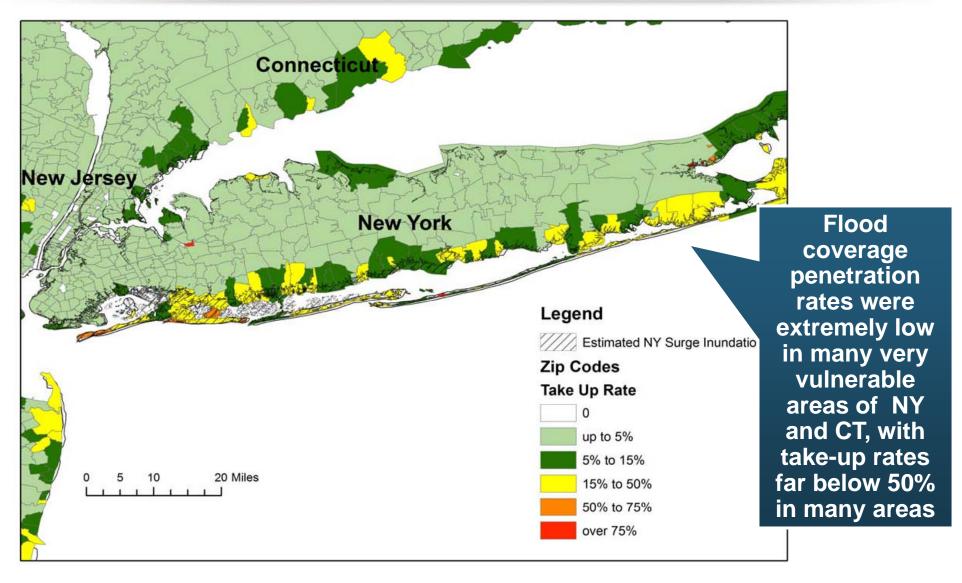
# Residential NFIP Flood Take-Up Rates in NJ (2010) & Sandy Storm Surge





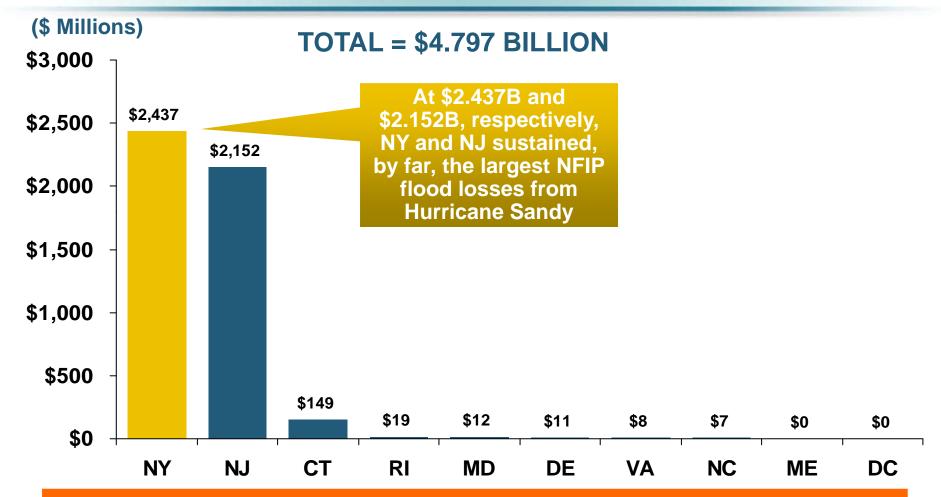
# Residential NFIP Flood Take-Up Rates in NY, CT (2010) & Sandy Storm Surge





# Hurricane Sandy: National Flood Insurance Program Payment, by State\*





The NFIP Will Ultimately Likely Pay Close to \$7 Billion to 100,000 Policyholders Across 9 States and DC in the Wake of Hurricane Sandy

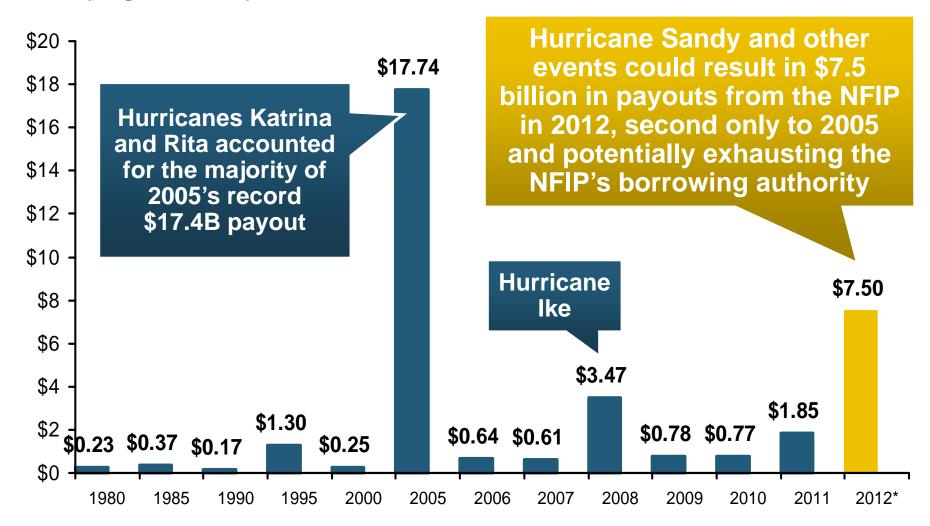
Sources: NFIP; Insurance Information Institute .

<sup>\*</sup>As of February 20, 2013.

### Flood Loss Paid by the National Flood Insurance Program, 1980-2012E



**Billions (Original Values)** 

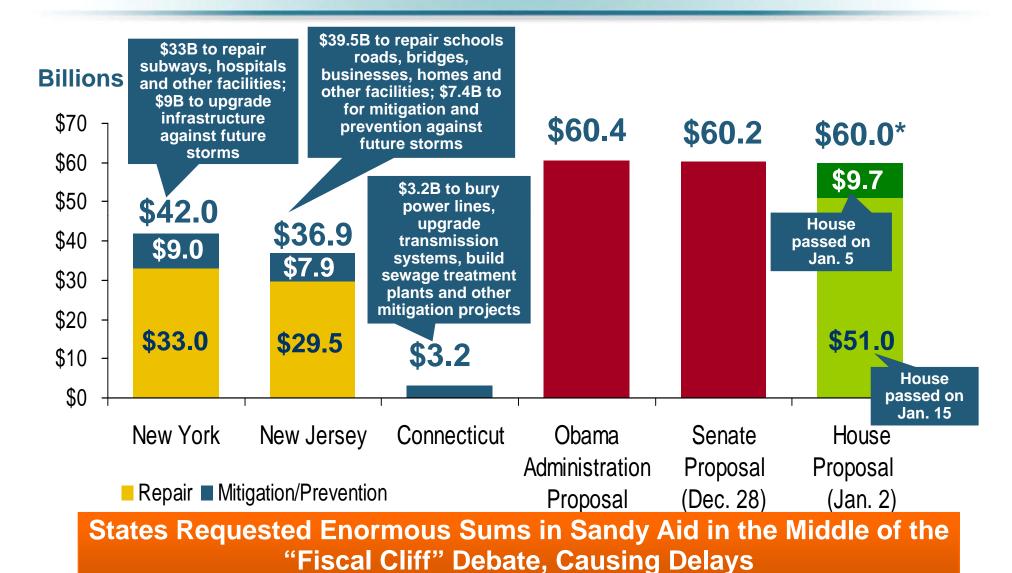


<sup>\*</sup>Estimate as of 11/25/12.

Sources: Department of Homeland Security, Federal Emergency Management Agency, NFIP; Insurance Information Institute.

### Federal Aid Requests for States With Greatest Sandy Impact & Federal Aid Proposals (as of 1/6/13)





\*As of Jan. 2, 2013.

Source: New York Times, Dec. 6, 2012; Insurance Information Institute research.



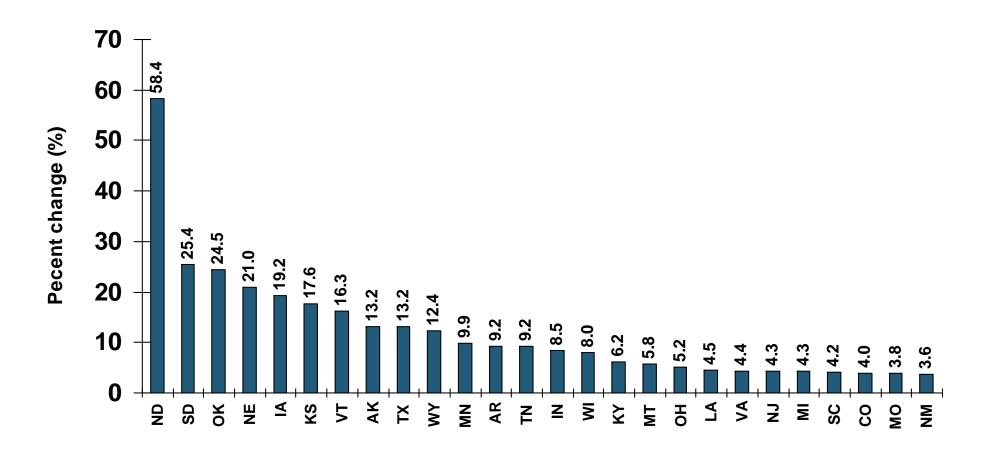
# Growth Analysis by State and Business Segment

# Premium Growth Rates Vary Tremendously by State

# Direct Premiums Written: Total P/C Percent Change by State, 2007-2012\*



### **Top 25 States**

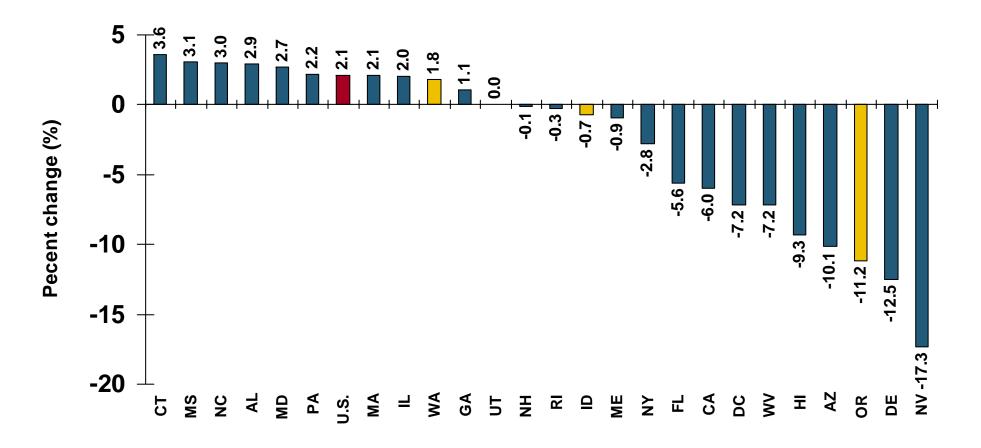


<sup>\*</sup>Data are preliminary as of 5/1/13 and do not yet fully reflect the impact of state-run pools and plans. Sources: SNL Financial LC.; Insurance Information Institute.

# Direct Premiums Written: Total P/C Percent Change by State, 2007-2012\*



#### **Bottom 25 States**

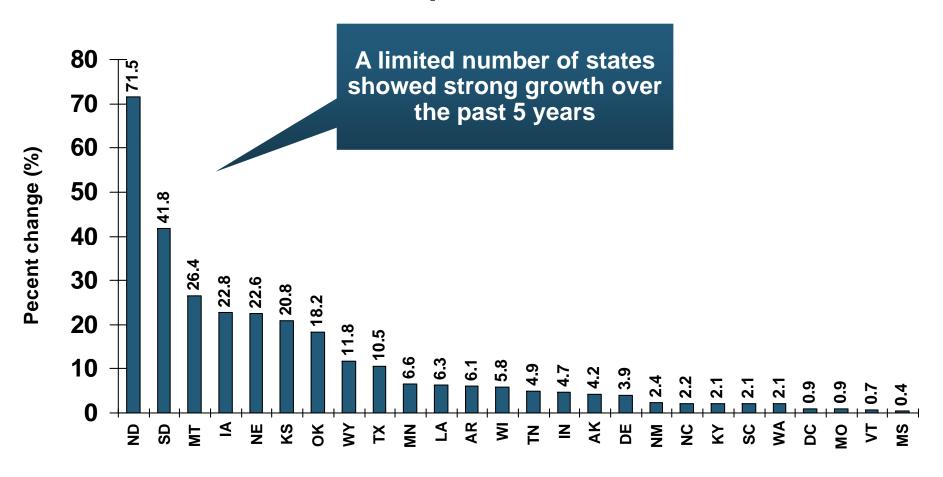


<sup>\*</sup>Data are preliminary as of 5/1/13 and do not yet fully reflect the impact of state-run pools and plans. Sources: SNL Financial LC.; Insurance Information Institute.

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

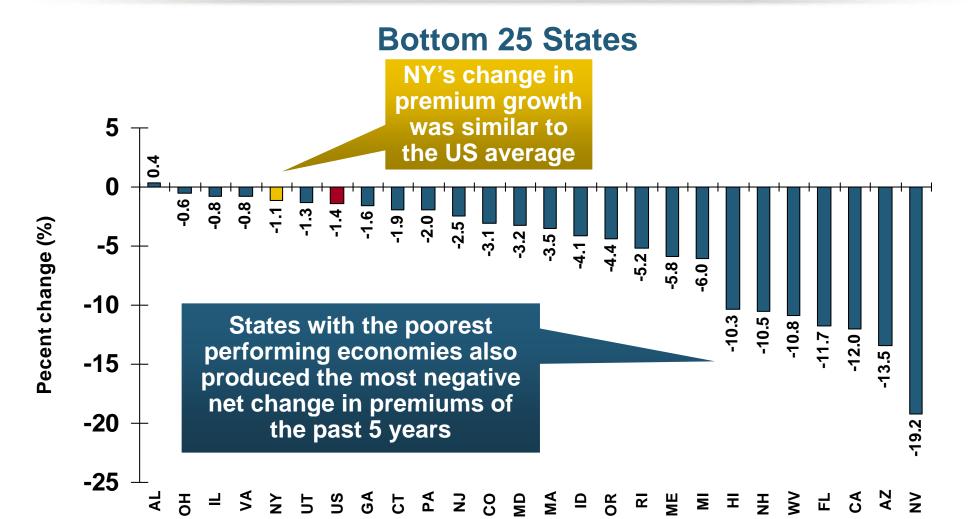


### **Top 25 States**



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

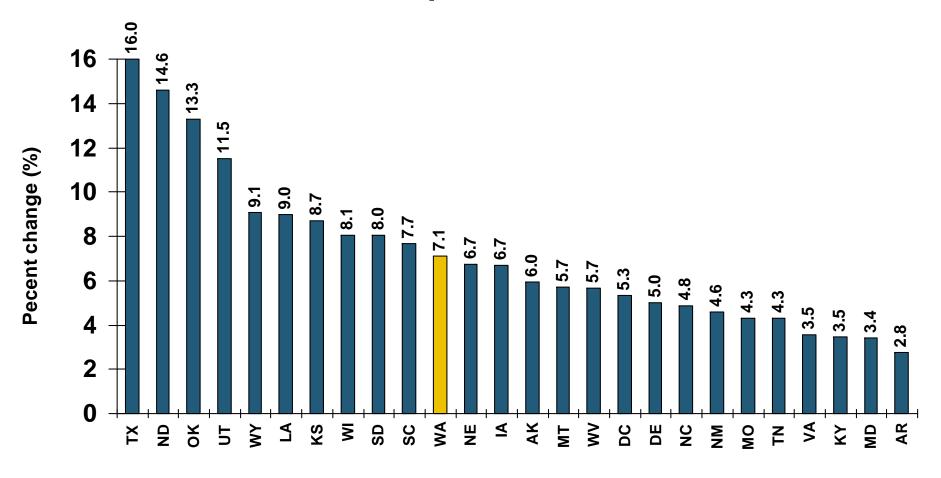




# Direct Premiums Written: PP Auto Percent Change by State, 2006-2011\*

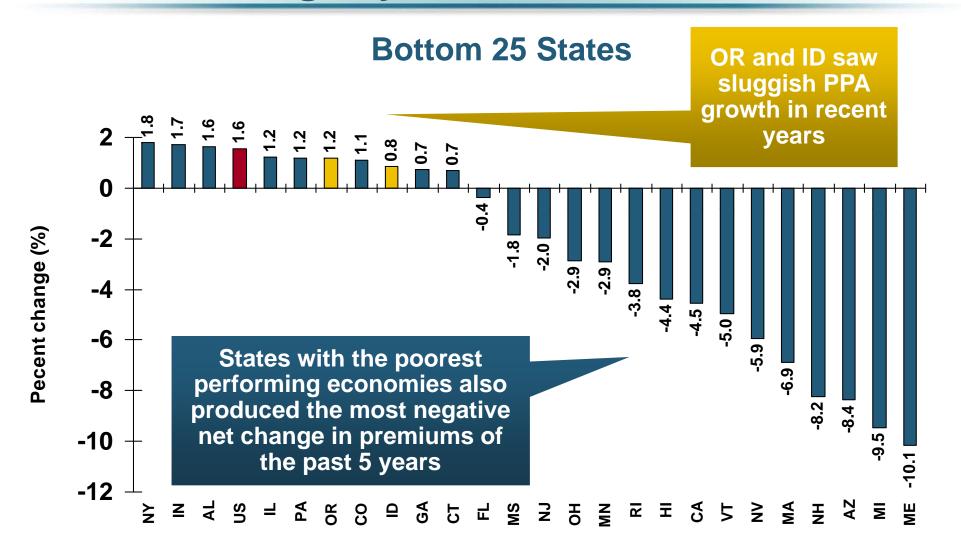


### **Top 25 States**



# Direct Premiums Written: PP Auto Percent Change by State, 2006-2011\*

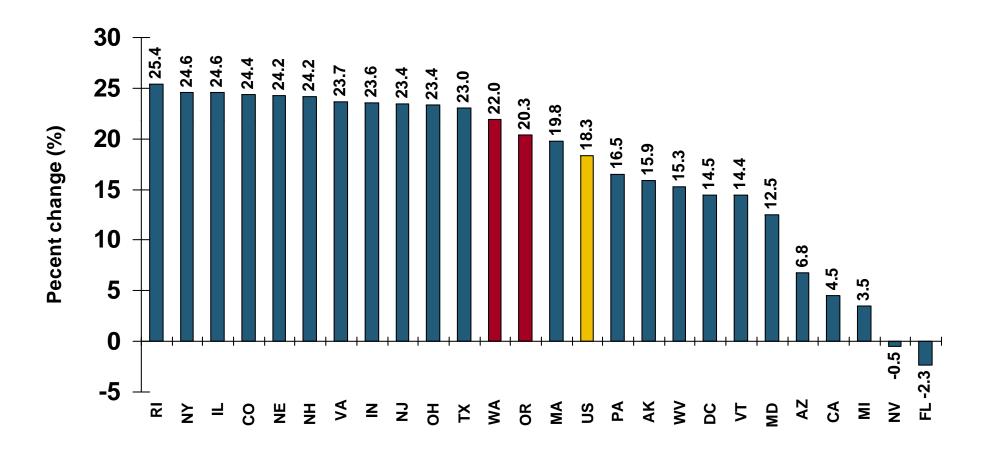




# Direct Premiums Written: Homeowners Percent Change by State, 2006-2011\*



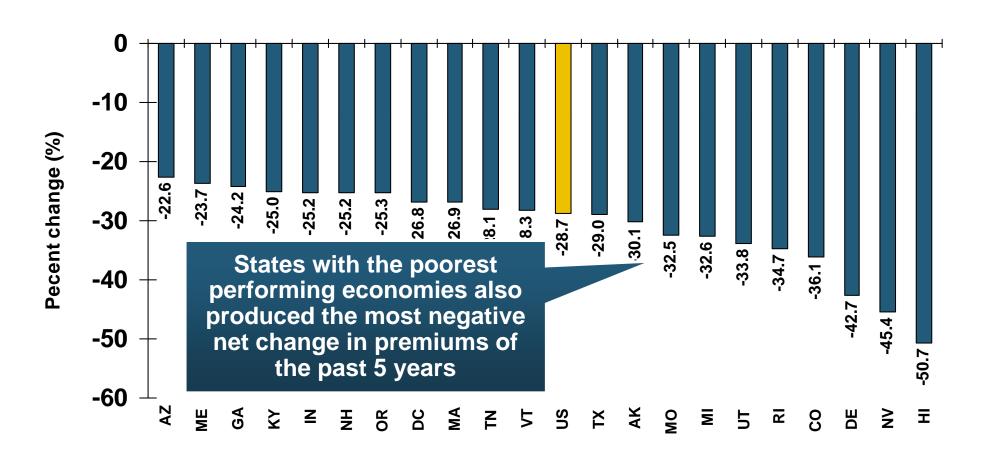
#### **Top 25 States**



## Direct Premiums Written: Homeowners Percent Change by State, 2006-2011\*



#### **Bottom 25 States**

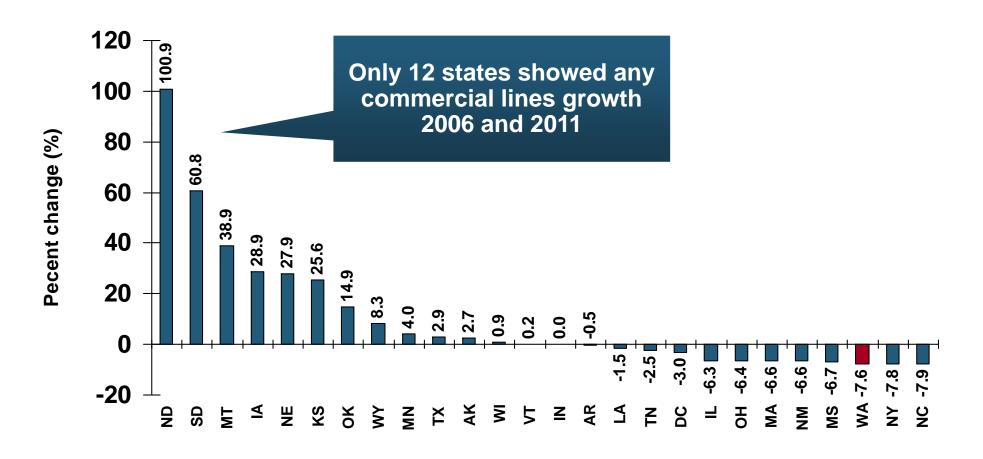


Sources: SNL Financial LC.; Insurance Information Institute.

