



Alabama Homeowners Insurance: History and Trends for Catastrophic Loss and Impacts on Profitability

**Governor's Affordable Homeowners
Insurance Commission**

Montgomery, AL

December 12, 2011

Download at www.iii.org/presentations

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- **Catastrophe Loss Analysis for Alabama Insurance Markets**
 - ◆ Total Losses vs. Homeowners Insurance Line
 - ◆ Claim Values and Claim Counts
 - ◆ 2011 Catastrophe Claim Analysis
 - ◆ 1998-2011 Analysis
- **Federal Disaster Declarations: 1953—2011**
 - ◆ Alabama's Long-Run Catastrophe Exposure History
- **Spring 2011 Tornado and Severe Storm Summary**
- **Quantification of Alabama's Coastal Exposure Problem**
- **Profitability and Performance in Alabama's Insurance Markets**
 - ◆ Homeowners Insurance: Return on Net Worth, Loss Ratios & Premium Growth
- **Catastrophe Insurance Markets: Alabama Impacts World Markets**
 - ◆ Global & US Catastrophe loss Trends
- **Reinsurance Market Overview**
 - ◆ Higher Catastrophe Losses Can Pressure Pricing
- **Property/Casualty Insurance Markets & Catastrophic Loss**
 - ◆ Profitability
 - ◆ Underwriting Performance
 - ◆ Capital, Capacity and Financial Strength
- **Q&A**

- **Between 1998 and 2011, Insured Catastrophe Losses Across the State of Alabama Totaled \$8.4 Billion Arising from Nearly 1.1 Million Claims**
 - ◆ Home/Condos/Renters' policies accounted for 67% (\$5.6 bn) of dollars paid and 73% of the total number of claims; Commercial property accounts for the remainder.
- **2011 Was the Worst Year in AL History for Catastrophe Losses**
 - ◆ Insured catastrophe losses totaled \$3.2 bn arising from nearly 175,000 claims
 - ◆ Homeowners losses accounted for \$1.826 bn (66%) of the total from 114,200 claims
 - ◆ Homeowners losses paid exceeded estimated premiums collected of by more than \$400 million in 2011
 - ◆ The average cost of a homeowners catastrophe claim reached a record \$15,989 in 2011
- **Alabama's Homeowners Insurance Market is Unprofitable**
 - ◆ Return on Net Worth (RNW) from 1990-2009 average -5.6%
 - ◆ RNW from 2000-2009 averaged -7.9%, ranking the state 43rd out the 50 states
 - ◆ Inclusion of the 2011 storms could make AL close to the least profitable state
- **AL Has the 7th Highest Total Federal Disaster Declarations Since 1953**
- **April 2011 Tornadoes Were the Most Expensive/Deadly in US History**
 - ◆ Aggregated, this year's spring storms are the 5th largest insurance loss in US history
- **AL Losses Have Impacted Overall US and Global (Re)Insurance Markets**

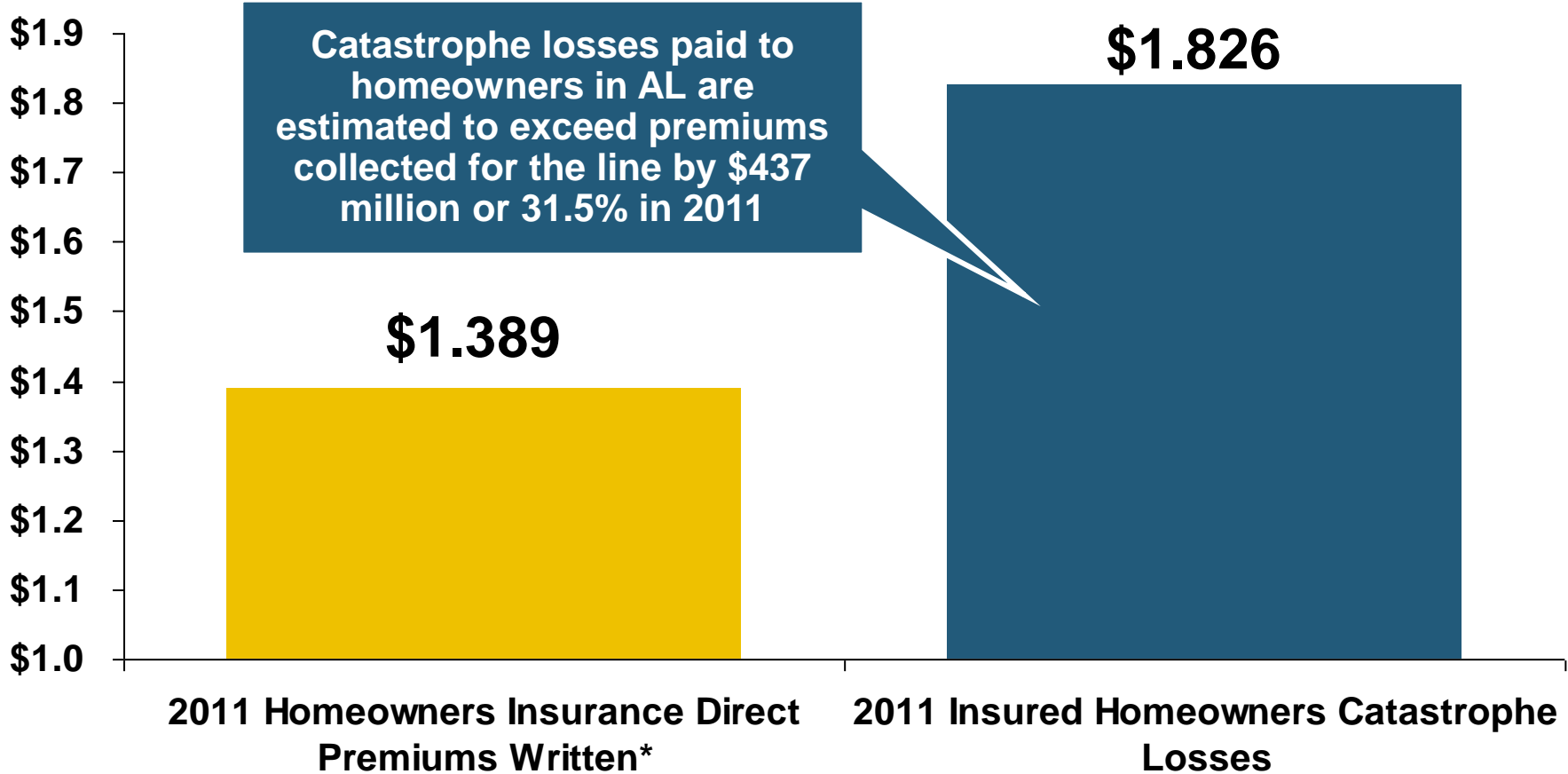


Insured Catastrophe Analysis for Alabama Insurance Markets: *Focus on Homeowners' Claims*

**Alabama Has a Long History
of Experience of
Catastrophic Loss; Loss
Data Are Trending Adversely**

2011 Catastrophe Losses in Alabama's Homeowners Market Dwarf Premiums Paid

(\$ Billions)

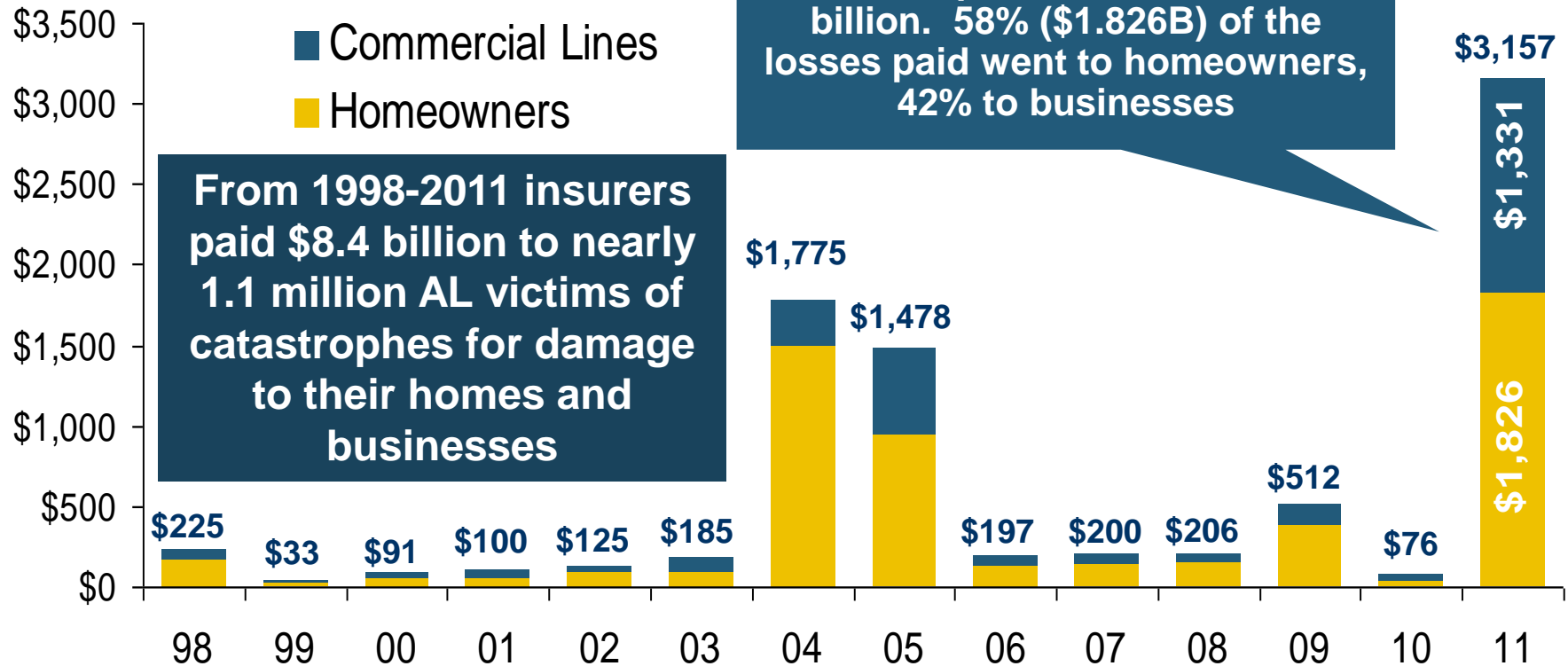


Insurers ROE in the AL Homeowners Line in 2011 Will be Negative by Several Hundred Percent

Sources: Homeowners DPW for AL is III estimated based on assumed 5% growth over 2010 actual of \$1.323 bn.; Catastrophe loss data is from PCS as of Dec. 7, 2011.

Value of Insured Catastrophe Losses in Alabama, by Segment, 1998–2011*

(\$ Millions)



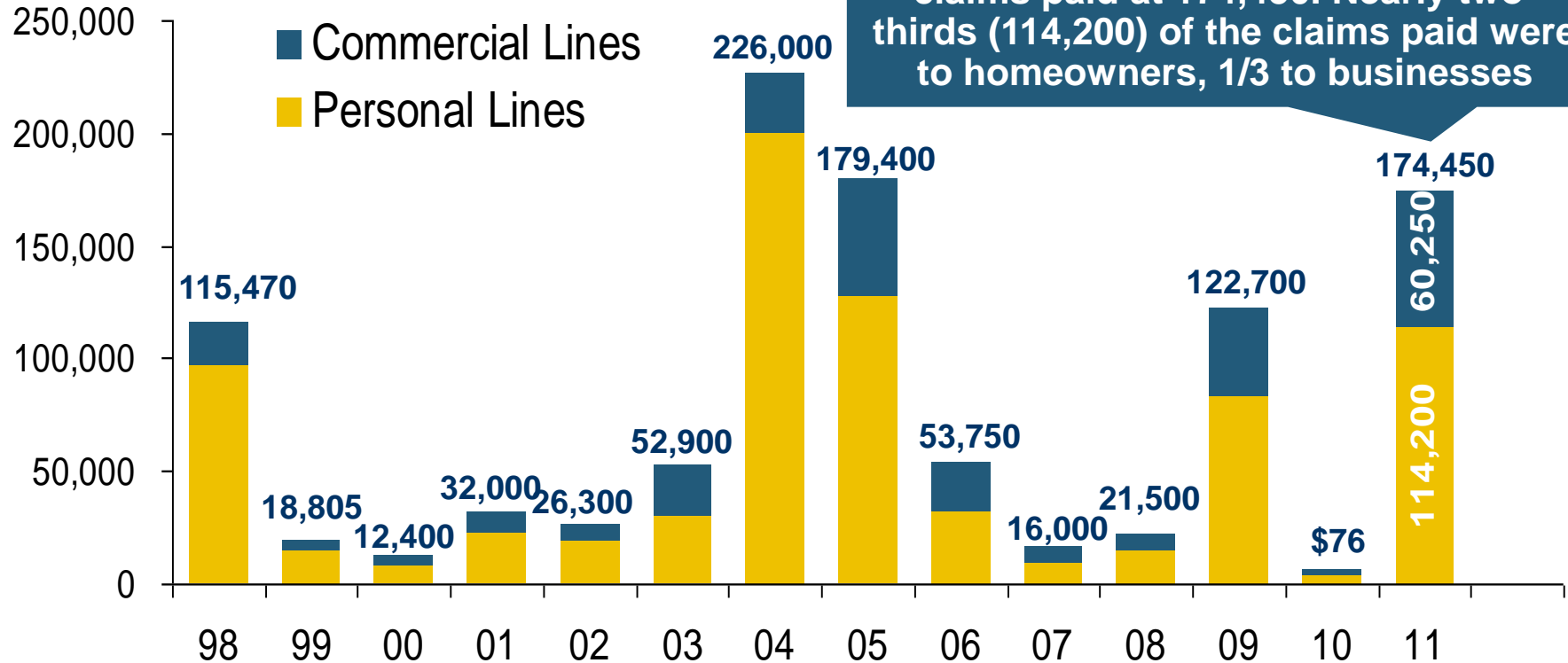
Alabama is No Stranger to Catastrophe, but 2011 Was Far More Devastating Than Any Year in History

*Data are current through Dec. 7, 2011.

Source: PCS unit of ISO; Insurance Information Institute.

Number of Insured Catastrophe Claims in Alabama, by Segment, 1998–2011*

Number of Claims



2011 was the costliest year on record and ranked 3rd in terms of number of claims paid at 174,450. Nearly two-thirds (114,200) of the claims paid were to homeowners, 1/3 to businesses

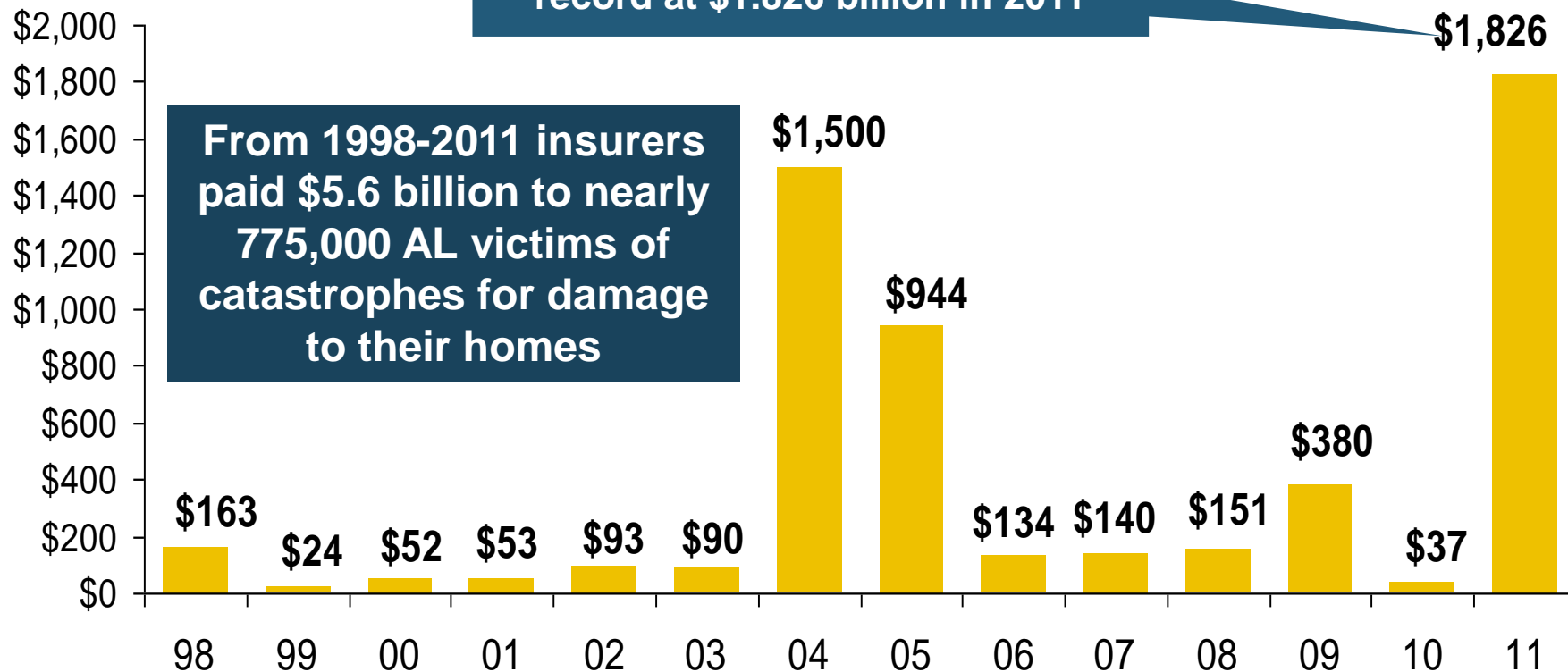
Insurers in Alabama Paid More than 55,000 Catastrophe Claims on Average Annually Between 1998 and 2011, Most to Homeowners

*Data are current through Dec. 7, 2011.

Source: PCS unit of ISO; Insurance Information Institute.

Value of Alabama Insured Catastrophe Losses: Homeowners, 1998–2011*

(\$ Millions)



Insurers Paid an Average of \$400 million per Year to More than 55,000 Homeowners in Alabama from 1998-2011

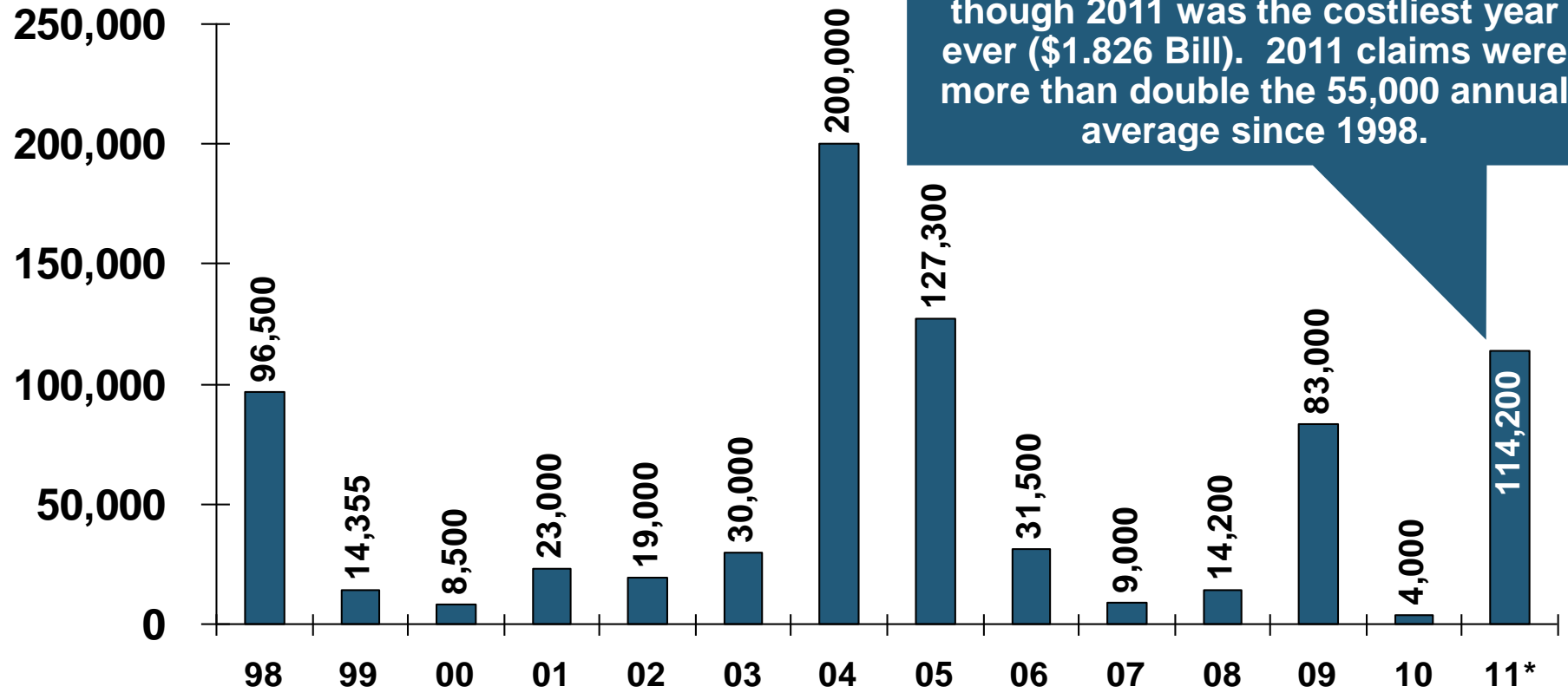
*Data are current through Dec. 7, 2011.

Source: PCS unit of ISO; Insurance Information Institute.

Number of Homeowners Catastrophe Losses Paid by Insurers in AL, 1998-2011*



(Number of Claims Paid)



2011 saw the 3rd largest number of homeowners claims since 1998 even though 2011 was the costliest year ever (\$1.826 Bill). 2011 claims were more than double the 55,000 annual average since 1998.

Insurers in Alabama Paid Nearly 775,000 Catastrophe Claims Between 1998 and 2011 to Homeowners Across the State

*Data are current through Dec. 7, 2011.
Source: PCS unit of ISO; Insurance Information Institute calculations.

2011 Catastrophic Homeowners* Claim Activity in Alabama, by Event**

<u>Date</u>	<u>Perils</u>	<u>Avg. Pmt \$</u>	<u>Total \$ Pd.</u>	<u># Claims</u>	<u>HO \$ %</u>	<u>HO # %</u>
Mar 26 - 28	Hail, Tornadoes, Wind	6,794	53,000,000	7,800	47.14%	65%
Event Total		6,794	53,000,000	7,800	67.09%	53.42%
2011:Q1 Total		6,794	53,000,000	7,800	67.09%	53.42%
Apr 8 - 11	Flooding, Hail, Tornadoes, Wind	6,250	50,000,000	8,000	87.72%	86.96%
Event Total		6,250	50,000,000	8,000	87.72%	86.96%
Apr 14 - 16	Flooding, Hail, Tornadoes, Wind	8,475	50,000,000	5,900	75.76%	70.24%
Event Total		8,474	50,000,000	5,900	75.76%	70.24%
Apr 22 - 28	Flooding, Hail, Tornadoes, Wind	19,412	1,650,000,000	85,000	56.41%	63.91%
Event Total		19,411	1,650,000,000	85,000	56.41%	63.91%
2011:Q2 Total		17,694	1,750,000,000	98,900	57.41%	65.67%
Sep 3 - 9	Flooding, Tornadoes, Wind	3,067	23,000,000	7,500	76.67%	81.08%
Event Total		3,066	23,000,000	7,500	56.41%	63.91%
2011:Q3 Total		3,066	23,000,000	7,500	76.67%	81.08%
2011 YTD Totals		15,989	1,826,000,000	114,200	57.84%	65.46%

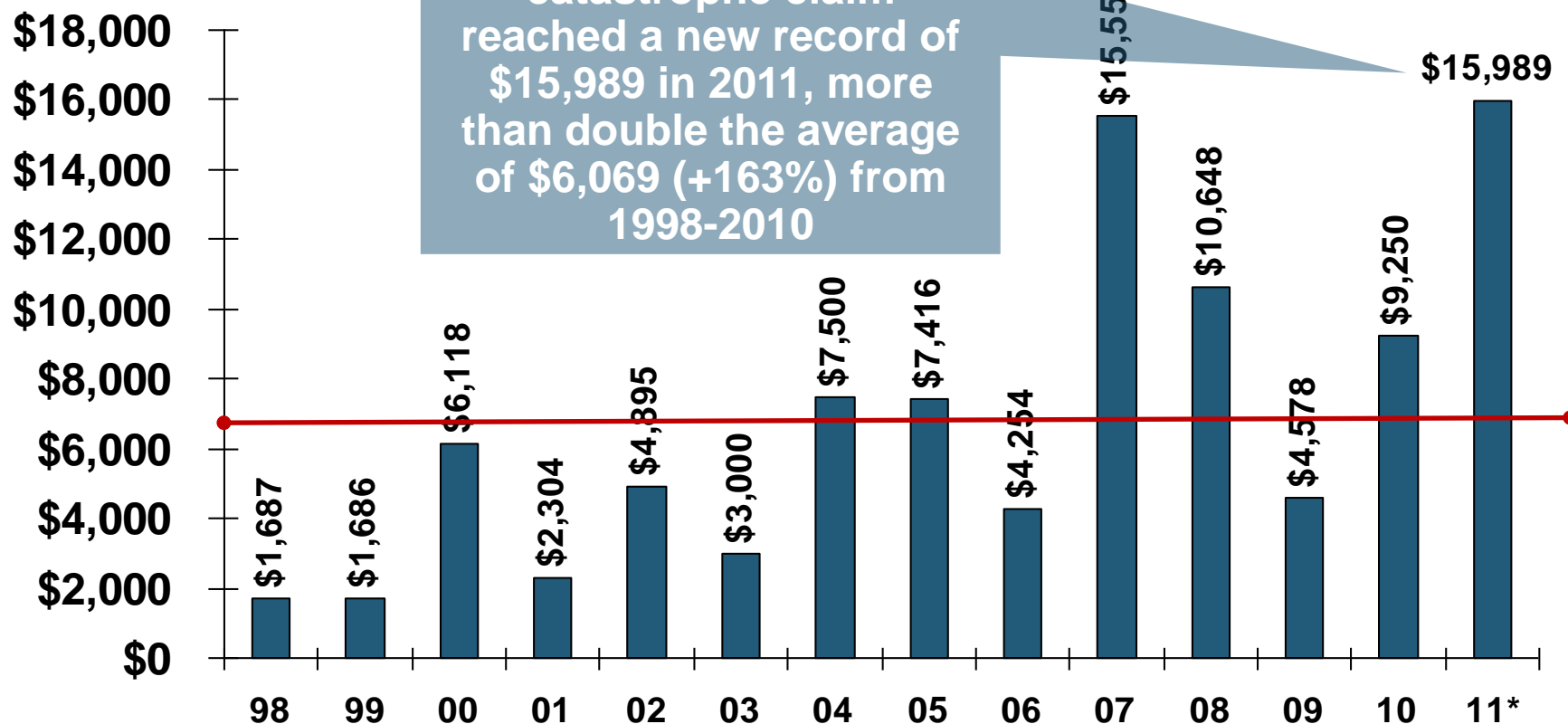
2011 has been the most expensive in history for insured catastrophe losses paid to Alabama homeowners. Payments totaled \$1.826 billion arising from 114,200 claims

**Through Dec, 7, 2011.
Source: PCS Division of ISO.

*Includes all categories of dwelling policies, such as home, condo and renters' policies 10

Average Value of Insured Homeowners Catastrophe Loss Claims in AL, 1998-2011*

(Cost of Average
Personal Lines Claim



Insured Catastrophe Losses to Homes in Alabama Are Volatile and Are Trending Upward

*Data are current through Dec. 7, 2011.

