



Trends, Challenges and Opportunities in P/C Insurance

Focus on Mississippi Markets

MSU Insurance-Day
Starkville, MS
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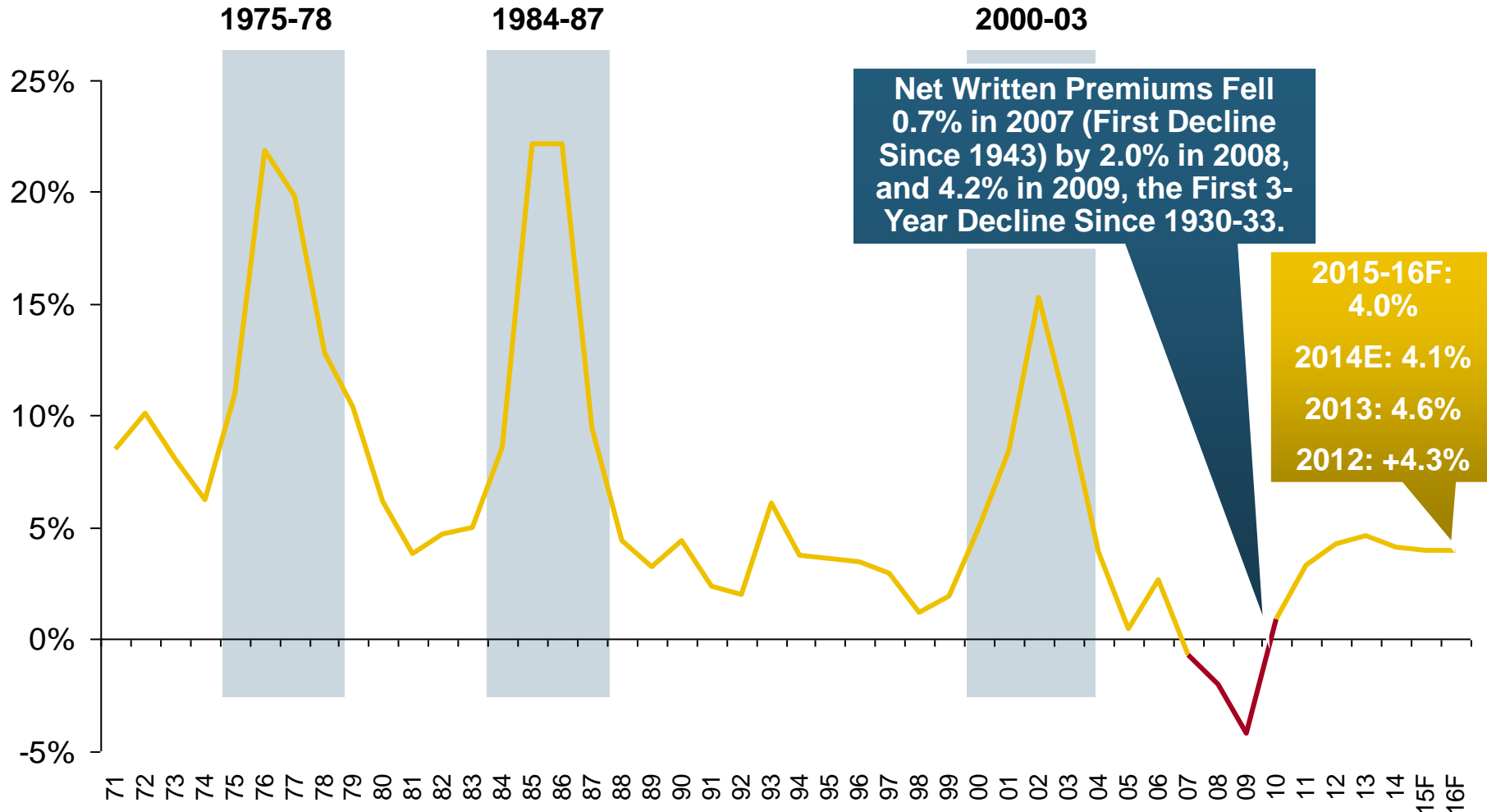


Insurance Industry: *Financial Update & Outlook*

2015 Was a Reasonably Good Year
2016: A Repeat of 2015?

Net Premium Growth: Annual Change, 1971—2016F

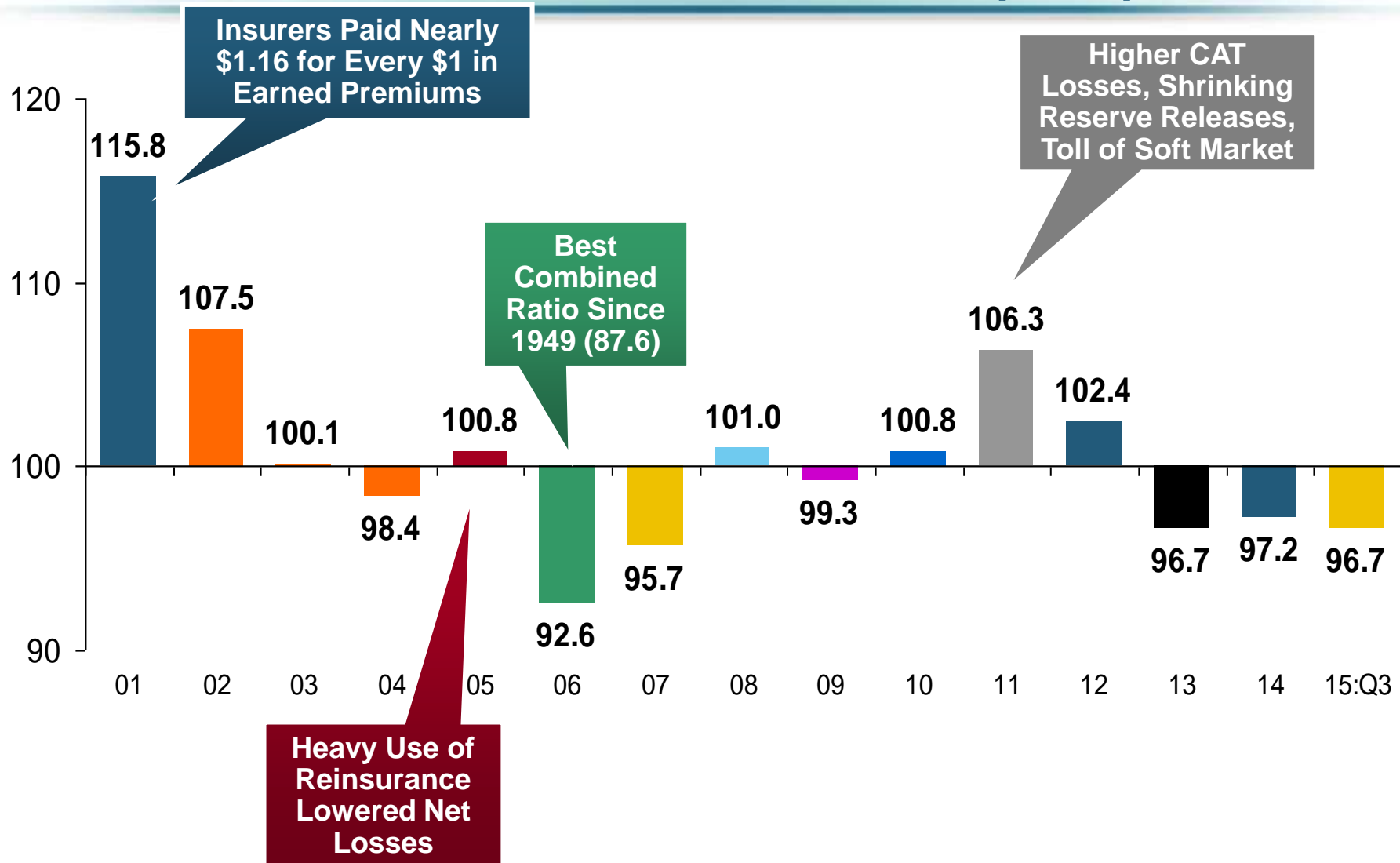
(Percent)



Shaded areas denote “hard market” periods

Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute.

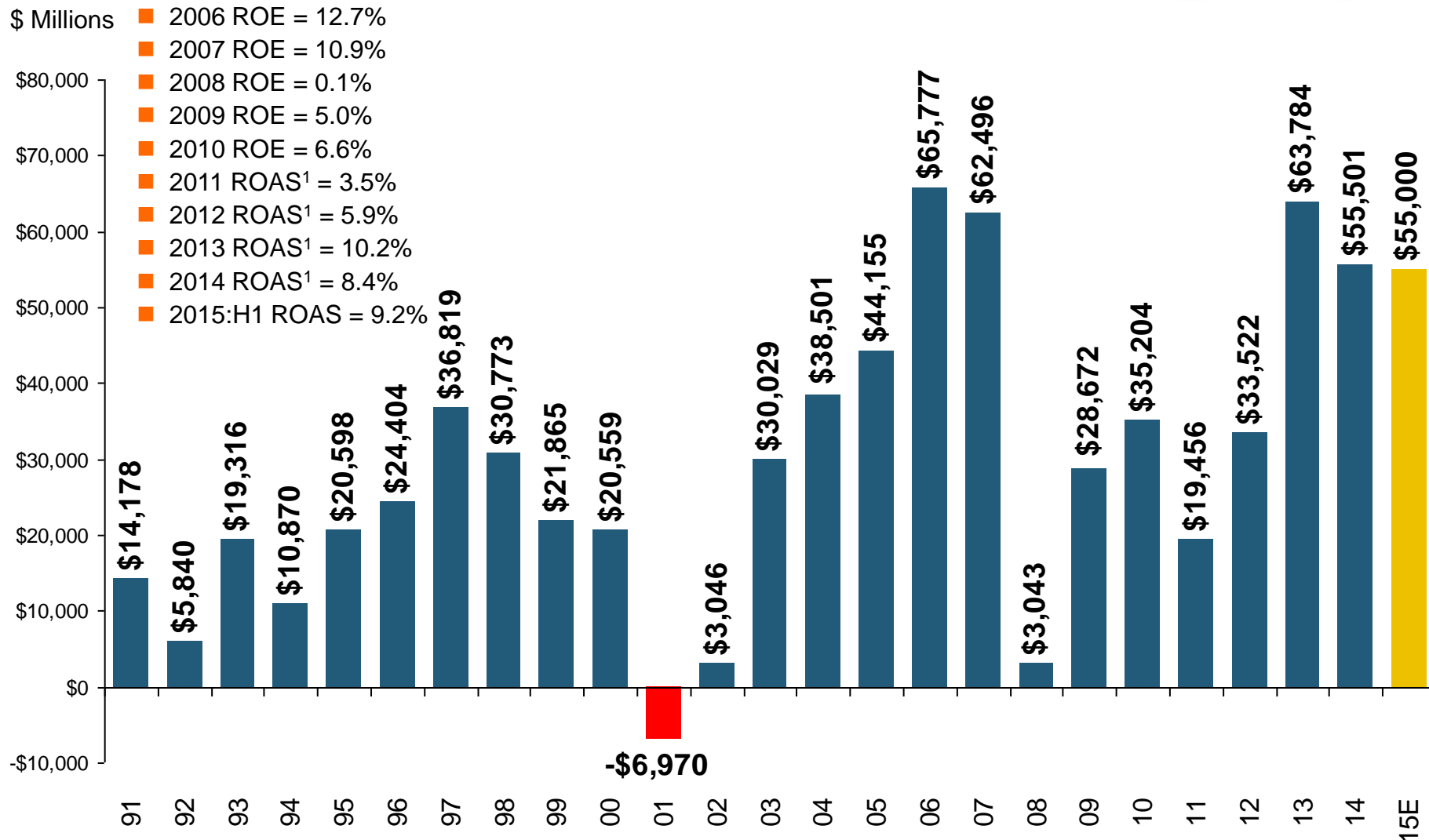
P/C Insurance Industry Combined Ratio, 2001–2015:Q3 (Est.)*



* 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.

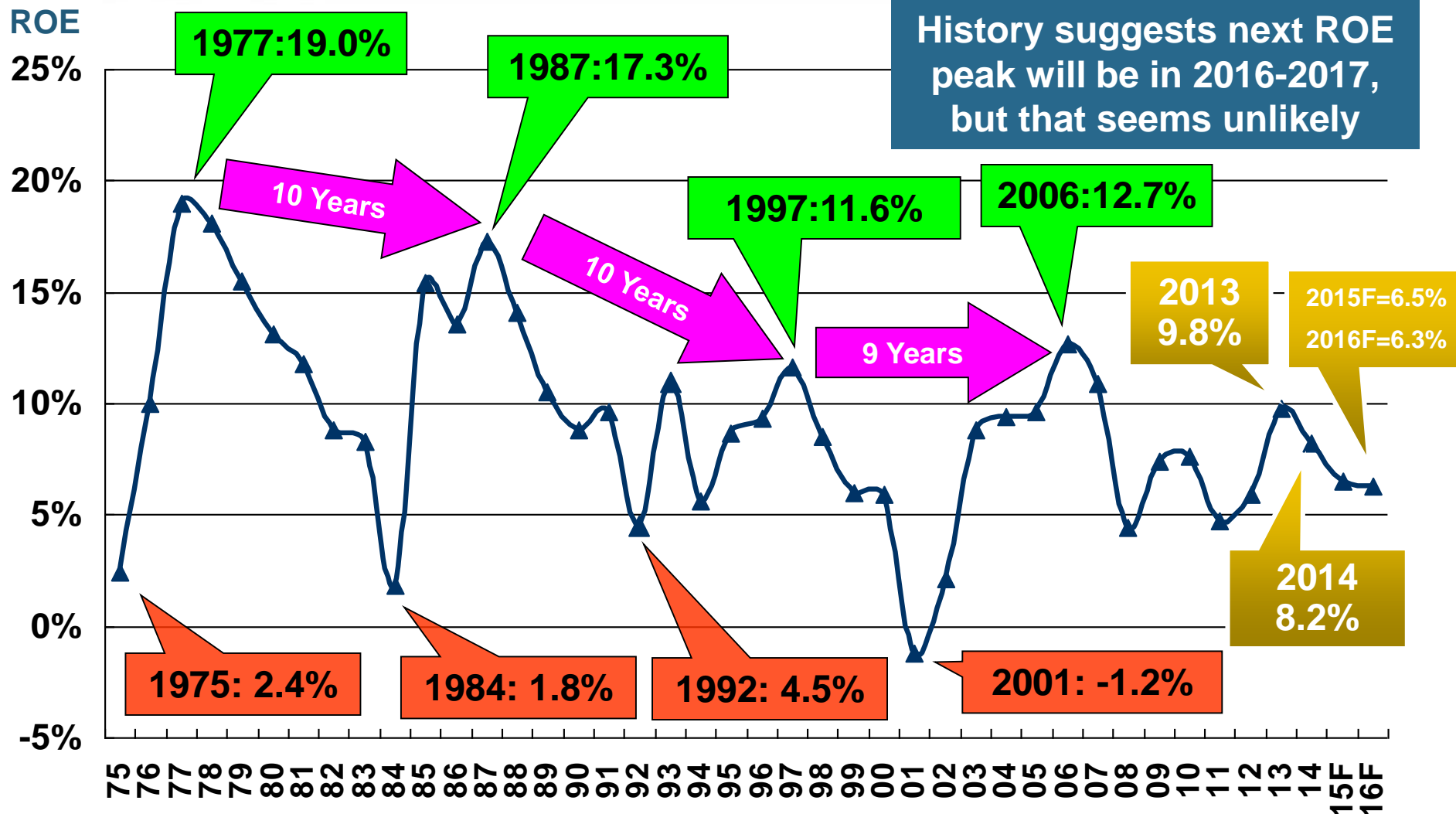
P/C Industry Net Income After Taxes 1991–2015 (Est.)



• 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

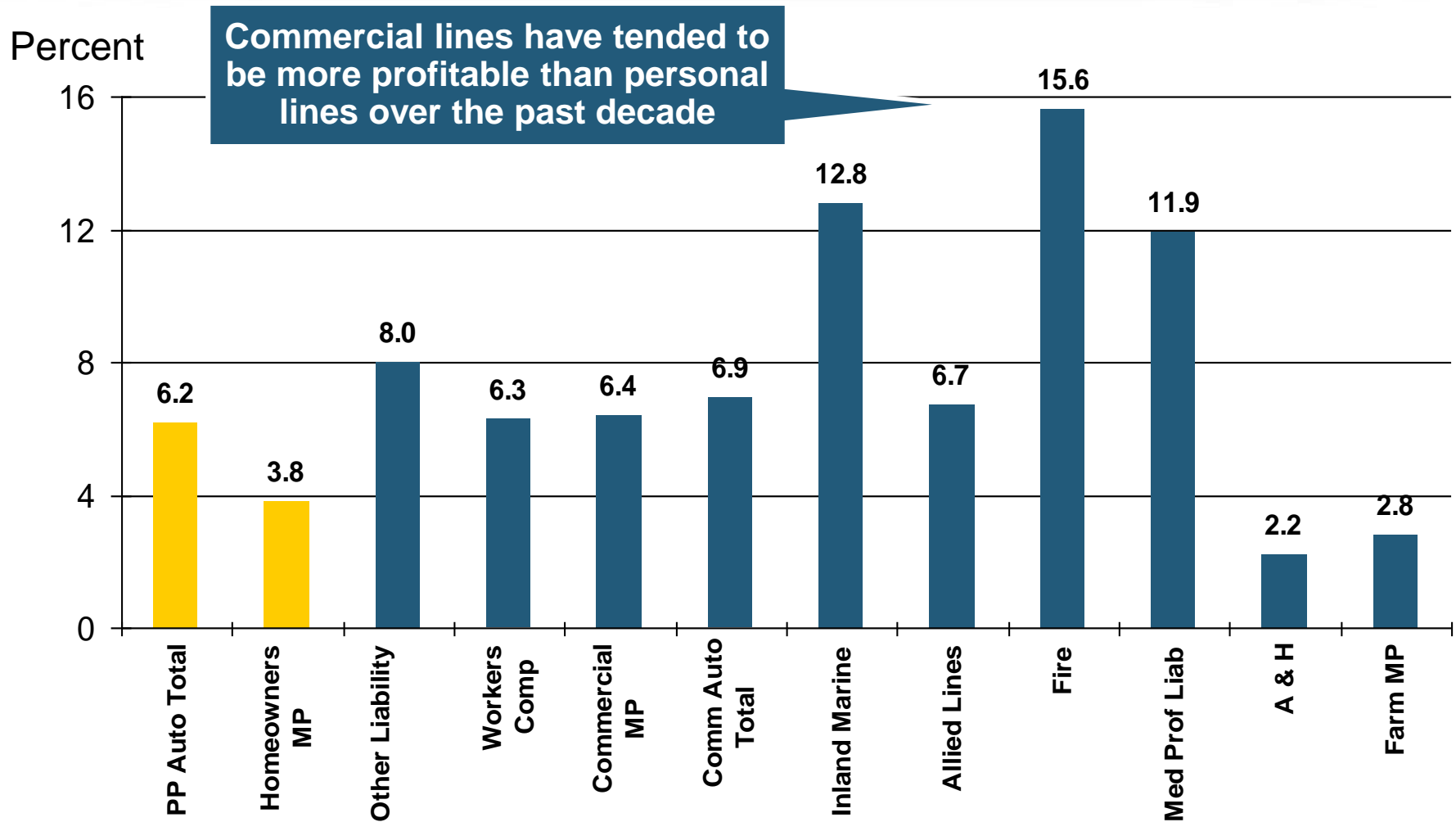


*Profitability = P/C insurer ROEs. 2011-14 figures are estimates based on ROAS data. Note: Data for 2008-2014 exclude mortgage and financial guaranty insurers.

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

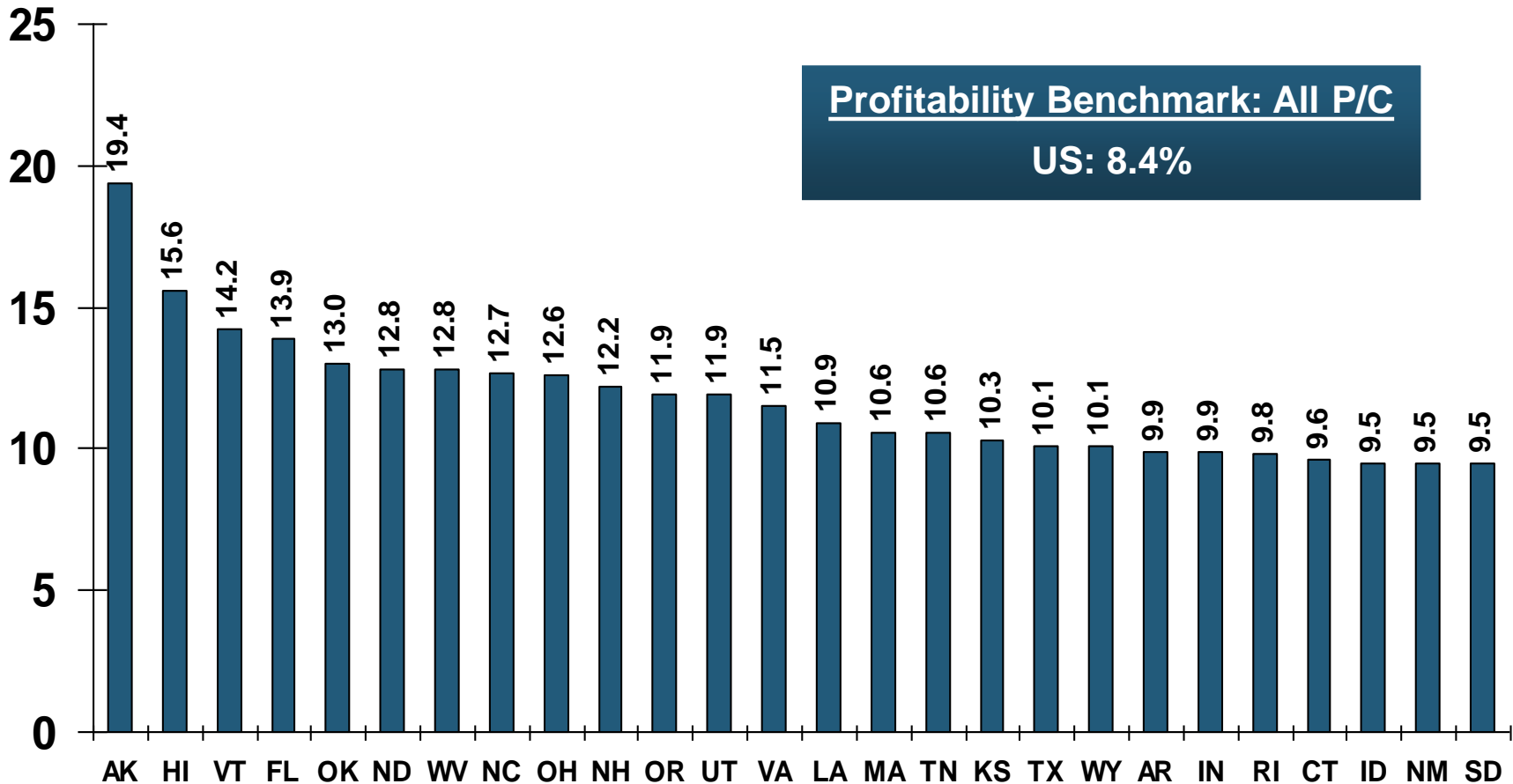
Return on Net Worth (RNW)

Largest Lines: 2005-2014 Average



RNW All Lines by State, 10-Year (2005-2014) Avg

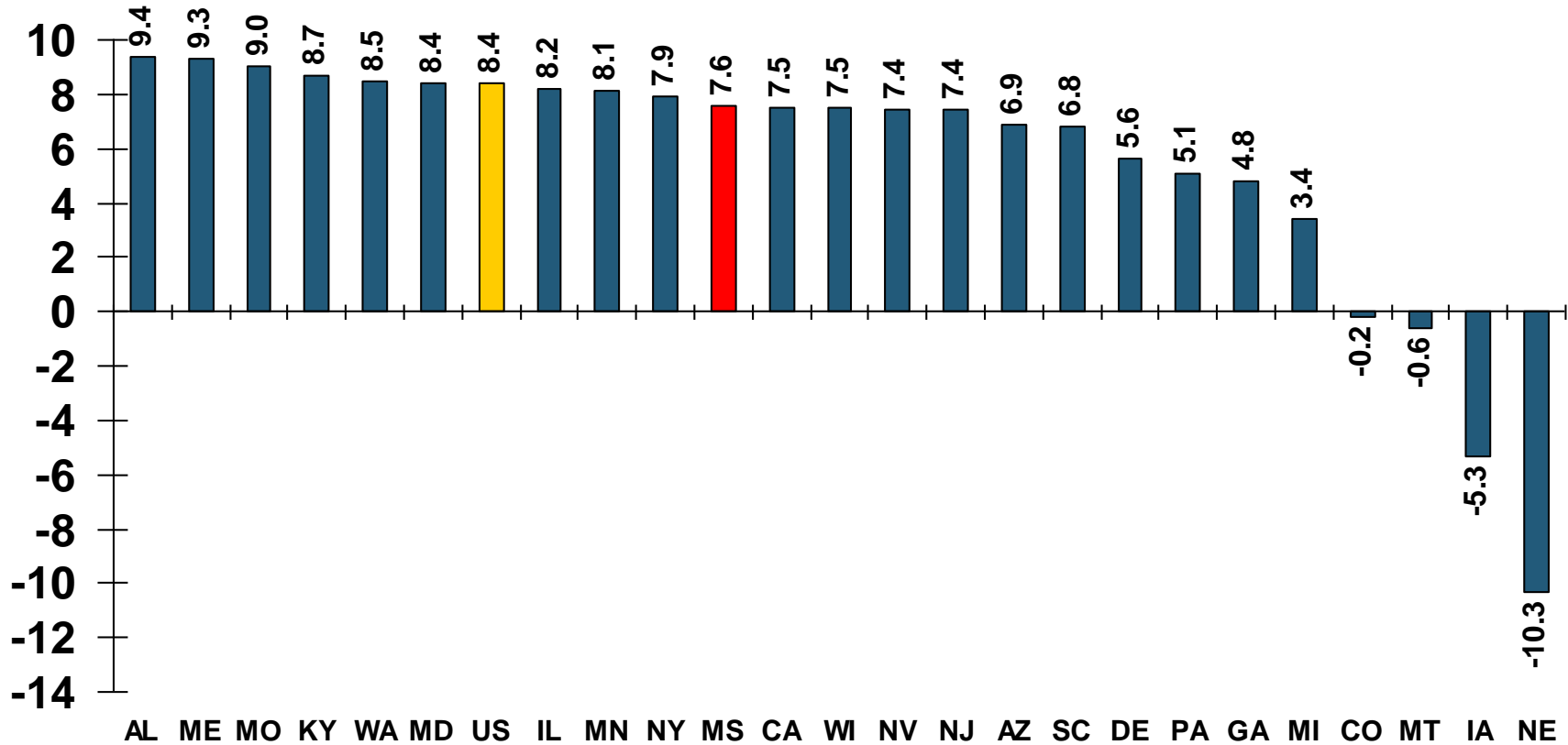
Return on Net Worth (%)



