How to Live to Be 100 in the P/C Insurance Industry
And What it Takes to Survive the Next 100

Insurance Information Institute

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Robert P. Hartwig, Ph.D., CPCU, President & Economist
Insurance Information Institute  ♦  110 William Street  ♦  New York, NY 10038
Tel: 212.346.5520  ♦  Cell: 917.453.1885  ♦  bobh@iii.org  ♦  www.iii.org
What Does it Take to Live to 100 in the Insurance Business?

Challenges and Opportunities for the Next 100 Years

Q&A

Longevity in the Business World Has Parallels in the Natural World
On the Life Cycle of Businesses: Lessons from Nature

- Most Businesses, Like Living Species, Eventually Become Extinct
  - 99.5% of all living species to ever exist on Earth are now extinct; The proportion is higher for business and extinctions occur over a much compressed timespan.
  - Changes in the natural environment (not external forces like humans) were responsible for almost all extinctions.
  - This means that despite millions of years of evolution and adaptation, virtually every species eventually confronts a change in its environment to which it cannot adapt.
  - It is the same in business.

- Business Cycle Gives Rise to “Creative Destruction”
  - Mass extinctions in business are common.
  - Economy is constantly reinventing itself.
  - New industries and businesses spring from the ashes of the previous generation, fill voids and occupy niches.
Significant Exposure Implications for All Commercial Lines as Business Bankruptcies Begin to Decline

Number of Recessions Endured by P/C Insurers, by Number of Years in Operation

Number of Recessions Since 1860

Insurers are true survivors—not just of natural catastrophes but also economic ones.

Centenarian Insurers Have Weathered Many Economic Storms

Sources: Insurance Information Institute research from National Bureau of Economic Research data.
Real GDP Growth vs. Real P/C
Premium Growth: Modest Association

Inflation-adjusted premium growth was negative for 6 years in a row before and during the Great Recession.

Real GDP Growth vs. Real P/C (%)

P/C Insurance Industry’s Growth is Influenced Modestly by Growth in the Overall Economy

Sources: A.M. Best, US Bureau of Economic Analysis, Blue Chip Economic Indicators, 4/14; Insurance Information Institute
Lessons from History: What Types of Business Live a Very Long Time (500+ Years) and Why?

Longevity in the Business World Requires Focus, Long-Term Objectives
The brewery industry appears to have the greatest longevity with 35 firms 500+ years old.

**BENEATH THE SURFACE**

Most of these companies are:

1. Family Owned/Mutuality
2. Highly focused on one specific business
3. Have some geographic focus (product or client)

1. **Business Model: Highly Focused**
   - Firms tend to remain true to core business
   - Avoid businesses you don’t understand
   - Some diversification is usually good, but leads to an exponential increase in complexity and unforeseen interactions across units

2. **Ownership Structure: There Exists Some Concept of Mutuality**
   - Some of the world’s oldest firms are family owned (artisans, craftsman)
   - Others have some form of cooperative arrangement (agricultural)
   - Such organizations also exhibit altruistic behavior, a proven survival trait

3. **Communal Interest: A Concern for the Greater Common Good**
   - Perpetual of the species (i.e., the industry) is evident in behaviors
   - Concept of mutuality extends beyond organization to communal interest
   - A strong willingness to work for the common good
4. Growth: Tend to Grow Slowly
   - As with living species, the longest lived businesses in the world tend to grow only slowly, if at all

5. Size: Tend to Be Small Relative to Competition
   - Size seems to matter when it comes to species longevity: smaller = longer
   - Also true among living species (e.g., bacteria, insects)

6. Profitability: Healthy Margins Are Important, But Not Paramount
   - Object of continuous profit maximization is not consistent with longevity
   - A “will to survive” is still necessary
   - Perpetuation/continuity is critical objective
The Centenarians: Who Lives to Be 100+ in the P/C Insurance World?

Characteristics of An Exclusive Club of Insurers
About 12% of P/C insurance companies (fewer than 1-in-8) today (2013) are 100+ years old. This is a surprisingly high percentage.

