



The P/C Insurance Industry and the U.S. Economy: Issues & Outlook

Los Angeles Area CPCU All-Industry Day
Studio City, CA
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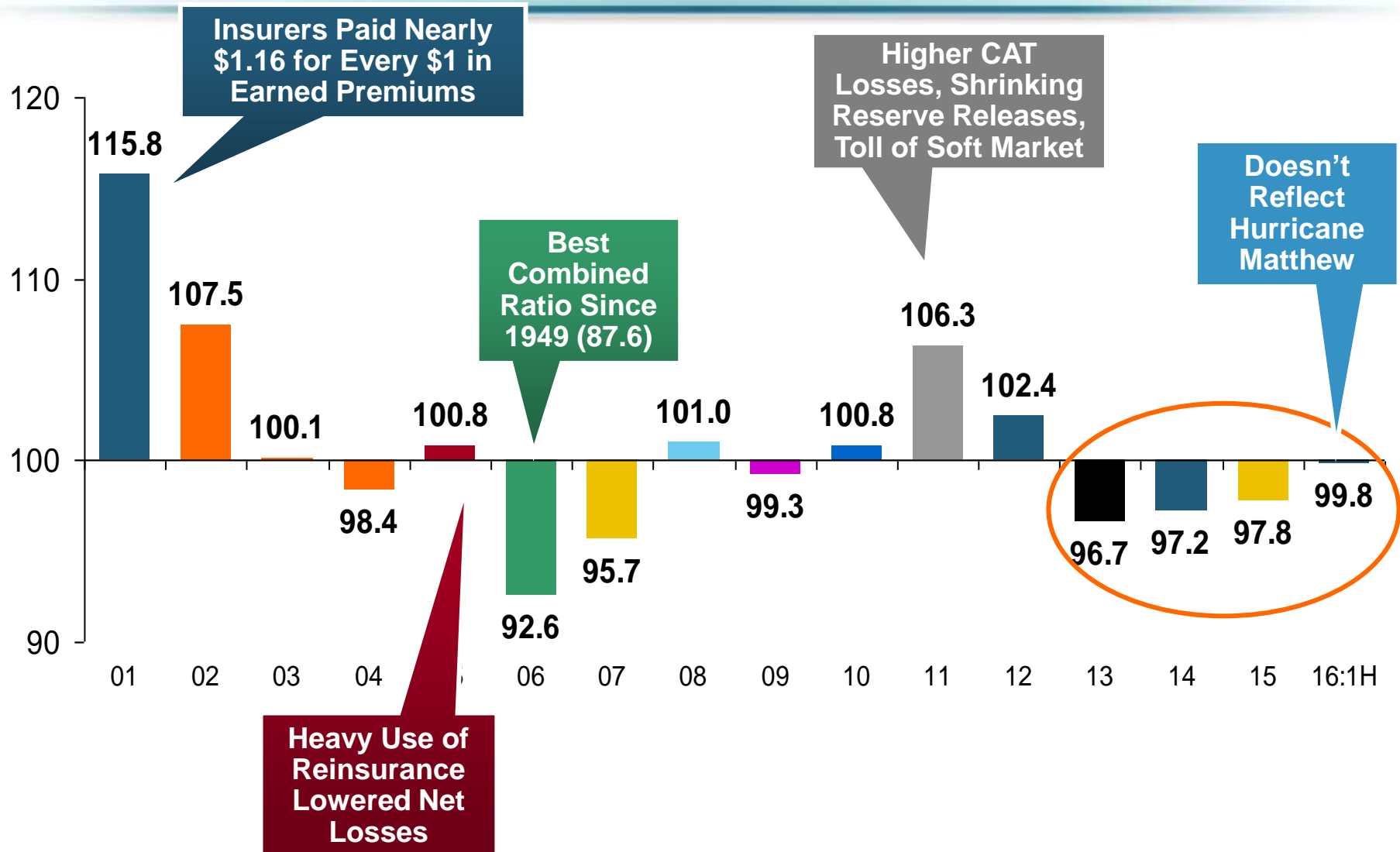
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First, the Good News about the P/C Insurance Industry:

**2013-15 Were
Three Good Years in a Row**

But 2016 Could End this String

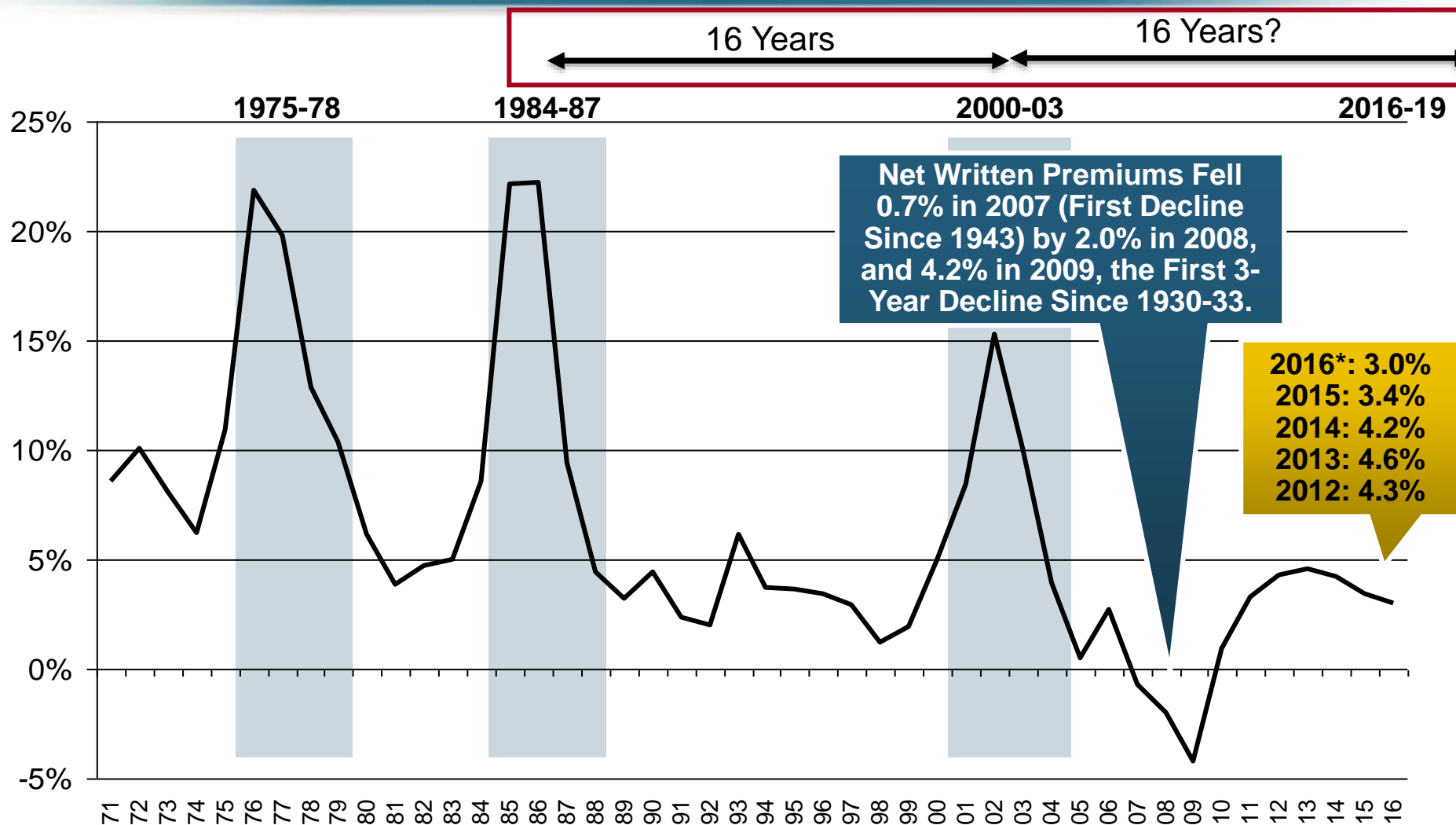
P/C Insurance Industry Combined Ratio, 2001–2016:1H*



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. Note: 2015:1H combined ratio was 97.6

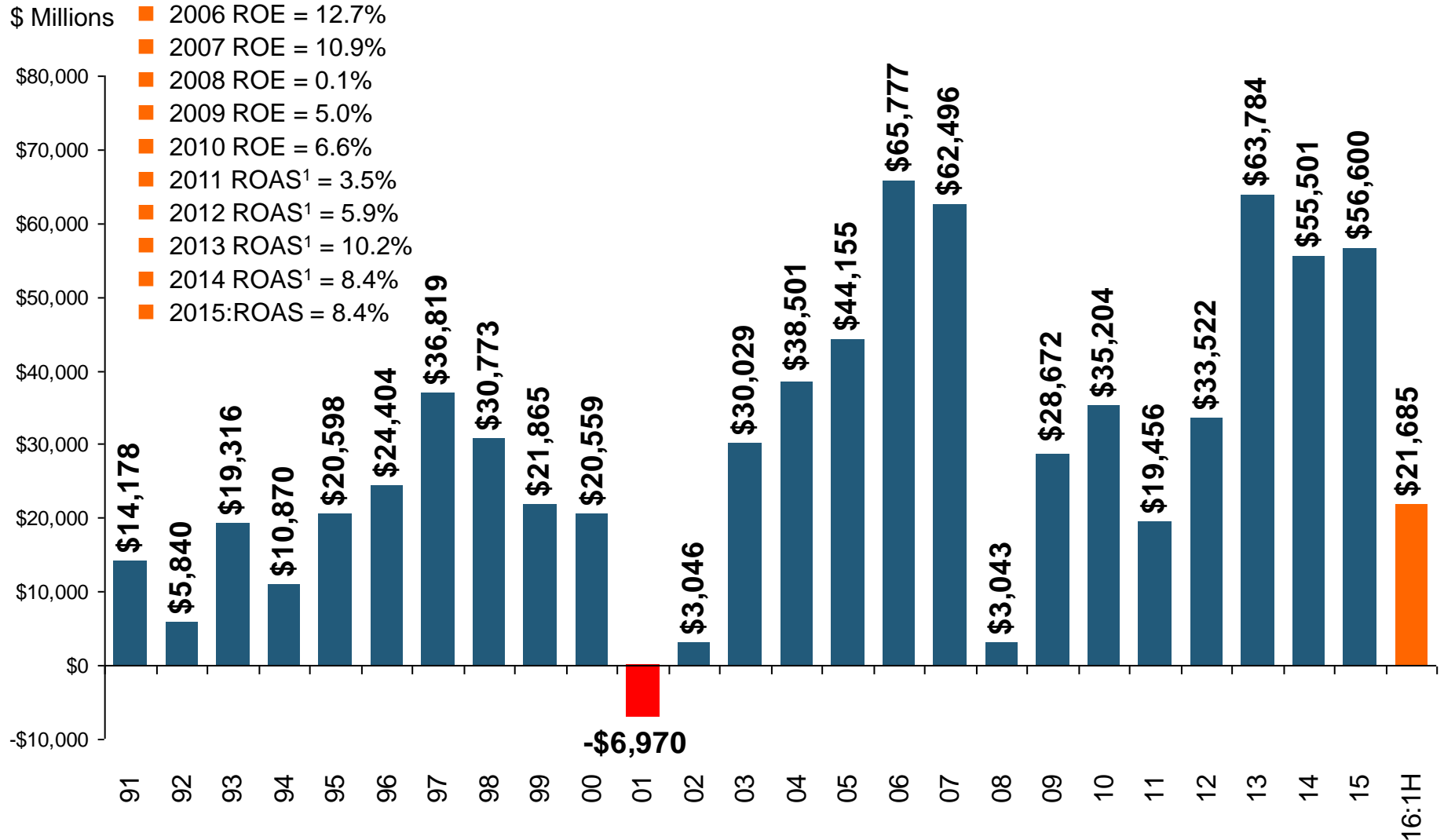
Sources: A.M. Best, ISO.

Net Written Premium Growth: Annual Change, 1971—2016:1H



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

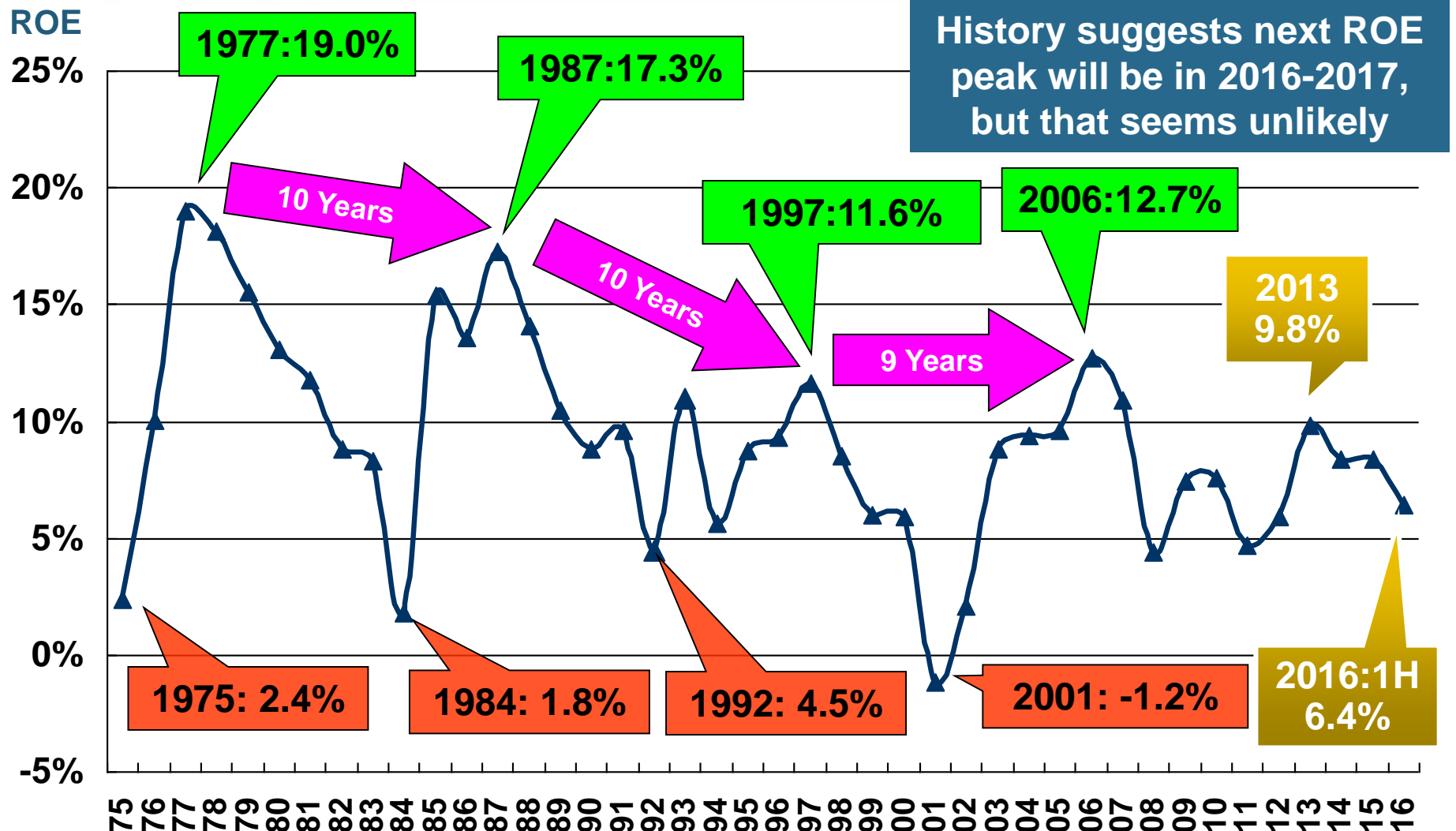
P/C Industry Net Income After Taxes 1991–2016:1H



• ROE figures are GAAP; ¹Return 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.

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

Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2016F

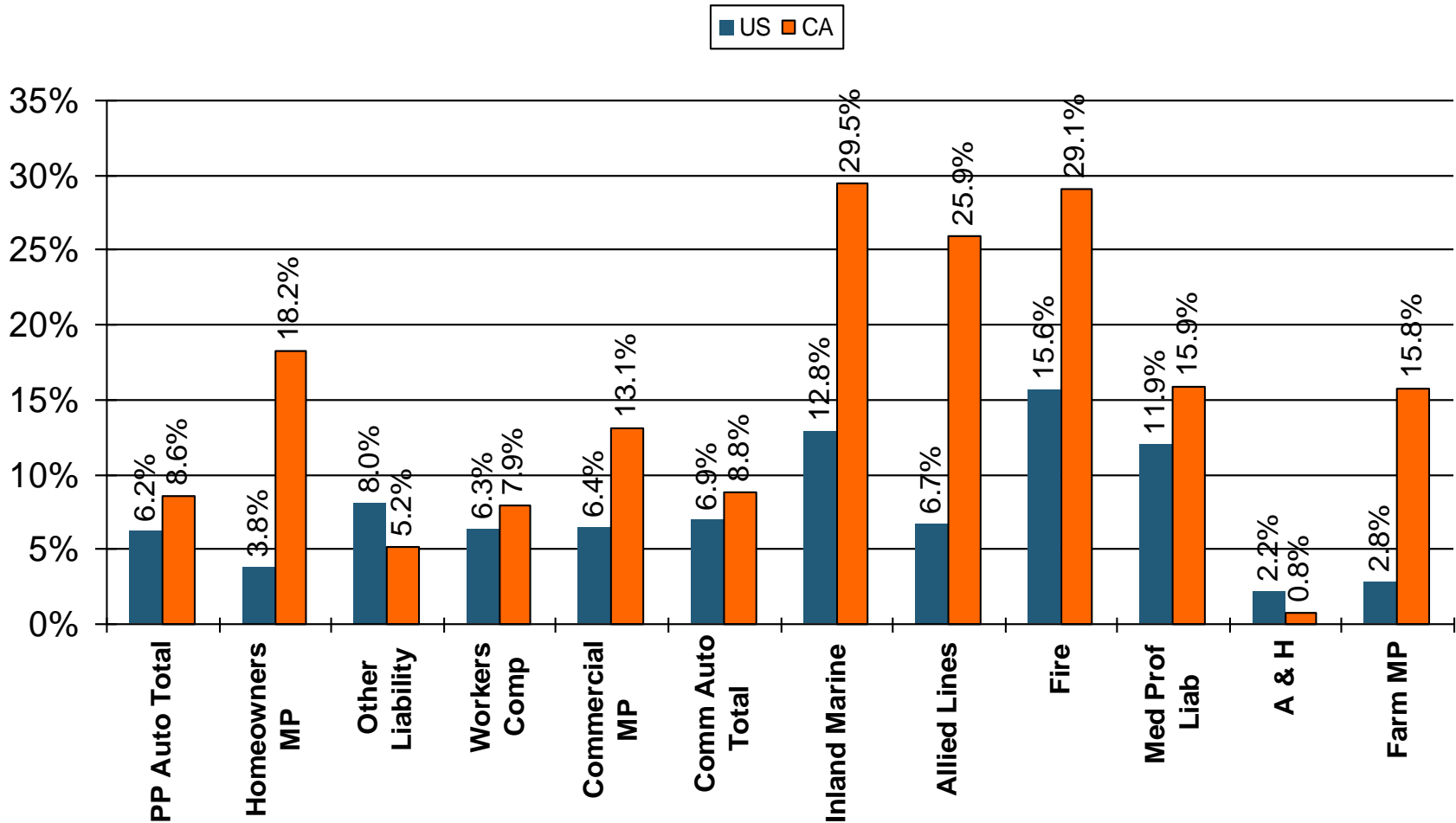


*Profitability = P/C insurer ROEs. 2011-14 figures are estimates based on ROAS data. Note: Data for 2008-2014 exclude mortgage and financial guaranty insurers.

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

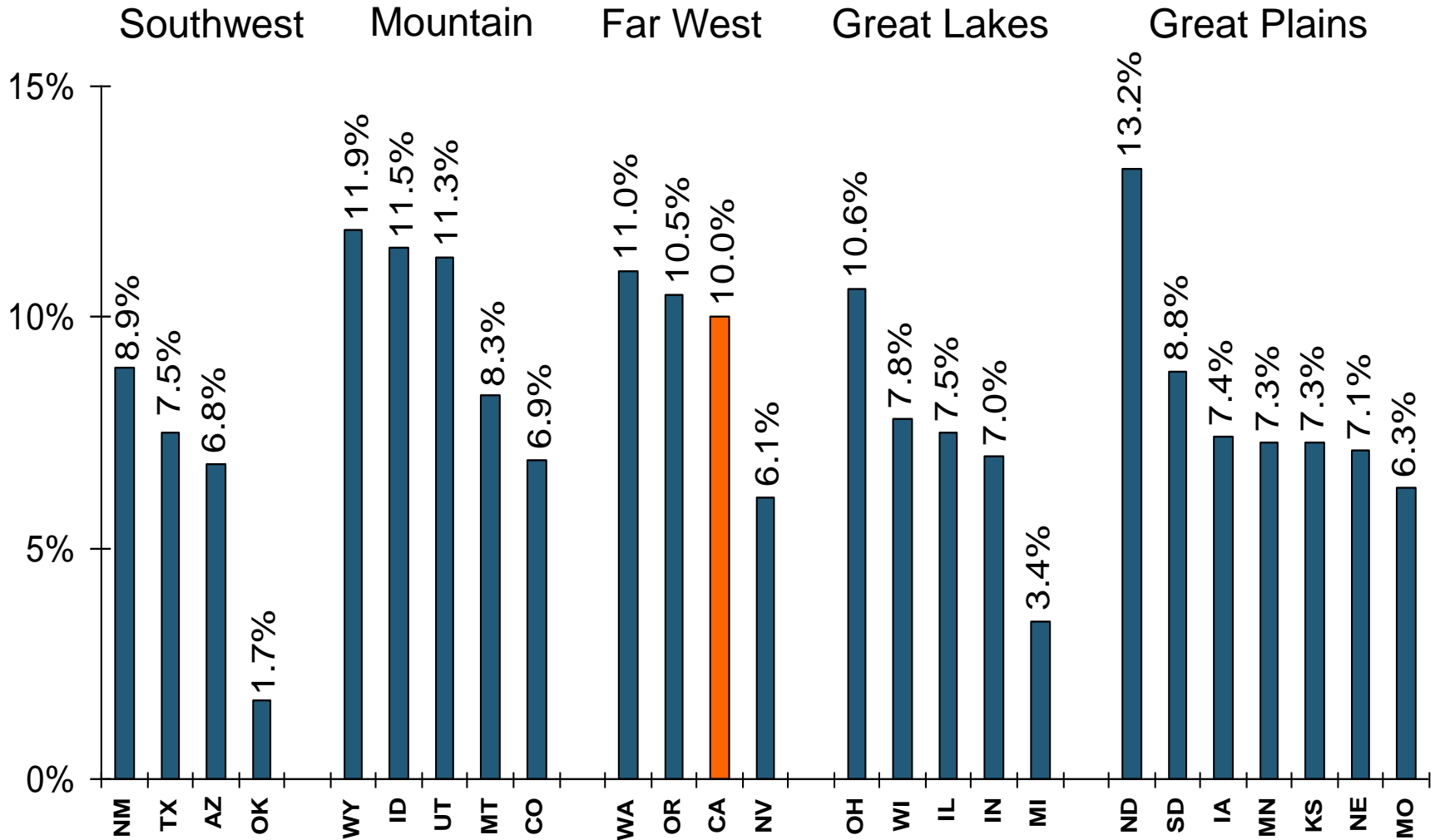
Return on Net Worth (RNW)

