

Nationwide Insurance Remarks
LRC Study Committee on Property Insurance Ratemaking
December 1, 2011

Opening Remarks

- ♦ Thank you for the chance to talk with you today about the property insurance market in North Carolina.
- ♦ Nationwide has been doing business in North Carolina for more than 83 years. We remain committed to North Carolina. Our mission is to serve our policyholders here and across the United States when they need us most.
- ♦ We employ 1200 Associates, 381 principal agents, and 1600 associate agents in 592 different locations across the state.

Homeowners Insurance: Market Dynamics in North Carolina and on the National Stage

- ♦ The homeowners insurance market is fairly concentrated, both here in North Carolina and across all 50 states.
- ♦ Nationally, eighty-percent of the homeowners insurance market is concentrated in twenty-five (25) companies.
- ♦ In fact, 2/3 of all homeowners policies countrywide are placed in the top ten companies.¹
- ♦ In North Carolina, eighty-three percent of all homeowners insurance is provided by just 10 insurance companies.²

¹ Conning. The Homeowners Insurance Market The Eye of the Storm, September 2008. State Farm, Allstate, Farmers, Nationwide, Travelers, USAA, Liberty Mutual, Chubb, American Family, and the Hartford

² Ranked by Total 2007 Premiums Written, Property Insurance Report, September 29, 2008. State Farm, Nationwide, Farm Bureau, Allstate, Travelers, USAA, Erie, Liberty Mutual, Zurich, and Auto Owners.

- ♦ This large concentration of market share should give you pause and lead to other questions.

Why don't more companies make investments in North Carolina?

- ♦ As you can clearly see from the slides presented, homeowners insurance is a **volatile** business venture. It requires a significant capital investment. Few carriers have an appetite for the level of risk versus return of this particular line of business – especially in **catastrophe-prone states, like North Carolina**.
- ♦ There are a number of factors we balance to manage our underwriting risk so that we can be here for our customers when they need us most AND maintain long-term viability:
 - Careful management of our rates.
 - Thoughtful management of our coastal exposure.
 - Positioning of a strong re-insurance structure, to help us pay policyholder claims and remain viable for major events.
 - Promotion of wind mitigation programs, strong planning and enforcement of coastal zoning codes, and on-site inspection of properties we underwrite.

The Good Old Days – Before 1989 (Hugo), 1991 (Andrew), et al

- ♦ Long period of little/no storm activity.
- ♦ Sparse residential/commercial development in harm's way.
- ♦ Reliable investment income was available to boost company surplus.
- ♦ Pricing/Rating tools used by company actuaries were far less sophisticated – premiums were more of a shotgun approach.

Today's Business Climate – Frequent & severe weather, terrorism, & coastal growth

- ◆ Storm activity across the country has increased.
- ◆ More residential/commercial development along the entire East coast.
- ◆ In the wake of Wall Street volatility, surplus from investments is no longer a reliable source of revenue.
- ◆ Our industry now has technology-driven tools that allow us to better understand the actual (and projected) impact of weather events.
- ◆ And, insurance market regulators and investment rating firms (particularly since the mortgage/banking failures) are far more sensitive to exposure management challenges.

Non-Negotiables for Nationwide

- ◆ We must satisfy state regulators and rating companies (e.g., Moody's AM Best) that we are financially sound.
- ◆ Above all, we must have sufficient reserves to pay claims in all states to honor our promises to our policyholders.
- ◆ We must set aside funds to meet obligations from various state guaranty funds, and residual markets like the North Carolina Beach Plan.
- ◆ To secure reinsurance at a reasonable rate, we must have balanced “exposure” both within a state and across the country. Don’t put all our eggs in one basket.
- ◆ And, importantly, we must be properly staffed to respond to catastrophic events and quickly help our customers recover. (You may be interested to know that Nationwide recently had close to 50,000 claims filed in the wake of Hurricane Irene in multiple states from landfall in North Carolina, all the way north to Vermont. And, in 2004, Nationwide experienced more than six years of claims in six weeks after 4 hurricanes in Florida.) This underscores the frequency of claims and volatility of this line of business.

Is North Carolina A Good Place to do Business for a Homeowner's Writer?

- ◆ Coastal exposure – vulnerability; one of the top 5 states where storms are expected.
- ◆ Inland exposure – also vulnerable to catastrophic wind events.
- ◆ Pricing – rates are inadequate to the level of risk assumed.
- ◆ And, as an industry we assume 1-Billion of risk from the losses in the State's Beach Plan.

What companies need

- ◆ A reasonable rate of return. Profits allow us to invest in resources such as the 600+ claims personnel in North Carolina who can quickly respond to customers in the wake of a storm.
- ◆ A reasonable rate of return requires an appropriate price for the risk assumed – Rate Adequacy.
- ◆ Predictability – Know with certainty what Nationwide's financial obligations are from any state mandated assessment. (This was the crux of HB 1305, and we are appreciative of the legislature's action.)

Conclusion

- ◆ Nationwide remains committed to serving our policyholders in North Carolina.
- ◆ We welcome opportunities to meet with policymakers at all levels to develop plans and guidelines that protect property in all environments and that allow our state economy to expand and flourish.

Thank You.