Today's Uncertain Economy: Implications for P/C Insurance

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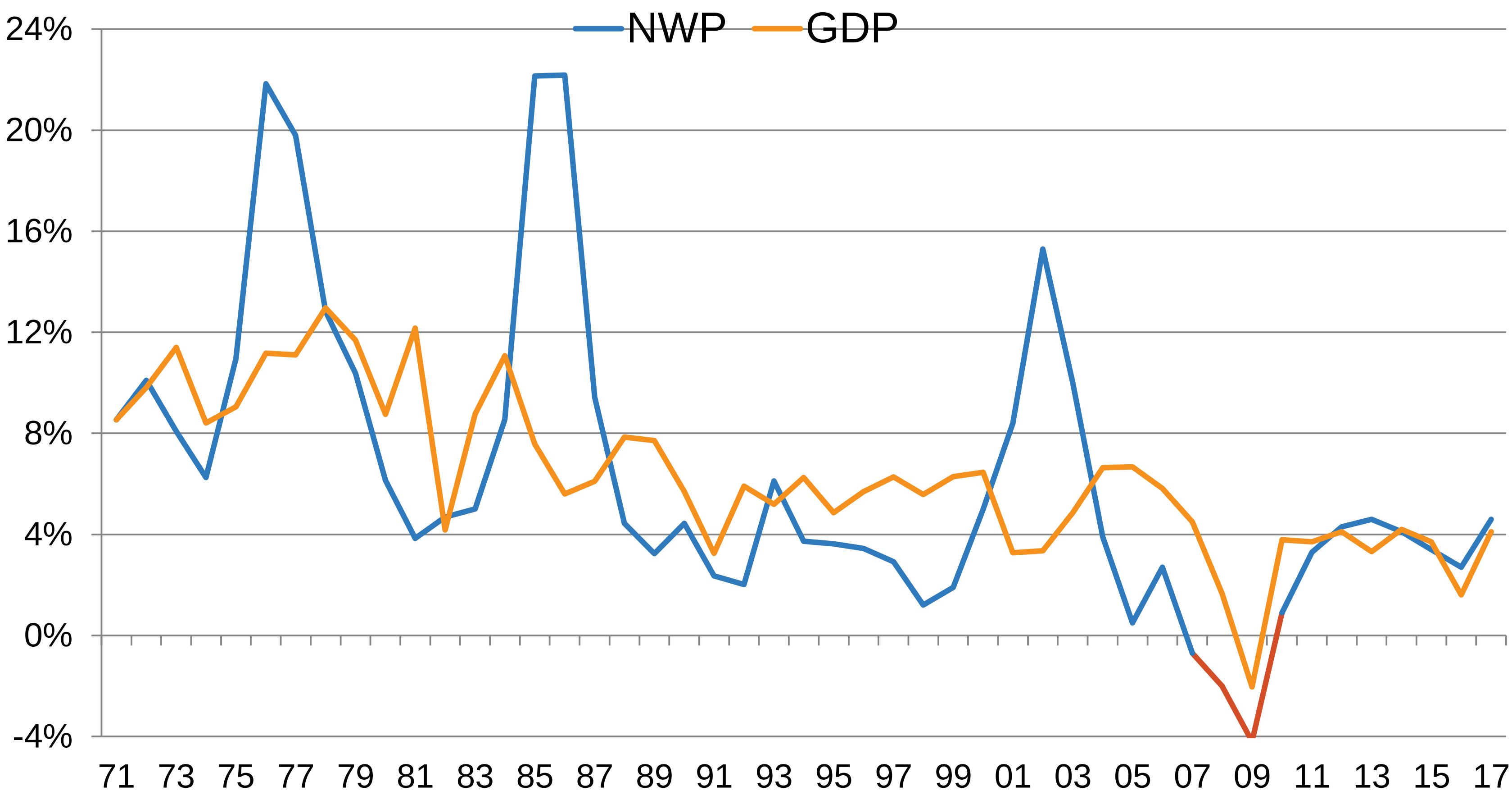
The Strength of the Economy Will Influence the Insurance Environment

Premium Rates, Claims, and Investment Income Will Be Affected

The Economy Drives P/C Insurance Industry Premiums:

Net Premium Growth (All P/C Lines) vs. Nominal GDP: Annual Change, 1971-2017

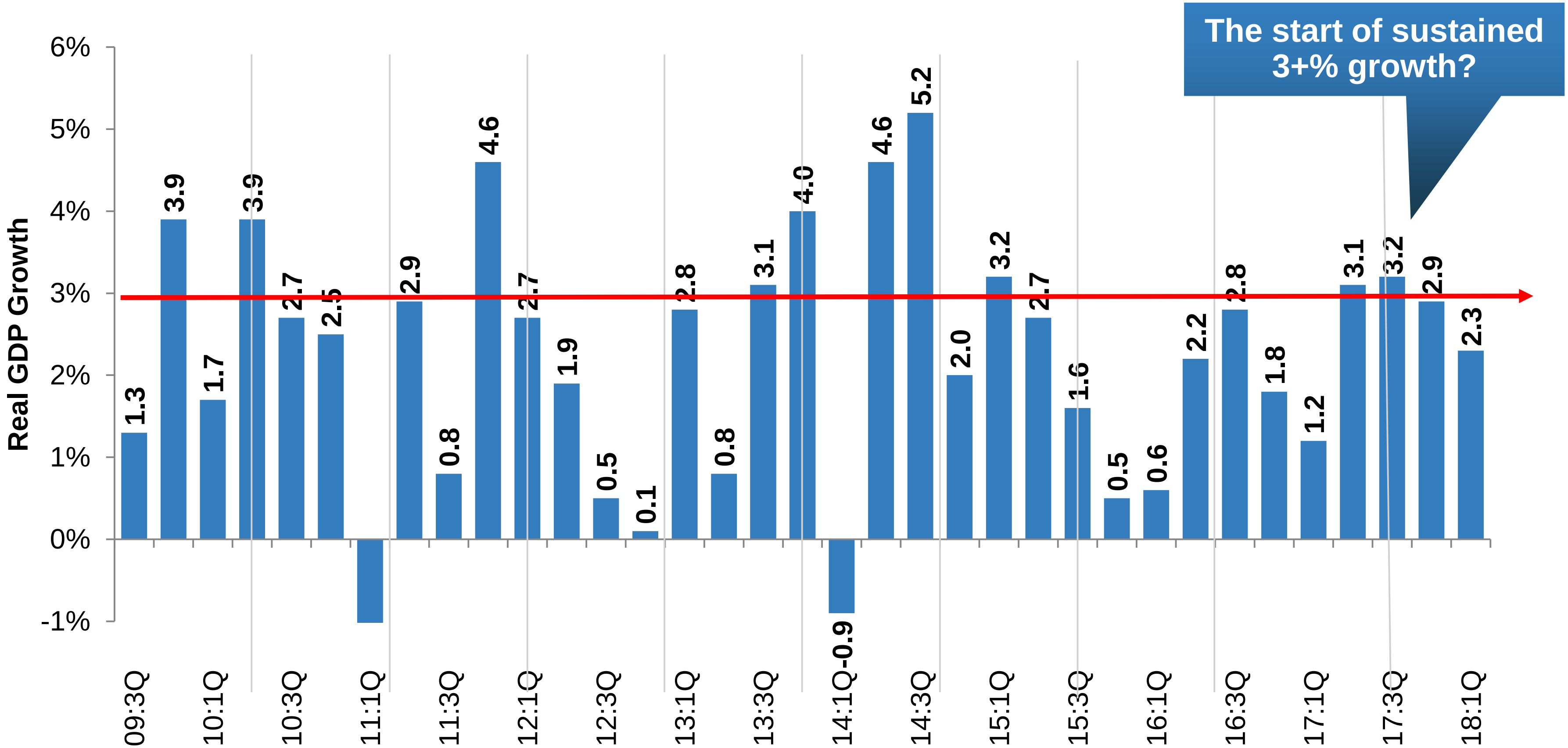


Except for the three "hard markets" in this 47-year period, Net Written Premiums track Nominal GDP—not year by year but fairly well.

Sources: A.M. Best (1971-2013), ISO (2014-17); U.S. Commerce Dept., Bureau of Economic Analysis; I.I.I.

But How Strong Is the Economy, Really?

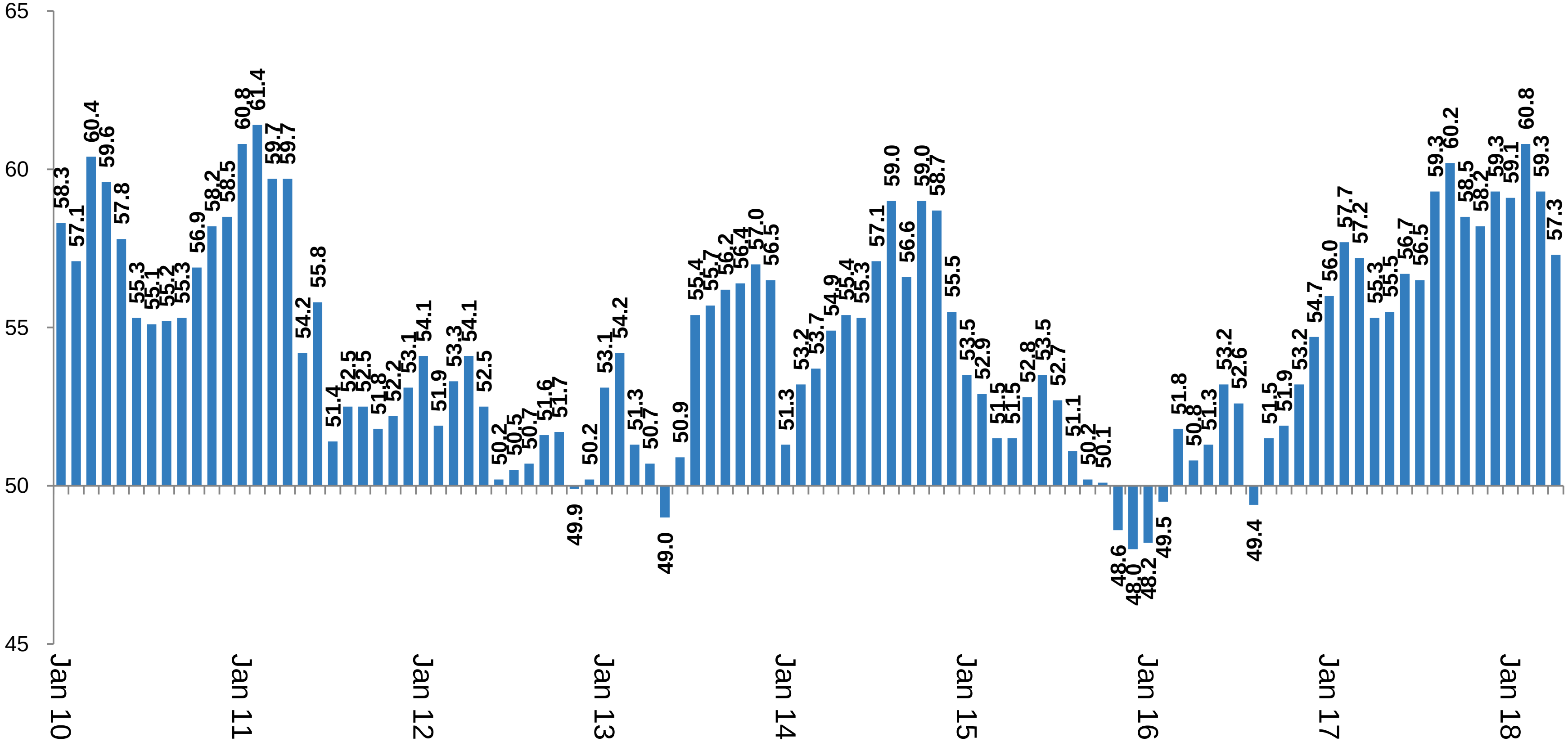
U.S. Post-Recession Real GDP Growth,* Quarterly, 2009:Q3-2018:Q1



Since the Great Recession ended, the economy (as measured by real GDP) grew faster than 3% (at an annual rate) in a calendar quarter only 10 times in 35 quarters. Only twice in the last 14.

**Percent change from previous quarter, seasonally-adjusted at an annual rate
Sources: U.S. Department of Commerce; Insurance Information Institute.

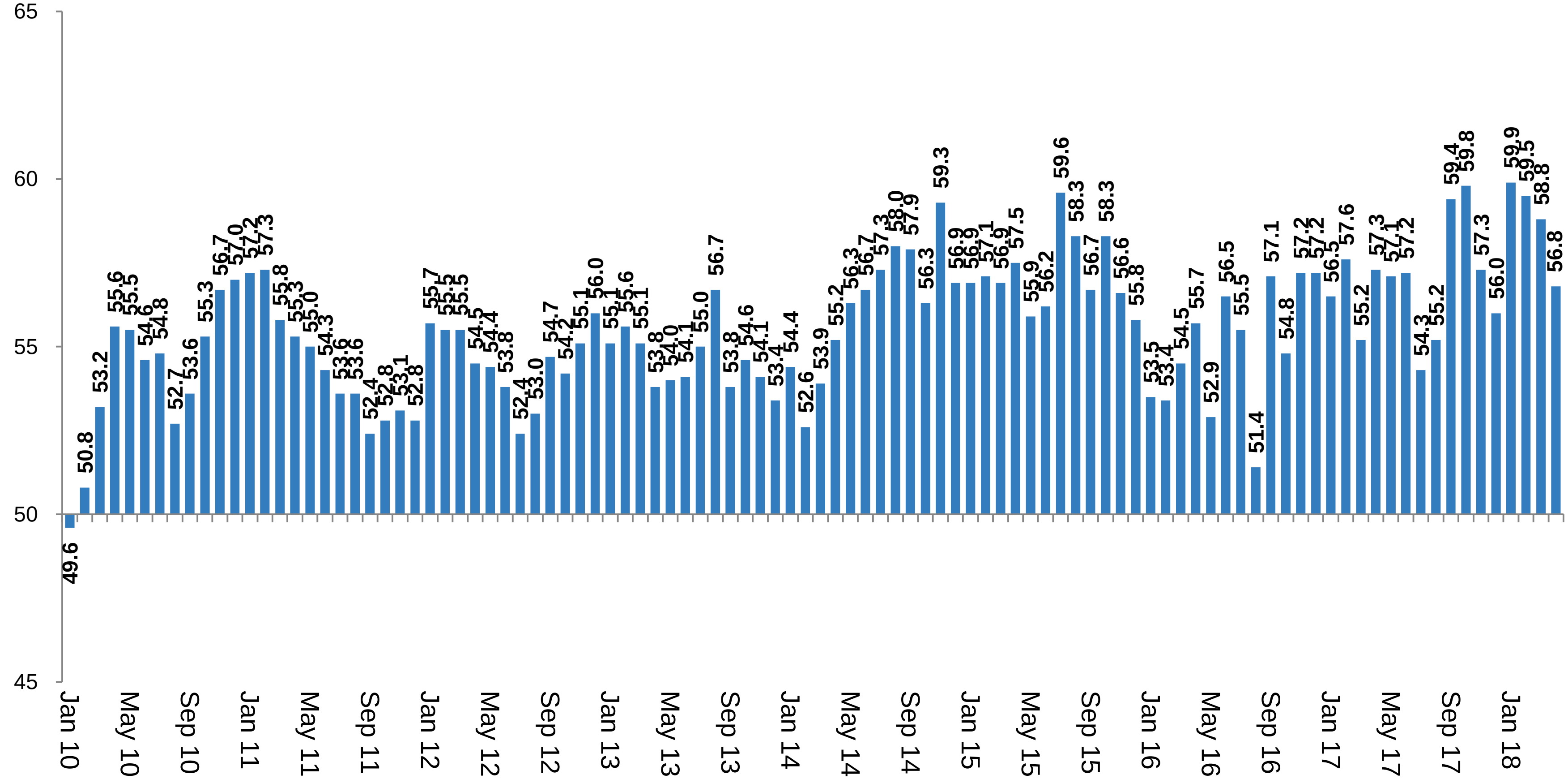
ISM Manufacturing Index (Values > 50 Indicate Expansion), January 2010-April 2018



The manufacturing sector expanded in 67 of the 70 months from January 2010 through October 2015. It contracted in November 2015 through February 2016 and again in August 2016 but is expanding again.

Sources: [Institute for Supply Management](); Insurance Information Institute.