Odds of a Human Living to 100
Born 1900: ~0.25% (1-in-400)
Born Today: ~2% (1-in-50)

Source: National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data LLC; CDC
Of the Centenarian p/c insurers in existence today, 64% were formed since 1870. There was a post-Civil war spike in formations in the 1870s and another in the 1890s. Another spike occurred in the 1910s after the financial crises of the 1900-1909 era and as workers compensation systems were adopted.

As of Jan. 1, 2014 there were 296 P/C that were at least 100 years old.

Source: insurance Information Institute analysis of National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data LLC.
The number of 100-year-old insurers that are independent vs. part of a more diversified group structure is split almost evenly.

- Part of Holding Company, 51.2% (147)
- Independent, 48.8% (140)

*As of 2010.
Source: National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data LLC.
The vast majority (62.4%) of 100-year-old insurers are mutual insurers, while stock insurers account for 35.9% of the total.

*As of 2010.
Source: National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data LLC.
“Centenarians” are companies at least 100 years old with positive NWP in 2013. Insurers that are 100+ years old hold nearly $2 in surplus for every $1 dollar in premium they write.

Premiums are a rough measure of risk accepted; surplus is funds beyond reserves to pay unexpected losses. The larger surplus is in relation to premiums—the lower the ratio of premiums to surplus—the greater the capacity to handle the risk it has accepted.

Sources: National Association of Insurance Commissioners’ Annual Statements, via Highline; I.I.I. calculations
Why Do Insurers Fail?

Leading Reasons Why Most Insurers Never Make it to 100
Since most failures are due to inadequate pricing, underreserving and excessive growth (factors under management control), the leading cause of death in the P/C insurance industry amounts to suicide.

The Number of Impairments Varies Significantly Over the P/C Insurance Cycle, With Peaks Occurring Well into Hard Markets

Source: A.M. Best Special Report “Pace of P/C Impairments Slowed in 2012; Auto Writers, RRGs Continued to Struggle,” June 2013; Insurance Information Institute.
Impairment Rates Are Highly Correlated With Underwriting Performance and Reached Record Lows in 2007; Recent Increase Was Associated Primarily With Mortgage and Financial Guaranty Insurers and Not Representative of the Industry Overall

Source: A.M. Best; Insurance Information Institute
Five Deadliest Sins for P/C Insurance Companies

**OPERATIONAL ISSUES**

1. **Underpricing/Underreserving (~43% of failures)**
   - Leading cause of p/c insurer death according to A.M. Best

2. **Excessive Growth (~13%)**
   - Too much growth too fast (organically or via M&A) can be fatal

3. **Excessive Catastrophe Exposure (~7%)**
   - Too much underpriced exposure, too little reinsurance, insufficient diversification

4. **Investment Problems (~7%)**
   - Investments are too risky, too illiquid or insufficiently understood

5. **Affiliate Problems (~8%)**
   - Non-core operations can cause problems for parent (e.g., AIG)

Source: I.I.I. research.

Historically, Deficient Loss Reserves and Inadequate Pricing Are By Far the Leading Cause of P-C Insurer Impairments. Investment and Catastrophe Losses Play a Much Smaller Role.

- Deficient Loss Reserves/Inadequate Pricing: 43.4%
- Rapid Growth: 12.6%
- Alleged Fraud: 7.2%
- Catastrophe Losses: 7.1%
- Affiliate Impairment: 8.0%
- Investment Problems (Overstatement of Assets): 6.6%
- Misc.: 8.4%
- Reinsurance Failure: 3.1%
- Sig. Change in Business: 3.5%

Source: A.M. Best Special Report “Pace of P/C Impairments Slowed in 2012; Auto Writers, RRGs Continued to Struggle,” June 2013; Insurance Information Institute.


Source: A.M. Best Special Report “Pace of P/C Impairments Slowed in 2012; Auto Writers, RRGs Continued to Struggle,” June 2013; Insurance Information Institute.
Mergers & Acquisitions

Waves of Consolidation Periodically Reduce the Number of Insurers
M&A activity recovered to pre-crisis levels but deal values dropped sharply in 2013.

