



2013 Property-Casualty Insurance Market Opportunities & Competitive Challenges For Independent Agents & Brokers

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I. Introduction & Commentary

This document represents the 19th year IIABA has reviewed the property and casualty insurance market using premium data provided by A.M. Best Company. Once again, the data and analysis are encouraging in several ways, showing how well the independent agency system performs in the face of an evolving and challenging marketplace.

For the third year in a row, all property-casualty insurance premium lines grew, bouncing back from their recession-driven low points in 2010. Combined, the market grew by \$25 billion in 2013 over its 2012 levels. After three years of strong growth, both personal and commercial lines have exceeded prerecession volumes, and combined now are generating \$532 billion in annual premiums.

At both the state and carrier level, independent agents and brokers (IAs) were well poised to capture their share of the market or more. In fact, IAs grew faster than the overall market and thus increased market share in about one-half of the states and the District of Columbia. Furthermore, several IA carriers increased their market shares by substantial amounts. However, there was a significant divergence between the national and regional carriers in terms of growth.

The commercial lines market surged in 2013, expanding by \$14.2 billion in total premiums written, the primary metric used in this report. This sector has grown by nearly \$35 billion since the market rebound began in 2011. Considering that IAs write nearly \$8 of every \$10 in premiums in this sector, 2013 was another very good year for the independent agency model in this market.

Furthermore, IAs also performed very well on the personal lines side of the business in 2013:

- IAs grew personal lines at a faster rate than captive carriers, reporting 3.6% growth in premiums (versus 3.4%).
- IAs grew personal lines premiums by \$3.2 billion, which rivaled the growth reported by direct response writers, which reported \$3.4 billion.
- For the second year in a row, IAs competed exceedingly well in the homeowners market. In both 2012 and 2013, IAs generated more than 57% of all of the growth in the homeowners market, and IAs reported annual growth rates of nearly 8% both years.
- Regional IAs grew personal auto premiums in 2013 almost as much as the entire direct response model. Regional IAs increased personal auto premiums by \$2.8 billion in 2013, a mere \$100 million less than the \$2.9 billion in growth reported by the direct response channel.
- The direct channel continued to grow at a double digit rate of return as they continue to leverage their marketing and advertising expenditures to build their brand awareness.

Battling Direct Response Writers

Many in the independent agent and broker community fear the disruptive threat posed by firms such as GEICO and Progressive's direct channel, which pay no agency commissions and redirect those savings into lower costs and pervasive advertising. It certainly is true they have done very well in the personal auto market. But a closer look at the data shows their overall threat is still limited. And some IAs clearly have found a way to combat their strategies.

While the direct response writers have increased personal auto share by 11 percentage points in the last 18 years, consider the following:

- Regional IA carriers grew nearly the same amount in 2013 over 2012, as did the direct response giants. (Regional IAs grew premiums \$2.8 billion in 2013 over 2012, versus \$2.9 billion growth for direct response.)
- The regional IA share actually grew in 2013.
- The regional IA share has increased by 7 percentage points over the last 18 years, climbing from 18.4% in 1995 to 25.4% in 2013.
- Twenty-four of the top 30 regional IA firms grew premiums in 2013, as did eight of the top 19 national IA firms.

Furthermore, while agents are wary, direct response carriers have yet to translate their success into other markets.

- Direct response writers wrote less than \$5 billion, or 6%, of the \$80 billion homeowners market.
- Direct response wrote less than 1% of commercial auto premiums, the only line in which they are remotely poised to challenge IAs within the lucrative commercial lines marketplace.

In addition, while the direct response system enjoys an inherent cost structure advantage, the data suggests that is not always true at the individual carrier level. Several IA writers have efficiency ratios that come close to direct response carrier metrics, and a few IA carriers even beat one direct response writer. The reality is that while direct response writers don't pay agency commissions, their employees and call centers aren't free – and their massive investments in television, radio and online advertising further offset their commission savings.

Most consumers who shop for auto insurance online need homeowners or renters coverage, and millions need umbrellas, at-home business, watercraft, and other types of policies. Many also own businesses or influence business decisions.

While consumers and business owners have grown accustomed to shopping online, the data proves they want to establish a relationship with a trusted adviser to help them understand risk and protection in today's economy. Advantages that direct response carriers may enjoy during marketing and customer acquisition can become disadvantages during the rest of the customer life cycle.

To take advantage of this reality, many independent agency carriers and agencies are realizing that they can make online investments that attract online shoppers, as part of a broader agency strategy of developing deep and personal relationships that the direct writers cannot match. By combining online advertising and the ability to provide instant online quotes at the agency's website with personal and systematic communications primarily during the customer's first year and then consistently throughout the customer life cycle, these agents are successfully using technology to acquire lasting clients with cross-sell potential.

Carriers and agents who provide the type of customer service, education and risk management that direct response writers cannot should view key interaction points — such as onboarding, address changes, policy tweaks, and semiannual renewals — as precious opportunities for relationship development and needs-assessment rather than as routine customer service interactions. Claims filing and resolution provide agents the opportunity to establish a personal relationship, regardless of whether the customer came to the agency first via the telephone or website.

At the same time, customers have grown accustomed to using the Internet and mobile devices to self-serve routine interactions with their other providers, such as banks, phone companies and utilities. The challenge for IAs is that they must simultaneously match these customer conveniences — allowing customers to make payments, view or sign documents, and change addresses using whatever connected device they choose at a time of the day or the day of the week — while also leveraging them as opportunities for personal interaction.

Overall Health of the Independent Agency System

The newly released data suggest many positive signs of strong overall health and considerable growth opportunities for independent agents and brokers:

- **IAs still control a majority of the entire property-casualty market**, writing nearly 57% of all premiums.
- **IAs write nearly 35% of all personal lines premiums.**
- **IAs still dominate commercial insurance sales, writing nearly 80% of a market** that has grown by more than \$35 billion over the last three years.

- **IAs grew market share in 23 states and the District of Columbia.** In many states, they dominate both personal and commercial lines. That suggests IAs in other states have an opportunity to add share in more lines if they put a renewed focus on it.
- **IAs can be as efficient as other models.** In the lucrative personal auto market, both regional and independent insurance agency writers average better expense ratios than the captive agency model. Furthermore, nearly a dozen IA firms rival or beat direct response writers on this key expense efficiency metric.
- **Personal auto premiums written by IAs grew nine times more in both 2013 and 2012 than they did in 2011.** IAs increased premiums by \$1.8 billion in both 2012 and in 2013 — versus a mere \$200 million growth reported in 2011.
- **Many IIABA Best Practices agencies continued to grow** in the face of the weak economy and are doing well now that the property-casualty market appears to have turned around. Agencies that are easy to do business with, use improved access to technology, focus on market segments, 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 property-casualty insurance industry in 2013. This year's report primarily covers year-end numbers for 2013 and compares them with recent trailing years. The 2013 year is the last full period for which data — provided to IIABA by A.M. Best Co. — currently is available. (See the "About the Data" explanation in Section VI for details about how this data is compiled.)

All tables present data in the same order for the four distribution channels: 1) national independent agency (national), 2) regional independent agency (regional), 3) exclusive (captive) agency writers (exclusive), and 4) direct response (direct).

2013 P-C Insurance – Overall			
	<u>Direct Premium</u>	<u>% Share</u>	<u>% Premium Growth</u>
	<u>Written</u>		<u>2012 to 2013</u>
National	\$138.1B	25.9	-0.3
Regional	\$164.6B	30.9	9.4
Exclusive	\$187.4B	35.2	4.3
Direct	\$42.2B	7.9	9.7
TOTAL	\$532.4B	100	5.0

2013 Commercial Lines			
	<u>Direct Premium</u>	<u>% Share</u>	<u>% Premium Growth</u>
	<u>Written</u>		<u>2012 to 2013</u>
National	\$ 117.4B	44.1	1.6
Regional	\$93.5B	35.1	10.1
Exclusive	\$52.8B	19.8	6.9
Direct	\$2.5B	1.0	12.6
TOTAL	\$266.2B	100	5.6

2013 Personal Lines			
	<u>Direct Premium</u>	<u>% Share</u>	<u>% Premium Growth</u>
	<u>Written</u>		<u>2012 to 2013</u>
National	\$20.7B	7.8	-9.9
Regional	\$71.2B	26.7	8.4
Exclusive	\$134.6B	50.6	3.4
Direct	\$39.7B	14.9	9.5
TOTAL	\$266.1B	100	4.3

2013 Private-Passenger Auto			
	<u>Direct Premium</u>	<u>% Share</u>	<u>% Premium Growth</u>
	<u>Written</u>		<u>2012 to 2013</u>
National	\$9.8B	5.4	-9.8
Regional	\$47.0B	25.9	6.2
Exclusive	\$90.1B	49.6	2.9
Direct	\$34.8B	19.1	9.1
TOTAL	\$181.7B	100	4.1

After a strikingly strong year in 2012, the property-casualty market grew at an even greater rate in 2013. Premiums grew by \$25.2 billion, a full 5% over 2012 levels. Independent agency companies and their agents captured 54% of that growth, increasing their p-c premiums by \$13.7 billion to more than \$300 billion a year.