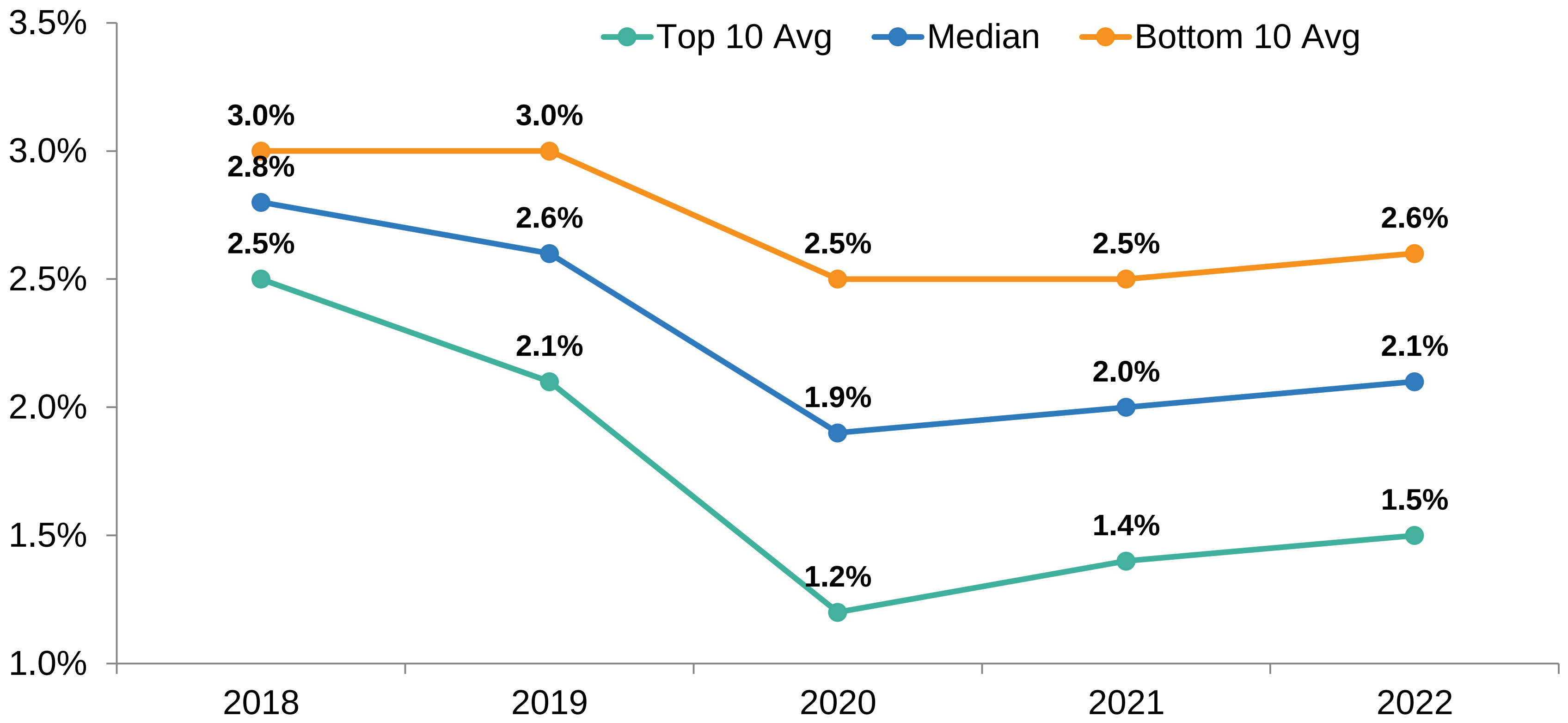
ISM Non-Manufacturing Index (Values > 50 Indicate Expansion), January 2010-April 2018



The non-manufacturing sector expanded in every month After January 2010. The pace of expansion roared ahead in 2014-15, slowed a bit in 2016, but is now as strong as it has been since the end of the Great Recession.

Sources: Institute for Supply Management via https://research.stlouisfed.org/fred2/data/NMFCI.txt; Insurance Information Institute.

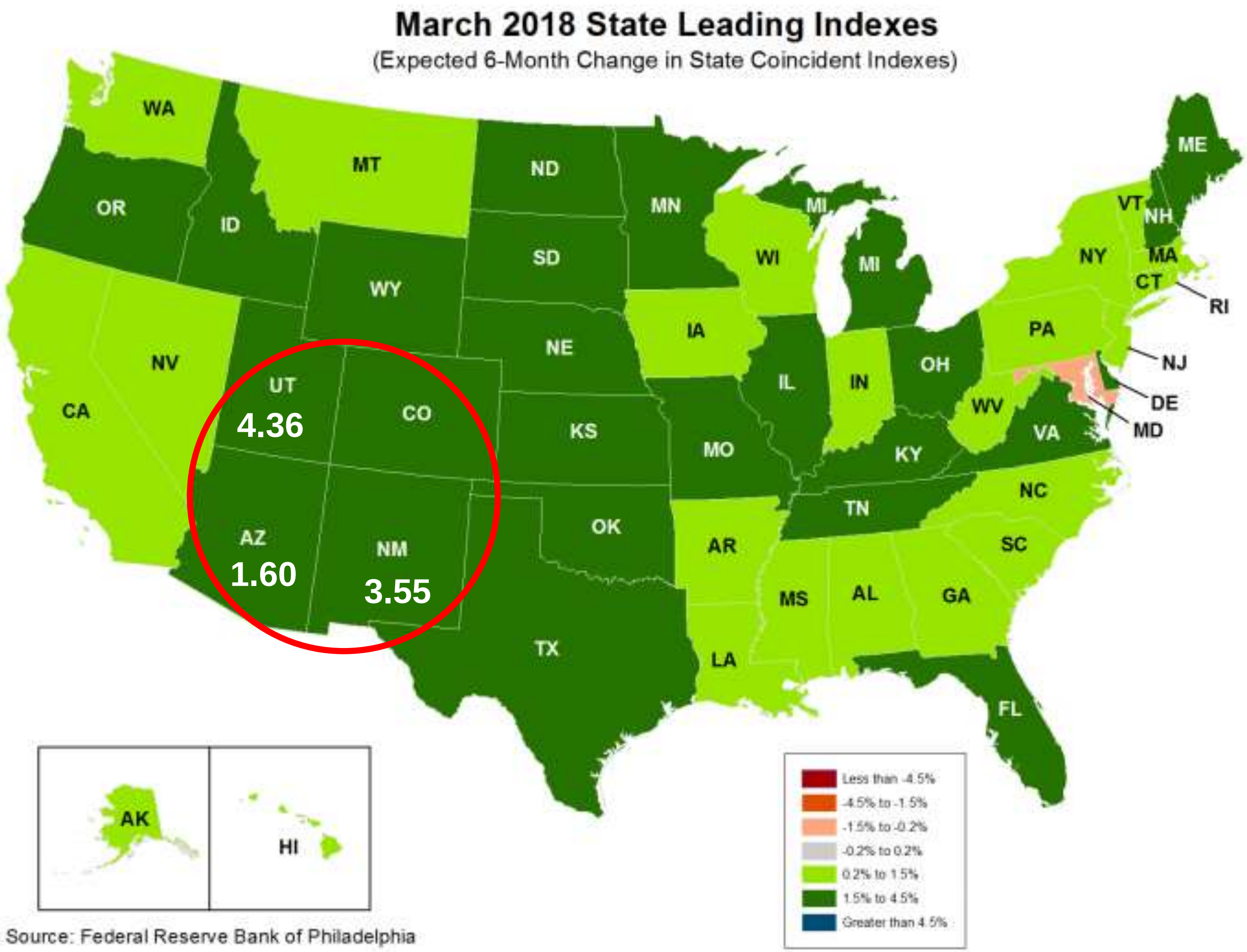
Yearly U.S. Real GDP Growth: Range of Forecasts, 2018-2022



Tough times ahead? Forecasts expect U.S. growth to slow markedly by 2020, then rebound mildly into 2022.

Sources: Blue Chip Economic Indicators, March 2018 issue; Insurance Information Institute.

State-by-State Leading Indicators through September 2018



Near-term growth forecasts vary widely by state. Strongest growth = blue (over 4.5%); dark green (1.5%-4.5%); then light green; then gray; weakest = pink

Sources: Federal Reserve Bank of Philadelphia at www.philadelphiafed.org/index.cfm , released May 3, 2018; Next release is June 5, 2018; Insurance Information Institute.

Strongest Growth

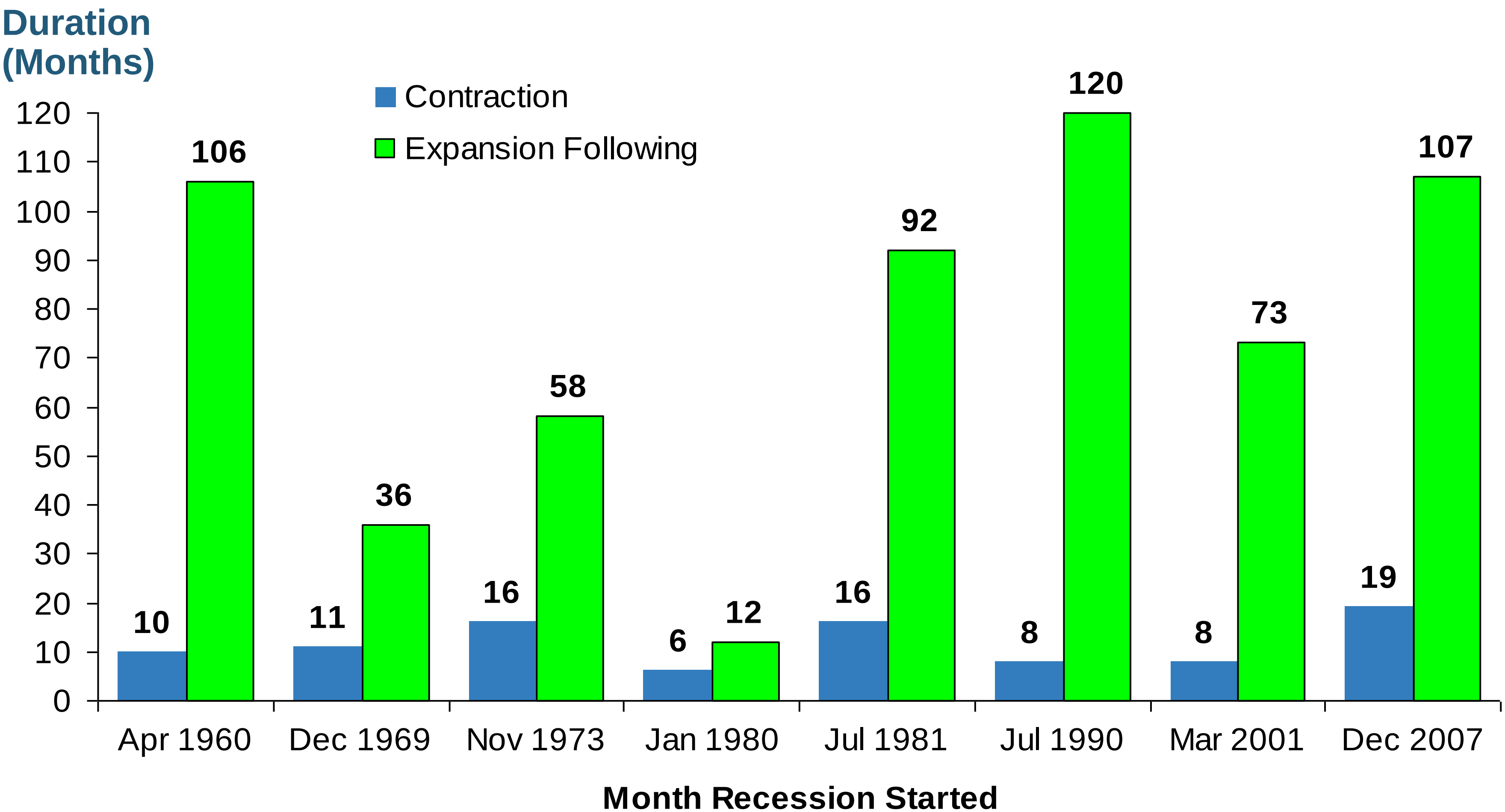
State	Forecast Growth
UT	4.36
NM	3.55
WY	3.49
OK	3.32

Weakest States in Top Growth Category

State	Forecast Growth
MI	1.59
OR	1.59
AZ	1.60
SD	1.63
MN	1.64

Sources: Federal Reserve Bank of Philadelphia at www.philadelphiafed.org/index.cfm , released May 3, 2018; Next release is June 5, 2018; Insurance Information Institute.

Length of US Business Cycles, 1960–Present*



The length of the expansions greatly exceeds the length of contractions (recessions).

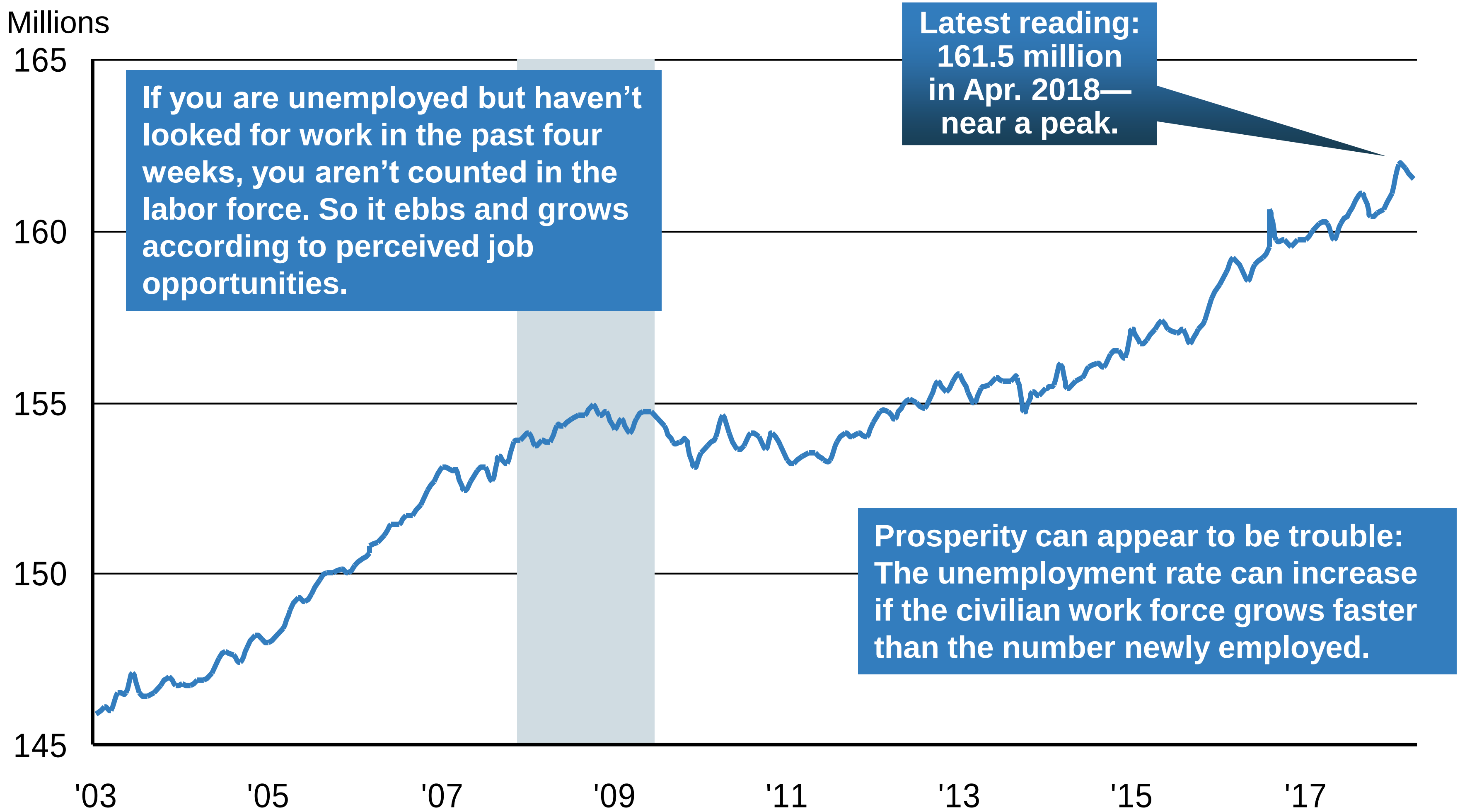
*Through May 2018; June 2009 was the "official" end of recession.
Sources: National Bureau of Economic Research; Insurance Information Institute.

Labor Market Trends

Continuing Job Gains in the Private Sector Offset Flat Public Sector Employment

The Civilian Labor Force

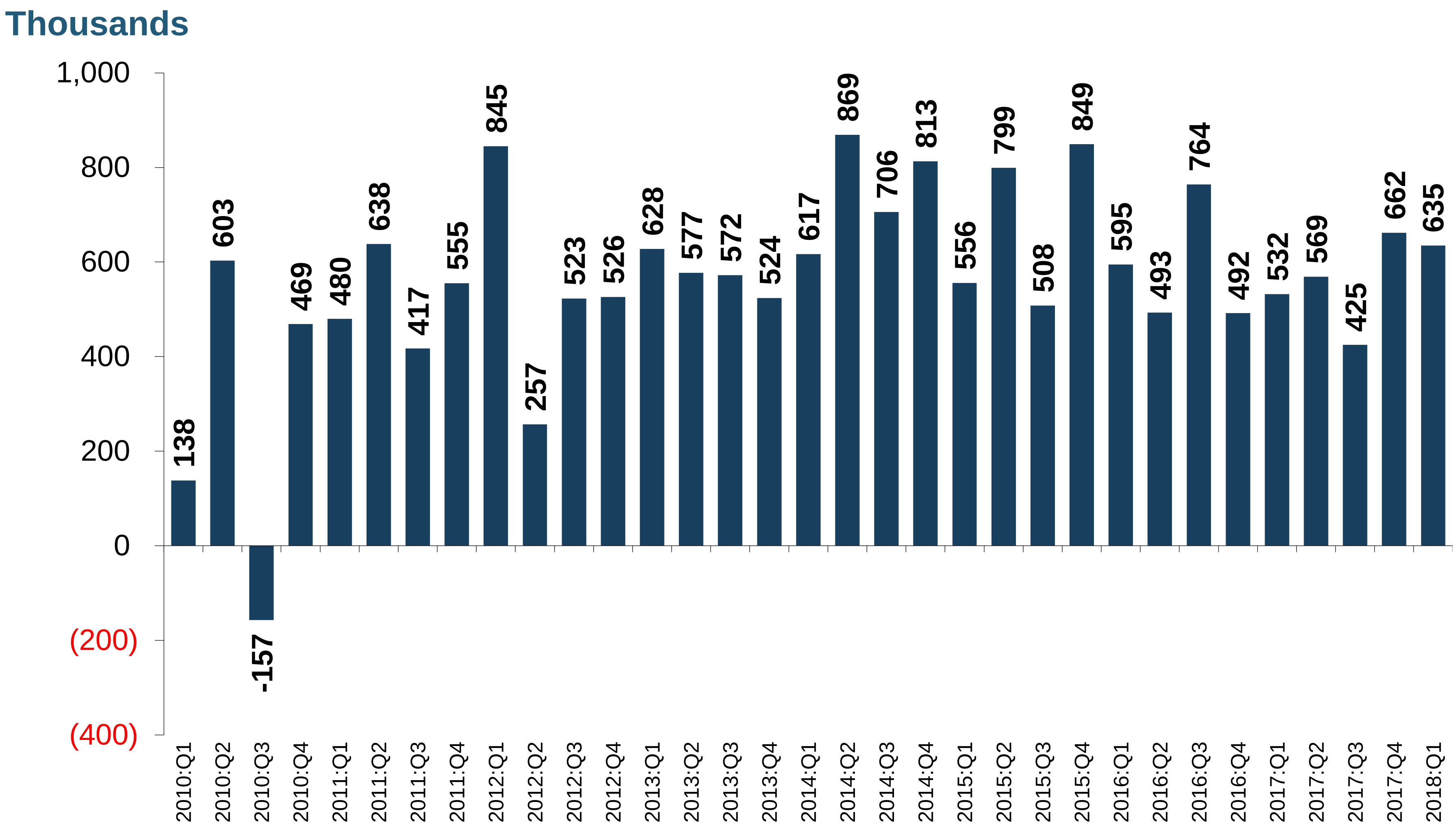
Jan. 2003 – Apr. 2018



In February 2018, the workforce grew by 806,000. This big a jump is rare. The last time the workforce grew by over 800,000 was January 2003 (up 871,000).

