Independent Insurance Agents
& Brokers of America, Inc.

2010 Property-Casualty Insurance Market:
Opportunities & Competitive Challenges For Independent Agents & Brokers

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I. Introduction & Commentary

Two Big Challenges—and Opportunities They Present

At first glance, this report shows that there are two major challenges facing independent agents and brokers: a shrinking commercial market and a continuing threat to personal auto share from a powerful direct response channel. A deeper dive into the data, however, shows excellent growth potential for IAs in the face of these challenges.

This is the 15th year that the Independent Insurance Agents & Brokers of America, Inc. has reviewed the property/casualty premium market using data provided by A.M. Best Company. Once again, this report is inspiring in many ways because each year we see that while the IA sector is facing stiff challenges, there are individual carriers in every business line that are building market share despite the difficulties.

Furthermore, as in years past, we see that IA carriers operate nearly as efficiently as their direct channel rivals. The data here proves that the Independent Agency System can continue to thrive.

Shrinking Commercial Sector

On the commercial lines side, the most prominent challenge facing IAs is a decreasing marketplace. Commercial auto and workers compensation premiums decreased in 2010. Total commercial premiums through all channels shrank by more than $3 billion. Since IAs control nearly 80% of this market, they felt much of that loss.

However, when we look more closely, we see signs of opportunity within the commercial marketplace. When weighing performance by channel, we see that exclusive agencies have lost slightly more in premiums relative to their share of the market, and IAs share of the market actually is up slightly over 2008. Seven states saw total IA share of the commercial market increase more than one full percentage point in 2010.

In two states, IAs increased share and premiums even when the overall commercial market in those states shrank. Many individual firms increased commercial premiums despite a contraction of the entire premium pool.

This report demonstrates that shake-ups—such as those seen in the commercial insurance sector—in fact offer opportunities for aggressive firms to increase premiums and improve their market share.

Direct Response Success

In the major consumer battleground of private-passenger auto insurance, the success of direct advertising combined with the ease of online purchasing helped direct response firms grow premiums in 2010 by $1.7 billion. By comparison, regional independent agent carriers increased their premium base by $700 million, while captive agents and national independent agency carriers both saw premiums decrease. This is an improvement for more IA carriers over the prior year: In 2009, premiums decreased for all channels except for direct response, which added $2.3 billion.

The success of GEICO et al and other direct carriers over the last decade is unmistakable. In 2010, fully one in every six dollars in personal auto premiums generated was through the direct response channel. The direct share is now17% of the market, and each percentage is worth $1.6 billion in premium revenue.

What should the Independent Agency System do about it? To continue defending their turf and even adding share into the future, independent agents and brokers should continue fighting for private-passenger auto. The investment in marketing and service is worth it: This giant category of opportunity represents one-third of the entire property-casualty bucket—including commercial lines.

Moreover, there is no reason why direct response carriers should dominate online or even mobile communication just because their closed, one-carrier ecosystem is presumably less complicated. Independent agents and brokers and their carrier business partners must work to take full advantage of online, real-time technologies to sell and service customers. These technologies do not need to be seen as replacing agents' relationships with clients; they improve them. Fortunately, the independent agency system has begun to take proactive steps to address the variety of consumer shopping and service preferences. Overall, consumer preferences are changing, both in how they research their purchases and the service capabilities they expect. Independent agents can meet these expectations if they are willing to invest and adapt their agency's operations.

Today, most consumers start online when shopping for car insurance. Moreover, many quote requests come from an individual or family with policy needs such as homeowners, umbrellas, businesses at home, watercraft, and other coverages. Just because the customer goes online to launch an insurance-shopping process does not mean they are averse to establishing a relationship with someone who can act as a trusted advisor to help them understand the big picture about risk management, how policies fit together, and other value-added material. Firms that fail to pursue basic auto insurance requests as an entrée will miss many opportunities for important needs-assessment conversations.

Overall Channel Health

We believe the A.M. Best data points to strong overall health as well as suggests superb growth opportunities in the IA channel:

1. **Independent agents and brokers still control a majority of the entire property-casualty market**, writing 56% of all premiums, and even a third of all personal premiums. While it has been facing tough challenges in recent years, the IA channel still dominates.

2. **IA carriers 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, which means IAs in other states have an opportunity to add share in more lines if they focus on them.
3. **Individual IA carriers are growing in personal auto and commercial.** While clearly the IA channel continues to be pressured by direct response, several national and regional companies boosted premiums and market share in this business line. And even in shrinking commercial markets, there are many firms that are growing premiums.
4. **Many IIABA "Best Practices" firms continue to expand in the face of weak markets and aggressive captive and direct competitors.** These firms emphasize the competitive value that personal relationships, breadth of knowledge, and a variety of strong carriers bring to differentiate them in the market. Agents and brokers that make it easy to do business, leverage technology, and provide the confidence and customization inherent in the Trusted Choice© brand have the potential to enjoy robust growth in every state and every product line. View the Best Practices Study at http://www.bp.reaganconsulting.com
5. **IA carriers can operate as efficiently as other models.** While IA companies may lag behind the industry average, there are individual IA writers with personal auto efficiency ratios that rival captive carriers and direct response channels. This proves that management practices and discipline—not the model itself—are the key drivers of expense ratio. It is not accurate to say that the IA channel costs more than the other delivery channels.

Project CAP Provides IAs New Online Path

As noted earlier in this report, there are plenty of bright opportunities for entrepreneurial and aggressive independent agents and brokers. But there are challenges that require a combined, channel-specific response. That's why IIABA, Trusted Choice©, several carrier partners and others have invested in Project CAP (Consumer-Agent Portal), which will provide independent agents and brokers an aggressive, new online site for personal lines leads, quoting and sales. Project CAP will be rolled out in 2012 in several markets. Since so many consumers are beginning the search for coverage options online, this online marketplace will provide an additional avenue for IAs to combat direct response and captive agency channels. For more information about this program, visit www.projectcap.info.

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 2010. This year's report mainly covers year-end numbers for 2010 and compares with recent trailing years. This is the last full year for which data—provided to IIABA by A.M. Best Co.—is 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, Regional Independent Agency, 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.

2010 P&C Insurance – Overall

	Direct premium written	% Share	% Premium growth 2009 to 2010
National	$130.9B	28.5%	-2.0%
Regional	$126.8B	27.6%	-0.9%
Exclusive	$169.1B	36.8%	-0.9%
Direct	$32.9B	7.2%	6.3%
TOTAL	$459.8B	100%	-0.7%

2010 Commercial Lines

	Direct premium written	% Share	% Premium growth 2009 to 2010
National	$107.0B	47.9%	-2.9%
Regional	$71.0B	31.7%	-2.3%
Exclusive	$43.6B	19.5%	-5.2%
Direct	$2.0B	0.9%	-1.9%
TOTAL	$223.6B	100%	-3.1%

2010 Personal Lines

	Direct premium written	% Share	% Premium growth 2008 to 2010
National	$23.9B	10.1%	1.9%
Regional	$55.9B	23.7%	0.9%
Exclusive	$125.5B	53.1%	0.8%
Direct	$30.9B	13.1%	6.9%
TOTAL	$236.2B	100%	1.7%

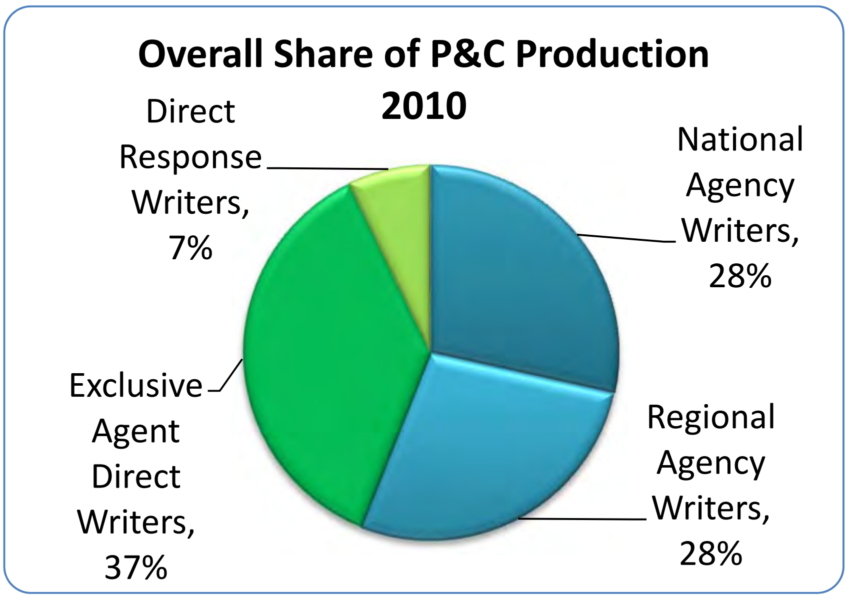
2010 Private-Passenger Auto

	Direct premium written	% Share	% Premium growth 2008 to 2010
National	$12.4B	7.5%	-2.3%
Regional	$39.9B	24.2%	1.8%
Exclusive	$85.4B	51.7%	-0.5%
Direct	$27.3B	16.6%	6.9%
TOTAL	$165.0B	100%	1.1%

Similar to 2009, 2010 was defined by a continuing weak economy as well as soft pricing in the property-casualty insurance industry. While commercial lines experienced negative premium growth, personal lines grew 1.7%.

