Historical and Forecast Market Growth for Informed Decisions

MarketStance Economic Growth Information

Summary

MarketStance reports historical and forecast growth information in our database products designed specifically for the Property and Casualty (P&C) Insurance Industry audience. As with any data source MarketStance incorporates into our estimation processes in addition to the resulting output validation, the underced historical and forecast data inputs undergo proactive testing and exhaustive examination with the assumption that data issues must be resolved.

Our proprietary estimation process produces economic forecast metrics to view both historical P&C exposure trends and forecasted P&C exposure trends by detailed market segments.

The exposure trend data MarketStance produces delivers --

1. **Subjectively adjusted data**
2. **Smoothed trends**
3. **Quality tested results**

By leveraging both the forecast delivered by Moody's Analytics, historical data from US Government sources, and expert economists' perspective, MarketStance delivers consistently reliable and accurate growth information. This document will address --

- What growth measures are reported in MarketStance's information products?
- How does MarketStance develop growth information?
- What are the applications to the P&C Insurance Industry?

The next section will identify how MarketStance's Growth Information can be applied to enhance and make more accurate business decisions within the P&C Industry. Following that section, we offer a detailed explanation of our process and output.

If you have any questions or would like more information, please contact MarketStance Support.
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Why carriers should use growth in their analysis and planning

Often Commercial Insurance carriers focus on the number of businesses and amount of insurable exposure or premium potential in the market. These are the key measures for risk analysis and opportunity identification. However, if that opportunity is shrinking or the exposure base is eroding, is that really the business a carrier should target? The reality is that unless carriers incorporate some measure of growth, and the growth relevant to the opportunity and product in question, the information will not be an accurate representation of the market necessary for truly informed decisions.

In Table 1, we see a rank ordered distribution of Small Commercial Retail opportunity by counts of operations, premium potential, and employment growth. If a carrier only focuses on the first two measures of opportunity, states with both significant potential **and that are growing** can be overlooked. This is especially important to examine at the more detailed market views.

Table 1: Rank ordered distribution of states by different measures of opportunity – number of operating locations, premium, and growth

| Small Commercial Retail by State			
Top Ten Rank Orderes	**By Number of Operating Locations**	**By Total All Lines Premium**	**By 2011-2013 Annual Employment Growth Rate for States in the Top 50% for Premium and Operations**
1	California	California	**Minnesota**
2	New York	New York	Texas
3	Texas	Florida	Florida
4	Florida	Texas	North Carolina
5	Pennsylvania	Pennsylvania	**Virginia**
6	Illinois	Illinois	**Georgia**
7	Ohio	New Jersey	**Washington**
8	New Jersey	Ohio	**Indiana**
9	Michigan	Michigan	New York
10	North Carolina	North Carolina	Ohio
Source: MarketStance Commercial Insight Enterprise Data (Version 10-1)			

Exposure growth can vary markedly by location and industry, which is commonly the case across and within states. The overall impression of a state's market condition is not necessarily the best measure for making decisions on interstate and intrastate planning. It can cause one to make misinformed decisions to target opportunities that are not ideal and/or miss opportunities for growth. For example, a carrier that previously wrote in a state or industry that was severely adversely impacted by the 2009-2010 recession may have seen their book of business deteriorate for that state and shy away from targeting areas there to grow moving forward. However, there are pockets of opportunity to target in any state, and a carrier simply needs the right information at the right level of detail to identify it and align that with underwriting appetite for a strategy to succeed.

Map 1, below, illustrates the distribution of BOP Premium dollars tied to business that is contracting, or stressed, by state. We see many states that have quite a significant amount of Stressed BOP Premium dollars in the Small Commercial Market segment. Based on this view, a carrier may choose to avoid some states all together. However, using MarketStance premium information that also accounts for exposure growth, a carrier can identify pockets of opportunity to target in market segments for lines of business that may appear unattractive at a higher level but at more detailed market views are in fact attractive opportunities, likely giving that carrier a competitive advantage over misinformed or uninformed carriers.