Largest Lines: 2005-2014 Average



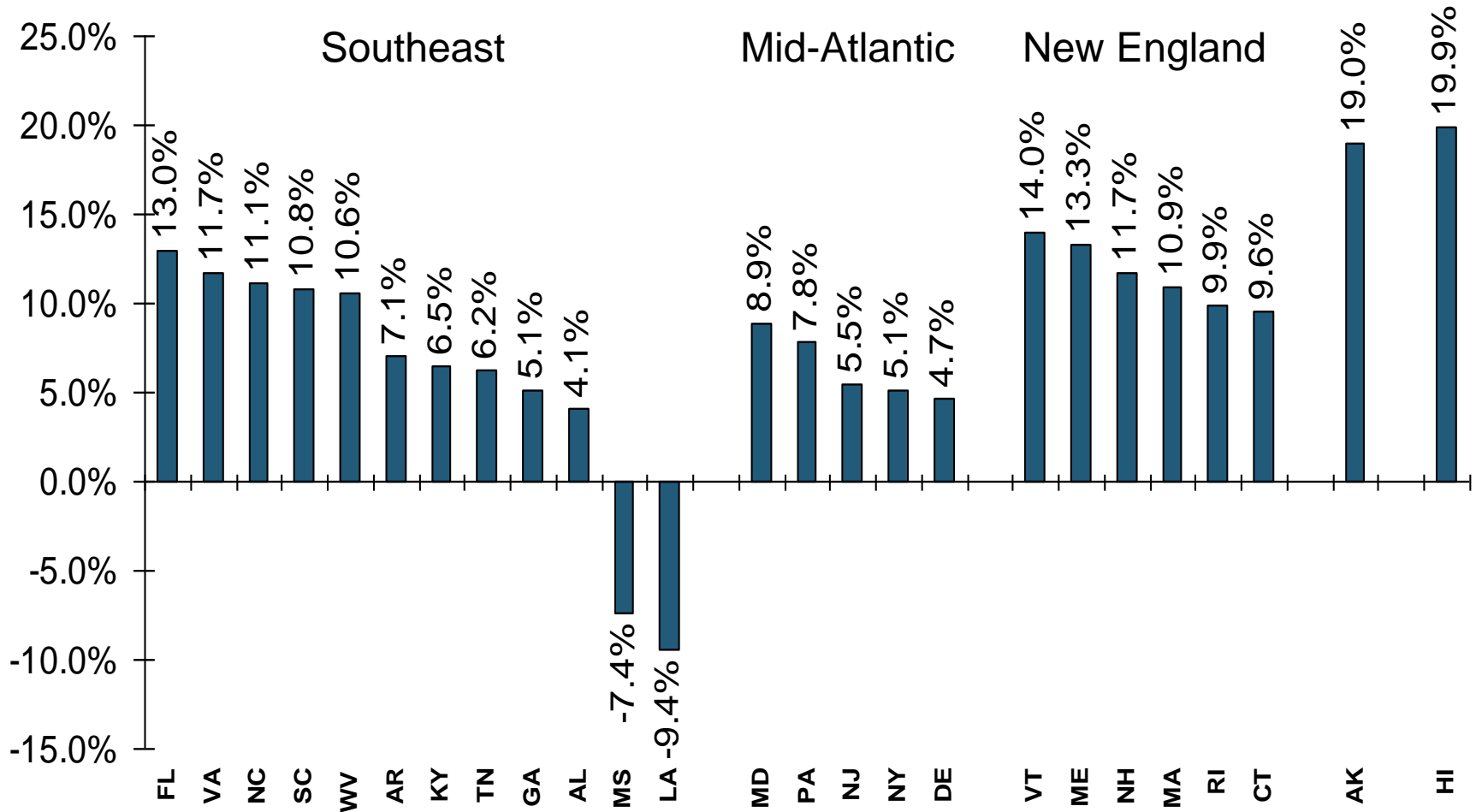
Over the 10 years ending 2014, virtually every P/C line in California has been more profitable than in the U.S. overall

RNW All Lines, 2005-2014 Average, Vary Widely by State and Region



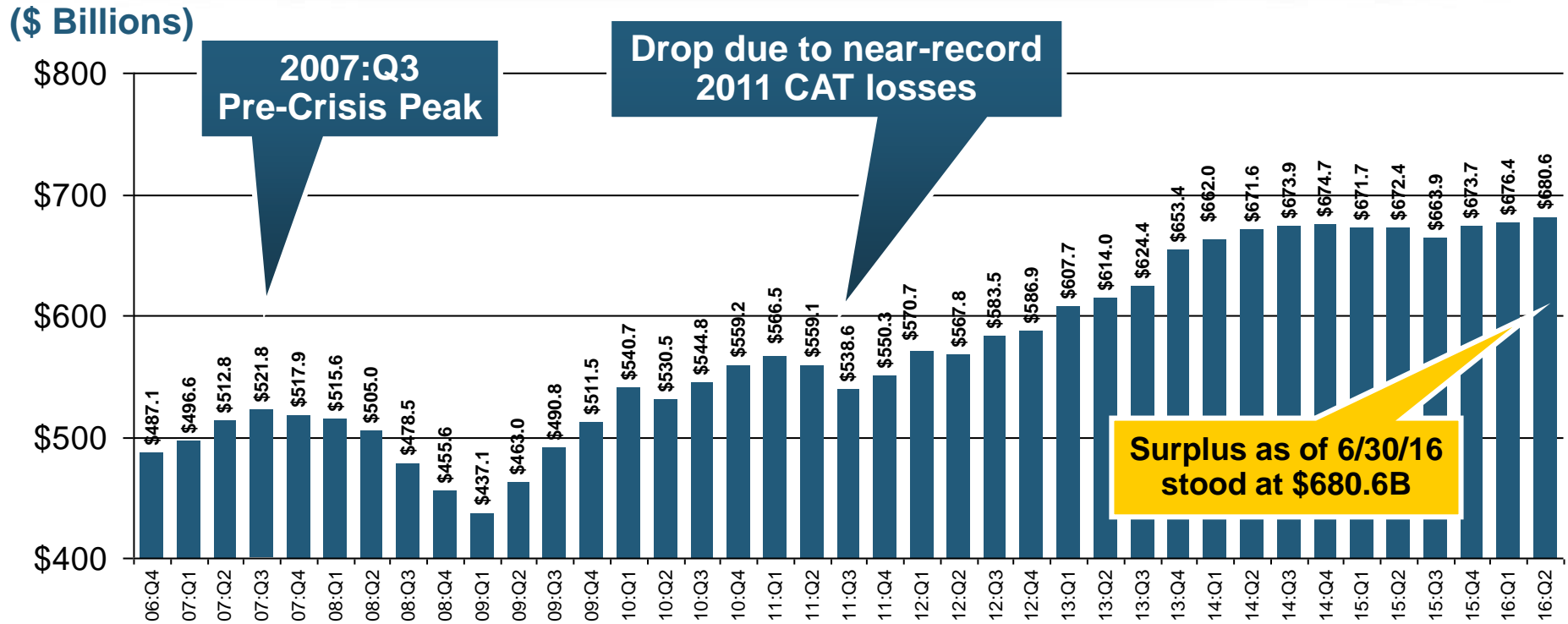
Sources: NAIC; Insurance Information Institute

RNW All Lines, 2005-2014 Average, Vary Widely by State and Region



Sources: Sources: NAIC; Insurance Information Institute.

Policyholder Surplus, 2006:Q4–2016:1H

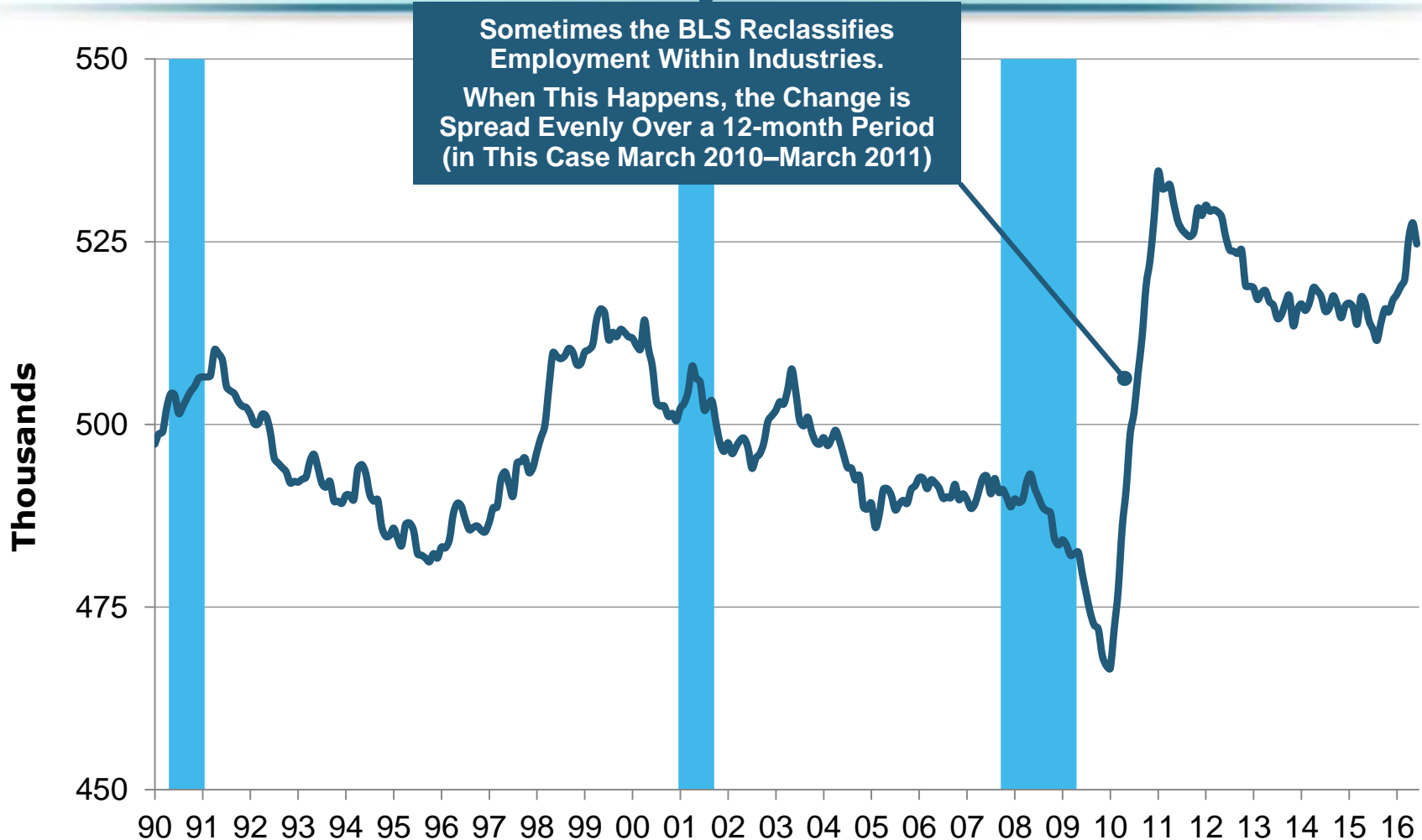


As of mid-year 2016, the industry had roughly \$1.28 of surplus for every \$1.00 of NPW, close to the strongest claims-paying status in its history.

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 likely will enter 2017 in very strong financial condition.

U.S. Employment in the Direct P/C Insurance Industry: 1990–2016*

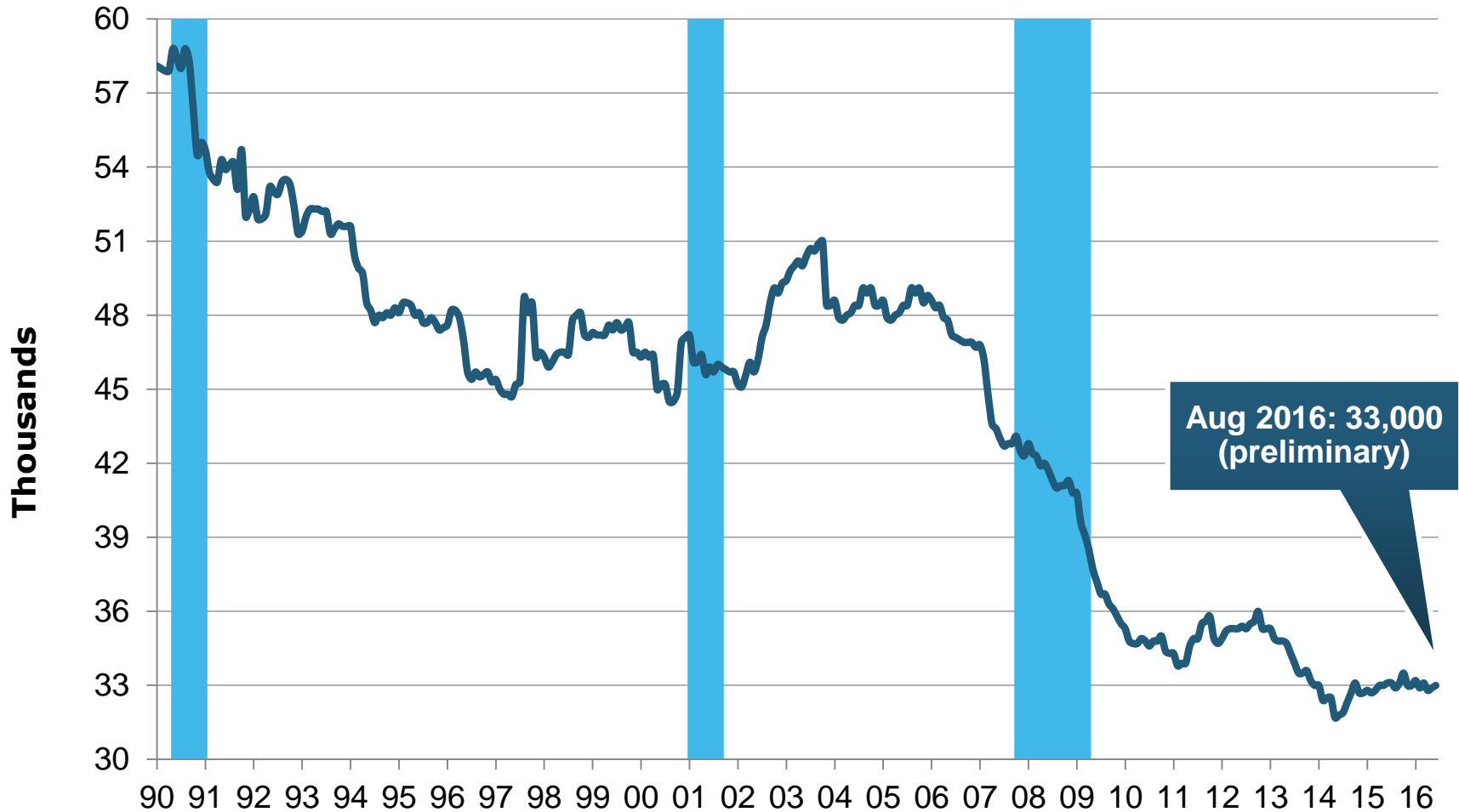


*As of August 2016; not seasonally adjusted; Does not include agents & brokers.

Note: Recessions indicated by gray shaded columns.

Sources: U.S. Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institute.

LA-Long Beach-Anaheim Employment in the Direct Insurance Industry*: 1990–2016**



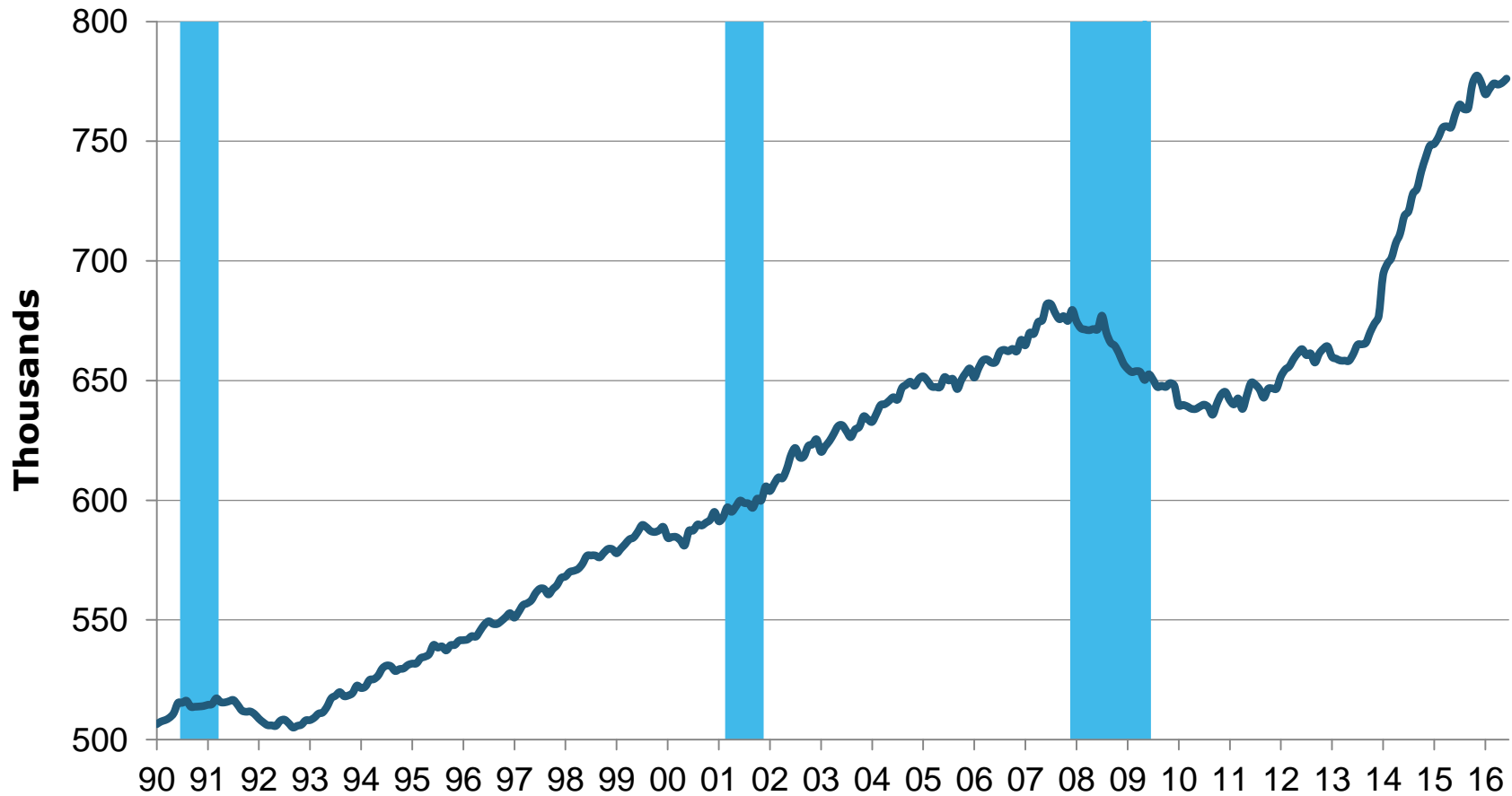
*includes life and p/c

**As of August 2016; not seasonally adjusted; Does not include agents & brokers.

Note: Recessions indicated by gray shaded columns.

Sources: U.S. Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institute.

U.S. Employment in Insurance Agencies & Brokerages: 1990–2016*

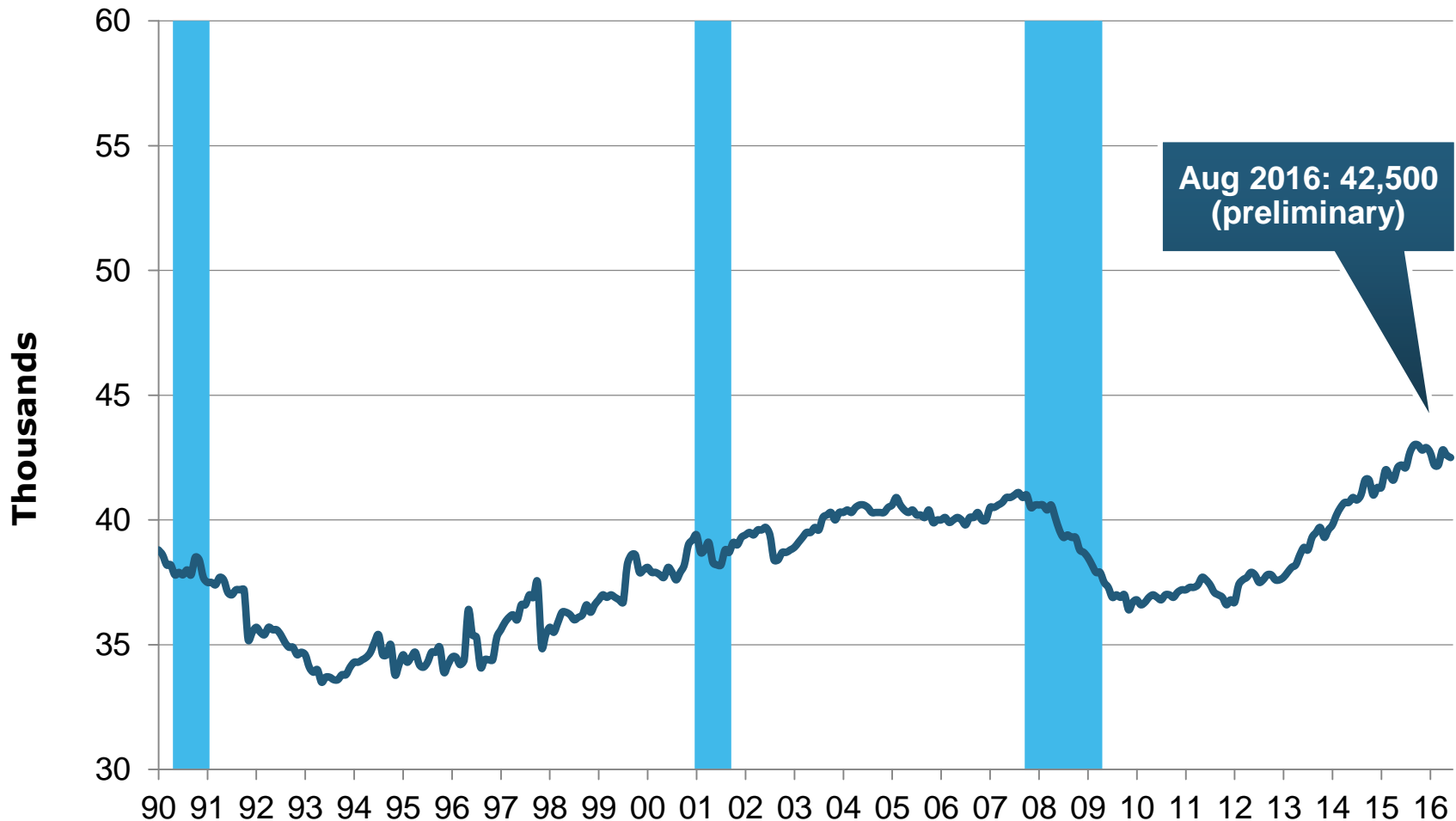


*As of August 2016; not seasonally adjusted. Includes all types of insurance.

Note: Recessions indicated by gray shaded columns.

Sources: U.S. Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institute.

LA-Long Beach-Anaheim Agent/Broker (& Related) Employment: 1990–2016*



*As of August 2016; not seasonally adjusted; Does not include agents & brokers.

