

Impacts of the US Economic Stimulus Package on the P/C Insurance Industry

*American Recovery &
Reinvestment Act of 2009*

Insurance Information Institute



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Robert P. Hartwig, Ph.D., CPCU, President

Insurance Information Institute ♦ 110 William Street ♦ New York, NY 10038

Tel: (212) 346-5520 ♦ bobh@iii.org ♦ www.iii.org



Summary of Short-Run Impacts of Stimulus Package on P/C Insurance

- **No Stimulus Provisions Specifically Address P/C Insurance**
 - Spending, Aid and Tax Reductions benefit other industries, state and local governments, as well as individual and some corporate taxpayers
- **Stimulus Package is Unlikely to Increase Net Premiums Written by More Than 1% or Approximately \$4.5 Bill. by Year-End 2010**
- **“Direct” Impact to P/C Insurers Results Primarily from Increased Demand for Commercial Insurance**
 - Primarily the result of increased infrastructure spending and the resulting need to insure workers, property and protect against liability risks
 - Because the primary objective of the stimulus is employment related, workers compensation will be the p/c line that benefits the most
 - Assuming the target of 3.5 million jobs created or preserved is achieved, private workers comp NPW (new and preserved) could amount to as much as \$1.1 billion
 - Other commercial lines to benefit: surety, commercial auto, inland marine
- **Other “Direct” P/C Demand Benefits Will Be Minimal**
 - Tax provisions providing incentives to buy cars and homes and accelerate the depreciation of equipment will have little net impact on exposure
 - Some additional premium may be generated as older cars and equipment are replaced with new and more valuable (and therefore more expensive to insure)

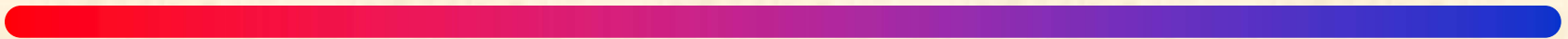


Summary of Short-Run Impacts of Stimulus Package on P/C Insurance (cont'd)

- **“Indirect” Impacts: Limited Gains for P/C Insurers**
 - If stimulus is successful at increasing disposable and corporate income via tax reductions and “multiplier” income and employment effects, then spending could rise and produce some additional insurable exposure growth for p/c insurers
- **Investment Portfolio Impacts**
 - It is impossible to discern what, if any, impact the stimulus will have on stock and bond performance
 - If successful, the stimulus package (along with other initiatives) should help stabilize and reinvigorate the economy, increasing stock prices and bolstering the value of corporate and asset-backed bonds
 - The stimulus could be viewed as inflationary. Combined with existing large deficits and other spending initiatives, an expectation of inflation could push interest rates upward

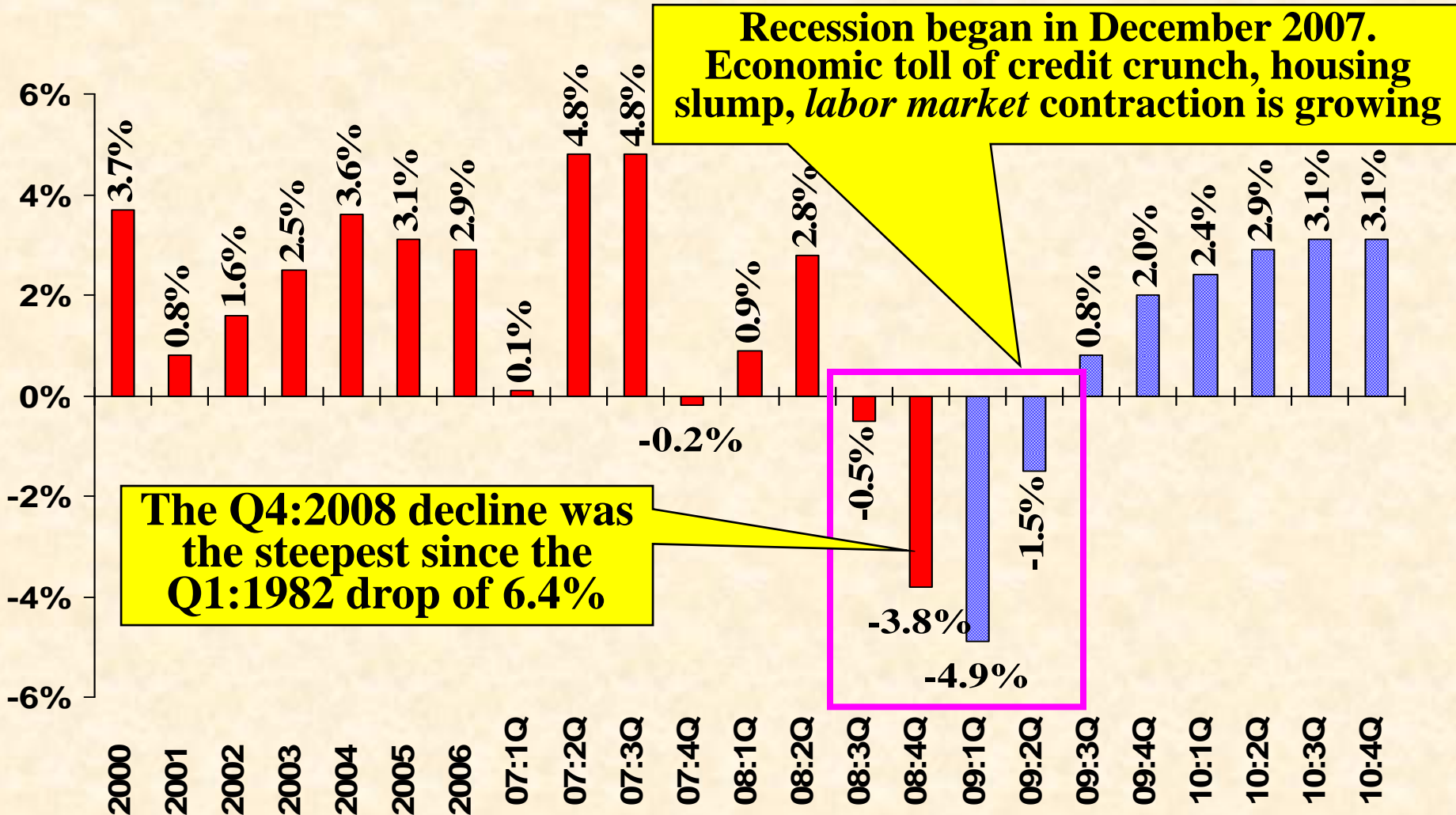
THE ECONOMIC STORM

*Current Economic Situation &
The Administration's Case for
Stimulus Spending*





Real GDP Growth*



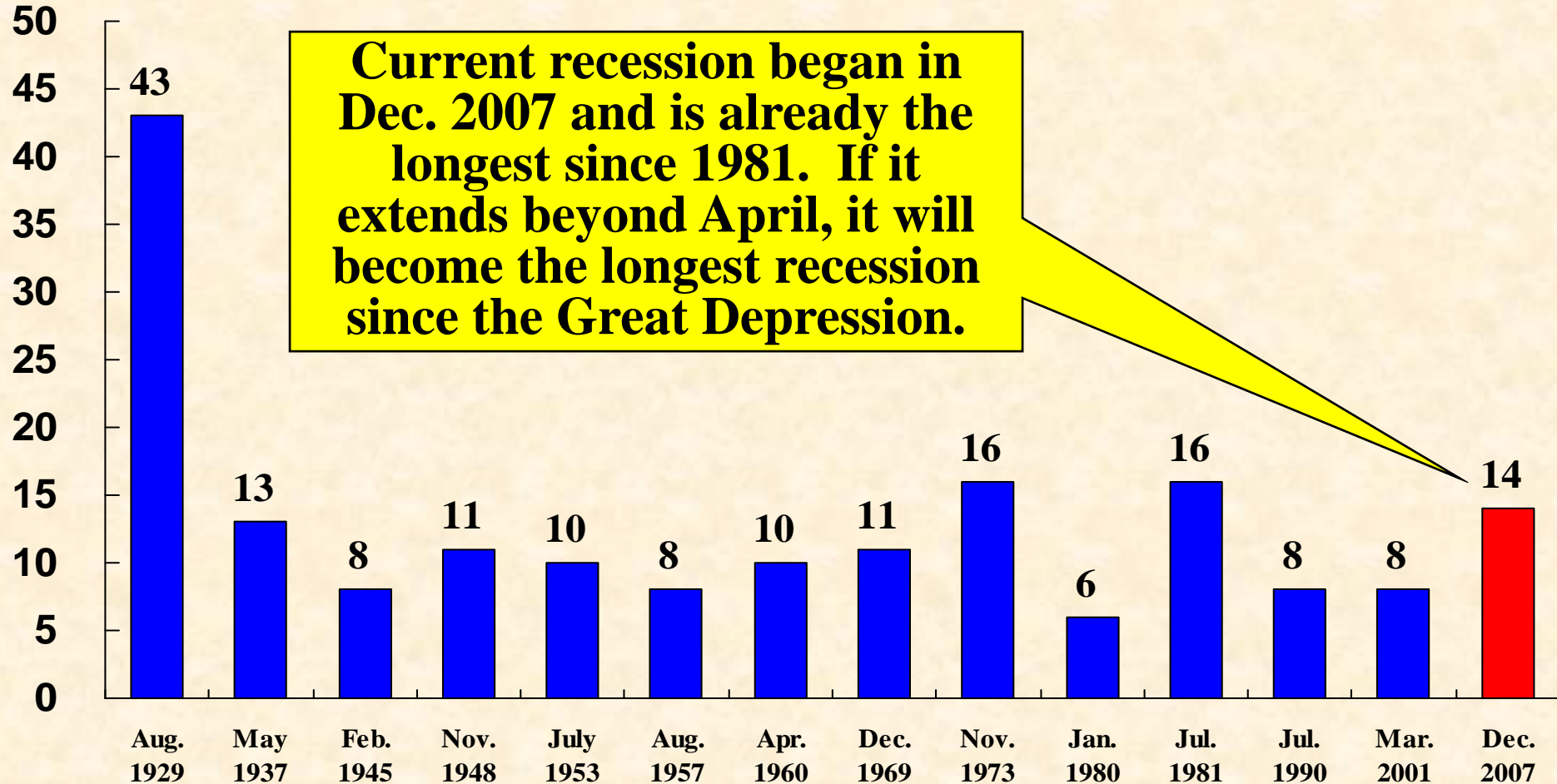
*Yellow bars are Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 2/09; Insurance Information Institute.