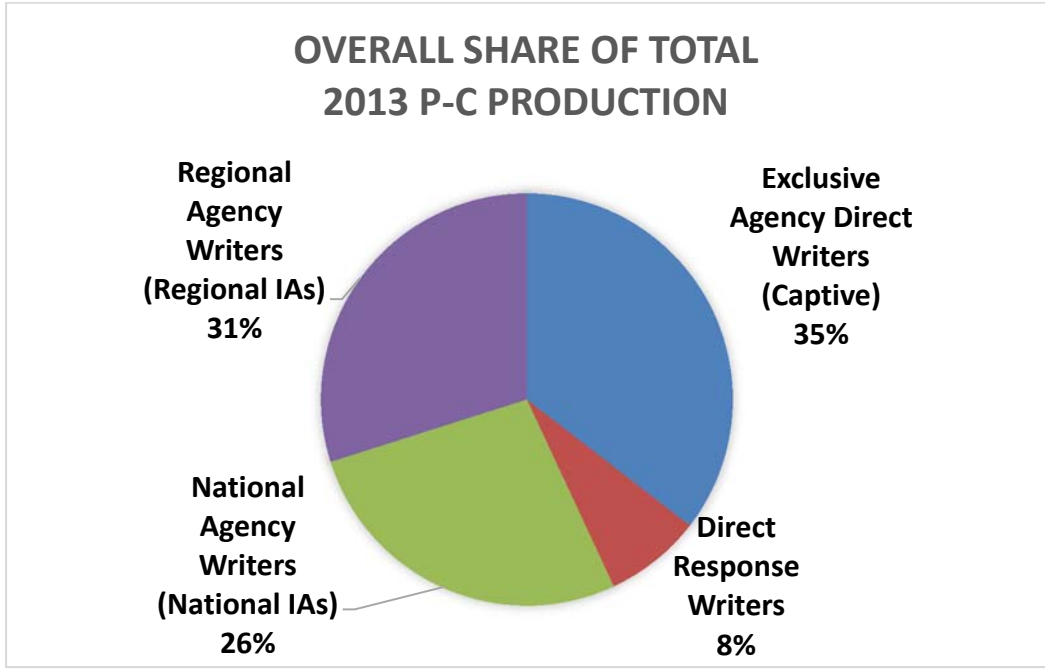
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This growth was driven entirely by regional independent agency companies. They grew premiums \$14.1 billion more than in 2012, surging to \$164.6 billion in premiums written, a 9.4% increase over 2012. By contrast, national IA carrier premiums decreased slightly by \$400 million, a modest drop of 0.3% to \$138.1 billion in 2013.

(Note that 2012 data shown in this report has been updated and may not match numbers published in last year’s report.)

Direct response carriers wrote \$3.7 billion more in 2013 than in 2012, increasing total premiums to \$42.2 billion, a 9.7% increase in premiums.

From a market share perspective, regional writers increased share to just under 31%, while agency writers dipped from 27% to 26% share of the total market. Direct response grew a modest 0.3 percentage points, while exclusive writer share dropped slightly by 0.2 percentage points.



The commercial lines market surged faster in 2013 than it had in any year since the collapse of 2008, expanding by more than \$14.2 billion over 2012 levels. Commercial lines continued to be dominated by regional and national independent agents, who generated nearly \$8 in every \$10 of the \$266 billion market. Every agency model (IA, direct response, captive agent) contributed to this growth, with each increasing premiums by more by more than 1%.

2013 Commercial Lines			
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Direct	\$2.5B	1.0	12.6
TOTAL	\$266.2B	100	5.6

National carriers remained the largest sector, writing \$117.4 billion in commercial premiums. This represents a 1.6% increase over 2012, a jump of \$1.9 billion. However, since this growth rate was below the market average of 5.6%, national writers' share dropped 1.7 percentage points, down to 44.1% of the market.

Regional carriers wrote \$8.6 billion more in 2013, achieving a double-digit percentage growth of 10.1%. Closing the year at \$93.5 billion, regional carriers will likely cross the \$100 billion mark in 2014 at current rates. This surge increased regional share by 1.4 percentage points. They now write 35.1% of the overall commercial market.

Exclusive agents wrote \$52.8 billion, an increase of 6.9% or \$3.4 billion over 2012. By beating the market average, their share increased slightly, but the 20% market share threshold eluded them once again, as they closed at 19.8% of the commercial market.

Direct response increased commercial premiums by a small fraction at \$300 million, which, given their small 2012 base of \$2.2 billion, still represented a 12.6% increase in premiums. Direct response wrote 0.99% of the commercial lines market. Most of this growth occurred in commercial auto, which will be discussed later in this report.

Personal lines premiums also grew at new levels in 2013. After an impressive \$10 billion jump in 2012, personal lines grew another \$11 billion in 2013, closing the year at \$266.1 billion. This represents a 4.3% increase over 2012, which is an improvement over 2012's growth rate of 4.0%.

2013 Personal Lines			
	<u>Direct Premium</u> <u>Written</u>	<u>% Share</u>	<u>% Premium Growth</u> <u>2012 to 2013</u>
National	\$20.7B	7.8	-9.9
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Direct	\$39.7B	14.9	9.5
TOTAL	\$266.1B	100	4.3

While exclusive agents continued to dominate the personal lines business, regional IAs grew both overall premiums and market share, even in the face of continued aggressive direct writer growth.

Regional writers wrote \$5.5 billion more in 2013 than in 2012, an 8.4% growth rate. Their premiums now total \$71.2 billion. This solid increase pushed their market share up 1 percentage point to 26.7% of the overall market.

By contrast, national writers continued to withdraw from the personal lines market. National writer production decreased almost 10%, dropping \$.3 billion from \$22.9 billion in 2012 to \$20.7 billion. Their market share similarly dropped 1.2 percentage points and now hovers at 7.8% of the market. However, a closer look reveals that much of this drop came from just a few large firms.

As mentioned above, exclusive agents still dominate this market, continuing to write more than one-half of all premiums. Captive agents wrote \$134.6 billion in 2013, \$4.4 billion more than the \$130.2 billion in 2012. This represents a 3.4% increase over 2012 production, but since that was slightly below the 4.3% overall market growth, captive market share dipped 0.4 percentage points down to 50.6% of all personal lines premiums.

Once again, direct writers outperformed the overall market, increasing their share slightly and increasing premiums by \$3.4 billion. Direct companies wrote \$39.7 billion in 2013. As a percentage, this represents a 9.5% increase over 2012 volumes. From a share perspective, this success translates to a 0.7 percentage point climb, which was still not enough to crack the 15% threshold. They closed the year at 14.9% of the overall personal lines market.

Private-passenger automobile represents 87% of all direct response personal lines premiums. Direct response grew personal auto premiums 9.1% or \$2.9 billion in 2013. This is an acceleration compared to the 8.6% growth seen in 2012. The direct premium of \$34.8 billion represents 19.1% of the personal auto market.

2013 Private-Passenger Auto			
	<u>Direct Premium</u> <u>Written</u>	<u>% Share</u>	<u>% Premium Growth</u> <u>2012 to 2013</u>
National	\$9.8B	5.4	-9.8
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Direct	\$34.8B	19.1	9.1
TOTAL	\$181.7B	100	4.1

Regional IAs, however, grew premiums nearly as much as direct writers. Regionals grew premiums \$2.8 billion versus the \$2.9 billion seen for direct writers. This solid 6.2% increase in regional production translates into a 0.5 percentage point increase in market share. Regional IAs now write slightly more than a quarter of all personal auto premiums.

The \$2.2 billion national IA retreat in personal premiums is almost evenly split between private auto and homeowners. National production decreased \$1.1 billion in private auto, a 9.8% decrease. Their share is now only 5.4% of the market, down from their 6.2% share in 2012.

Captive agents also saw an increase of more than \$2 billion, writing \$2.5 billion more in 2013 than 2012. While still writing about one-half of the overall market, their precise share dipped 0.6 percentage points to 49.6% in 2013.

III. Personal Lines

2013 Personal Lines			
	<u>Direct Premium</u> <u>Written</u>	<u>% Share</u>	<u>% Premium Growth</u> <u>2012 to 2013</u>
National	\$20.7B	7.8	-9.9
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Exclusive	\$134.6B	50.6	3.4
Direct	\$39.7B	14.9	9.5
TOTAL	\$266.1B	100	4.3

The personal lines market growth rate continued accelerating in 2013. Personal lines production has grown faster each of the last three years. After growing 2.5% in 2011, and 4% in 2012, personal lines grew 4.3% in 2013. In absolute dollars, production increased by \$10 billion in 2012 and another \$11 billion in 2013, and personal lines production ended 2013 with a total of \$266.1 billion.

Of greater interest to the IA community, regional IAs have proven that the independent agent model can compete successfully against both captive agency carriers, who own 50% of the market, and against direct writers, who have radically disrupted the market with their aggressive advertising and threatening sales models.

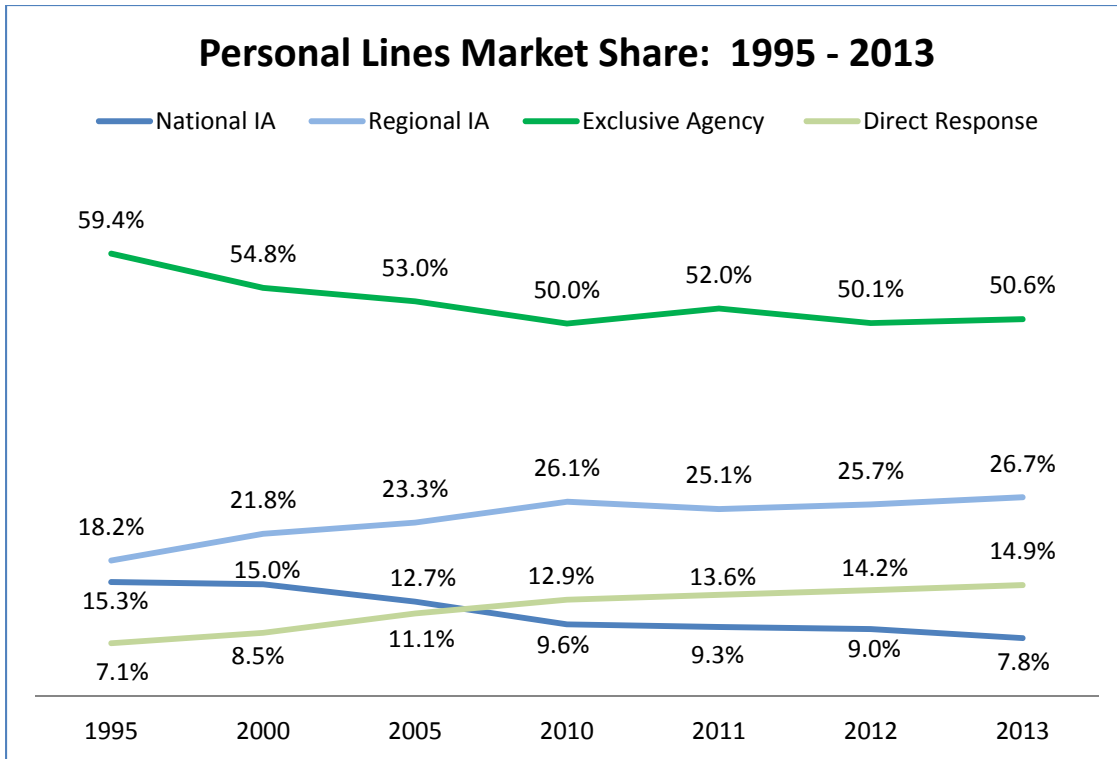
In 2013 regional IAs grew personal premiums by \$5.5 billion, which is fully 50% of the entire \$11 billion net expansion of the market. This compares to \$4.4 billion growth generated by captive carriers and \$3.4 billion growth generated by direct writers. While some of this was business lost by national carriers, mathematically it is clear regional IAs as a class were doing the right things in 2013.