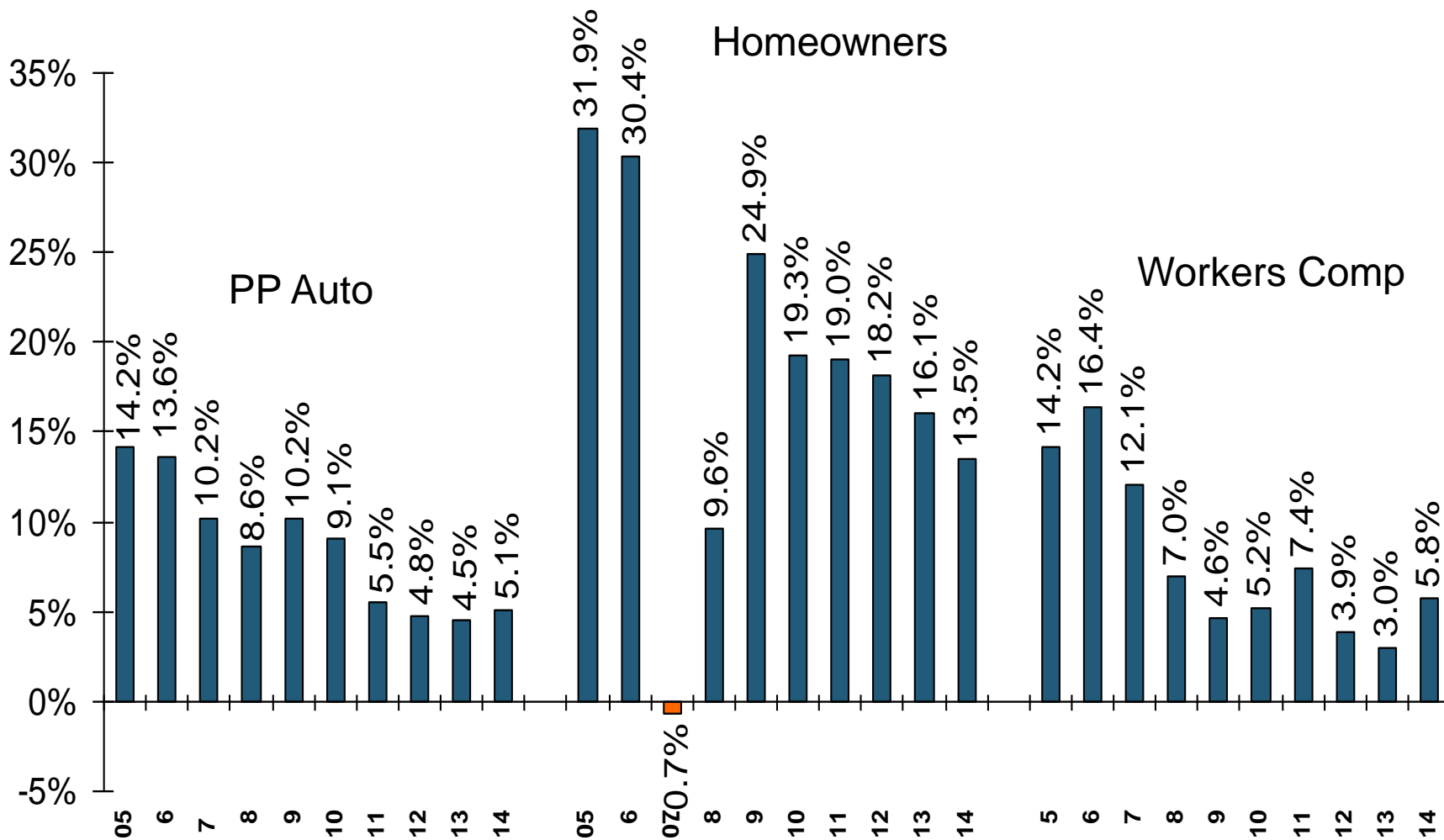
Note: Recessions indicated by gray shaded columns.

Sources: U.S. Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institute.

What's Happening in P/C Insurance in California?

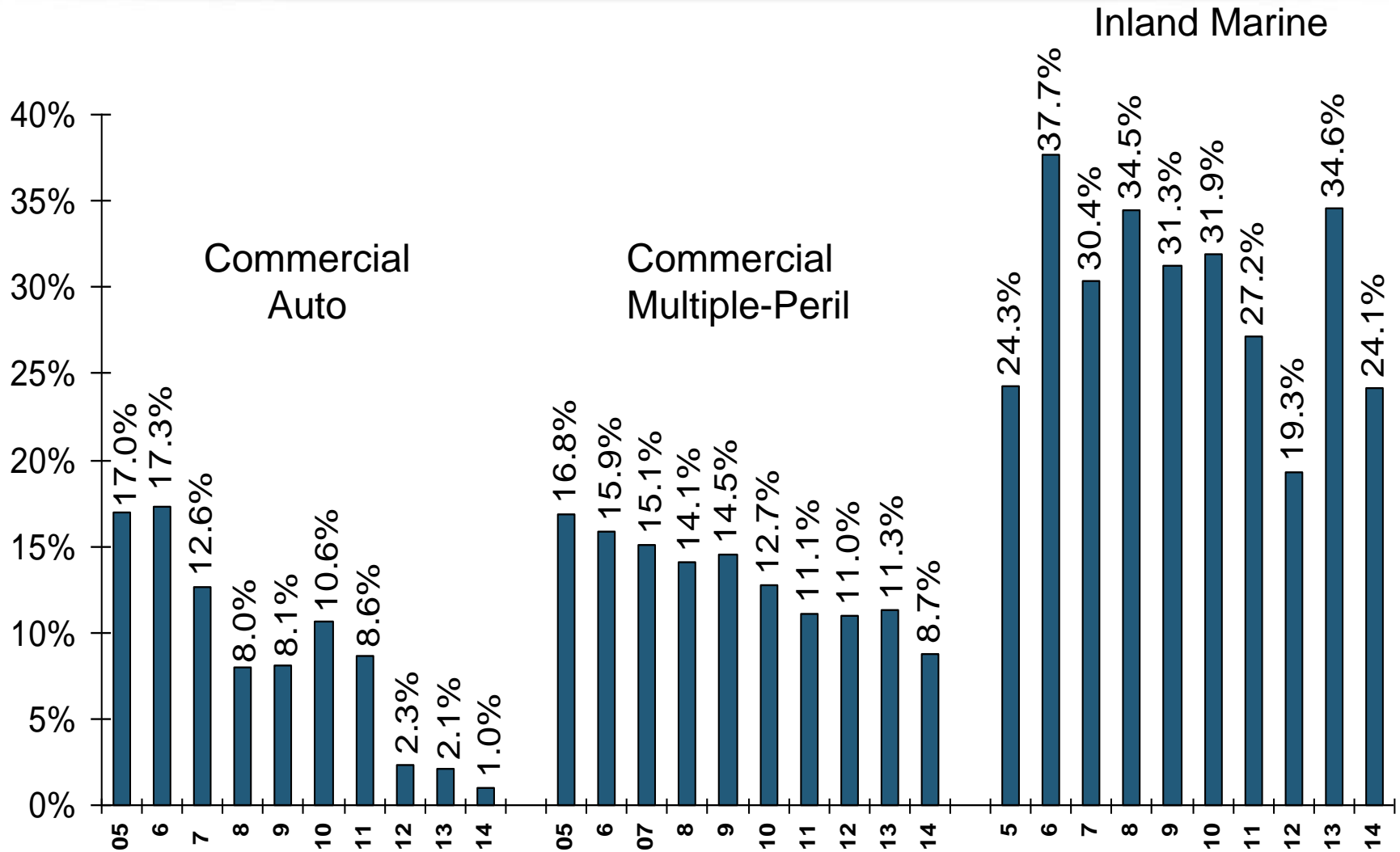
**Decreasing Profitability
in Many Lines of Business**

RNW on Selected Lines of Business, California, 2005-2014



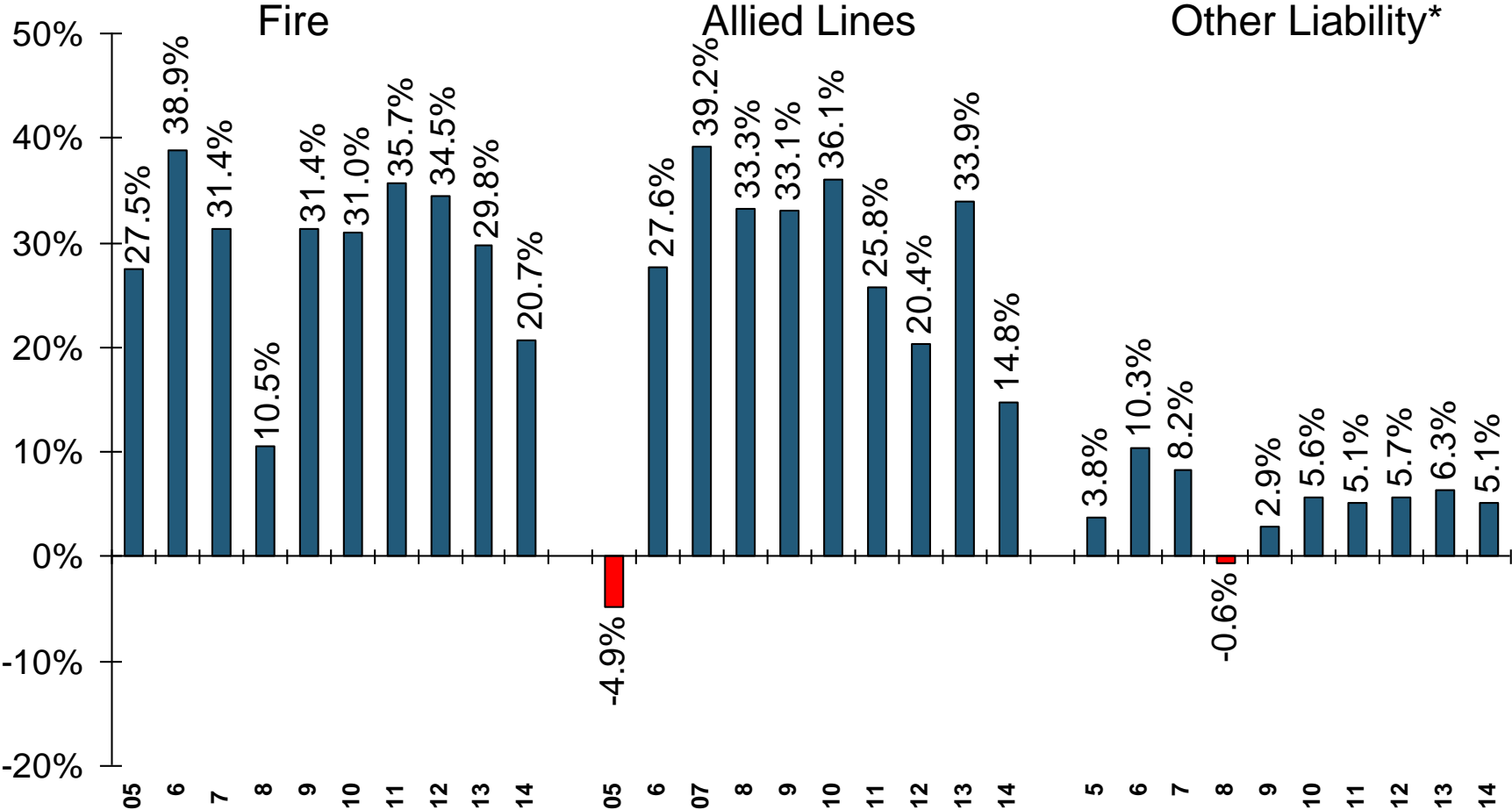
Sources: NAIC; Insurance Information Institute

RNW on Selected Lines of Business, California, 2005-2014



Sources: NAIC; Insurance Information Institute

RNW on Selected Lines of Business, California, 2005-2014



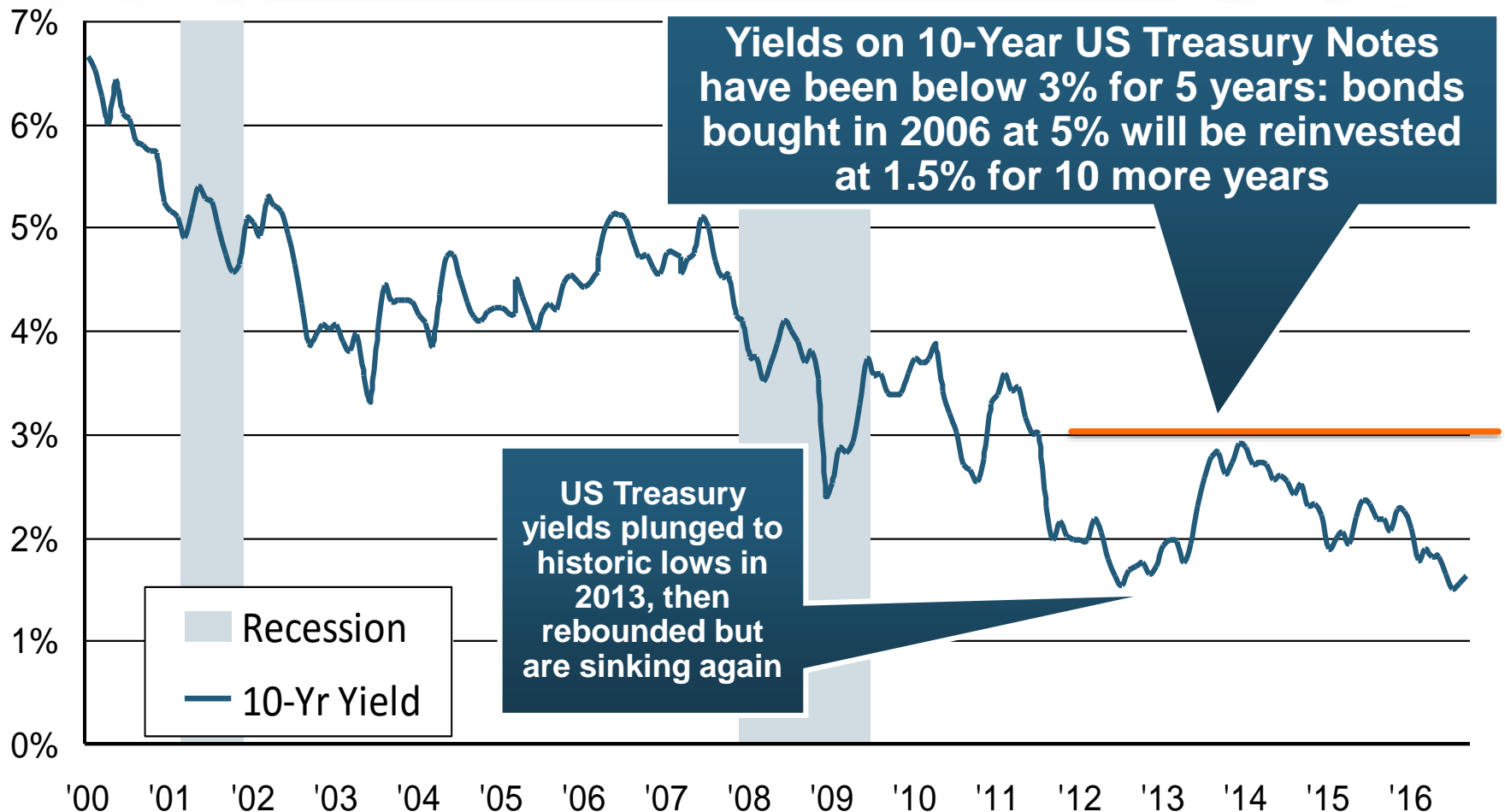
*excludes products liability, medical professional liability, and liability coverages in CMP, FarmMP, HO, and Auto coverages
Sources: NAIC; Insurance Information Institute



Investment Performance: A Key Driver of Profitability

**Depressed Yields Will Continue
to Affect Underwriting & Pricing**

US Treasury Note 10-Year Yields: A Long Downward Trend, 2000–2016*



Since roughly 80% of P/C bond/cash investments are in 5-to-10-year durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, constant maturity, nominal rates, through September 2016.

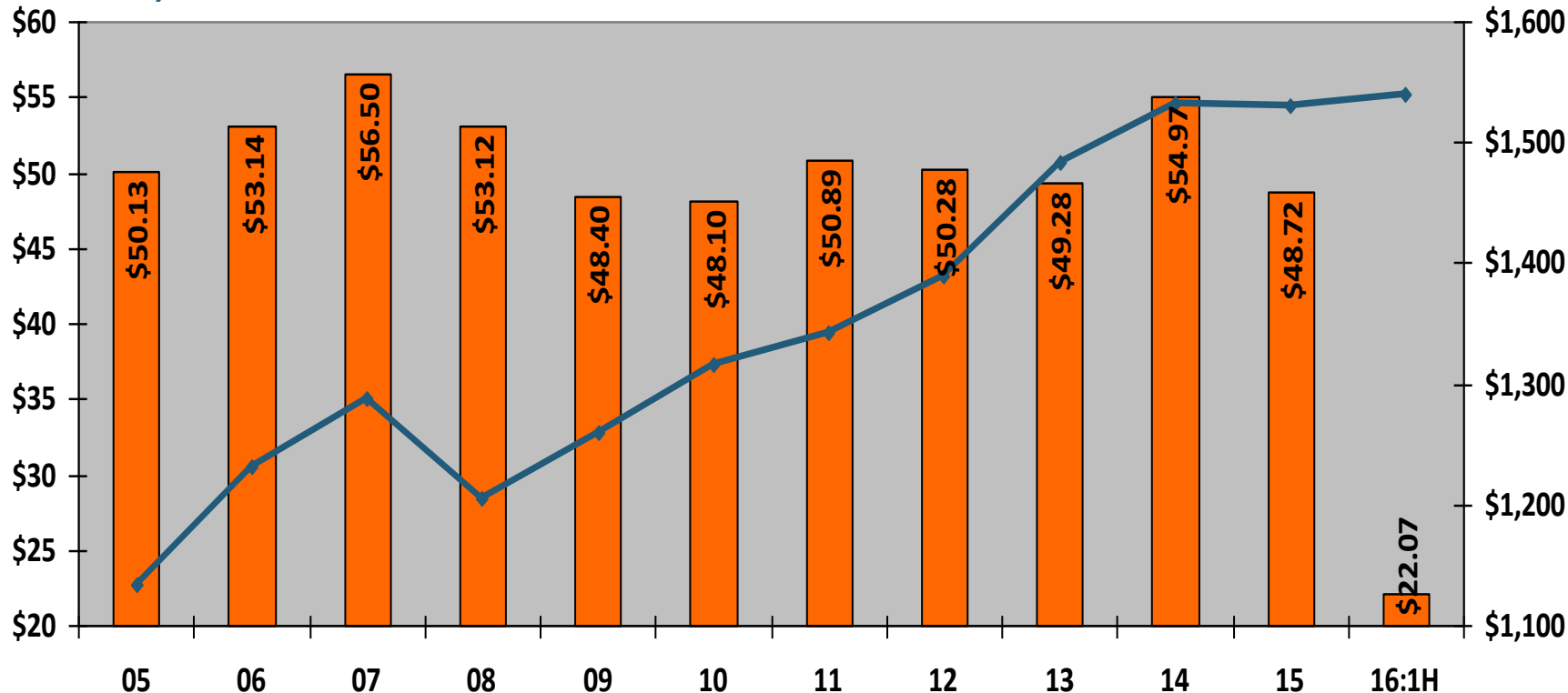
Sources: Federal Reserve Bank at <http://www.federalreserve.gov/releases/h15/data.htm>; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Property/Casualty Insurance Industry Net Investment Income: 2005–2016:1H

Investment
Income
(\$ Billions)

Net Investment Income Cash and Invested Assets

Invested
Assets
(\$ Billions)

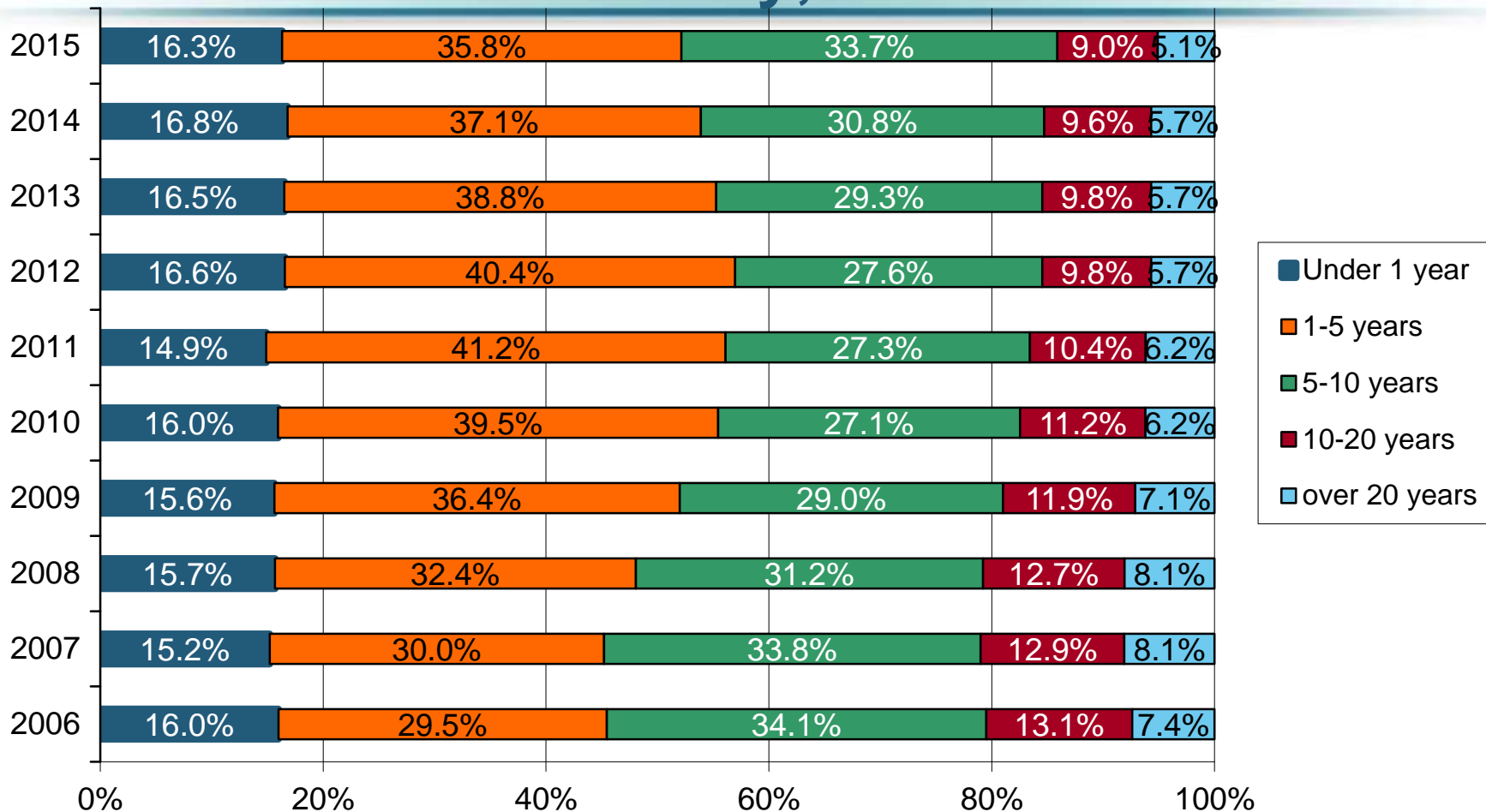


**Due mainly to persistently low interest rates,
investment income has not risen as invested assets grew.**

Investment income consists primarily of bond interest and stock dividends.

