



Excess Casualty Insurance Markets in the Post-Crisis World: *A Looming Tort Crisis?*

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I. Insurance Industry Financial Overview & Outlook

- ◆ Profitability
- ◆ Premium Growth
- ◆ Underwriting Performance
- ◆ Financial Market (Investment) Overview
- ◆ Financial Strength

II. Tort Environment/Casualty Risk Assessment

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- ◆ Premium Growth

III. The Economic Storm: Financial Crisis, Recession & Recovery

- ◆ Exposure Overview & Outlook

IV. Public Policy Initiatives Affecting Casualty Insurance Markets

- ◆ Financial Service Regulation/Systemic Risk
- ◆ Terrorism Risk Insurance Program in Jeopardy

Q&A

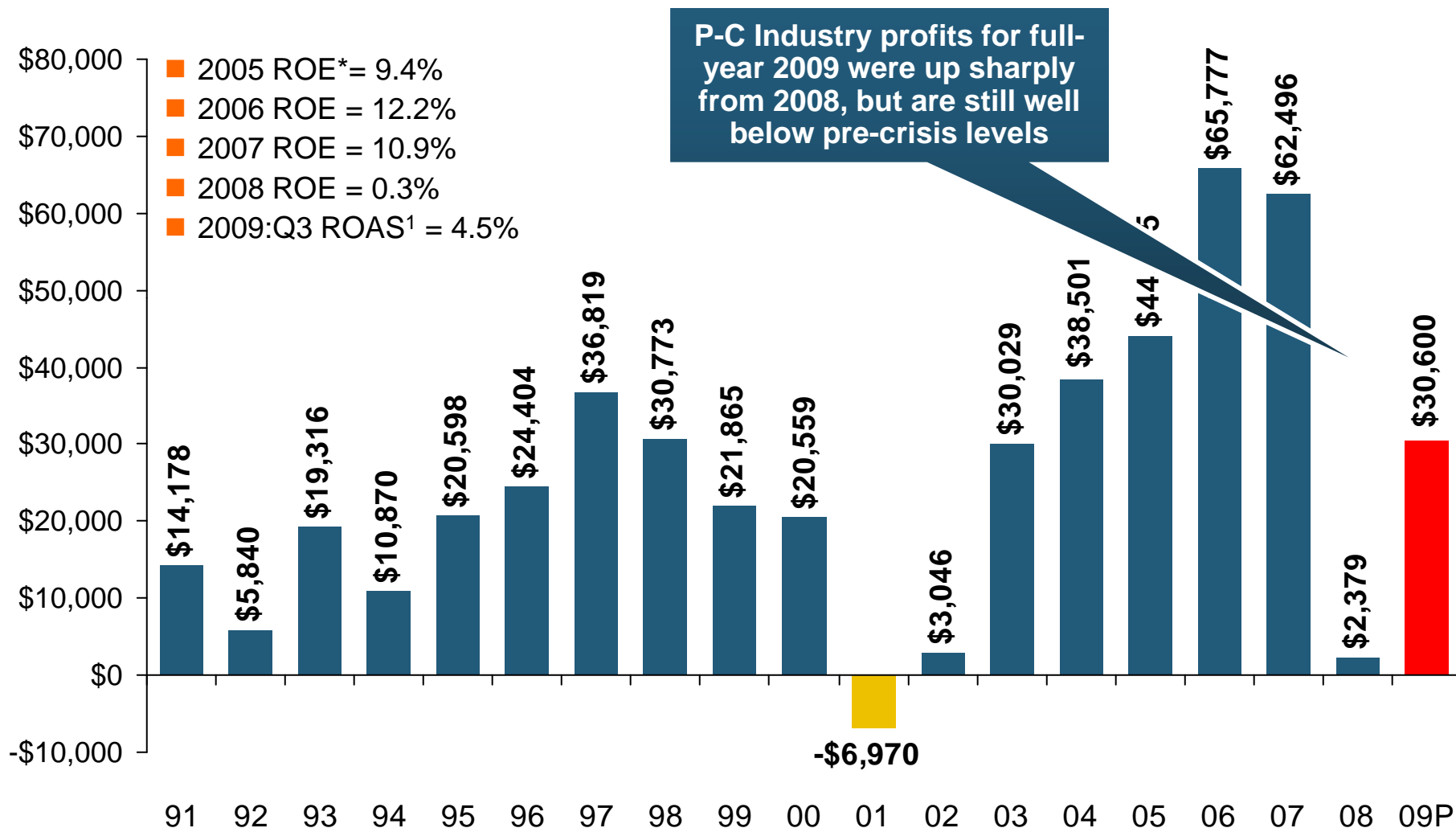
I. P/C (Re)Insurance Financial Performance

**Profitability, Premiums,
Investment Performance,
Capacity & Financial Strength**

Profitability

**A Profit Recovery is
Underway, But Is it Enough
and Can it Endure?**

P/C Net Income After Taxes 1991–2009P (\$ Millions)

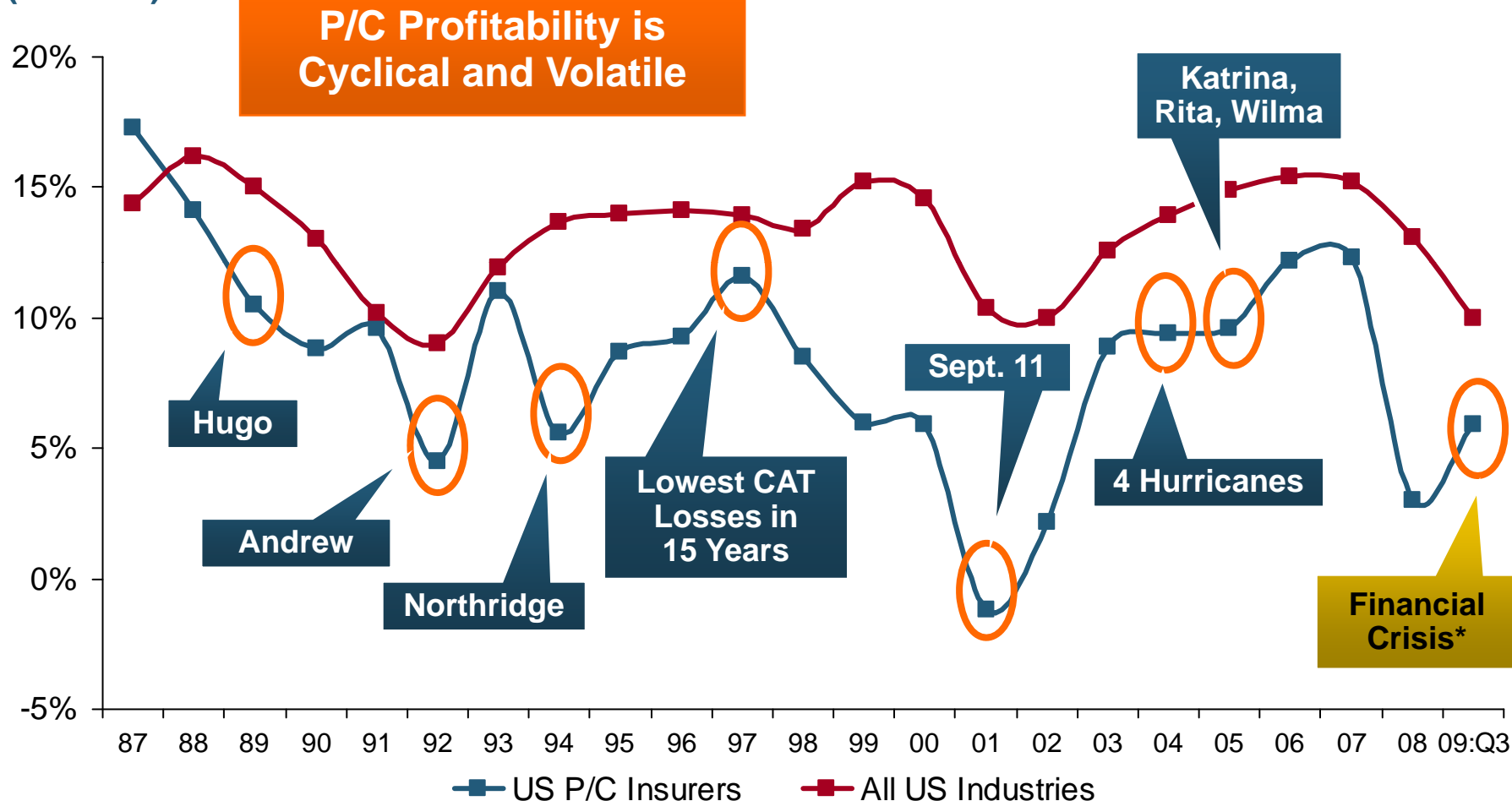


* ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 4.5% ROAS for 2008 and 5.9% for the first 9 months of 2009. 2009:Q3 net income was \$20.5 billion excluding M&FG.

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

ROE: P/C vs. All Industries 1987–2009:Q3*

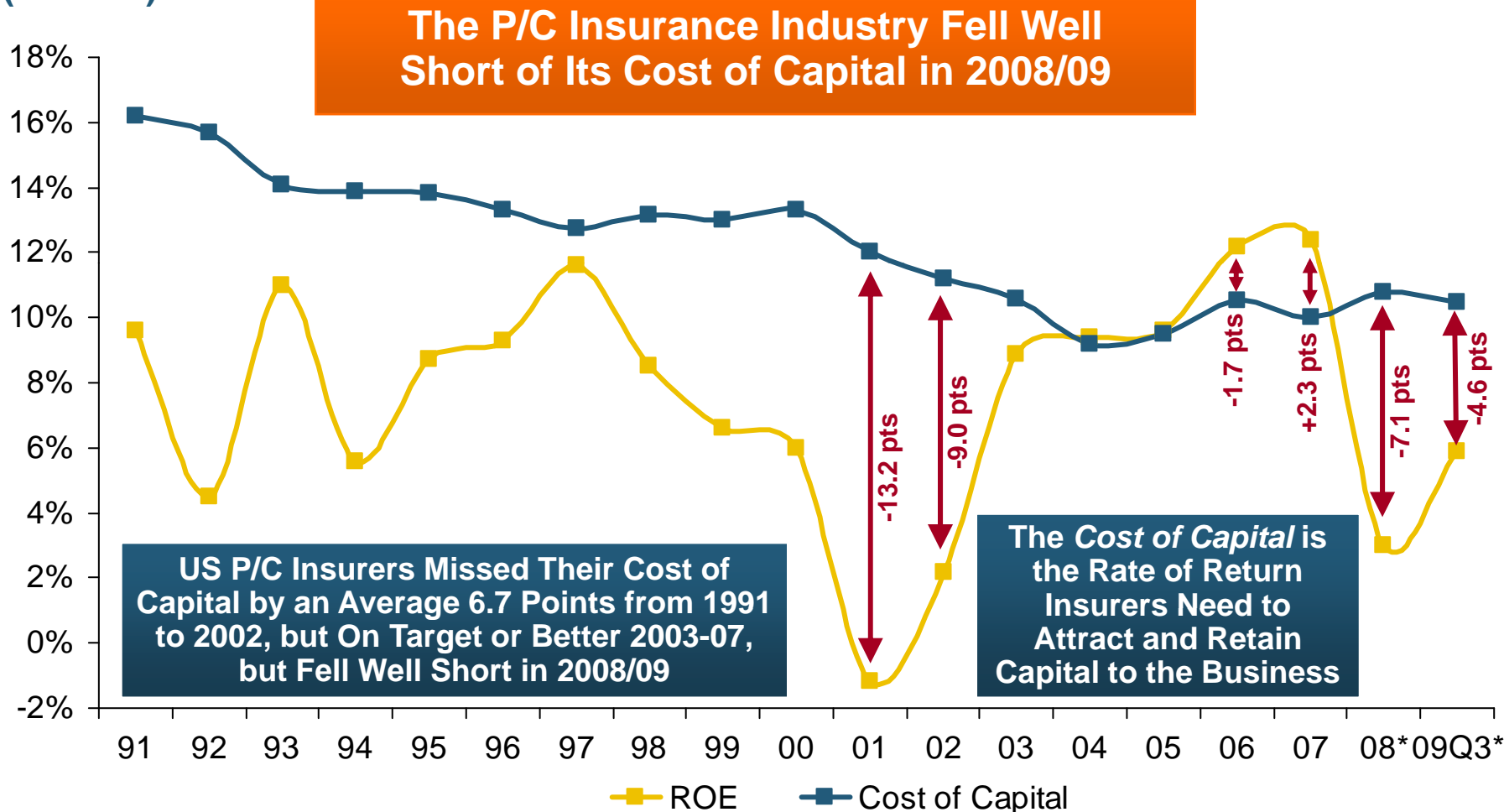
(Percent)



* Excludes Mortgage & Financial Guarantee in 2008 and 2009 through Q3.
Sources: ISO, *Fortune*; Insurance Information Institute.

ROE vs. Equity Cost of Capital: US P/C Insurance:1991-2009:Q3*

(Percent)

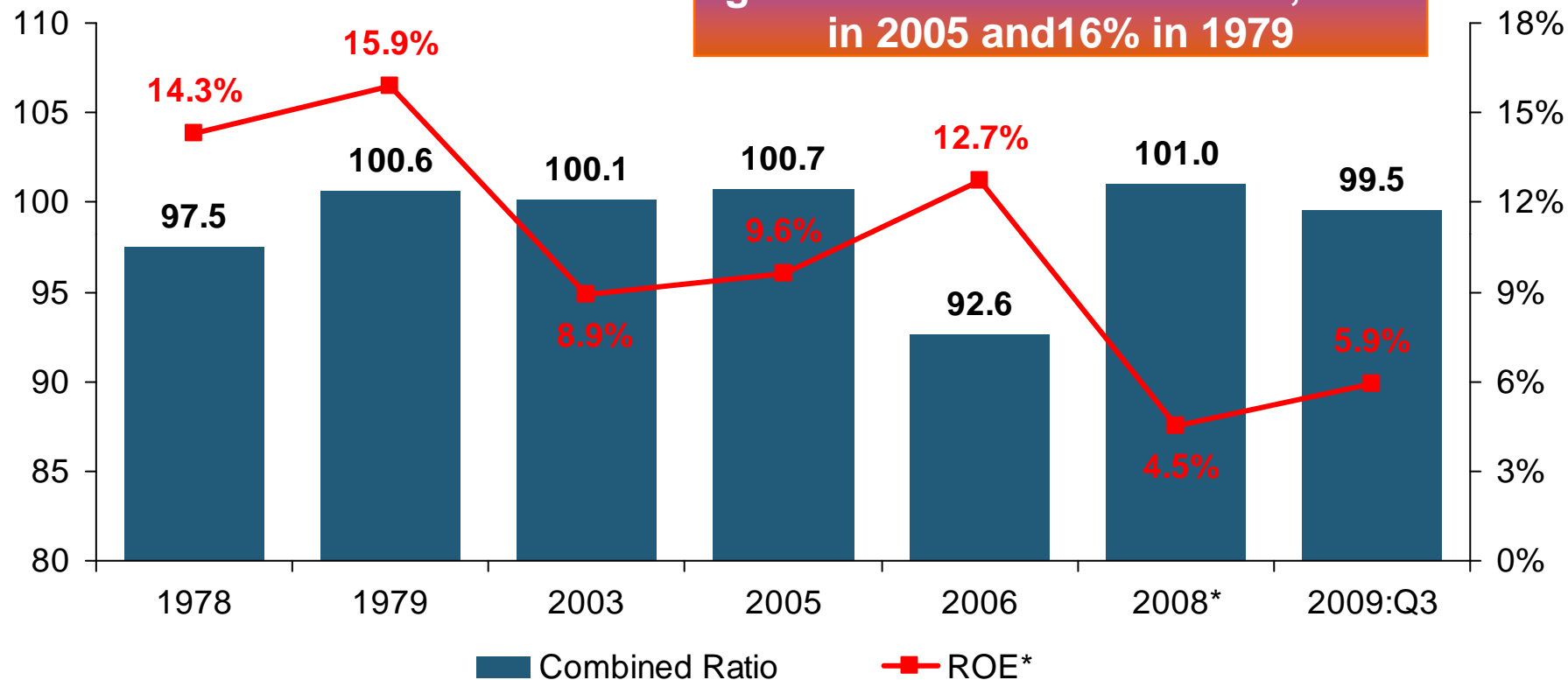


* Excludes mortgage and financial guarantee insurers

Source: The Geneva Association, Insurance Information Institute

A 100 Combined Ratio Isn't What It Once Was: 90-95 is Where It's At Now

Combined Ratio / ROE

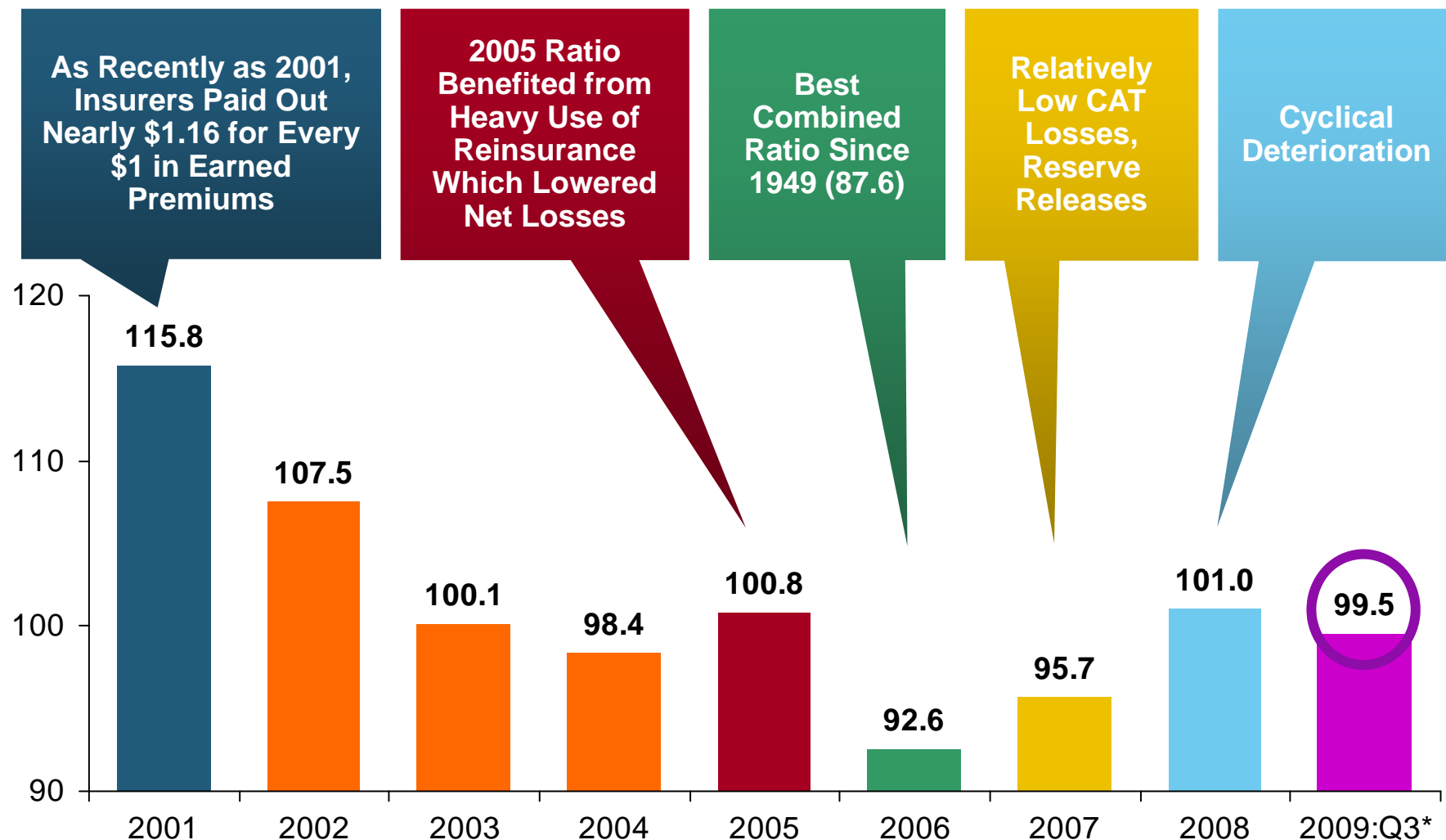


Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2009 figure is return on average statutory surplus. 2008 and 2009 figures exclude mortgage and financial guarantee insurers
Source: Insurance Information Institute from A.M. Best and ISO data

**Underwriting Trends –
Financial Crisis Does *Not*
Directly Impact Underwriting
Performance: Cycle, Catastrophes
Were 2008's Drivers**

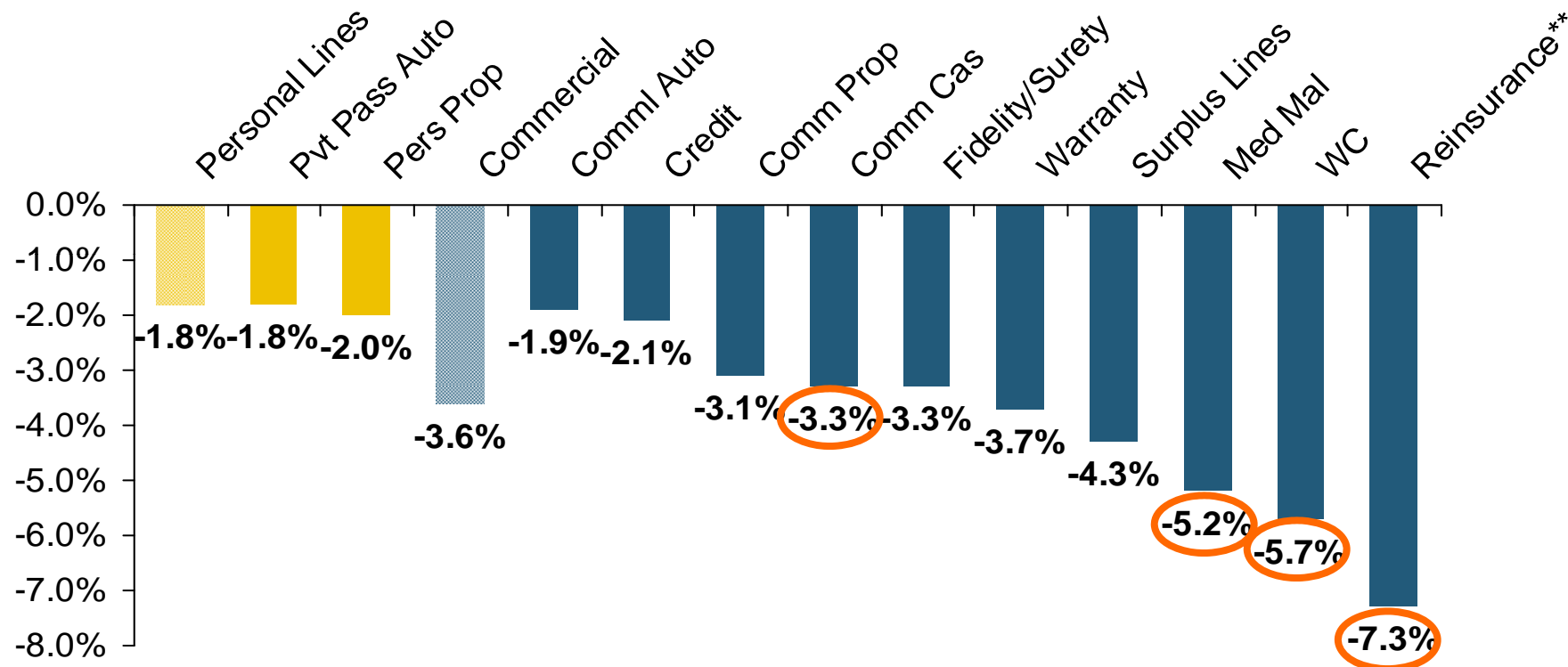
P/C Insurance Industry Combined Ratio, 2001–2009:Q3*



* Excludes Mortgage & Financial Guaranty insurers in 2008. Including M&FG, 2008=105.1, 2009=100.7

Sources: A.M. Best, ISO.

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



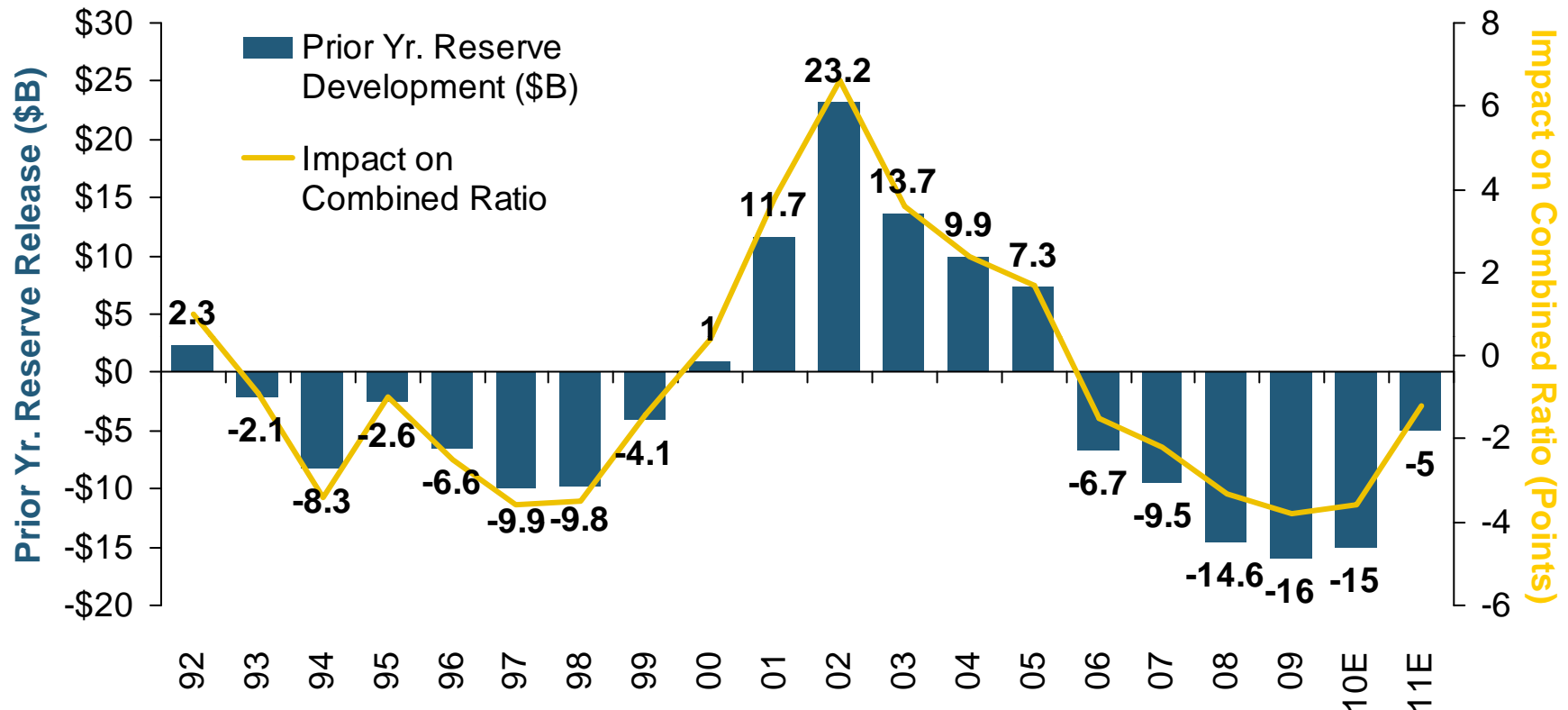
Lower Investment Earnings Place a Greater Burden on Underwriting and Pricing Discipline

*Based on 2008 Invested Assets and Earned Premiums

**US domestic reinsurance only.

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

P/C Reserve Development, 1992–2011E

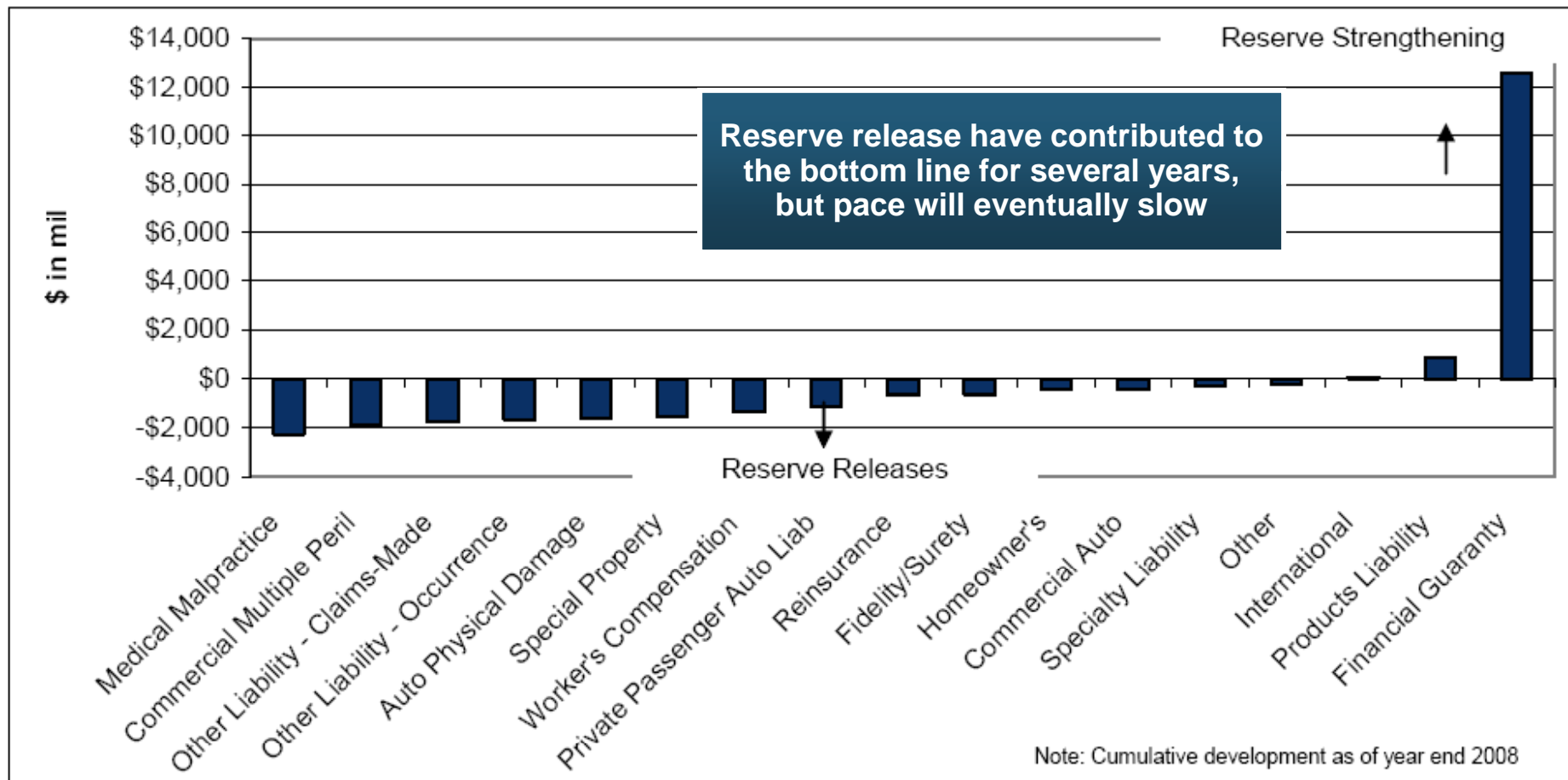


**Reserve Releases Will Expected to Taper Off
in 2010 and Drop Significantly in 2011**

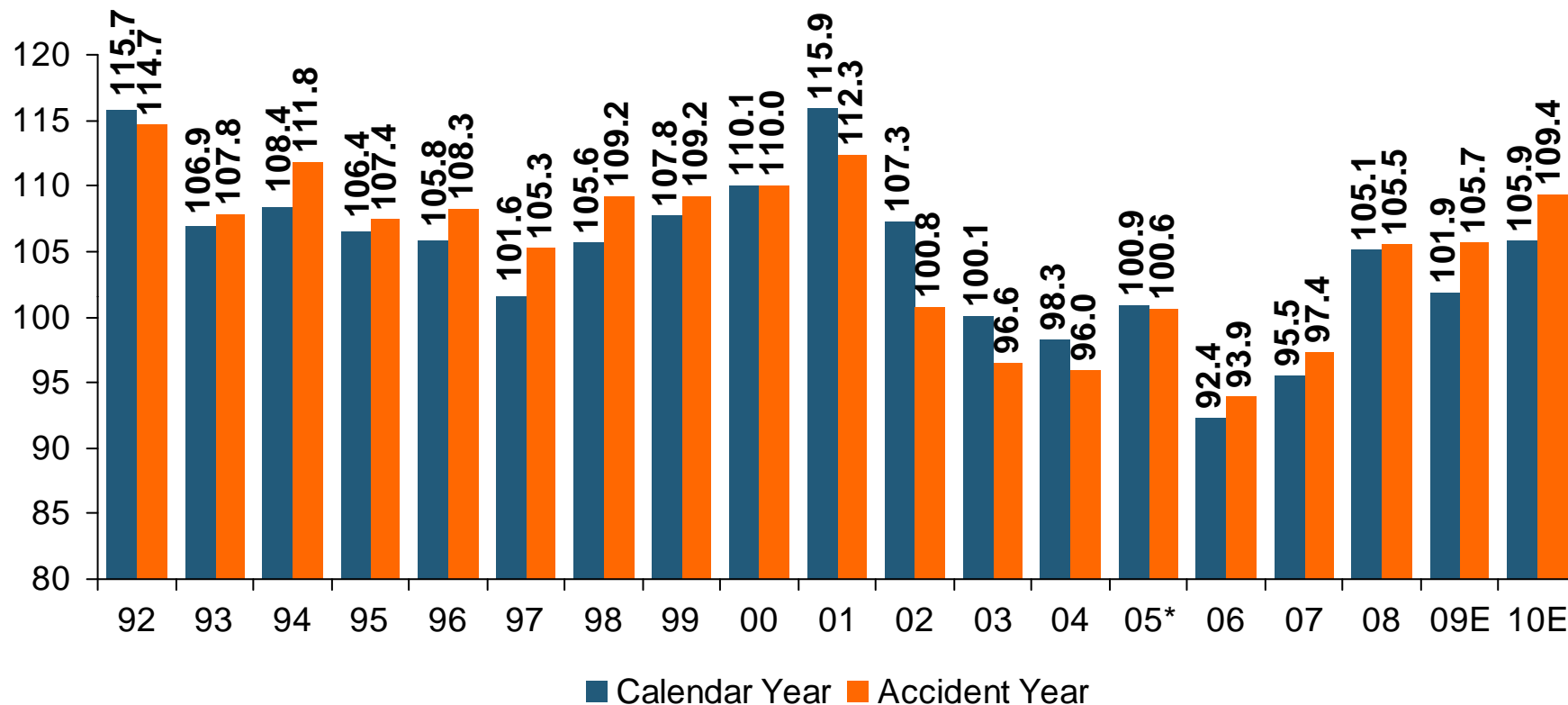
Note: 2005 reserve development excludes a \$6 billion loss portfolio transfer between American Re and Munich Re. Including this transaction, total prior year adverse development in 2005 was \$7 billion. The data from 2000 and subsequent years excludes development from financial guaranty and mortgage insurance.

Sources: Barclay's Capital; A.M. Best.

Net Prior Year Reserve Development by Line, 2008



Calendar Year vs. Accident Year P/C Combined Ratio: 1992–2010E¹



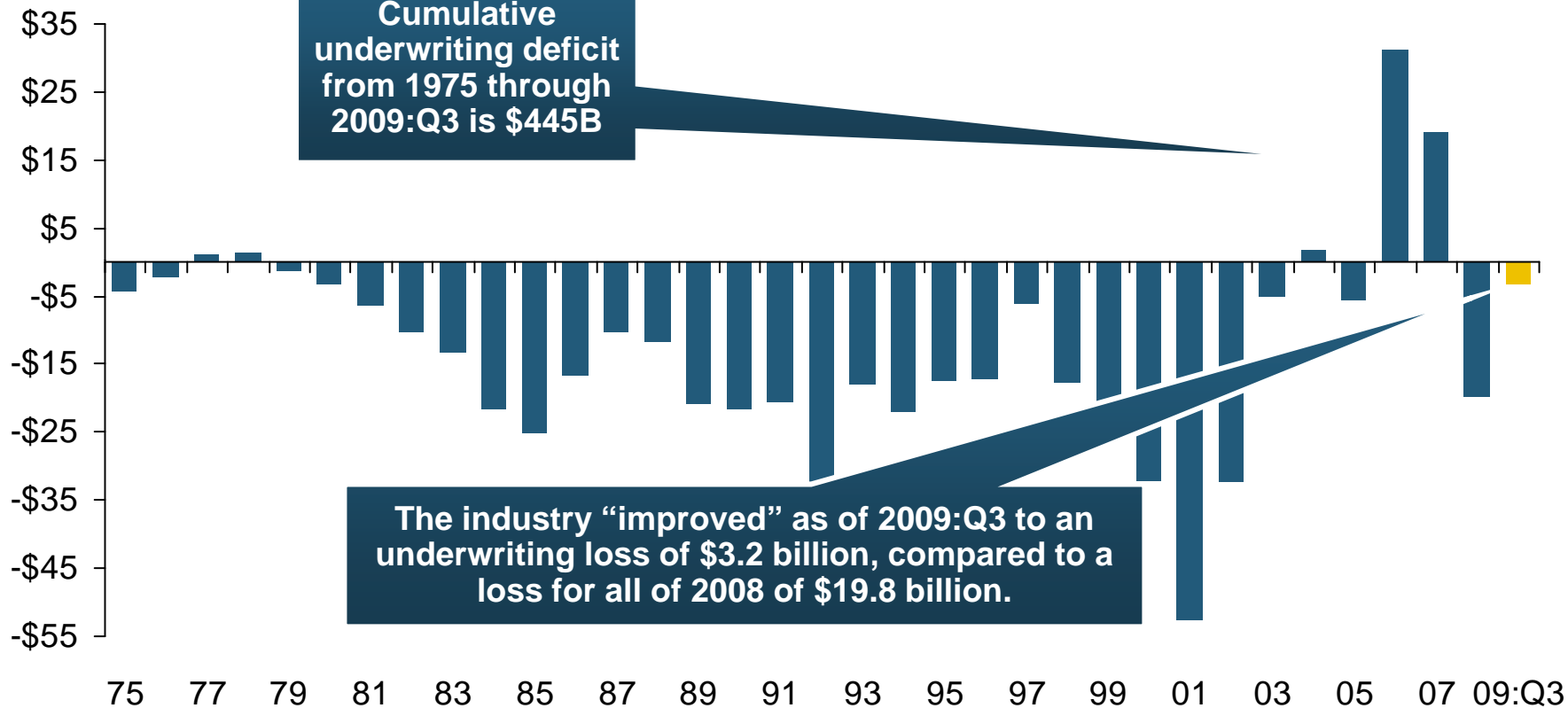
Accident Year Results Show a More Significant Deterioration in Underwriting Performance. Calendar Year Results Are Helped by Reserve Releases

Note: 2005 reserve development excludes a \$6 billion loss portfolio transfer between American Re and Munich Re. Including this transaction, total prior year adverse development in 2005 was \$7 billion. The data from 2000 and subsequent years excludes development from financial guaranty and mortgage insurance.

Sources: Barclay's Capital; A.M. Best.

Underwriting Gain (Loss) 1975–2009:Q3*

(\$ Billions)



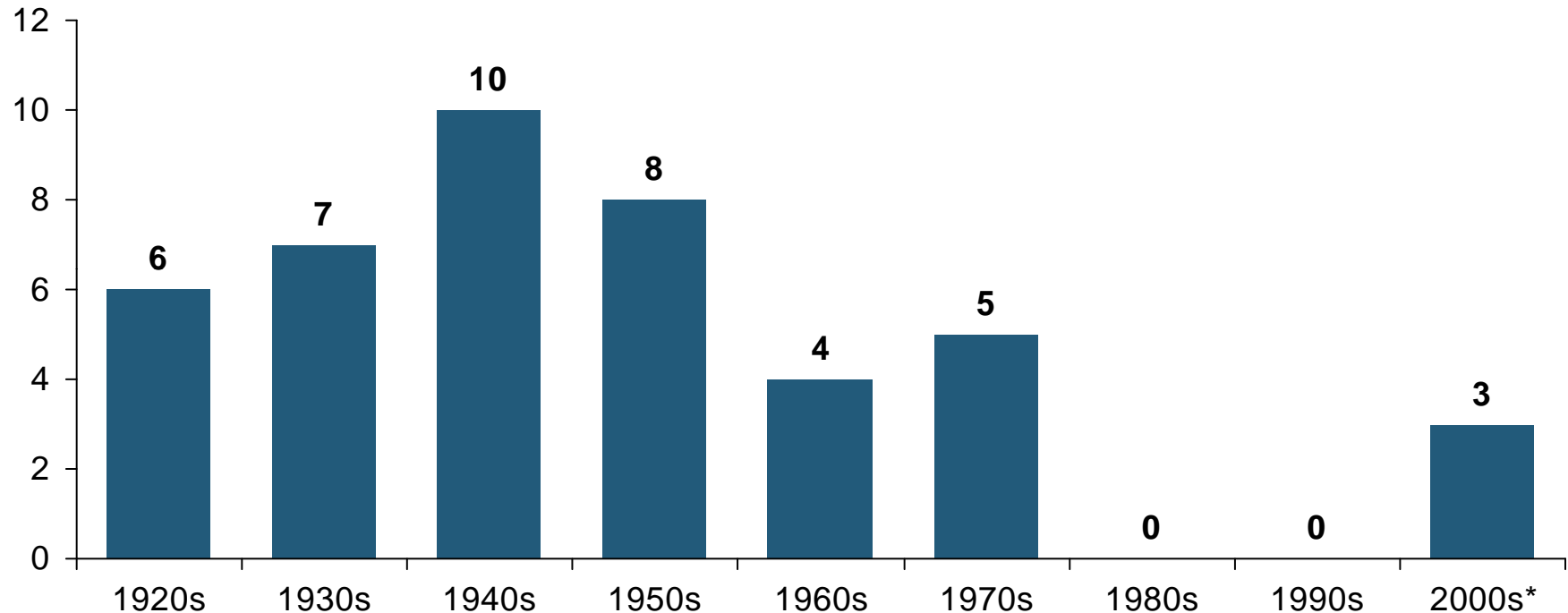
**Large Underwriting Losses Are *NOT* Sustainable
in Current Investment Environment**

* Includes mortgage and financial guarantee insurers.

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

Number of Years with Underwriting Profits by Decade, 1920s–2000s

Number of Years with Underwriting Profits



**Underwriting Profits Were Common Before the 1980s
(40 of the 60 Years Before 1980 Had Combined Ratios Below 100) –
But Then They Vanished. Not a Single Underwriting Profit Was
Recorded in the 25 Years from 1979 Through 2003**

* 2000 through 2009. 2009 combined ratio was 100.7 through Q3.

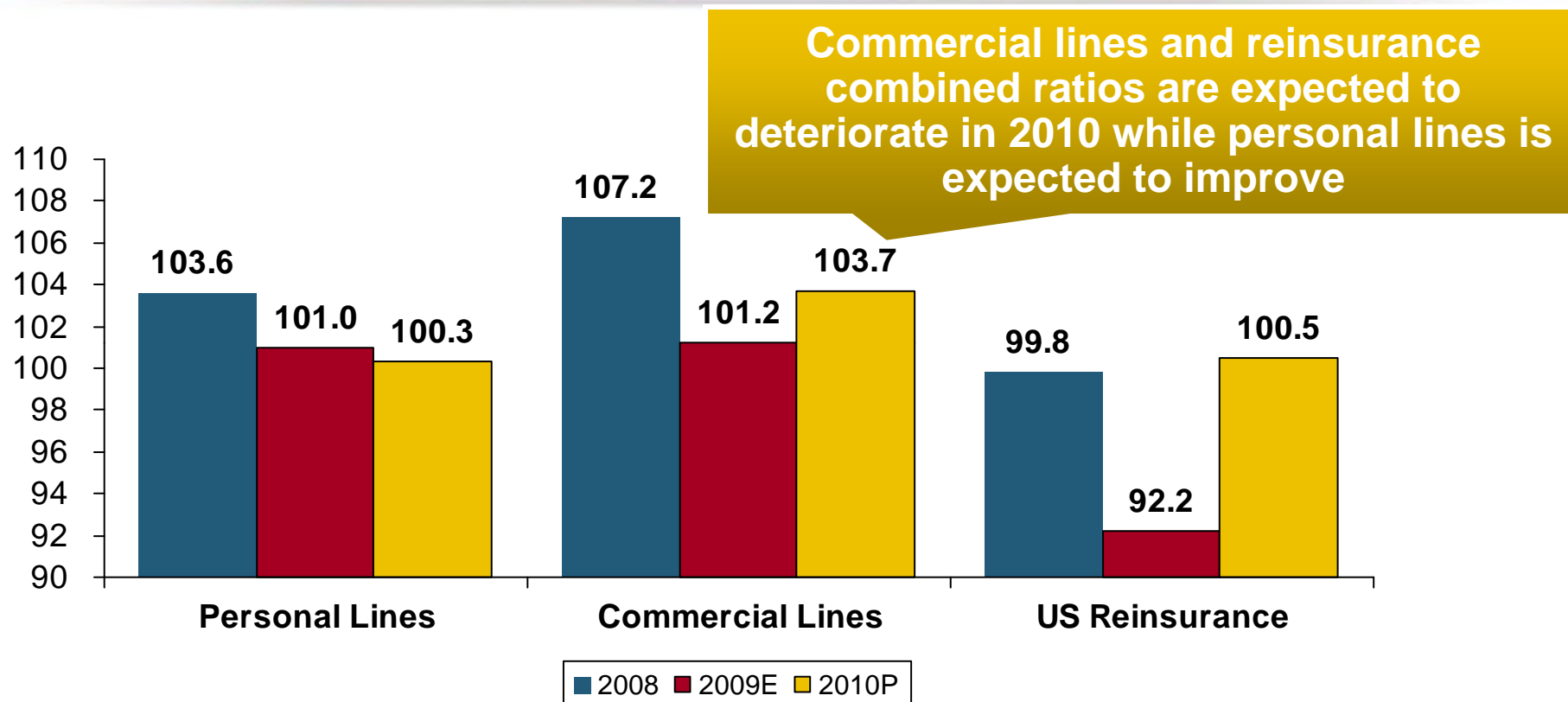
Note: Data for 1920–1934 based on stock companies only.

Sources: Insurance Information Institute research from A.M. Best Data.



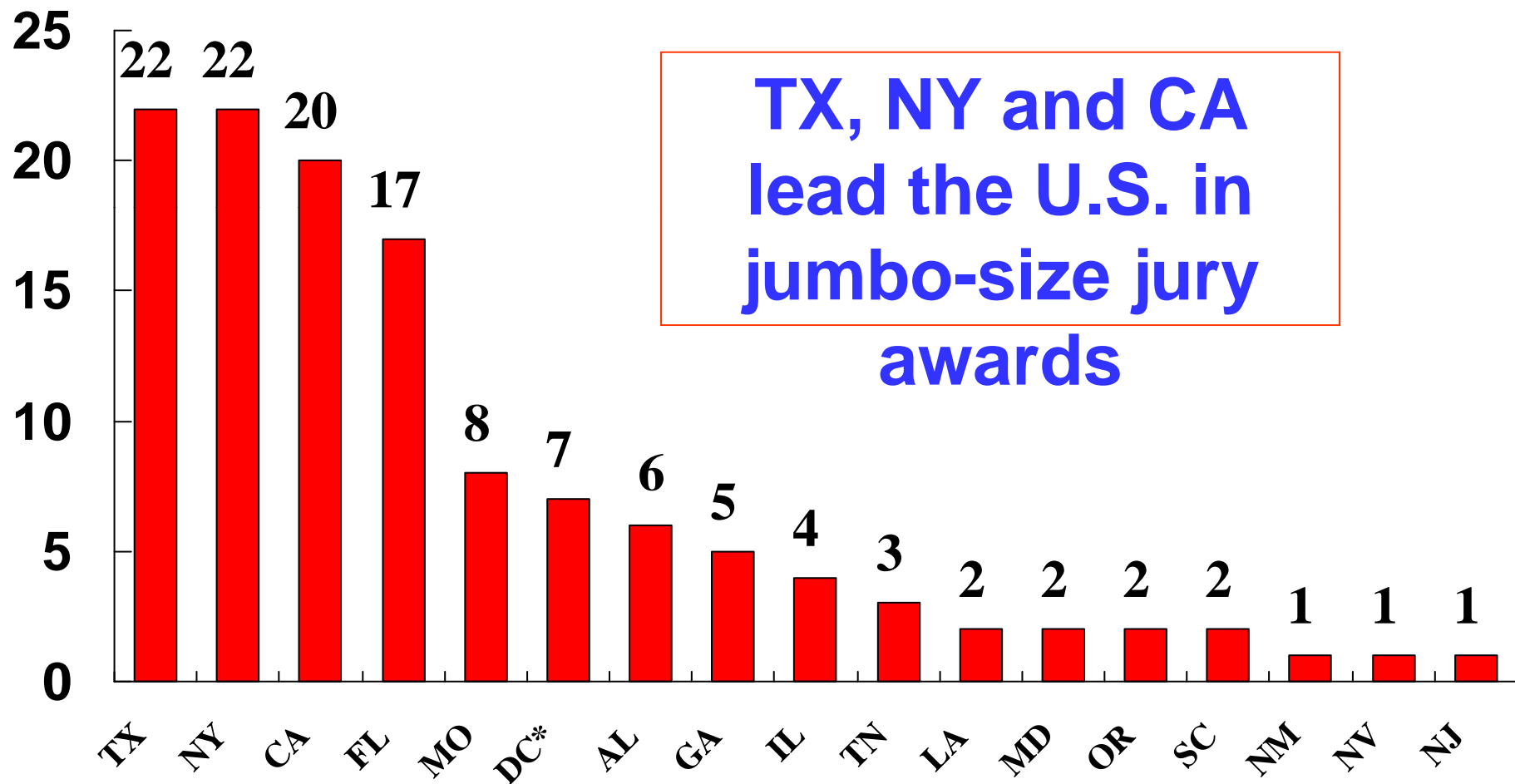
Performance by Segment: Commercial/Personal Lines & Reinsurance

Calendar Year Combined Ratios by Segment: 2008-2010P

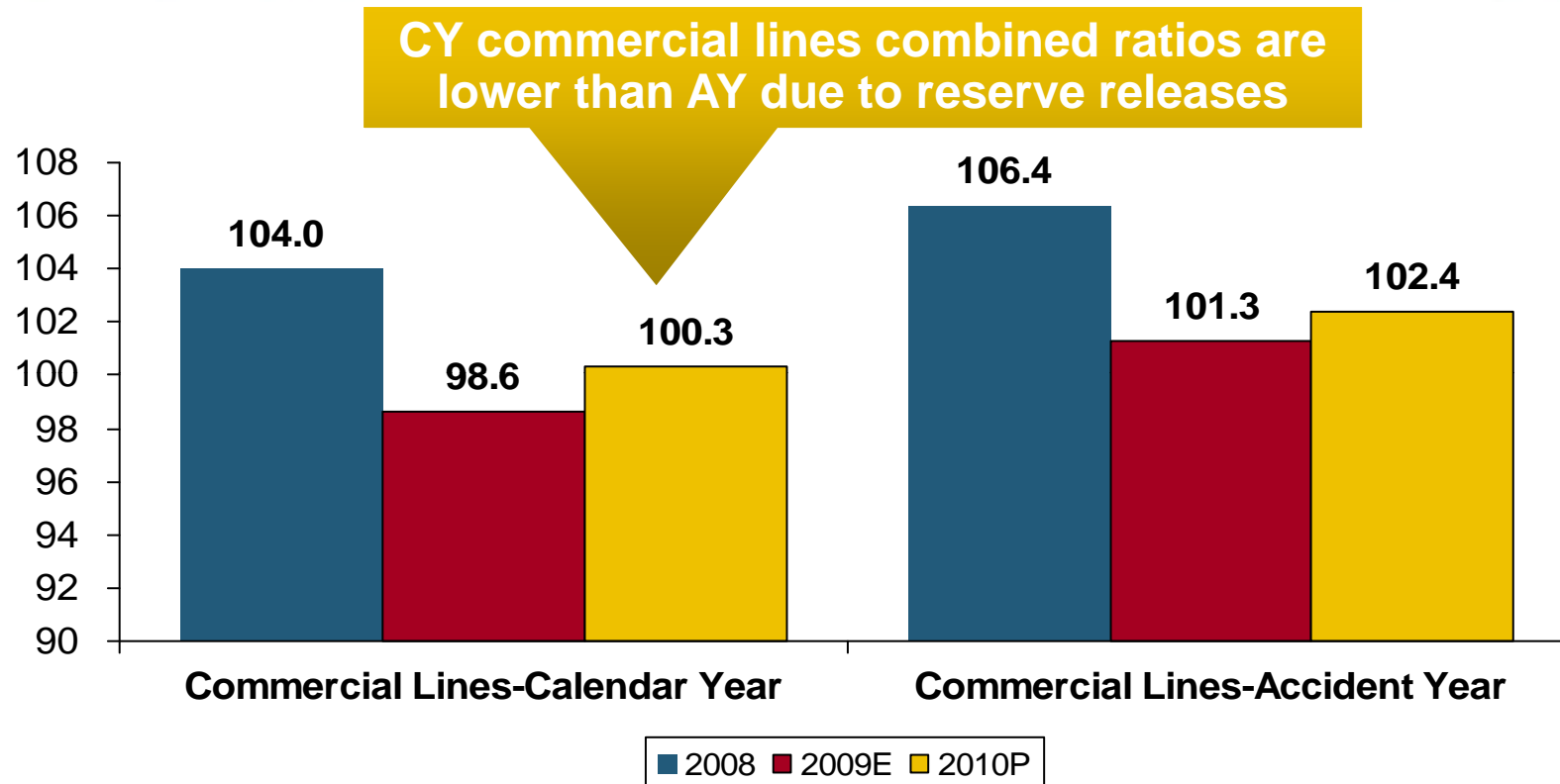


Overall deterioration in 2010 underwriting performance is due to expected return to normal catastrophe activity along with deteriorating underwriting performance related to the prolonged commercial soft market

Number of Top 10 Jury Awards, 1995 - 2007



Calendar vs. Accident Year Combined Ratios by Segment: 2008-2010P*

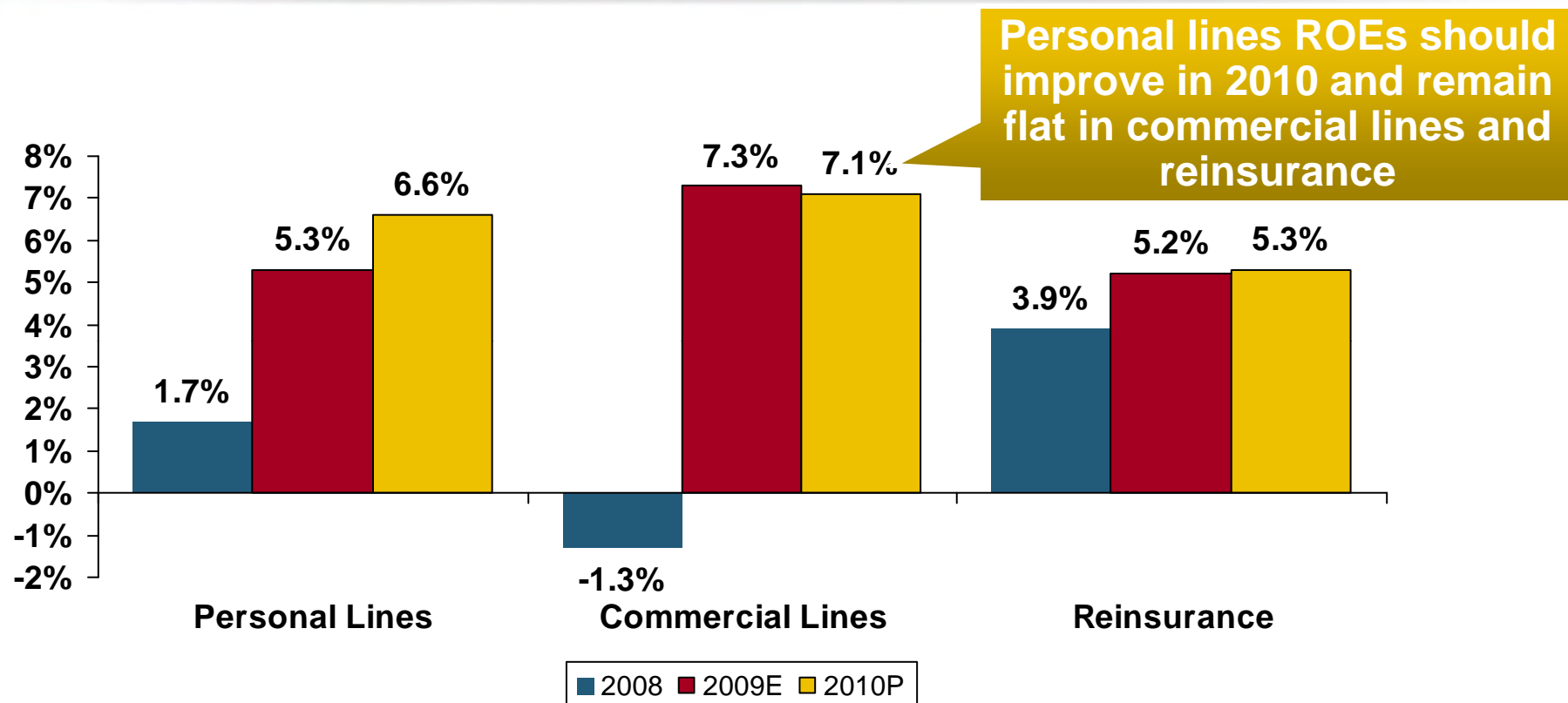


The ability of reserves releases to favorably impact calendar year results will diminish over time reserved redundancies fall

*Normalized to reflect average/typical level of catastrophe losses.

