



# **P/C Insurance Industry Overview & Outlook for 2014 and Beyond**

**Casualty Actuaries of New England  
Sturbridge, MA  
March 27, 2014**

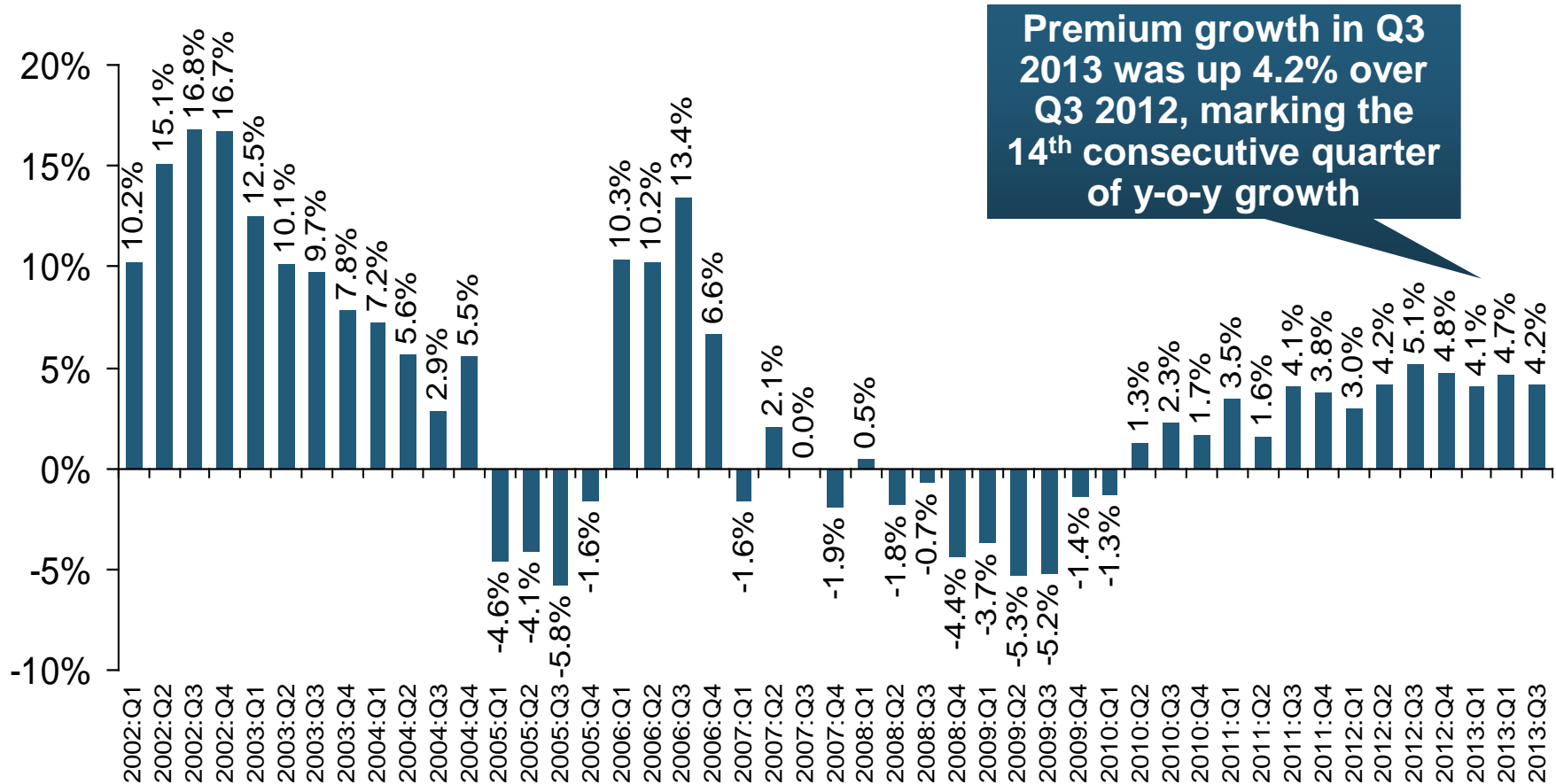
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# 2013: Best Year (So Far) in the Post-Crisis Era

**Performance Improved with  
Lower CATs, Firming Markets**

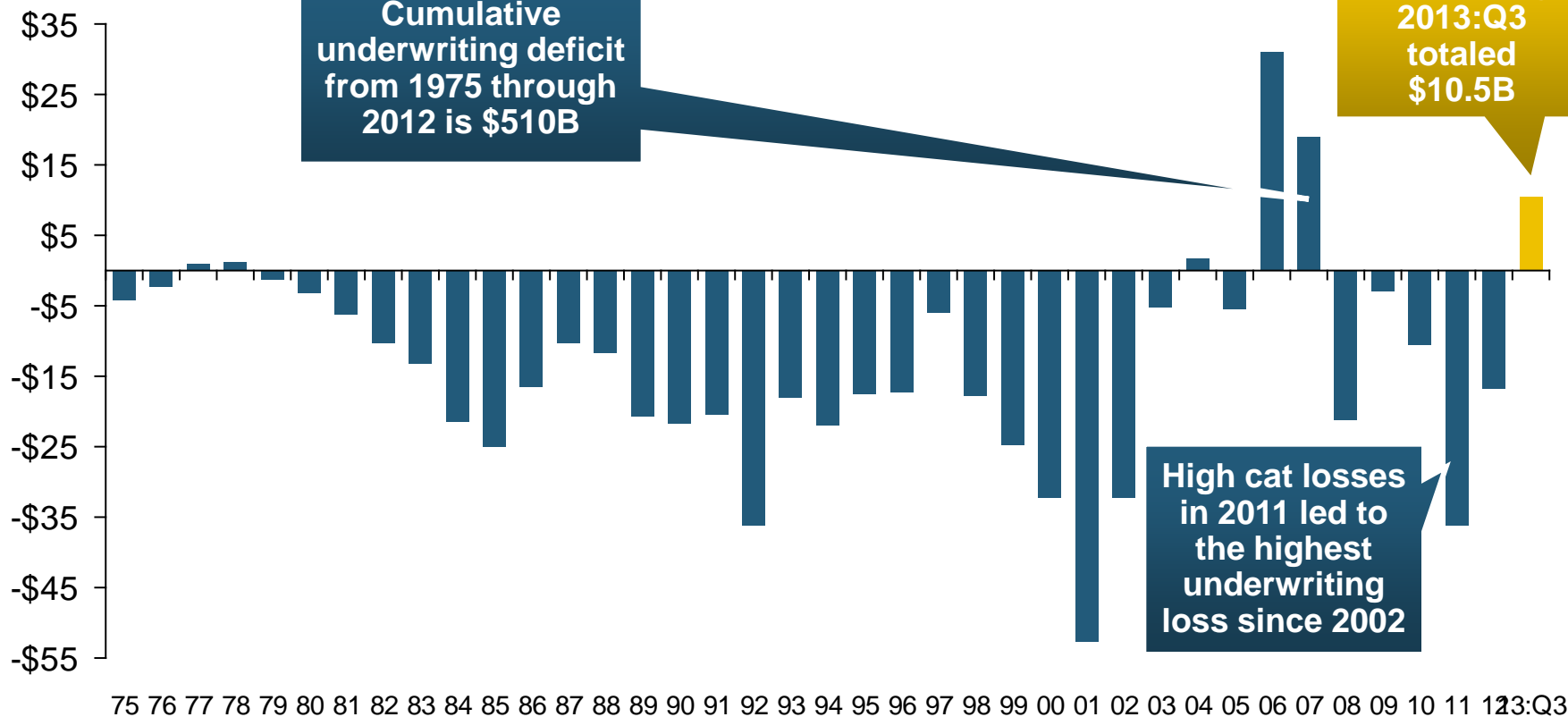
# P/C Net Premiums Written: % Change, Quarter vs. Year-Prior Quarter



**Sustained growth in written premiums (vs. the same quarter, prior year) should continue through 2014.**

# Underwriting Gain (Loss) 1975–2013:Q3\*

(\$ Billions)

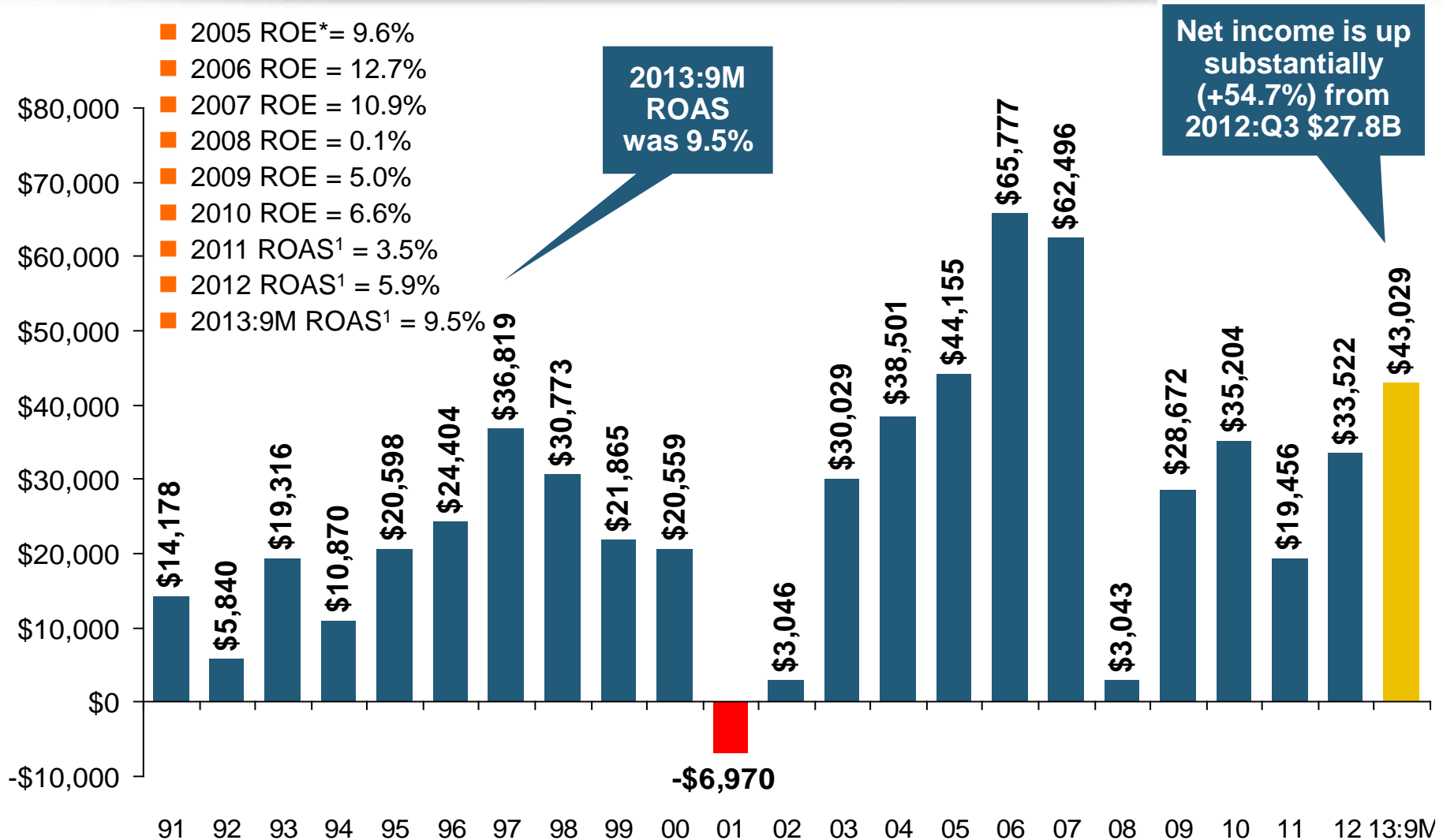


**Large underwriting losses are *NOT* sustainable  
in the current investment environment.**

\* Includes mortgage and financial guaranty insurers in all years.

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

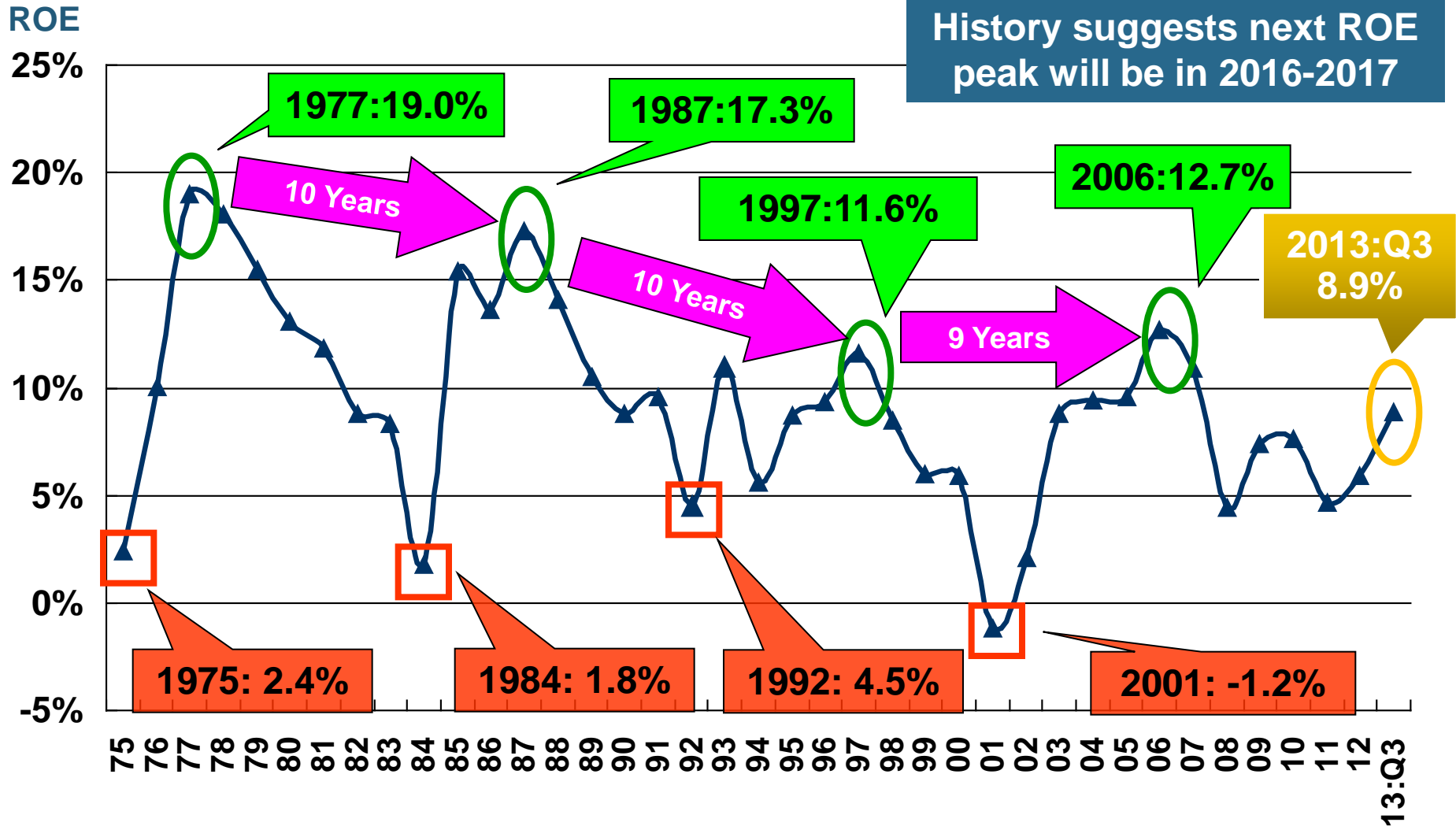
# P/C Net Income After Taxes 1991–2013:Q3 (\$ Millions)



\*ROE figures are GAAP; <sup>1</sup>Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 8.9% ROAS through 2013:Q3, 6.2% ROAS in 2012, 4.7% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009.

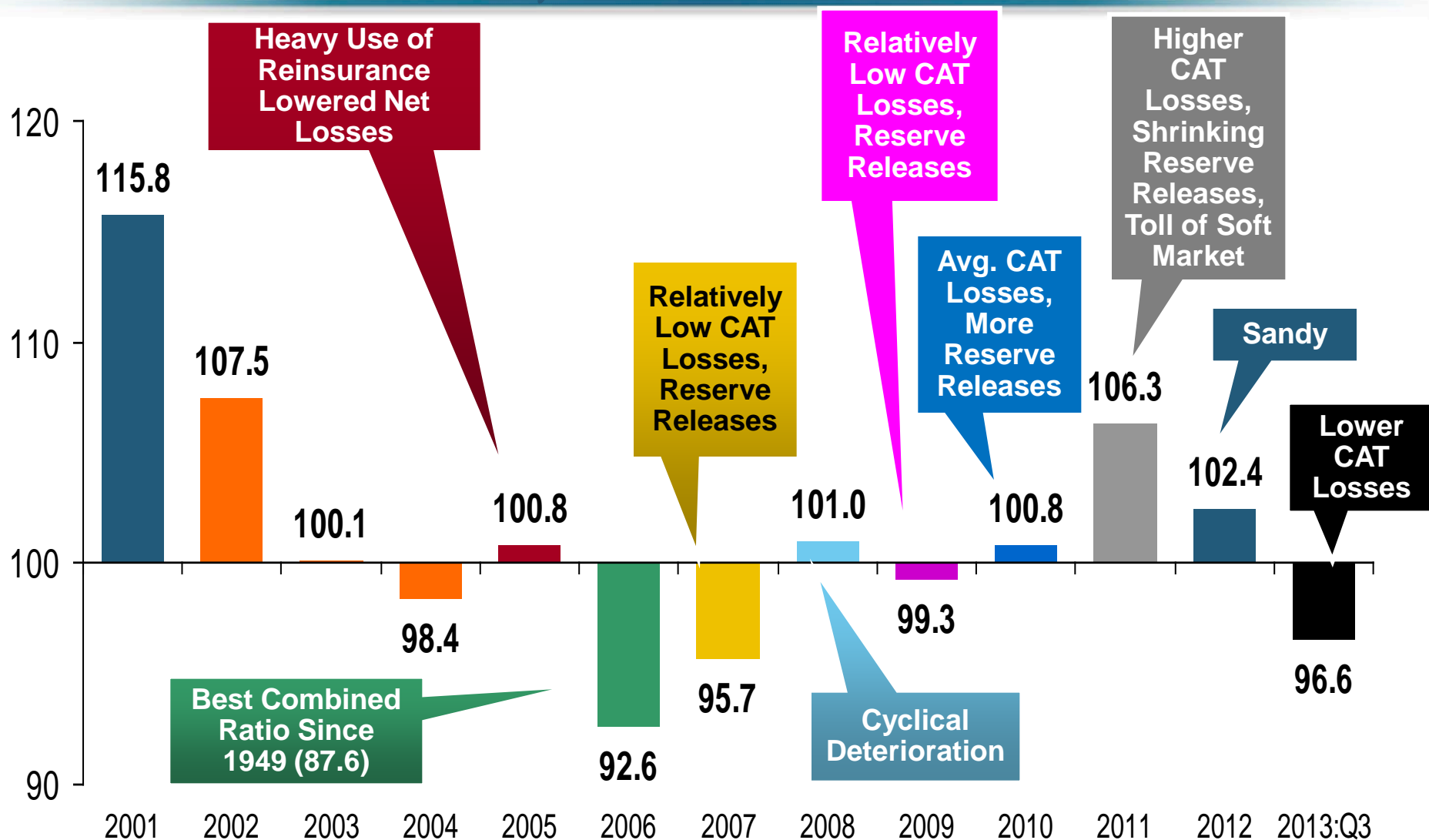
Sources: A.M. Best, ISO, Insurance Information Institute

# Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2013:Q3\*



\*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.

# P/C Insurance Industry Combined Ratio, 2001–2013:Q3\*

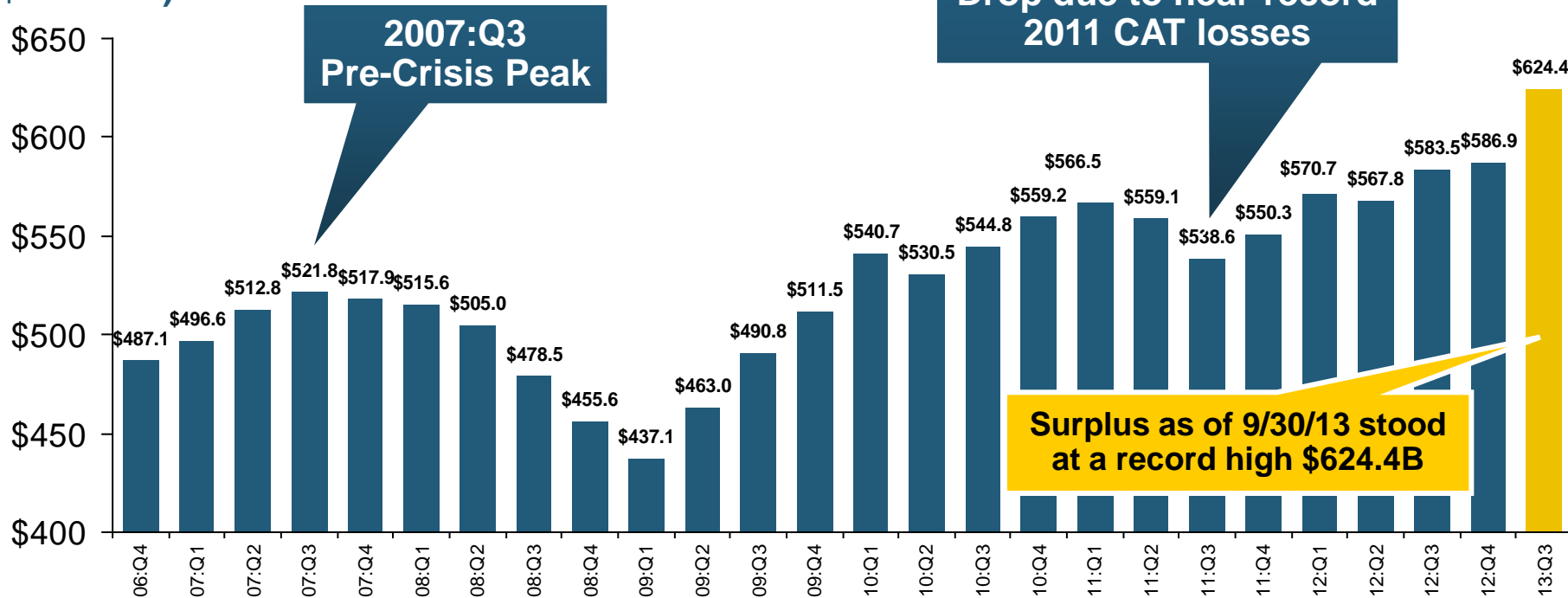


\* Excludes Mortgage & Financial Guaranty insurers 2008--2012. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.1; 2012:=103.2; 2013:Q3 = 95.8.