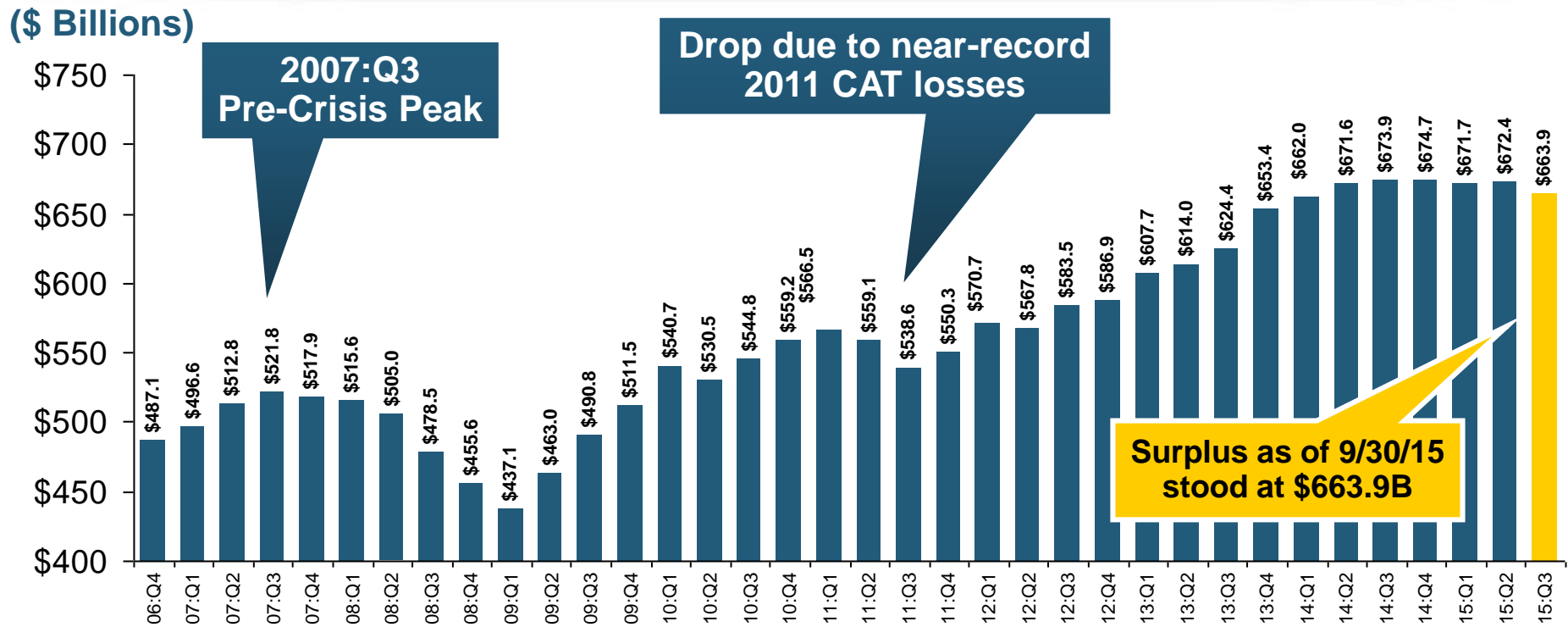
The most profitable states over the past decade are widely distributed geographically

RNW All Lines by State, 2005-2014 Average: (cont'd)

Return on Net Worth (%)



Policyholder Surplus, 2006:Q4–2015:Q3



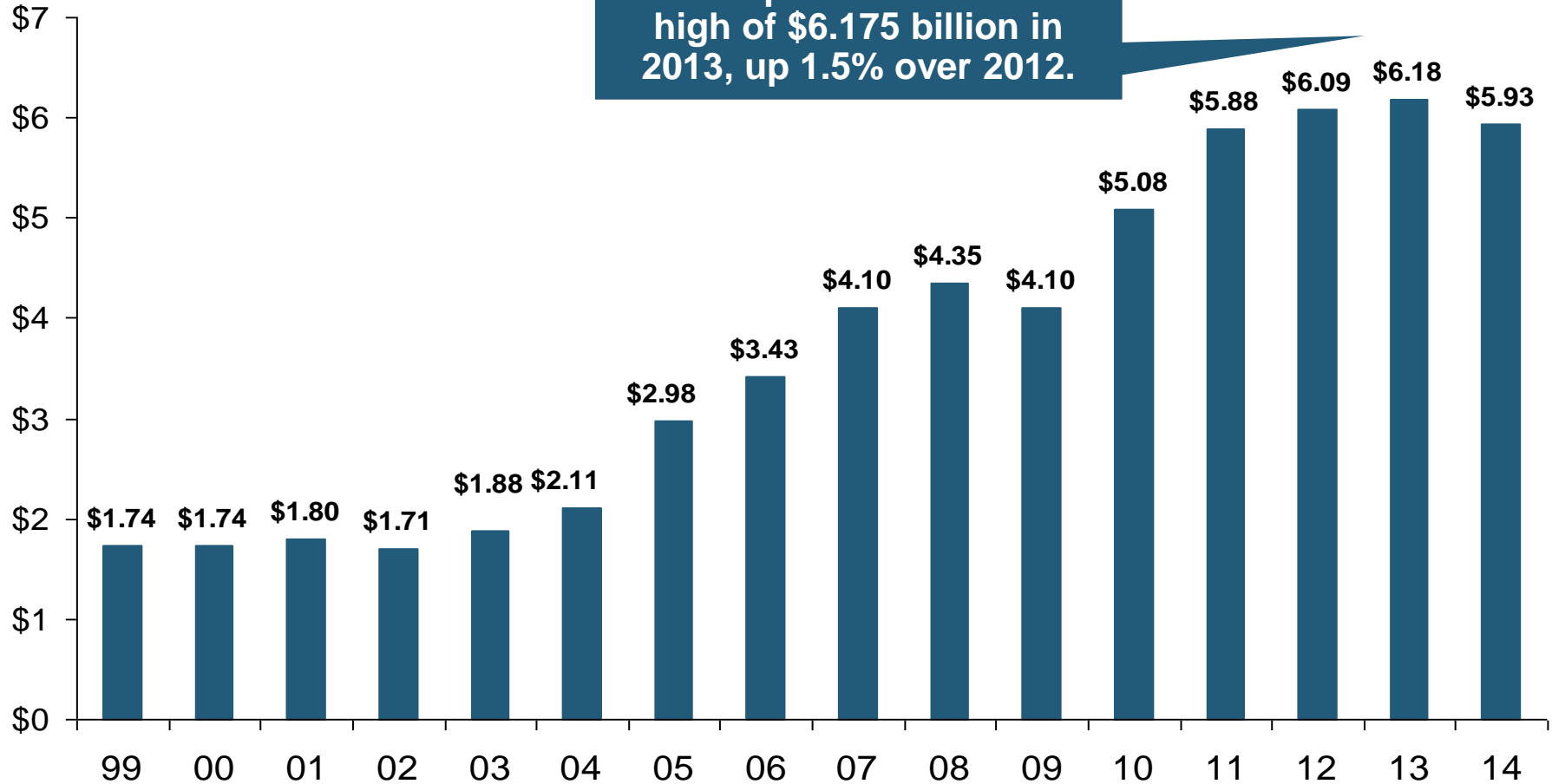
The industry now has \$1 of surplus for every \$0.75 of NPW, close to the strongest claims-paying status in its history.

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 entered 2016 in very strong financial condition.

Advertising Expenditures by P/C Insurance Industry, 1999-2014

\$ Billions



P/C ad spend hit an all time high of \$6.175 billion in 2013, up 1.5% over 2012.

P/C ad spending has tripled since 2004 (the end of the last “hard market”).
The pace of growth has slowed from 15.8% in 2011 and 23.8% in 2010

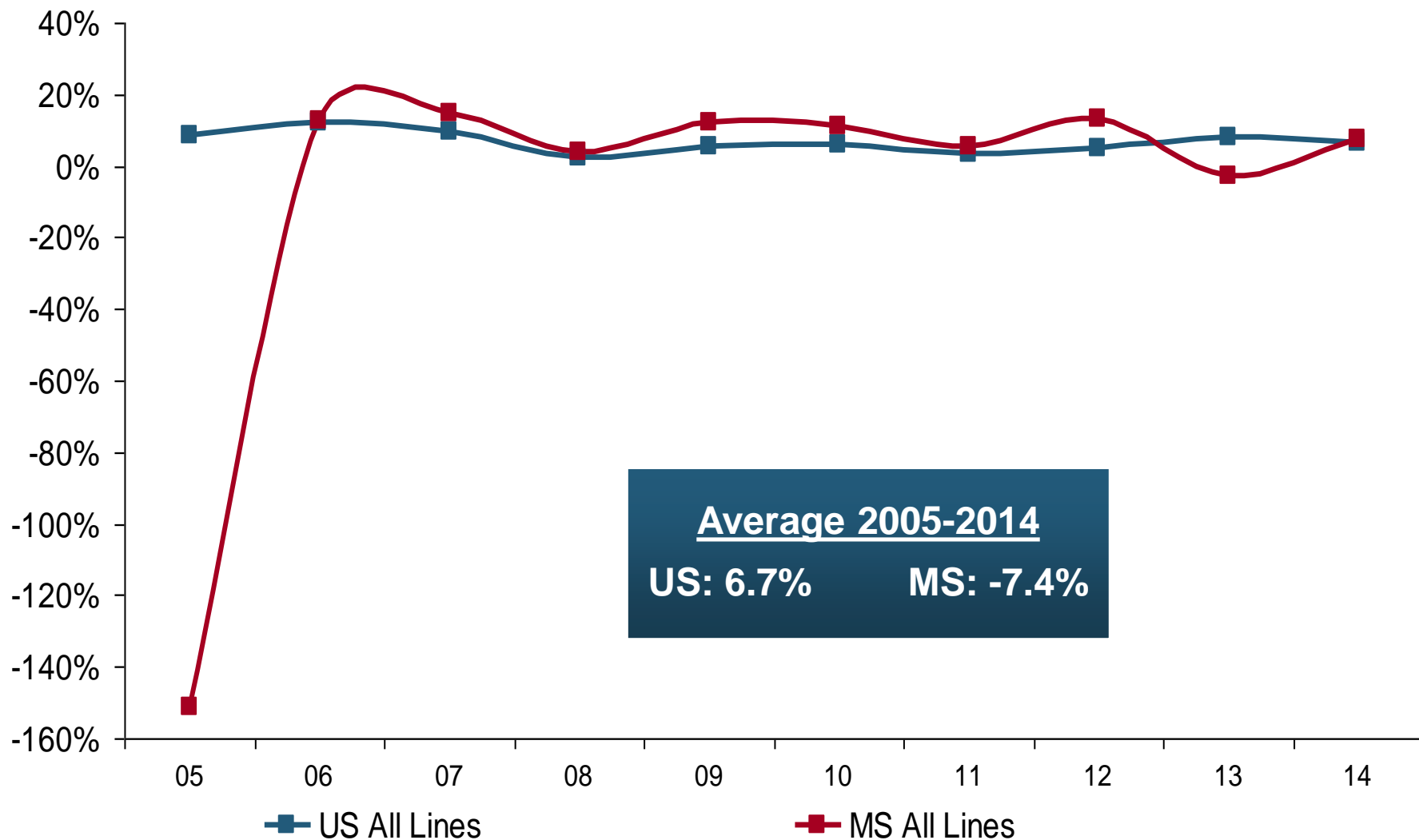


Historical Analysis of Mississippi P/C Insurance Markets

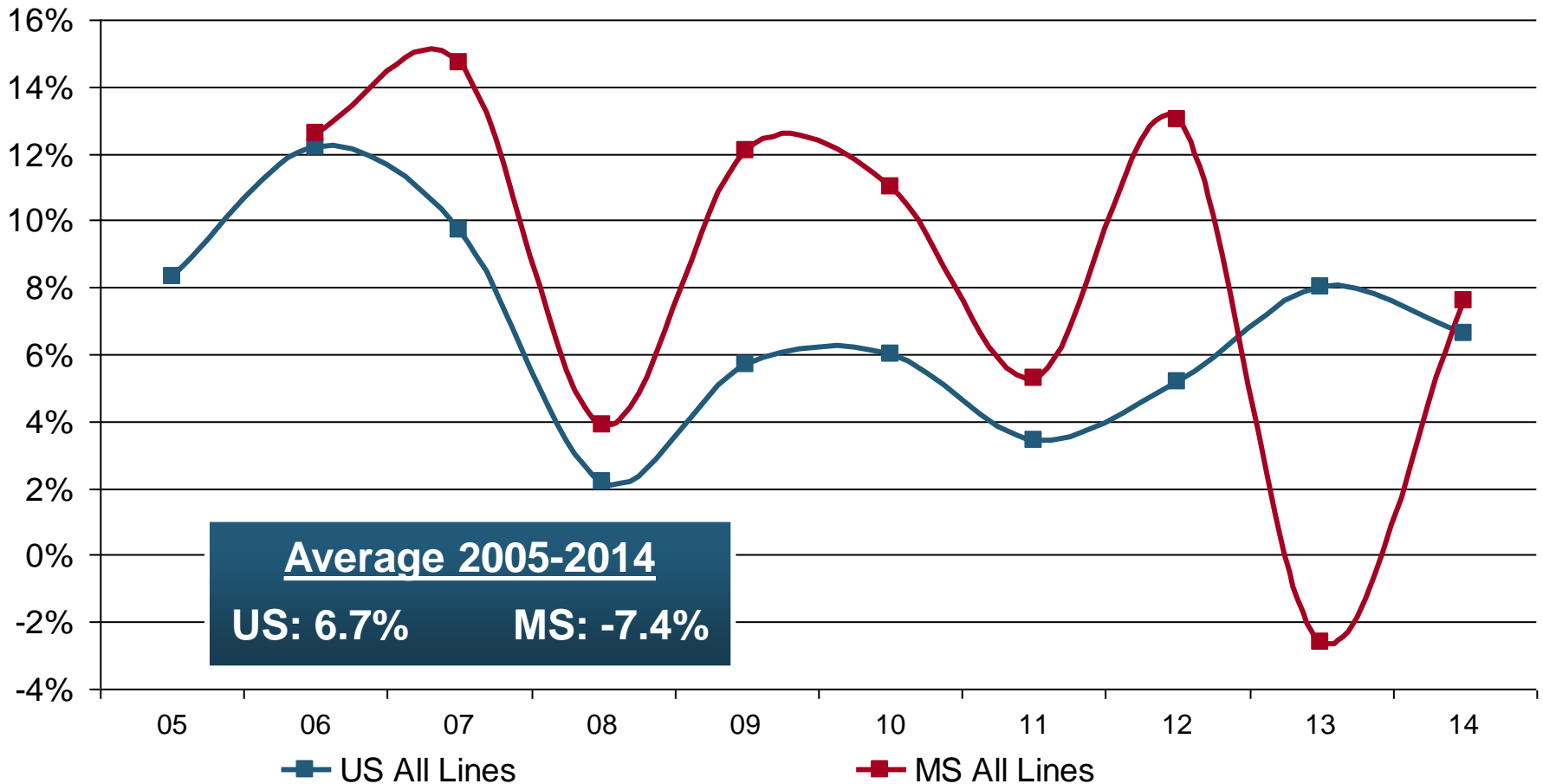
**Analysis by Line
and Nearby State Comparisons**

Profitability: Return on Net Worth

RNW All Lines: MS vs. U.S., 2005-2014

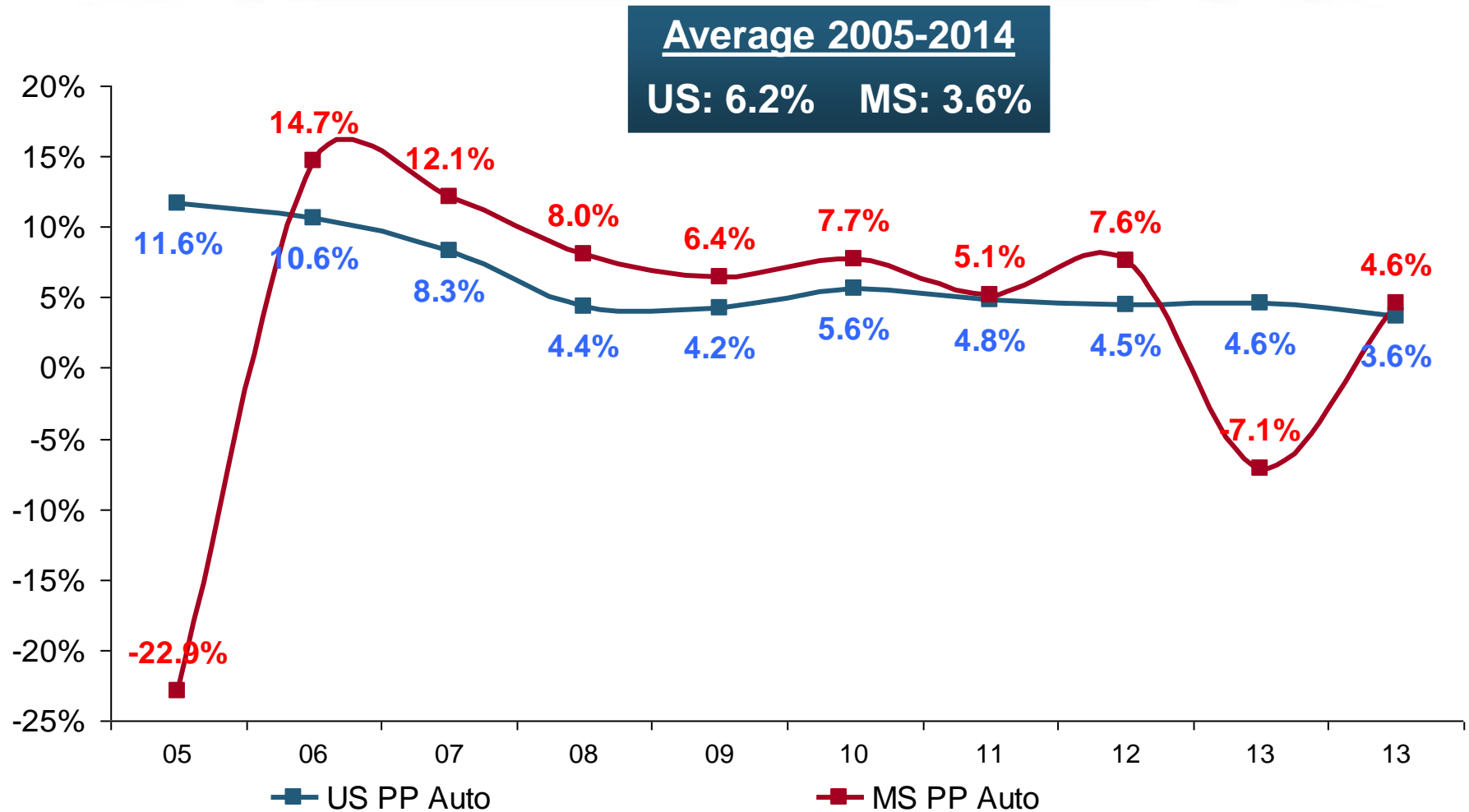


RNW All Lines: MS vs. U.S., 2005-2014



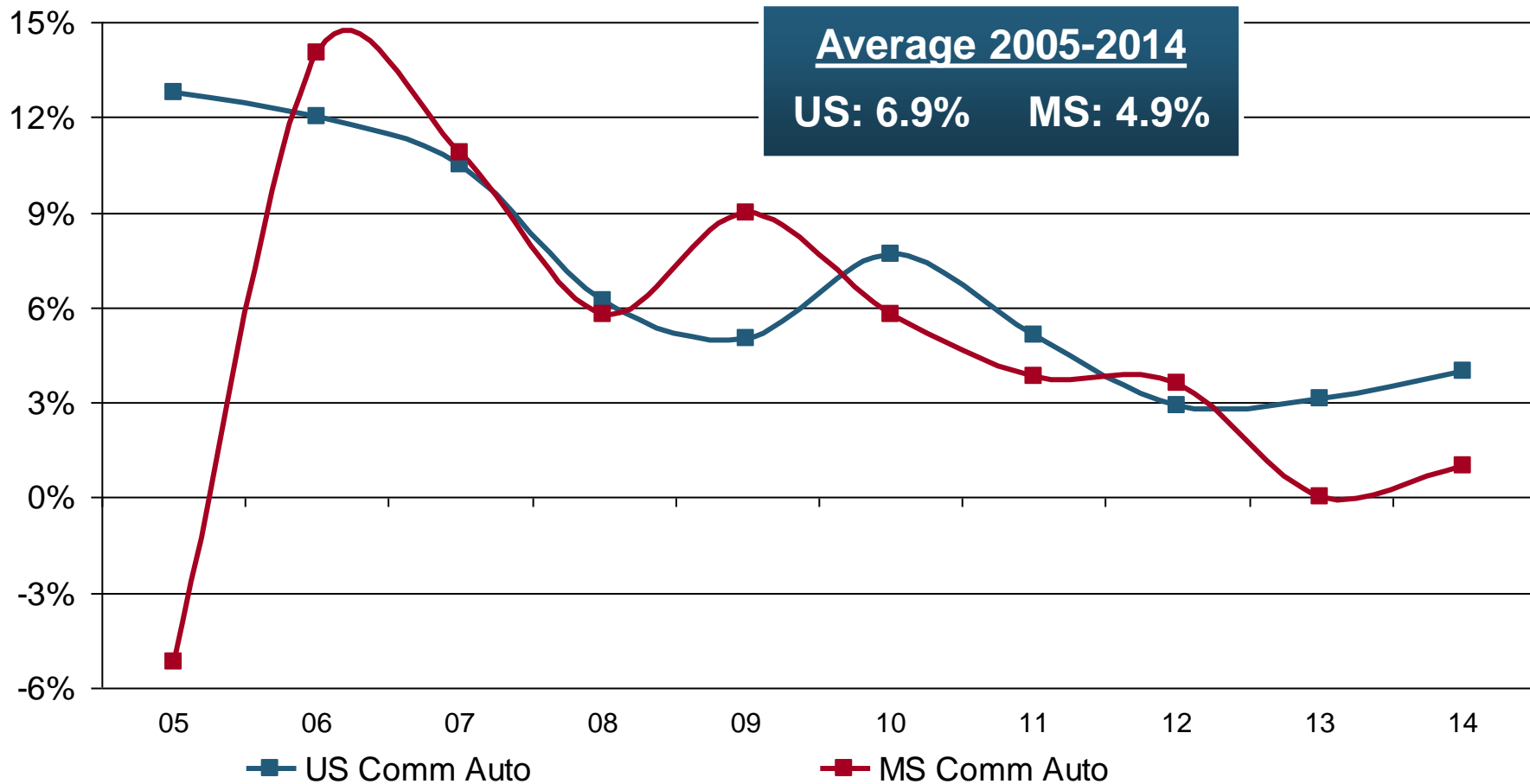
**Mississippi's all-lines RNW topped the US overall
in most years of the last decade**

