



# **2015, 2016 and beyond: *Financial Results From An Actuarial Point of View***

**Casualty Actuaries of Greater New York**

**May 23, 2016**

**Download at [www.iii.org/presentations](http://www.iii.org/presentations)**

James Lynch, Vice President and Chief Actuary

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

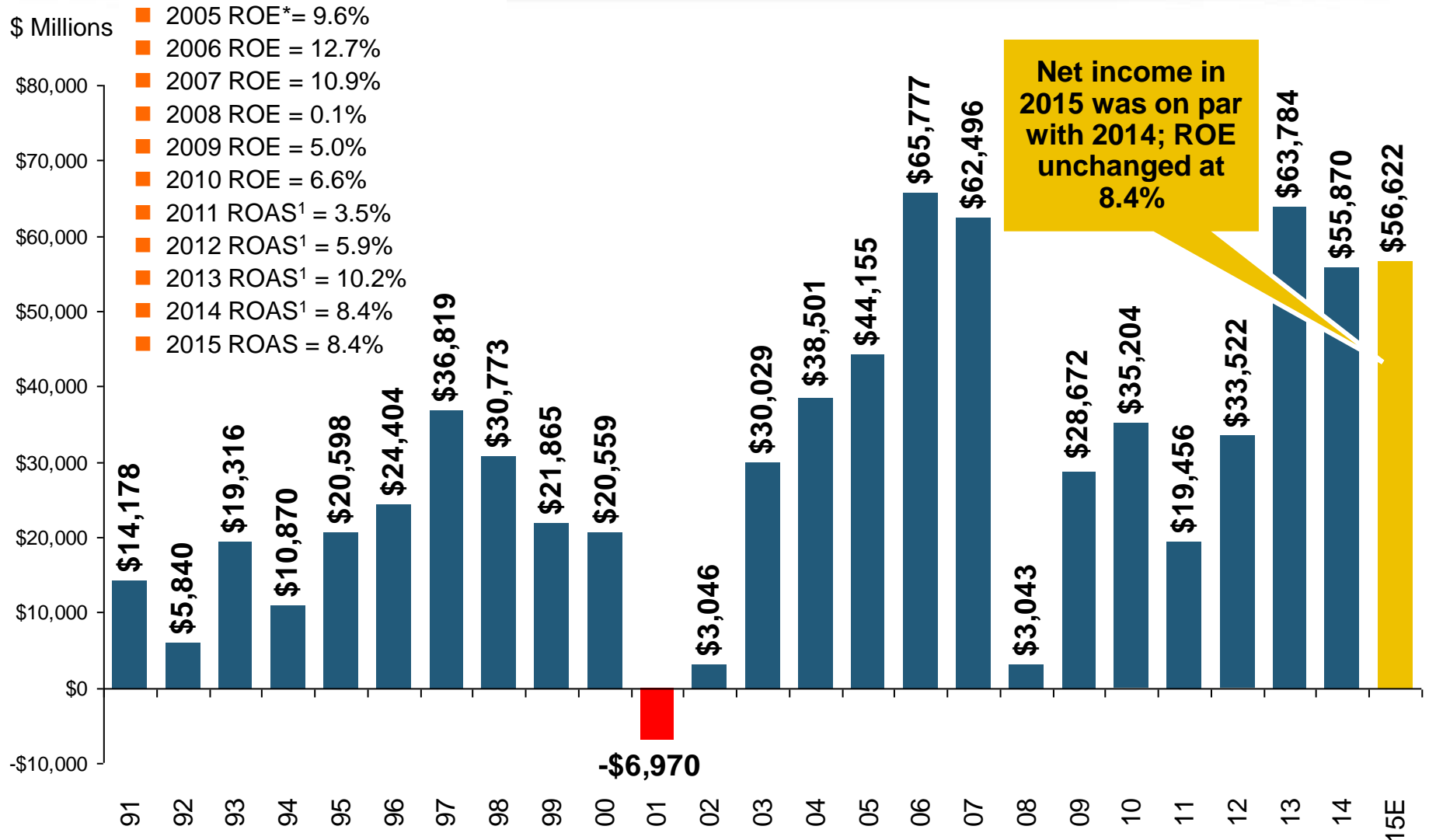
Tel: 212.346.5533 ♦ Cell: 917.359.3908 ♦ jamesl@iii.org ♦ www.iii.org



# 2015 Industry Results

**Almost a Carbon Copy of 2014**

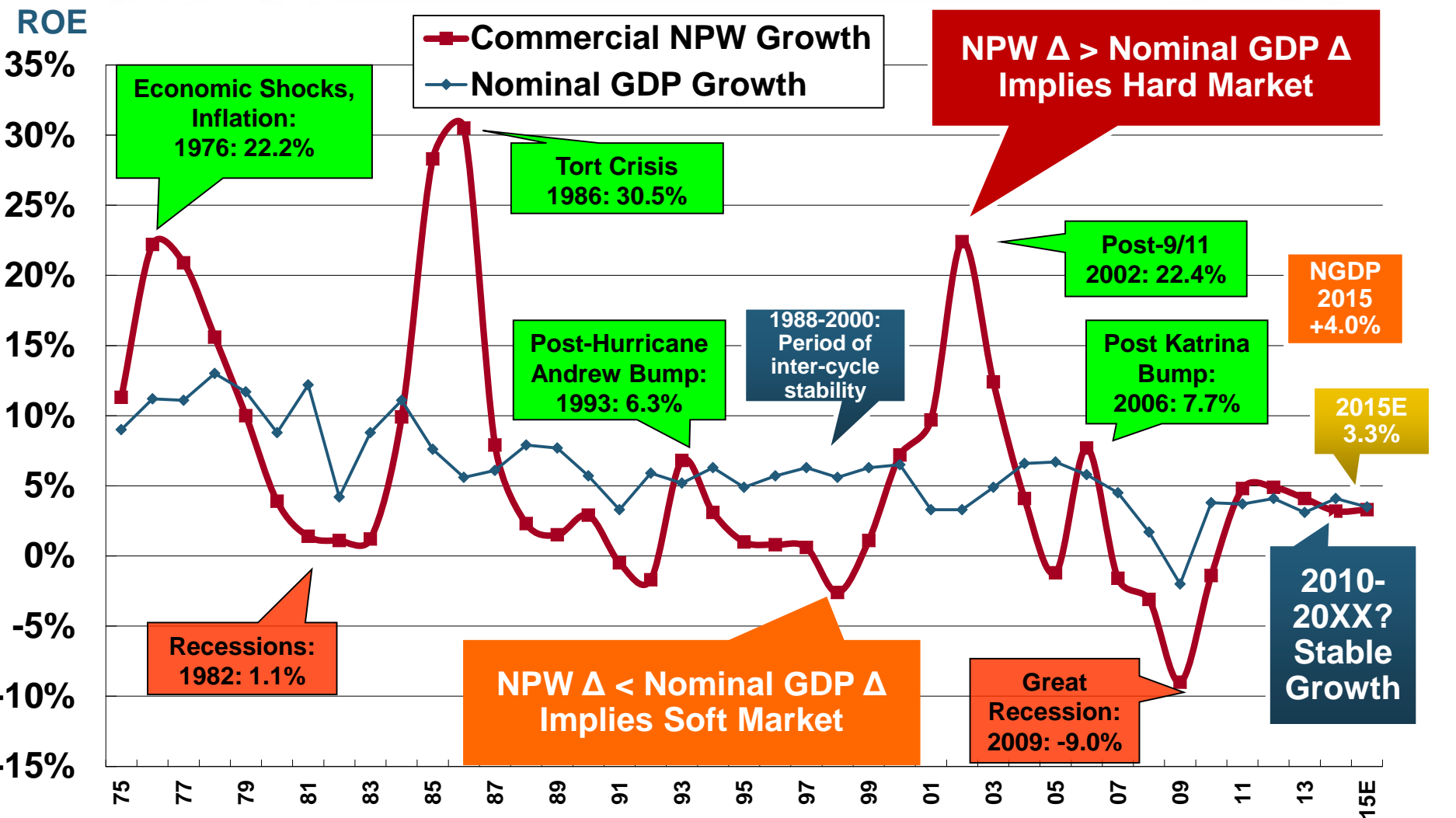
# P/C Industry Net Income After Taxes 1991–2015



\*ROE figures are GAAP; <sup>1</sup>Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 8.2% ROAS in 2014, 9.8% ROAS in 2013, 6.2% ROAS in 2012, 4.7% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009; 2015E is annualized figure based actual figure through Q3 of \$44.0

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

# Commercial Lines NPW Premium Growth: 1975-2015E



Note: Data include state funds beginning in 1998.  
Source: A.M. Best; Insurance Information Institute.

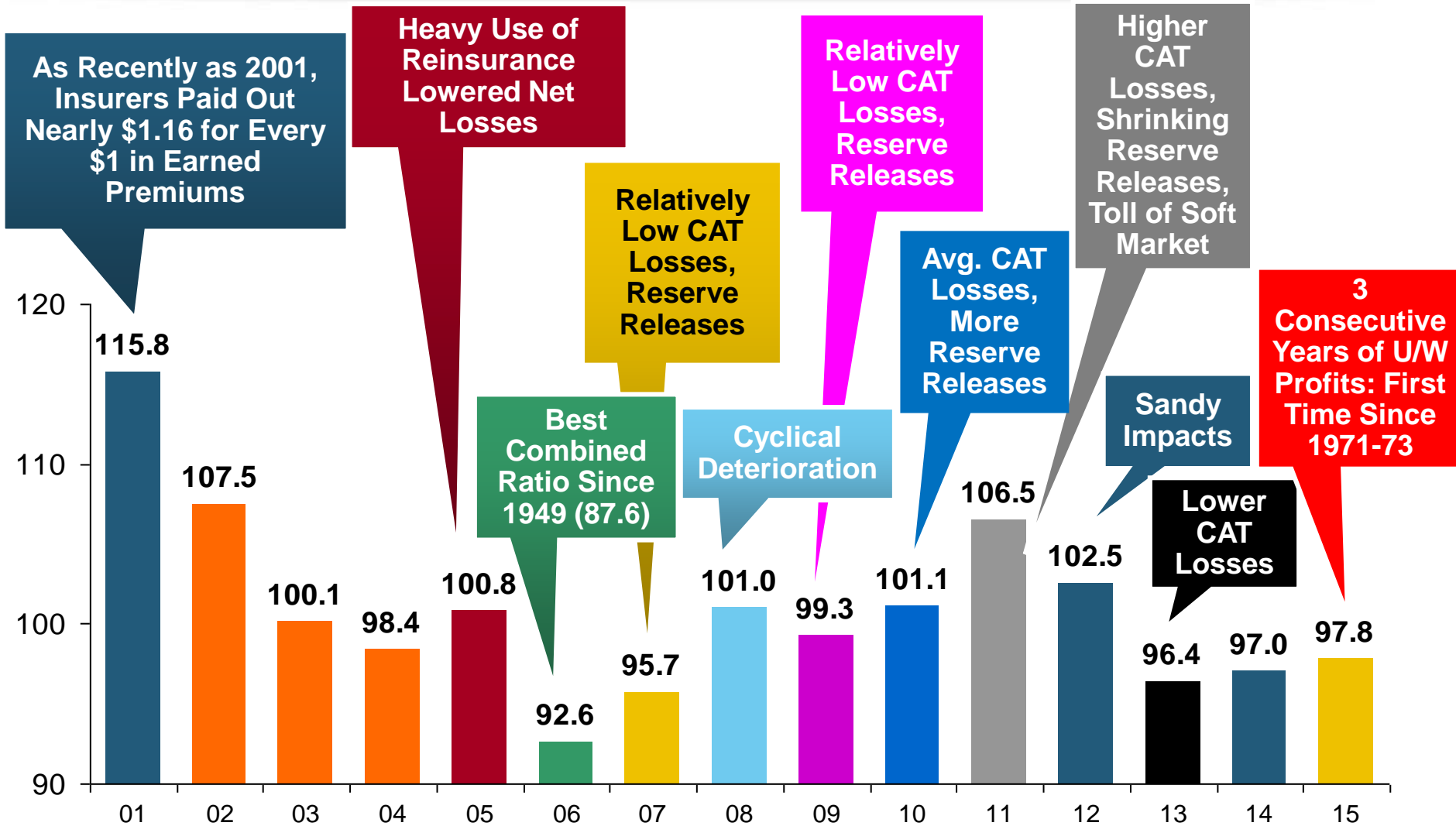
# P/C Direct Written Premium by Line

(Billions of Dollars)

LOB	2014	2015	% Chg From Year Earlier
Personal Auto	190.6	199.9	4.9%
Homeowners	90.7	93.3	2.9%
GL (incl Products)	62.6	65.7	5.0%
WC	55.4	57.6	4.0%
Fire & Allied Lines	43.5	42.2	-2.9%
CMP	39.2	39.7	1.2%
Comm Auto	29.3	31.3	7.1%
Other	59.6	61.9	3.9%
<b>Total</b>	<b>570.8</b>	<b>591.8</b>	<b>3.7%</b>

Sources: NAIC Data, sourced from S&P Global Market Intelligence, Insurance Information Institute.

# P/C Insurance Industry Combined Ratio, 2001–2015\*



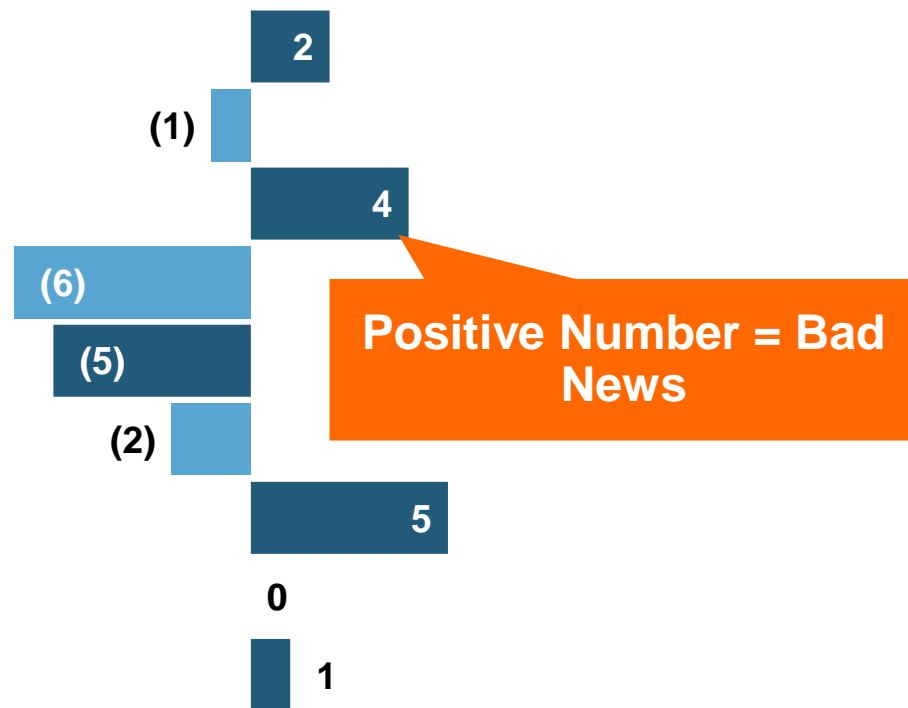
\* Excludes Mortgage & Financial Guaranty insurers 2008--2014. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.1; 2012:=103.2; 2013: = 96.1; 2014: = 97.0.

Sources: A.M. Best, ISO (2014-2015); Figure for 2010-2013 is from A.M. Best P&C Review and Preview, Feb. 16, 2016.

# P/C Net Combined Ratio by LOB

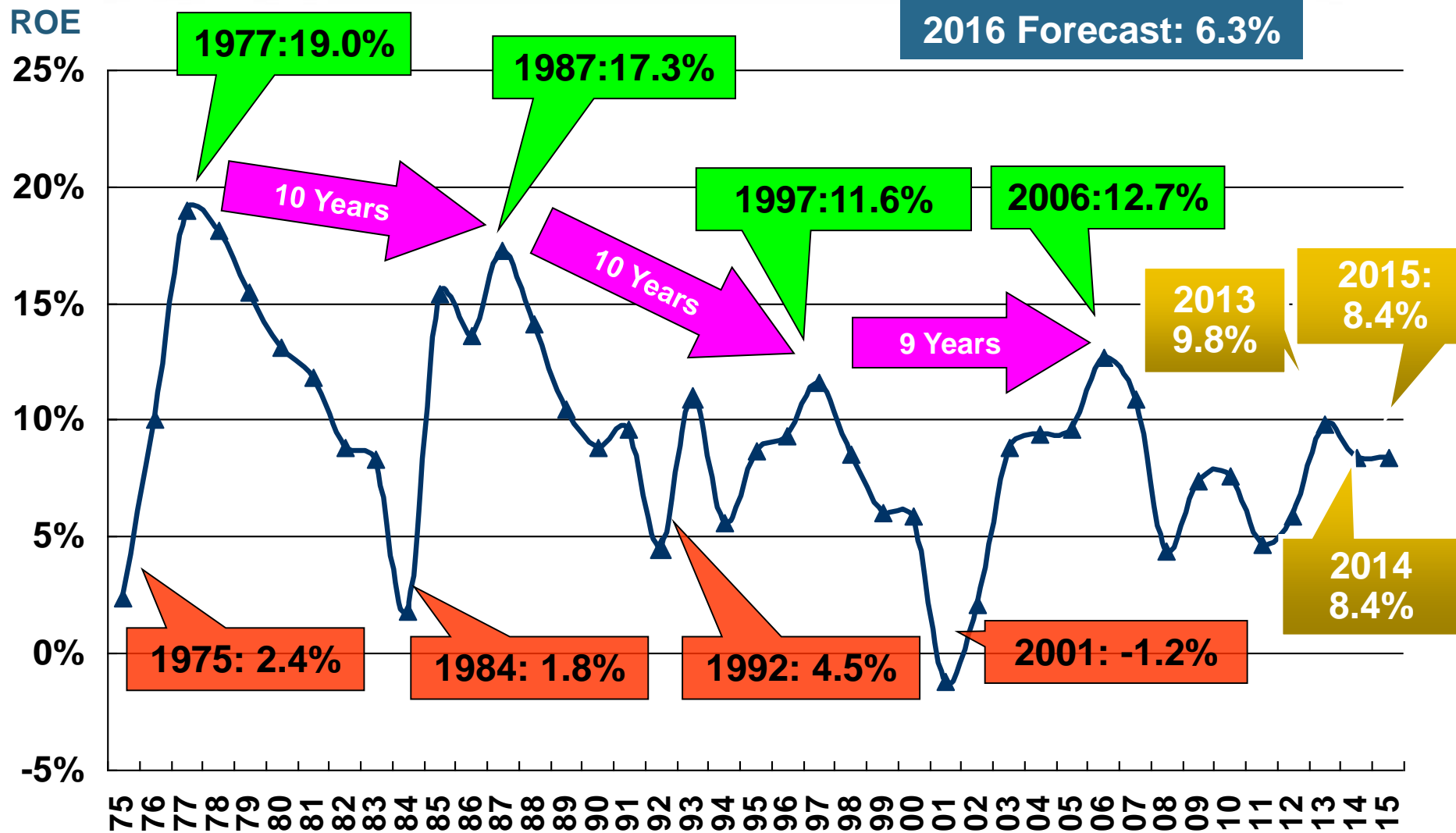
LOB	2014	2015
Personal Auto	103	105
Homeowners	93	92
GL (incl Products)	99	103
WC	100	94
CMP	100	95
Fire & Allied Lines	88	86
Comm Auto	104	109
Other	84	84
<b>Total</b>	<b>97</b>	<b>98</b>

## Change From Year Earlier



Source: National Council on Compensation Insurance.

# Profitability Peaks & Troughs in the P/C Insurance Industry, 1975-2015

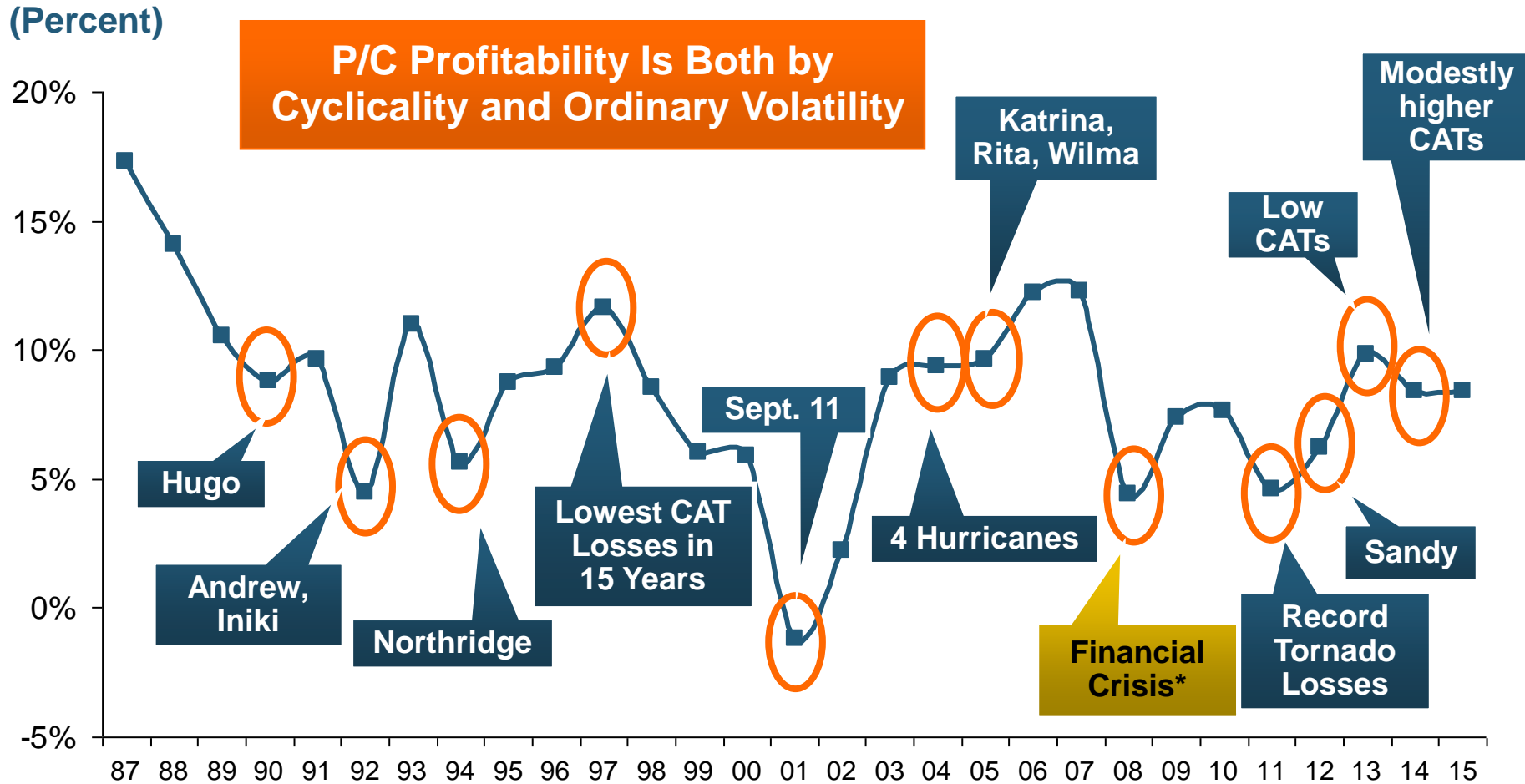


\*Profitability = P/C insurer ROEs. 2011-15 figures are estimates based on ROAS data. Note: Data for 2008-2014 exclude mortgage and financial guaranty insurers.

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



# ROE: Property/Casualty Insurance by Major Event, 1987–2015

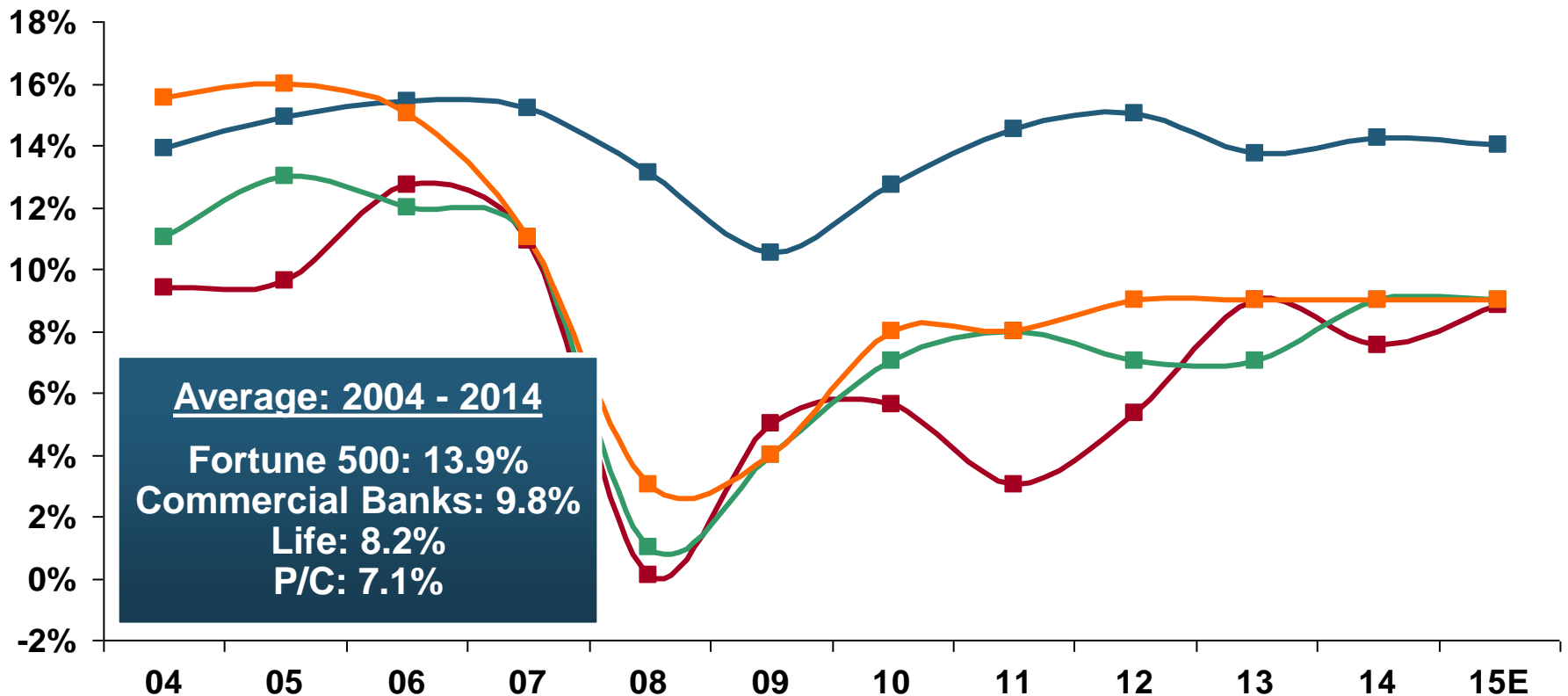


\* Excludes Mortgage & Financial Guarantee in 2008 – 2014.  
Sources: ISO, *Fortune*; Insurance Information Institute.

# Return on Equity by Financial Services Sector vs. Fortune 500, 2004-2015\*

(Percent)

■ Fortune 500 ■ P/C Insurers ■ Life Insurers ■ Commercial Banks

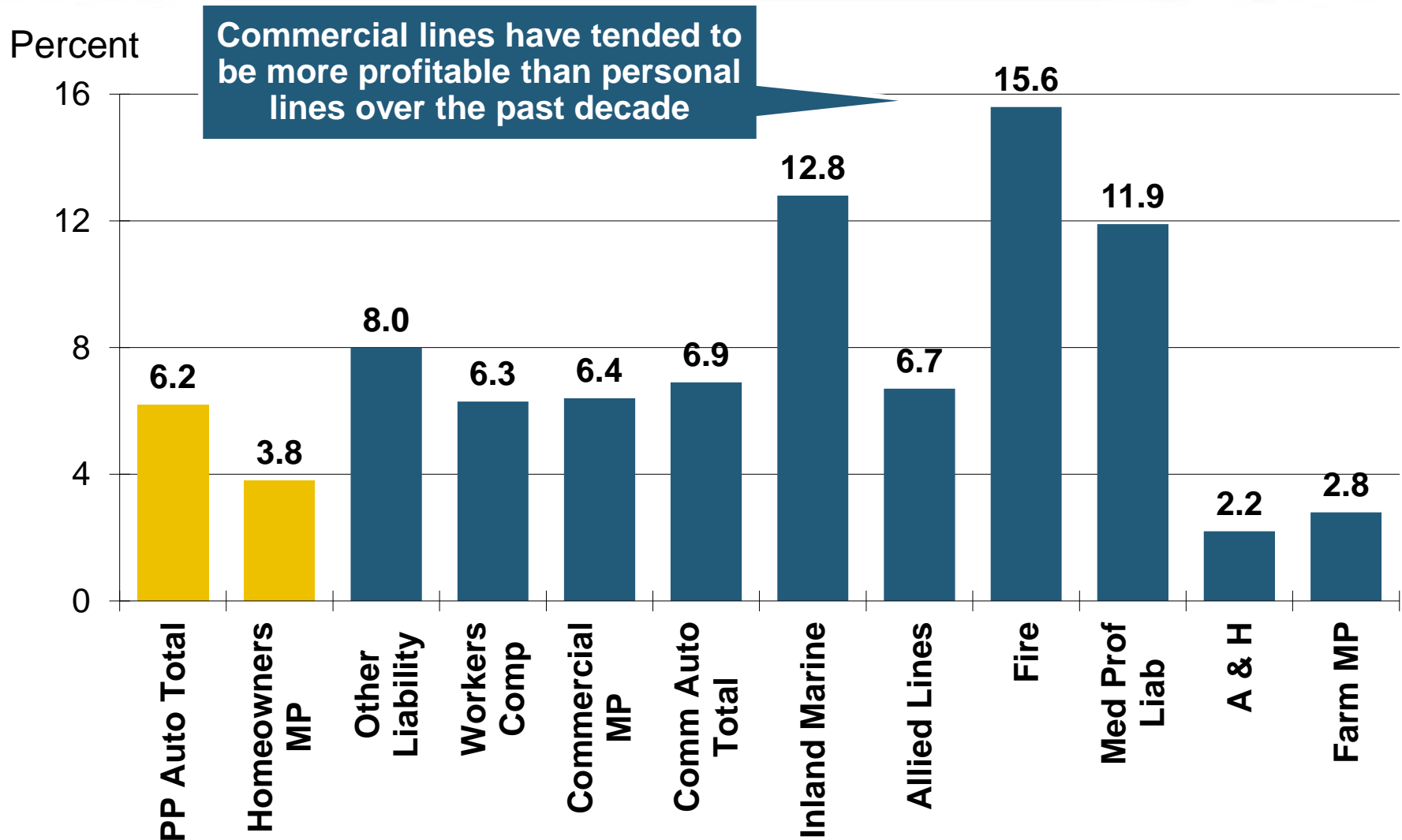


**Banks and Insurers Have Substantially Underperformed the Fortune 500 Since the Financial Crisis**

\*GAAP basis.  
Sources: ISO, Fortune; Insurance Information Institute.

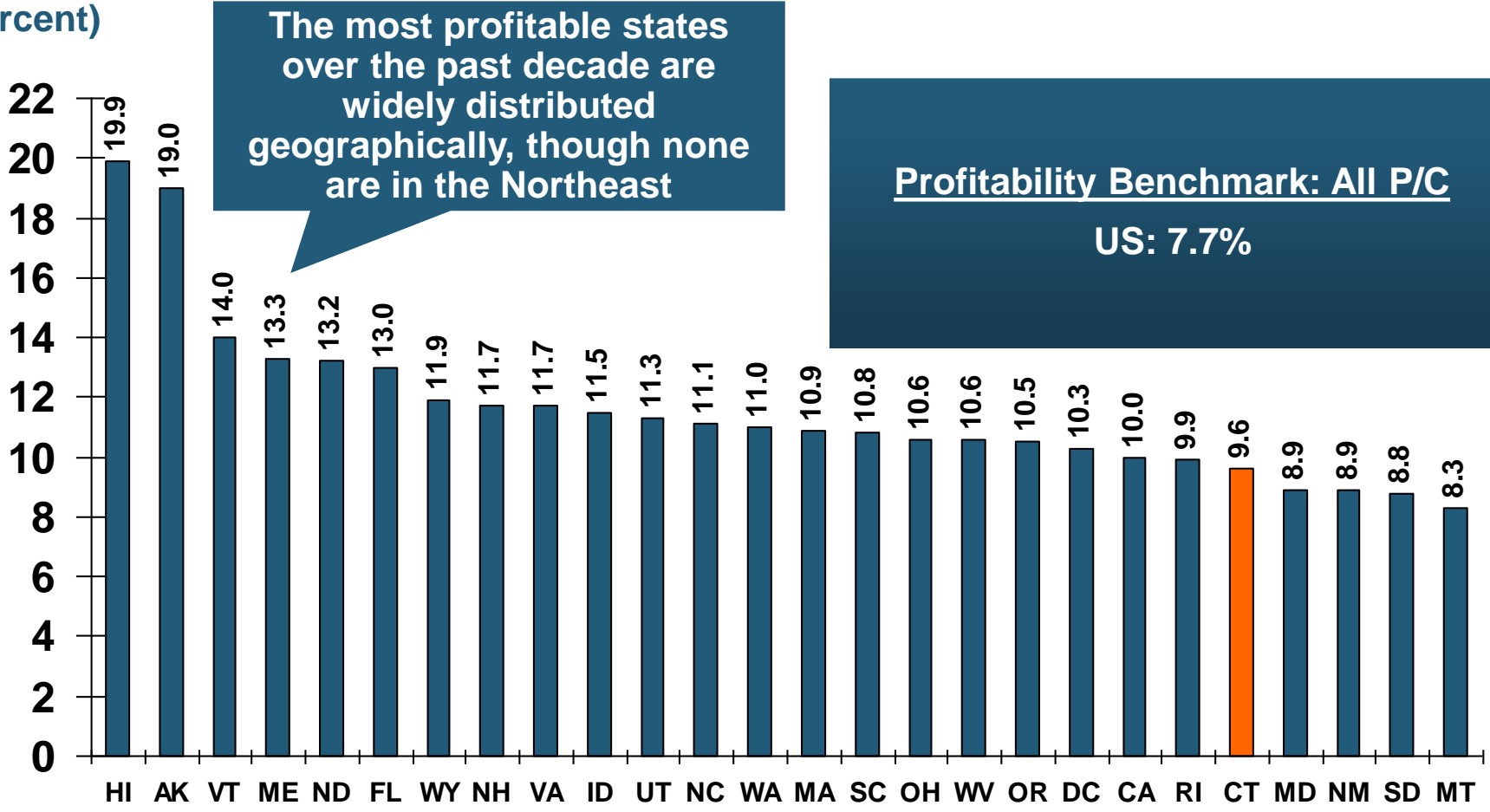
# Return on Net Worth (RNW)

## Largest Lines: 2005-2014 Average



# RNW All Lines, 2005-2014 Average: Highest 25 States

(Percent)



The most profitable states over the past decade are widely distributed geographically, though none are in the Northeast

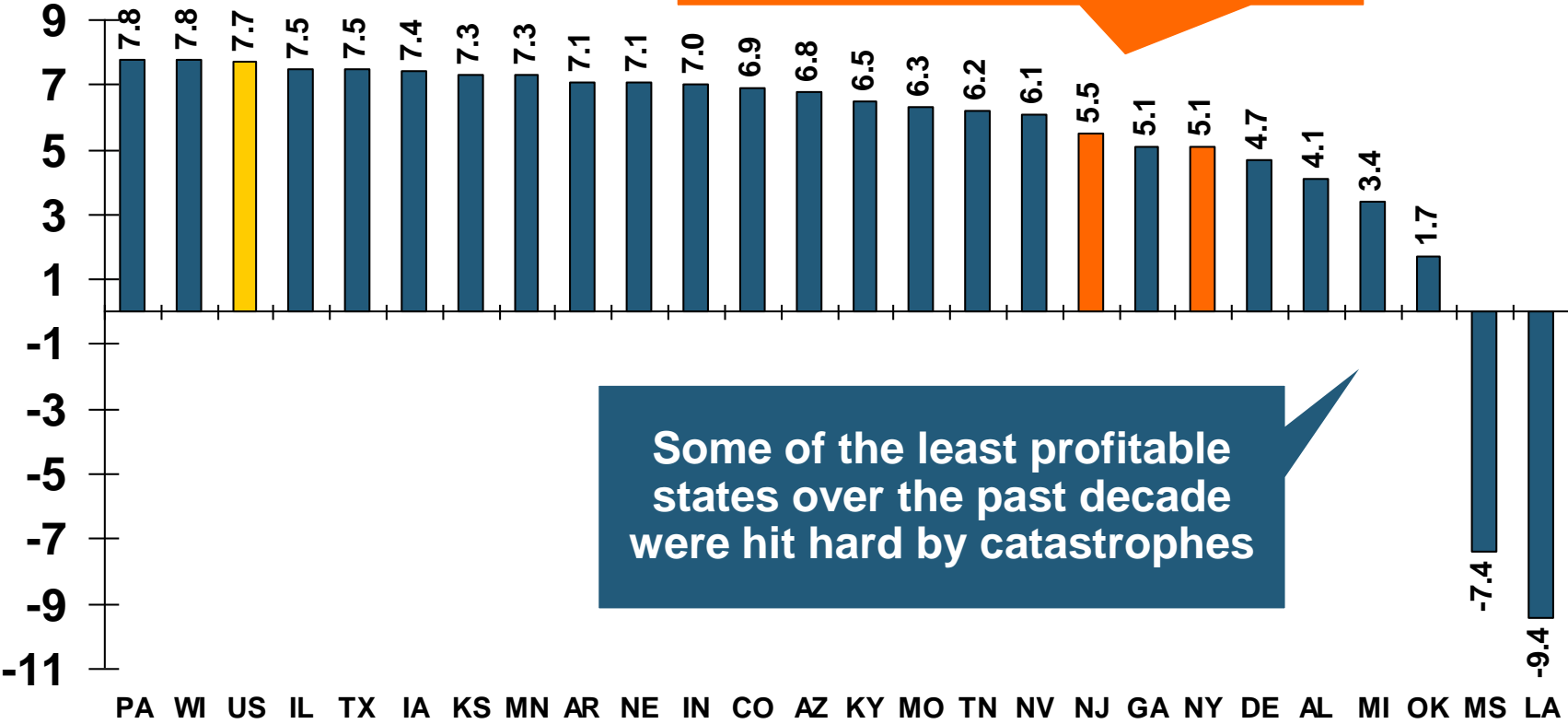
Profitability Benchmark: All P/C  
US: 7.7%

Source: NAIC; Insurance Information Institute.

# RNW All Lines, 2005-2014 Average: Lowest 25 States

**NY, NJ Hit Hard by both Hurricane Irene (2011) and superstorm Sandy (2012)**

(Percent)



**Some of the least profitable states over the past decade were hit hard by catastrophes**

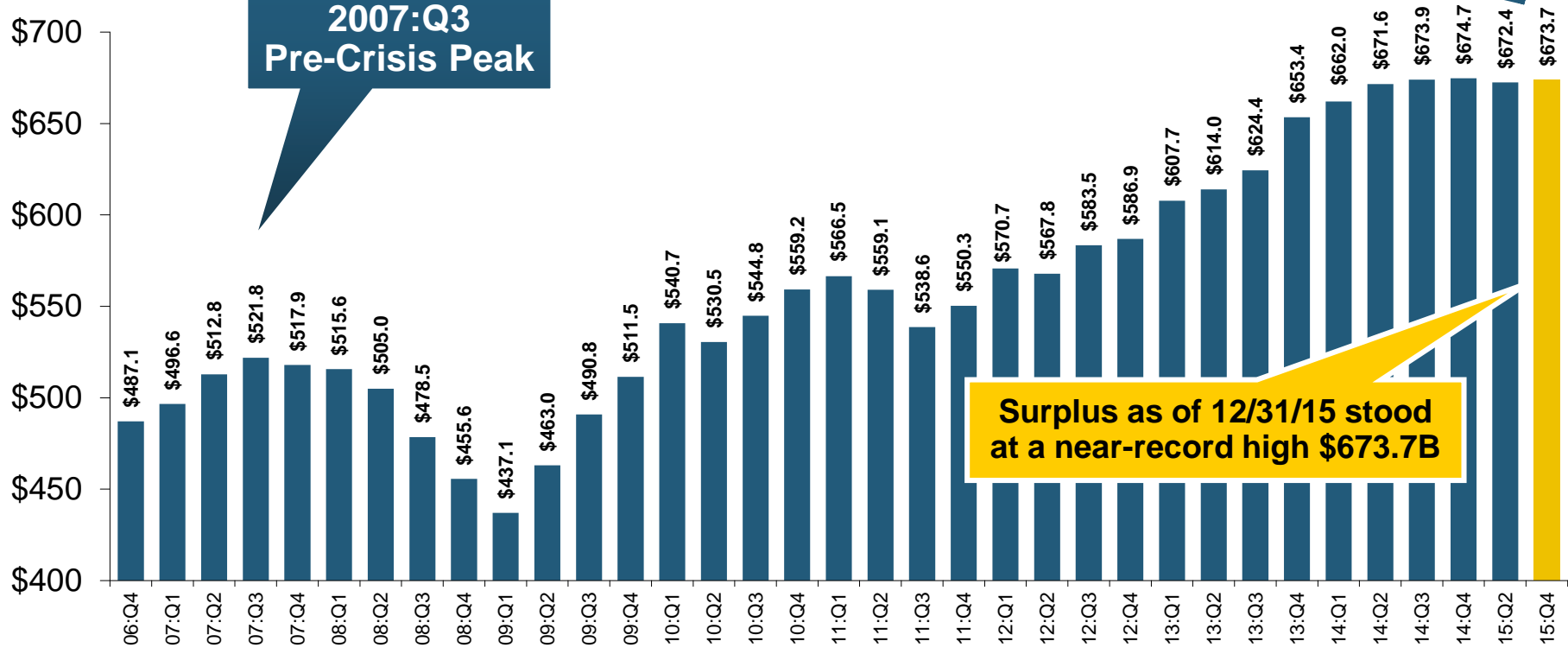
Source: NAIC; Insurance Information Institute.

# Policyholder Surplus, 2006:Q4–2015:Q4E

Higher Dividends, Drop in Unrealized Cap Gains Kept Surplus Flat



(\$ Billions)



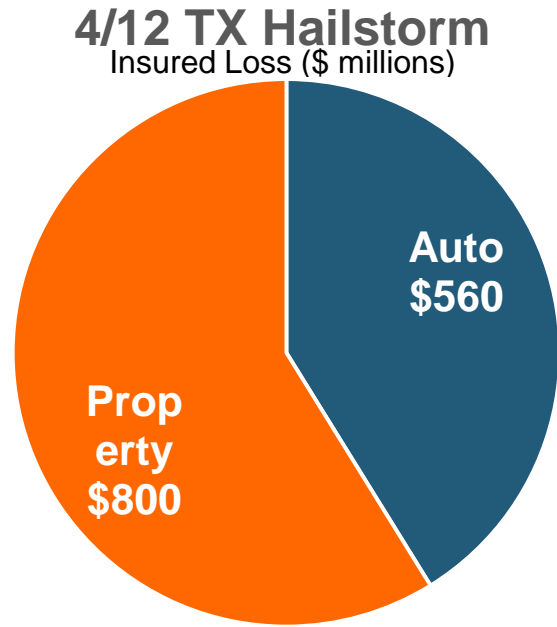
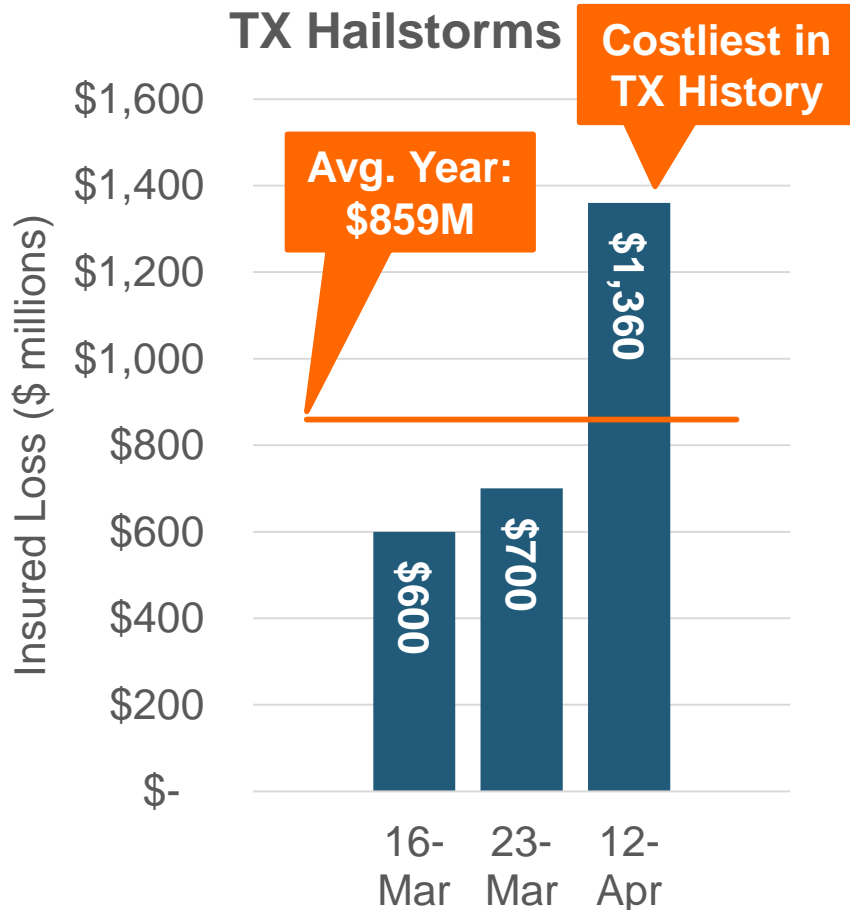
2007:Q3  
Pre-Crisis Peak

Surplus as of 12/31/15 stood at a near-record high \$673.7B

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

The P/C Industry Entered 2016 in Strong Financial Condition, But Low Leverage Inhibits Investment Returns.