Sources: A.M. Best, ISO.

# Policyholder Surplus, 2006:Q4–2013:Q3

(\$ Billions)



Surplus as of 9/30/13 stood at a record high \$624.4B

**The industry now has \$1 of surplus for every \$0.78 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 2014 in very strong financial shape.**

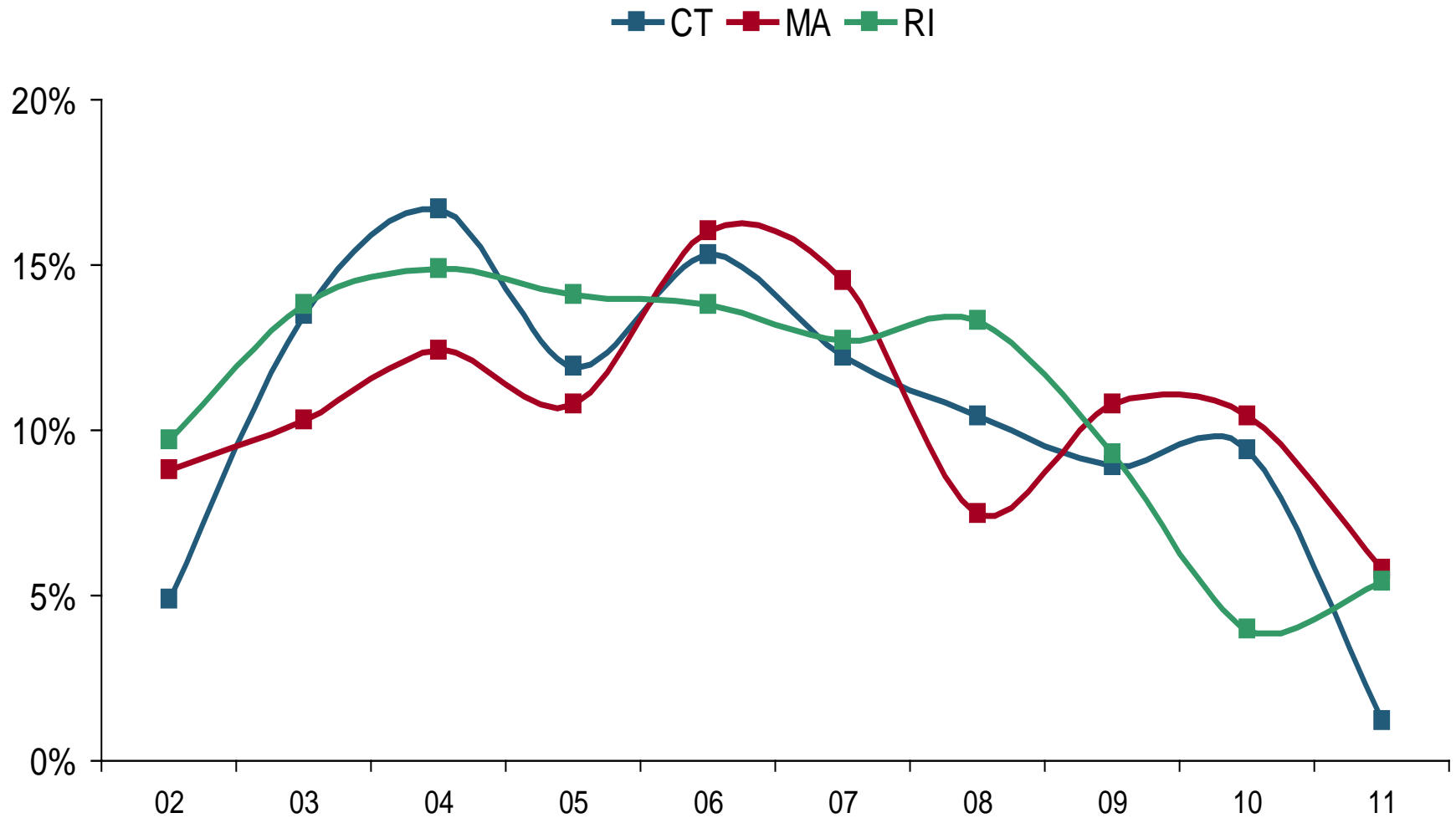
Sources: ISO, A.M .Best.



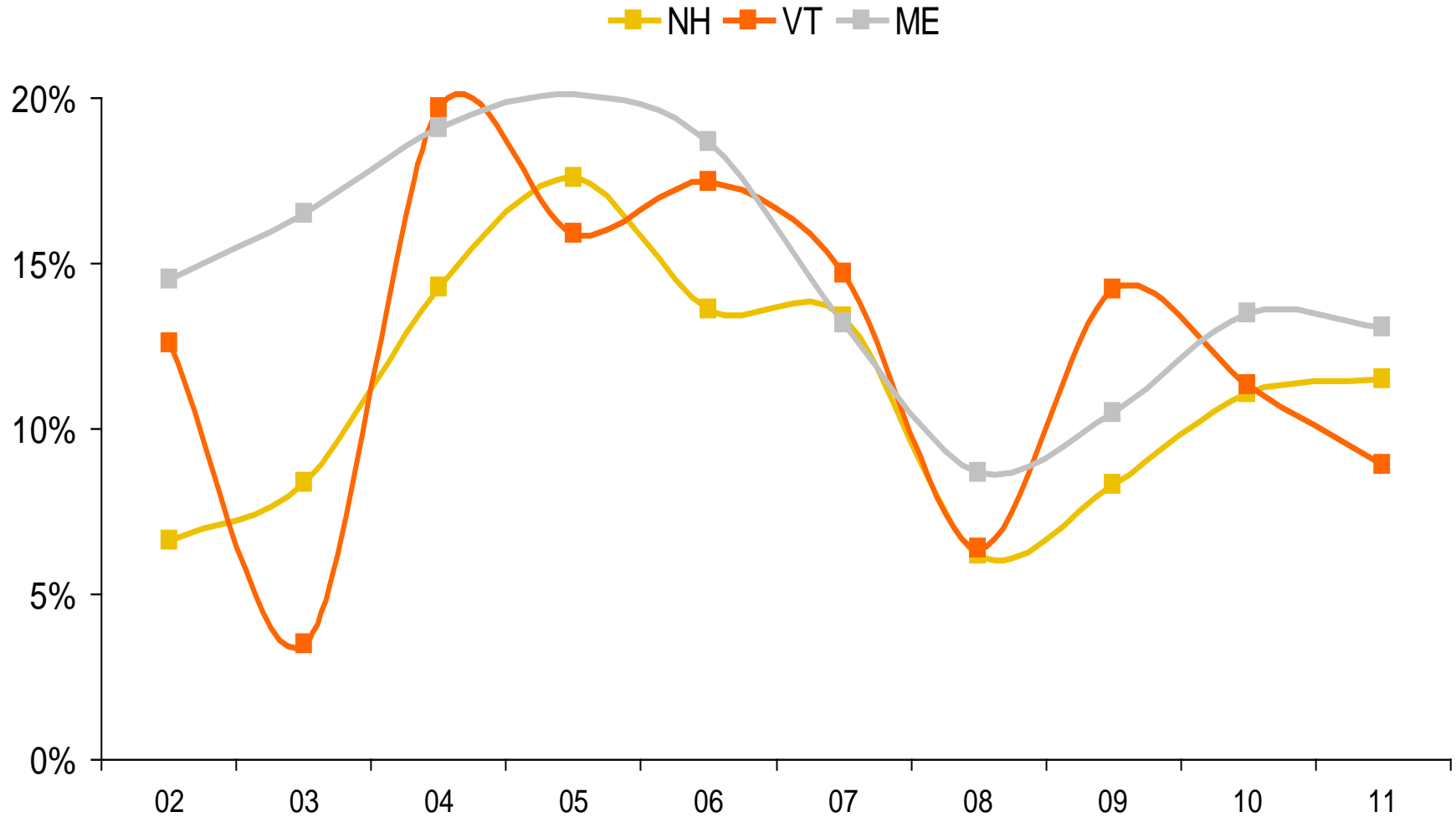
# **Profitability and Growth in the New England P/C Insurance Markets**

## **Analysis by Line and State**

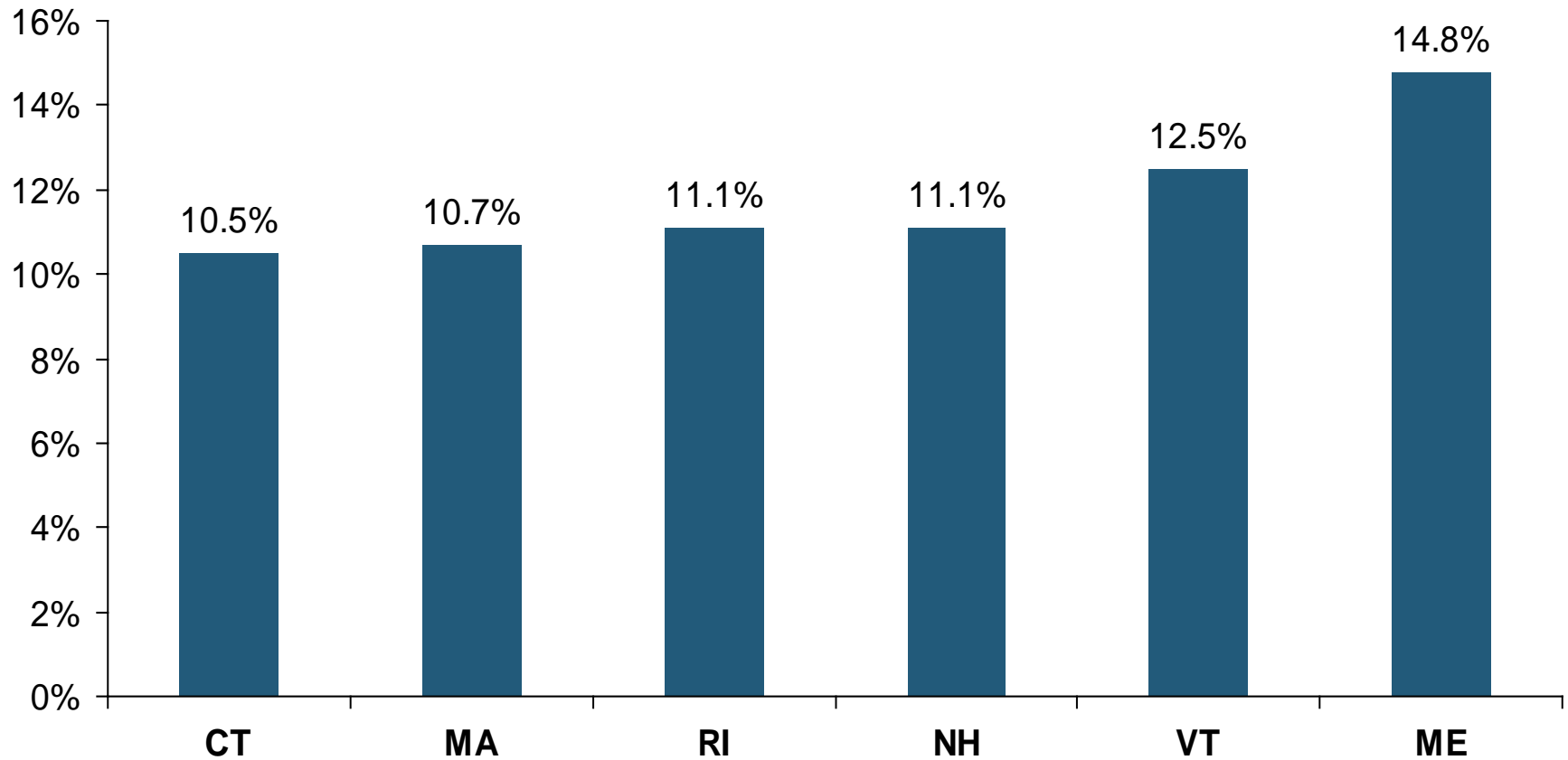
# Return on Net Worth, All Lines: 2002-2011



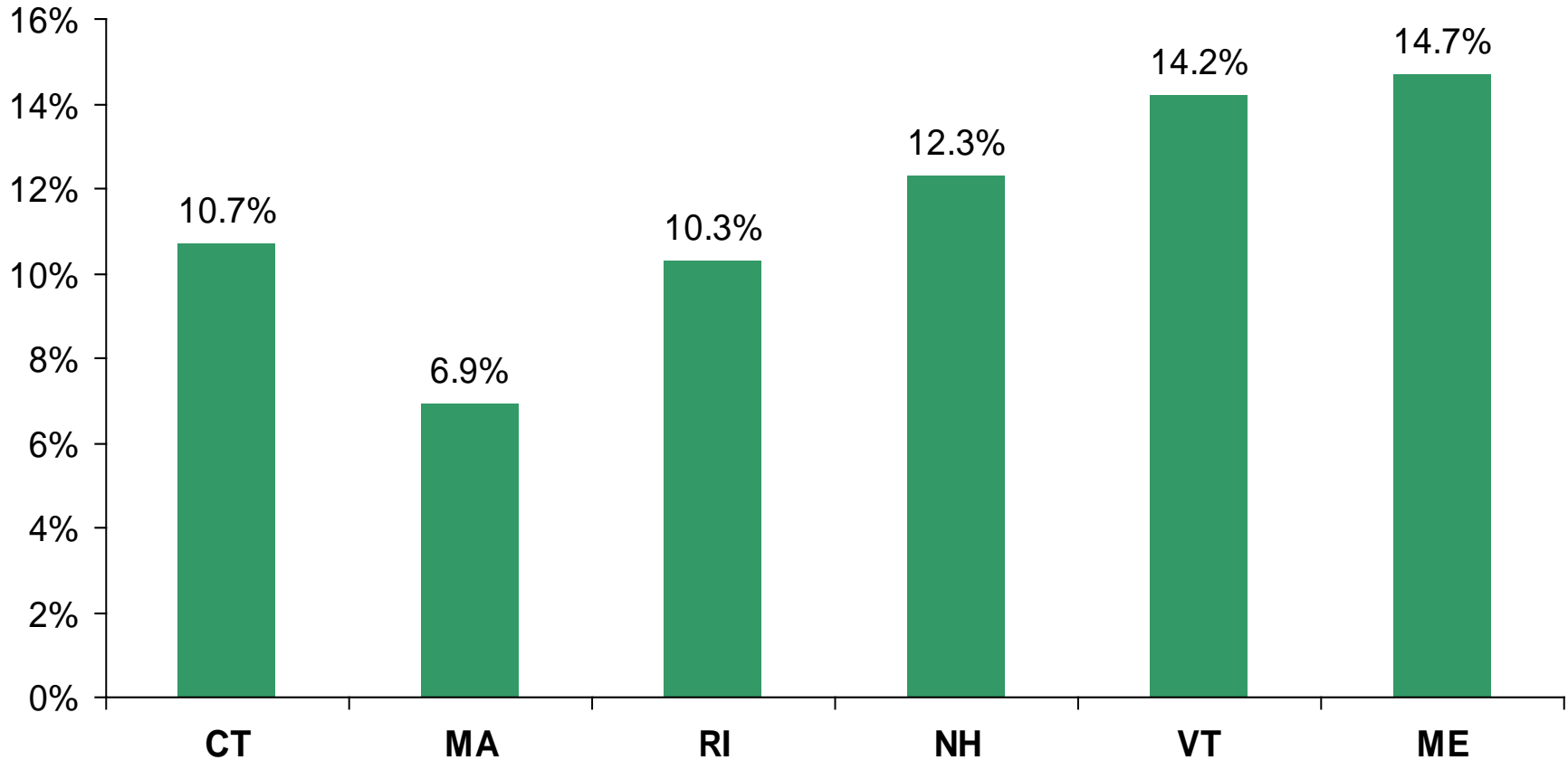
# Return on Net Worth, All Lines: 2002-2011



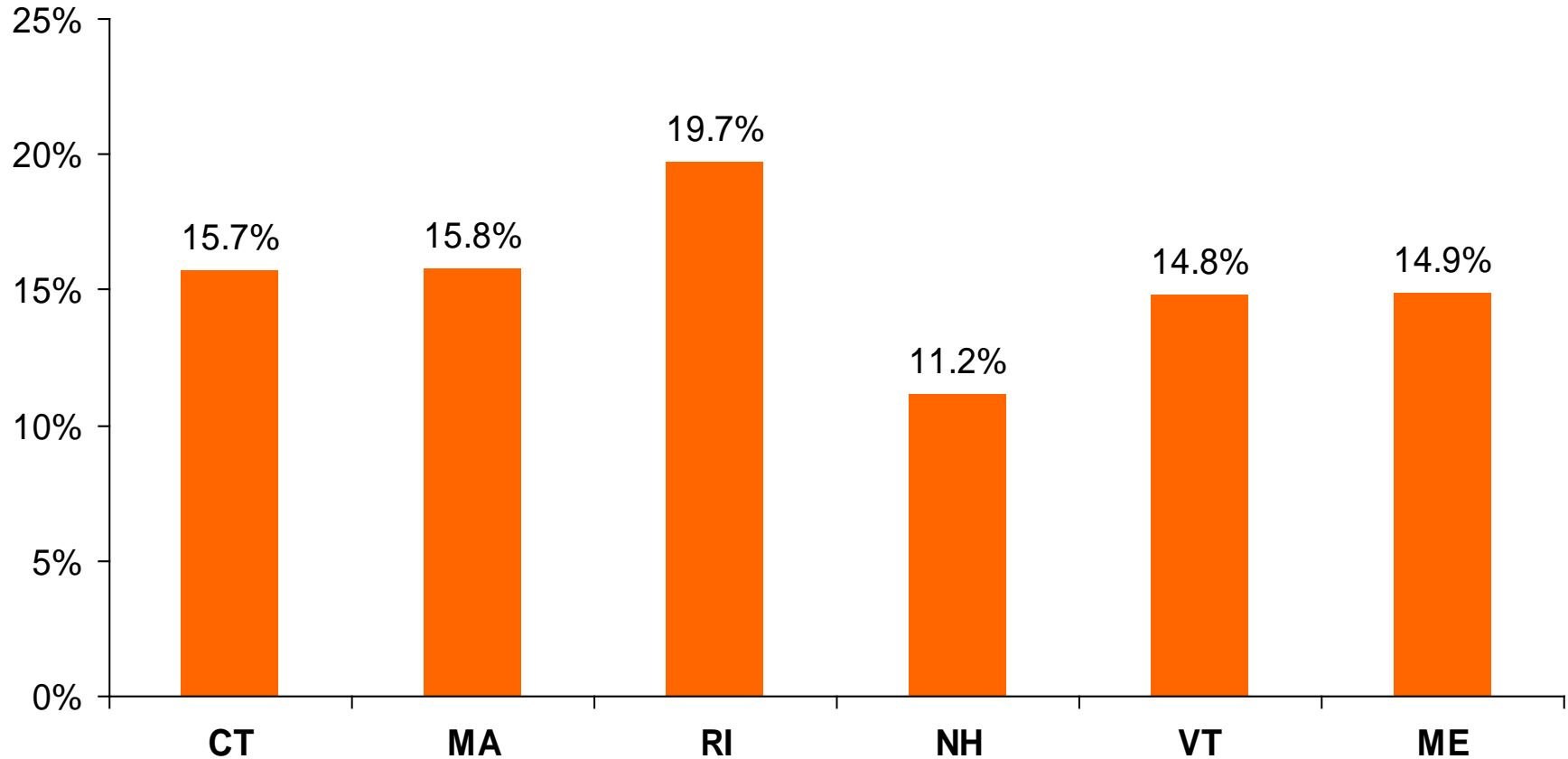
# Return on Net Worth, All Lines: 2002-2011 Average, by State



