



Overview & Outlook for the P/C Insurance Industry

Is the World Becoming a Riskier Place?

Independent Insurance Agents of Houston
Houston, TX
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Download at www.iii.org/presentations

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- **Review of Recent Events:**
 - ◆ **What in the World is Going On?**
- **Reasons for Optimism, Causes for Concern in the P/C Insurance Industry**
- **P/C Profitability Overview & Outlook**
- **Catastrophe Loss Review**
- **Q&A**

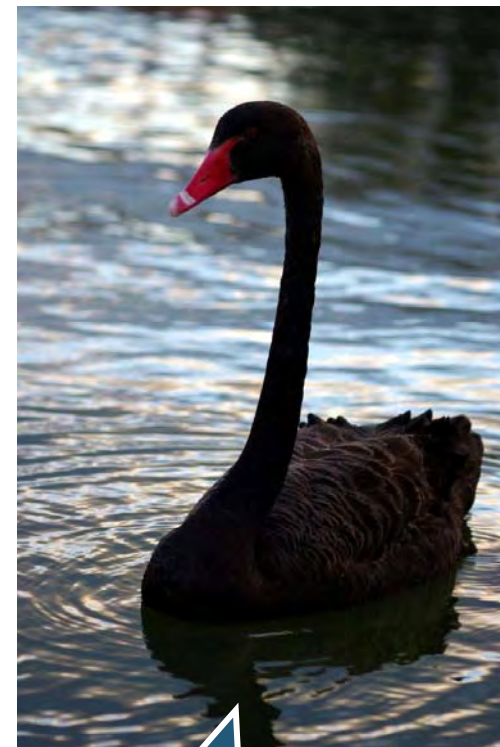
What in the World Is Going On?

**Is the World Becoming a
Riskier Place?**

***Are We Really Crawling Out of the
Abyss or Falling Into a New One?***

Uncertainty, Risk and Fear Abound

- Resurgent Terrorism Risk (e.g., Bin Laden Killing)
- Record Tornado Activity & Flooding in the US
- Japan, New Zealand, Haiti, Chile Earthquakes
- Political Upheaval in the Middle East
- Echoes of the Financial Crisis
- Housing Crisis
- US Debt and Budget Crisis
- Sovereign Debt & Currency Crises
- Inflation
- Runaway Energy & Commodity Prices
- Era of Fiscal Austerity
- Reshuffling the Global Economic Deck
- China Becomes #2 Economy in the World
- Nuclear Fears
- Manmade Disasters (e.g., Deepwater Horizon)



Are “Black Swans” everywhere or does it just seem that way?

Mississippi River Floods: A Threat to Navigation



Memphis (May 5, 2011)—with the swollen Mississippi flooding fields in Arkansas across the river. The river is normally $\frac{1}{2}$ mile across but is now 3 miles wide in places.



Mississippi River just south of Memphis (May 5, 2011). TN is to the right, AR to the left. The was expected to crest on May at 47 ft., 14 ft. above flood stage and near the record of 47.8 ft. set in 1937

Recent Events Illustrate the Importance of Insurance

Uncertainty, Volatility and Catastrophe



Terrorism, P/C Insurance and the Killing of Osama bin Laden

Do We Still Need the Terrorism Risk Insurance Program?

Bin Laden, Justice and the Future of Terrorism, Risk and Insurance

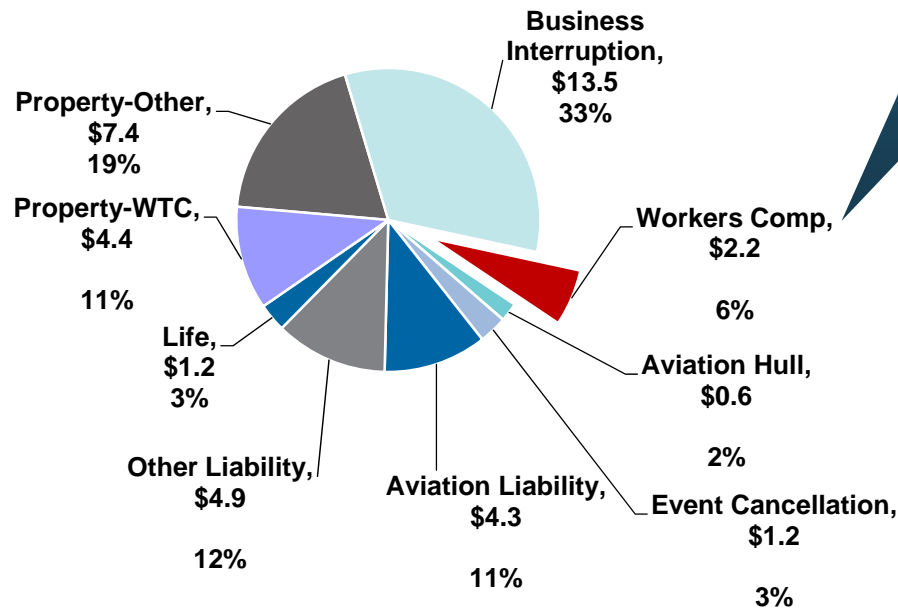


Bin Laden is Dead and Justice Is Served, But What Are the Implications for the P/C Insurance Industry?

Distribution of Insured September 11 Losses by Line (\$ Billions, 2009 Dollars)

9/11 losses totaled \$40.0 billion in 2010 dollars (\$32.5 billion in 2001 dollars)

9/11 remains the largest WC loss in US history (\$2.2 bn), even though 9/11 property losses were surpassed by Hurricane Katrina in 2005



(1) Loss total does not include NYC March 2010 settlement of up to \$657.5 million to compensate about 10,000 Ground Zero workers.
 (2) Sum of segment totals may not equal overall total due to rounding. Adjusted to 2010 dollars using the Bureau of Labor Statistics (BLS) Inflation Calculator.

Thwarted and Failed Terrorism Attempts Against the US in 2009 and 2010

Date	Location	Event
December 8, 2010	Baltimore, MD	Attempted bombing of Armed Forces recruiting center by U.S. citizen Antonio Martinez, aka Muhammad Hussain
November 26, 2010	Portland, OR	Attempted bombing at Christmas tree lighting ceremony in downtown Portland by naturalized U.S. citizen Mohamed Osman Mohamud
October, 2010	Washington D.C.	Attempted plot to bomb D.C.-area metro stations
May 1, 2010	New York City, NY	Attempted SUV bombing in Times Square, New York City, by naturalized U.S. citizen Faisal Shahzad
December 25, 2009	Over Detroit, MI	Attempted bombing of Northwest Airlines passenger jet over Detroit by underwear bomber Umar Farouk Abdulmutallab
September, 2009	New York City, NY	U.S. resident Najibullah Zazi and others charged with conspiracy to use weapons of mass destruction in New York City
September, 2009	Springfield, IL	Attempted plot to detonate a vehicle bomb at the federal building in Springfield, IL
September, 2009	Dallas, TX	Attempted bombing of skyscraper in Dallas, TX
May, 2009	New York City, NY	Foiled plot to bomb Jewish synagogue and shoot down military planes in New York City
May, 2009	Various U.S. targets	Conviction of Liberty City six for conspiring to plan attacks on U.S. targets, including Sears Tower, Chicago

There Have Been Numerous Unsuccessful Attempts by Terrorists to Attack the US Over the Past 2 Years

Insured Loss Estimates: Large CNBR Terrorist Attack (\$ Bill)

Type of Coverage	New York	Washington	San Francisco	Des Moines
Group Life	\$82.0	\$22.5	\$21.5	\$3.4
General Liability	14.4	2.9	3.2	0.4
Workers Comp	483.7	126.7	87.5	31.4
Residential Prop.	38.7	12.7	22.6	2.6
Commercial Prop.	158.3	31.5	35.5	4.1
Auto	1.0	0.6	0.8	0.4
TOTAL	\$778.1	\$196.8	\$171.2	\$42.3

Workers Comp is and Remains the Most Vulnerable of All P/C Lines, Despite Killing of Bin Laden

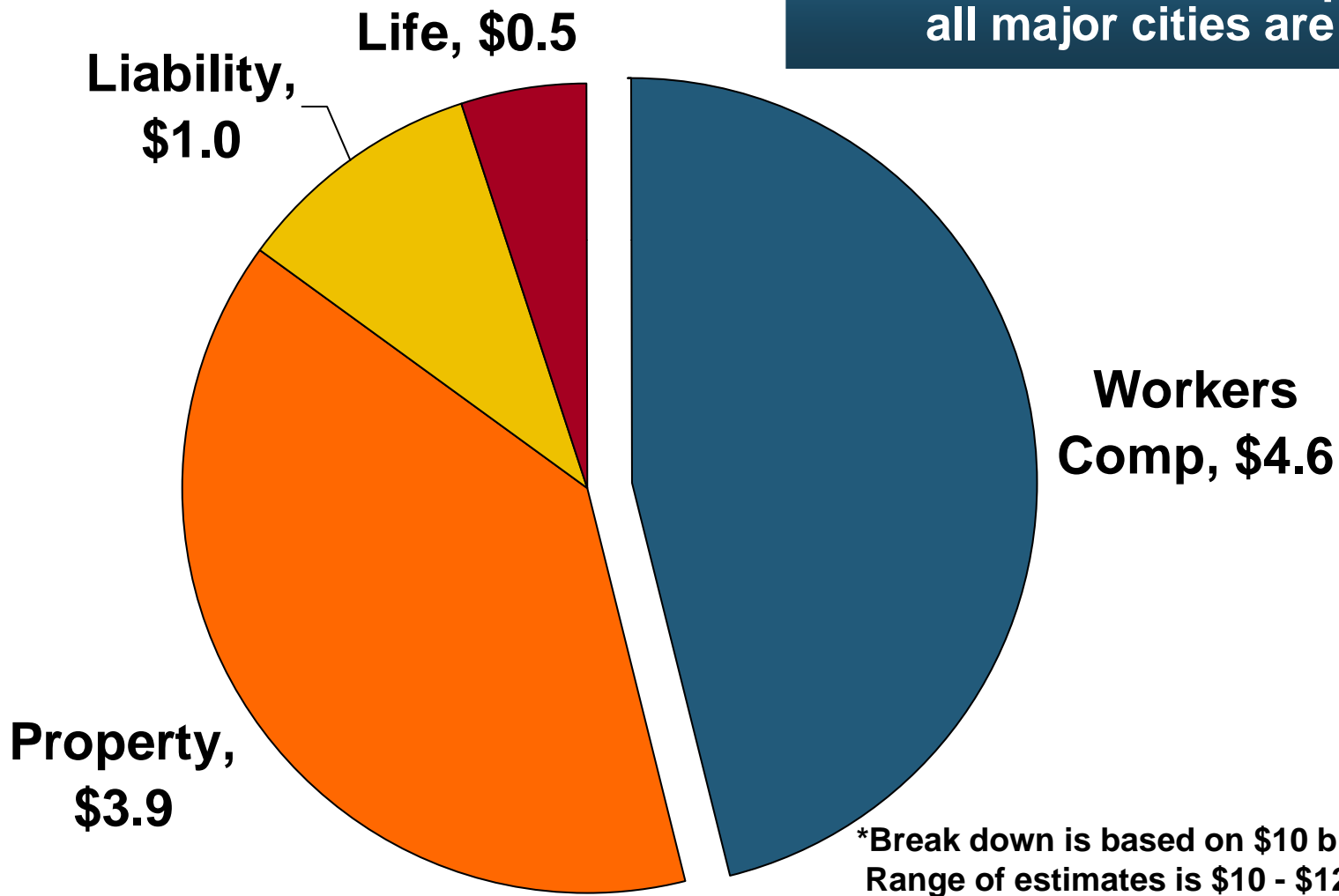
Insured Loss Estimates: Truck Bomb Terrorist Attack (\$ Bill)

Type of Coverage	New York	Washington	San Francisco	Des Moines
Group Life	\$0.3	\$0.2	\$0.3	\$0.1
General Liability	1.2	0.4	0.7	0.2
Workers Comp	3.5	2.8	3.9	1.5
Residential Prop.	0.0	0.0	0.0	0.0
Commercial Prop.	6.8	2.1	3.9	1.2
Auto	0.0	0.0	0.0	0.0
TOTAL	\$11.8	\$5.5	\$8.8	\$3.0

**Workers Comp is and Remains the Most Vulnerable
of All P/C Lines, Despite Killing of Bin Laden**

Potential Insured Losses from Terrorist Attack on Major Corporate HQ in Houston

Potential workers comp losses in all major cities are large



*Break down is based on \$10 billion loss estimate. Range of estimates is \$10 - \$12 billion. Source: RMS.

Terrorism Risk Insurance and Bin Laden's Death

- **Bin Laden's Killing, at Least in the Short Run, Could Actually Increase Risk as Al Qaeda's Sympathizers Seek to Avenge His Death**
 - ◆ US State Department: "Enhanced potential for anti-American violence."
- **Longer-Run Impact is Unclear**
 - ◆ Al Qaeda has many splinter groups
 - ◆ Current Mideast conflicts (e.g., Libya/Qaddafi attack) could increase risk
- **Domestic/Home Grown Terror Risk Looms Large Today than in 2001**
 - ◆ Several potentially severe attacks have been thwarted
- **Challenge to Maintain Terrorism Risk Insurance Program through 2014**
 - ◆ Will the Administration try to scale TRIPRA back under budget pressure using bin Laden's death as the rationale?
- **Will a Lack of Attacks, Death of bin Laden Influence Terrorism Risk Insurance Program Renewal Debate Ahead of 2014 Expiration?**
 - ◆ Narrowing of coverage (WC is the least likely of lines to be excluded)
 - ◆ Increased private insurer retention relative to federal government backstop
- **TRIA and Its Successors: Economic Stimulus Programs that Have Cost the Government Nothing**
 - ◆ Programs promote employment, construction and investment



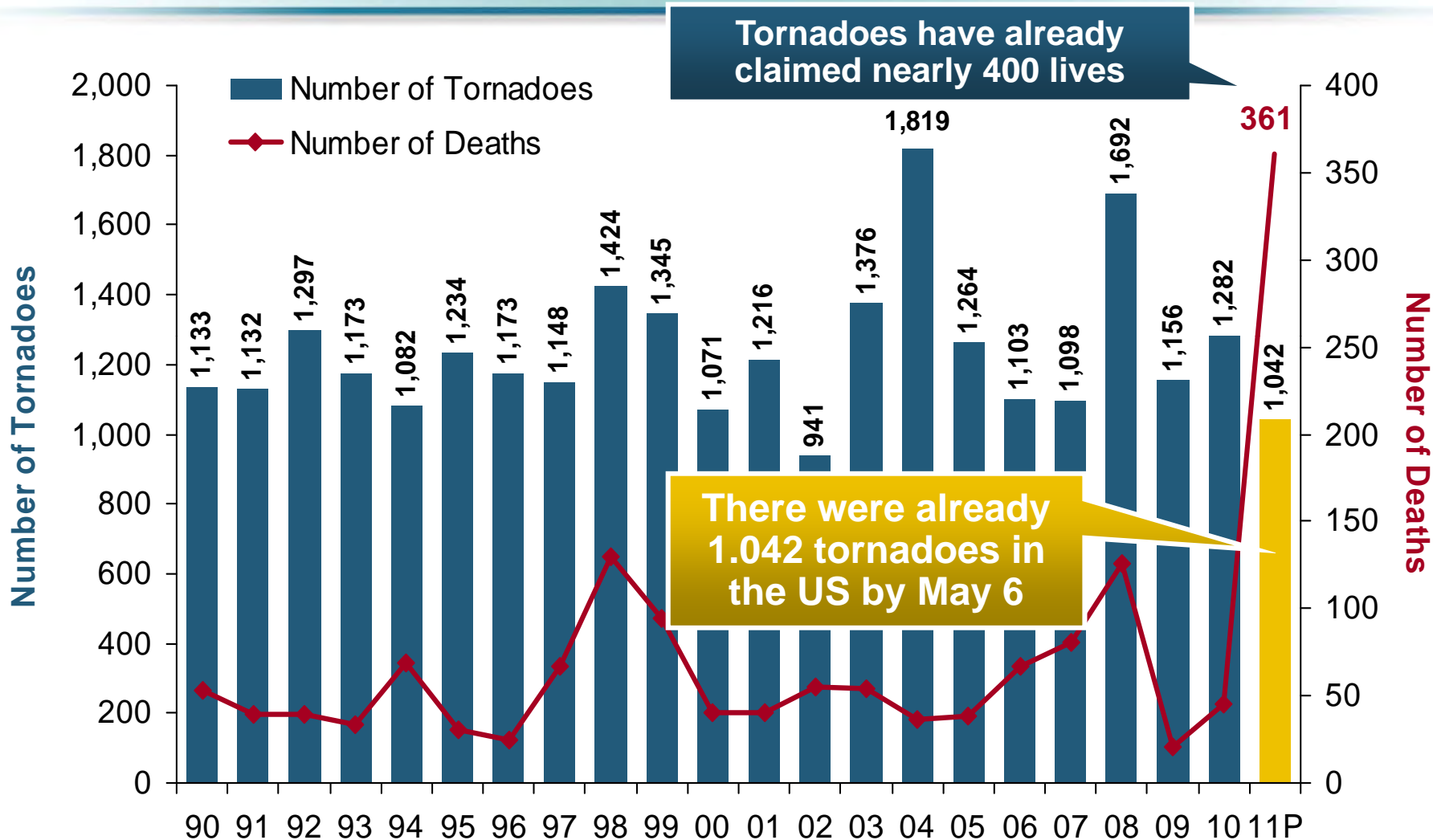
Summary of April 2011 Tornado Outbreak

**2011 Will Be Among the Most
Deadly and Expensive for
Tornadoes in History**

Summary of Recent Tornado Activity

- **There Have Been 1,042 Tornadoes Through May 6 in the US**
- **At least 361 People Have Been Killed**
- **The April 27 Tornado Outbreak Killed at Least 342 People**
 - ◆ Now the 2nd deadliest outbreak in US history (747 killed in march 1925 event)
 - ◆ States impacted: AR, TN, LA, MS, GA and especially AL
- **Insured Losses Estimated at \$2B to \$5B (Eqecat); \$3.7B - \$5.5B (AIR)**
- **Economic Losses Likely in the \$4 Bill to \$10 Bill Range**
- **P/C Insurers (and their Reinsurers) Will Settle Tens of Thousands of Home, Business and Auto Claims**
- **P/C Insurance Industry is Very Strong and Will Encounter No Difficulties in Paying these Claims**

