



Personal Lines P-C Insurance Markets: *Challenges & Opportunities for 2011 & Beyond*

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 - ◆ Average Premium/Expenditures
- **Personal Lines Growth Drivers**
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- **Personal Lines Profitability Analysis**
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- **Private Passenger Auto Performance**
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 - ◆ Underwriting Performance
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- **Catastrophe Losses**
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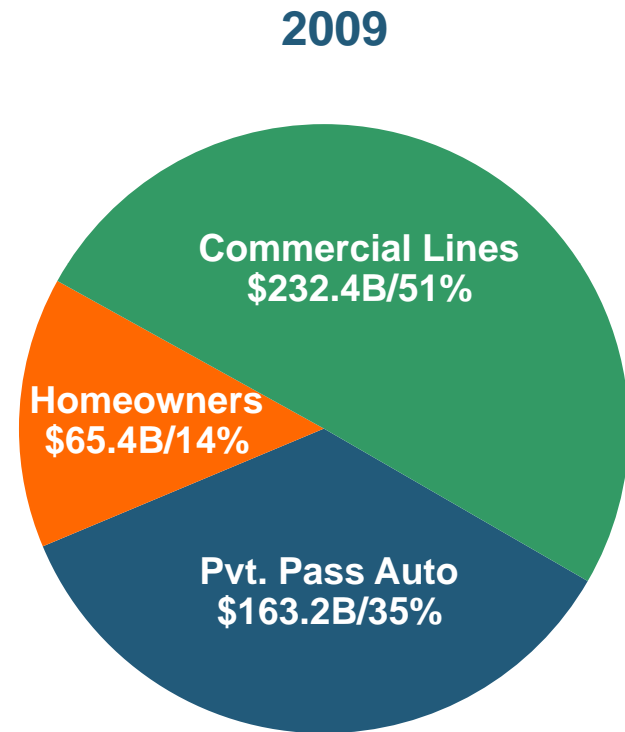
Personal Lines Growth Analysis

**Growth Trajectories Differ
Substantially by Line, by
State and Over Time**

Distribution of Direct Premiums Written by Segment/Line, 2009

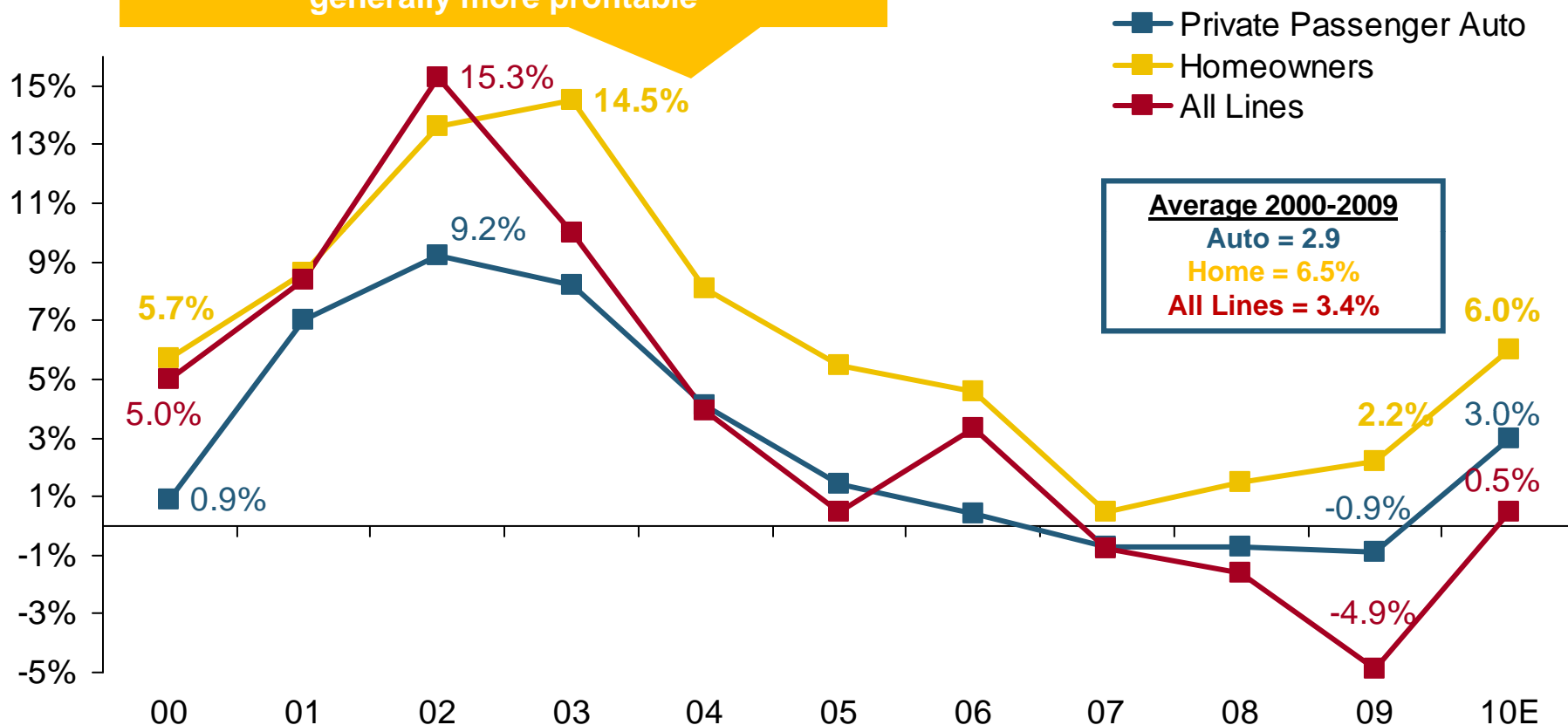
Distribution Facts

- Personal/Commercial lines split has been about 50/50 for many years; Personal Lines likely overtook Commercial Lines in 2010
- Pvt. Passenger Auto is by far the largest line of insurance and is currently the most important source of industry profits
- Billions of additional dollars in homeowners insurance premiums are written by state-run residual market plans

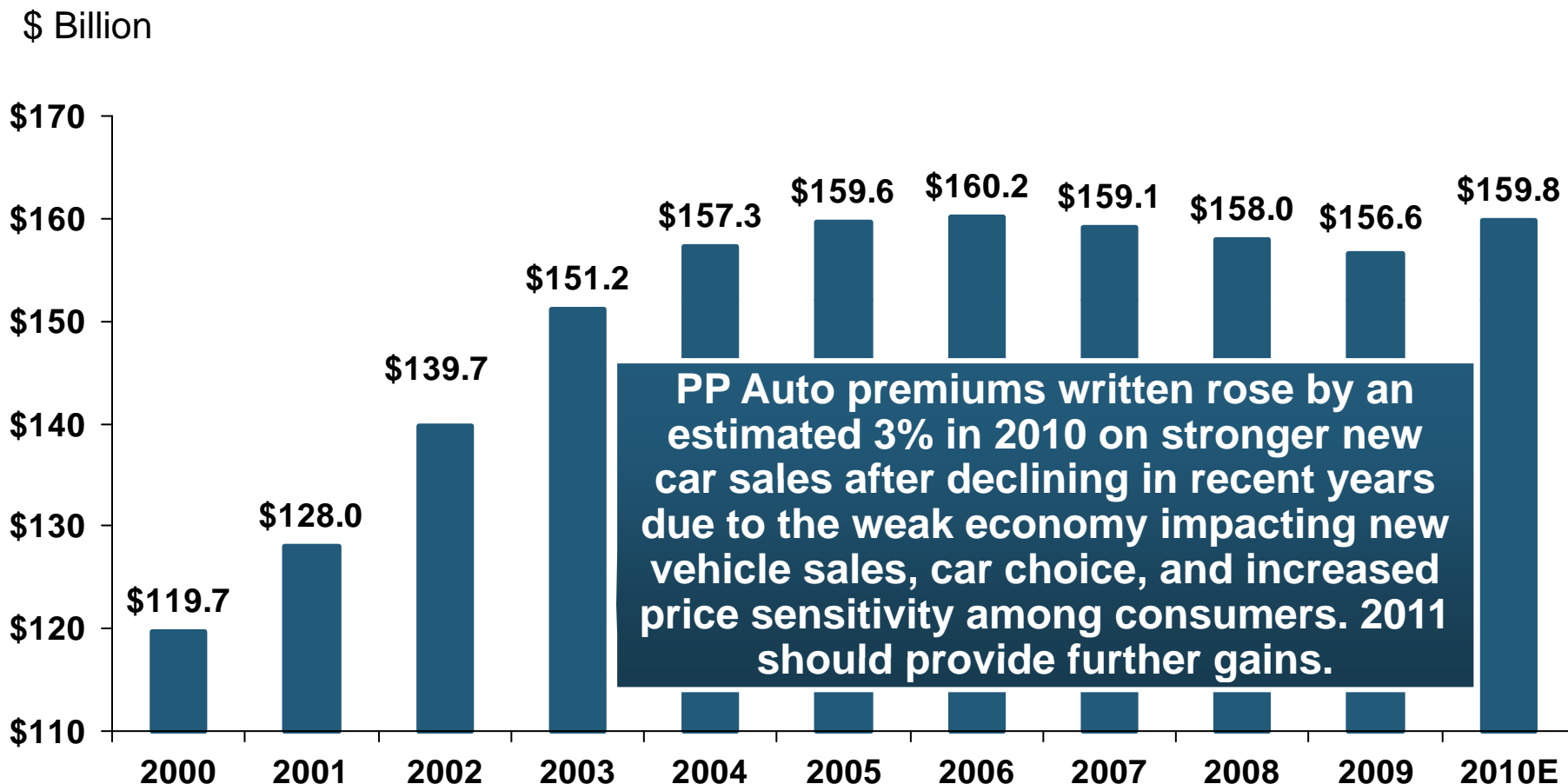


Auto & Home vs. All Lines, Net Written Premium Growth, 2000–2010E

While homeowners insurance has grown faster than auto over the past decade, auto is generally more profitable



Private Passenger Auto Insurance Net Written Premium, 2000–2010E



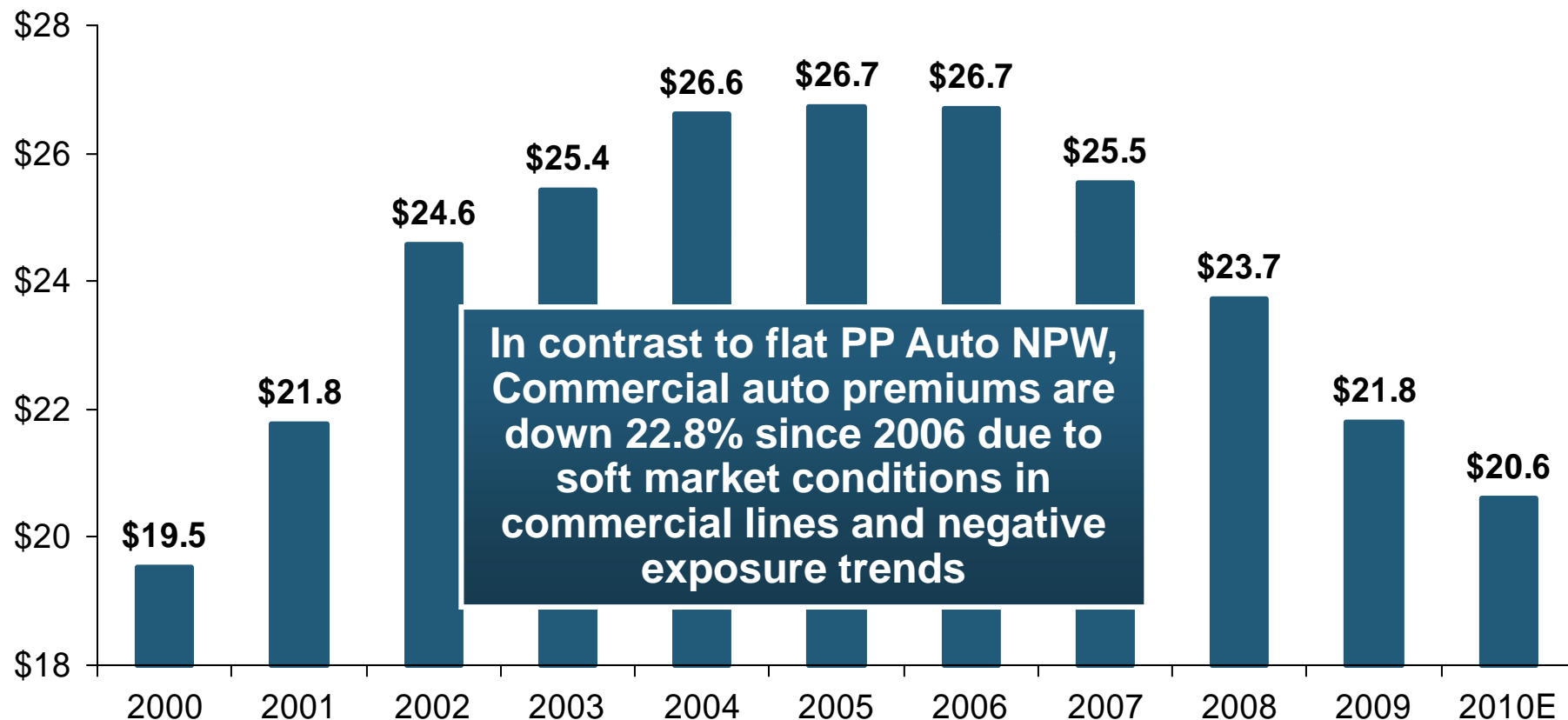
Auto Insurance Net Premiums Written, Canada, 2002-09



Auto insurance premiums are a significantly larger part of total premium revenue in Canada compared to the U.S. Moreover, Auto NPW continued to grow in Canada during the economic downturn but were flat/negative in the US

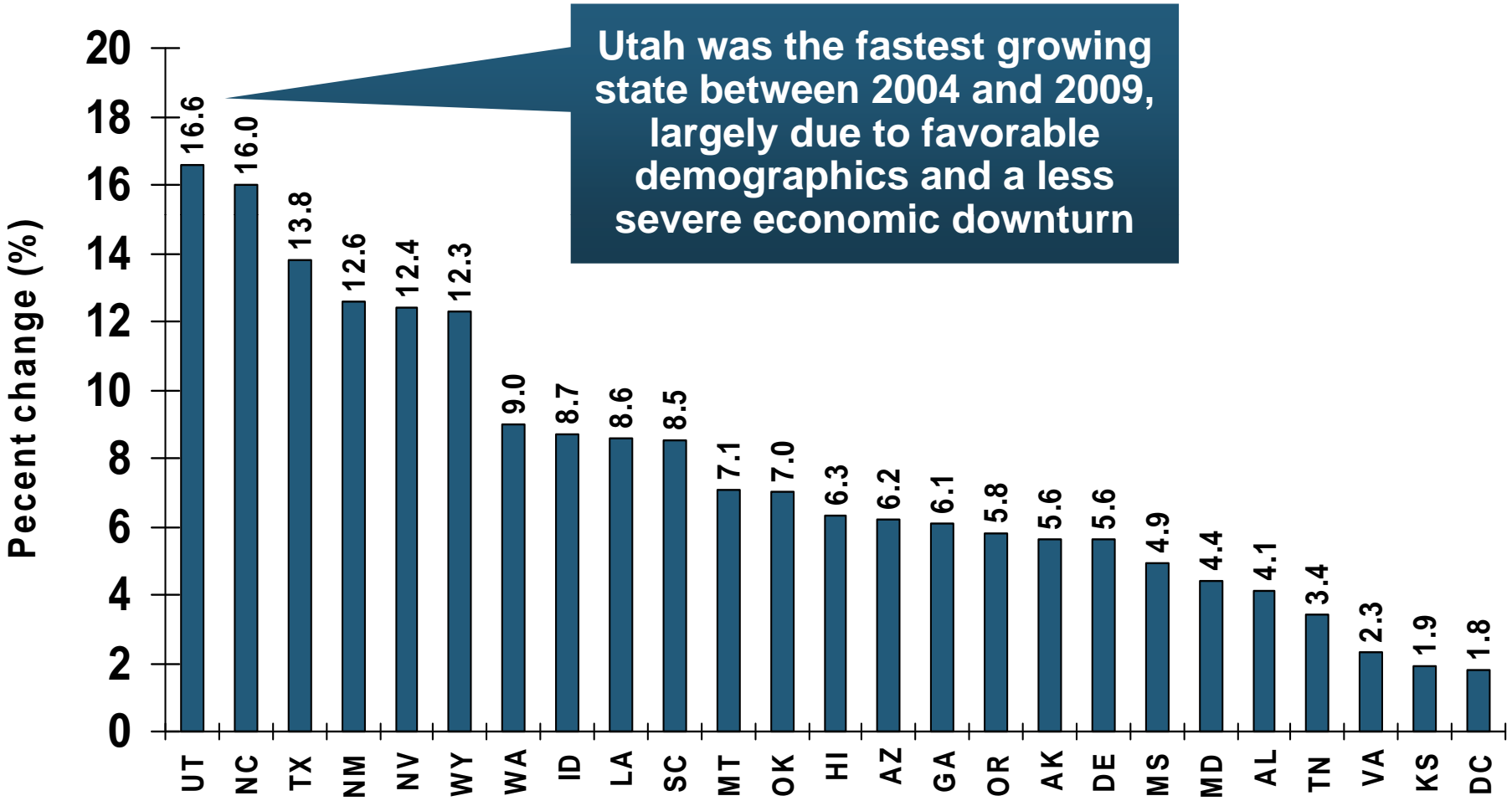
Commercial Auto Insurance Net Written Premium, 2000–2010E

\$ Billion



Percent Change in NPW: Pvt. Pass. Auto by State, 2004-2009

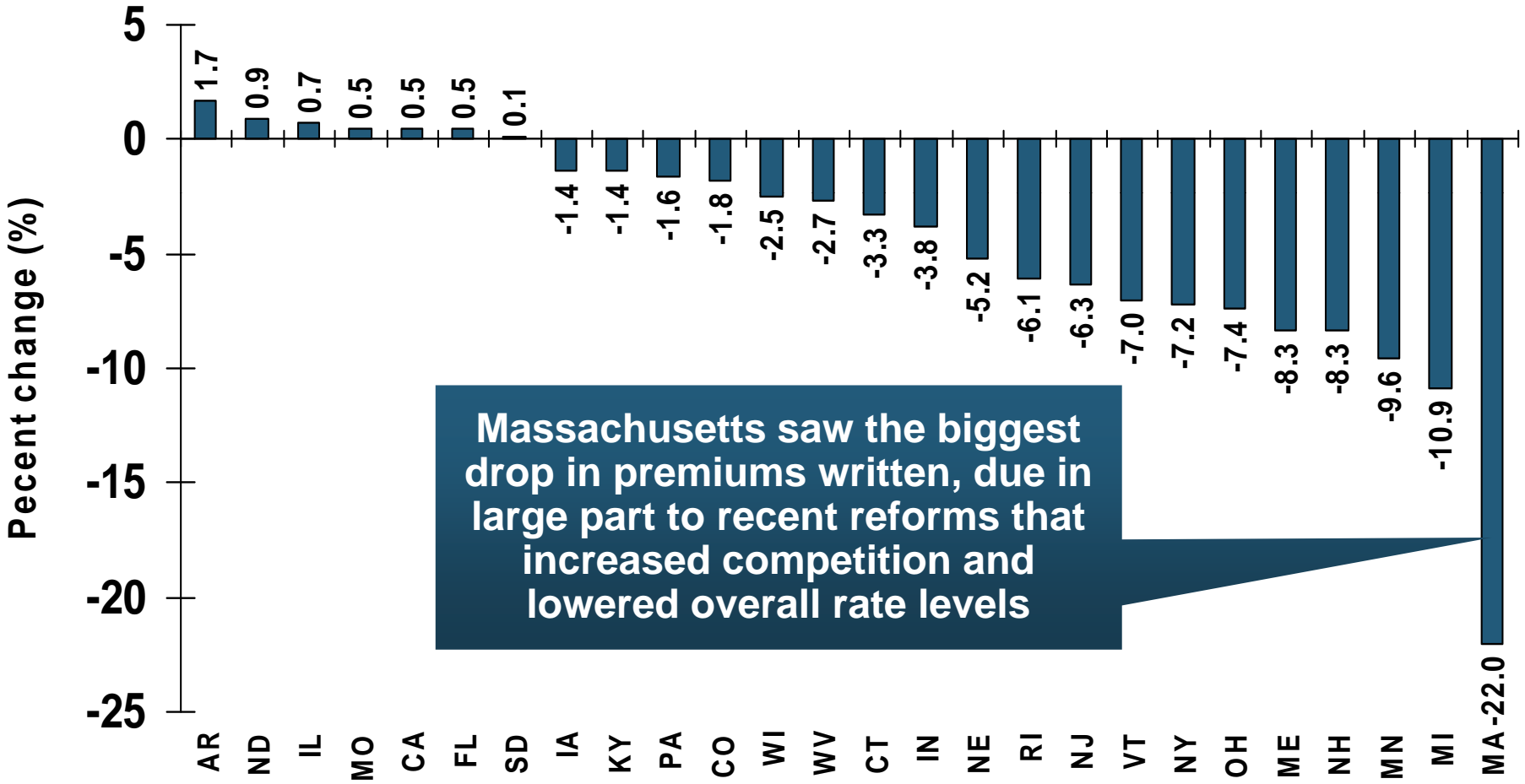
Top 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

Percent Change in NPW: Pvt. Pass. Auto by State, 2004-2009

Bottom 25 States

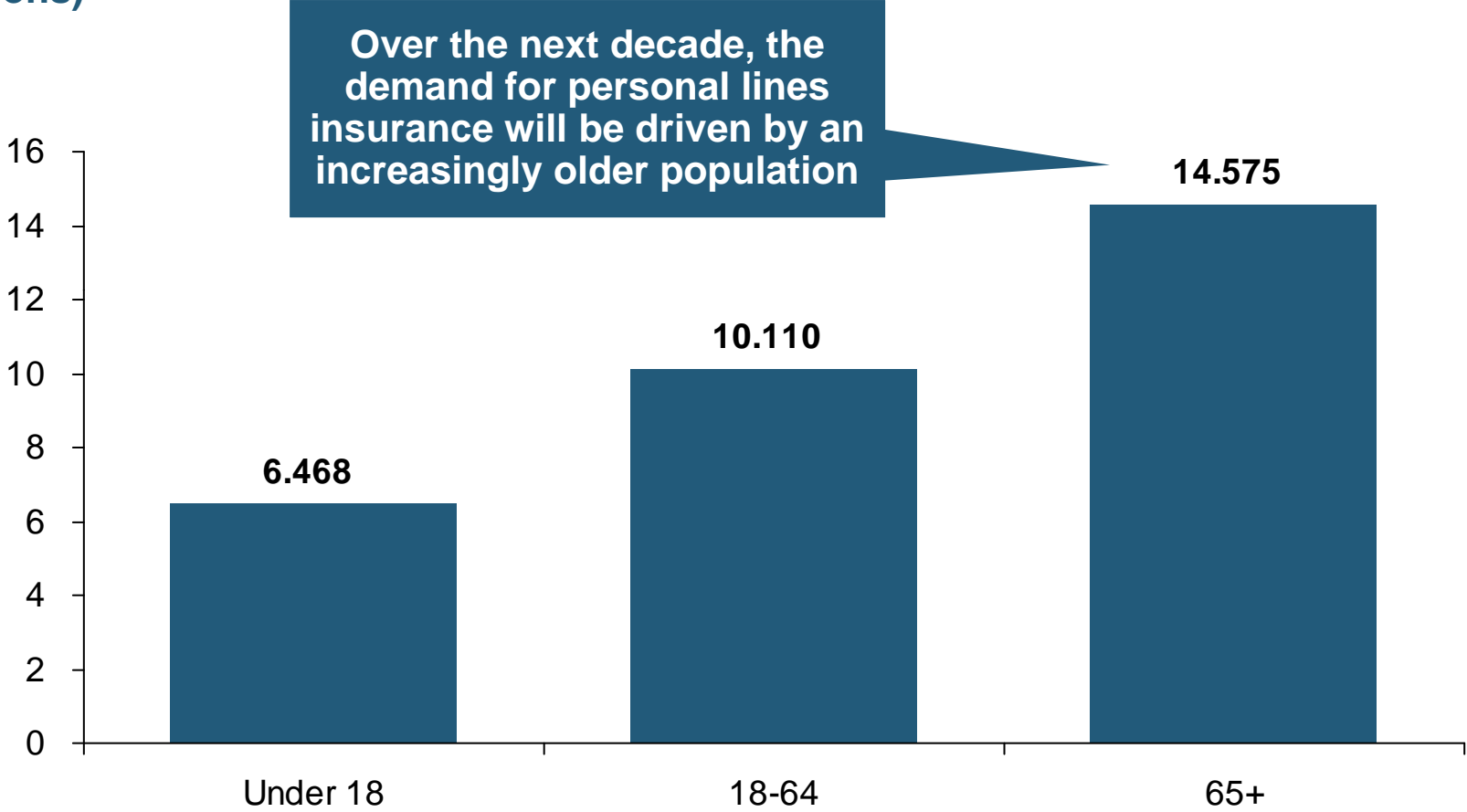


Massachusetts saw the biggest drop in premiums written, due in large part to recent reforms that increased competition and lowered overall rate levels

Sources: SNL Financial LC.; Insurance Information Institute.

Increase in Population by Age Category, 2010 to 2020

(Millions)

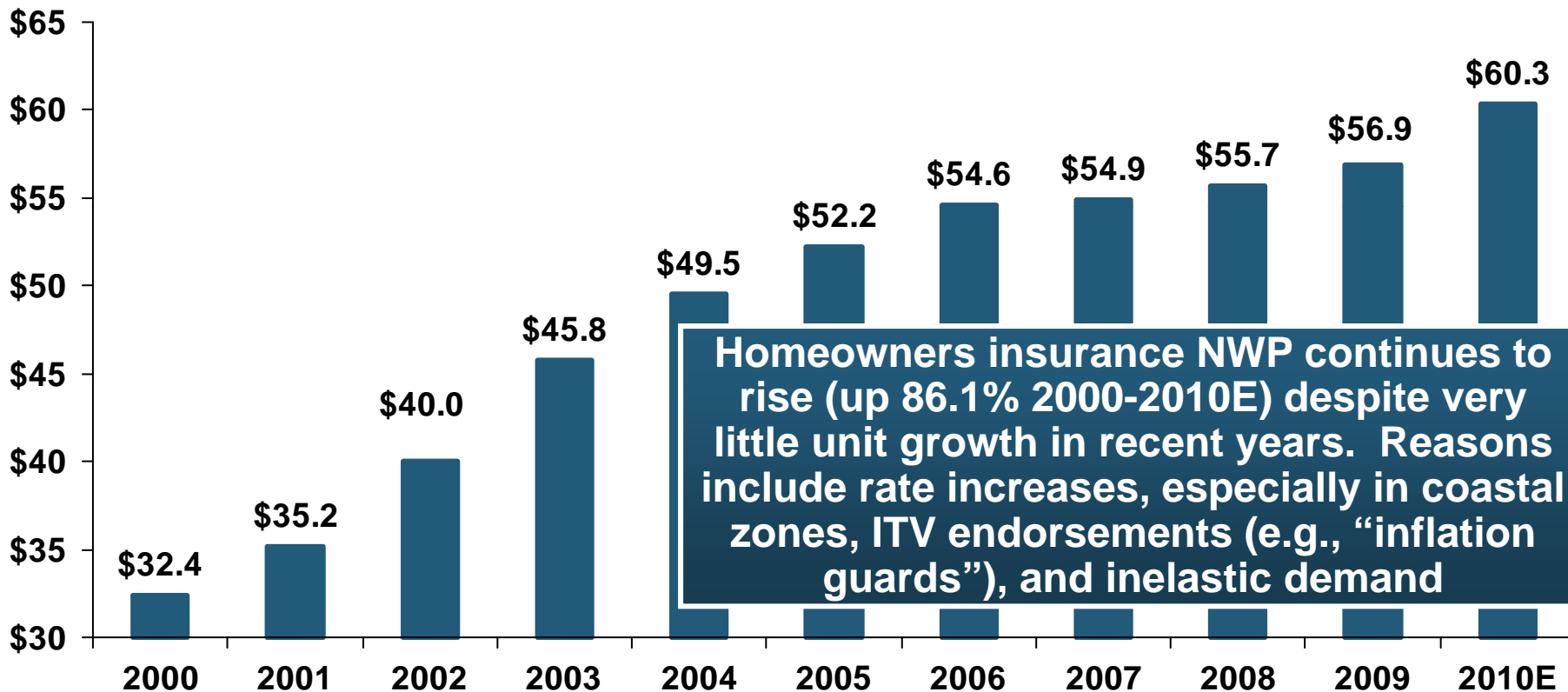


Claim Trends in Personal Lines Will Shift With Demographics; Insurers Must Adapt

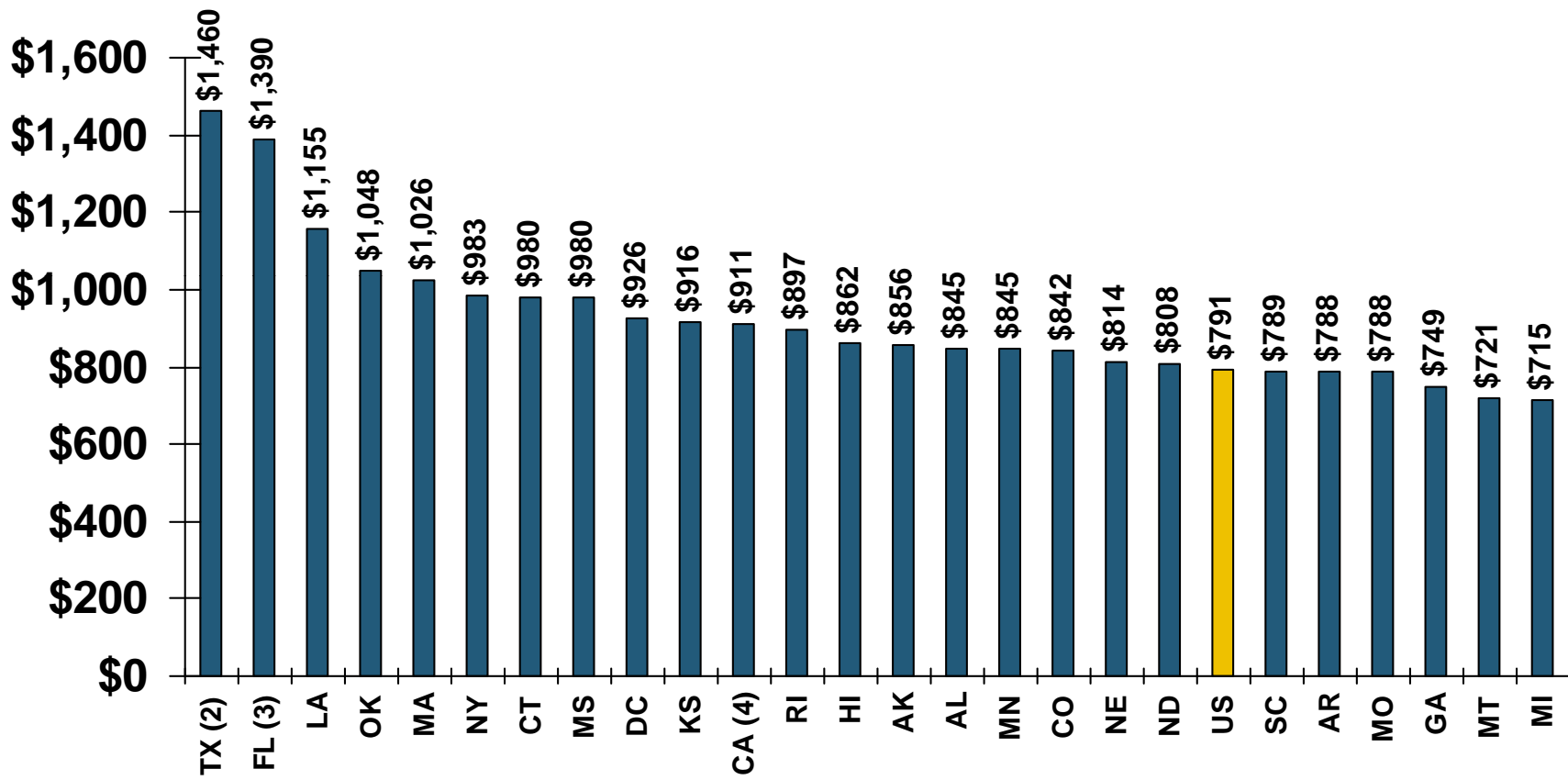
Source: US Census Bureau

Homeowners Insurance Net Written Premium, 2000–2010E

\$ Billions



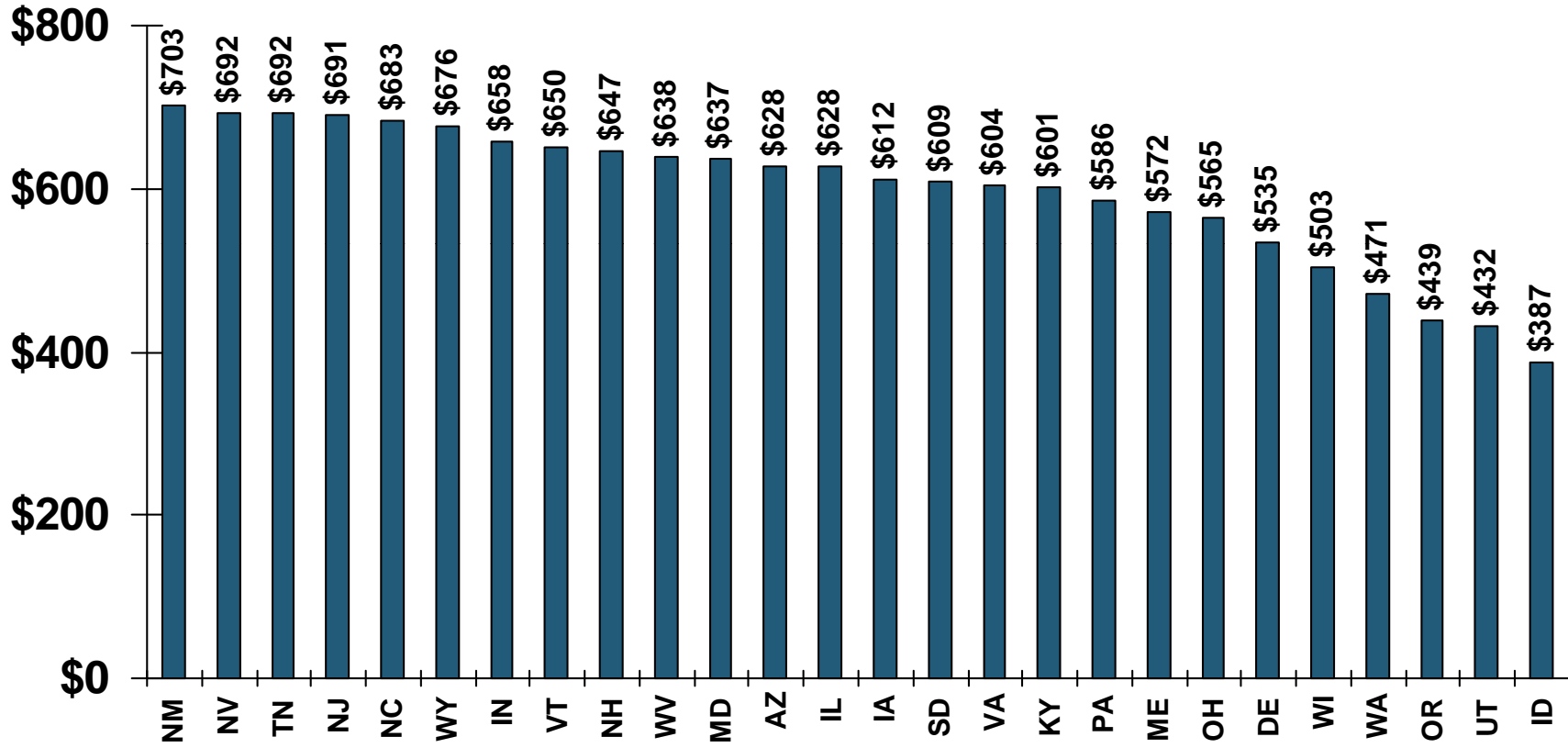
Average Premiums For Home Insurance By State, 2008 (1)



(1) Based on the HO-3 homeowner package policy for owner-occupied dwellings, 1 to 4 family units. Provides "all risks" coverage (except those specifically excluded in the policy) on buildings and broad named-peril coverage on personal property, and is the most common package written. (2) The Texas Department of Insurance developed home insurance policy forms that are similar but not identical to the standard forms. (3) Florida data exclude policies written by Citizens Property Insurance Corporation, the state's insurer of last resort, and therefore are not directly of comparable with other states. (4) California data were provided by the California Department of Insurance.

Note: Average premium=Premiums/exposure per house years. A house year is equal to 365 days insured coverage for a single dwelling.

Average Premiums For Home Insurance By State, 2008 (1) (con't)



(1) Based on the HO-3 homeowner package policy for owner-occupied dwellings, 1 to 4 family units. Provides "all risks" coverage (except those specifically excluded in the policy) on buildings and broad named-peril coverage on personal property, and is the most common package written.

Note: Average premium=Premiums/exposure per house years. A house year is equal to 365 days insured coverage for a single dwelling.

Source: © 2010 National Association of Insurance Commissioners (NAIC). Reprinted with permission. Further reprint or distribution strictly prohibited without written permission of NAIC.



Personal Lines Growth Drivers

**Rate is Presently a Bigger
Driver than Exposure**

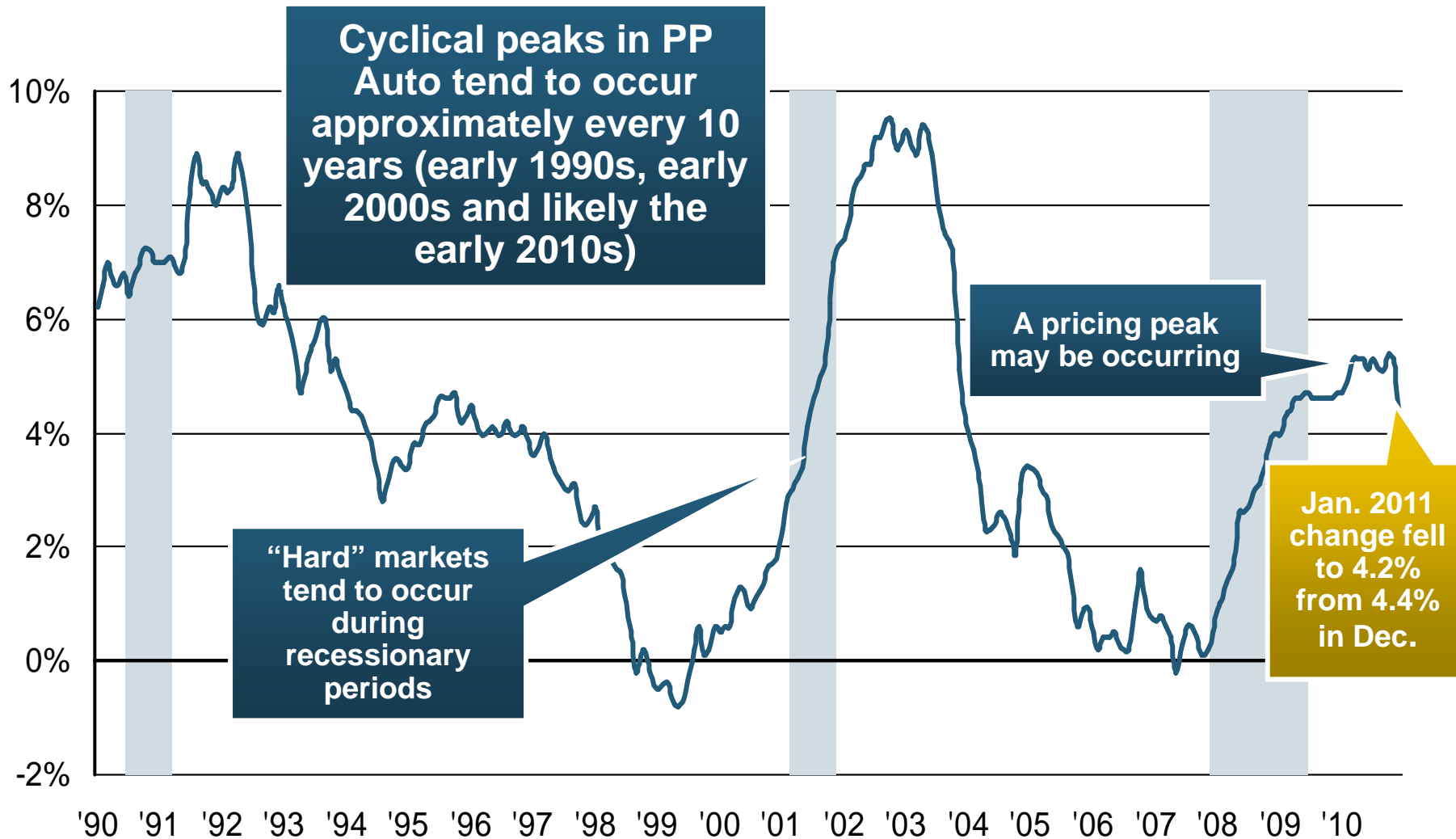


Private Passenger Auto

**Economy, Employment
Are Main Drivers**

Gas Prices: Big Wild Card

Monthly Change* in Auto Insurance Prices, January 1991–January 2011*



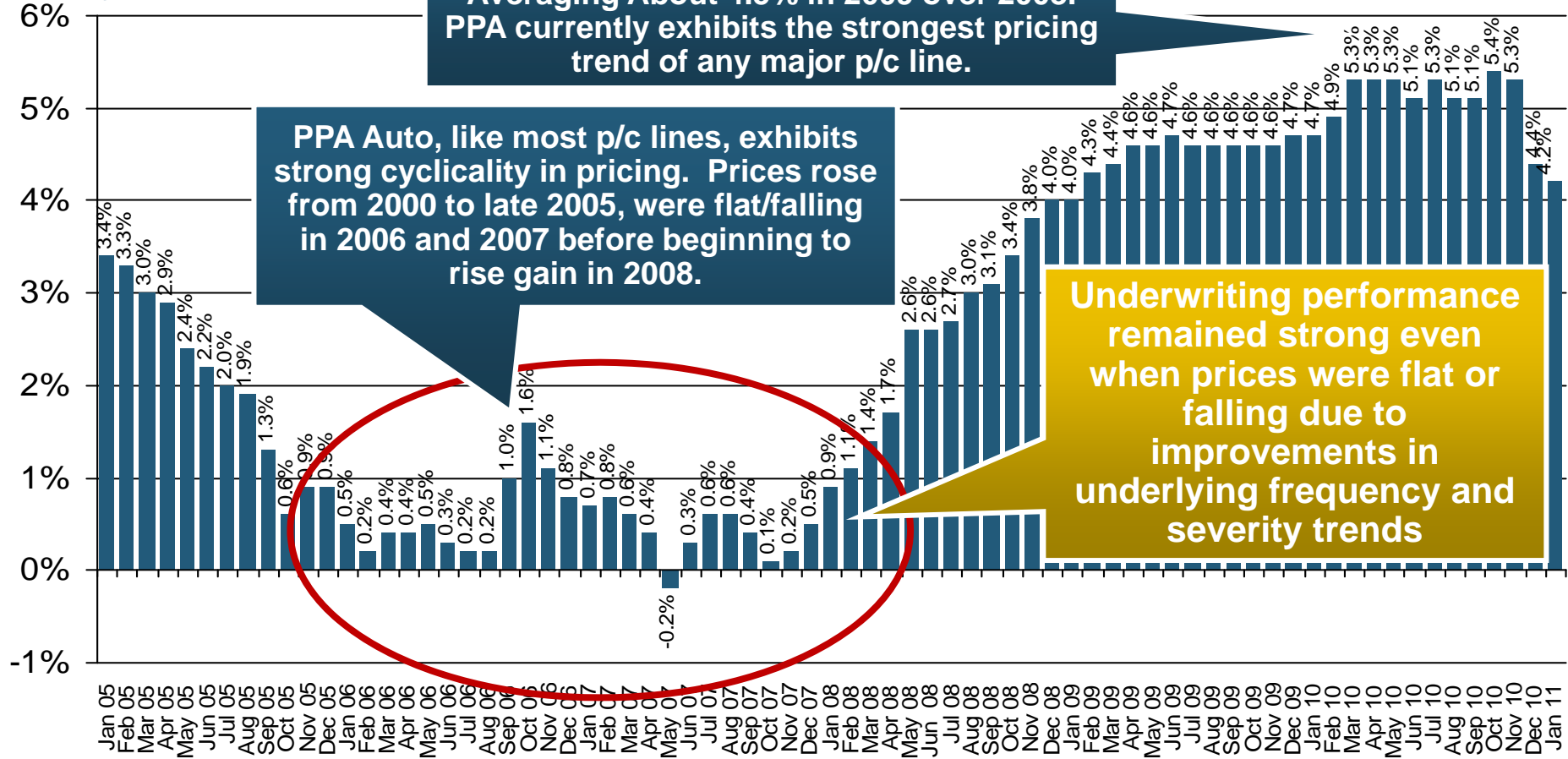
*Percentage change from same month in prior year; through January 2011; seasonally adjusted

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

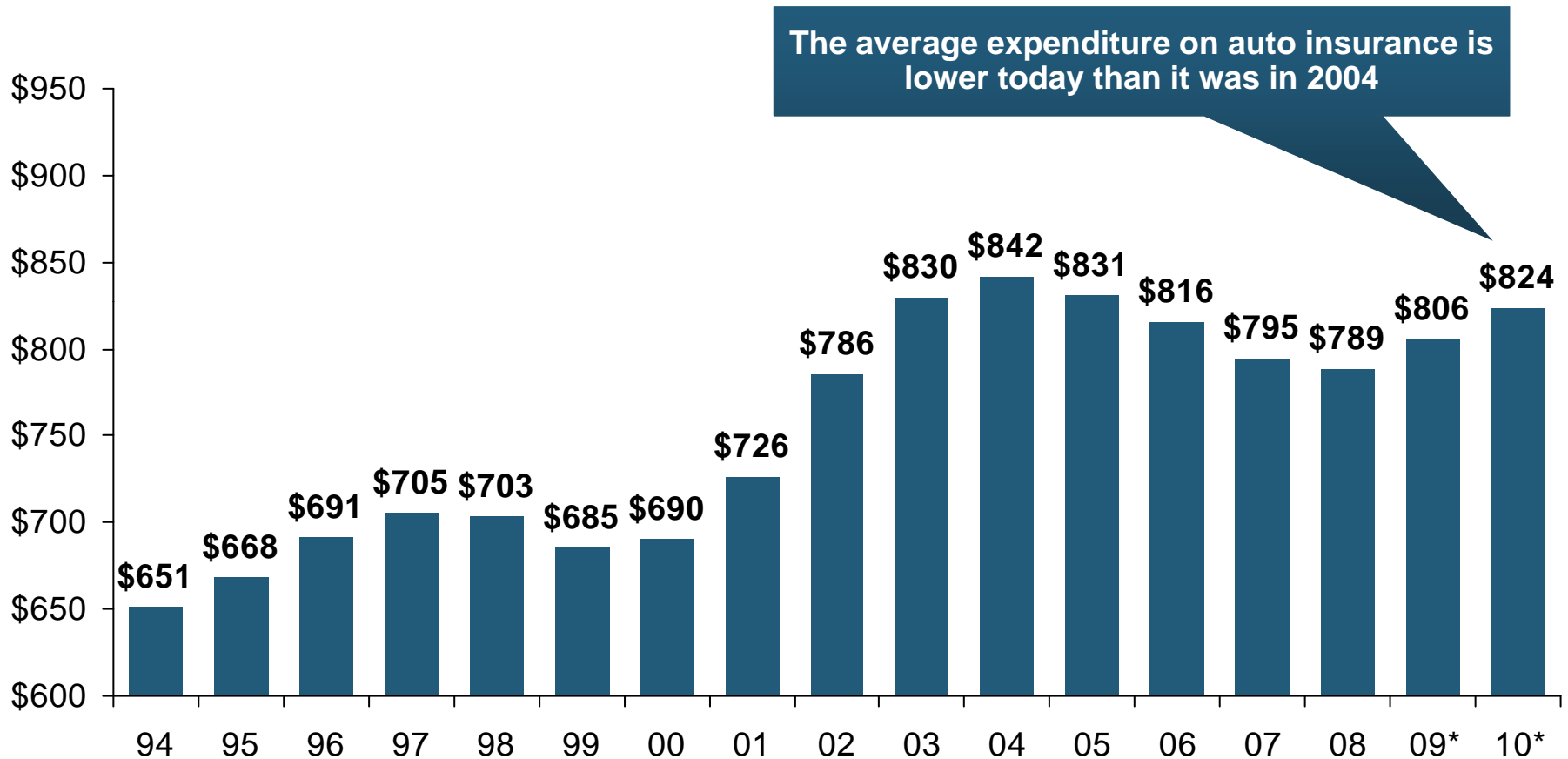
Monthly Change* in Auto Insurance Prices, January 2005 - January 2011

(Percent Change from same month, prior year)



*Percentage change from same month in prior year, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute

Average Expenditures on Auto Insurance

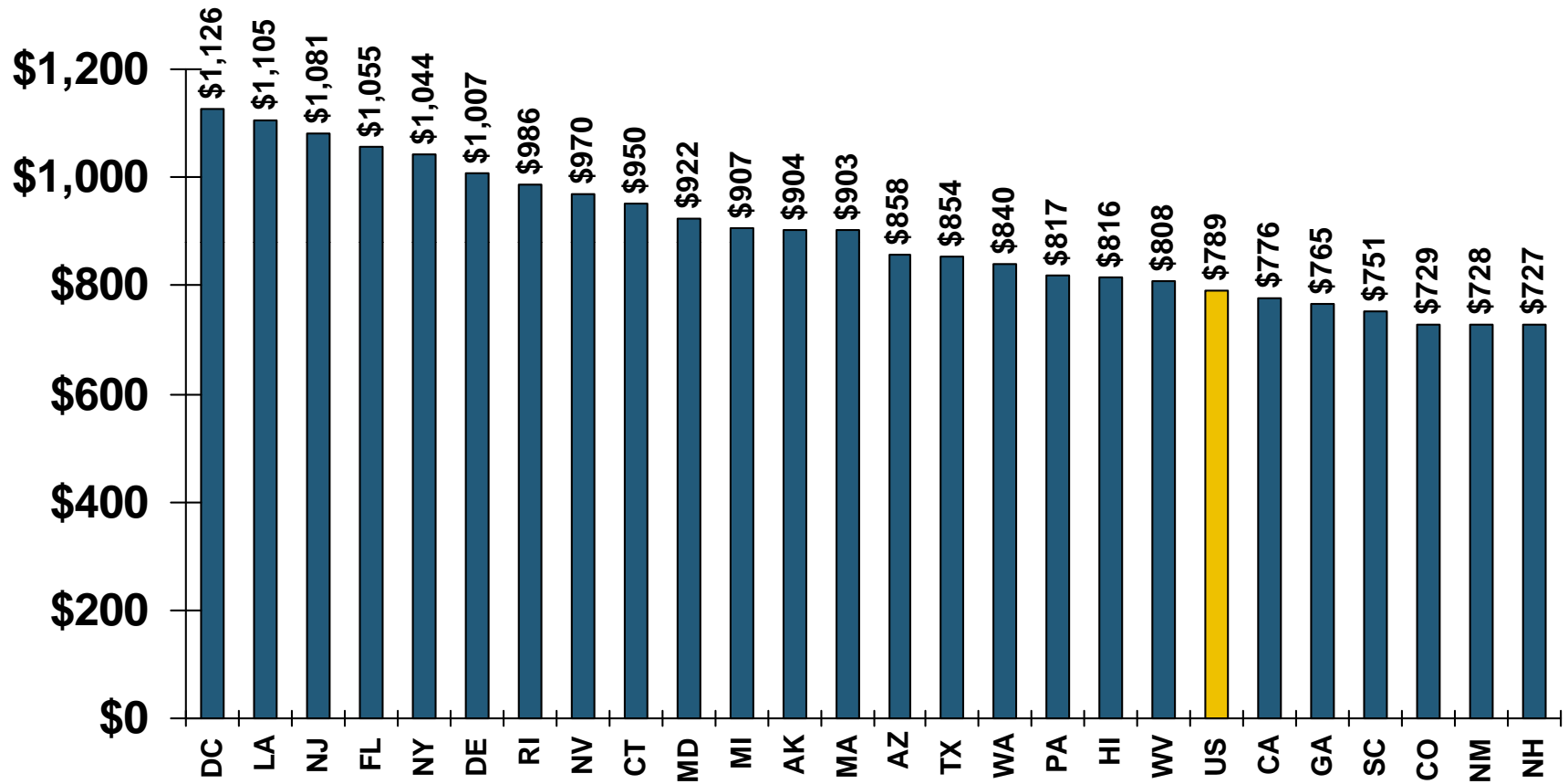


Countrywide Auto Insurance Expenditures Decreased 0.8% in 2008 and Increased 2.2% in 2009 (est.) and 2010 (est.)