Similarly, national IAs held their own, with one major exception. In the aggregate, national IAs wrote \$2.3 billion less in 2013 than they did in 2012. However, deeper analysis of the data shows that this decrease was the result of one major national underwriter exiting the market. Adjusting for this, the remaining national carriers wrote nearly the same amount of premiums in 2013 as they did in 2012, and several specific carriers who write \$500 million or more increased their production and their market share in 2013.

A. Personal Lines Market Share: 1995 - 2013

In its market share reports, IIABA has consistently looked at this data over the long-term to find macro shifts affecting independent agents. A look back to 1995 — when IIABA first began reviewing the A.M. Best data — shows that the direct response channel and regional independent agency carriers have grown at the expense of captive carriers and national IA companies.

(Note: 2012 data was updated and may not match numbers reported in last year's report.)



Several key shifts are noticeable in the above chart, which covers 19 years of data:

- Captive agency carriers have lost 8.8 percentage points since 1995, dropping from just under 60% share to just over 50%. Given the market is valued at \$266 billion, these 8.8 percentage points equate to \$23.5 billion more that captive carriers could be writing had they maintained their share over these 19 years.
- Regional IA carriers, by comparison, command 8.5 percentage points more than they did in 1995, which is worth \$22.7 billion, based on the 2013 market. Additionally, we see also that regional carriers in 2013 now enjoy the highest share over the 19 years reported, exceeding their previous market share record of 26.1% set in 2010.
- National carriers' market share is now less than one-half of what it was in 1995, dropping from 15.3% to 7.5%. Had national carriers maintained that share over the last 19 years, their production would have been \$40.7 billion rather than the \$20.7 billion it actually was in 2013.
- During the same time, direct response writers have more than doubled their market share, increasing 7.8 percentage points. They were just \$200 million short of owning 15% of the personal lines market.

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 2013 market share relative to 2012:

(Note: 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>
Markel Corporation Group	220.4*
Cincinnati Insurance Companies	6.7
ACE INA Group	4.6
Assurant P&C Group	4.5
Chubb Group of Insurance Cos	1.0

* Markel's large increase is due to an acquisition.

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 2013 over the prior year:

<u>Regional IA Carrier</u>	<u>% Growth in Market Share</u>
ASI Companies	12.9
Safeway Insurance Group	10.1
ACUITY A Mutual Insurance Co	7.6
Liberty Mutual Agency Cos	7.3
Plymouth Rock Companies	5.9
Erie Insurance Group	4.6
Drive Insurance	3.1
PEMCO Mutual Ins. Co	2.8
Enumclaw Insurance Group	2.5
Infinity Prop & Cas Group	2.1
Pekin Insurance Group	1.6
Grange Mutual Casualty Pool	1.1

Conversely, the national and regional independent agency carriers below — each posting more than \$100 million in personal lines premiums — all declined by 4% or more in market share in 2013:

<u>National/Regional IA Carrier</u>	<u>% Loss in Market Share</u>
NYCM Insurance Group	-4.3
Palisades Group	-5.8
National General Group	-7.2
Travelers Group	-8.2
Hanover Ins Grp P&C Cos	-8.9
EMC Insurance Companies	-11.2
Main Street America Group	-11.3
Kemper P&C Group	-13.2

In addition, IAG less Direct companies transferred the company's non-US business to an international affiliate in 2013. As a result their data is not included above.

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 2013, followed by market share changes for the direct response competitors:

<u>Major Captive Agency Competitors</u>	<u>% Change in Market Share</u>
Ameriprise P&C Companies	5.9
Liberty Mutual Direct Cos	5.2
Texas Farm Bureau Group	5.2
Farm Bureau P&C Group	2.3
American Family Insurance Grp	1.4
COUNTRY Financial PC Group	-1.2
Nationwide Direct Companies	-1.3
Shelter Insurance Companies	-1.4
CSAA Insurance Group	-1.6
North Carolina Farm Bureau Grp	-2.1
Sentry Insurance Group	-3.4
Allstate Direct Companies	-4.0
Farmers less Foremost	-5.9
Kentucky Farm Bureau Group	-5.9

<u>Direct Response Writers</u>	<u>Change in Market Share</u>
Government Employees Group	6.7
USAA Group	5.1
Amica Mutual Group	1.8
Progressive Direct Companies	0.4

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

IA share varies greatly across the 50 states and the District of Columbia, from a high of 74.1% in Massachusetts to a low of 13.9% in Alaska. There were also considerable differences in how well combined IAs did in their respective states.

Actually, IA share grew in more states than those in which it dropped. IA share grew by at least 0.9 percentage points in seven of the states, but only in two states did it drop by an equal or greater percentage.

IA share grew by 0.9 % or more in Florida, up 1.3% in 2013 and up 4.3% since 2012 to now just over 50% share. In Nebraska, IA share climbed on average 1.1% for each of the last two years, to cross above the 35.5% threshold. In West Virginia, IA share climbed 0.9% in 2013 on top of a 1% increase in 2012 and now stands at 34.6% share. Independent agents in California grew nearly 1.5% in 2013 and are just below 32% share. South Carolina independent agents grew their share 0.9% in 2013 and are also just shy of 32% share. In Louisiana, IAs improved 1.1% in share and now write just below 31% of all personal lines premiums. And in Colorado, where IAs write only 24.5% of the market, they increased share at a solid 1.3% in 2013 over 2012.

Conversely, only two states lost 0.9% share or more. Despite the fact that IAs dominate Massachusetts, writing \$3 of every \$4 in premium, their share in that state is down by 1.8% since 2012 and by 3.3% since 2011. Similarly, in Pennsylvania, IA share dropped 1.2% relative to 2012, where IA share there is at 43.8%.

In the rest of IA-dominated New England, IA performance varied, but most of the states saw modest decreases in market share. In Maine, IA share dropped 0.3%. In New Hampshire, it was down 0.5%. Vermont had a slightly larger drop at 0.8% decrease in market share, and Connecticut was down 0.4%. On the other hand, IA share rose in Rhode Island by 0.3%.

In all, IA share increased, at least slightly, in 26 states, while share decreased in 24 states and in the District of Columbia.

Number of States with IA Share by Range/Year (<i>Personal Lines</i>)							
Share	2007	2008	2009	2010	2011	2012	2013
More than 50%	4	4	8	2	2	2	2
45-50%	4	5	4	5	5	5	5
40-45%	8	6	5	7	7	6	7
35-40%	4	6	9	5	5	6	5
30-35%	11	10	8	10	7	9	8
Less than 30%	20	20	17	22	25	23	24

D. Private-Passenger Automobile

2013 Private-Passenger Auto			
	<u>Direct Premium Written</u>	<u>% Share</u>	<u>% Premium Growth 2012 to 2013</u>
National	\$9.8B	5.4	-9.8
Regional	\$47.0B	25.9	6.2
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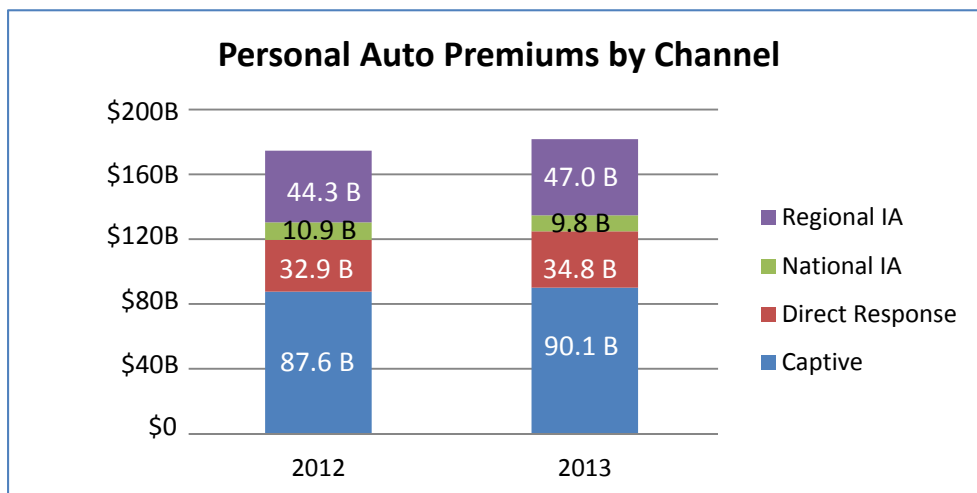
Private-passenger auto grew by \$7.1 billion in 2013 to close the year with \$181.7 billion in total premiums. The year-over-year growth is accelerating. After modest growth of 1.6% in 2011 and 3.3% in 2012, the market grew another 4.1% in 2013.

While direct response grew the most, whether measured in absolute dollars or as a percentage, regional IAs showed extremely strong growth over 2012 as well. Where direct response wrote \$2.9 billion more in 2013 than in 2012, an impressive 9.1% growth, regional IAs grew their portfolio almost as much, writing \$2.8 billion more in 2013 than in 2012, a solid 6.4% growth.

