Independent Insurance Agents & Brokers of America, Inc.

2009 Property-Casualty Insurance Market:

Opportunities & Competitive Challenges For Independent Agents & Brokers

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I. Introduction & Commentary

The Challenge

To prepare for these annual market share reviews—with the first one issued in the mid-1990s—the Independent Insurance Agents & Brokers of America each year reviews property/casualty insurance premium data provided by A.M. Best Company.

In comparing these numbers—along with other data, research reports and anecdotal information gathered during the year—we typically are impressed with the creative, aggressive actions of some independent agencies (IAs) and their carrier partners to retain and grow market share in one or more lines of business. And some IA carriers post impressive expense ratios relative to direct channels, debunking the myth that it must cost more to distribute through independent agents.

But these bright spots need to be brighter and more pervasive around our distribution channel. In particular, we believe stronger and more consistent action is necessary to reverse or slow the loss of our share of private-passenger auto insurance. This line of business can't be ignored—or even minimized. The sheer size of this premium pie offers enormous potential. Personal auto represents fully one-third of the *entire* property-casualty insurance premium bucket (including commercial lines). Together with homeowners, private-passenger auto is one-half of total p/c premiums.

The IA channel is losing share in car insurance, even in New England states where independents have historically dominated personal lines. Meanwhile, direct response writers, particularly GEICO and Progressive, are converting private-passenger drivers of all ages into customers using time-tested mass marketing and innovative branding—combined with easy, online purchasing. These competitors see prospect marketing as an investment, not an expense. In the years since we have issued this report, direct response has continued to expand its share of personal auto, now at nearly 16%; each point of share is worth hundreds of millions of premium revenue. In 2009, while others saw their premiums decline, direct writers actually *grew* premiums by $2.3 billion—on top of $1 billion growth in 2008. Direct response writers are enjoying success in homeowners as well, though at a less aggressive pace—for now.

Despite the fierce competition, today's independent agency carriers and their distribution force can provide valuable services and competitive prices in personal lines. Independent agents who view personal lines as an important part of their business to be sought, cross-sold and protected will continue to grow. As we've noted in the past, behind a consumer's request for a car insurance quote often are families with policy needs such as homeowners, umbrellas, businesses at home, watercraft, and other coverages. Independent agencies that dismiss a basic auto insurance request as an entrée likely will never see opportunities for important needs-assessment conversations.

Today's consumers seek "ease of doing business" for their purchase and for service. Certainly, selling a fully rounded personal insurance account is not as effortless as an online book or music purchase. But IAs should sell and serve in ways consumers—not the agency—prefer to do business. Independents must seize their rightful space in online sales and service channels. They must clearly define, or redefine, their own concept of value-added going forward; they do not have to mimic GEICO or Progressive to succeed.

The Upside

While it is sobering to discuss the state of affairs in private-passenger auto share, there is plenty of good news overall for the Independent Agency System. In the years since we have provided this report, much of the upside is still there. For example:

Venerable channel. The entire IA System continues to prove itself as an impressive distribution channel unmatched anywhere for p/c insurance, even in a difficult economic environment. This decentralized, flexible and knowledgeable distribution network reaches into nearly every part of the U.S., providing an experienced, proven channel for carriers needing to access new markets or offer innovative products.

Replenished numbers. The number of independent agencies has held steady at 37,500 since 2006, according to the IIABA Future One *2010 Agency Universe Study*. New agencies are sprouting up at a rate replacing those going out of business via merger or sale; these newcomers are dynamic in terms of ownership age and diversity. They are growing fast. Many of these firms are headed up by younger principals who understand the power of social media and who gained smart sales skills at State Farm, Allstate, Nationwide or Farmers.

Growth potential. IAs still command the majority—60 percent—of all p/c lines. In some areas of the country, independent agents dominate commercial *and* personal lines. That means IAs in other states have an opportunity to add share in more lines if they focus on it. Many IIABA Best Practices firms continue to earn above-average growth. Given the competitive differentiators that independent agents bring—the variety of strong carriers that make it easy to do business, personal relationships and breadth of knowledge—along with improved access to technology and the confidence and customization communicated by the Trusted Choice© brand, IAs have the potential to enjoy robust growth in every state and every product line.

Proven efficiency. Efficient carriers are leveraging each type of distribution system—a consistent finding in the 15 years of this market share analysis. As the data show, well-managed independent agency writers can produce, distribute and service insurance products just as cost-effectively as captive agent writers and direct companies—and, in some cases, even more so. Real-time technology and other workflow improvements are providing a consistent, easier way of doing business thus enabling independent agents and their carriers to realize cost savings—and meet or even beat the operating efficiency ratios of some captive carriers.

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 2009. This year's report mainly covers year-end numbers for 2009 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 of business for more detailed information.

2009 P&C Insurance – Overall

	Direct premium written	% share	% premium growth 2008 to 2009
National	$131.4B	28.5%	-6.2%
Regional	$128.5B	27.9%	-5.6%
Exclusive	$170.2B	36.9%	-2.4%
Direct	$31.0B	6.7%	7.9%
TOTAL	$461.2B	100%	-3.8%

2009 Commercial Lines

	Direct premium written	% share	% premium growth 2008 to 2009
National	$107.6B	46.8%	-6.8%
Regional	$74.4B	32.4%	-9.4%
Exclusive	$45.6B	19.9%	-9.0%
Direct	$2.1B	0.9%	-1.6%
TOTAL	$229.8B	100%	-8.1%

2009 Personal Lines

	Direct premium written	% share	% premium growth 2008 to 2009
National	$23.9B	10.3%	-3.2%
Regional	$54.0B	23.3%	0%
Exclusive	$124.5B	53.8%	0.3%
Direct	$29.0B	12.5%	8.6%
TOTAL	$231.4B	100%	0.8%

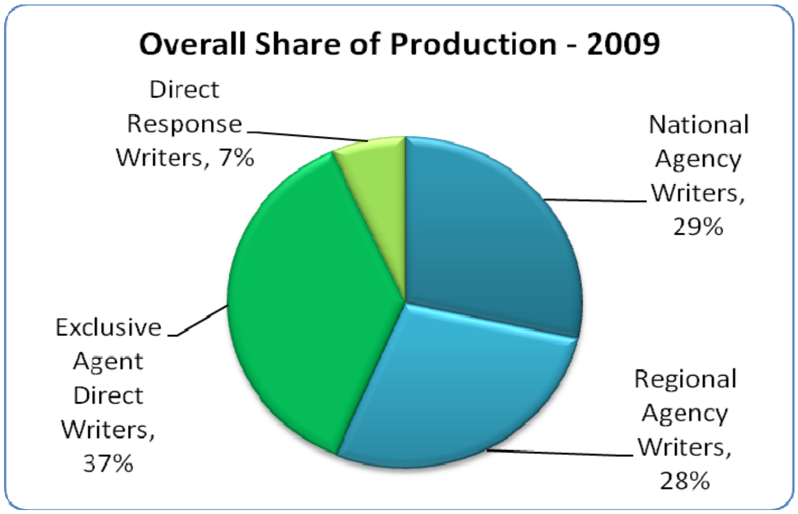
2009 Private-Passenger Auto

	Direct premium written	% share	% premium growth 2008 to 2009

National	$13.0B	8.0%	-7.8%
Regional	$38.9B	23.8%	-0.2%
Exclusive	$85.7B	52.5%	-1.2%
Direct	$25.6B	15.7%	8.4%
TOTAL	$163.2B	100%	-0.2%

As expected, 2009 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 slightly (aided by small gains in homeowners).