*Length of US Recessions, 1929-Present**

Months in Duration



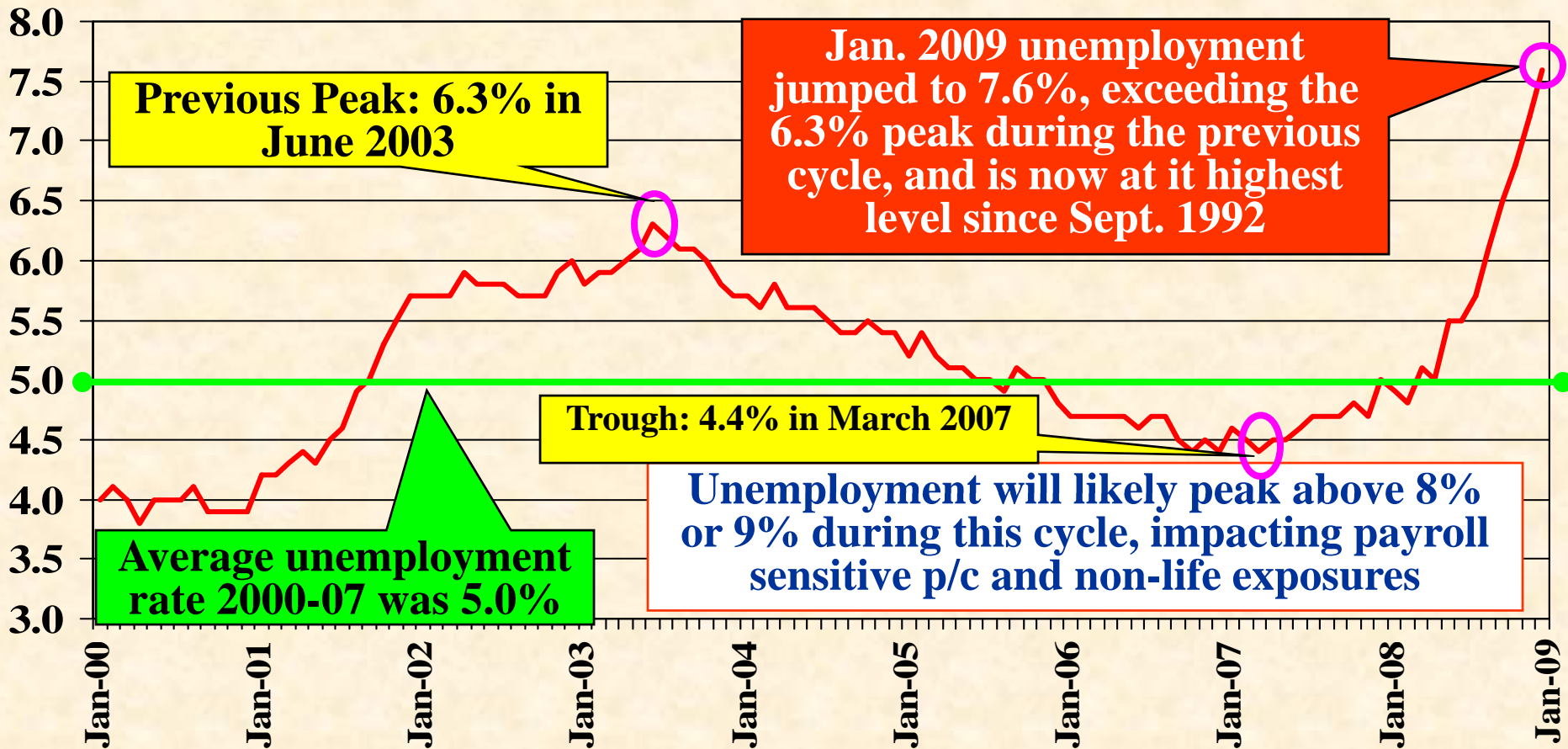
* As of February 2009

Sources: National Bureau of Economic Research; Insurance Information Institute.



Unemployment Rate: On the Rise

January 2000 through January 2009

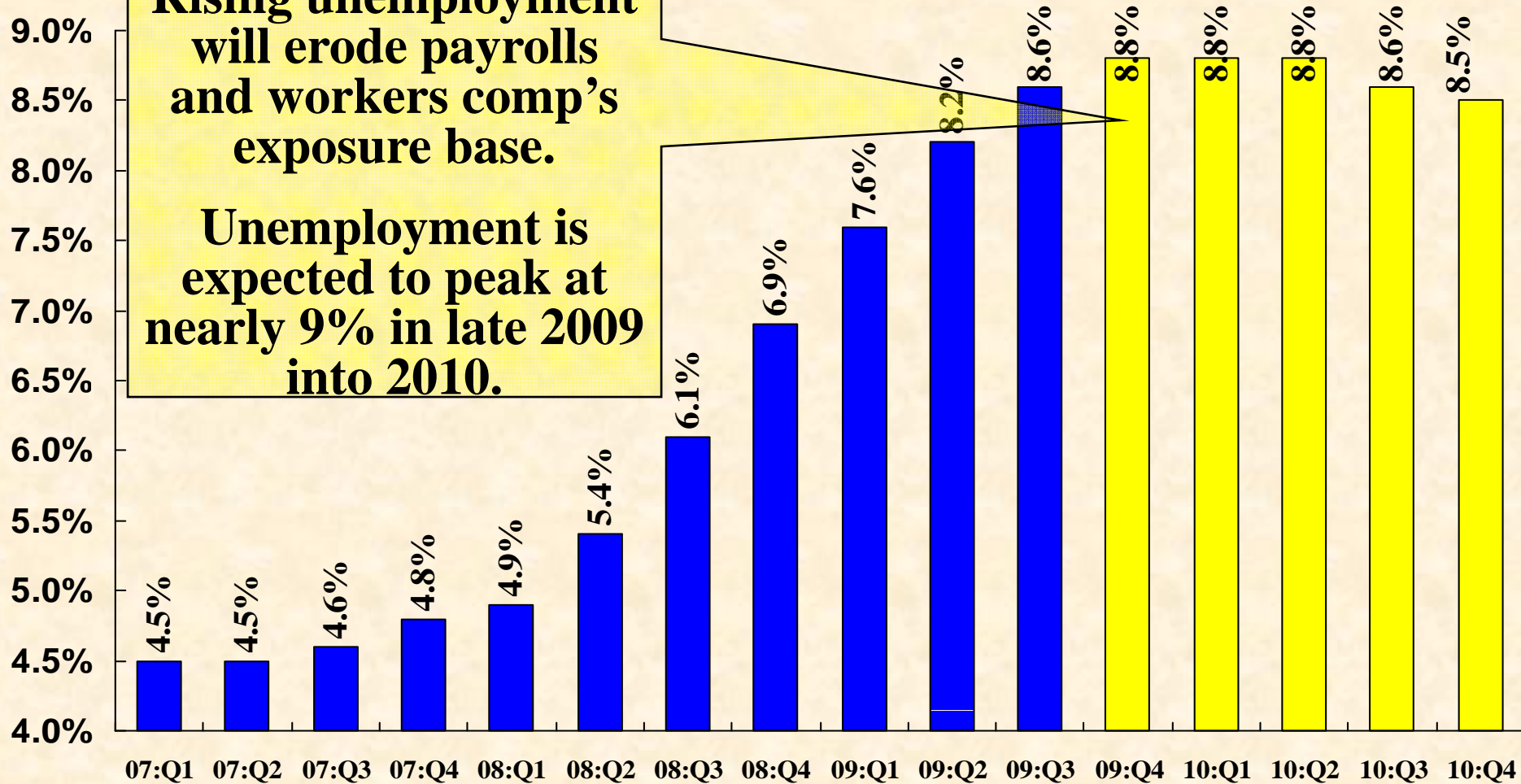




U.S. Unemployment Rate, (2007:Q1 to 2010:Q4F)*

Rising unemployment will erode payrolls and workers comp's exposure base.

Unemployment is expected to peak at nearly 9% in late 2009 into 2010.

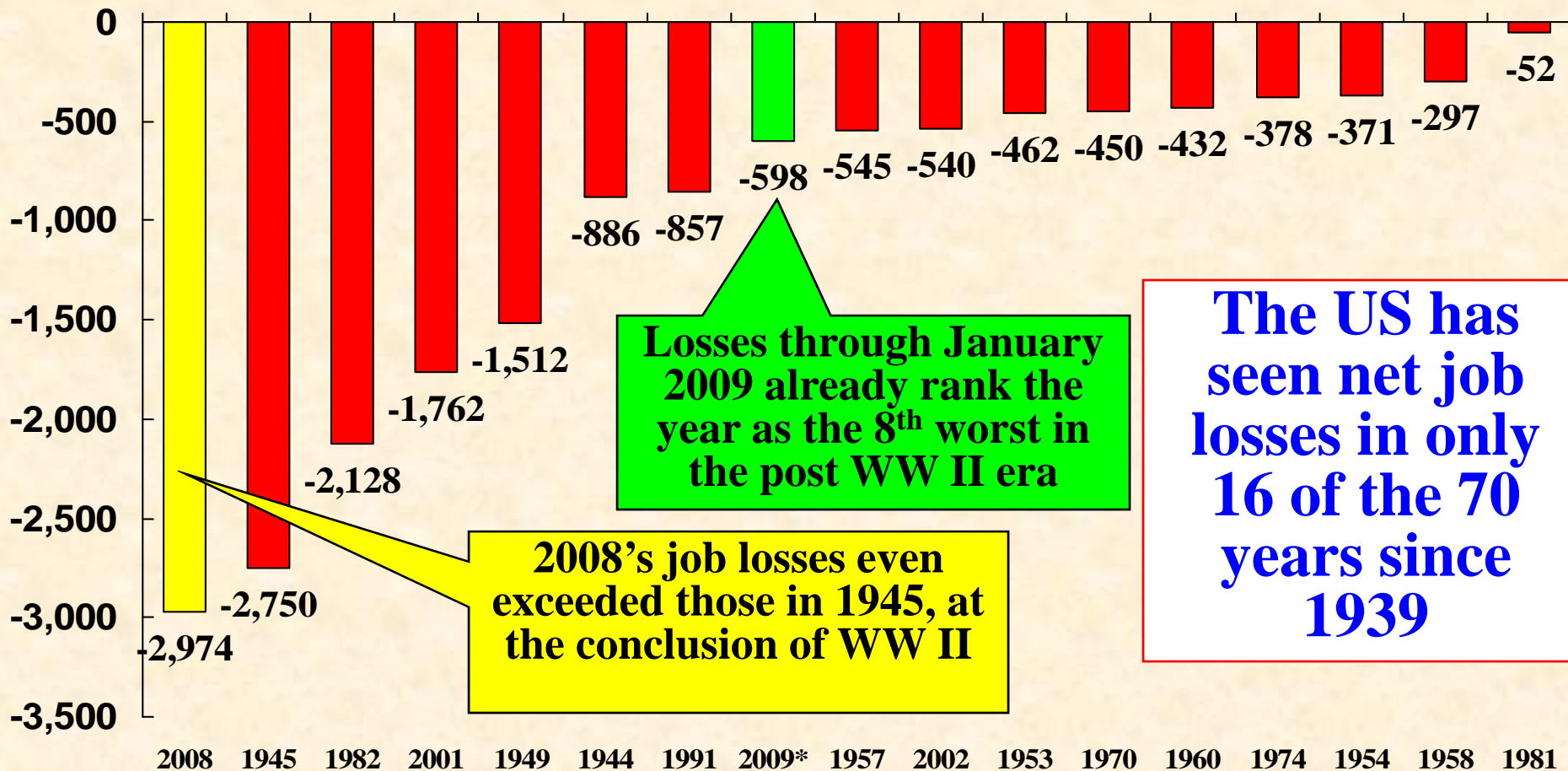


* Blue bars are actual; Yellow bars are forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (2/09); Insurance Info. Inst.