Sources: SNL Financial; Insurance Information Institute

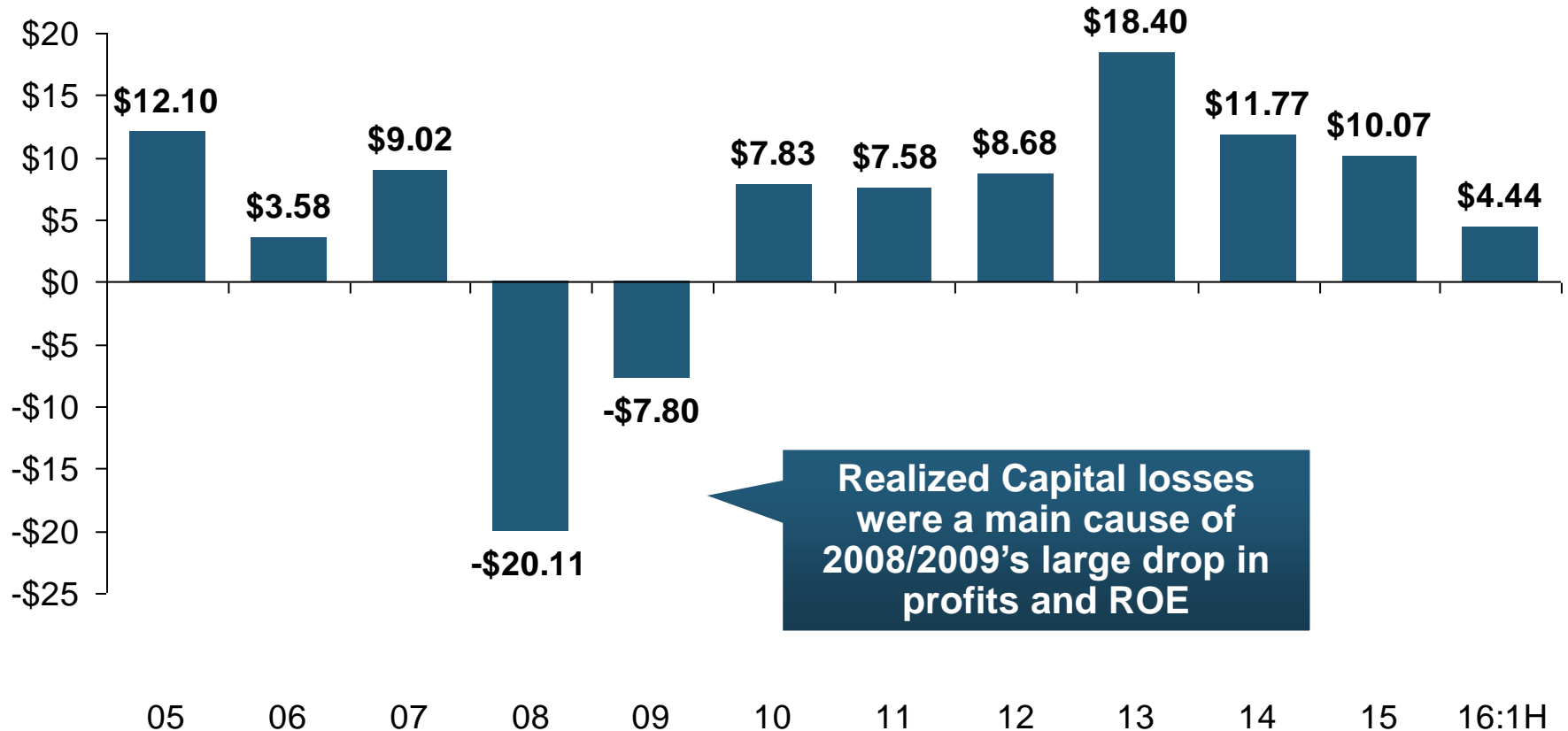
Distribution of Bond Maturities, P/C Insurance Industry, 2006-2015



Two main shifts over these years. From 2008 to 2011-12, from bonds with longer maturities to bonds with shorter maturities. But beginning in 2013, the reverse. Note, however, that the percentages in bonds with maturities over 10 years continues to drop.

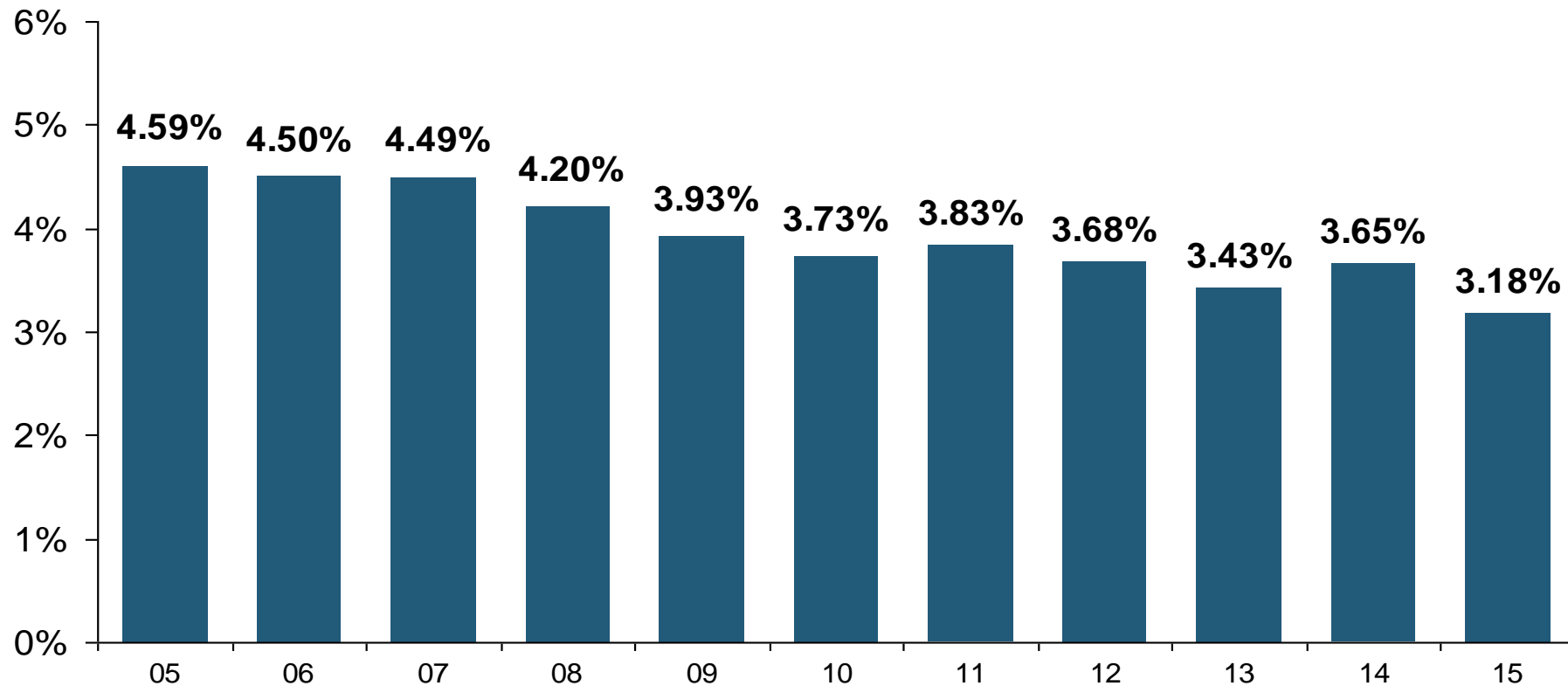
P/C Insurer Net Realized Capital Gains/Losses, 2005-2016:1H

(\$ Billions)



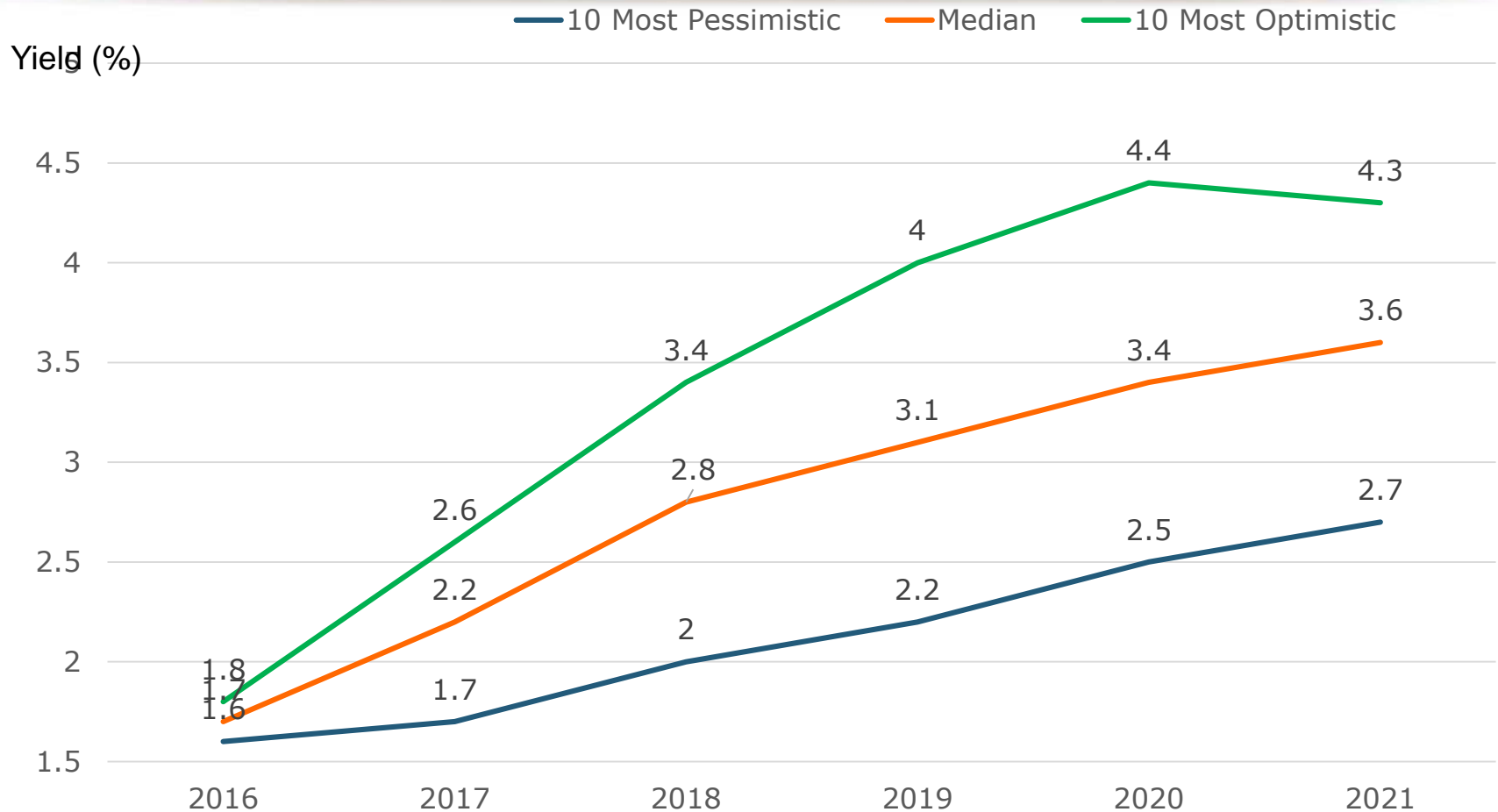
Insurers consistently posted 6 years of Net Realized Capital Gains in 2010 - 2015 following the Financial Crisis. If (when?) interest rates rise, this streak might end.

P/C Insurer Portfolio Yields, 2005-2015



P/C carrier yields have been falling for over a decade, reflecting the long downtrend in prevailing interest rates. Even if 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.

Forecasts of Avg. Yield of 10-Year US Treasury Notes



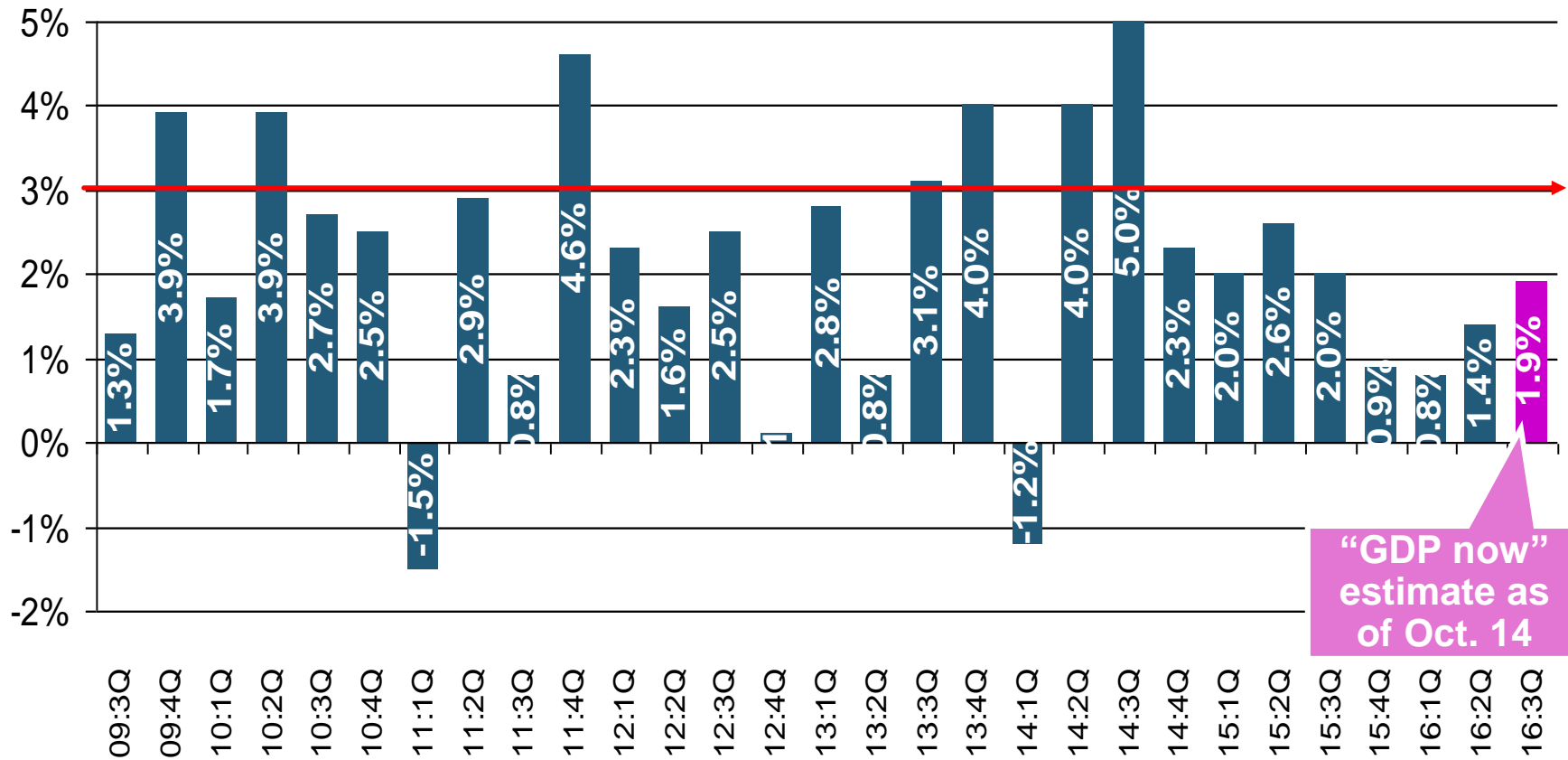
Virtually every one of the 53 forecasts in the Blue Chip survey anticipates that long-term interest rates will stay at unusually low levels through 2017



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

**Growth, Although Weak,
Will Expand Insurer Exposure Base
Across Most Lines**

Real U.S. Quarterly GDP Growth Since the “Great Recession



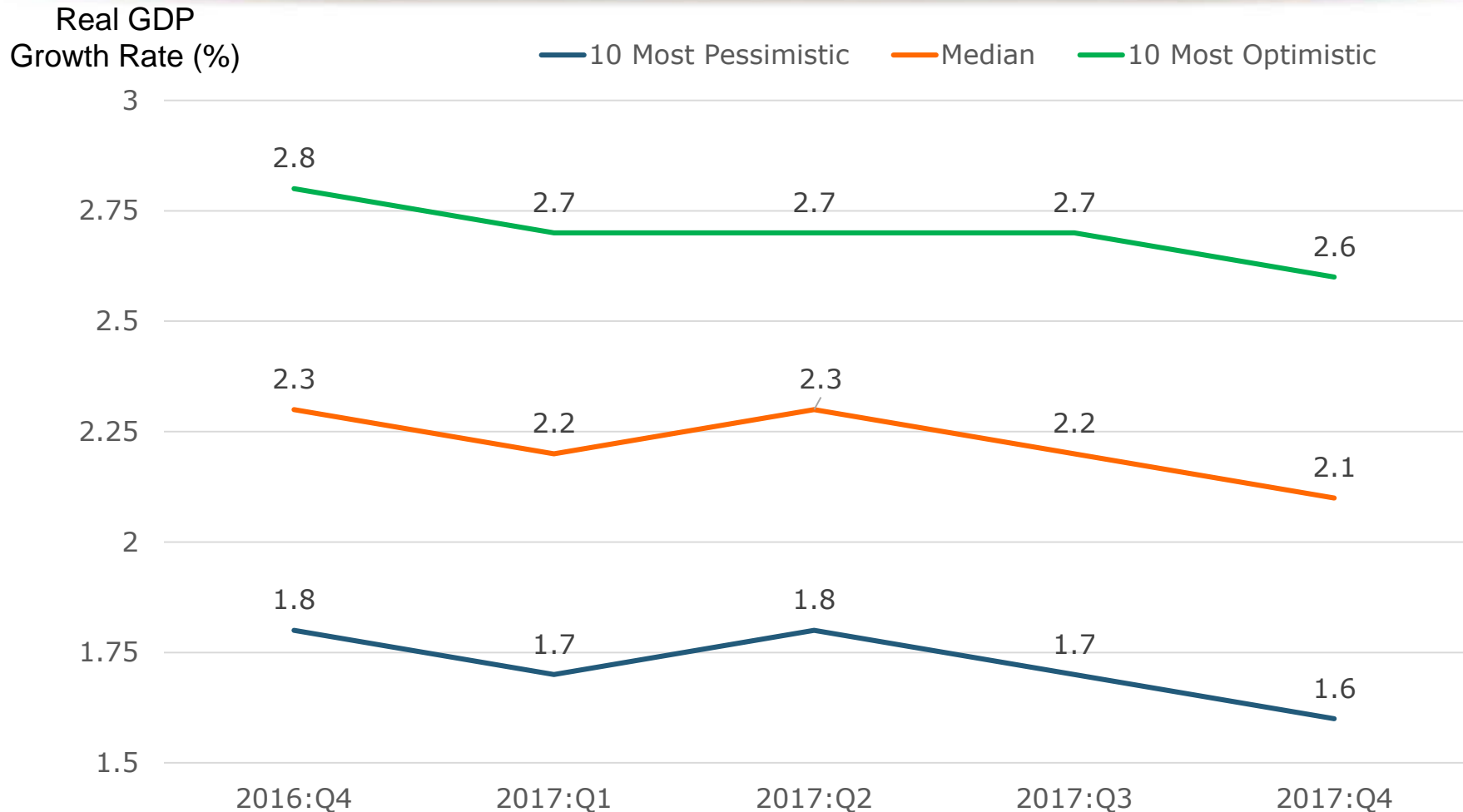
“GDP now”
estimate as
of Oct. 14

Since the Great Recession ended, even 3% real growth (at an annual rate) in a quarter has been unusual. Through 2016:Q2, it happened only 7 times in 28 quarters—and not once in the most recent 7 quarters.

Data are quarterly changes at annualized rates.

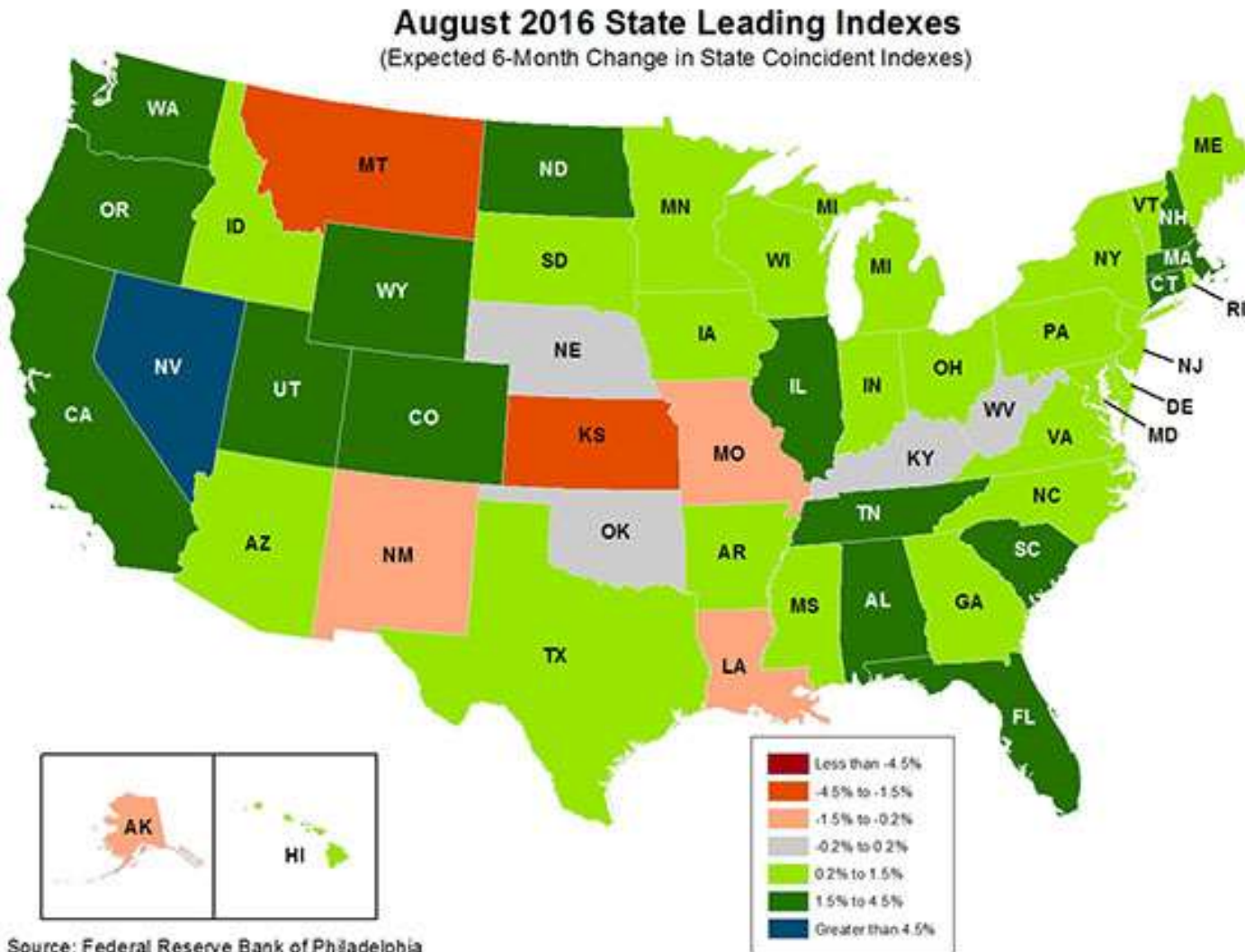
Sources: US Department of Commerce, at <http://www.bea.gov/national/index.htm#gdp> ; Insurance Information Institute.

