Growing pains: Premiums will return to normal pricing as the national economy stabilizes
Operators in this industry are primarily engaged in underwriting insurance policies that protect individuals, businesses and agencies against losses that may occur as a result of property damage, liability or other risks. Industry participants also protect real estate owners or creditors against losses sustained by reason of any title defect to real property. This industry does not include insurance coverage for life, disability, accidental death, dismemberment or health risks.

The primary activities of this industry are:
- Directly underwriting automobile insurance
- Directly underwriting property and casualty insurance
- Directly underwriting mortgage guaranty insurance
- Directly underwriting bank deposit insurance
- Directly underwriting title insurance
- Directly underwriting warranty insurance (e.g. appliance, automobile, homeowner and product)

The major products and services in this industry are:
- Medical malpractice insurance
- Mortgage and financial guaranty insurance
- Property and casualty insurance (P&C) – Commercial
- Property and casualty insurance (P&C) – Personal
- Reinsurance
- Title insurance
- Workers’ compensation insurance
- Other

Life insurers issue annuities and directly underwrite insurance coverage. Similar to property and casualty insurers, life insurers pass some of their assumed risks onto reinsurers.

Reinsurers assume all or part of the risk associated with existing insurance policies originally underwritten by other insurers.

Funds in this industry provide workers’ compensation coverage and other employee benefits for a sponsor’s employees or members.
About this Industry

Additional Resources

For additional information on this industry

www.alta.org
American Land Title Association

www.iii.org
Insurance Information Institute

www.pciaa.net
Property Casualty Insurers Association of America

www.federalreserve.gov
US Federal Reserve

IBISWorld writes over 700 US industry reports, which are updated up to four times a year. To see all reports, go to www.ibisworld.com
Industry at a Glance
Property, Casualty and Direct Insurance in 2013

Key Statistics Snapshot

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Annual Growth 08-13</th>
<th>Annual Growth 13-18</th>
</tr>
</thead>
<tbody>
<tr>
<td>$509.2bn</td>
<td>-0.4%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Profit</td>
<td>Wages</td>
<td>Businesses</td>
</tr>
<tr>
<td>$65.2bn</td>
<td>$53.4bn</td>
<td>5,098</td>
</tr>
</tbody>
</table>

Revenue vs. employment growth

Number of motor vehicle registrations

Products and services segmentation (2013)

- 37.6% Property and casualty insurance – Commercial
- 39.9% Property and casualty insurance – Personal
- 37.6% Reinsurance
- 8.0% Workers’ compensation insurance
- 5.0% Other (2013)
- 3.0% Title insurance
- 1.5% Medical malpractice insurance
- 2.0% Mortgage and financial guaranty insurance

Key External Drivers
Number of motor vehicle registrations
Homeownership rate
Natural disaster index
Yield on 10-year Treasury note
Regulation
S&P 500

Industry Structure

- Life Cycle Stage: Mature
- Revenue Volatility: Low
- Capital Intensity: Low
- Industry Assistance: None
- Concentration Level: Low
- Regulation Level: Heavy
- Technology Change: High
- Barriers to Entry: Medium
- Industry Globalization: Medium
- Competition Level: High

FOR ADDITIONAL STATISTICS AND TIME SERIES SEE THE APPENDIX ON PAGE 42
### Executive Summary

The Property, Casualty and Direct Insurance industry brings peace of mind to many US consumers and businesses. It provides protection against damage caused by a variety of events, from car accidents to medical malpractice. General insurers can provide these services at a fraction of the potential loss by pooling premiums (i.e. funds) from policyholders to pay for losses some individual policyholders may incur, making the industry an indispensable part of risk management in the economy.

General insurers derive income from insurance premiums and from investing premiums in bonds, stocks and other assets. Most property and casualty (P&C) premiums are obtained from the renewal of policies that relate to existing risks and account for 98.0% to 99.0% of total premium income. The remaining premiums relate to an increase in risk exposure or change in pricing conditions. Policy pricing fluctuates between cycles of price-cutting (softening) and price increasing (hardening). All things being equal, a hard (i.e. riskier) market will lead to higher P&C premiums from one year to the next without a change in coverage.

Improved investment returns will benefit insurers, but growth will be modest

Over the five years to 2013, IBISWorld expects industry revenue to fall at an average annual rate of 0.4% to $509.2 billion. During this period, the soft pricing cycle that began in 2006 due to weak demand hampered growth. The Great Recession compounded the already-soft pricing cycle and limited growth by hurting firms’ investment returns. Normally, catastrophic losses and poor investment returns push the industry into a hard pricing cycle because firms look to recoup losses and rebuild balance sheets, but this was not the case in 2009 and 2010. Instead, the industry remained in a soft cycle, with the weak economy forcing firms to compete for price-conscious consumers and businesses. As a result, revenue declined during 2009 and 2010 despite stable demand for insurance coverage.

However, this trend reversed in 2011, with revenue growth of 0.5%, and expected growth of 0.9% in 2013, as insurers began hardening prices. As the economy continues to stabilize, insurers will benefit from higher premiums and improved investment returns. However, as insurers rebuild surpluses, a soft cycle is projected to reemerge, stifling industry growth at the midpoint of the next five-year period. As a result of this cycle, revenue is anticipated to increase at an average annual rate of only 1.9% to $560.6 billion over the five years to 2018.

### Key External Drivers

**Number of motor vehicle registrations**

The number of registered cars indicates industry demand for individual automotive insurance. Cars are being kept on the road longer due to higher quality and more long-term financing options. At the same time, newer cars are normally more valuable than older ones, making them more costly to insure. These trends are important indicators of policy prices. An increase in the number of registered cars boosts demand for insurance. The number of motor vehicle registrations is expected to increase over 2013, making it a potential opportunity for industry growth.

**Homeownership rate**

The demand for homeowner’s insurance is largely influenced by the
Industry Performance

Key External Drivers continued

homeownership rate in the United States. Typically, this rate grows steadily despite economic conditions, but this was not the case during the recent economic downturn. The US homeownership rate exhibited some small declines as the housing bubble burst and mortgage defaults rose. However, the stock of houses remained relatively consistent, and the homeownership rate has since returned to steady growth. Since 98.0% to 99.0% of the homeowner’s insurance market comes from renewals, the demand for homeowner’s insurance does not fluctuate dramatically on a year-over-year basis. Homeownership is expected to increase slowly in 2013.

Natural disaster index
Property and casualty (P&C) insurers provide coverage to businesses and households for catastrophic events. Insurers’ profitability depends on the frequency and severity of these unanticipated events. In previous years, the insurance industry has been subject to several major weather-related catastrophes, including Hurricanes Ike and Katrina. As a result, P&C insurers are expected to set aside more capital reserves as a precaution against future catastrophic losses, hurting profitability. Natural disaster losses are expected to decline slightly over 2013.

Yield on 10-year Treasury note
About two-thirds of property and casualty investment income is related to fixed-income securities, which are affected by interest rate movements. High interest rates allow insurers to generate greater investment income. At the same time, an increase in interest rates weakens bond prices and eliminates opportunities for capital gains on selling existing debt. Ultimately, however, industry operators benefit from an increase in interest rates due to higher interest income. The yield on a 10-year Treasury note is expected to increase in 2013 but remain near historic lows, making it a potential threat to industry growth.

Regulation for the Property, Casualty and Direct Insurance industry
The insurance sector is highly regulated. However, because regulations are conducted by state rather than federal insurance commissioners, some inconsistency exists across the US market. Generally, the most important regulation component of property and casualty insurance is capital adequacy requirements. Any increase in the
Industry Performance

Key External Drivers continued

The P&C sector is characterized by stable demand because homes, cars, businesses and employees need to be insured regardless of general market conditions. As a result, the majority of P&C sales are associated with existing customers, with about 98.0% of premiums related to policy renewals. The high level of renewals is comparable to utilities, especially regarding premium changes. Like utilities, P&C premiums generally fluctuate with changes in pricing, with the P&C market moving between periods of price-cutting (softening) and price-raising (hardening).

During soft cycles, P&C insurers aggressively price risks to gain market share from competitors; during hard cycles, insurers focus on improving profitability and rebuilding surpluses. The industry’s ability to move between these cycles depends heavily on excess amount of capital required per premium will limit the industry’s ability to underwrite new insurance policies. Industry profitability is also affected by capital adequacy requirements. This driver is expected to slightly increase over 2013.

S&P 500

About 17.0% of property and casualty investment income is related to equities. Consequently, the performance of the Standard and Poor 500 Index is an important indicator of the overall performance of the industry’s investment portfolio. A bull stock market generally means that insurers will receive higher dividend flows from their equity investments and capital gains. In addition, an increase in households’ non-financial assets means higher risk exposure and increased demand for P&C insurance. This driver is expected to increase over 2013.

Current Performance

In the five years to 2013, Property, Casualty and Direct Insurance industry revenue declined at an average annual rate of 0.4% to $509.2 billion. During this period, growth has been hampered by a variety of factors, including a soft pricing cycle within the property and casualty (P&C) market, weak demand for title insurance and devastating losses from financial guarantee policies.

About 85.5% of industry revenue is generated from P&C policies, including 75.5% from direct premiums and 8.0% from reinsurance. In addition to P&C coverage, operators also offer a variety of other insurance products, including medical malpractice, workers’ compensation and financial guaranty coverage. The industry also includes title insurers, which are specialty firms that protect owners’ and lenders’ financial interests in real property against losses due to title defects or liens.

Property and casualty coverage

In the five years to 2013, Property, Casualty and Direct Insurance industry revenue declined at an average annual rate of 0.4% to $509.2 billion. During this period, growth has been hampered by a variety of factors, including a soft pricing cycle within the property and casualty (P&C) market, weak demand for title insurance and devastating losses from financial guarantee policies.

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Industry Performance

Property and casualty coverage continued

capacity, which is positively influenced by investment returns and negatively by catastrophic losses.

Excess capacity, or policyholder surplus, is the excess capital that an insurer holds above its reserve requirement, which is a legal limit set forth by state insurance commissioners. The reserve requirement is designed to ensure that insurers can meet benefit payments (i.e. liabilities) in the event of a loss. The surplus is often a measure of the insurer’s financial strength because it is important for a P&C insurer to build an additional buffer against catastrophic losses that may lie ahead.