Map 1: Stresssed BOP Premium in the Small Commercial Market by State

Percent of BOP Premium in Stressed Businesses
- >40%
- 35 to 40%
- 27 to 35%
- < 27%
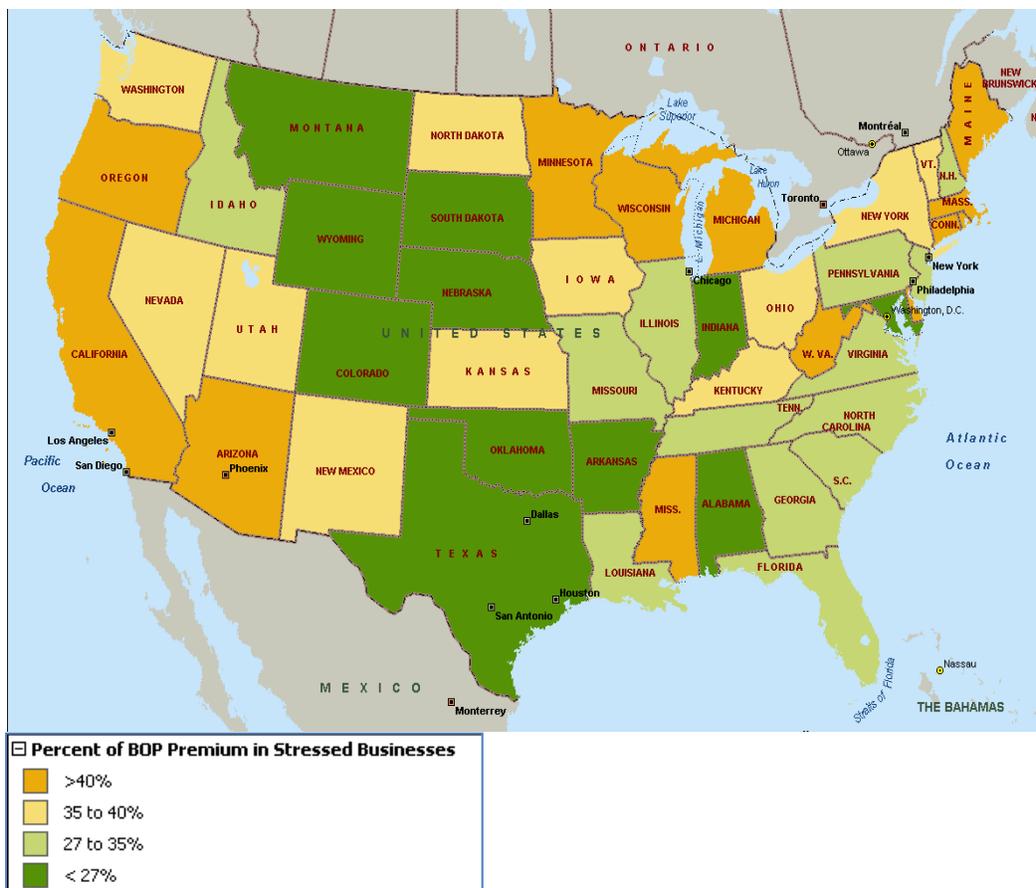
If we look at the Michigan, a state whose economy was devastated by the 2009-2010 recession, in the Small Commercial Market, we see areas with little or no BOP premium in stressed market segments. Now many carriers might be hesitant to target opportunities in Michigan, but with the right information augmented by growth measures, opportunities are easy to identify illustrated in Map 2 in counties to the northeast of Lake Michigan.

