



2011 Property-Casualty Insurance Market: *Opportunities & Competitive Challenges* *For Independent Agents & Brokers*

By

Madelyn Flannagan, Vice President, Agent Development, Education & Research, IIABA
Peter van Aartrijk, Managing Director, Aartrijk

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I. Introduction & Commentary

After years of market contraction, all property-casualty insurance premium lines grew in 2011. Independent agents and brokers (IAs) were well poised to capture their share of the market. Many regional and national IA carriers expanded their shares by double digits. Furthermore, overall IA share grew in several states and regional IAs outpaced market growth in many business lines nationwide.

Many carriers that weathered the storm of market contraction for several years were able to bounce back in 2011.

IAs outperformed captive agencies carriers in personal lines and grew premiums by nearly the same amount as direct response carriers. This was helped by:

- Impressive performance in homeowners, where IAs outperformed the captive agencies, which control half of that market; and
- An overall slowdown in auto market growth, where direct response has become so disruptive.

IA carriers also benefited greatly by a huge surge in commercial premiums, which climbed by 5% in 2011. They captured \$8.4 billion in additional premiums in 2011, which represents 74% of the entire \$11.4 billion growth in that market.

Auto Insurance Concern

While 2011 was a good year, a deeper look at market share does point to several areas that remain a major concern. While IAs dominate commercial lines, some carriers, particularly national IAs, grew premiums considerably, but did so slightly below the rate of market expansion. Non-IA writers now account for \$45.9 billion in premiums, nearly 20% of the market.

However, the biggest challenge continued to be personal auto — but even here IAs grew premiums slightly and held on to most of their substantial market share. IAs maintained nearly one-third of the market and wrote an impressive \$55 billion for the second year in a row. But a closer look shows that direct response grew personal auto premiums 10 times more than IAs, clocking \$2 billion in growth over 2010 levels compared with IAs' \$200 million increase. Several regional IA companies increased their own personal auto share by solid rates, showing that it can be done even in the face of the direct response challenge.

This is the 17th year the IIABA has reviewed the property-casualty market using insurance premium data provided by A.M. Best Company. Once again, this report is encouraging in many ways because each year, while the IA sector is facing a changing marketplace, it continues to thrive.

Building Personal Relationships with Online Auto Shopping

The success of direct advertising, combined with the ease of online purchasing, helped direct response firms grow premiums in 2010 by \$2.0 billion. By comparison, regional IA carriers increased premiums by \$500 million, and national IA carriers saw premiums decrease.

One in every six dollars in personal auto premiums generated was through the direct response channel in 2011. The direct share piece has crossed the 17% mark, with each percentage worth \$1.6 billion, generating huge revenue. To continue thriving into the future, the IA channel must continue to battle for its share of private-passenger auto.

Just because the technology challenges are slightly easier in their single-carrier ecosystems, there is no reason why direct response channels should dominate usage of the Internet and mobile communication. Independent agents and carriers can and should work to take full advantage of online technologies, both in acquiring new customers and providing service.

More importantly, independent agents and carriers should see these technologies as methods to capture new customers and to improve customers' ease of doing business with them. Rather than replace the agent's relationship with the client, these technologies can become an effective customer connection tool that creates an opportunity for agents to develop relationships with new customers.

Many customers seeking auto insurance quotes online will also need other types of policies such as homeowners, umbrellas, at-home business, watercraft and other coverages. Some may also own businesses or influence business policy decisions. Statistically, it is likely that many customers who shop for auto online are open to establishing a relationship with someone who can act as a trusted advisor to help them understand risk and protection in today's economy.

The challenge then becomes one of onboarding and post-enrollment communication and outreach in order to have the opportunity for important needs-assessment conversations. Furthermore, any customer who has had to file an auto claim knows how stressful that process can be. Personal agents can provide excellent service, both before and during these events with their customers, regardless of how their relationships began. Enduring personal relationships are something that the direct response writers cannot copy.

Overall Health of the Independent Agency System

There are many strong signs stemming from the data indicating strong overall health and considerable growth opportunities in the IA channel:

- **IAs still control a majority of the entire p-c market**, writing 57% of all premiums, including a third of all personal premiums.
- **IAs still dominate commercial insurance sales, which resurged in 2011**, growing \$11 billion or 5% more than 2010.
- **IAs grew premiums and/or market share in several states** and IA share remains strong in many states overall. In many states, IAs dominate both personal and commercial lines. That means IAs in other states have an opportunity to add share in more lines if they focus on it.
- **IAs are as efficient as other models**: While IAs as a group may have higher efficiency ratios compared with captive and direct writers, there are several IA carriers with personal auto efficiency ratios that rival these challengers. As noted in past reports, this proves that management, not the model itself, is the key driver. It is simply not accurate to say that the IA channel costs more than the other delivery channels.
- **Individual IAs are growing in personal auto and in commercial**: While overall IA share dropped slightly in these markets, individual firms captured additional share in these markets.
- **Many IIABA Best Practices firms continued to grow** in the face of recent weak markets and are doing well now that the p-c market appears to have turned around. Agencies that are easy to do business with, use improved access to technology and leverage the confidence and customization communicated through the Trusted Choice[®] brand have the potential to enjoy robust growth in every state and every product line.

II. P-C Premium & Share Overview

The following charts provide a quick data overview of premium written as well as market share for the p-c insurance industry in 2011. This year's report primarily covers year-end numbers for 2011 and compares with recent trailing years. This is the last full year for which data — provided to IIABA by A.M. Best Co. — is currently available. [See the "About the Data" explanation in Section VI for detail on how this data is compiled.]

All tables present data in the same order for the four distribution channels: National Independent Agency Carriers, Regional Independent Agency Carriers, Exclusive (Captive) Agency Writers, and Direct Response. Totals for the entire industry also are listed. Please reference the individual sections for each line for more detailed information.

2011 P-C Insurance – Overall			
	<u>Direct Premium</u>	<u>% Share</u>	<u>% Premium Growth</u>
	<u>Written</u>		<u>2010 to 2011</u>
National	\$134.7B	27.8%	3.1%
Regional	\$140.5B	29.0%	4.8%
Exclusive	\$164.6B	34.0%	1.8%
Direct	\$35.4B	7.3%	7.4%
TOTAL	\$484.5B	100%	3.7%

2011 Commercial Lines			
	<u>Direct Premium</u>	<u>% Share</u>	<u>% Premium Growth</u>
	<u>Written</u>		<u>2010 to 2011</u>
National	\$ 111.6B	46.6%	3.8%
Regional	\$76.1B	31.8%	6.1%
Exclusive	\$43.8B	18.3%	4.1%
Direct	\$2.1B	0.9%	4.4%
TOTAL	\$239.4B	100%	5.0%

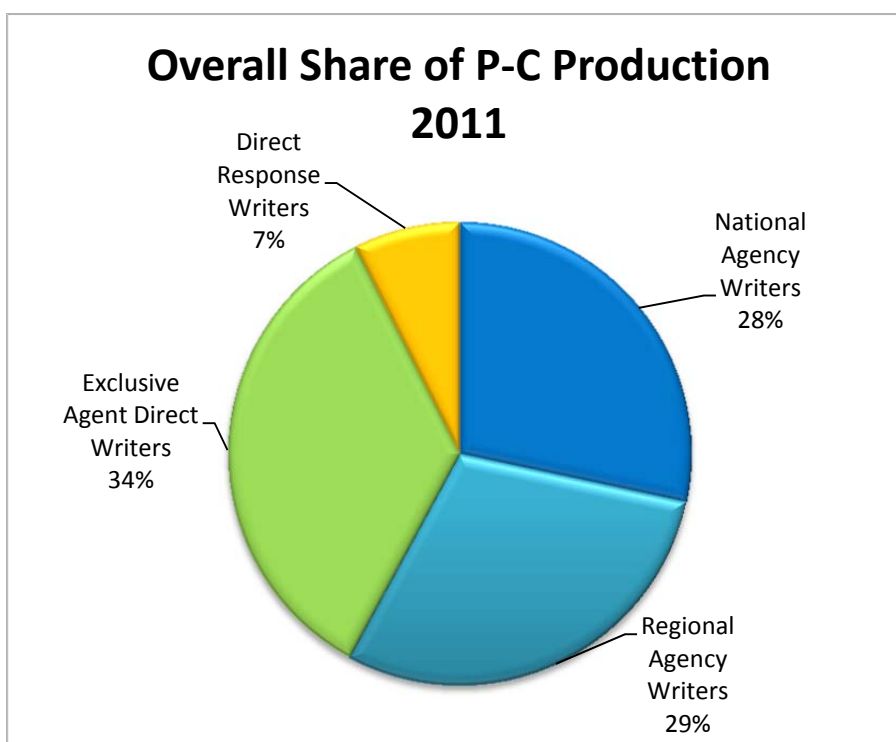
2011 Personal Lines			
	<u>Direct Premium</u>	<u>% Share</u>	<u>% Premium Growth</u>
	<u>Written</u>		<u>2010 to 2011</u>
National	\$23.0B	9.4%	-0.1%
Regional	\$64.4B	26.3%	3.2%
Exclusive	\$120.8B	49.3%	1.2%
Direct	\$33.3B	13.6%	7.6%
TOTAL	\$245.1B	100%	2.5%

2011 Private-Passenger Auto			
	<u>Direct Premium</u> <u>Written</u>	<u>% Share</u>	<u>% Premium Growth</u> <u>2010 to 2011</u>
National	\$11.3 B	6.7%	-2.7%
Regional	\$44.4B	26.3%	1.2%
Exclusive	\$81.8 B	48.4%	0.3%
Direct	\$29.3B	17.4%	7.5%
TOTAL	\$169.0B	100%	1.6%

The overall p-c market rebounded strongly in 2011, growing far faster than the overall economy. Total p-c premiums grew by \$17.4 billion, or 3.7%, in 2011 over 2010 levels, and independent agency companies and agents captured their fair share of this growth, maintaining control over nearly 57% of the total p-c market in 2011. Independent agents wrote \$10.5 billion more in total premiums in 2011 than they did in 2010.