# 2016: So Far, A Lot of Mini-Cats in USA



- ### Events Elsewhere in USA:
- Jan NE Winter Storm
  - Feb (CA, SE) Winter Weather
  - March (CA, SE) CV Storm
    - Incl. Florida tornadoes
  - Total Insured Loss > \$1 B

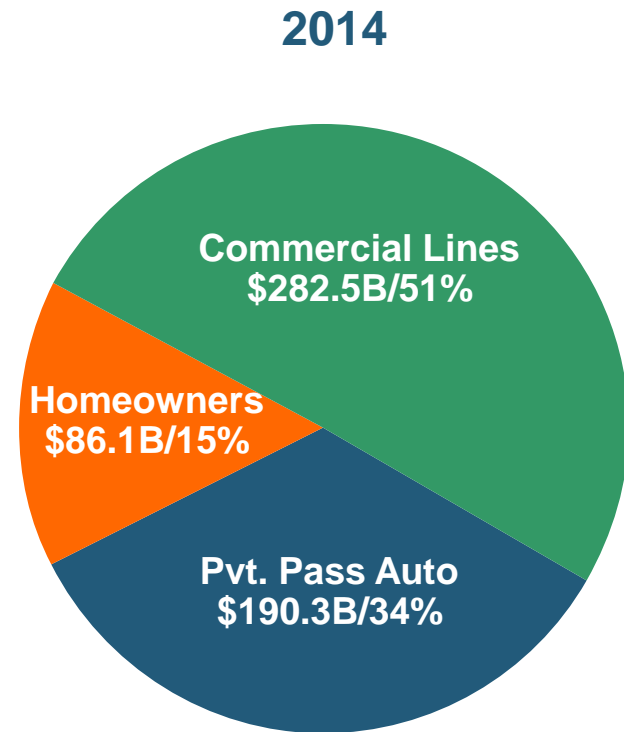
Source: Aon Benfield, Insurance Council of Texas, A.M. Best, Insurance Information Institute.

Q2 Event

# Distribution of Direct Premiums Written by Segment/Line, 2014

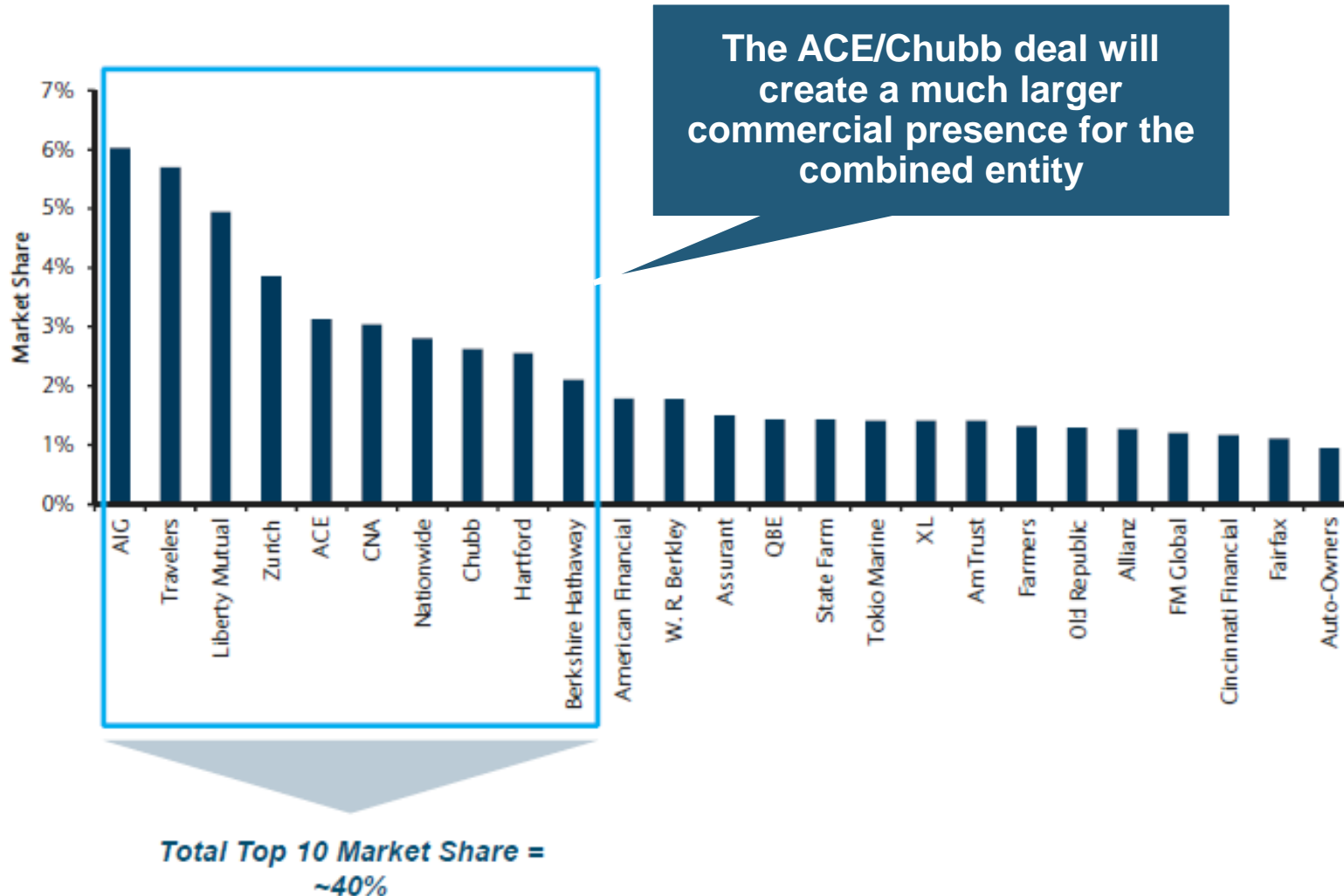
## Distribution Facts

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



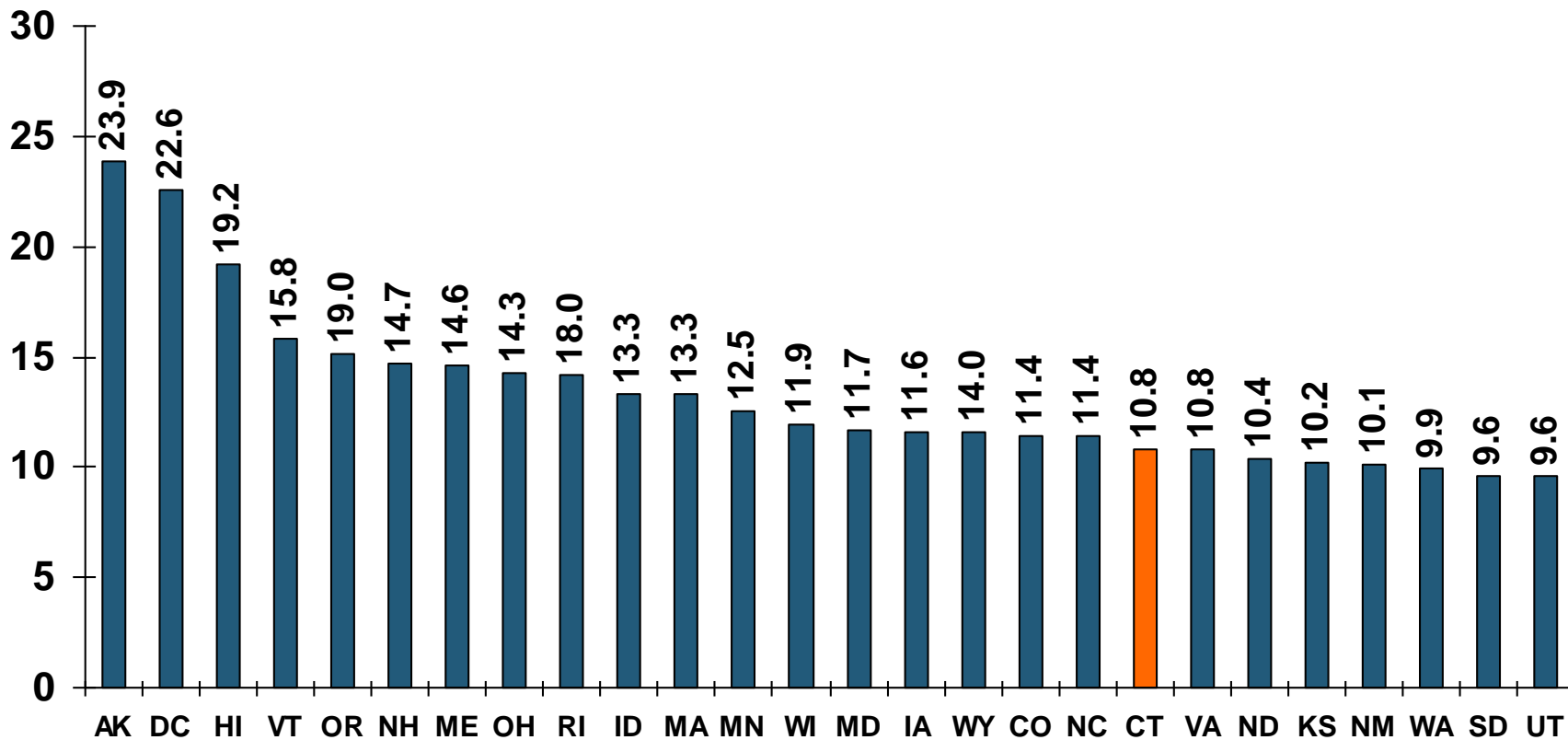


# Top 25 US P/C Insurers by Direct Premiums Written, 2014



# RNW Commercial Auto, 2005-2014 Average: Highest 25 States

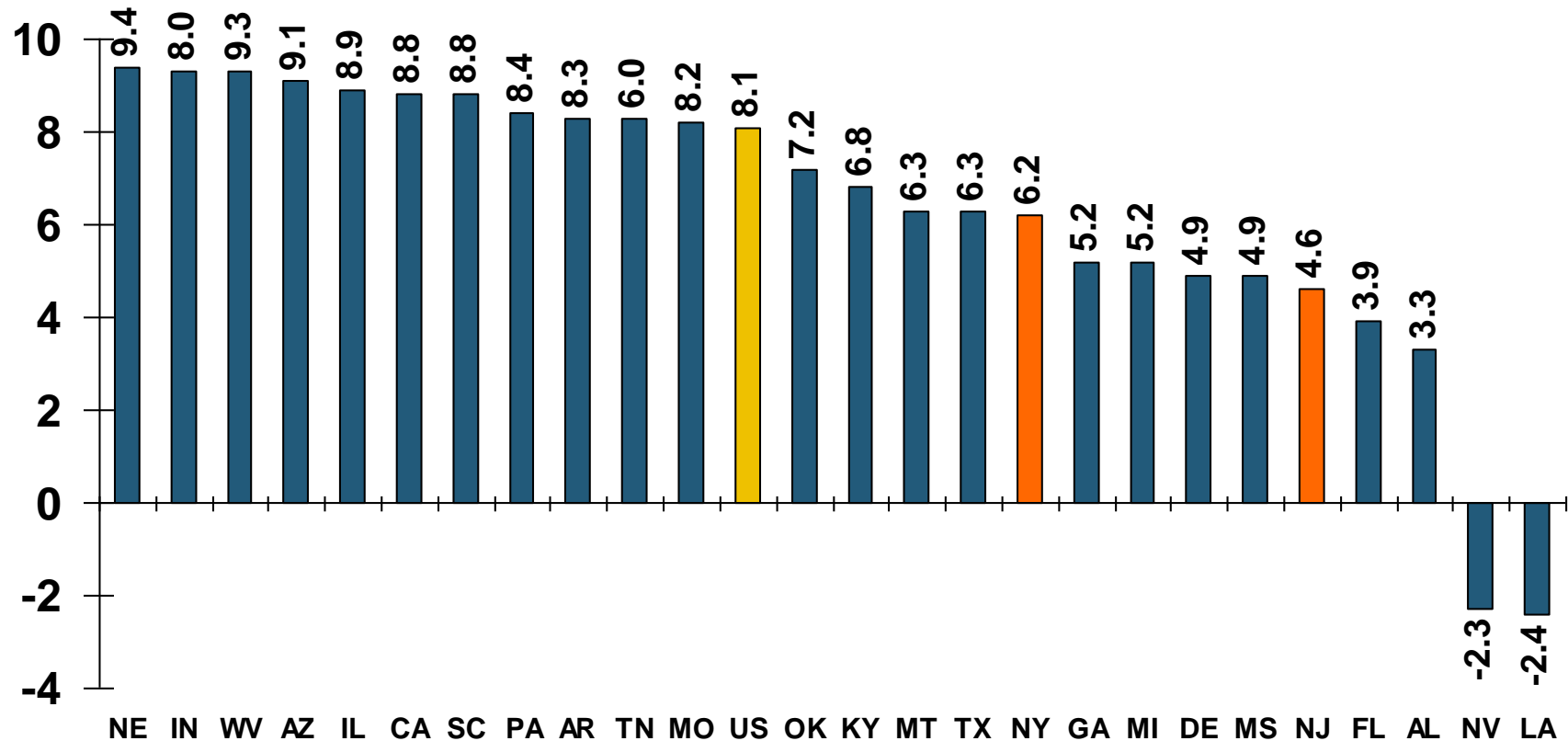
(Percent)



Sources: NAIC; Insurance Information Institute

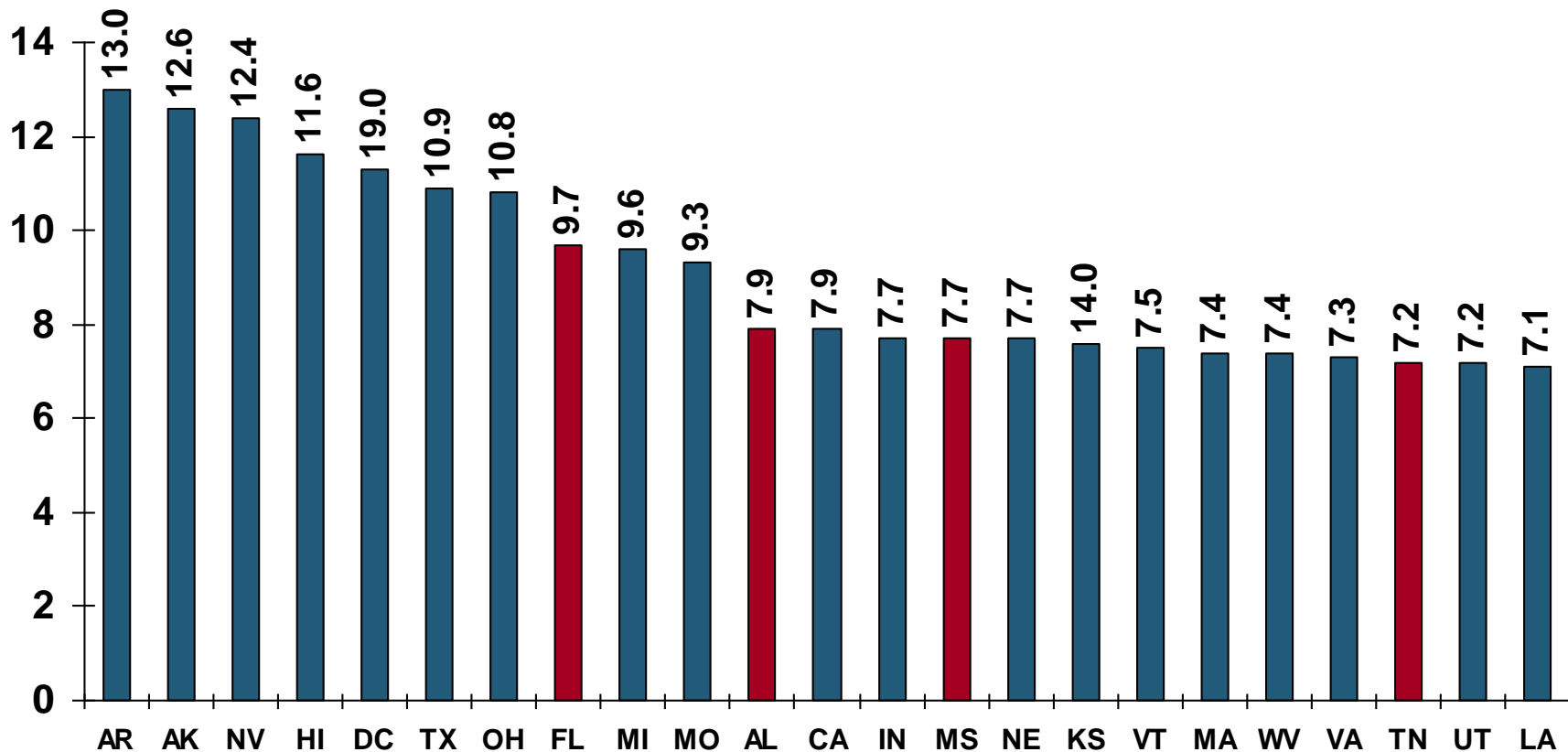
# RNW Commercial Auto, 2005-2014 Average: Lowest 25 States

(Percent)



# RNW Workers Compensation, 2005-2014 Average: Highest 25 States

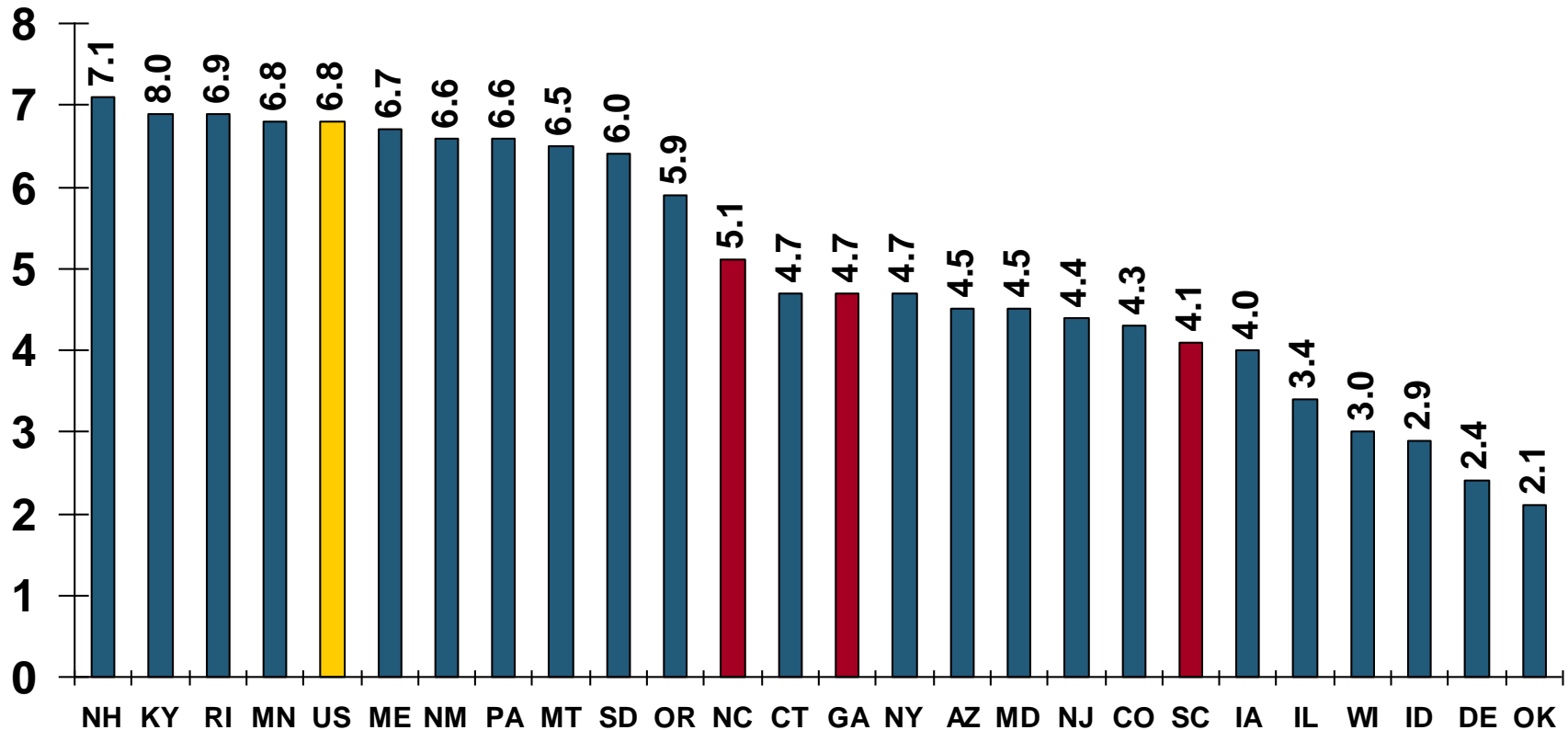
(Percent)



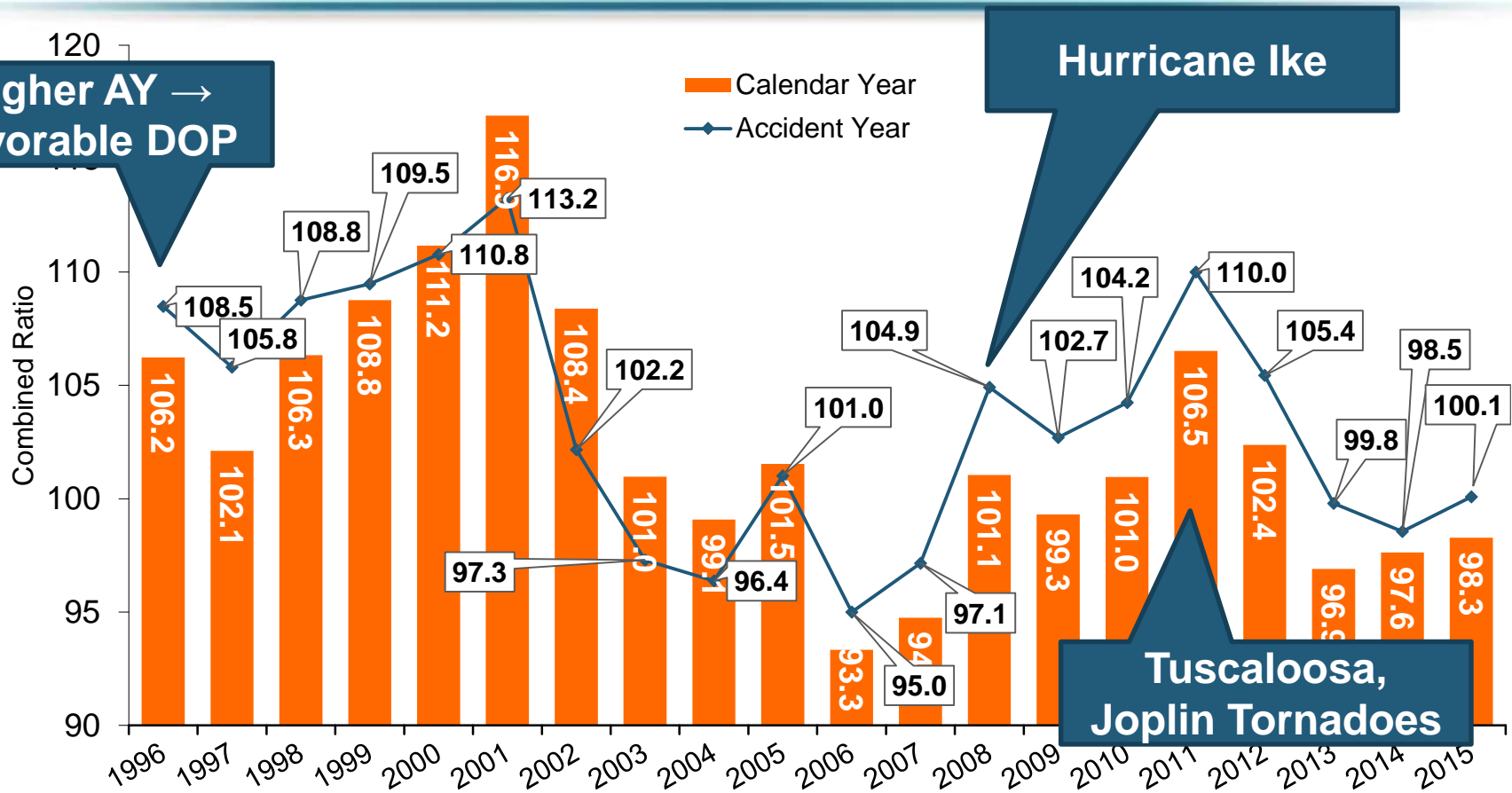
Sources: NAIC; Insurance Information Institute

# RNW Workers Compensation, 2005-2014 Average: Lowest 25 States

(Percent)



# AY vs. CY Combined Ratio, (Excl. Guaranty Lines) 1996-2015

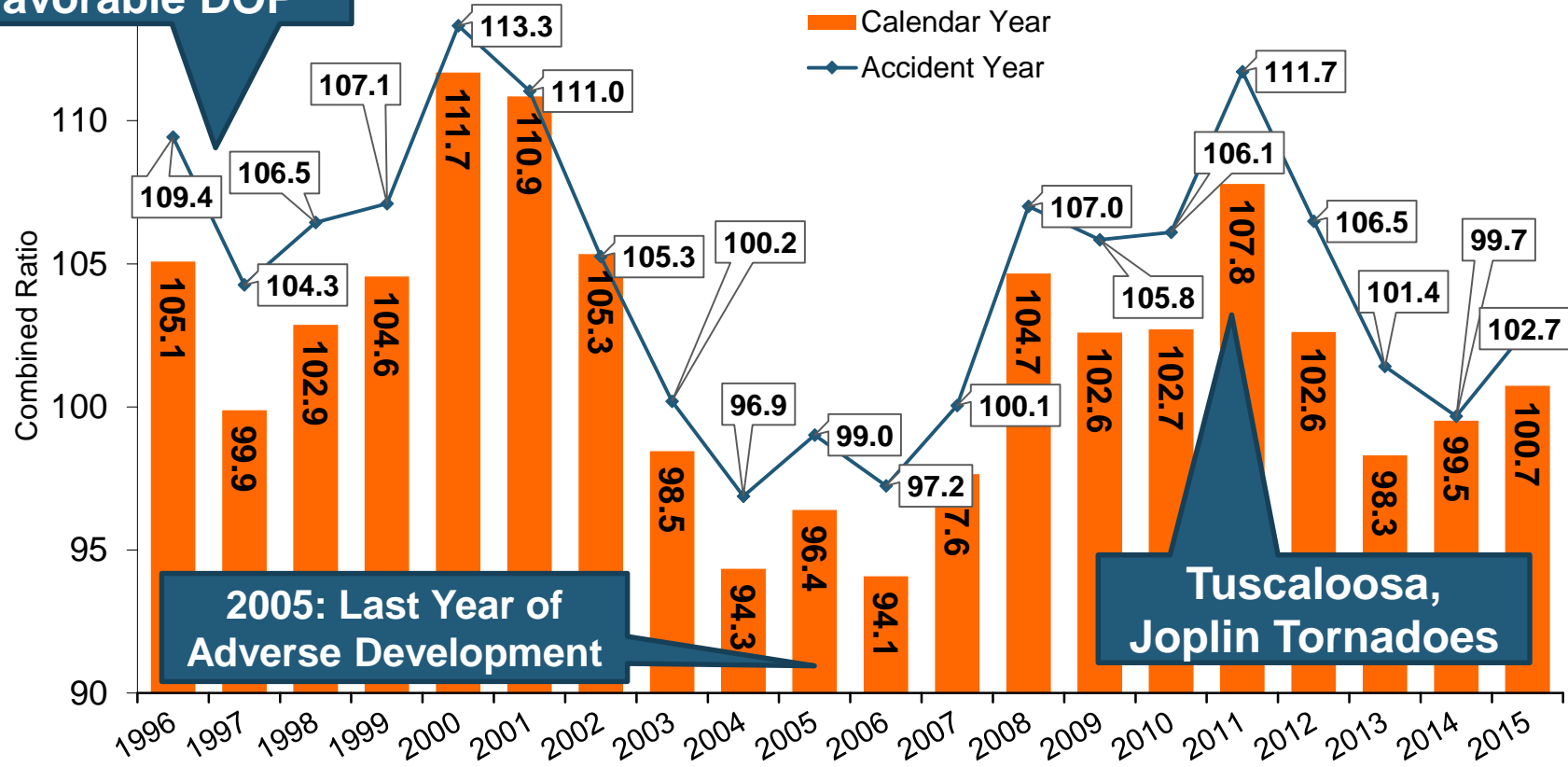


2015 Figures Preliminary. Sources: NAIC data from S&P Global Intelligence, Insurance Information Institute.

**Three Consecutive Years of Deteriorating Combined Ratios, Despite Light Cat Losses. AY2015 Above 100.**

# Personal Lines Combined Ratio, 1996-2015

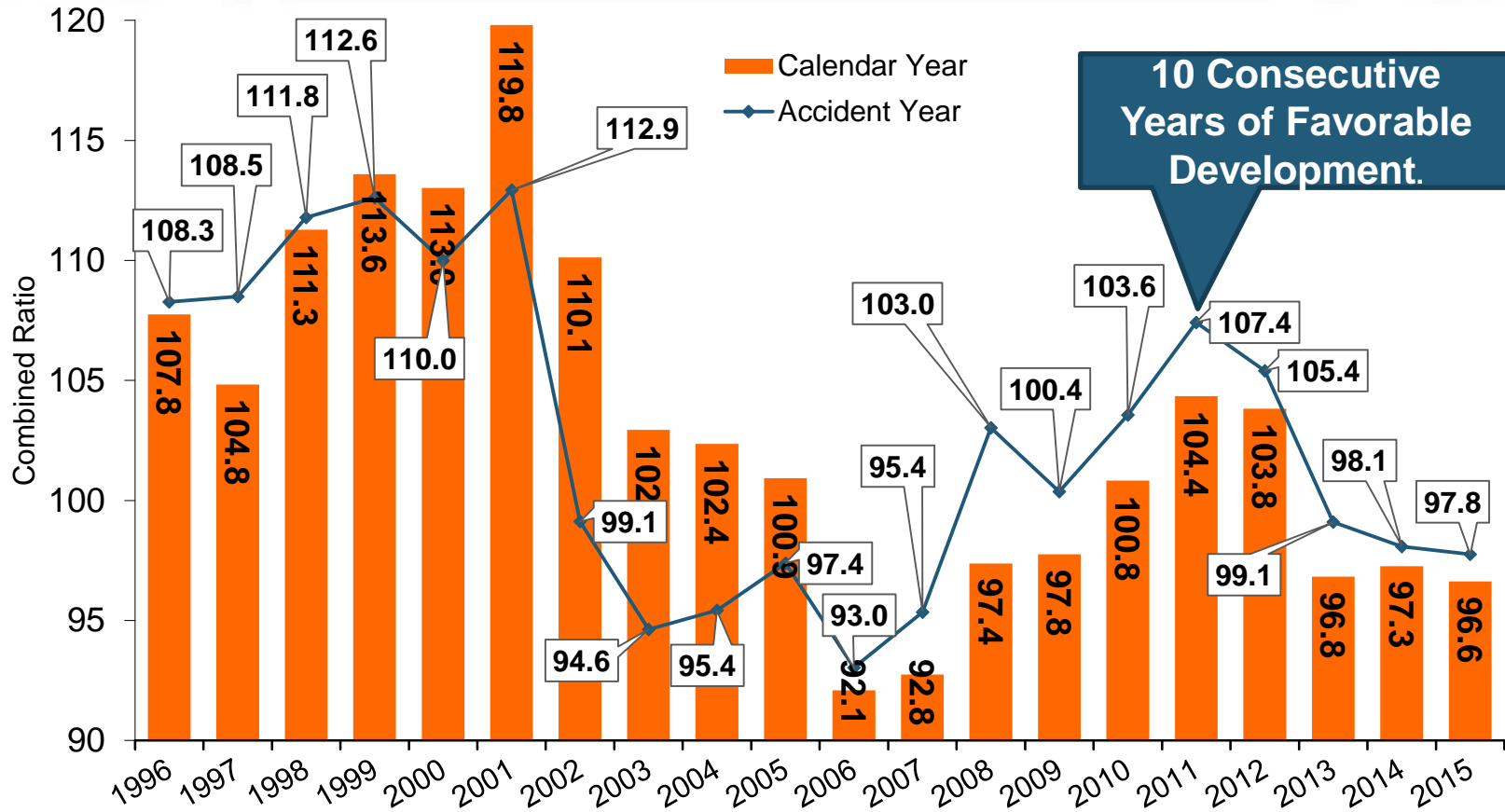
Higher AY → Favorable DOP



2015 Figures Preliminary. Sources: NAIC data from S&P Global Intelligence, Insurance Information Institute.

**Lack of Catastrophes Let Personal Lines Writers Post Underwriting Profit Two Years In a Row. CY15>100, Despite Lack of Cats.**

# Commercial Lines Combined Ratio, 1996-2015



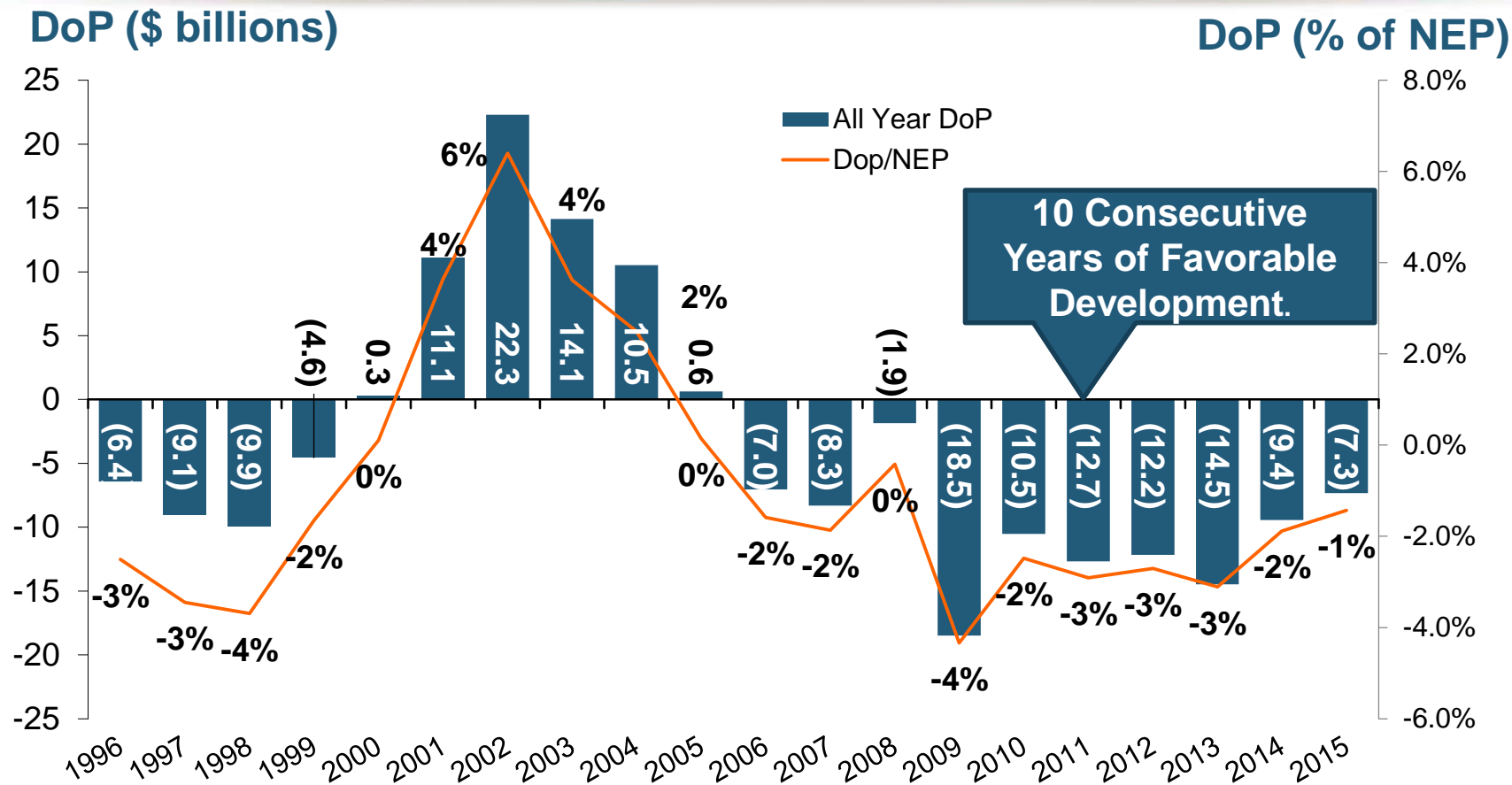
**10 Consecutive Years of Favorable Development.**

**Low Cat Losses Contribute to Favorable Combined Ratios.**

2015 Figures Preliminary. Sources: NAIC data from S&P Global Intelligence, Insurance Information Institute.



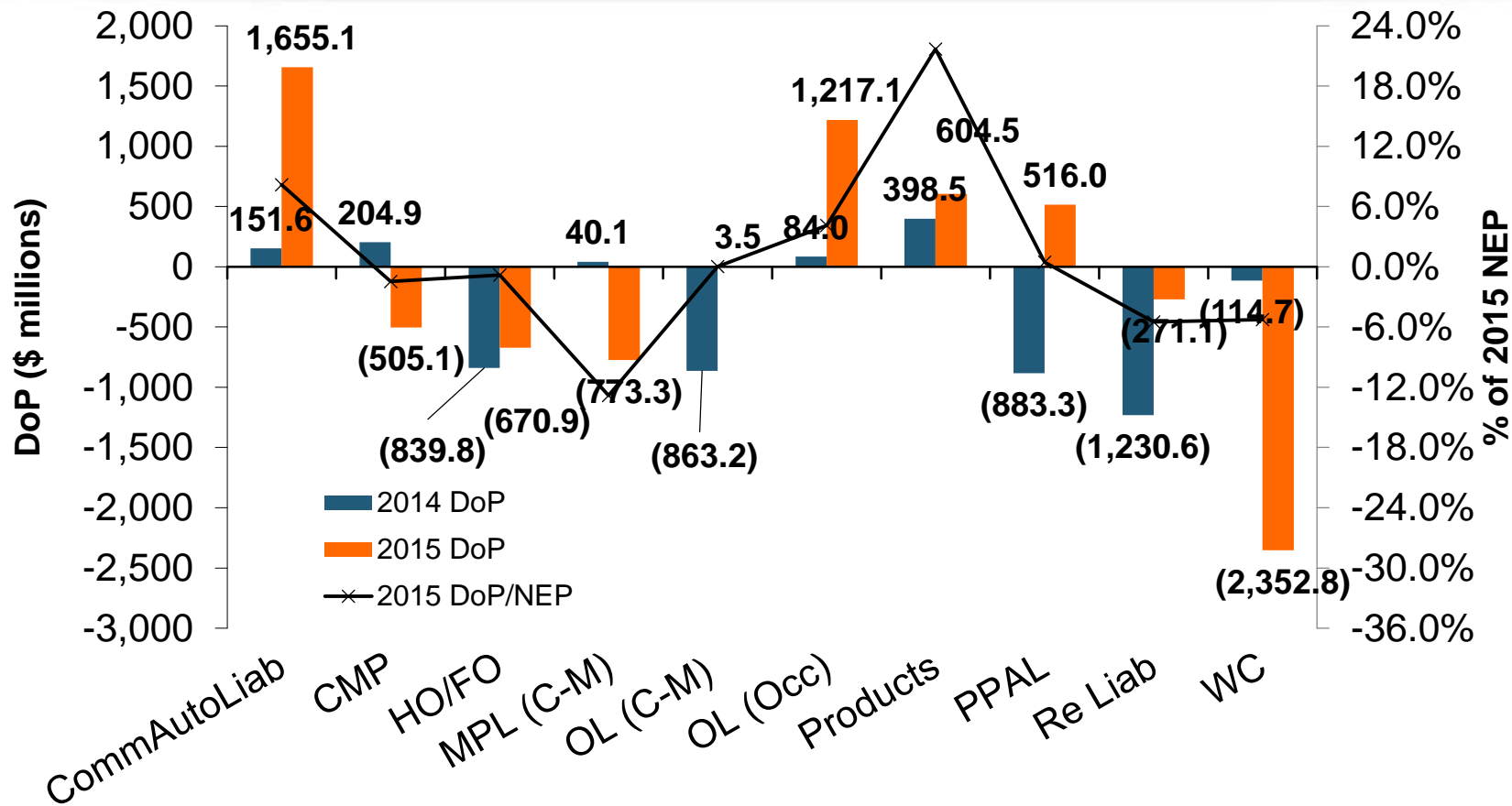
# Development on Prior, 1996-2015



**Reserve Releases Keep Getting Smaller. 2015 Affected by a Single Company's \$3B Reserve Hit.**

2015 Figures Preliminary. Sources: NAIC data from S&P Global Intelligence, Insurance Information Institute.

# CY Development on Prior by LOB



**Several Liability Lines (Auto, GL, Products) Had Reserve Spikes. WC Was an Exception.**

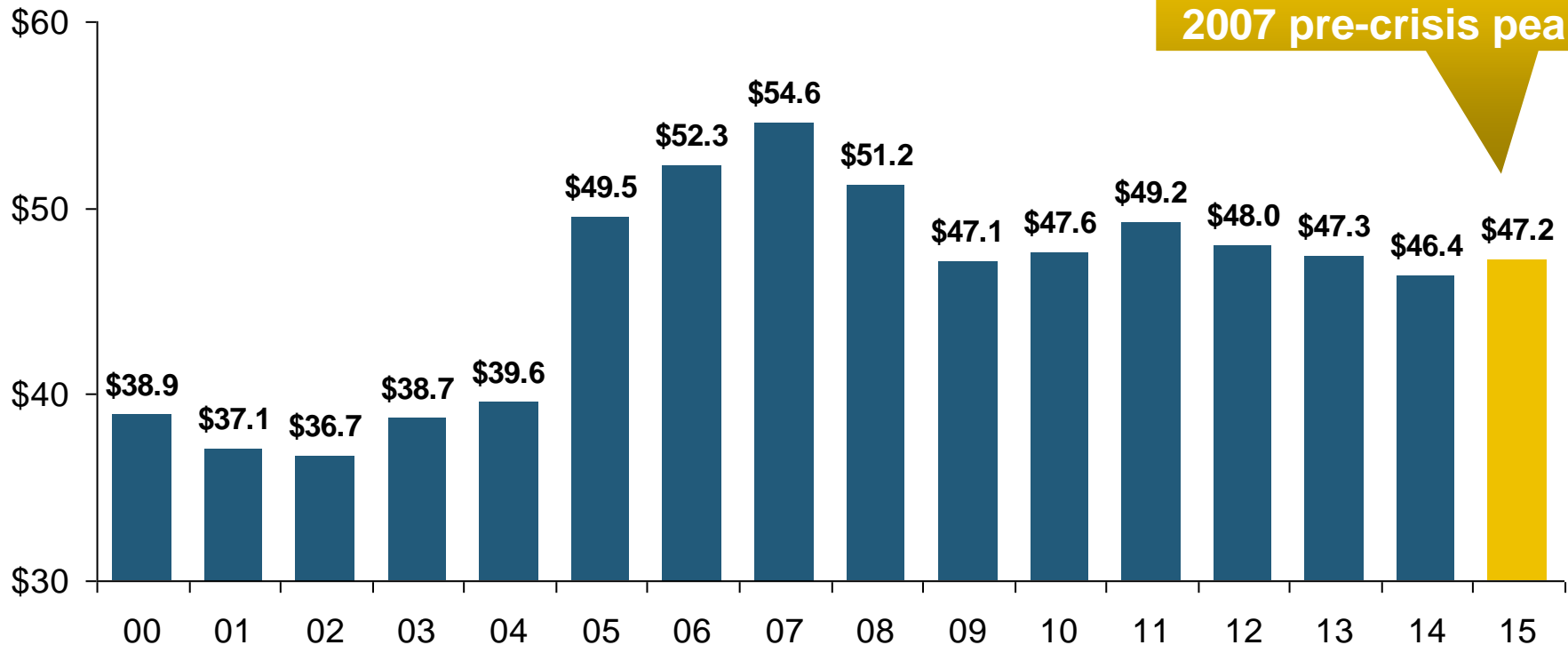
2015 Figures Preliminary. Sources: NAIC data from S&P Global Intelligence, Insurance Information Institute.