The overall P&C insurance market continued to decline slightly, but much more slowly than in 2009, which saw approximately a 4% contraction. Total direct written premiums were $459.8 billion in 2010, compared with $463.2 billion in 2009, a decrease of 0.7%. *(Note that some 2009 data shown in this report has been adjusted by A.M. Best relative to that in last year's report and thus may not match numbers published last year.)*

Overall premiums have dropped 6.2% from the 2007 level of $490.1 billion.

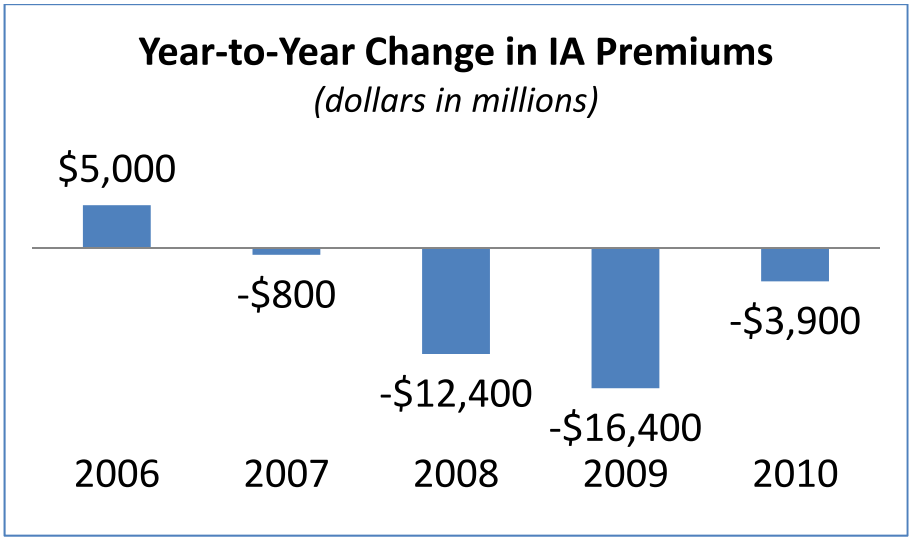


Independent insurance agents and brokers (collectively "IAs") produced $257.7 billion of the total $459.8 billion property-casualty market in 2010—meaning they generated about $5.60 of every $10 written in overall premiums. The IA overall share of the total P&C premium dropped slightly to 56.1%, in 2010 from 56.5 in 2009. (IAs wrote $261.6 billion of a total $463.1 billion market in 2009.)

Independent agents and brokers continued to face the impact of the recession and the accompanying shrinking premium market, but the declines appeared to be slowing in 2010. Regional and national IA companies collectively wrote $3.9 billion less in P&C premium in 2010, but this is a far smaller contraction than the $16.4 billion decrease in P&C premium in 2009. These decreases are on the heels of P&C premium decreases of $12.4 billion in 2008 and $800 million in 2007.

By comparison, IAs had gained $5 billion in 2006 and $4 billion in 2005.

The following table shows recent changes in premium generated by the IA channel.



Direct response continues to strengthen its share in this competitive marketplace, even during a down economy. While accounting for a relatively small share of the 2010 P&C market (7.2%), direct response writers grew production by almost $2 billion over 2009, or 6.3% growth. As was the case in 2009, direct response was the only channel with positive growth in 2010 for all P&C.

It is important to note that even small percentage movements in market share can translate into hundreds of millions of dollars in premium moving in or out of a particular distribution channel.

III. Personal Lines

As in 2009, the overall personal lines market achieved a small gain in premiums in 2010—unlike in commercial, as the data shows in Section V. Personal lines production ended 2010 at $236.2 billion, growing 1.7% over 2009. This was double the 0.8% increase from 2008 to 2009..

Both national and regional independent agency companies saw modest increases in premiums, but essentially were flat in market share growth in 2010. Captive agency carriers grew almost a billion, but their share decreased slightly. While these three channels grew less than $1 billion each, the direct response channel grew by nearly $2 billion, and was the only channel to significantly increase its share of the personal market.

It is important to note that each percentage point change of personal lines market share is worth nearly $2.4 billion in premiums.

Regional IAs held steady: Premiums grew about $500 million in 2010, up to $55.9 billion, and market share was flat but slightly down, ending at 23.7% in 2010. (That compares with 23.8% in 2009 and 23.5% in 2008.)

National IA carriers booked approximately $450 million more in direct written premiums from 2009 to 2010. However, this increase was less than the $850 million increase from 2008 to 2009. . Their market share was 10.1% in 2010—the same as in 2009.

Captive carriers continue to dominate the market with the majority of business ($125.5 billion in 2010), up almost $950 million from 2009. However, due to the significant growth among direct response carriers, captive carriers' market share dropped again—down to 53.1%.

As stated above, the compelling trend in personal lines is the continued presence and impact of direct response carriers. These aggressively communicated and well-funded competitors grew significantly in 2010, adding almost $2 billion of personal lines premium, for a total of $30.9 billion, or 13.1% of the market. This represents a 6.9% increase in direct premiums written for this channel over 2009.

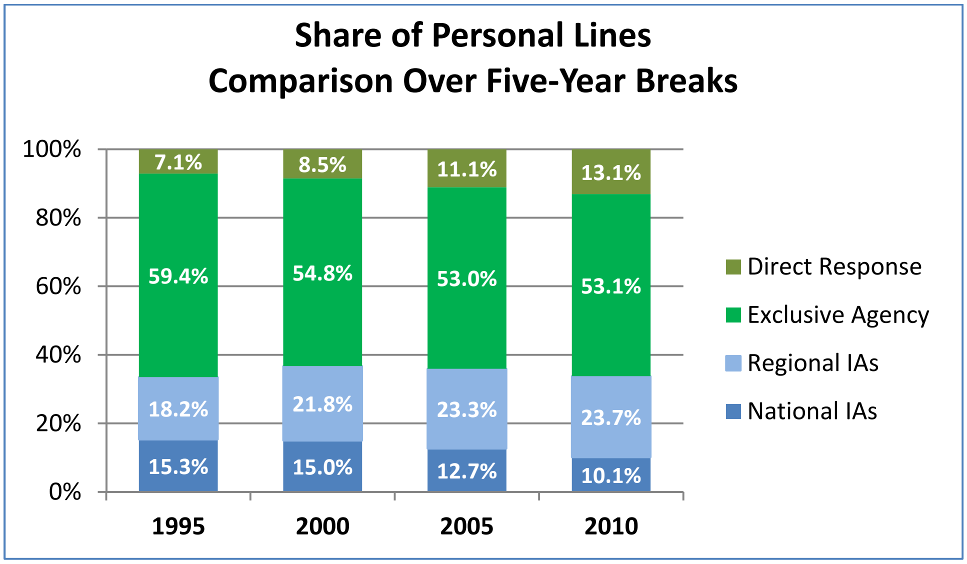
2010 Personal Lines			
	Direct premium written	% Share	% Premium growth 2008 to 2009
National	$23.9B	10.1%	1.9%
Regional	$55.9B	23.7%	0.9%
Exclusive	$125.5B	53.1%	0.8%
Direct	$30.9B	13.1%	6.9%
TOTAL	$236.2B	100%	1.7%

A. 15-Year Look: Personal Lines Market Share

In 2010, the direct response channel increased personal lines share at the expense of captive carriers, while down just slightly. However, this short-term view masks a long-term shift where direct response channel and regional independent agency carriers have each grown at the expense of captive carriers and National IAs. The chart below provides a snapshot view of five-year increments of personal lines market share over the past 15 years. Note that:

- Captive agent carriers continue to hold a consistent share of just more than half the market (53.1%)—but this share has declined by more than 6 percentage points since 1995.
- Regional IA carriers have increased 5.5 percentage points over the last 15 years, with the single largest increase occurring between 1995 and 2000.
- Direct-response writers are steadily increasing share, up 6 points since 1995 to now account for 13.1%. In the past couple of years, they have grown to surpass the national IAs (both in volume and share), but lag significantly behind regional IAs and captive carriers.