Notes: Recession indicated by gray shaded column. Data are seasonally adjusted.
Sources: Bureau of Labor Statistics; National Bureau of Economic Research (recession dates).

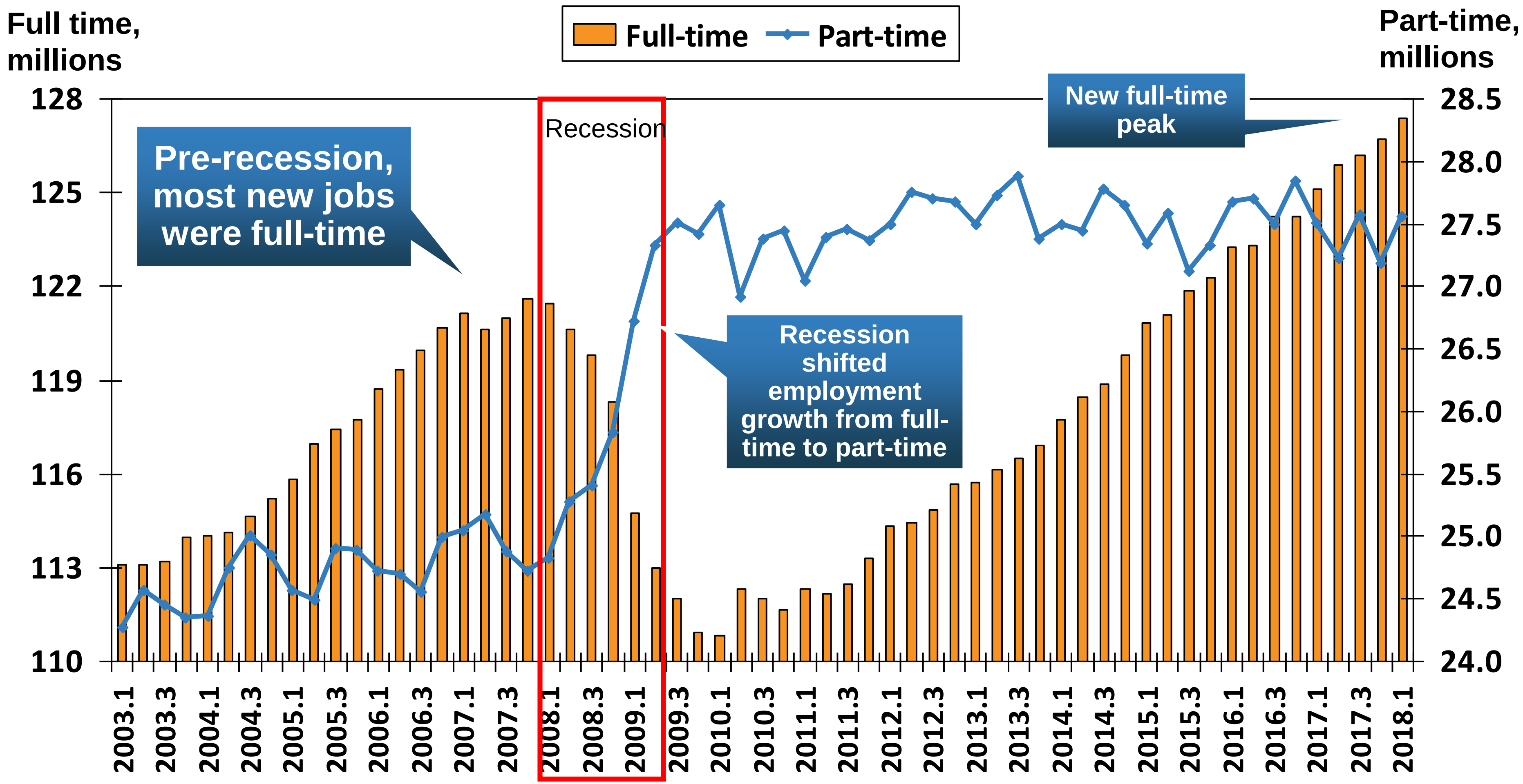
Nonfarm Employment, Quarterly Change, 2010 – 2018*



After a strong 2014-15, the pace of job growth has slowed somewhat.

*Seasonally adjusted
Sources: US Bureau of Labor Statistics; Insurance Information Institute

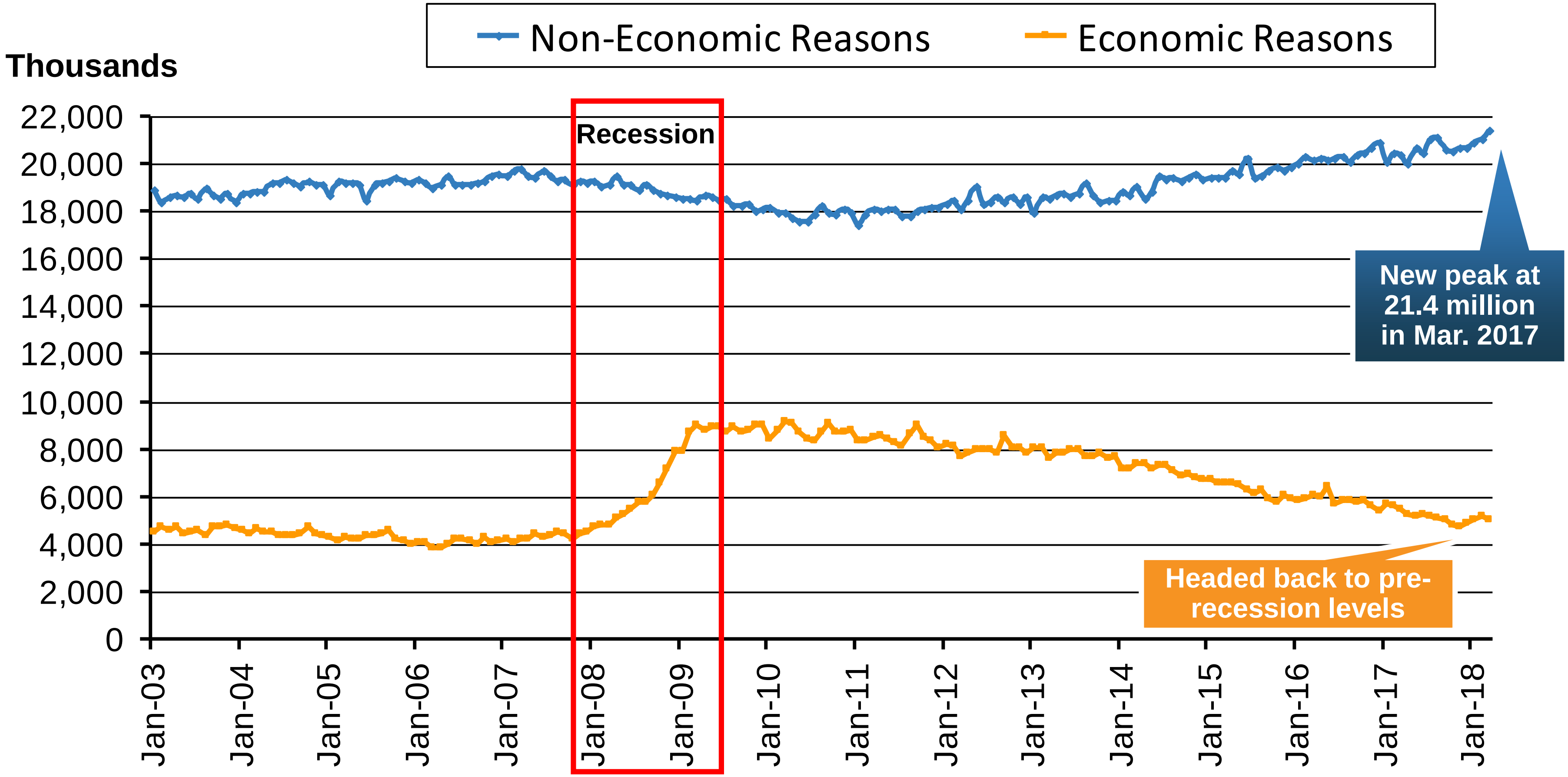
Full-time vs. Part-time Employment, Quarterly, 2003-2018



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.

Opposite Trends for Components of Part-time Employment, 2003-2018

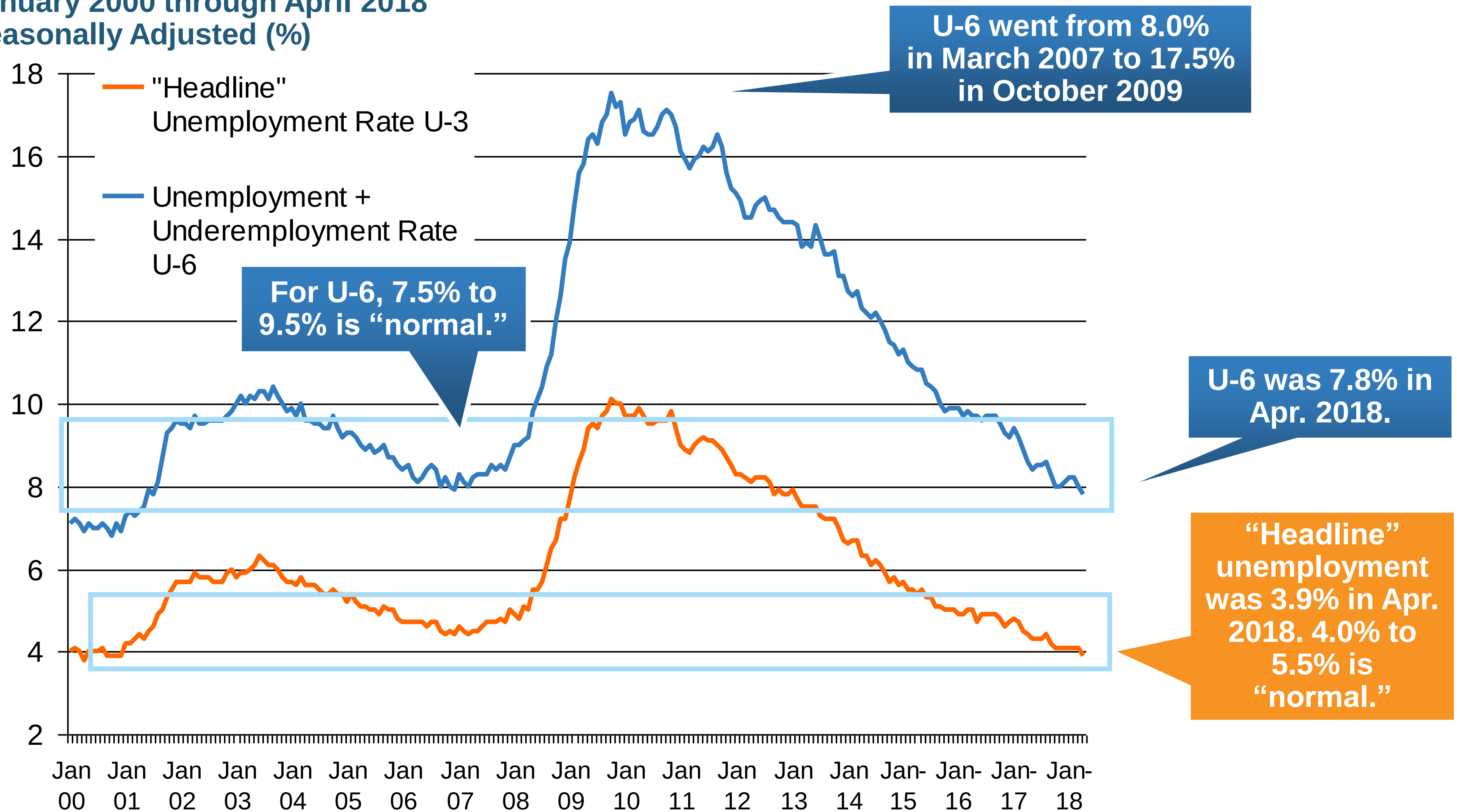


Both lines are now moving in good directions. People who work part-time "for economic reasons" would prefer full-time work. People who work part-time "for non-economic reasons" want (or need) part-time work.

Data are seasonally adjusted. Red-outlined box shows the Great Recession.
Sources: https://fred.stlouisfed.org/series/LNS12032197 and https://fred.stlouisfed.org/series/LNS12032200

Unemployment and Underemployment Rates: Back to Normal?

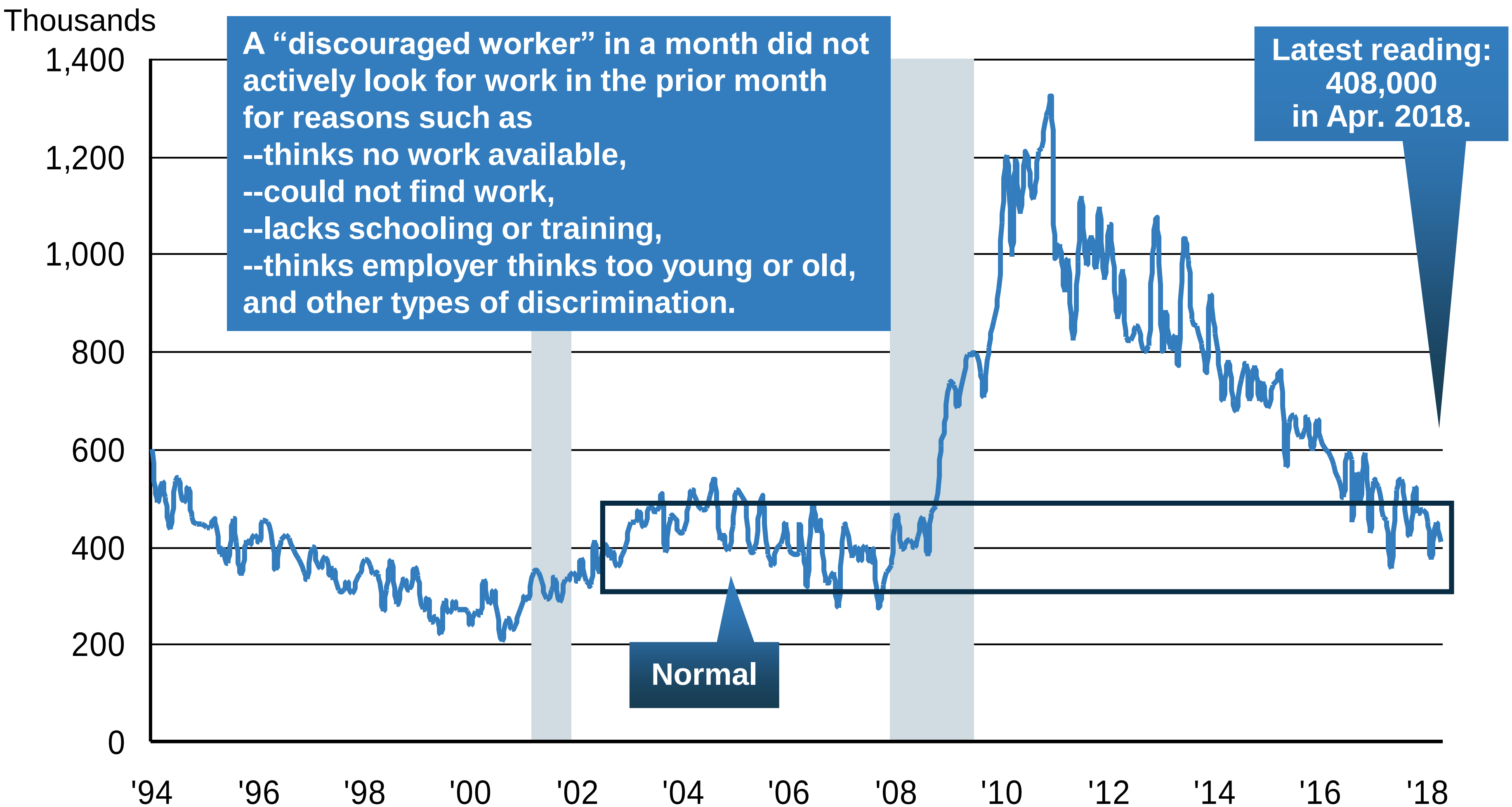
January 2000 through April 2018
Seasonally Adjusted (%)



Based on the latest readings, it appears that the job market is now back to "normal"

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

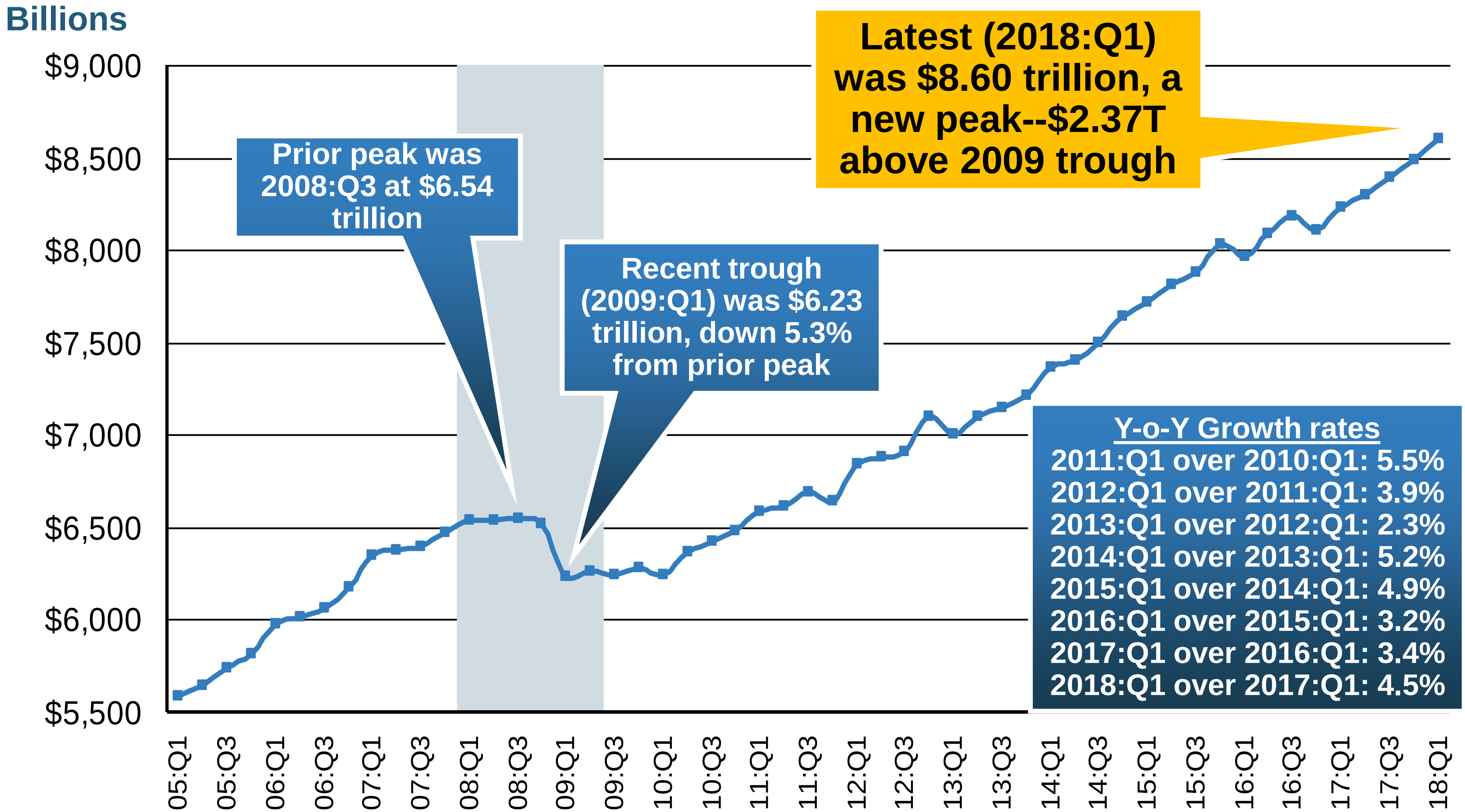
Number of "Discouraged Workers": Back In a "Normal" Range Jan. 1994 – Apr. 2018



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).