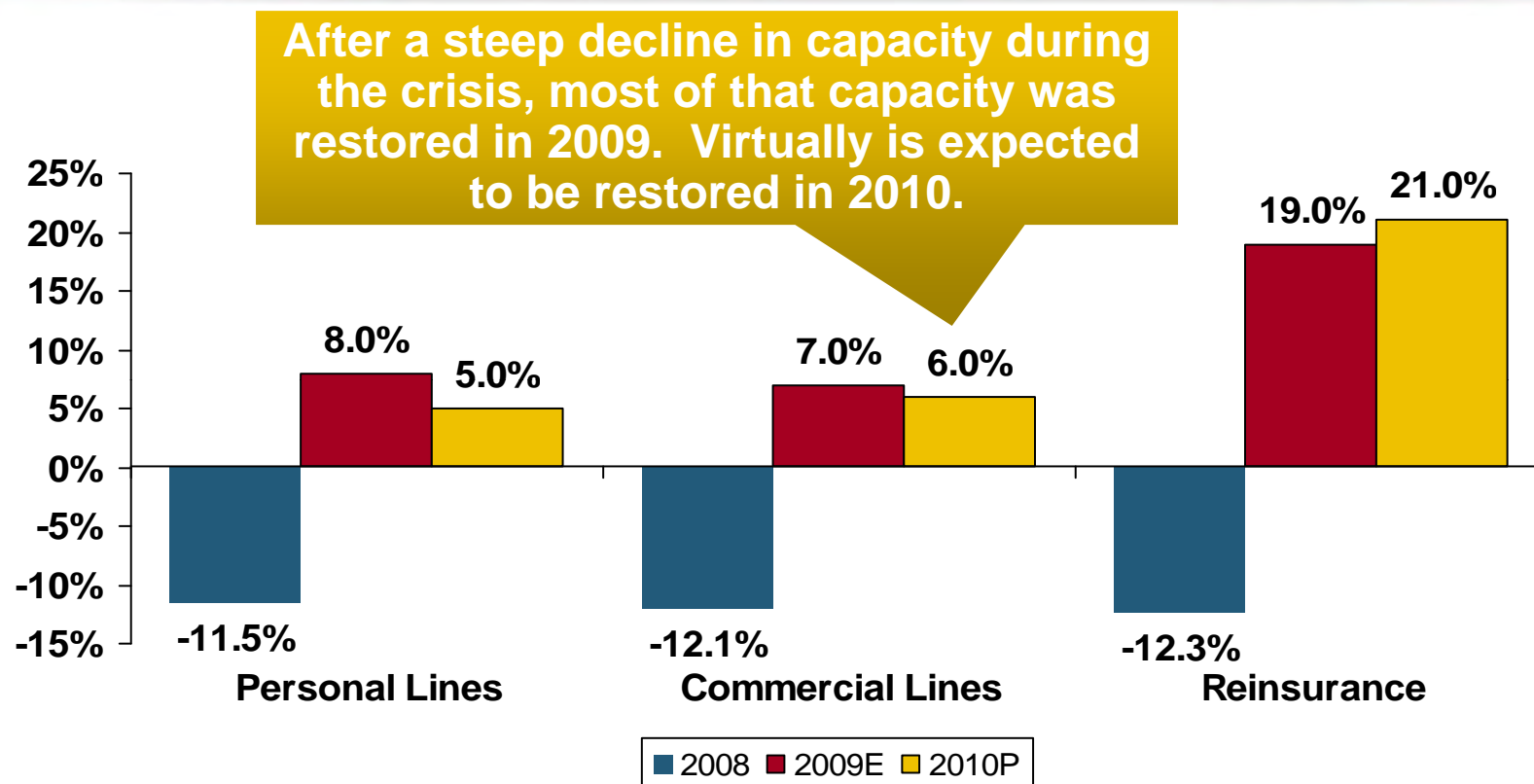
Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute.

After-Tax Return on Surplus (ROE) by Segment: 2008-2010P



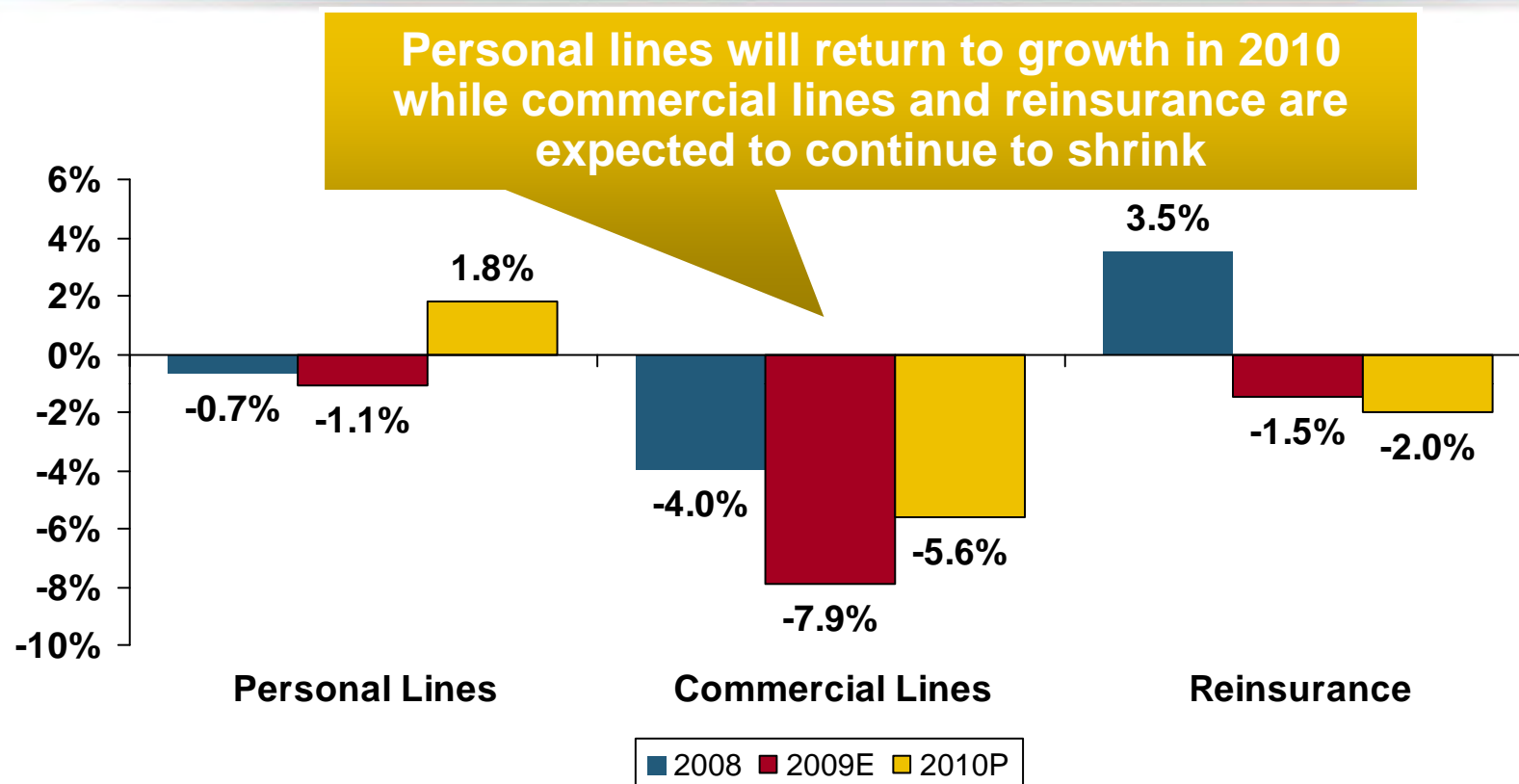
Profitability will rise or stabilize across most p/c lines, barring a financial crisis relapse or major catastrophic losses

Change in Policyholder Surplus by Segment: 2008-2010P



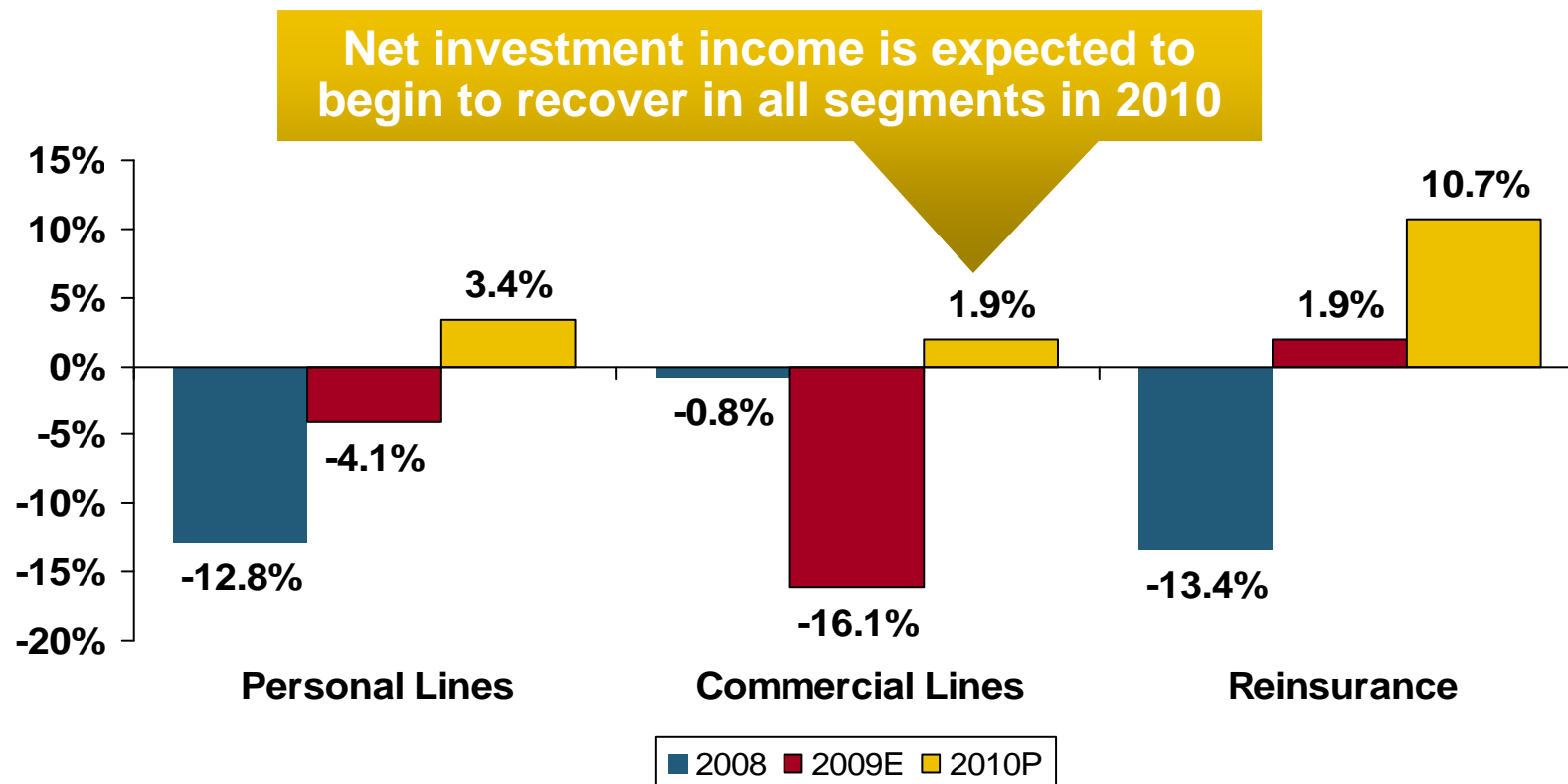
Rapid growth in policyholder surplus to pre-crisis levels combined with ongoing slow growth or declines in premiums (esp. in commercial lines) implies a build-up of excess capacity—a major factor in weak commercial lines and reinsurance pricing

Net Written Premium Growth by Segment: 2008-2010P



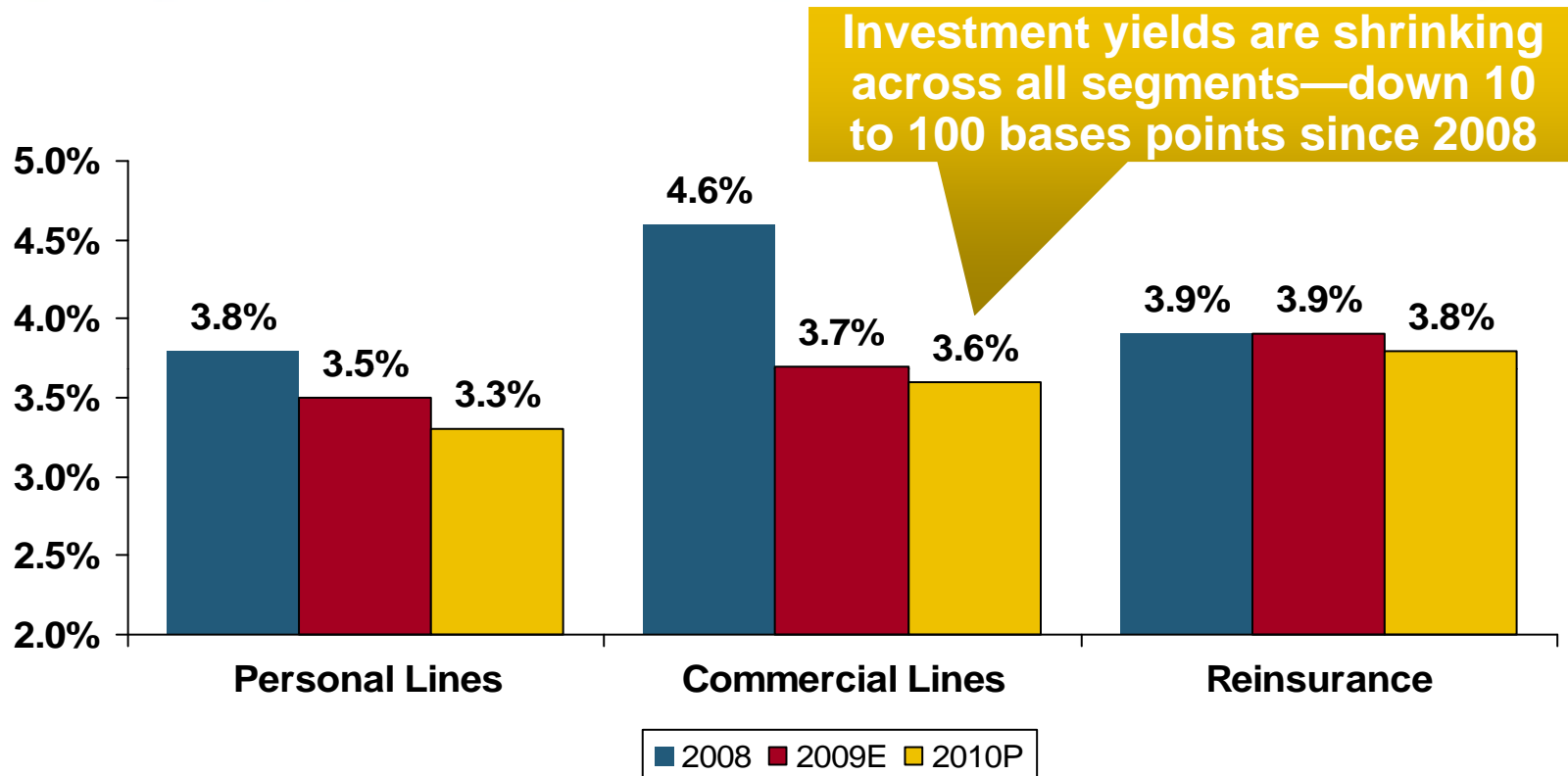
Rate and exposure are more favorable in personal lines, whereas a prolonged soft market and sluggish recovery from the recession weigh on commercial lines. Low catastrophe losses and ample capacity are holding down reinsurance prices while higher insurer retentions impact premiums

Change in Net Investment Income by Segment: 2008-2010P*



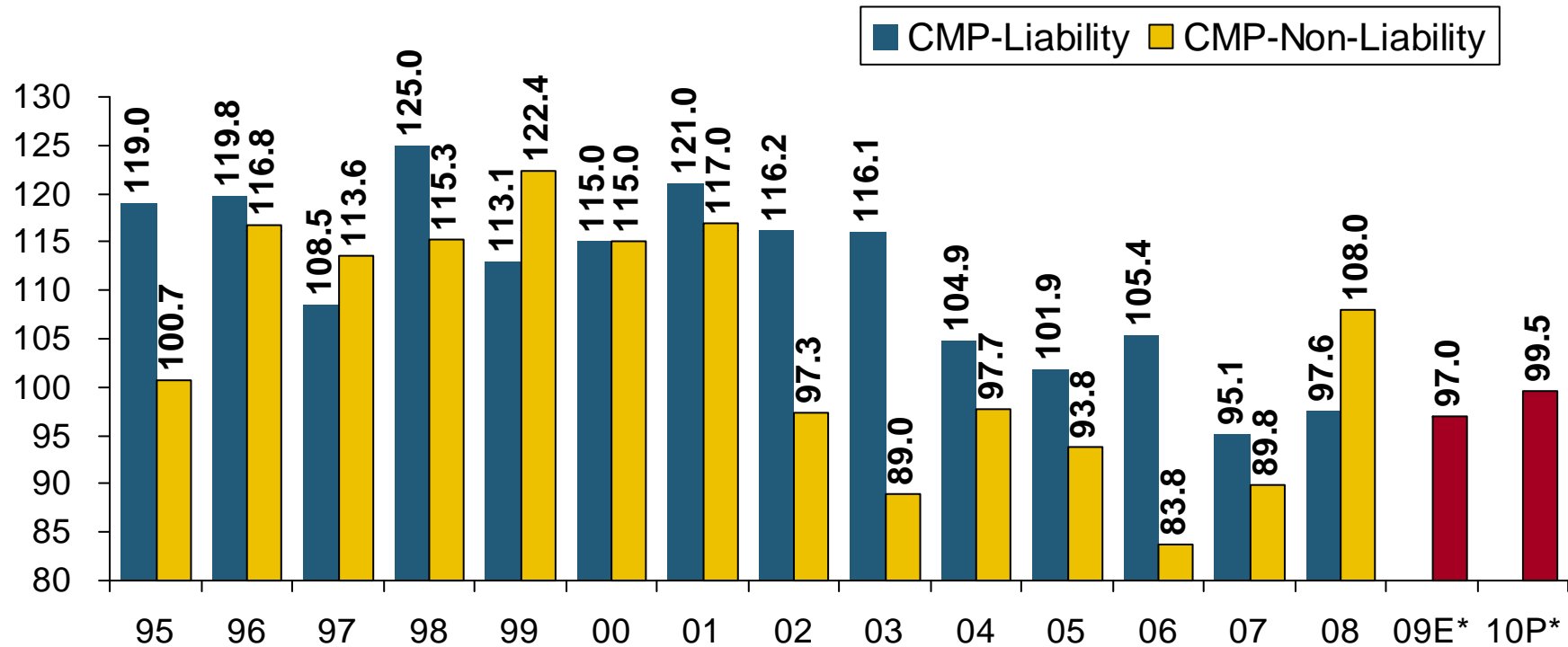
Investment income consists primarily of interest on bonds and stock dividends. Both were hit hard during the financial crisis as the Fed slashed interest rates to near zero and corporations cut dividends. A recovery in investment asset values beginning in Q2 2009—which reduced realized capital losses—has helped offset some of the decrease in investment income.

Investment Yield by Segment: 2008-2010P*



The Fed slashed interest rates in 2008 and has kept them low since, eroding the yield on all types of bonds, especially US Treasury securities. Yields will not recover until the Fed begins monetary policy tightening.

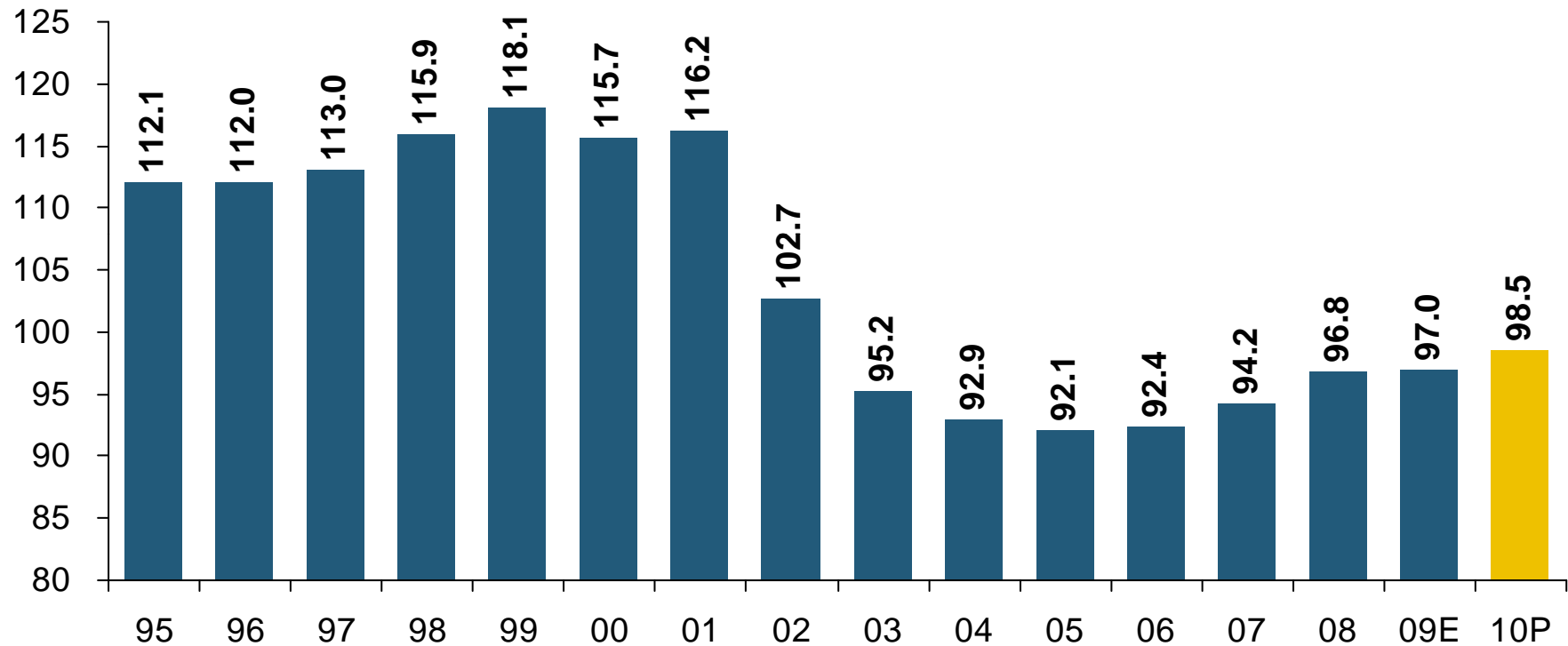
Commercial Multi-Peril Combined Ratio: 1995–2010P



Commercial Multi-Peril is Expected to Continue to Perform Reasonably Well

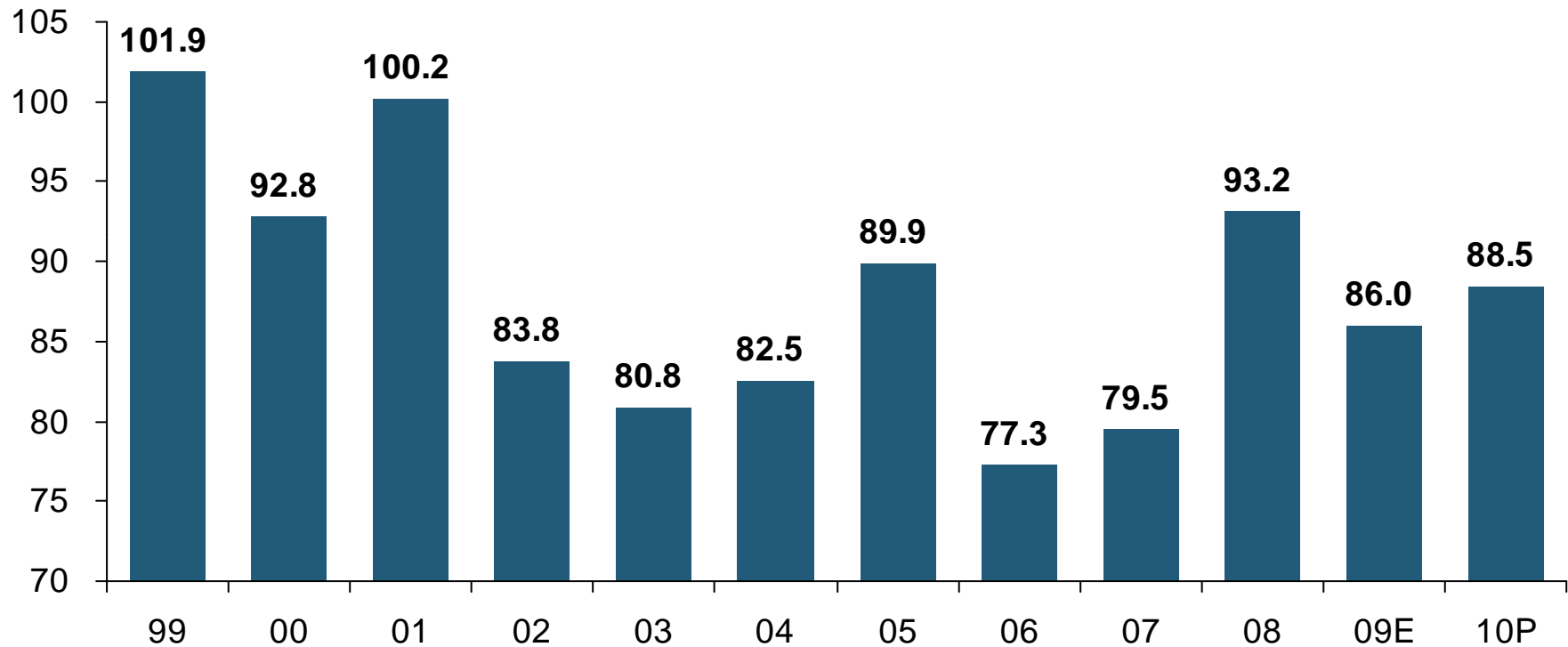
*2009E and 2010P figures are for the combined liability and non-liability components.
Sources: A.M. Best; Insurance Information Institute.

Commercial Auto Combined Ratio: 1993–2010P



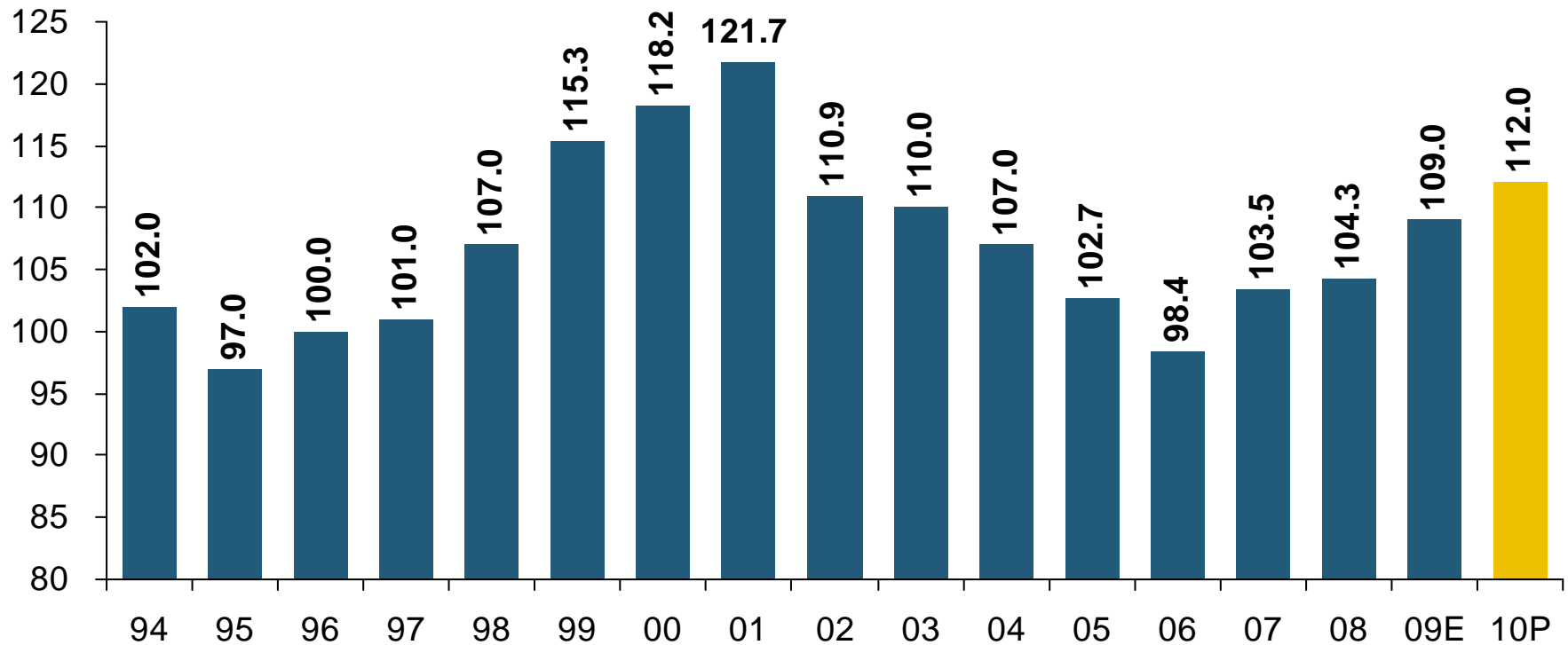
Commercial Auto is Expected to Remain Reasonably Profitable in 2010

Inland Marine Combined Ratio: 1999–2010P



Inland Marine is Expected to Remain Among the Most Profitable of All Lines

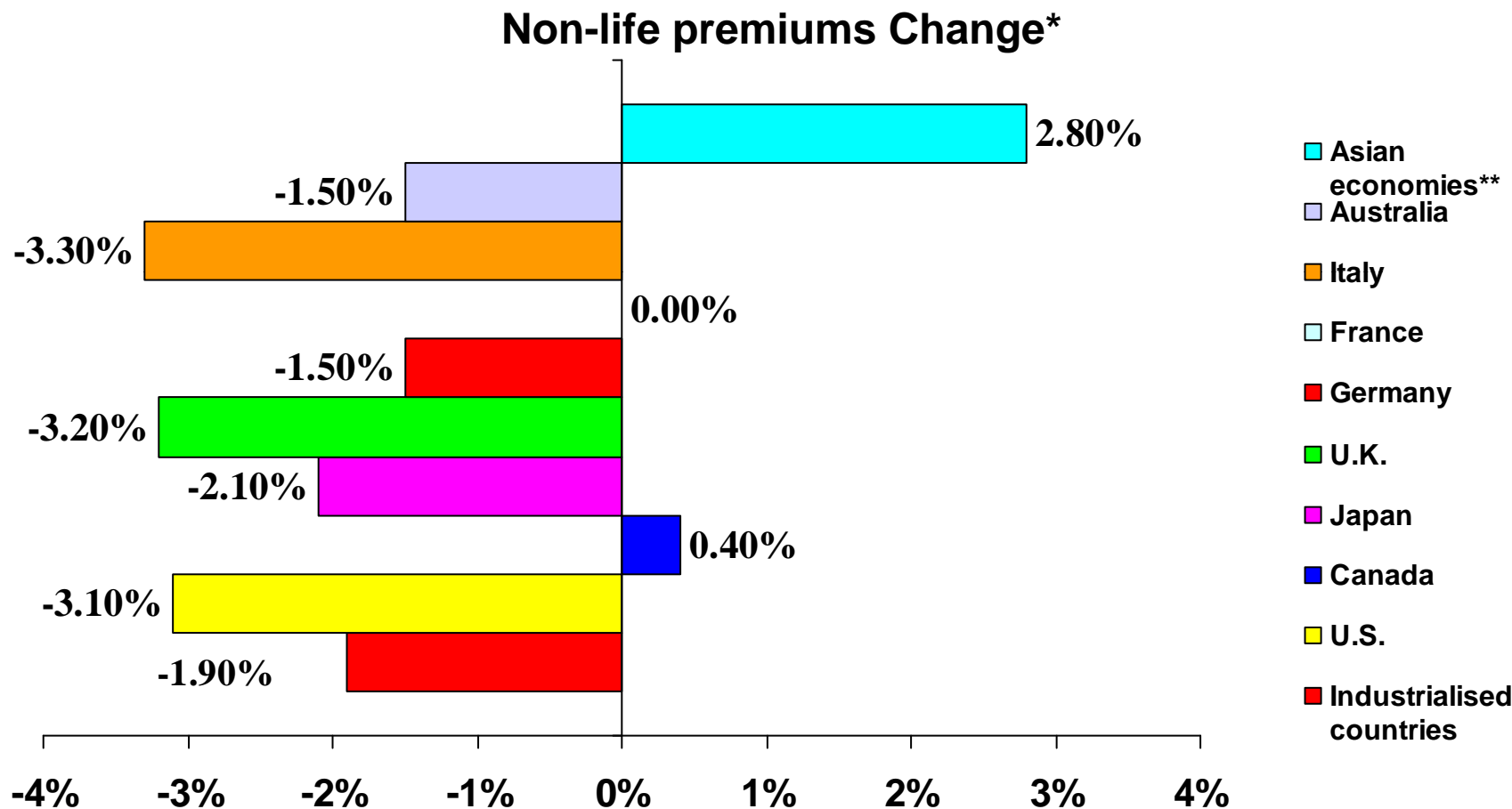
Workers Compensation Combined Ratio: 1994–2010P



Workers Comp Underwriting Results Are Deteriorating Markedly

**P/C Premium Growth
Primarily Driven by the
Industry's Underwriting Cycle,
Not the Economy**

Industrialized Countries: Change in Non-life Premiums, 2008 vs 2007

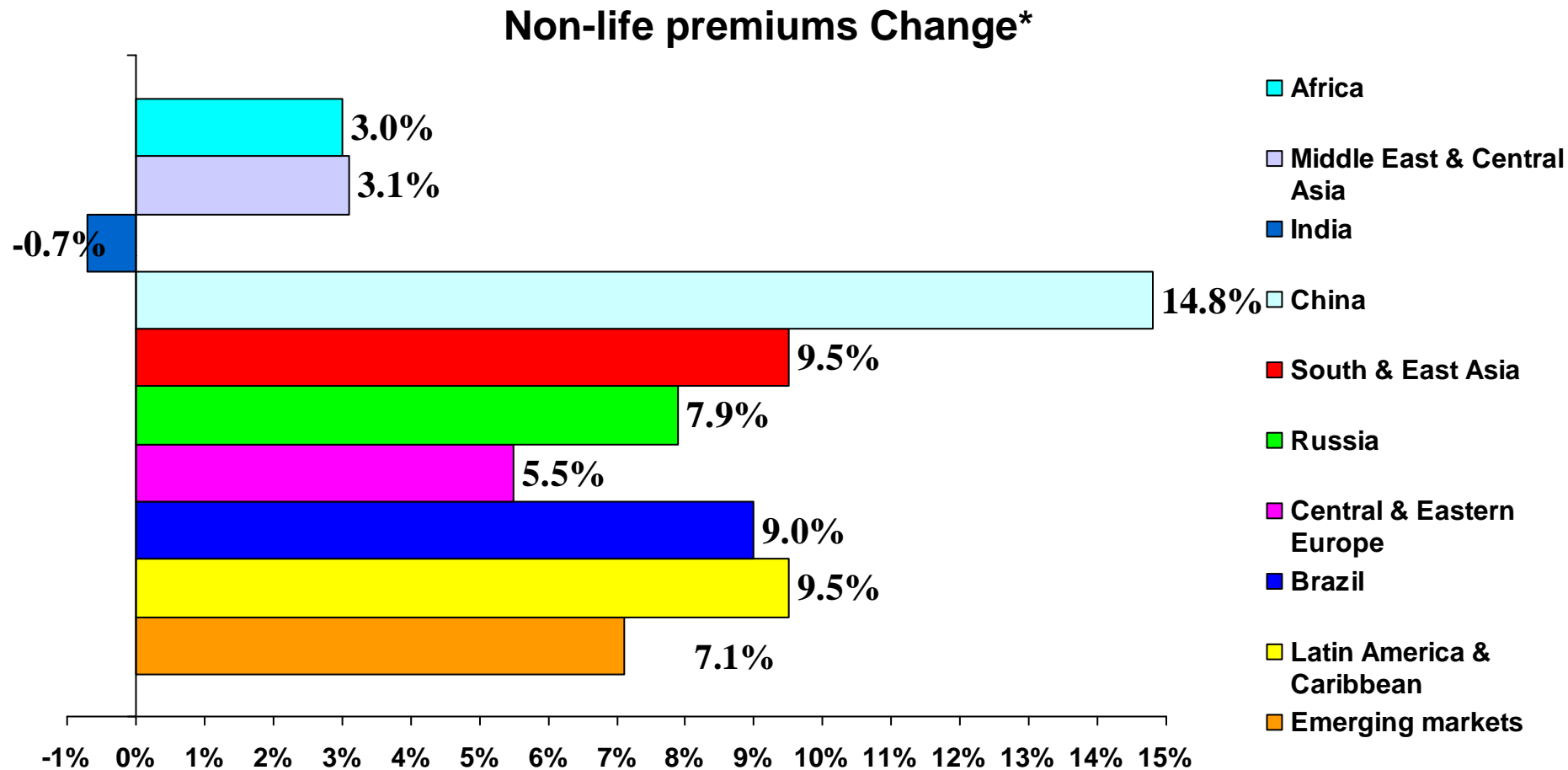


* In real terms, ie adjusted for inflation

**Hong Kong, Singapore, South Korea, Taiwan.

Source: Swiss Re, *sigma*, No.3/2009

Emerging Markets: Change in Non-life Premiums, 2008 vs. 2007



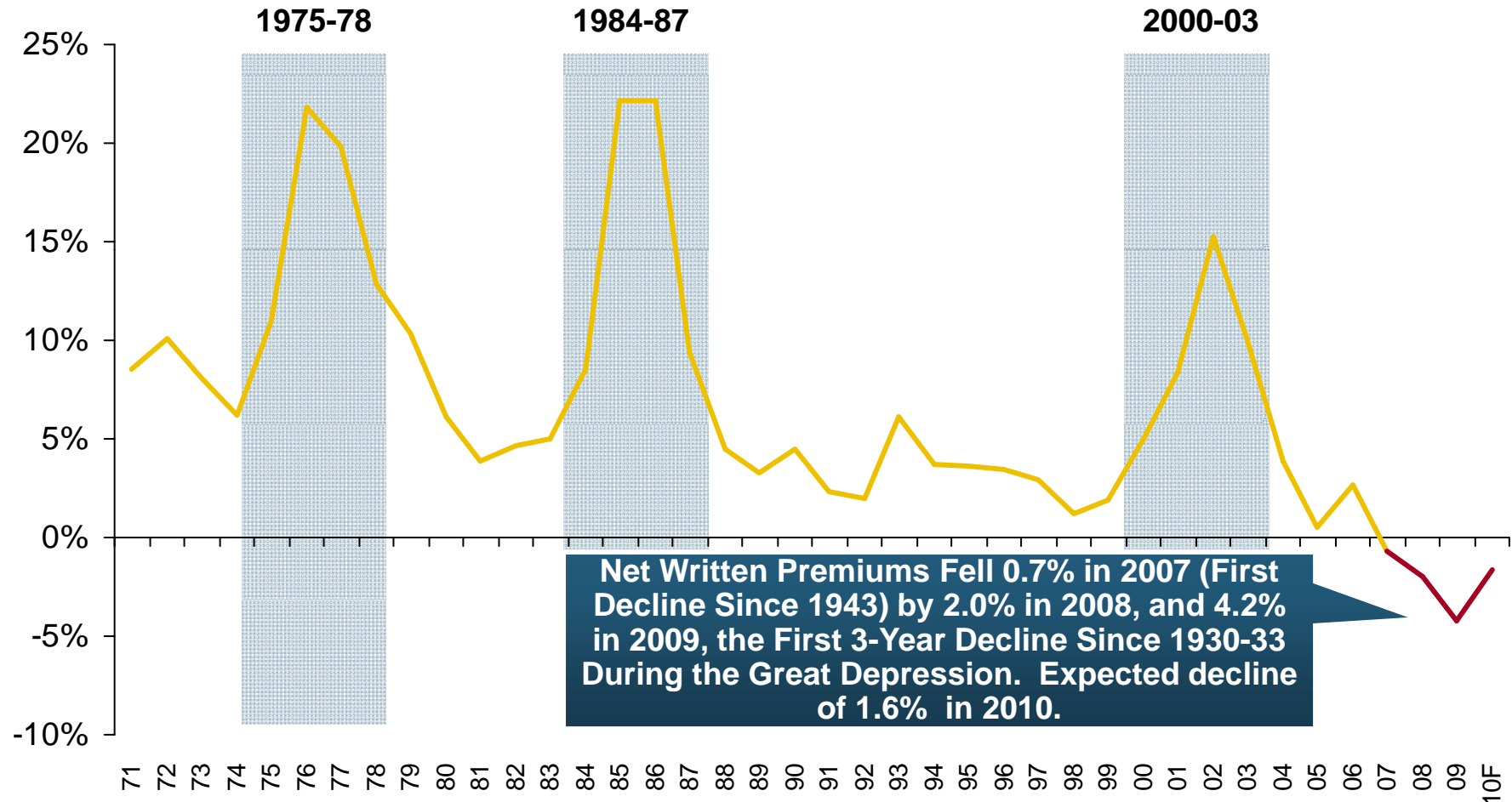
* In real terms, ie adjusted for inflation

**Hong Kong, Singapore, South Korea, Taiwan.

Source: Swiss Re, *sigma*, No.3/2009

Strength of Recent Hard Markets by NWP Growth

(Percent)

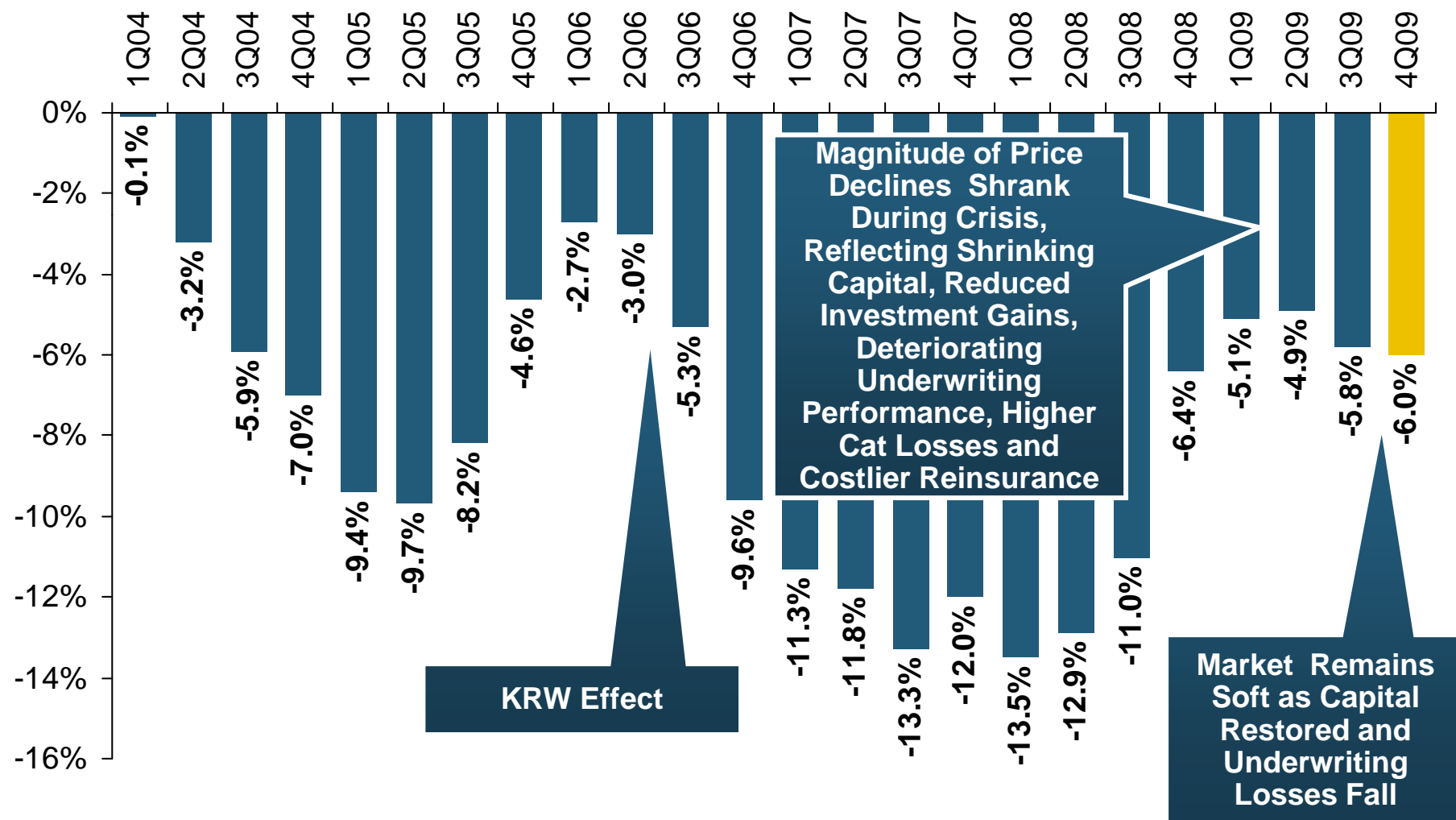


Shaded areas denote "hard market" periods

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

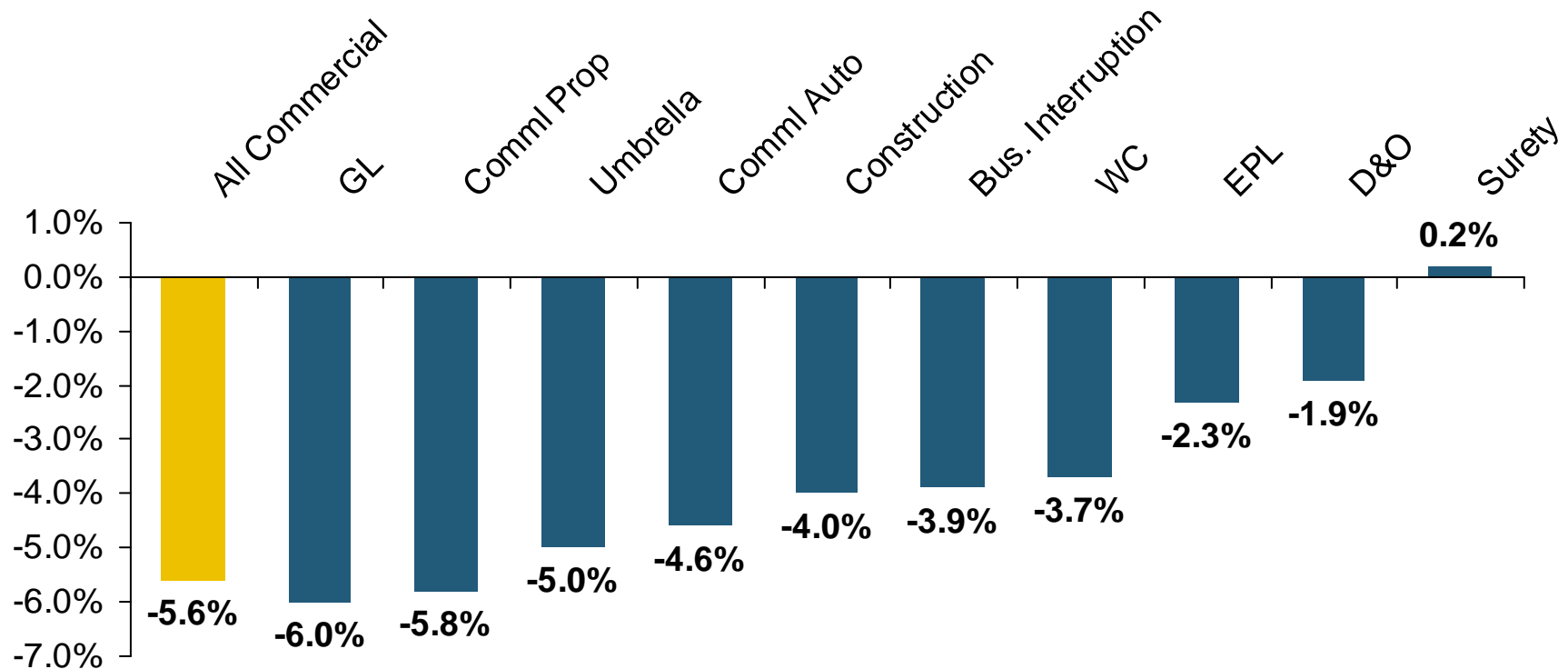
Average Commercial Rate Change, All Lines, (1Q:2004–4Q:2009)

(Percent)