Years With Job Losses: 1939-2009*

(Thousands)



Losses through January 2009 already rank the year as the 8th worst in the post WW II era

2008's job losses even exceeded those in 1945, at the conclusion of WW II

The US has seen net job losses in only 16 of the 70 years since 1939

*Through January 2009.

Source: Insurance Information Institute research from

US Bureau of Labor Statistics data: <http://www.bls.gov/ces/home.htm>.

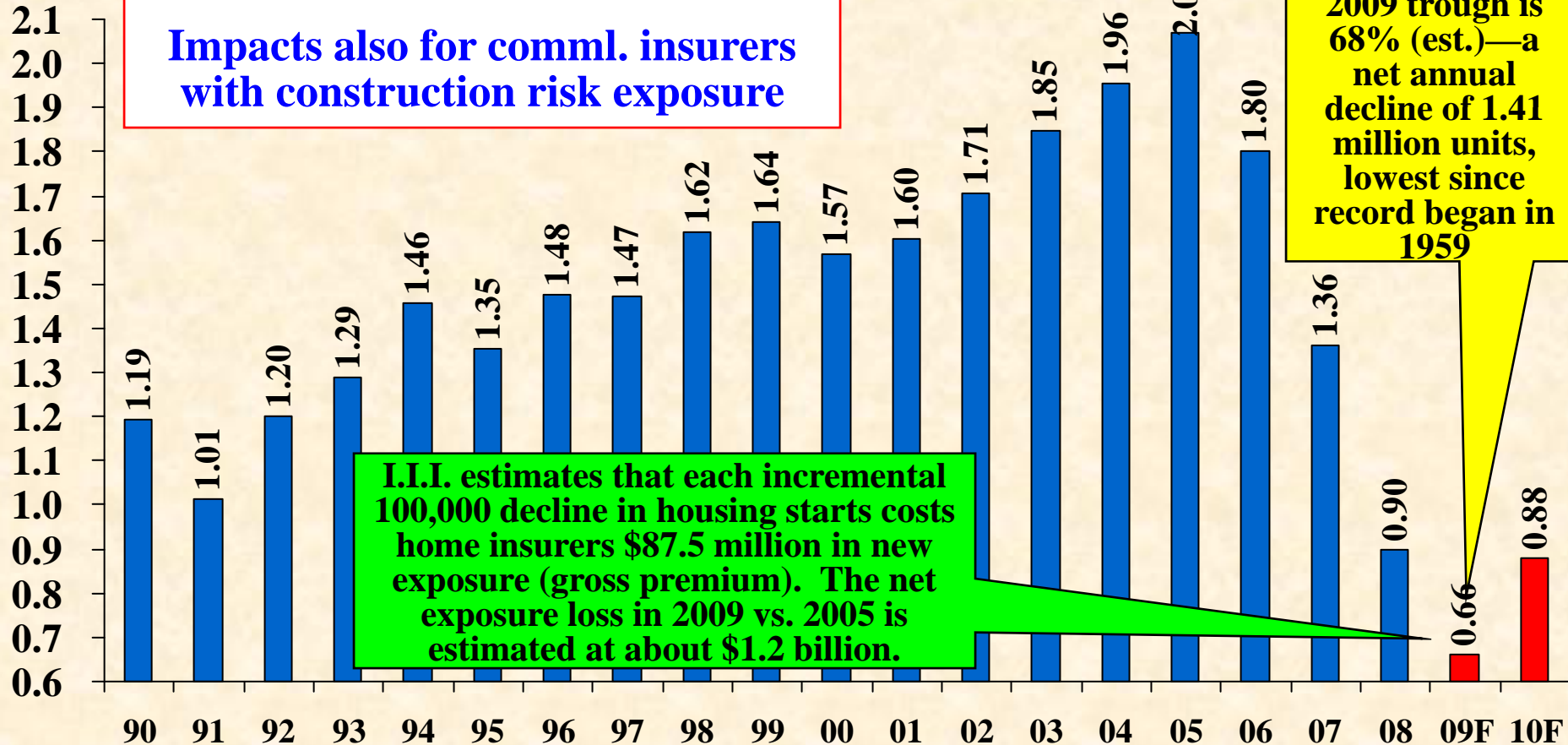


New Private Housing Starts, 1990-2010F (Millions of Units)

Exposure growth forecast for HO insurers is dim for 2009 with some improvement in 2010.

Impacts also for comml. insurers with construction risk exposure

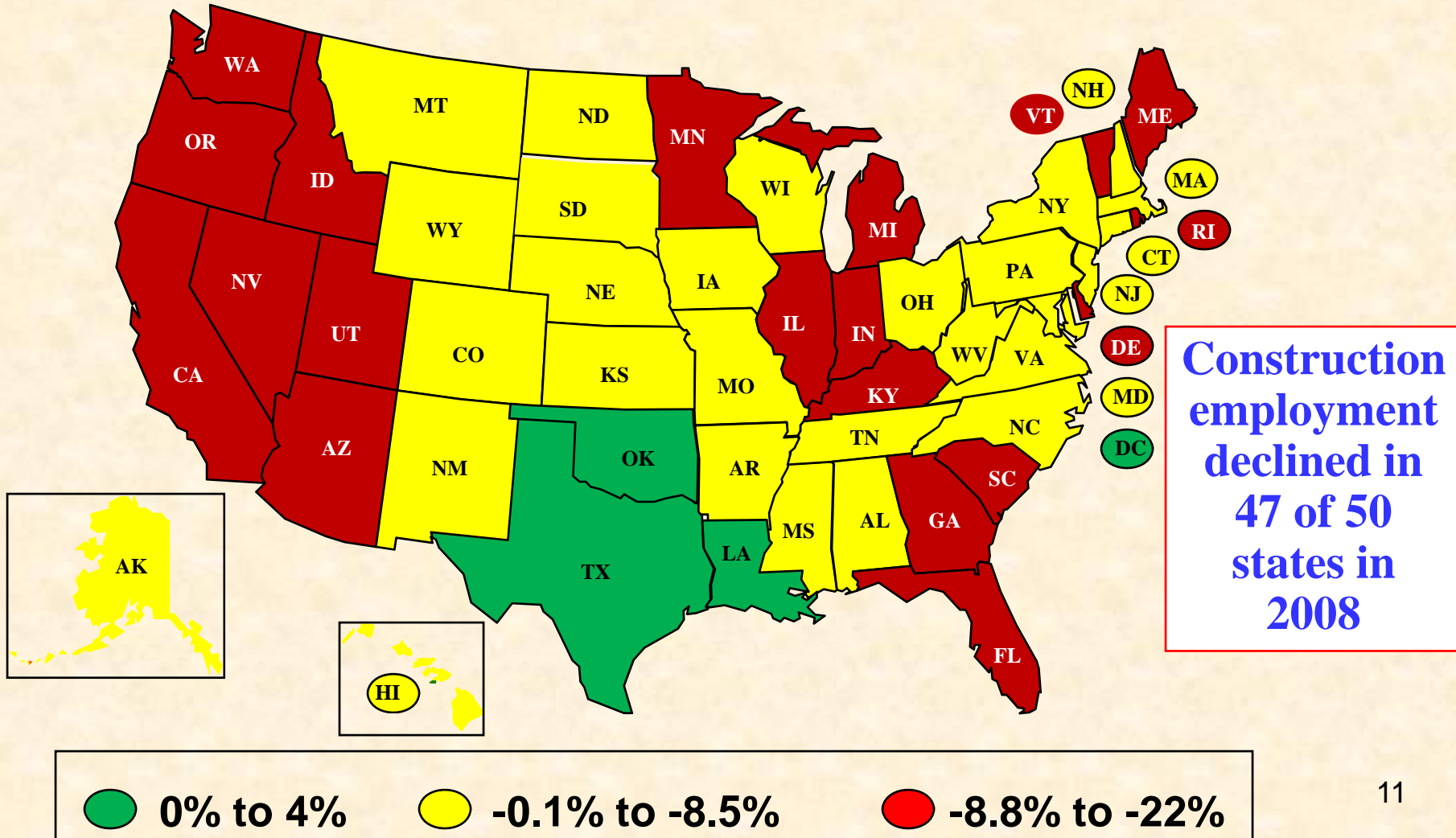
New home starts plunged 34% from 2005-2007; Drop through 2009 trough is 68% (est.)—a net annual decline of 1.41 million units, lowest since record began in 1959



I.I.I. estimates that each incremental 100,000 decline in housing starts costs home insurers \$87.5 million in new exposure (gross premium). The net exposure loss in 2009 vs. 2005 is estimated at about \$1.2 billion.