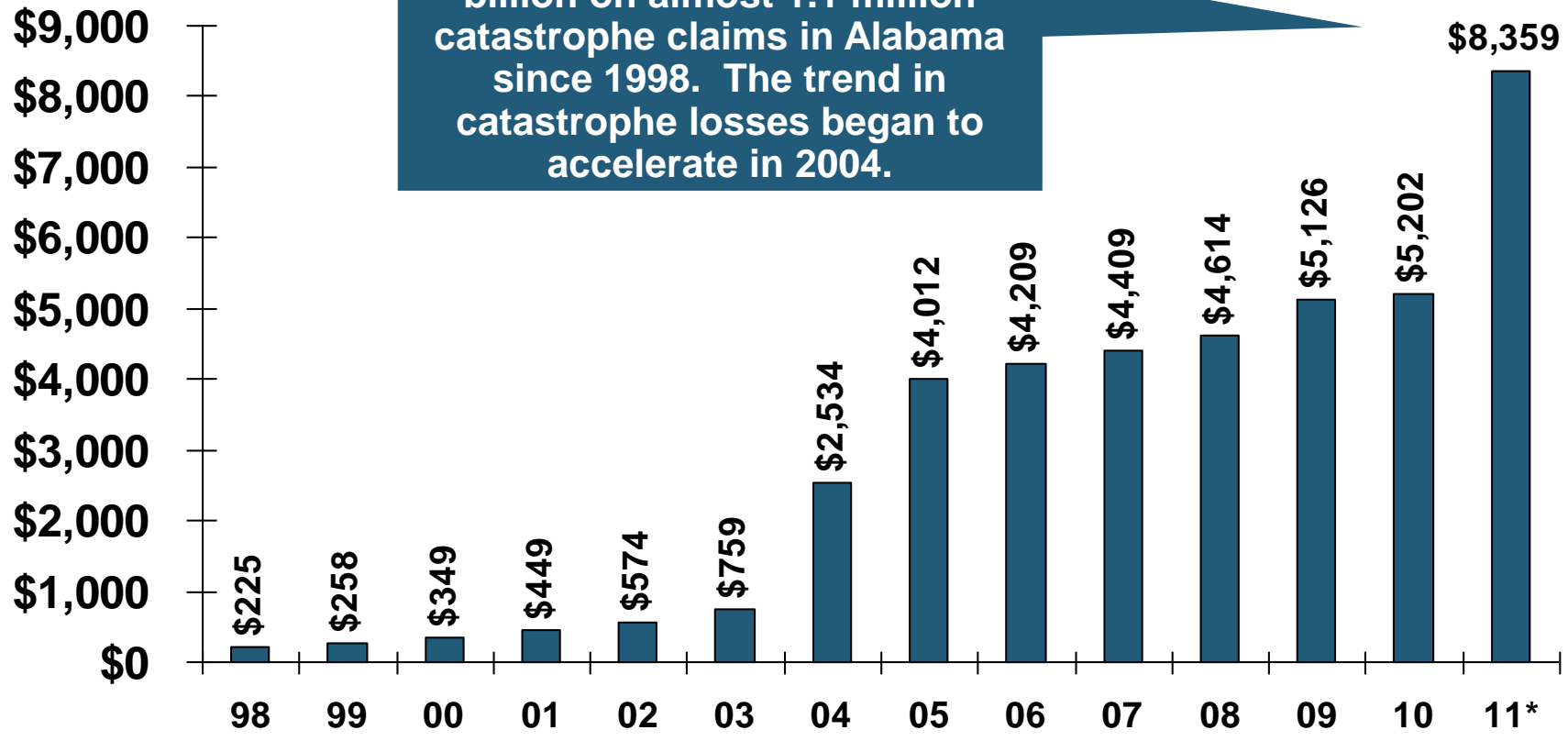
Source: PCS unit of ISO; Insurance Information Institute calculations.

Cumulative Value of Catastrophe Losses Paid by Insurers in Alabama, 1998-2011*



(\$ Millions)

Insurers have paid nearly \$8.4 billion on almost 1.1 million catastrophe claims in Alabama since 1998. The trend in catastrophe losses began to accelerate in 2004.



Catastrophe Losses in Alabama Are High Relative to the Size of the State's Economy and Population

*Data are current through Dec. 7, 2011.

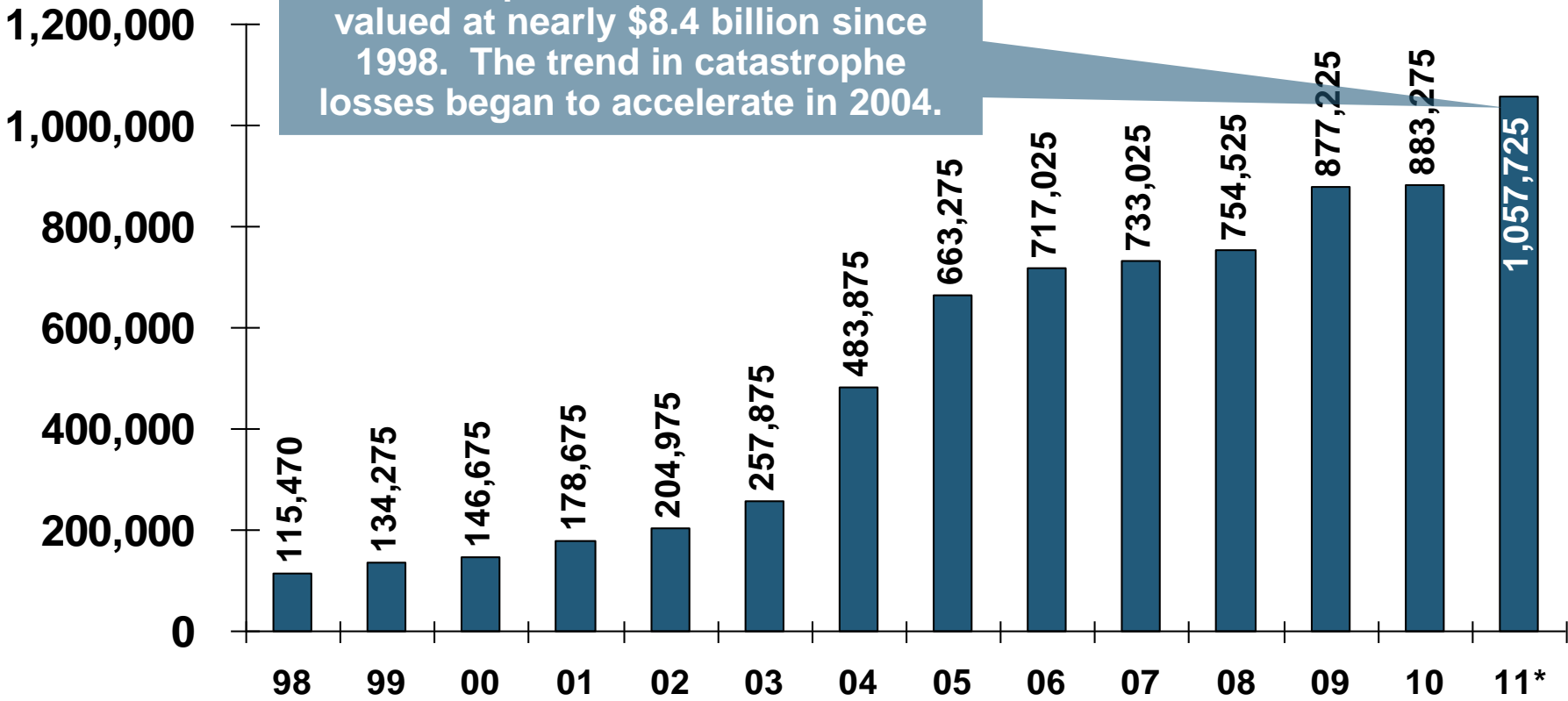
Source: PCS unit of ISO; Insurance Information Institute calculations.

Cumulative Number of Catastrophe Losses Paid by Insurers in Alabama, 1998-2011*



(Number of Claims Paid)

Insurers have paid nearly 1.1 million catastrophe claims in Alabama valued at nearly \$8.4 billion since 1998. The trend in catastrophe losses began to accelerate in 2004.

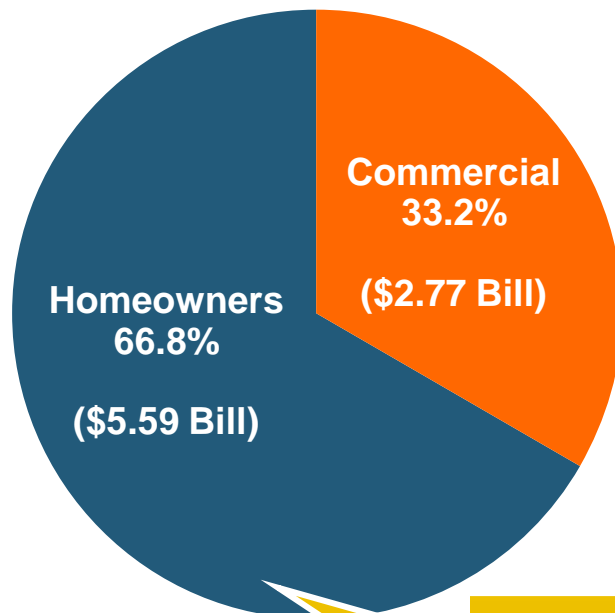


The Number of Catastrophe Losses in Alabama Is High Relative to the Size of the State's Economy and Population

*Data are current through Dec. 7, 2011.
Source: PCS unit of ISO; Insurance Information Institute calculations.

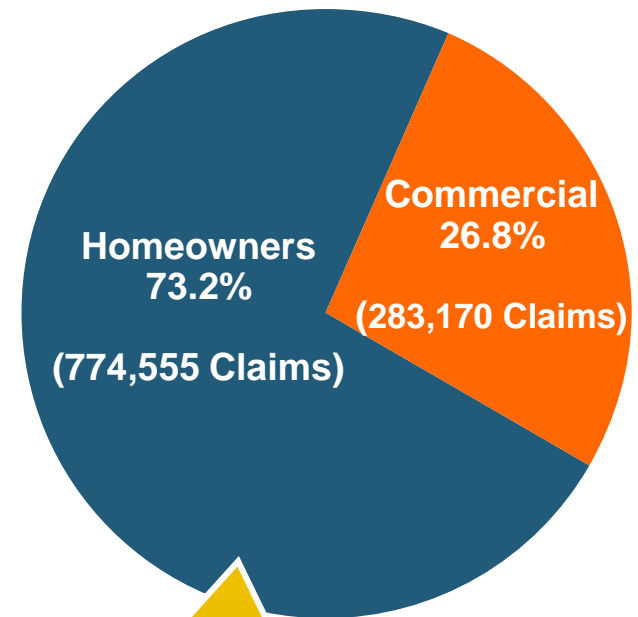
Distribution of Catastrophe Insured Claims in AL, by Segment, 1998–2011*

Value of Claims Paid



2/3 of the catastrophe claim dollars paid since 1998 were for damage to homes

Number of Claims Paid



Nearly 3/4 of the catastrophe claims paid since 1998 were for damage to homes

*Data are current through Dec. 7, 2011.

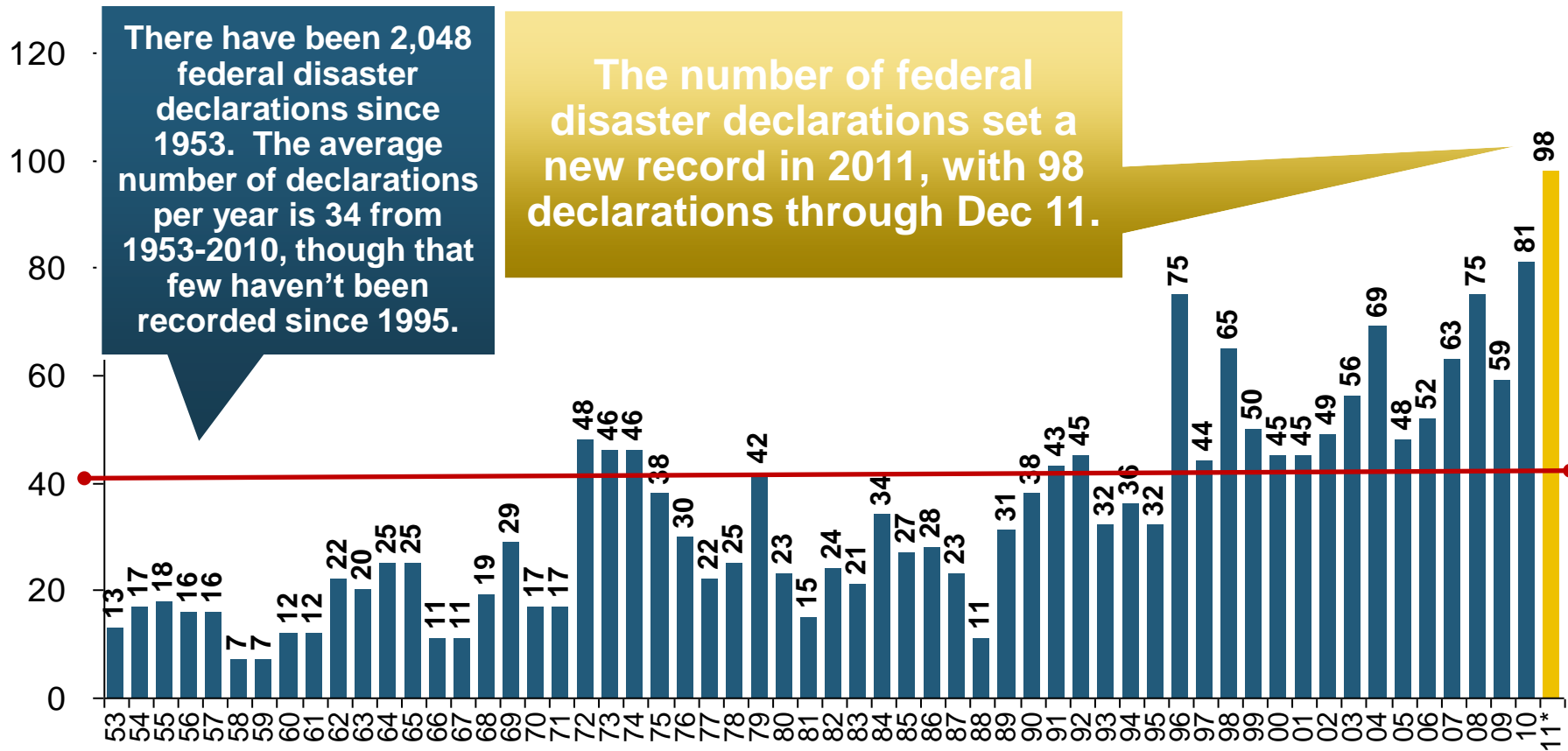
Source: PCS unit of ISO; Insurance Information Institute calculations.



Federal Disaster Declarations: *Trending Adversely*

**Alabama Has the 7th Highest
Number of Federal Disaster
Declarations From 1953 - 2011**

Number of Federal Disaster Declarations, 1953-2011*

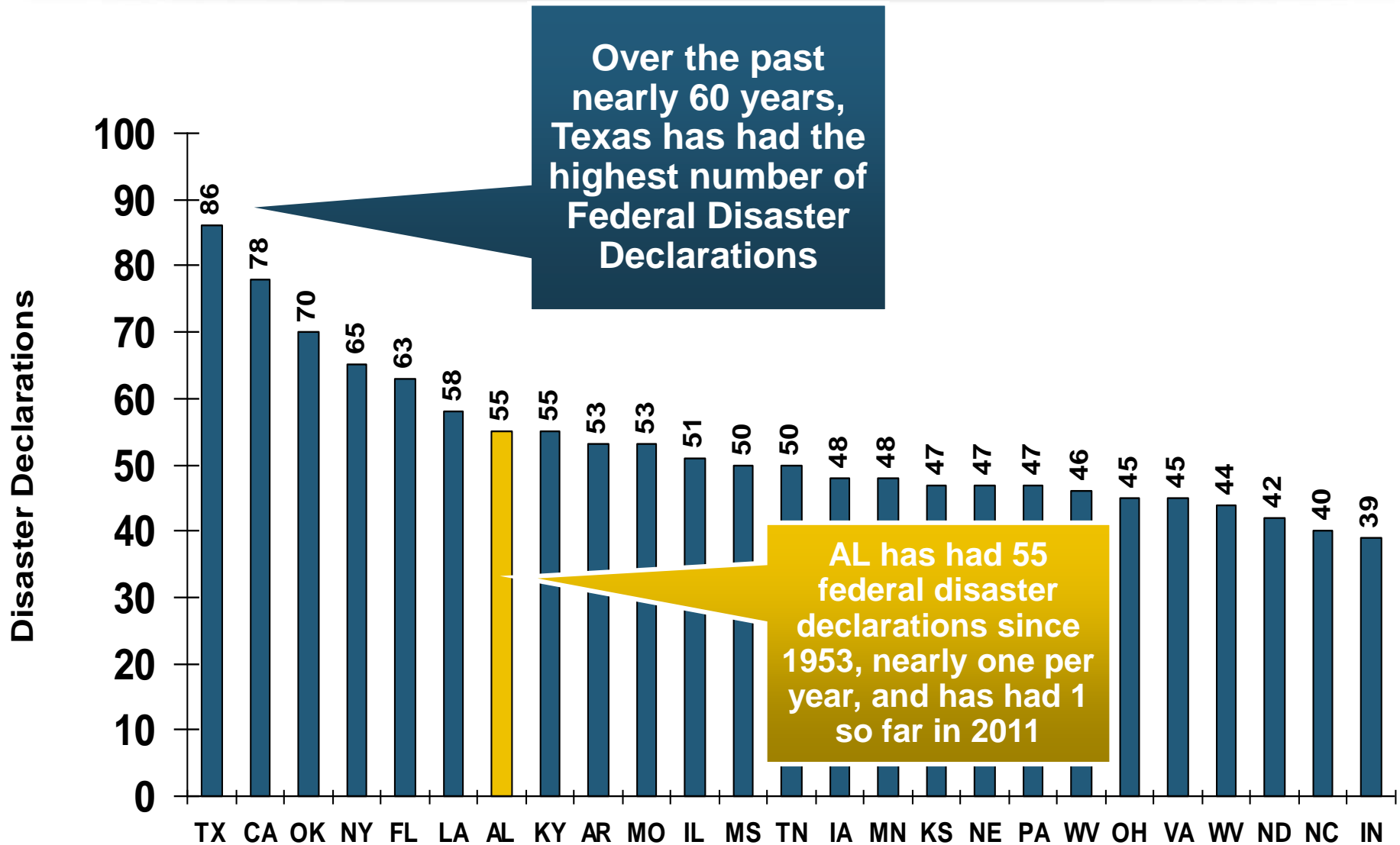


The Number of Federal Disaster Declarations Is Rising and Set a New Record in 2011

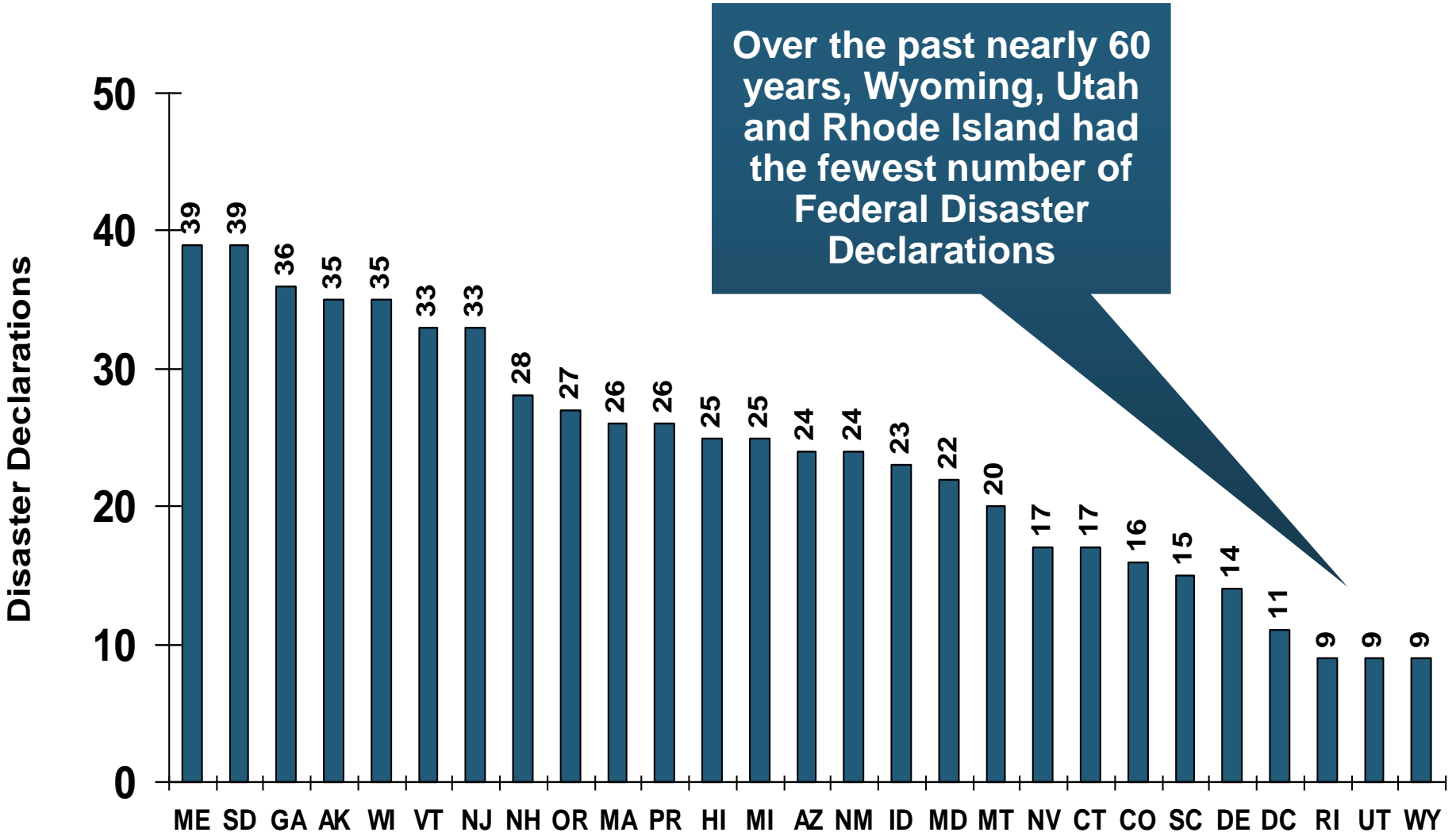
*Through December 11, 2011.

Source: Federal Emergency Management Administration: http://www.fema.gov/news/disaster_totals_annual.fema ; Insurance Information Institute.

Federal Disasters Declarations by State, 1953 – Dec. 11, 2011: Highest 25 States



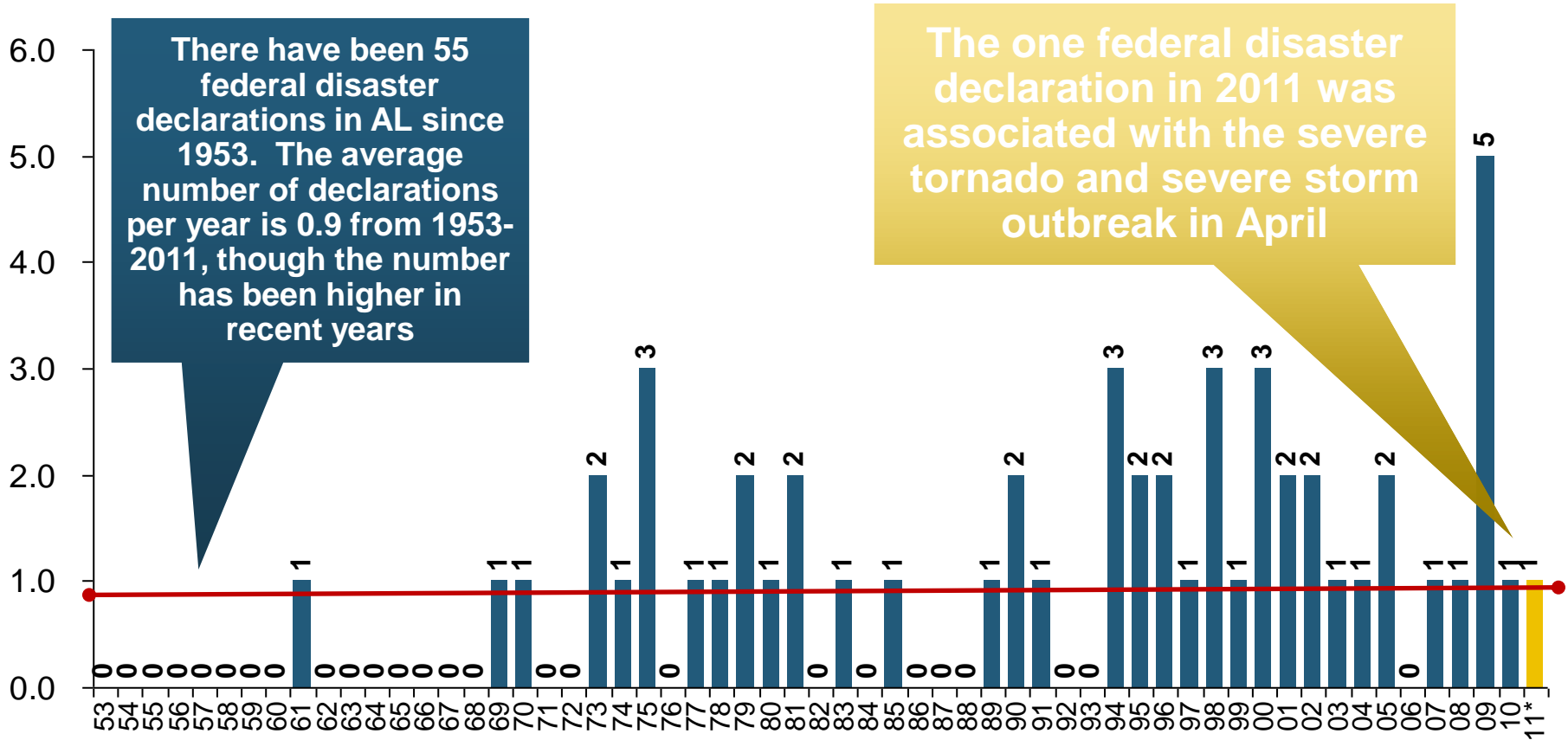
Federal Disasters Declarations by State, 1953 – Dec. 11, 2011: Lowest 25 States*



*Includes Puerto Rico and the District of Columbia.

Source: FEMA: http://www.fema.gov/news/disaster_totals_annual.fema; Insurance Information Institute.