* Insurance Information Institute Estimates/Forecasts

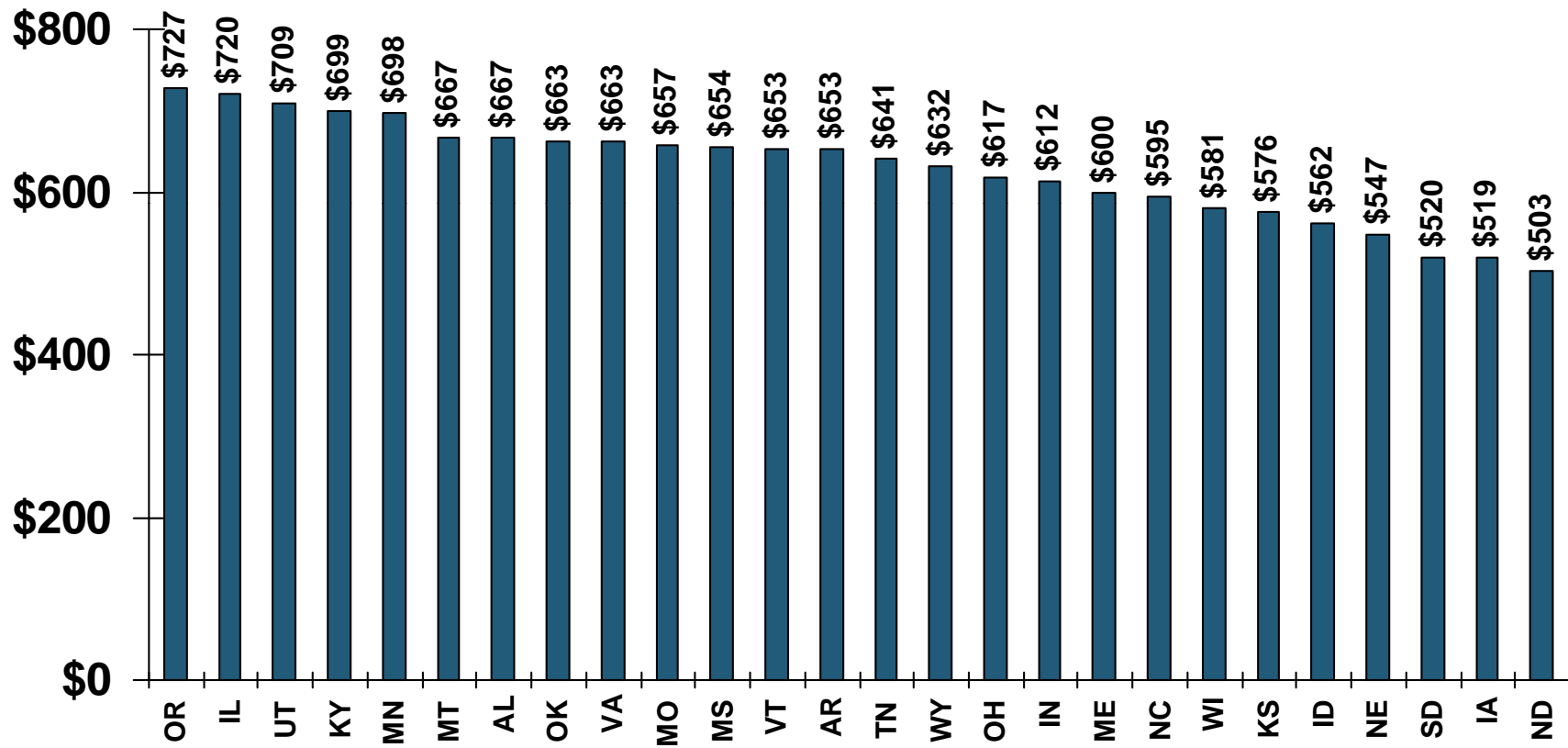
Source: NAIC, Insurance Information Institute estimates 2009-2010 based on CPI and other data.

Average Expenditures For Auto Insurance By State, 2008



Note: Average expenditure=Total written premium/liability car years. A car year is equal to 365 days of insured coverage for a single vehicle.
Source: © 2010 National Association of Insurance Commissioners.

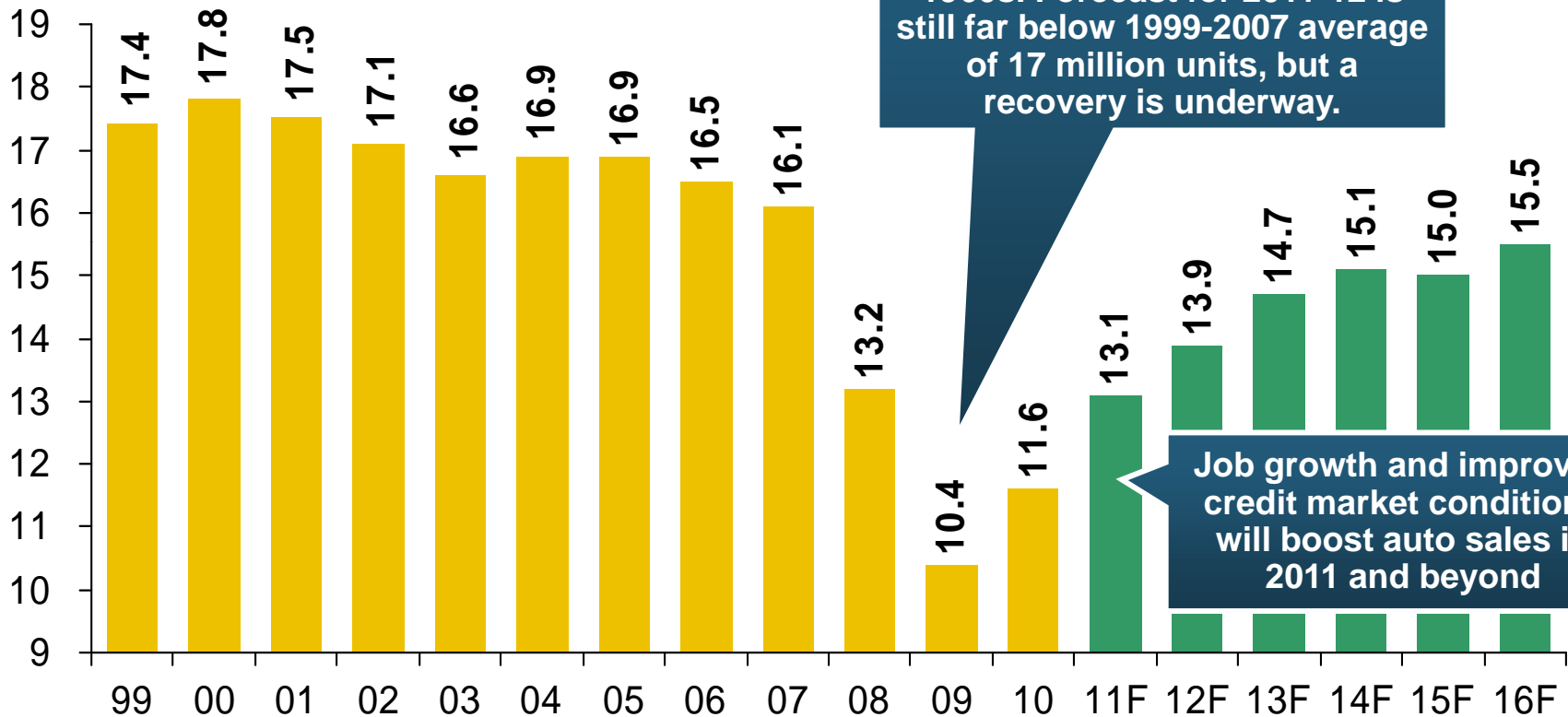
Average Expenditures For Auto Insurance By State, 2008 (con't)



Note: Average expenditure=Total written premium/liability car years. A car year is equal to 365 days of insured coverage for a single vehicle.
Source: © 2010 National Association of Insurance Commissioners.

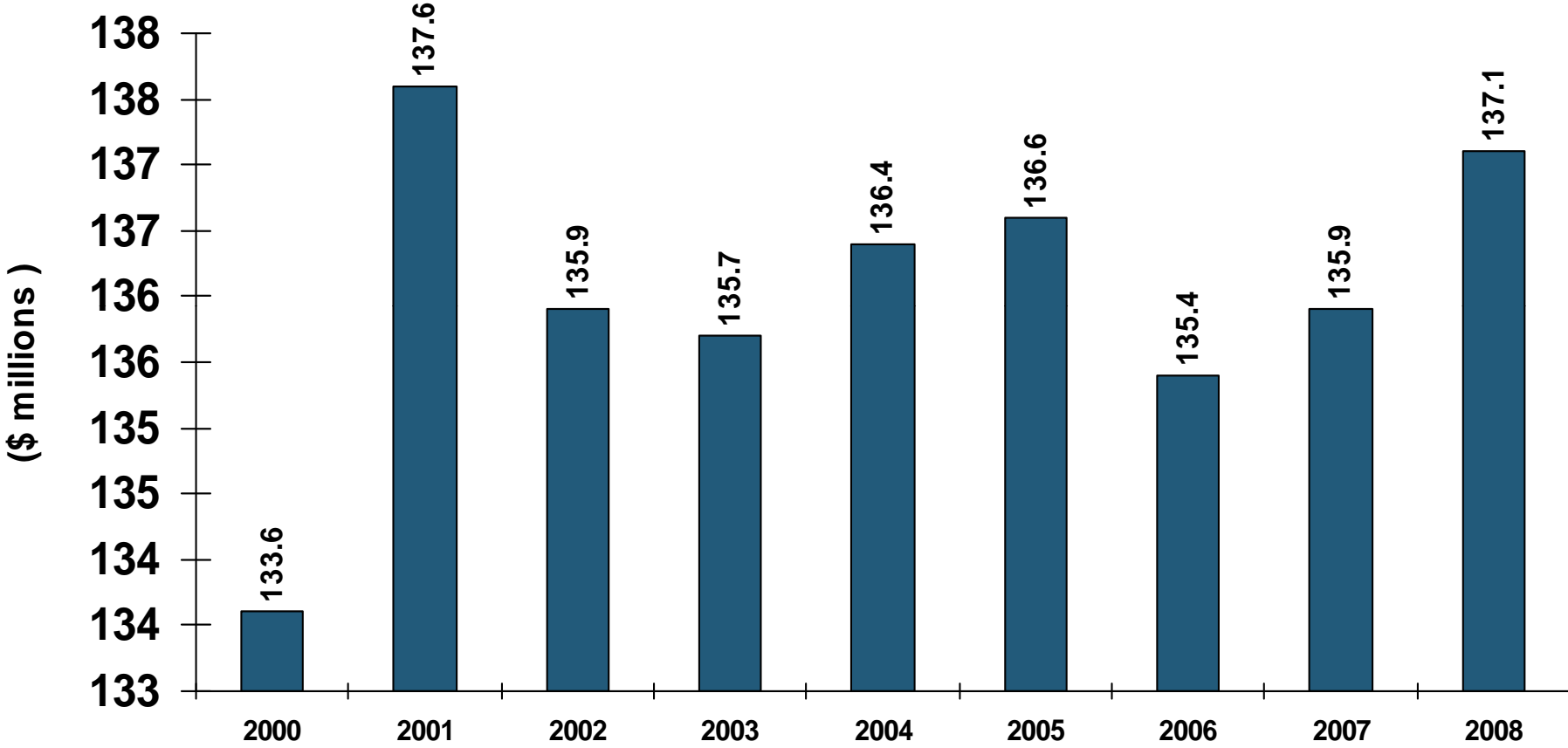
Auto/Light Truck Sales, 1999-2016F

(Millions of Units)



Car/Light Truck Sales Will Continue to Recover from the 2009 Low Point, but High Unemployment, Tight Credit Are Still Restraining Sales in 2011

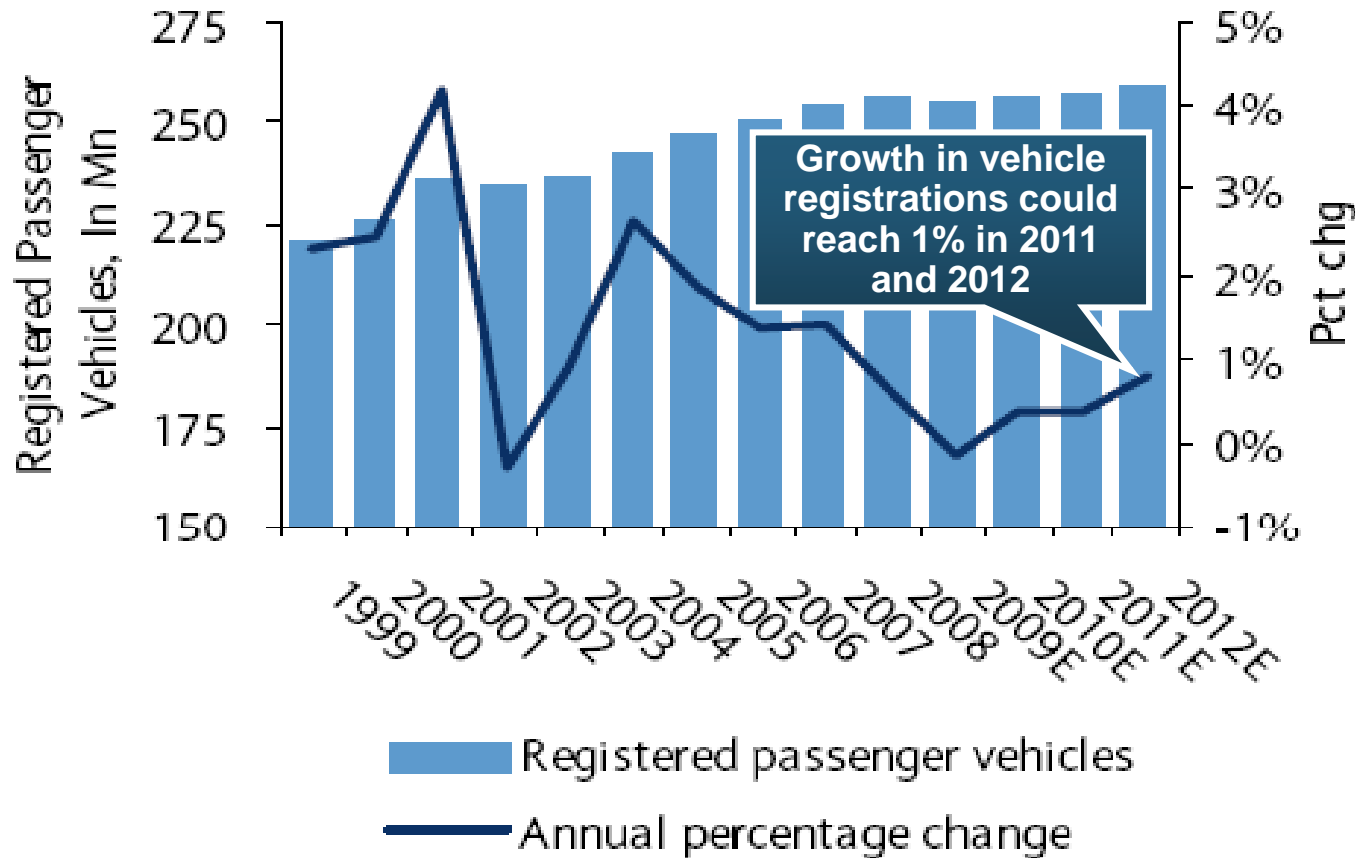
Number of Registered Passenger Vehicles in the US, 2000-2008



The Number of Registered Passenger Vehicles Has Remain Basically Flat Since 2001

Sources: US Federal Highway Administration, Bureau of Transportation Statistics; Insurance Information Institute.

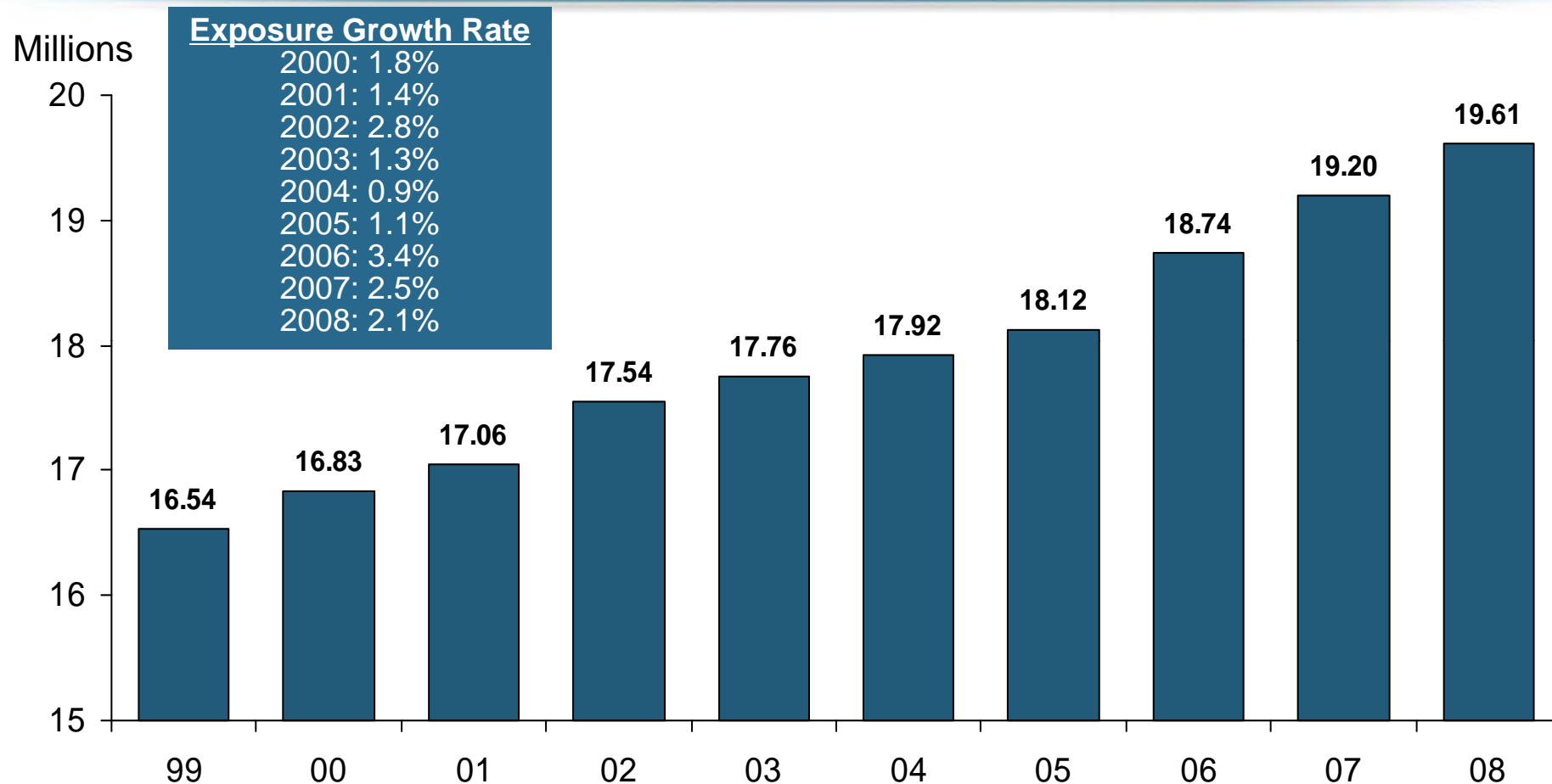
Number of Registered Passenger Vehicles in the US, 2000-2008



The Number of Registered Passenger Vehicles Declined in 2009 for the First Time in Many Years Could Rise in 2011/2012

Sources: US Federal Highway Administration, Bureau of Transportation Statistics; Barclays Capital; Insurance Information Institute.

“Light-Duty” Vehicle Registrations in Canada*, 1999-2008



The number of light-duty vehicles grew every year during the past decade, including recession years. In the US, where registration were flat or fell.

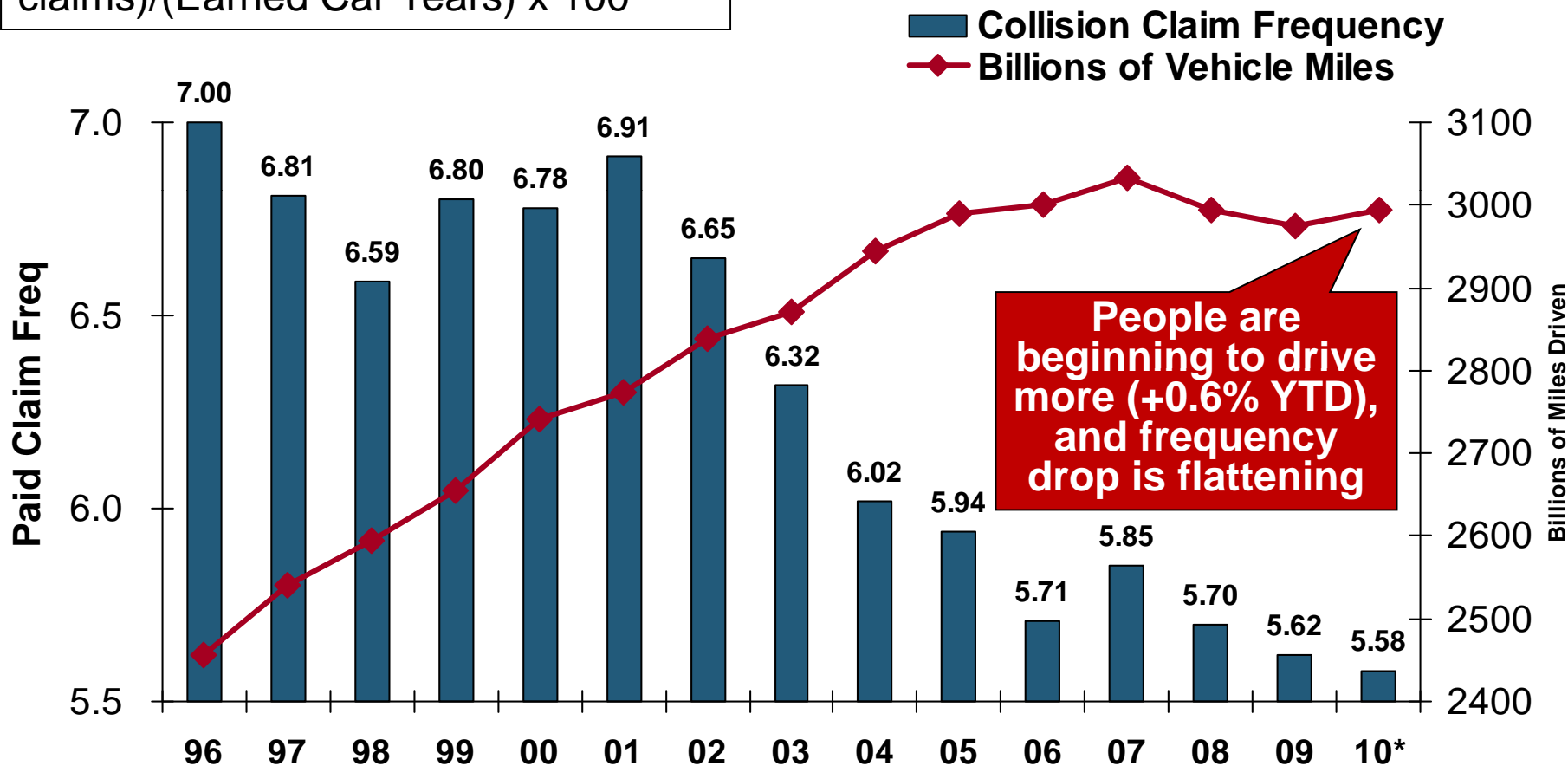
*Includes passenger autos, passenger vans, and light trucks and vans (less than 4,500 kg)

Sources: <http://www.tc.gc.ca/eng/roadsafety/tp-tp3322-2008-1144.htm>

Insurance Information Institute

Do Changes in Miles Driven Affect Auto Collision Claim Frequency?

Paid Claim Frequency = (No. of paid claims)/(Earned Car Years) x 100



Sources: Federal Highway Administration (<http://www.fhwa.dot.gov/ohim/tvtw/tvtpage.cfm>); ISO Fast Track Monitoring System, *Private Passenger Automobile Fast Track Data*: 3rd Qtr. 2010, published Jan. 7, 2011 and earlier reports. *2010 ISO figure is for 12 months ending 9/30/2010; FHA data is for 12 months ending Oct. 2010.

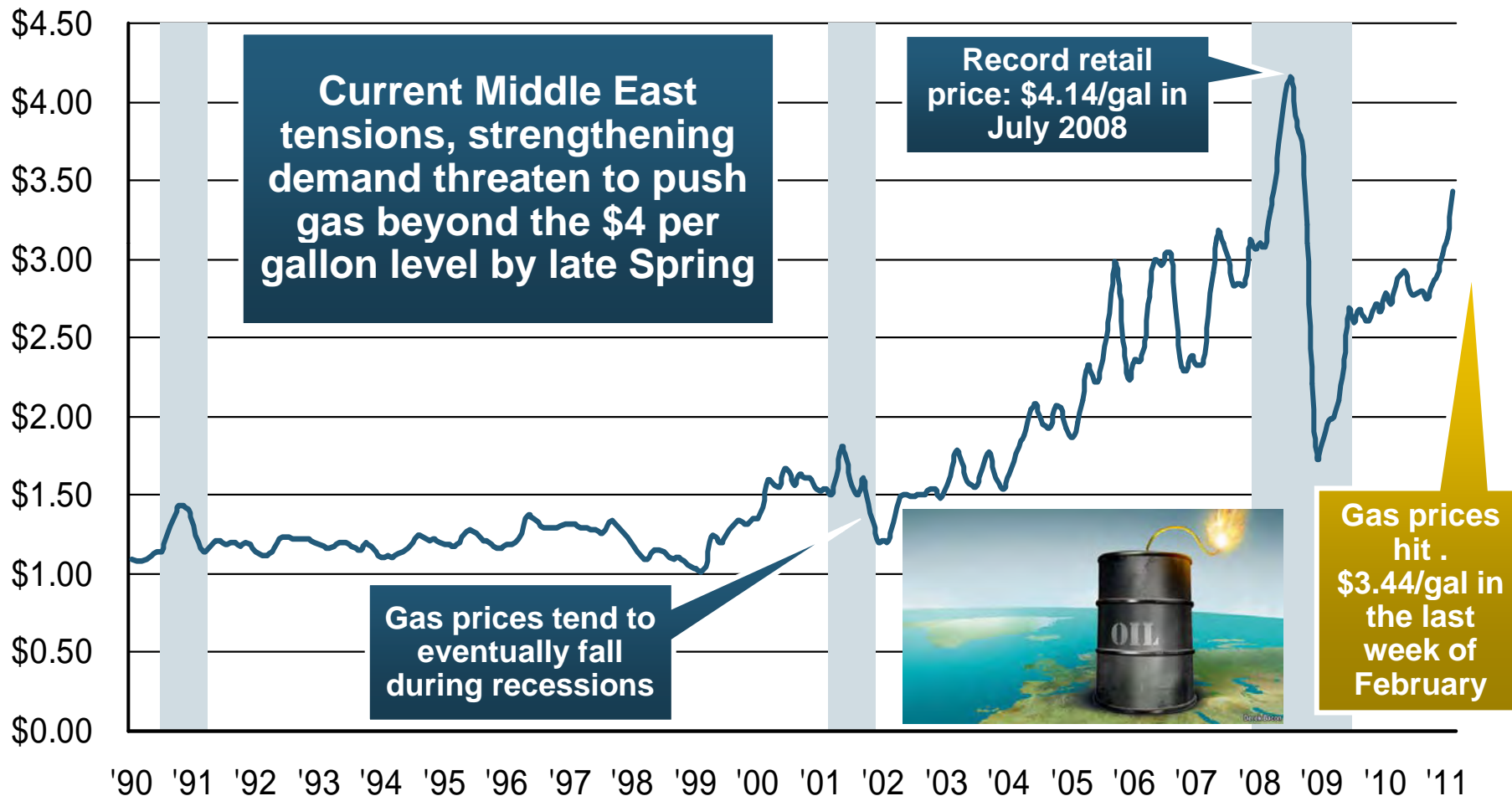
Will Skyrocketing Gas Prices Hurt Auto Insurers?

Here We Go Again!



Monthly Retail Price of Gasoline, January 1990–February 2011*

U.S. City Average



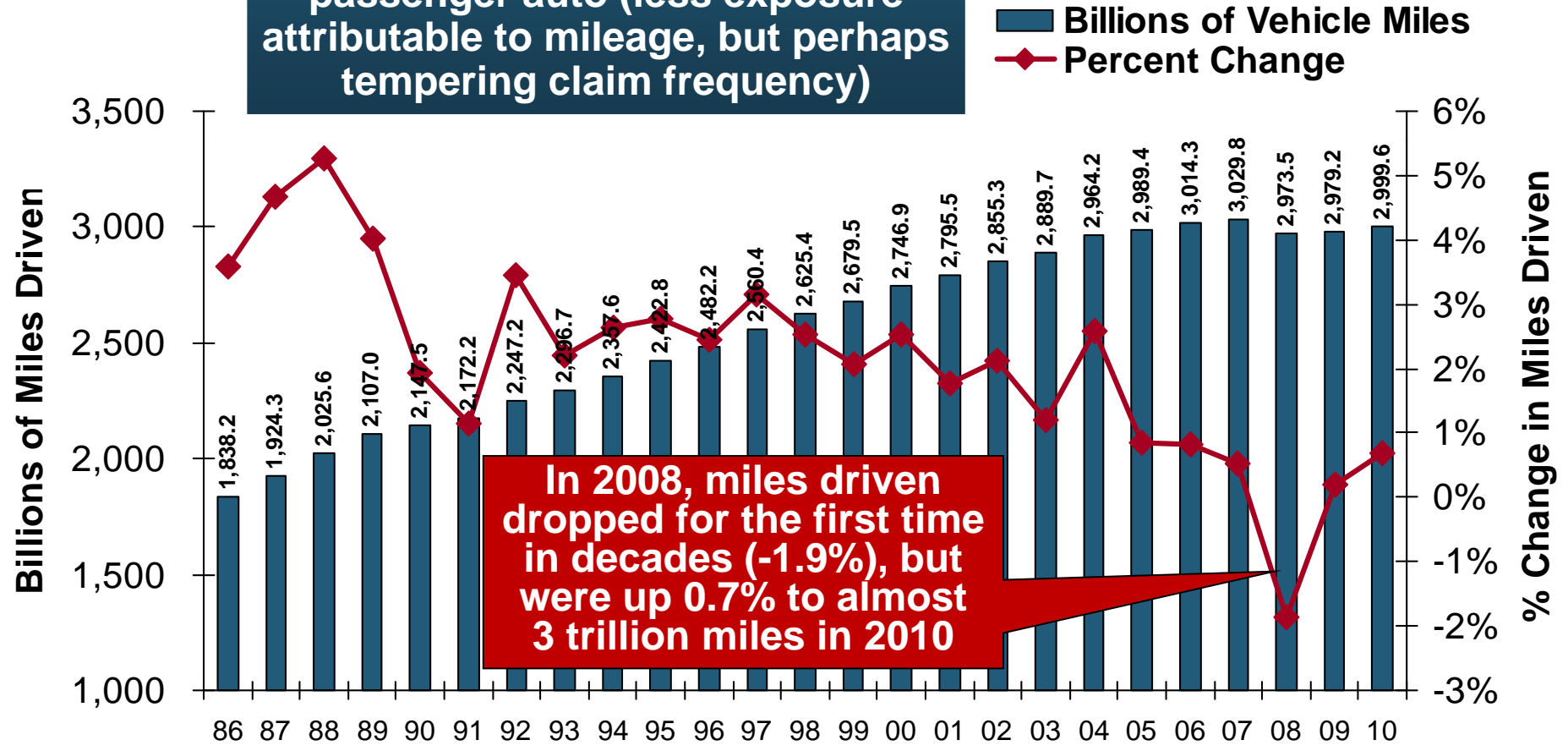
*Week ending Feb. 28.

Note: Recessions indicated by gray shaded columns.

Sources: Energy Information Administration; Insurance Information Institute.

Miles Driven and Annual Percent Change: 1986-2010

Higher gas prices will slow the increase in miles driven, with mixed impacts on private passenger auto (less exposure attributable to mileage, but perhaps tempering claim frequency)



Sources: Federal Highway Administration; Insurance Information Institute.

Auto Insurance: Claim Frequency Impacts of Energy Crisis/Recession of 1973/74

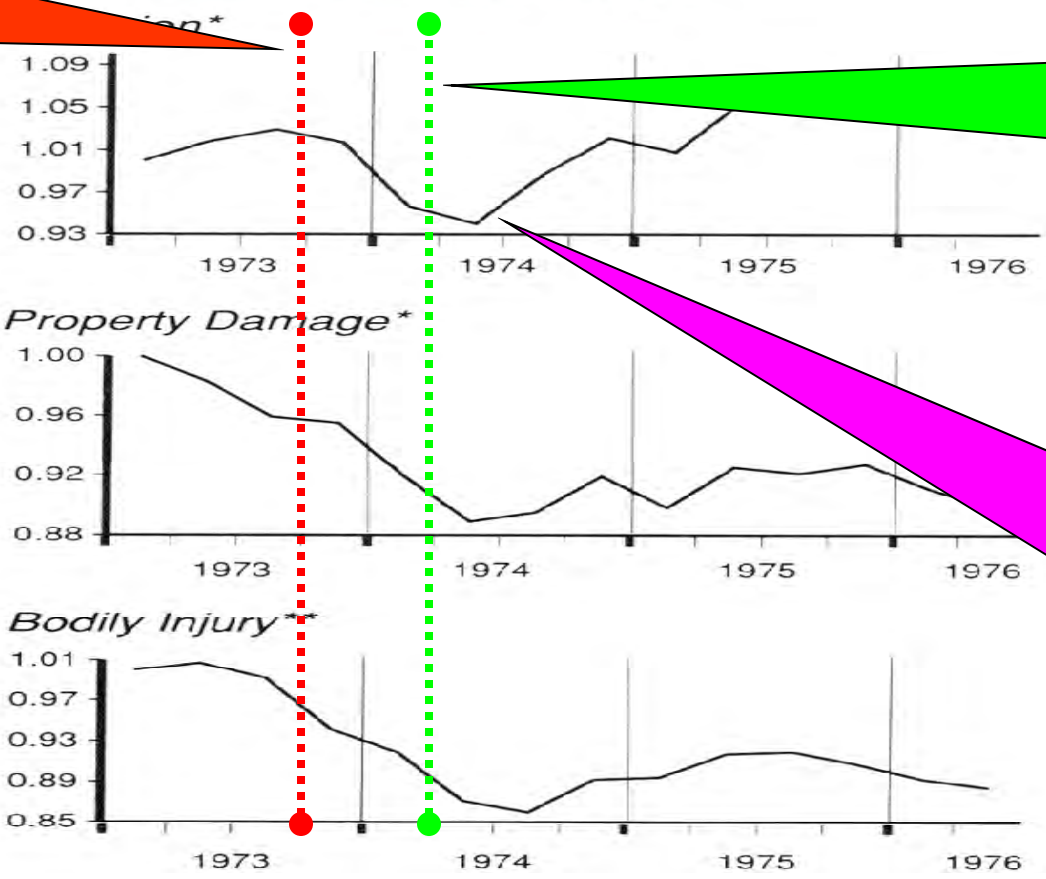
Oct. 17, 1973: Arab oil embargo begins

Frequency Impacts
Collision: -7.7%
PD: -9.5%
BI: -13.3%

Driving Stats
 • Gas prices rose 35-40%
 • Miles driven fell 6.7% in 1974

Figure 6

The First Crisis—Frequency



March 17, 1974: Arab oil states announce end to embargo

Frequency began to rebound almost immediately after the embargo ended

*Seasonally Adjusted, Quarterly Paid Fast Track data indexed to First Quarter 1973.
 **ISO Paid Data, year-ended quarter indexed to First Quarter 1973.

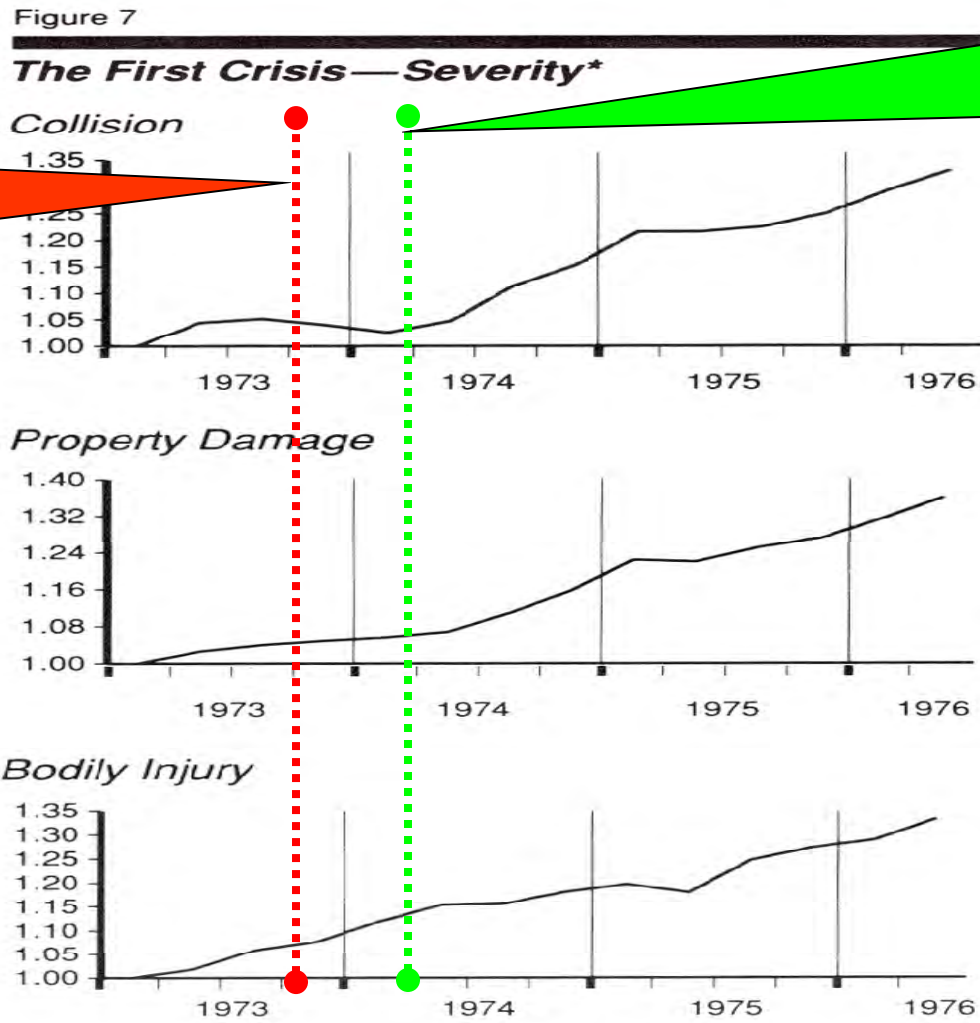
Auto Insurance: Claim Severity Impacts of Energy Crisis/Recession of 1973/74

Oct. 17, 1973: Arab oil embargo begins

March 17, 1974: Arab oil states announce end to embargo

Severity Impacts
Collision: - 7.5%
PD: +15.9%
BI: N/A*

Driving Stats
 • Gas prices rose 35-40%
 • Miles driven fell 6.7% in 1974



*Seasonally Adjusted, Quarterly Paid Fast Track data indexed to First Quarter 1973.

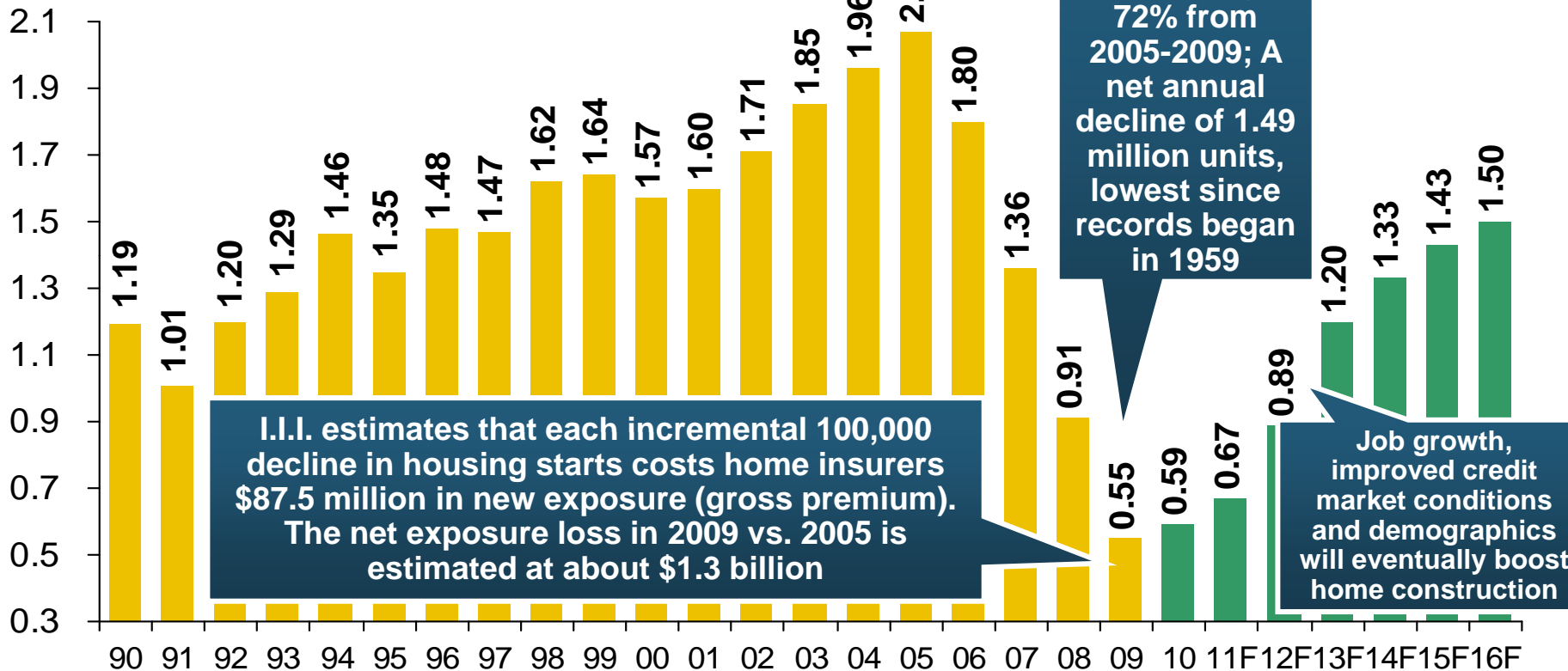
Collision severity began to rebound almost immediately after the embargo ended; PD accelerated as inflation rose; No discernable trend change in BI.

Homeowners

**Glut of Existing Homes,
Foreclosures, Weak
Demographics Mean Unit
Growth Will Remain Slow**

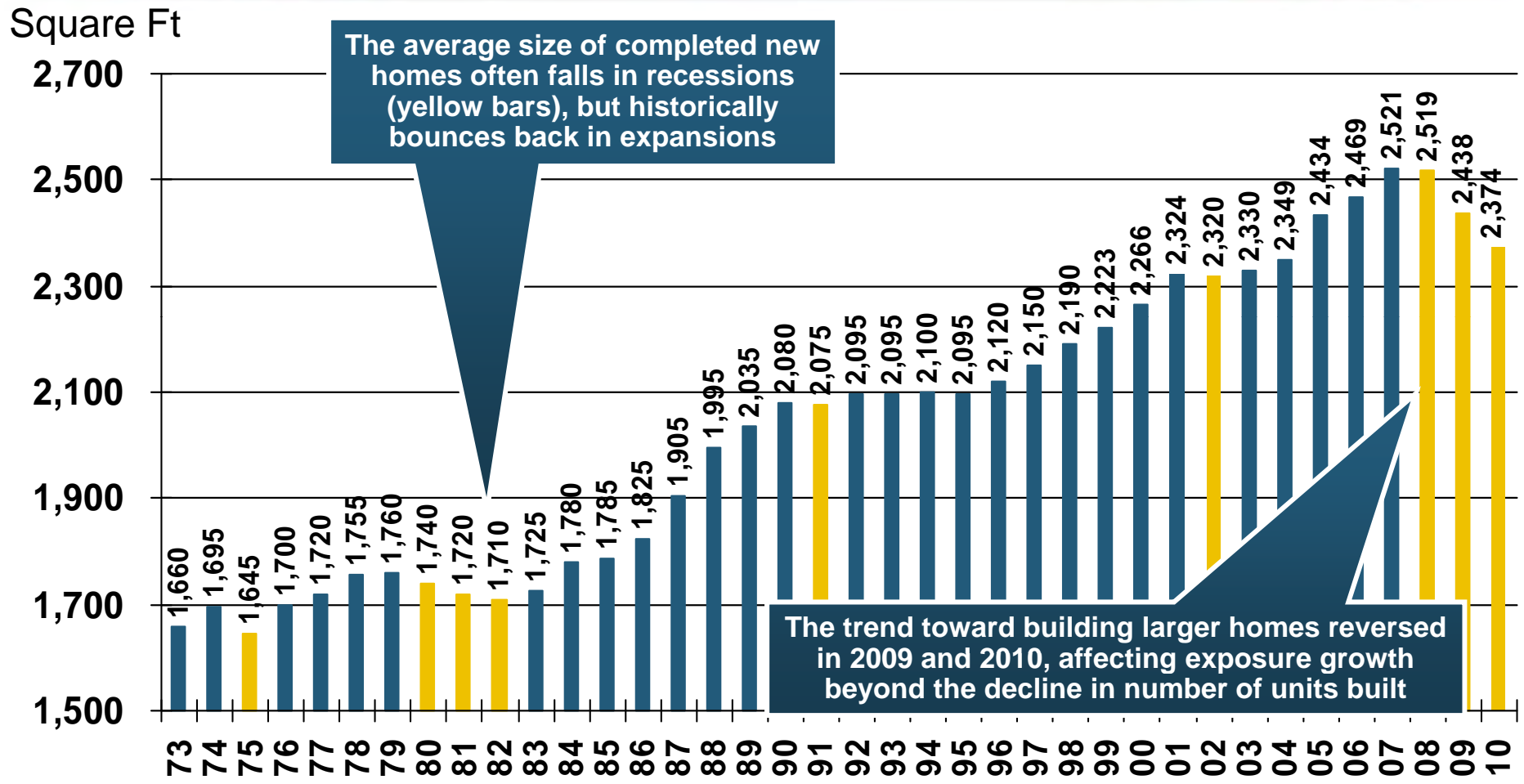
New Private Housing Starts, 1990-2016F

(Millions of Units)



Little Exposure Growth Likely for Homeowners Insurers Until 2012. Also Affects Commercial Insurers with Construction Risk Exposure, Surety

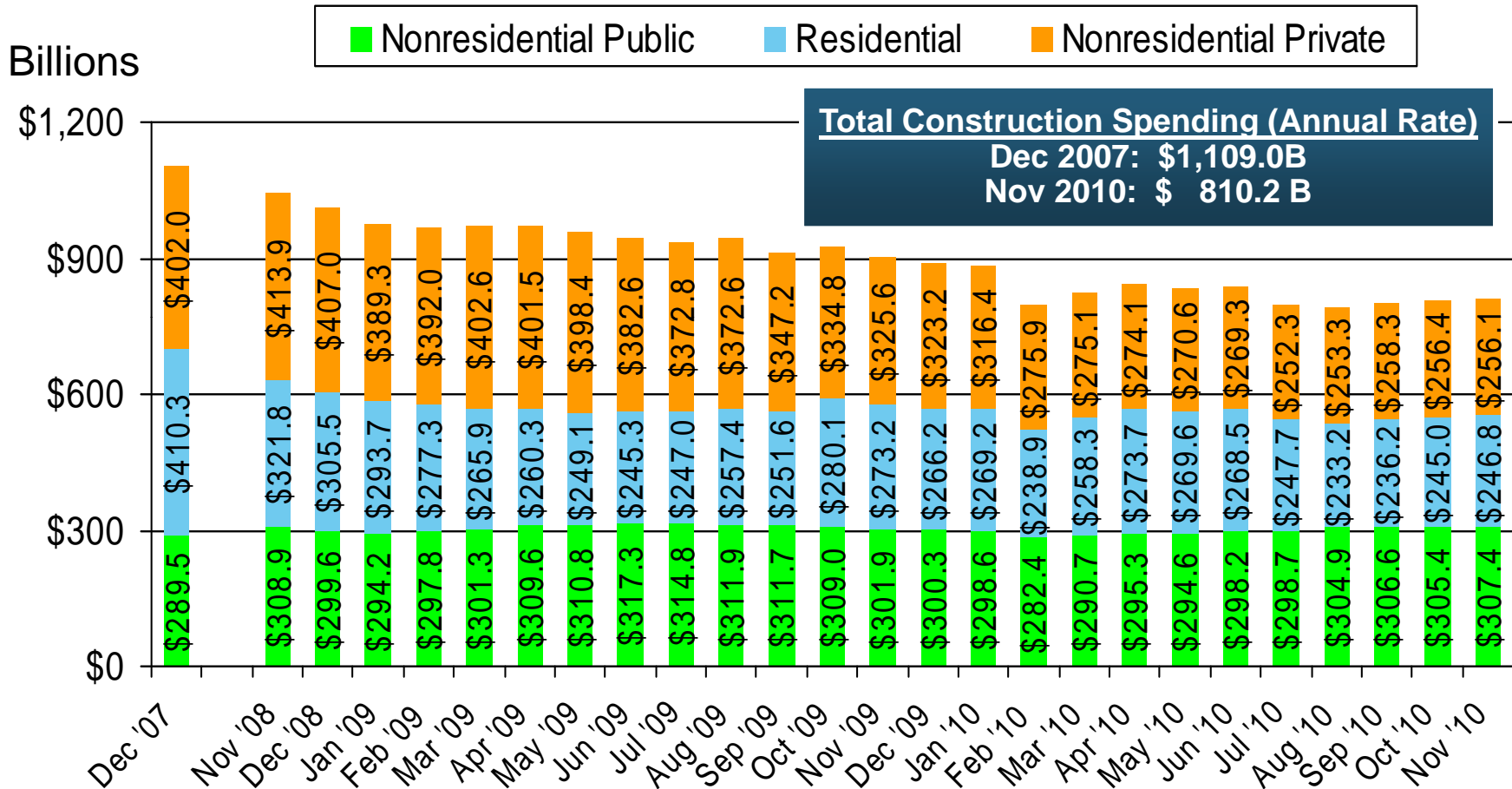
Average Square Footage of Completed New Homes in U.S., 1973-2010*



The average size of completed new homes fell by 147 square feet (5.75%) from 2008-2010. This is the largest recession-based drop in nearly four decades.

*2010 figure is weighted average square feet of completed homes in first three quarters of 2010
 Source: U.S. Census Bureau: http://www.census.gov/const/www/quarterly_starts_completions.pdf; Insurance Information Institute.

Value* of Construction Put In Place



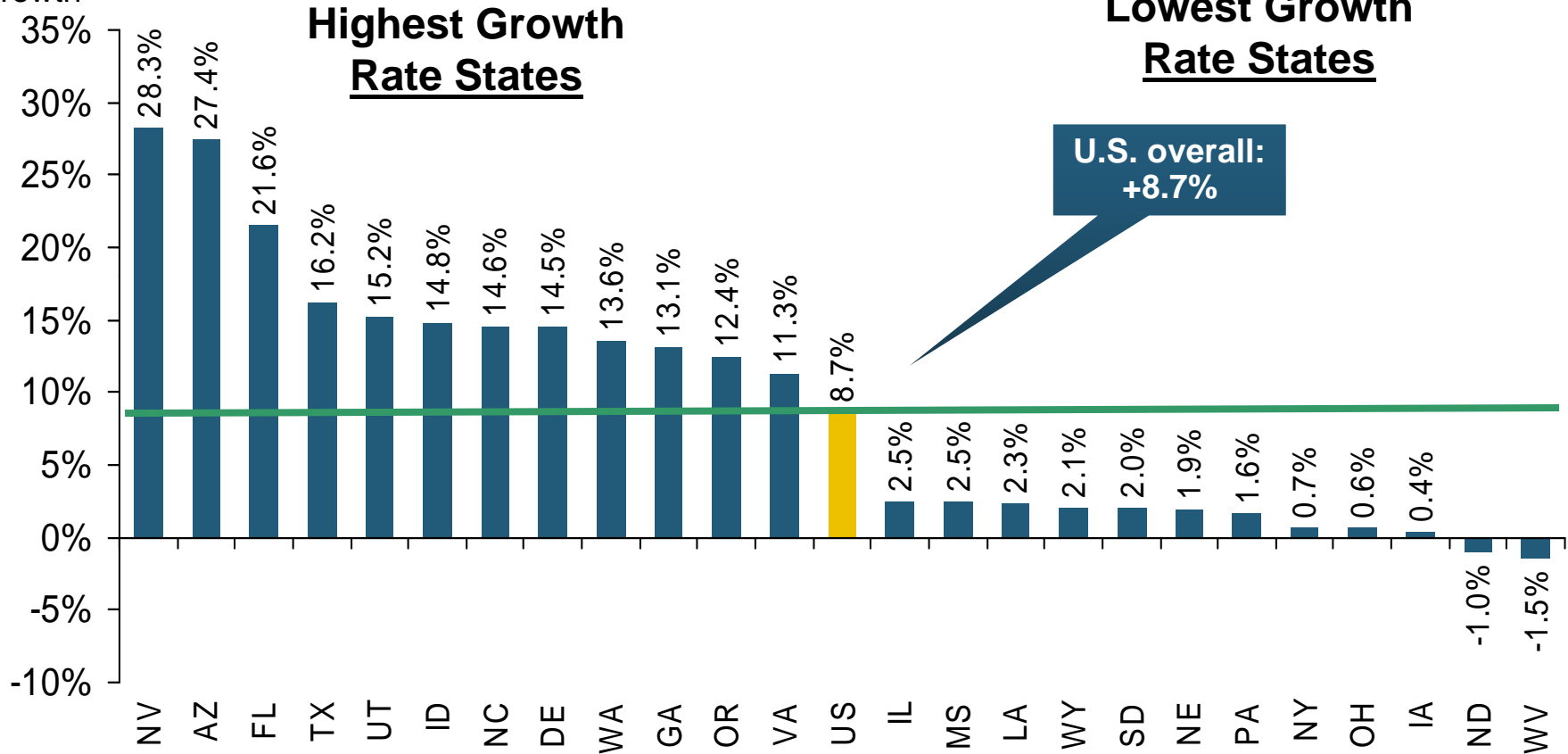
Since the recession started, private residential and nonresidential construction together are down \$300 billion (annual rate) – a drop of 38%. This affects property, surety, and other construction-related exposures.