RNW PP Auto: MS vs. U.S., 2005-2013

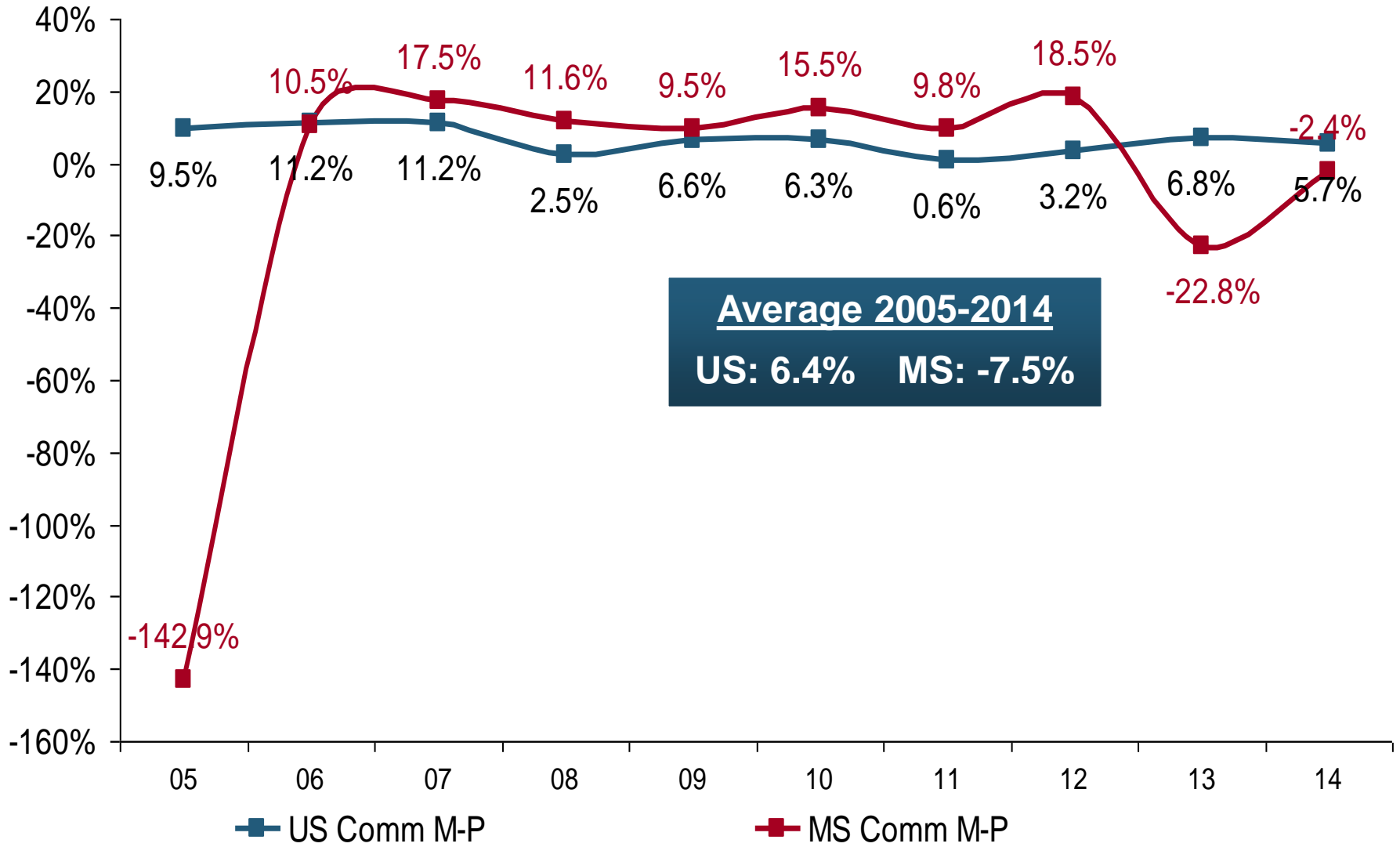


Mississippi's PP Auto RNW topped the US overall in most years of the last decade

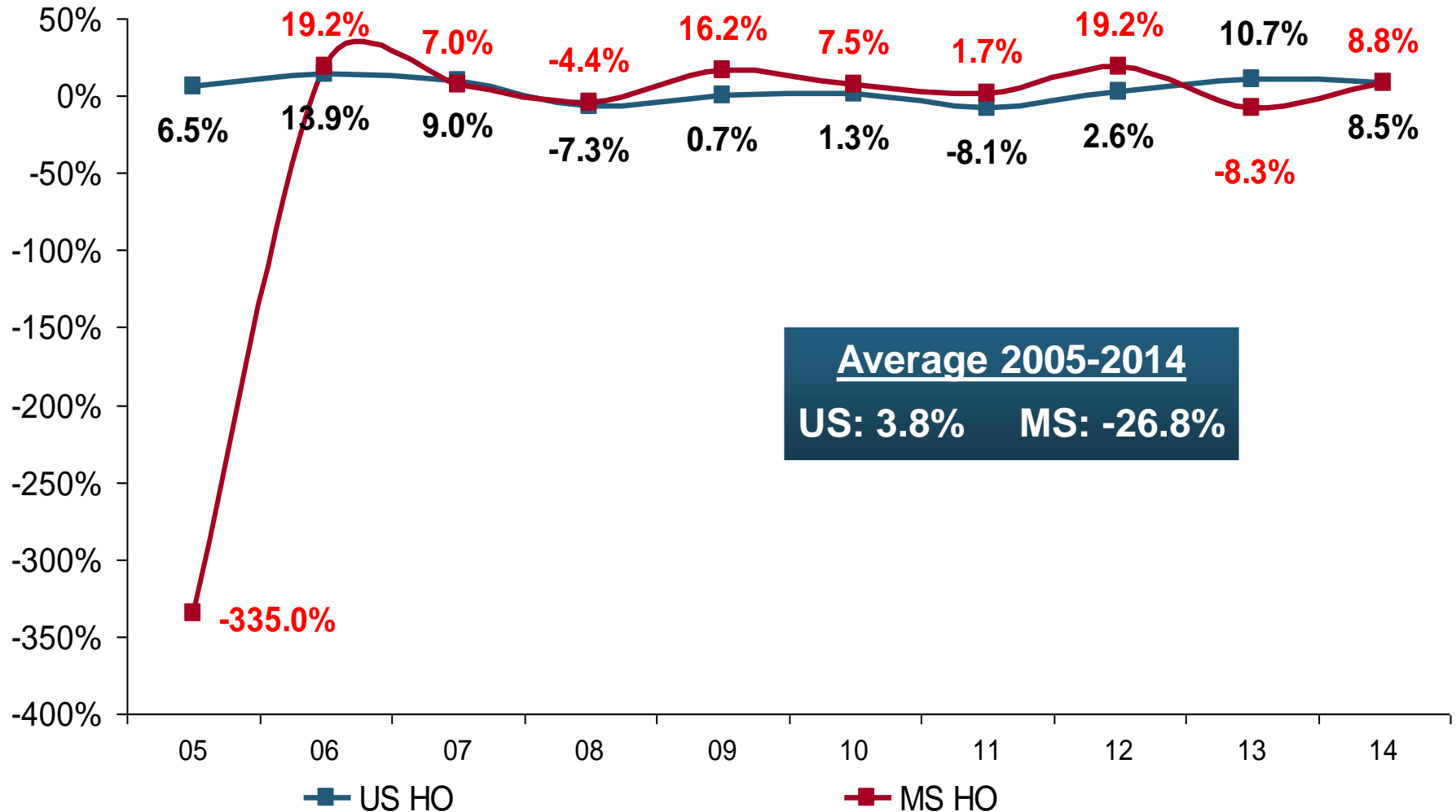
RNW Commercial Auto: MS vs. U.S., 2005-2014



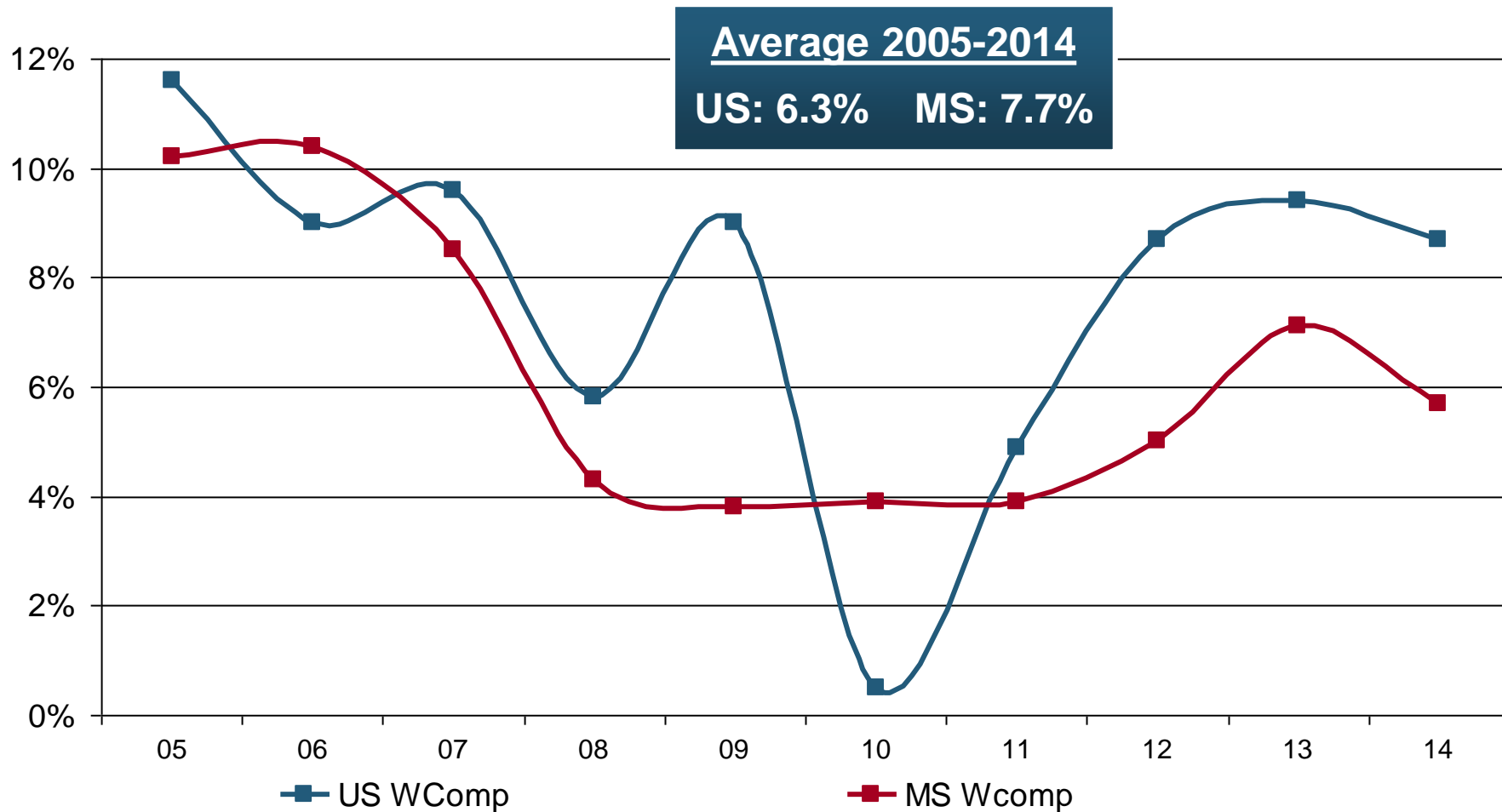
RNW Commercial Multi-Peril: MS vs. U.S., 2005-2014



RNW Homeowners: MS vs. U.S., 2005-2014



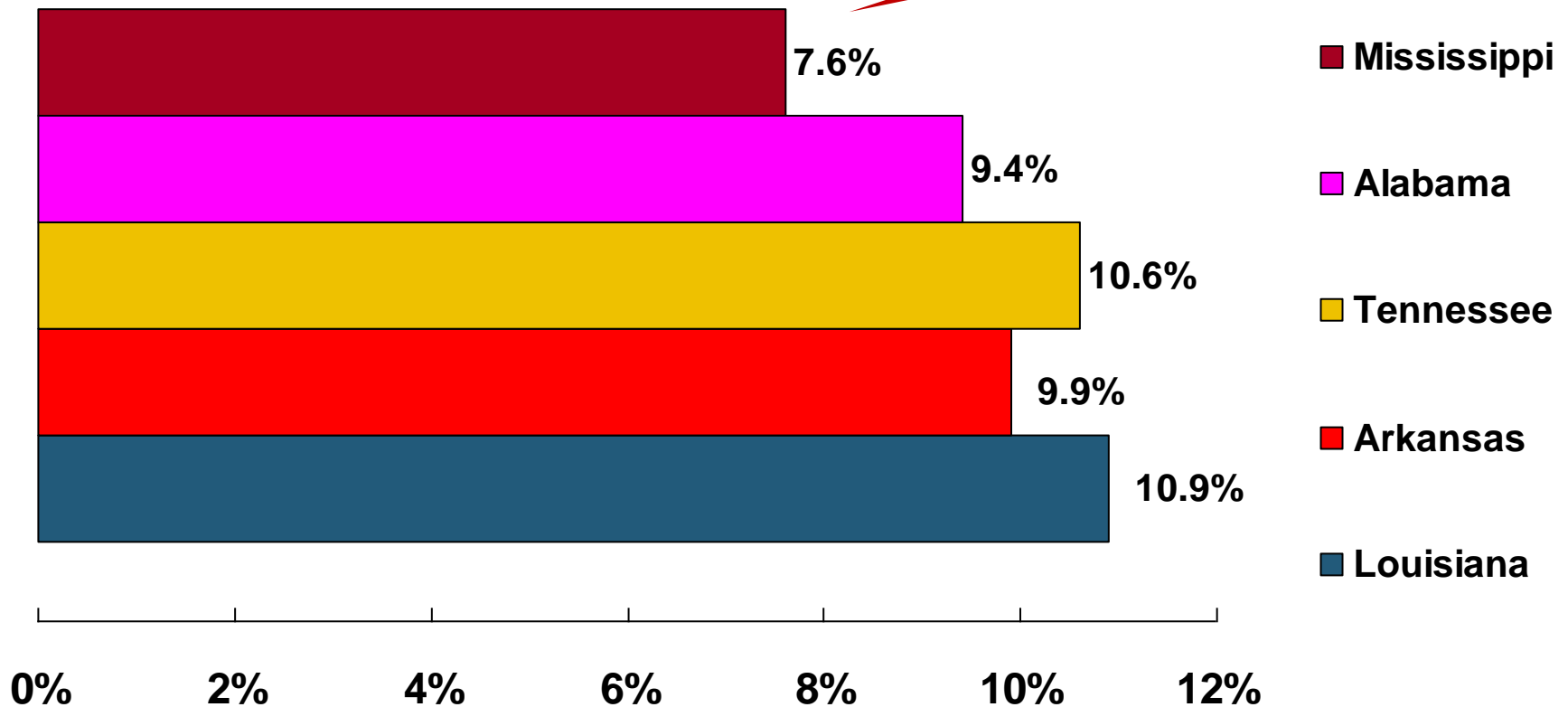
RNW Workers Compensation: MS vs. U.S., 2005-2014



All Lines: 10-Year Average RNW MS & Nearby States

2004-2013

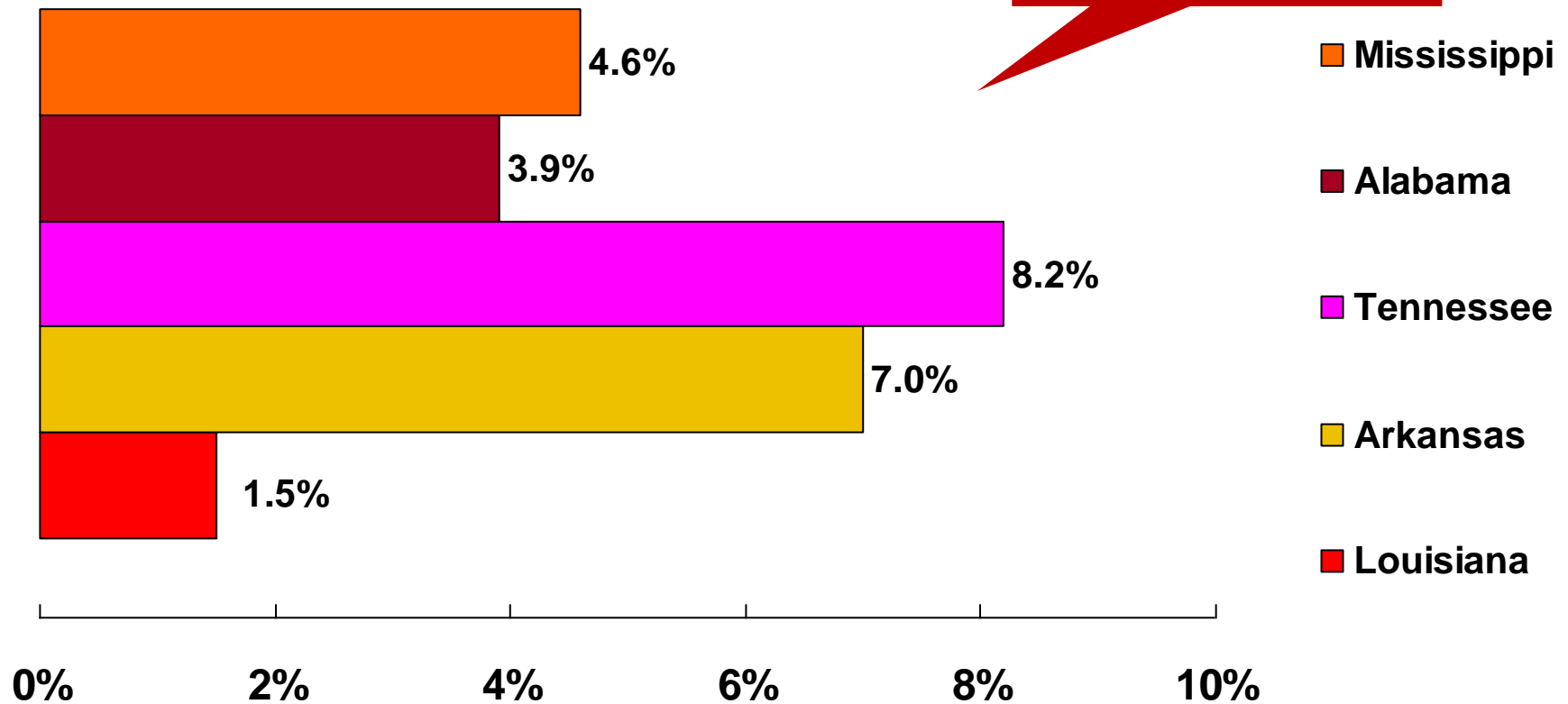
Mississippi All-Lines
profitability for this decade
is below its neighbors



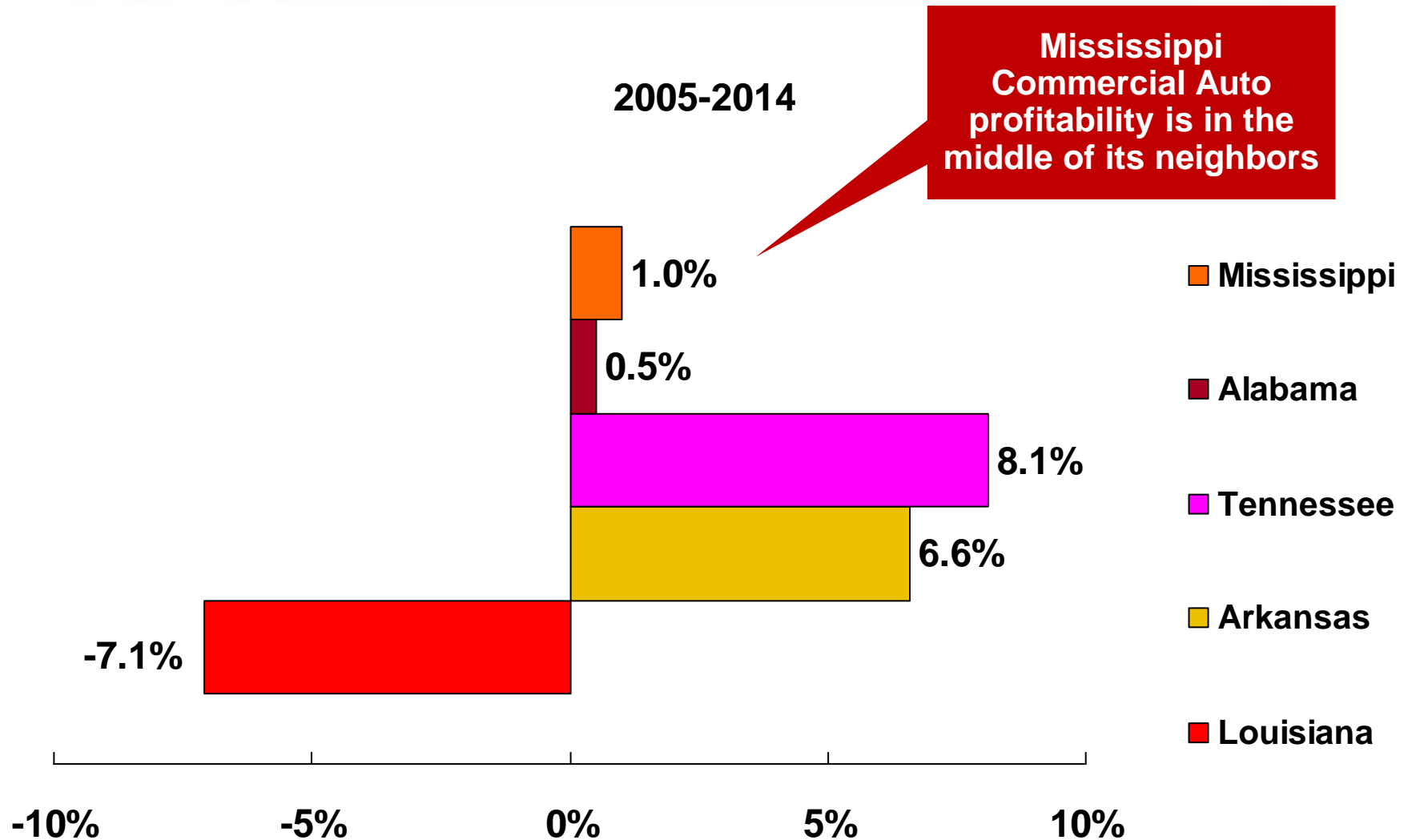
PP Auto: 10-Year Average RNW MS & Nearby States

2005-2014

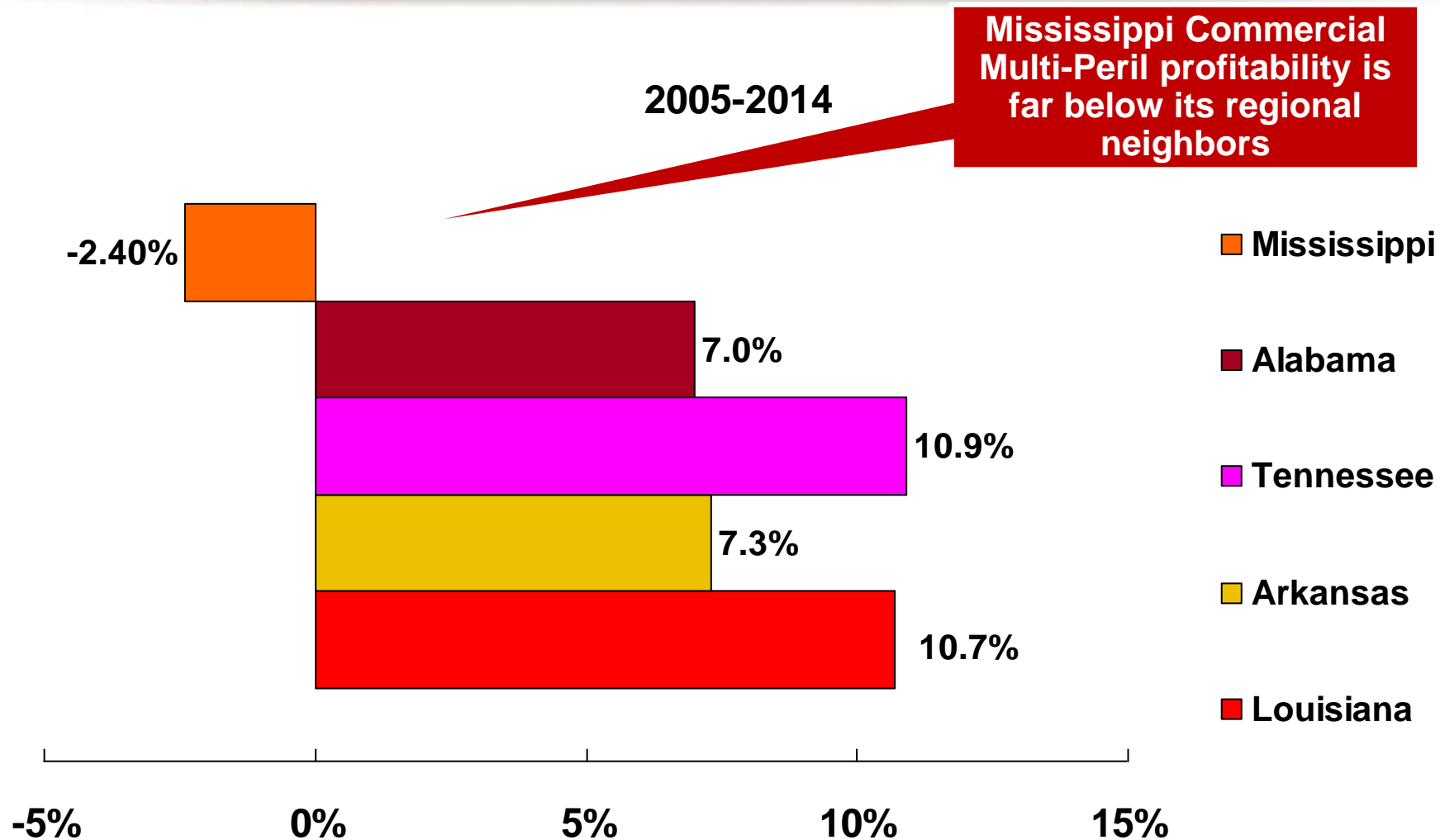
Mississippi PP Auto
profitability is in the
middle of its
neighbors