### Underwriting indicators for P&C insurance

<table>
<thead>
<tr>
<th>Year</th>
<th>Combined ratio (%)</th>
<th>Net underwriting change ($ billion)</th>
<th>Catastrophic losses ($ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>100.1</td>
<td>-4.6</td>
<td>15.4</td>
</tr>
<tr>
<td>2004</td>
<td>98.1</td>
<td>5.0</td>
<td>32.0</td>
</tr>
<tr>
<td>2005</td>
<td>100.9</td>
<td>-5.9</td>
<td>70.5</td>
</tr>
<tr>
<td>2006</td>
<td>92.4</td>
<td>31.2</td>
<td>10.1</td>
</tr>
<tr>
<td>2007</td>
<td>95.6</td>
<td>19.3</td>
<td>7.4</td>
</tr>
<tr>
<td>2008</td>
<td>105.1</td>
<td>-21.2</td>
<td>22.7</td>
</tr>
<tr>
<td>2009</td>
<td>101.0</td>
<td>-0.4</td>
<td>12.8</td>
</tr>
<tr>
<td>2010</td>
<td>102.4</td>
<td>4.1</td>
<td>10.0</td>
</tr>
<tr>
<td>2011</td>
<td>109.9</td>
<td>4.8</td>
<td>32.9</td>
</tr>
<tr>
<td>2012</td>
<td>96.2</td>
<td>4.2</td>
<td>35.0</td>
</tr>
<tr>
<td>2013*</td>
<td>95.0</td>
<td>4.0</td>
<td>20.0</td>
</tr>
</tbody>
</table>

*Estimate

SOURCE: INSURANCE SERVICES OFFICE

Soft pricing hampers growth

In the five years to 2013, P&C insurers have been in the midst of a soft cycle, with discount insurers, such as Geico and Progressive, igniting a price war through aggressive advertising campaigns. In 2008, the industry’s ability to earn an underwriting profit came to a halt as the United States endured the highest level of catastrophic storms in more than 70 years. During this period, the industry’s combined ratio jumped to 105.1% as catastrophe-related losses decimated insurers. In addition, the industry’s investment income fell 52.1% to $32.6 billion as the subprime mortgage crisis rocked the financial sector and credit market. As a result, the industry’s total profit margin fell from 14.2% of revenue in 2007 to 0.7% in 2008. Underwriting losses normally lead to a hard pricing cycle, but this was not the case from 2008 to 2010. Instead, the industry remained in a soft cycle, with the weak
Industry Performance

Soft pricing hampers growth continued

Economy forcing firms to aggressively compete for price-conscious consumers and businesses.

This trend reversed in 2011 as the economy slowly improved. Firms benefited from higher premiums earned through increased demand. The industry did experience higher-than-average losses due to natural disasters that led to an underwriting loss, but this factor was countered by the industry's excess capital and investment income. After the severity of catastrophic losses in 2011 in 2012, the industry is expected to experience strong premium growth and lower losses that will boost revenue and profit in 2013; IBISWorld estimates that industry revenue will increase 0.9% in 2013. The capital levels of industry insurers remain near historic highs, giving them the ability to underwrite new policies and also absorb higher than average levels of catastrophic losses. At the same time, the ongoing low interest rate environment and continued high investor uncertainty levels will keep growth in investment income and profit subdued.

Demand for other coverage diminishes

In contrast to the P&C market, which is relatively steady, the market for other insurance products like title insurance and workers’ compensation coverage contracted as the rise in unemployment decreased the pool of employees covered by group policies. Demand for workers’ compensation fluctuates with economic cycles because the need for coverage falls as employment falls. Similarly, the demand for title insurance also moves with economic cycles, since title insurers generate income on a one-time basis during real estate transactions (i.e. sales and refinancing activity). As a result, title insurance premiums fell at an average annual rate of 11.0% to $11.2 billion from 2007 to 2012 (latest data available) due to declines in homeownership and housing prices.

In the five years to 2013, the number of enterprises is forecast to fall at an average annual rate of 1.4% to 5,098.

Workers’ compensation has fallen due to lower employment, hurting part of the industry

This percentage is somewhat misleading, though, because the number of enterprises increased consistently prior to the subprime crisis due to the repeal of the Glass-Steagall Act in 1998. The repeal of the act allowed financial institutions to own or operate insurance businesses as well as investment and commercial banks. Prior to 1998, the act forbade this practice. Employment fell at an average annual rate of 0.4% to 644,979, while wages increased at an average annual rate of 2.7% to $53.4 billion over the five years to 2013.

The demise of AIG

Financial guaranty insurance provides investors and lenders with default protection on loans and debt securities, such as municipal bonds and mortgage-backed securities (MBSs). Banks and investors use this coverage to insulate credit risks, since these policies guarantee loan payments in the event that the borrower defaults. Within this industry, however, these types of policies generally relate to death-related defaults, as opposed to complex trading...
The demise of AIG continued

Instruments known as credit default swaps (CDSs). Death-related defaults occur when an individual dies with outstanding loans, and insurers protect lenders by guaranteeing loan repayment in the event that a death occurs. At the same time, it is important to highlight CDSs due to the demise of AIG, which was the largest P&C insurer in the United States until its collapse on September 16, 2008.

CDS contracts have been a point of contention since 2007 because firms (e.g. AIG, which is now about 80.0% government owned) collapsed due to poor risk controls associated with CDS policies. The demise of AIG was driven by the subprime mortgage crisis, which led investment grade bonds and MBSs to default at unprecedented rates. These factors forced the insurer to cover a higher level of CDS losses than it set aside in reserves. As a result of this development, the United States was forced to take control of AIG and inject $182.5 billion into the firm so it could meet its outstanding obligations. In response, the US government has also set forth drastic changes regarding CDS regulations under the 2010 Dodd Frank Wall Street Reform and Consumer Protection Act. Most notably, the act forces CDS contracts to be traded on exchanges instead of over the counter. The act also sets forth reserve guidelines for CDS policies.

AIG’s collapse in 2008 has led lawmakers to tighten credit default swap regulation

Industry Performance

Industry Outlook

The Property, Casualty and Direct Insurance industry is expected to improve in line with overall economic growth over the next five years. From 2013 to 2018, industry revenue is expected to rise at an average annual rate of 1.9% to $560.6 billion. Growth will be underpinned by a resurgence in automotive sales and a housing recovery that will enable insurers to raise rates. In 2014, industry revenue is forecast to exhibit stable growth, increasing 2.3% on higher demand and improving prices.

Generally, industry growth does not fluctuate dramatically with economic activity because insurance is not a discretionary purchase. However, due to the recession’s dramatic pressure on investment markets and the prolonged nature of the downturn, the industry is expected to benefit from the return to economic growth. This factor is particularly true for title insurers, which were decimated by weak demand from the unprecedented decline in housing transactions. Additionally, the severity of the Great Recession hampered demand for workers’ compensation coverage and other commercial policies because the rise in unemployment decreased the pool of employees covered by group policies.

Demand for property and casualty (P&C) insurers remains relatively constant, despite depressed auto and home sales, because the stock of these assets is generally constant. Auto and home sales can influence P&C premiums, though, because the value of these assets is one of the main determinants of premium prices. Consequently, P&C premiums will be slightly boosted by new-car sales and improvements in real estate values toward the end of the next five years.

In contrast to the P&C sector, title insurers are heavily affected by changes in economic activity because these firms only generate income on a one-time basis...
Industry Performance

Industry Outlook

continued
during housing transactions. As a result, title insurers are not expected to be a main component of growth over the outlook period because unemployment is expected to remain elevated and lending conditions are expected to stay tight.

Investment

conditions improve

In addition to higher premiums, improvements in investment activity also drive industry growth. According to the Insurance Services Office, about two-thirds of the industry’s investments are in bonds, while equities only account for about 17.0%. As a result, investment income depends heavily on fluctuations in interest rates, since bonds are sensitive to interest rate changes. Bond prices decline as interest rates go up, and they rise as interest rates fall. Low interest rates generally mean weak investment returns because bond investors must purchase these securities at higher prices. If investors sell existing bond holdings, lower interest rates are beneficial because the securities are sold at a premium compared with their original purchase price.

In the five years to 2018, the industry’s investment income is expected to steadily improve as the economy recovers and interest rates slowly rise. Currently, the federal funds target rate remains at a historic low of 0.0% to 0.25% and will continue to remain so through 2015 because the Federal Reserve has dramatically increased the money supply in an attempt to promote economic growth and lending. Similarly, interest rates remain at record lows for US treasuries and other investment-grade securities because investors remain averse to risk. This trend is expected to begin to reverse in 2013 as the economy stabilizes and investors move toward riskier assets, such as equities. In addition to rising interest rates, insurers will likely benefit from favorable equity conditions as industry operators benefit from increases in sales.

Industry profitability

Industry profit margins are forecast to improve in 2014 as the industry benefits from strong underwriting returns and higher investment income. However, over the five years to 2018, IBISWorld anticipates that profit margins will decline to about 10.4%, from about 12.8% in 2013 due to intensifying competition, slow premium growth and the return to a soft pricing cycle over the latter half of the next five-year period.

At the same time, insurers will likely benefit from the continued rise in internet sales as firms establish strong online presences similar to discount retailers Geico and Progressive. Firms with online platforms can sell products at lower rates and still generate favorable returns because they do not have to pay commissions and wages to brokers and agents.

Profitability will fluctuate but remain high as internet sales allow firms to cut costs
Industry Performance

Catastrophe uncertainty

One key variable that affects this industry is the number and severity of catastrophes in the United States. These may range from hurricanes, floods and fires to terrorist attacks. There is no way to accurately forecast catastrophes, but there are a number of things to consider when looking forward. In the 10 years to 2010 (most recent data available), damage by catastrophic losses totaled $24.1 trillion. During this period, the industry experienced the largest catastrophic loss on record with Hurricane Katrina in 2005. The more troubling trend is that catastrophic losses seem to be increasing, largely due to rising asset values and increased population density in coastal regions.