*seasonally adjusted annual rate

Source: <http://www.census.gov/const/C30/release.pdf>

State Population Growth Rate Projections, 2010-2020*

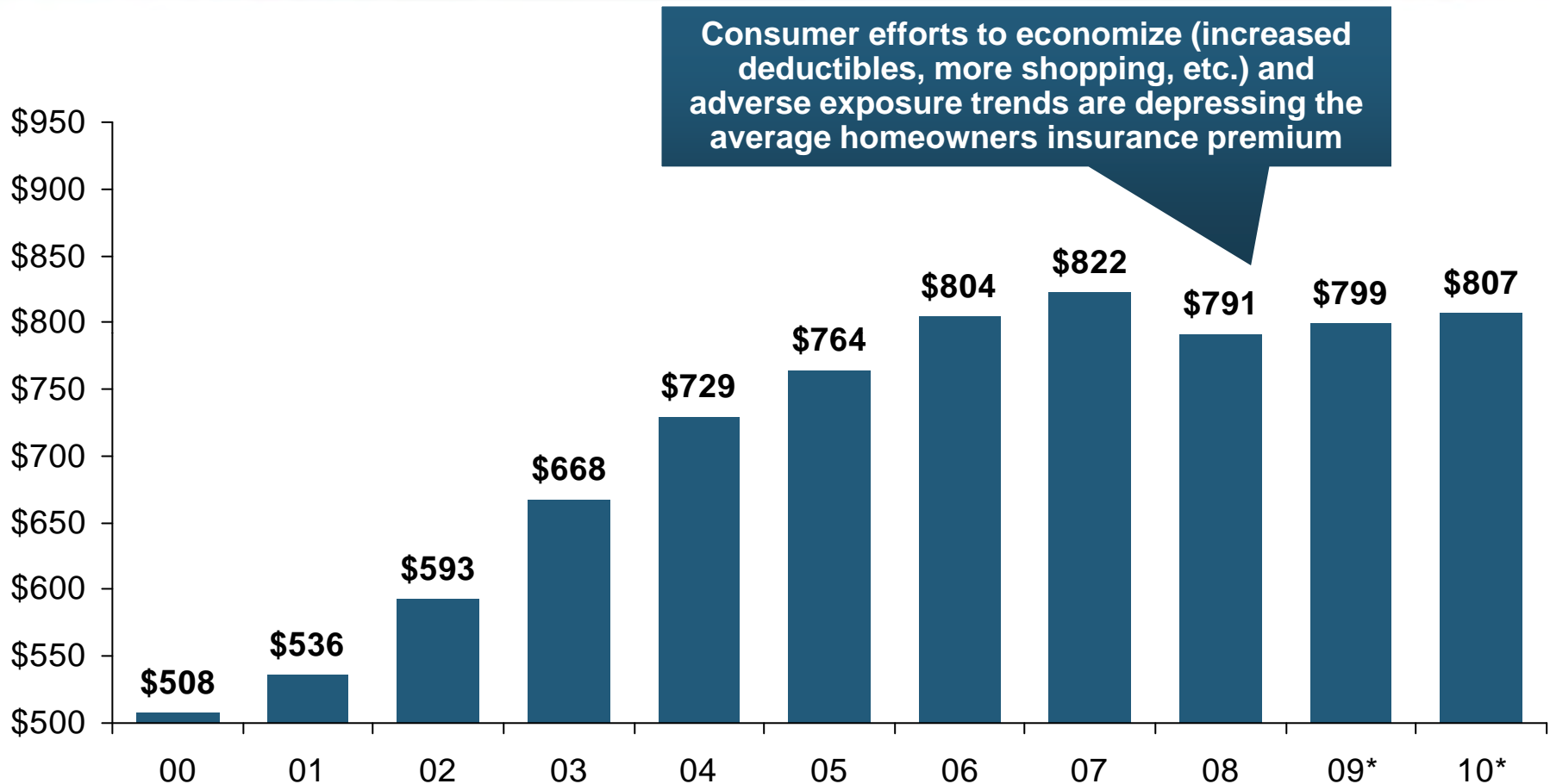
Projected Population Growth



The Mountain West region is projected to grow the most from now to 2020 (up 17.6%), followed by the South Atlantic (up 14.5%) and Pacific (up 11.2%). The Mid-Atlantic is projected to be the slowest-growing region (up 1.9%).

*based on 2000 census. Source: <http://www.census.gov/population/www/projections/projectionsagesex.html> Table 7

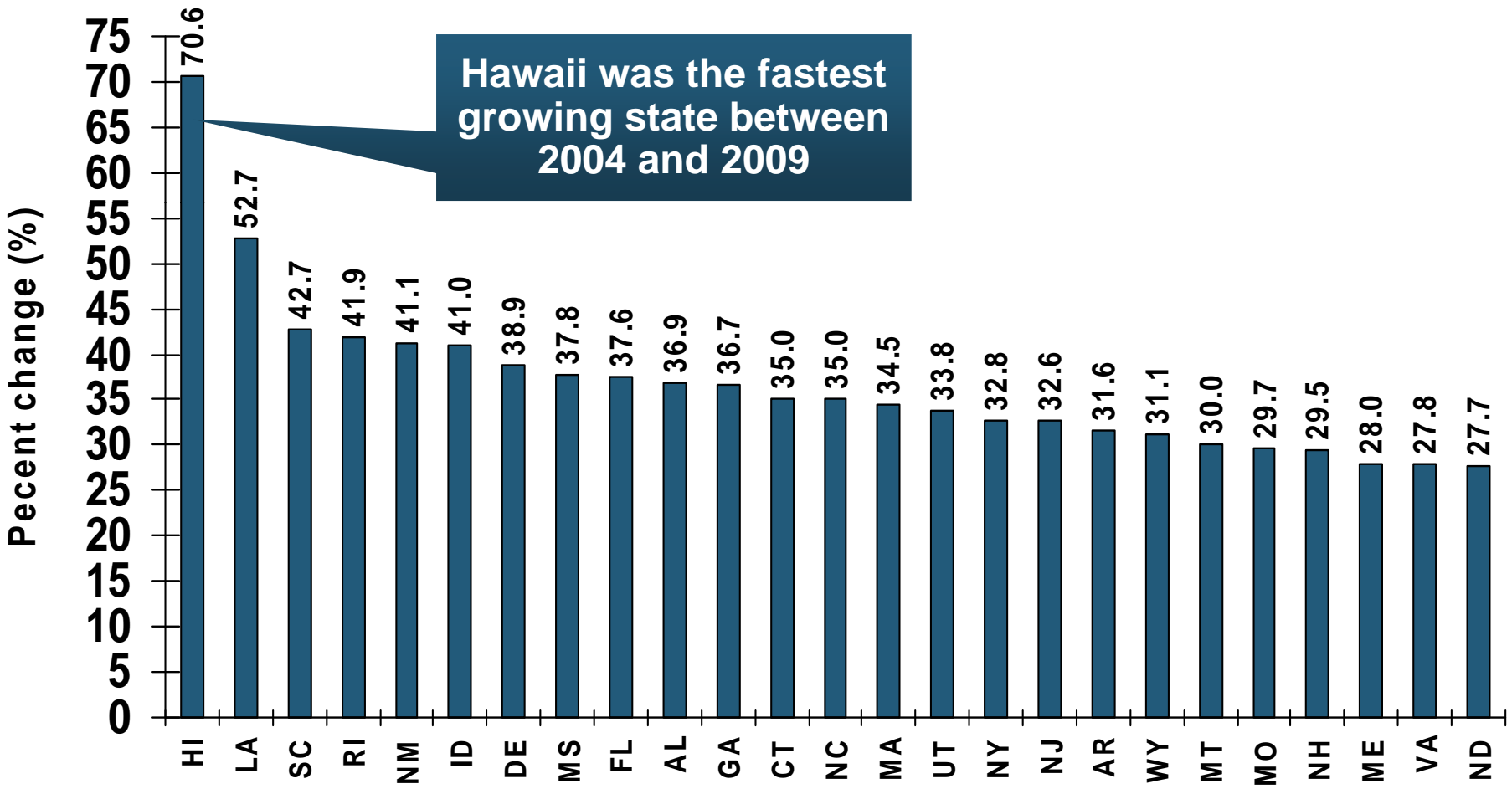
Average Premium for Home Insurance Policies**



* Insurance Information Institute Estimates/Forecasts **Excludes state-run insurers.
Source: NAIC, Insurance Information Institute estimates 2009-2010 based on CPI and other data.

Percent Change in NPW: Homeowners, by State, 2004-2009

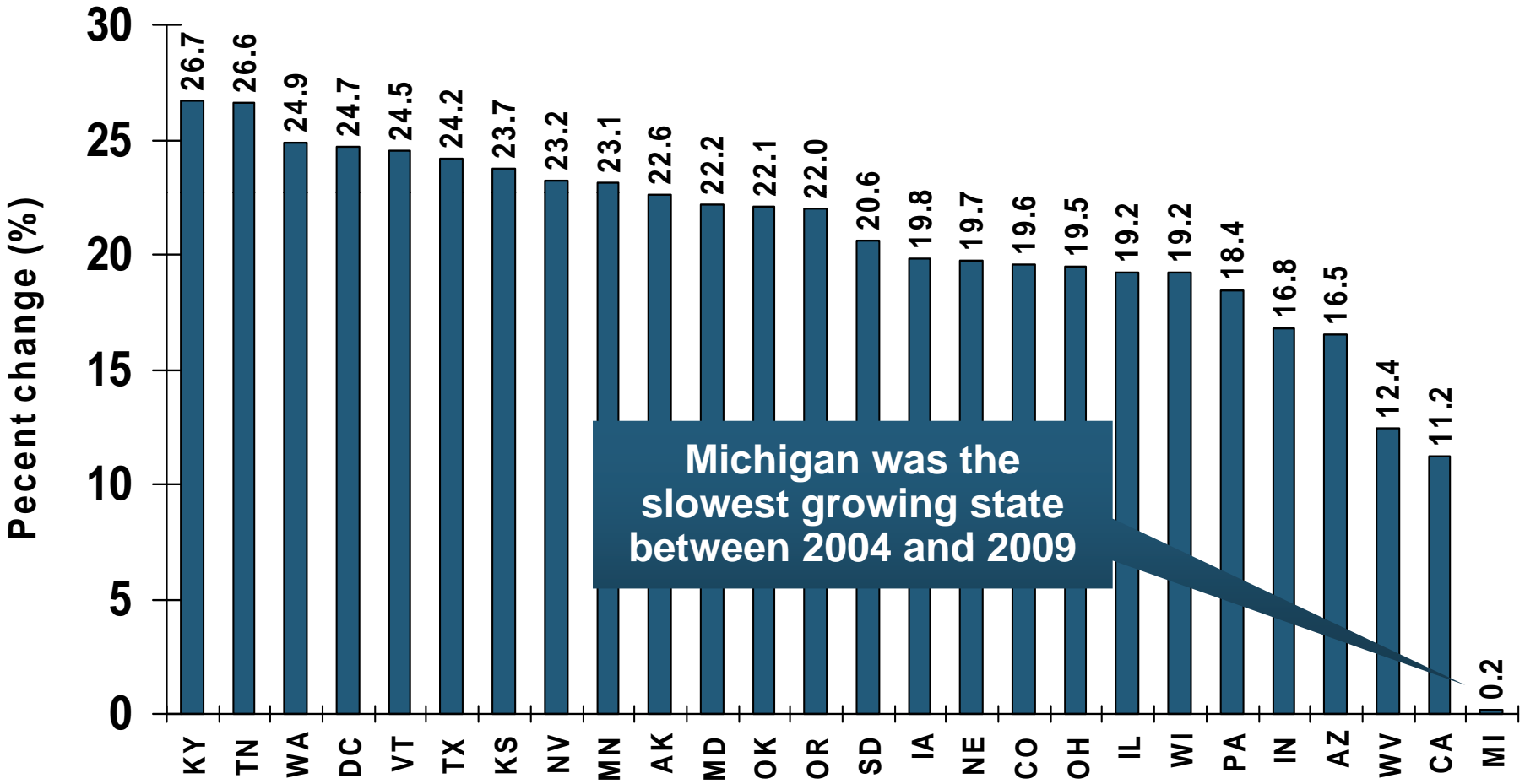
Top 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

Percent Change in NPW: Homeowners, by State, 2004-2009

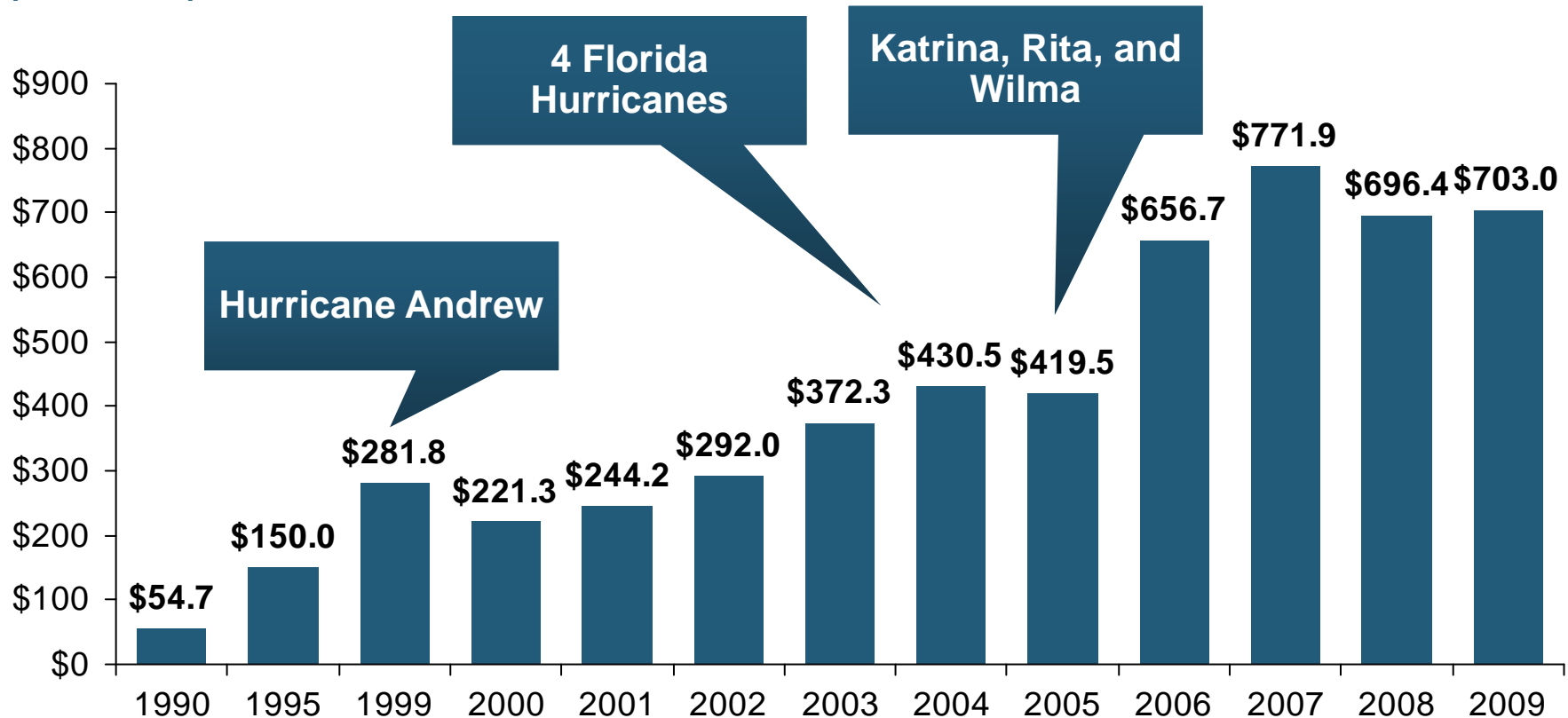
Bottom 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

US Residual Market Exposure to Loss: Can Drain Private Insurer Premium

(\$ Billions)



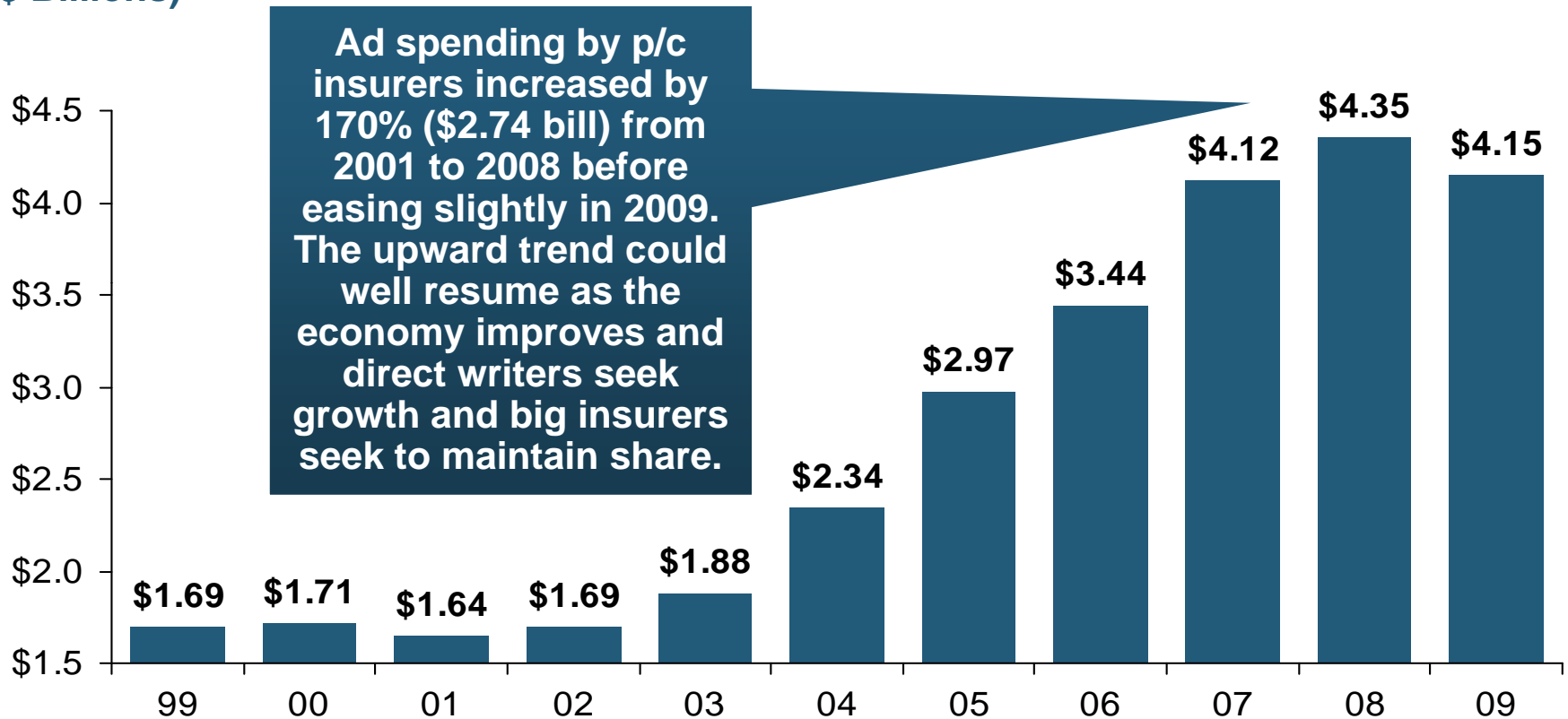
In the 20-year Period From 1990 and 2009, Total Exposure to Loss in the Residual Market (FAIR & Beach/Windstorm) Plans Has Surged from \$54.7B in 1990 to \$703.0B in 2008

Advertising Spending Trends

**After and Unprecedented and
Rapid Increase, Ad
Expenditures are Flattening Out**

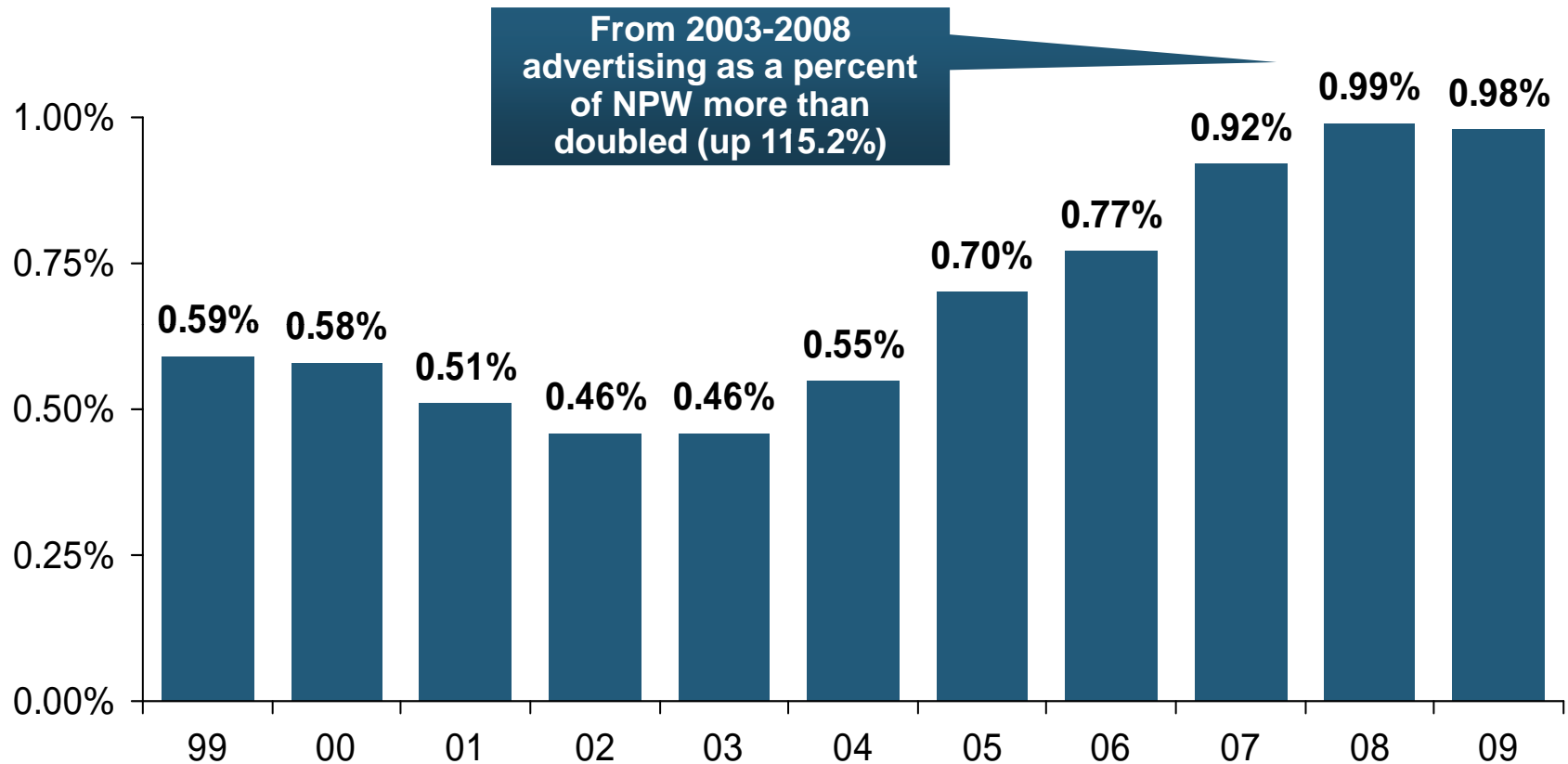
Advertising Expenditures by P/C Insurance Industry, 1999-2009

(\$ Billions)



Private Passenger Auto Accounts for the Largest Share of Advertising Expenditures. One Company Accounts for 1/6 of Total P/C Ad Spending.

Advertising Expenditures as a Percent of P/C Insurance Industry NPW, 1999-2009



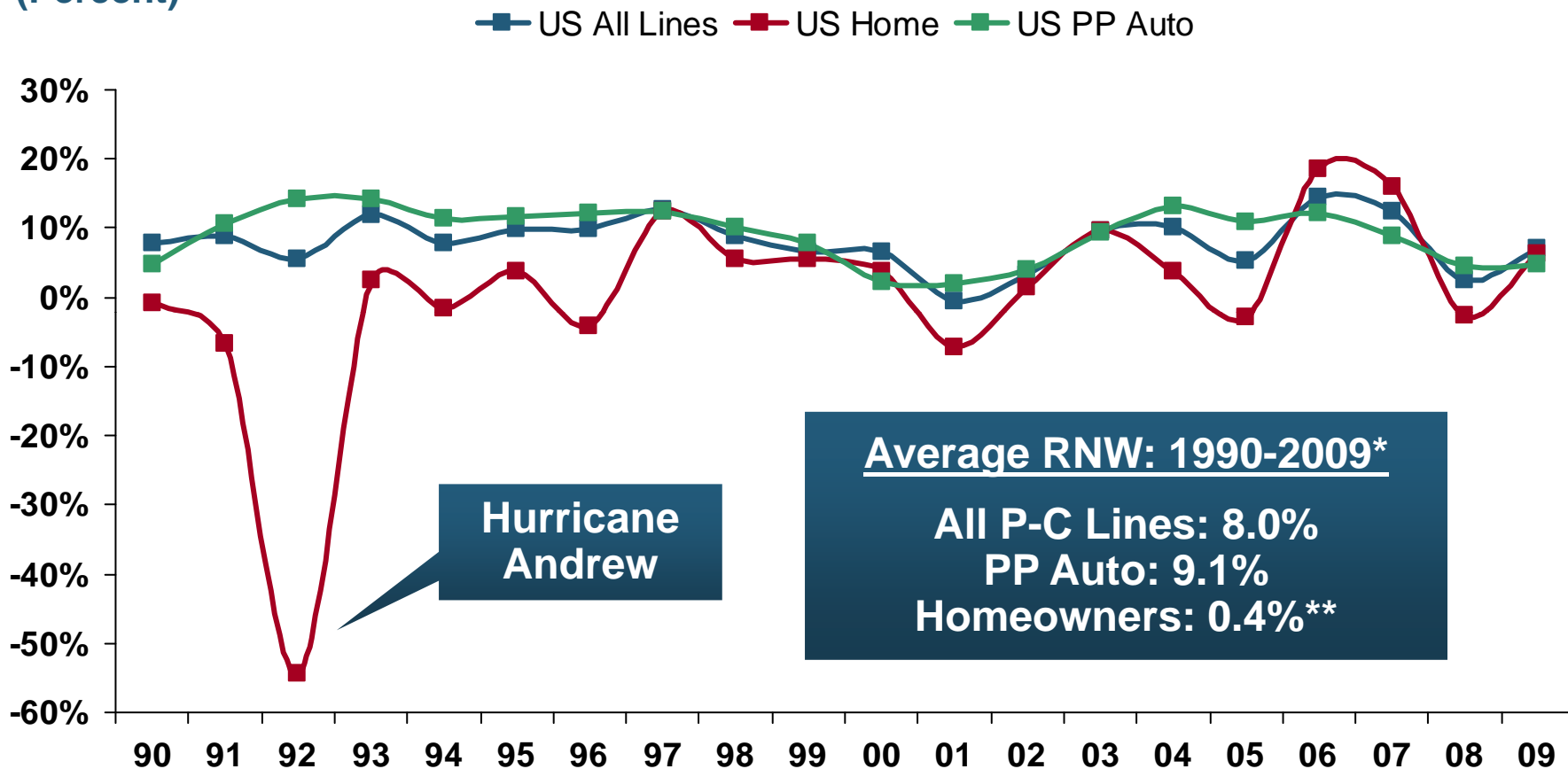
In dollar terms, ad spending increased in every year from 2002 to 2008. The percentage drops in 2002-03 (vs. 2001) are explained by the rapid growth in premiums in the 2002-03 “hard market” that outpaced dollar growth in ad spending.

Personal Lines Profitability Analysis

**Significant Variability Over
Time and Across States**

Return on Net Worth: All P-C Lines vs. Homeowners & Pvt. Pass. Auto, 1990-2009*

(Percent)



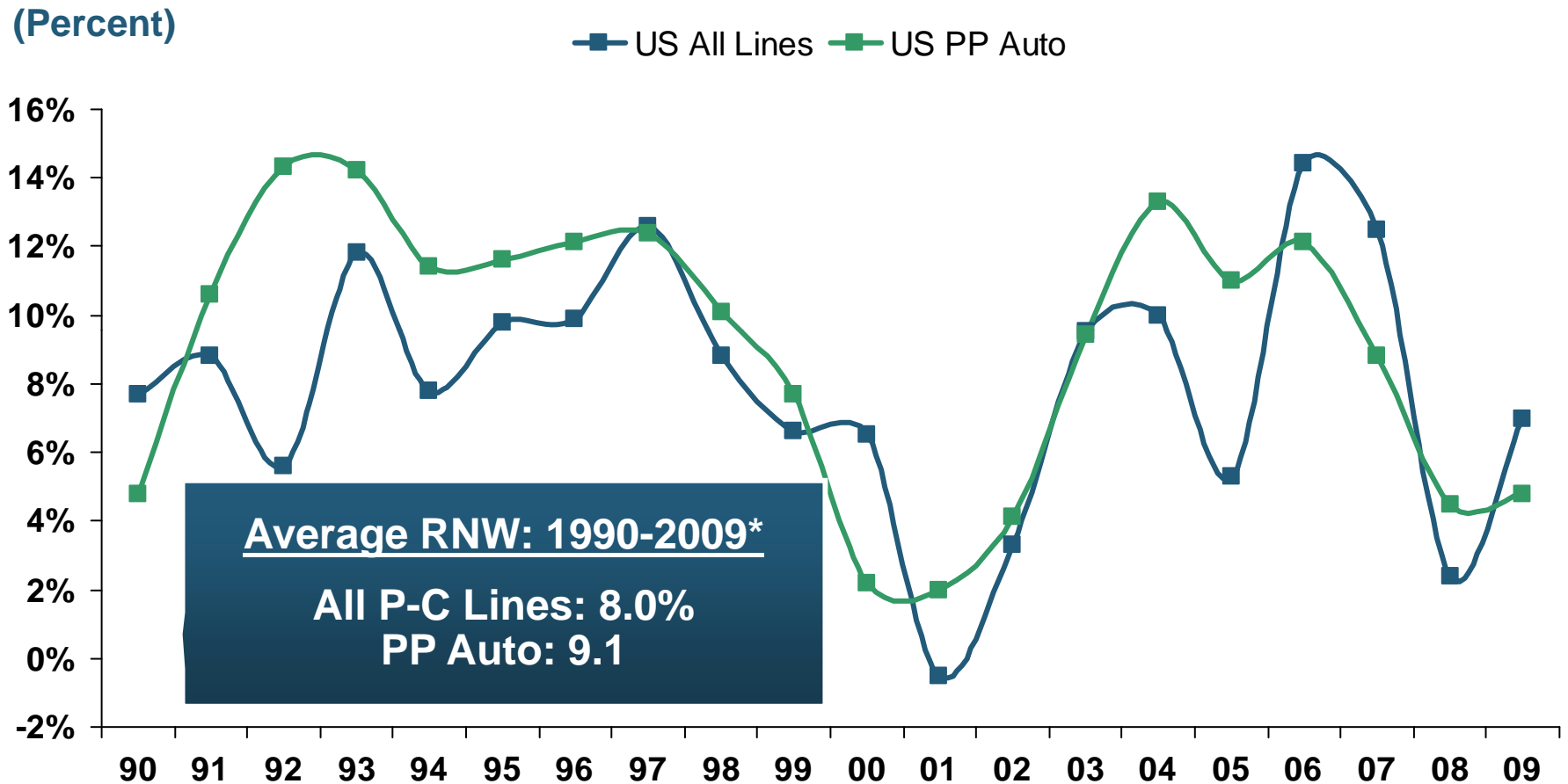
Pvt.Pass. Auto Has Consistently Outperformed the P-C Industry as a Whole. Homeowners Volatility is Associated Primarily With Coastal Exposure Issues

*Latest available.

**Excluding 1992, the Hurricane Andrew, produces a homeowners RNW of 3.3%.

Sources: NAIC.

Return on Net Worth: All P-C Lines vs. Pvt. Pass. Auto, 1990-2009*



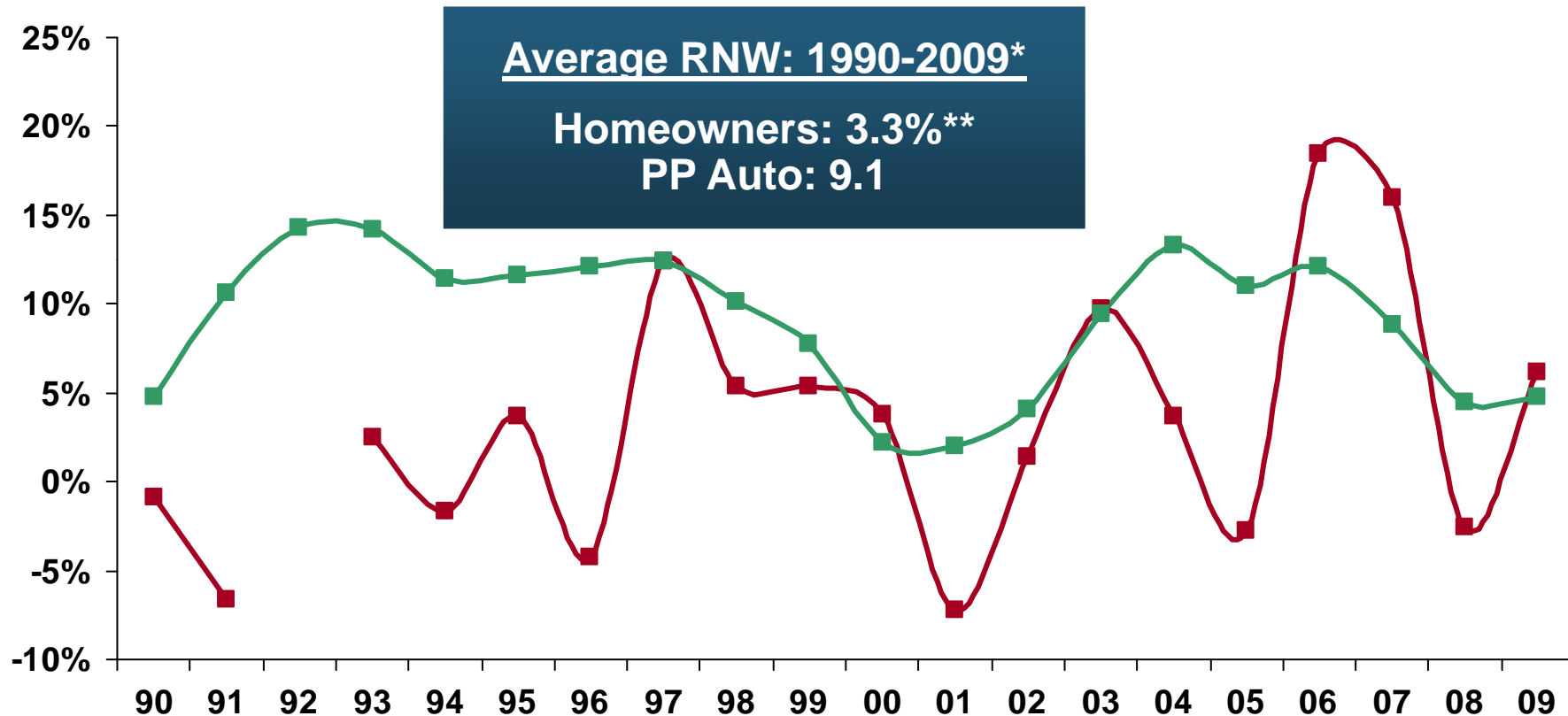
Pvt.Pass. Auto Profitability Has Exceeded the P-C Industry as a Whole in 13 of the 20 Years from 1990-2009 (Inclusive)

*Latest available.
 Sources: NAIC.

Return on Net Worth: Pvt. Pass. Auto vs. Homeowners, 1990-2009* (excl. 1992)

(Percent)

—■ US Home —■ US PP Auto



Pvt.Pass. Auto Profitability Has Exceeded the P-C Industry as a Whole in 13 of the 20 Years from 1990-2009 (Inclusive)

*Latest available.

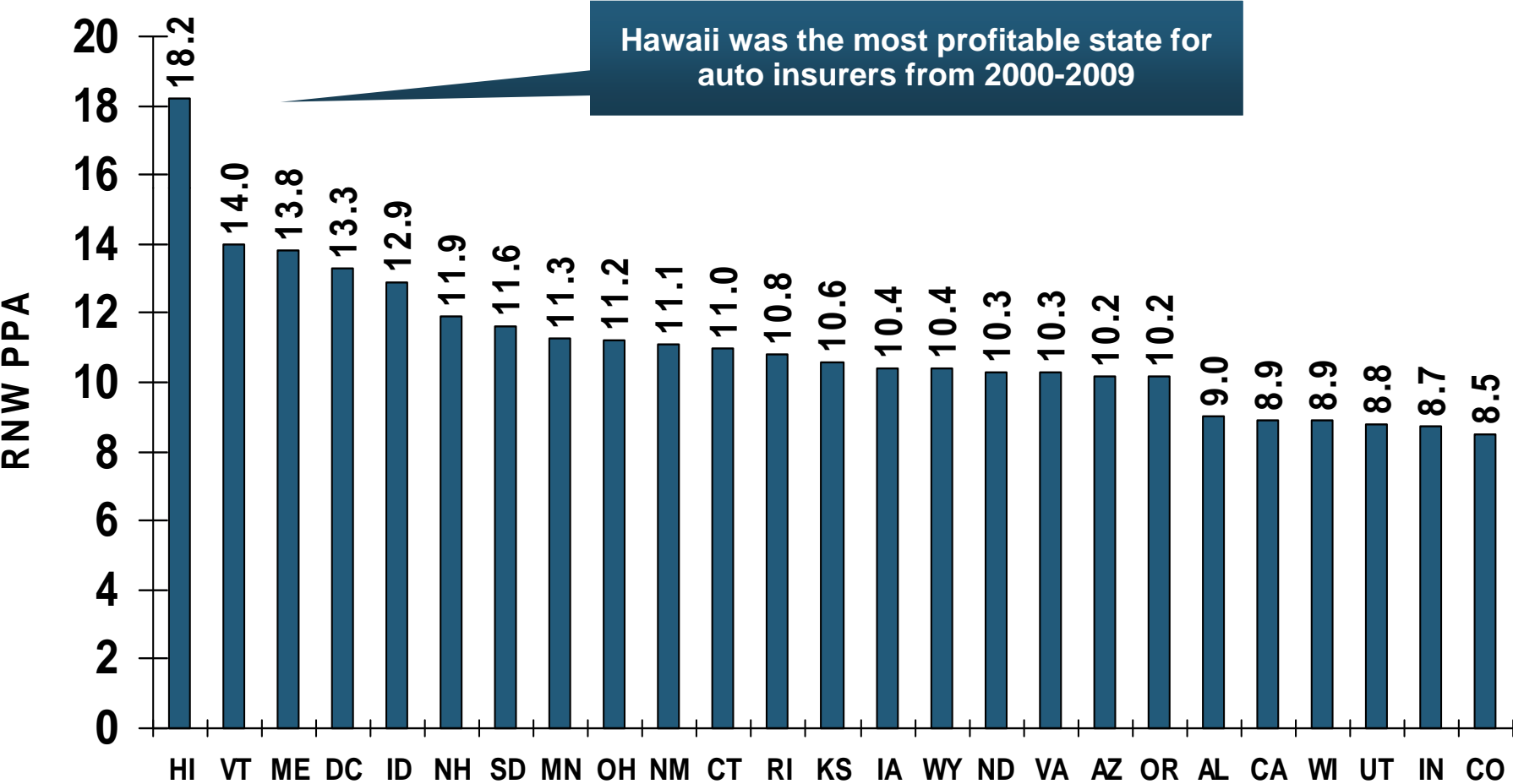
**Excluding 1992, the year of Hurricane Andrew. Including 1992 produces a homeowners RNW of 0.4%.

Sources: NAIC.

Return on Net Worth: Pvt. Passenger Auto, 10-Year Average (2000-2009*)

Top 25 States

(Percent)



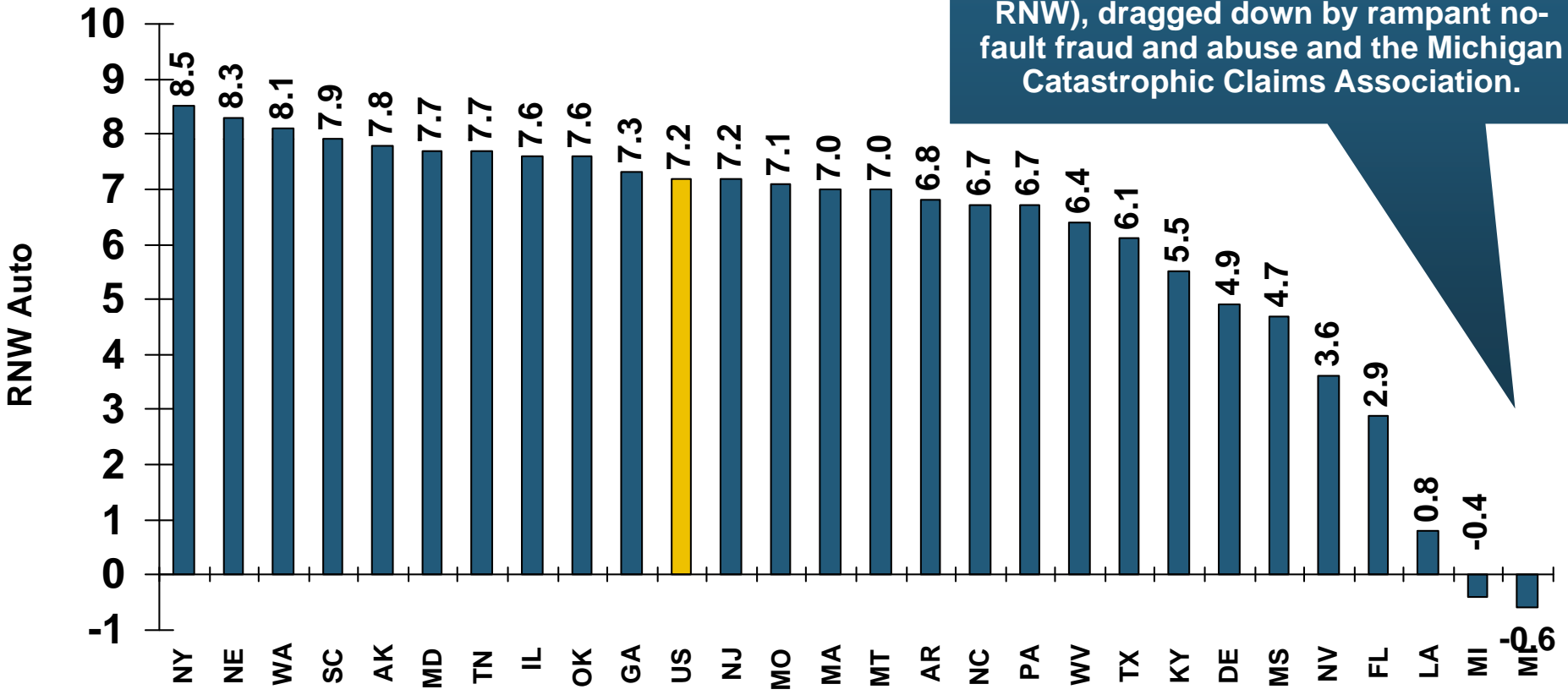
Sources: NAIC * latest available

Return on Net Worth: Pvt. Passenger Auto, 10-Year Average (2000-2009*)

(Percent)

Bottom 25 States

Michigan was the least profitable state for auto insurers from 2000-2009 (-0.6% RNW), dragged down by rampant no-fault fraud and abuse and the Michigan Catastrophic Claims Association.

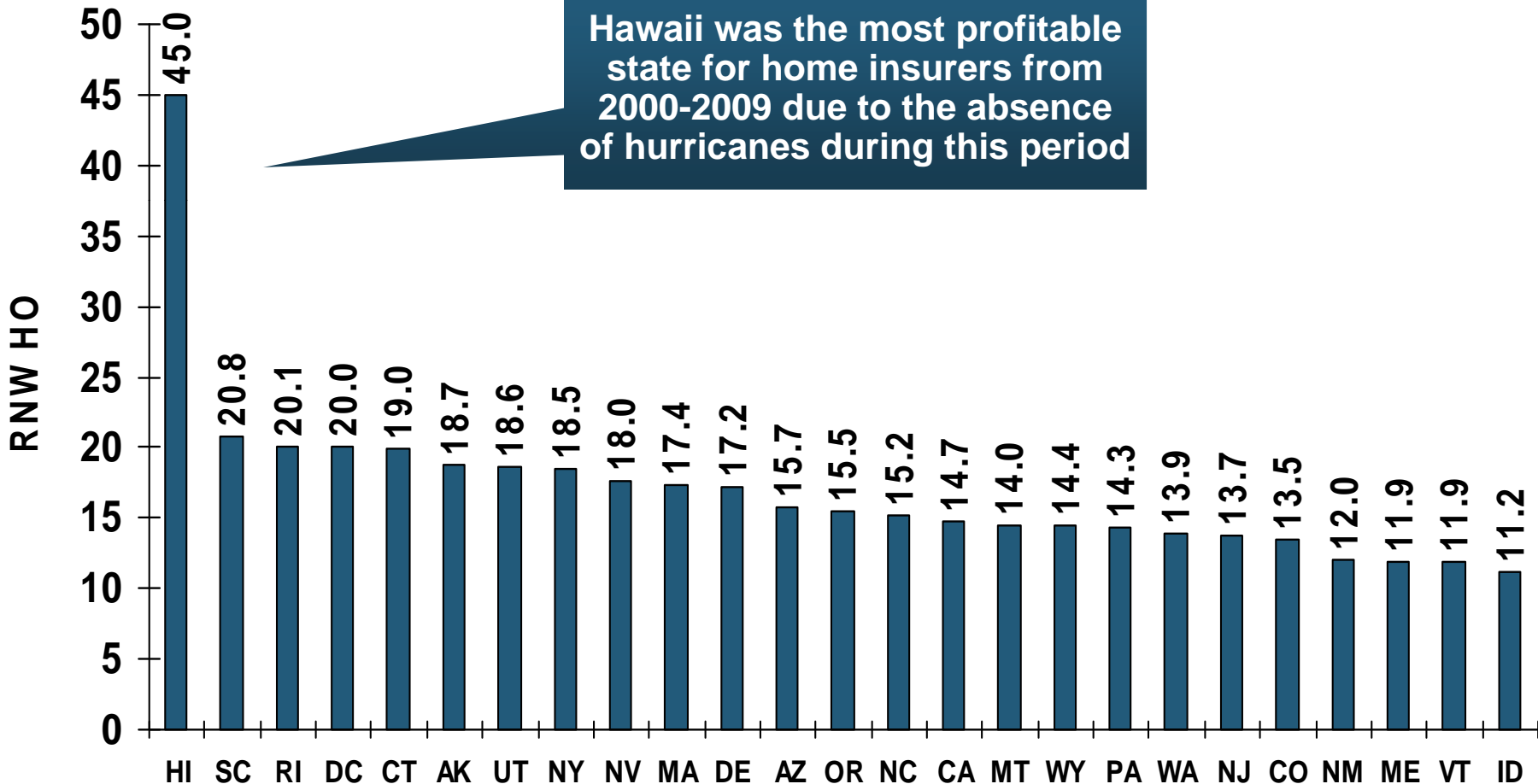


*Latest available.
Sources: NAIC

Return on Net Worth: Homeowners Insurance, 10-Year Average (2000-2009*)

Top 25 States

(Percent)

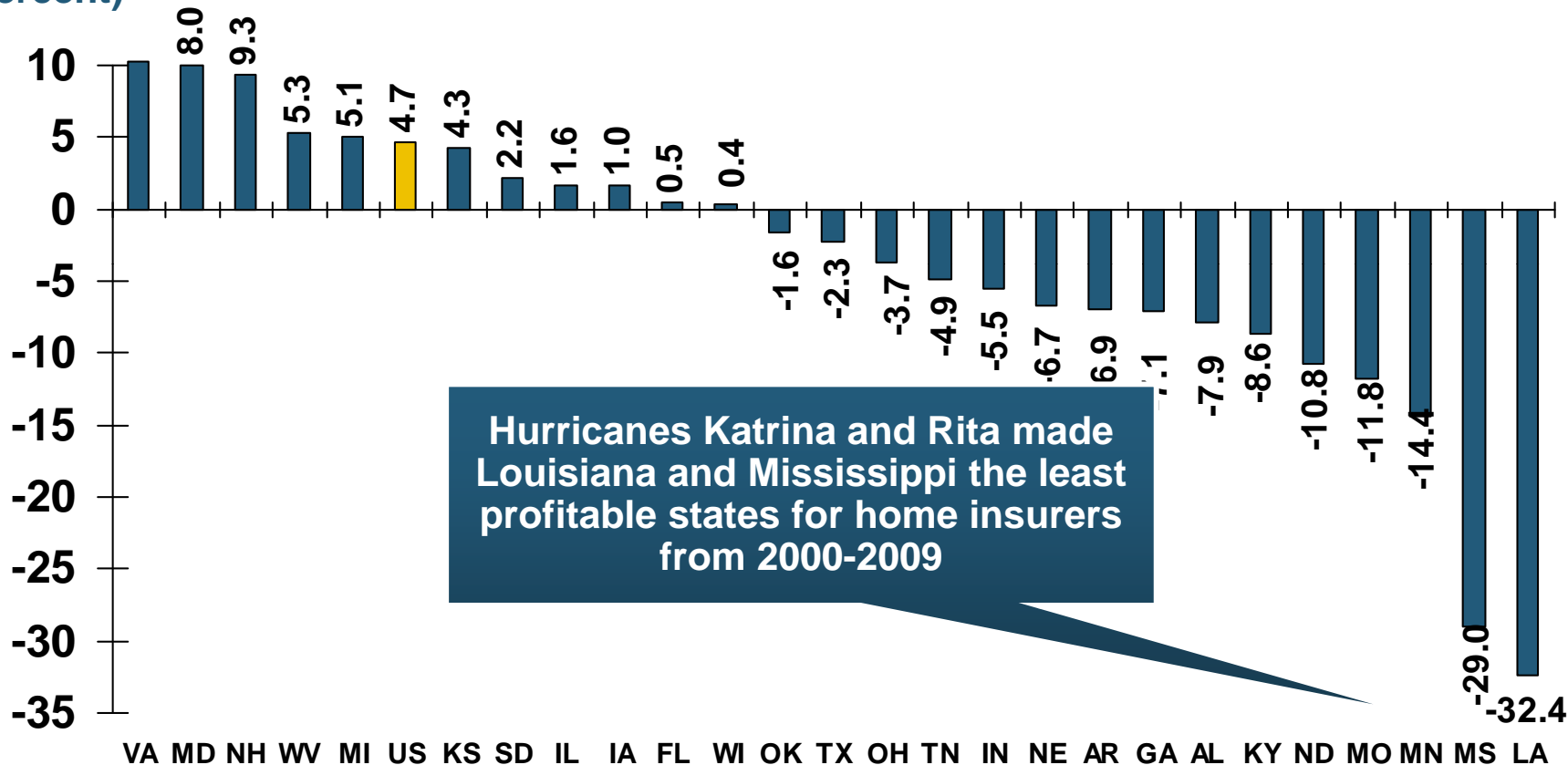


Hawaii was the most profitable state for home insurers from 2000-2009 due to the absence of hurricanes during this period

Return on Net Worth: Homeowners Insurance, 10-Year Average (2000-2009*)

Bottom 25 States

(Percent)

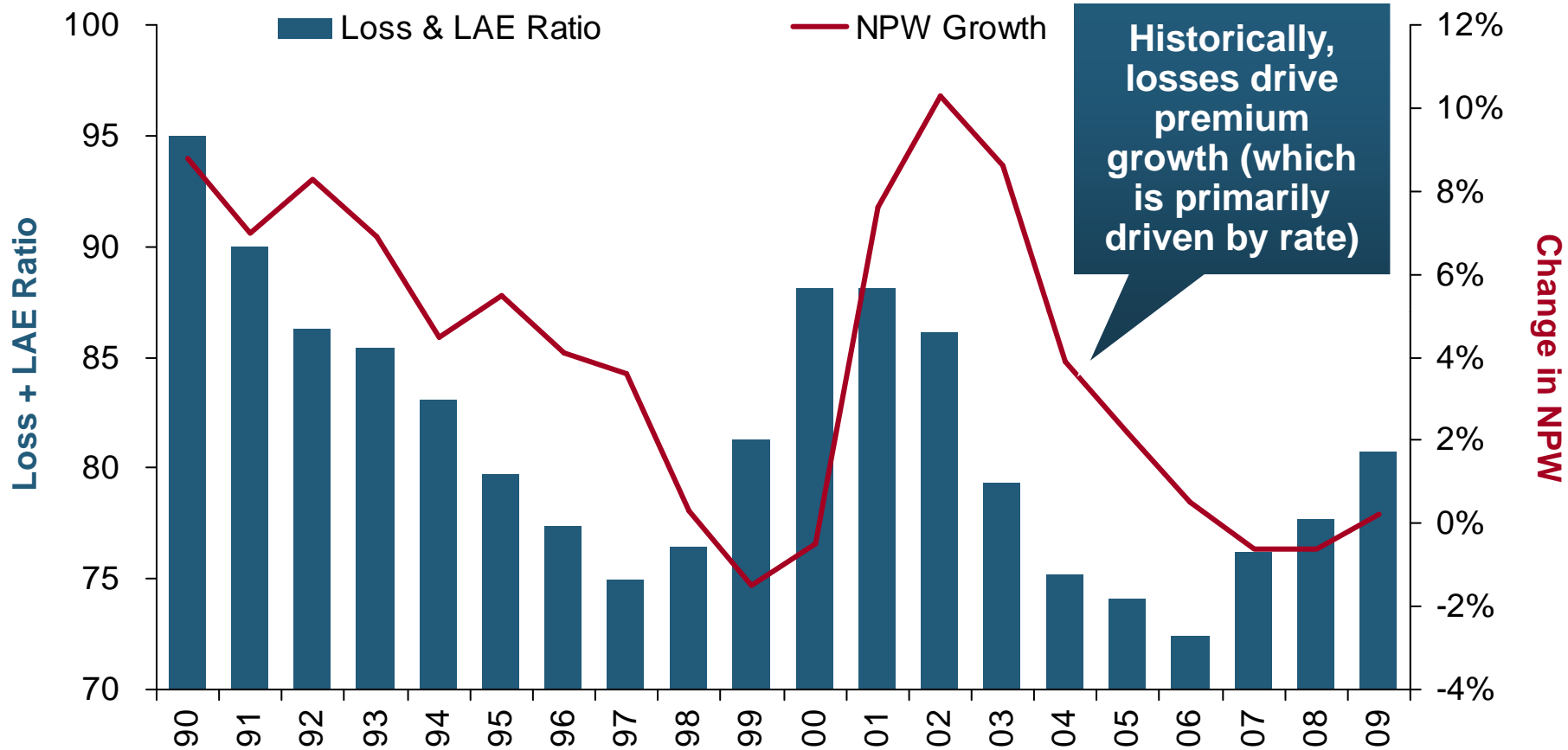


Sources: NAIC

Cycle Drivers

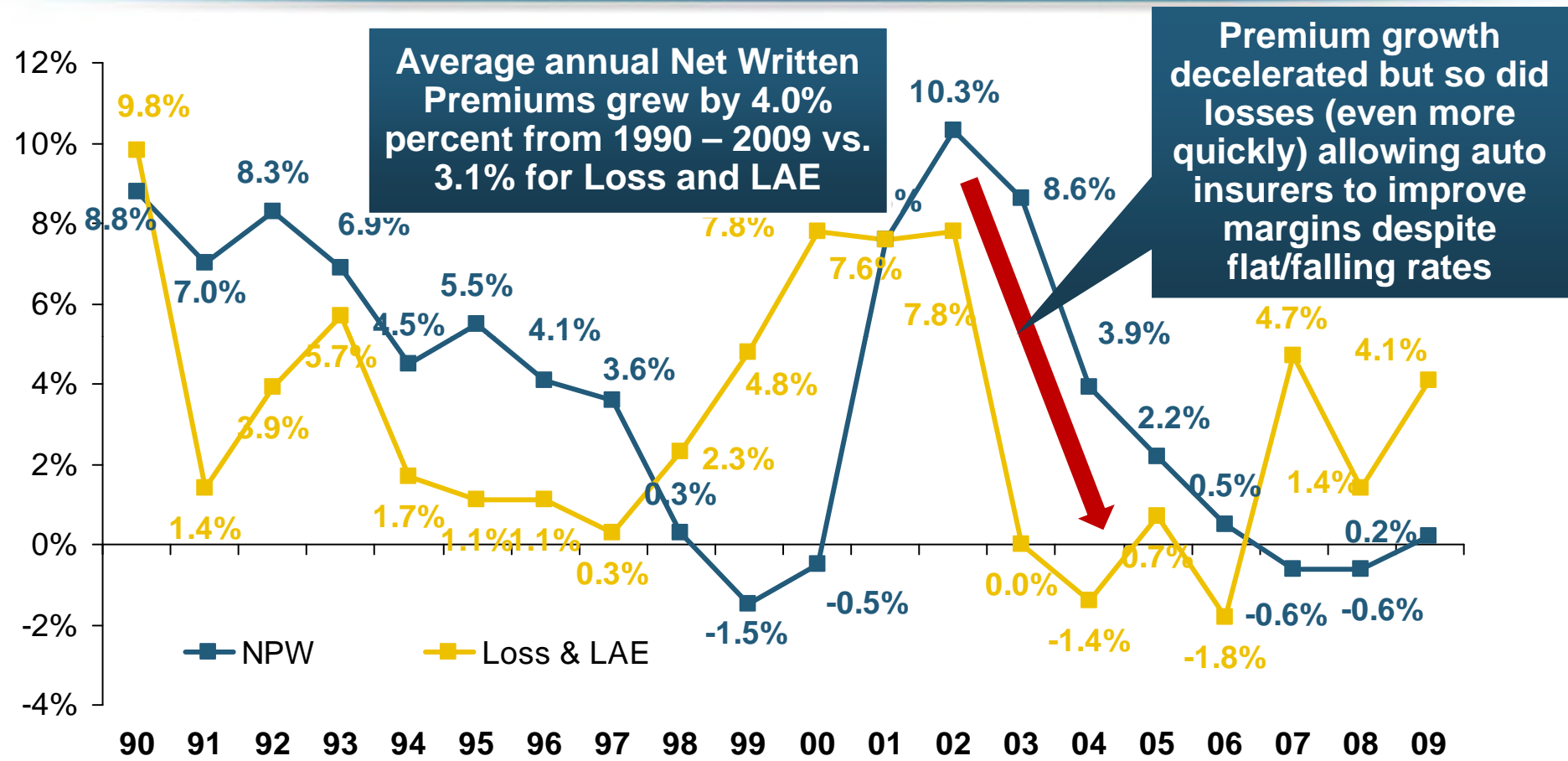
The Role of Losses in the Underwriting Cycle

PP Auto Liability: Loss and LAE vs. Net Premiums Written, 1990-2009



While Premium Growth Decelerated, the Driver Was Primarily Lower Losses, Allowing Auto Insurers to Maintain String Margins

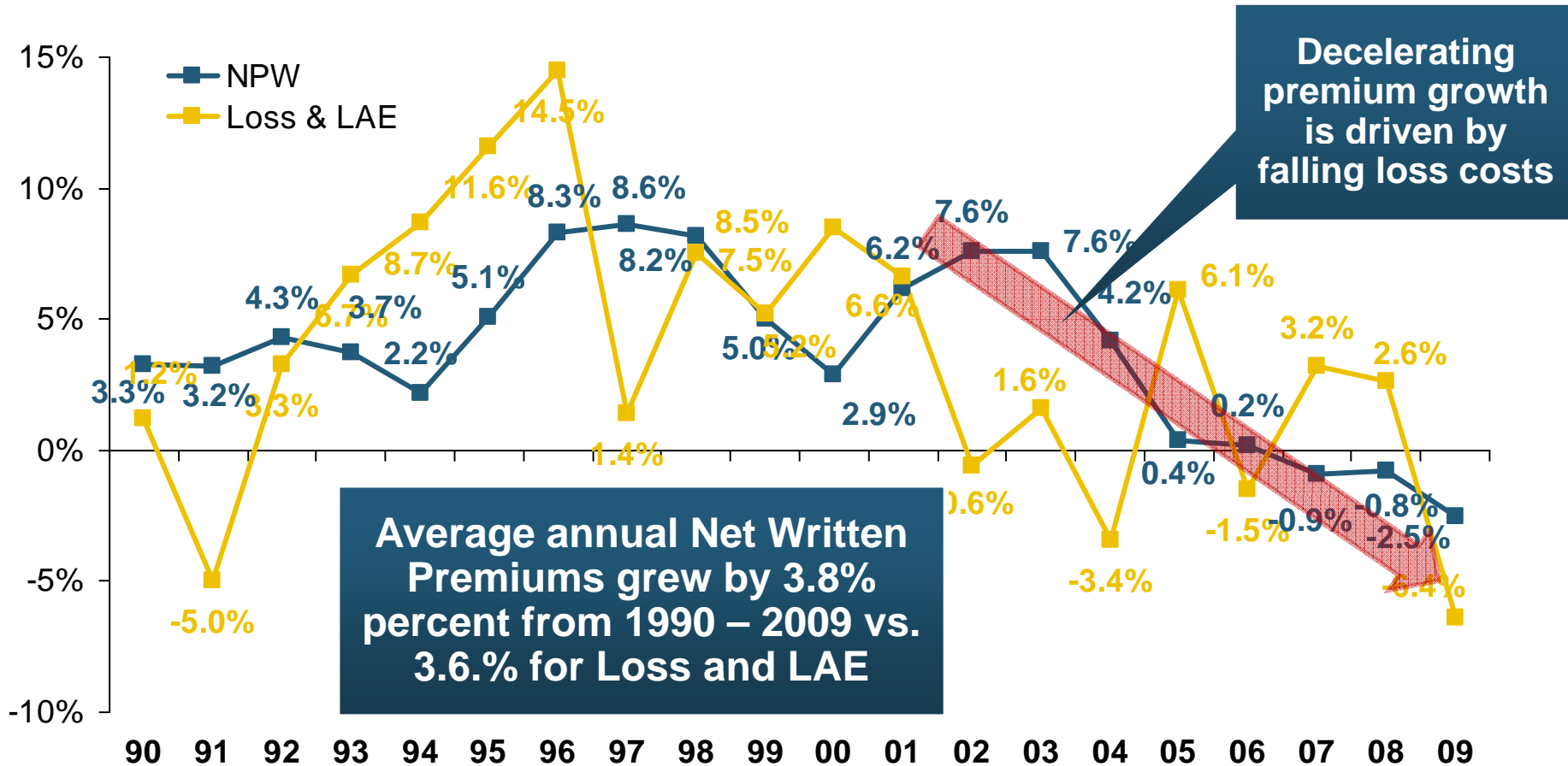
PP Auto Liability: % Change in NPW vs. % Change in Loss & LAE, 1990 - 2009



Losses Drive Premiums
Premiums Exhibit an Elastic Response (with a Lag) to Changes in Losses

Sources: Insurance Information Institute calculations from A.M. Best data..