(1) Includes transactions where a U.S. company was the acquirer and/or the target.

Source: Conning proprietary database.
Source: Conning proprietary database.

(1) Includes transactions where a U.S. company was the acquirer and/or the target.
Life/Annuity sector M&A activity is highly volatile

(1) Includes transactions where a U.S. company was the acquirer and/or the target.

Source: Conning proprietary database.
Leadership Attributes Found in Insurers that Reach 100+ Years

Secrets of the Ancients
Leadership Attributes Inherent in Long-Lived Insurance Companies

1. Management Acts as a Steward of the Enterprise
   - Objective is to pass a healthy firm safely and securely to the next generation of management and policyholders

2. Management Financial Incentives
   - In line with the goal of providing the protection purchased
   - There is typically no 3rd party (shareholders) to compensate
     - Objective if public company is to maximize profits
   - CEO (total) comp is a smaller multiple relative to average employee

3. Nimble: Environment for Small Insurers Can & Does Change
   - Not likely first to change, but adaptation occurs within reasonable timeframe

4. Customer Focus & Relationship Driven
   - Customer is the #1 priority
   - Committed to agency form of distribution, with 21st century enhancements

5. Regulation
   - In favor of comprehensive but local regulation (contrast with banks)
What Do I Admire in an Insurer and Its Management?

1. A Firm Whose Management’s Incentives are Strictly Aligned With the Insurer’s Principal Stakeholders
   - Customers, agents, employees, community
   - These include financial and operational objectives

2. Management Is Knowledgeable
   - Management of small, long-lived insurer is no less knowledgeable about industry trends, opportunities and threats than larger competitors

3. Intuitive and Comprehensive Understanding of Enterprise Risk Management
   - Much is made of ERM today, but long-lived insurers practiced it well before it had a name
What Do I Admire in an Insurer and Its Management?

4. CEO is Willing to Seek Advice and Counsel
   - No imperial CEOs; Self-aggrandizement is rare
   - CEO is a listener and consensus builder

5. Commitment to Core Constituencies
   - Customer is the #1 priority
   - Committed to agency form of distribution, with 21st century enhancements

6. Lack of a “Wandering Eye”
   - Disciplined enough to stick with the business you know, but also adapting to changing business conditions and seizing opportunities as necessary
Challenges for the Next 100 Years

Staying Alive: The Decades Ahead
P/C (Re)Insurance Industry
Financial Overview

2013: Best Year in the Post-Crisis Era

Performance Improved with Lower CATs, Strong Markets
P/C Net Income After Taxes 1991–2013 ($ Millions)

- 2005 ROE* = 9.6%
- 2006 ROE = 12.7%
- 2007 ROE = 10.9%
- 2008 ROE = 0.1%
- 2009 ROE = 5.0%
- 2010 ROE = 6.6%
- 2011 ROAS = 3.5%
- 2012 ROAS = 6.1%
- 2013 ROAS = 10.3%

ROE figures are GAAP; 1 Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 9.8% ROAS in 2013, 6.3% 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

Net income in 2013 was up substantially (+81.9%) from 2012.
Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2013*

*Profitability = P/C insurer ROEs. 2011-13 figures are estimates based on ROAS data. Note: Data for 2008-2013 exclude mortgage and financial guaranty insurers.
Source: Insurance Information Institute; NAIC, ISO, A.M. Best.

ROE

25%
20%
15%
10%
5%
0%
-5%

1975: 2.4%
1984: 1.8%
1992: 4.5%
2001: -1.2%
2011: 4.7%
2013: 9.8%
2006: 12.7%
1997: 11.6%
1987: 17.3%
1977: 19.0%

History suggests next ROE peak will be in 2016-2017

10 Years
10 Years
9 Years
P/C Profitability Is Both by Cyclicality and Ordinary Volatility

- Hugo
- Andrew
- Northridge
- Lowest CAT Losses in 15 Years
- Sept. 11
- Katrina, Rita, Wilma
- 4 Hurricanes
- Financial Crisis*
- Low CATs
- Record Tornado Losses
- Sandy

Sources: ISO, Fortune; Insurance Information Institute.
A combined ratio of about 100 generates an ROE of ~7.0% in 2012, ~7.5% ROE in 2009/10, 10% in 2005 and 16% in 1979.