State Construction Employment, Dec. 2007 – Dec. 2008

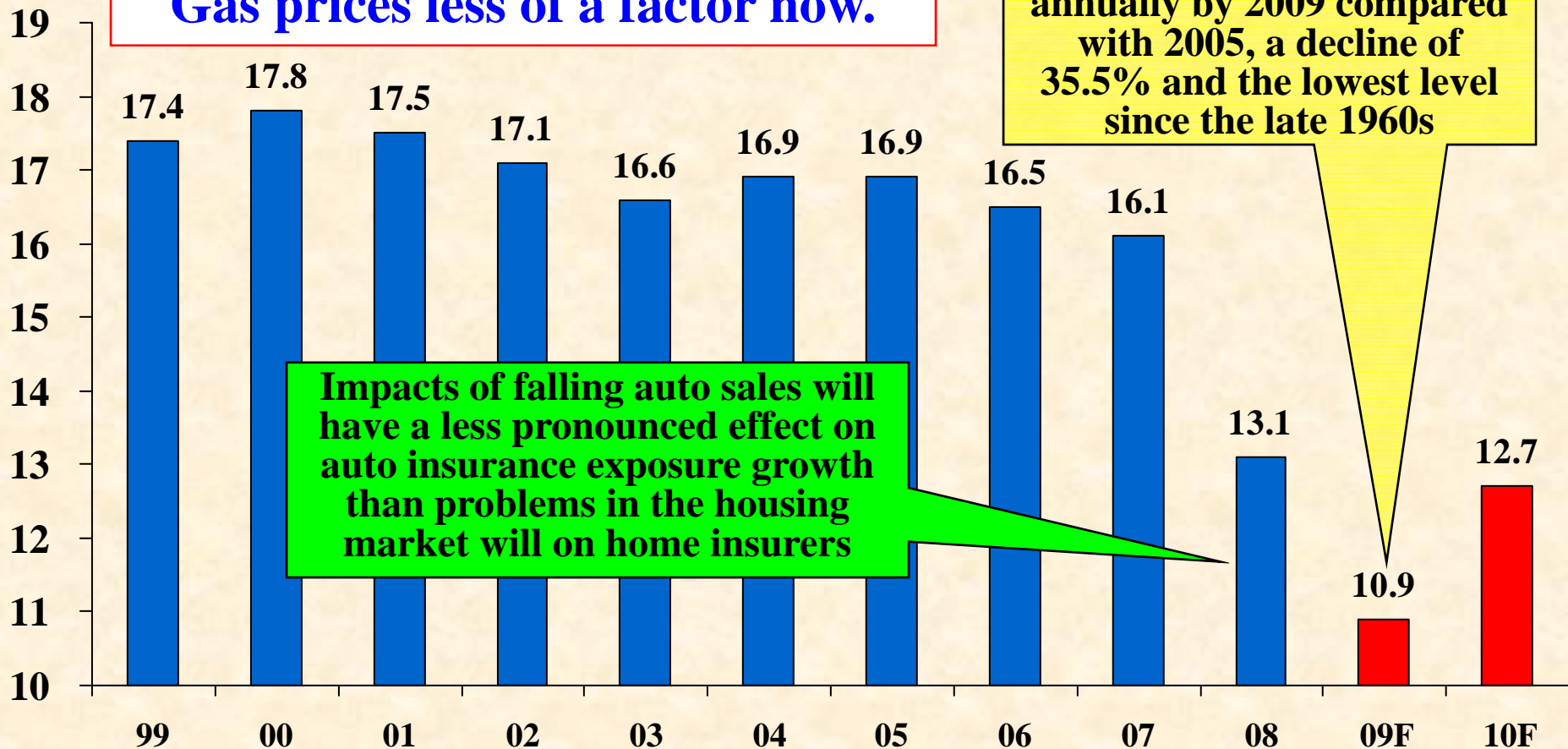




Auto/Light Truck Sales, 1999-2010F (Millions of Units)

Weakening economy, credit crunch are hurting auto sales; Gas prices less of a factor now.

New auto/light truck sales are expected to experience a net drop of 6.0 million units annually by 2009 compared with 2005, a decline of 35.5% and the lowest level since the late 1960s



Impacts of falling auto sales will have a less pronounced effect on auto insurance exposure growth than problems in the housing market will on home insurers

THE \$787 BILLION ECONOMIC STIMULUS

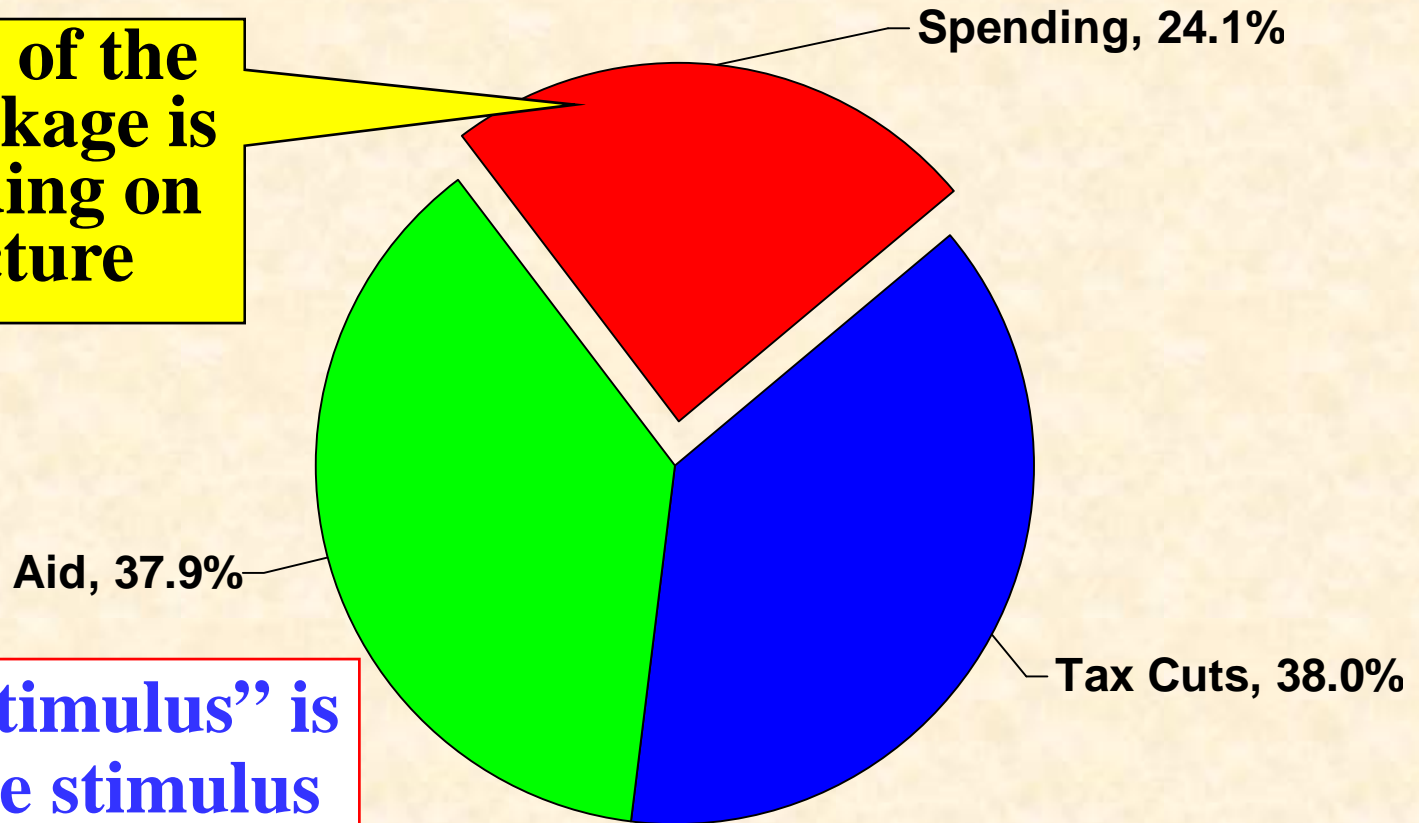
**Sectoral Impacts &
Implications for P/C
Insurance**





Economic Stimulus Package: Where the \$787B Goes

Less than ¼ of the stimulus package is direct spending on infrastructure



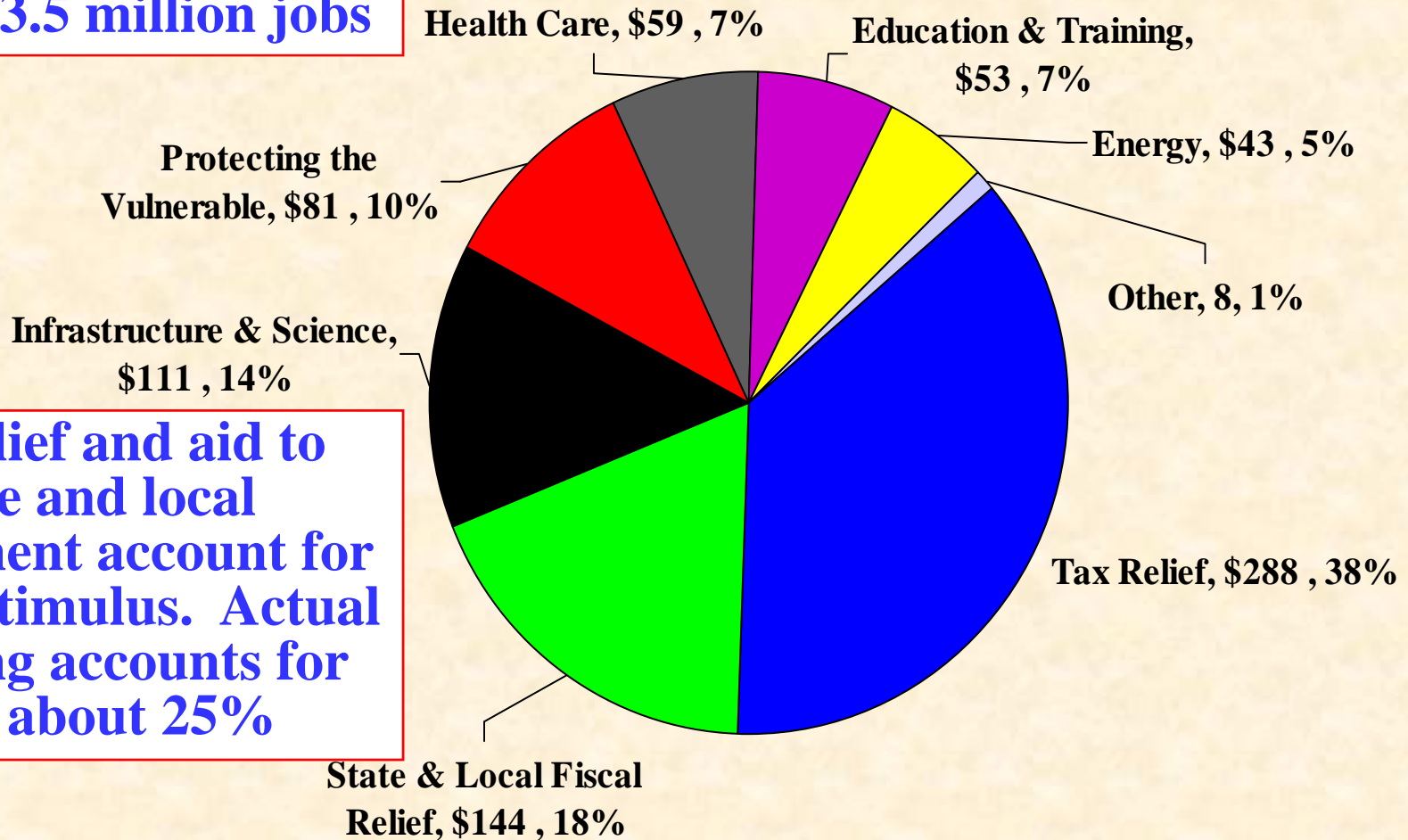
How much “stimulus” is actually in the stimulus package is open to debate and dispute



Economic Stimulus Package: Where the \$787B Goes

Objective is to create or preserve 3.5 million jobs

\$ Billions



Tax relief and aid to state and local government account for 56% of stimulus. Actual spending accounts for only about 25%



U.S. Economic \$787B Stimulus

Package: Major Spending Components

\$ Billions



Objective is to create or preserve 3.5 million jobs

24.1% or \$132.2B of the stimulus package is allocated toward direct spending. This is the component that will most directly benefit p/c insurers.