PP Auto Physical Damage: Change in NPW vs. Change in Loss & LAE, 1990 - 2009



Loss Trends Ultimately Drive Premium Trends

Sources: Insurance Information Institute calculations from A.M. Best data..

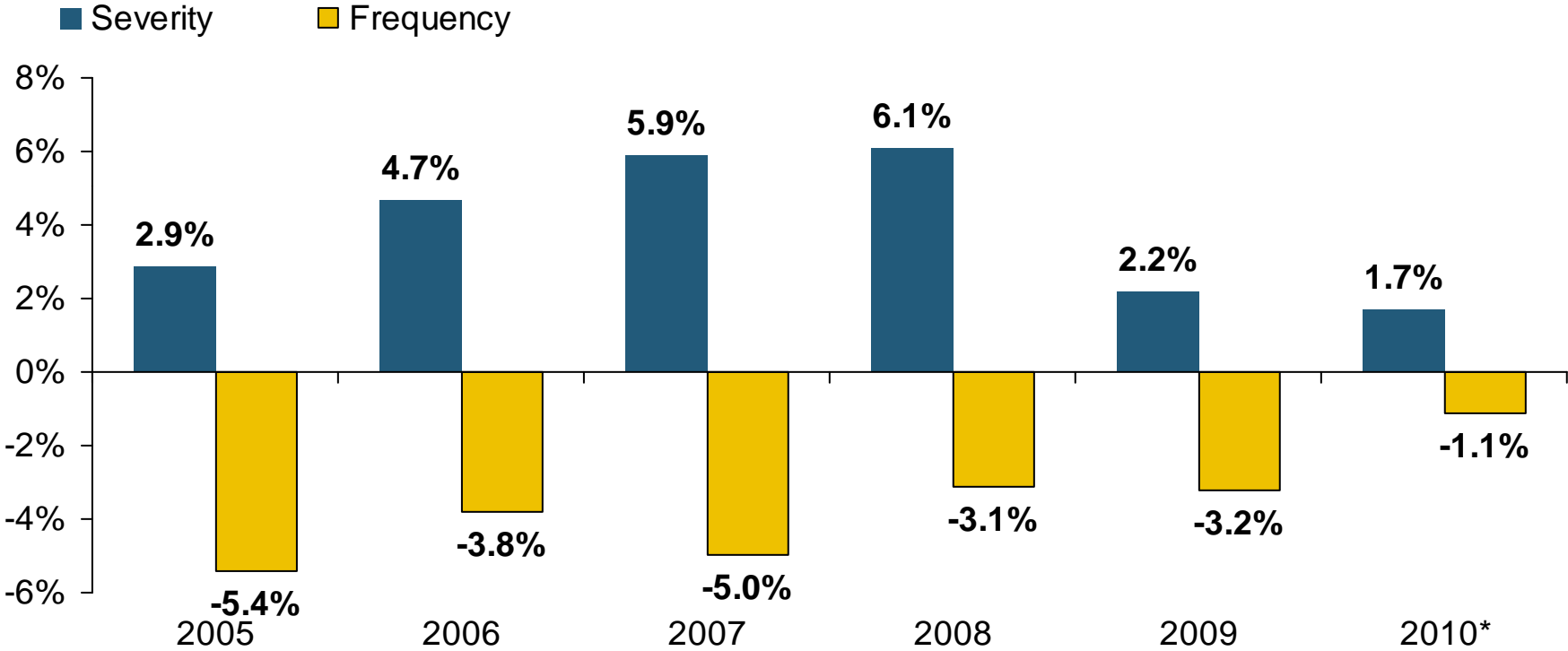


Claim Trends in Auto Insurance

**Rising Costs Held in Check by
Falling Frequency:
Can That Pattern Be Sustained?**

Bodily Injury: Severity Trend Moderating, Frequency Decline Continues

Annual Change, 2005 through 2010*



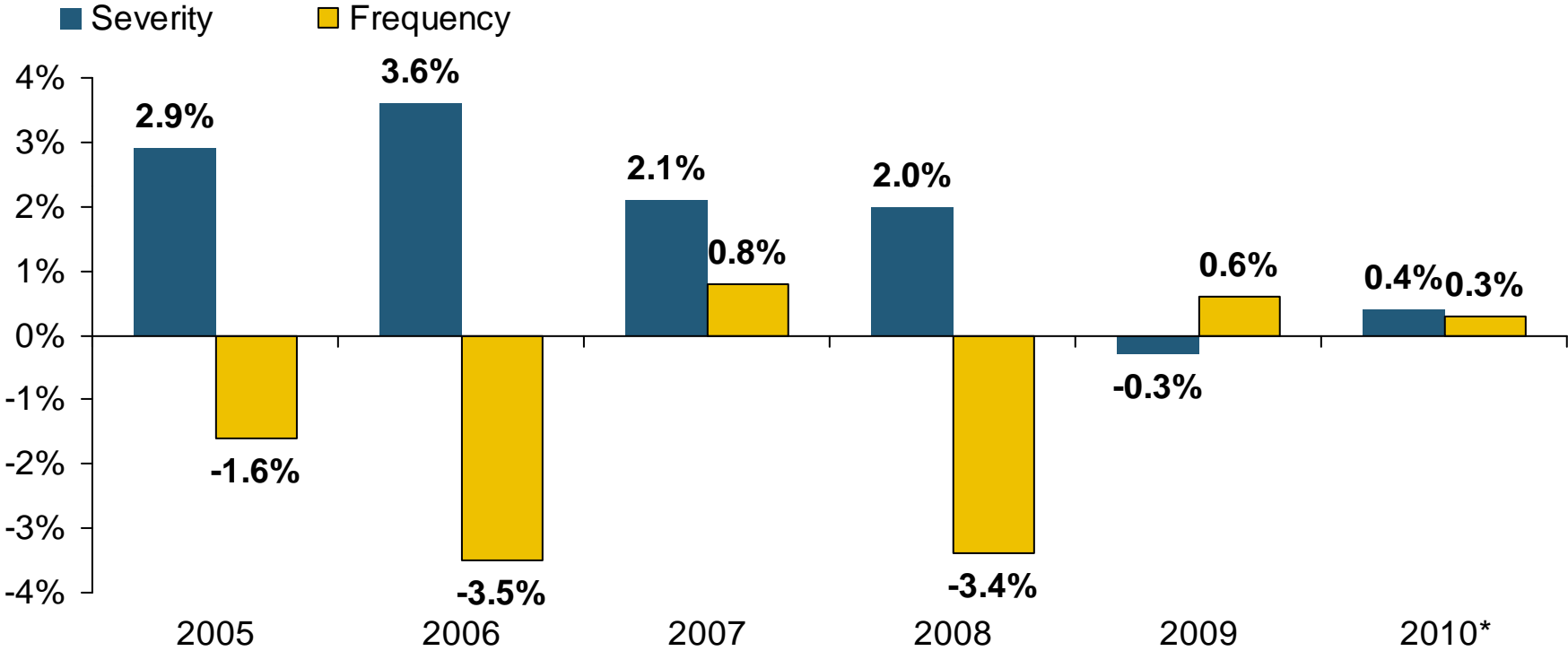
**Cost Pressures Will Increase if BI Severity Increases
Outpace Declines in Frequency**

*For 2010, data are for the 4 quarters ending with 2010:Q3.
Source: ISO/PCI *Fast Track* data; Insurance Information Institute

Property Damage Liability: Frequency and Severity Nearly Flat in 2009/10



Annual Change, 2005 through 2010*

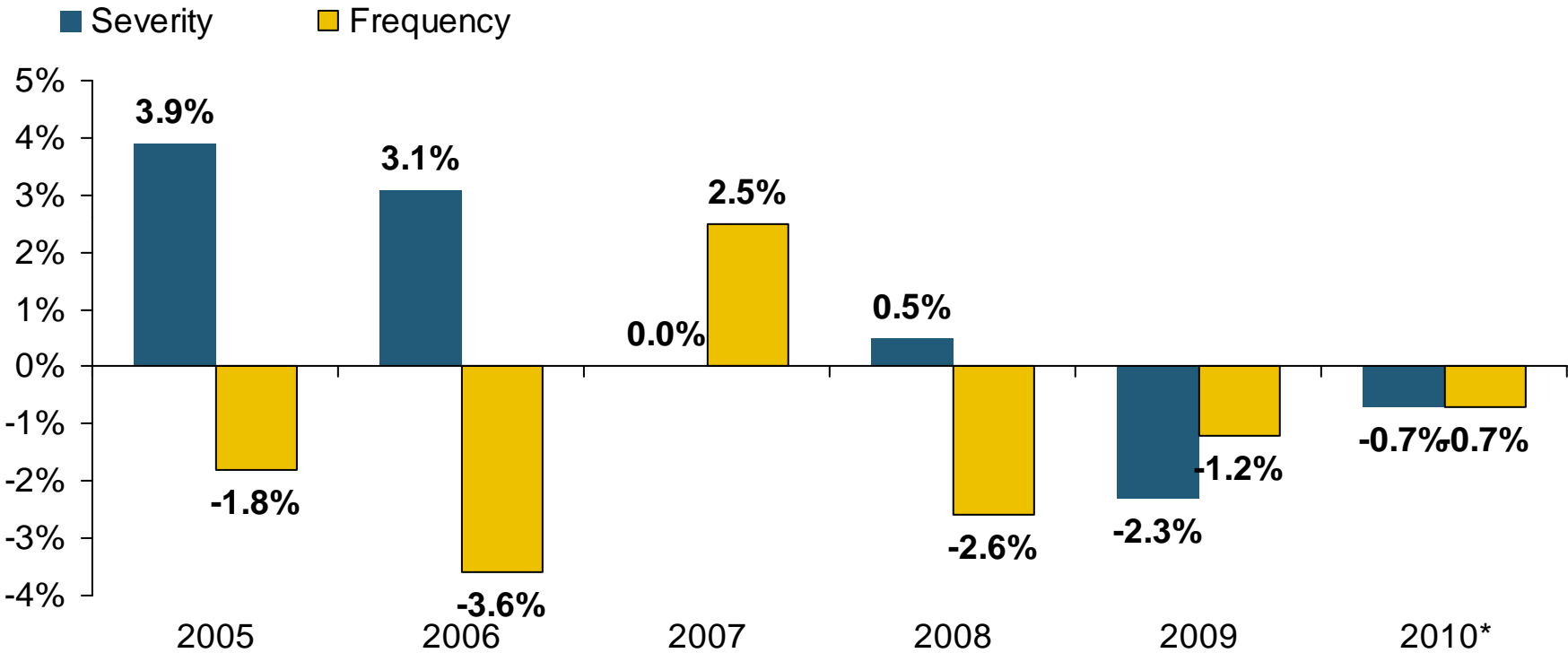


Stable Severity/Frequency Trends Keeping PD Costs in Check, But Are These Trends Sustainable?

*For 2010, data are for the 4 quarters ending with 2010:Q3.
 Source: ISO/PCI *Fast Track* data; Insurance Information Institute

Collision Coverage: Frequency and Severity Trends Have Been Favorable

Annual Change, 2005 through 2010*

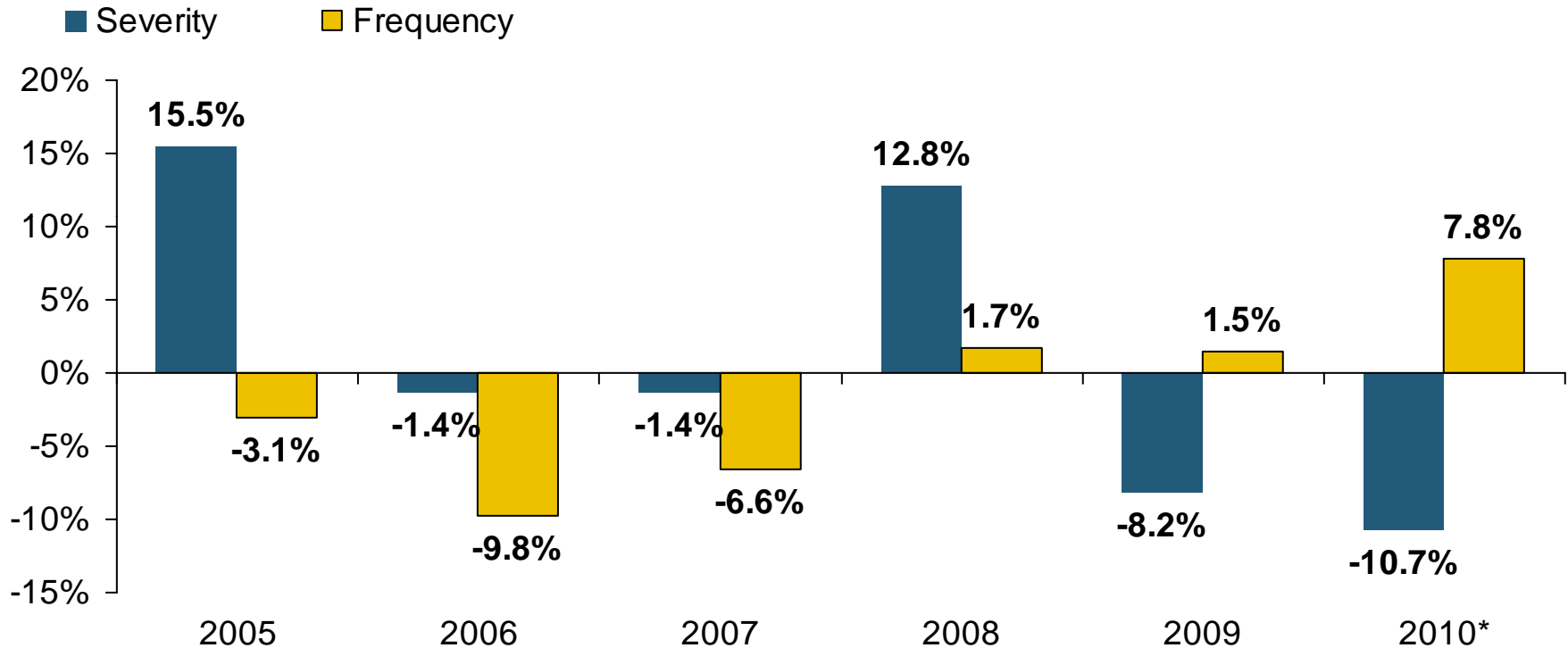


The Recession, High Fuel Prices Have Helped Push Down Frequency and Temper Severity, But this Trend Will Likely Be Reversed Based on Evidence from Past Recoveries

*For 2010, data are for the 4 quarters ending with 2010:Q3.
 Source: ISO/PCI *Fast Track* data; Insurance Information Institute

Comprehensive Coverage: Recent Severity Trends Favorable, Frequency is Up in 2010

Annual Change, 2005 through 2010*



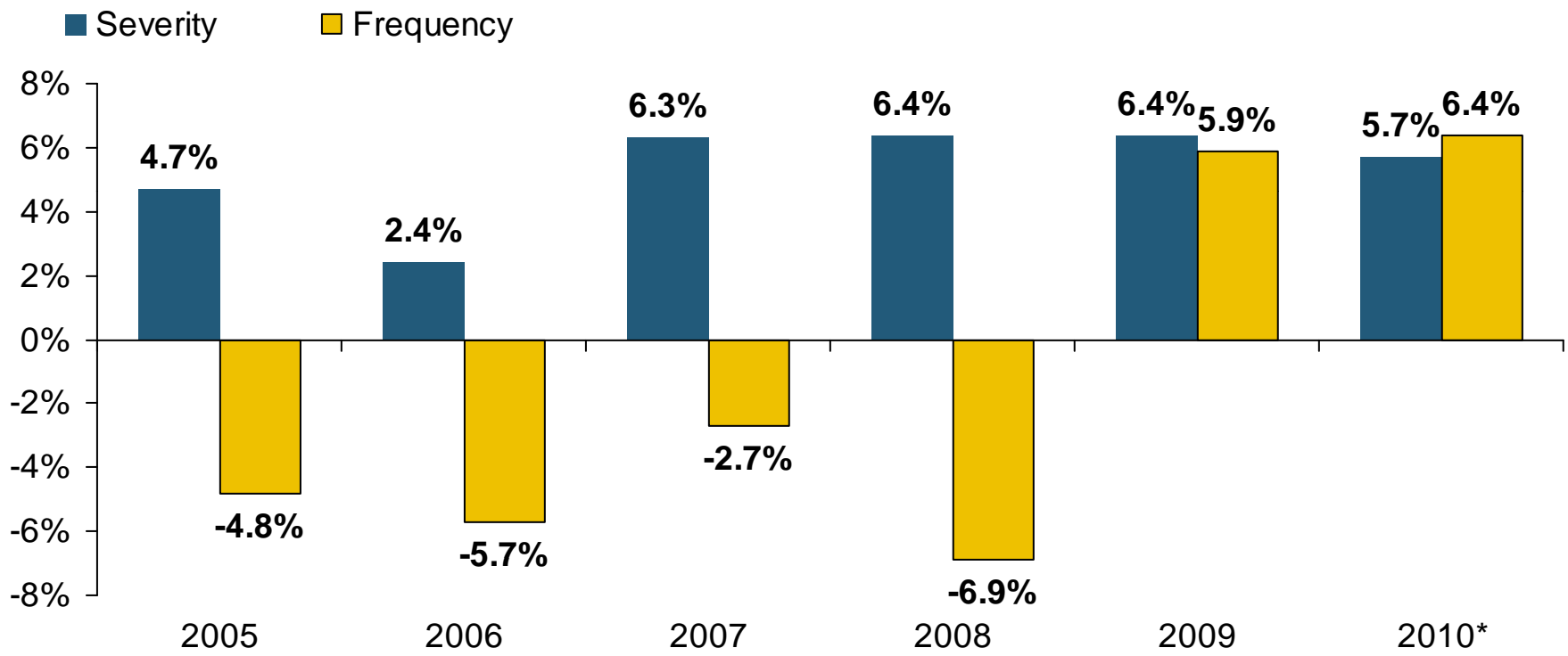
Weather Creates Volatility for Comprehensive Coverage; Recession Has Helped Push Down Frequency and Temper Severity, But This Factors Will Weaken as Economy Recovers

*For 2010, data are for the 4 quarters ending with 2010:Q3.

Source: ISO/PCI *Fast Track* data; Insurance Information Institute

No-Fault (PIP) Liability: Frequency and Severity Trends Are Adverse*

Annual Change, 2005 through 2010*

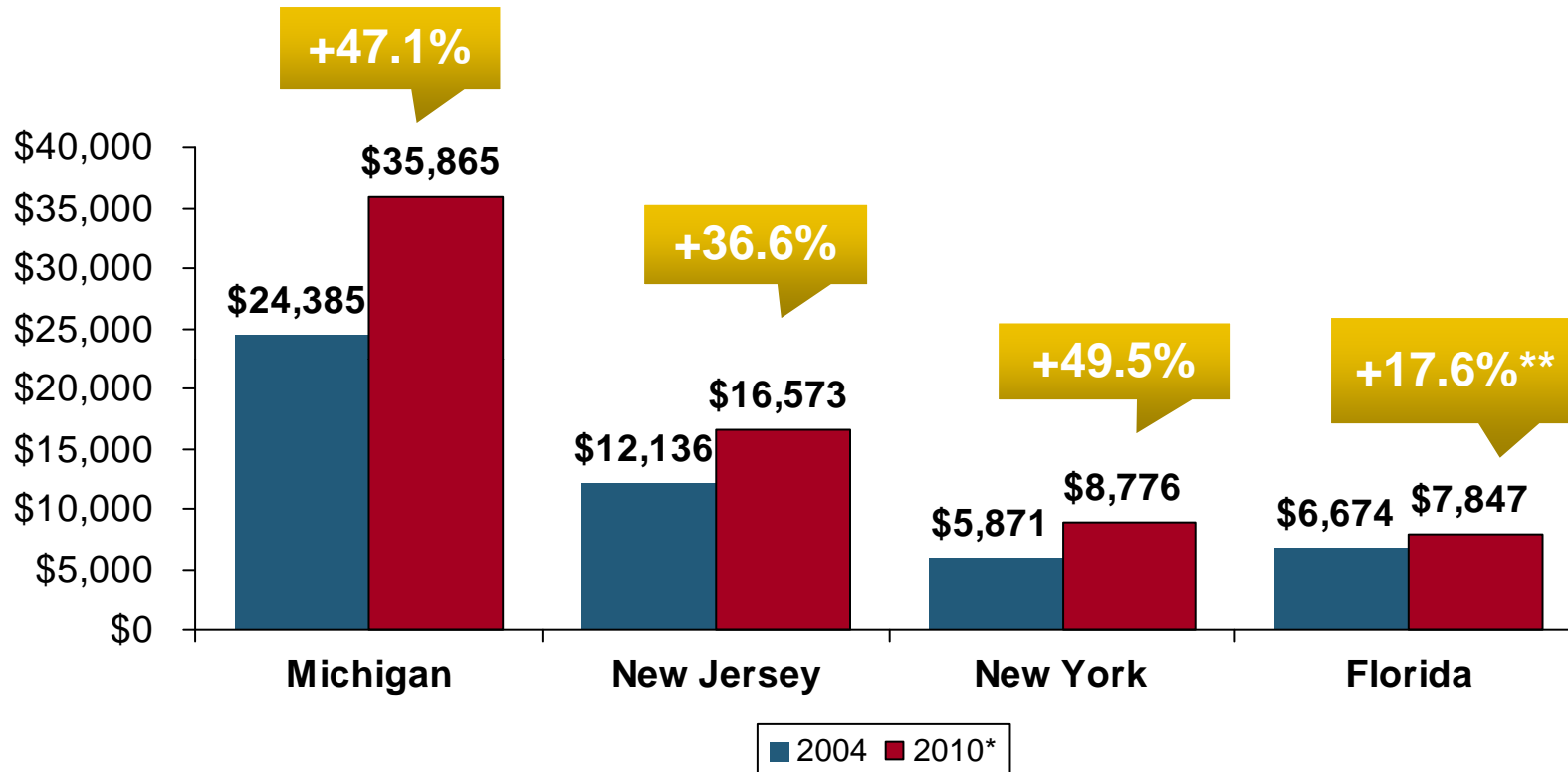


Multiple States Are Experiencing Severe Fraud and Abuse Problems in their No-Fault Systems, Especially FL, MI, NY and NJ

*No-fault states included are: FL, HI, KS, KY, MA, MI, MN, NY, ND and UT; 2010 data are for the 4 quarters ending 2010:Q3.

Source: ISO/PCI *Fast Track* data; Insurance Information Institute

Increase in No-Fault Claim Severity: 2004-2010*



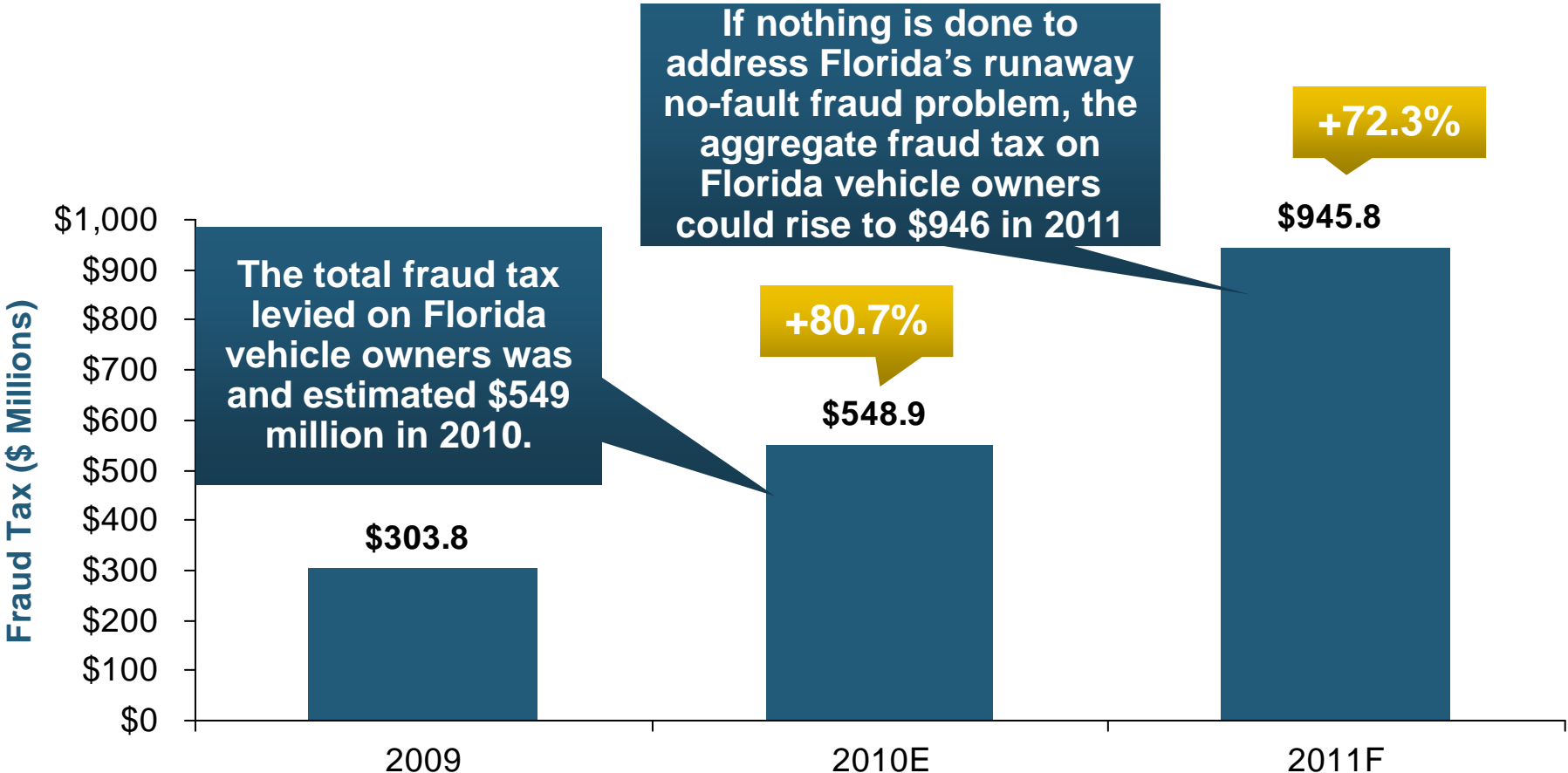
The no-fault systems in MI, NJ, NY and FL are under stress due to rising fraud and abuse which will ultimately lead to higher premiums for drivers

*2009 figure is for the 4 quarters ending 2010:Q3.

**Since 2006 the increase in Florida was 23.7% (average severity that year was \$6,344).

Sources: Insurance Information Institute research from ISO/PCI *Fast Track* data.

Florida's No-Fault Fraud Tax: Estimated Aggregate Annual Cost, 2009-2011F (\$ Millions)



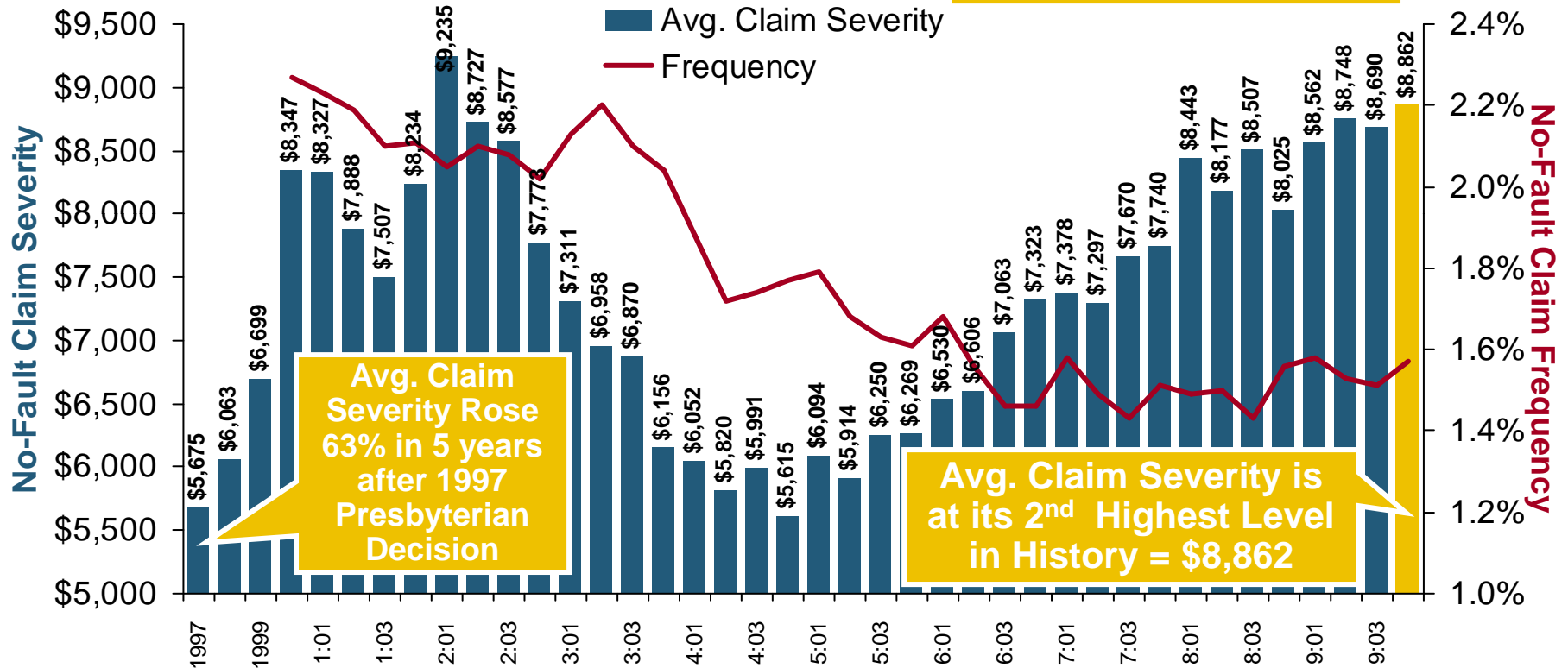
No-Fault Fraud is Costing Honest Florida Drivers Hundreds of Millions of Dollars

*2010 estimate is based on data through Q3:2010. 2011 forecast is based on an assumed increase in pure premium of 25% (pure premium increased 27% in the 4 quarters ending with 2010:Q3). Estimates assume 11.288 million insured vehicles in FL in 2009-2011 (11.288 million is 2008 actual figure from AIPSO).

New York State No-Fault Claim Severity, 1997–2009:Q4

No-Fault Claim Severity

Avg. Claim Severity is up 58% since 2004:Q4

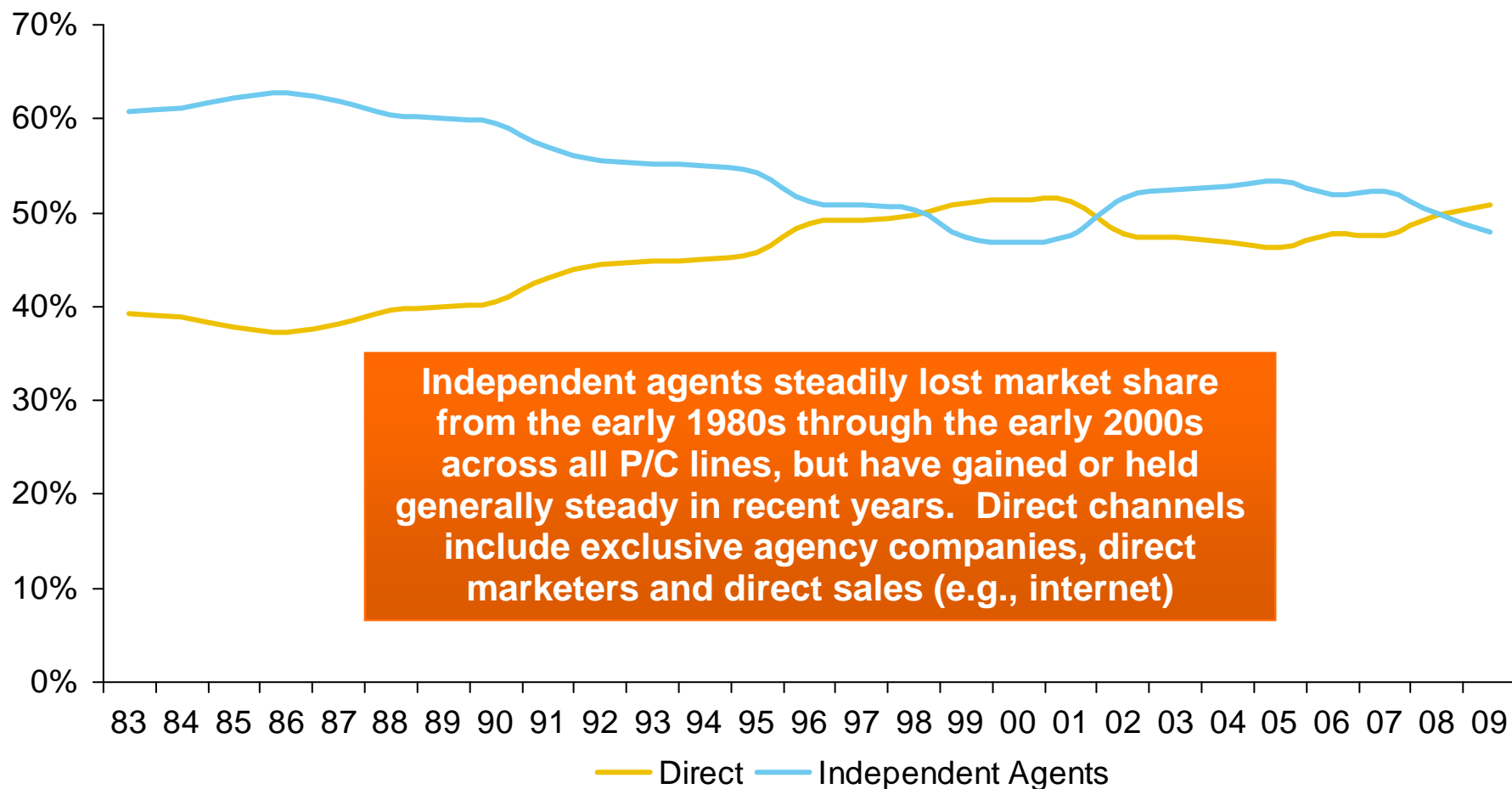


About 20% of No-Fault Claim Costs Are Attributable to Fraud and Abuse

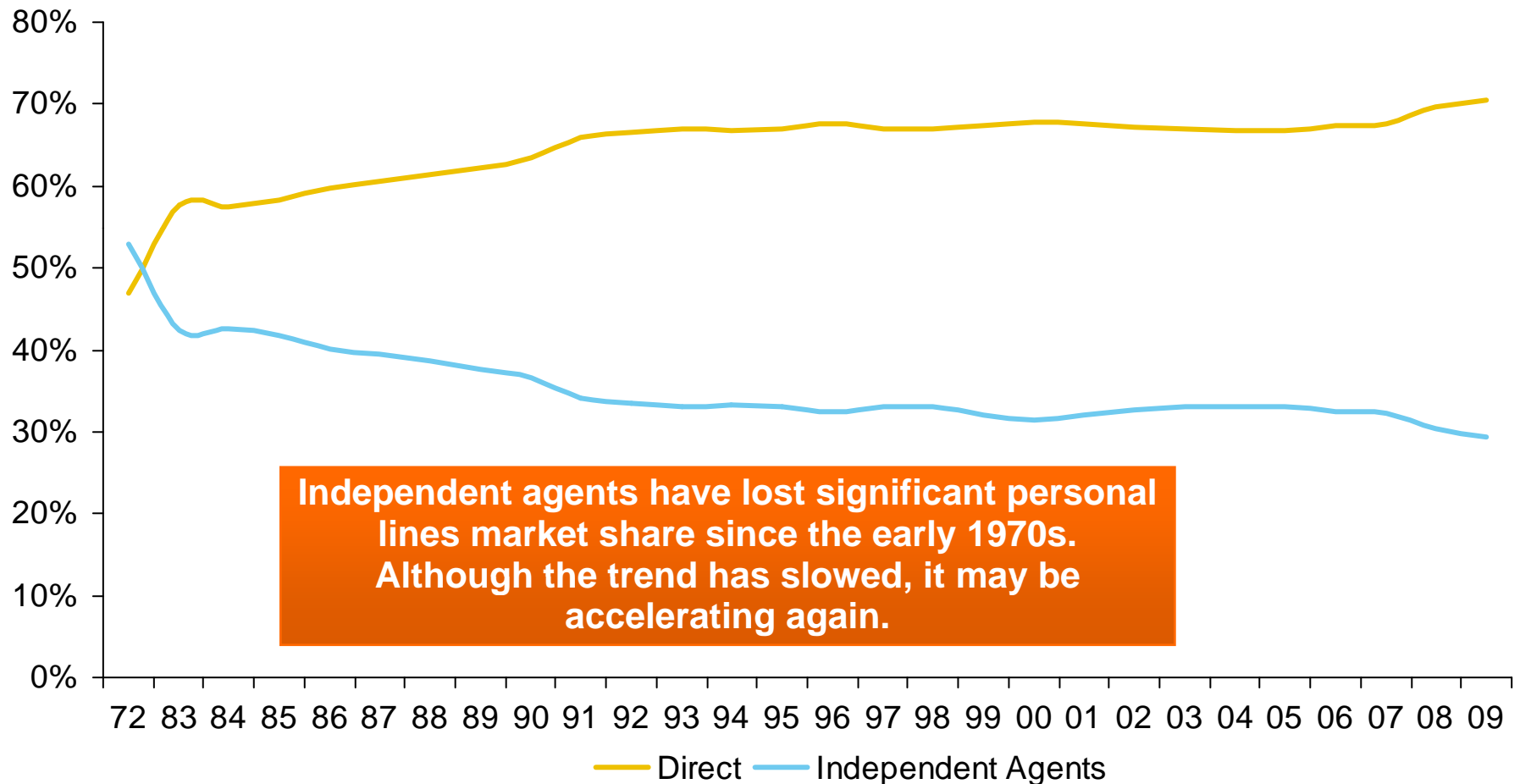
Distribution Trends

Distribution by Channel Type Continues to Evolve

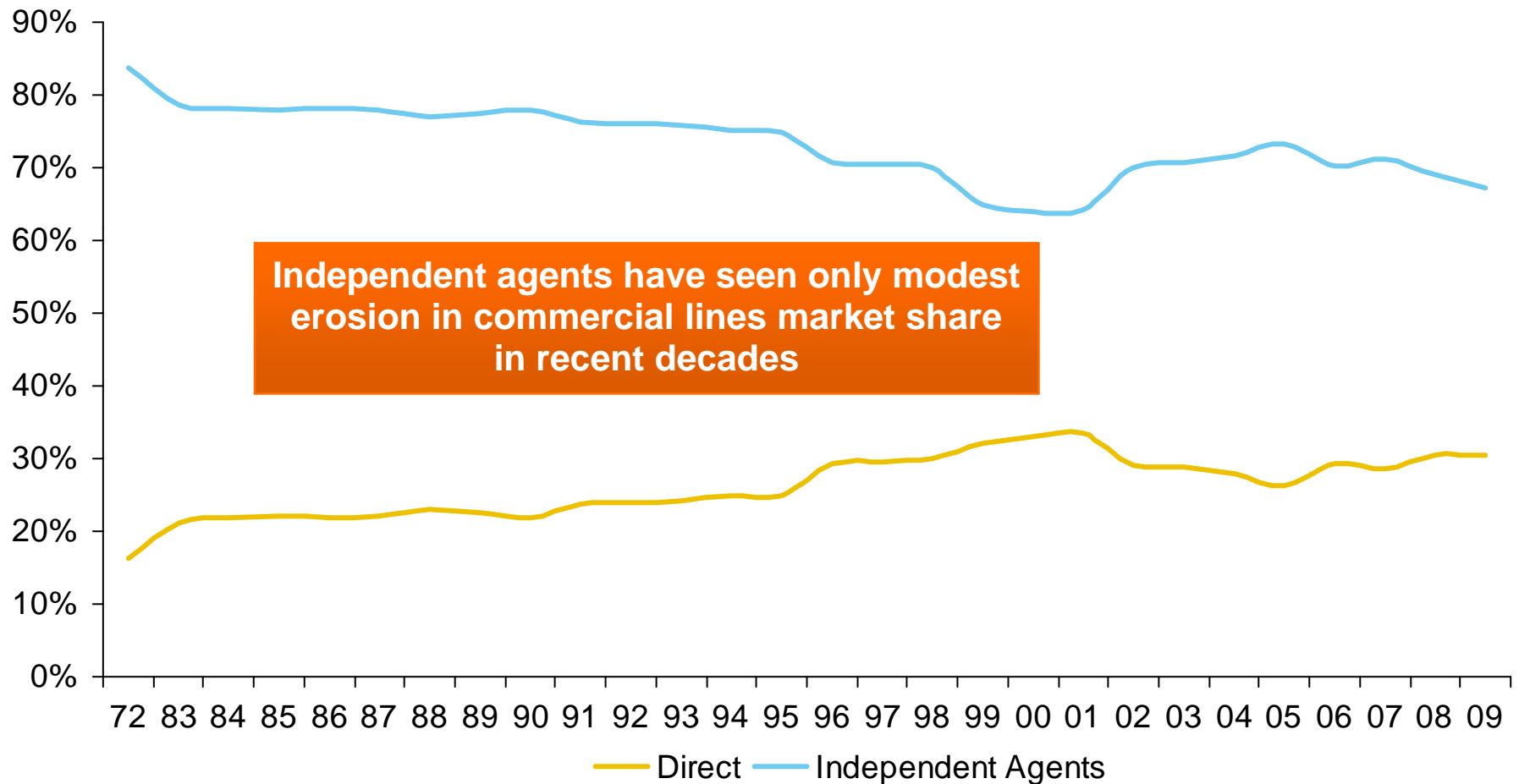
All P/C Lines Distribution Channels, Direct vs. Independent Agents



Personal Lines Distribution Channels, Direct vs. Independent Agents



Commercial P/C Distribution Channels, Direct vs. Independent Agents

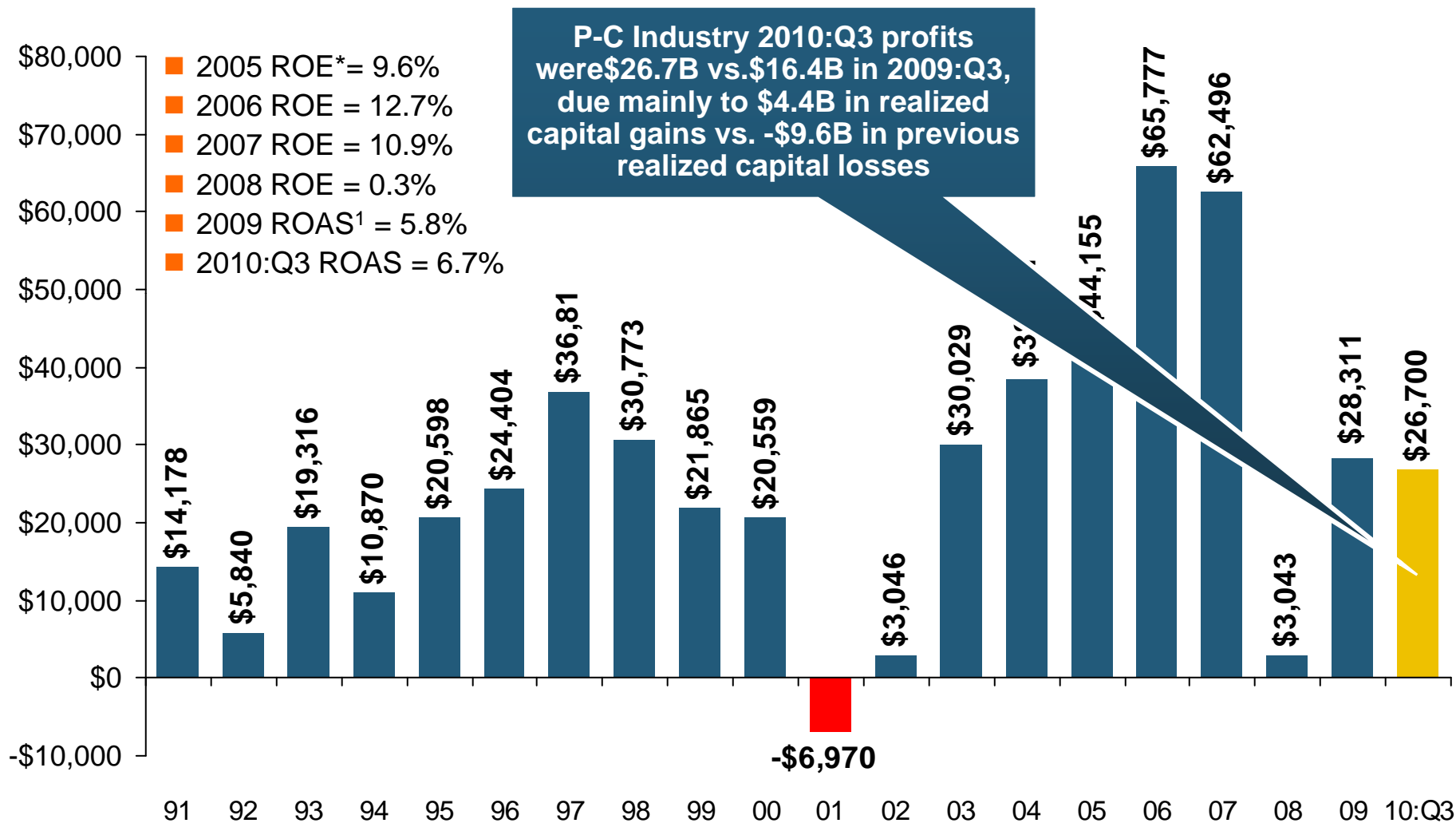




P/C Insurance Industry Financial Overview

**Profit Recovery Continues
Early Stage Growth Begins**

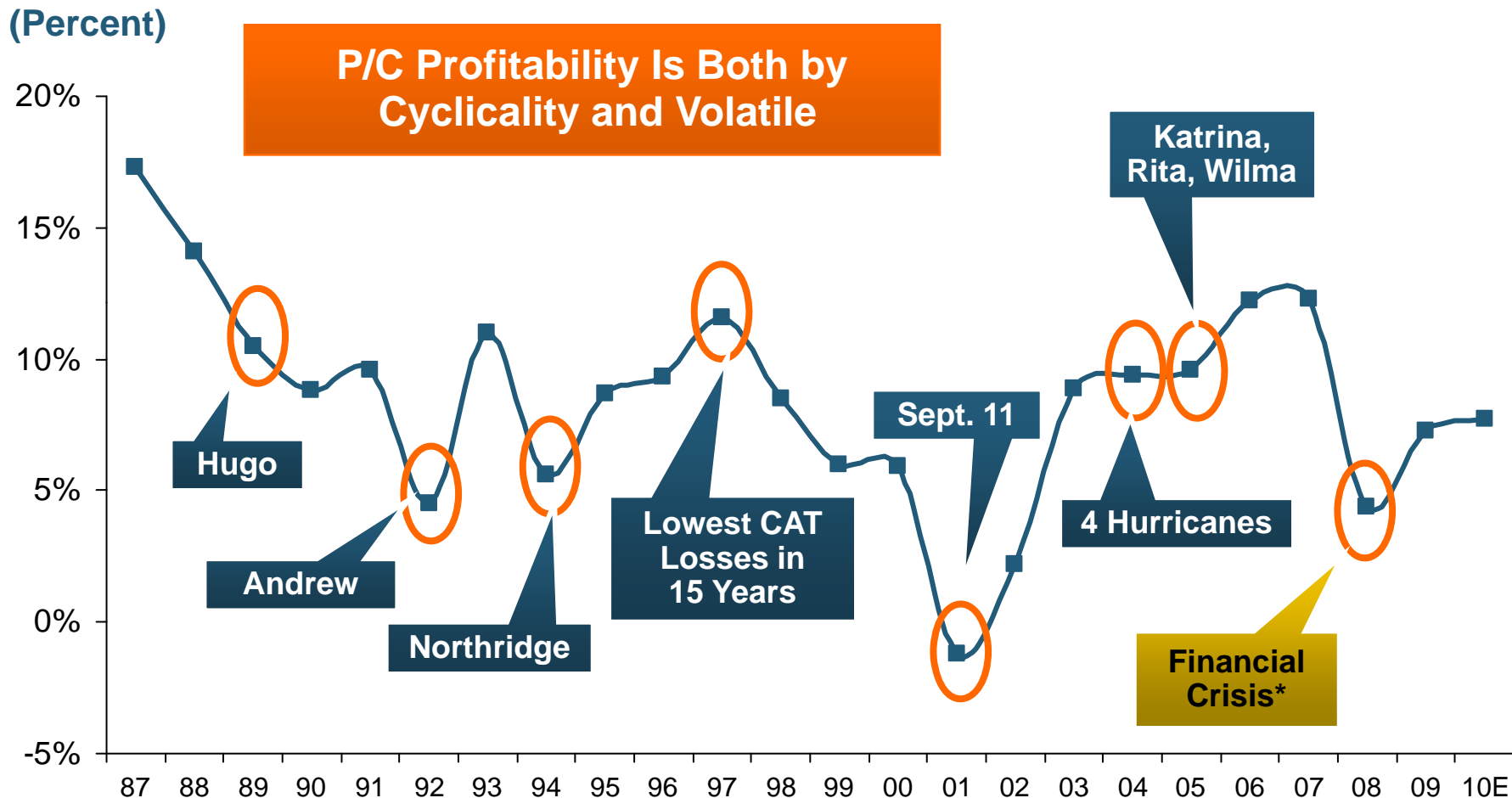
P/C Net Income After Taxes 1991–2010:Q3 (\$ Millions)



* ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 7.7% ROAS for 2010:Q3 and 4.6% for 2009. 2009:Q3 net income was \$29.8 billion excluding M&FG.