Combined Ratios Must Be Lower in Today’s Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2008 - 2013 figures are return on average surplus and exclude mortgage and financial guaranty insurers. 2013 combined ratio including M&FG insurers is 96.1; 2012 =103.2, 2011 = 108.1, ROAS = 3.5%. Source: Insurance Information Institute from A.M. Best and ISO Verisk Analytics data.
10-year returns for some lines are excellent, though homeowners is a major laggard, largely due to major catastrophes. WC returns slipped.
### RNW All Lines by State, 2003-2012 Average: Highest 25 States

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

<table>
<thead>
<tr>
<th>State</th>
<th>Average RNW</th>
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<tbody>
<tr>
<td>HI</td>
<td>21.0</td>
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<td>AK</td>
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<td>ND</td>
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<td>ME</td>
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<td>WY</td>
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<td>UT</td>
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<td>VT</td>
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<td>MA</td>
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<td>WV</td>
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<td>MT</td>
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</table>

Source: NAIC.
Some of the least profitable states over the past decade were hit hard by catastrophes.
Underwriting Losses in 2013 Much Improved After High Catastrophe Losses in 2011/12
P/C Insurance Industry
Combined Ratio, 2001–2013*

As Recently as 2001, Insurers Paid Out Nearly $1.16 for Every $1 in Earned Premiums

Heavy Use of Reinsurance Lowered Net Losses

Relatively Low CAT Losses, Reserve Releases

Relatively Low CAT Losses, Reserve Releases

Relatively Low CAT Losses, Reserve Releases

Higher CAT Losses, Shrinking Reserve Releases, Toll of Soft Market

Sandy Impacts

Lower CAT Losses

Best Combined Ratio Since 1949 (87.6)

Avg. CAT Losses, More Reserve Releases

Cyclical Deterioration


Sources: A.M. Best, ISO.
Number of Years with Underwriting Profits by Decade, 1920s–2010s

Number of Years with Underwriting Profits

Underwriting Profits Were Common Before the 1980s (40 of the 60 Years Before 1980 Had Combined Ratios Below 100) – But Then They Vanished. Not a Single Underwriting Profit Was Recorded in the 25 Years from 1979 Through 2003

* 2009 combined ratio excl. mort. and finl. guaranty insurers was 99.3, which would bring the 2000s total to 4 years with an u/w profit.
**Data for the 2010s is for the period 2010 through 2013.
Note: Data for 1920–1934 based on stock companies only.
Sources: Insurance Information Institute research from A.M. Best Data.
Large Underwriting Losses Are NOT Sustainable in Current Investment Environment

* Includes mortgage and financial guaranty insurers in all years.
Sources: A.M. Best, ISO; Insurance Information Institute.
The combined ratios for both personal and commercial lines improved substantially in 2013.
Note: 2005 reserve development excludes a $6 billion loss portfolio transfer between American Re and Munich Re. Including this transaction, total prior year adverse development in 2005 was $7 billion. The data from 2000 and subsequent years excludes development from financial guaranty and mortgage insurance.

PRICING, PREMIUM GROWTH & CYCLES

Surviving the to the Century Mark Means Surviving the Underwriting Cycle
Net Premium Growth: Annual Change, 1971—2014F

(Percent)

1975-78  1984-87  2000-03

Net Written Premiums Fell 0.7% in 2007 (First Decline Since 1943) by 2.0% in 2008, and 4.2% in 2009, the First 3-Year Decline Since 1930-33.

2014F: 4.0%
2013: 4.6%
2012: +4.3%

Shaded areas denote “hard market” periods
Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute.
Average Commercial Rate Change, All Lines, (1Q:2004–4Q:2013)

Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.

