The P/C Insurance Industry: Financial Update & Outlook

2016: OK, But A Little Worse Than 2015

2017 Could Be Better

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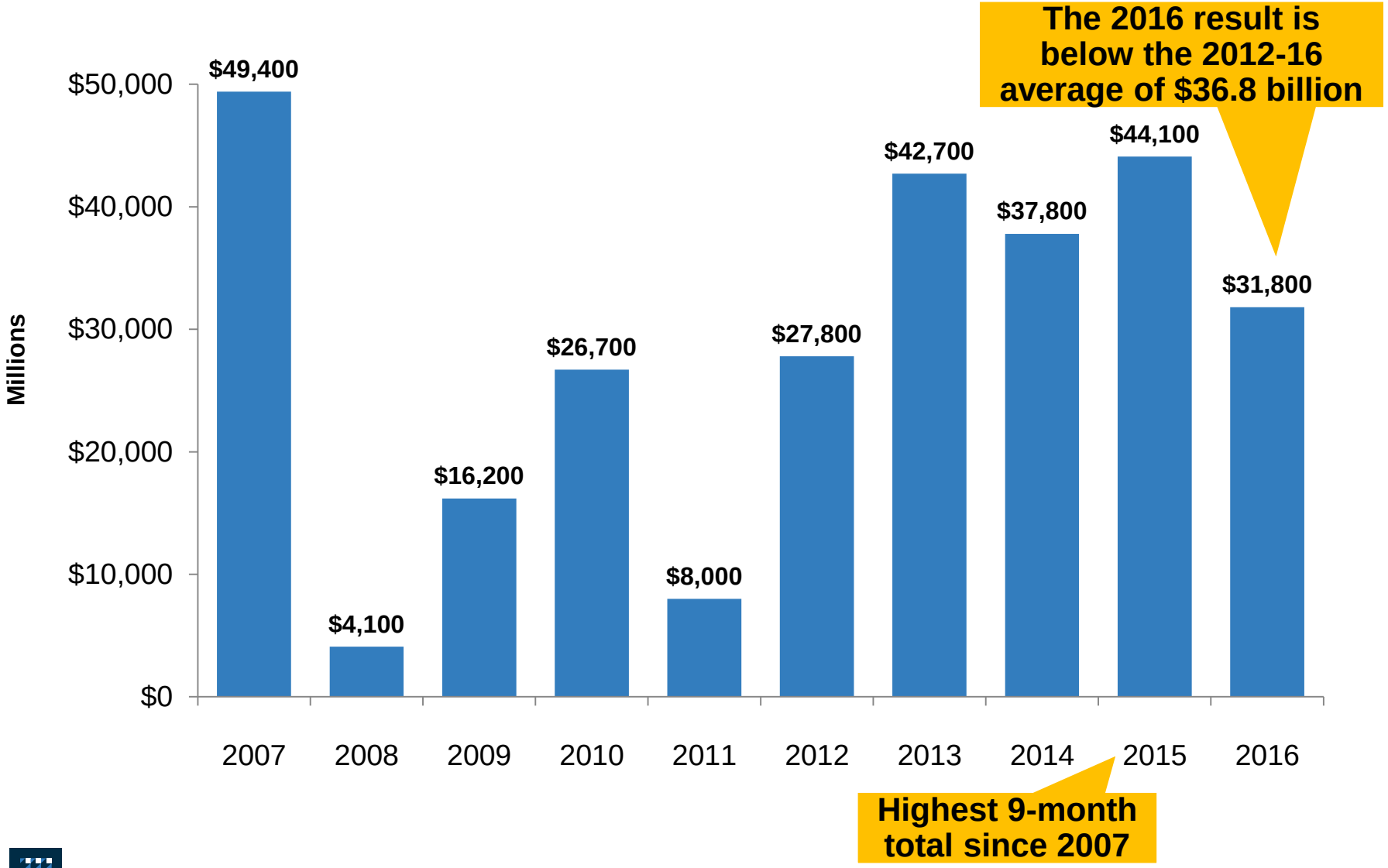
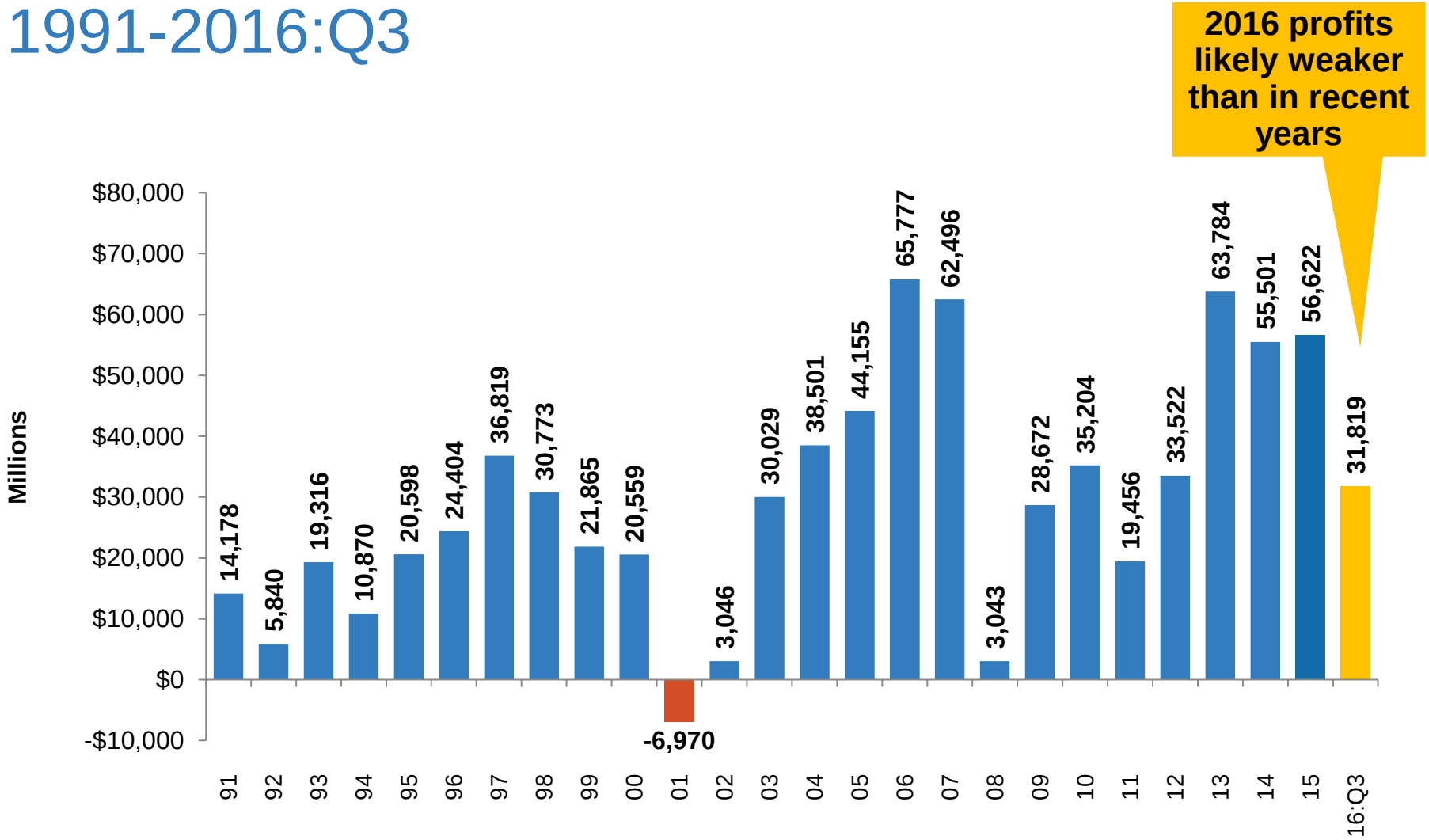
P/C Industry Net Income After Taxes, First Three Quarters of Each Year, 2007-2016



Sources: A.M. Best; ISO, a Verisk Analytics company; Insurance Information Institute.

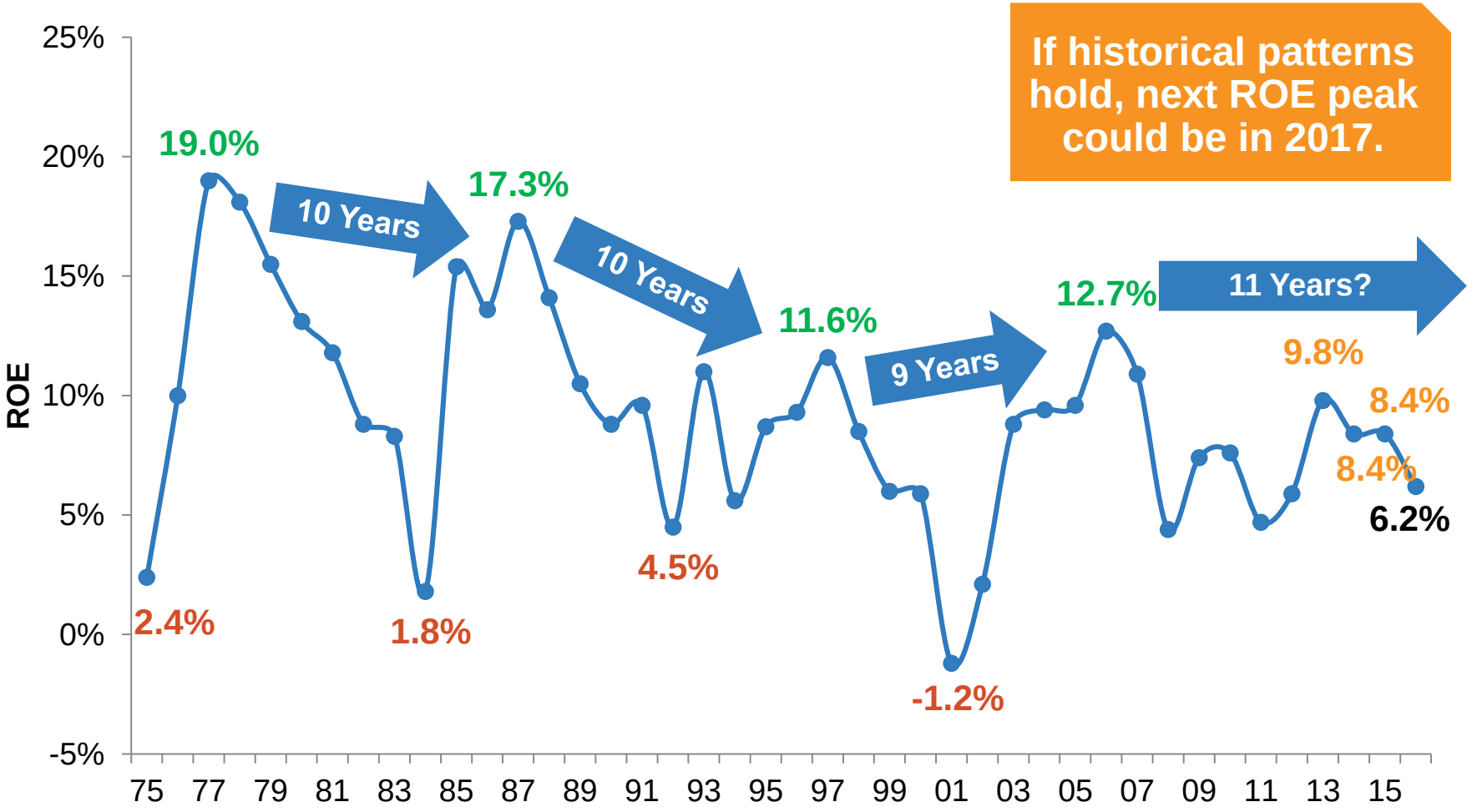
P/C Industry Net Income After Taxes 1991-2016:Q3



*ROE figures are GAAP; [1]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

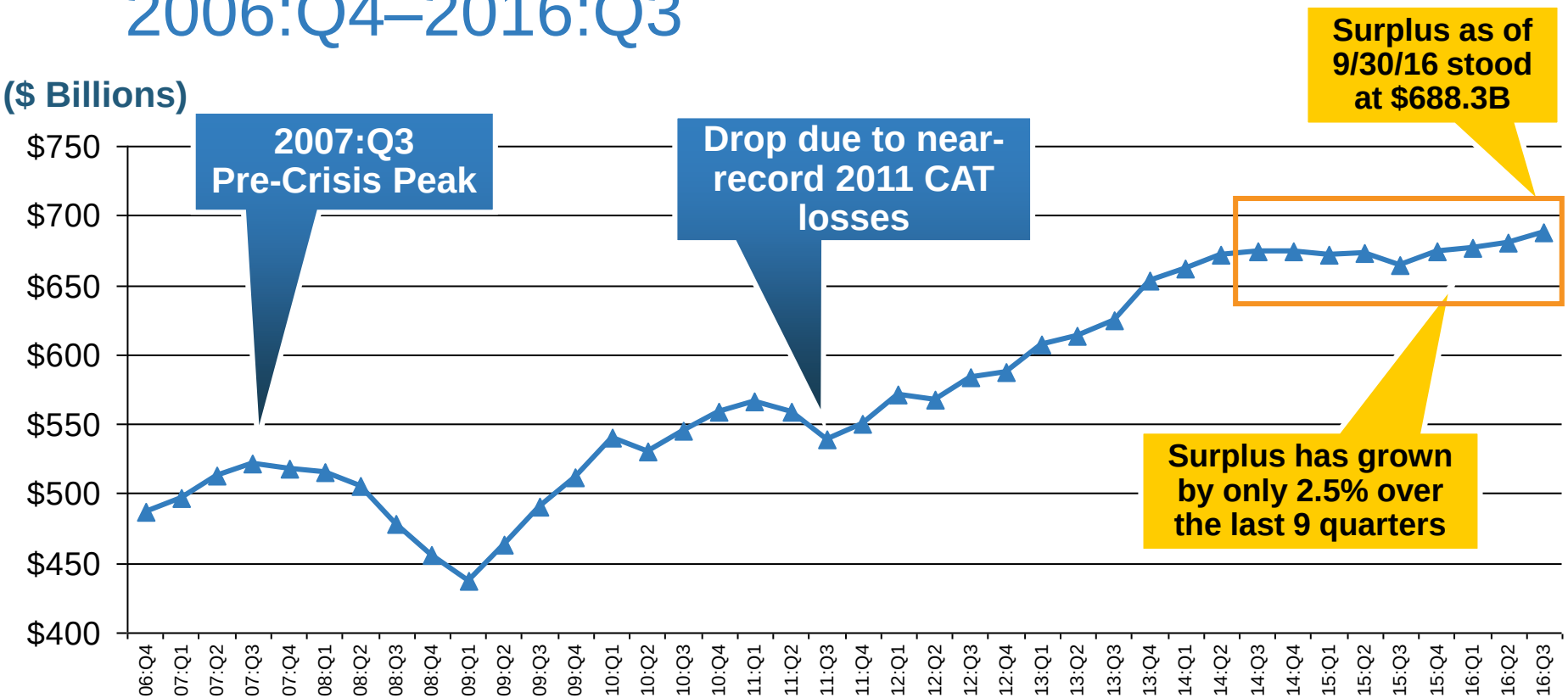
Sources: A.M. Best; ISO, a Verisk Analytics company; Insurance Information Institute.

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



*Profitability = P/C insurer ROEs. 2011-16 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, Quarterly, 2006:Q4–2016:Q3



The industry now has $1 of surplus for every $0.77 of NPW, close to the strongest claims-paying status in its history.

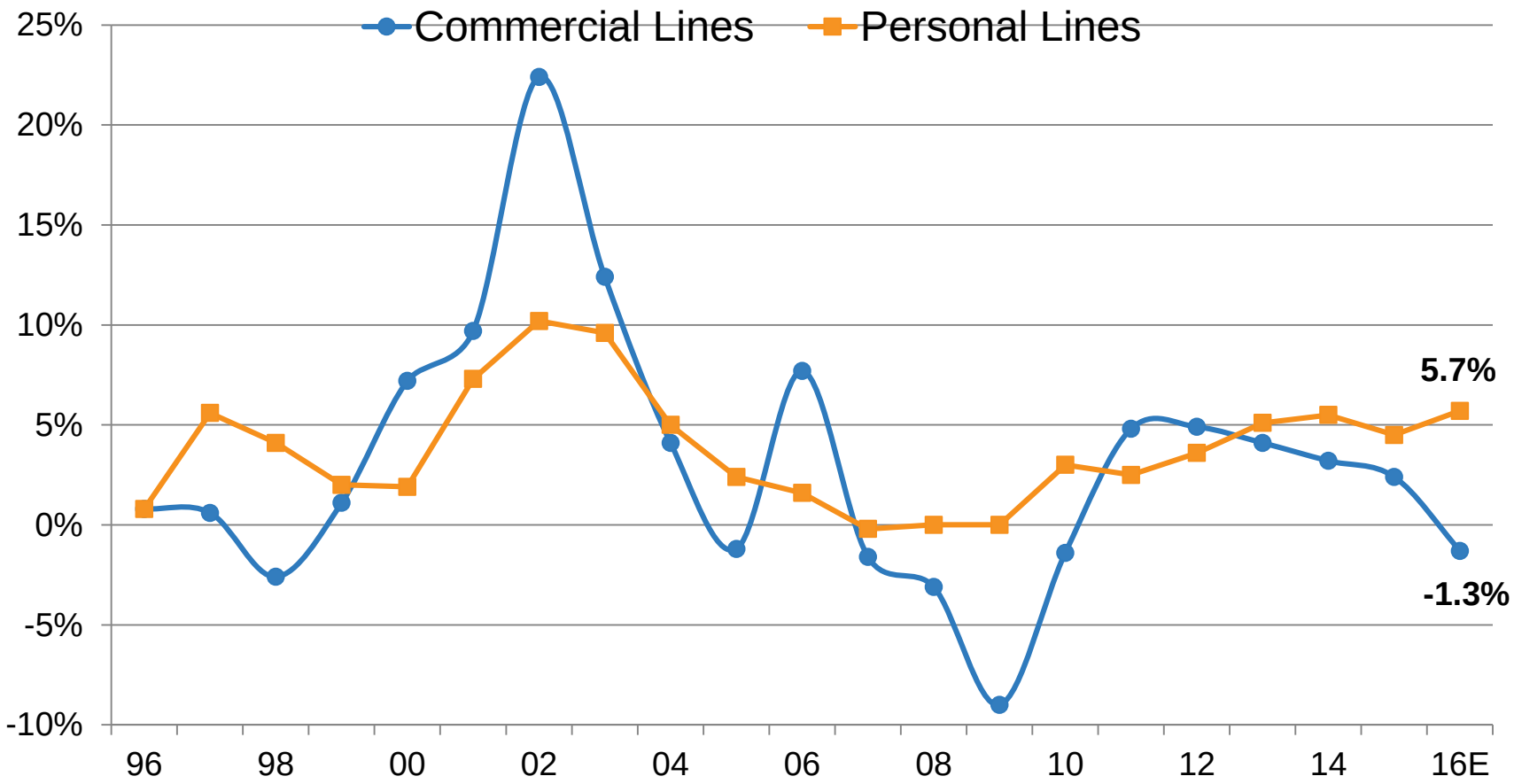
2010:Q1 data includes $22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business.

The P/C insurance industry entered 2017 in very strong financial condition.

Sources: ISO, A.M .Best.

Underwriting Performance

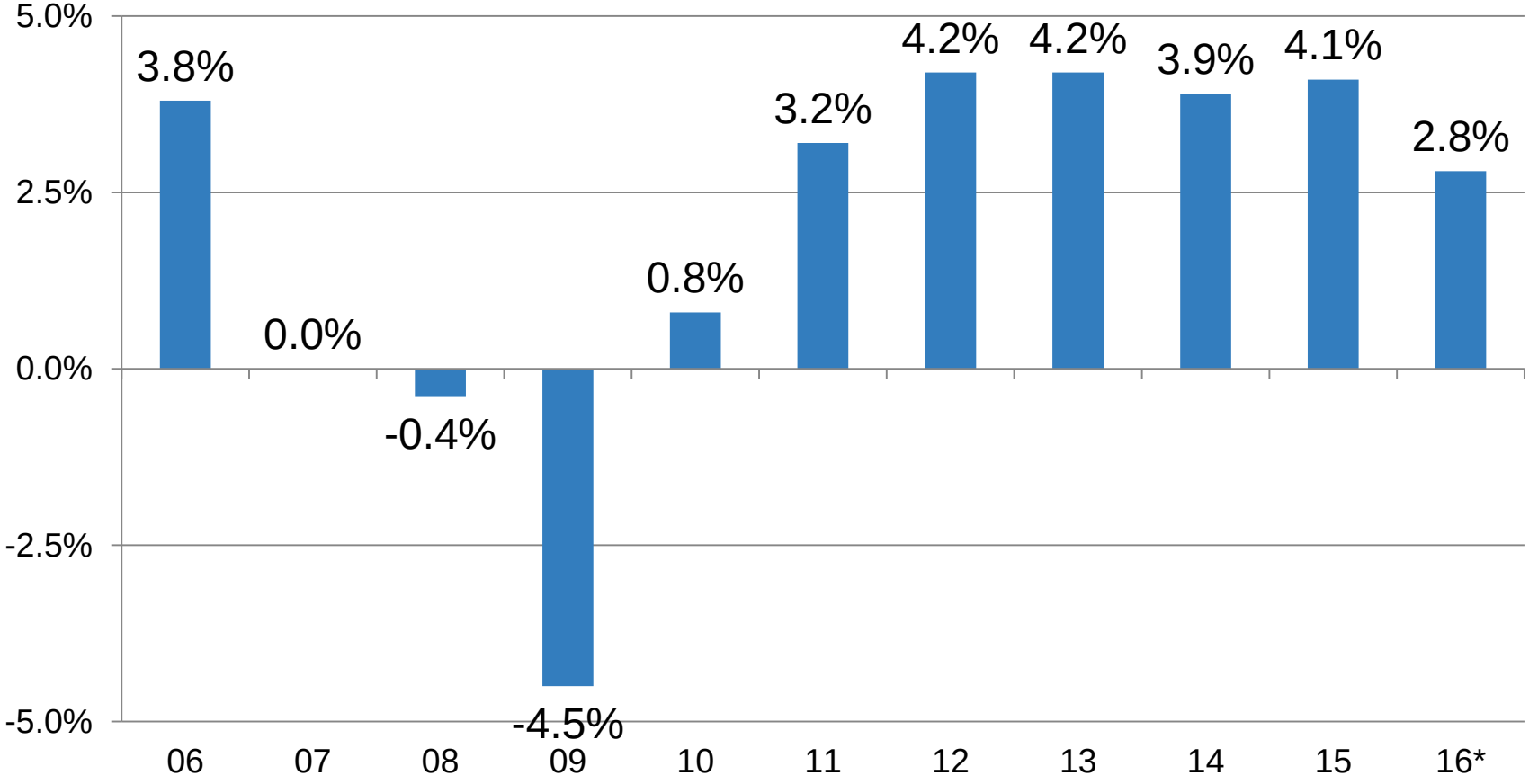
Commercial & Personal Lines NPW Growth: 1996-2016E



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

Note: Data include state funds beginning in 1998. 16E is first three quarters.
Sources: A.M. Best; Insurance Information Institute.