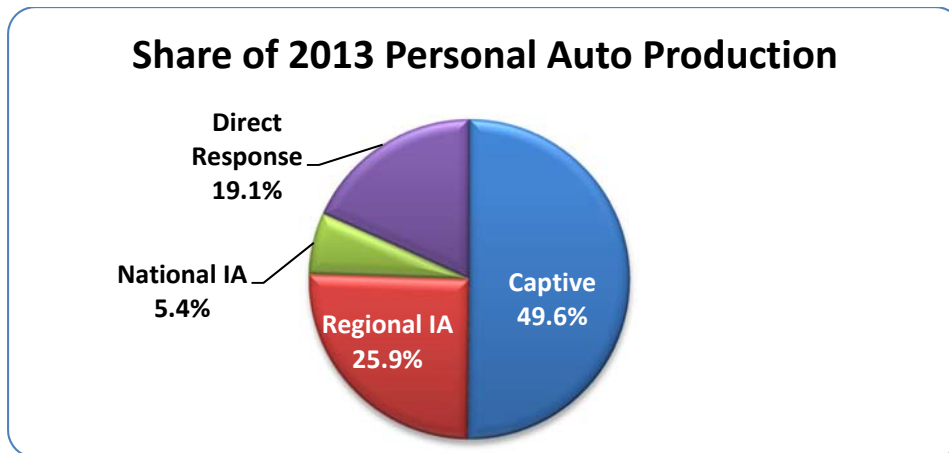
With this growth, direct response wrote a total of \$31.9 billion while regional IAs wrote \$44.2 billion in 2013.

Exclusive agents, who wrote 49.6% of all premiums (\$90.1 billion of a total of \$181.7 billion), also grew premiums by a solid \$2.5 billion in 2013 over 2012.

National agency writers wrote \$1.1 billion less in 2013 than they did in 2012, but most of that came from a single large carrier. National writers still wrote \$9.8 billion in 2013.



E. Personal Auto Market Share: 1995 - 2013



While no group gained or lost a full percentage point of market share, one must remember that even 10 basis points of share are worth almost \$200 million in annual premiums. Direct response once again increased its share, this time by 0.9 percentage points, climbing from 18.3% to 19.1% of the personal auto market. If this trend continues in 2014, direct response will break the 20% market share threshold and will be writing \$1 of every \$5 in premiums.

Regional IA carriers also increased share, by one-half of 1 percentage point, to 25.9% of the market. By contrast national IA carriers as a group lost 0.8 percentage points and are on the verge of dipping below 5% of the market.

While captive agents did increase production in 2013 by an impressive \$2.5 billion over 2012, as a percentage of their dominant 50% market share, it calculated to a 2.9% portfolio expansion, which was below the direct response and regional IA performance on a percentage basis.

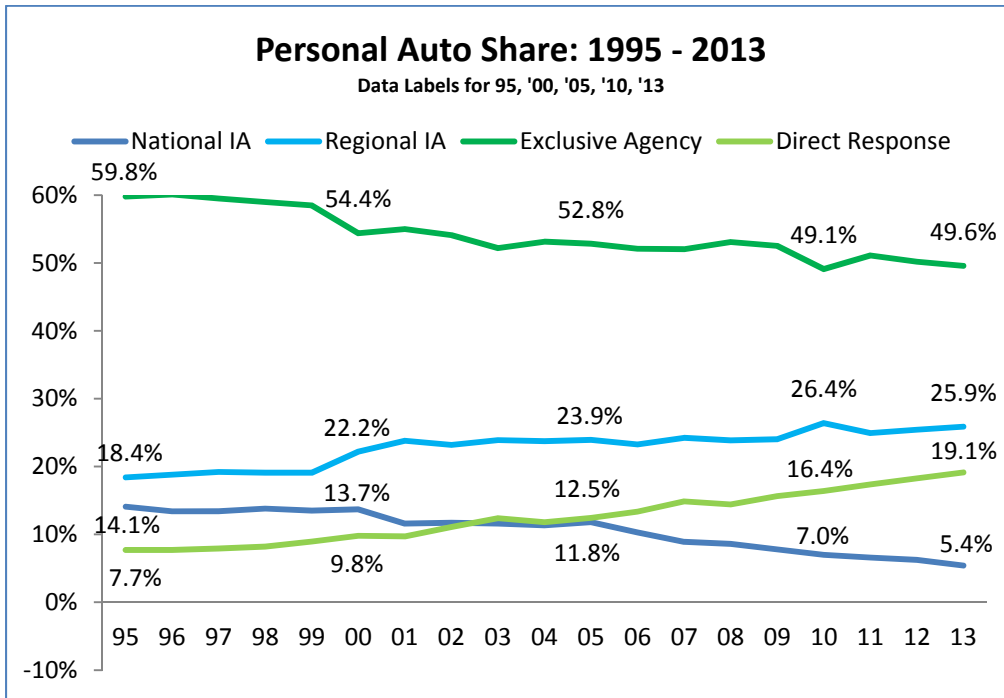
However, when we take a longer perspective and analyze of this year's results in a 19-year context shows, we see much more significant changes in share.

While captive carriers still dominate the market, this is far less true than in 1995, when their share was a full 10 percentage points higher than it is now. This shift was characterized by four distinct periods:

- A steep 4 percentage point drop in 2000.
- A gradual drop from 54.4% in 2000 down to 52.5% in 2009.
- Another significant drop to just below 50% in 2010.
- Bouncing around the 50% market for three years from 2011 to 2013.

Regional IAs have climbed by nearly 7% percentage points during those 19 years, with a significant jump in 2000 followed by a gradual climb from 22% in 2000 to 24% in 2009, and then a jump of nearly 2.5 percentage points in 2010, before starting to move down slightly between 24.9% and 25.9% over the last four years.

By contrast, national IAs as a group have lost closer to two-thirds of the 14.1% market share they enjoyed in 1995, closing 2013 with 5.4%. Their share remained fairly stable from 1995 to 2000, taking a significant dip in 2001, but stabilizing through 2005, when they began a steady, but slow decline from 2006 through 2013.



While the national IAs carriers as a group lost personal auto share and regional IAs carriers gained, the performance of individual firms was quite mixed between the two groups. As mentioned, much of the national IA loss was caused by a single firm. Among those with at least \$100 million in direct premiums written, companies showing at least a 1% gain in personal auto market share for 2013 versus 2012 include:

<u>National/Regional IA Carrier</u>	<u>% Growth in Share</u>
Markel Corporation Group	1100.6*
American Access Casualty Co	19.8
Safeway Insurance Group	12.6
American Independent Companies	9.9
Liberty Mutual Agency Cos	7.0
Plymouth Rock Companies	6.7
Cincinnati Insurance Companies	6.6
Drive Insurance	3.4
PEMCO Mutual Insurance Company	2.8
Chubb Group of Insurance Cos	2.6
Pekin Insurance Group	2.4
Infinity Prop & Cas Group	2.4
Erie Insurance Group	2.2
ACE INA Group	2.0

* Markel's large increase is due to an acquisition.

Among those with at least \$100 million in direct premiums written, companies showing at least a 5% loss in personal auto market share for 2013 versus 2012 include:

<u>National/Regional IA Carrier</u>	<u>% Loss of Market Share</u>
Palisades Group	-5.9
United Automobile Ins Group	-7.2
National General Group	-7.3
Hanover Ins Grp P&C Cos	-8.7
Tower Group Companies	-9.6
Travelers Group	-10.0
Main Street America Group	-12.8
Kemper P&C Group	-15.6
QBE Americas Group	-22.0
AIG less Direct Response	-83.3*

* Large decrease due to transfer of non-U.S. business to an international affiliate in 2013.

Among the big direct-response players, GEICO increased premiums by more than \$1.8 billion in 2013 for a total of \$18.5 billion in 2013. This is the third year in a row Geico has increased market share by more than 5%.

Large military family provider USAA once again increased premiums by more than \$500 million in 2013, boosting its share by 4.3% to \$9.2 billion total for 2012.

Interestingly, despite another year of aggressive advertising, GEICO increased premiums by only \$270 million in 2013, writing just less than \$6 billion in personal auto premiums.

<u>Major Direct Response Competitors</u>	<u>% Growth in Market Share</u>
Government Employees Group	7.0
USAA Group	4.3
Progressive Direct Companies	0.7
Amica Mutual Group	-0.7

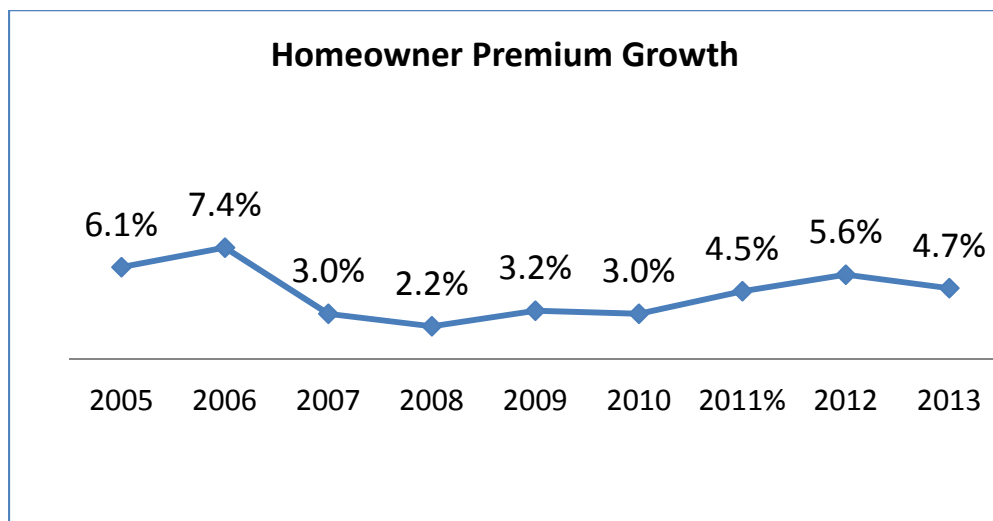
Among major captive agencies with more than \$500 million in annual premiums, comparable percentage changes in market share in 2012 (over year-prior numbers) for agents' major competitors were as follows:

<u>Major Captive Agency Competitors</u>	<u>% Growth in Market Share</u>
Liberty Mutual Direct Cos	3.5
Texas Farm Bureau Group	3.3
Alfa Insurance Group	2.6
State Farm Group	0.6
Ameriprise P&C Companies	0.5
American Family Insurance Grp	0.2
NJM Insurance Group	-0.1
Auto Club Group	-0.3
Auto Club Enterprises Ins Grp	-0.4
Southern Farm Bureau Cas Grp	-0.8
Tennessee Farmers Ins Cos	-1.7
CSAA Insurance Group	-1.8
Sentry Insurance Group	-1.9
Shelter Insurance Companies	-2.3
Allstate Direct Companies	-2.3
Nationwide Direct Companies	-2.5
COUNTRY Financial PC Group	-3.0
Farmers less Foremost	-7.9

F. Homeowners Insurance Market

2013 Homeowners			
	Direct Premium Written	% Share	% Premium Growth 2011 to 2012
National	\$10.4B	12.9	-10.6
Regional	\$23.0B	28.4	13.0
Exclusive	\$42.5B	52.6	4.2
Direct	\$ 4.9B	6.1	12.1
TOTAL	\$80.7B	100	4.7

The homeowners insurance market grew by \$3.7 billion in 2012, but this was slightly less than the \$4.1 billion it grew in 2012. Still, that \$3.7 billion represented 4.7% growth over the \$77 billion it wrote in 2012.