Change in Commercial Rate Renewals, by Line: 2009:Q4

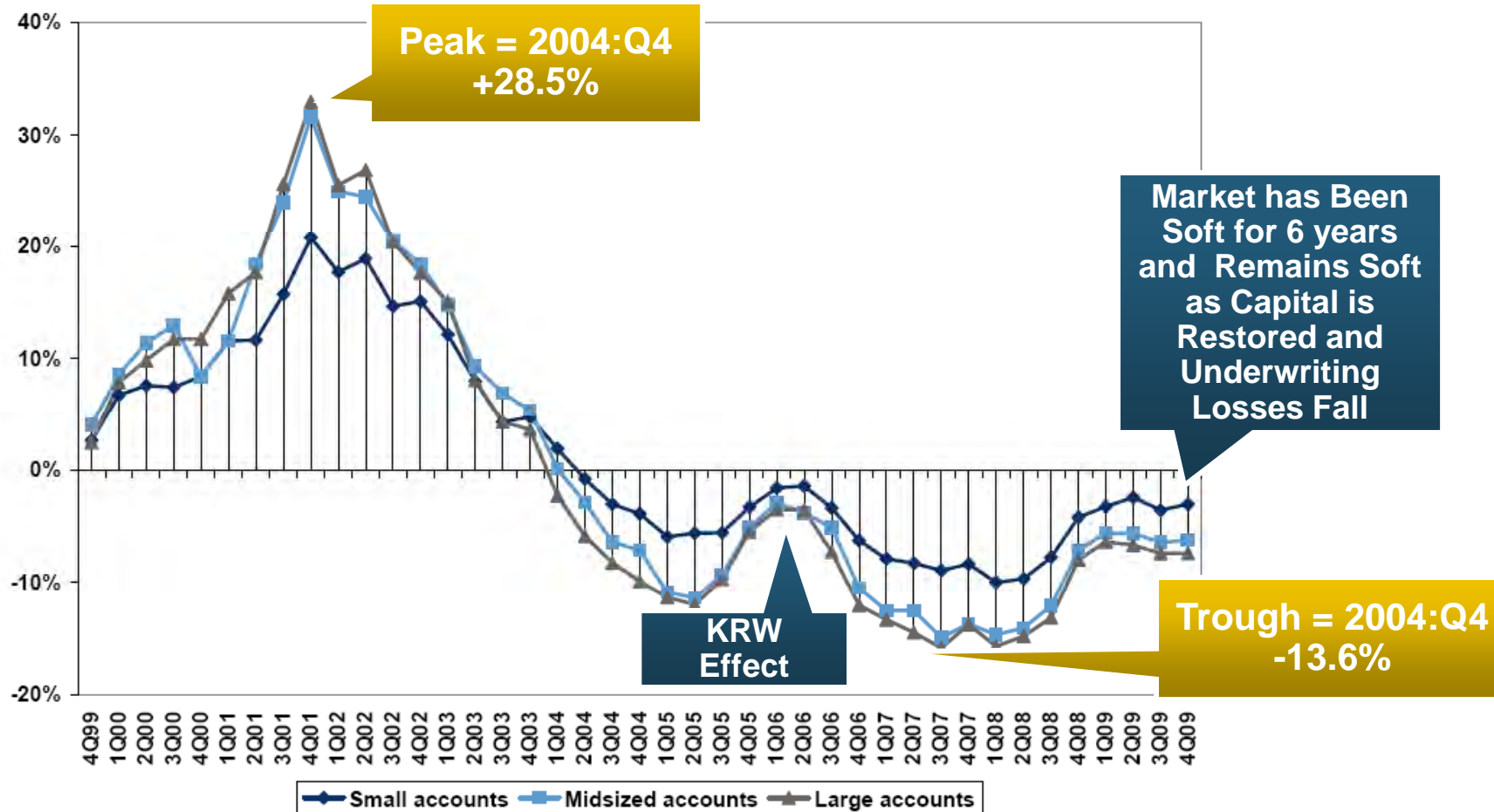
Percentage Change (%)



Most Major Commercial Lines Renewed Down in Q4:2009 by Roughly the Same Margin as a Year Earlier

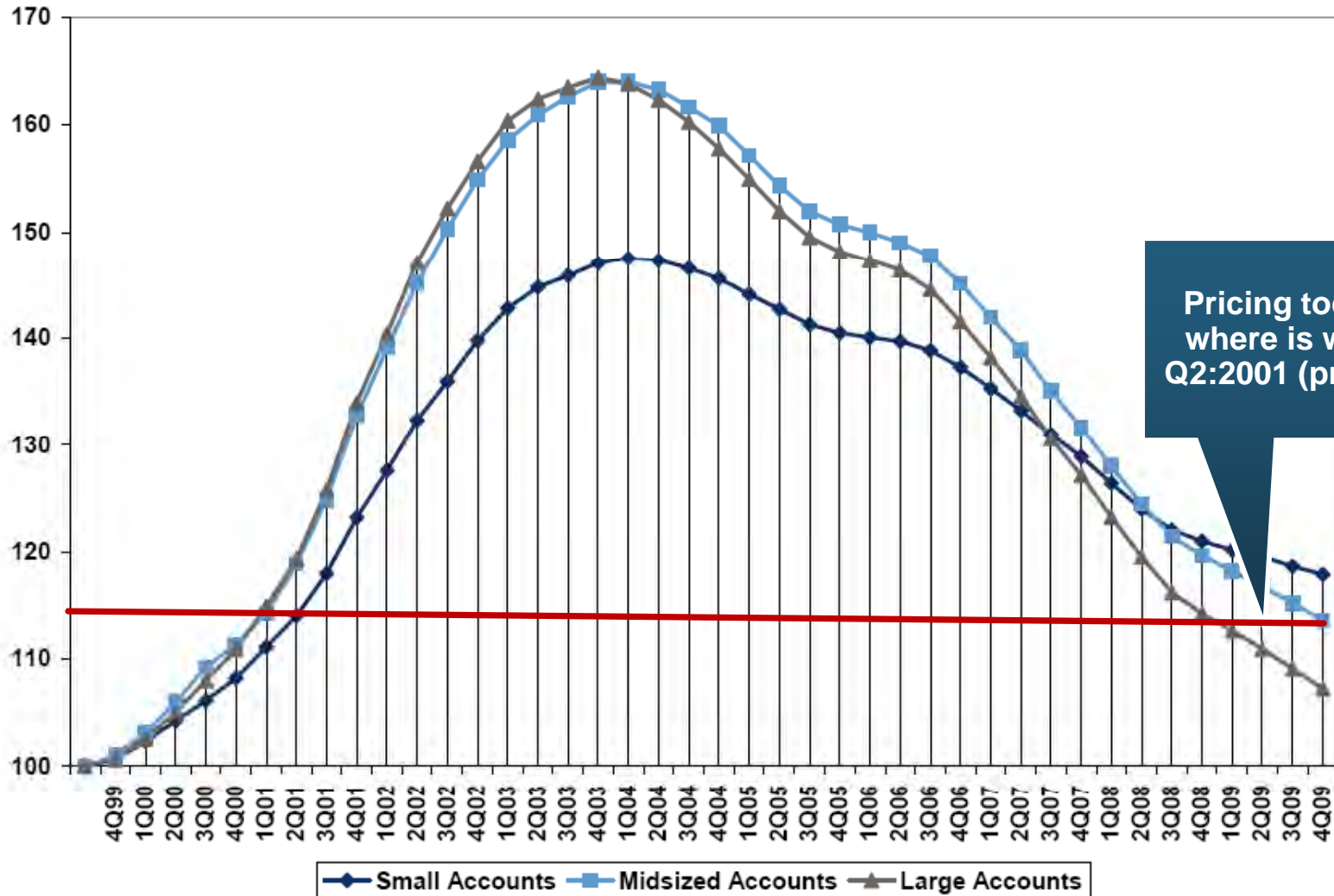
Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2009:Q4

Percentage Change (%)



Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2009:Q4

1999:Q4 = 100



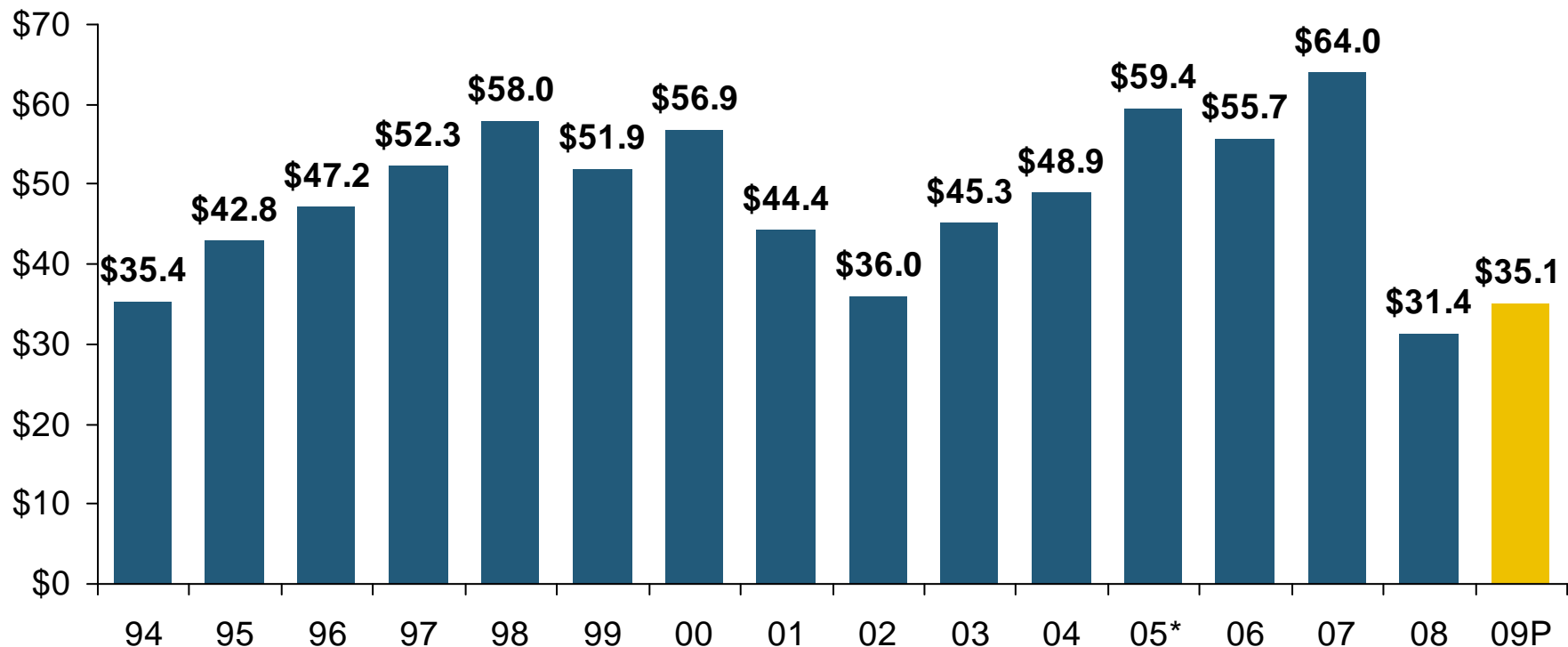
Pricing today is where it was in Q2:2001 (pre-9/11)

Investment Performance

**Investments Drove Profit Decline in
2008 and Improvement in 2009**

Property/Casualty Insurance Industry Investment Gain: 1994–2009P¹

(\$ Billions)



Investment Gains Fell by 51% In 2008 Due to Lower Yields, Poor Equity Market Conditions. In 2009, the Return of Realized Capital Losses Helped Offset Lower Investment Income

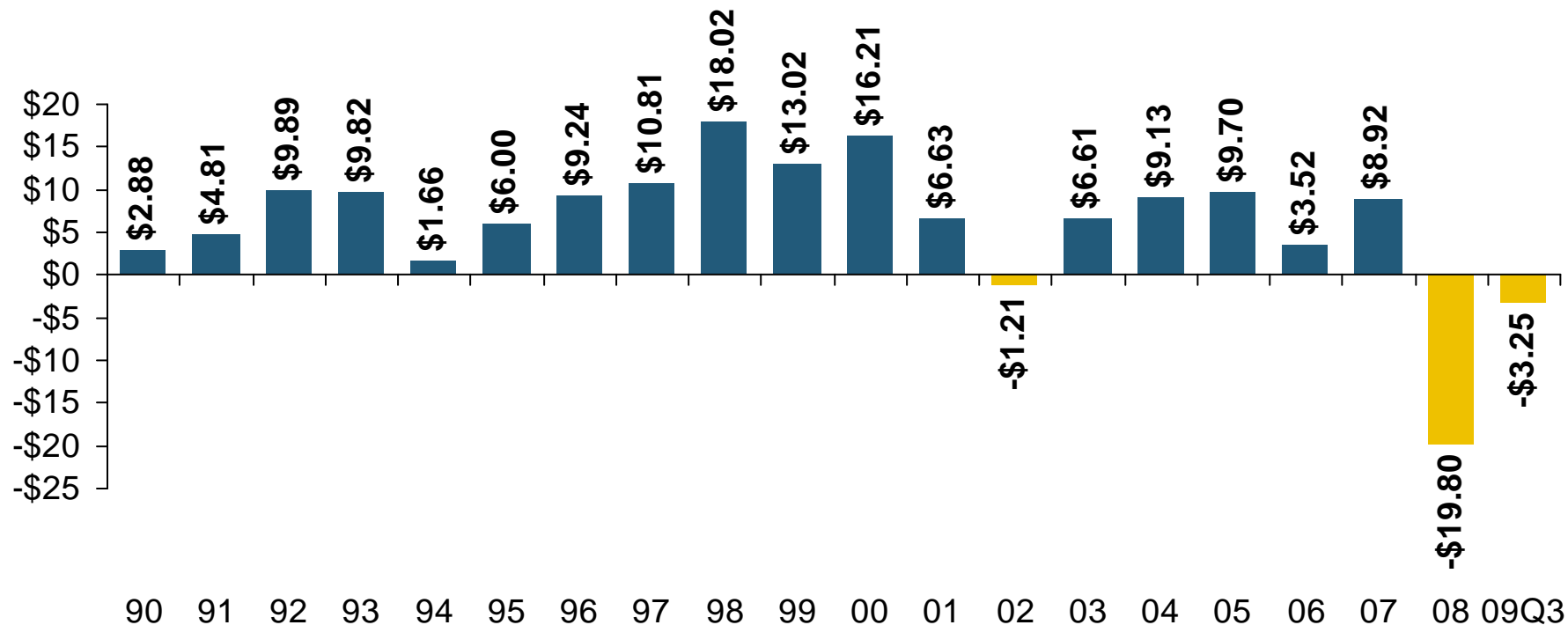
¹ Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.

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

Sources: ISO; Insurance Information Institute.

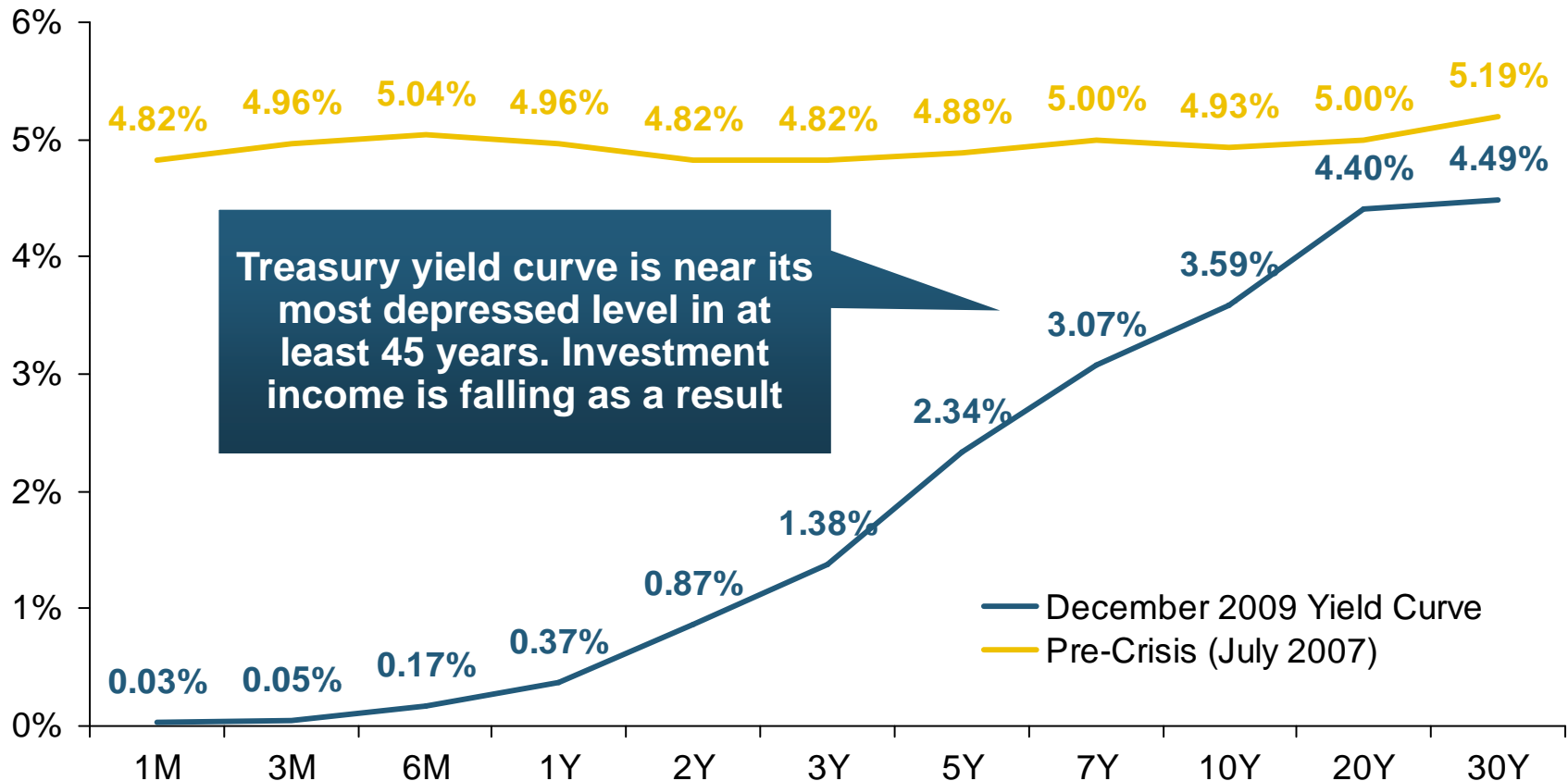
P/C Insurer Net Realized Capital Gains, 1990-2009:Q3

(\$ Billions)



Realized Capital Losses Hit a Record \$19.8 Billion in 2008 Due to Financial Market Turmoil, a \$27.7 Billion Swing From 2007, Followed by an \$3.25B Drop through Q3 2009. This is a Primary Cause of 2008/2009's Large Drop in Profits and ROE

Treasury Yield Curves: Pre-Crisis (July 2007) vs. Dec. 2009



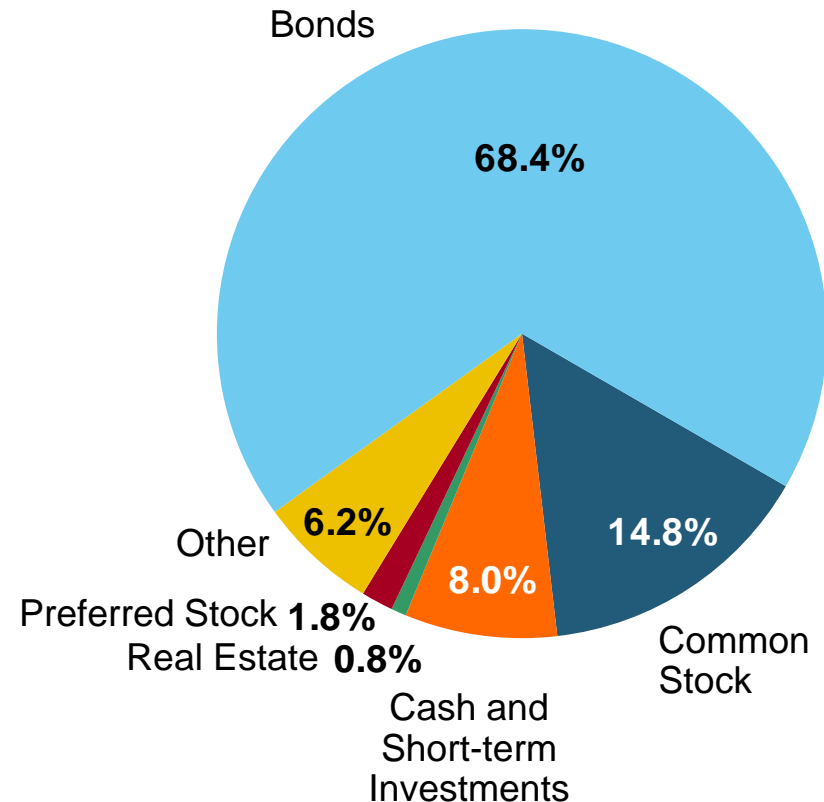
Stock Dividend Cuts Will Further Pressure Investment Income

Distribution of P/C Insurance Industry's Investment Portfolio

Portfolio Facts

- Invested assets totaled \$1.2 trillion as of 12/31/08, down from \$1.3 trillion as of 12/31/07
- Insurers are generally conservatively invested, with 2/3+ of assets invested in bonds as of 12/31/08
- Only about 15% of assets were invested in common stock as of 12/31/08, down from 18% one year earlier
- Even the most conservative of portfolios were hit hard in 2008

As of December 31, 2007

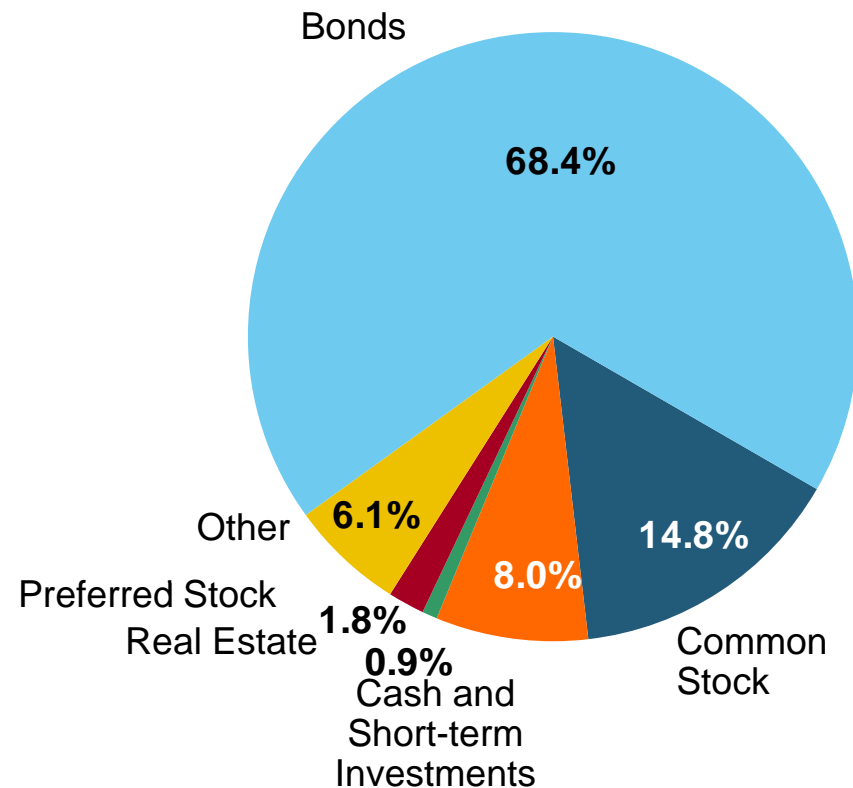


Distribution of P/C Insurance Industry's Investment Portfolio

Portfolio Facts

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- Even the most conservative of portfolios was hit hard in 2008

As of December 31, 2008

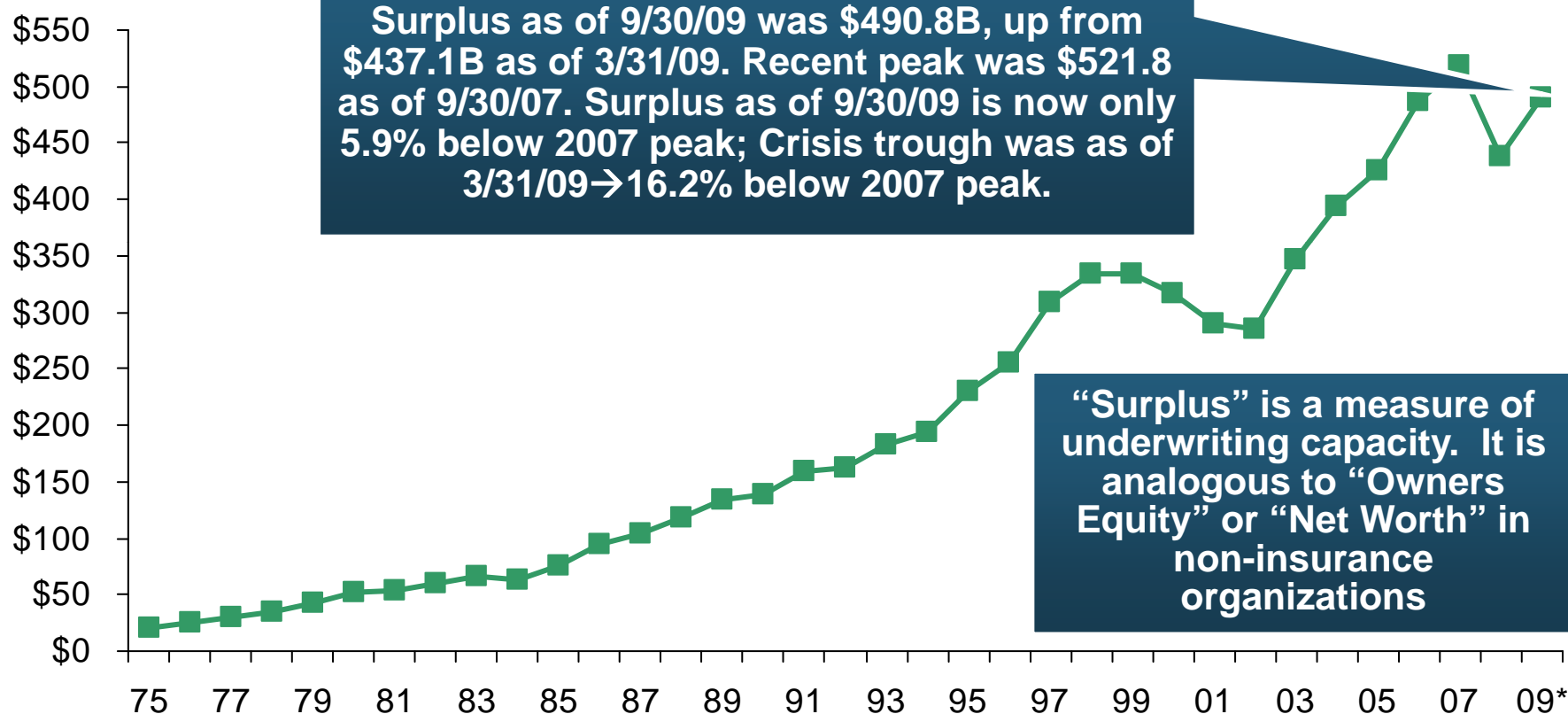


Capital/Policyholder Surplus (US)

**Shrinkage, but Not Enough
to Trigger Hard Market**

US Policyholder Surplus: 1975–2009:Q3*

(\$ Billions)



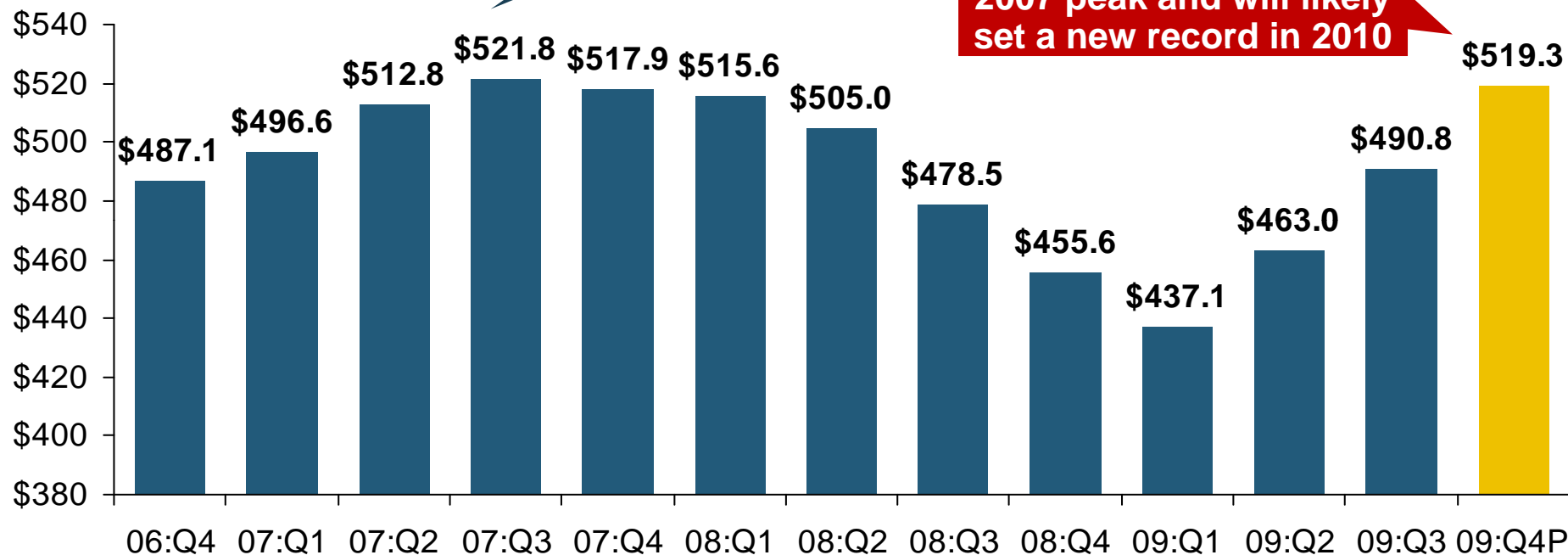
The Premium-to-Surplus Ratio Stood at \$0.87:\$1 as of 9/30/09, Up from Near Record Low of \$0.85:\$1 at Year-End 2007

* As of 9/30/09

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

Policyholder Surplus, 2006:Q4–2009:Q4P

(\$ Billions)



Declines Since 2007:Q3 Peak

08:Q2: -\$16.6B (-3.2%)

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

08:Q3: -\$43.3B (-8.3%)

09:Q3: -\$31.8B (-5.9%)

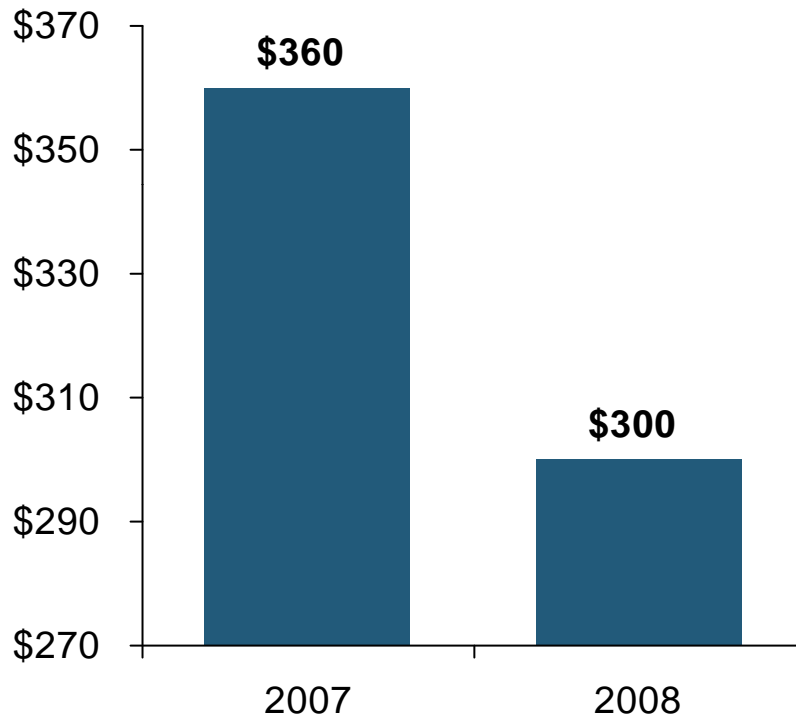
08:Q4: -\$66.2B (-12.9%)

09:Q4: -\$2.5B (-0.5%)

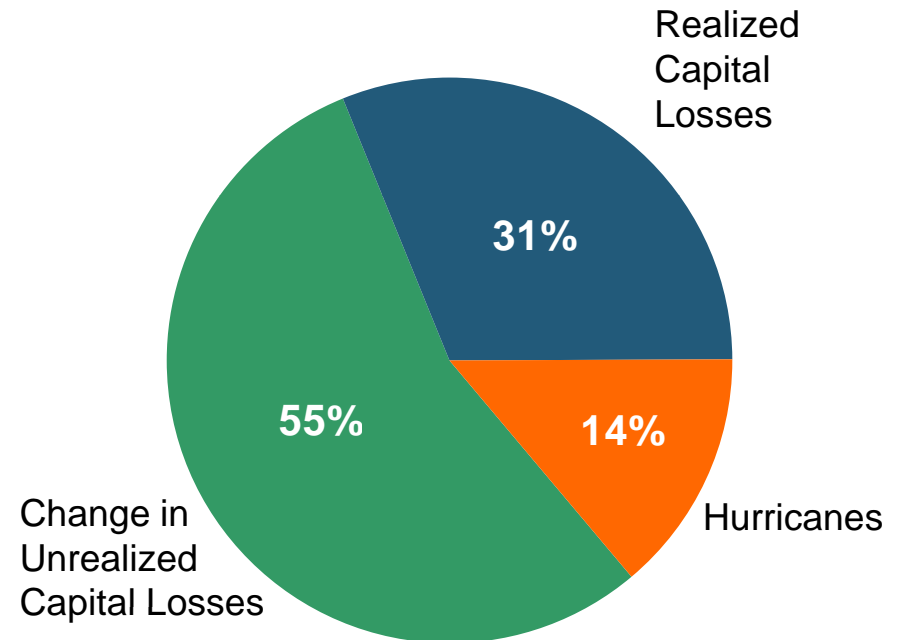
09:Q1: -\$84.7B (-16.2%)

Global Reinsurance Capacity Shrank in 2008, Mostly Due to Investments

Global Reinsurance Capacity

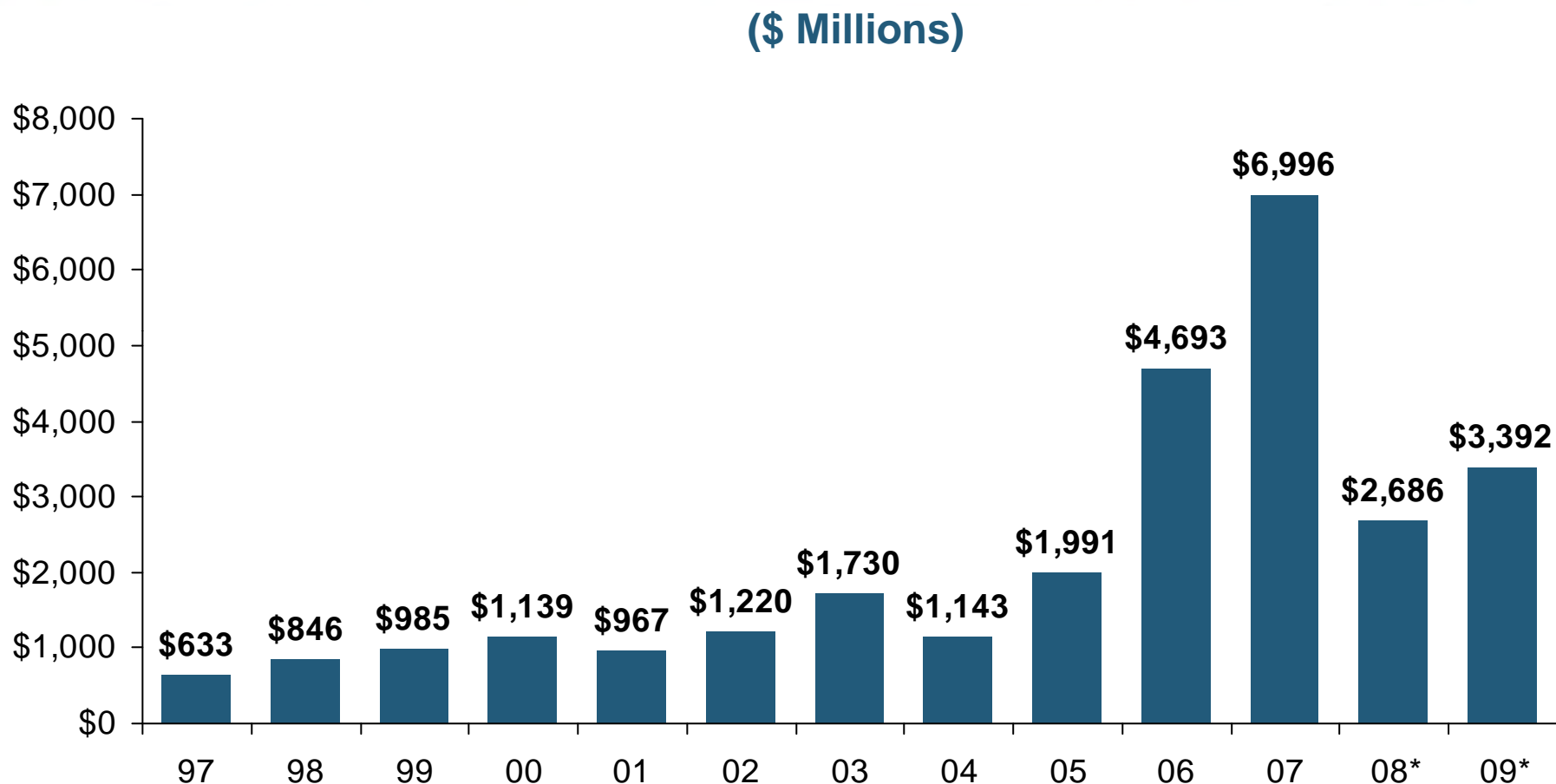


Source of Decline



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

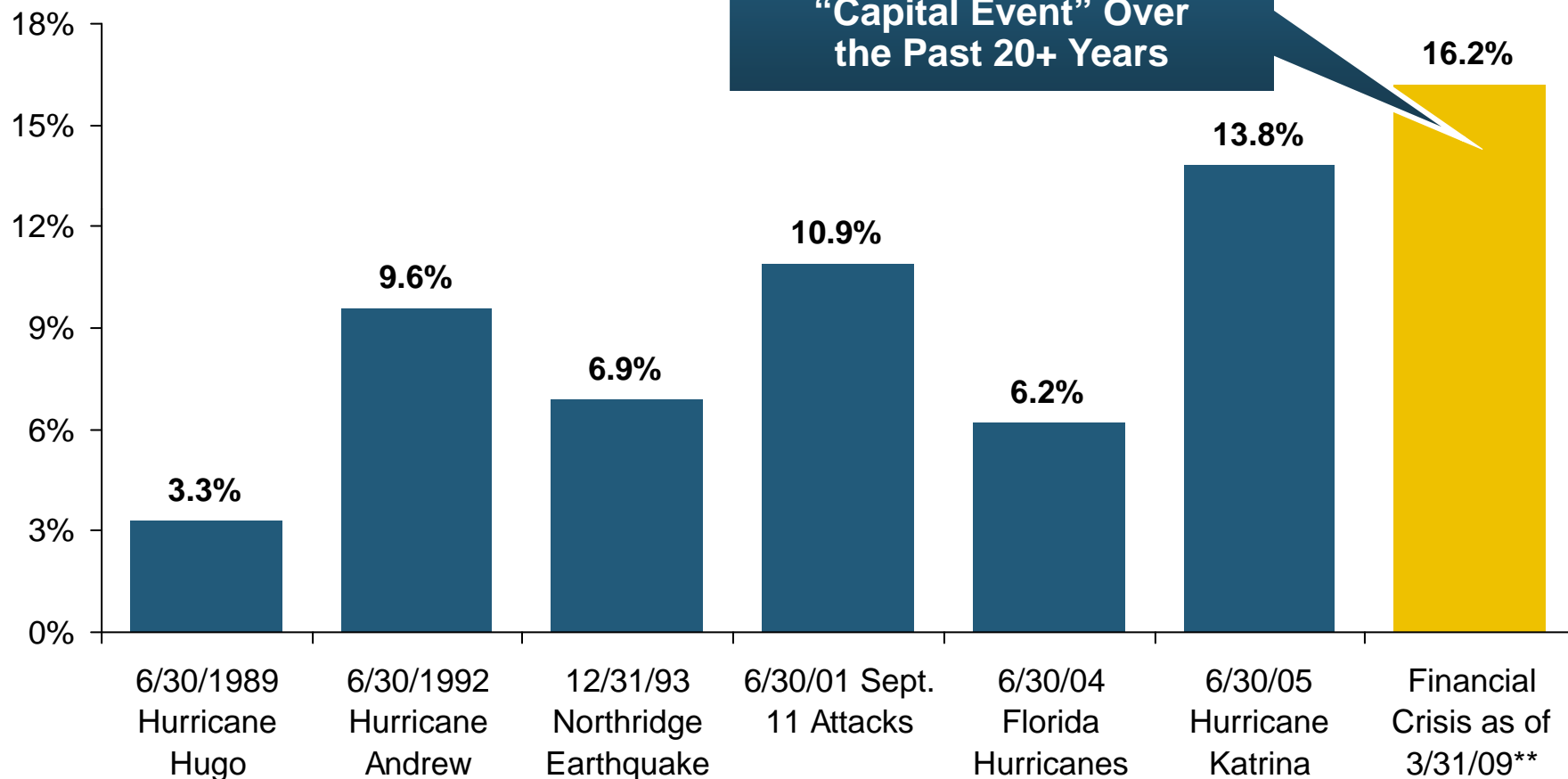
Catastrophe Bonds: Risk Capital Issuance



Catastrophe bond risk capital issuance plunged by 62% when credit market turmoil spread in 2008 but was up 26% in 2009 as markets improved

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

(Percent)

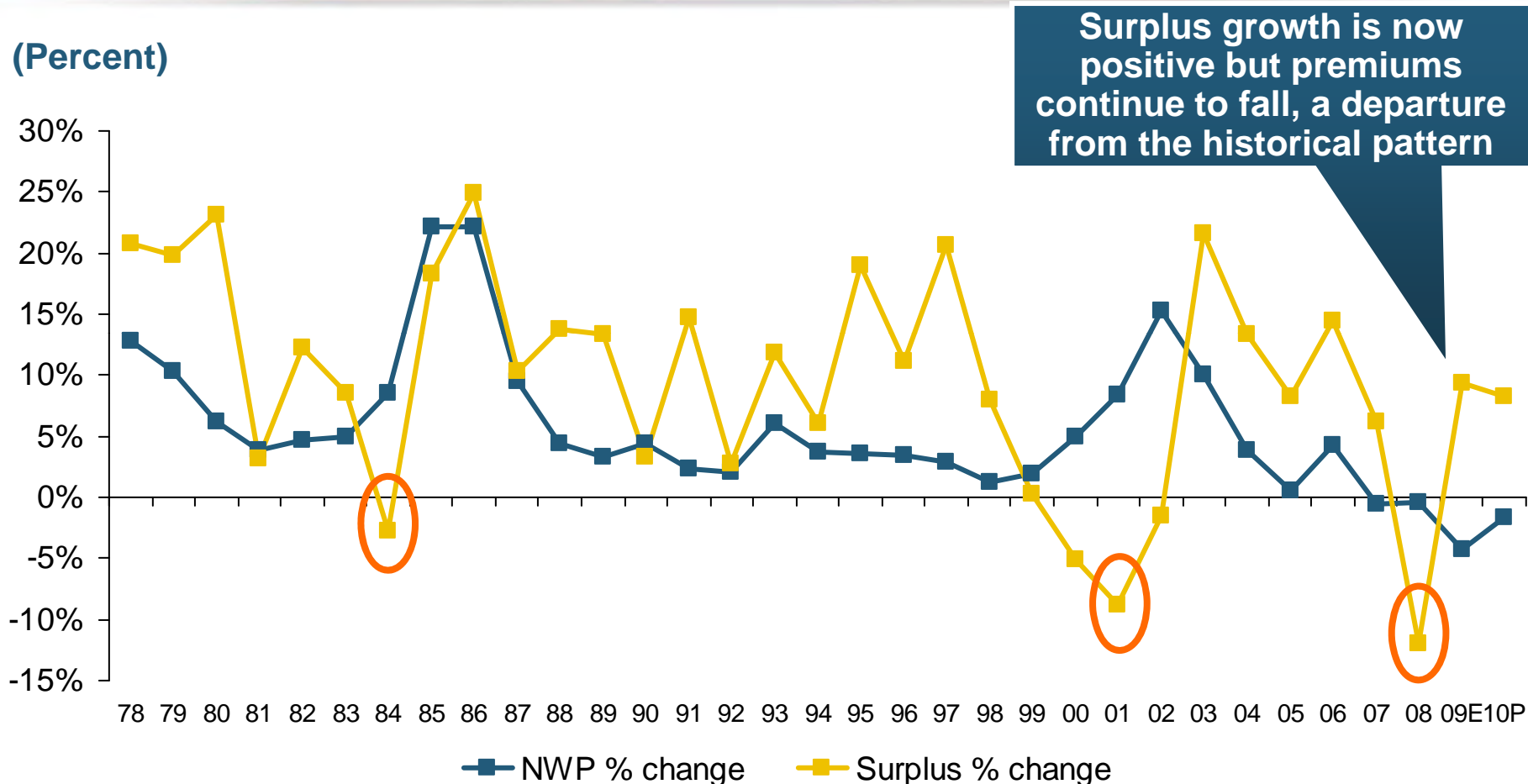


* Ratio is for end-of-quarter surplus immediately prior to event. Date shown is end of quarter prior to event

** 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*



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

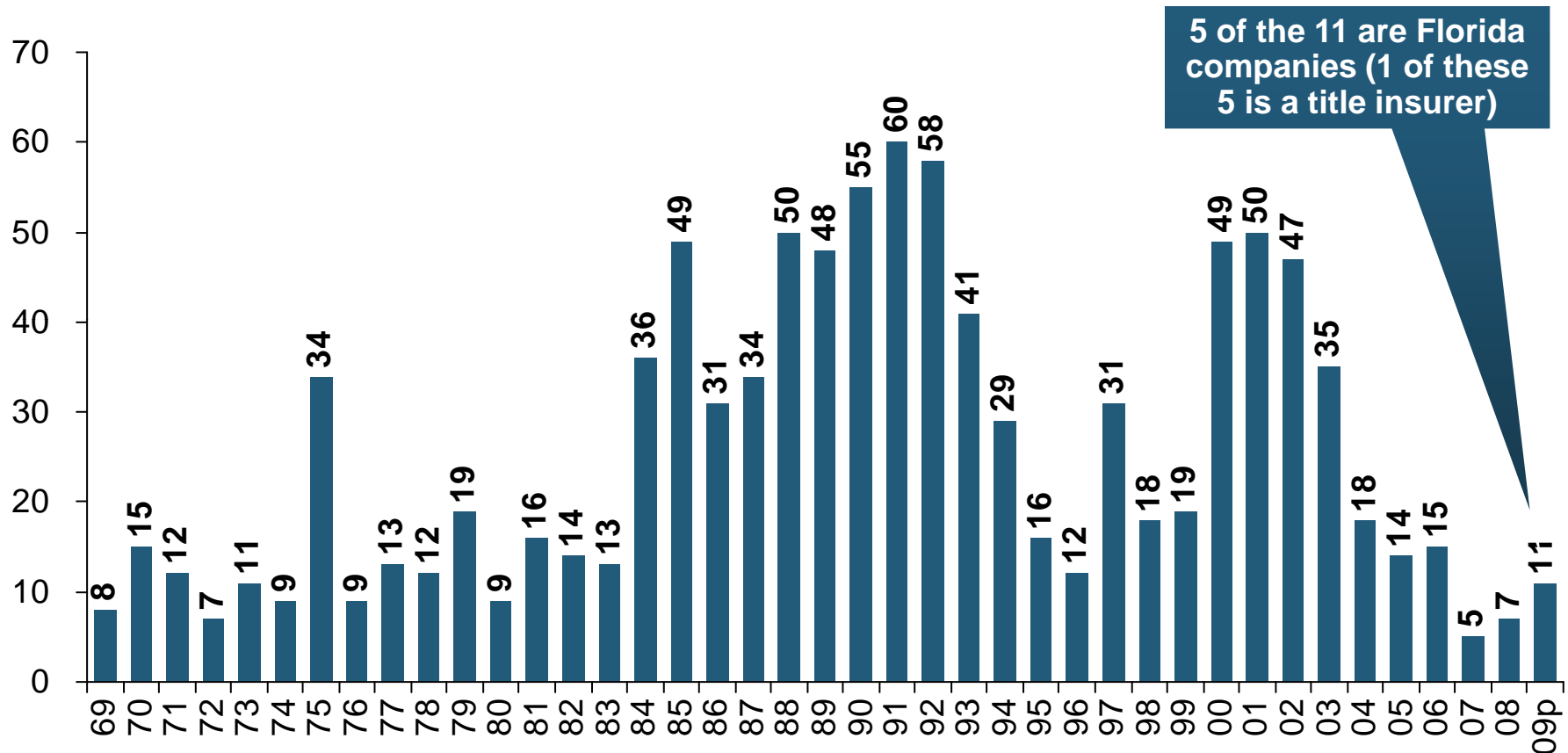
* 2009 NWP and Surplus figures are % changes as of Q4:09P vs Q4:08

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

Financial Strength & Ratings

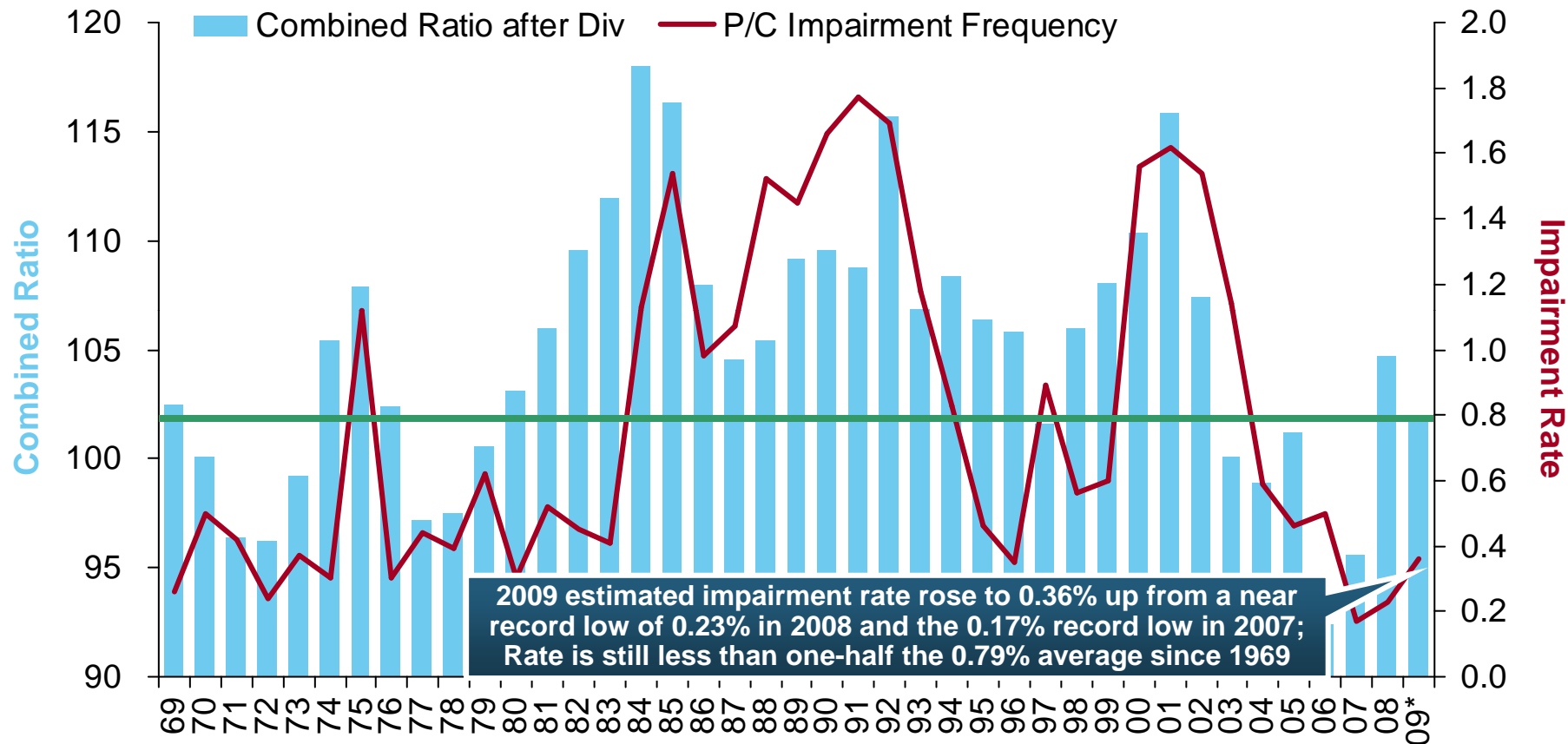
**Industry Has Weathered
the Storms Well**

P/C Insurer Impairments, 1969–2009p



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, 1969-2009p

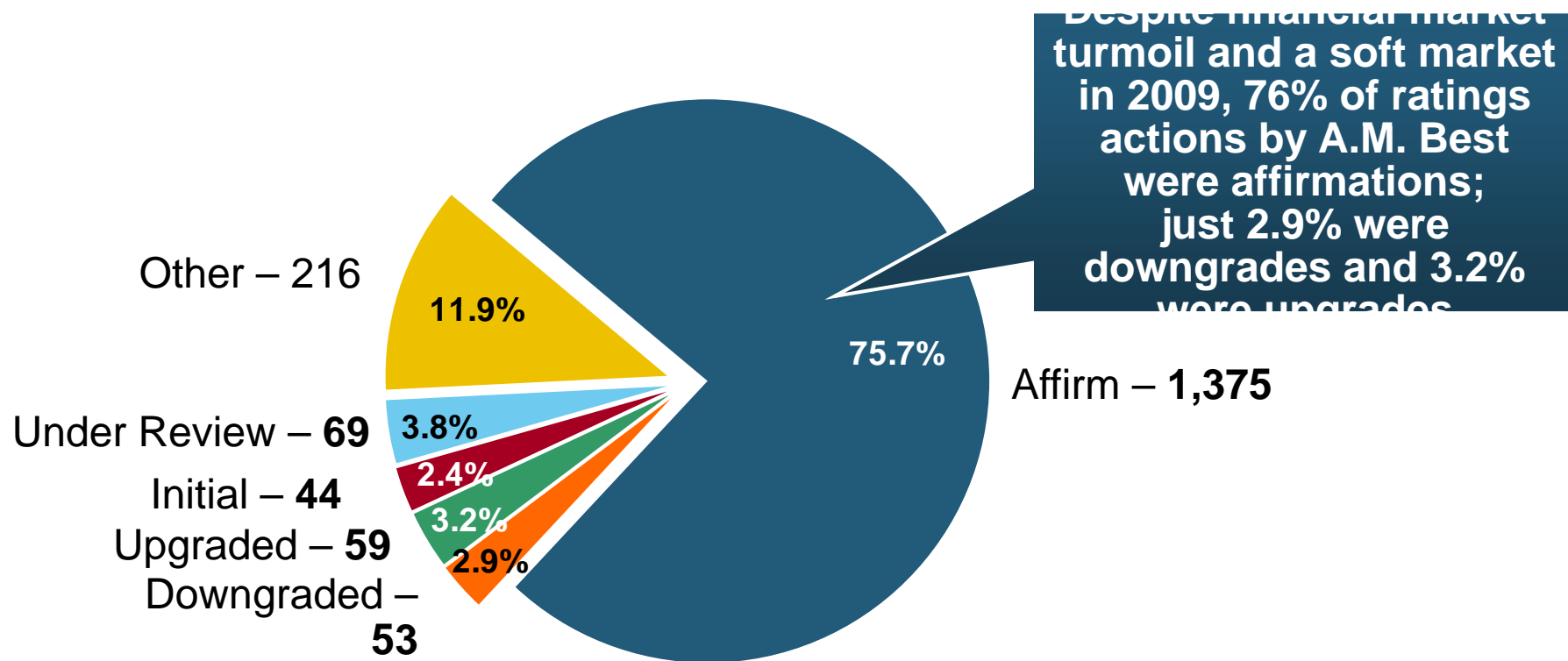


Impairment Rates Are Highly Correlated With Underwriting Performance and Reached Record Lows in 2007/08

*Combined ratio of 101.7 is through Q3:09; 0.36% 2009 impairment rate is III estimate based on preliminary A.M. Best data.

