



Overview & Outlook for the P/C Insurance Industry: Behind the Numbers

Alabama I-Day
Tuscaloosa, AL
October 8, 2014

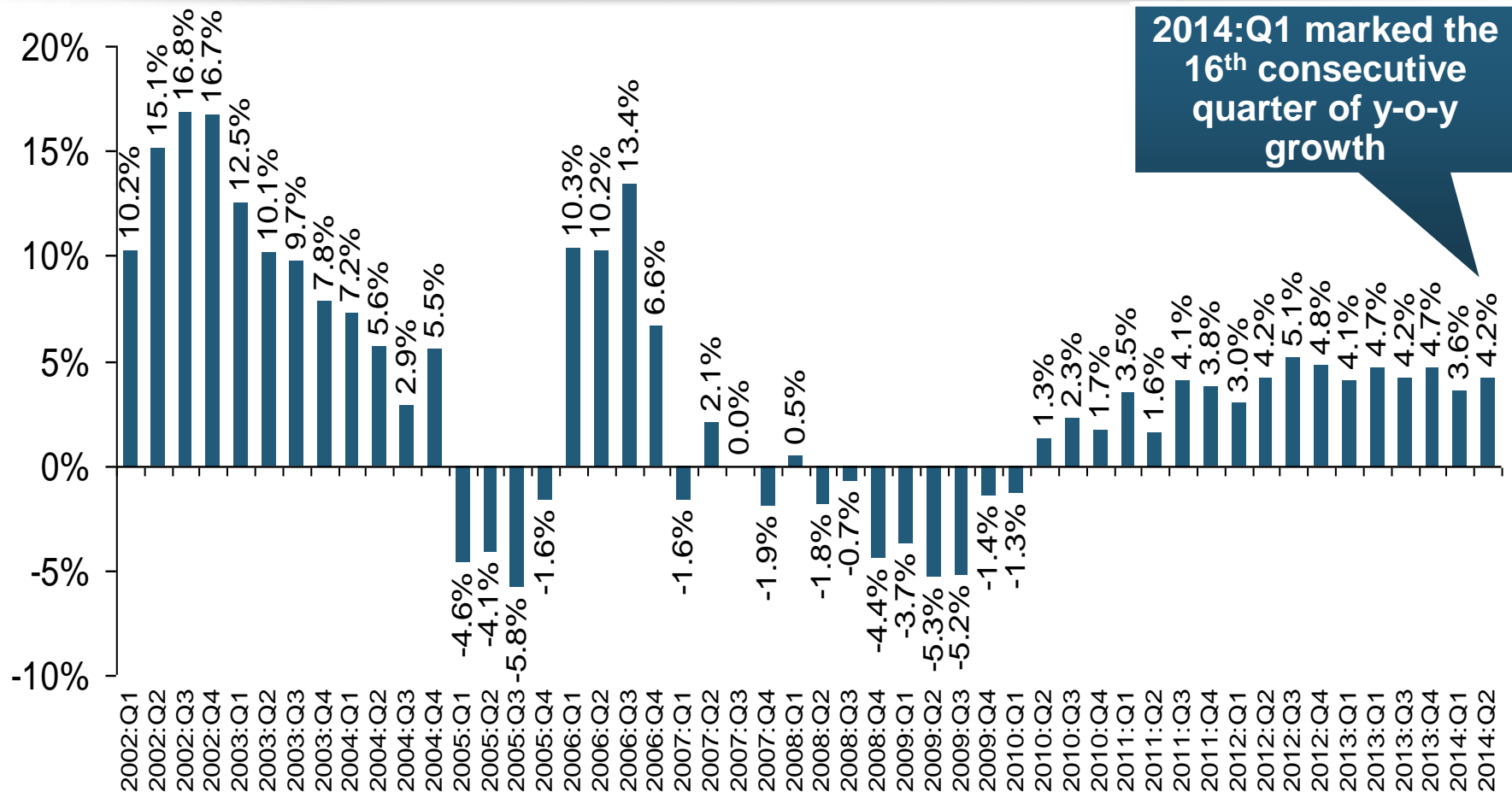
Steven N. Weisbart, Ph.D., CLU, Senior Vice President & Chief Economist
Insurance Information Institute ♦ 110 William Street ♦ New York, NY 10038

Tel: 212.346.5540 ♦ Cell: 917.494.5945 ♦ stevenw@iii.org ♦ www.iii.org

2013: Best Year (So Far) in the Post-Crisis Era

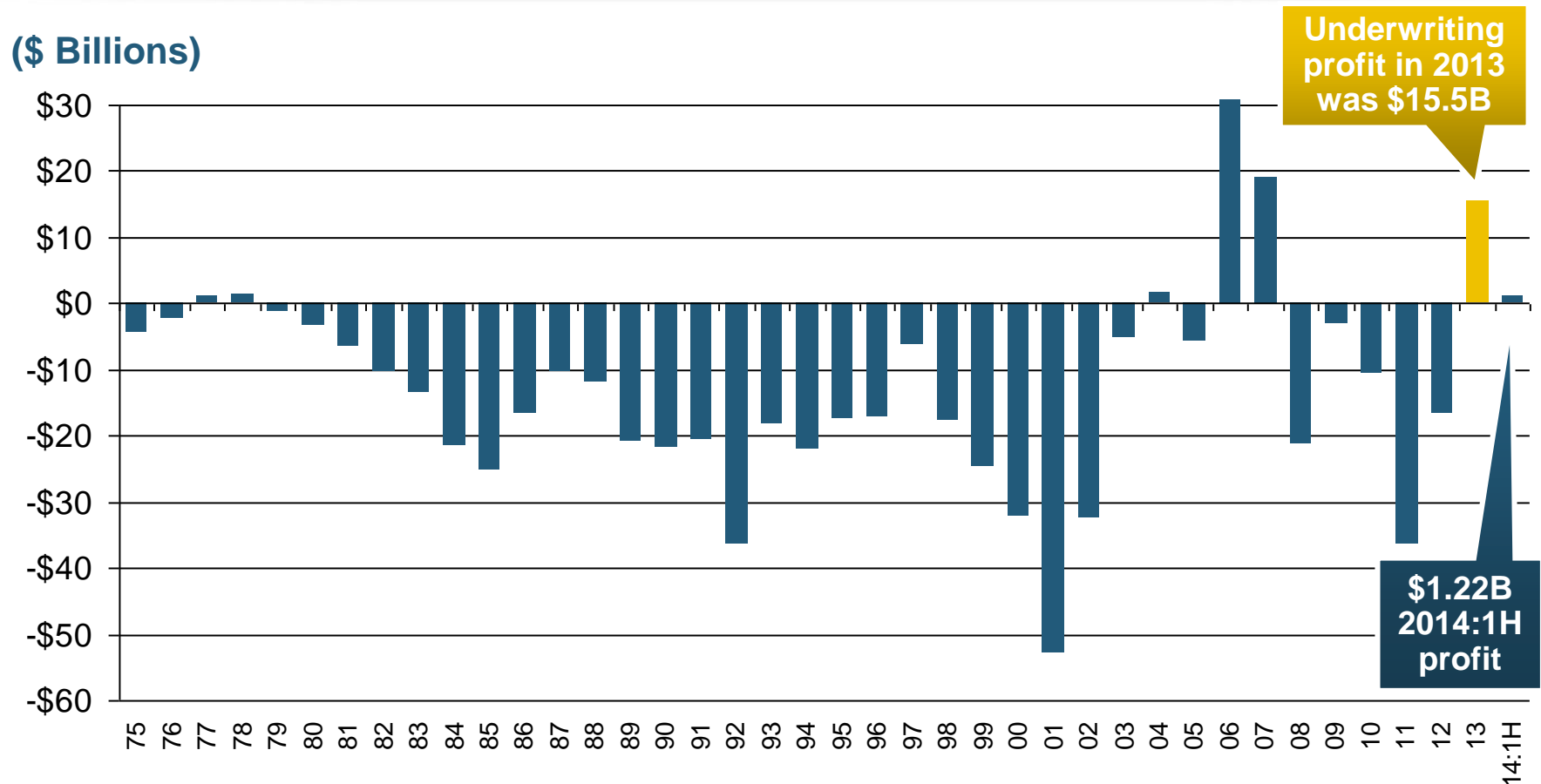
**Performance Improved with
Lower CATs, Firming Markets**

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



**Sustained growth in written premiums
(vs. the same quarter, prior year) should continue through 2014.**

Underwriting Gain (Loss) All Lines Combined, 1975–2014*

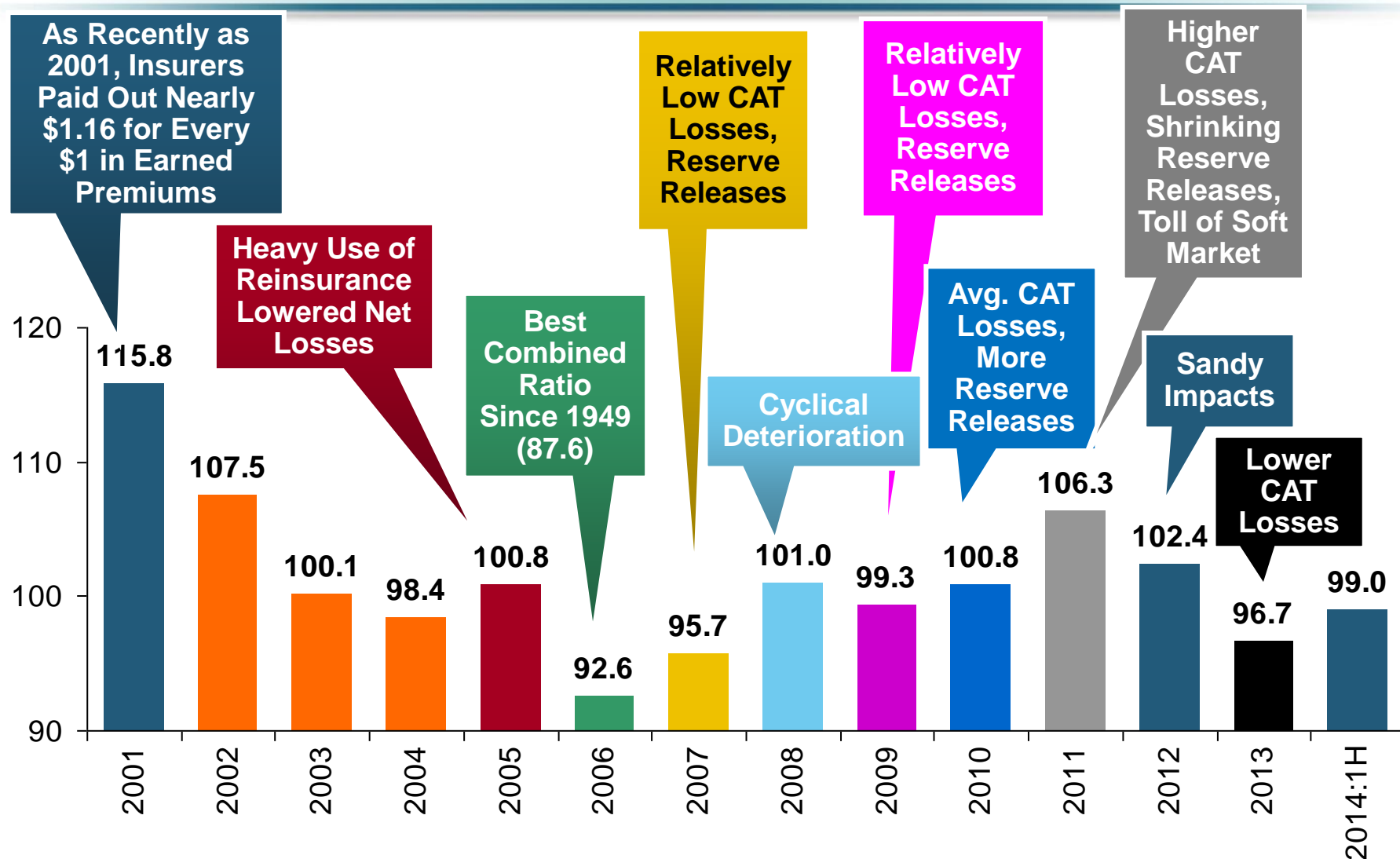


High CAT losses in 2011 led to the highest underwriting loss since 2001. Lower CAT losses in 2013 led to the highest underwriting profit since 2007.

* Includes mortgage and financial guaranty insurers in all years. 2014:1H is estimated.

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

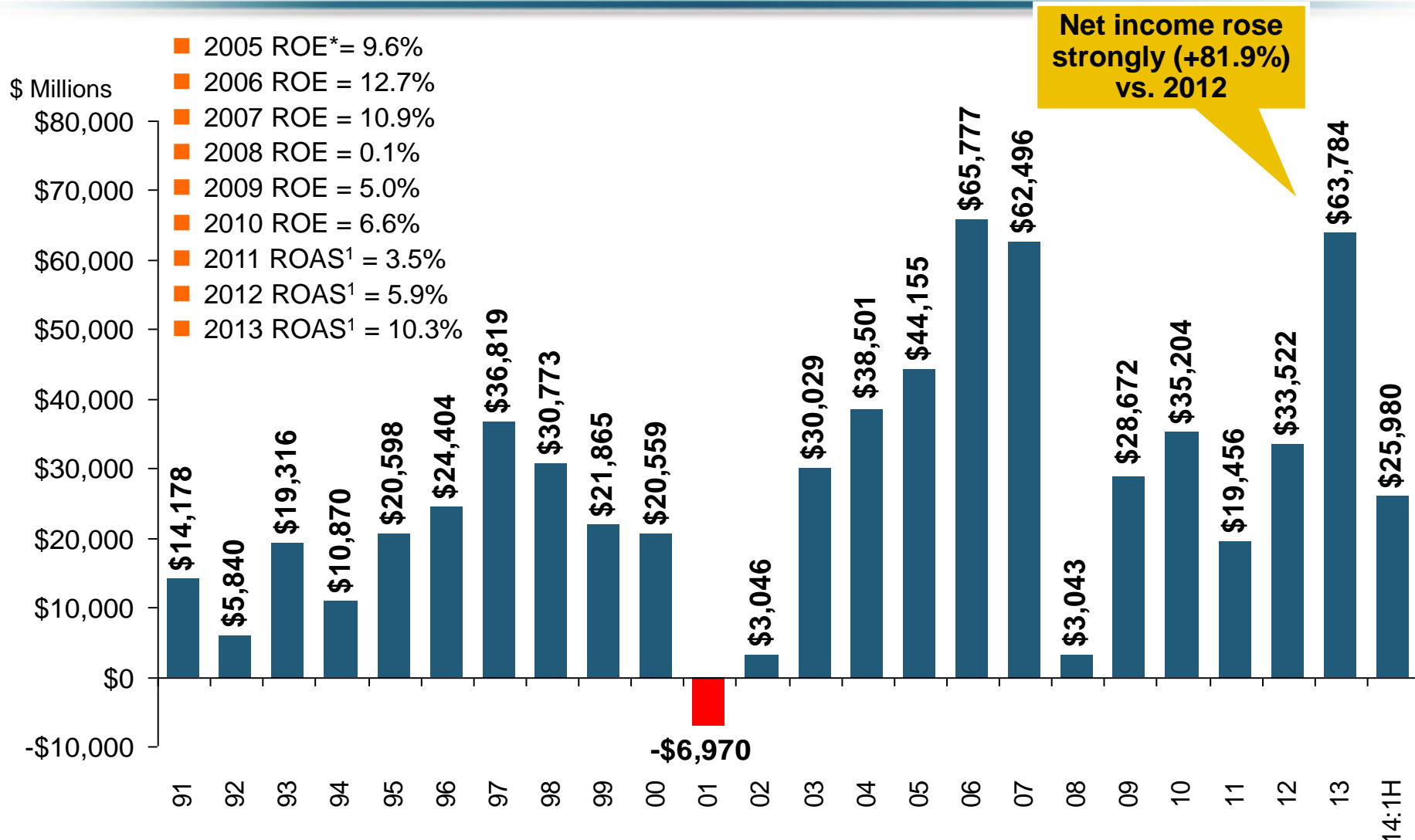
P/C Insurance Industry Combined Ratio, 2001–2014:1H



* 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; 2013: = 96.1; 2014.1H: 98.9

Sources: A.M. Best, ISO.

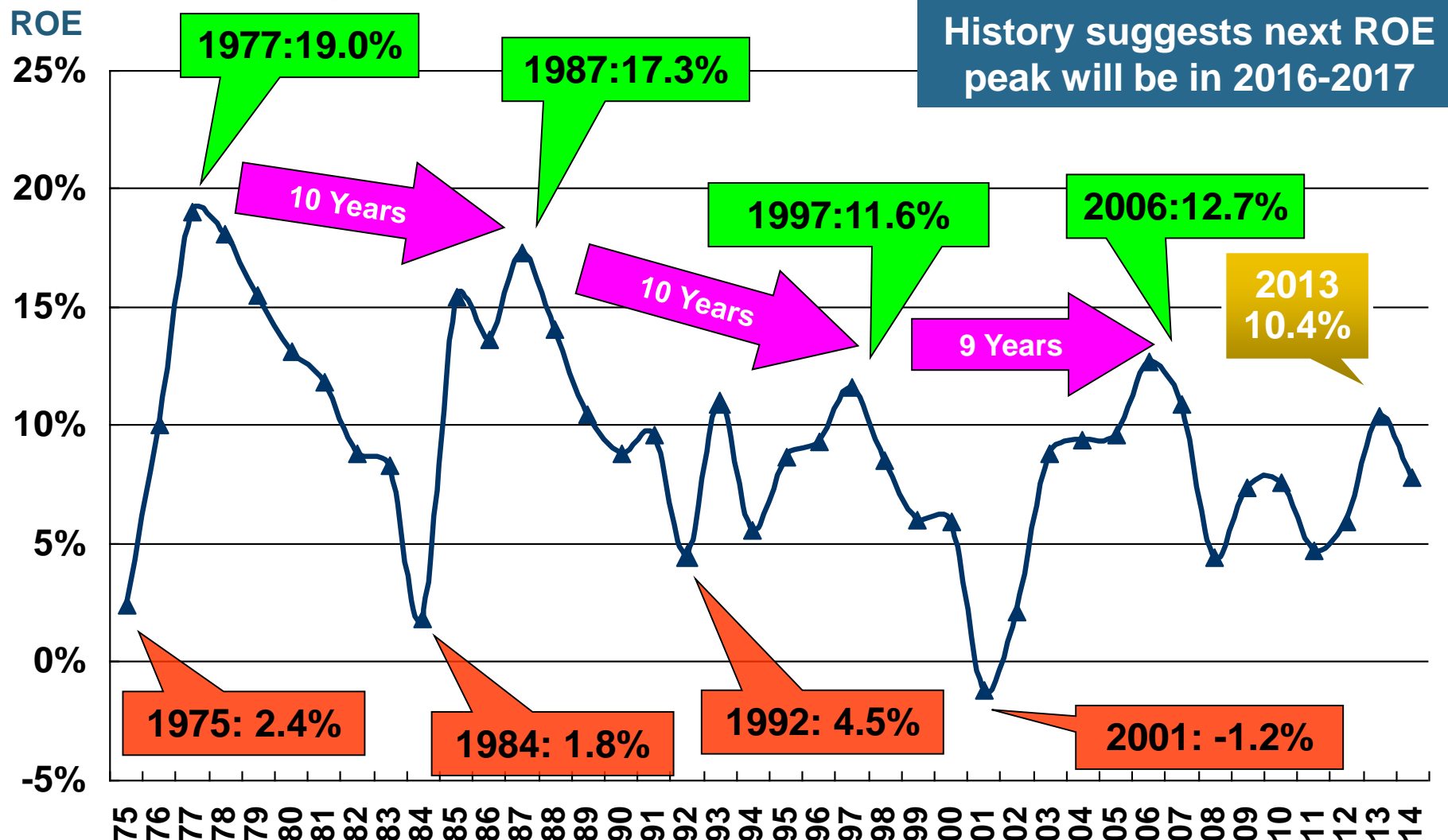
P/C Industry Net Income After Taxes 1991–2014:1H



*ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 8.9% ROAS through 2013:Q3, 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

Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2014:1H*

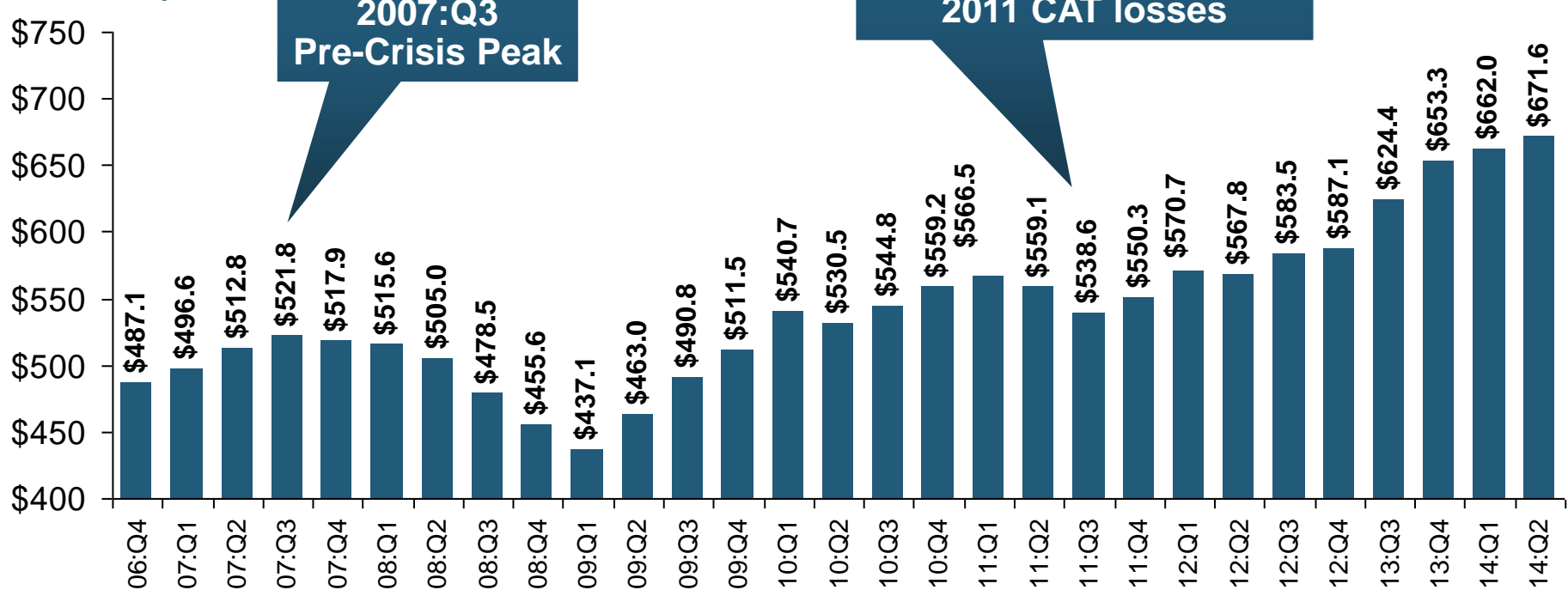


*Profitability = P/C insurer ROEs. 2011-13 figures are estimates based on ROAS data. Note: Data for 2008-2013 exclude mortgage and financial guaranty insurers.