A report by the Brookings Institute noted that despite the record losses incurred in 2005, a similar catastrophe in another part of the United States could create even greater losses to property. Some key examples include category five hurricanes in Houston (a $40.0-billion loss in 2005 constant dollars), Tampa (a $65.0-billion loss), Miami (a $155.0-billion loss) and New York (a $96.0-billion loss). A 7.0 or greater magnitude earthquake in Los Angeles would result in a $140.0-billion loss, while an 8.0 or greater magnitude earthquake in San Francisco would result in a $200.0-billion loss. While the chances of these disasters occurring are small, they remain possible. Credit rating agencies estimate that yearly catastrophic losses are on the rise, and they are requiring insurance companies to hold larger surpluses in the event of substantial or multiple catastrophic losses in a given year.

Enterprises, establishments and employment

In the five years to 2018, the number of enterprises is expected to increase slightly at a 0.9% annualized rate to about 5,319 as improving demand conditions attract new market entrants. At the same time, consolidation is expected to continue as larger insurers look to acquire competitors with specialties in high-growth niche insurance lines. In contrast to firms, wages and employees are expected to increase at average annual rates of 3.0% and 1.6% to $61.9 billion and 696,929, respectively, in the five years to 2018. During this period, rising wages and employment will be due to P&C insurers expanding their sales capabilities, particularly with regard to online sales and support.
Industry Performance

Industry revenue and IVA fluctuate with pricing cycles and investment activity, making it a poor measure of the industry’s life cycle.

There is complete market saturation and acceptance of the industry’s products.

Product innovation has largely been cosmetic and has not substantially increased demand.

Key Features of a Mature Industry
- Revenue grows at same pace as economy
- Company numbers stabilize; M&A stage
- Established technology & processes
- Total market acceptance of product & brand
- Rationalization of low margin products & brands

![Graph showing life cycle stages and growth metrics for various insurance industry segments](source: IBISWorld.com)
Industry Performance

Industry Life Cycle

The Property, Casualty and Direct Insurance industry is in the mature phase of its lifecycle. This stage is characterized by slow underlying demand growth, strong market acceptance and market saturation. The industry’s value added (i.e. the industry’s contribution to the overall economy) is expected to increase 9.9% annually on average in the 10 years to 2018 from a recessionary low; however, the industry still remains below prerecessionary highs and has grown more slowly than the overall economy. Over this period, GDP is forecast to grow at a 2.1% annualized rate. Typically, an industry is considered to be in a decline phase of its life cycle when industry growth falls below total economic output, but such is not the case for this industry. Instead, the industry is in the mature stage because pricing cycles and investment activity often skew insurer revenue.

In addition, the industry’s maturity is highlighted by a high level of market saturation, especially within the P&C sector, where 98.0% of premium income is associated with renewals. As a result, the industry is often compared to a utility because the need for insurance does not fluctuate with economic cycles. Homes, businesses and individuals need to be protected from potential liabilities and losses.

At the same time, the number of firms remained relatively steady, which is indicative of a mature market. There has also been a lack of product innovation. Instead, most innovations have largely been related to distributing policies. Due to the success of discount insurers GEICO and Progressive, most firms now offer insurance products though online sales sites. However, this trend has not impacted demand. Rather, it has put pressure on premium prices because the internet is a cost-effective way to distribute insurance, especially in comparison to using a network of brokers and agents.
Products & Markets

Supply Chain  |  Products & Services  |  Demand Determinants
Major Markets  |  International Trade  |  Business Locations

**KEY BUYING INDUSTRIES**

**21** Mining in the US
Companies in the Mining sector use general insurance to protect their assets, operations and employees.

**42** Wholesale Trade in the US
Businesses in the Wholesale sector also use general insurance to protect their assets, operations and employees.

**51** Information in the US
The Information sector uses general insurance to protect assets, operations, and employees.

**61** Educational Services in the US
Participants in the Educational Services sector use general insurance to protect their assets, operations, and employees.

**99** Consumers in the US
Individuals are the largest purchasers of P&C insurance such as homeowners and automotive coverage.

**KEY SELLING INDUSTRIES**

**52413** Reinsurance Carriers in the US
Reinsurers provide direct general insurers with upstream services in the form of outwards insurance associated with existing insurance policies.

**52421** Insurance Brokers & Agencies in the US
Insurance agents and brokers distribute insurance products on behalf of direct general insurers. Insurance brokerage firms also provide general insurers with a range of risk consulting services.

**52429** Third-Party Administrators & Insurance Claims Adjusters in the US
Direct general insurers are provided with insurance support services in the form of claims adjustments, insurance adjustments and third party insurance plan administrative services from this upstream industry.

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**Products & Services**

**Products and services segmentation (2013)**

- **39.9%** Property and casualty insurance (P&C) – Personal
- **37.6%** Property and casualty insurance (P&C) – Commercial
- **5.0%** Workers’ compensation insurance
- **8.0%** Reinsurance
- **2.0%** Mortgage and financial guaranty insurance
- **3.0%** Title insurance
- **1.5%** Medical malpractice insurance
- **3.0%** Other

SOURCE: WWW.IBISWORLD.COM
The Property, Casualty and Direct Insurance industry provides products and services to businesses, individuals, government agencies and other organizations. According to IBISWorld estimates and Census data, about 77.5% of the industry's products are directly associated with property and casualty (P&C) insurance. Following this segment, insurers provide reinsurance, workers' compensation, medical malpractice, title insurance and mortgage or financial guarantee coverage.

Property and casualty insurance
P&C insurance covers property and liability losses of businesses and individuals, with claims ranging from damage and injuries resulting from car accidents to lawsuit costs stemming from faulty products and professional misconduct. The P&C sector is generally divided between two main segments: personal and commercial markets. The personal market segment is associated with individual and consumer coverage, including homeowners and automotive insurance products. The largest sub-segments under commercial P&C insurance is workers' compensation, general liability and commercial automobile. Despite covering real property, such as homes, businesses and factories, this segment does not include flood insurance coverage, as this segment is largely uninsurable (unprofitable) because hazards are typically confined to a few defined areas. As a result, insurance companies only offer flood insurance through the federally backed National Flood Insurance Program.

The P&C industry is characterized by stable demand, as homes, cars, businesses and employees all need to be insured, despite general market conditions. As a result, the recent economic downturn did not change the compensation of this segment. Similarly, the economic recovery is not expected to dramatically increase the demand for these services over the next five years.

Reinsurance insurance
Reinsurance is insurance on insurance, or in other words, it allows insurance companies to protect themselves from losses by insuring part of their business with another insurance firm. Reinsurance is utilized by insurers to spread risks associated with hurricanes, earthquakes, lawsuits and collisions by ceding risks to other insurers in the market. Direct reinsurance sold in this industry accounts for a small percentage of revenue. Most reinsurance is instead provided by foreign and domestic insurance firms that specialize in reinsurance (IBISWorld report 52413).

Workers' compensation
Workers' compensation protects businesses and other employers from liabilities associated with employee injuries or illness. Workers’ compensation accounts for about 8.0% of the industries products, as the majority of commercial enterprises rely on direct insurers for workers' compensation coverage. However, some businesses have looked to self-insure through insurance funds, which is highlighted in the Workers’ Compensation and Other Insurance Funds report (IBISWorld report 52519).

Coverage from an insurance fund can often be cheaper than can be provided by an insurance carrier because insurance funds are run for the benefit of members, as opposed to earning returns for shareholders. Furthermore, insurance funds are not affected by the pricing cycle as much as direct insurance carriers, which enable companies to escape hard markets. In the past three years, workers’ compensation has also lost market share due to increased competition from these types of funds. Additionally, the
Products & Markets

**Demand Determinants**

The demand for P&C insurance does not fluctuate dramatically with economic cycles. Insurance is generally considered a necessity as opposed to a discretionary purchase. Homes, cars, businesses and even employees all need to be insured despite economic conditions. Additionally, about 98% to 99% of insurer exposure growth is tied to the renewal of existing contracts, making the industry more comparable to a utility sector.

As a result, housing and automotive sales are not a strong indicator for industry demand. In fact, the recent decline in the housing and auto sector is not expected to dramatically impact industry income. This is because the stock of these items generally remains relatively constant despite sale activity.

**Medical malpractice**

Medical malpractice insurance covers doctors and other medical professionals for liability claims arising from patient treatment. Over the past decade the cost of medical malpractice insurance has risen significantly. Rate hardening was a consequence of the growing numbers and size of claims and a corresponding decline in market capacity. At the same time, some medical professionals also gain coverage under insurance funds such as risk retention groups, which is highlighted in the US Workers’ Compensation and Other Insurance Funds report (IBISWorld report 52519).

**Title insurance**

Title insurance protects the policyholder from financial loss from defects in title to real property and from the inability to enforce a mortgage lien. Unlike many types of insurance that require yearly premiums (i.e. renewal payments), title insurance incurs a one of premium payment. Virtually every real estate transaction consummated in the US requires the use of title insurance by a lending institution before a transaction can be finalized. Generally, revenue from title insurance policies are directly correlated with the value of the property underlying the title policy, and appreciation in the overall value of the real estate market drives growth in total industry revenue. Consequently, the market share of title insurance has fallen since the subprime crisis developed in 2007, as the number of real estate transactions has dropped significantly.

**Mortgage and financial guaranty insurance**

Mortgage guarantee insurance protects a lender in case a borrower fails to meet required mortgage payments. Similarly, financial guaranty insurance covers lenders in case of default, non-performance of a contract or a decline in asset value. Typically, this type of coverage relates to defaults associated with the death of a borrower, while non-performance generally relates to manufacturers that fail to deliver a product or manufacture a good as part of a contract.

**Other**

The other category includes highly specialized types insurance products, such as marine and pet coverage. Additionally, this segment includes specialty P&C insurance such as burglary and theft, boiler and machinery, warranty insurance, aircraft, federal flood, earthquake and credit insurance.

**Products & Services continued**

deteriorating labor market has impacted the demand for workers’ compensation, as the United States has shed more than 15 million jobs since 2007.

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This is most evident within the automotive arena. According to the Bureau of Transportation Services, new car and light truck sales have fallen by 18.0% alone, but this trend has had little impact on registration rates. In fact, the number of insured vehicles is expected to remain relatively consistent over this period because older cars are kept longer instead of being replaced. Unemployment trends are also not expected to dramatically influence the demand for industry services because insurance is not considered a discretionary purchase.