# Interest Rates and Investments

**Investment Performance  
Is a Key Driver of Profitability**

# Property/Casualty Insurance Industry Investment Income: 2000–2015<sup>1</sup>

(\$ Billions)

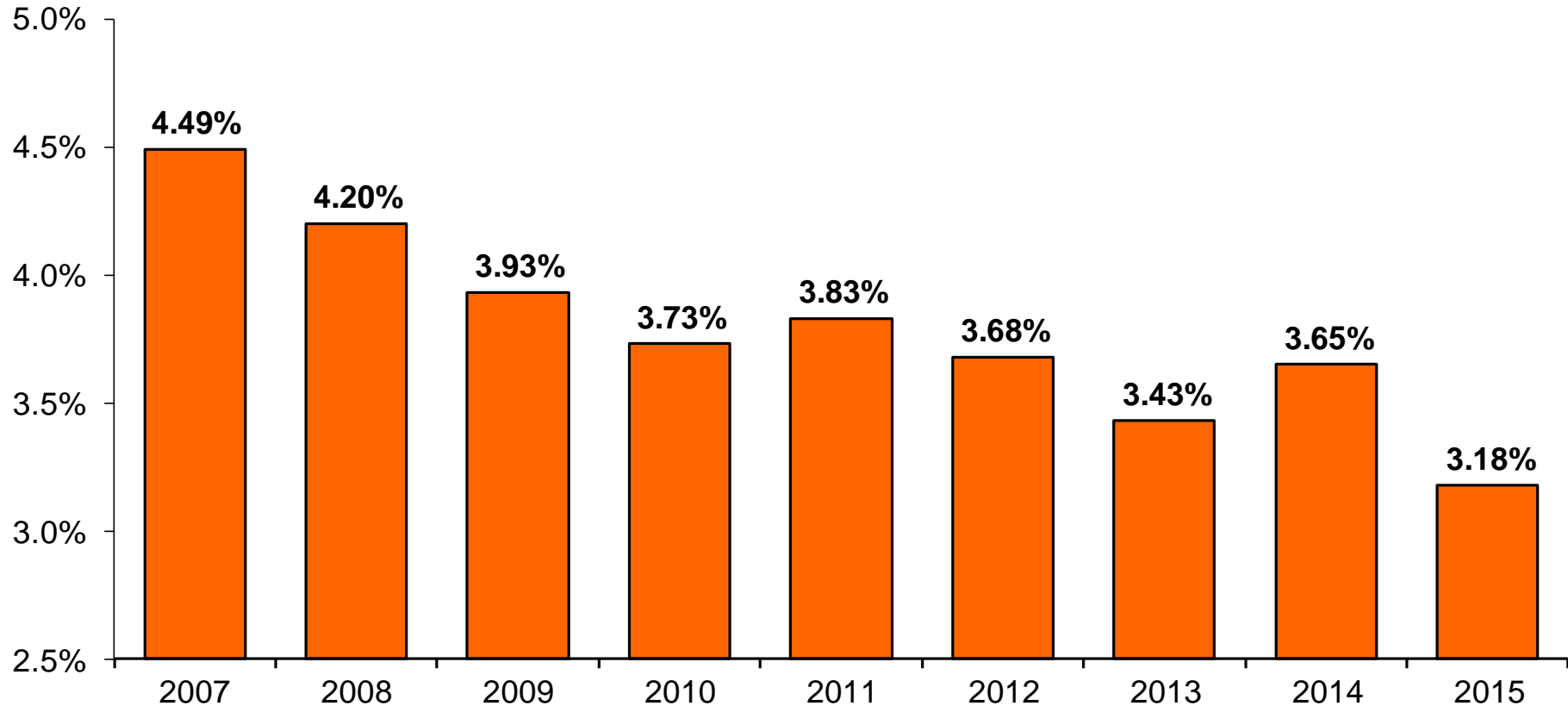


Investment earnings  
are still below their  
2007 pre-crisis peak

Due to persistently low interest rates,  
investment income fell in 2012, 2013 and 2014 but showed a small  
(1.9%) increase in 2015—a trend that may continue

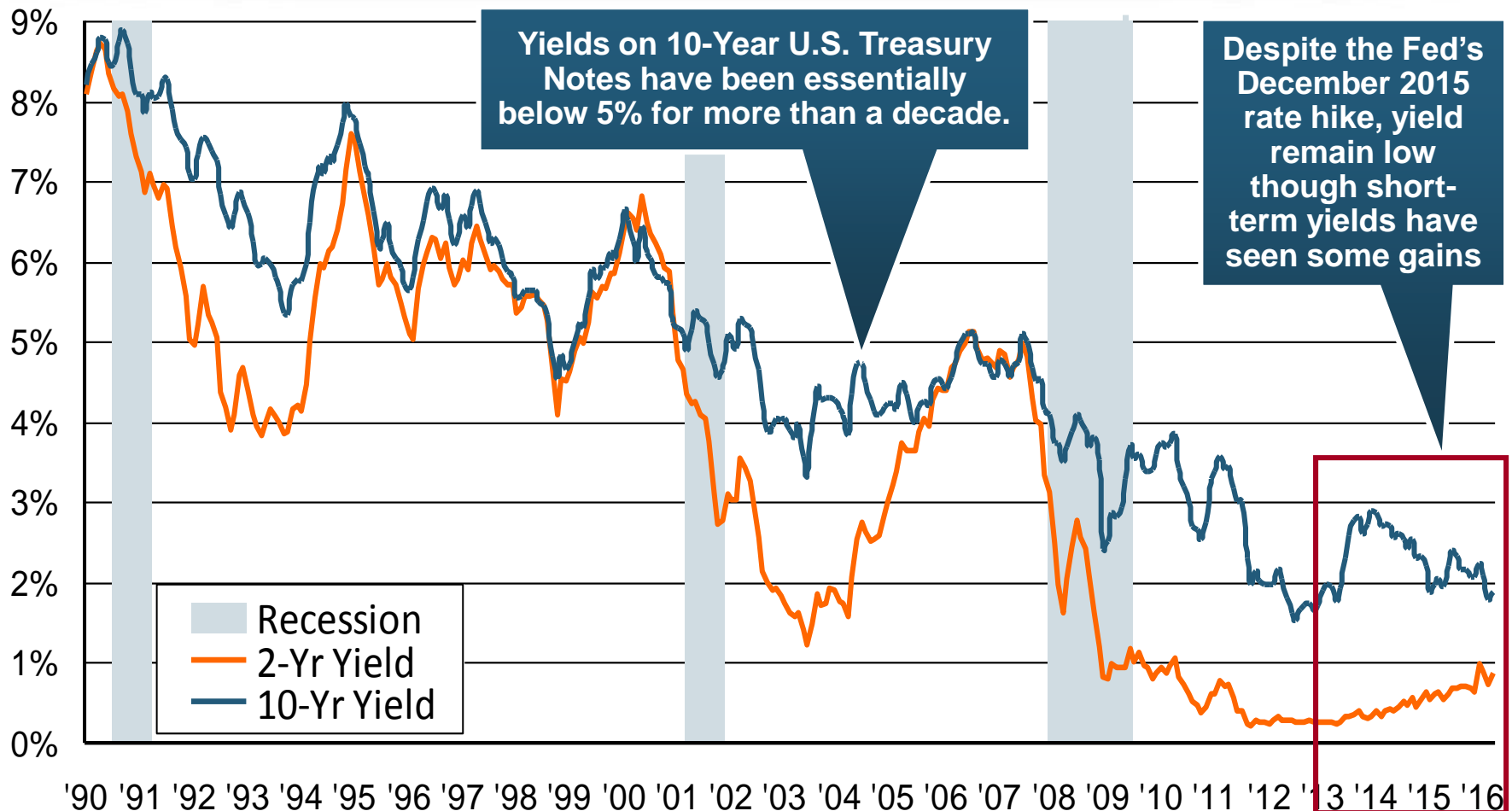
<sup>1</sup> Investment gains consist primarily of interest and stock dividends. Sources: ISO; Insurance Information Institute.

# Net Yield on P/C Insurer Invested Assets, Year-end 2007-2015



**From 2007 to 2015, P/C Insurer net yields dropped by 131 basis points.**

# U.S. Treasury Security Yields: A Long Downward Trend, 1990–2016\*

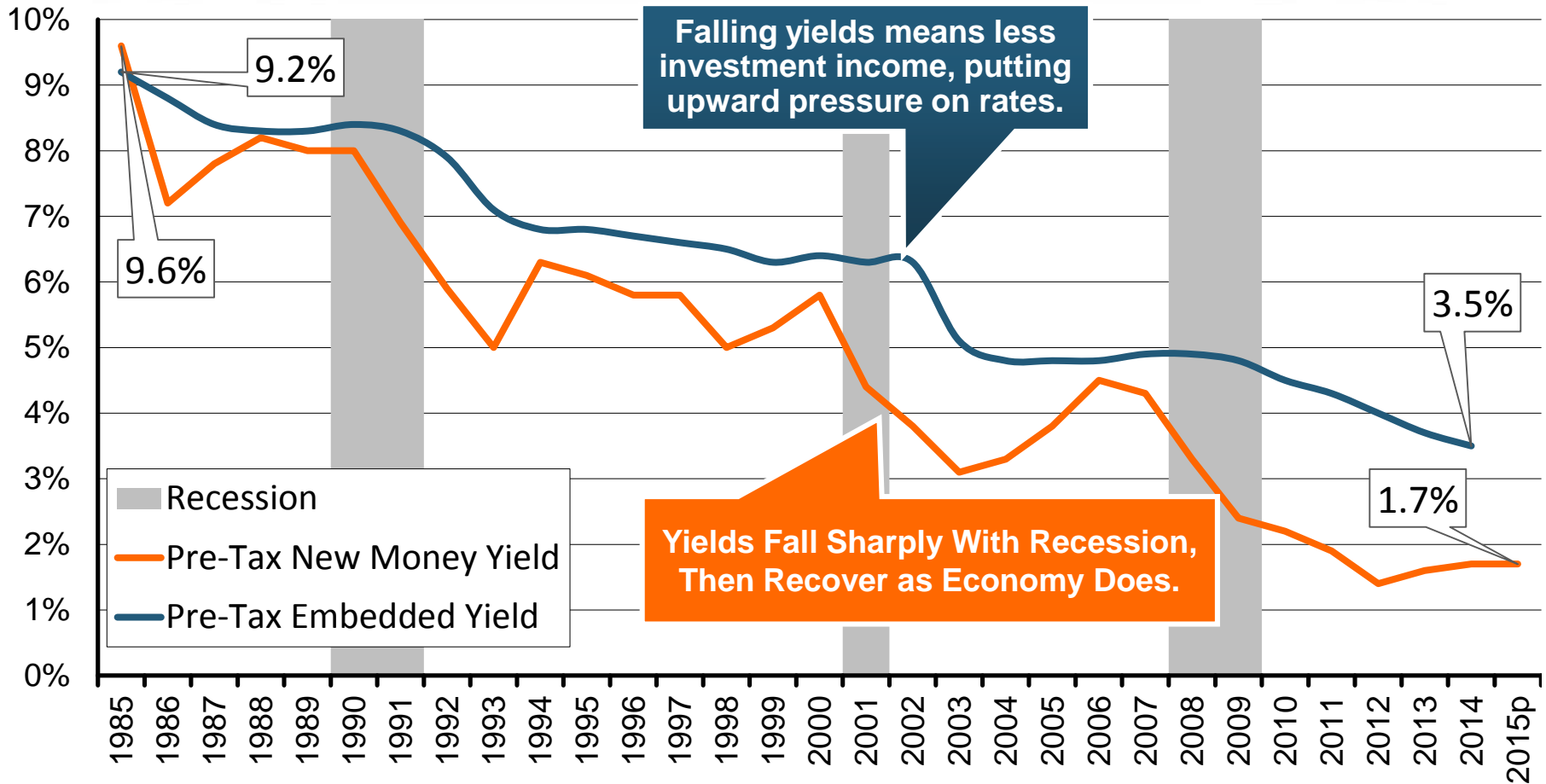


**Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.**

\*Monthly, constant maturity, nominal rates, through March 2016.

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

# New Money vs. Embedded Yields, U.S. Insurers, 1985-2015



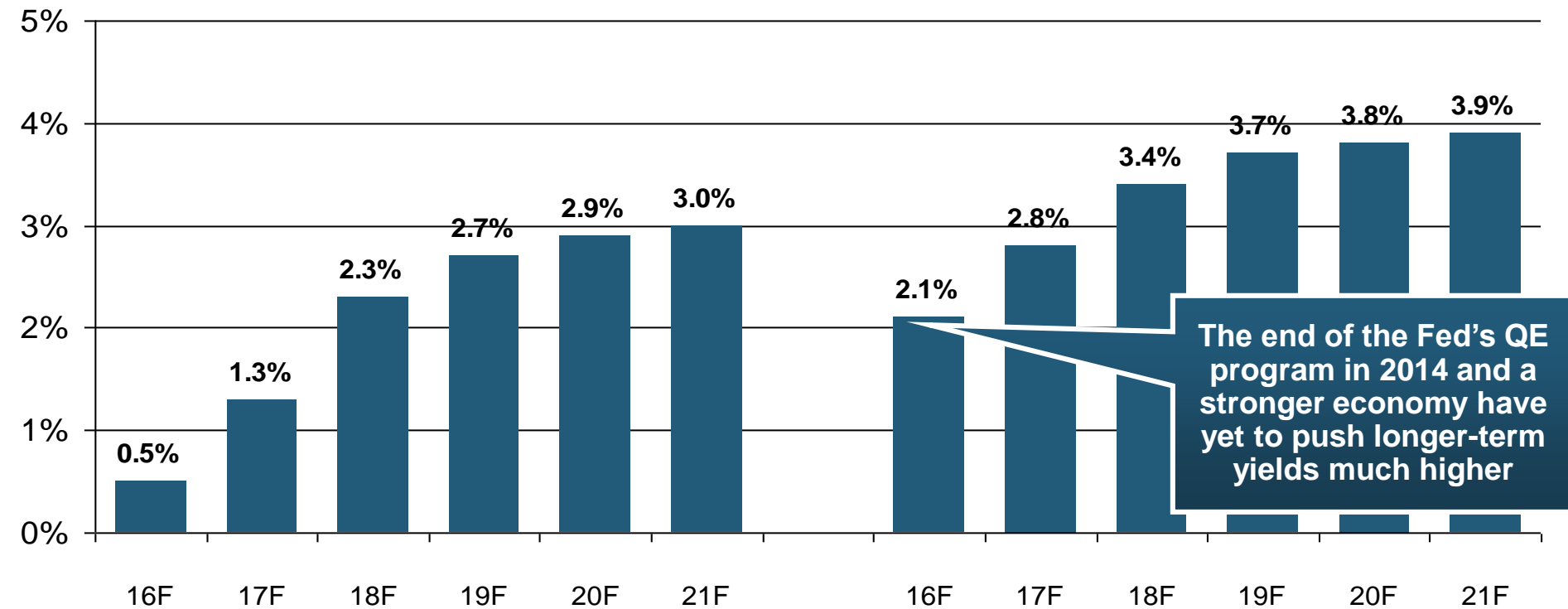
**As long as new money rates are below the rates of maturing bonds, the portfolio yield will continue to sink.**

# Interest Rate Forecasts: 2016 – 2021

Yield (%)

## 3-Month Treasury

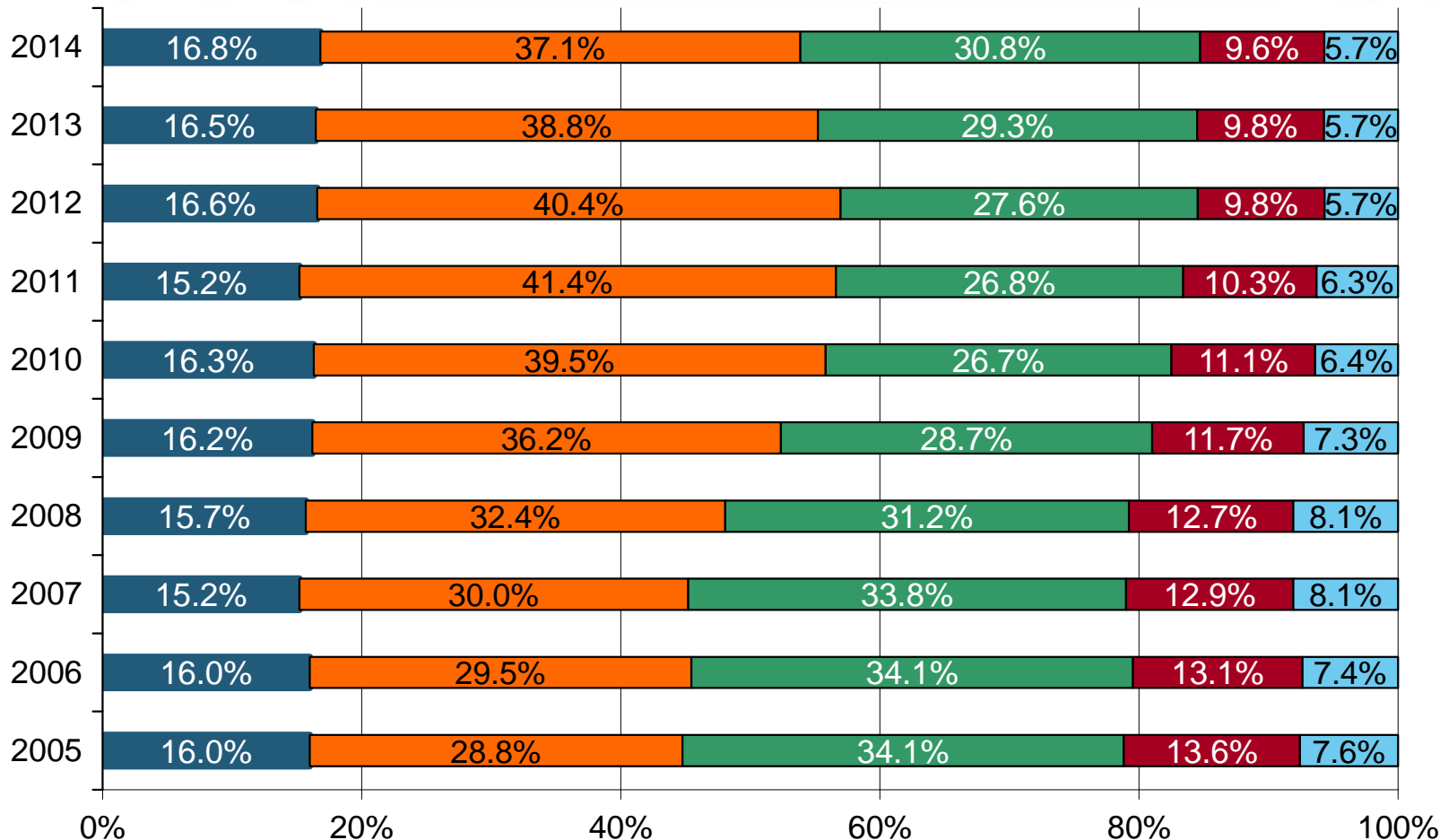
## 10-Year Treasury



**A full normalization of interest rates is unlikely until 2019, more than a decade after the onset of the financial crisis.**

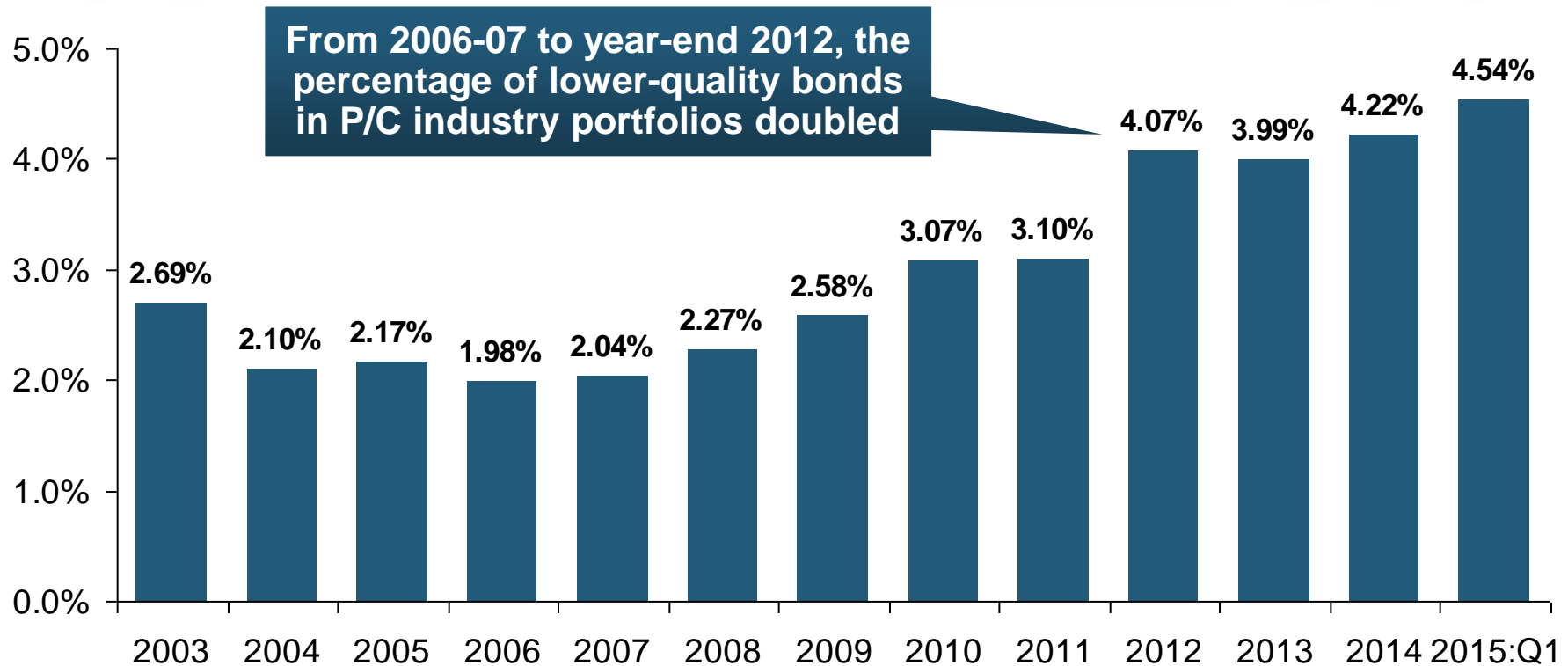


# Distribution of Bond Maturities, P/C Insurance Industry, 2005-2014



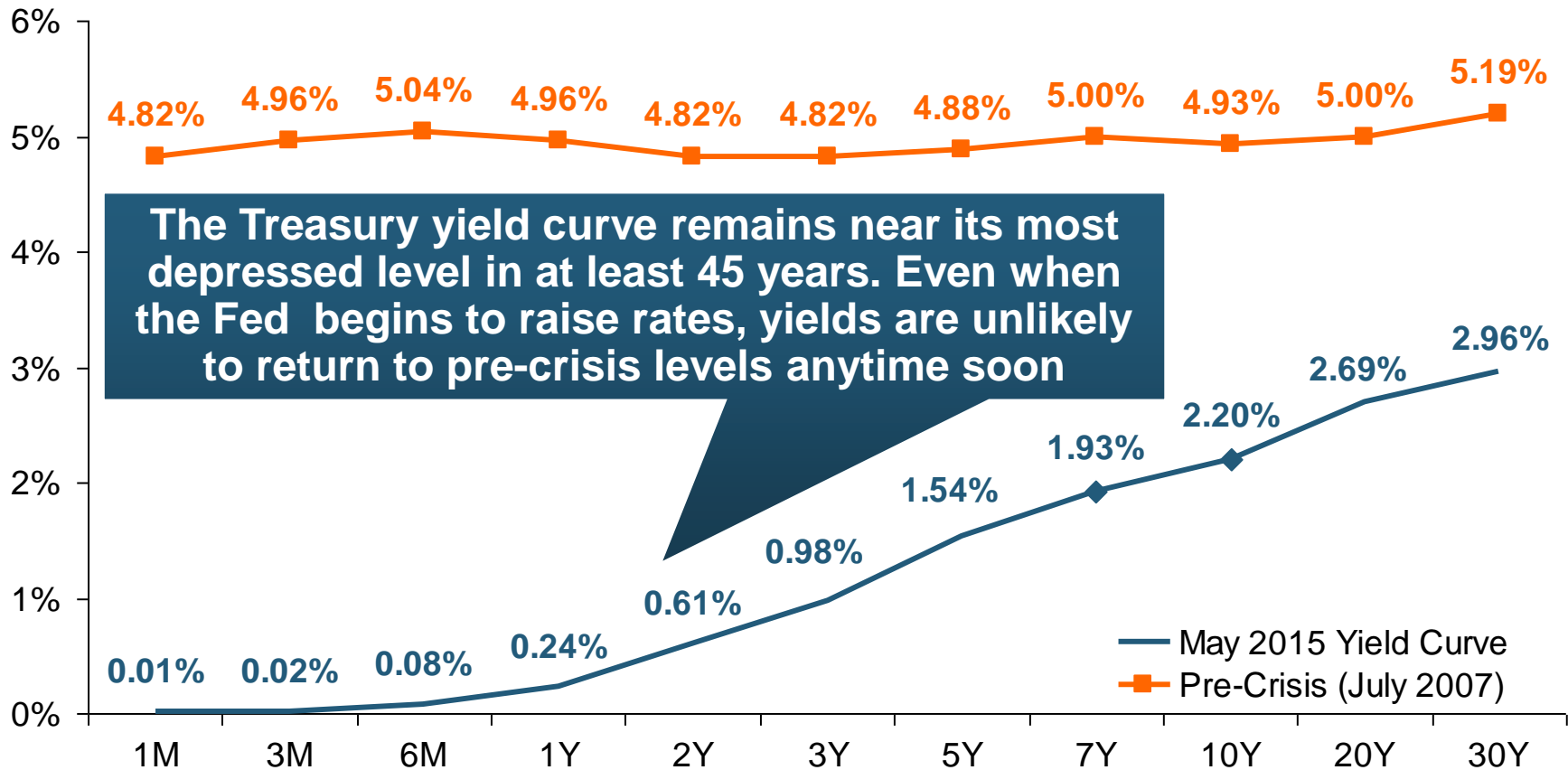
The main shift over these years has been from longer maturities to shorter maturities, but the 2013-14 data suggest a shift back has begun. The 2014 distribution resembles that at year-end 2009.

# Bonds Rated NAIC Quality Category 3-6 as a Percent of Total Bonds, 2003–2015:Q1



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 investment grade rated 1 or 2. Even in 2014-15, over 95% of the industry's bonds were investment grade.

# Treasury Yield Curves: Pre-Crisis (July 2007) vs. May 2015



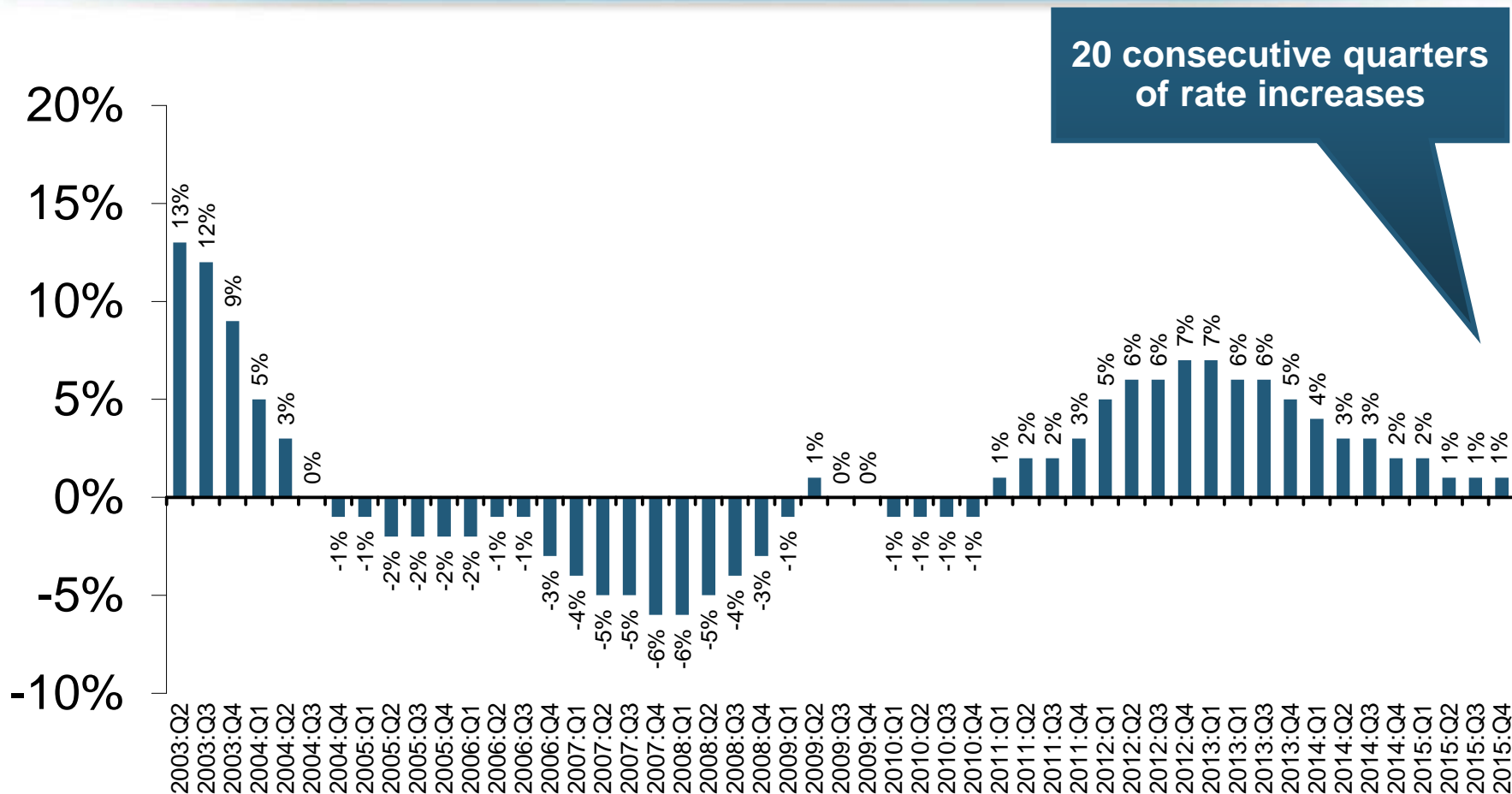
The Treasury yield curve remains near its most depressed level in at least 45 years. Even when the Fed begins to raise rates, yields are unlikely to return to pre-crisis levels anytime soon

The Fed is signaling that it is likely to begin raising short-term rates (and indirectly, the yield curve) later in 2015.

# Commercial Rates

## Steady Going

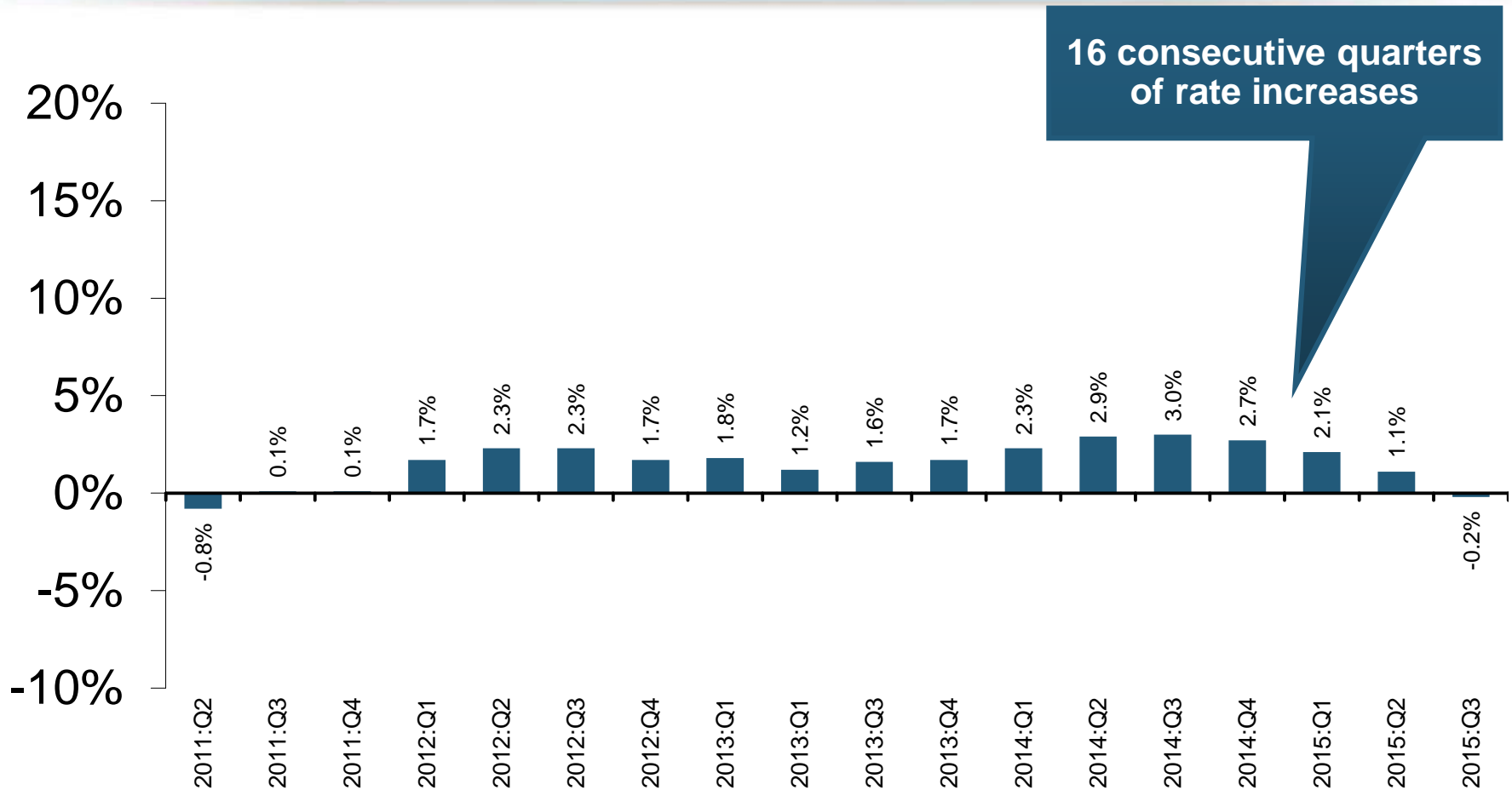
# Commercial Lines Rate Change by Qtr (vs. Year Earlier)



20 consecutive quarters of rate increases

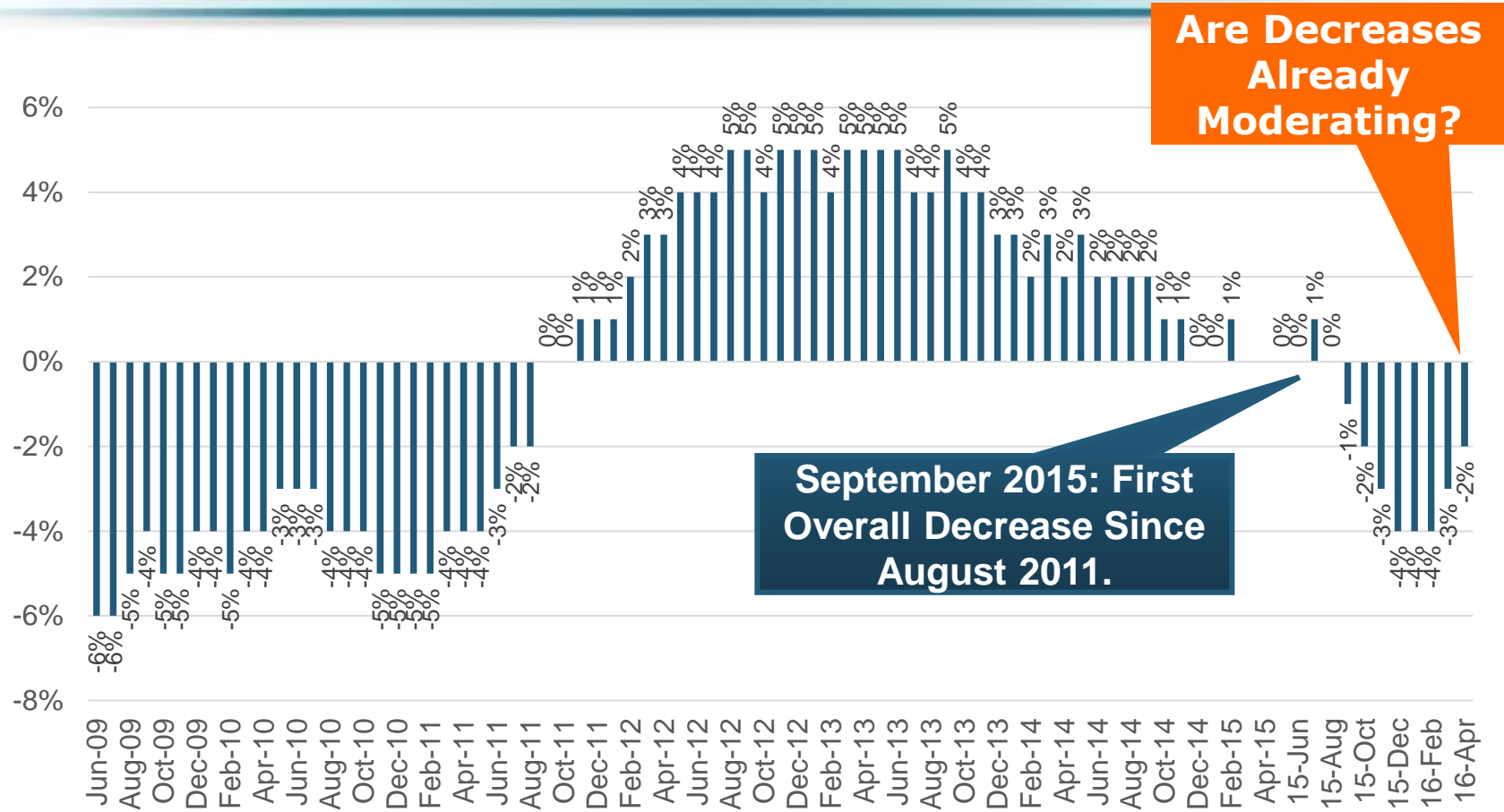
**Decreases: WC, Property, D&O. 'Meaningful' Increases: Commercial Auto.**

# Canadian Commercial Lines Price Level Change by Qtr (vs. Year Earlier)



**Hard Market (Such As It Is) Appears to Have Passed Its Peak.**

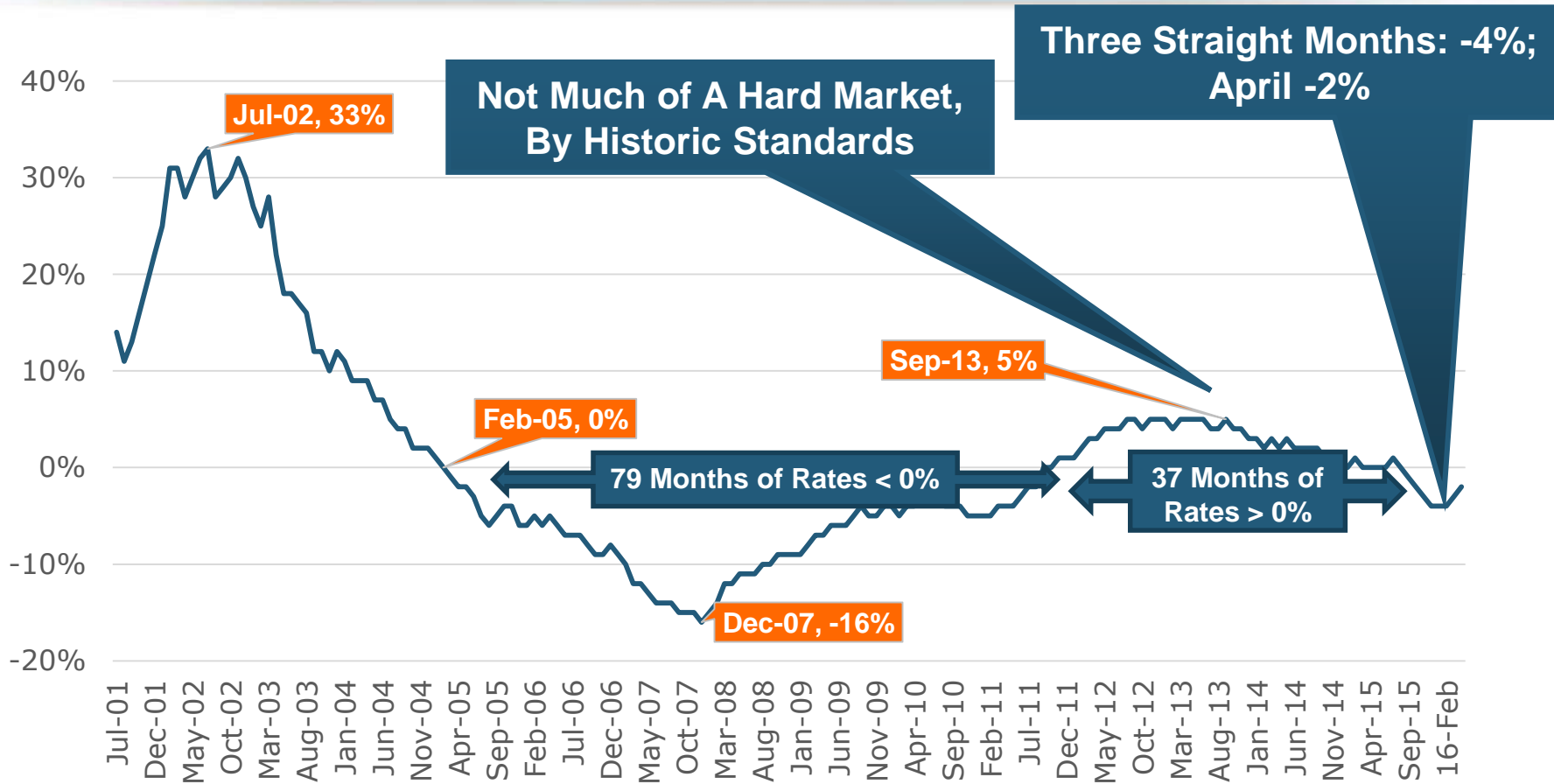
# Commercial Lines Rate Change by Month (vs. Year Earlier) Since 6/09



**Early Indication: The 'Soft Market' May Have Been Brief.**

SOURCE: MarketScout, Insurance Information Institute.

# Commercial Lines Rate Change by Month (vs. Year Earlier)

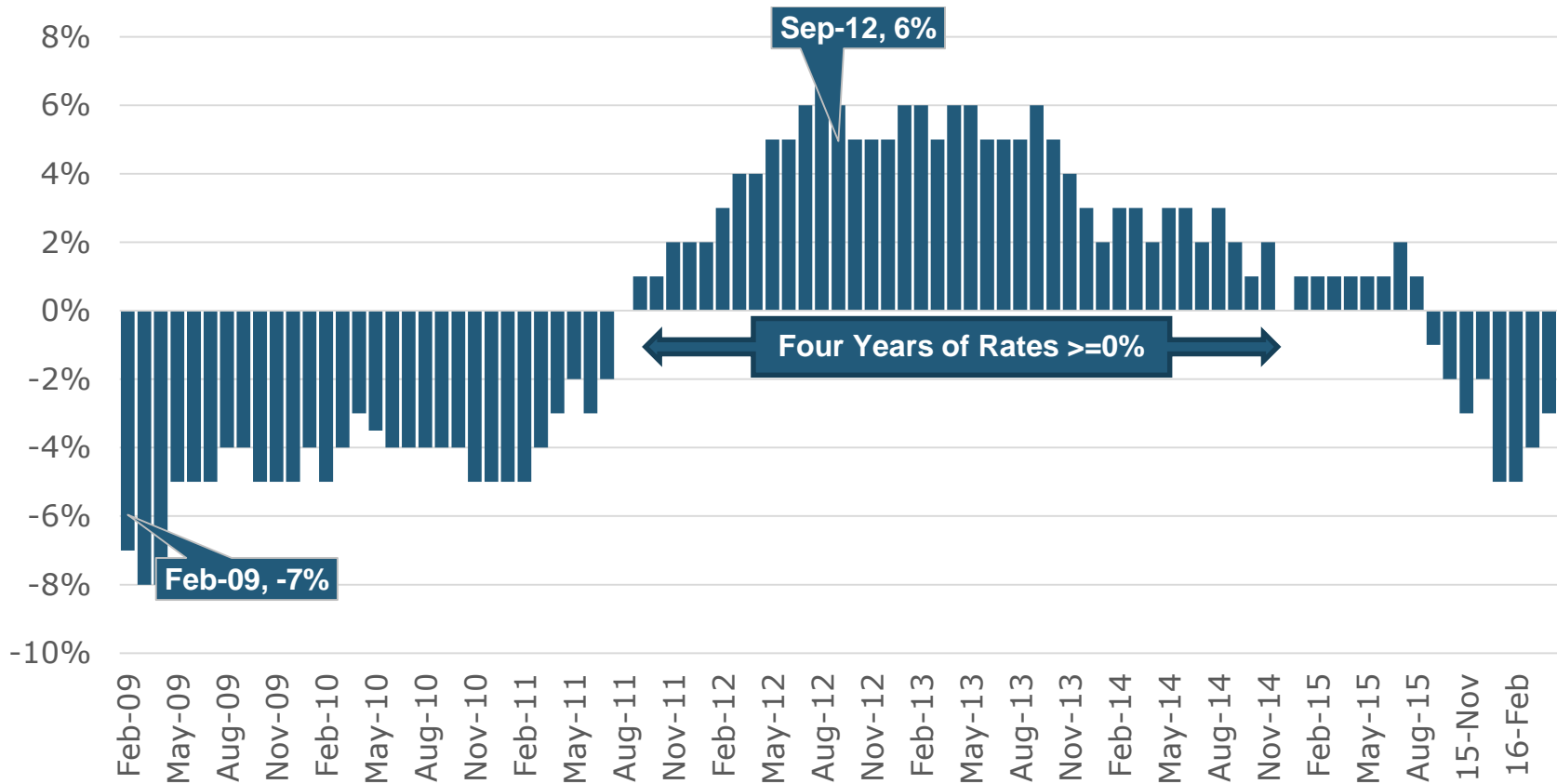


**Rates Are As Stable As They've Been in 15 Years but Beginning to Show Signs of Decline.**

SOURCE: MarketScout, Insurance Information Institute.