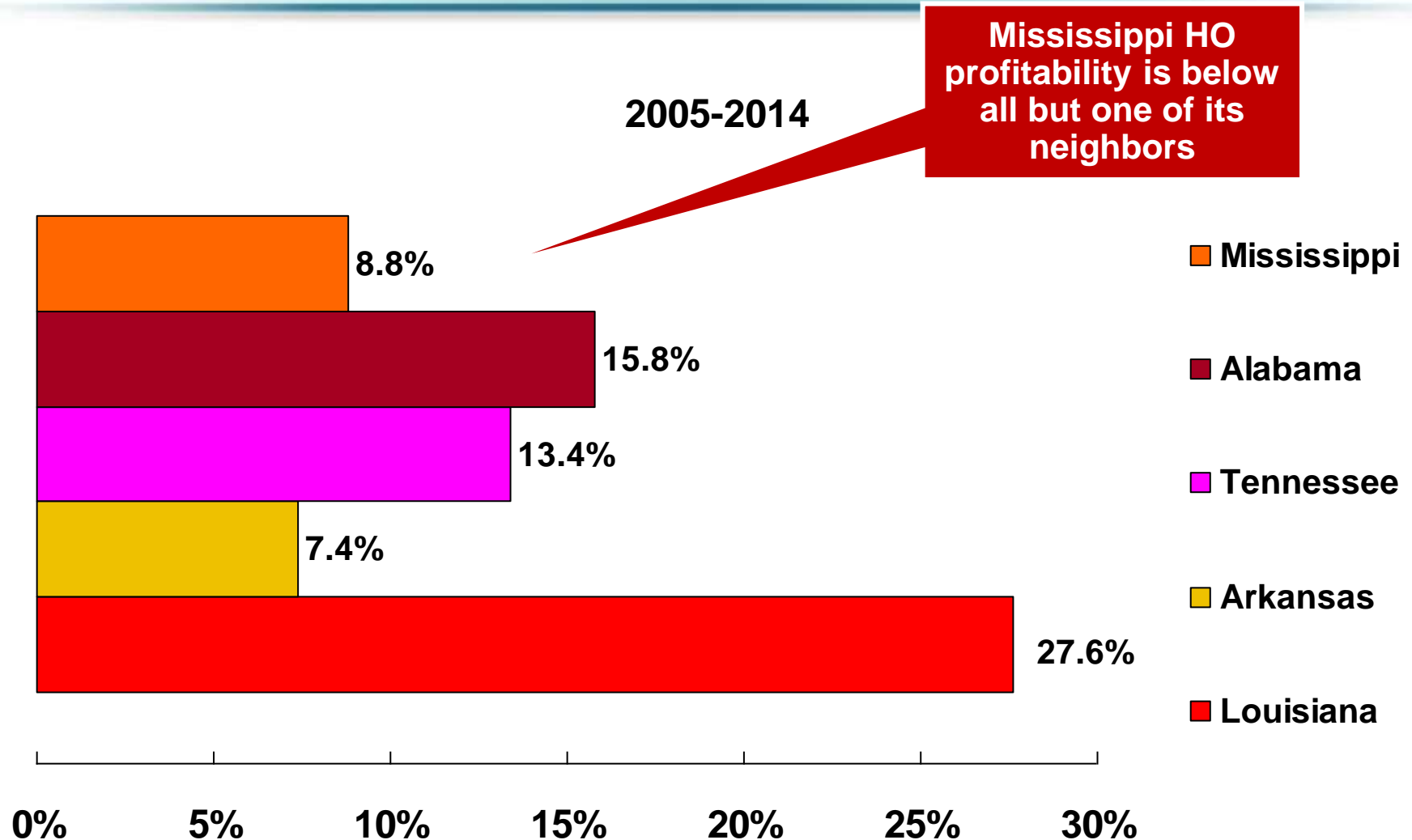
Commercial Auto: 10-Year Average RNW, MS & Nearby States



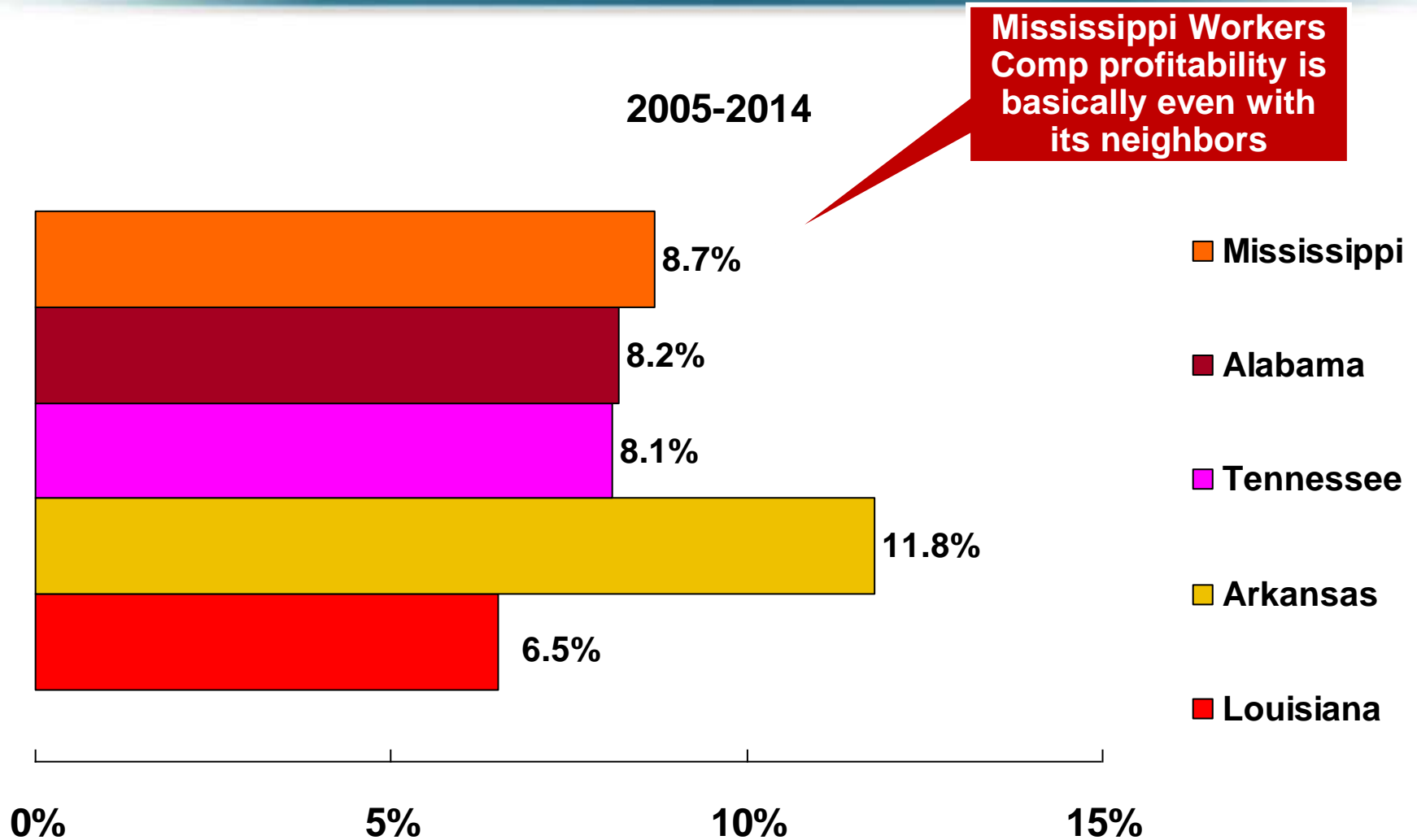
Commercial Multiple-Peril: 10-Year Average RNW, MS & Neighbors



Homeowners: 10-Year Average RNW MS & Nearby States



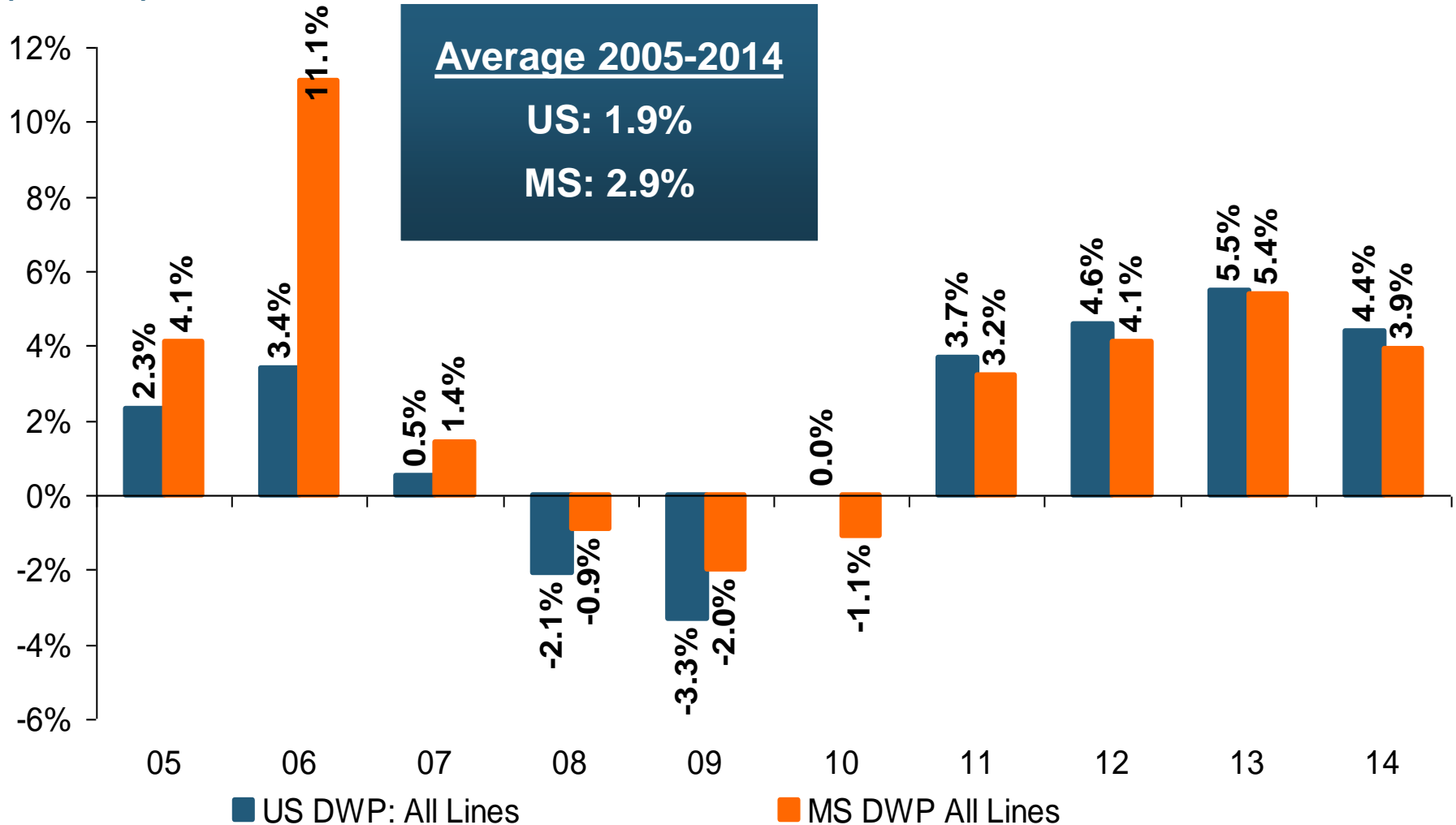
Workers Comp: 10-Year Average RNW MS & Nearby States



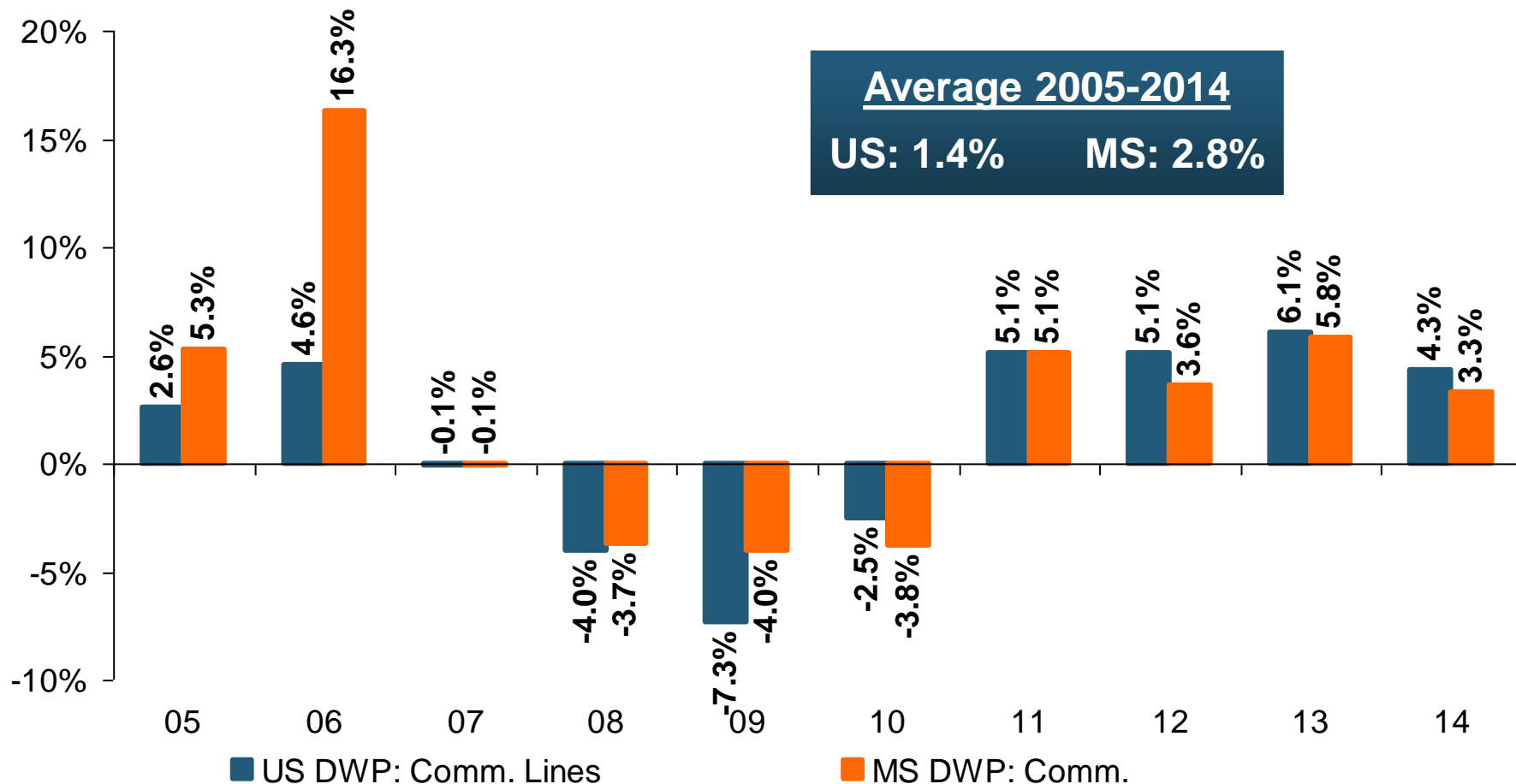
Premium Growth

All Lines DWP Growth: MS vs. U.S., 2005-2014

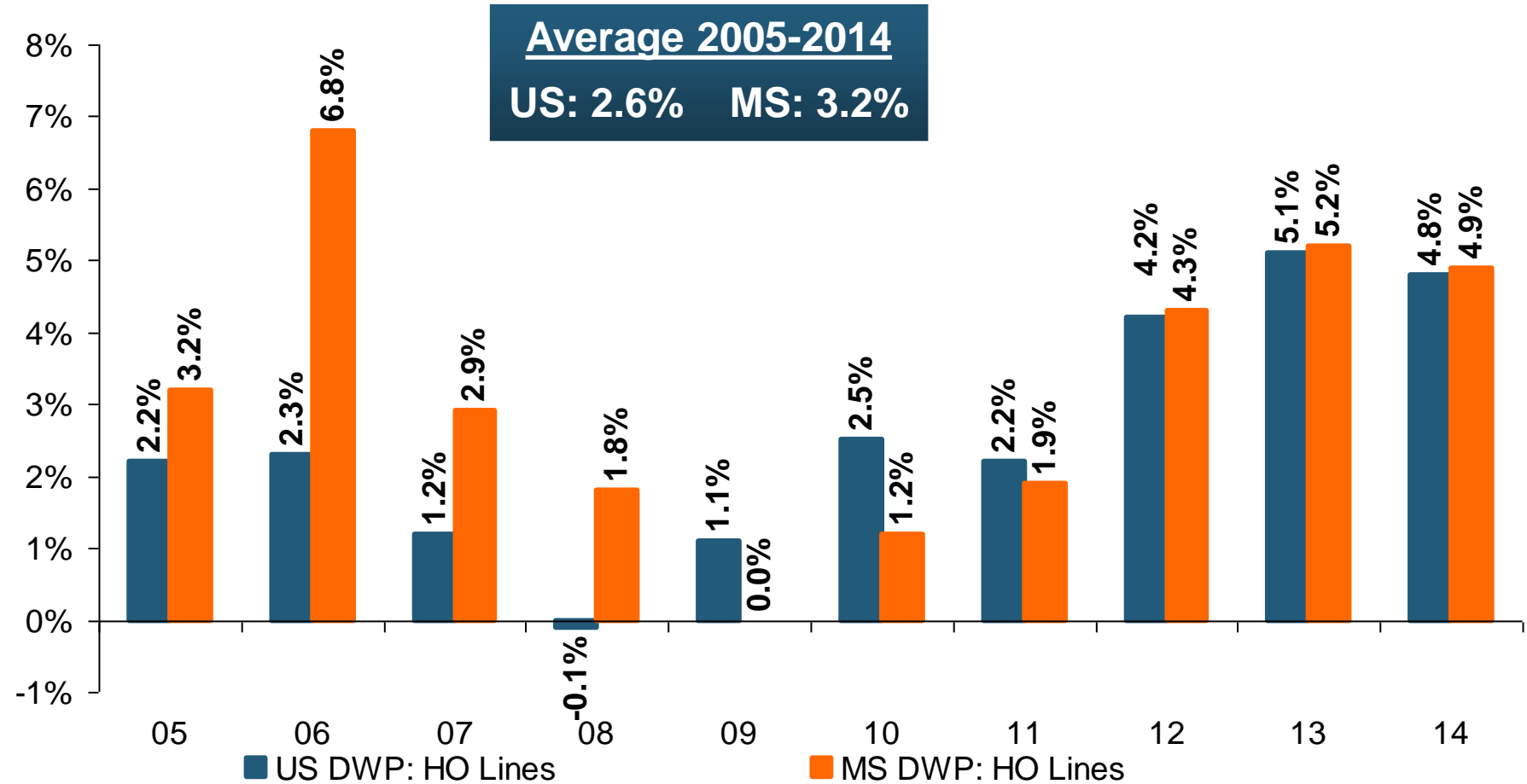
(Percent)



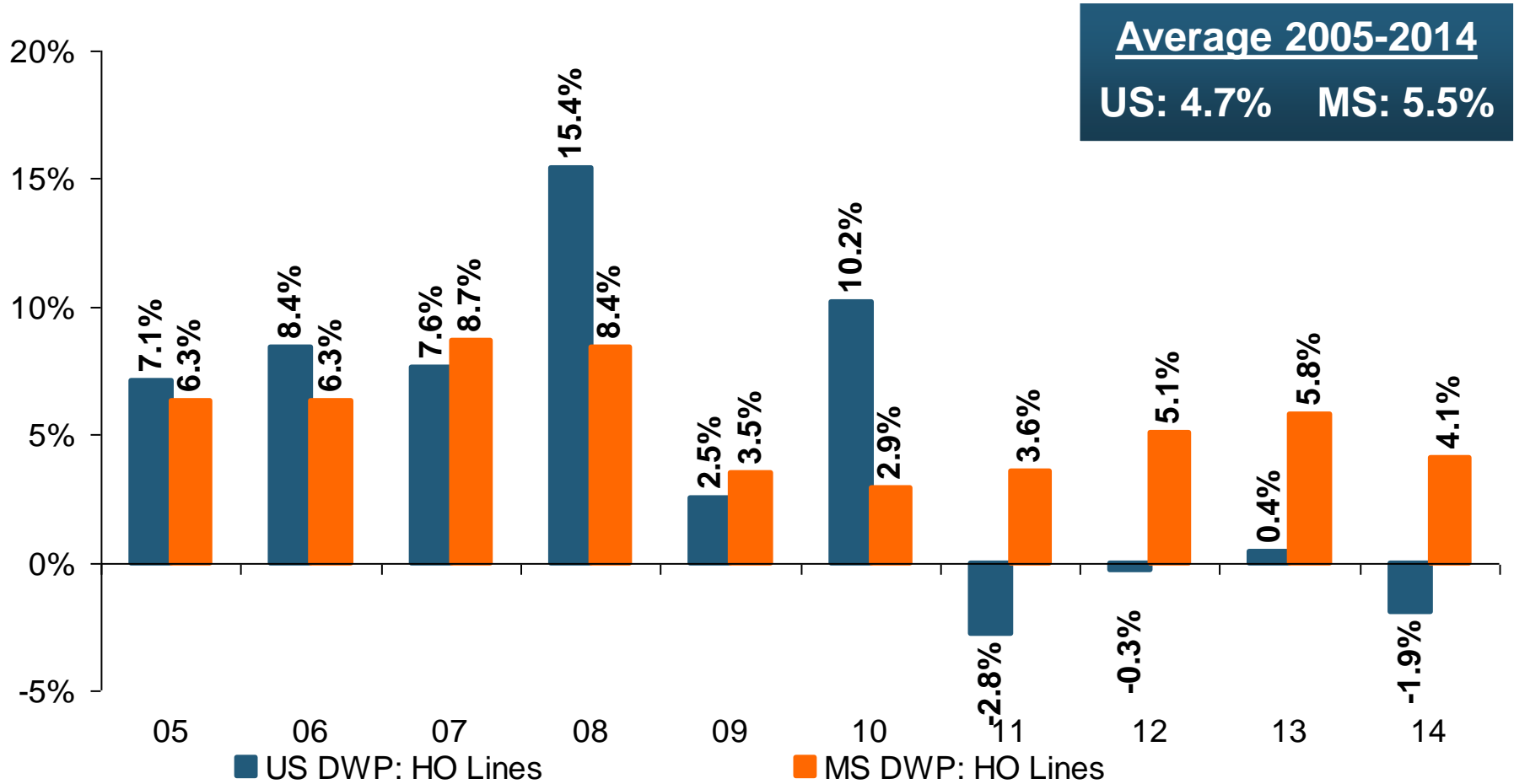
Commercial Lines DWP Growth: MS vs. U.S., 2005-2014



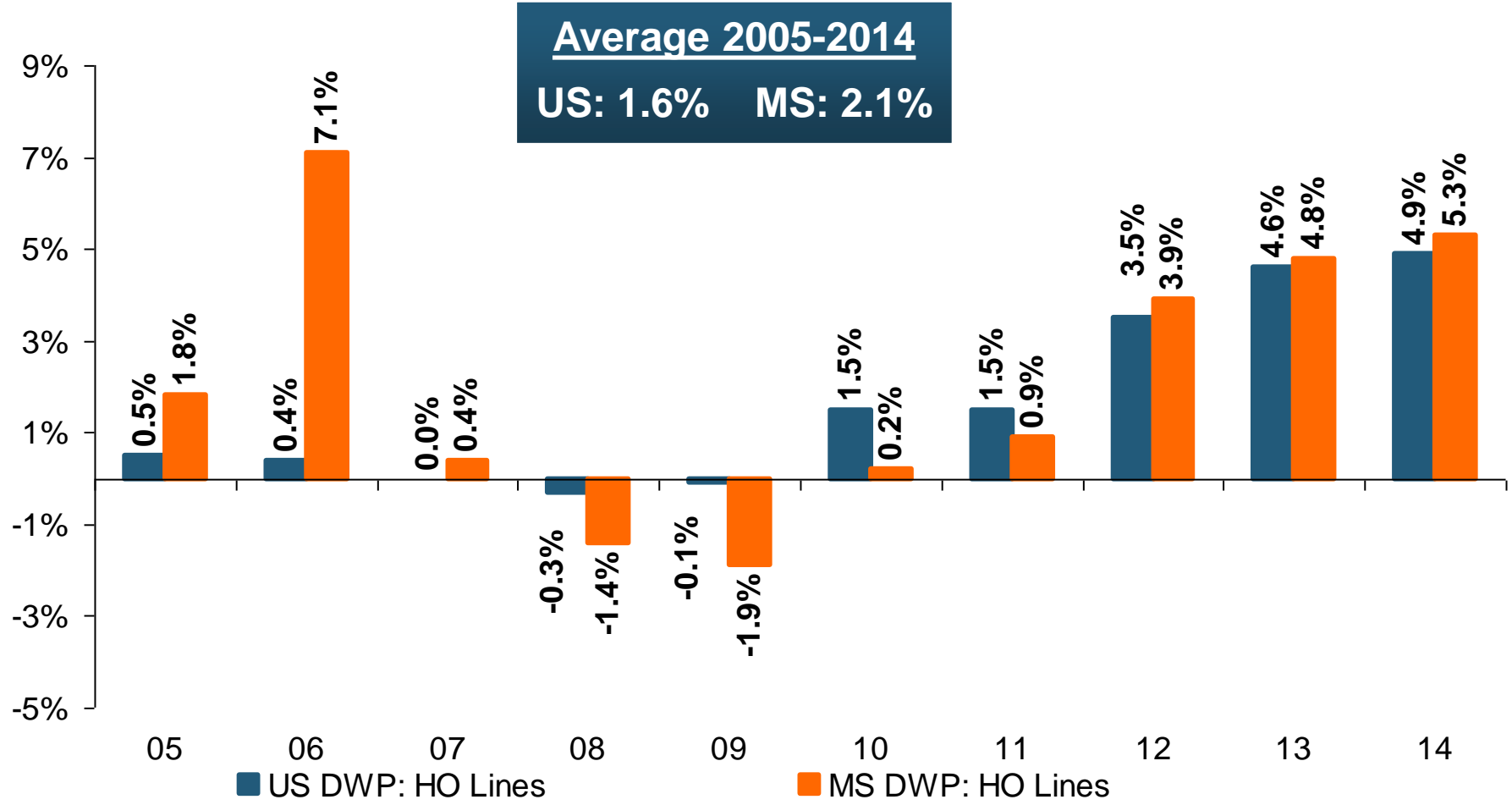
Personal Lines DWP Growth: MS vs. U.S., 2005-2014



Homeowner's MP DWP Growth: MS vs. U.S., 2005-2014



Private Passenger Auto Growth: MS vs. U.S., 2005-2014



Source: SNL Financial.

