



# Overview of the Economy and P/C Insurance: Globally and in Canada

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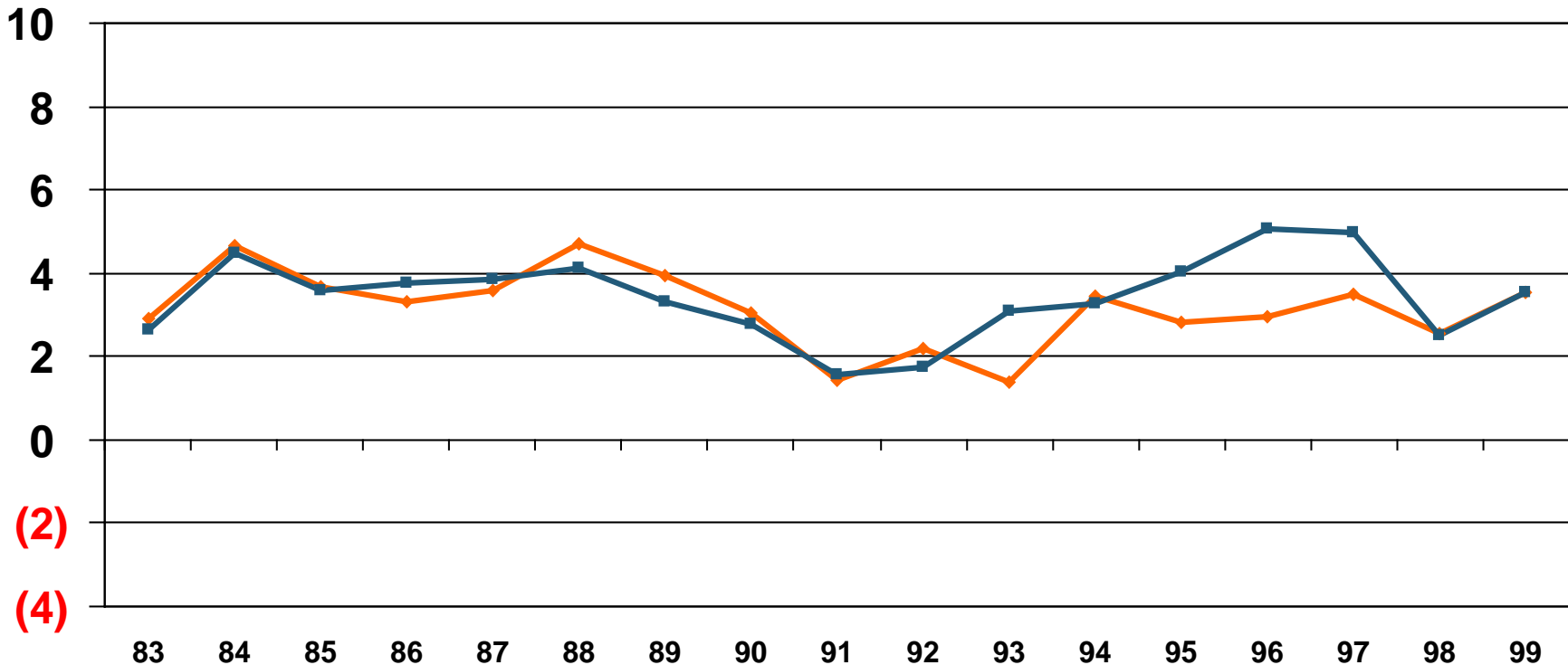
# The Global Economic Outlook

**A Two-Speed Recovery:  
Emerging Economies in Second or Third  
Gear, Advanced Economies in First**

# World GDP Growth, Advanced vs. Emerging Economies, 1983-1999

GDP  
Growth  
(%)

—◆— Advanced economies —■— Emerging and developing economies

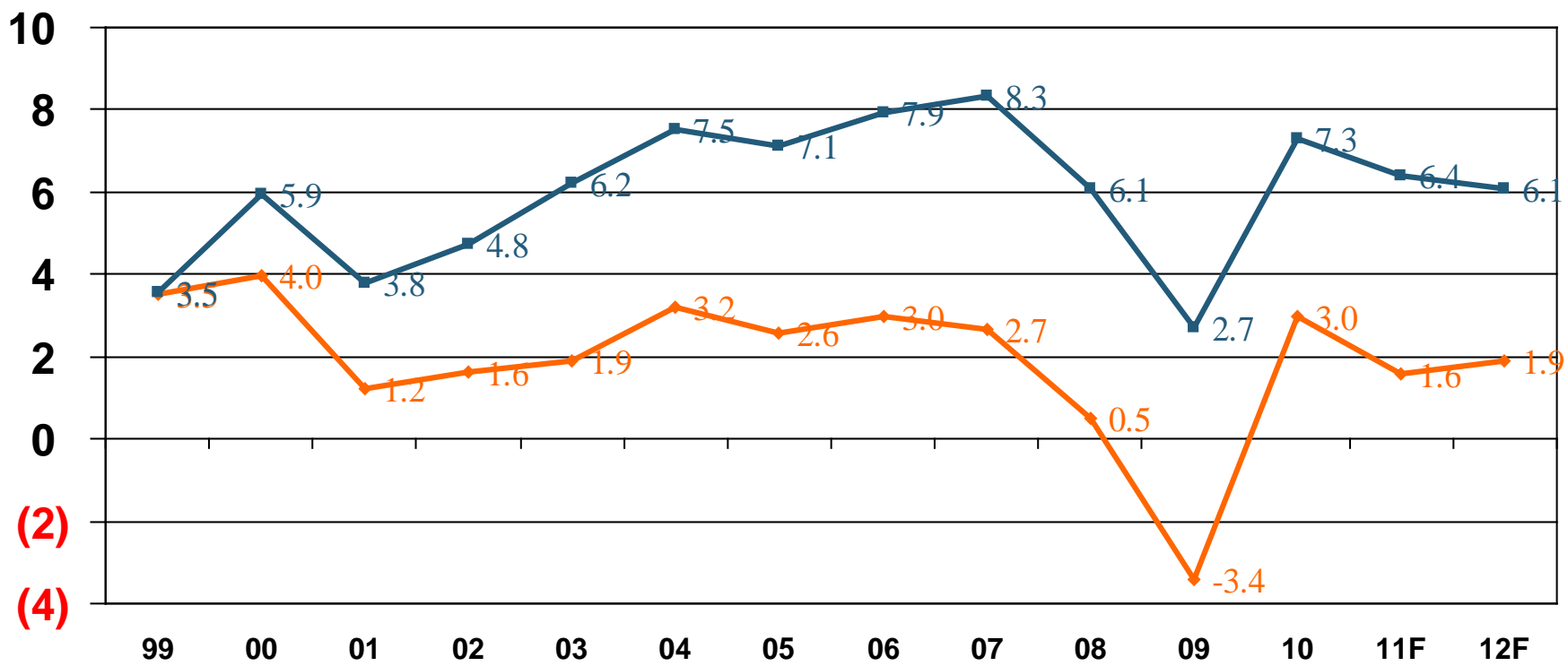


**During the 1980s and 1990s, emerging/developing economies grew at roughly the same rate as advanced/developed economies.**

# World GDP Growth, Advanced vs. Emerging Economies, 1999-2012F

GDP  
Growth  
(%)

— Advanced economies — Emerging and developing economies

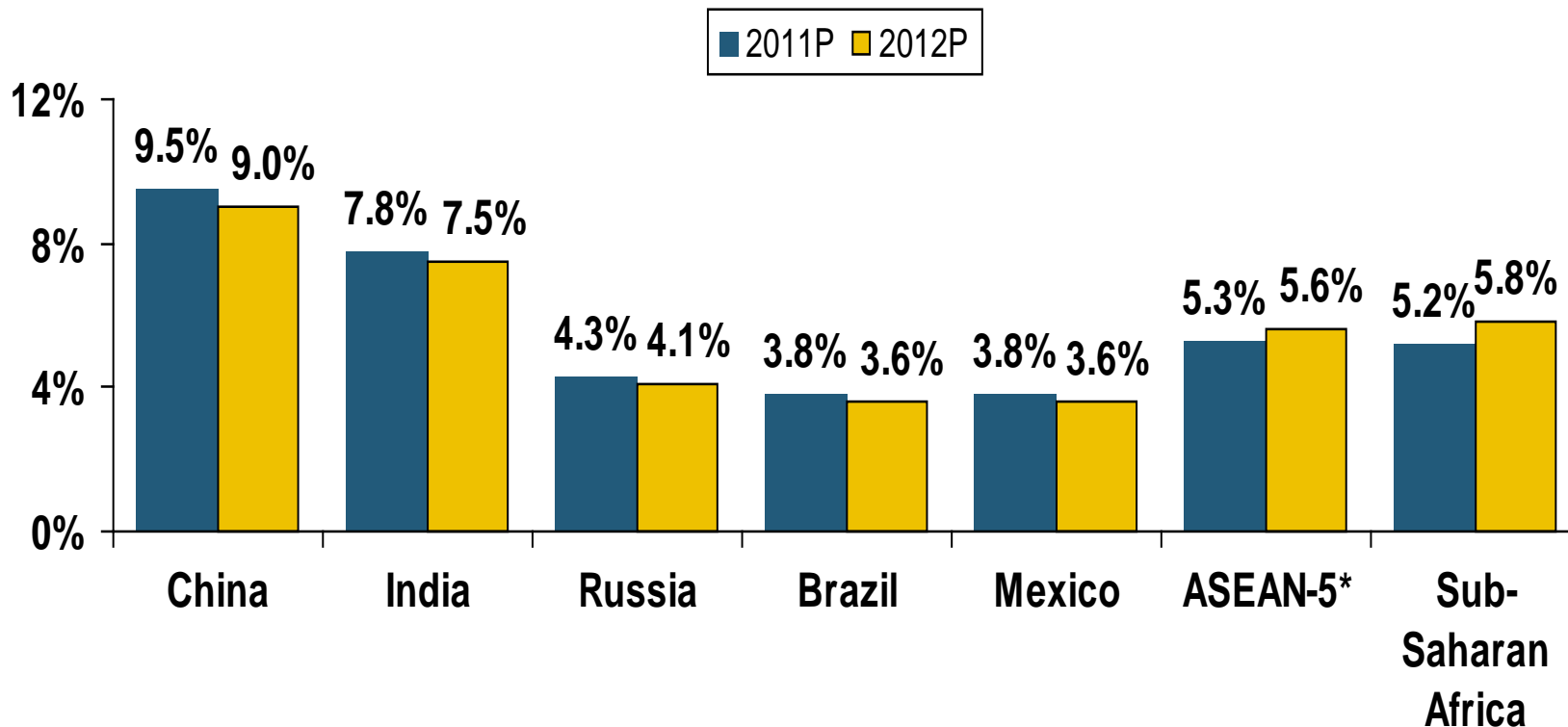


(2)  
(4)

Since 1999, emerging/developing economies have grown roughly two-to-three times as fast as advanced/developed economies.

Source: (forecasts) International Monetary Fund, *World Economic Outlook*, September 2011; Ins. Info. Institute.