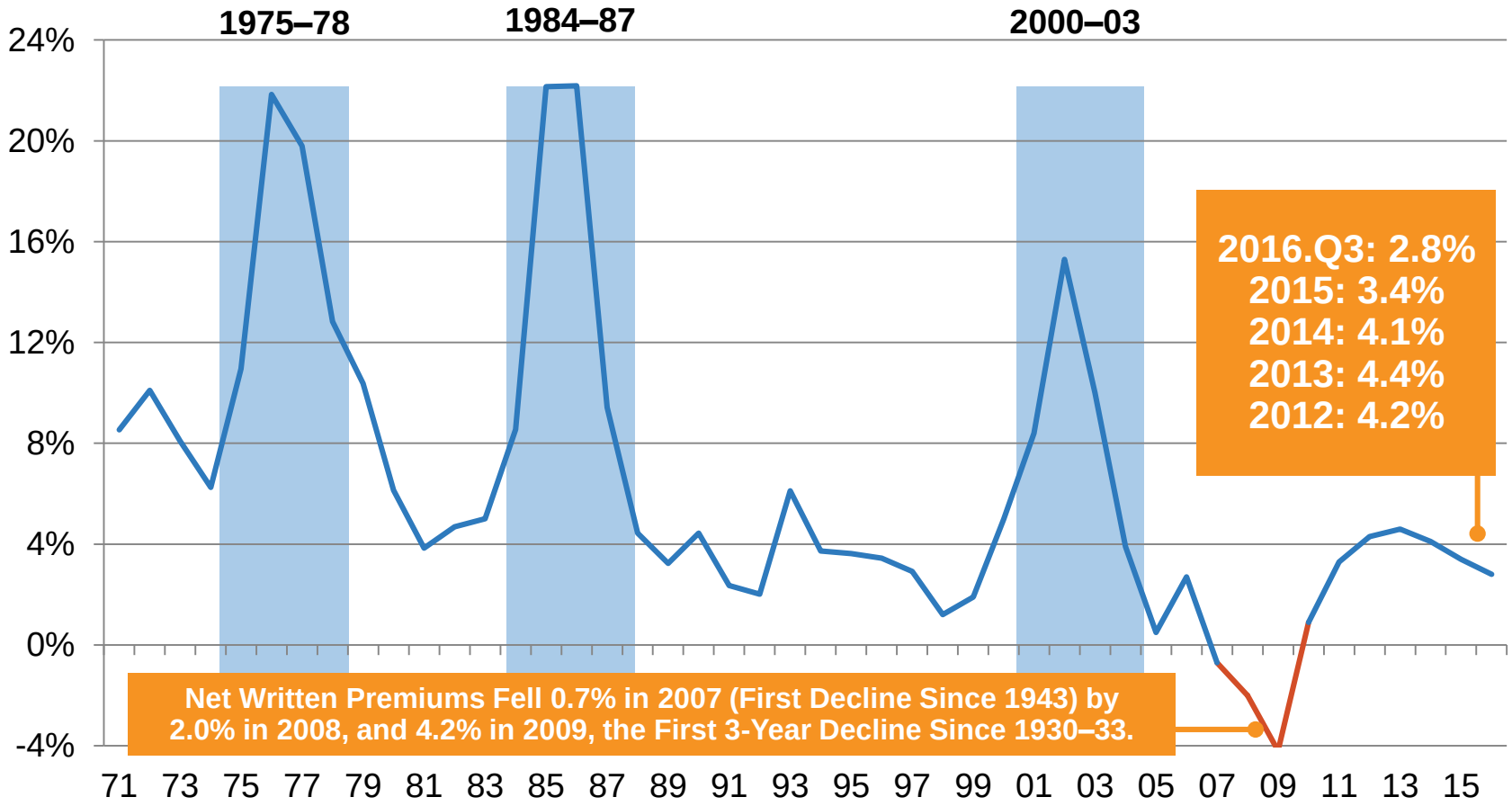
Net Written Premium Growth (All P/C Lines): First Three Quarters, 2006-2016



Total Net Written Premiums for the first nine months rose more slowly in 2016 than in any year since 2010.

Sources: A.M. Best (1971-2013), ISO (2014-16).

Net Premium Growth (All P/C Lines): Annual Change, 1971-2016:Q3

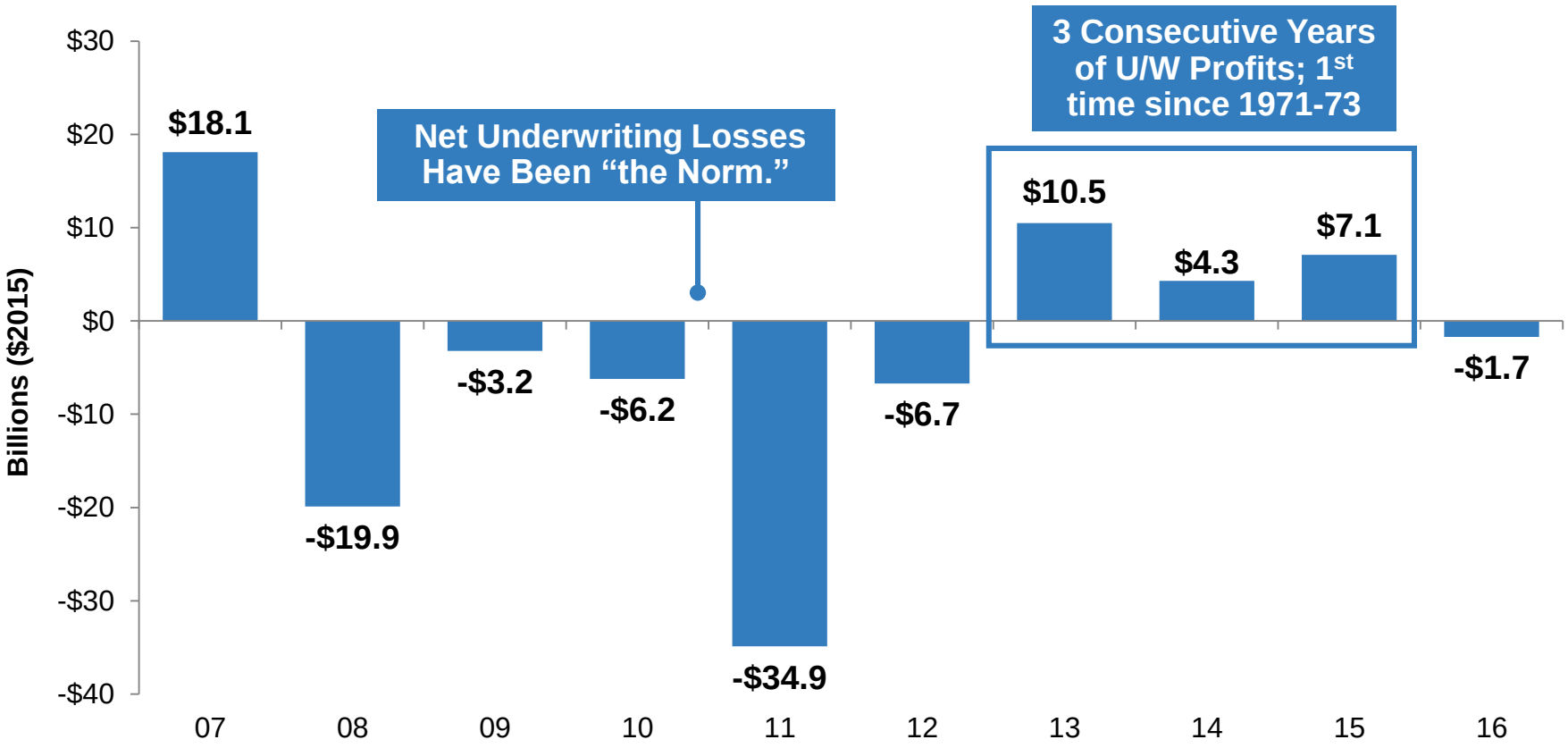


Net Written Premiums rose more slowly in each of the last three years vs. the year before, despite strong increases in personal lines premiums

Shaded areas denote "hard market" periods *2016 is first nine months

Sources: A.M. Best (1971-2013), ISO (2014-15).

Net Underwriting Gains & Losses, First Three Quarters, 2007-2016



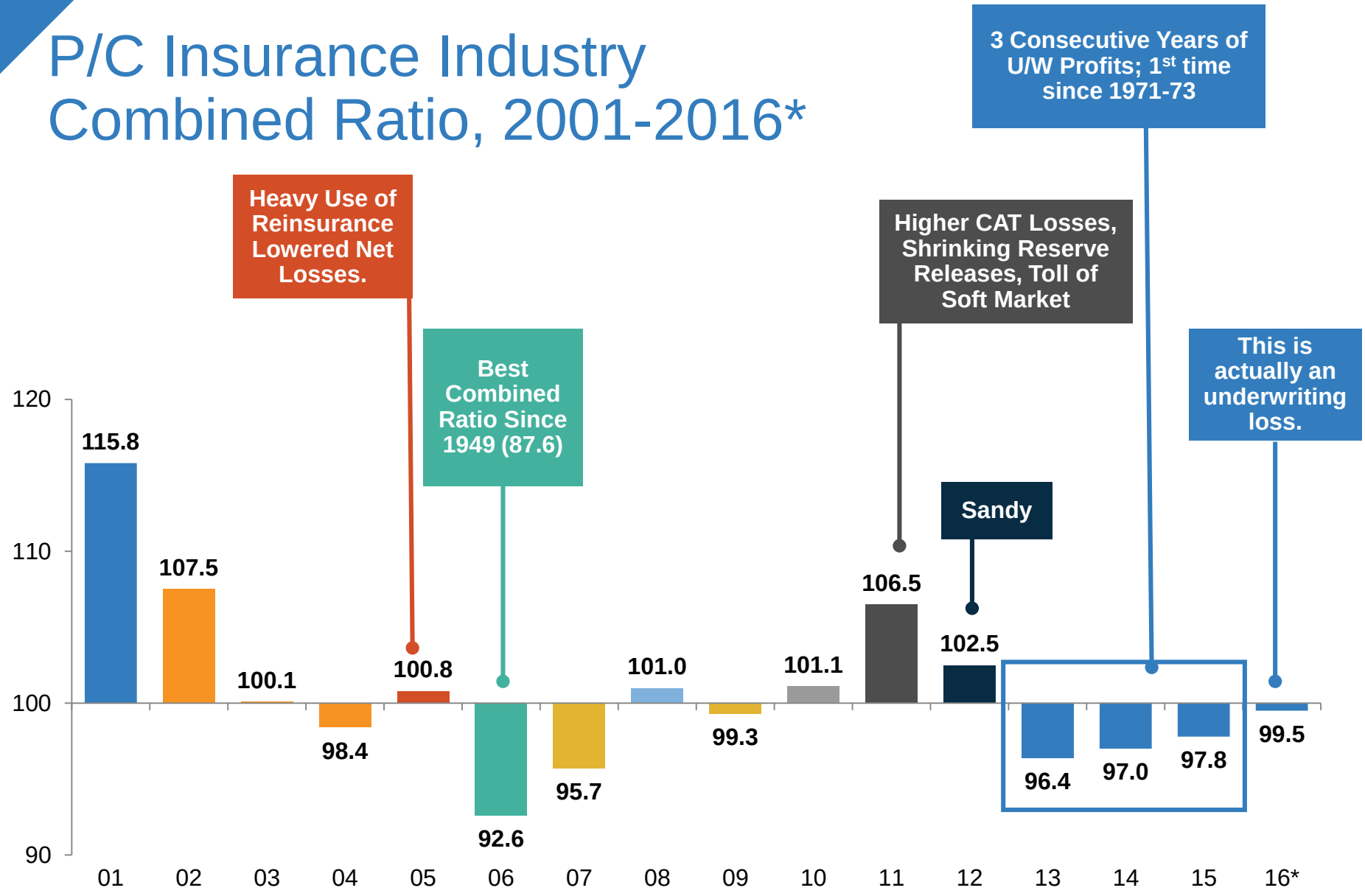
2013/14/15 Were Welcome Respites from 2011/12, Which Were Among the Costliest Years for Insured Disaster Losses in U.S. History. Longer-term Trend is for More – Not Fewer – Costly Events.

*Estimates through 12/31/15 in 2015 dollars.

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).

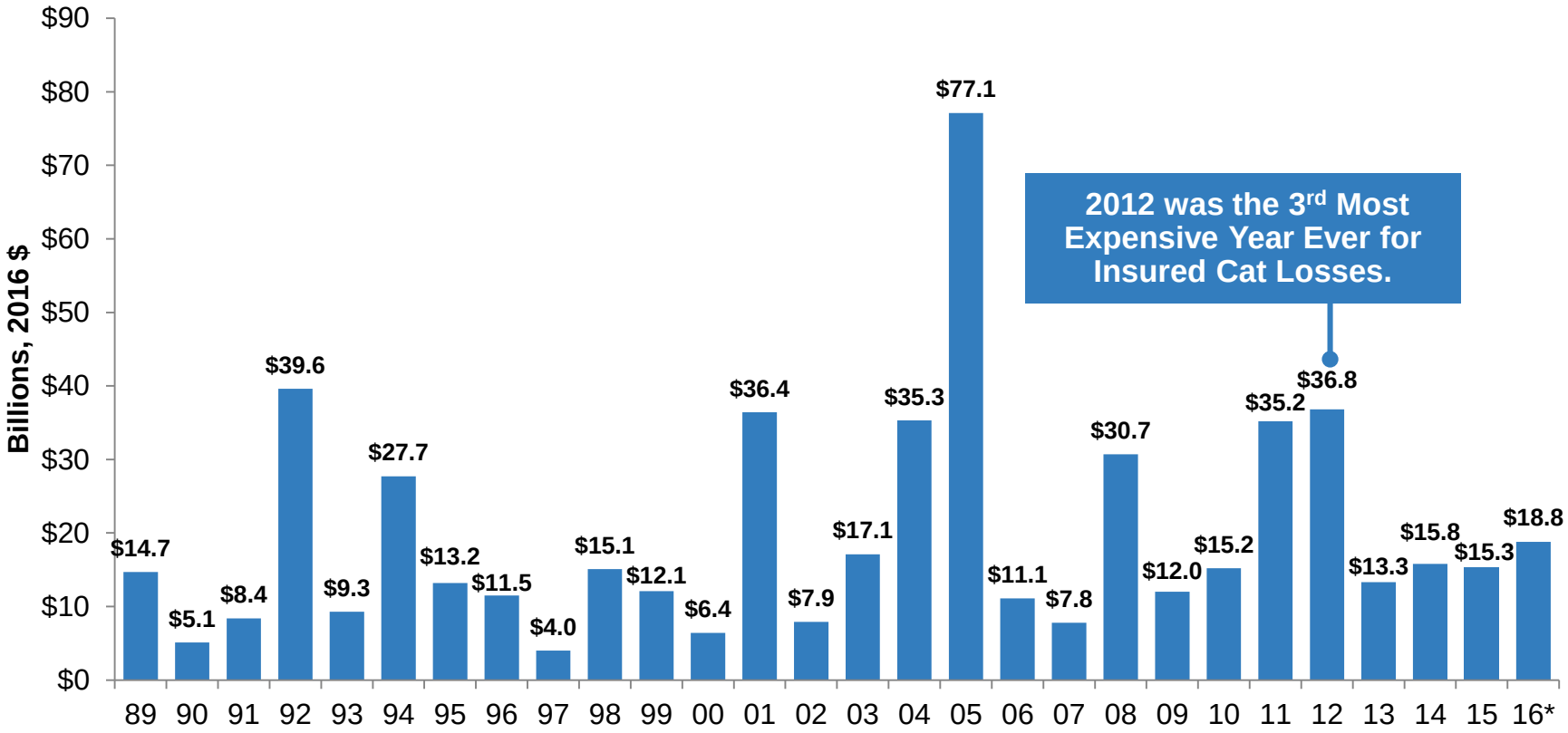
Sources: Property Claims Service, a Verisk Analytics business; Insurance Information Institute.

P/C Insurance Industry Combined Ratio, 2001-2016*



*Excludes Mortgage & Financial Guaranty insurers 2008-2014. 2016 is first nine months
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; 2010-2015E is from A.M. Best P&C Review and Preview, February 16, 2016.

U.S. Insured Catastrophe Losses



2013/14/15 Were Welcome Respites from 2011/12, Which Were Among the Costliest Years for Insured Disaster Losses in U.S. History. Longer-term Trend is for More – Not Fewer – Costly Events.

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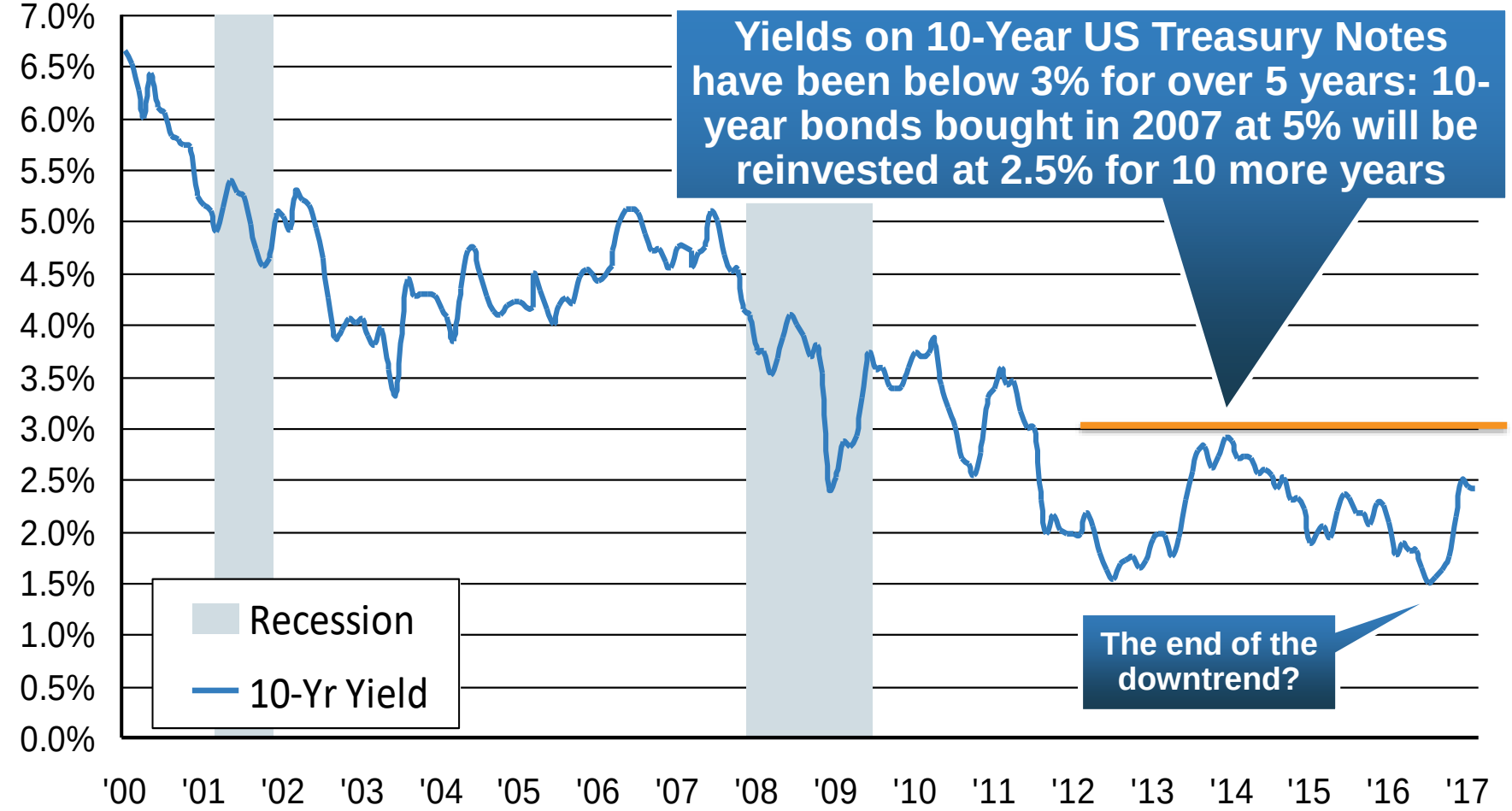
Sources: Property Claims Service, a Verisk Analytics business; Insurance Information Institute.

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, 2000–2017*



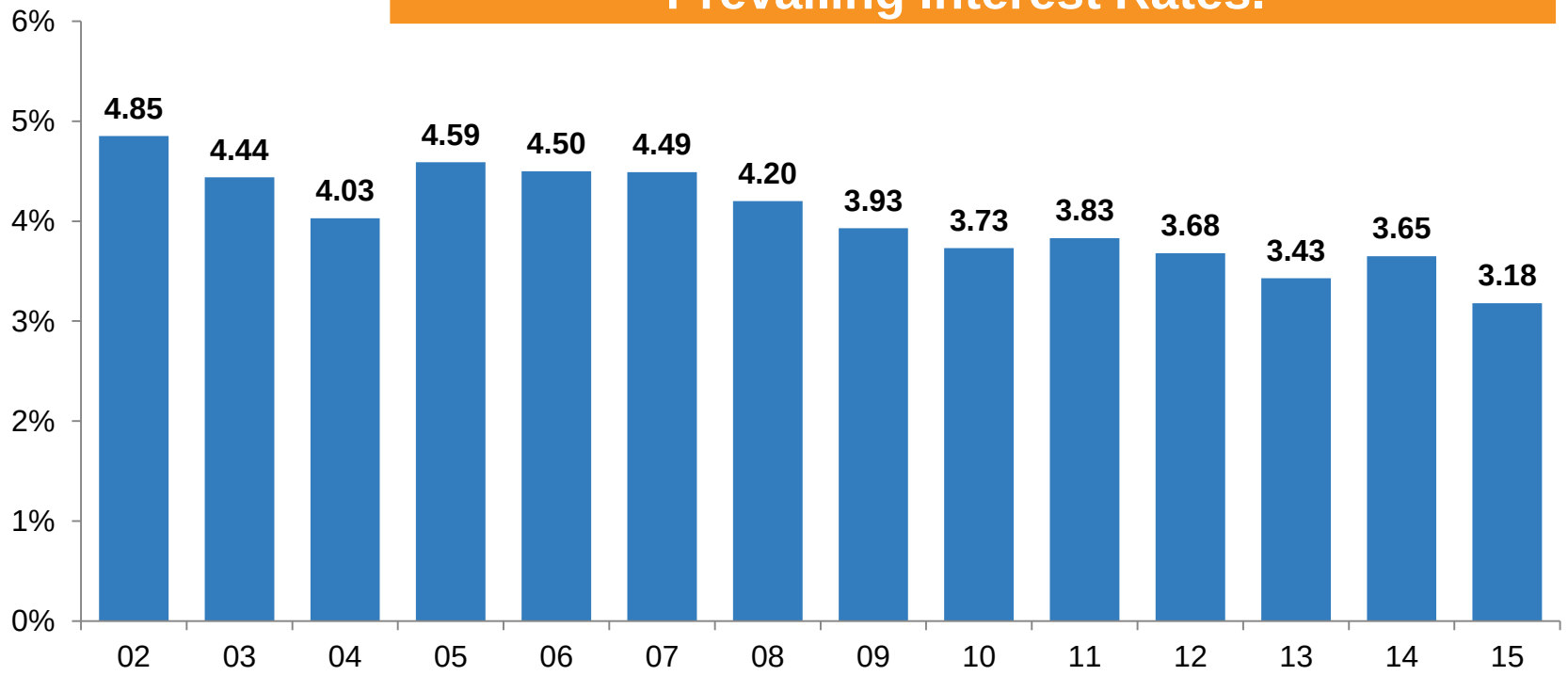
Since nearly 50% of P/C bond/cash investments are in 5-year or longer maturities, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, constant maturity, nominal rates, through February 2017.