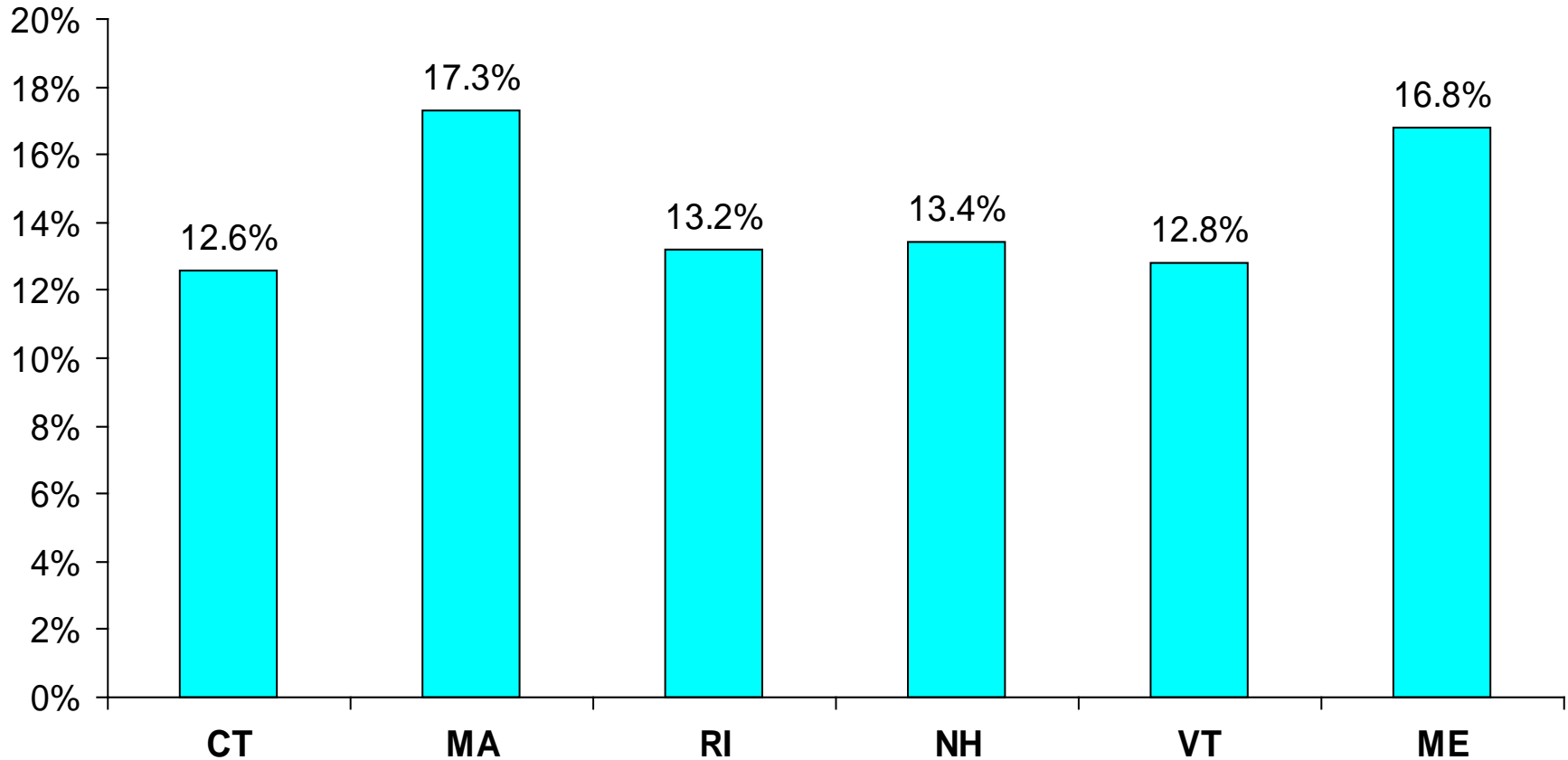
# RNW PP Auto: New England States, 2002-2011, 10-year average



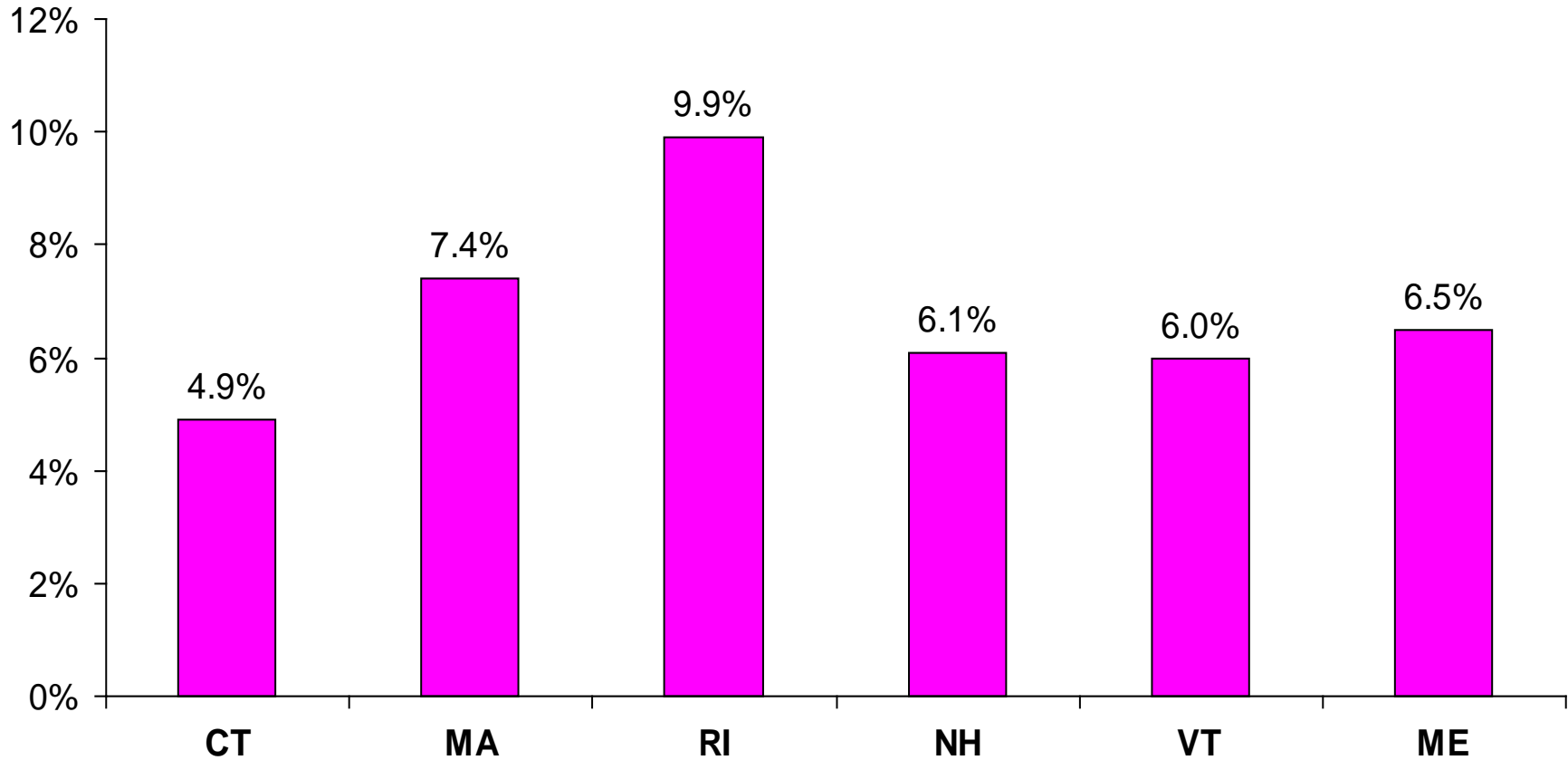
# RNW HO: New England States, 2002-2011, 10-year average



# RNW CMP: New England States, 2002-2011, 10-year average



# RNW WC: New England States, 2002-2011, 10-year average



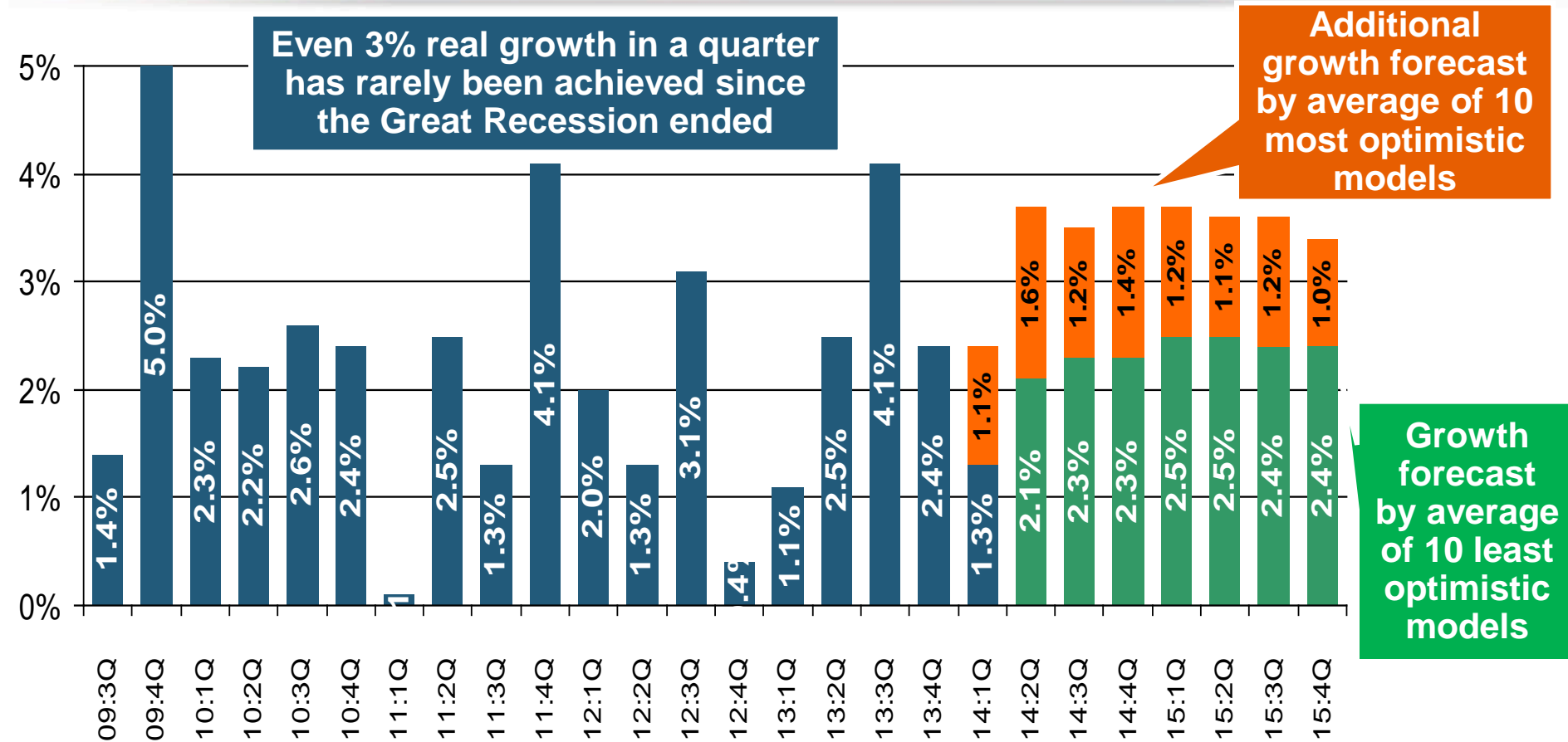




# **The Strength of the Economy Will Influence P/C Insurer Growth Opportunities**

**Growth Will Expand Insurer Exposure  
Base Across Most Lines**

# Real Quarterly GDP Growth Since the “Great Recession, and Forecast

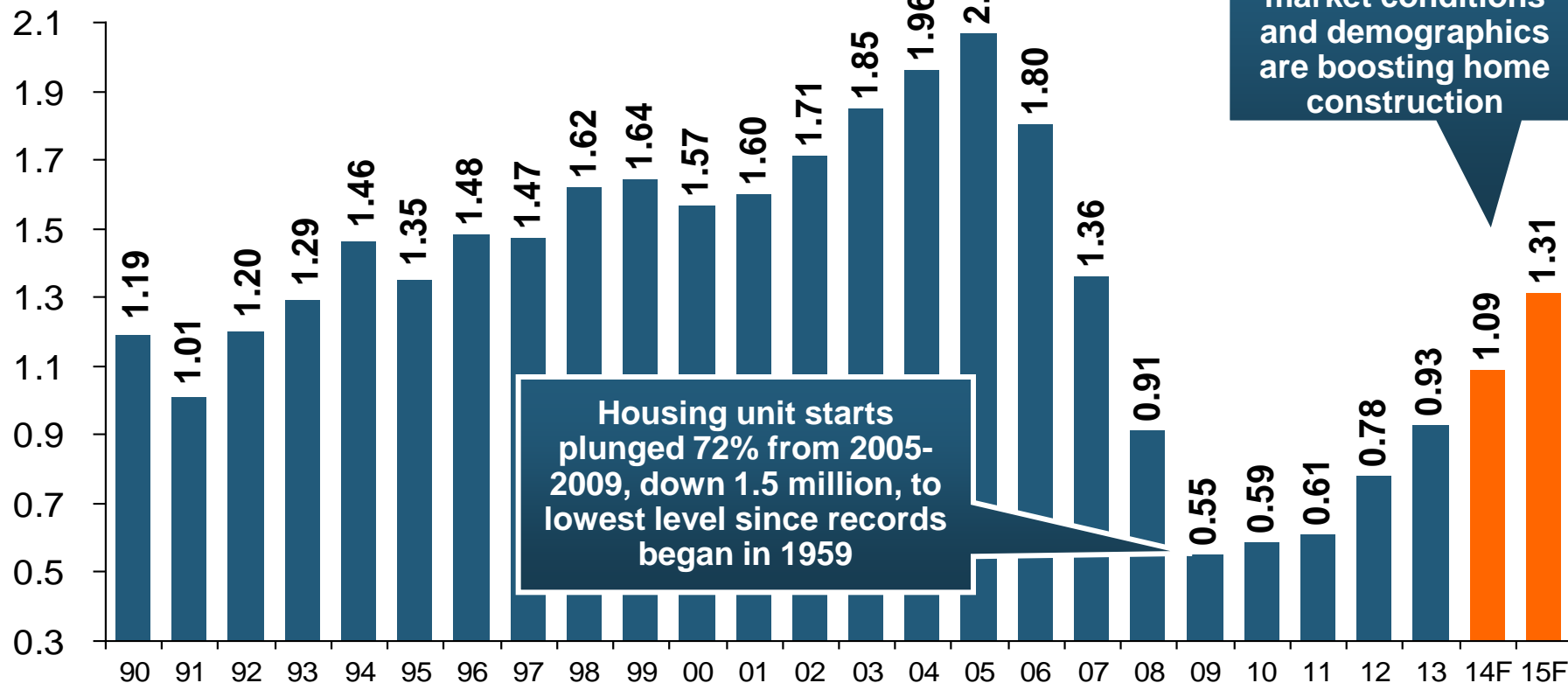


**Demand for insurance continues to be affected by sluggish economic conditions, but the benefits of even slow growth will compound and gradually benefit the economy broadly.**

Forecasts from Blue Chip Economic Indicators; data are quarterly changes at annualized rates  
 Sources: (history) US Department of Commerce, Blue Chip Economic Indicators 3/14; Insurance Information Institute.

# Private Housing Unit Starts, 1990-2015F

Millions of Units



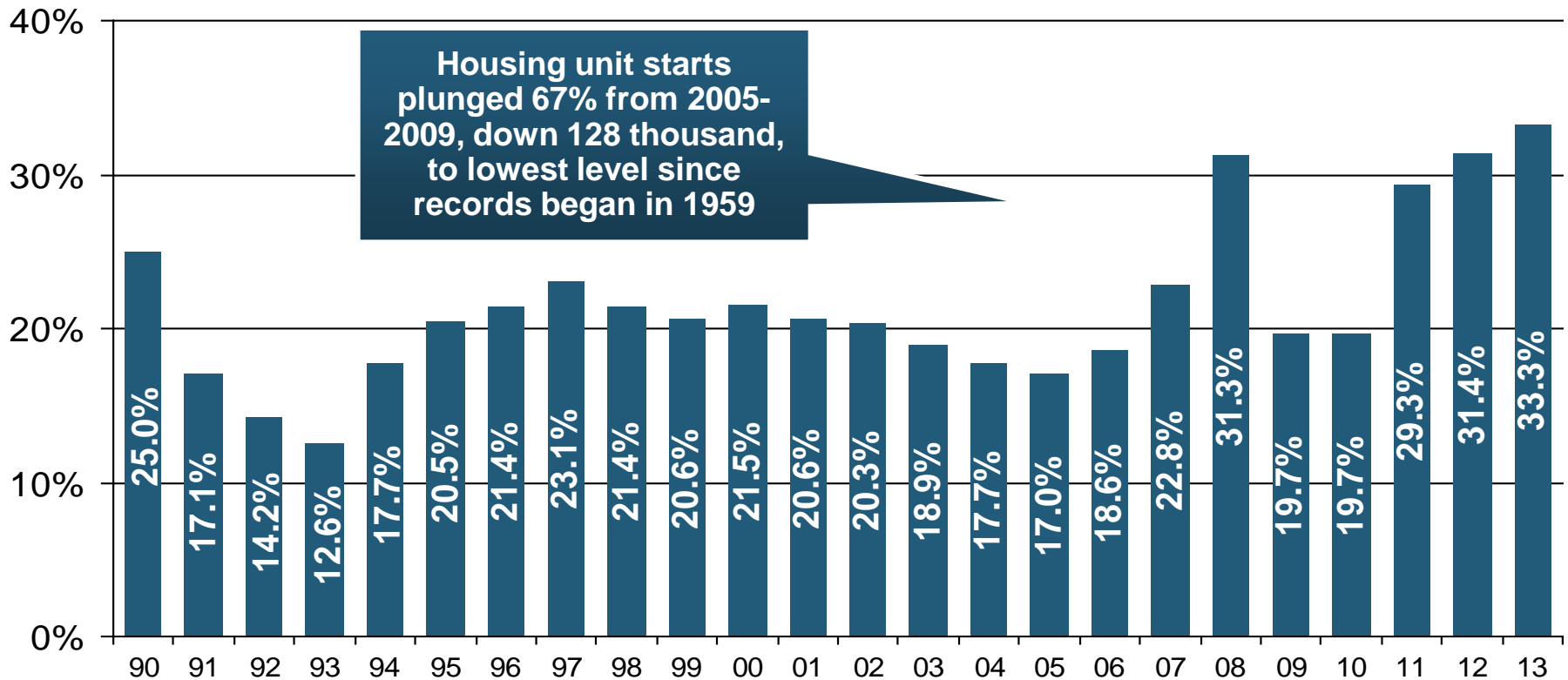
Housing unit starts plunged 72% from 2005-2009, down 1.5 million, to lowest level since records began in 1959

Job growth, improved credit market conditions and demographics are boosting home construction

Housing starts are rising, but this could be retarded by rising mortgage interest rates. 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.

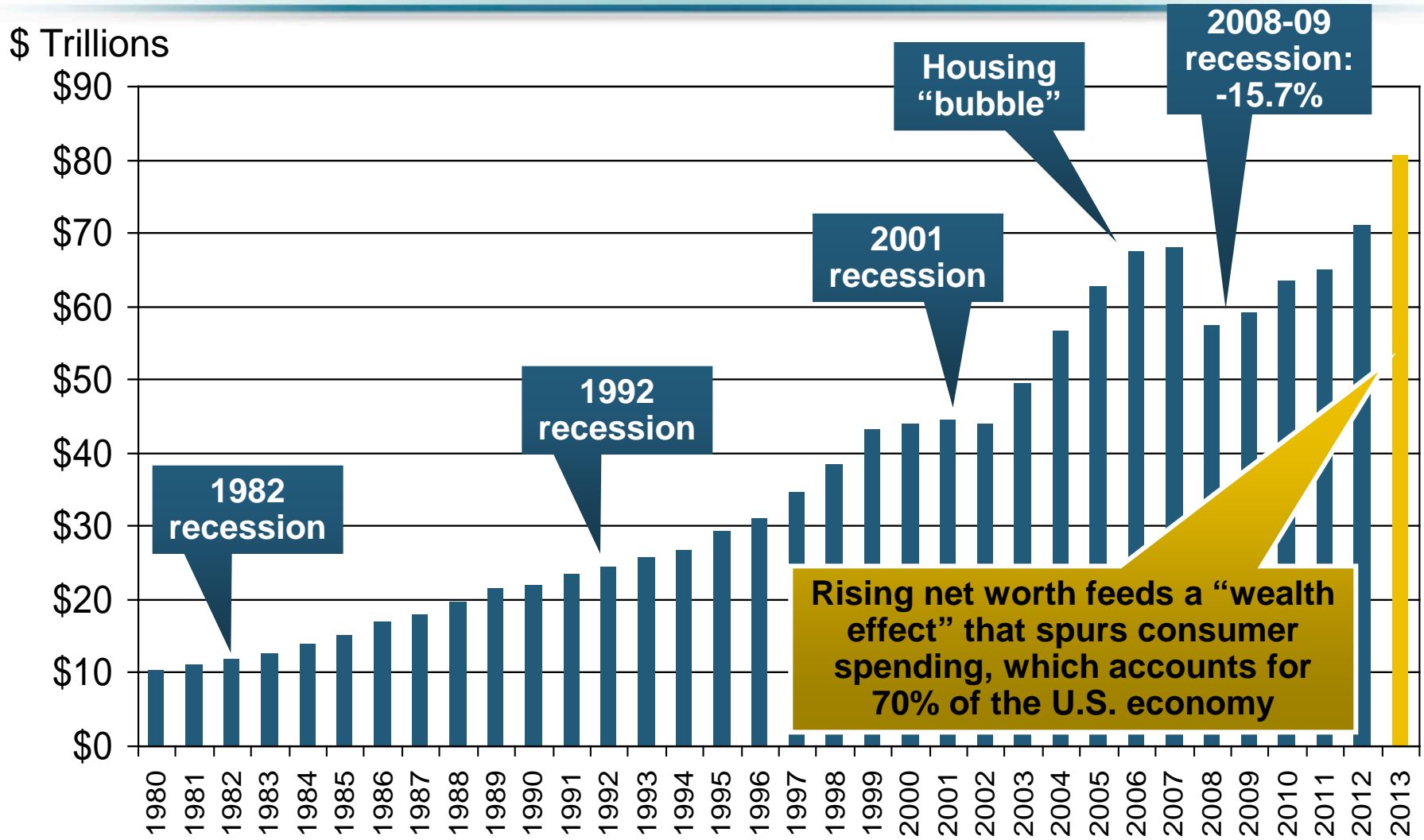
# US: Private Housing Unit Starts, Pct. In Multi-Unit Projects, 1990-2013