# Forecasts of 2011 & 2012 GDP of Developing Economies

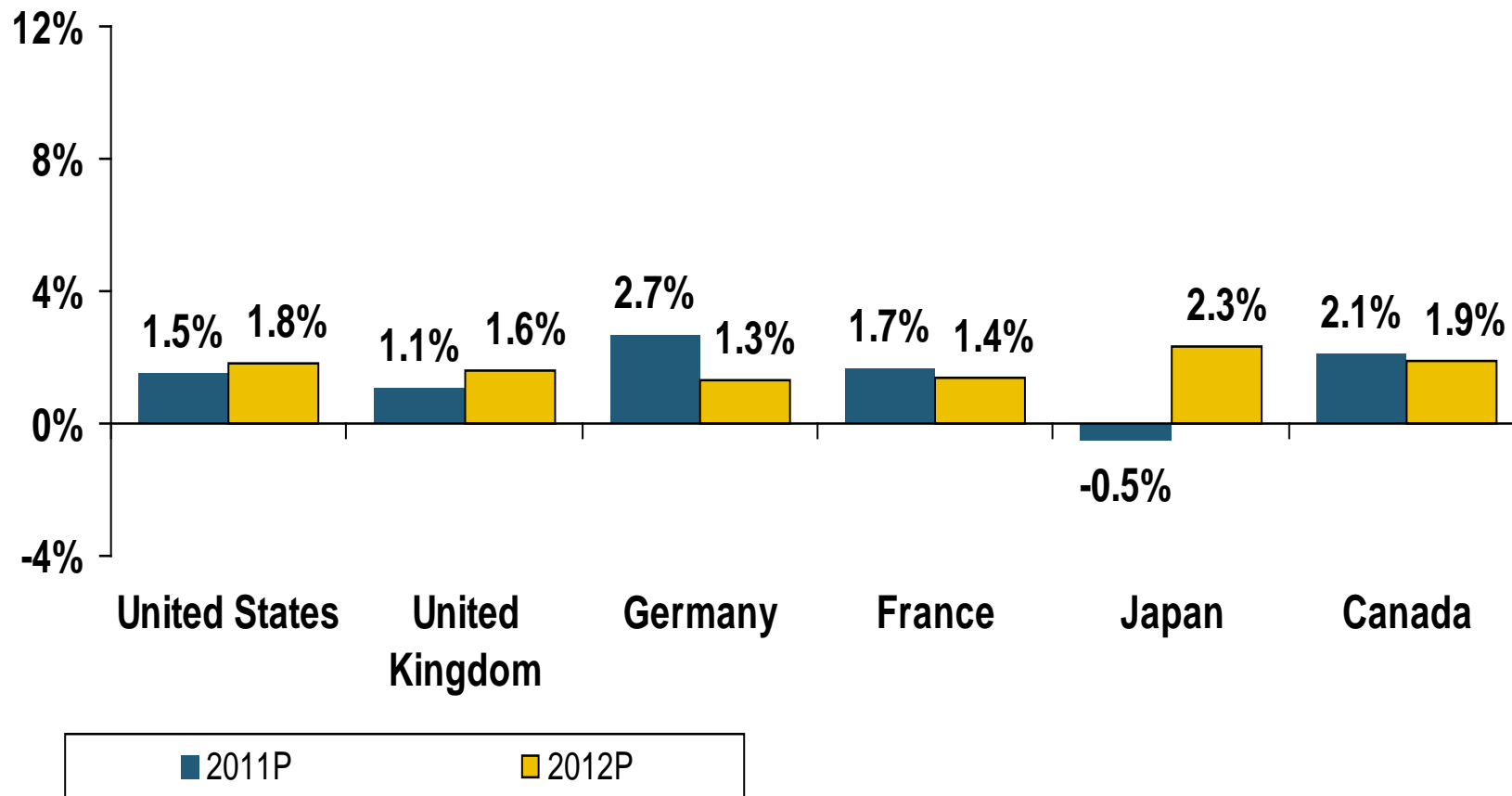


**IMF says growth in emerging and developing economies will outpace advanced ones in 2011. This will accelerate the growth of insurance exposures in emerging markets relative to the U.S., W. Europe and Japan.**

\* Indonesia, Malaysia, Philippines, Thailand, and Vietnam

Sources: IMF, World Economic Outlook, September 2011; Insurance Information Institute.

# Forecasts of 2011 & 2012 GDP of Advanced Economies



The September 2011 IMF forecasts for growth in advanced economies in 2011 is generally around 1.5% to 2%. The outcome could be worse if developments involving sovereign debt (the PIGS or other countries) are worse than expected.

# Insurance “Penetration” and “Density”

**Beyond Exposure Growth,  
Insurers Need  
Increased Use of Insurance**

# Definitions: Measures of Insurance Usage

## ■ “Penetration”

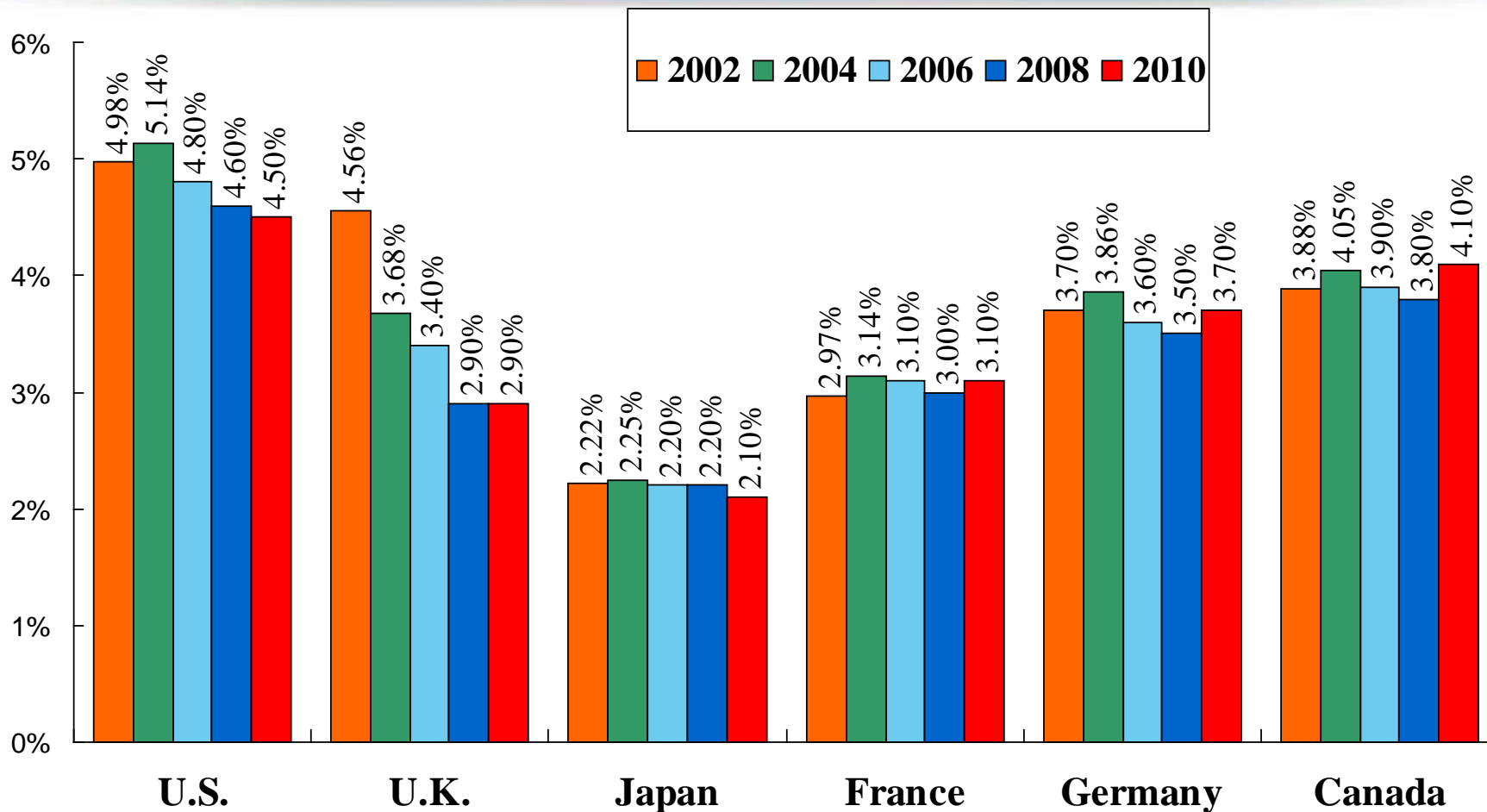
- ◆ The ratio of premium to GDP
- ◆ Indicates the degree to which premium growth kept up with exposure growth (as proxied by GDP)

## ■ “Density”

- ◆ The ratio of premium to total population
- ◆ Indicates the breadth of use of insurance

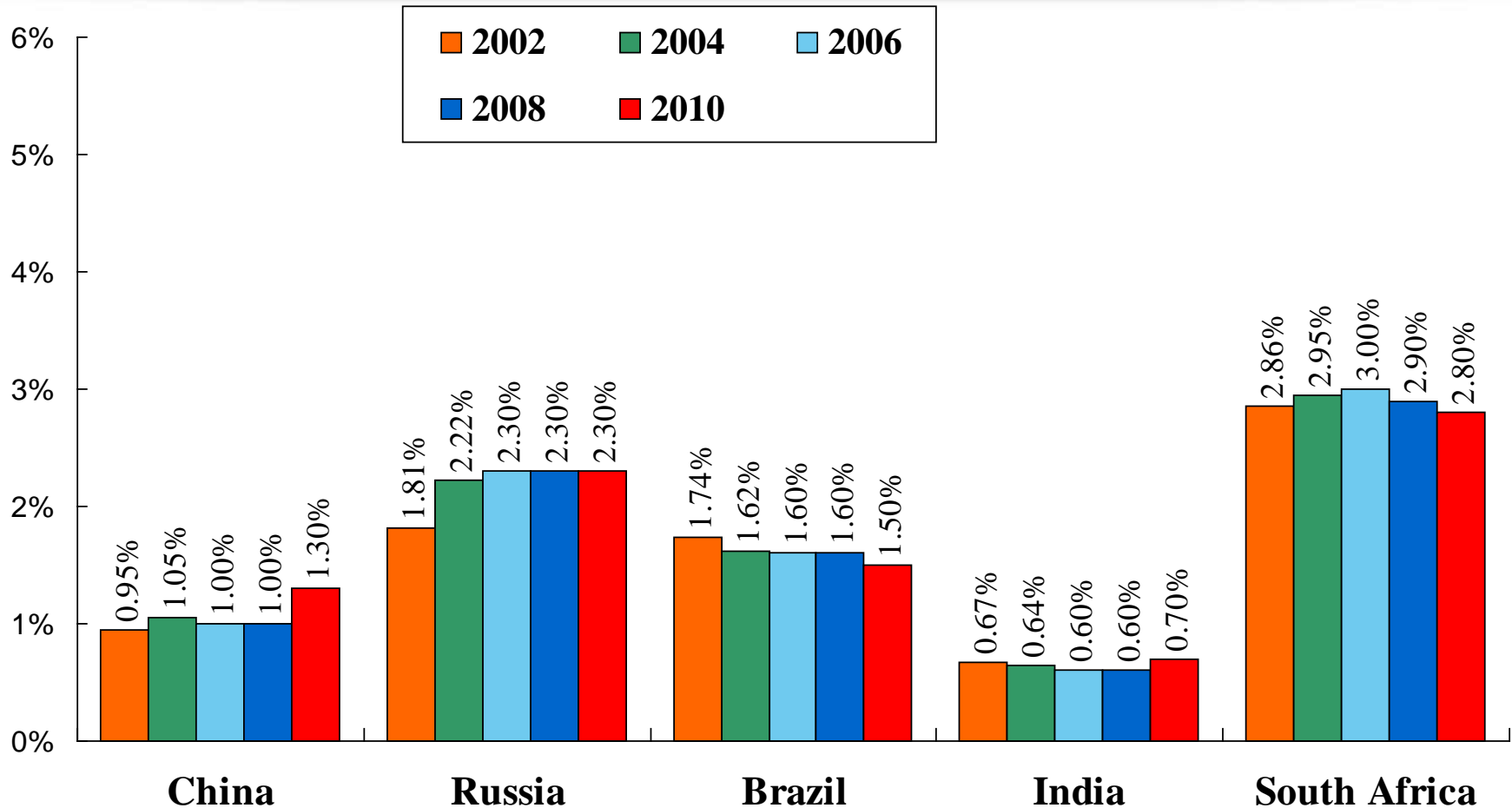


# Non-life Premium/GDP\* (Penetration) for Advanced Economies, 2002-2010



A flat pattern indicates that premiums are changing to the same extent as exposures (as proxied by GDP). A downward trend means premium volume isn't keeping up with economic growth.

# Non-life Premium/GDP\* (Penetration) for Emerging Economies, 2002-2010

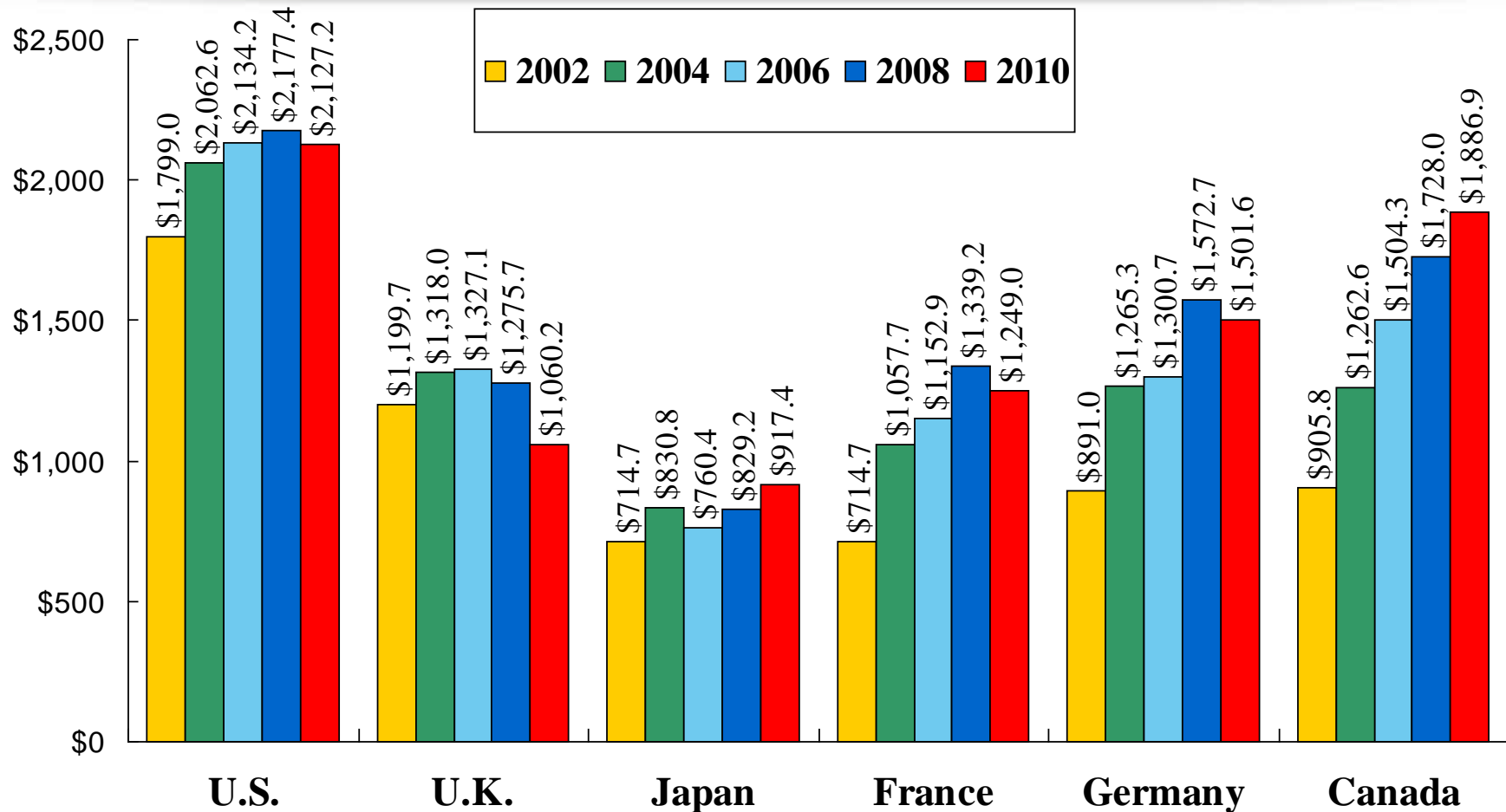


From 2001-2009, Penetration in China and Russia grew steadily—an especially strong showing in light of the rapid growth in GDP (denominator in the Penetration ratio). Similarly, although the Penetration ratios in Brazil and India were essentially flat, that means premium growth basically kept pace with exposure growth.