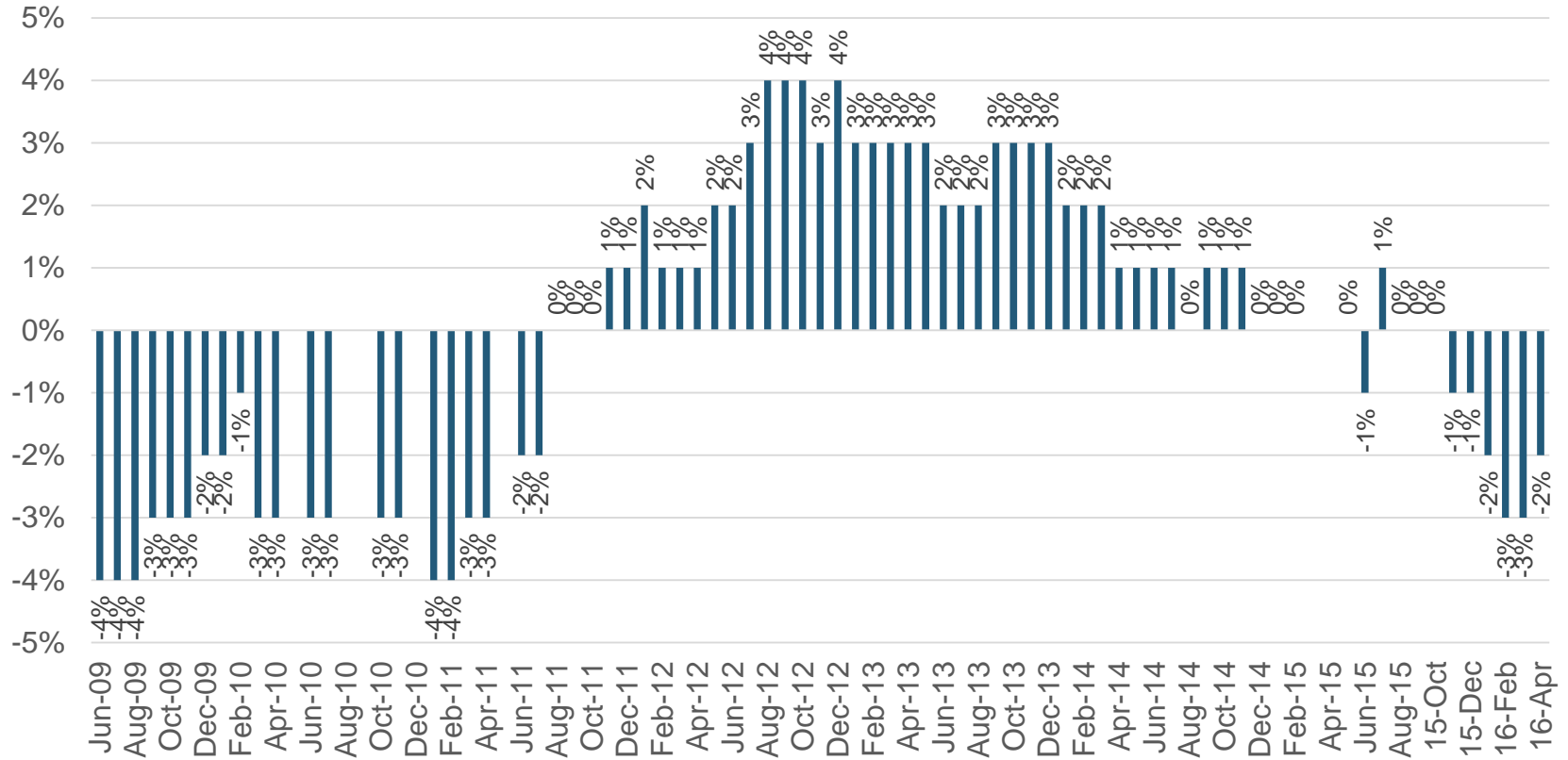
# Commercial Property Rate Change by Month (vs. Year Earlier)



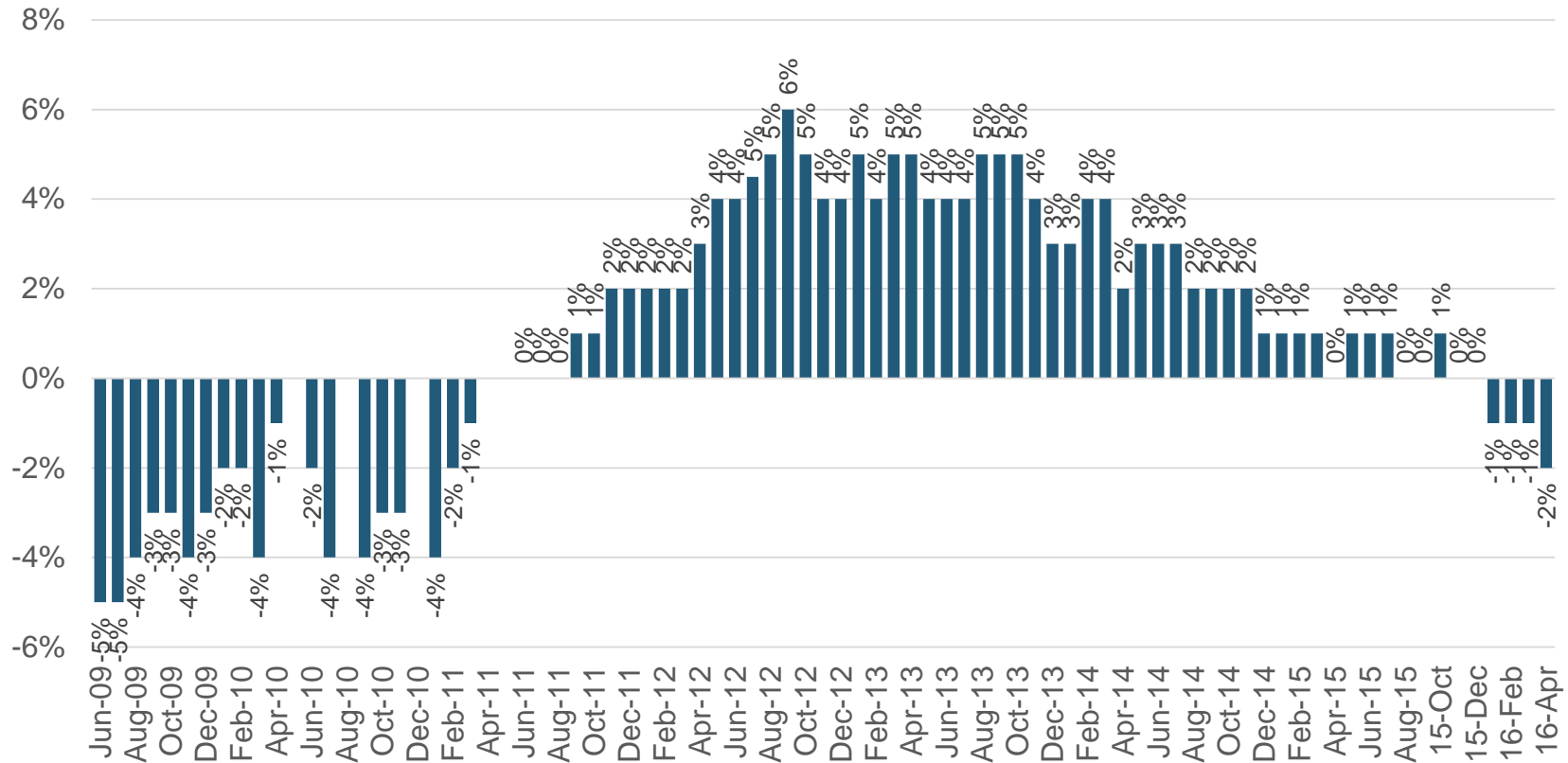
**Soft Reinsurance Market Holding Rates Down, But Not Significantly More Than Rest of P/C Market.**

SOURCE: MarketScout, Insurance Information Institute.  
 Interpolated Commercial Property Estimates for May, August, September 2010.

# Business Interruption Rate Change by Month (vs. Year Earlier)

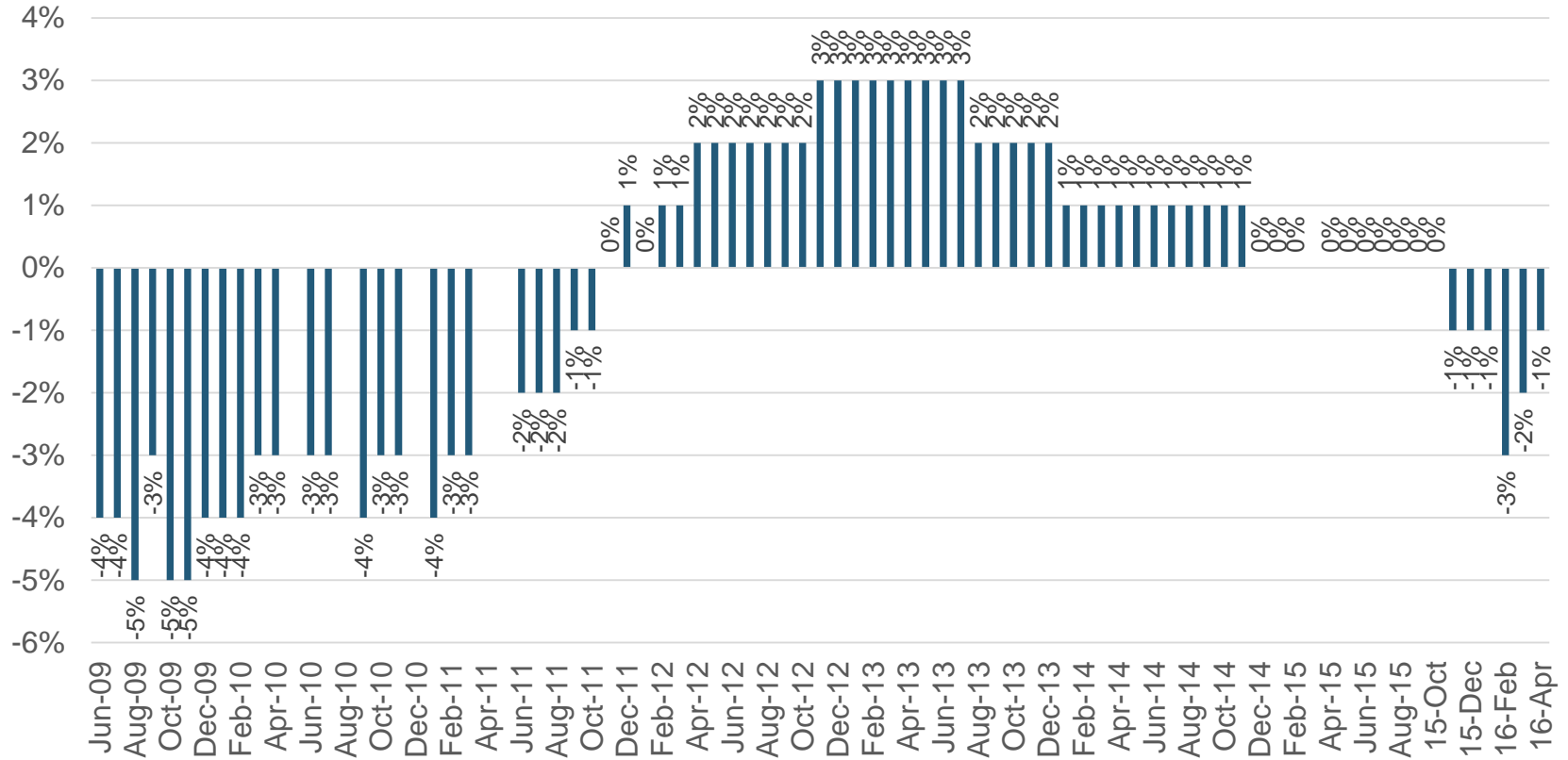


# BOP Rate Change by Month (vs. Year Earlier)

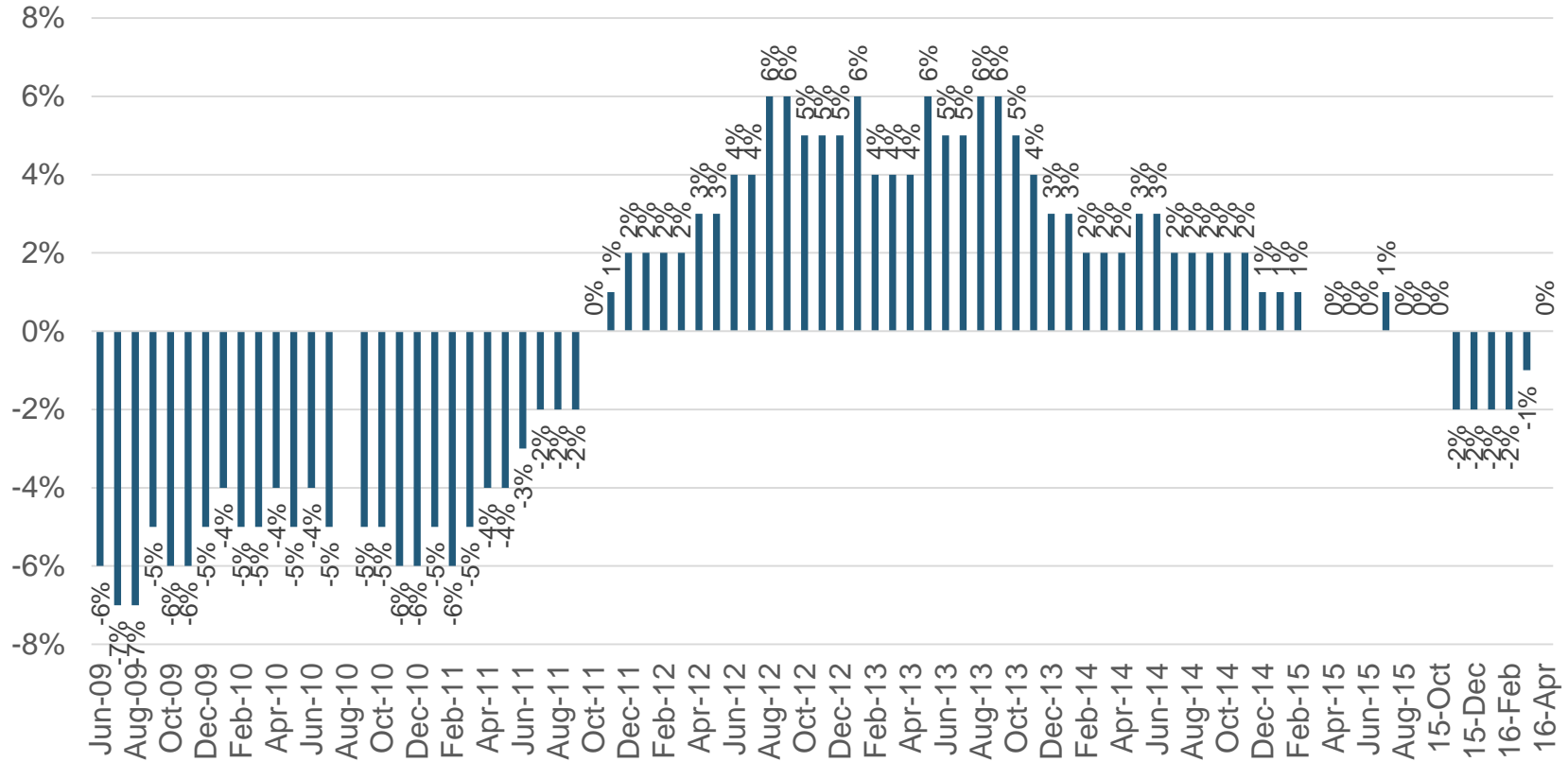


**Rate Change on Businessowners Policies Can Be A Bellwether for Small Commercial Risks.**

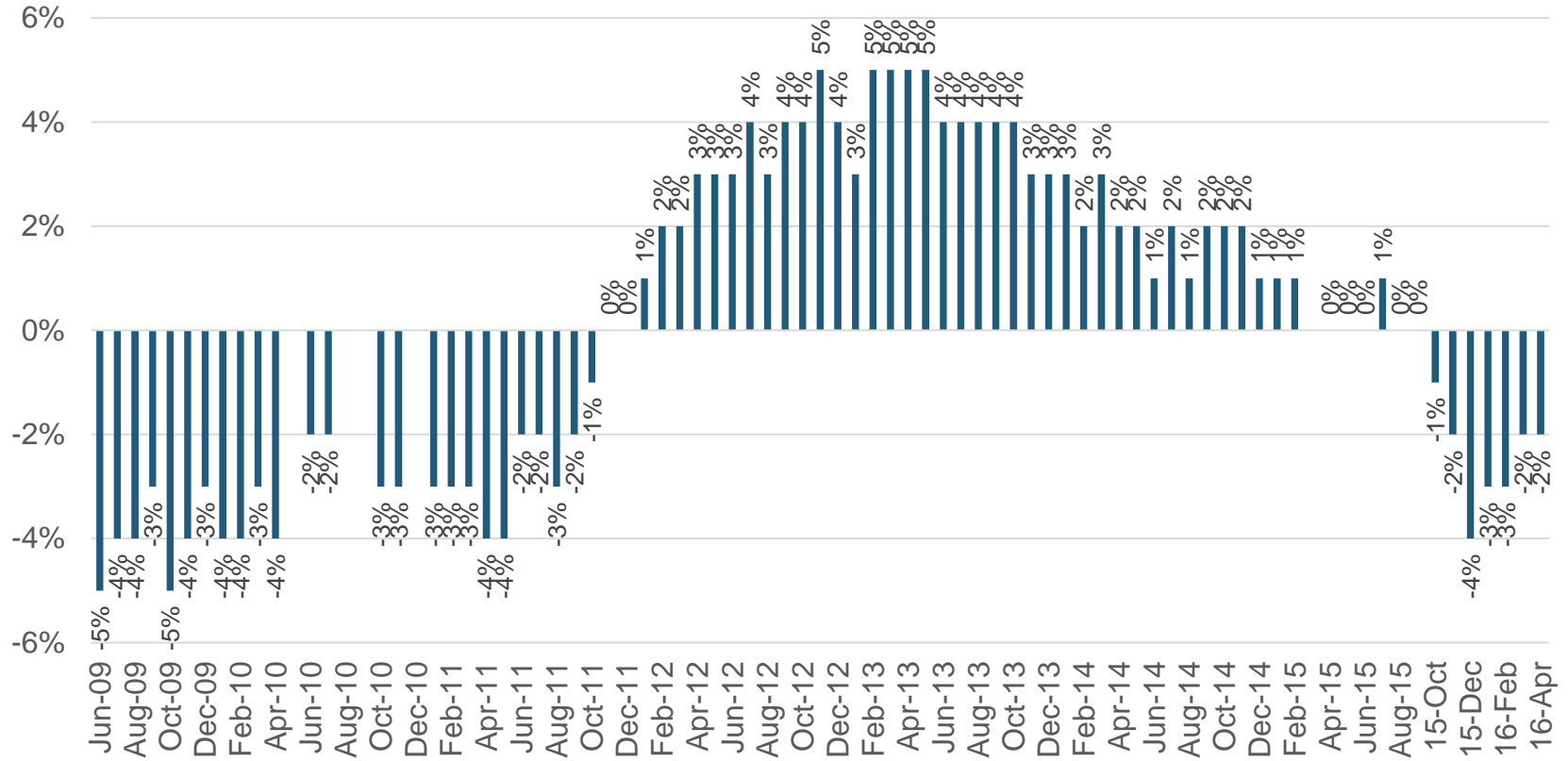
# Inland Marine Rate Change by Month (vs. Year Earlier)



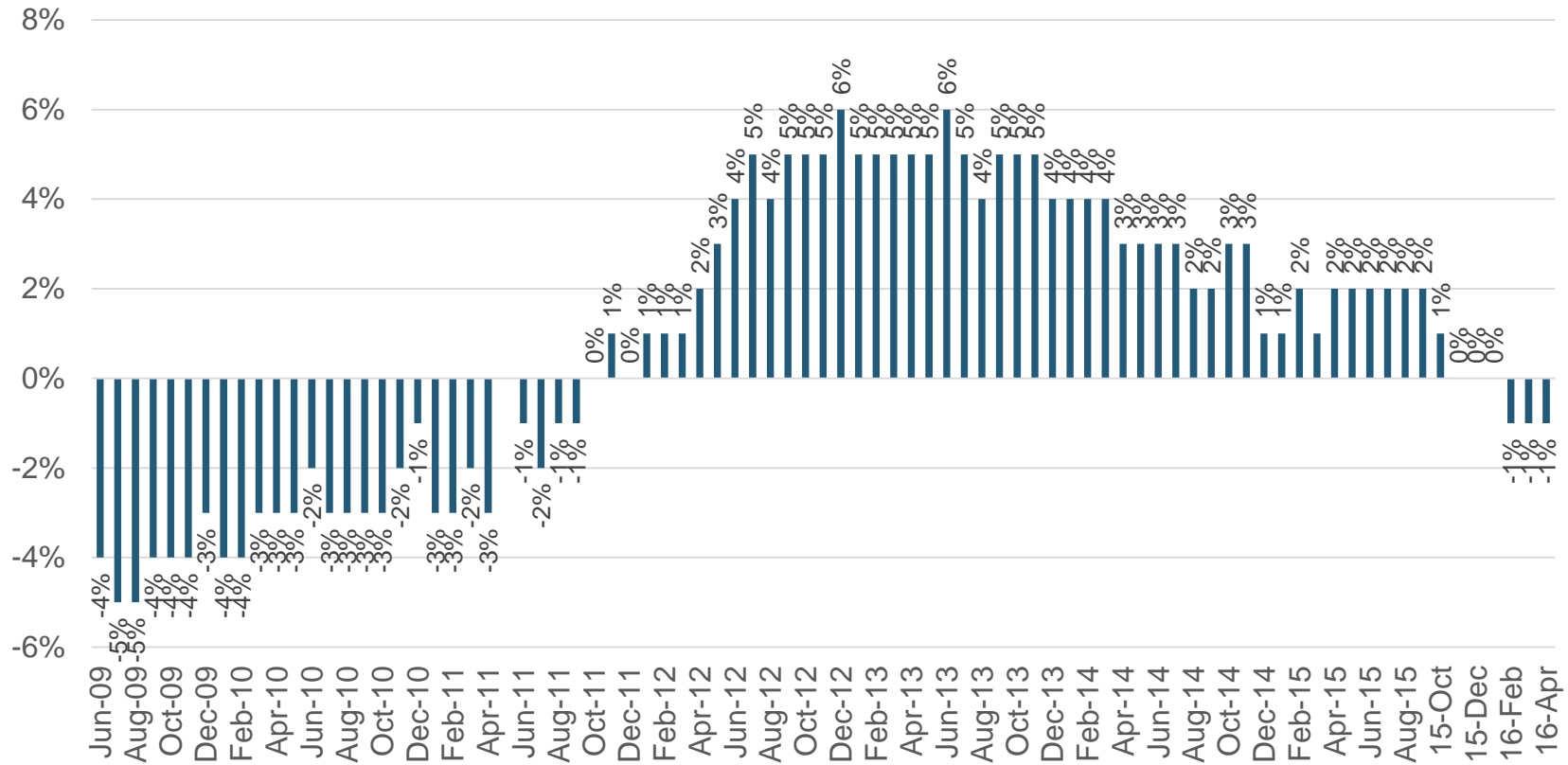
# General Liability Rate Change by Month (vs. Year Earlier)



# Umbrella/Excess Rate Change by Month (vs. Year Earlier)

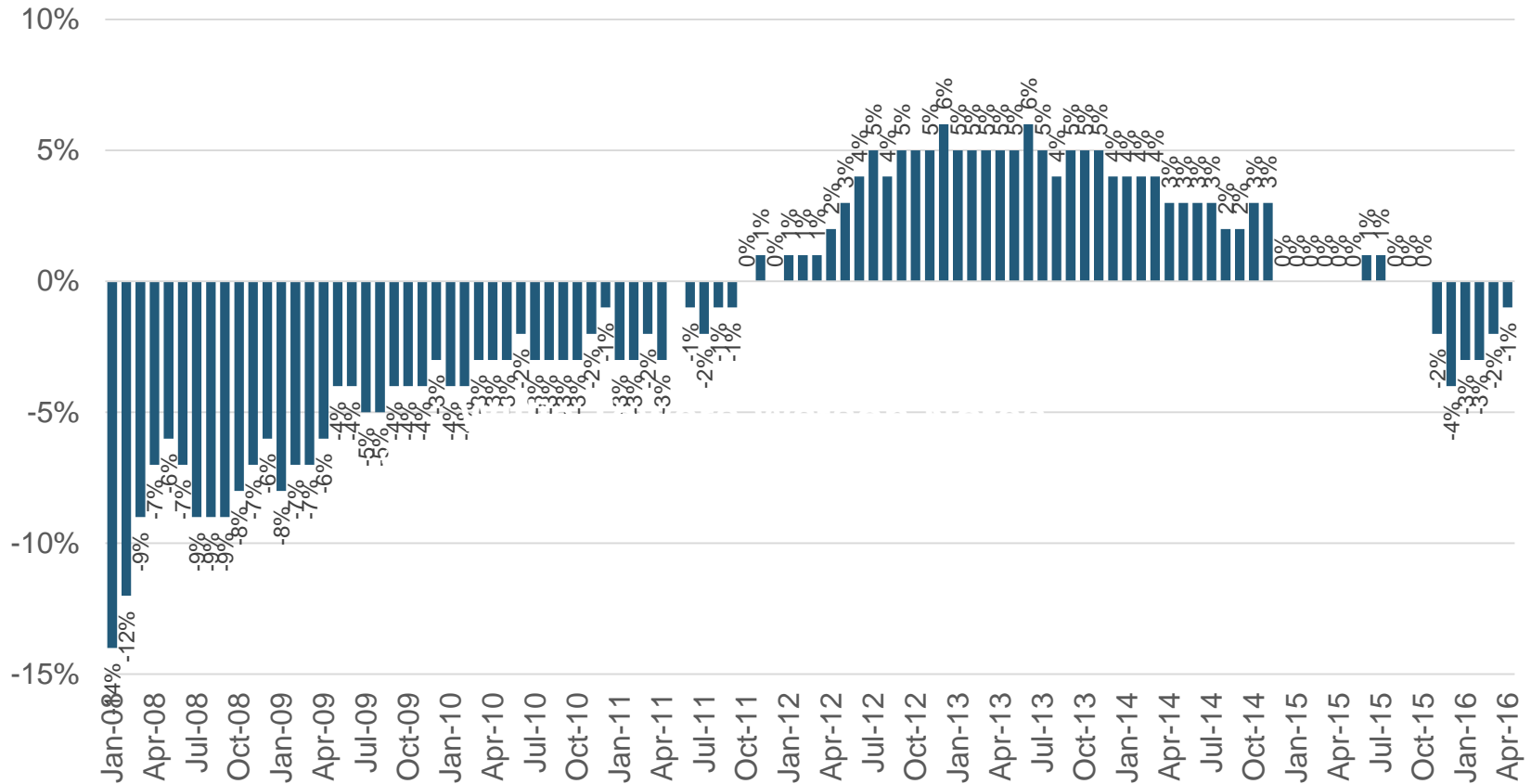


# Commercial Auto Rate Change by Month (vs. Year Earlier)



**Willis Towers Watson Notes 'Meaningful' Increases in This Line.**

# Workers Comp Rate Change by Month (vs. Year Earlier)

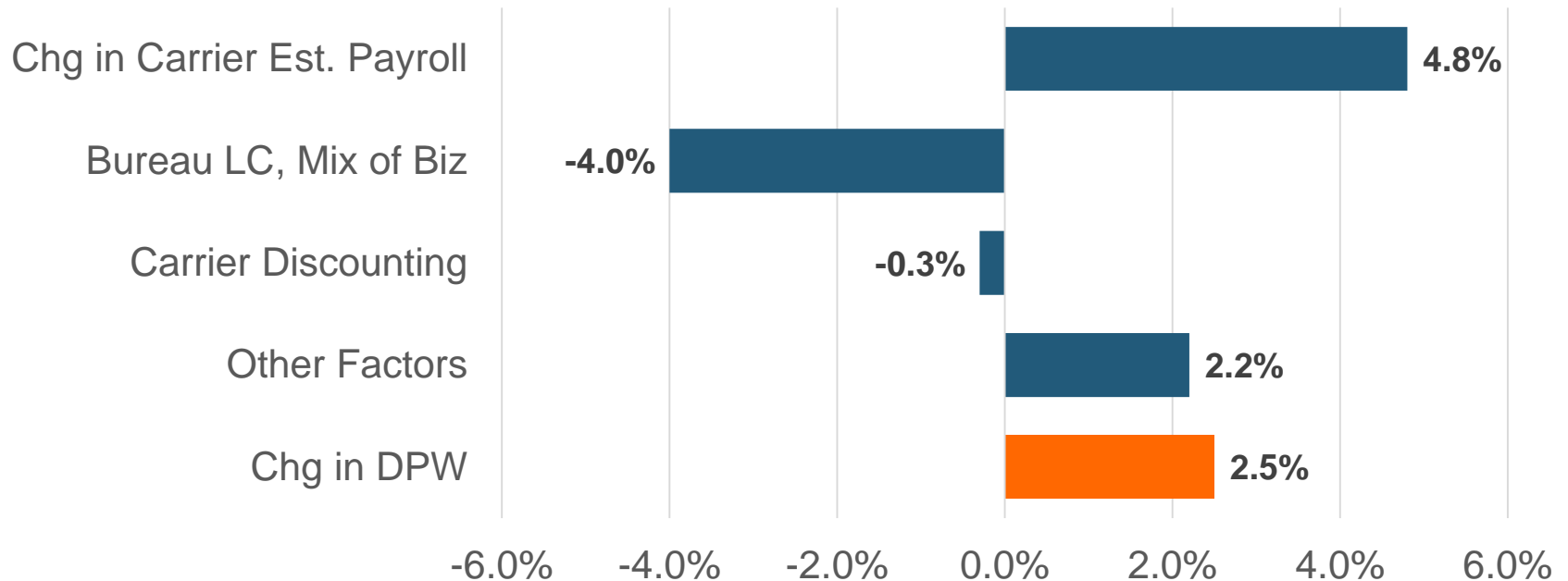


**Willis Towers Watson Notes Decreases in This Line.**

Sources: MarketScout, Insurance Information Institute.



# 2015 Premium Change-NCCI States

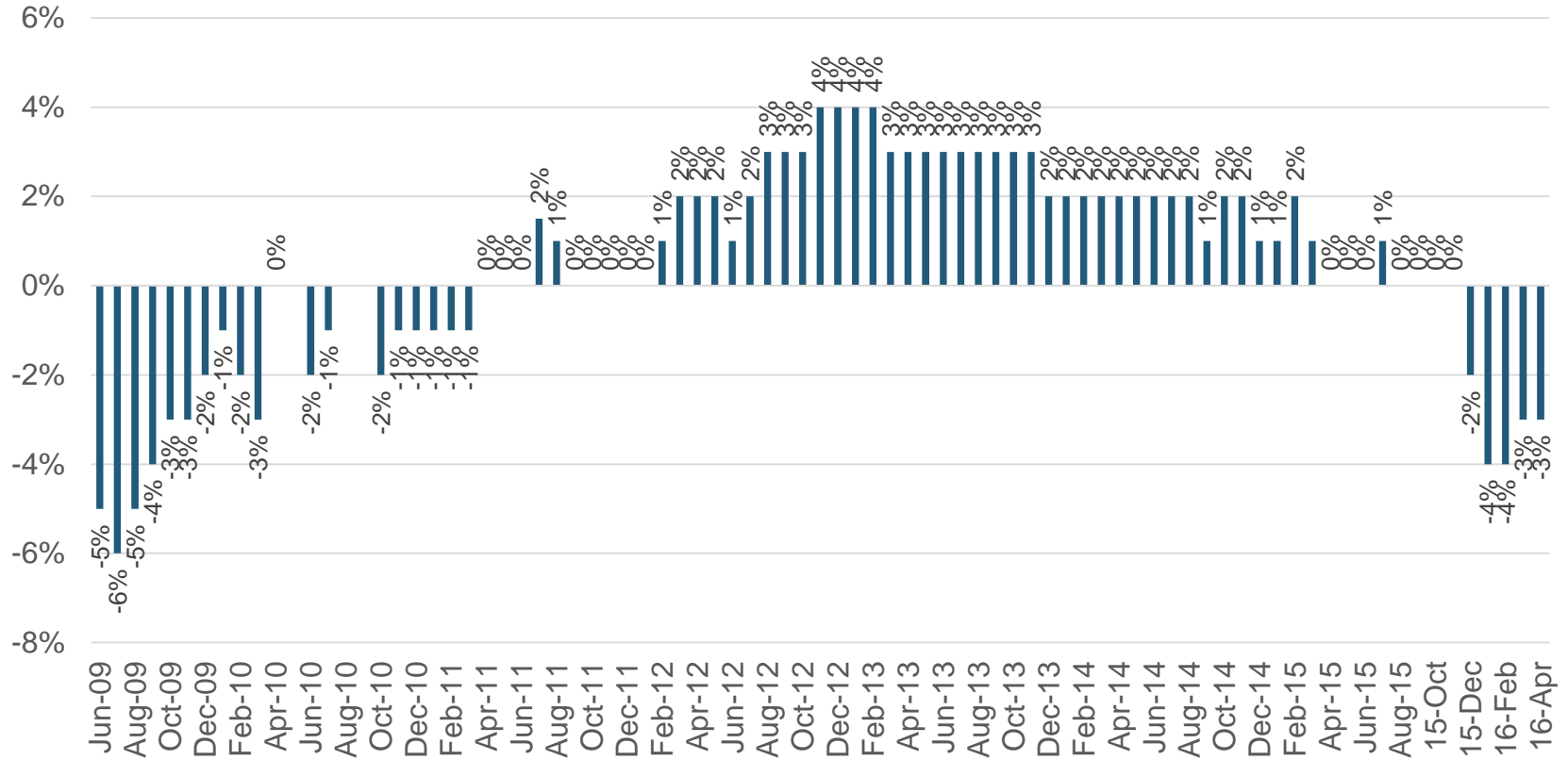


**Premium Volume in Workers Comp Helped by Increase in Payroll, but Rates Trended Lower.**

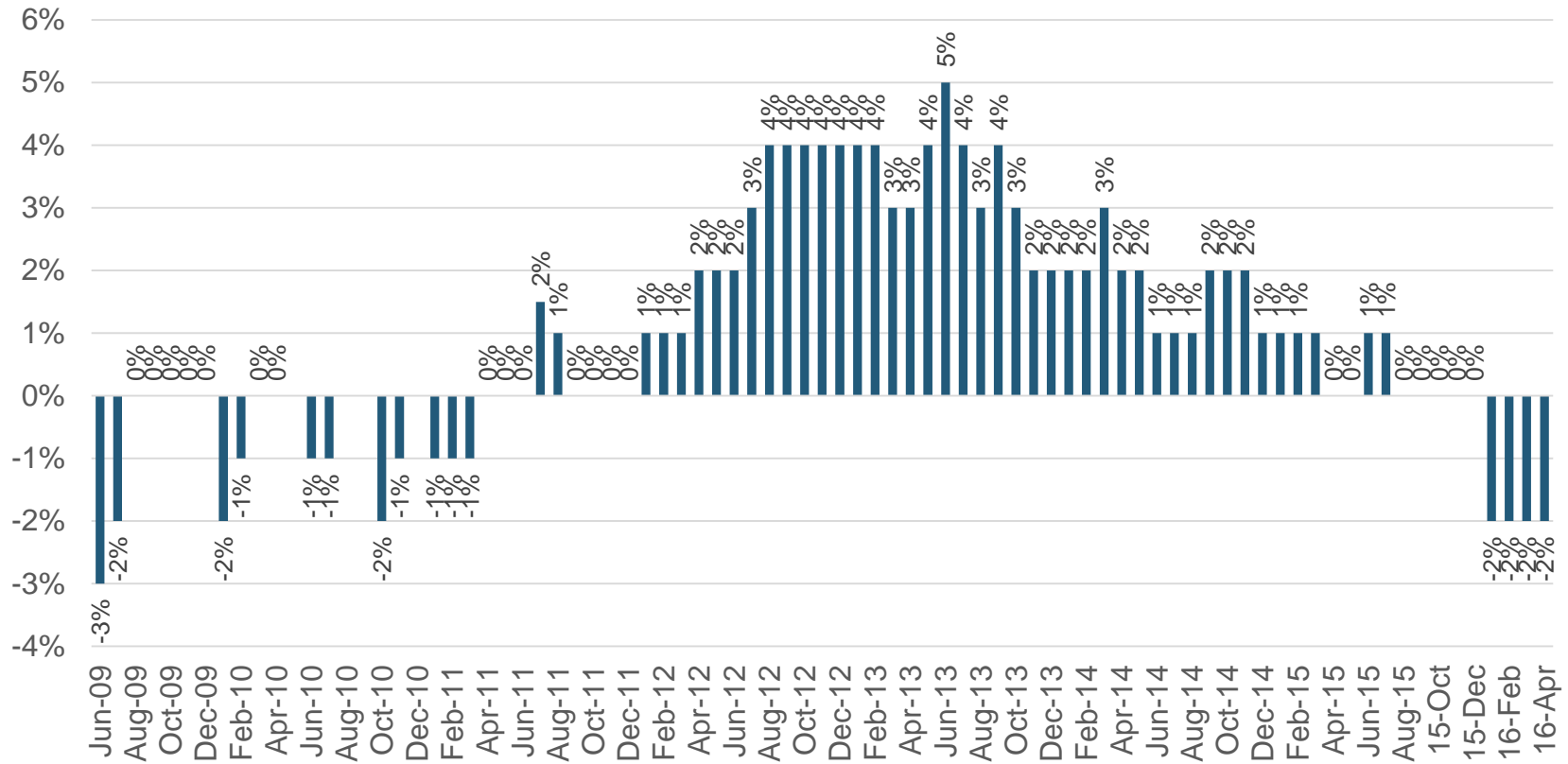
Other factors include: Change in audit impacts; change in average experience mod; change in mix of policy types; change in deductible credits; change in mix between private carrier and state fund markets.

Sources: Annual Statement data, NCCI.

# Professional Liability Rate Change by Month (vs. Year Earlier)



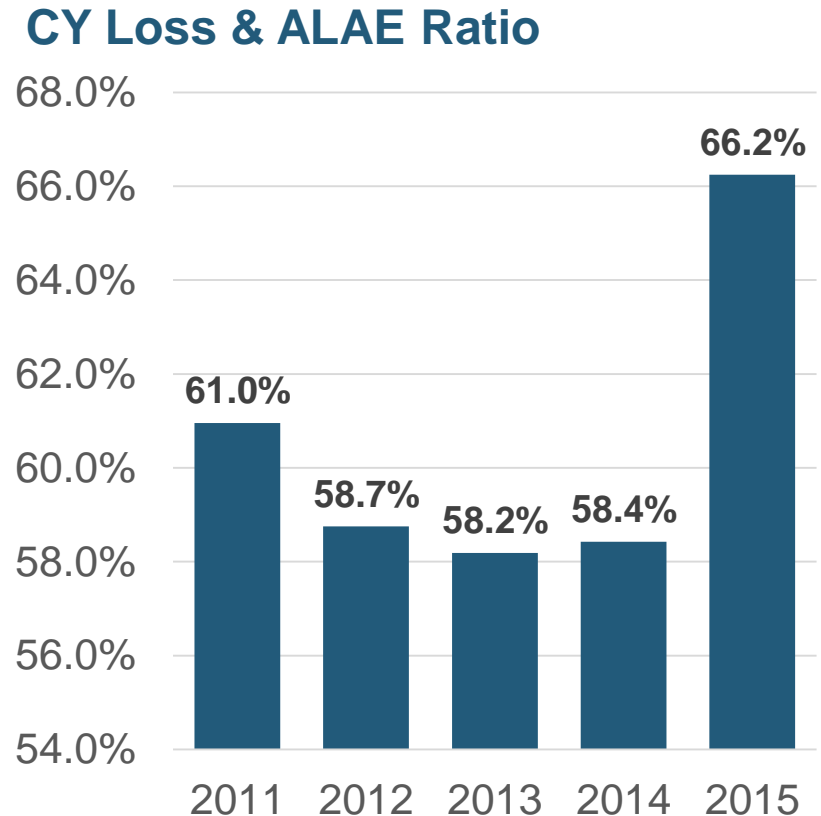
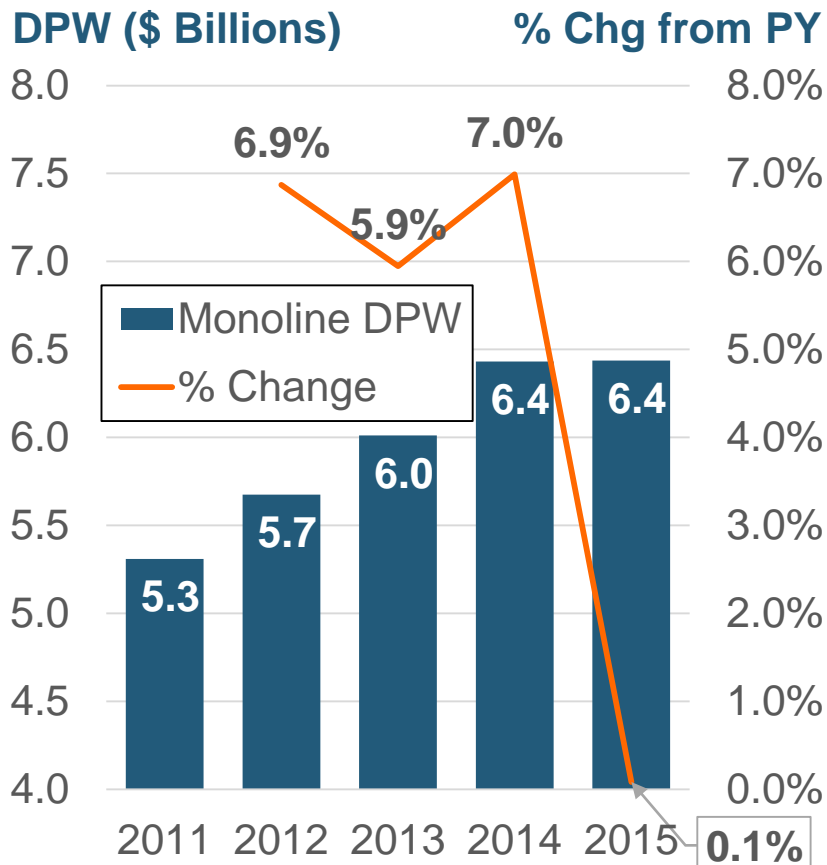
# D&O Liability Rate Change by Month (vs. Year Earlier)



**Willis Towers Watson Notes Decreases in This Line.**

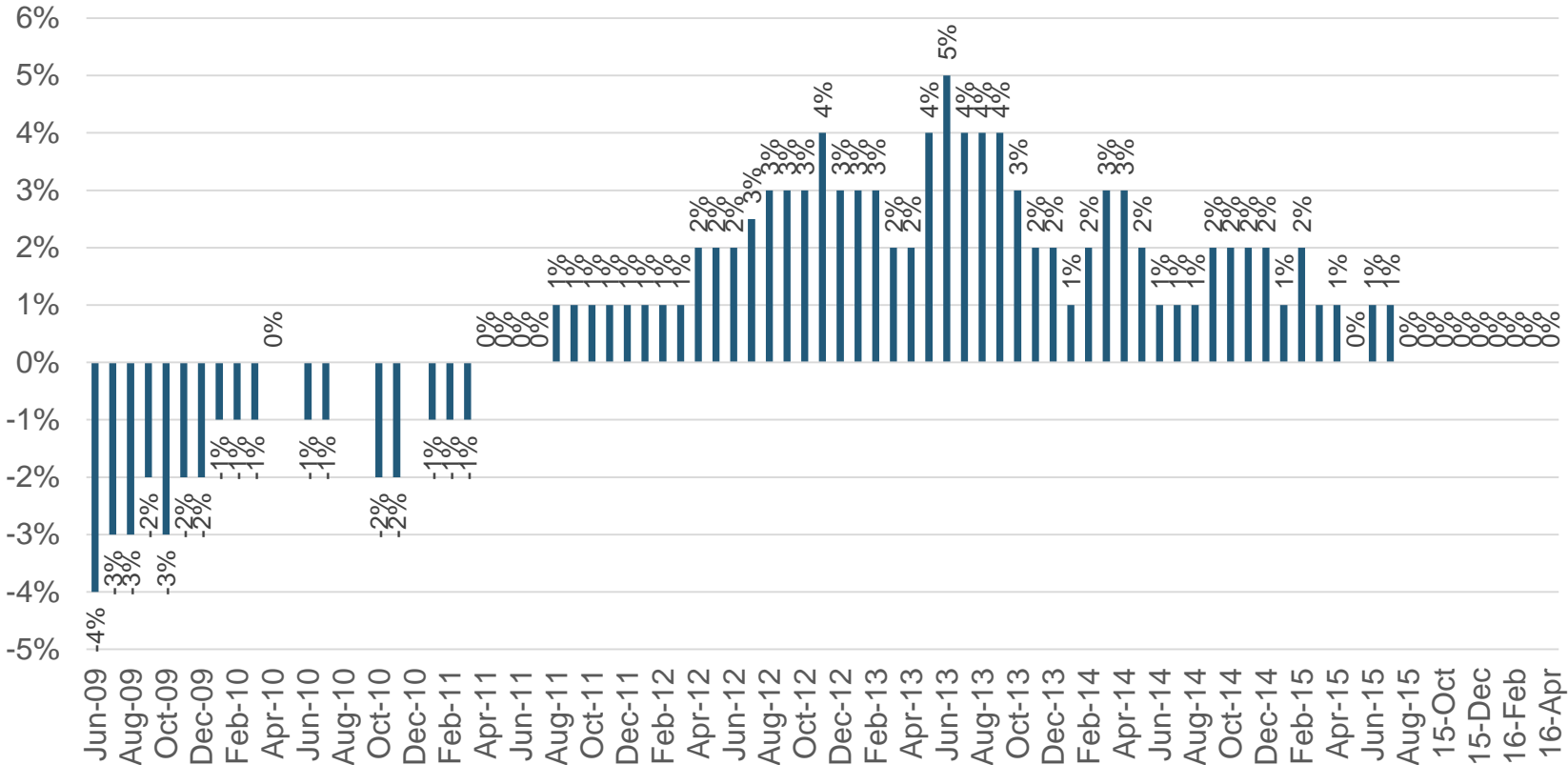
Sources: MarketScout, Insurance Information Institute.