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

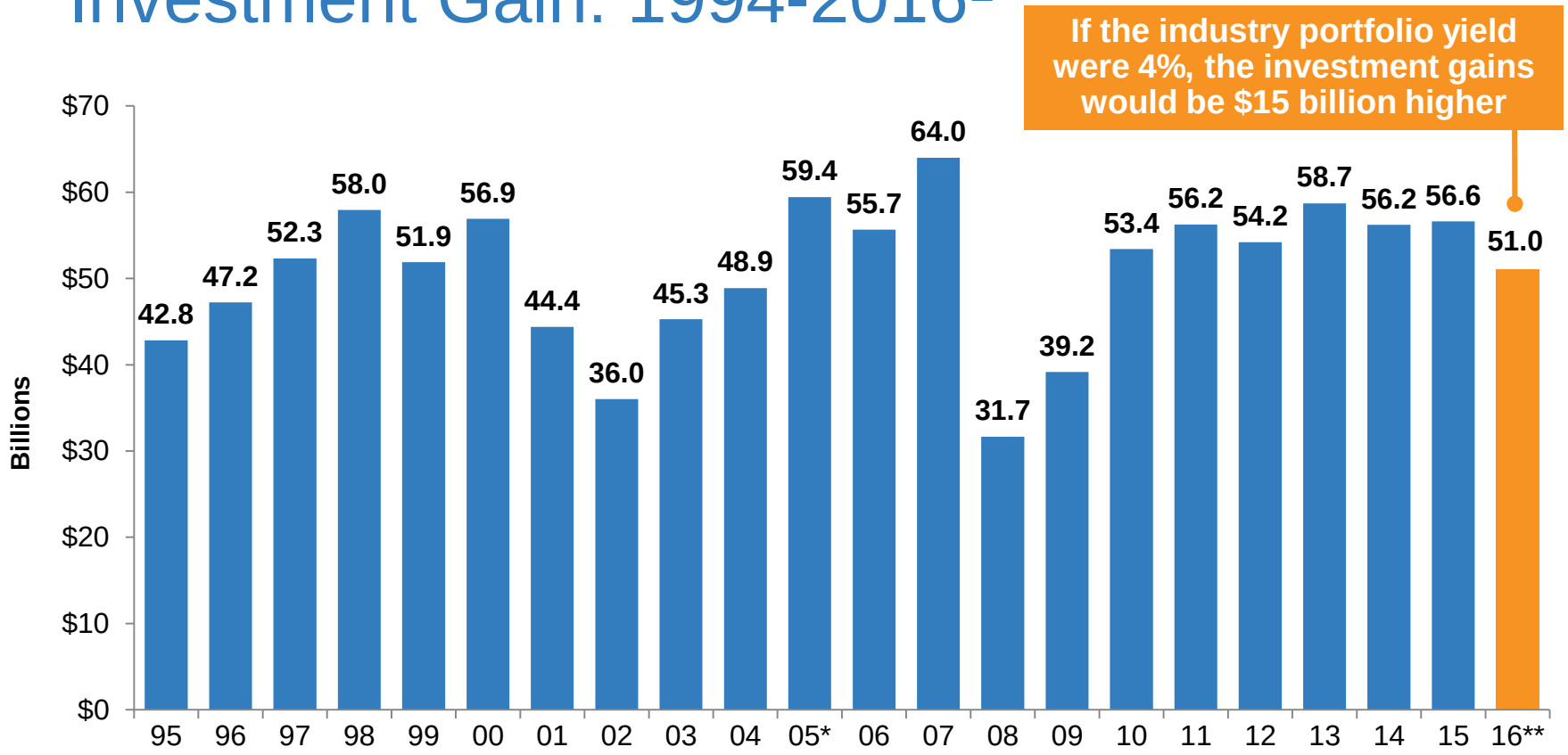
P/C Carrier Yields Have Been Falling for Over a Decade, Reflecting the Long Downtrend in Prevailing Interest Rates.



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.

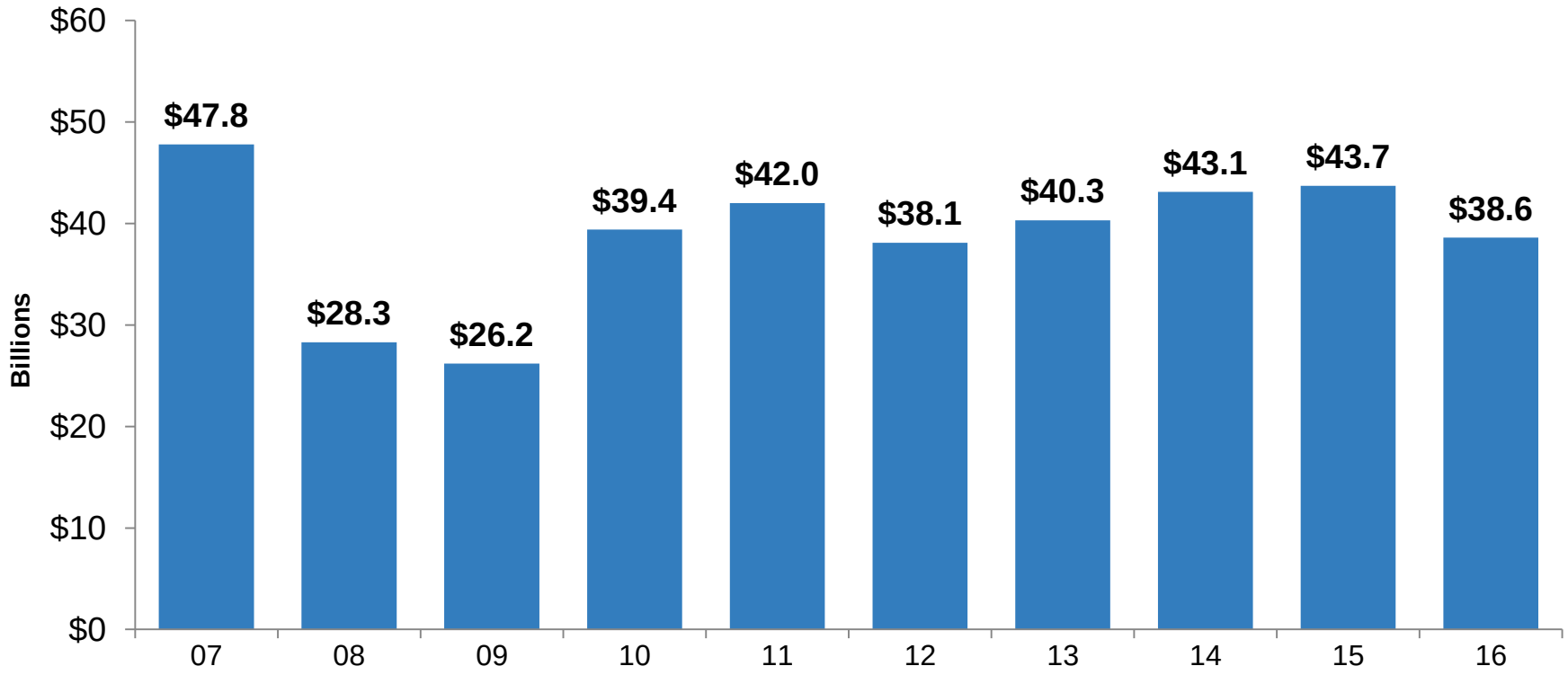
Property/Casualty Insurance Industry Investment Gain: 1994-2016[1]



Total Investment Gains through the first nine months of 2016 were down due to lower results in both investment income and realized capital gains.

[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 **2016 is first nine months, annualized
Sources: ISO, a Verisk Analytics company; NAIC data, sourced from S&P Global Market Intelligence; Insurance Information Institute.

P/C Insurance Industry Net Investment Gain[1] First Three Quarters, 2007-2016

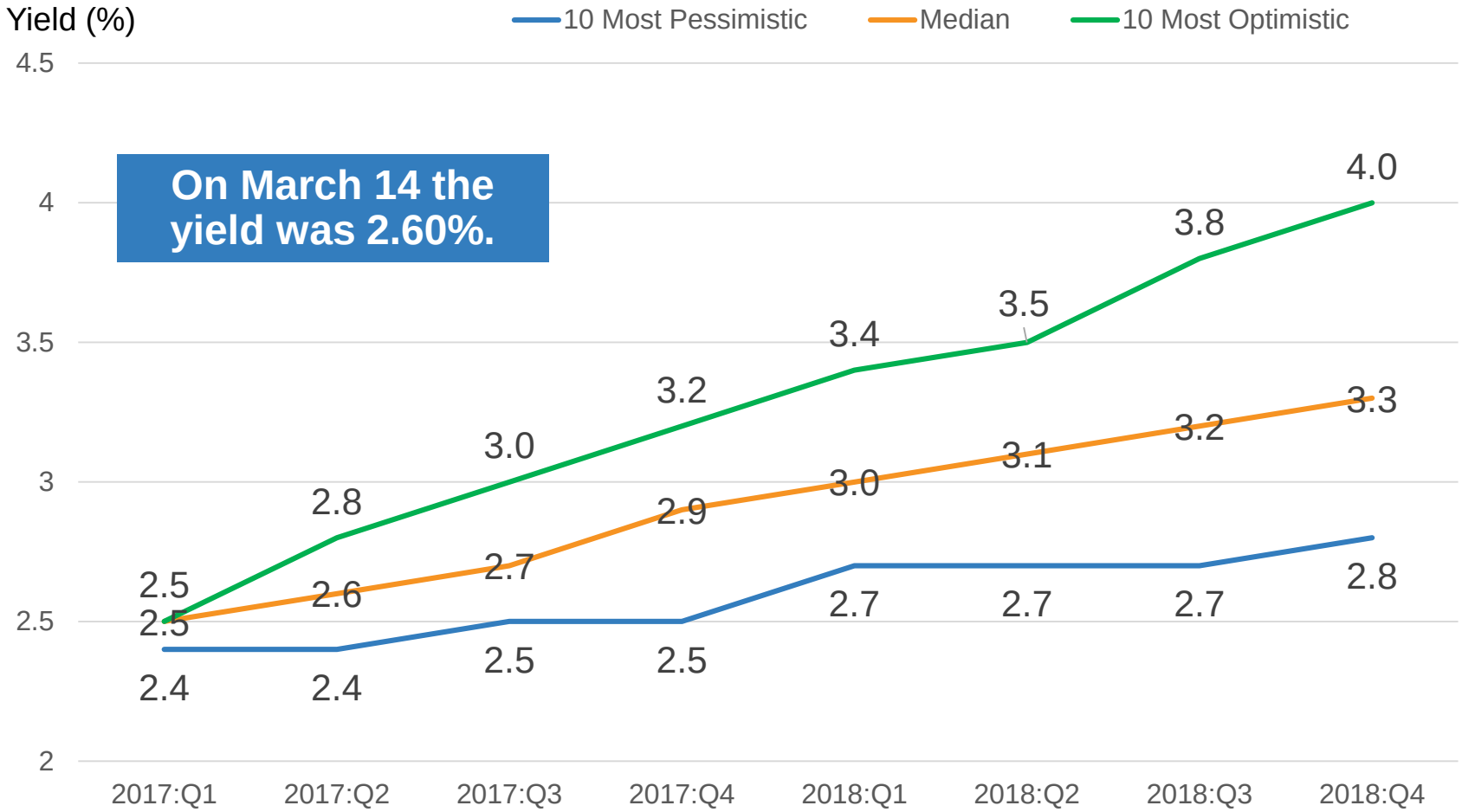


The ($5.1B) 11.6% drop in 2016 vs. 2015 reversed a small upward trend from 2012-2015. The drop was due to lower results in both investment income and realized capital gains.

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

*Sources: ISO, a Verisk Analytics company; NAIC data, sourced from S&P Global Market Intelligence; Insurance Information Institute.

March 2017: Quarterly Yield Forecasts for 10-Year US Treasury Bonds in 2017-18



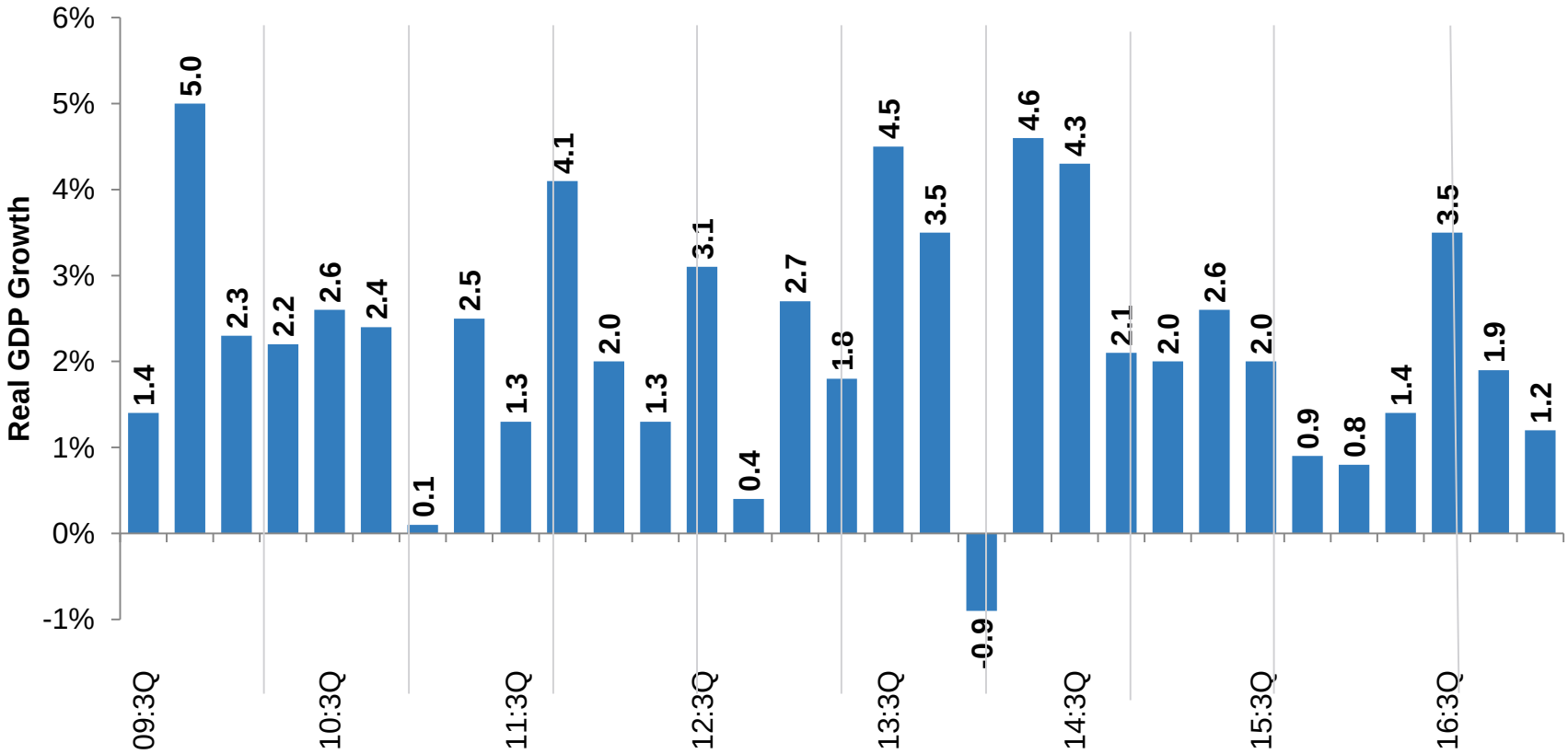
Virtually all of the 53 forecasts in the Blue Chip survey expect continual increases in the yield of 10-year T-bonds in 2017-18.

Sources: Blue Chip Economic Indicators (3/17); Insurance Information Institute

The Economic Environment for the U.S. P/C Insurance Business

The Strength of the Economy Will Affect the Exposure Base Across Most Lines

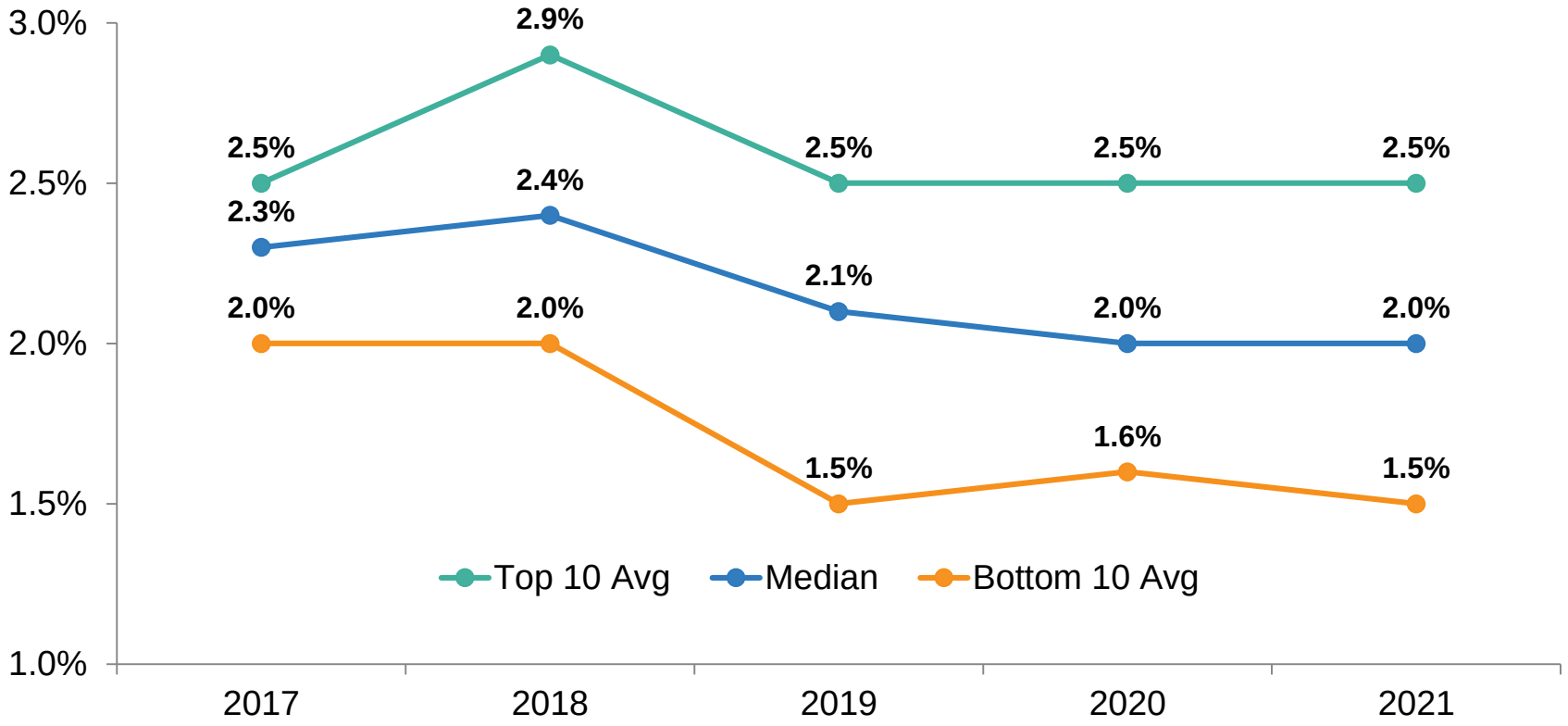
U.S. Post-Recession Real GDP Growth,* Quarterly (Seasonally-Adjusted at an Annual Rate)



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 8 times in 31 quarters. Only once in the last 10.

Sources: U.S. Department of Commerce; estimate for 2017:Q1 from Atlanta Federal Reserve Bank GDPnow, March 8, 2017, at https://www.frbatlanta.org/cqer/research/gdpnow.aspx?panel=1 ; Insurance Information Institute.