\*both measured in U.S. dollars; premiums exclude cross-border business

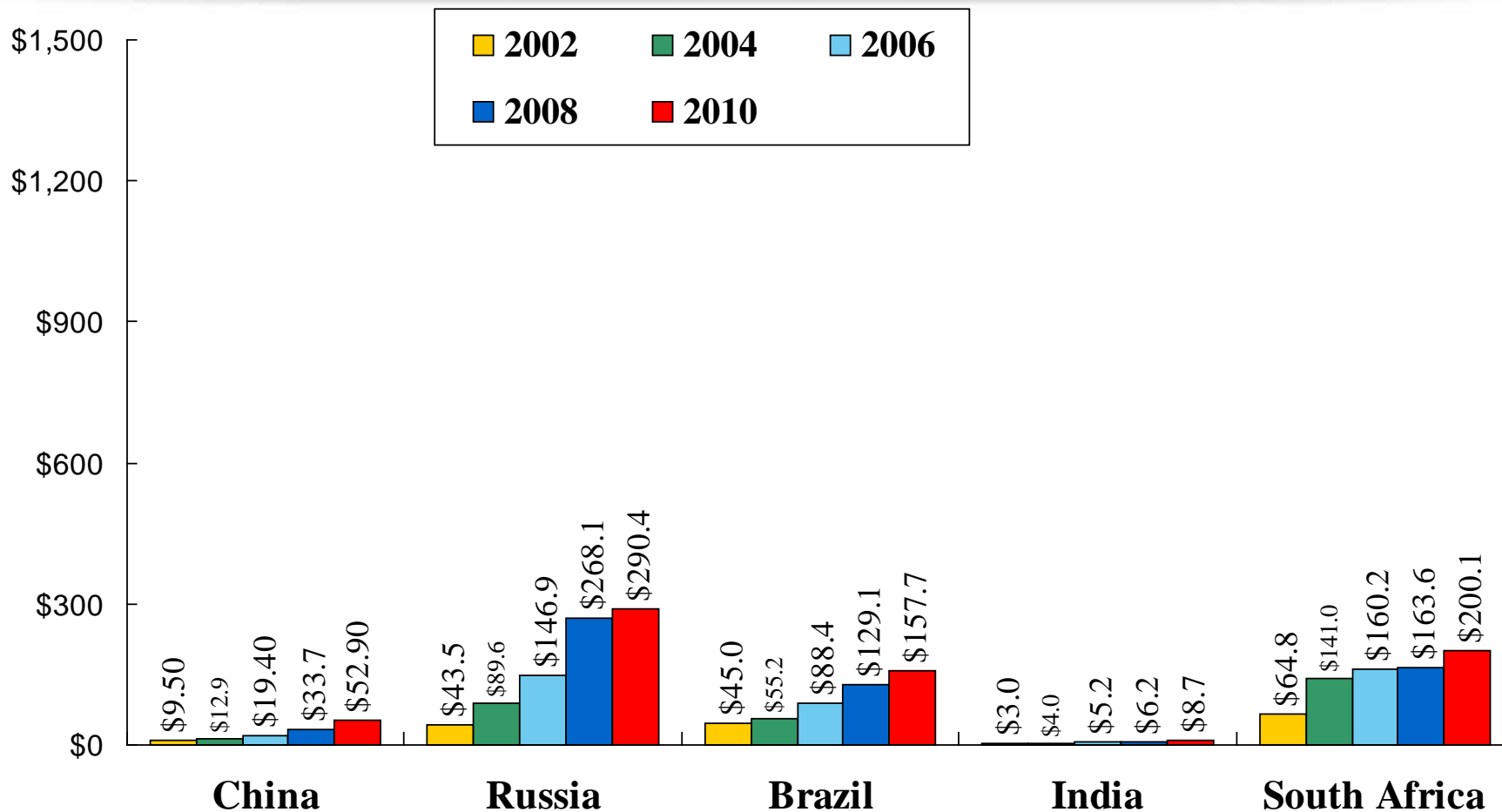
Source: Swiss Re *Sigma*, various volumes

# Non-life Premium\* per capita (Density) for Advanced Economies, 2002-2010



From 2002-2010, insurance density grew in most advanced economies, retreating only slightly during the global recession. In Canada, premium density doubled from 2002-2010.

# Non-life Premium\* per capita (Density) for Emerging Economies, 2002-2010



From 2002-2010, Insurance Density in India tripled, and in China it grew 5-fold. But the most spectacular Density growth in these years belongs to Russia: in 2010 Insurance Density in Russia was 7 times what it was in 2002!

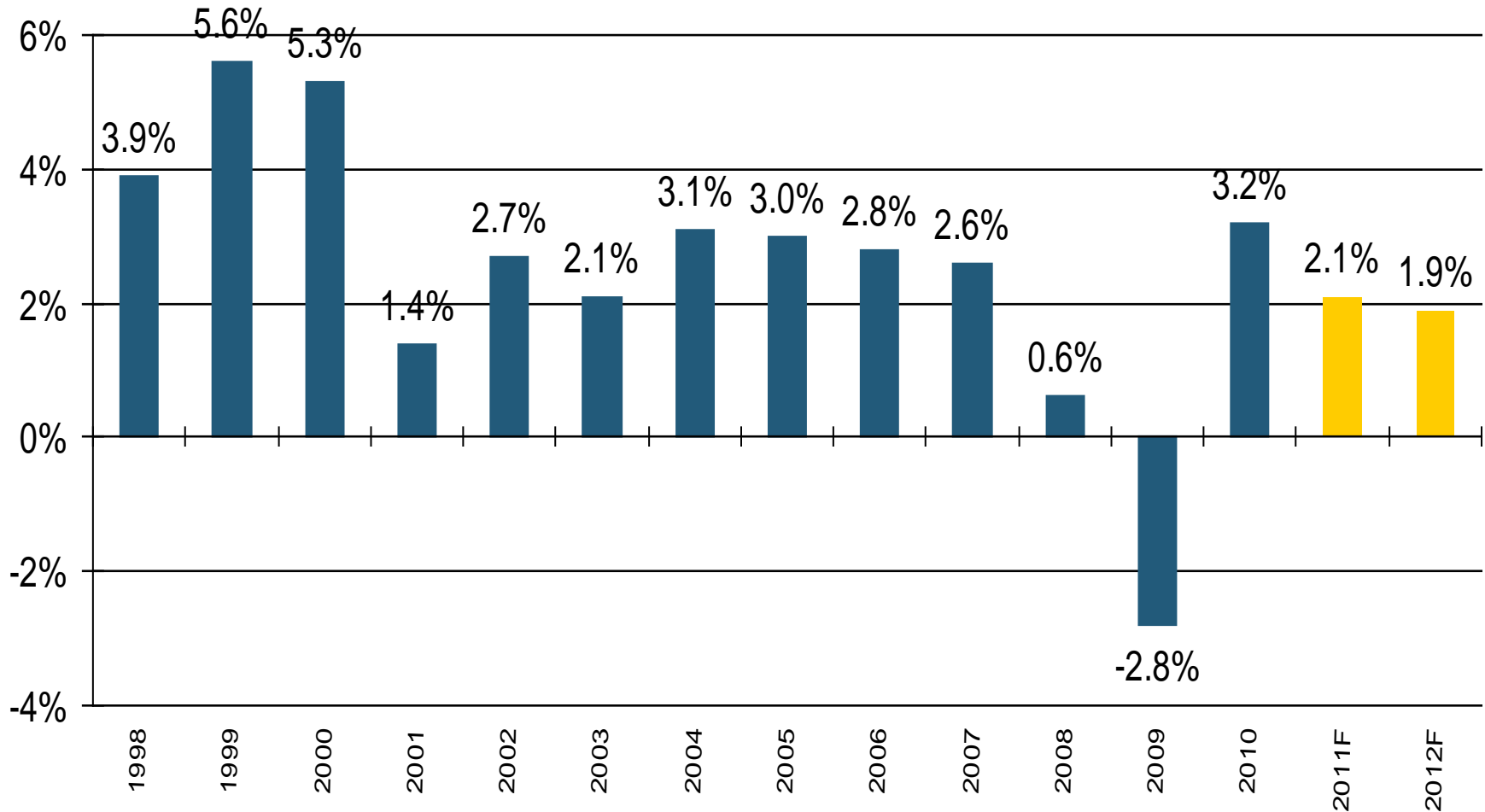
\* premiums measured in U.S. dollars, exclude cross-border business

Source: Swiss Re Sigma, various volumes

# The Canadian Economy

**Compared to Other Advanced Economies, Steady as She Goes**

# Real GDP Growth in Canada, Yearly, 1998-2012F



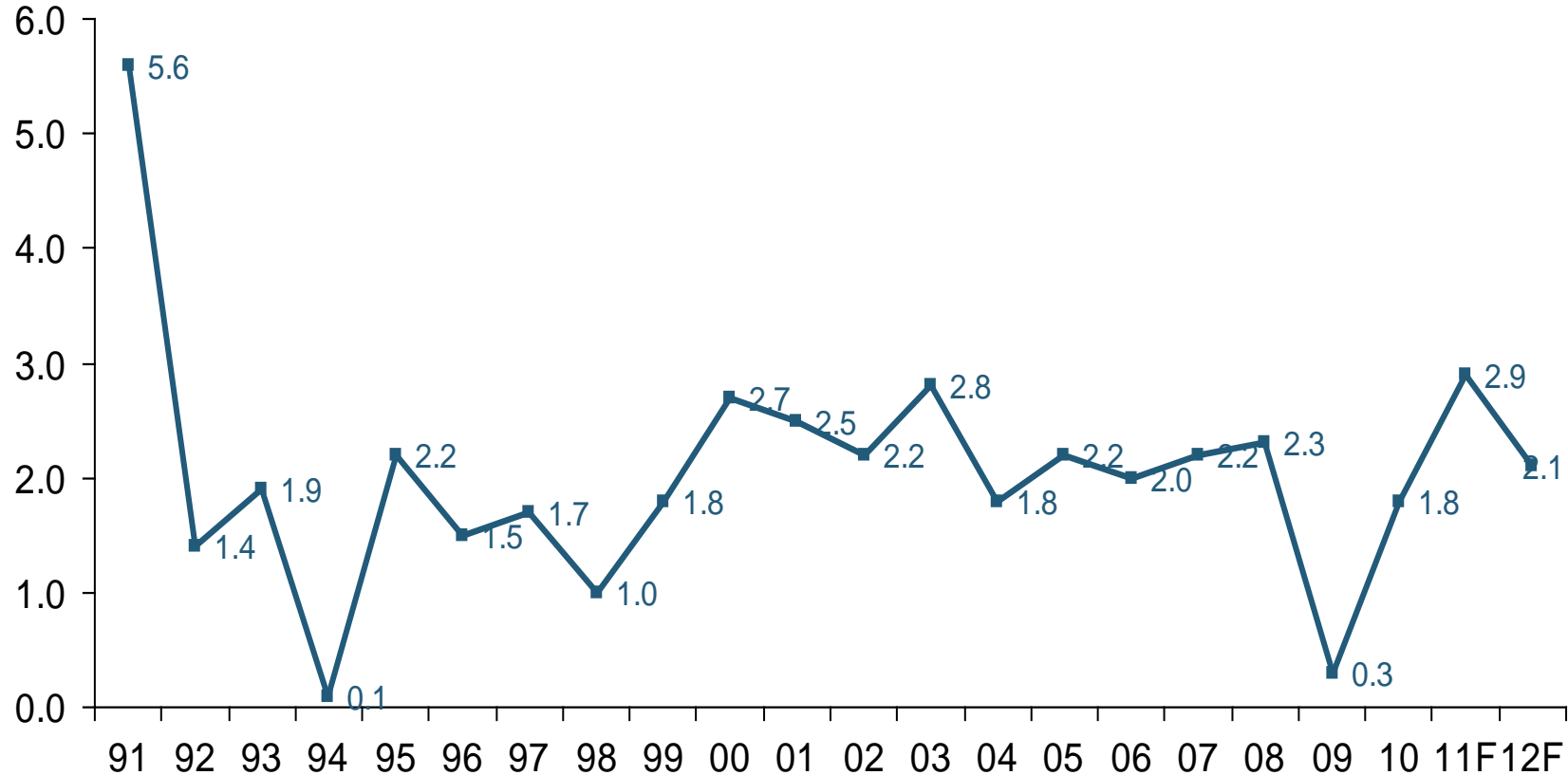
**Canada's recession was as deep as in the U.S. and many other advanced economies but is recovering faster**

Forecasts from IMF World Economic Outlook, September 2010.