## Direct Premiums Written: Comm. Lines Percent Change by State, 2006-2011\*



#### **Top 25 States**

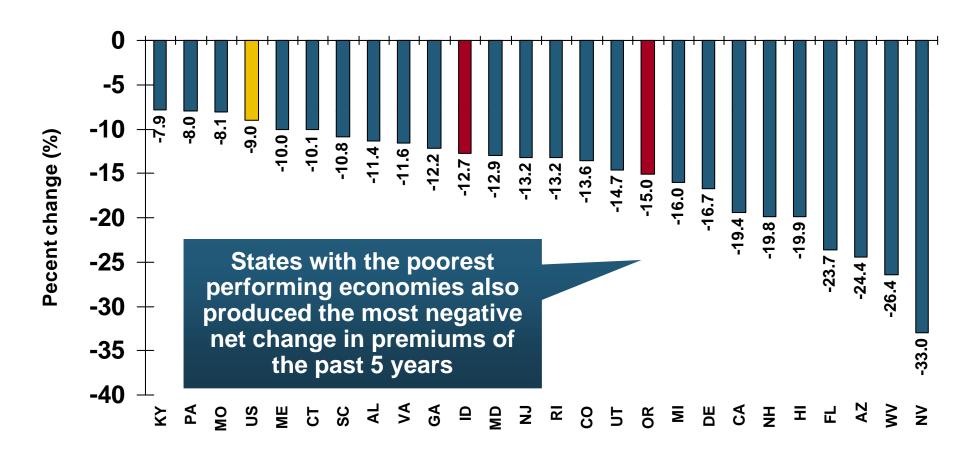


Sources: SNL Financial LC.; Insurance Information Institute.

## Direct Premiums Written: Comm. Lines Percent Change by State, 2006-2011\*



#### **Bottom 25 States**

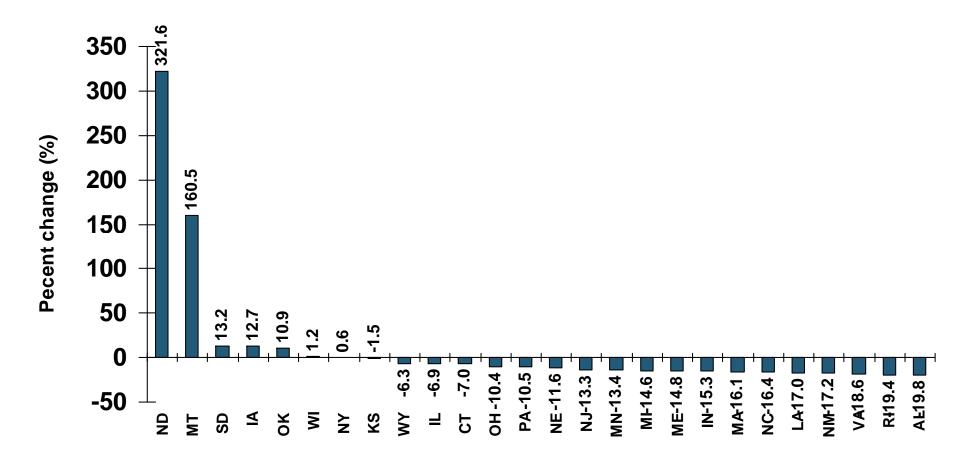


Sources: SNL Financial LC.; Insurance Information Institute.

### Direct Premiums Written: Workers' Comp Percent Change by State, 2006-2011\*



#### **Top 25 States**

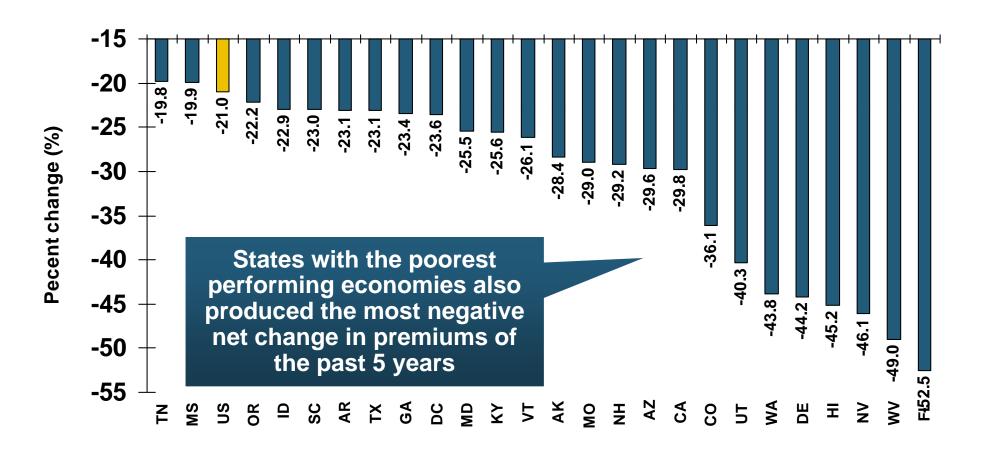


\*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period. Sources: SNL Financial LC.; Insurance Information Institute.

### Direct Premiums Written: Worker's Comp Percent Change by State, 2006-2011\*



#### **Bottom 25 States**



<sup>\*</sup>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.

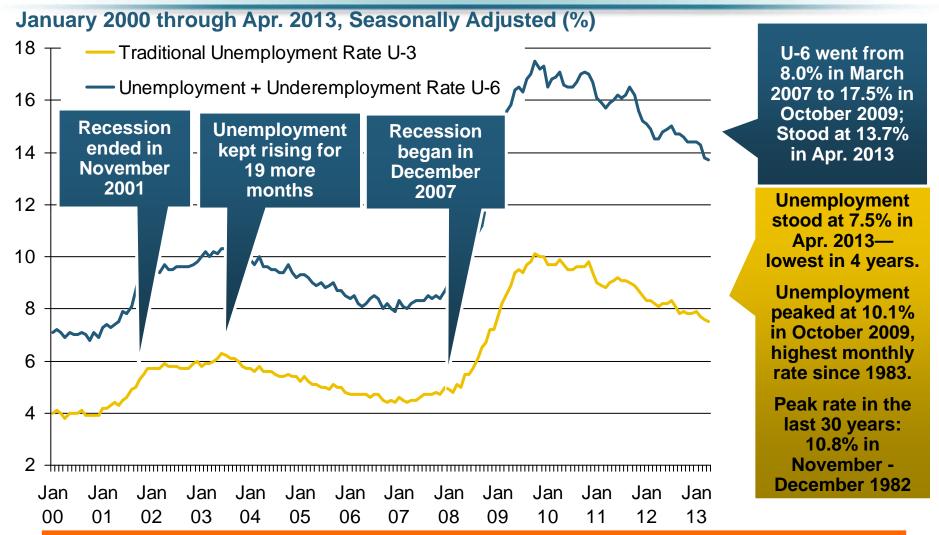


### **Labor Market Trends**

# Massive Job Losses Sapped the Economy and Commercial/Personal Lines Exposure, But Trend is Improving

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



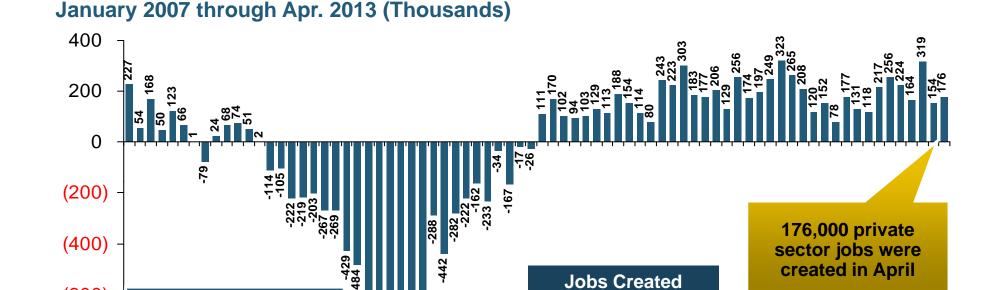


Stubbornly high unemployment and underemployment constrain overall economic growth, but the job market is now clearly improving

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

### Monthly Change in Private Employment





2012: 2.247 Mill

2011: 2.420 Mill

2010: 1.235 Mill

Private Employers Added 6.74 million Jobs Since Jan. 2010 After Having Shed 4.98 Million Jobs in 2009 and 3.80 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

(600)

(800)

(1,000)

**Monthly Losses in** 

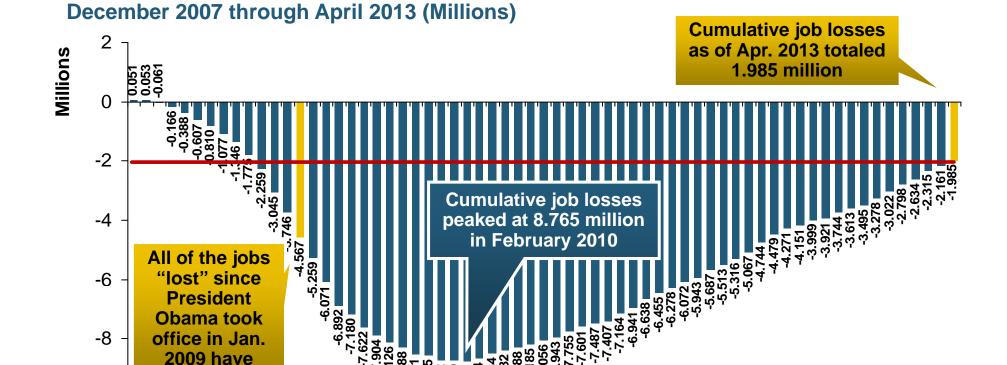
Dec. 08-Mar. 09 Were

the Largest in the

**Post-WW II Period** 

# Cumulative Change in Private Employment: Dec. 2007—Apr. 2013





Private Employers Added 6.74 million Jobs Since Jan. 2010 After Having Shed 4.98 Million Jobs in 2009 and 3.80 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

Apr-10 May-10 Jun-10 Jun-10 Sep-10 Oct-11 Jun-12 Jun-12 Jun-12 Sep-12 Sep-12 Sep-12 Jun-12 Jun-12 Jun-12 Sep-12 Sep-12

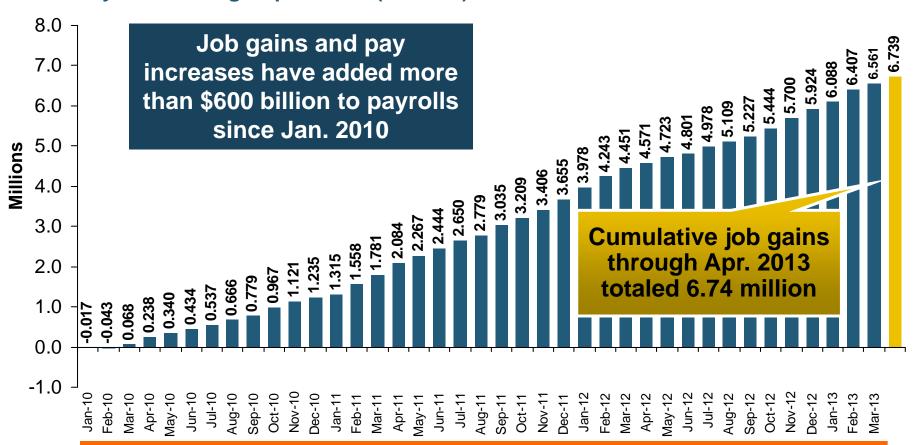
been recouped

-10

# Cumulative Change in Private Sector Employment: Jan. 2010—Apr. 2013



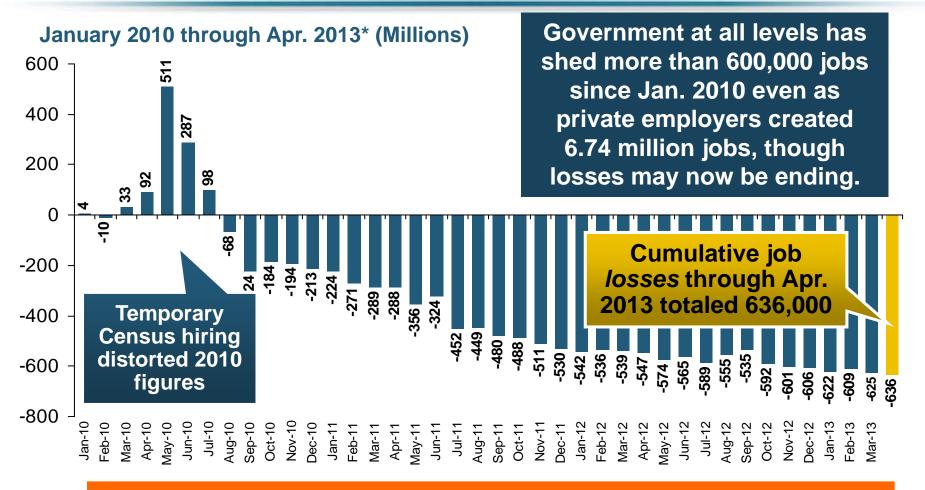
January 2010 through April 2013\* (Millions)



Private Employers Added 6.74 million Jobs Since Jan. 2010 After Having Shed 4.98 Million Jobs in 2009 and 3.80 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

# Cumulative Change in Government Employment: Jan. 2010—Apr. 2013

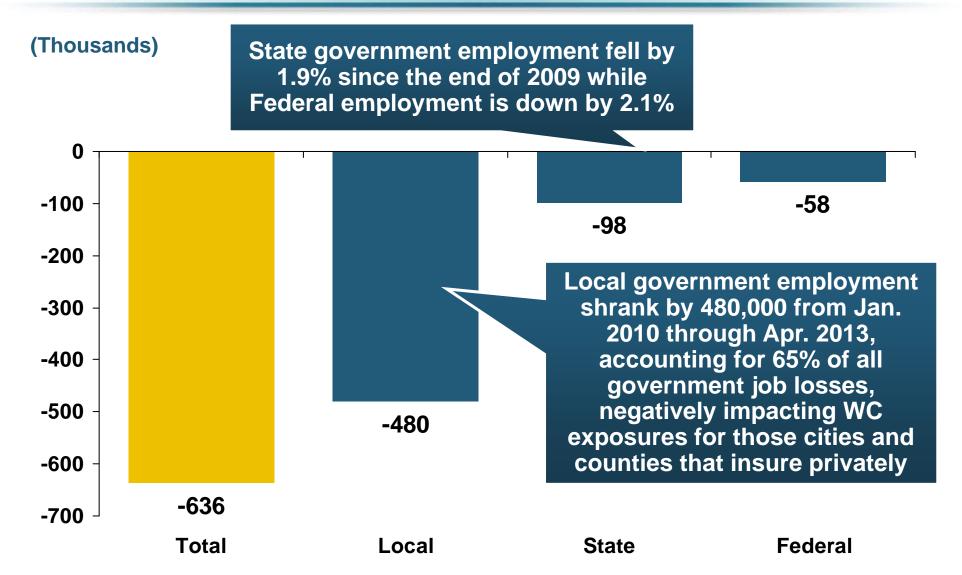




Governments at All Levels are Under Severe Fiscal Strain As Tax Receipts Plunged and Pension Obligations Soared During the Financial Crisis: Sequestration Will Add to this Toll

## Net Change in Government Employment: Jan. 2010—Apr. 2013\*



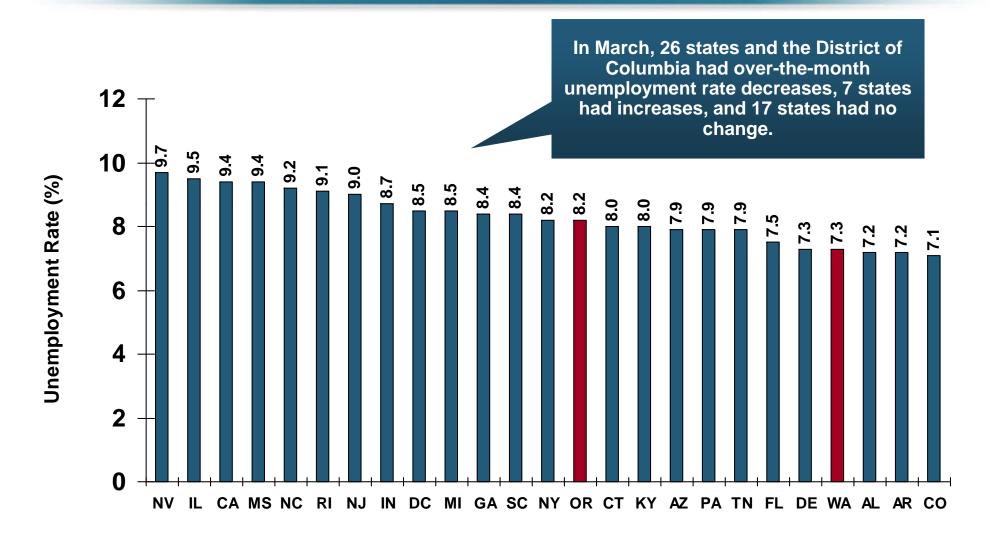


<sup>\*</sup>Cumulative change from prior month; Base employment date is Dec. 2009.

Source: US Bureau of Labor Statistics <a href="http://www.bls.gov/data/#employment">http://www.bls.gov/data/#employment</a>; Insurance Information Institute

### Unemployment Rates by State, March 2013: Highest 25 States\*



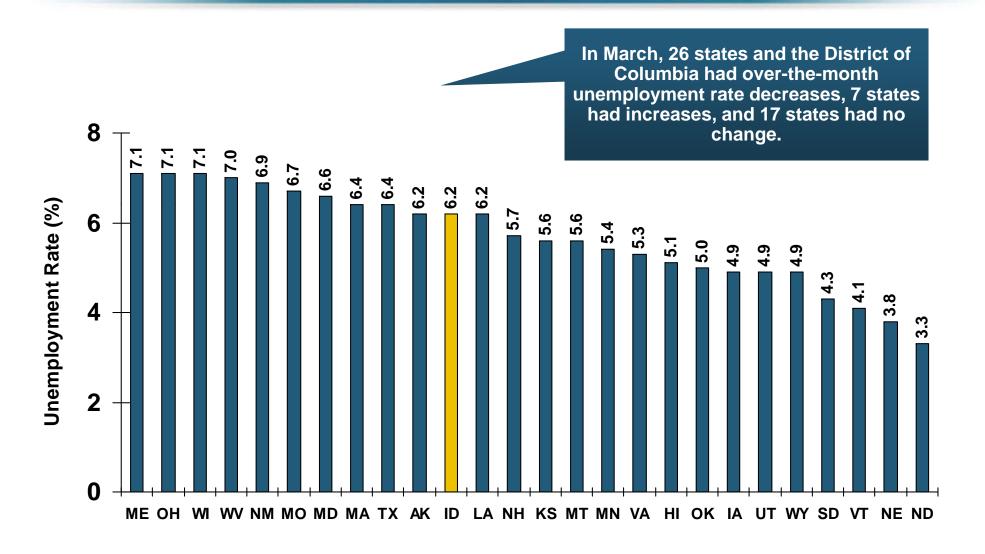


<sup>\*</sup>Provisional figures for March 2013, seasonally adjusted.