# Monoline D&O: Premium Growth, Loss Ratios

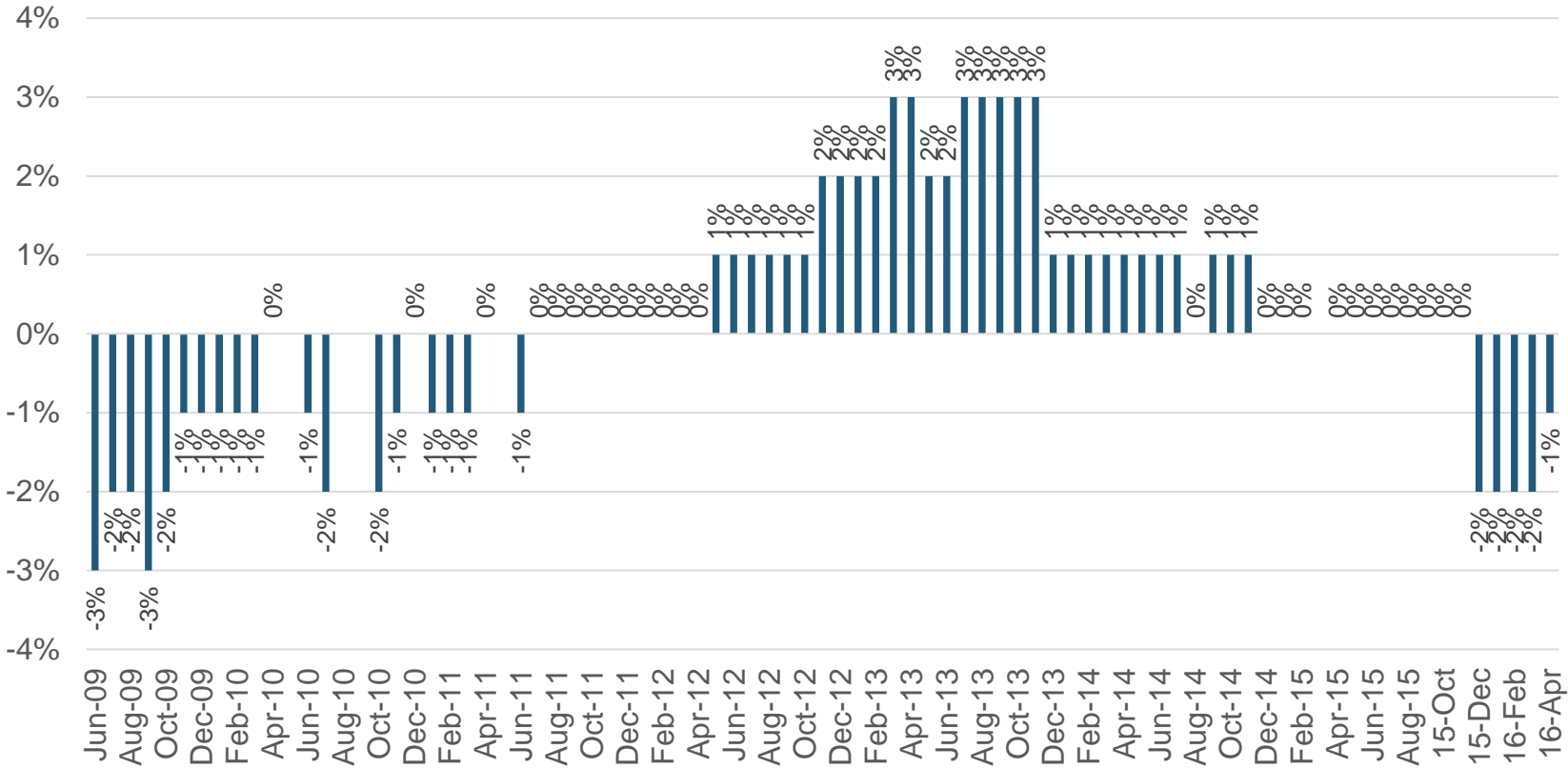


**Monoline D&O Growth Slowed in 2015. Experience Appears to Have Deteriorated.**

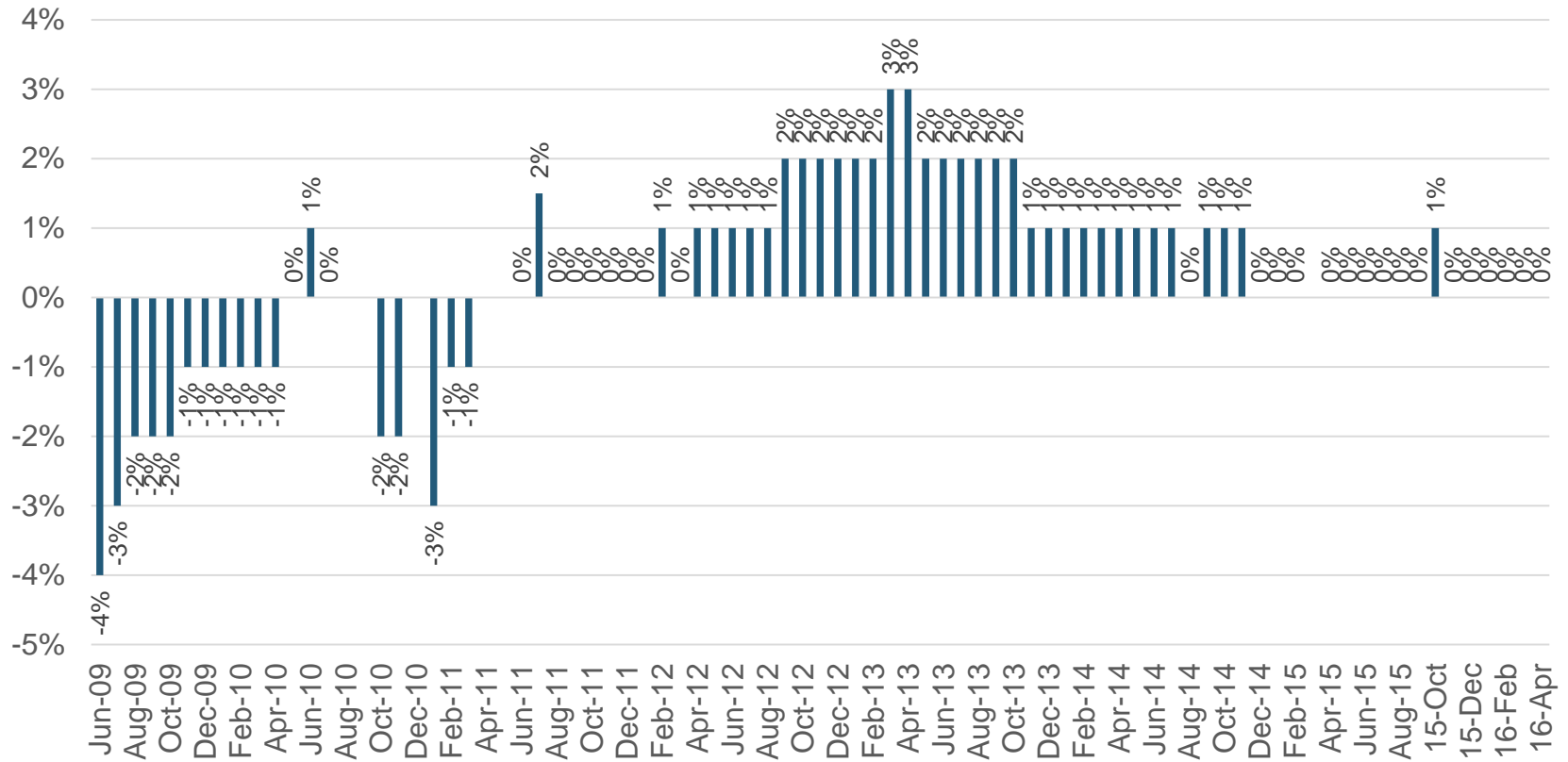
# EPLI Rate Change by Month (vs. Year Earlier)



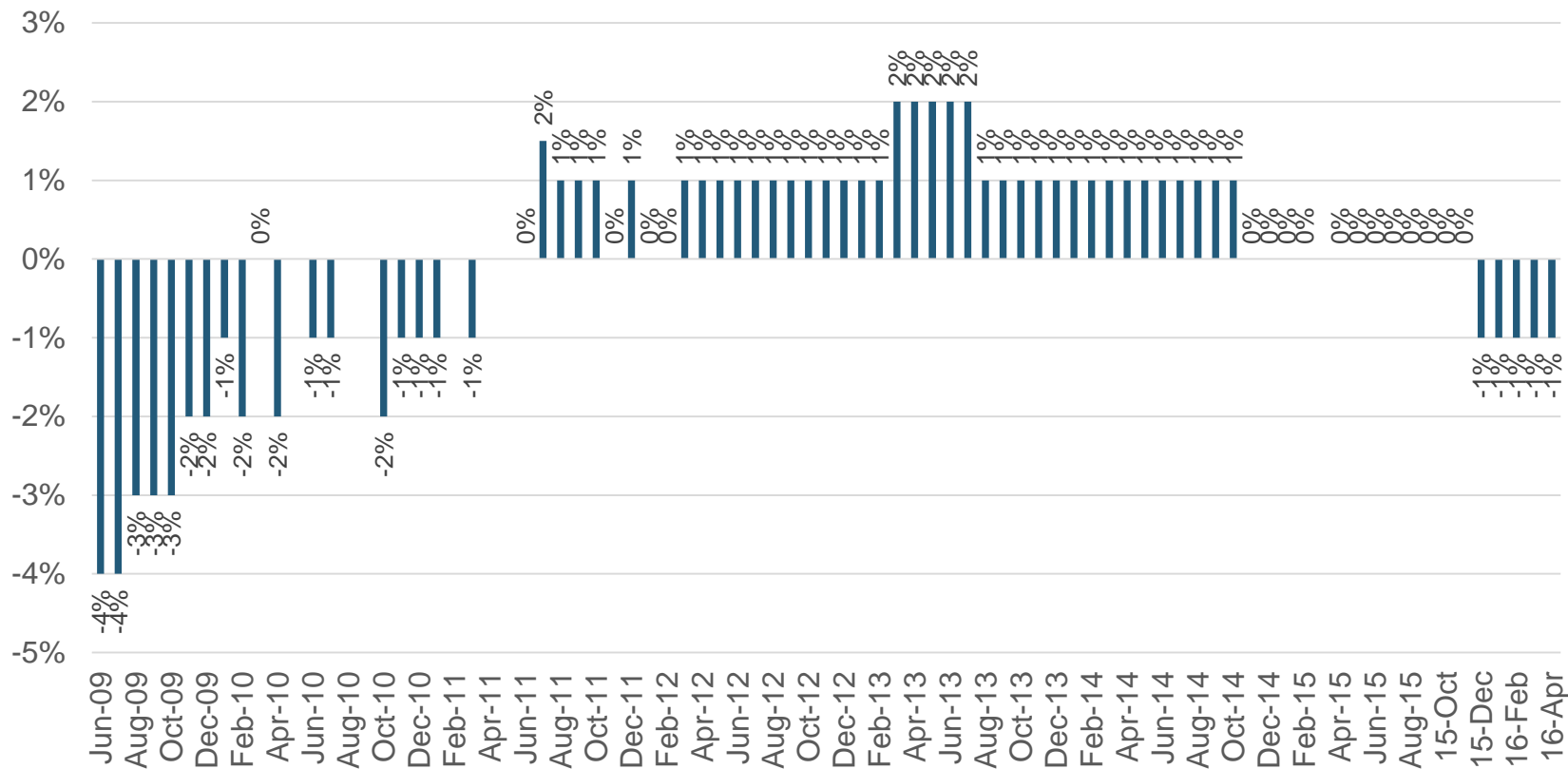
# Fiduciary Liability Rate Change by Month (vs. Year Earlier)



# Crime Rate Change by Month (vs. Year Earlier)



# Surety Rate Change by Month (vs. Year Earlier)





# Rates in The Northeast, Q4 2015\*

## By Account Size

	Down > 10%	Down 1-10%	No Change	Up 1-10%	Up > 10%	N/A
Small (<25K)	0.00%	42.11%	47.36%	0.00%	0.00%	10.53%
Medium (25-100K)	10.53%	63.16%	26.32%	0.00%	0.00%	0.00%
Large (100K+)	10.53%	73.68%	10.53%	0.00%	0.00%	5.26%

This Survey is  
Based on  
Agent  
Estimates.

## By Line of Business

	Down > 10%	Down 1-10%	No Change	Up 1-10%	Up > 10%	N/A
Commercial Auto	0.00%	10.53%	52.63%	31.58%	0.00%	5.26%
Commercial Property	15.79%	63.16%	10.52%	10.53%	0.00%	0.00%
D&O	0.00%	26.32%	42.11%	15.78%	5.26%	10.53%
Flood Insurance	5.26%	10.53%	52.62%	10.53%	10.53%	10.53%
General Liability	5.26%	52.63%	36.85%	0.00%	0.00%	5.26%
Terrorism	5.26%	10.53%	63.16%	5.26%	5.26%	10.53%
Umbrella	10.53%	47.37%	31.58%	5.26%	0.00%	5.26%
Workers Compensation	0.00%	52.63%	36.85%	5.26%	0.00%	5.26%

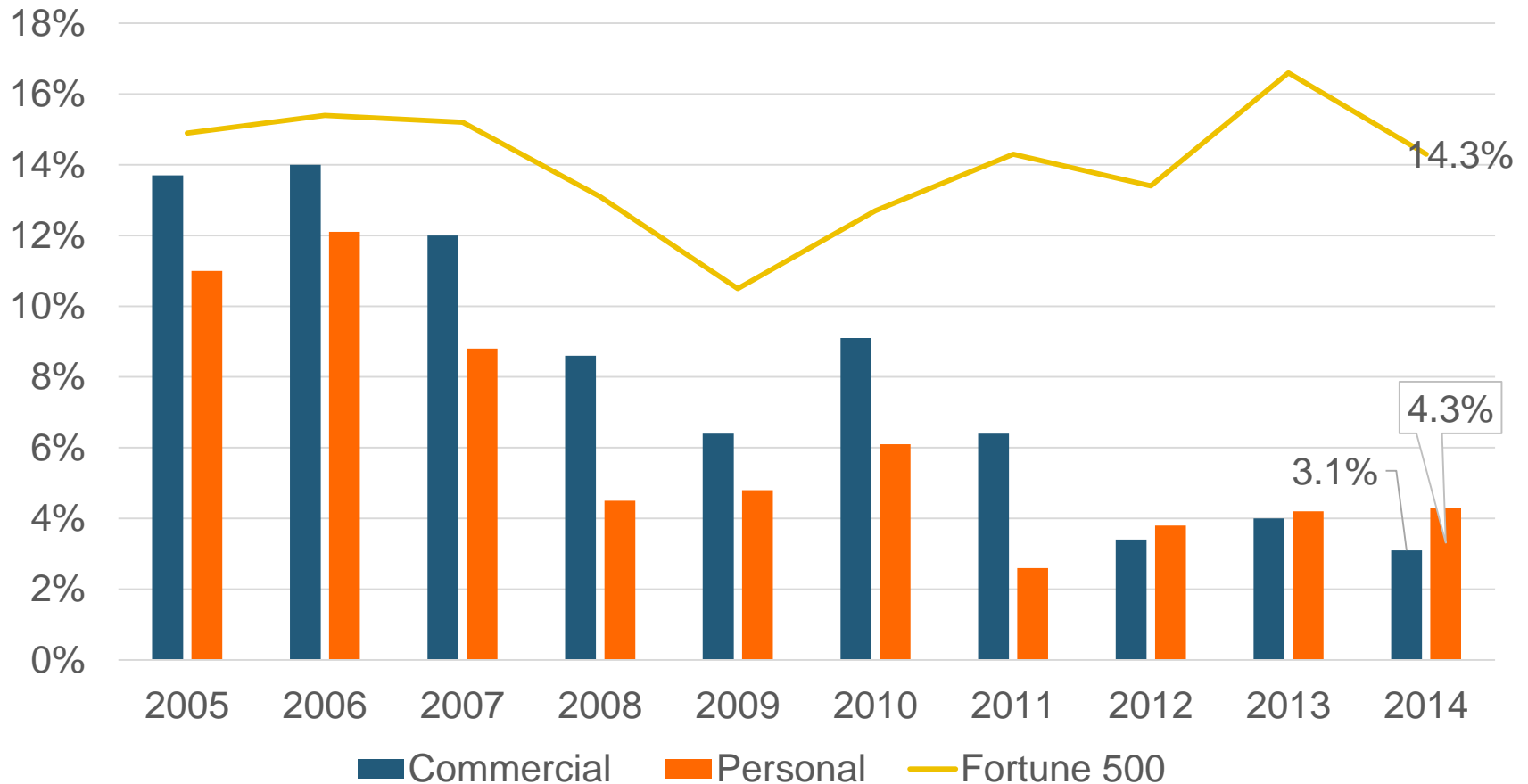
**Rate Changes Can Vary *Significantly* Within States, Lines of Business or Individual Markets.**

\* CT, DE, DC, MA, ME, MD, NH, NJ, NY, PA, RI.  
SOURCE: Council of Insurance Agents & Brokers.

# Auto Insurance

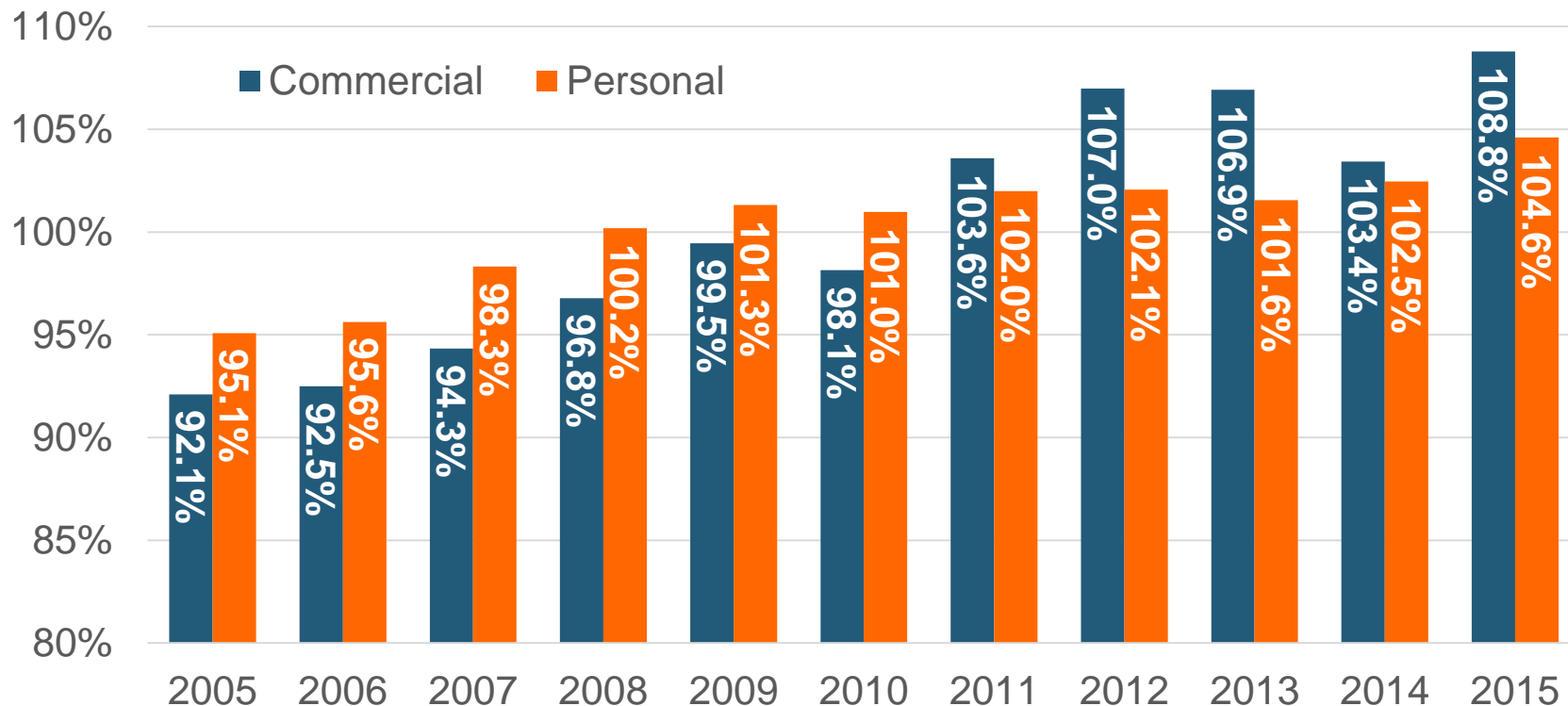
**Rising Frequency, Severity Pinching  
the Largest P/C Line**

# Return on Net Worth: Personal & Commercial Auto, 2005-2014



**Auto Insurance Profitability Has Been Falling for A Decade.**

# Net Combined Ratio, 2005-2015

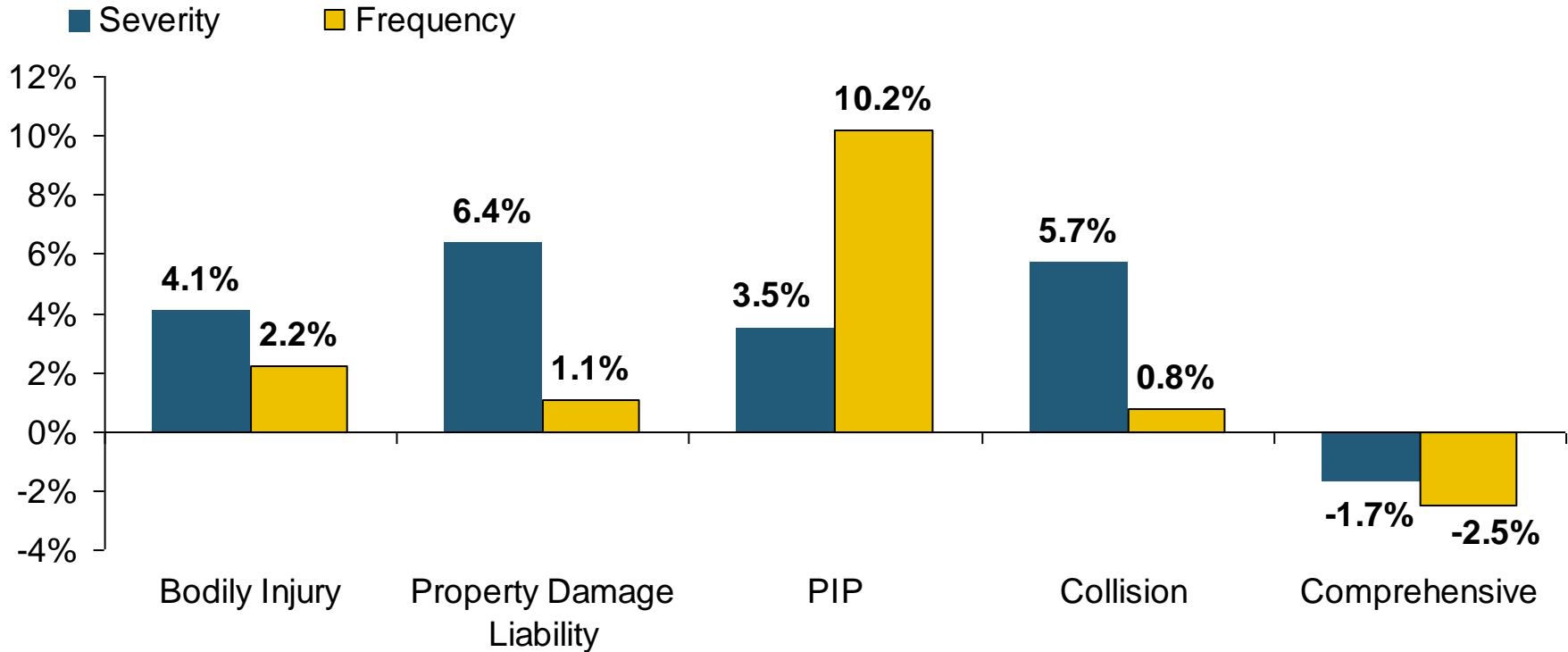


**Loss Ratios Have Been Rising for A Decade. 2015 Return on Net Worth Is Likely Close to Zero or Negative.**

SOURCE: National Association of Insurance Commissioners data, sourced from S&P Global Market Intelligence; Insurance Information Institute.

# Why Personal Auto Loss Ratios Are Rising: Severity & Frequency by Coverage, 2015 vs. 2014

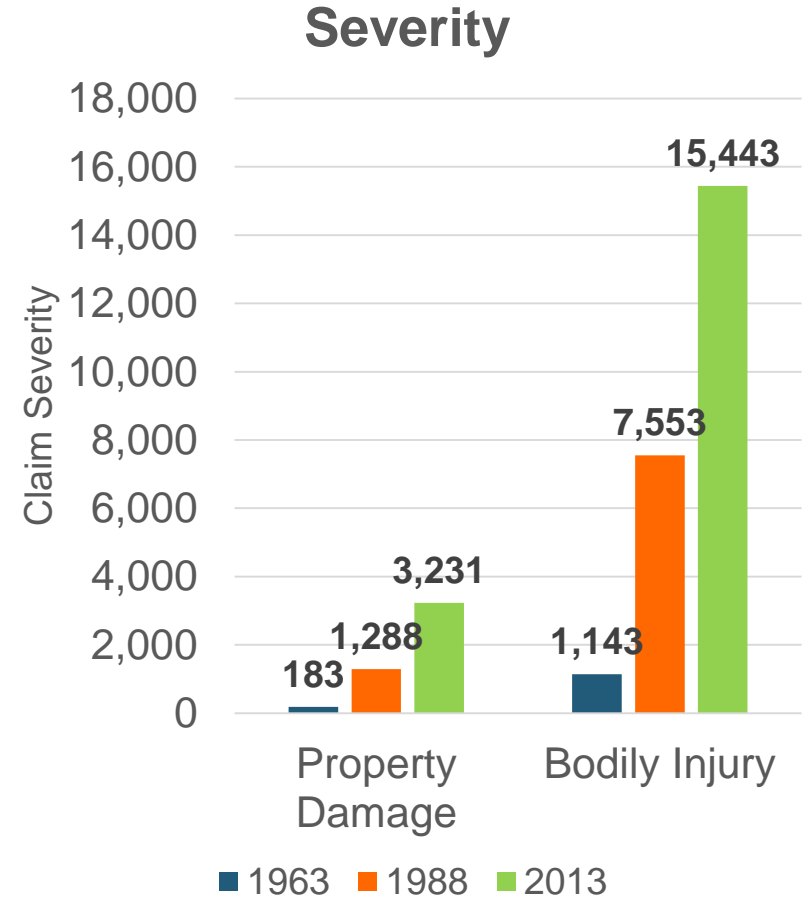
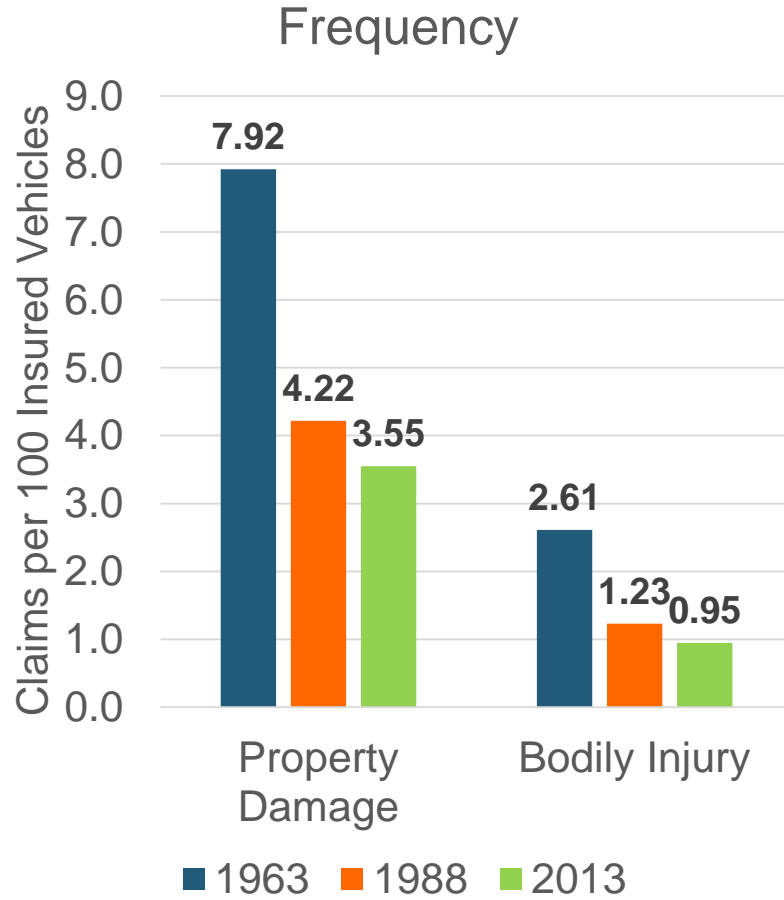
## Annual Change, 2015 Over 2014



**Across All Personal Coverage Types (Except Comprehensive) in 2015, Frequency and Severity Rose. This Pattern is Likely to Continue in 2016**

# Auto Insurance: Frequency vs. Severity

In the Long Run, Frequency Falls. Severity Increases.



Sources: Insurance Institute for Highway Safety, Insurance Services Office, Insurance Information Institute.

# Claim Trends by Coverage

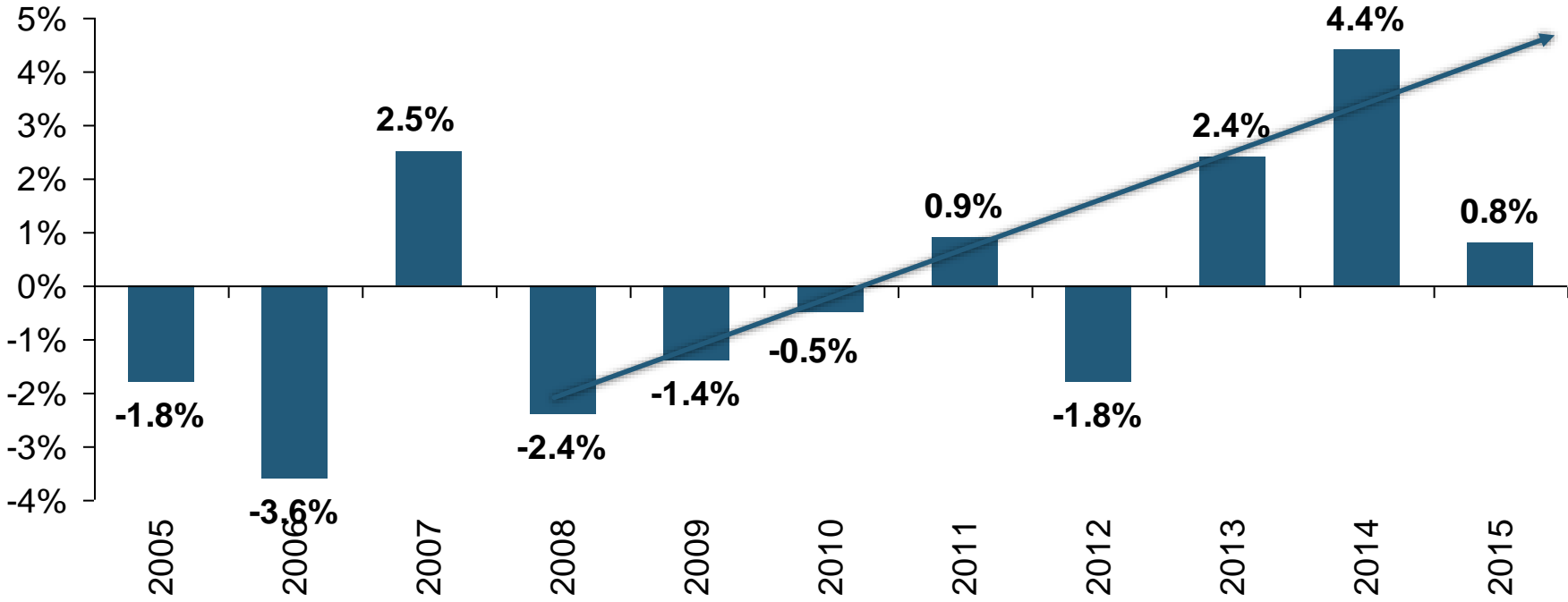
## Focus on Collision

# Collision



# Collision Claims: Frequency Trending Higher in 2015

Annual Change,  
2005 through 2015

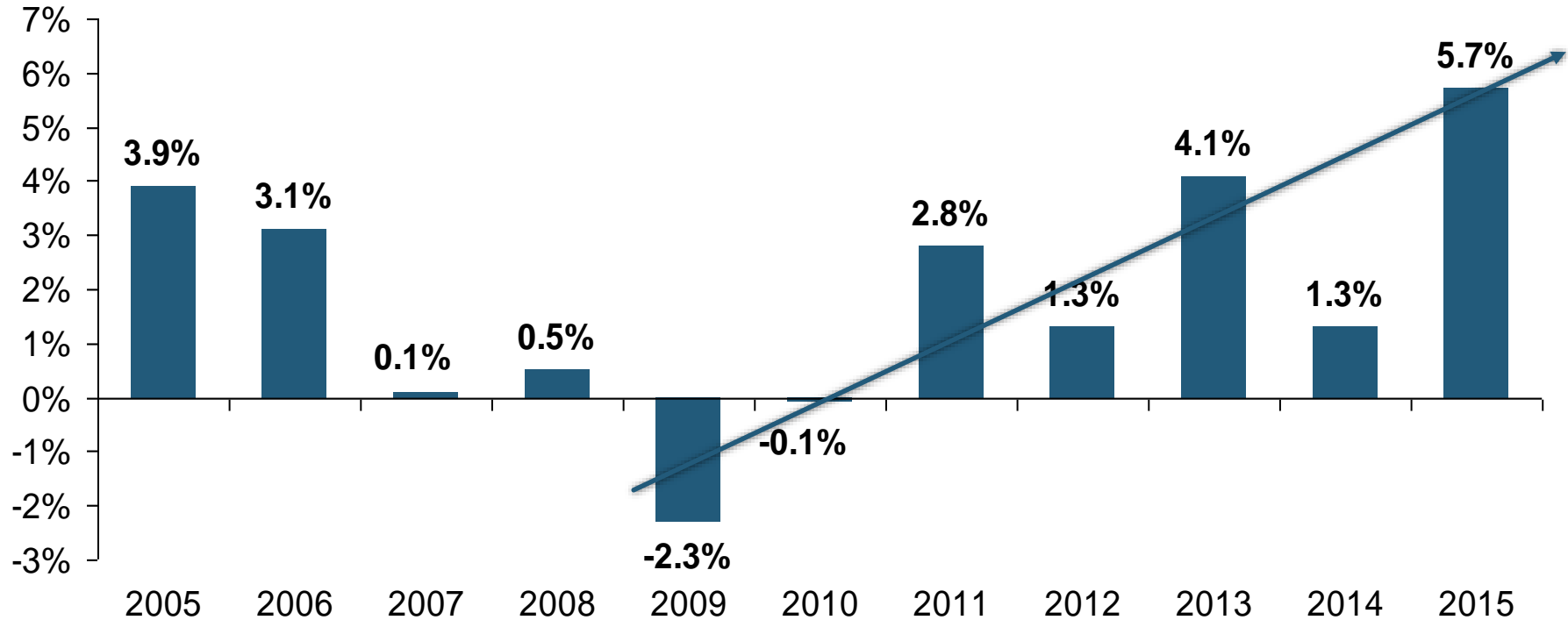


**For a long time, claim frequency has been falling, but since 2009 this trend seems to have reversed.**

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

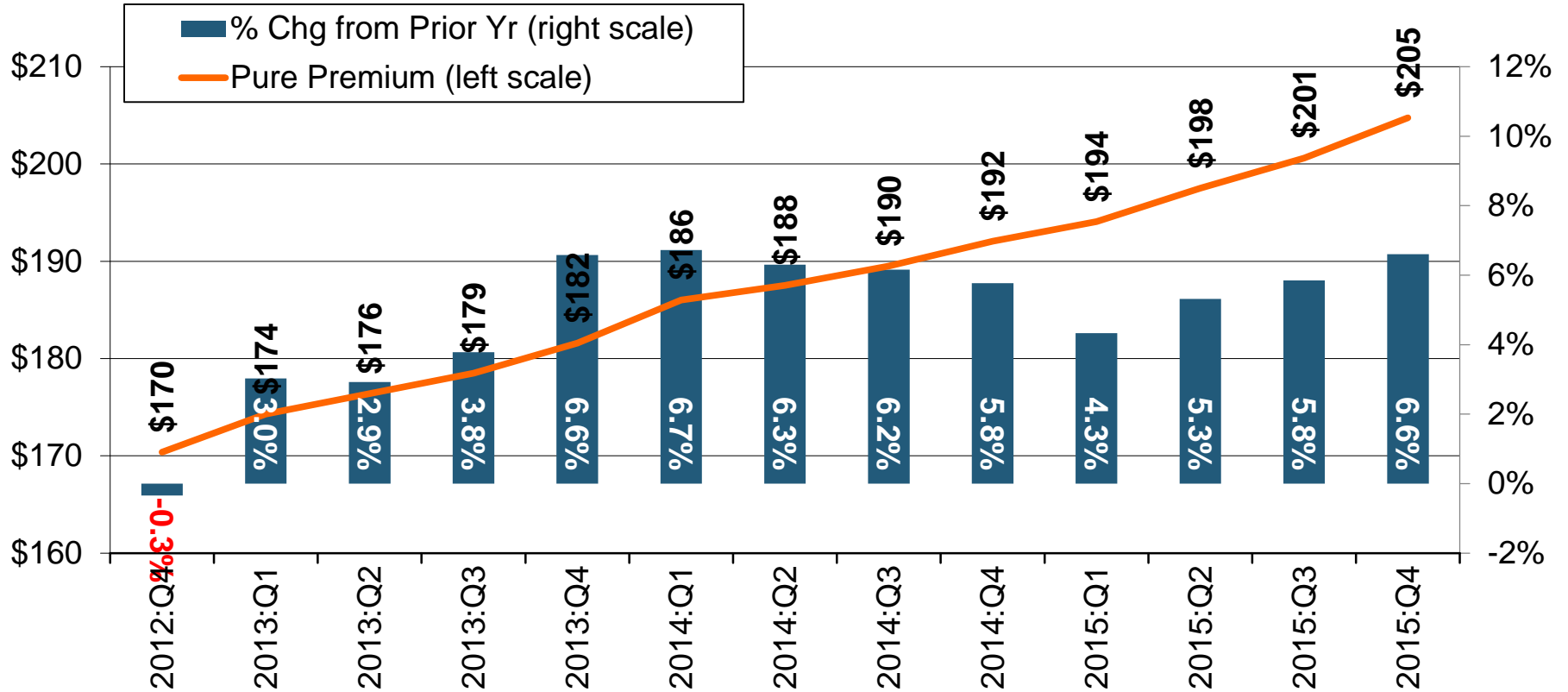
# Collision Claims: Severity Trending Higher in 2009-2015

Annual Change,  
2005 through 2015



**The Great Recession and high fuel prices helped to temper claim severity, but these forces have clearly reversed, consistent with experience from past recoveries**

# Collision Claims: Pure Premium (Losses per Insured Unit), 2011:Q4-2015:Q4



**Over the latest four years, the collision pure premium rose by 19.75%.**

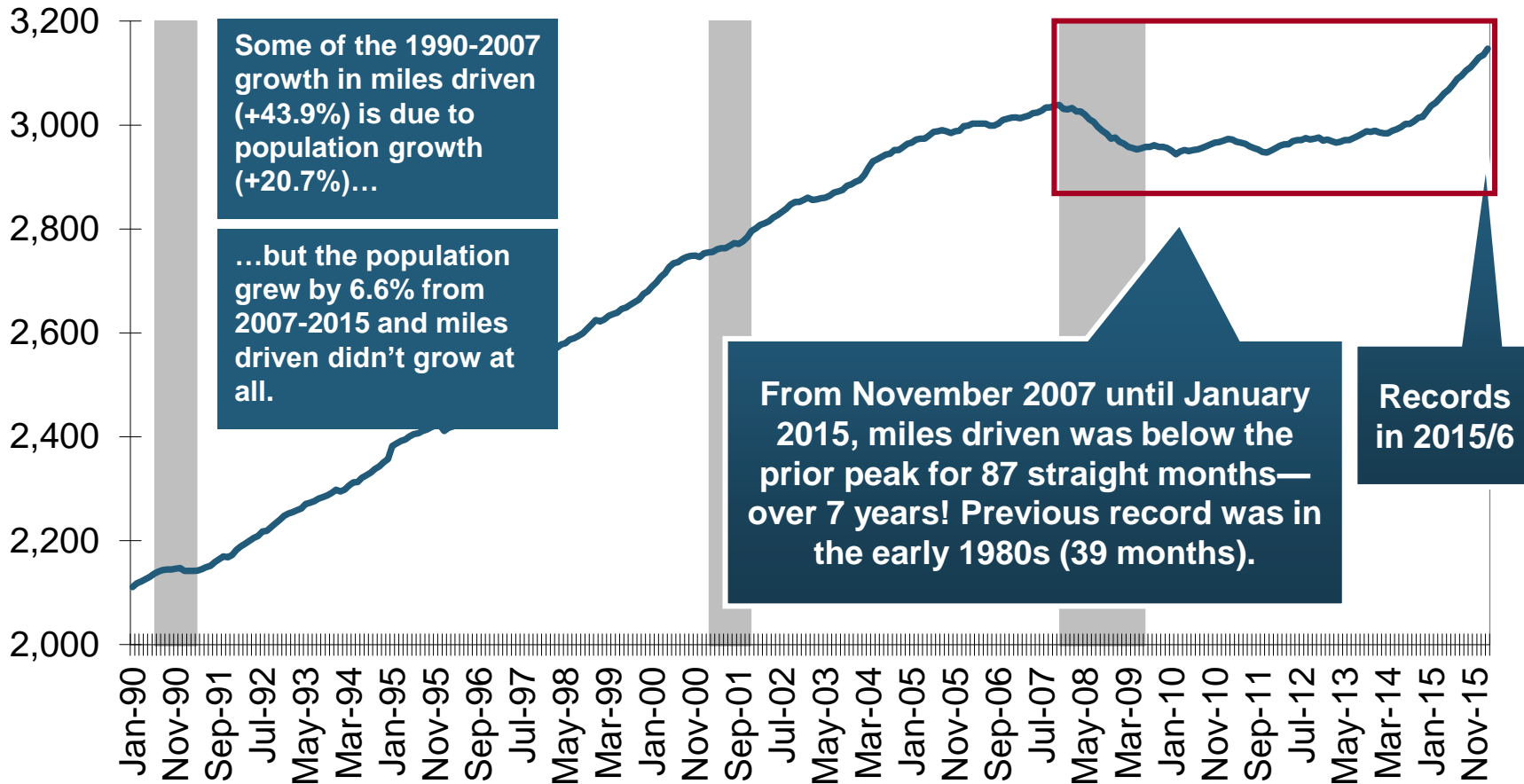
Note: Number of claims is for four quarters ending in quarter shown  
 Source: ISO/PCI *Fast Track* data; Insurance Information Institute

# What's Driving These Trends?

**Frequency; Severity**

# America is Driving More Again: Total Miles Driven\*, 1990-2016

Billions of Miles Driven



\*Moving 12-month total. Data through February 2016, the latest available.  
Note: Recessions indicated by shaded columns.