Sources: <http://www.statcan.gc.ca/pub/11-402-x/2010000/chap/econo/tbl/tbl04-eng.htm> ; IMF; I.I.I. calculations

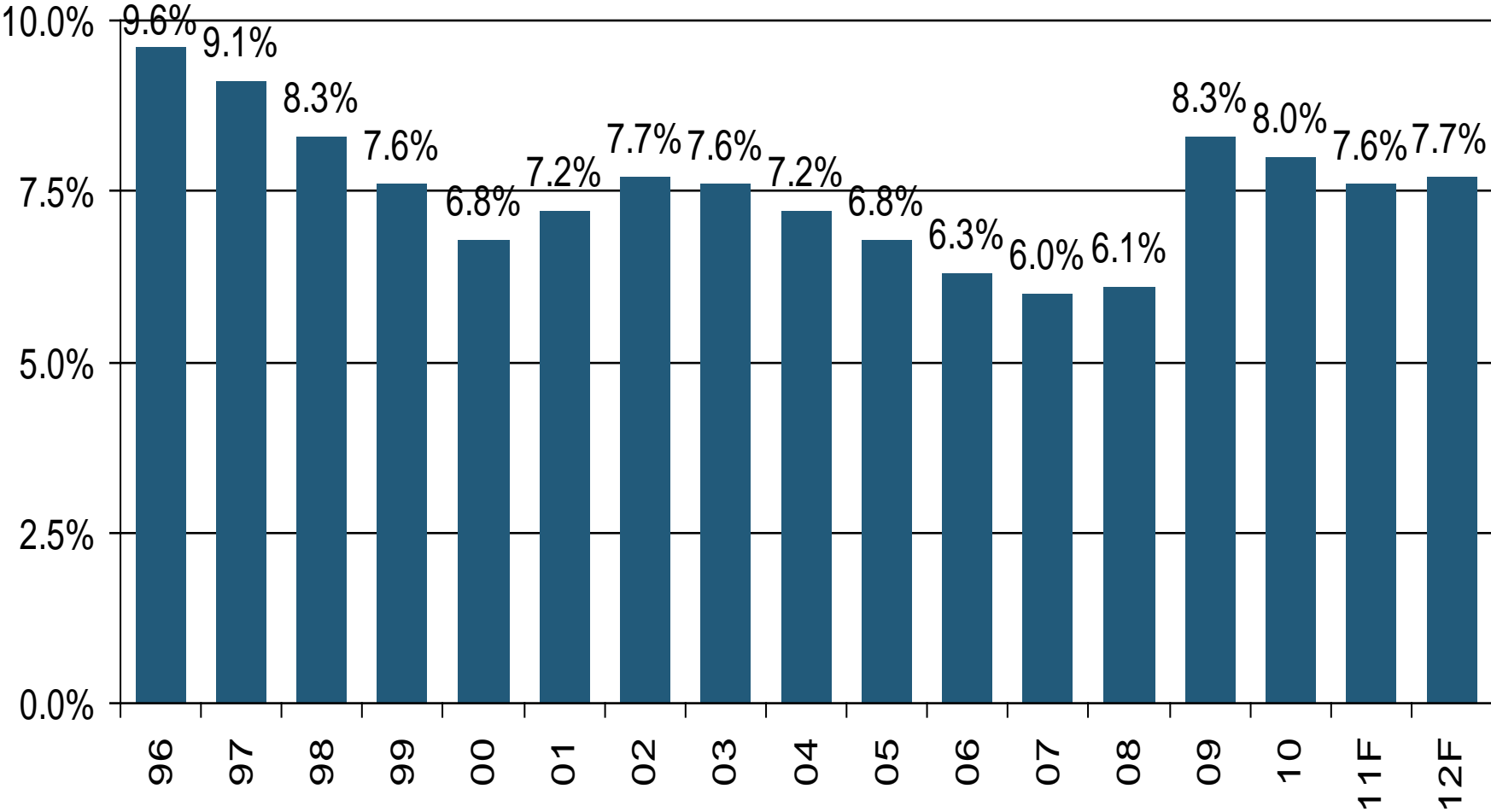
# Annual Inflation Rates in Canada, 1991–2010

% change in prices  
from previous year



The overall (or “headline”) CPI has been below 3% for two decades.

# Unemployment Rate, Canada, 1996-2010



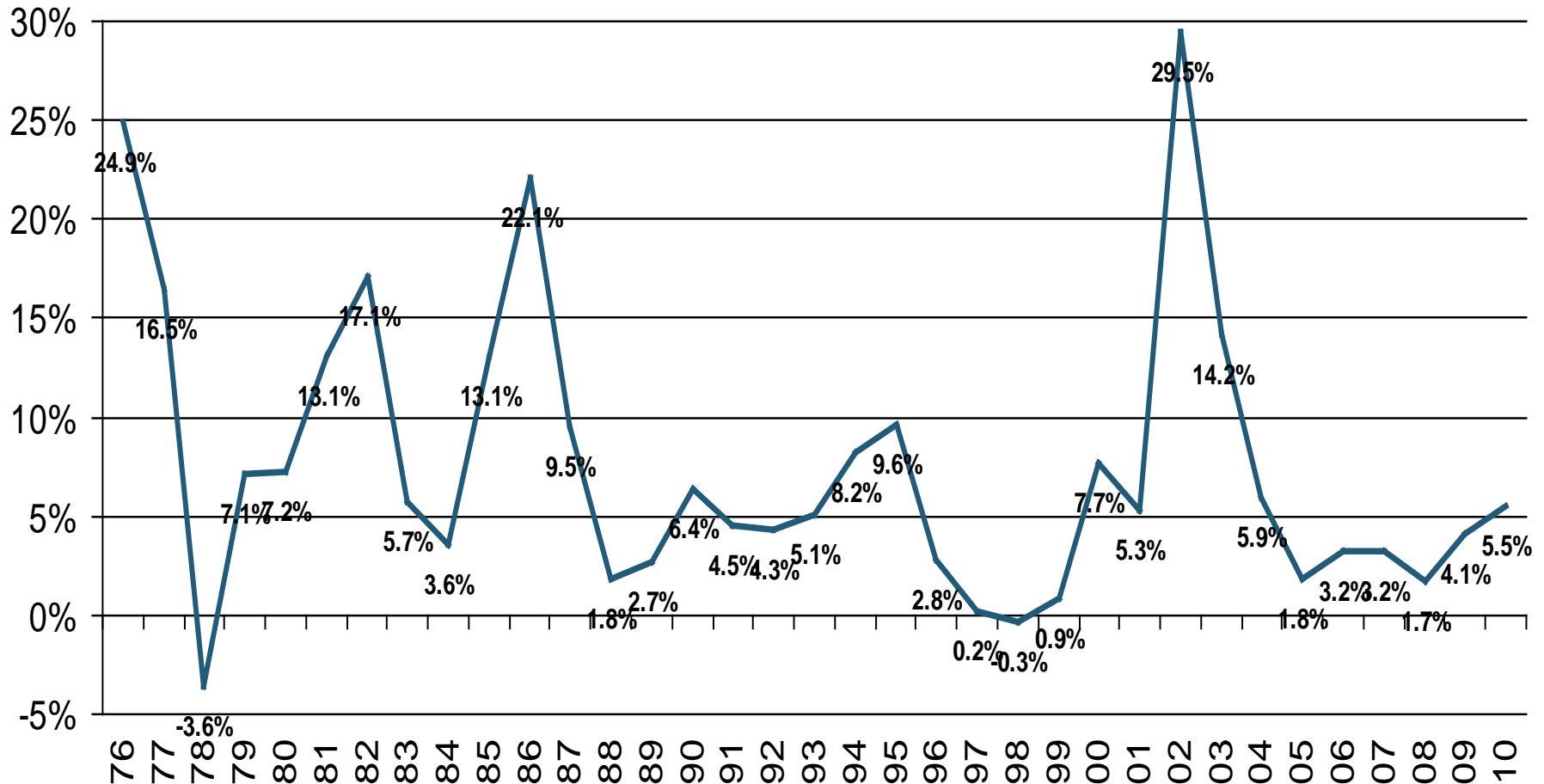
Source: <http://data.worldbank.org/indicator/SL.UEM.TOTL.ZS/countries?page=3>



# The Canadian P/C Insurance Industry

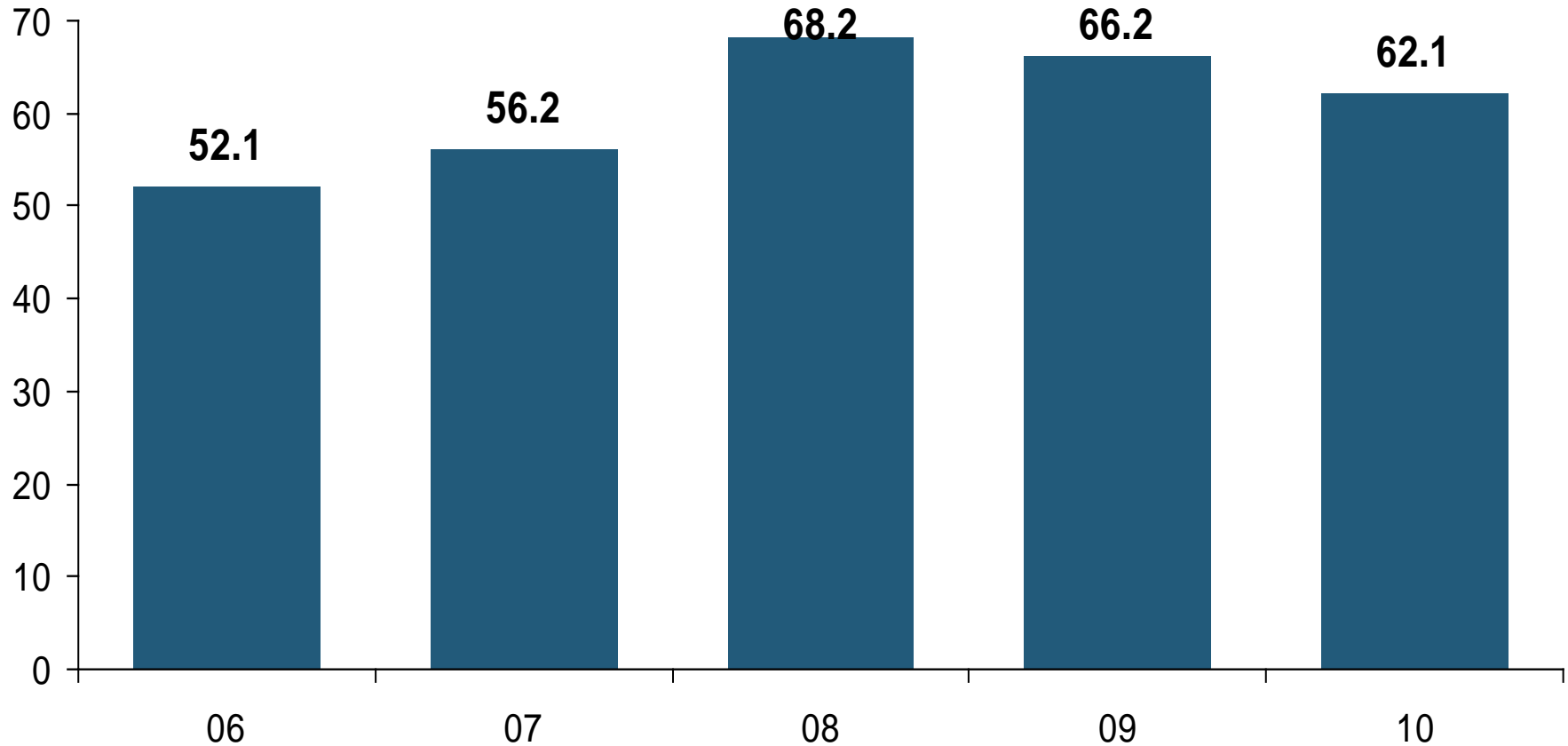
**Generally, Healthier  
than the U.S. P/C Industry**