Regional independent agency companies grew premiums the most, increasing production by \$6.4 billion over 2010 levels, and national IA companies increased premiums by \$4.1 billion. *(Note that 2010 data shown in this report reflects data that has adjusted relative to the data shown in last year's report and may not match numbers published last year.)*

Direct response carriers grew premiums by \$2.4 billion, which is an impressive 7.4% increase over 2010, but the channel still controls only slightly more than 7% of the total market. While exclusive agents wrote \$3.0 billion more in 2011, it was not enough to prevent their market share from slipping a fraction of a percentage point.



The **commercial lines** market experienced the most gains in 2011, growing 5%, or \$11.4 billion. National and regional independent agency carriers maintained nearly the same supermajority of the commercial market share in 2011, controlling 78.4% of the commercial market, only slightly below the 78.6% they controlled in 2010.

Regional carriers captured \$4.4 billion of that growth, raising their collective share to 31.8% of the commercial market. This means regional premiums grew by 6.1% — up to \$76.1 billion in 2011. National carriers also increased their commercial premiums by an impressive \$4.1 billion, which is a 3.8% increase over 2010 production. However, that was slightly below the 5% expansion rate of the entire commercial lines market; and, as a result, the national agency carriers' share dropped slightly to 46.6% of the entire commercial market.

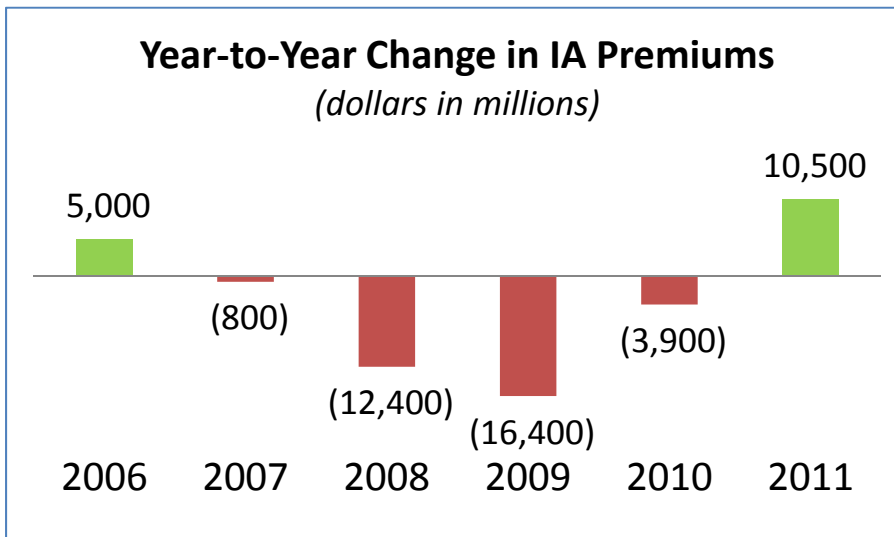
The direct channel remained below 1% of the commercial market, increasing premiums by a mere \$88 million over 2010 levels. It did, however, close out 2011 with \$2.1 billion in commercial premiums. Exclusive agency carriers increased premiums by \$1.7 billion, up to \$43.8 billion for the year, dropping their share to 18.3% of the market.

Personal lines generates more premium than does commercial lines, increasing premiums in 2011 by an impressive amount — although personal lines grew by a lower amount and percentage than did commercial lines.

Personal lines increased \$6.0 billion in 2011 over 2010, closing at \$245.1 billion. In terms of absolute dollars, regional agency carriers grew premiums nearly as much as direct response carriers, growing at \$2.0 billion compared to direct response's growth of \$2.4 billion. However, given their smaller but rapidly growing base in personal lines, this increase for direct response does represent an impressive 7.6% rise over 2010 volumes. National IA carriers generated the near same premium volume in 2011 as they did in 2010, finishing at \$23.0 billion.

Meanwhile, exclusive agency carriers wrote \$1.3 billion more in personal lines

premiums in 2011 than in 2010, but this still resulted in their market share slipping below 50%.



Personal auto insurance continued to be troublesome for independent agencies and their carriers in 2011. National carriers lost 2.7% of their premium volumes in 2011, while regional carriers saw a modest 1% gain. Exclusive carriers kept production nearly equal to 2010 levels.

In contrast, direct response grew a whopping 7.5% — approximately \$2.0 billion over 2010. Direct response insurers now control more than one in every six dollars of personal auto premiums, and if their growth rate holds in 2012, they will approach 20% of the auto market in the next year or two.

III. Personal Lines

2011 Personal Lines			
	<u>Direct Premium</u> <u>Written</u>	<u>% Share</u>	<u>% Premium Growth</u> <u>2010 to 2011</u>
National	\$23.0B	9.4%	-0.0%
Regional	\$64.4B	26.3%	3.2%
Exclusive	\$120.8B	49.3%	1.2%
Direct	\$33.3B	13.6%	7.6%
TOTAL	\$245.1B	100%	2.5%

In 2011, the overall personal lines market grew 2.5%, growing nearly \$6.0 billion more than 2010 volume, to just more than \$245 billion direct premiums written.

Regional independent agency companies wrote \$2.0 billion more in premiums than in 2010, while national agency writers held nearly constant, slipping a modest \$18 million from their 2010 volumes.

In 2011, captive agency writers increased production by \$1.3 billion, reporting a total of \$120.8 billion overall personal lines production.

Direct response writers, however, grew the most, both in absolute volume and share of market. Direct response volume grew to \$33.3 billion in 2011. This represents a 7.6% increase in volume — \$2.4 billion more than the \$30.9 billion written in 2010. Direct response market share increased to 13.6%.

Regional independent agency carriers' share increased slightly, climbing from 26.1% to 26.3% in 2011, while the national IA share decreased slightly, dropping from 9.6% to 9.4% in 2011.

While captive writers continue to dominate personal lines, they did fall below the threshold of controlling half of all personal production. The captive share dropped from 50.0% in 2010 to 49.3% in 2011. While captive writers grew premiums \$1.3 billion during the year, this did not match the growth seen by both direct response carriers, who wrote \$2.4 billion more in 2011 than 2010, and regional IA carriers, who wrote \$2.0 billion more than in 2010.

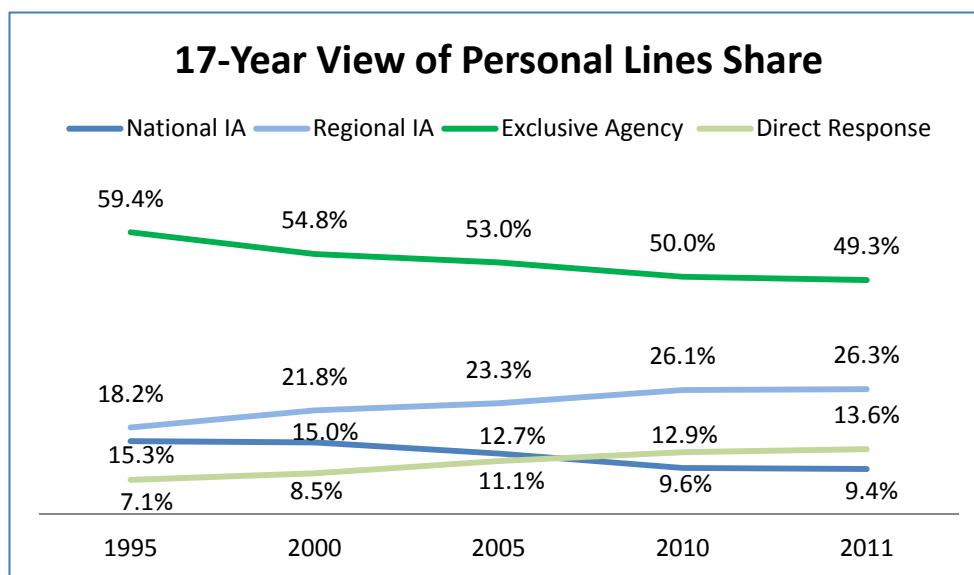
Of the total \$6.1 billion in premium growth in personal lines in 2011, direct response carriers generated 39%. Independent agency carriers generated only 32.8% of the volume increase, and captive companies generated only 21% of premium growth.

A. 17-Year Look: Personal Lines Market Share

In the past 17 years during which IIABA has reviewed A.M. Best data, the data shows a long-term shift where direct response channel and regional independent agency carriers have grown at the expense of captive carriers and national IA companies. The chart below provides a snapshot view of five-year increments of personal lines market share over the past 17 years.

Note that:

- Captive agency carriers no longer control more than half of the personal lines market. Captive carriers dipped to 49.3% of direct premiums written in 2011 for the first time. This continues a long trend of slow — but steady — decreases that cumulatively account for losing 10 percentage points from the 59.4% of the market they controlled in 1995.
- Regional IA carriers have increased 8.1 percentage points since 1995, increasing 2 to 3 percentage points every five years.
- Direct-response writers are steadily increasing share, up 6.5 points since 1995 to now account for 13.6%. While continuing to trail regional IA carriers and captive carriers considerably, direct response leads over national IA carriers by 4.2 percentage points.
- National IA carriers have lost almost 6 percentage points of market share since 1995, now accounting for only 9.4% of the market. This translates to almost a 40% decrease in national IA share during that period.