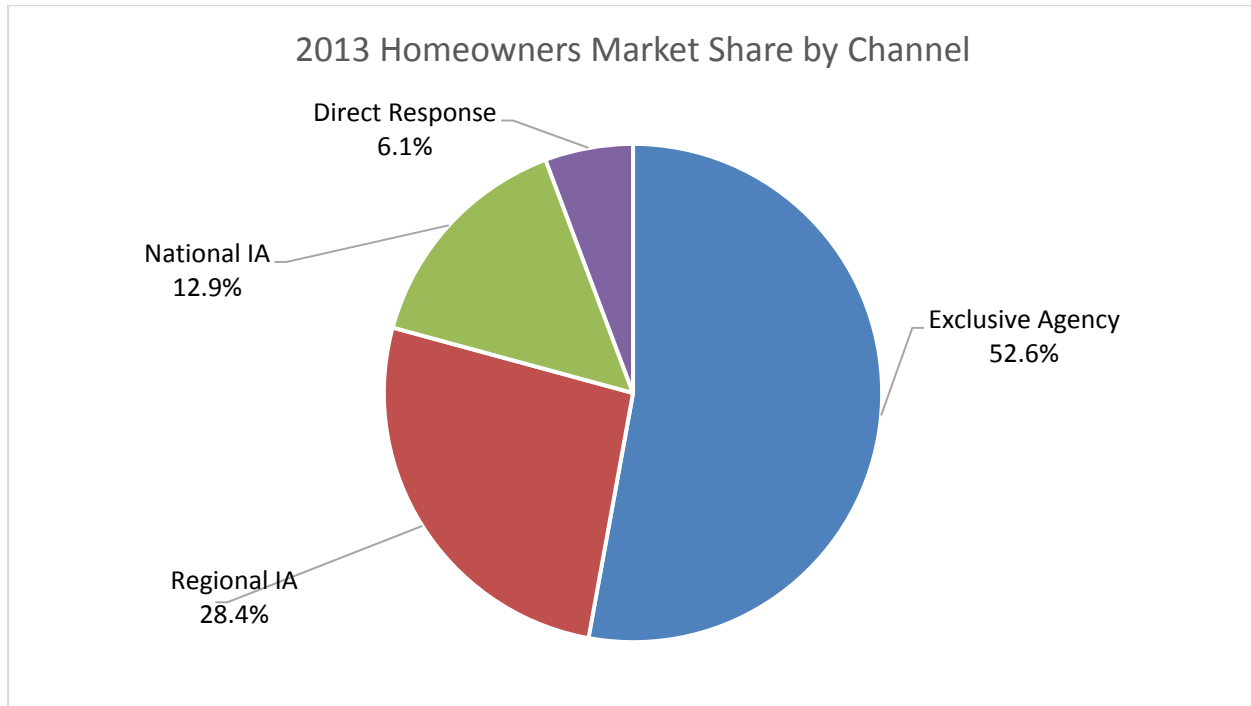


Almost three-fourths of the \$3.7 billion growth came from regional IA carriers who grew \$2.6 billion, for a whopping 13% increase over the \$20.3 billion they wrote in 2012.

Mirroring their contraction in personal auto, national IA carriers wrote \$1.2 billion less in homeowner premiums in 2013 than they did in 2012.

Direct response writers wrote about \$500 million more in homeowner premiums than they did in 2012, but still as a group controlled only 6.1% of the total market. The report later shows that USAA generated most of this growth.

Captive agents did write \$1.7 billion more in premiums in 2013 for a total \$42.5 billion. This growth, which translates to 4.2% as a percentage, is slightly below the market average growth rate of 4.7%. As a result, exclusive writers lost 0.3 percentage points of market share.



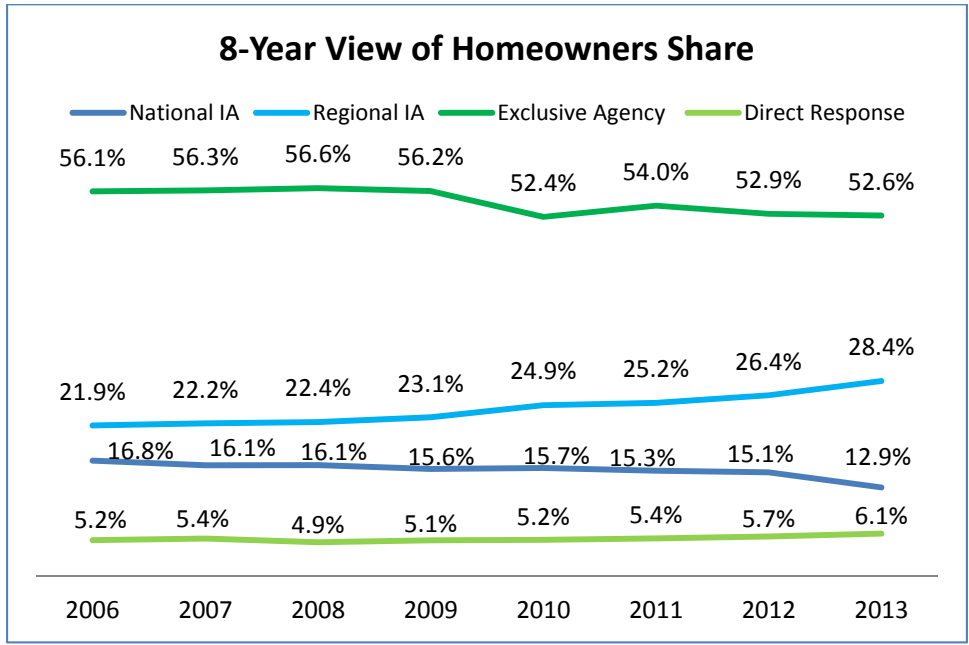
G. Homeowners Market Share: 2005 - 2013

Until this year, a view over the last nine years told the story of a slight shift where regional independent agency carriers appeared to capture several percentage points of market share at the expense of exclusive agencies. Conversely, regional writers picked up 2 percentage points, climbing from 26.4% to 28.4%.

Captive agencies saw only a slight dip from 52.9% to 52.6%, while direct writers jumped from 5.7% to 6.1%.

From 2005 to 2012, national IA companies slowly but surely lost a few fractions of a percentage point each year, culminating in a 1.5 percentage point decrease in share since 2005. In 2013, the retreat by a few national IAs from the homeowners market resulted in national writer share dropping 2.2 percentage points in one year, from 15.1% to 12.9%.

Quite unlike its strong success in personal auto, direct response has grown very slowly in homeowners, up only 1.1 percentage point over the last nine years, closing in 2013 with 5.7% of the market, up from 4.9% in 2005.



Largest IA Gains in Homeowners

National and regional independent agency carriers — those booking at least \$100 million in homeowners premiums — that show the largest percentage gains in homeowners market share for 2013 include:

(Note: 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/Regional IA Carrier</u>	<u>% Growth in Market Share</u>
QBE Americas Group	18.4
ACUITY A Mutual Insurance Co	14.0
ASI Companies	12.5
Erie Insurance Group	9.4
Liberty Mutual Agency Cos	8.1
Assurant P&C Group	8.1
Cincinnati Insurance Companies	6.7
ACE INA Group	4.7
MAPFRE North America Group	5.6
National Lloyds Group	5.6
Tower Group Companies	5.6
Safety Group	5.4
Pacific Specialty Insurance Gr	4.5
Grange Mutual Casualty Pool	3.0
MetLife Agency Companies	3.0
Selective Insurance Group	2.3
Vermont Mutual Group	2.1
Andover Companies Pool	2.0
Donegal Insurance Group	1.9
Mercury General Group	1.8
Westfield Group	1.7

Among those booking at least \$100 million in homeowners premiums, companies that reported the largest percentage losses in homeowners market share for 2013 include:

<u>National/Regional IA Carrier</u>	<u>% Growth in Market Share</u>
Hartford Insurance Group	-1.4
Motorists Insurance Pool	-2.3
NYCM Insurance Group	-2.6
Universal Ins Grp Puerto Rico	-2.6
Frankenmuth Insurance Group	-2.9
Universal Ins Holdings Grp	-4.3
Quincy Mutual Group	-4.6
Allianz of America Companies	-5.3
Kemper P&C Group	-6.0
Travelers Group	-6.8
Main Street America Group	-7.9
Hanover Ins Grp P&C Cos	-9.3

Competitors

Of the direct response competitors, only USAA writes more than \$1 billion in homeowners premiums. (USAA recorded \$4.3 billion in premiums in 2013.)