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

### Unemployment Rates by State, March 2013: Lowest 25 States\*



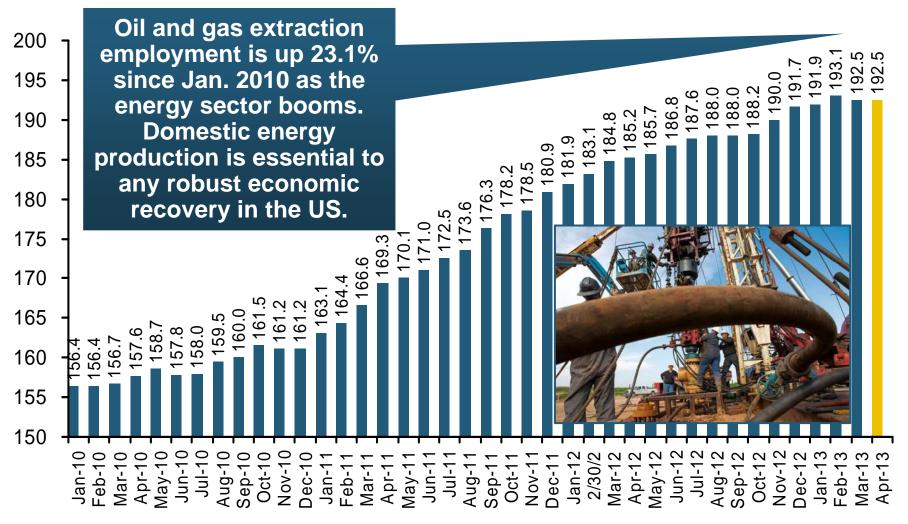


<sup>\*</sup>Provisional figures for March 2013, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

# Oil & Gas Extraction Employment, Jan. 2010—April 2013\*



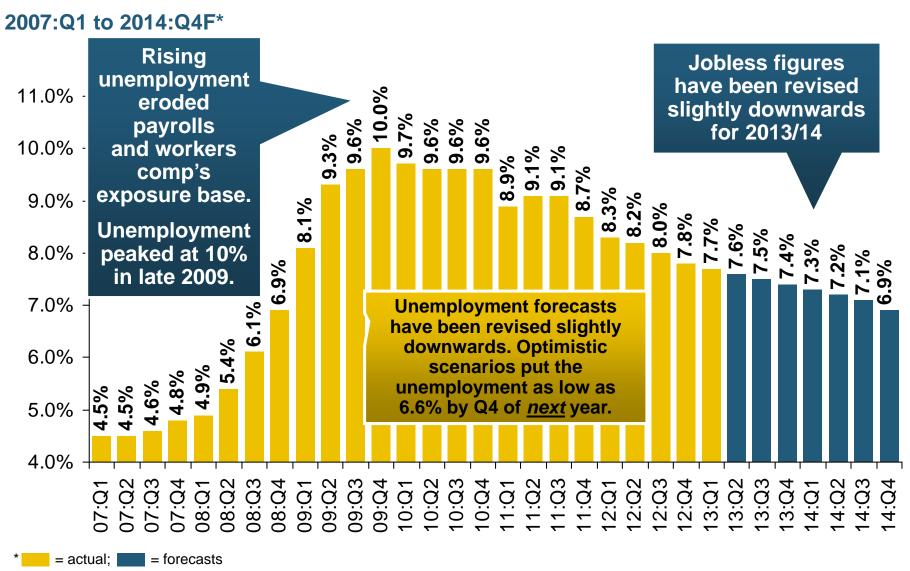
#### (Thousands)



<sup>\*</sup>Seasonally adjusted

### **US Unemployment Rate Forecast**

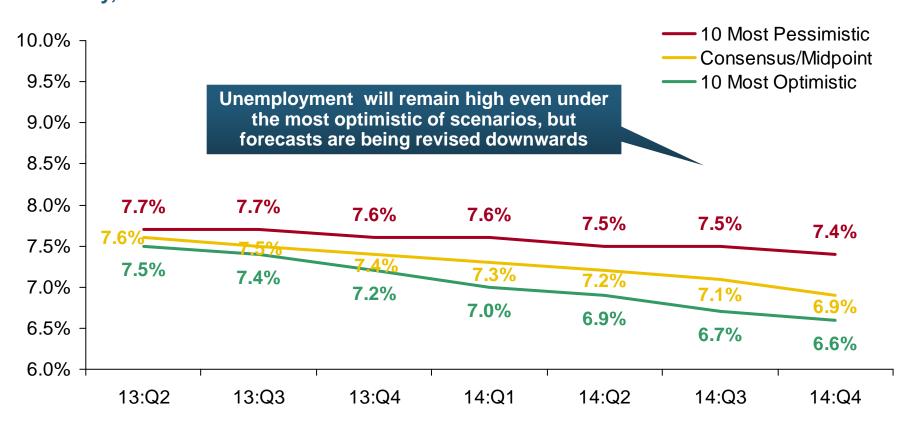




### **US Unemployment Rate Forecasts**

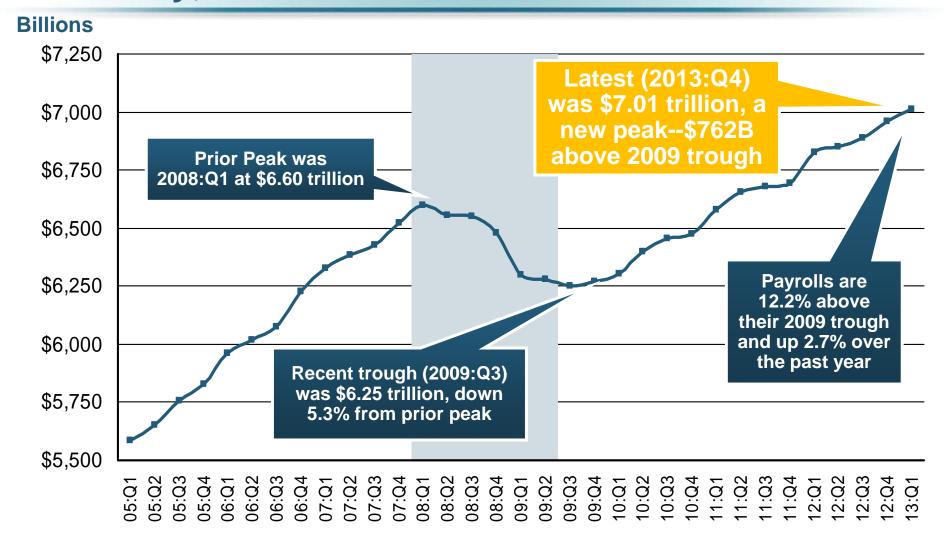


#### Quarterly, 2013:Q1 to 2014:Q4



### Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2013:Q1



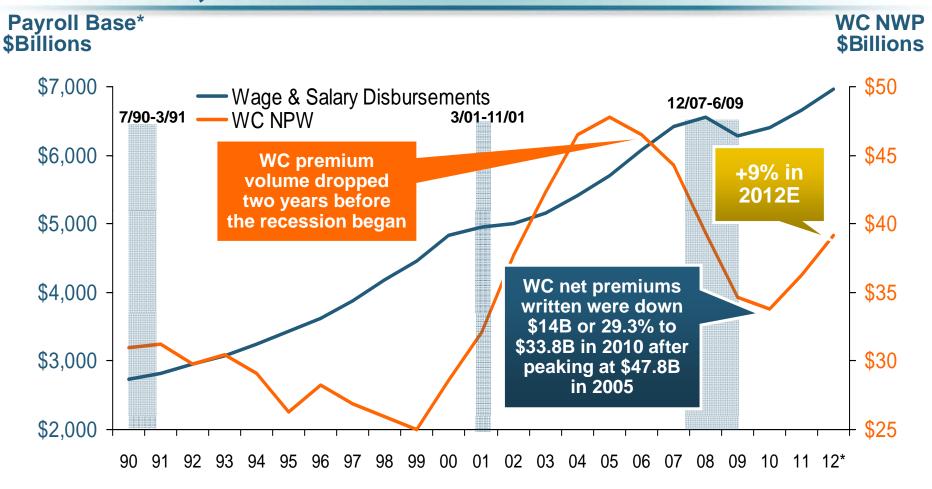


Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

Sources: <a href="http://research.stlouisfed.org/fred2/series/WASCUR">http://research.stlouisfed.org/fred2/series/WASCUR</a>; National Bureau of Economic Research (recession dates); Insurance Information Institute.

### Payroll vs. Workers Comp Net Written Premiums, 1990-2012E





Continued Payroll Growth and Rate Increases Suggest WC NWP Will Grow Again in 2012; +7.9% Growth in 2011 Was the First Gain Since 2005

<sup>\*</sup>Private employment; Shaded areas indicate recessions. WC premiums for 2012 are I.I.I. estimate based YTD 2012 actuals. Sources: NBER (recessions); Federal Reserve Bank of St. Louis at <a href="http://research.stlouisfed.org/fred2/series/WASCUR">http://research.stlouisfed.org/fred2/series/WASCUR</a>; NCCI; I.I.I.



# The BIG Question: Where Is the Market Heading?

Catastrophes and Other Factors Are Pressuring Insurance Markets

New Factor: Record Low Interest Rates Are Contributing to Underwriting and Pricing Pressures



### INVESTMENTS: THE NEW REALITY

# Investment Performance is a Key Driver of Profitability

Depressed Yields Will Necessarily Influence Underwriting & Pricing

### Property/Casualty Insurance Industry Investment Income: 2000–2012<sup>1</sup>





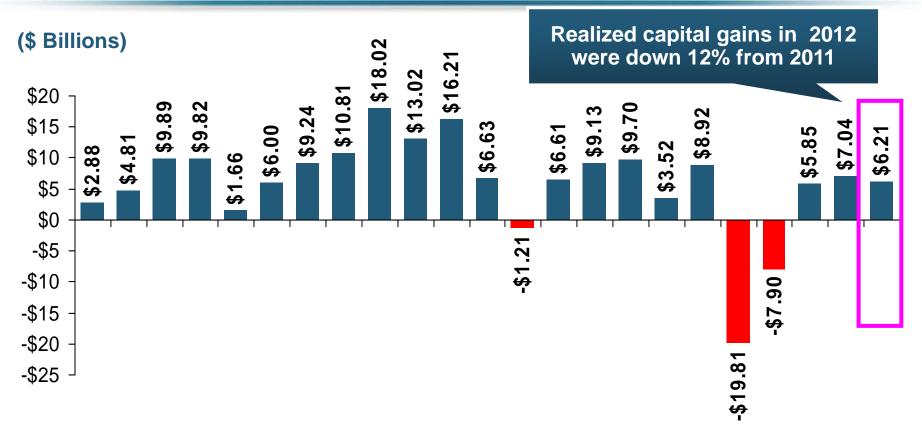


Investment Income Fell in 2012 Due to Persistently Low Interest Rates, Putting Additional Pressure on (Re) Insurance Pricing

<sup>&</sup>lt;sup>1</sup> Investment gains consist primarily of interest and stock dividends.. Sources: ISO; Insurance Information Institute.

## P/C Insurer Net Realized Capital Gains/Losses, 1990-2012





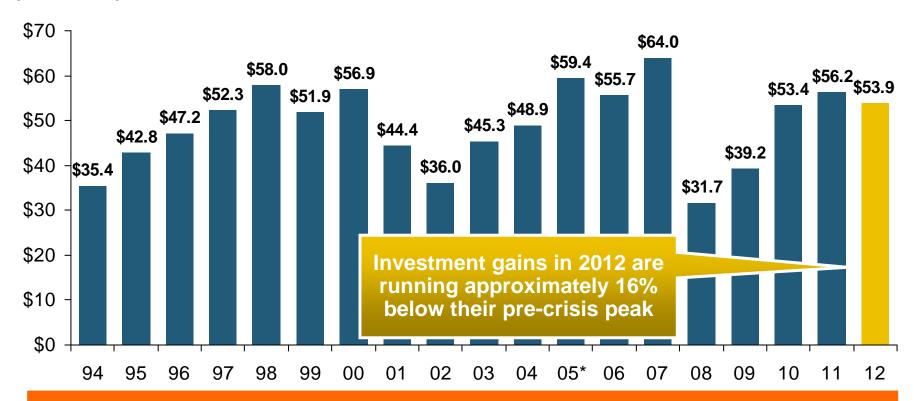
90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12

Insurers Posted Net Realized Capital Gains in 2010, 2011 and 2012 Following Two Years of Realized Losses During the Financial Crisis. Realized Capital Losses Were the Primary Cause of 2008/2009's Large Drop in Profits and ROE

### Property/Casualty Insurance Industry Investment Gain: 1994–2012<sup>1</sup>



#### (\$ Billions)



Investment Gains Are Slipping in 2012 as Low Interest Rates Reduce Investment Income and Lower Realized Investment Gains; The Financial Crisis Caused Investment Gains to Fall by 50% in 2008

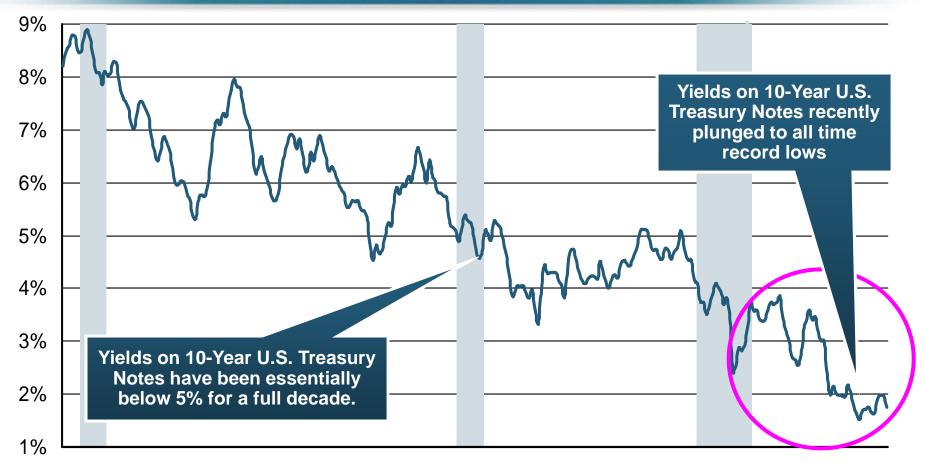
Sources: ISO; Insurance Information Institute.

<sup>&</sup>lt;sup>1</sup> Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.

<sup>\* 2005</sup> figure includes special one-time dividend of \$3.2B;

## 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 '13

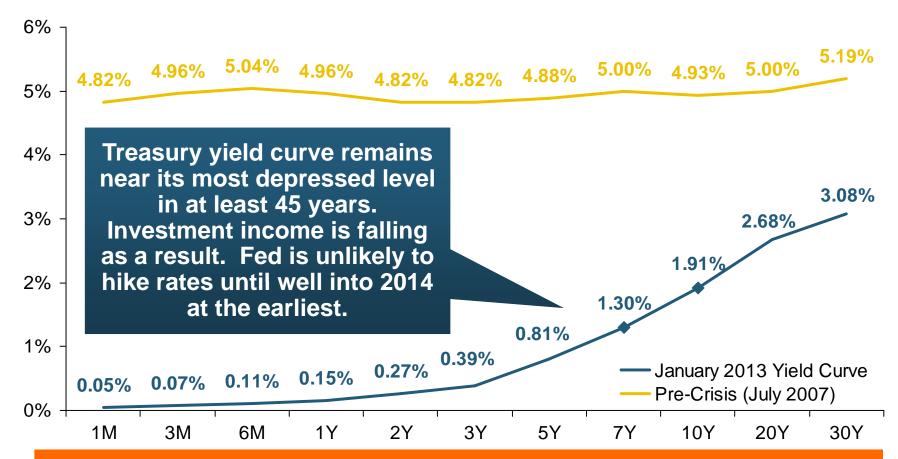
Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

<sup>\*</sup>Monthly, through Apr. 2013.

Note: Recessions indicated by gray shaded columns.

## Treasury Yield Curves: Pre-Crisis (July 2007) vs. Jan. 2013



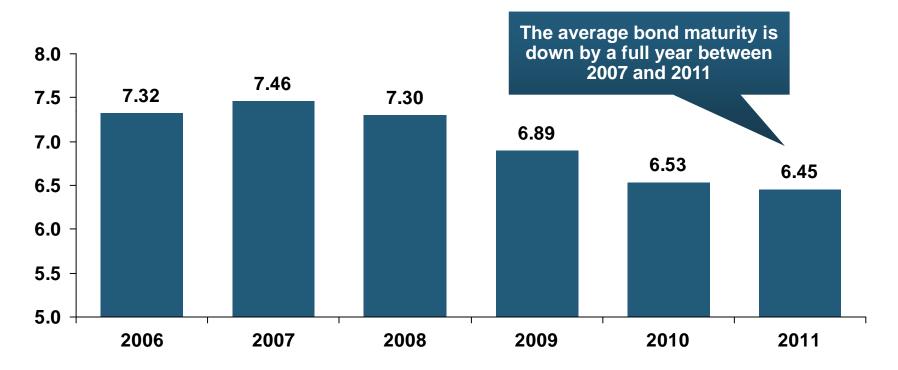


The Fed Is Actively Signaling that it Is Determined to Keep Rates Low Until Unemployment Drops Below 6.5% or Until Inflation Expectations Exceed 2.5%; Low Rates Add to Pricing Pressure for Insurers.

## Average Maturity of Bonds Held by US P/C Insurers, 2006—2011\*



#### **Average Maturity (Years)**



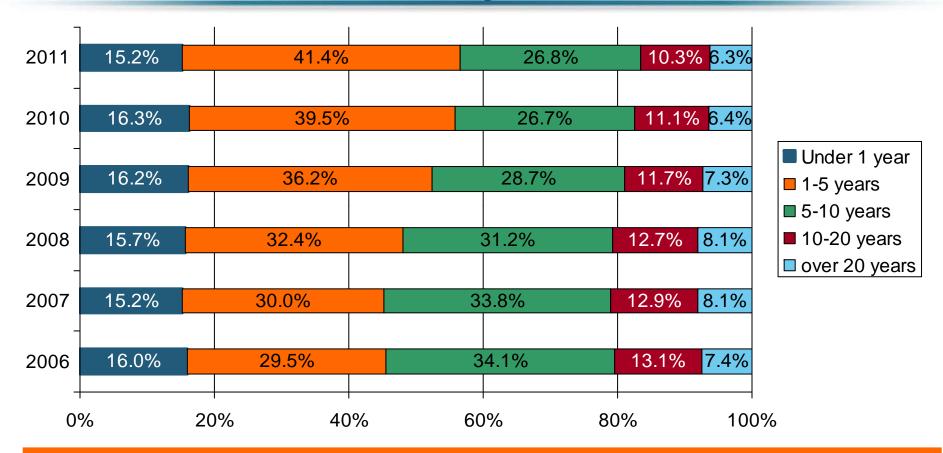
Falling Average Maturity (and Duration) of the P/C Industry's Bond Portfolio is Contributing to the Drop in Investment Income Along With Lower Yields

Sources: Insurance Information Institute calculations based on A.M. Best data.

<sup>\*</sup>Year-end figures. Latest available.

## Distribution of Bond Maturities, P/C Insurance Industry, 2006-2011



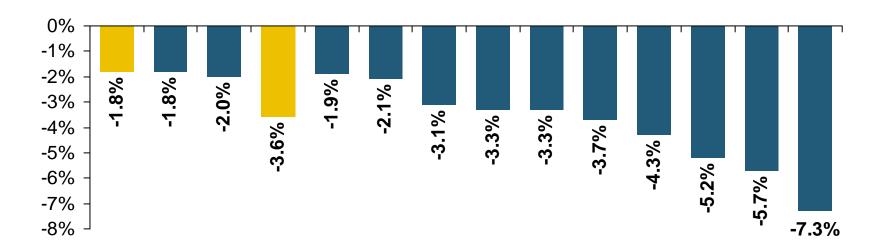


The main shift over these 6 years has been from bonds with 5-10 years of maturity to bonds with 1-5 years of maturity. The industry also slightly trimmed it holdings of bonds in the 10-20-year maturity category and bonds in the longest-maturity category.

# Reduction in Combined Ratio Necessary to Offset 1% Decline in Investment Yield to Maintain Constant ROE, by Line\*







Lower Investment Earnings Place a Greater Burden on Underwriting and Pricing Discipline

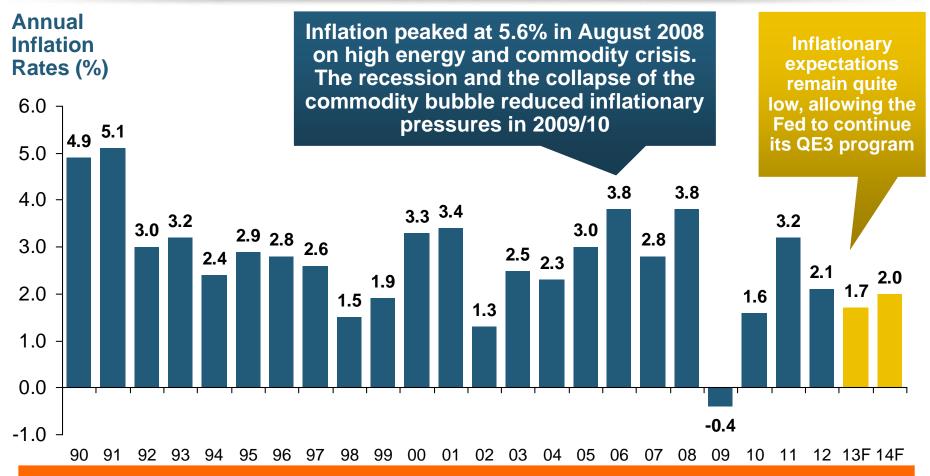
Source: A.M. Best; Insurance Information Institute.

<sup>\*</sup>Based on 2008 Invested Assets and Earned Premiums

<sup>\*\*</sup>US domestic reinsurance only

### Annual Inflation Rates, (CPI-U, %), 1990–2014F





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

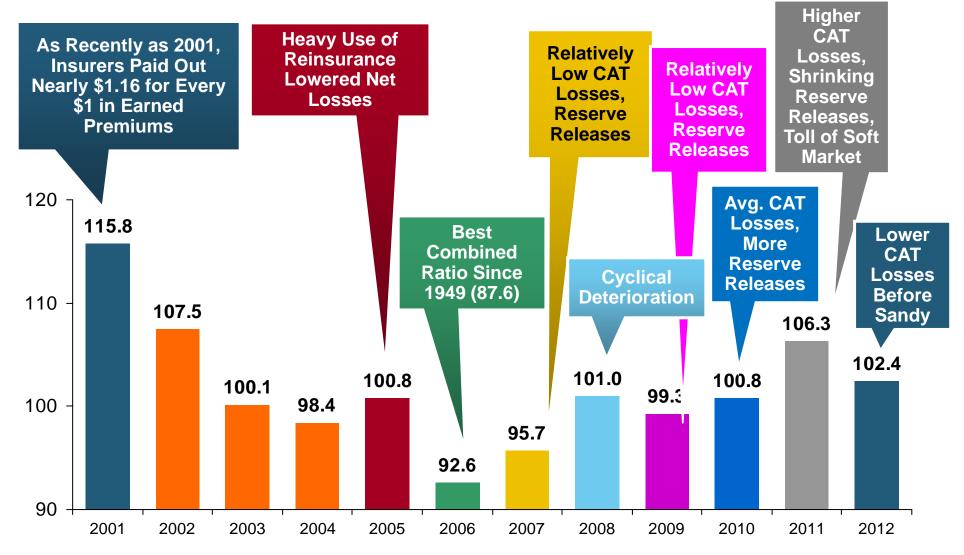


### 1. UNDERWRITING

# Underwriting Losses in 2011 and 2012 Are Elevated by High Catastrophe Losses

### P/C Insurance Industry Combined Ratio, 2001–2012\*

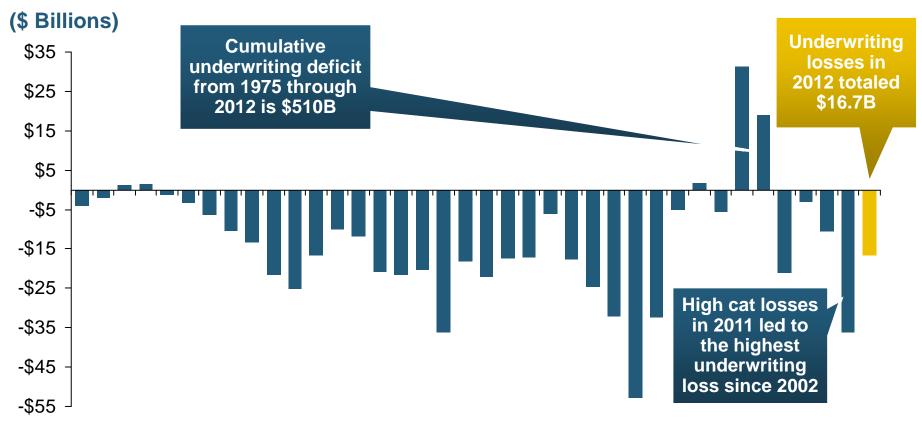




<sup>\*</sup> Excludes Mortgage & Financial Guaranty insurers 2008--2012. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.1; 2012:=103.2. Sources: A.M. Best, ISO.