Units in Multiple-Unit Projects  
as Percent of Total



**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.**

# Net Worth of Households\* Recently Hit A Historic High

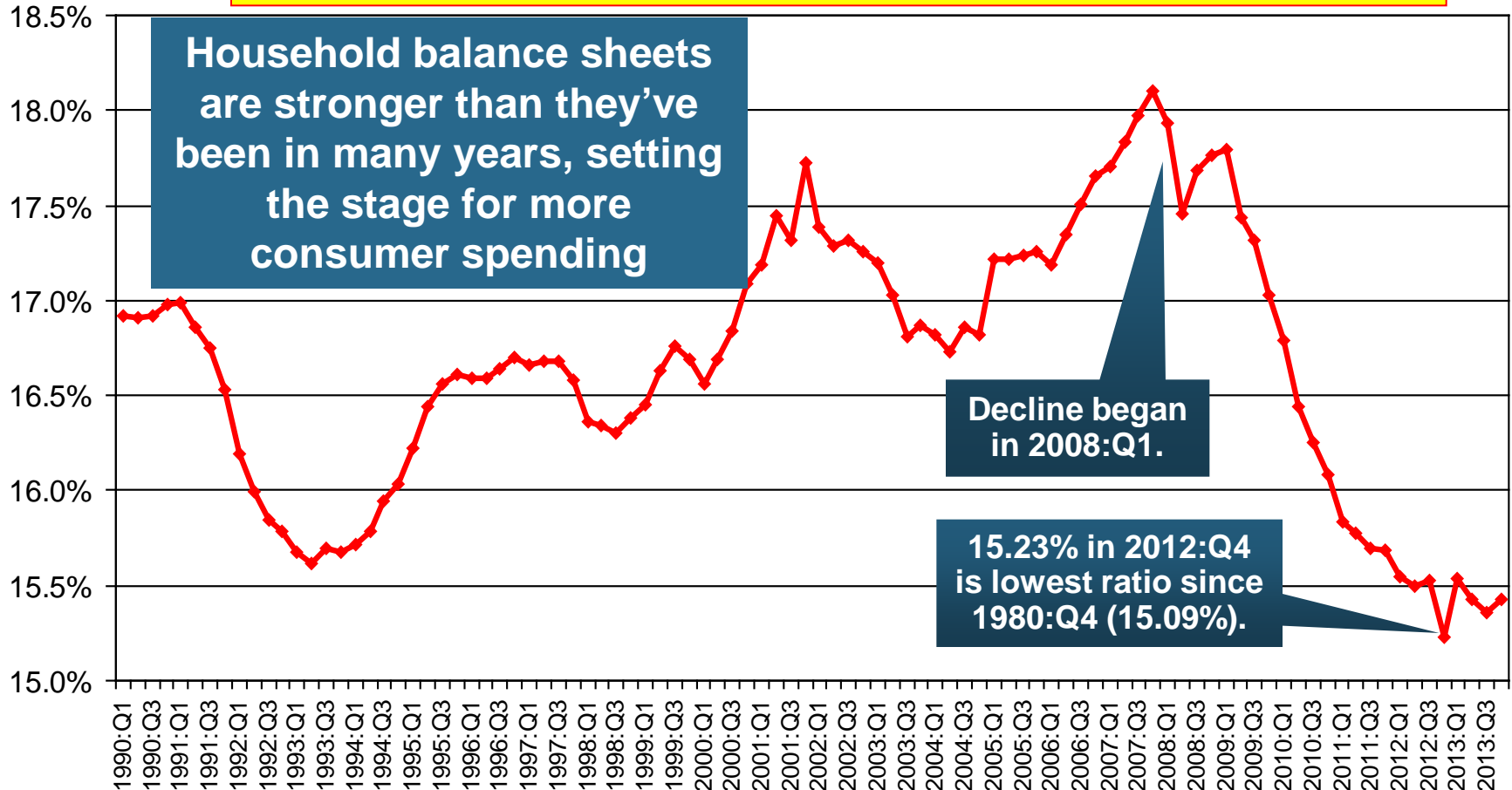


\*and nonprofit organizations. Data are as of year-end, not seasonally-adjusted or inflation-adjusted  
Source: Federal Reserve Board

# Household Financial Obligations Ratio Recently Hit A Historic Low

Financial  
Obligations  
Ratio

**Financial Obligations Ratio:** debt service (mortgage and consumer debt), auto lease, residence rent, HO insurance, and property tax payments as % of personal disposable income.

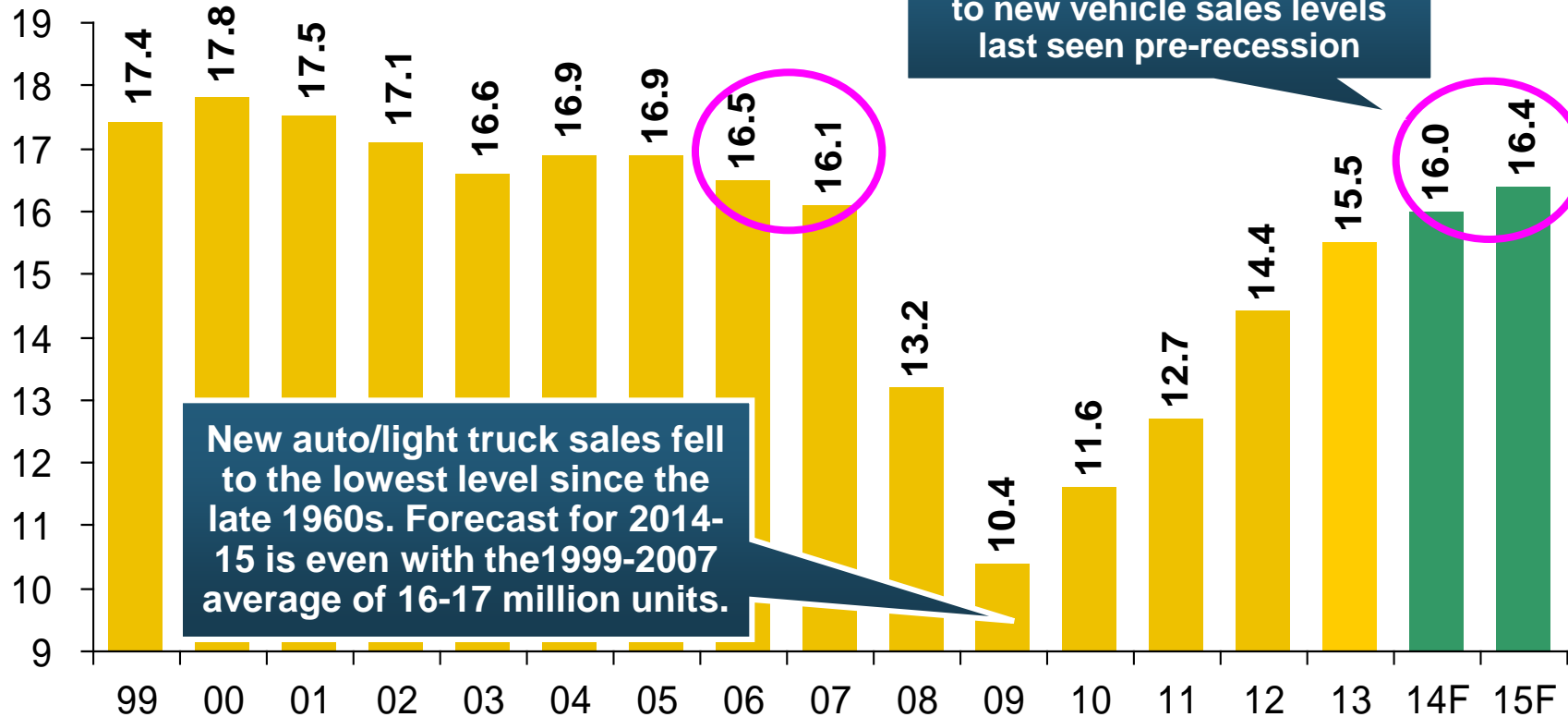


\*through 2013:Q4 (data posted on Mar 18, 2014)

Source: Federal Reserve Board, at <http://www.federalreserve.gov/releases/housedebt>

# Auto/Light Truck Sales, 1999-2015F

(Millions of Units)



It seems likely that we're back to new vehicle sales levels last seen pre-recession

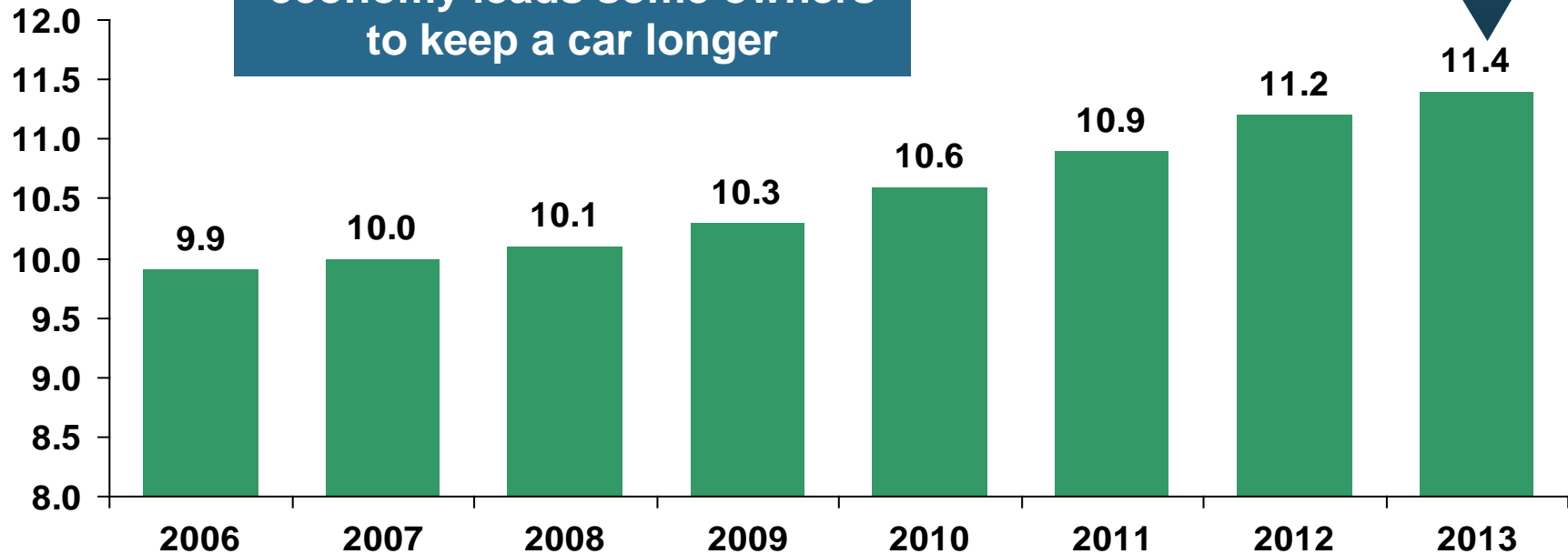
New auto/light truck sales fell to the lowest level since the late 1960s. Forecast for 2014-15 is even with the 1999-2007 average of 16-17 million units.

**Yearly car/light truck sales will keep rising, in part replacing cars that were held onto in 2008-12. New vehicles will generate more physical damage insurance coverage but will be more expensive to repair. PP Auto premium might grow by 6%.**

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

# Average Age of Vehicles on the Road, 2006—2013

Average Vehicle Age (Years)



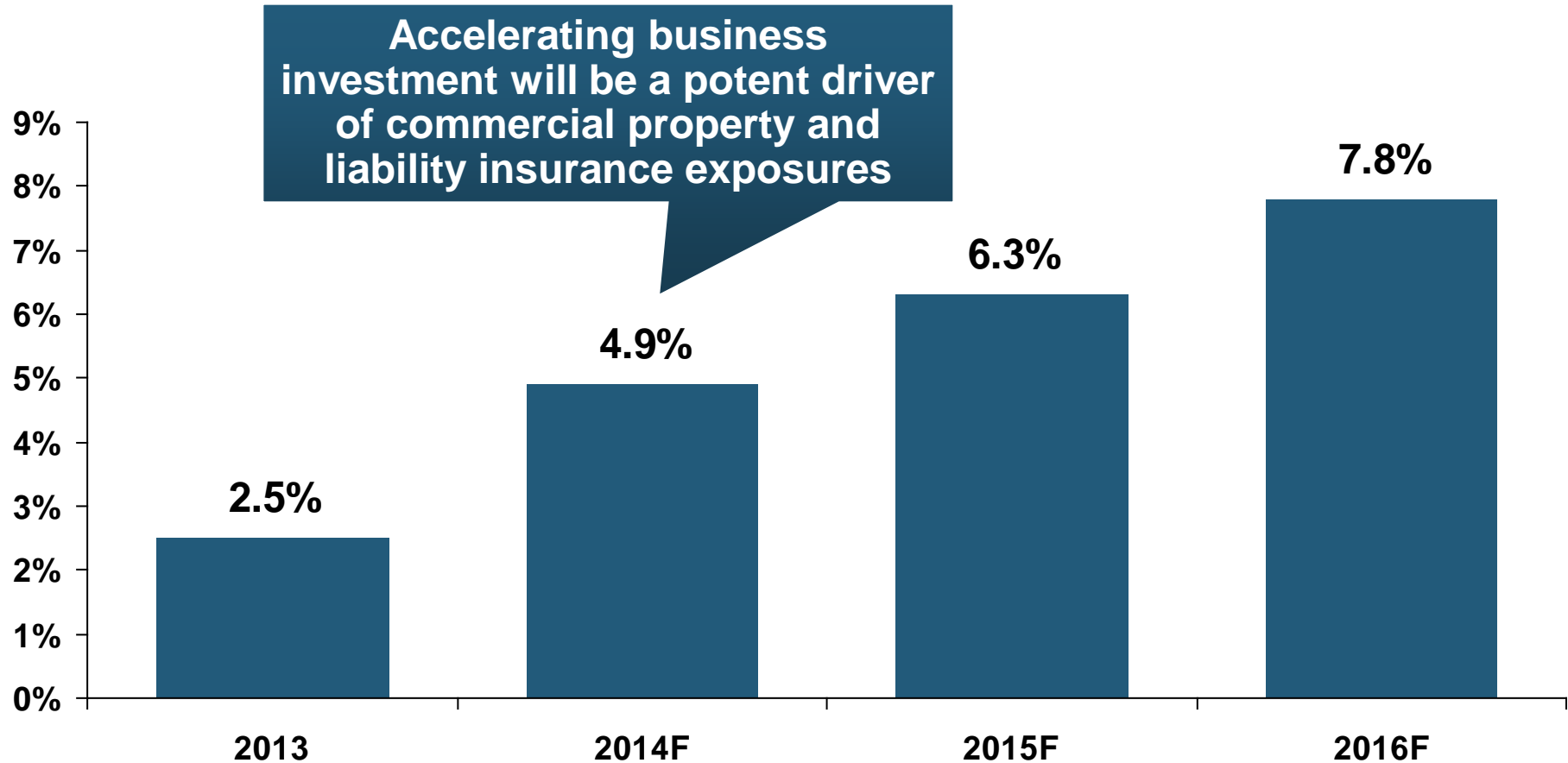
Average vehicle age keeps rising because cars are more reliable and because the slow economy leads some owners to keep a car longer

The average age of cars on the road rose by 15% in just 7 years

The average age of a vehicle on the road is expected to continue to increase until 2018. By 2018, the number of vehicles 12+ years old is expected to rise 11.6% from 2013 and the number that are under 5 years old is expected to increase by 41%



# Business Investment\* is Expected to Accelerate in 2014-16, Fueling Commercial Exposure Growth

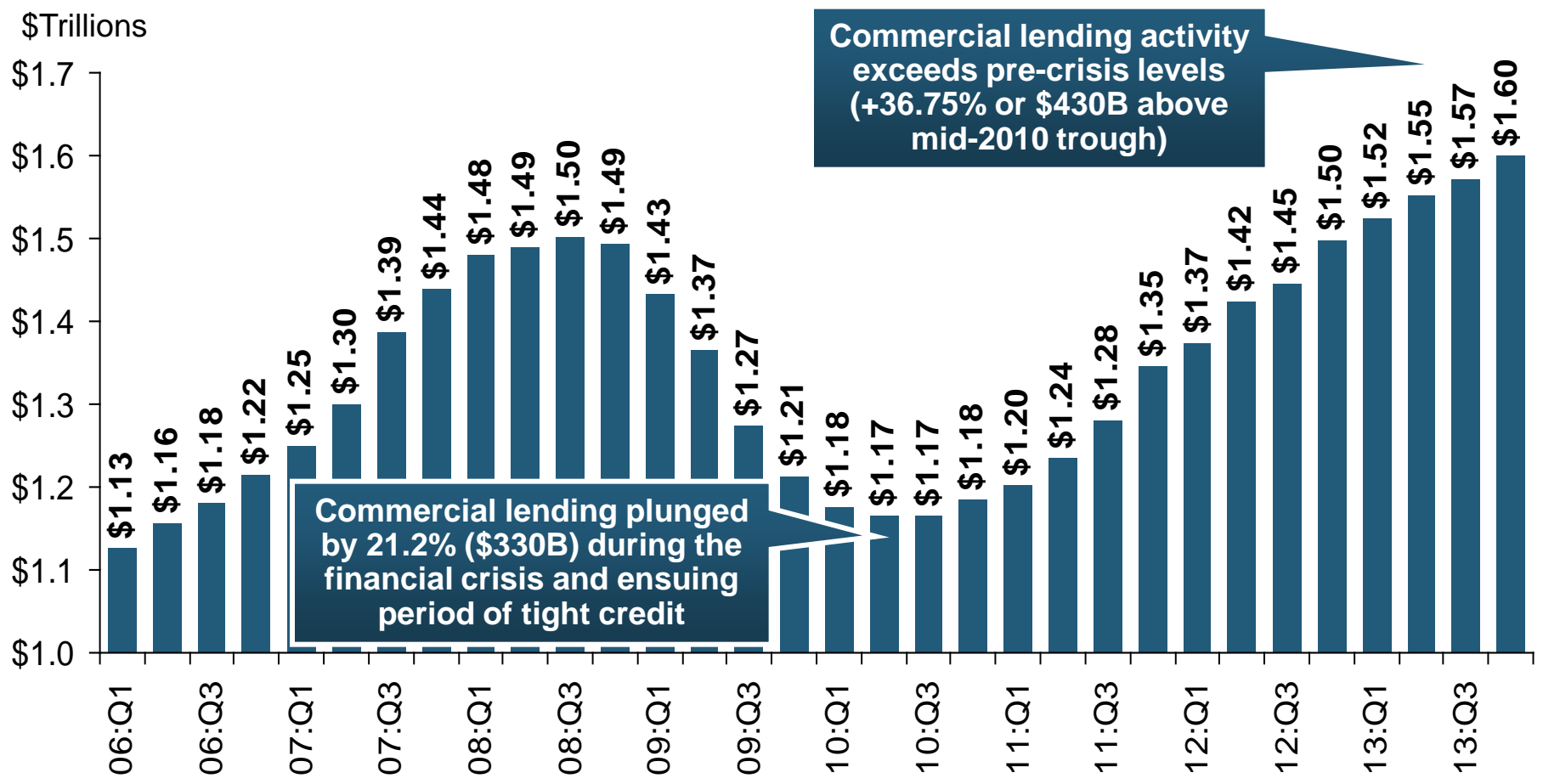


**Accelerating business investment should also drive employment and WC payroll exposures (with a lag).**

\*consists of new orders of non-defense capital goods, excluding aircraft, plus buildings and software

Sources: IHS Global Insights as of Jan.13, 2014; Insurance Information Institute.

# Commercial & Industrial Loans Outstanding at FDIC-Insured Banks, Quarterly, 2006-2013:Q4\*

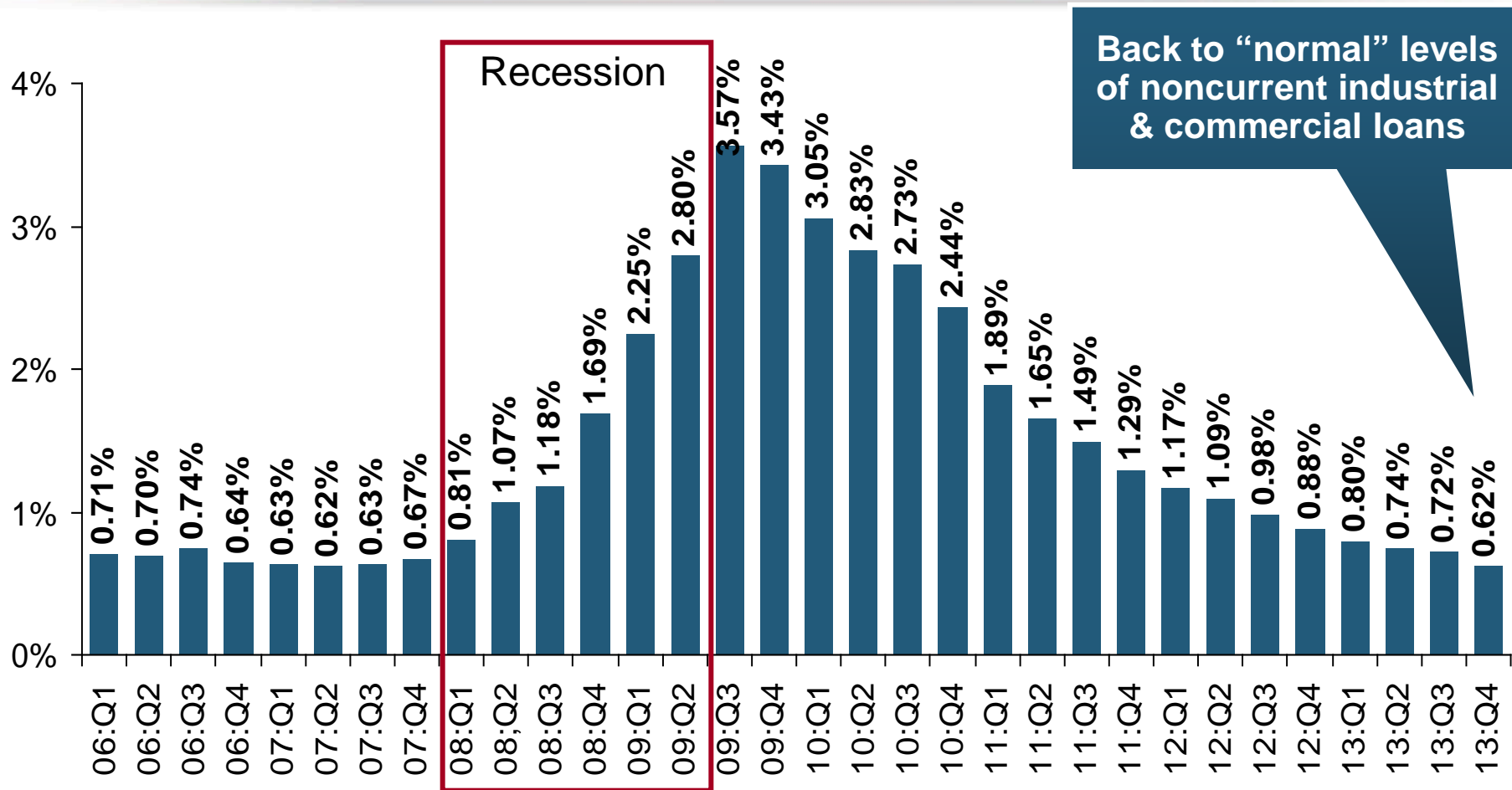


**Outstanding Commercial Loan Volume Has Been Growing for Over Two Years and Is Now Nearly Back to Early Recession Levels. Bodes Very Well for the Creation of Current and Future Commercial Insurance Exposures**

\*Latest data as of 3/4/2014.