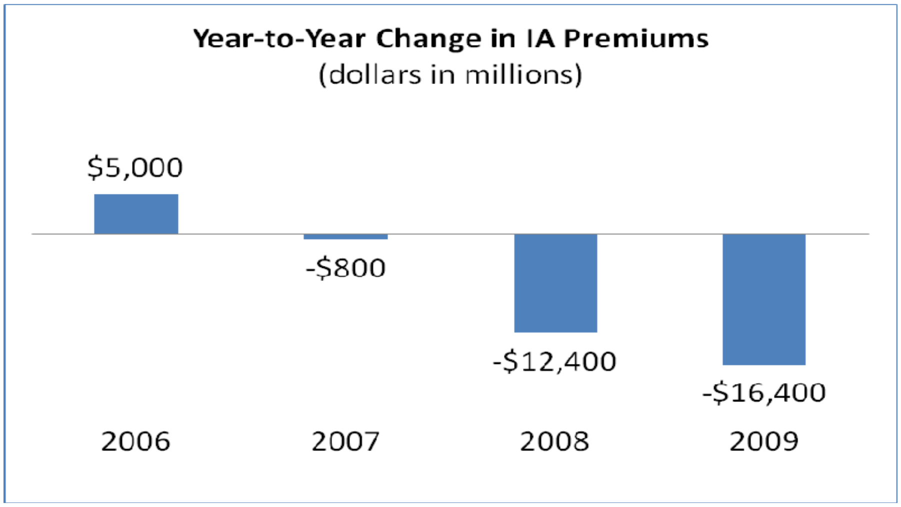
The overall P&C insurance market continued to decline, about 4% in 2009. Total direct written premiums were $461.2 billion in 2009, compared with $479.4 billion in 2008. Premiums have dropped nearly 6% from the 2007 level of $490.1 billion.



Independent insurance agents and brokers (collectively "IAs") produced $259.9 billion of the total $461.2 billion property-casualty market in 2009—meaning they generated about $5.60 of every $10 written in overall premiums. But the IA overall share of the total P&C premium dropped by one percentage point, to 56.4%, in 2009. (Independents wrote $276.3 billion of a total $479.4 billion market in 2008).

Independent agents and brokers continued to face the impact of a recessive economy and the accompanying shrinking premium market. Regional and national IA companies collectively wrote $16.4 billion less in P&C premium in 2009. This is on the heels of writing $12.4 billion less in 2008, and $800 million less in 2007. Previously, IAs had gained $5 billion (2006) and $4 billion (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. Because they target primarily personal auto, direct response writers account for a relatively small share of the 2009 P&C market at 6.7%. Still, direct response writers grew production by 7.9% from 2008. All other channels had negative growth.

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

III. Personal Lines

The overall personal lines market achieved a small gain in premiums in 2009—unlike in commercial, as the data shows in Section V. Personal lines production ended 2009 at $231.4 billion, a 0.8% increase from 2008. This is slightly better than year-end 2008 where production was up 0.4% from the year prior.

Regional independent agency companies as well as the captive carriers were essentially flat in market share growth in 2009.

Regional IA carriers held steady: Premiums remained at $54 billion and market share changed slightly (23.3% in 2009 vs. 23.5% in 2008).

National IA carriers experienced a decline of more than $800 million in direct written premiums from 2008 to 2009. Market share is down slightly (10.3% in 2009 vs. 10.8% in 2008).

Captive carriers continue to dominate the market with the majority of business ($124.5 billion in 2009), up about $354 million from 2008. However, market share was down one percentage point, to 54.1%.

The compelling trend in personal lines is the continued presence and impact of direct response carriers. These well-funded competitors grew significantly in 2009, adding $2.3 billion of personal lines premium (for a total of $29 billion, or 12.5% of the market). That's an 8.6% increase in market share from 2008 to 2009 for the direct channel.

2009 Personal Lines

	Direct premium written	% share	% premium growth 2008 to 2009
National	$23.9B	10.3%	-3.2%
Regional	$54.0B	23.3%	0%
Exclusive	$124.5B	53.8%	0.3%
Direct	$29.0B	12.5%	8.6%
TOTAL	$231.4B	100%	0.8%

A. 15-Year Look: Overall Personal Lines Market Share

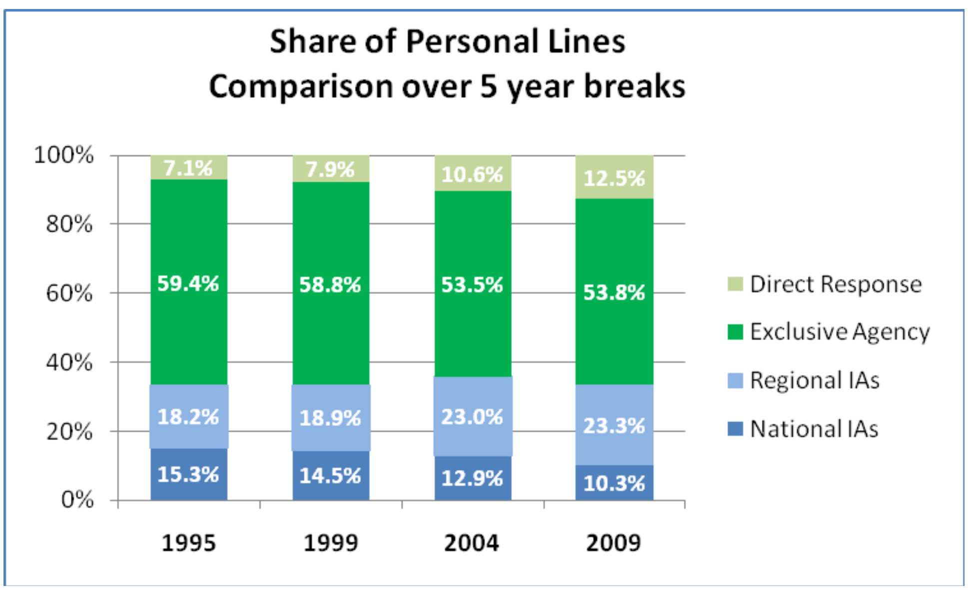
Even seemingly small changes in premiums written become more apparent when compared with data spanning the past 15 years. Each share of the personal lines insurance market is worth well over $2 billion in premium.

The direct response channel is growing steadily in personal lines, taking share away from the national agency writers, as well as captive agency carriers. 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 over half the market (53.8%) but this share has declined by over 5 points since 1995.