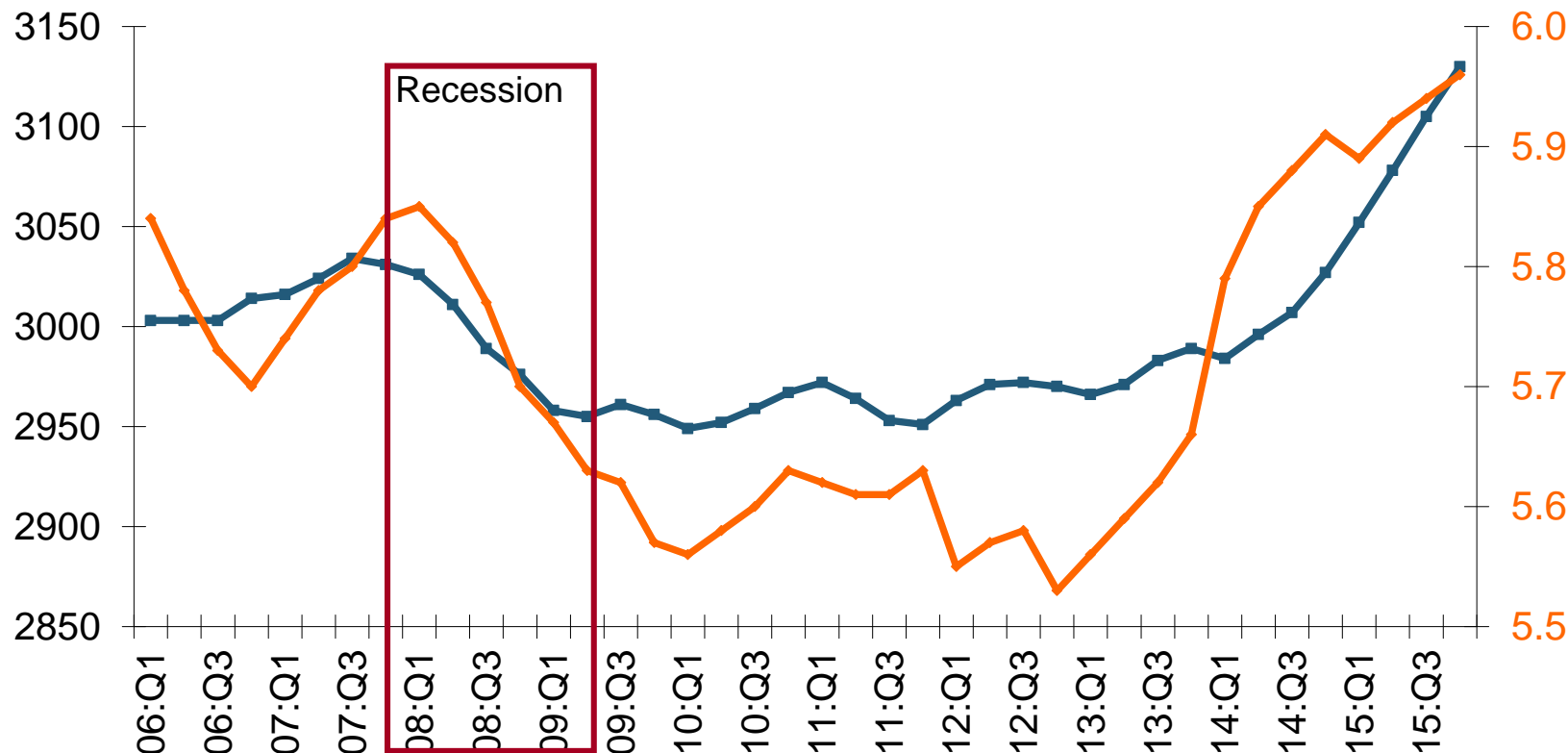
Sources: Federal Highway Administration ([http://www.fhwa.dot.gov/policyinformation/travel\\_monitoring/tvt.cfm](http://www.fhwa.dot.gov/policyinformation/travel_monitoring/tvt.cfm)); National Bureau of Economic Research (recession dates); Insurance Information Institute.

# More Miles Driven => More Collisions, 2006–2015

Billions of Miles Driven in Prior Year

— Miles Driven (left axis) — Collision Claim Frequency (right axis)

Overall Collision Claims Per 100 Insured Vehicles

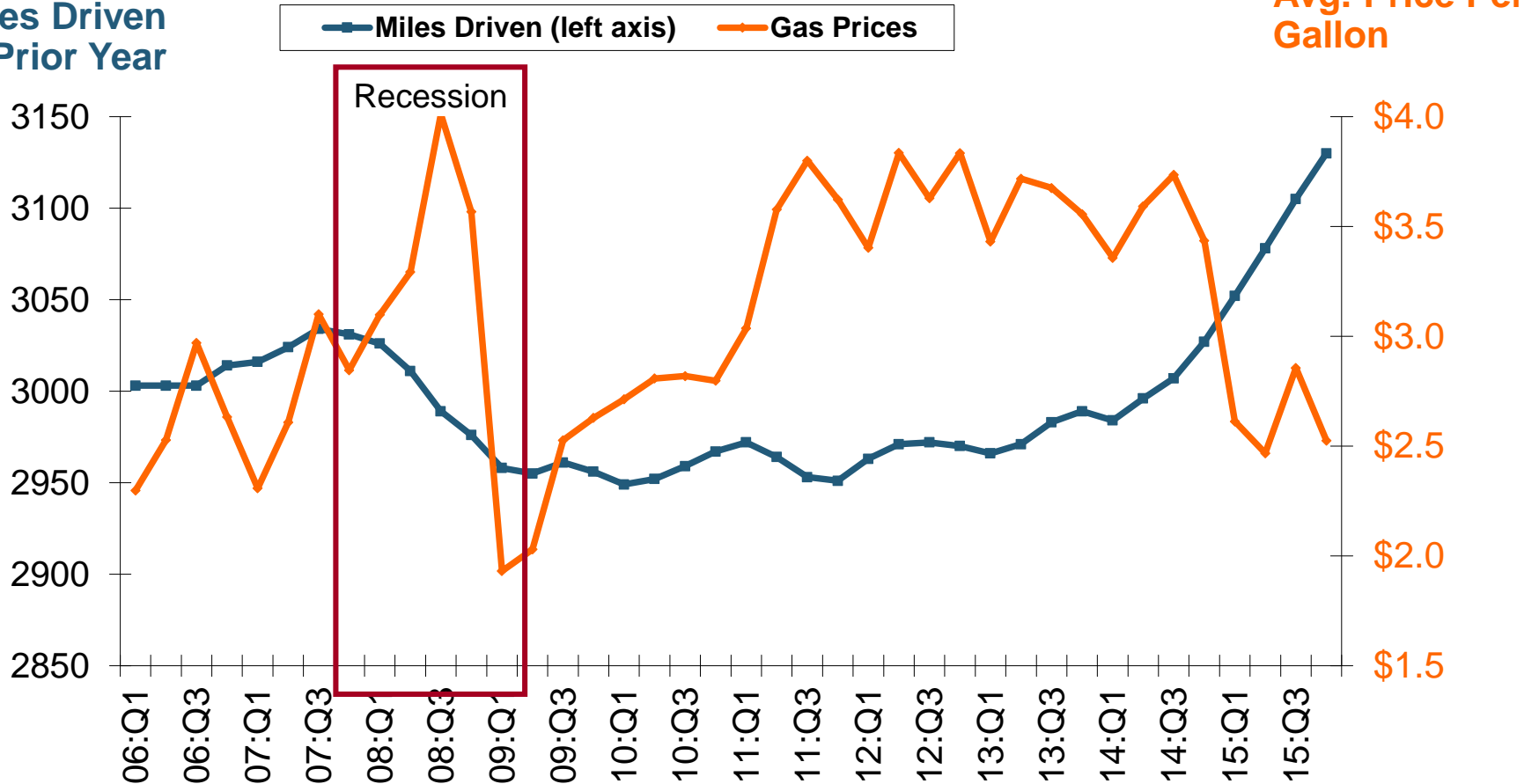


**The more miles people drive, the more likely they are to get in an accident, helping drive claim frequency higher.**

Sources: Federal Highway Administration ([http://www.fhwa.dot.gov/policyinformation/travel\\_monitoring/tvt.cfm](http://www.fhwa.dot.gov/policyinformation/travel_monitoring/tvt.cfm)); Rolling Four-Qtr Avg. Frequency from Insurance Services Office; Insurance Institute for Highway Safety; Insurance Information Institute.

# Why Are People Driving More Miles? Cheap Gas?

Billions of Miles Driven in Prior Year



**Gas Prices Don't Seem Correlated With Miles Driven.**

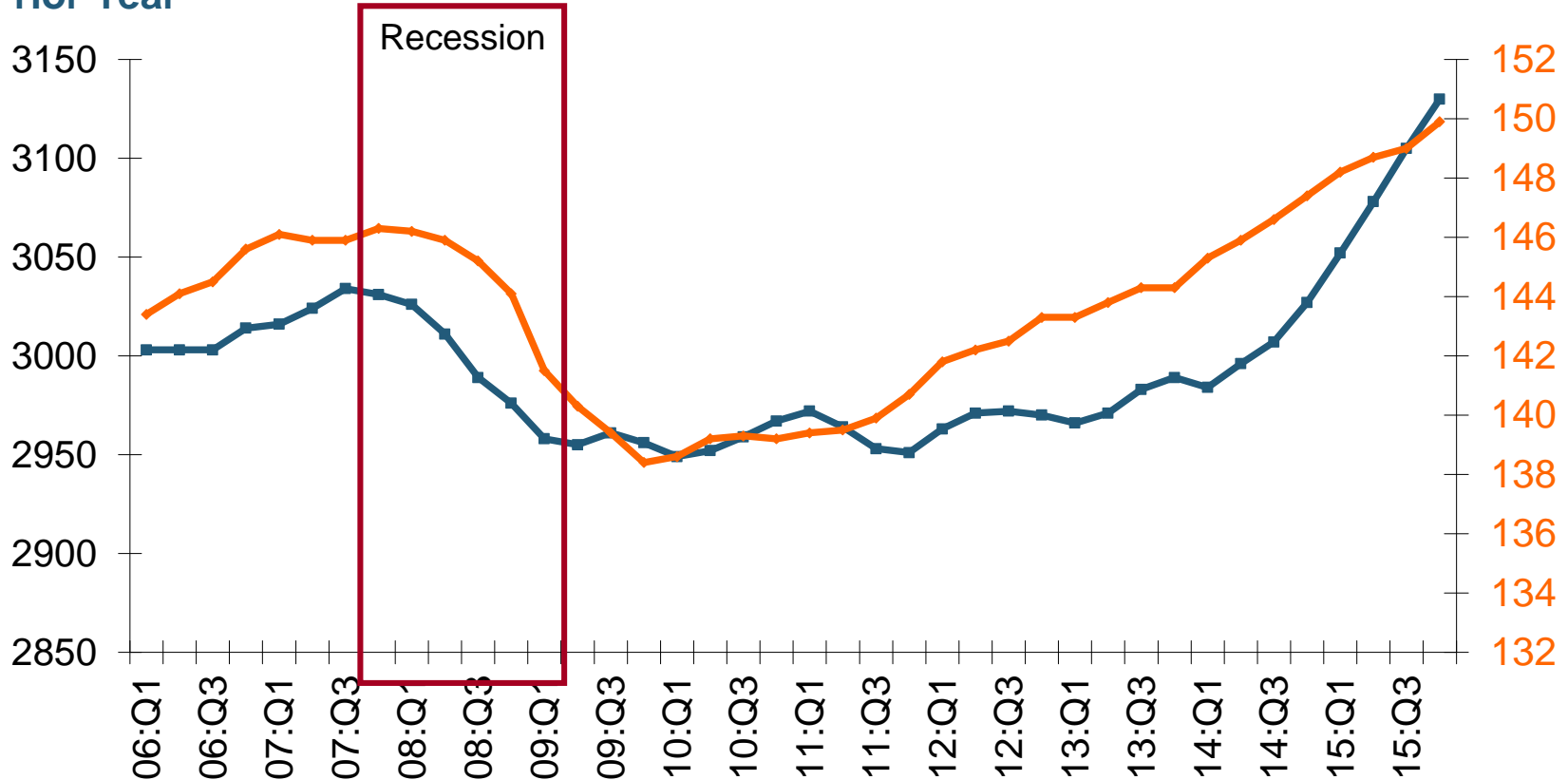
Sources: Federal Highway Administration ([http://www.fhwa.dot.gov/policyinformation/travel\\_monitoring/tvt.cfm](http://www.fhwa.dot.gov/policyinformation/travel_monitoring/tvt.cfm)); [Energy Information Administration](#); Insurance Institute for Highway Safety; Insurance Information Institute.

# Why Are People Driving More Miles? Jobs?

Billions of Miles Driven in Prior Year

— Miles Driven (left axis) — # Employed

Millions Employed



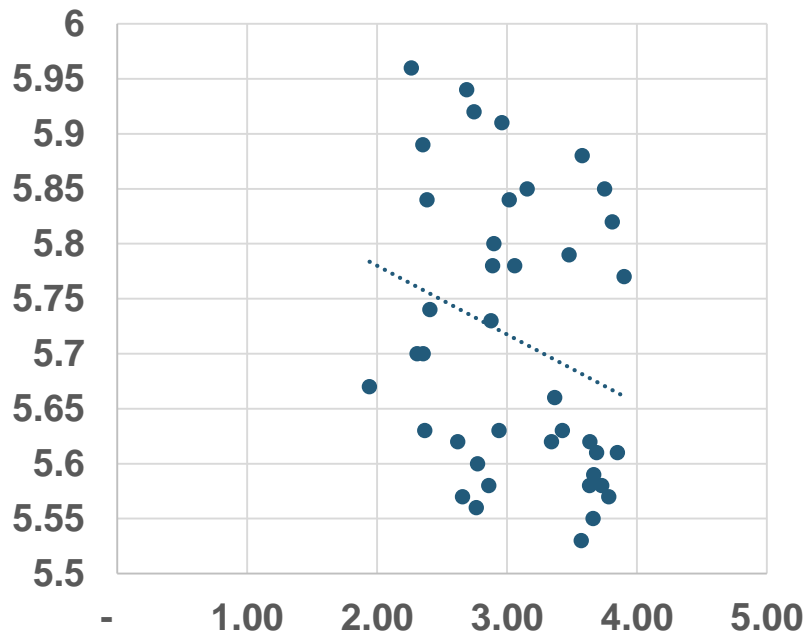
**People Drive To and From Work and Drive to Entertainment. Out of Work, They Curtail Their Movement.**

Sources: Federal Highway Administration ([http://www.fhwa.dot.gov/policyinformation/travel\\_monitoring/tvt.cfm](http://www.fhwa.dot.gov/policyinformation/travel_monitoring/tvt.cfm)); Seasonally Adjusted Employed from Bureau of Labor Statistics; Insurance Institute for Highway Safety; Insurance Information Institute.

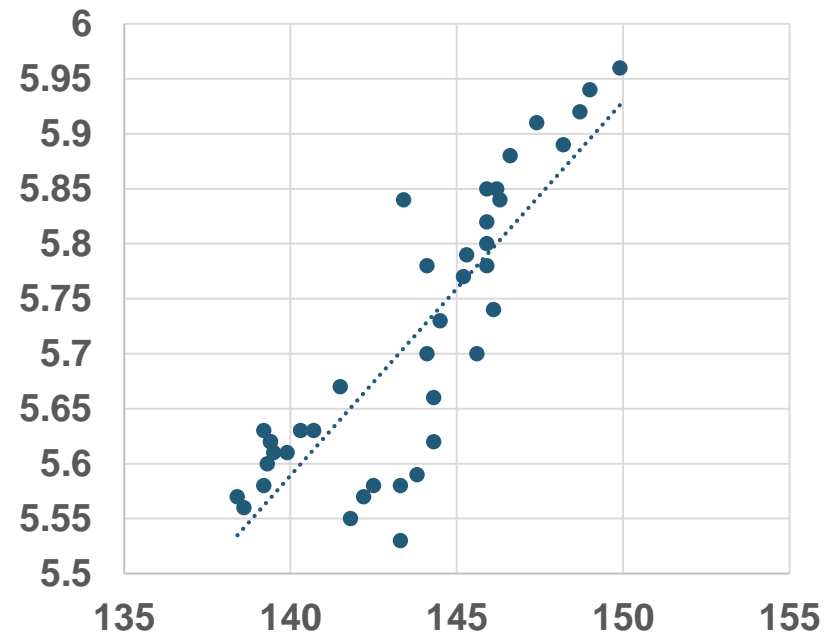


# Comparing Gas Prices, Employment on Collision Frequency

## Gas price vs. Collision Frequency



## Number Employed vs. Collision Frequency



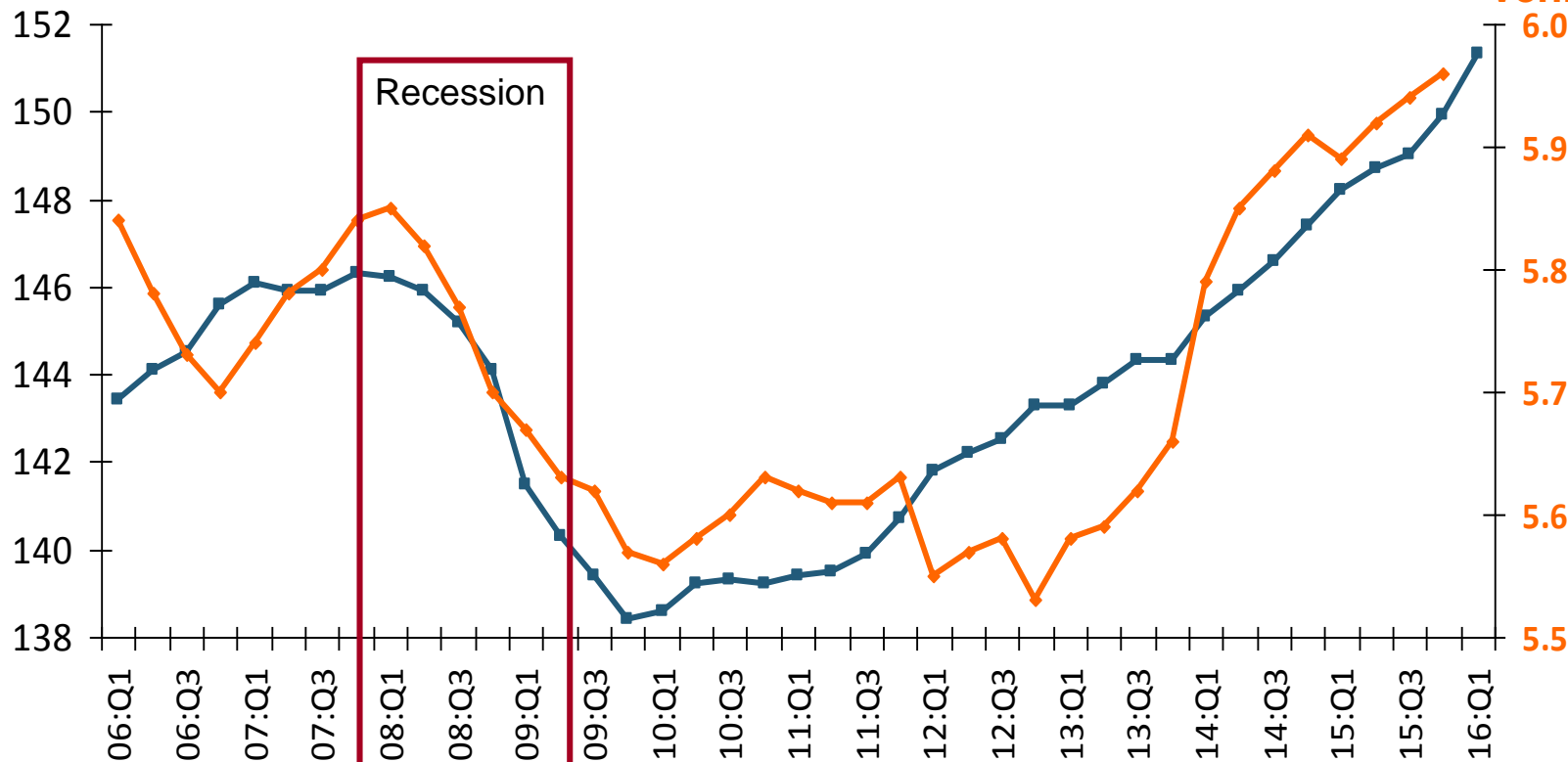
Sources: Seasonally Adjusted Employed from Bureau of Labor Statistics; Energy Information Administration; Rolling Four-Qtr Avg. Frequency from Insurance Services Office; Insurance Information Institute.

# More People Working and Driving => More Collisions, 2006-2016

Number  
Employed,  
Millions

■ Number Employed (left scale)    ◆ Collision Claim Frequency (right scale)

Overall  
Collision Claims  
Per 100 Insured  
Vehicles

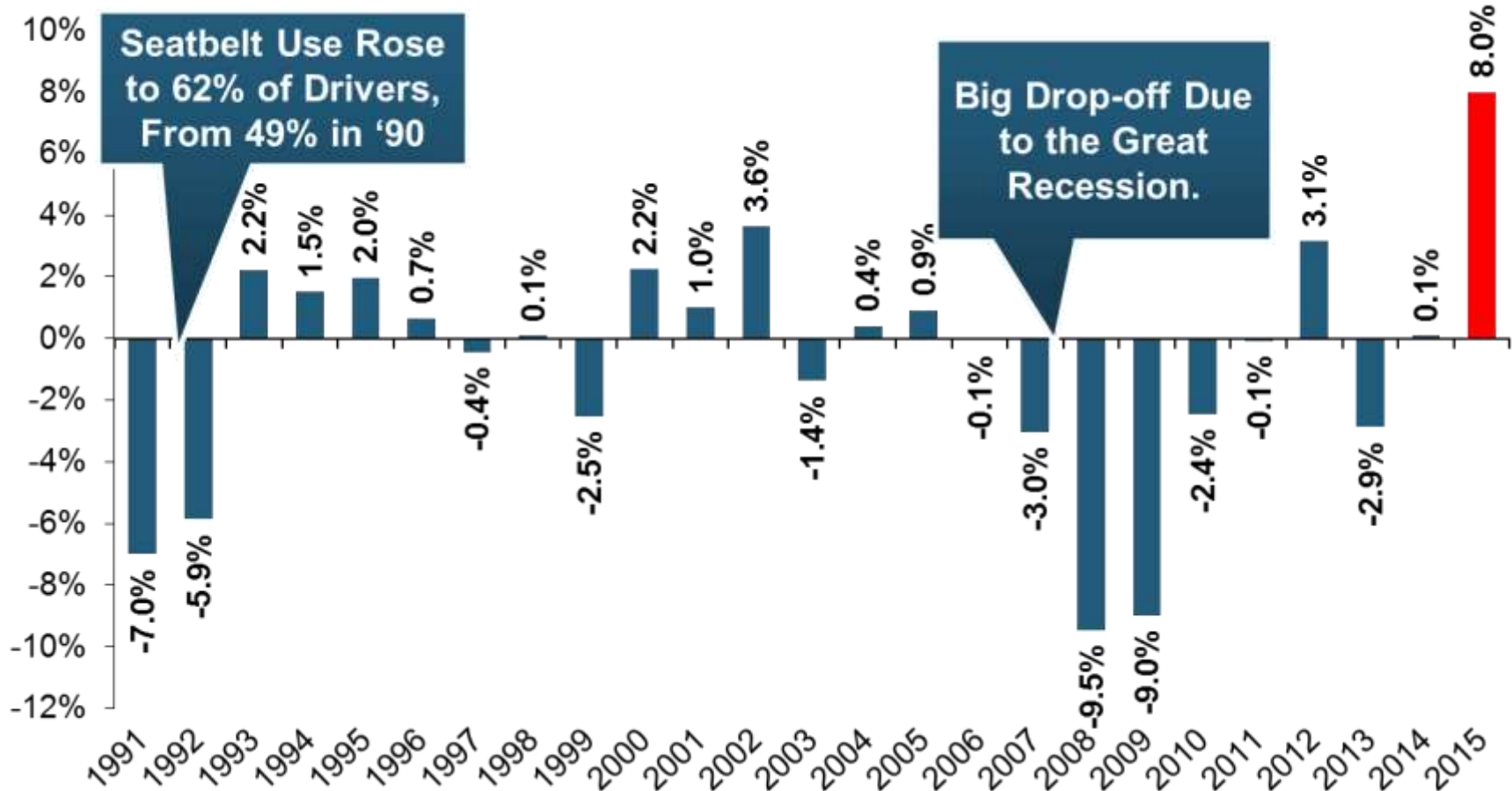


**When people are out of work, they drive less. When they get jobs, they drive to work, helping drive claim frequency higher.**

Sources: Seasonally Adjusted Employed from Bureau of Labor Statistics; Rolling Four-Qtr Avg. Frequency from Insurance Services Office; Insurance Information Institute.

# Severity: Driving Fatalities Are Rising

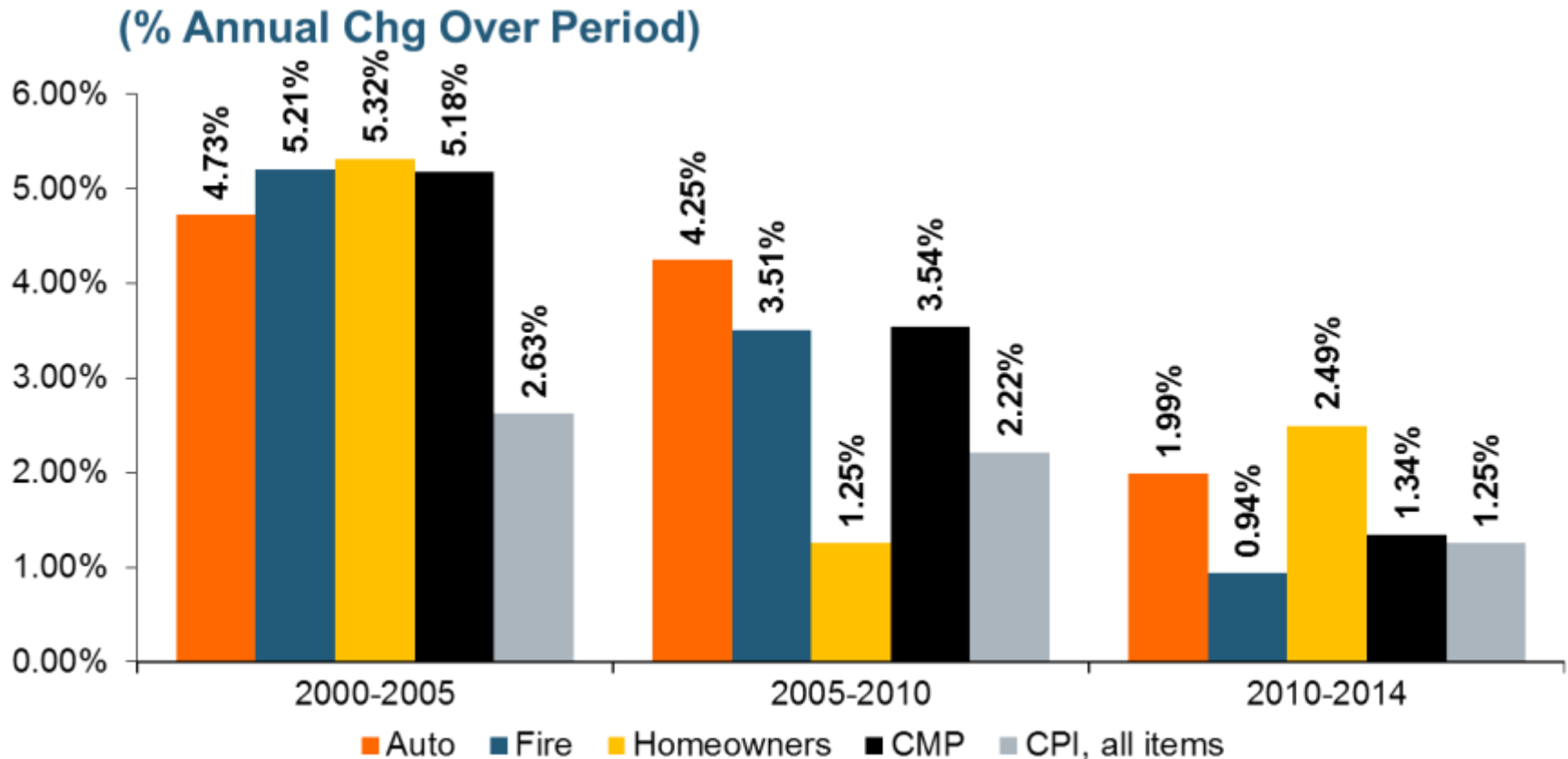
Annual Change in Motor Vehicle Deaths



**Driving Has Been Getting Safer For Decades, But Recent Trend Is Discouraging—38,300 Deaths in 2015**

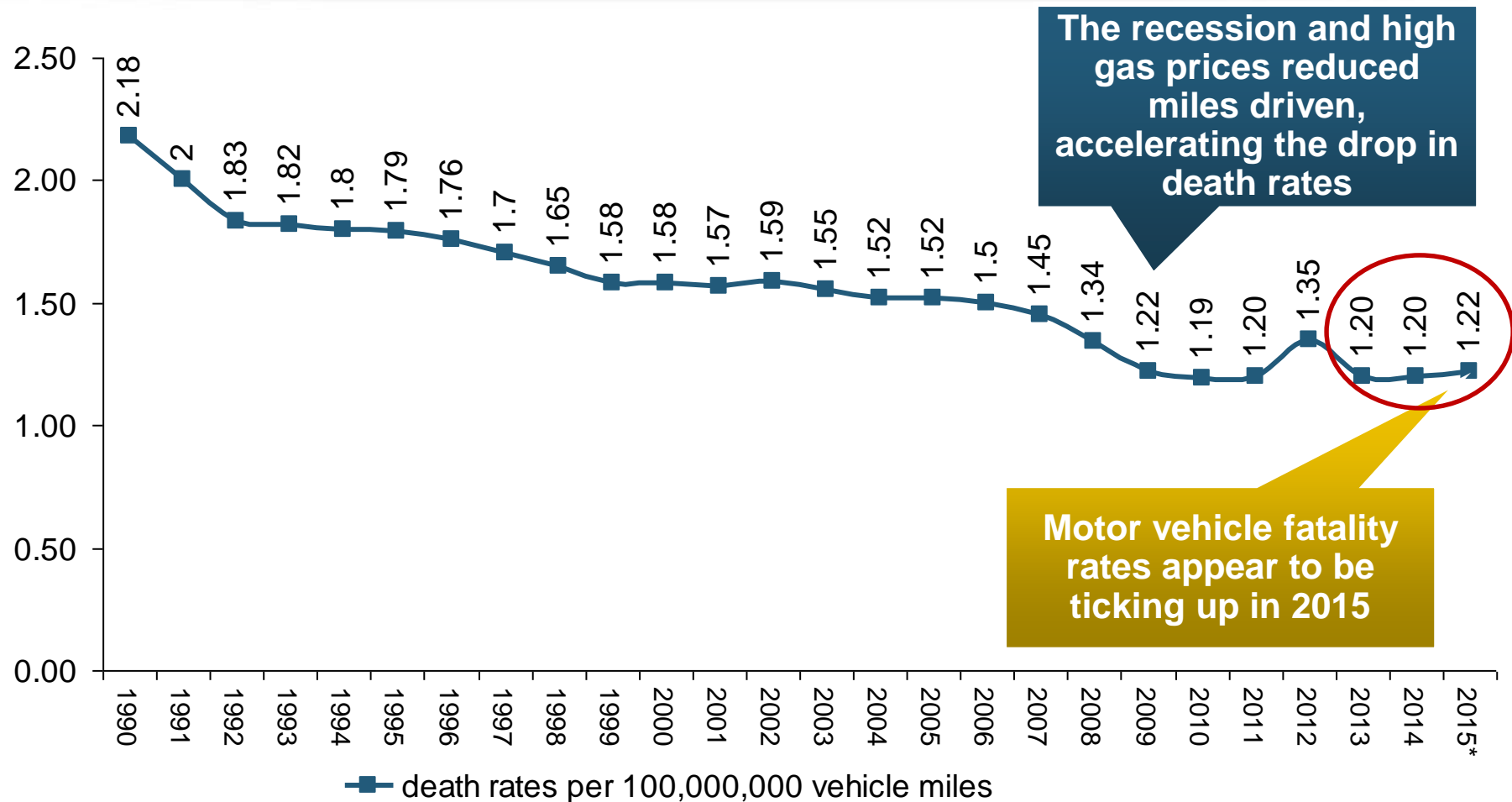
Sources: National Safety Council, Insurance Information Institute.

# Loss Trends vs. CPI: Not Just Auto



**In Recent Years, Claim Costs Have Risen at About the Inflation Rate. If We Return to the Norm, Claim Costs Will Rise.**

# Death Rates per 100,000,000 Vehicle miles, 1990-2015\*



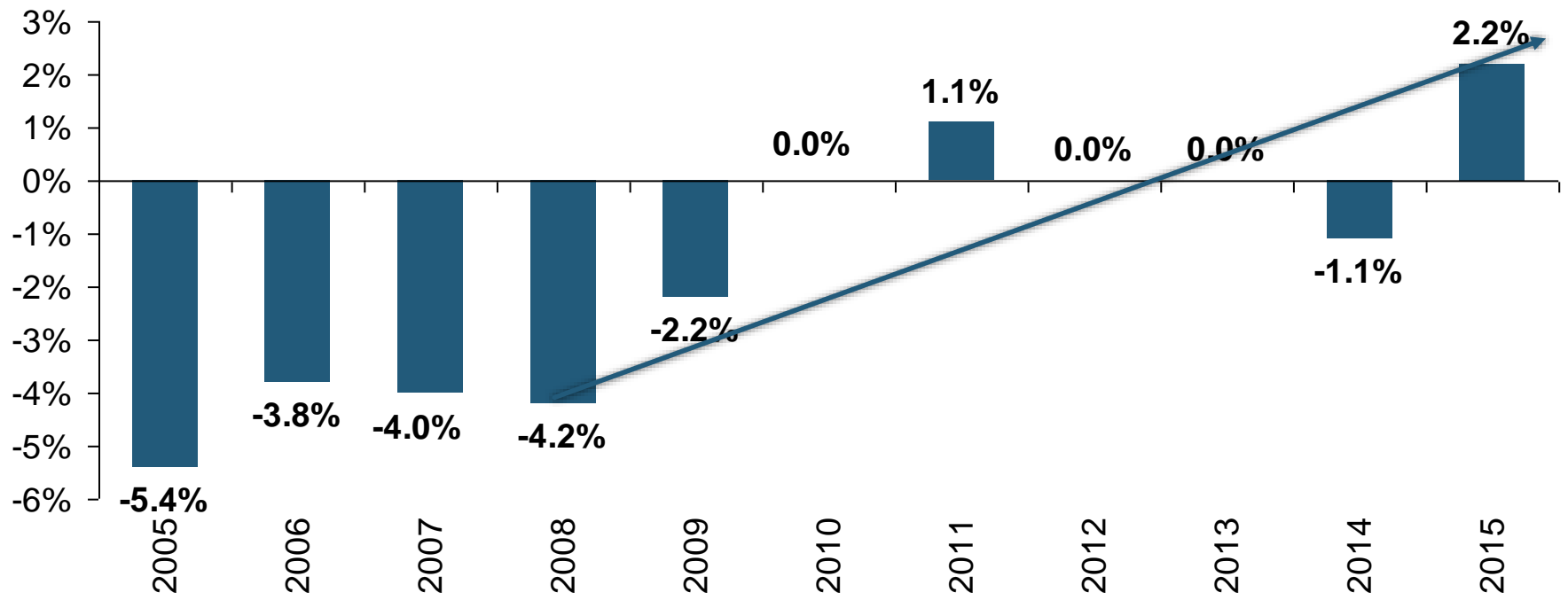
**Vehicle death rates fell by nearly half between 1990 and 2010.**

Source: National Safety Council; Federal Highway Administration; Insurance Information Institute.

# Bodily Injury Liability

# Bodily Injury: Frequency Trending Higher Since 2009

Annual Change,  
2005 through 2015

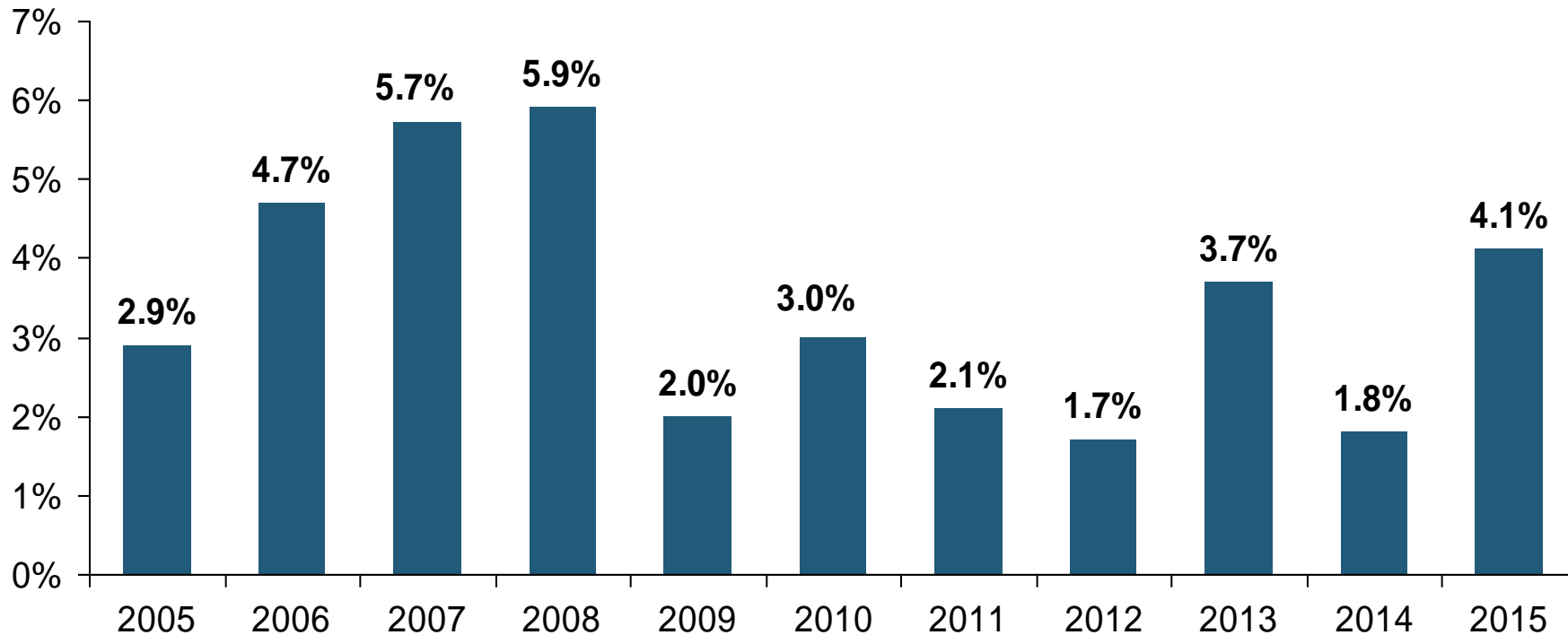


**For a long time, claim frequency has been falling, but since 2009 this trend seems to have reversed.**

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

# Bodily Injury: Severity Rising Every Year in the Past Decade

Annual Change,  
2005 through 2015

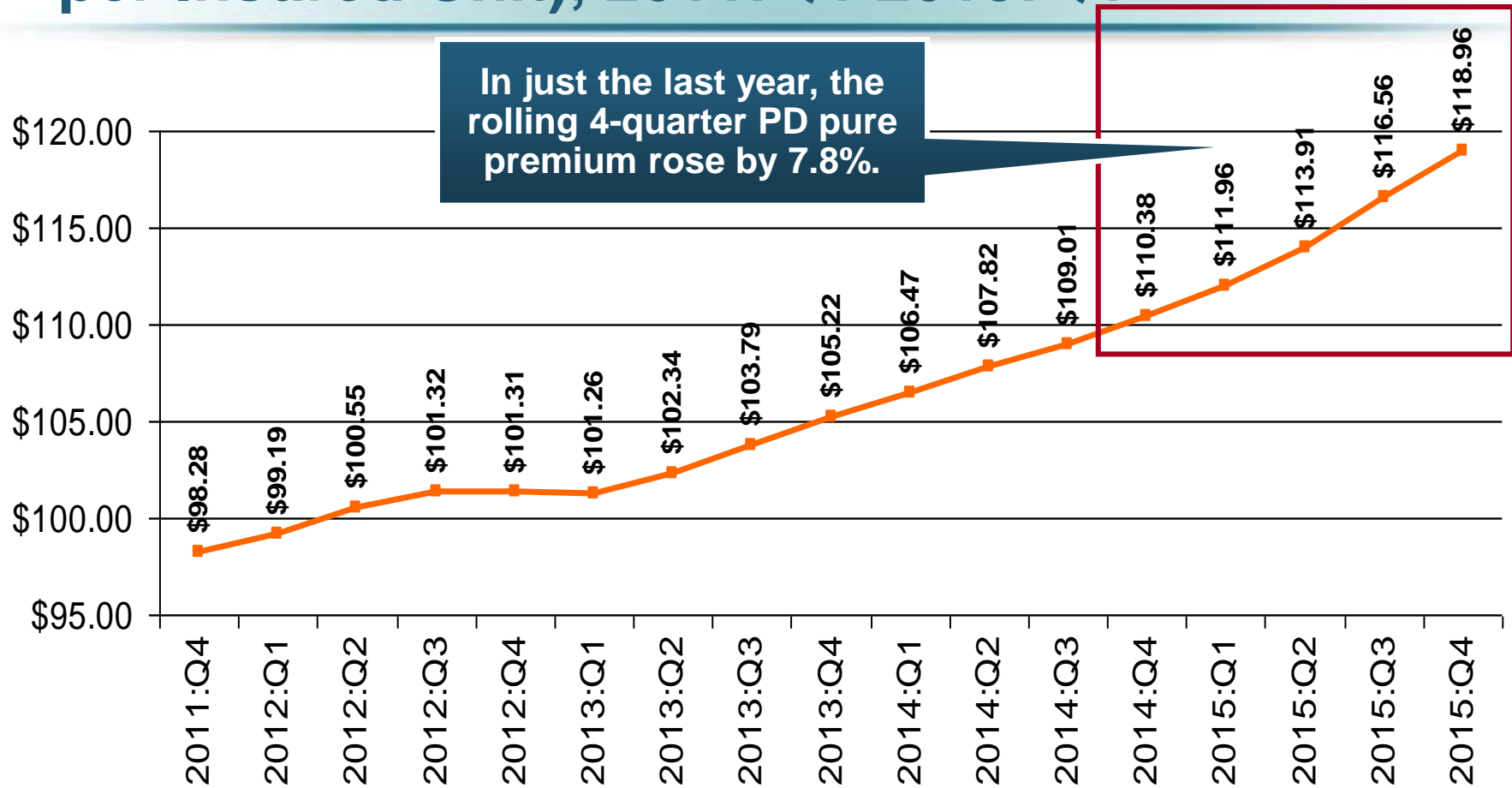


**The Great Recession and high fuel prices helped to temper increases in claim severity, but there are signs that larger increases have returned**