Yearly U.S. Real GDP Growth: Range of Forecasts, 2017-2021

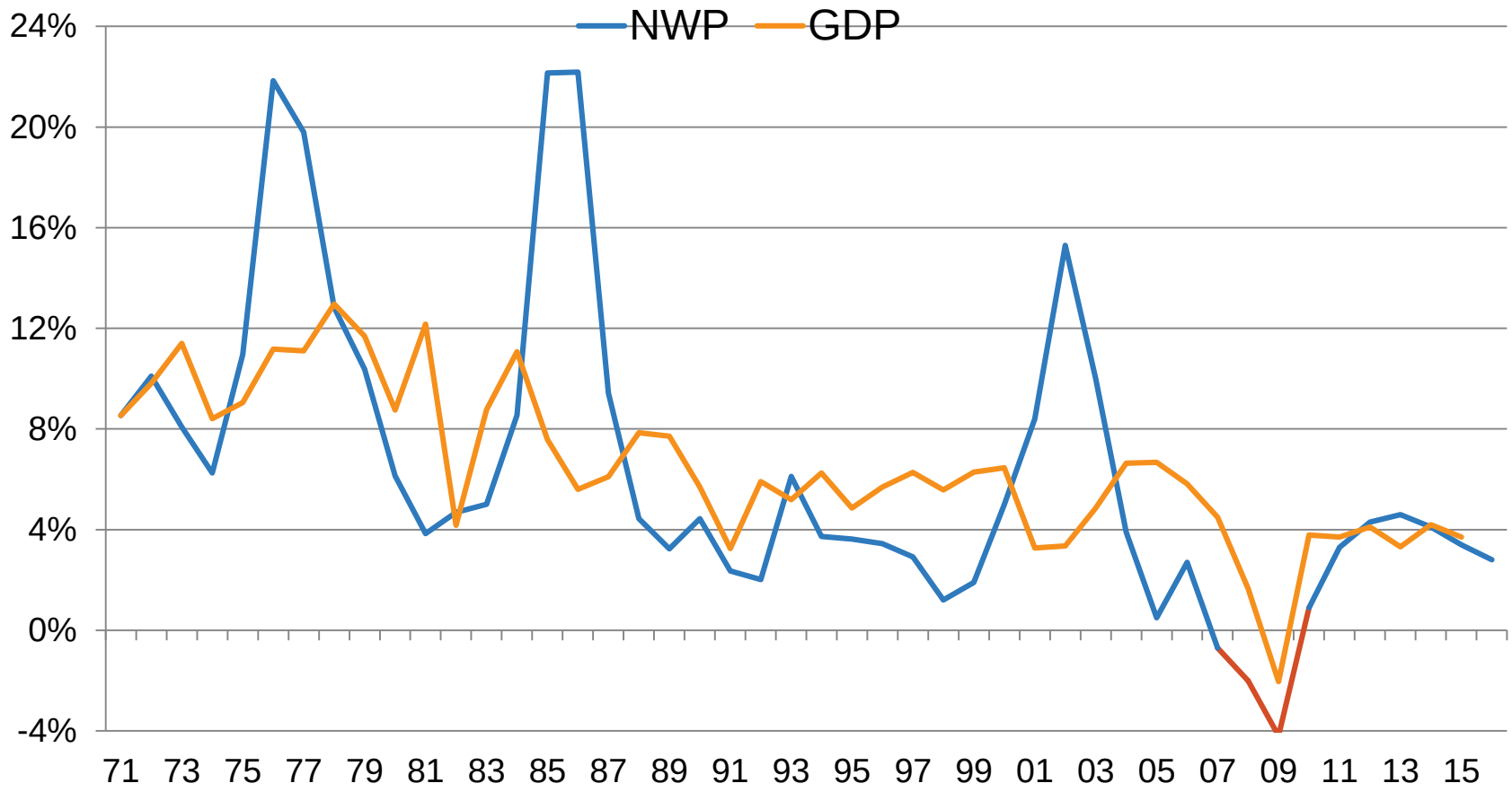


All Forecasts Expect U.S. Growth to be Fairly Steady in 2019-21; The Main Difference Among Them is the Level of Economic Activity.

Sources: Blue Chip Economic Indicators, March 2017 issue; Insurance Information Institute.

The Economy Drives the P/C Insurance Industry:

Net Premium Growth (All P/C Lines) vs. Nominal GDP: Annual Change, 1971-2015

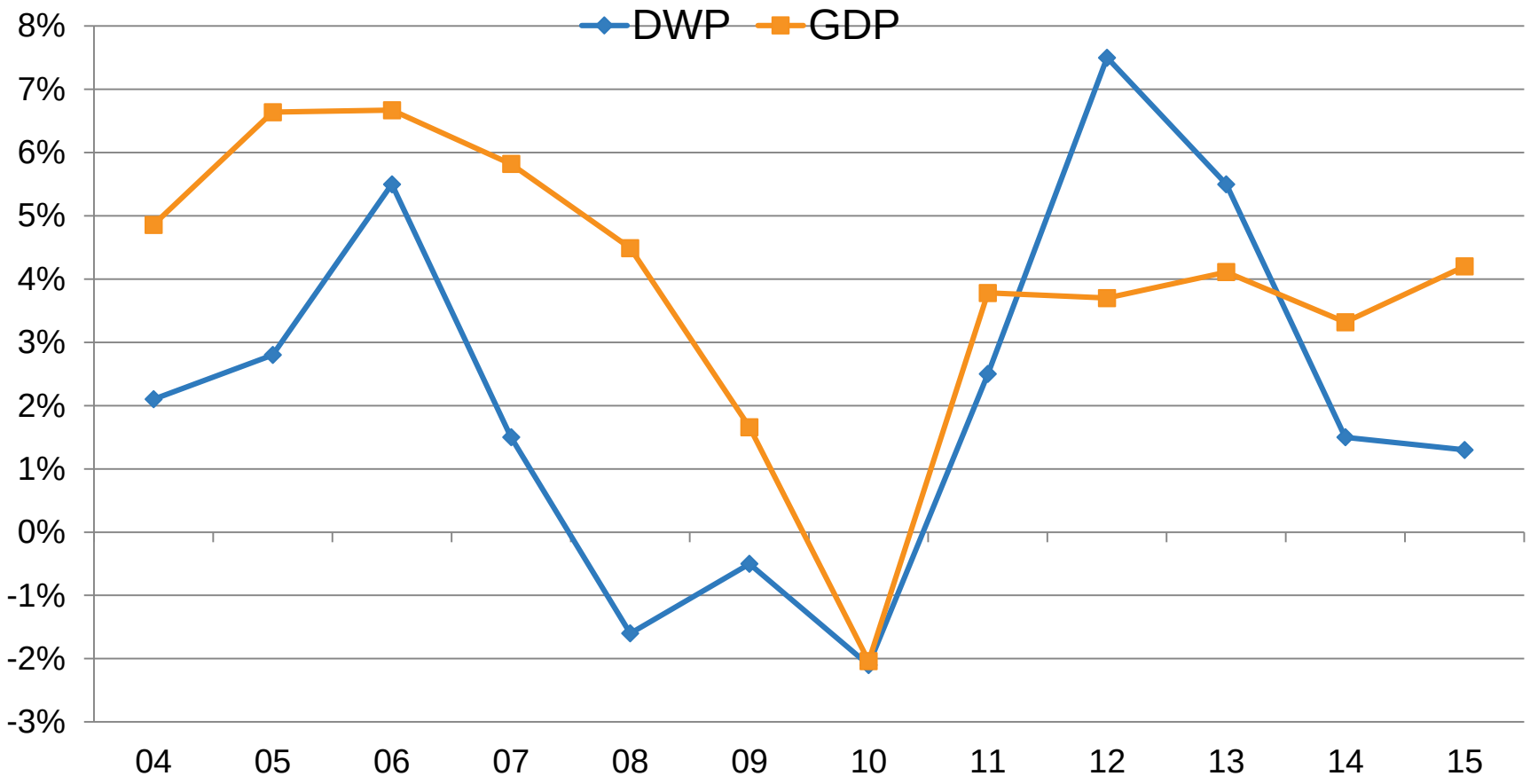


Except for the three "hard markets" in this 45-year period,
Net Written Premiums track Nominal GDP—not year by year but fairly well.

Sources: A.M. Best (1971-2013), ISO (2014-15); U.S. Commerce Dept, Bureau of Economic Analysis; I.I.I.

Does the Economy Drive Business Property Insurance Premiums?

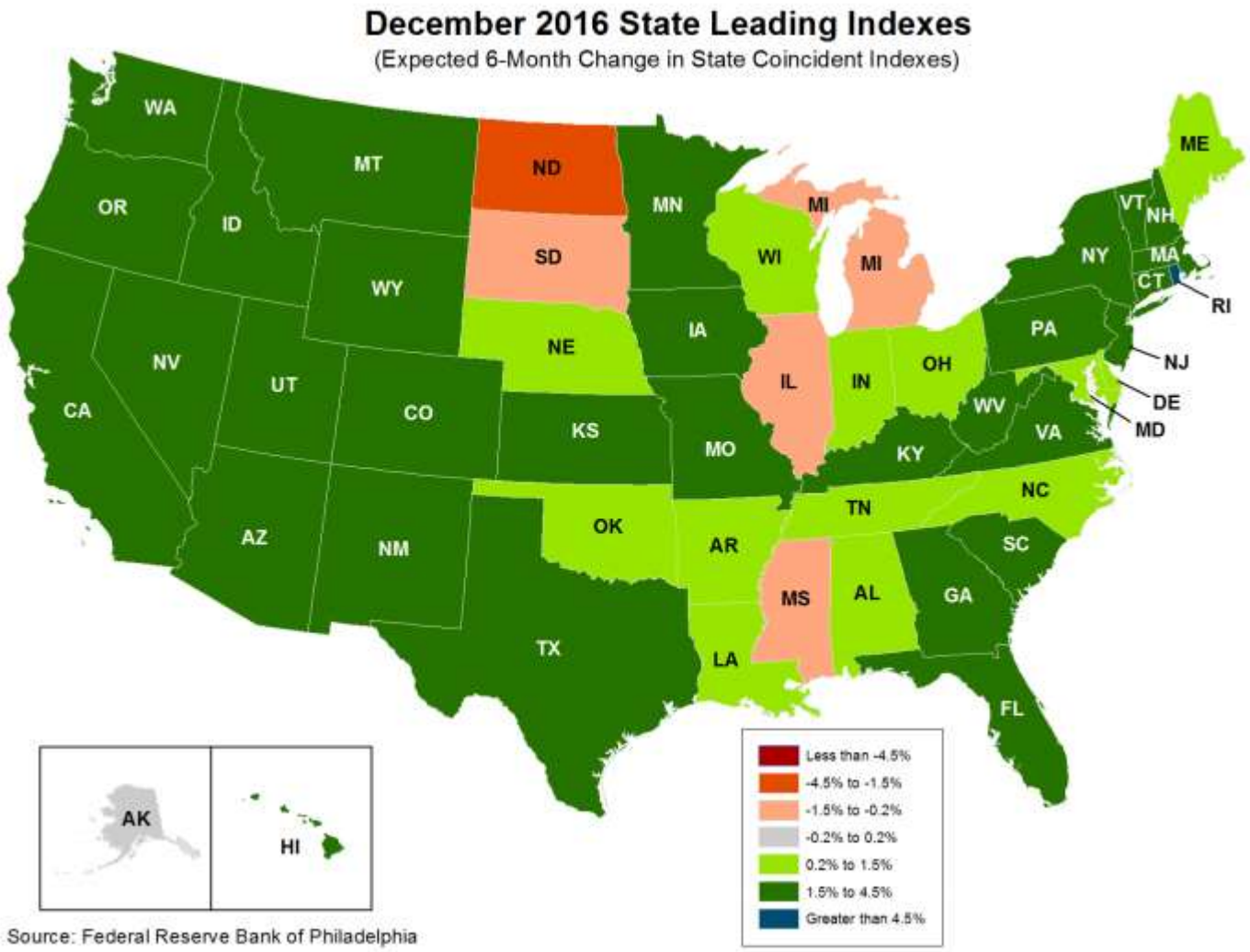
Direct Written Premium Growth (CMP Non-Liability) vs. Year-Earlier Change in Nominal GDP



Direct Written Premiums for the Non-Liability portion of Commercial Multiple Peril Insurance track one-year-earlier Nominal GDP—not year by year but fairly well.

Sources: A.M. Best *2016 Aggregates & Averages*, p. 568; U.S. Commerce Dept, Bureau of Economic Analysis; I.I.I.

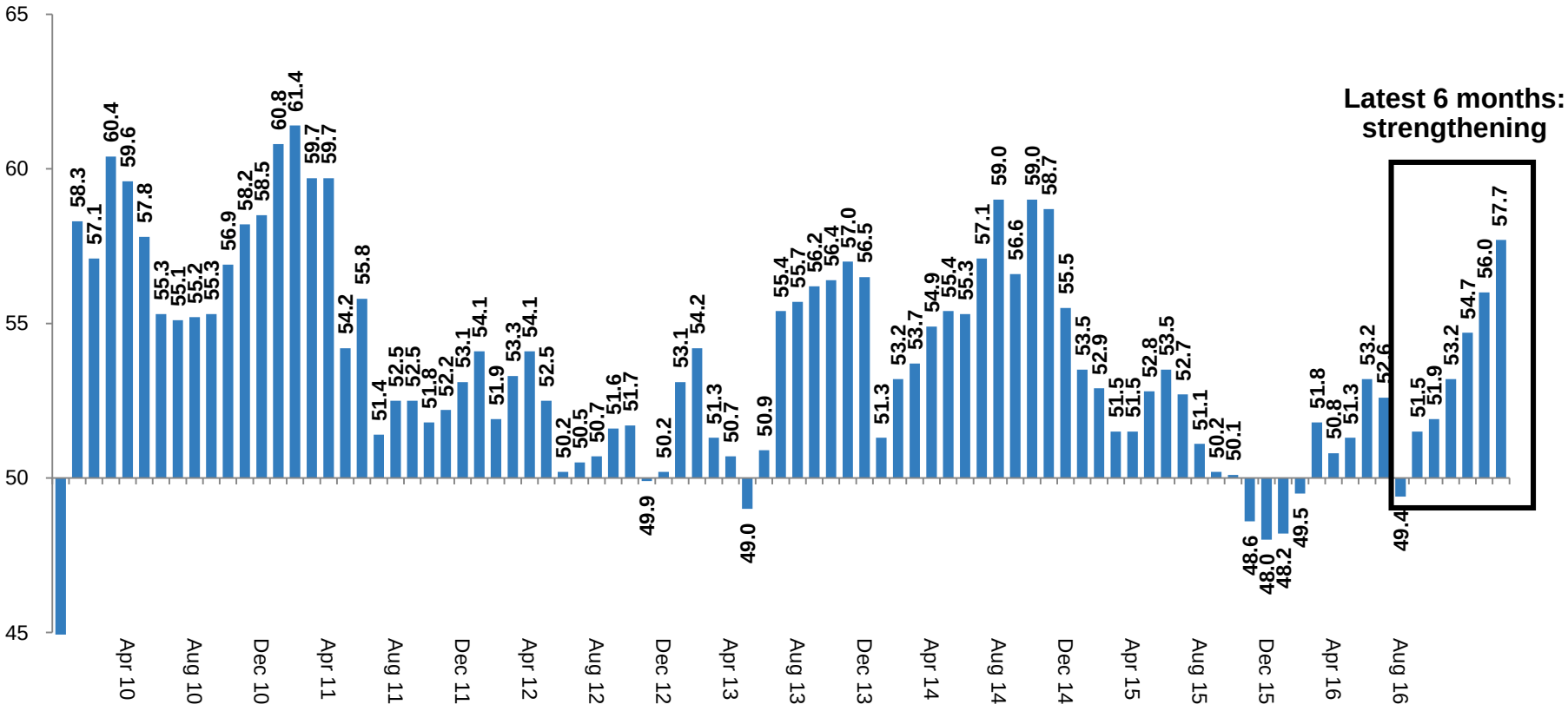
State-by-State Leading Indicators through June 2017



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 = yellow

Sources: Federal Reserve Bank of Philadelphia at www.philadelphiafed.org/index.cfm , released February 1, 2017; Next release is April 6, 2017; Insurance Information Institute.

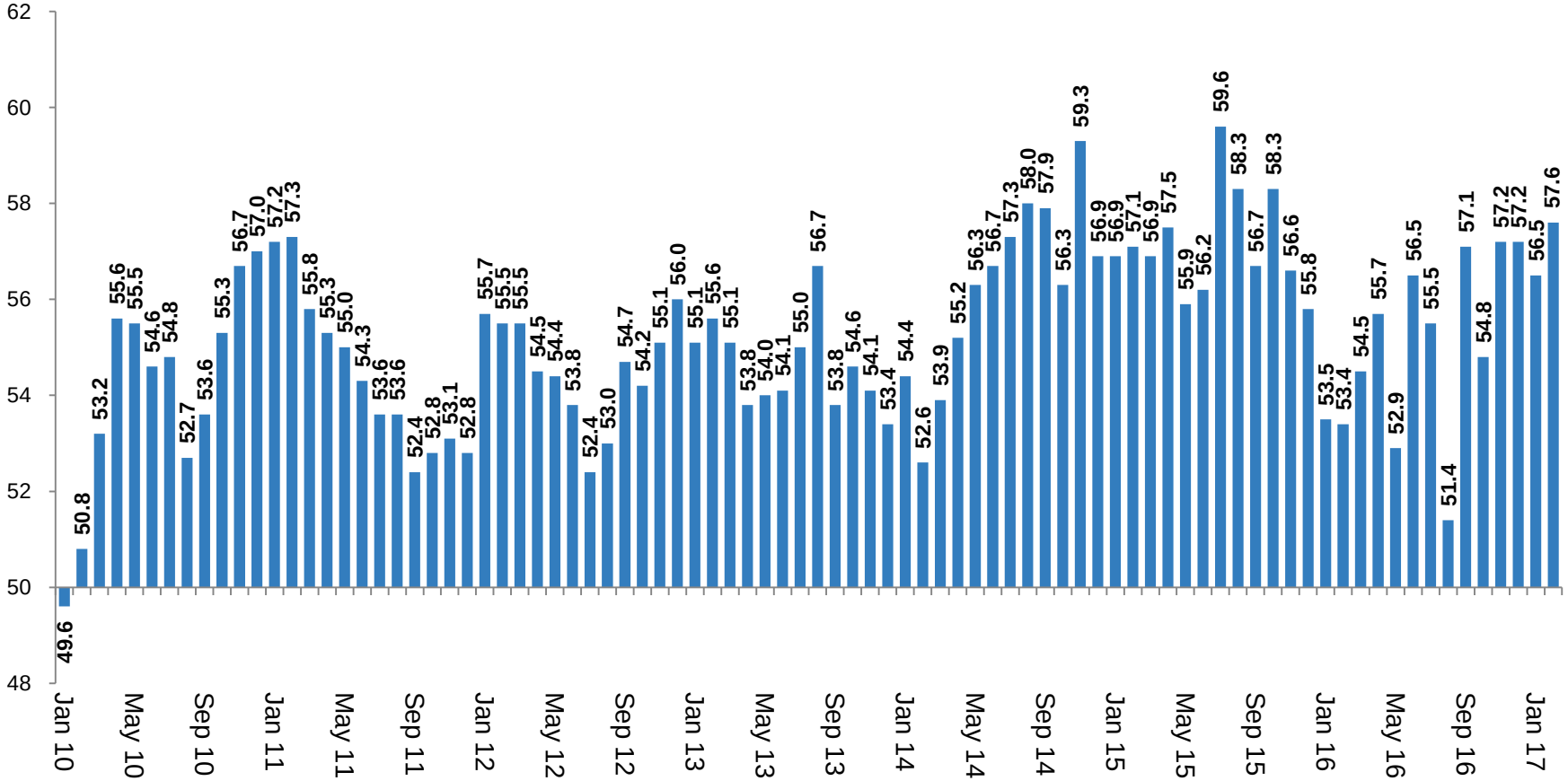
ISM Manufacturing Index (Values > 50 Indicate Expansion), January 2010-February 2017



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 but is expanding again.

Sources: Institute for Supply Management; Insurance Information Institute.

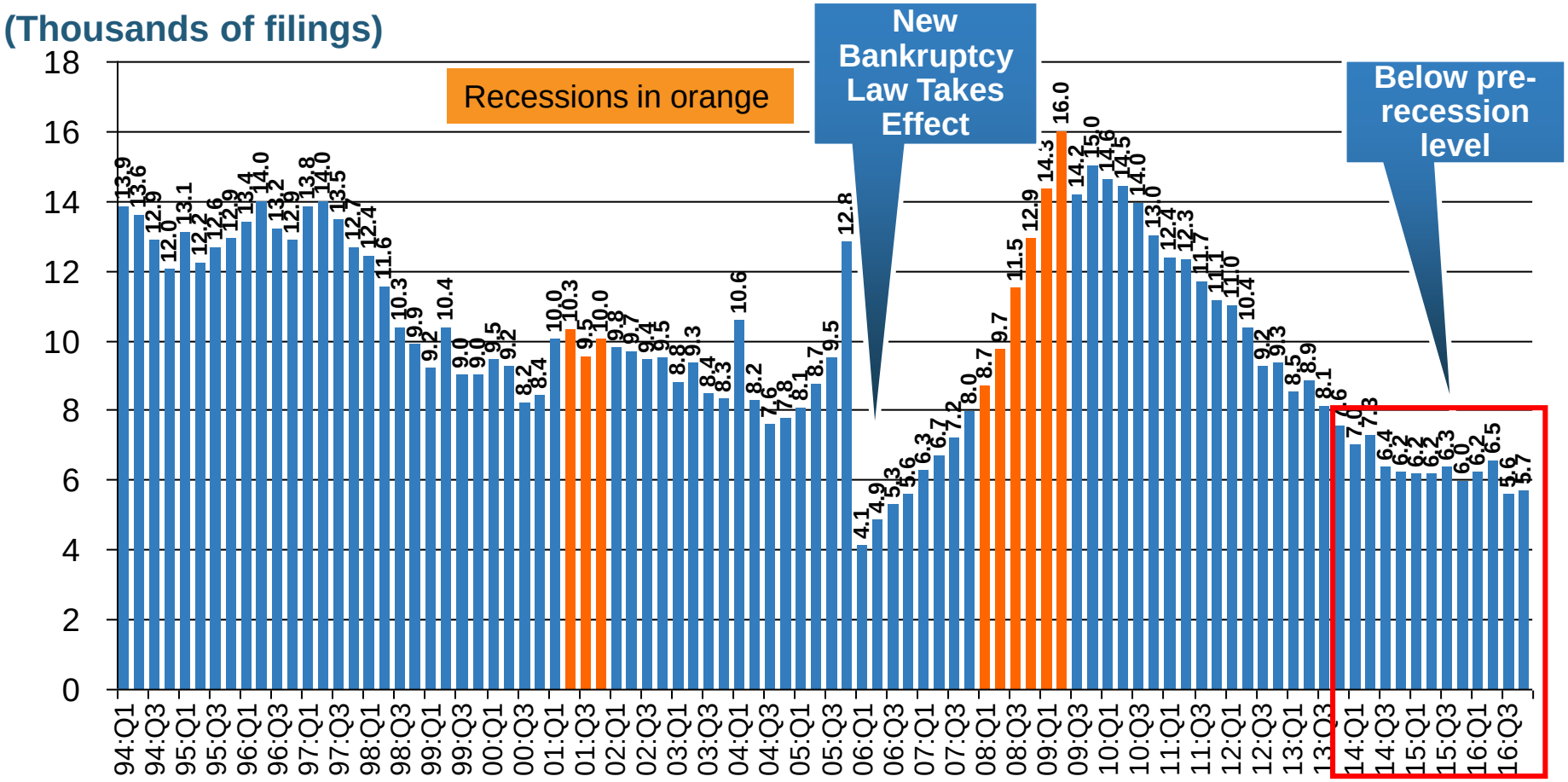
ISM Non-Manufacturing Index (Values > 50 Indicate Expansion), January 2010-February 2017



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 ended strong.