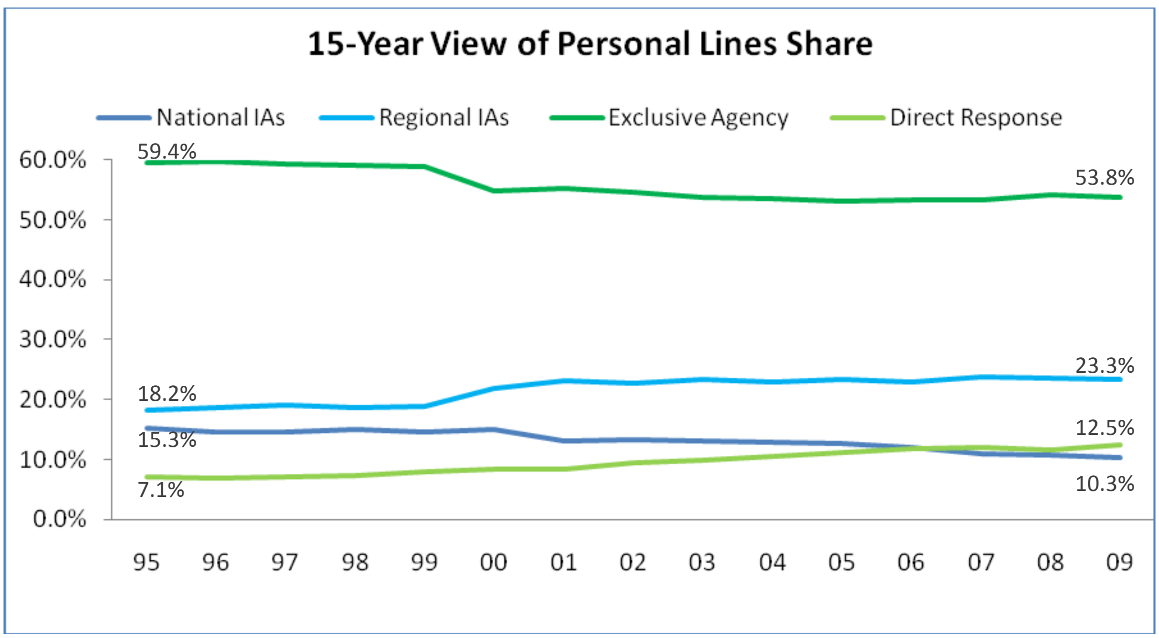
- Direct response writers are steadily increasing share, up 5.4 points since 1995. In the past couple of years, they have grown to surpass the national IAs (both in volume and share), but lag significantly behind regional IAs and captive carriers.

- National IAs, however, continue to face declining share (down 5 percentage points to 10.3% since 1995). It appears that the direct response carriers' gain is at the expense of national IAs.



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 IAs and direct response writers have been increasing their share year over year.
- 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 (76.3%).
- National IAs, however, have overall negative market share growth during this 15 year time period (-32.5%).



B. Gains & Losses in Personal Lines Share

While most of the major national independent agency companies were down in market share, the following national IA companies with premiums of at least $100 million in personal lines realized percentage growth in their market share in 2009[1] over the prior year:

National IA Carrier	% Growth
ACE INA Group	293.3*
EMC Insurance Companies	11.4
Harleysville Insurance	8.2
QBE Americas Group	8.1
Travelers Group	1.8
Foremost Corporation Group	1.3

**ACE INA Group 2009 growth due to acquisitions*

Meanwhile, the following regional IA companies saw percentage growth in their personal lines market share in 2009[1] over the prior year:

Regional IA Carrier	% Growth
State Auto Insurance Companies	12.3
Central Insurance Companies	9.3
Auto-Owners Insurance Group	6.4
Grange Mutual Casualty Pool	5.8
Pekin Insurance Group	5.7
Enumclaw Insurance Group	4.9
Nationwide Agency Companies	4.4
Main Street America Group	3.7
Universal Ins Group Puerto Rico	2.9
Erie Insurance Group	2.6
NYCM Insurance Group	1.9
Donegal Group	1.8
Drive Insurance	0.2
Westfield Group	0.1

[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.*

On the flip side, the national and regional independent agency carriers listed below with more than $100 million in personal lines premium each were down by 5% or more in market share in 2009[2]:

National/Regional IA Carrier	% Growth
AIG Less Direct Response	-30.7
Kingsway America Group	-23.1
Affirmative Insurance Cos	-10.8
GMAC Insurance Group	-9.8
Safeway Insurance Group	-9.3
White Mountains Insurance Group	-9.1
Mercury General Group	-8.2
Infinity Prop & Cas Group	-7.6
Unitrin Prop & Cas Ins Group	-6.9
Chubb Group of Insurance Cos	-5.5

Some competitors to independent agents and brokers experienced the following percentage changes in personal lines market share in 2009 over the prior year:

Major Direct-Response Competitors	% Growth
Progressive Direct Companies	11.82
USAA Group	8.11
Government Employees Group	6.84
Amica Mutual Group	2.41

Major Captive Agency Competitors	% Growth
Texas Farm Bureau Group	114.39
Homesite Group	23.71
Farm Bureau P & C Group	6.76
Safe Auto Insurance Company	6.50
Ameriprise P&C Companies	5.83
Munich-American Holding Corp	5.79
North Carolina Farm Bureau Group	4.91
Shelter Insurance Companies	4.63
Kentucky Farm Bureau Group	3.92
Liberty Mutual Direct Cos	3.54
Tennessee Farmers Ins Cos	2.73
State Farm Group	1.98
United Farm Bureau of IN Group	1.86
Auto Club Group	1.83
Michigan Farm Bureau Group	1.71
COUNTRY Financial	1.35
Horace Mann Insurance Group	1.31
Alfa Insurance Group	0.89
NJM Insurance Group	0.75

[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 33.7%. The share in 2009 ranged from a low in Alaska (16%) to 80.7% in Massachusetts. In the latter state, the IA share declined nearly five percentage points from the 85.3% it earned in 2006—the year that regulatory changes brought new competitors to the auto insurance market.

The IA channel held relatively strong market shares in 2009 around the rest of New England, traditionally an independent agent stronghold. However, in the face of relentless direct response competition, all New England markets experienced a decline: Maine (55.3%, down from 55.7% in 2008), Vermont (49.7% vs. 51%), Connecticut (47.9% vs. 50.4%), Rhode Island (44.7% vs. 46.1%) and New Hampshire (43.7% vs. 44.2%).