Map 2: Stressed BOP Premium in the Small Commercial Market by Michigan County
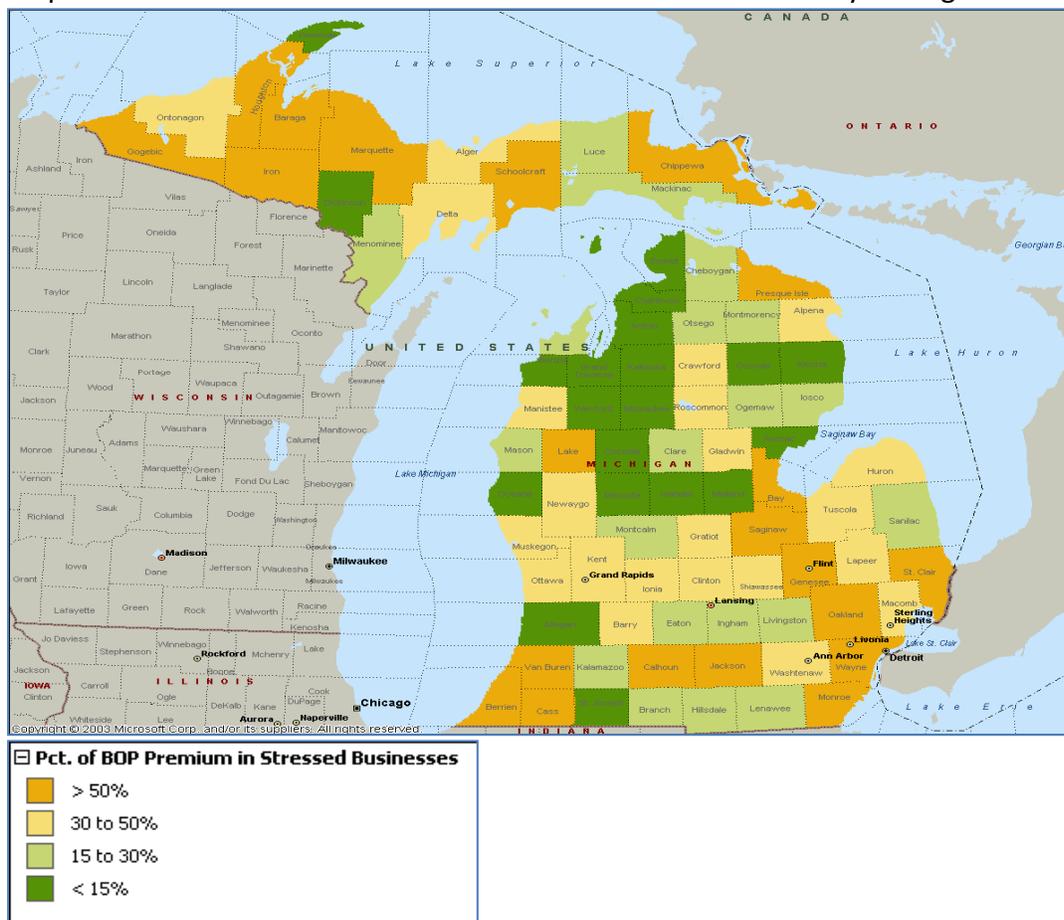
What are the applications to the P&C Industry?

MarketStance historical and forecasted exposure growth data allows clients to prioritize market opportunity not only by numbers of business locations and premium potential, but also by directional exposure growth and detailed premium growth amount and direction. Proactive P&C insurers can use MarketStance growth data to develop tactical go to market plans to accomplish strategic goals for growth by pinpointing market segments and lines of business within those segments that are growing and by how much. Carriers are able to allocate resources within their market segments and for products with a consistent growth trajectory to better position themselves for sustainable profitable growth, to avoid contracting market segments to improve underwriting results, and to avoid segments with trends that are too dynamic (big swings in positive and negative growth) and therefore likely to return poor underwriting results.

The ease of analysis having business, premium, loss and growth data in a single database with no holes in reported information for all available market segments and levels of market segment detail allows carriers to perform multidimensional analysis that incorporates multifaceted opportunity definitions to include growth right alongside the account and premium potential. This valuable information is applicable to market research and planning, underwriting, sales and distribution, and product development.

What growth measures are reported in MarketStance's information products?