Competition

Brief Background on the HH Index

- It is the sum of the square of the market shares of sellers
- It is commonly used by the Justice Department to help determine whether a merger will harm the competitive environment

Examples for the HH Index

- First, assume a market with 5 sellers, each of which has a 20% market share
 - Each seller would have a score of 400, and the HH Index would be 2000

- Next, assume a market with 10 sellers, each of which has a 10% market share
 - Each seller would have a score of 100, and the HH Index would be 1000

- Now assume a market with 20 sellers, each of which has a 5% market share
 - Each seller would have a score of 25, and the HH Index would be 500

LOB Competition in MS in 2014, as Indicated by the HH Index

Line of Business	Number of Companies	HH Index
PP Auto	57	1162.5
HO	48	1317.8
Workers Comp	99	510.3
Commercial	290	247.8

HH Index for PP Auto in Mississippi, 2014

Rank of Insurers writing PP Auto in MS	Market Share	HH Index
Top 5	63.5%	1053.9
6-10	20.8%	91.9
11-15	7.6%	12.1
42 others	8.1%	4.7
Total (57)	100.0%	1162.5



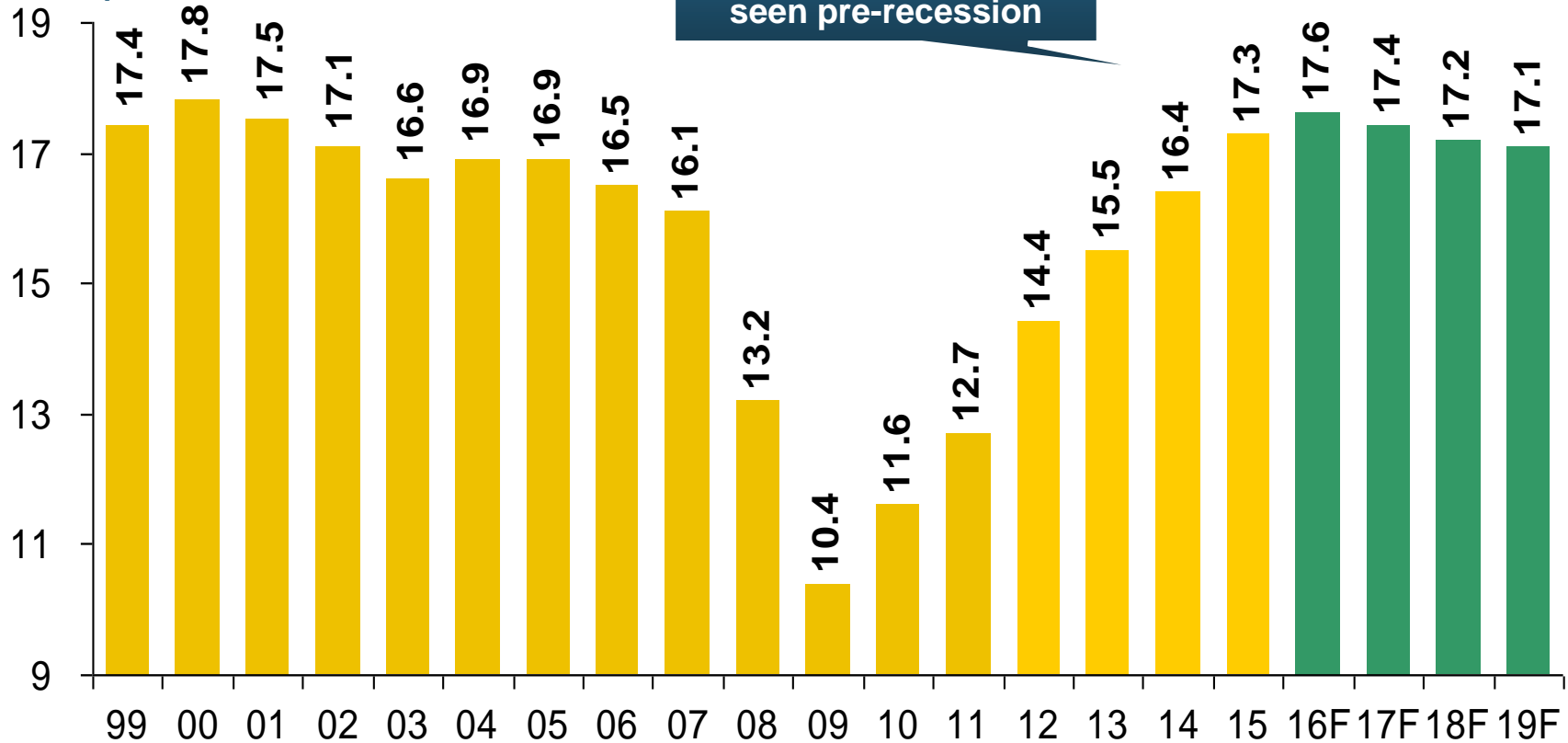
Personal Lines Exposure Growth Analysis

Growth of PP Auto Exposures

Auto/Light Truck Sales Will Likely Continue at Recent Levels

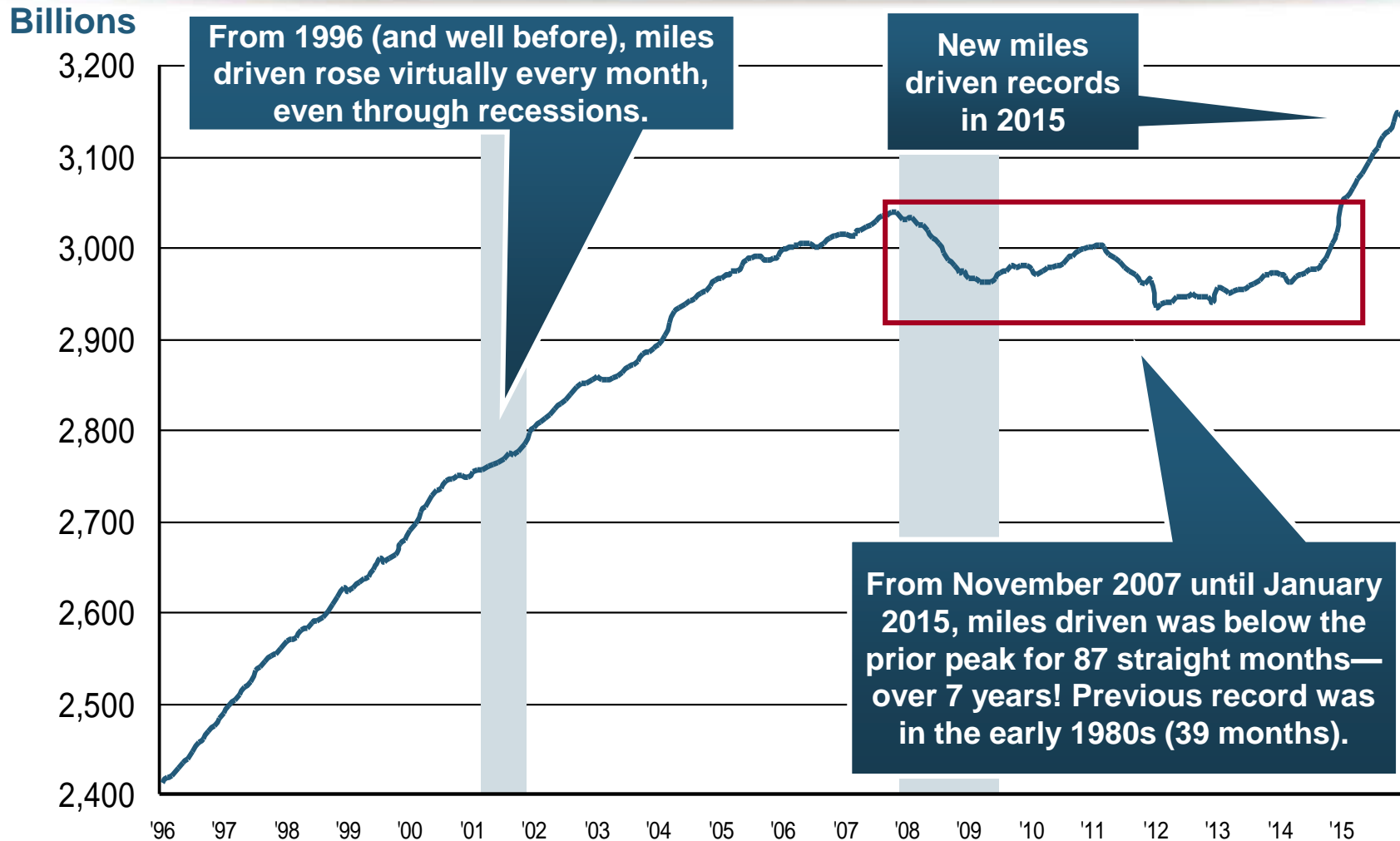
(Millions
of Units)

We're back to new
vehicle sales levels last
seen pre-recession



Yearly car/light truck sales will likely continue at current levels, in part replacing cars that were held onto in 2008-12. But rising interest rates could eventually restrain demand for new vehicles.

America is Driving More Again: Total Miles Driven*, 1996–2016



*Moving 12-month total. The data are through January 2016, the latest available.
Note: Recessions indicated by gray shaded columns.

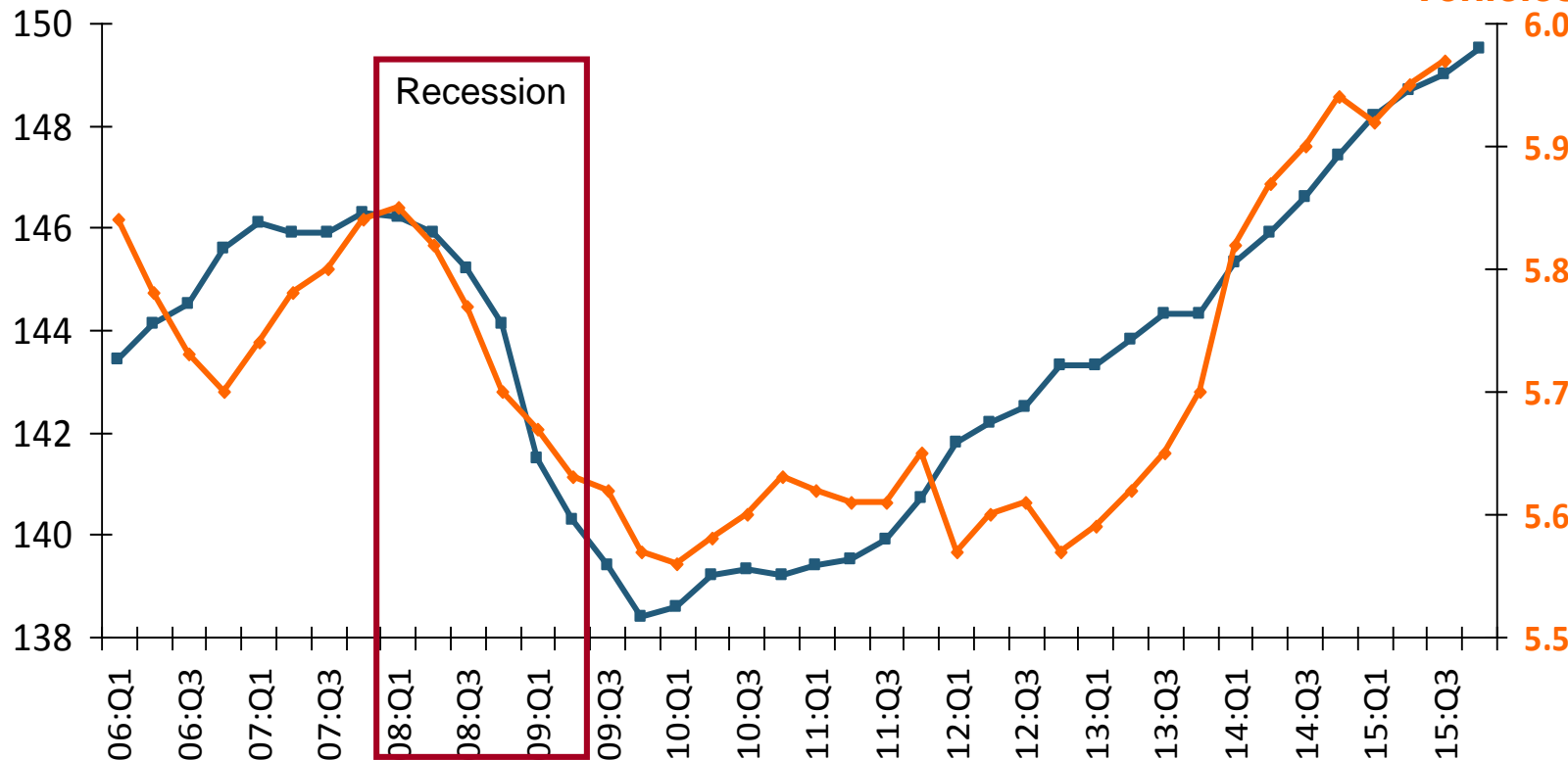
Sources: Federal Highway Administration (http://www.fhwa.dot.gov/policyinformation/travel_monitoring/tvt.cfm);
National Bureau of Economic Research (recession dates); Insurance Information Institute.

More People Working and Driving => More Collisions, 2006–2015

Number Employed, Millions

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

Overall Collision Claims Per 100 Insured Vehicles



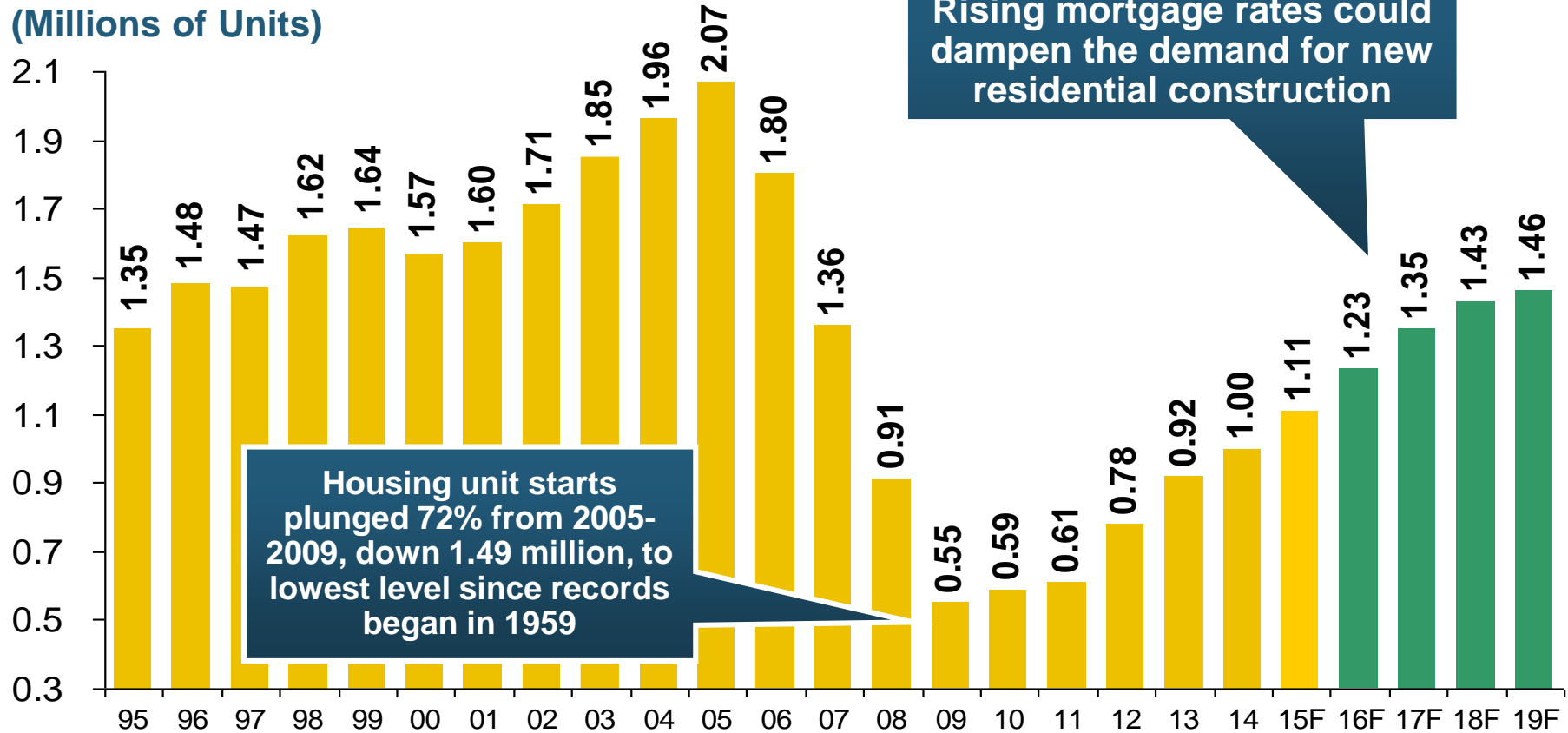
When people are out of work, they drive less. When they get jobs, they drive to work, helping drive claim frequency higher.

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

Growth of Homeowners/Renters Exposures

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

(Millions of Units)

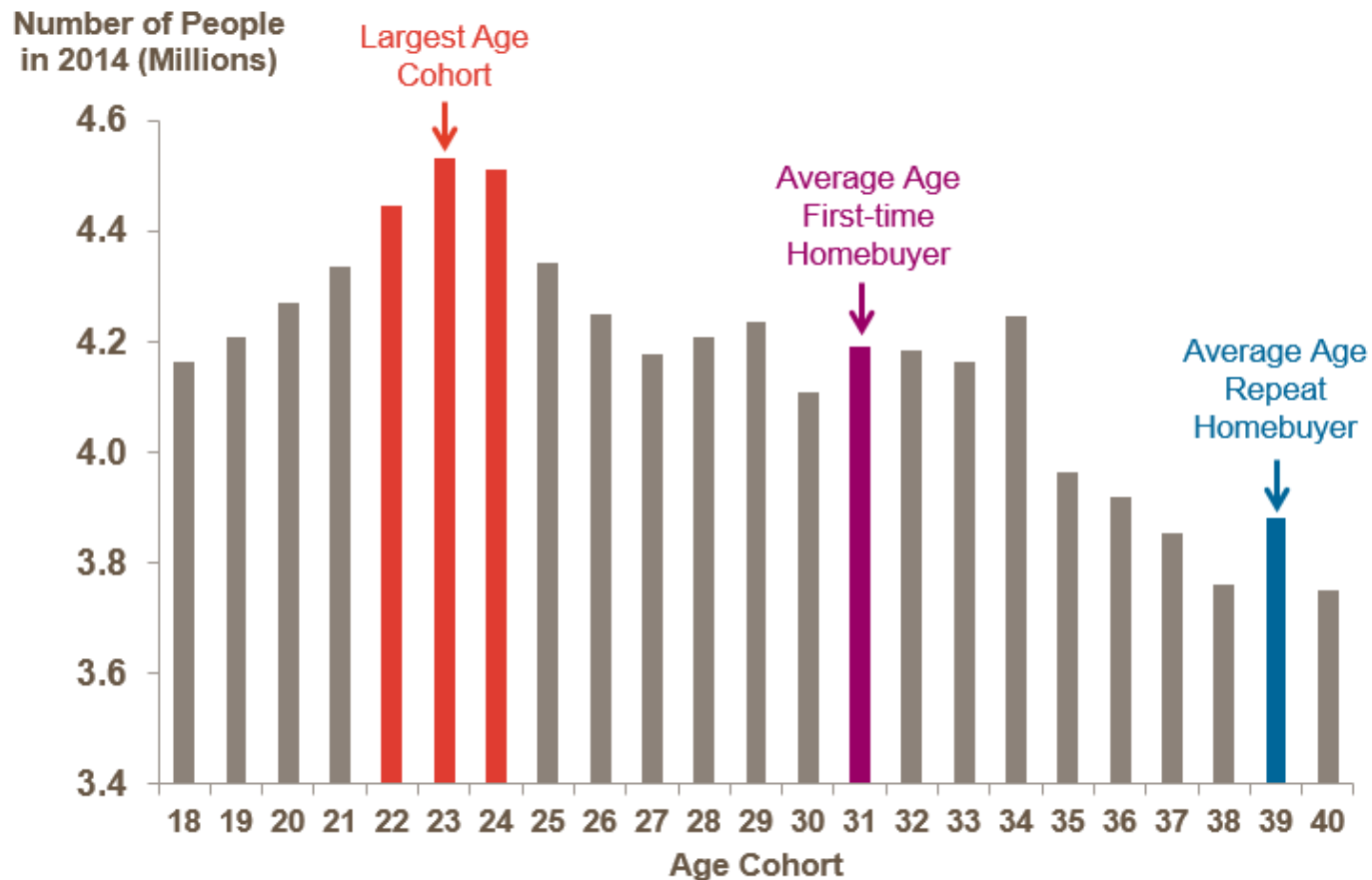


Housing starts are climbing slowly. Recently, the fastest growth is in multi-unit residences. Personal lines exposure will grow, and commercial insurers with Workers Comp, Construction risk exposure and Surety also benefit.

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



Exhibit 1: Large Demographic Tailwind Has Arrived



Source: U.S. Census Bureau, Population as of July 1, 2014

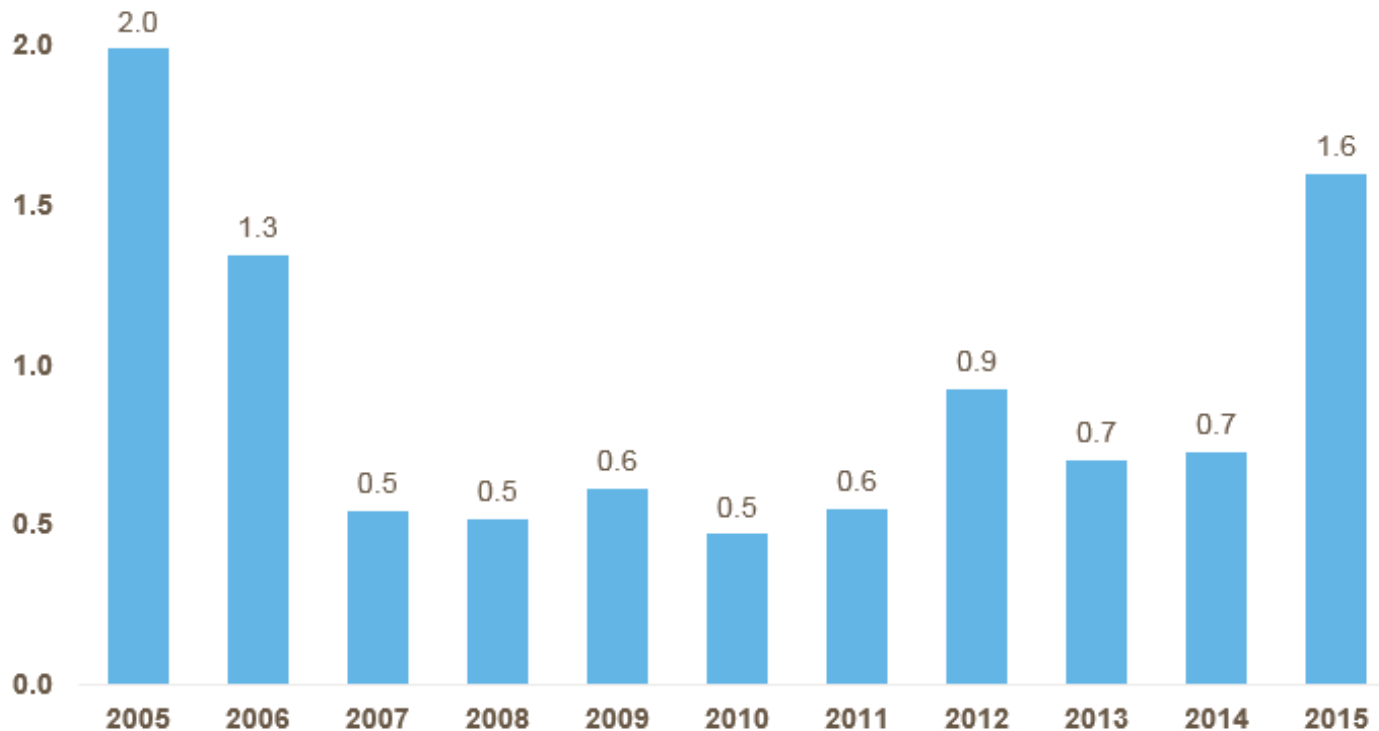
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Growth in Number of Households => Increased Demand for Housing



Exhibit 2: Household Formation Accelerated in 2015

Annual Household Growth (Net Change, in Millions)



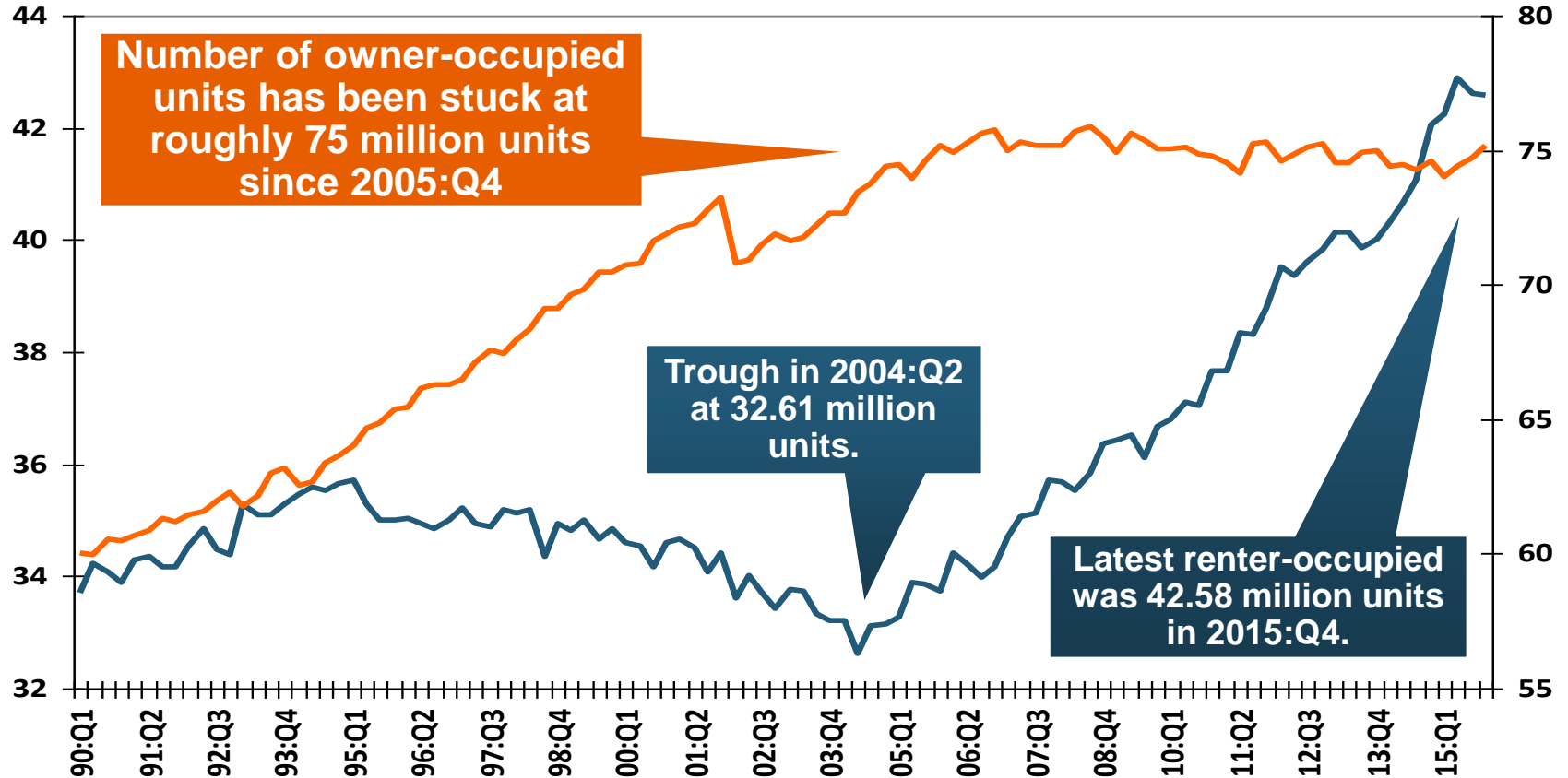
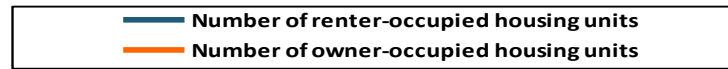
Source: U.S. Census Bureau, Housing Vacancy Survey, net change in number of households, January-to-September compared with same period in prior year.