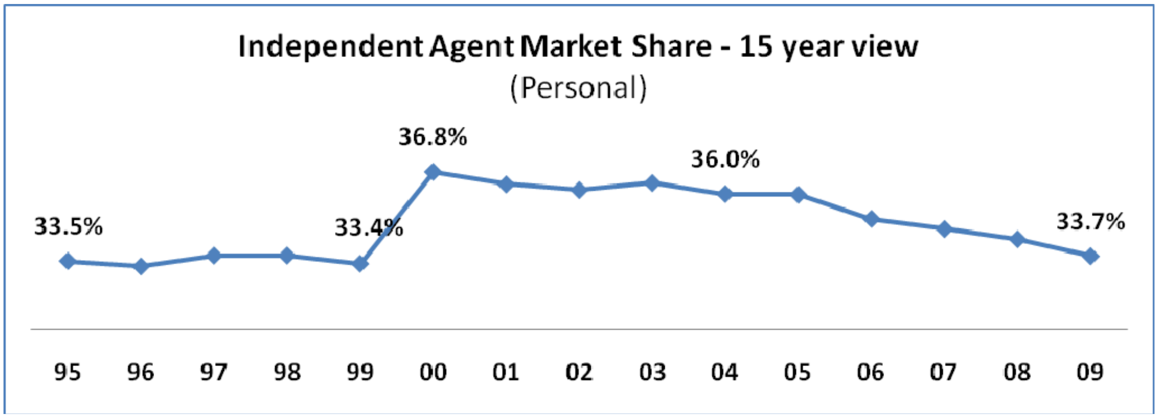
In other relatively stronger states for market share in personal lines for independent agents and brokers, these states maintained their share from last year. Ohio came in at 46% (compared with 46.5% in 2008); South Dakota, 45.6% (unchanged from 2008); and Pennsylvania, 45%, (45.2% in 2008).

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 five years:

Number of States with IA Share by Range (Personal Lines)					
Share	**2005**	**2006**	**2007**	**2008**	**2009**
Over 50%	4	4	4	4	2
45-50%	6	3	4	5	5
40-45%	6	7	8	6	7
35-40%	6	5	4	6	5
30-35%	10	9	11	10	10
Under 30%	19	23	20	20	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 in 12 states were able to grow market share—albeit a drop from 22 growth states in 2008.

- Despite weak pricing and a soft economy, the personal lines market continues to grow ($229.5 billion in 2008 to $231.4 billion in 2009).

- Private-passenger auto alone represents fully <u>one-third</u> 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; strong cross-selling techniques, modern social media and email marketing methods; and the power of Trusted Choice, the national consumer brand for independent insurance agents and brokers.

- Relative to commercial lines—truly dominated by IAs—personal lines represents a premium pool that independent agents and brokers can wade into. Well managed, strategic agencies are seeking customers in <u>all</u> lines of coverage, including personal lines, particularly in light of weak commercial pricing.

D. Private-Passenger Automobile

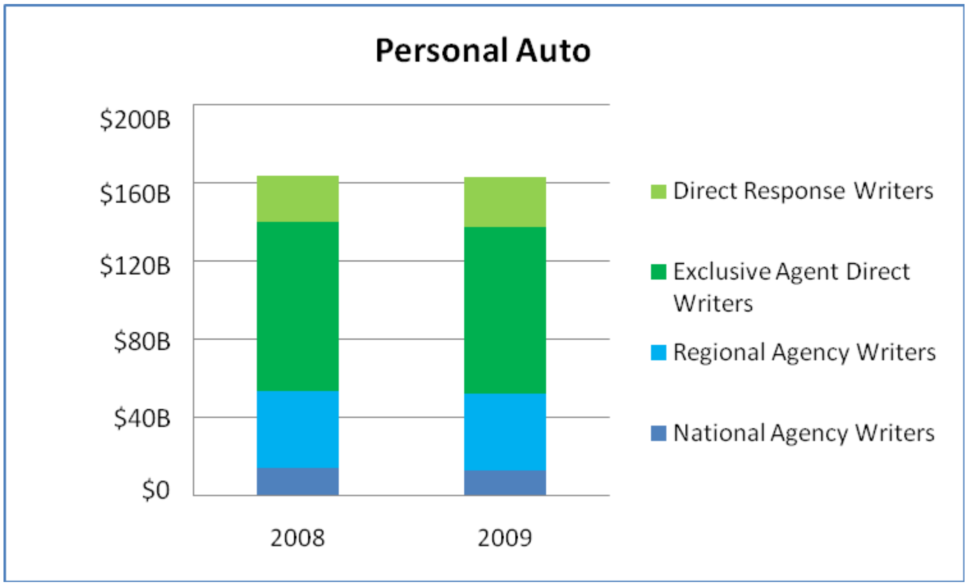
2009 Personal Auto	Direct premium written	% share	% premium growth 2008 to 2009
National	$13.0B	8.0%	-7.8%
Regional	$38.9B	23.8%	-0.2%
Exclusive	$85.7B	52.5%	-1.2%
Direct	$25.6B	15.7%	8.4%
TOTAL	$163.2B	100%	-0.2%

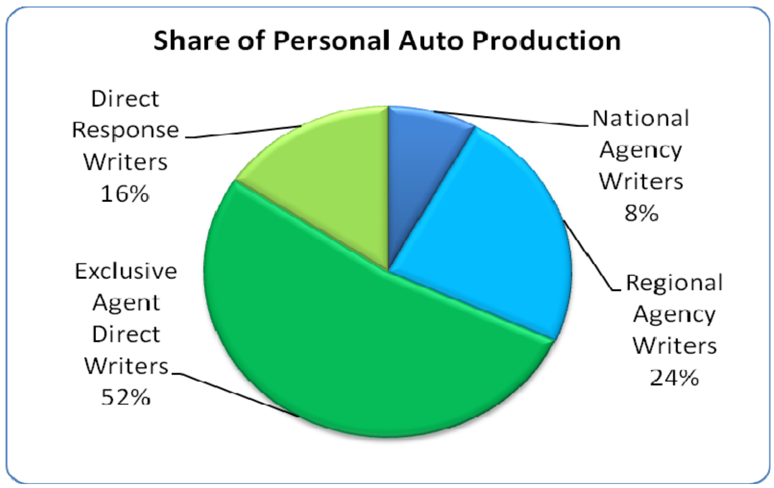
With heavy consumer advertising dollars thrown at selling auto insurance, this market reigns supreme. The private-passenger automobile segment comprises nearly 71% of all personal lines and 34% of the *entire* property-casualty market in 2009.

Premiums for personal car insurance overall were relatively unchanged, $163.2 billion in 2009 compared to $163.4 billion in 2008.

Whereas in past decades the captive agents were a growing competitor to be reckoned with, in the last 15 years, the direct response channel has emerged as a strong force in the personal auto industry. Direct response is the only channel that wrote more in premiums in 2009 than 2008, adding nearly $2 billion in premiums (totaling $25.6 billion) and increased its market share to 15.7% (while other channels were flat or had negative growth).

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. Unless this channel ~~dramtically~~dramatically changes ~~it's~~its marketing, it is likely they will continue to grow and take share away from the other channels involving agents.





In 2009, captive agency carriers still commanded more than half (52.5%) of the private-passenger auto insurance market, with premiums of $85.7 billion (a loss of $1.1 billion from 2008).

Direct response companies wrote $25.6 billion, an increase of 8.4% over 2008.