- National IA carriers continue to face declining share (down 5 percentage points to 10.2% since 1995.) It appears direct response carriers gain at the expense of national IA carriers.



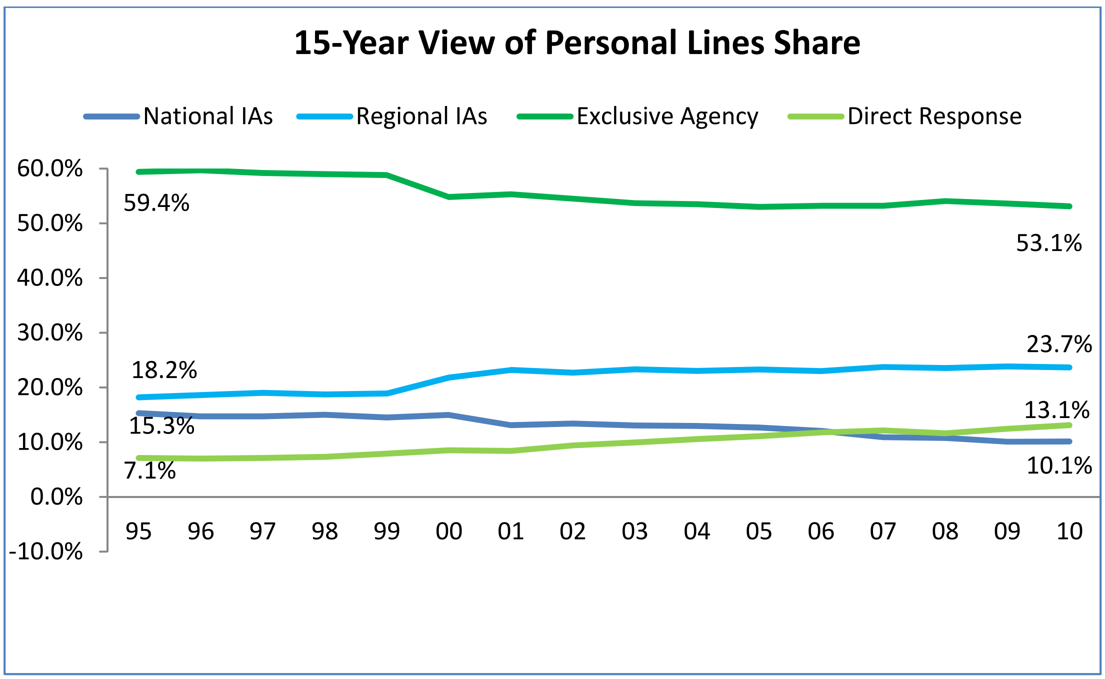
The chart below provides an additional 15-year viewpoint of personal lines. Some highlights:

- Captive carriers dominate personal lines, but have experienced some decline (the biggest decline was 1999-2000 with a drop of 4 points.) They have held fairly steady since.

- Regional IA carriers and direct-response writers have been increasing their shares year over year, except 2010 when they dipped ever so slightly.

- Although direct response started with the lowest share (7.1% in 1995), over the past 15 years, this channel has experienced the most significant percentage change in market share, growing 84.5% over that time.

- National IA carriers however, have overall negative market share growth of negative 34.0% during this period.



B. Gains & Losses in Personal Lines Share

Just about half of the major national and regional independent agency companies improved their market share of personal lines in 2010 over the prior year, while the remainder maintained or lost some of their market share.

The following national IA companies with direct written premiums of at least $100 million in personal lines experienced the following changes in their 2010 market share relative to 2009.[1]:

National IA Carrier	% Change in Market Share
ACE INA Group	55.1
Harleysville Insurance	13.0
AIG (less direct response)	11.6
Cincinnati Insurance Cos.	6.0
Travelers Group	3.9
Assurant Insurance Group	1.7
Foremost Corp. Group	1.1
EMC Insurance Cos.	0.6

Meanwhile, the following regional IA companies saw percentage growth in their personal lines market share in 2010[1] over the prior year:

Regional IA Carrier	% Growth in Market Share
Permanent General Ins Group	22.4
American Strategic Ins Group	20.3
Pekin Insurance Group	13.3
Universal Ins Group Puerto Rico	11.6
Infinity P&C Group	10.7
Safety Group	8.1
Auto-Owners Insurance Group	7.8
MAPFRE North America Group	5.5
Liberty Mutual Agency Cos.	4.0
Arbella Insurance Group	4.0
Erie Insurance Group	3.8
NYCM Insurance Group	3.1
State Auto Insurance Cos.	2.1
Palisades Group	1.2
Donegal Insurance Group	1.1

On the flip side, the national and regional independent agency carriers below with more than $100 million in personal lines premium each were down by 4% or more in market share in 2010[2]:

[1] *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.*

National/Regional IA Carrier	% Growth in Market Share
Unitrin P&C Insurance Group	-11.6
Allianz of America	-8.1
Hartford Insurance Group	-5.0
Plymouth Rock Companies	-4.8
QBE Americas Group	-4.4
Integon National Group	-4.4

Some competitors to independent agents and brokers experienced the following percentage changes in personal lines market share in 2010 over the prior year:

Major Direct-Response Competitors	% Growth in Market Share
Progressive Direct Companies	9.0
USAA Group	5.7
Amica Mutual Group	5.6
GEICO	3.4

Major Captive Agency Competitors	% Growth in Market Share
Homesite Group	19.1
Kentucky Farm Bureau Group	7.2
Munich-American Holding Corp.	6.3
Farm Bureau P&C Group	5.9
Shelter Insurance Companies	5.0
Auto Club Group	4.6
North Carolina Farm Bureau Group	4.5
Ameriprise P&C Companies	4.5
Tennessee Farmers Ins Cos.	4.2
NJM Insurance Group	4.2
Michigan Farm Bureau Group	4.0
Liberty Mutual Direct Cos.	4.0
Texas Farm Bureau Group	3.9
Alfa Insurance Group	3.4
State Farm Group	1.6
American National P&C Group	1.3
COUNTRY Financial	1.2
Auto Club Enterprises Ins. Group	1.0

[2] *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.*

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

The personal lines market share held by independent agents and brokers varies widely by state, around a national average of 33.8%. The share in 2010 ranged from a low of 15.3% in Alaska to a high of 79.0% in Massachusetts. However, in the latter state, the IA share declined 1.7 percentage points from 2009, when the IA share was 80.7%. Moreover, the IA share has dropped nearly six percentage points from the 85.3% it controlled in 2006—the year that regulatory changes brought new competitors to the auto insurance market.

The IA channel market share increased by more than 1 percentage point in 2010 in only three states. In South Carolina, the IA market share rose 1.1 percentage points, up to 29.6% of the personal lines market; Utah rose 1 point to 26.8%; and North Carolina was up 1 point to 31.7%. Montana just missed the mark at a 0.9 percentage point increase, up to 48.4%.

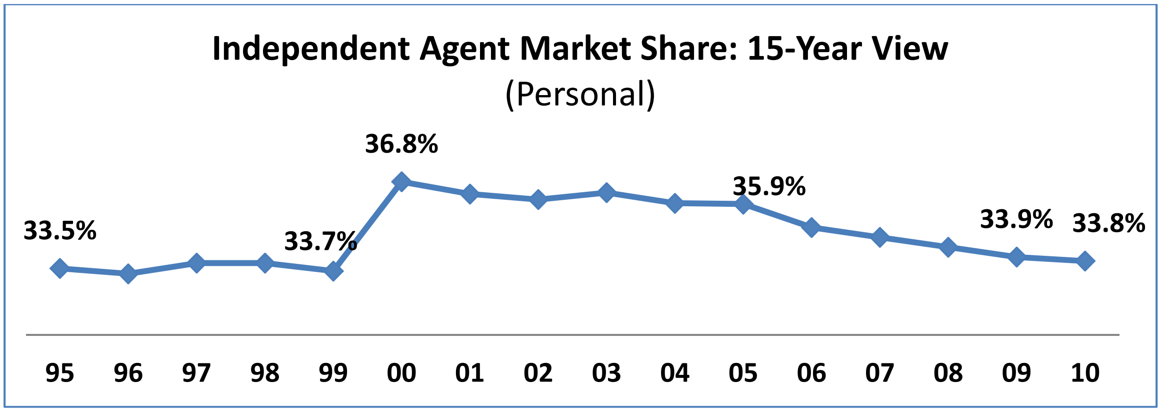
However, the IA share dropped between 1 and 2 percentage points in four states, three of which were in New England, a traditional stronghold for independent agents. Rhode Island was down 1.4 percentage points in personal lines, to 43.4%; Connecticut was down 1.5 points, to 46.3%; and Massachusetts was down 1.7 percentage points. Kentucky was down 1.4 to 27.7%.