Quarterly US Real GDP for 2016-17: October 2016 Forecasts



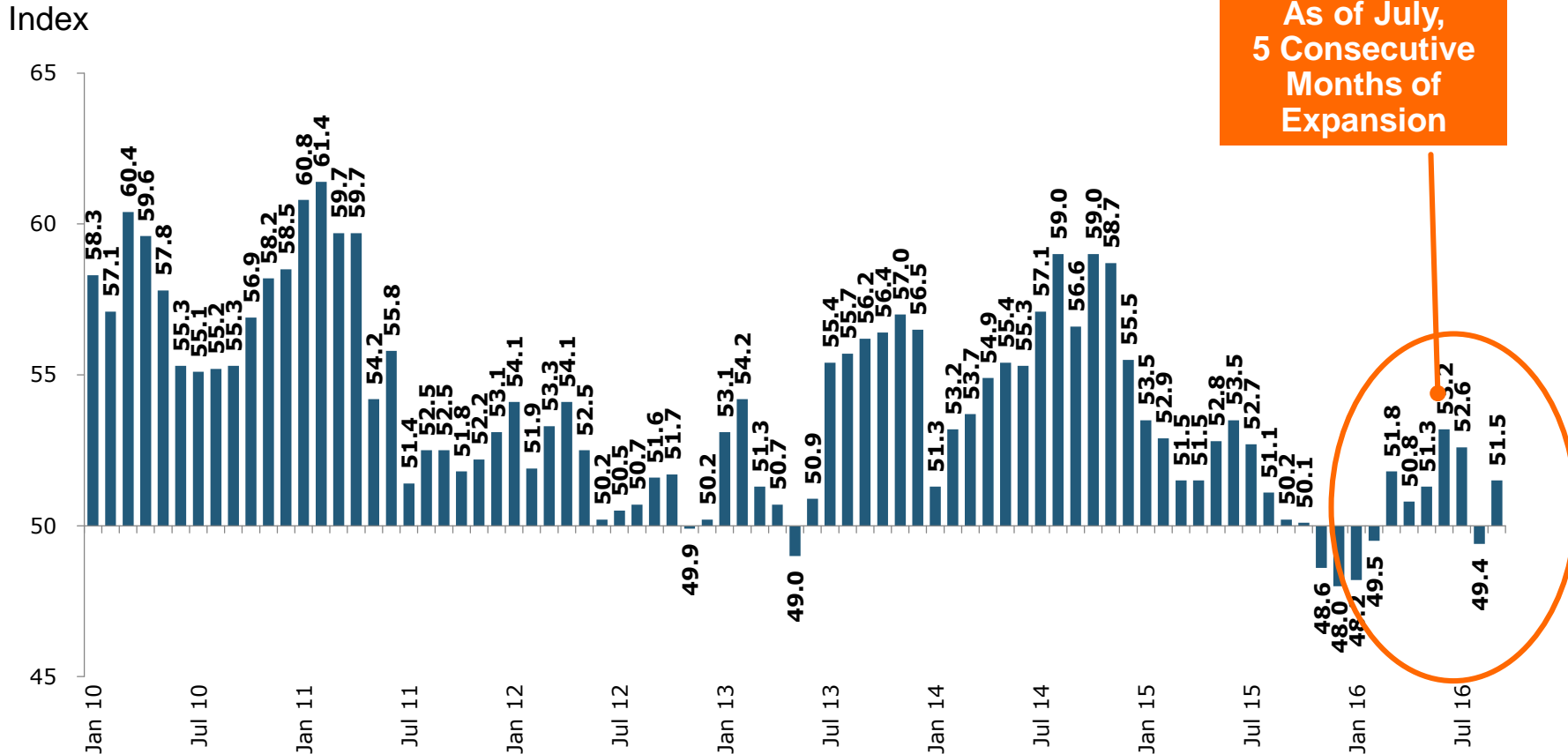
Virtually all of the 53 forecasts in the Blue Chip survey expect steady growth in the next five quarters; they differ on the level of growth.

State-by-State Leading Indicators through February 2017



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 = red

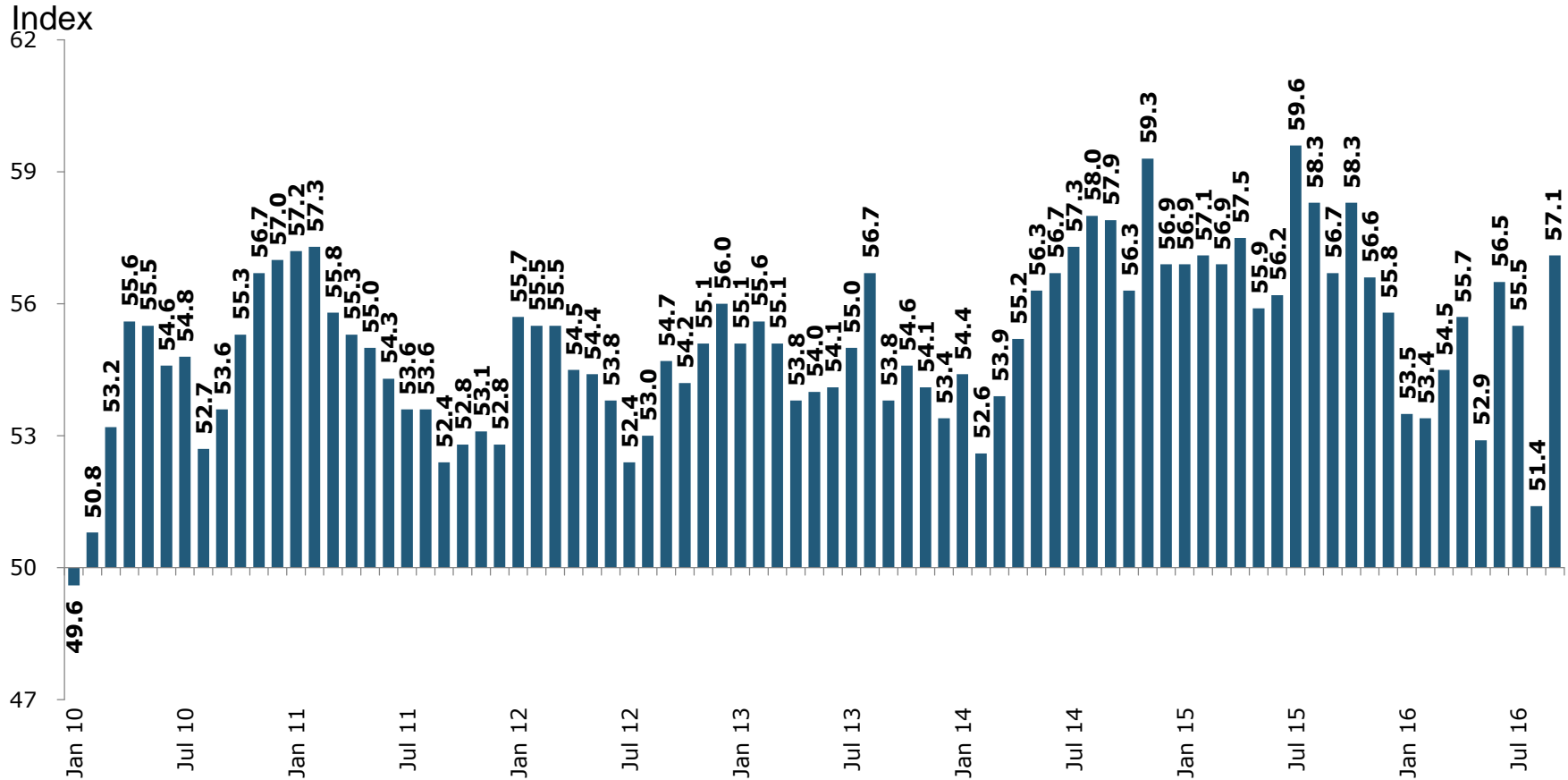
ISM Manufacturing Index (Values > 50 Indicate Expansion), Jan. 2010-Sept. 2016



The Manufacturing Sector Expanded for 68 of the 72 Months from January 2010 Through December 2015. Manufacturing Contracted in 2015:Q4 and 2016:Q1 but was Expanding until August.

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

ISM Non-Manufacturing Index (Values > 50 Indicate Expansion), January 2010-Sept. 2016



The Non-Manufacturing (Services) Sector Expanded in Every Month After January 2010. Compared to 2014-15, the Pace of Expansion Has Slowed in 2016 But Not Ended.

Sources: [Institute for Supply Management](https://research.stlouisfed.org/fred2/data/NMFCI.txt) via <https://research.stlouisfed.org/fred2/data/NMFCI.txt>; Insurance Information Institute.

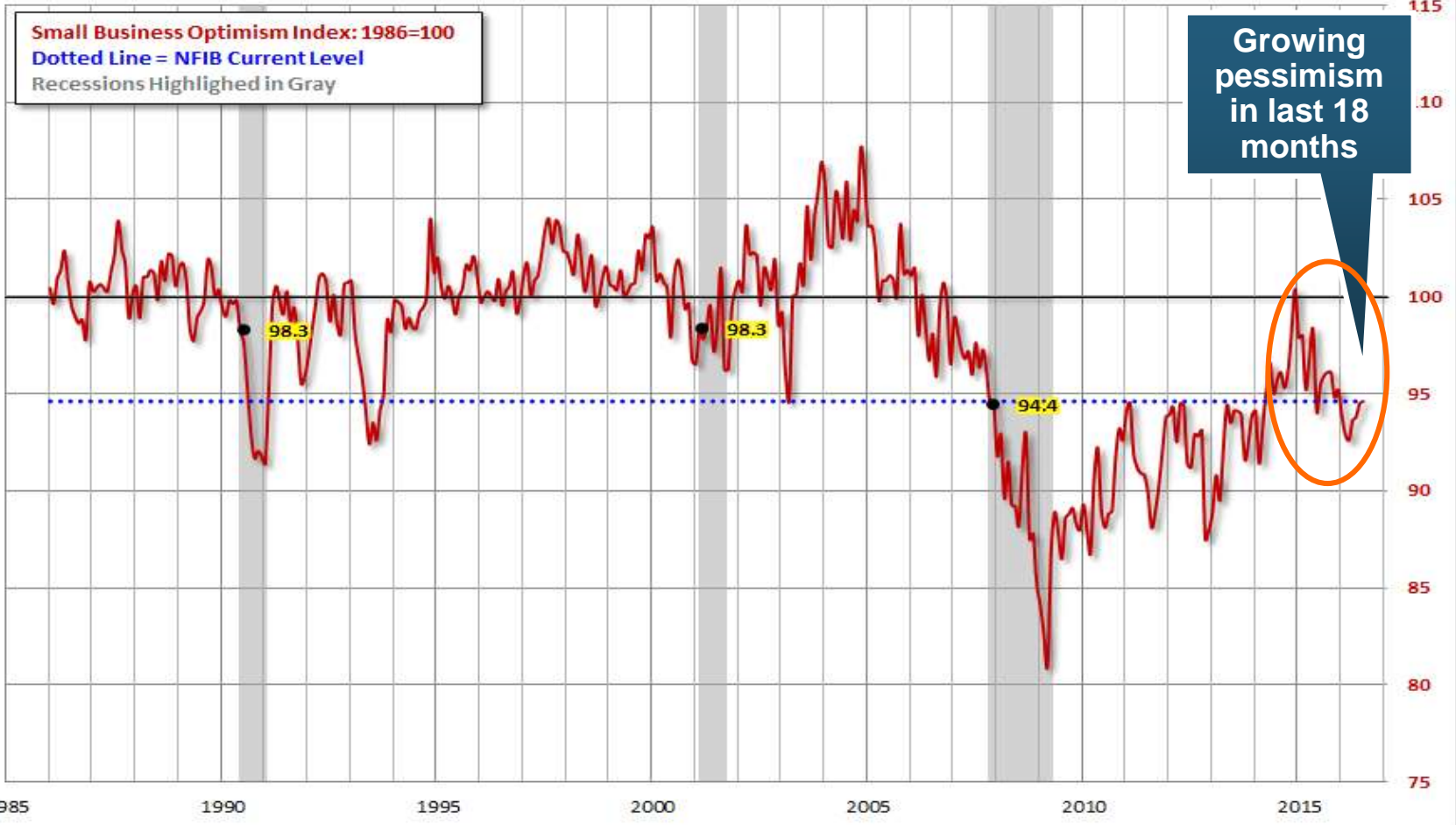
NFIB Small Business Optimism Index

January 1985 through July 2016

NFIB Small Business Optimism Index

dshort.com
August 2016
Data through July

..... Current Level is now at 94.6 ● Recession Starts



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NFIB Small Business Survey: Single Most Important Problem, July 2016

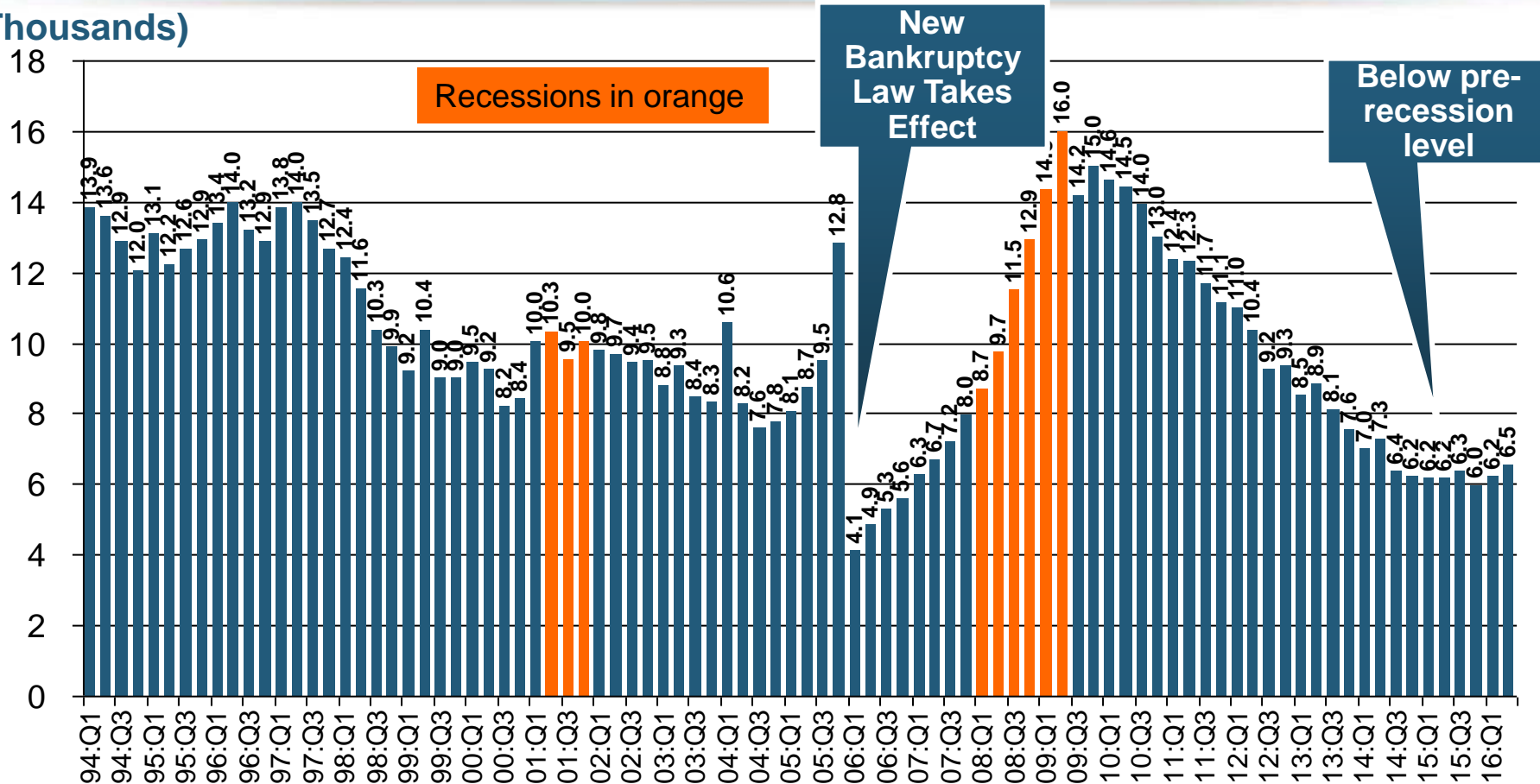
SINGLE MOST IMPORTANT PROBLEM

July 2016

Problem	Percent Current	One Year Ago	Survey High	Survey Low
Taxes	20	22	32	8
Inflation	2	3	41	0
Poor Sales	12	10	33	2
Fin. & Interest Rates	2	2	37	2
Cost of Labor	6	6	9	2
Govt. Regs. & Red Tape	22	21	27	4
Comp. From Large Bus.	7	8	14	4
Quality of Labor	14	13	23	3
Cost/Avail. of Insurance	8	8	29	4
Other	7	7	31	2

Business Bankruptcy Filings: Two Years at a Remarkably Low Level (1994:Q1 – 2016:Q2)

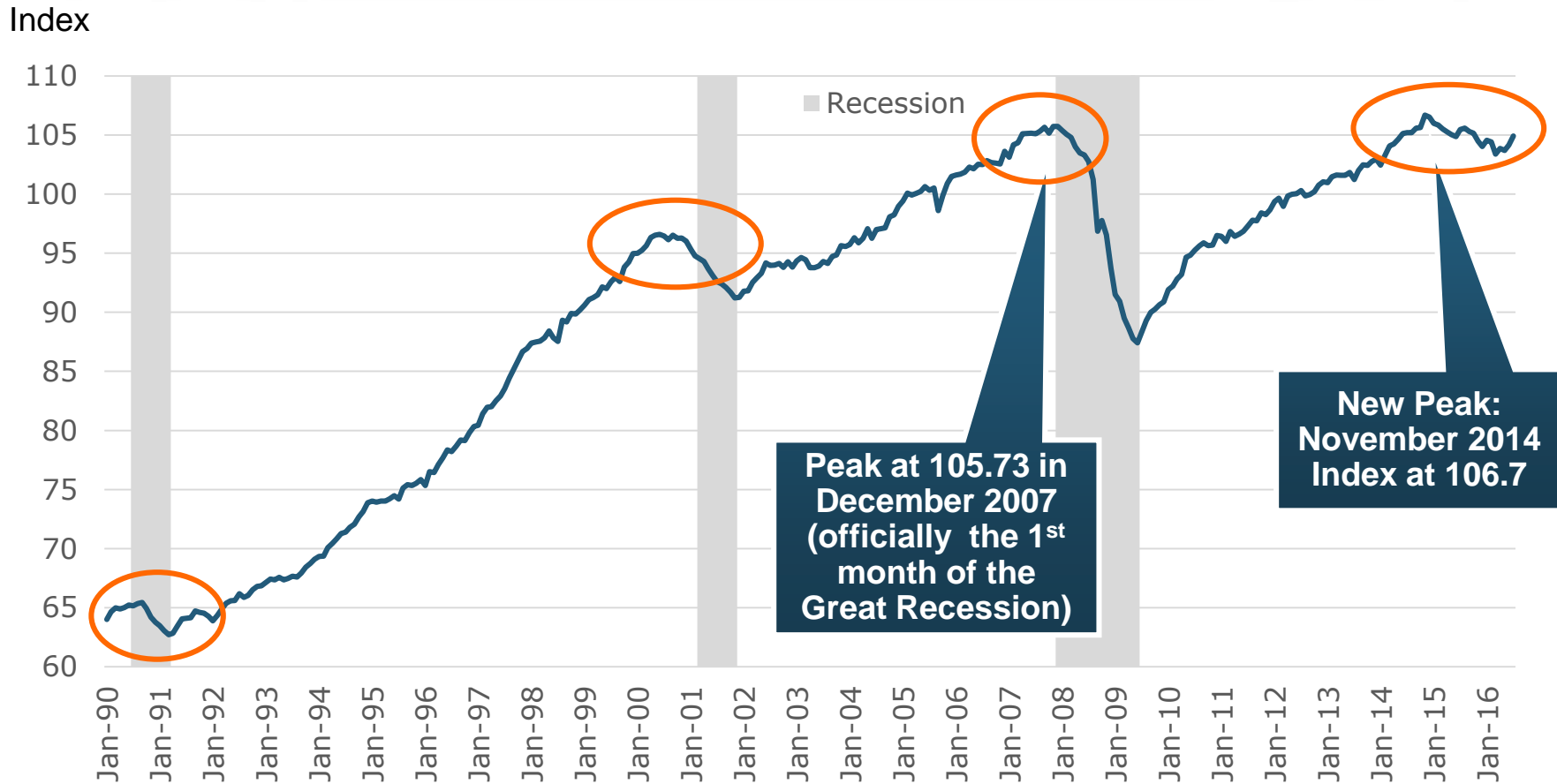
(Thousands)



Business bankruptcies in 2014-16 were below both the Great Recession levels and the 2003:Q3-2005:Q1 period (the best five-quarter stretch in the last 20 years). Bankruptcies restrict exposure growth in all commercial lines.

Sources: U.S. Courts at http://www.uscourts.gov/uscourts/Statistics/BankruptcyStatistics/BankruptcyFilings/2013/0913_f2q.pdf ; Insurance Information Institute

Index of Total Industrial Production:* A Peak in November 2014



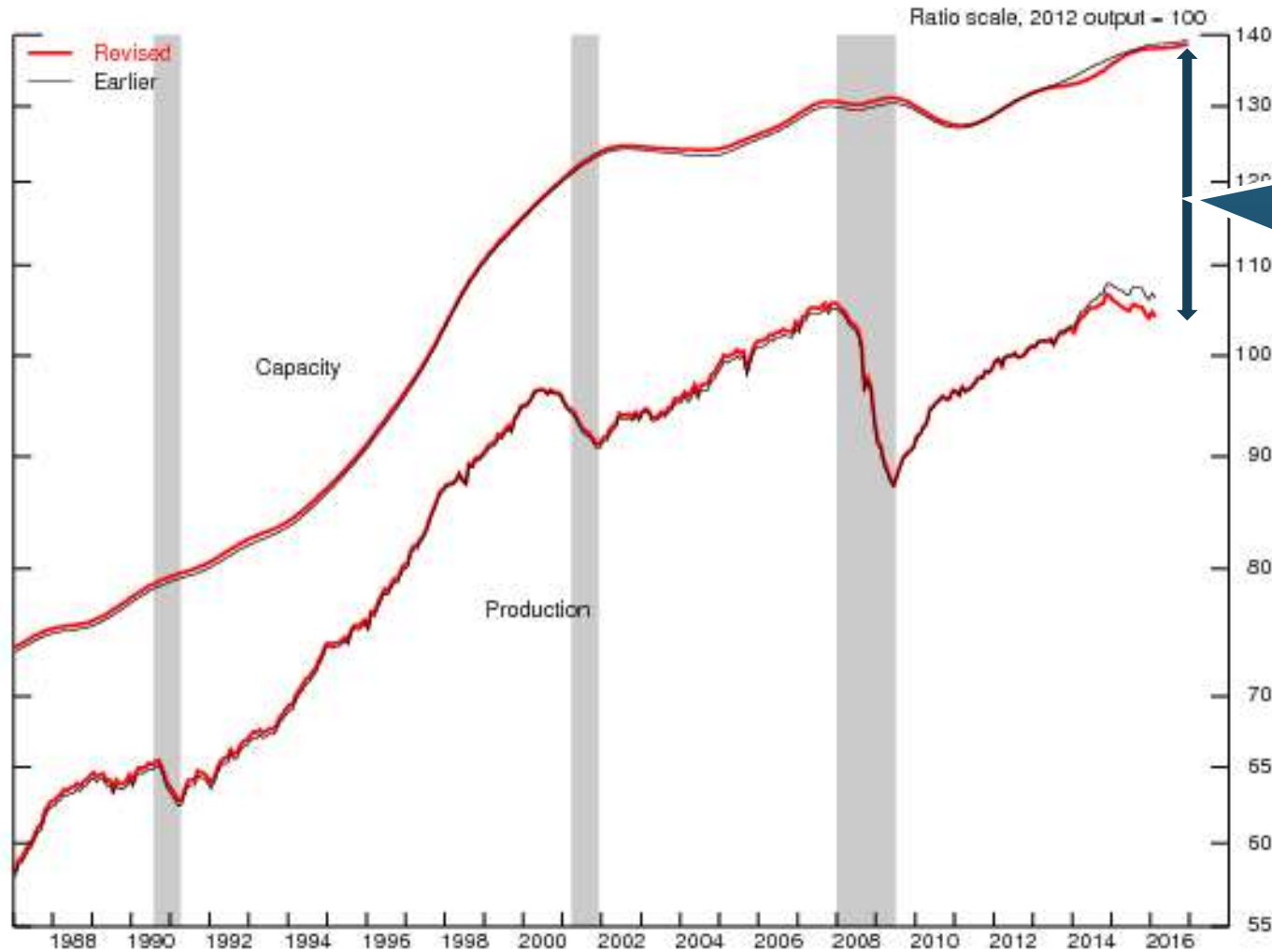
Some of the downturn in industrial production in 2015 and 2016 is due to slow growth in exports, thanks to the rise in the value of the U.S. dollar and slowing economies world-wide. Little relief is forecast for the near term.