Source: Council of Insurance Agents & Brokers; Insurance Information Institute
Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2013:Q3

Percentage Change (%)

Peak = 2001:Q4
+28.5%

Pricing turned negative in Early 2004 and remained that way for 7 ½ years

KRW: No lasting impact

Trough = 2007:Q3
-13.6%

Pricing turned positive in Q3:2011, the first increase in nearly 8 years; Q3:2013 renewals were up 3.4%. Some insurers posted stronger numbers.

Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents and Brokers; Barclay's Capital; Insurance Information Institute.
Growth in Direct Written Premium by Line, 2013-2015F*

(Percents)

P/C growth is expected to remain fairly stable through 2015

Source: Conning.
Monthly Change* in Auto Insurance Prices, 1991–2014*

*Percentage change from same month in prior year; through March 2014; seasonally adjusted

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.
Homeowners insurance NWP continues to rise (up 128% 2000-2013) despite very little unit growth during the real estate crash. Reasons include rate increases, especially in coastal zones, ITV endorsements (e.g., “inflation guards”), and inelastic demand.
INVESTMENTS: THE NEW REALITY

Investment Performance is a Key Driver of Profitability

A Century of Survival: Investment Environment Varies Wildly Over the Span of 100 Years
Investment Income Fell in 2012 and 2013 Due to Persistently Low Interest Rates, Putting Additional Pressure on (Re) Insurance Pricing

Investment earnings are running below their 2007 pre-crisis peak

1 Investment gains consist primarily of interest and stock dividends...
Sources: ISO; Insurance Information Institute.
P/C Insurer Net Realized Capital Gains/Losses, 1990-2013

Realized capital gains were up sharply as equity markets rallied.

Insurers Posted Net Realized Capital Gains in 2010 - 2013 Following Two Years of Realized Losses During the Financial Crisis. Realized Capital Losses Were the Primary Cause of 2008/2009’s Large Drop in Profits and ROE.

Sources: A.M. Best, ISO, Insurance Information Institute.
Investment gains in 2013 were their highest in the post-crisis era.

Investment Income Continued to Fall in 2013 Due to Low Interest Rates but Realized Investment Gains Were Up Sharply; The Financial Crisis Caused Investment Gains to Fall by 50% in 2008

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.
Lower Investment Earnings Place a Greater Burden on Underwriting and Pricing Discipline

*Based on 2008 Invested Assets and Earned Premiums
**US domestic reinsurance only
Source: A.M. Best; Insurance Information Institute.

Yields on 10-Year U.S. Treasury Notes have been essentially below 5% for a full decade.

U.S. Treasury yields plunged to historic lows in 2013. Only longer-term yields have rebounded.

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

Treasury yield curve remains near its most depressed level in at least 45 years. Investment income is falling as a result. Even as the Fed “tapers” rates are unlikely to return to pre-crisis levels anytime soon.

The Fed is actively signaling that it is determined to keep rates low until unemployment drops below 6.5% or until inflation expectations exceed 2.5%; low rates add to pricing pressure for insurers.

Source: Federal Reserve Board of Governors; Insurance Information Institute.
2013 Recorded Yet Another Record High in the Primary and Reinsurance Sectors
Policyholder Surplus, 2006:Q4–2013:Q4

The industry now has $1 of surplus for every $0.73 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.

Sources: ISO, A.M. Best.
US Policyholder Surplus: 1975–2013*

Surplus as of 9/30/13 was a record $624.4, up 6.4% from $586.9 of 12/31/12, and up 42.9% ($187.3B) from the crisis trough of $437.1B at 3/31/09. Pre-crisis peak was $521.8 as of 9/30/07. Surplus as of 9/30/13 was 19.7% above 2007 peak.

“Surplus” is a measure of underwriting capacity. It is analogous to “Owners Equity” or “Net Worth” in non-insurance organizations.