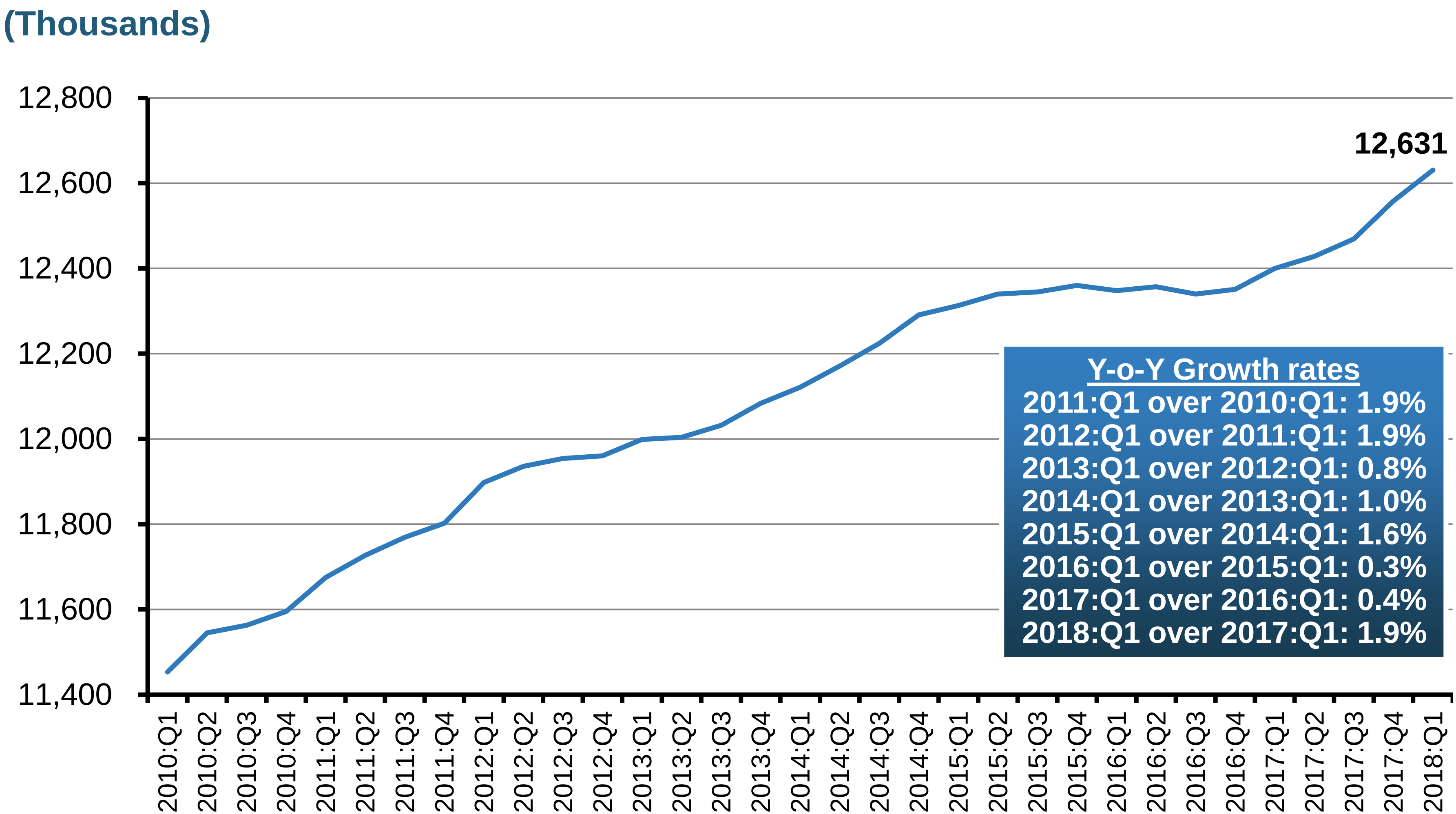
Nonfarm Payroll (Wages and Salaries): Quarterly, 2005:Q1–2018:Q1



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.

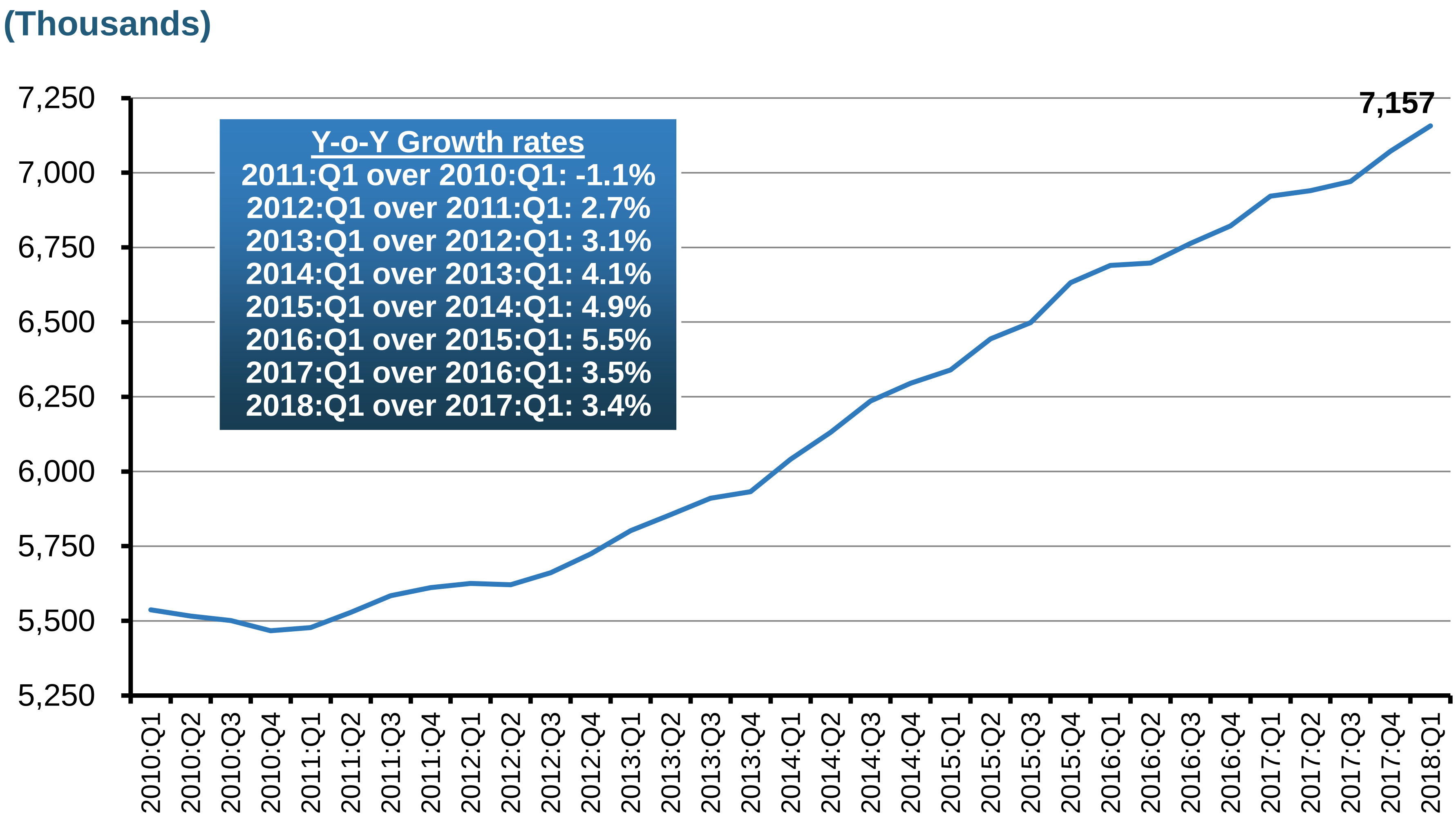
Manufacturing Employment, 2010:Q1—2018:Q1



Construction and manufacturing employment constitute 1/3 of all workers comp payroll exposure.

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

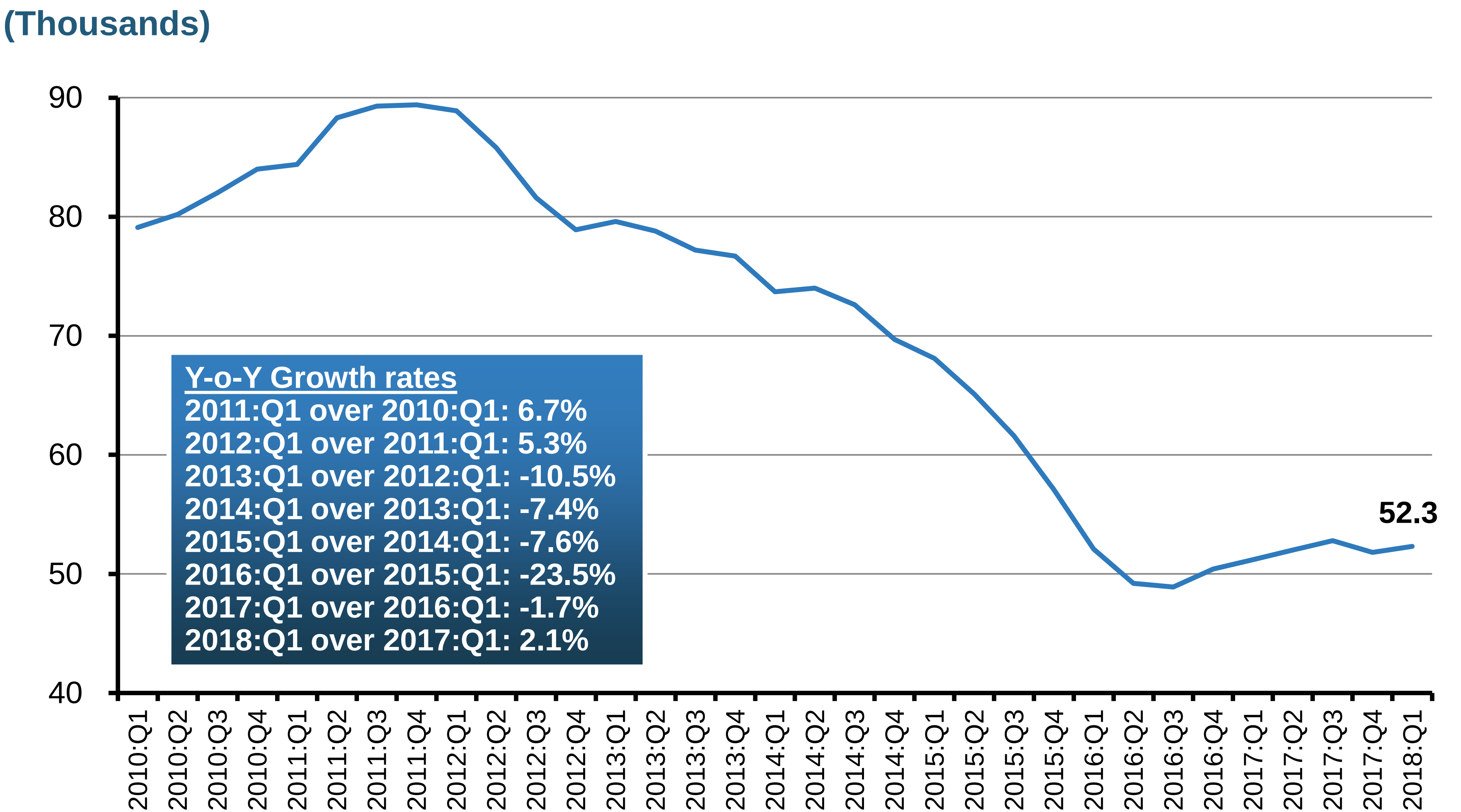
Construction Employment, 2010:Q1—2018:Q1



Construction and manufacturing employment constitute 1/3 of all workers comp payroll exposure.

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

Coal Mining Employment, 2010:Q1—2018:Q1



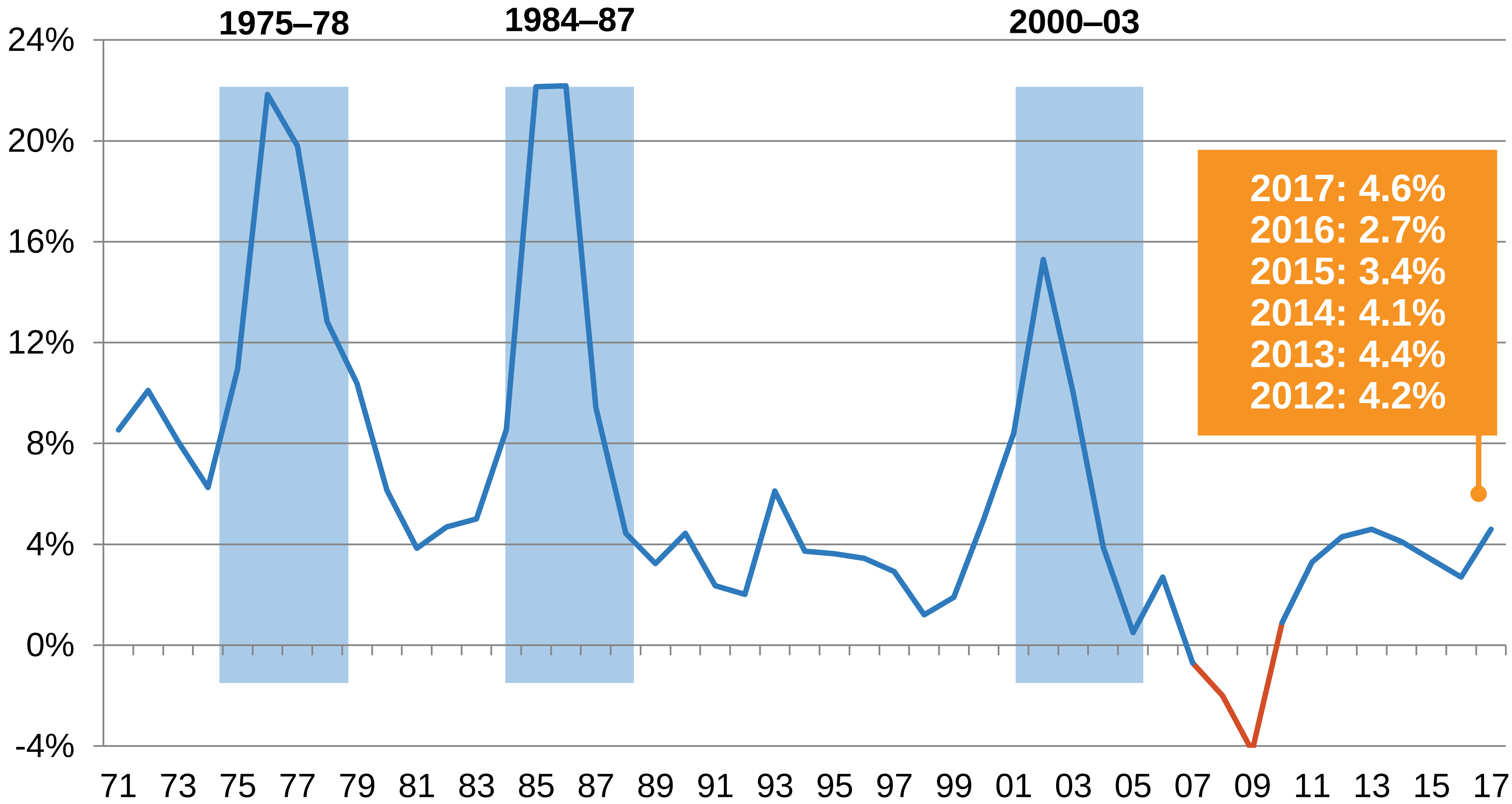
Construction and manufacturing employment constitute 1/3 of all workers comp payroll exposure.