Number of Federal Disaster Declarations In Alabama, 1953-2011*

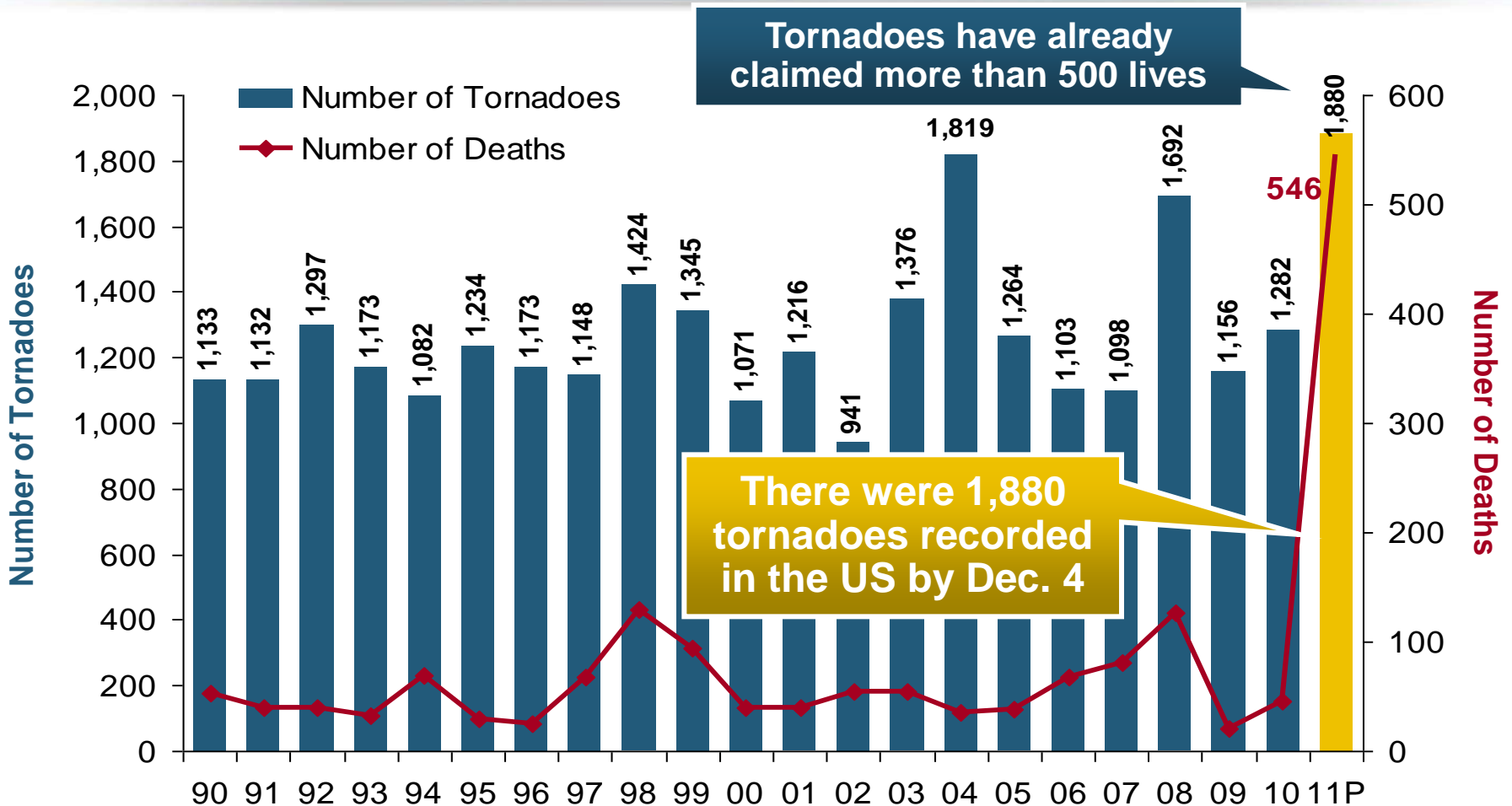


The Number of Federal Disaster Declarations Spike in 2009 Was the Highest Ever, Mostly Associated with Tornadoes, Severe Storms, Straight Line Winds, Floods and Tropical Storm Ida

*Through December 11, 2011.

Source: Federal Emergency Management Administration: http://www.fema.gov/news/disaster_totals_annual.fema; Insurance Information Institute.

Number of Tornadoes and Related Deaths, 1990 – 2011*

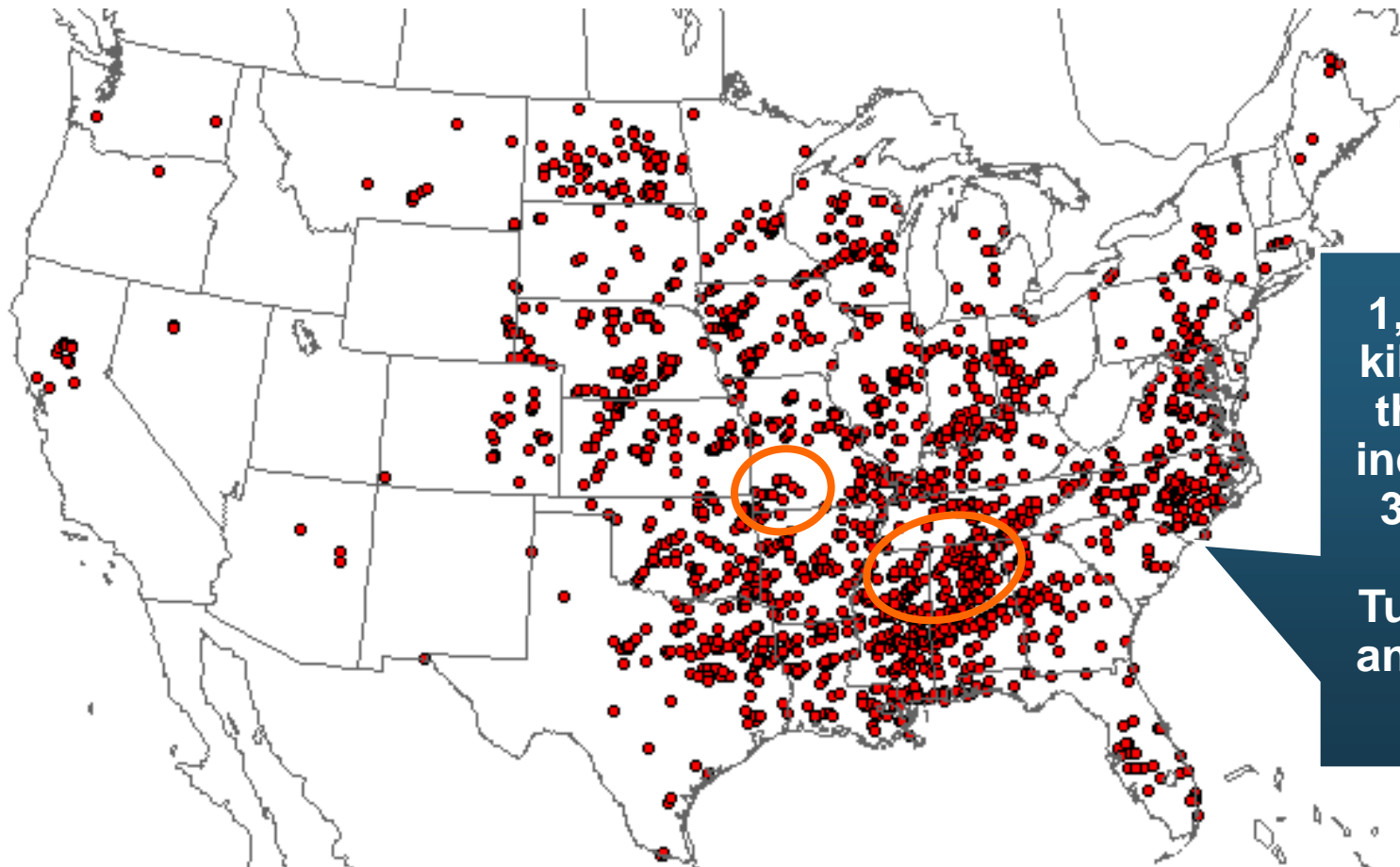


Insurers Expect to Pay Approximately \$2 Billion Each for the April 2011 Tornadoes in Alabama and a Similar Amount for the May Storms in Joplin

*2011 is preliminary data through December 4.

Source: U.S. Department of Commerce, Storm Prediction Center, National Weather Service.

Location of Tornadoes in the US, January 1—December 5, 2011



1,880 tornadoes
killed 546 people
through Dec. 5,
including at least
340 on April 26
mostly in the
Tuscaloosa area,
and 130 in Joplin
on May 22



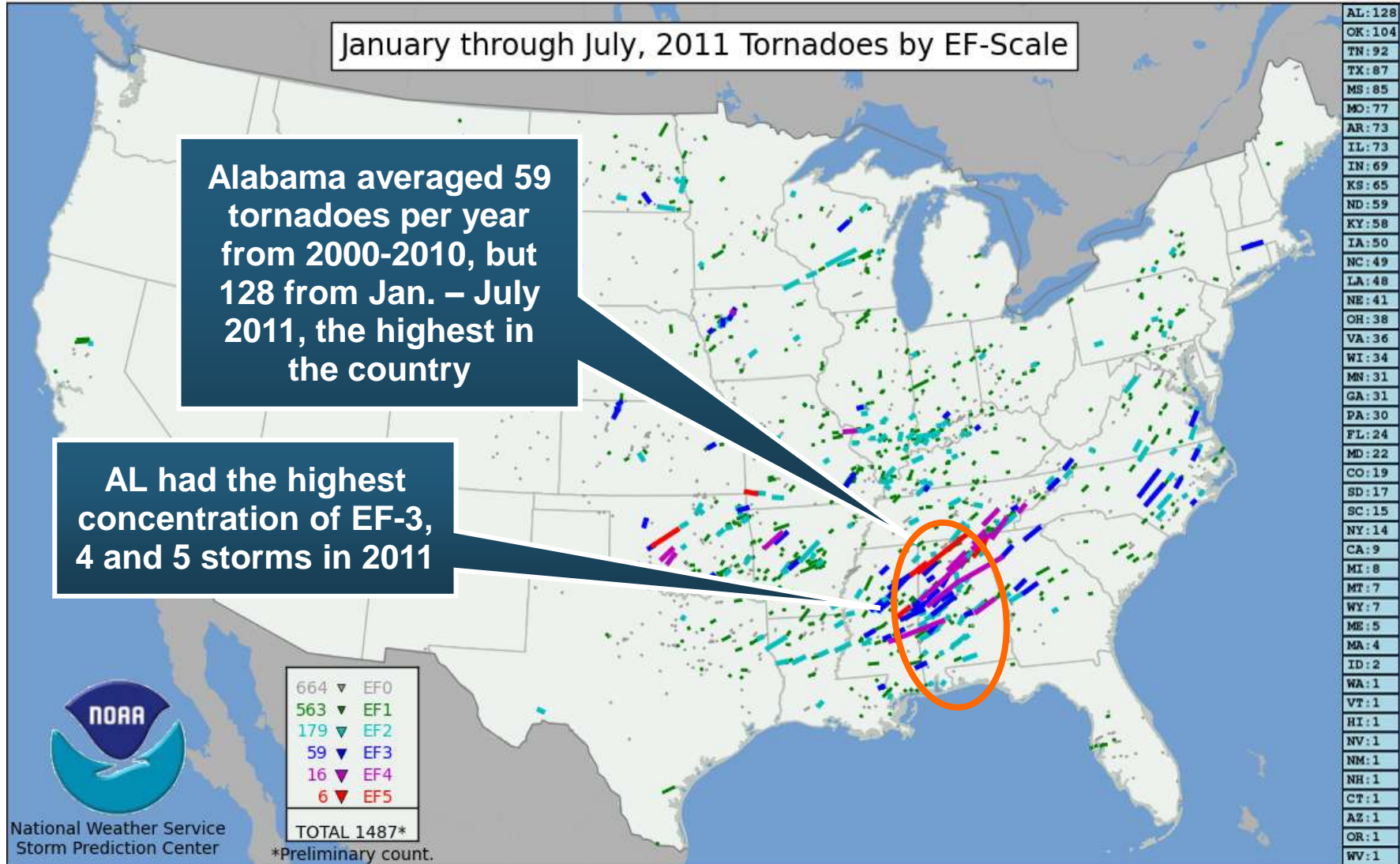
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

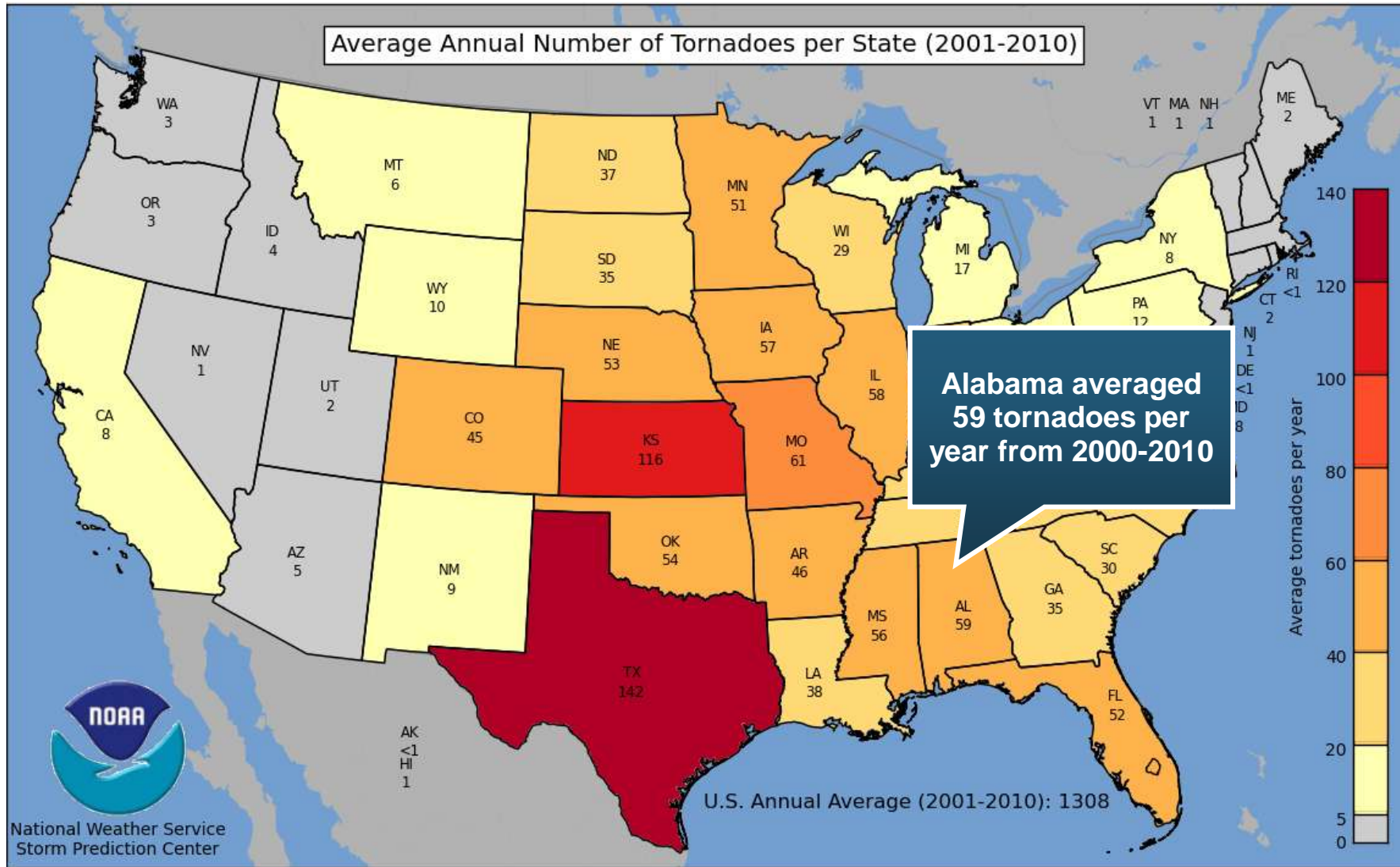
Tornado Reports
January 01, 2011 - December 05, 2011

Updated: Monday December 05, 2011 08:18 CT

Tornado Tracks by Enhanced Fujita (EF) Scale, January – July 2011

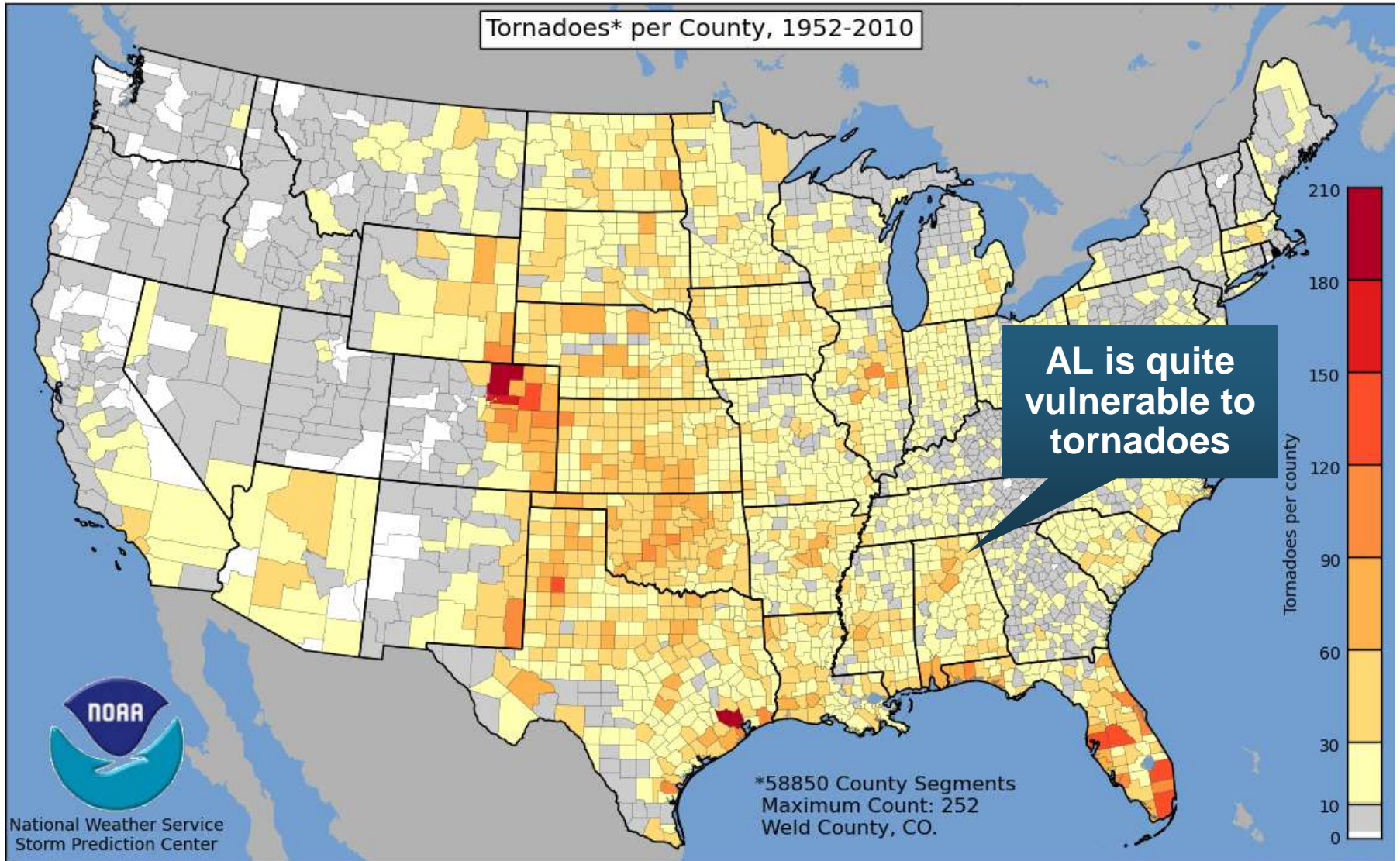


Average Number of Tornadoes per Year, 2000-2010

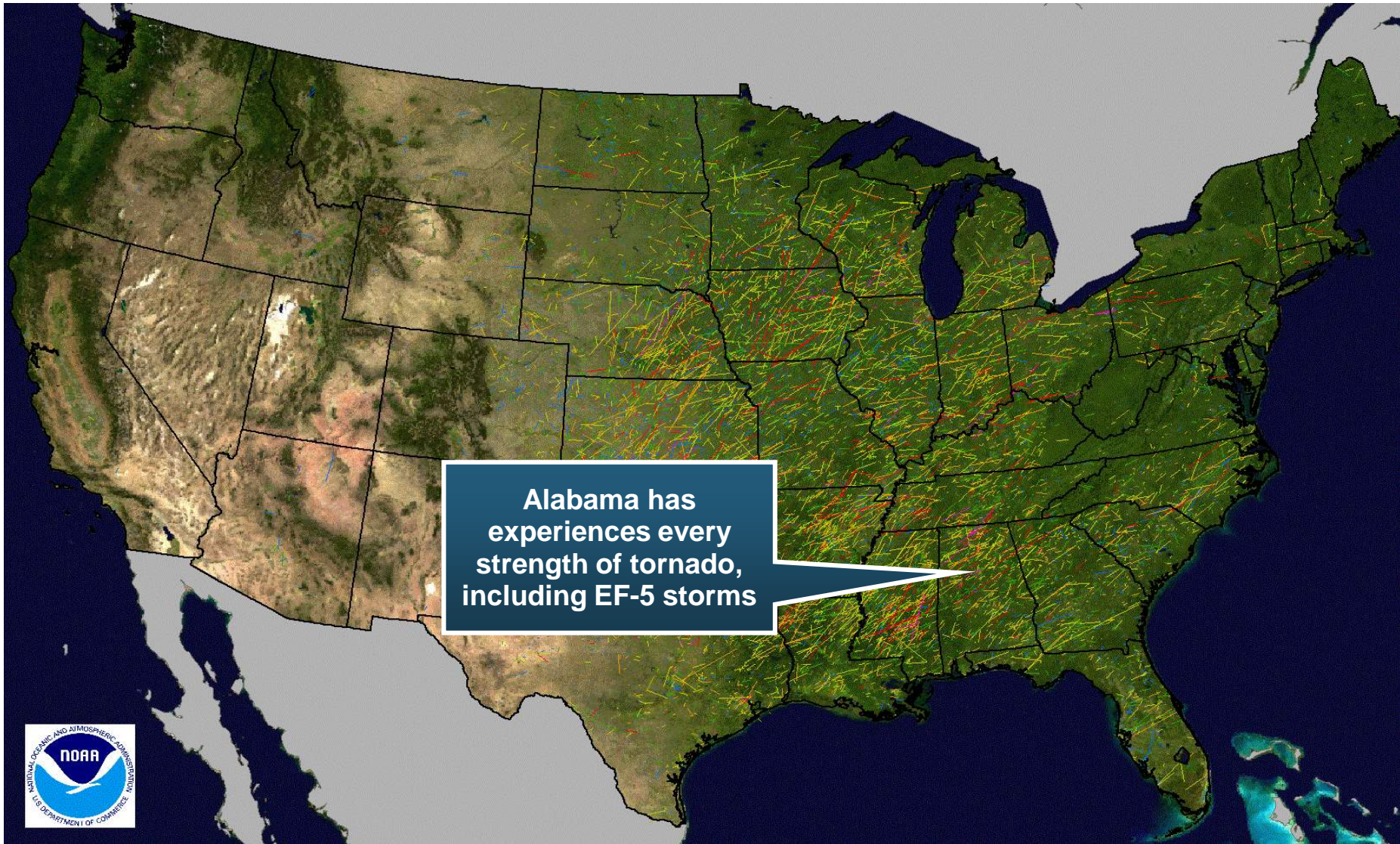


Source: NOAA at <http://www.spc.noaa.gov/wcm/ustormaps/2001-2010-states.png>

Tornado by County, 1952-2010

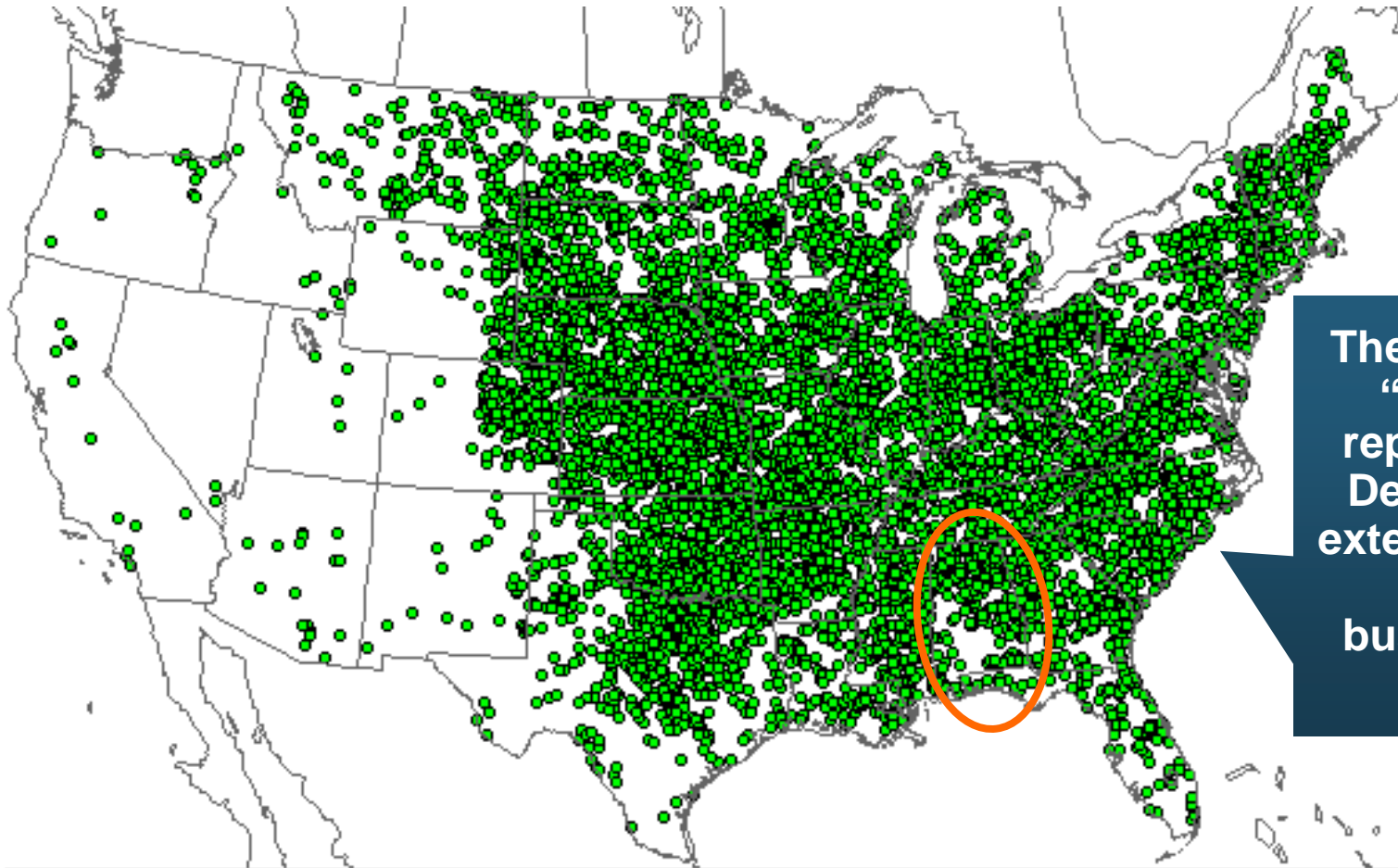


Tornado Tracks by EF Scale, 1950-2010



Source: NOAA at: http://www.spc.noaa.gov/gis/svrgis/images/EF_tracks.gif

Location of Large Hail Reports in the US, January 1—December 5, 2011



There were 9,413
“Large Hail”
reports through
Dec. 5, causing
extensive damage
to homes,
businesses and
vehicles