Number of Tornadoes and Related Deaths, 1990 – 2011*

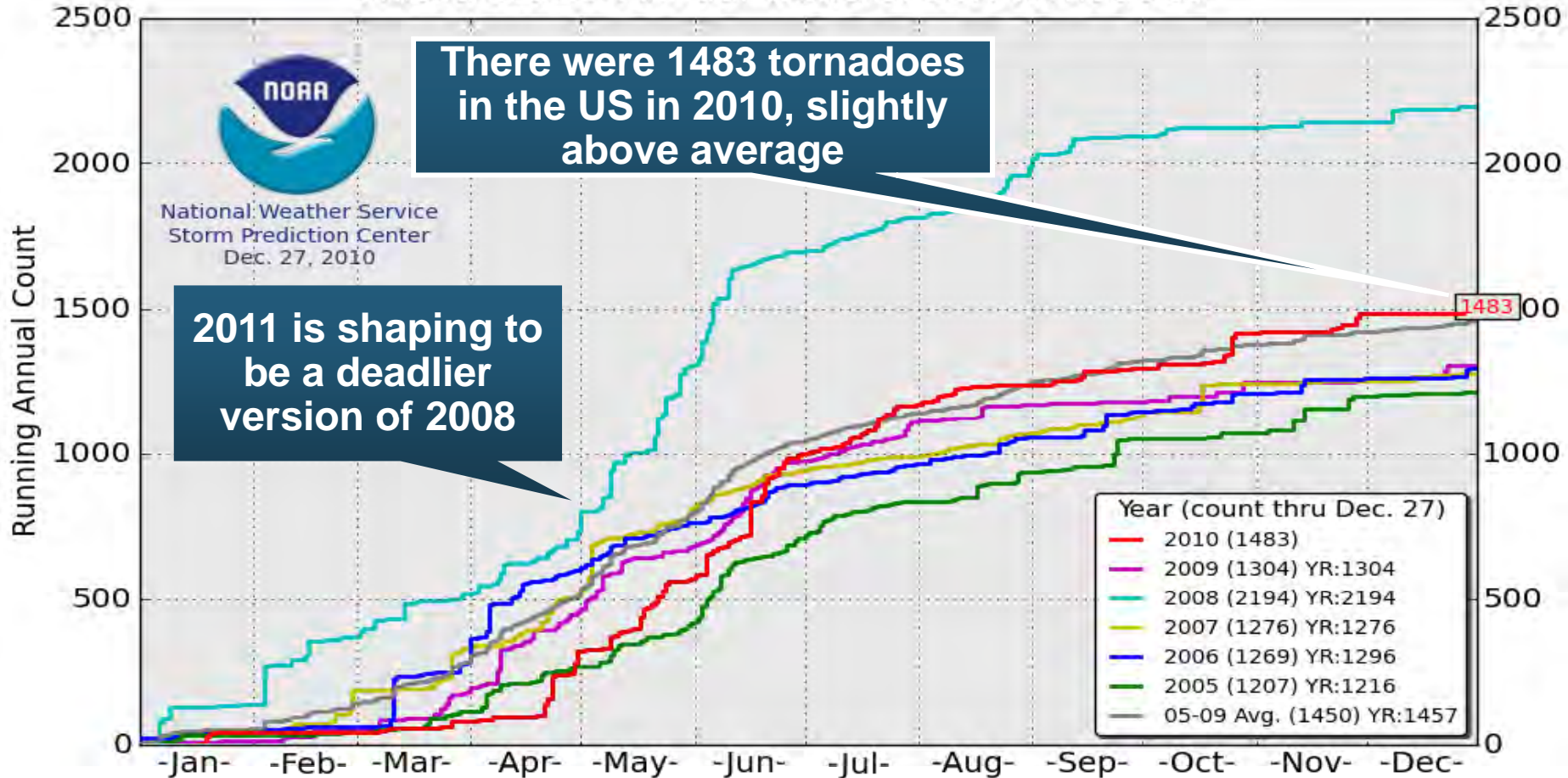


*2011 is preliminary data through May 6.

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

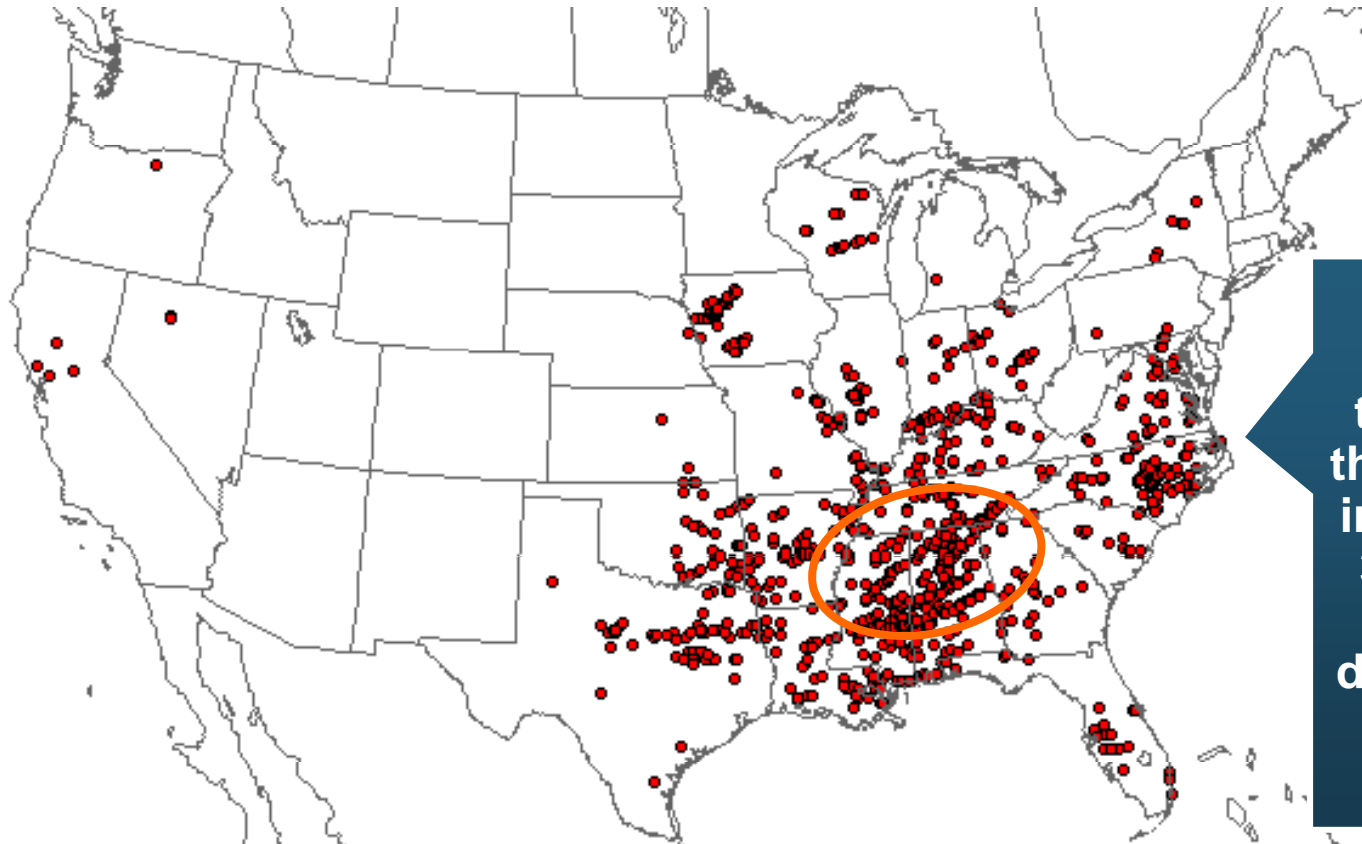
U.S. Tornado Count, 2010

United States Annual Trend of LSR Tornadoes*



*Preliminary tornadoes from NWS Local Storm Reports (LSRs)
Annual average is based on preliminary LSRs, 2005-2009

Location of Tornadoes in the US, January 1—April 29, 2011



**877 tornadoes
had killed more
than 400 people
through late April,
including at least
340 on April 26,
the second
deadliest tornado
outbreak in US
history**



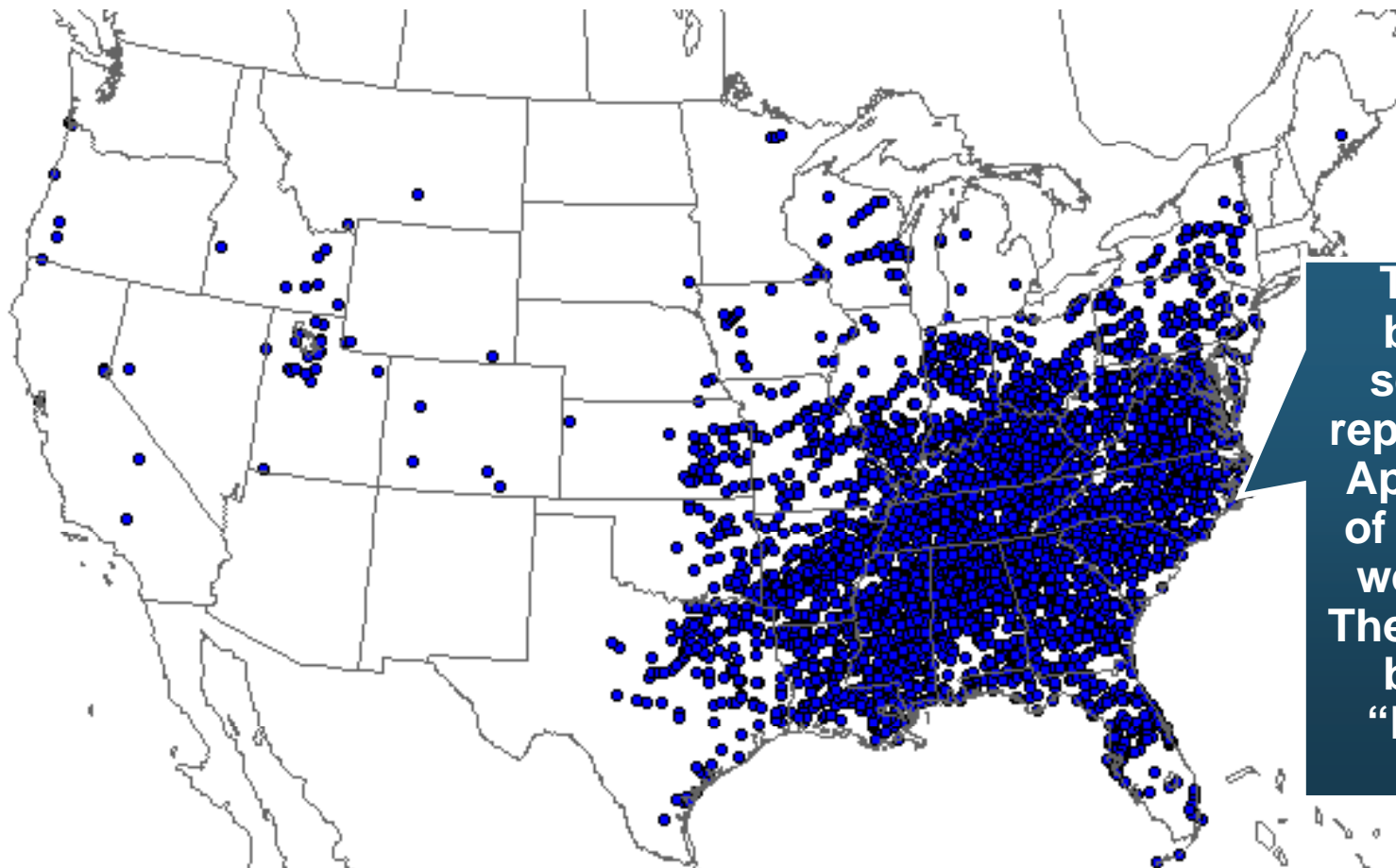
**PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)**

NOAA/Storm Prediction Center Norman, Oklahoma

**Tornado Reports
January 01, 2011 - April 29, 2011**

Updated: Friday April 29, 2011 08:28 CT

Severe Wind Reports, January 1—April 29, 2011



There have been 7,136 severe wind reports through April 29; 5,280 of those (74%) were in April; There have also been 1,992 “Large Hail” reports



PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

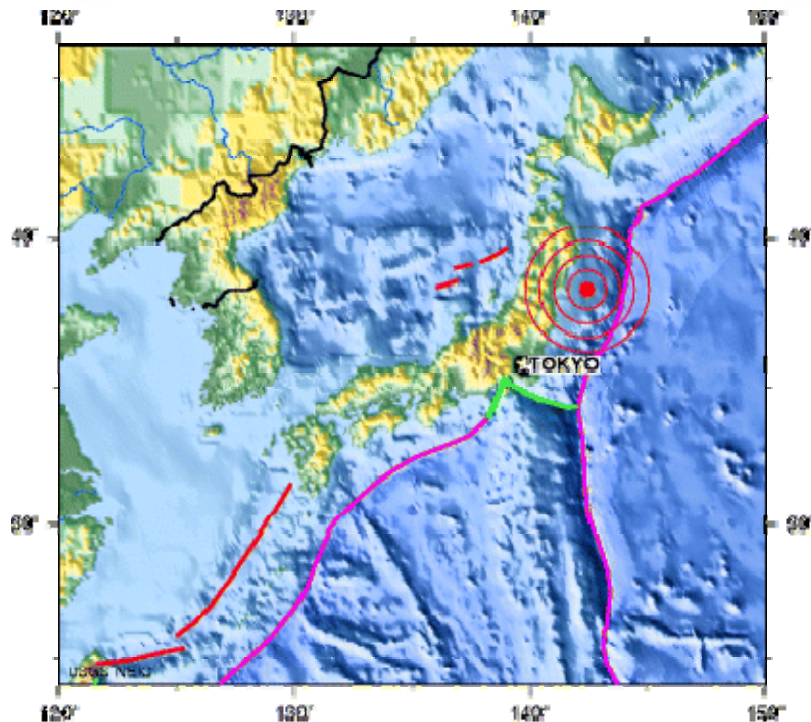
Wind Reports
January 01, 2011 - April 29, 2011