B. Gains & Losses in Personal Lines Share

The following national independent agency companies with more than \$100 million in premiums experienced the following changes in their 2011 market share relative to 2010.

Note for all tables: It is easier for carriers with smaller books in this line to show larger percentage changes in market share because they are working from a smaller premium base.

<u>National IA Carrier</u>	<u>% Change in Market Share</u>
ACE INA Group	24.5
Cincinnati Insurance Companies	7.4
Markel Corporation Group	7.3
Harleysville Insurance Cos	4.8
Foremost Corporation Group	3.5
EMC Insurance Companies	2.9

Meanwhile, the following regional independent companies with at least \$100 million in premiums saw at least 1 percentage point growth in their personal lines market share in 2011 over the prior year:

<u>Regional IA Carrier</u>	<u>% Growth in Market Share</u>
American Strategic Ins Group	17.4
Infinity Prop & Cas Group	10.9
Auto-Owners Insurance Group	6.2
Safety Group	4.4
Arbella Insurance Group	3.2
Integon National Group	2.7
Universal Ins Grp Puerto Rico	2.2
Erie Insurance Group	2.1
MAPFRE North America Group	1.7
Nationwide Agency Companies	1.4

Conversely, the national and regional independent agency carriers below with more than \$100 million in personal lines premium were each down by 4% or more in market share in 2011:

<u>National/Regional IA Carrier</u>	<u>% Loss in Market Share</u>
QBE Americas Group	-16.9
Grange Mutual Casualty Pool	-11.9
Allianz of America Companies	-10.9
Tower Group Companies	-10.9
Palisades Group	-9.1
Hartford Insurance Group	-7.7
Kemper Property & Casualty Grp	-7.6
Central Insurance Companies	-5.9
Main Street America Group	-5.0
White Mountains Insurance Grp	-4.7
AIG (less direct response)	-4.2

Below are major captive agency and direct response competitors (with premiums greater than \$750 million) that experienced a change in market share greater than 1% in 2011.

<u>Major Captive Agency Competitors</u>	<u>% Growth in Market Share</u>
Liberty Mutual Direct Cos	4.4
NJM Insurance Group	3.7
Texas Farm Bureau Group	3.7
Farm Bureau P&C Group	3.4
Tennessee Farmers Ins Cos	3.1
Kentucky Farm Bureau Group	2.9
Ameriprise P&C Companies	2.8
Auto Club Group	2.1
North Carolina Farm Bureau Grp	1.5
Shelter Insurance Companies	1.3
Farmers (less Foremost	-2.8
State Farm Group	-1.3
COUNTRY Financial Group	-2.3
Sentry Insurance Group	-3.3
Allstate Direct Companies	-3.6
American Family Insurance Grp	-5.9

<u>Major Direct-Response Competitors</u>	<u>% Growth in Market Share</u>
Geico	5.1
USAA Group	5.0
Progressive Direct Companies	4.9
Amica Mutual Group	3.6

C. State-by-State Market Share Results: Personal Lines

The personal lines market share held by independent agents and brokers varies widely by state. The share in 2011 ranged from a low of 14.5% in Alaska to a high of 77.5% in Massachusetts. However, in Massachusetts, the IA share has declined 3.1 percentage points from 2009 to 2011. Moreover, the IA share in Massachusetts has dropped more than 7 percentage points from the 85.3% controlled in 2006 — the year that regulatory changes brought new competitors to the auto insurance market.

The IA channel market share increased by 1 percentage point or more in 2011 in only two states. In Florida, independent agents gained 1.2 percentage points, up to 41.1%; and in Utah, they added 1 percentage point, up to 28.2%. Minnesota was the only other state to gain 0.5 percentage points or more, rising 0.7 points, up to 33.0%.

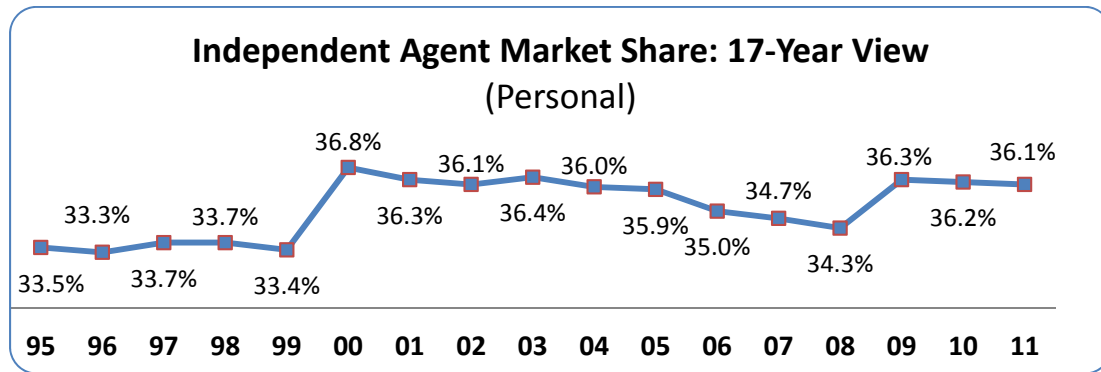
However, the IA share of personal lines premiums dropped by more than 1 percentage point in eight states in 2011: Delaware, Ohio, Kentucky, Maryland, Massachusetts, Michigan, Rhode Island, and West Virginia.

New England states are a traditional stronghold for independent agents. But in addition to the losses seen in Massachusetts mentioned above, Rhode Island also saw the IA share decrease 2.3 percentage points in personal lines and Connecticut was down 1.0 point.

The independent agency personal lines market share for all of the states (plus the District of Columbia) has broken down this way for the last six years:

Number of States with IA Share by Range/Year (<i>Personal Lines</i>)						
Share	2006	2007	2008	2009	2010	2011
Over 50%	4	4	4	8	8	6
45-50%	3	4	5	4	4	6
40-45%	7	8	6	5	6	4
35-40%	5	4	6	9	8	10
30-35%	9	11	10	8	7	7
Under 30%	23	20	20	17	18	18

The data shows that since 2008 there has been an increase in the number of states with greater than 45% market share and a decrease in the number of states with less than 35% market share.



Final Thoughts

As noted in IIABA's previous market-share reports, independent agents and brokers have a lucrative opportunity in this enormous insurance consumer market:

- The independent agency carriers' overall share is higher now than it was during the 1990s. And, with the exception of 2006 to 2008, the IA national company share has remained fairly stable — at around 36%.
- IAs were able to grow market share at least slightly in 12 states in 2011.
- At \$245 billion in total personal premiums, the personal lines market is \$5 billion larger than the \$239 billion commercial lines marketplace.
- Personal lines premiums grew \$6.0 billion in 2011 over 2010. One percentage point only of this growth represents \$60 million in premiums.
- Private-passenger auto alone represents fully one-third of the total p-c premium pool, including commercial lines. The sheer size of that market presents an attractive opportunity.
- Many agencies now provide instant quotes for personal auto on their own websites. Some are extending this to homeowners policies.
- Many IAs compete locally with the direct-response channel by applying focus, customized service and sales power to personal lines marketing. They leverage strong carrier partners for products and pricing; real-time communications with customers and companies; modern social media and email marketing methods; and the power of Trusted Choice, the national consumer brand for independent insurance agents and brokers.
- Relative to commercial lines — truly dominated by IAs — personal lines represents a premium pool into which independent agents and brokers can wade. Well-managed, strategic agencies are seeking customers in all lines of

coverage, including personal lines, particularly in light of weak commercial pricing.

D. Private-Passenger Automobile

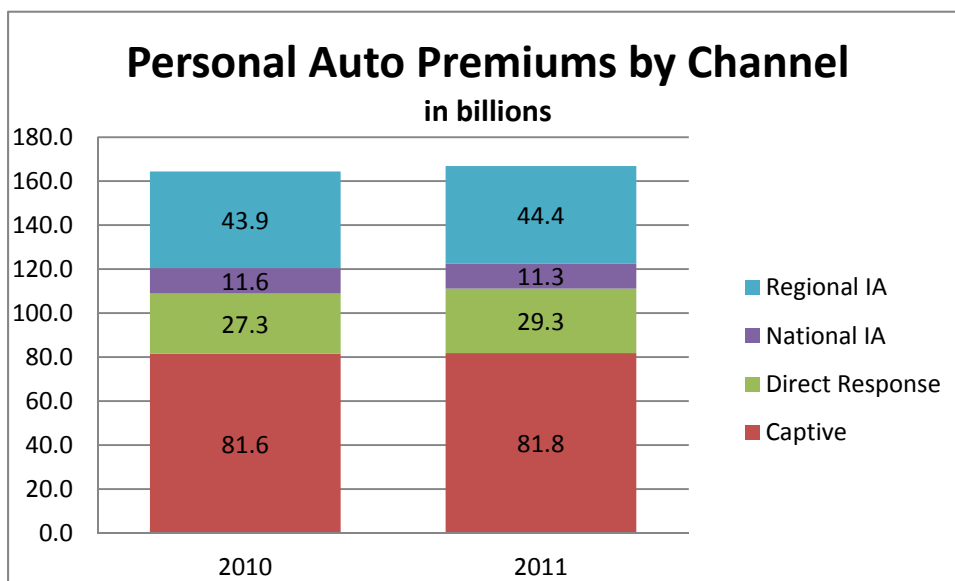
2011 Private-Passenger Auto			
	<u>Direct Premium</u>	<u>% Share</u>	<u>% Premium Growth</u>
	<u>Written</u>		<u>2010 to 2011</u>
National	\$11.3 B	6.7%	-2.7%
Regional	\$44.4B	26.3%	1.2%
Exclusive	\$81.8 B	48.4%	0.3%
Direct	\$29.3B	17.4%	7.5%
TOTAL	\$169.0B	100%	1.6%

The personal auto market grew \$2.7 billion in 2011, climbing to \$169.0 billion across all channels. This represents a respectable increase of 1.6% over 2010 volumes.