Source: FDIC at <http://www2.fdic.gov/qbp/> (Loan Performance spreadsheet); Insurance Information Institute.

# Percent of Non-current Commercial & Industrial Loans Outstanding at FDIC-Insured Banks, Quarterly, 2006-2013:Q4\*

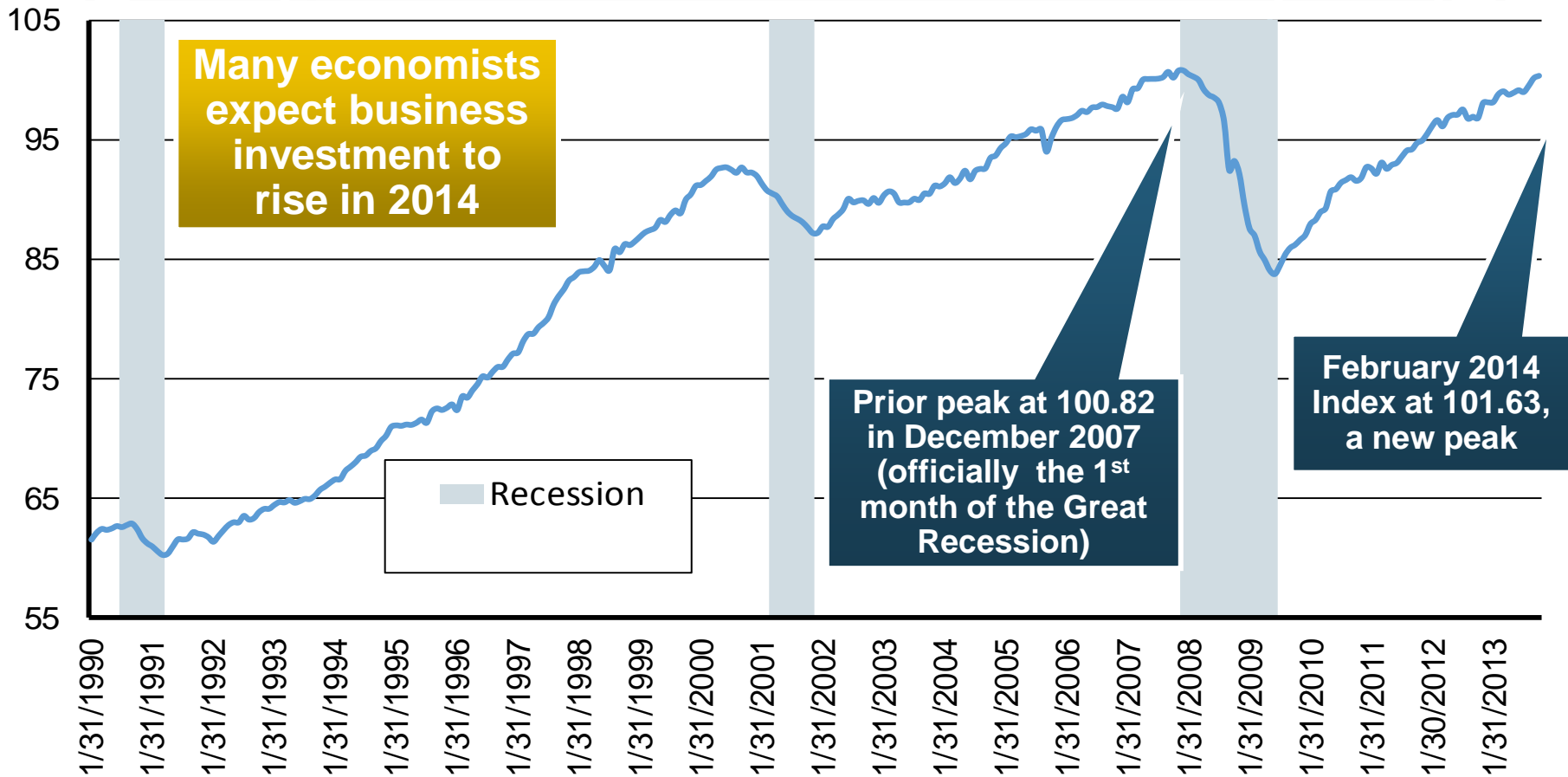


**Non-current loans (those past due 90 days or more or in nonaccrual status) are back to early-recession levels, fueling bank willingness to lend.**

\*Latest data as of 3/4/2014.

Source: FDIC at <http://www2.fdic.gov/gbp/> (Loan Performance spreadsheet); Insurance Information Institute.

# Index of Total Industrial Production:\* A New Peak in Early 2014



**Insurance exposures for industrial production will continue growing in 2014, and commercial insurance premium volume with them. Y-o-Y growth to October 2013 was 3.2%. Both production and premium volume growth for 2014 should exceed this.**

\*Monthly, seasonally adjusted, through February 2014 (which is preliminary). Index based on year 2007 = 100

Sources: Federal Reserve Board at [http://www.federalreserve.gov/releases/g17/ipdisk/ip\\_sa.txt](http://www.federalreserve.gov/releases/g17/ipdisk/ip_sa.txt).  
National Bureau of Economic Research (recession dates); Insurance Information Institutes.

# Dollar Value\* of Manufacturers' Shipments Monthly, Jan. 1992—Jan. 2014

\$ Millions

\$500,000

The value of Manufacturing Shipments in Nov. 2013 was \$493.9B—a new record high.

\$400,000

\$300,000

\$200,000

Jan-92 Jan-93 Jan-94 Jan-95 Jan-96 Jan-97 Jan-98 Jan-99 Jan-00 Jan-01 Jan-02 Jan-03 Jan-04 Jan-05 Jan-06 Jan-07 Jan-08 Jan-09 Jan-10 Jan-11 Jan-12 Jan-13 Jan-14

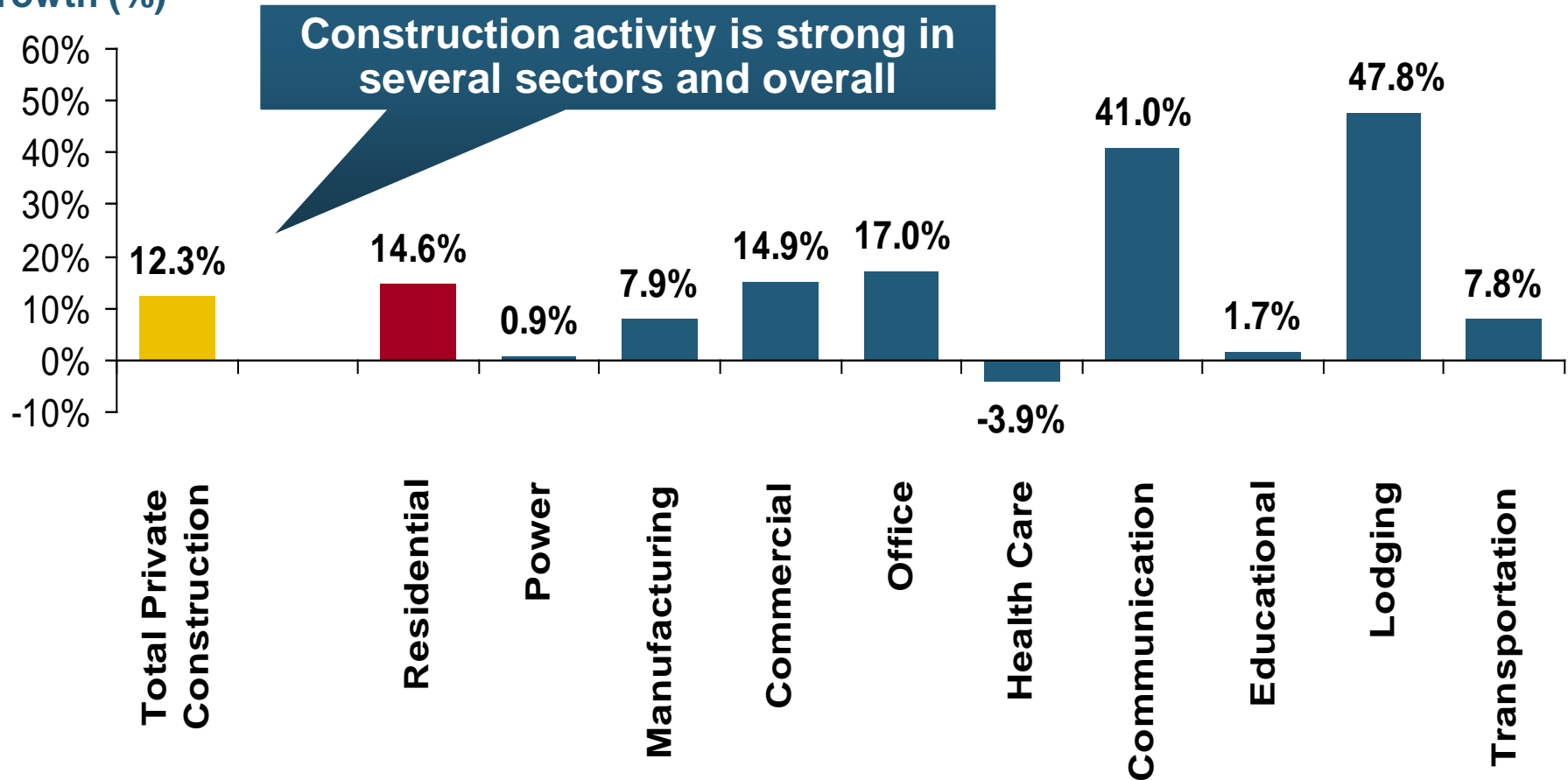
Monthly shipments in Nov. 2013 exceeded the pre-crisis (July 2008) peak; Dec. 2013 and Jan 2014 slipped a bit. Manufacturing is energy-intensive and growth leads to gains in many commercial exposures: WC, Commercial Auto, Marine, Property, and various Liability Coverages.

\*seasonally adjusted; Jan. 2014 is preliminary; data published March 6, 2014.

Source: U.S. Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders*, <http://www.census.gov/manufacturing/m3/>

# Value of Private Construction Put in Place, by Segment, Jan. 2014 vs. Jan. 2013\*

Growth (%)



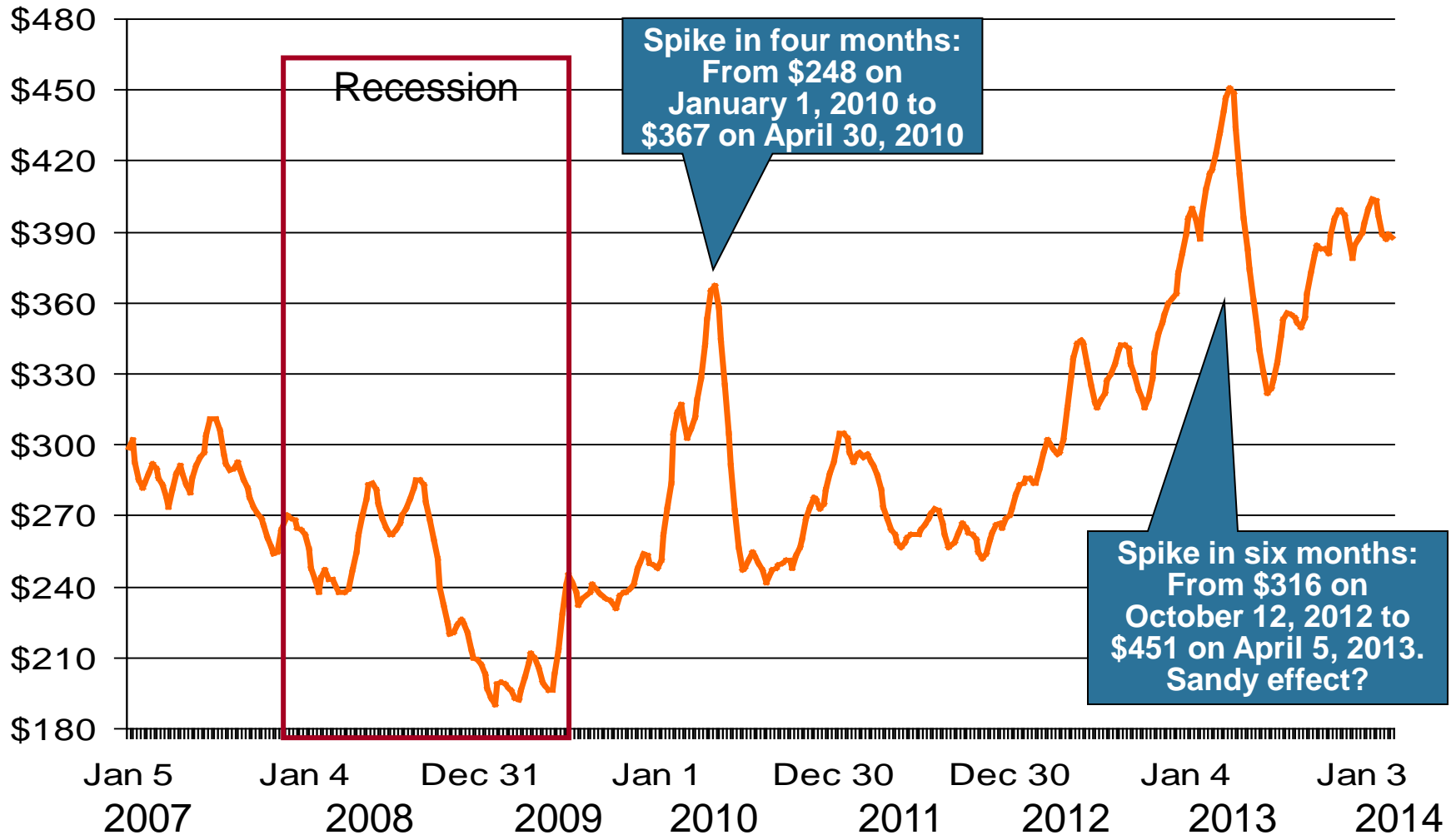
Categories are arranged from largest dollar amounts (at left) to smaller. The drop in “power” construction is misleading since it follows a prior-year surge. Hotel and home construction are up sharply.

\*seasonally adjusted; Nov and Dec are preliminary; Next release is Apr 1, 2014

Source: U.S. Census Bureau, <http://www.census.gov/construction/c30/c30index.html> ; Insurance Information Institute.