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

Business Bankruptcy Filings: Three Years at Remarkably Low Levels (1994:Q1 – 2016:Q4)



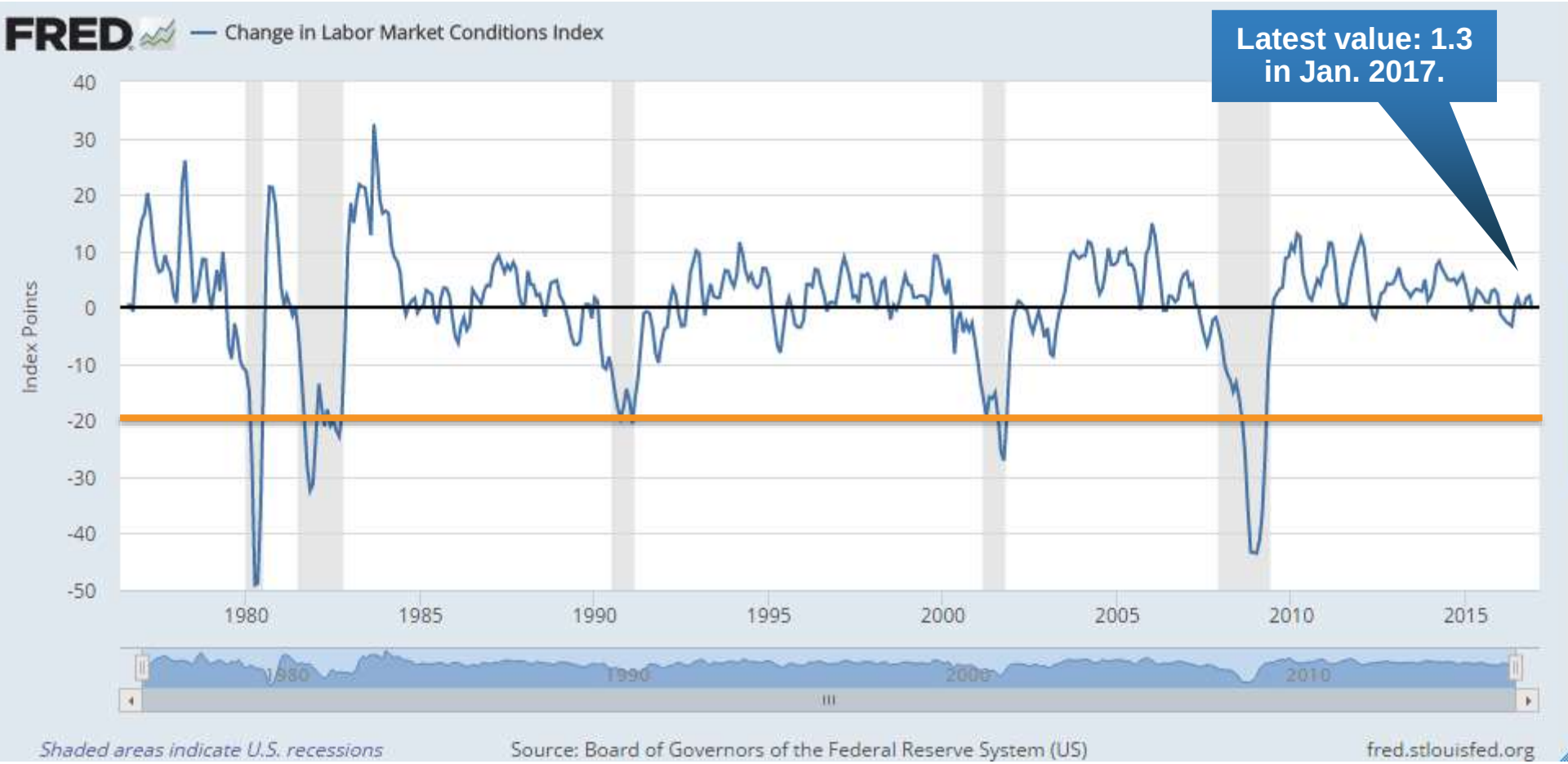
Business bankruptcies in 2014-16 were below both the Great Recession levels and the 2003:Q3-2005:Q1 period (the best five-quarter stretch in the last 20 years). Bankruptcies restrict exposure growth in all commercial lines.

Sources: U.S. Courts at http://www.uscourts.gov/uscourts/Statistics/BankruptcyStatistics/BankruptcyFilings/2013/1216_f2q.pdf ; Insurance Information Institute

The Labor Market

Key Driver of Profitability

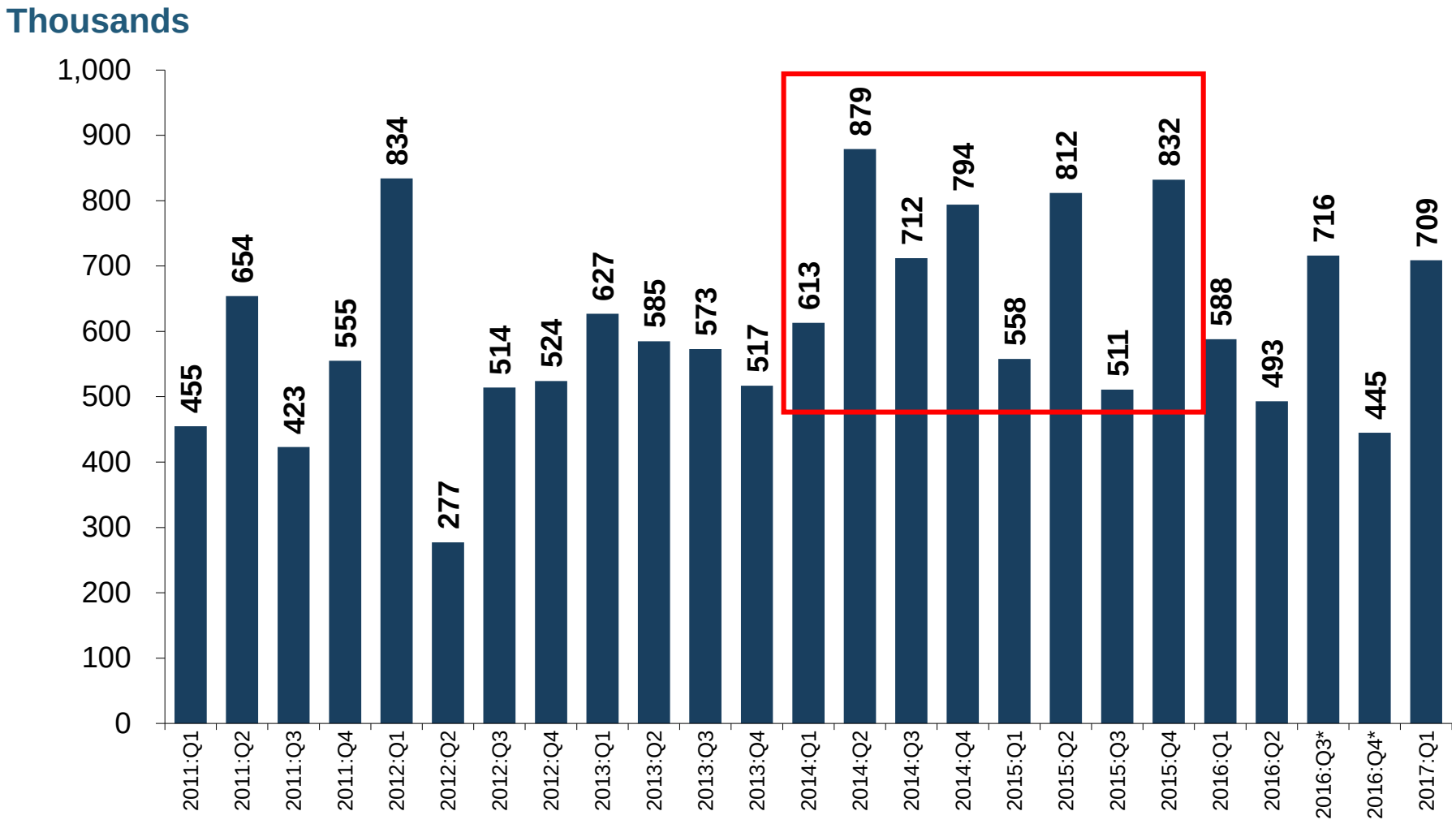
The Fed's Labor Market Conditions Index Combines 19 Labor Market Indicators



Since 1976, we've had a recession whenever the Index drops below -20.

Source: https://fred.stlouisfed.org/series/FRBLMCI#0

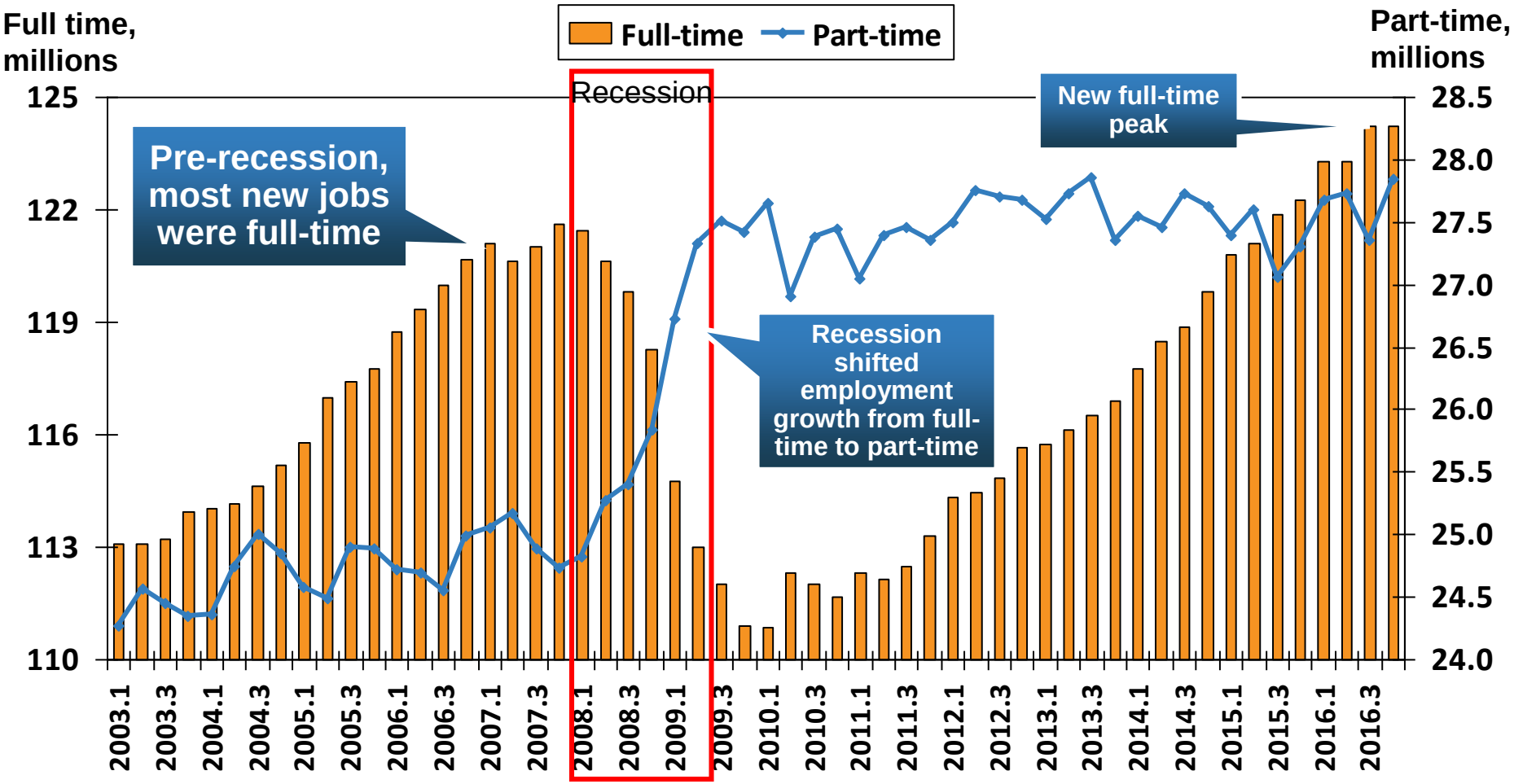
Nonfarm Employment, Quarterly Change, 2011 – 2017*



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

*Seasonally adjusted; 2017:Q1 is January + February x 3/2 and is preliminary
Sources: US Bureau of Labor Statistics; Insurance Information Institute

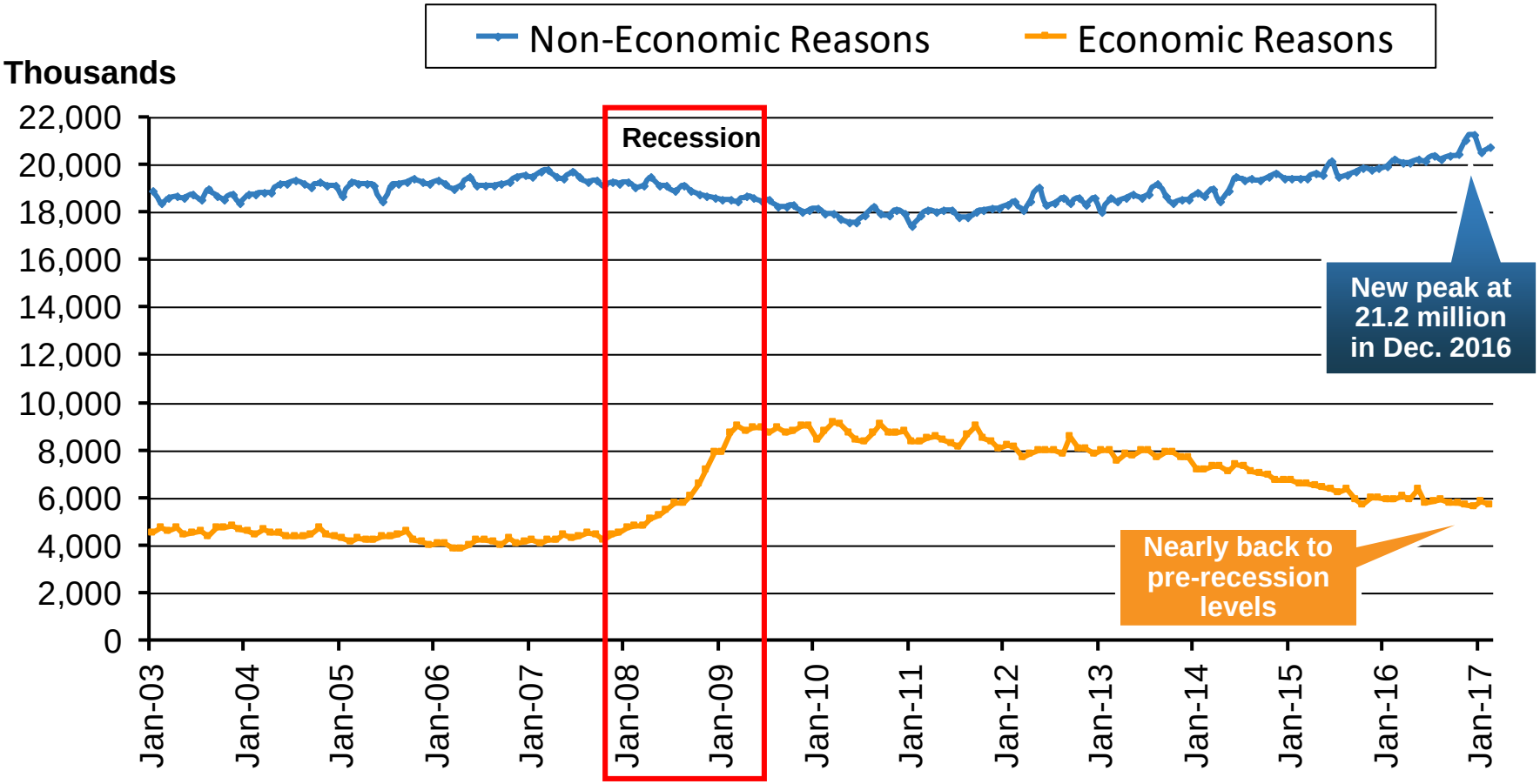
Full-time vs. Part-time Employment, Quarterly, 2003-2016



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.

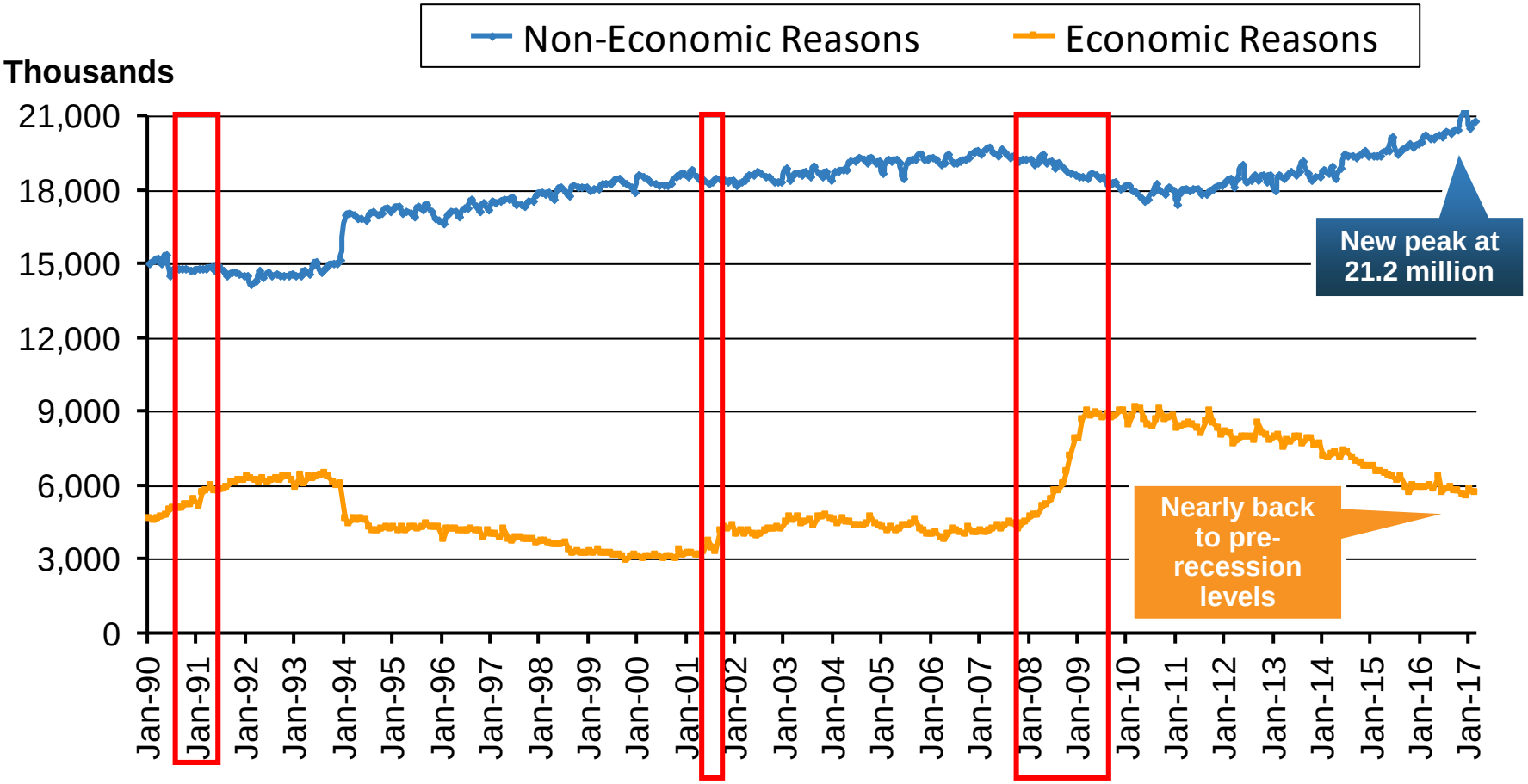
Opposite Trends for Components of Part-time Employment, 1990-2017



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

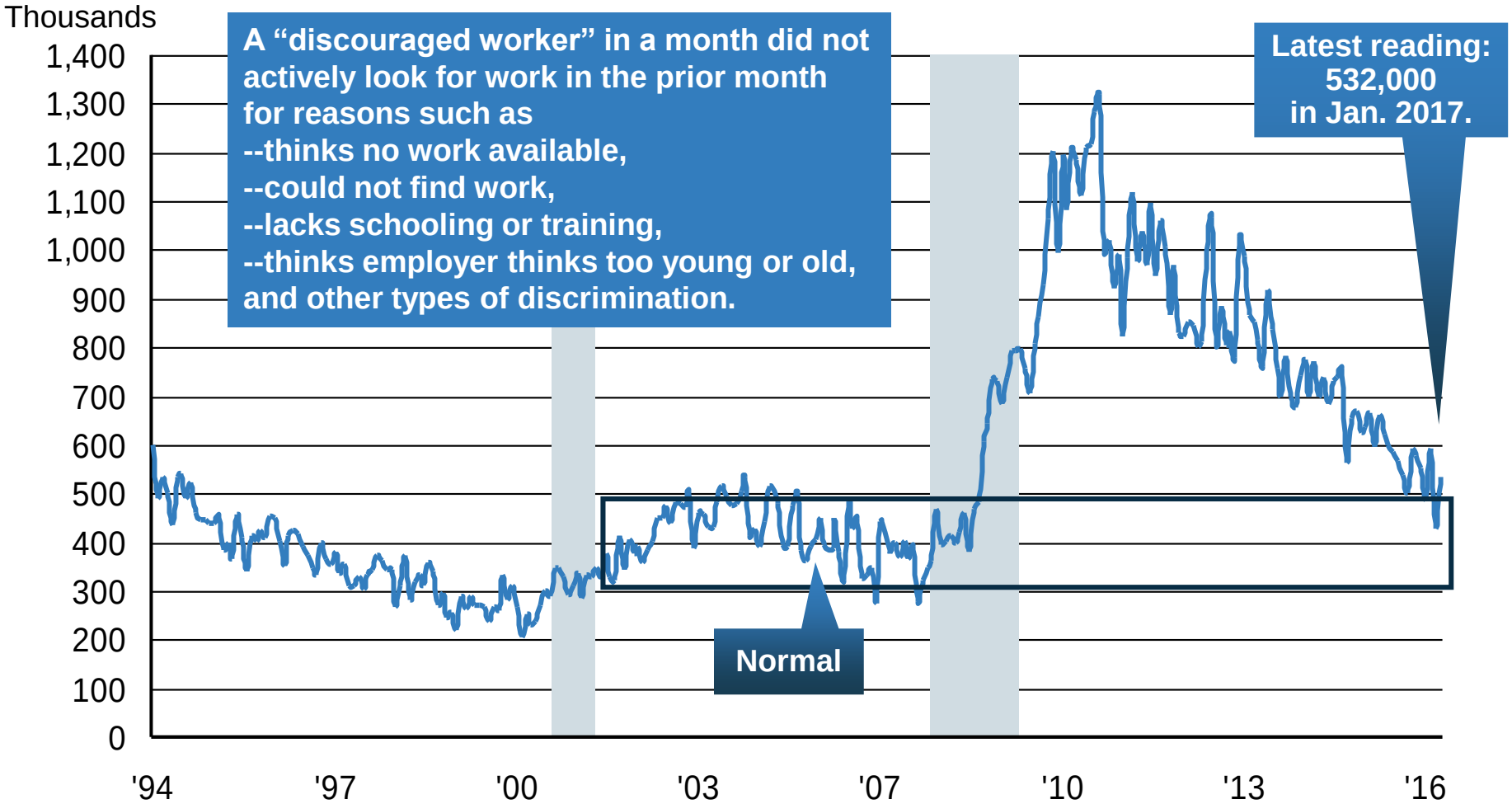
Opposite Trends for Components of Part-time Employment, 1990-2017