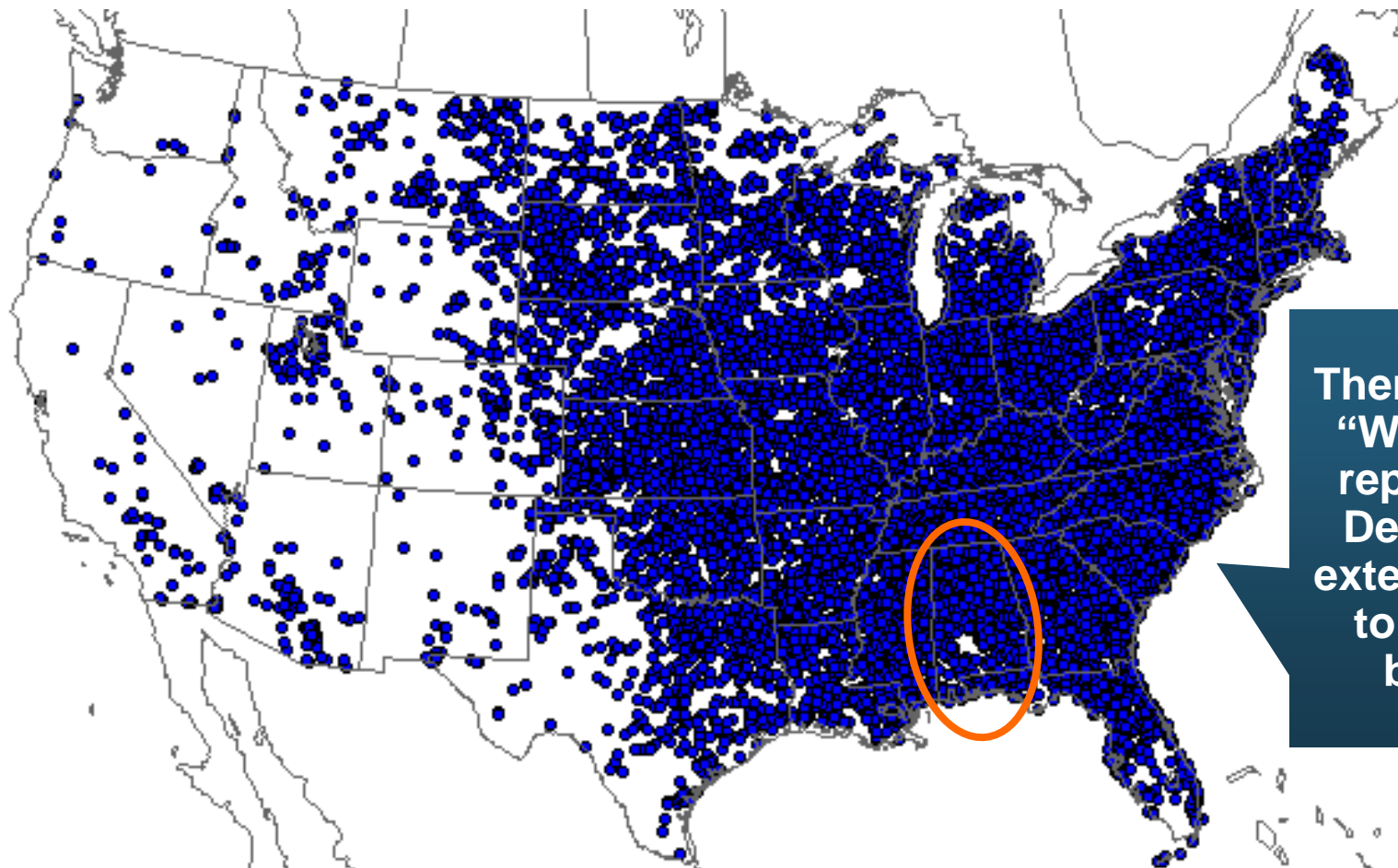
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Hail Reports
January 01, 2011 - December 05, 2011

Updated: Monday December 05, 2011 08:18 CT

Location of Wind Damage Reports in the US, January 1—December 5, 2011



There were 18,580
“Wind Damage”
reports through
Dec. 5, causing
extensive damage
to homes and,
businesses



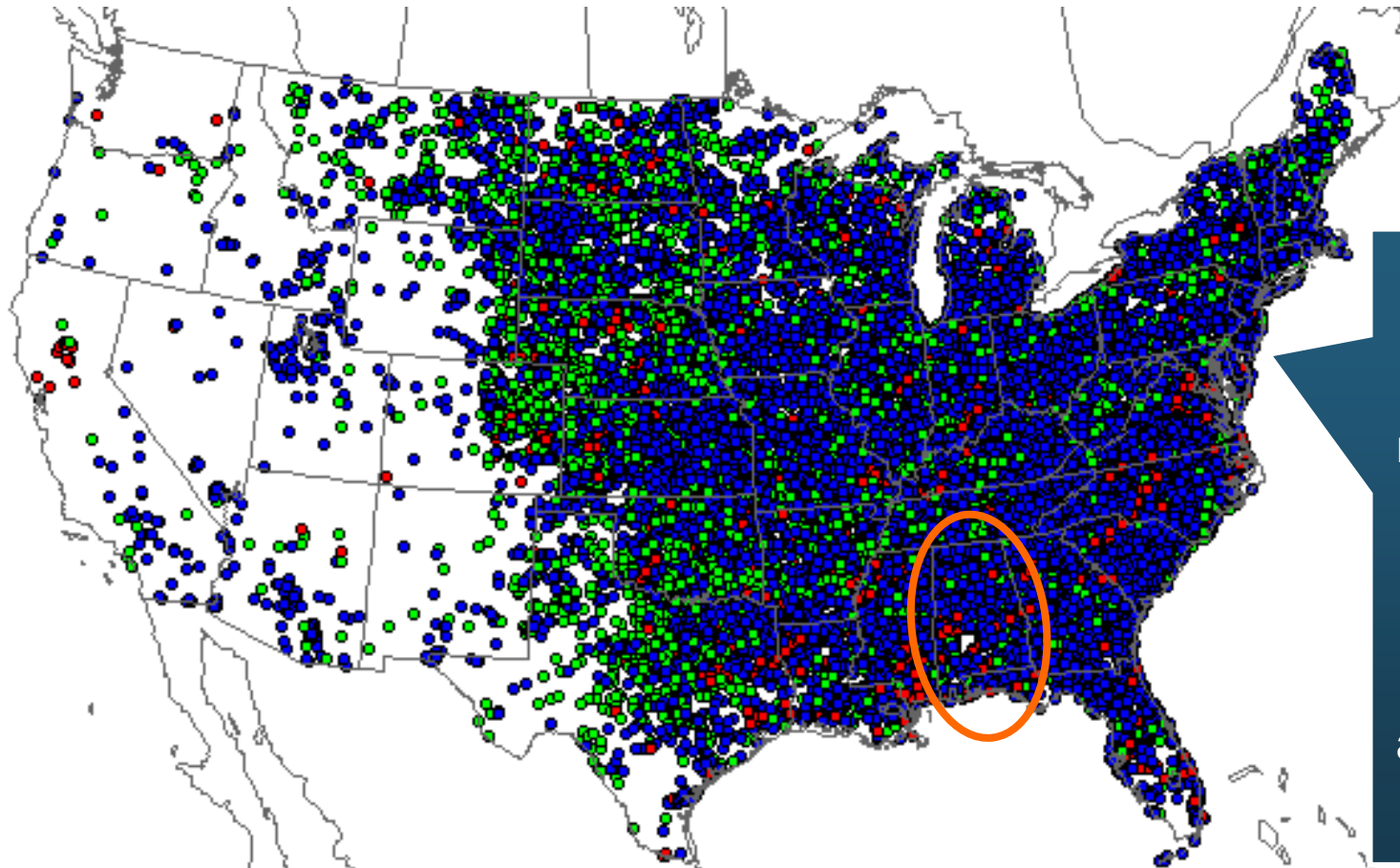
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Wind Reports
January 01, 2011 - December 05, 2011

Updated: Monday December 05, 2011 08:18 CT

Severe Weather Reports, January 1—December 5, 2011



There have been 29,885 severe weather reports through Dec. 5; including 1,881 tornadoes; 9,413 “Large Hail” reports and 18,580 high wind events



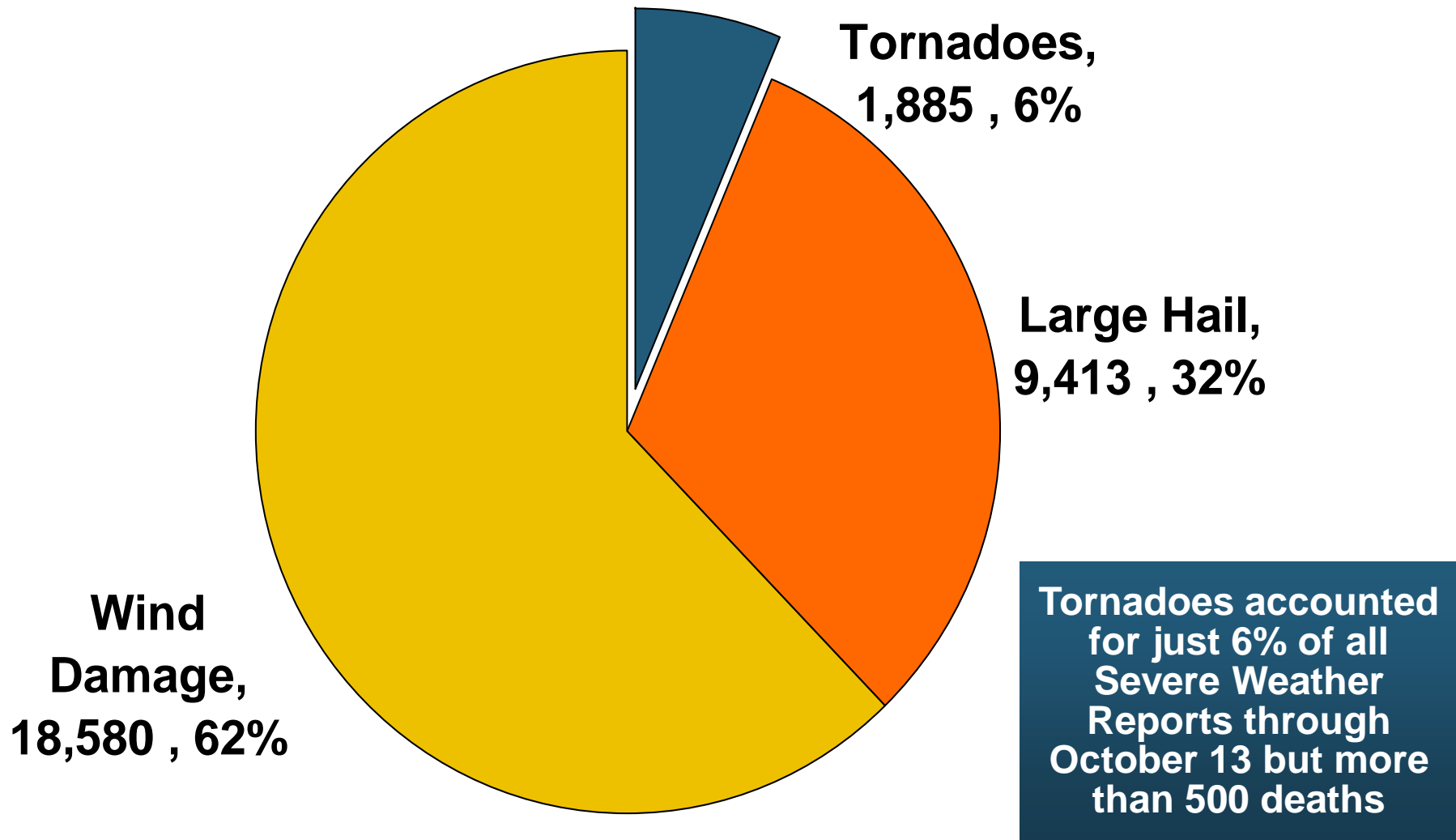
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Severe Weather Reports
January 01, 2011 - December 05, 2011

Updated: Monday December 05, 2011 08:18 CT

Number of Severe Weather Reports in US, by Type: January 1—December 5, 2011

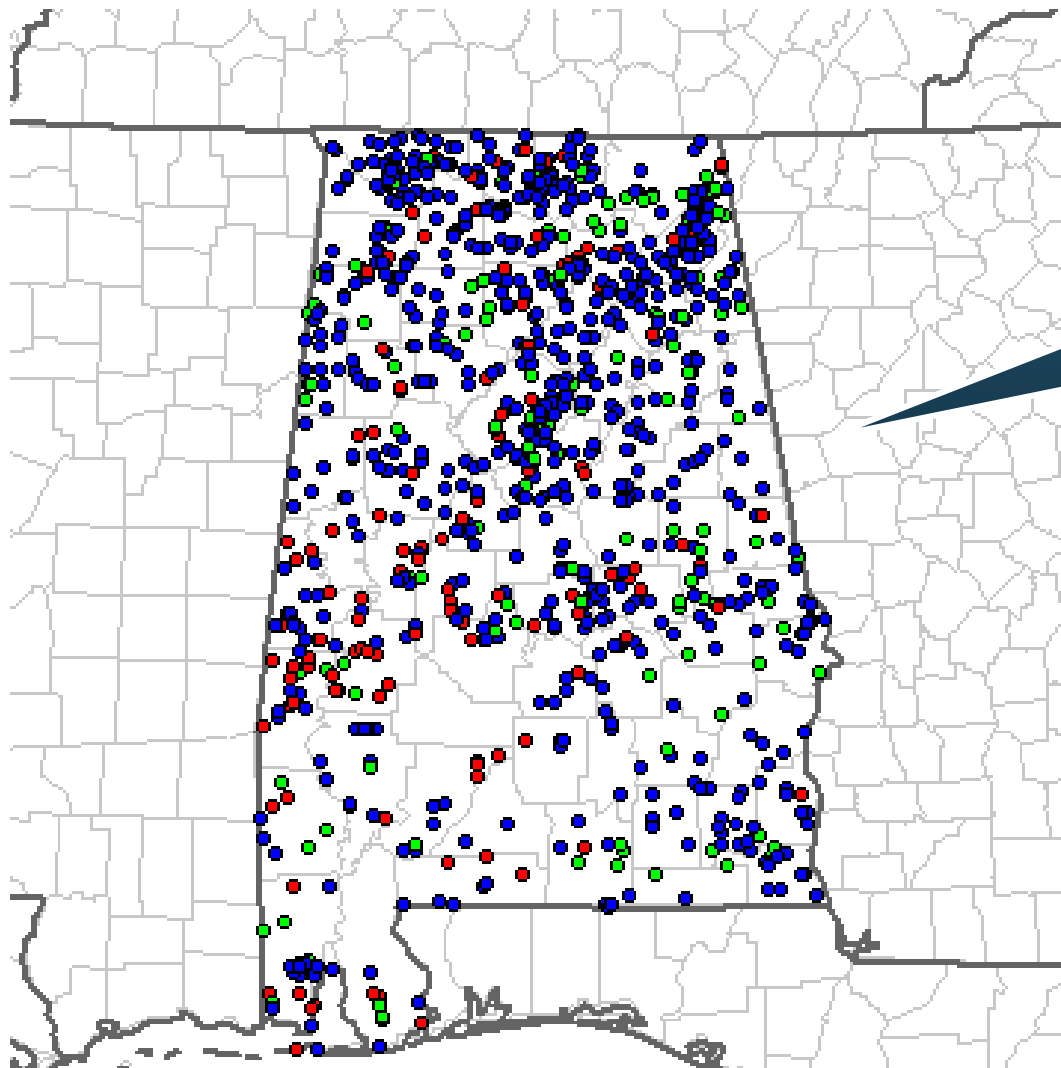




Alabama's 2011 Severe Loss Summary

**Tornadoes, Hail and Severe
Thunderstorms Took their Toll**

Severe Weather Reports in Alabama, January 1—December 5, 2011



There were 1,288
severe weather
reports in AL
through Dec. 5

ALABAMA

Total Reports = 1,288

Tornadoes = 170 (Red)

Hail Reports = 217 (Green)

Wind Reports = 901 (Blue)

Insurers Making a Difference in Impacted Communities



Destroyed home in Tuscaloosa. Insurers will pay some 133,000 claims totaling \$3 billion across AL for Q2 damage, concentrated in the Tuscaloosa/Birmingham areas

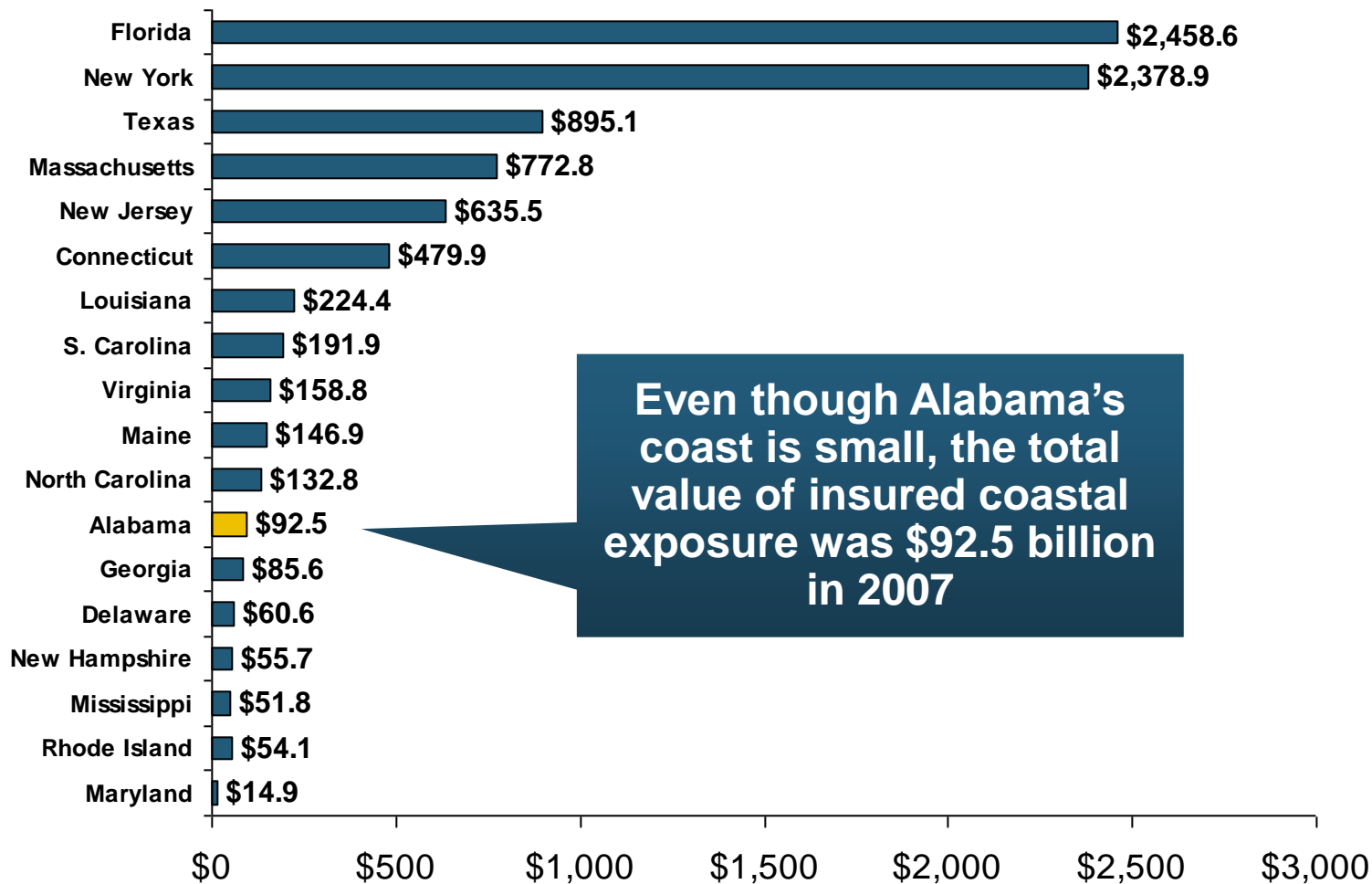
Presentation of a check to Tuscaloosa Mayor Walt Maddox to the Tuscaloosa Storm Recovery Fund



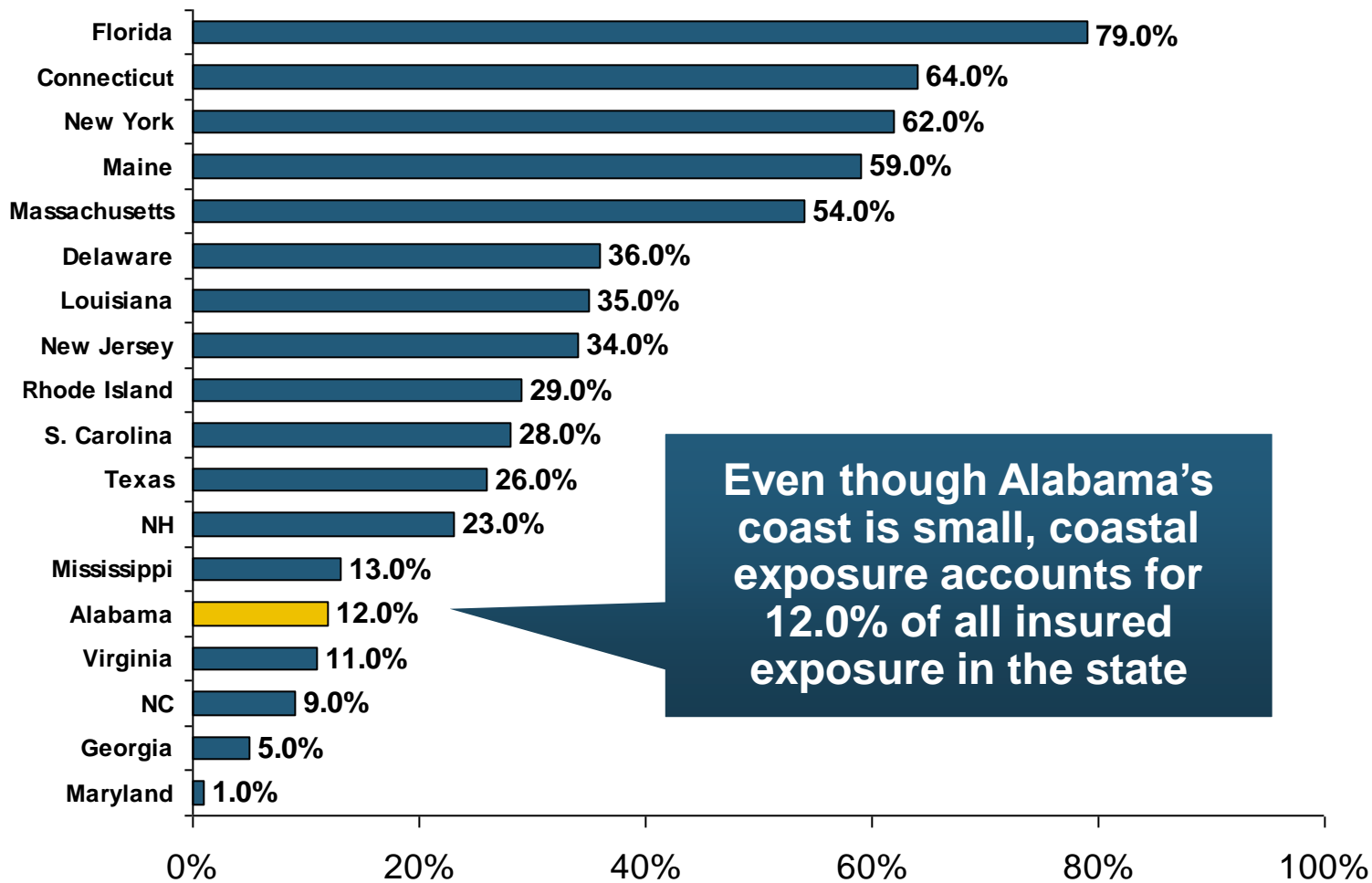
Coastal Exposure in Alabama Remains a Primary Concern

**Alabama's Coastal Exposure
Is Considerable Despite Its
Small Coast**

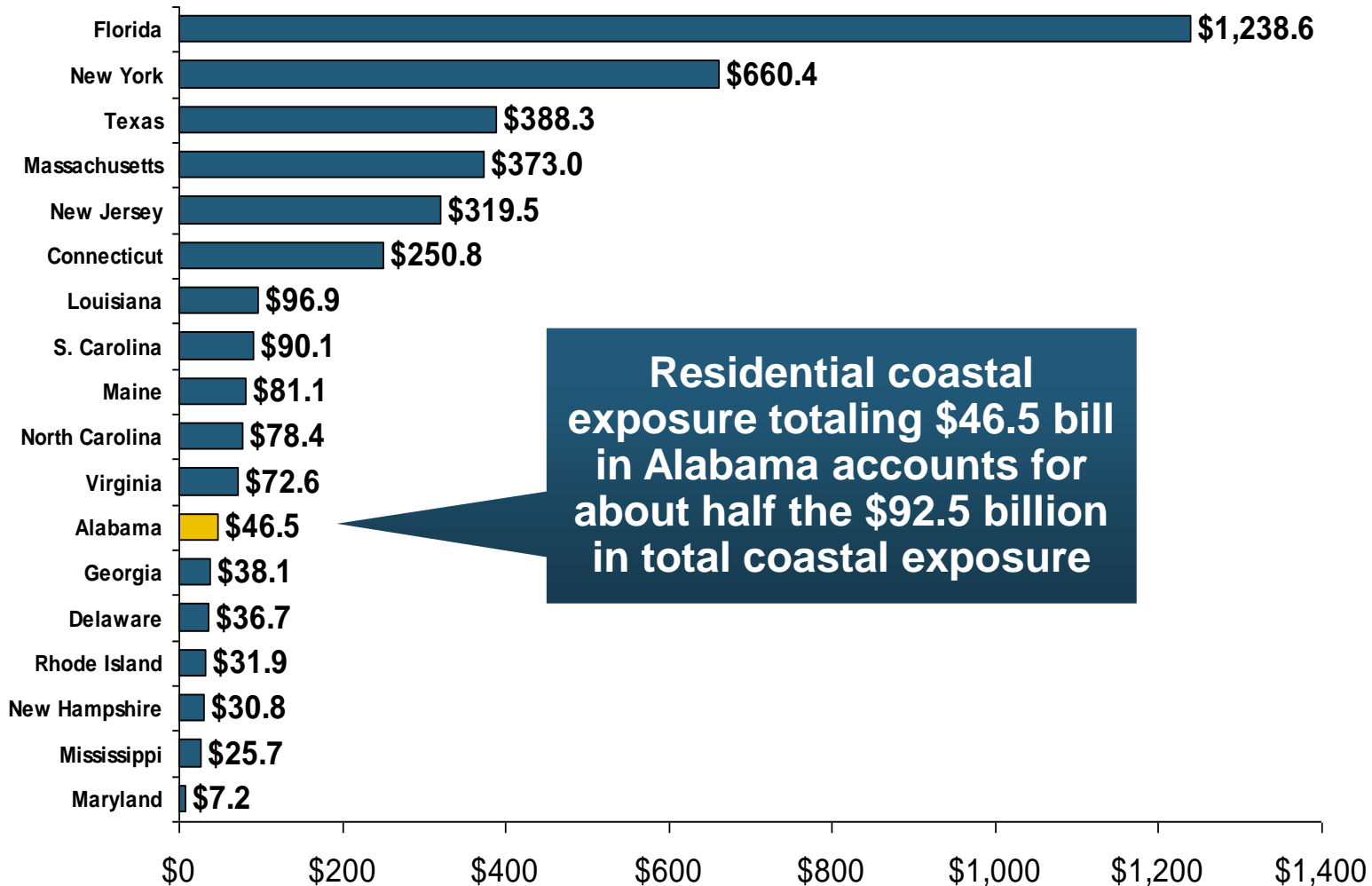
Total Value of Insured Coastal Exposure in 2007 (\$ Billions)