<u>Major Direct Response Competitors</u>	<u>% Growth in Market Share</u>
USAA Group	7.2
Amica Mutual Group	6.5
Progressive Direct Companies	3.9

Below are market share gains or losses for captive agencies with more than \$100 million in homeowners premiums:

<u>Major Captive Agent Competitors*</u>	<u>% Change in Market Share</u>
Ameriprise P&C Companies	22.5
Texas Farm Bureau Group	8.1
Liberty Mutual Direct Cos	8.0
Michigan Farm Bureau Group	6.3
Farm Bureau P&C Group	5.9
Auto Club Enterprises Ins Grp	4.3
American Family Insurance Grp	3.2
Tennessee Farmers Ins Cos	1.8
United Farm Bureau of IN Group	1.4
NJM Insurance Group	1.2
CSAA Insurance Group	-1.0
North Carolina Farm Bureau Grp	-1.3
Auto Club Group	-1.9
American National P&C Group	-2.0
Georgia Farm Bureau Group	-3.3
Munich-American Holding Corp Cos	-5.0
Kentucky Farm Bureau Group	-5.5
Alfa Insurance Group	-5.5
Allstate Direct Companies	-7.6

Final Thoughts on the Overall Personal Lines Market

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

- The personal lines market is as large as the commercial lines market, with each generating \$266 billion a year. Booking even 0.1% share of the personal lines market actually translates to more than \$266 million per year in premiums written.
- Personal lines premiums have grown at more than \$10 billion a year for two years in a row. Capturing just 1 percentage point of the annual growth represents an opportunity of \$100 million in premiums written.
- The independent agency carriers' overall share is higher now than it was during the 1990s, and regional IAs have increased their market share from about 18% to more than 26% of the personal lines market.
- Of the top national and regional independent agency carriers, one-half of these firms grew premiums above the overall market average and thus increased their market share in 2013.
- IAs were able to grow personal lines market share at least slightly in 26 states.
- Many IAs are proving that the model can work in the private-passenger auto market, which has now grown to \$181 billion a year. Of the top national and regional IAs, far more increased premiums in this market than not, and many grew those premiums faster than the overall market average. Collectively, IAs still write approximately one-third of all private auto premiums, despite the increased competition from direct response writers.
- Relative to commercial lines — which are 80% dominated by independent agents and brokers — car, home and related personal lines of coverage represent a massive pool of untapped potential into which independent agents and brokers can wade. Well-managed, strategically thinking and proactive firms are seeking customers in all lines of coverage, including personal lines.
- Many IAs are competing locally with direct response and captive agencies by combining customized service and advanced technology to personal lines marketing. In addition to exceptional personal service, agents are using real-time pricing and communications technologies to provide a set of competitively priced products and choices from multiple Trusted Choice® insurance brands, which direct response websites, call centers nor captive agencies can do.
- Some IAs have taken on direct response competitors directly by providing affordable instant online quotes at agency websites and then adding exceptional customer service during customer onboarding, routine servicing, and renewal.

IV. Expense Comparisons

Insurance industry observers often assert that the IA model is at an inherent disadvantage relative to other distribution systems. They believe other channels have lower costs and thus can pass that savings along to customers. But generalizations can be misleading. A closer look at the data shows that several IA carriers have competed exceedingly well against the direct response giants. Furthermore, the independent agency model fares far better on this metric than captive agency competitors.

It is true that as a category, direct response writers report better operating expense ratios than IAs or captive writers. However, individual carrier performance varies greatly. On average, direct writers recorded ratios of 29%, but the highest ratios reported by a direct writer was 35%. The table on the following page shows that more than 10 IA firms either beat or came within several percentage points of matching the competition.

In fact, since IIABA launched this research review in the mid-1990s, we have consistently have found that both national and regional IAs perform better than many captive agency firms and often rival direct response channels on efficiency.

For this comparison, IIABA 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.¹ Lower net operating expense ratios reflect more efficient operations.

When considering distribution channel averages, both national IAs and their regional counterparts beat captive agencies on the net operating expense ratio. National IAs calculated to 40.9% and regional IAs to 38.3%. Captive agency carriers came in higher at 41.2%.

<i>System Averages Net Operating Expense Ratio for Each Distribution System (2013)</i>	
National Agency Writers	40.9
Regional Agency Writers	38.3
Exclusive Agency Writers	41.2
Direct Response Writers	25.9

The expense ratios calculated for 2013 for each channel did not vary greatly from 2012. No distribution systems average moved up or down by more than 1 percentage point.

¹Because 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. 2013 Private-Passenger Auto Operating Ratios

The following table of operating ratios in personal automobile insurance lists selected IA, large captive and direct response companies. All are sorted from most efficient to least efficient.

Operating Expense Ratios for Select Insurance Agencies (2013)				
	<i>National IA</i>	<i>Regional IA</i>	<i>Captive Agencies</i>	<i>Direct Response</i>
USAA				21.0
GEICO				26.0
Progressive Direct				31.6
Drive		31.7		
Southern Farm Bureau			33.5	
Hartford	33.8			
Auto Club Enterprises Ins Grp			34.4	
Auto-Owners		34.7		
Amica Mutual				35.0
COUNTRY Financial			36.0	
Erie		37.2		
NJM Insurance			37.8	
Infinity		38.0		
MetLife Agency		38.0		
MAPFRE		38.1		
Cincinnati	38.8			
State Auto		39.2		
Chubb Group	39.2			
American Family			40.4	
Mercury General		40.4		
Auto Club Group			40.8	
Allstate Direct			40.9	
Hanover	41.1			
Kemper	41.5			
Travelers	41.7			
State Farm			42.8	
Liberty Mutual			43.0	
Farmers (less Foremost)			43.1	
Nationwide Direct			43.1	
Sentry			43.6	
Grange Mutual		43.9		
Palisades Group		44.0		
CSAA Insurance Group			44.8	
Liberty Mutual Agency Cos		44.9		
ACE INA Group	48.8			
AIG (less direct response)	50.0			
QBE Americas	50.7			

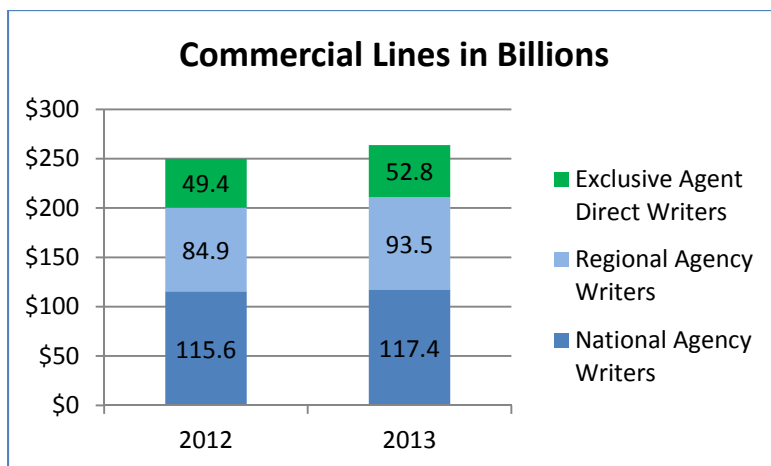
V. Commercial Lines

Commercial lines premiums grew more than \$14 billion in 2013, crushing the \$10+ billion growth recorded in 2012. This is the third year of strong growth after the contractions of the previous decade. After expanding more than \$35 billion in the last three years, commercial lines are now valued at \$266.2 billion.

Independent agents drove much of this growth, increasing their premiums in 2013 by \$10.5 billion over 2012 totals, writing \$210.9 billion. This comes on the heels of IA premiums growing more than \$8 billion in 2012 over 2011.

2013 Commercial Lines			
	<u>Direct Premium</u>	<u>% Share</u>	<u>% Premium Growth</u>
	<u>Written</u>		<u>2012 to 2013</u>
National	\$117.4B	44.1	1.6
Regional	\$93.5B	35.1	10.1
Exclusive	\$52.8B	19.8	6.9
Direct	\$2.5B	1.0	12.6
TOTAL	\$266.2B	100	5.6

This three-year growth streak cuts across all four carrier categories included in this report. Nearly identically to 2011, all channels saw premium growth in 2012, but regional agency writers again 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.



National independent agency carrier premiums grew by \$1.9 billion in 2013, which, while still positive at 1.6% annual growth rate, was a slight slowdown compared to the \$3.3 billion growth reported in

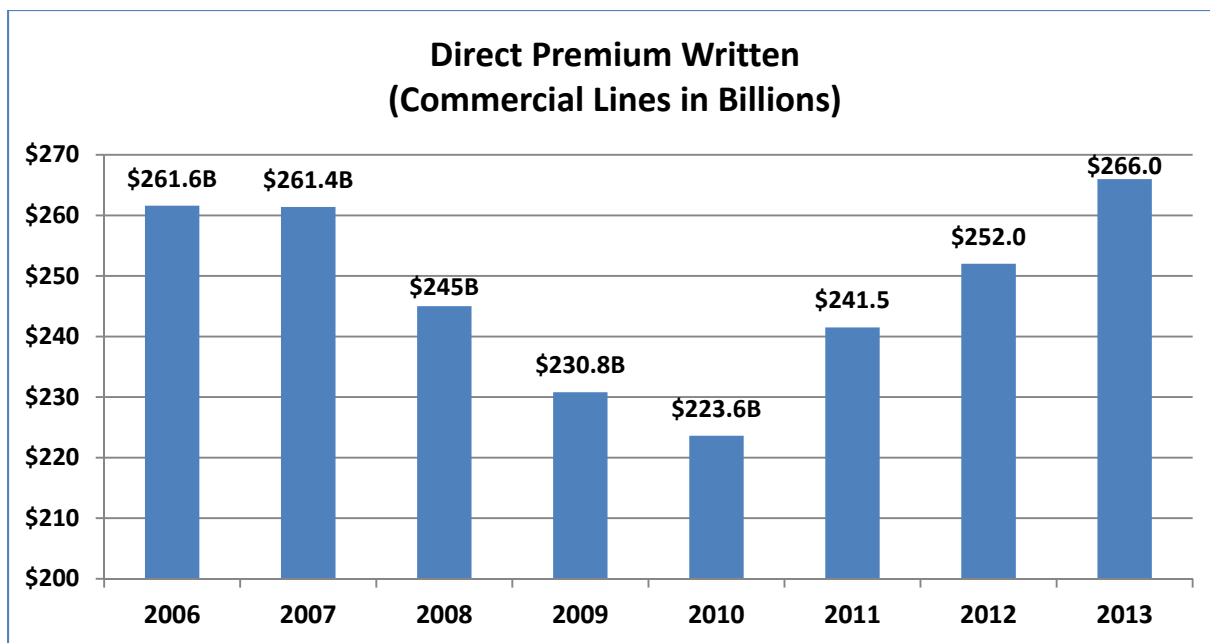
2012. National agency writers now write \$117.4 billion in premiums; that represents 44.1% share of the \$266.2 billion market.