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

P/C Insurance Industry:
Financial Update

2017 Was a Tough Year

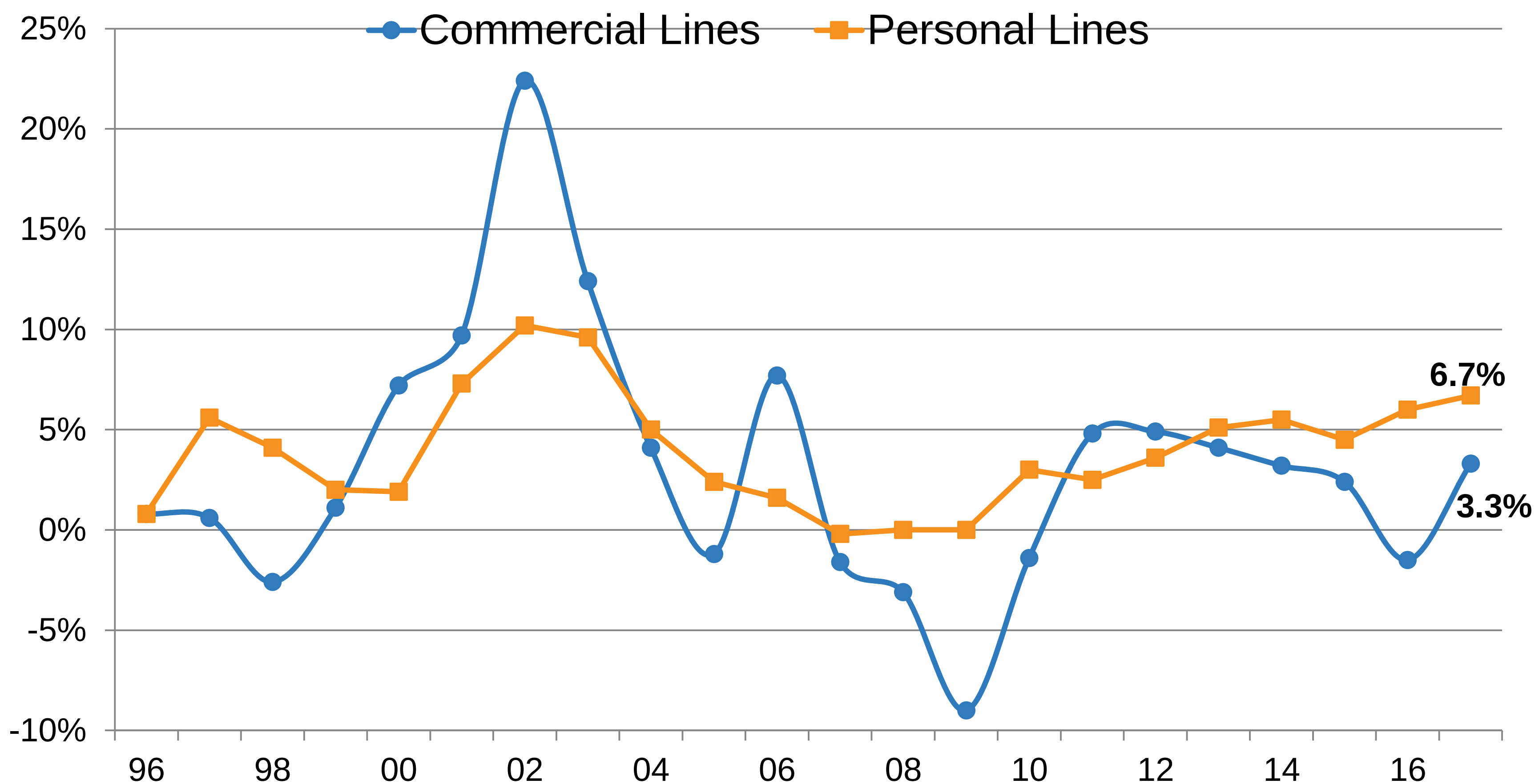
Net Premium Growth (All P/C Lines): Annual Change, 1971-2017



Net Written Premiums rose 4.6% in 2017, the best one-year gain since 2003.

Shaded areas denote "hard market" periods
Sources: A.M. Best (1971-2013), ISO (2014-17).

Commercial & Personal Lines NPW Growth: 1996-2017

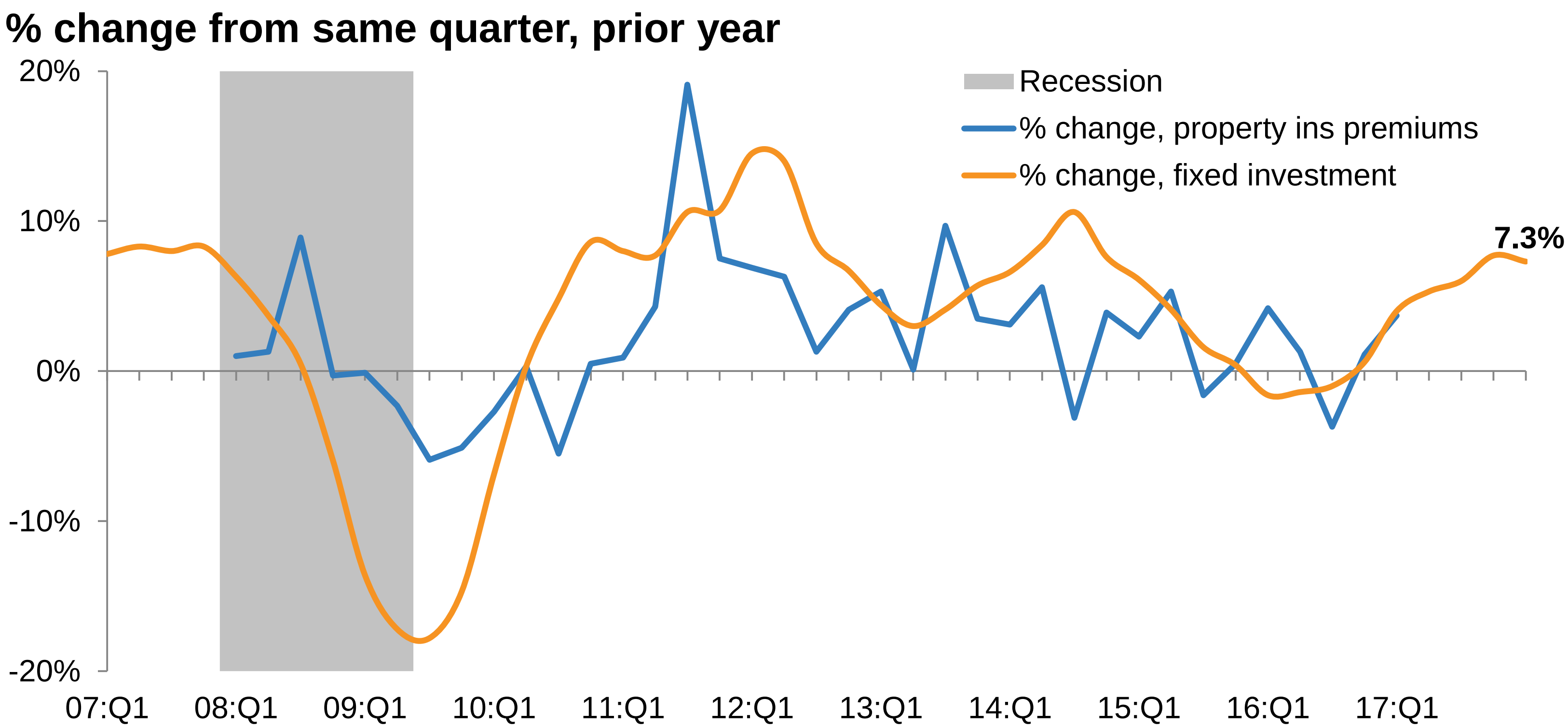


Commercial Lines is Prone to Much More Cyclical Volatility Than Personal Lines.

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

Underwriting Performance

Business Nonresidential Fixed Investment Tracks Commercial Property Premium Growth



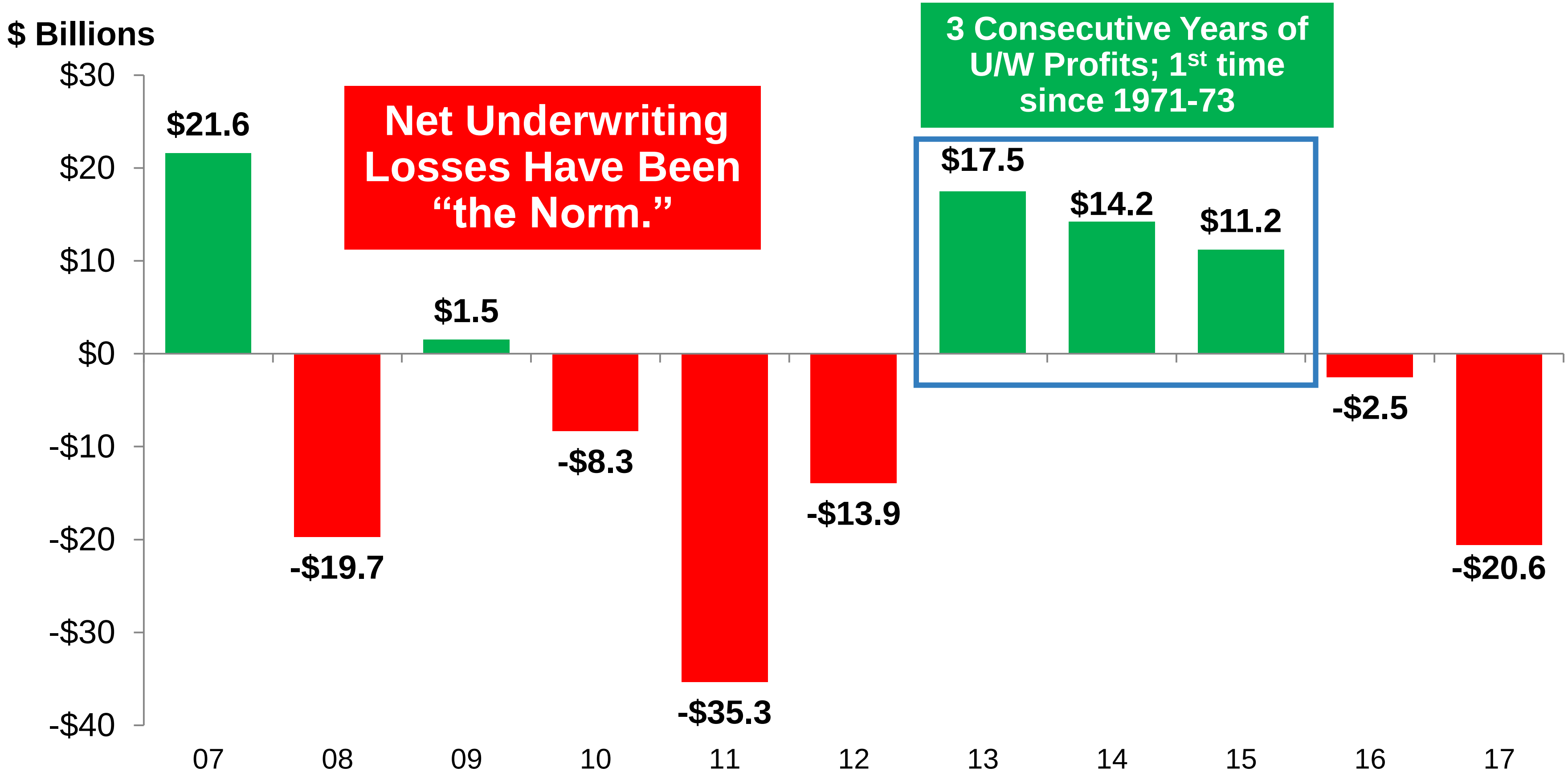
- **Econometric forecasts of business fixed investment anticipate growth of 4.5%–7.0% in 2018 and at 2.5%–6.5% in 2019.**
- **Investment in structures, equipment, and software is expected to grow at least partly due to the provisions of the Tax Cuts and Jobs Act.**

*Commercial property direct premiums written (fire, allied lines, CMP, inland marine, burglary and theft); business fixed investment (structures, equipment, and software).

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

Sources: https://fred.stlouisfed.org/series/PNFI#0; National Bureau of Economic Research (recession dates); Insurance Information Institute.

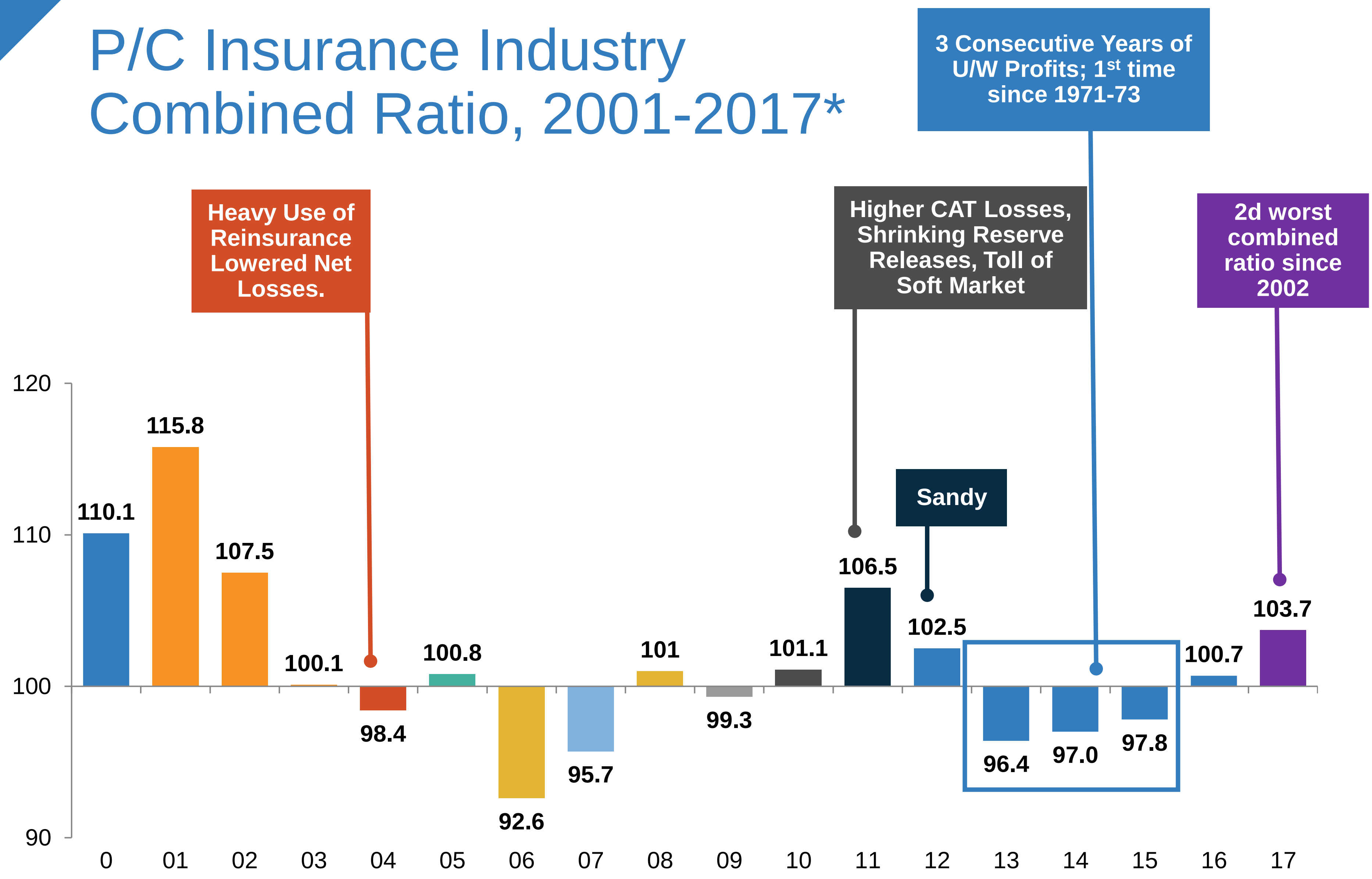
Net Underwriting Gains & Losses, Annually, 2007-2017



2013/14/15 were welcome respites from 2008/11/12, which were among the costliest years for insured disaster losses in U.S. history. The longer-term trend is for more – not fewer – costly events.