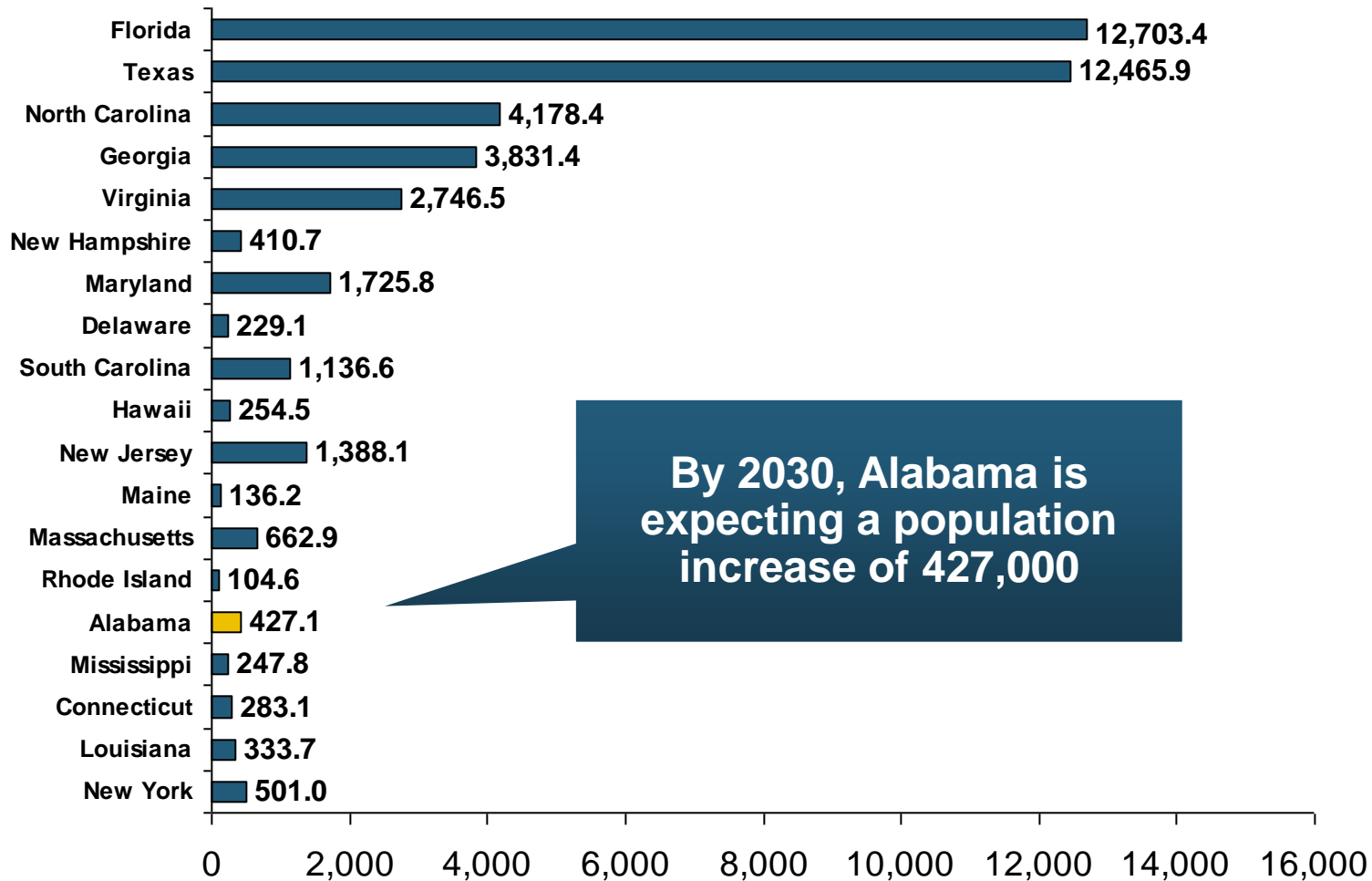
Insured Coastal Exposure As a % Of Statewide Insured Exposure In 2007



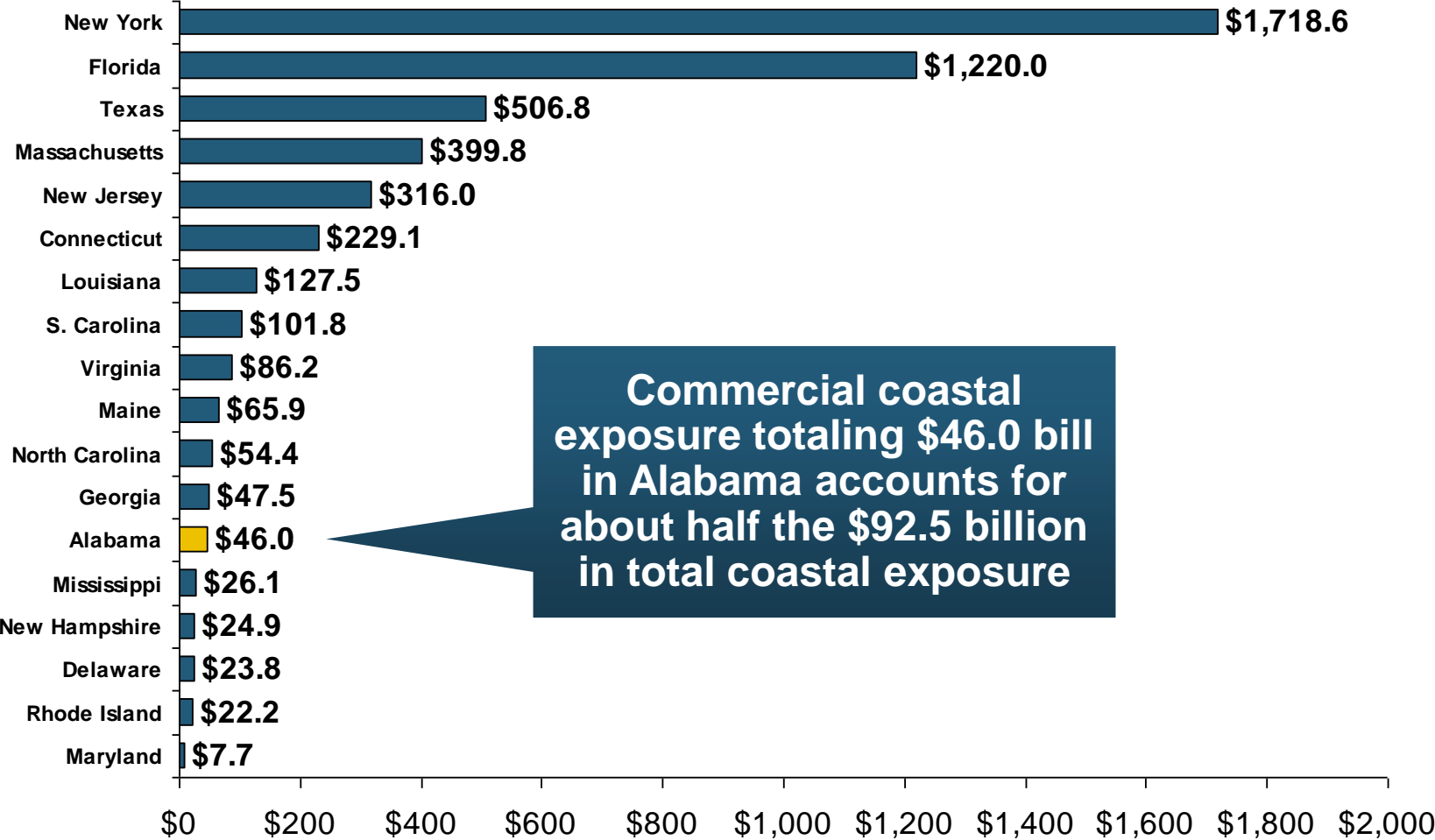
Value of Insured Residential Coastal Exposure In 2007 (\$ Billions)



Population Growth Projections for Hurricane Exposed States (2000 to 2030) (000)



Value Of Insured Commercial Coastal Exposure 2007 (\$ Billions)



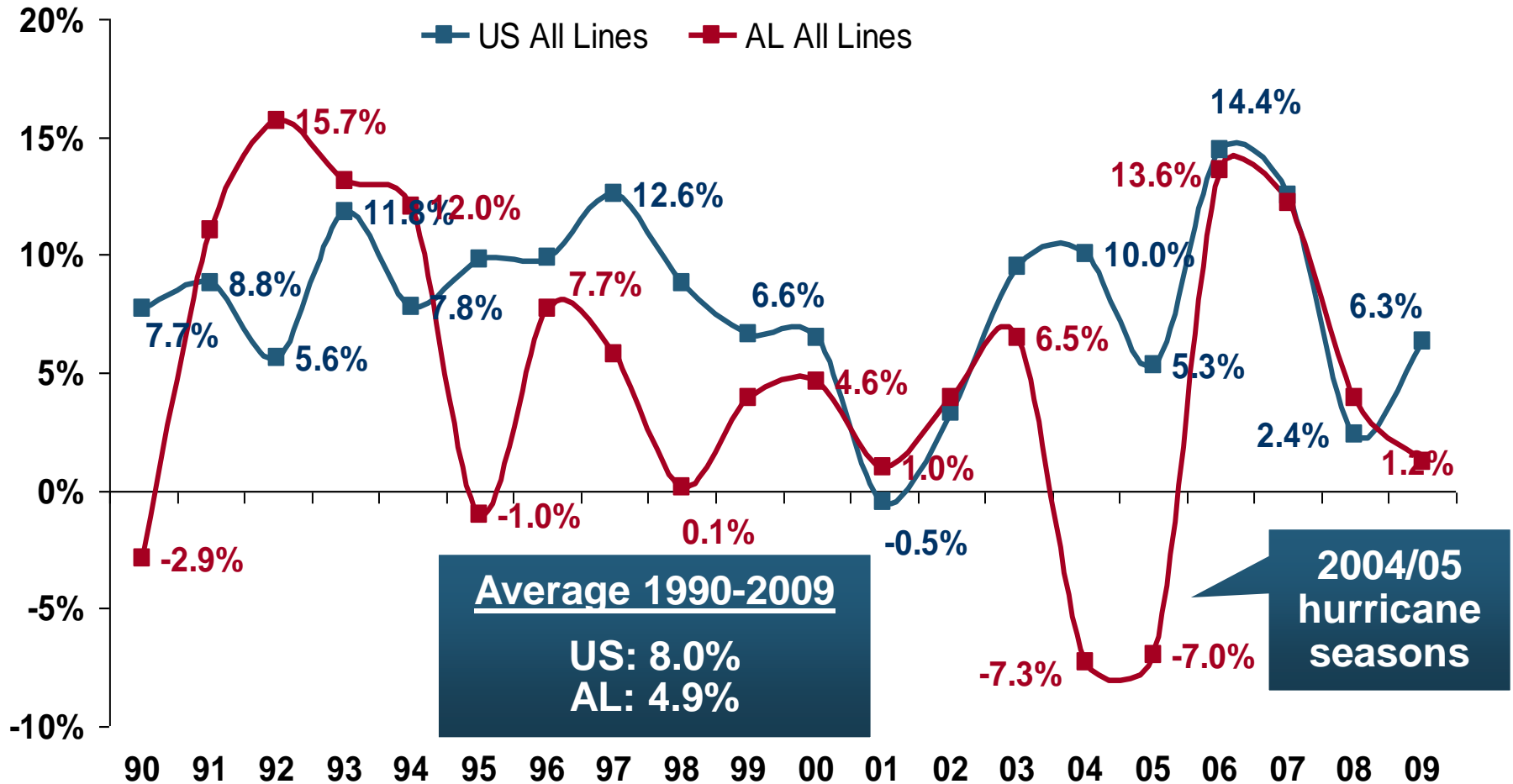
Source: AIR Worldwide



Profitability & Performance Analysis: Alabama Homeowners Insurance Markets

Alabama's Home Insurance Market is Highly Volatile

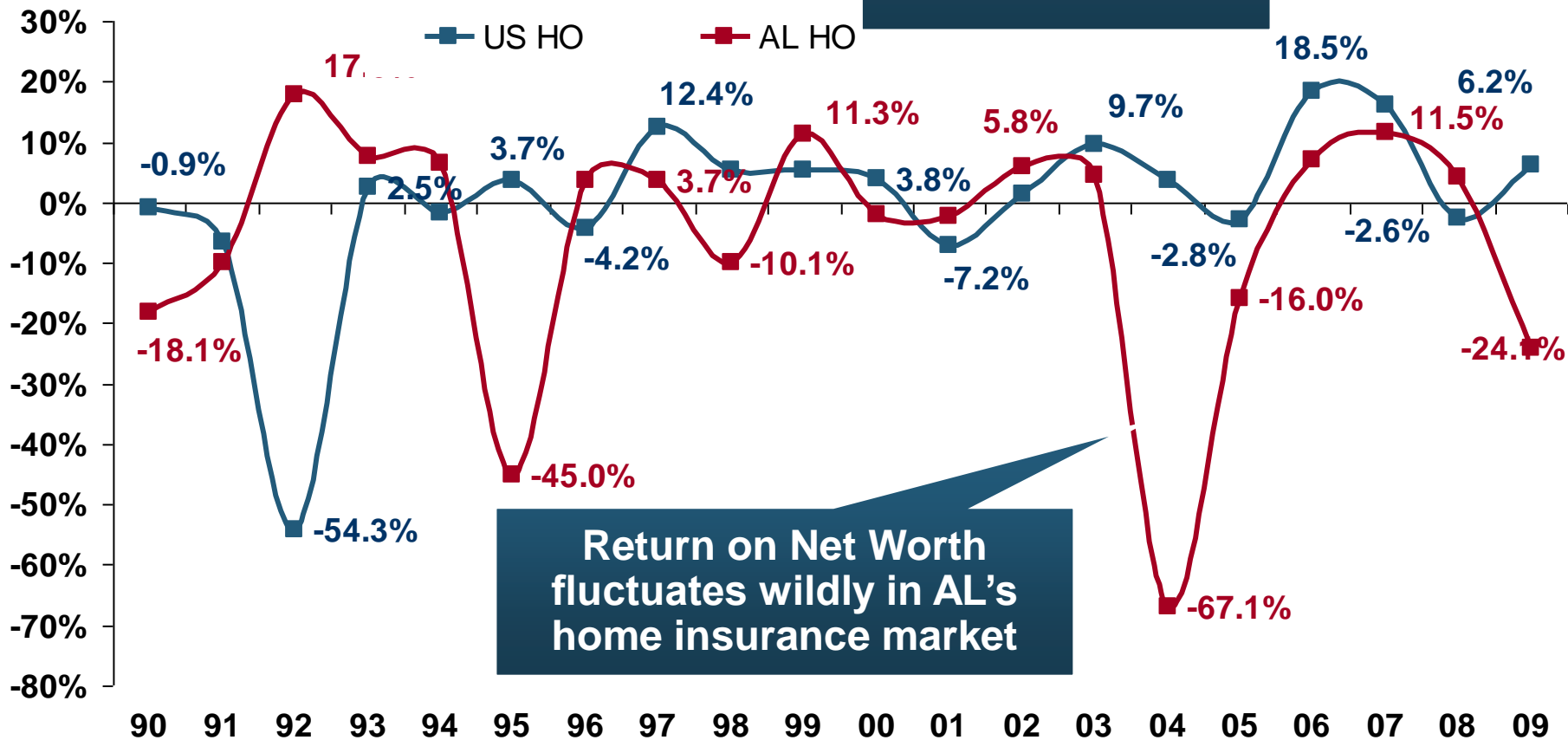
RNW All Lines: AL vs. U.S., 1990-2009*



*Latest available as of December 11, 2011.
 Source: NAIC; Insurance Information Institute.

RNW Homeowners: AL vs. U.S., 1990-2009*

Average 1990-2009
US: 0.4%
AL: -5.6%

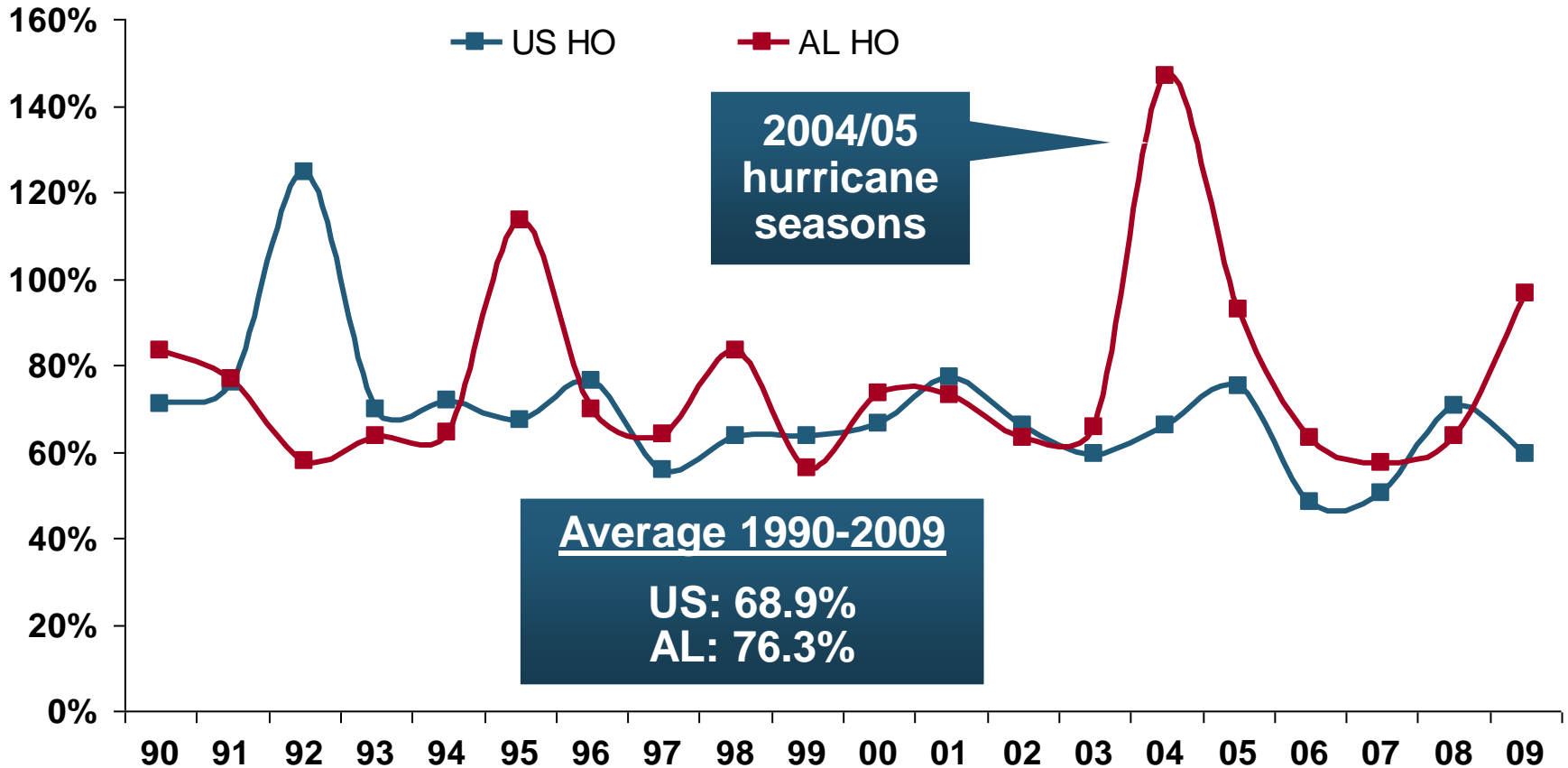


Return on Net Worth fluctuates wildly in AL's home insurance market

*Latest available as of December 11, 2011.
 Source: NAIC; Insurance Information Institute.

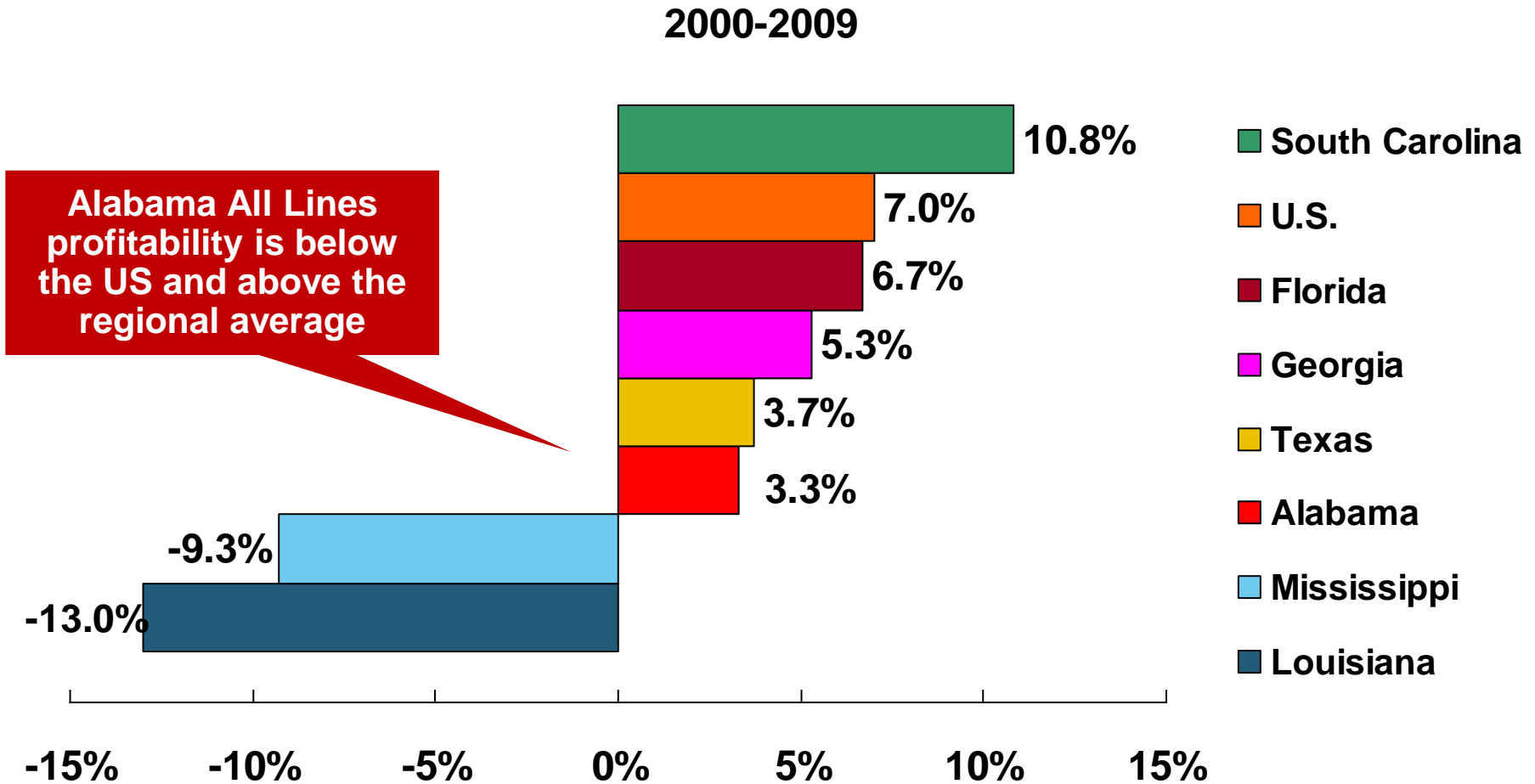
Losses Incurred as a Percent of Premiums

HO: AL vs. U.S., 1990-2009*



*Latest available as of December 11, 2011.
Source: NAIC; Insurance Information Institute.