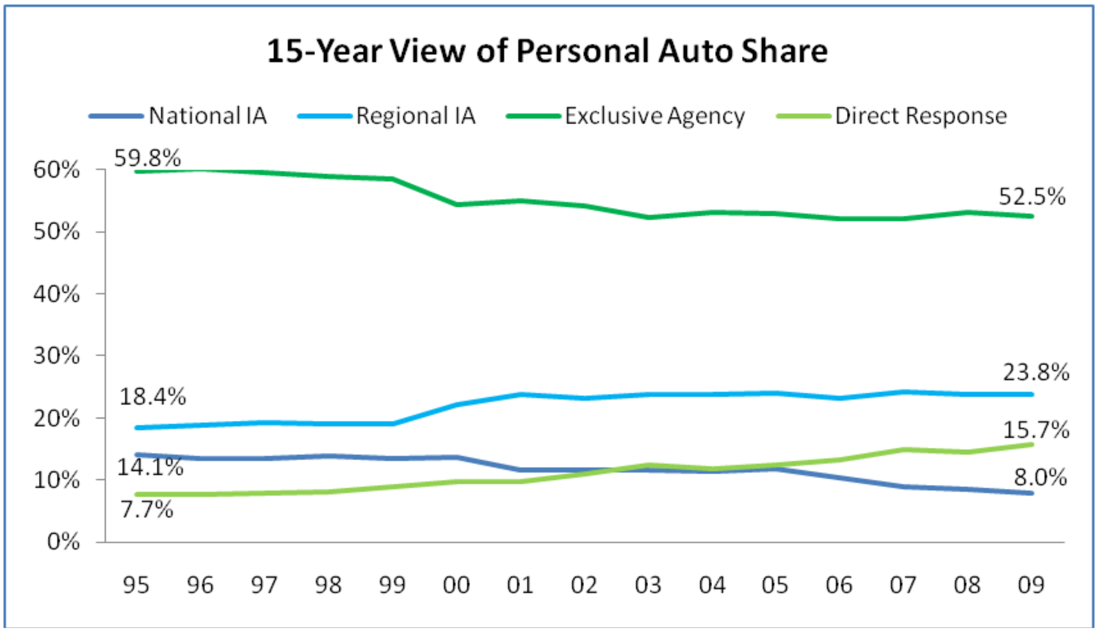
With the regional independent agency companies at $38.9 billion in premiums (a 23.8% share) and national IA companies at $13 billion (8% share), <u>the IA channel lost a combined 0.7 percentage points</u> of market share in 2009 vs. 2008.

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 2009.

E. 15-Year Look: Personal Auto Market Share

Over the 15 years ending with 2009, 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 when direct response surpassed national IAs in personal auto market share. The direct response companies continue to price competitively and throw heavy advertising dollars towards this market and as a result, continue to see share growth, while national IAs continue to steadily lose share.



Some national and regional independent agency carriers, however, bucked the trend. Among those with at least $500 million in direct premium written, companies showing at least a 1% gain in personal auto market share for 2009 vs.2008 include:

National/Regional IA Carrier	% Growth
State Auto Insurance Companies	13.8
Auto-Owners Insurance Group	8.4
Nationwide Agency Companies	7.3
Grange Mutual Casualty Pool	6.5
Erie Insurance Group	2.3
Palisades Group	1.7
Drive Insurance	1.2

Conversely, among the big direct response players, Progressive Direct had the largest market share growth in 2009 (12.9%), adding $502 million in premium for a total of $4.4 billion. The leader in personal auto direct response, GEICO, grew significantly as well (by 7.9%), adding $964.6 million in premium, booking a total of $13.5 billion.

Comparable percentage changes in market share in 2009 (over year-prior numbers) for the independent agents' major competitors were as follows:

Major Direct Response Competitors	% Growth
Progressive Direct Companies	12.9
USAA Group	8.1
GEICO	7.9
Amica Mutual Group	3.1
AIG Direct Response*	-37.4

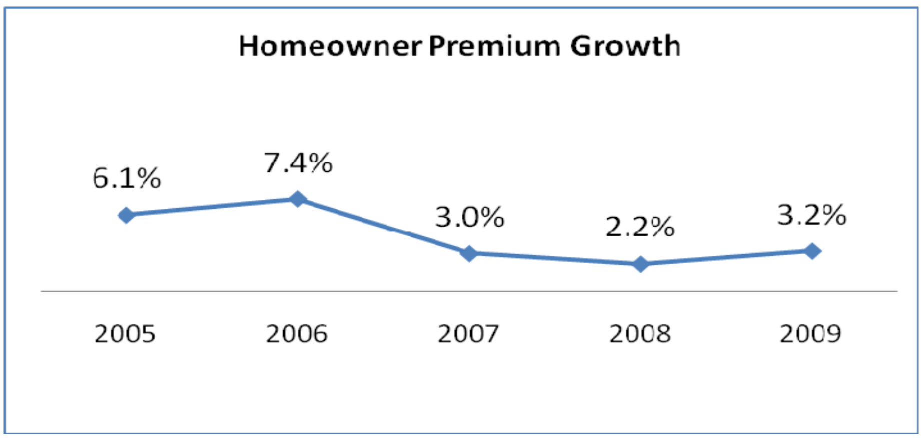
**AIG Direct sold auto line to Farmers in April 2009*

Major Captive Agency Competitors	% Growth
Ameriprise P&C Companies	5.83
Shelter Insurance Companies	4.12
Tennessee Farmers Ins Cos	2.30
Liberty Mutual Direct Cos	2.29
State Farm Group	1.93
Auto Club Group	1.27
Alfa Insurance Group	0.73
NJM Insurance Group	0.60
COUNTRY Financial	0.35

F. Homeowners Insurance Market

2009 Homeowners	Direct premium written	% share	% premium growth 2008 to 2009
National	$10.5B	16.0%	2.7%
Regional	$14.3B	21.8%	0.6%
Exclusive	$37.2B	56.9%	3.8%
Direct	$3.4B	5.2%	10.4%
TOTAL	$65.4B	100%	3.2%

With a relatively strong uptick in 2009 in premiums, the homeowners market represented a bright growth spot. The overall home insurance premium market grew to $65.4 billion in 2009, up by 3.2% from $63.4 billion the year prior.



As in private-passenger auto, direct response writers had the strongest gains in homeowners premium growth in 2009 over the year prior—albeit starting at a much smaller base than any of the other channels. In 2009, direct response grew by 10.4% (to $3.4 billion, or a 5.2% share).

While the direct response carrier share in homeowners insurance may be the lowest 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 no longer represent the fastest-growing channel (as they had been in 2008), but they still experienced some growth. National IAs were up 2.7% in share, adding $277.5 million in homeowners premium (to $10.5 billion, or a 16% share).