Sources: A.M. Best, ISO, Insurance Information Institute

ROE: Property/Casualty Insurance, 1987–2010E*



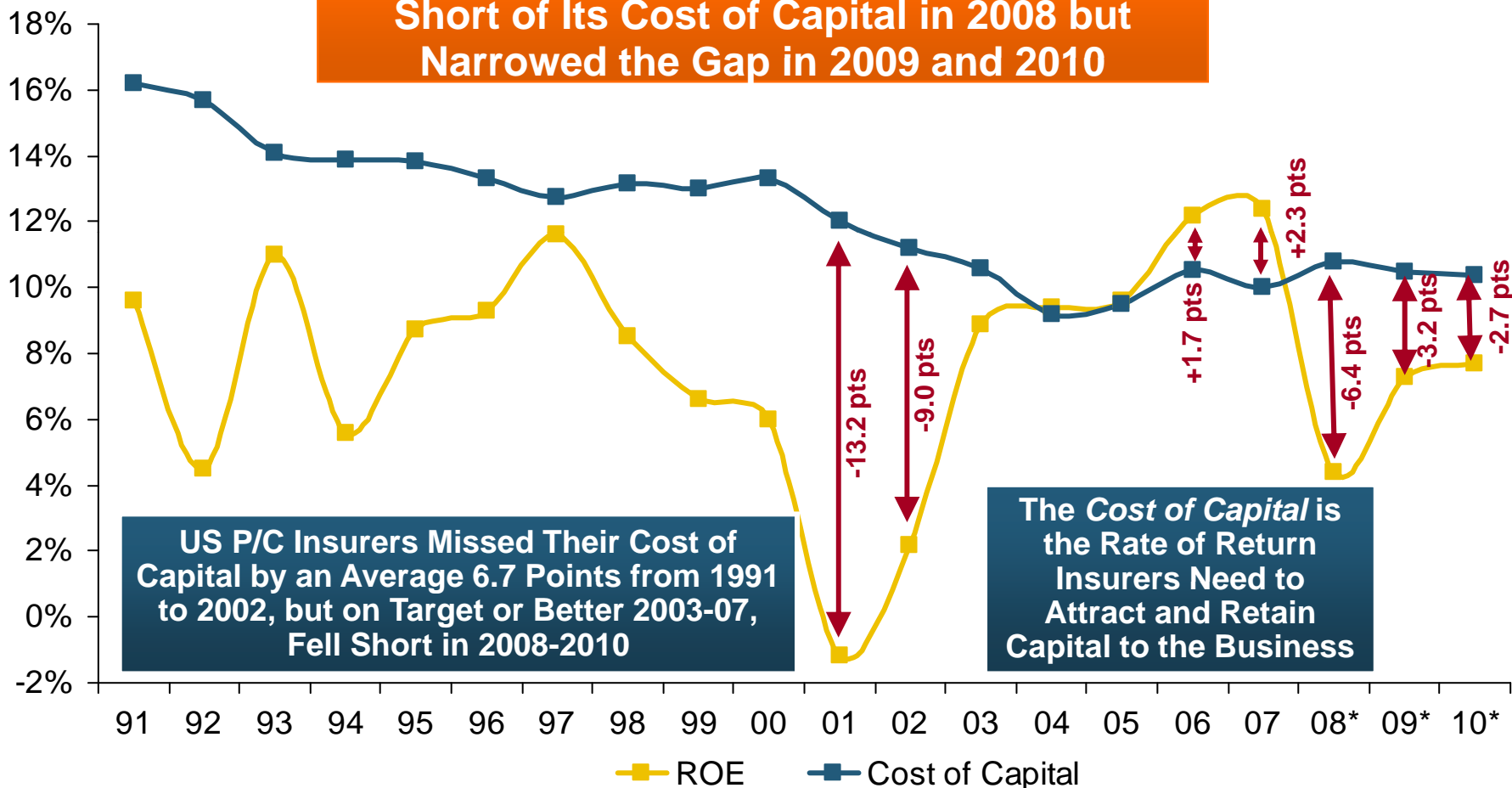
* Excludes Mortgage & Financial Guarantee in 2008 - 2010.

Sources: ISO, *Fortune*; Insurance Information Institute figure for 2010 is actual through 2010:Q3.

ROE vs. Equity Cost of Capital: U.S. P/C Insurance:1991-2010:H1*

(Percent)

The P/C Insurance Industry Fell Well Short of Its Cost of Capital in 2008 but Narrowed the Gap in 2009 and 2010



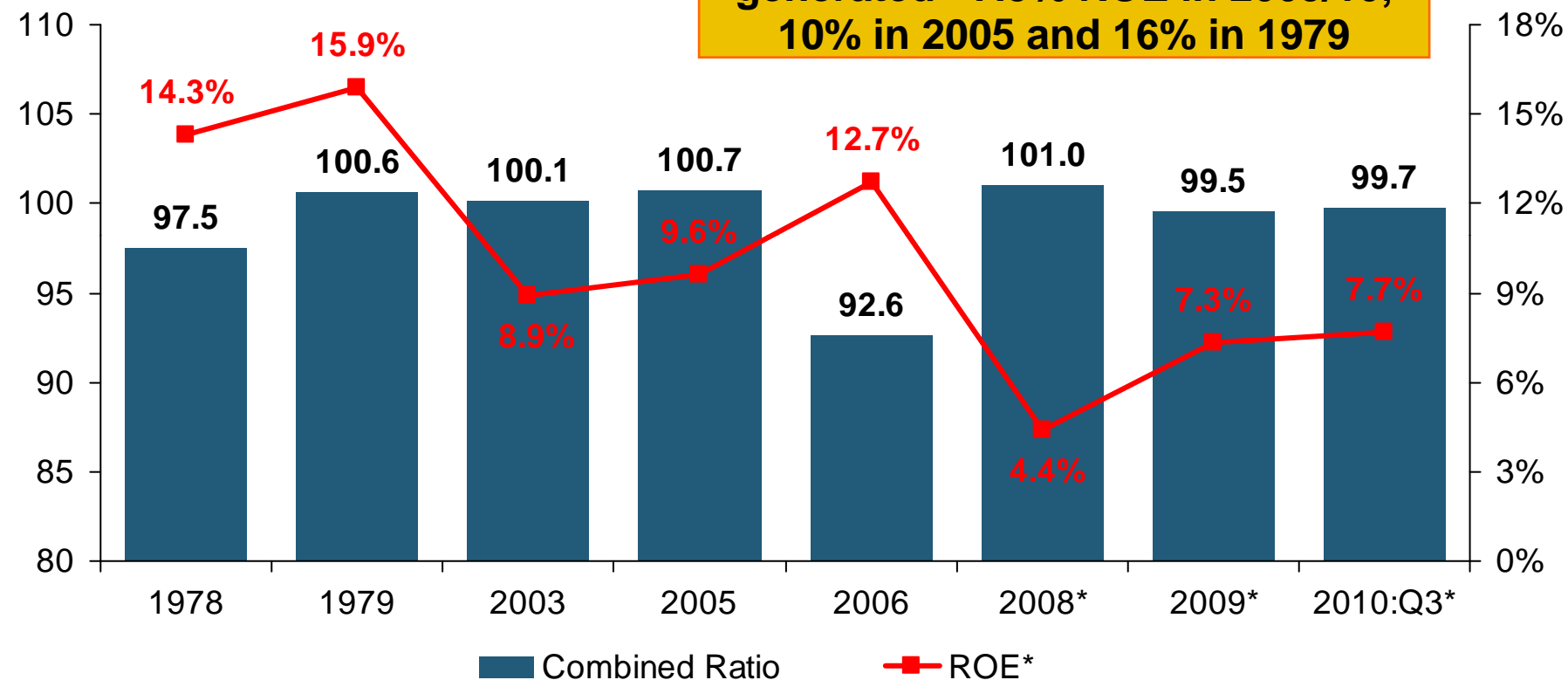
US P/C Insurers Missed Their Cost of Capital by an Average 6.7 Points from 1991 to 2002, but on Target or Better 2003-07, Fell Short in 2008-2010

The Cost of Capital is the Rate of Return Insurers Need to Attract and Retain Capital to the Business

* Return on average surplus in 2008-2010 excluding mortgage and financial guaranty insurers.
Source: The Geneva Association, Insurance Information Institute

A 100 Combined Ratio Isn't What It Once Was: Investment Impact on ROEs

Combined Ratio / ROE



A combined ratio of about 100 generated ~7.5% ROE in 2009/10, 10% in 2005 and 16% in 1979

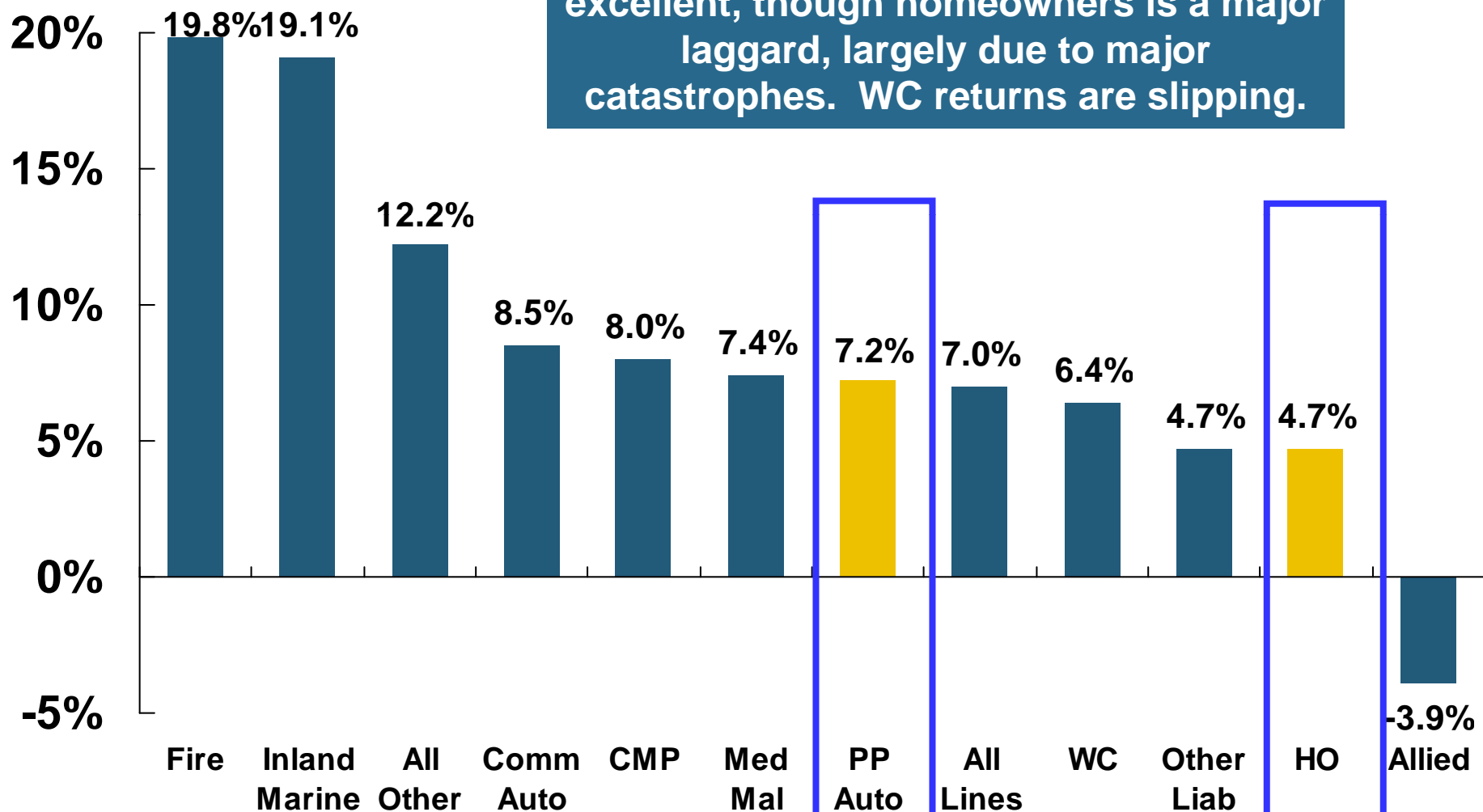
Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2009 and 2010:Q3 figures are return on average statutory surplus. 2008, 2009 and 2010:H1 figures exclude mortgage and financial guaranty insurers

Source: Insurance Information Institute from A.M. Best and ISO data.

RNW for Major P/C Lines, 2000-2009 Average

10-year returns for some lines are excellent, though homeowners is a major laggard, largely due to major catastrophes. WC returns are slipping.

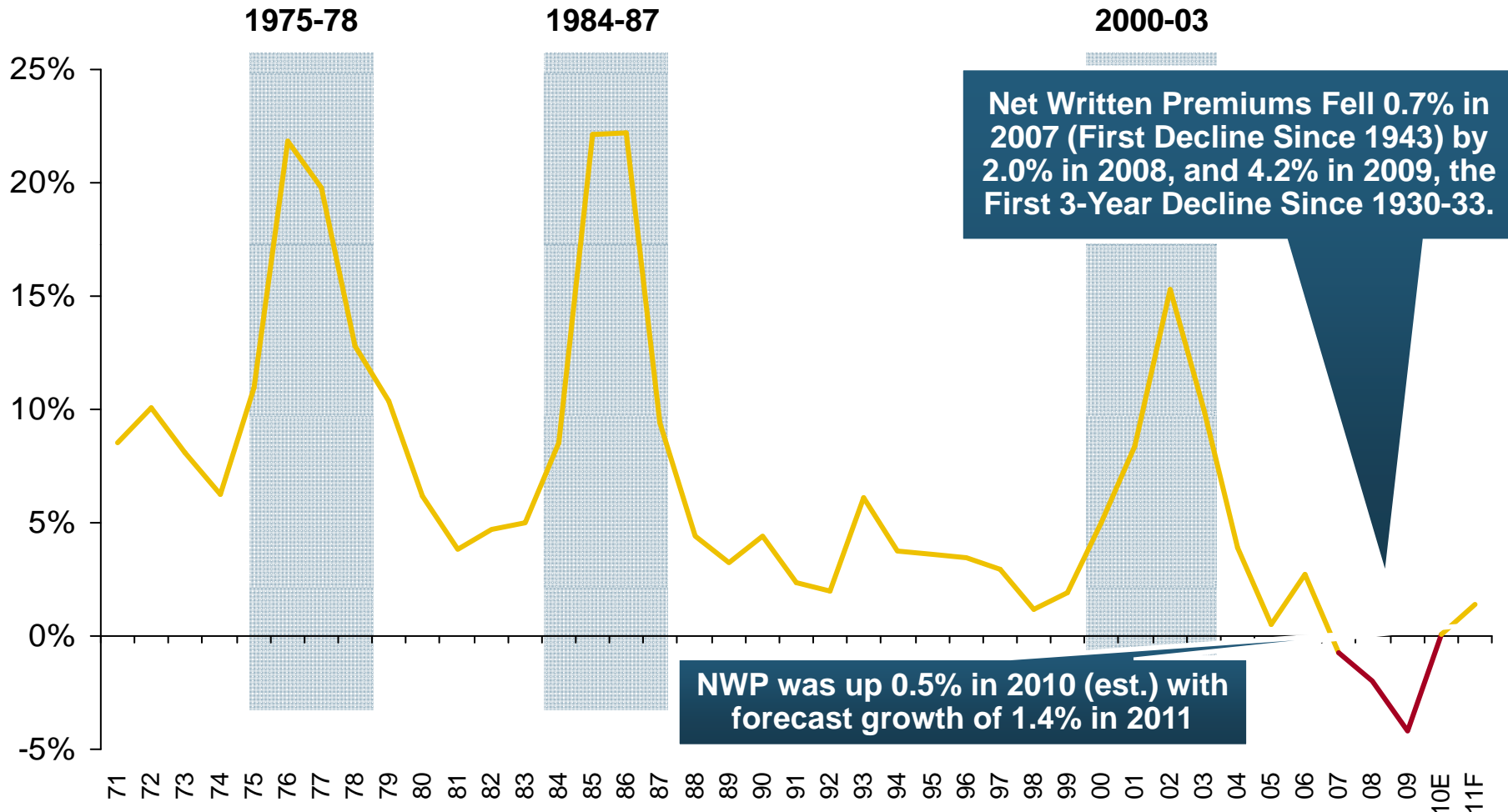


P/C Premium Growth Cycles

**Cyclicalities are Driven Primarily
by the Industry's Underwriting
Cycle, Not the Economy**

Soft Market Persisted in 2010 but May Be Easing: Relief in 2011?

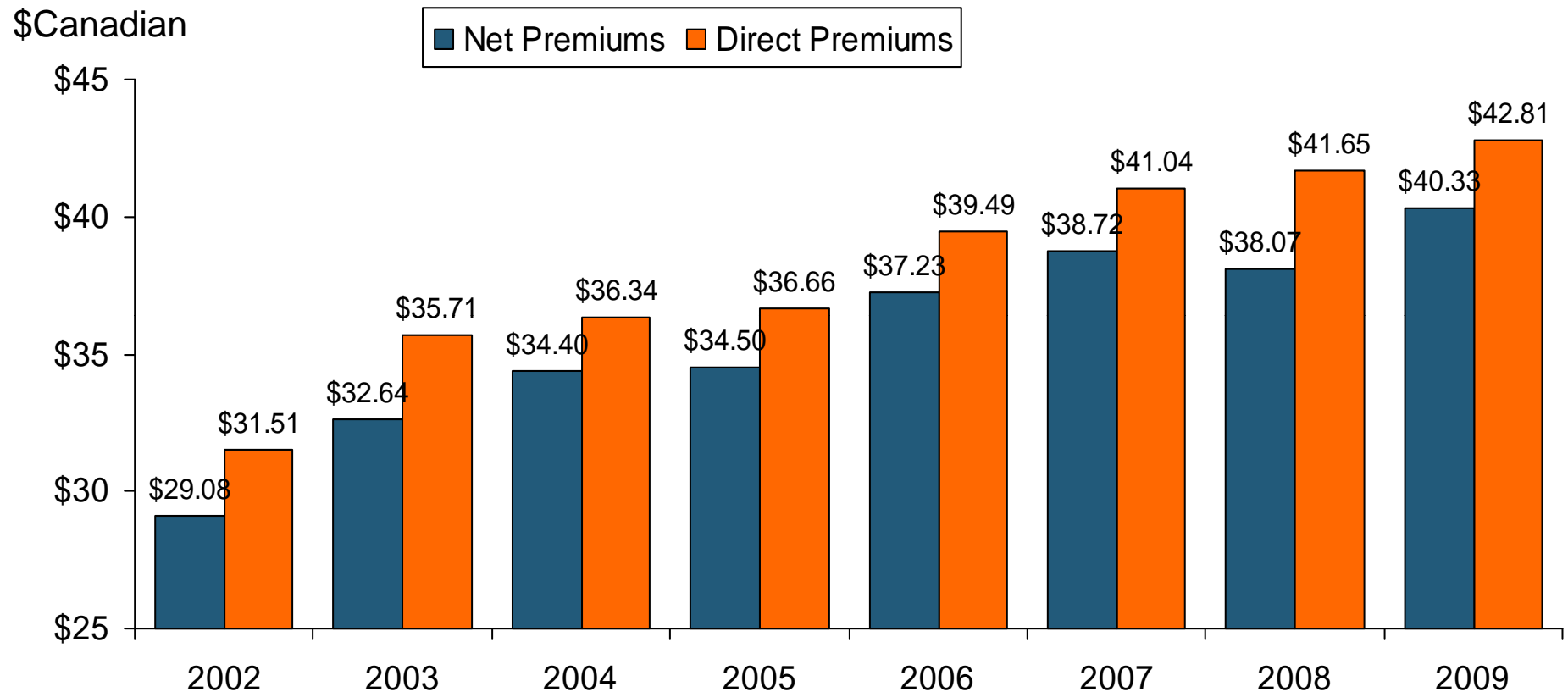
(Percent)



Shaded areas denote "hard market" periods

Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute.

Premiums Written, Net vs. Direct, Canada, 2002-09



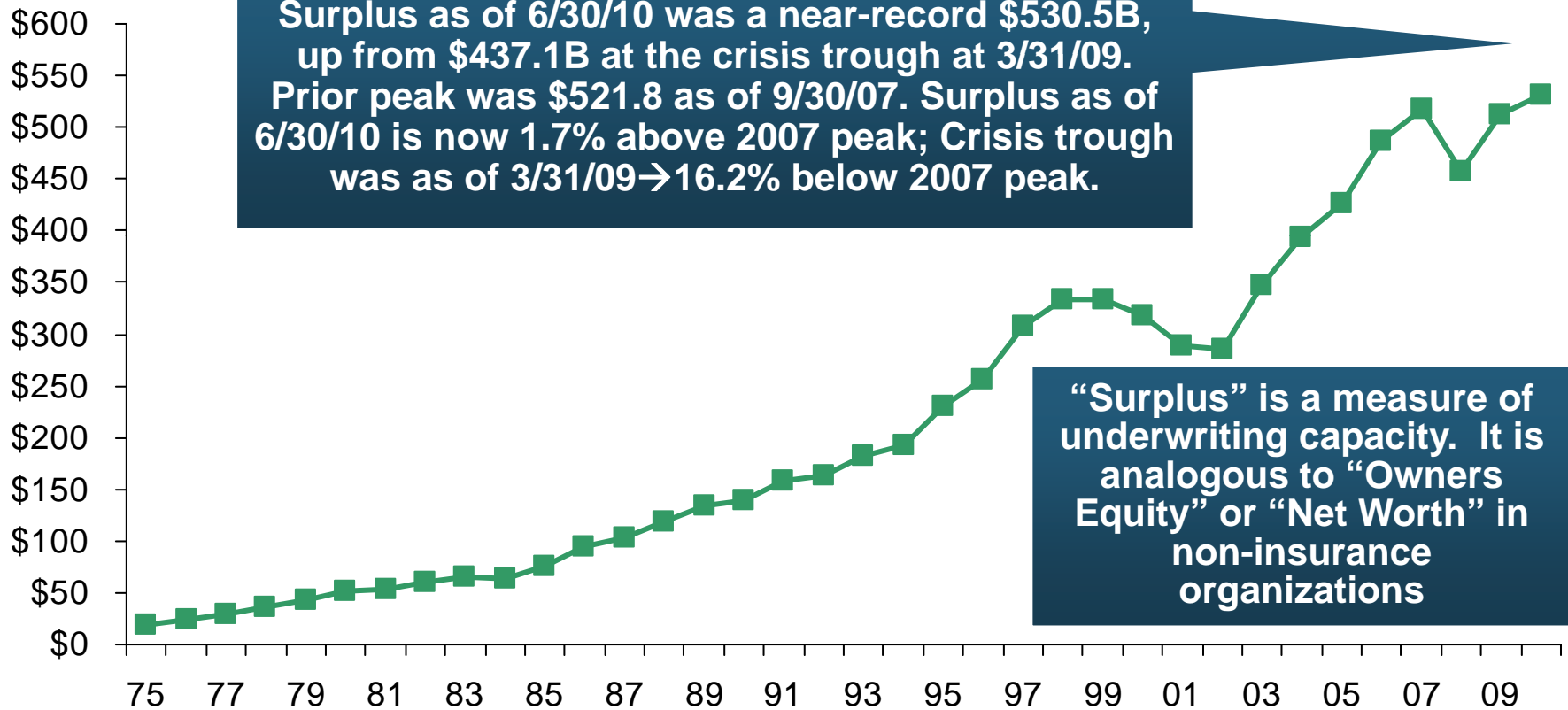
Unlike the situation in the U.S. (where premiums written dropped year-over-year for three straight years (2007-09), in Canada direct premiums written grew every year and net premiums written dropped only once (2008) in the current decade.

Capital/Policyholder Surplus (US)

**Total Surplus Exhibits Little
Cyclicality, While Surplus Leverage
Ratios Influence Cycle**

US Policyholder Surplus: 1975–2010*

(\$ Billions)

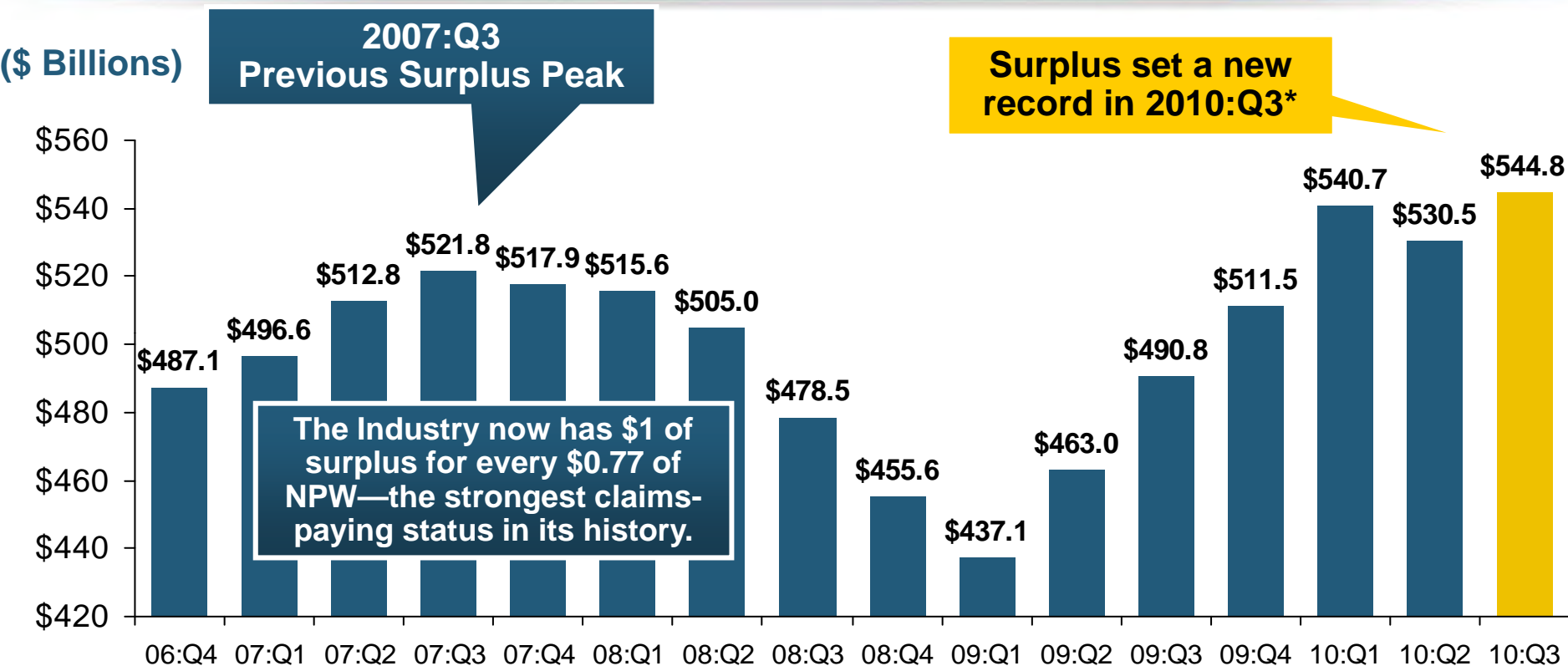


The Premium-to-Surplus Ratio Stood at \$0.80:\$1 as of 6/30/10, A Record Low (at Least in Recent History)**

* As of 6/30/10; **Calculated using annualized net premiums written based on H1 2010 data.

Source: A.M. Best, ISO, Insurance Information Institute.

Policyholder Surplus, 2006:Q4–2010:Q3



Quarterly Surplus Changes Since 2007:Q3 Peak

09:Q1: -\$84.7B (-16.2%)

10:Q1: +\$18.9B (+3.6%)

09:Q2: -\$58.8B (-11.2%)

10:Q2: +\$8.7B (+1.7%)

09:Q3: -\$31.0B (-5.9%)

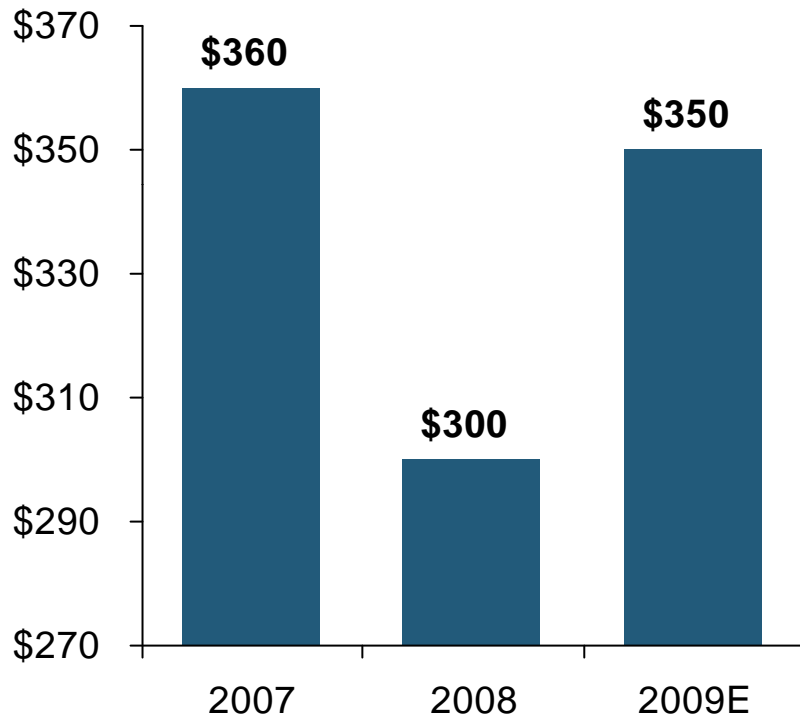
10:Q3: +\$23.0B (+4.4%)

09:Q4: -\$10.3B (-2.0%)

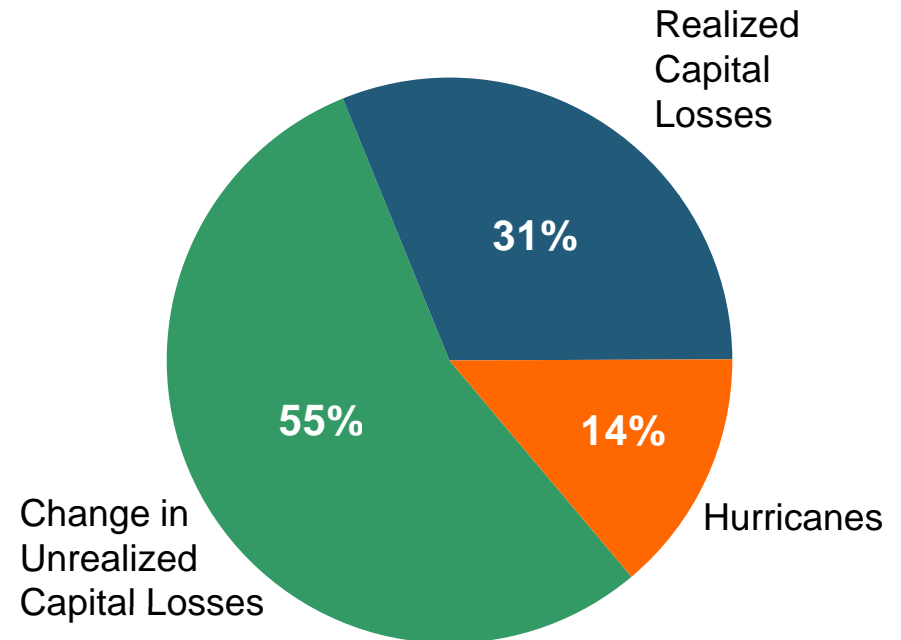
*Includes \$22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business in early 2010.

Global Reinsurance Capacity Shrank in 2008, Mostly Due to Investments

Global Reinsurance Capacity



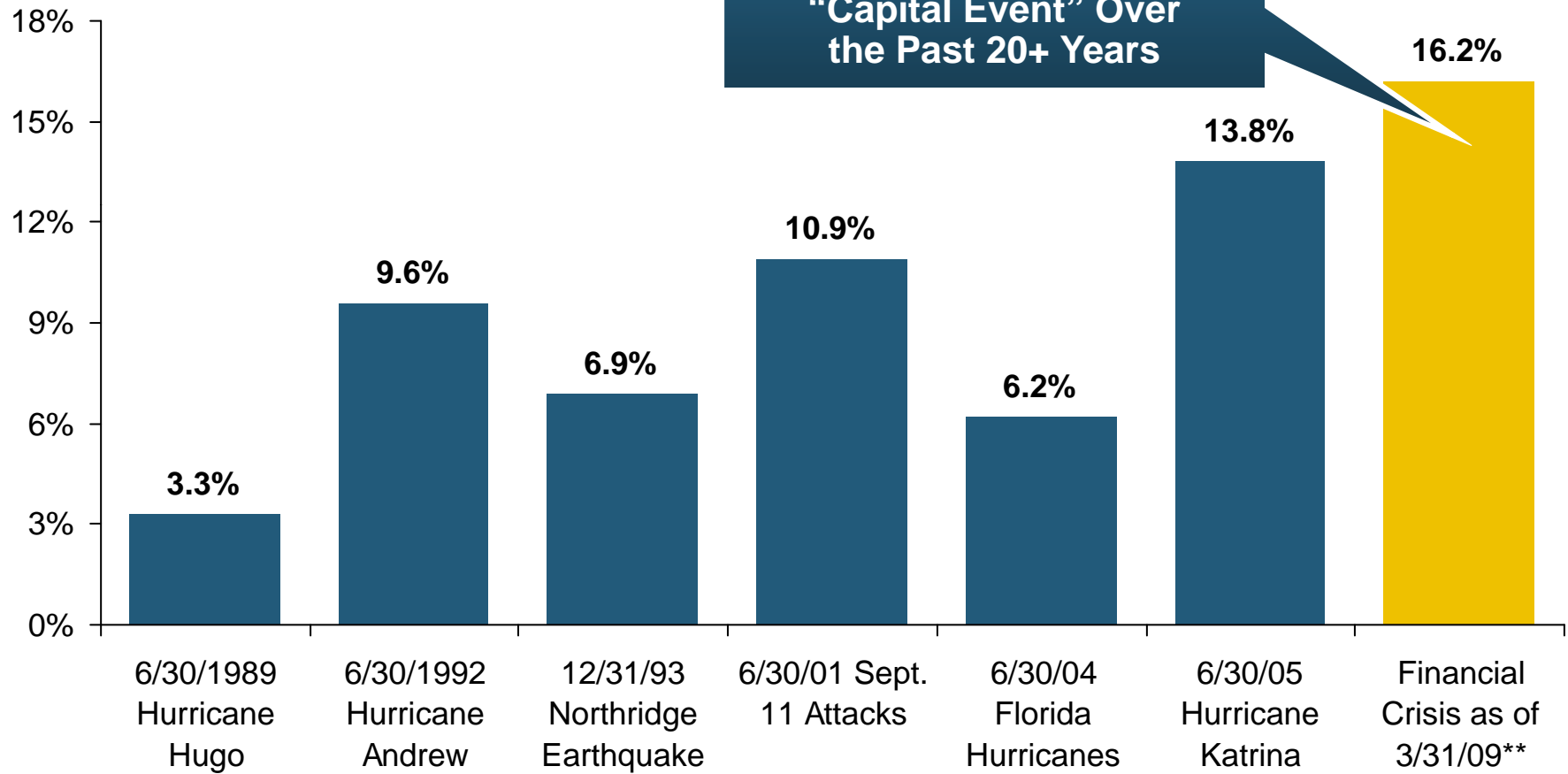
Source of Decline in 2008



**Global Reinsurance Capacity
Fell by an Estimated 17% in 2008**

Ratio of Insured Loss to Surplus for Largest Capital Events Since 1989*

(Percent)



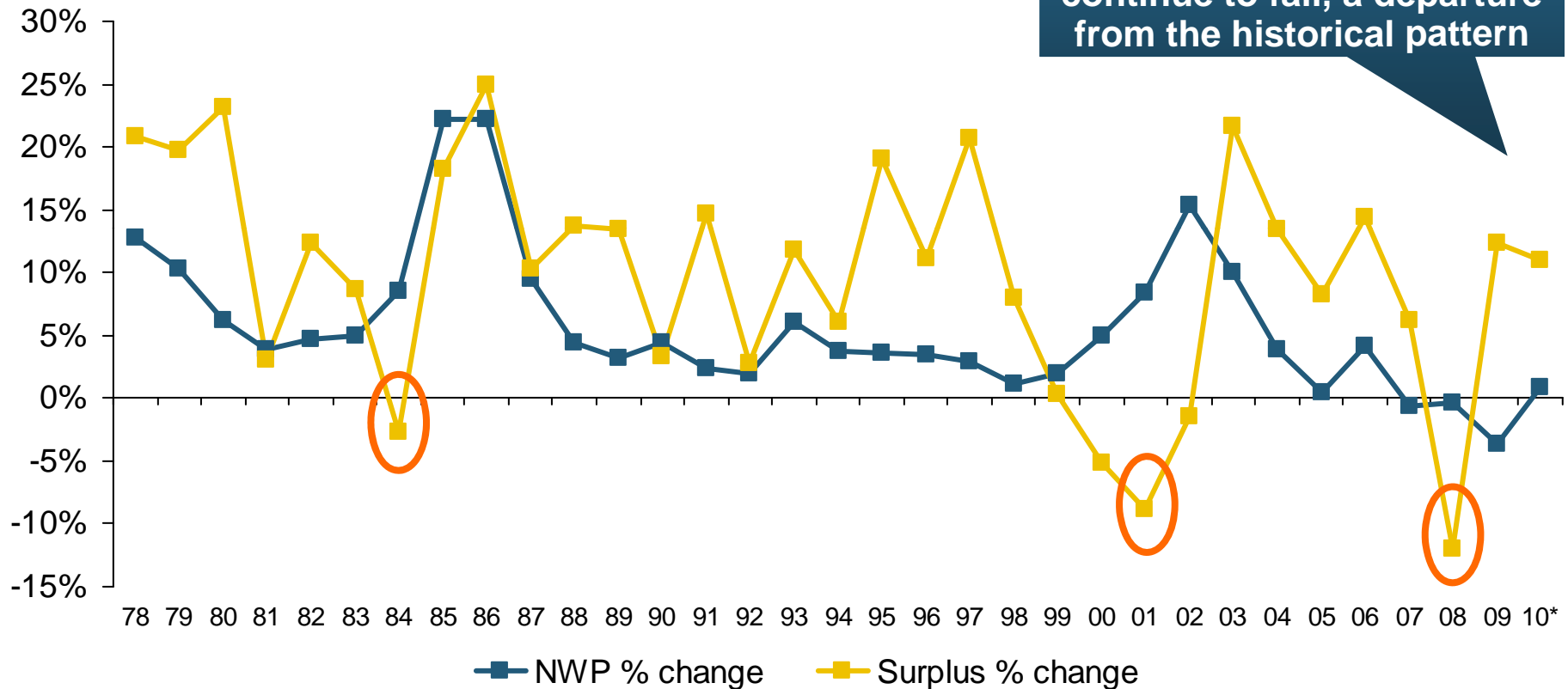
* Ratio is for end-of-quarter surplus immediately prior to event. Date shown is end of quarter prior to event

** Date of maximum capital erosion; As of 9/30/09 (latest available) ratio = 5.9%

Source: PCS; Insurance Information Institute

Historically, Hard Markets Follow When Surplus “Growth” is Negative*

(Percent)



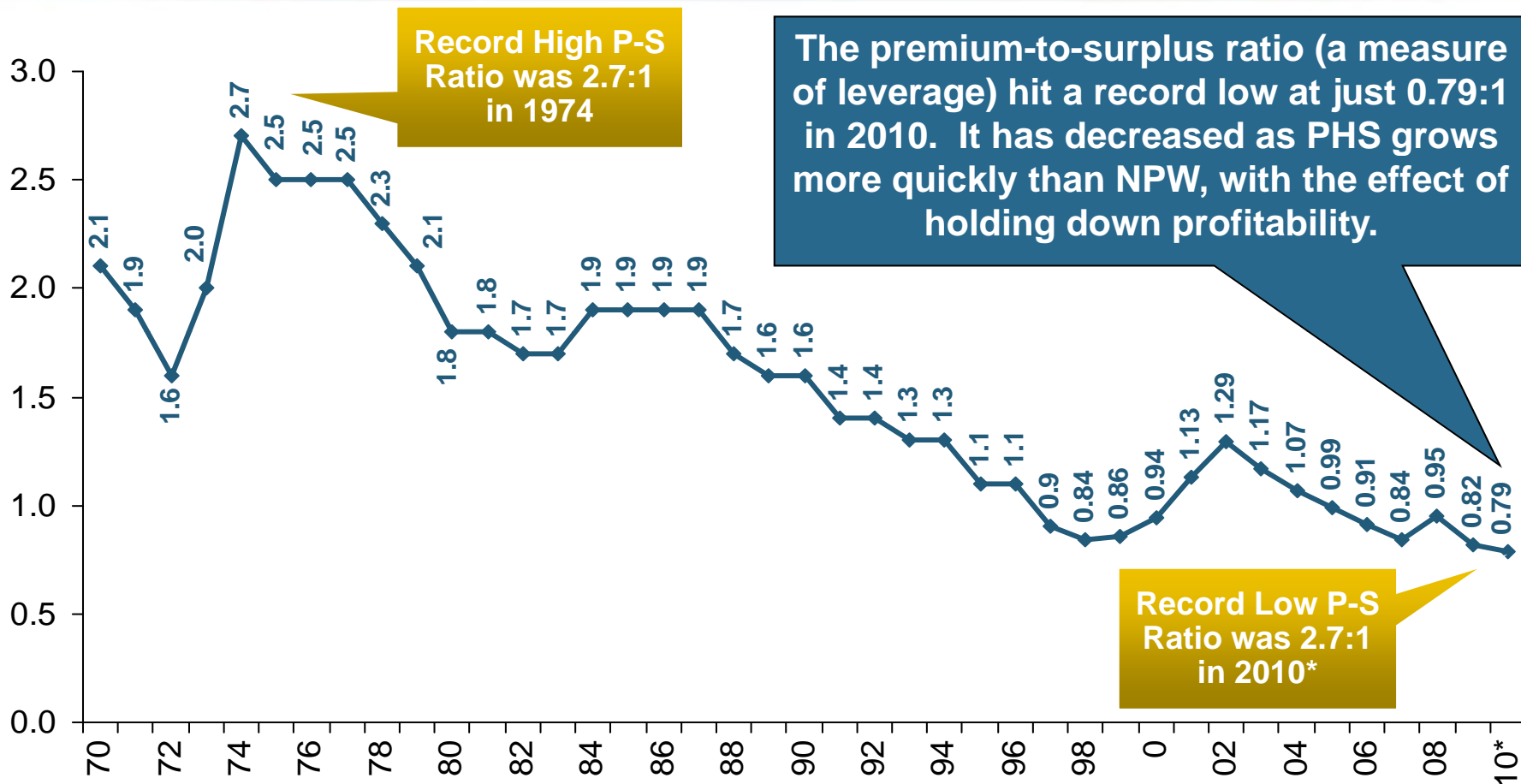
Surplus growth is now positive but premiums continue to fall, a departure from the historical pattern

Sharp Decline in Capacity is a Necessary but Not Sufficient Condition for a True Hard Market

* 2010 NWP and Surplus figures are % changes as of Q3:10 vs Q3:09.

Sources: A.M. Best, ISO, Insurance Information Institute

Ratio of Net Premiums Written to Policyholder Surplus, 1970-2010*



Record High P-S Ratio was 2.7:1 in 1974

The premium-to-surplus ratio (a measure of leverage) hit a record low at just 0.79:1 in 2010. It has decreased as PHS grows more quickly than NPW, with the effect of holding down profitability.

Record Low P-S Ratio was 0.79:1 in 2010*

The Premium-to-Surplus Ratio in 2010 Implies that P/C Insurers Held \$1 in Surplus Against Each \$0.79 Written in Premiums. In 1974, Each \$1 of Surplus Backed \$2.70 in Premium.

*2010 data are estimated using annualized NWP data through 2010:Q3.

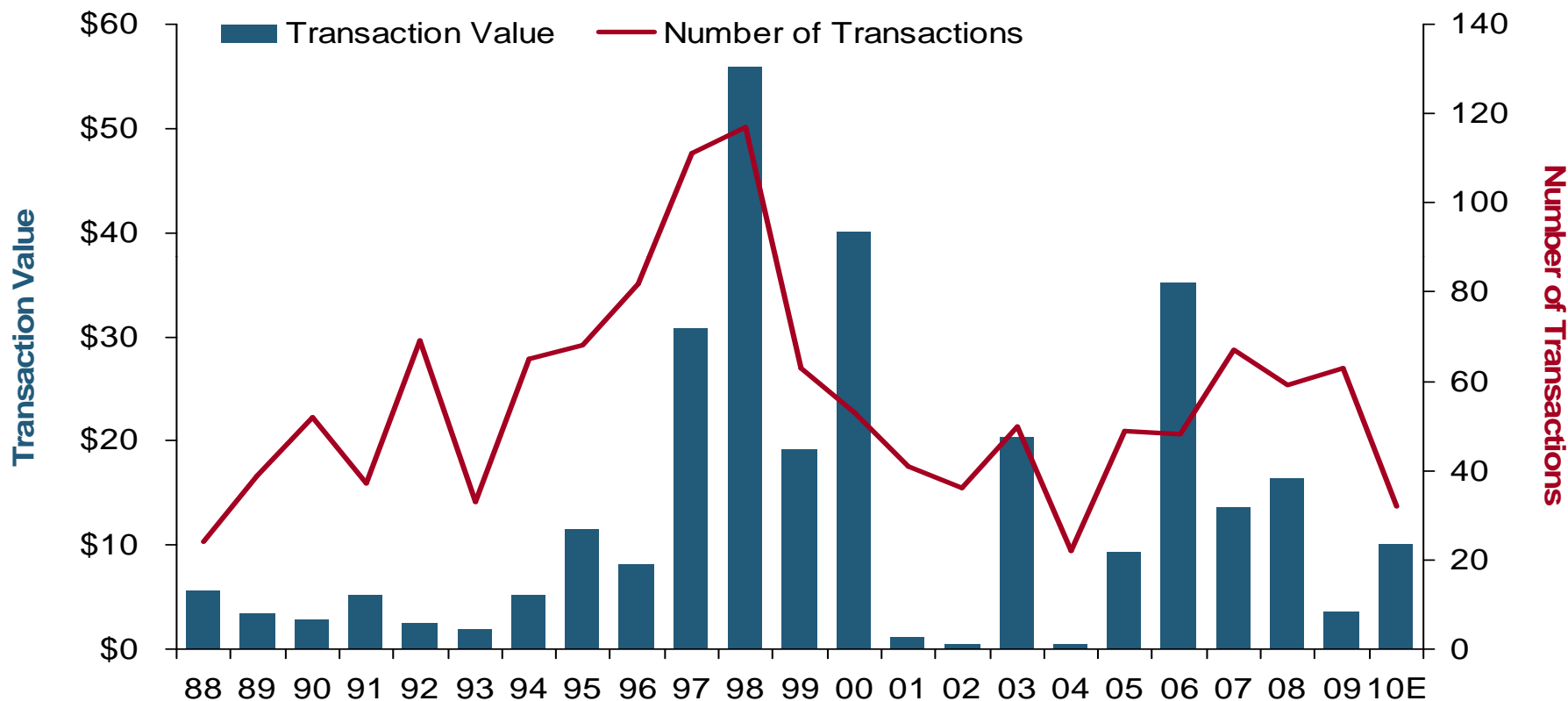
Sources: Insurance Information Institute calculations from A.M. Best data.

Merger & Acquisition

**Capital Cycles Can
Drive Consolidation**

U.S. P/C Insurance-Related M&A Activity, 1988–2010E*

(\$ Billions)



**\$ Value of Deals Down 78%
in 2009, Volume Up 7%**

**2010: No Mega Deals, Despite Record
Capital, Slow Growth and Improved
Financial Market Conditions**

Note: U.S. Company was the acquirer and/or target.