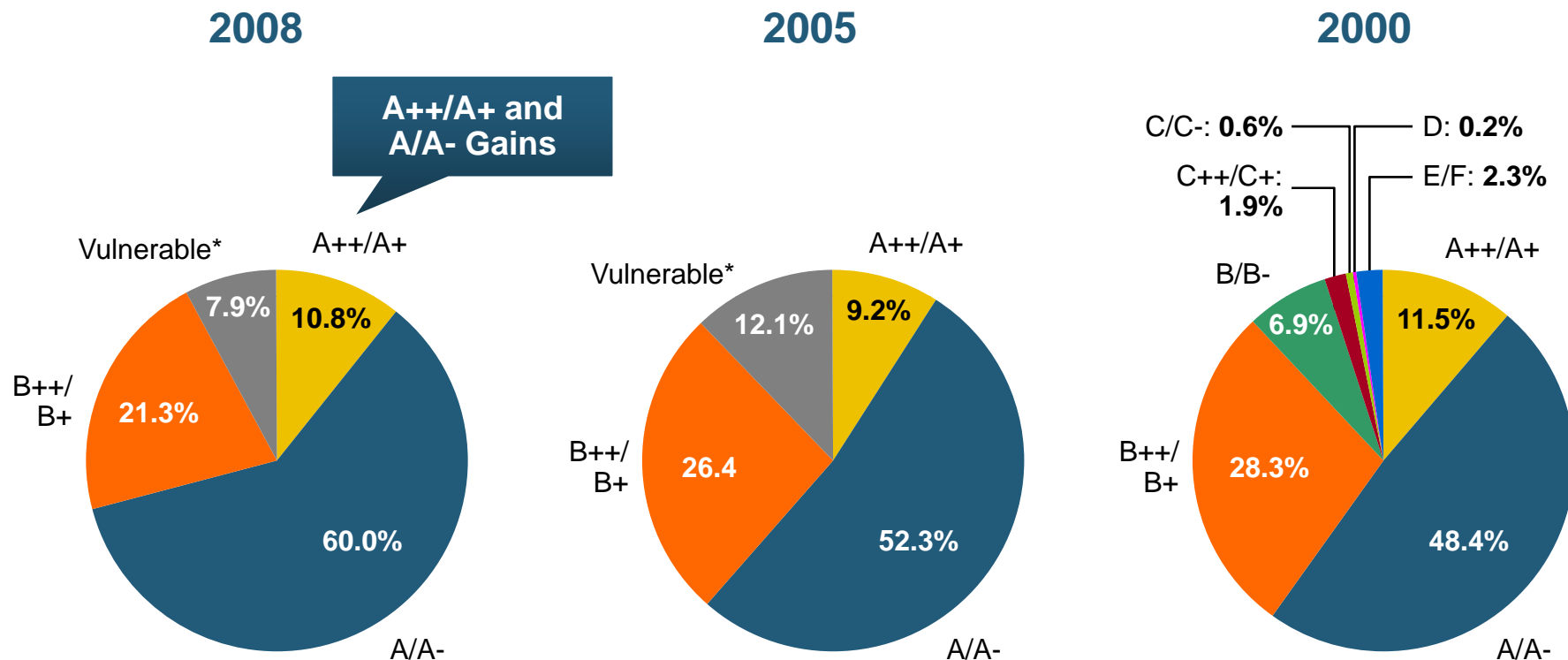
Source: A.M. Best; Insurance Information Institute

Summary of A.M. Best's P/C Insurer Ratings Actions in 2009



**P/C Insurance is by Design a Resilient Business.
The Dual Threat of Financial Disasters and Catastrophic Losses
Are Anticipated in the Industry's Risk Management Strategy**

Historical Ratings Distribution, US P/C Insurers, 2008 vs. 2005 and 2000

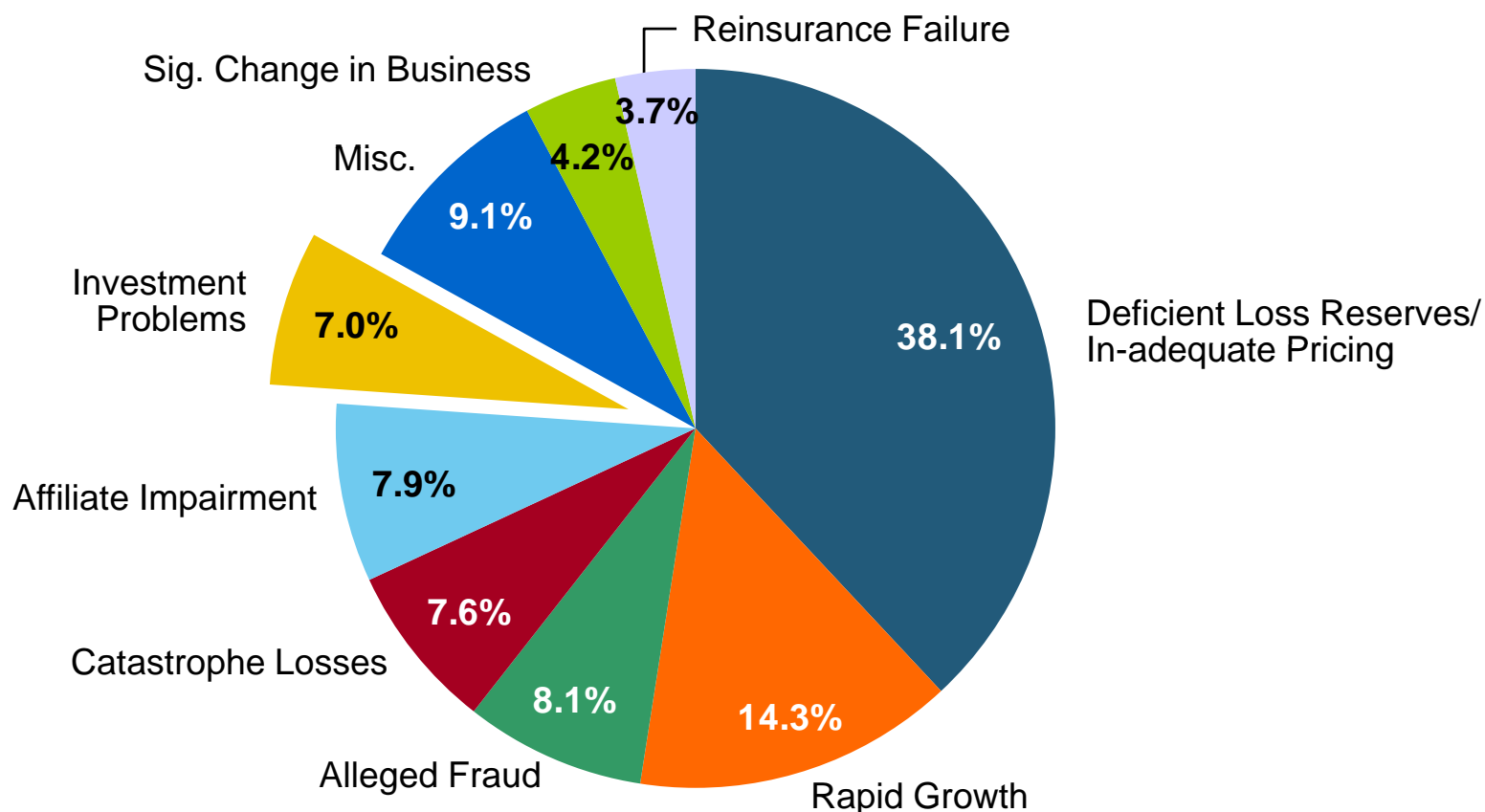


**P/C Insurer Financial Strength Has Improved Since 2005
Despite Financial Crisis**

Source: A.M. Best: *Rating Downgrades Slowed but Outpaced Upgrades for Fourth Consecutive Year*, Special Report, November 8, 2004 for 2000; 2006 and 2009 Review & Preview. *Ratings 'B' and lower.

Reasons for US P/C Insurer Impairments, 1969–2008

Deficient Loss Reserves and Inadequate Pricing Are the Leading Cause of Insurer Impairments, Underscoring the Importance of Discipline. Investment Catastrophe Losses Play a Much Smaller Role



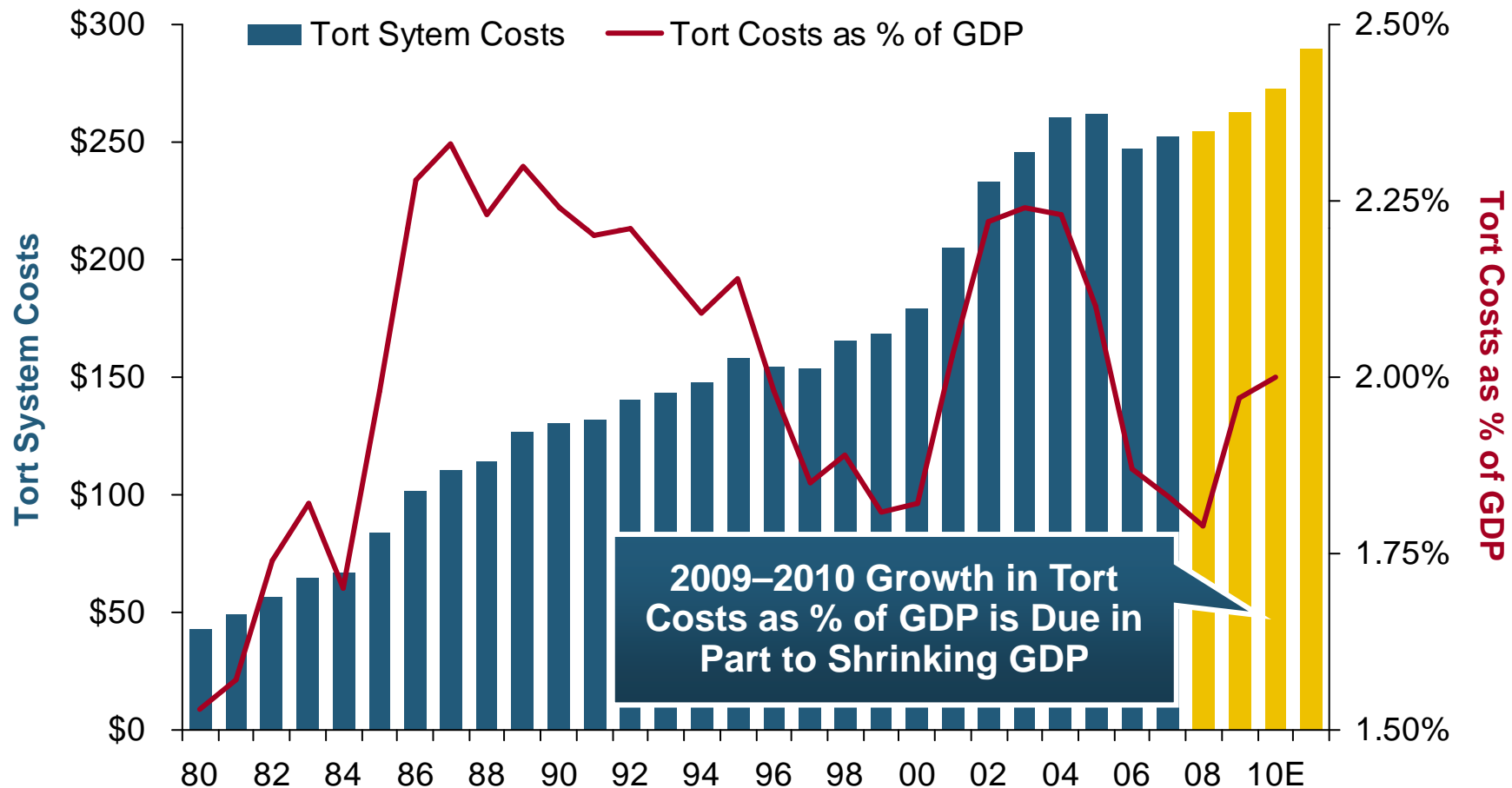
II.

Tort Environment Overview

**Is the Pendulum Swinging Against
Casualty Risks and their Insurers?**

Over the Last Three Decades, Total Tort Costs* as a % of GDP Appear Somewhat Cyclical

(\$ Billions)

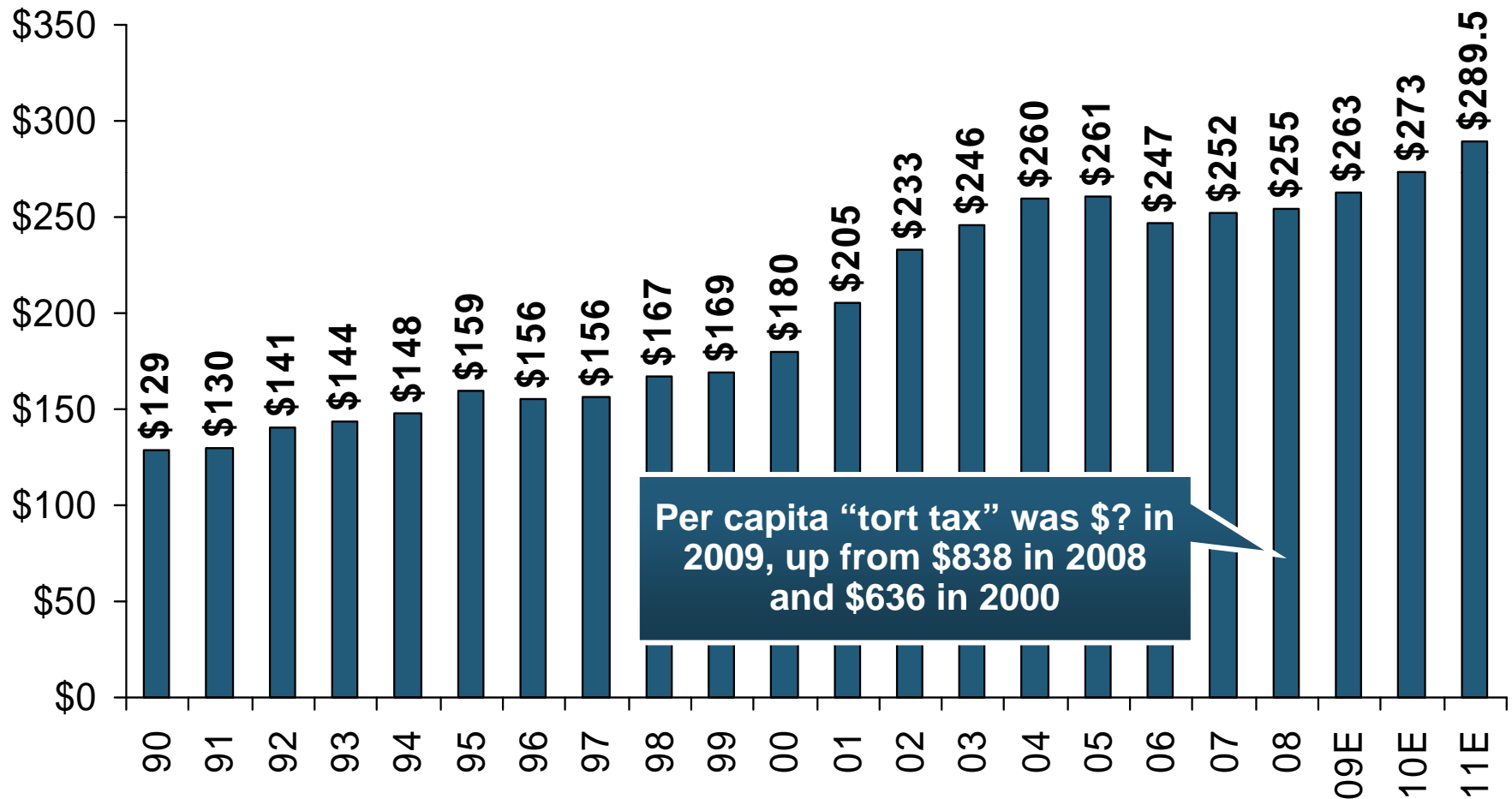


* Excludes the tobacco settlement, medical malpractice

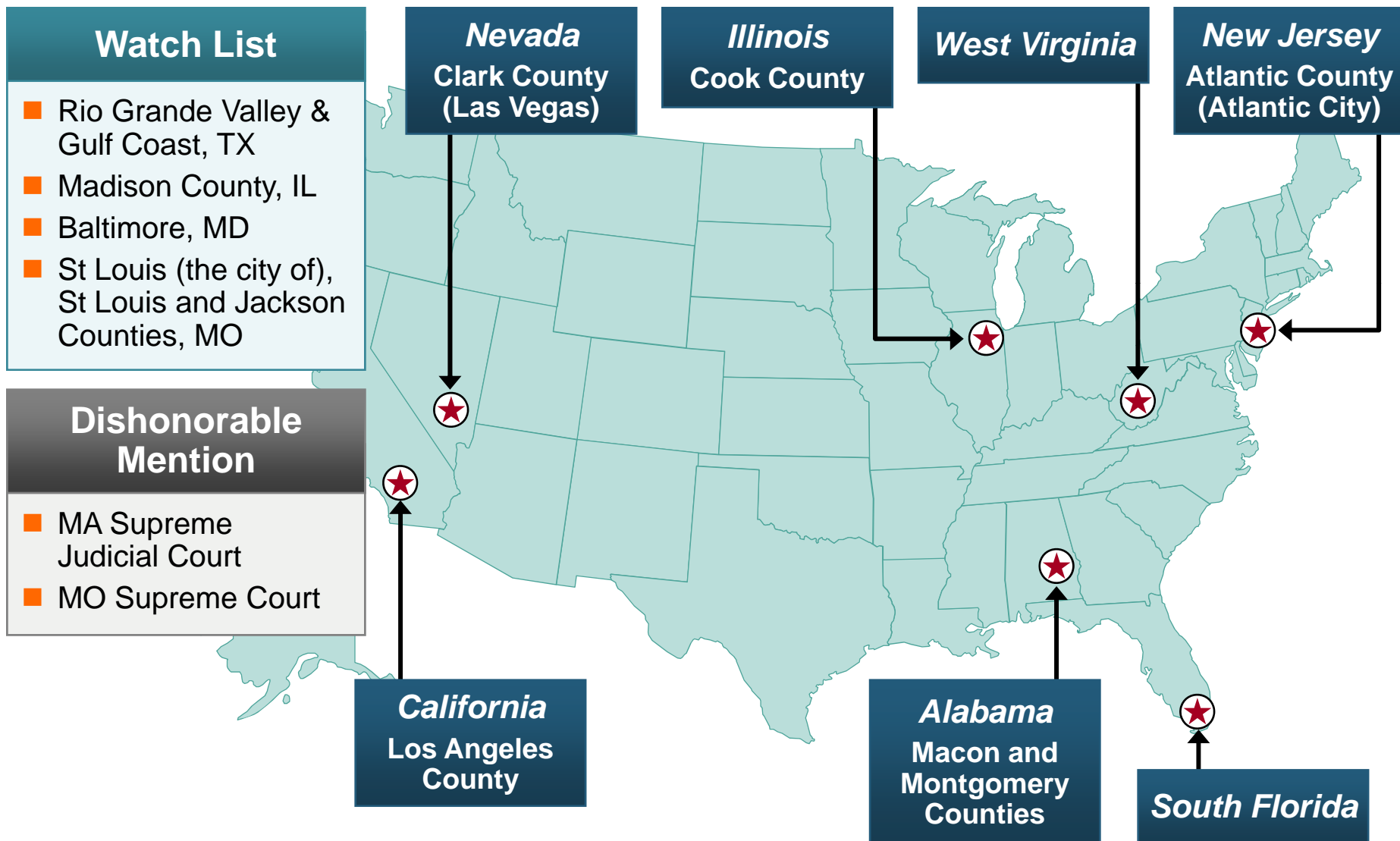
Sources: Tillinghast-Towers Perrin, *2009 Update on US Tort Cost Trends*, Appendix 1A; I.I.I. calculations/estimates for 2009 and 2010 and 2011

Cost of US Tort System (\$ Billions)

Tort costs consumed 1.79% of GDP in 2008, down from 2.24% in 2003



The Nation's Judicial Hellholes (2008/2009)



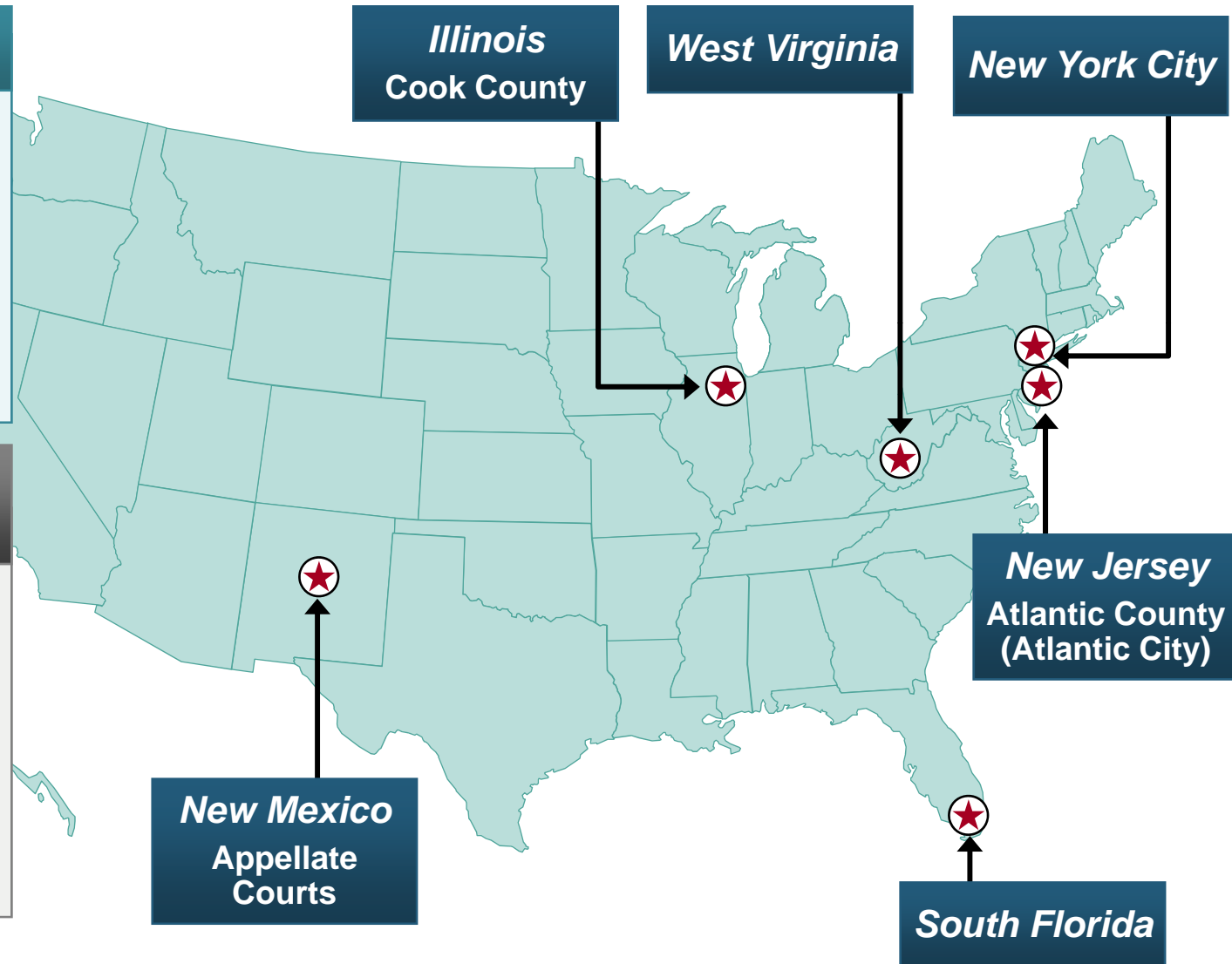
The Nation's Judicial Hellholes: 2010

Watch List

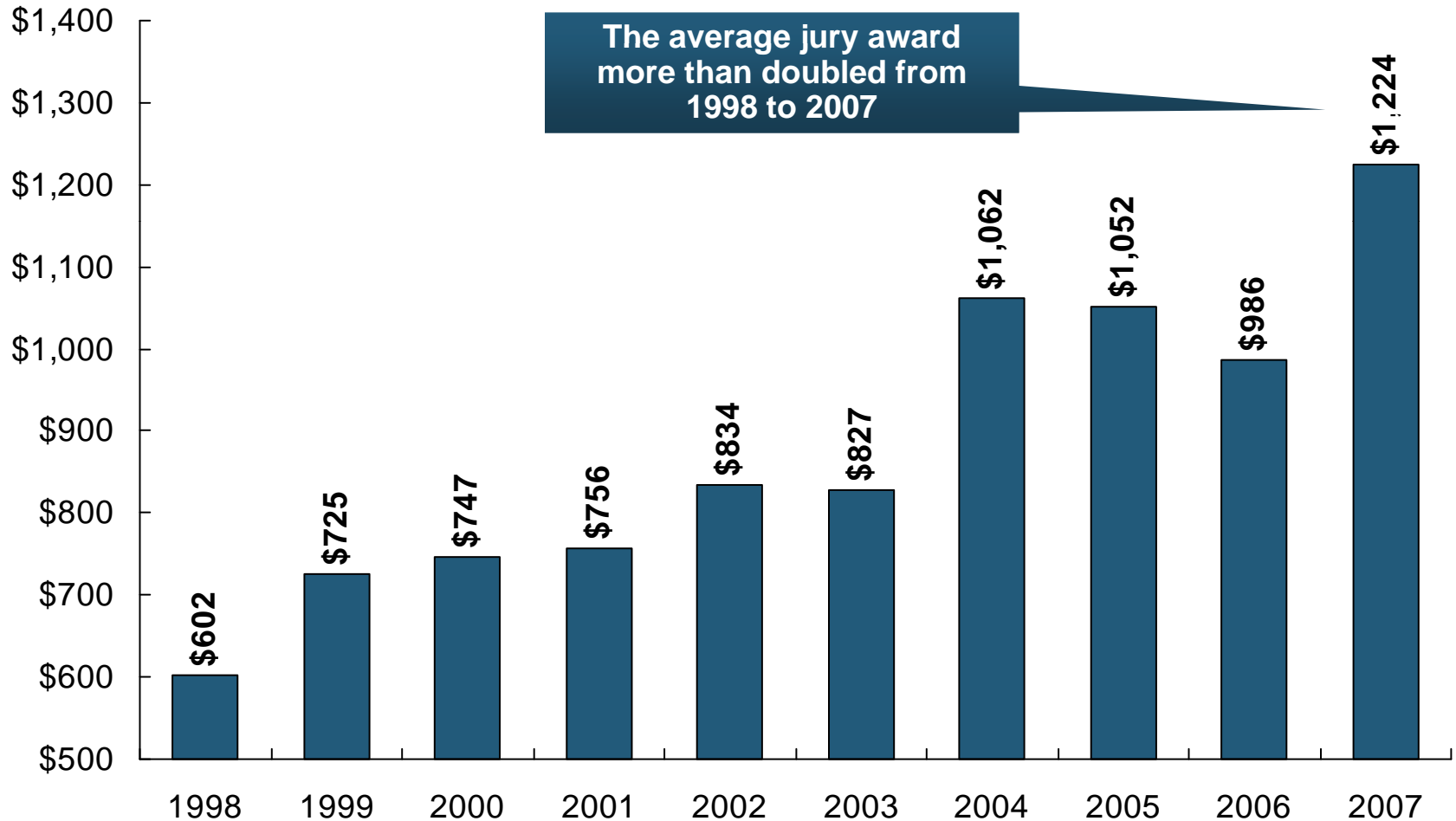
- California
- Alabama
- Madison County, IL
- Jefferson County, MS
- Texas Gulf Coast
- Rio Grande Valley, TX

Dishonorable Mention

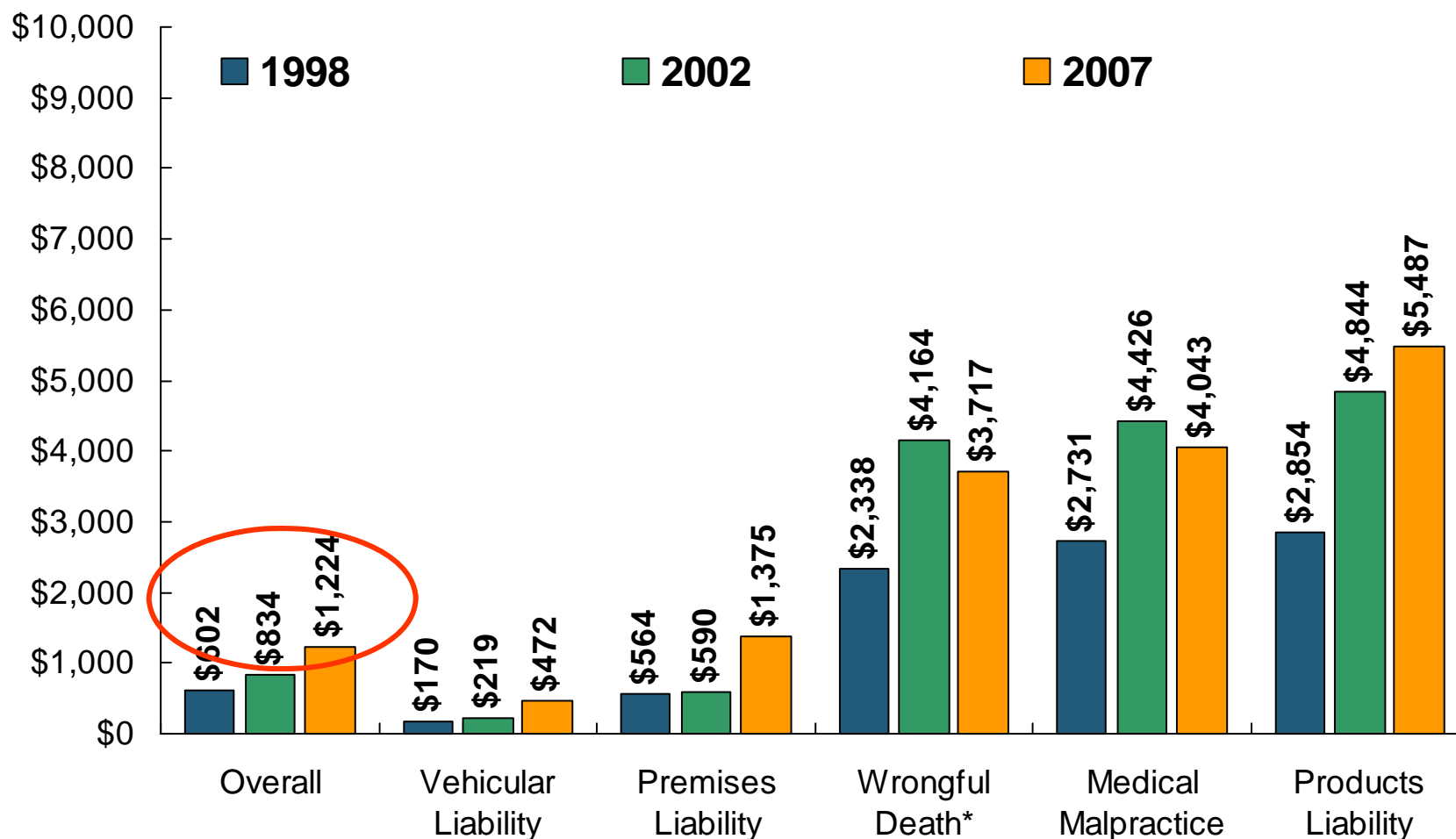
- AR Supreme Court
- MN Supreme Court
- ND Supreme Court
- PA Governor
- MA Supreme Judicial Court
- Sacramento County



Average Jury Awards 1998 - 2007



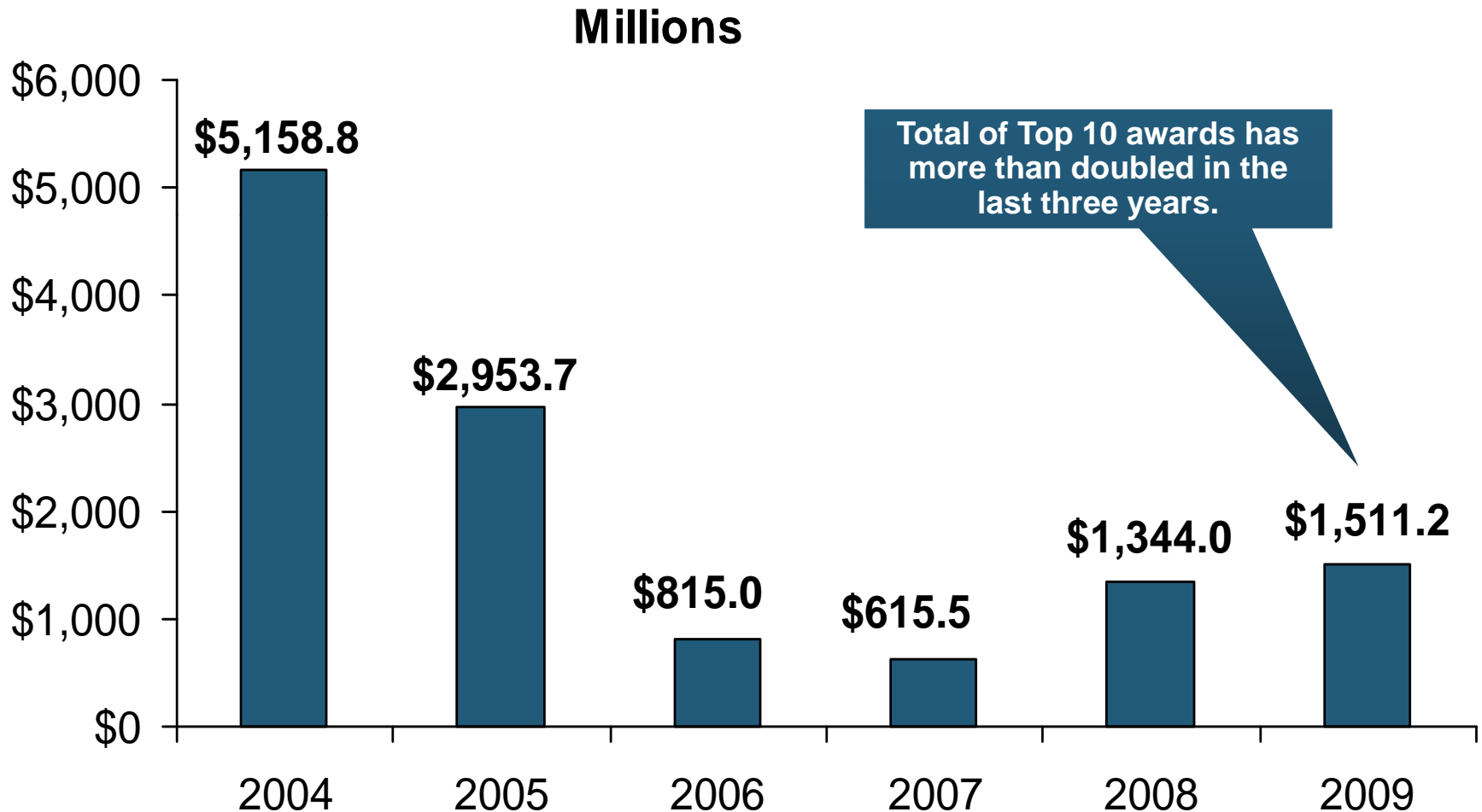
Average Jury Awards 1998 vs. 2002 and 2007



*Award trends in wrongful deaths of adult males.

Source: Jury Verdict Research; Insurance Information Institute.

Sum of Top 10 Jury Awards 2004-2008



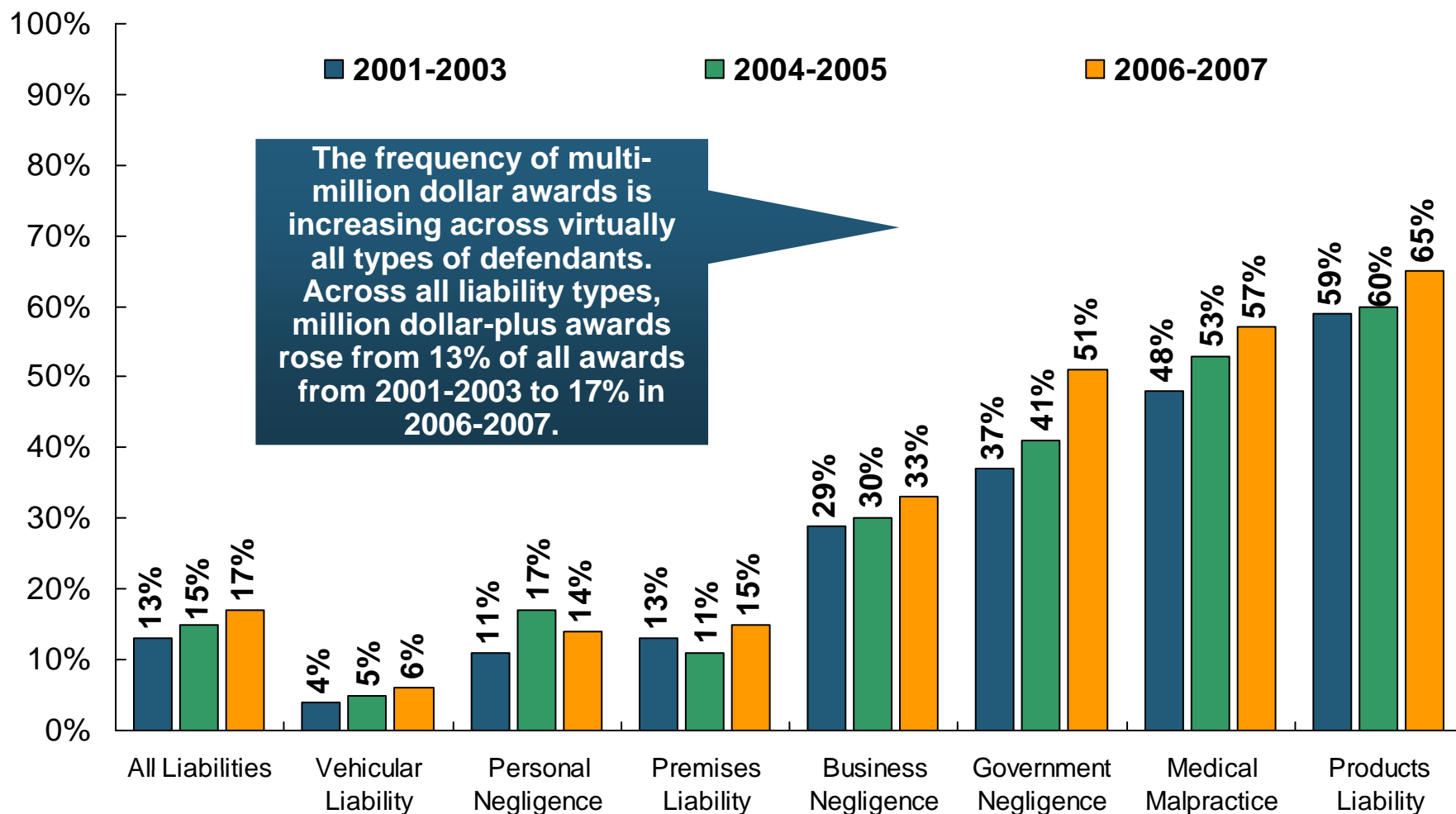
2009 Top Ten Verdicts

Value	Issue	State
\$370 Million	Defamation	California
\$330 Million	Personal Injury (Drunk driving case)	Florida
\$300 Million	Personal Injury (Tobacco verdict)	Florida
\$89 Million	Personal Injury (Drunk driving case)	Missouri
\$78.75 Million	Personal Injury (Prempro)	New Jersey
\$77.4 Million	Medical Malpractice	New York
\$71 Million	Conversion and Breach of Fiduciary Duty	Texas
\$70 Million	Workers Comp Case	Texas
\$65 Million	Personal Injury	Florida
\$60 Million	Medical Malpractice	New York

2008 Top Ten Verdicts

Value	Issue	State
\$388 Million	Fraud, Intentional Infliction of Emotional Distress	Nevada
\$316 Million	Breach of Contract	Georgia
\$188 Million	Defamation	New York
\$85 Million	Premises Liability	Pennsylvania
\$84 Million	Negligence, Personal Injury	Texas
\$66 Million	Breach of Fiduciary Duty	Oklahoma
\$60 Million	Insurance Bad Faith	Nevada
\$55 Million	Negligence	California
\$54 Million	Wrongful Death	Georgia
\$48 Million	Negligence	Indiana

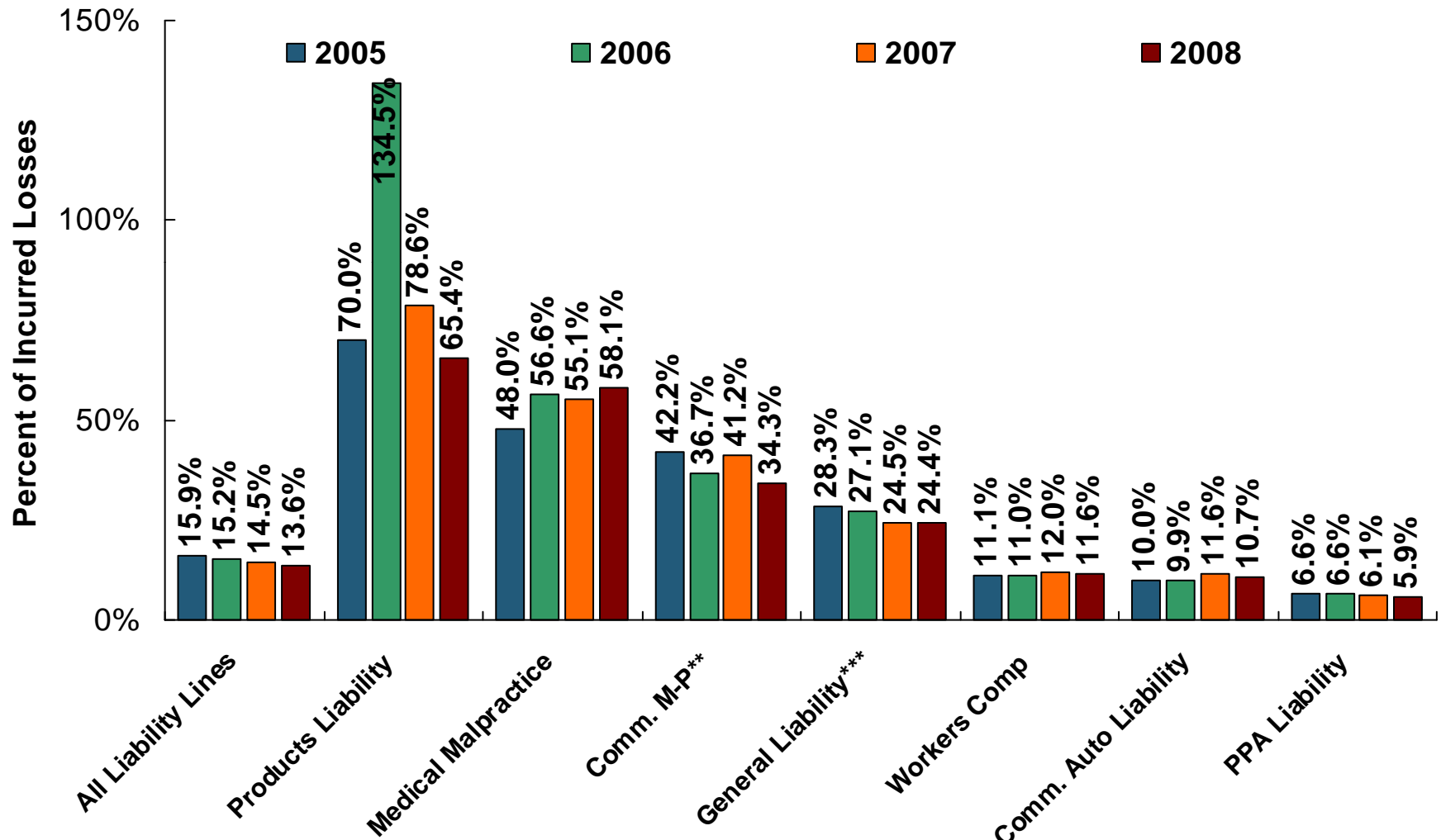
Trends in Million Dollar Verdicts*



*Verdicts of \$1 million or more.

Source: Jury Verdict Research; Insurance Information Institute.

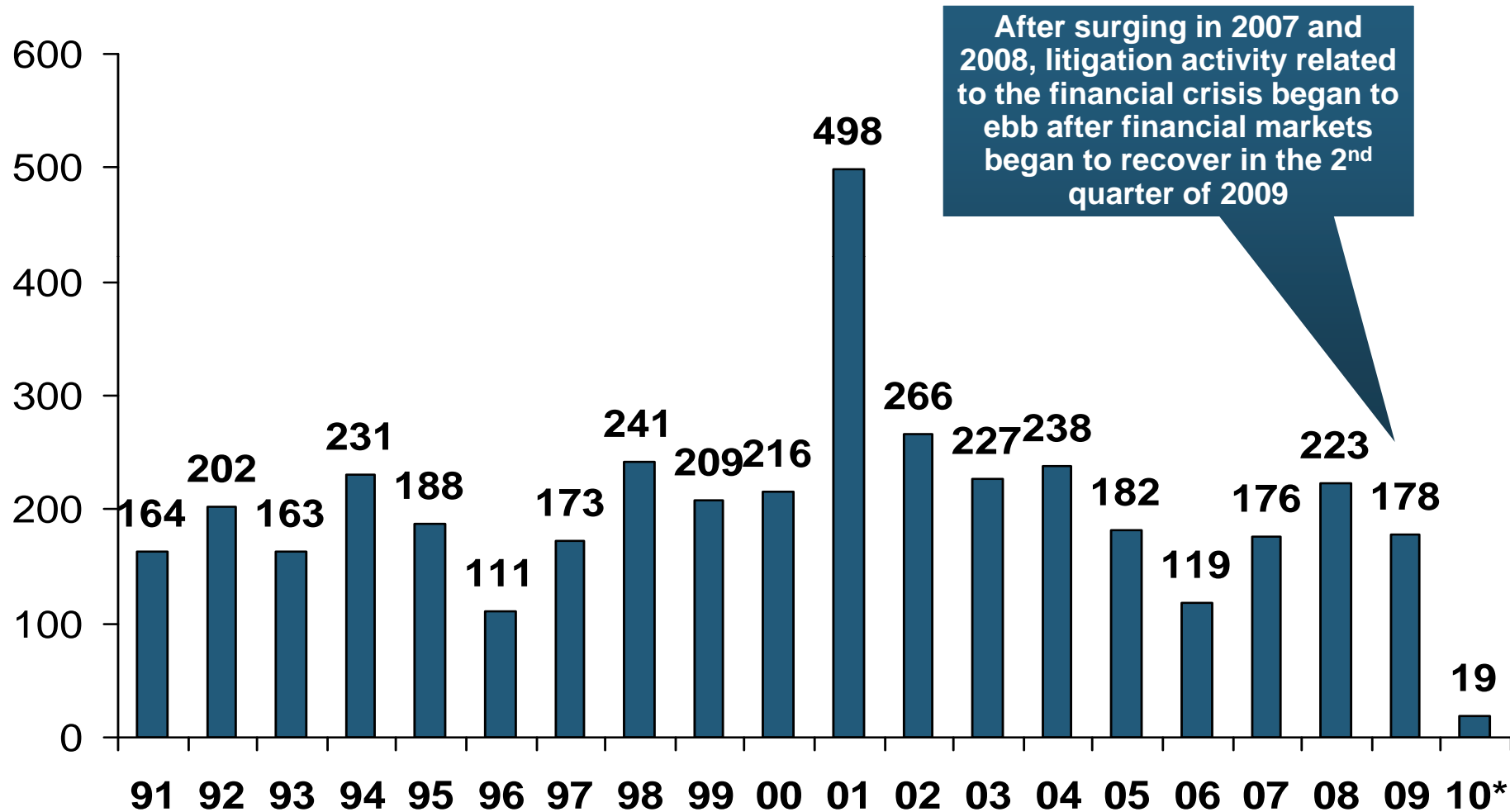
Insurer Defense & Cost Containment Expenses as a % of Incurred Losses, 2005-2008*



*Net of reinsurance, excl. state funds. **Liability portion only. ***Excludes products liability.

Source: National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data, LLC; Insurance Information Institute.

Shareholder Class Action Lawsuits*



*Securities fraud suits filed in U.S. federal courts as of March 1, 2010.

Source: Stanford University School of Law (securities.stanford.edu); Insurance Information Institute

Business Leaders Ranking of Liability Systems*

Best States

1. Delaware
2. Nebraska
3. Maine
4. Indiana
5. Utah
6. Virginia
7. Iowa
8. Vermont
9. Colorado
10. Kansas

New in 2008

- Colorado
- Indiana
- Kansas
- Virginia
- Vermont

Drop-offs

- Minnesota
- New Hampshire
- Tennessee
- Wisconsin

Midwest/West has mix of good and bad states.

Worst States

41. Texas
42. Florida
43. South Carolina
44. California
45. Hawaii
46. Illinois
47. Alabama
48. Mississippi
49. Louisiana
50. West Virginia

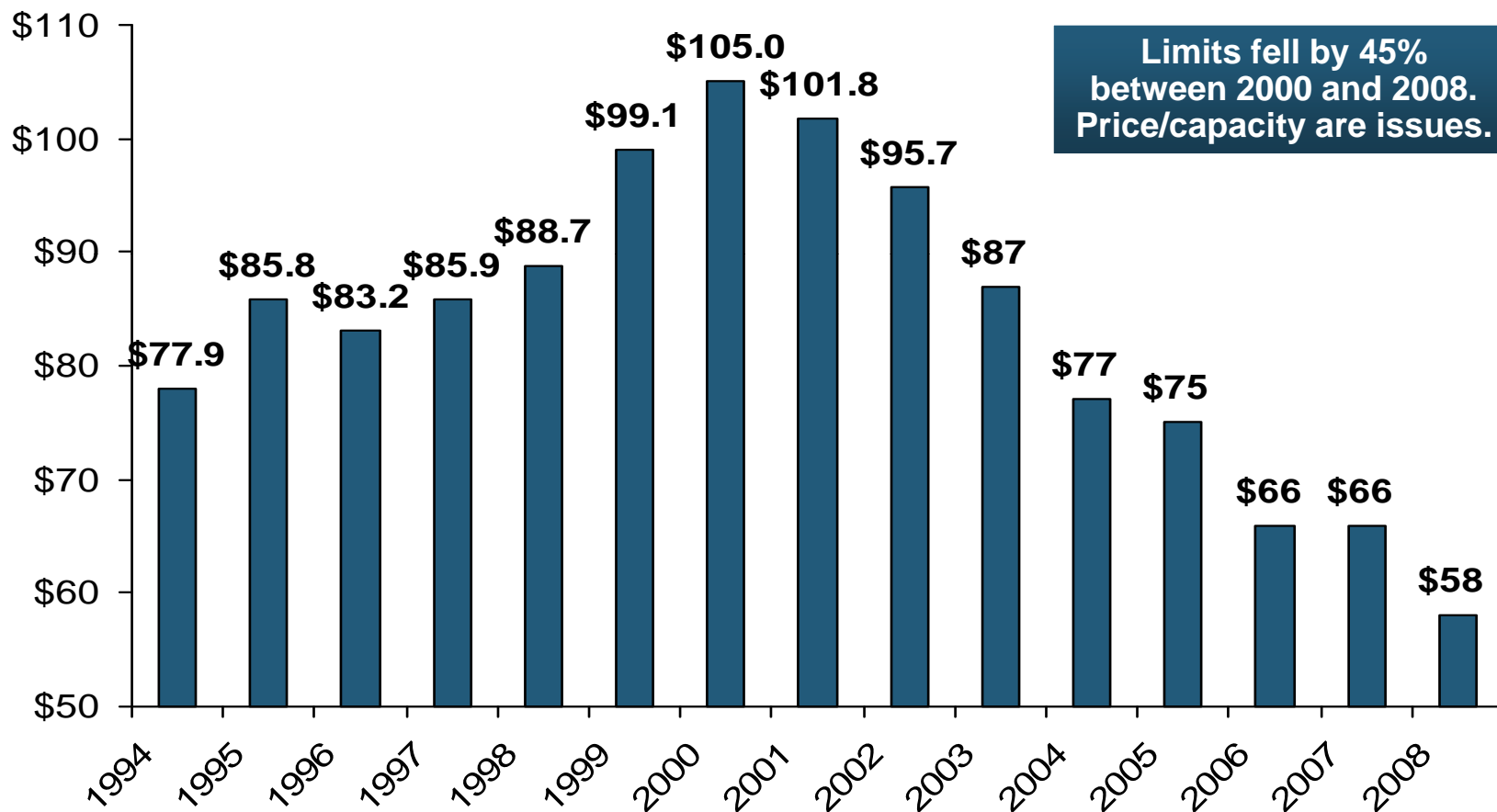
Newly Notorious

- Florida
- South Carolina

Rising Above

- Arkansas
- Alaska

Average Total Limits Purchased by All U.S. Firms* (\$ Millions)

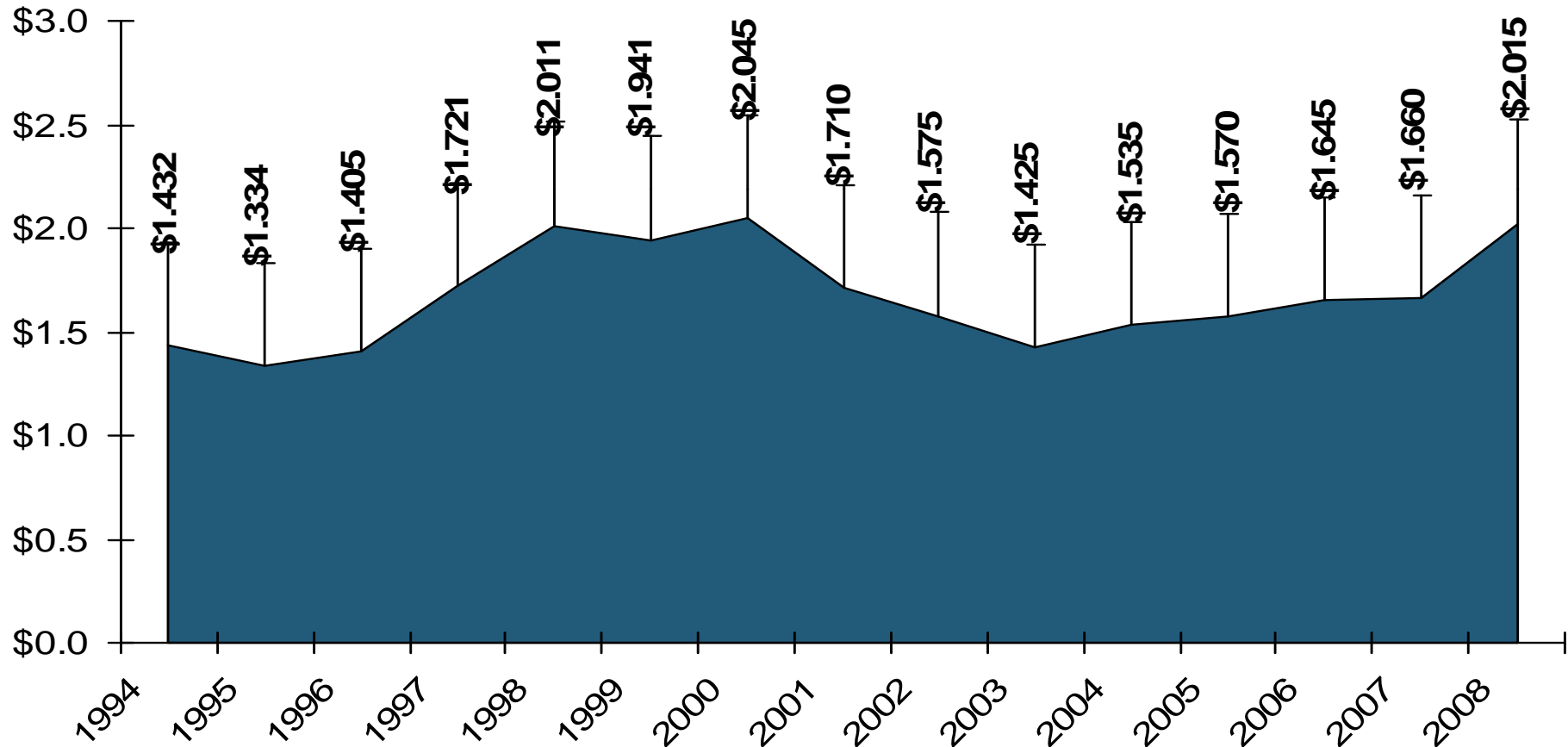


*Includes underlying primary limits

Source: *Limits of Liability 2008*, Marsh, Inc.