# Annual % Change in NPW, Canada, 1976-2010



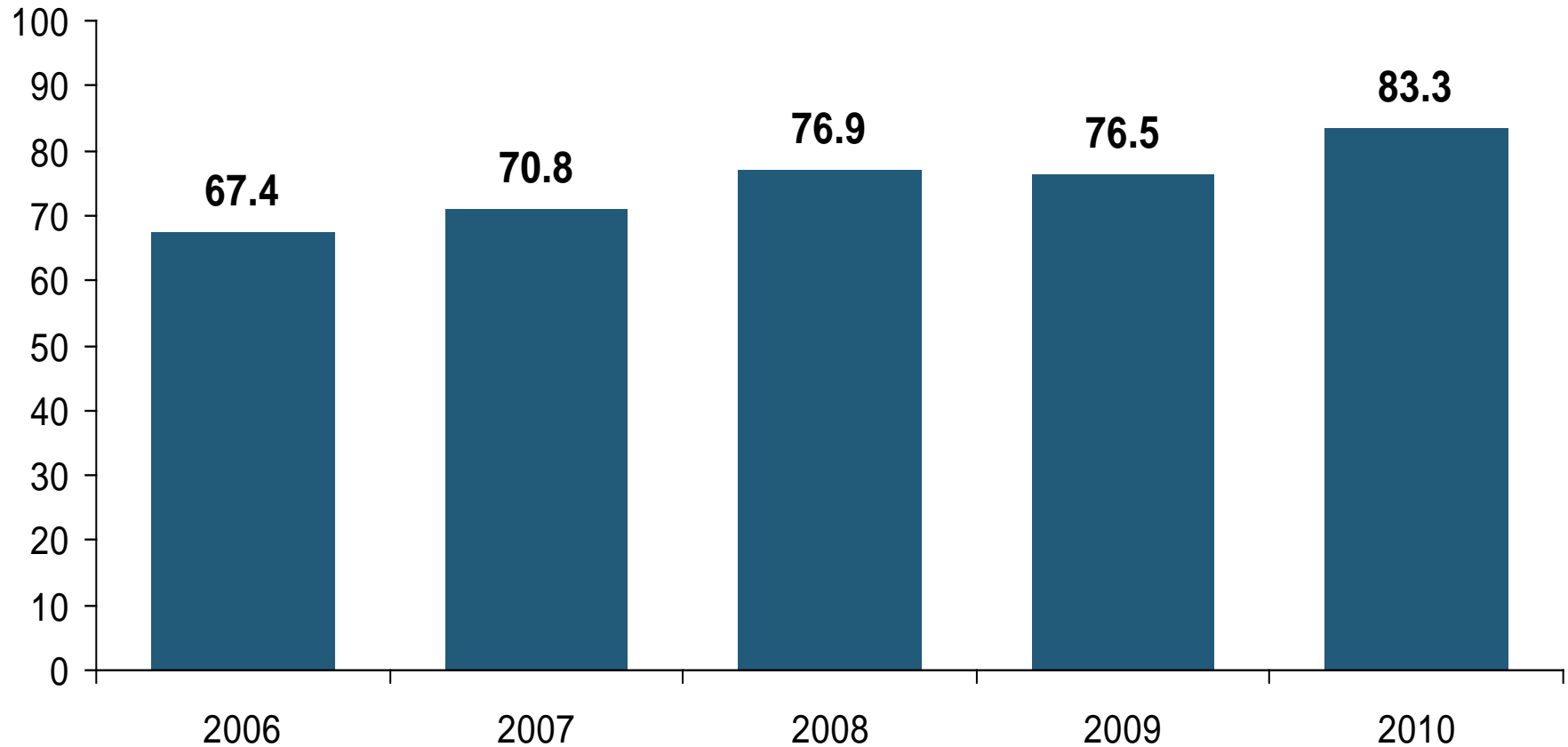
Sources: Insurance Bureau of Canada.

# Commercial Property Insurance Loss Ratio, Canadian P/C Insurers, 2006-2010



Note: Excludes Lloyd's CAB and ICBC.  
Source: A.M. Best Co.

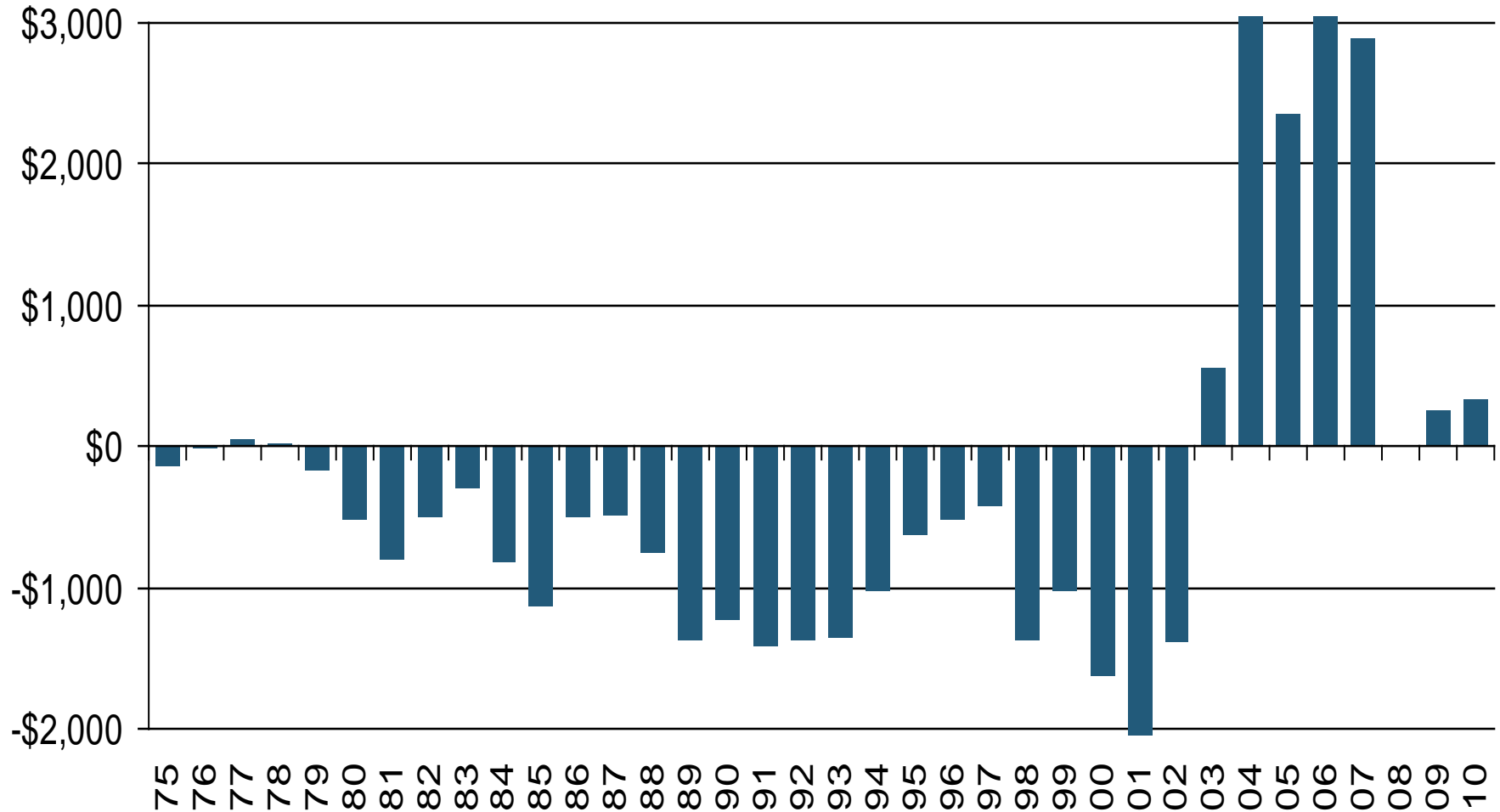
# Private Auto Insurers Net Loss Ratio, Canadian P/C Insurers, 2006-2010



Note: Excludes Lloyd's CAB and ICBC.  
Source: A.M. Best Co.

# Underwriting Income, Canadian P/C Insurers, 1975-2010

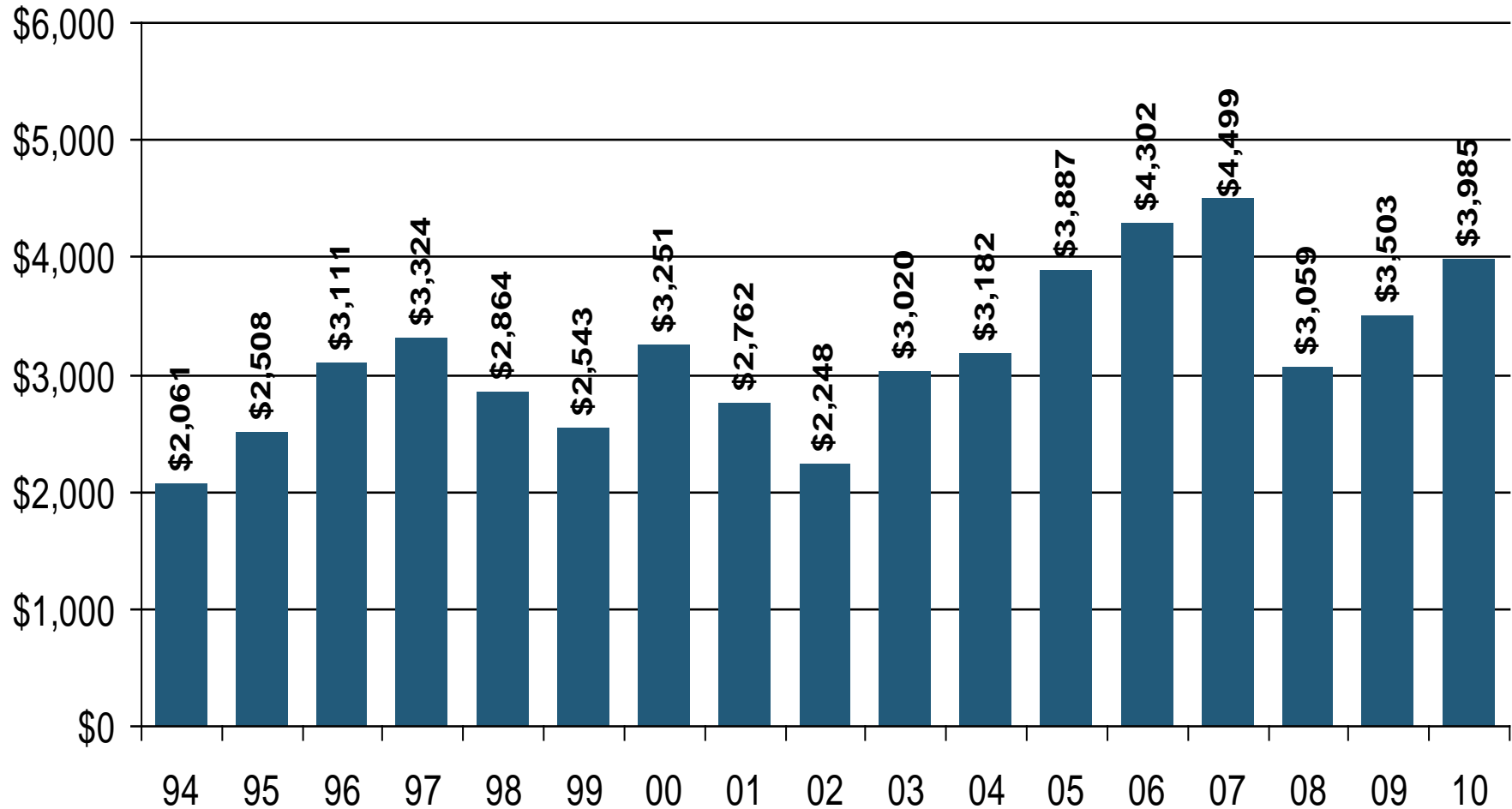
(\$ Millions)



Note: All amounts are in Canadian dollars.  
Sources: Insurance Bureau of Canada.