The Premium-to-Surplus Ratio Stood at $0.78:$1 as of 9/30/13, a Near Record Low (at Least in Recent History)*

* As of 9/30/13.
Total reinsurance capital reached a record $540B in 2013, up 58.8% from 2008. Of that, $50B (9.3%) is alternative capacity, up 163% from $19B since 2008.
Catastrophe Bonds: Issuance and Outstanding, 1997-2014:Q1*

Risk Capital Amount ($ Millions)

Risk capital outstanding reached a record high in 2013

Financial crisis depressed issuance

Catastrophe Bond Issuance Is Approaching Pre-Crisis Levels While Risk Capital Outstanding Stands at an All-Time Record

Source: Guy Carpenter; Insurance Information Institute.
Lower CATs and a flood of new capital has pushed reinsurance pricing down in most regions, including the US.

*As of Jan. 1.
Source: Guy Carpenter
Could the Tort Pendulum Once Again Swing Against Insurers?
Over the Last Three Decades, Total Tort Costs as a % of GDP Appear Somewhat Cyclicical, 1980-2013E

Sources: Towers Watson, 2011 Update on US Tort Cost Trends, Appendix 1A
### Business Leaders Ranking of Liability Systems in 2012

**Best States**

1. Delaware
2. Nebraska
3. Wyoming
4. Minnesota
5. Kansas
6. Idaho
7. Virginia
8. North Dakota
9. Utah
10. Iowa

**New in 2012**

- Wyoming
- Minnesota
- Kansas
- Idaho

**Worst States**

41. Florida
42. Oklahoma
43. Alabama
44. New Mexico
45. Montana
46. Illinois
47. California
48. Mississippi
49. Louisiana
50. West Virginia

**Newly Notorious**

- Oklahoma

**Drop-offs**

- Indiana
- Colorado
- Massachusetts
- South Dakota

**Rising Above**

- Arkansas

The Nation’s Judicial Hellholes: 2012/2013

Watch List
- Philadelphia, Pennsylvania
- South Florida
- Cook County, Illinois
- New Jersey
- Nevada
- Louisiana

Dishonorable Mention
- MO Supreme Court
- WA Supreme Court

Source: American Tort Reform Association; Insurance Information Institute
U.S. Insured Catastrophe Loss Update

2013 Was a Welcome Respite from the High Catastrophe Losses in Recent Years

2014 Winter Storm Losses Manageable

*Through 12/31/13.

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.
Homeowners Insurance Combined Ratio: 1990–2015F

Homeowners Performance in 2011/12 Impacted by Large Cat Losses. Extreme Regional Variation Can Be Expected Due to Local Catastrophe Loss Activity.

Sources: A.M. Best (1990-2011); Conning (2012E-2015F); Insurance Information Institute.
Top 10 States for Insured Catastrophe Losses, 2013

Oklahoma let the country in insured CAT losses in 2013

Source: The Property Claim Services (PCS) unit of ISO, a Verisk Analytics company.
Top 5 States by Insured Catastrophe Losses in 2012*

(2012, $ Billions)

New York: $9,756
New Jersey: $6,369
Texas: $2,318
Kentucky: $1,511
Colorado: $1,440

*Includes catastrophe losses of at least $25 million.
Sources: PCS unit of ISO; Insurance Information Institute.

NY and NJ let the US in CAT losses in 2012 due Sandy
Post-Sandy, the I.I.I. worked very hard to make help media, consumers and regulators understand the distinction between a flood claim and a standard homeowners claim. **NFIP is $24B in debt.**

Sources: Catastrophe loss data is for Catastrophe Serial No. 90 (Oct. 28 – 31, 2012) from PCS as of March 2013; Insurance Information Institute.
Insurers Making a Difference in Impacted Communities

Destroyed home in Tuscaloosa. Insurers will pay some 165,000 claims totaling $2 billion in the Tuscaloosa/Birmingham areas alone.

Presentation of a check to Tuscaloosa Mayor Walt Maddox to the Tuscaloosa Storm Recovery Fund

Presentation of a check to Moore, OK, Public School Relief Fund

Source: Insurance Information Institute
Over the Past 30 Years Florida Has Accounted for the Largest Share of Catastrophe Losses in the U.S., Followed by Texas and Louisiana

FL is the most costly state for CATs, with nearly $67B in insured losses over the past 30 years

Total: $467.5 Billion, an average of $16.6B per year or $1.3B per month

Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1993–2012¹

1. Catastrophes are defined as events causing direct insured losses to property of $25 million or more in 2012 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.