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

Policyholder Surplus, 2006:Q4–2014:1H

(\$ Billions)



The industry now has \$1 of surplus for every \$0.73 of NPW, the strongest claims-paying status in its history.

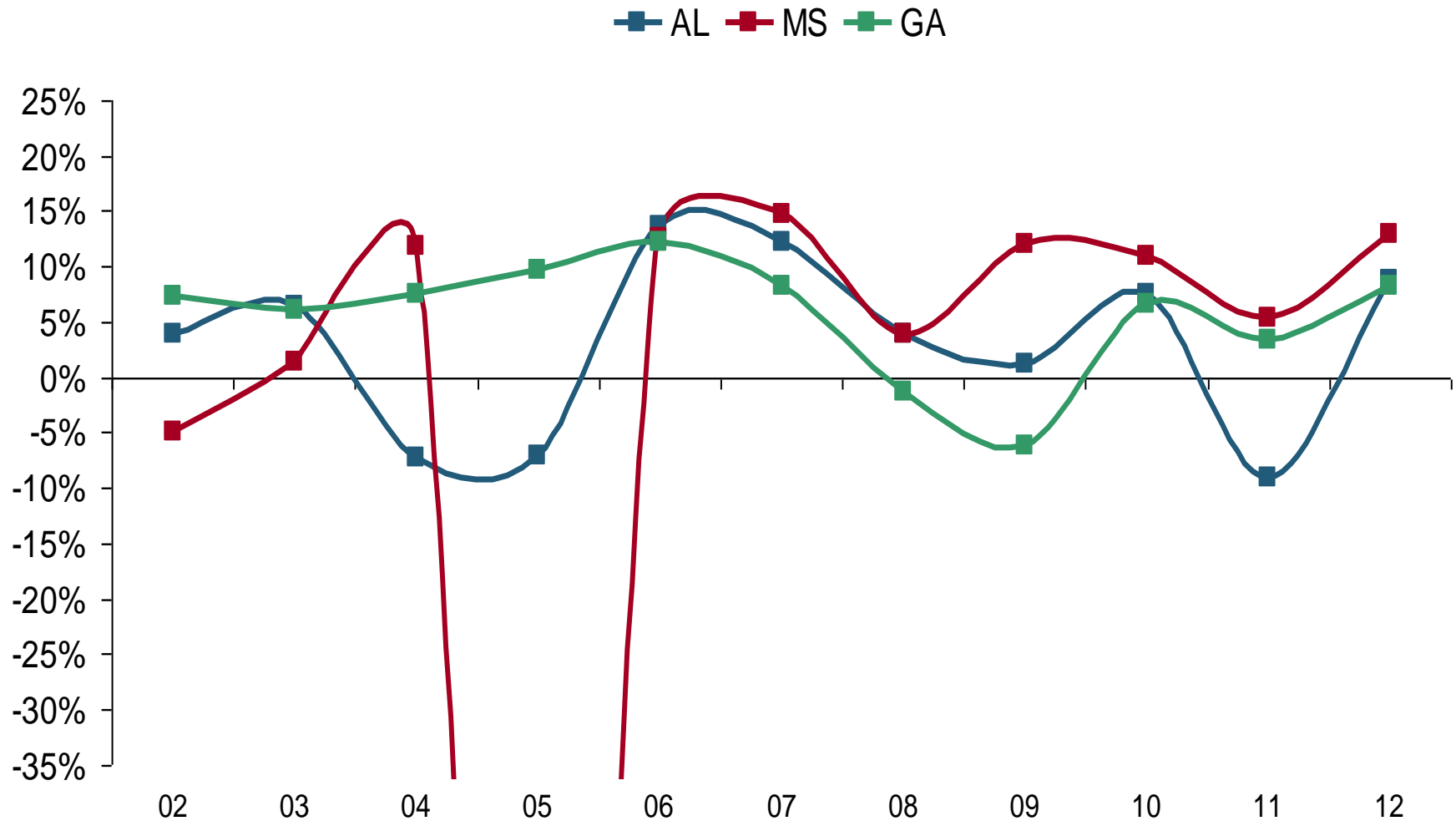
2010:Q1 data includes \$22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business.

The P/C insurance industry entered the second half of 2014 in very strong financial shape.

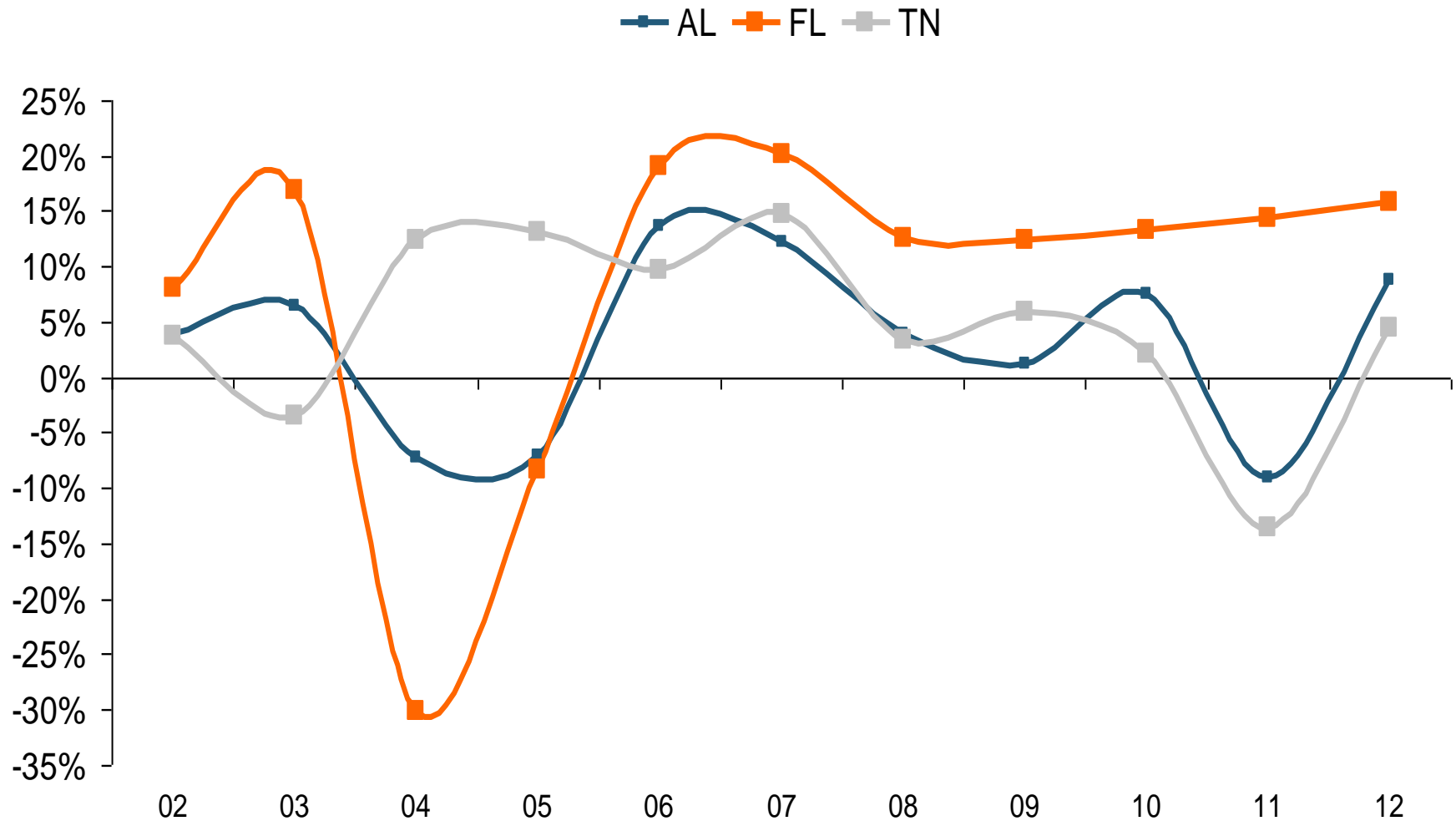
Profitability in P/C Markets in Alabama and Neighboring States

Analysis by Line and State

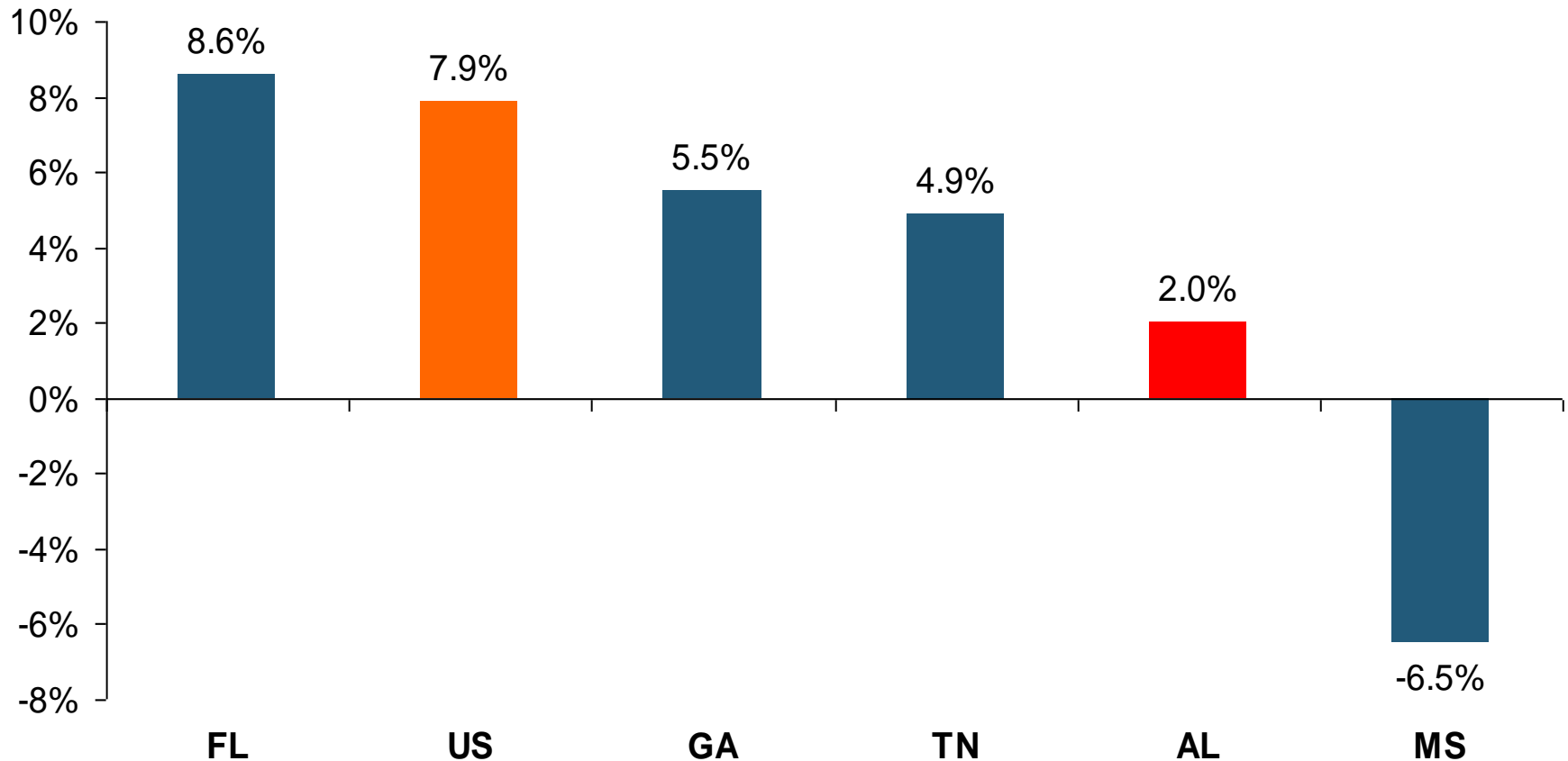
Return on Net Worth, All Lines: 2002-2012



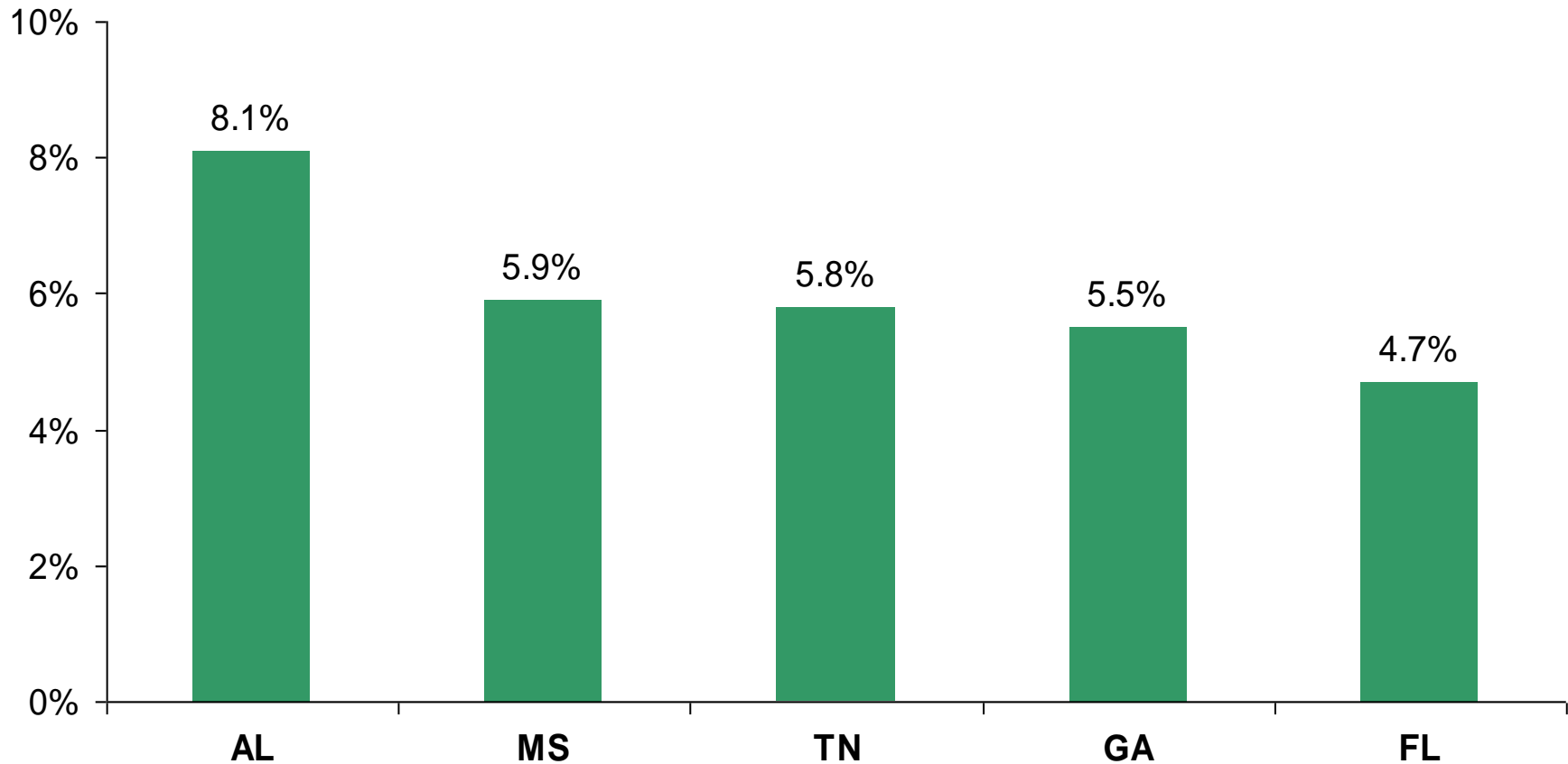
Return on Net Worth, All Lines: 2002-2012