Both lines are 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 boxes are recessions.
Sources: https://fred.stlouisfed.org/series/LNS12032197 and https://fred.stlouisfed.org/series/LNS12032200

Number of "Discouraged Workers": Back Near a "Normal" Range Jan. 1994 – Jan. 2017

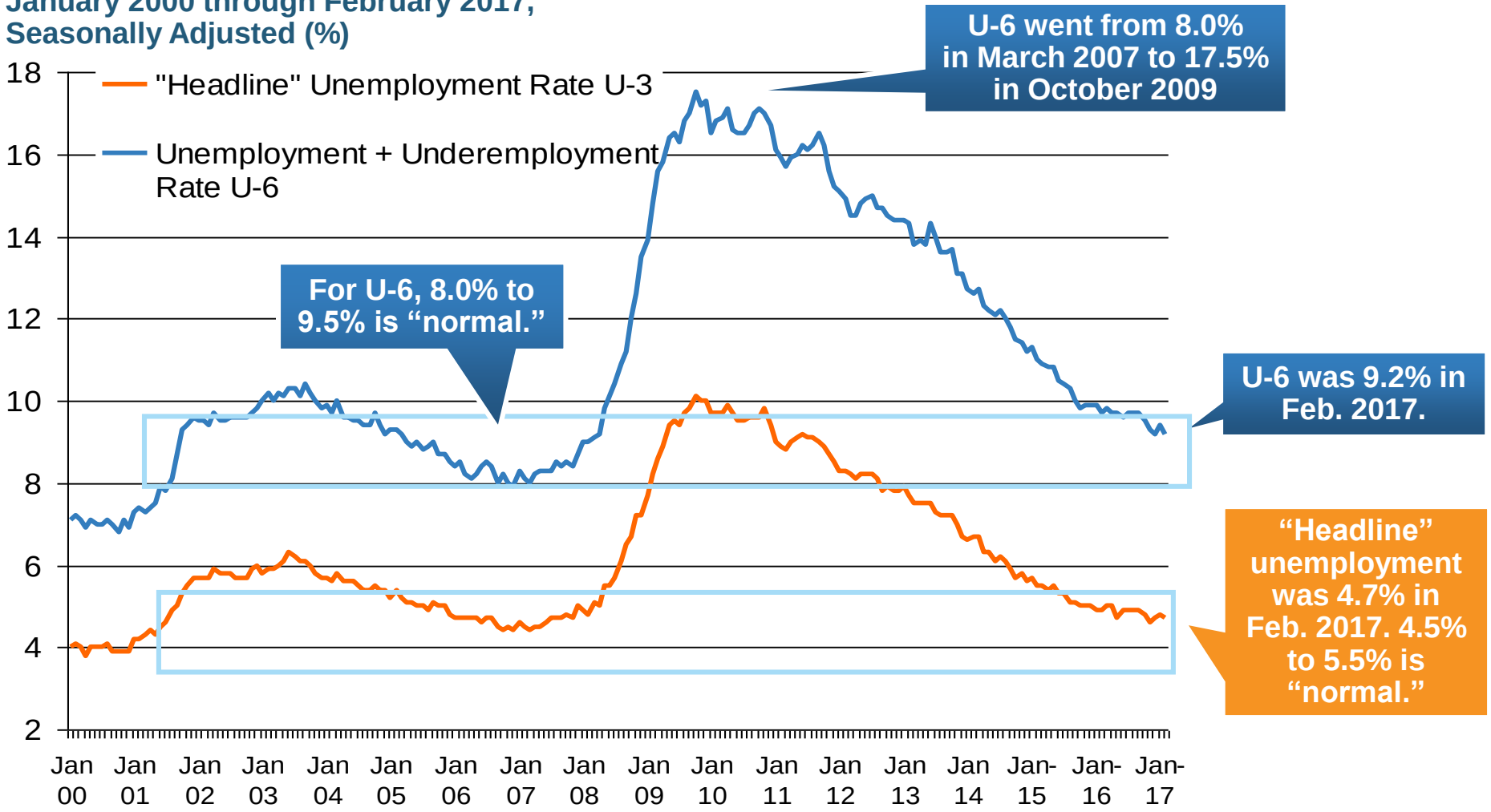


In recent good times, the number of discouraged workers ranged from 200,000-400,000 (1995-2000) or from 300,000-500,000 (2002-2007).

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

Unemployment and Underemployment Rates: Back to Normal?

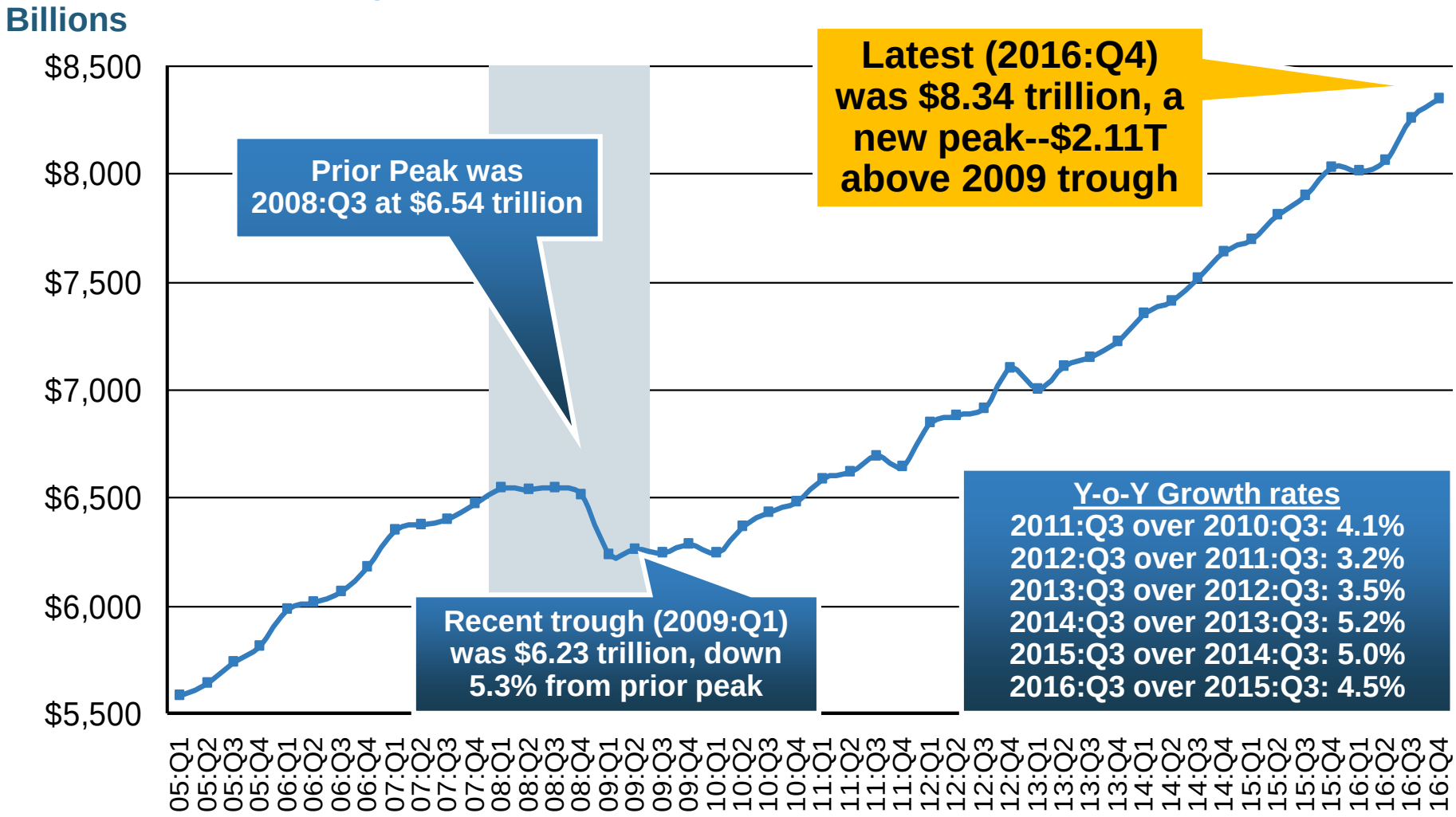
January 2000 through February 2017, Seasonally Adjusted (%)



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.

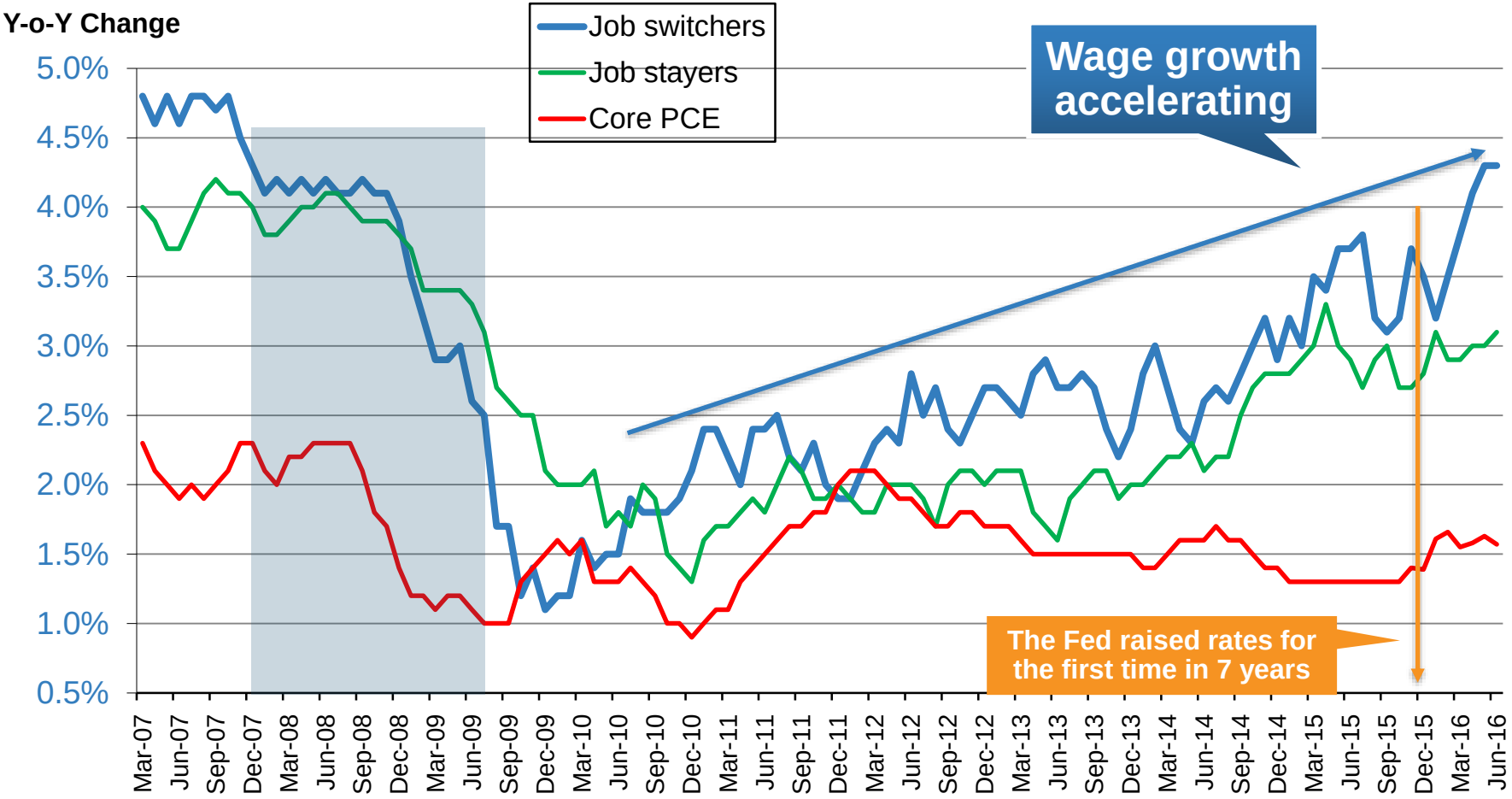
Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2016:Q4



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.

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

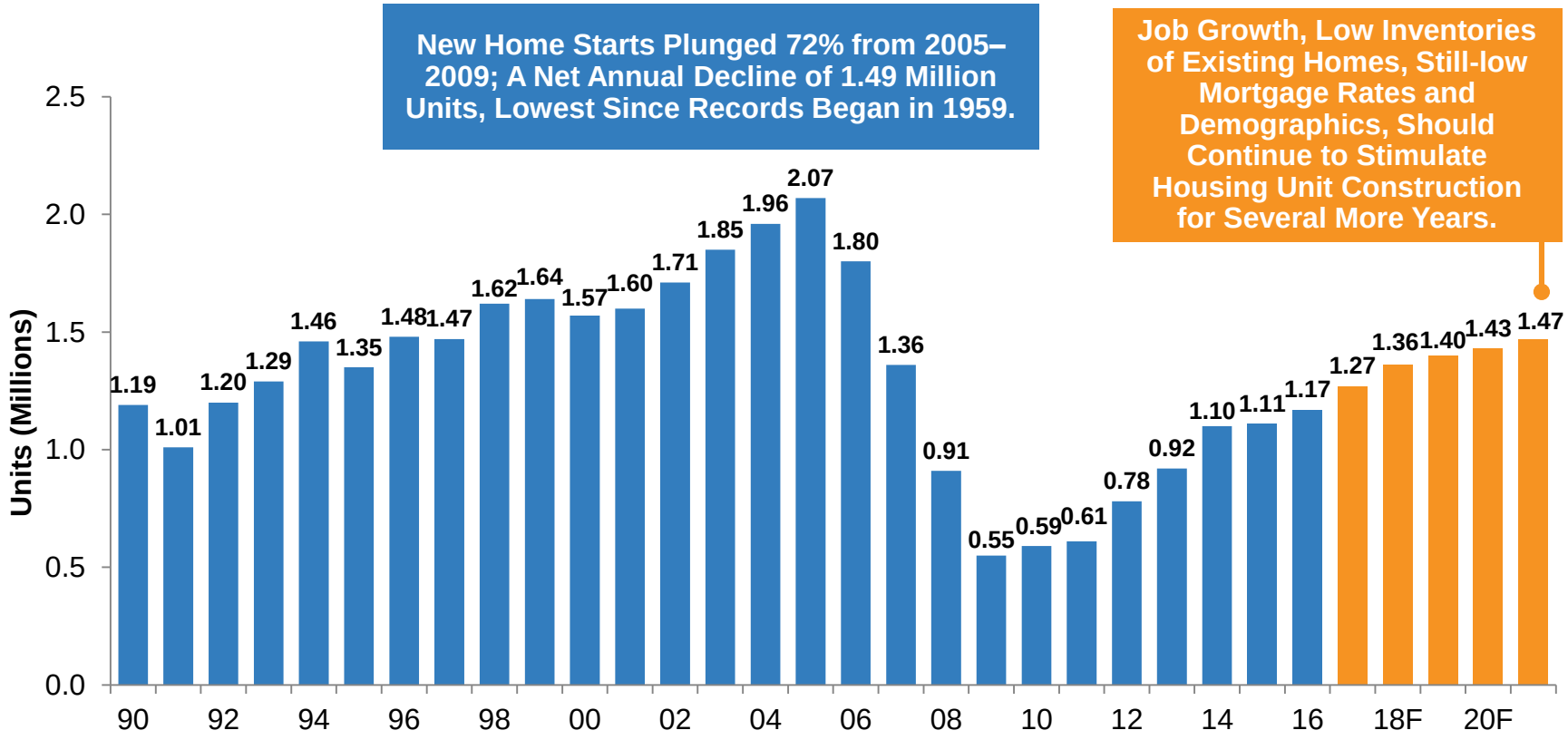


*Seasonally adjusted; year-over-year; Shaded area indicates recession.
Sources: NBER (recessions); https://www.frbatlanta.org/chcs/wage-growth-tracker.aspx?panel=1 ; I.I.I.

The Housing Market

Key Driver of Profitability

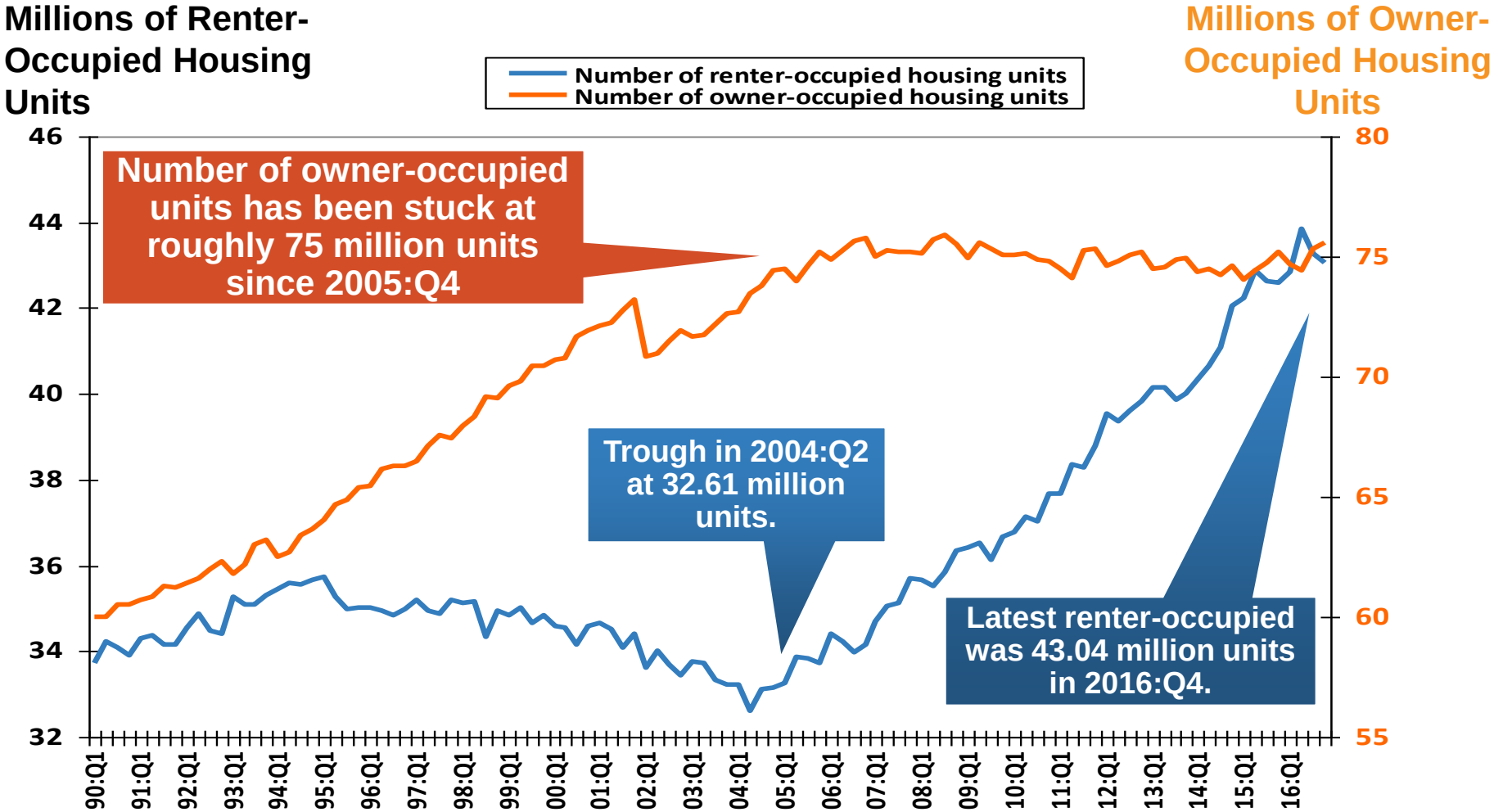
Private Housing Starts, 1990-2021F



Insurers Continue to See Exposure Growth Associated with Home Construction: Construction Risk Exposure, Surety, Commercial Auto. It is Also a Potent Driver of Workers Comp Exposure.

Sources: U.S. Department of Commerce; Blue Chip Economic Indicators (3/17); Insurance Information Institute.

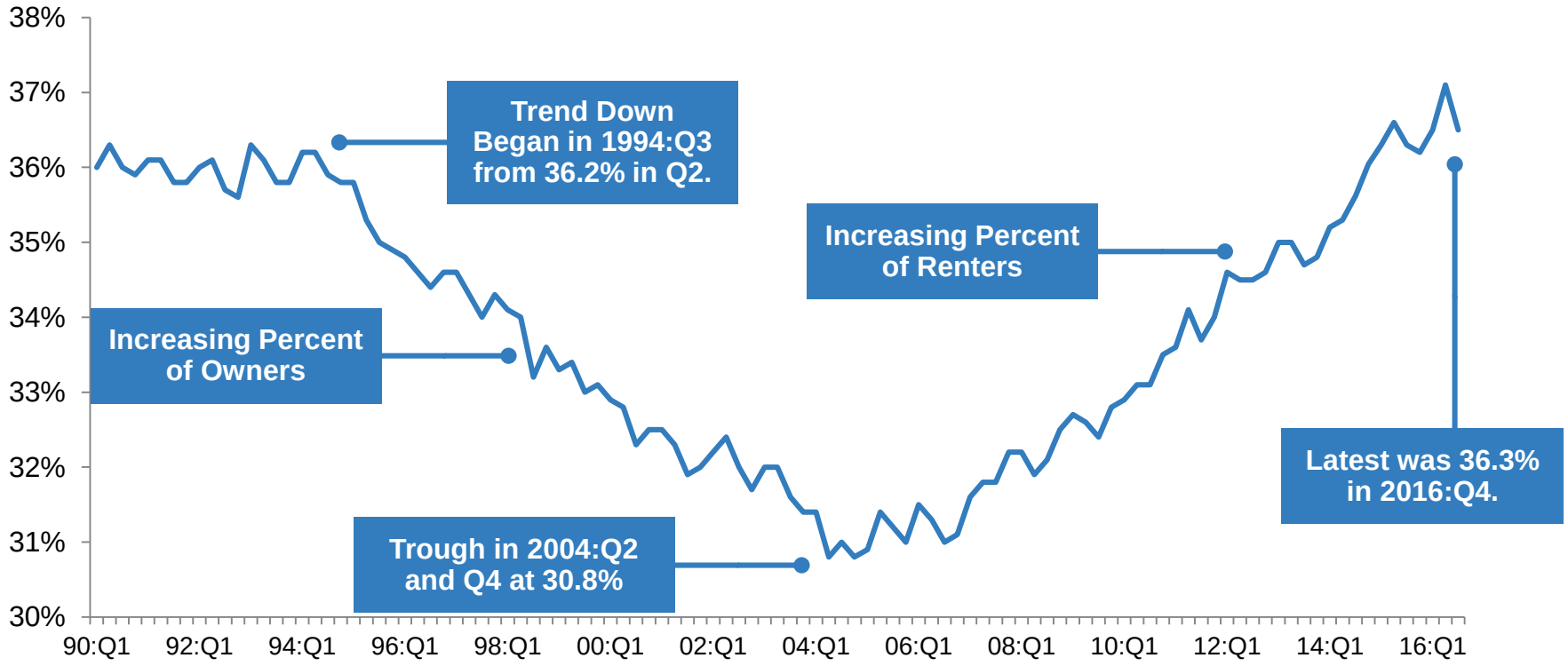
Number of Owner-Occupied & Renter-Occupied Housing Units, US, Quarterly, 1990:Q1-2016:Q4



Since 2004 the number of renter-occupied housing units has grown by about 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?