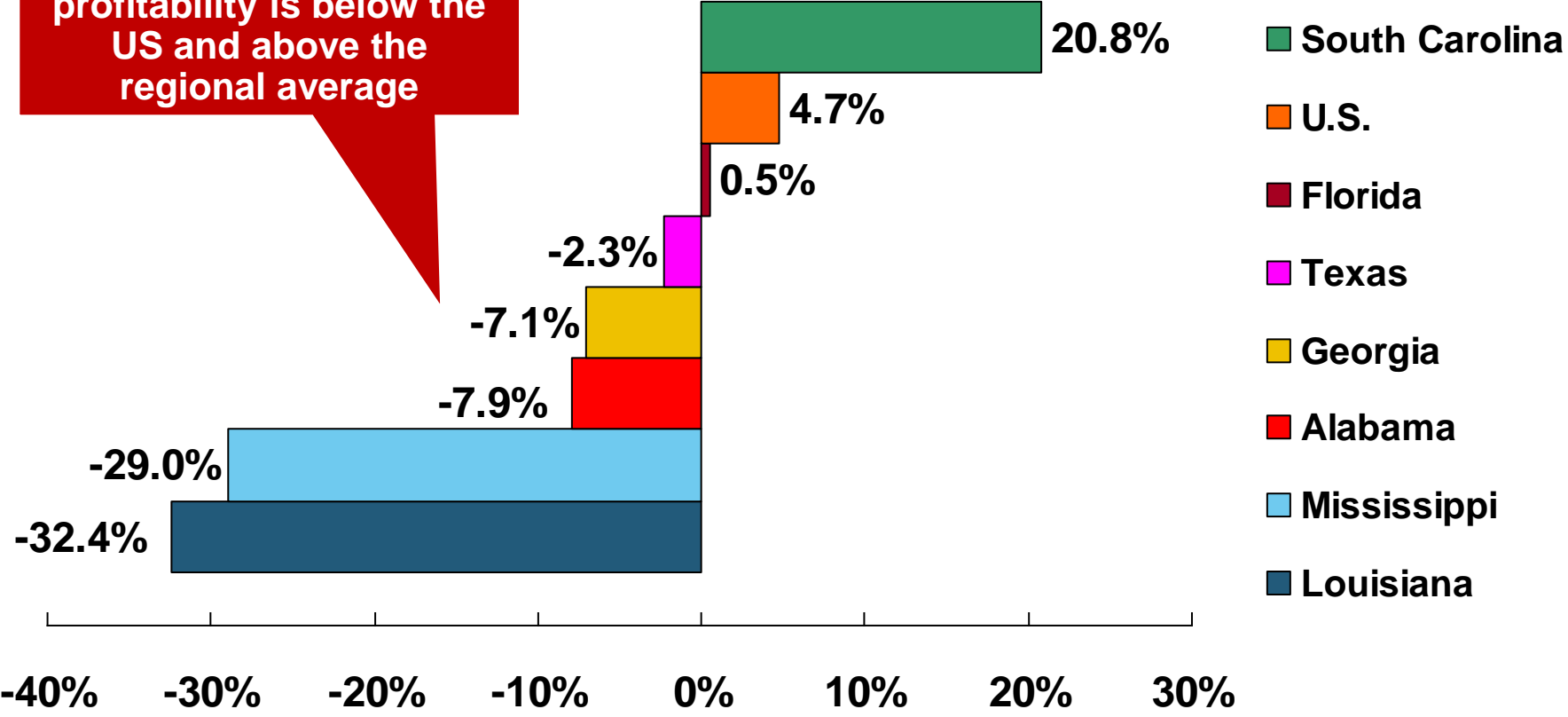
All Lines: 10-Year Average RNW AL & Nearby States



Homeowners: 10-Year Average RNW AL & Nearby States

2000-2009

Alabama Homeowners profitability is below the US and above the regional average

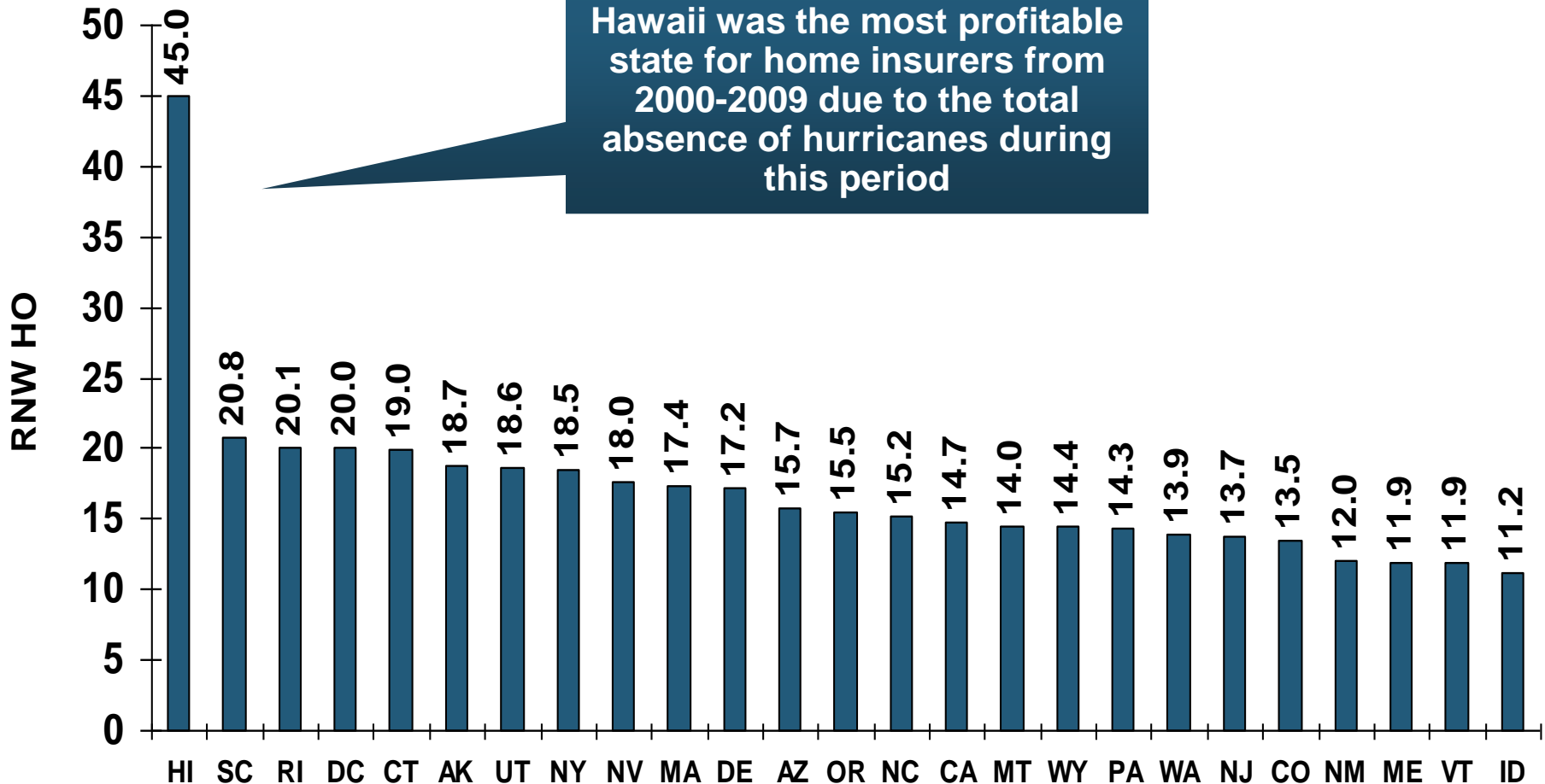


Source: NAIC, Insurance Information Institute

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

Top 25 States

(Percent)



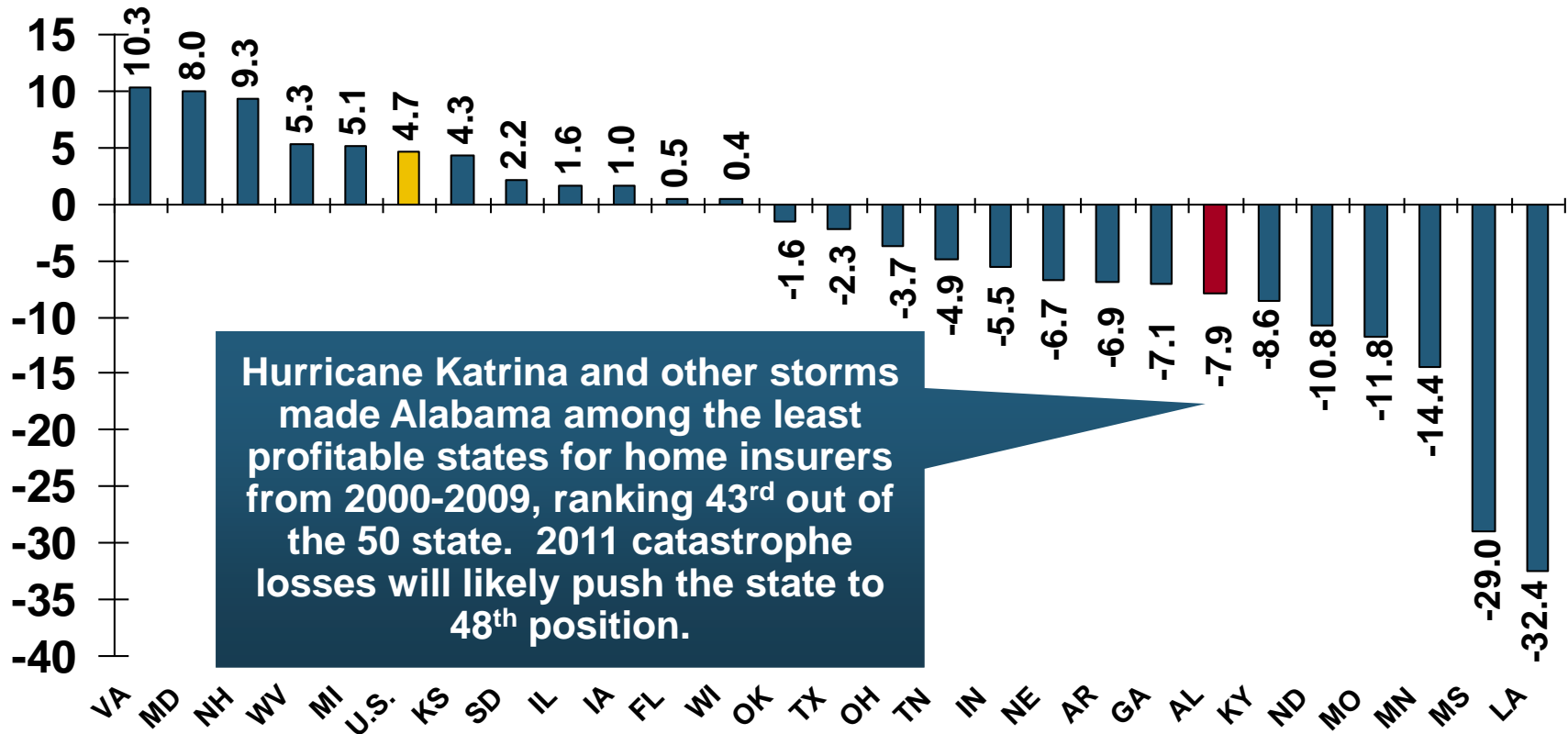
Hawaii was the most profitable state for home insurers from 2000-2009 due to the total absence of hurricanes during this period

*Latest available.

Sources: NAIC.

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

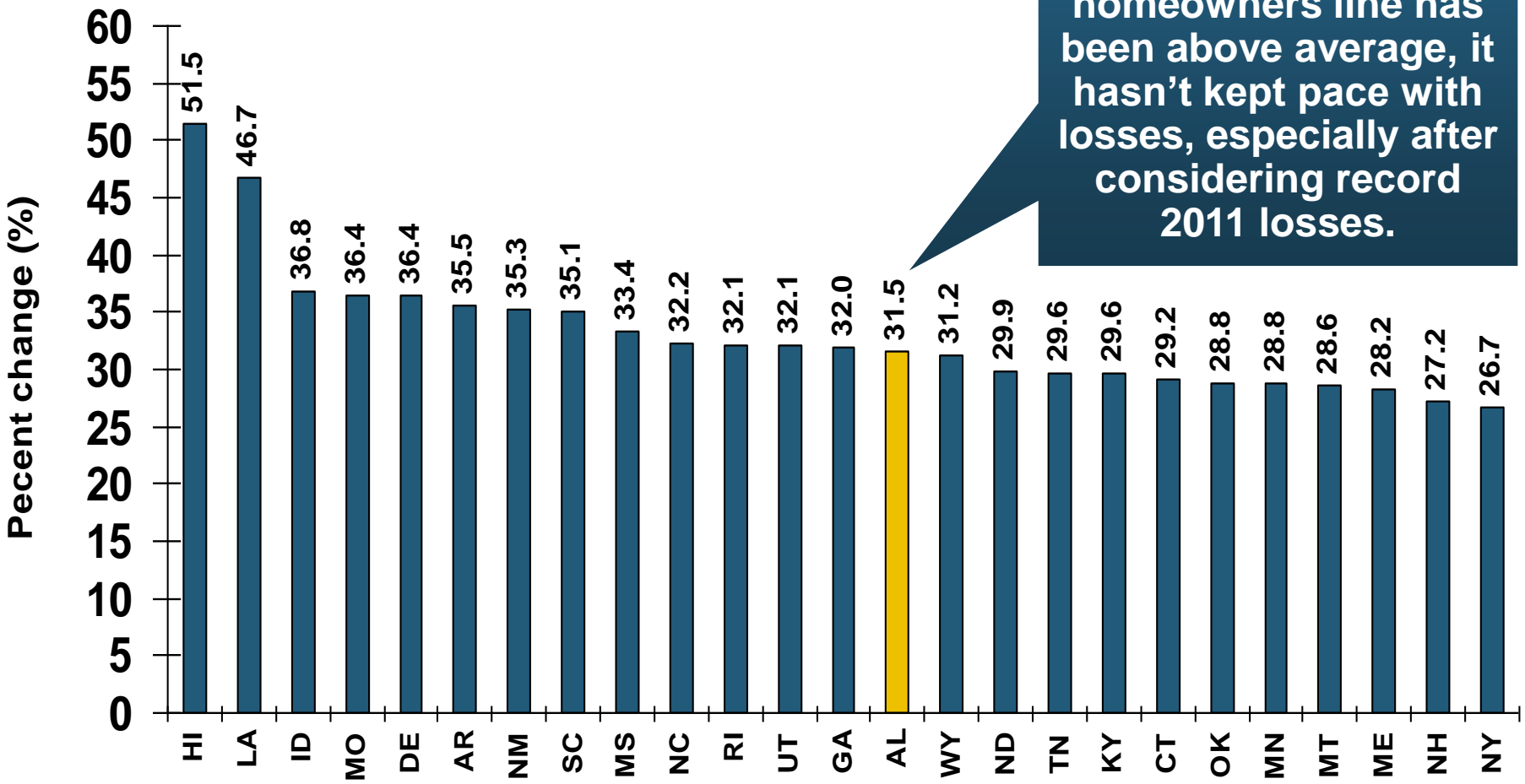
(Percent) Bottom 25 States



*Latest available.
Sources: NAIC

Percent Change in DPW: Homeowners, by State, 2005-2010

Top 25 States

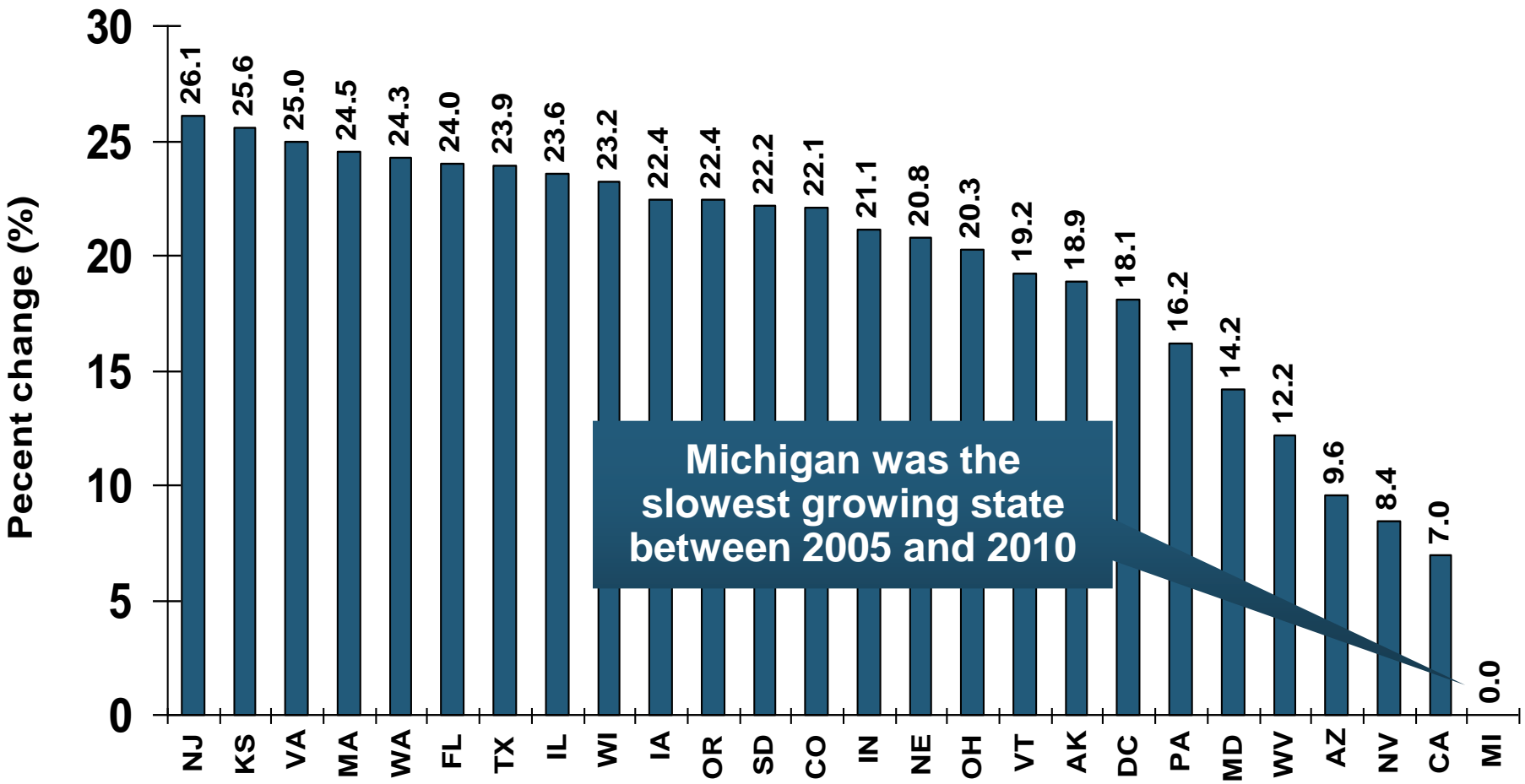


While premium growth in the Alabama homeowners line has been above average, it hasn't kept pace with losses, especially after considering record 2011 losses.

Sources: SNL Financial LC.; Insurance Information Institute.

Percent Change in DPW: Homeowners, by State, 2005-2010

Bottom 25 States



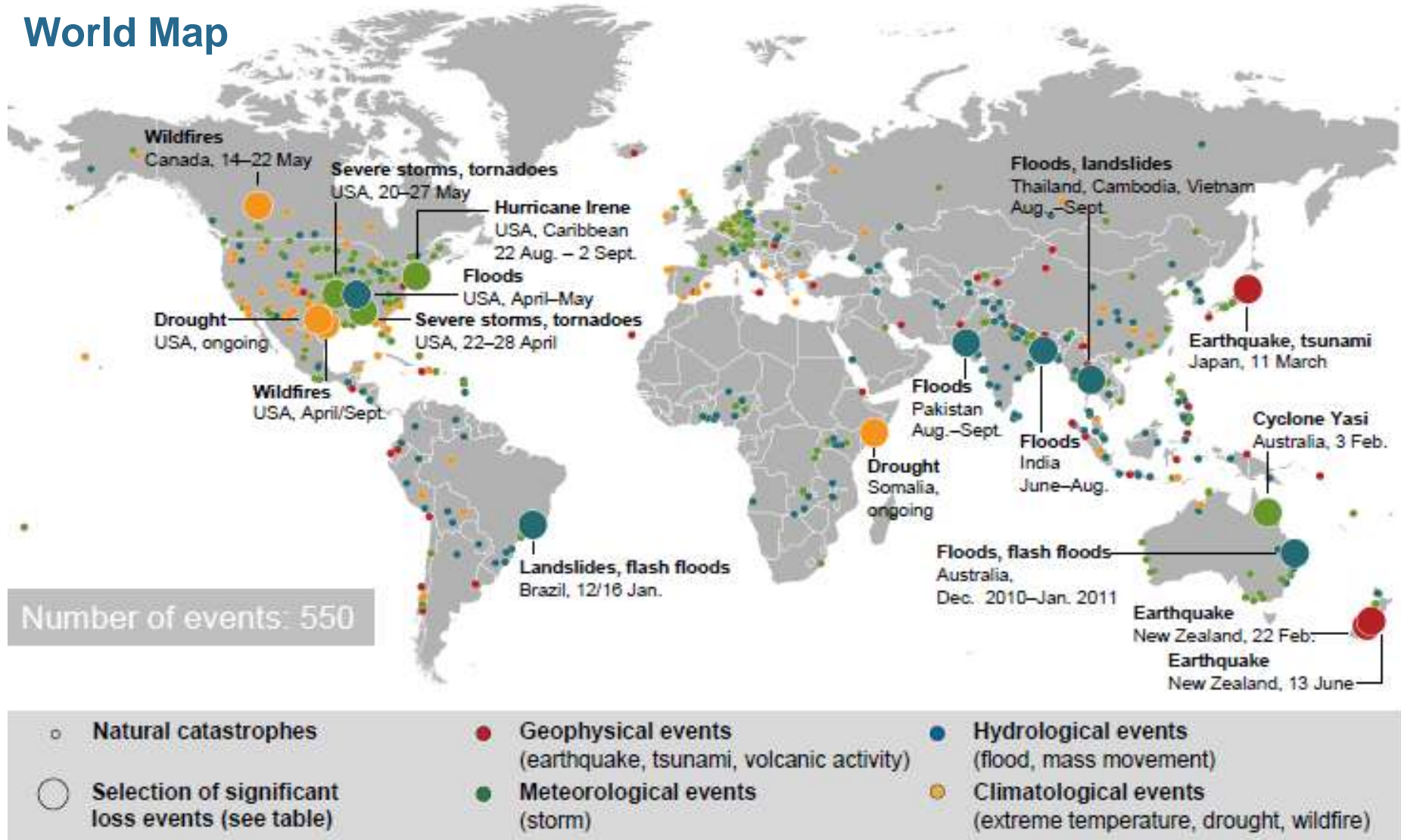
Sources: SNL Financial LC.; Insurance Information Institute.

Global Catastrophe Loss Developments and Trends

2011 Will Rewrite Global Catastrophe Loss and Insurance History

Natural Loss Events, January – September 2011

World Map

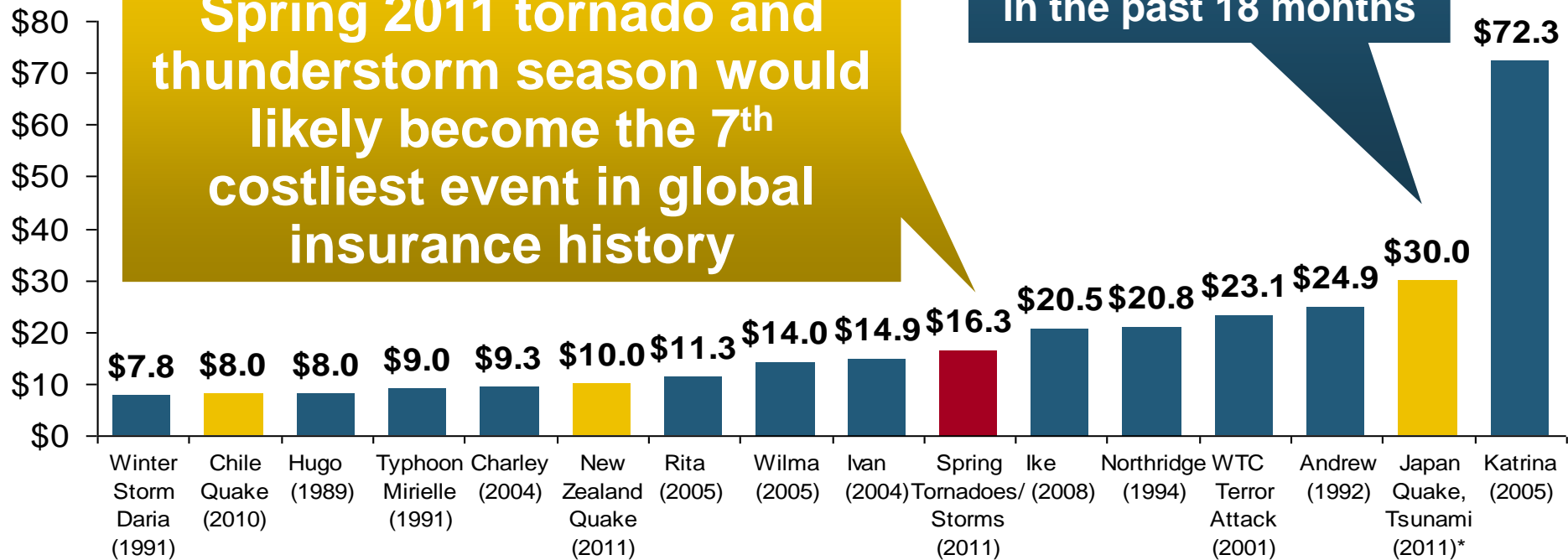


Top 16 Most Costly World Insurance Losses, 1970-2011*

(Insured Losses, 2010 Dollars, \$ Billions)

Taken as a single event, the Spring 2011 tornado and thunderstorm season would likely become the 7th costliest event in global insurance history

3 of the top 15 most expensive catastrophes in world history have occurred in the past 18 months

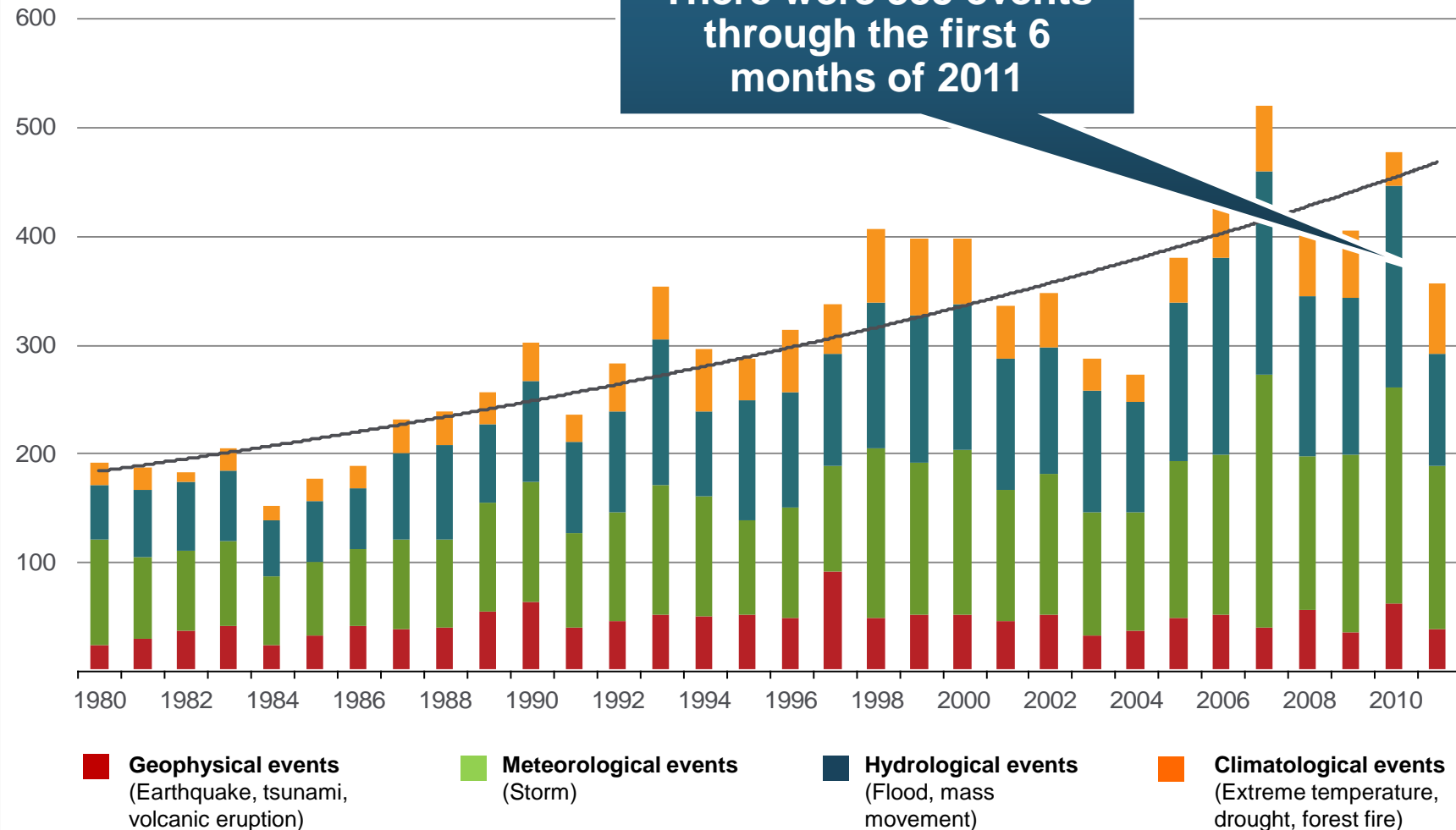


*Through June 20, 2011. 2011 disaster figures are estimates; Figures include federally insured flood losses, where applicable.