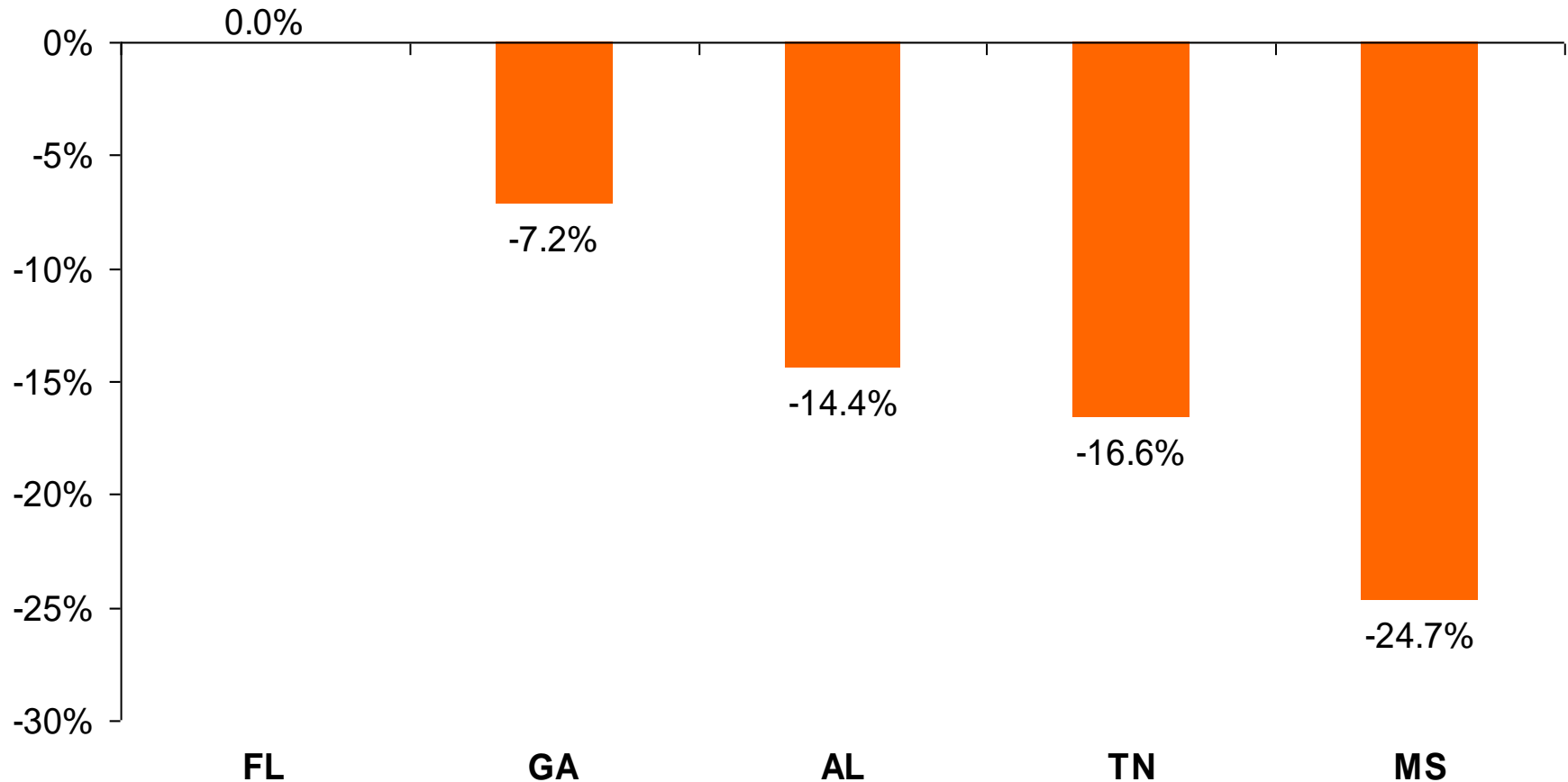
Return on Net Worth, All Lines: 2003-2012 Average, by State



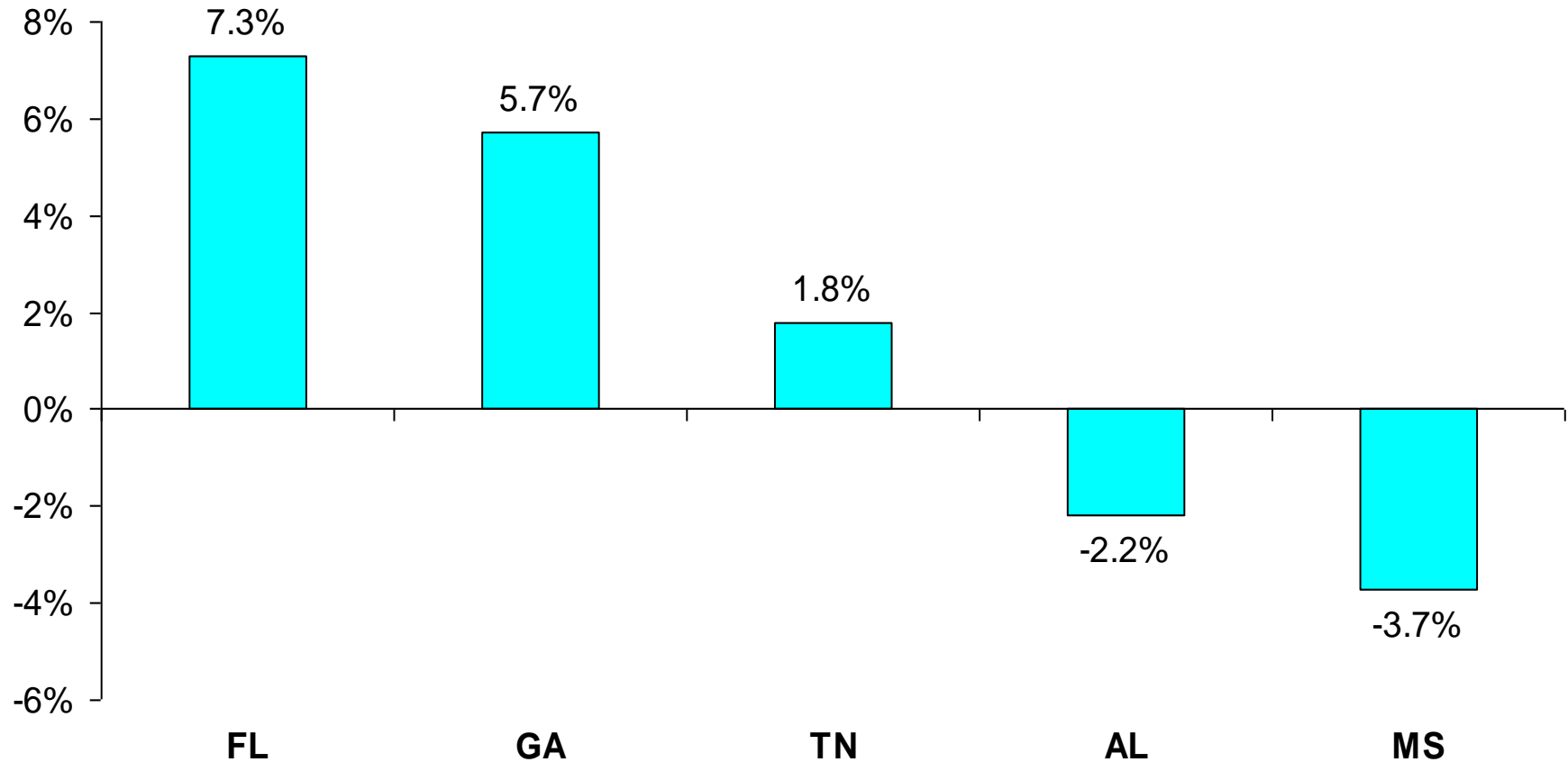
RNW PP Auto: Alabama and Neighboring States, 2003-2012, 10-year average



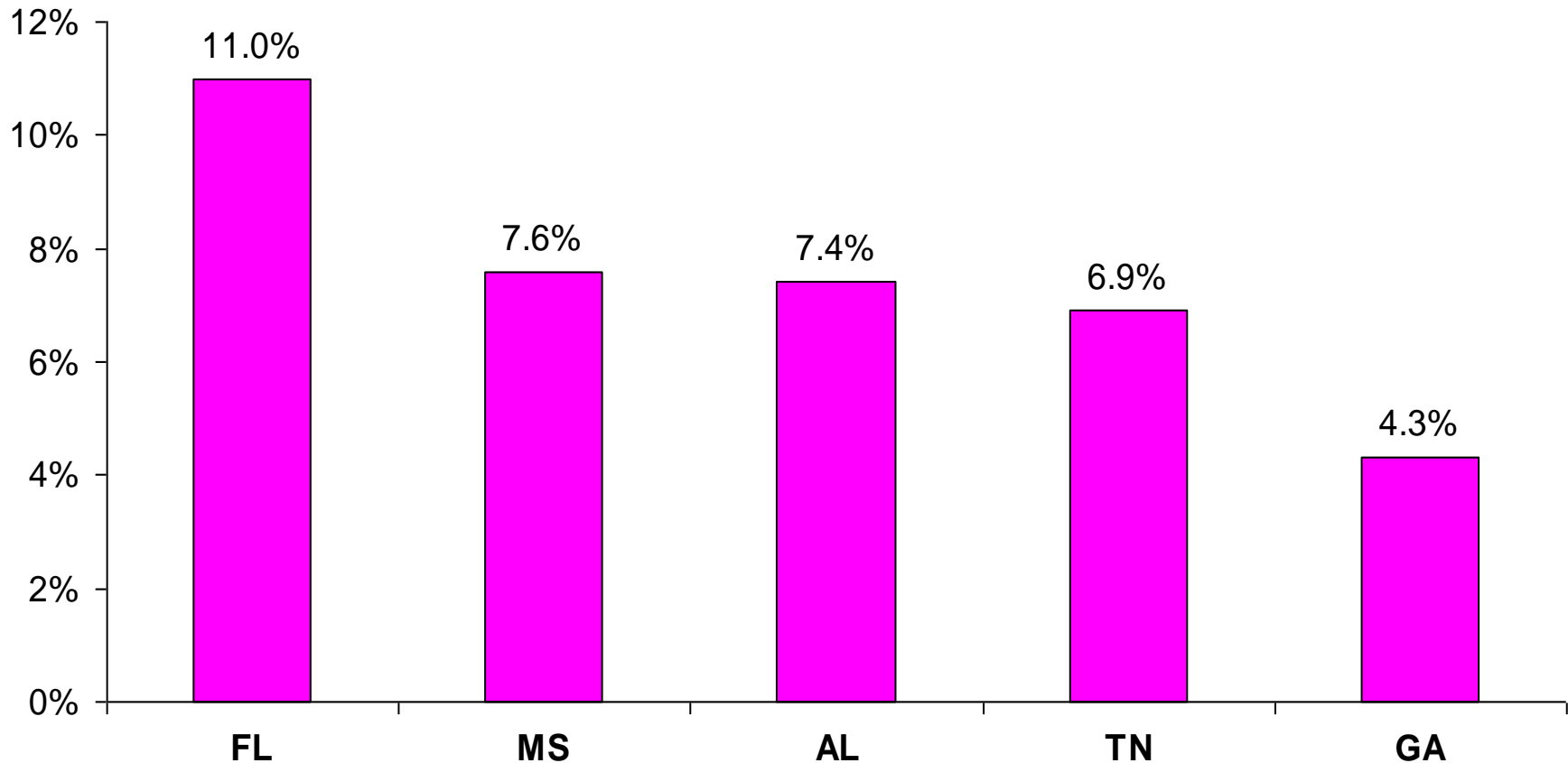
RNW HO: Alabama and Neighboring States, 2003-2012, 10-year average



RNW CMP: Alabama and Neighboring States, 2003-2012, 10-year average



RNW WC: Alabama and Neighboring States, 2003-2012, 10-year average



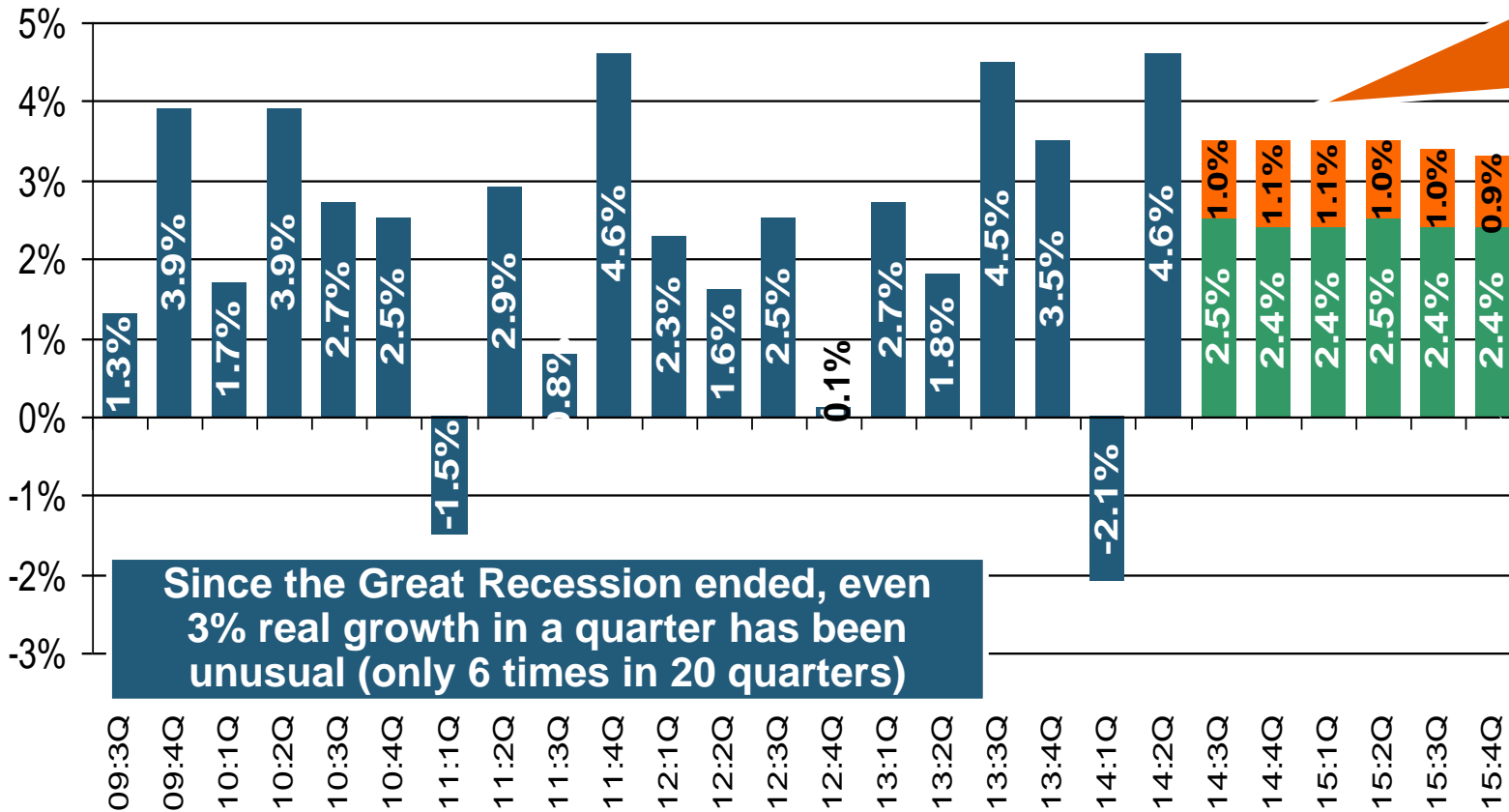
The Strength of the Economy Will Influence P/C Insurer Growth Opportunities

**Growth Will Expand Insurer Exposure
Base Across Most Lines**

Real Quarterly GDP Growth Since the “Great Recession, and Forecast

Additional growth forecast by average of 10 most optimistic models

Growth forecast by average of 10 least optimistic models

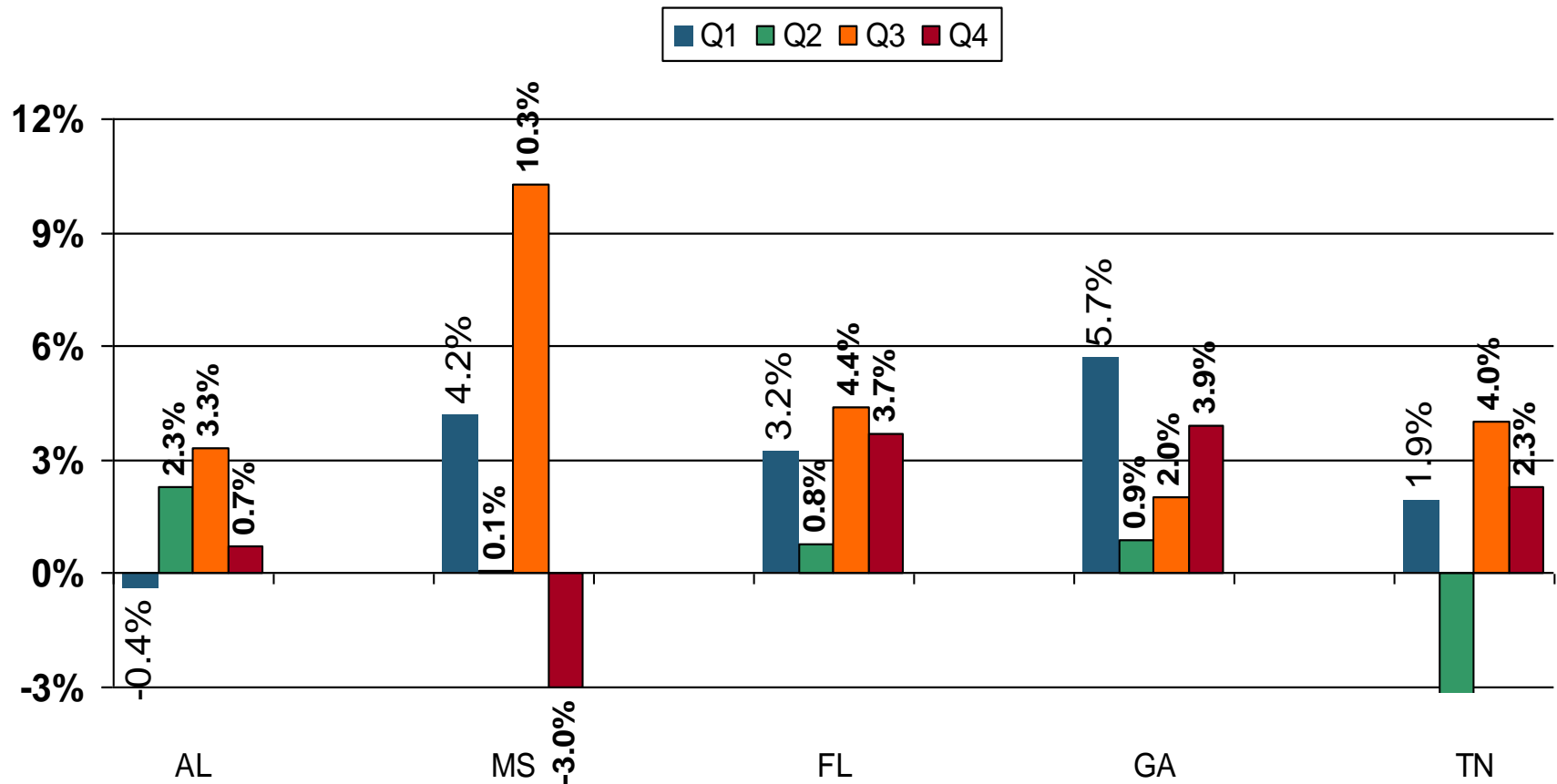


Demand for insurance continues to be affected by sluggish economic conditions, but the benefits of even slow growth will compound and gradually benefit the economy broadly.

Forecasts from Blue Chip Economic Indicators; data are quarterly changes at annualized rates.

Sources: (history) US Department of Commerce, at <http://www.bea.gov/national/index.htm#gdp> ; (forecasts) Blue Chip Economic Indicators 9/14; Insurance Information Institute.

Real Quarterly GDP Growth by State, 2013



Economic growth varied widely among Alabama and its neighbors in 2013. Not only were the rates of growth different from state to state, but even the direction of growth differed.