The private-passenger automobile segment comprises nearly 69% of all personal lines and 35% of the entire property-casualty market in 2011.

The overwhelming majority of 2011 growth was driven by the direct response channel. This was the only distribution system to significantly increase premiums in 2011. Premiums grew by \$2.0 billion, jumping from \$27.3 billion in 2010 to \$29.3 billion in 2011.

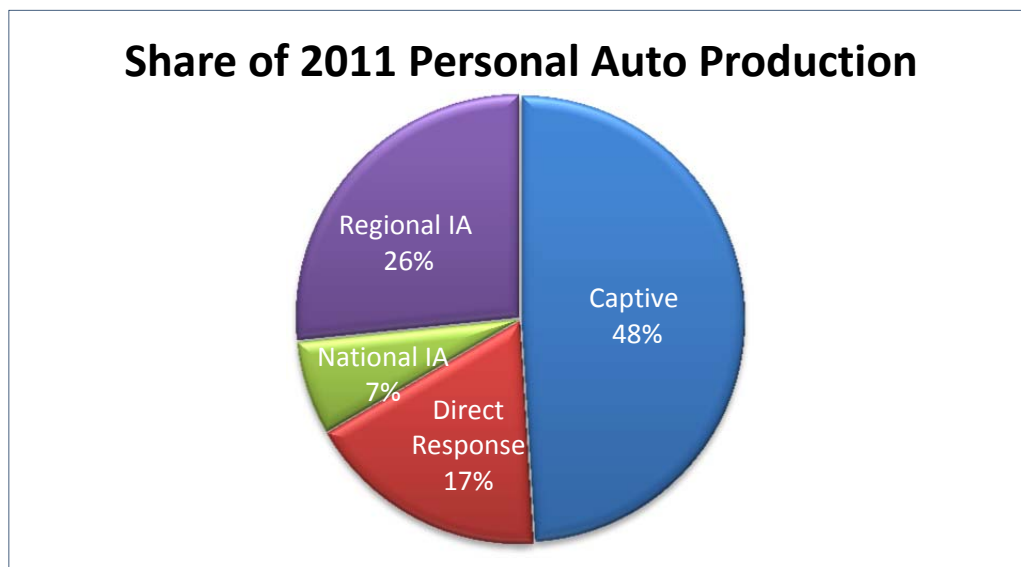
No other channel came close. Captive writers wrote \$0.2 billion more in 2011 than in 2010. Regional independent agents grew premiums by \$0.5 billion in 2011, while national IAs wrote \$0.3 billion less in 2011 than they did in 2010 (dropping from \$11.6 billion to \$11.3 billion).



As a result, the captive writer share dropped below the 50% mark, ending the year at 48.4% of the personal auto market.

While increasing premiums, IAs nonetheless lost share slightly. Regional IA companies dropped slightly from 26.4% to 26.3%, while national carriers lost slightly more, slipping from 7.0% down to 6.7%.

Direct response now produces more than one of every six dollars in personal auto; the channel's share closed at 17.4%, up from 16.4% in 2010.



While their production dollars may not yet rival that of regional IAs or captive carriers, the continued growth of direct response — even during a recession — suggests traditional advertising and new forms of marketing are effective. The branding messages — including those related to “save money” and “ease of purchase” — clearly are appealing to consumers. Without dramatic change in marketing, it is likely they will continue to grow and take share away from the other channels involving agents.

E. 17-Year Look: Personal Auto Market Share

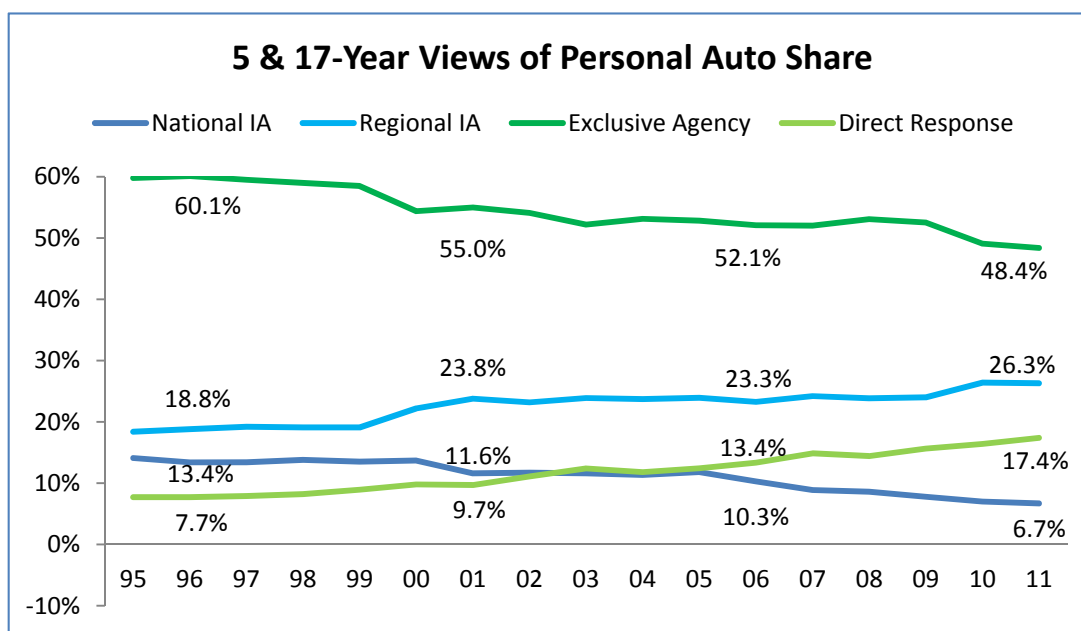
Over the 17 years ending with 2011, all the channels have experienced significant change in market share.

While captive carriers' share had stabilized in recent years relative to the losses they experienced between 1999 and 2003, their trend has continued downward slowly but surely. Taken as a whole, captive carriers have lost 11.4 percentage points of market share since 1995, when they controlled nearly 60% of the market.

Similarly, after stabilizing market share between 2001 and 2005, national independent agency carriers have endured a steady decline in personal auto in 2011. Looking across the entire 17-year period, these companies have seen their market share nearly cut in half, dropping from 14.1% down to 7.5%. Looking at five-year intervals, national IA share slipped much more slowly between 2001 and 2006 — but since then, it has dropped another 4.6 percentage points.

While regional IA carriers' share of personal auto decreased two-tenths of 1 percentage point in 2011, it has enjoyed a steady increase across the 17-year period, climbing from generating fewer than one in six premium dollars in 1995 to generating more than one in four in 2011. Their share rose over the period from 18.4% to 26.3%.

Taken across 17 years, regional IA carriers have grown almost as many percentage points in market share as direct response writers. During that time, regional IA carriers increased 7.9 percentage points while direct response increased 8.6 percentage points in share.



Some national and regional independent agency carriers, however, bucked the trend in personal auto. Among those with at least \$100 million in direct premium written, companies showing at least a 1% gain in personal auto market share for 2011 vs. 2010 include:

<u>National/Regional IA Carrier</u>	<u>% Growth in Market Share</u>
ACE INA Group	33.1
Foremost Corporation Group	16.1
Infinity Prop & Casualty Group	11.9
Cincinnati Insurance Companies	7.7
Auto-Owners Insurance Group	6.9
Harleysville Insurance Cos	5.9
Nationwide Agency Companies	4.0
Erie Insurance Group	3.6
Travelers Group	3.3
Palisades Group	3.4
Integon National Group	3.6
United Automobile Ins Group	3.4
Safety Group	3.3
Arbella Insurance Group	2.7
MAPFRE North America Group	2.0
Safeway Insurance Group	2.0
White Mountains Insurance Group	1.9
Permanent General Ins Grp	1.8
Plymouth Rock Companies	1.7
Main Street America Group	1.0

Among the big direct-response players, Geico increased premiums by more than \$1 billion in 2011, increasing its market share by 6.1% —with total revenue now standing at \$15.3 billion. Large military family provider USAA increased premiums by more than \$500 million in 2011, boosting the share by 5.3% to \$7.8 billion total for 2011.