*Monthly, seasonally adjusted, through July 2016 (which is preliminary). Index based on year 2012 = 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.

The Gap Between Industrial Production and Capacity Appears to be Widening



Even in boom times, we never use all of our industrial capacity, but lately the gap appears to be widening

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.

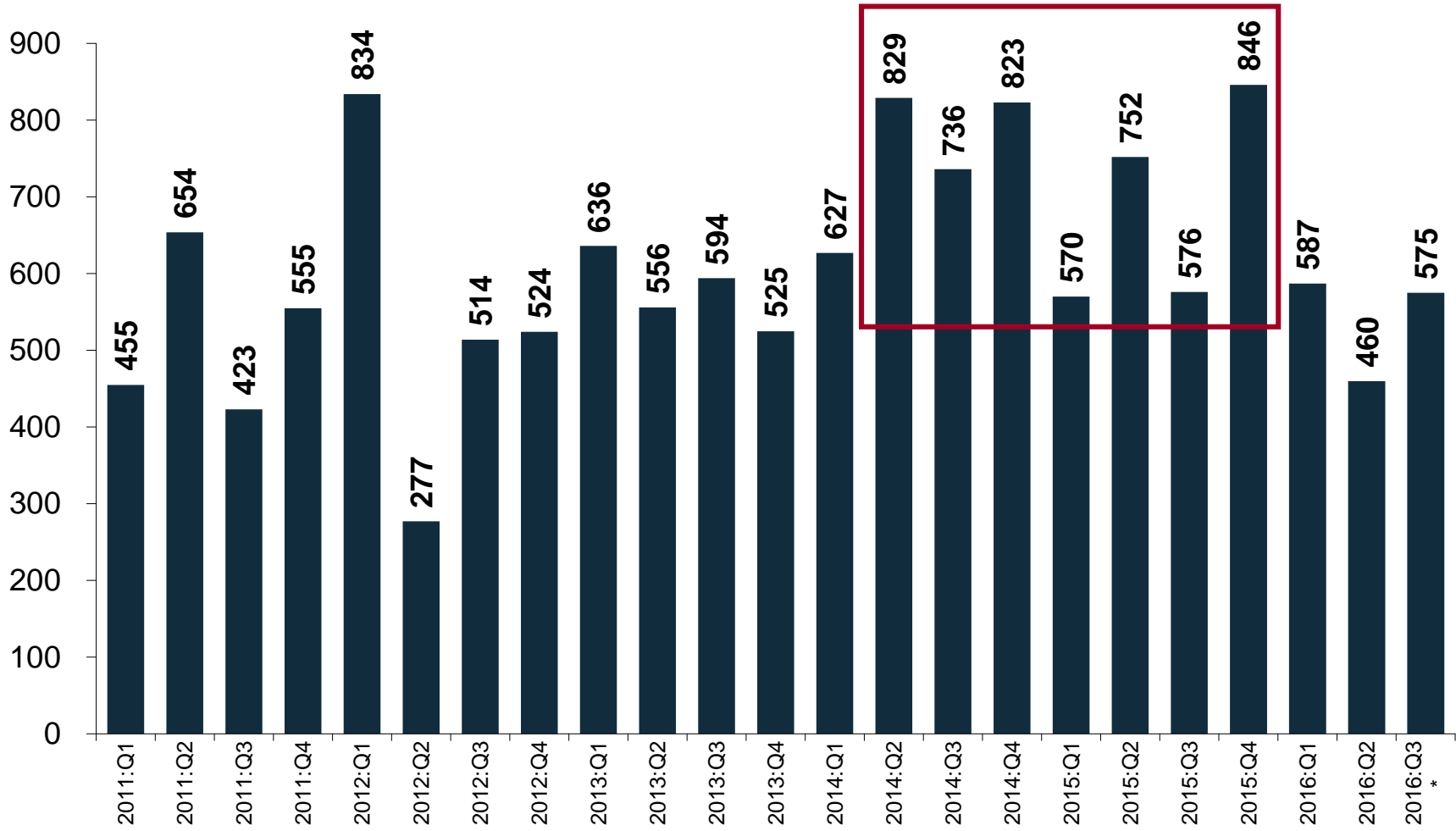


Labor Market Trends

**We're Now Gaining Jobs at a Good Pace,
but We're Not at "Full Employment" Yet,
and There are Signs of Softening**

Nonfarm Employment, Quarterly Change, 2011 – 2016*

Thousands

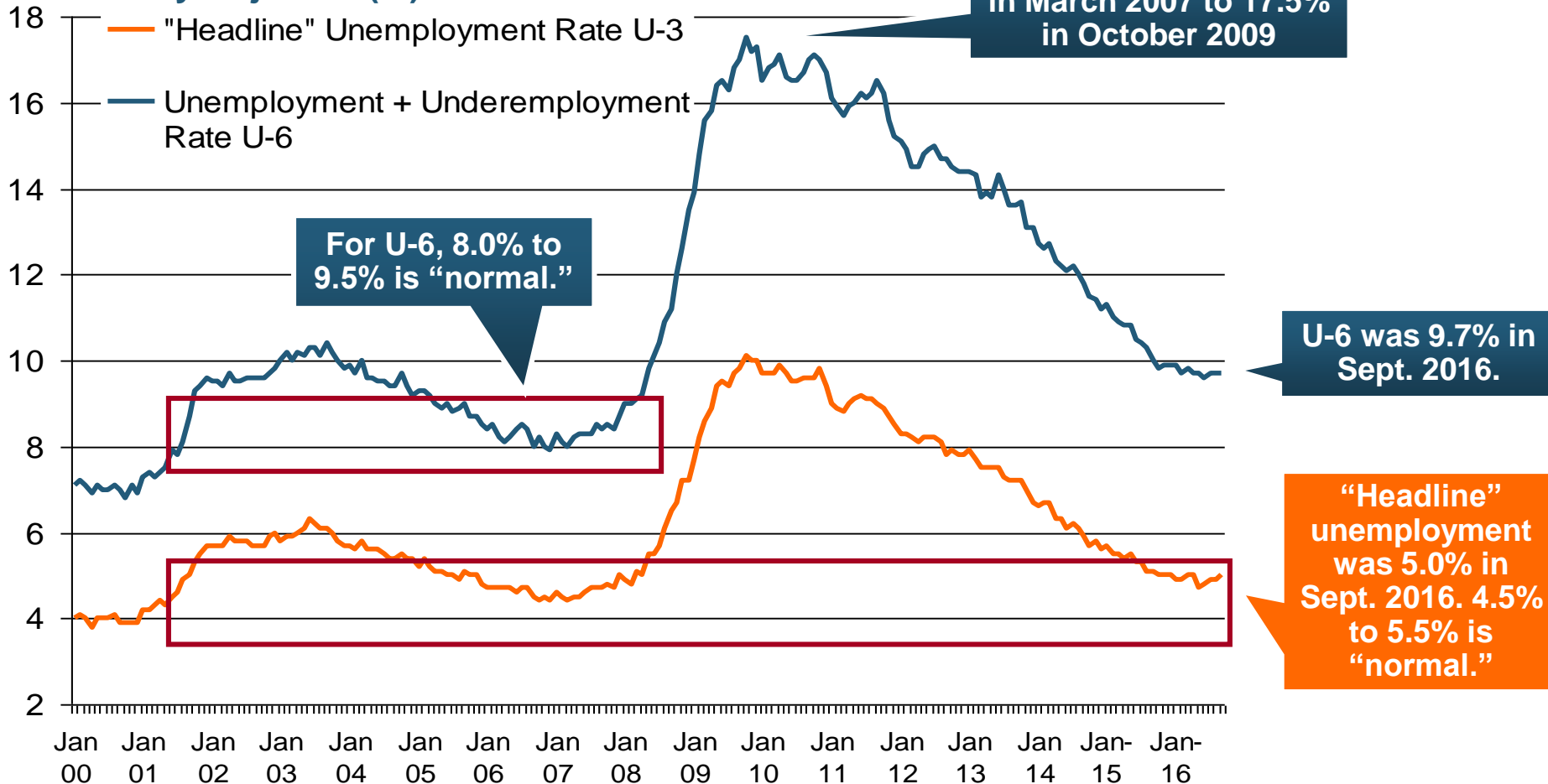


After a strong 2014-15, the pace of job growth has slowed somewhat.

*Seasonally adjusted; August and Sept 2016 data are preliminary
Sources: US Bureau of Labor Statistics; Insurance Information Institute

Unemployment and Underemployment Rates: Still Falling

January 2000 through September 2016, Seasonally Adjusted (%)



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

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

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

Part Time for Economic Reasons

■ Recession — Part Time - - - Current level

Sep. 2016:
5.89 million

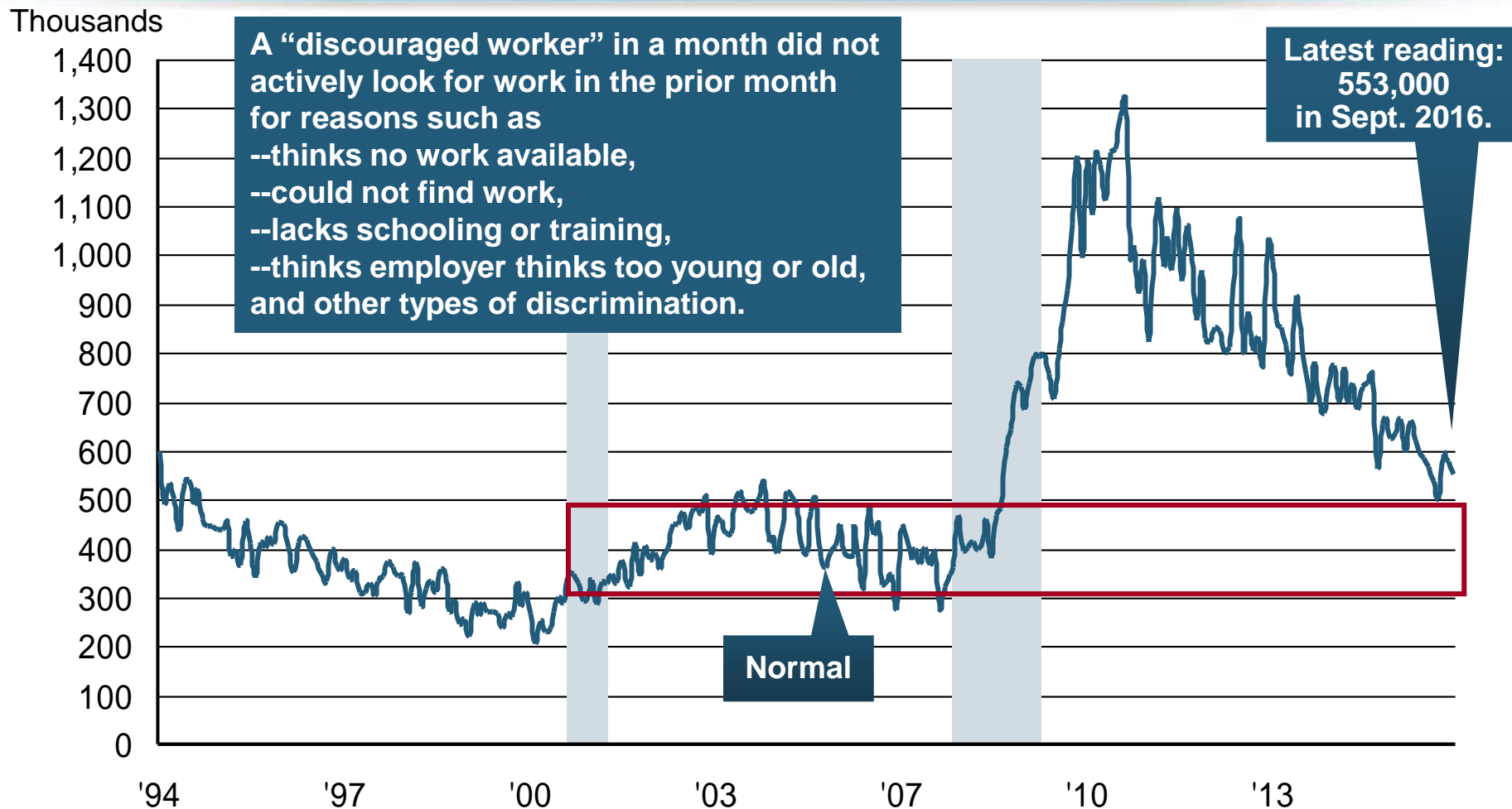
In less than 18 months, 4.5 million additional people were involuntarily working part time

The "normal" range (since 1992)



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

Number of “Discouraged Workers”: Elevated, but Dropping Jan. 1994 – Sept. 2016

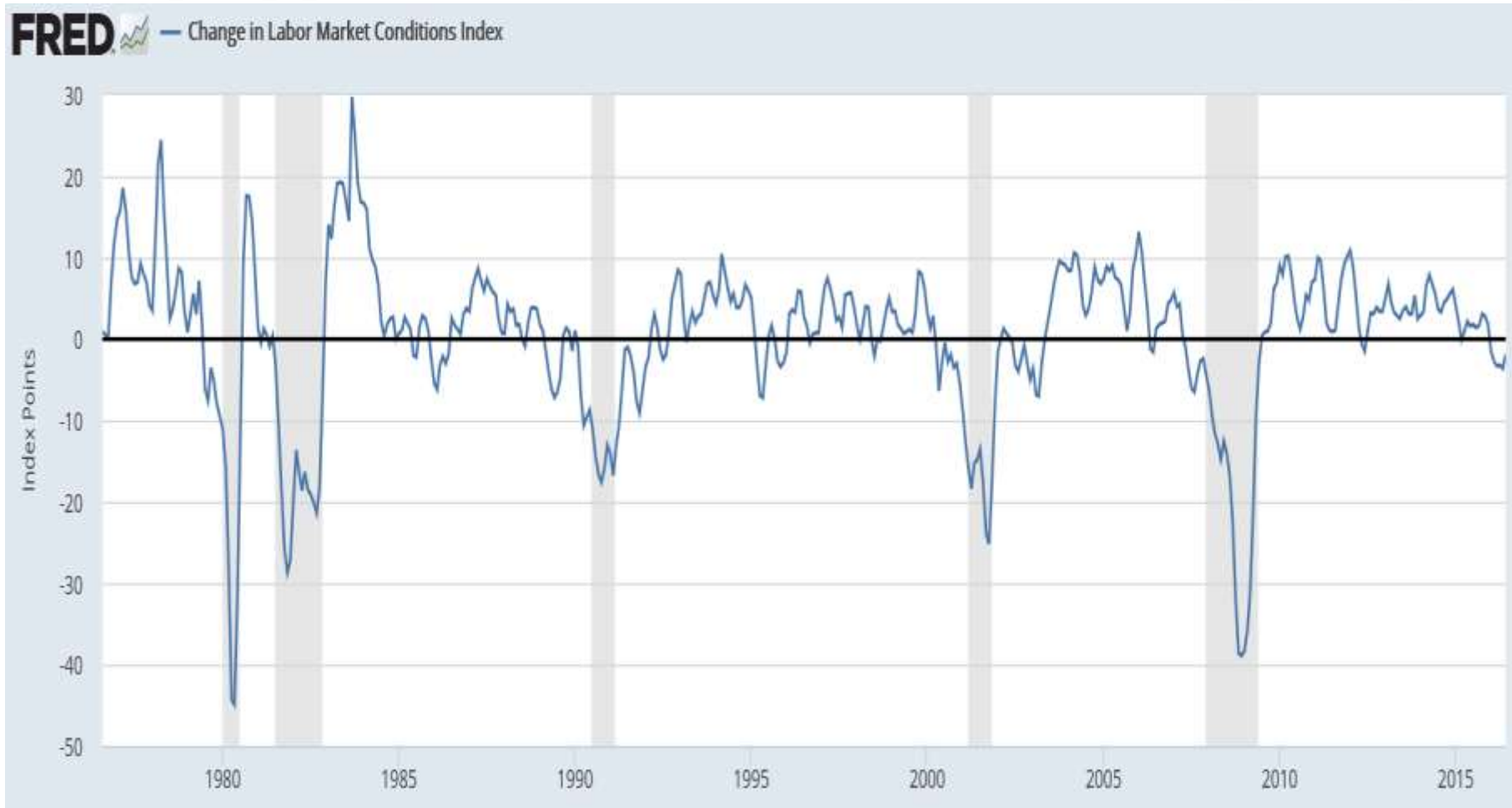


In recent good times, the number of discouraged workers ranged from 200,000-400,000 (1995-2000) or from 300,000-500,000 (2002-2007).

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

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

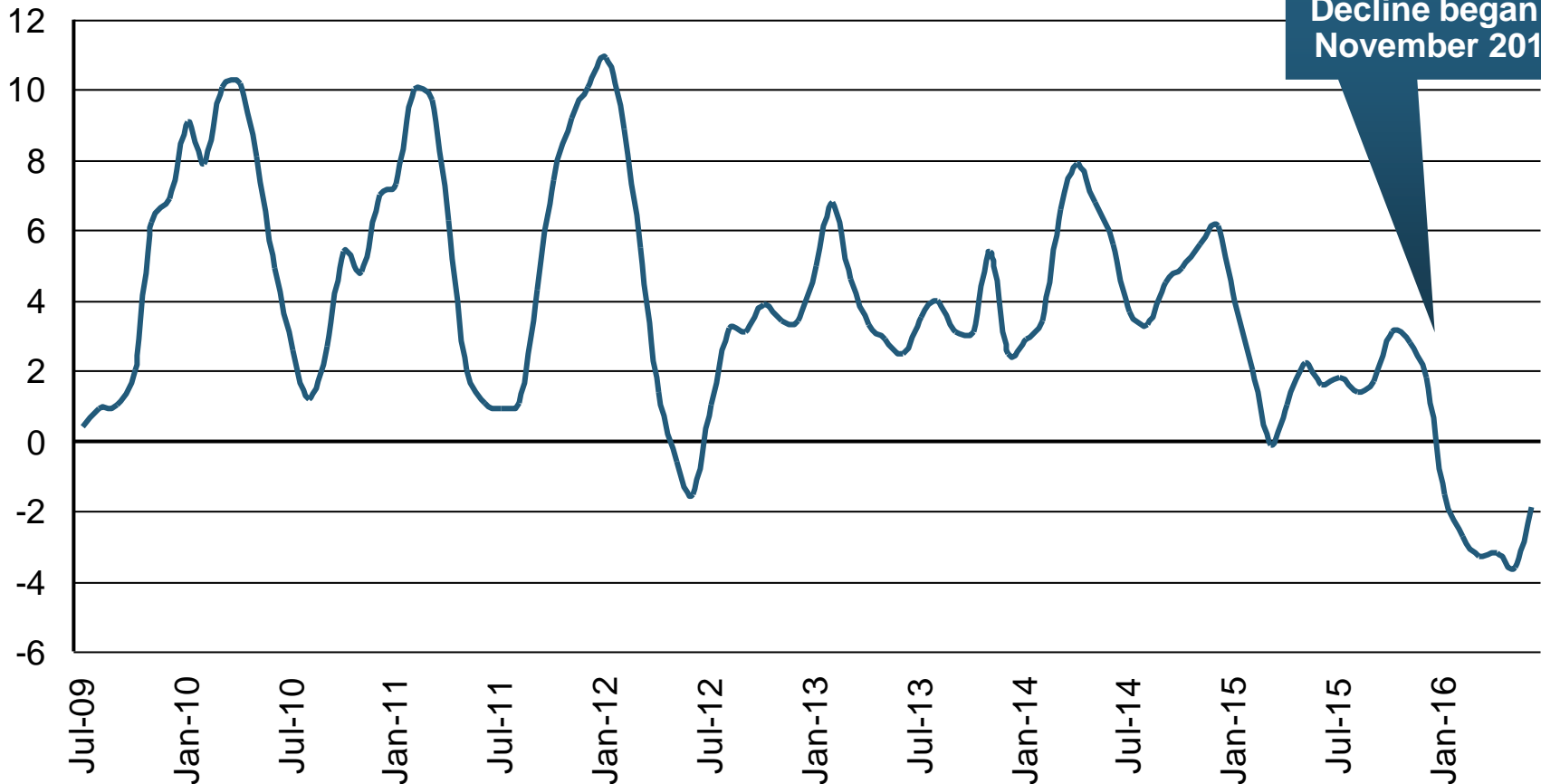
The Fed's Labor Market Conditions Index Combines 19 Labor Market Indicators



**Since 1976, we've had a recession whenever the Index drops below -17.6.
As of June 2016 the Index was at -1.9 and appeared to be heading up.**

Labor Market Conditions Index Since the Recession Ended

Index Value



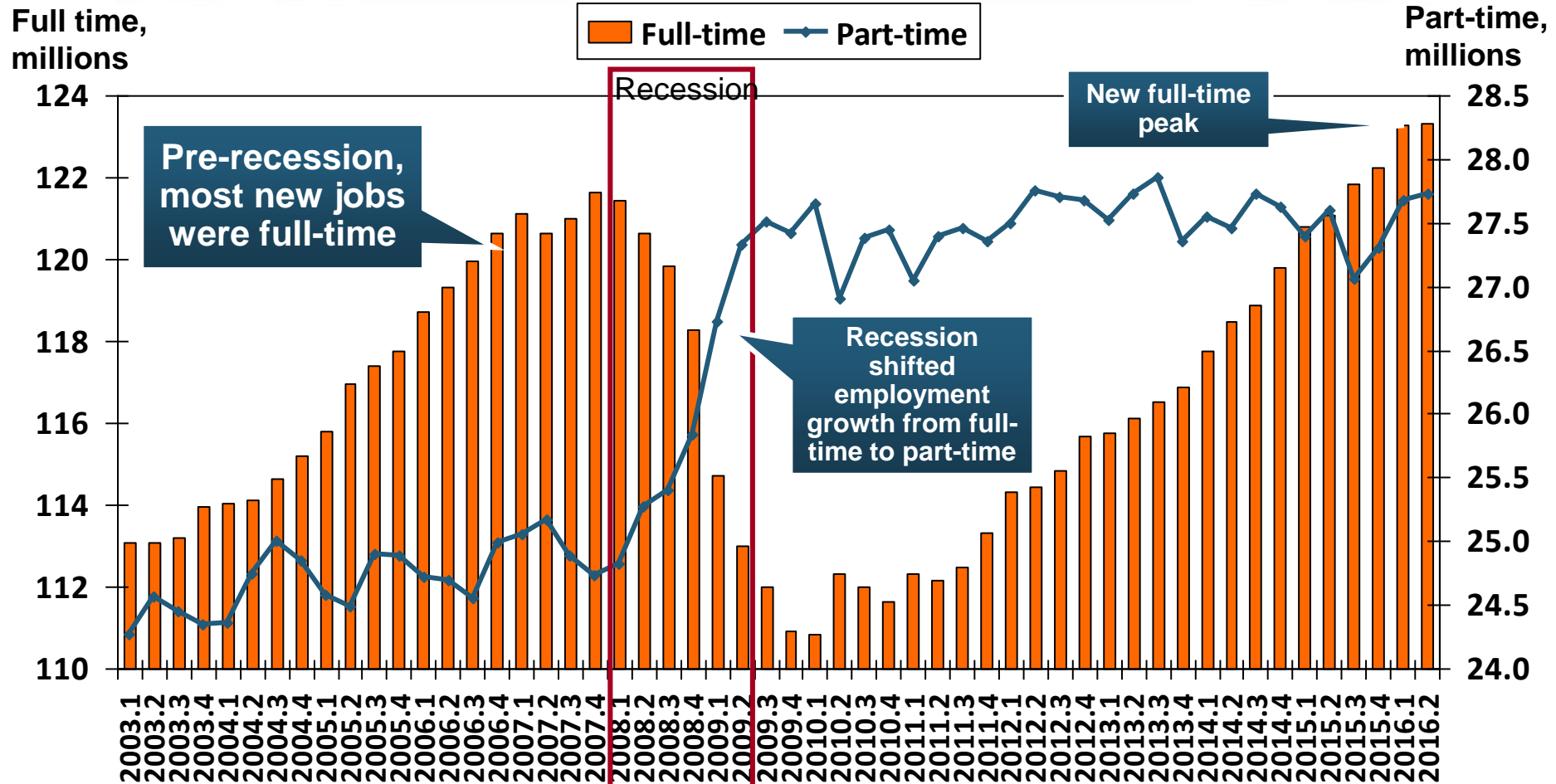
Decline began in
November 2015.