### Underwriting Gain (Loss) 1975–2012\*





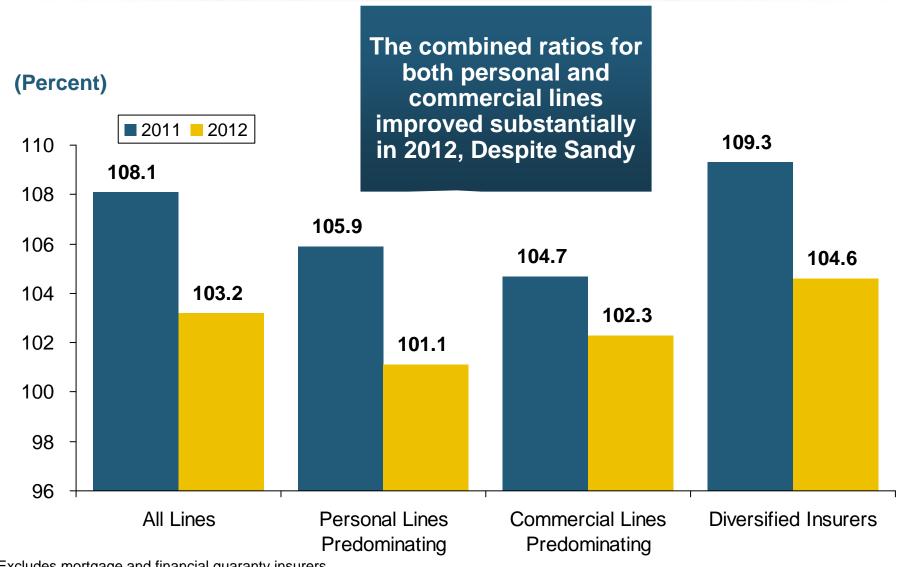
75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12

Large Underwriting Losses Are *NOT* Sustainable in Current Investment Environment

<sup>\*</sup> Includes mortgage and financial guaranty insurers in all years. Sources: A.M. Best, ISO; Insurance Information Institute.

### Combined Ratios by Predominant Business Segment, 2012 vs. 2011\*

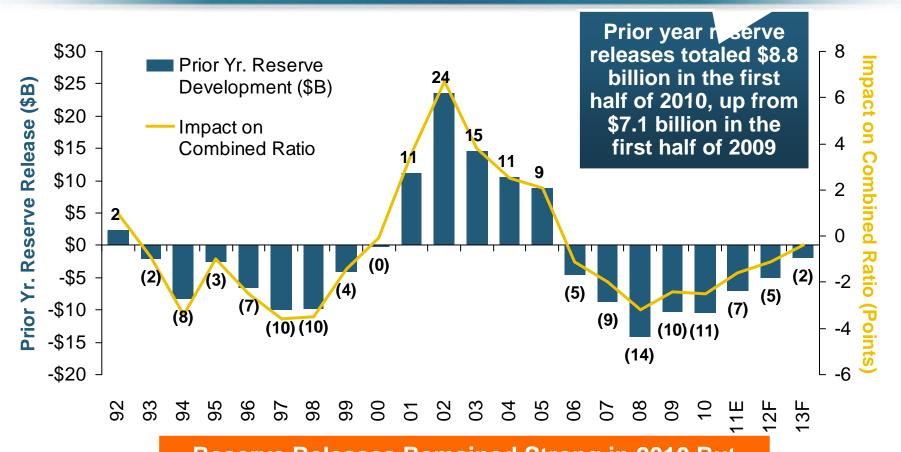




<sup>\*</sup>Excludes mortgage and financial guaranty insurers. Source: ISO/PCI; Insurance Information Institute

### P/C Reserve Development, 1992–2013F





Reserve Releases Remained Strong in 2010 But Tapered Off in 2011. Releases Are Expected to Further Diminish in 2012 and 2103

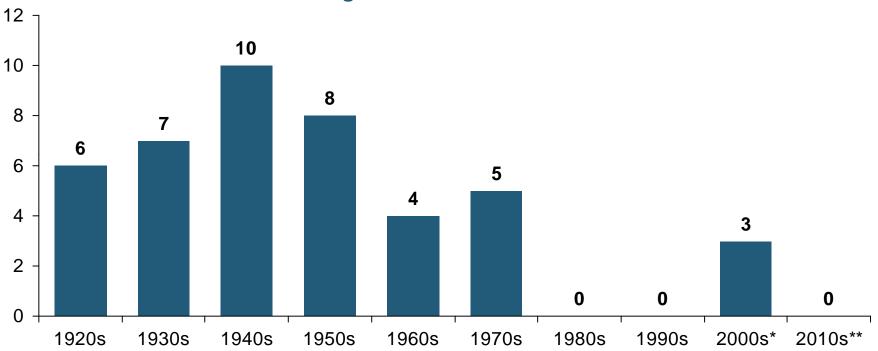
Note: 2005 reserve development excludes a \$6 billion loss portfolio transfer between American Re and Munich Re. Including this transaction, total prior year adverse development in 2005 was \$7 billion. The data from 2000 and subsequent years excludes development from financial guaranty and mortgage insurance.

Sources: Barclays Capital; A.M. Best.

### Number of Years with Underwriting Profits by Decade, 1920s–2010s



#### **Number of Years with Underwriting Profits**



Underwriting Profits Were Common Before the 1980s (40 of the 60 Years Before 1980 Had Combined Ratios Below 100) – But Then They Vanished. Not a Single Underwriting Profit Was Recorded in the 25 Years from 1979 Through 2003

Note: Data for 1920–1934 based on stock companies only.

Sources: Insurance Information Institute research from A.M. Best Data.

<sup>\* 2009</sup> combined ratio excl. mort. and finl. guaranty insurers was 99.3, which would bring the 2000s total to 4 years with an u/w profit.

<sup>\*\*</sup>Data for the 2010s includes 2010 and 2011.

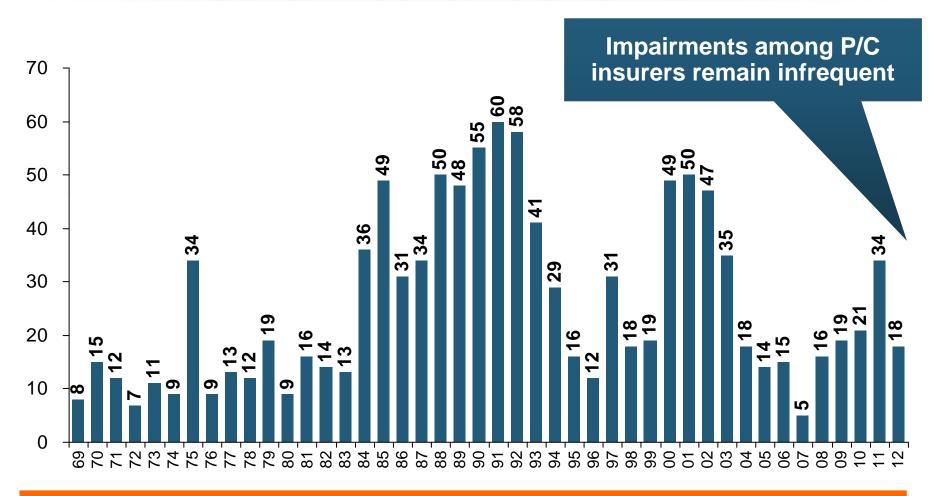


## Financial Strength & Underwriting

# Cyclical Pattern is P-C Impairment History is Directly Tied to Underwriting, Reserving & Pricing

#### P/C Insurer Impairments, 1969–2012

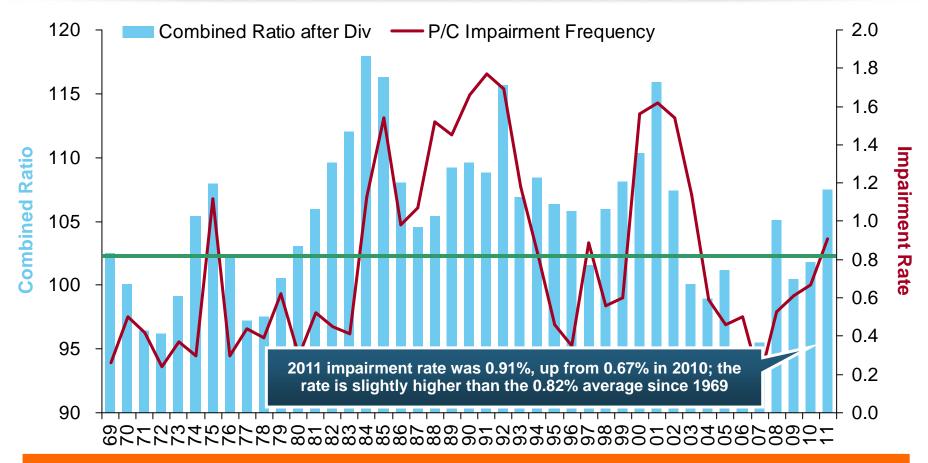




The Number of Impairments Varies Significantly Over the P/C Insurance Cycle, With Peaks Occurring Well into Hard Markets

### P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2011



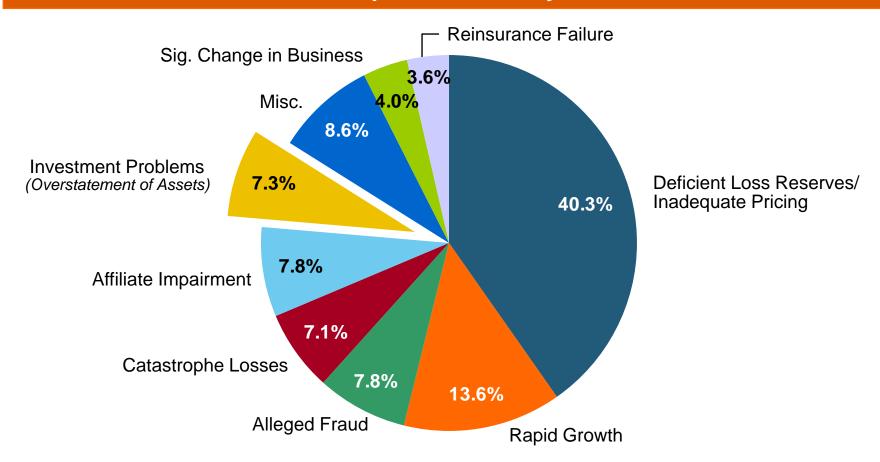


Impairment Rates Are Highly Correlated With Underwriting Performance and Reached Record Lows in 2007; Recent Increase Was Associated Primarily With Mortgage and Financial Guaranty Insurers and Not Representative of the Industry Overall

### Reasons for US P/C Insurer Impairments, 1969–2010



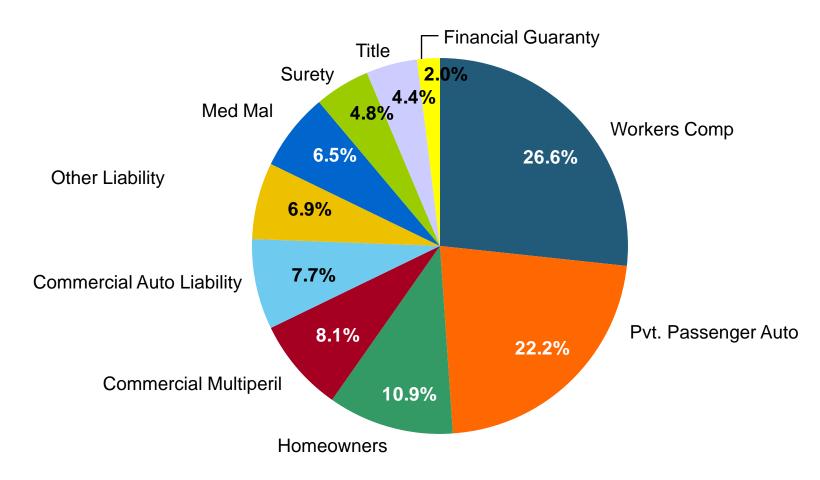
Historically, Deficient Loss Reserves and Inadequate Pricing Are By Far the Leading Cause of P-C Insurer Impairments. Investment and Catastrophe Losses Play a Much Smaller Role



### Top 10 Lines of Business for US P/C Impaired Insurers, 2000–2010



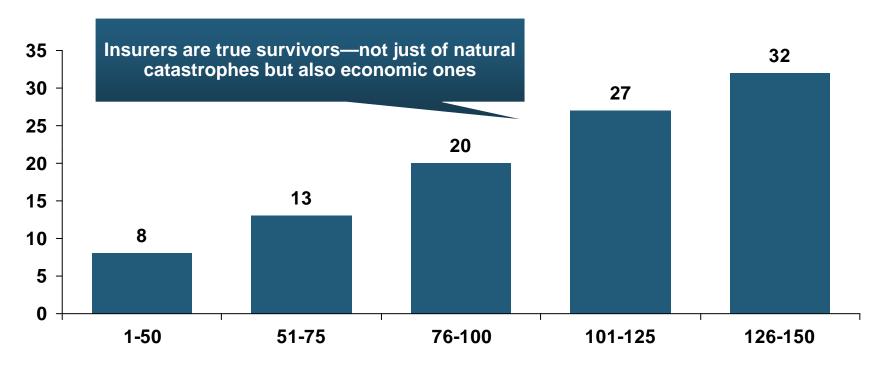
Workers Comp and Pvt. Passenger Auto Account for Nearly Half of the Premium Volume of Impaired Insurers Over the Past Decade



Source: A.M. Best: 1969-2010 Impairment Review, Special Report, April 2011.

### Number of Recessions Endured by P/C Insurers, by Number of Years in Operation Institute

#### **Number of Recessions Since 1860**



**Number of Years in Operation** 

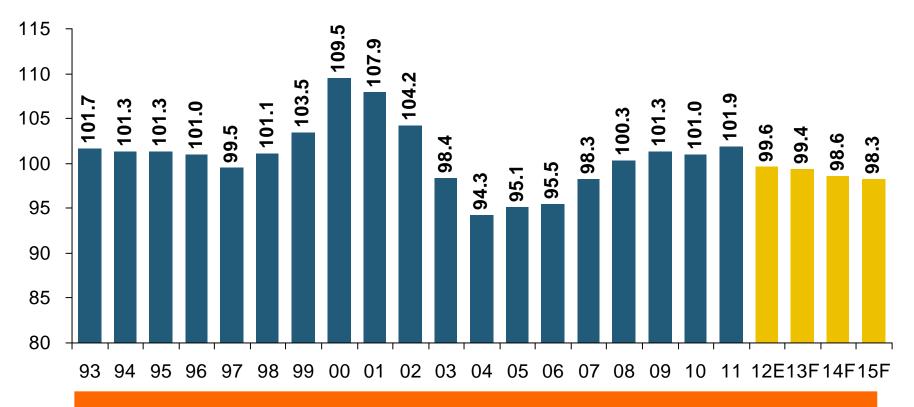
Many US Insurers Are Close to a Century Old or Older



### **Performance by Segment**

### Private Passenger Auto Combined Ratio: 1993–2015F

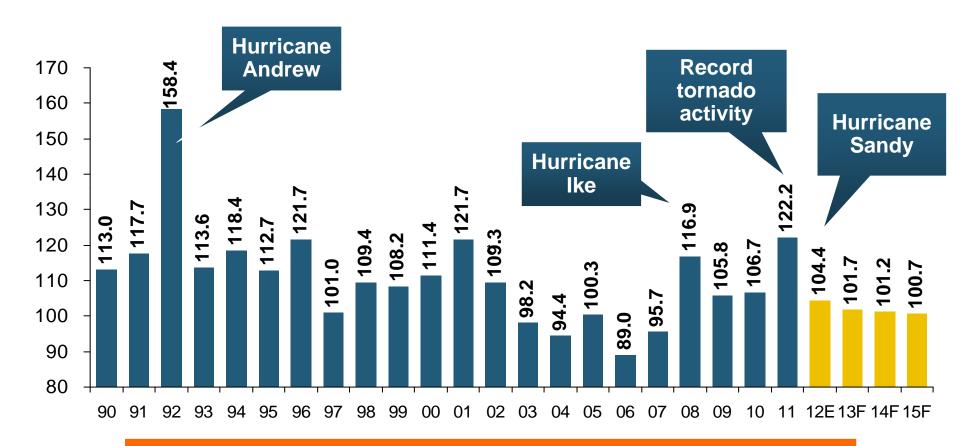




Private Passenger Auto Accounts for 34% of Industry Premiums and Remains the Profit Juggernaut of the P/C Insurance Industry

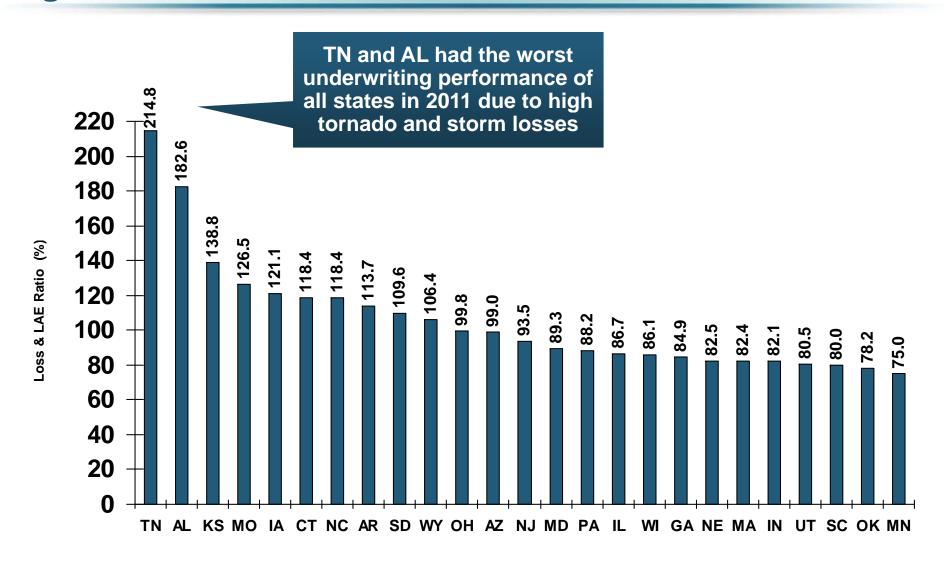
### Homeowners Insurance Combined Ratio: 1990–2015F



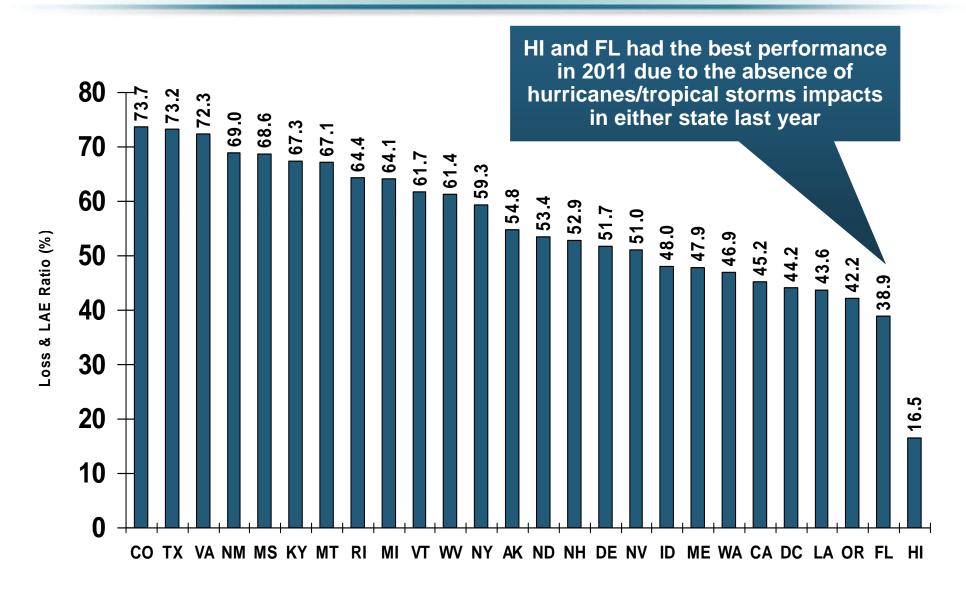


Homeowners Performance in 2011/12 Impacted by Large Cat Losses. Extreme Regional Variation Can Be Expected Due to Local Catastrophe Loss Activity