# Prices for Framing Lumber

Weekly, Jan. 2007–Mar. 2014



**Since the recession ended, a rising trend, with sharp spikes.**

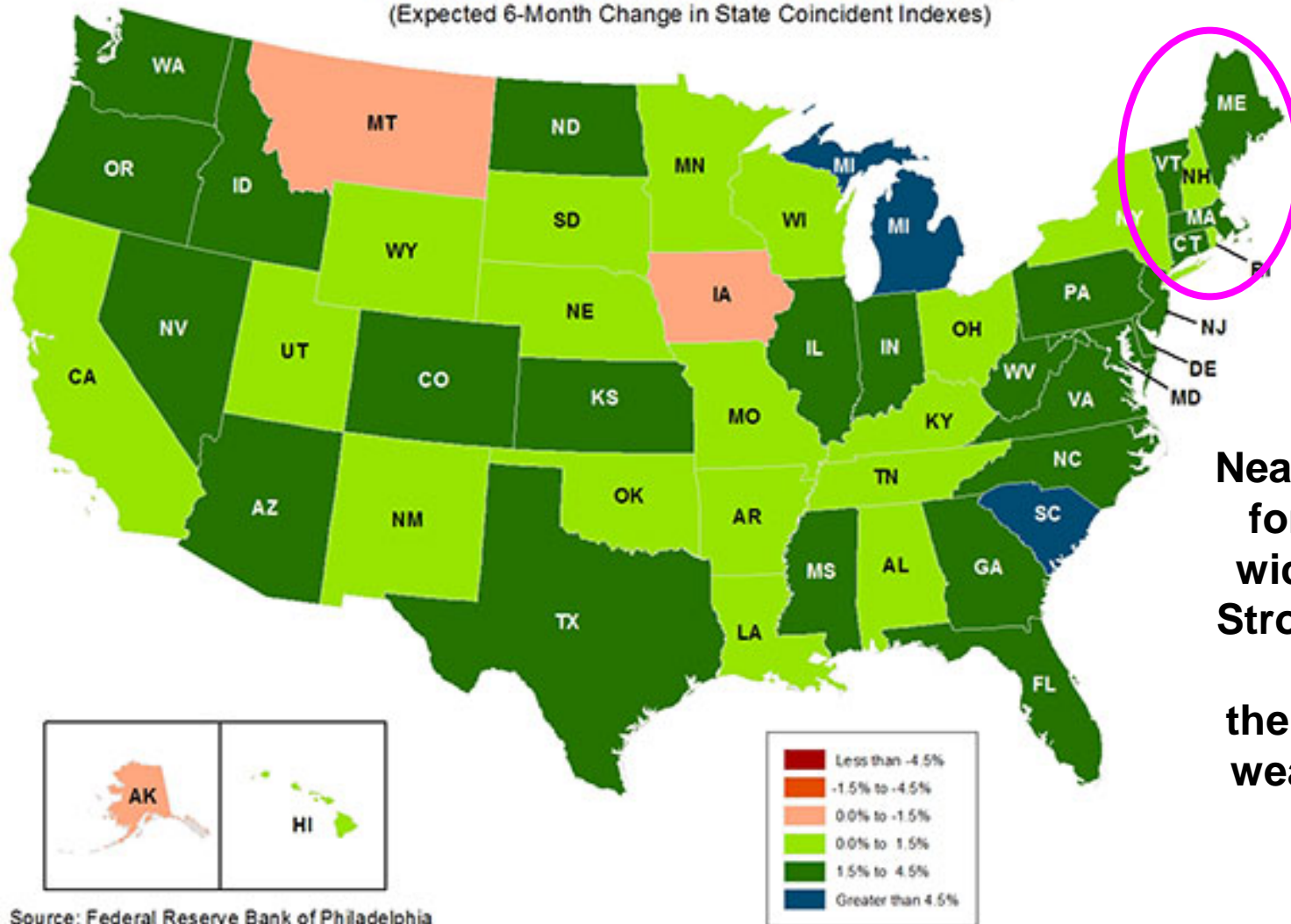
# The New England Economy

**Growth Will Expand Insurer Exposure  
Base Across Most Lines**



# State-by-State Leading Indicators through 2014:Q2

**December 2013 State Leading Indexes**  
(Expected 6-Month Change in State Coincident Indexes)

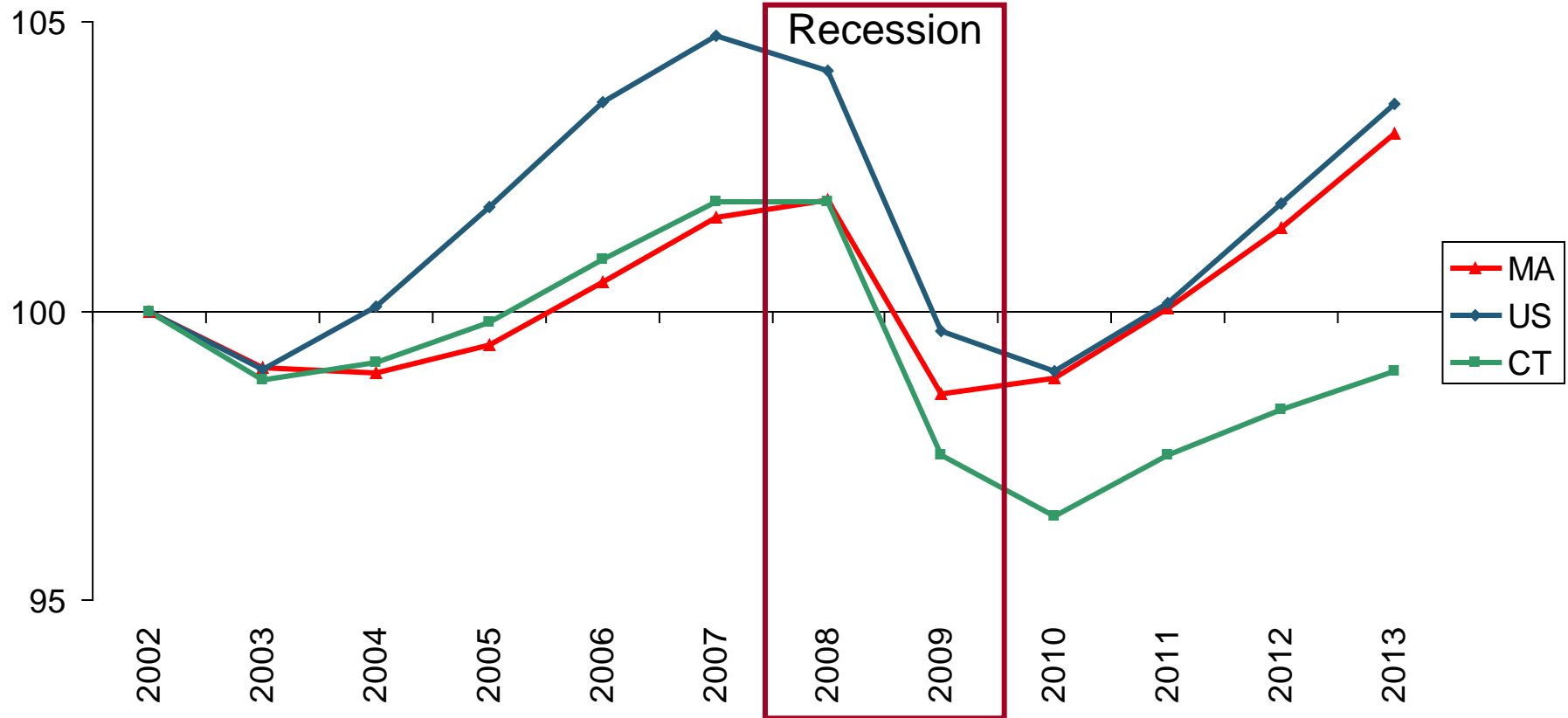


**Near-term growth forecasts vary widely by state. Strongest growth = blue, then dark green; weakest = beige**

Source: Federal Reserve Bank of Philadelphia

# MA & CT vs. US: Indexed Annual Change in Nonfarm Employment, 2003-2013

Index: 2002 = 100



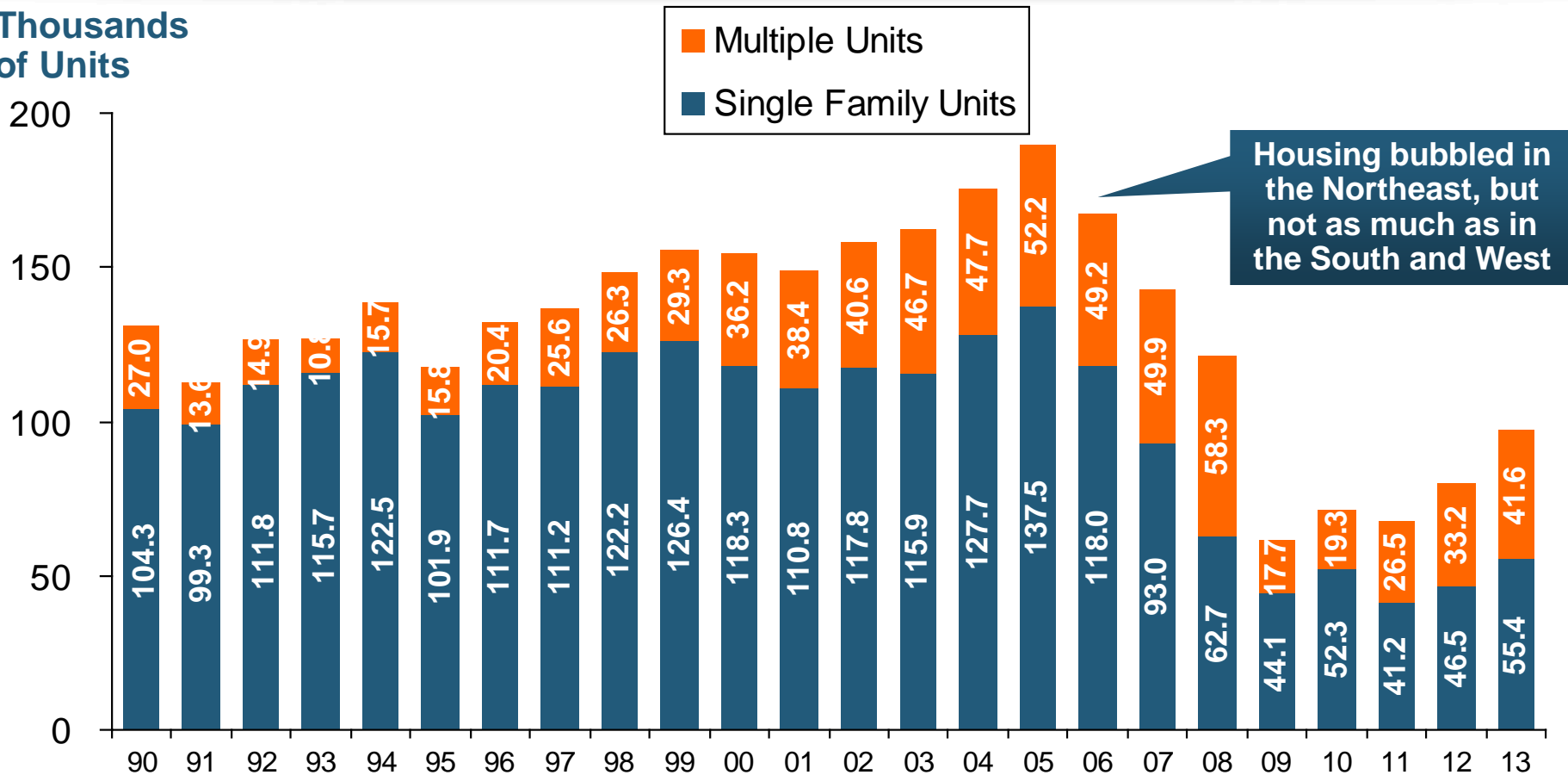
**Neither Massachusetts nor Connecticut employment grew as fast as the U.S. from 2003-08. Employment in Massachusetts has recovered better since the recession ended.**

Not seasonally adjusted.

Sources: U.S. Department of Labor, Bureau of Labor Statistics; Insurance Information Institute.

# Northeast: Private Housing Unit Starts, 1990-2013

Thousands of Units



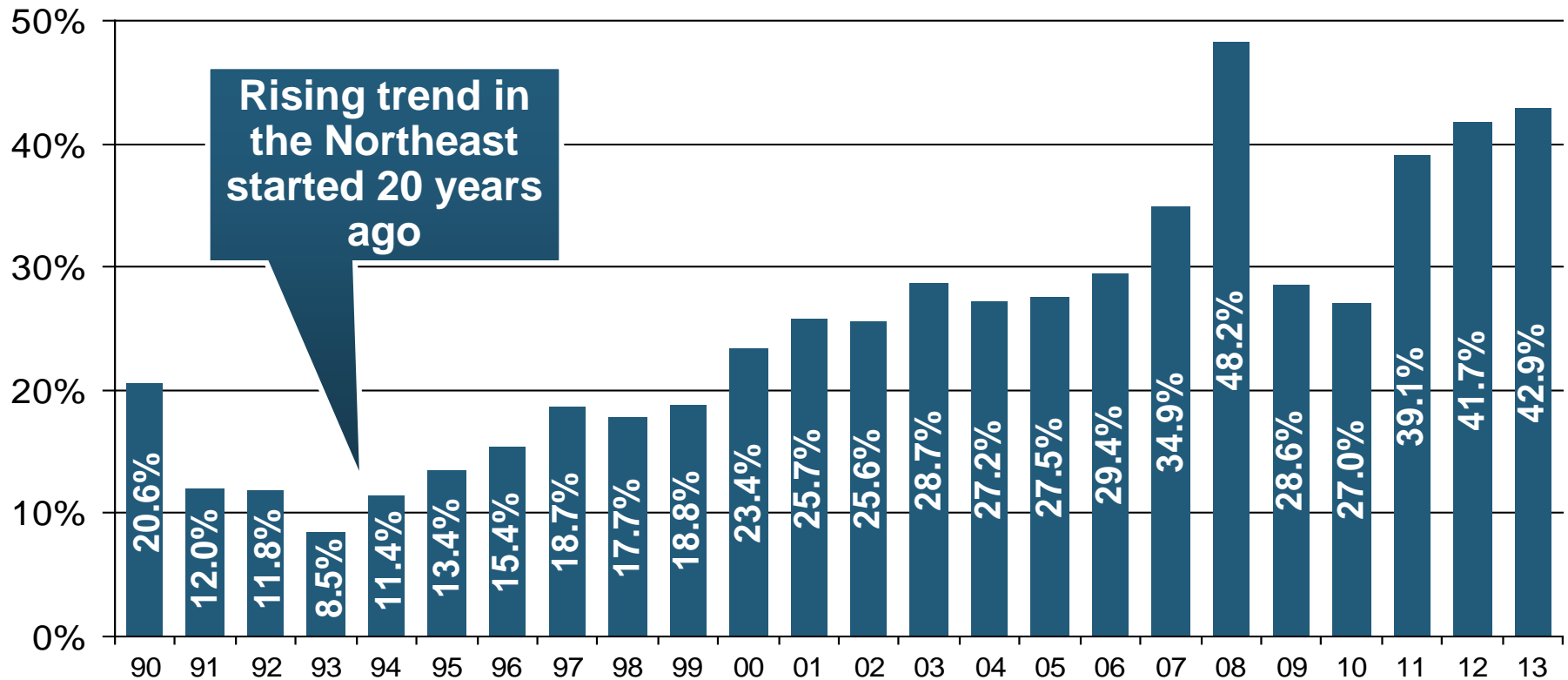
Housing bubbled in the Northeast, but not as much as in the South and West

Housing starts are rising, but this could be retarded by rising mortgage interest rates. 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.

Sources: U.S. Census Bureau; Insurance Information Institute.

# Northeast: Private Housing Unit Starts, Pct. In Multi-Unit Projects, 1990-2013

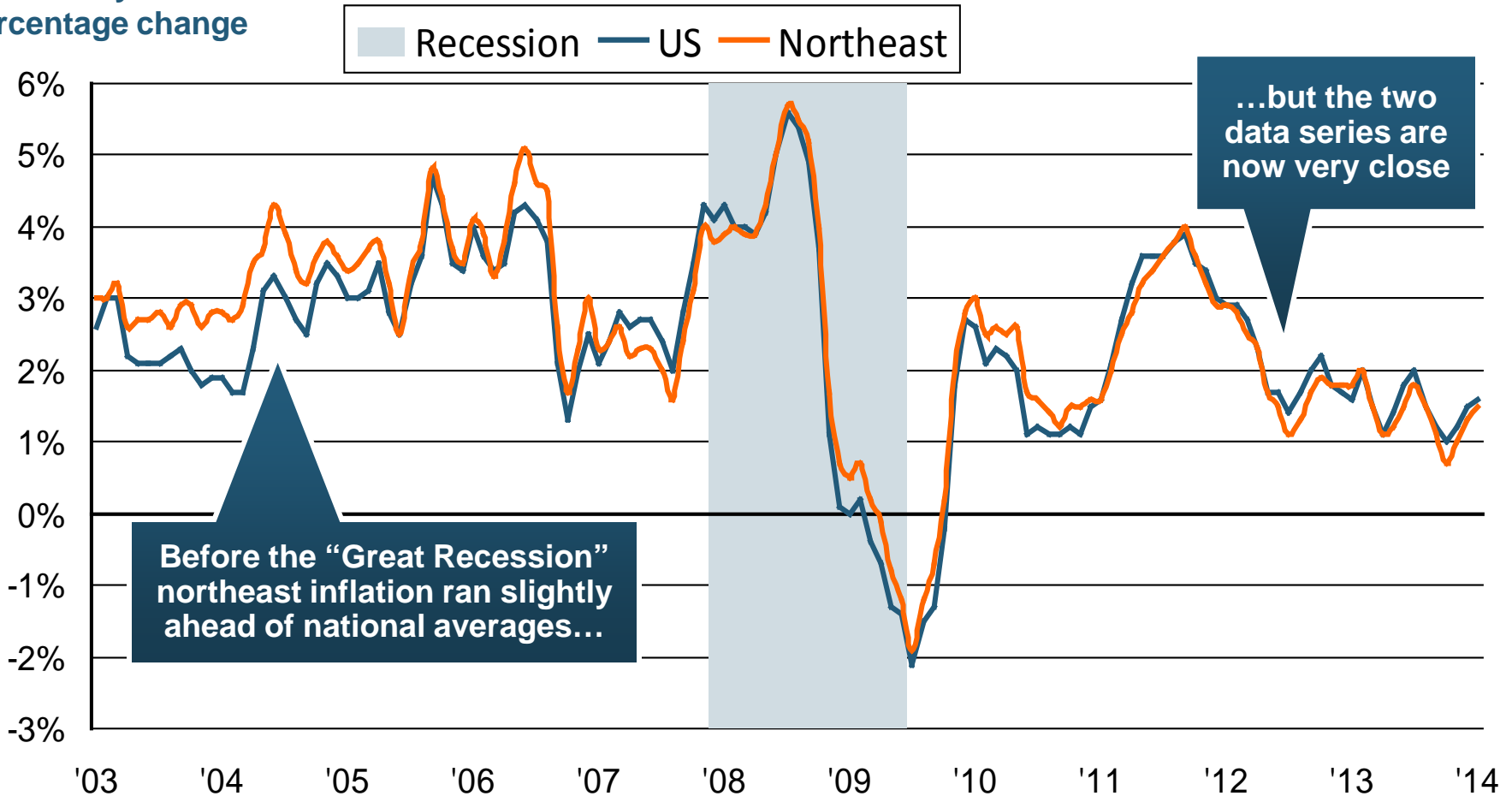
Units in Multiple-Unit Projects  
as Percent of Total



The trend in the Northeast toward multi-unit housing projects (vs. single-unit homes) was under way more than a dozen years before the housing bubble, and it appears to be continuing during the recovery. Commercial insurers with Workers Comp, Construction risk exposure, and Surety benefit.

# Urban Inflation (CPI-U), U.S. vs. Northeast, Monthly, Jan. 2003–Jan. 2014

Year-over-year percentage change



Before the “Great Recession” northeast inflation ran slightly ahead of national averages...

...but the two data series are now very close

**Overall inflation, both in the Northeast and the US overall, has been at or below an annual rate of 2% for nearly two years**

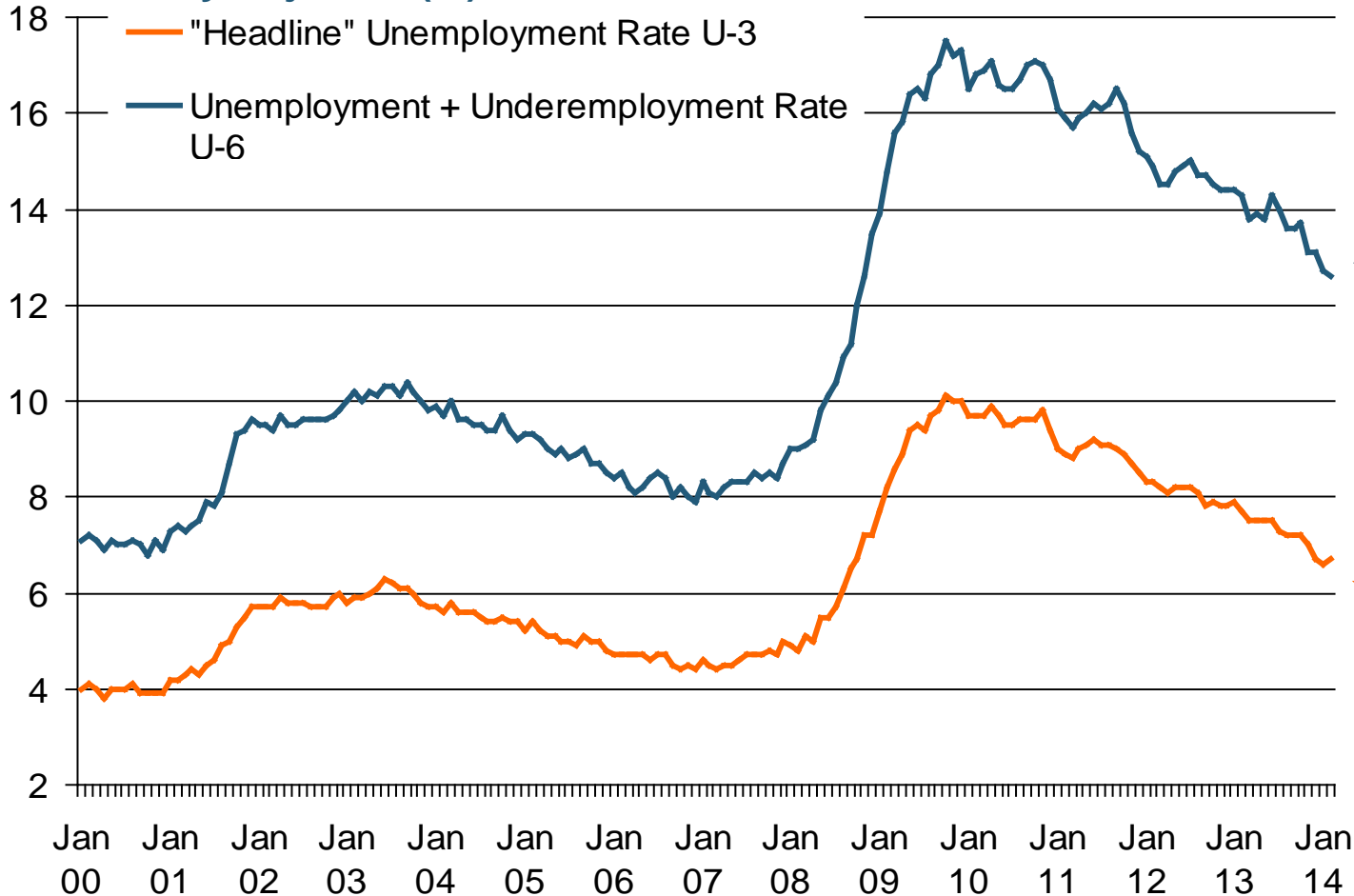
Notes: Recession indicated by gray shaded column; data are not seasonally-adjusted  
 Sources: U.S. Bureau of Labor Statistics; Insurance Information Institute.

# Labor Market Trends

**Massive Job Losses Sapped the  
Economy and  
Commercial/Personal Lines  
Exposure, But Trend is Improving**

# Unemployment and Underemployment Rates: Still Too High, But Falling

January 2000 through February 2014,  
Seasonally Adjusted (%)



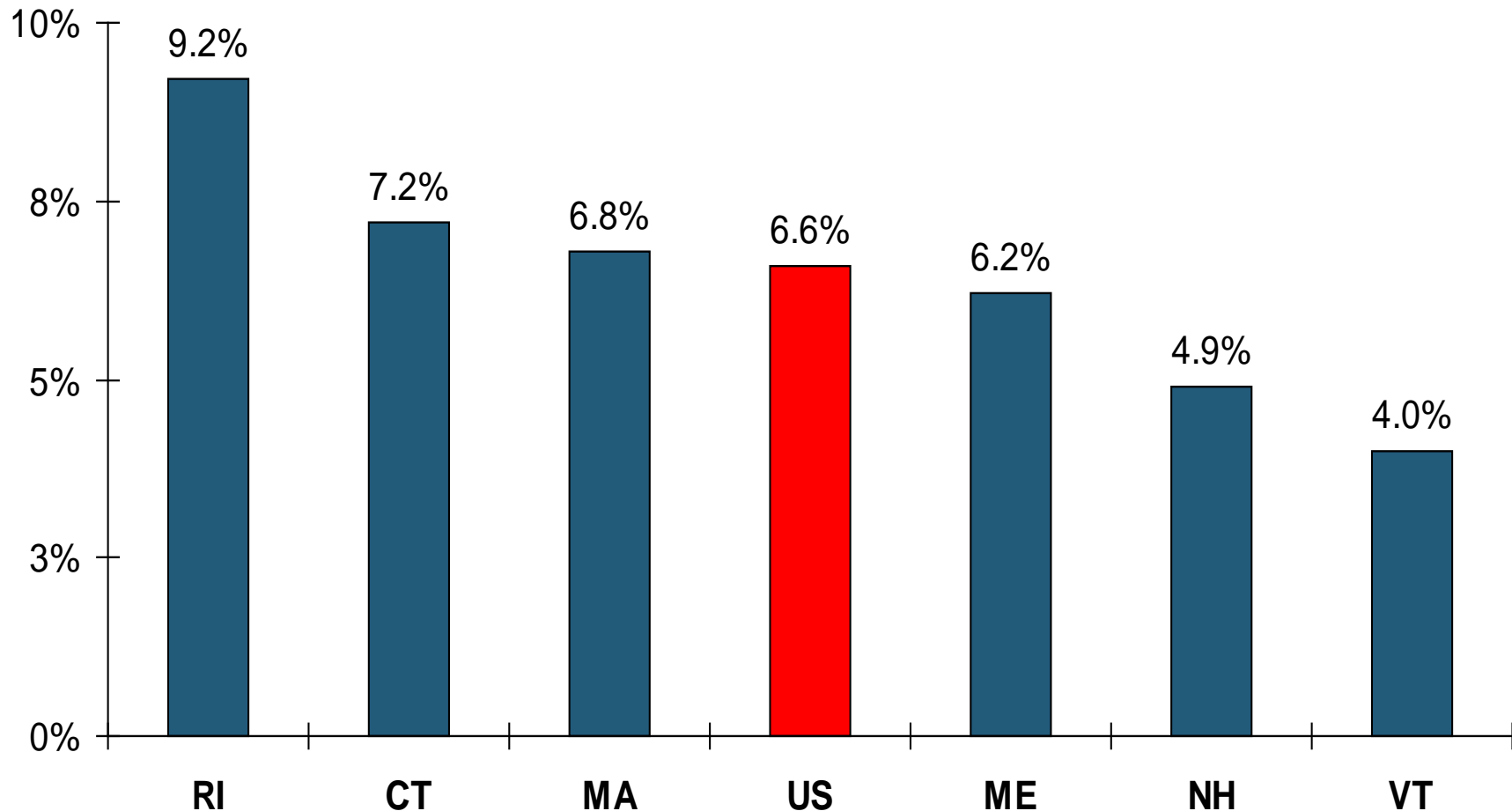
U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 12.6% in Feb. 2014. 8% to 10% is "normal."