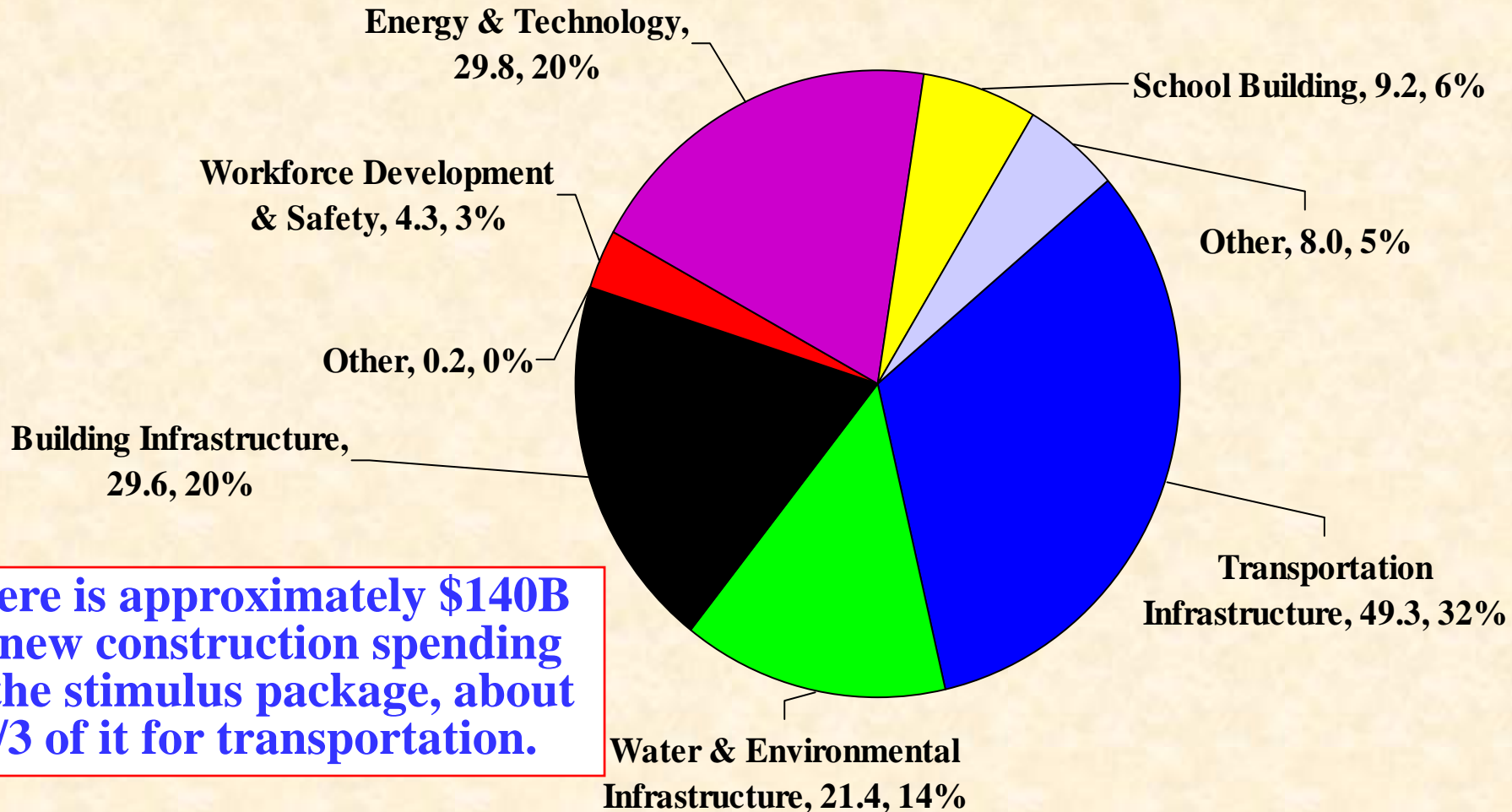
Lines Most Likely to Benefit:

Workers Comp
Commercial Auto
Inland Marine
Commercial Property & Liability
Surety



Economic Stimulus Package: *\$143.4 in Construction Spending*

\$ Billions



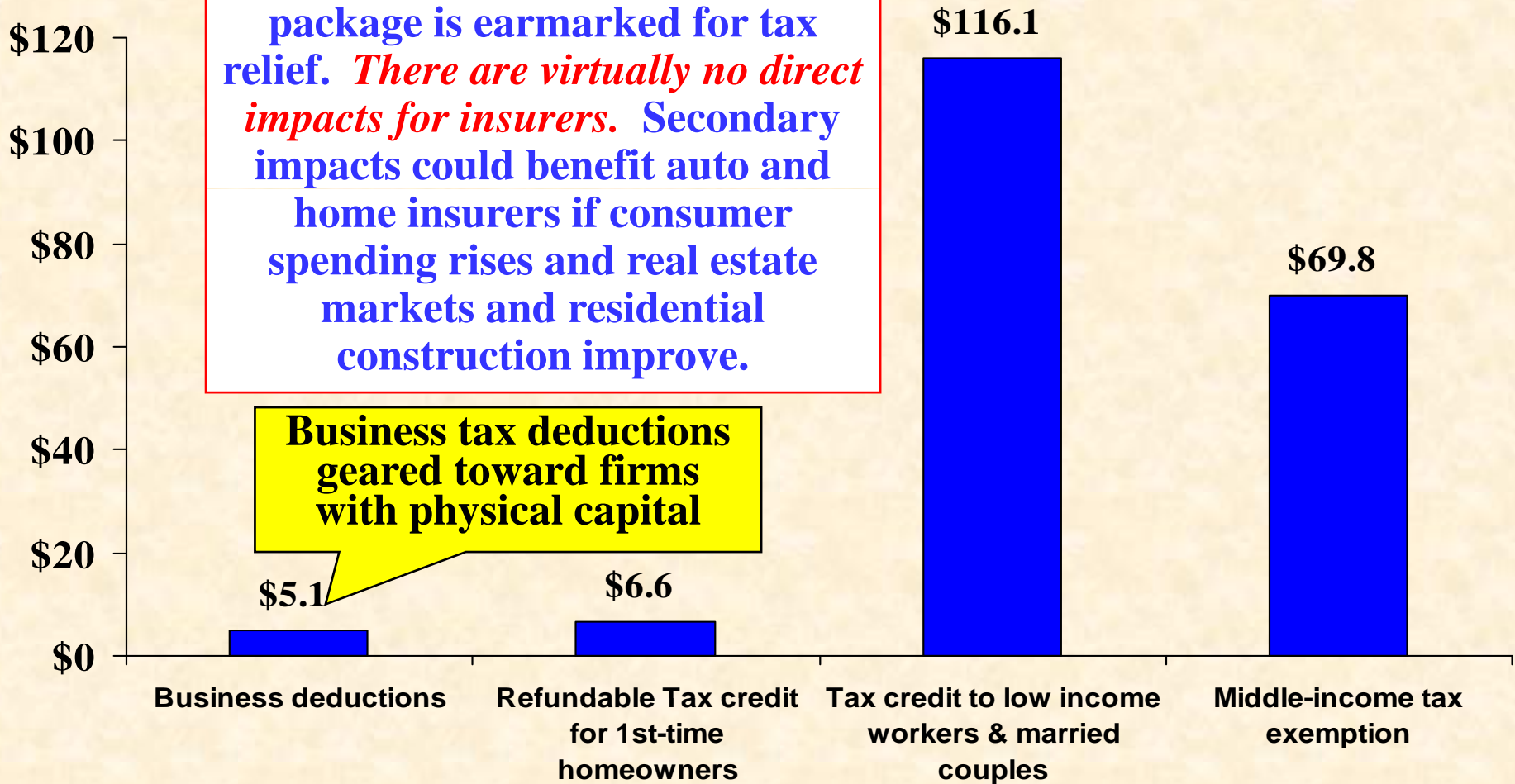
There is approximately \$140B in new construction spending in the stimulus package, about 1/3 of it for transportation.