In contrast to P&C insurance, the title insurance sector has been dramatically impacted by the recession. Title insurers collect income during housing transactions, including sales and refinancing activity. These companies generate income by charging fees and premiums during housing transactions. After the transaction is complete, no additional income is generated on a title insurance policy. Consequently, title insurance income fluctuates dramatically with the state of the housing sector and mortgage markets.

With that being said, the marginal demand for insurance is impacted changes in economic conditions. Higher employment generally leads to greater demand for group coverage, particularly workers’ compensation. A strong economy and labor market also impacts personal spending, as household consumption and wealth increase with disposable incomes. As consumption increases, the need for insurance coverage rises, especially for individuals who purchase big-ticket items, such as boats, houses or automobiles.

Demographics also have an impact on the demand for insurance, as insurance coverage generally increases as individuals’ age. This correlation exists as older individuals’ often higher disposable incomes and more assets that need to be protected. Individual or commercial risk is also a strong determinant of the demand for insurance, as coverage represents a safety net in case of damages or loss of property. A general increase or decrease in the risk appetite of Americans may alter the expenditure on insurance, as people may opt to bear the risk of loss instead of passing that risk to insurance companies. The aggregate appetite for risk can be influenced by recent catastrophic events, which have a wide scale impact on the nation. Hurricane Katrina would have motivated some people and businesses to purchase catastrophe related insurance.

Finally, insurance coverage is also influenced by price, as it often influences the level of coverage or volume of policies. In general, premium price hikes weigh on demand, as individuals increase deductibles or cut back coverage. Pricing tends to be determined by actuarial estimates on the level of risk that the insurance company takes on. Companies can take on more risk per premium dollar when they are in a strong capital position. When insurers have solid balance sheets, they tend to cut premium prices. This leads to higher policy volume and coverage. But price cutting ultimately erodes an insurers capital reserves and bottom line, which will lead insurers to raise prices to shore up their balance sheets and restore profitability.
Major Markets

This industry supplies a variety of products and services to three major markets: personal, commercial and other insurance carriers. Each market has different needs, but the majority of coverage is associated with property and casualty insurance.

**Personal market**
The personal market accounts for about 51.5% of the industry’s revenue, but this market is dominated by auto coverage, which accounts for roughly 40.5% of total industry revenue. Homeowners’ coverage also accounts for a significant portion (11.0%) of the personal market; individuals try to shield their largest asset from risks like disasters, fires, theft and vandalism. Personal market demand does not generally fluctuate. However, due to the recession, this segment has increased market share due to the decline in business from the commercial market.

**Commercial market**
This segment comprises companies, organizations and government agencies. These groups use insurance to shield their operations from customer, client or patron liabilities. Additionally, this market demands workers’ compensation for protection against its own employees. Demand from the commercial market has decreased about 2.0%, which has been driven by elevated unemployment. This trend began when the recession erupted in 2008. Since then, the US economy has shed more than 15 million jobs.

**Other insurance carriers**
The other insurance carriers market is generally associated with reinsurance coverage, which is insurance on insurance. In essence, insurers spread risk throughout the market by ceding some of their underwriting risk to other companies. Insurers pay other firms a risk premium for this service, but the process allows insurers to efficiently manage market risk, particularly in areas prone to major natural disasters.
Because it is service-based, imports and exports are not applicable to the Property, Casualty and Direct Insurance industry. Primary insurance demand in the United States is still largely filled by US insurers, while the US reinsurance market is much more globalized, with about 60.0% of reinsurance demand filled by foreign-owned reinsurers. For more information on international operations or foreign competitors, please see the Industry Globalization section.
Business Locations

The distribution of industry establishments is largely determined by population trends. Larger and more populated states tend to have more industry establishments than their smaller counterparts. Population density is also an important indicator of the number of establishments in each state. States with low density tend to have more establishments per individual in comparison to more densely populated regions. In contrast, densely populated states have larger offices and fewer establishments.

In addition to population, the industry is also influenced by regulatory requirements and premium prices. States with higher premiums and less regulation tend to have more establishments. However, higher premiums are often associated with greater risks. For example, homeowners insurance in the gulf region tends to be significantly higher than other parts of the country due to weather-related exposures. Similarly, larger or more densely populated areas tend to have higher automotive premiums due to the increased risks of accidents or thefts.

Southeast
The Southeast region is home to the largest number of insurance establishments, accounting for 25% of the industry total. The region accounts for an equivalent share of the population and personal income, but it also highest proportion of homeowner’s insurance rates in the country due to its exposure to weather-related risks such as hurricanes. The southeast is home to the second largest state insurance market, Florida, which accounts for 30.5% of regional establishments but only 23.9% of regional population. Florida is such a large market for P&C insurers due to its perennial exposure to hurricane-related disasters.

Great Lakes
The Great Lakes region is home to a disproportionately large share of insurance offices when compared to population, economic output and premium volume. In 2009, IBISWorld expects there will be 3,000 insurance offices, or 15.8% of the industry total. Alternatively, the region will only account for 15.5% of the population, 13.7% of economic activity and 13.2% of P&C premiums. The uneven share of the Great Lakes is due to the region’s top-heavy share of small establishments (i.e. less than 20 employees) at 16.4%.

The Great Lakes has lost share of establishments and premium volume over the past two years due to the region’s economic woes. The region’s most significant insurance markets are Illinois (ranked 5th) and Michigan (ranked 8th), accounting for 27.3% and 22.0% of regional industry establishments, respectively.

West
The West is home to the nation’s largest insurance market, California. The state is not only the country’s largest economic center, but is exposed to significant
Products & Markets

Business Locations continued

earthquake and fire risks. California itself accounts for 10.5% of US insurance offices and about 12.5% of P&C premiums. California is densely populated, so its establishments tend to be larger. As a result, the percentage of the states industry establishments is lower than its premiums.

On a regional basis, California accounts for more than 70% of regional insurance offices and about 72% of regional P&C premiums. Therefore, California trends tend to be evident in the regional data. The West region itself will account for 14.8% of industry establishments, compared with premium share of 17.0%, GDP share of 18.0% and population share of 17.0%. Again, the West region is top-heavy in medium-to-large insurance offices as the majority of this region is densely populated.
The Property, Casualty and Direct Insurance industry is composed of two primary distinct insurance sectors. The main sector is property and casualty insurance (P&C), which accounts for about 97.6% of industry revenue. The P&C market is not highly concentrated, as the top four major players collectively account for less than 40.0% of industry revenue. Specifically, the top four P&C companies are expected to account for about 28.6% of the industry market in 2013.

In 2002, the Census Bureau stated that the top four players accounted for 28.2% of revenue, which suggests that, despite some merger and acquisition activity, concentration among the top four players has changed little. This characteristic can be partly attributed to the fact that some players specialize in certain products and do not lead in all markets, which detracts from their overall share. In 2009, concentration fell as the number two player, AIG, sold off a number of its domestic property and casualty insurance (P&C) operations.

The title insurance market is the second major insurance sector within this industry, but this group only accounts for about 2.4% of total industry revenue. However, this subcategory is highly concentrated in comparison to its larger counterpart. In fact, the top four companies in the title insurance market account for about 92.4% of total title insurance revenue. The top four title insurance companies are Fidelity National Financial, First American Corporation, Stewart and Old Republic International. The remaining 7.6% of title insurance revenue is allocated to smaller regional players.

**Key Success Factors**

**Ability to effectively manage risk**
Insurers must limit their exposure to any single agreement through a diversified risk profile. Diversification must be achieved across business lines, geographically and on reinsurance arrangements. A diversified investment portfolio is also important.

**Offer a range of insurance products**
For the majority of insurers it is important to offer customers a variety of insurance coverage plans. In doing so, the insurer can cross-sell products to its existing customer base.

**Management of a high quality assets portfolio**
Asset management is very important for insurers. They must take into account a number of factors when making investments; namely, liquidity, asset risk and anticipated claims.

**Disciplined underwriting processes**
Underwriting procedures must emphasize high quality risks. Adequate provisions must be made for future claims, using in-house and external actuarial resources. And enough capital must be maintained to accommodate adverse claims outcomes.

**Having a cost effective distribution system**
It is important for insurers to have effective, low cost product distribution channels. This tends to involve the use of agents and brokers, banks and a targeted retail presence.

**Possession of accurate information**
A large database of risk related information enables insurers to price policies accurately and calculate requisite surplus levels. Without accurate information, models defining the price of risk become fundamentally flawed.
The Property, Casualty and Direct Insurance industry provides a variety of insurance products to consumers, businesses and organizations, including property and casualty (P&C), medical malpractice, workers’ compensation and title insurance coverage. The industry can be separated into two main groups: P&C companies and title insurers. The P&C segment is by far the larger group within the industry. Most P&C insurers also offer medical malpractice and workers’ compensation coverage. In contrast, only niche players provide title insurance. Due to the disparity of these two types of firms, cost structures vary dramatically. The industry’s cost structure is calculated as the weighted average of all P&C insurers, since this segment accounts for roughly 98.0% of total industry revenue.

**Profit**

Industry profit, measured as earnings before interest and taxes (EBIT), is composed of both underwriting profit and net investment income. IBISWorld estimates that the average industry profit is about 12.5% of industry revenue in 2013, up from negative 0.7% in 2008 at the height of the financial crisis and recession. Investment income rose over the past five years to help cover part of the industry’s underwriting losses in 2008 and 2011 despite historically low interest rates and significant equity market volatility. Over the five years to 2013, investment income is expected to rise at an annualized rate of 0.3% to $1.2 billion. The combined ratio, which is an important determinant of underwriting profitability, is forecast to fall from 100.7% to 95.0% in 2013, signaling an underwriting profit.

Overall, the industry maintained better underwriting discipline, grew its excess capital levels to historical highs and increased its investment incomes over the past five years. This move helped the industry endure significant catastrophic weather losses and an economic downturn relatively well; industry profit margins generally improved and stabilized from 2008 to 2013 compared with the previous five-year period.