Sources: Swiss Re *sigma* 1/2011; AIR Worldwide, RMS, Eqecat; Insurance Information Institute.

Worldwide Natural Disasters, 1980 – 2011*

Number of Events



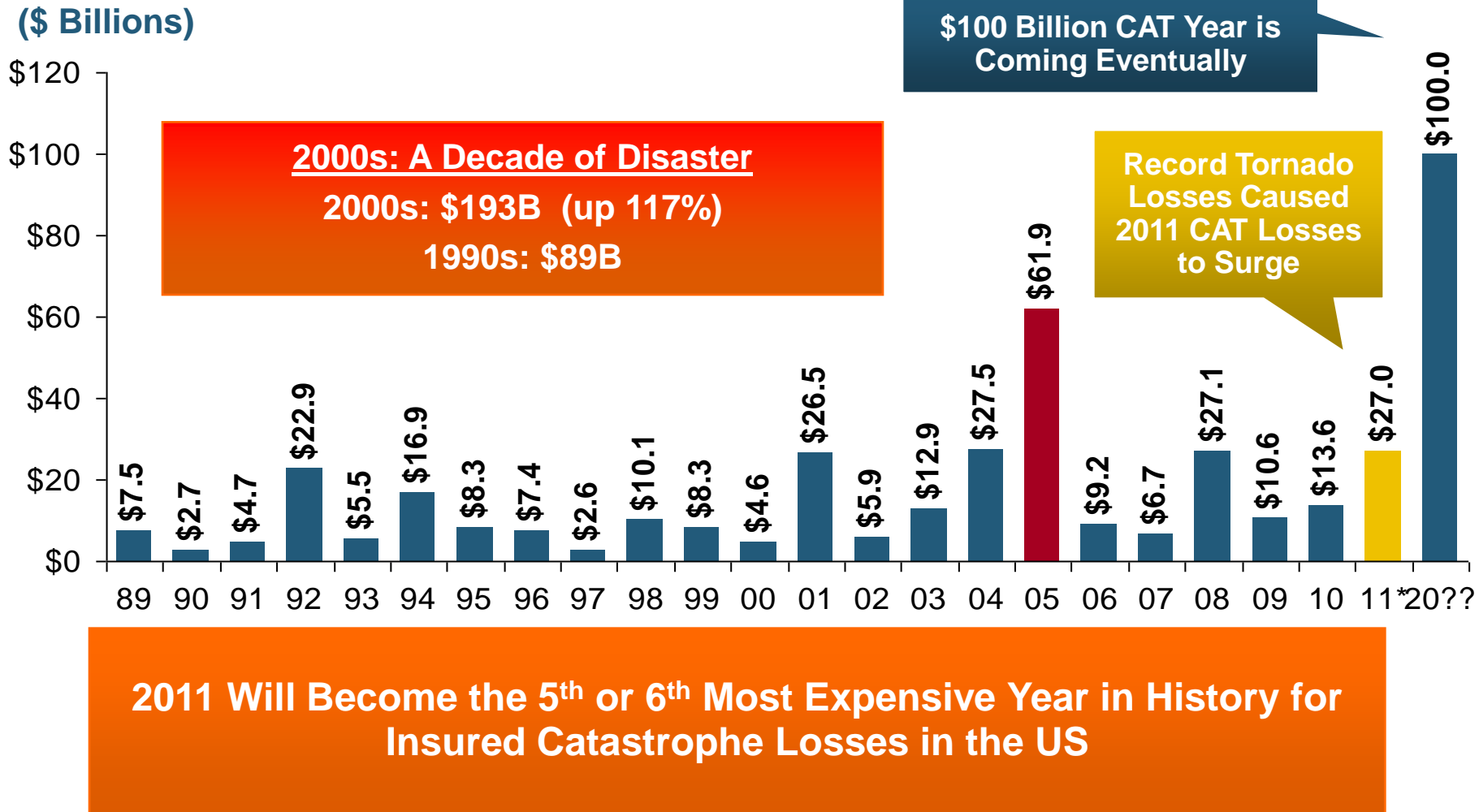
*2011 figure is through June 30.

Source: MR NatCatSERVICE

U.S. Insured Catastrophe Loss Update

**2011 CAT Losses Already Greatly
Exceed All of 2010 and Will Become One
of the Most Expensive Years on Record**

US Insured Catastrophe Losses



*Estimate through Nov. 30, 2011.

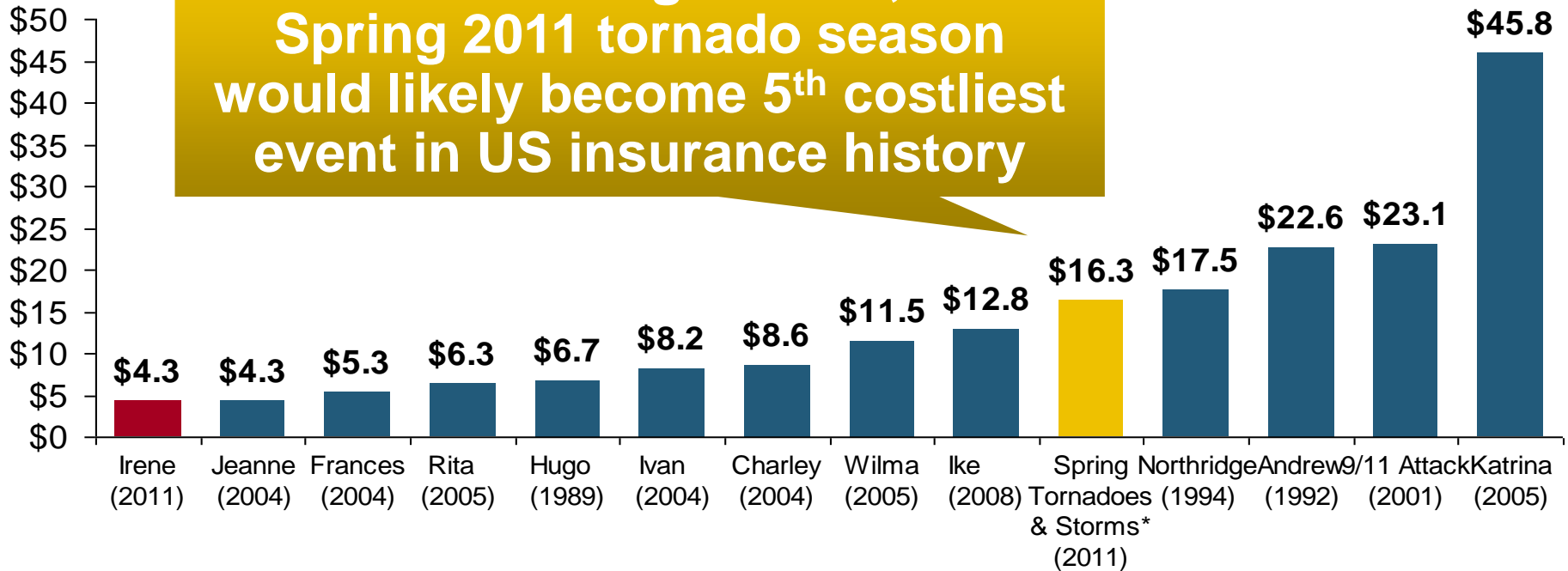
Note: 2001 figure includes \$20.3B for 9/11 losses reported through 12/31/01. Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = \$12.2B.

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

Top 13 (14?) Most Costly Disasters in U.S. History

(Insured Losses, 2010 Dollars, \$ Billions)**

Taken as a single event, the Spring 2011 tornado season would likely become 5th costliest event in US insurance history



*Losses will actually be broken down into several “events” as determined by PCS.

**Hurricane Irene losses stated in 2011 dollars.

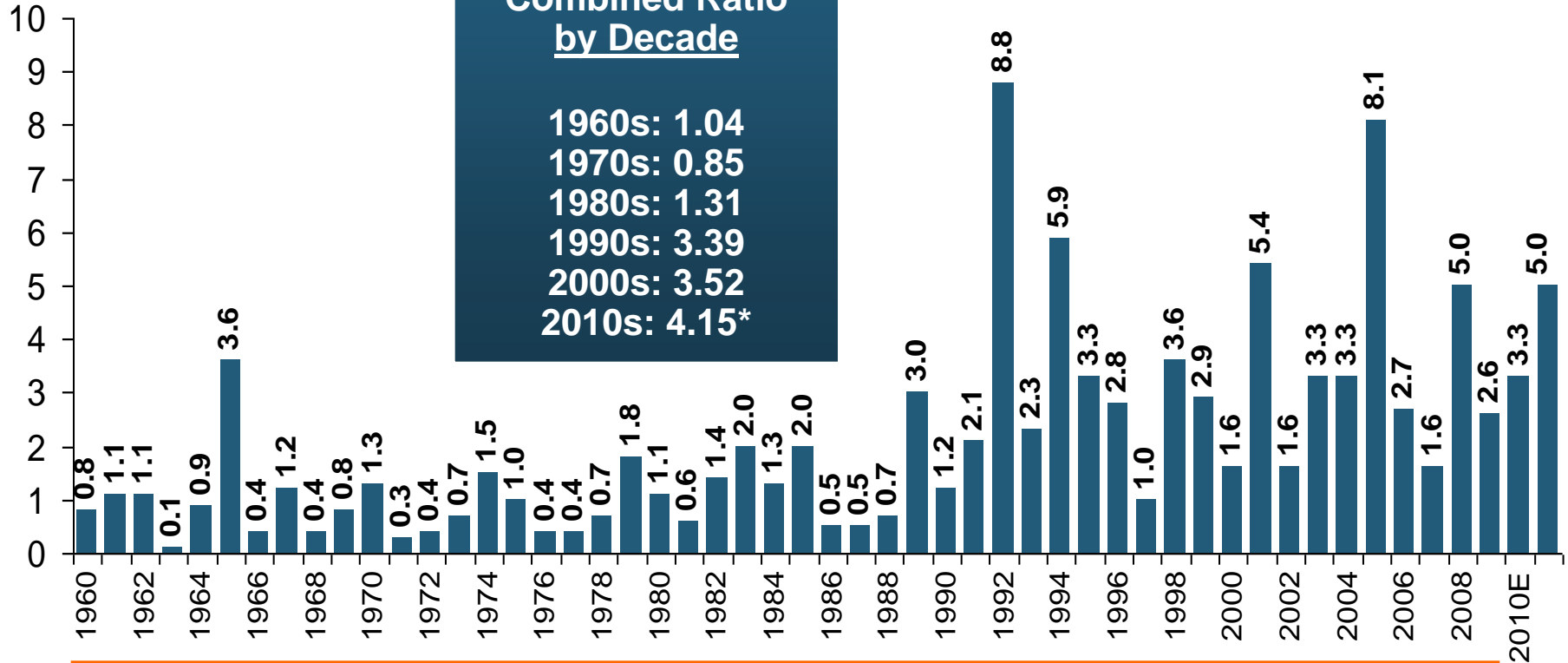
Sources: PCS; Insurance Information Institute inflation adjustments.

Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2011:H1*

Combined Ratio Points

Avg. CAT Loss Component of the Combined Ratio by Decade

1960s: 1.04
 1970s: 0.85
 1980s: 1.31
 1990s: 3.39
 2000s: 3.52
 2010s: 4.15*



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

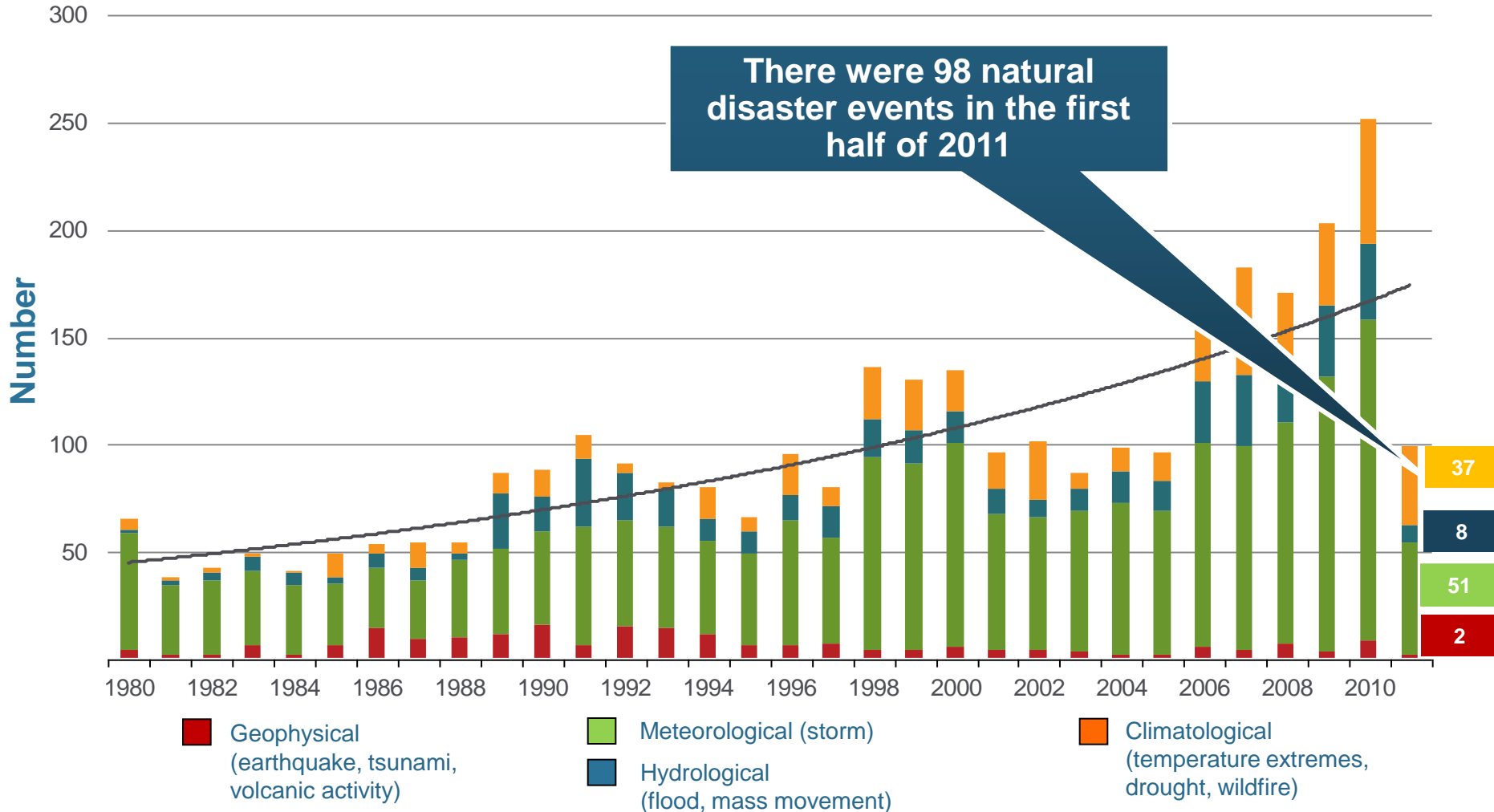
*Insurance Information Institute estimates for 2010 and 2011:H1

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 – 2011*

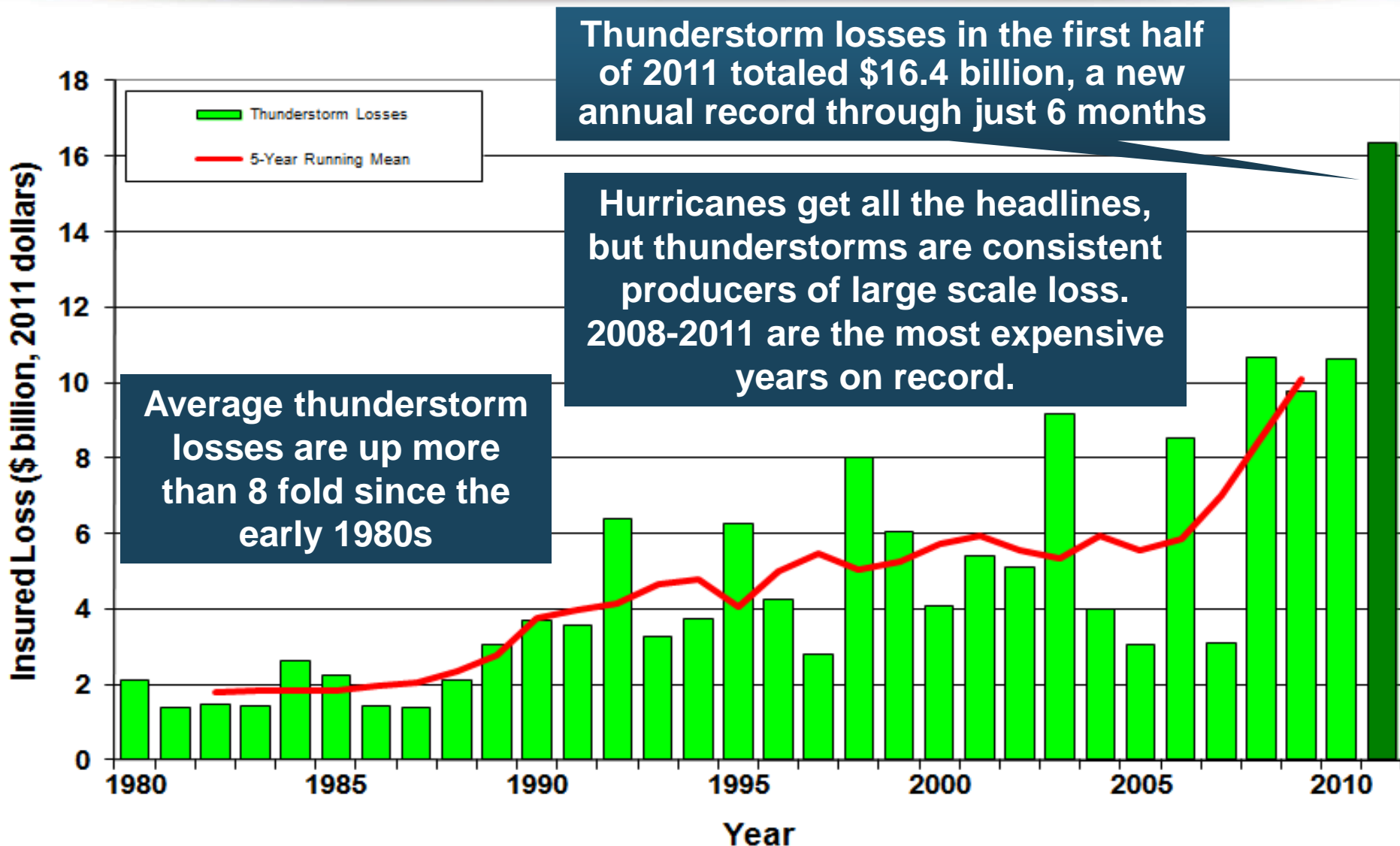
Number of Events (Annual Totals 1980 – 2010 and First Half 2011)



*Through June 30.

Source: MR NatCatSERVICE

U.S. Thunderstorm Loss Trends, 1980 – 2011*



*Through June 30, 2011.

Source: Property Claims Service, MR NatCatSERVICE

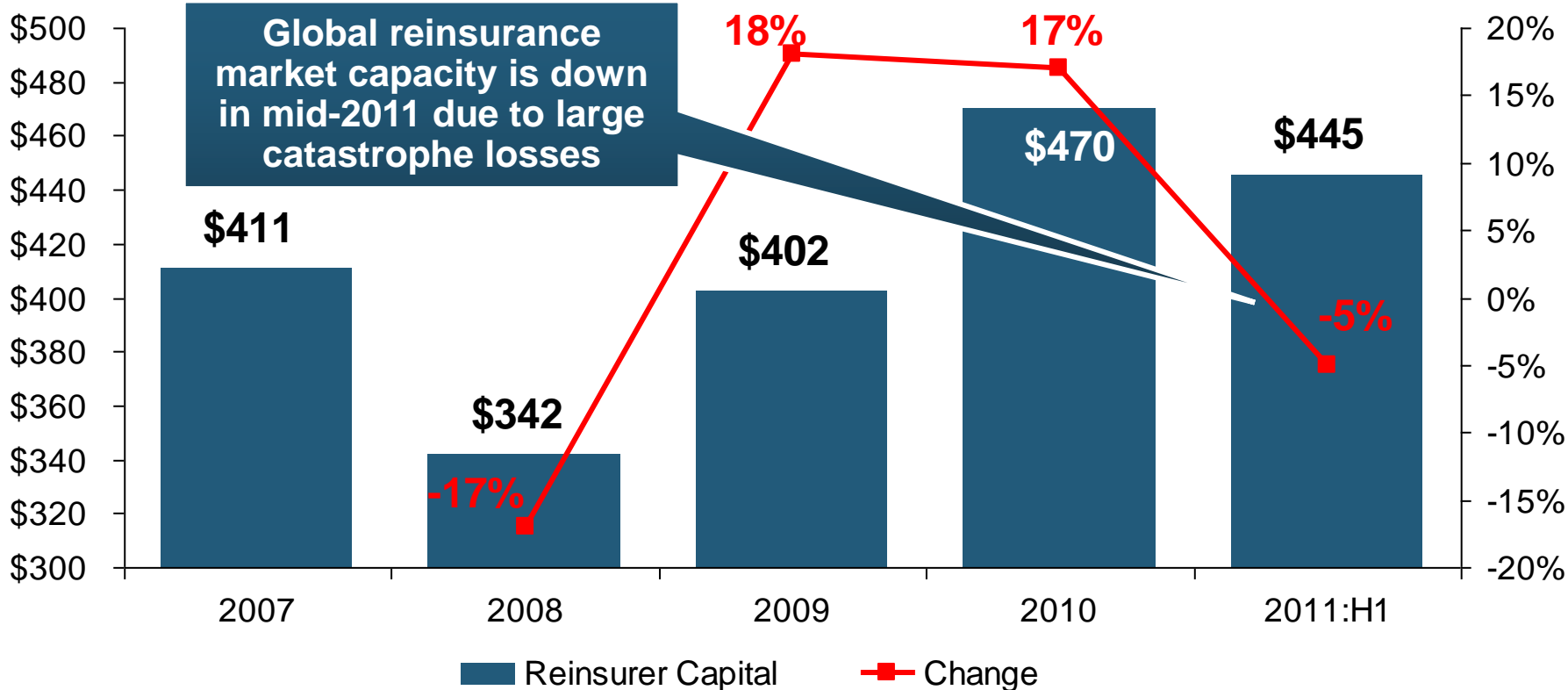
REINSURANCE MARKET CONDITIONS

**Record Global
Catastrophes Activity is
Pressuring Pricing, But
Capacity is Adequate**

Global Reinsurance Capital, 2007-2011:H1

Reinsurer Capital

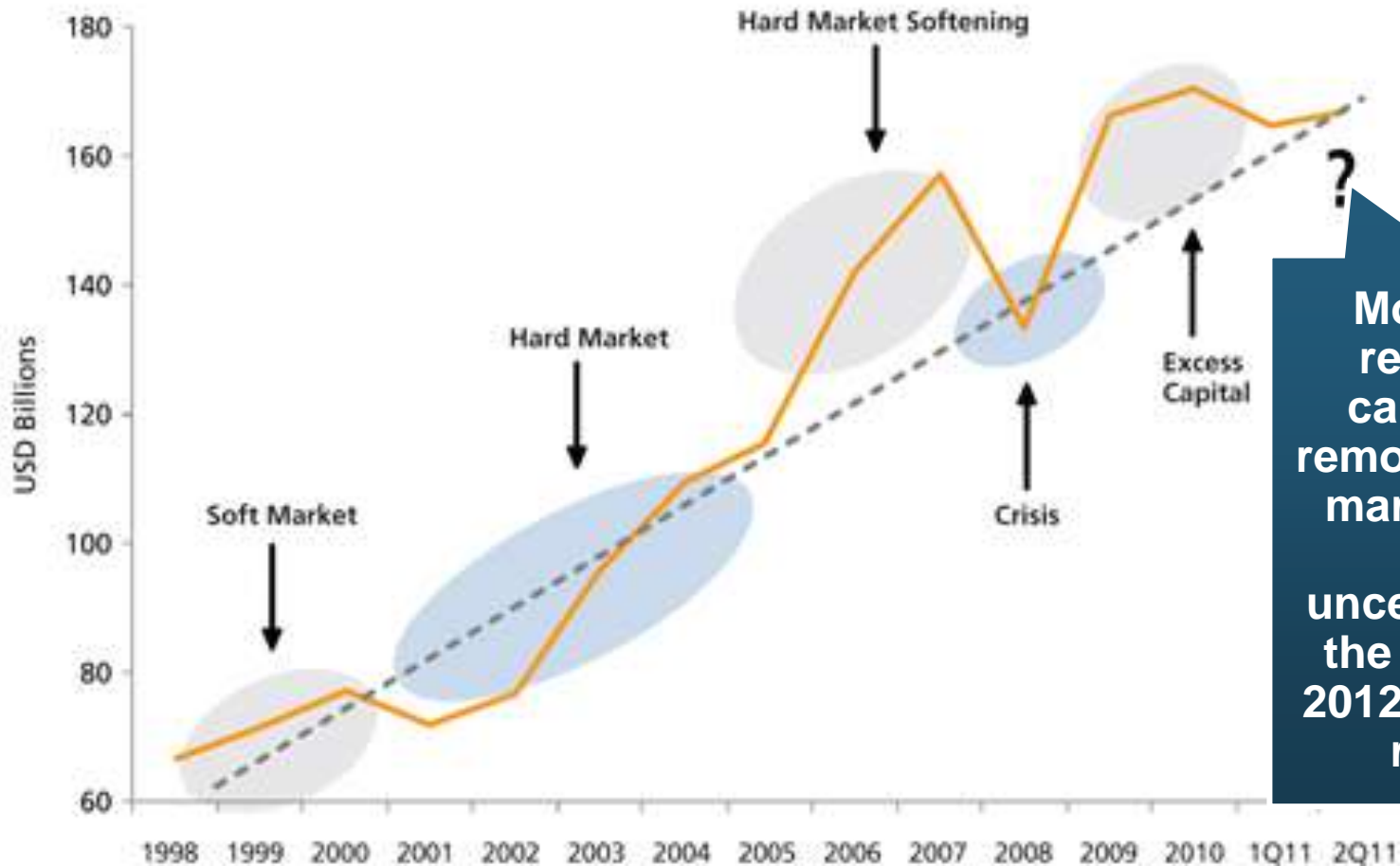
% Change



High Global Catastrophe Losses Have Had a Modest Adverse Impact on Global Reinsurance Market Capacity

Source: Aon Reinsurance Market Outlook, September 2011 from Individual Company and AonBenfield Analytics; Insurance Information Institute.