1. Hurricanes & Tropical Storms, $158.2
2. Tornadoes (2), $140.9
3. Geological Events, $18.4
4. Tornadoes (4), $6.5
5. Wind/Hail/Flood (3), $14.9
6. Winter Storms, $27.8
7. Other (5), $0.2

Insured cat losses from 1993-2012 totaled $391.7B, an average of $19.6B per year or $1.6B per month.

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

Tornado share of CAT losses is rising

Wind/Hail/Flood (3), $14.9
Fires (4), $6.5
Other (5), $0.2
Geological Events, $18.4
Terrorism, $24.8
Winter Storms, $27.8
Tornadoes (2), $140.9

Hurricanes & Tropical Storms, $158.2

36.0%
40.4%
7.1%
6.3%
4.7%
3.8%
1.7%
0.1%
Top 16 Most Costly Disasters in U.S. History

(Insured Losses, 2012 Dollars, $ Billions)

Hurricane Sandy became the 5th costliest event in US insurance history.


Includes Tuscaloosa, AL, tornado.
Includes Joplin, MO, tornado.

Hurricane Irene became the 12th most expense hurricane in US history in 2011.

12 of the 16 Most Expensive Events in US History Have Occurred Over the Past Decade.

*PCS estimate as of 4/12/13. Sources: PCS; Insurance Information Institute inflation adjustments to 2012 dollars using the CPI.
In 2012, New York Ranked as the #1 Most Exposed State to Hurricane Loss, Overtaking Florida with $2.862 Trillion. Texas is very exposed too, and ranked #3 with $1.175 Trillion in insured coastal exposure.

The Insured Value of All Coastal Property Was $10.6 Trillion in 2012, Up 20% from $8.9 Trillion in 2007 and Up 48% from $7.2 Trillion in 2004.

Source: AIR Worldwide
Three of the four most costly years ever for insured losses from winter storms and damage occurred in the 1990s, led by the “Storm of the Century” in 1993.

Insured losses from severe winter events totaled $2 billion in 2013.

Insured winter storm and damage losses in Jan. 2014 already totaled $1.5 billion. Continued severe weather since then makes it likely that 2014 will become one of the top 5 costliest winters since 1980.
Thunderstorm losses in 2013 totaled $10.3 billion, the 6th highest on record.

Average thunderstorm losses are up 7 fold since the early 1980s. The 5-year running average loss is up sharply.

Hurricanes get all the headlines, but thunderstorms are consistent producers of large scale loss. 2008-2013 are the most expensive years on record.

Source: Property Claims Service, and MR NatCatSERVICE
Terrorism Update

A Challenge Through Which the Industry Has Persevered

Download III’s Terrorism Insurance Report at:
http://www.iii.org/white_papers/terrorism-risk-a-constant-threat-2014.html
Loss Distribution by Type of Insurance from Sept. 11 Terrorist Attack ($ 2013)

($ Billions)

- Aviation Liability: $4.3 (11%)
- Event Cancellation: $1.2 (3%)
- Aviation Hull: $0.6 (2%)
- Workers Comp: $2.2 (6%)
- Biz Interruption: $13.5 (33%)
- Property - Other: $7.4 (19%)
- Property - WTC 1 & 2*: $4.4 (11%)
- Life: $1.2 (3%)
- Other Liability: $4.9 (12%)

Total Insured Losses Estimate: $42.9B**

*Loss total does not include March 2010 New York City settlement of up to $657.5 million to compensate approximately 10,000 Ground Zero workers or any subsequent settlements.

**$32.5 billion in 2001 dollars.

Source: Insurance Information Institute.
Terrorism Risk Insurance Program

- Testified before House Financial Services Nov. 2013
- Testified before Senate Banking Cmte. in Sept. 2013
- Provided testimony at NYC hearing in June 2013
- Provided Capitol Hill Joint House/Senate Staff Briefing in April 2014
- I.I.I. Published Several Updates to its Study on Terrorism Risk and Insurance

Senate Banking Committee, 9/25/13
House Financial Services Subcommittee, 11/13/13
In 2003, the first year TRIA was in effect, the terrorism take-up rate was 27 percent. Since then, it has increased steadily, remaining in the low 60 percent range since 2009.