Comparable percentage changes in market share in 2011 (over year-prior numbers) for agents' major competitors were as follows:

<u>Major Direct-Response Competitors</u>	<u>% Growth in Market Share</u>
GEICO	6.1
Progressive Direct Cos.	5.9
USAA Group	5.3
Amica Mutual Group	3.8

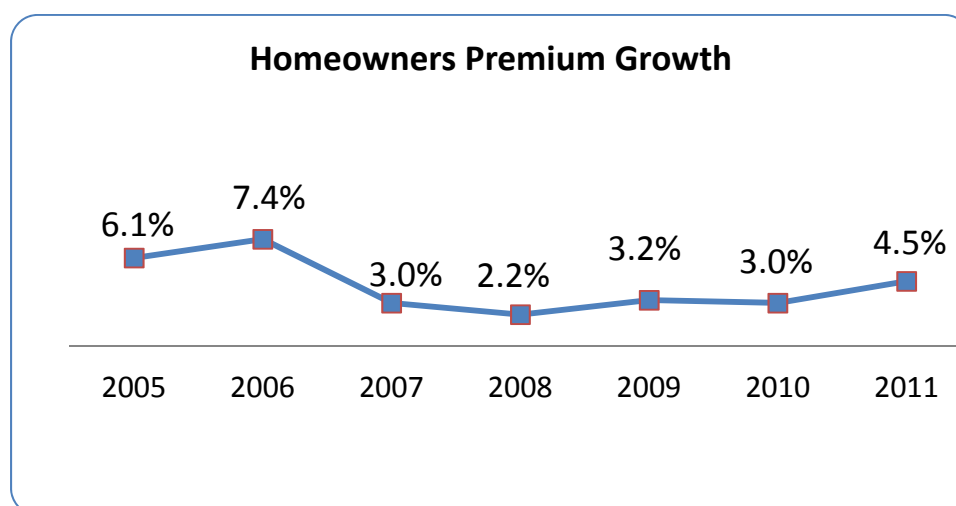
<u>Major Captive Agency Competitors</u>	<u>% Growth in Market Share</u>
Liberty Mutual Direct Cos	4.4
NJM Insurance Group	3.9
Texas Farm Bureau Group	3.1
Tennessee Farmers Ins Cos	2.7

Auto Club Group	2.5
Alfa Insurance Group	1.9
Shelter Insurance Companies	1.8
Ameriprise P&C Companies	1.7
Auto Club Enterprises Ins Grp	0.6
State Farm Group	-0.5
Southern Farm Bureau Casualty Group	-1.2
California State Auto Group	-1.3
Farmers (less Foremost)	-1.8
Sentry Insurance Group	-2.1
COUNTRY Financial Group	-3.4
Allstate Direct Companies	-3.9
American Family Insurance Grp	-7.2

F. Homeowners Insurance Market

2011 Homeowners			
	Direct Premium Written	% Share	% Premium Growth 2010 to 2011
National	\$11.3B	15.4%	3.1%
Regional	\$18.7B	25.7%	7.8%
Exclusive	\$37.5B	51.4%	2.6%
Direct	\$4.0B	5.4%	8.9%
TOTAL	\$73.0B	100%	4.5%

The homeowners market expanded by \$3.1 billion in 2011, closing the year at \$73.0 billion. This represents a 4.5% increase in premiums over 2010.

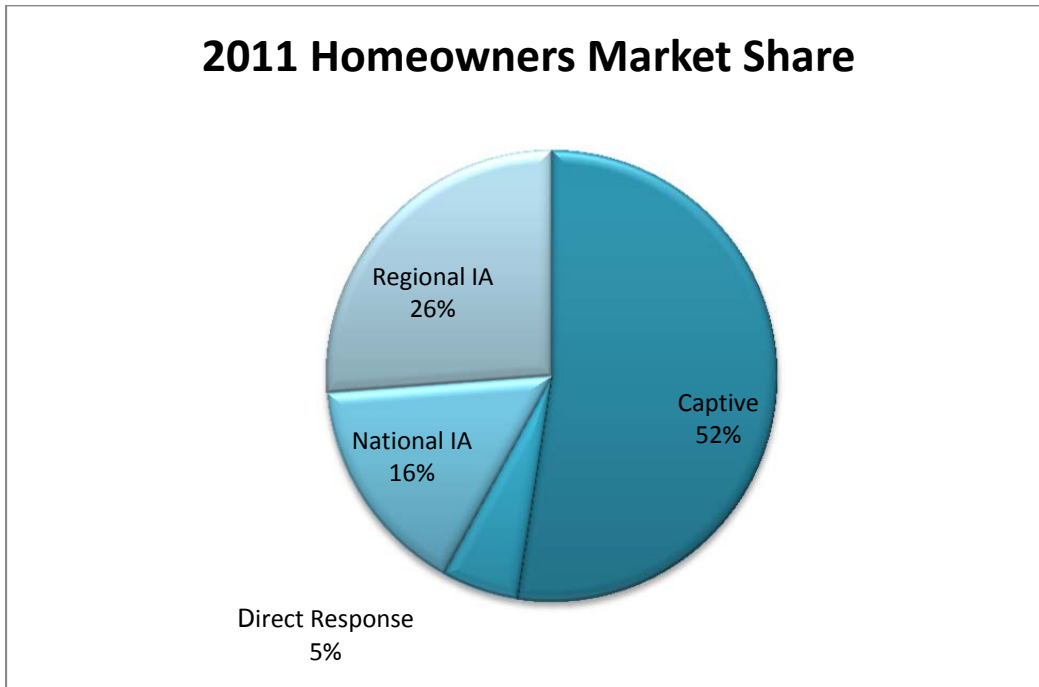


In the homeowners line, all channels enjoyed higher production in 2011 than in 2010. Exclusive agency companies wrote nearly \$1 billion more in premiums, for a total of \$37.5 billion. National independent agency writers and the direct response channel each saw gains of less than \$350 million over 2010. Regional IA carriers, however, wrote \$1.4 billion more in 2011 than in 2010, which represents a 7.8% increase in volume.

Taken together, regional and national IA carriers grew premiums by \$1.7 billion, which is 53% of the entire \$3.2 billion increase across all channels. As a result, total IA share increased from 40.6% in 2010 to 41.2% in 2011.

The direct response system continues to be a small player in the homeowners market producing less than \$4 billion, or 5.4% of the total market. However, in terms of dollars, direct carriers grew in 2011 almost as much as national IA writers did.

While captive agencies still write more than half the market, their share dipped slightly because their growth was smaller than that seen by the IA segments.

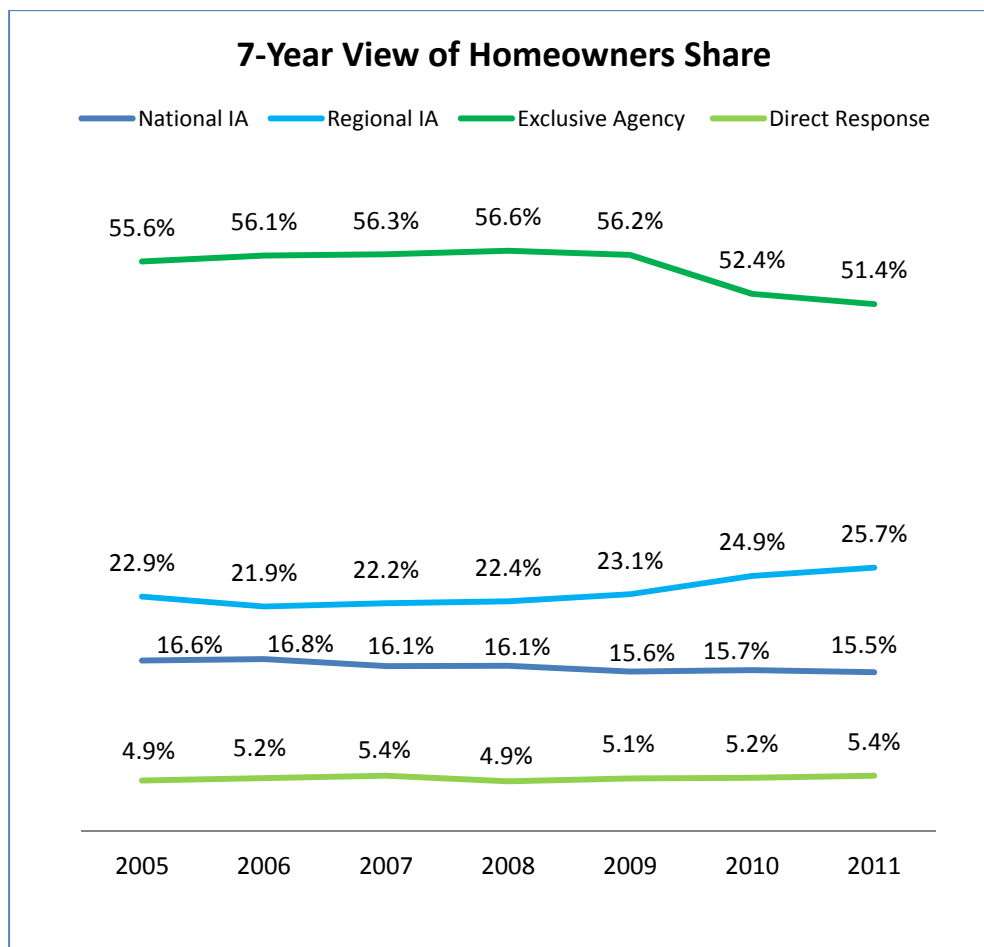


G. Six-Year Look: Homeowners Market Share

Over the last several years, exclusive agencies have seen a slight dip in market share, which they appear to have lost to regional independent agency carriers. After staying very stable for several years, revised data shows that regional IAs began inching up share, rising from 22% to nearly 26%, while exclusive agencies have dropped from 56% to 51%.

Direct response continued to hold approximately 5% of the total homeowners market share over the entire period.

(Note: Please see notes below regarding data that may have impacted homeowners share numbers.)