# Investment Income, Canadian P/C Insurers, 1991-2010

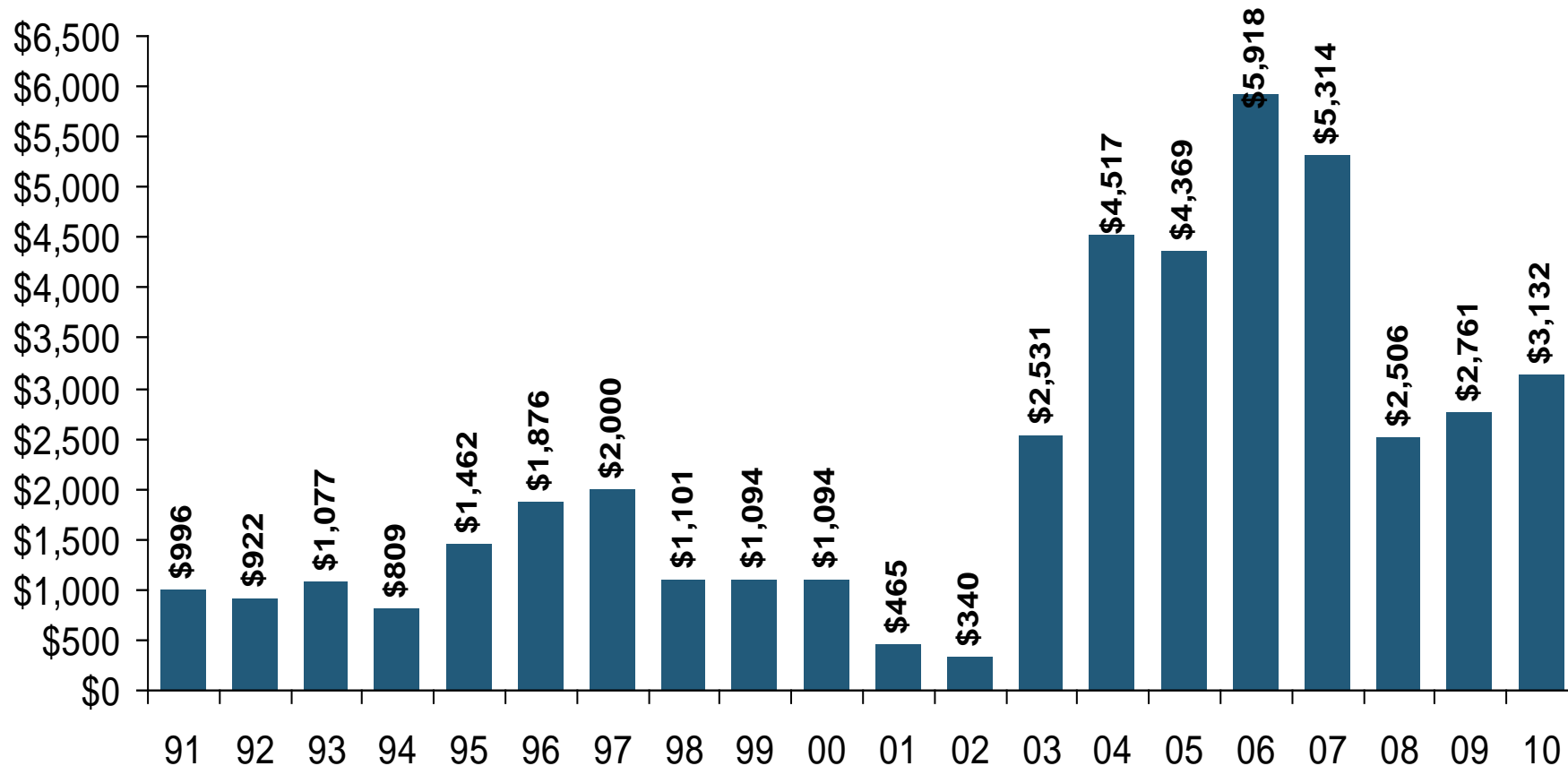
(\$ Millions)



Note: All amounts are in Canadian dollars.  
Sources: Insurance Bureau of Canada.

# P/C Industry Net Income, Canada, 1991-2010

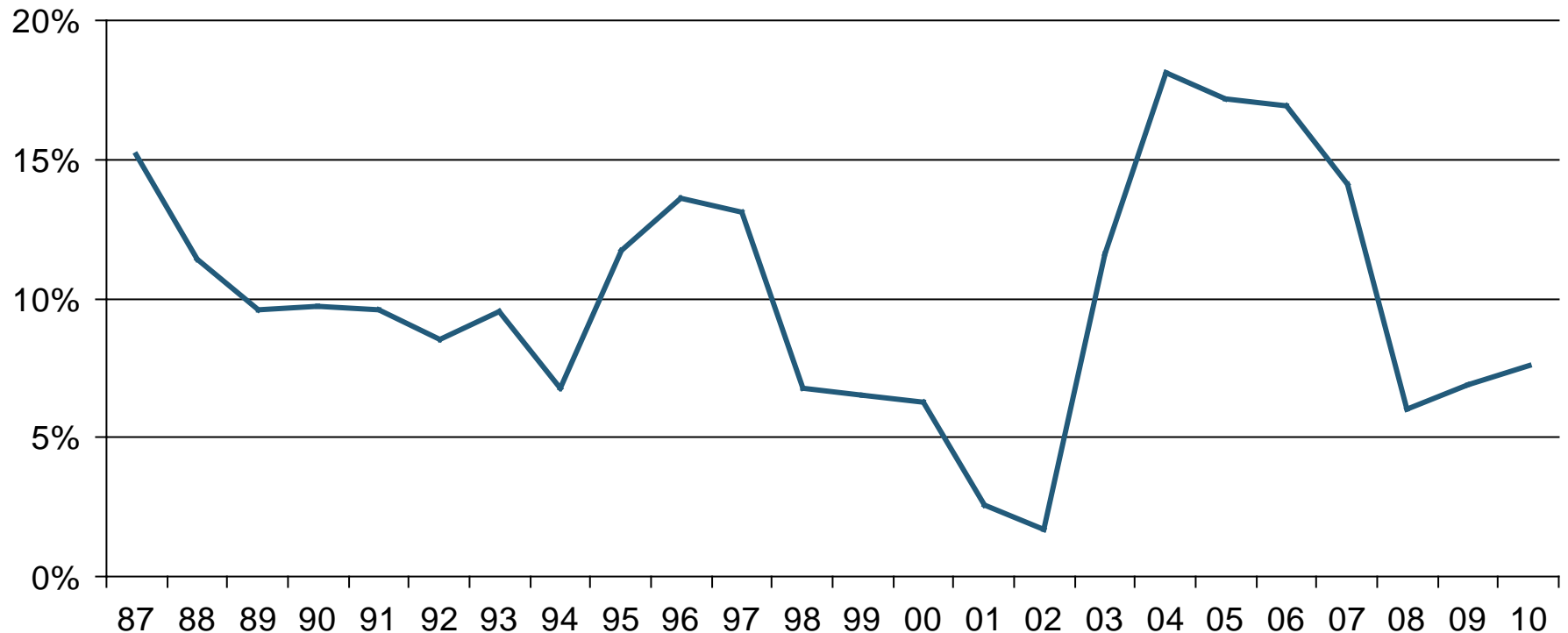
(\$ Millions)



Note: All amounts are in Canadian dollars.  
Source: Insurance Bureau of Canada.

# ROE: P/C Insurance, Canada, 1987-2010 (1)

(Percent)



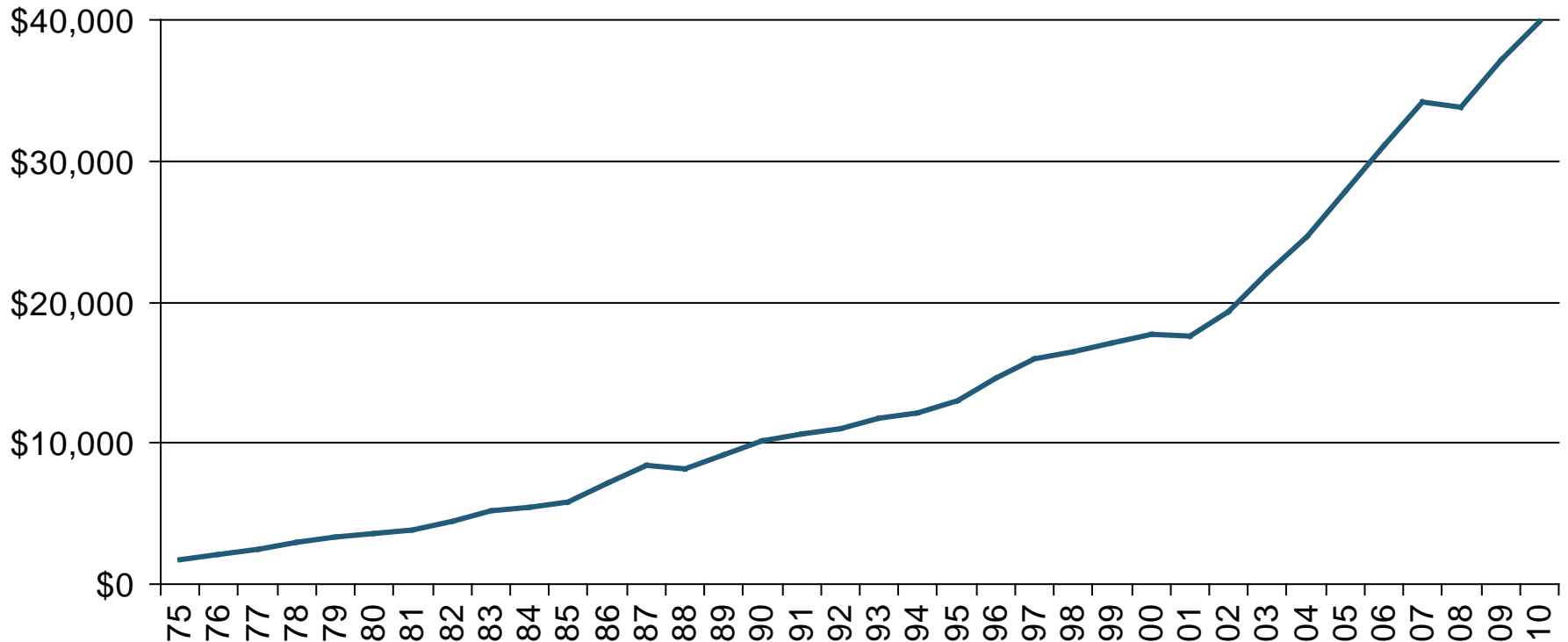
(1) GAAP basis.

Sources: Insurance Bureau of Canada.



# Equity (Net Worth), Canadian P/C Insurers, 1975-2010

(\$ Millions)



Note: All amounts are in Canadian dollars. Quarter end.  
Sources: Insurance Bureau of Canada.



# Economic Threats to the Global (Re)Insurance Industry

## At Least Eight to Monitor

# 3 Near-Term Issues

- Effects of the Record-Breaking Number and Cost of Disasters in 2011
  - ◆ Can/should reinsurers raise rates?
  - ◆ Can/should reinsurers raise capital?
  - ◆ Can/should reinsurers reassess the risk in their book of business?
- Inflation Transmitted Globally
  - ◆ China, Brazil and other countries
  - ◆ Soaring food and other commodity prices
  - ◆ Oil prices and supply reliability
- Increased political risk

# Global Catastrophe Loss Summary: First Half 2011

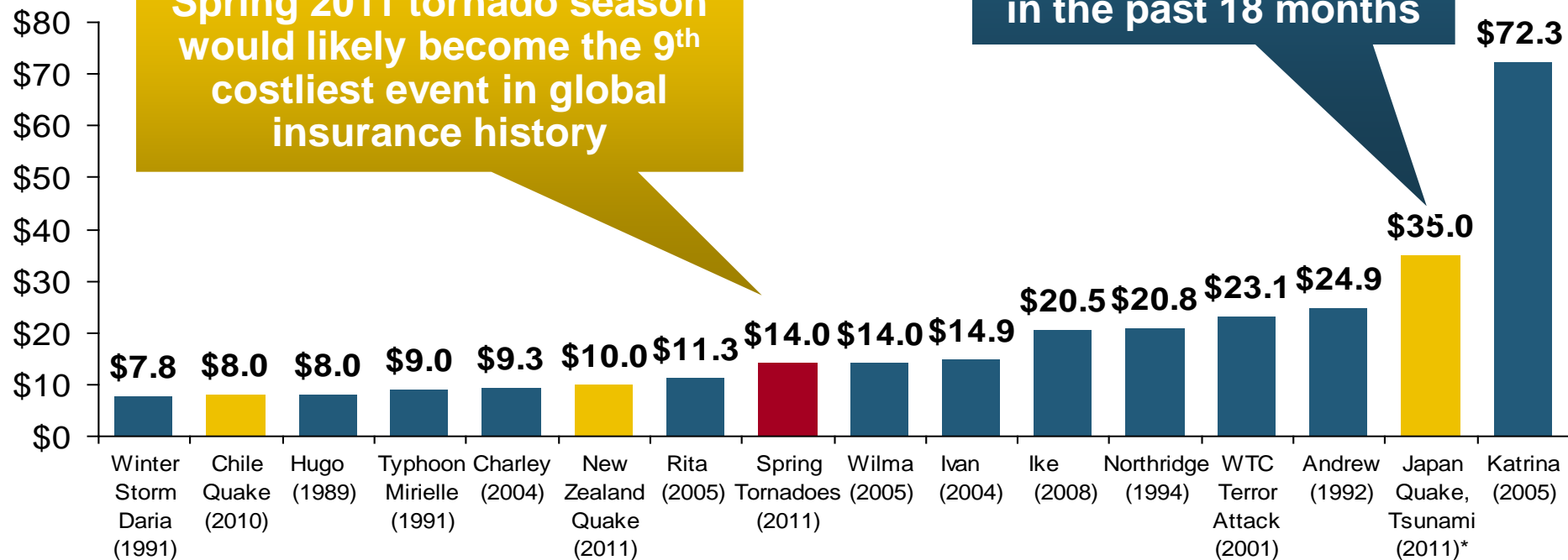
- **2011 Is Already (as of June 30) the *Highest Loss Year on Record Globally***
  - ◆ Extraordinary accumulation of severe natural catastrophe: Earthquakes, tsunami, floods and tornadoes are the primary causes of loss
  