Excess Liability Market Capacity North America (\$ Billions)

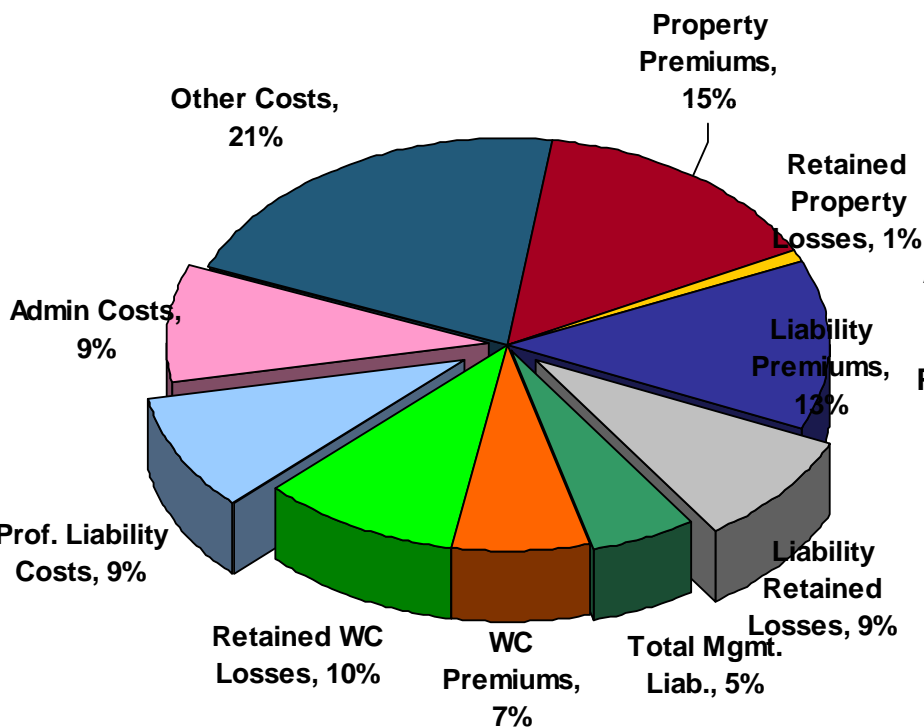
In 2008, capacity is back to 2000 levels.



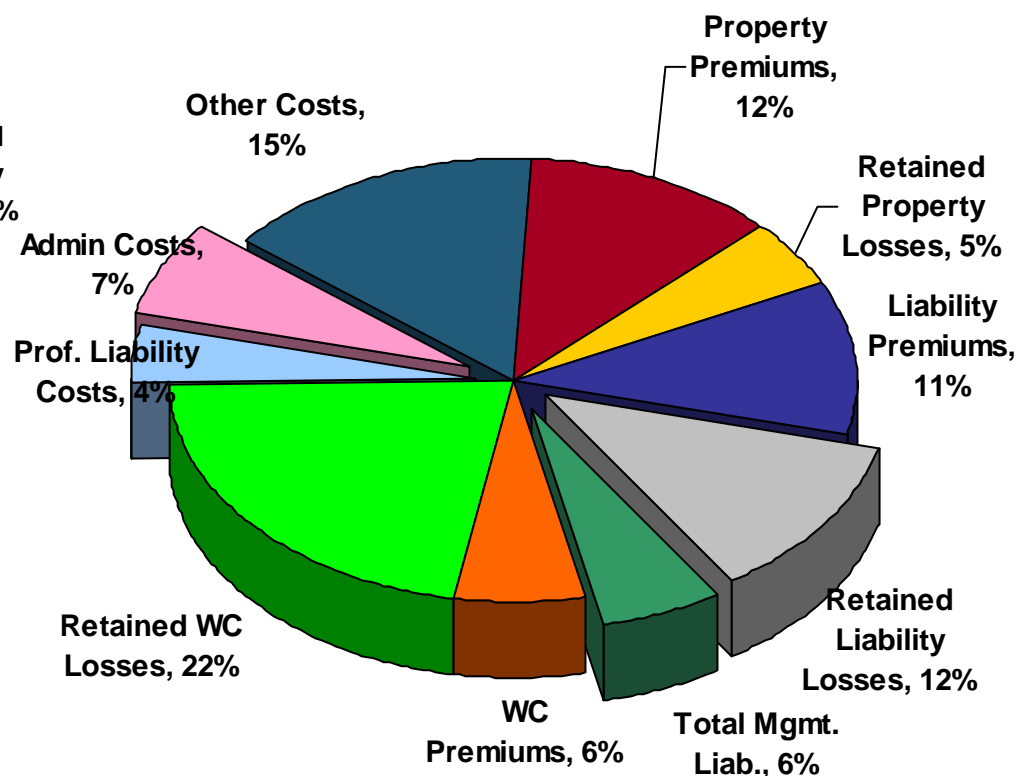
How the Risk Dollar is Spent (2008)

Total liability costs account for about 30% of the risk dollar

Firms w/Revenues < \$1 Billion

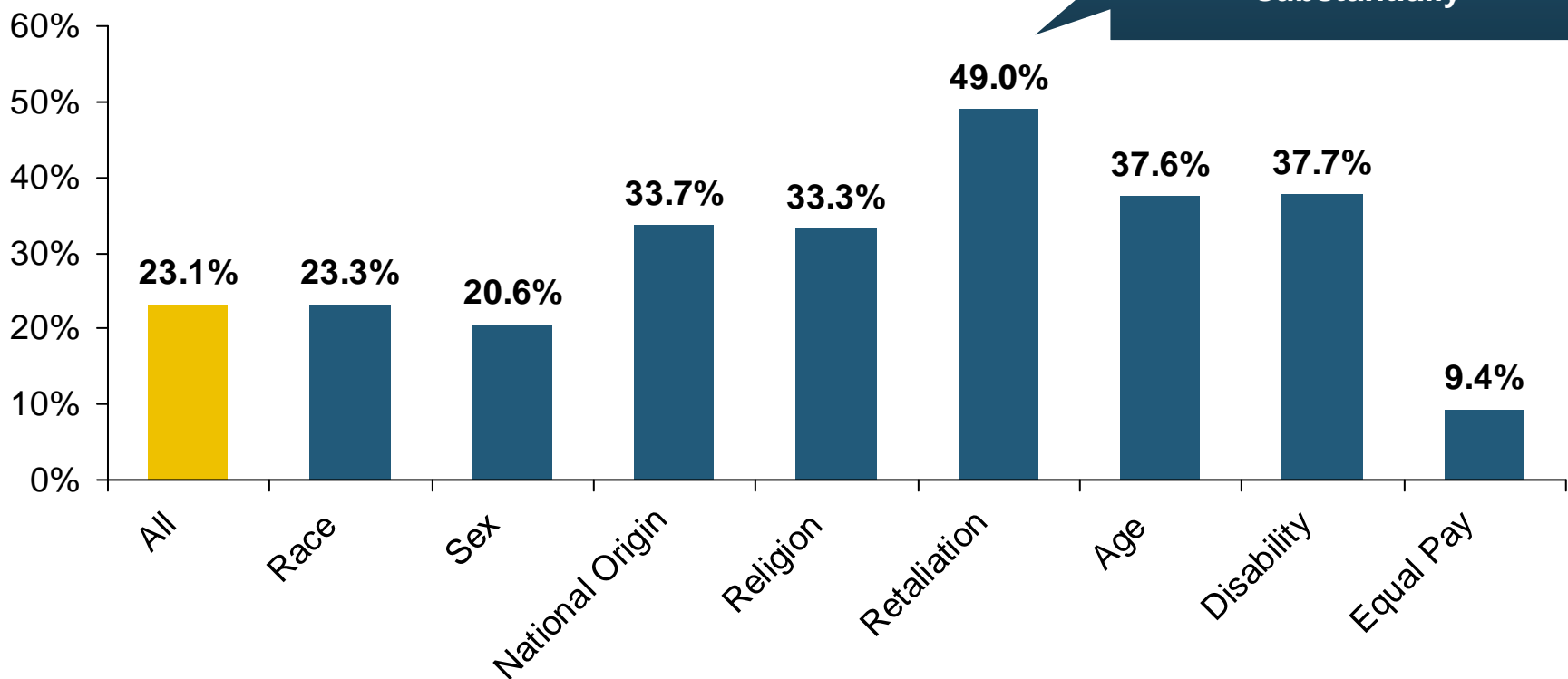


Firms w/Revenues > \$1 Billion



Discrimination Charges Filed with EEOC by Type: Percent Change FY06-FY09

Change in Charges Filed (%)



Retaliation and age discrimination suits are up substantially

The Financial Crisis and Poor Labor Market Conditions Have Contributed to a Surge Employment Discrimination Charges

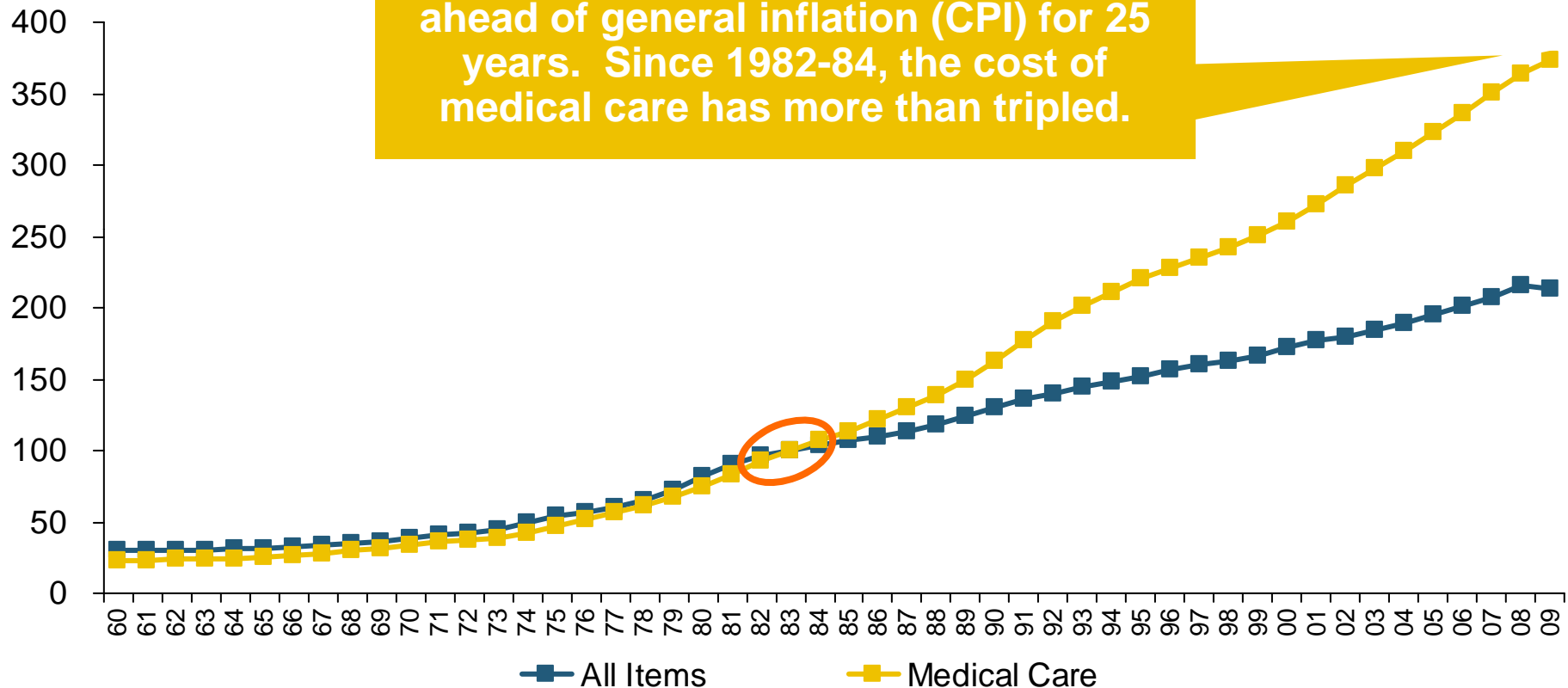
Rising Medical/Health Care Costs

**Medical Costs Will Rise Steeply in
the Years Ahead, Pressuring
Many Casualty Lines**

Consumer Price Index for Medical for All Items vs. Medical Care, 1960-2009*

(1982-1984 = 100)

Medical Care inflation has been surging ahead of general inflation (CPI) for 25 years. Since 1982-84, the cost of medical care has more than tripled.



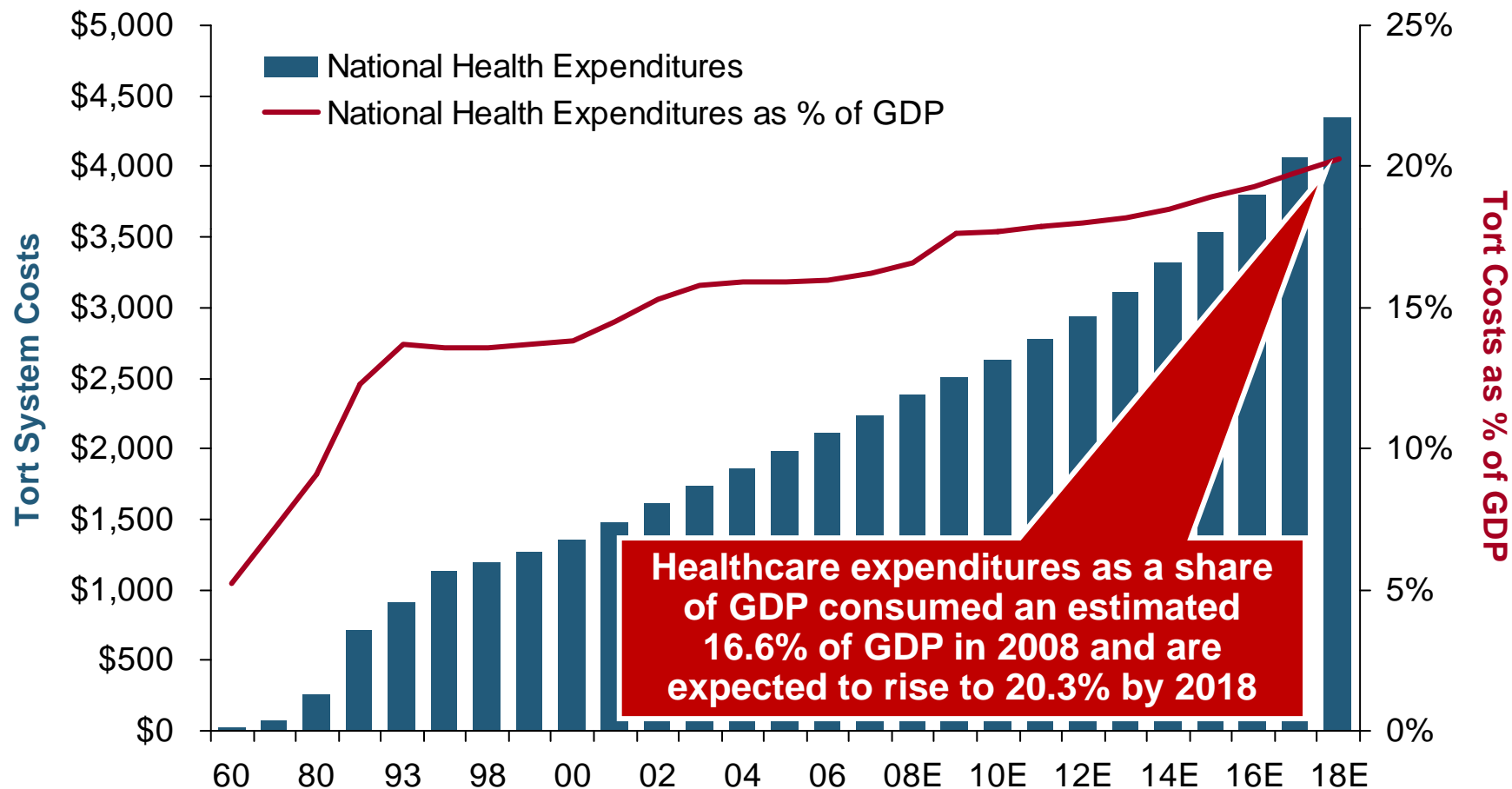
Medical costs Will Continue to Rise Relatively Rapidly Irrespective of Outcome of US Healthcare Reform Debate

* Through June 30, 2009

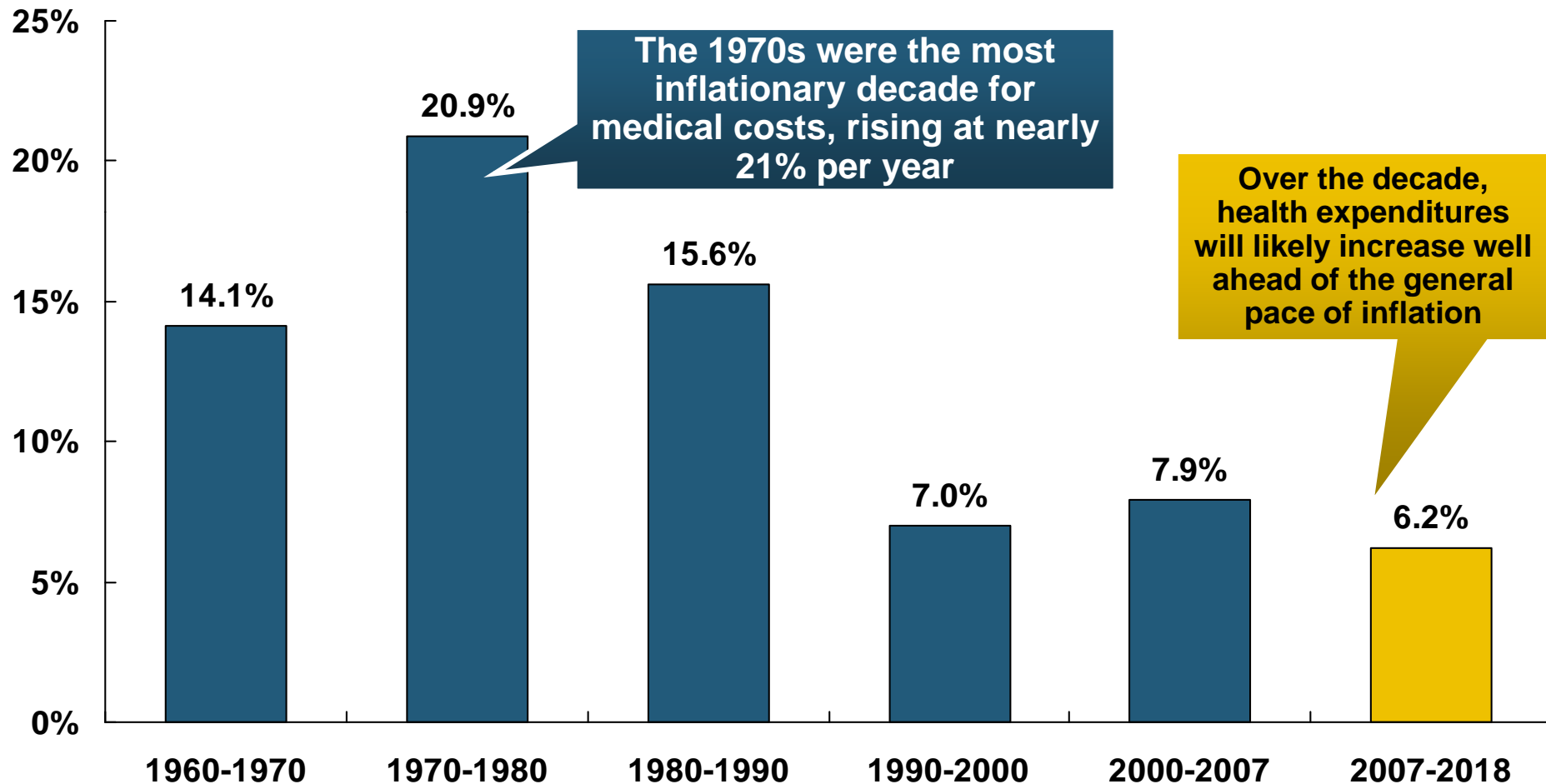
Sources: Bureau of Labor Statistics, Insurance Information Institute

National Health Expenditures and Expenditures as a Share of GDP, 1960-2018E

(\$ Billions)



Average Annual Growth in US Per Capita Health Care Costs, 1960-2018F



Source: Insurance Information Institute calculations based on data from the Centers for Medicare & Medicaid Services, Office of the Actuary.

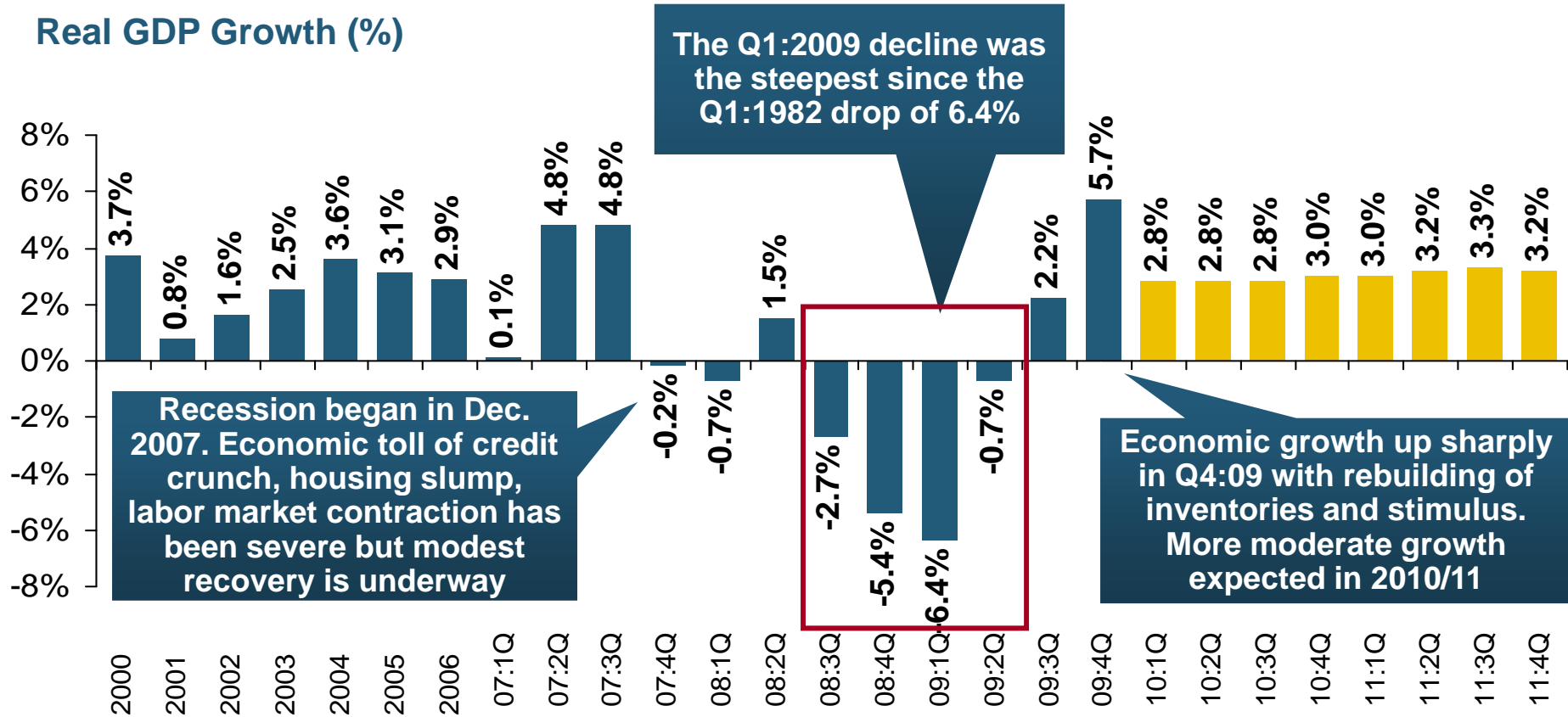
III.

The Economic Storm

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

Real GDP Growth*

Real GDP Growth (%)



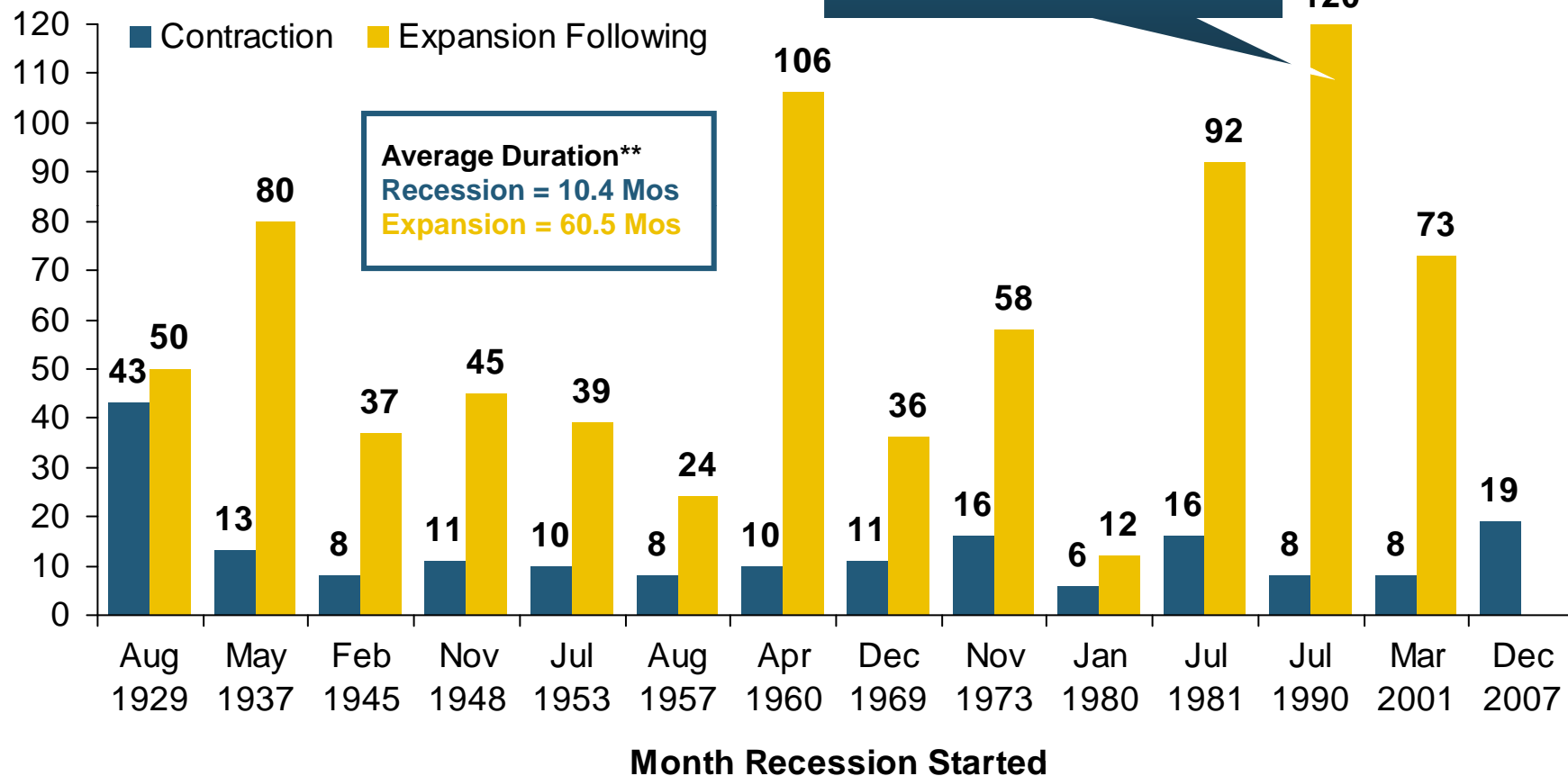
Personal and Commercial Lines Exposure Base Have Been Hit Hard and Will Be Slow to Come Back

* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 2/10; Insurance Information Institute.

Length of US Business Cycles, 1929–Present*

Duration (Months)

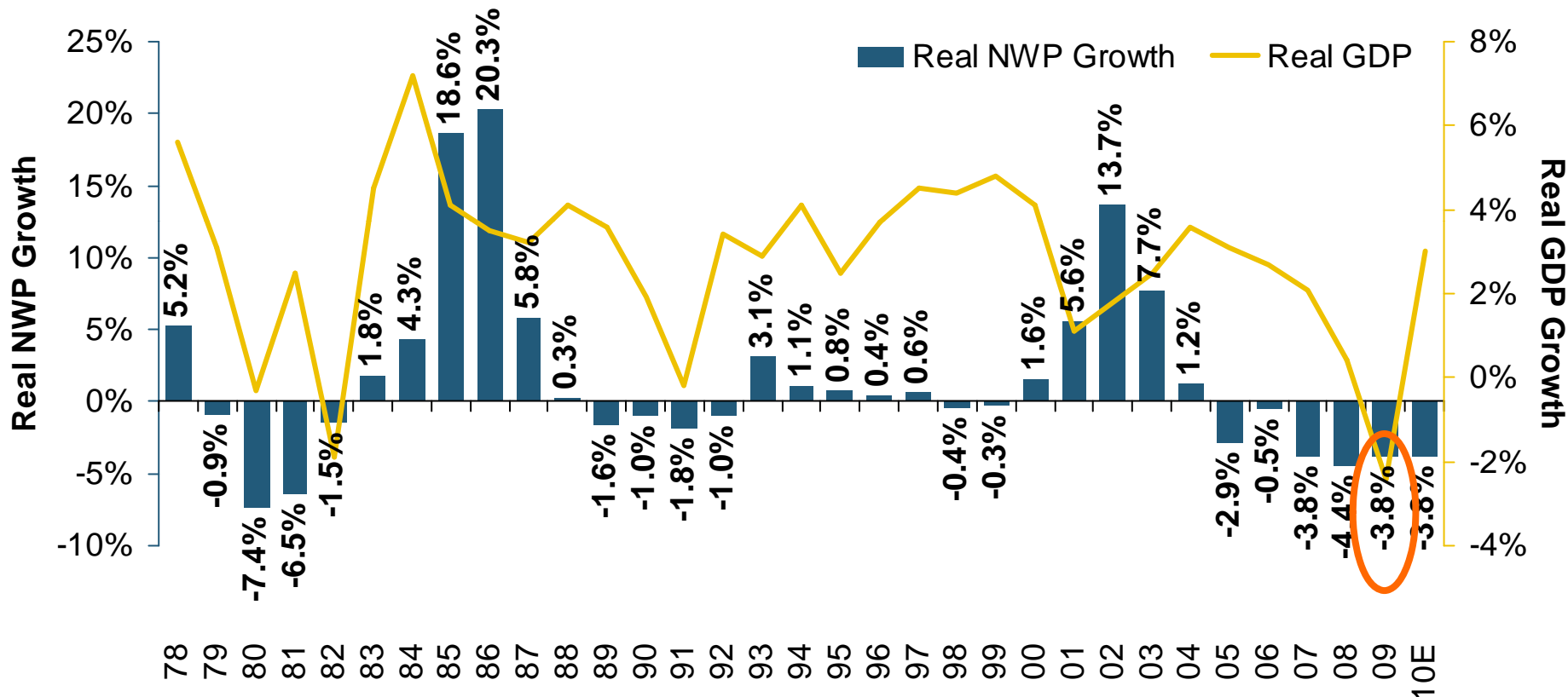


* Through June 2009 (likely the “official end” of recession) ** Post-WW II period through end of most recent expansion.

Sources: National Bureau of Economic Research; 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**

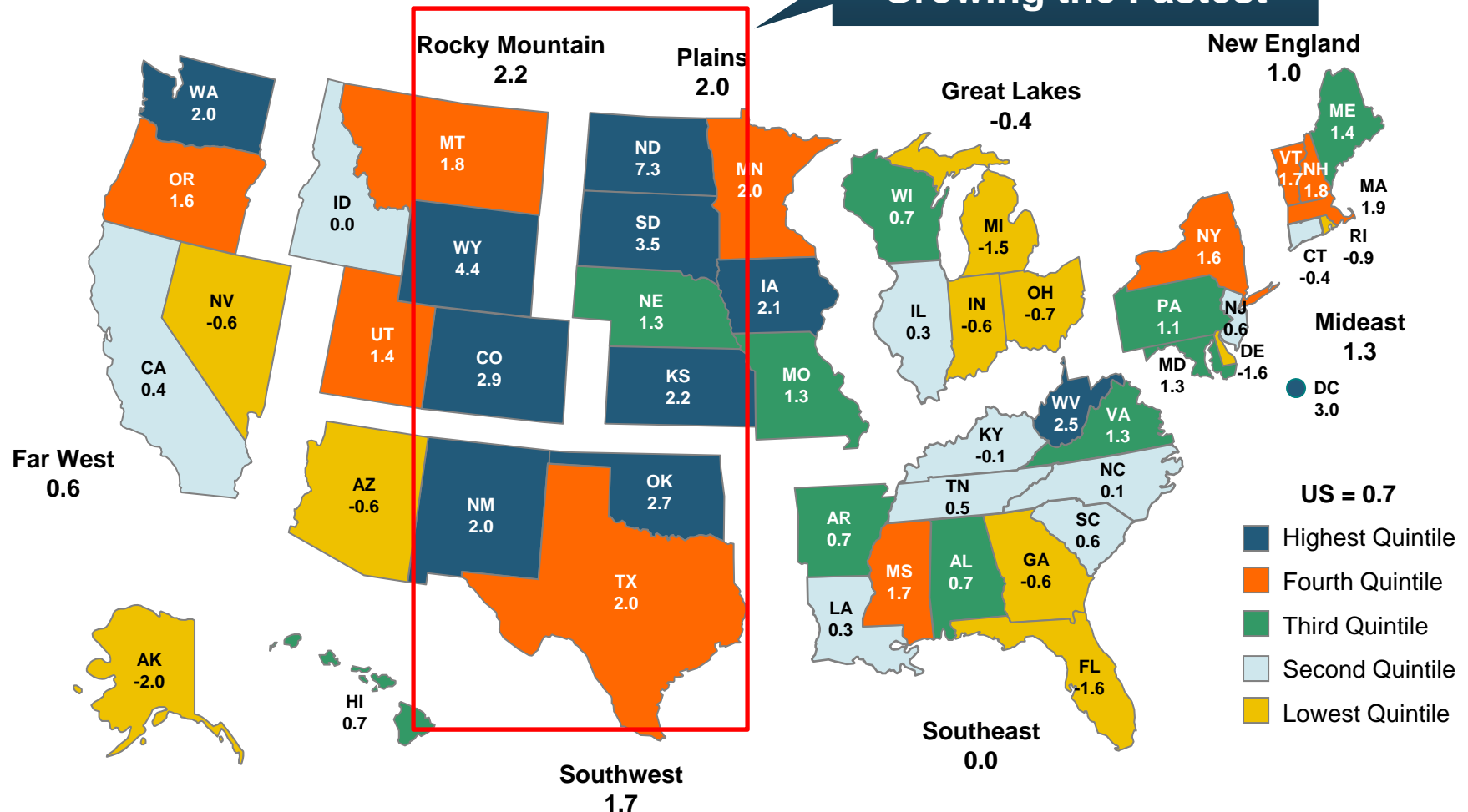
Regional Differences Will Significantly Impact P/C Markets

**Recovery in Some Areas Will
Begin Years Ahead of Others
and Speed of Recovery Will Differ
by Orders of Magnitude**

State Economic Growth Varied Tremendously in 2008

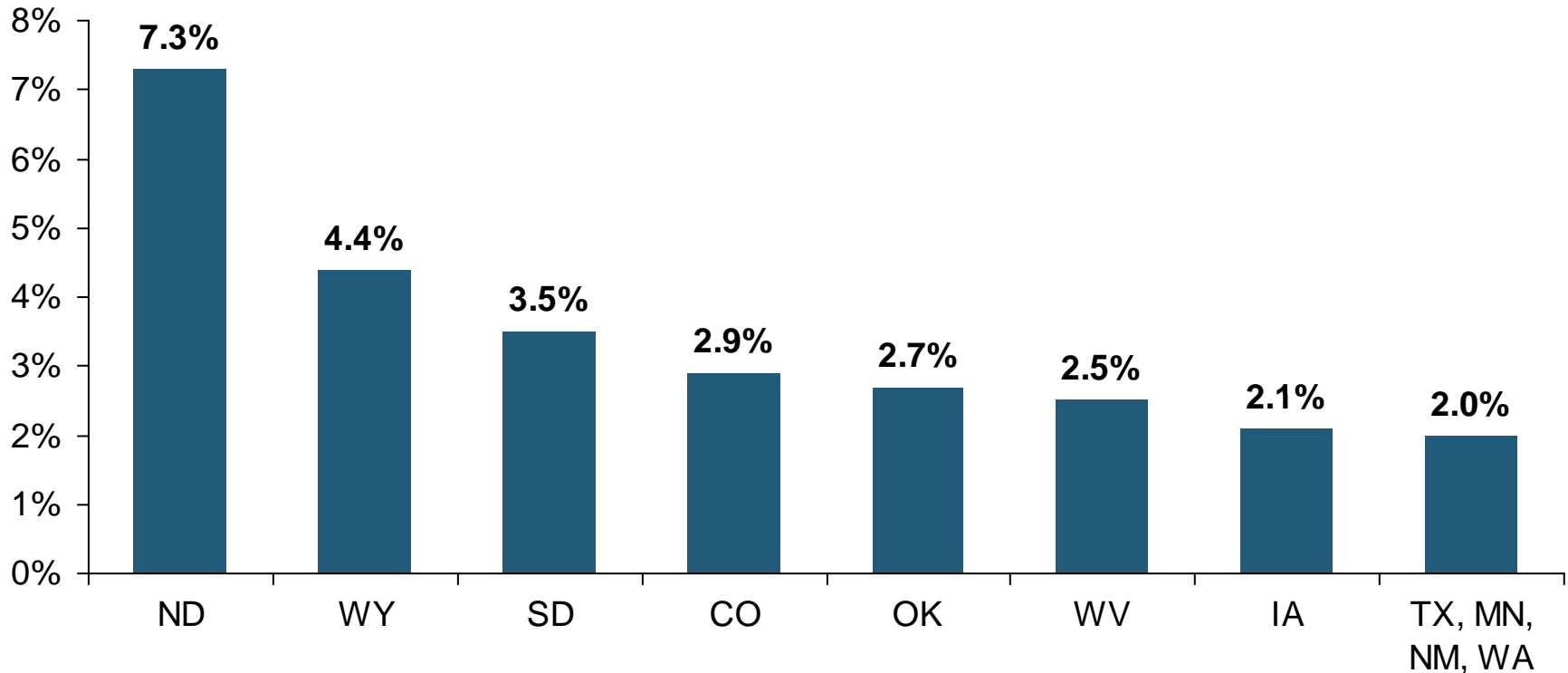
Percent Change in Real GDP by State, 2007–2008

**Mountain, Plains States
Growing the Fastest**



Fastest Growing States in 2008: Plains, Mountain States Lead

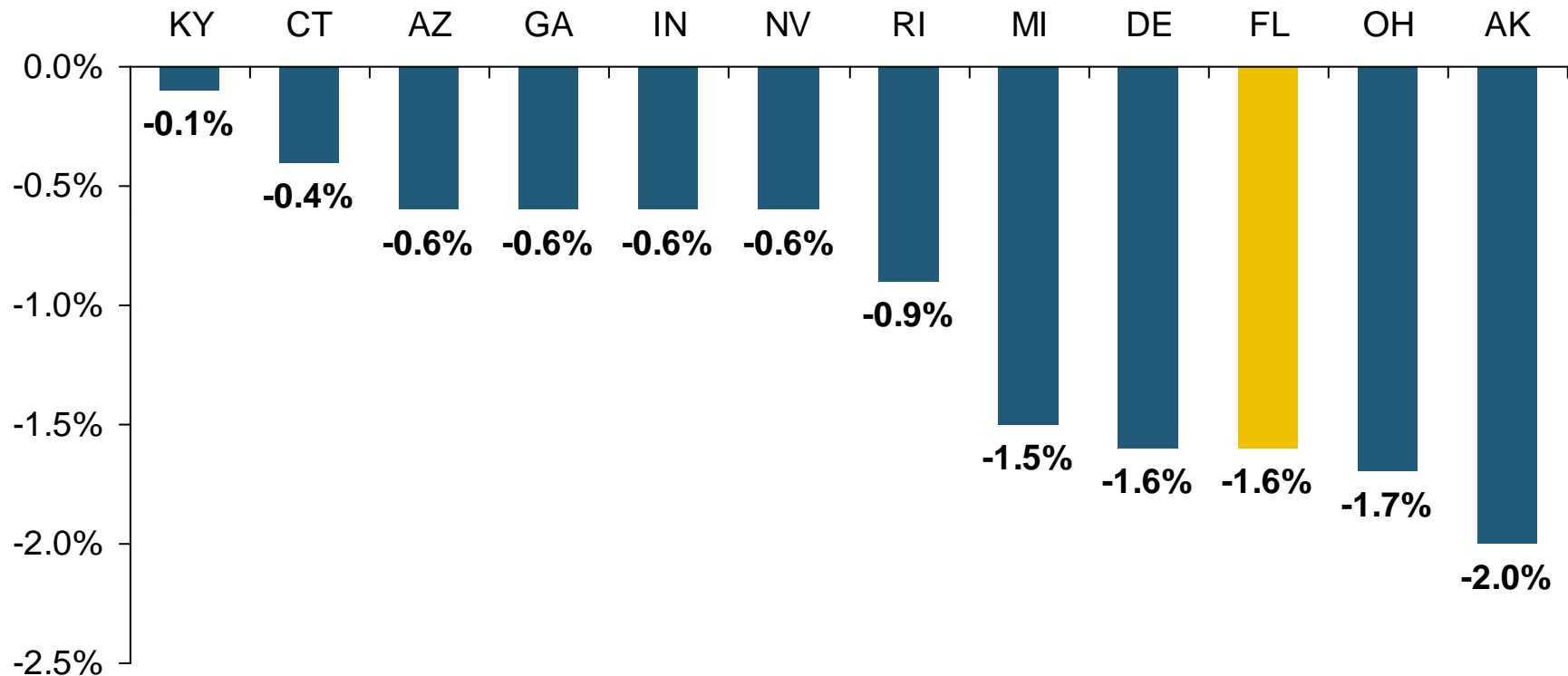
Real State GDP Growth (%)



Natural Resource and Agricultural States Have Done Better Than Most Others Recently, Helping Insurance Exposure in Those Areas

Slowest Growing States in 2008: Diversity of States Suffering

Real State GDP Growth (%)



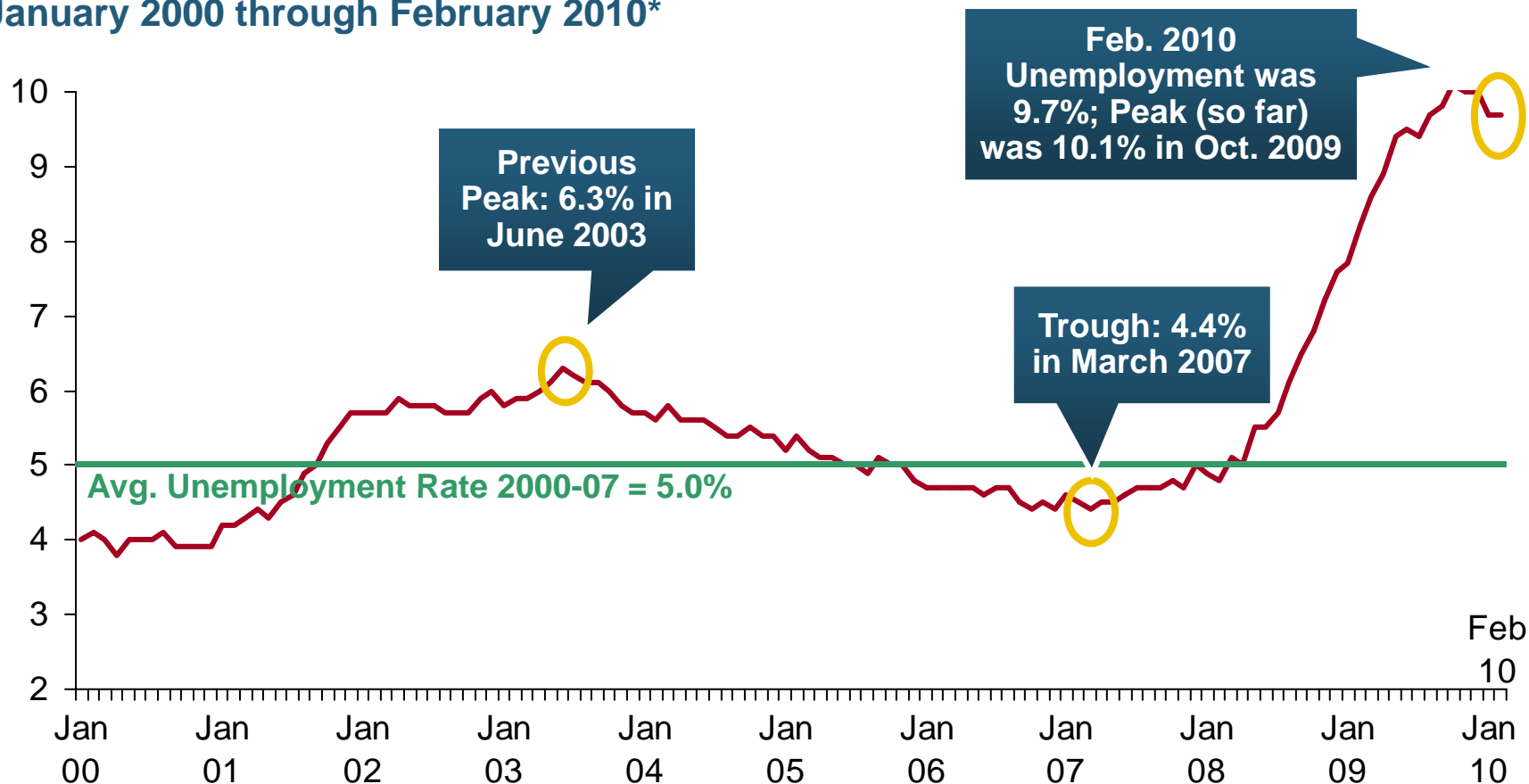
States in the North, South, East and West All Represented Among Hardest Hit, But for Differing Reasons

Labor Market Trends

***Fast & Furious:*
Massive Job Losses Sap the
Economy and Commercial/Personal
Lines Exposure**

Unemployment Rate: On the Rise

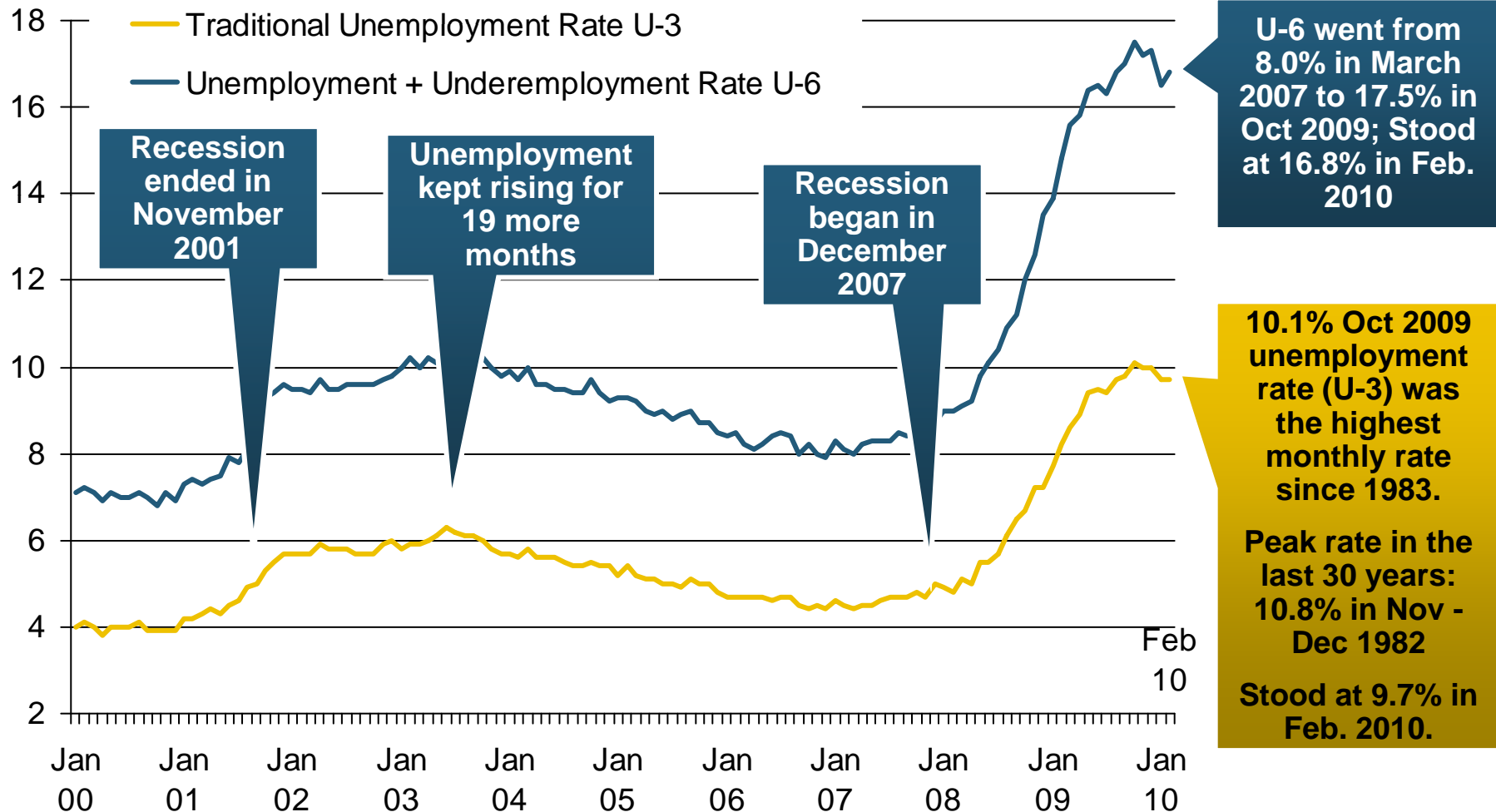
January 2000 through February 2010*



Unemployment Will Likely Peak Just Above 10% During This Cycle, Impacting Payroll Sensitive P/C and L/H Exposures

Unemployment and Underemployment Rates: Rocketing Up in 2008-09

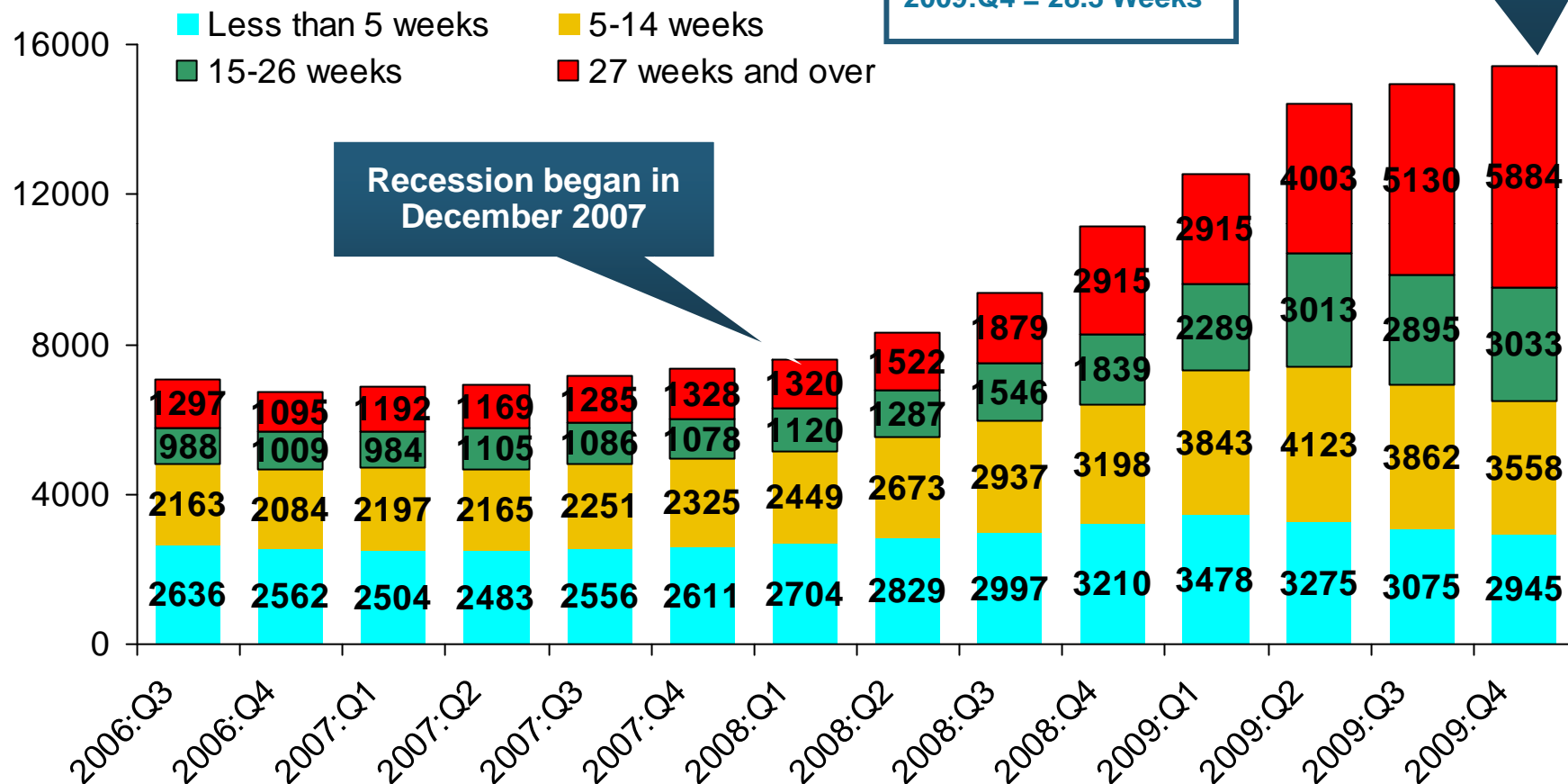
January 2000 through February 2010, Seasonally Adjusted (%)



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

Length of Unemployment, Quarterly, 2006:Q3-2009:Q4*

Number of People
(Thousands)

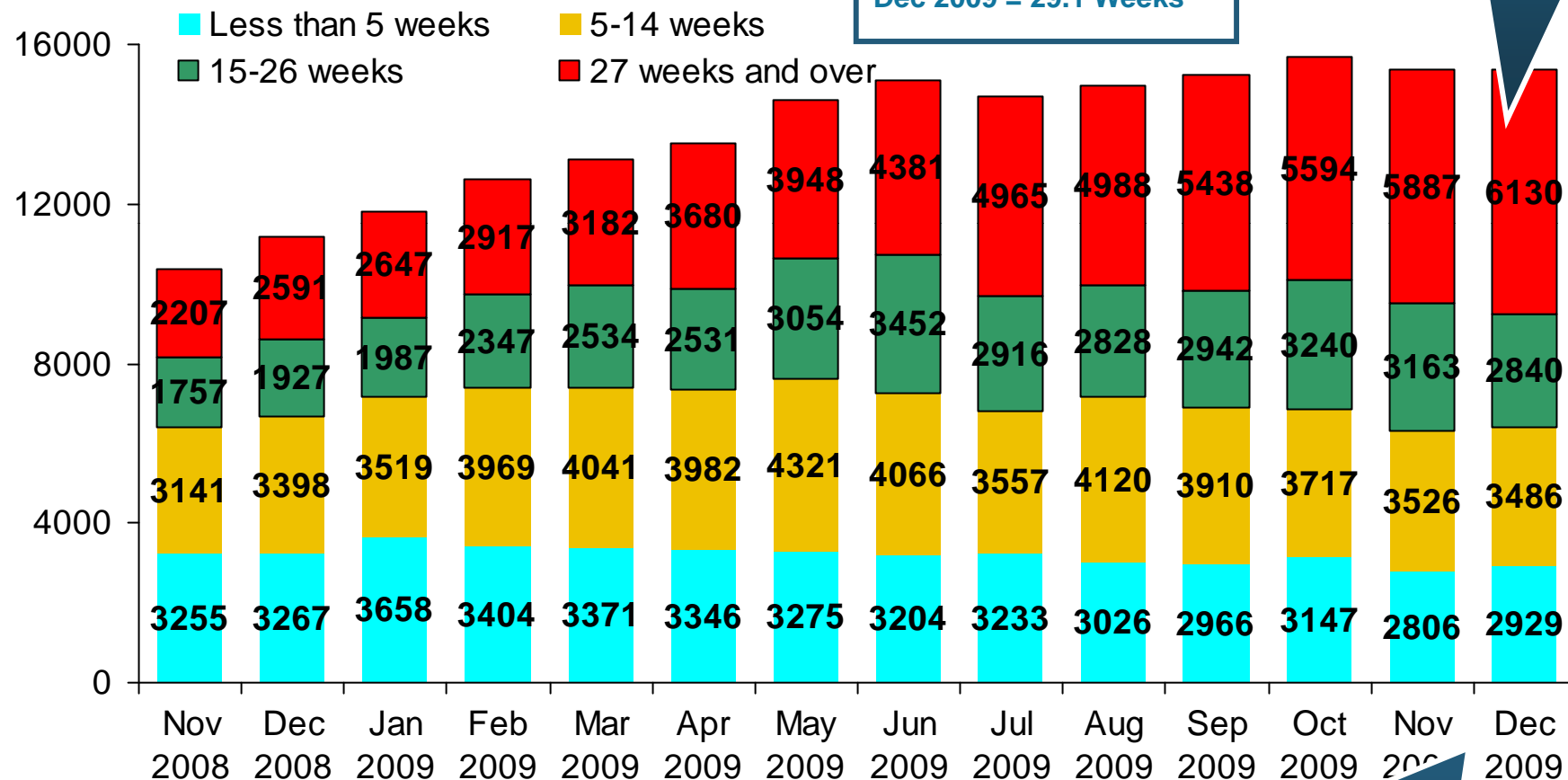


*Seasonally adjusted

Sources: Bureau of Labor Statistics; Insurance Information Institute.