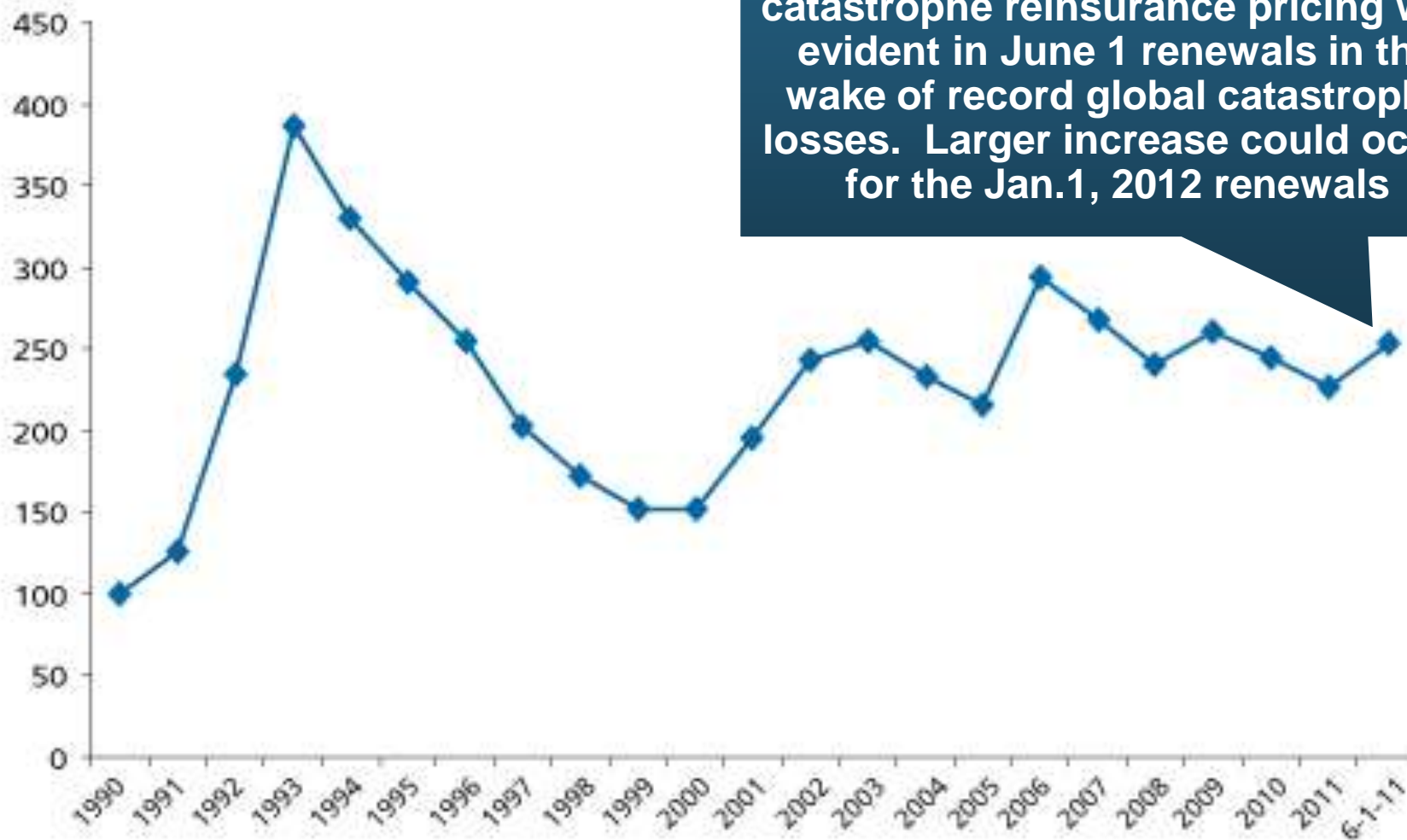
Historical Capital Levels of Guy Carpenter Reinsurance Composite, 1998—2Q11



Most excess reinsurance capacity was removed from the market in 2011, leaving uncertainty as to the direction of 2012 reinsurance renewals

Global Property Catastrophe Rate on Line Index, 1990-2011 YTD (6/1/11)

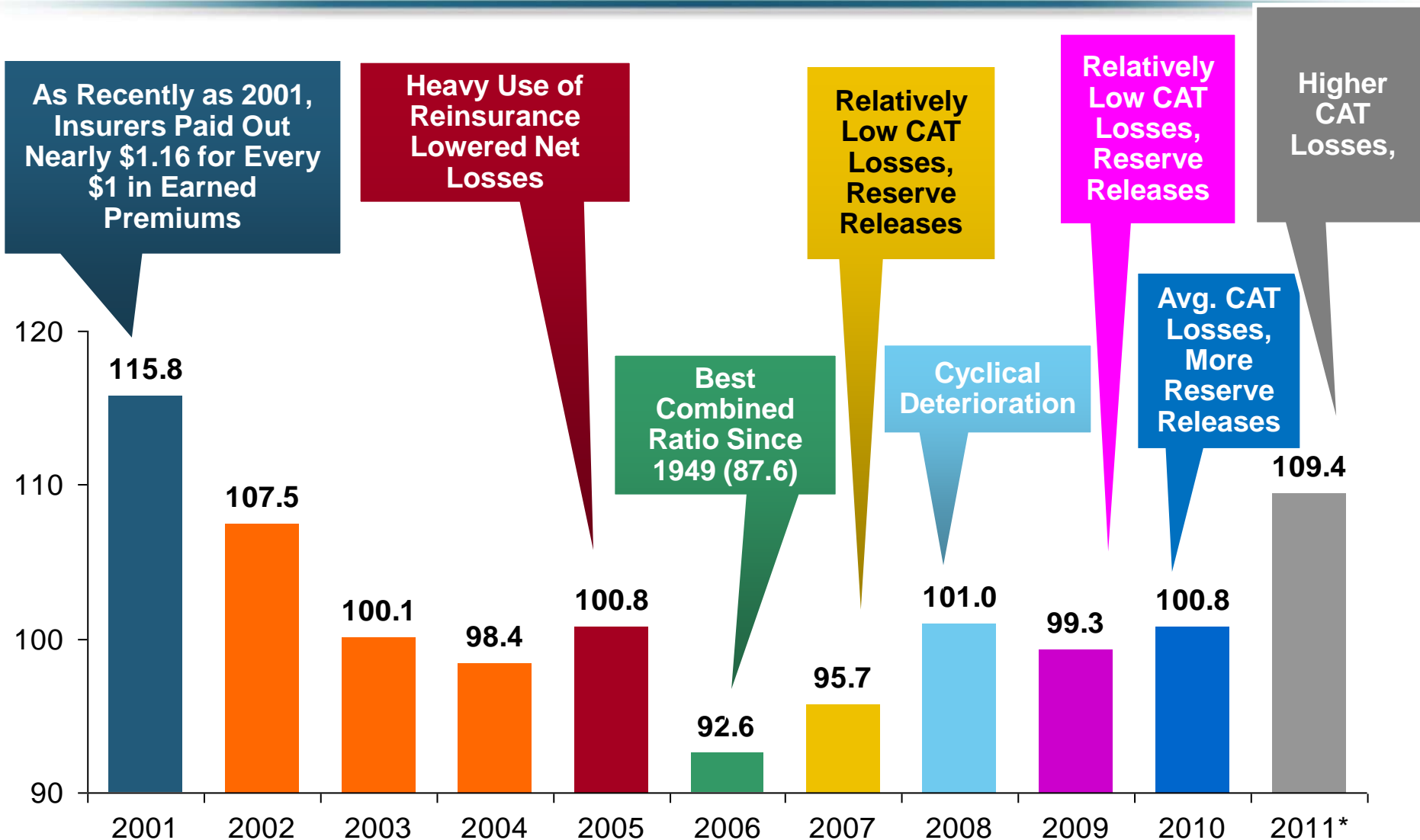
A modest increase in global property catastrophe reinsurance pricing was evident in June 1 renewals in the wake of record global catastrophe losses. Larger increase could occur for the Jan.1, 2012 renewals





Underwriting Trends: Cycle, Catastrophes Are Among 2011 and 2012 Drivers

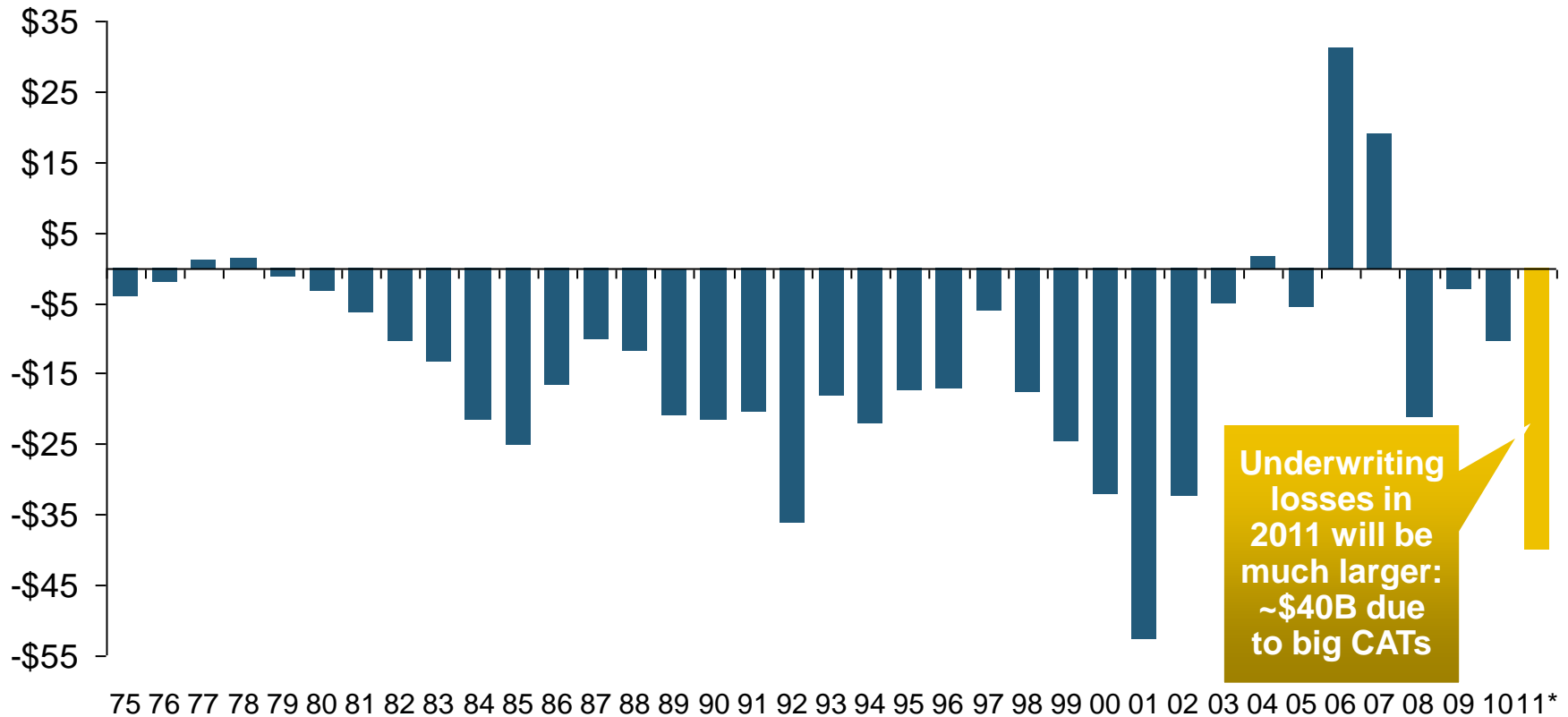
P/C Insurance Industry Combined Ratio, 2001–2011:H1*



* Excludes Mortgage & Financial Guaranty insurers 2008--2011. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=110.5
Sources: A.M. Best, ISO.; III Estimated for 2011:H1 (Q1 actual ex-M&FG was 102.2).

Underwriting Gain (Loss) 1975–2011*

(\$ Billions)

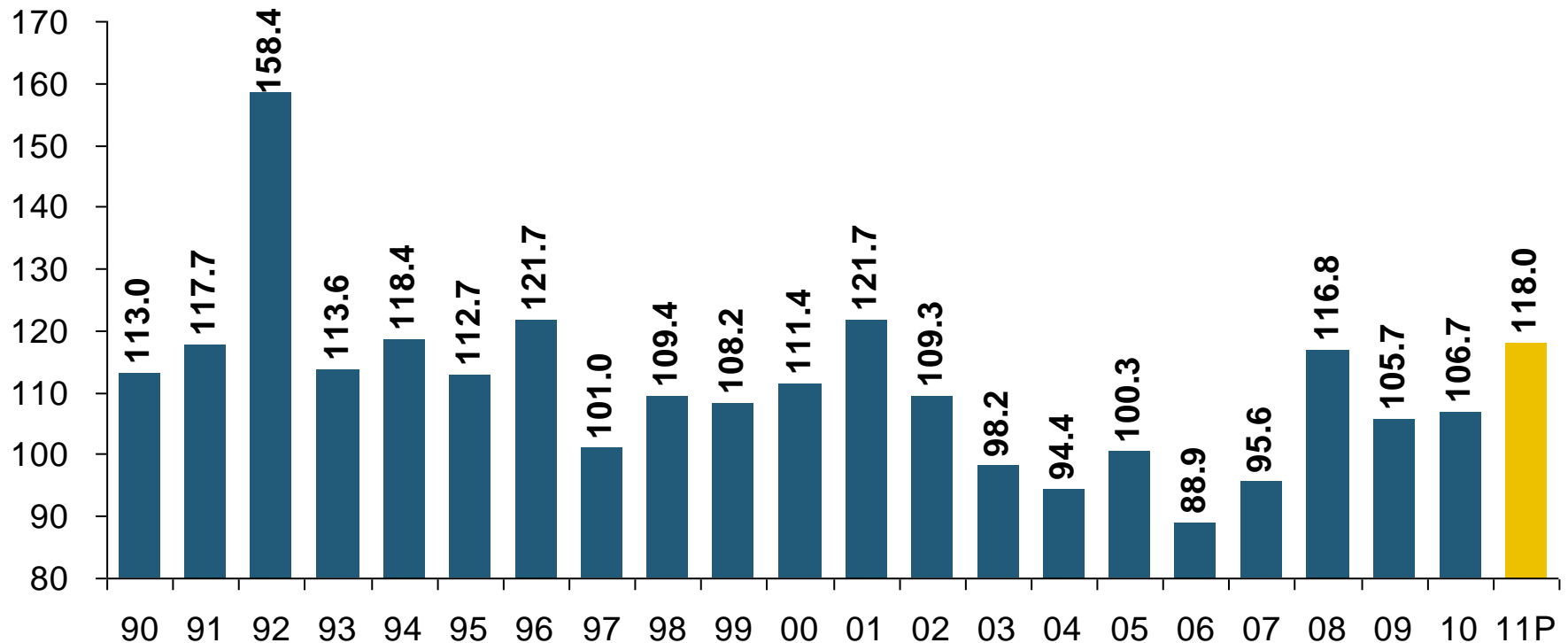


**Large Underwriting Losses Are *NOT* Sustainable
in Current Investment Environment**

* Includes mortgage and financial guaranty insurers in all years. 2011 figure is III estimate based on actual H1 underwriting losses of \$24.098 billion.

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

Homeowners Insurance Combined Ratio: 1990–2011P

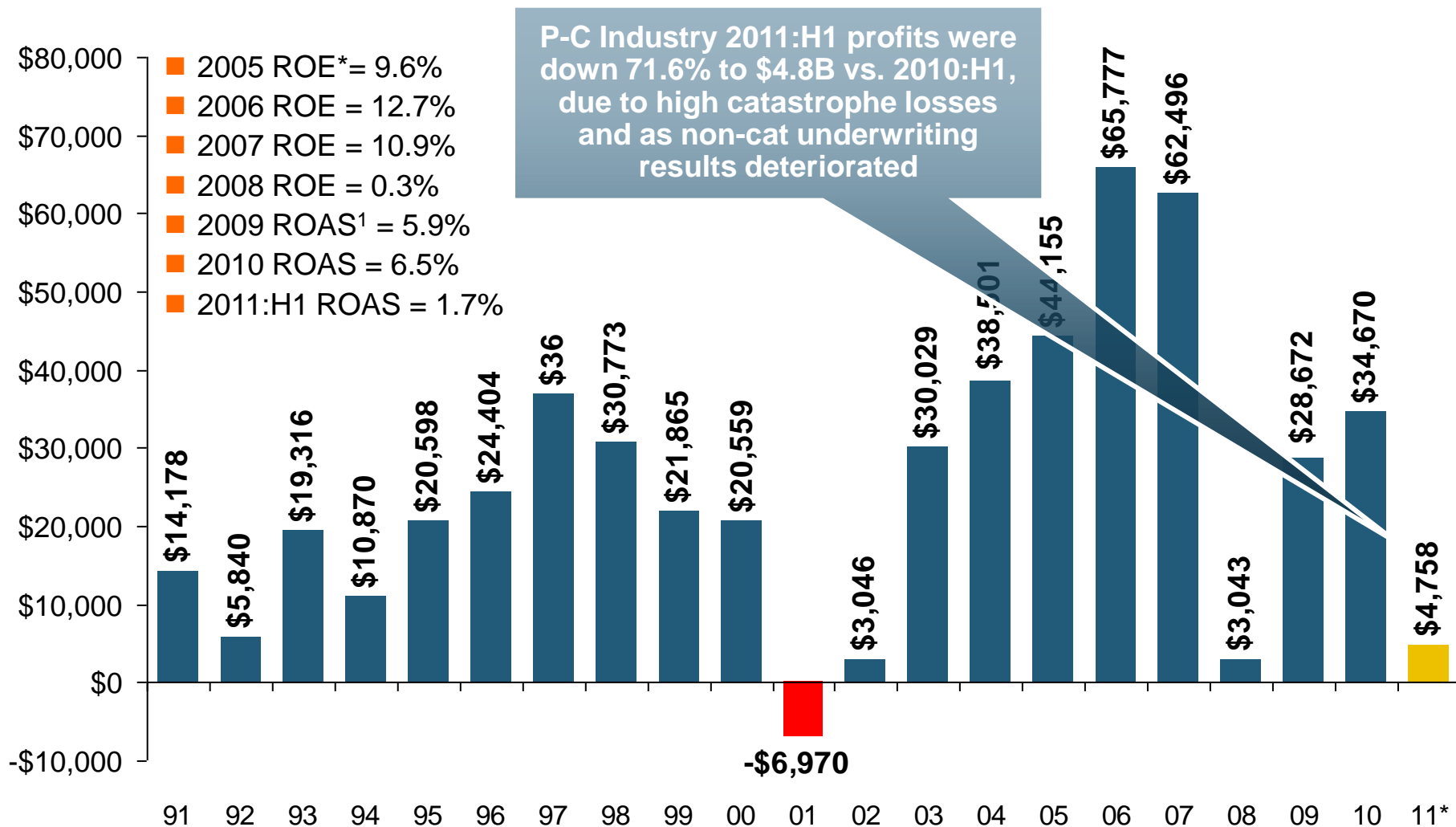


Homeowners Line Will Deteriorate in 2011 Due to Large Cat Losses. Extreme Regional Variation Can Be Expected Due to Local Catastrophe Loss Activity

P/C Insurance Industry Financial Overview

**Profit Recovery Will Be Set
Back by High CATs, Low
Interest Rates, Diminishing
Reserve Releases**

P/C Net Income After Taxes 1991–2011:H1 (\$ Millions)



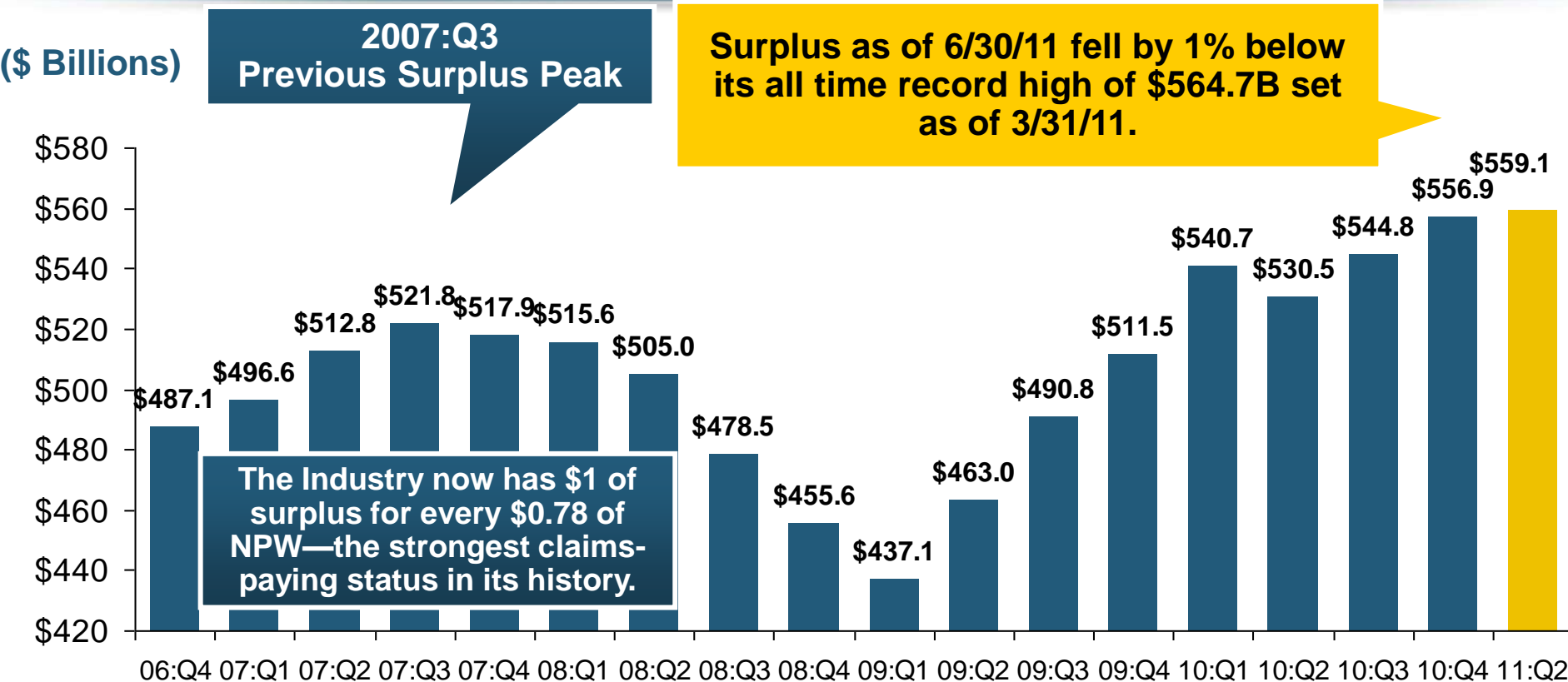
* ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 2.3% ROAS for 2011:H1, 7.5% for 2010 and 7.4% for 2009.

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

Capital/Policyholder Surplus (US)

**Have Large Global Losses Reduced
Capacity in the Industry, Setting
the Stage for a Market Turn?**

Policyholder Surplus, 2006:Q4–2011:Q2



Quarterly Surplus Changes Since 2007:Q3 Peak

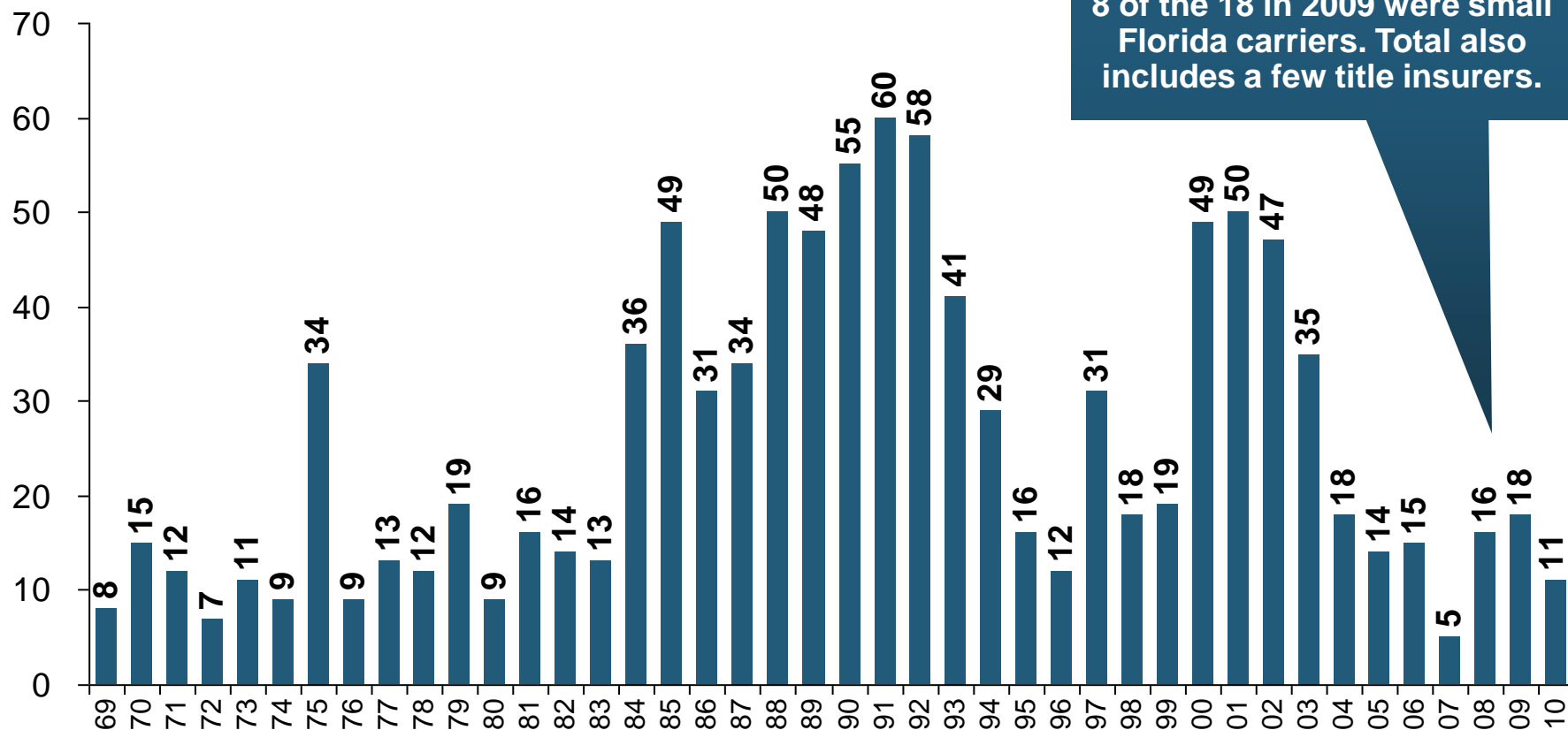
09:Q1: -\$84.7B (-16.2%)	10:Q2: +\$8.7B (+1.7%)
09:Q2: -\$58.8B (-11.2%)	10:Q3: +\$23.0B (+4.4%)
09:Q3: -\$31.0B (-5.9%)	10:Q4: +\$35.1B (+6.7%)
09:Q4: -\$10.3B (-2.0%)	11:Q1: +\$42.9B (+8.2%)
10:Q1: +\$18.9B (+3.6%)	11:Q2: +\$37.3B (+7.1%)

*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.

Financial Strength & Underwriting

**P-C Impairments Remain Low
Despite High Catastrophe Losses
and Poor Economic Environment**

P/C Insurer Impairments, 1969–2010



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

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