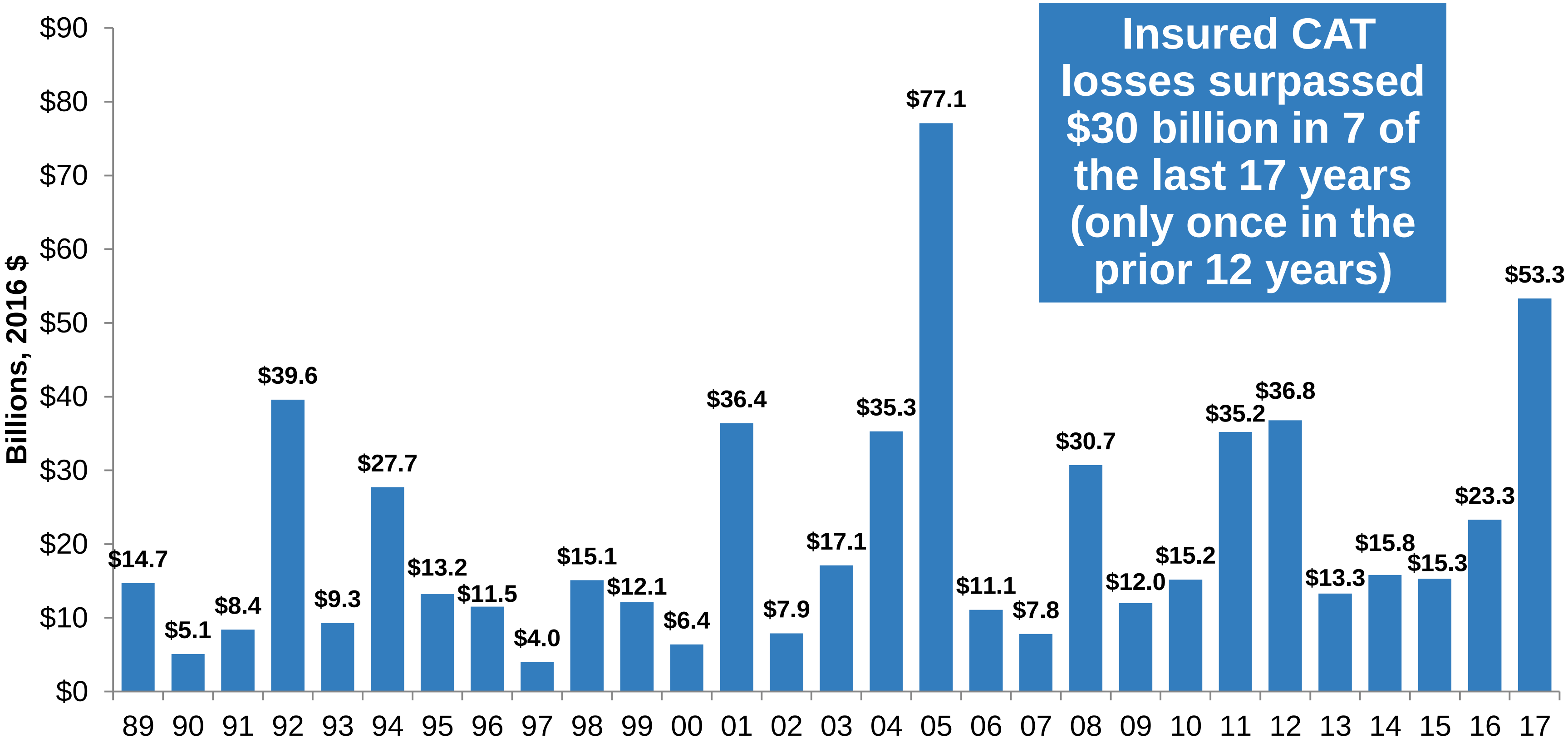
Sources: SNL Financial; Insurance Information Institute.

P/C Insurance Industry Combined Ratio, 2001-2017*



*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, a Verisk Analytics company; I.I.I.

U.S. Insured Catastrophe Losses, 1989-2017

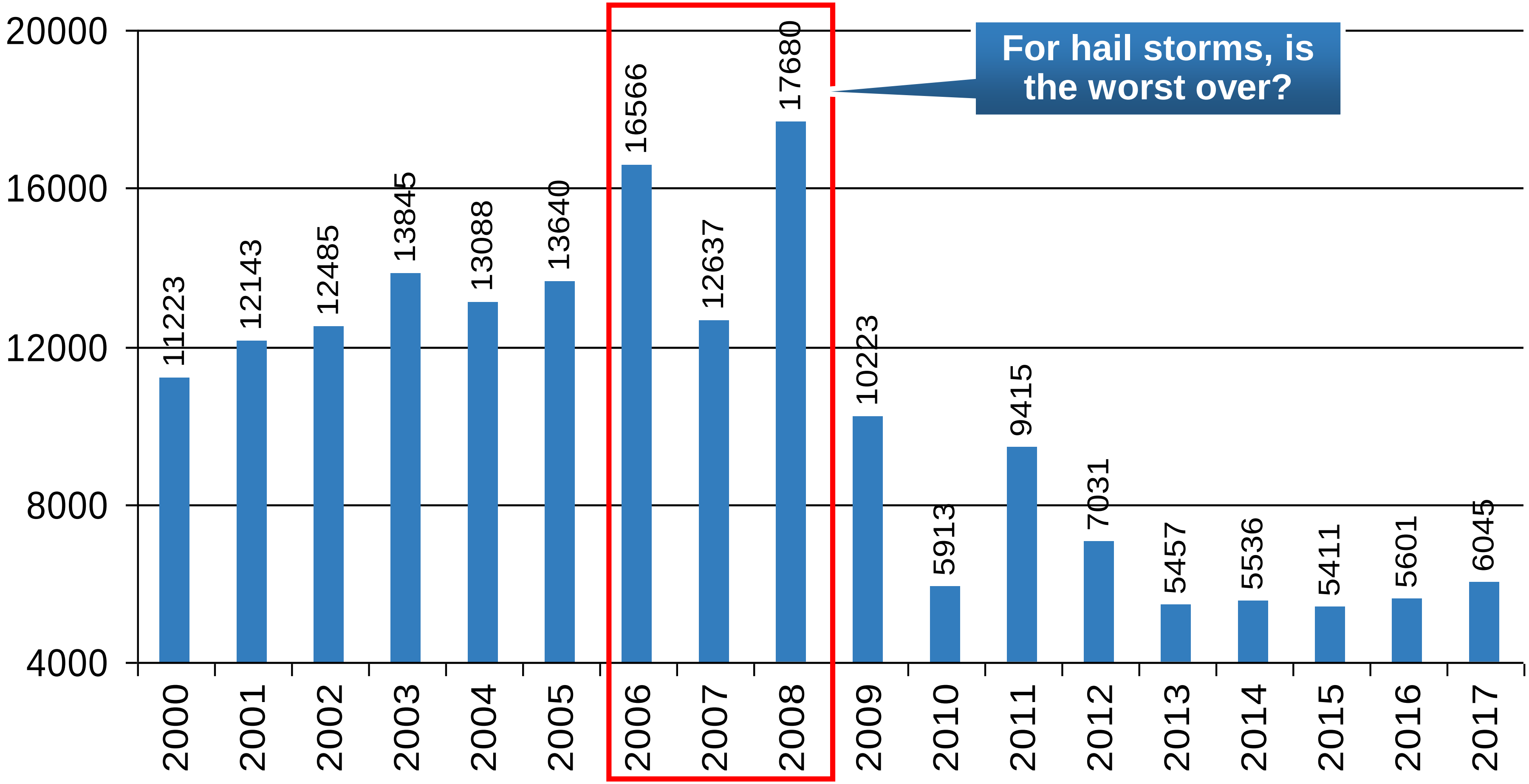


In the ten years since 2001 when CAT losses were below $30 billion, the yearly average was $13.8 billion.

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, a Verisk Analytics business; Insurance Information Institute.

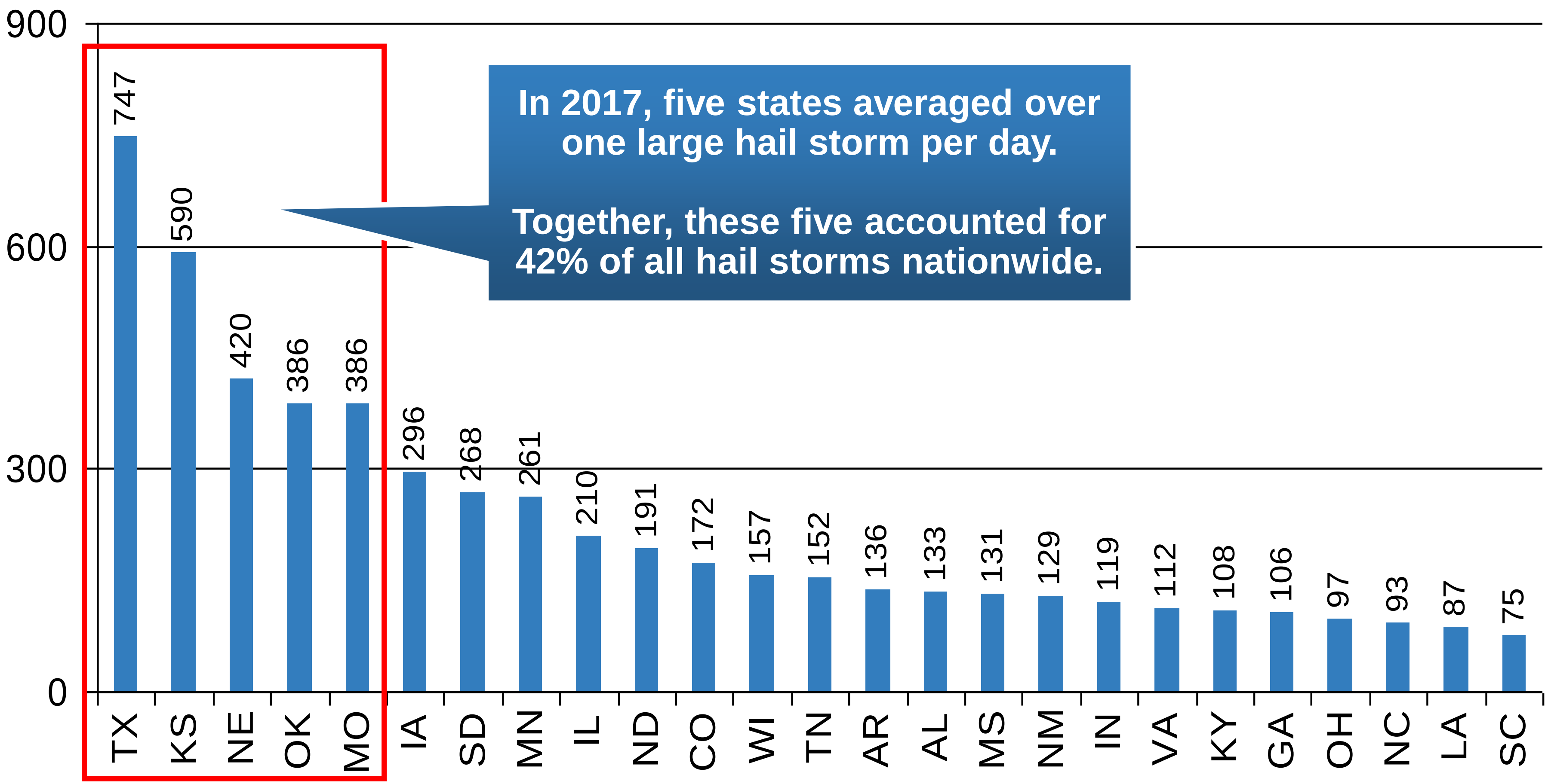
Number of Large Hail Storms, US, 2000-2017



The average number of storms in the last 5 years is less than half of the number in 2000-2005. Is this the "new normal"?

Sources http://www.spc.ncep.noaa.gov/climo/online/monthly/2017_annual_summary.html and earlier years; Insurance Information Institute.

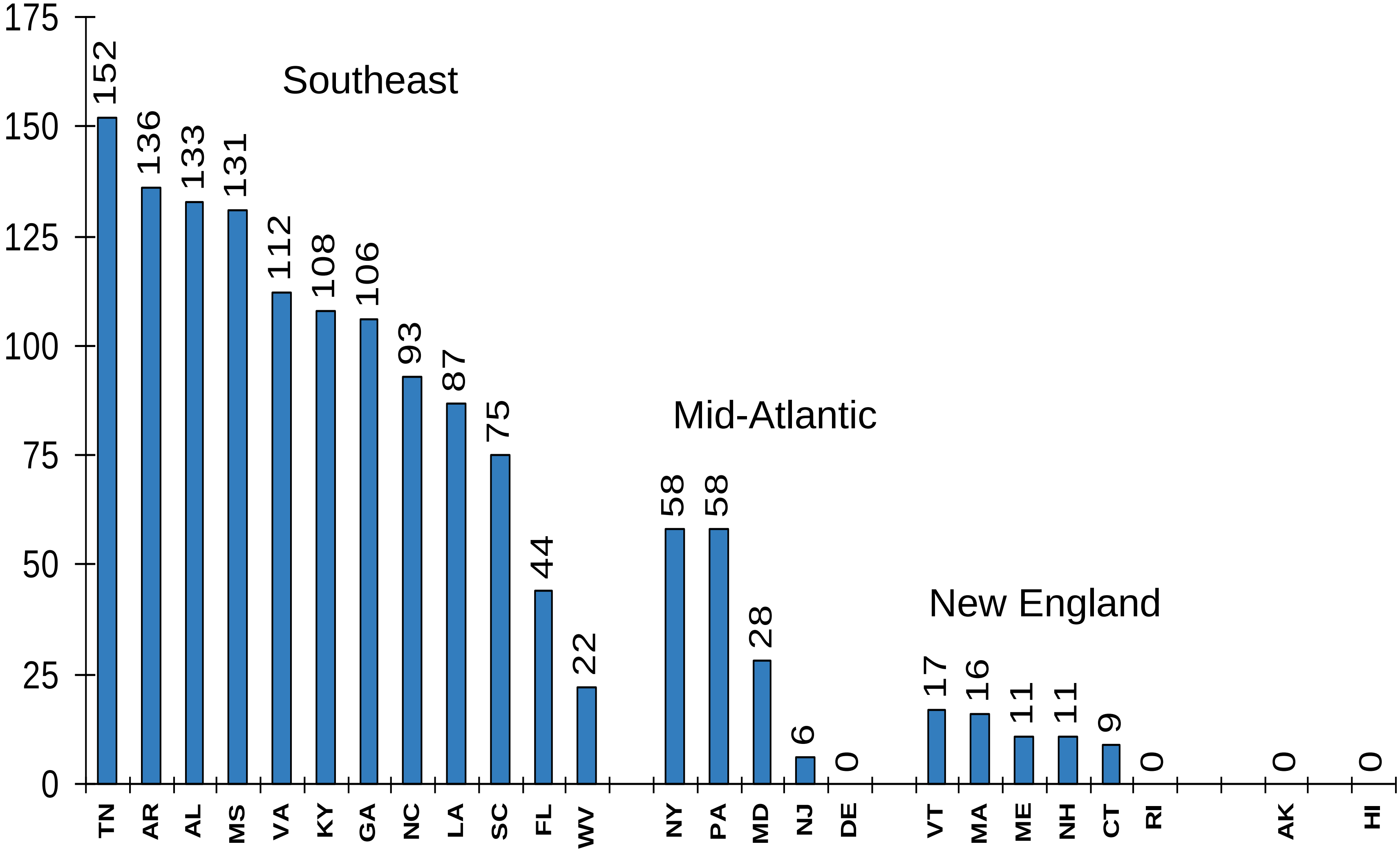
Number of Large Hail Storms, Top 25 States, 2017



CAT claims are significant in some calendar quarters and less so in others. They are 8-10% of total claims every Q2, but in Q1 usually only 4-5%.

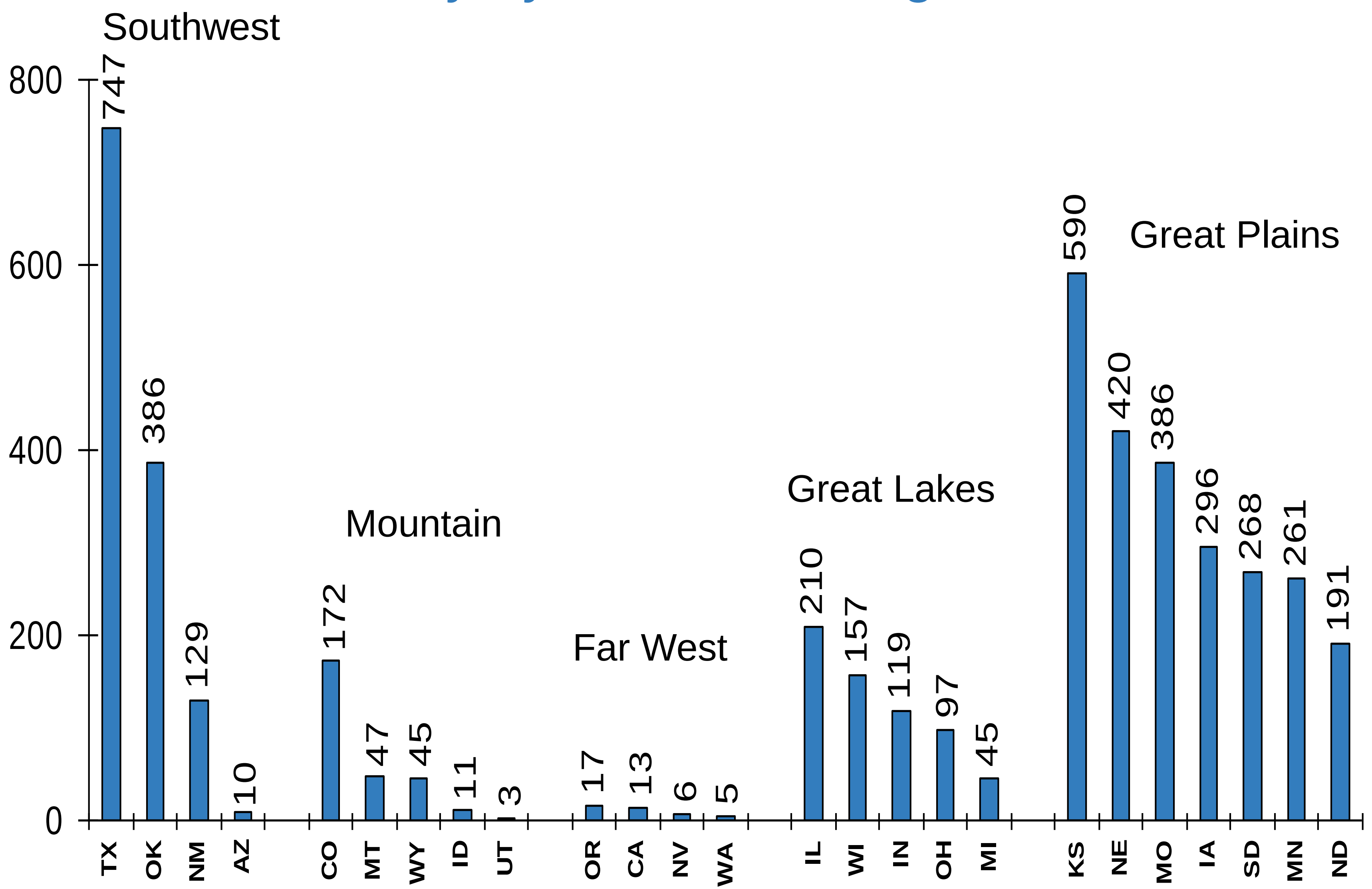
Sources http://www.spc.ncep.noaa.gov/climo/online/monthly/2017_annual_summary.html ; Insurance Information Institute.