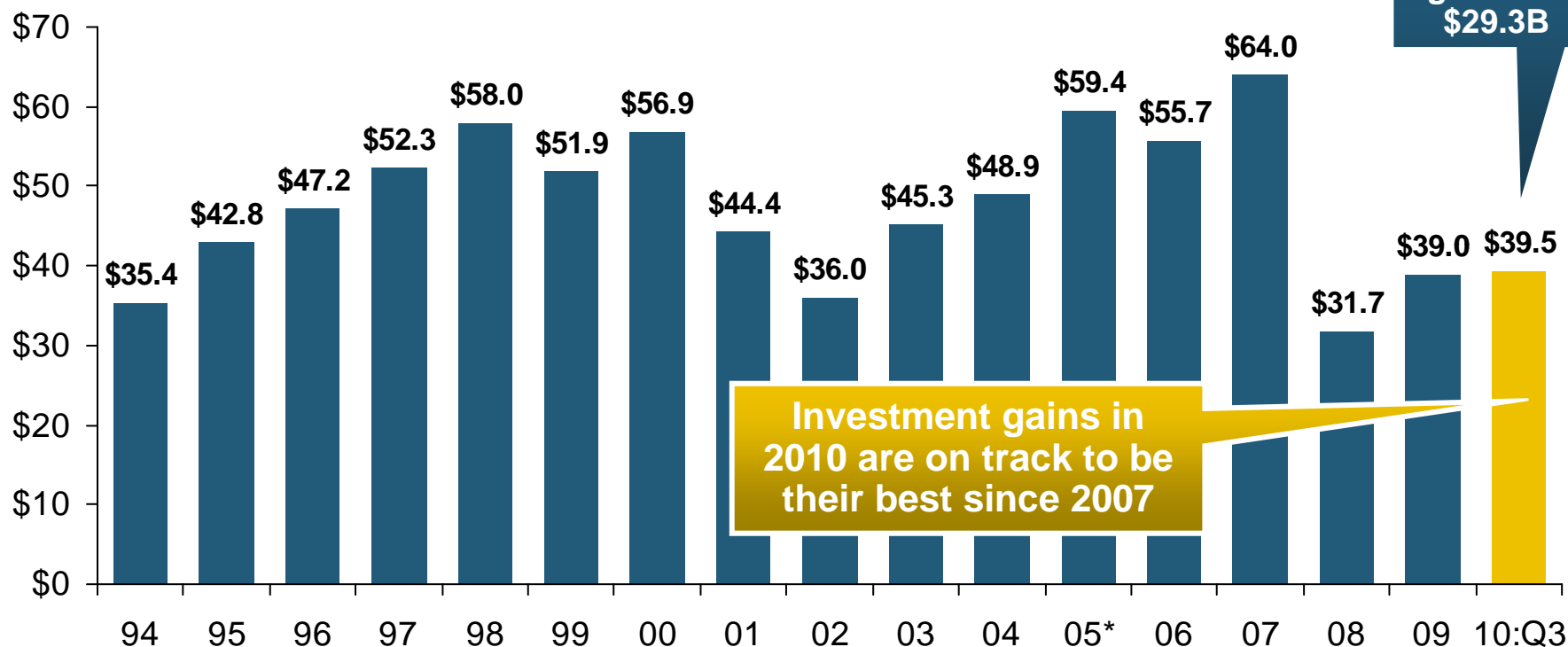
Source: Conning Research & Consulting. *2010E is derived from A.M. Best data for p/c insurers only (excludes brokers/agencies)

Investment Performance

**Investments Cycles Also Influence
P/C Insurer Profitability**

Property/Casualty Insurance Industry Investment Gain: 1994–2010:Q3¹

(\$ Billions)



2009:Q3
gain was
\$29.3B

Investment gains in
2010 are on track to be
their best since 2007

In 2008, Investment Gains Fell by 50% Due to Lower Yields and Nearly \$20B of Realized Capital Losses
2009 Saw Smaller Realized Capital Losses But Declining Investment Income
Investment Gains Recovered Significantly in 2010

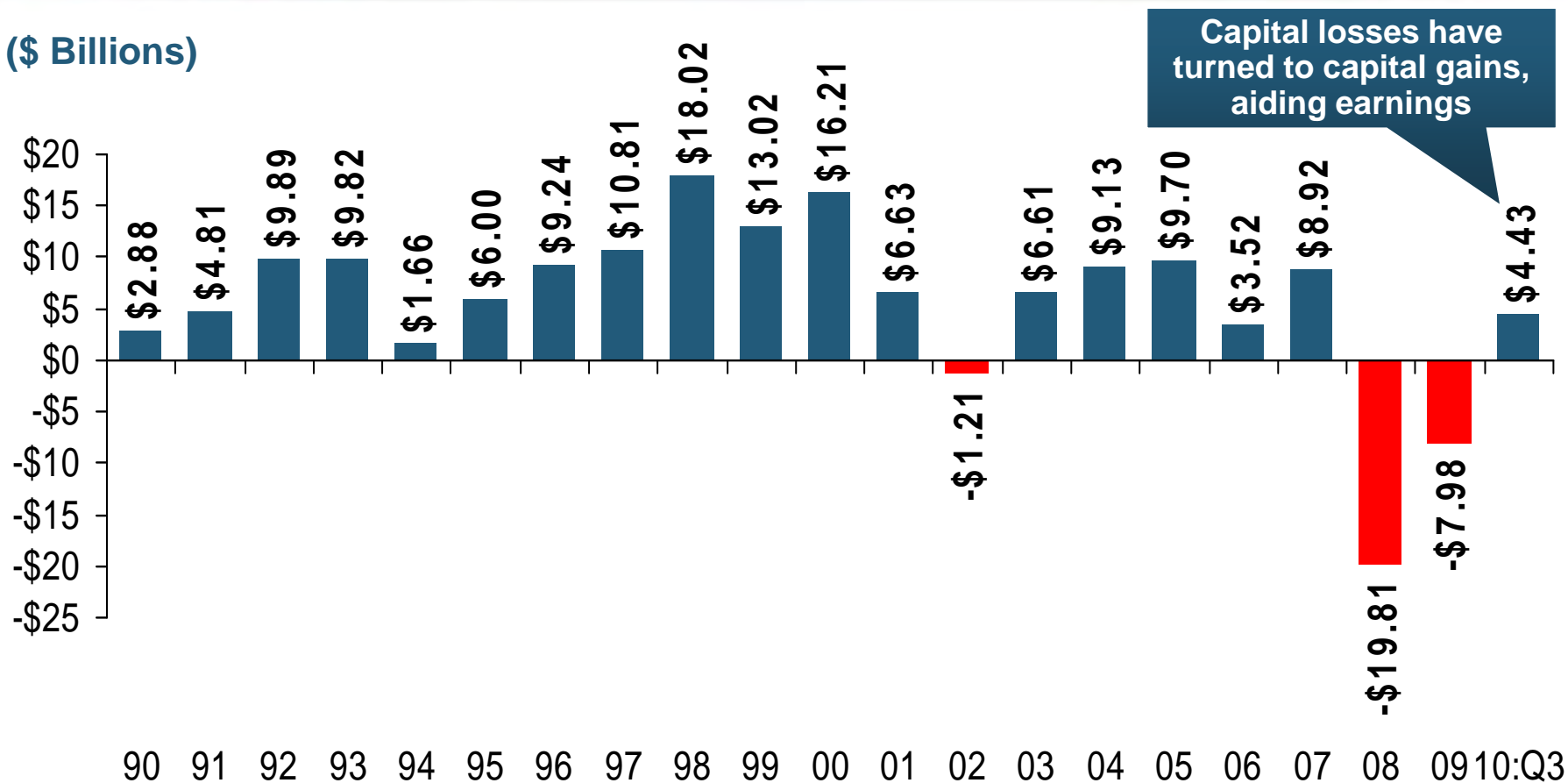
¹ Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.

* 2005 figure includes special one-time dividend of \$3.2B.

Sources: ISO; Insurance Information Institute.

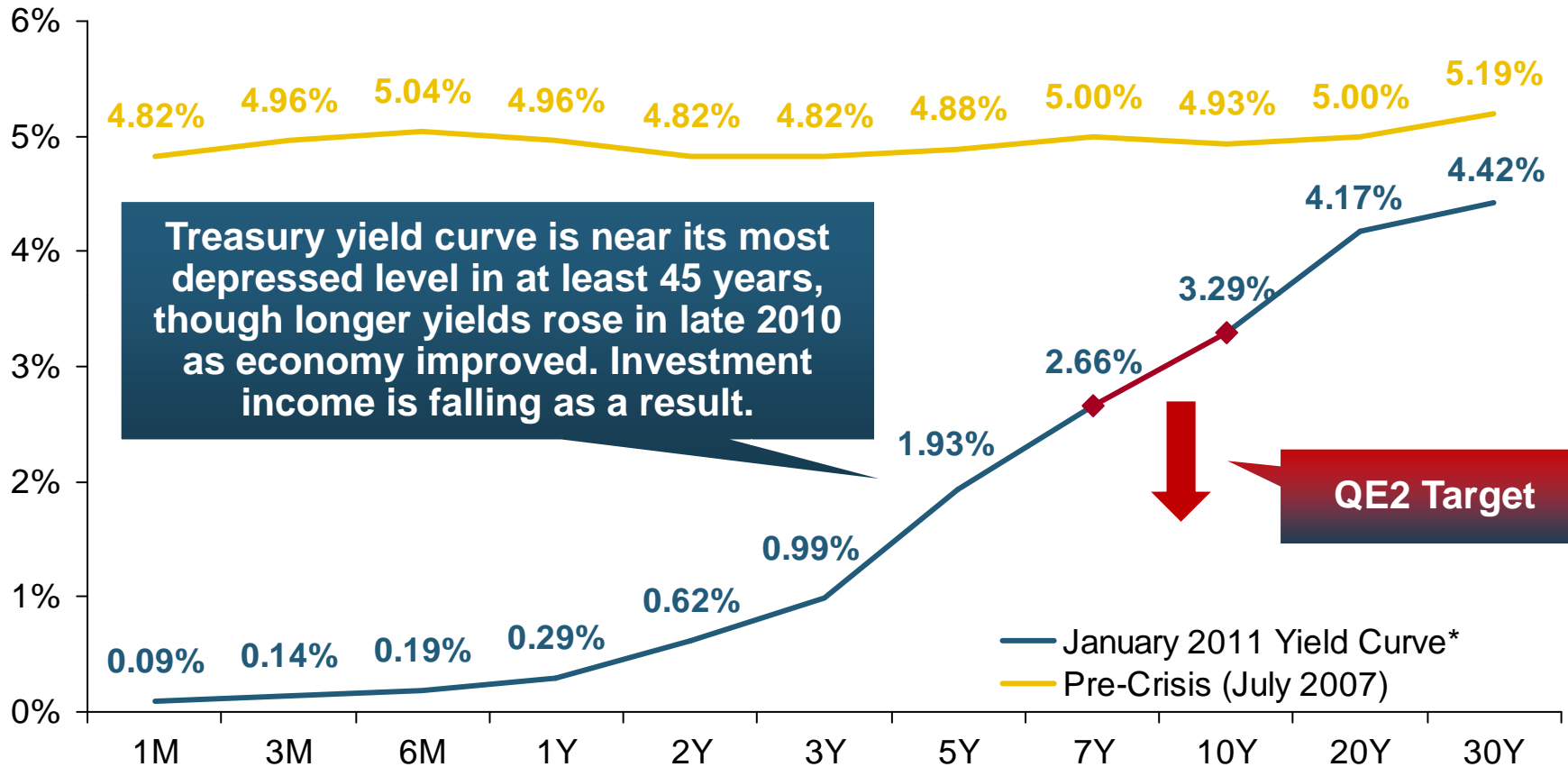
P/C Insurer Net Realized Capital Gains, 1990-2010:Q3

(\$ Billions)



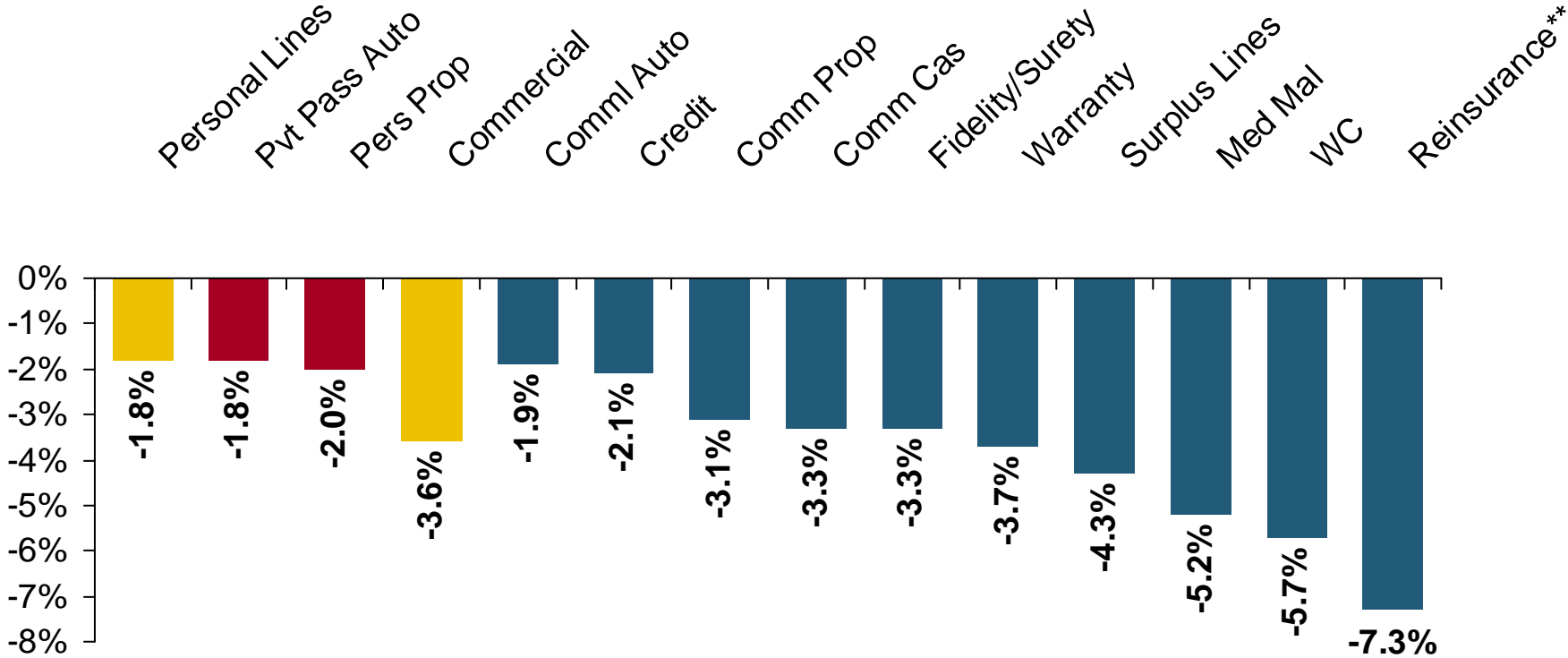
Realized Capital Losses Were the Primary Cause of 2008/2009's Large Drop in Profits and ROE and Were a Major Driver of Its Recovery in 2010

Treasury Yield Curves: Pre-Crisis (July 2007) vs. January 2011



The Fed's Announced Intention to Pursue Additional Quantitative Easing Could Depress Rates in the 7 to 10-Year Maturity Range through June

Reduction in Combined Ratio Necessary to Offset 1% Decline in Investment Yield to Maintain Constant ROE, by Line*



Lower Investment Earnings Place a Greater Burden on Underwriting and Pricing Discipline

*Based on 2008 Invested Assets and Earned Premiums

**US domestic reinsurance only

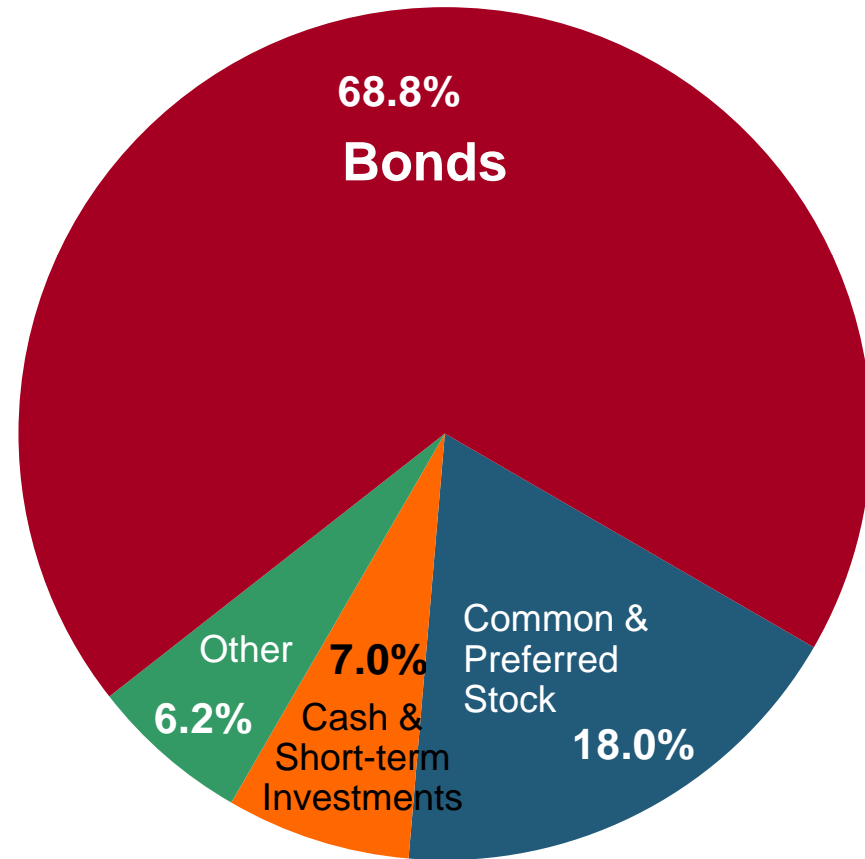
Source: A.M. Best; Insurance Information Institute.

Distribution of P/C Insurance Industry's Investment Portfolio

Portfolio Facts as of 12/31/2009

- Invested assets totaled \$1.26 trillion
- Generally, insurers invest conservatively, with over 2/3 of invested assets in bonds
- Only 18% of invested assets were in common or preferred stock

As of December 31, 2009



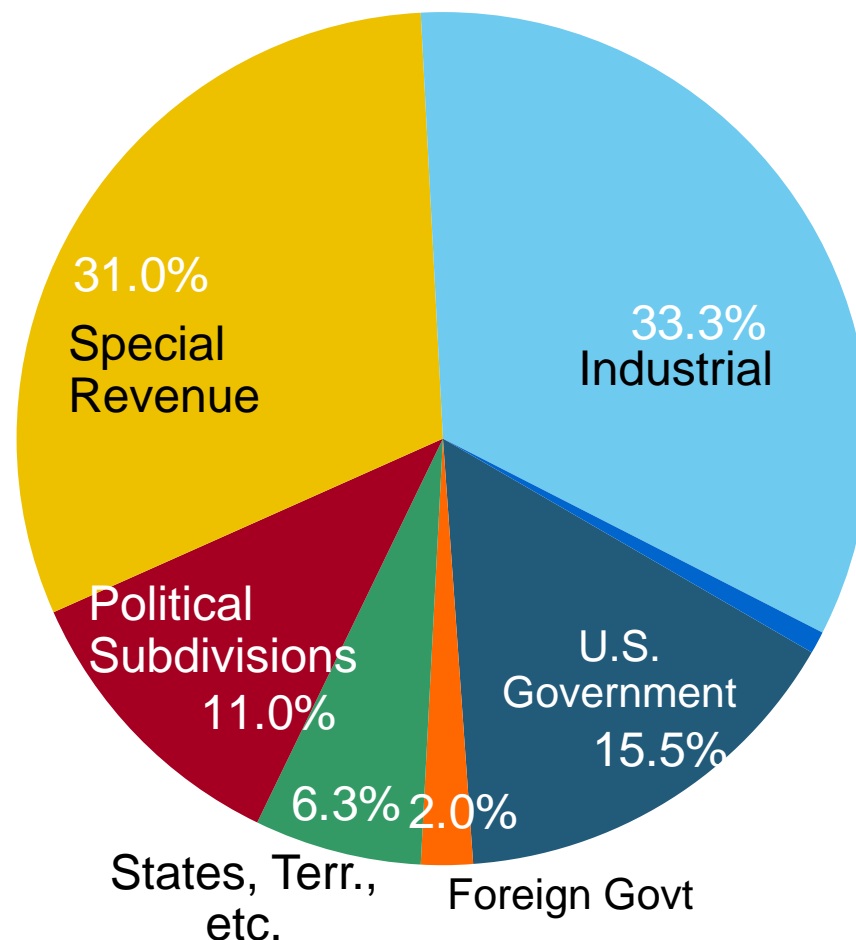
2011 Financial Overview

About Half of the P/C Insurance Industry's Bond Investments Are in Municipal Bonds

Bond Investment Facts as of 12/31/09

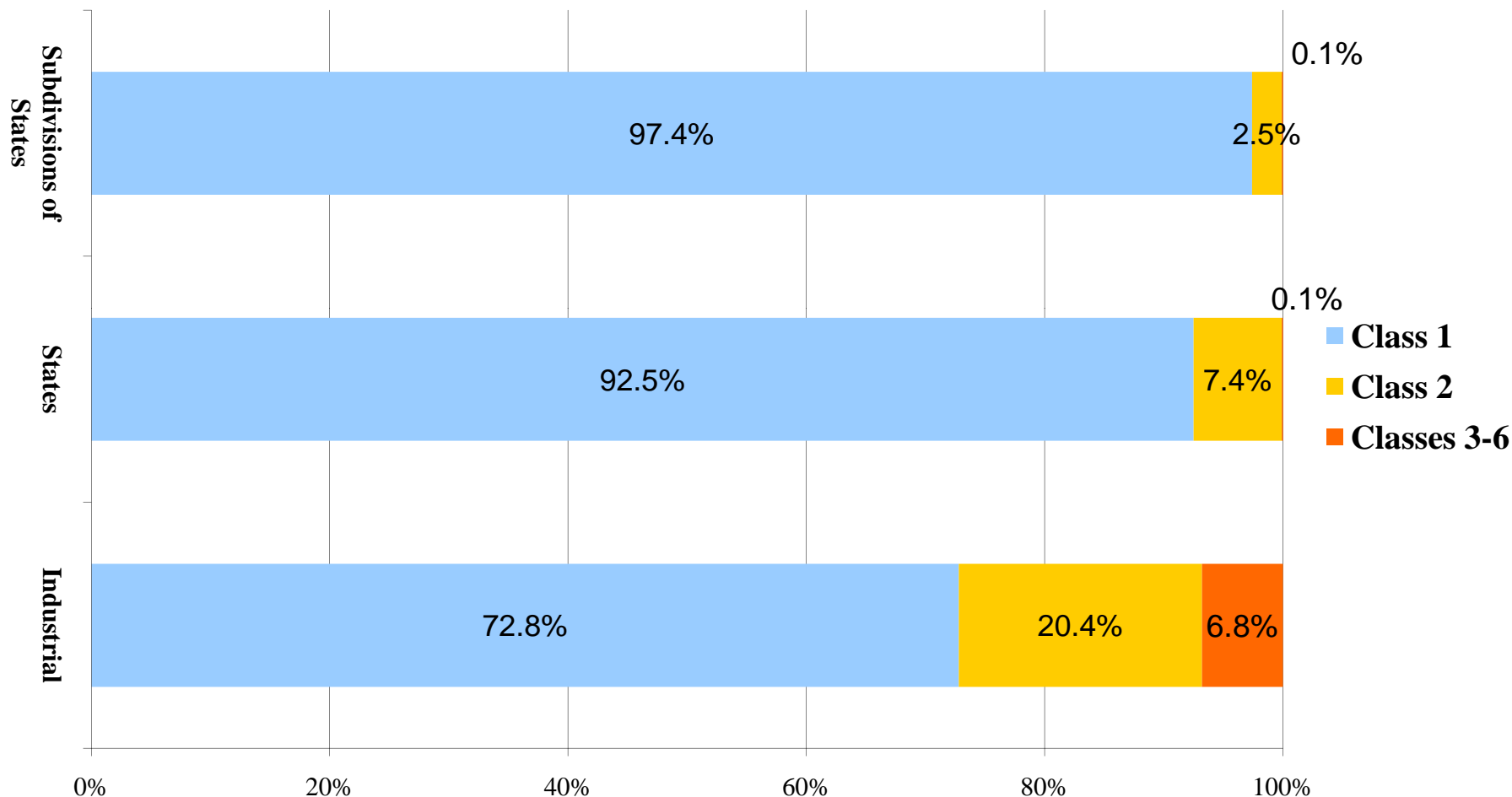
- Investments in "Political Subdivision [of states]" bonds were \$102.5 billion
- Investments in "States, Territories, & Possessions" bonds were \$58.9 billion
- Investments in "Special Revenue" bonds were \$288.2 billion
- All state, local, and special revenue bonds totaled 48.2% of bonds, about 35.7% of total invested assets

As of December 31, 2009



2011 Financial Overview

When P/C Insurers Invest in Higher Risk Bonds, It's Corporates, Not Munis



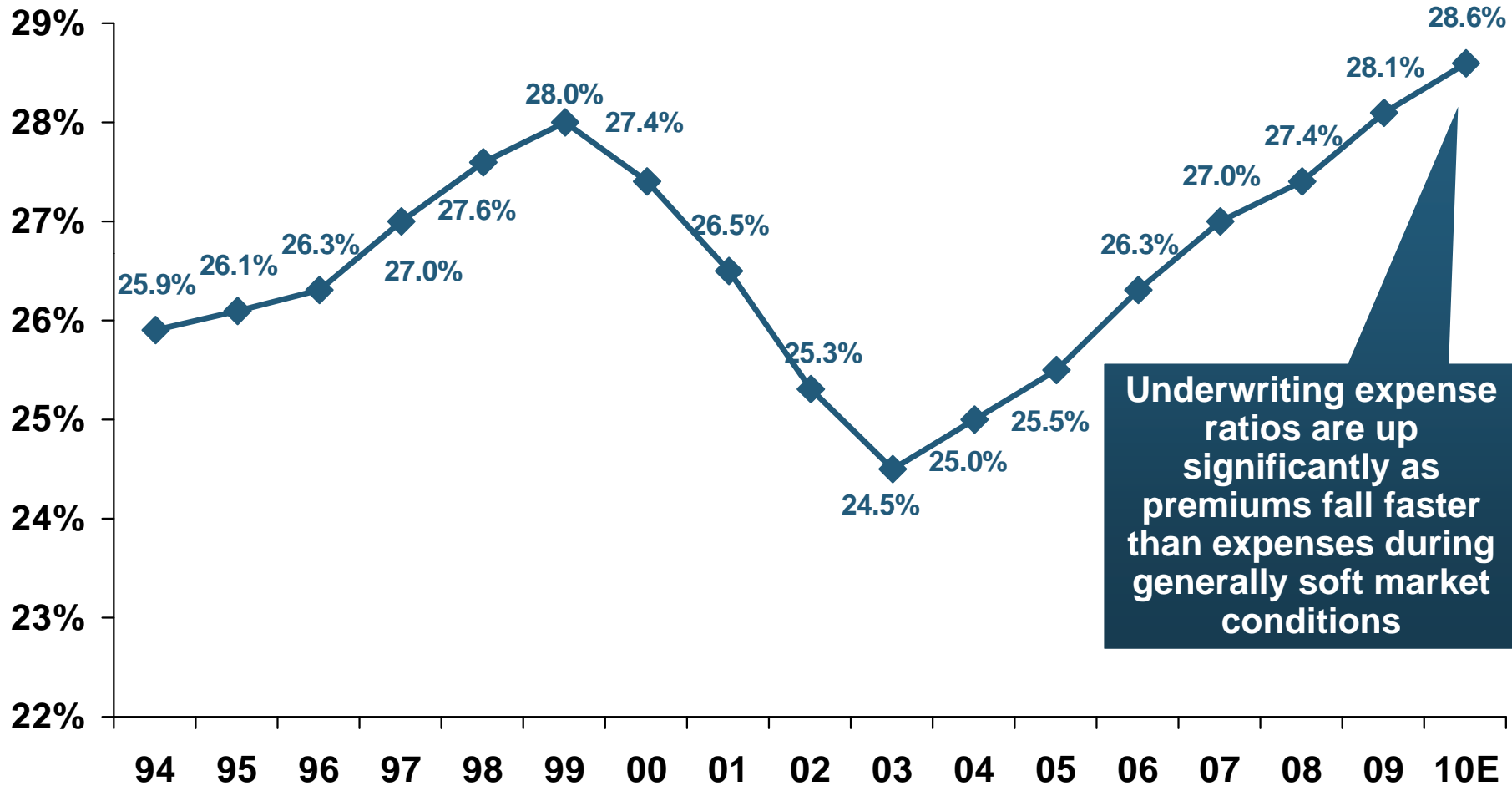
The NAIC's Securities Valuation Office puts bonds into one of 6 classes: class 1 has the lowest expected impairments; successively higher numbered classes imply increasing impairment likelihood.

EXPENSES

**Expense Ratios Are Highly Cyclical
and Contribute Deteriorating
Underwriting Performance**

Underwriting Expense Ratio*

All P/C Lines, 1994-2010E**



Underwriting expense ratios are up significantly as premiums fall faster than expenses during generally soft market conditions

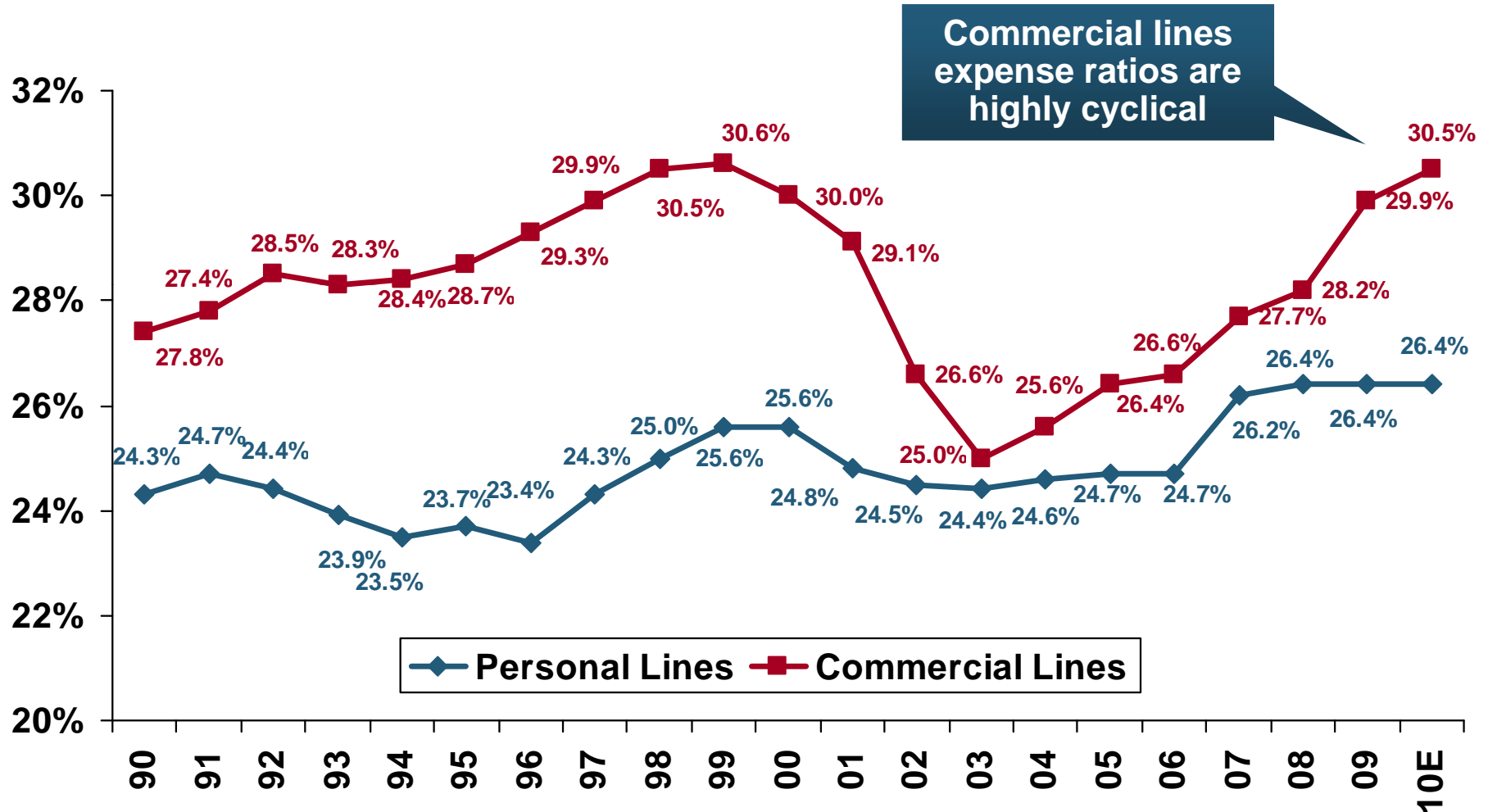
*Ratio of expenses incurred to net premiums written.

**2010 figure based on data through 2010:Q3.

Source: A.M. Best; Insurance Information Institute.

Underwriting Expense Ratio*:

Personal vs. Commercial Lines, 1990-2010E**

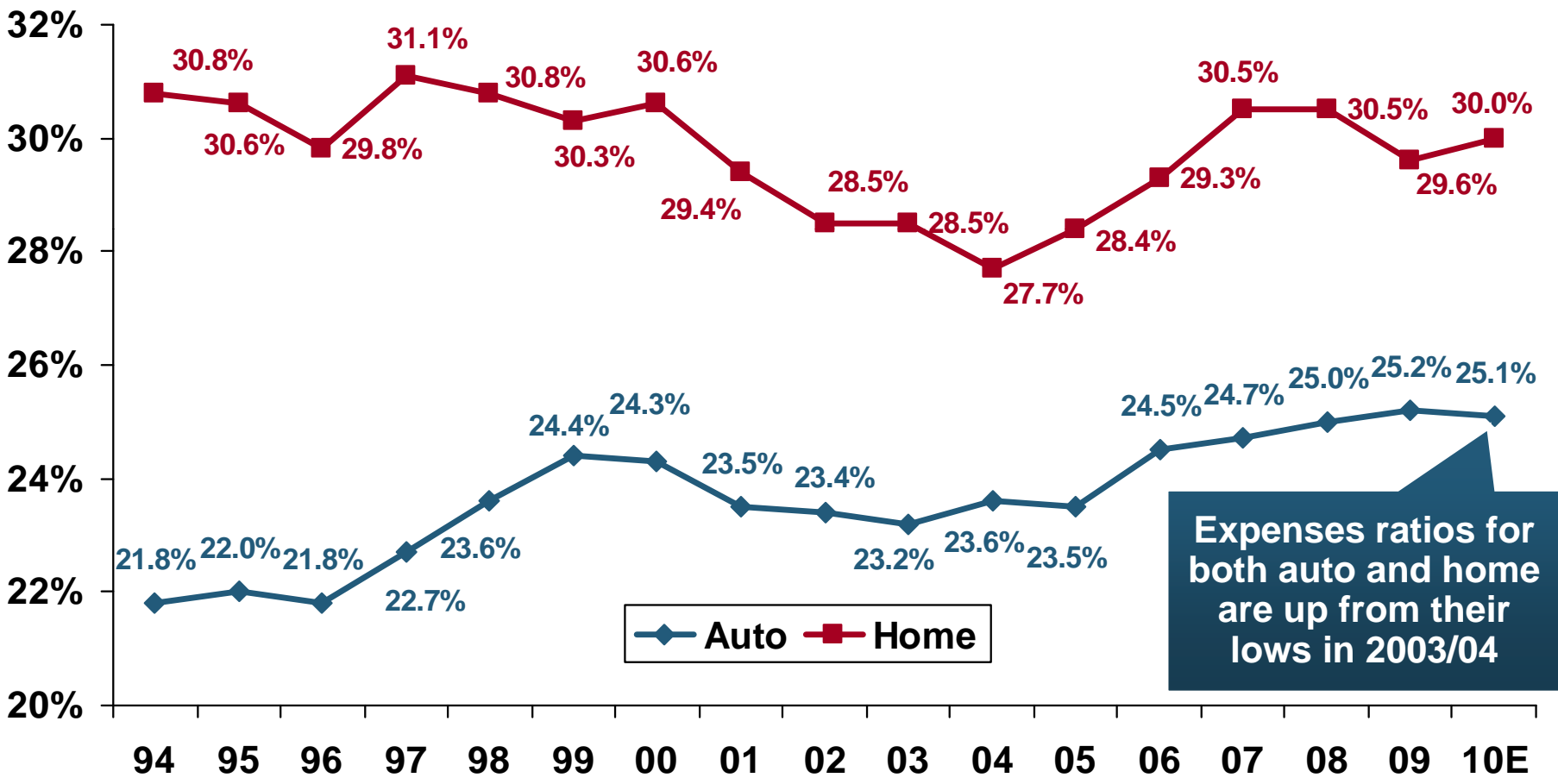


*Ratio of expenses incurred to net premiums written.

**2010 figures are estimates.

Source: A.M. Best; Insurance Information Institute.

Underwriting Expense Ratio* Personal Lines (Auto & Home), 1994-2010E**



Expenses ratios for both auto and home are up from their lows in 2003/04

*Ratio of expenses incurred to net premiums written.

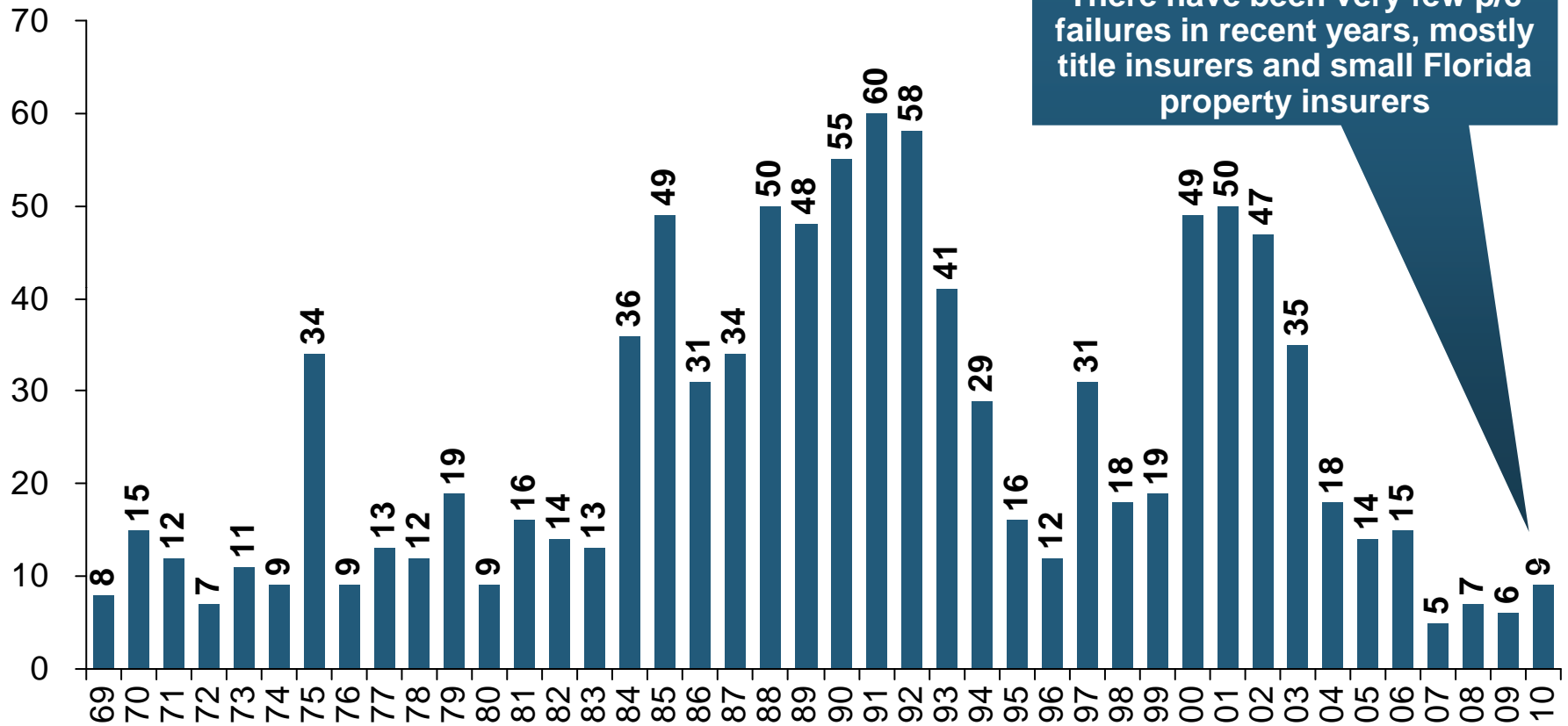
**2010 figures are estimates.

Source: A.M. Best; Insurance Information Institute.

Financial Strength & Underwriting

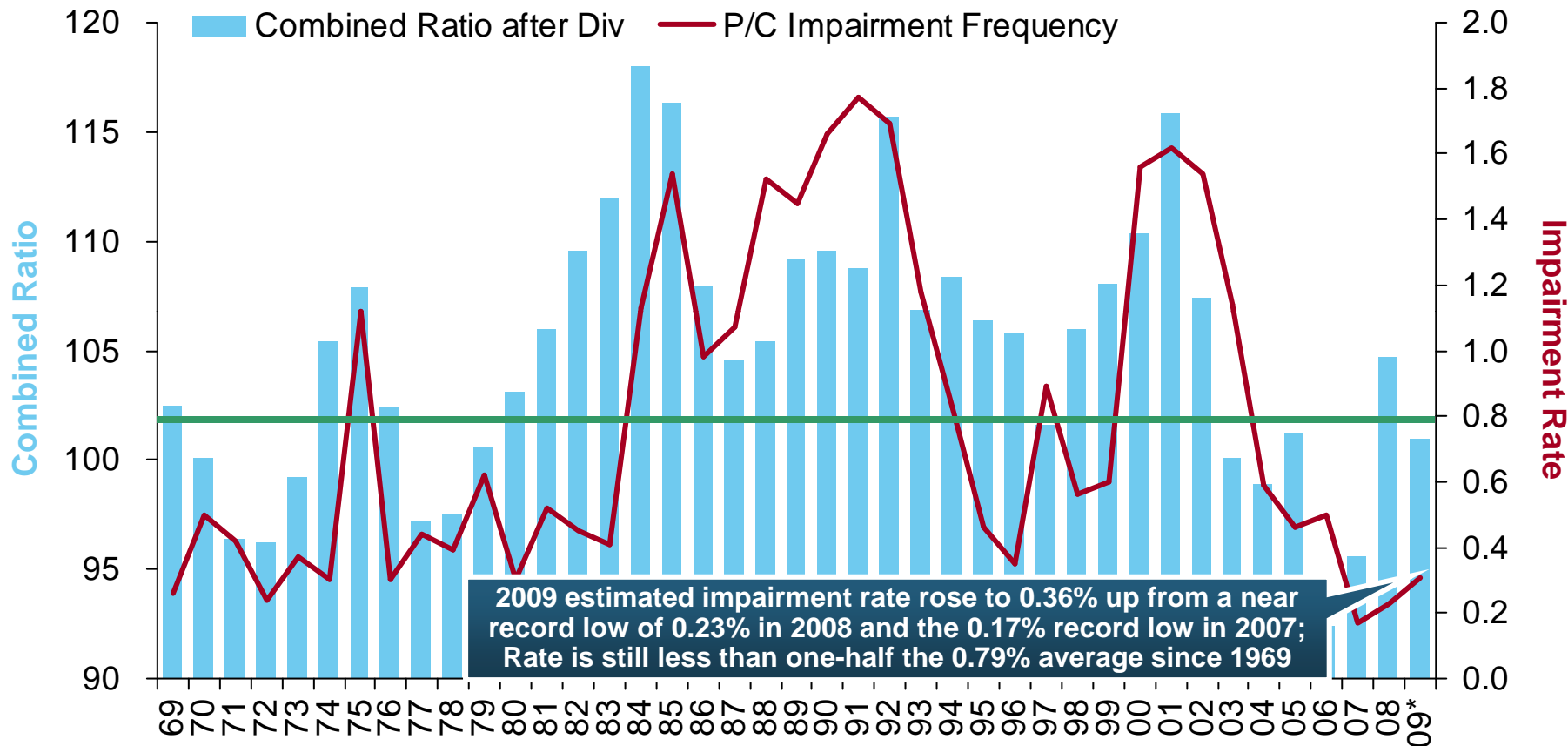
**Cyclical Pattern is P-C Impairment
History is Directly Tied to
Underwriting, Reserving & Pricing**

P/C Insurer Impairments, 1969–2010E



The Number of Impairments Varies Significantly Over the P/C Insurance Cycle, With Peaks Occurring Well into Hard Markets

P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2009

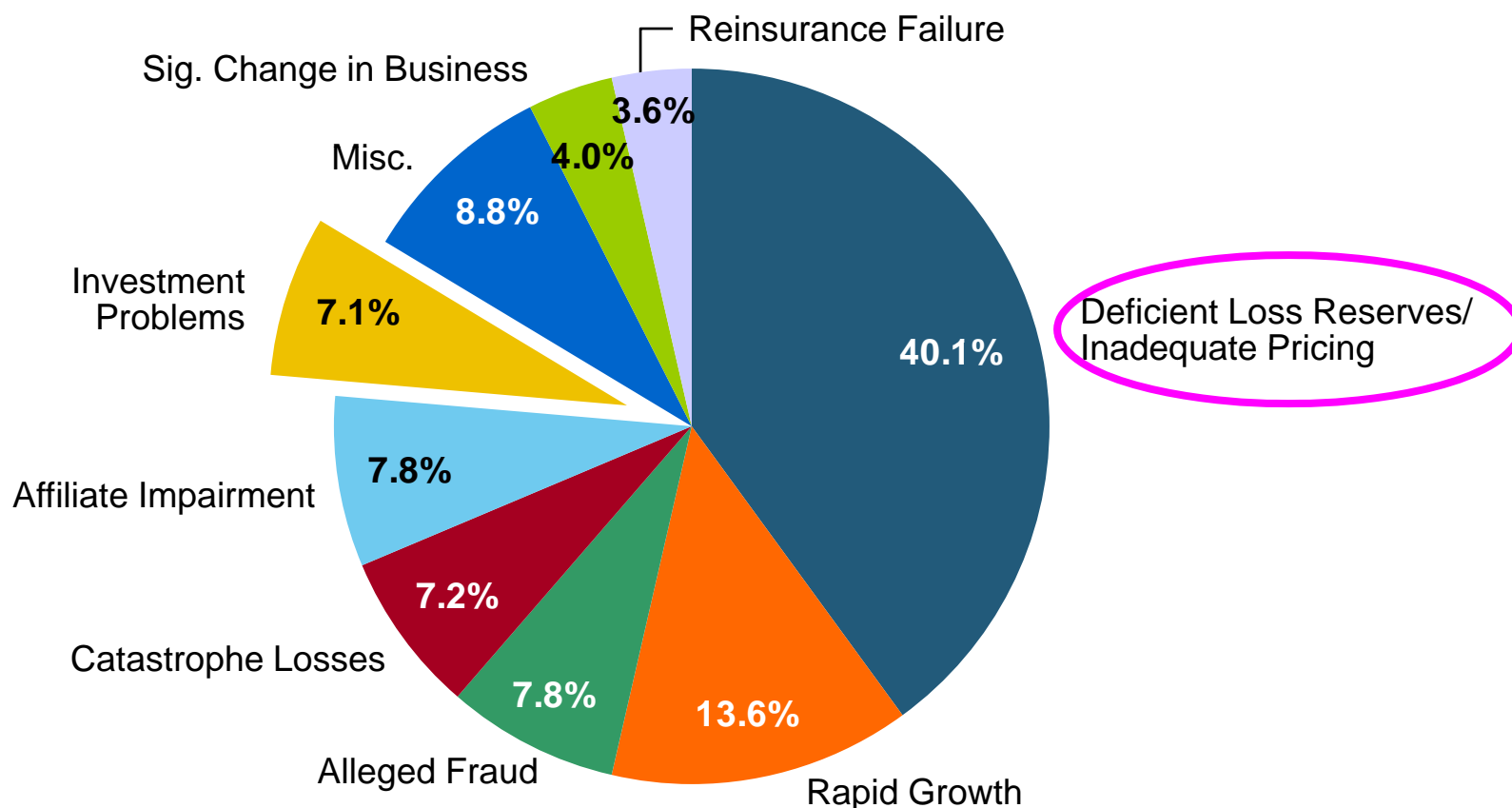


2009 estimated impairment rate rose to 0.36% up from a near record low of 0.23% in 2008 and the 0.17% record low in 2007; Rate is still less than one-half the 0.79% average since 1969

Impairment Rates Are Highly Correlated With Underwriting Performance and Reached Record Lows in 2007/08

Reasons for US P/C Insurer Impairments, 1969–2009

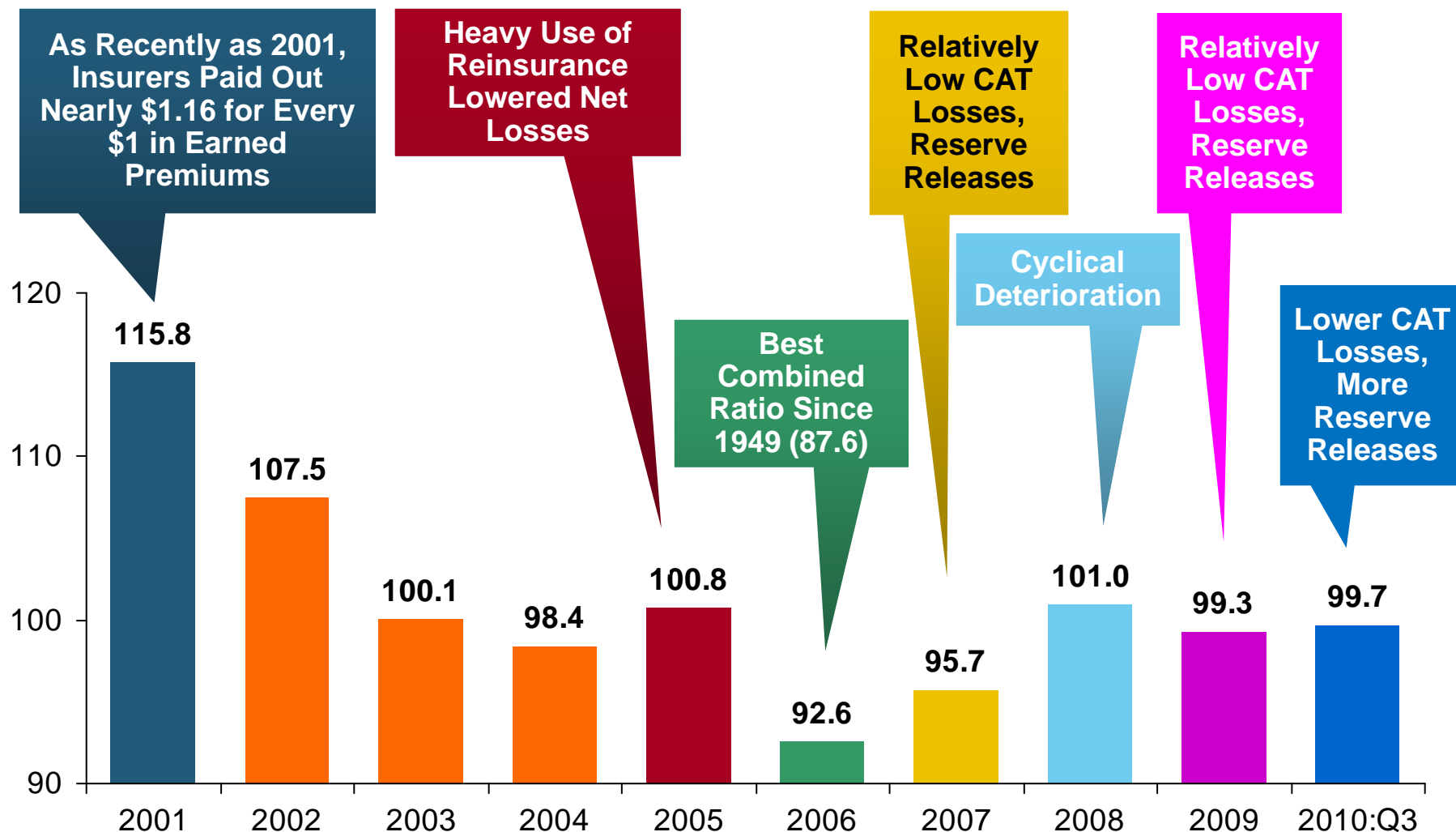
Deficient loss reserves and inadequate pricing are the leading cause of insurer impairments, underscoring the effect of an inflation spurt.



Personal Lines Underwriting Trends:

**Cycle, Catastrophes Are the
Typical Drivers of Performance**

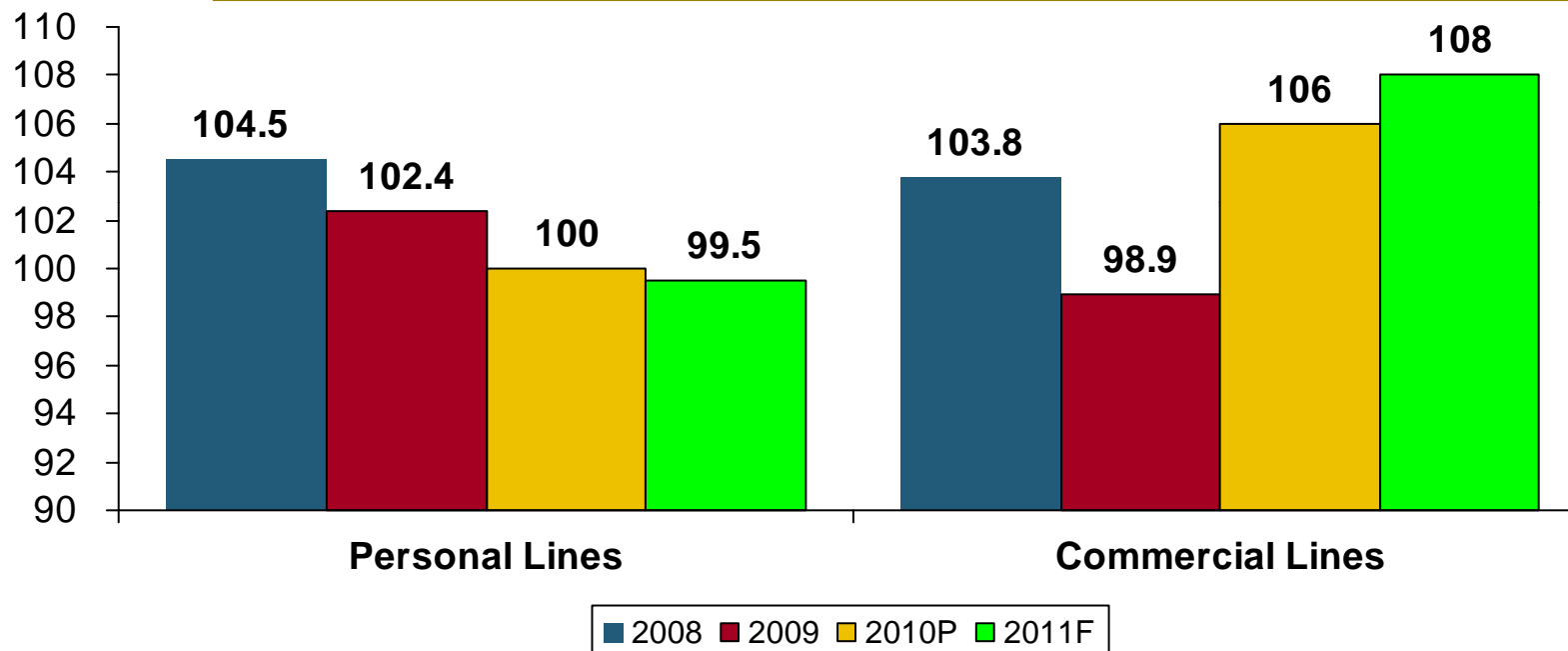
P/C Insurance Industry Combined Ratio, 2001–2010:Q3*



* Excludes Mortgage & Financial Guaranty insurers in 2008, 2009 and 2010. Including M&FG, 2008=105.1, 2009=100.7, 2010:Q3=101.2
Sources: A.M. Best, ISO.