Length of Unemployment, Monthly, Nov 2008–Present*

Number of People
(Thousands)

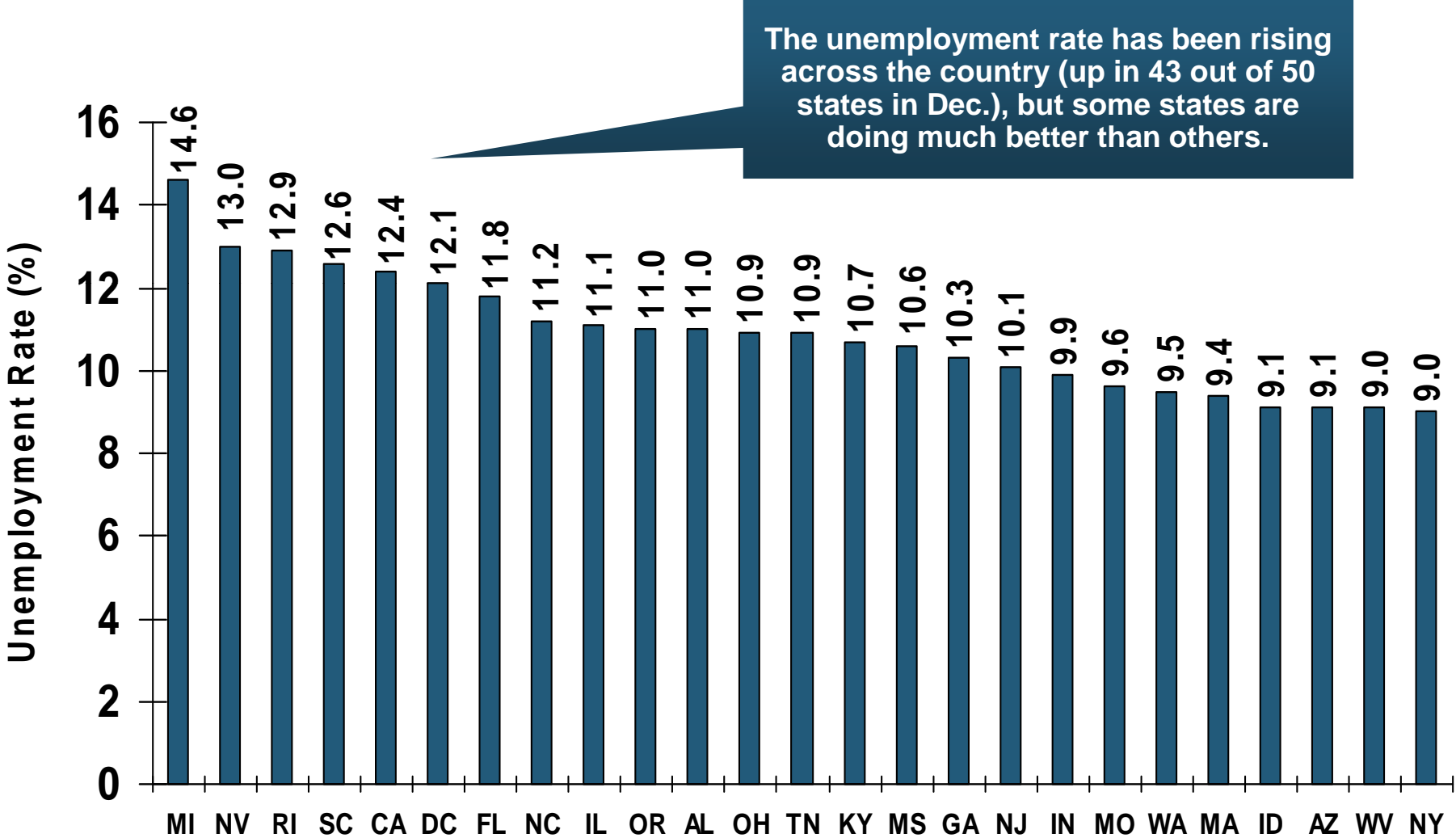


*Through Dec. 2009; Seasonally adjusted

Sources: Bureau of Labor Statistics; Insurance Information Institute.

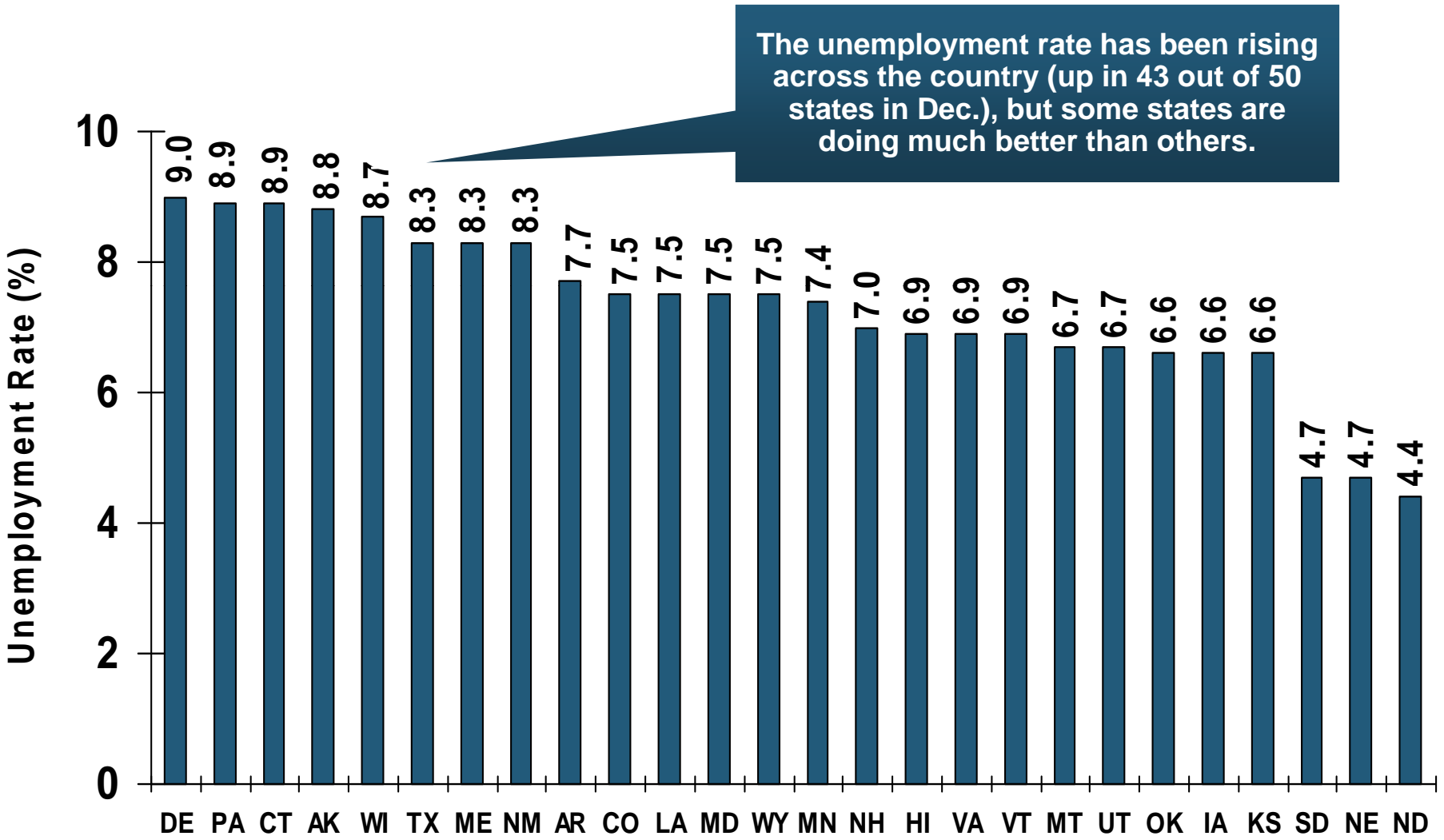
Number of long-term (27+) unemployed
grew by 250,000 in December 2009

Unemployment Rates by State, December 2009: Highest 25 States*



*Provisional figures for December 2009, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

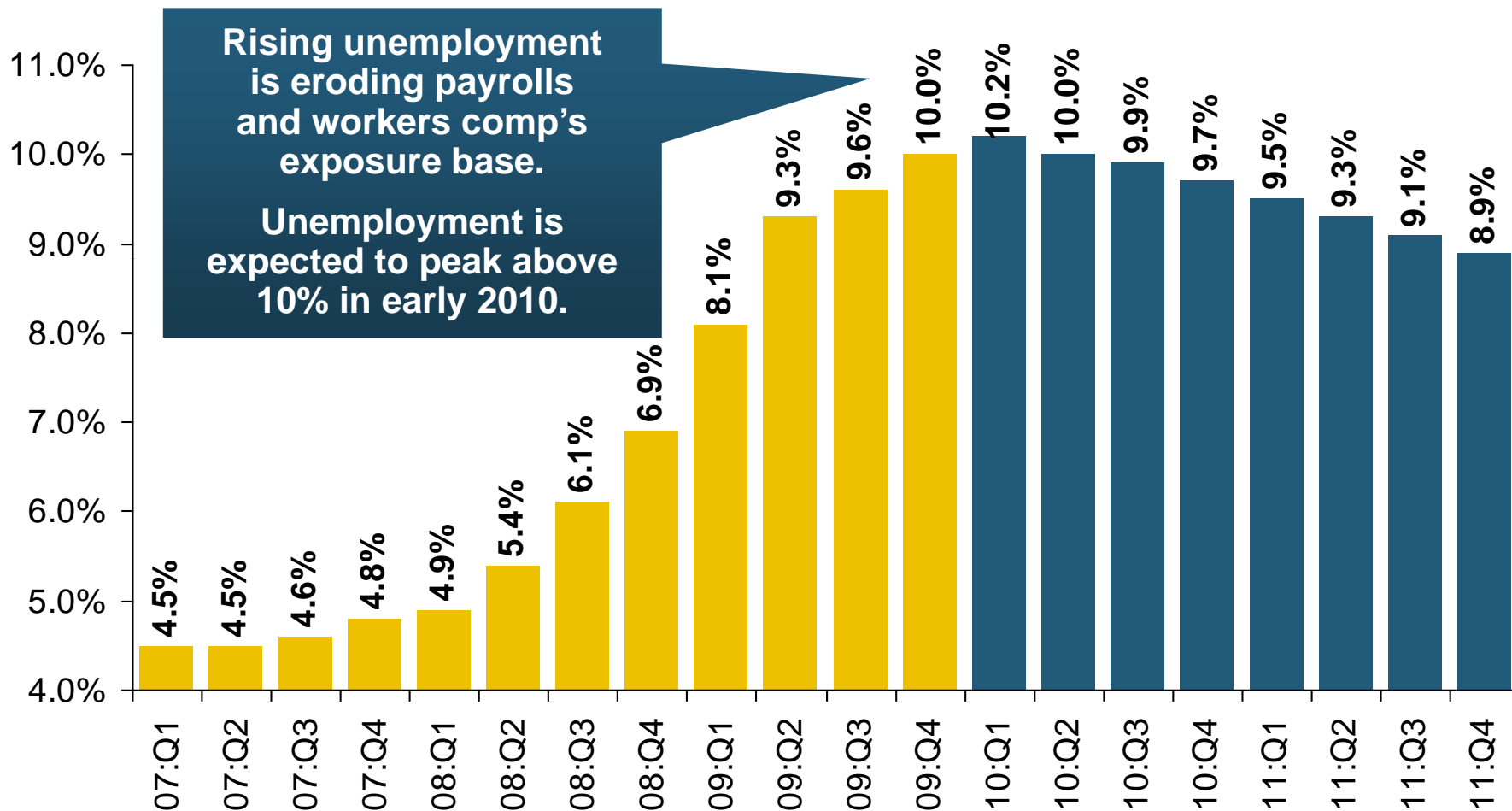
Unemployment Rates By State, December 2009: Lowest 25 States*



*Provisional figures for December 2009, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

US Unemployment Rate

2007:Q1 to 2011:Q4F*

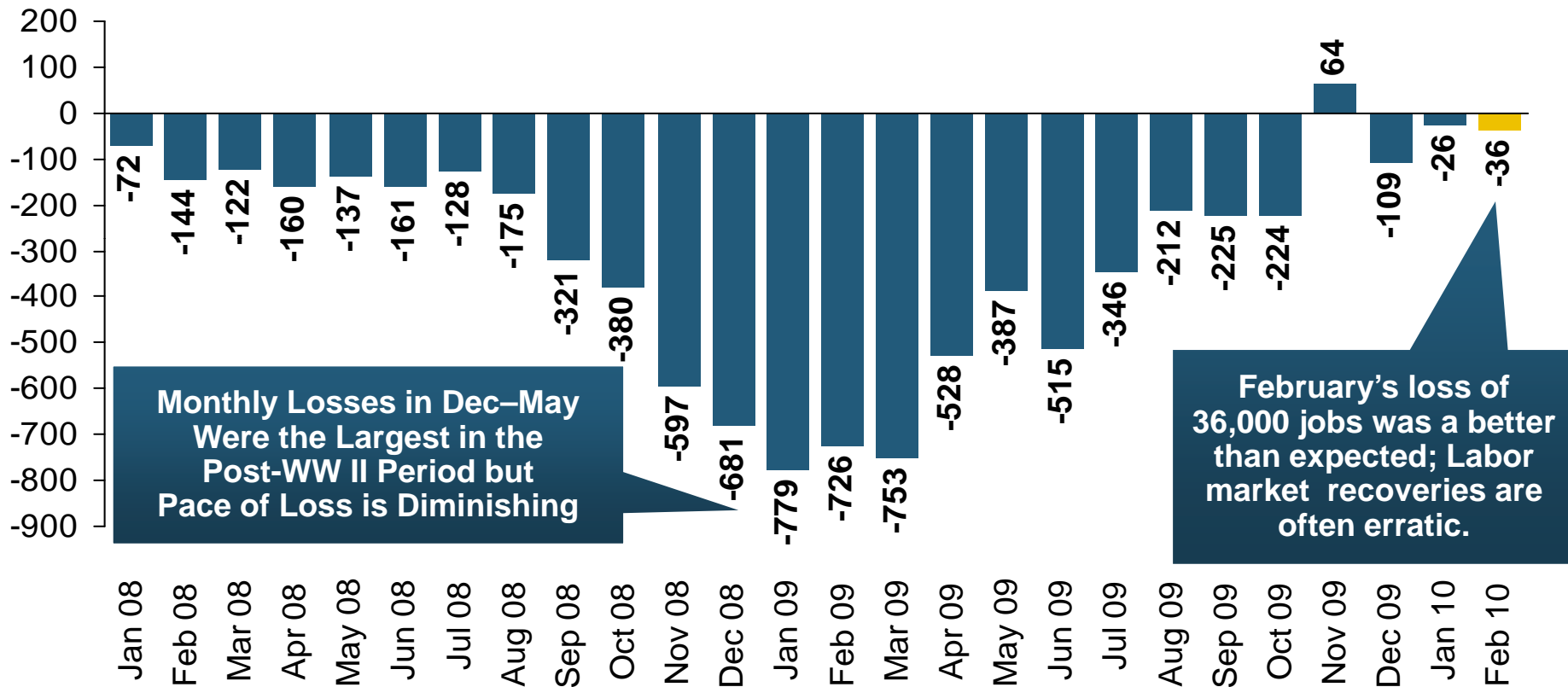


* Yellow = actual; Blue = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (2/10); Insurance Information Institute

Monthly Change Employment*

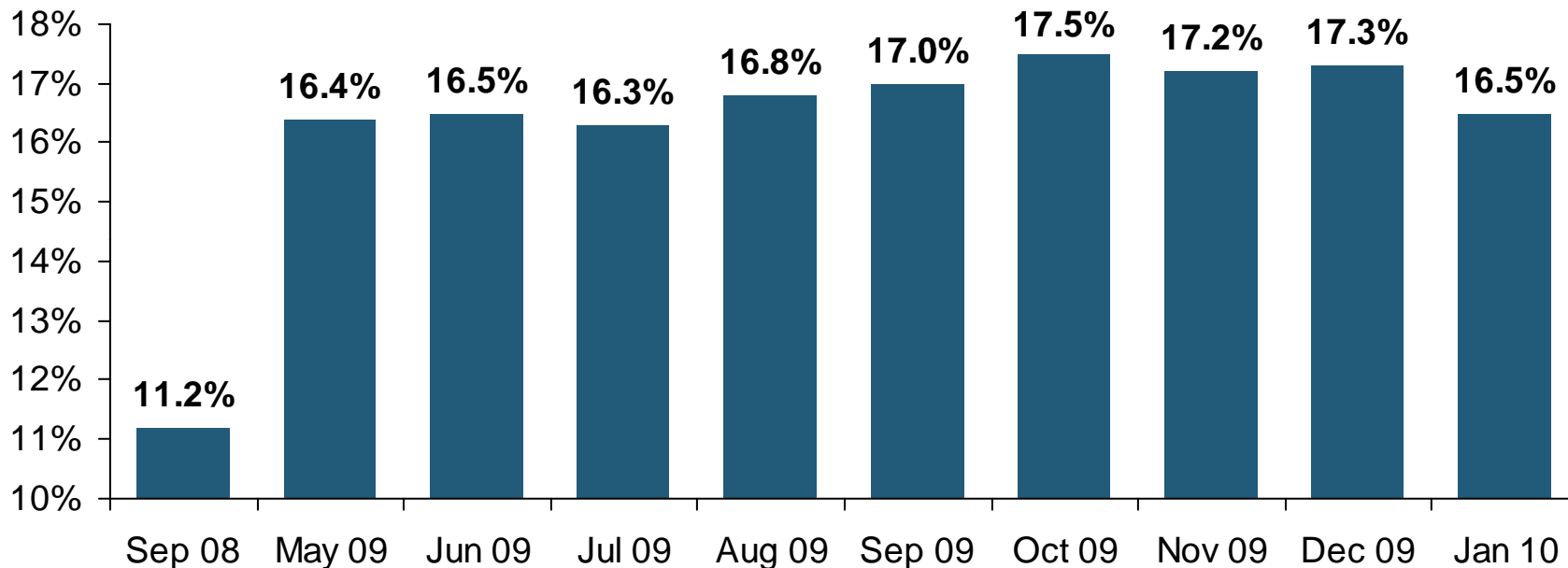
January 2008 through February 2010 (Thousands)



**Job Losses Since the Recession Began in Dec. 2007 Total 8.4 Million;
14.9 Million People are Now Defined as Unemployed**

Labor Underutilization: Broader than Just Unemployment

% of Labor Force



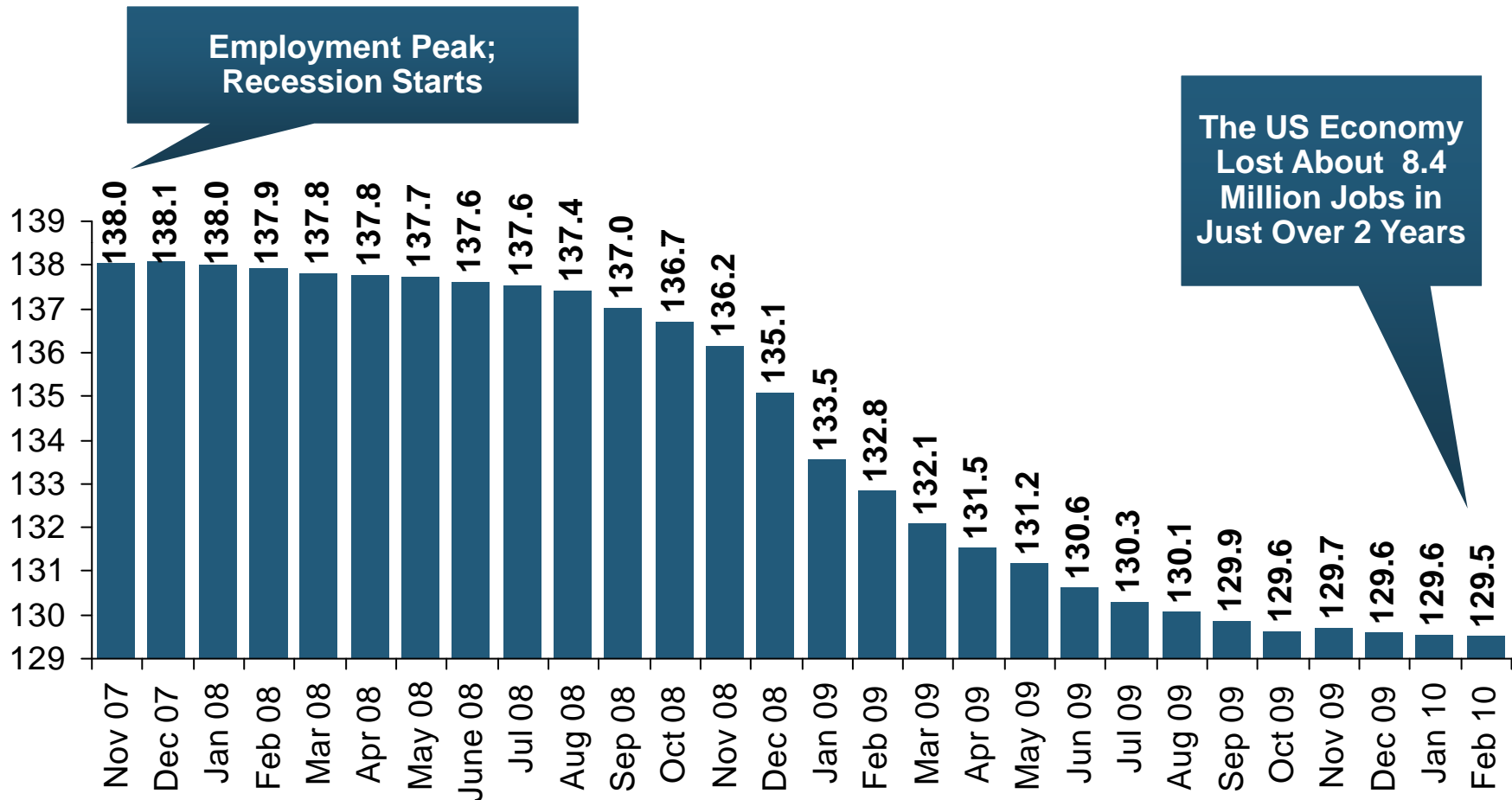
Marginally Attached and Unemployed Persons Account for 16.5% of the Labor Force in Jan. 2010 (1 Out 6 People). Unemployment Rate Alone was 9.7%. Underutilization Shows a Broader Impact on WC and Other Commercial Exposures

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.

US Nonfarm Private Employment

Monthly, Nov 2007 – Feb 2010 (Millions)

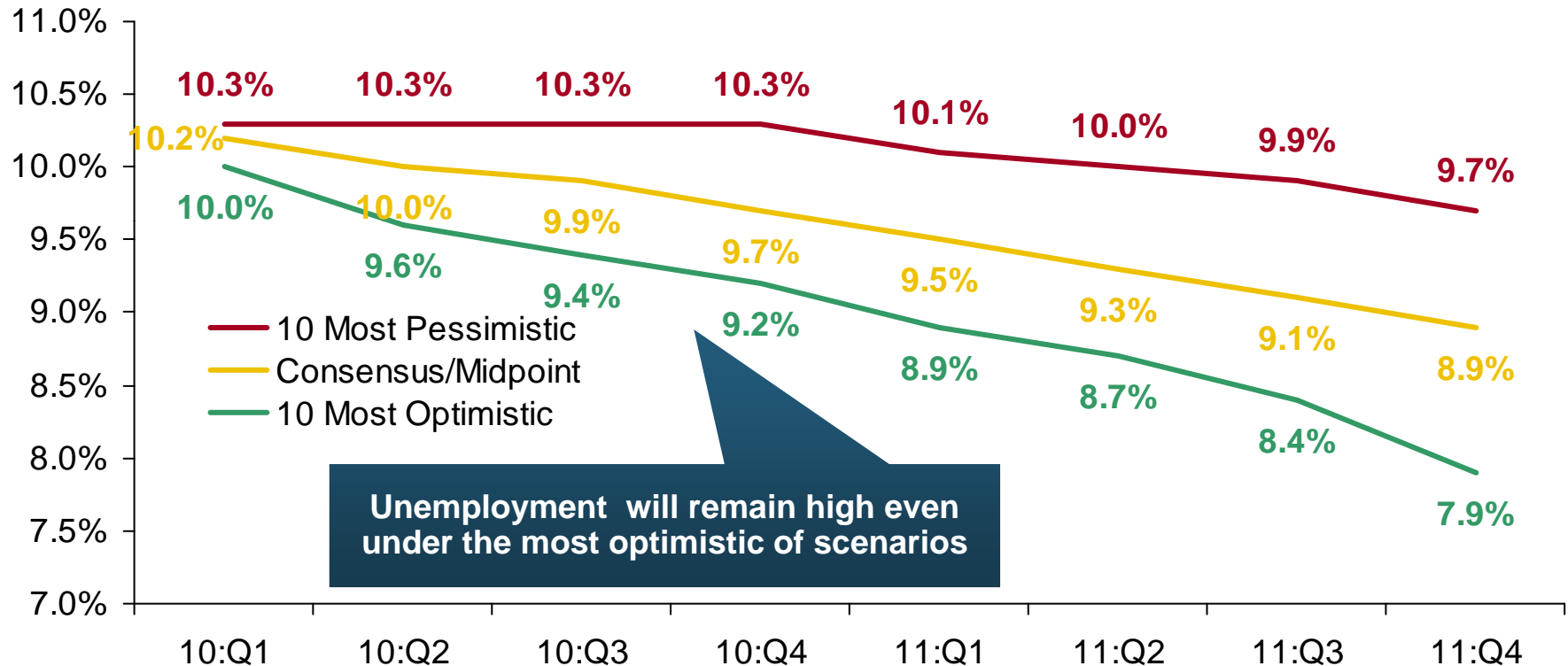


Seasonally adjusted.

Source: US Bureau of Labor Statistics

US Unemployment Rate Forecasts

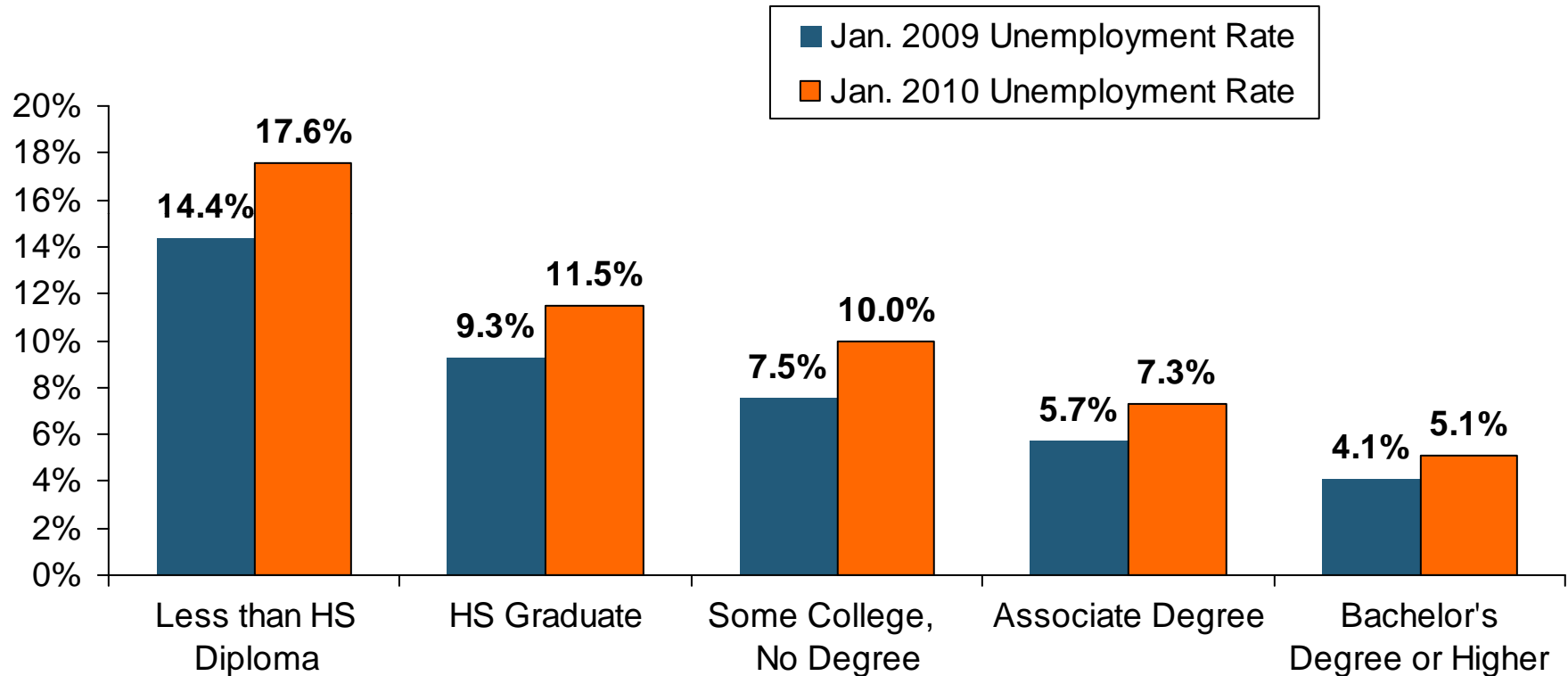
Quarterly, 2010:Q1 to 2011:Q4



**Stubbornly High Unemployment Will Hurt the
Workers Comp's Exposure Base**

Unemployment and Educational Attainment: More Education = Less Unemployment

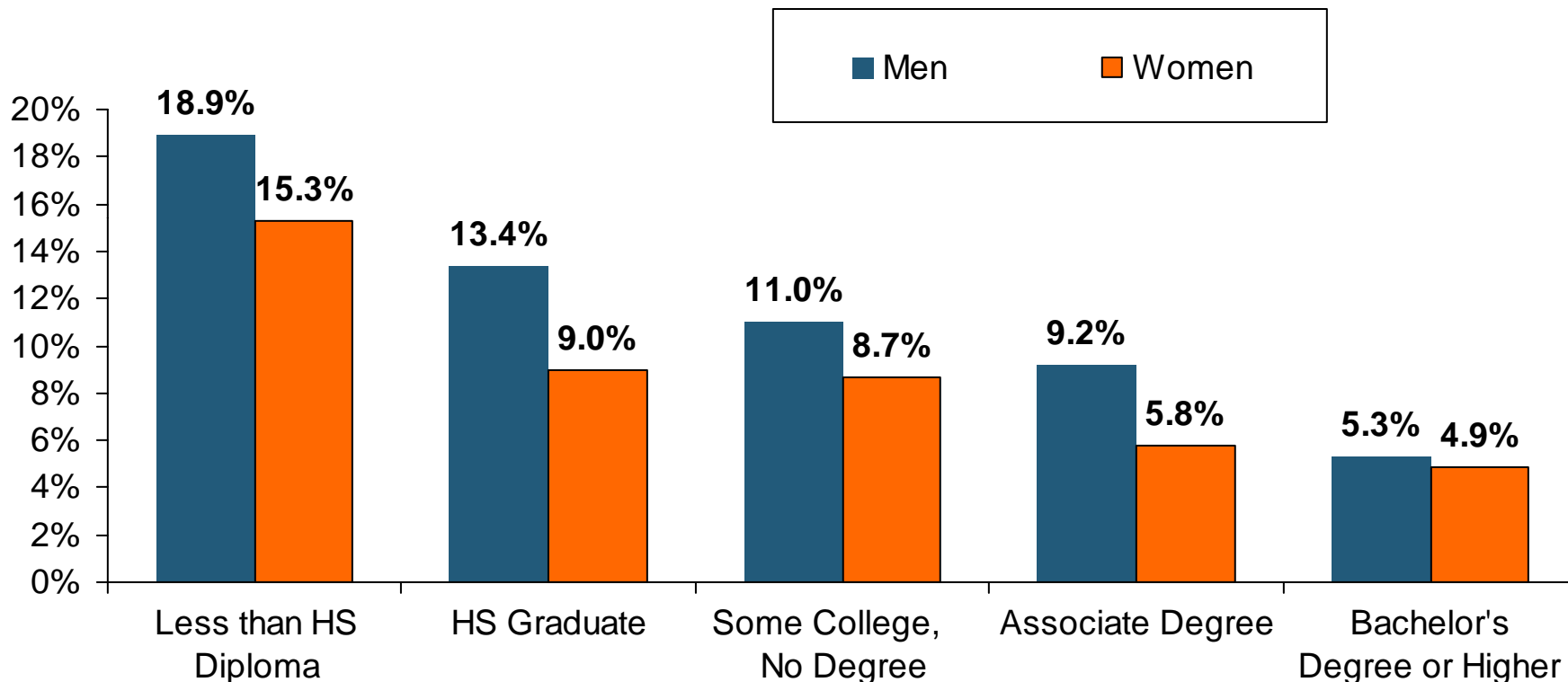
Unemployment Rate (%), January 2009 vs. January 2010



A Higher (Record) Proportion of WC Exposure Base is Associated With Employment of Women

Unemployment Rate by Gender: The “Mancession” Can Impact Exposure Too

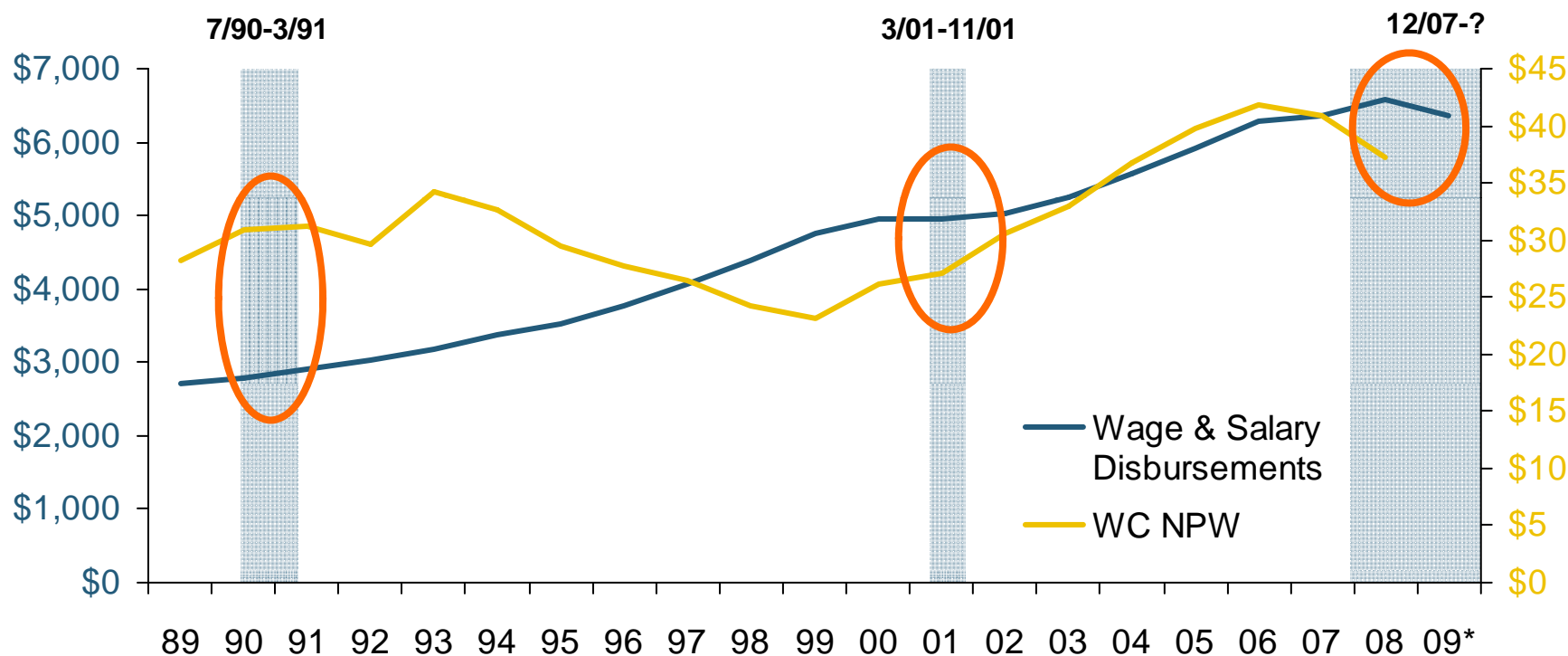
Unemployment Rate (%), January 2010



Higher Male Unemployment Rate Has Had a Significant Impact on WC and Specialty Personal Lines (e.g., watercraft, RVs, campers, motorcycles, snowmobiles, etc.)

Wage & Salary Disbursements (Payroll Base) vs. Workers Comp Net Written Premiums

Wage & Salary Disbursement (Private Employment) vs. WC NWP (\$ Billions)

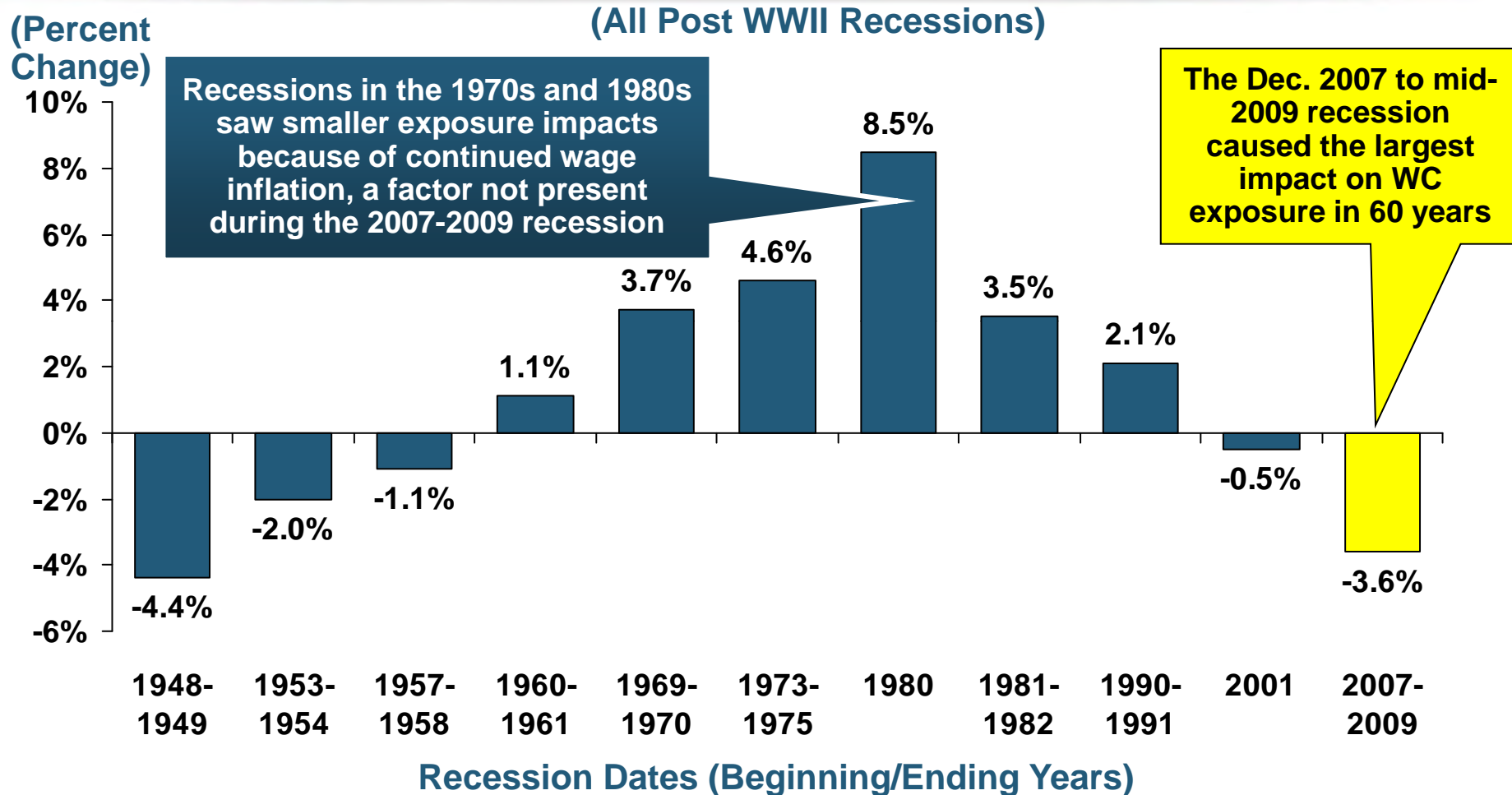


Weakening Payrolls Have Eroded \$2B+ in Workers Comp Premiums

* Average Wage and Salary data as of 10/1/2009. Shaded areas indicate recessions

Source: US Bureau of Economic Analysis; Federal Reserve Bank of St. Louis at <http://research.stlouisfed.org/fred2/series/WASCUR> ; I.I.I. Fact Books

Estimated Effect of Recessions* on Payroll (Workers Comp Exposure)

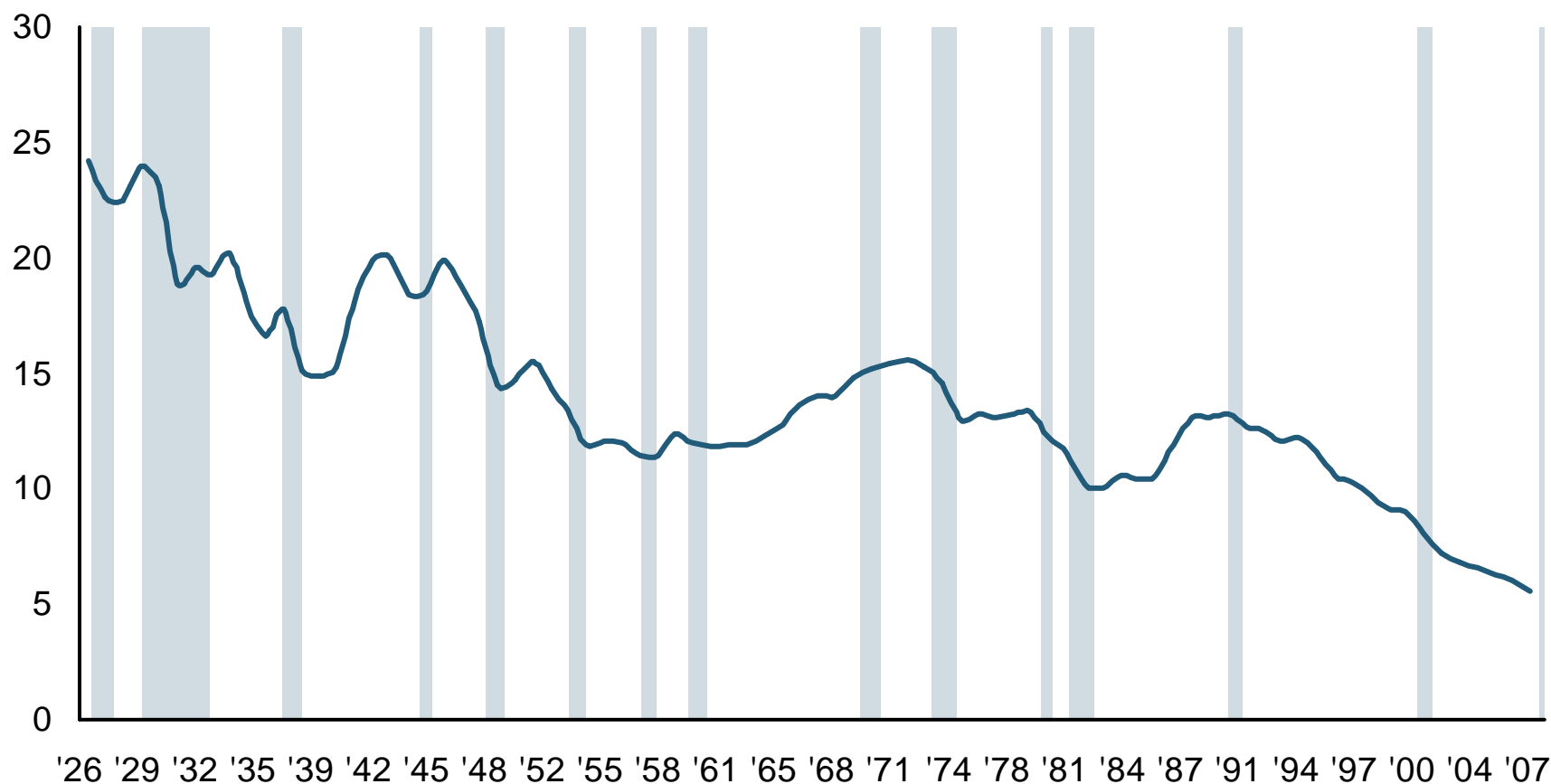


*Data represent maximum recorded decline over 12-month period using annualized quarterly wage and salary accrual data
Source: Insurance Information Institute research; Federal Reserve Bank of St. Louis (wage and salary data); National Bureau of Economic Research (recession dates).

Frequency: 1926–2008

A Long-Term Drift Downward

Manufacturing – Total Recordable Cases
Rate of Injury and Illness Cases per 100 Full-Time Workers



Note: Recessions indicated by gray bars.

Sources: NCCI from US Bureau of Labor Statistics; National Bureau of Economic Research

Job Growth Needed to Return to “Pre-Recession” Employment Level*

- Since the start of the recession in December 2007, more than 8 million jobs have been lost.
- To keep up with population growth, the economy needs to add roughly 130,000 jobs every month.
 - ◆ This translates into roughly 3 million jobs over the 24 months since the start of the recession.
- This means the labor market is currently 11 million jobs below the level needed to restore the pre-recession employment rate.

*as of December 1, 2009

Source: Heidi Shierholz, “Signs of Healing in the Labor Market, Though Unemployment Remains in Double Digits,” Economic Policy Institute, December 4, 2009, at

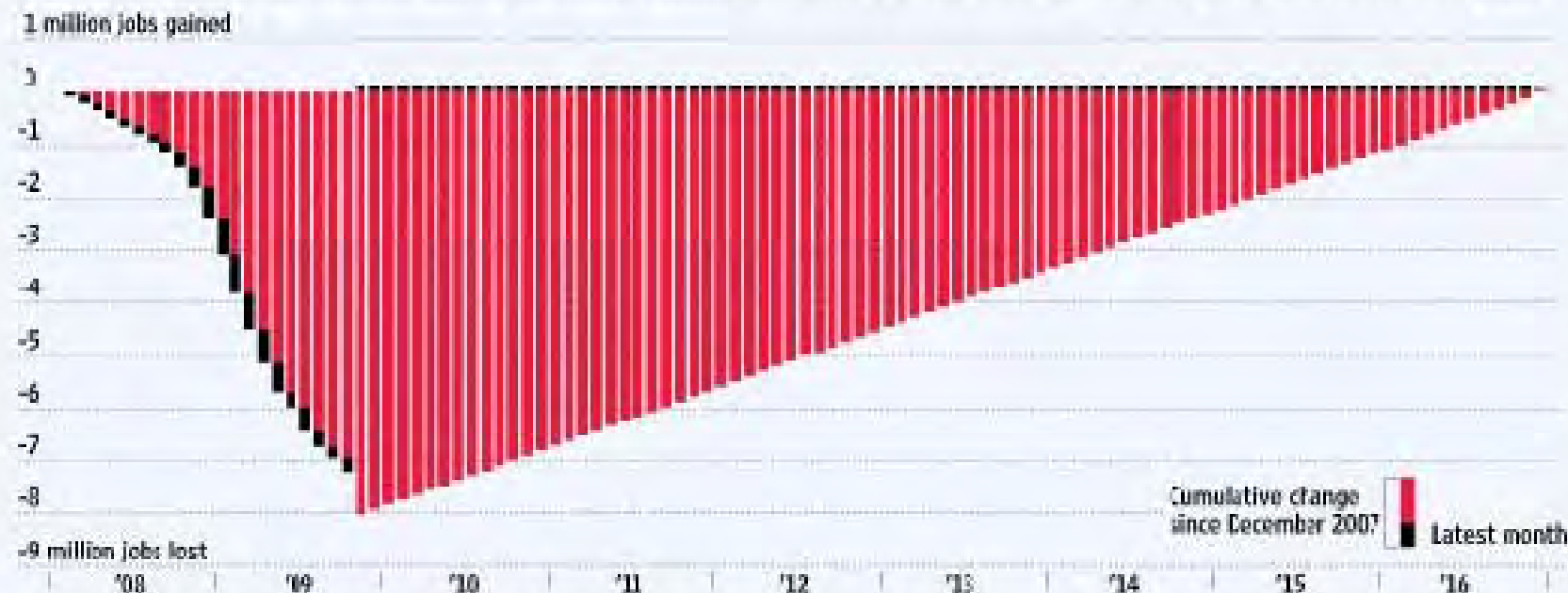
http://www.epi.org/analysis_and_opinion/entry/signs_of_healing_in_the_labor_market_though_unemployment_remains_in_double/

- Even if no more jobs are lost, if we are to return to pre-recession employment levels in 5 years' time—by the start of 2015—we would have to average adding 300,000 jobs per month every month until then.
 - ◆ This is equivalent to adding 18 million jobs to current employment levels.
 - ◆ This *might* be do-able. We added more than 20 million jobs over the 8 years Bill Clinton was president.