- **\$260 Billion in *Economic Losses Globally***
  - ◆ New record for the first six months, exceeding the previous record of \$220B in 2005
  - ◆ Economy is more resilient than most pundits presume
  
- **\$55 Billion in *Insured Losses Globally***
  - ◆ More than double the first half 2010 amount
  - ◆ Over 4 times the 10-year average

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

(Insured Losses, 2010 Dollars, \$ Billions)

Taken as a single event, the Spring 2011 tornado season would likely become the 9<sup>th</sup> costliest event in global insurance history

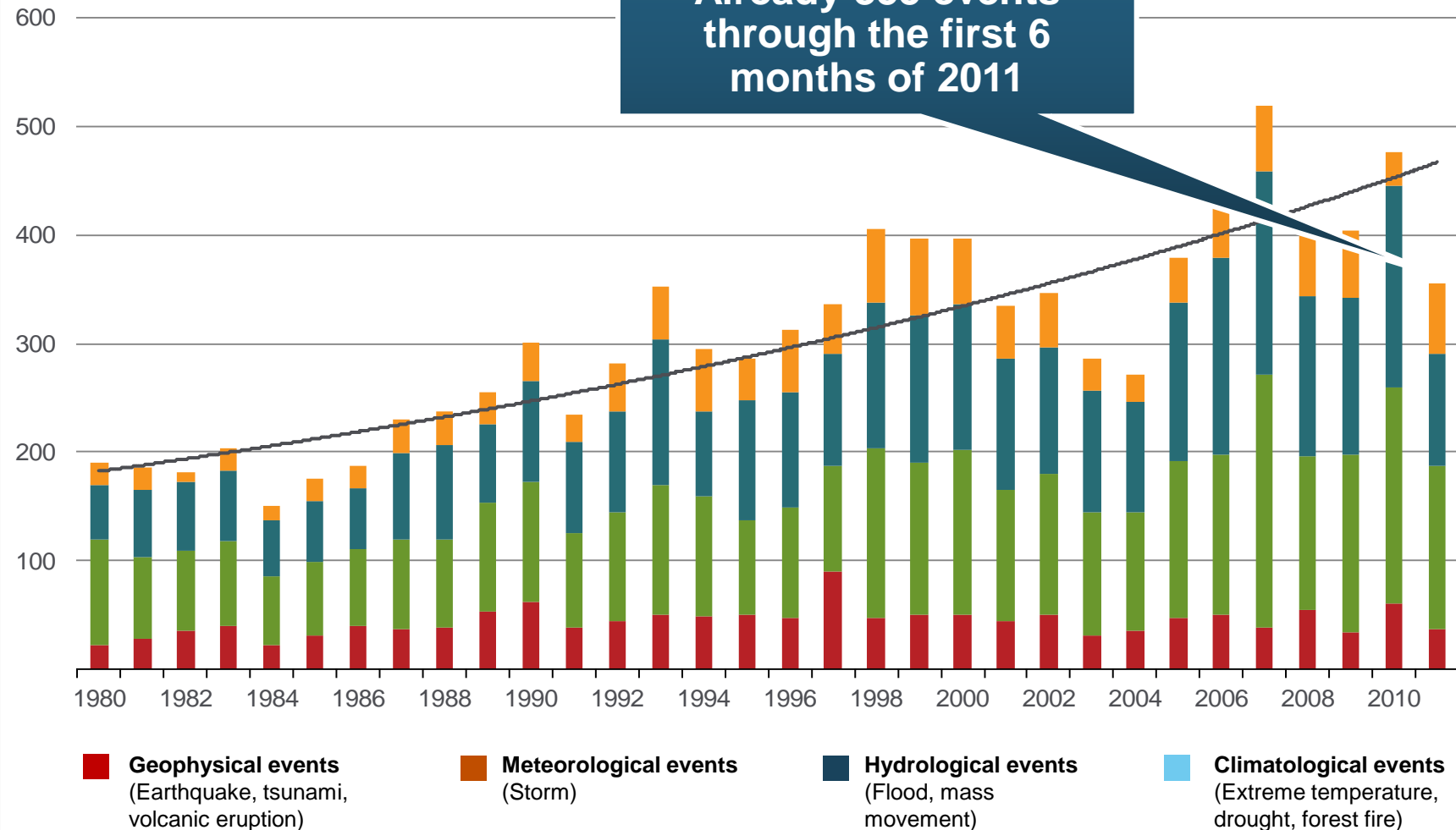
3 of the top 15 most expensive catastrophes in world history have occurred in the past 18 months



\*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\*

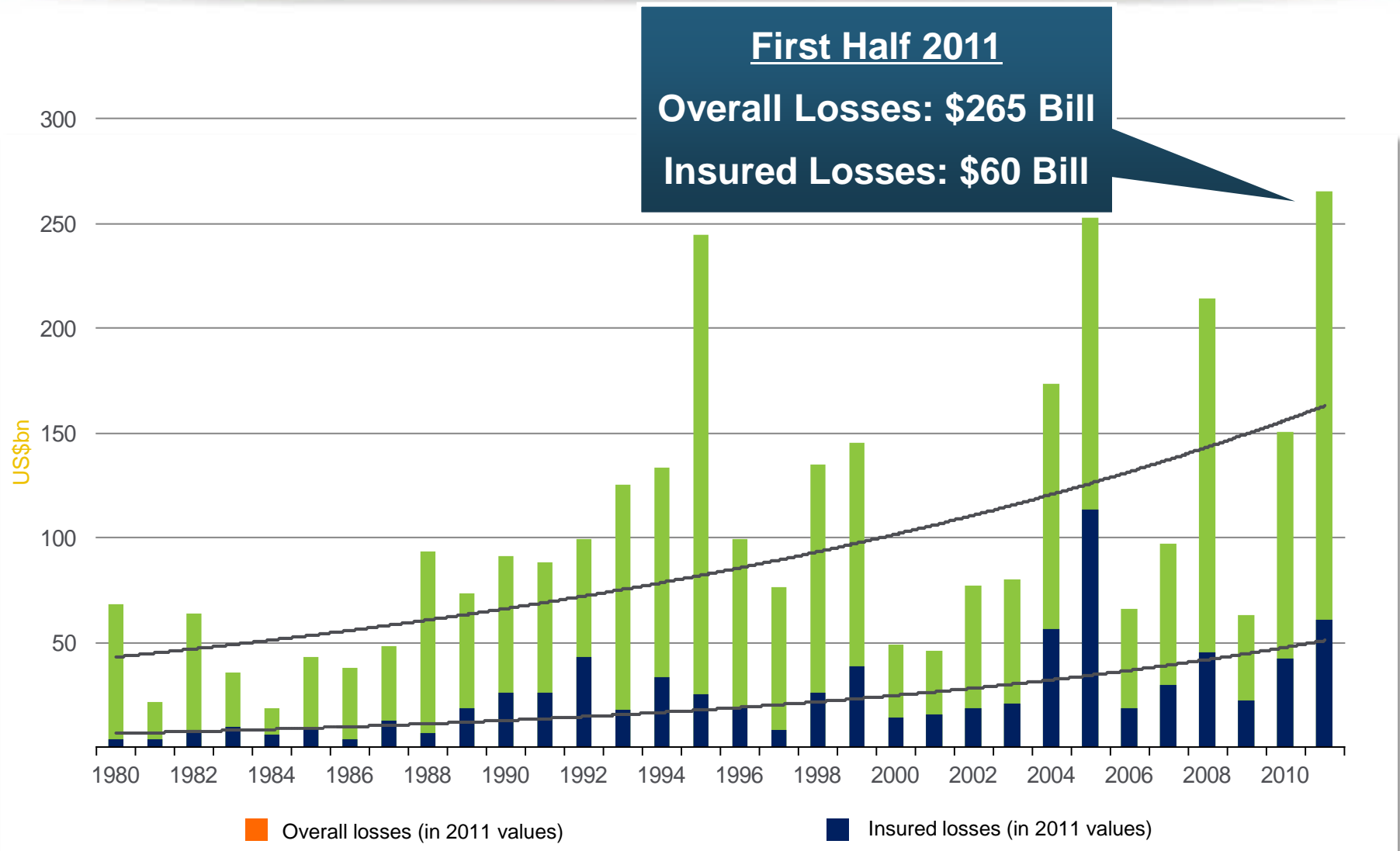
## Number of Events



\*2011 figure is through June 30.

Source: MR NatCatSERVICE

# Worldwide Natural Disasters 1980–2011, Overall and Insured Losses\*

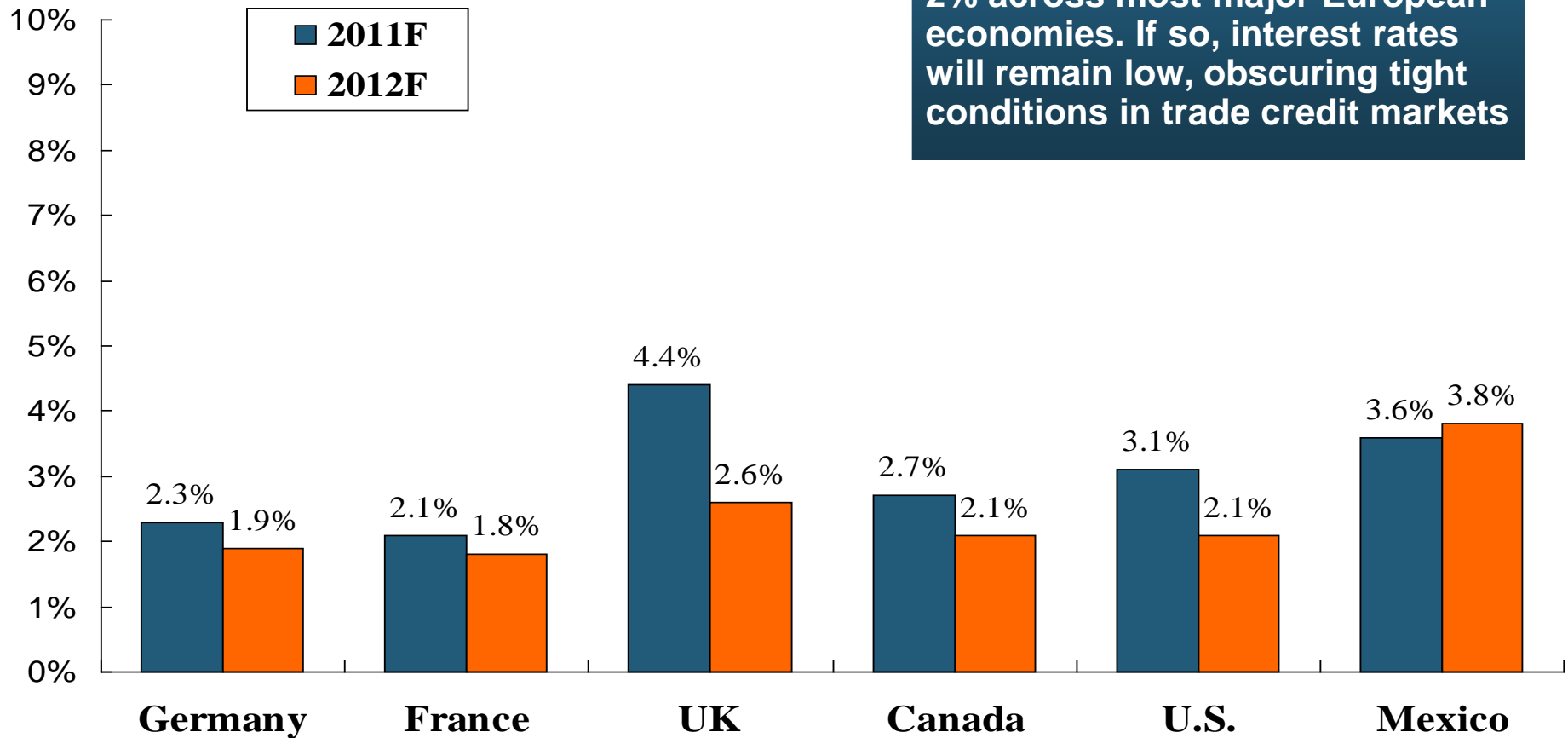


\*2011 figure is through June 30.