U.S. Economic \$787B Stimulus

Package: Major Tax Cut Components

\$ Billions

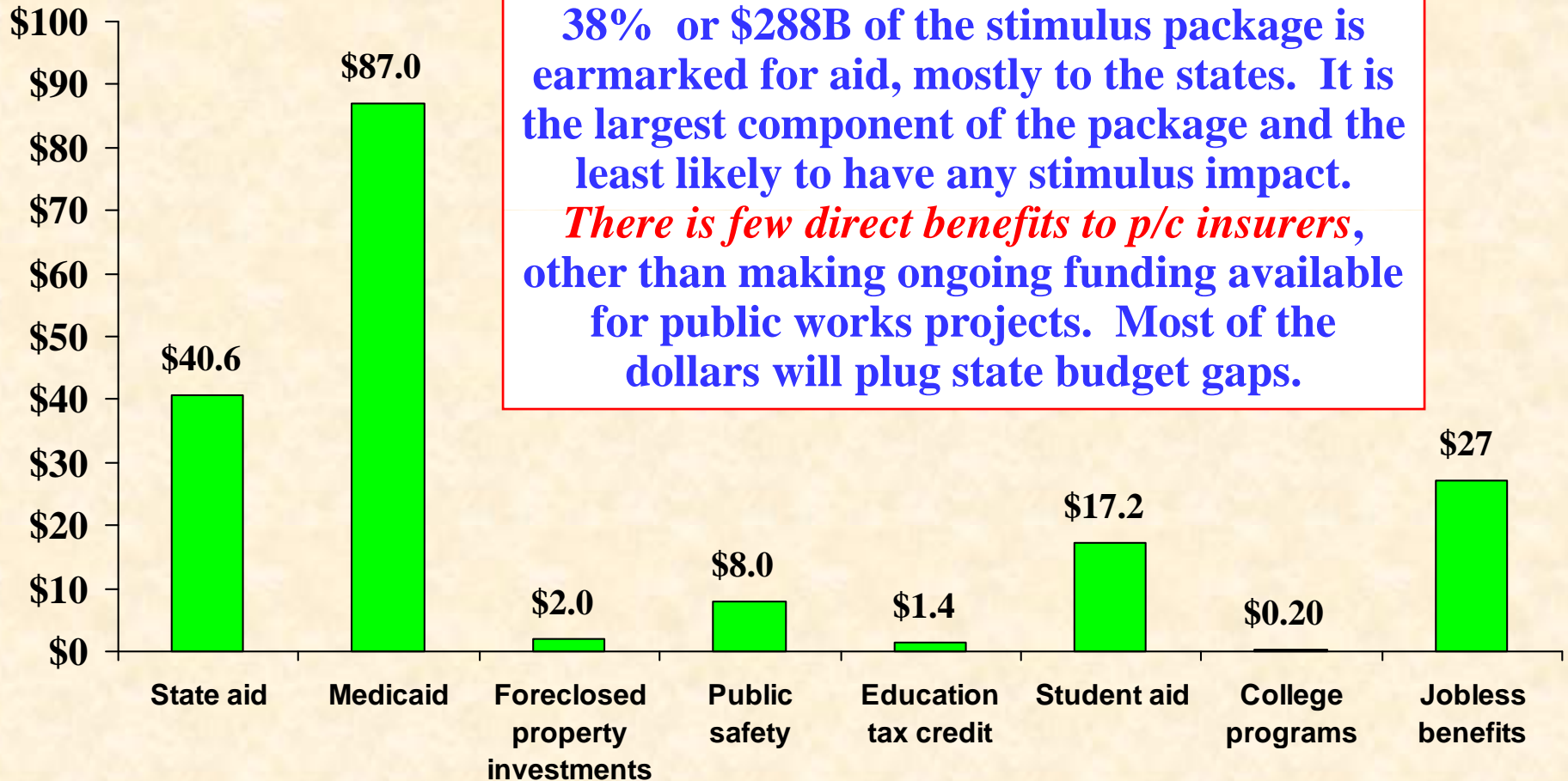


Sources: The Wall Street Journal 2/13/09; Speaker of the House; House Ways and Means Committee; Senate Finance Committee; Insurance Information Institute.



U.S. Economic \$787B Stimulus Package: Major Aid Components

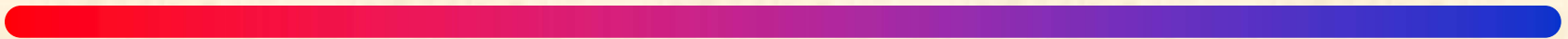
\$ Billions



Sources: The Wall Street Journal 2/13/09; Speaker of the House; House Ways and Means Committee; Senate Finance Committee; Insurance Information Institute.

State-by-State Infrastructure Spending

**Bigger States Get More, Should Benefit
Commercial Insurer Exposure**





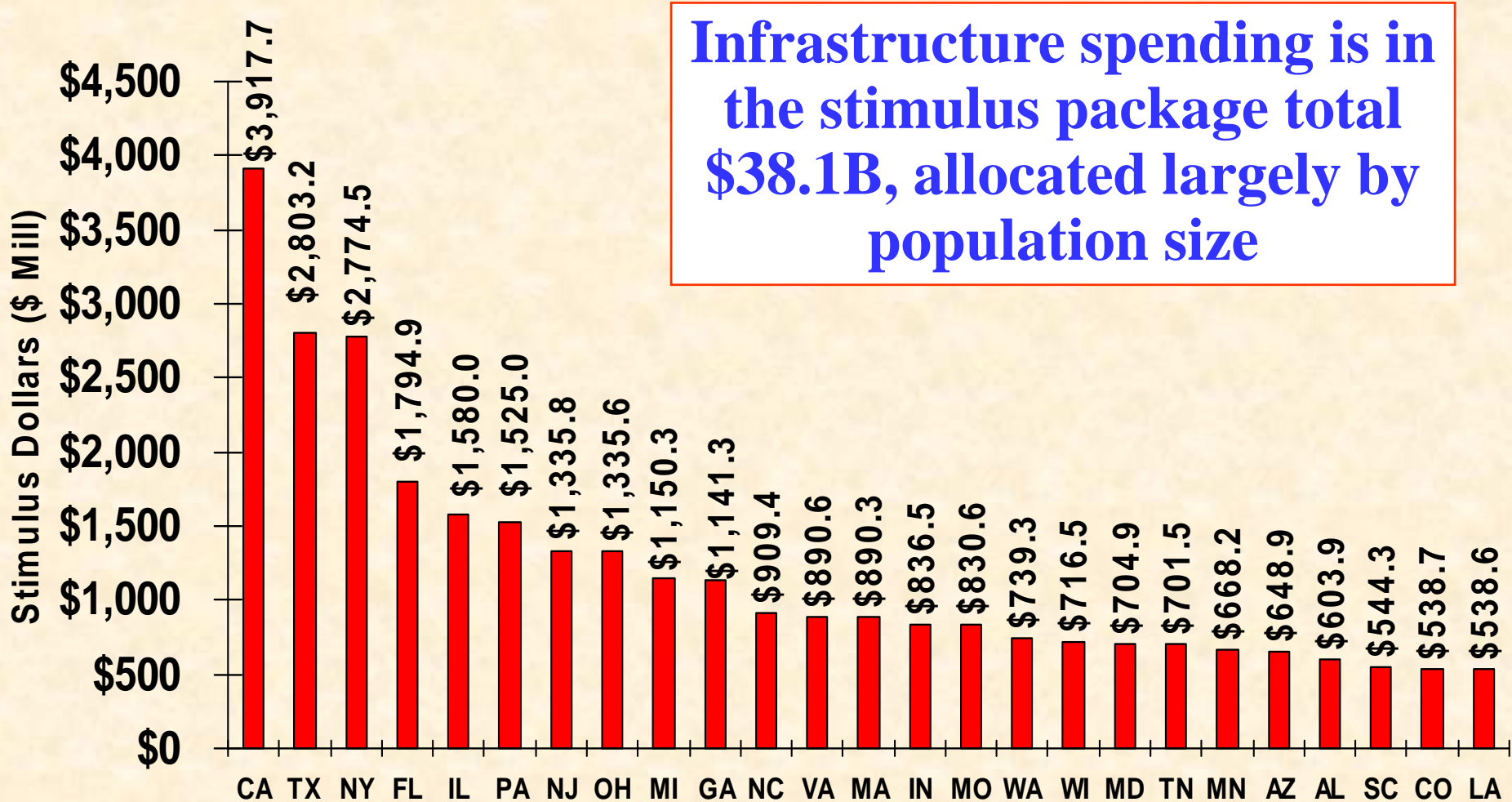
Infrastructure Stimulus Spending by State (Total = \$38.1B)

State	Allocation	State	Allocation	State	Allocation
AL	\$603,871,807	LA	\$538,575,876	OK	\$535,407,908
AK	\$240,495,117	ME	\$174,285,111	OR	\$453,788,475
AZ	\$648,928,995	MD	\$704,863,248	PA	\$1,525,011,979
AR	\$405,531,459	MA	\$890,333,825	RI	\$192,902,023
CA	\$3,917,656,769	MI	\$1,150,282,308	SC	\$544,291,398
CO	\$538,669,174	MN	\$668,242,481	SD	\$213,511,174
CT	\$487,480,166	MS	\$415,257,720	TN	\$701,516,776
DE	\$158,666,838	MO	\$830,647,063	TX	\$2,803,249,599
DC	\$267,617,455	MT	\$246,599,815	UT	\$292,231,904
FL	\$1,794,913,566	NE	\$278,897,762	VT	\$150,666,577
GA	\$1,141,255,941	NV	\$270,010,945	VA	\$890,584,959
HI	\$199,866,172	NH	\$181,678,856	WA	\$739,283,923
ID	\$219,528,313	NJ	\$1,335,785,100	WV	\$290,479,108
IL	\$1,579,965,373	NM	\$299,589,086	WI	\$716,457,120
IN	\$836,483,568	NY	\$2,774,508,711	WY	\$186,111,170
IA	\$447,563,924	NC	\$909,397,136	U.S. Territories	\$238,045,760
KS	\$413,837,382	ND	\$200,318,301		
KY	\$521,153,404	OH	\$1,335,600,553	Total	\$38,101,898,173

Sources: USA Today, 2/17/09; House Transportation and Infrastructure Committee; the Associated Press.