# Property Damage Liability

# Property Damage Pure Premium (Losses per Insured Unit), 2011:Q4-2015:Q4

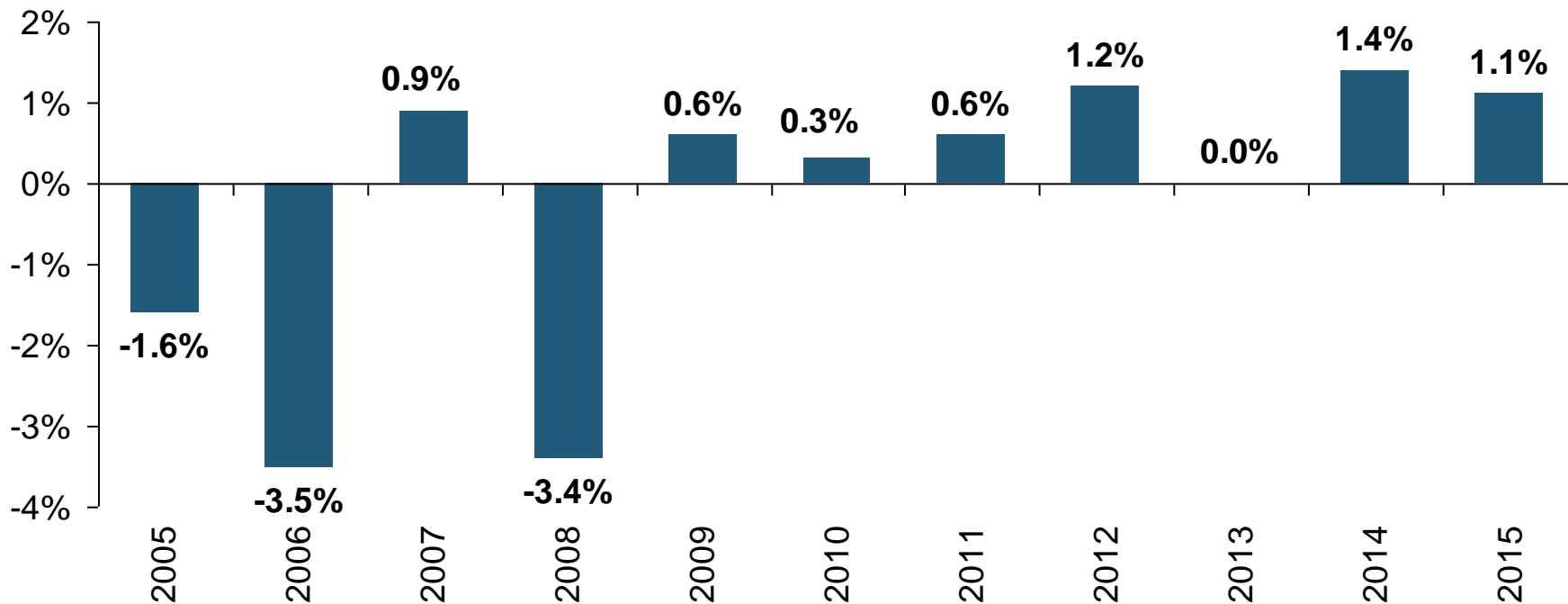


**Over the latest four years,  
the PD pure premium rose by 21.04%.**

Note: Number of claims is for four quarters ending in quarter shown  
Source: ISO/PCI *Fast Track* data; Insurance Information Institute

# Property Damage: Frequency Trending Higher Since 2009

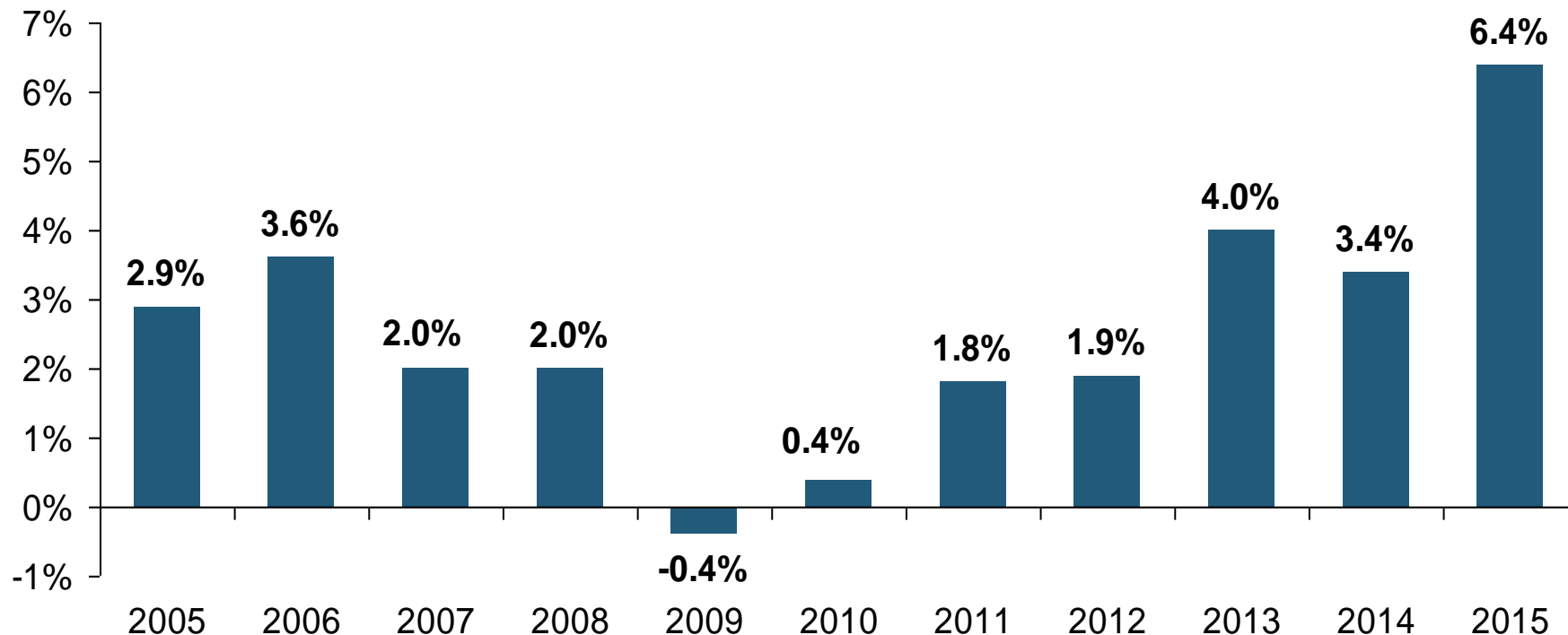
Annual Change,  
2005 through 2015



**Before 2009 property damage claim frequency generally fell. Since 2009 claim frequency has been rising virtually every year.**

# Property Damage: Severity Rising Every Year in the Past Decade

Annual Change,  
2005 through 2015

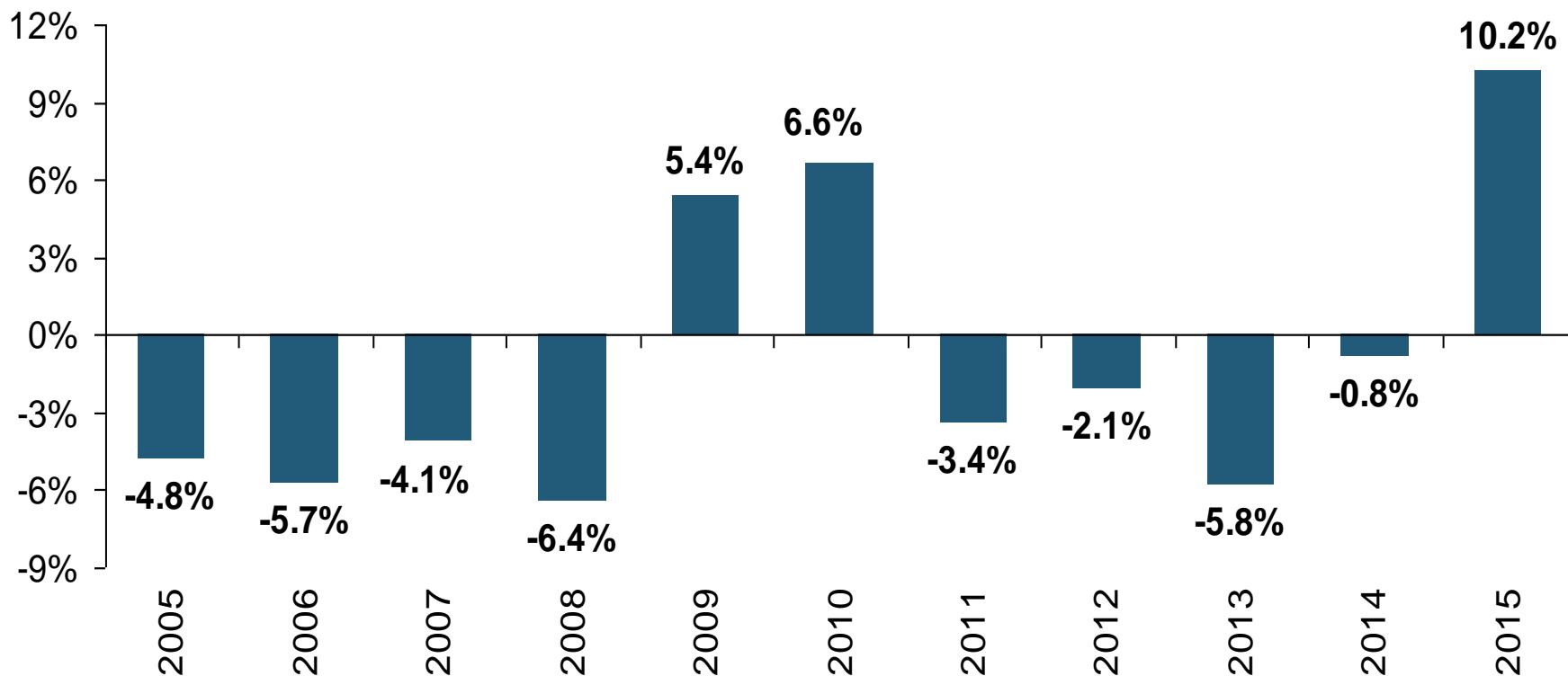


**The Great Recession and high fuel prices helped to temper increases in claim severity, but there are signs that larger increases have returned**

# Personal Injury Protection (PIP)

# No-Fault (PIP): Frequency Trending Higher Since 2009

Annual Change,  
2005 through 2015



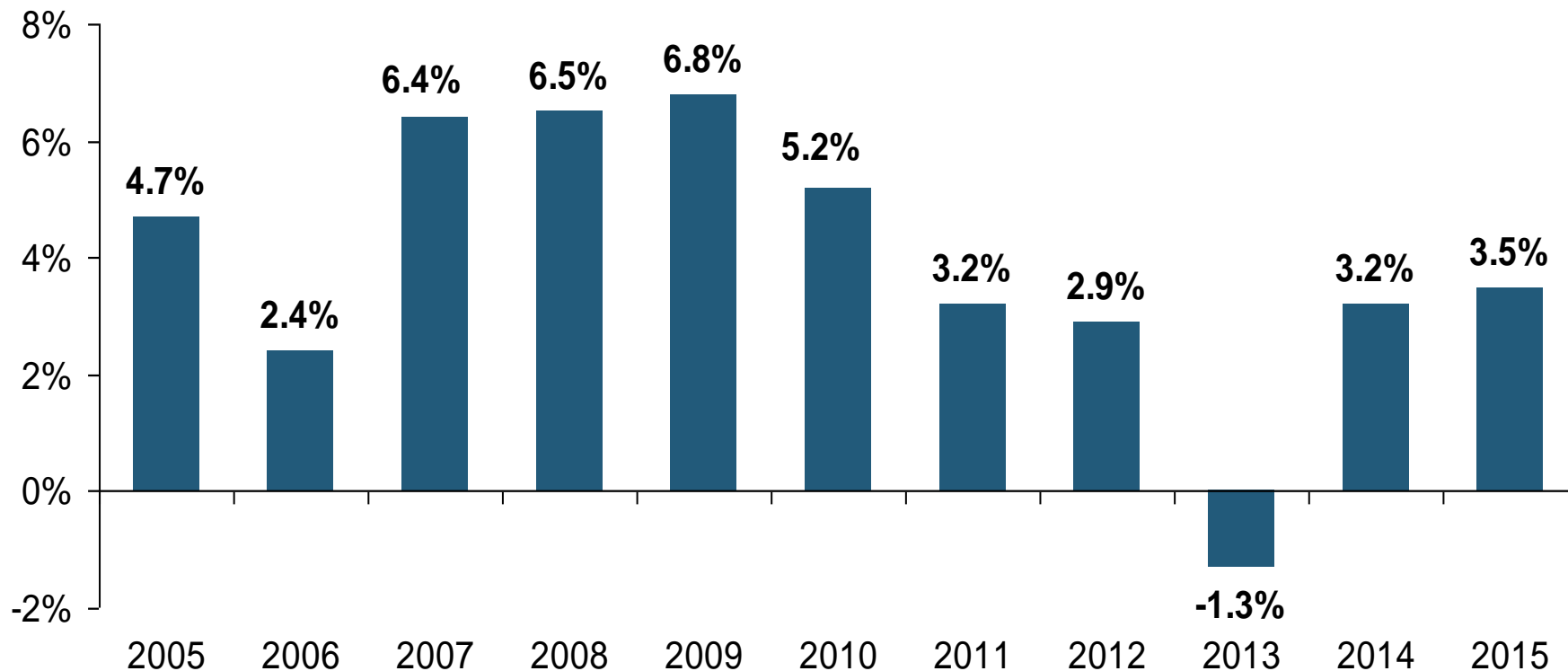
**No-Fault Systems Are Less Problematic in Some States but Still of Concern in Some, Such as Florida**

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

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

# No-Fault (PIP): Severity Rising Virtually Every Year in the Past Decade

Annual Change,  
2005 through 2015



**No-Fault Systems Are Less Problematic in Some States but Still of Concern in Some, Such as MI**

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

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

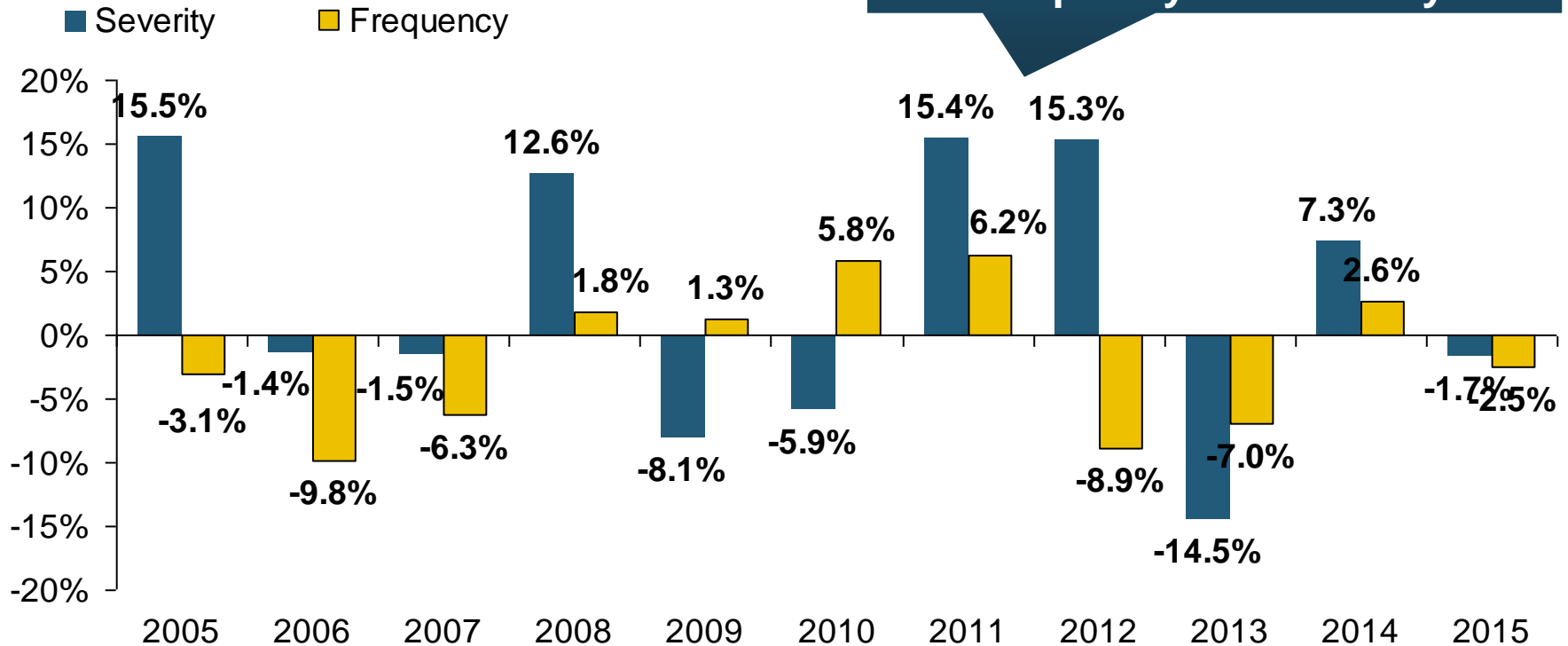
# Comprehensive



# Comprehensive Coverage: Frequency and Severity Trends Are Volatile

Annual Change, 2005 through 2015

Severe weather is a principal cause of the spikes in both frequency and severity



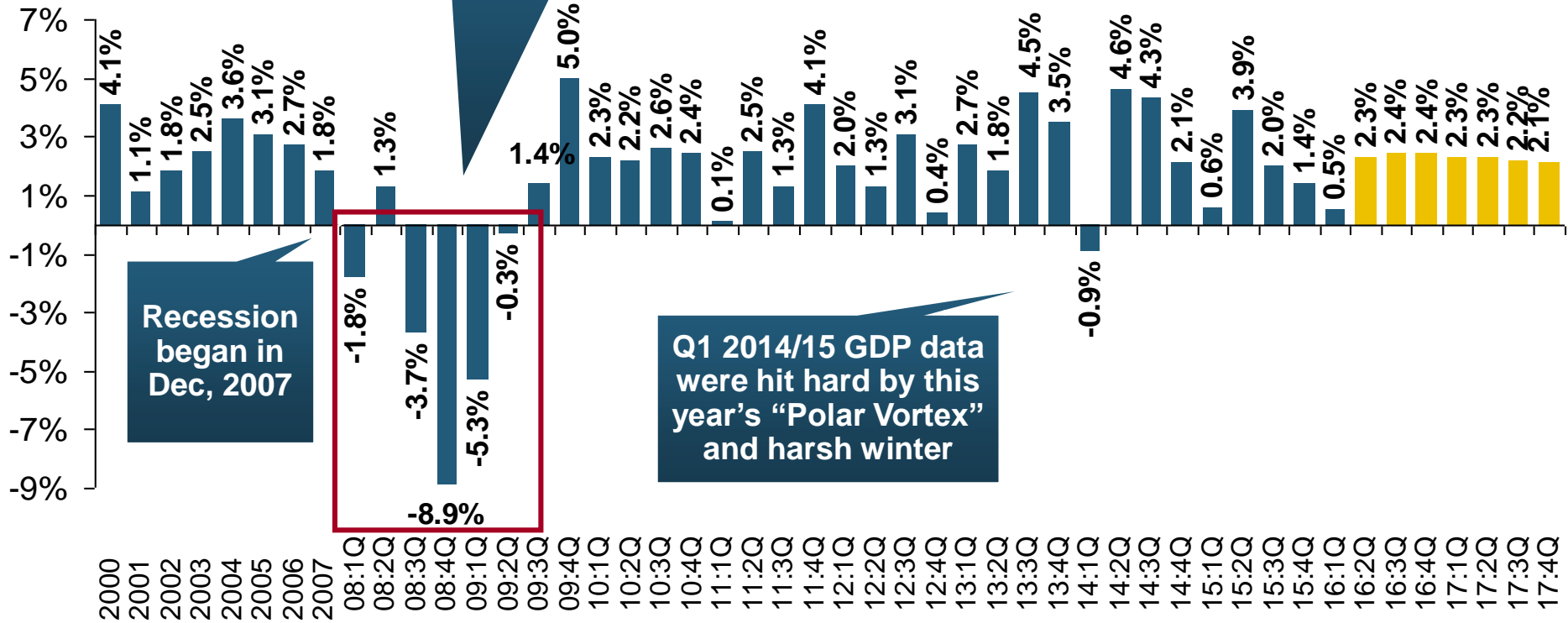
Weather Creates Volatility for Comprehensive Coverage

# **Economic Forecast: Slow and Steady**

# US Real GDP Growth\*

Real GDP Growth (%)

The Q4:2008 decline was the steepest since the Q1:1982 drop of 6.8%



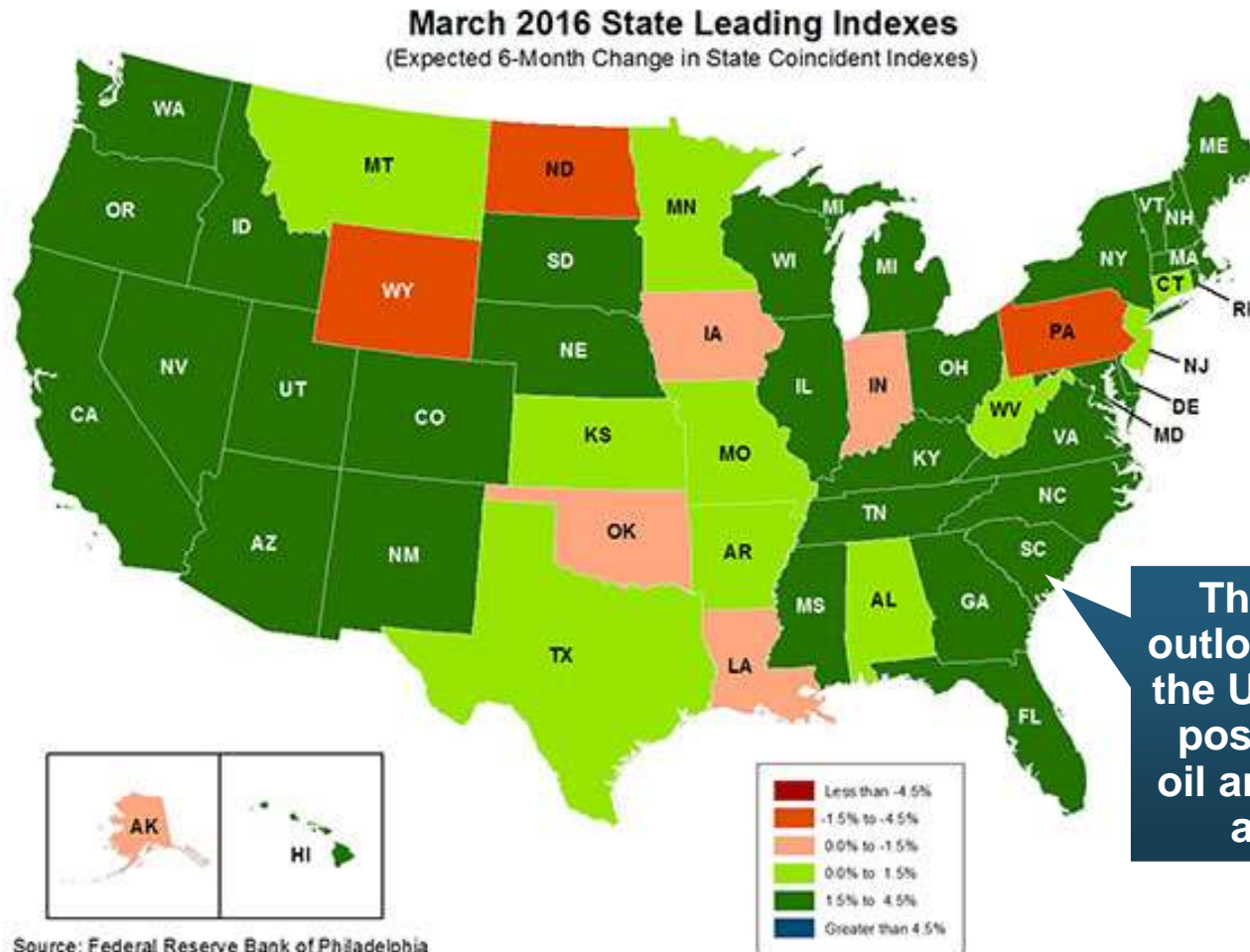
**Demand for Insurance Should Increase in 2016 as GDP Growth Continues at a Steady, Albeit Moderate Pace and Gradually Benefits the Economy Broadly**

\* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 5/16; Insurance Information Institute.

# State-by-State Leading Indicators through September 2016

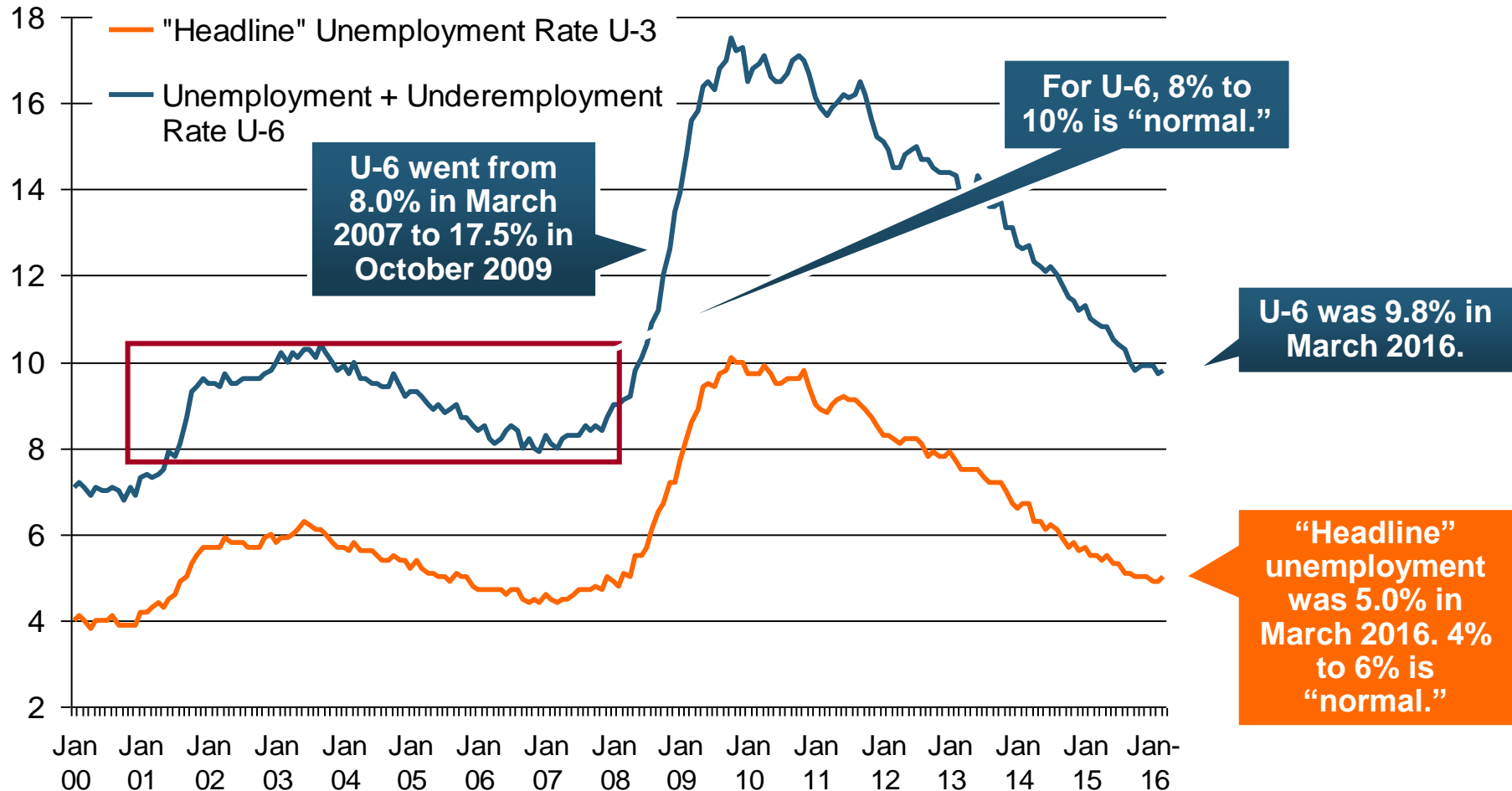
Growth in the West is finally beginning to pick up



The economic outlook for most of the US is generally positive, though oil and coal states are hurting

# Unemployment and Underemployment Rates: Still Falling

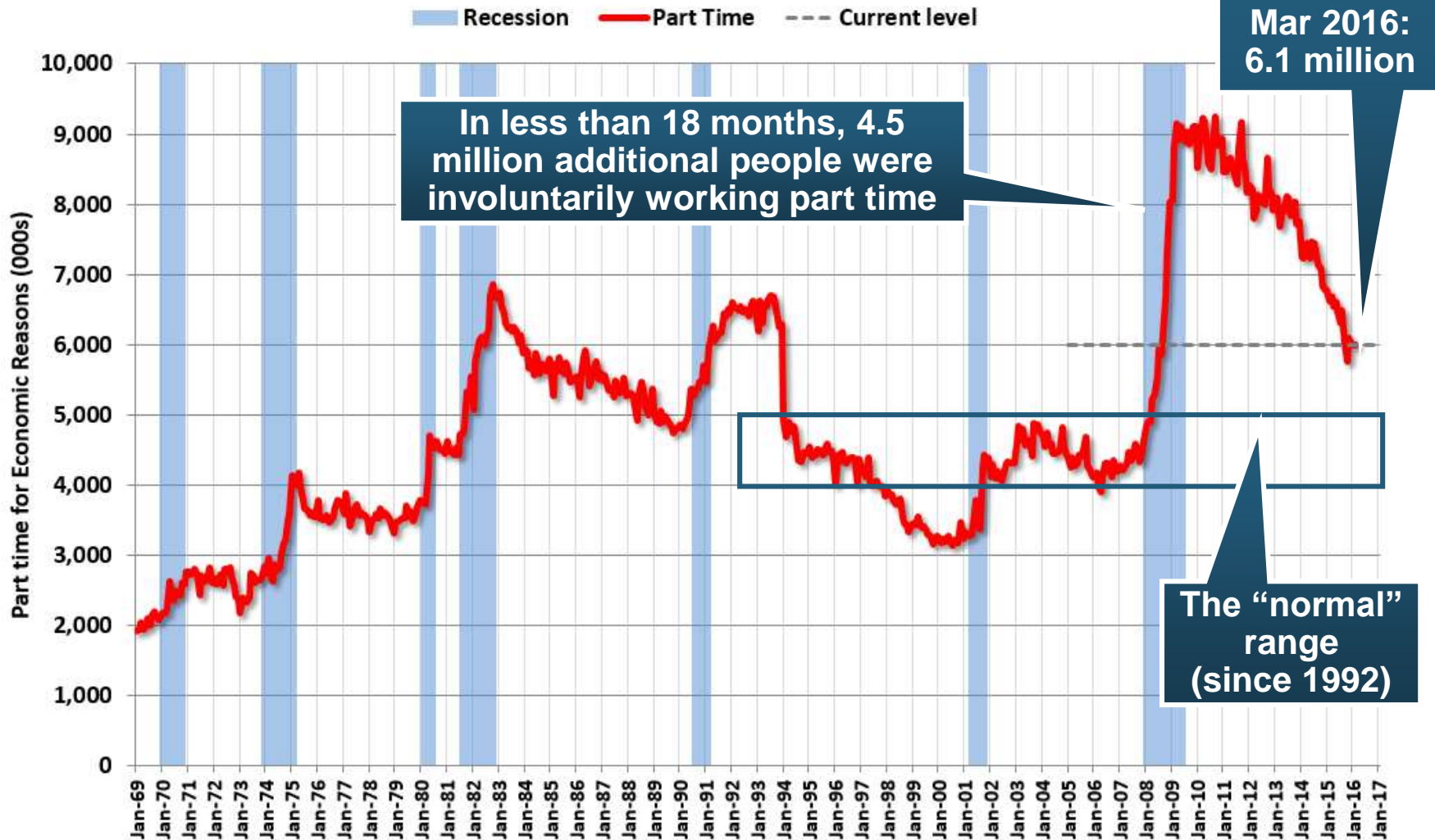
January 2000 through March 2016, Seasonally Adjusted (%)



**High unemployment and underemployment constrained overall economic growth for years, but the job market is clearly improving.**

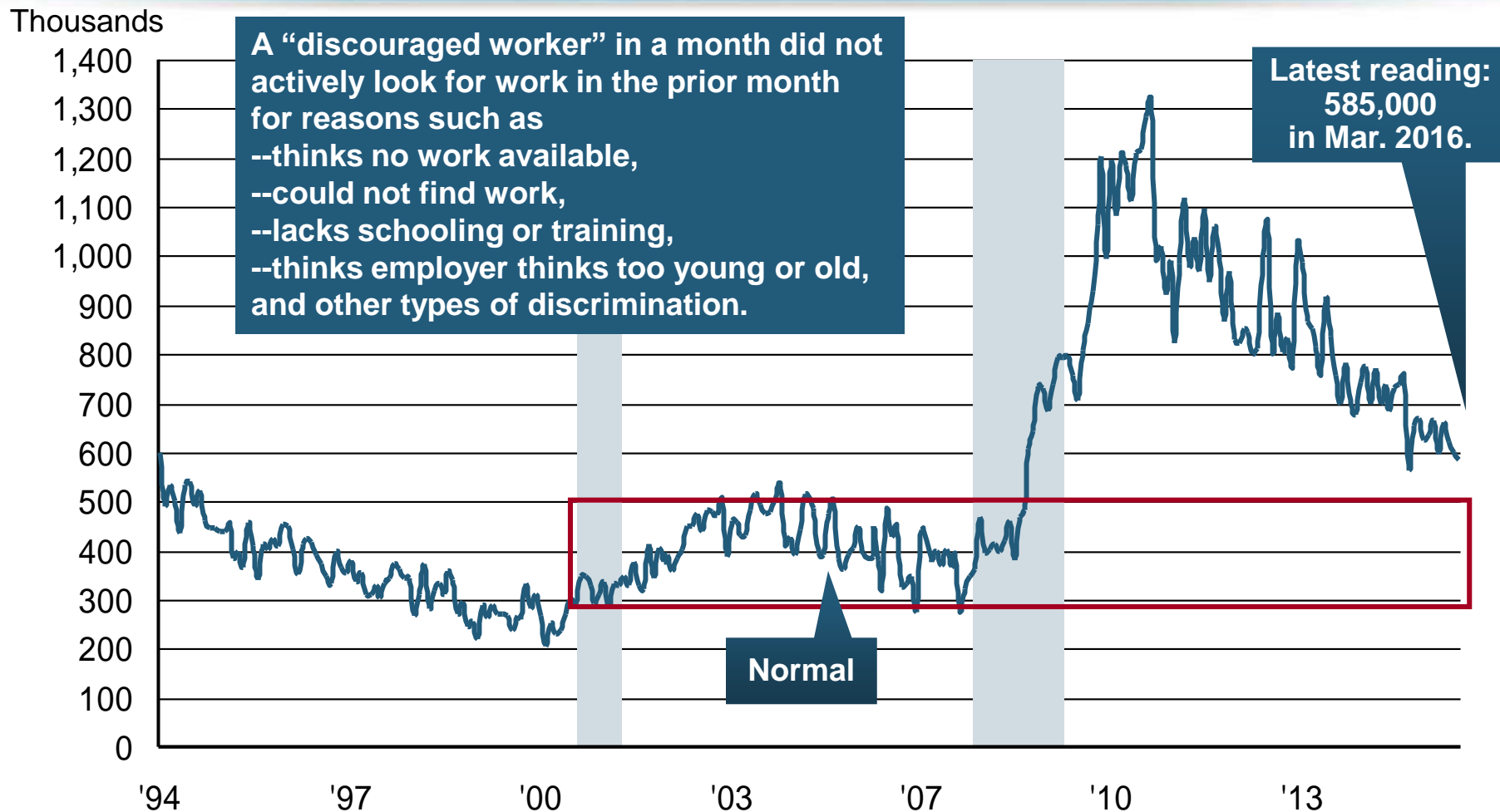
# Labor Market Slack: Elevated Number of Involuntary Part-time Workers

### Part Time for Economic Reasons



<http://www.calculatedriskblog.com/>

# Number of “Discouraged Workers”: Elevated, but Dropping Jan 1994 – Mar 2016

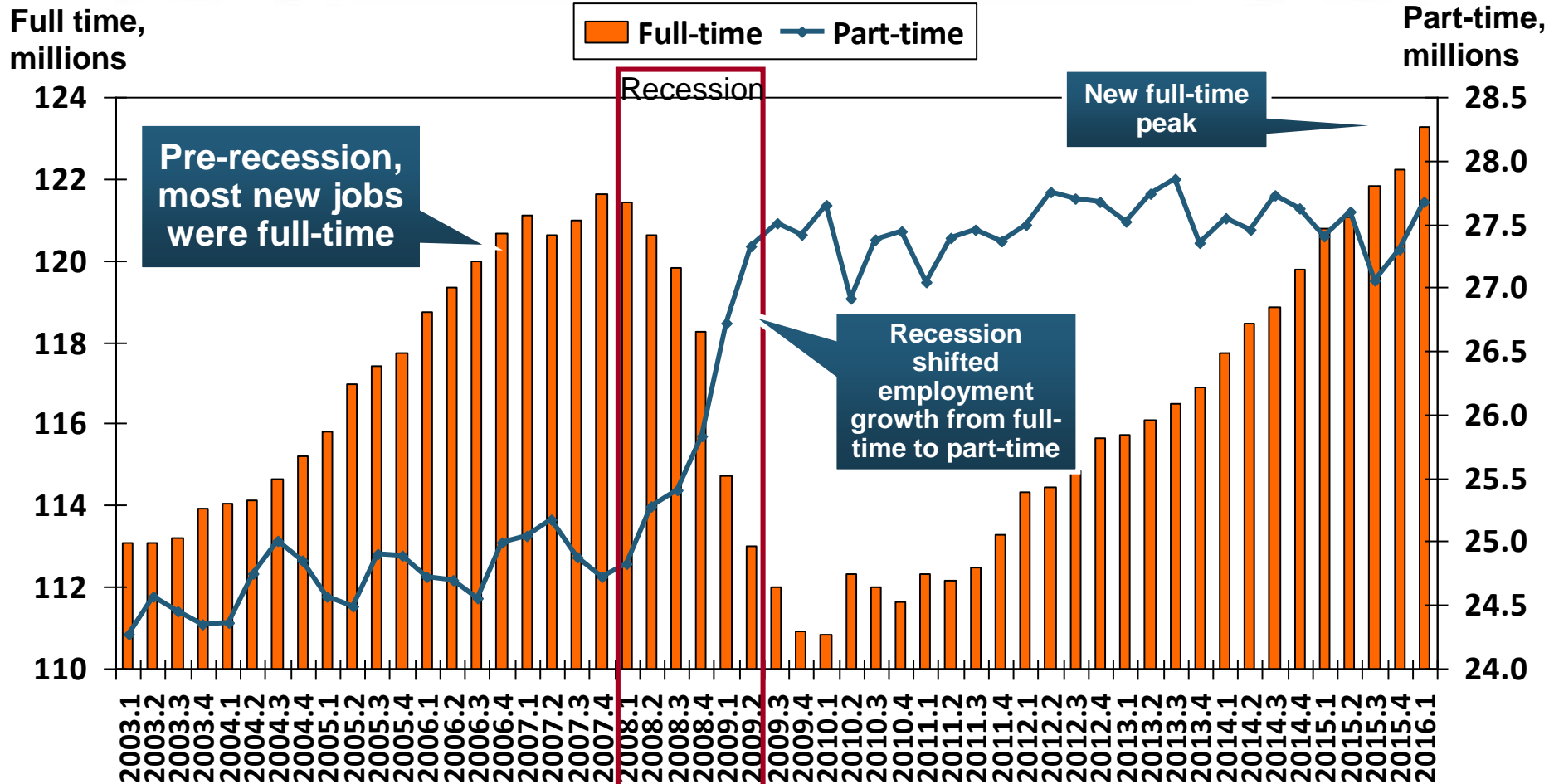


**In recent good times, the number of discouraged workers ranged from 200,000-400,000 (1995-2000) or from 300,000-500,000 (2002-2007).**

Notes: Recessions indicated by gray shaded columns. Data are seasonally adjusted.

Sources: Bureau of Labor Statistics; National Bureau of Economic Research (recession dates).

# Full-time vs. Part-time Employment, Quarterly, 2003-2016: WC Implications



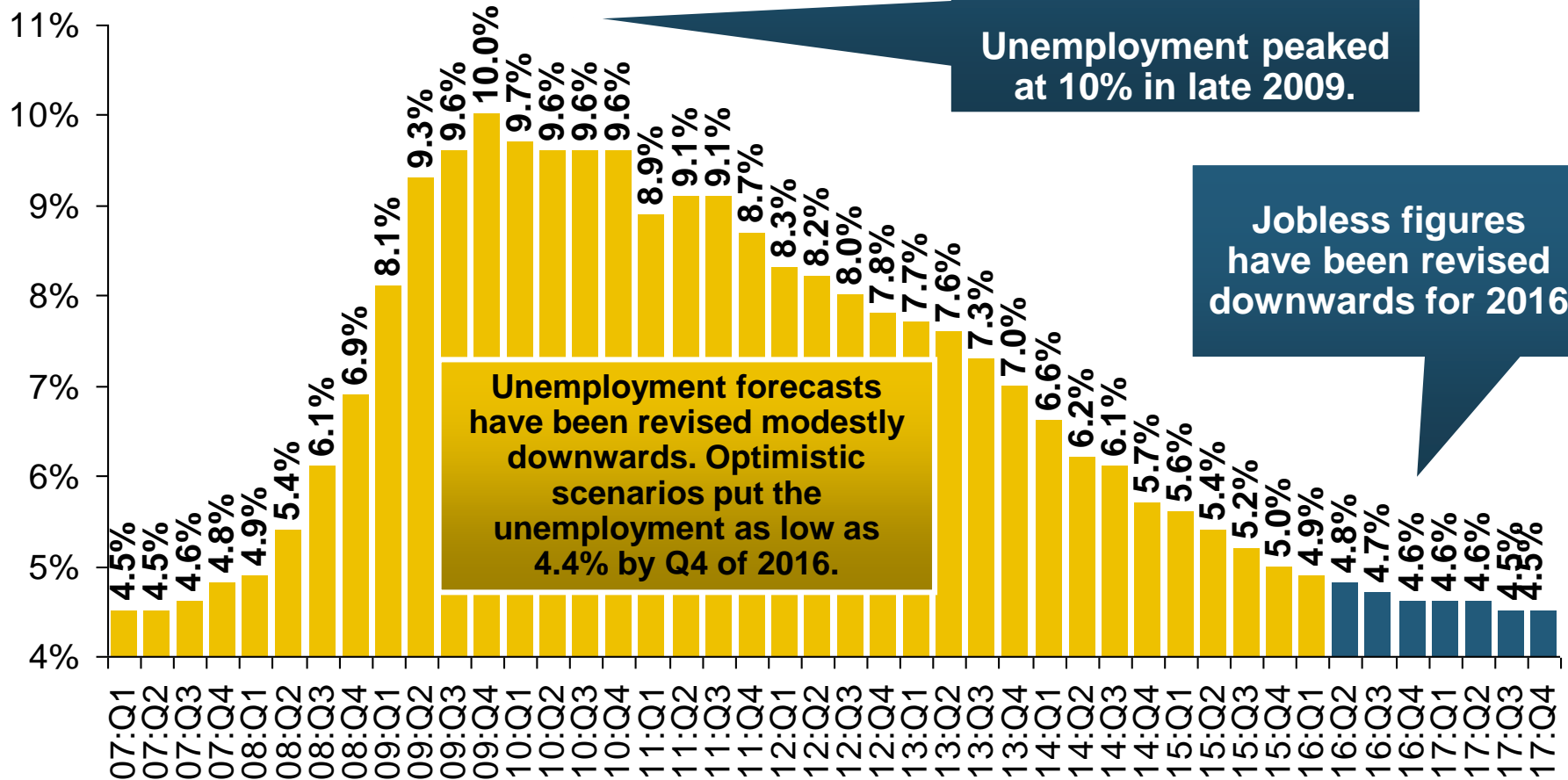
**The Great Recession shifted employment from full-time to part-time. Full-time employment is finally above its pre-recession peak, but part-time hasn't receded.**

Data are seasonally-adjusted. Sources: US Bureau of Labor Statistics, US Department of Labor; Insurance Information Institute.



# US Unemployment Rate Forecast

2007:Q1 to 2017:Q4F\*



Rising unemployment eroded payrolls and exposure base for WC and some GL.  
Unemployment peaked at 10% in late 2009.