When Might All of the Lost Jobs Be Regained? 2016?

Long Road Back | How long it would take to regain the job level at the start of this recession?

Assuming the average monthly pace of the most recent expansion, it would take 86 months, or not until December 2016



Note: The starting point for adding jobs back includes 824,000 jobs lost between March 2008 and March 2009 announced Friday by the Labor Department.
Source: Labor Department (payroll figures)

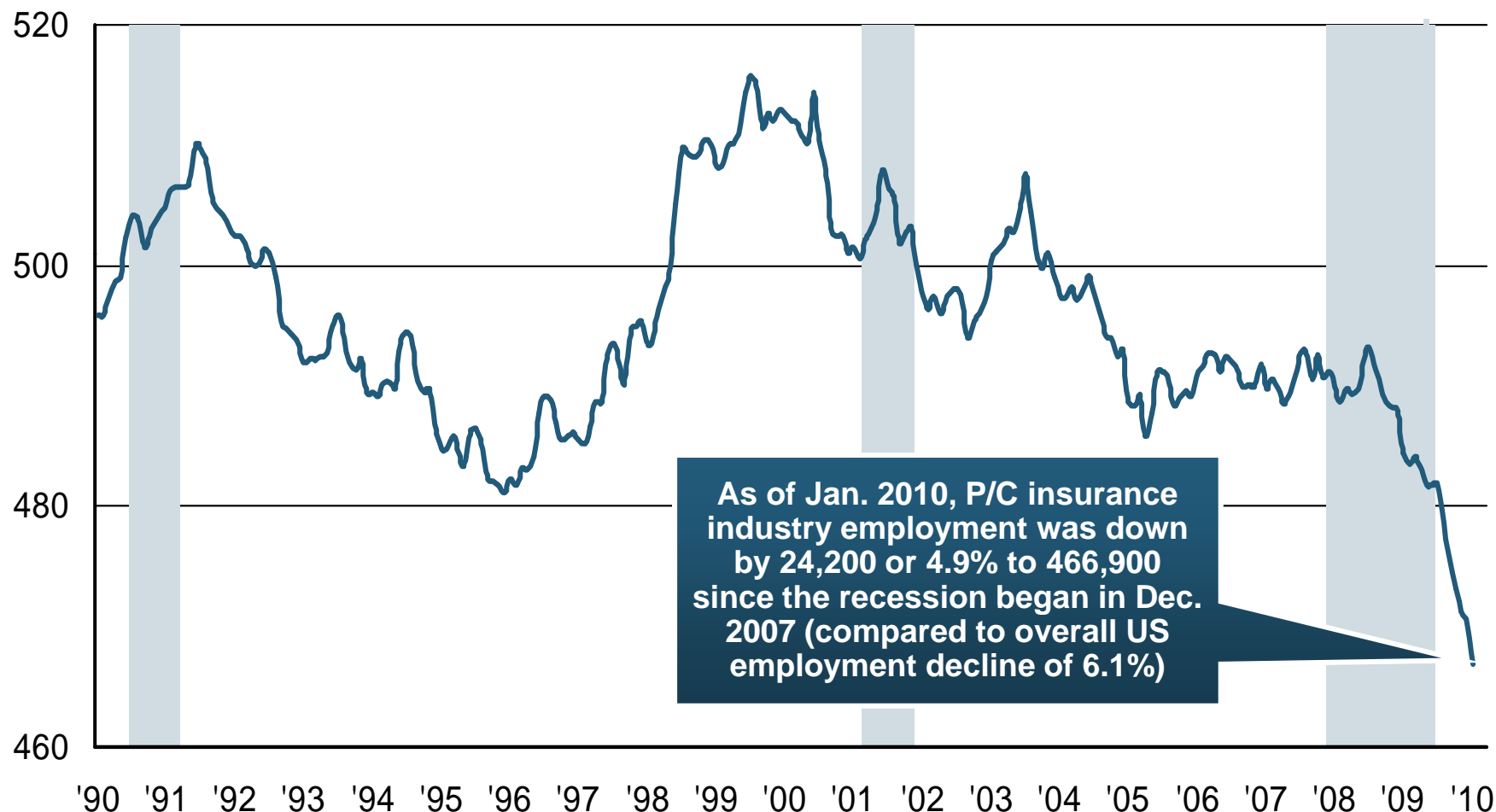
Source: *Wall Street Journal*, October 9, 2009, p. A3

Insurance Industry Employment Trends

**Soft Market, Difficult Economy,
Consolidation and Outsourcing
Have All Contributed to Industry's
Job Losses**

U.S. Employment in the Direct P/C Insurance Industry: 1990–2010*

Thousands



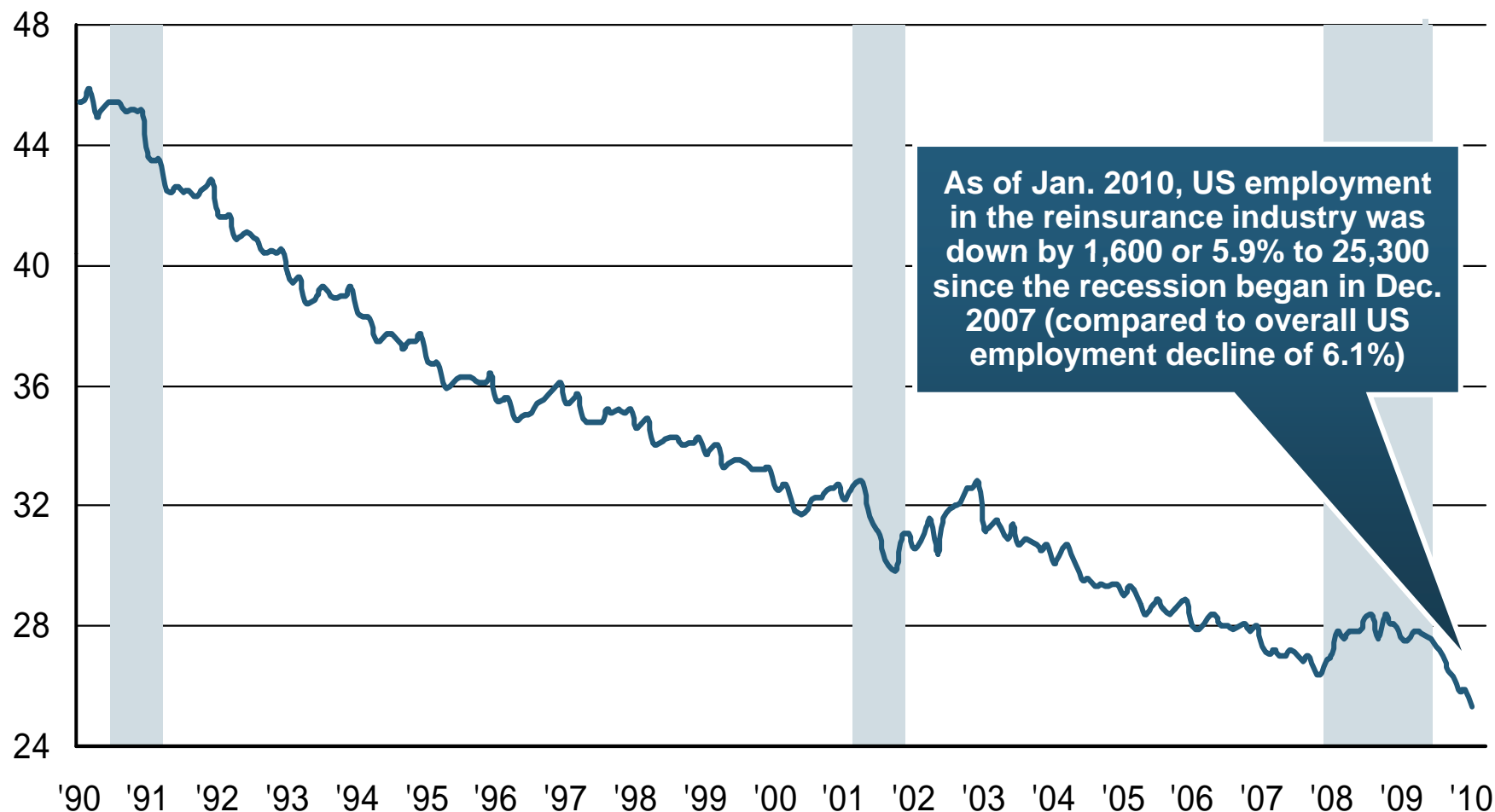
*As of January 2010; Not seasonally adjusted; Does not including agents & brokers

Note: Recessions indicated by gray shaded columns.

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

U.S. Employment in the Reinsurance Industry: 1990–2010*

Thousands



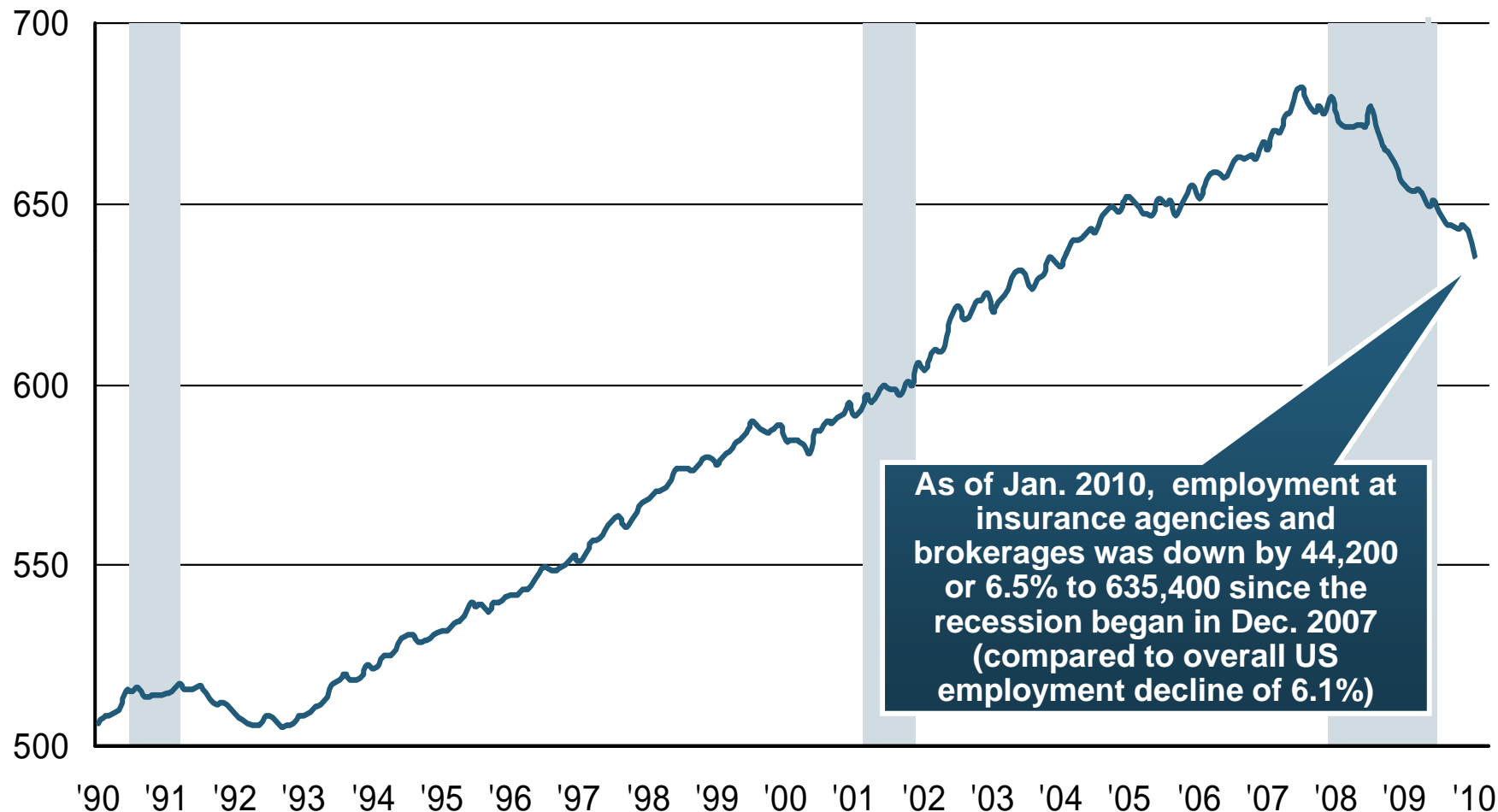
*As of January 2010; Not seasonally adjusted; Does not including agents & brokers

Note: Recessions indicated by gray shaded columns.

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

U.S. Employment in Insurance Agencies & Brokerages: 1990–2010*

Thousands



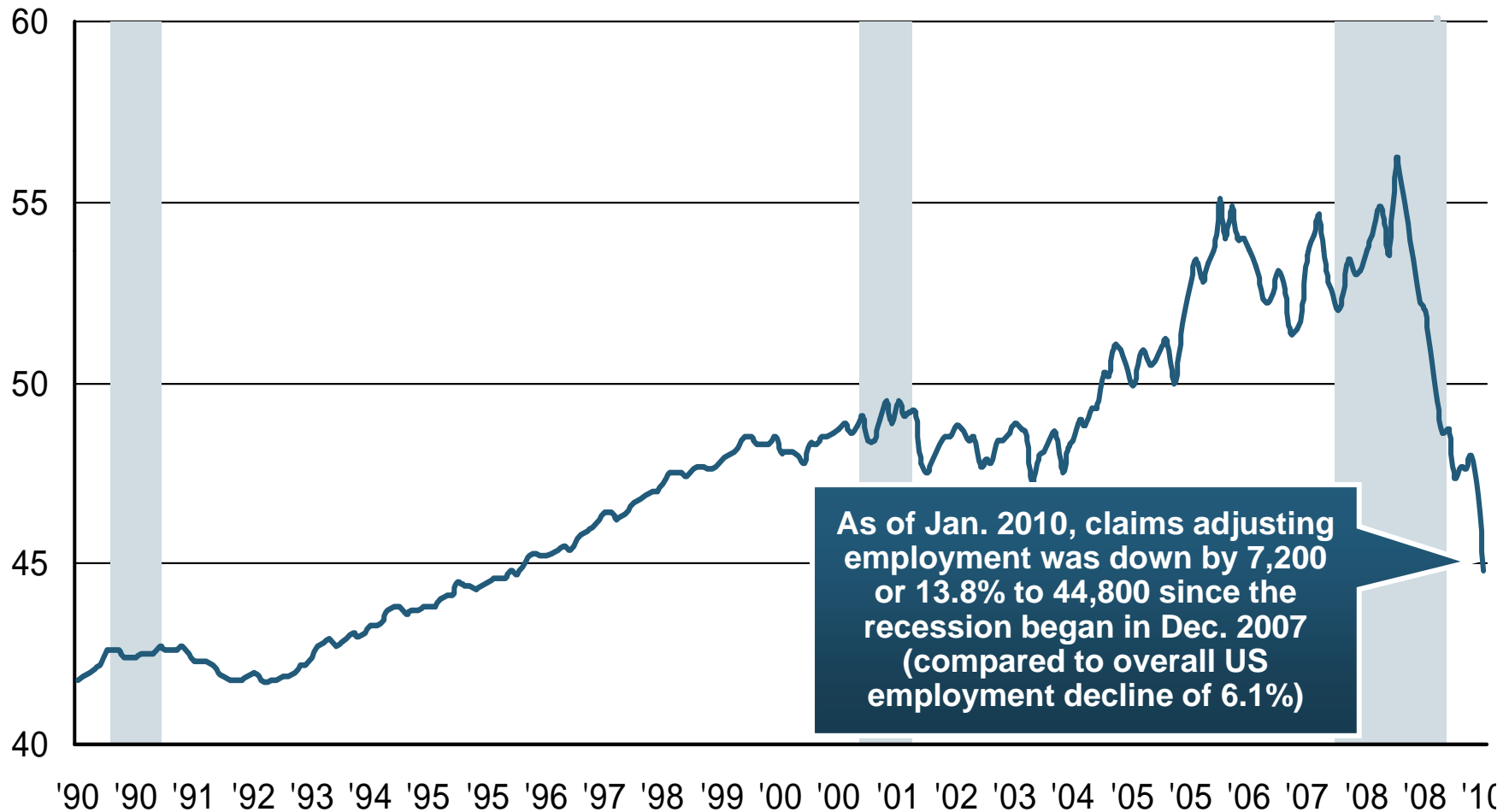
*As of January 2010; Not seasonally adjusted. Includes all types of insurance.

Note: Recessions indicated by gray shaded columns.

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

U.S. Employment in Insurance Claims Adjusting: 1990–2010*

Thousands



*As of January 2010; Not seasonally adjusted.

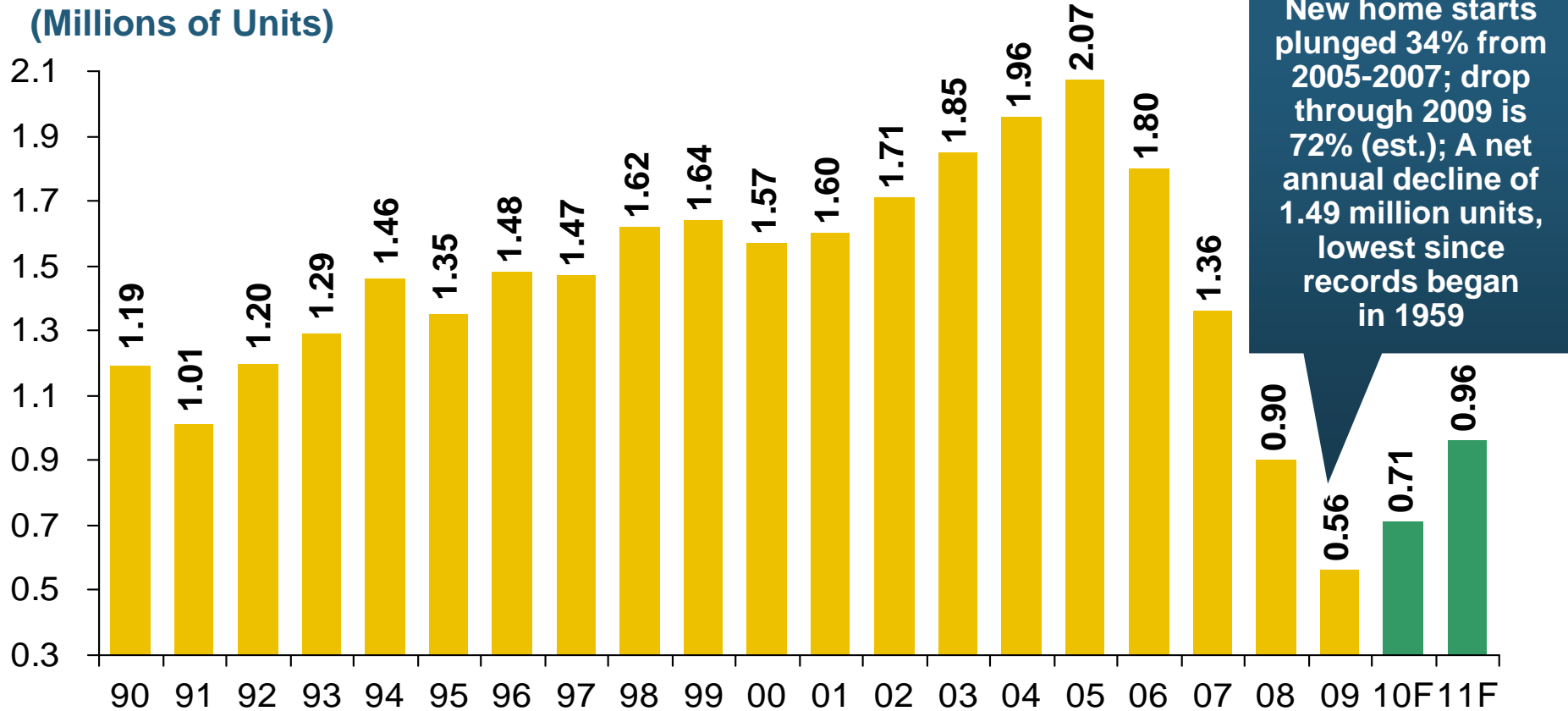
Note: Recessions indicated by gray shaded columns.

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

Crisis-Driven Exposure Drivers

**Economic Obstacles
to Growth in P/C Insurance**

New Private Housing Starts, 1990-2011F

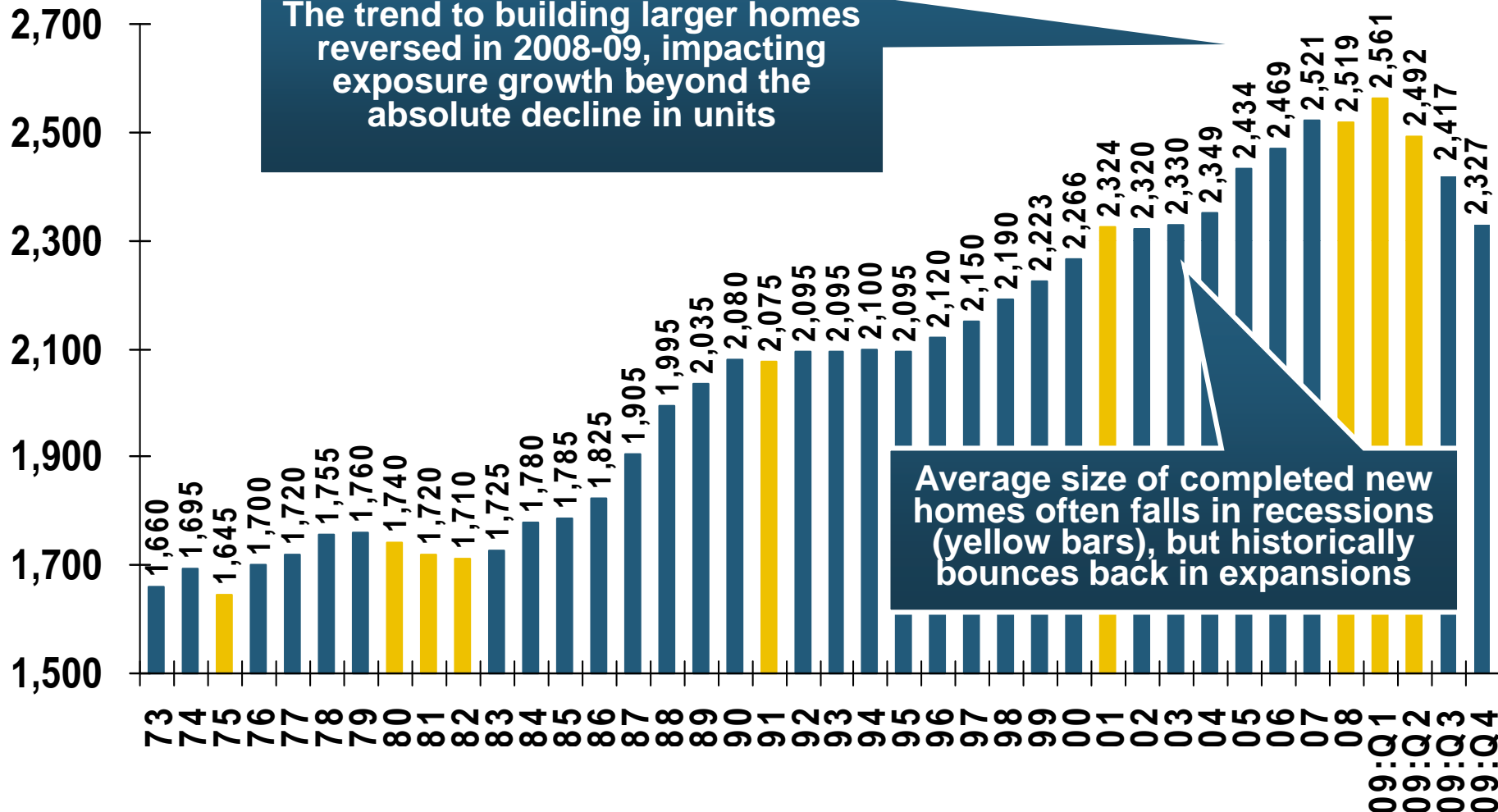


Weak Construction Risk Exposure Forecast for 2010-2011.

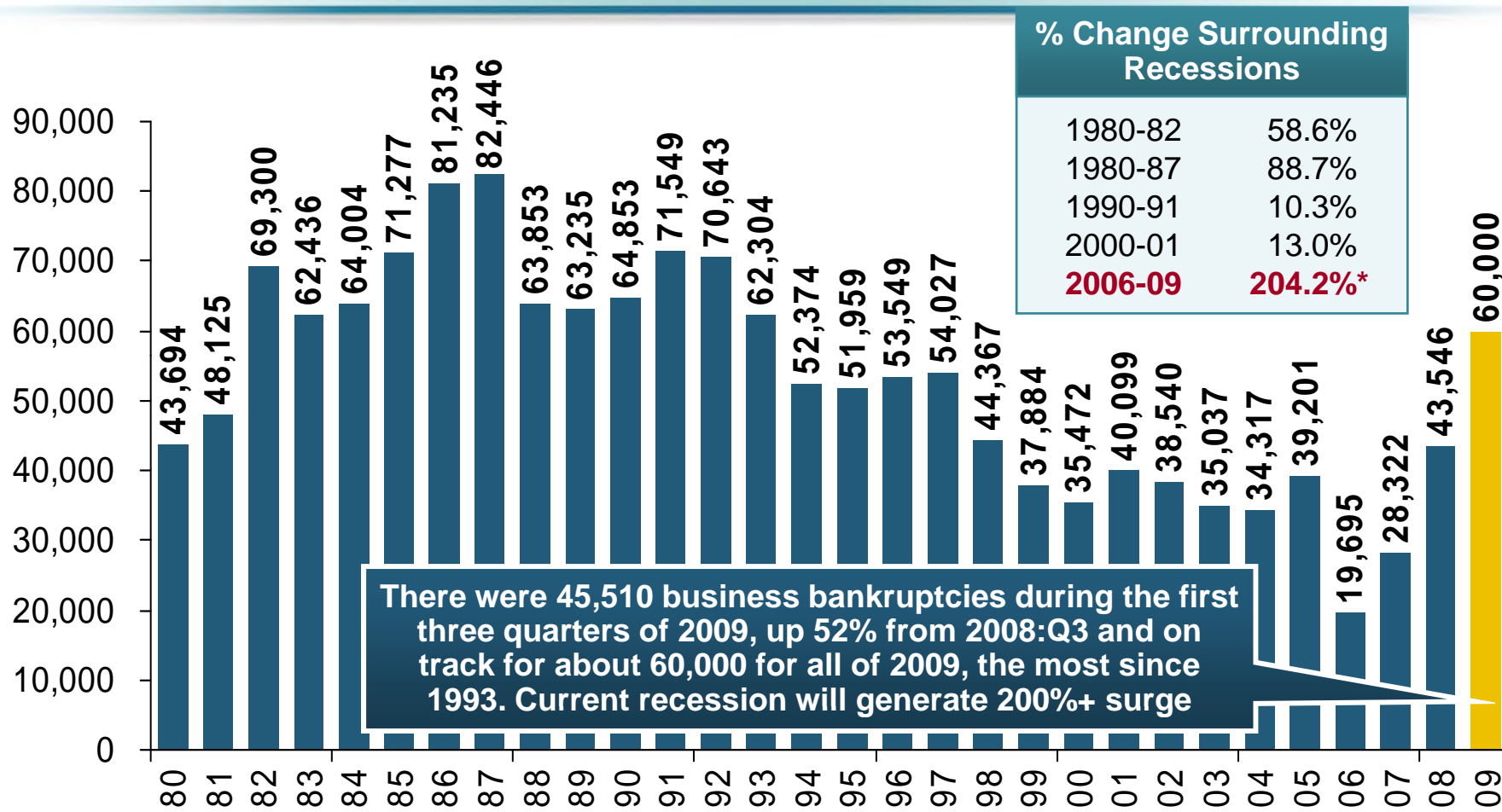
Average Square Footage of Completed New Homes in U.S., 1973-2010:Q4

Square Ft

The trend to building larger homes reversed in 2008-09, impacting exposure growth beyond the absolute decline in units



Business Bankruptcy Filings, 1980-2009*



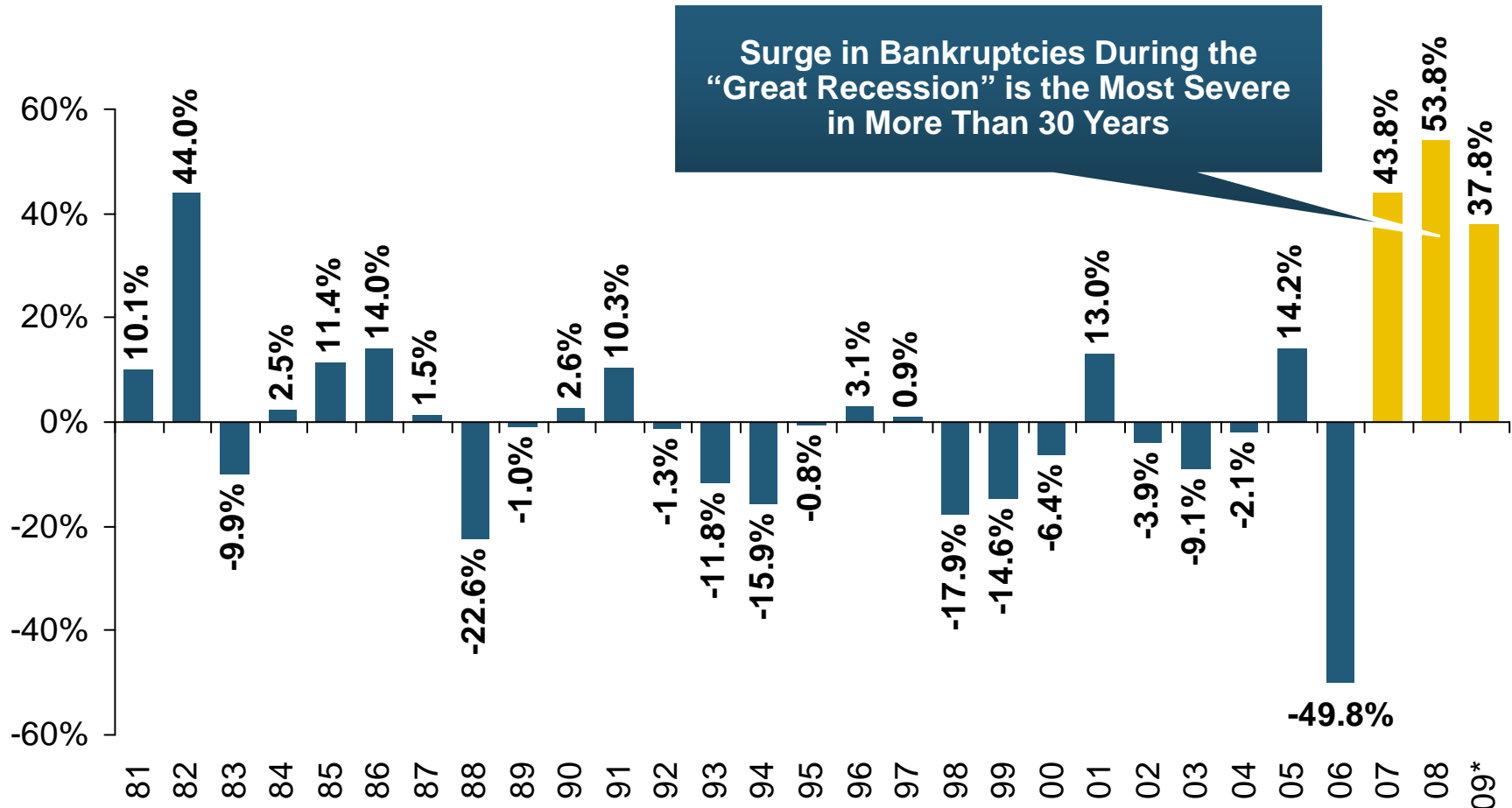
Significant Implications for all Commercial Lines

*2009 is annualized estimate based on actual business bankruptcies in first three quarters of 2009

Source: American Bankruptcy Institute,

http://www.abiworld.org/AM/Template.cfm?Section=Business_Bankruptcy_Filings1&Template=/TaggedPage/TaggedPageDisplay.cfm&TPLID=59&ContentID=36301.

Percent Change in Business Bankruptcy Filings, 1980–2009*



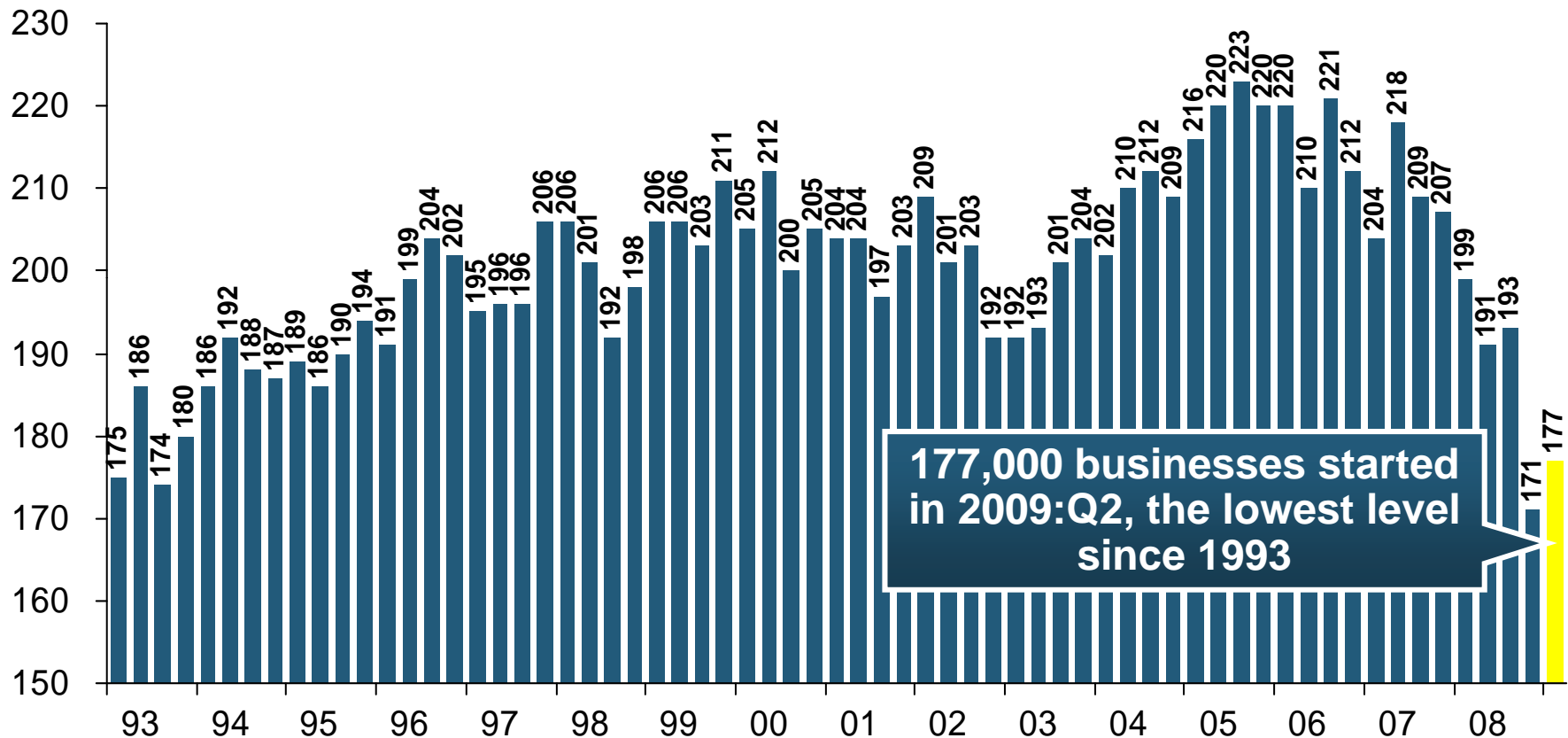
Significant Implications for All Commercial Lines

* Based estimate of 60,000 business bankruptcies in 2009. All figures are percent change from previous year.

Source: Insurance Information Institute from American Bankruptcy Institute data.

Private Sector Business Starts, 1993:Q2 – 2009:Q2*

(Thousands)



177,000 businesses started
in 2009:Q2, the lowest level
since 1993

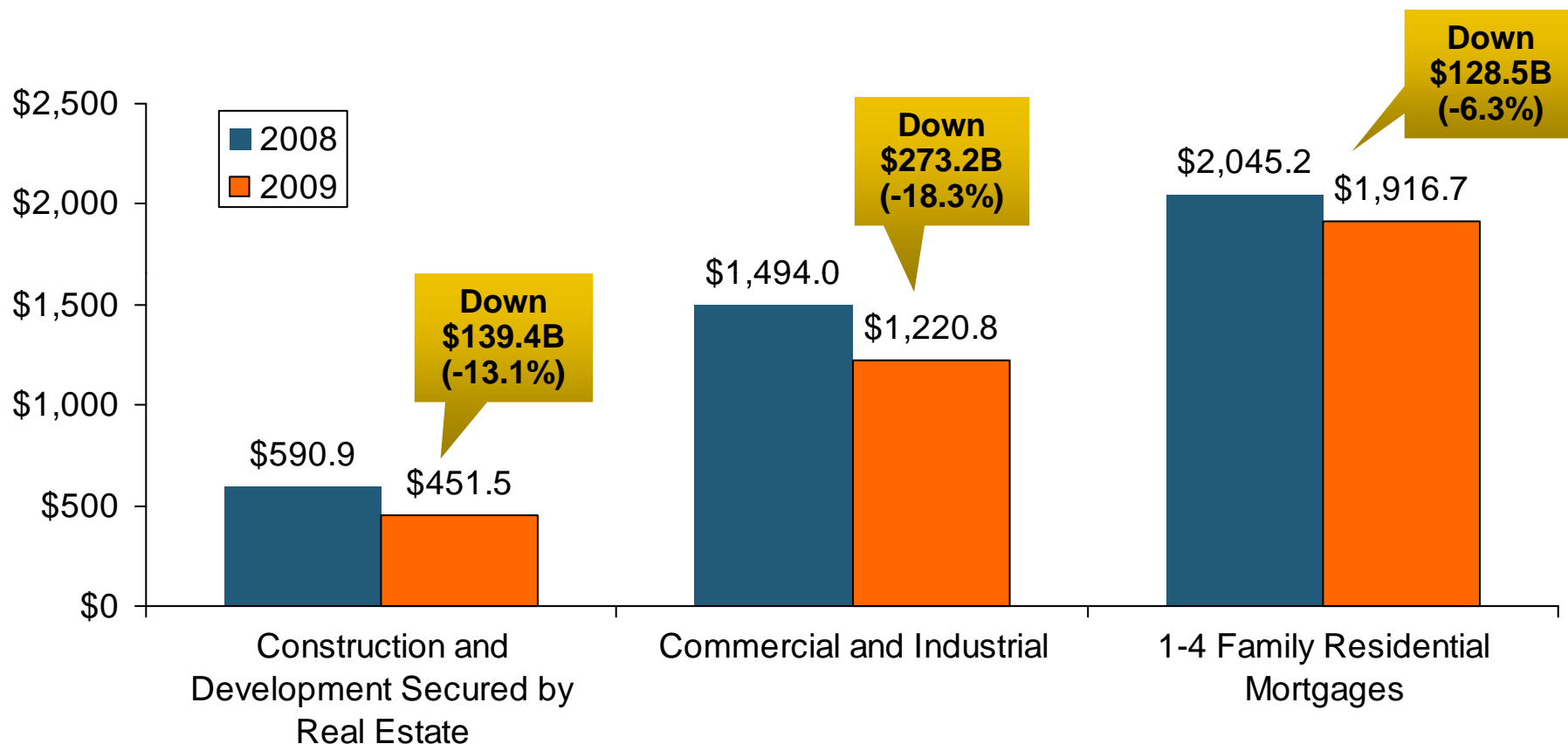
**Business Starts Are Down Nearly 20% in the Current Downturn,
Holding Back Most Types of Commercial Insurance Exposure**

*Latest available as of March 2010, seasonally adjusted

Source: Bureau of Labor Statistics, <http://www.bls.gov/news.release/cewbd.t07.htm>.

Amount of Outstanding Loans by FDIC-Insured Institutions, 2009 vs. 2008

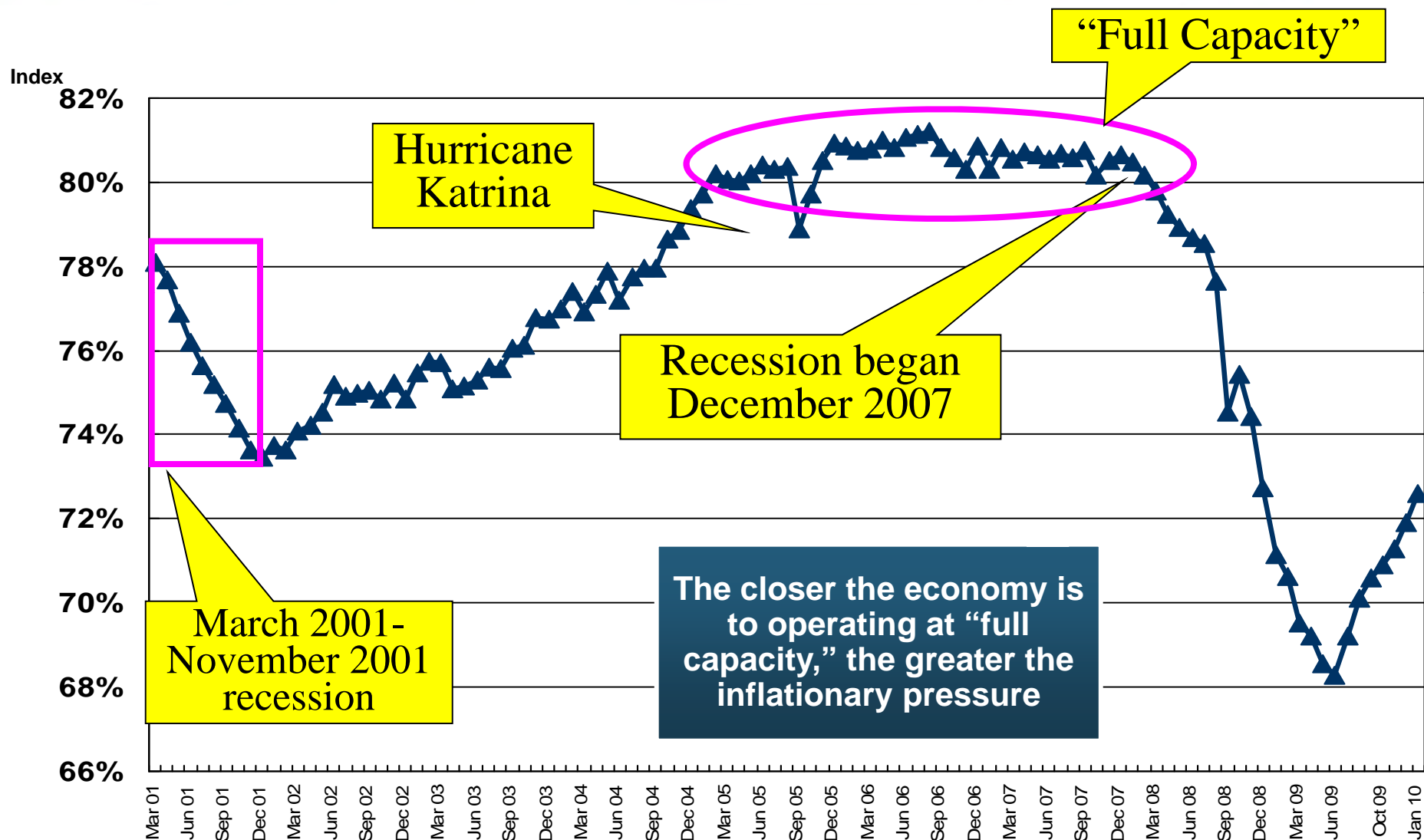
\$Billions



FDIC-Insured Institutions Had \$541.1B (-13.1%) Less in Outstanding Loans in These Three Categories at Year-end 2009 vs. 2008

Capacity Utilization,

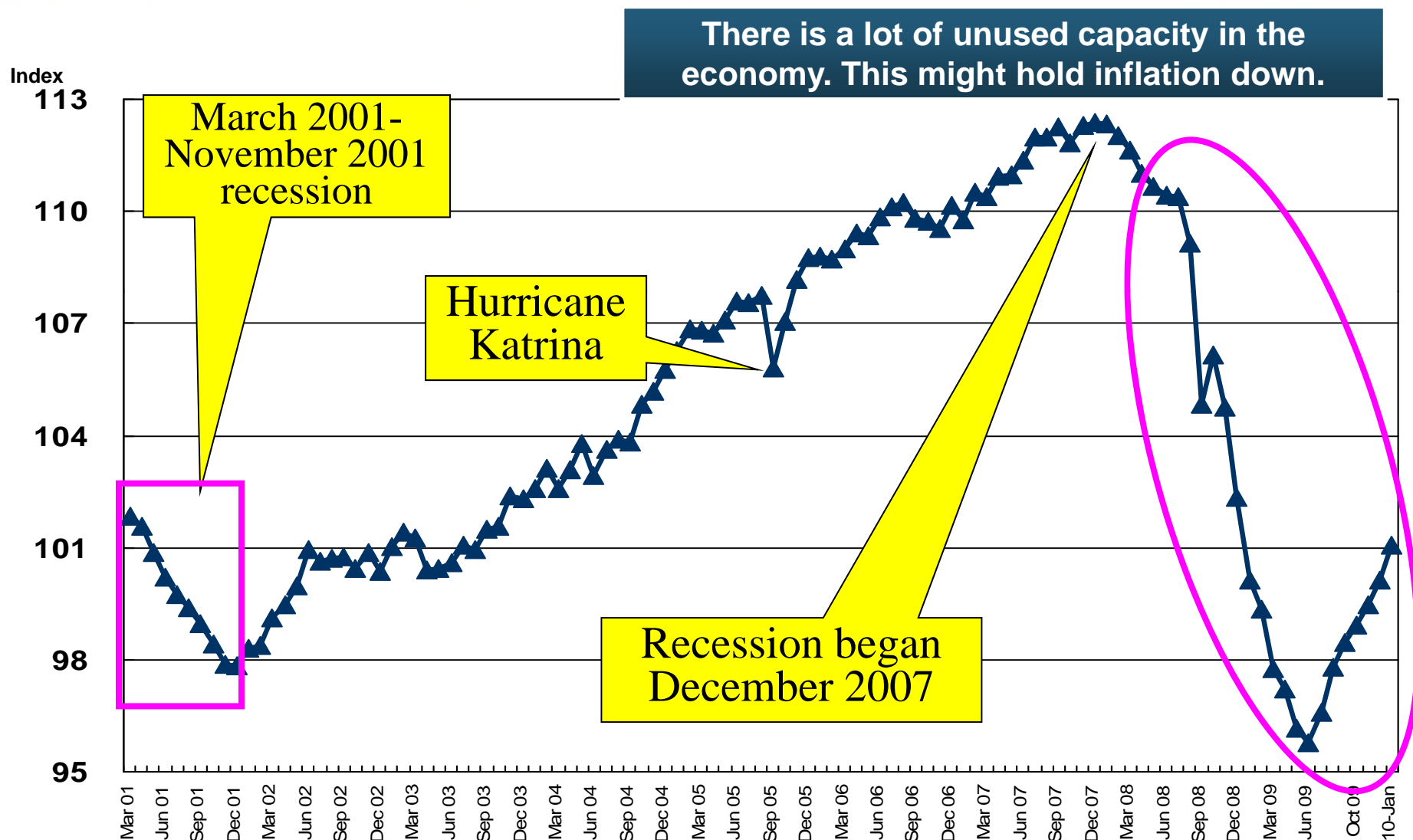
monthly, Mar 2001-Jan 2010



Source: Federal Reserve Board statistical releases

Total Industrial Production,

monthly, Mar 2001-Jan 2010 (Index 2002=100)*

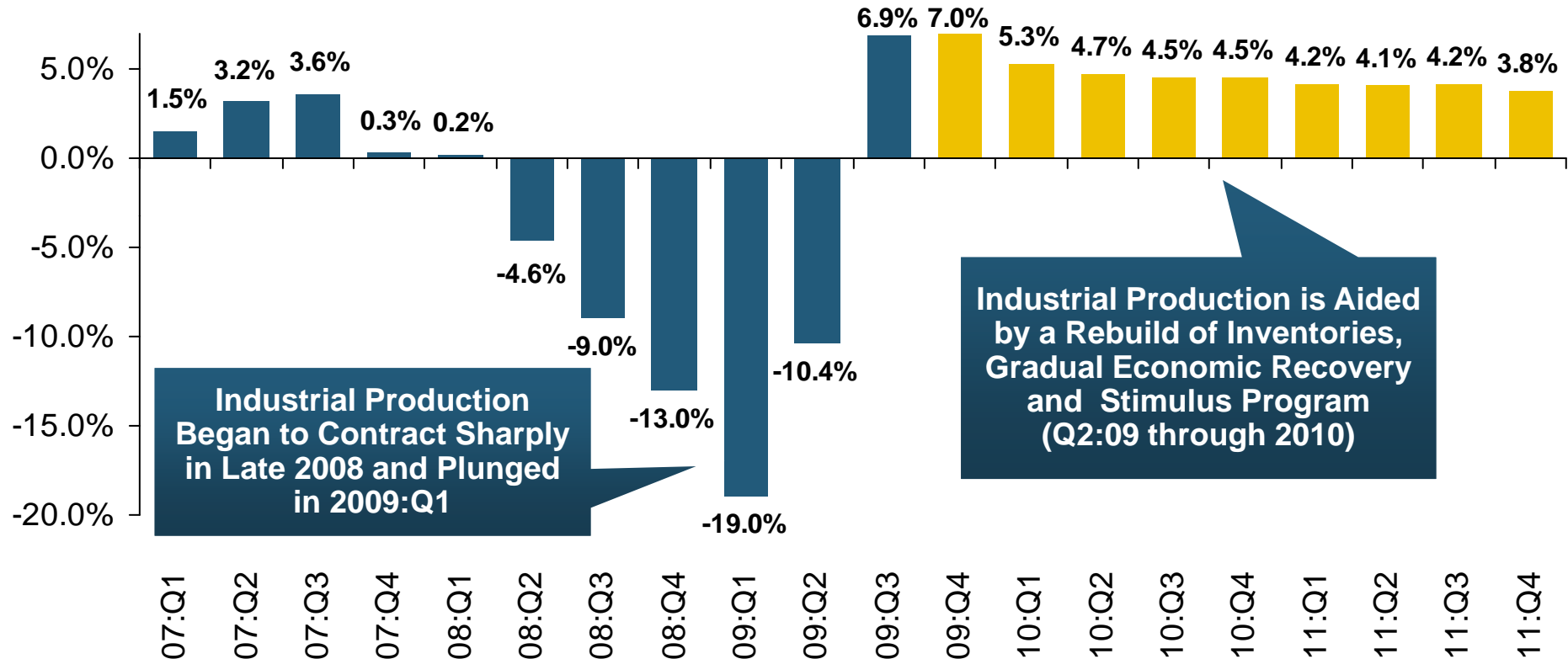


Source: http://www.federalreserve.gov/releases/g17/ipdisk/ip_sa.txt.