Updated: Friday April 29, 2011 08:28 CT

Summary of Japan Earthquake

**The March 11 Quake is Just the
Most Recent of Several Large
Catastrophe Losses**

Location of March 11, 2011 Earthquake Near Sendai, Honshu, Japan



NEAR EAST COAST OF HONSHU, JAPAN

2011 03 11 05:49:23 UTC 38.92N 142.27E Depth: 24.4 km

Earthquake Location

March 11 Earthquake Facts as of 3/24/2011

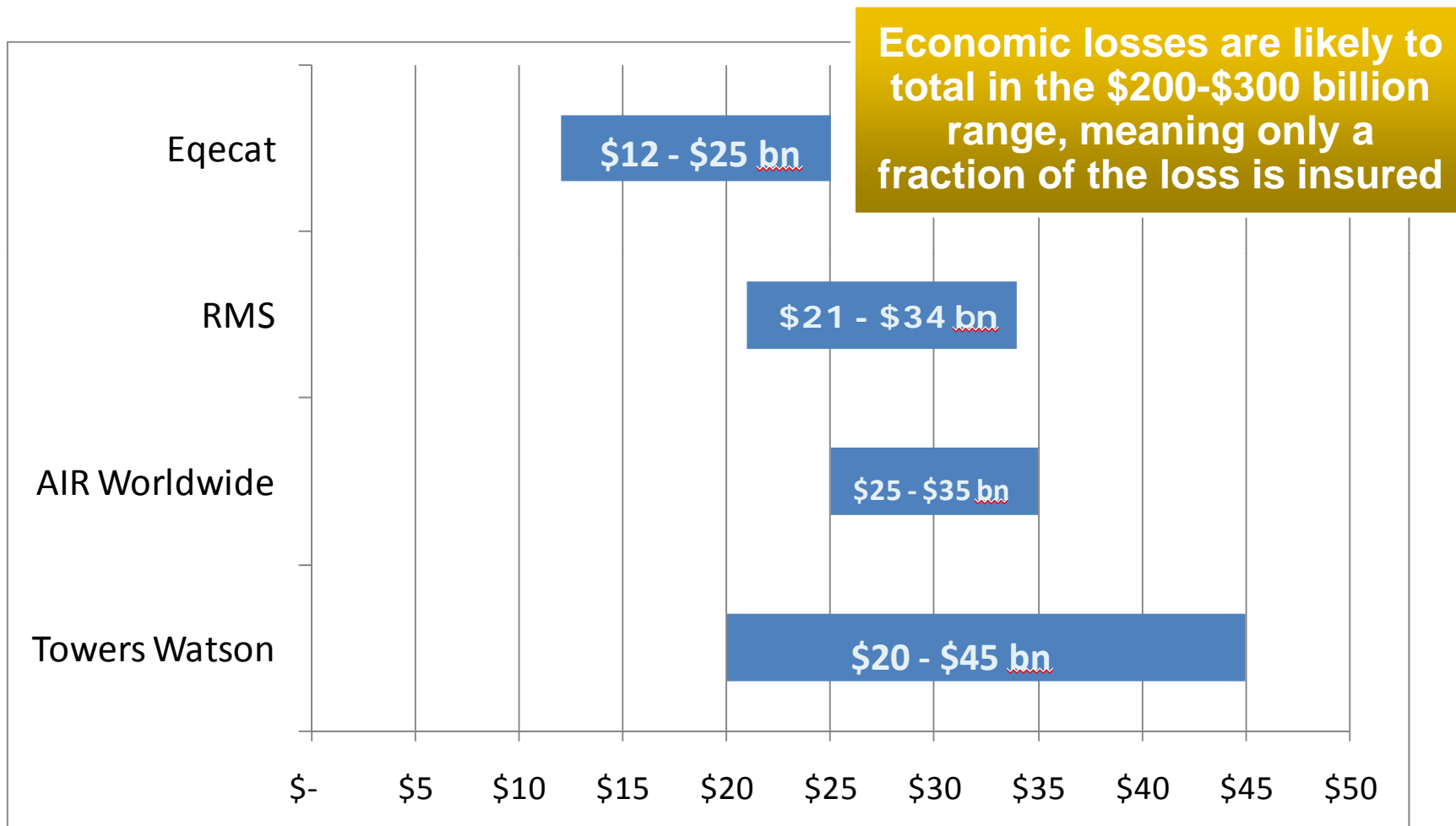
- Magnitude 9.0 earthquake struck Japan at 2:46PM local time (2:46AM Eastern) off northeast coast of Honshu, 80 miles east of Sendai
- Quake is among the 5 strongest in recorded history and the strongest in the 140 years for which records have been kept in Japan
- 12,000+ fatalities
- Economic loss: \$100 - \$300 bn
- Insured losses up to \$45 bn
- Fukushima Nuclear Plant threat level raised to Category 7 on April 11 (highest, same as Chernobyl)
- Significant tsunami damage was recorded in Japan; relatively minor damage on the U.S. West Coast

LOCATION

- 130 km (80 miles) E of **Sendai, Honshu, Japan**
- 178 km (110 miles) E of **Yamagata, Honshu, Japan**
- 178 km (110 miles) ENE of **Fukushima, Honshu, Japan**
- 373 km (231 miles) NE of **TOKYO, Japan**

Insured Japan Earthquake Loss Estimates*

(Insured Losses, \$ Billions)



*As of April 21, 2011. Towers Watson estimate includes \$3.0 (low) to \$4.9 billion (high) in life insurance losses. RMS estimate includes insured life/health losses of \$3 to \$8 billion.

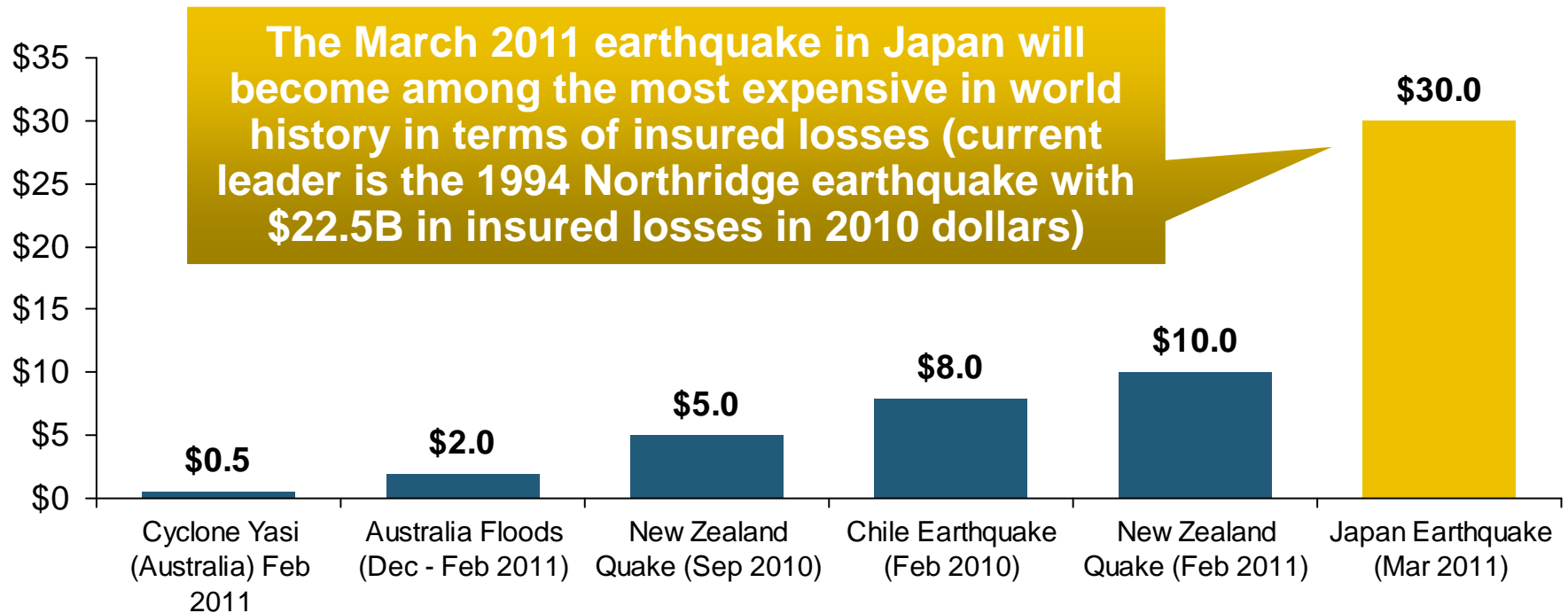
Sources: AIR Worldwide, Eqecat, RMS, Towers Perrin; Insurance Information Institute.

Top 20 Nonlife Insurance Companies in Japan by DPW, 2008

Rank	Companies	Direct premiums written, 2008		Market share	Cumulative Market Share
		JPY (millions)	U.S. (\$ millions)		
1	Tokio & Marine Nichido	\$2,032,131.2	\$19,660.9	24.0%	24.0%
2	Sompo Japan	1,504,262.7	14,553.8	17.8	41.8%
3	Mitsui Sumitomo	1,455,161.8	14,078.7	17.2	59.0%
4	Aioi	897,182.6	8,680.3	10.6	69.6%
5	Nipponkoa	728,262.9	7,046.0	8.6	78.2%
6	Nisay Dowa	361,530.7	3,497.8	4.3	82.5%
7	Fuji	329,345.7	3,186.4	3.9	86.4%
8	AIU	253,522.8	2,452.8	3.0	89.4%
9	Kyoei	199,393.1	1,929.1	2.4	91.8%
10	Nisshin	149,735.8	1,448.7	1.8	93.6%
11	American Home	82,889.8	802.0	1.0	94.6%
12	Asahi	73,600.1	712.1	0.9	95.5%
13	Sony	60,868.3	588.9	0.7	96.2%
14	ACE	54,876.2	530.9	0.7	96.9%
15	Zurich	45,471.3	439.9	0.5	97.4%
16	SECOM	44,245.0	428.1	0.5	97.9%
17	Sumi Sei	33,594.0	325.0	0.4	98.3%
18	AXA	30,418.9	294.3	0.4	98.7%
19	Mitsui Direct	29,471.9	285.1	0.4	99.1%
20	Daido	15,690.4	151.8	0.2	99.3%

Recent Major Catastrophe Losses

(Insured Losses, \$US Billions)



Insured Losses from Recent Major Catastrophe Events Exceed \$55 Billion, an Estimated \$53 Billion of that from Earthquakes

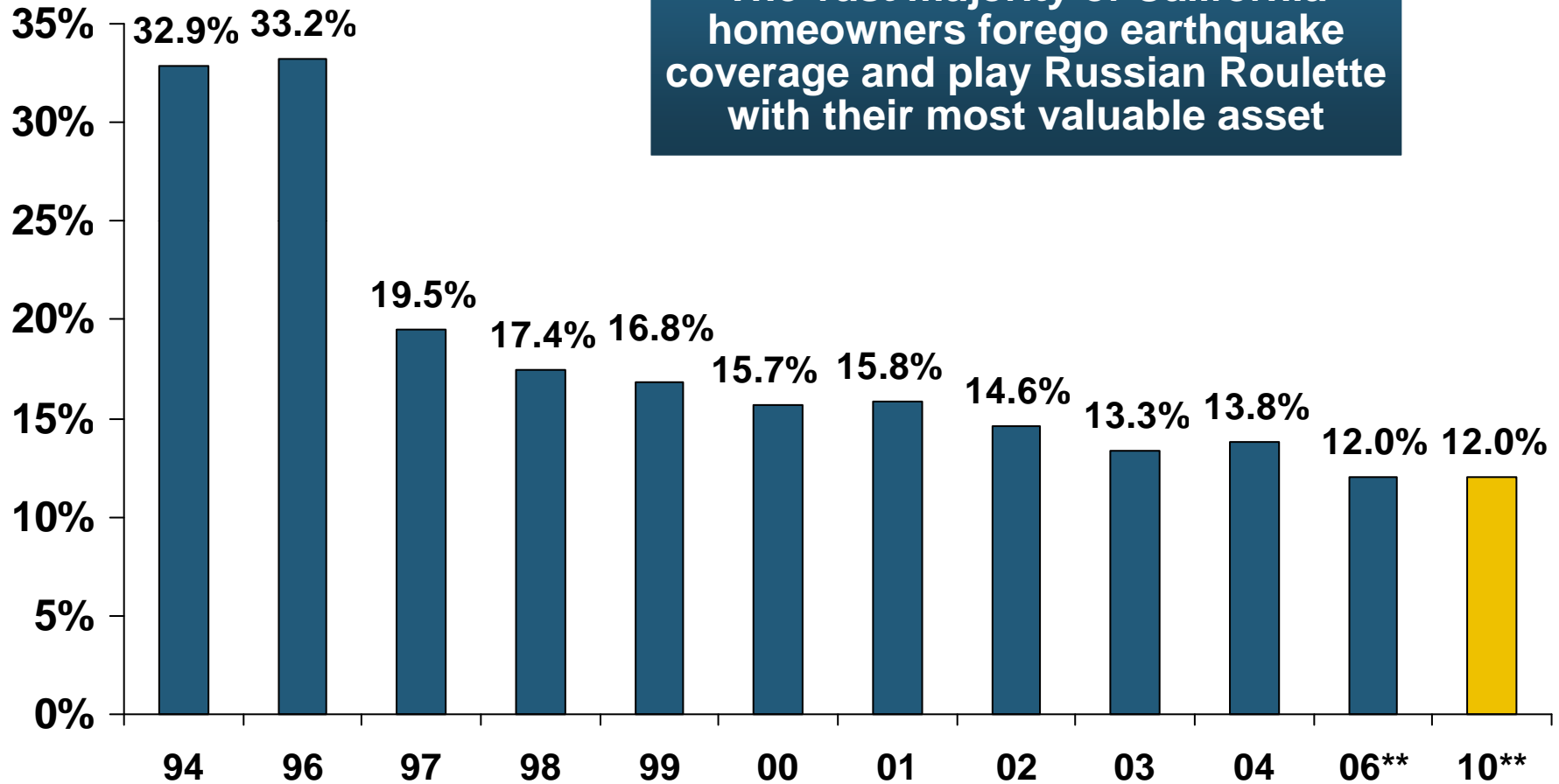
Potential Impacts of Japan Quake & Other Major CATs on P/C (Re)Insurance Markets

**Impacts Could Be Felt Well
Beyond Japan**

Nonlife (P/C) Insurance Market Impacts of Japan Earthquake

- **No Direct Impact for US Domestic Primary Insurers**
- **Primary Insurance: Domestic Japanese Insurers Take Big Losses**
- **Few US/Foreign Insurers Had Direct Exposure to Japanese P/C Market**
 - ◆ Low single-digit market share for a small number of companies
 - ◆ Not a capital event for any non-Japanese primary insurer
- **Significant Absorption of Loss by Japanese Government**
 - ◆ Residential earthquake damage
 - ◆ Nuclear-related property and liability damage
- **Significant Impacts for Global Reinsurers**
 - ◆ Property-Catastrophe covers on Commercial Lines
 - ◆ Business Interruption/Contingent Business Interruption
- **Currently an Earnings Event for Global Reinsurers**
 - ◆ Not a capital event: Global reinsurance markets entered 2011 with record capital
- **Cost of Property/Cat Reinsurance Rising in Japan, New Zealand, Australia**
 - ◆ Up for all; Magnitude of increase is sensitive to size of loss
- **Reinsurance Coverage Remains Available in Affected Regions**
- **Impact on Cost of US Property-Cat Reinsurance is Possible**
 - ◆ Market remains well capitalized and competitive
 - ◆ Elevated global cat activity could halt/hike price declines for property/cat reinsurance