"Headline" unemployment was 6.7% in February 2014. 4% to 6% is "normal."

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

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

# Jan. 2014 Unemployment Rates in New England States Vary Widely\*



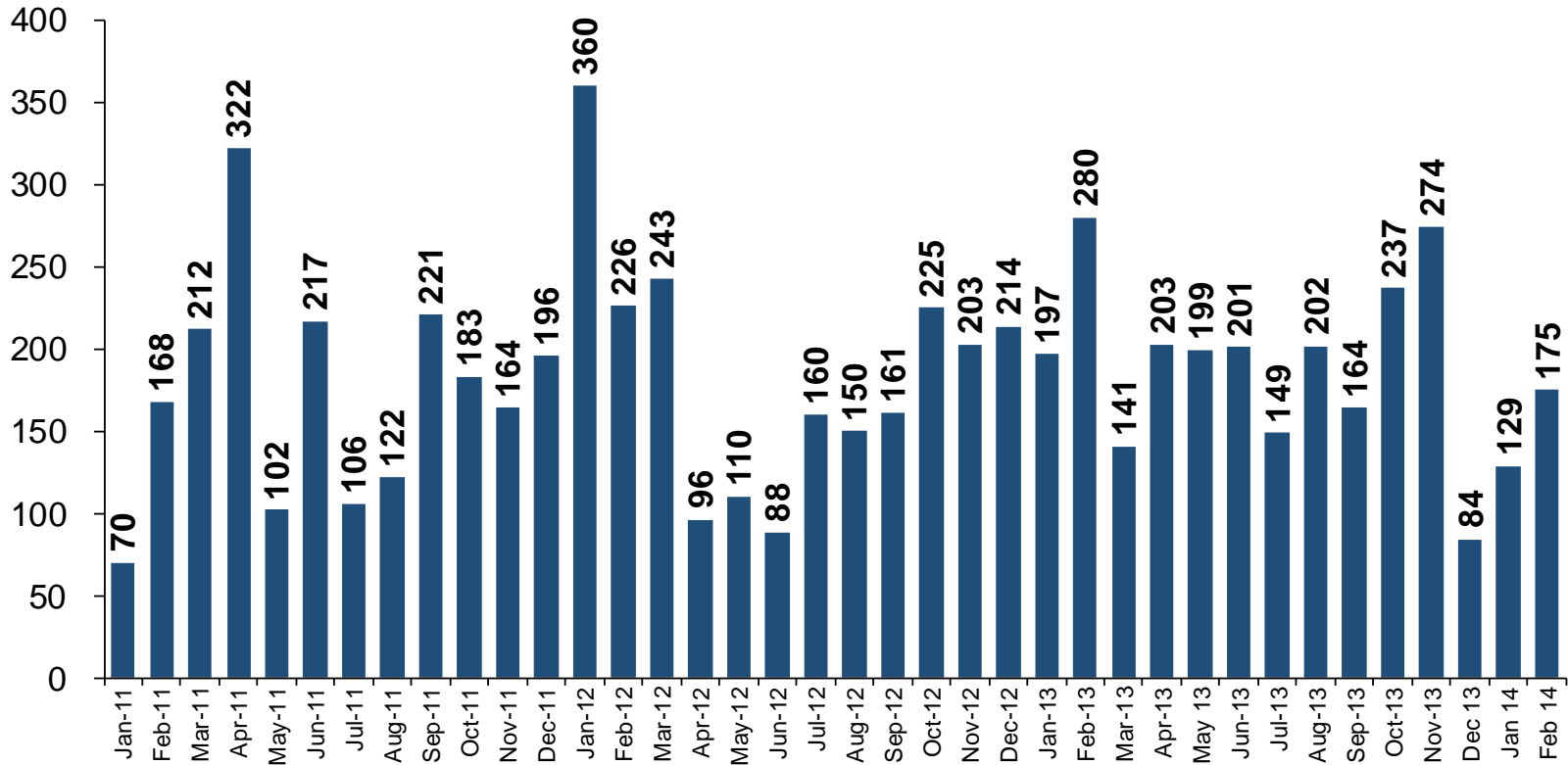
\*State data are provisional, seasonally adjusted.  
Sources: US Bureau of Labor Statistics; Insurance Information Institute.



# Monthly Change in Nonfarm Employment, 2011 - 2013

Thousands

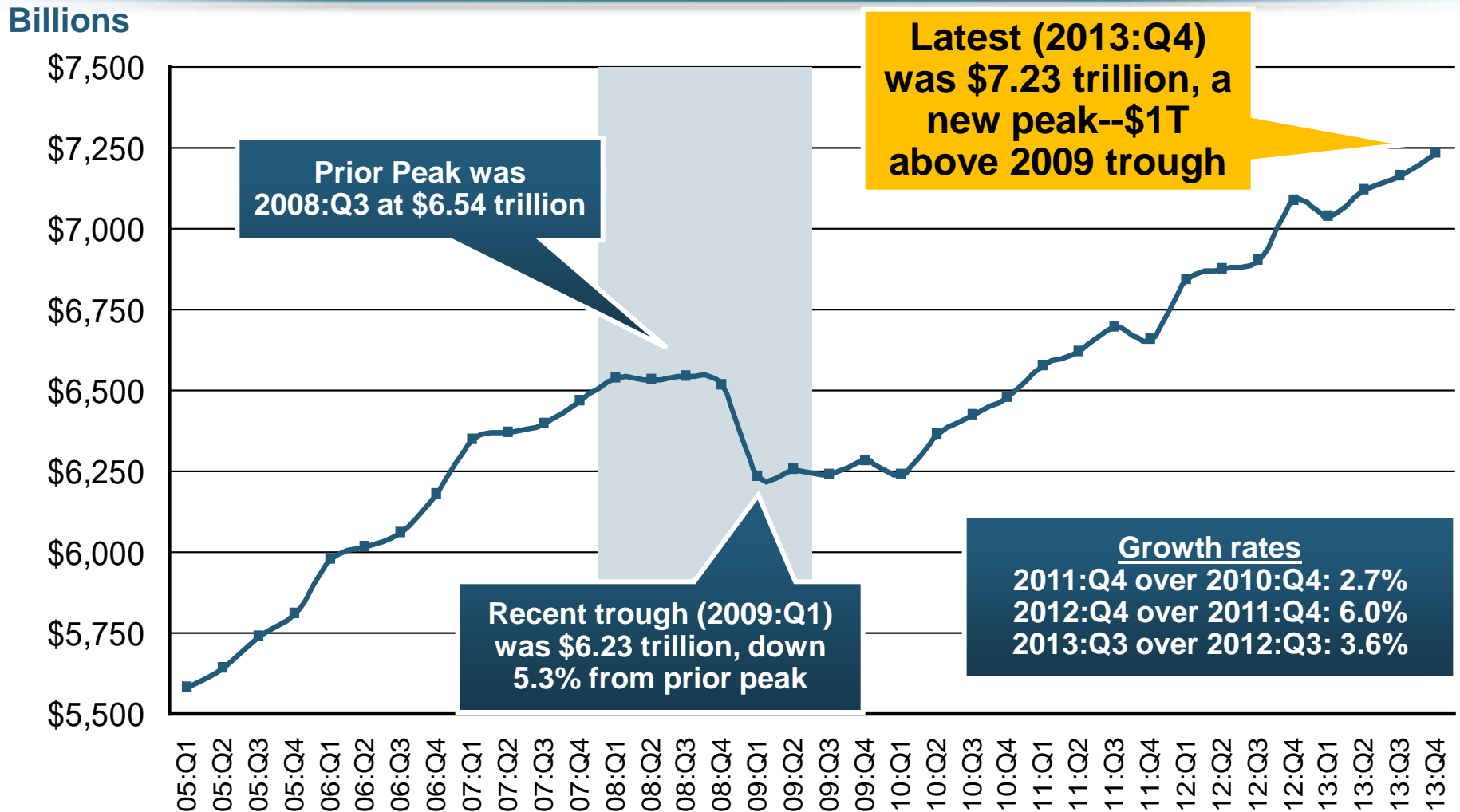
Average Monthly Gain  
 2011: 173,600    2012: 186,300    2013: 194,250



**The pace of job growth varies considerably from month to month but, on average, has been rising in each of the past three years.**

Seasonally adjusted. February 2014 and January 2014 are preliminary data.  
 Sources: US Bureau of Labor Statistics; Insurance Information Institute

# Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2013

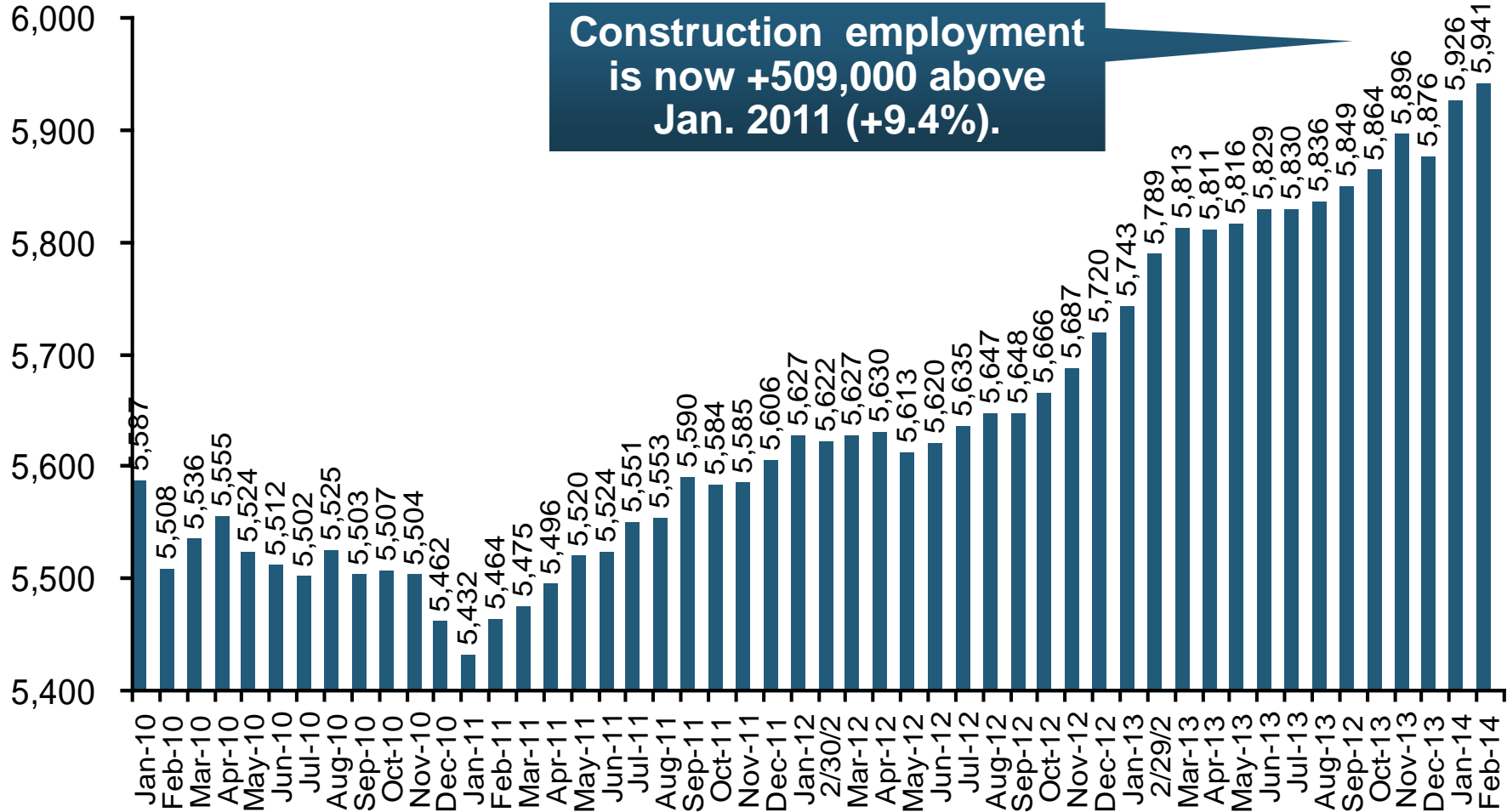


Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

Sources: <http://research.stlouisfed.org/fred2/series/WASCUR>; National Bureau of Economic Research (recession dates); Insurance Information Institute.

# Construction Employment, Jan. 2010—February 2014\*

(Thousands)



Construction employment is now +509,000 above Jan. 2011 (+9.4%).

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

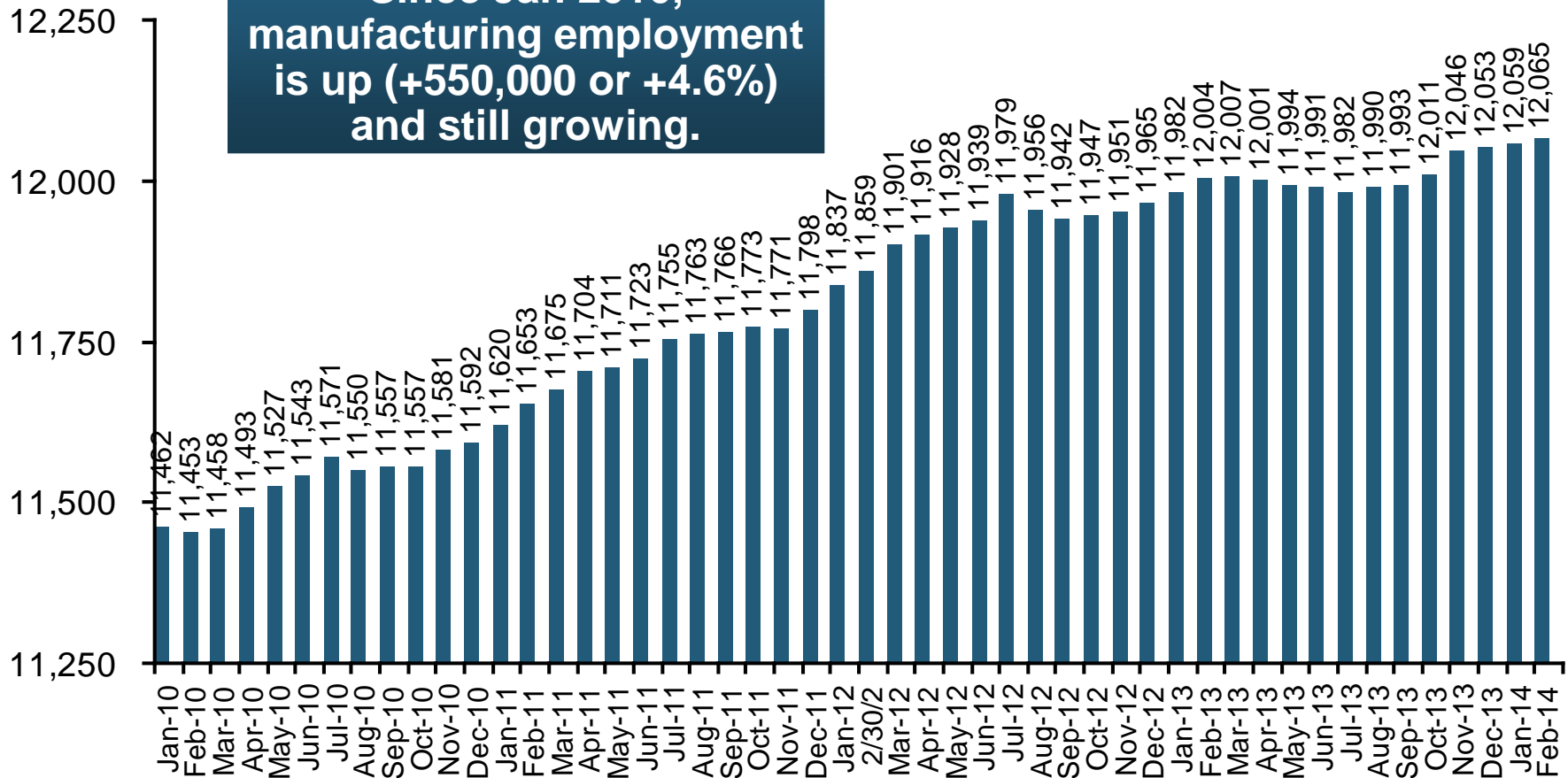
\*Seasonally adjusted; Jan. and Feb. 2014 are preliminary

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

# Manufacturing Employment, Jan. 2010—February 2014\*

(Thousands)

Since Jan 2010, manufacturing employment is up (+550,000 or +4.6%) and still growing.

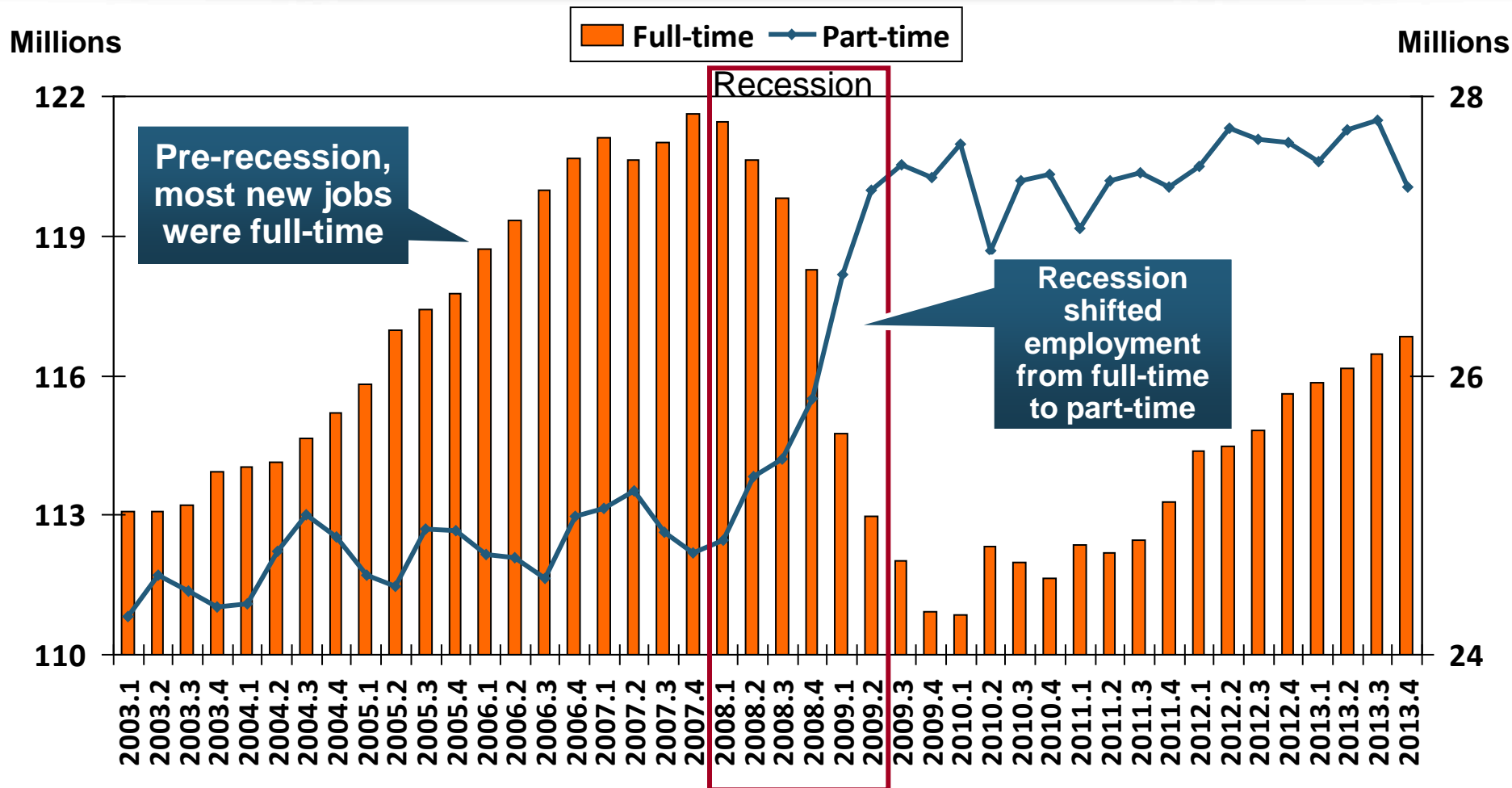


Manufacturing employment is a surprising source of strength in the economy. Employment in the sector is at a multi-year high.