Number of Large Hail Storms, 2017, Varied Widely by State and Region



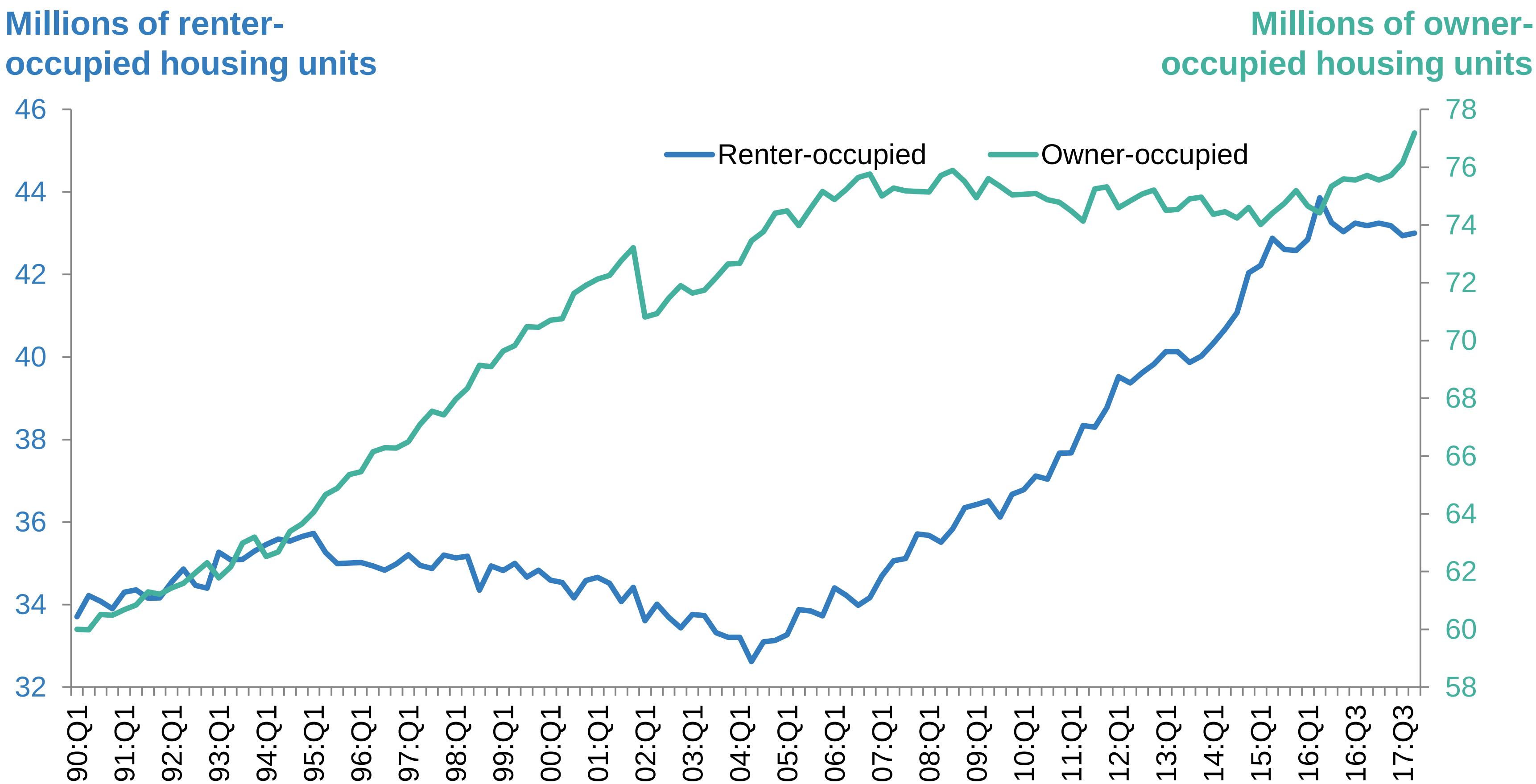
Sources http://www.spc.ncep.noaa.gov/climo/online/monthly/2017_annual_summary.html ; Insurance Information Institute.

Number of Large Hail Storms, 2017, Varies Widely by State and Region



Source: NAIC

To rent or to buy?



- **Since 2004 the number of renter-occupied housing units has grown by about 10.5 million units (+34%), but there has been no growth in the number of owner-occupied housing units in 12 years. Did this streak end in 2017?**

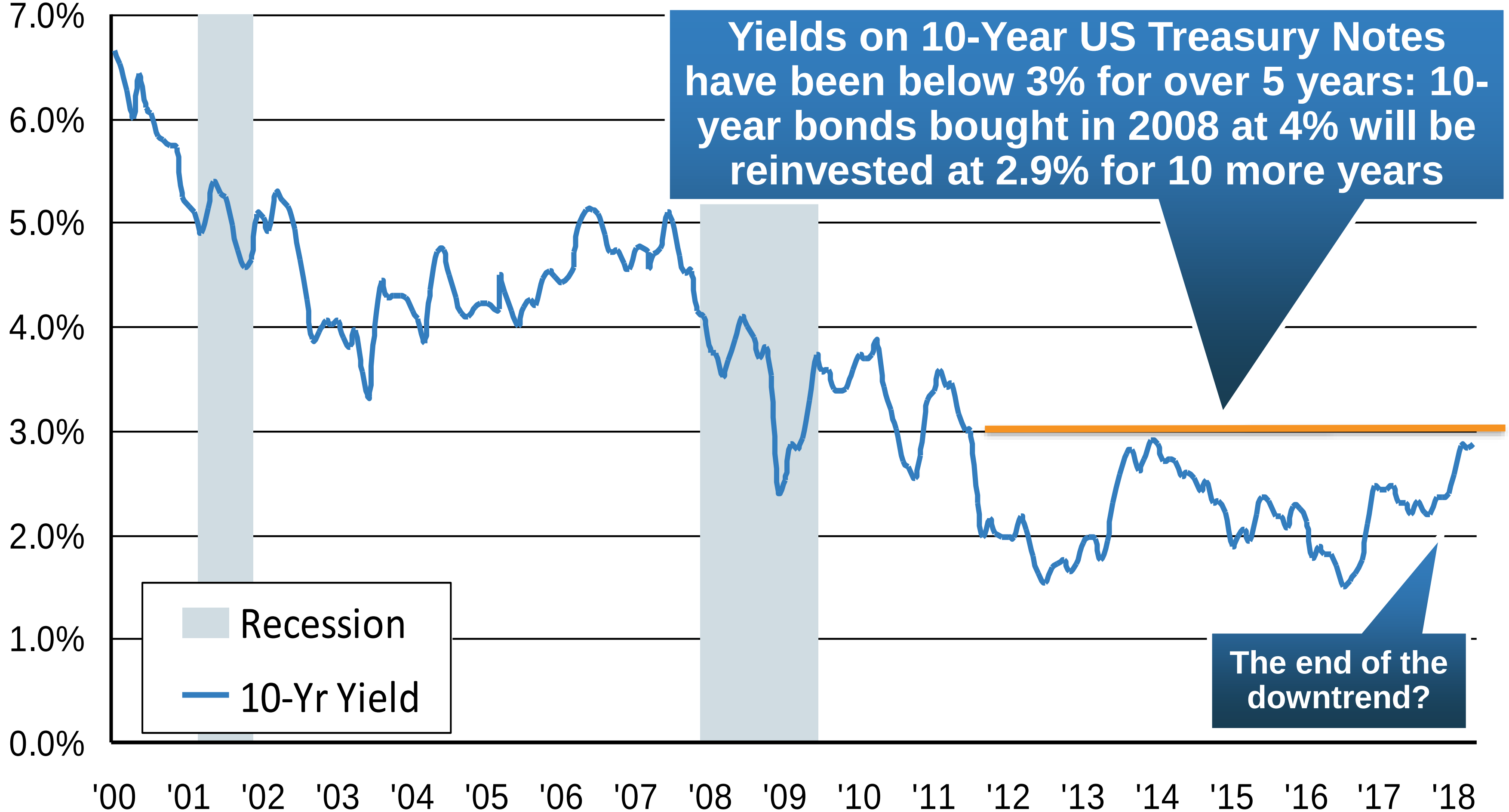
Sources: U.S. Census Bureau at http://www.census.gov/housing/hvs/data/histtabs.html, Table 8; Insurance Information Institute.

Investments

Investment Performance is a
Key Driver of Profitability

Depressed Yields Will Necessarily
Influence Underwriting & Pricing

US Treasury Note 10-Year Yields: A Long Downward Trend, 2000–2018*

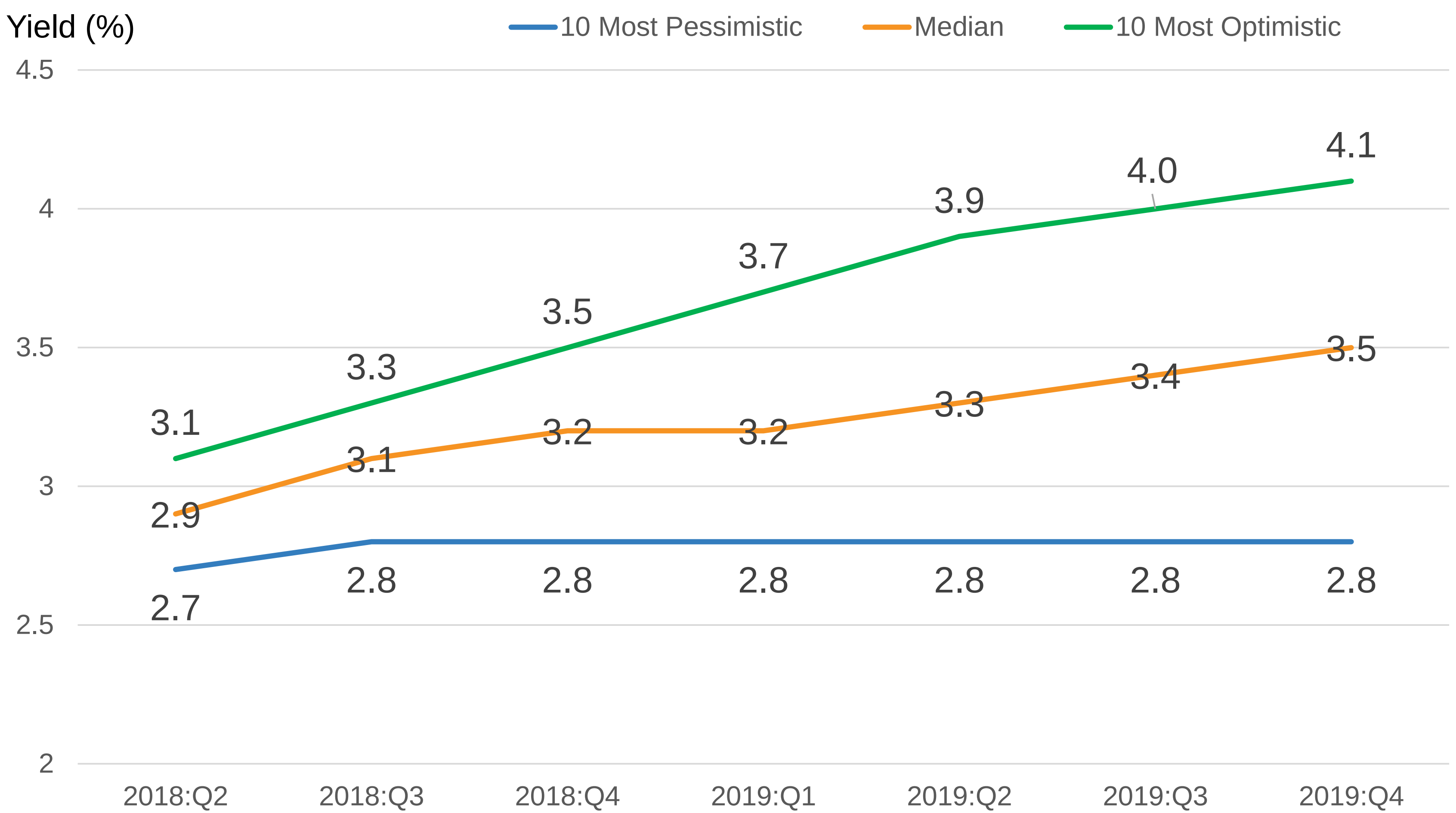


Since nearly 50% of P/C bond/cash investments are in 5-year or longer maturities, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, constant maturity, nominal rates, through April 2018.

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

May 2018: Quarterly Yield Forecasts for 10-Year US Treasury Bonds in 2018-19

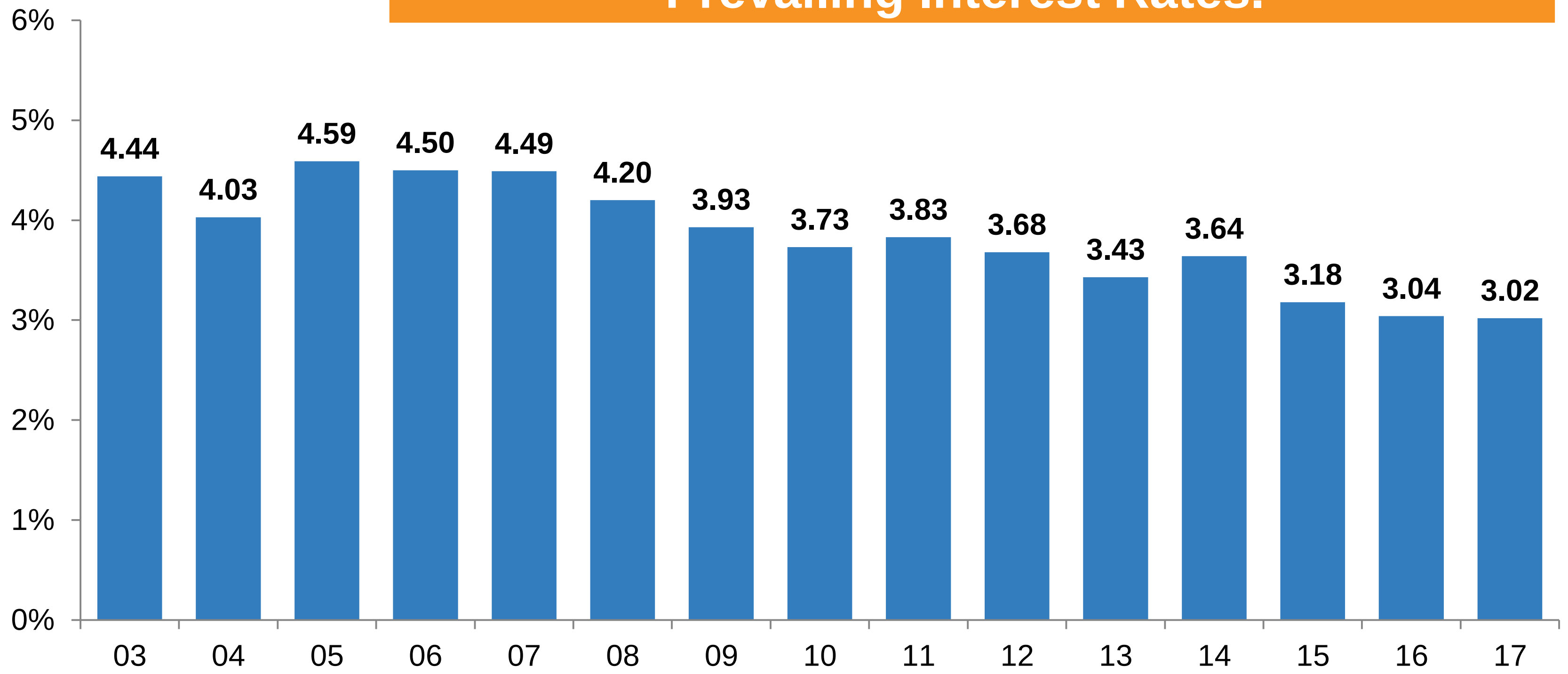


Most of the 53 forecasts in the Blue Chip survey expect continual increases in the yield of 10-year T-bonds in 2018-19.

Sources: Blue Chip Economic Indicators (5/18); Insurance Information Institute

P/C Insurer Portfolio Yields, 2002-2017

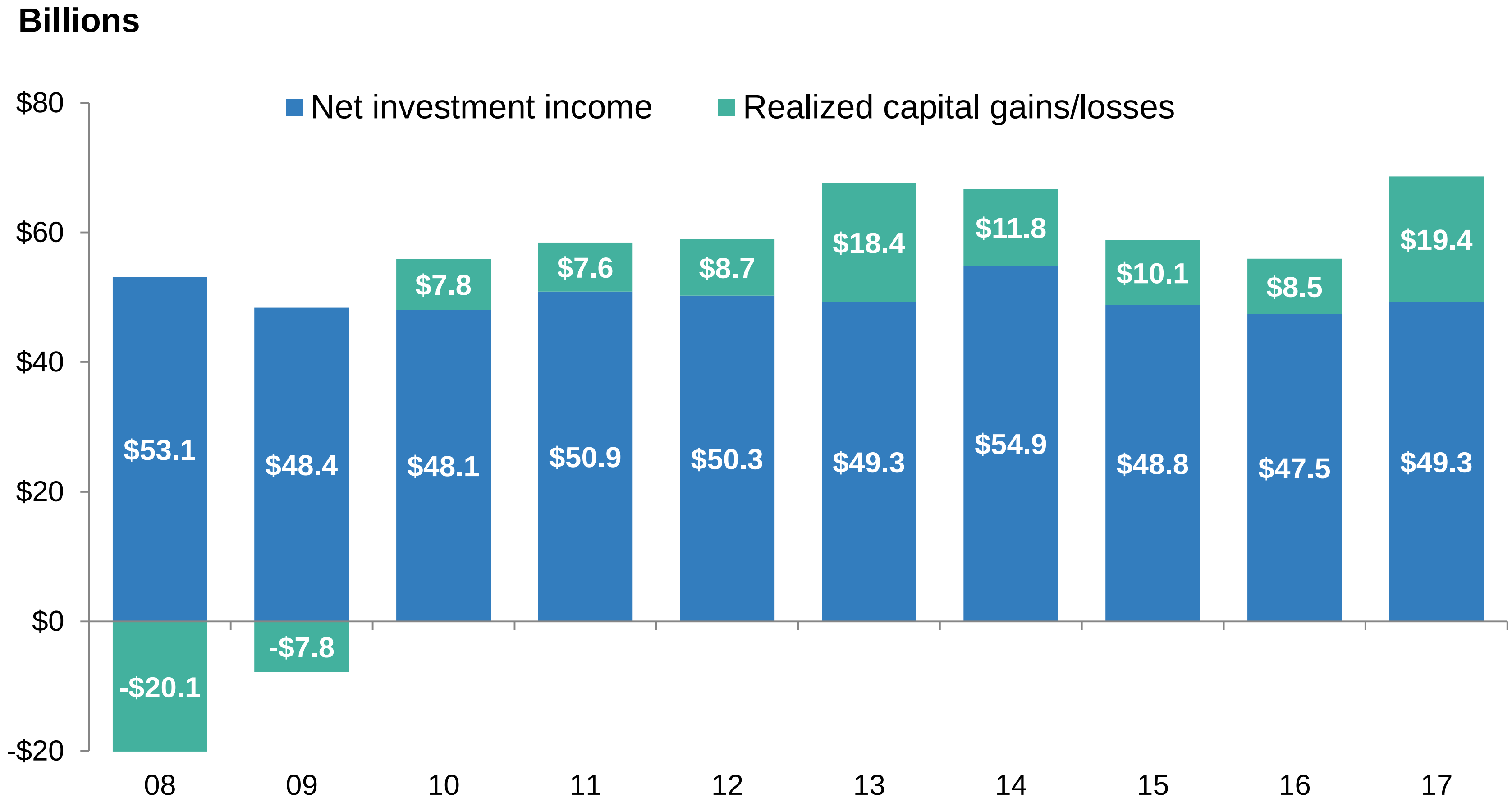
P/C Carrier Yields Have Been Falling for Over a Decade, Reflecting the Long Downtrend in Prevailing Interest Rates.