*seasonally adjusted

Total Industrial Production

2007:Q1 to 2011:Q4F (%)

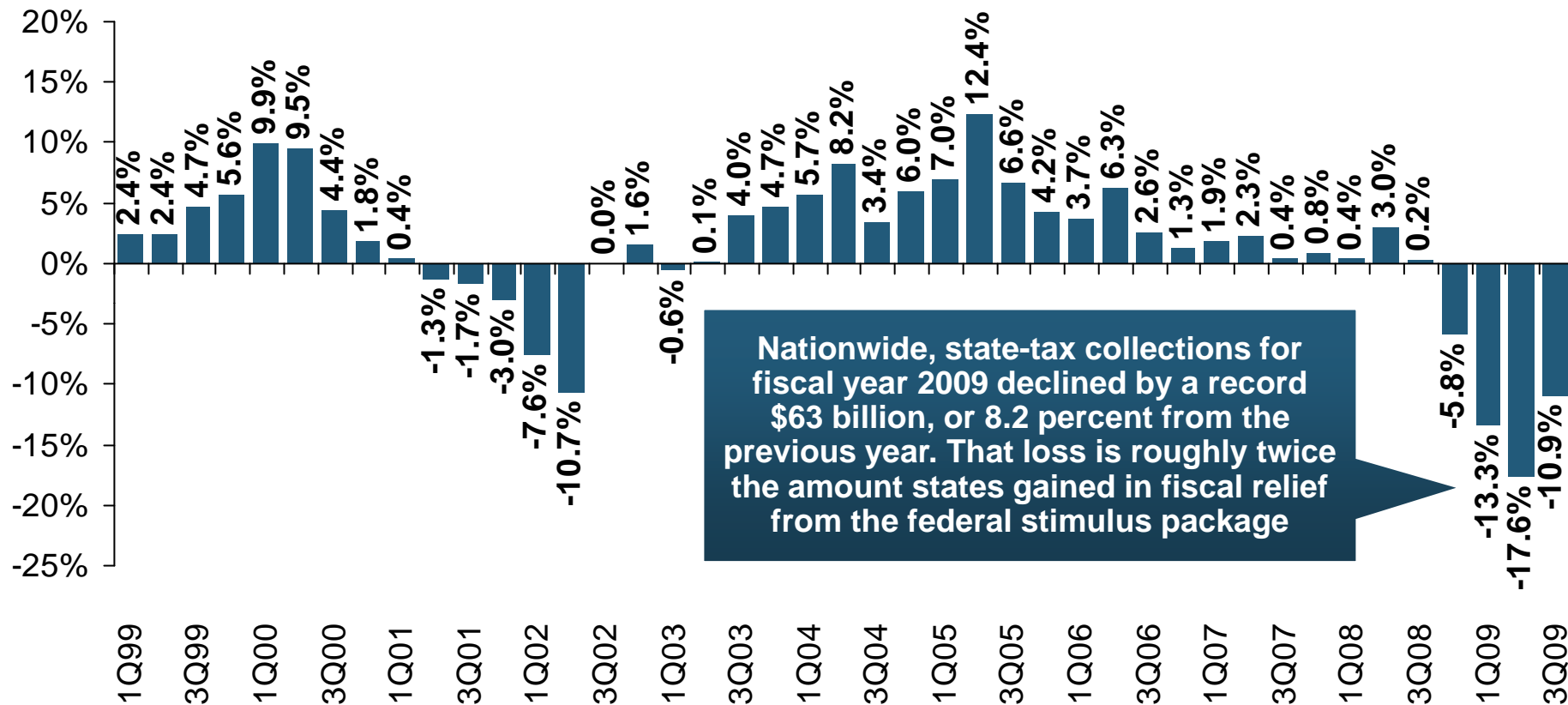


End of Recession in mid-2009, Stimulus Program Are Benefiting Industrial Production and Therefore Insurance Exposure Both Directly and Indirectly, Albeit Very Modestly

State & Local Government Finances in Dire Straits

**Large, Long-Term Cuts Necessary
to Align Spending with Shrinking
Tax Revenues**

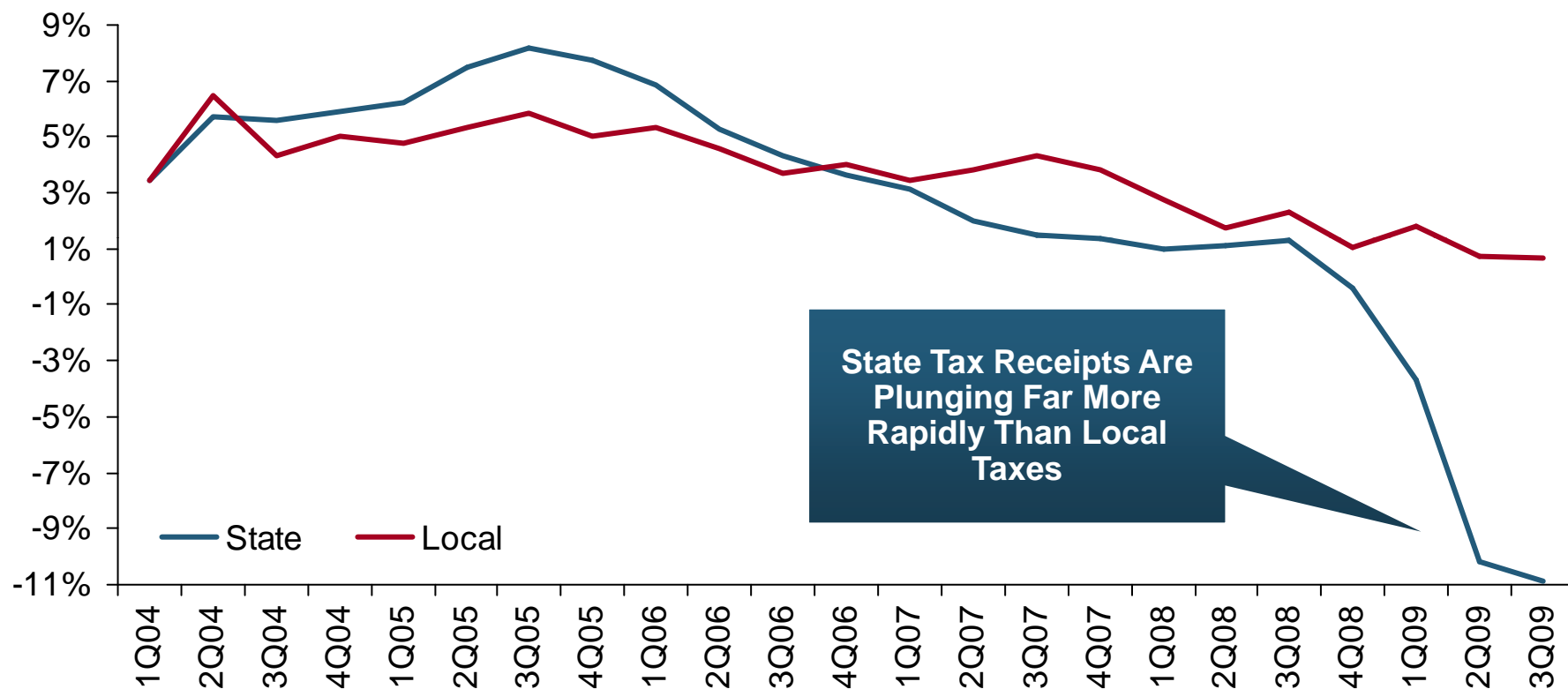
Year-Over-Year Change in Quarterly US State Tax Revenues, Inflation Adjusted



States Revenues Were Down 10.9% in Q3 2009, the Second Consecutive Quarter of Record Revenue Decline. This Will Impact Public Infrastructure Spending Significantly.

Year-Over-Year Change in Quarterly State and Local Tax Revenues (Inflation Adjusted)

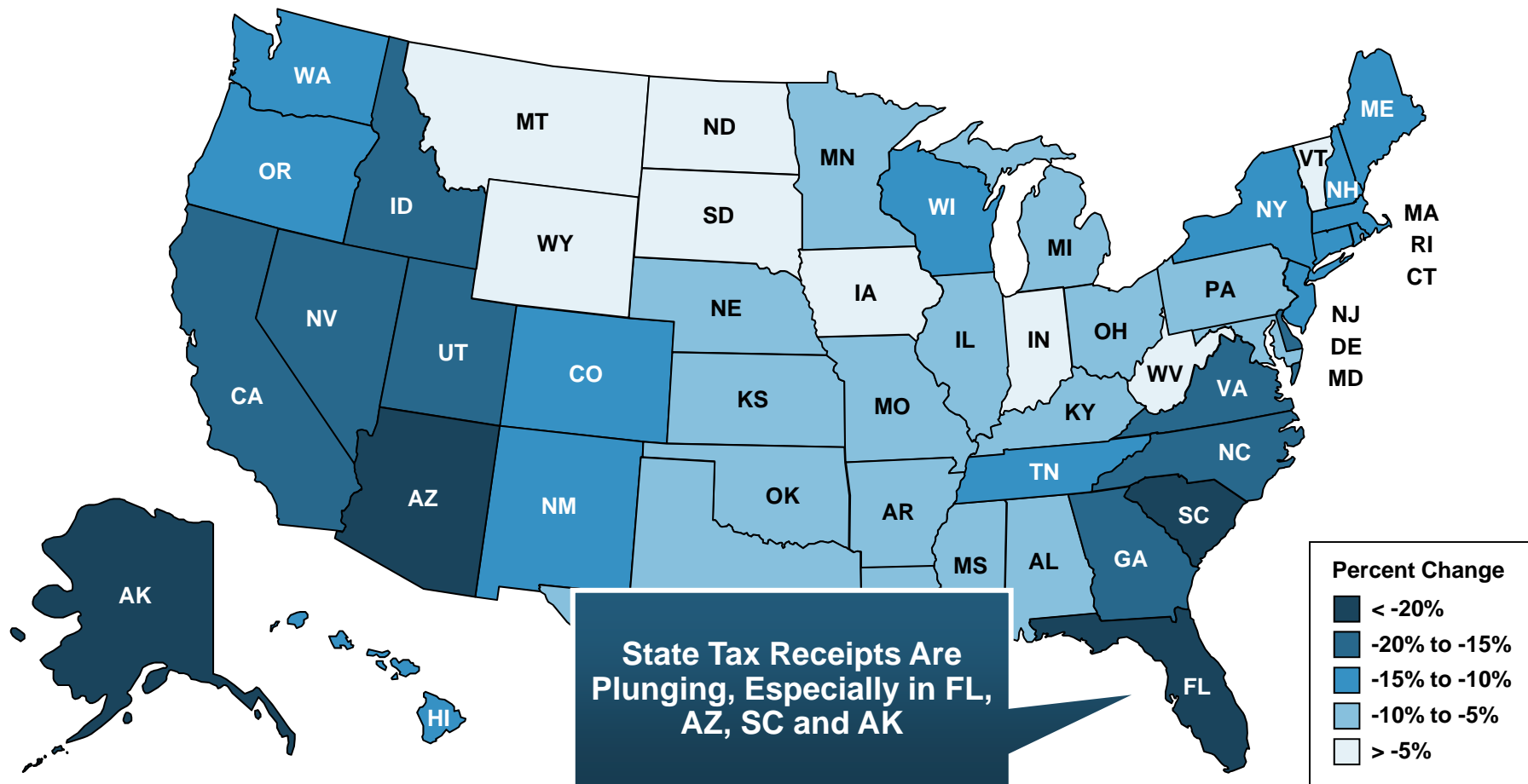
State Taxes Are Faring Worse Than Local Taxes



States Spending on Infrastructure Will Have to Decline Even More, Especially When Stimulus Funds Dry Up After 2010

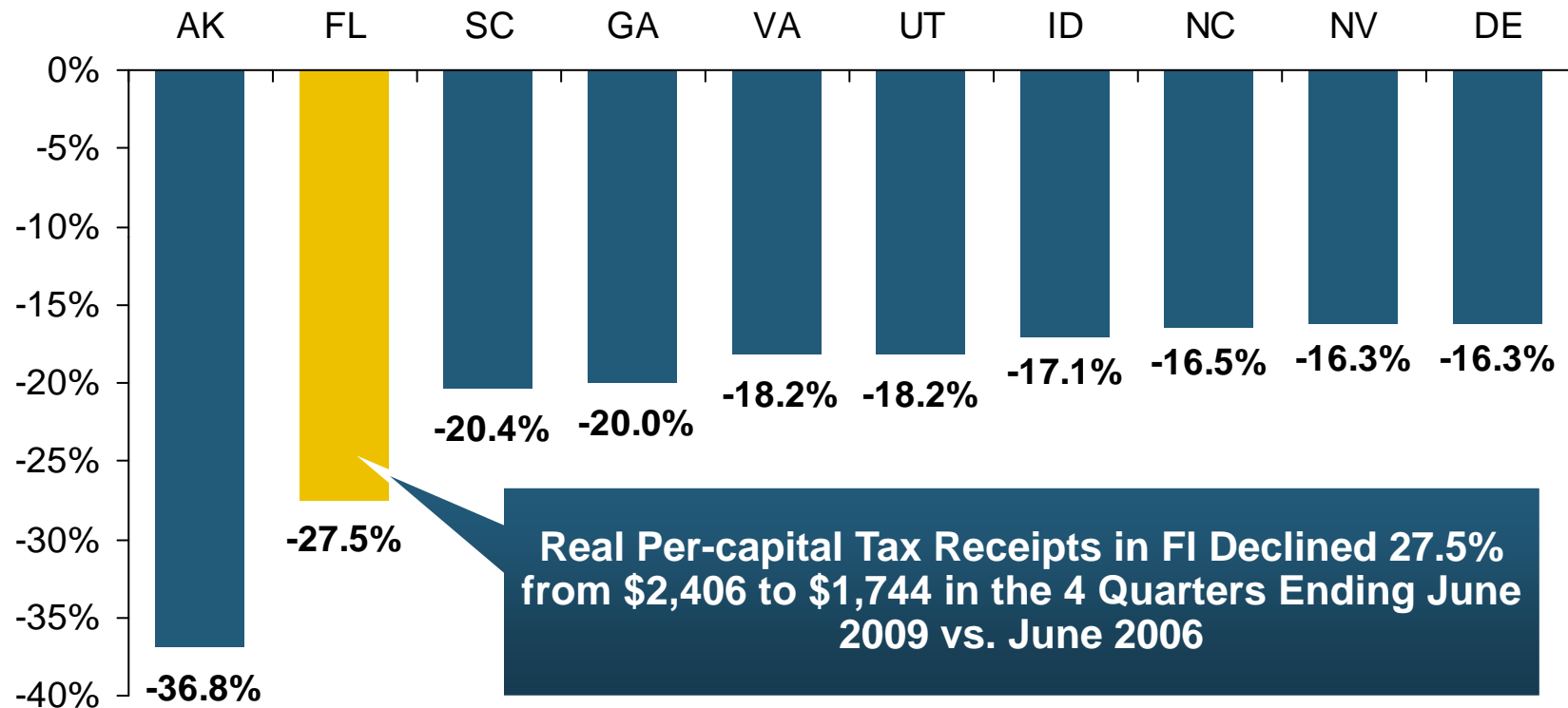
State Tax Revenue Growth Adjusted for Legislative Changes

Percent Change in Real Per-Capita State Tax Revenue from Recent Peak to Four
Quarters Ending April-June 2009



States with Fastest Decline in Real Per-Capita Tax Revenues

Period Ending April-June 2009 vs. Recent Peak* (%)



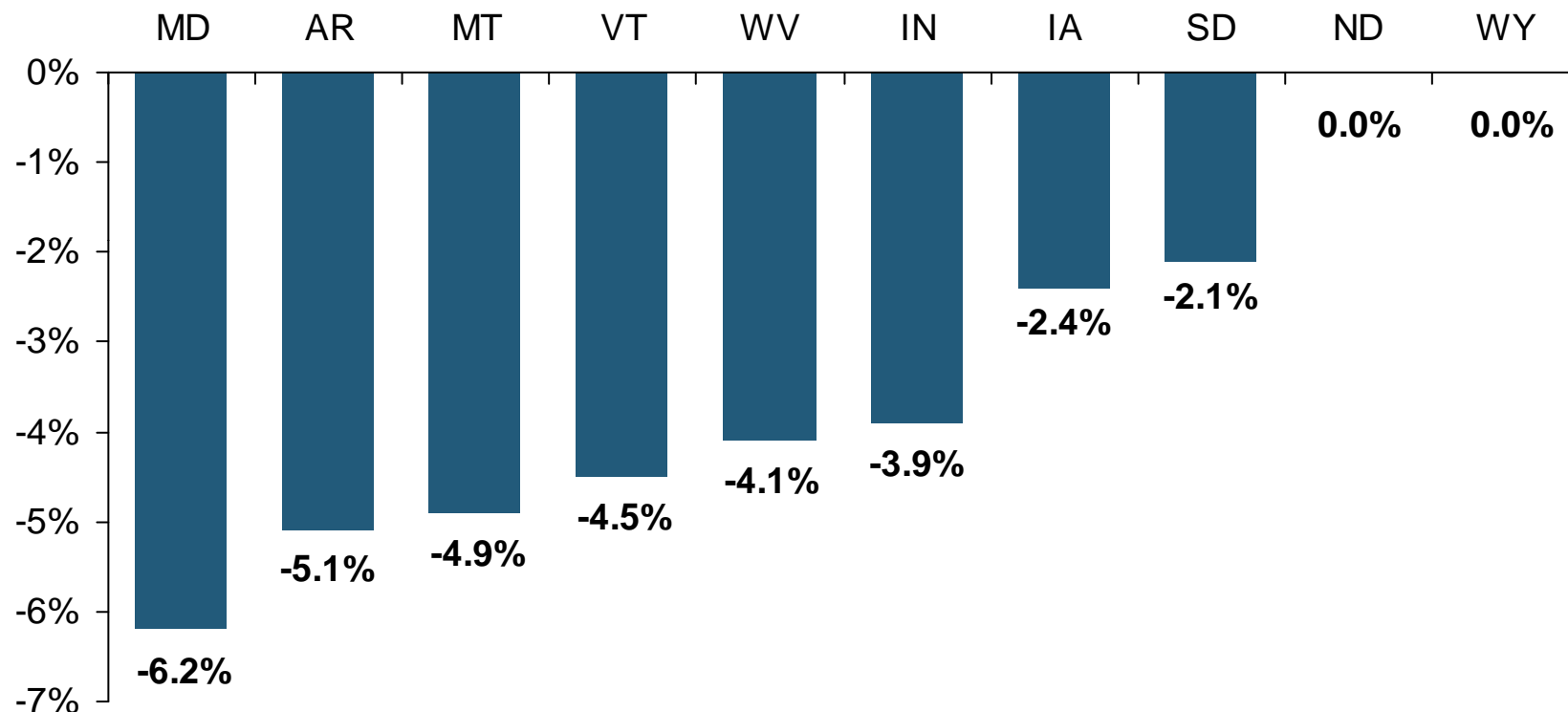
Many States' Revenues Are Down Substantially Since Their Highs Early in the Decade

* Peak defined as July-June period between 2006-2009 with highest peak per capita revenues.

Source: US Bureau of Economic Analysis; Nelson A. Rockefeller Institute of Govt.; Insurance Information Institute

States with Slowest Decline in Real Per-Capita Tax Revenues

Period Ending April-June 2009 vs. Recent Peak* (%)



Some States Are Doing Much Better Than Others

* Peak defined as July-June period between 2006-2009 with highest peak per capita revenues.

Source: US Bureau of Economic Analysis; Nelson A. Rockefeller Institute of Govt.; Insurance Information Institute

Green Shoots

**The Recession May
Have Ended, but Is it
Self-Sustaining?**

Hopeful Signs That the Economic Recovery is Underway

- **Recession appears to have ended, freefall of 2008/09 is over**
 - ◆ GDP shrinkage has ended; Economy is expanding
 - ◆ Pace of job losses is slowing, despite setbacks
 - ◆ Major stock market indices well off record lows, anticipating recovery
 - ◆ Some signs of retail sales stabilization are evident
- **Financial sector is stabilizing**
 - ◆ Banks are reporting quarterly profits
 - ◆ Many banks expanding lending to **very** credit worthy people and businesses
- **Housing sector seems to be bottoming out**
 - ◆ Home are much more affordable (attracting buyers)
 - ◆ Mortgage rates are still low relative to pre-crisis levels (attracting buyers)
 - ◆ Freefall in housing starts and existing home sales is ending in many areas
- **Inflation and energy prices are under control**
- **Consumer and business debt loads are shrinking**

10 Industries for the Next 10 Years: Insurance Solutions Needed

Government

Health Care

Energy (Traditional)

Alternative Energy

Agriculture

Natural Resources

Environmental

Technology

Light Manufacturing

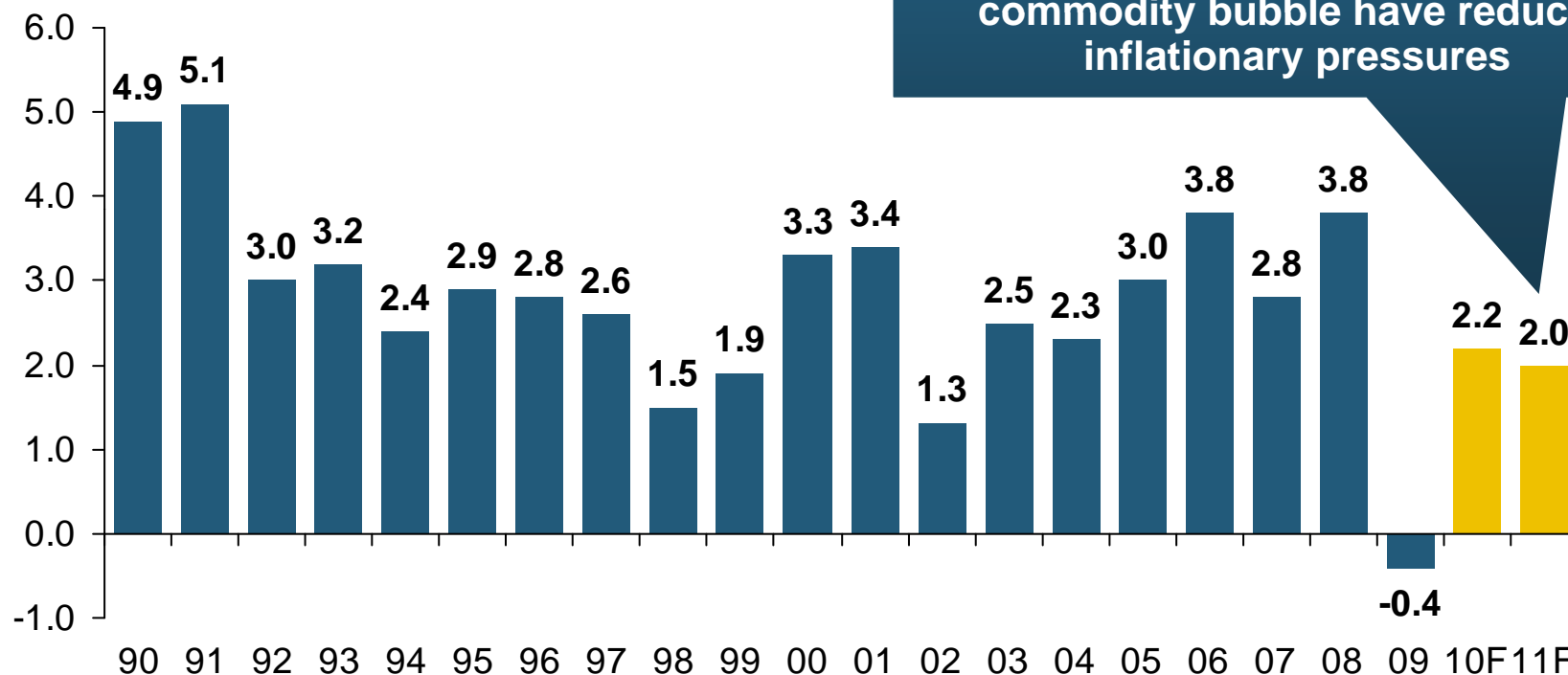
Export-Oriented Industries

**Inflation Trends:
*Concerns Over Stimulus Spending
and Monetary Policy***

**Mounting Pressure on Claim
Cost Severities?**

Annual Inflation Rates (CPI-U, %), 1990–2011F

Annual Inflation Rates (%)

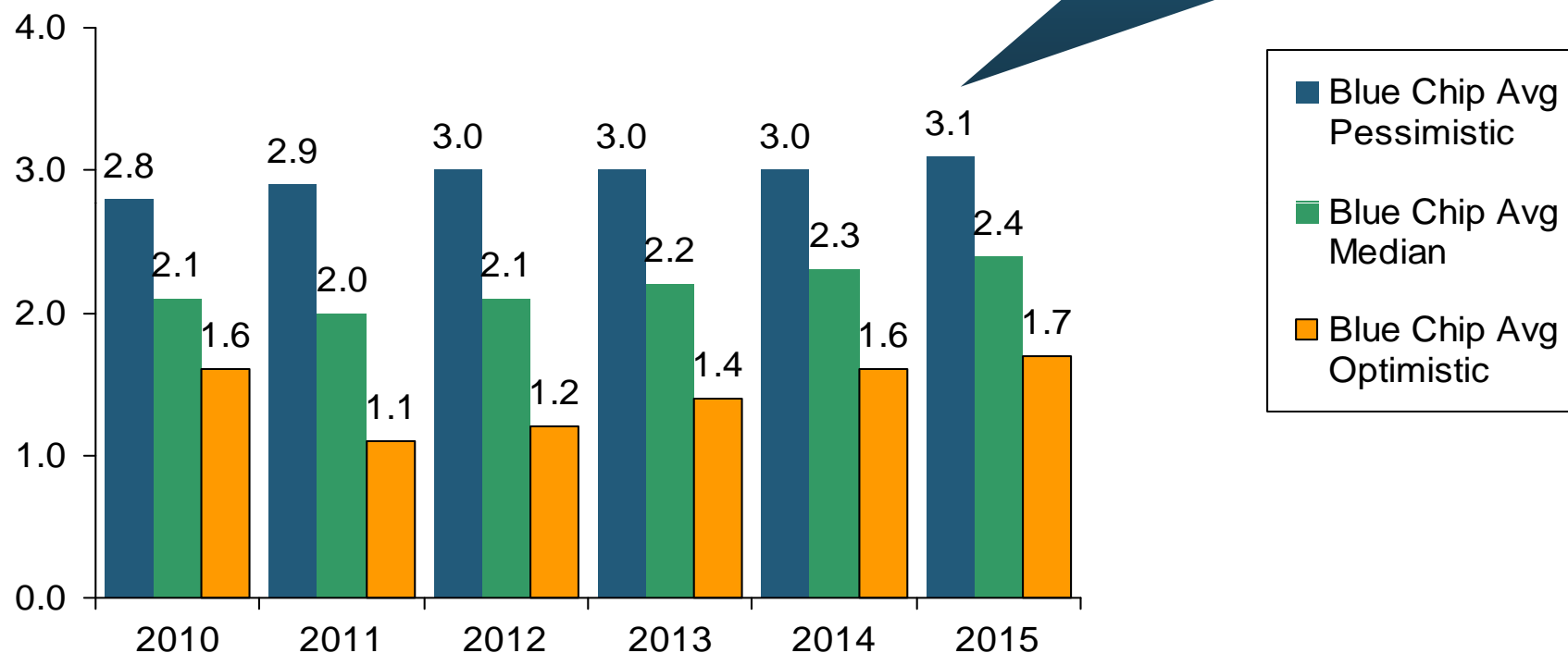


There is So Much Slack in the US Economy That Inflation Should Not Be a Concern Through 2010/11, but Depreciation of Dollar is Concern Longer Run

Forecasts of Annual Inflation Rates (CPI-U, %), 2010–2015F

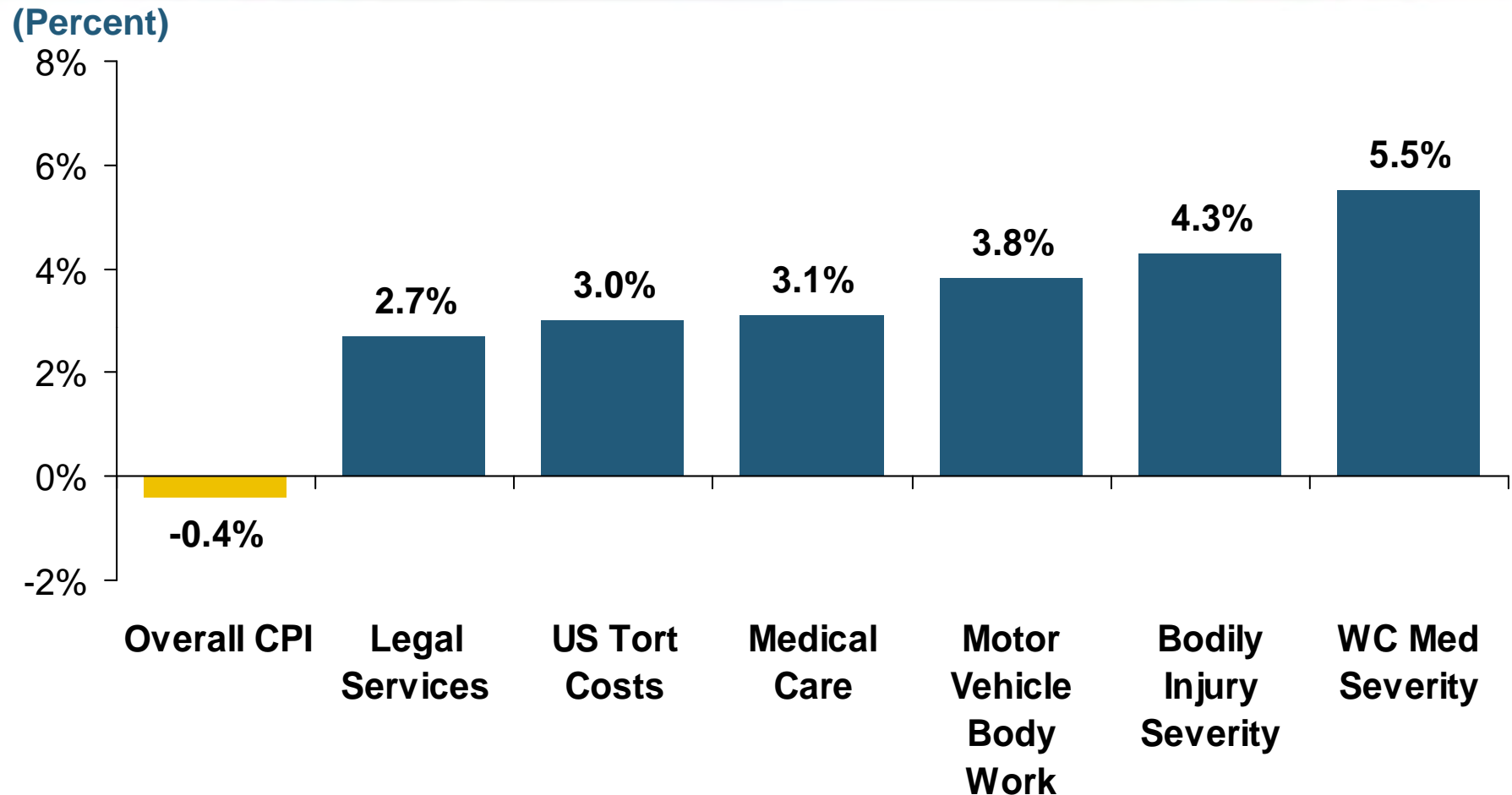
Annual Inflation Rates (%)

Even the pessimistic forecasts don't see the CPI rising much above 3% in the next five years



Inflation Will Accelerate Modestly through 2015 but Should Is Not Expected to Become a Major Concern or Threat

P/C Insurers Experience Inflation More Intensely than 2009 CPI Suggests



Healthcare and Legal/Tort Costs Are a Major P/C Insurance Cost Driver. These Are Expected to Increase Above the Overall Inflation Rate (CPI) Indefinitely

Source: CPI is Blue Chip Economic Indicator 2009 estimate, 12/09; Legal services, medical care and motor vehicle body work are avg. monthly year-over-year change from BLS. Tort costs is 2009 Towers-Perrin estimate. WC figure is I.I.I. estimate based on historical NCCI data.

Top Concerns/Risks for Insurers if Inflation Is Reignited

Concerns

The Federal Reserve Has Flooded Financial System with Cash (Turned on the Printing Presses), the Federal Gov't Has Approved a \$787B Stimulus and the Deficit is Expected to Mushroom to \$1.8 Trillion. All Are Potentially Inflationary.

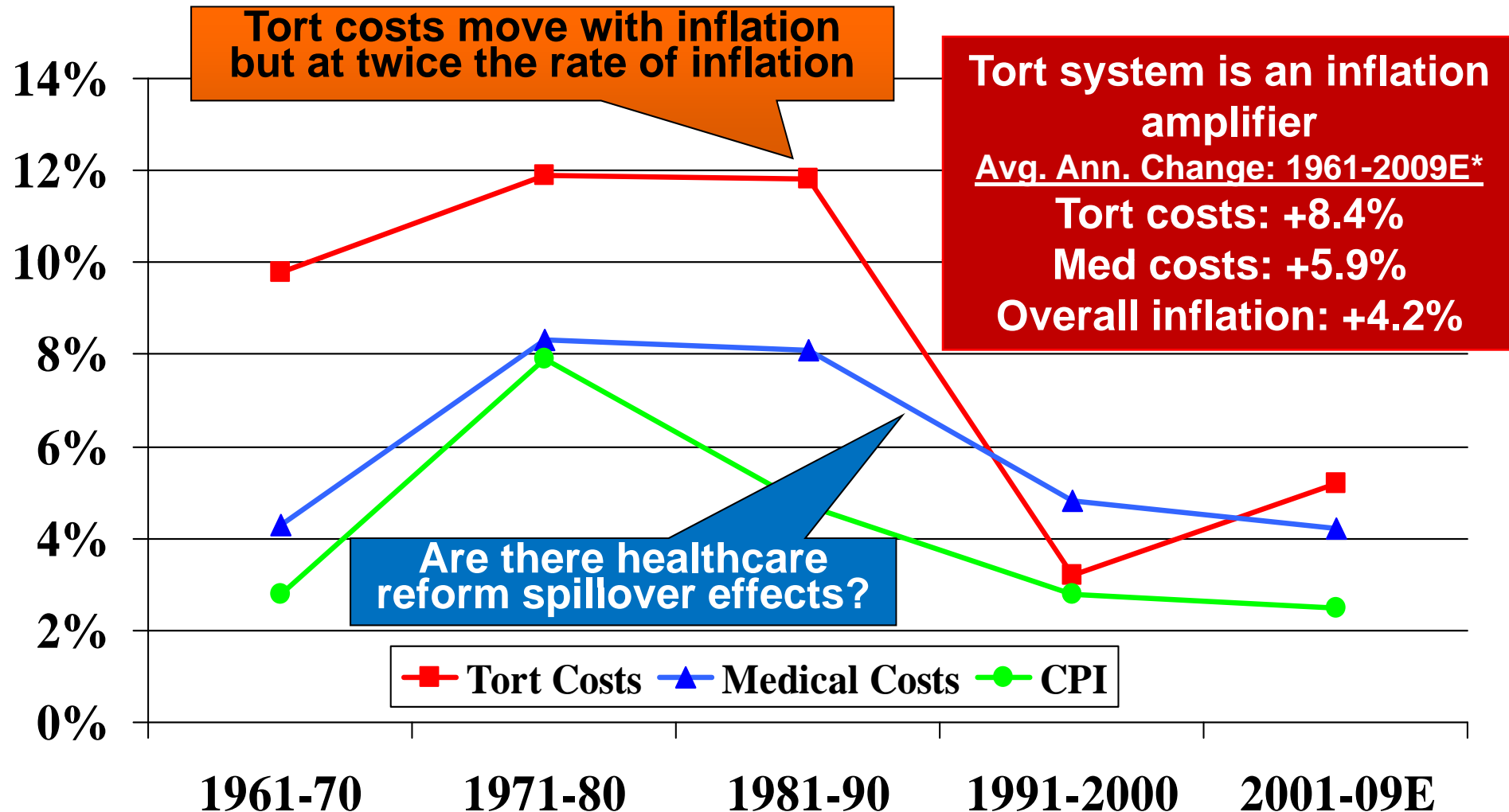
- What are the potential impacts for insurers?
- What can/should insurers do to protect themselves from the risks of inflation?

Key Risks

From Sustained/Accelerating Inflation

- **Rising Claim Severities**
 - ◆ Cost of claims settlement rises across the board (property and liability)
- **Rate Inadequacy**
 - ◆ Rates inadequate due to low trend assumptions arising from use of historical data
- **Reserve Inadequacy**
 - ◆ Reserves may develop adversely and become inadequate (deficient)
- **Burn Through on Retentions**
 - ◆ Retentions, deductibles burned through more quickly
- **Reinsurance Penetration/Exhaustion**
 - ◆ Higher costs → risks burn through their retentions more quickly, tapping into reinsurance more quickly and potentially exhausting their reinsurance more quickly

Tort Cost Growth & Medical Cost Inflation vs. Overall Inflation (CPI-U), 1961-2009E*



* CPI-U and medical costs as of Sept 2009; Tort figure is for full-year 2009 from Tillinghast.

Source: U.S. Bureau of Labor Statistics; Tillinghast-Towers Perrin, *2008 Update on U.S. Tort Costs*; I.I.I.

IV.

Public Policy Issues

Government Action (Direct & Indirect) Will Shape the Casualty Insurance Environment for Many Years to Come

Financial Services Regulation

**Any Change to the Status Quo
Will Be Felt for Decades**

Important Issues & Threats Facing Insurers: 2010–2???

Regulatory Overreach

- Principle danger is that P/C insurers get swept into vast federal regulatory overhaul and subjected to inappropriate, duplicative and costly regulation (Dual Regulation)
- Systemic Risk Regulator (Too Big To Fail/Too Interconnected to Fail)
 - Is any insurer systemically important?
- Federal Insurance Office Creation Within Treasury?
 - Eventual “mission creep”?; Activist director?
- Consumer Financial Protection Agency
 - Will it be limited to banks/creditors
- Federal Trade Commission: All Lines Study Authority?
- McCarran-Ferguson Rollback
 - Will it be limited to Health/Med Mal lines?
- OFC/State Regulation Debate Lingers
- Taxation/Offshore Domiciles

Bottom Line: Regulatory Outcome is Uncertain and Risk of Adverse Outcome Exists. Ultimate Regulation Structure Will Be in Place for Decades

Federal Insurance Office: *What Would it Do?*



Duties of the Federal Insurance Office

- **Establishes office within US Treasury headed by a Director appointed by Treasury Secretary, and charged with:**
 1. Monitor the insurance industry to gain expertise
 2. Identify regulatory gaps that could contribute to a systemic crisis in the insurance industry or the U.S. financial system
 3. Recommend to the federal authority having systemic risk responsibility the designation of certain insurers (and their affiliates) for heightened prudential standards (although recognition of this role of the FIO is not evident in existing systemic risk regulation proposals)
 4. Assist in the administration of the Terrorism Risk Insurance Program

Federal Insurance Office: *What Would it Do?*

Duties of the Federal Insurance Office (continued)

5. Coordinate Federal efforts and establish Federal policy on prudential aspects of international insurance matters (including representation of the U.S. before the International Association of Insurance Supervisors and assisting the Secretary of Treasury in the negotiation of international agreements relating to prudential matters)
6. Consult with the States on national matters of importance to insurance and international insurance matters relating to prudential regulation
7. Determine whether state insurance matters are preempted by international insurance agreements relating to prudential matters
8. Advise the Secretary of Treasury on major domestic and prudential international matters of importance
9. Consult with state insurance commissioners, both individually and collectively, as appropriate

Systemic Risk: Oversight & Resolution Authority

Issues Related to Systemic Risk & Resolution Authority

- **Federal Authority created to oversee systemic risk of large financial holding companies (e.g., Federal Reserve or other existing/new agency) [a.k.a. TOO BIG TOO FAIL]**
 - P/C insurers are working to “carve out” and exception to systemic risk oversight (arguing they were not the source/cause of problems)
 - Without such an exception, p/c insurers could be subject to assessments for failed noninsurance financial institutions or could be forced to repay funds provided for government assistance to firms due to problems outside of their p/c insurance operations
- **European Regulators Believe Large (Re)Insurers Should Be Included Under the Definition of Systemically Important Firms**
 - ECB named 8 insurers/reinsurers as systemically important

Health Insurance Reform Debate: Potential Spillover Impacts on P/C Insurers

- **24-Hour Coverage Proposal**
 - ◆ Would roll WC and med components of auto into national health care plan
- **Rollback of McCarran-Ferguson Act**
 - ◆ Would repeal or restrict for health and medical malpractice insurers
 - ◆ *Slippery slope – Med Mal is a p/c line; Congress will not hesitate to breach M-F for other p/c lines in the future to show its ire over an issue (e.g., after major cat)*
- **Exclusion of Med Mal Reform from Health Care Bill**
 - ◆ Shows powerful influence of trial bar with Congress/Administration
- **FTC granted authority to conduct studies “related to insurance” – All Lines!**
- **Reporting of Claims**
- **Adjustments to Medicare Fee Schedules**
- **Patient “Bill of Rights” or Vague Standards of Care**
- **Cost Shifting into WC, Auto from Health System**
 - ◆ WC/Auto Medical: more lucrative from provider perspective
- **“Windfall” Profit Taxes? Additional Premium Taxes?**
- **Executive Compensation Restrictions?**
- **Public “Option” in P/C Lines – Nat Cat/Wind?**
- **Perception that Feds Regulate Insurance Industry Taking Root**

- **Creeping Restrictions on Underwriting**
 - ◆ Reduces ability to ascertain risk and charge risk appropriate premiums
- **Incremental Socialization and Nationalization of Insurance Markets**
 - ◆ Coastal risk issues are the most obvious examples of this
 - ◆ *Slippery slope*
- **Exploitation of Insurance as a Wealth Redistribution Mechanism**
 - ◆ View that someone else should pay other than those subject to the risk
- **Use of Insurance Industry as Political Tool**
 - ◆ Regulators who seem to exceed their authority for personal political gain
- **Taxation**
- **Perception that Feds Regulate Insurance Industry Taking Root**

Reasons Why Concerns Are Mounting in 2010

- Perception (Reality) that U.S. vulnerability is rising
- Thwarted Christmas Day attack by “underwear bomber”
 - And new bin Laden tape claiming al Qaeda is responsible
- Foiled NYC Subway Bomber Plot (Zazi case)
- Trials of Guantanamo 9/11 suspects in Manhattan Court (?)
- U.K. in January Raised Terror Alert Status to 2nd Highest Level
- Increased anti-terror efforts, including full-body scans
- Effort by government to appear more vigilant, prepared
- Rise of groups such al Qaeda in the Arabian Peninsula
- U.S. military surge in Afghanistan operations
- Most buyers, producers have not thought about coverage issues recently
- ***Obama Administration's Intent to Reduce Support for TRIA***

Obama Administration Proposal to Scale Back Terrorism Risk Insurance Program

Administration's Budget Proposal for FY 2011:

- Includes proposal to scale back federal support for terrorism risk insurance program
- Proposal projects savings of \$249 million from 2011-2020
- Administration's justification is that this would "encourage the private sector to better mitigate terrorism risk through other means, such as developing alternative reinsurance options and building safer buildings."

Key Concerns

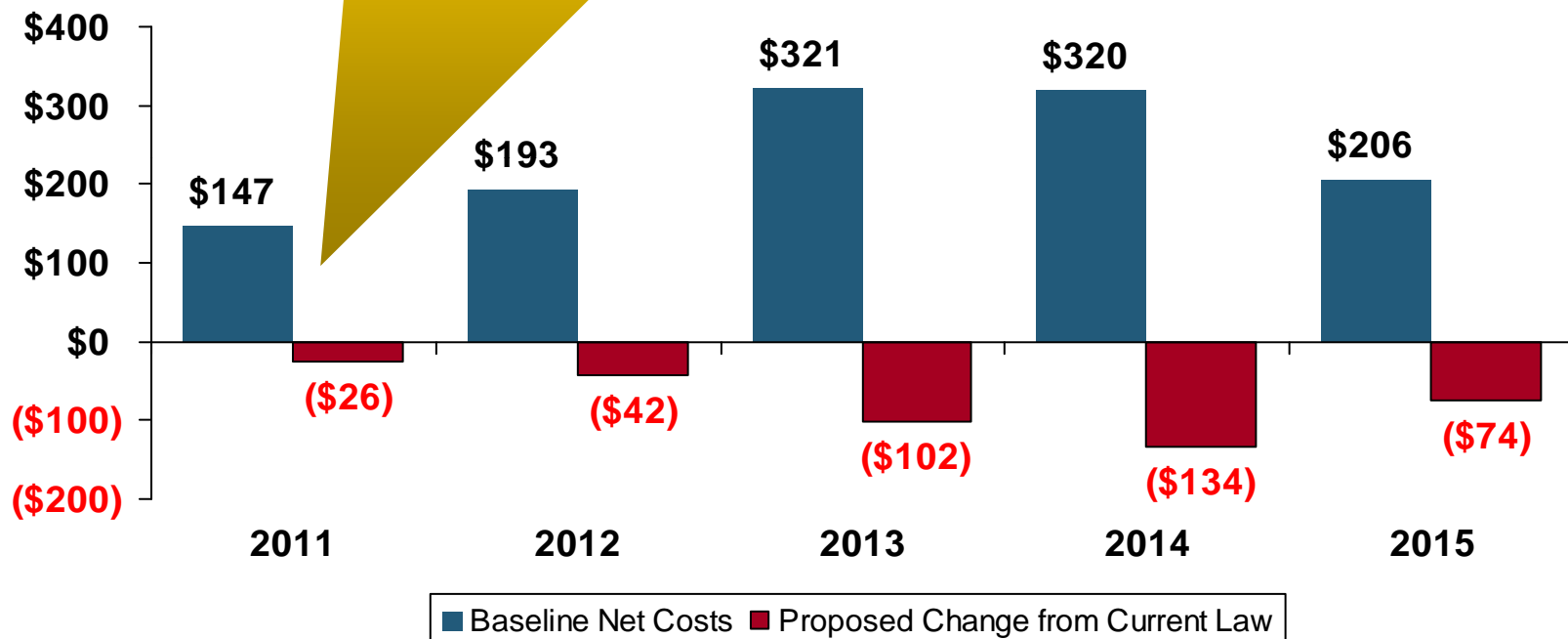
Among Industry Observers Over Proposed Reduction in Federal Support

- Suggestion of changes to law would have detrimental effect on availability and affordability of terrorism insurance
- A 2009 Aon study estimated some 70-80 percent of the commercial property insurance market would revert to absolute exclusions for terrorism, if TRIA is changed.

Terrorism Risk Insurance Program Faces Reduced Support Under 2011 Proposed Federal Budget

By shifting more costs to insurers and insureds in the event of a major terrorist attack, the Administration believes that it can save \$378 million from 2011 through 2015

\$ Millions



The availability of terrorism coverage is threatened by the proposal in the FY 2011 federal budget. Coverage will likely be less available and more expensive.

Critical Differences Between P/C Insurers and Banks

**Superior Risk Management Model and
Low Leverage Make a Big Difference**

How Insurance Industry Stability Has Benefitted Consumers

Bottom Line:

- Insurance markets – unlike banking – are operating **normally**
- The basic function of insurance – the orderly transfer of risk from client to insurer – **continues uninterrupted**
- This means that insurers continue to:
 - ◆ Pay claims (whereas 188 banks have gone under as of 2/19/10)
 - **The promise is being fulfilled**
 - ◆ Renew existing policies (*banks are reducing and eliminating lines of credit*)
 - ◆ Write new policies (*banks are turning away people and businesses who want or need to borrow*)
 - ◆ Develop new products (*banks are scaling back the products they offer*)
 - ◆ Compete intensively (*banks are consolidating, reducing consumer choice*)

Reasons Why P/C Insurers Have Fewer Problems Than Banks

A Superior Risk Management Model

■ Emphasis on Underwriting

- ◆ Matching of risk to price (via experience and modeling)
- ◆ Limiting of potential loss exposure
- ◆ *Some banks sought to maximize volume and fees and disregarded risk*

■ Strong Relationship Between Underwriting and Risk Bearing

- ◆ **Insurers always maintain a stake in the business they underwrite, keeping “skin in the game” at all times**
- ◆ *Banks and investment banks package up and securitize, severing the link between risk underwriting and risk bearing, with (predictably) disastrous consequences – straightforward moral hazard problem from Econ 101*

■ Low Leverage

- ◆ Insurers do not rely on borrowed money to underwrite insurance or pay claims → ***There is no credit or liquidity crisis in the insurance industry***

■ Conservative Investment Philosophy

- ◆ High quality portfolio that is relatively less volatile and more liquid

■ Comprehensive Regulation of Insurance Operations

- ◆ The business of insurance remained comprehensively regulated whereas a separate banking system had evolved largely outside the auspices and understanding of regulators (e.g., hedge funds, private equity, complex securitized instruments, credit derivatives – CDS's)

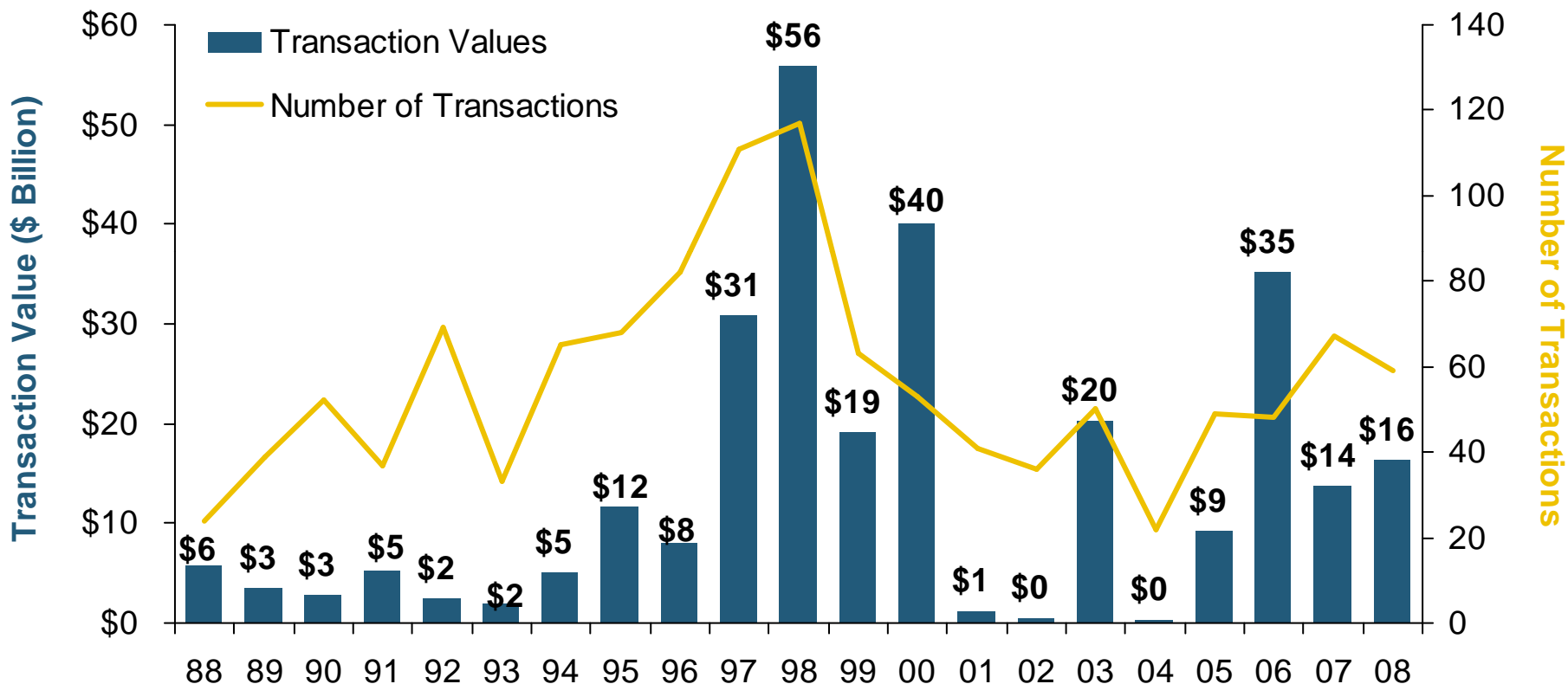
■ Greater Transparency

- ◆ Insurance companies are an open book to regulators and the public

Merger & Acquisition

**Barriers to Consolidation Will
Diminish in 2010**

P/C Insurance-Related M&A Activity, 1988–2008



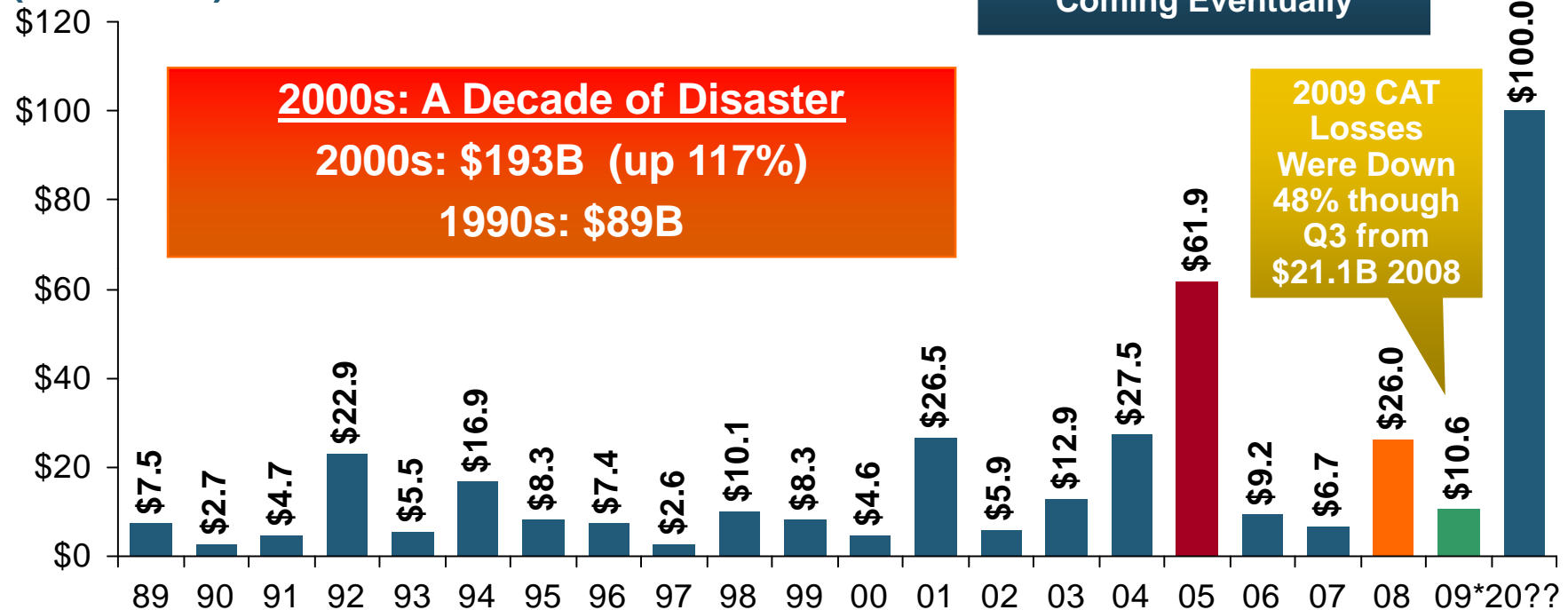
2009 Off to a Stronger Start With AIG Unit Sales and Bermuda Consolidation

\$ Value of Deal Up 20% in 2009, Volume Down 12%

Catastrophic Loss – How Big of a CAT Would it Take to Turn the Market Hard?

US Insured Catastrophe Losses

(\$ Billions)



2009 CAT Losses Were Less than Half of 2008.
2005 Was by Far the Worst Year Ever for Insured Catastrophe
Losses in the Decade of the 2000s Were More than Double the 1990s,
But the Worst Has Yet to Come

* 2009 figure is Munich Re estimate.

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.

Insurance Information Institute Online:

www.iii.org

***Thank you for your time
and your attention!***

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