\*Seasonally adjusted; Jan. and Feb 2013 are preliminary

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

# Full-time vs. Part-time Employment, Quarterly, 2003-2013: WC Implications



**The Great Recession shifted employment from full-time to part-time, and the recovery to date hasn't changed that. Full-time employment is still 4.2 million below its pre-recession peak, but part-time recently reached a new peak.**

# Winter Storms and Other Natural Catastrophes

**Have You Noticed It's Been Cold  
and Snowy Lately?**

# Significant Natural Catastrophes in 2013

(\$1 billion economic loss and/or 50 fatalities)



Date	Event	Estimated Economic Losses (US \$m)	Estimated Insured Losses (US \$m)
<b>February 24 – 25</b>	<b>Winter Storm</b>	<b>1,300</b>	<b>690</b>
March 18 – 19	Thunderstorms	2,200	1,600
<b>April 7 – 11</b>	<b>Winter Storm</b>	<b>1,600</b>	<b>1,200</b>
April 16 – 18	Thunderstorms	1,100	560
May 18 – 20	Thunderstorms	3,100	1,800
May 28 – 31	Thunderstorms	2,800	1,400
August 6 – 7	Thunderstorms	1,300	740
September 9 – 16	Flooding	1,500	160
November 17 - 18	Thunderstorms	1,300	931

# Natural Disaster Losses in the United States, 2013

As of December 31, 2013	Number of Events	Fatalities	Estimated Overall Losses (US \$m)	Estimated Insured Losses (US \$m)
Severe Thunderstorm	69	110	16,341	10,274
<b>Winter Storm</b>	<b>11</b>	<b>43</b>	<b>2,935</b>	<b>1,895</b>
Flood	19	23	1,929	240
Earthquake & Geophysical	6	1	Minor	Minor
Tropical Cyclone	1	1	Minor	Minor
Wildfire, Heat, & Drought	22	29	620	385
<b>Totals</b>	<b>128</b>	<b>207</b>	<b>21,825</b>	<b>12,794</b>



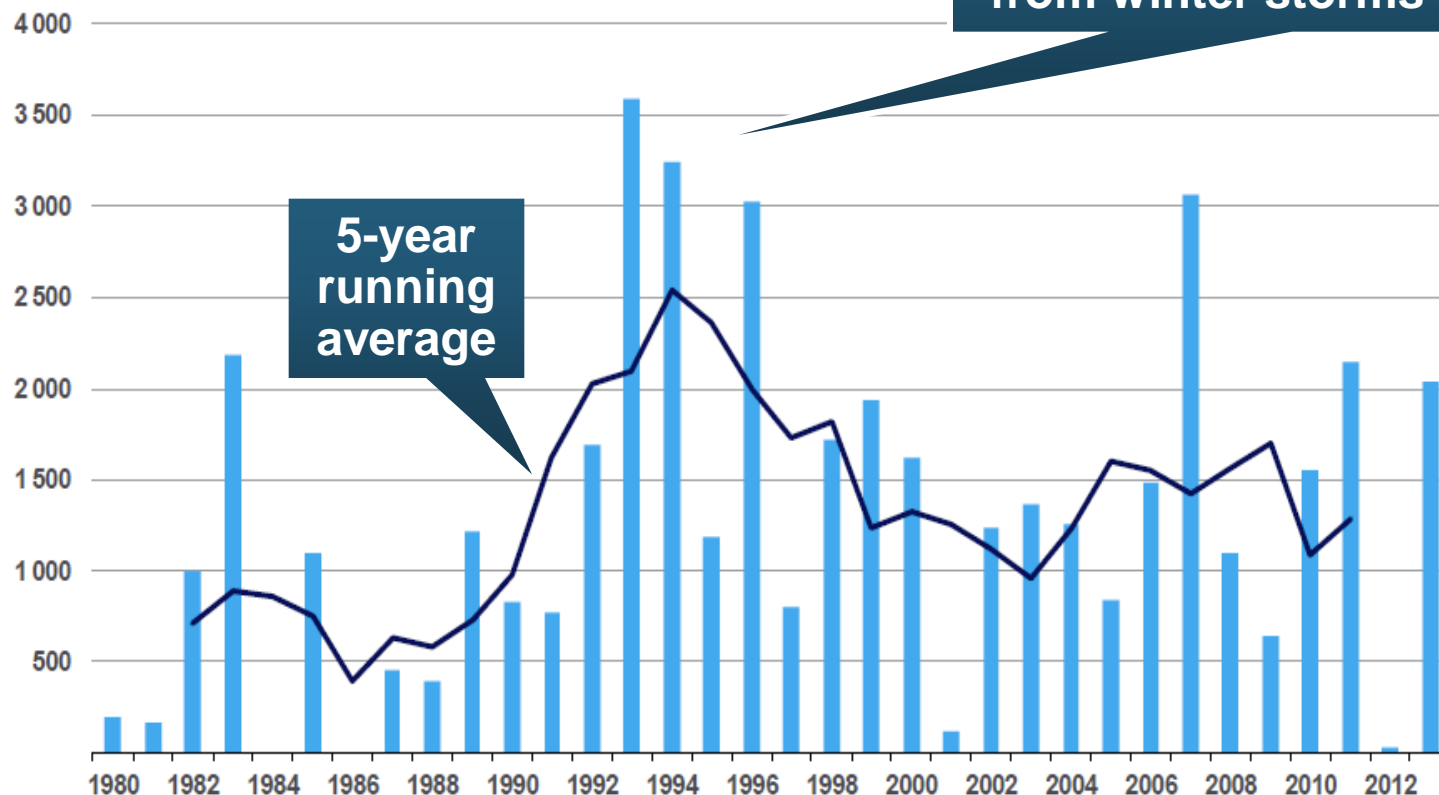
# Largest Insured Claims, Individual Winter Storms, US & Canada, 1980-2013

Storm Dates	Economic Loss (\$2013, mil)	Insured Loss (\$2013, mil)	Deaths
Mar. 11-14, 1983	\$8,061	\$3,224	270
Dec. 17-30, 1983	\$2,339	\$2,058	500
Apr. 13-17, 2007	\$2,247	\$1,775	23
Dec. 10-13, 1992	\$4,981	\$1,660	19
Jan. 5-12, 1998	\$4,146	\$1,644	45
Feb. 10-12, 1994	\$4,716	\$1,258	9
Jan. 17-20, 1994	\$1,572	\$1,258	70
Apr. 7-11, 2013	\$1,600	\$1,200	N/A
Jan. 1-4, 1999	\$1,398	\$1,084	25
Jan 31-Feb 2, 2011	\$1,346	\$1,010	36

Sources: Munich Re NatCatSERVICE, Insurance Information Institute

# Winter Storm and Winter Damage Events in the US and Canada, 1980-2013 (2013 US\$)

Insured Losses (Millions, \$ 2013)



1993, '94, & '96: 3 of the 4 costliest years for insured losses from winter storms and damage.

5-year running average

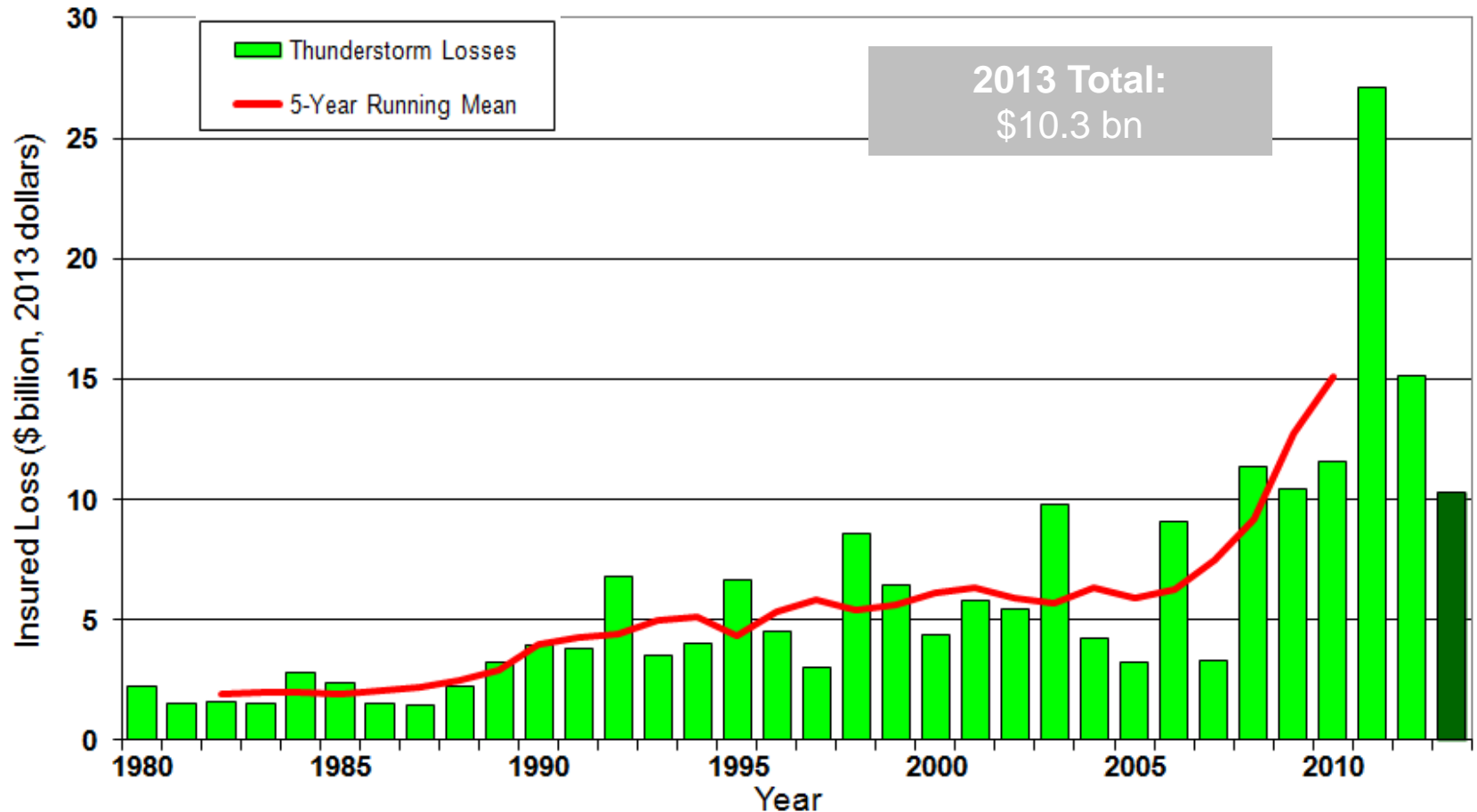
In 2013, insured losses from severe winter events: \$2 billion.

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.

# US Thunderstorm Loss Trends

Insured Annual Totals 1980 – 2013

Average insured thunderstorm losses have increased sevenfold since 1980.



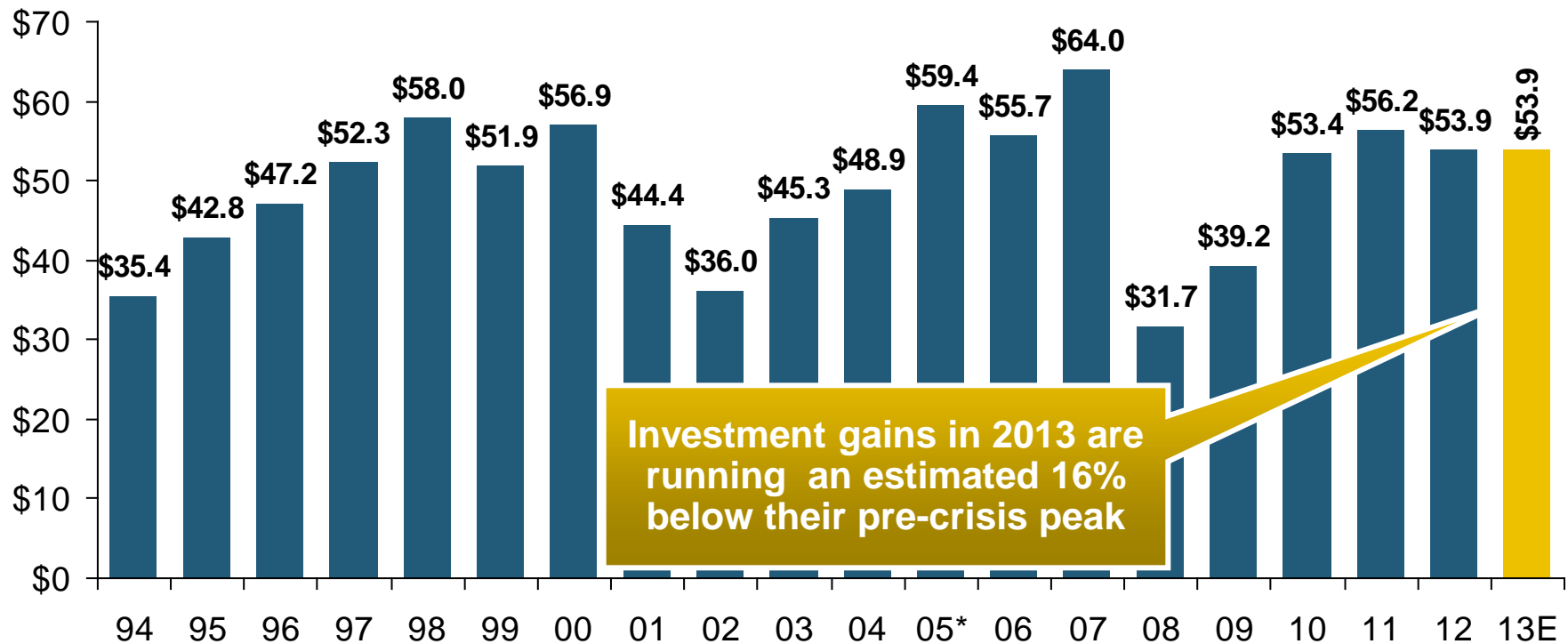


# Investment Performance: a Key Driver of Profitability

*Depressed Yields Influence  
Underwriting & Pricing*

# Property/Casualty Insurance Industry Net Investment Gain: 1994–2013:Q3<sup>1</sup>

(\$ Billions)



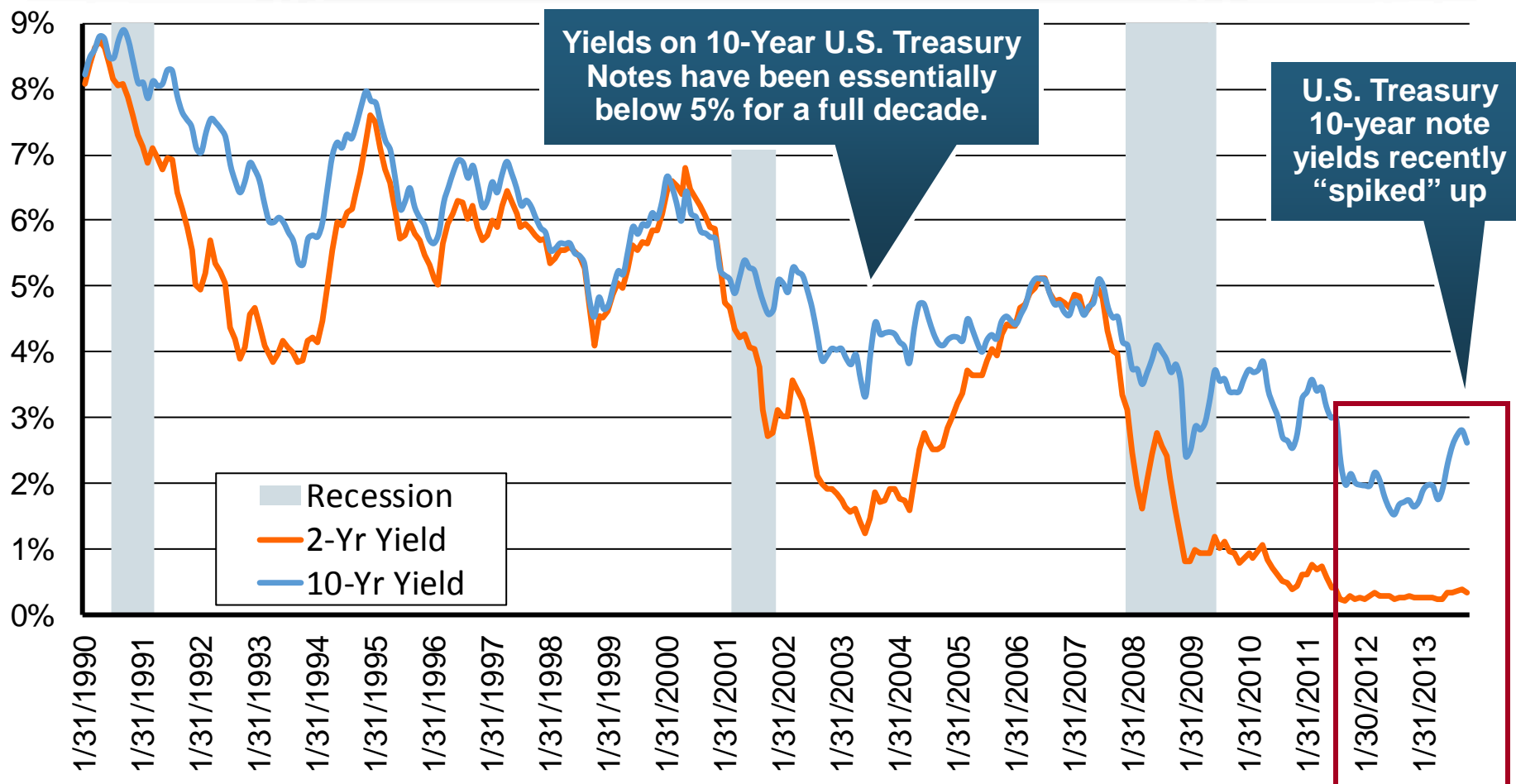
**Investment gains are expected to show a modest growth in 2013 with higher realized capital gains more than offsetting declining investment income. The financial crisis caused net investment gains to fall by 50% in 2008.**

<sup>1</sup> 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.

# U.S. Treasury 2- and 10-Year Note Yields\*: 1990–2014

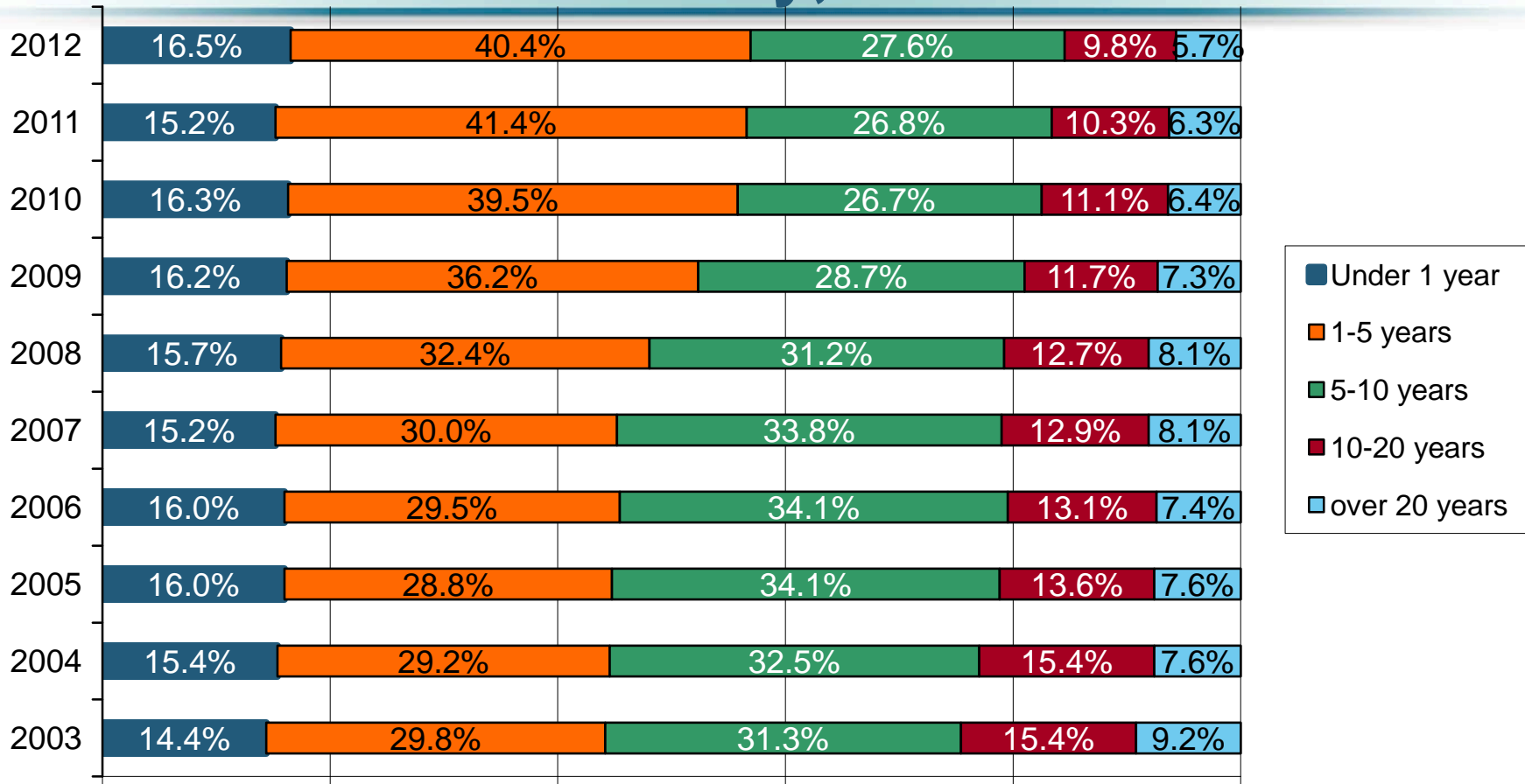


**Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.**

\*Monthly, constant maturity, nominal rates, through February 2014.

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

# Distribution of Bond Maturities, P/C Insurance Industry, 2003-2012



The main shift over these years has been from bonds with longer maturities to bonds with shorter maturities. The industry first trimmed its holdings of over-10-year bonds (from 24.6% in 2003 to 15.5% in 2012) and then trimmed bonds in the 5-10-year category (from 31.3% in 2003 to 27.6% in 2012). Falling average maturity of the P/C industry's bond portfolio is contributing to a drop in investment income along with lower yields.

**Insurance Information Institute Online:**

**[www.iii.org](http://www.iii.org)**

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