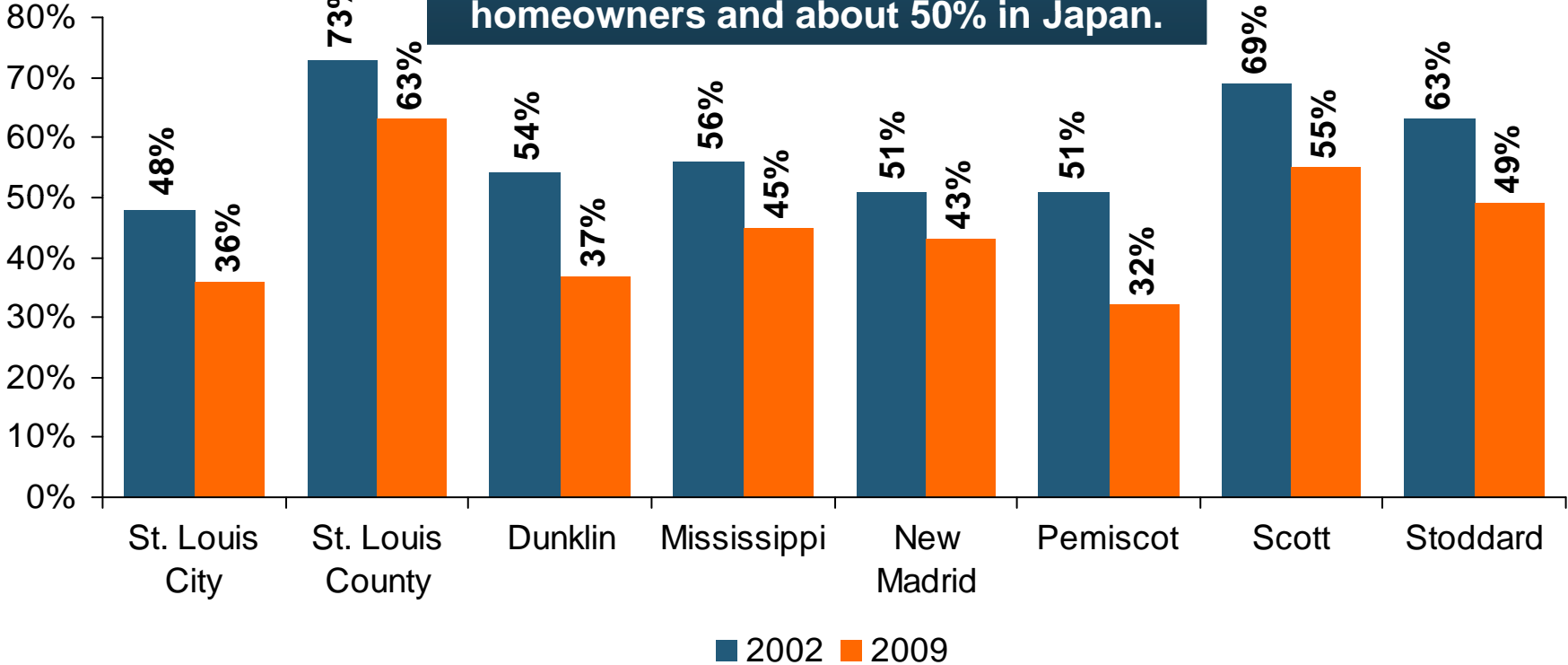
Percentage of California Homeowners with Earthquake Insurance, 1994-2010*



*Includes CEA policies beginning in 1996. **2006/10 estimates from Insurance Information Network of CA.
Source: California Department of Insurance; Insurance Information Institute.

% of Residences in MO Quake-Prone Areas with Earthquake Coverage, 2009 vs. 2002

Between 32% and 63% of MO homeowners buy quake coverage in vulnerable areas compared to 12% of CA homeowners and about 50% in Japan.



Residential Take-Up Rates in Missouri Quake-Prone Counties Have Fallen Significantly in Recent Years, but Compare Favorably to California (12%)

Sources: Missouri Department of Insurance news release, Feb. 11, 2011; Insurance Information Institute.

Estimated Insured Losses for the Top 10 Historical Earthquakes Based on Current Exposures (1) (\$ Billion)



Rank	Date	Location	Magnitude	Insured loss (current exposures)
1	Feb. 7, 1812	New Madrid, MO	7.7	\$100
2	Apr. 18, 1906	San Francisco, CA	7.8	96
3	Aug. 31, 1886	Charleston, SC	7.3	37
4	Jun. 1, 1838	San Francisco, CA	7.4	27
5	Jan. 17, 1994	Northridge, CA	6.7	21
6	Oct. 21, 1868	Hayward, CA	7.0	21
7	Jan. 9, 1857	Fort Tejon, CA	7.9	8
8	Oct. 17, 1989	Loma Prieta, CA	6.3	6
9	Mar. 10, 1933	Long Beach, CA	6.4	5
10	Jul. 1, 1911	Calaveras, CA	6.4	4

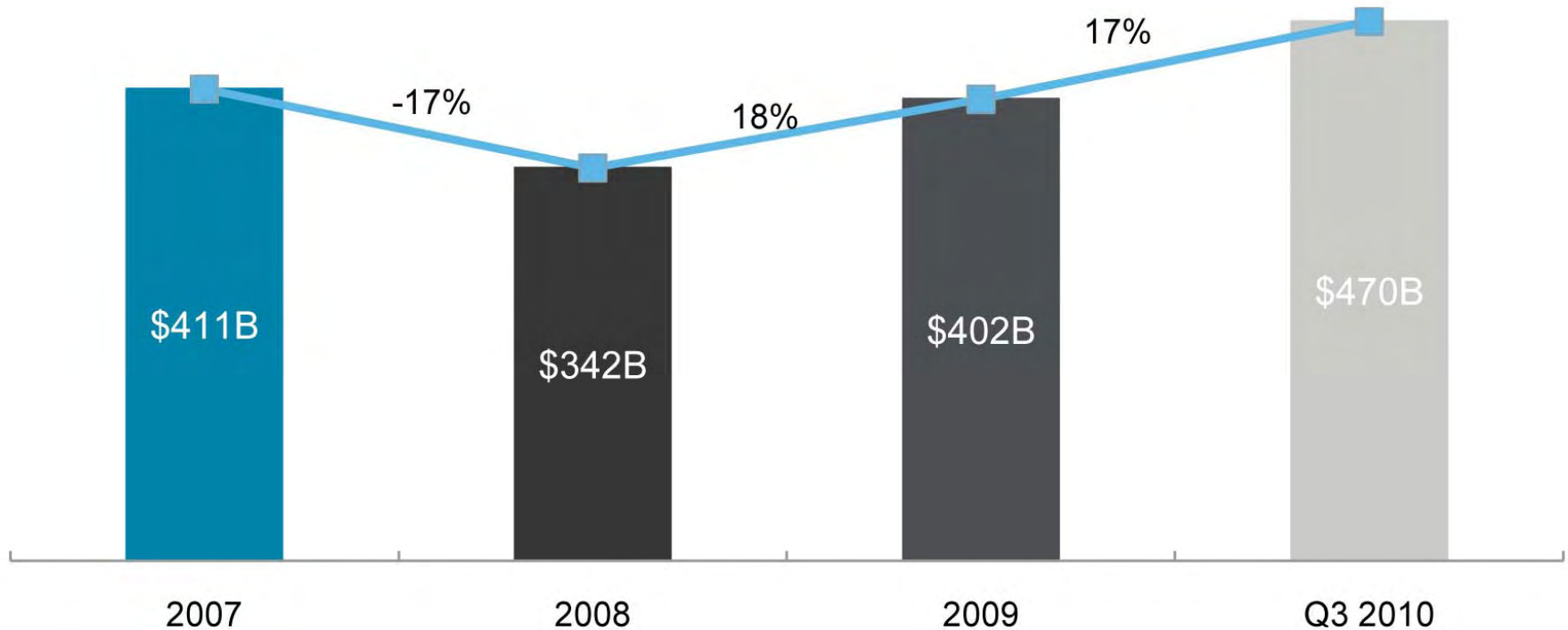
(1) Modeled loss to property, contents, and business interruption and additional living expenses for residential, mobile home, commercial and auto exposures as of December 31, 2008. Losses include demand surge and fire following earthquake. Policy conditions and earthquake insurance take up rates are based on estimates by state insurance departments and client claims data.

Reinsurance Market Overview

**Reinsurers Will Bear a
Significant Share of Recent
Major Catastrophes Losses**

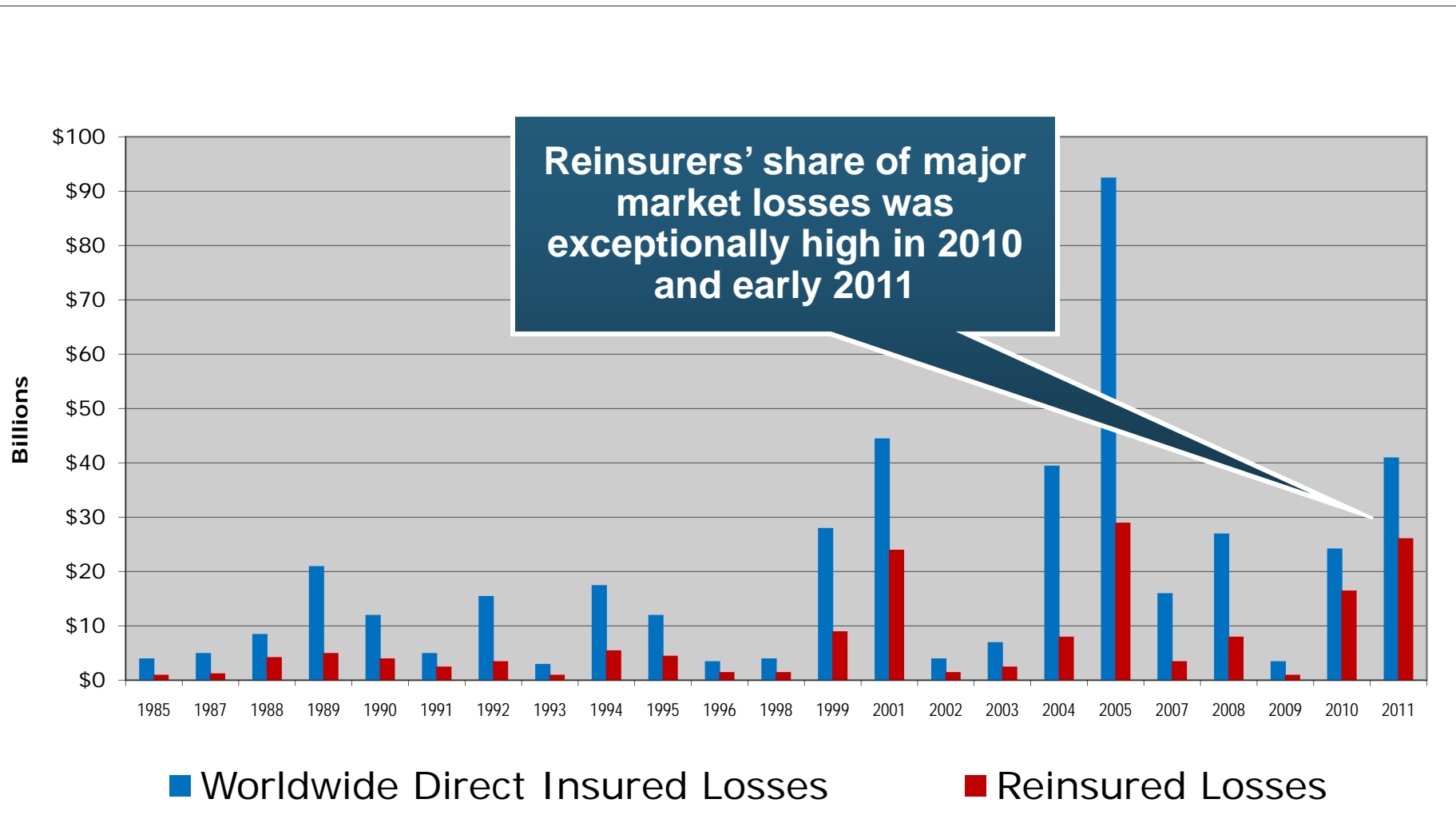
Change in Reinsurer Capital, 2007-2010:Q3

Change in Reinsurer Capital



Source: Aon Benfield Analytics

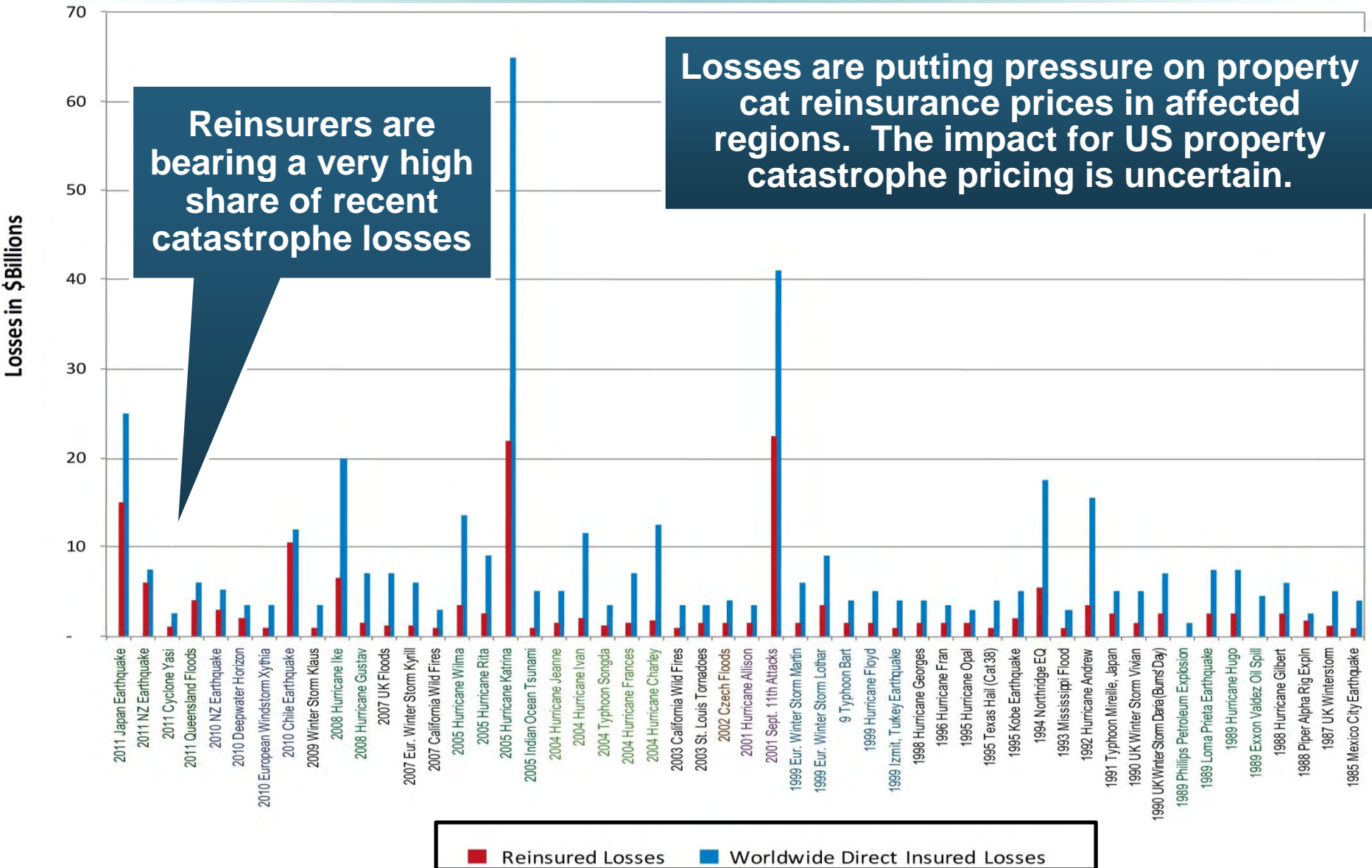
Significant Market Losses, 1985-2011*



Source: Holborn; RAA.

* 2011 events are as of March 31 and are preliminary and may change as loss estimates are refined further.