Based on premiums booked over the 15 years since IIABA has prepared this report, the trend in state-specific market share commanded by independent agents and brokers has been flat or downward.

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

Number of States with IA Share by Range/Year *(Personal Lines)*						
Share	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Over 50%	4	4	4	4	2	2
45-50%	6	3	4	5	5	7
40-45%	6	7	8	6	7	6
35-40%	6	5	4	6	5	5
30-35%	10	9	11	10	10	9
Under 30%	19	23	20	20	22	22

A 15-year view of the Independent Agent System shows a steady decline in personal lines market share since its peak in 2000. The IA channel basically has the same market share it had 15 years ago.



As noted in IIABA's previous annual reports, independent agents and brokers have an attractive opportunity in this huge consumer market:

- Even though the Independent Agency System's share of personal lines continued to decline in 2009, IAs were able to grow market share at least slightly in 34 states in 2010

- Despite weak pricing and a soft economy, the personal lines market continued to grow to $236.2 billion in 2010, an increase of $3.9 billion or 1.7% over the $232.3 billion in 2009.

- Private-passenger auto alone represents fully one-third of the total P&C premium pool, including commercial lines. The sheer size is a huge opportunity.

- Many younger entrepreneurs continue to launch new independent agencies, and many of these tech-savvy firms are aggressively seeking personal lines.

- 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 offers a big premium pool that smart agents and brokers wade into. Strategically focused, well-managed agencies are seeking customers in all lines of coverage, including personal lines, particularly in light of weak commercial pricing.

D. Private-Passenger Automobile

2010 Personal Auto			
	Direct premium written	% Share	% Premium growth 2009 to 2010
National	$12.4B	7.5%	-2.3%
Regional	$39.9B	24.2%	1.8%
Exclusive	$85.4B	51.7%	-0.5%
Direct	$27.3B	16.6%	6.9%
TOTAL	$165.0B	100%	1.1%

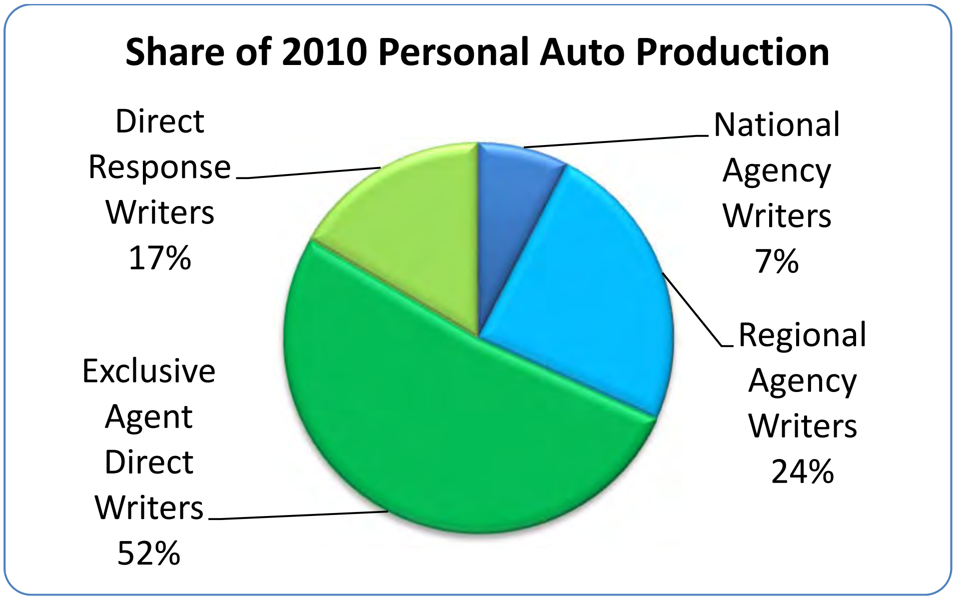
With so much consumer advertising dollars focused on selling car insurance, this market reigns supreme. The private-passenger automobile segment comprises nearly 70% of all personal lines and 36% of the entire property-casualty market in 2010.

After dipping slightly in 2009, premiums for personal auto increased $ 1.7 billion in 2010. Premiums were $165.0 billion in 2010, which is a 1.1% increase over the $163.3 billion figure in 2009.

In past decades, the big captive agency carrier was a growing competitor with which to be reckoned. But in the last 15 years, the direct response channel has emerged as a strong force in the personal auto segment. Captive agents and national independent agent carriers both saw premium decreases in 2010. However, regional independent agent carriers increased premiums by almost $700 million in 2010, while the direct response channel increased premiums by $1.7 billion in 2010 and now accounts for 16.6% of all personal auto premiums.

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. Agents need to position themselves as “trusted advisors”. Consumer research indicates that consumers view choice as a lesser reason to seek an independent agent because they can use the Internet to get quotes from several carriers and do not need an intermediary to do so.

In 2009, captive agency carriers still commanded more than half of the private-passenger auto insurance market. However, their hold is weakening. Their 2010 personal auto premiums were $85.4 billion, which was $ 400 million less than 2009 when the total personal auto market grew $1.5 billion. Their share in 2010 was 51.7%, down from 52.5% in 2009.



Direct-response companies wrote $27.3 billion in 2010, an increase of 6.9% over 2009.

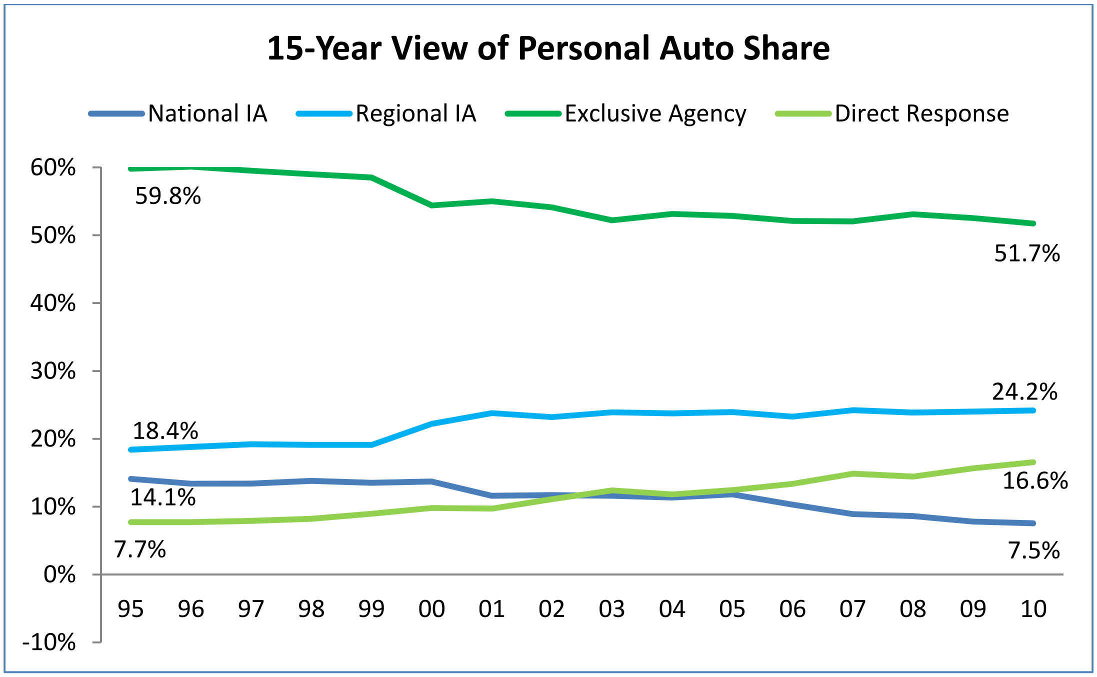
With the regional independent agency companies at $39.9 billion in premiums (a 24.2% share) and national IA companies at $12.4 billion (7.5%), the IA channel only lost a combined 0.1 percentage points of market share in 2010 over 2009.