Largest IA Gains in Homeowners

National and regional independent agency carriers — booking at least \$100 million in homeowners premiums — showing the largest percentage gains in homeowners market share for 2011 include:¹

<u>National/Regional IA Carrier</u>	<u>% Growth in Market Share</u>
ACE INA Group	28.4
United Property & Casualty Insurance	25.2
American Strategic Insurance Group	15.1
Safety Group	10.8
Universal Ins. Group Puerto Rico	10.2
Selective Insurance Group	9.2
Pacific Specialty Insurance Group	6.3
Cincinnati Insurance Companies	6.1
Liberty Mutual Agency Companies	6.1
Assurant P&C Group	5.4
Erie Insurance Group	5.1
Arbella Insurance Group	4.9
Auto-Owners Insurance Group	4.6
Universal Insurance Holdings Group	4.4
Mercury General Group	4.1
MAPFRE North America Group	3.1
Frankenmuth Insurance Group	2.7
Harleysville Insurance Companies	2.5

¹Note it is easier for carriers with smaller books in this line to show larger percentage changes in market share because they are working from a smaller premium base.

Competitors

The larger competitors to independent agency companies in the homeowners insurance line saw these market share gains or losses:

<u>Major Direct-Response Competitors</u>	<u>% Change in Market Share</u>
USAA Group	4.3
Amica Mutual Group	3.2
Progressive	-0.3

<u>Major Captive Agent Competitors*</u>	<u>% Change in Market Share</u>
Homesite Group	16.6
Ameriprise P&C Companies	8.8
Kentucky Farm Bureau Group	6.7
Munich-American Holding Corp.	6.4
NJM Insurance Group	5.6
Liberty Mutual Direct Companies	4.0
Tennessee Farmers Ins Companies	3.7
Farm Bureau P&C Group	3.4
Auto Club Enterprises Ins Group	3.0
Southern Farm Bureau Casualty	2.0
Auto Club Group	1.9
California State Auto Group	1.9
Michigan Farm Bureau Group	1.6
Farm Bureau Mutual Ins of AR	1.4
Texas Farm Bureau Group	0.8
North Carolina Farm Bureau Group	0.8
Shelter Insurance Companies	0.2
COUNTRY Financial Group	-2.1
Alfa Insurance Group	-2.4
Allstate Direct Companies	-2.7
State Farm Group	-3.0
American Family Insurance Group	-3.3
American National P&C Group	-4.7
Horace Mann Insurance Group	-4.9
Farmers less Foremost	-5.1
United Farm Bureau of IN Group	-5.9
Georgia Farm Bureau Group	-8.6

**Firms with at least \$100 million in premium.*

IV. Expense Comparisons

Beyond market share trends, each year this report reviews the expenses incurred by each distribution system. This comparison examines carriers' operating ratios for private-passenger auto insurance — the line of business in which all distribution systems compete in a major way.

Net operating expense ratios can be used to compare efficiency across companies and distribution methods.² Lower net operating expense ratios reflect more efficient operations.

The direct-response category is the most efficient overall, holding an almost 11 percentage point advantage over regional independent agency carriers, and almost 14 percentage points over national IA carriers. It also enjoyed an 11-point advantage over captive agency carriers in 2010.

However, we consistently have found over the 17 years in which we have conducted this study that:

1. There are varying degrees of efficiency among companies within each distribution system; and
2. The overall expenses to provide insurance (operating ratios) for efficient carriers often come close to one another — no matter what the channel.

Generally speaking, across the distribution platform, the obvious differential in expenses with the direct-response channel is savings on commissions, an advantage offset in part by the hefty advertising and marketing bills these firms pay.

Looking at the latest data, we see that several national and regional IA writers either beat or nearly matched the operating ratios of several direct response firms. In particular, six IA companies were very near the ratio reported by Progressive Direct Companies.

² Because of the discrepancies in how companies categorize their expenses, IIABA has found that the only way to get a true "apples to apples" comparison is to use operating expense ratios. The operating ratio is the combination of the company's underwriting expense ratio and loss adjustment expense ratio. The underwriting expense ratio includes the commissions/broker fees ratio, other acquisition expense ratio, general expense ratio, and the taxes, licenses and fees ratio.

A. 2011 Private-Passenger Auto Operating Ratios

The following table of operating ratios in personal automobile insurance lists better-than-average IA companies. Select large captive and direct-response companies also are included. All are sorted from most efficient to less efficient.

	National IA	Regional IA	Captive	Direct Response
USAA Group				22.3
Government Employees Group				27.9
Amica Mutual Group				30.5
Auto-Owners Insurance Group		31.6		
Drive Insurance		32.7		
Progressive Direct Companies				33.8
Auto Club Enterprises Ins Group			33.8	
Hartford Insurance Group	34.8			
MetLife Agency Companies		36.4		
Erie Insurance Group		36.5		
MAPFRE North America Group		36.5		
State Farm Group			37.0	
Auto Club Group			37.1	
Allstate Direct Companies			38.8	
Liberty Mutual Agency Cos		39.0		
Mercury General Group		40.0		
Integon National Group		40.3		
California State Auto Group			40.8	
Liberty Mutual Direct Cos			41.9	
Kemper Property & Casualty Grp	42.0			
Infinity Prop & Casualty Group		42.1		
American Family Insurance Group			42.7	
Travelers Group	43.3			
Nationwide Direct Companies		44.2		
Nationwide Agency Companies		44.2		
Farmers less Foremost			47.1	
Averages by Channel				
<i>National Agency Writers</i>	41.5			
<i>Regional Agency Writers</i>		38.9		
<i>Exclusive Agent Direct Writers</i>			38.6	
<i>Direct Response Writers</i>				27.6

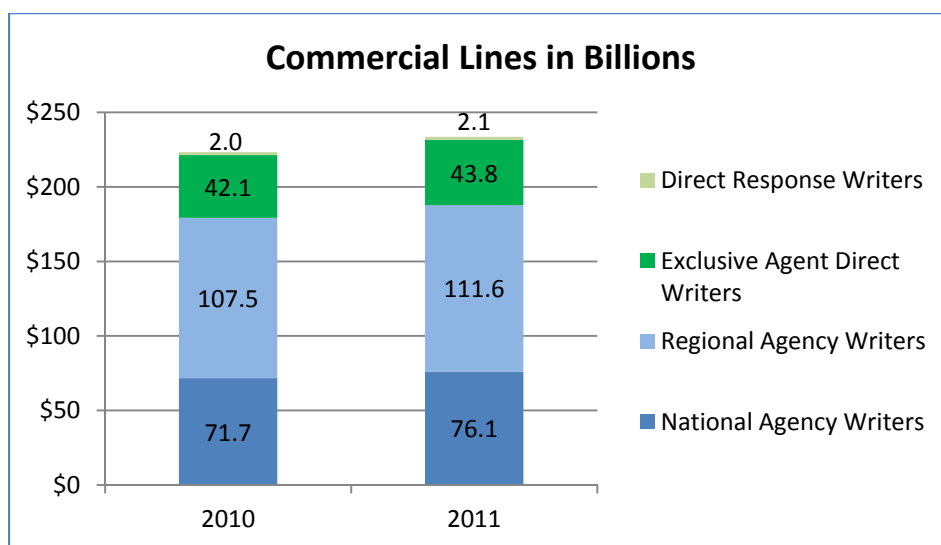
V. Commercial Lines

If the commercial insurance market is an indicator of the economic activity in the nation, then the economy appears to be picking up after several depressed years. After three straight years of contraction, commercial lines grew by 5.0%, increasing by \$11.4 billion to a grand total of \$239.4 billion.

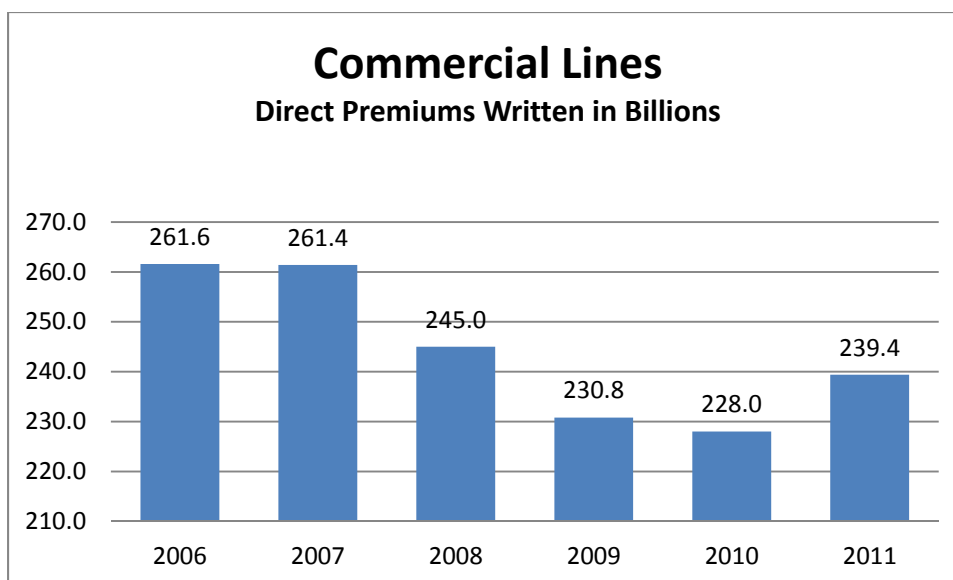
All channels saw premium growth, but regional agency writers captured more than their previous share of this growth, slightly improving their market share at the expense of other channels. However, no channel gained or lost more than 1 percentage point of share, and IA carriers still continue to control 78% of the market.