### Homeowners Multi-Peril Loss & LAE Ratio, 2011: INSURANCE INFORMATION INSTITUTE Highest 25 States

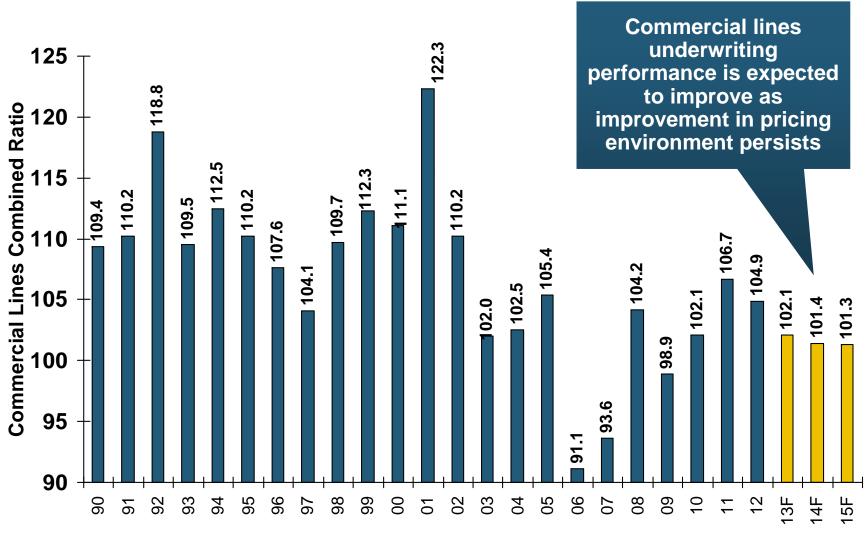


### Homeowners Multi-Peril Loss & LAE Ratio, 2011: INSURANCE INFORMATION Lowest 25 States



### Commercial Lines Combined Ratio, 1990-2015F\*

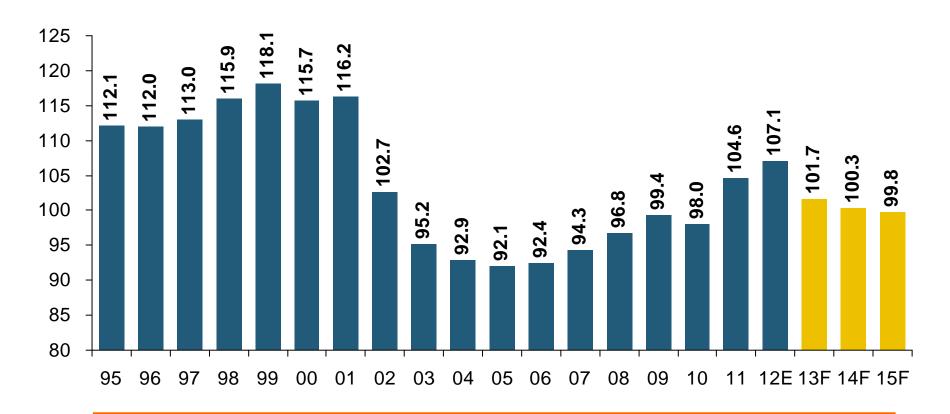




\*2007-2012 figures exclude mortgage and financial guaranty segments. Source: A.M. Best (1990-2011); Conning (2012-2015F) Insurance Information Institute

### Commercial Auto Combined Ratio: 1993–2015F

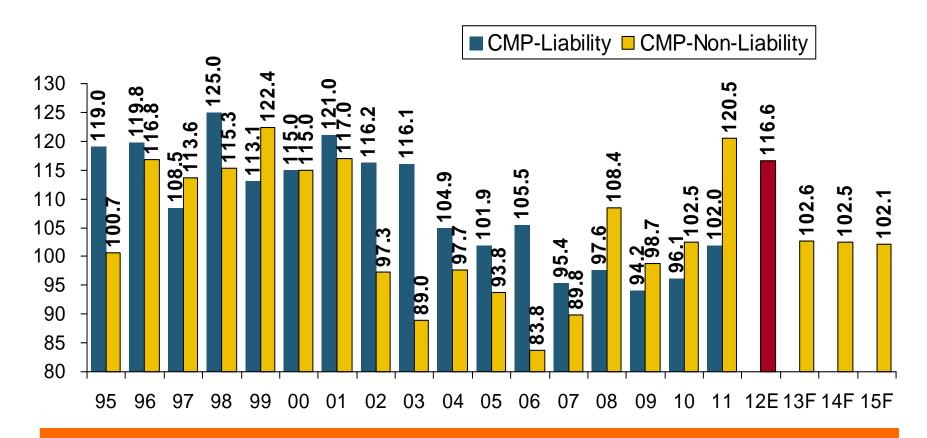




Commercial Auto is Expected to Improve as Rate Gains
Outpace Any Adverse Frequency and Severity Trends

### Commercial Multi-Peril Combined Ratio: 1995–2015F





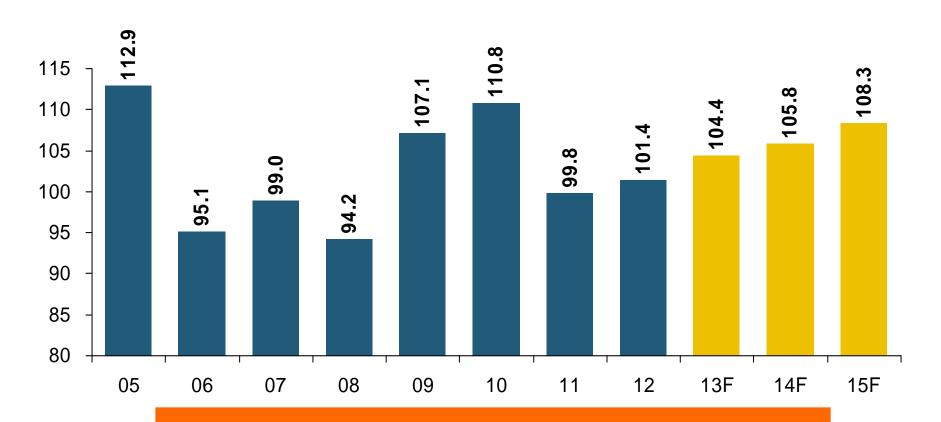
Commercial Multi-Peril Underwriting Performance is Expected to Improve in 2013 Assuming Normal Catastrophe Loss Activity

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

<sup>\*2012-2013</sup> figures are A.M. Best estimate/forecast for the combined liability and non-liability components. Same for Conning 2014-2015F figures.

### **General Liability Combined Ratio:** 2005–2015F

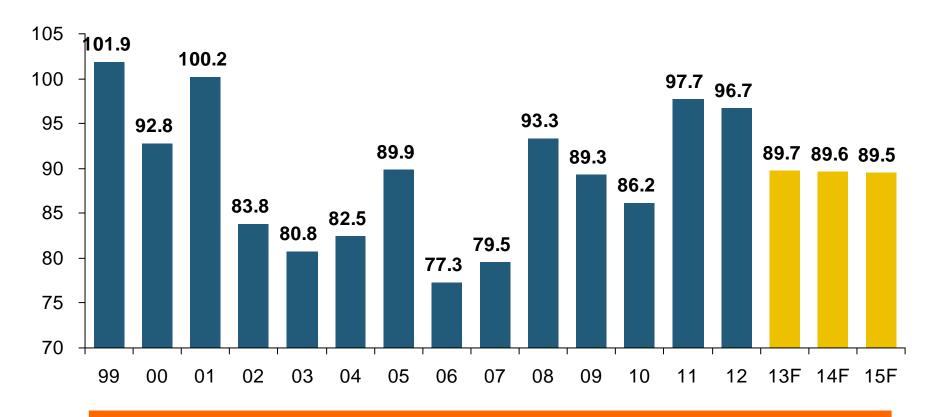




Commercial General Liability Underwriting Performance Has Been Volatile in Recent Years

### **Inland Marine Combined Ratio:** 1999–2015F

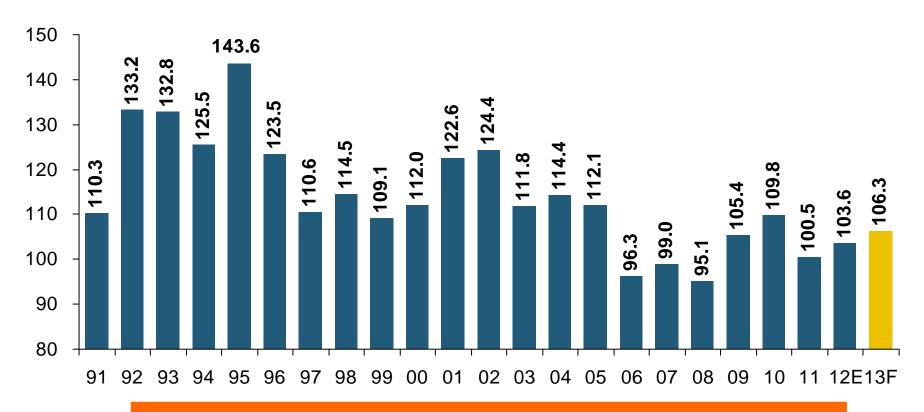




Inland Marine is Expected to Remain Among the Most Profitable of All Lines

### Other & Products Liability Combined Ratio: 1991–2013F

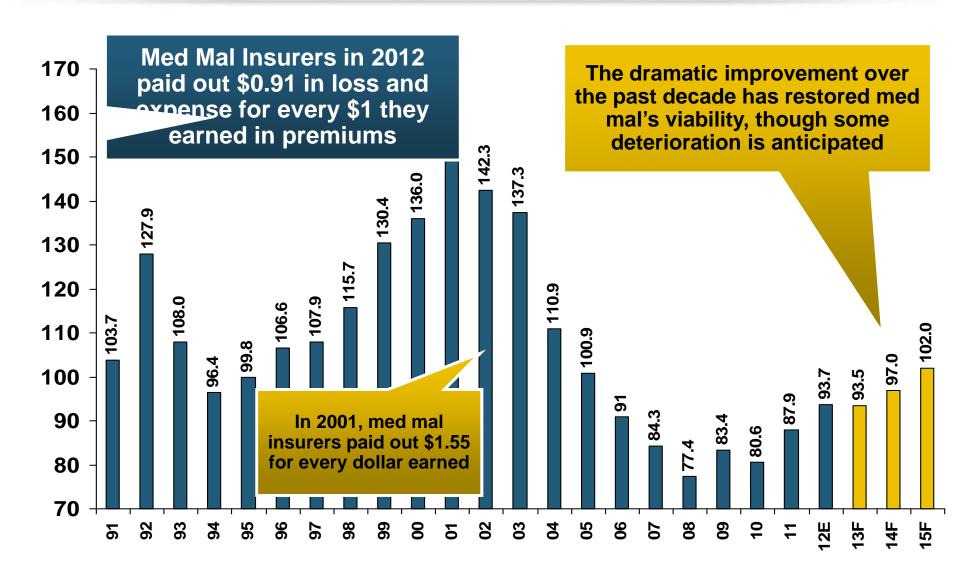




Liability Lines Have Performed Better in the Post-Tort Reform Era (~2005), but There Has Been Some Deterioration in Recent Years

### Medical Malpractice Combined Ratio vs. All Lines Combined Ratio, 1991-2015F





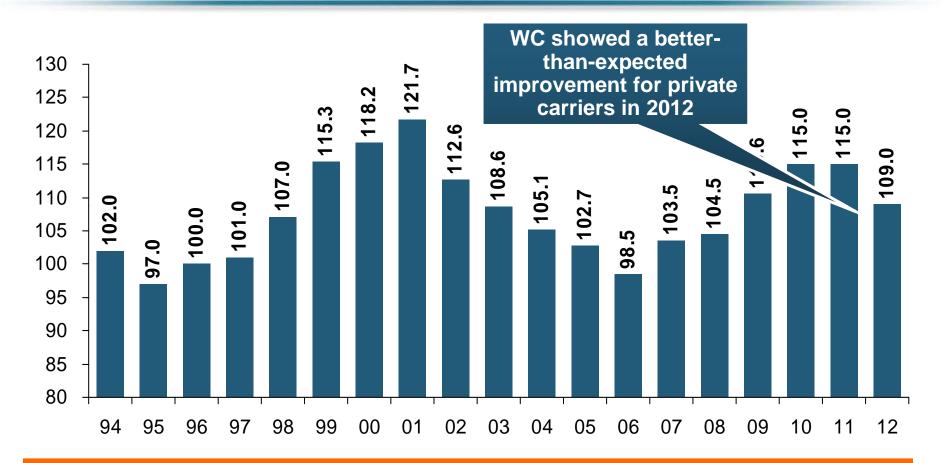


### Workers Compensation Operating Environment

## The Weak Economy and Soft Market Have Made the Workers Comp Operating Increasingly Challenging

### Workers Compensation Combined Ratio: 1994–2012P





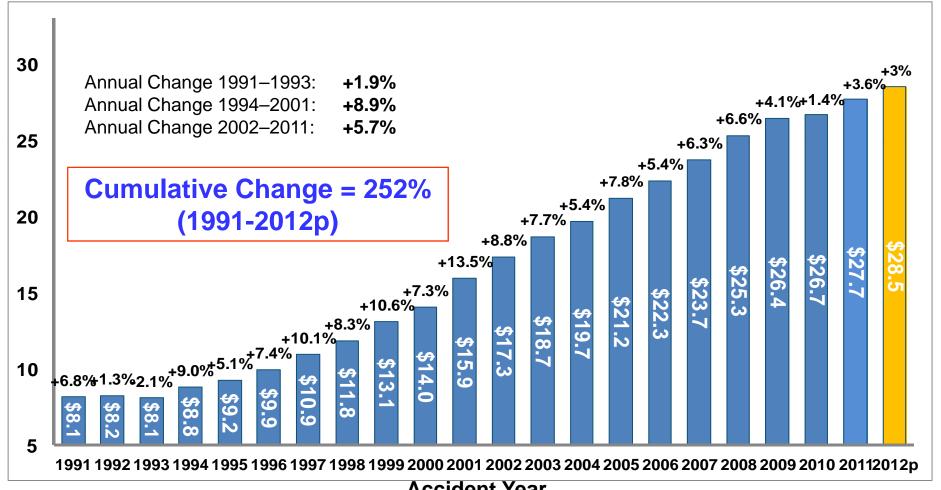
Workers Comp Results Began to Improve in 2012. Underwriting Results Deteriorated Markedly from 2007-2010/11 and Were the Worst They Had Been in a Decade.

#### **Workers Compensation Medical Severity Moderate Increase in 2012**



Medical Claim Cost (\$000s)

**Average Medical Cost per Lost-Time Claim** 



**Accident Year** 

2012p: Preliminary based on data valued as of 12/31/2012.

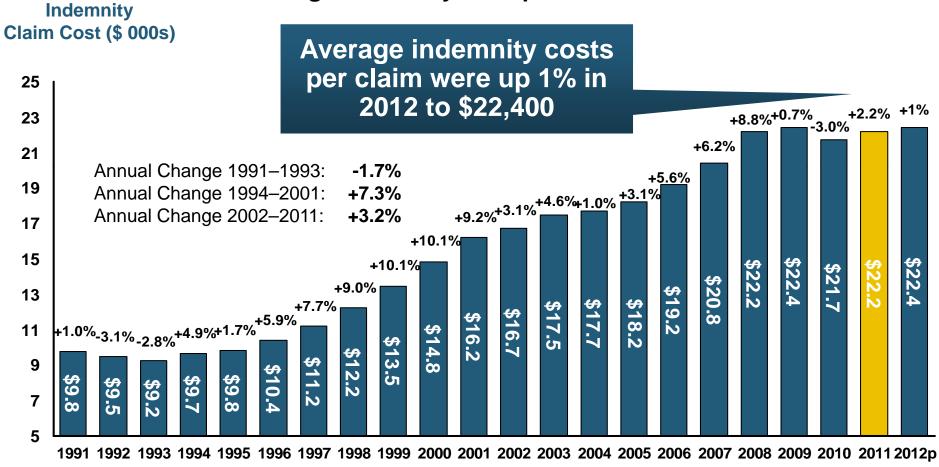
1991-2011: Based on data through 12/31/2011, developed to ultimate

Based on the states where NCCI provides ratemaking services including state funds, excluding WV; Excludes high deductible policies.

### Workers Comp Indemnity Claim Costs: Small Increase in 2012



#### **Average Indemnity Cost per Lost-Time Claim**



#### **Accident Year**

2012p: Preliminary based on data valued as of 12/31/2012.

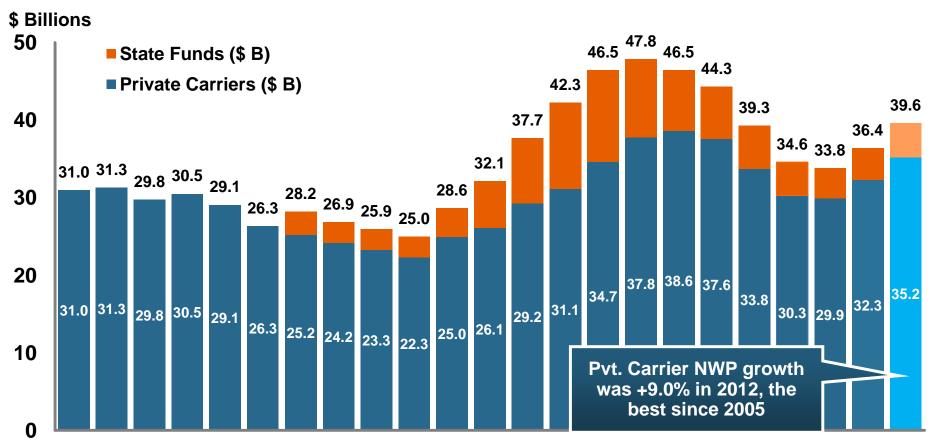
1991-2011: Based on data through 12/31/2011, developed to ultimate

Based on the states where NCCI provides ratemaking services including state funds, excluding WV; Excludes high deductible policies.

### Workers Compensation Premium: Second Consecutive Year of Increase



#### **Net Written Premium**



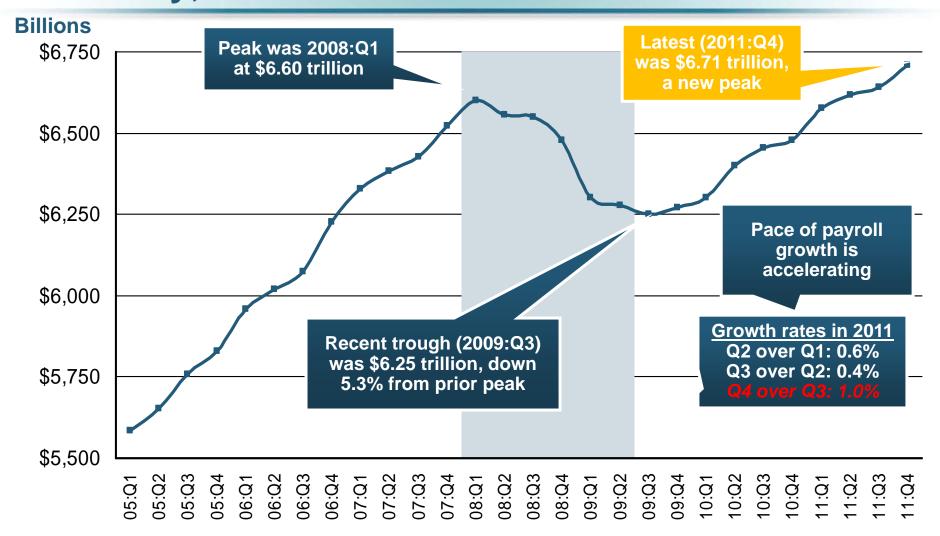
1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 20112012p

p Preliminary

Source: 1990–20102p Private Carriers, Annual Statement Data, NCCI.
1996–2012p State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements
State Funds available for 1996 and subsequent

### Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2011:Q4



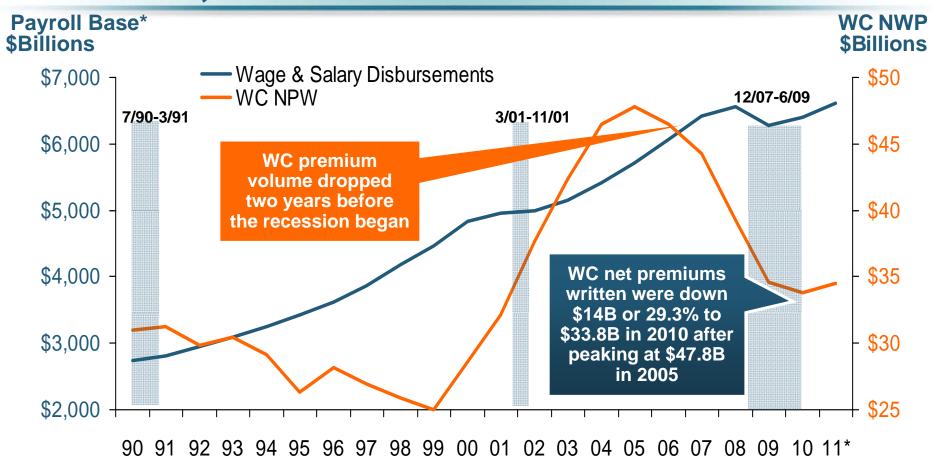


Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

Sources: <a href="http://research.stlouisfed.org/fred2/series/WASCUR">http://research.stlouisfed.org/fred2/series/WASCUR</a>; National Bureau of Economic Research (recession dates); Insurance Information Institute.

### Payroll vs. Workers Comp Net Written Premiums, 1990-2011





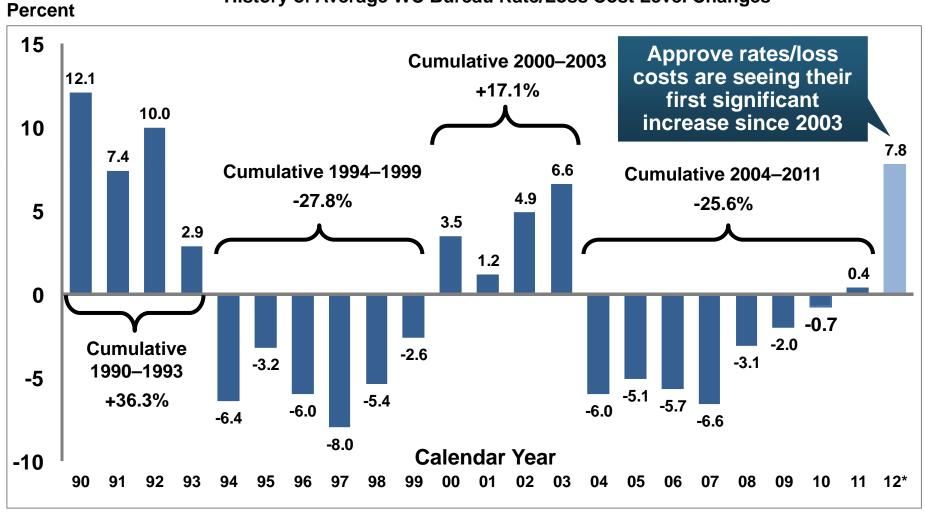
Resumption of payroll growth and rate increases suggests WC NWP will grow again in 2012

<sup>\*</sup>Private employment; Shaded areas indicate recessions. Payroll and WC premiums for 2011 is I.I.I. estimate Sources: NBER (recessions); Federal Reserve Bank of St. Louis at <a href="http://research.stlouisfed.org/fred2/series/WASCUR">http://research.stlouisfed.org/fred2/series/WASCUR</a>; NCCI; I.I.I.