Source: MR NatCatSERVICE

# Inflation Rate Forecast for Largest European & North American Economies, 2011F-2012F

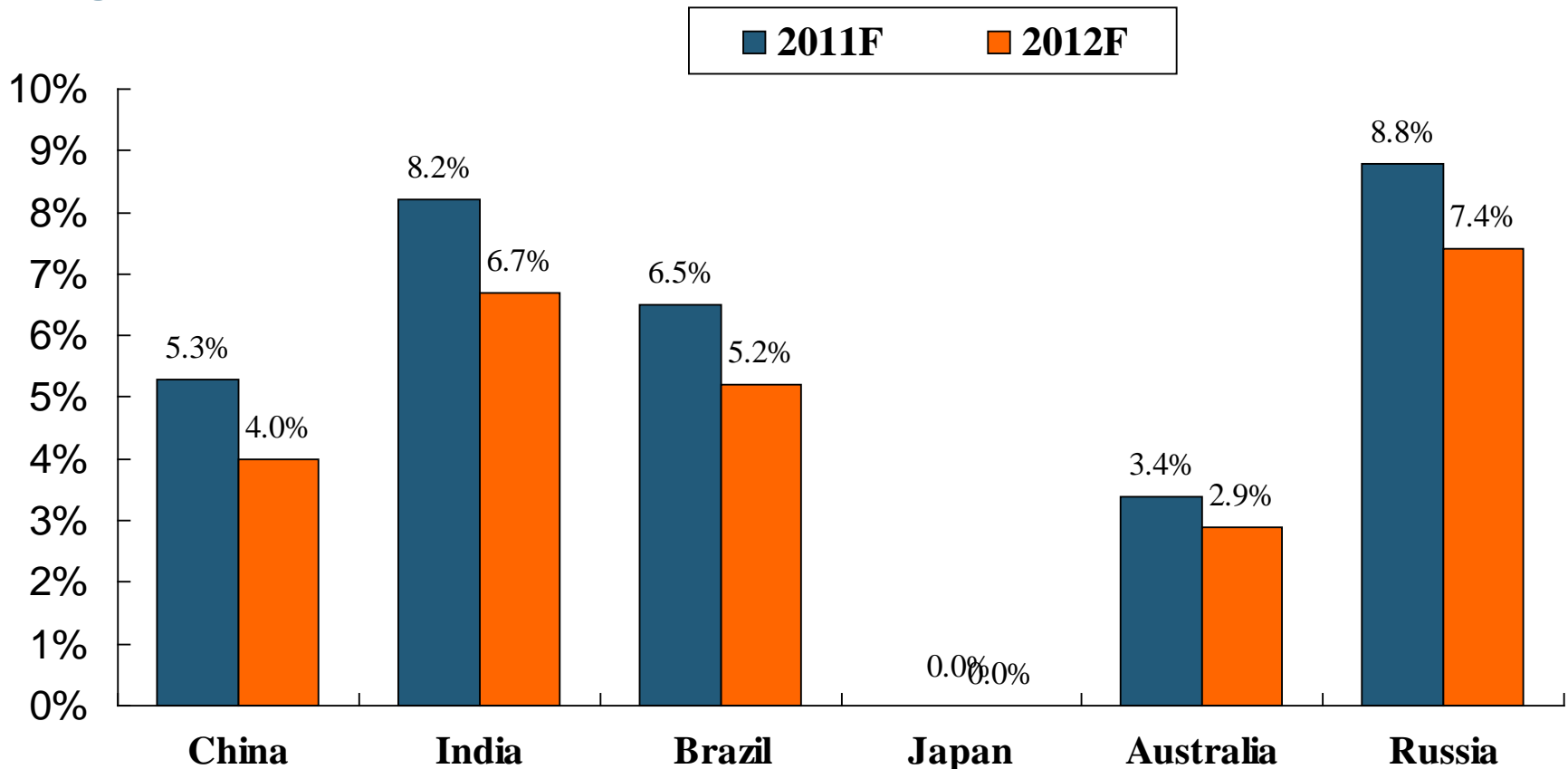
Change from  
Prior Year





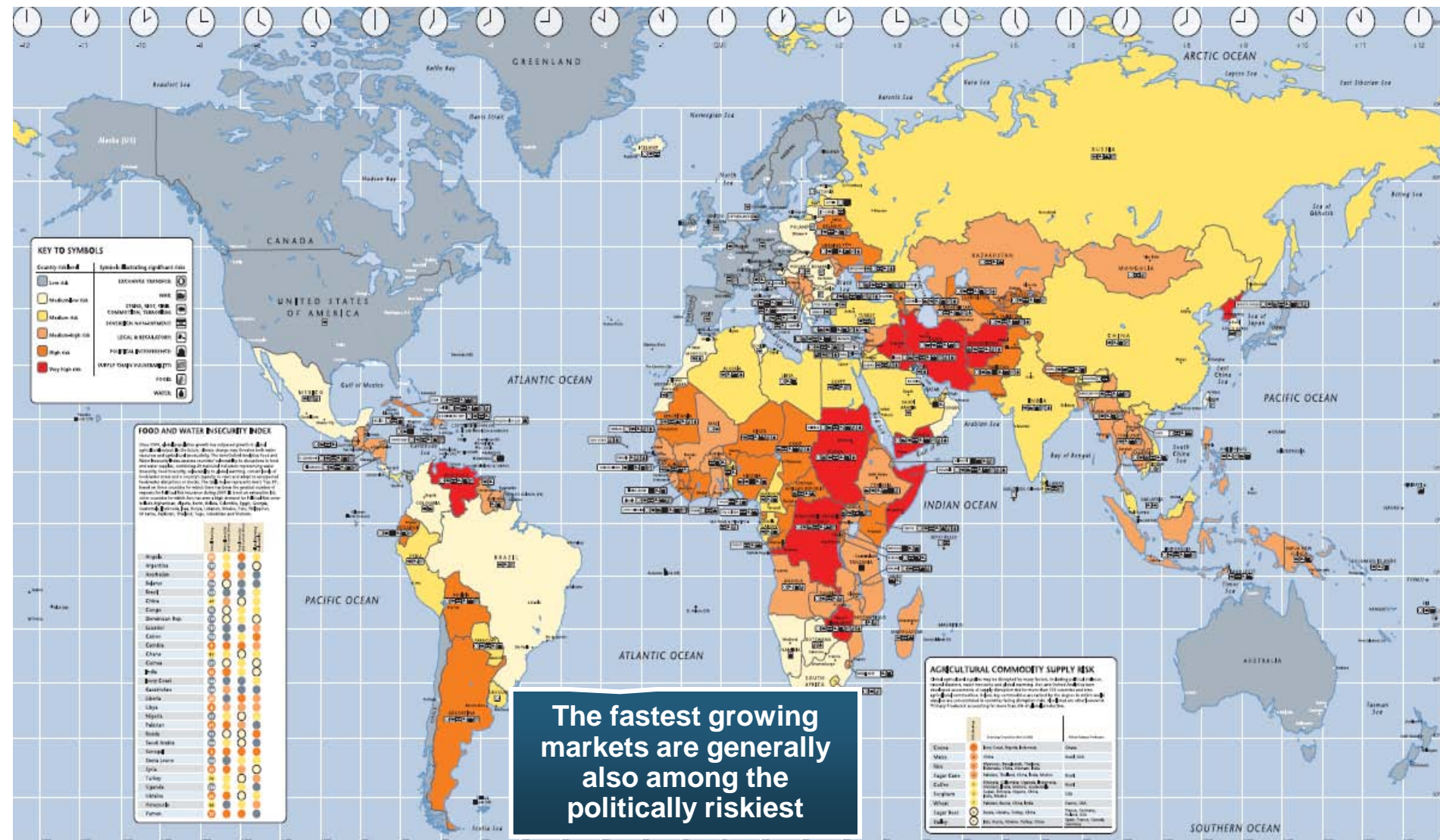
# Inflation Rate Forecast for Other Important Countries, 2011-12F

% Change from Prior Year



**Inflation is much higher in fast-growing economies such as Brazil, Russia, India, and China (the BRIC group). Inflation there can spread to advanced economies because the advanced countries import significantly from the BRICs.**

# Political Risk: Insurers' Greatest Opportunities Are Often in Risky Nations



The fastest growing markets are generally also among the politically riskiest

## ■ Elevated Political Risk Levels to Continue in 2010

- ◆ Significant volume of credit and political risk claims in international insurance markets have driven many of the **18 country downgrades** in this year's map.
- ◆ Aon believes 2010 will see elevated political risk levels continue before an overall tendency for improving global business conditions becomes established. For many companies and across different sectors, including credit and political risk insurance, the business environment remains uncertain when trading with or investing in politically or economically unstable countries.

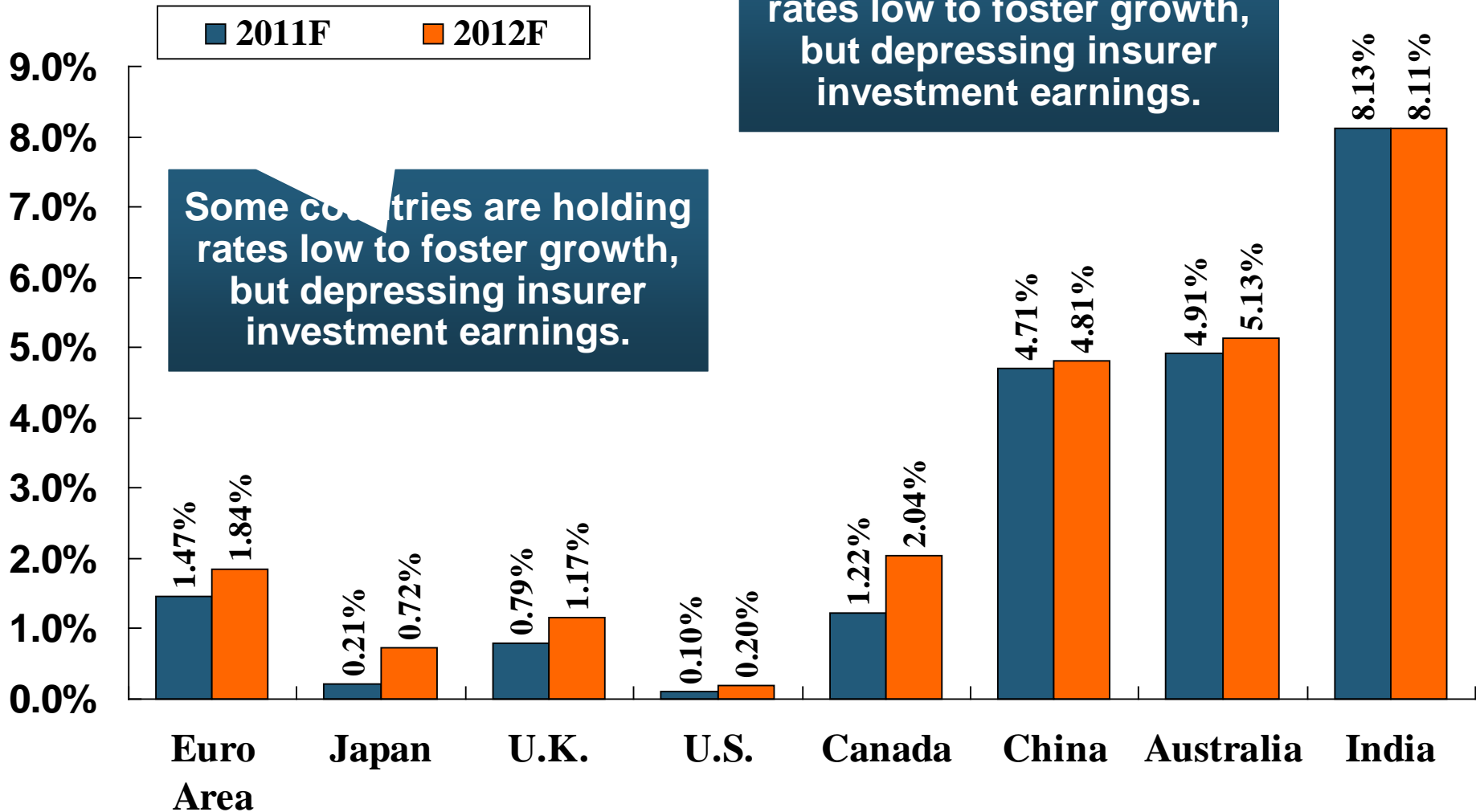
## ■ Movements on the 2010 Map

- ◆ A total of **18 countries** have seen conditions worsen leading to a **downgrade**: Algeria, Argentina, El Salvador, Equatorial Guinea, Ghana, Honduras, Kazakhstan, Latvia, Madagascar, Mauritania, Philippines, Puerto Rico, Seychelles, Sudan, United Arab Emirates, Ukraine, Venezuela and Yemen.
- ◆ Sudan, Venezuela and Yemen have been added to the **Very High category**, joining Afghanistan, Congo DRC, Iran, Iraq, North Korea, Somalia and Zimbabwe.
- ◆ **Eight countries/territories** have been **upgraded** to a lower risk level - Albania, Myanmar/Burma, Colombia, South Africa, Sri Lanka, East Timor, Vanuatu, Vietnam and the Hong Kong Special Administrative Region of the People's Republic of China.

**Bottom Line: Political and financial instability remain a feature of the business landscape in 2010 as a result of the recession.**

- Persistently Low Interest Rates
  - ◆ Lower investment income, more pressure on u/w profit
- Currency Market Instability
- Sovereign Bond Market Concerns (Greece, Spain, Ireland, etc.)
- Strong Capital Flows to Emerging/Developing Economies => Asset Price Bubbles?
- Regulatory Backlash/Developments
  - ◆ Solvency II, Basel III
  - ◆ US Financial Services Reform

# 3-Month Interest Rates for Major Global Economies, 2011F-2012F



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