Note that even small movements in share represent huge opportunities won or lost: Each market share point in personal auto was the equivalent of more than $1.6 billion in premium in 2010.

E. 15-Year Look: Personal Auto Market Share

Over the 15 years ending with 2010, all the channels have experienced significant change in market share. Captive carriers and regional IA companies, however, have been fairly unchanged for the past five to seven years.

For direct-response companies and national IAs, 2003 was the most significant year of the 15-year look. That is the year when direct response surpassed national IAs in personal auto market share. The direct-response companies continue to price competitively and throw heavy advertising dollars toward this market and as a result, continue to see market share growth, while national IAs continue to steadily lose 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 2010 vs. 2009 include:

National/Regional IA Carrier	% Growth in Market Share
Infinity P&C Group	11.41
Auto-Owners Insurance Group	9.17
MAPFRE North America Group	5.05
Liberty Mutual Agency Cos	3.59
Erie Insurance Group	3.57
Travelers Group	3.31
Palisades Group	3.44
White Mountains Insurance Group	1.92

Conversely, among the big direct-response players, Progressive Direct had the largest market share growth in 2010 (9.7%), adding $480 million in premiums for a total of $4.9 billion. The leader in personal auto direct response, GEICO, grew significantly as well (by 7.9%), adding $685 million in premiums, booking a total of $14.2 billion.

Comparable percentage changes in market share in 2010 (over year-prior numbers) for the independent agents' major competitors were as follows:

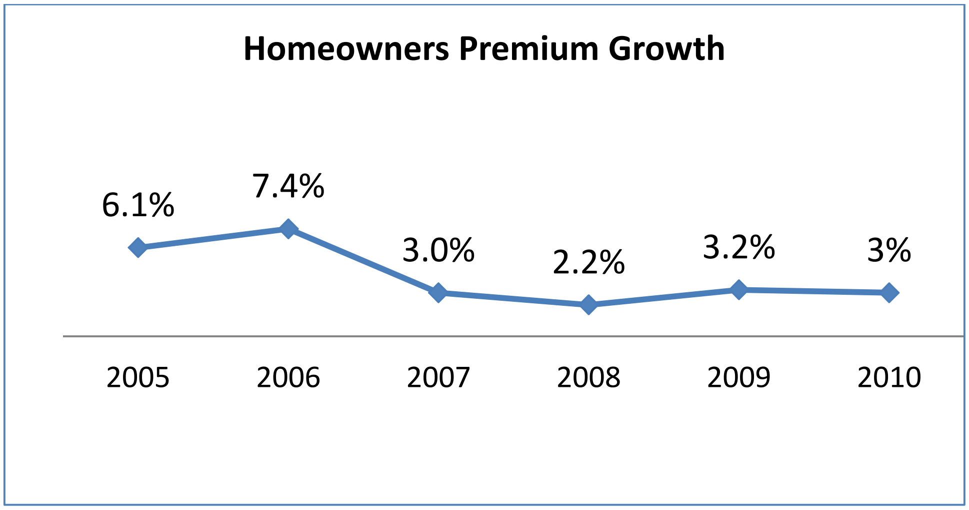
Major Direct-Response Competitors	% Growth in Market Share
Progressive Direct Cos.	9.65
USAA Group	6.59
Amica Mutual Group	6.28
GEICO	3.97

Major Captive Agency Competitors	% Growth in Market Share
Alfa Insurance Group	7.16
NJM Insurance Group	6.81
Kentucky Farm Bureau Group	6.59
Michigan Farm Bureau Group	6.01
Auto Club Group	4.96
Farm Bureau P & C Group	4.42
Shelter Insurance Cos.	4.33
Liberty Mutual Direct Cos.	3.69
North Carolina Farm Bureau Group	3.15
Ameriprise P&C Cos.	2.81
Tennessee Farmers Insurance Cos.	2.67
American National P&C Group	2.00
Texas Farm Bureau Group	1.65
State Farm Group	0.71
Auto Club Enterprises Ins. Group	0.22

F. Homeowners Insurance Market

	2010 Homeowners		
	Direct premium written	% Share	% Premium growth 2009 to 2010
National	$11.0B	16.1%	6.5%
Regional	$15.1B	22.2%	-1.1%
Exclusive	$38.5B	56.4%	3.4%
Direct	$3.6B	5.3%	7.0%
TOTAL	$68.2B	100%	3.0%

In 2010, the homeowners market expanded by more than all other lines. The overall home insurance premium market grew to $68.2 billion in 2010, up by 3.0% from $66.3 billion the year prior.



As in private-passenger auto, direct-response writers had the strongest gains in homeowners premium growth in 2010 over the year prior—albeit starting at a much smaller base than any of the other channels. In 2010, direct-response homeowners premiums grew by 7% (to $3.6 billion, or a 5.3% share.)

While the direct response share in homeowners insurance may be the smallest of the channels, their growth suggests they are effectively utilizing their sales and advertising resources to appeal to price-conscious consumers.

National independent agency companies grew almost as much as direct-response writers in homeowners. Their premiums grew 6.5%, adding $670 million in premiums for a total of $11 billion. The national IAs' market share ended 2010 at 16.1%, up from a share in 2009 of 15.6%.

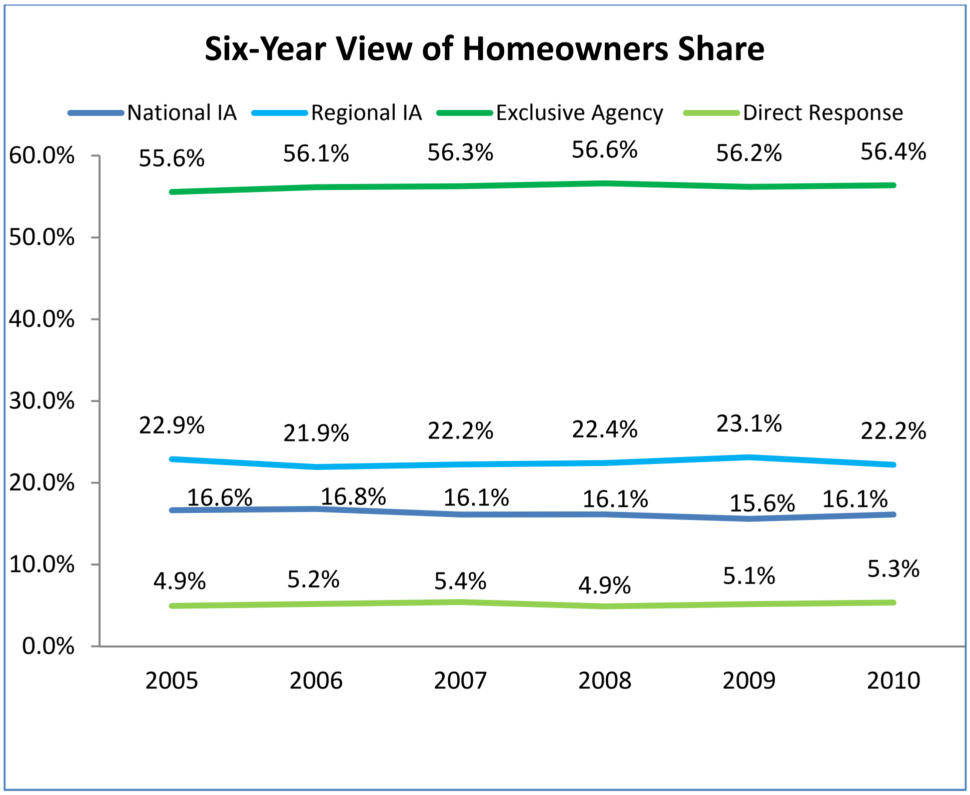
While regional IAs grew their share of the personal auto market, they were the only channel to lose premiums and market share within the homeowners market. Premiums were down $163 million, dropping a total of $15.1 billion, while their share declined to 22.2%.

Combined, independent agents and brokers wrote $26.1 billion of the 2010 market, adding more than $507 million of premium. They account for 38.3% of the homeowner's market, which is a slight decrease from a year prior (38.7% in 2009.)

Captive agency writers grew by 3.4% in 2010 over 2009, increasing premiums $1.2 billion for a total of $38.5 billion in 2010. They continue to be the dominant channel in this market at 56.4% share (up slightly from their 56.2% in 2009.)