2011 Commercial Lines			
	<u>Direct Premium</u> <u>Written</u>	<u>% Share</u>	<u>% Premium Growth</u> <u>2010 to 2011</u>
National	\$ 111.6B	46.6%	3.8%
Regional	\$76.1B	31.8%	6.1%
Exclusive	\$43.8B	18.3%	4.1%
Direct	\$2.1B	0.9%	4.4%
TOTAL	\$239.4B	100%	5.0%

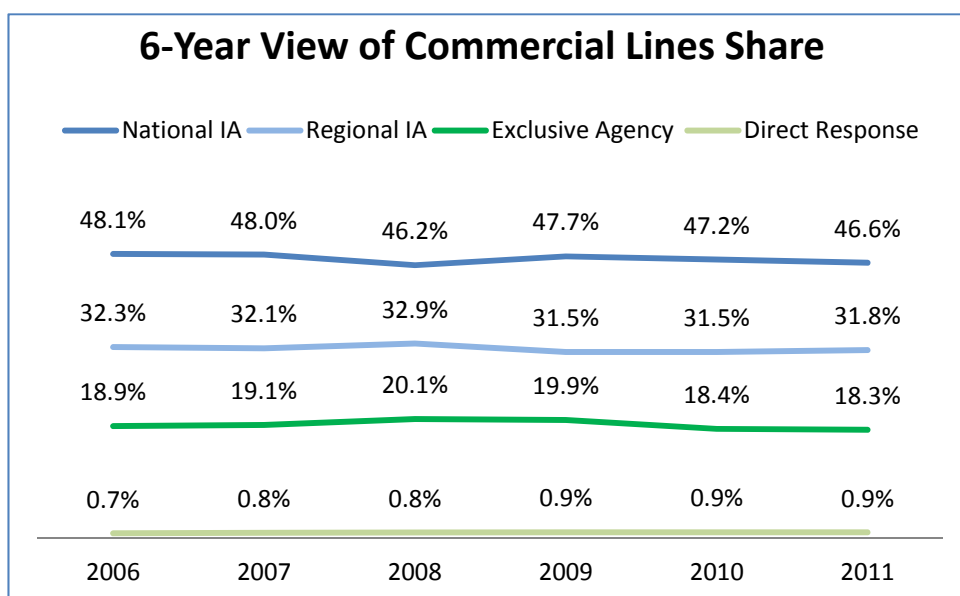
National independent agency premiums grew by \$4.1 billion, to close at \$111.6 billion. Regional IA carriers wrote \$ 4.3 billion more, despite their smaller market size, closing a total of \$76.1 billion in premiums in 2011. Exclusive agency writers booked \$1.7 billion more than in 2010, for a total of \$43.8 billion. Even direct response, which controls less than 1% of the market, grew premiums, albeit by a relatively small \$88 million.



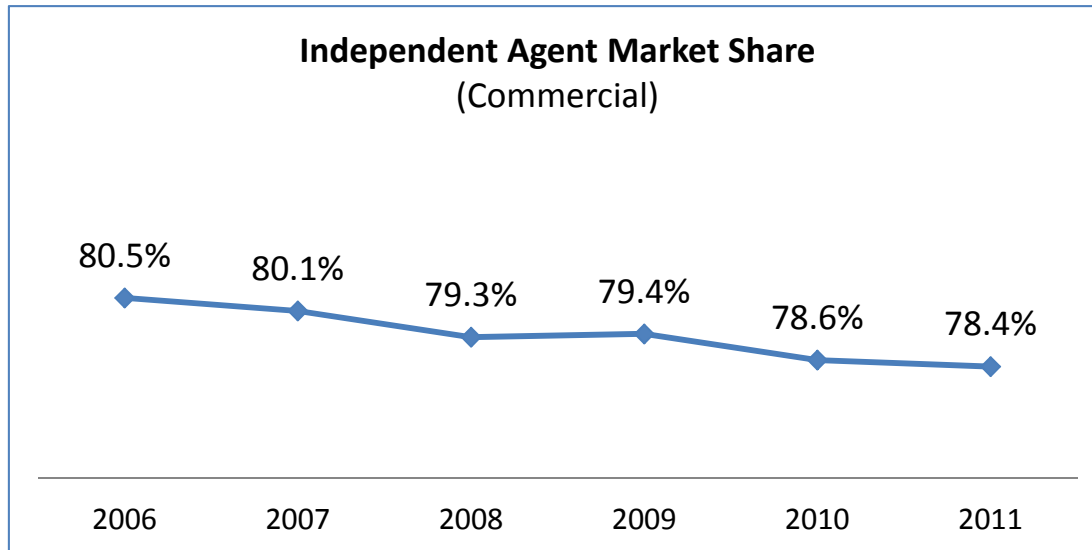
While commercial lines volume did grow 5%, it is still 2.4% less than the 2008 volume—and \$20 billion less than the volumes of 2006 and 2007, an 8% drop.



From a market share perspective, no channel gained or lost more than 1 percentage point. Because they outperformed their previous market share of growth relative to the other channels, only regional agency writers improved their market share. Others dropped incrementally. Regional agency share increased from 31.5% to 31.8%, while national writers dropped almost a percentage point, slipping from 47.2% in 2010 to 46.3% in 2011. Exclusive agency writers dropped from 18.4% to 18.3%. The direct channel stayed virtually constant, holding 0.9% of the market.



Taken together, national and regional IA share continued a slow drop in its control of the overall commercial lines market, having dropped 2.1 percentage points since 2006.



A. Commercial Auto

Commercial automobile insurance represents about 10% of the broader commercial market, and like the broader commercial market, it finally turned around in 2011, although growing by a much more modest amount.

Total commercial auto premiums written grew by more than \$330 million, a 1.4% rate of growth over 2010, compared with the 5.0% growth seen in the broader commercial market. Commercial auto premiums are still well below the levels seen in the mid-to-late portion of the last decade.

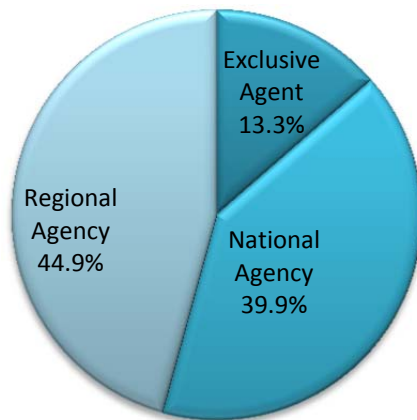
Almost all of this growth was captured by regional independent agency writers, which grew premiums by 2.9%, or \$310 million. National IAs grew a small amount, increasing premiums by \$58 million, up 0.6%. Both outperformed captive carriers, which actually wrote \$38 million less than they did in 2010.

While the direct response channel wrote so little that it rounds to zero, it did write a total of slightly more than \$45 million in 2011, nearly \$10 million more than in 2010.

2011 Commercial Auto			
	<u>Direct Premium</u> <u>Written</u>	<u>% Share</u>	<u>% Premium Growth</u> <u>2009 to 2011</u>
National	\$9.6B	39.9%	0.6%
Regional	\$10.8B	44.8%	2.9%
Exclusive	\$3.2B	13.3%	-1.1%
TOTAL	\$24.1B	100%	1.4%

The market share in commercial auto held relatively steady for each channel. Independent agents and brokers increased share slightly up to 44.8%, up less than half a percentage point, while exclusive agents dropped slightly to 13.3%.

Share of Commercial Auto - 2011



Note that direct-response data is not included, as this segment represents two-tenths of one percent of the market share.

B. Workers Compensation

2011 Workers Comp			
	<u>Direct Premium</u>	<u>% Share</u>	<u>% Premium Growth</u>
	<u>Written</u>		<u>2009 to 2011</u>
National	\$19.8B	47.5%	9.8%
Regional	\$14.3B	34.3%	7.2%
Exclusive	\$6.4B	15.4%	5.9%
TOTAL	\$41.7B	100%	8.6%

After dealing with significant losses since 2007, the workers compensation line experienced an increase 2011, as did the rest of the commercial market. Workers compensation represents 17% of the total commercial market, but it grew faster than commercial auto as well as the total market. Workers comp production was up \$3.3 billion, a jump of 8.6% over 2010, compared with the 5% growth seen by the broader commercial lines marketplace.

Independent agency carrier premiums in workers comp grew by \$2.7 billion, or 8.7%, with \$1.8 billion of the increase going to national IAs and \$1.0 billion going to regional IAs. Exclusive agents grew a modest \$360 million, and direct response wrote a grand total of a mere \$60 million for the entire year, nearly identical to 2010 production.

IAs' command of workers comp stayed constant at 82% of the market, with exclusive agents writing the remainder.

Share of Workers' Comp - 2011



C. Largest Gains in Commercial Lines

These national and regional independent agency carriers experienced percentage growth in overall commercial lines market share in 2010 (among carriers with at least \$1 billion in direct premium written):³

<u>Independent Agency Carrier</u>	<u>% Growth in Market Share</u>
Endurance Specialty Group	36.9
The Hanover Ins Group P&C Cos	19.3
QBE Americas Group	11.2
Fairfax Financial (USA) Group	7.0
W. R. Berkley Group	6.1
Great American P&C Insurance Group	5.9
Tower Group Companies	3.5
Erie Insurance Group	3.4
XL America Group	3.3
EMC Insurance Companies	2.5
Assurant P&C Group	2.2
ACE INA Group	2.0
Hartford Insurance Group	1.8
Markel Corporation Group	1.6
CNA Insurance Companies	0.5
Selective Insurance Group	0.9
Westfield Group	0.9

³ Note it is easier for carriers with smaller books in this line to show big percentage changes in market share because they are working from a smaller premium base.

Many major independent agency carriers experienced some decline in commercial lines market share in 2010.