**Loss and loss adjustment expenses**

Loss and loss adjustment expenses (LLAE) refer to an insurer’s claim liabilities (i.e. costs associated with making benefit payments to policyholders). LLAE fell to about 65.0% in 2013 from about 70.5% in 2009 because firms benefited from lower catastrophe-related losses. In comparison, the P&C market’s loss ratio was 88.4% in 2001 due to the September 11 terrorist attacks, and 74.6% in 2005 due to Hurricane Katrina. The steady decline in LLAE signifies more disciplined risk management, including improved pricing practices and diversification of exposures.

**Operating costs**

A second major expense for P&C insurers arises from operating activities. These activities include the selling, underwriting and processing of insurance policies. Operational activities also involve claims adjustments and other customer-related activities. A key measure of operational expenses is the underwriting-to-expense ratio. This statistic represents the amount of insurance premiums that are not being used for loss-related events. This ratio tends to range from 26.0% to 27.5%, being lower during a hard market and higher during a soft market. Generally, a low expense ratio means an insurer runs efficiently. In 2013, the expense ratio for P&C insurers is about 30.0%, including wages (10.5% of industry revenue), depreciation (1.2%), rent (1.5%), utilities (0.5%), purchases (0.4%) and other operation-related costs (15.9%).
**Competitive Landscape**

**Cost Structure**

**Basis of Competition**

Property and casualty insurance (P&C) insurance underwriters are subject to strong and increasing competition. The deregulation in the financial services industry has enabled an increasing number of financial services organizations to assume P&C risks. This has resulted in increased external competition, and is likely to lead to increased consolidation within the industry.

**Title insurers**

In comparison to the P&C sector, title insurers’ loss ratios are very small, while expense ratios are high. Underwriting expenses include wages and commissions to independent agents. Salaries and related expenses can account for as much as 30.0% of revenue, and agent commissions can amount to more than 40.0% of revenue. Typically, the loss ratio for title insurers is between 4.0% and 5.0%. However, this has not been the case since 2007 because the housing crisis hurt premiums and increased losses. Consequently, the combined ratio in 2010 and 2011 was about 9.5% and 10.0%, respectively, according to the latest available data from the Title Insurance Association.

**Cost Structure**

**Benchmarks continued**

**Level & Trend**

Competition in this industry is **High** and the trend is **Increasing**.

The price of insurance products forms an important basis of competition. This is because the majority of products offered in by P&C insurers exhibit a high degree of homogeneity. Therefore, price represents the primary input into the value perceptions of consumers and businesses, making it a key dimension on which insurers compete. The emphasis placed on price generally moves in cycles.
Competitive Landscape

Barriers to Entry

The US Property, Casualty and Direct Insurance industry has medium barriers to entry. A new entrant must conform to stringent state and federal regulations to establish property and casualty (P&C) and title insurance operations. The P&C and title insurance markets are also highly competitive. Both markets are highly saturated with a large number of well-established brands; while the title insurance market is heavily concentrated with the top four firms accounting for about 92.4% of title insurance revenue. The industry is also highly complex, as some of the nation’s largest state markets are also the riskiest with regards to losses (e.g. Florida, Texas and California).

A new entrant must apply for a Certificate of Authority to supply insurance products if they are to begin operating as an insurer. And, this certificate must be obtained not only for the state of domicile but in any other state the insurer wishes to conduct business. The insurer must also submit regular reports and comply with set standards for minimum capital and solvency requirements.

The market is highly competitive across all product lines and in some state markets substantial over-capacity exists. As such, new entrants must have significant capital to be able to price premiums at, or near market rates. Insurers have the ability to reduce

Basis of Competition continued

During a hard market insurers focus on less on price and more on profitability and shoring up their financial position. In doing so, insurers will increase premium rates. With strong balance sheets, P&C insurers then shift their focus to winning market share. To do so, they focus intently on competing through price, undercutting each other in a race to the bottom. Eventually this softening takes a toll on insurers profitability and capital reserves and they then shift back to a focus on underwriting profitability.

One means through which insurers have focused on in delivering greater value to customers is by providing them with products that meet the risk needs and circumstances. Tailoring policies can reduce the cost of insurance to the policyholder by eliminating unnecessary coverage. Due to homogeneity in products, insurers attempt to differentiate themselves based on quality of service. Doing so successfully means delivering an efficient and effective purchase and renewal process.

In the purchasing and renewal process, an insurer must possess staff with market knowledge and experience, such that potential and current customers can be best advised on their future insurance needs. This applies to internal sales staff and insurance agents and brokers (external sales staff) and requires investment in training and development. Insurers must pay competitive commissions to external sales staff if they are to attract capable agents and brokers.

This investment in staff adds to an insurer’s cost base, impacting their ability to provide protection at a competitive price. The sales experience can also be made easier for customers by investing in on-line sales platforms and customer service centers.

Higher quality service can also be offered through a hassle free and timely claims process. An effective claim process ensures clients renew policies and is also important in developing a positive reputation within the marketplace. Insurers must also be able to maintain an effective database and use this information to generate other profitable businesses.
Competitive Landscape

Barriers to Entry continued

premiums as their policies increase given that the overall level of risk of the portfolio decreases. New entrants do not have this scale and therefore can find it challenging to compete with established players.

The considerable size of the industry means there are numerous large insurers. In fact, the top 10 P&C insurance companies each underwrite more than $10 billion in premiums per year. These insurers benefit from significant scale economies in back office operations, marketing, sales and customer service. The substantial size of these companies also means they are well known and trusted by consumers and businesses. Moreover, the large insurers also have sizeable distribution networks, including well established distribution relationships with agents, brokers and financial services firms. These factors give the big American insurers a significant advantage over a new entrant.

Barriers to Entry checklist

<table>
<thead>
<tr>
<th>Level</th>
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<tbody>
<tr>
<td>Competition</td>
</tr>
<tr>
<td>Concentration</td>
</tr>
<tr>
<td>Life Cycle Stage</td>
</tr>
<tr>
<td>Capital Intensity</td>
</tr>
<tr>
<td>Technology Change</td>
</tr>
<tr>
<td>Regulation &amp; Policy</td>
</tr>
<tr>
<td>Industry Assistance</td>
</tr>
</tbody>
</table>

SOURCE: WWW.IBISWORLD.COM

The industry is characterized by a medium level of globalization. Currently, there are only a handful of direct insurance underwriters in the United States that are foreign owned. In fact, Zurich America Insurance Company is the only foreign-owned insurance company out of the top-10 property and casualty insurance underwriters in the United States.

However, this trend is reversing as insurers and other financial institutions look to new areas of growth. The globalization of the financial sector is also supported by the ability for multinational firms to effectively and efficiently spread risk.

The interconnectivity of the financial sector is most evident by the recent financial collapse, which has affected most developed nations. But, this recent phenomenon is not expected to inhibit the globalization trend. This is particularly true within the insurance sector. Insurers like to diversify risks and a large spectrum of potential clients is an important conduit for diversification strategies. Additionally, developing nations tend to have higher growth rates, which is attractive for firms that are looking to expand operations. As a result, the majority of the top-10 P&C insurers in the United States have substantial international operations.

At the same time, the title insurance sector does not have significant offshore operations. Most countries use a Torrens Title system. Under this system, the government makes the determination of title ownership of real estate. In contrast, the US government does not make any determination of who owns the title or whether the instruments transferring are valid. Instead, the US differs in this process to the private title insurance industry (note: only some jurisdictions, such as Minneapolis, use the Torrens System).
State Farm Mutual Automobile Insurance is the parent company of the State Farm group of insurers, which was originally formed in Bloomington, IL, in 1922. State Farm and its affiliates are the largest general insurance group in the world by revenue, accounting for about 4.1% of global general insurance revenue according to IBISWorld estimates. State Farm provides P&C, accident, health and life insurance to customers throughout the United States and Canada. It is the largest provider of car insurance in the United States and holds a leading position for car insurance in Canada. The insurance group employs about 65,000 people through 30 operations centers and more than 300 claims offices. State Farm distributes its various insurance policies through a network of more than 17,800 independent agents. Each year, State Farm underwrites more than 81 million auto, fire, home, life and health policies. As a mutual company, its policyholders own State Farm entirely. This means any distributed surplus funds are paid directly to policyholders, whereas insurers owned by shareholders distribute a proportion of surplus.

State Farm’s P&C group writes business through seven companies with a principal focus on personal lines. P&C accounts for close to 90.0% of policies and accounts, writing predominantly private passenger automobile, homeowners and commercial multiple peril insurance. In 2009, State Farm filed plans to discontinue underwriting property insurance product lines in Florida through its subsidiary State Farm Florida Insurance Company (SFF). SFF is the state’s largest private property insurer. SFF cited its substantially weakened financial position, which it believes is directly related to its inability to obtain regulatory approval for adequate property insurance rates. However, the state rejected the plan and SFF continues to operate in Florida at a significantly reduced capacity.

Financial performance
Over the five years to 2013, IBISWorld expects that State Farm will grow its US industry-specific revenue at a 1.7% average annual rate. In 2013 alone, IBISWorld forecasts that the group’s revenue will increase 2.0% to about $59.9 billion due to improving pricing conditions in the United States and higher investment income. Growth over the past five years was primarily underpinned by rising earned premium income, which increased at a 1.9% annualized rate. State Farm’s focus on the stable motor insurance market helped the group grow premiums consistently despite weak P&C insurance pricing and economic conditions in the United States over the past five years. However, this revenue and premium growth hides the group’s underwriting losses. State Farm had a net underwriting loss every year, with particularly large losses in 2008 and 2011 due to higher-than-average claim volumes.

The group’s underwriting losses were largely hidden by its investment income,
Major Companies

Player Performance continued

which accounts for about 7.0% of total revenue. At the same time, State Farm’s investment income exhibited volatility; financial market volatility during the financial crisis and through 2011 reduced State Farm’s revenue from its equity portfolio in 2008 and 2009, while declining interest rates slowed growth in its fixed-income portfolio returns. Strong equity returns in 2012 helped grow State Farm’s investment income although this increase was tempered by lower fixed-income yields due to continued historically low interest rates. Over the five years to 2013, investment income grew at a meager 2.1% annualized rate from recessionary lows due to rebounds in equity returns and modest fixed-income revenue.