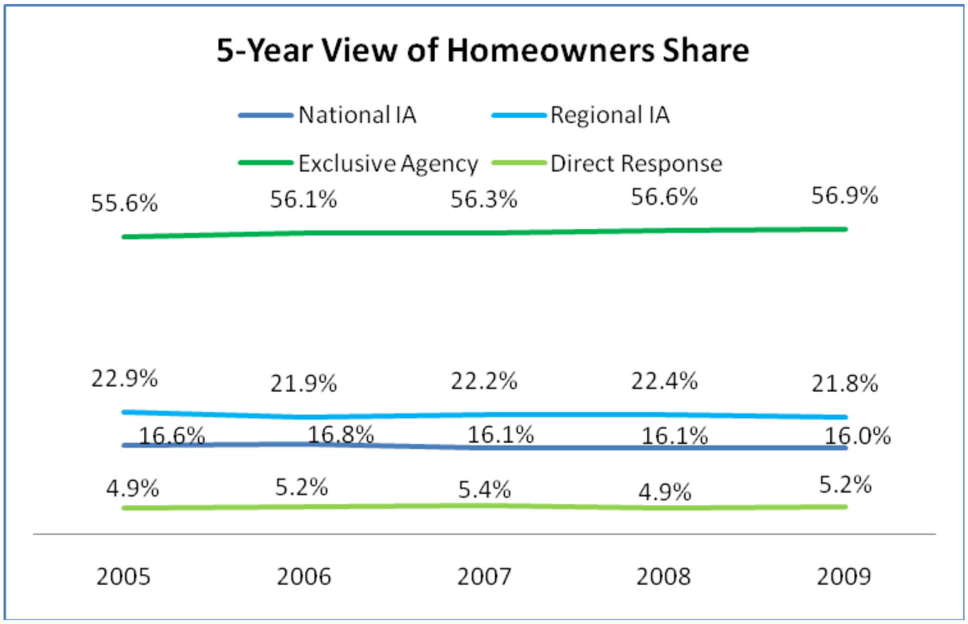
Regional IAs had minimal growth, increasing by 0.6% (to $14.3 billion) but do represent a larger share of this market (21.8% share).

Combined, independent agents and brokers wrote $24.8 billion of the 2009 market, adding more than $356 million of premium. They account for 38% of the homeowner's market, which is a slight decrease from a year prior (38.5% in 2008).

Captive agency writers grew by 3.8% in 2009 over 2008. They not only grew stronger than national IAs, but they continue to be the dominant channel in this market at 57% share (unchanged from 2008), or $37.2 billion of premium.

G. Five-Year Look: Homeowners Market Share

In the last five years, the homeowners insurance market share has remained essentially static. And from 2008 to 2009, direct response and captive carriers have seen a little growth, while regional IAs experienced a slight decline. National IAs continued to hold their own.



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 2009 include[2]:

National/Regional IA Carrier	% Growth
Tower Group Companies	101
American Strategic Ins Group	21.1
Main Street America Group	11.5
State Auto Insurance Companies	9.4
Central Insurance Companies	8.4
Universal Ins Holdings Group	8.1
The Hanover Ins Group P&C Cos	4.9
Grange Mutual Casualty Pool	4.3
Commerce Group	4.2
Arbella Insurance Group	4.0
Universal Ins Group Puerto Rico	3.7
AIG (less Direct Response)	3.6
Erie Insurance Group	3.3
Harleysville Insurance	3.2
Liberty Mutual Agency Cos	3.0
Travelers Group	2.8
Auto-Owners Insurance Group	2.7
Westfield Group	2.2

[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
USAA Group	8.0
Progressive Direct Companies	7.5
Amica Mutual Group	0.7

Major Captive Agent Competitors	% Growth
Liberty Mutual Direct Cos	5.5
Auto Club Group	5.2
Auto Club Enterprises Ins Group	2.7
COUNTRY Financial	2.2
State Farm Group	1.8
Munich-American Holding Corp	1.7
California State Auto Group	1.2
American Family Insurance Group	0.1
Nationwide Direct Companies	-0.8
Farmers Less Foremost	-1.7
Allstate Direct Companies	-4.3

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 three 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 average 11-point expense advantage over the IA channel and a nine-point advantage over captive agency carriers in 2009.

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 each distribution system; and

2. The overall expenses to provide insurance (operating ratios) for efficient carriers often come close to one another—no matter what the channel.

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

[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.

2009 Private-Passenger Auto Operating Ratios

This table of operating ratios in personal automobile 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
GMAC Insurance Group		21.04		
USAA Group				22.46
Auto-Owners Insurance Group		25.40		
GEICO				28.90
Progressive Direct Companies				32.35
Drive Insurance		33.25		
Auto Club Enterprises Ins Group			34.16	
Hartford Insurance Group	35.58			
Allstate Direct Companies			37.21	
Commerce Group		37.29		
State Farm Group			37.53	
American Family Insurance Group			37.65	
MetLife Agency Companies		37.79		
Erie Insurance Group		38.43		
Liberty Mutual Direct Cos			40.00	
Auto Club Group			40.68	
Unitrin Prop & Cas Ins Group	40.83			
The Hanover Ins Group P&C Cos	41.34			
Nationwide Agency Companies		41.34		
Nationwide Direct Companies			41.50	
Liberty Mutual Agency Cos		41.63		
Mercury General Group		44.42		
Travelers Group	44.78			
California State Auto Group			47.44	
White Mountains Insurance Group	50.22			
Farmers (less Foremost)			51.40	
AIG (less Direct Response)	56.36			

Results show many independent agency companies (particularly regional IAs) posted impressive 2009 operating ratios that beat those of the largest captive carriers—and even lower than some of the large direct carriers. Of note, GMAC, a regional IA carrier, posted the lowest operating expense ratio, even beating the consistently efficient USAA, which benefits from unique and efficient access to the large military-related market.

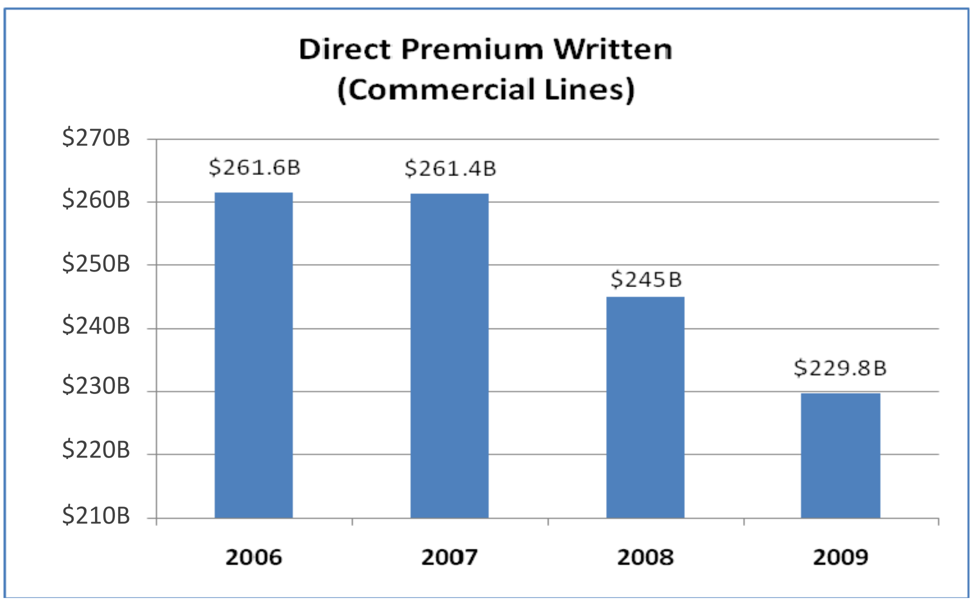
V. Commercial Lines

Prolonged soft pricing combined with a weak economy has hurt the revenue for commercial insurance carriers. Key factors are high unemployment, which are 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 big hit in premium volume in 2009. Direct written premium dropped 8.1% to $229.8 billion (vs. $245 billion in 2008).