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Number of Owner-Occupied & Renter-Occupied Housing Units, US, Quarterly, 1990:Q1-2015:Q4

Millions of Renter-Occupied Housing Units

Millions of Owner-Occupied Housing Units

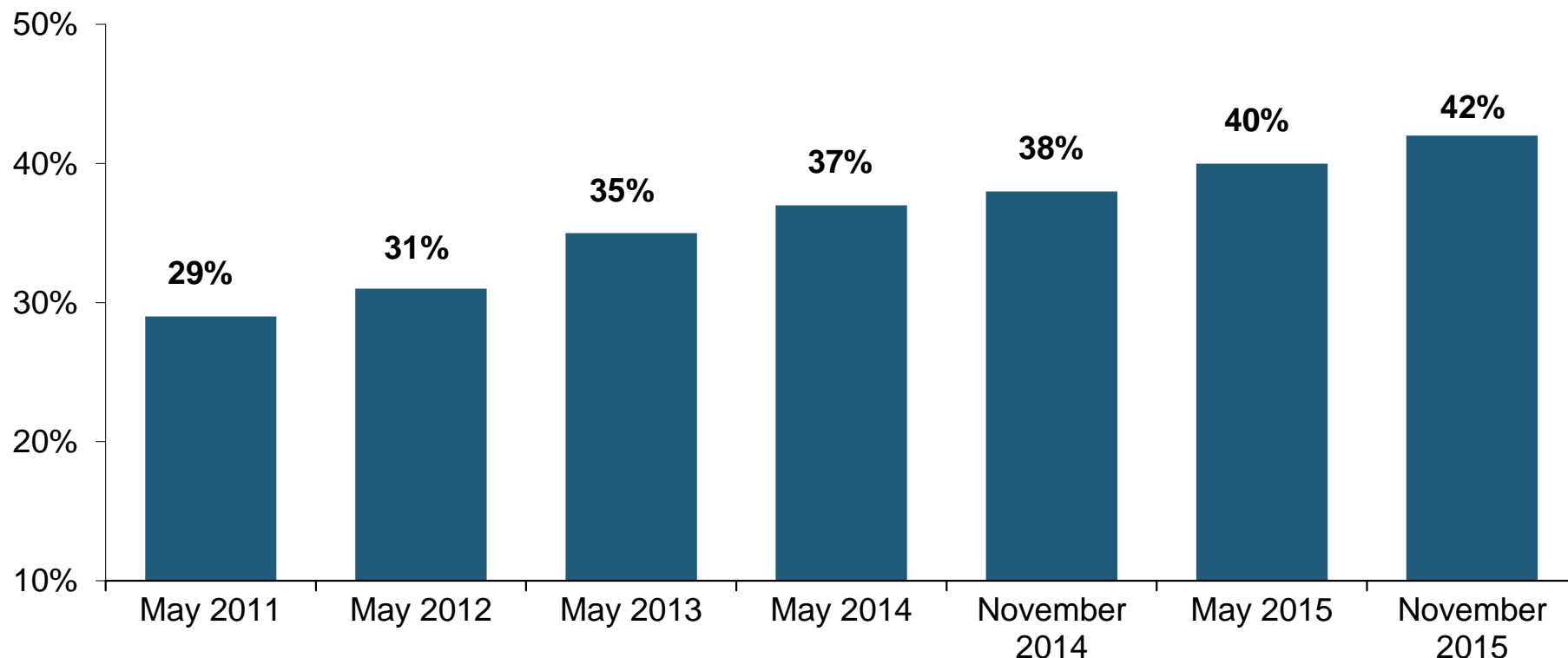


Since 2004 the number of renter-occupied housing units has grown by over 10 million units (+31.5%), but there has been no growth in the number of owner-occupied housing units in nearly 10 years. When will this end?

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

I.I.I. Poll: Renters Insurance

Percentage of Renters Who Have Renters Insurance, 2011-2015



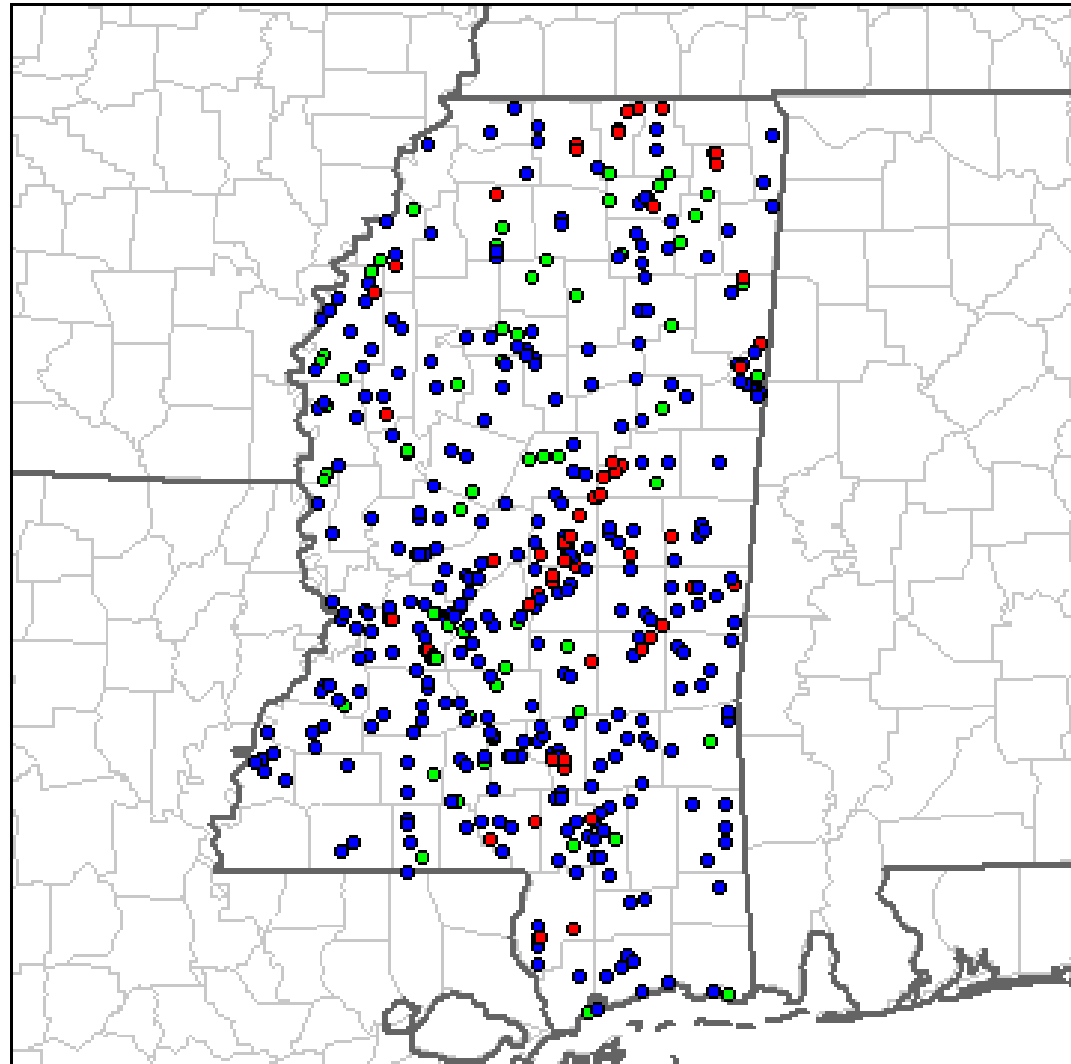
Percentage Of Renters With Renters Insurance Continues to Increase.



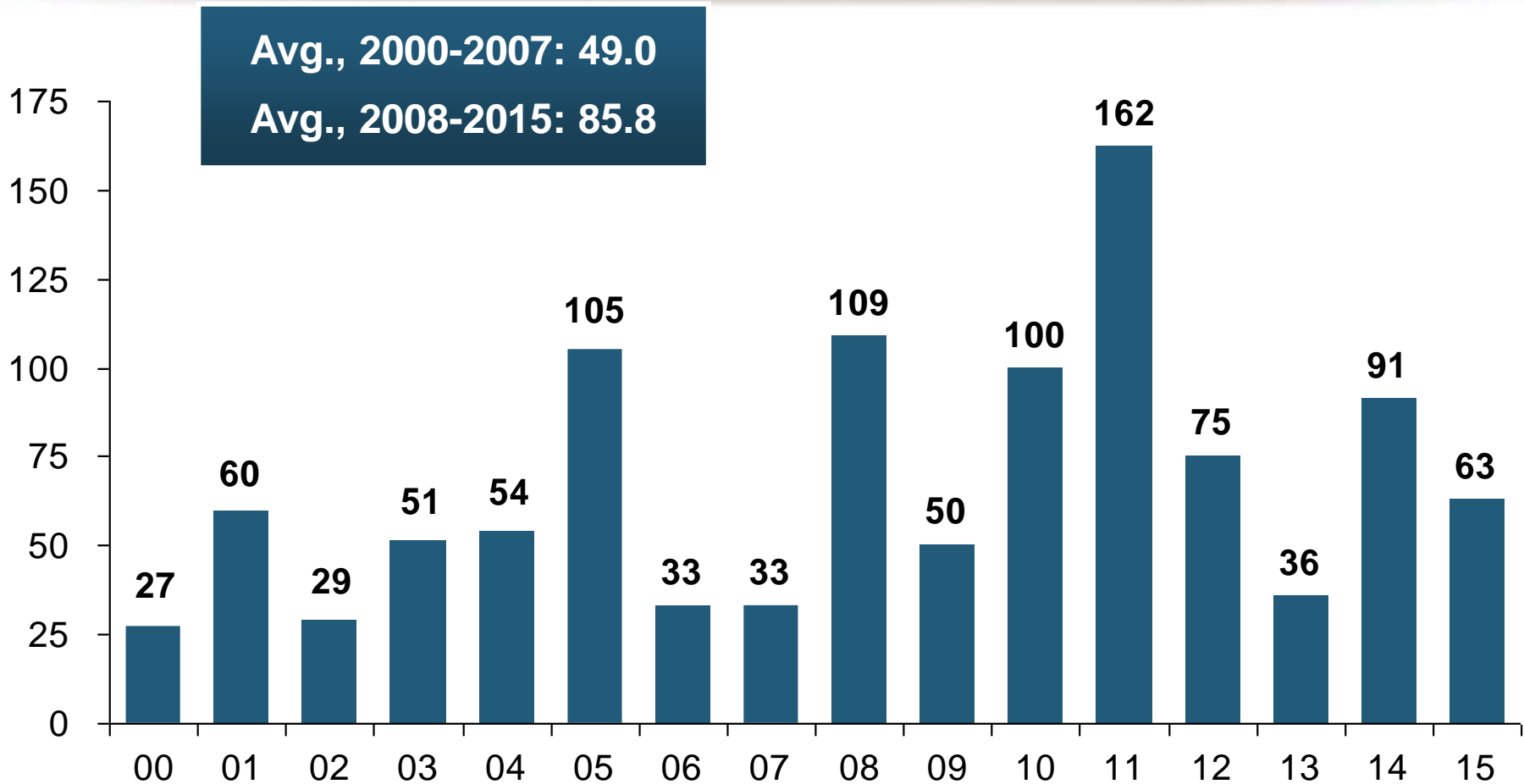
Catastrophes & U.S. Insured Catastrophe Losses

Tornadoes, Hail, and Wind Events in Mississippi, 2015

MS
Total Reports = 491
Tornadoes = 63
Hail Reports = 75
Wind Reports = 353

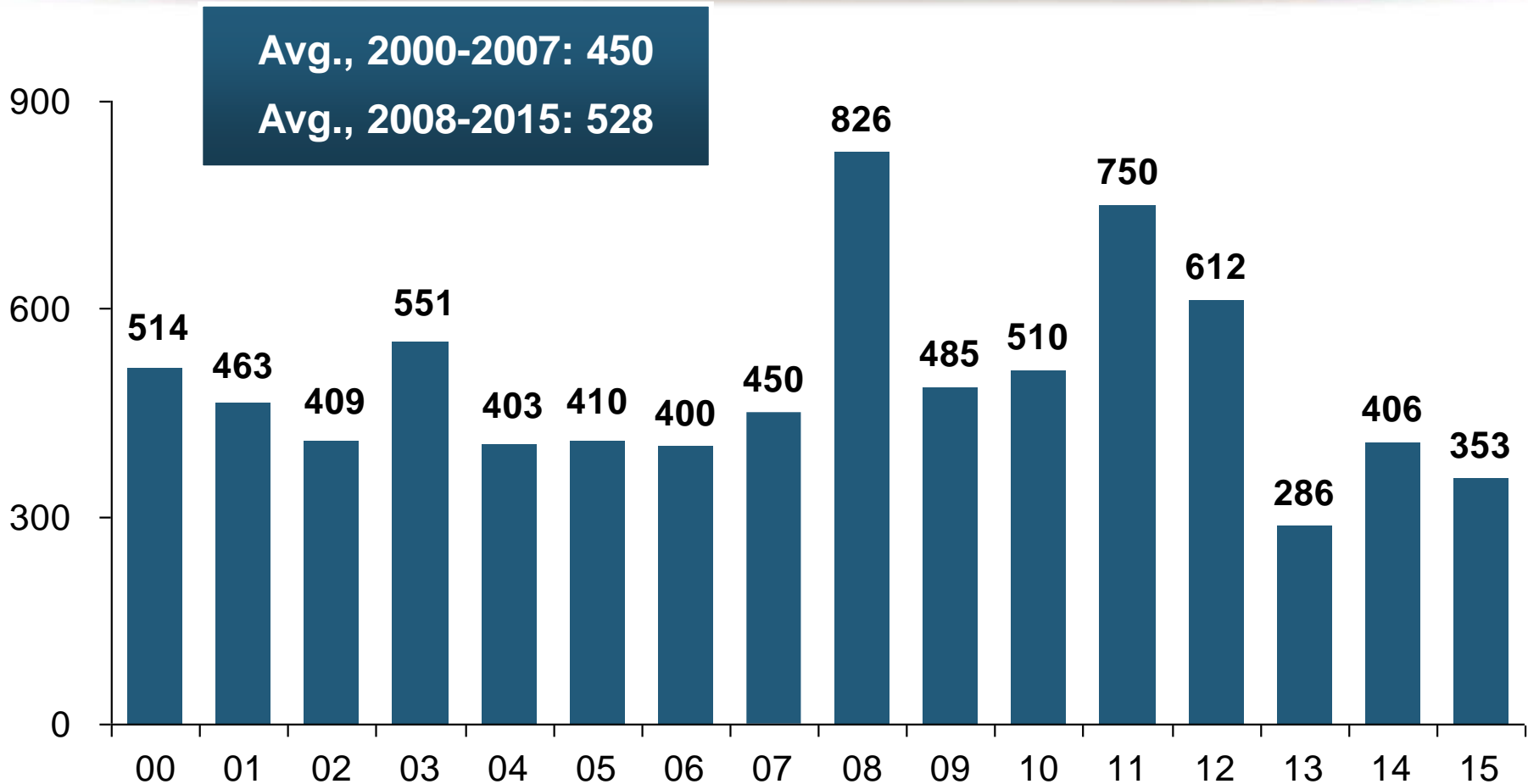


Number of Tornadoes in Mississippi, Yearly, 2000-2015



Is the number of tornadoes that strike Mississippi each year increasing? Based on the last 16 years—and especially the last 8—it certainly seems so.

Number of High Wind Events in Mississippi, Yearly, 2000-2015

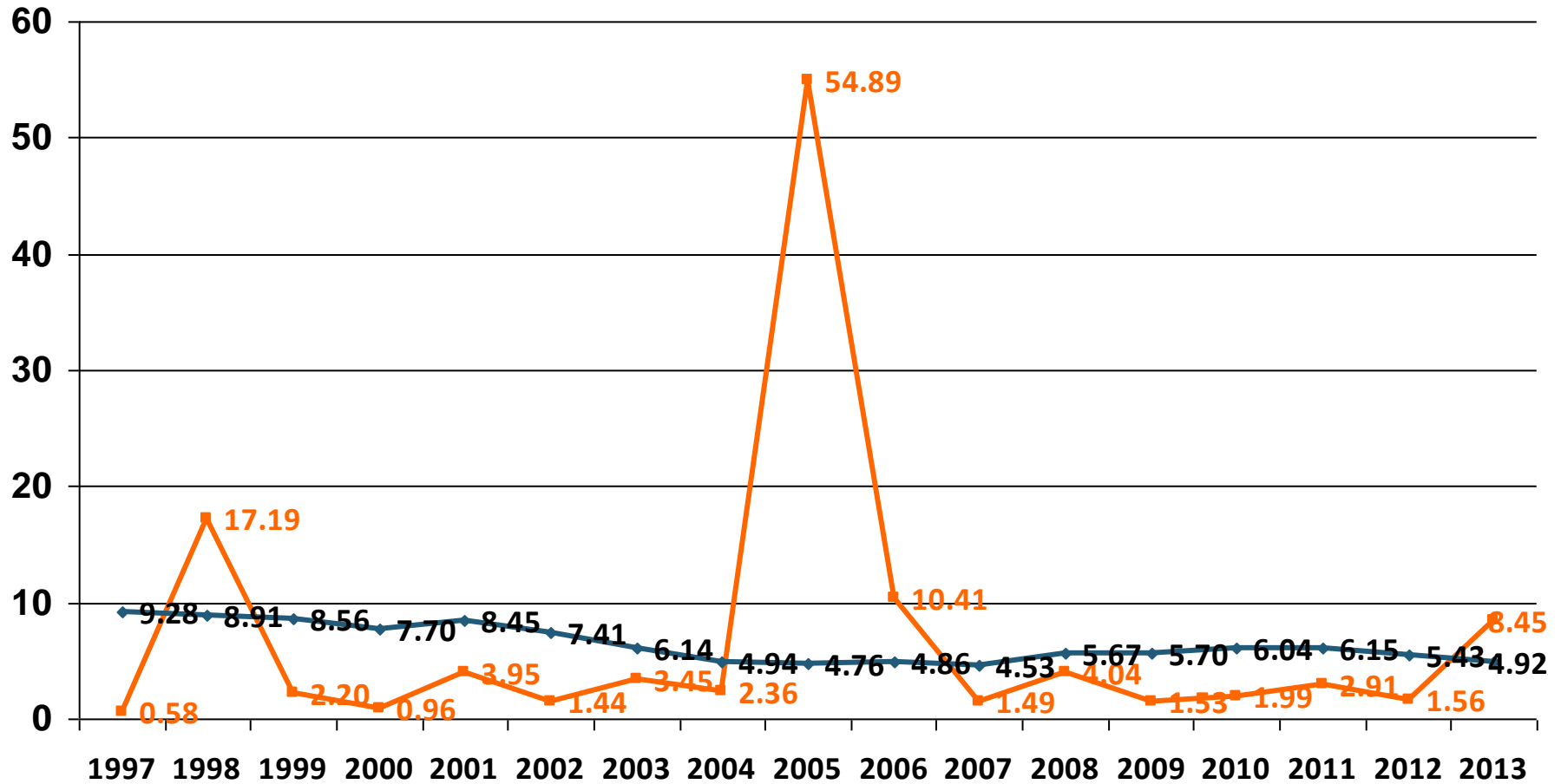


Is the number of high wind events that strike Mississippi each year increasing? Based on the last 16 years, it certainly doesn't seem so.

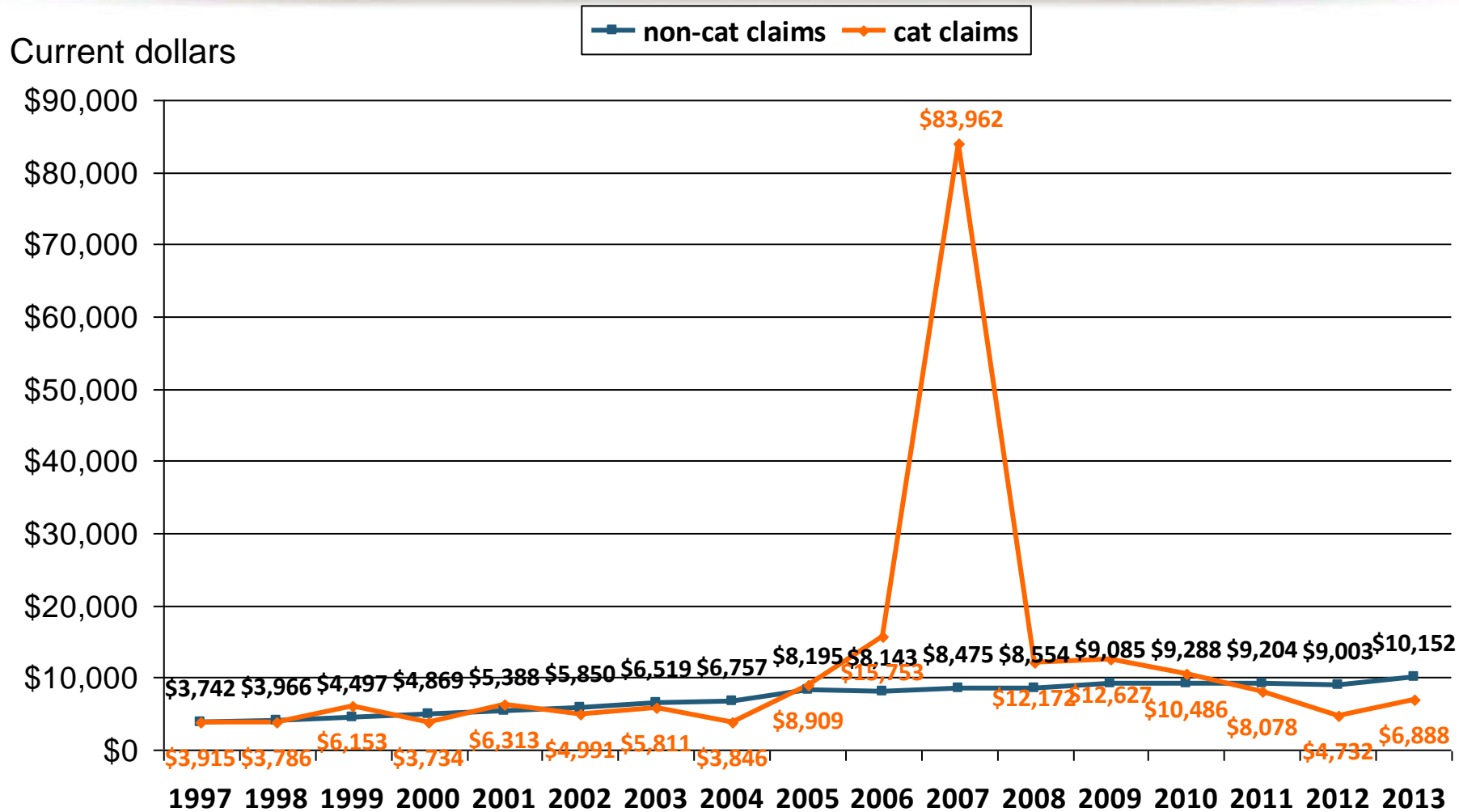
P/C Industry Homeowners Claim Frequency, Mississippi, 1997-2013