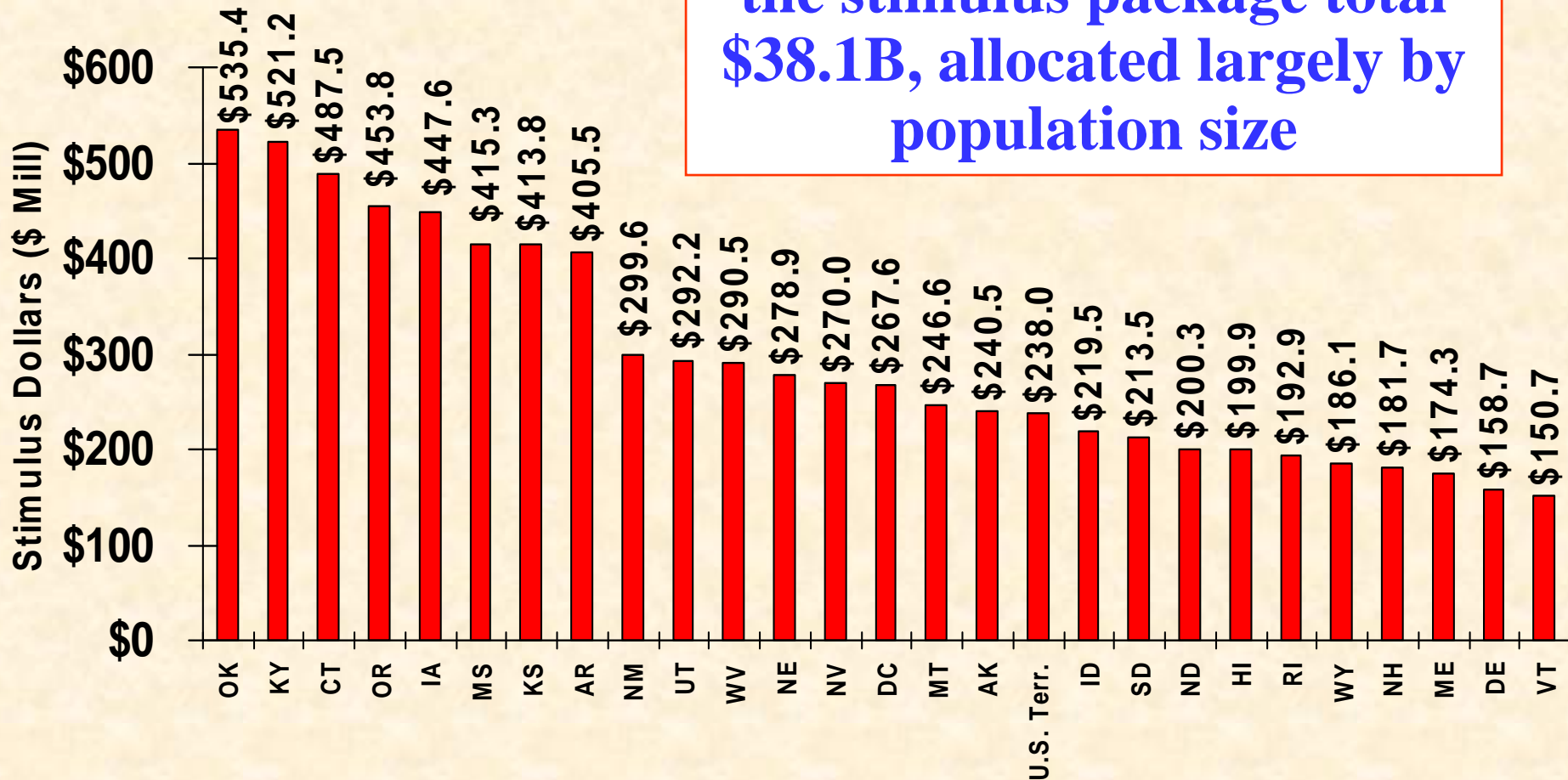


Infrastructure Stimulus Spending By State: Top 25 States (\$ Millions)



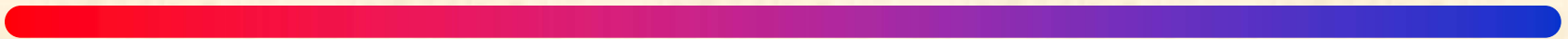


Infrastructure Stimulus Spending By State: Bottom 25 States (\$ Millions)



Expected Number of Jobs Gained or Preserved by Stimulus Spending

*Larger States = More Jobs
Workers Comp Benefits*





Estimated Job Effect of Stimulus: Jobs Created/Saved By State – 3.5 Mill Total

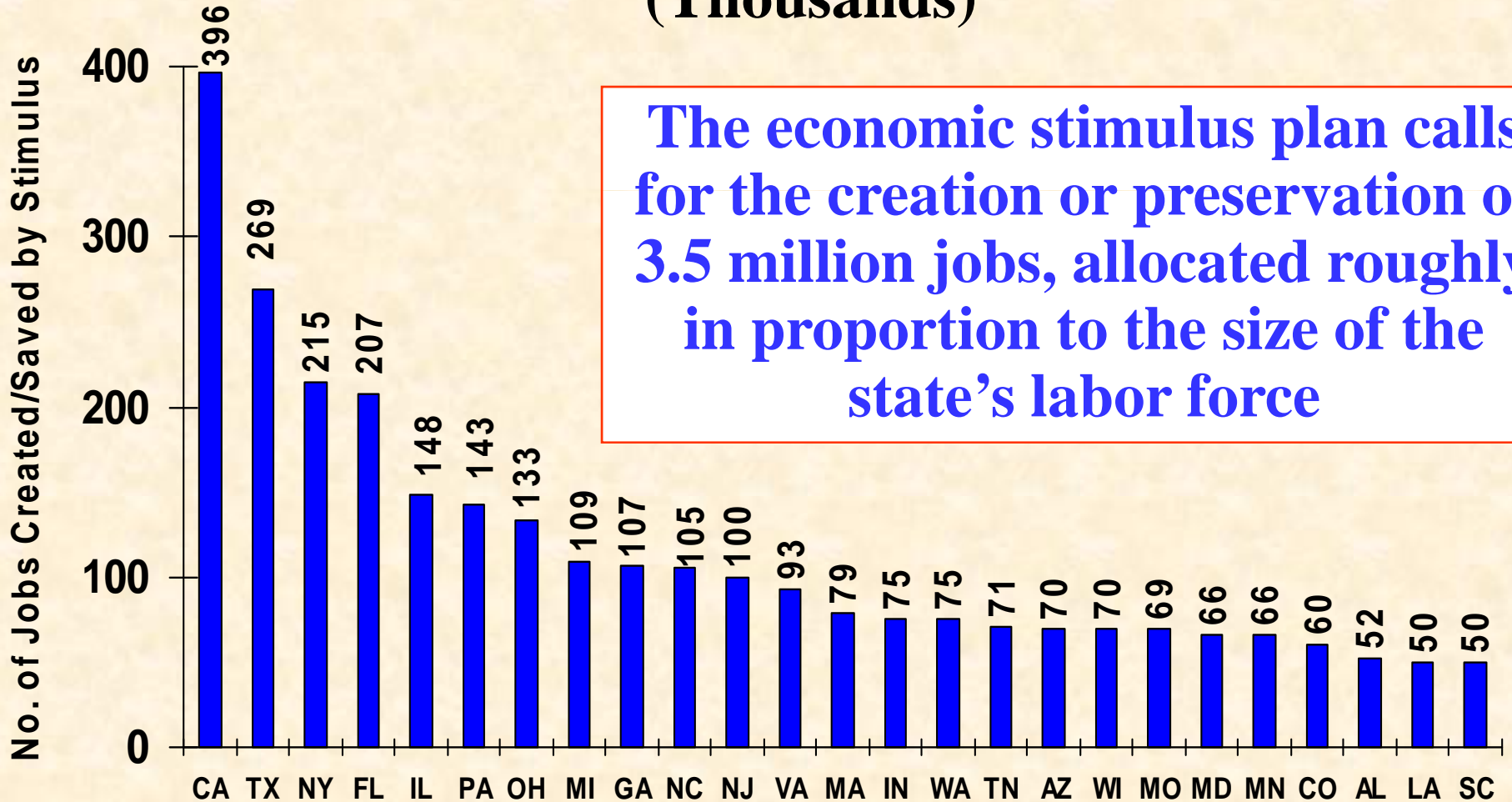
State	Jobs Created	State	Jobs Created	State	Jobs Created
AL	52,000	LA	50,000	OK	40,000
AK	8,000	ME	15,000	OR	44,000
AZ	70,000	MD	66,000	PA	143,000
AR	32,000	MA	79,000	RI	12,000
CA	396,000	MI	109,000	SC	50,000
CO	60,000	MN	66,000	SD	10,000
CT	41,000	MS	30,000	TN	71,000
DE	11,000	MO	69,000	TX	269,000
DC	12,000	MT	11,000	UT	32,000
FL	207,000	NE	23,000	VT	8,000
GA	107,000	NV	34,000	VA	93,000
HI	16,000	NH	16,000	WA	75,000
ID	17,000	NJ	100,000	WV	20,000
IL	148,000	NM	22,000	WI	70,000
IN	75,000	NY	215,000	WY	8,000
IA	37,000	NC	105,000		
KS	33,000	ND	9,000		
KY	48,000	OH	133,000	Total	3,467,000

Sources: <http://www.recovery.gov/>; Council of Economic Advisers; Insurance Information Institute.



Estimated Job Effect of Stimulus Spending By State: Top 25 States

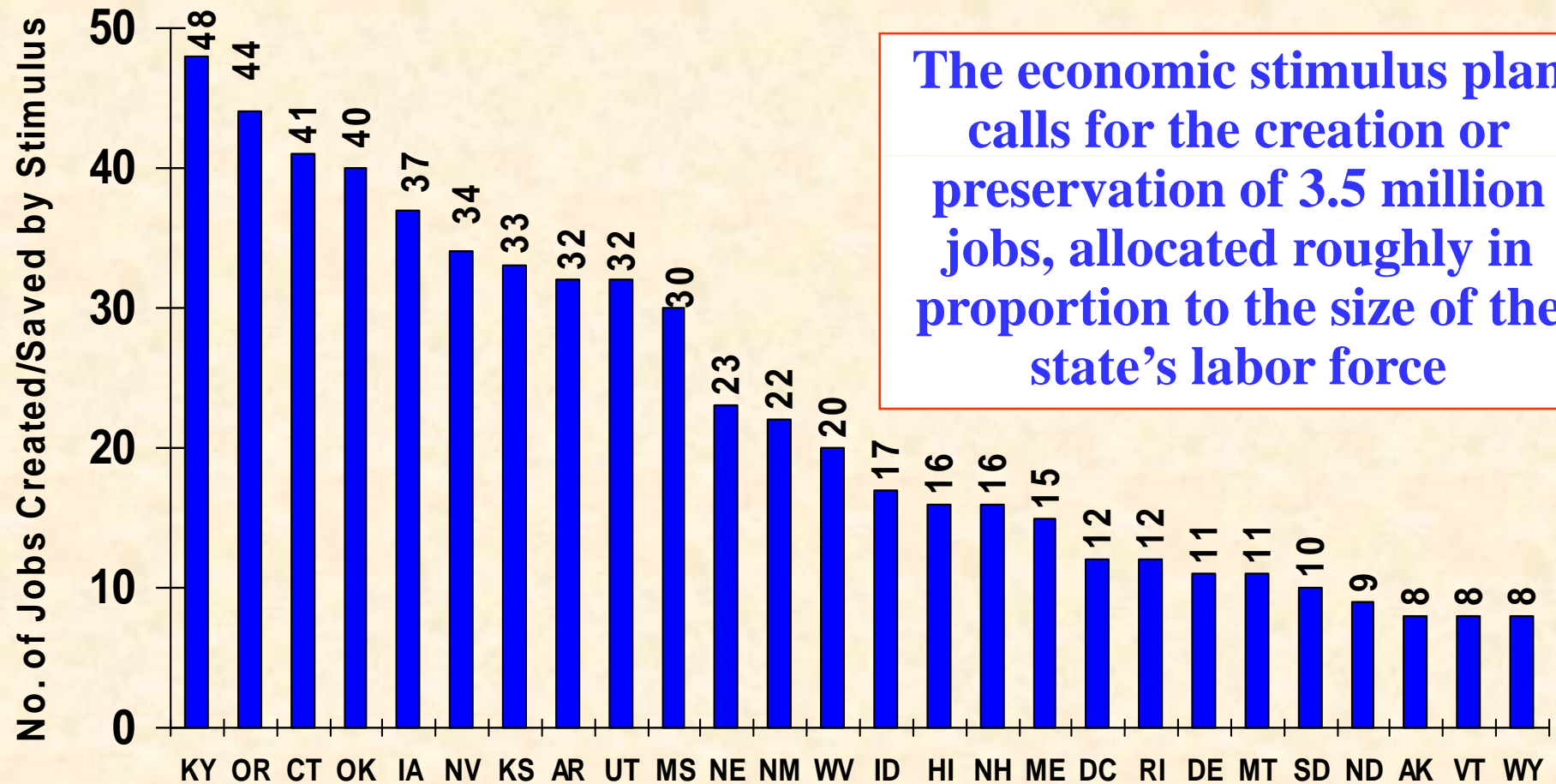
(Thousands)