G. Six-Year Look: Homeowners Market Share

In the last six years, the homeowners insurance market share has remained essentially static, with no channel's share of the market changing more than 1 percentage point over the time period. In 2009, regional agents improved their share while national agents dipped. But this reversed in 2010. The direct-response model has remained relatively stable—just above 5% of the market.



Largest IA Gains in Homeowners

National and regional IA carriers (at least $100 million in homeowners premium) showing the biggest percentage gains in homeowners market share for 2010 include[2]:

National/Regional IA Carrier	% Growth in Market Share
ACE INA Group	60.1
AIG Less Direct Response	46.5
Fidelity National Group	29.1
Universal Ins. Group Puerto Rico	27.6
American Strategic Ins. Group	18.7
Universal Ins Holdings Group	16.5
Selective Insurance Group	15.6
Pacific Specialty Ins Group	15.4
Pekin Insurance Group	10.5
MAPFRE North America Group	9.8
State Auto Insurance Cos.	7.0
Arbella Insurance Group	6.9
Harleysville Insurance	6.5
Assurant Insurance Group	5.8
Auto-Owners Insurance Group	5.3
Mercury General Group	5.2
Liberty Mutual Agency Cos.	5.1
Erie Insurance Group	4.6
Travelers Group	3.8
Cincinnati Insurance Cos.	3.8
Central Insurance Cos.	2.4
MetLife Agency Cos.	1.4
The Hanover Ins. Group P&C Cos.	1.1
Vermont Mutual Group	0.5

[2]*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.*

Competitors

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

Major Direct-Response Competitors	% Growth in Market Share
USAA Group	3.81
Progressive Direct Companies	7.44
Amica Mutual Group	3.99

Major Captive Agent Competitors	% Growth in Market Share
Homesite Group	17.58
Ameriprise P&C Companies	13.02
Kentucky Farm Bureau Group	9.45
Farm Bureau P&C Group	8.07
Munich-American Holding Corp.	.7.95
Tennessee Farmers Ins. Cos.	7.12
North Carolina Farm Bureau Group	6.68
Shelter Insurance Companies	6.56
Southern Farm Bureau Cas. Group	6.37
Auto Club Enterprises Ins. Group	5.88
Farm Bureau Mutual Ins of AR	5.65
California State Auto Group	4.33
Liberty Mutual Direct Cos.	4.29
Auto Club Group	4.21
United Farm Bureau of IN Group	4.09
COUNTRY Financial	3.42
State Farm Group	3.24
American Family Insurance Group	0.68
American National P&C Group	-0.07
Allstate Direct Companies	-1.59
Georgia Farm Bureau Group	-1.78
Horace Mann Insurance Group	-1.93
Alfa Insurance Group	-4.13
Nationwide Direct Cos.	-5.49
NJM Insurance Group	-6.54
Farmers (less Foremost)	-11.81

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

IV. Expense Comparisons

Beyond market share trends, each year we review the expenses incurred by each distribution system. For this comparison, we examine carrier operating ratios for private-passenger auto insurance, as that is the line of business in which all distribution systems compete in a major way.

Net operating expense ratios[3] can be used to compare efficiency across companies and distribution methods. 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. They also enjoyed a 10-point advantage over captive agency carriers in 2010.

However, we consistently have found over the 15 years in which we have conducted this study that:

1. There are varying degrees of efficiency among companies within <u>each</u> 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 and the servicing cost these firms pay, which are performed by agencies in other distribution systems.

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[3] 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. 2010 Private-Passenger Auto Operating Ratios

The following table of operating ratios in personal car insurance lists better-than-average IA companies, and select large captive and direct-response companies, sorted from most efficient to less efficient.

	National IA	Regional IA	Captive	Direct Response
USAA Group				22.5
Integon National Group		27.6		
GEICO				28.4
Auto-Owners Insurance Group		30.5		
Progressive Agency Companies		33.6		
Amica Mutual Group				33.6
Progressive Direct Companies				33.9
Auto Club Enterprises Ins. Group			35.2	
Auto Club Group			35.9	
Hartford Insurance Group	36.1			
MAPFRE North America Group		36.2		
MetLife Agency Companies		36.9		
State Farm Group			37.0	
COUNTRY Financial			37.4	
Erie Insurance Group		37.6		
Allstate Direct Companies			37.9	
American Family Ins. Group			38.2	
Hanover Ins Group P&C Cos.	39.0			
Liberty Mutual Agency Cos		39.4		
Liberty Mutual Direct Cos			40.0	
Unitrin P&C Insurance Group	40.0			
California State Auto Group			41.6	
Nationwide Direct Companies			42.3	
AIG Less Direct Response	43.1			
Travelers Group	43.5			
Sentry Insurance Group			44.9	
Farmers (less Foremost)			45.9	
Averages by Channel				
National Agency Writers	41.7			
Regional Agency Writers		38.8		
Exclusive Agent Direct Writers			38.5	
Direct Response Writers				28.0

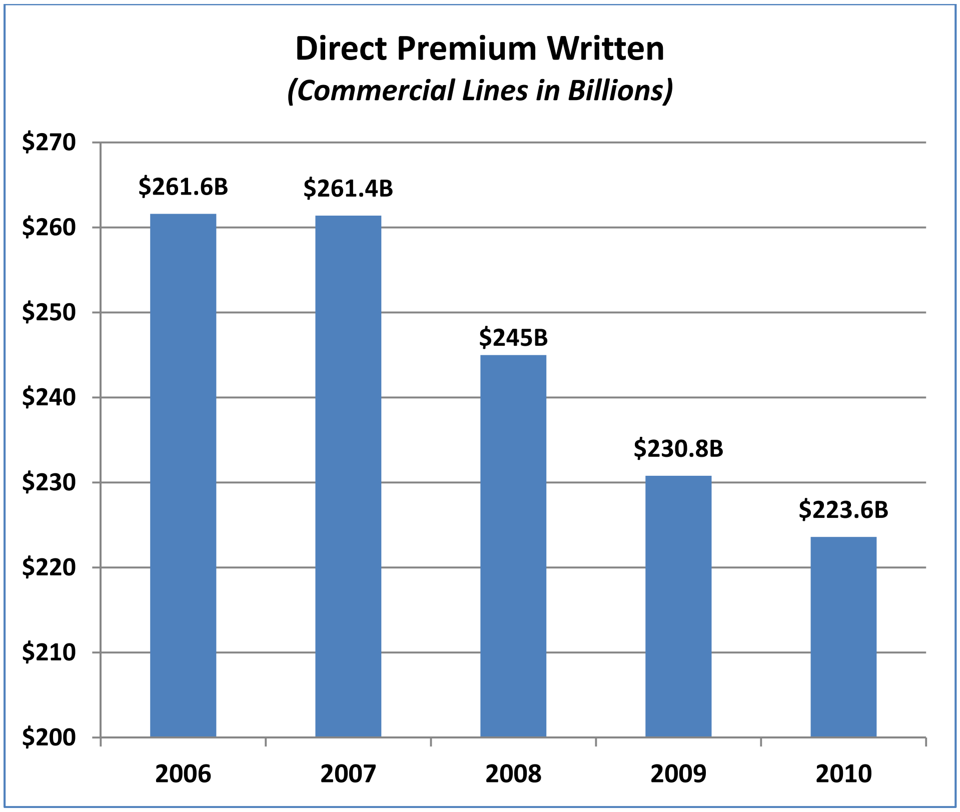
V. Commercial Lines

Prolonged soft pricing combined with a weak economy has hurt the revenue for commercial insurance carriers. Key factors are high unemployment, which is slicing payrolls and the resultant exposure base for workers compensation; and a pullback in construction, manufacturing, warehousing, transportation, fleet and retailing activity.

As the table shows below, the overall commercial property-casualty insurance market took another hit in premium volume in 2010. Direct written premium dropped $7.3 billion to $223.6 billion in 2010, 3.1% less than the $230.9 billion in 2009.)