Calendar Year Combined Ratios by Segment: 2008-2011F

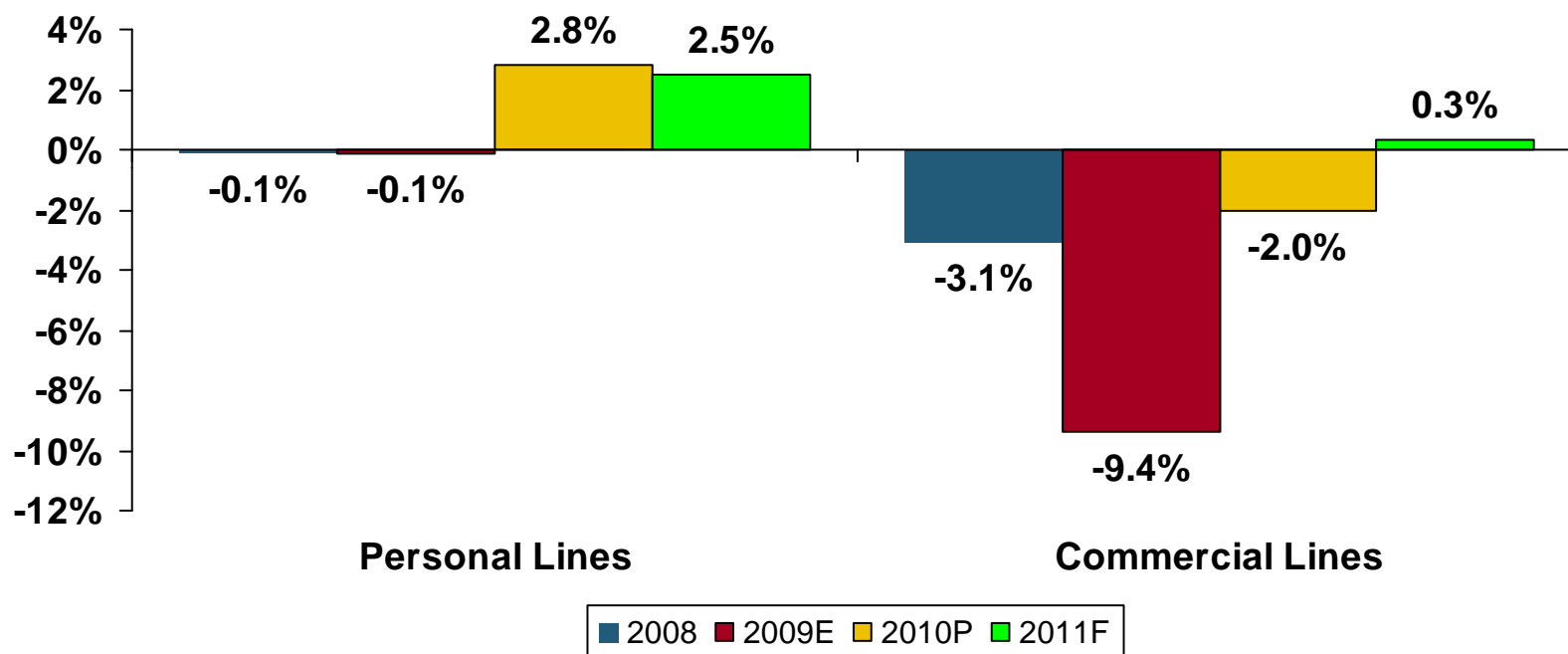
Personal lines combined ratio is expected to remain stable in 2010 while commercial lines and reinsurance deteriorate



Overall deterioration in 2011 underwriting performance is due to expected return to normal catastrophe activity along with deteriorating underwriting performance related to the prolonged commercial soft market

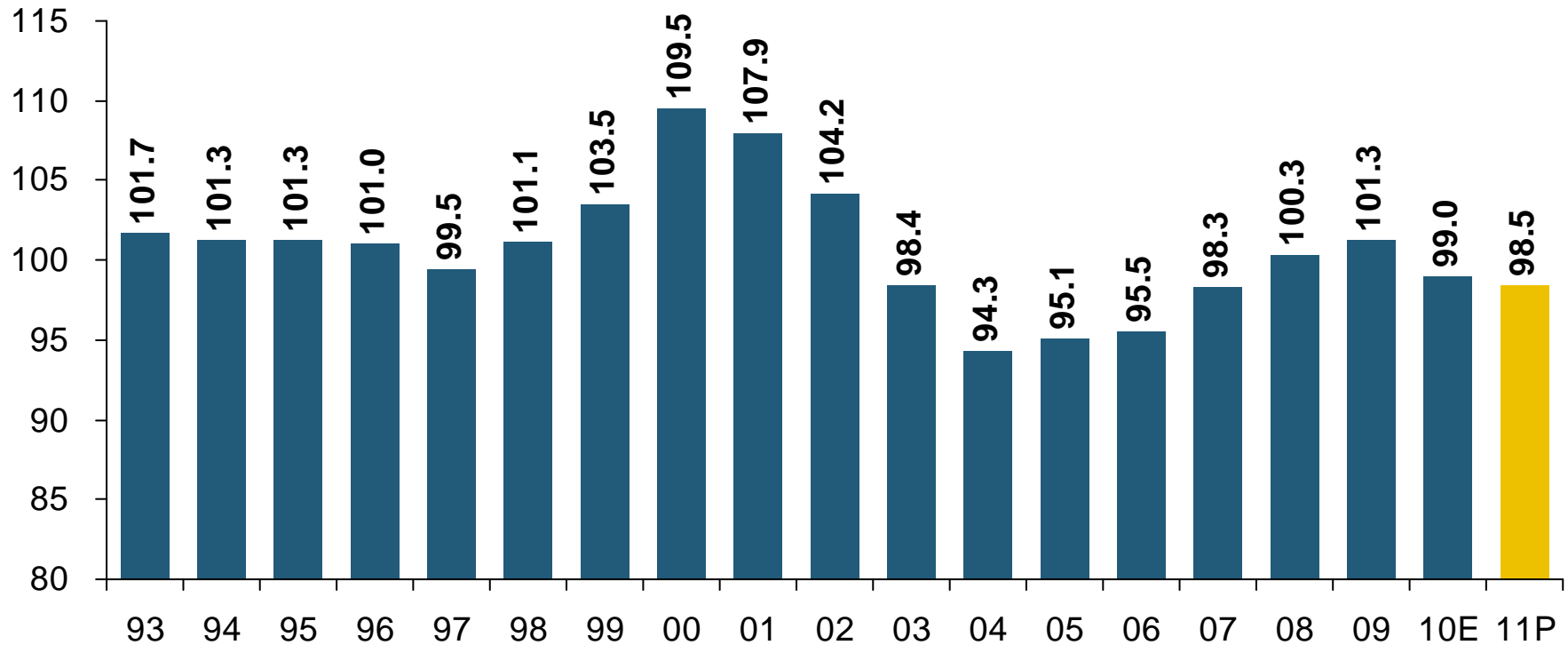
Net Written Premium Growth by Segment: 2008-2011F

Personal lines growth resumed in 2010 and will continue in 2011, while commercial lines contracted again in 2010 and but will stabilize in 2011



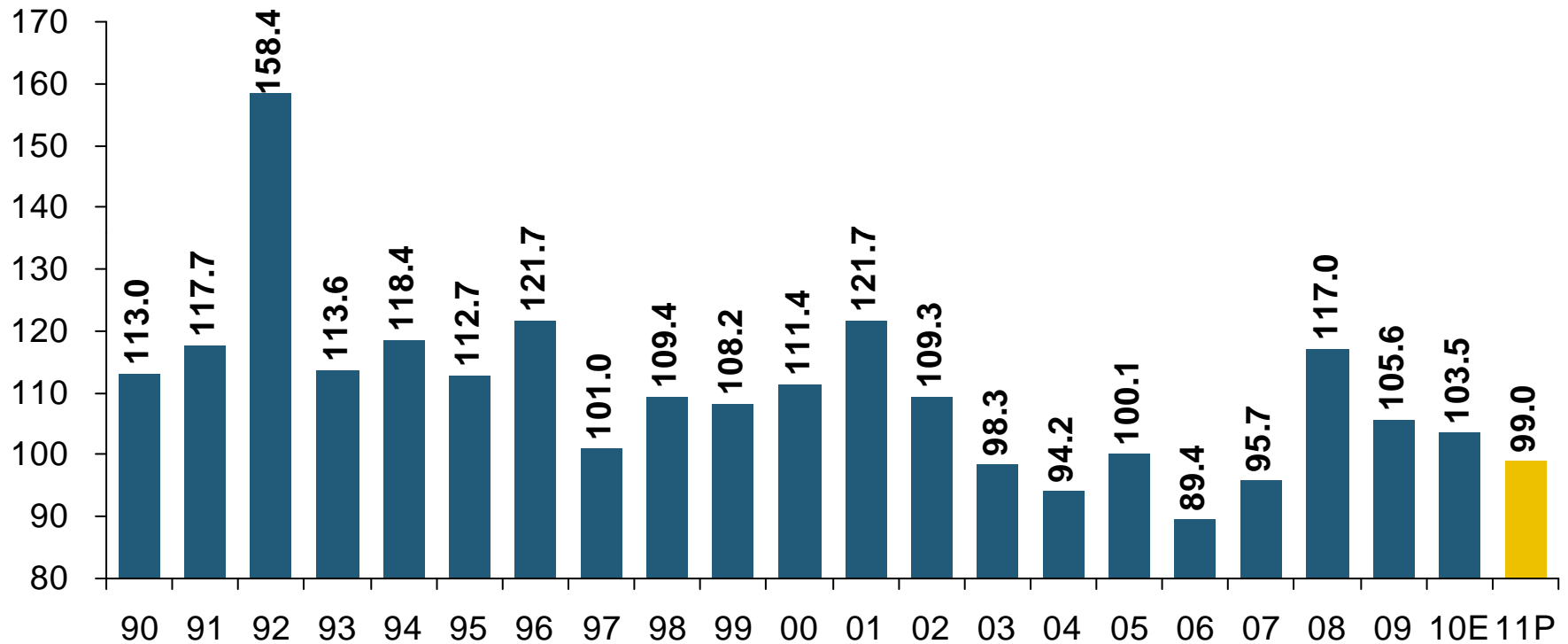
Rate and exposure are more favorable in personal lines, whereas a prolonged soft market and sluggish recovery from the recession weigh on commercial lines.

Private Passenger Auto Combined Ratio: 1993–2011P



Private Passenger Auto Accounts for 34% of Industry Premiums and Remains the Profit Juggernaut of the P/C Insurance Industry

Homeowners Insurance Combined Ratio: 1990–2011P



Homeowners Line Is Expected to Improve in 2011. Extreme Regional Variation Can Be Expected Due to Local Catastrophe Loss Activity

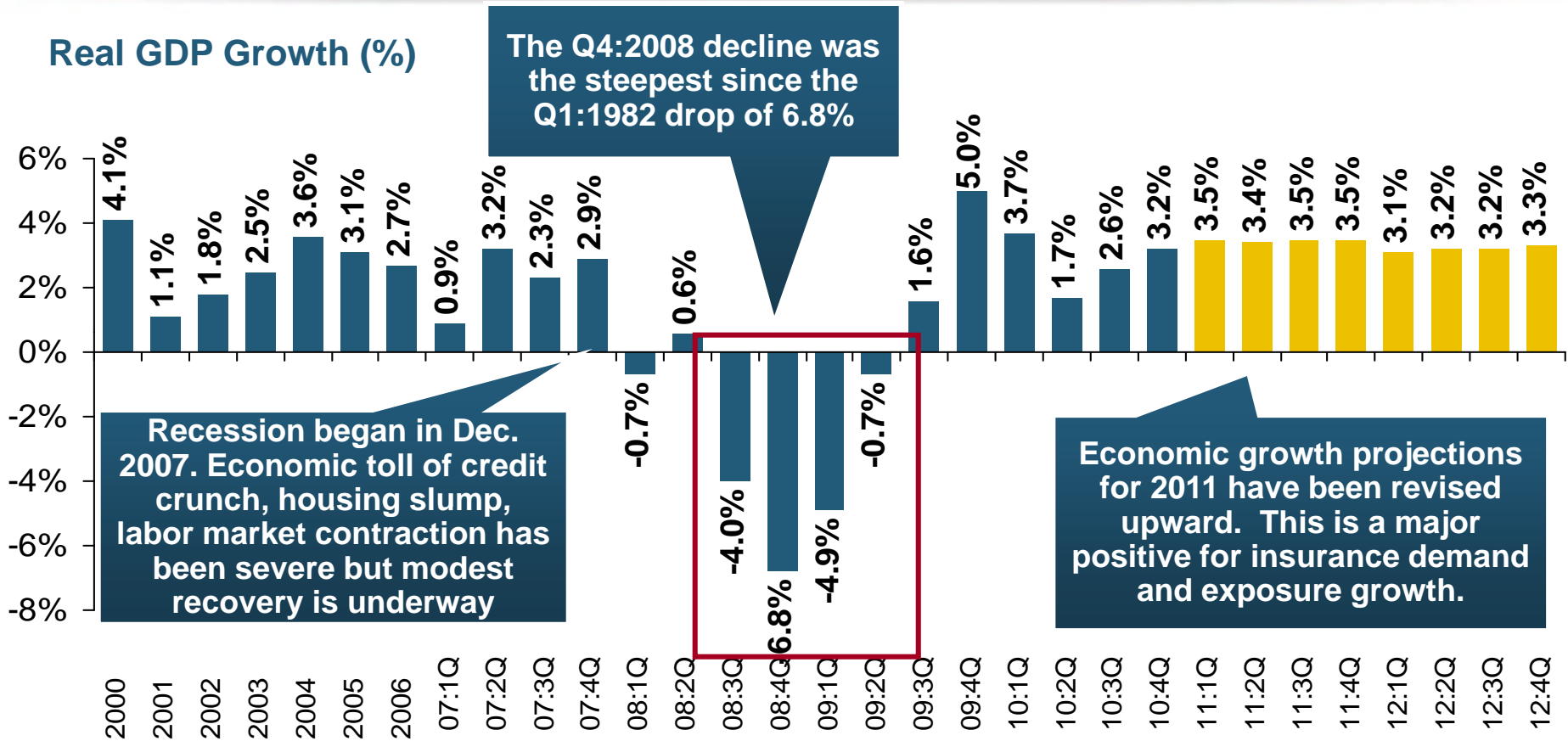


Economic Issues for the Next 3-5 Years

**Growth in the Wake
of the “Great Recession”**

US Real GDP Growth*

Real GDP Growth (%)



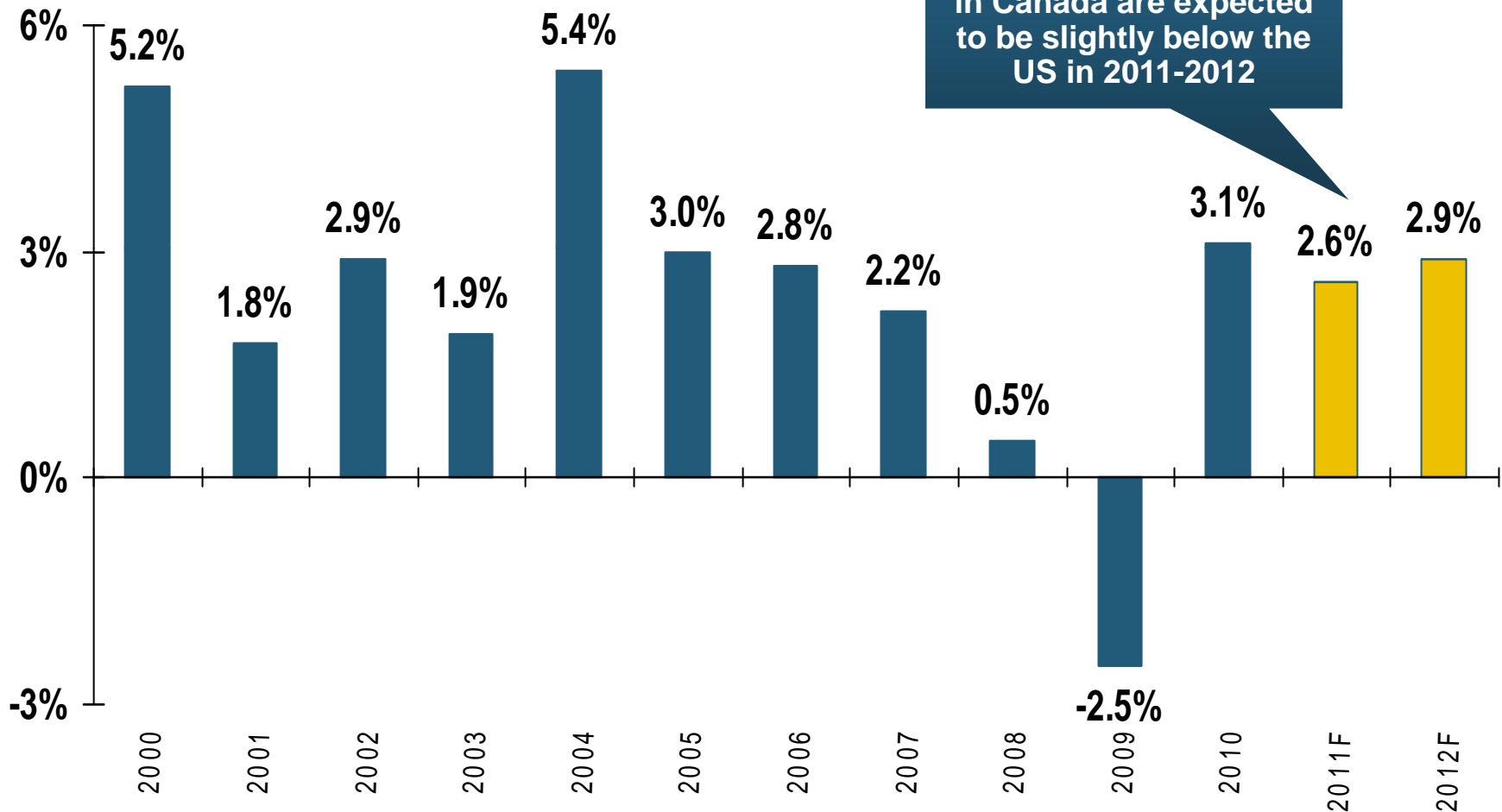
Demand for Insurance Continues To Be Impacted by Sluggish Economic Conditions, but the Benefits of Even Slow Growth Will Compound and Gradually Benefit the Economy Broadly

* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 2/11; Insurance Information Institute.

Canadian Real GDP Annual Change, 2000-2010

Real GDP Growth

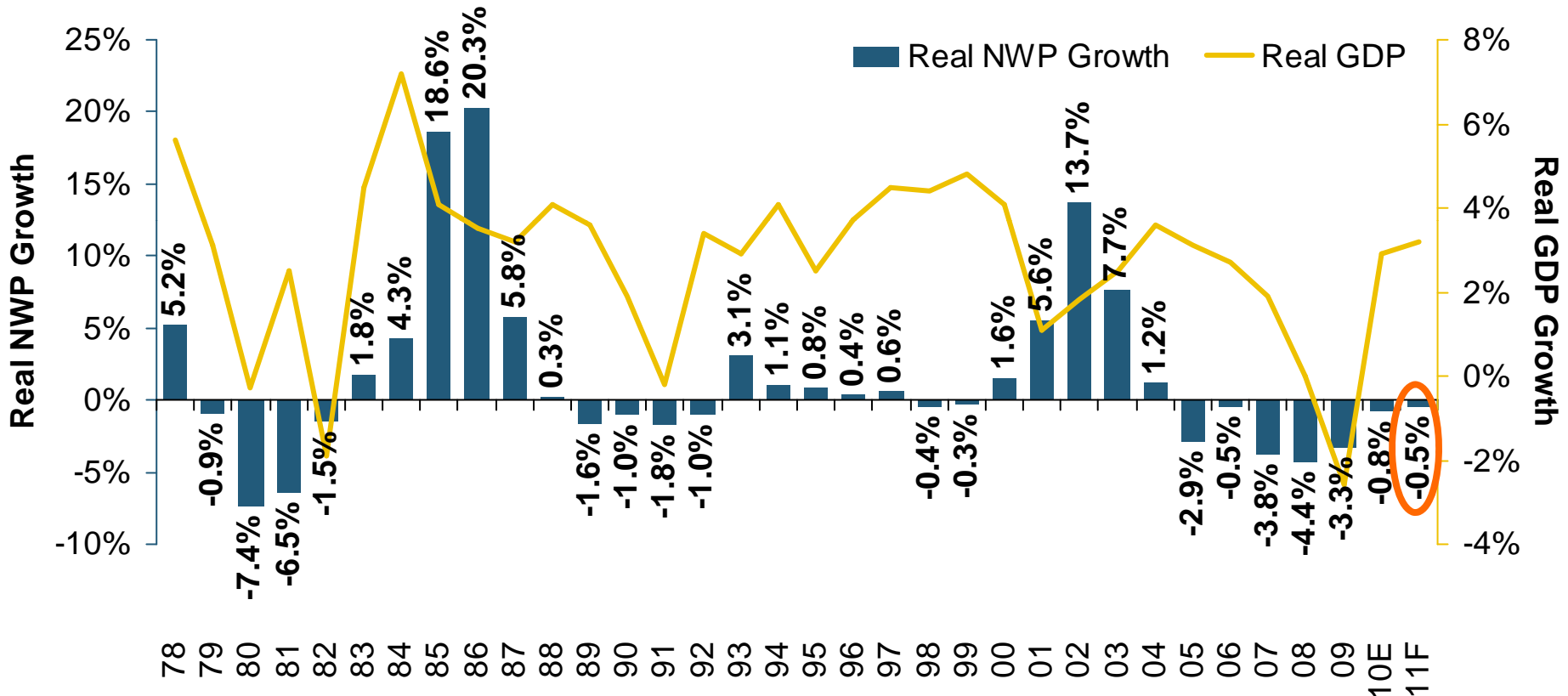


Forecasts from Blue Chip Economic Indicators, 2/2011 issue.

Sources: World Bank, World Development Indicators, I.I.I. calculations; Blue Chip

Real GDP Growth vs. Real P/C Premium Growth: Modest Association

Real GDP Growth vs. Real P/C (%)



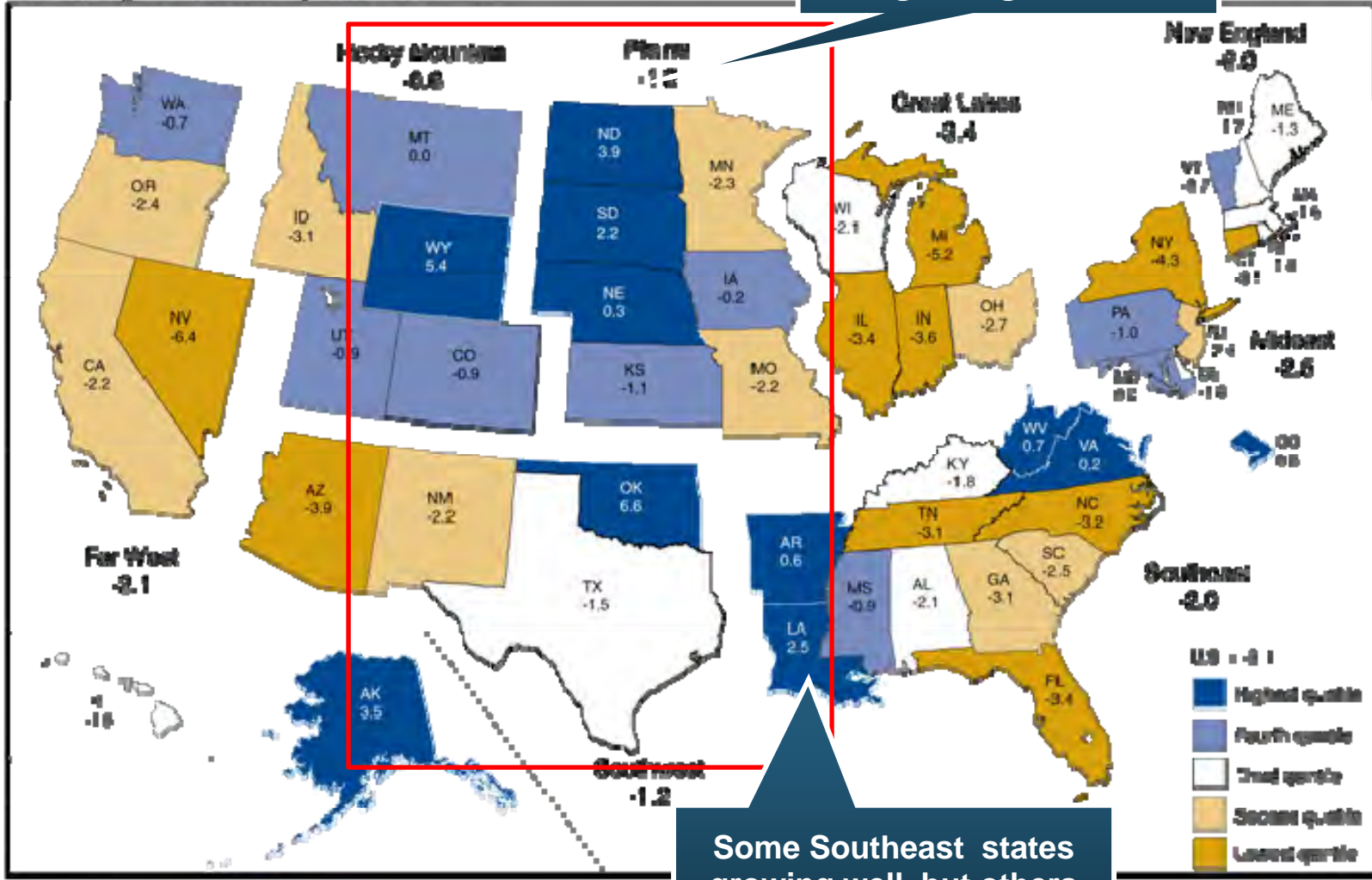
P/C Insurance Industry's Growth is Influenced Modestly by Growth in the Overall Economy

2011 Financial Overview

State Economic Growth Varied in 2009

Mountain, Plains states still growing the fastest

Percent Change in Real GDP by State 2008-2009



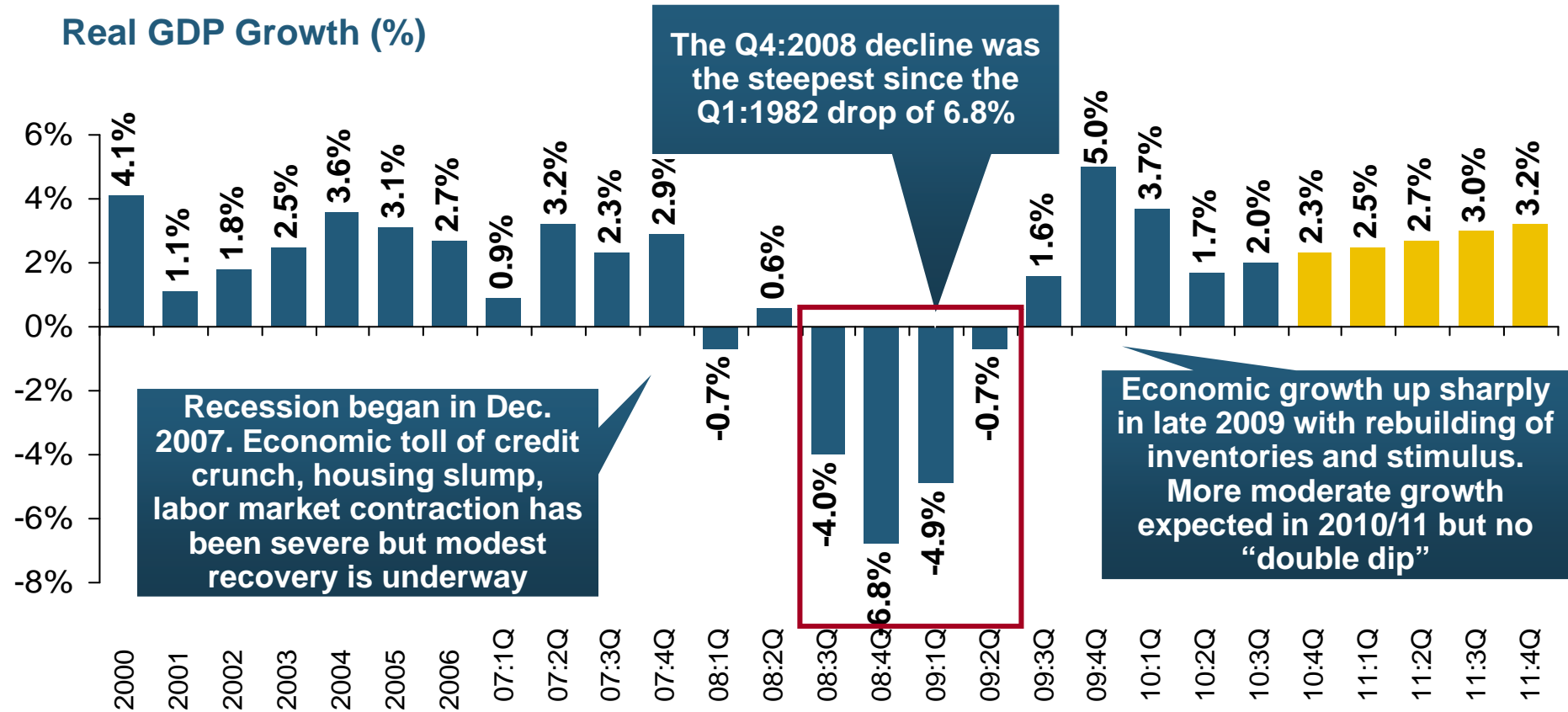
Some Southeast states growing well, but others among the weakest

The Economic Storm

**What the Financial Crisis and
Recession Mean for the Industry's
Exposure Base, Growth and
Profitability**

US Real GDP Growth*

Real GDP Growth (%)



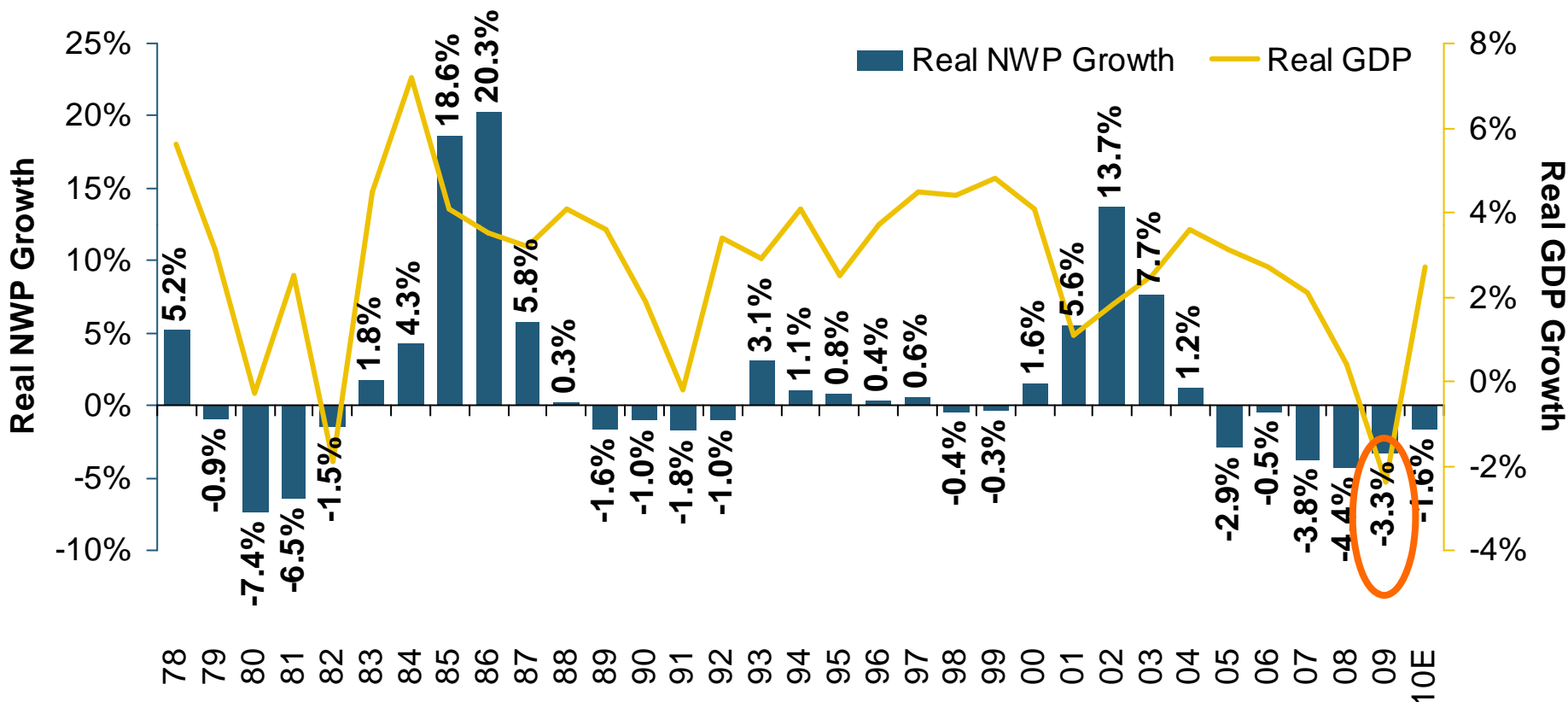
Demand Commercial Insurance Continues To Be Impacted by Sluggish Economic Conditions, but the Benefits of Even Slow Growth Will Compound and Gradually Benefit the Economy Broadly

*  Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 10/10; Insurance Information Institute.

Real GDP Growth vs. Real P/C Premium Growth: Modest Association

Real GDP Growth vs. Real P/C (%)



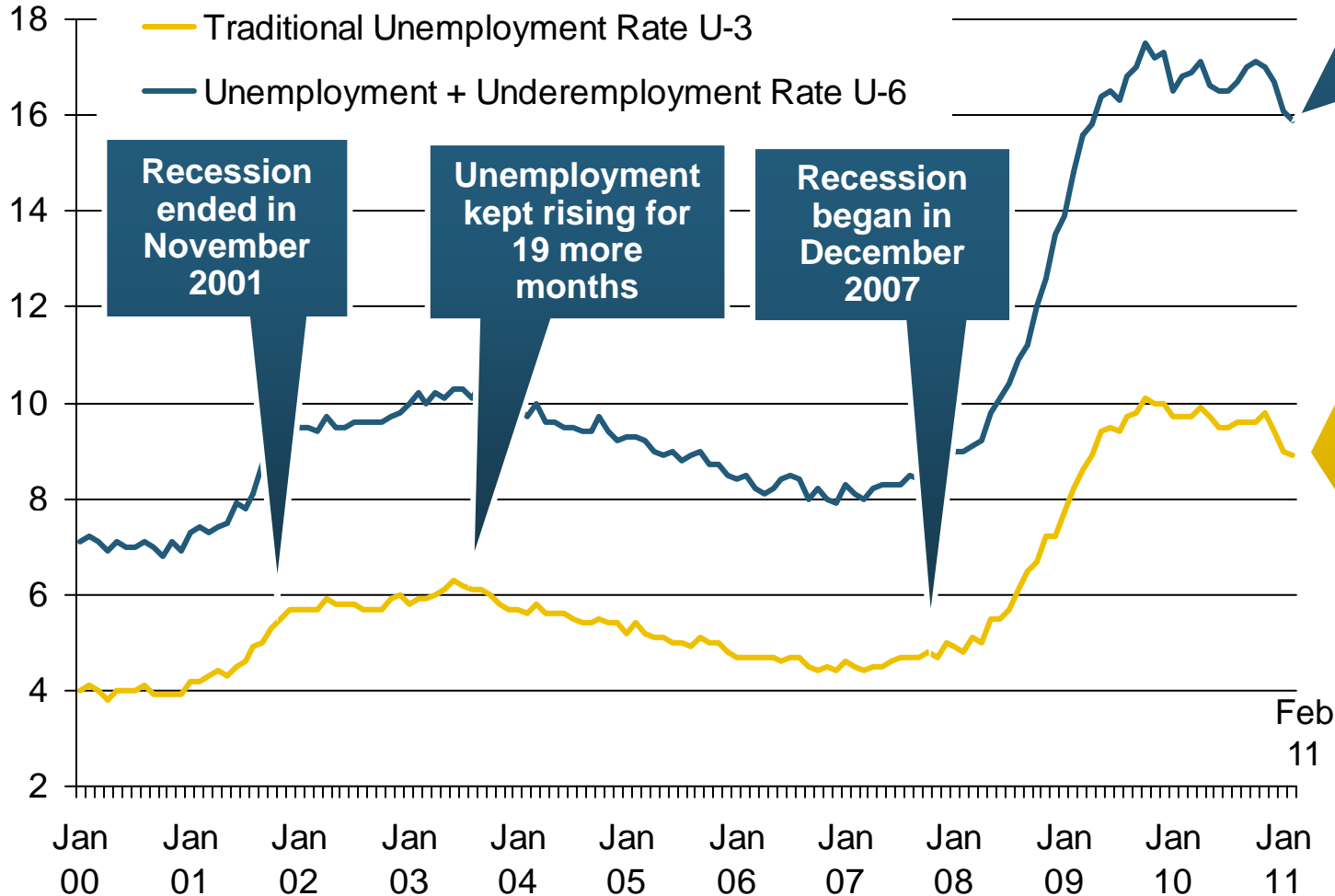
P/C Insurance Industry's Growth is Influenced Modestly by Growth in the Overall Economy

Labor Market Trends

Massive Job Losses Sapped the Economy and Commercial/Personal Lines Exposure, But Trend is Improving

Unemployment and Underemployment Rates: Falling Faster in 2011?

January 2000 through February 2011, Seasonally Adjusted (%)



Stubbornly high unemployment and underemployment will constrain payroll growth, which directly affects WC exposure

U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 15.9% in February 2011

Unemployment rate fell to 8.9% in February

Unemployment peaked at 10.1% in October 2009, highest monthly rate since 1983.

Peak rate in the last 30 years: 10.8% in November - December 1982

Source: US Bureau of Labor Statistics; Insurance Information Institute.

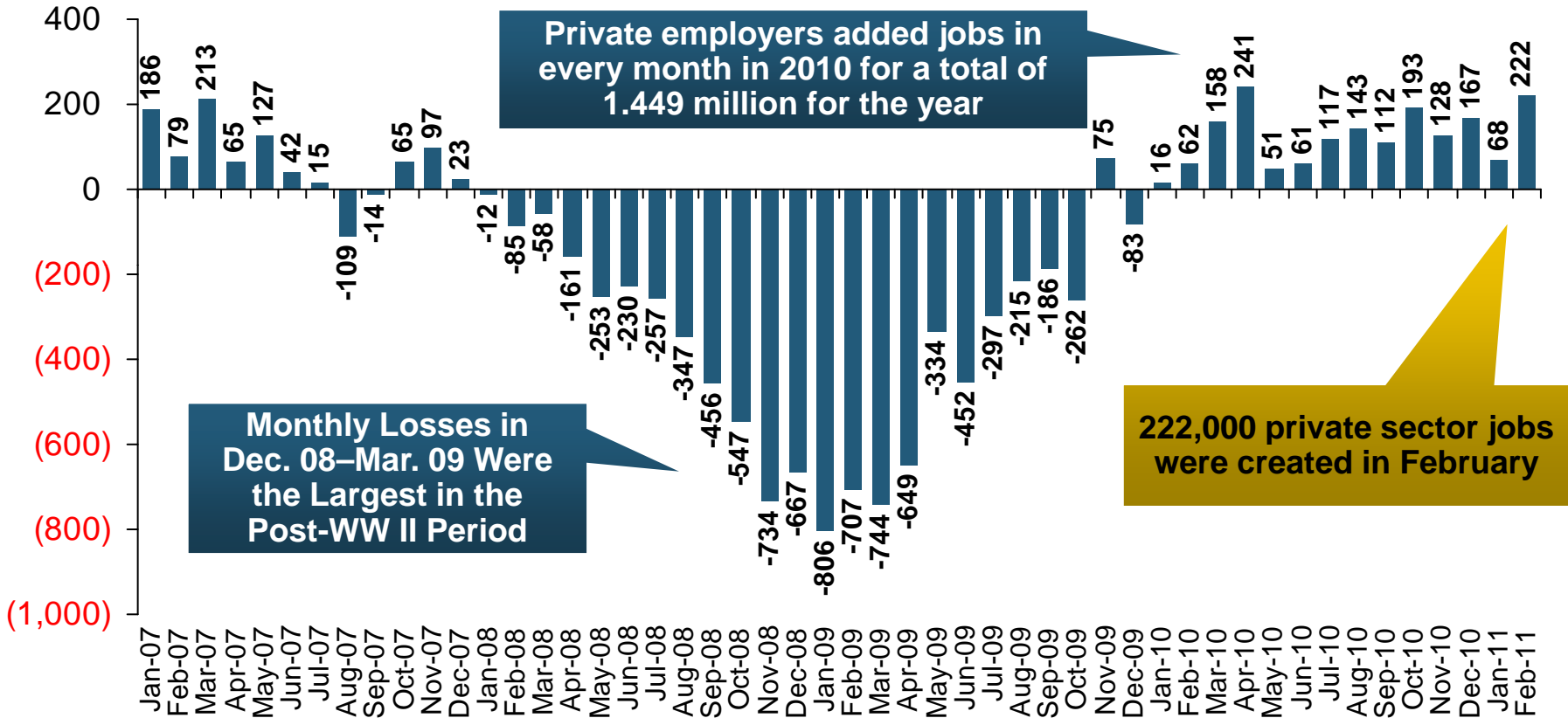
Unemployment Rate in Canada

January 2008 through
January 2011 (%)



Monthly Change in Private Employment

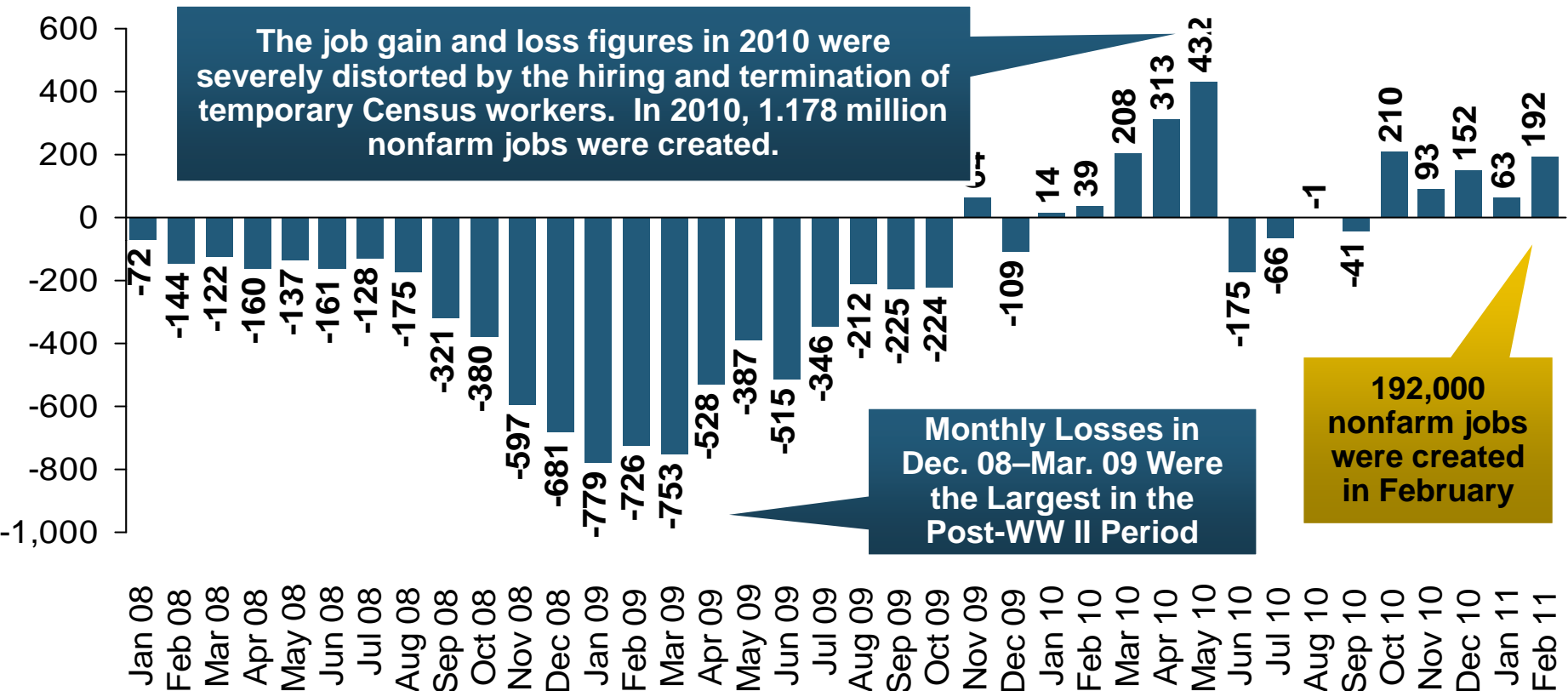
January 2008 through February 2011* (Thousands)



Private Employers Added 1.739 million Jobs Since Jan. 2010 After Having Shed 4.66 Million Jobs in 2009 and 3.81 Million in 2008

Monthly Change Employment*

January 2008 through February 2011* (Thousands)

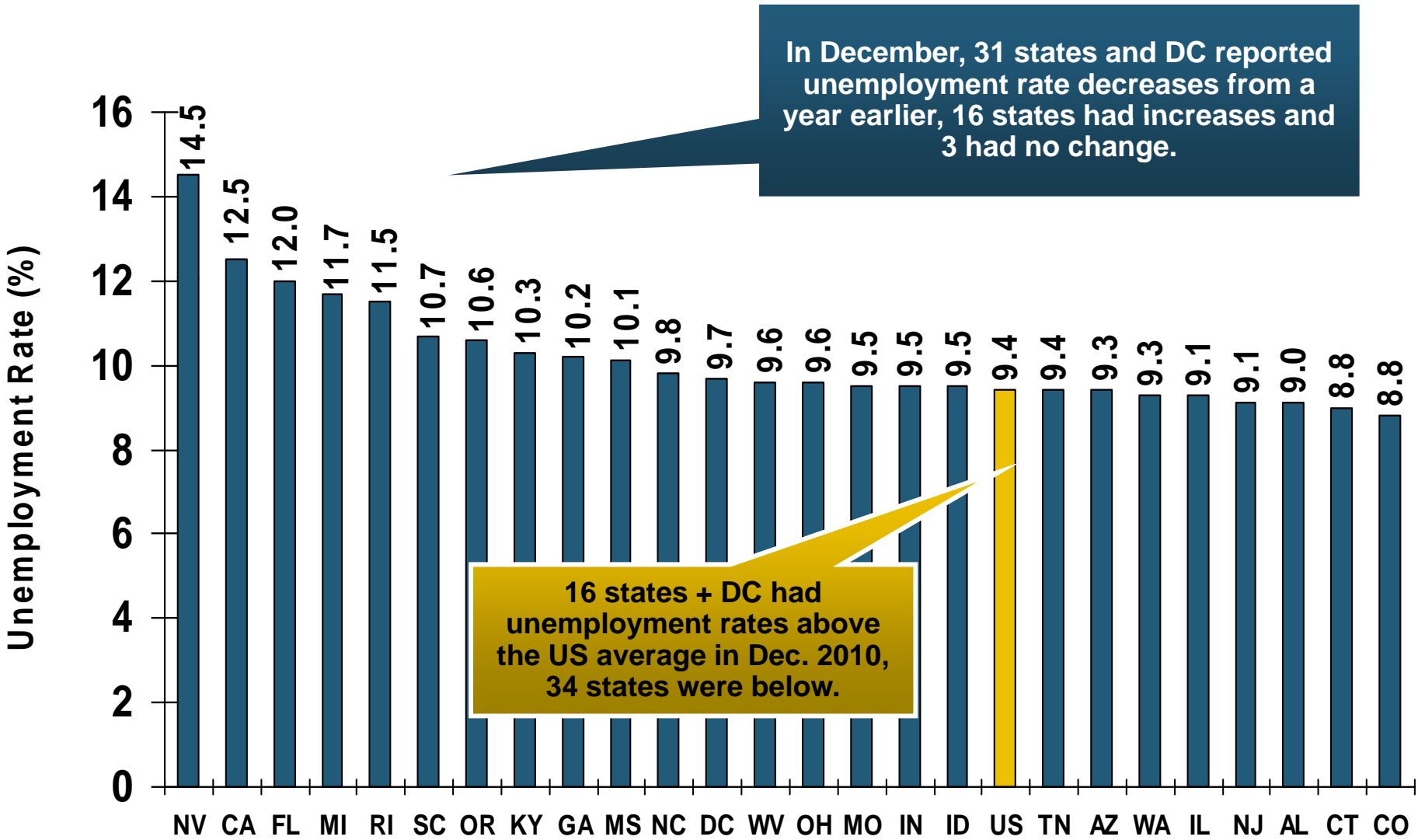


Job Losses Since the Recession Began in Dec. 2007 Peaked at 8.4 Mill in Dec. 09; Stands at 6.4 Million Through February 2011; 13.7 Million People are Now Defined as Unemployed

*Estimate based on Reuters poll of economists.

Source: US Bureau of Labor Statistics: <http://www.bls.gov/ces/home.htm>; Insurance Information Institute

Unemployment Rates by State, December 2010: Highest 25 States*



In December, 31 states and DC reported unemployment rate decreases from a year earlier, 16 states had increases and 3 had no change.

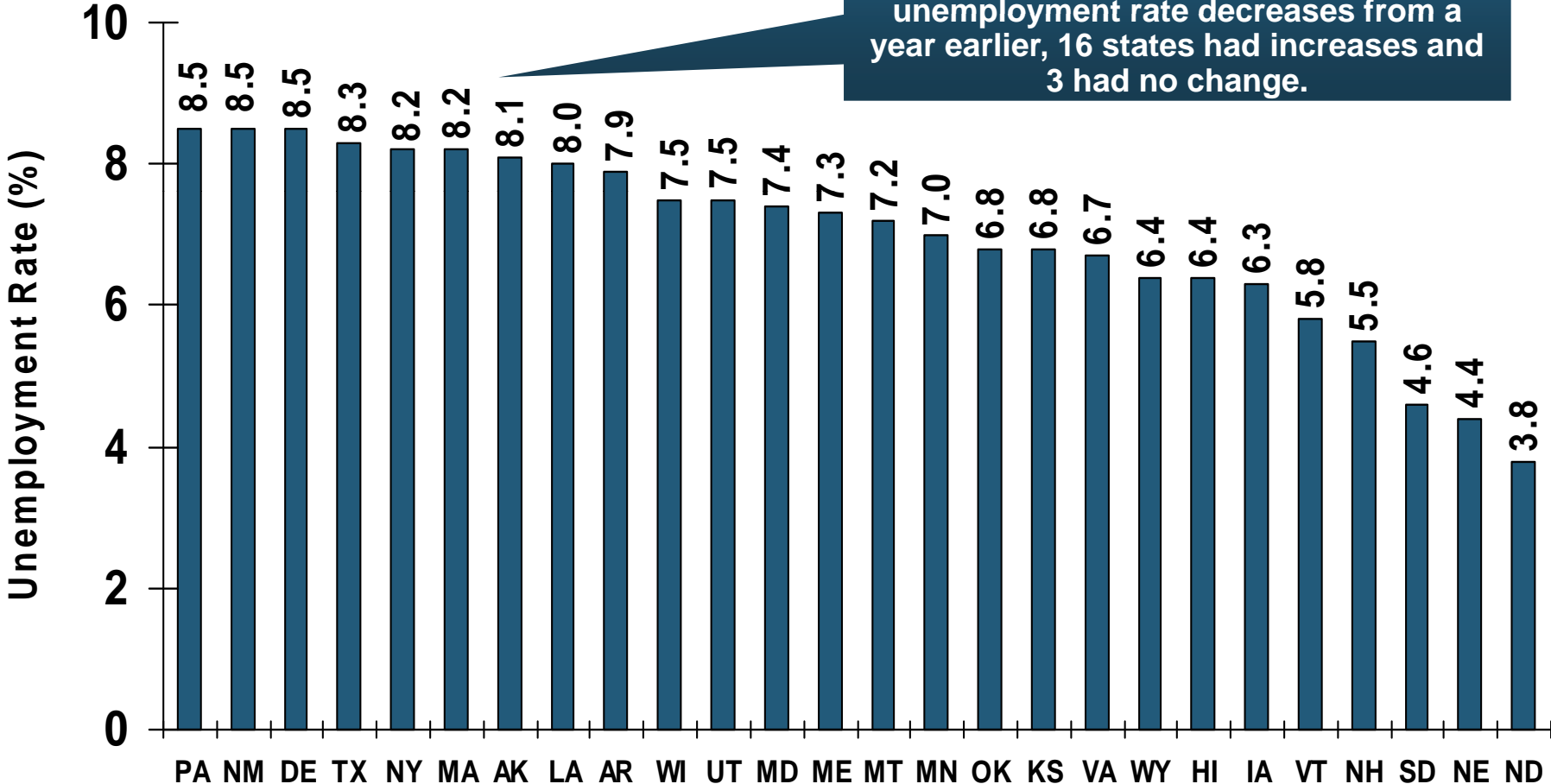
16 states + DC had unemployment rates above the US average in Dec. 2010, 34 states were below.

*Provisional figures for December 2010, seasonally adjusted.

Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Unemployment Rates By State, December 2010: Lowest 25 States*

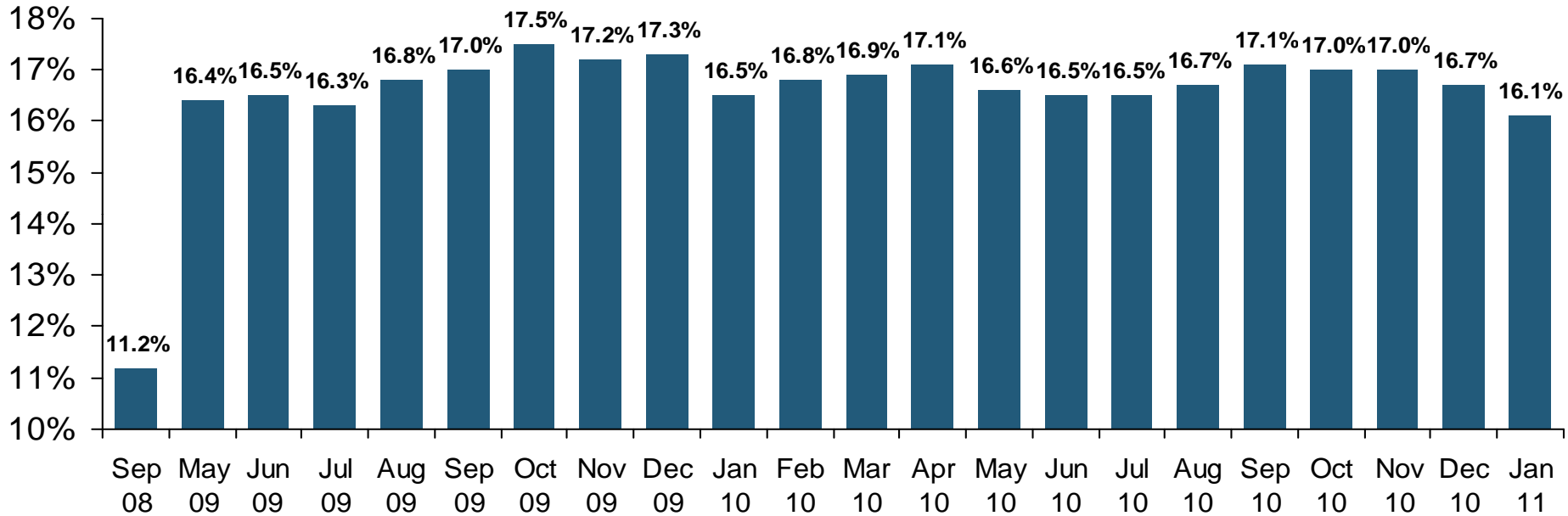
In December, state and regional unemployment rates were little changed. Some 31 states and DC reported unemployment rate decreases from a year earlier, 16 states had increases and 3 had no change.