### **Average Approved Bureau**Rates/Loss Costs



#### History of Average WC Bureau Rate/Loss Cost Level Changes



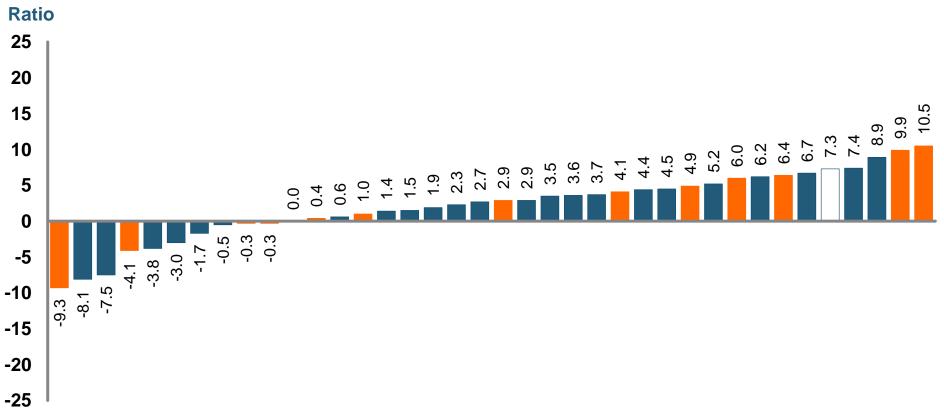
<sup>\*</sup>States approved through 7/31/12.

Note: Countrywide approved changes in advisory rates, loss costs and assigned risk rates as filed by applicable rating organization. Source: NCCI.

### **Current NCCI Voluntary Market Filed Rate/Loss Cost Changes**



#### (Excludes Law-Only Filings)



AL WVKY AR MEMOOK KS SD TX MT TNNC\*NV MD UT OR IN\* AK GA ID IL HI CO VT IA CT NE AZ LA DC RI NH SC NM FL MS VA

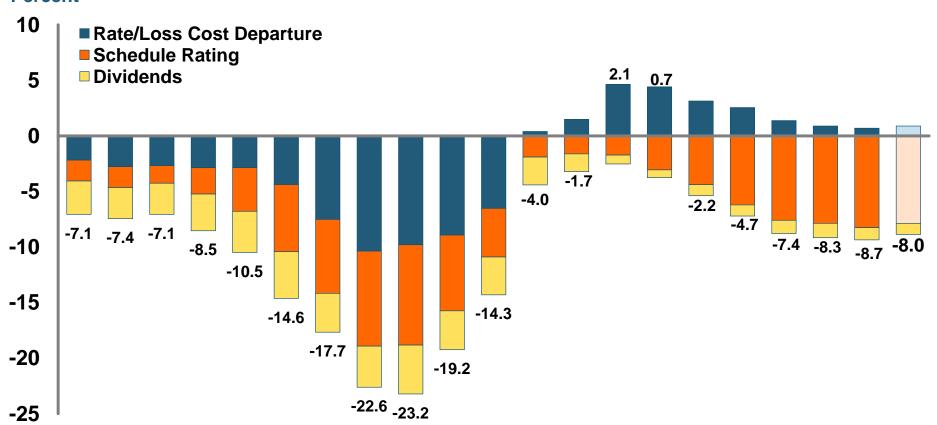
■ Effective Dates 1/1/2012 and Prior ■ Effective Dates Subsequent to 1/1/2012 □ Filed and Pending

### Impact of Discounting on Workers Compensation Premium



#### **NCCI States—Private Carriers**

#### **Percent**



1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011p

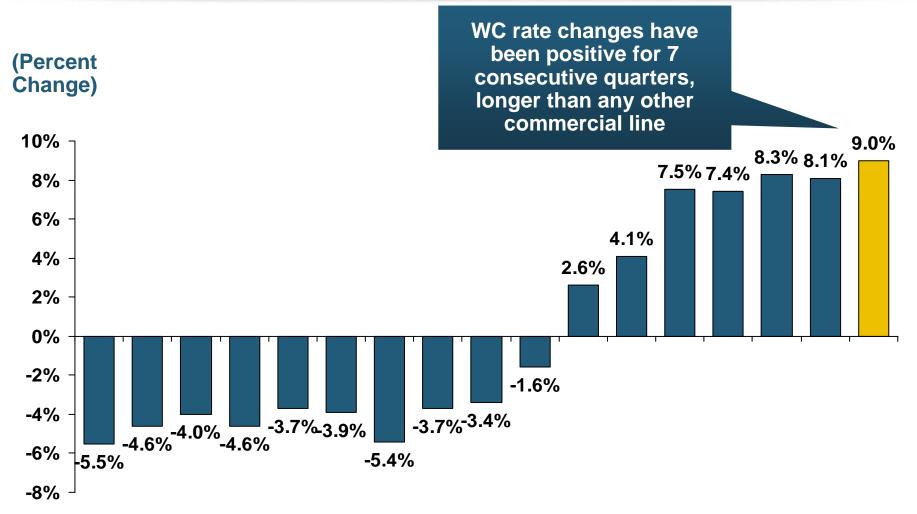
Preliminary

Policy Year

Dividend ratios are based on calendar year statistics NCCI benchmark level does not include an underwriting contingency provision Based on data through 12/31/2011 for the states where NCCI provides ratemaking services Source: NCCI.

### Workers Comp Rate Changes, 2008:Q4 – 2012:Q4





08:Q4 09:Q1 09:Q2 09:Q3 09:Q4 10:Q1 10:Q2 10:Q3 10:Q4 11:Q1 11:Q2 11:Q3 11:Q4 12:Q1 12:Q2 12:Q3 12:Q4

Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially. Source: Council of Insurance Agents and Brokers; Information Institute.

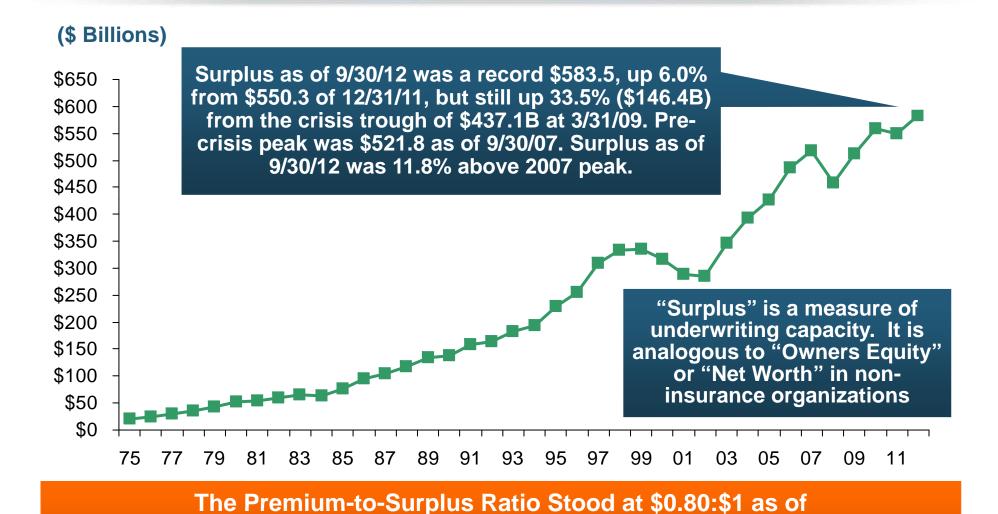


#### 2. SURPLUS/CAPITAL/CAPACITY

## How Will Large Catastrophe Losses Impact Capacity?

### US Policyholder Surplus: 1975–2012\*





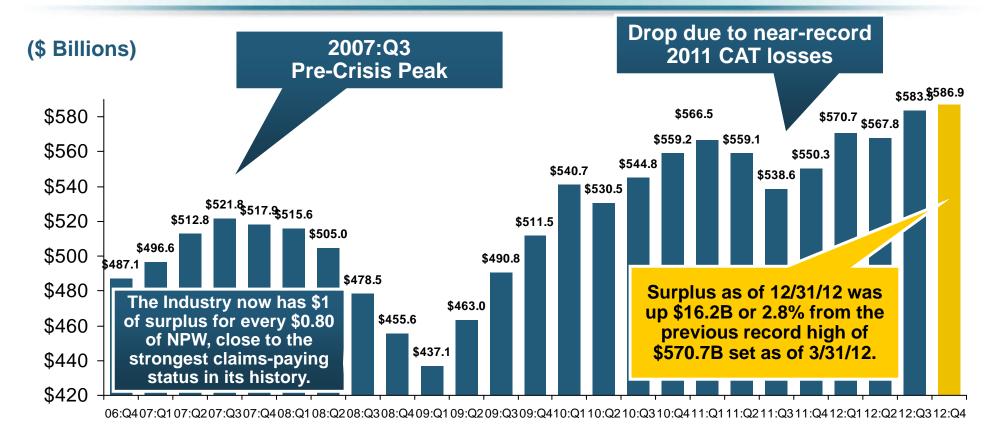
9/30/12, A Near Record Low (at Least in Recent History)\*

\* As of 9/30/12.

Source: A.M. Best, ISO, Insurance Information Institute.

### Policyholder Surplus, 2006:Q4–2012:Q4





\*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.

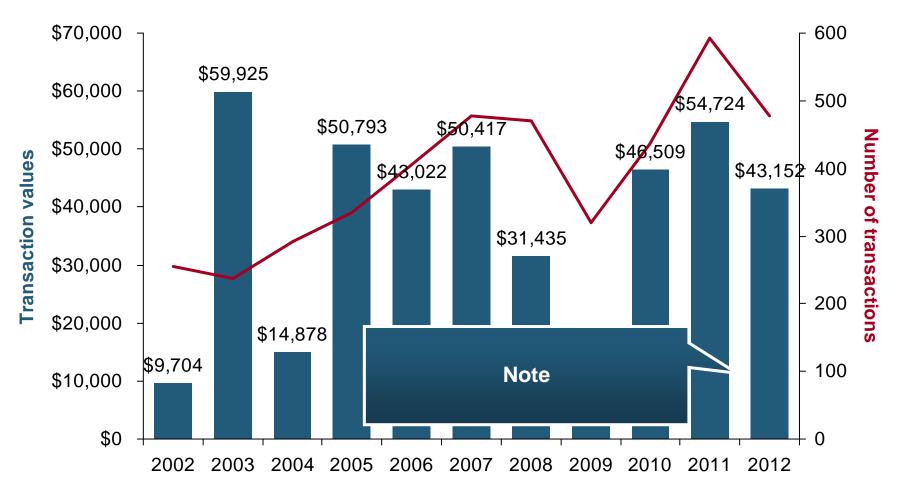
The P/C Insurance Industry Both Entered and Emerged from the 2012 Hurricane Season Very Strong Financially.

Sources: ISO, A.M .Best.

### U.S. INSURANCE MERGERS AND ACQUISITIONS, 2002-2012 (1)



#### (\$ Millions)



(1) Includes transactions where a U.S. company was the acquirer and/or the target.

Source: Conning proprietary database.

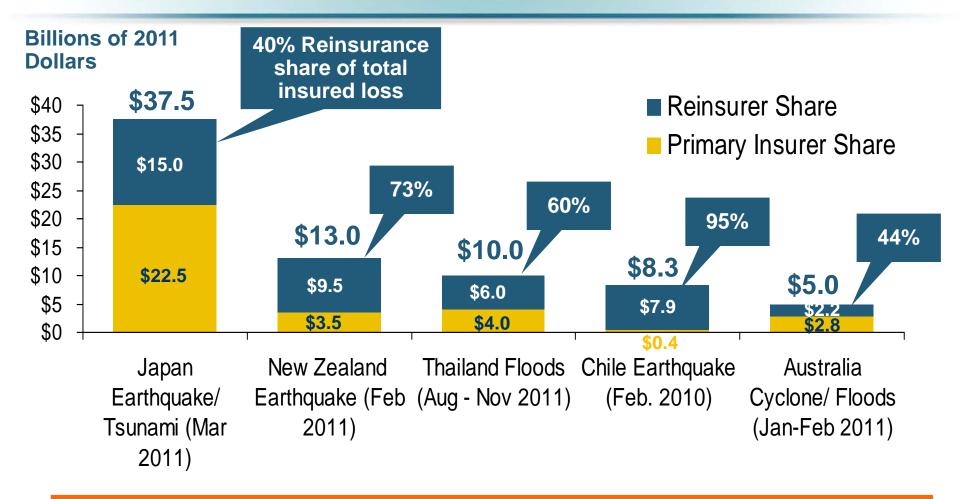


## 3. REINSURANCE MARKET CONDITIONS

# Record Global Catastrophes Activity is Pressuring Pricing

### Reinsurer Share of Recent Significant Market Losses

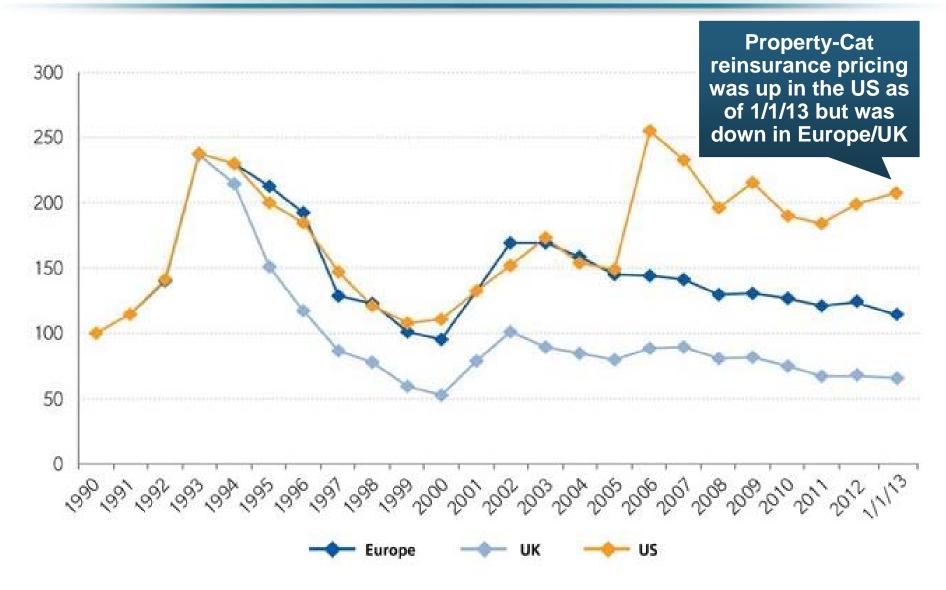




Reinsurers Paid a High Proportion of Insured Losses Arising from Major Catastrophic Events Around the World in Recent Years

### Regional Property Catastrophe Rate on Line Index, 1990—2013 (as of January 1)



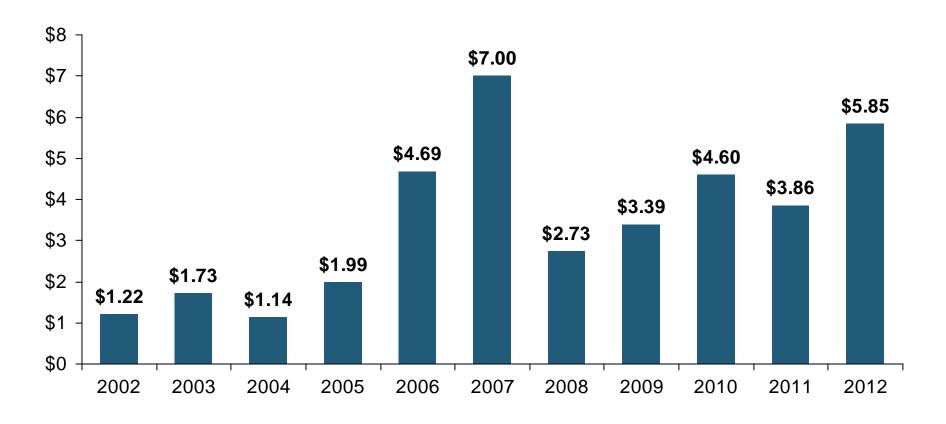


Sources: Guy Carpenter; Insurance Information Institute.

### CATASTROPHE BONDS, ANNUAL RISK CAPITAL ISSUED, 2002-2012



#### (\$ Billions)

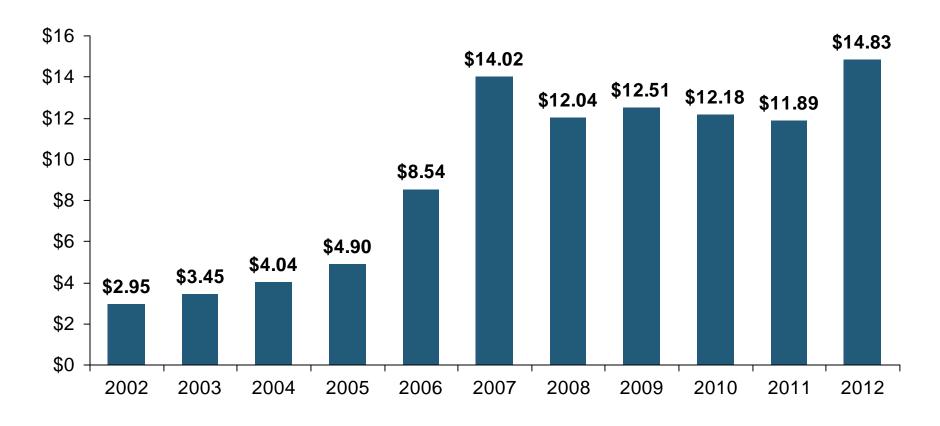


Note

### CATASTROPHE BONDS, RISK CAPITAL OUTSTANDING, 2002-2012



#### (\$ Billions)



Note



# 4. RENEWED PRICING DISCIPLINE

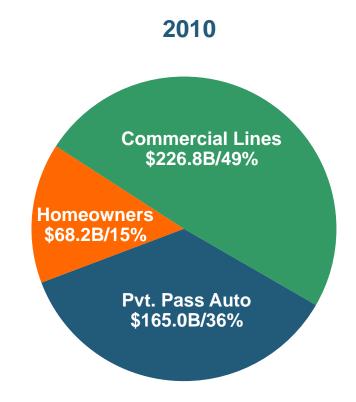
# **Evidence of a Broad and Sustained Shift in Pricing**

### Distribution of Direct Premiums Written by Segment/Line, 2010



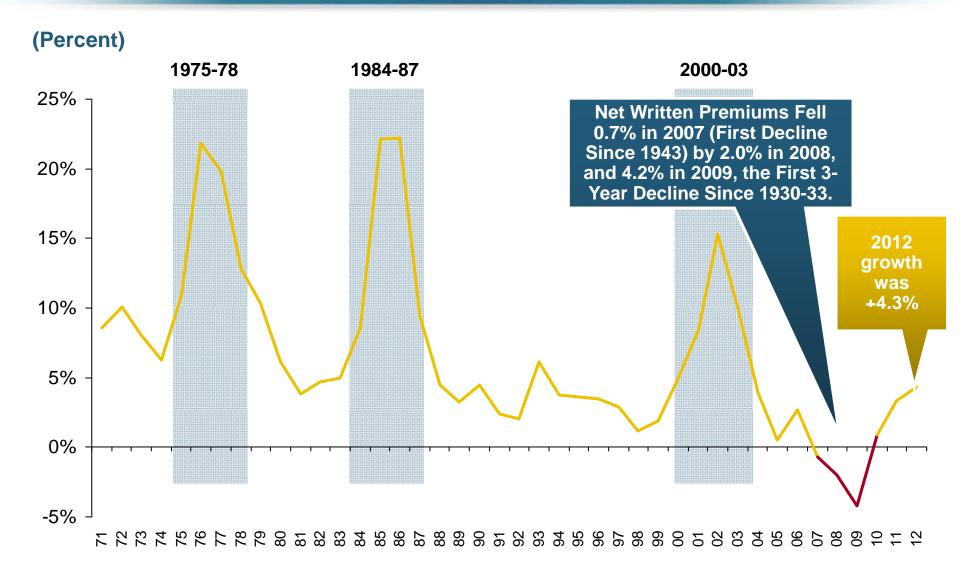
#### **Distribution Facts**

- 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



### Net Premium Growth: Annual Change, 1971—2012

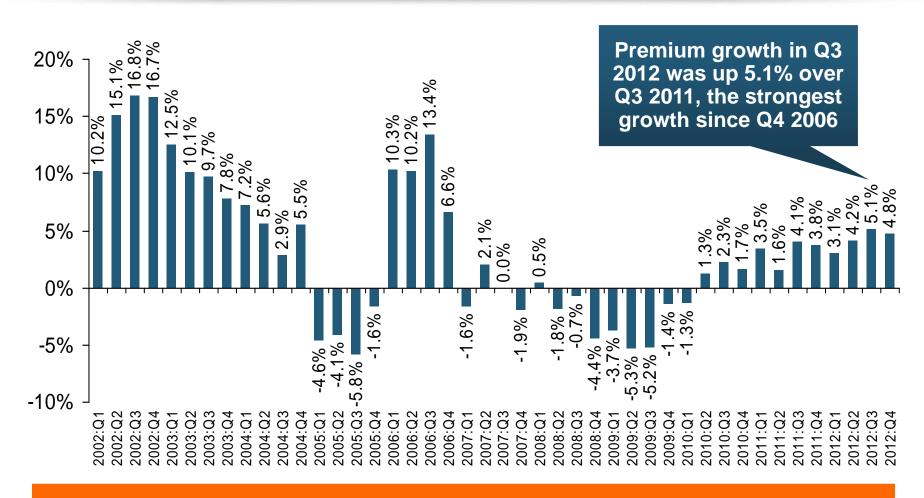




Shaded areas denote "hard market" periods Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute.