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

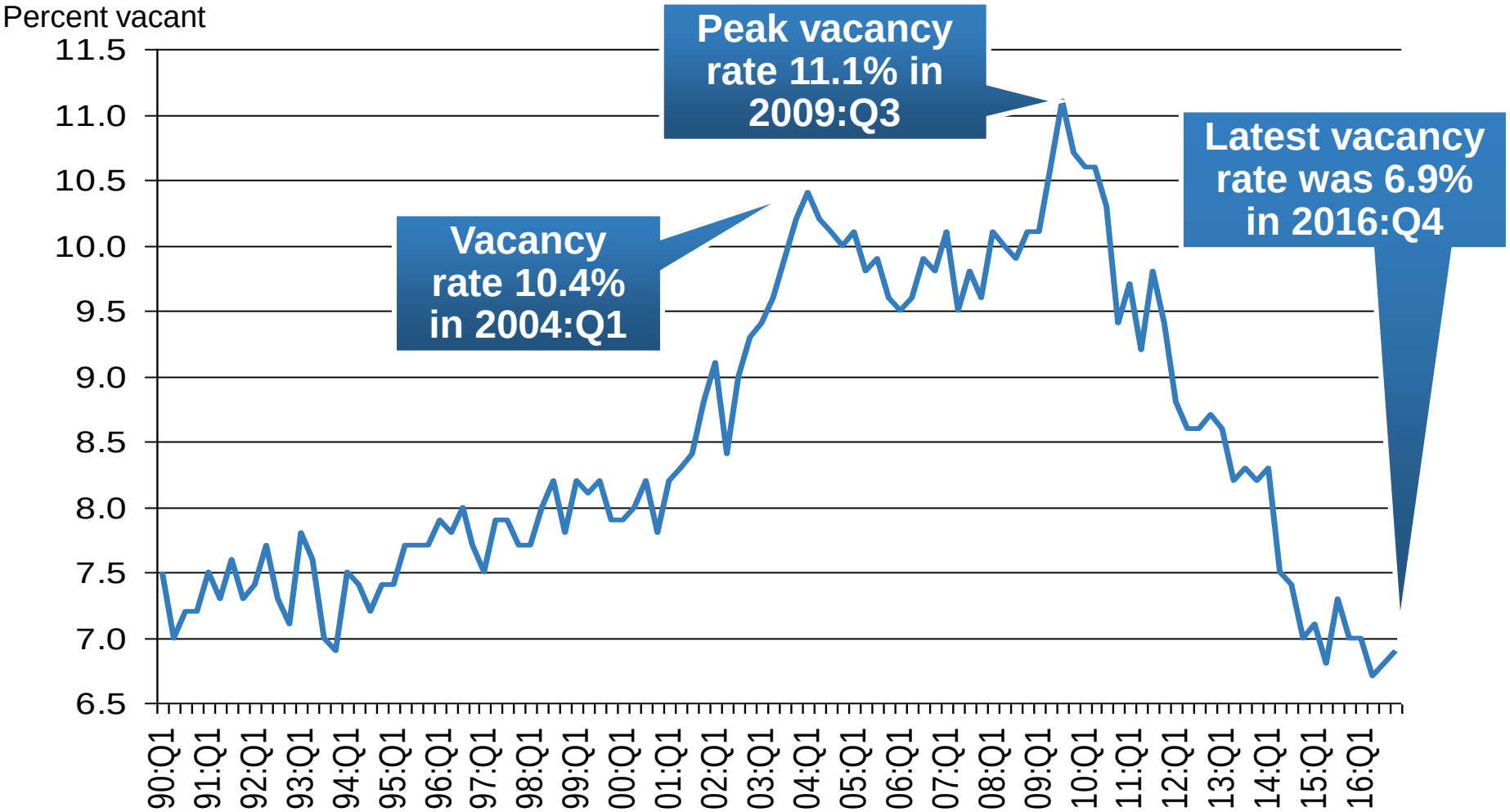
Rental-occupied Housing Units as % of Total Occupied Units, Quarterly, 1990:Q1-2016:Q4



Since the Great Recession Ended in June 2009, Renters Occupied 5.7 Million More Units (+15.6%).

Sources: U.S. Census Bureau, *Residential Vacancies & Home Ownership in the Fourth Quarter of 2016* (released Jan 31, 2017) and earlier issues; Insurance Information Institute.

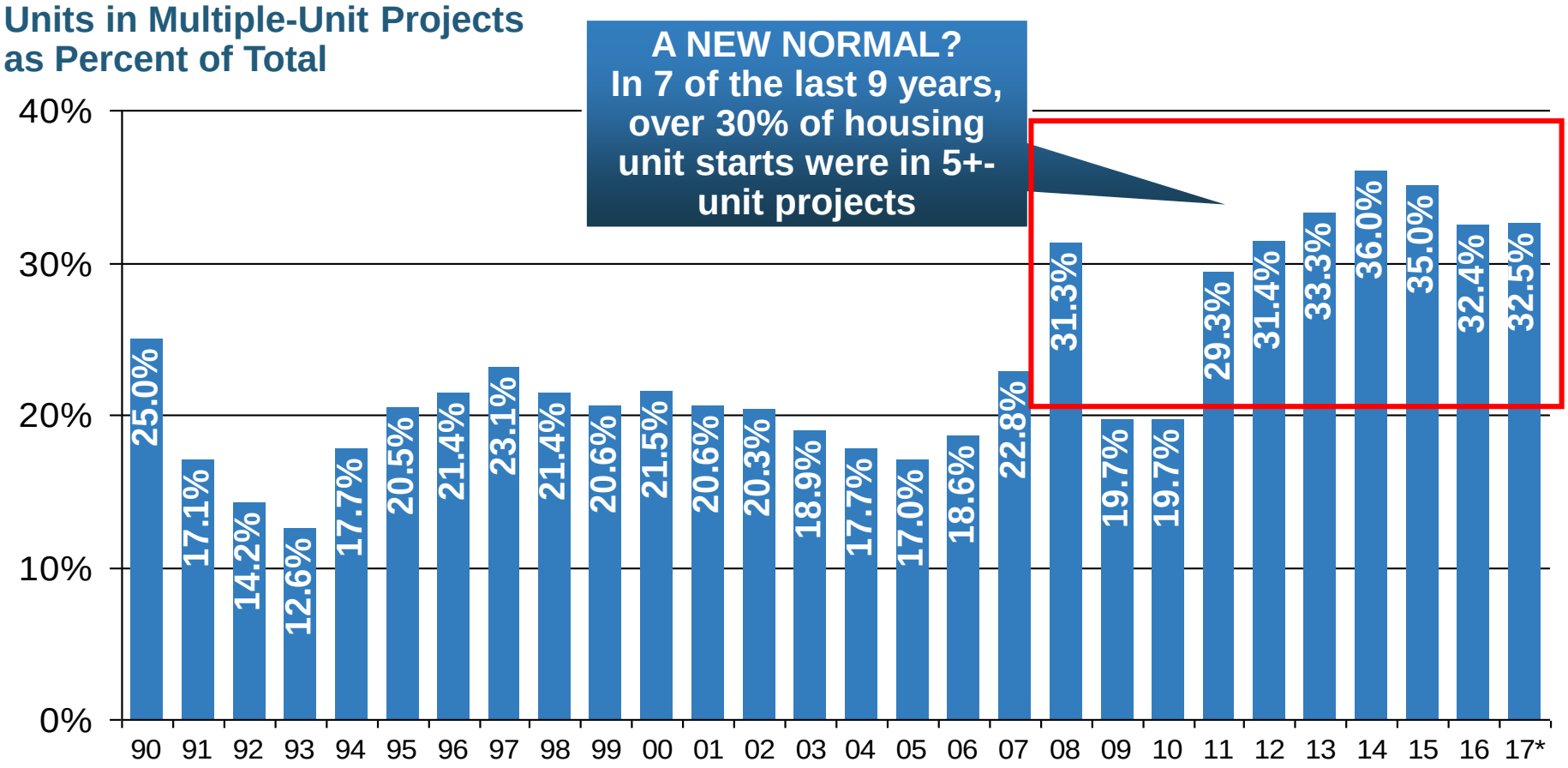
Rental Vacancy Rates, Quarterly, 1990-2016:Q4



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

Sources: US Census Bureau, http://www.census.gov/housing/hvs/data/histtabs.html *Table 1*; Insurance Information Institute.

US: Pct. Of Private Housing Unit Starts In Projects of 5+ Units, 1990-2017*



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.

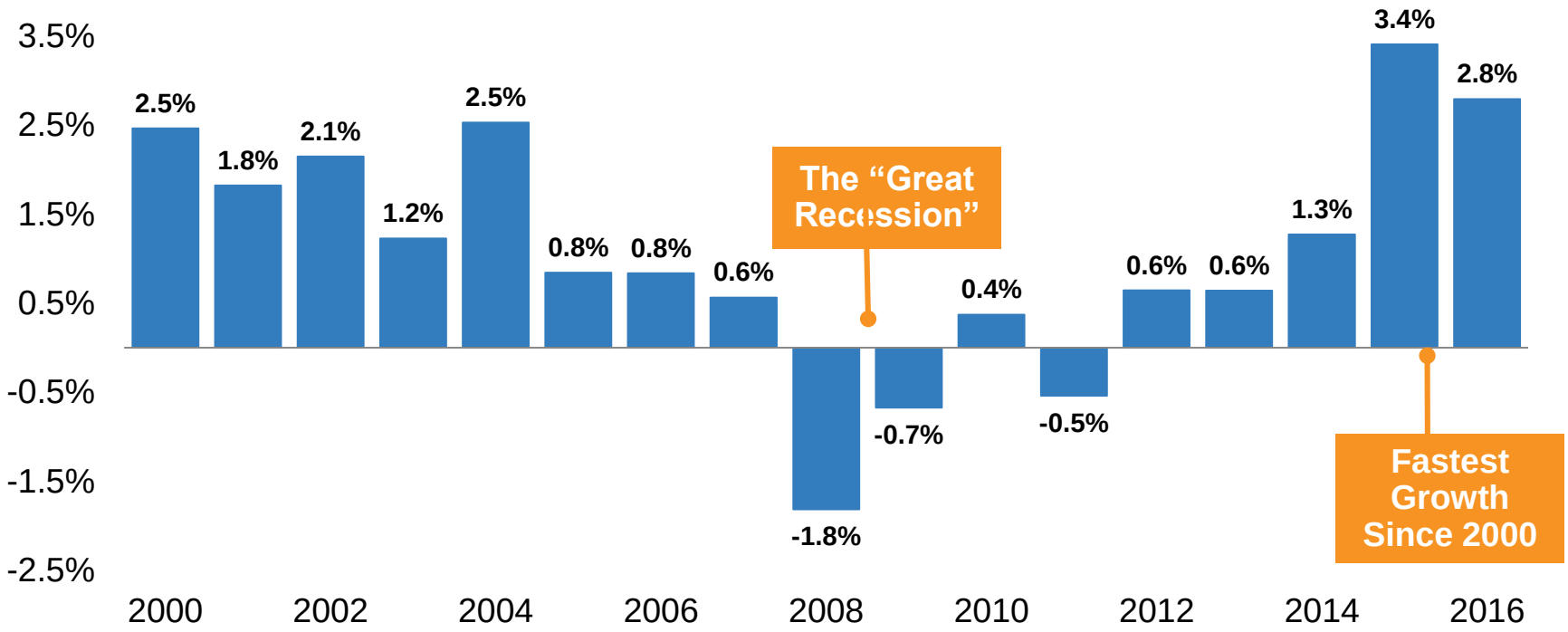
*2017 is January and February, annualized; preliminary. Based on seasonally-adjusted data.
Sources: U.S. Census Bureau; Insurance Information Institute calculations.

Auto Insurance

Lately: Adverse Loss Trends

America is Driving More Again: 2000-2016

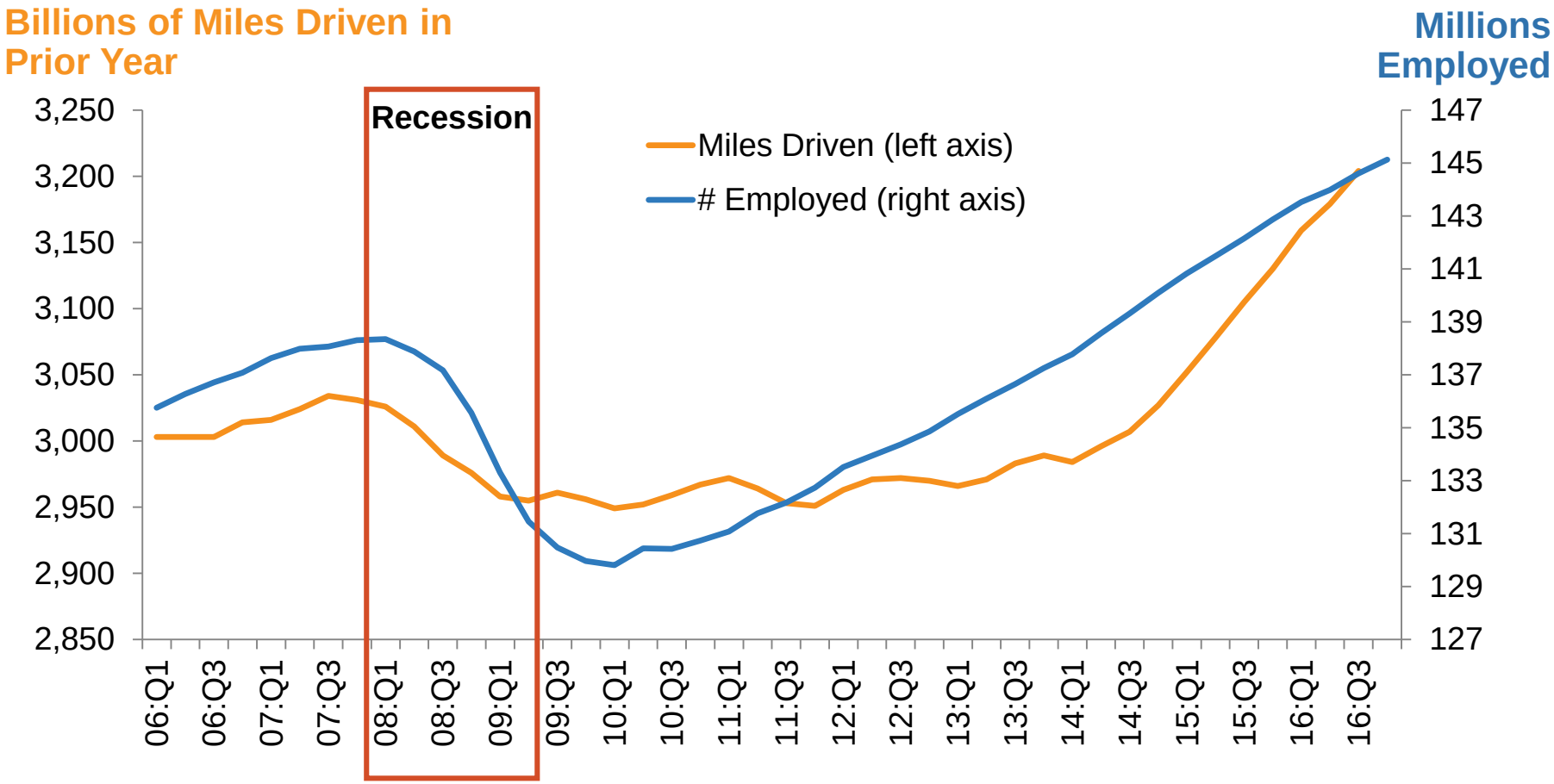
Percent Change, Miles Driven*



In the last few years, sharp growth in miles driven.
The more people drive, the more often their cars crash.

*2000-2016: Moving 12-month total vs. prior year.
Sources: Federal Highway Administration; National Bureau of Economic Research (recession dates); Insurance Information Institute.

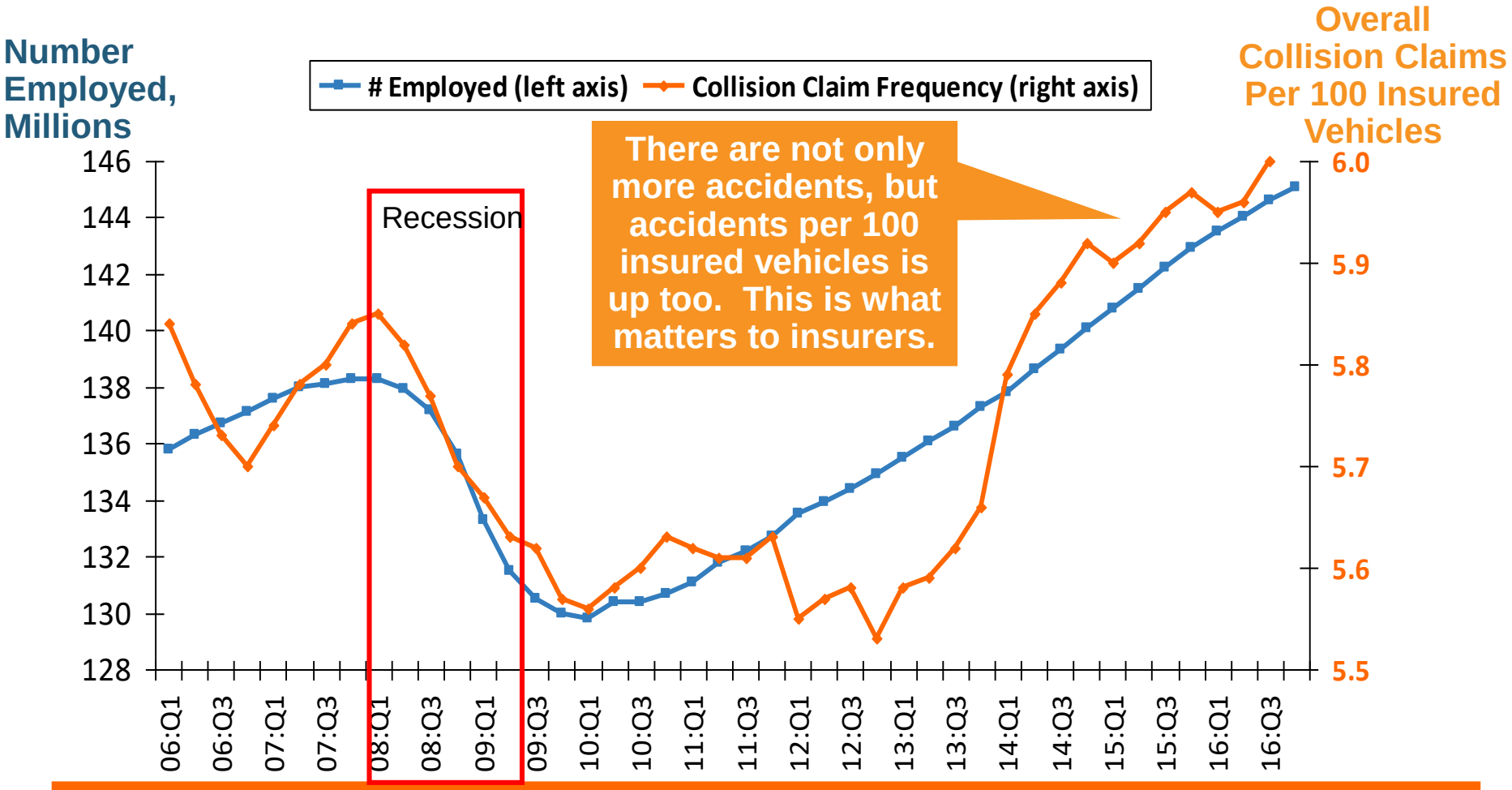
Why Are People Driving More Miles? Is it Jobs? 2006:Q1-2016:Q4



People Drive to and from Work and Drive to Entertainment. Out of Work, They Curtail Their Movement.

Note: miles driven for 2016 is through Q3 (latest available as of 1/12/2017)
Sources: Federal Highway Administration; Seasonally Adjusted Employed from Bureau of Labor Statistics (Series ID CES0000000025); Insurance Information Institute.