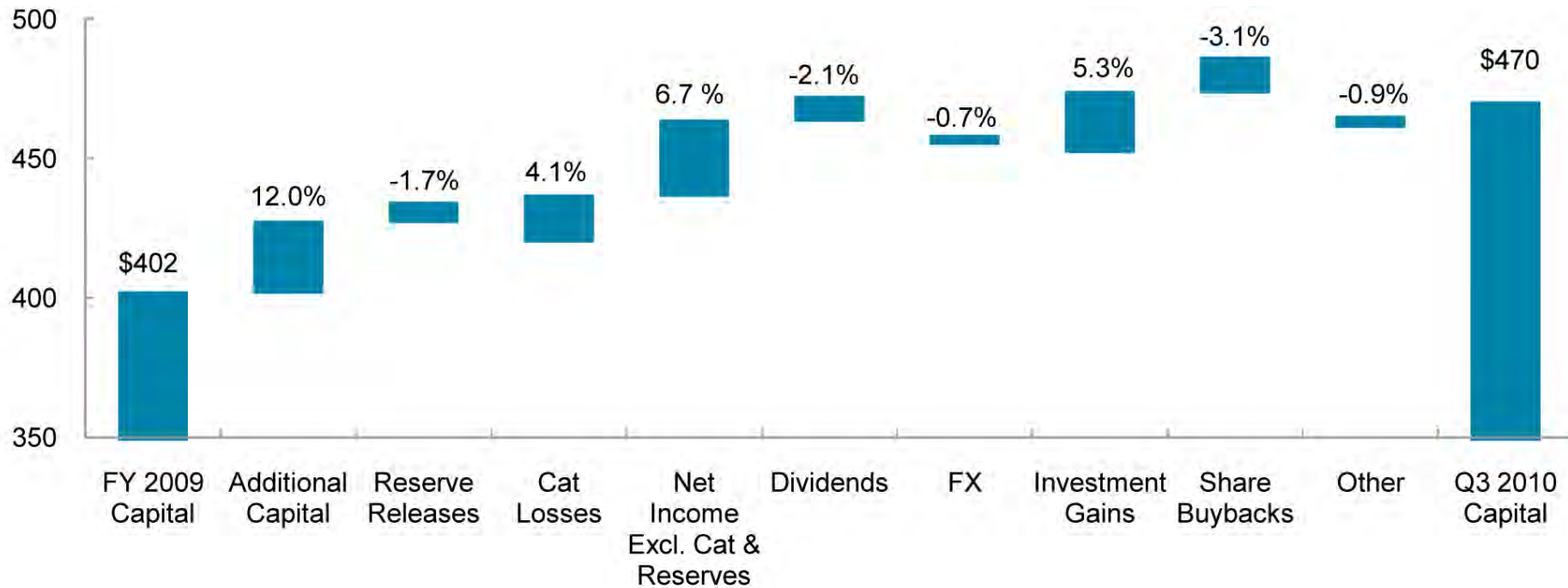
Significant Market Losses by Event, 1985-2011*



Source: Holborn, RAA. *2011 events as of March 31 are preliminary and may change as loss estimates are refined further.

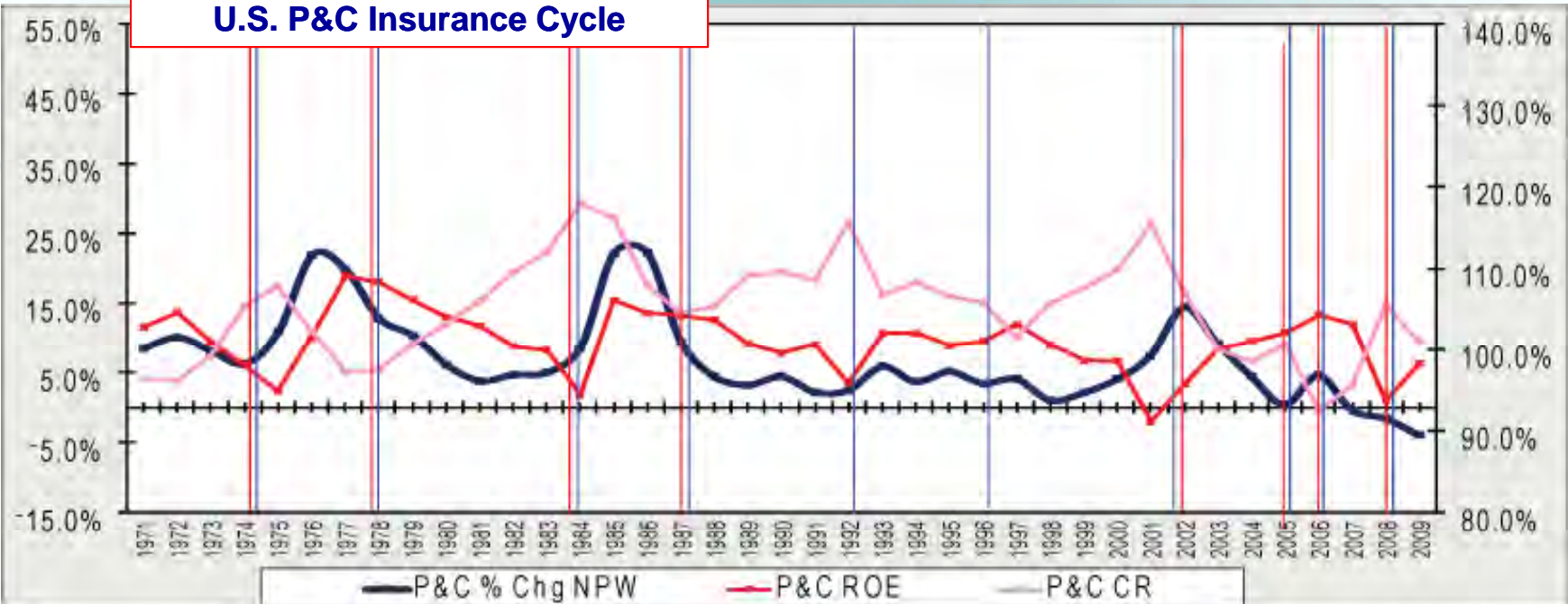
Change in Reinsurer Capital by Component, FY2009-2010:Q3

Change in Capital in Billions (FY 2009 vs. Q3 2010)

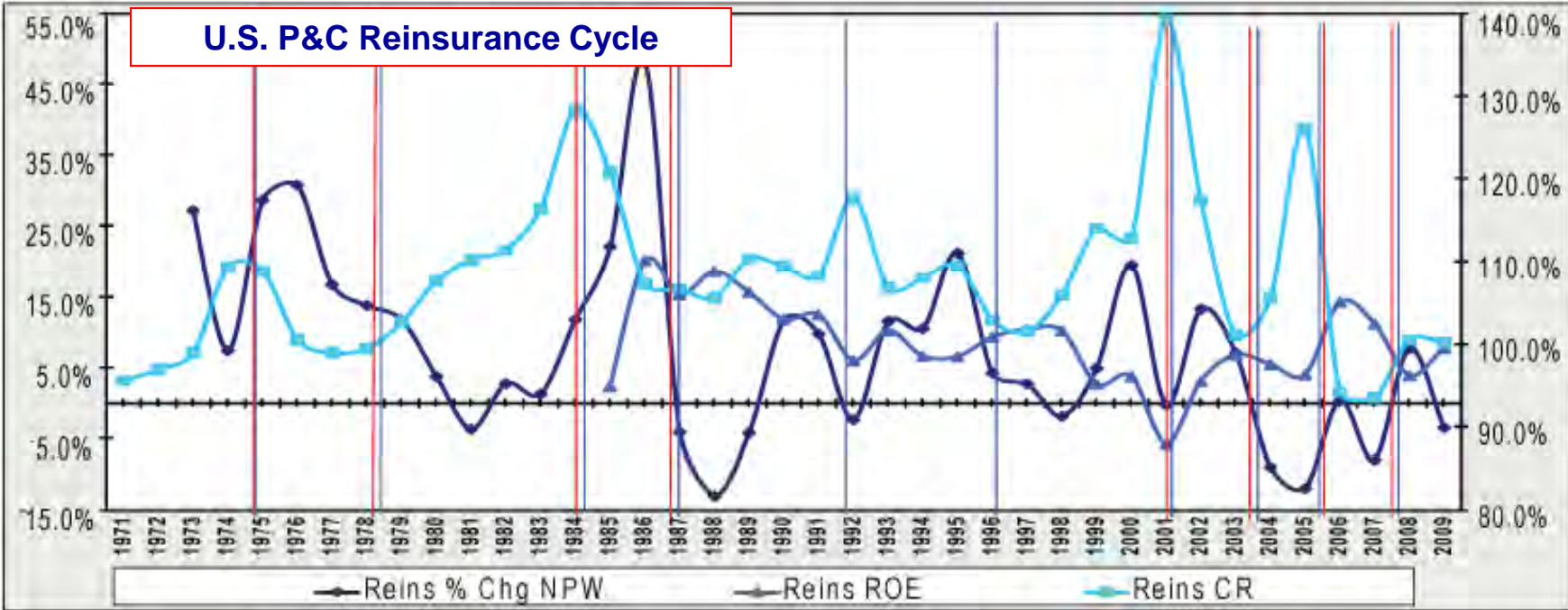


Source: Company Data, Aon Benfield Research

U.S. P&C Insurance Cycle

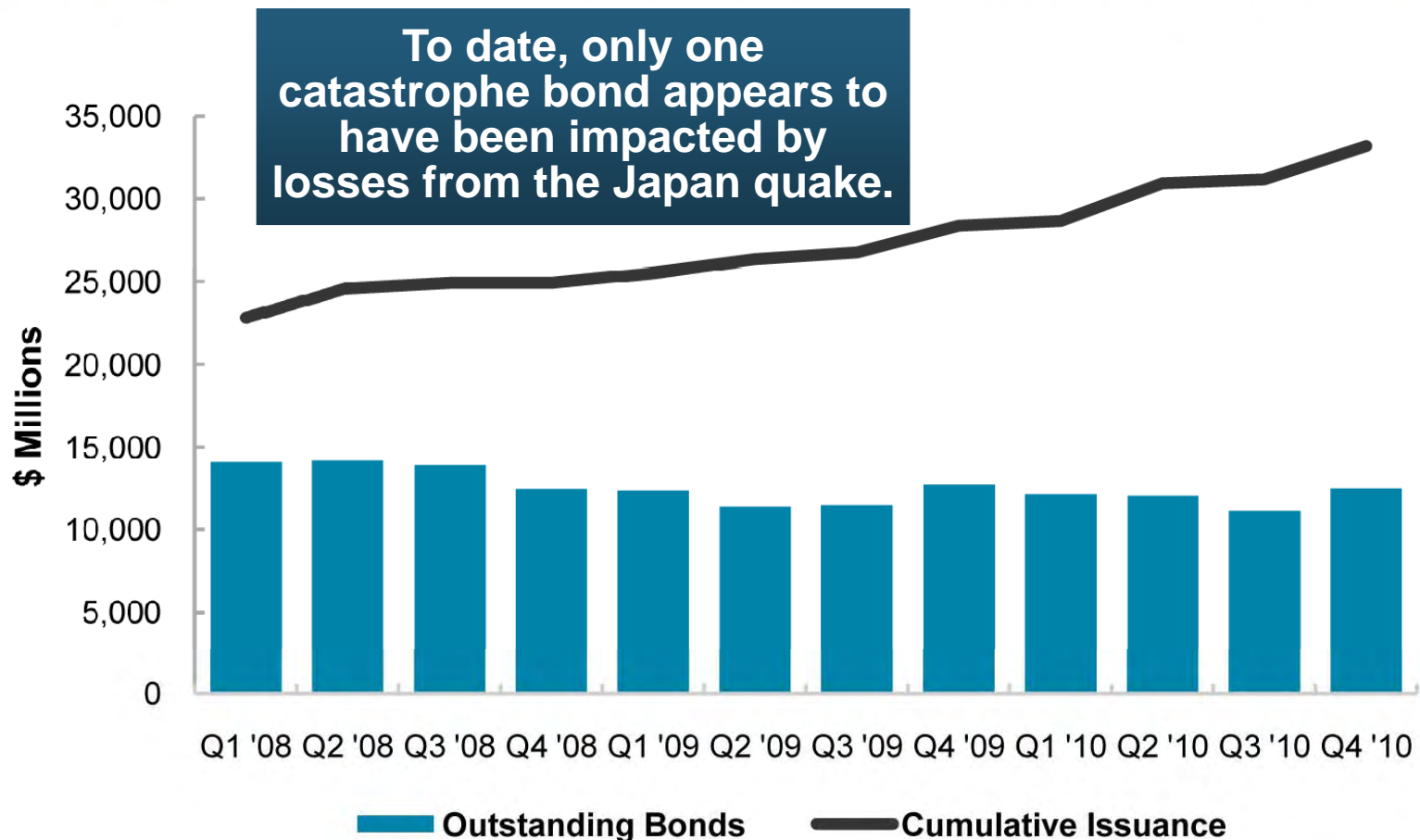


U.S. P&C Reinsurance Cycle



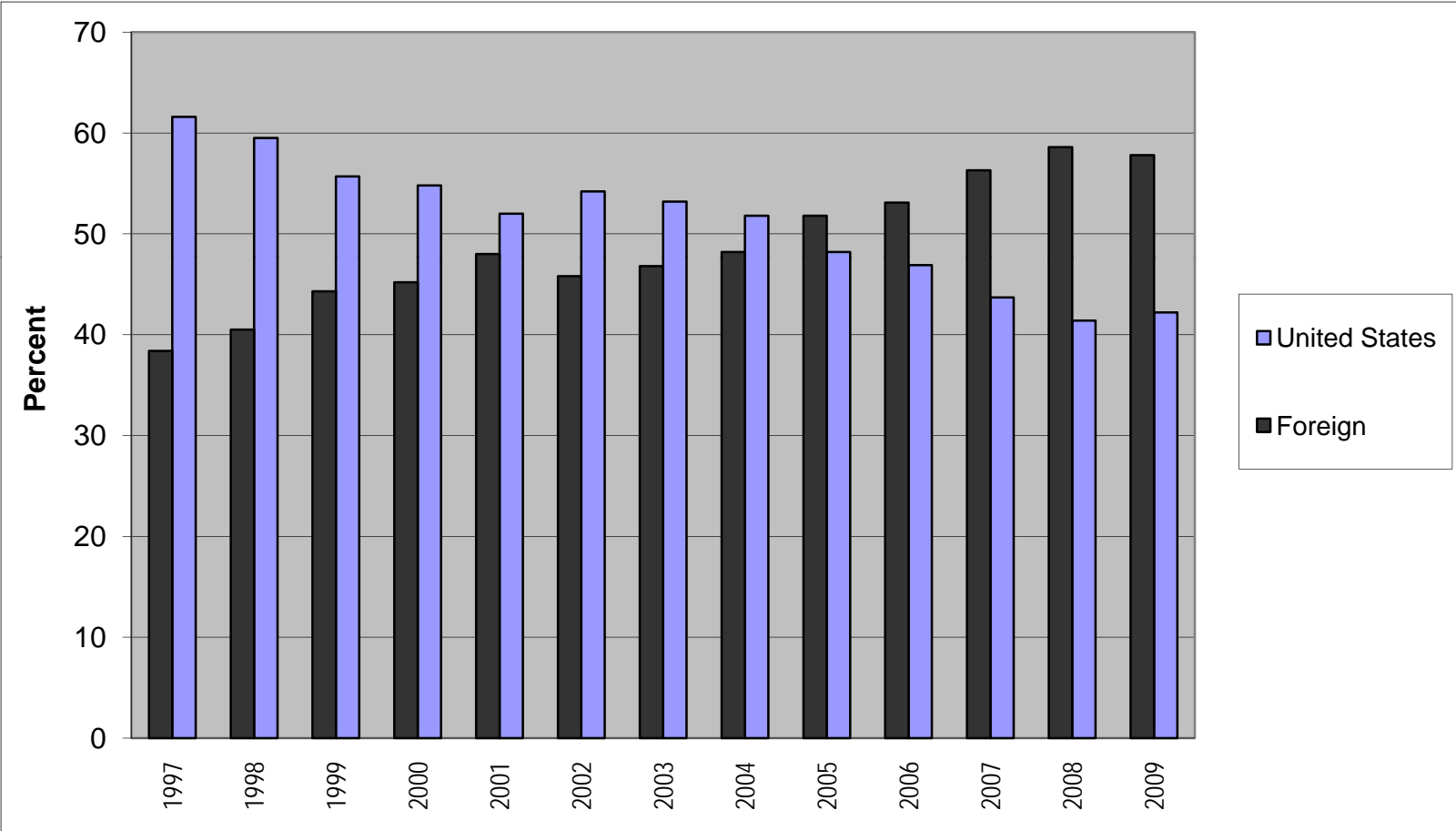
Outstanding Catastrophe Bond Volume & Cumulative Issuance, 2008:Q1-2010:Q4