In the MarketStance Commercial Insight database, clients will see a series of historical and forecast growth measures listed below for numbers of businesses and select exposures. Each item is reported in the standard MarketStance database as 2 and 4 year compound annualized growth rates both historically and for the forecast measures.

- Number of headquarters
- Number of operating locations
- Employment
- Revenue
- Payroll

Individuals using MarketStance databases have the ability to report growth information for any market segment characterized by the following business criteria:

- 6-digit North American Industry Classification System (NAICS) or Standard Industrial Classification (SIC) code detail
- County or ZIP geographic detail
- A combination of 13 employee size segments

How does MarketStance develop the growth information?

Specific, bottom up forecasts for strategic planning

The challenge with using a typical Gross Domestic Production (GDP) forecast to predict growth at detailed levels within the market landscape - locations (e.g. county), industry classification level, and business size – is that it is a top down view of economic activity. Therefore, the various market segment trends are obscured. In contrast, the MarketStance (Moody's Analytics incorporated) forecast is a specific, bottom up forecast enabling detailed business planning. To illustrate this concept consider various forecast output and your business needs.

Contrasting a typical GDP forecast with bottom up, by county, by NAICS approach taken by MarketStance

Example:

- o National forecast for 4 percent growth –essentially unhelpful unless made specific
- o National forecast for 5 percent manufacturing growth—more tactical, still not specific enough
- o National forecast for 16 percent growth in airline passenger miles and new jet aircraft sales—still more tactical but where?
- o Middlesex County, CT, jet engine manufacturing, 7 percent growth—something you can take action on and weight relative to all other opportunities in the marketplace

Capturing historical, near term, and forecast data for exposures

MarketStance integrates historical employment and payroll data primarily US Census and the Bureau of Labor Statistics (BLS) data that is reported in the County Business Patterns and Quarterly Census of Employment and Wages (QCEW) respectively.

MarketStance integrates near term employment from BLS QCEW and Current Employment Statistics which it extends by county, industry, and business size detail.

Finally, MarketStance takes the Moody's Analytics employment forecast and extends this by county, industry, and business size detail. The following forecast components are part of MarketStance's employment forecast estimation process:

- o The macroeconomic model developed by Moody's Analytics
- o Baseline and alternative economic trend scenarios published by Moody's Analytics (e.g. if oil prices rise to %150/barrel and stay there, employment trends may follow alternate paths than the baseline)
- o Data reported on a by county by 4-digit NAICS basis

Adding value to the data inputs to improve historical, near term, and forecast estimation output

MarketStance supplements the historical and near term employment growth data with relative growth factors to capture the variation across operating location size and 6-digit NAICS code of business. The counts of businesses at the operating location and headquarters levels, payroll, revenue, and business growth are then based on the historical relationship of these exposure values to the employment or payroll by 6 NAICS, and market size detail.

Additionally, for near term and forecast data, MarketStance isolates outliers typical of Moody's Analytics first year of forecast information. By smoothing that transition between the primary government data sources historical and near term statistics and the Moody's Analytic's county forecast, MarketStance removes trend breaks or inconsistencies. Relative employment growth factors are added that capture variations across operating location size and 6-digit NAICS code of business. MarketStance can then project the growth in numbers of businesses at the headquarters and operating location levels and for payroll and sales growth by market segment.

Reporting growth information in premium dollar amounts for even more detailed market intelligence

MarketStance's Growth Advisor database information categorizes each line of business MarketStance reports to understand in even greater detail how economic trends (as employment growth) impact the market. Where in the Commercial Insight database, we report rates of directional growth for business locations, employment, payroll, and sales, with the Growth Advisor a carrier can see what amount of premium is in market segments that are growing, relatively unchanged by economic trends, or stressed. Premium dollars in 6-digit industry class, county, and detailed size market segments are identified as growing, neutral, or stressed premium based on employment forecast estimated using the approach and sources described above in this document. Those detailed by line premium growth measures can then inform at any aggregated level of detail within the market as to how the industry, location, and business size is impacted by economic trends.