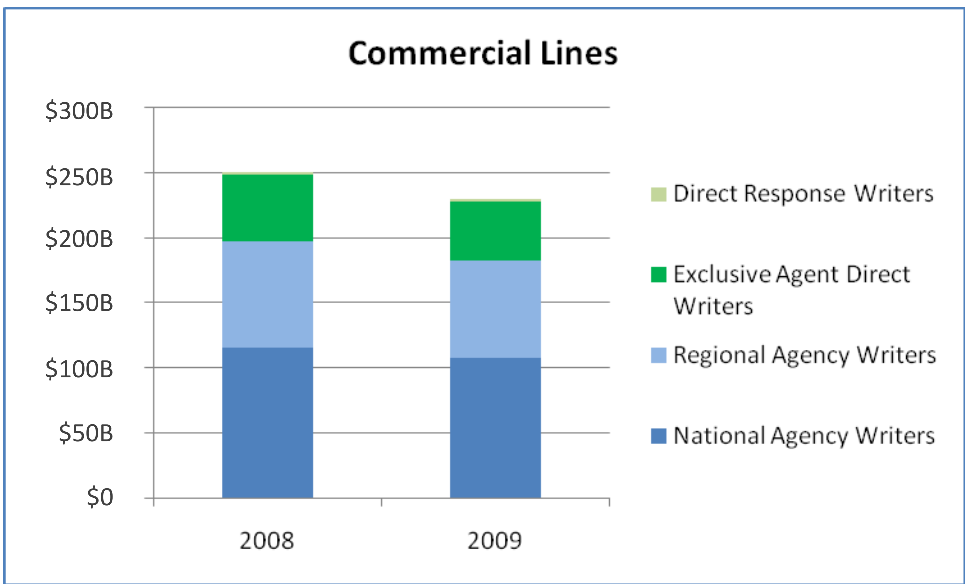
2009 Commercial Lines			
	Direct premium written	% share	% premium growth 2008 to 2009
National	$107.6B	46.8%	-6.8%
Regional	$74.4B	32.4%	-9.4%
Exclusive	$45.6B	19.9%	-9.0%
Direct	$ 2.1B	0.9%	-1.6%
TOTAL	$229.8B	100%	-8.1%

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 2009, it is not surprising to see that every channel experienced a decline in written premium. Independent agent and broker production decreased nearly 8% from 2008, but overall carriers' production decreased even more, nearly 9%. However, direct response and captive carriers combined represent only one-fifth of the entire commercial market.

As this table shows, independents remain the dominant channel by writing nearly $8 of every $10 in commercial premiums. That translates to $182 billion in direct written premium in 2009 (down from $197.6 billion in 2008) and a share of 79.2%.



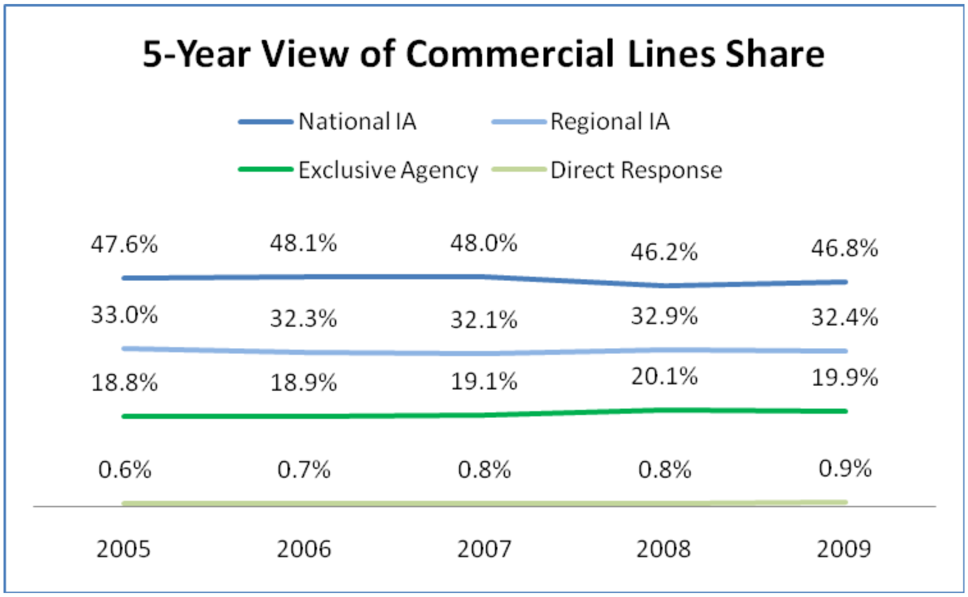
In 2009, regional IA carriers wrote $74.4 billion in commercial business, down from $82.1 billion in 2008. Their share of the overall market dropped slightly (by 0.5 percentage points to 32.4%).

Similarly, national IA companies wrote $107.6 billion in premium, down from $115.5 billion in 2008; their share dropped by 0.6 percentage points from the year prior (to 46.8%).

Captive agency carriers dropped $4.5 billion in written premium ($45.8 billion in 2009 vs. $50.3 billion in 2008), but their market share declined only slightly (19.9% in 2009 vs. 20.1% in 2008).

Direct response experienced the smallest decline in production—albeit it is significantly smaller than the other channels in commercial lines. From 2008 to 2009, direct response lost about $33 million in written premium, but its share of the overall commercial market remains small (less than 1%).

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

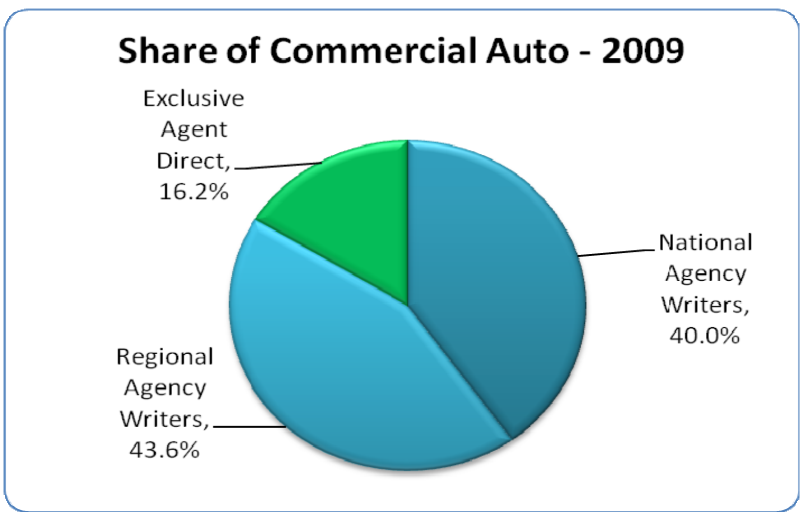


A. Commercial Auto

In the commercial automobile line, the overall market continued to face declining premiums in 2009. Written premiums came in at $24.4 billion, a decline of 9.2% from 2008. (The market experienced a 7% decline from 2007 to 2008, and a 4% decline from 2006 to 2007.)