Outstanding Catastrophe Bond Volume by Quarter



Source: Aon Benfield Securities

U.S. Market Share of U.S. vs. Offshore Reinsurers Unaffiliated Reinsurance Premium (Excl. Pools)



Source: Reinsurance Association of America, *Offshore Reinsurance in the U.S. Market – 2009 Data*

Premium Ceded to Unaffiliated Alien Reinsurers, 2005-2009 (\$ Millions)

Premiums Ceded To Unaffiliated Alien Reinsurers (\$ In Millions)					
Domicile	2005	2006	2007	2008	2009
Bermuda	8,908	8,982	11,102	11,420	10,013
United Kingdom	4,827	4,630	4,578	4,428	4,706
Germany	2,529	2,582	2,569	2,793	2,490
Cayman Islands	1,780	1,806	2,023	2,003	2,086
Switzerland	950	797	857	955	1,129
Turks & Caicos	382	398	481	518	500
Ireland	788	532	419	485	489
Barbados	837	652	495	553	413
France	600	352	424	434	378
Canada	211	256	326	255	277
TOTAL	21,812	20,987	23,274	23,844	22,481

Source: Reinsurance Association of America, *Offshore Reinsurance in the U.S. Market – 2009 Data*

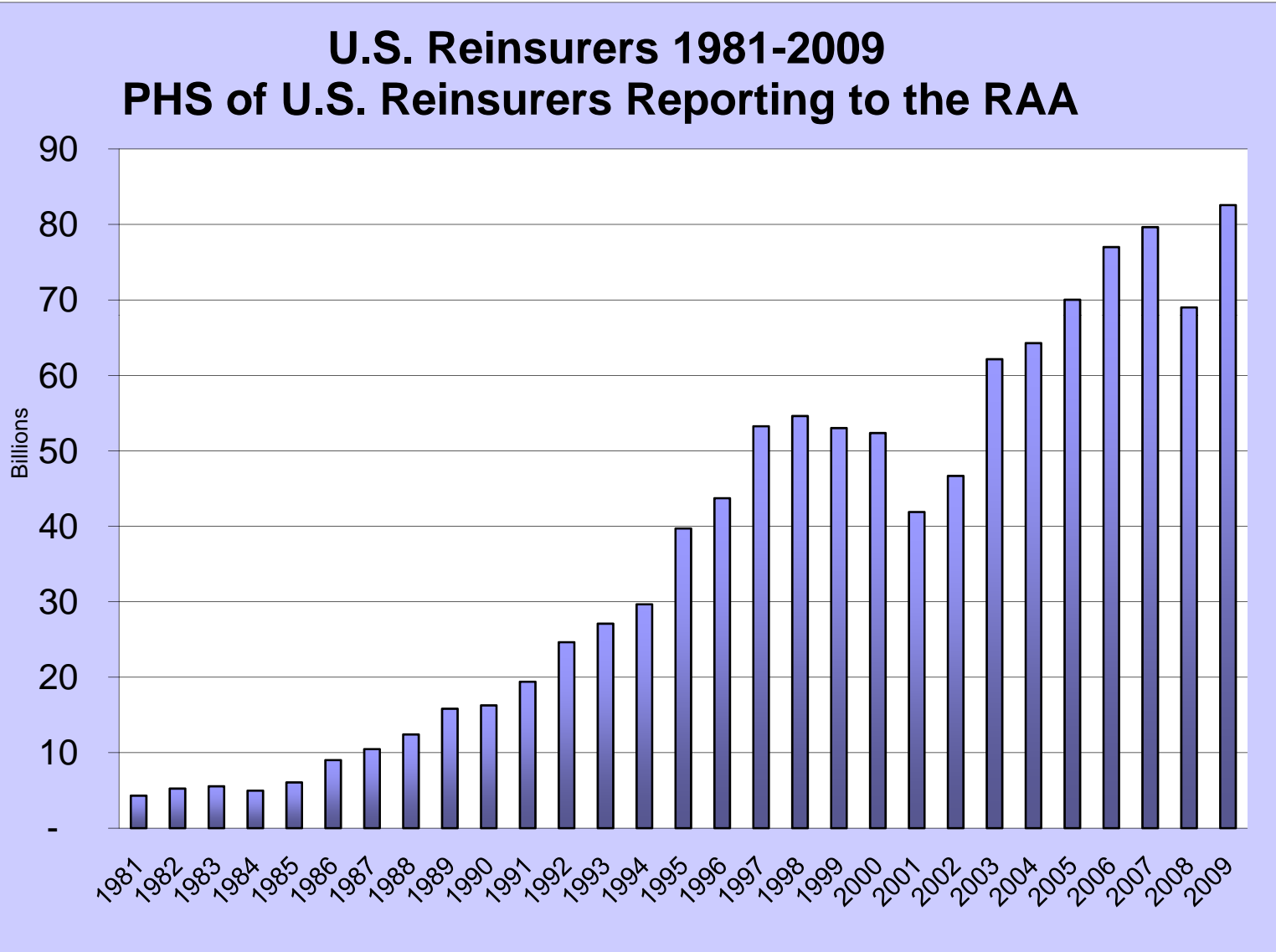
Premium Ceded to Affiliated Alien Reinsurers, 2005-2009 (\$ Millions)

Premiums Ceded To Affiliated Alien Reinsurers (\$ In Millions)					
Domicile	2005	2006	2007	2008	2009
Bermuda	18,590	18,474	19,371	20,813	22,612
Switzerland	7,664	7,991	8,942	7,578	8,361
Germany	9,401	2,005	1,463	1,222	781
United Kingdom	252	346	777	823	765
Sweden	90	518	427	411	433
Cayman Islands	646	435	409	389	398
France	293	338	357	296	228
Ireland	165	451	101	155	227
Japan	222	220	192	191	199
Turks & Caicos	157	156	102	111	141
TOTAL	37,480	30,934	32,141	31,989	34,145

Source: Reinsurance Association of America, *Offshore Reinsurance in the U.S. Market – 2009 Data*

Policyholder Surplus of US Reinsurers Reporting to the RAA (\$ Billions)

Year	PHS
1981	4,310,150,000
1982	5,251,394,000
1983	5,549,546,000
1984	4,973,353,000
1985	6,062,233,000
1986	9,019,976,000
1987	10,474,946,000
1988	12,419,836,000
1989	15,825,413,000
1990	16,275,073,000
1991	19,407,090,000
1992	24,644,773,000
1993	27,106,020,000
1994	29,668,489,000
1995	39,716,840,000
1996	43,727,021,000
1997	53,263,940,000
1998	54,613,772,000
1999	53,022,948,000
2000	52,364,595,000
2001	41,900,400,000
2002	46,681,286,000
2003	62,147,549,000
2004	64,278,516,000
2005	70,034,981,000
2006	77,009,008,000
2007	79,650,016,000
2008	69,008,945,000
2009	82,571,467,000



Source: Reinsurance Association of America.

Reasons for Optimism, Causes for Concern in the P/C Insurance Industry

**The Outlook for the Economy
Has Brightened, But the Outlook
for P/C Insurance Is Mixed**

Reasons for Optimism, Causes for Concern in the P/C Insurance Industry

- **Economic Recovery in US is Self-Sustaining and Strengthening**
 - ◆ No Double Dip or Second Recession
 - ◆ Economy is more resilient than most pundits presume
- **Consumer Confidence is Gradually Improving**
- **Consumer Spending is Recovering Gradually**
- **Consumer and Business Lending Are Expanding**
- **Housing Market Remains Weak, but Some Improvement Expected in 2011**
- **Inflation Remains Under Control**
 - ◆ Runaway inflation is highly unlikely; Fed has things under control
 - ◆ Deflation—threat has disappeared
- **Private Sector Hiring is Consistently Positive for 16 Months**
 - ◆ Acceleration in hiring in 2011 compared to 2010
 - ◆ No significant secondary spike in unemployment
- **Japan Threat to Global Economy Overstated**
- **Sovereign Debt, Muni Bond “Crises” Overblown**
- **Current Middle East Turmoil Poses Only Moderate Risk to US Economy**
- **Interest Rates Are Rising but Remain Low by Historical Standards**
- **Stock and Bond Markets More Stable, Less Volatile**
- **Political Environment Is More Hospitable to Business Interests**

Reasons for Optimism, Causes for Concern in the P/C Insurance Industry

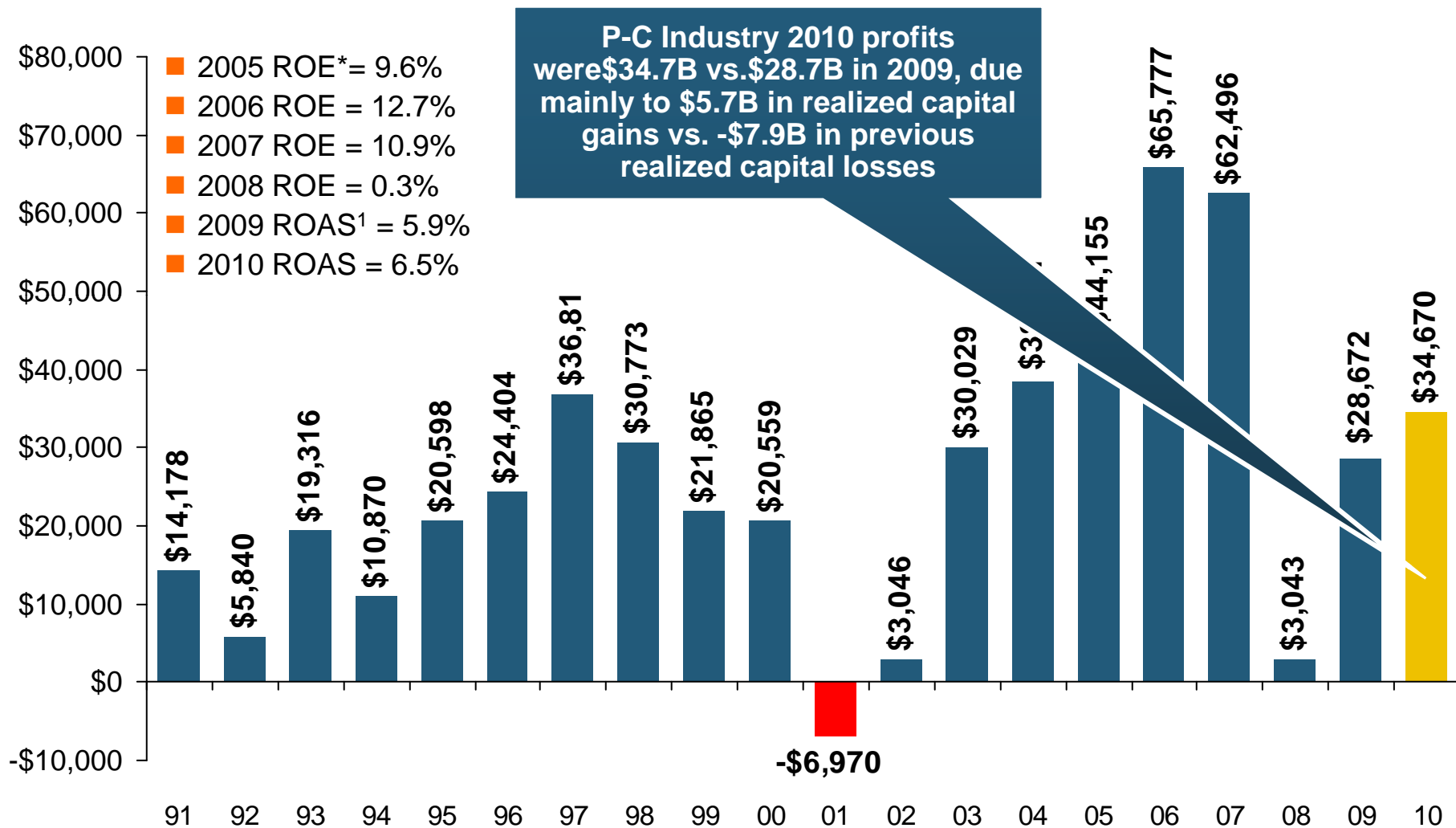
- **Era of Mass P/C Insurance Exposure Destruction Has Ended**
 - ◆ Personal and commercial exposure growth is virtually certain in 2011
 - ◆ But restoration of destroyed exposure will take 3-5 years in US
- **Exposure Growth Returned in 2nd Half 2010, Will Accelerate in 2011**
- **P/C Industry Saw Growth in 2010 (+0.9%) for the First Time Since 2006**
- **Increasing Private Sector Hiring Will Drive Payrolls/WC Exposures**
 - ◆ Wage growth is also positive and could modestly accelerate
- **Increase in Demand for Commercial Insurance Is in its Earliest Stages and Will Accelerate in 2011**
 - ◆ Includes workers comp, commercial auto, marine, many liability coverages, D&O
 - ◆ Laggards: Property, inland marine, aviation
 - ◆ Personal Lines: Auto leads, homeowners lags
- **Investment Environment Is/Remains Much More Favorable**
 - ◆ Return of realized capital gains as a profit driver
 - ◆ Interest rates are low but are rising→Boost to investment income
- **Agent Commissions Should Begin to Rise in 2011**
- **Demand, Capital Management Strategies Will Temper Overcapitalization**



P/C Insurance Industry Financial Overview

Profit Recovery Continues
Early Stage Growth Begins

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

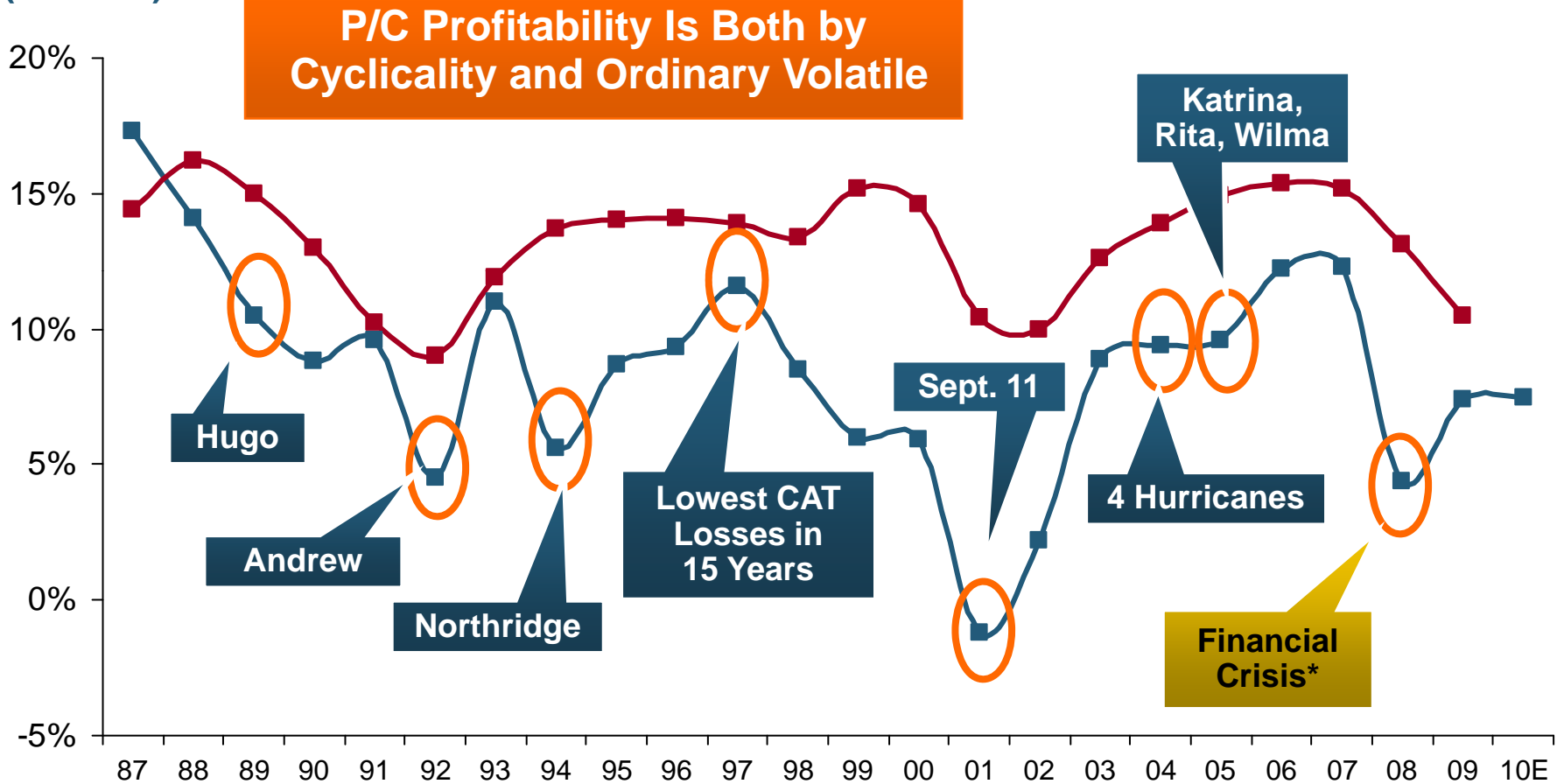


* ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 7.5% ROAS for 2010 and 7.4% for 2009.