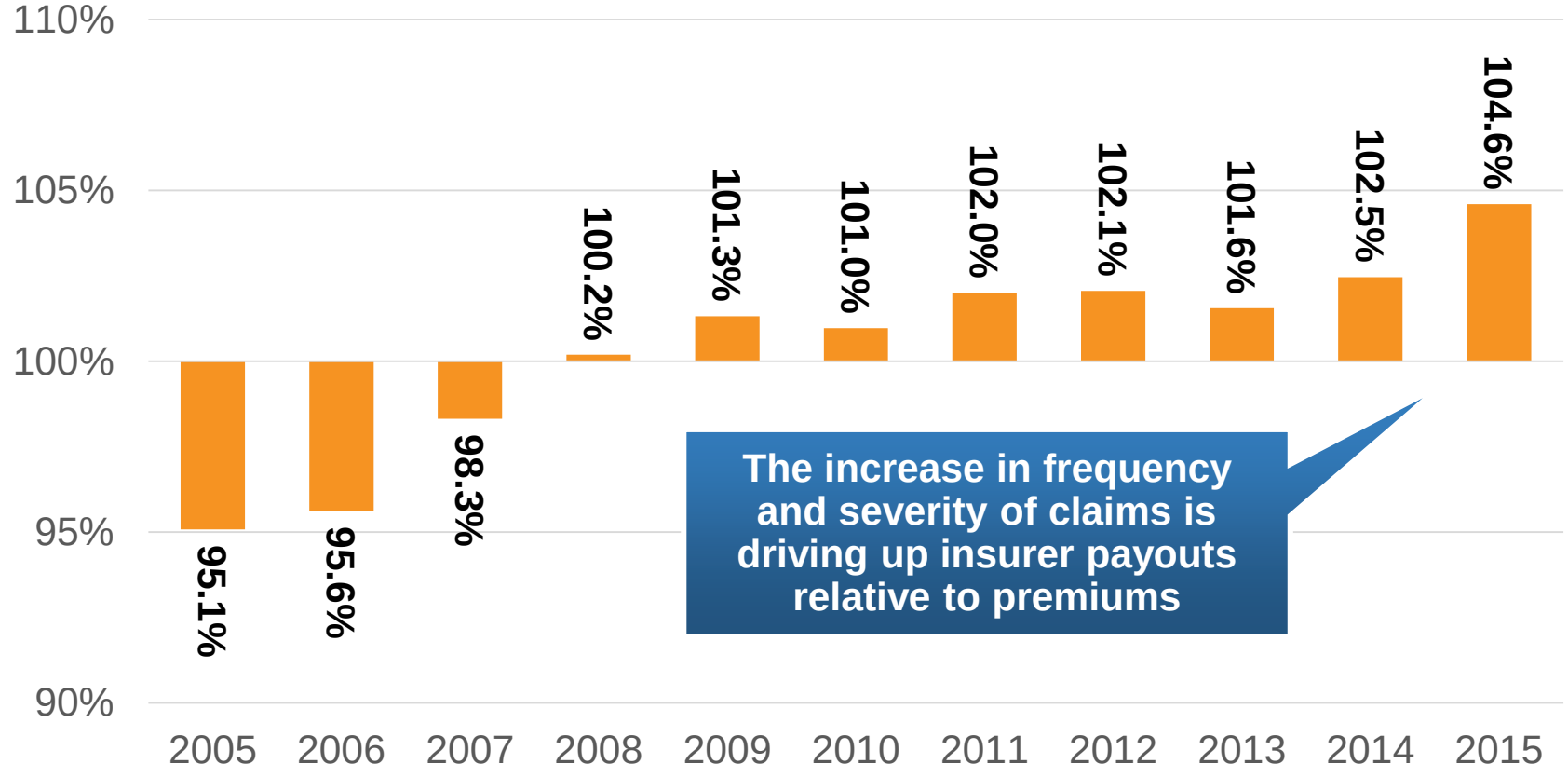
More People Working and Driving => More Collisions, 2006:Q1-2016:Q4



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.

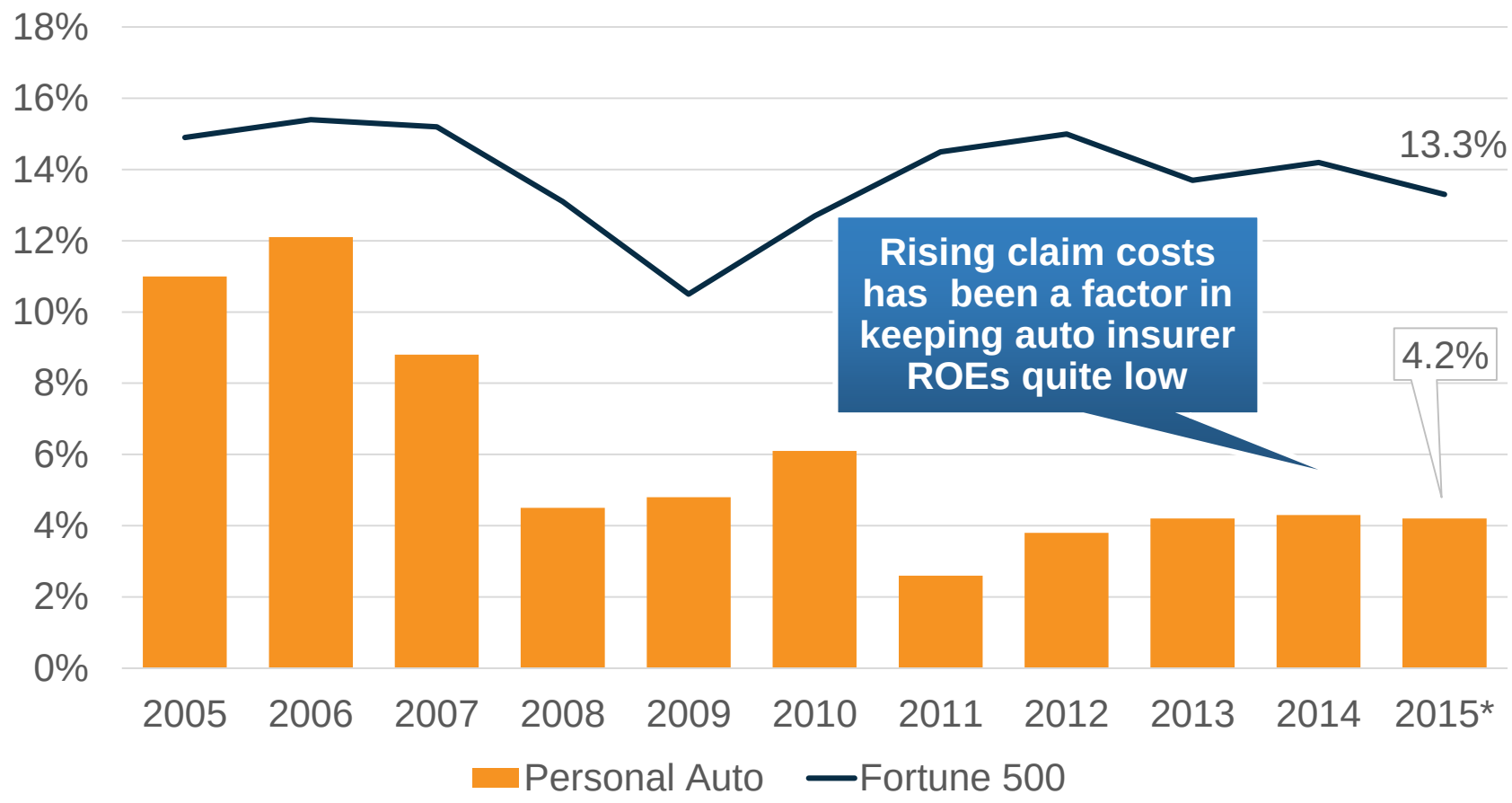
US Pvt. Passenger Auto Net Combined Ratio, 2005-2015



Private Passenger Auto net combined ratios have been rising every year for a decade.

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

Return on Net Worth: Personal Auto, 2005-2015*



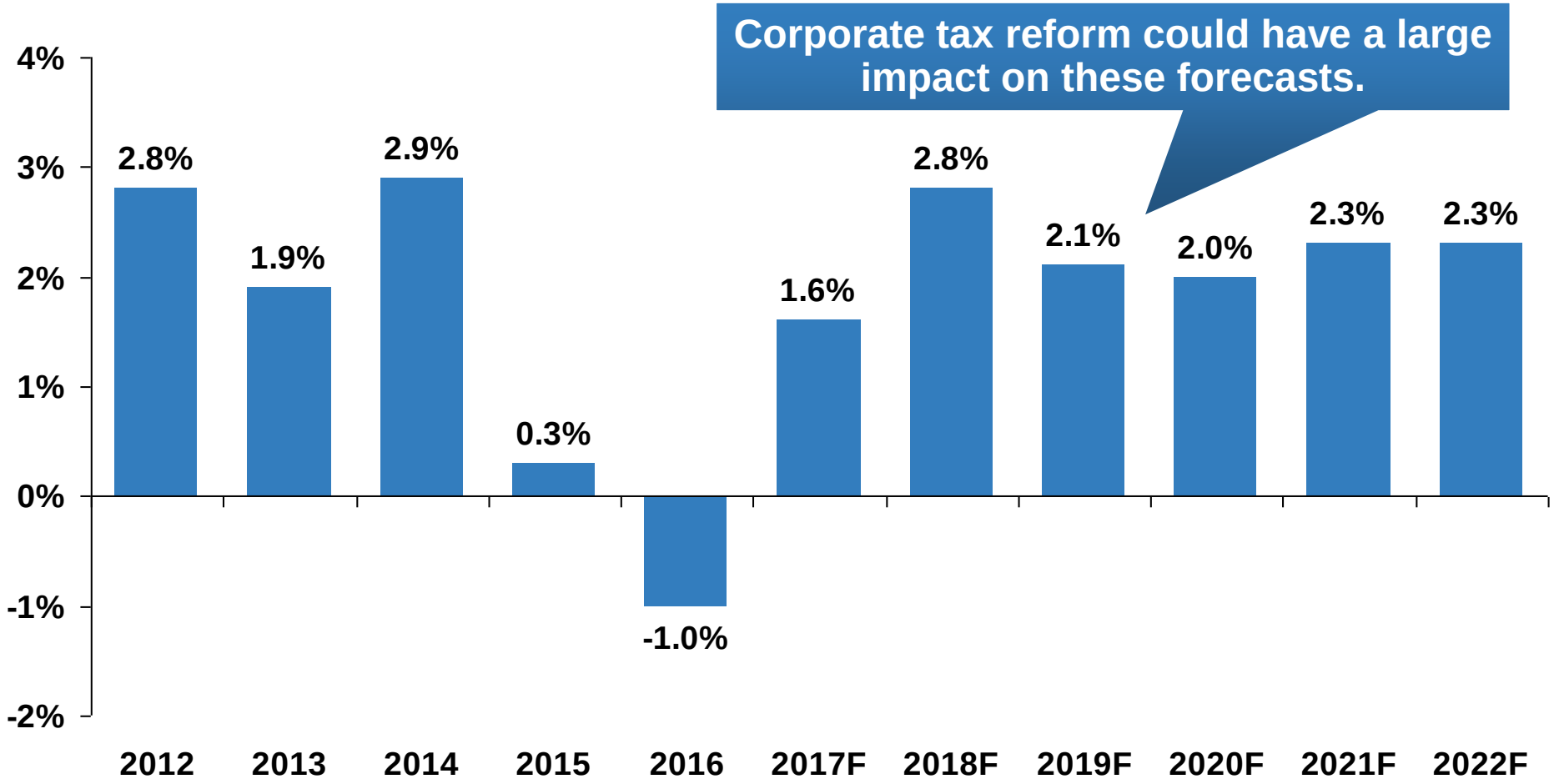
Auto Insurance Profitability Remains Well Below Pre-Crisis Levels (12% vs. ~4%)

*2015 Personal Auto figure is estimated.
SOURCE: National Association of Insurance Commissioners.

Commercial Lines

Key Driver of Growth & Profitability

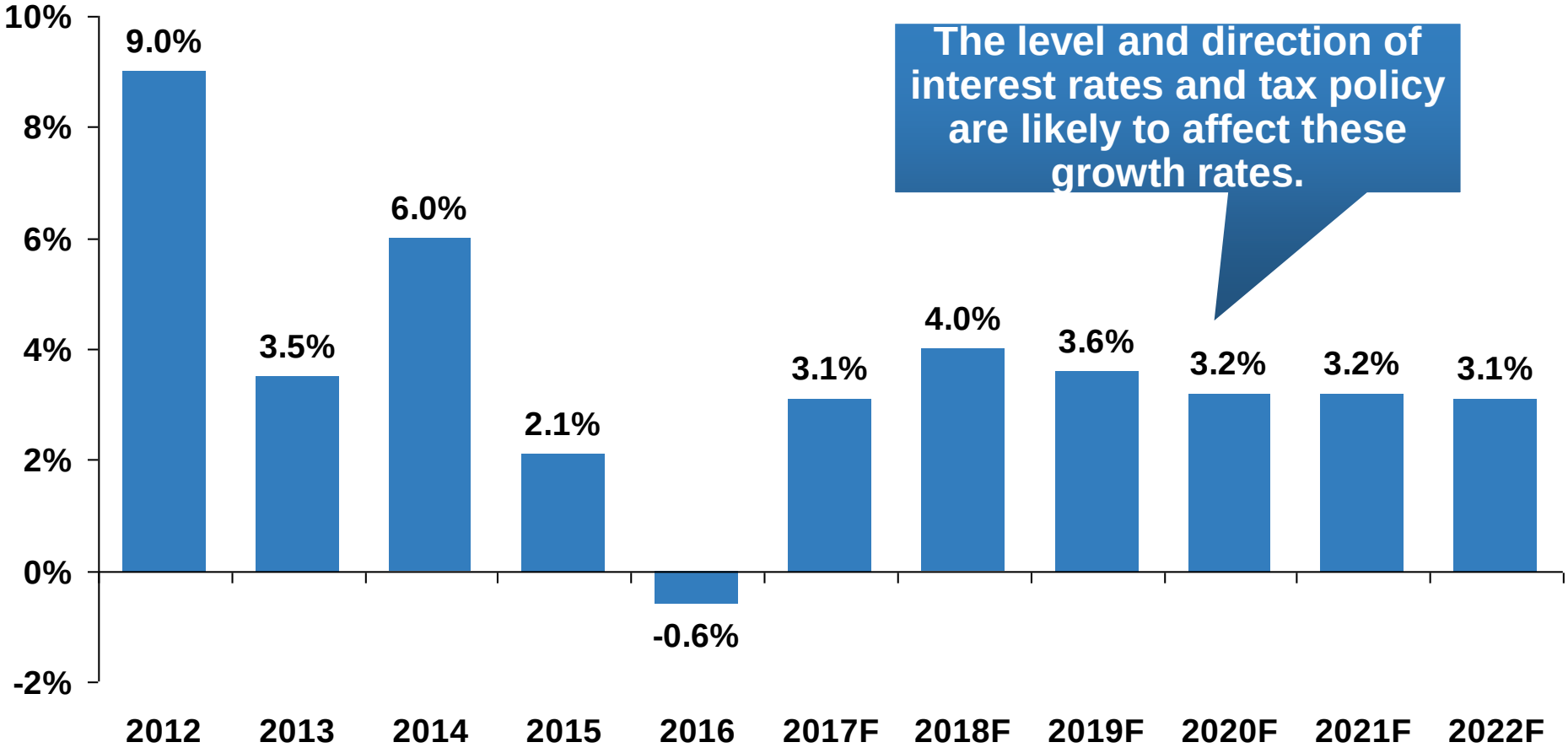
Continued Growth in Industrial Production Will Lead to a Modest Rise in Commercial Exposures



Industrial production growth depends on aggregate demand, which can rise or fall depending on the value of the U.S. dollar (which affects the price of manufactures for export) and consumer purchasing power.

Sources: Blue Chip Economic Indicators, 3/2017; Insurance Information Institute.

Continued Business Investment Will Spur Modest Commercial Exposure Growth

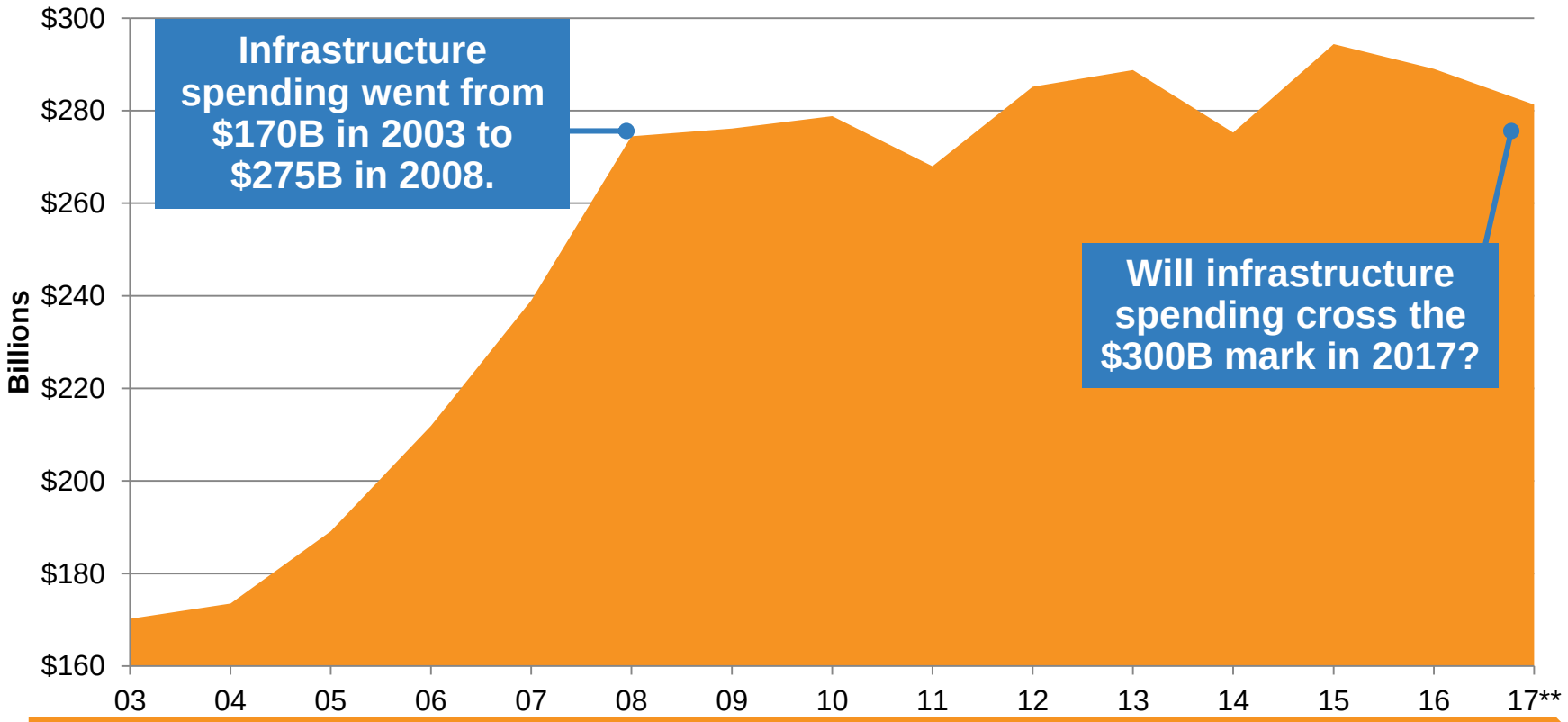


The level and direction of interest rates and tax policy are likely to affect these growth rates.

Business investment was a major drag on the economy in 2016 and adversely affected commercial property and liability insurance exposures. Growth should begin a modest recovery in 2017.

Sources: Blue Chip Economic Indicators, 3/2017; Insurance Information Institute.

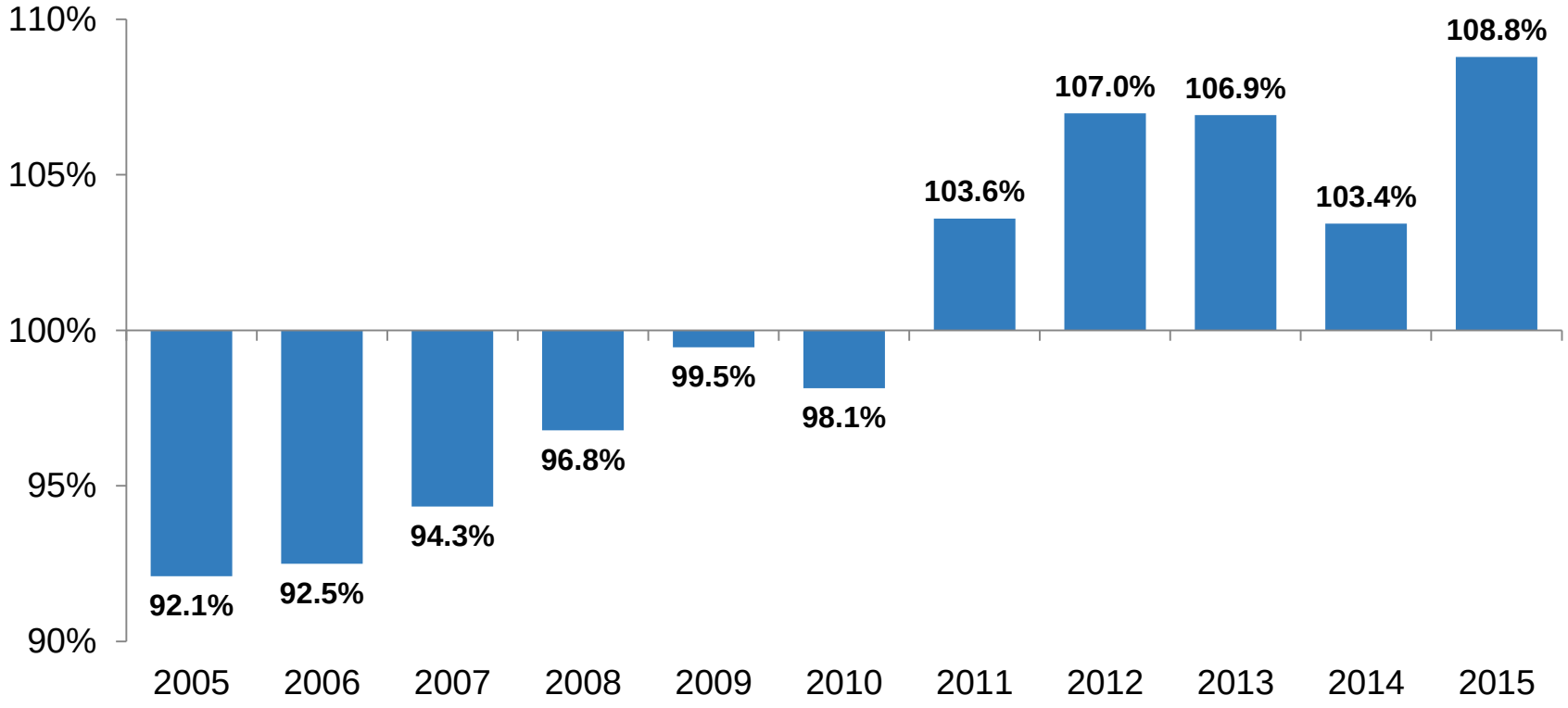
Total (Public+Private) Infrastructure* Spending, Monthly, 2003-2017**: Is a Big Increase Coming in 2017?



Spending on infrastructure construction can rise dramatically, as it did from 2003-2008, but it hasn't risen much since the Great Recession.

*Infrastructure spending includes construction in these 7 categories: Public Safety, Transportation, Communication, Power, Highway and Street, Sewage and Waste Disposal, and Water Supply. **January data at seasonally-adjusted annual rates. Not inflation-adjusted.
Sources: U.S. Department of Commerce, Census Bureau; Insurance Information Institute.

Commercial Auto Net Combined Ratio, 2005-2015



Just like Private Passenger Auto, Net Combined Ratios Have Been Rising Virtually Every Year for a Decade.

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

Questions?

Thank You!