TRIA’s high take-up rates, availability and affordability have benefitted businesses, workers and the entire US economy since the program’s enactment.

- Detailed history of TRIA
- How TRIA works
- Assessing the threat of terrorism
- Terrorism market conditions
- Global perspective

CAT OF THE FUTURE?

CYBER RISK

Cyber Risk is a Rapidly Emerging Exposure for Businesses Large and Small in Every Industry

NEW III White Paper:
The Total Number of Data Breaches (+38%) and Number of Records Exposed (+408%) in 2013 Soared

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

Growth Will Expand Insurer Exposure Base Across Most Lines
**US Real GDP Growth**

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**Demand for Insurance Should Increase in 2014/15 as GDP Growth Accelerates Modestly and Gradually Benefits the Economy Broadly**

* Estimates/Forecasts from Blue Chip Economic Indicators.
Source: US Department of Commerce, Blue Economic Indicators 4/14; Insurance Information Institute.*
Unemployment and Underemployment Rates: Still Too High, But Falling

January 2000 through April 2014, Seasonally Adjusted (%)

"Headline" Unemployment Rate U-3
Unemployment + Underemployment Rate U-6

U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 12.3% in Apr. 2014. 8% to 10% is “normal.”

“Headline” unemployment was 6.3% in April 2014. 4% to 6% is “normal.”

Stubbornly high unemployment and underemployment constrain overall economic growth, but the job market is now clearly improving.

Car/Light Truck Sales Will Continue to Recover from the 2009 Low Point, Bolstering the Auto Insurer Growth and the Manufacturing Sector Along With Workers Comp Exposures

Job growth and improved credit market conditions will boost auto sales in 2014 and beyond

New auto/light truck sales fell to the lowest level since the late 1960s. Forecast for 2014-15 is still below 1999-2007 average of 17 million units, but a robust recovery is well underway.

Truck purchases by contractors are especially strong

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (4/14 and 3/13); Insurance Information Institute.
New Private Housing Starts, 1990-2019F

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (4/14 and 3/13); Insurance Information Institute.

Insurers Are Continue to See Meaningful Exposure Growth in the Wake of the “Great Recession” Associated with Home Construction: Construction Risk Exposure, Surety, Commercial Auto; Potent Driver of Workers Comp Exposure

Job growth, low inventories of existing homes, low mortgage rates and demographics should continue to stimulate new home construction for several more years.

New home starts plunged 72% from 2005-2009; A net annual decline of 1.49 million units, lowest since records began in 1959.
Private Construction Activity Is Moving in a Positive Direction though Remains Well Below Pre-Crisis Peak; Residential Dominates

- New Construction peaks at $911.8B in 2006
- Trough in 2010 at $500.6B, after plunging 55.1% ($411.2B)

2013: Value of new pvt. construction hits $667.5B, up 33% from the 2010 trough but still 27% below 2006 peak

*2013 figure is a seasonally adjusted annual rate as of December.
Sources: US Department of Commerce; Insurance Information Institute.

*seasonally adjusted; Data published May 2, 2014.
Oil & Gas Extraction Employment, Jan. 2010—March 2014*

Oil and gas extraction employment is up 33.1% since Jan. 2010 as the energy sector booms. Domestic energy production is essential to any robust economic recovery in the US.

*Seasonally adjusted
Many industries are poised for growth, though insurers’ ability to capitalize on these industries varies widely.

12 Industries for the Next 10 Years: Insurance Solutions Needed

- Health Care
- Health Sciences
- Energy (Traditional)
- Alternative Energy
- Petrochemical
- Agriculture
- Natural Resources
- Technology (incl. Biotechnology)
- Light Manufacturing
- Insourced Manufacturing
- Export-Oriented Industries
- Shipping (Rail, Marine, Trucking, Pipelines)
Insurance Information Institute Online:

www.iii.org

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