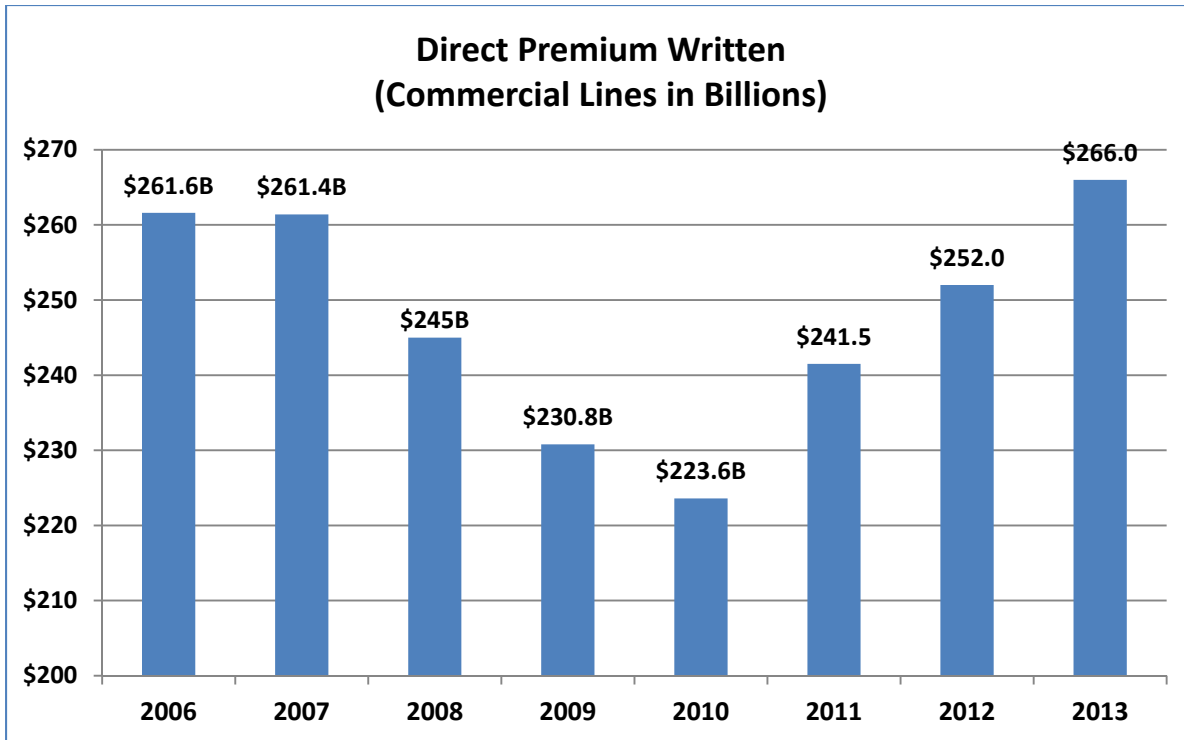
Regional IA writers grew premiums in 2013 by \$8.6 billion over 2012 levels. This represents a 10.1% increase. Regional writers are now on track to break the \$100 billion mark in 2014 after writing \$93.5 billion, or 34.1% of the total market in 2013.

Captive agency writers also grew premiums in 2013, by \$3.44 billion. They recorded \$52.8 billion, or just shy of a 20% market share (19.8%).

Even direct response carriers grew total premiums in 2013, reporting a modest \$300 million increase over 2012, for a total in 2013 of \$2.5 billion. This was enough, however, to finally break a full 1% market share.

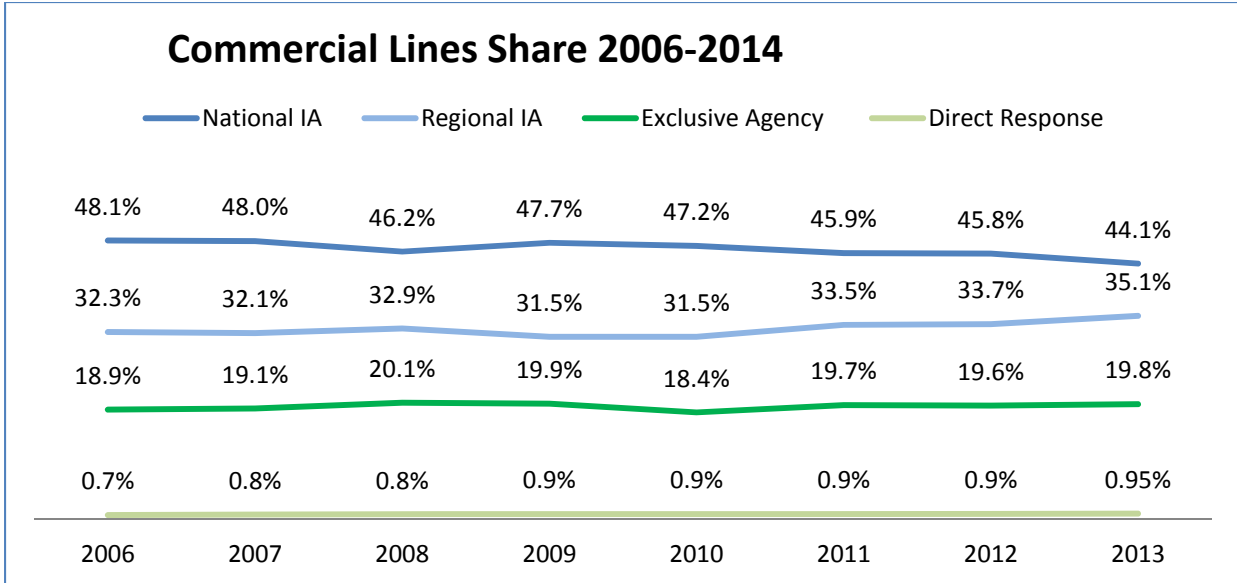
Given this \$35 billion expansion over the last three years, commercial lines have shot past their pre-recession levels and now surpass their 2006 to 2007 levels by \$5 billion or nearly 2%.



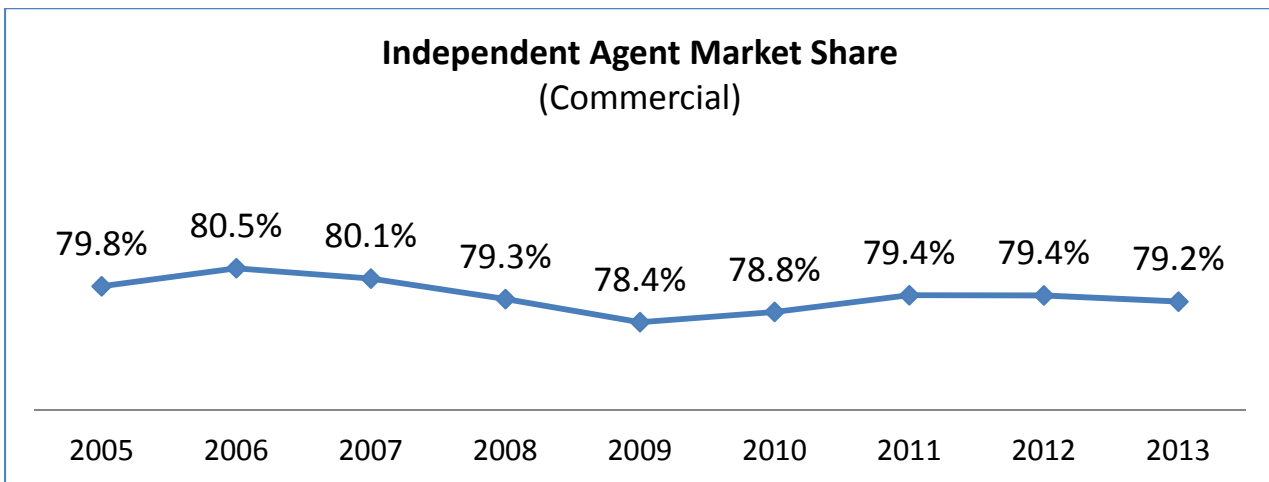


While all four sectors grew last year, some grew above or below the market average, and thus their respective market shares shifted slightly. While national IAs still dominated, with approximately 45% of the overall commercial market, their 2013 growth was positive, but less than the other channels' (excluding direct response), and thus their overall share of the total market dipped 1.2 percentage points. Regional IAs picked up most of this and some, increasing their share 1.4 percentage points. Combined then, the net effect on the market share of all independent agency writers was a tiny dip to 79.2% of the overall commercial market.

This continues a trend over the last eight years: National IA share has declined now for a total of 4 percentage points while regional IA share has grown during that time by almost 3 percentage points. Captive carriers have bounced between 18.4% and 20.1% of the market during that time, but have stabilized between 19.7% and 19.8% during the last three years. As mentioned, direct response continues to write miniscule fractions in this market, barely growing share 0.3 percentage points during that eight-year period.



When looking at the big picture, however, independent agents and brokers continue to control just about \$8 of every \$10 in commercial property and casualty insurance premiums.



A. Commercial Auto

The commercial automobile insurance market continued to accelerate, growing \$1.7 billion in 2013, well above the \$1.1 billion it grew in 2012 or the approximately \$300 million it grew in 2011. The \$1.7 billion in 2013 represents nearly a 7% increase over 2012. At \$26.9 billion, commercial auto continues to constitute approximately 10% of the overall commercial market.

<u>2013 Commercial Auto</u>			
	<u>Direct Premium</u> <u>Written</u>	<u>% Share</u>	<u>% Premium Growth</u> <u>2011 to 2012</u>
National	\$9.8B	36.4	3.0
Regional	\$12.9B	47.9	10.4
Exclusive	\$4.2B	15.4	5.4
TOTAL	\$26.9B	100	4.6

IA writers constitute 86.5% of the market – and, not surprisingly, they contributed about that much of the growth. Independent agency writers generated \$1.5 billion of the \$1.7 billion in new premiums, or 87%.