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



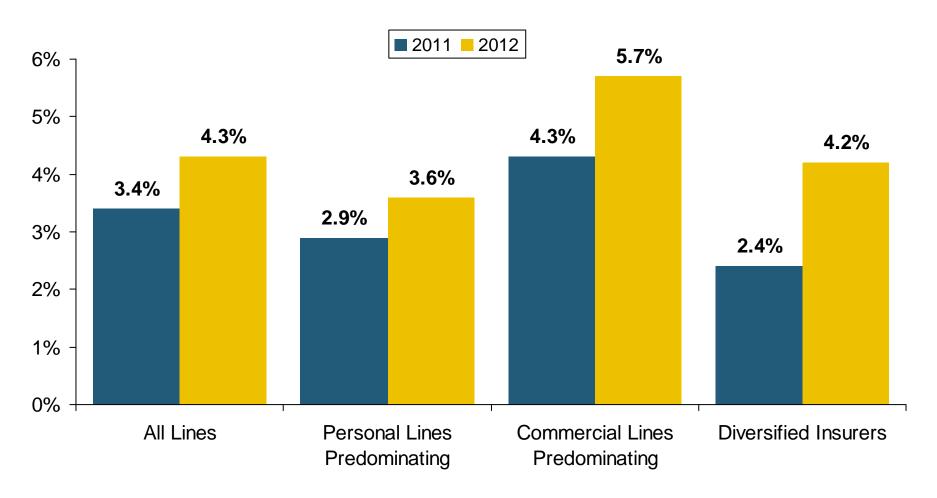


Sustained Growth in Written Premiums (vs. the same quarter, prior year) Will Continue through 2013

### Growth in Net Written Premium by Segment, 2012 vs. 2011\*



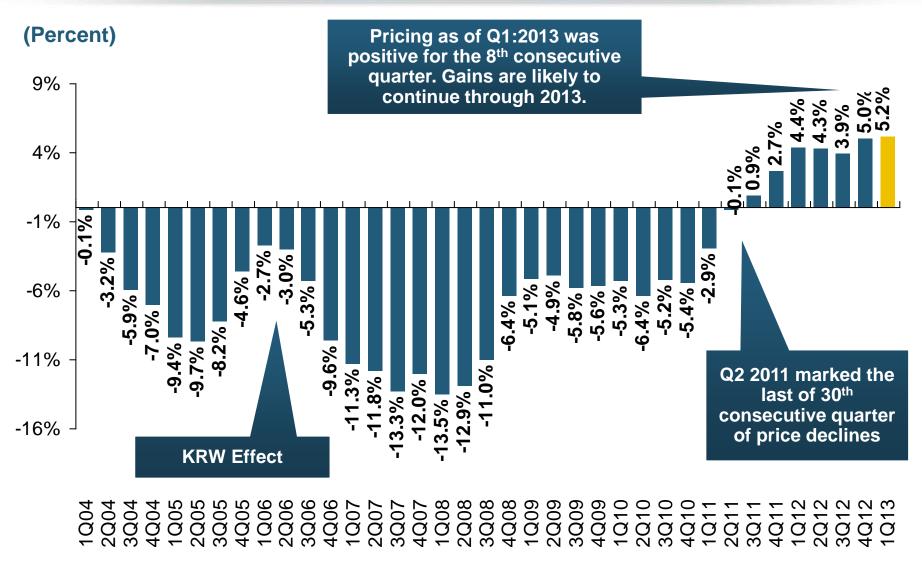
#### (Percent)



<sup>\*</sup>Excludes mortgage and financial guaranty insurers. Source: ISO/PCI; Insurance Information Institute

## Average Commercial Rate Change, All Lines, (1Q:2004–1Q:2013)

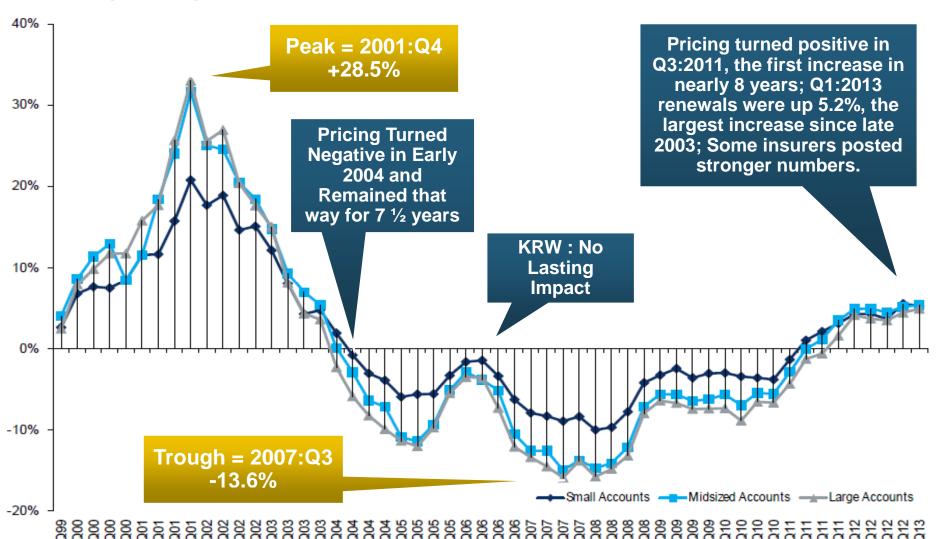




## Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2013:Q1

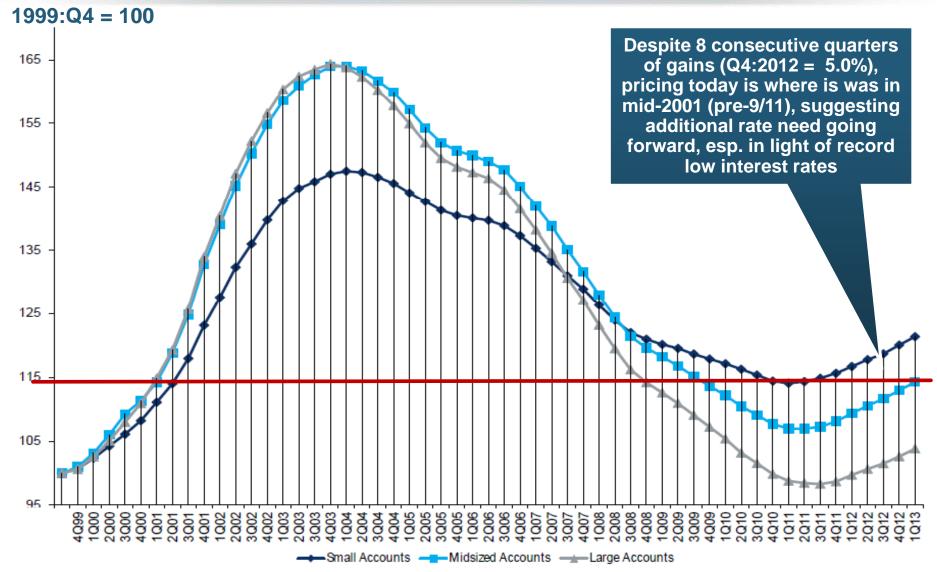


#### Percentage Change (%)



### Cumulative Qtrly. Commercial Rate Changes, this by Account Size: 1999:Q4 to 2013:Q1

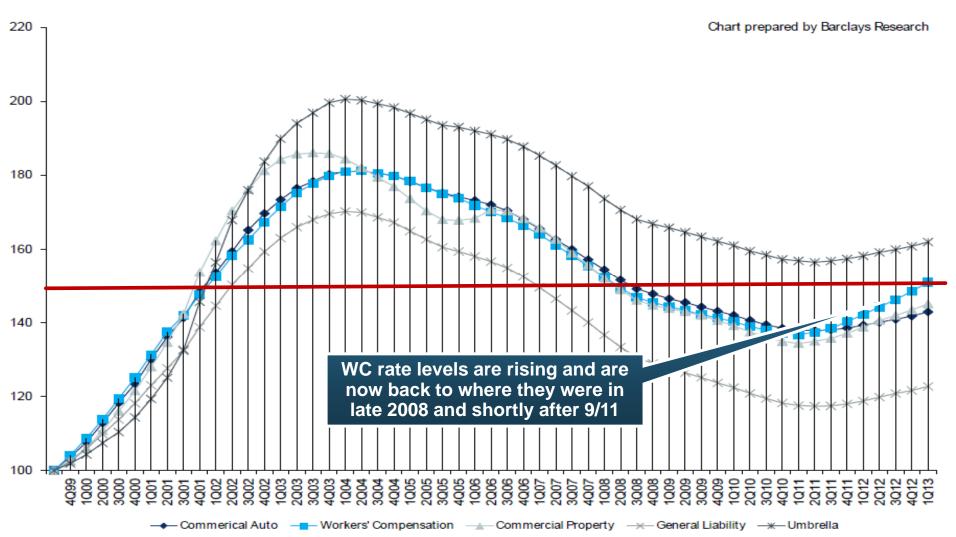




### Cumulative Qtrly. Commercial Rate Changes, triby Line: 1999:Q4 to 2013:Q1

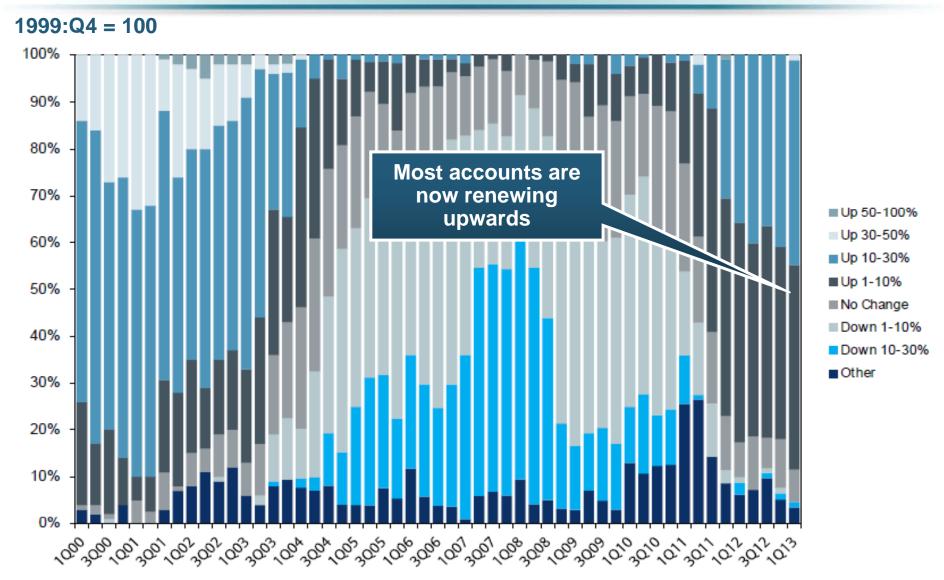






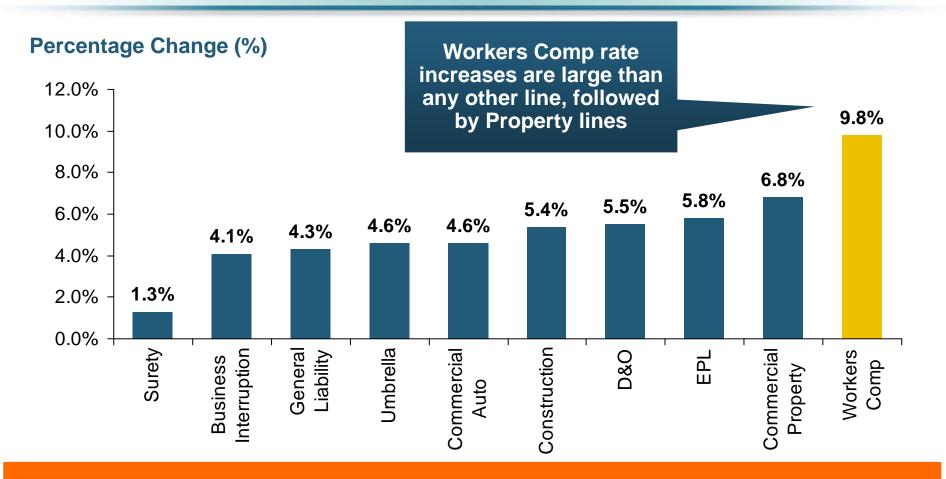
### Workers Comp. Quarterly Rate Changes, by Line: 2000:Q1 to 2013:Q1





## Change in Commercial Rate Renewals, by Line: 2013:Q1

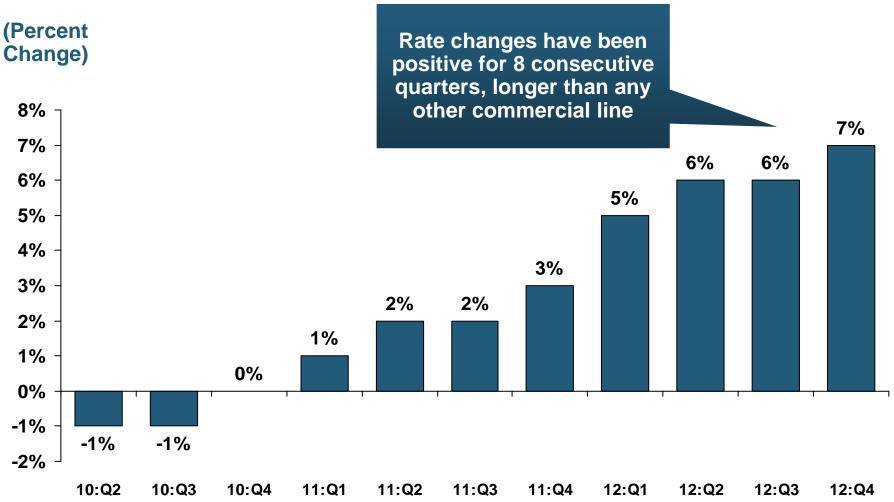




Major Commercial Lines Renewed Uniformly Upward in Q1:2013 for the 8th Consecutive Quarter; Property Lines & Workers Comp Leading the Way; Cat Losses and Low Interest Rates Provide Momentum Going Forward

### CLIPS: Change in Written Price Level: All Lines, 2010:Q2 – 2012:Q4



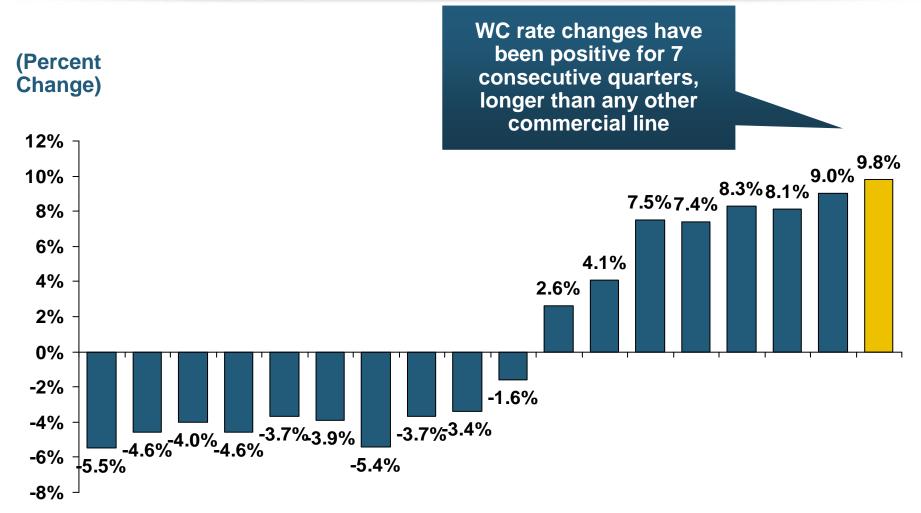


Note: Towers Watson data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.

Source: Towers Watson; Information Institute.

### Workers Comp Rate Changes, 2008:Q4 – 2013:Q1





08:Q409:Q109:Q209:Q309:Q410:Q110:Q210:Q310:Q411:Q111:Q211:Q311:Q412:Q112:Q212:Q312:Q413:Q1



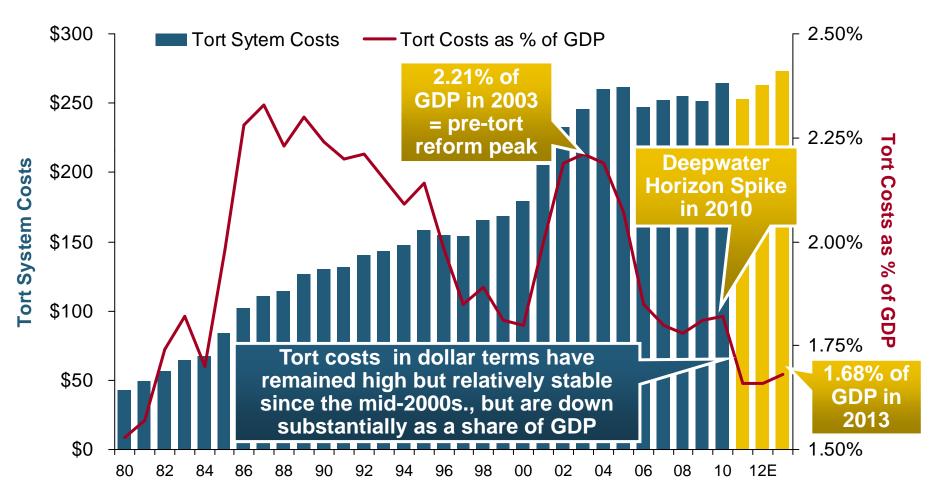
# Shifting Legal Liability & Tort Environment

# Is the Tort Pendulum Swinging Against Insurers?

### Over the Last Three Decades, Total Tort Costs as a % of GDP Appear Somewhat Cyclical, 1980-2013E

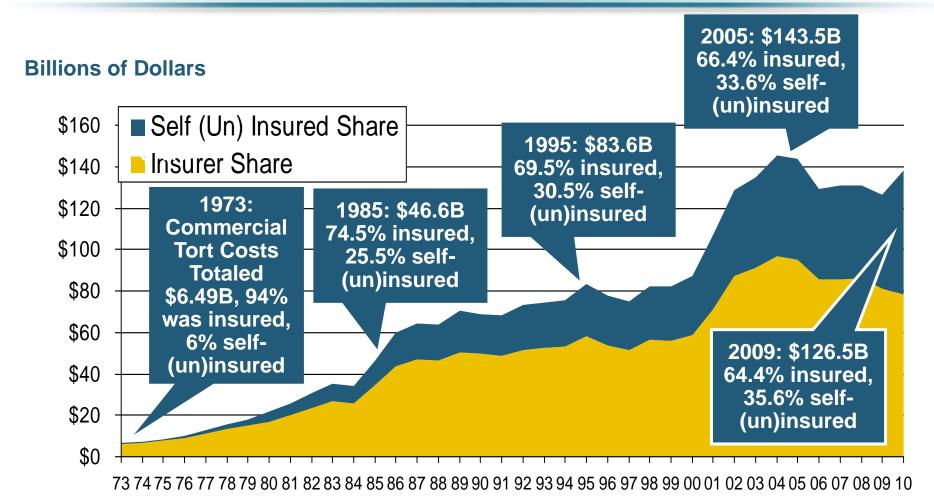






## Commercial Lines Tort Costs: Insured vs. Self-(Un)Insured Shares, 1973-2010

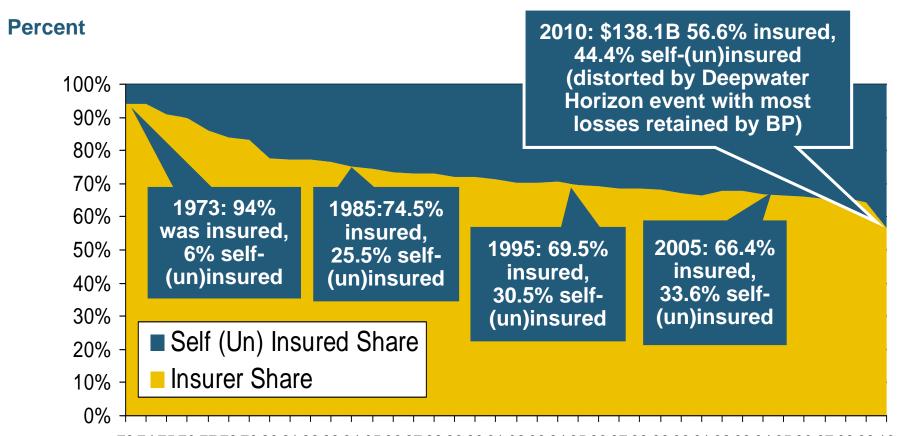




Tort Costs and the Share Retained by Risks Both Grew Rapidly from the mid-1970s to mid-2000s, When Tort Costs Began to Fall But Self-Insurance Shares Continued to Rise

## Commercial Lines Tort Costs: Insured vs. Self-(Un)Insured Shares, 1973-2010





73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10

The Share of Tort Costs Retained by Risks Has Been Steadily Increasing for Nearly 40 Years. This Trend Contributes Has Left Insurers With Less Control Over Pricing.