*Provisional figures for December 2010, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Labor Underutilization: Broader than Just Unemployment

% of Labor Force



Marginally Attached and Unemployed Persons Account for 16.1% of the Labor Force in January 2011 (1 Out of 6 People). Unemployment Rate Alone was 9.0%. Underutilization Shows a Broader Impact on WC and Other Commercial Exposures

NOTE: Marginally attached workers are persons who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the recent past. Discouraged workers, a subset of the marginally attached, have given a job-market related reason for not looking currently for a job. Persons employed part time for economic reasons are those who want and are available for full-time work but have had to settle for a part-time schedule.

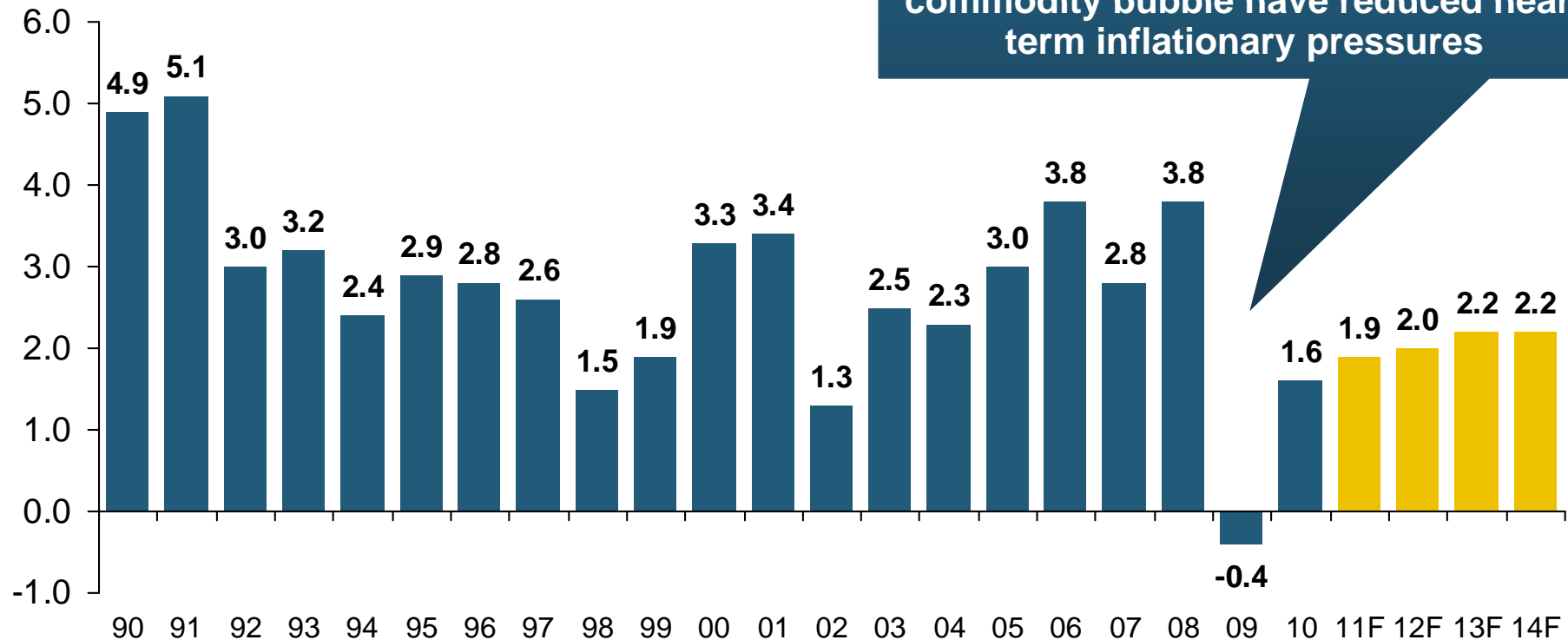
Source: US Bureau of Labor Statistics; Insurance Information Institute.

Inflation

**Is it a Threat to Claim Cost
Severities**

Annual Inflation Rates, (CPI-U, %), 1990–2014F

Annual Inflation Rates (%)



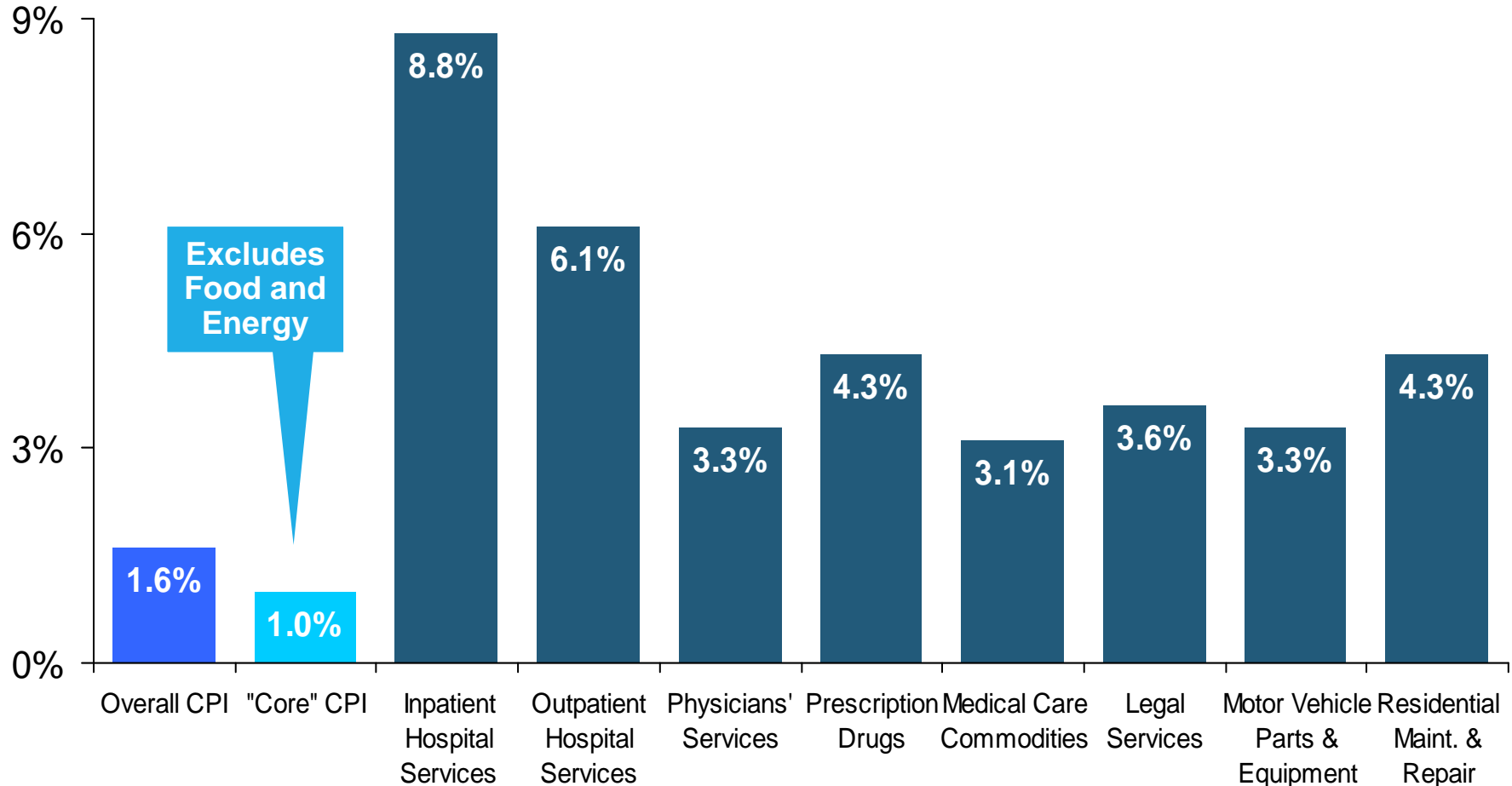
Inflation peaked at 5.6% in August 2008 on high energy and commodity crisis. The recession and the collapse of the commodity bubble have reduced near-term inflationary pressures

The slack in the U.S. economy suggests that inflation should not heat up before 2012, but other forces (commodity prices, inflation in countries from which we import, etc.), plus U.S. debt burden, remain longer-run concerns

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators, 10/10 and 2/11 (forecasts).

P/C Personal Insurance Claim Cost Drivers Grow Faster than the Overall CPI Suggests

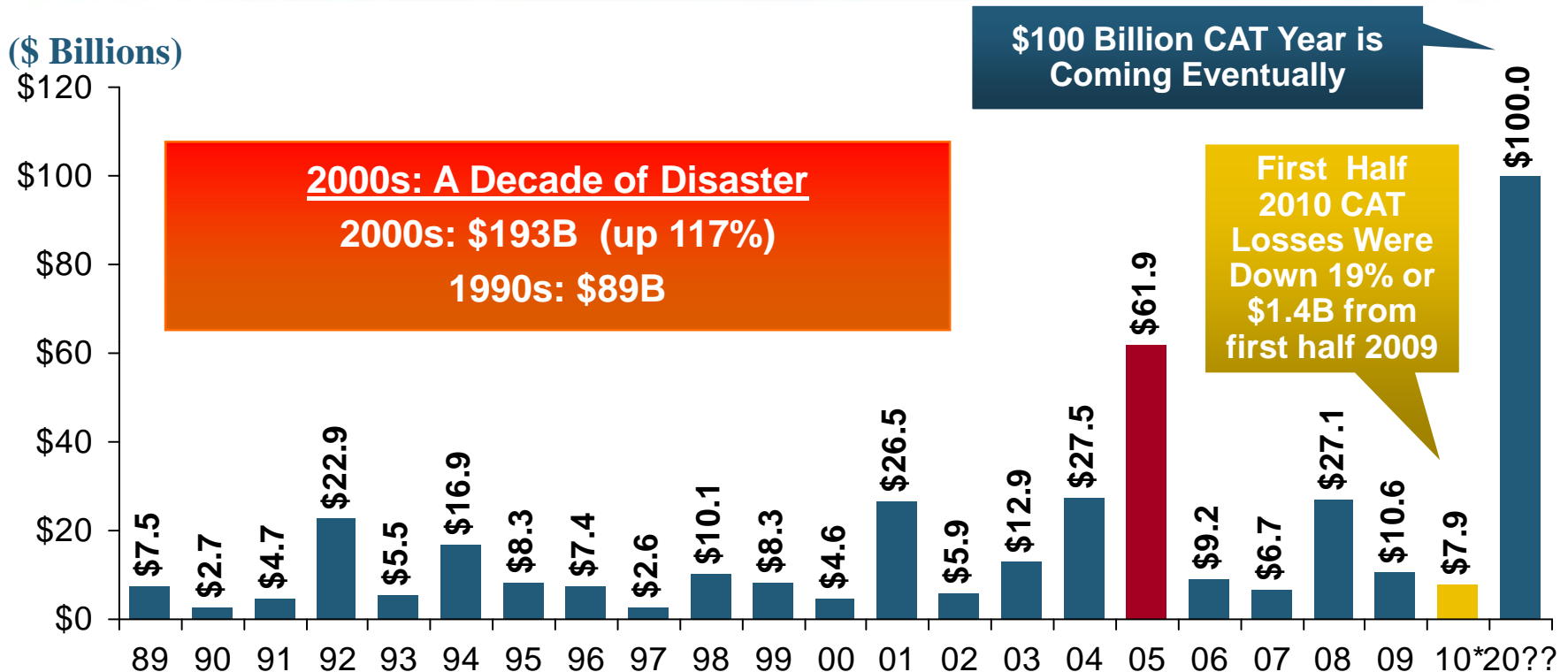
Price Changes
in 2010



Healthcare costs are a major liability, med pay, and PIP claim cost driver. They are likely to grow faster than the CPI for the next few years, at least

**Catastrophic Loss –
Catastrophe Losses Trends Are
Trending Adversely**

US Insured Catastrophe Losses



**2010 CAT Losses Are Running Below 2009, So Far
Figures Do Not Include an Estimate of Deepwater Horizon Loss**

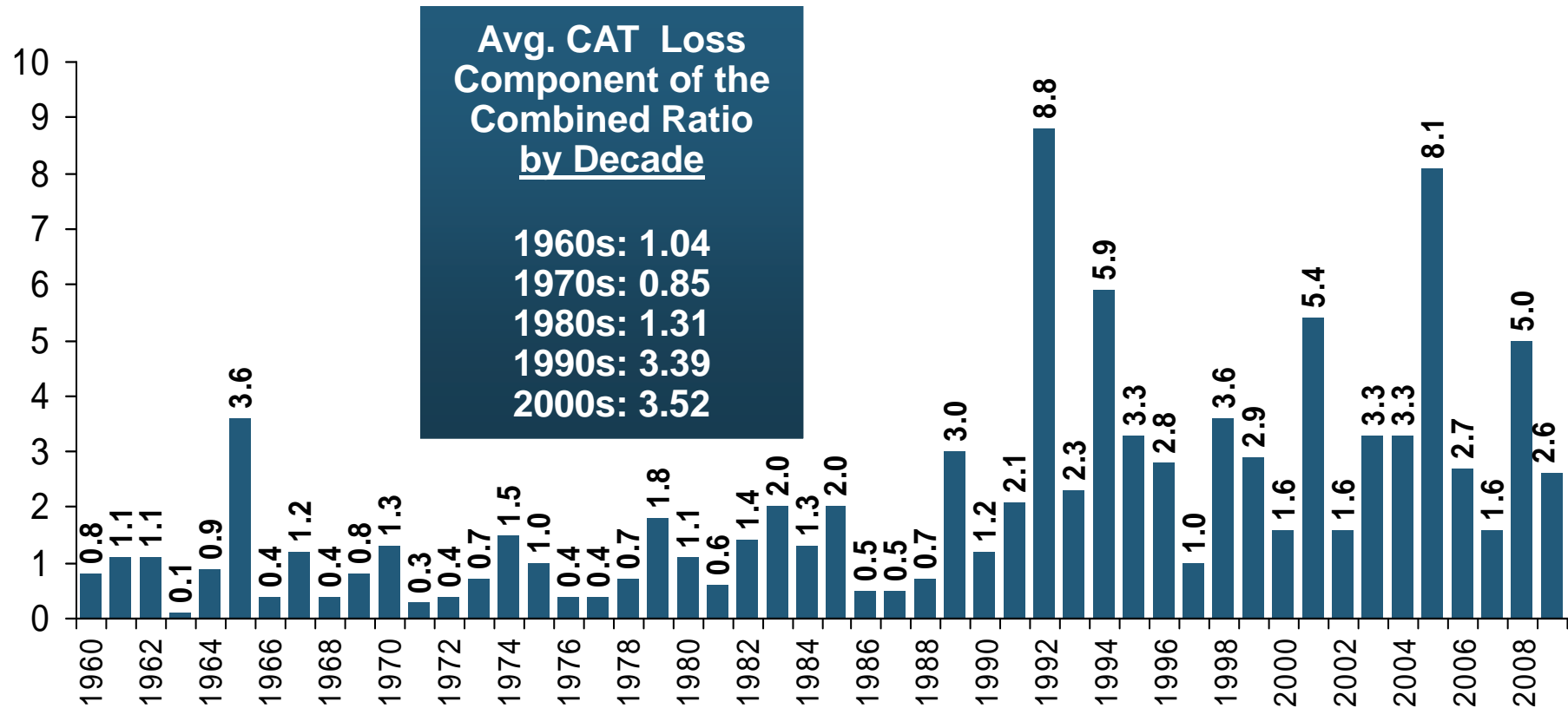
*Through June 30, 2010.

Note: 2001 figure includes \$20.3B for 9/11 losses reported through 12/31/01. Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = \$12.2B.

Sources: Property Claims Service/ISO; Munich Re; Insurance Information Institute.

Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2009

Combined Ratio Points



The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades

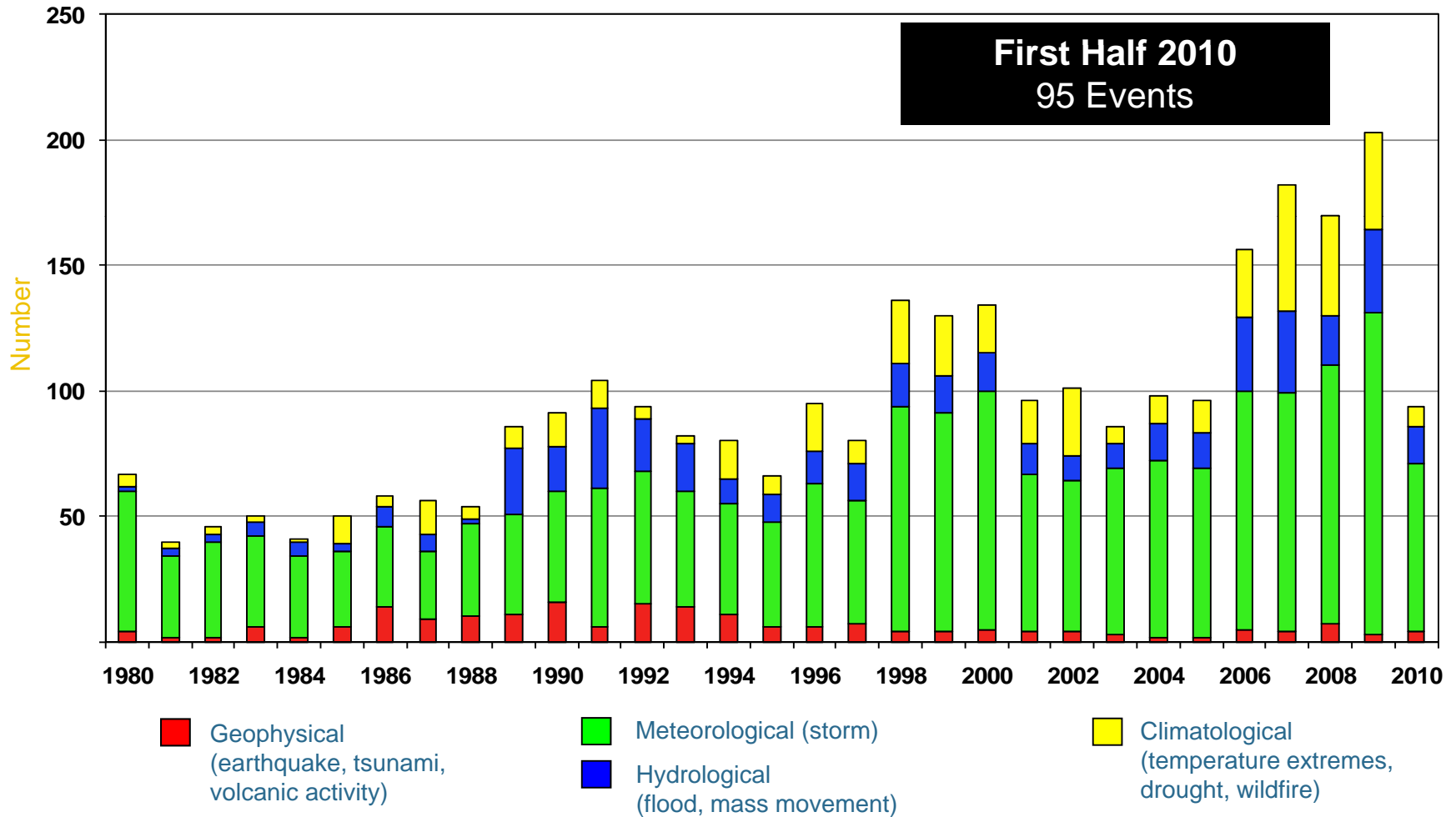
Notes: Private carrier losses only. Excludes loss adjustment expenses and reinsurance reinstatement premiums. Figures are adjusted for losses ultimately paid by foreign insurers and reinsurers.

Source: ISO; Insurance Information Institute.

Natural Disasters in the United States, 1980 – 2010

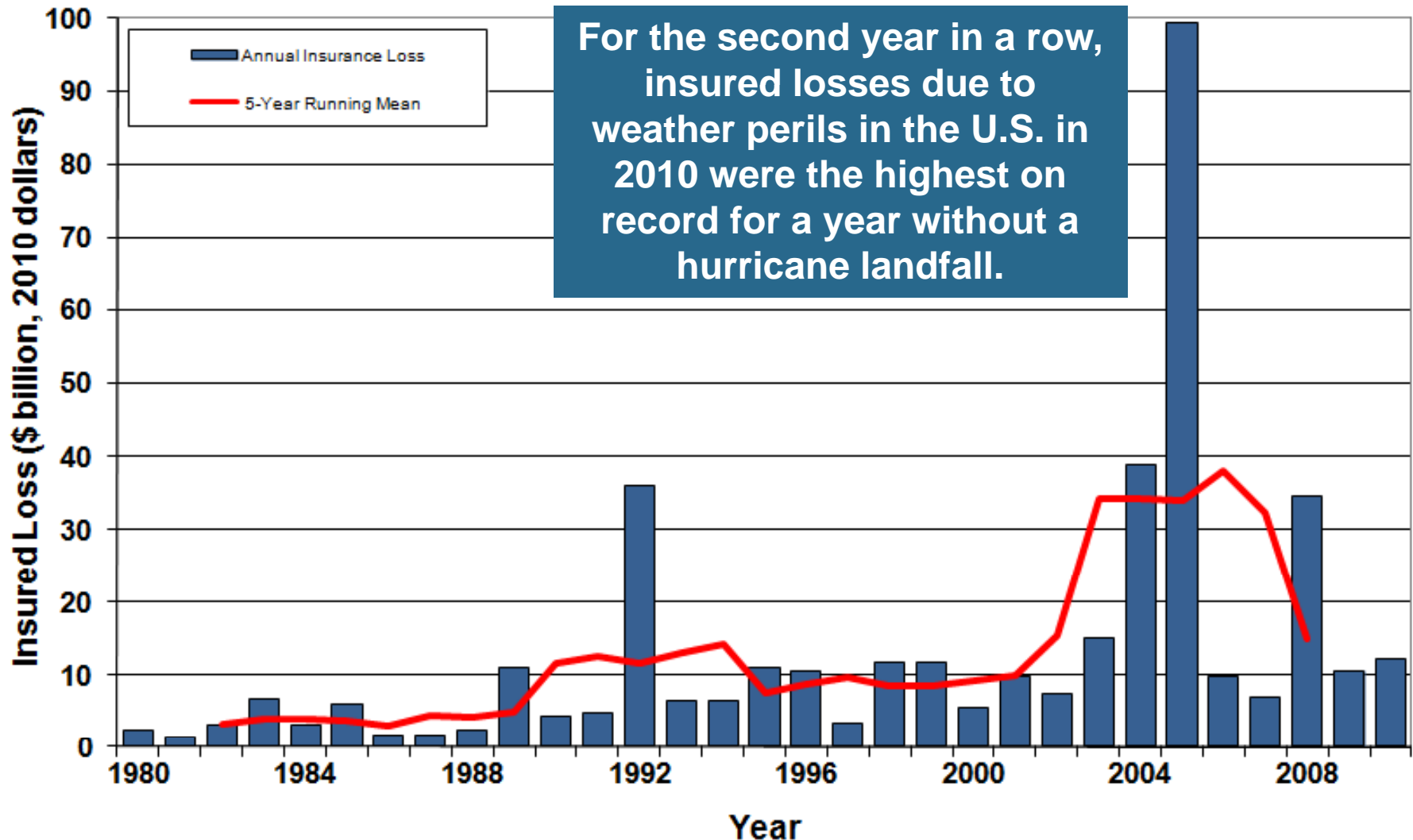
Number of Events (Annual Totals 1980 – 2009 vs. First Half 2010)

Number of events in first half of 2010 is close to the annual totals from five of past ten years.

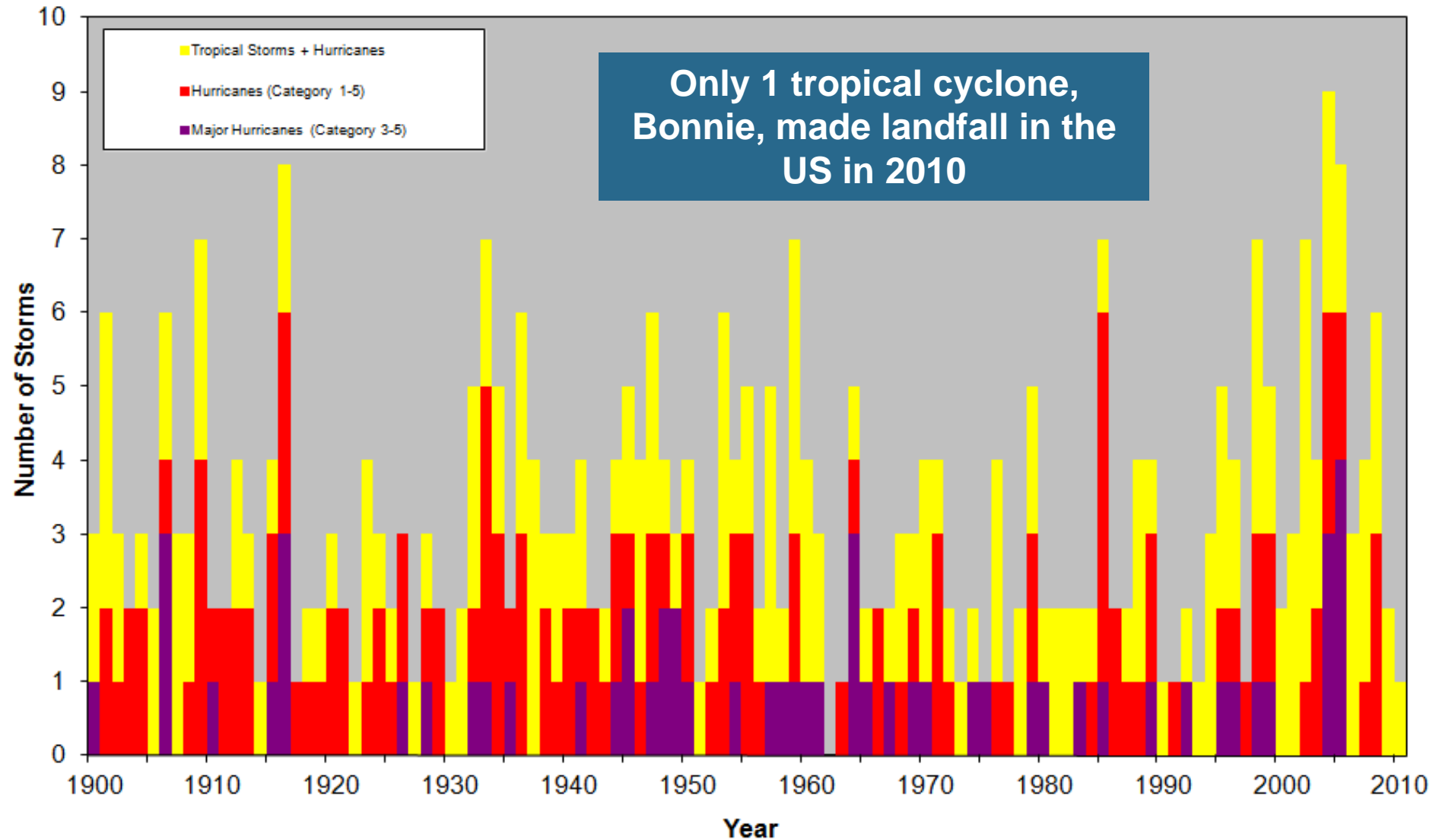


Insured Losses Due to Weather Perils in the U.S.: 1980 – 2010

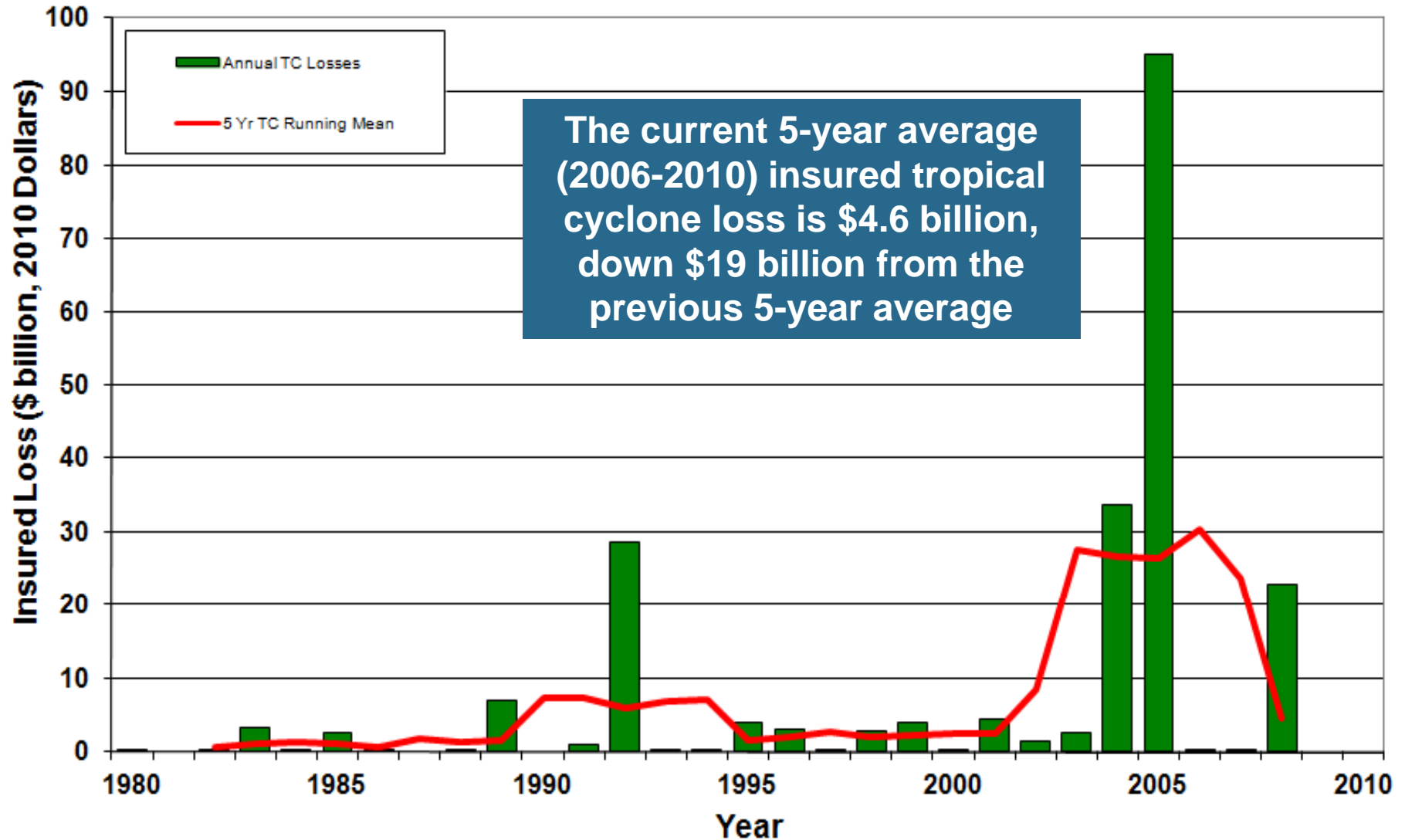
(Tropical Cyclone, Thunderstorm, and Winter Storm only)



Number of U.S. Landfalling Tropical Cyclones, 1900 – 2010



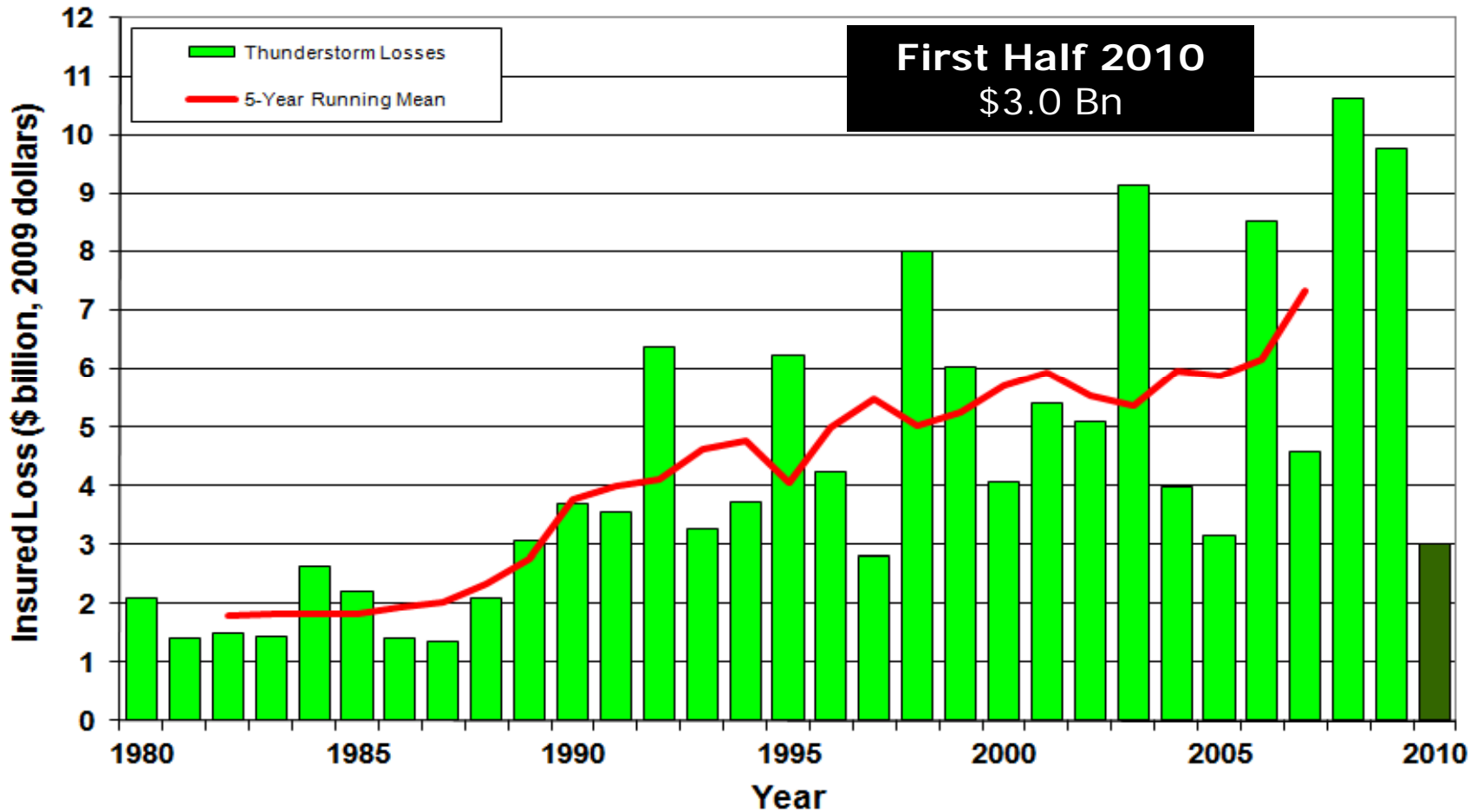
Insured U.S. Tropical Cyclone Losses, 1980 – 2010



U.S. Thunderstorm Loss Trends

Annual Totals 1980 – 2009 vs. First Half 2010

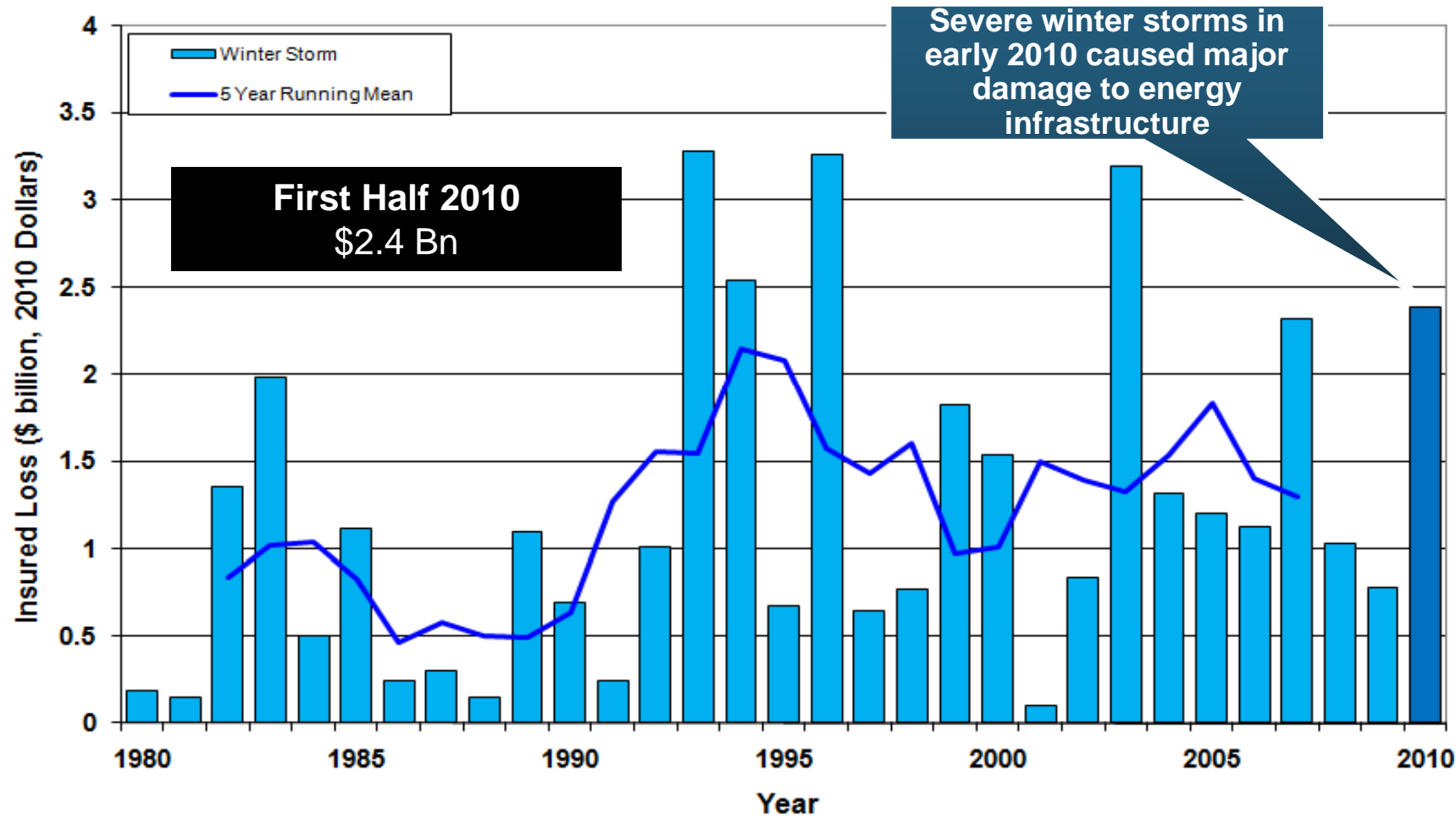
Thunderstorm losses have quadrupled since 1980.



U.S. Winter Storm Loss Trends

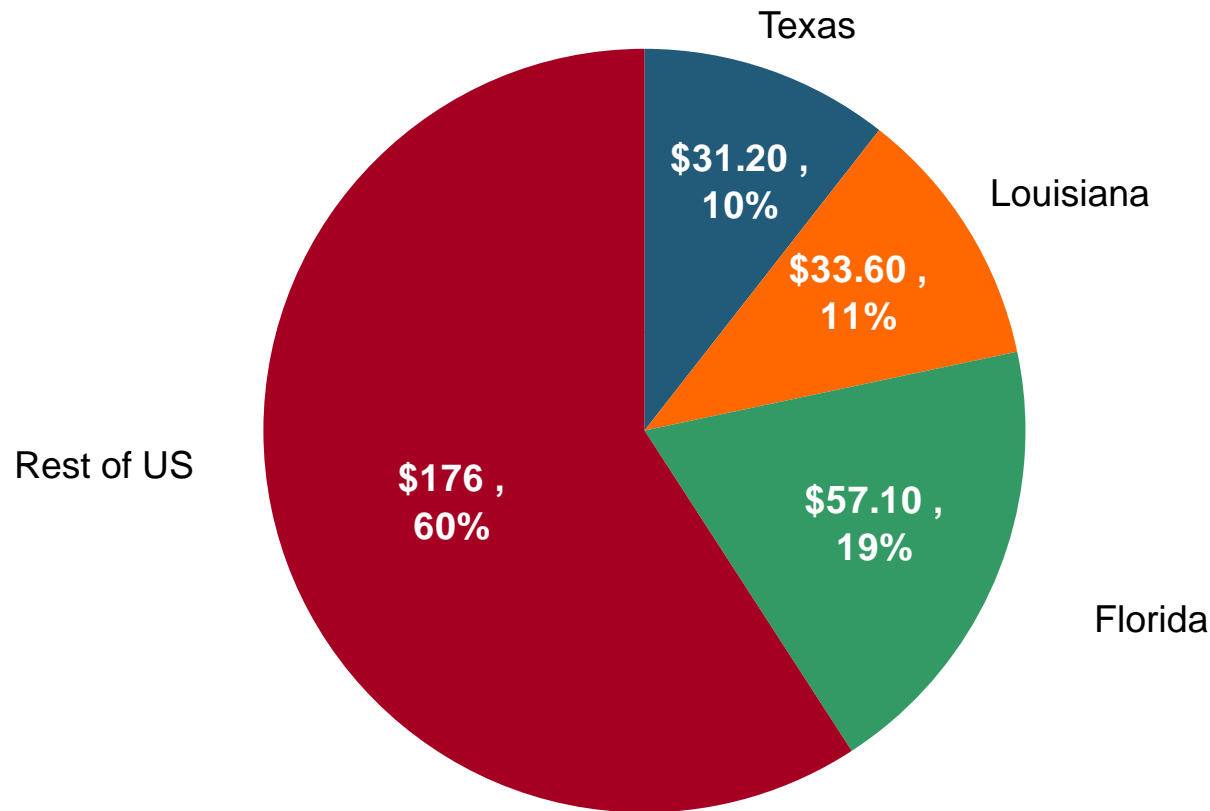
Annual totals 1980 – 2009 vs. First Half 2010

Average annual winter storm losses have increased over 50% since 1980.



Distribution of US Insured CAT Losses: TX, FL, LA vs. US, 1980-2008*

(\$ Billions)

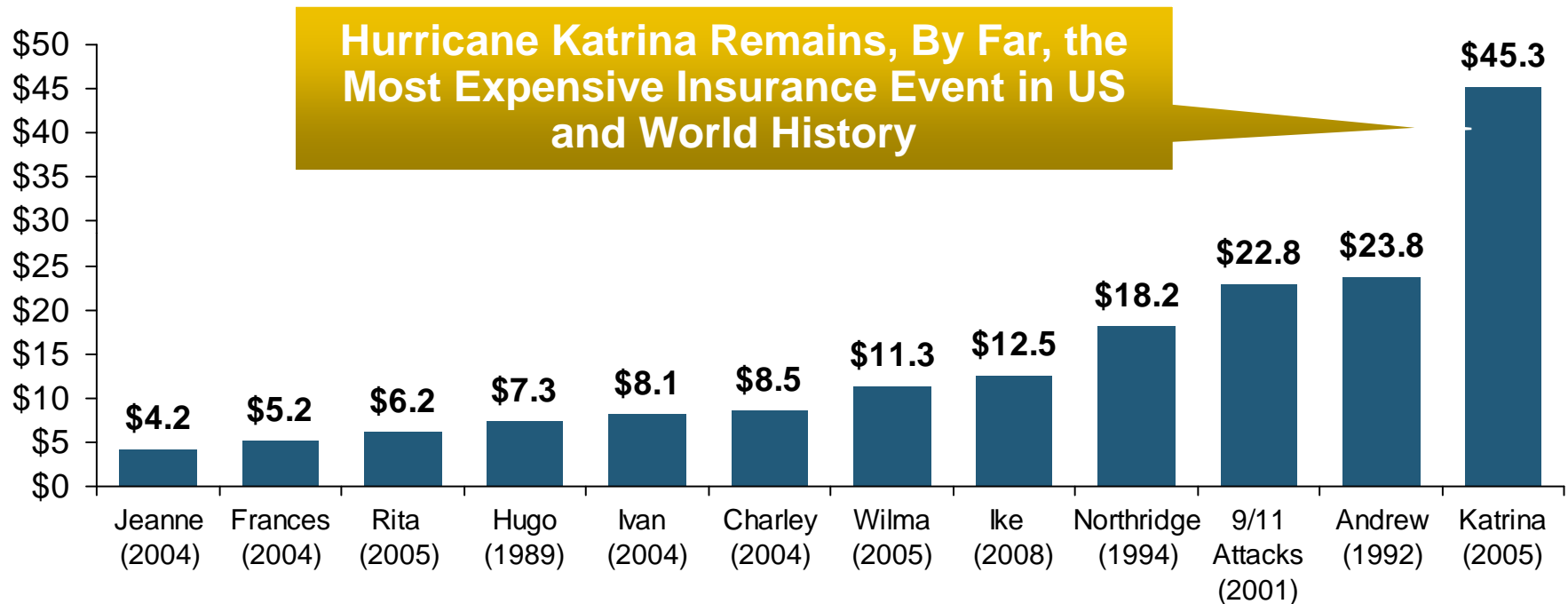


**Texas Accounted for 10% of All US Insured CAT Losses
from 1980-2008: \$57.1B out of \$297.9B**

* All figures (except 2006-2008 loss) have been adjusted to 2005 dollars.
Source: PCS division of ISO.

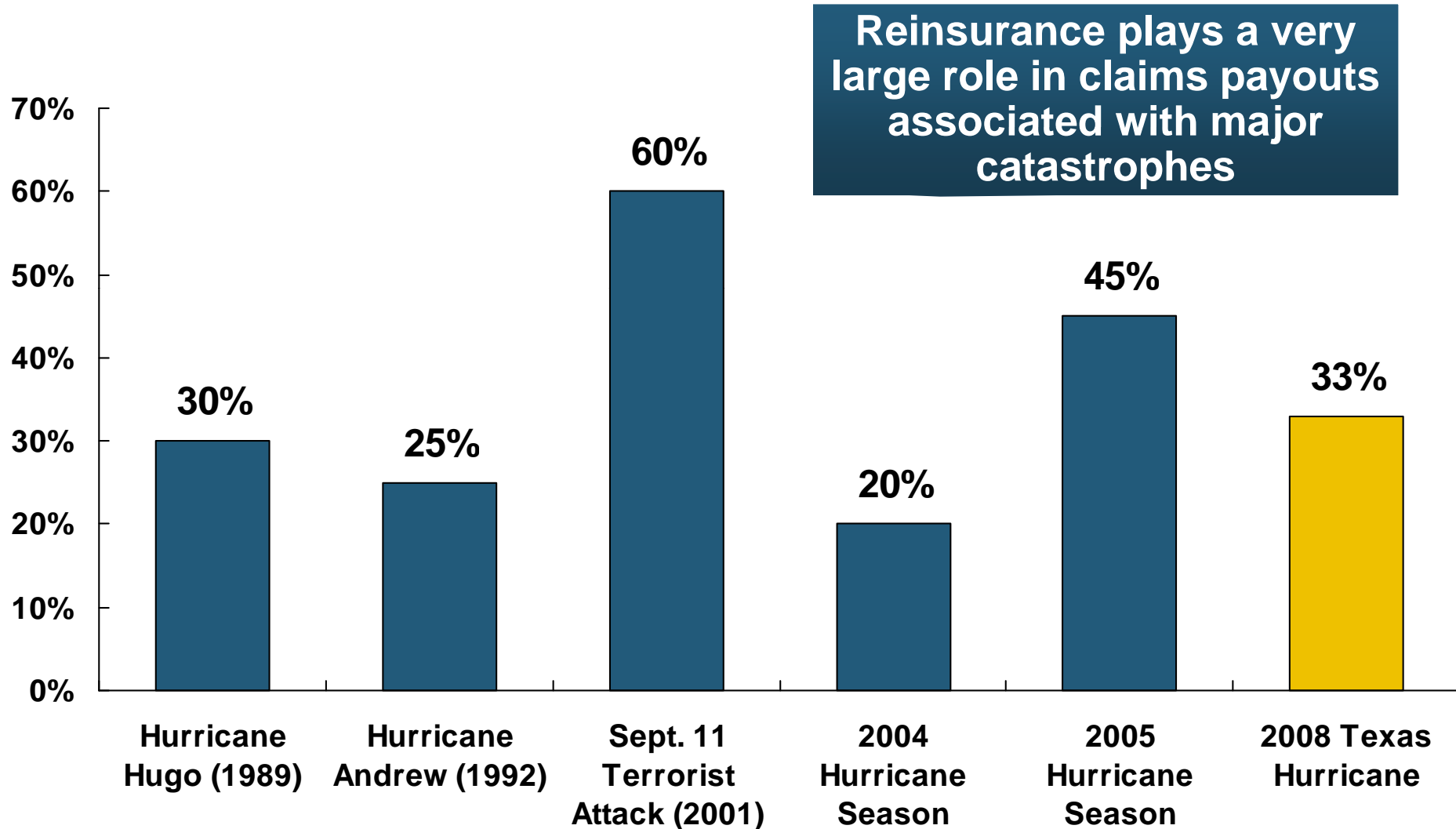
Top 12 Most Costly Disasters in US History

(Insured Losses, 2009, \$ Billions)



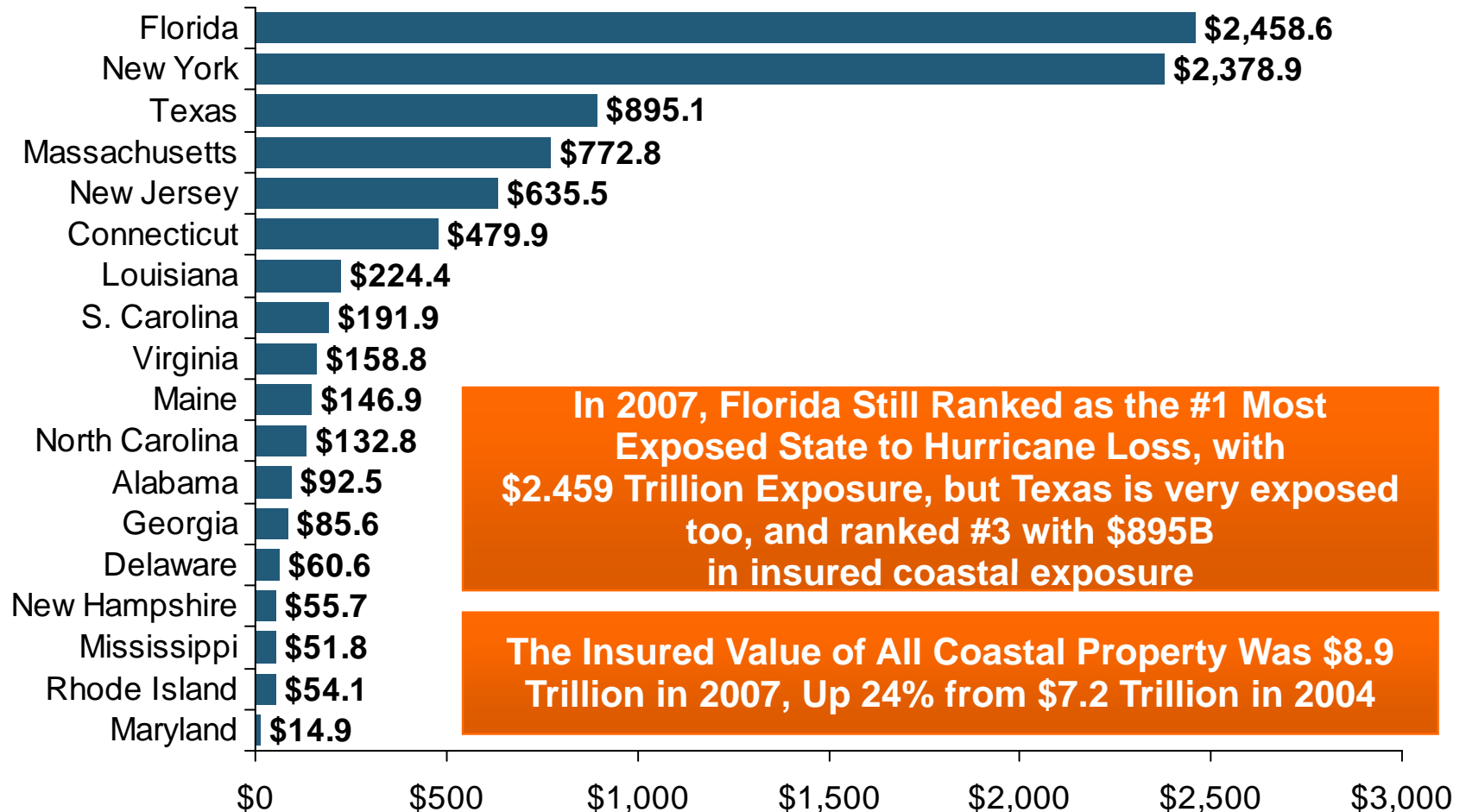
**8 of the 12 Most Expensive Disasters in US History
Have Occurred Since 2004;
8 of the Top 12 Disasters Affected FL**

Share of Losses Paid by Reinsurers for Major Catastrophic Events



Total Value of Insured Coastal Exposure

(2007, \$ Billions)



Underwriting Technology: The Competitive Front Line

**Underwriting Acumen Will
Determine Long-Run Success
*A Technological Arms Race?***

Competition: Success Defined More by Underwriting Acumen than by Price

- Consumers see competition mostly in terms of price and service
- While personal lines insurance is generally very price competitive, long-run success for insurers is not solely correlated with the lowest price
- Underwriting is the key to accurate risk assessment and pricing
- An insurer that systematically prices business more accurately will turn in a better financial performance and lead competitors misprice
- There are theoretically no boundaries when it comes to underwriting
- The past 15 years launched a technological revolution in underwriting
 - ◆ Now we're in the midst of a *Technological Arms Race*
- From Credit, to Predictive Modeling to Telematics to....???
- Next Wave of Innovations Will Include Integration of Real-Time Information About the Vehicle and Driver
- Interactive Technologies
 - ◆ Allows drivers to “log on” to view how driving behaviors influence risk and price
- Ability for Consumer to Adjust Behaviors
 - ◆ Tremendous public policy, public safety implications

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and your attention!***

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