Data are seasonally-adjusted quarterly changes at annualized rates

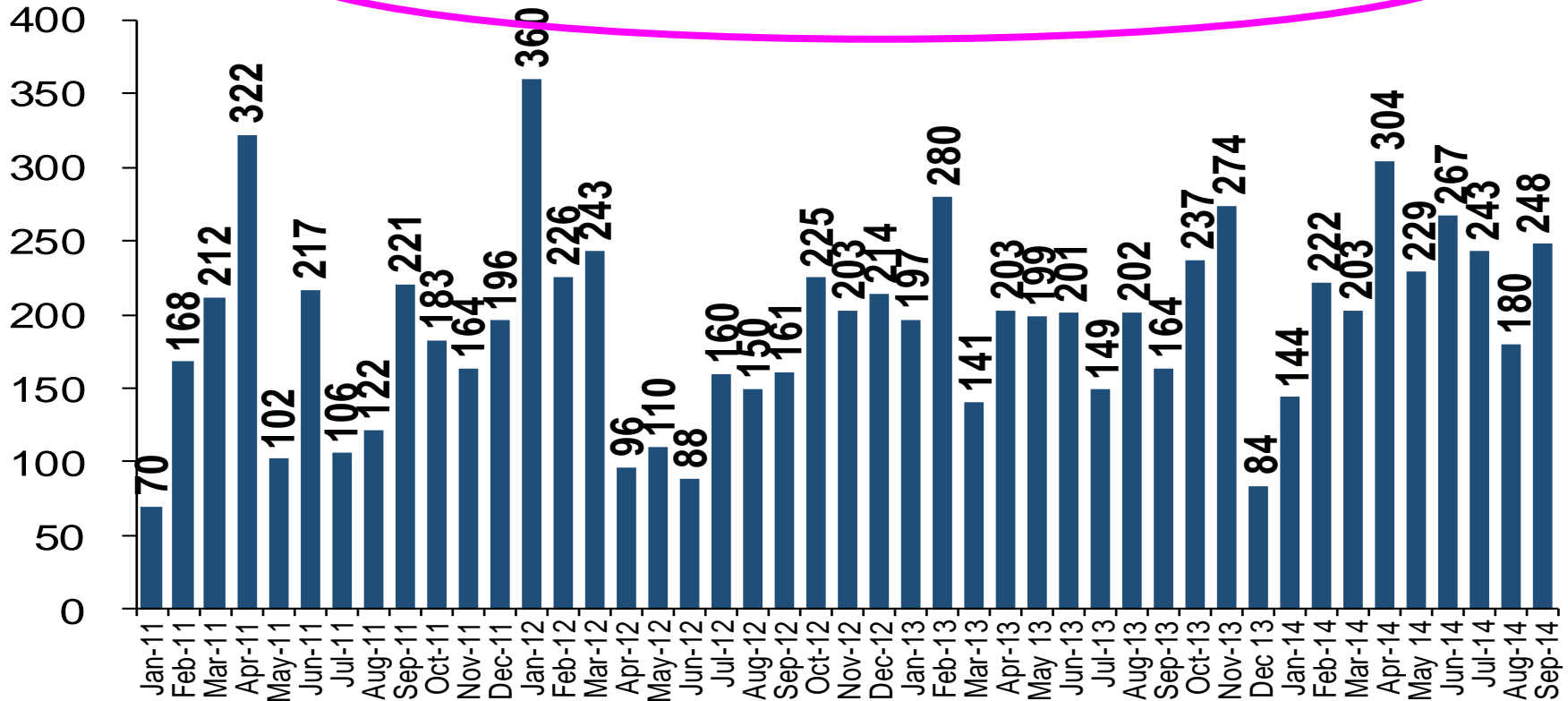
Source: US Department of Commerce, at http://www.bea.gov/newsreleases/regional/gdp_state/2014/pdf/qgsp0814.pdf

Monthly Change in Nonfarm Employment, 2011 - 2014

Thousands

Average Monthly Gain

2011: 173,600 2012: 186,300 2013: 194,250 2014*: 226,700

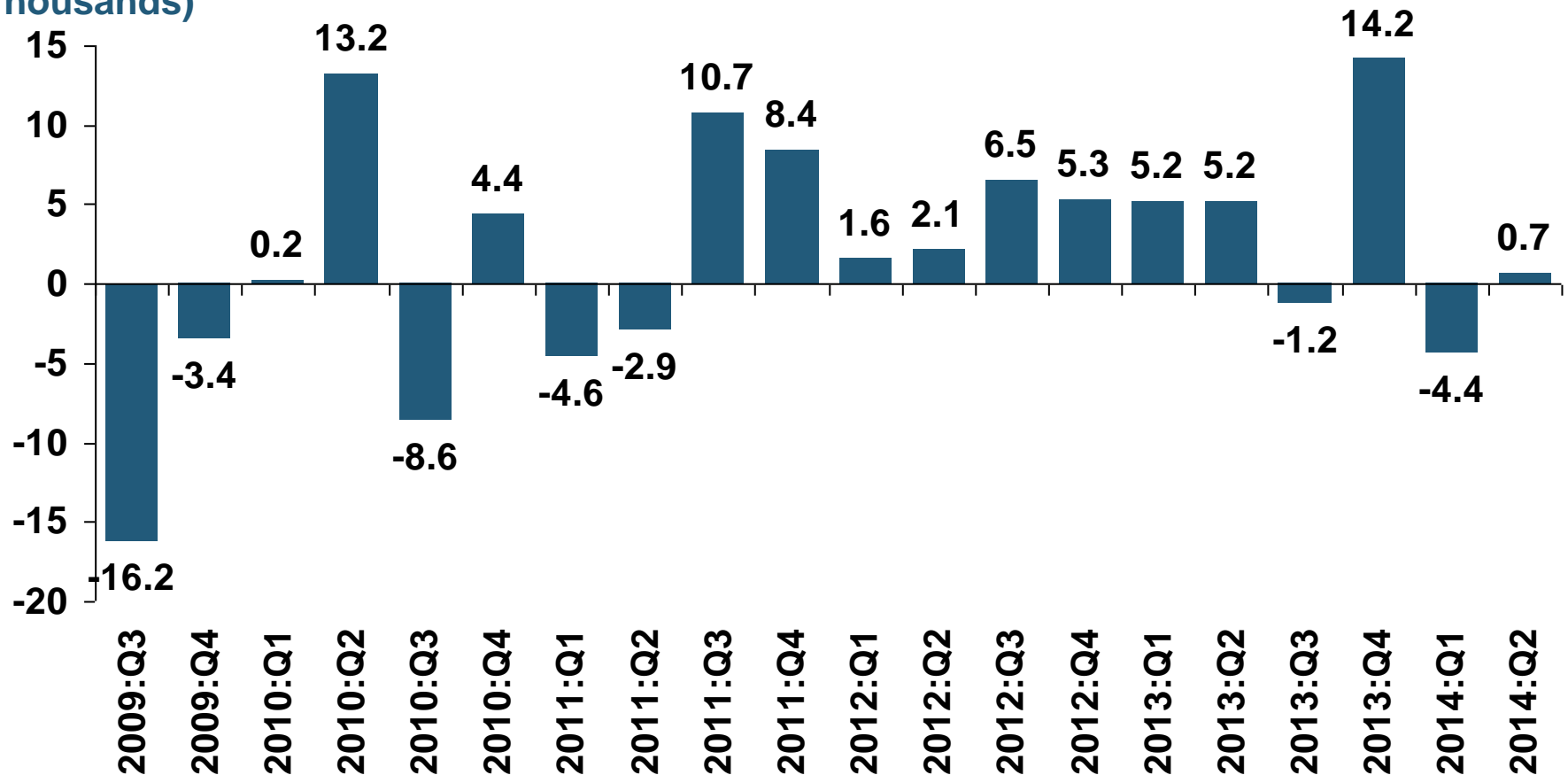


The pace of job growth varies considerably from month to month.

*Seasonally adjusted. Aug 2014 and Sept 2014 are preliminary data. Monthly gain for 2014 is average for January-August
Sources: US Bureau of Labor Statistics; Insurance Information Institute

AL Change in Nonfarm Employment: Quarterly, 2009:Q3—2014:Q3*

(Thousands)



Nonfarm employment growth in Alabama since the end of the “Great Recession” is still very variable, quarter to quarter; still, there are now 36,000 more people working in Alabama than in June 2009.

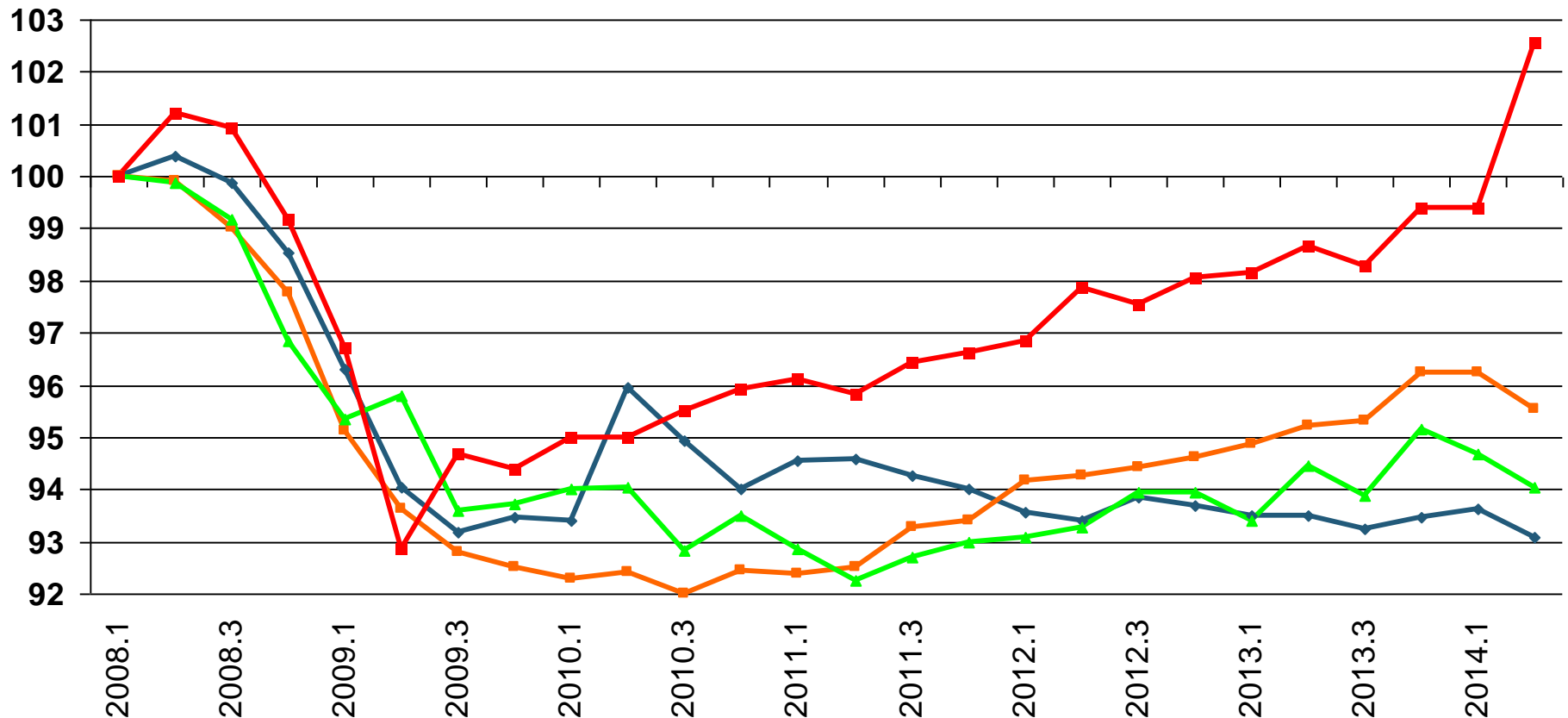
*seasonally-adjusted

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

Nonfarm Employment, Birmingham vs. Montgomery, Mobile, & Tuscaloosa: Quarterly, 2008:Q1—2014:Q2*

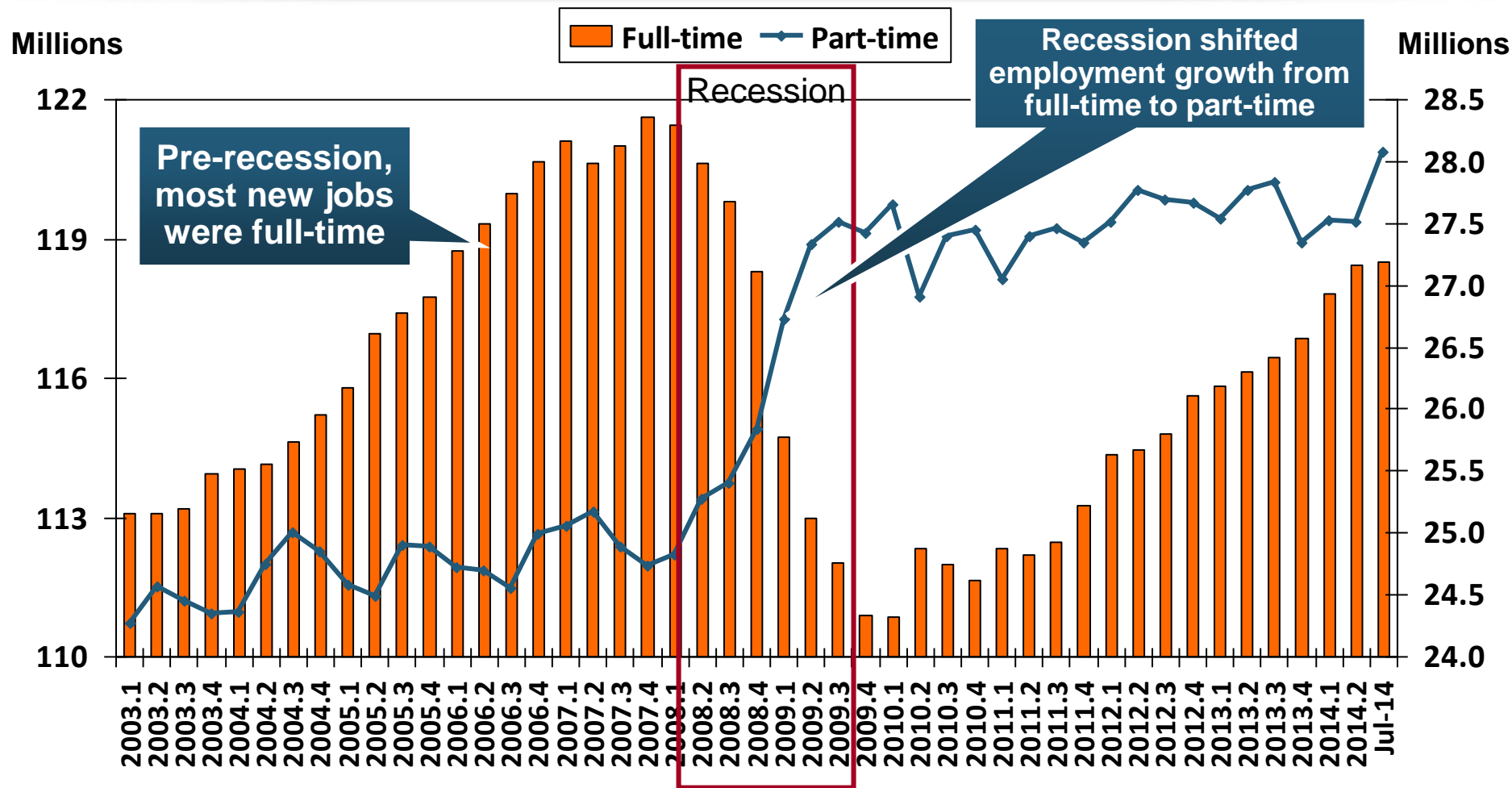
Index
2008:Q1=100

Mobile Birmingham Montgomery Tuscaloosa



Employment in Alabama's major urban areas slumped sharply in the "Great Recession," and all but Tuscaloosa are still down vs. 2008:Q1

Full-time vs. Part-time Employment, Quarterly, 2003-2014: WC Implications

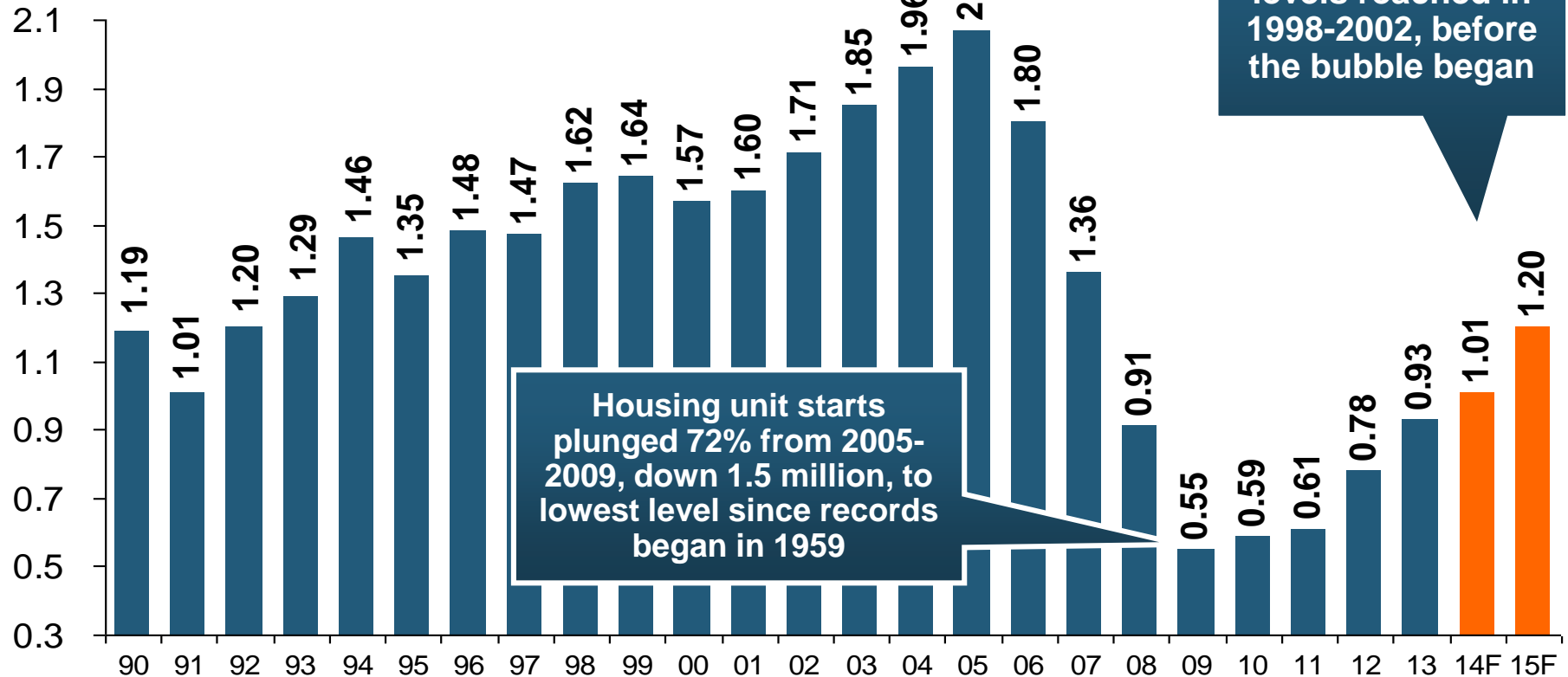


The Great Recession shifted employment from full-time to part-time, and the recovery to date hasn't changed that. Full-time employment is still 3.2 million below its pre-recession peak, but part-time recently reached a new peak.

Forces Affecting Personal Lines

Private Housing Unit Starts, 1990-2015F

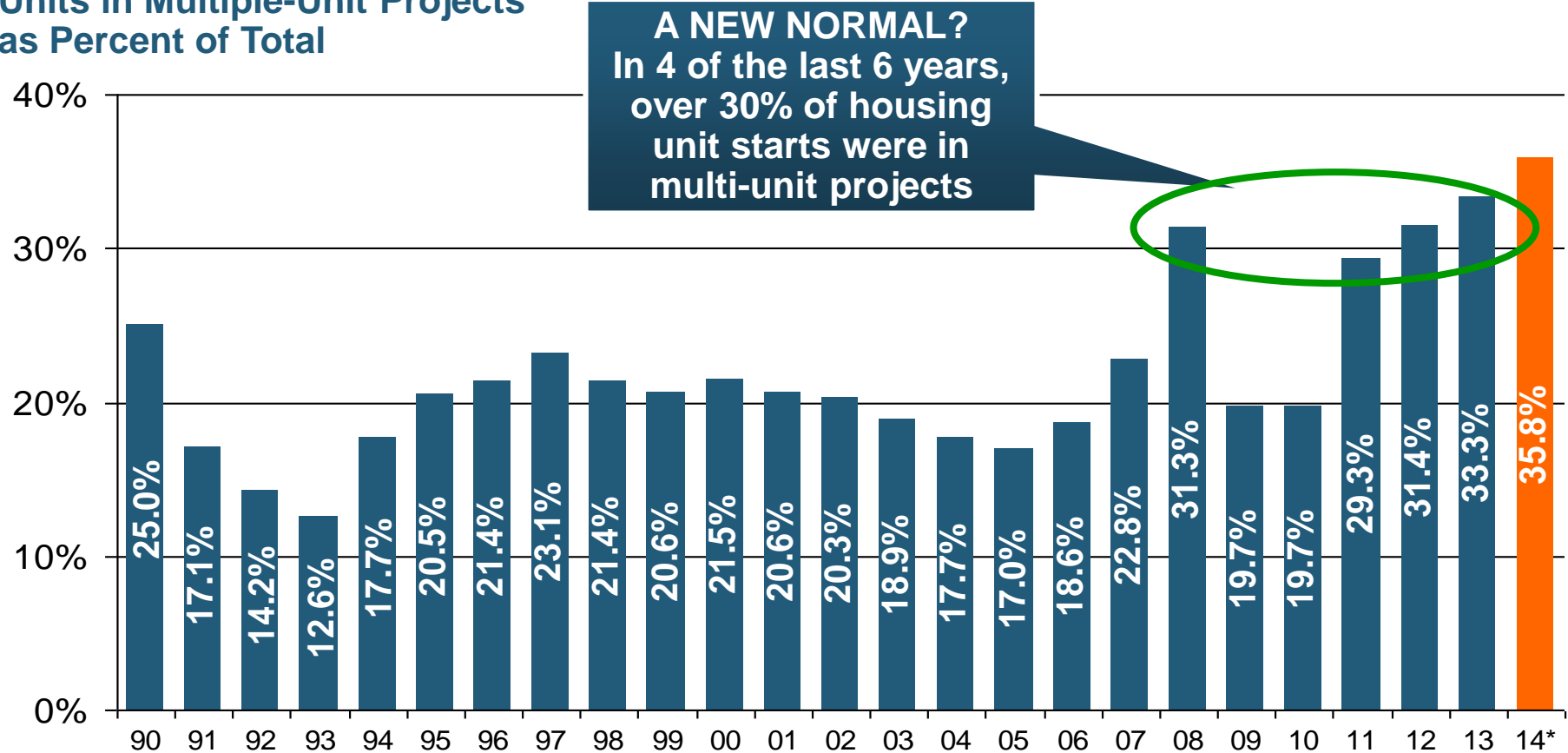
Millions
of Units



Housing starts are rising, but this could be retarded by rising mortgage interest rates. Recently, the fastest growth is in multi-unit residences. Personal lines exposure will grow, and commercial insurers with Workers Comp, Construction risk exposure, and Surety also benefit.