Jobless figures have been revised downwards for 2016

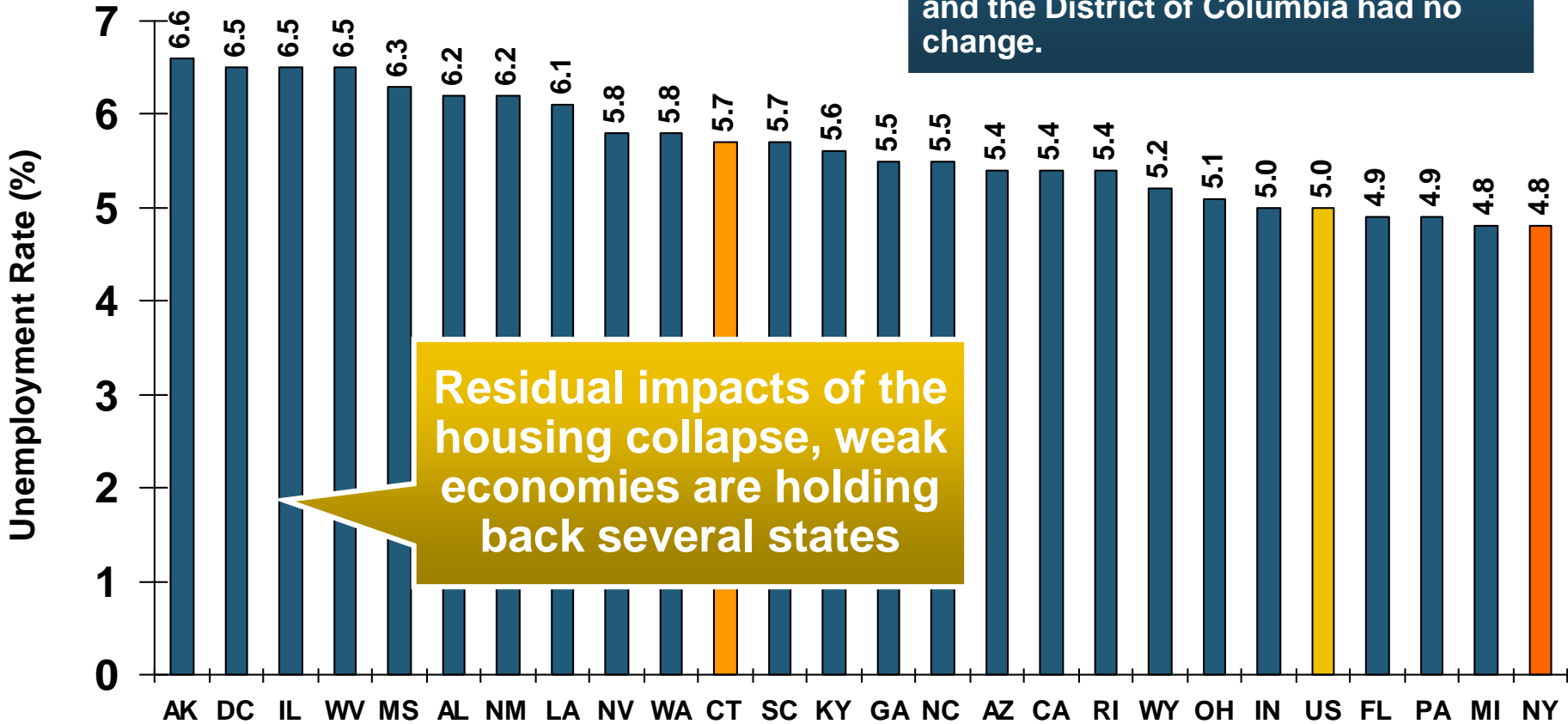
Unemployment forecasts have been revised modestly downwards. Optimistic scenarios put the unemployment as low as 4.4% by Q4 of 2016.

\* = actual; = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (4/16 edition); Insurance Information Institute.

# Unemployment Rates by State, March 2016: Highest 25 States\*

In March, 21 states had over-the-month unemployment rate decreases, 15 states had increases, and 14 states and the District of Columbia had no change.

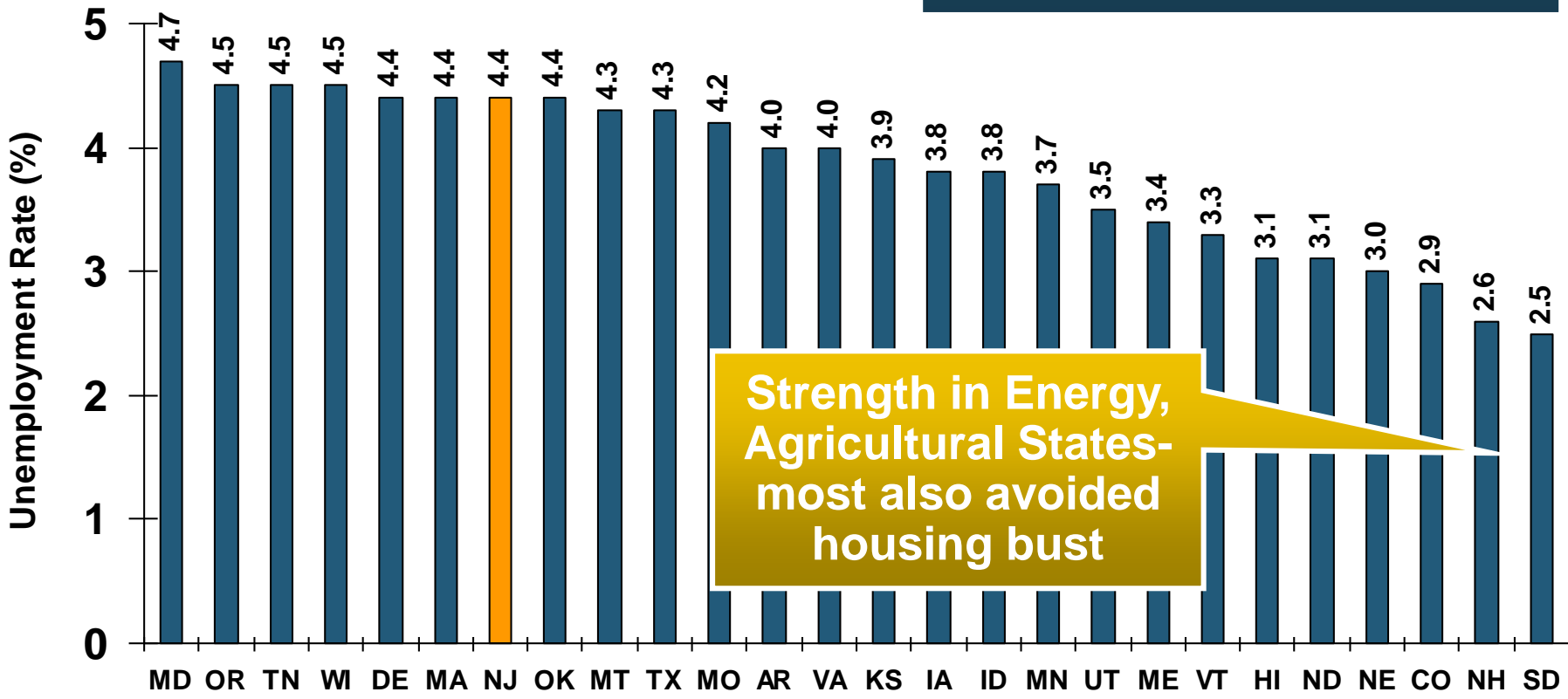


Residual impacts of the housing collapse, weak economies are holding back several states

\*Provisional figures for March 2016, seasonally adjusted.  
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

# Unemployment Rates by State, March 2016: Lowest 25 States\*

In March, 21 states had over-the-month unemployment rate decreases, 15 states had increases, and 14 states and the District of Columbia had no change.

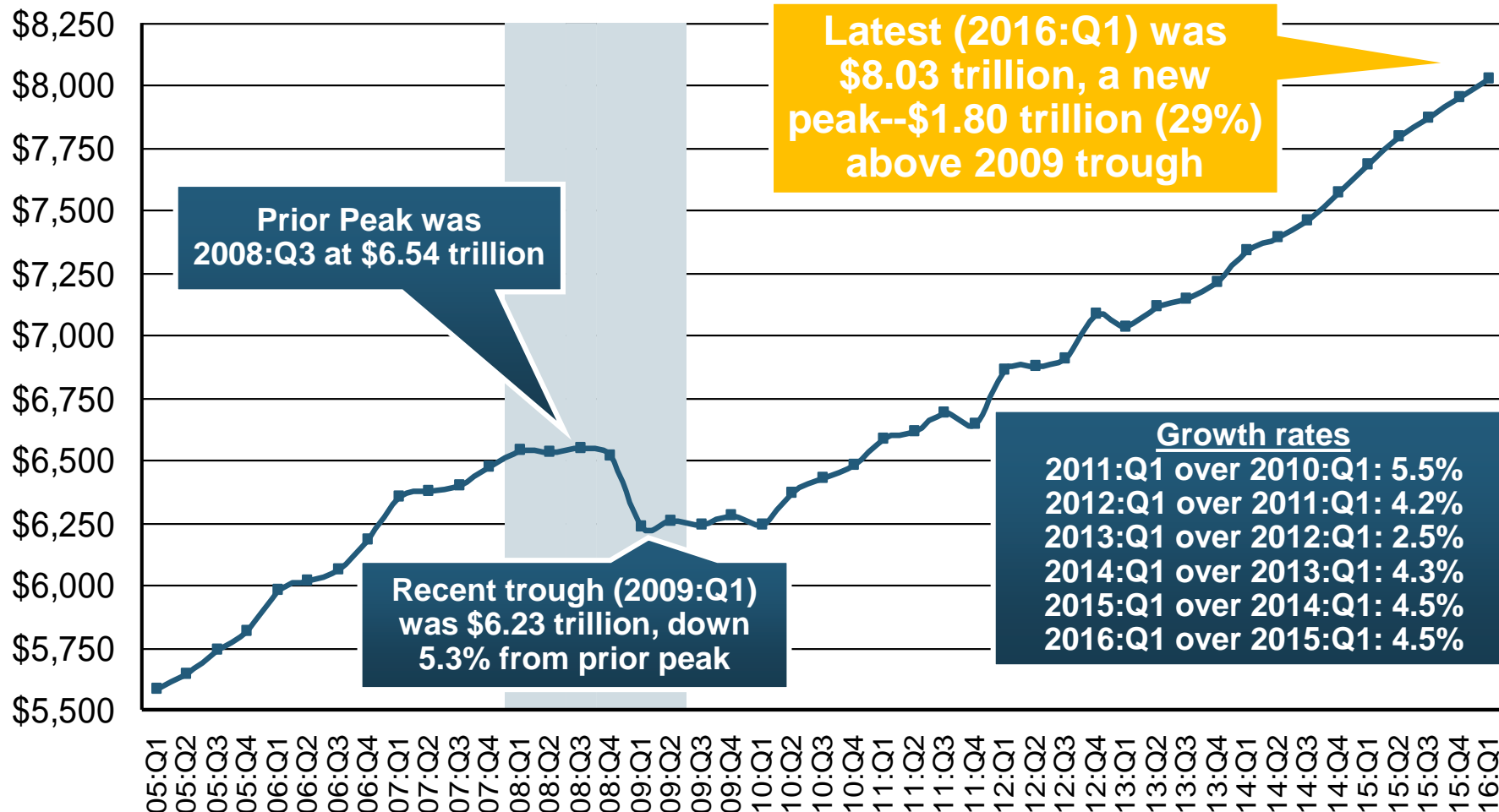


Strength in Energy, Agricultural States-most also avoided housing bust

\*Provisional figures for March 2016, seasonally adjusted.  
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

# Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2016:Q1

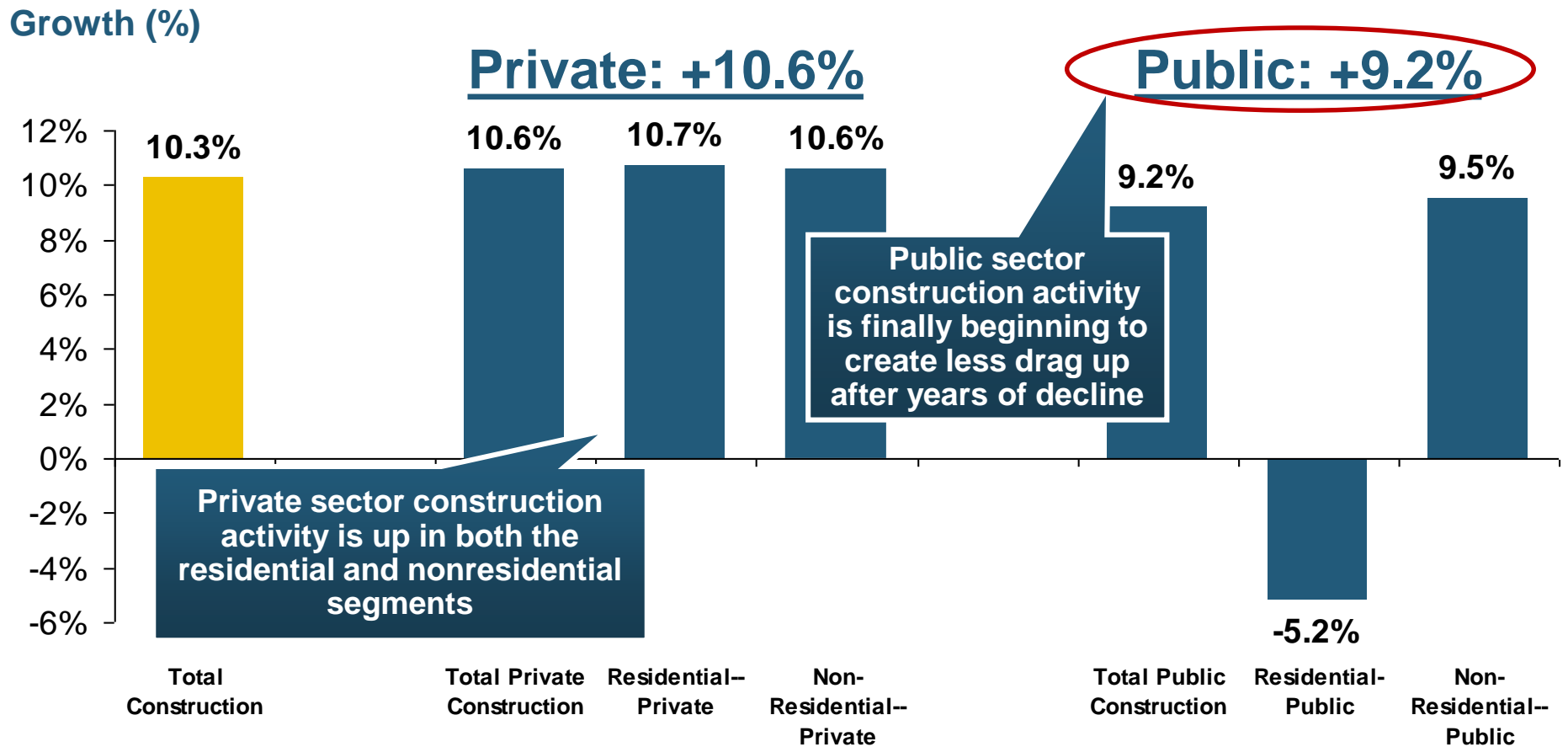
Billions



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.

# Value of Construction Put in Place, 2016 vs. 2015\*

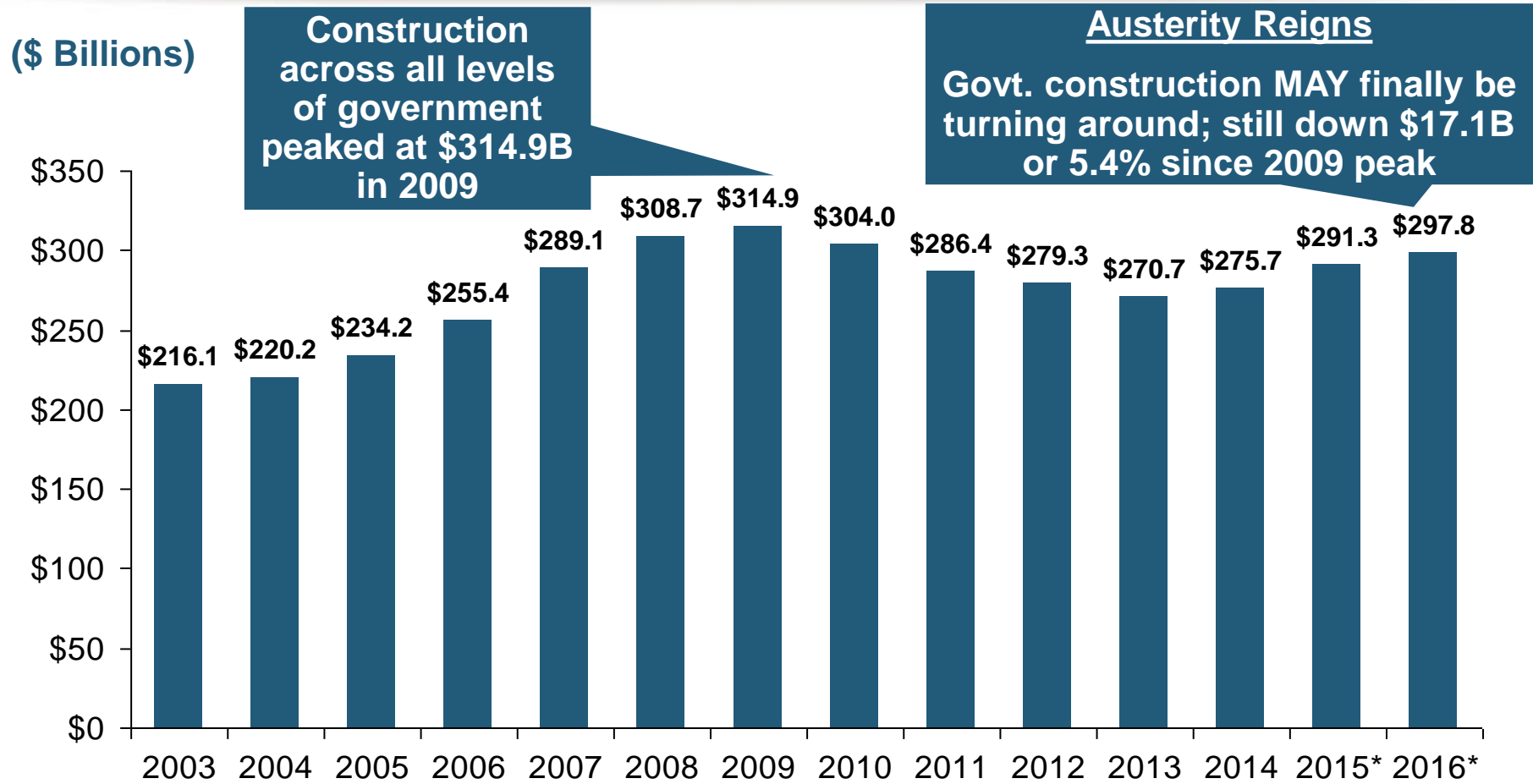


**Overall Construction Activity is Up Again After Languishing in Early 2015; State/Local Sector Government Sector May Be Recovering as Budget Woes Ease in Some Jurisdictions**

\*seasonally adjusted data through February 2016.

Source: U.S. Census Bureau, <http://www.census.gov/construction/c30/c30index.html> ; Insurance Information Institute.

# Value of New Federal, State and Local Government Construction: 2003-2016\*



**Government Construction Spending Peaked in 2009, Helped by Stimulus Spending, but Contracted As State/Local Governments Grappled with Deficits and Federal Sequestration; Only Now Recovering**

\*2016 figure is a seasonally adjusted annual rate as of February; [http://www.census.gov/construction/c30/historical\\_data.html](http://www.census.gov/construction/c30/historical_data.html)

Sources: US Department of Commerce; Insurance Information Institute.

# Construction Employment, Jan. 2010—March 2016\*

(Thousands)



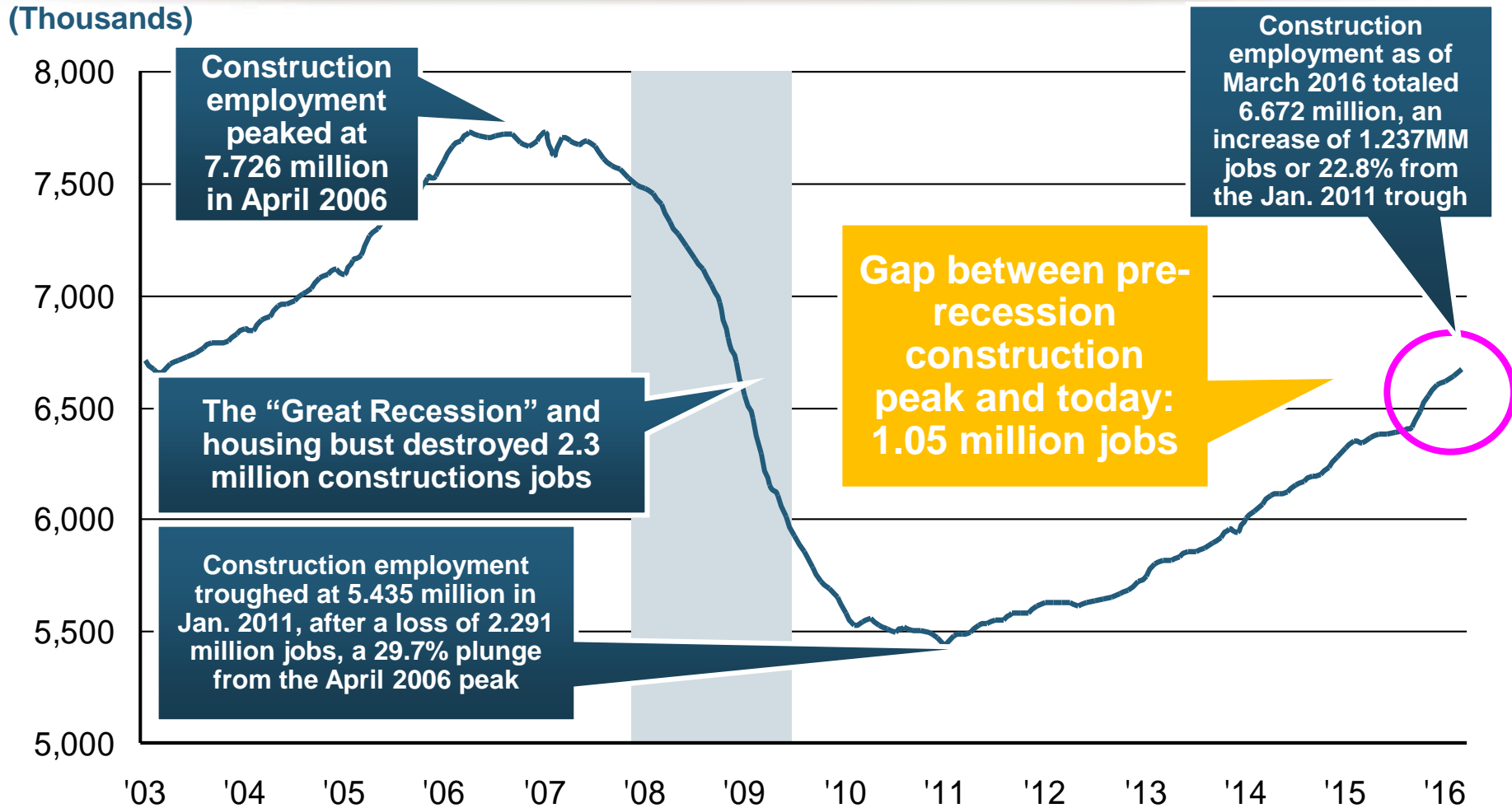
Construction employment is +1.237 million above Jan. 2011 (+22.8%) trough

**Construction and manufacturing employment constitute 1/3 of all WC payroll exposure.**

\*Seasonally adjusted.

Sources: US Bureau of Labor Statistics at <http://data.bls.gov>; Insurance Information Institute.

# Construction Employment, Jan. 2003–March 2016

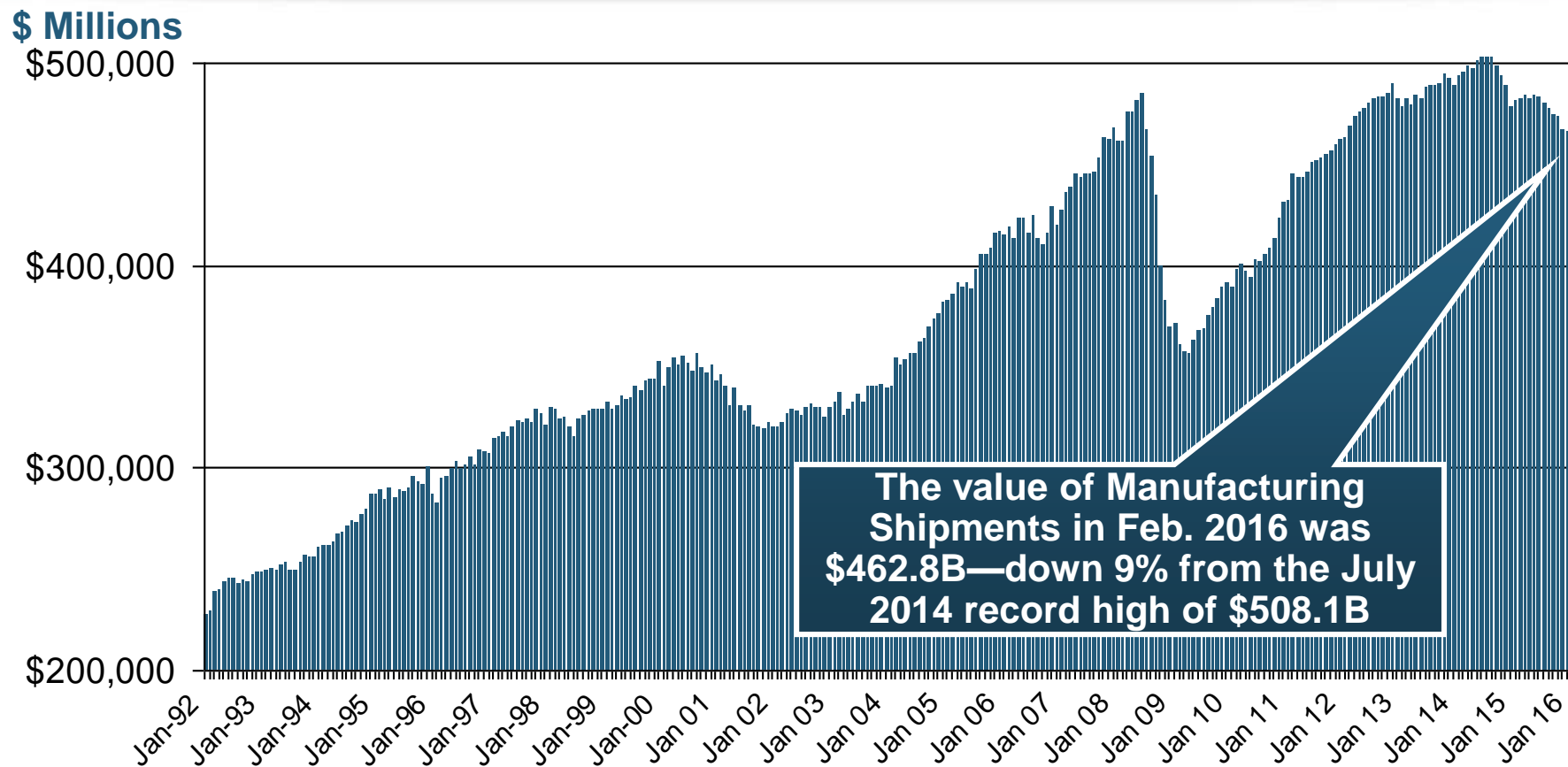


**The Construction Sector Was a Growth Leader in 2014-16 as the Housing Market, Private Investment and Govt. Spending Recover. WC Insurers Continue to Benefit.**

Note: Recession indicated by gray shaded column.  
Sources: U.S. Bureau of Labor Statistics; Insurance Information Institute.



# Dollar Value\* of Manufacturers' Shipments Monthly, Jan. 1992—Feb. 2016



**Weakness abroad, falling energy prices and a strong dollar are hurting the manufacturing sector, especially exports. Manufacturing growth leads to gains in many commercial exposures: WC, Commercial Auto, Marine, Property, and various Liability Coverages.**

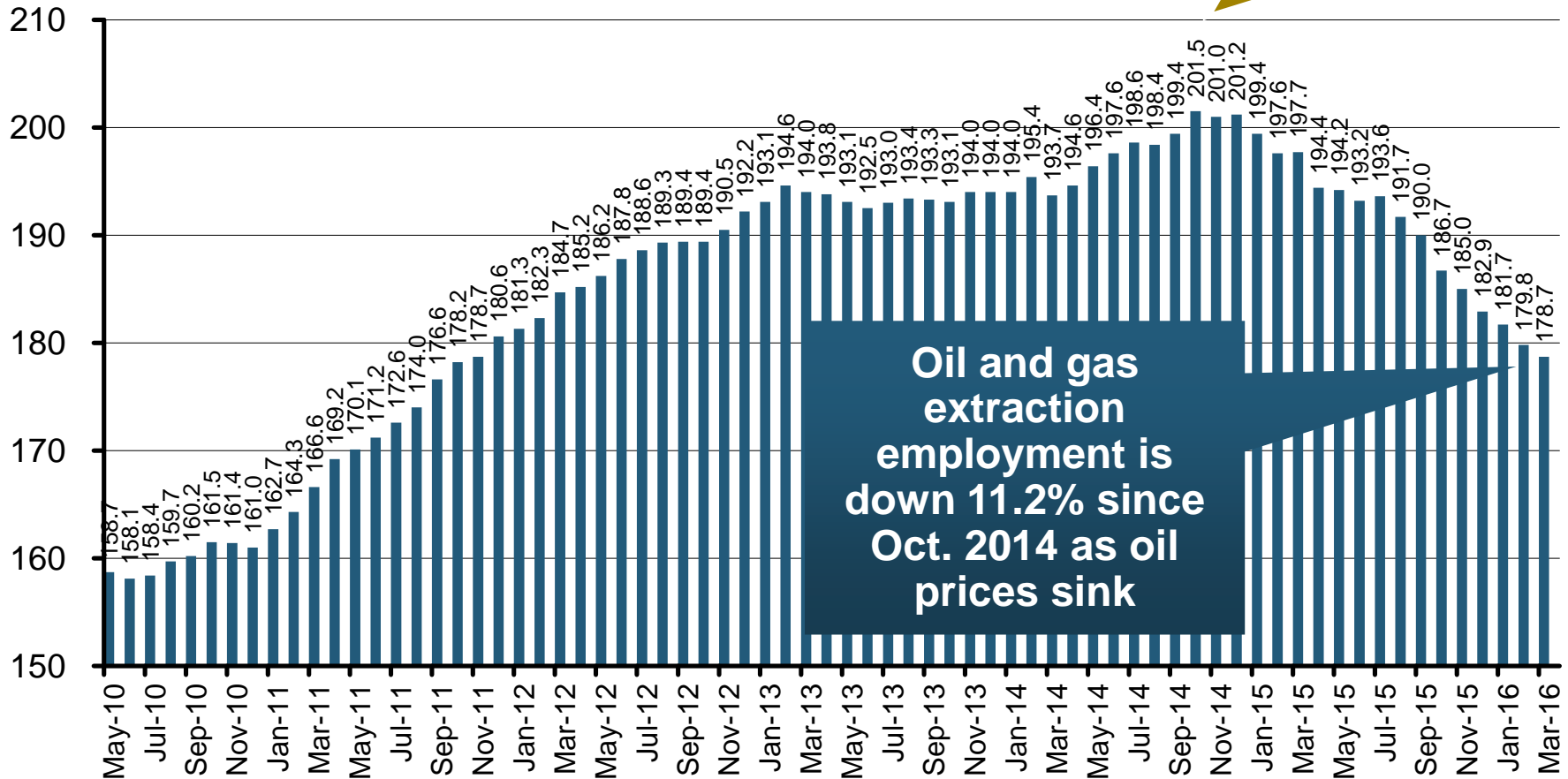
\* Seasonally adjusted; Data published Apr. 4, 2016.

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

# Employment in Oil & Gas Extraction, Jan. 2010—March 2016\*

(000)

Employment peaked in Oct. 2014 at 201,500—its highest level since Dec. 1986.



Oil and gas extraction employment is down 11.2% since Oct. 2014 as oil prices sink

\*Seasonally adjusted

Sources: US Bureau of Labor Statistics at <http://data.bls.gov>; Insurance Information Institute.



# Cyber Insurance By the Numbers

**New Data from the Annual  
Statement**

- New Reporting Requirement for Annual Statement
- Only U.S. Carriers (No Bermuda, Lloyd's Business)
- Cyber Insurance vs. ID Theft
- Direct Only
- Calendar Year



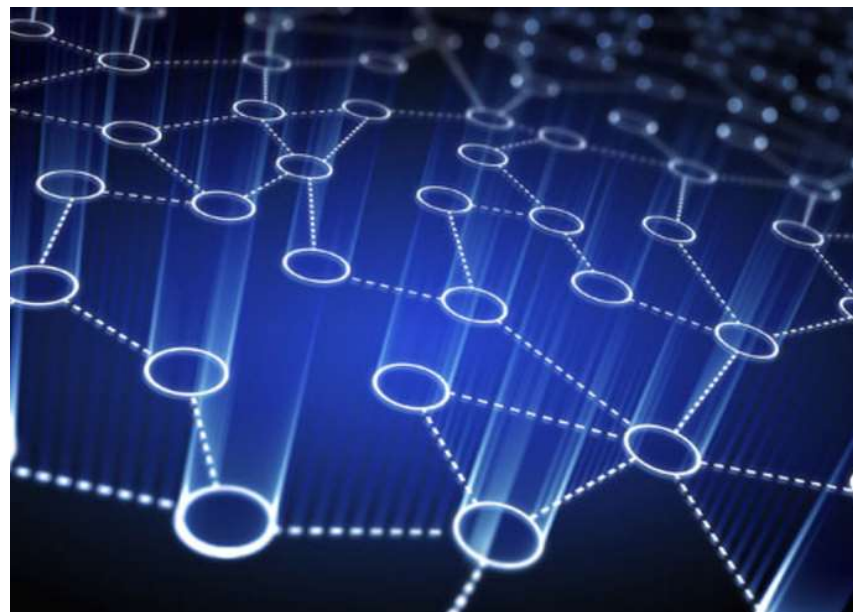
- I.I.I. Cyber White Paper To Be Updated in Fall:  
<http://www.iii.org/white-paper/cyber-risks-threat-and-opportunities-100715>

## ■ Monoline Results

- ◆ Premium: Earned/Written
- ◆ Loss
  - Paid vs. Incurred
  - Indemnity/A&O/DCC
- ◆ In Force Policy Counts

## ■ Package Results

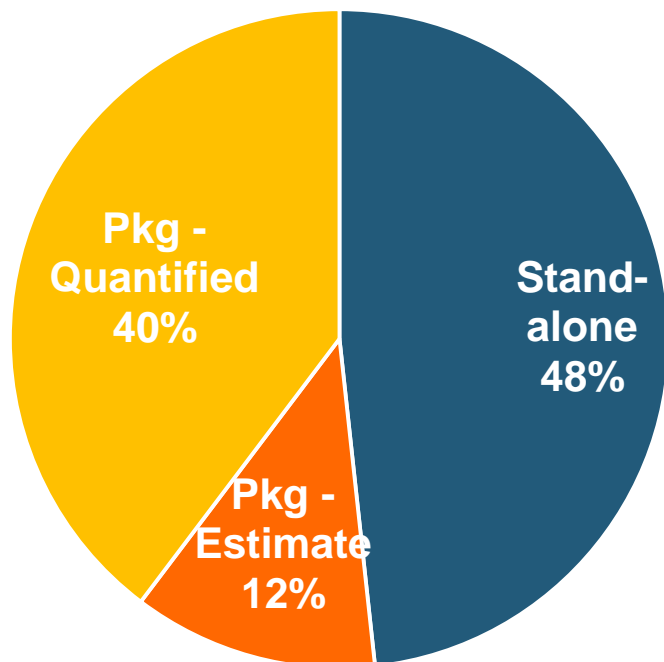
- ◆ Premium
  - Earned/Written
  - Quantified/Estimated



- ◆ Loss
  - Paid/Reserve (No IBNR)
  - Indemnity/A&O/DCC
- ◆ In Force Policy Counts

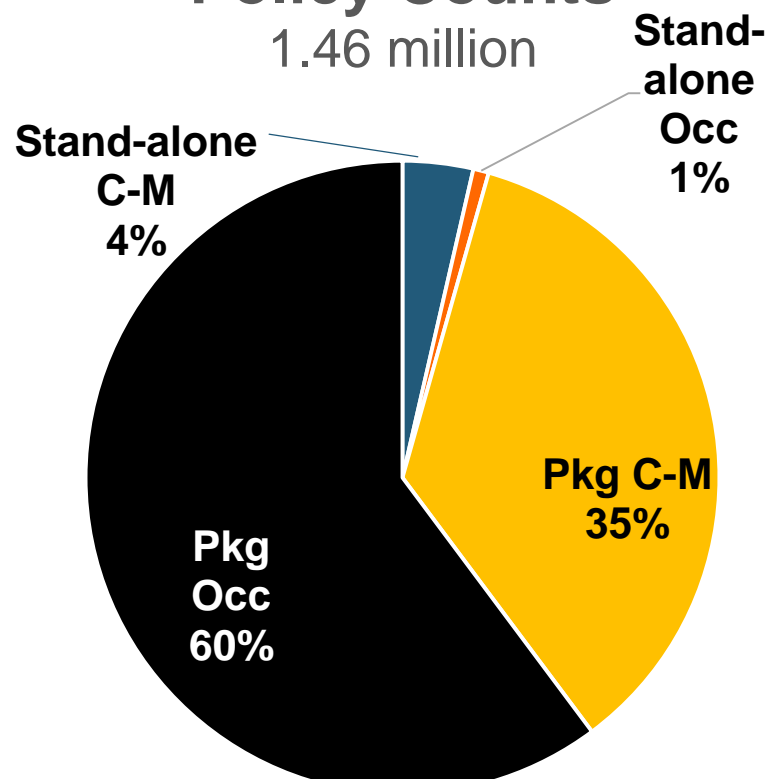
# Reported 2015 Cyber Writings

**Direct Premiums  
Written:**  
\$996 million



**Est. Avg. Policy**  
Stand-alone: \$7,477  
Package: \$368

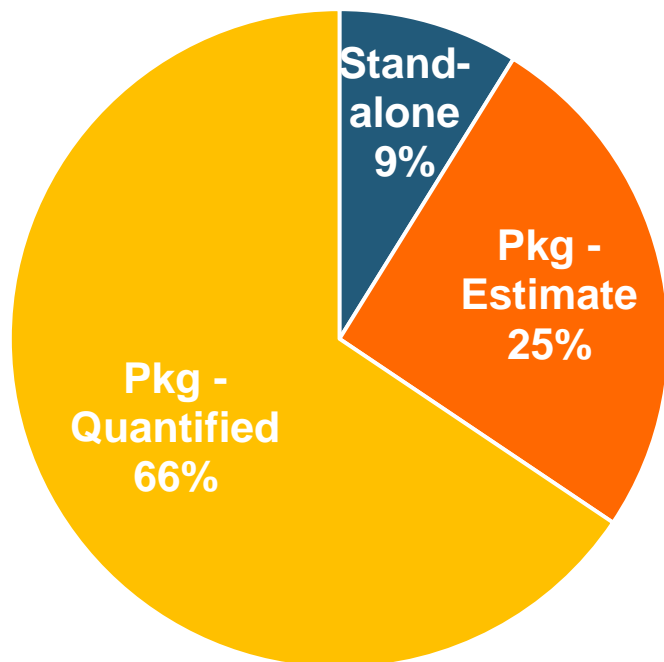
**Policy Counts**  
1.46 million



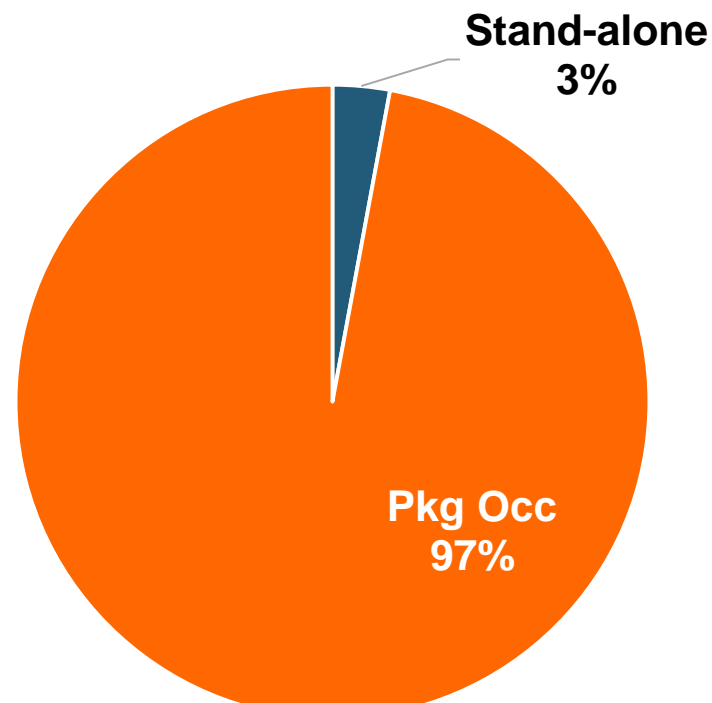
**Stand-alone Policies Are Half the Written Premium but Only 5% of the Policies in Force**

# Reported 2015 ID Theft Writings

**Direct Premiums  
Written:**  
\$239 million



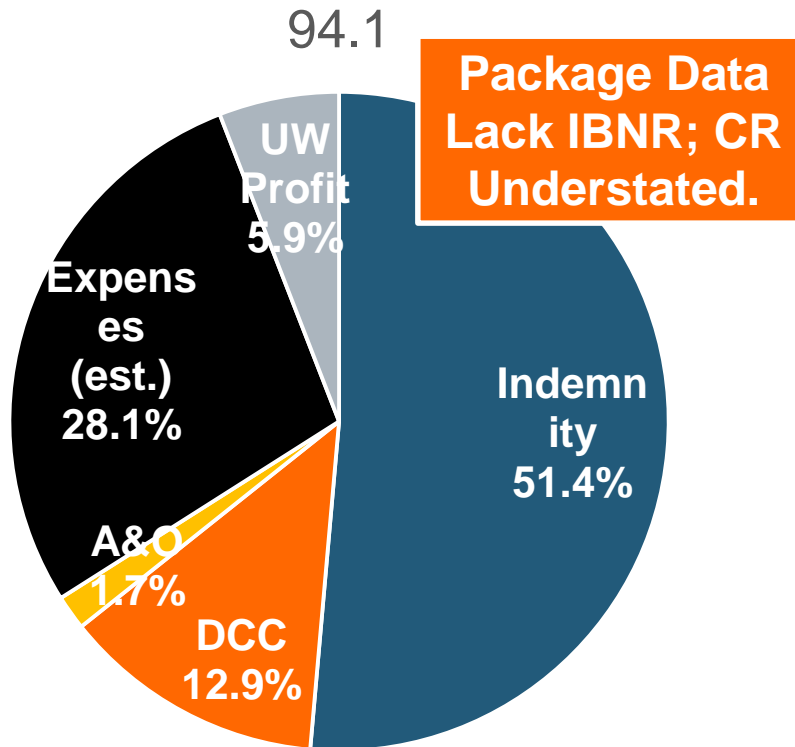
**Est. Avg. Policy**  
Stand-alone: \$43  
Package: \$13  
**Policy Counts**  
17 million



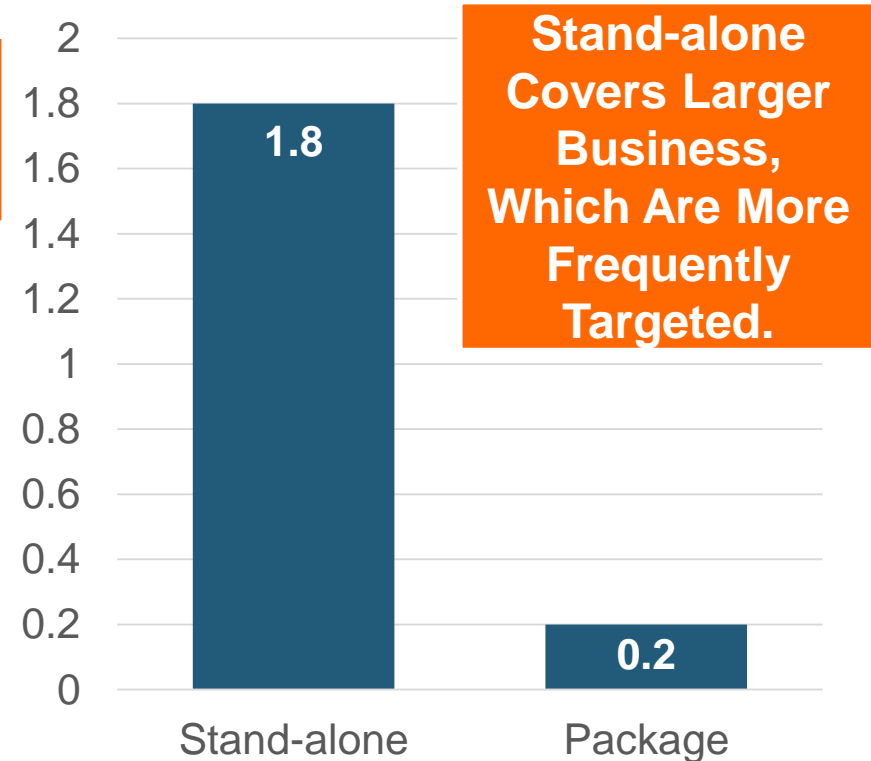
**Many Small Policies in This Add-on Personal Lines  
Coverage, Often Added to HO**

# Cyber Combined Ratio, Frequency

## Stand-alone Cyber CR



## Claims Per 100 Policies



SOURCE: Aon Benfield Analytics.



- Industry Results Mimic Last Year
  - ◆ Low Interest Rates Remain a Drag on Earnings
  - ◆ Rates Have Been Flat
- Auto Insurance – Loss Costs Are Rising Fast
  - ◆ Frequency: Increase in Employment
  - ◆ Severity: Trendline Returns to Normal + Rise in Fatalities
- Economic Outlook: Slow but Steady Growth
- U.S. Companies Cyber Market Data
  - ◆ \$1B Written in U.S. 2015; 94.1 C.R on Monoline Product

**Insurance Information Institute Online:**

**[www.iii.org](http://www.iii.org)**

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