Based on history of the last 40 years, there's no recession in sight.

Notes: Data are seasonally adjusted. The entire dataset is subject to revision, but that usually affects only the most recent 6 months.

Sources: <https://research.stlouisfed.org/fred2/series/FRBLMCI>

Full-time vs. Part-time Employment, Quarterly, 2003-2016:Q2

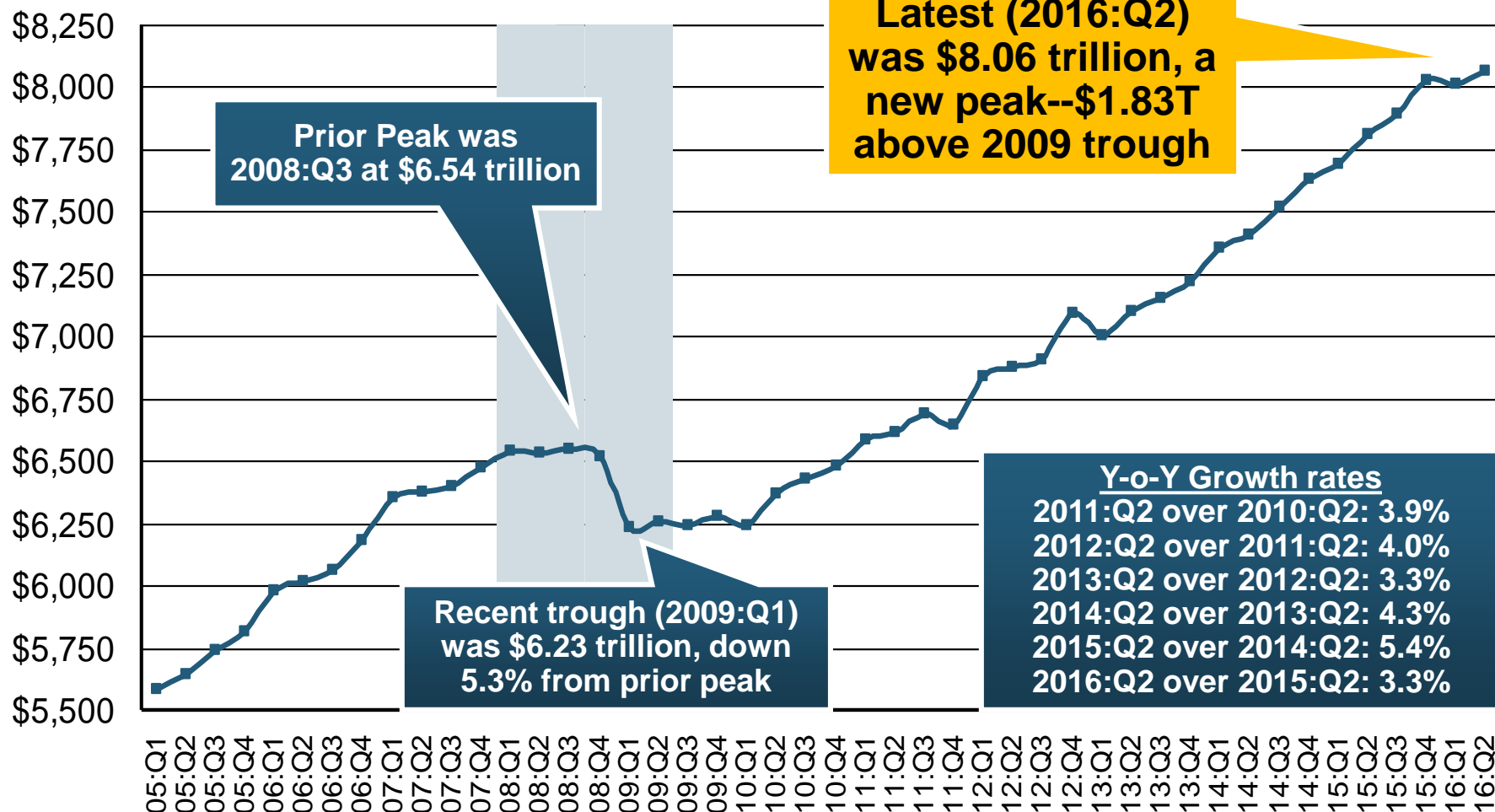


The Great Recession shifted employment from full-time to part-time. Full-time employment is finally above its pre-recession peak, but part-time hasn't receded.

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

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2016:Q2

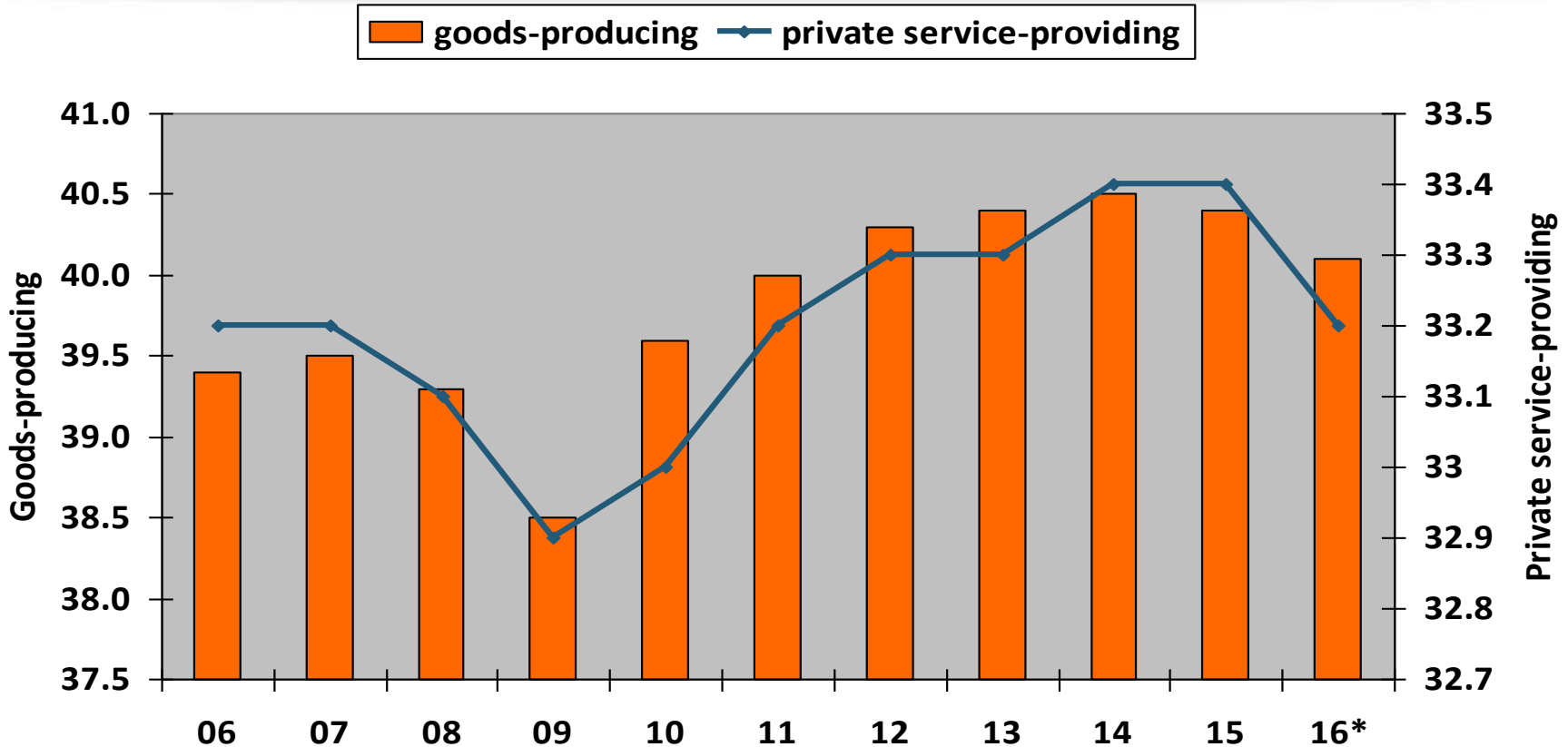
Billions



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.

Average Weekly Hours Worked,* Yearly, 2006—2015



The average work-week rose sharply in 2010-2012 and is now above levels prevailing before the Great Recession (which began in December 2007). Note that service-providing workers work a 7-hour shorter week than goods-producing workers.

*Seasonally adjusted. Data for 2016 are based on Jan-July; June and July are preliminary

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics at <http://www.bls.gov/data/#employment>;
National Bureau of Economic Research (recession dates); Insurance Information Institute.

Average Weekly Hours of All Private Workers, Mar. 2006—July 2016

Hours Worked*

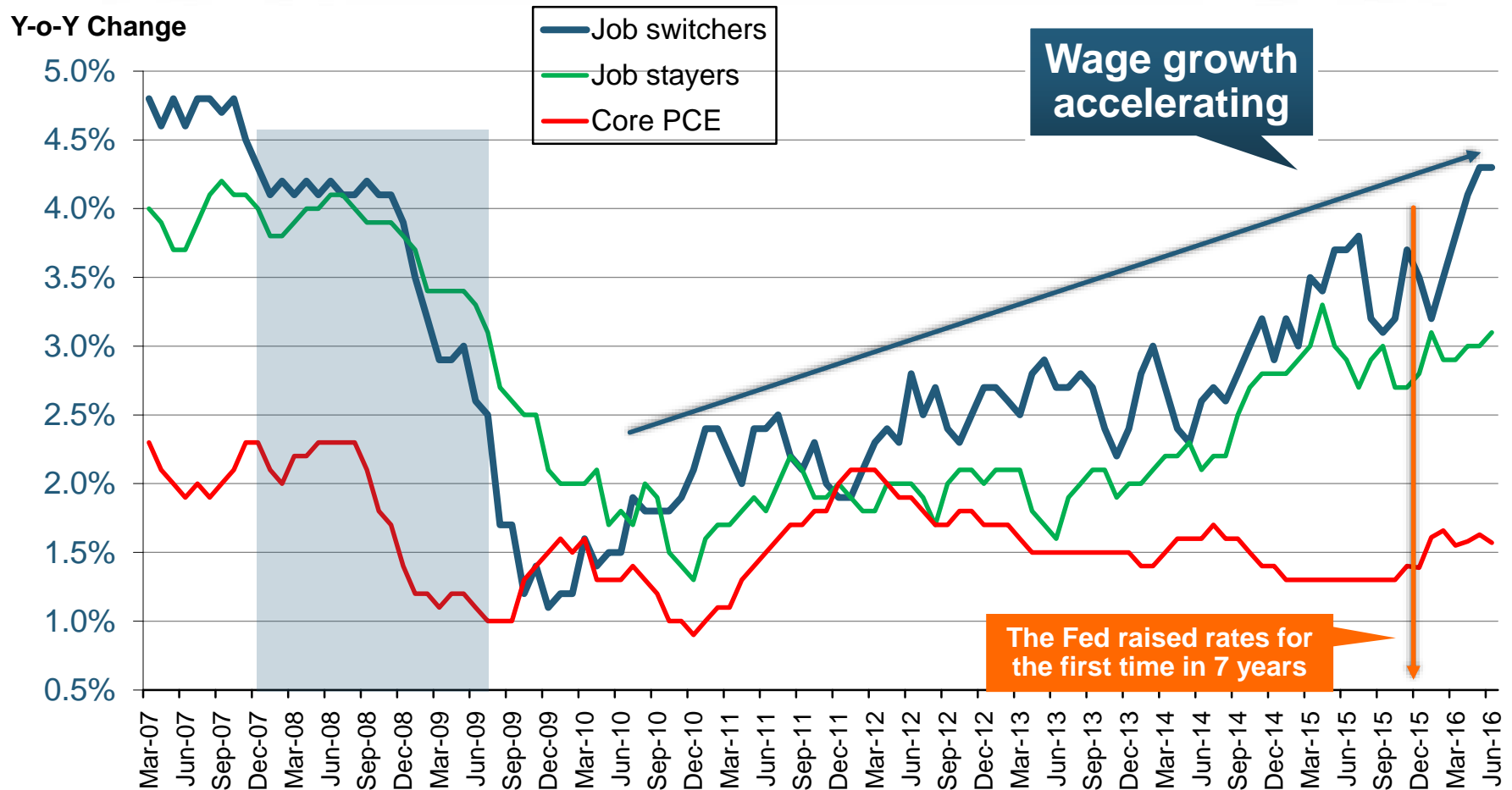


*Seasonally adjusted

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics at <http://www.bls.gov/data/#employment>;
National Bureau of Economic Research (recession dates); Insurance Information Institute.

Since 2012-13, Wages Have Grown Faster Than Inflation,* 2007-2016



*Seasonally adjusted; year-over-year; Shaded area indicates recession.

Sources: NBER (recessions); <https://www.frbatlanta.org/chcs/wage-growth-tracker.aspx?panel=1> ; I.I.I.

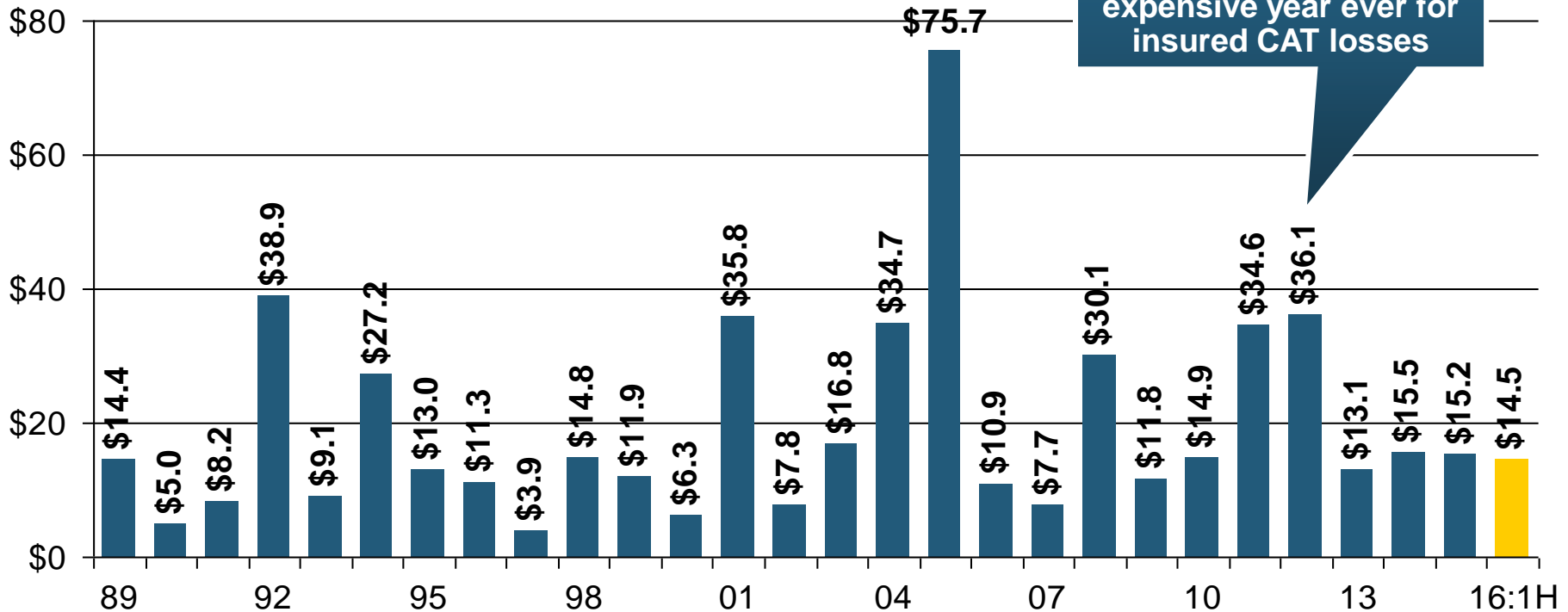


U.S. Insured Catastrophe Loss Update

**2014-15 Had Below-Average CAT
Activity**

U.S. Insured Catastrophe Losses

(\$ Billions, \$ 2015)



2012 was the 3rd most expensive year ever for insured CAT losses

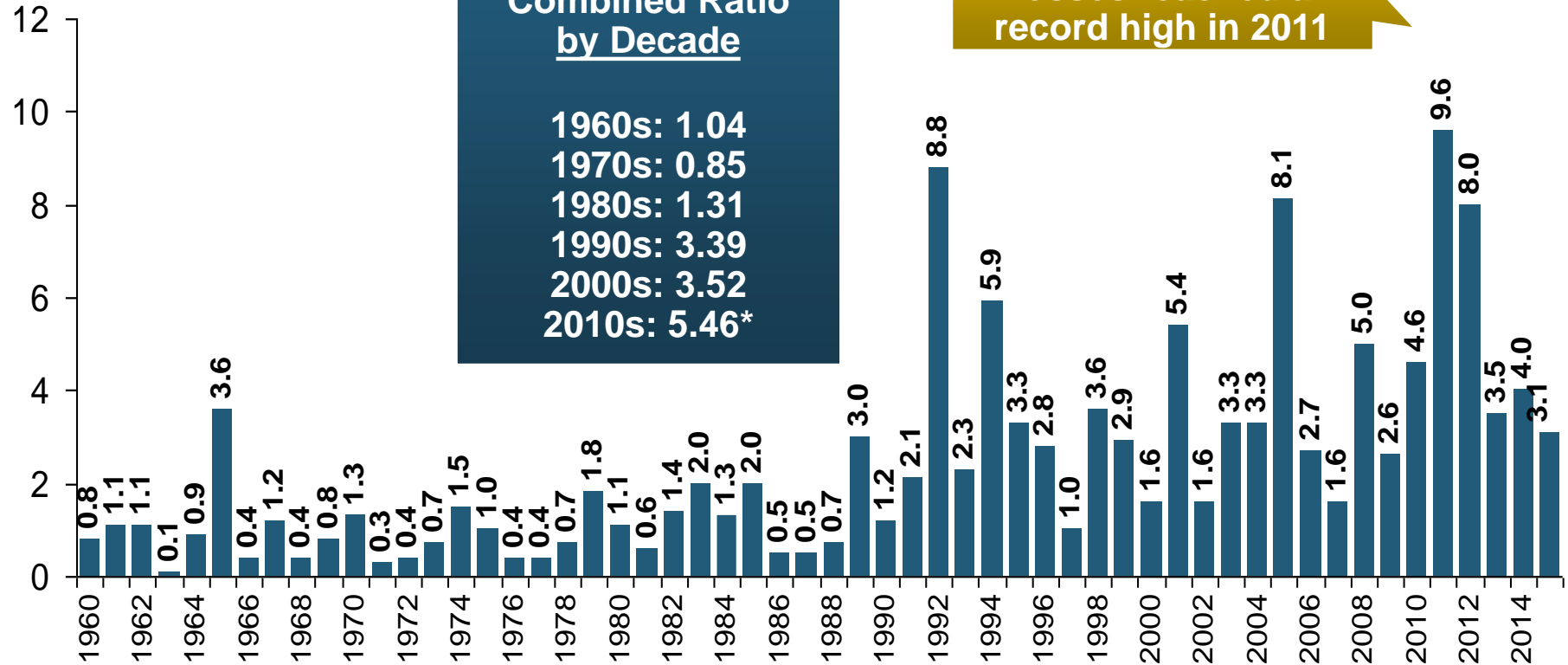
2013/14/15 were welcome respites from 2011/12—the latter being among the costliest years for insured disaster losses in US history. The longer-term trend is for more costly events.

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 – 2015E*

Combined Ratio Points



The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades

*2010s represent 2010-2015E.

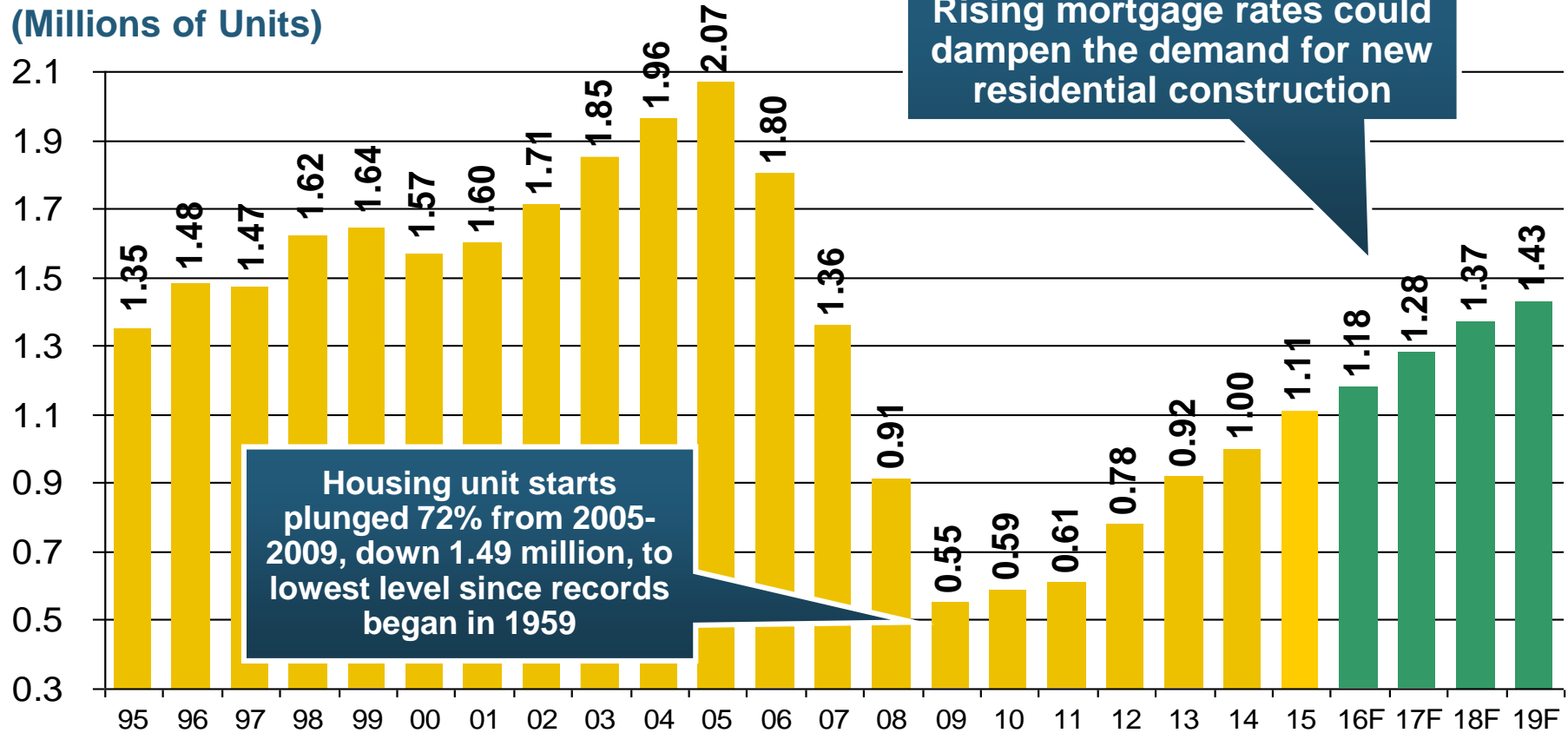
Notes: Private carrier losses only. Excludes loss adjustment expenses and reinsurance reinstatement premiums. Figures are adjusted for losses ultimately paid by foreign insurers and reinsurers.