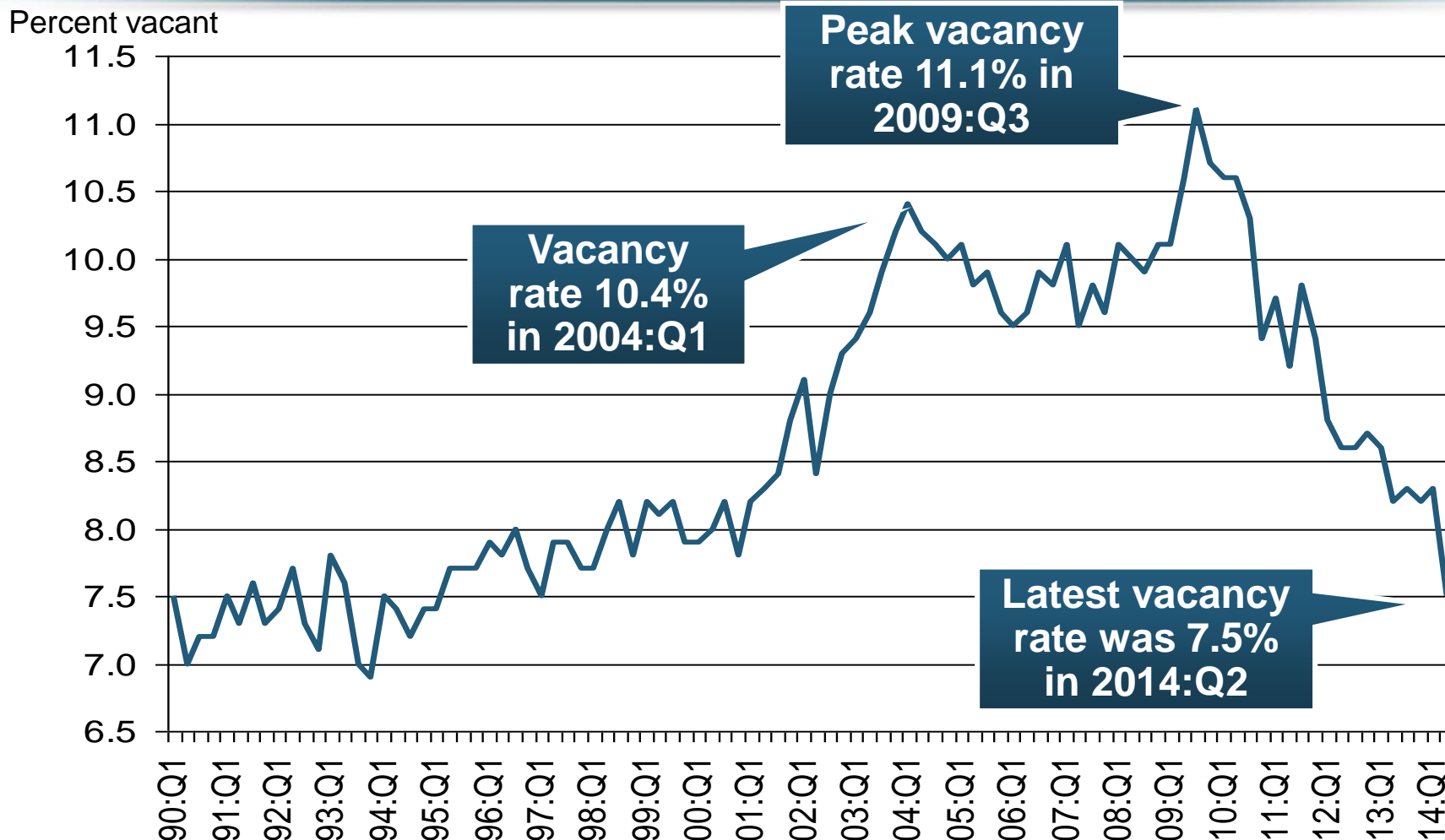
US: Pct. Of Private Housing Unit Starts In Multi-Unit Projects, 1990-2014*

Units in Multiple-Unit Projects
as Percent of Total



For the U.S. as a whole, the trend toward multi-unit housing projects (vs. single-unit homes) is recent. Commercial insurers with Workers Comp, Construction risk exposure, and Surety benefit.

Rental Vacancy Rates, Quarterly, 1990-2014

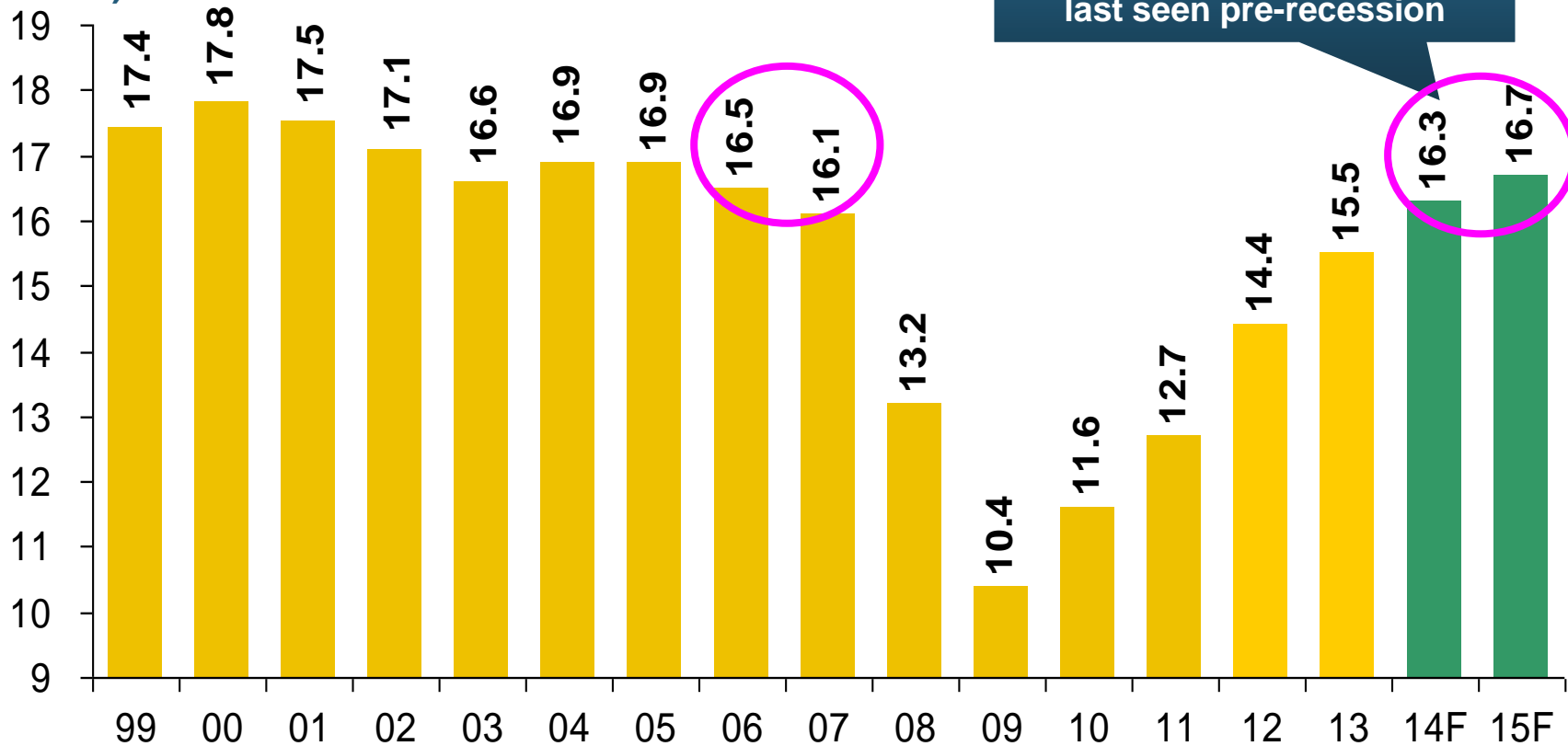


**Before the 2001 recession, rental vacancy rates were 8% or less.
We're close to those levels again. => More multi-unit construction?**

Sources: US Census Bureau, *Residential Vacancies & Home Ownership in the Second Quarter of 2014* (released July 29, 2014) and earlier issues; Insurance Information Institute. **Next Census Bureau report to be released on October 28, 2014.**

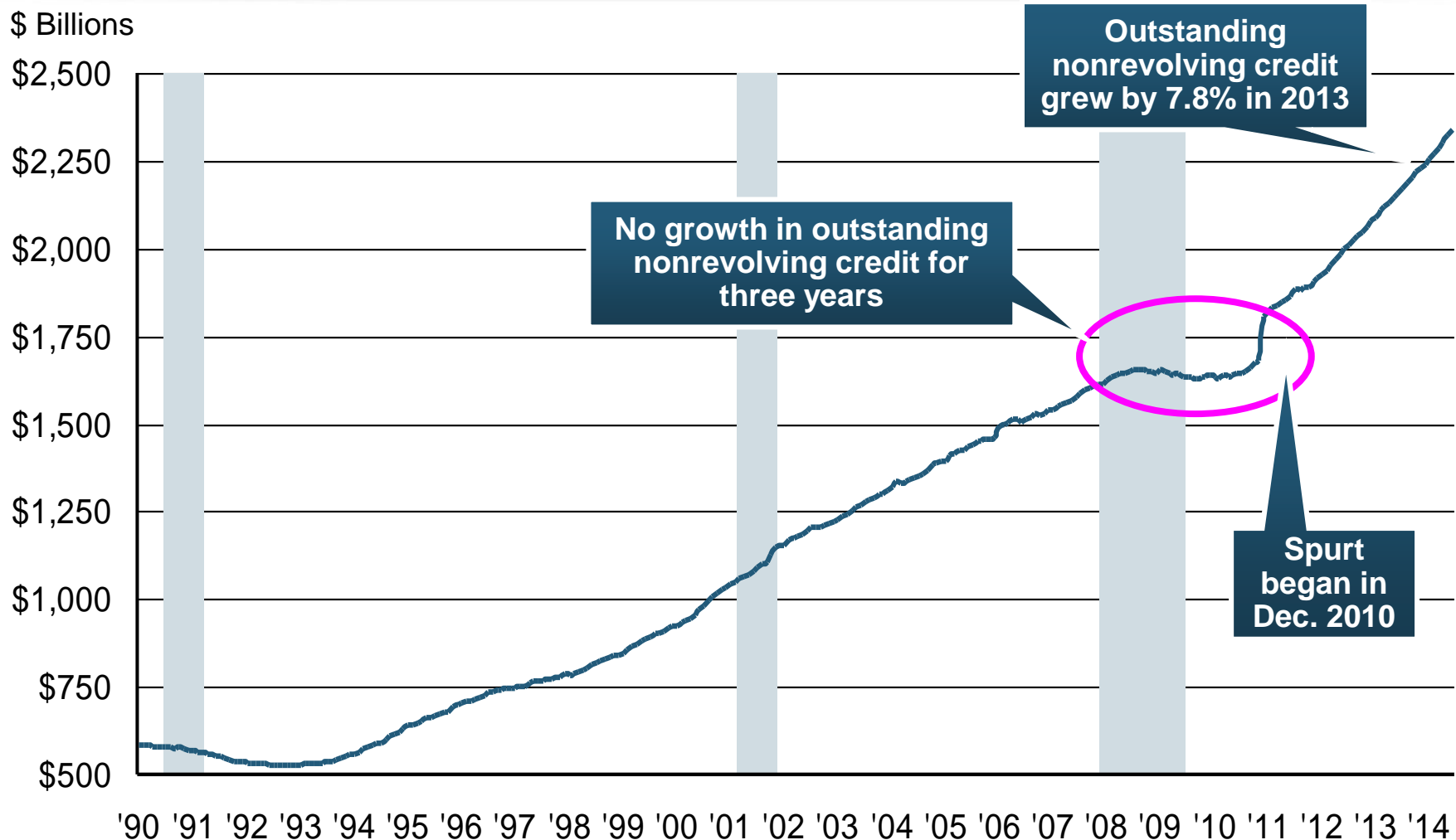
Auto/Light Truck Sales, 1999-2015F

(Millions
of Units)



Yearly car/light truck sales will keep rising, in part replacing cars that were held onto in 2008-12. New vehicles will generate more physical damage insurance coverage but will be more expensive to repair. PP Auto premium might grow by 6%.

Auto Loans and other Nonrevolving Credit Outstanding, 1990–2014*



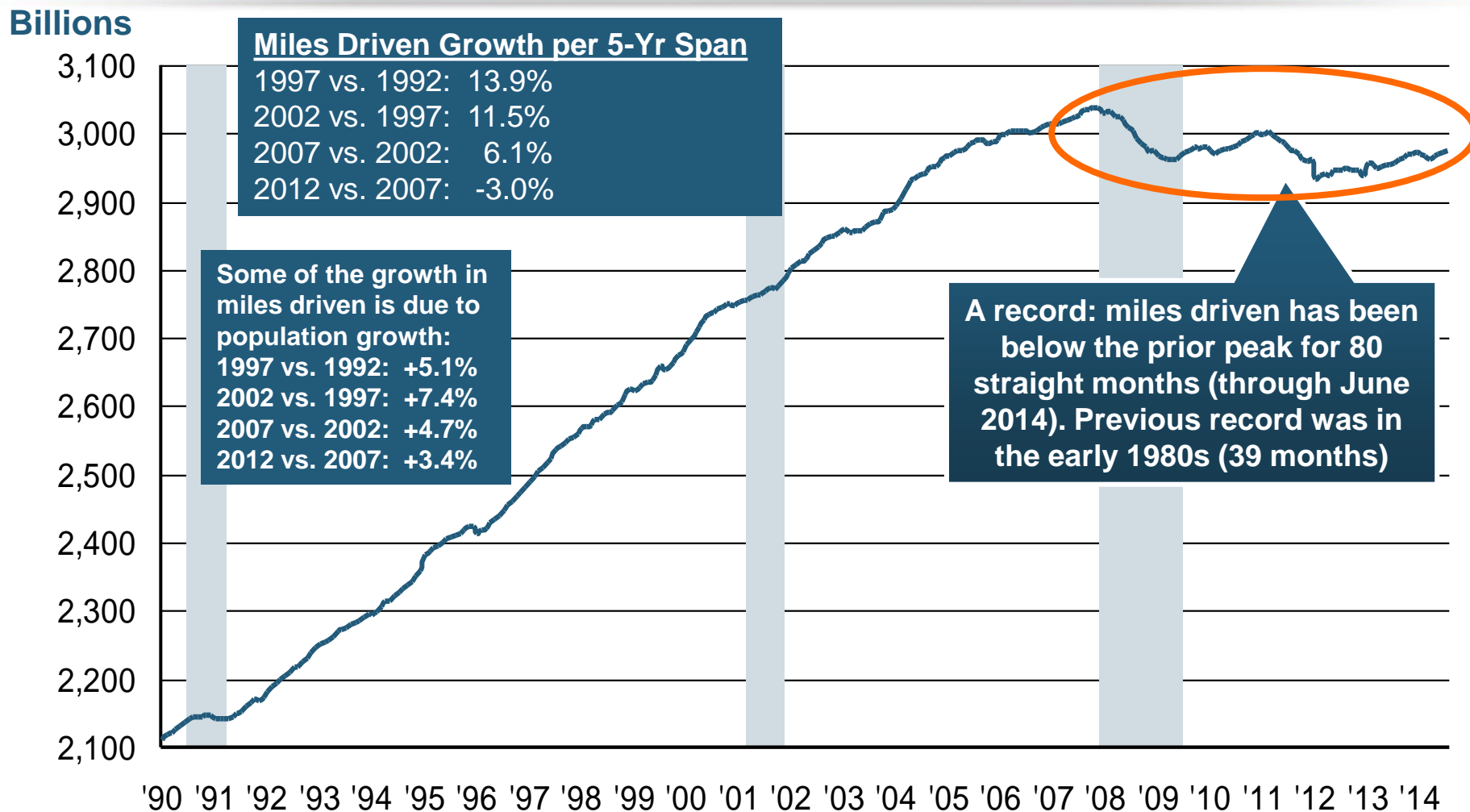
Note: Recessions indicated by gray shaded columns. *Seasonally adjusted; Latest data is for June 2014, preliminary

Sources: Federal Reserve at

<http://www.federalreserve.gov/datadownload/Download.aspx?rel=G19&series=8ee7aa36107a130bcc862d44824a3b86&lastObs=&from=&to=&filetype=csv&label=include&layout=seriescolumn&type=package>

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

Something Unusual is Happening: Miles Driven*, 1990–2014



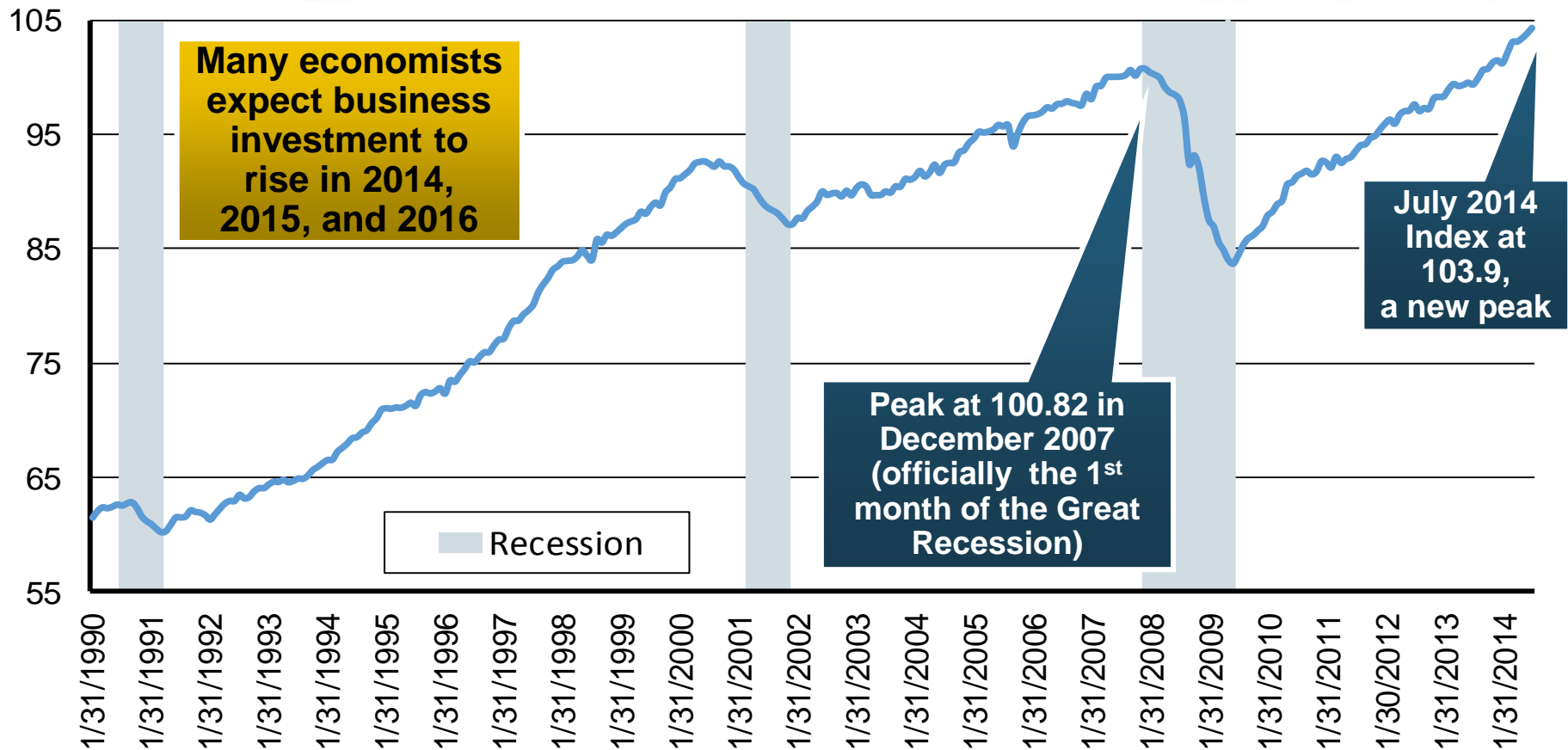
*Moving 12-month total. The latest data is for July 2014.