State Farm’s struggled to remain profitable over the past five years. In 2008, the group experienced higher

claims volumes and losses as a result of damages from the highest number of storms in the United States in the previous 70 years. State Farm was not able to increase prices enough to offset these losses, resulting in an operating loss of about $2.1 billion in 2008. Claims volumes remained high over 2009 and 2010 but were covered by the group’s investment income. Then in 2011, another spike in catastrophe activity resulted in an operating loss of about $200.0 million. These losses were much higher than 2008 but were partially mitigated by State Farm raising prices and increased investment income. IBISWorld anticipates the group will operate profitability again in 2013 due to lower catastrophic losses and improved pricing conditions in the United States compared to 2012.

State Farm Insurance Companies (US industry-specific segment) – financial performance*

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($ million)</th>
<th>(% change)</th>
<th>Operating Income ($ million)</th>
<th>(% change)</th>
</tr>
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<tbody>
<tr>
<td>2008</td>
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<td>2013*</td>
<td>59,940</td>
<td>2.0</td>
<td>1,723</td>
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</table>

*Estimates

SOURCE: ANNUAL REPORT AND IBISWORLD
Allstate is one of the largest P&C insurers in the United States. In addition to P&C coverage, Allstate provides life, retirement and investment products to businesses and customers throughout the United States and Canada. The company distributes its insurance products through a network of 14,000 exclusive Allstate agencies and financial representatives. Allstate focuses primarily on underwriting P&C risk; premiums from these policies account for about 75.0% of all sales. The insurer specializes in personal home and auto P&C lines, with auto insurance accounting for about 70.0% of P&C premiums. This concentration on personal lines has enabled Allstate to become the second-largest home and auto insurer in the United States.

The company has focused on maintaining its market share by bundling insurance offerings. This strategy is designed to counteract the increasing competition from low-priced carriers such as Geico and Progressive. The bundling of products is designed to position Allstate as a one-stop provider of insurance products, fostering customer loyalty and improving retention rates.

### Financial performance

In the five years to 2013, Allstate’s revenue is expected to increase at an average annual rate of 2.9% to $33.3 billion. During this period, the company’s revenue was decimated by a 12.5% drop in 2008, as Allstate Financial posted significant losses due to poor investment activity, including $1.7 billion in asset write-downs. In addition to poor investment returns, the company’s profit was also reduced by catastrophe losses due to the spike in weather-related incidents in the United States. As a result, the firm operated at a loss in 2008. Large losses in underwriting net income also dragged operating income to $932.8 million in 2011, representing a 13.2% decrease from 2010. In 2013, IBISWorld expects revenue to grow due to price increases, higher demand but operating income to decline on lower investment income.

In 2011, Allstate acquired White Mountains Inc. and Answer Financial Corporation Inc. from White Mountain Holdings (Luxembourg) for about $1.01 billion. With the acquisition of White Mountains Inc., Allstate gained Esurance, a well-know brand in the US private vehicle insurance market. Answer Financial is an independent personal

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### Allstate Insurance Company (US industry-specific segment) – financial performance

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($ million)</th>
<th>(% change)</th>
<th>Operating Income ($ million)</th>
<th>(% change)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
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<tr>
<td>2011</td>
<td>31,762</td>
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<td>933</td>
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<tr>
<td>2012</td>
<td>32,323</td>
<td>1.8</td>
<td>3,208</td>
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<tr>
<td>2013*</td>
<td>33,288</td>
<td>3.0</td>
<td>1,686</td>
<td>-47.4</td>
</tr>
</tbody>
</table>

*Estimates

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SOURCE: ANNUAL REPORT AND IBISWORLD
Major Companies

Liberty Mutual Group is the third-largest P&C insurer in the United States. The company is based in Boston and employs more than 45,000 people in more than 900 locations worldwide. Like State Farm, Liberty Mutual is structured as a mutual company – its policyholders are the true owners of the firm. The company is currently the second-largest mutual company in the United States behind State Farm and is the 84th-largest firm in the United States according to the Fortune 500 rankings.

Liberty Mutual offers a wide range of insurance products and services, including personal auto, homeowners, individual and group life, workers compensation, commercial multiple peril, commercial auto, general liability, global specialty, group disability, reinsurance, fire and surety. The company also has a stake in or owns local insurance companies in Argentina, Brazil, Chile, China, Columbia, India, Poland, Portugal, Singapore, Spain, Thailand, Turkey, Venezuela and Vietnam. Overall, the company’s international market accounts for about 30.0% of company revenue.

Financial performance
In the five years to 2013, Liberty is expected to increase its domestic revenue at an average annual rate of 5.0% to about $27.4 billion. During this period, the company expanded operations through both organic growth and acquisitions, including the purchases of Ohio Casualty and Safeco Corporation. Additionally, the firm has been able to improve profitability by diversifying its portfolio and reducing its exposure to hurricane risks in Florida and the Gulf of Mexico region. The company has also been able to largely avoid investment risks related to the real estate market, particularly due to its unwillingness to invest in anything that lacks transparency.

Liberty Mutual Group Inc. (US industry-specific segment) – financial performance

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($ million)</th>
<th>(% change)</th>
<th>Operating Income ($ million)</th>
<th>(% change)</th>
</tr>
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<tbody>
<tr>
<td>2008</td>
<td>21,450</td>
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*Estimates

SOURCE: ANNUAL REPORT AND IBISWORLD
The Travelers Companies Inc. is one of the largest P&C insurers in the United States, particularly among commercial lines. The company is publicly traded on the New York Stock Exchange under the ticker symbol TRV, and the firm is also included in the Dow Jones Industrial Average (DJIA) after replacing Citigroup on June 1, 2009. The company sells its products to a wide variety of clients, including businesses, government units, associations and individuals. However, the largest part of its revenue is derived from businesses.

The company is organized into three primary segments: business insurance, personal insurance and financial, professional and international insurance (FPII). The business insurance segment accounts for about 54.0% of the company’s revenue. This segment can further be divided into specialty groups that focus on specific segments of the business market. These segments are determined by the size of the business customer, the business’s industry and the policy’s distribution channel. Personal insurance accounts for 30.0% of revenue, and FPII accounts for the remaining 15.7%. The firm’s international operations account for about 4.8% of overall company revenue.

**Financial performance**

In the five years to 2013, Travelers revenue is expected to rise at an average annual rate of 1.9% to $25.1 billion. Revenue has remained relatively flat during this period, but the company has been able to steadily improve premiums earned through strong underwriting practices, despite dips in net income from catastrophic weather losses. The firm’s ability to outperform its competitors in underwriting practices is highlighted by its 2008 results. In 2008, the company’s combined ratio was 88.2%, while the industry’s reached 105.1%. The company’s profitability is also a result of its growth and operational strategies, which emphasize Travelers’ return on equity, remain in the mid-teens. The company is also risk adverse, which helps the firm avoid underwriting and investment risks that its competitors may take on. As a result, the firm’s revenue growth rates have not been as strong as its profit growth over the current period.

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($ million)</th>
<th>(% change)</th>
<th>Operating Income ($ million)</th>
<th>(% change)</th>
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<td>3,466.0</td>
<td>13.5</td>
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</table>

*Estimates

**SOURCE: ANNUAL REPORT AND IBISWORLD**
Major Companies

Player Performance

American International Group Inc.
Market share: 3.9%
Industry Brand Names
AIU Holdings

American International Group (AIG) is one of the world’s largest insurance underwriters with operations in more than 130 countries. AIG serves commercial, institutional and consumer markets through an extensive distribution network that focuses on both life and property and casualty insurance (P&C) insurance. AIG is split into three segments: AIG property casualty, AIG life and retirement and other operations.

Subprime crisis and response
AIG played an intricate role in the credit collapse and subsequent financial bailout. To date, the company has received about $182.5 billion in government funds, mainly from the United States’ Troubled Asset Relief Program (TARP). However, the company’s issues were not related to its insurance operations; rather, the majority of the company’s demise originated in the firm’s financial services division. This group was responsible for the creation and sale of AIG’s credit default swap (CDS) contracts on real estate mortgages.

CDSs are insurance contracts on bonds and other financial securities. These securities provide income protection for bondholders in exchange for premium payments. Normally, the risk of default is small, but AIG’s CDS contracts were insuring mortgage-backed securities (MBSs) and other structured financial vehicles that contained hidden risks. Making matters worse, the CDS industry lacks stringent capital adequacy requirements, unlike more highly regulated traditional insurance products. Moreover, CDS contracts are traded over the counter instead of through a clearinghouse, further decreasing the degree to which CDSs are regulated.

AIG was overexposed to the real estate sector and MBSs. Consequently, as property values started to decline and defaults increased, AIG began taking on huge losses. These losses eventually escalated to such a high level that the federal government took control of the company. The government honored the firm’s CDS counterparties by paying CDS contract holders 100 cents on the dollar. At the same time, the government took an 80.0% stake in AIG.

Since then, the firm has focused on restructuring its operations to insulate the firm’s healthy operations from its toxic divisions. The company has also looked to reduce the size and scope of its operations in an attempt to pay back the government. To reach this goal, AIG formed a general insurance holding company to house its commercial insurance group, foreign general unit and other P&C operations. The company, AIU Holdings Inc., has its own board, management team and distinct brand. The collective operations of AIU generated more than $40.0 billion in net premiums in 2008. AIG plans on selling a minority stake of this new business to help repay government debt and shore up its capital position.

AIG is restructuring and consolidating operations in an attempt to return the company to profitability. This process includes an orderly assets disposal program that aims to raise cash to pay down government debt. To date, AIG has made a large number of sales that have included domestic and foreign finance and insurance operations. The two major US general insurance deals have been the sale of 21st Century Group, AIG’s US personal auto insurer, and the de-consolidation of Transatlantic, AIG’s reinsurer. AIG divested its ownership of Transatlantic by selling 29.9 million common shares, which decreased AIG’s ownership stake to 13.9% (a non-controlling interest).