Estimated Job Effect of Stimulus Spending By State: Bottom 25 States

(Thousands)



The economic stimulus plan calls for the creation or preservation of 3.5 million jobs, allocated roughly in proportion to the size of the state's labor force

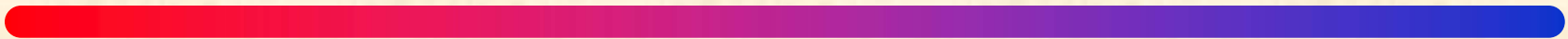


Stimulus: Reading The Economic Tea Leaves for the Next 4 to 8 Years

- **Growing Role of Government:** 2009 Stimulus Package and Other Likely Spending Initiatives Guarantee that Government Will Play a Much Larger Role Than at Any Other Time in Recent History
 - Every industry, including insurance, will and must attempt to maximize direct and indirect benefits from this paradigm shift
- **Obama Administration Priorities:** Stimulus Package Acts as “Economic Tea Leaf” on the Administration’s Fiscal Priorities for the Next Several Years
- **These Include:**
 - Alternative Energy
 - Health Care
 - Education
 - Aging/New Infrastructure
 - Aid to States
- **Stimulus is Only One Leg of the Stool**
 - (1) Stimulus; (2) Housing, and (3) Financial Services Reform

FINANCIAL STRENGTH & CAPACITY

**Industry Has Weathered the
Storms Well; Insurers Have
Capacity to Accommodate
Stimulus Spending**

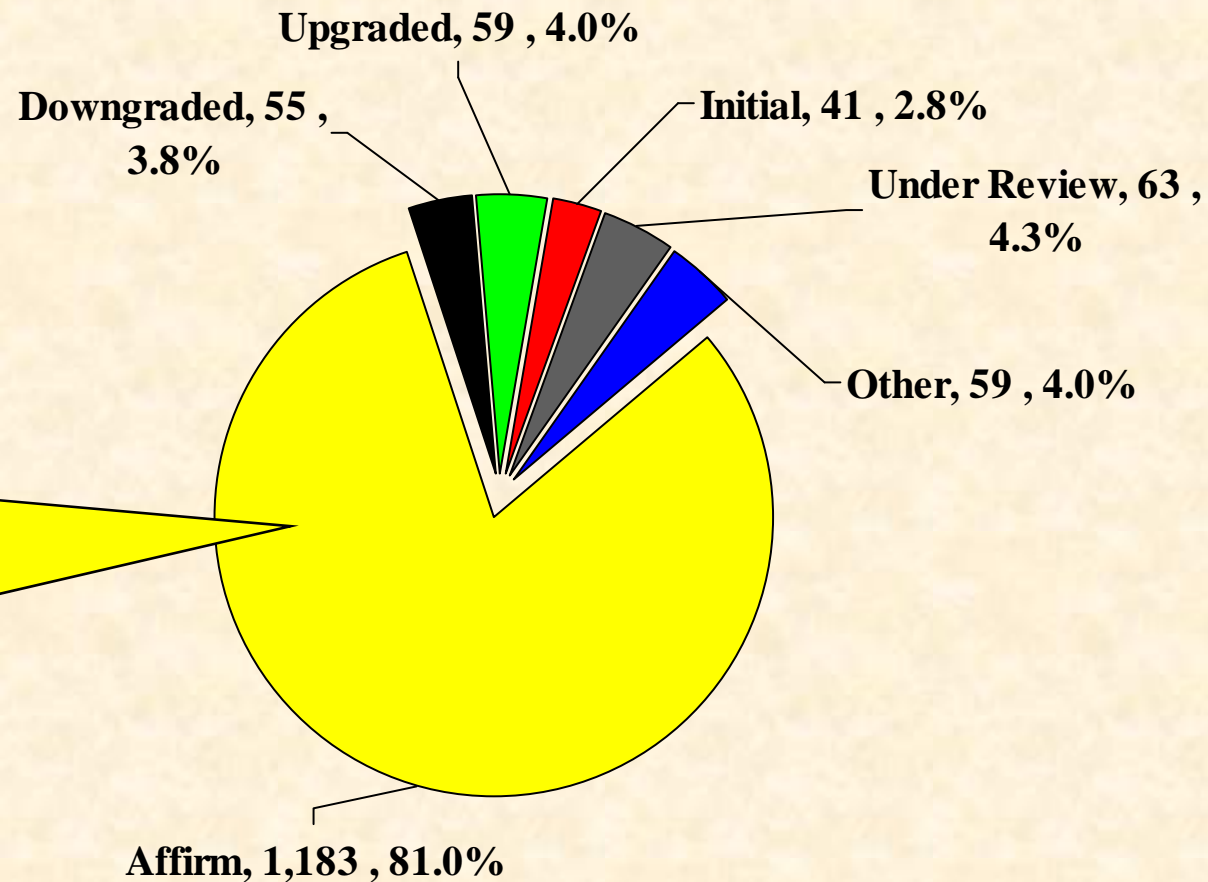




Summary of A.M. Best's P/C Insurer Ratings Actions in 2008*

P/C insurance is by design a resilient in business. The dual threat of financial disasters and catastrophic losses are anticipated in the industry's risk management strategy.

Despite financial market turmoil, high cat losses and a soft market in 2008, 81% of ratings actions by A.M. Best were affirmations; just 3.8% were downgrades and 4.0% upgrades

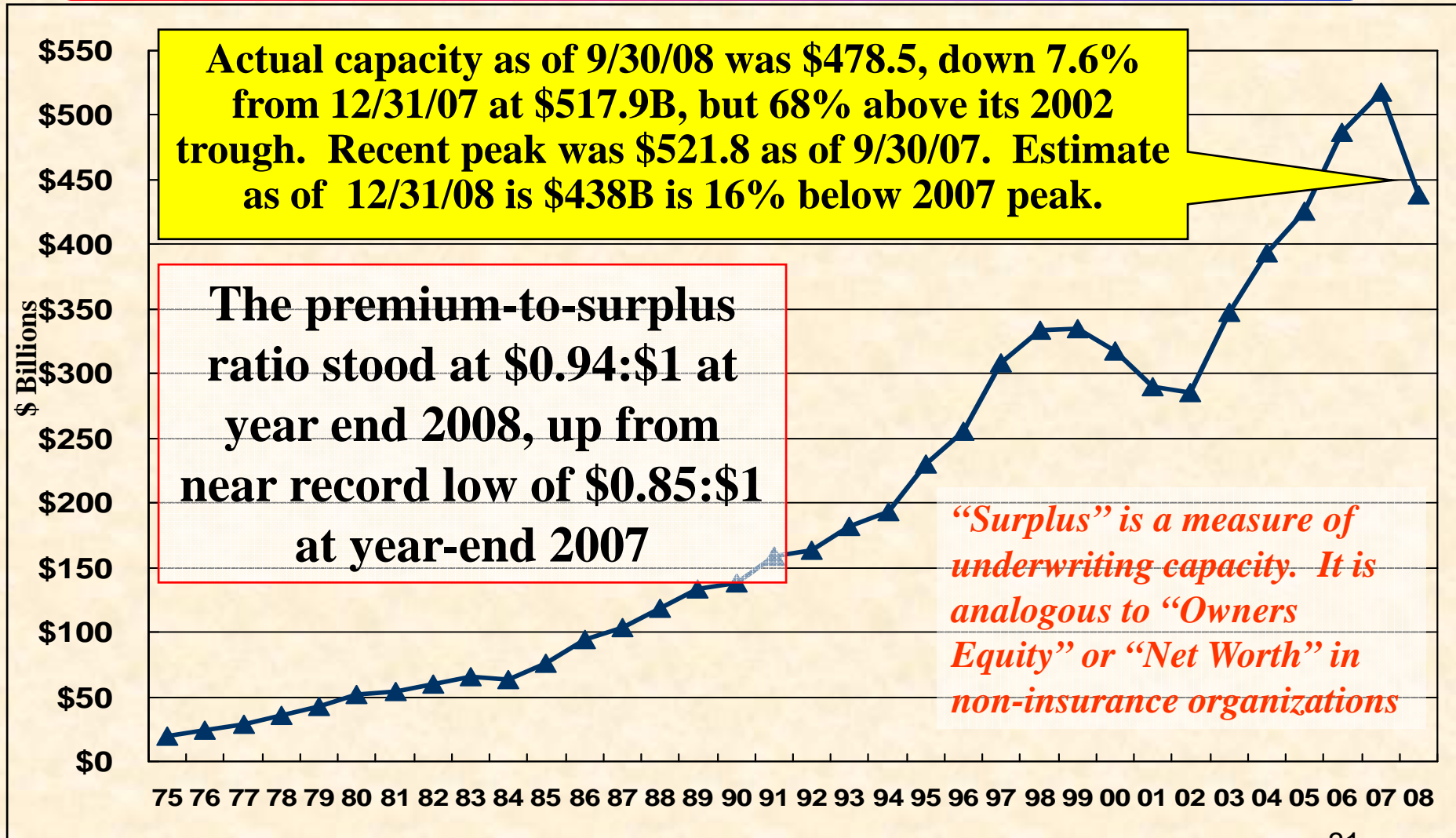


*Through December 19.

Source: A.M. Best.



U.S. Policyholder Surplus: 1975-2008*





Insurers Can Accommodate

Stimulus and Economic Expansion

BOTTOM LINE:

- **Insurance Markets—Unlike Banking—Are Operating *Normally***
- **The Basic Function of Insurance—the Orderly Transfer of Risk from Client to Insurer—Continues *Uninterrupted***
- **This Means that Insurers Continue to:**
 - **Pay claims (whereas 38 banks have gone under as of 2/13)**
 - ***The Promise is Being Fulfilled***
 - **Renew existing policies (banks are reducing and eliminating lines of credit)**
 - **Write new policies (banks are turning away people who want or need to borrow)**
 - **Develop new products (banks are scaling back the products they offer)**



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