Claims Paid per
100 Exposures

— CAT-related claims — Non-CAT-related claims

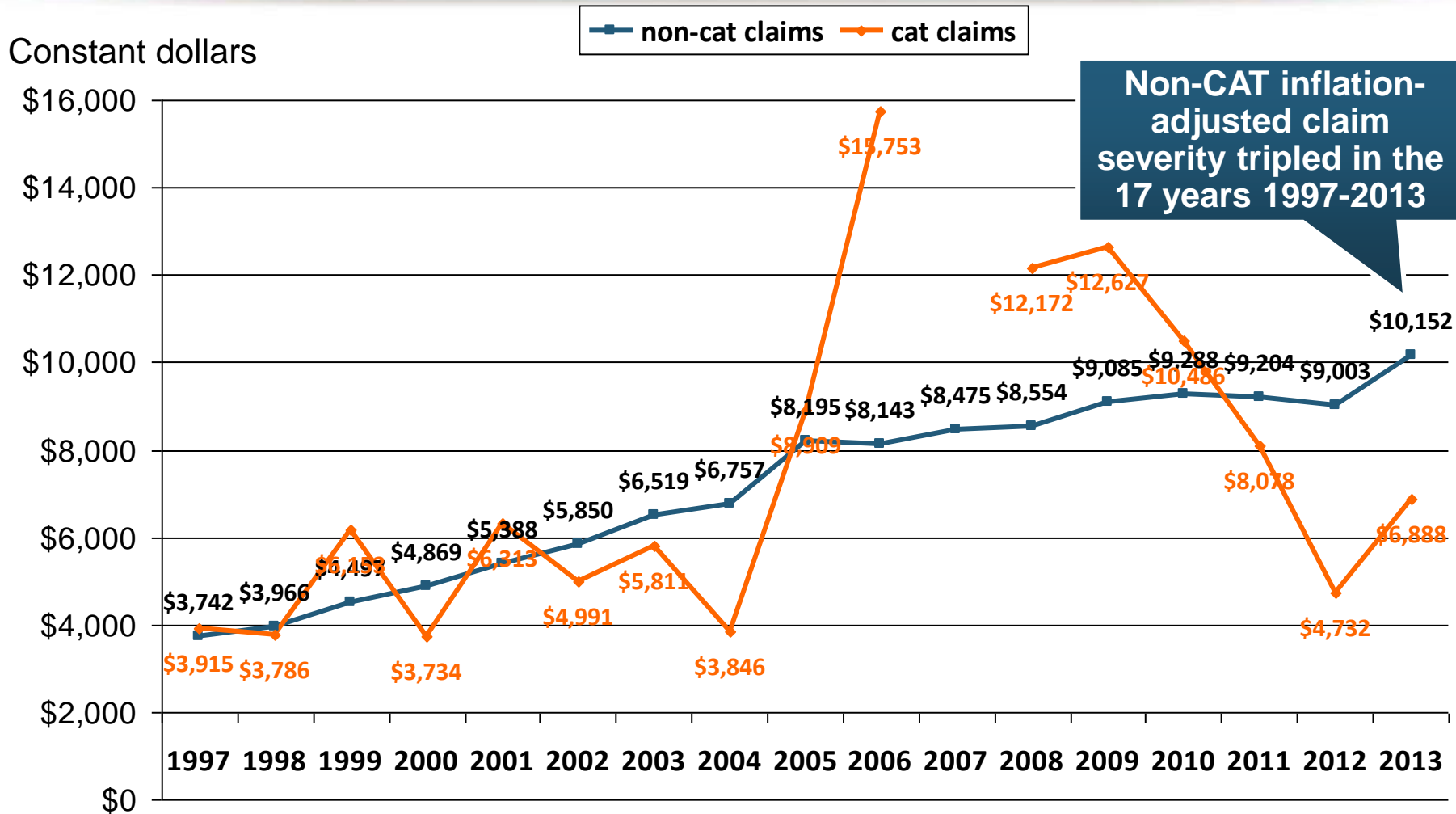


P/C Industry HO Average Claim Severity, Mississippi, 1997-2013



Sources: Insurance Research Council, "Trends in Homeowners Insurance Claims," 2015 edition, p. 72; BLS inflation calculator, with Insurance Information Institute calculations

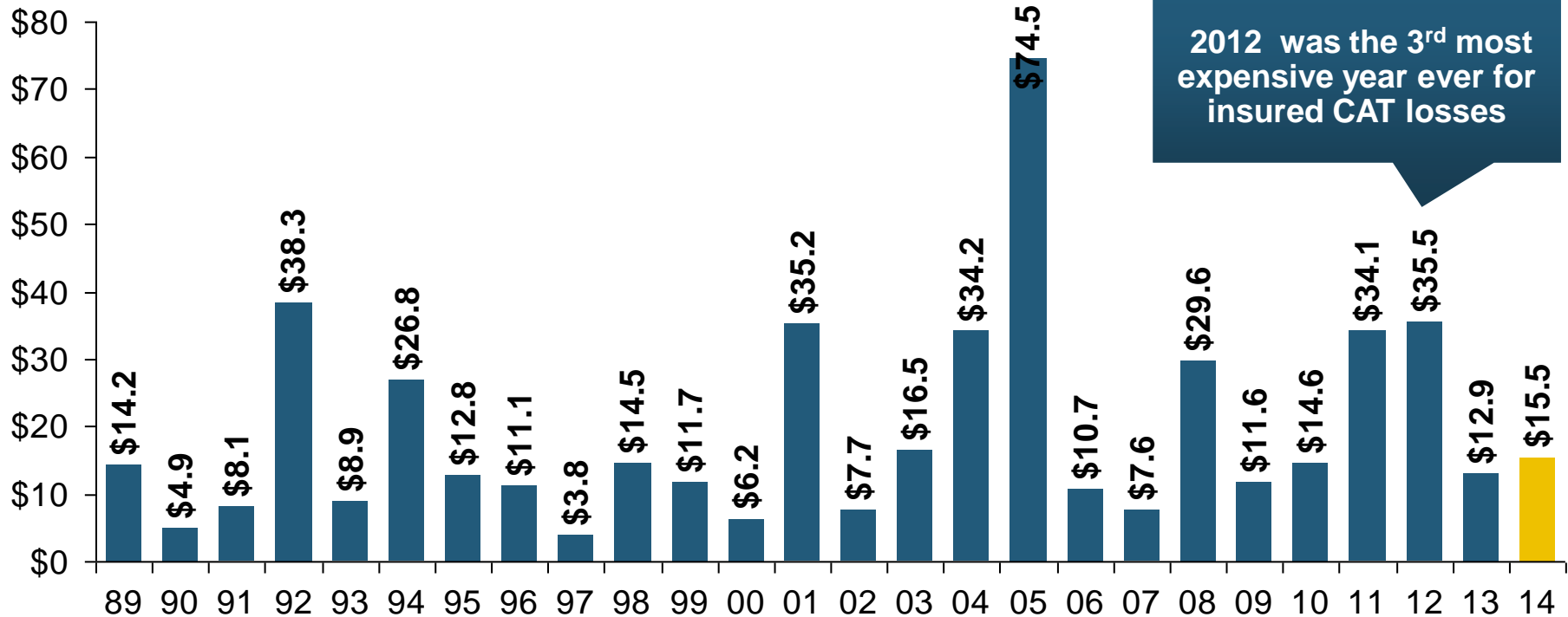
P/C Industry HO Average Claim Severity, Inflation-adjusted, Mississippi, 1997-2013



Sources: Insurance Research Council, "Trends in Homeowners Insurance Claims," 2015 edition, p. 72; BLS inflation calculator, with Insurance Information Institute calculations

U.S. Insured Catastrophe Losses

(\$ Billions, \$ 2013)



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

2013/14 Were Welcome Respite from 2011/12, among the Costliest Years for Insured Disaster Losses in US History. Longer-term Trend is for more—not fewer—Costly Events

\$15.5 billion in insured CAT losses in 2014

*Through 12/31/14.

Note: 2001 figure includes \$20.3B for 9/11 losses reported through 12/31/01 (\$25.9B 2011 dollars). Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = \$12.2B (\$15.6B in 2011 dollars.)

Sources: Property Claims Service/ISO; Insurance Information Institute.

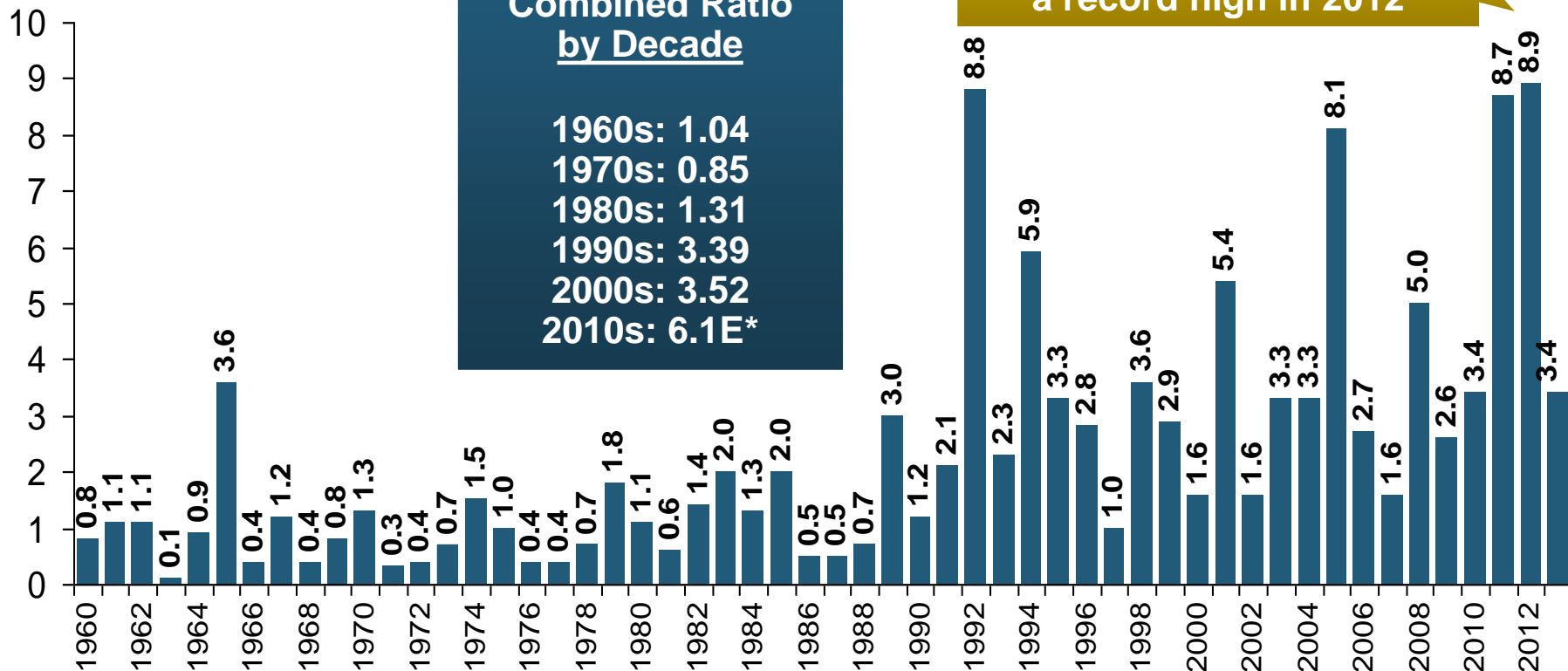
Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2013*

Combined Ratio Points

Avg. CAT Loss Component of the Combined Ratio by Decade

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

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



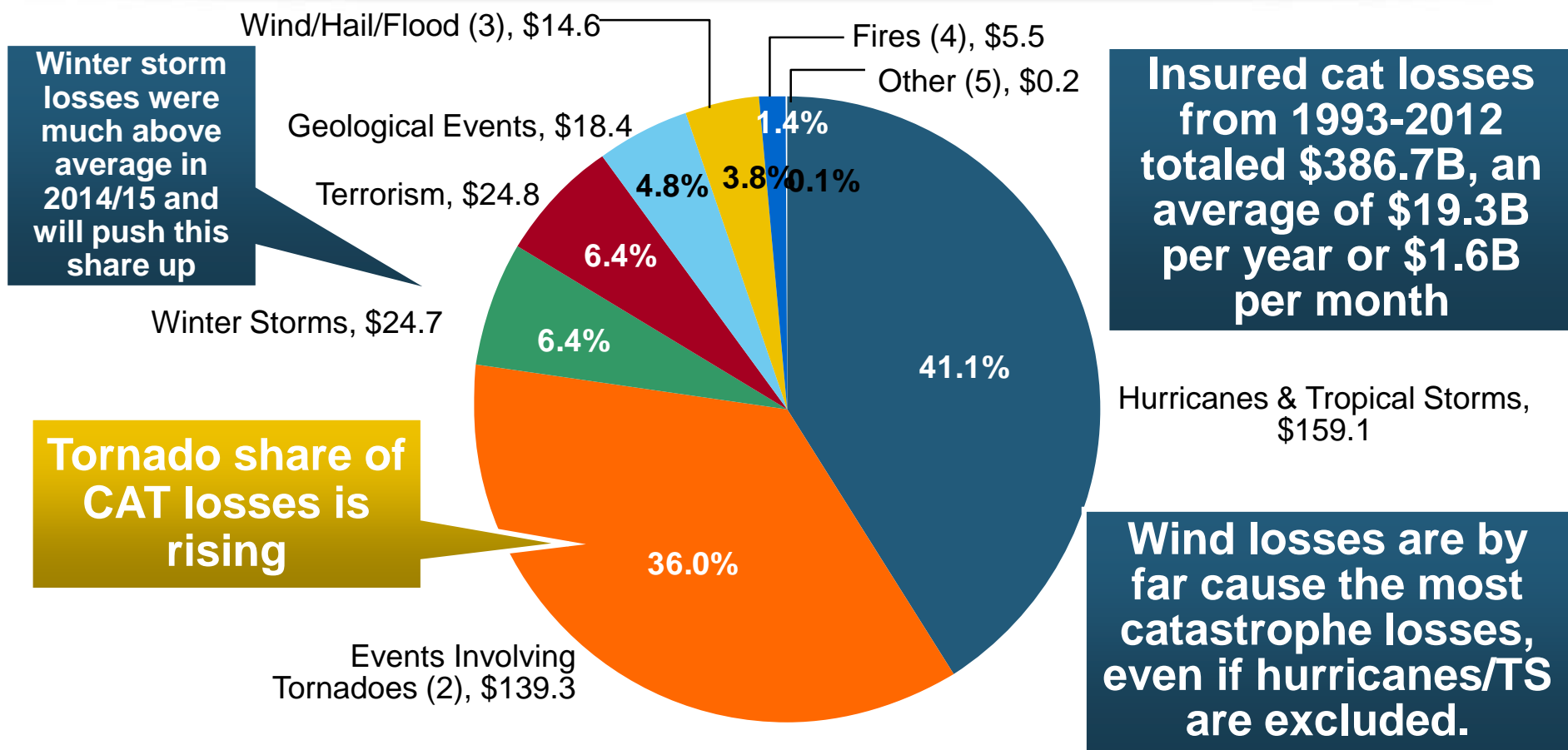
The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades

*2010s represent 2010-2013.

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

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

Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1994–2013¹



Winter storm losses were much above average in 2014/15 and will push this share up

Insured cat losses from 1993-2012 totaled \$386.7B, an average of \$19.3B per year or \$1.6B per month

Tornado share of CAT losses is rising

Wind losses are by far cause the most catastrophe losses, even if hurricanes/TS are excluded.

1. Catastrophes are defined as events causing direct insured losses to property of \$25 million or more in 2013 dollars.
2. Excludes snow.
3. Does not include NFIP flood losses
4. Includes wildland fires
5. Includes civil disorders, water damage, utility disruptions and non-property losses such as those covered by workers compensation.

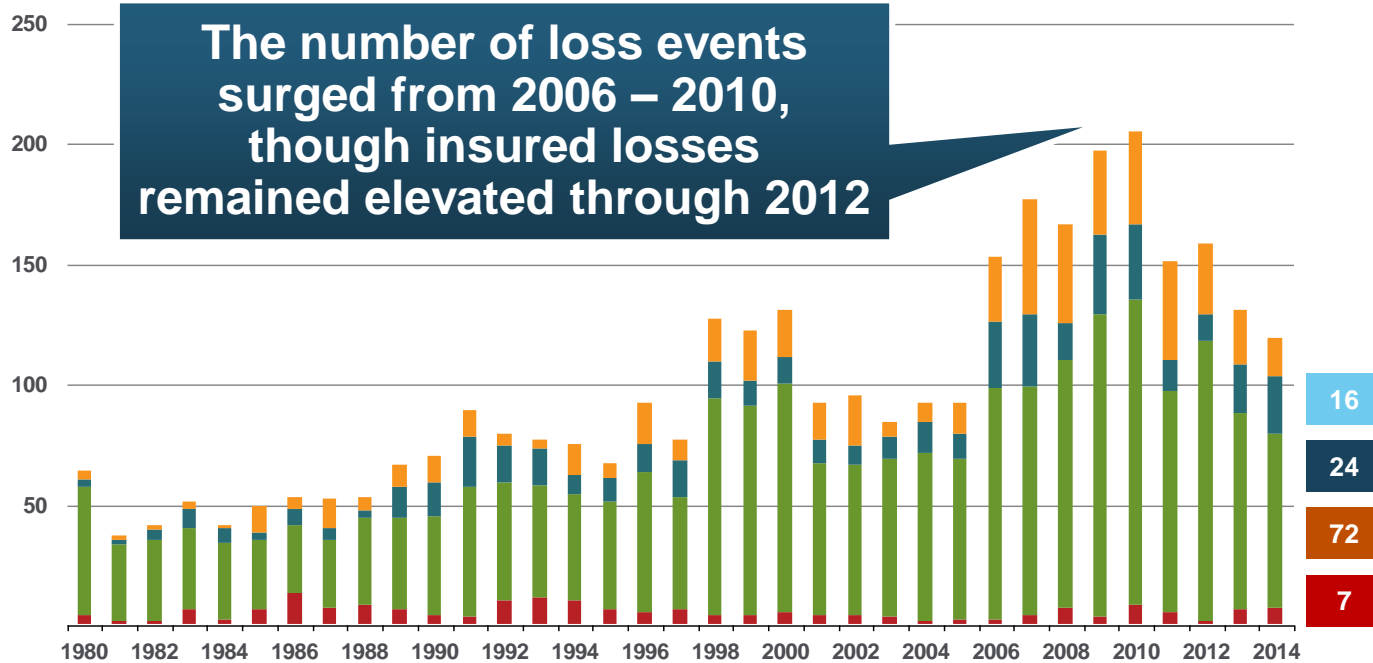
Source: ISO's Property Claim Services Unit.

Loss events in the US, 1980 – 2014

Number of events

Number of Events

**2014 Total:
119 Events**



- **Geophysical events**
(Earthquake, tsunami, volcanic activity)
- **Meteorological events**
(Tropical storm, extratropical storm, convective storm, local storm)
- **Hydrological events**
(Flood, mass movement)
- **Climatological events**
(Extreme temperature, drought, forest fire)

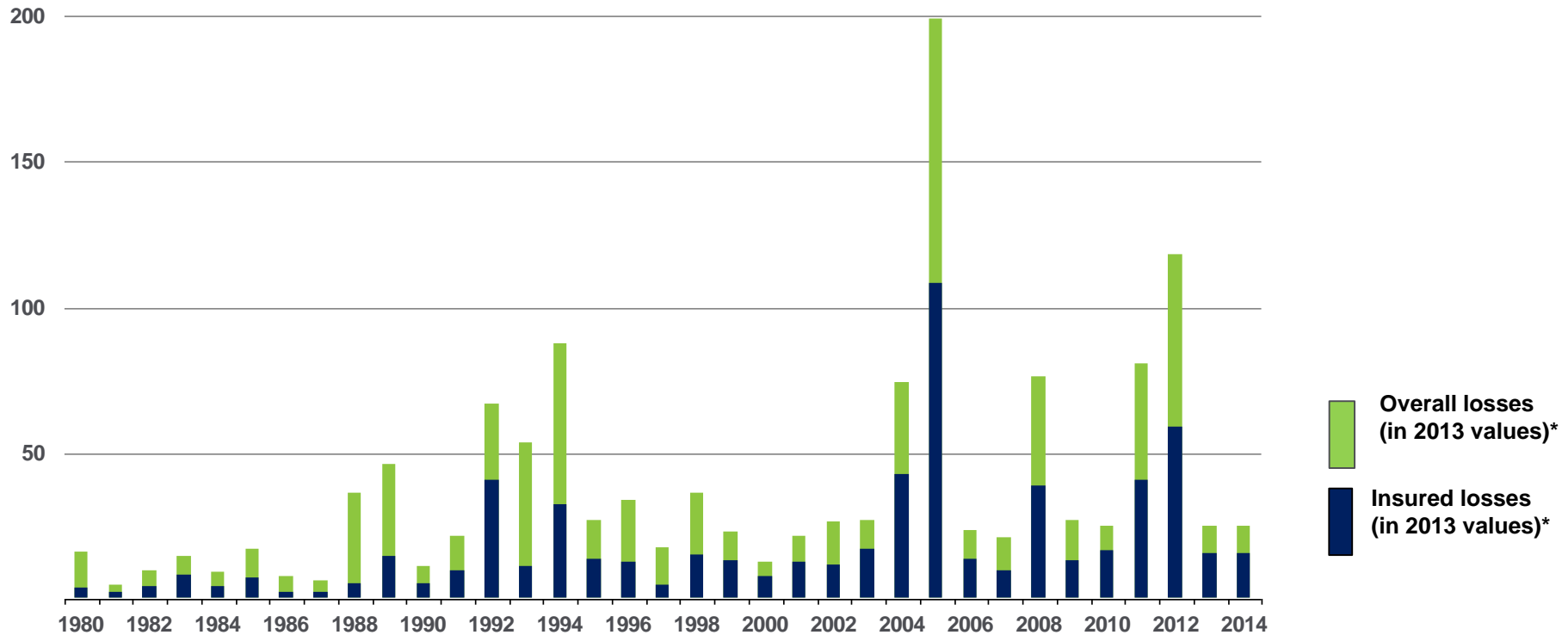
Source: Geo Risks Research, NatCatSERVICE

Loss Events in the US, 1980 – 2014

Overall and insured losses

Overall losses totaled US\$ 25bn; Insured losses totaled US\$ 15.3bn

\$ Billions



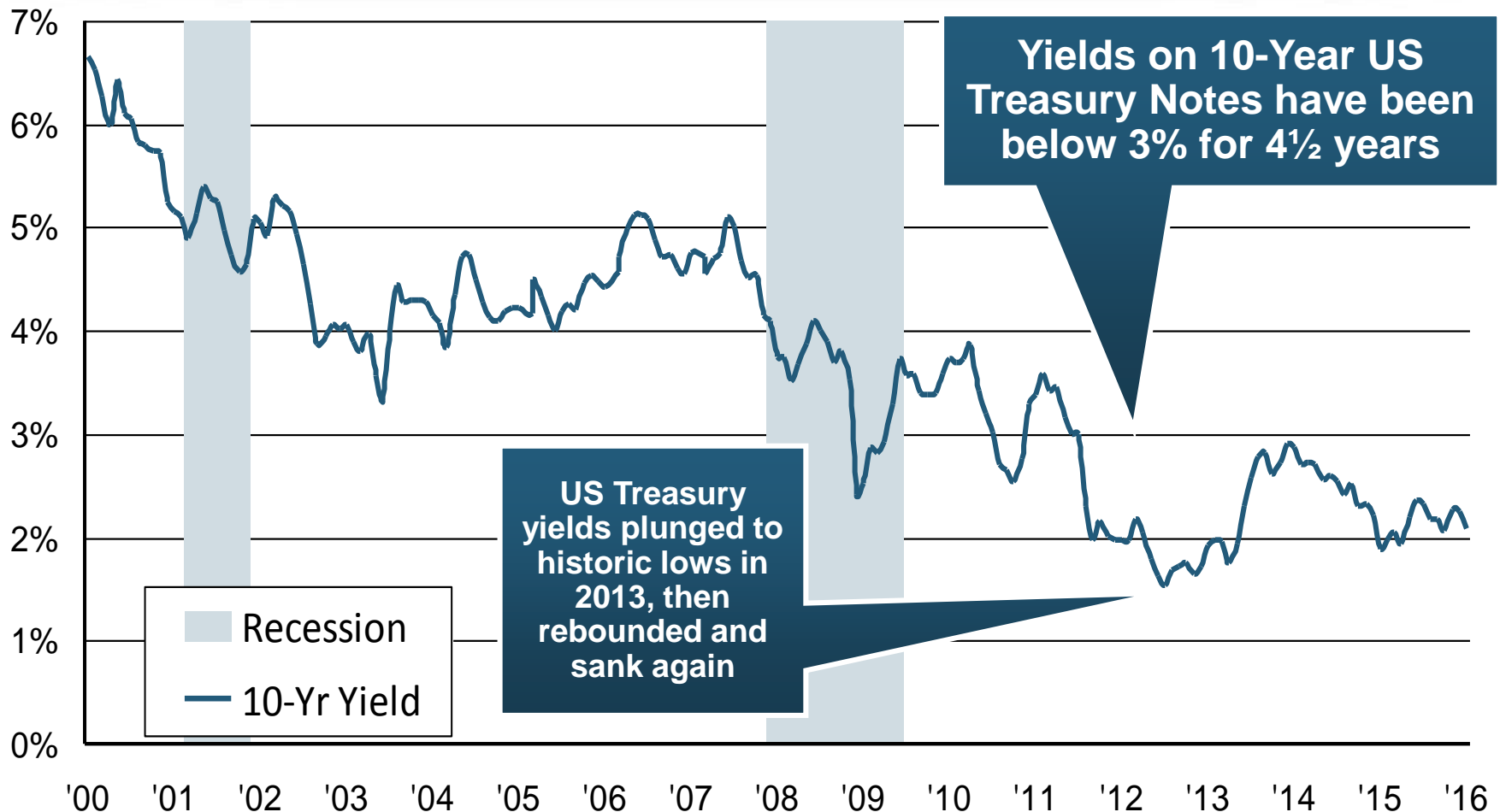
*Losses adjusted to inflation based on CPI.