Source: ISO (1960-2009); A.M. Best (2010-15E) Insurance Information Institute.

Growth of Homeowners/Renters Exposures

Forecast: Continued Growth in Private Housing Unit Starts, 1995-2019F

(Millions of Units)

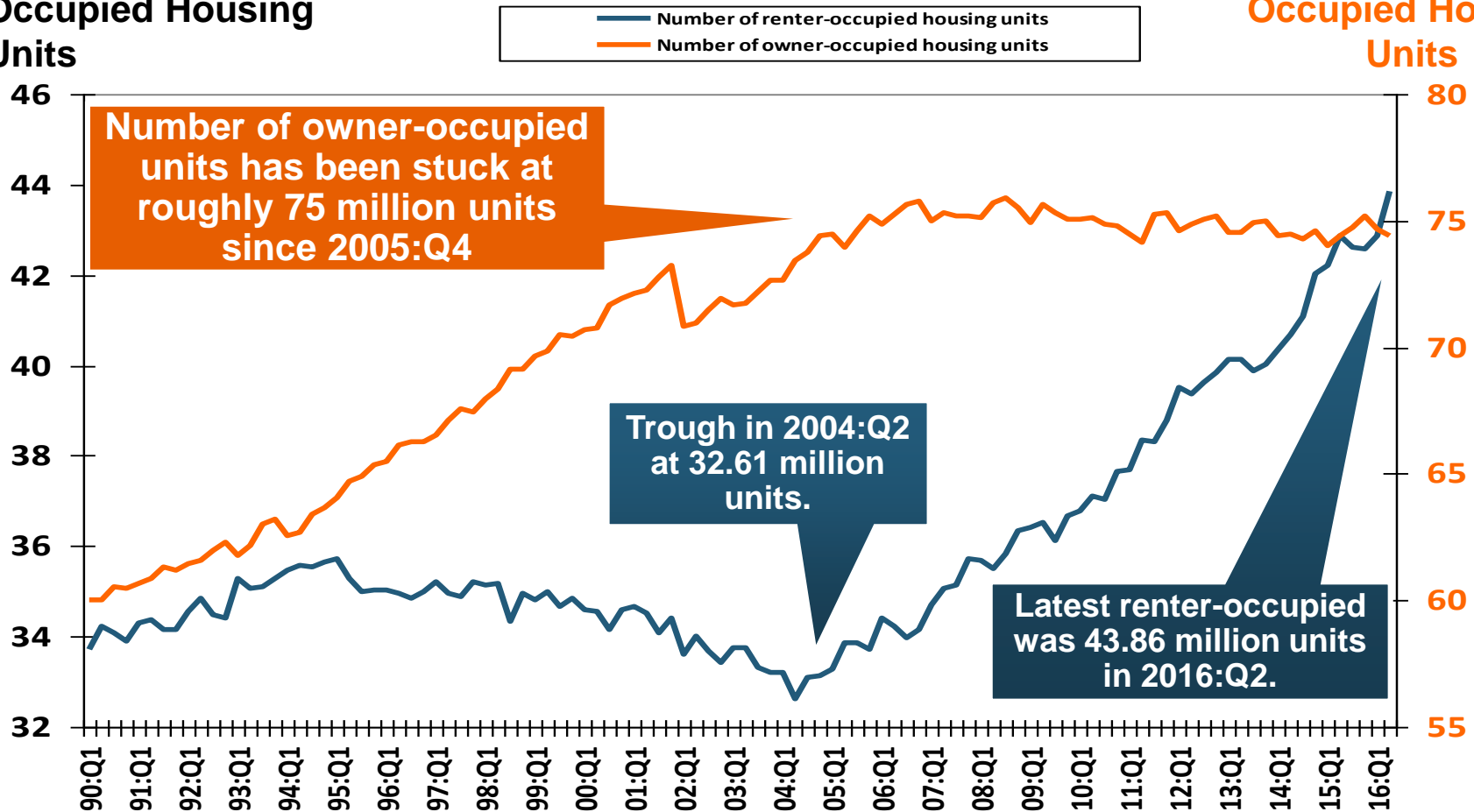


Housing starts are climbing slowly. Recently, the fastest growth is in multi-unit residences. Personal lines exposure will grow, and commercial insurers with Workers Comp, Construction risk exposure and Surety also benefit.

Number of Owner-Occupied & Renter-Occupied Housing Units, US, Quarterly, 1990:Q1-2016:Q2

Millions of Renter-Occupied Housing Units

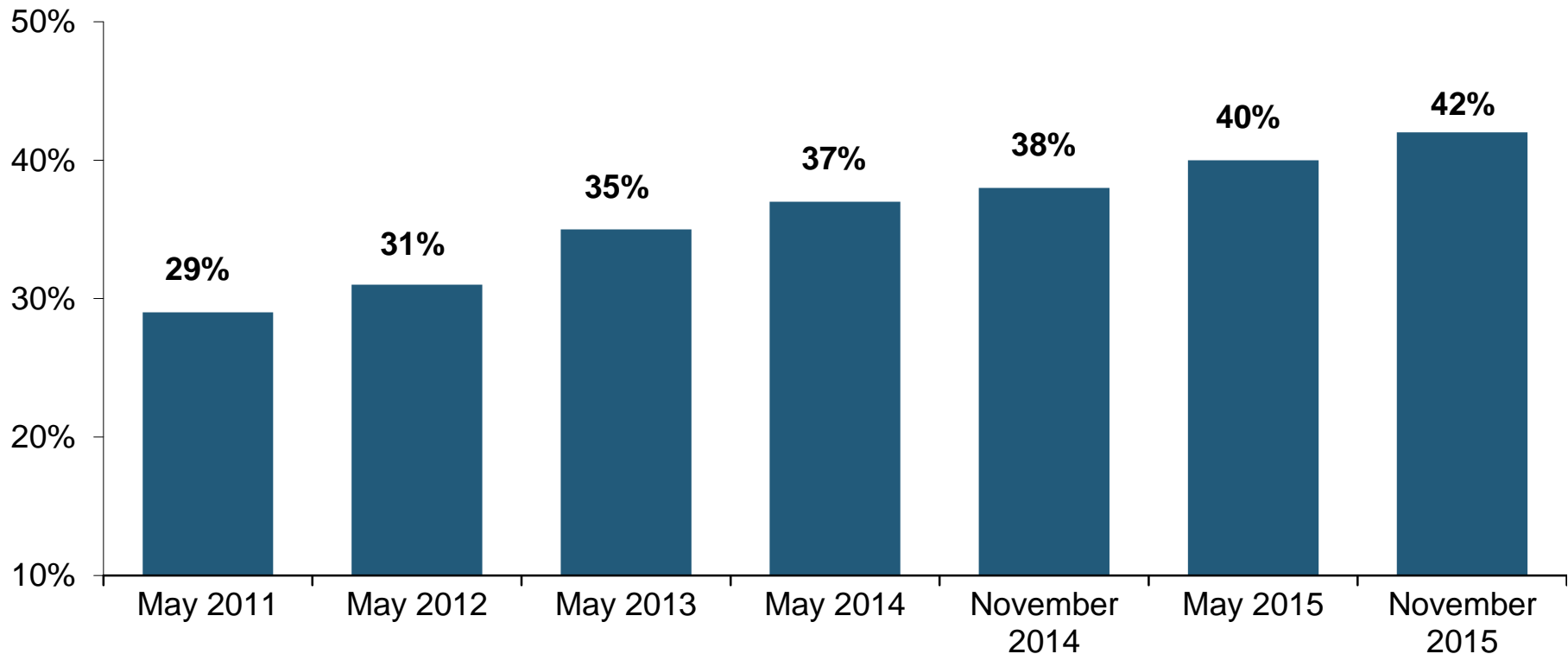
Millions of Owner-Occupied Housing Units



Since 2004 the number of renter-occupied housing units has grown by over 11 million units (+34.5%), but there has been no growth in the number of owner-occupied housing units in 12 years. When will this end?

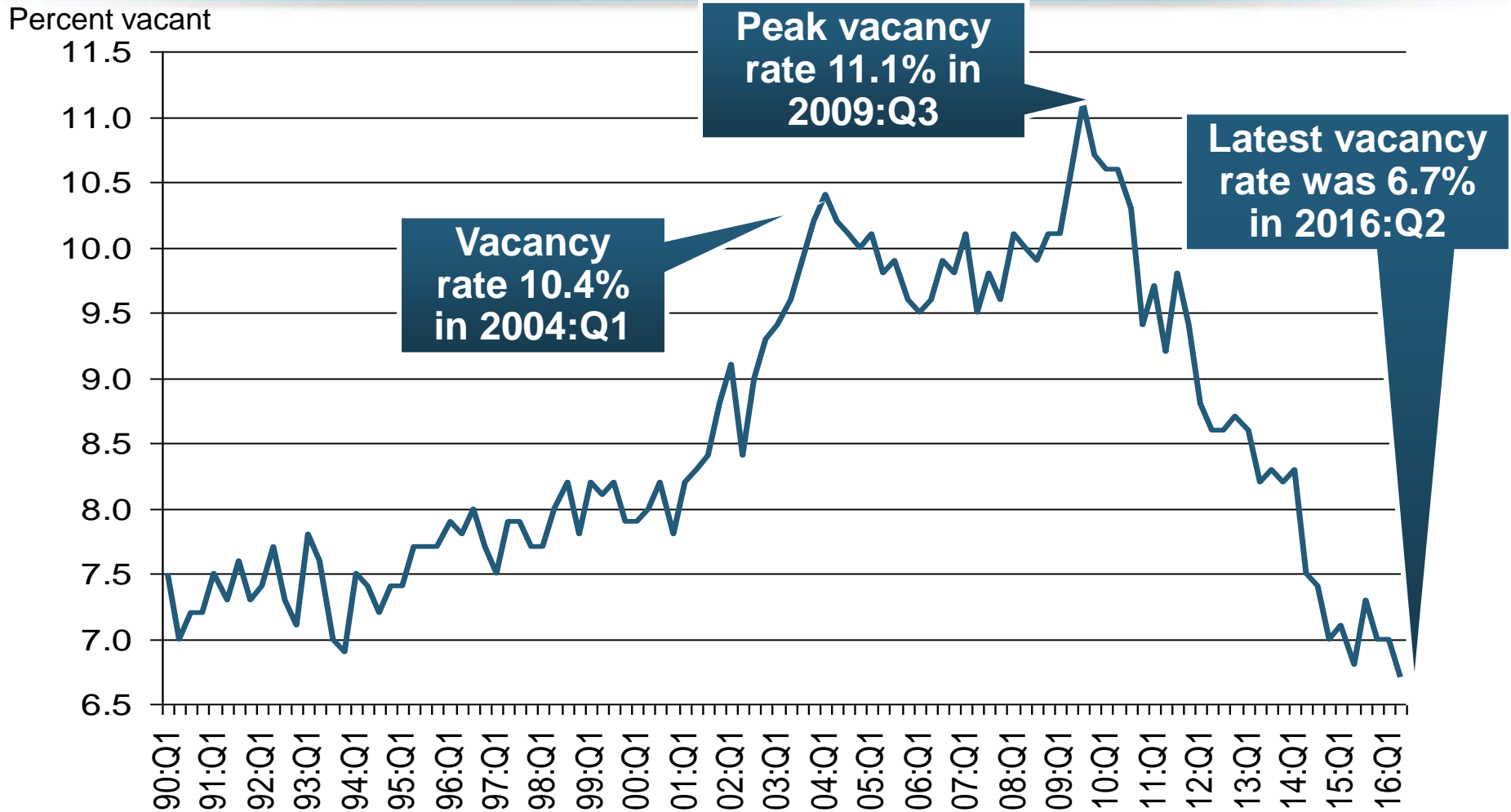
I.I.I. Poll: Renters Insurance

Percentage of Renters Who Have Renters Insurance, 2011-2015



Percentage Of Renters With Renters Insurance Continues to Increase.

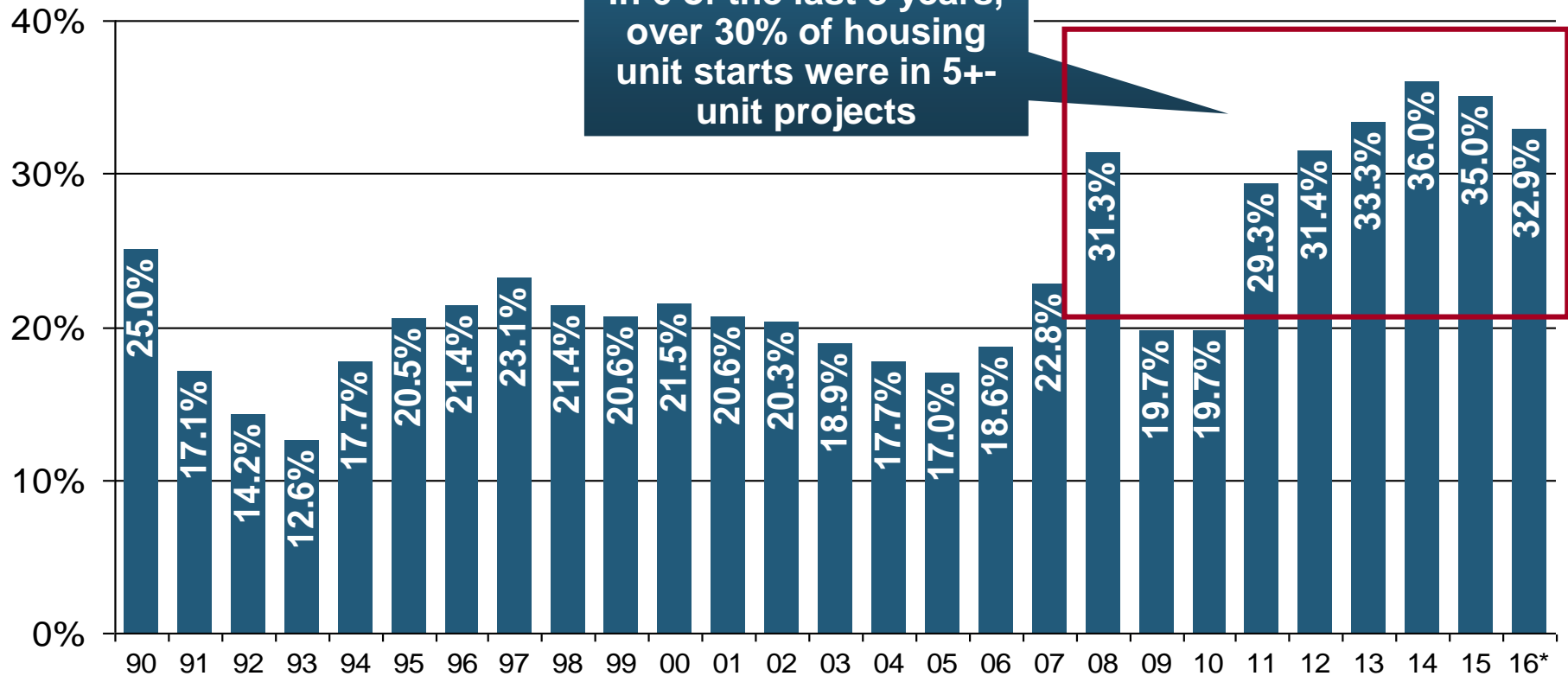
Rental Vacancy Rates, Quarterly, 1990-2016



Before the 2001 recession, rental vacancy rates were 7.0-7.5%. We're below those levels now. => More multi-unit construction?

US: Pct. Of Private Housing Unit Starts In Multi-Unit Projects, 1990-2016*

Units in Multiple-Unit Projects as Percent of Total



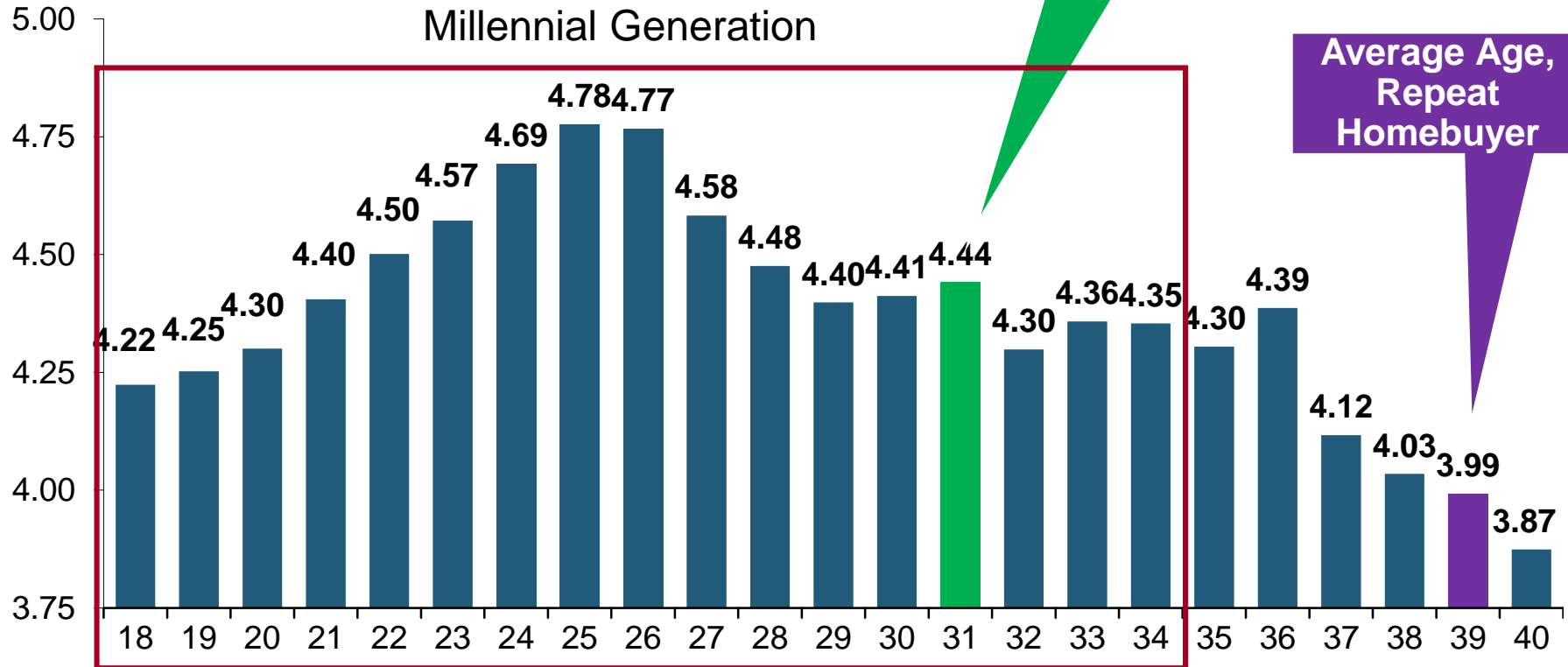
A NEW NORMAL?
 In 6 of the last 8 years, over 30% of housing unit starts were in 5+ unit projects

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.

*data through August
 Based on seasonally-adjusted data. Sources: U.S. Census Bureau; Insurance Information Institute calculations.

Giant Age Cohort (Millennials) Is Approaching Home-Buying Stage

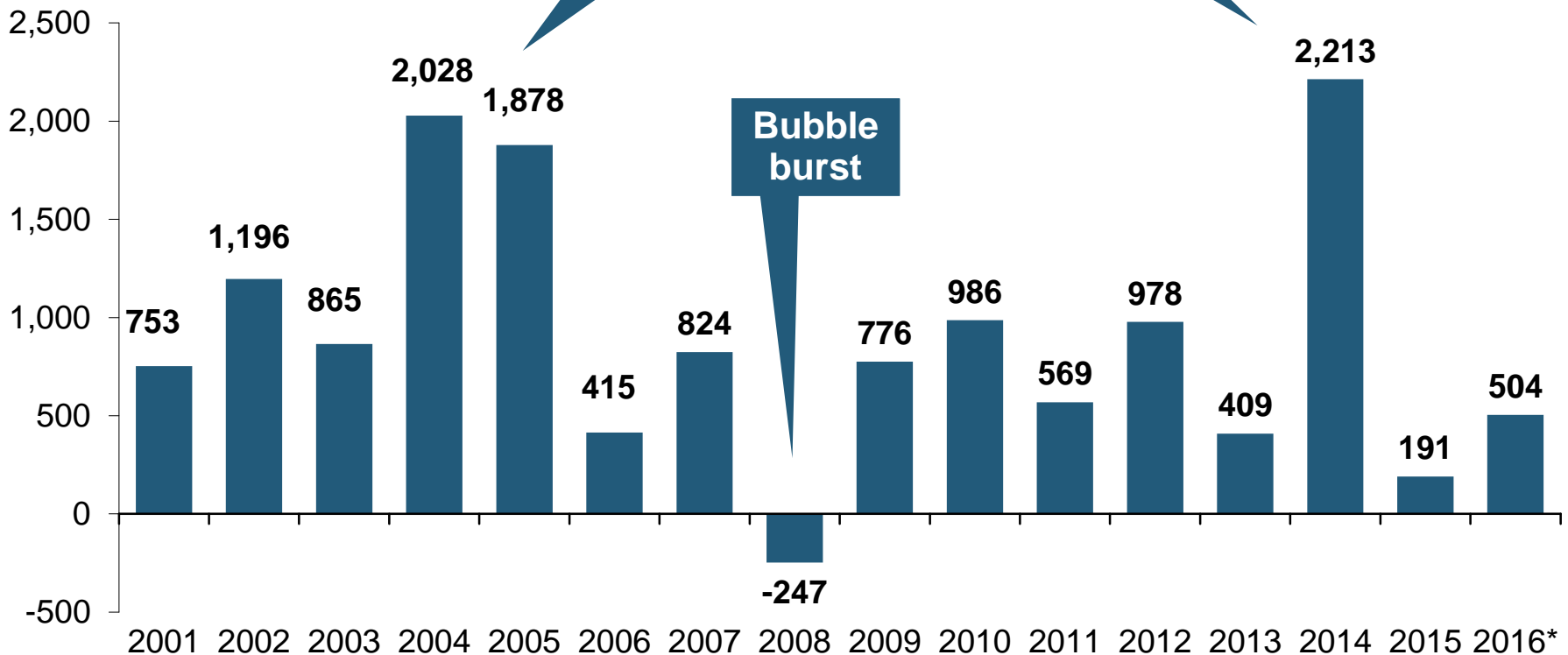
Number of People
in 2016 (Millions)



If prior patterns hold, the number of homes bought by current renters, and the number of new homes built, will rise in coming years

Growth in Number of Households => Increased Demand for Housing

Net Change in Number
of Occupied Residences
(Thousands)



If prior patterns hold, the number of homes bought by current renters, and the number of new homes built, will rise in coming years

Insurance Information Institute Online:

www.iii.org

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