2010 Commercial Lines			
	Direct premium written	% Share	% Premium growth 2009 to 2010
National	$107.0B	47.9%	-2.9%
Regional	$71.0B	31.7%	-2.3%
Exclusive	$43.6B	19.5%	-5.2%
Direct	$ 2.0B	0.9%	-1.9%
TOTAL	$223.6B	100%	-3.1%

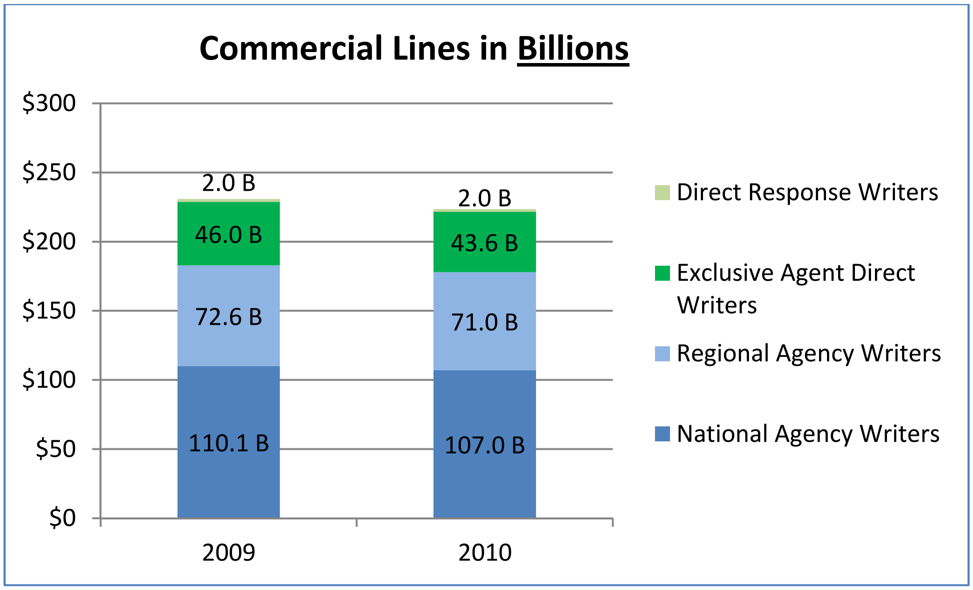
While 2009 was difficult for commercial lines, it continues a downward trend in this market, as is shown in the chart below.



Declining Production in Every Channel

With such an overall weakness in commercial lines production in 2010, it is not surprising that every channel experienced a decline in written premium. Independent agent and broker production decreased 2.6% from 2010, which while negative, is not as bad as the nearly 8% decrease seen in 2009.

As this table shows, independents remain the dominant channel by writing nearly $8 of every $10 in commercial premiums. That translates to $178 billion in direct written premium in 2010 (down from $182.8 billion in 2009) and a share of 79.6%.



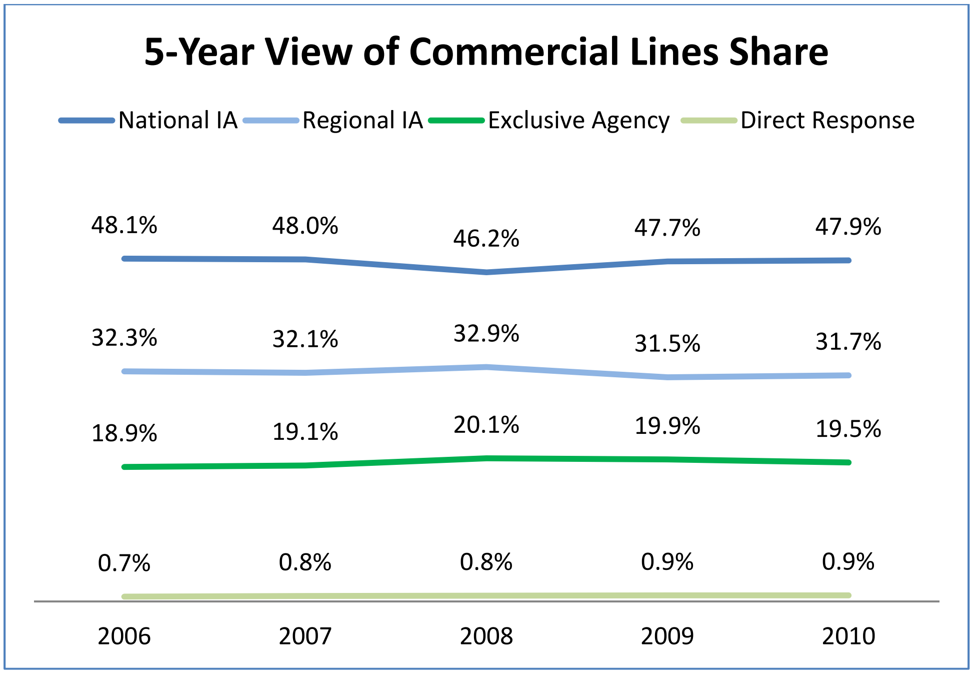
In 2010, regional IA carriers wrote $71.0 billion in commercial business, down from $72.6 billion in 2009. Their share of the overall market increased very slightly to 31.7%, however, thanks to even greater loss among other channels.

Similarly, national IA companies wrote $107.0 billion in premium in 2010, down from $110.1 billion in 2009. Yet thanks to larger losses in other channels, their share increased slightly, up 0.2 percentage points from the year prior (to 47.9% in 2010.)

Captive agency carriers dropped $2.4 billion in written premium ($43.6 billion in 2010 vs. $46.0 billion in 2009). Their market share declined only slightly to 19.5% in 2010 vs. 19.9% in 2009.

Direct response, which still comprises less than 1% of the commercial market, nearly mirrored its experience in 2009. In 2010 production dropped $38 million, but not enough to change its market share of 0.9%. Its premiums still round to $2.0 billion as they did in 2009.

The chart below shows small changes in market share by the various channels since 2005.



A. Commercial Auto

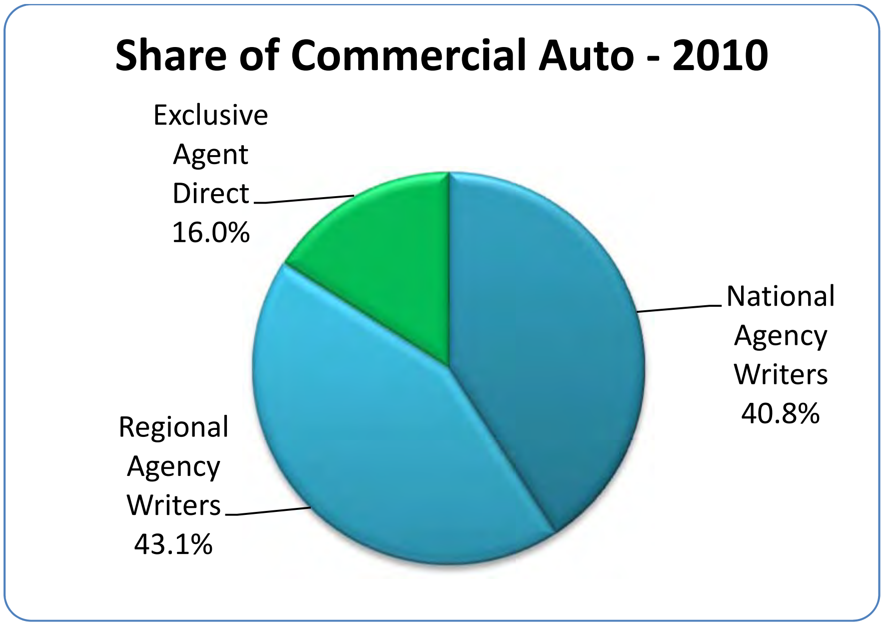
Commercial automobile represents about 10% of the broader commercial market, and its 2010 struggles were no different than the rest, with declining premiums. Written premiums came in at $23.4 billion, a decline of 4.1% from 2009. This represents a slowdown in the decline, however. The market experienced a 9% decline from 2008 to 2009, 7% decline from 2007 to 2008, and a 4% decline from 2006 to 2007.

While IAs wrote fewer premiums, they lost less than captive carrier agents.

2010 Commercial Auto			
	Direct premium written	% Share	% Premium growth 2009 to 2010
National	$9.6B	40.8%	-3.6%
Regional	$10.1B	43.1%	-3.8%
Exclusive	$3.7B	16.0%	-6.0%
TOTAL	$23.4B	100%	-4.1%

The market share in commercial auto held steady for each channel. Independent agents and brokers wrote 83.9% of commercial auto premium in 2010, up 0.3 percentage points of share from 2009.

Captive carriers also were down 0.3 points of share to 16.0% in 2010. (Direct response accounts for 0.2% of the commercial auto market.)