General insurance consolidation
AIG’s property casualty division is the most applicable line of business for this industry. The sale of personal lines insurers (e.g. 21st Century) and Transatlantic means these units no longer
Player Performance continued

report ongoing results of operations, so they have been reclassified as part of AIG’s “Other” operations. The relatively small mortgage guaranty unit has also been shifted to “Other” but is still reporting results. In effect, AIG’s property casualty division now comprises its original US commercial insurance segment. Ultimately, the sale of US P&C insurance businesses is causing AIG’s share of the Property, Casualty and Direct Insurance industry to shrink considerably.

Financial performance
In the five years to 2013, AIG’s revenue is expected to fall at an average annual rate of 8.1% to $19.9 billion. The continued fallout associated with the government bailout drove most of this decline. In addition, the firm is expected to continue to consolidate operations to improve profitability and pay down government-sponsored debt. Revenue is expected to decline 1.0% in 2013, as the firm continues to lose market share to its rivals. AIG’s 2013 market share is estimated at about 3.9%. However, even this moderate decline in 2013 shows vast improvement from the recession years; revenue fell 26.4% in 2009 and 8.0% in 2010 due to the consolidation of the firm’s general insurance division. Consequently, AIG’s P&C revenue is only being generated by its commercial segment.

American International Group Inc. – financial performance*

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue ($ million)</th>
<th>(% change)</th>
<th>Net Income ($ million)</th>
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<td>2013</td>
<td>19,924</td>
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<td>-500.0</td>
<td>-5.7</td>
</tr>
</tbody>
</table>

*Estimates

SOURCE: ANNUAL REPORT AND IBISWORLD

Other Companies

P&C carriers generate about 97.6% of industry revenue, making them the dominant force in the industry. In fact, on a premium earned basis, the top 20 P&C insurers are all larger the top five title insurers. Other notable P&C companies include: Zurich Insurance Group, Berkshire Hathaway Group, Nationwide Corporation Group, Progressive Group, Hartford Fire and Casualty Group, and Chubb & Son Group Inc.

On the other hand, the title insurance market is drastically different than traditional insurance. Four major players dominate the title insurance industry: Fidelity National Financial (35.1% estimated market share); First American Corporation (26.9%); Stewart (13.2%); and Old Republic International (13.1%). Together, these four companies account for about 88.3% of total title insurance revenue. The remaining 11.7% of title insurance revenue is allocated to smaller regional players. LandAmerica Financial, which was the third-largest title insurer in the United States, declared bankruptcy and exited the industry in 2008.
### Operating Conditions

**Capital Intensity**

The Property, Casualty and Direct Insurance industry is required to have a certain level of capital reserves by insurance regulators to ensure firms are able to meet potential loss liabilities. Additionally, capital is needed for information technology as systems are utilized to track policies, payments and claims. Systems are also utilized by actuaries to model insurance risk; ensuring firms have proper reserves in case of a catastrophic event. Companies have continued to improve their technology in order to provide better customer service, such as efficient customer responses and user-friendly websites.

One key technological investment has been in online distribution, which is becoming a key business portal, as the majority of consumers now shop online for insurance coverage.

### Tools of the Trade: Growth Strategies for Success

**New Age Economy**
- **Recreation, Personal Services, Health and Education.** Firms benefit from personal wealth so stable macroeconomic conditions are imperative. Brand awareness and niche labor skills are key to product differentiation.

**Traditional Service Economy**
- **Wholesale and Retail.** Reliant on labor rather than capital to sell goods. Functions cannot be outsourced therefore firms must use new technology or improve staff training to increase revenue growth.

**Investment Economy**
- **Information, Communications, Mining, Finance and Real Estate.** To increase revenue firms need superior debt management, a stable macroeconomic environment and a sound investment plan.

**Old Economy**
- **Agriculture and Manufacturing.** Traded goods can be produced using cheap labor abroad. To expand firms must merge or acquire others to exploit economies of scale, or specialize in niche, high-value products.
Operating Conditions

Capital Intensity continued

Internet use has lowered labor intensity, which has been highlighted by a marginal decline in wages as a share of revenue over the past five years. Despite marginally lower labor intensity, the industry still requires personnel for selling, administration and processing.

Industry wages account for about 10.5% of industry revenue in 2013, while depreciation represents is expected to represent about 1.2% of industry income. The ratio of direct labor costs (employee compensation) to capital depreciation provides a valuable measure of an industry’s labor and capital intensity of production, since it shows the amount of revenue absorbed by labor inputs relative to the costs of capital inputs. Generally, high capital-to-labor cost ratios are associated with industries that are less capital intensive.

In 2013, for every dollar spent on wages, $0.12 was spent on capital. As a result, the industry is estimated to have a low level of capital intensity.

Technology & Systems

Level The level of Technology Change is High

This industry relies on computer technology to maintain customer records, process financial transactions and maintain title records. Investment in information technology can provide cost advantages as well as the ability to introduce new products; provide product support to sales staff, agents and brokers; and provide strategic information to customers.

The internet has been particularly useful for insurance carriers. It allows insurance carriers to deal directly with clients efficiently and provide them with 24-hour access to their account information along with information on other company offerings. According to IBISWorld estimates and Comscore data, about 35.0% of auto insurance sales are generated online, up from about 15.0% five years earlier.

Despite the growing popularity of online insurance distribution, the complexity of insurance policies means the personal selling (i.e. direct contact with agents and brokers) will remain the dominate form of insurance distribution over the near-term. To further advance online distribution, insurers must overcome the perceived complexity of insurance policies by developing easy to use online sales platforms that accurately match personal circumstances to coverage requirements.

The one downside of online distribution is it is nowhere near as effective at building customer relationships as selling through in-house agents. If insurers are going to lift their use of online selling, they must develop new means for fostering customer relationships and brand loyalty through their online presence.

Revenue Volatility

Level The level of Volatility is Low

Industry revenue is expected to fluctuate at an average absolute rate of 2.5% annually in the five years to 2013. Industry revenue is influenced by the overall performance of the economy and financial markets. Periods of rapidly rising real incomes and wealth will generally result in increased demand for insurance following an increase in consumer assets, particularly housing. However, the impact of economic downturns or booms on premium levels tends to be quite minor as about 98.0% to 99.0% of industry premium is generally generated from renewal business.
In contrast to premiums, insurers do experience some revenue volatility related to investment income. Insurers generate about 8.5% of industry revenue from the investment of premiums. Investment income is comprised of dividends from equities, interest payments from bonds and capital gains or losses on asset/security sales. Generally, investment income is rather stable as about two-thirds of industry investments are related to the fixed-income sector. But this has not been the case since the start of the Great Recession. The financial crisis began with the subprime mortgage meltdown, which decimated the credit markets. The impact of this activity soon spread to the equity markets as banks restricted lending, which forced companies and individuals to cut back on consumption. In response to the credit crisis, the Federal Reserve has slashed interest rates to record lows and pumped a tremendous amount of capital into the financial sector through the Troubled Asset Relief Program (TARP). This phenomenon has hurt the fixed-income sector as lower insurers are receiving lower dividend yields on their fixed-income investments.

The industry must accommodate the losses associated with unforeseeable and unpredictable events and catastrophes. This induces extreme volatility in the industry’s bottom line. Add the unstable nature of investment revenue and it is no surprise that the industry frequently records profit volatility in excess of 100%. The financial crisis had a particularly devastating impact on both property and casualty insurance (P&C) insurers and title insurers. P&C insurers suffered unprecedented claims on guaranty lines while title insurers suffered a collapse in revenue, while expenses failed to moderate. Making matters worse, the P&C market had to endure one of the worst weather-related years for catastrophes in nearly 70 years. As a result, the P&C industry’s net income fell 96.2% in 2008 to $2.3 billion. However, it is important to note that industry net income has bounced back substantially from 2008 as the financial markets have stabilized and the spike in weather-related catastrophes has subsided.

A higher level of revenue volatility implies greater industry risk. Volatility can negatively affect long-term strategic decisions, such as the time frame for capital investment. When a firm makes poor investment decisions it may face underutilized capacity if demand suddenly falls, or capacity constraints if it rises quickly.
Direct insurance carriers are governed on a state level with individual laws and regulations administered by state insurance departments. It has been recognized, however, that the basic regulative structure of insurance regulation requires some degree of uniformity throughout the states. The NAIC was created by state insurance regulators in 1871 to address the need to coordinate regulation of multi-state insurers, and the first major step in that process was the development of insurance companies’ uniform financial reporting.

The NAIC is the organization of insurance regulators from the 50 states, the District of Columbia and the four US territories, and provides a forum for the development of uniform policy. The mission of the NAIC is to assist state insurance regulators, individually and collectively, in servicing the public interest and achieving the following fundamental insurance regulatory goals: promote competitive markets; facilitate the fair and equitable treatment of insurance consumers; promote the reliability, solvency and financial solidity of insurance institutions; and support and improve state regulation of insurance.

The NAIC’s primary instruments of public policy are model laws, regulations and guidelines. To address the need for uniformity, model laws and regulations are developed at NAIC meetings for members’ use. The states may either adopt the models intact or modify them to meet their specific needs and conditions. Some of the models have been deemed essential for effective solvency regulation, and are required of those states seeking formal NAIC accreditation. This system provides a certain flexibility for each individual State Insurance Department, where, on the one hand, model legislation prepared by the NAIC forms a uniform basis from which all states can deal with regulatory issues, and, on the other hand, the legislation that is ultimately enacted can be customized to fit the needs of the individual states.

NAIC accreditation
The NAIC Accreditation Program, adopted in 1990, aims at more effective solvency regulation of the insurance industry. The program is designed to improve the quality of regulation, and thus, consumers’ and fellow regulators’ confidence in an insurance department’s abilities. The standards require that insurance departments have adequate statutory and administrative authority to regulate an insurer’s corporate and financial affairs, the necessary resources to carry out that authority, and that the departments have in place organizational and personnel practices designed for effective regulation. The Accreditation Program involves a rigorous review of the departments by an independent review team, and mandates a full on-site re-examination and re-accreditation every five years. Furthermore, requires interim annual reviews to ensure compliance with the standards.

The Uniform Certificate of Authority Application (UCAA)
The UCAA process is part of the NAIC, and is designed to allow insurers to file copies of the same application for admission in numerous states. Each state that accepts the UCAA is designed as a uniform state. Each uniform state still performs its own independent review of each application, but the UCAA eliminates the need to file different applications in different formats for all states that accepts the uniform application.