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

ROE: Property/Casualty Insurance, 1987–2010*

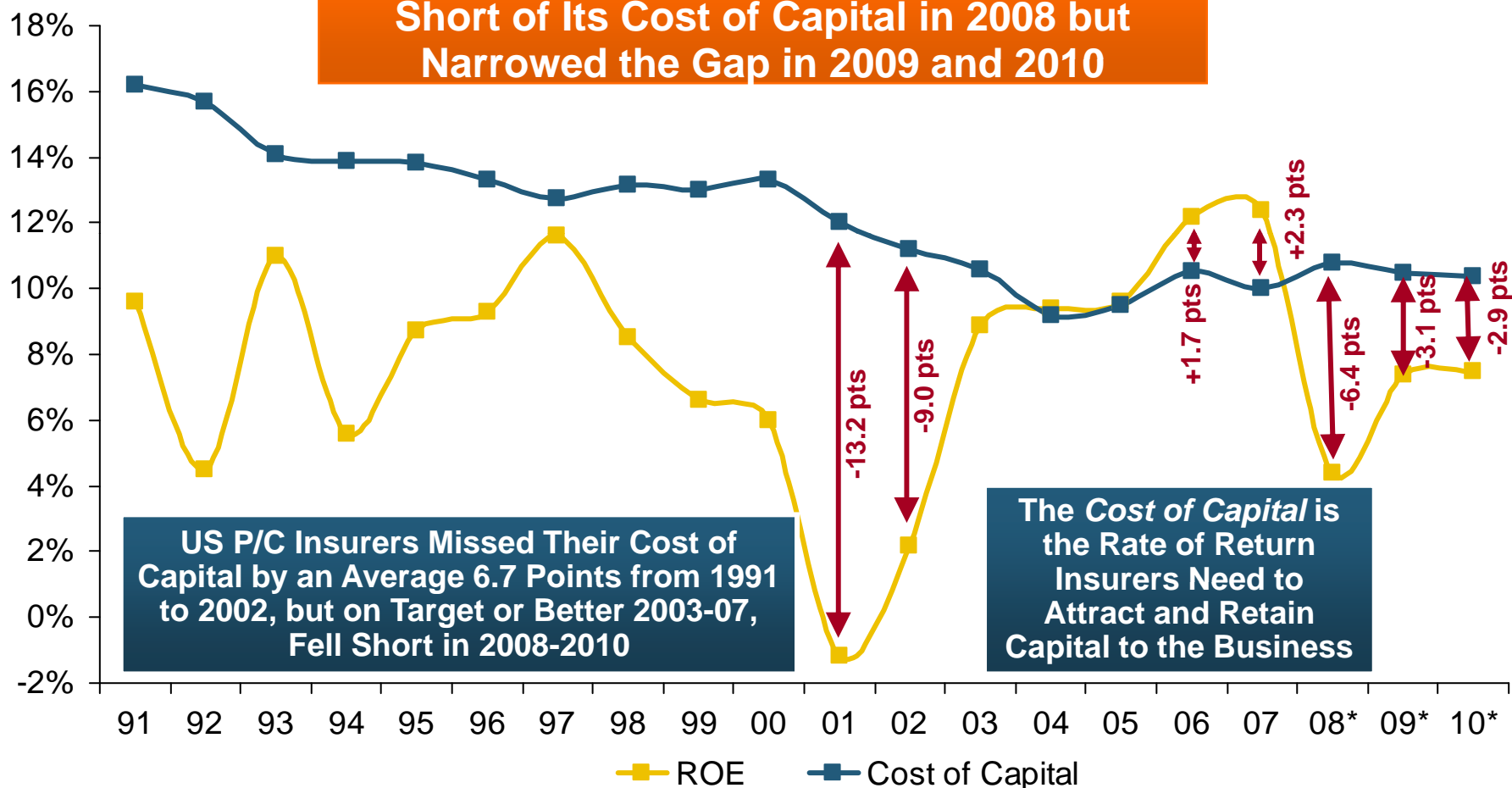
(Percent)



* Excludes Mortgage & Financial Guarantee in 2008 - 2010.
Sources: ISO, *Fortune*;

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

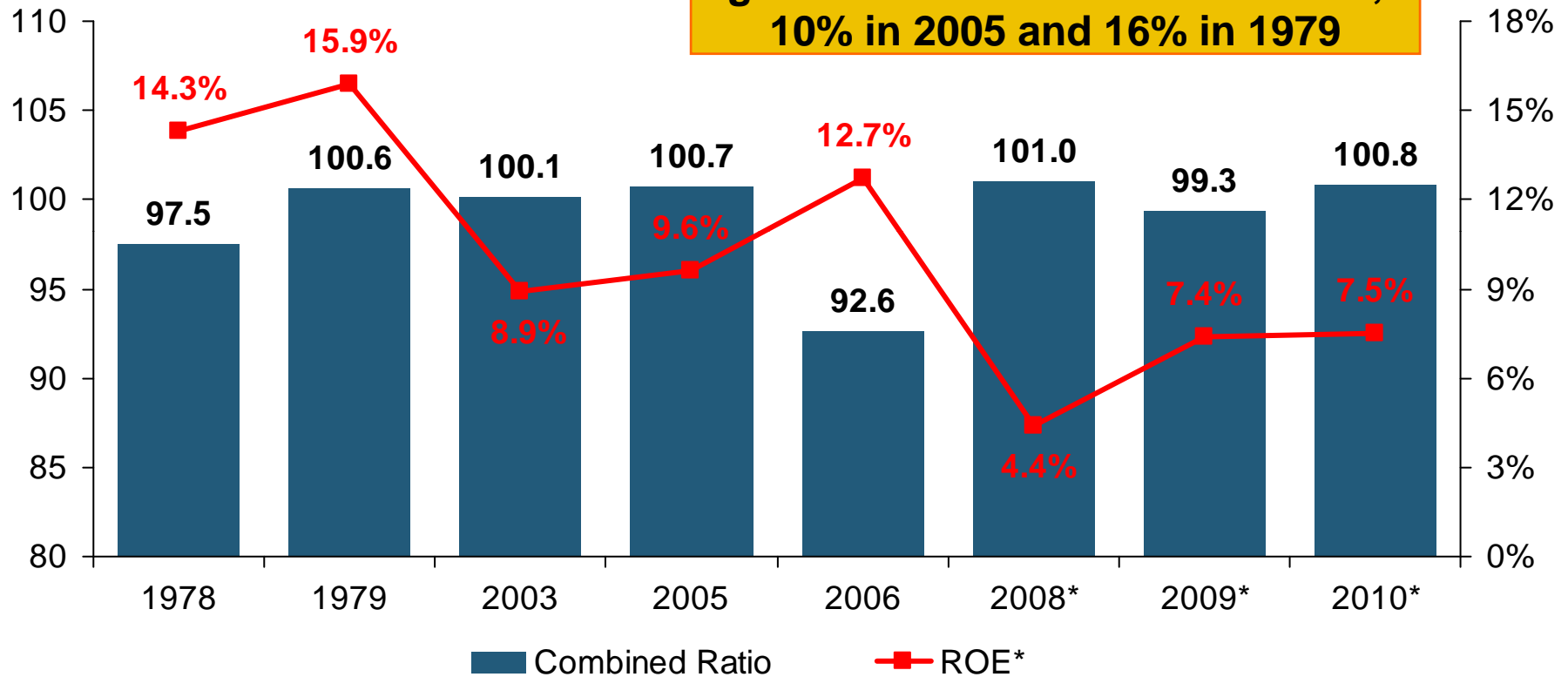
(Percent)



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

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

Combined Ratio / ROE



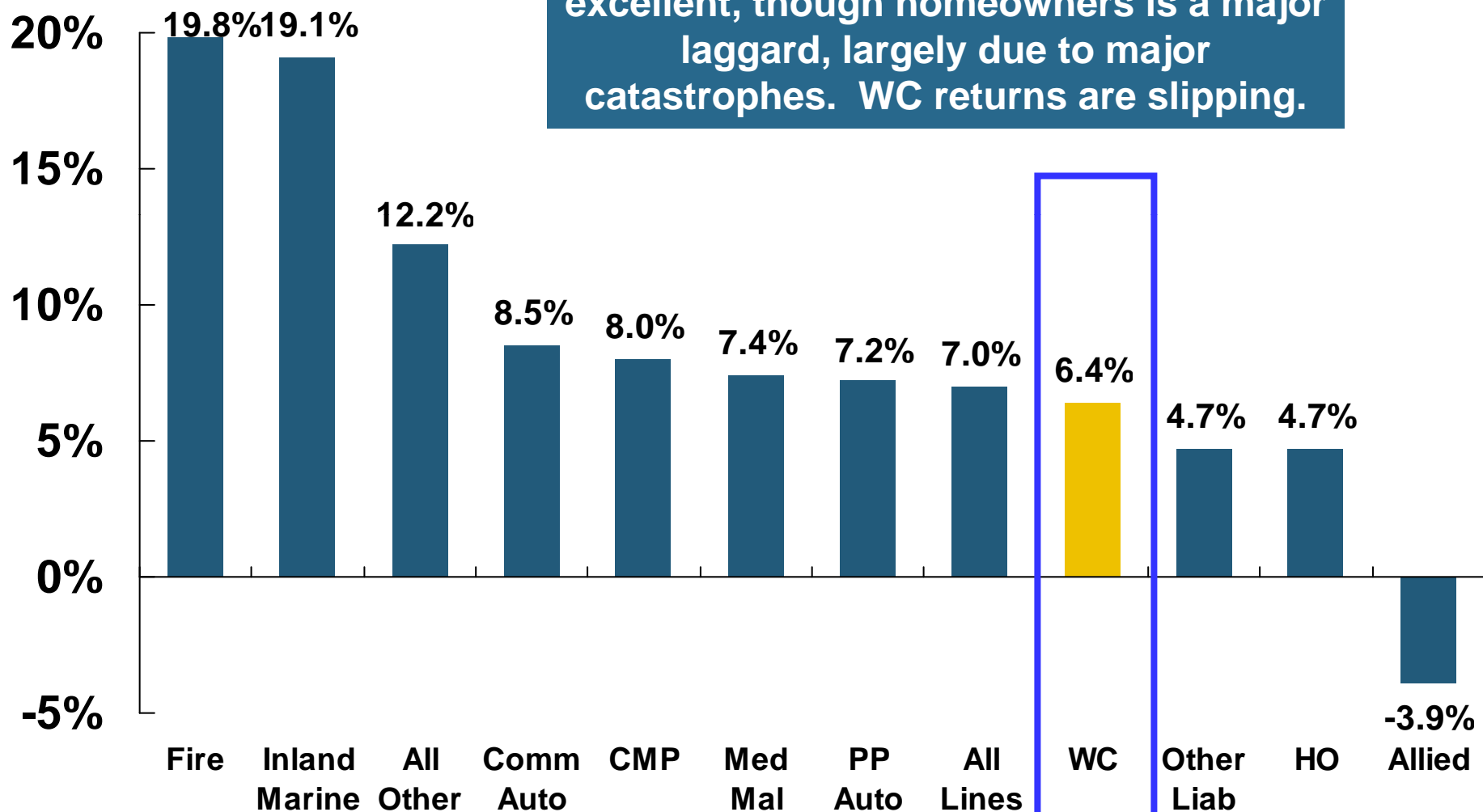
Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

