Executive Summary

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Technical Release Notes Summary

By leveraging even more data sources and up to date inputs than in past release, MarketStance has **revised TIV estimates, now developed from replacement cost value estimates** published annually by the BEA and Census Bureau, rather than exclusively from actual cash values reported every 5 years in the Economic Census. Actual cash value estimates are also available on request.

Resulting from the TIV revisions, **we shifted about $2.8 billion of property direct written premium** (about 6 percent of the property market) to self-employed (0 EE) single-family and multifamily lessors (SICs 6514/13), respectively, developing the ACS as a key data source for these classes of business. **Oil and gas extraction TIV estimates** are updated and more complete, adding nearly $1 Trillion in Oil and Gas extraction structures – oil drilling platforms and the like – to TIV. **We added retail sector inventory value estimates using** the Census Service Annual Survey as a key supplement of the Economic Census. **Equipment and machinery values exclude** the value of commercial vehicles, making property premiums more accurate in all industries. **Farm inventories now include the estimated** value of crops in the ground, providing a more complete estimate of these exposures. **Farm structure values** no longer include the estimated value of land, again thanks to supplementary data provided by the BEA. See Table 1, page 2-3.

The other significant revision encompasses our estimation of the BOP market. **Our continuous review of the BOP marketplace** trimmed **our estimate from $25 to $22 billion,** the result of applying explicit square footage caps on lessors of multifamily properties. Additionally, we deleted full-service restaurants, mobile home lessors, religious organizations, and banks from our list of BOP-eligible classes.

Forecast Release Notes Summary

Despite slow growth, the national commercial lines outlook continues improving as of mid-year, primarily due to a hardening market across most if not all lines of business. In this economic environment the promise of near zero asset returns adds pressure on underwriting performance as a source of profit growth. Picking the right risks to achieve a competitive advantage becomes more and more important.

There are different pockets of growth depending on where carriers look, within what industries, and what business sizes. At the industry level, sectors such as residential lessors' risks will continue seeing positive growth. Looking at the small commercial (1-49 EE) segment, Tucson (#1), Las Vegas (#9), and Phoenix (#10) have broken in to our Top-10 fastest forecast growth areas in terms of 2013-14 employment growth, despite the fact that these three metros ranked #27, #59, and #20, respectively, in 2011-12, among larger metro areas in the segment.

The underlying message for commercial lines for the foreseeable future continues to be that brokers, carriers and the industry generally will have to know a lot more about the parts of the economy – what we like to call pockets of opportunity – business classes, size segments, and specific territories – than can ever be indicated by the rate of growth in gross domestic product or employment. These pockets are what will provide both hope and help, when it comes to planning and acting intelligently, that is, profitably.

Table I. Summary of TIV and Property Premiums* Estimation Changes in Commercial Insight 11.2 by 1-digit SIC			
1-digit industry	**1-digit SIC industry**	**Change in estimate, TIV**	**Change in estimate, property premiums**
0	**Agriculture, Forestry, Fishing**	-74%	-85%
We made large downward revisions to our TIV estimates, using new source data to remove the value of land from our structure estimates. The impacts on property premiums stemmed primarily from equipment value revisions concentrated in Veterinary (0740) and Landscaping (0782) services.			
1	**Mining**	61%	4%
We substantially increased our estimated value of crude oil and gas extraction facilities. The premium impact of this was almost completely offset by a reduced estimate of equipment used in oil & gas services, due to the higher personal property rates for these industries in our estimation procedures.			
2	**Construction**	-7%	-8%
A substantial increase in SIC 1799 was more than offset in the majority of construction classes, where we removed the value of vehicles from our equipment estimates, using improved sources of data.			
3	**Manufacturing**	-5%	18%
Though we reduced our overall TIV estimates, our structures estimate rose by $466 billion (15% of TIV), led by Pharmaceuticals (2834) and Plastics (2821), among other classes. Since rates tend to be higher for structures than for personal property in these SICs, the large net increase in structure values drove premium estimates higher. We reduced our inventory estimate by 9%.			
4	**Transportation, Communications, and Utilities**	-36%	-34%
Electrical Services (4911) drove the reduction in premiums. We removed the value of vehicles from personal property, using improved data sources.			
5	**Retail Trade**	88%	10%
The premium change is much greater (+27%) excluding restaurants (5812), driven by large increases in building value estimates. We reduced our restaurant equipment estimates by $60 billion, or about 1/3rd of restaurant TIV, and added over $400 billion in retail inventories, using newly processed Census source data.			
5W	**Wholesale Trade**	18%	16%
Both structure and equipment values were revised in Computer and Peripheral Equipment (5045), Drugs (5122) and Medical (5047), partially off-set by reductions in estimated equipment values in Petroleum Bulk Stations (5171), Sporting Goods (5091) and Scrap (5093).			
6	**Finance, Insurance, and Real Estate**	16%	14%
Extensive processing of new residential data sources such as the American Community Survey led to large increases in TIV and premiums. We now estimate the replacement cost of leased single- and multi-family residential structures (6514 & 6513) to be $3.3 Trillion, $1.7 Trillion above previous estimates. This yielded a hefty $2.6 billion increase in property premiums. <u>Users should note that this increase is highly concentrated in the self-employed (0 employee) size segment</u>, where the biggest gap in our estimation procedures had existed (see below for details). For the broader 1-digit industry, the revisions in residential TIV and premiums were modestly offset by reduced estimates of TIV and premiums in many banking SICs, insurance, and non-residential lessors (6512).			

Table I continued. Summary of TIV and Property Premiums* Estimation Changes in Commercial Insight 11.2 by 1-digit SIC			
1-digit industry	1-digit SIC industry	**Change in estimate, TIV**	**Change in estimate, property premiums**
7	**Services**	19%	16%
Our revisions were driven by Temp Help Services (7363), Religious Organizations (8661), Offices and Clinics (8011), Colleges & Universities (8221), and Elementary & Secondary Schools (8211) where structure value estimates rose by a combined $500 billion, about 15% of TIV. This was partially offset by SICs such as Nursing and Personal Services (8053) and Equipment Rental (7359 & 7513) where we reduced our structure and equipment value estimates by $238 billion.			
9	**Government**	-34%	-20%
Large increases in school districts were more than off-set by reductions in general government property values.			
	Totals	**-7%**	**-1%**
*Direct written premiums plus alternative market premium equivalents, v11.1 & 11.2 (operating location) data.			

Who to contact for more information

The complete version of the Technical Release Notes and Forecast Release Notes are made available to download at the MarketStance website, www.marketstance.com, Releases and Events Section. You can also contact Katie Haberlandt in Client Services at (860) 704-6381/ 888-777-2587 or ms@marketstance.com, or your Regional Relationship Director to request a copy of the release notes documents. We value your business, and thank you for your continued support!