Even as Prevailing Rates Rise in the Next Few Years, Portfolio Yields Are Unlikely to Rise Quickly, Since Low Yields of Recent Years Are "Baked In" to Future Returns.

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

Sources of investment gains



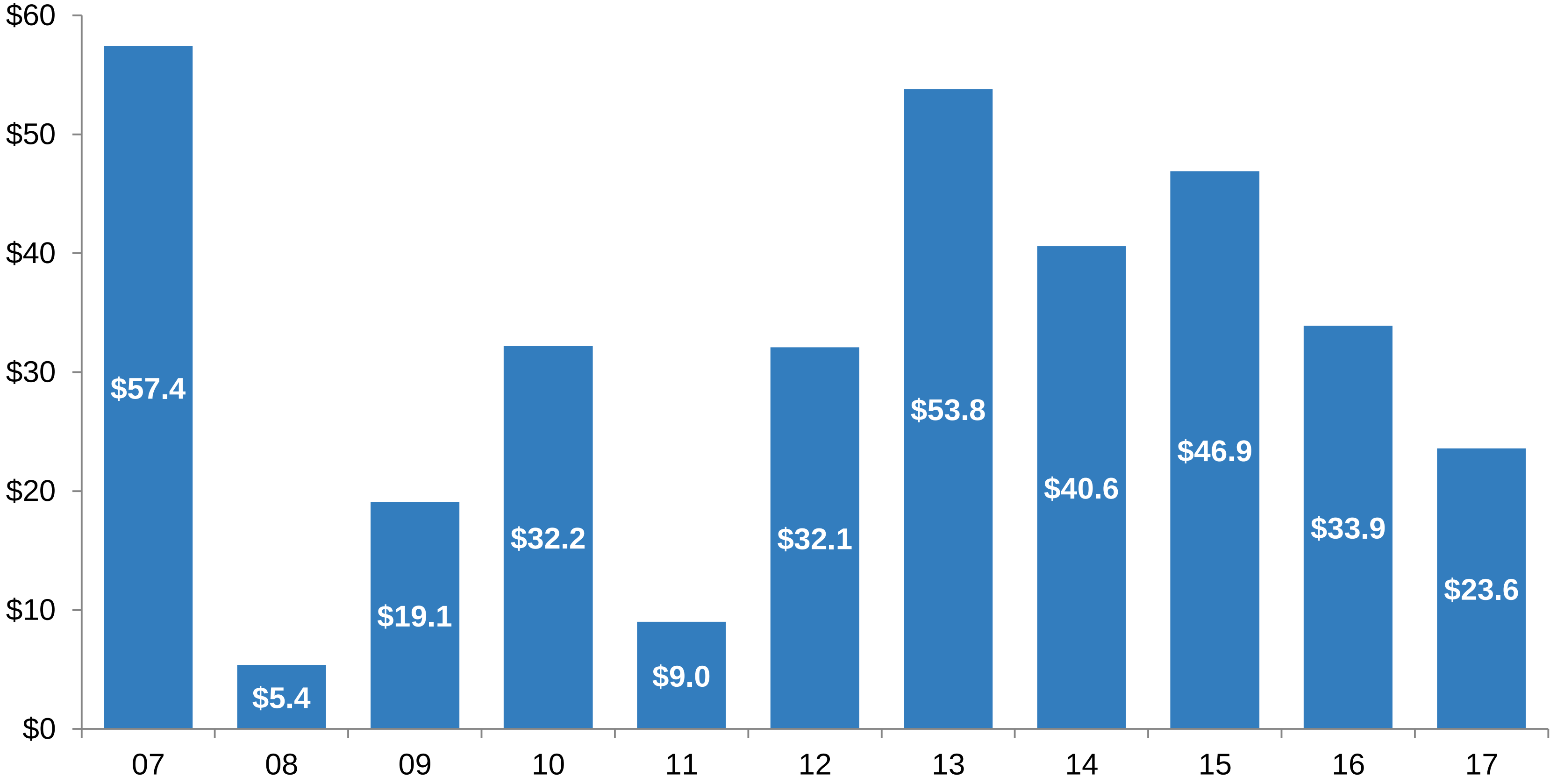
- **Net investment income has been steady, but realized capital gains/losses have been somewhat variable.**

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

Profits and Capacity

P/C industry net income after taxes*

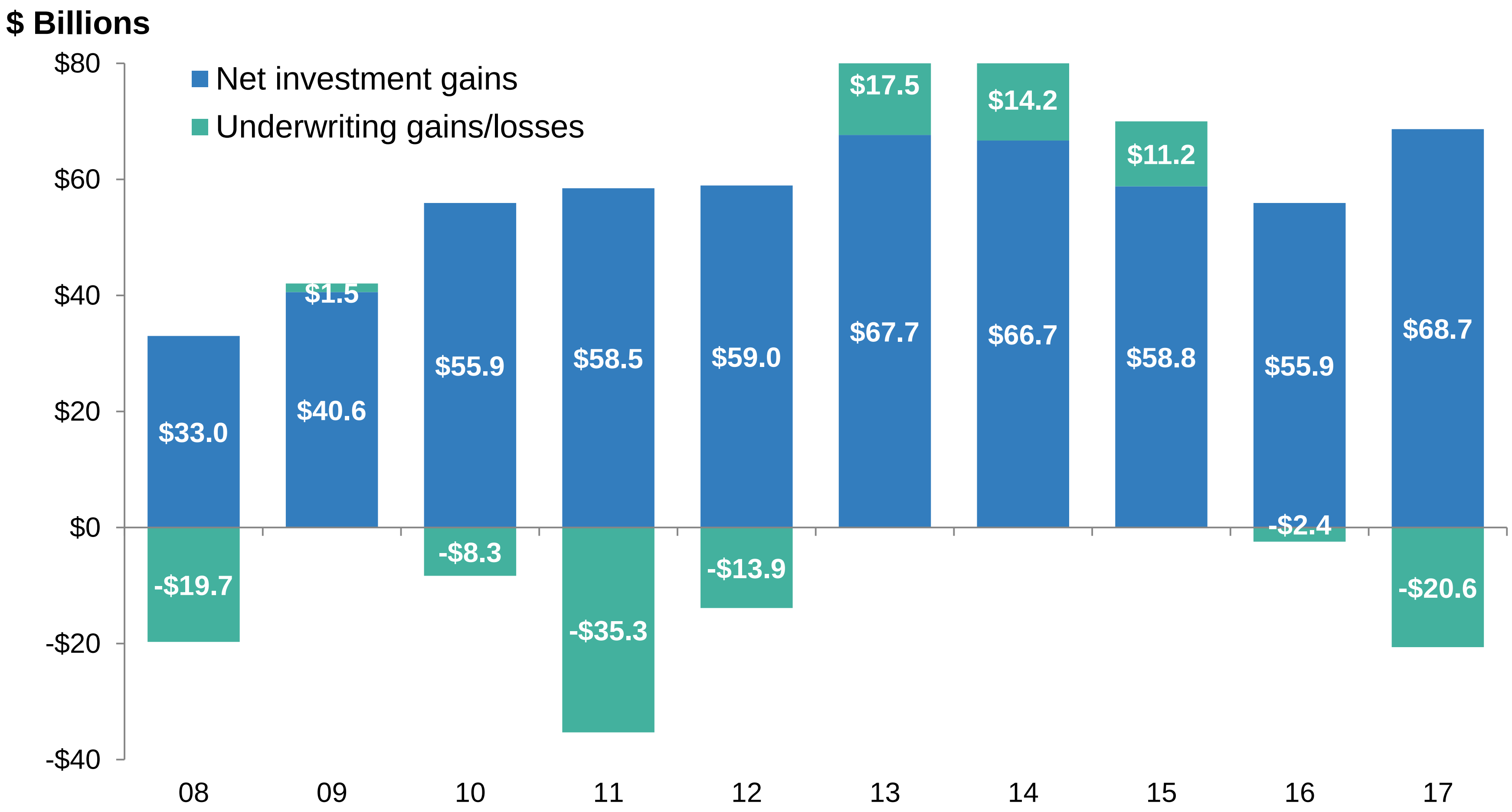
Billions, 2017 dollars



- **In the first three quarters of the year, net income varied. 2017 was the fourth lowest profit in the last 11 years.**

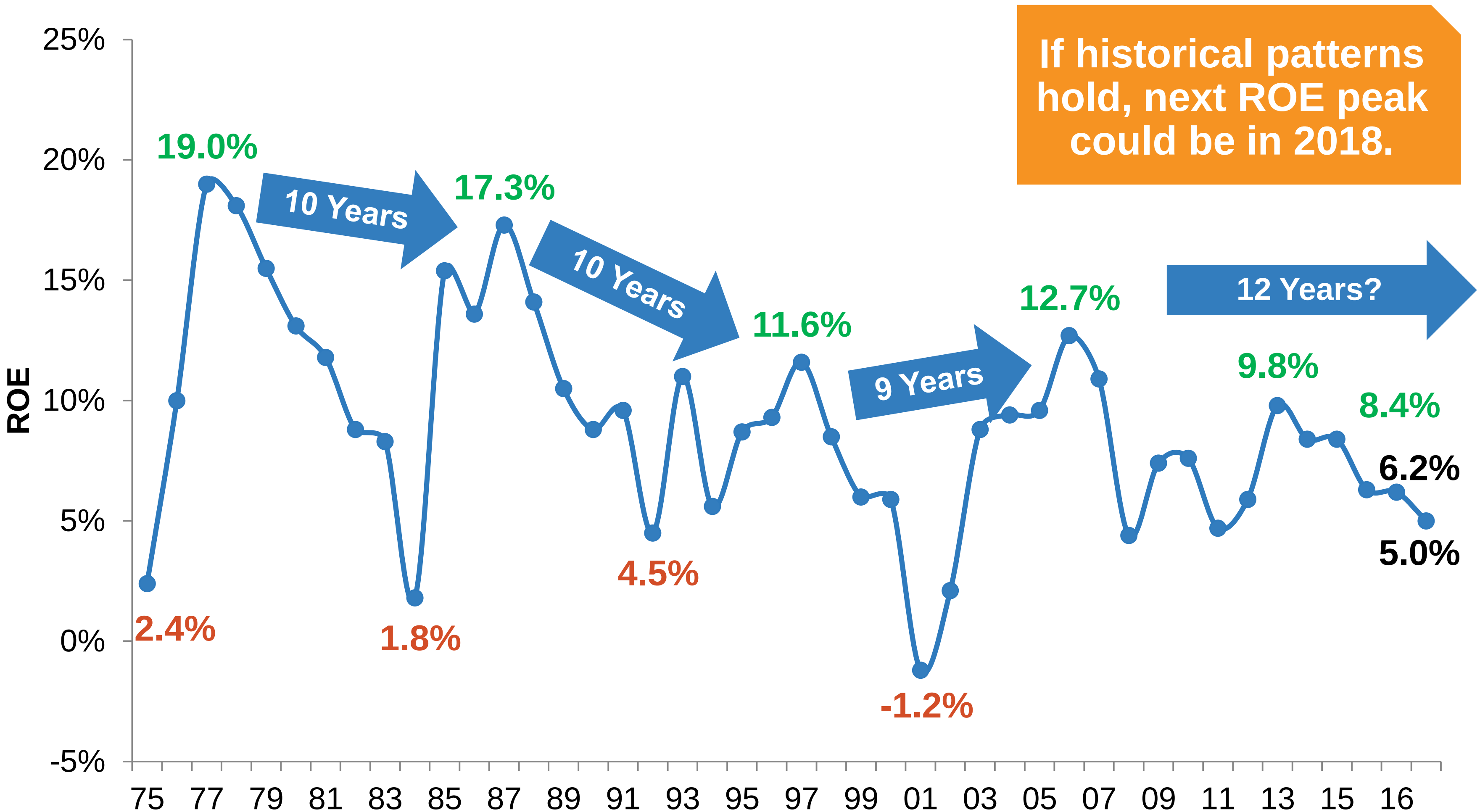
*Through third quarter. Adjusted for inflation using the BLS CPI calculator, to 2017 dollars.
Sources: NAIC data, sourced from S&P Global Market Intelligence; Insurance Information Institute.

Key sources of P/C insurer profits



Data are before taxes and exclude extraordinary items.
Sources: NAIC data, sourced from S&P Global Market Intelligence; Insurance Information Institute.

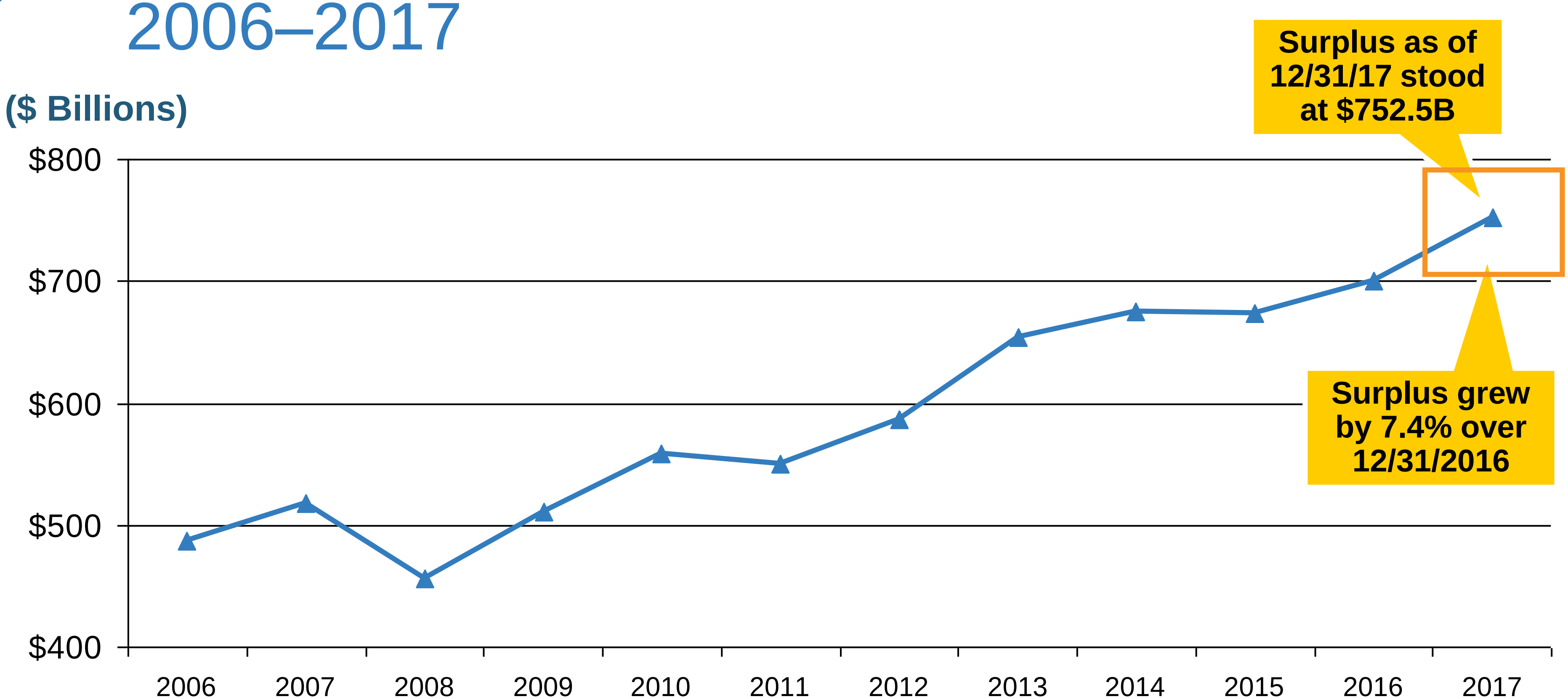
Profitability Peaks & Troughs in the P/C Insurance Industry, 1975-2017



*Profitability = P/C insurer ROEs. 2011-17 figures are estimates based on ROAS data.
Note: Data for 2008-2014 exclude mortgage and financial guaranty insurers.

Sources: Insurance Information Institute; Natl. Assoc. of Insurance Comm.; ISO, a Verisk Analytics company; A.M. Best, Conning.

Policyholder Surplus, Year-end, 2006–2017



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

The P/C insurance industry entered 2018 in very strong financial condition.

Sources: ISO, A.M .Best.

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Thank you