Investments: The Grim Reality

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

***Depressed Yields Will Necessarily Affect
Underwriting & Pricing***

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

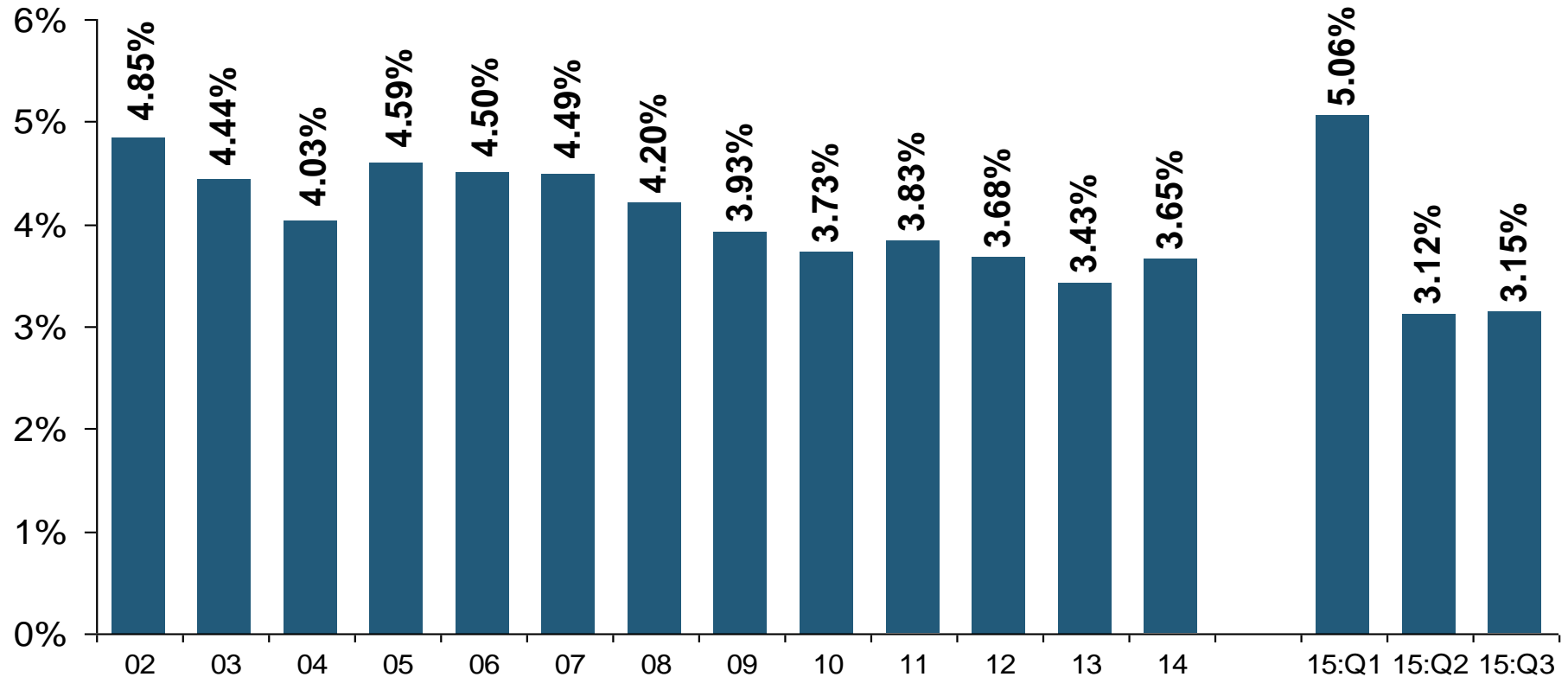


Since roughly 80% of P/C bond/cash investments are in 5-to-10-year durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, constant maturity, nominal rates.

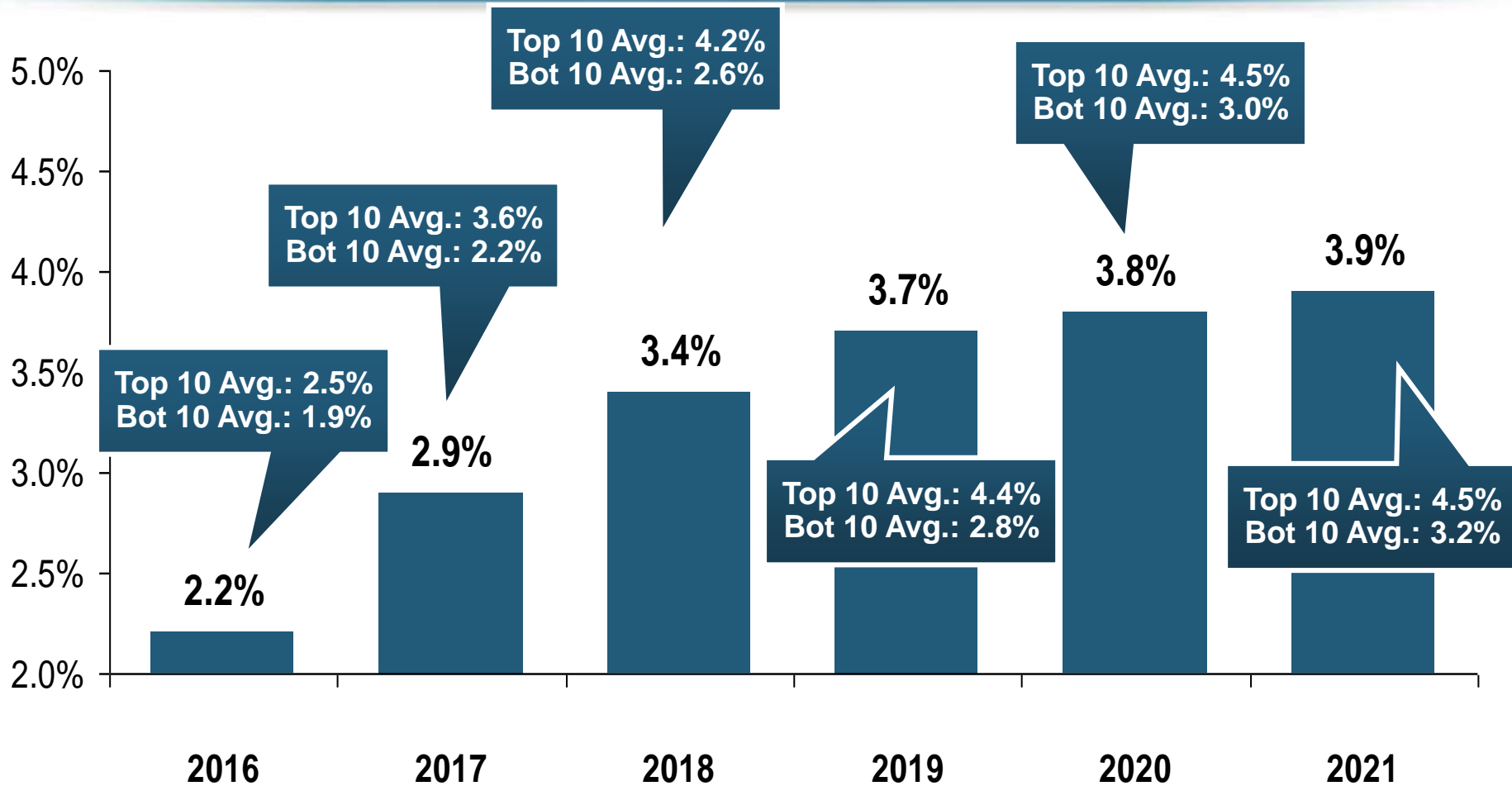
Sources: Federal Reserve Bank at <http://www.federalreserve.gov/releases/h15/data.htm>; National Bureau of Economic Research (recession dates); Insurance Information Institute.

P/C Insurer Portfolio Yields, 2002-2015:Q3



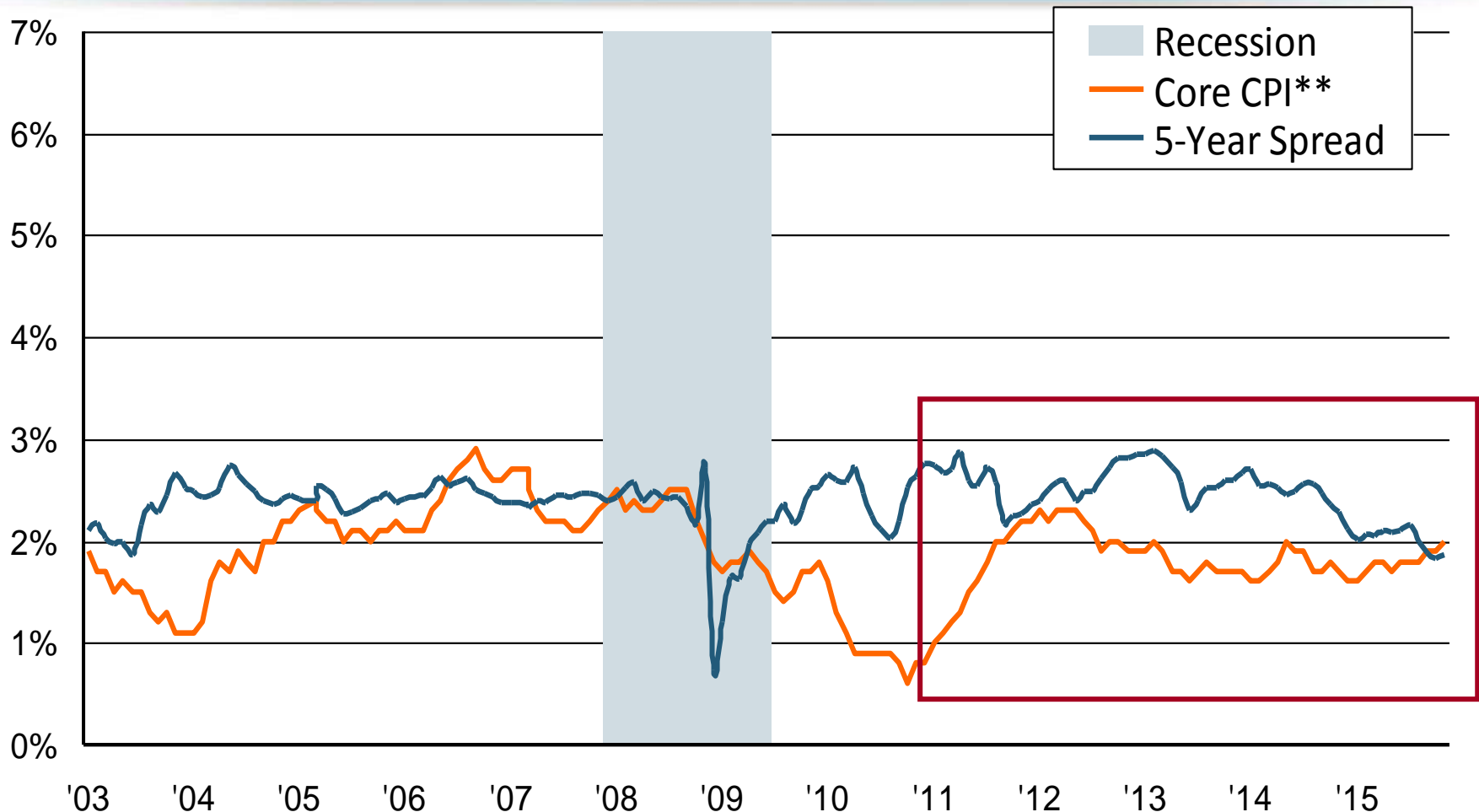
P/C carrier yields have been falling for over a decade, reflecting the long downtrend in prevailing interest rates. Even as prevailing rates rise in the next few years, portfolio yields are unlikely to rise quickly, since low yields of recent years are “baked in” to future returns.

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



All forecasts expect US intermediate- and long-term interest rates to rise over the next three years and stabilize about 2019.

Inflation Expectations, 5 Years Ahead* from the Bond Market

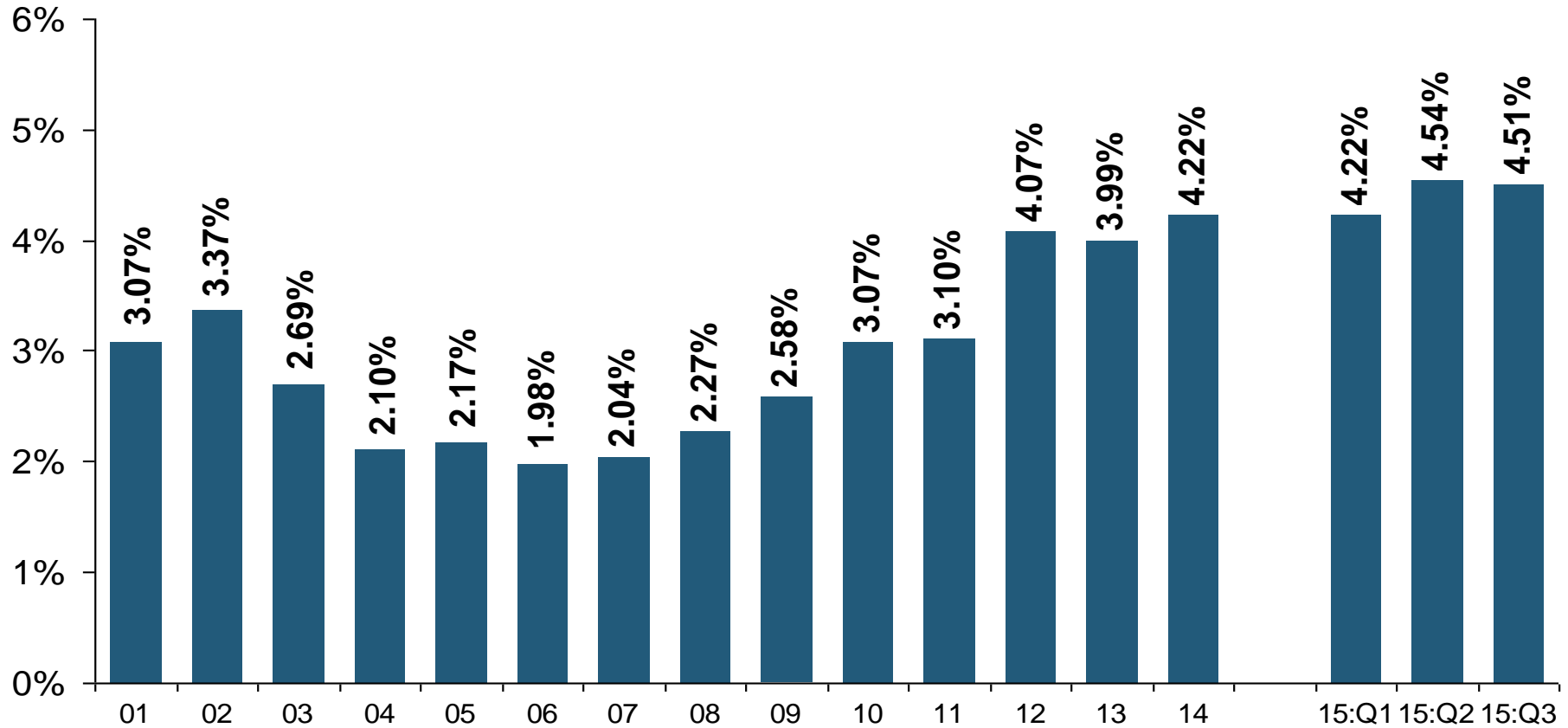


Since roughly 80% of P/C bond/cash investments are in 5-to-10-year durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, yields on US Treasury 5-Year Notes minus yields on 5-Year TIPS, through Nov. 2015. **CPI less food and energy.

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

P/C Insurers Below-Investment-Grade (BIG) Bonds as a Percent of Total Bonds, 2001-2015:Q3

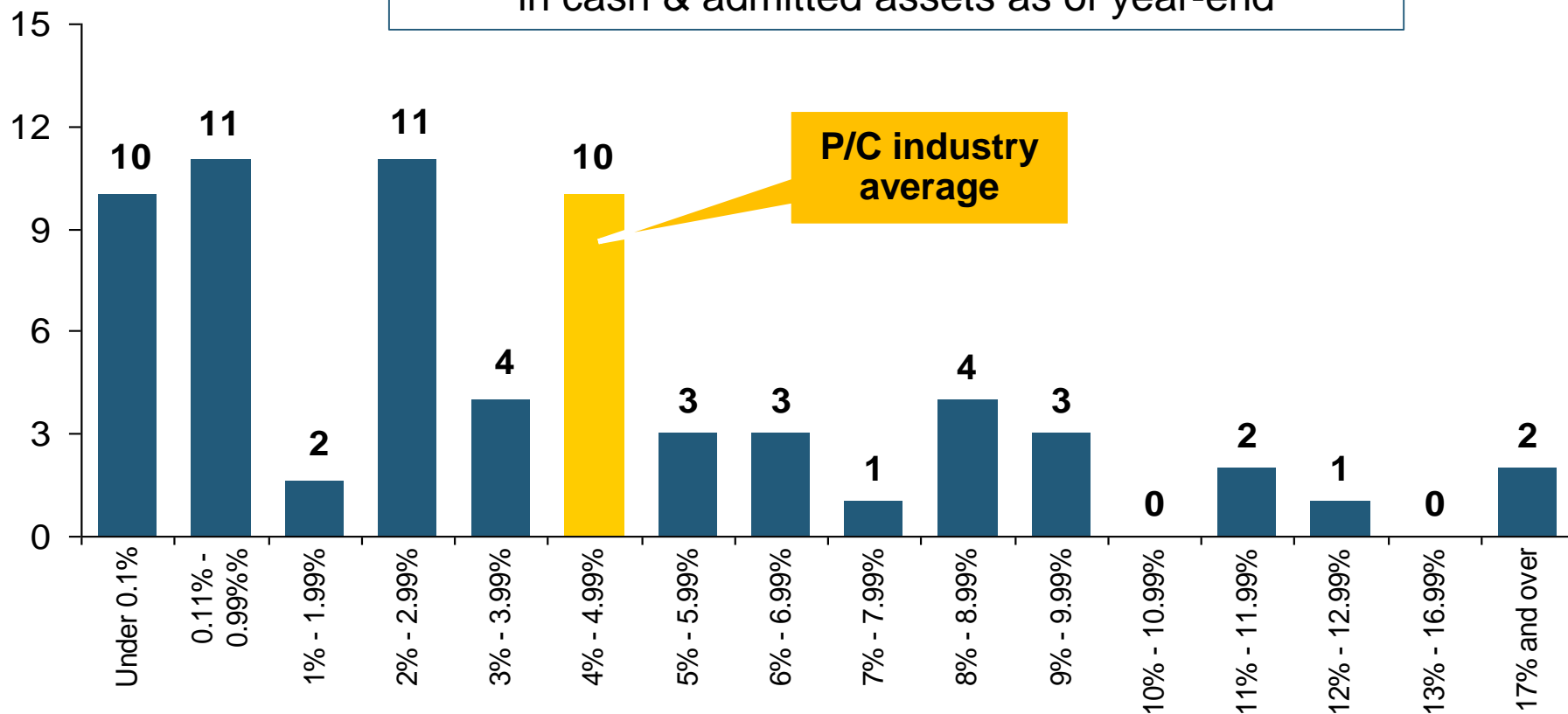


As a group, P/C carriers have increased the percentage of bond investments in riskier instruments. Since 2006-07, that percentage has risen over 200 basis points (double what it was). As interest rates rise, will this percentage return to pre-recession levels?

P/C Insurer Groups Holdings of BIG** Bonds as a Percent of Total Bonds, 2014

Number of Groups

The 67 groups graphed are those with over \$3 billion in cash & admitted assets as of year-end



There is a wide disparity among insurance groups regarding holdings of below-investment-grade bonds. Some hold none (or almost none); a few have over 10% of their bond portfolio in BIGs.

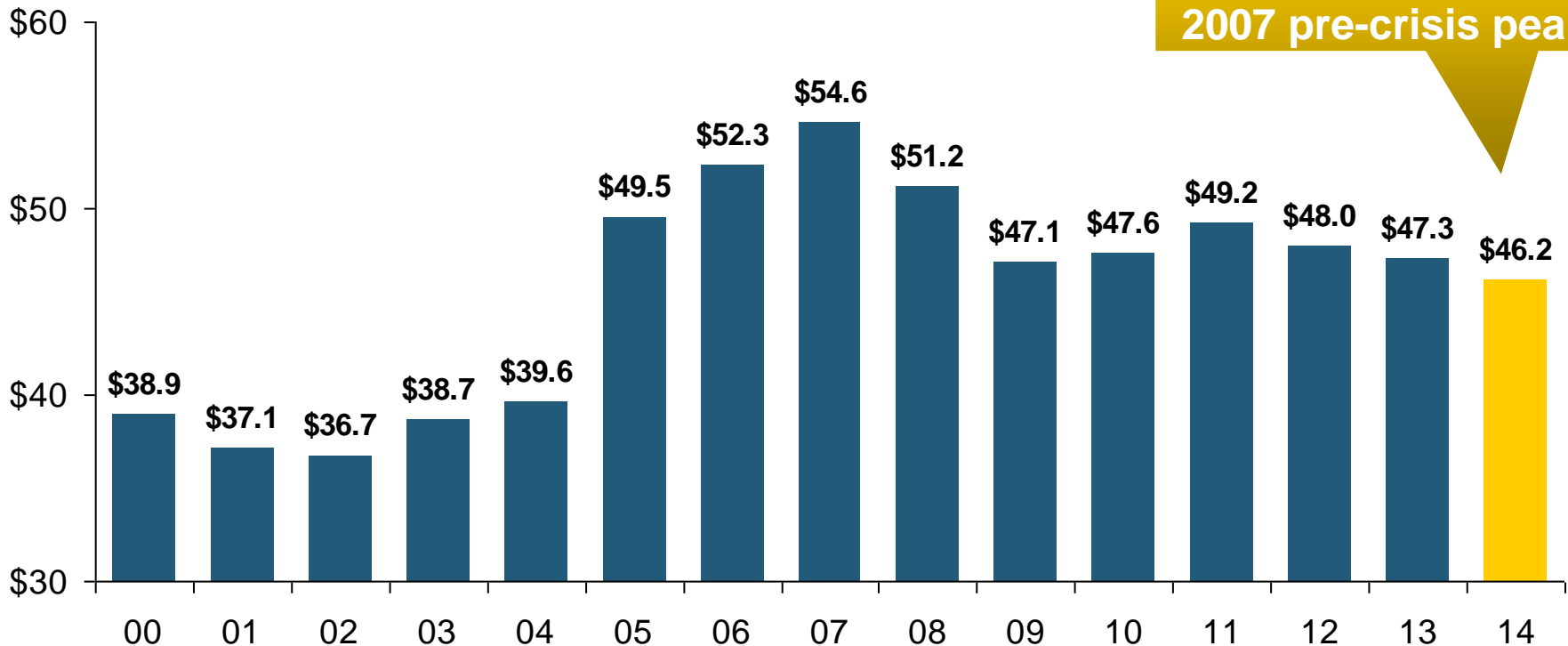
*Below Investment Grade
Sources: NAIC, via SNL Financial; Insurance Information Institute.

Other Things That Could Affect the Course of Interest Rates

- Prices of world currencies (the value of the US Dollar vs. the Euro, the Yen, the Yuan and other major world currencies)
- Prices of a number of commodities (especially oil)
- Prevailing interest rates in other countries (determined, in part, by those countries' central banks)
- The demand for, and the supply of, loanable funds

Property/Casualty Insurance Industry Investment Income: 2000–2014¹

(\$ Billions)



Investment earnings
are still below their
2007 pre-crisis peak

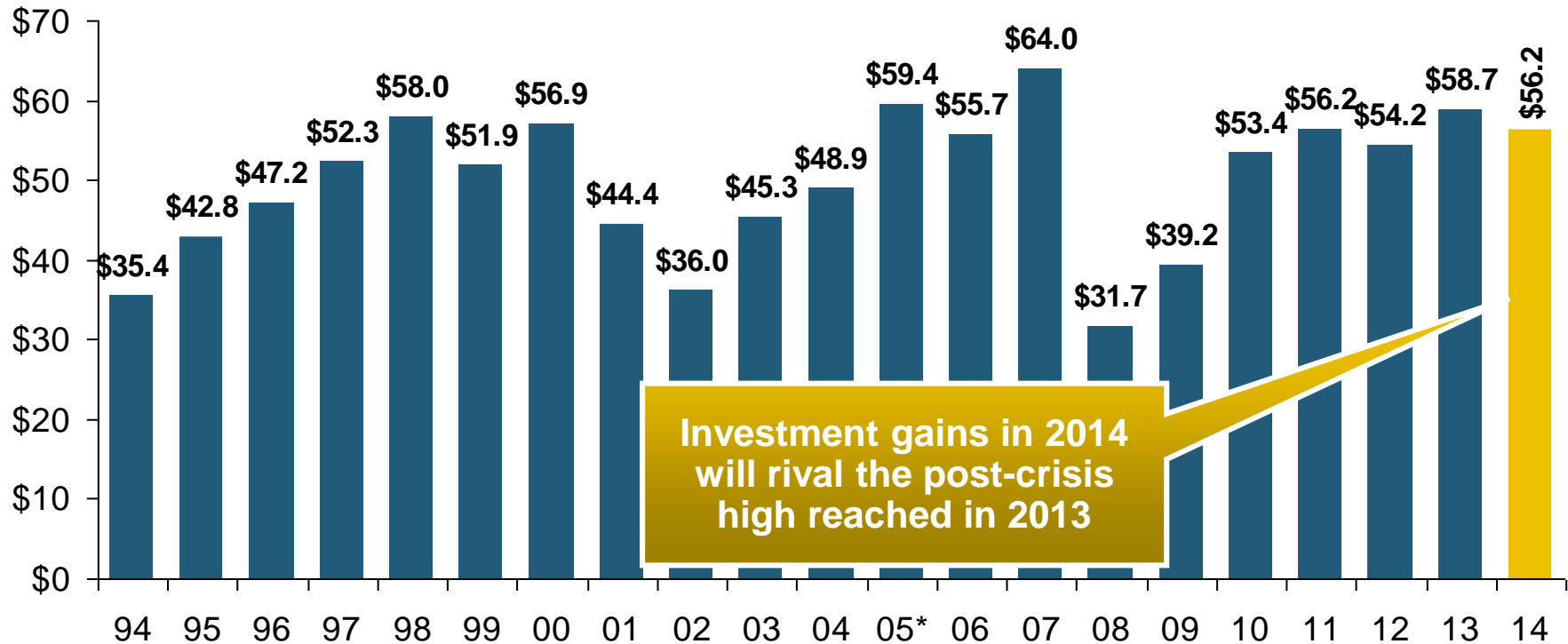
**Due to persistently low interest rates,
investment income fell in 2012, 2013 and 2014.**

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

*2014 figure is estimated based on annualized data through Q3.

Property/Casualty Insurance Industry Investment Gain: 1994–2014¹

(\$ Billions)



Investment gains in 2014 will rival the post-crisis high reached in 2013

Total Investment Gains Were Down Slightly in 2014 as Low Interest Rates Pressured Investment Income but Realized Capital Gains Remained Robust

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

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

Sources: ISO; Insurance Information Institute.

Insurance Information Institute Online:

www.iii.org

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