Note: Recessions indicated by gray shaded columns..

Sources: Federal Highway Administration (<http://www.fhwa.dot.gov/ohim/tvtw/tvtpage.cfm>);
National Bureau of Economic Research (recession dates); Insurance Information Institute.

Forces Affecting Commercial Lines

Index of Total Industrial Production:* A New Peak in July 2014

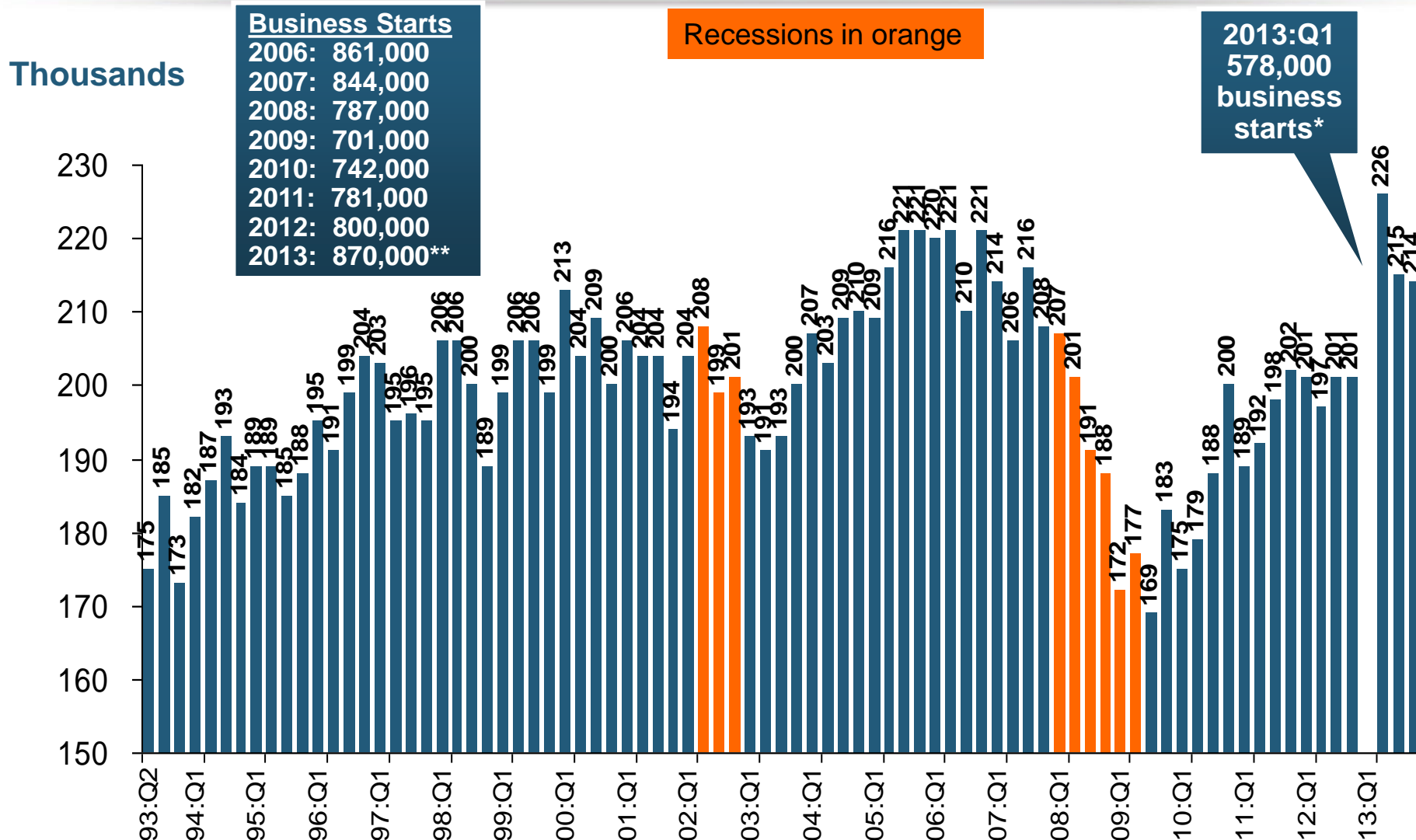


Insurance exposures for industrial production will continue growing in 2014, and commercial insurance premium volume with them.

*Monthly, seasonally adjusted, through July 2014 (which is preliminary). Index based on year 2007 = 100

Sources: Federal Reserve Board at http://www.federalreserve.gov/releases/g17/ipdisk/ip_sa.txt.
National Bureau of Economic Research (recession dates); Insurance Information Institute.

Private Sector Business Starts: 1993:Q2 – 2013:Q4* As Strong as Ever?



*Data posted Jul 30, 2014, the latest available; a classification change in 2013:Q1 resulted in a report of 578,000 businesses started in that quarter. Seasonally adjusted. **2013 number assumes 1st quarter equals average of second-through-fourth quarters

Sources: Bureau of Labor Statistics, <http://www.bls.gov/news.release/cewbd.t08.htm>. NBER (recession dates)

Dollar Value* of Manufacturers' Shipments Monthly, January 1992—June 2014

\$ Millions

\$500,000

\$400,000

\$300,000

\$200,000

The value of Manufacturing Shipments in June 2014 was \$499.8B—a new record high.

Jan-92 Jan-93 Jan-94 Jan-95 Jan-96 Jan-97 Jan-98 Jan-99 Jan-00 Jan-01 Jan-02 Jan-03 Jan-04 Jan-05 Jan-06 Jan-07 Jan-08 Jan-09 Jan-10 Jan-11 12-Jan Jan-13 Jan-14

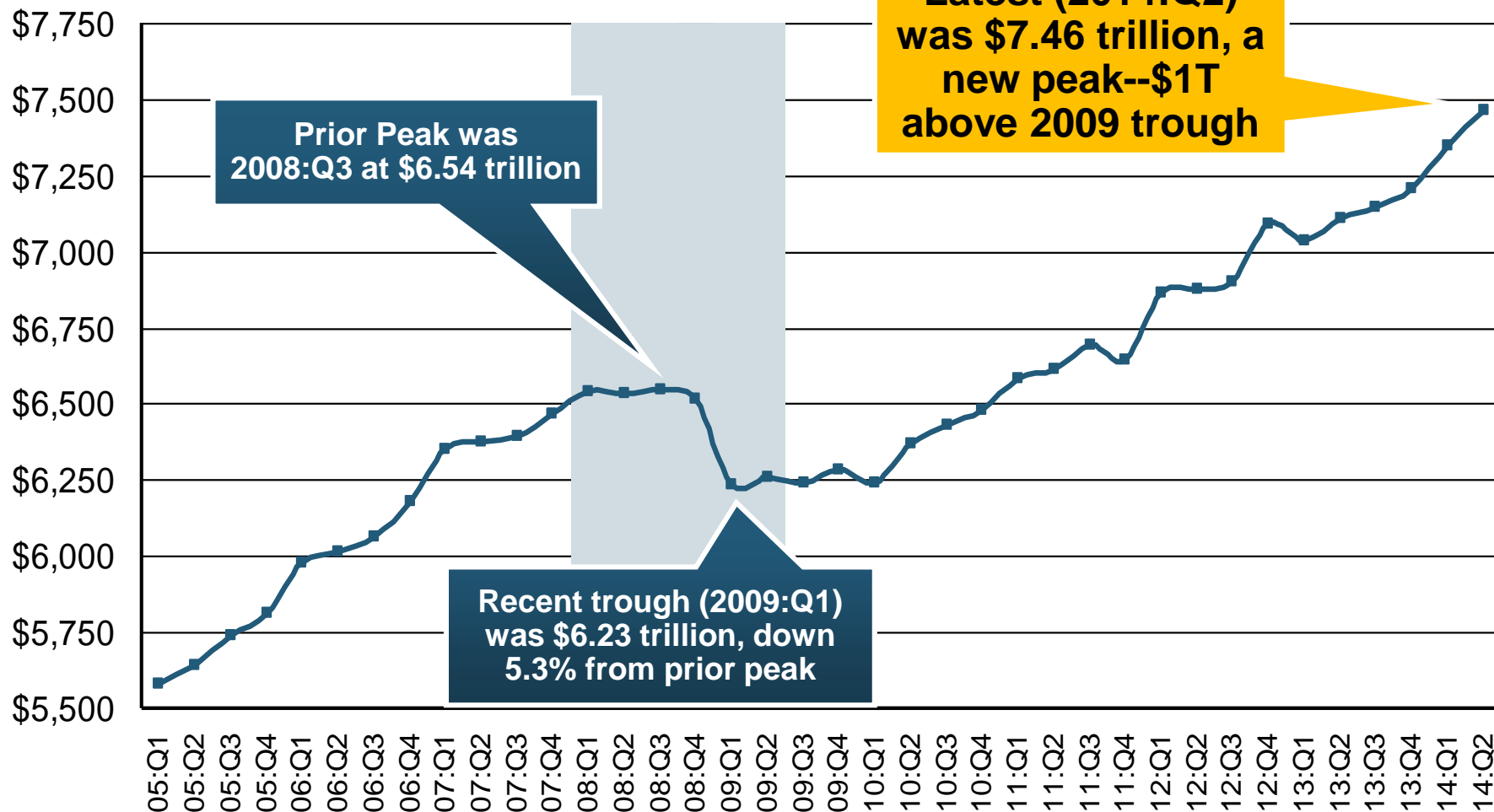
Monthly shipments in November 2013 exceeded the pre-crisis (July 2008) peak; December 2013, January 2014, and February 2014 slipped a bit. March 2014, then April, then May, then June 2014 (prelim.) set new record highs.

*seasonally adjusted; June 2014 is preliminary; data published July 25, 2014.

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

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2014:Q2

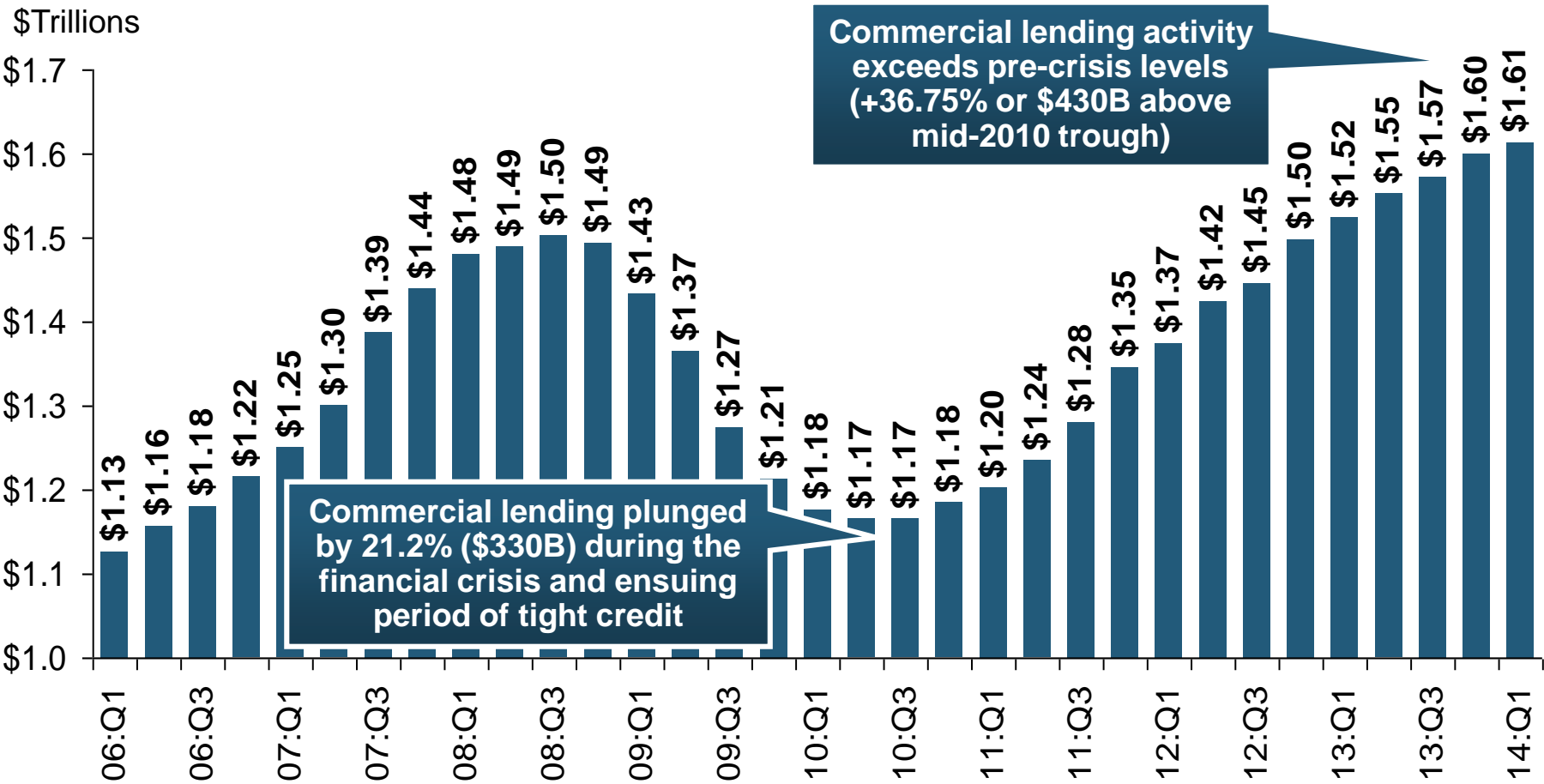
Billions



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

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

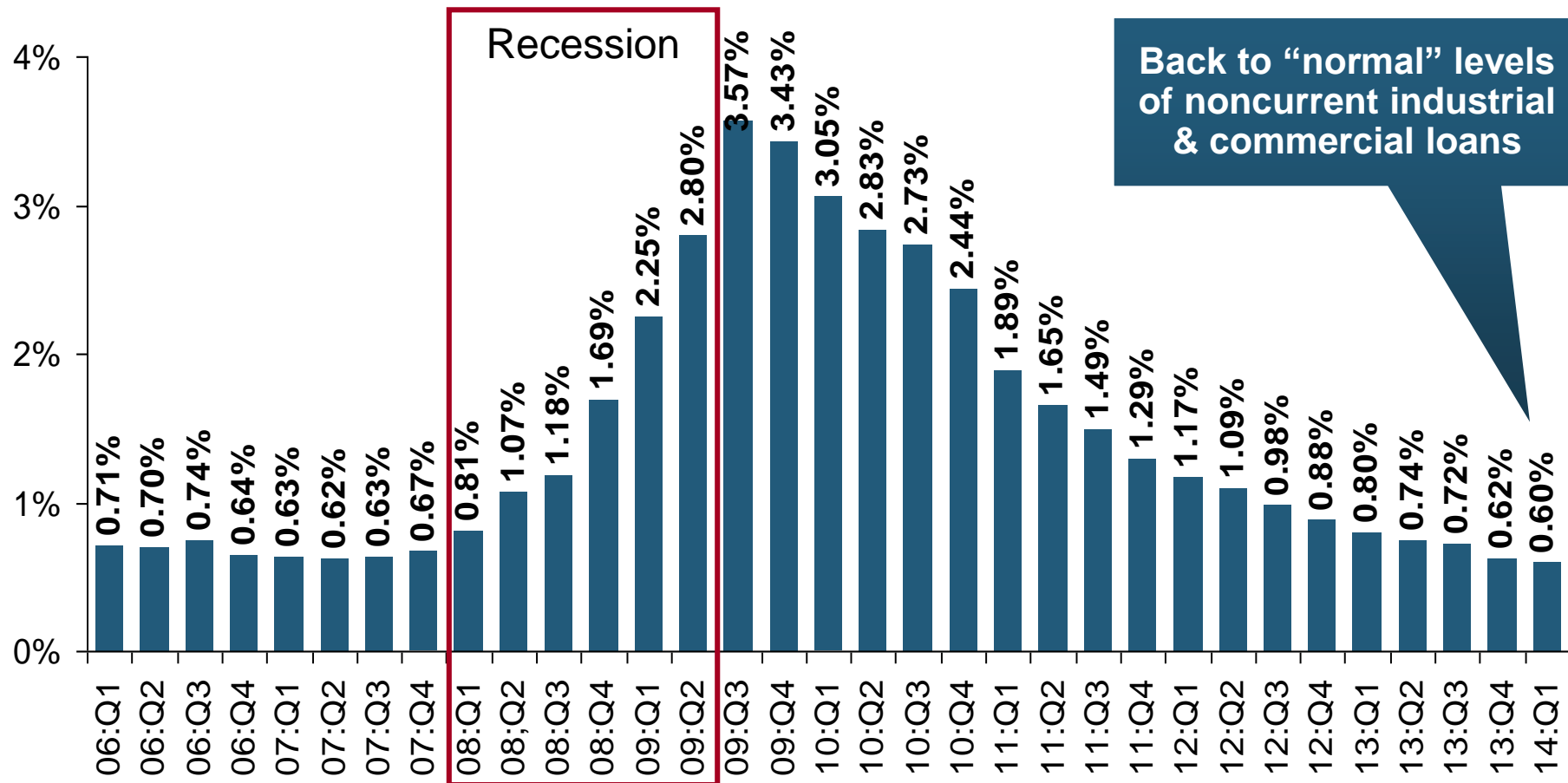
Commercial & Industrial Loans Outstanding at FDIC-Insured Banks, Quarterly, 2006-2014:Q1



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

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

Percent of Non-current Commercial & Industrial Loans Outstanding at FDIC-Insured Banks, Quarterly, 2006-2014:Q1