The UCAA includes three applications. The primary application is
Operating Conditions

Regulation & Policy continued

for use by newly formed companies seeking a certificate of authority in their domicile state and by companies wishing to re-domesticate to a uniform state. The expansion application is for use by companies in good standing in their state of domicile that wish to expand their business into a uniform state. The corporate amendments application is for use by an existing insurer for requesting amendments to its certificate of authority.

A uniform state has committed to streamlining the application approval process by accepting the UCAA for company admission. However, some states have state specific filing requirements based either on statutory requirements or internal procedures.

Financial Accounting Standards Board

Insurers are required to use a special accounting system when filing annual financial reports with state regulators and the Internal Revenue Service. This system is known as statutory accounting principles (SAP). These accounting principles are more conservative than generally accepted accounting standards (GAAP), as defined by the Financial Accounting Standards Board, and have been introduced to ensure that insurers have sufficient capital and surplus to cover insurance losses. The main difference between the two systems is in the timing of expenses, tax accounting, the treatment of capital gains and accounting for surplus. SAP recognizes liabilities earlier or at a higher value and recognizes assets later or at a lower value. This implies that SAP, as opposed to GAAP, treats insurers as if they were about to be liquidated. SAP is defined according to state law according to uniform codes established by the National Association of Insurance Commissioners. Insurance companies reporting to the Securities and Exchange Commission must maintain and report another set of figures that meet GAAP standards.

Terrorism Risk Insurance Act of 2002

Enacted in 2002, under the Terrorism Risk Insurance Act, insurers are obligated to provide workers’ compensation benefits for losses arising from acts of terrorism. The Act, which was modified in 2005, provides insurers with some protection in the event of a terrorist act; however, the losses must exceed a threshold amount ($100 million in 2007) and cannot exceed $100 billion in a given year. The present structure of the Act was due to expire December 31, 2007, however, legislation to extend the act has been introduced into Congress. Many industry participants purchase reinsurance to reduce the risk of a terrorist attack affecting the company.

The most notable form of industry assistance for the US Property, Casualty and Direct industry is directly related to the Terrorism Risk Insurance Act (TRIA). TRIA essentially created a US government reinsurance entity that was designed to reinsurance companies in the event of a terrorist attack on US soil. For more information on TRIA please refer to the Regulation and Policy section of this report.

Congress is also contemplating further legislation that will increase the tax burden on foreign-owned US insurance companies that purchase reinsurance from an alien affiliate. The purpose of this proposal is to “level the playing field” between domestically-owned and foreign-owned US insurance companies. The legislation’s ultimate
Operating Conditions

Impact would be to end the use of offshore affiliate reinsurance. This result would cause the level of reinsurance service imports into the US market to contract substantially. Consequently, the demand for the US Property, Casualty and Direct industry services would increase as companies would need to fill the void brought on by the decrease in foreign reinsurance coverage's. As a result this forecasted trend, the proposed tax could be viewed as industry assistance. However, the insurance industry is very interconnected and the decrease in foreign-owned insurance options would substantially decrease the industry's ability to spread risk. See the “Industry Taxation” section for a more in depth discussion of the legislation and its potential impacts.
Key Statistics

### Industry Data

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<tr>
<th>Economic Rank</th>
<th>Sector Rank</th>
<th>Value Added ($m)</th>
<th>Estimated Establishments</th>
<th>Employment (#)</th>
<th>Exports ($m)</th>
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<th>Wages ($m)</th>
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### Annual Change

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<th>Employment (#)</th>
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<th>Wages ($m)</th>
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<td>--</td>
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<td>8/62</td>
<td>491,775.8</td>
<td>20,456</td>
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### Key Ratios

<table>
<thead>
<tr>
<th>Economic Rank</th>
<th>Sector Rank</th>
<th>IVA/Revenue (%)</th>
<th>Imports/Demand (%)</th>
<th>Exports/Revenue (%)</th>
<th>Revenue per Employee ($000)</th>
<th>Wages/Revenue (%)</th>
<th>Employees per Est.</th>
<th>Average Wage ($)</th>
<th>Share of the Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>4/62</td>
<td>11.91</td>
<td>N/A</td>
<td>N/A</td>
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<td>N/A</td>
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<td>7.18</td>
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<td>N/A</td>
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<td>8.96</td>
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<tr>
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<td>N/A</td>
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<tr>
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<td>21.80</td>
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<td>N/A</td>
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<td>10.99</td>
<td>29.84</td>
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<td>N/A</td>
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<td>11.04</td>
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</table>

Figures are inflation-adjusted 2013 dollars. Rank refers to 2013 data.
**Jargon & Glossary**

**Industry Jargon**

**CAPACITY** The supply of insurance or the maximum amount of insurance a company or market can underwrite, which is determined by a firm’s financial strength or surplus.

**CEDE** The action of an insurer passing risk to a reinsurer. The cedent purchases a contract, indemnifying them for specific losses realized in assuming liability through the issuance of insurance policies.

**COMBINED RATIO** A measurement of a firm’s underwriting performance and profitability; it equals the loss ratio plus the expense ratio.

**EXPENSE RATIO** Underwriting or operation expenses as a percentage of earned premiums, indicating the percentage of premium income that was consumed in writing insurance business.

**LOSS RATIO** The percentage of premiums earned that were paid out as claims; it equals loss-incurred and loss-adjusted expenses (LLAE) divided by earned premiums.

**OVER THE COUNTER** Trading financial instruments such as stocks, bonds, commodities or derivatives directly between two parties.

**POLICYHOLDER SURPLUS** The difference between an insurer’s liabilities and its assets and is the financial cushion that protects policyholders in case of unexpectedly high claims.

**TITLE INSURANCE** Indemnity insurance that protects against financial loss from defects in title to real property and from invalidity of mortgage liens.

**UNDERWRITING** The process where insurers assess the risks to insure and decide how much to charge for those risks.

**IBISWorld Glossary**

**BARRIERS TO ENTRY** High barriers to entry mean that new companies struggle to enter an industry, while low barriers mean it is easy for new companies to enter an industry.

**CAPITAL INTENSITY** Compares the amount of money spent on capital (plant, machinery and equipment) with that spent on labor. IBISWorld uses the ratio of depreciation to wages as a proxy for capital intensity. High capital intensity is more than $0.333 of capital to $1 of labor; medium is $0.125 to $0.333 of capital to $1 of labor; low is less than $0.125 of capital for every $1 of labor.

**CONSTANT PRICES** The dollar figures in the Key Statistics table, including forecasts, are adjusted for inflation using the current year (i.e. year published) as the base year. This removes the impact of changes in the purchasing power of the dollar, leaving only the “real” growth or decline in industry metrics. The inflation adjustments in IBISWorld’s reports are made using the US Bureau of Economic Analysis’ implicit GDP price deflator.

**DOMESTIC DEMAND** Spending on industry goods and services within the United States, regardless of their country of origin. It is derived by adding imports to industry revenue, and then subtracting exports.

**EMPLOYMENT** The number of permanent, part-time, temporary and seasonal employees, working proprietors, partners, managers and executives within the industry.

**ENTERPRISE** A division that is separately managed and keeps management accounts. Each enterprise consists of one or more establishments that are under common ownership or control.

**ESTABLISHMENT** The smallest type of accounting unit within an enterprise, an establishment is a single physical location where business is conducted or where services or industrial operations are performed. Multiple establishments under common control make up an enterprise.

**EXPORTS** Total value of industry goods and services sold by US companies to customers abroad.

**IMPORTS** Total value of industry goods and services brought in from foreign countries to be sold in the United States.

**INDUSTRY CONCENTRATION** An indicator of the dominance of the top four players in an industry. Concentration is considered high if the top players account for more than 70% of industry revenue. Medium is 40% to 70% of industry revenue. Low is less than 40%.

**INDUSTRY REVENUE** The total sales of industry goods and services (exclusive of excise and sales tax); subsidies on production; all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); and capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

**INDUSTRY VALUE ADDED (IVA)** The market value of goods and services produced by the industry minus the cost of goods and services used in production. IVA is also described as the industry’s contribution to GDP, or profit plus wages and depreciation.
INTERNATIONAL TRADE The level of international trade is determined by ratios of exports to revenue and imports to domestic demand. For exports/revenue: low is less than 5%, medium is 5% to 20%, and high is more than 20%. Imports/domestic demand: low is less than 5%, medium is 5% to 35%, and high is more than 35%.

LIFE CYCLE All industries go through periods of growth, maturity and decline. IBISWorld determines an industry’s life cycle by considering its growth rate (measured by IVA) compared with GDP; the growth rate of the number of establishments; the amount of change the industry’s products are undergoing; the rate of technological change; and the level of customer acceptance of industry products and services.

NONEMPLOYING ESTABLISHMENT Businesses with no paid employment or payroll, also known as nonemployers. These are mostly set up by self-employed individuals.

PROFIT IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company’s profitability. It is calculated as revenue minus expenses, excluding interest and tax.

VOLATILITY The level of volatility is determined by averaging the absolute change in revenue in each of the past five years. Volatility levels: very high is more than ±20%; high volatility is ±10% to ±20%; moderate volatility is ±3% to ±10%; and low volatility is less than ±3%.

WAGES The gross total wages and salaries of all employees in the industry. The cost of benefits is also included in this figure.
At IBISWorld we know that industry intelligence is more than assembling facts
It is combining data with analysis to answer the questions that successful businesses ask

Identify high growth, emerging & shrinking markets
Arm yourself with the latest industry intelligence
Assess competitive threats from existing & new entrants
Benchmark your performance against the competition
Make speedy market-ready, profit-maximizing decisions

Who is IBISWorld?
We are strategists, analysts, researchers, and marketers. We provide answers to information-hungry, time-poor businesses. Our goal is to provide real world answers that matter to your business in our 700 US industry reports. When tough strategic, budget, sales and marketing decisions need to be made, our suite of Industry and Risk intelligence products give you deeply-researched answers quickly.

IBISWorld Membership
IBISWorld offers tailored membership packages to meet your needs.