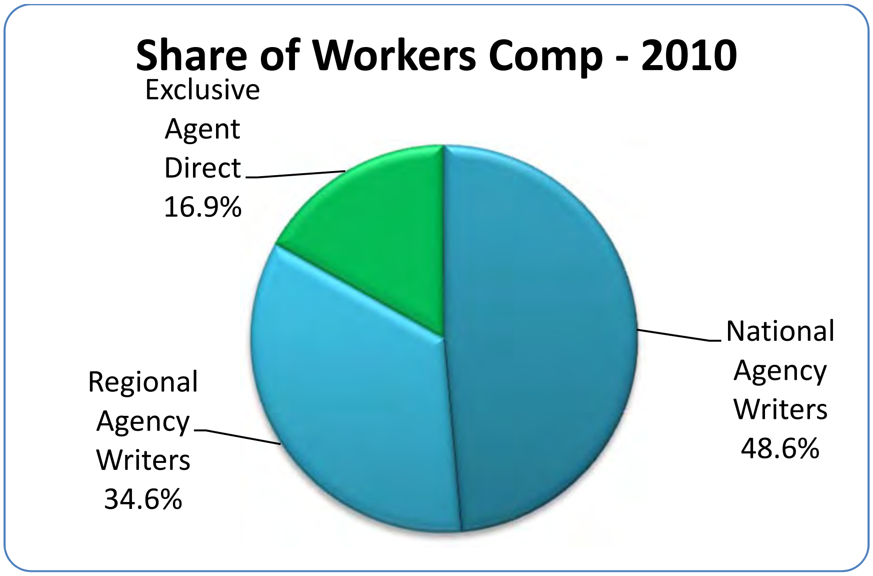
Note that direct-response data is not included as this segment represents one-tenth of one percent of the market share.

B. Workers Compensation

2010 Workers Comp			
	Direct premium written	% Share	% Premium growth 2009 to 2010
National	$18.1B	48.6%	-0.8%
Regional	$12.9B	34.6%	-0.4%
Exclusive	$6.3B	16.9%	-8.8%
TOTAL	$37.2B	100%	-2.1%

After dealing with significant losses since 2007, the rate of decline in workers compensation has slowed considerably. Workers comp production was down $800 million compared with 2009 ($37.2 billion in 2010 vs. $38.0 billion in 2009). However, this was only a drop of 2.1%, which is considerably less than the nearly 15% decline seen in 2009, the 13% decline in 2008, and even the 4.5% decline in premiums generated in 2007.

In 2010, IA direct written premium decreased $200 million compared with the year before. Captive carriers lost $600 million in premiums, nearly 9% of the premiums written in the year before, resulting in their market share declining to 16.9% from 18.1% in 2009.



Largest Gains in Commercial Lines

These national and regional independent agency carriers experienced percentage growth in overall commercial lines market share in 2010[4] (among carriers with at least $1 billion in direct premium written):

Independent Agency Carrier	% Growth in Market Share
Hanover Ins. Group P&C Cos.	18.3
QBE Americas Group	9.7
Tower Group Cos.	8.7
Harleysville Insurance	6.5
AXIS Insurance Group	5.5
Erie Insurance Group	5.4
Tokio Marine US Group	4.8
Assurant Insurance Group	4.7
Balboa Insurance Group	4.5
Hartford Insurance Group	3.7
Auto-Owners Insurance Group	3.4
W. R. Berkley Group	3.2
ACE INA Group	2.5
Fairfax Financial (USA) Group	2.3
Chubb Group of Insurance Cos.	1.8
Travelers Group	1.6
Liberty Mutual Agency Cos.	1.9
Cincinnati Insurance Cos.	0.7

[4] *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.

Independent Agency Carrier	% Change in Market Share
AIG (less direct response)	-1.1
Zurich Financial Services NA Group	-2.0
Drive Insurance	-2.6
Arch Insurance Group	-2.8
Allianz of America	-3.7
HCC Insurance Group	-3.9
Berkshire Hathaway (less GEICO)	-4.8
Great American P&C Ins. Group	-6.2
Old Republic Insurance Group	-6.5
Mortgage Guaranty Group	-8.1
XL America Group	-8.4
Alleghany Insurance Holdings	-9.9
White Mountains Insurance Group	-11.5

Competitors

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

Captive Agency	% Change in Market Share
Liberty Mutual Direct Cos.	3.5
Munich-American Holding Corp	6.1
Allstate Direct Cos.	0.6
Nationwide Direct Cos.	0.5
State Farm Group	-0.6
FM Global Group	-4.8
Farmers (less Foremost)	-6.2
Wells Fargo Insurance Group	-14.4

Meanwhile, the direct-response category continues to be less than 1% of the overall commercial market share. As a group, direct response wrote slightly less premiums than in 2009, but several individual firms increased commercial premiums in 2010.

Major Direct Response	% Growth in Market Share
Progressive Direct Cos.	21.4
USAA Group	13.1
Government Employees Group	9.3
Amica Mutual Group	9.2
AIG Direct Response	-9.6

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 have generally retained their market share.

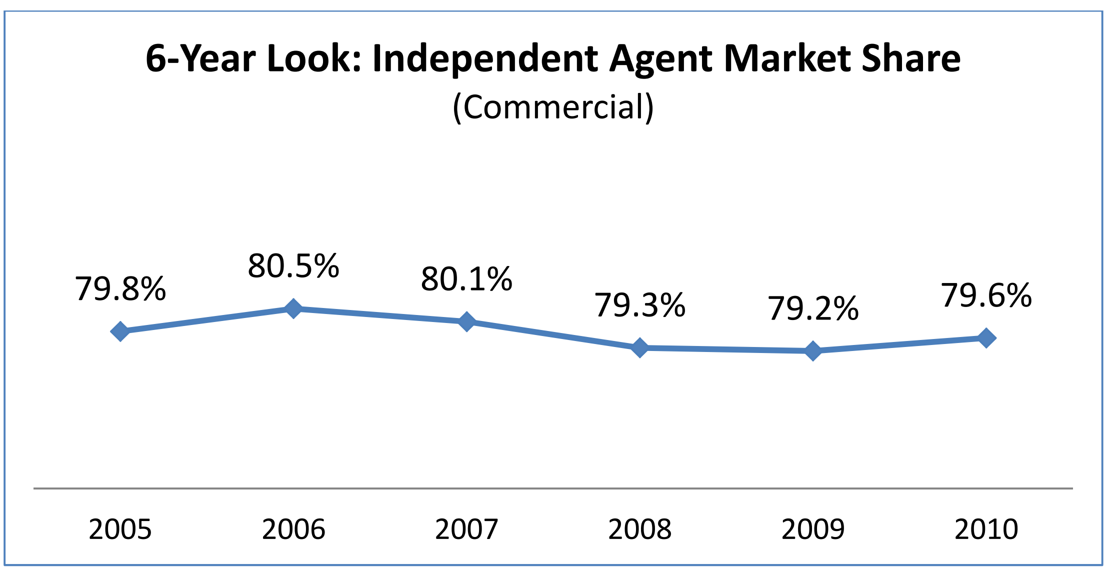
The IA channel's commercial lines market share in all the states (plus the District of Columbia) broke down as follows over the last six years:

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

Average IA Share

The average independent agent market share around the states continued to be fairly consistent. In 2010, market share was up slightly over the year prior (79.6%), but down slightly from 2005-2007. Nationally, each 1% share of market is worth $2.2 billion in premiums.

Captive agency and direct response writers were down slightly in market share in 2010 (19.5% in 2010 vs 19.9% in 2009.)



Independent agents and brokers produced more than 85% of commercial lines in 2010 in each of four markets: Maine (86.7%), Hawaii (86.5%), Florida (85.6%), and West Virginia (85.3%).

States with 5 Largest Gains or Losses in IA Commercial Market Share			
	% Gains in IA Market Share		**% Losses in IA Market Share**
ND	2.9%	WV	-1.3%
DC	2.6%	OK	-1.4%
VA	1.7%	WY	-2.4%
IN	1.5%	CO	-3.6%
SD	1.4%	DE	-4.3%

VI. About the Data

This report marks the 15th 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 annual 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 2010 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; we use the new numbers for prior years from the latest data, which covers 2010. This occurs because carriers report adjustments for prior years as well in subsequent years, which changes the market share percentages for prior years.

Rounding
Note that some numbers in the charts may not add up 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.

Two Further Data Changes
There were two 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 re-allocated 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 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 re-allocated 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.

Re-Allocation 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 re-allocated 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 is 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.

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