<u>Independent Agency Carrier</u>	<u>% Change in Market Share</u>
Cincinnati Insurance Companies	-1.1
Auto-Owners Insurance Group	-1.3
Travelers Group	-1.6
Chubb Group of Insurance Companies	-2.1
Drive Insurance	-2.2
Berkshire Hathaway less GEICO	-2.3
Nationwide Direct Companies	-2.7
Philadelphia Ins/Tokio Marine Group	-3.5
Old Republic Insurance Group	-3.7
AXIS Insurance Group	-4.0
Alleghany Ins Holdings Group	-4.0
Arch Insurance Group	-4.3
Zurich Financial Services NA Group	-5.1
Allianz of America Companies	-5.3
Harleysville Insurance Companies	-6.6
Liberty Mutual Agency Companies	-6.6
AIG less Direct Response	-7.0
Mortgage Guaranty Group	-7.9
HCC Insurance Group	-8.0

Competitors

Major captive agency competitors with more than \$1 billion in commercial premiums experienced the following growth in their 2010 commercial lines market share:

<u>Captive Agency</u>	<u>% Change in Market Share</u>
Wells Fargo Insurance Group	46.7
CUMIS Insurance Society Group	28.8
Liberty Mutual Direct Companies	6.0
Munich-American Holding Corp.	5.0
FM Global Group	2.5
Farmers less Foremost	-3.6
Allstate Direct Companies	-5.3
State Farm Group	-13.3

Meanwhile, the direct-response category continues to be less than 1% of the overall commercial market share. No direct response firm has broken the \$1 billion mark. As a group, direct response wrote slightly fewer premiums than in 2009, but several individual firms increased commercial premiums in 2010.

<u>Major Direct Response</u>	<u>% Change in Market Share</u>
USAA Group	6.4
Progressive Direct Companies	6.2
Amica Mutual Group	1.3
Government Employees Group	1.0
AIG Direct Response	-7.5

D. State-by-State Market Share Results: Commercial Lines

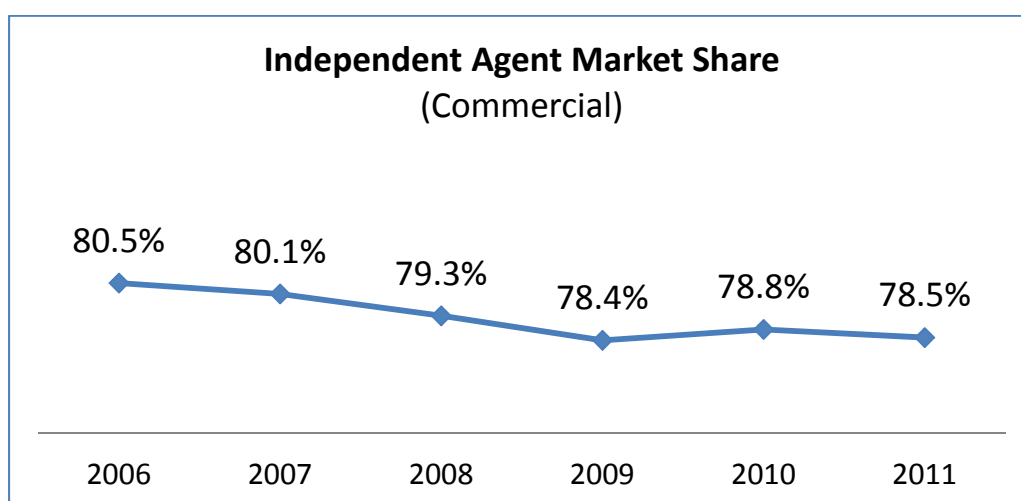
Around the U.S., and in most states, independent agents and brokers continue to dominate the commercial lines market and generally have retained their market share. Maine and West Virginia had the highest shares, at 86.2% and 85.7% respectively, and Delaware had the lowest share of commercial, at 60.2%.

The IA channel's commercial lines market share in all the states (plus the District of Columbia) has broken down as follows over the last seven years:

Number of States with IA Share by Range (Commercial Lines)							
Share	2005	2006	2007	2008	2009	2010	2011
Over 90%	0	0	0	0	0	0	0
85-90%	6	5	5	4	3	2	2
80-85%	15	19	18	14	16	19	16
75-80%	20	19	18	25	24	20	22
70-75%	4	2	6	4	4	6	7
65-70%	1	2	0	3	3	2	1
60-65%	5	4	4	1	1	1	3
55-60%	0	0	0	0	0	1	0

Average IA Share

The average independent agent market share around the states continued to be fairly consistent. In 2011, market share was down slightly over the year, which continues a downward trend that has resulted in the average dropping 2 percentage points since 2006.



The independent agency carriers' share increased by at least one-half of 1 percentage point in nine states, including three states where the share grew by more than 1%: Alaska, Minnesota and New York. However, IA share decreased by more than 1 percentage point in 11 states, including three states that were down by 2 percentage points or more. Vermont was down 5 points to 79.7%, Kansas was down 2.1 percentage points to 72.1%, and Oregon dropped 2 percentage points to 63.9%.

States with 5 Largest Gains or Losses in IA Commercial Market Share			
	<u>% Gains in IA Market Share</u>		<u>% Losses in IA Market Share</u>
NY	1.4%	OH	-1.7%
AK	1.3%	NE	-1.7%
MN	1.1%	OR	-2.0%
UT	0.8%	KS	-2.1%
ND	0.8%	VT	-5.0%

VI. About the Data

This report marks the 17th year in which A.M. Best Co. has provided the Independent Insurance Agents & Brokers of America with year-end industry market share and company expense data for the association to provide an updated assessment of the state of the independent agency system. All data in this report comes from A.M. Best and is printed with its permission. The 2011 calendar-year figures represent the latest year in which segmented data is available from A.M. Best.

The A.M. Best data offers IIABA the most accurate picture of changes with property-casualty insurance distribution because it separates captive agency and direct-response carriers. In addition, as requested by IIABA, the affiliates of groups leveraging various distribution systems are separated and placed in the appropriate distribution category (wherever the company group uses separate affiliates for this purpose).

Adjusted Numbers

In the charts in this report, previous year market share numbers are the most mature numbers compiled by A.M. Best, and they reflect the same affiliate adjustments in order to provide as accurate comparisons as possible. Careful readers of these IIABA market share reports will note some premium and market share data changes; the report uses the new numbers for prior years from the latest data, which covers 2011. This occurs because carriers report adjustments for prior years, which changes the market share percentages for prior years.

Rounding

Note that some numbers in the charts may not add to 100% of market share; this is due to rounding of minute numbers. Moreover, premium volumes are usually rounded to the closest \$100 million, but in some cases greater precision is used.

Unreported Data-New for this report

In some instances, A.M. Best is precluded from reporting firm-specific data, but the data can be included in either total industry or total channel metrics. As a result, total channel share percentages do not always add to 100% market share.

Two Further Data Changes

There were a couple of major changes made to the IIABA information in the last six years to further enhance the accuracy of the numbers. A.M. Best separated Progressive's direct business from what is written by its agency group. Several company groups from the regional independent agency company category were reallocated to the national independent agency category. A.M. Best requires a company to write in many states and to write multiple lines of business in order to fit into the national agency carrier category. When A.M. Best makes such changes, the changes are made for the prior years as well in order to produce as accurate comparisons as possible. As a result of these changes, readers should use caution in reaching any broad conclusions as

to trends affecting either the national agency company or regional agency company sub-segments of the independent agency and broker market.

Some of the groups that were reallocated to the national agency category include: W.R. Berkley Companies, Cincinnati Insurance Company, EMC, Harleysville, HDI U.S. Group, Markel Corporation, Old Republic General Group, Winterthur Swiss Group, and XL America Group. The Progressive agency companies, however, remained in the regional group because of the limited lines of business being written by those companies. A.M. Best moved the following companies from the national agency category to the regional category: Amerisure, Atlantic Mutual and Utica National.

Reallocation to Distribution Category

For this custom study, A.M. Best continues to reclassify the independent agency affiliates that can be identified for selected groups, such as Allstate, Liberty Mutual, MetLife, Nationwide and Farmers.

In all charts, A.M. Best has reallocated premium volume to the proper distribution category wherever the carrier used separate affiliates for its different distribution methods. In the personal lines, personal auto, and homeowners charts, however, the market shares for the direct-response companies are somewhat understated because the direct business written by The Hartford cannot be separated from the independent agency business written by this company, as it is not written in a separate affiliate. In addition, A.M. Best has not been able to separate out most of AIG's direct auto business (written in the AIG name) from that written through independent agencies, and that business appears in the national agency company category. A.M. Best does separate out AIG's 21st Century business to the direct category, as well as the direct-response business it acquired from GE Financial Assurance.

This overstatement of independent agency numbers is partially offset by the fact that Allstate's rural independent agency program was still classified as part of its captive agency business. Allstate's other independent agency business, which is written in separate affiliates such as Encompass and Deerbrook, has been placed in the proper distribution system category. In addition, A.M. Best has not been able to separate out Farmers' independent agency business that it writes in eastern states, except for the business written under the Foremost banner. This additional Farmers' independent agency business continues to be included in the captive agency category.

IIABA and A.M. Best work together each year to continually refine the data and make adjustments wherever possible. IIABA comments on only the numbers ultimately provided by A.M. Best.

We invite your comments and questions about this research. Please contact Madelyn Flannagan, IIABA Vice President, Agent Development, Education & Research, madelyn.flannagan@iiaba.net.