### **Business Leaders Ranking of Liability Systems in 2012**



#### Best States

- Delaware
- Nebraska
- 3. Wyoming
- 4. Minnesota
- Kansas
- 6. Idaho
- 7. Virginia
- North Dakota
- 9. Utah

#### **10.** Iowa

#### **New in 2012**

- Wyoming
- Minnesota
- Kansas
- Idaho

#### **Drop-offs**

- Indiana
- Colorado
- Massachusetts
- South Dakota

### Worst States

- 41. Florida
- 42. Oklahoma
- 43. Alabama
- 44. New Mexico
- 45. Montana
- 46. Illinois
- 47. California
- 48. Mississippi
- 49. Louisiana
- 50. West Virginia

#### **Newly Notorious**

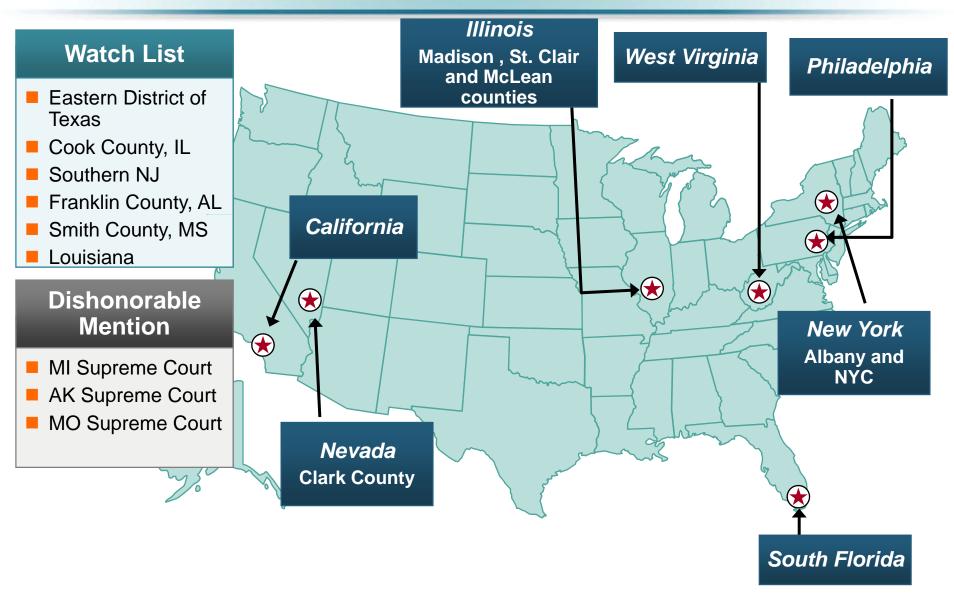
Oklahoma

#### **Rising Above**

Arkansas

### The Nation's Judicial Hellholes: 2011







### CYBER RISK

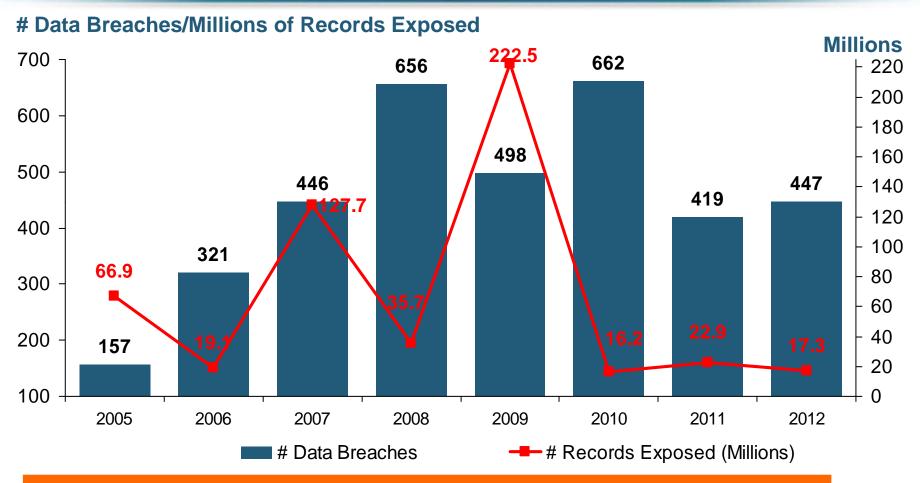
### Cyber Risk is a Rapidly Emerging Exposure for Businesses Large and Small in Every Industry

**NEW III White Paper:** 

http://www.iii.org/assets/docs/pdf/paper\_CyberRisk\_2013.pdf

### Data Breaches 2005-2013, By Number of Breaches and Records Exposed





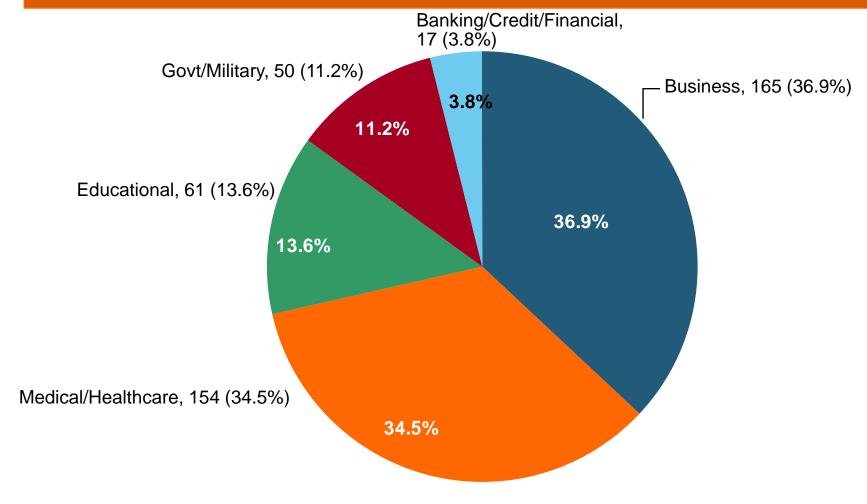
The total number of data breaches and number of records exposed fluctuates from year to year and over time.

<sup>\* 2013</sup> figures as of March 19, 2013. Source: Identity Theft Resource Center

### 2012 Data Breaches By Business Category, By Number of Breaches



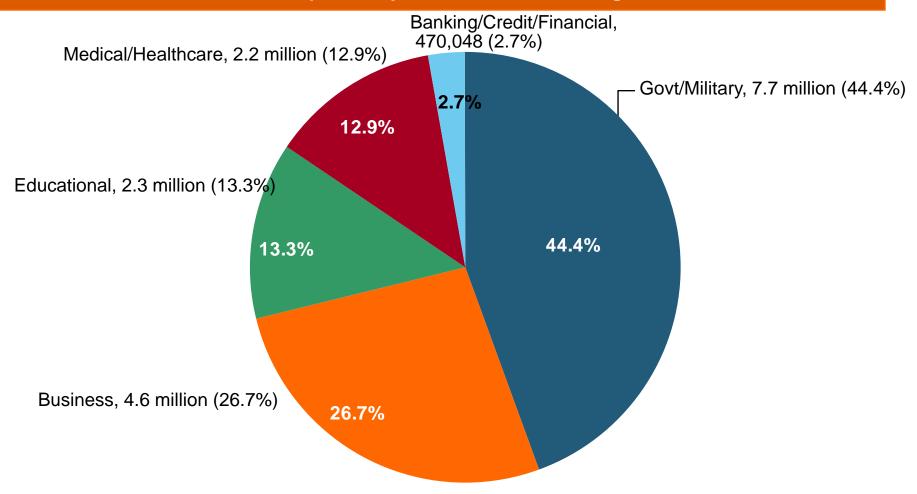
The majority of the 447 data breaches in 2012 affected business and medical/healthcare organizations, according to the Identity Theft Resource Center.



### 2012 Data Breaches By Category, By Number of Records Exposed



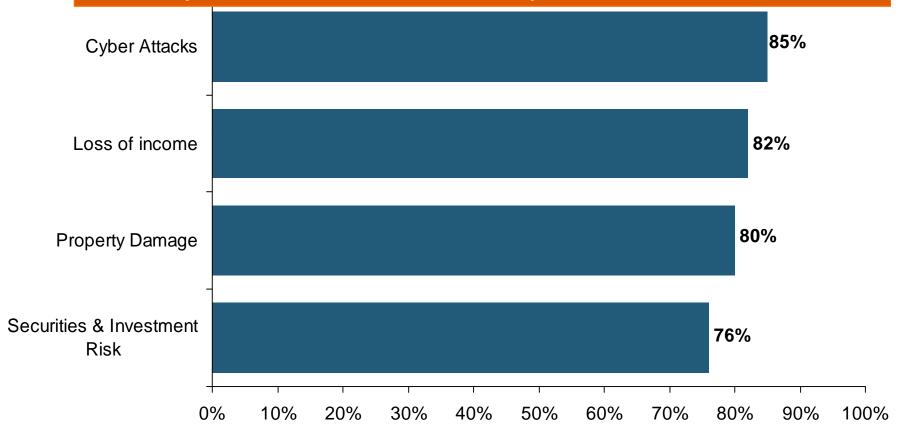
Government/Military and Business organizations accounted for the majority of records exposed by data breaches during 2012.



### AIG Survey: Cyber Attacks Top Concern Among Execs



While companies are focused on managing a variety of business risks, cyber attacks are a top concern. Some 85% of 258 executives surveyed said they were very or somewhat concerned about cyber attacks on their businesses.

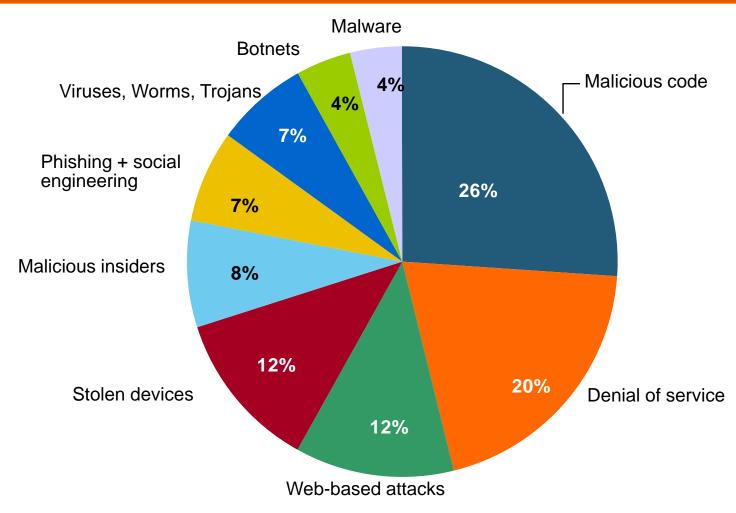


Source: Penn Schoen Berland on behalf of American International Group.

### The Most Costly Cyber Crimes, Fiscal Year 2012



Malicious code, denial of service and web-based attacks account for more than 58 percent of the total annualized cost of cyber crime experienced by 56 companies.

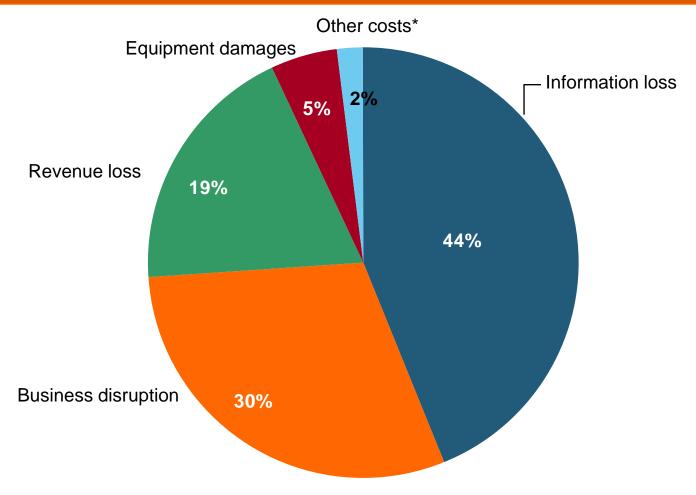


Source: 2012 Cost of Cyber Crime: United States, Ponemon Institute.

### External Cyber Crime Costs: Fiscal Year 2012



Information loss (44%) and business disruption or lost productivity (30%) account for the majority of external costs due to cyber crime.



<sup>\*</sup> Other costs include direct and indirect costs that could not be allocated to a main external cost category Source: 2012 Cost of Cyber Crime: United States, Ponemon Institute.

### High Profile Data Breaches, 2012-2013



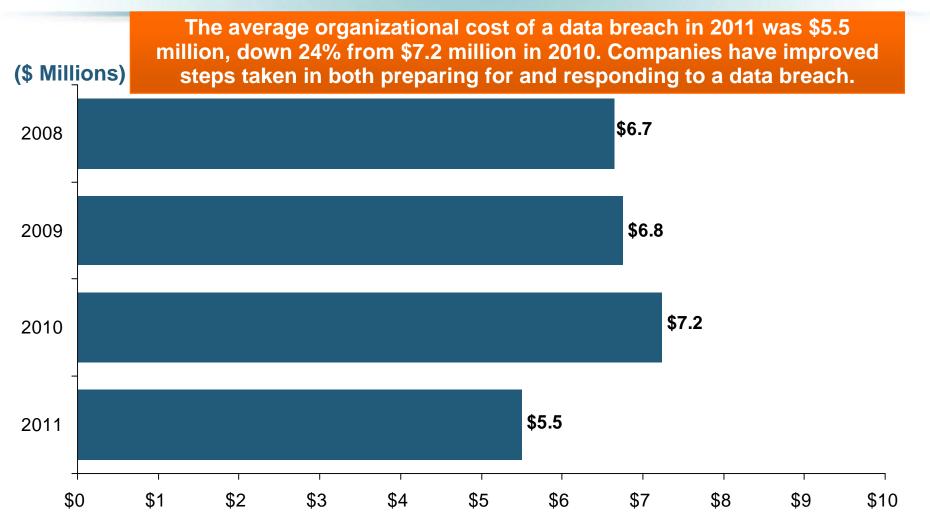
Date	Company	Description of Breach
Mar 2013*	South Korean banks, media cos	Cyber attack causes computers to crash at South Korean banks and media companies, paralyzing bank machines across the country. No immediate reports of records compromised.
July 2012	Yahoo	Security breach at Yahoo in which some 450,000 passwords lifted and posted to the Internet.
July 2012	eHarmony	Online dating site eHarmony confirms security breach in which some 1.5 million user names and passwords compromised.
July 2012	LinkedIn	Social networking site LinkedIn reportedly targeted in hacker attack that saw 6.5 million hashed passwords posted to the Internet.
April 2012	Utah Dept of Technology Services	Utah Department of Technology notifies of a March 30 breach of a server containing personal data including social security numbers for about 780,000 Medicaid patient claims. Breach traced to Eastern Europe hackers.
Mar 2012	Global Payments	Credit card processor Global Payments confirms hacker attack has compromised the payment card numbers of around 1.5 million cardholders.
Mar 2012	CA Dept of Child Support Services	Officials announce that four computer storage devices containing personal information for about 800,000 adults and children in California's child support system were lost by IBM and Iron Mountain Inc.
Jan 2012	Zappos	Online shoe retailer Zappos announces that information, such as names, addresses and passwords on as many as 24 million customers illegally accessed.
Jan 2012	NY State Electric + Gas Co	Security breach at NYSEG that allowed unauthorized access to NYSEG customer data, containing social security numbers, dates of birth and bank account numbers, exposing 1.8 million records.

<sup>\*</sup>March 2013 attack is not part of ITRC research.

Sources: Identity Theft Resource Center, <a href="http://www.idtheftcenter.org/ITRC%20Breach%20Report%202012.pdf">http://www.idtheftcenter.org/ITRC%20Breach%20Report%202012.pdf</a>; Insurance Information Institute (I.I.I.) research.

### Average Organizational Cost of a Data Breach, 2008-2011\* (\$ Millions)





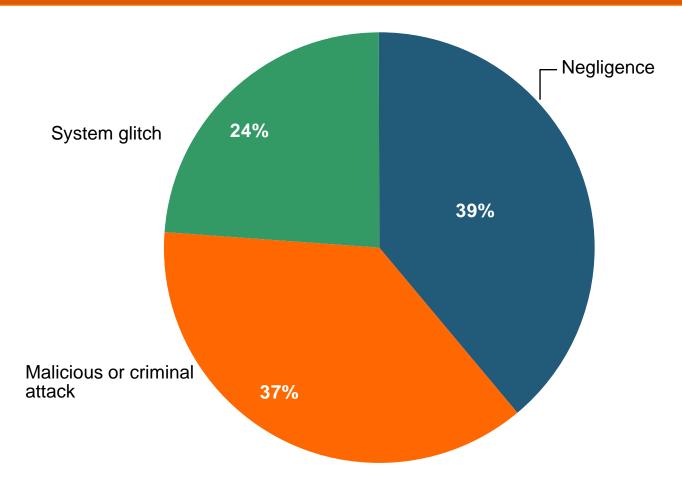
<sup>\*</sup>Findings of this benchmark study pertain to the actual data breach experiences of 49 U.S. companies from 14 different industry sectors, all of which participated in the 2011 study. Total breach costs include: lost business resulting from diminished trust or confidence of customers ;costs related to detection, escalation, and notification of the breach; and ex-post response activities, such as credit report monitoring.

Source: 2011 Annual Study: U.S. Cost of a Data Breach, the Ponemon Institute.

#### **Main Causes of Data Breach**



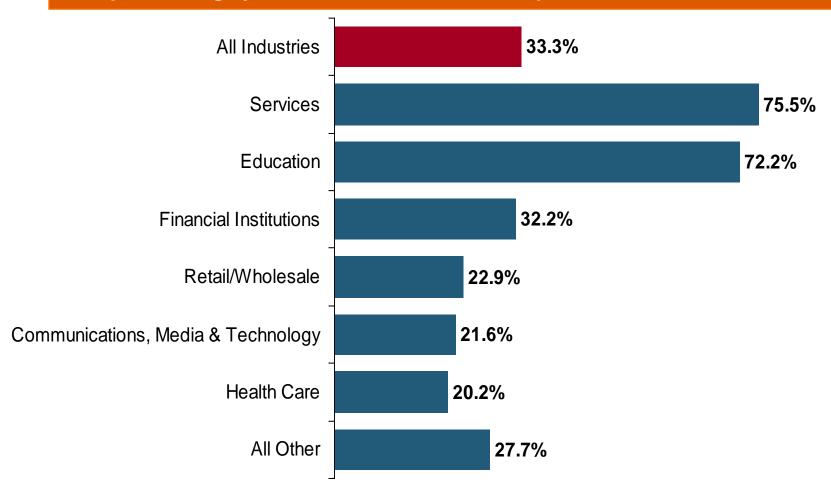
Negligent employees and malicious attacks are most often the cause of the data breach. Some 39 percent of incidents involve a negligent employee or contractor, while 37 percent concern a malicious or criminal attack.



### Marsh: Increase in Purchase of Cyber Insurance Among U.S. Companies, 2012



Interest in cyber insurance continues to climb. The number of companies purchasing cyber insurance increased 33 percent from 2011 to 2012.

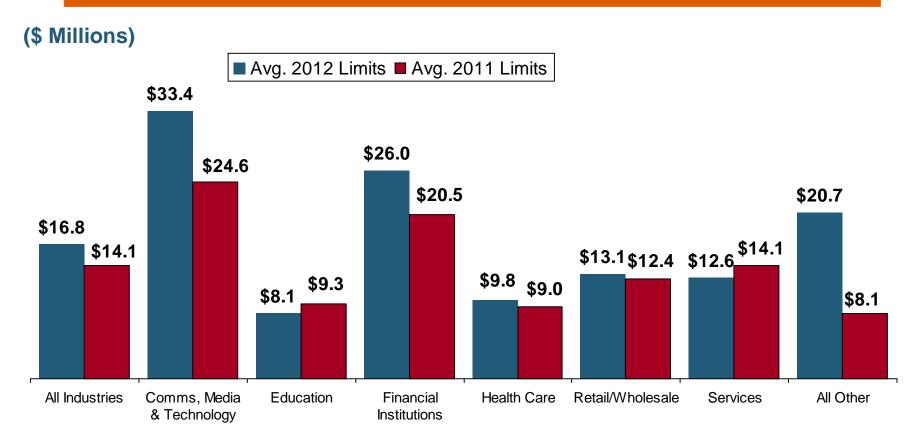


Source: Marsh Global Analytics, Marsh Risk Management Research Briefing, March 2013

### Marsh: Total Limits Purchased, By Industry – Cyber Liability, All Revenue Size



Cyber insurance limits purchased in 2012 averaged \$16.8 million across all industries, an increase of nearly 20% over 2011.

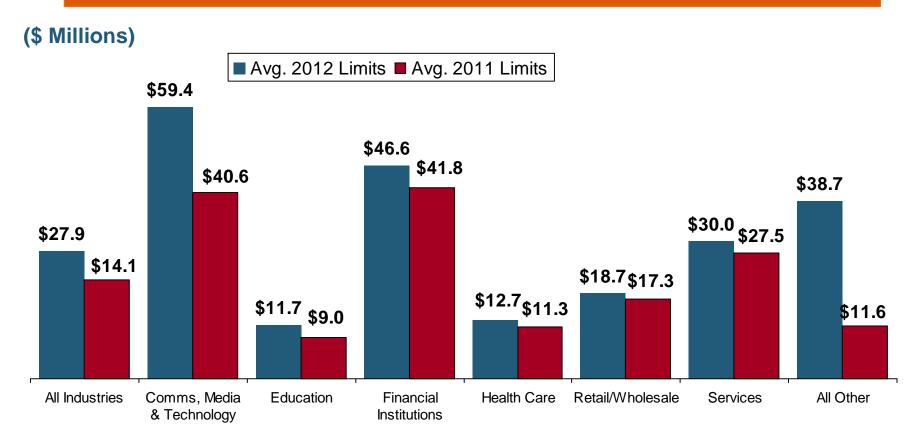


Source: Marsh Global Analytics, Marsh Risk Management Research Briefing, March 2013

### Marsh: Total Limits Purchased, By Industry – Cyber Liability, Revenue \$1 Billion+



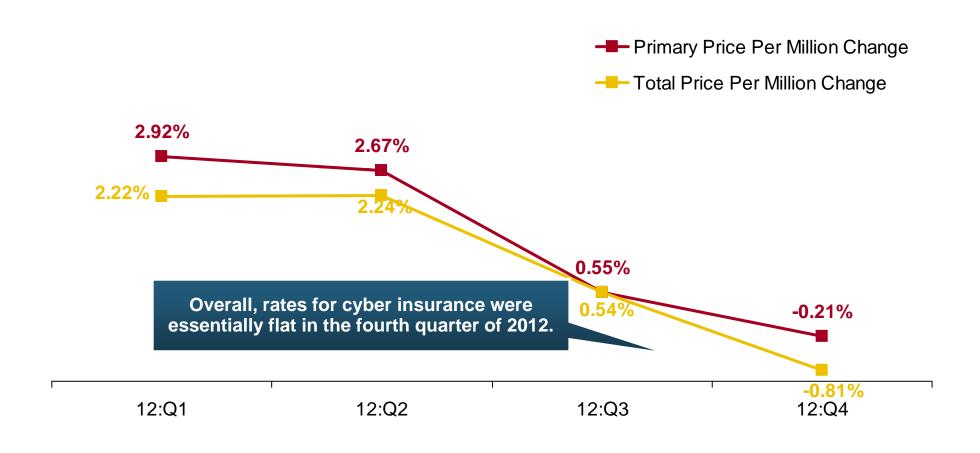
Among larger companies, average cyber insurance limits purchased in 2012 increased nearly 30% over 2011.



Source: Marsh Global Analytics, Marsh Risk Management Research Briefing, March 2013

## Cyber Liability: Historical Rate (price per million) Changes







#### **Insurance Information Institute Online:**

### www.iii.org

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