2009 Commercial Auto			
	Direct premium written	% share	% premium growth 2008 to 2009
National	$9.8B	40.0%	-9.7%
Regional	$10.6B	43.6%	-8.3%
Exclusive	$3.9B	16.2%	-10.5%
TOTAL	$24.4B	100%	-9.2%

Note that market share in commercial auto held steady for each channel. Independent agents and brokers wrote 83.7% of commercial auto premium in 2009, down only 0.2 points of share from 2008. Captive carriers also were down 0.2 points of share to 16.2%. Regional IAs grew their share by 0.4 points to 43.6%.



Note that direct response data is not included as they represent one-tenth of one percent of the market share.

B. Workers Compensation

2009 Workers Comp	Direct premium written	% share	% premium growth 2008 to 2009
National	$17.1B	45.2%	-7.3%
Regional	$13.8B	36.5%	-22.8%
Exclusive	$7.0B	18.3%	-15.0%
TOTAL	$37.9B	100%	-14.9%

With a challenging economy and soft market conditions, the overall workers compensation market continued another decline in premiums in 2009. Workers comp production dropped nearly 15% to $37.9 billion in 2009. This is a continuation of decline for this market (13% decline in 2008 and 4.5% in 2007).

IA carriers' market share remained unchanged at 81.6% in 2009. However, of this share, national IA carriers gained 3.7 points of share, at the expense of regional IAs who dropped by as much.

C. Largest Gains in Commercial Lines

These national and regional independent agency carriers experienced percentage growth in overall commercial lines market share in 2009[4] (among carriers with at least $1 billion in direct premium written):

Independent Agency Carrier	% Growth
HCC Insurance Group	19.5
QBE Americas Group	19.3
Bank of America Group	17.6
Assurant Insurance Group	16.9
AXIS Insurance Group	15.0
Tokio Marine US Group	14.3
The Hanover Ins Group P&C Cos	12.7
Arch Insurance Group	11.8
White Mountains Insurance Group	7.2
Erie Insurance Group	6.3
Travelers Group	4.8
Selective Insurance Group	4.2
Cincinnati Insurance Cos	4.1
Chubb Group of Insurance Cos	3.8
CNA Insurance Companies	3.6
Auto-Owners Insurance Group	3.4
ACE INA Group	2.9
Allianz of America	2.4
Alleghany Insurance Holdings	1.8
Argo Group	0.7

Many major independent agency carriers experienced some decline in commercial lines market share in 2009.

Independent Agency Carrier	% Growth
Berkshire Hathaway (less GEICO)	-25.6
XL America Group	-7.8
Great American P&C Ins Group	-5.6
Zurich Financial Svcs NA Group	-5
Old Republic Insurance Group	-2.8
Liberty Mutual Agency Cos	-2.7
W. R. Berkley Group	-1.6
AIG (less Direct Response)	-1.3
Hartford Insurance Group	-0.2

[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.

Competitors

Major competitors to independent agents experienced the following growth in their 2009 commercial lines market share:

Captive Agency	% Growth
FM Global Group	24.3
Munich-American Holding Corp	20.4
State Farm Group	6.2
Farmers (less Foremost)	5.6
Allstate Direct Companies	2.4
Nationwide Direct Companies	1.6
Swiss Reinsurance Group	0.04

Meanwhile, the direct response category gained 7% in their commercial lines market share (vs. a gain of 18% in 2008), but these carriers start with a relatively small overall share (less than 1%).

Major Direct Response	% Growth
Progressive Direct Companies	45.0
Government Employees Group	21.3
USAA Group	19.2
Amica Mutual Group	13.5
AIG Direct Response	-3.0

By commercial market share, AIG Direct (47%) and USAA (31%) are the top competitors within the direct response channel.

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.

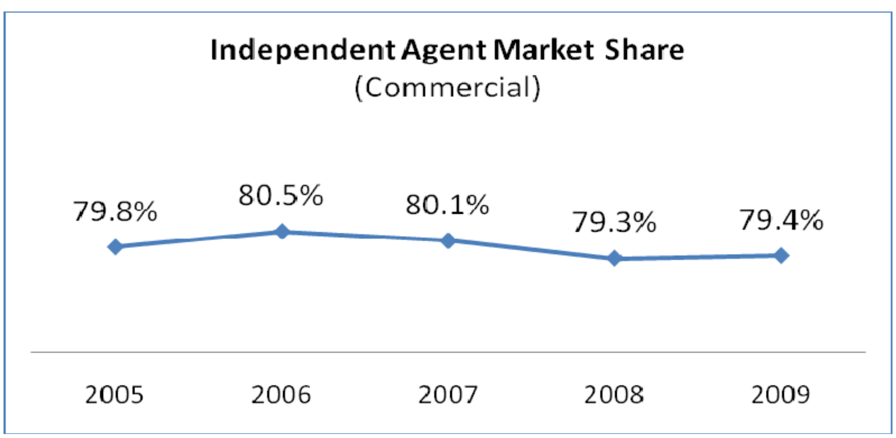
The IA channel commercial lines market share in all the states (plus the District of Columbia) broke down as follows over the last five years:

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

Average IA Share

The average independent agent market share around the states continued to be fairly consistent. In 2009, market share was essentially flat over the year prior (79.4%), but down slightly from 2005-2007.

Captive agency and direct response writers were down slightly in market share in 2009 (19.7% in 2009 vs. 19.9% in 2008).



Independent agents and brokers produced more than 85% of commercial lines in 2009 in each of three markets: Hawaii (87.5%), Maine (87.3%), and West Virginia (86.4%).

States with 5 largest gains/losses in IA commercial market share			
	Gains		Losses
Vermont	12%	**Nevada**	-2.5%
New York	2.2%	**Washington**	-2.0%
Dist. Of Columbia*	2.1%	**Rhode Island**	-1.8%
Utah*	1.4%	**Arizona**	-1.6%
Kansas	1.4%	**West Virginia****	-1.4%

* Was a top 5 gain in 2008
** Was a top 5 loss in 2008

VI. About the Data

This report marks the 14th 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 2009 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 2009. 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 to 100% of market share; this is due to rounding of minute numbers.

Two Further Data Changes
There were two major changes made to the IIABA information in the last five years to further enhance the accuracy of the numbers. A.M. Best separated Progressive's direct business from what is written by its agency group. Several company groups from the regional independent agency company category were reallocated to the national independent agency category. A.M. Best requires a company to write in many states and to write multiple lines of business in order to fit into the national agency 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, Education & Research, at (703) 706-5409 or madelyn.flannagan@iiaba.net.