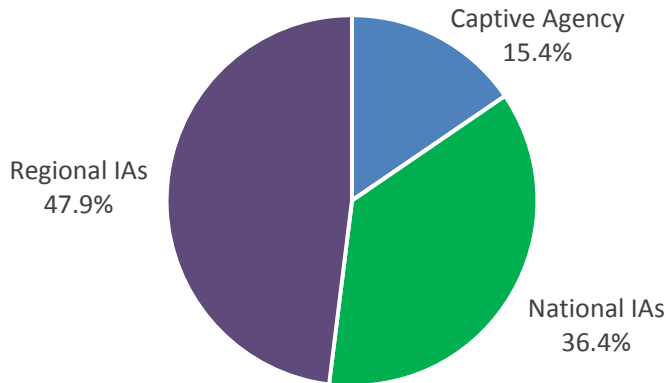
Regional IA carriers were responsible for most of this, reporting \$1.2 billion in new premiums. National IAs wrote \$300 million more than in 2012. In percentage terms, these were 10.4% and 3% increases, respectively.

Captive agencies did grow premiums by \$200 million in 2013, a 5.4% boost, which represents a small increase over the \$150 million expansion they had in 2012 over 2011. At \$4.2 billion in total commercial auto premiums, captive agencies now control 15.4% of the market.

Will the direct response giants replicate their personal auto success in commercial auto? Not yet, the data suggests. Agents dominate the commercial auto business. Direct response firms collectively still write just a fraction of 1% of the market – 0.3%, to be precise.

A slow but steady shift in market share continued again in 2013. Captive and direct response agents saw little if any change. The national independent writer share dropped 1.4 percentage points, while regional agency writers increased almost the same amount. The net result shows national IAs down to 36.4%, regional IAs up to 47.9%, and captive up slightly to 15.4%.

Share of Commercial Auto - 2013



B. Workers' Compensation

2013 Workers Comp			
	<u>Direct Premium</u> <u>Written</u>	<u>% Share</u>	<u>% Premium Growth</u> <u>2012 to 2013</u>
National	\$22.5B	45.4	4.8
Regional	\$19.6B	39.7	15.6
Exclusive	\$7.4B	14.9	0.6
TOTAL	\$49.5B	100	8.1

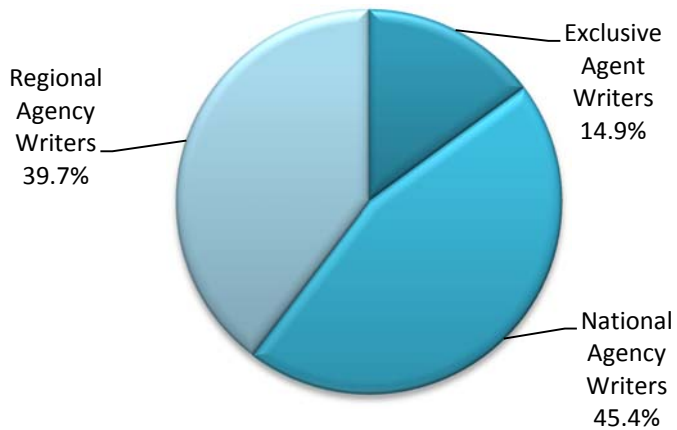
Bouncing back after a slight slowdown in 2012, the workers' compensation market had a strong year in 2013, recording 8.1% growth in premiums. As with other lines, this makes the third year of solid growth after contracting the last few years of the previous decade.

This is the second year in a row that workers' comp has grown faster than the rest of the commercial lines. At \$45.8 billion, workers' comp now constitutes 18.6% of the overall commercial property and casualty market.

In 2013, nearly all of the year-over-year growth came from independent agency writers. National IAs grew at 4.8% in 2013, reporting \$1 billion more in premiums over 2012, while regionals grew a whopping 15.6%, reporting \$2.6 billion more than they did in 2012. Captive agencies remained nearly constant, writing a mere \$43 million more than in 2012.

From a market share perspective, regional IA share jumped 2.6 percentage points up to 39.7%, while national IAs carriers dropped 1.4 percentage points down to 45.4%. Captive carriers also lost 1.1 percentage points down to 16%.

Share of Workers' Comp - 2013



C. Gains & Losses in Commercial Lines

These national and regional independent agency carriers experienced percentage growth in overall commercial lines market share in 2013 (among carriers with at least \$1 billion in direct premiums written).

(Note: Remember that 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.)

Independent Agency Carrier	% Growth in Market Share
AmTrust Group	40.0
Foremost	30.4
Berkshire Hathaway (less GEICO)	23.0
Alleghany	11.6
XL America	9.9
Markel	9.9
W. R. Berkley	8.2
Philadelphia Ins/Tokio Marine Grp	6.4
Cincinnati	5.6
EMC	5.3
Erie	4.8
Selective	4.4
Great American	3.1
Auto-Owners	1.9
Starr International	1.9
AXIS Insurance	1.2
Assurant	0.6
Zurich	0.3

Many major independent agency carriers experienced varying declines in commercial lines market share in 2013.

(Note: Carriers can increase premiums year over year and still record a decrease in market share if that growth is below the industry average.)

<u>Independent Agency Carrier</u>	<u>% Change in Market Share</u>
Hanover	-0.1
CNA	-0.3
ACE INA	-0.8
Old Republic	-1.2
White Mountains	-1.6
Travelers	-2.7
Drive	-2.7
Arch	-3.2
Hartford	-3.9
Chubb Group	-4.3
HCC Insurance	-5.0
Kemper	-6.3
Liberty Mutual Agency Cos	-8.2
QBE Americas	-8.5
AIG (less direct response)	-15.6
Allianz	-29.4

Competing Channels

Major captive agency competitors with more than \$1 billion in commercial premiums experienced the following changes in their 2013 commercial lines market share:

<u>Captive Agency</u>	<u>% Change in Market Share</u>
Wells Fargo Insurance	36.0
Swiss Re	13.5
Everest Re	9.0
Radian	8.3
Sentry	4.0
Nationwide Direct	3.3
Munich-American	0.1
Allstate Direct	-2.0
State Farm	-4.2
FM Global	-4.2
Liberty Mutual Direct	-6.2
Farmers (less Foremost)	-6.5
CUMIS Insurance Society	-8.7

Meanwhile, the direct response category continues to be less than 1% of the overall commercial market share, at \$2.5 billion. Two firms, AIG and USAA, now exceed the \$1 billion mark in commercial premiums.

<u>Major Direct Response</u>	<u>% Change in Market Share</u>
GEICO	16.8
AIG Direct	10.5
USAA	2.9
Progressive Direct	2.3
Amica Mutual	1.1

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

In most U.S. states, independent agents and brokers continue to dominate the commercial lines market and generally have retained their market share. Maine, Hawaii and Florida all stayed above their 85% market share, and Rhode Island joined them after jumping 1.5 percentage points in 2013. At the low end of the scale, IAs in Oregon have stabilized the decline they experienced in 2011 and 2012. However, after jumping 4 percentage points in 2011 and 2012, Delaware gave back 1.9 percentage points and now trails the 50 states and the District of Columbia with only 61% IA market share.

Oklahoma was the only state to increase IA share by two percentage points, pushing it back over the 80% market share threshold. After dropping nearly 2 percentage points between 2011 and 2012, Washington regained 1.8 points to climb back over the 75% market share mark in 2013.

Other states seeing increases of more than 1 percentage point include Vermont (now at 68%), New York (84.4%), and Wyoming (80.9%). Also, Connecticut, Arizona, Hawaii, California, Nevada, Texas, Tennessee, and Maryland saw increases of 0.5 percentage points or more in 2013.

On the other hand, there were eight states that experienced IA share decreases of 1 and 2 percentage points, and another five states — Idaho, Nebraska, North Dakota, South Dakota and Minnesota — that lost more than 2 percentage points in 2013.

Overall, 22 states plus the District of Columbia experienced at least small increases in IA share, and 28 states saw decreases.

Number of States with IA Share by Range (Commercial Lines)									
Share	2005	2006	2007	2008	2009	2010	2011	2012	2013
85-90%	6	5	5	4	3	3	3	3	4
80-85%	15	19	18	14	16	16	17	16	17
75-80%	20	19	18	25	24	23	21	22	18
70-75%	4	2	6	4	4	5	6	5	7
65-70%	1	2	0	3	3	3	2	2	2
60-65%	5	4	4	1	1	0	2	3	3
55-60%	0	0	0	0	0	1	0	0	0

This is the second solid year for IAs, when reviewing by states. In 2012, 19 states experienced 0.5 percentage point gains, including seven that had gains of more than 1 percentage point.

States with 5 Largest Gains or Losses in IA Commercial Market Share 2012 to 2013			
	<u>Percentage Points Gained</u>		<u>Percentage Points Lost</u>
OK	2.1	ID	-2.0
WA	1.8	NE	-2.3
VT	1.7	ND	-2.4
NY	1.6	SD	-2.4
RI	1.5	MN	-6.0

VI. About the Data

This is the 19th 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 in order 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 2013 calendar-year figures represent the latest year in which segmented data is available from A.M. Best.

The A.M. Best data offers IIBA the most accurate picture of changes in property-casualty insurance distribution because it separates captive agency and direct response carriers. In addition, as requested by IIBA, the affiliates of groups leveraging various distribution systems are separated and placed in the appropriate distribution categories (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 of comparisons as possible. Careful readers of these IIBA market share reports will note some premium and market share data changes; we use the new numbers for prior years from the latest data, which covers 2012. This occurs because carriers report adjustments for prior years, which alters the market share percentages. Most of these changes are minor.

Rounding

Some data 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

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.

Regional Carrier Explanation

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 category. When A.M. Best makes such changes, the changes are made for the prior years as well, in order to produce as accurate of 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, Cincinnati, EMC, Harleysville, HDI U.S. Group, Markel, Old Republic, Winterthur Swiss, and XL America. 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, Farmers and Progressive.

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.

Comments and questions about this research are welcome. Please contact Madelyn Flannagan, IIABA vice president, education & research, at (703) 706-5409 or madelyn.flannagan@iiaba.net.