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

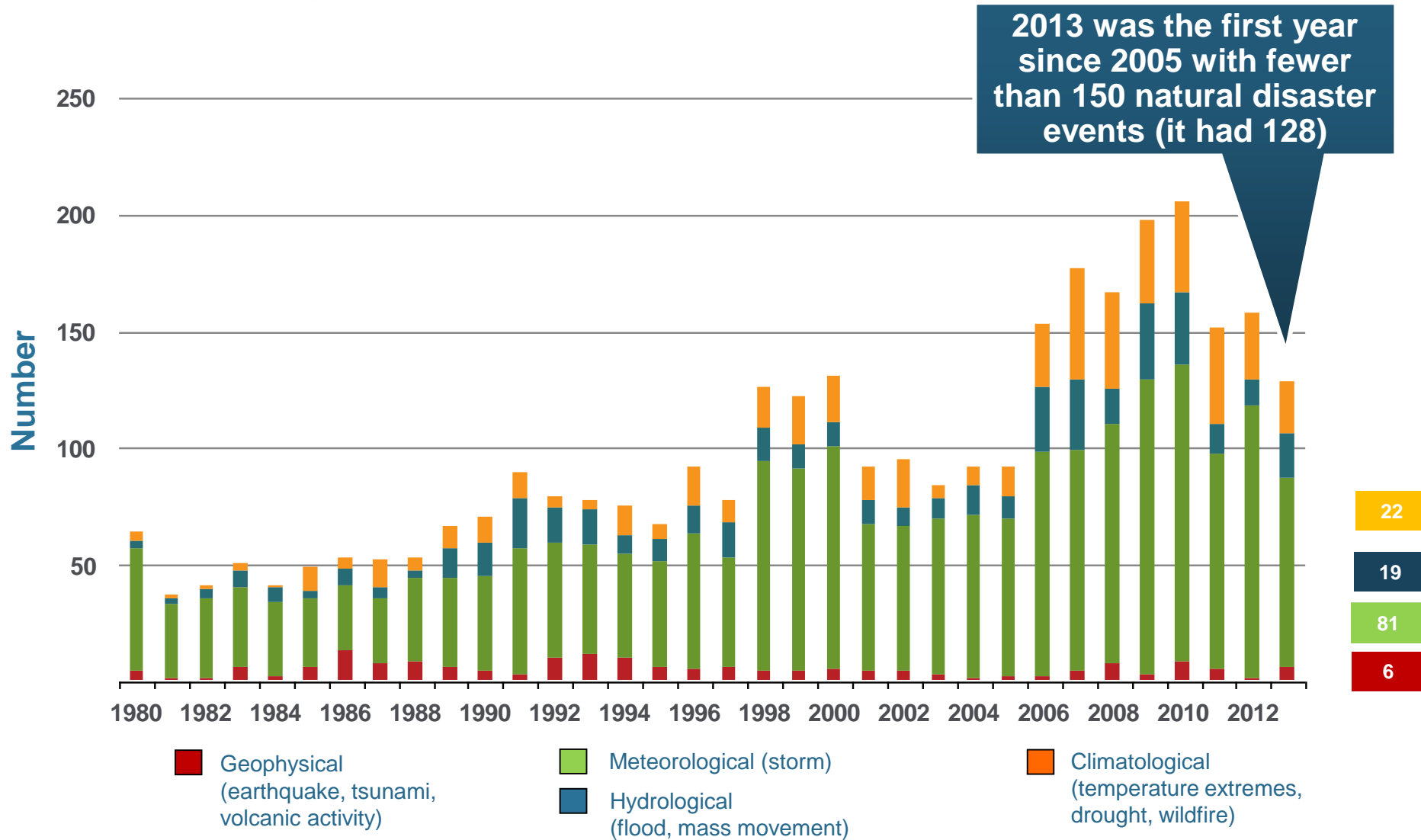
Tornados and Other Natural Catastrophes

**2013 Was a Welcome Respite from the High
Catastrophe Losses in Recent Years**

2014 Winter Storm Losses Manageable

Natural Disasters in the United States

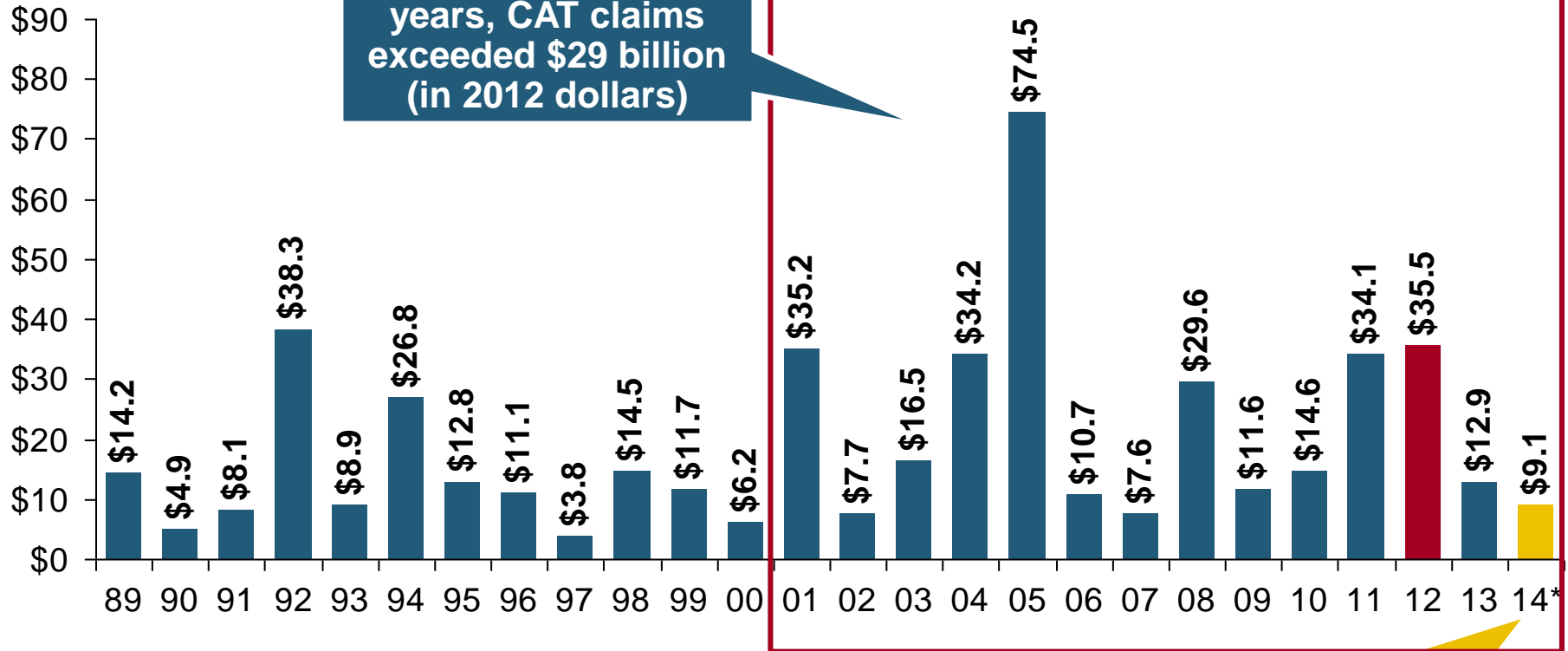
Number of Events (Annual Totals 1980 – 2013)



U.S. Insured Catastrophe Losses

(\$ Billions, \$ 2013)

In 6 of the last 13 years, CAT claims exceeded \$29 billion (in 2012 dollars)



Longer-term trend is for more costly years.

\$9.1 billion in insured CAT losses through June 30

*Through 6/30/14.

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.

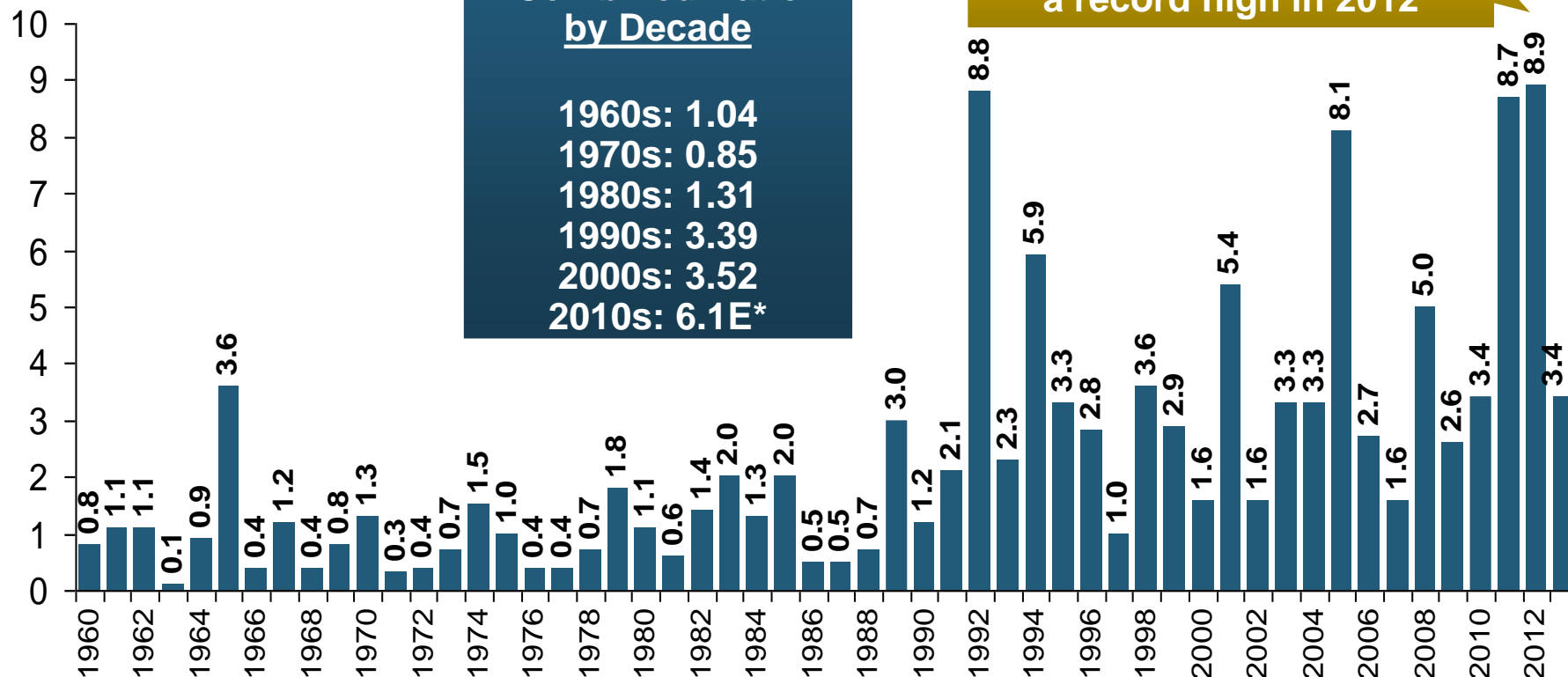
Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2013*

**Combined
Ratio Points**

**Avg. CAT Loss
Component of the
Combined Ratio
by Decade**

1960s: 1.04
1970s: 0.85
1980s: 1.31
1990s: 3.39
2000s: 3.52
2010s: 6.1E*

**Catastrophe losses as a
share of all losses reached
a record high in 2012**



**The catastrophe loss component of private insurer losses
has increased sharply in the last 20 years.**

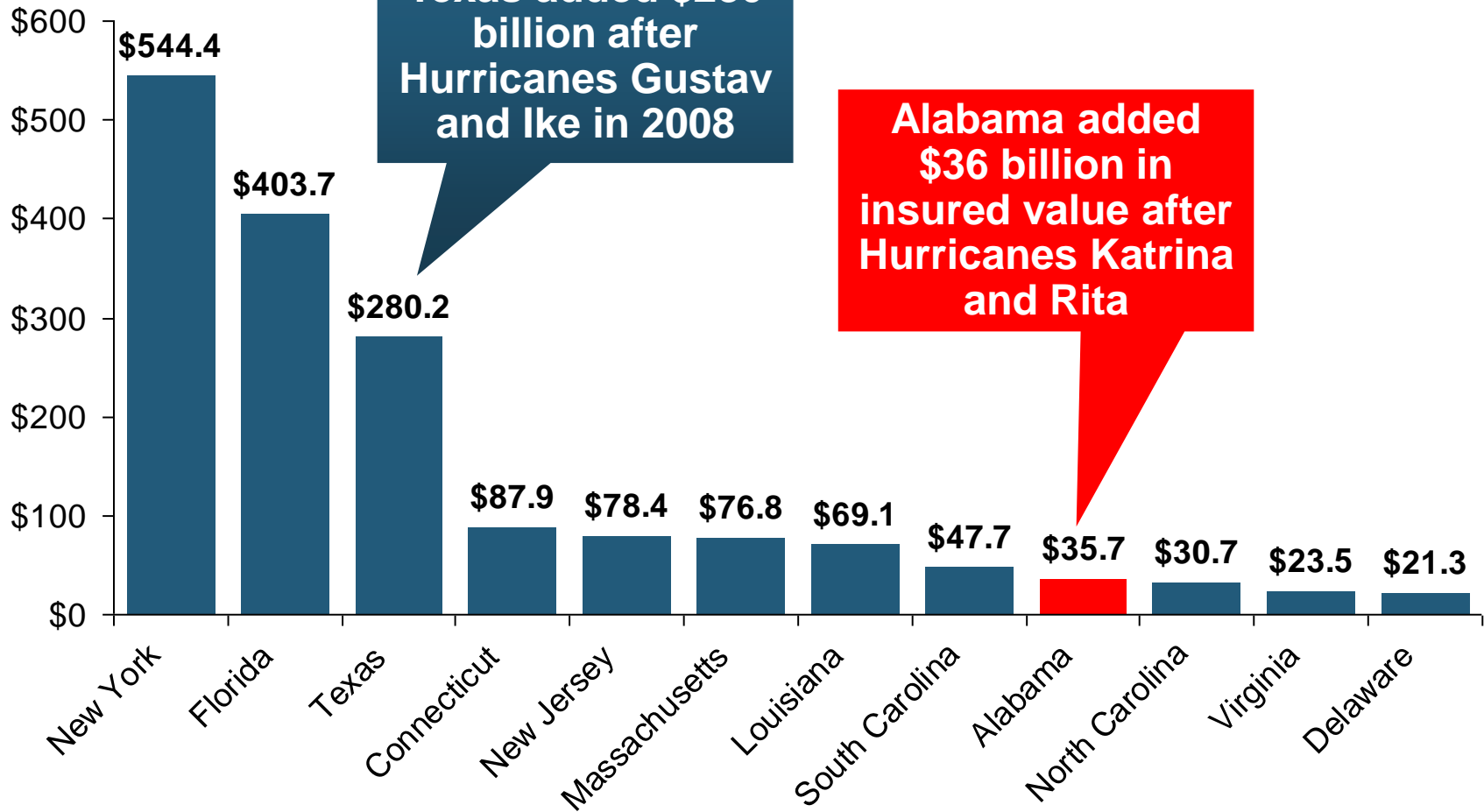
*2010s represent 2010-2013.

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.

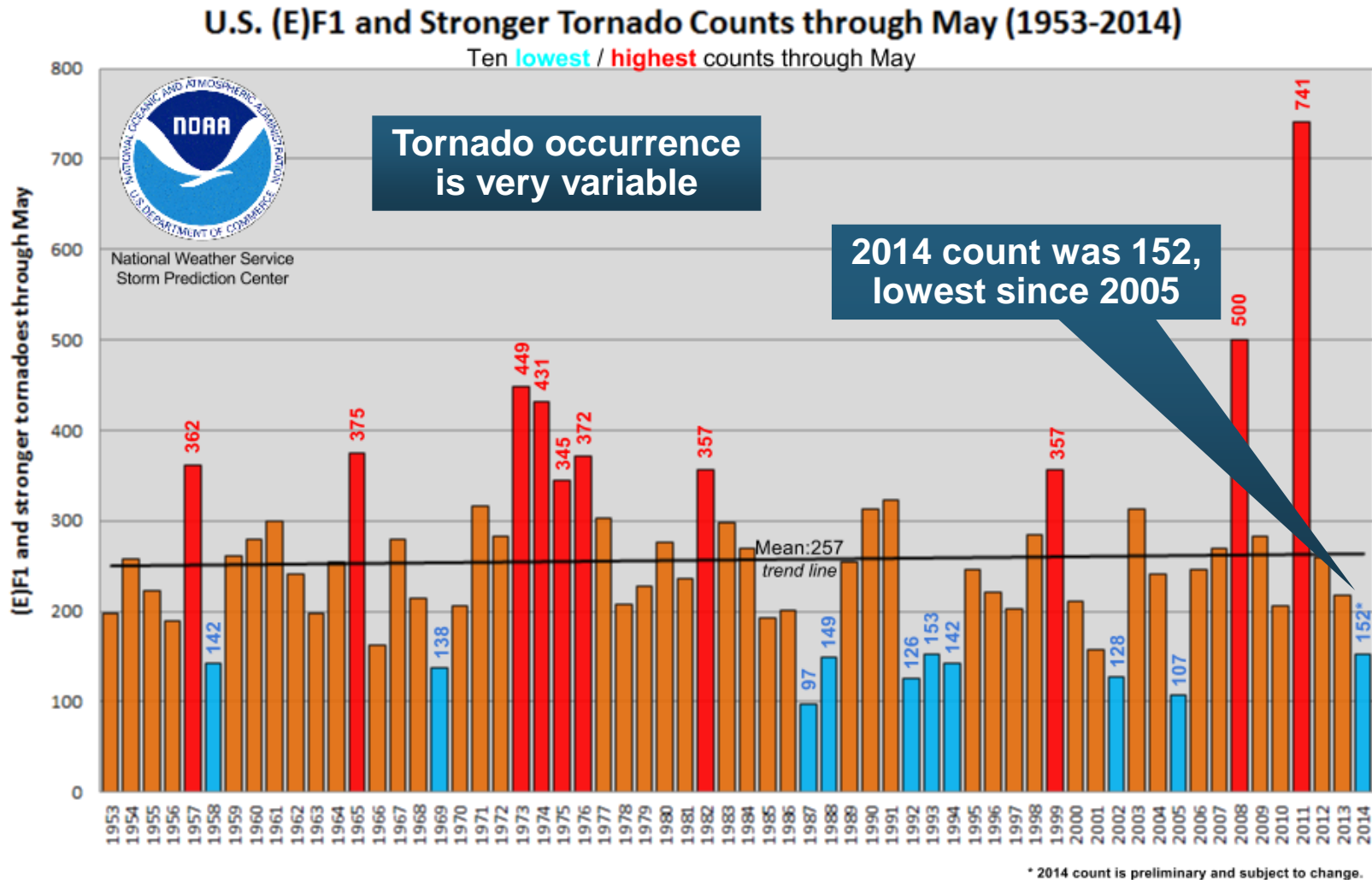
12 States with Most Growth in Total Value of Insured Coastal Exposure, 2012 vs. 2007

\$ Billions



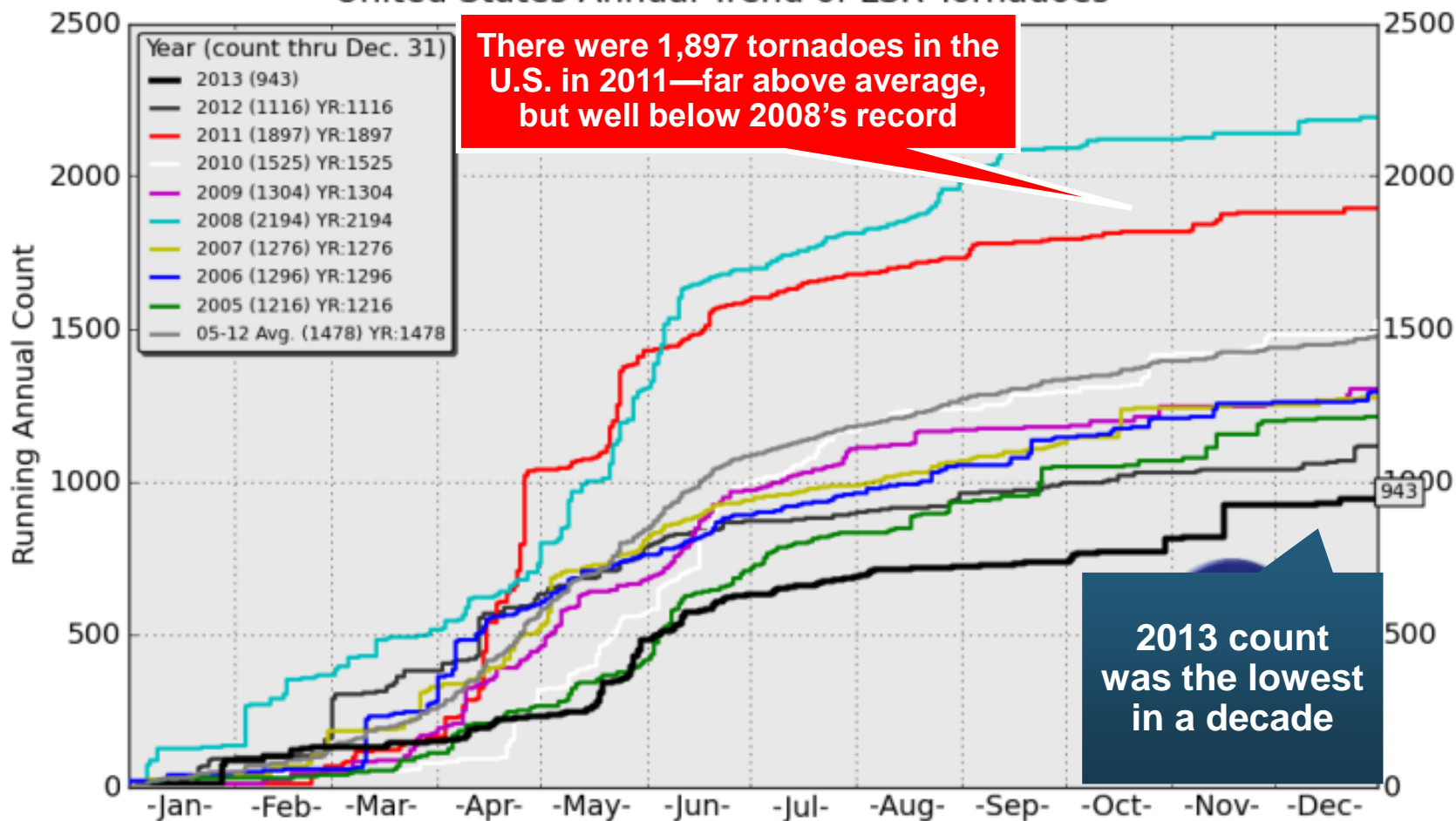
The insured value of all coastal property was \$10.6 trillion in 2012, up 20% from \$8.9 trillion in 2007, and up 48% from \$7.2 trillion in 2004

U.S. Tornado Count, EF-1 and Stronger, (through May each year), 1953-2014



U.S. Tornado Count, 2005-2013

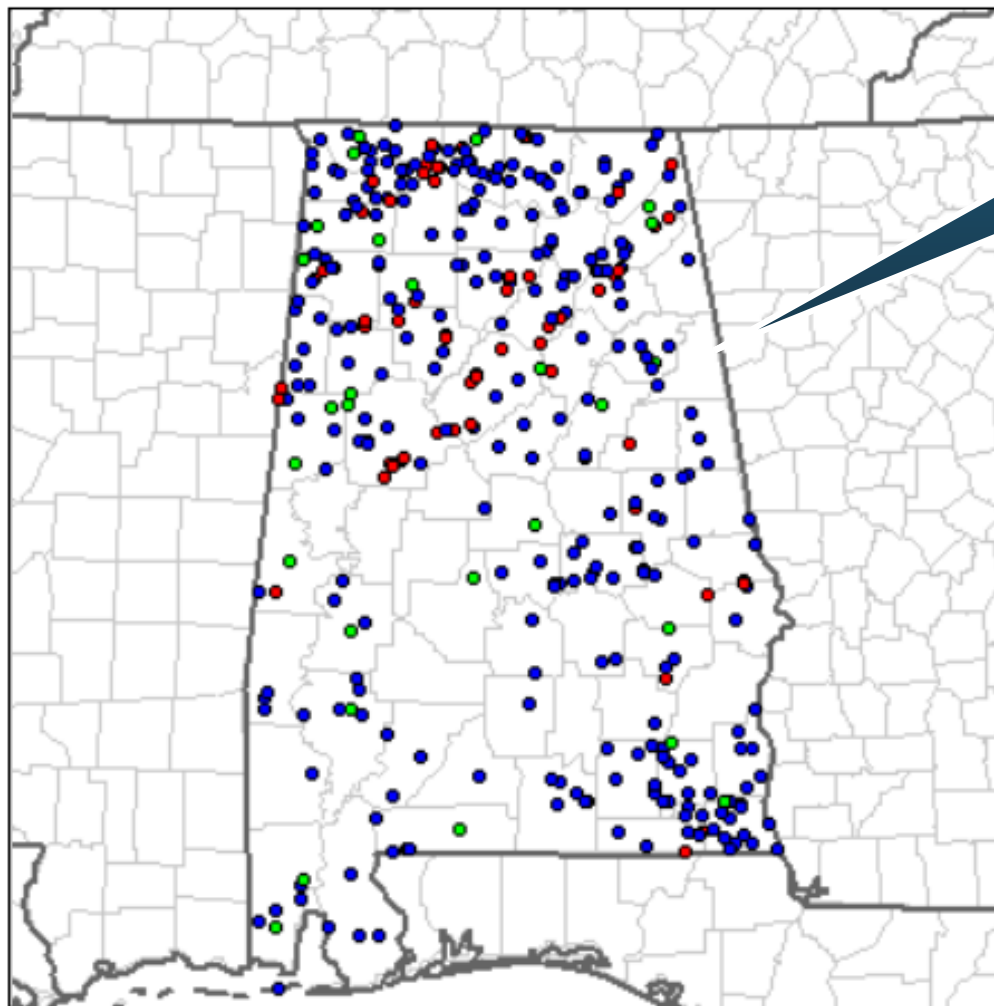
United States Annual Trend of LSR Tornadoes*



*Preliminary tornadoes from NWS Local Storm Reports (LSRs)
Annual average is based on preliminary LSRs, 2005-2012

Reports of Severe Weather* in AL through Sept 2, 2014

AL
Total Reports = 402
Tornadoes = 55
Hail Reports = 29
Wind Reports = 318



Almost all of
the tornadoes
are in the
northern half
of the state

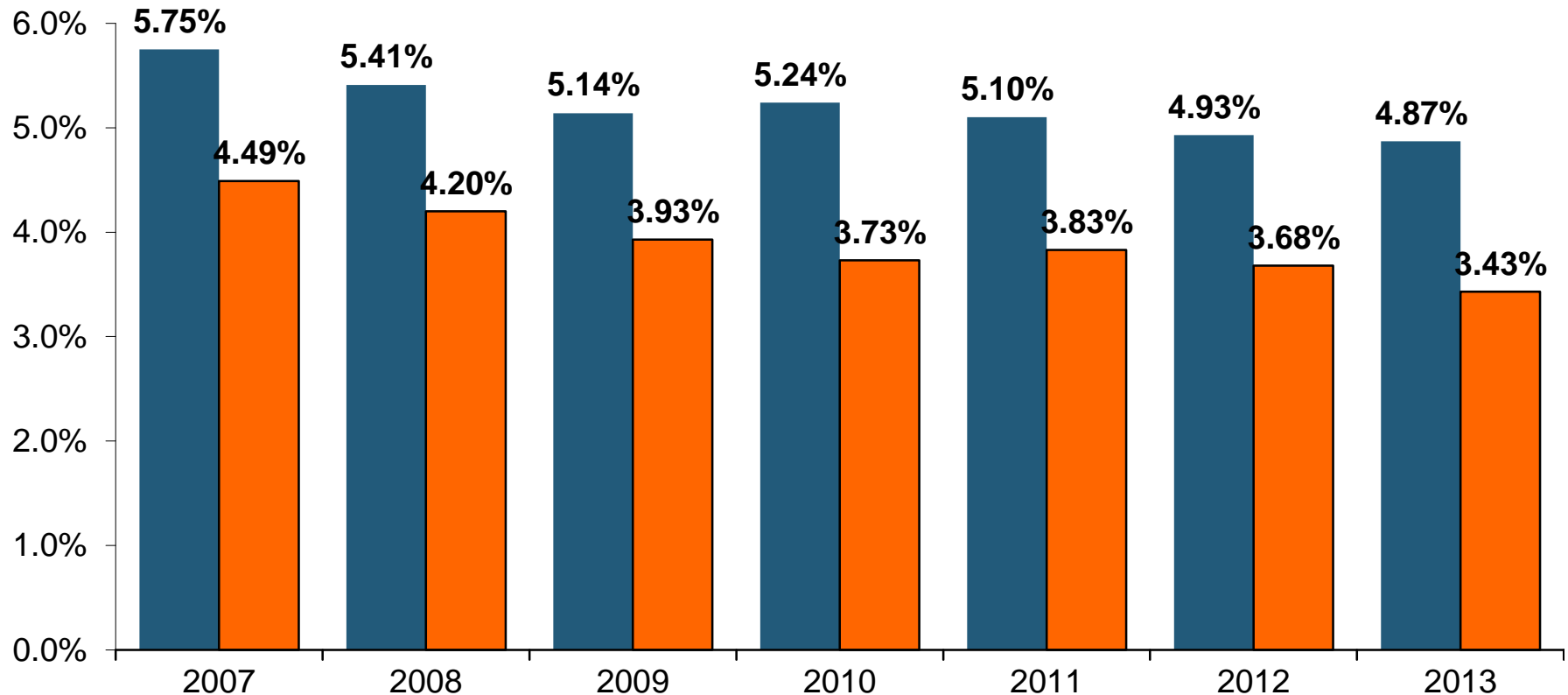
*excluding floods, wildfires, droughts

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2014_annual_summary.html#

Investment Performance: a Key Driver of Profitability

***Depressed Yields Influence
Underwriting & Pricing***

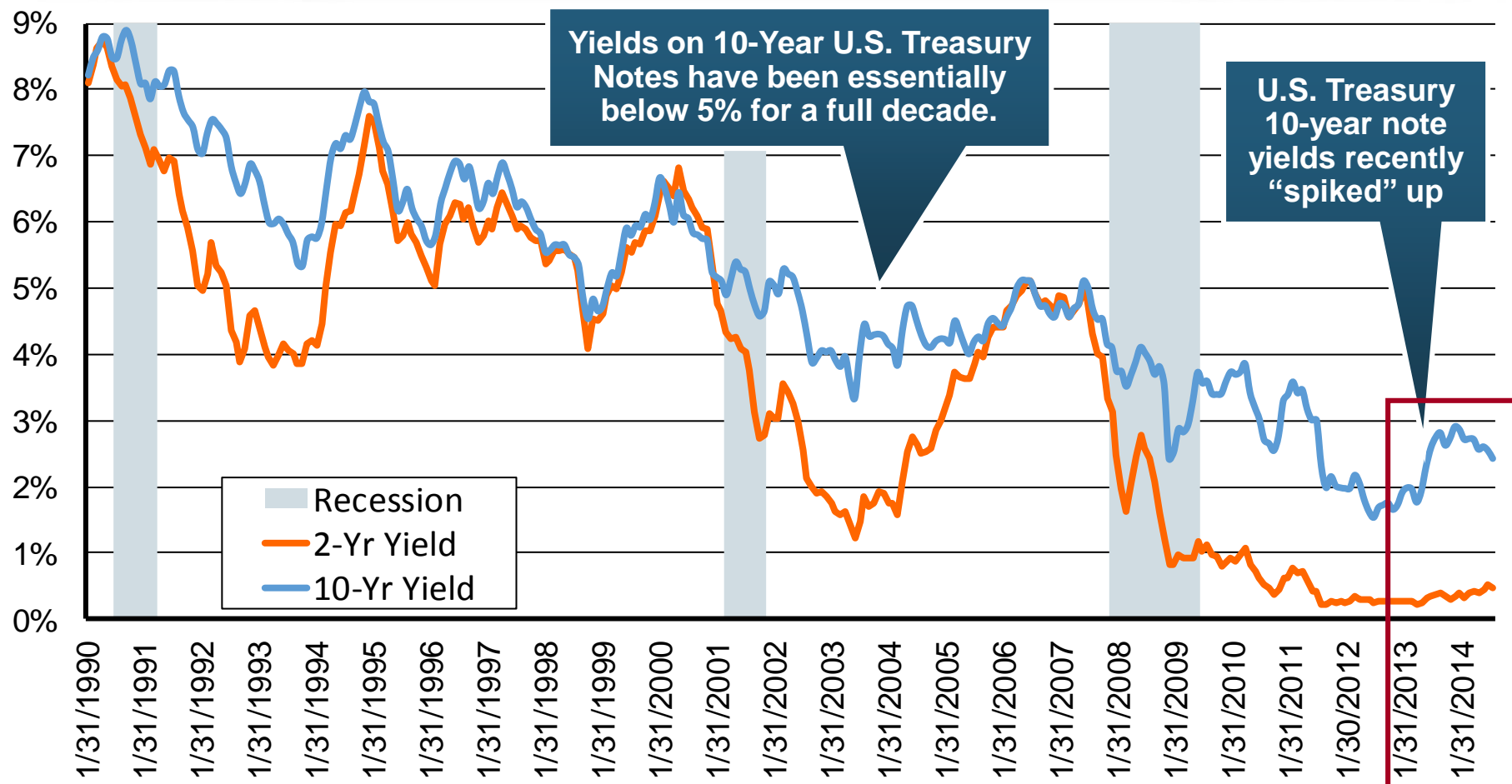
Net Yield on Insurer Invested Assets, 2007-2014:1H



P/C Insurer net yields to date dropped by 106 basis points since year-end 2007.

Sources: NAIC, via SNL Financial; I.I.I.

U.S. Treasury 2- and 10-Year Note Yields*: 1990–2014

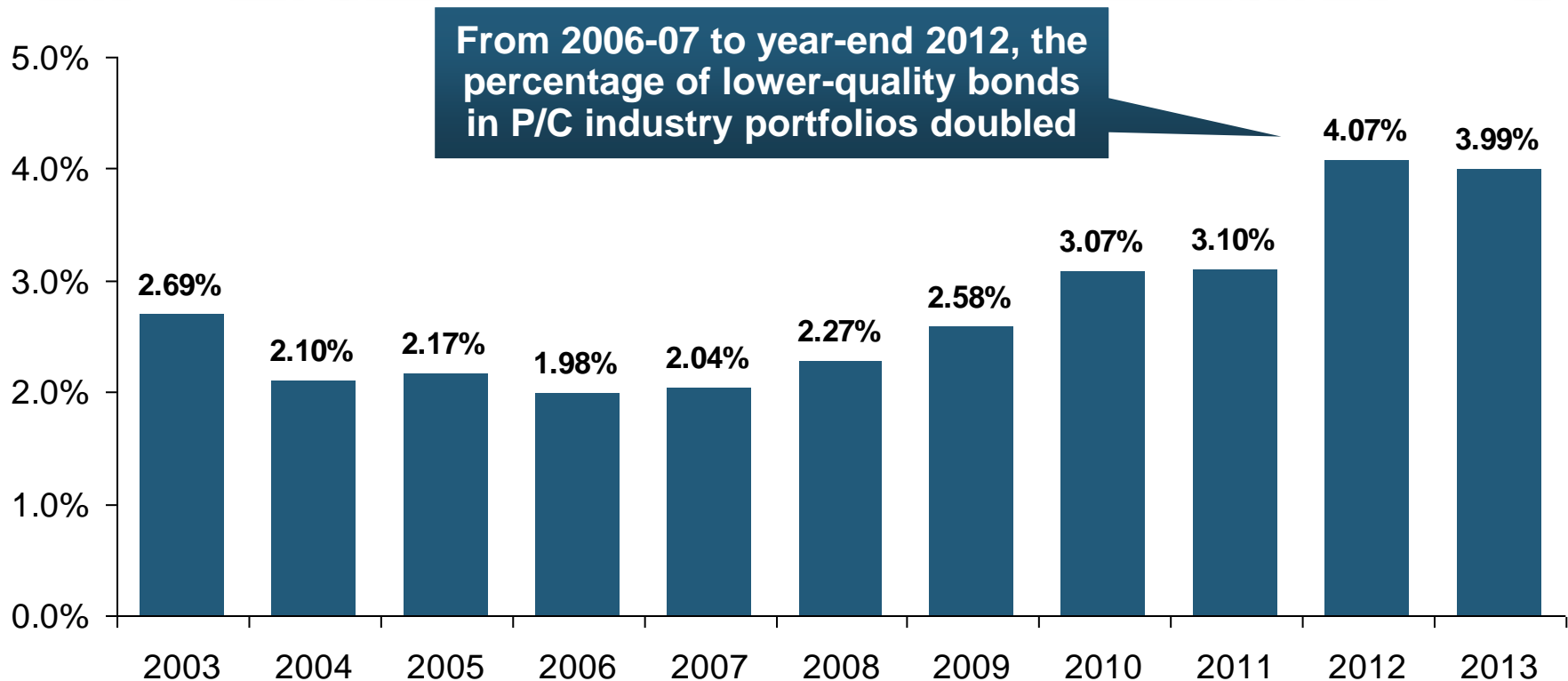


Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, constant maturity, nominal rates, through August 2014.

Sources: Federal Reserve Bank at <http://www.federalreserve.gov/releases/h15/data.htm>.
National Bureau of Economic Research (recession dates); Insurance Information Institutes.

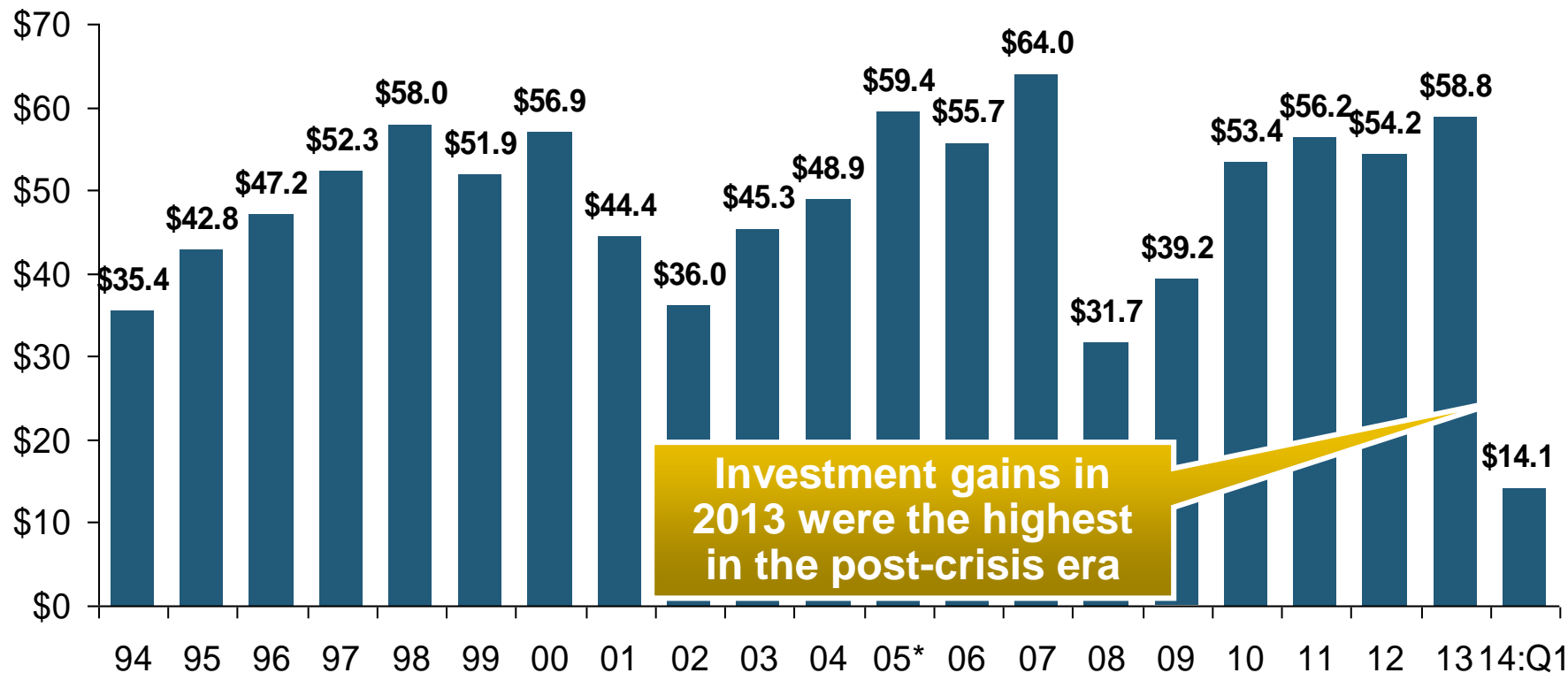
Bonds Rated NAIC Quality Category 3-6 as a Percent of Total Bonds, 2003–2013



There are many ways to capture higher yields on bond portfolios. One is to accept greater risk, as measured by NAIC bond ratings. The ratings range from 1 to 6, with the highest quality rated 1. Even in 2012-13, over 95% of the industry's bonds were rated 1 or 2.

Property/Casualty Insurance Industry Investment Gain: 1994–2014:Q1¹

\$ Billions



Low interest rates in 2013 caused investment income to keep falling but realized investment gains were up sharply.
The financial crisis caused investment gains to fall by 50% in 2008.

¹ Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.

* 2005 figure includes special one-time dividend of \$3.2B;

Sources: ISO; Insurance Information Institute.

Insurance Information Institute Online:

www.iii.org

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