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

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

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

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



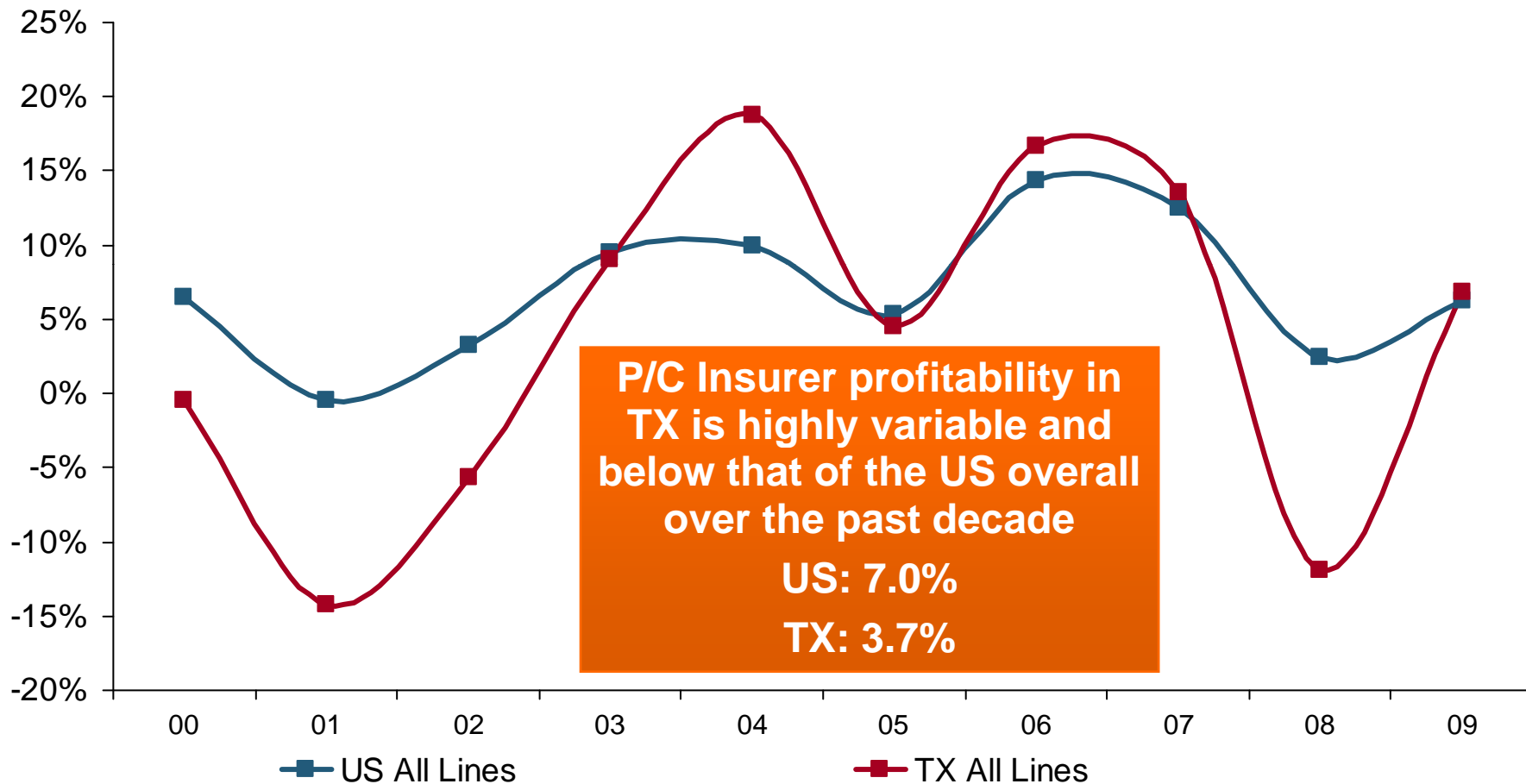


Profitability and Growth in Texas P/C Insurance Markets

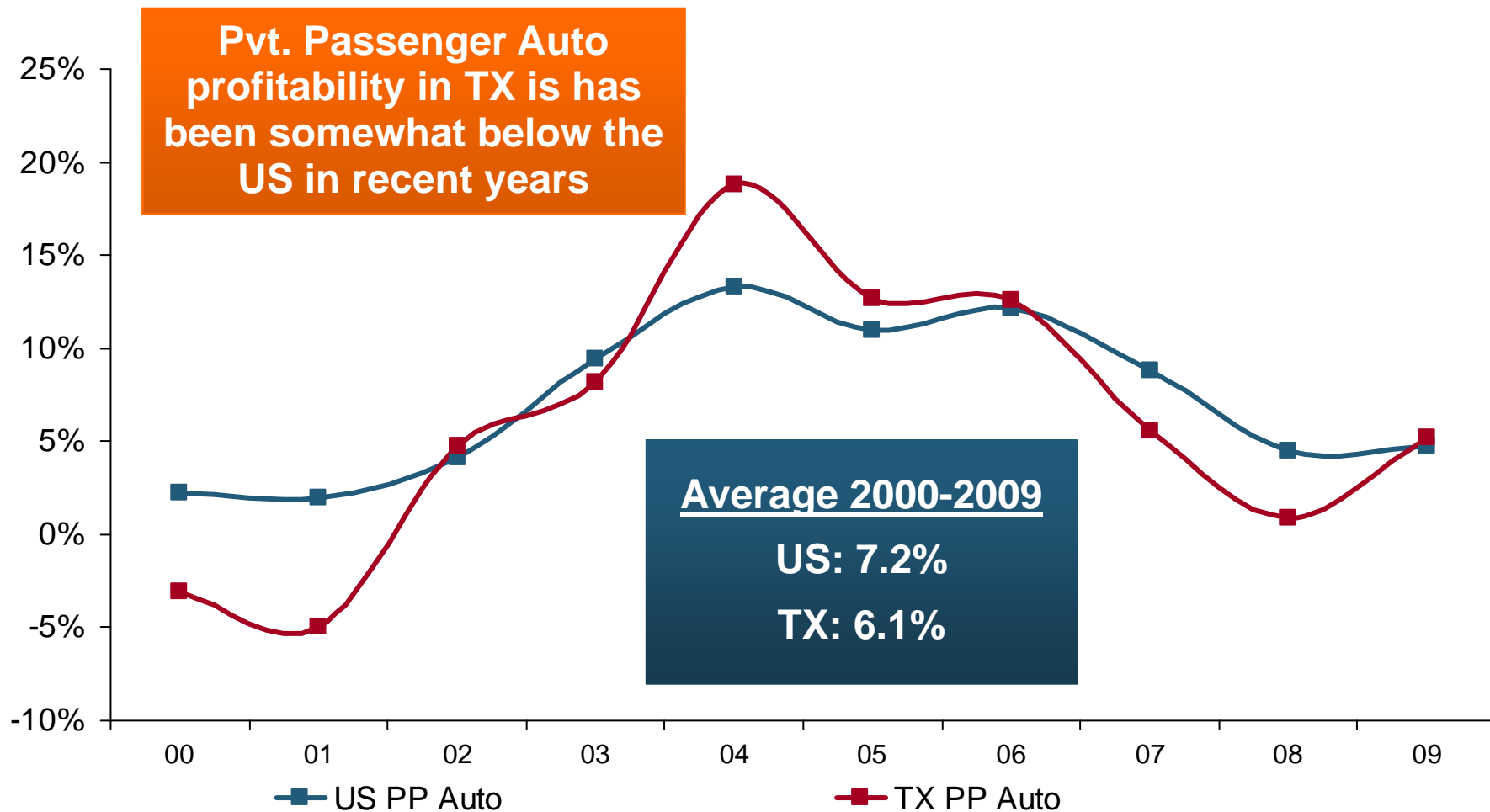
Analysis by Line and Nearby State Comparisons

RNW All Lines: TX vs. U.S., 2000-2009

(Percent)

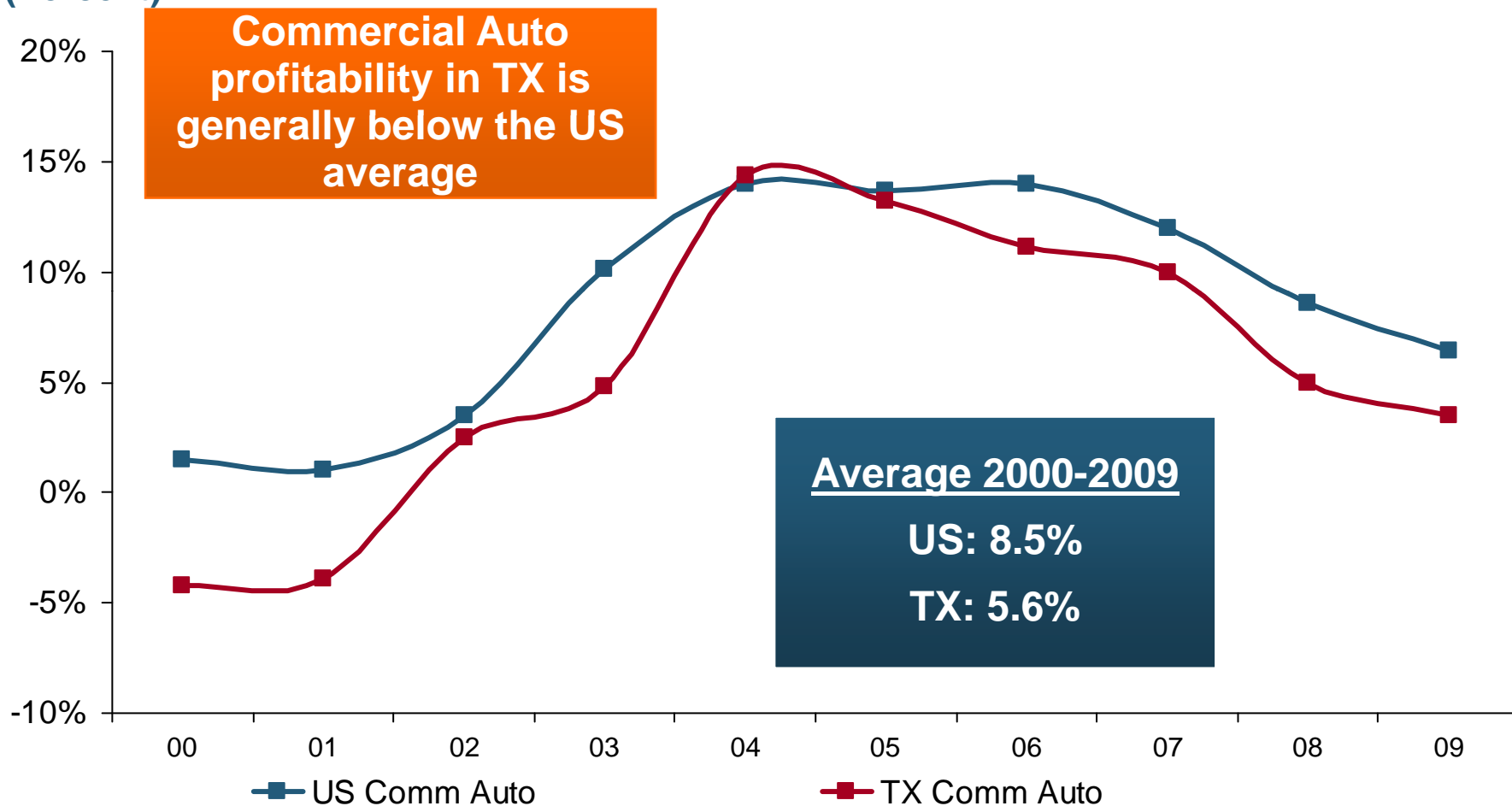


RNW PP Auto: TX vs. U.S., 2000-2009



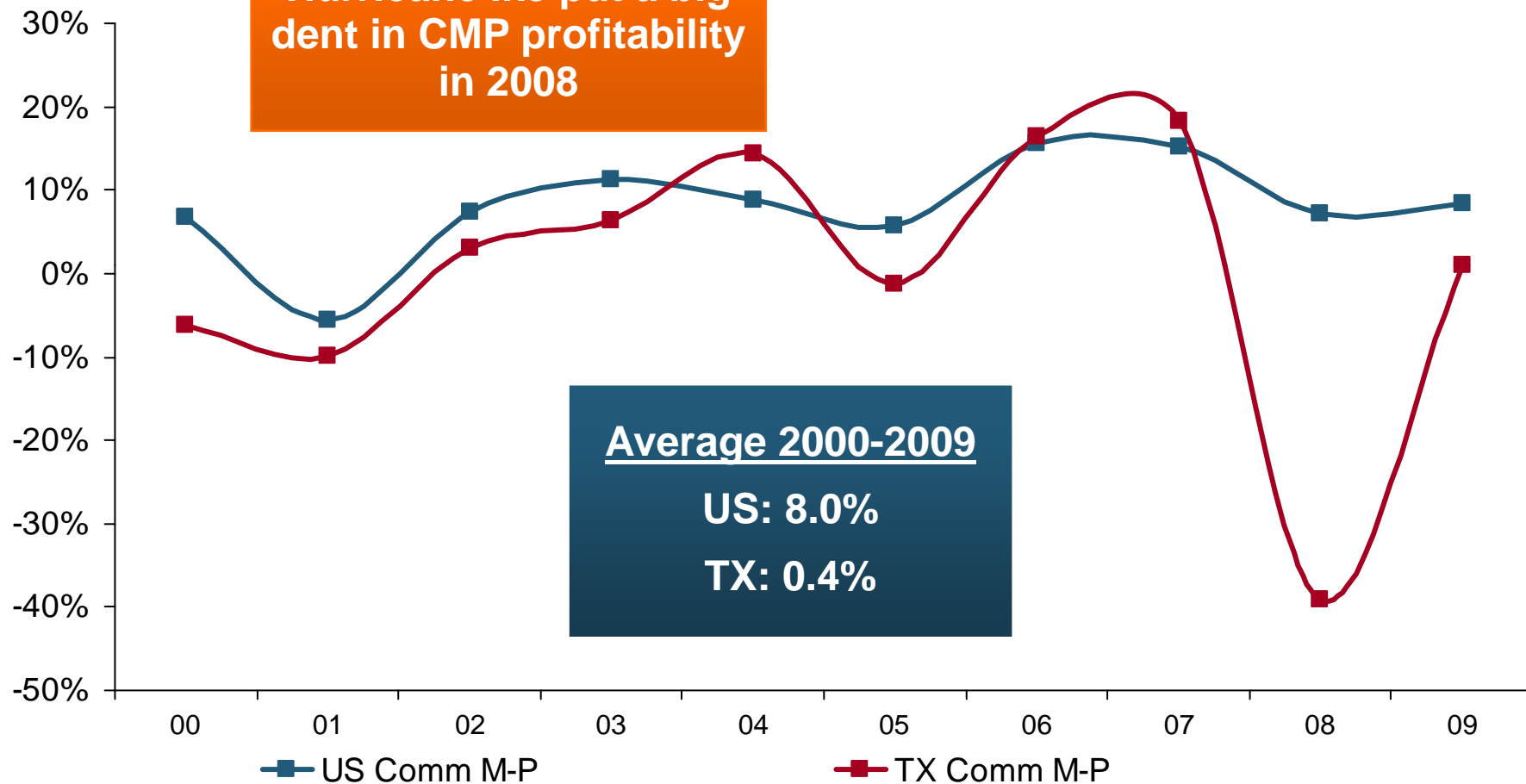
RNW Comm. Auto: TX vs. U.S., 2000-2009

(Percent)



RNW Comm. Multi-Peril: TX vs. U.S., 2000-2009

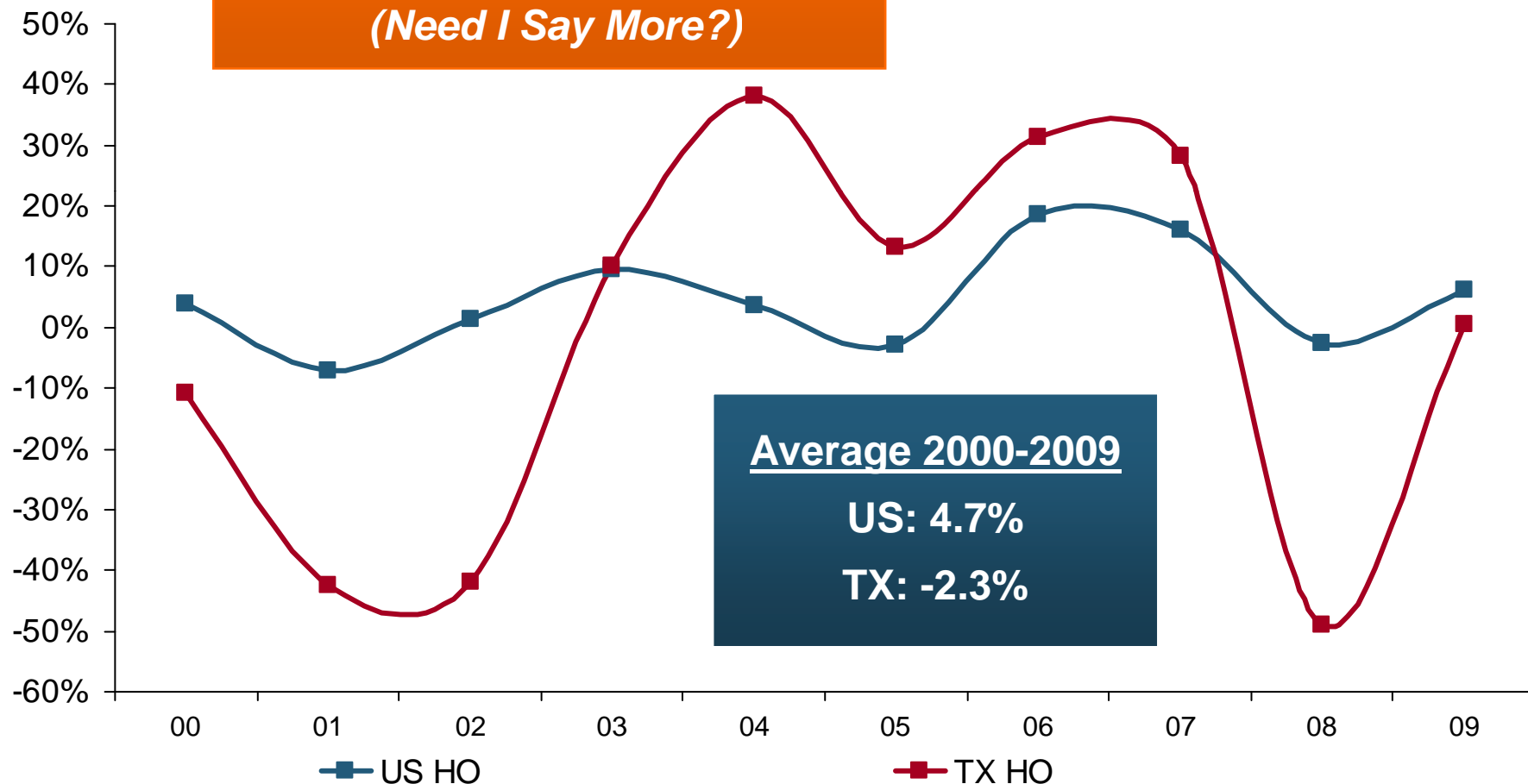
(Percent)



RNW Homeowners: TX vs. U.S., 2000-2009

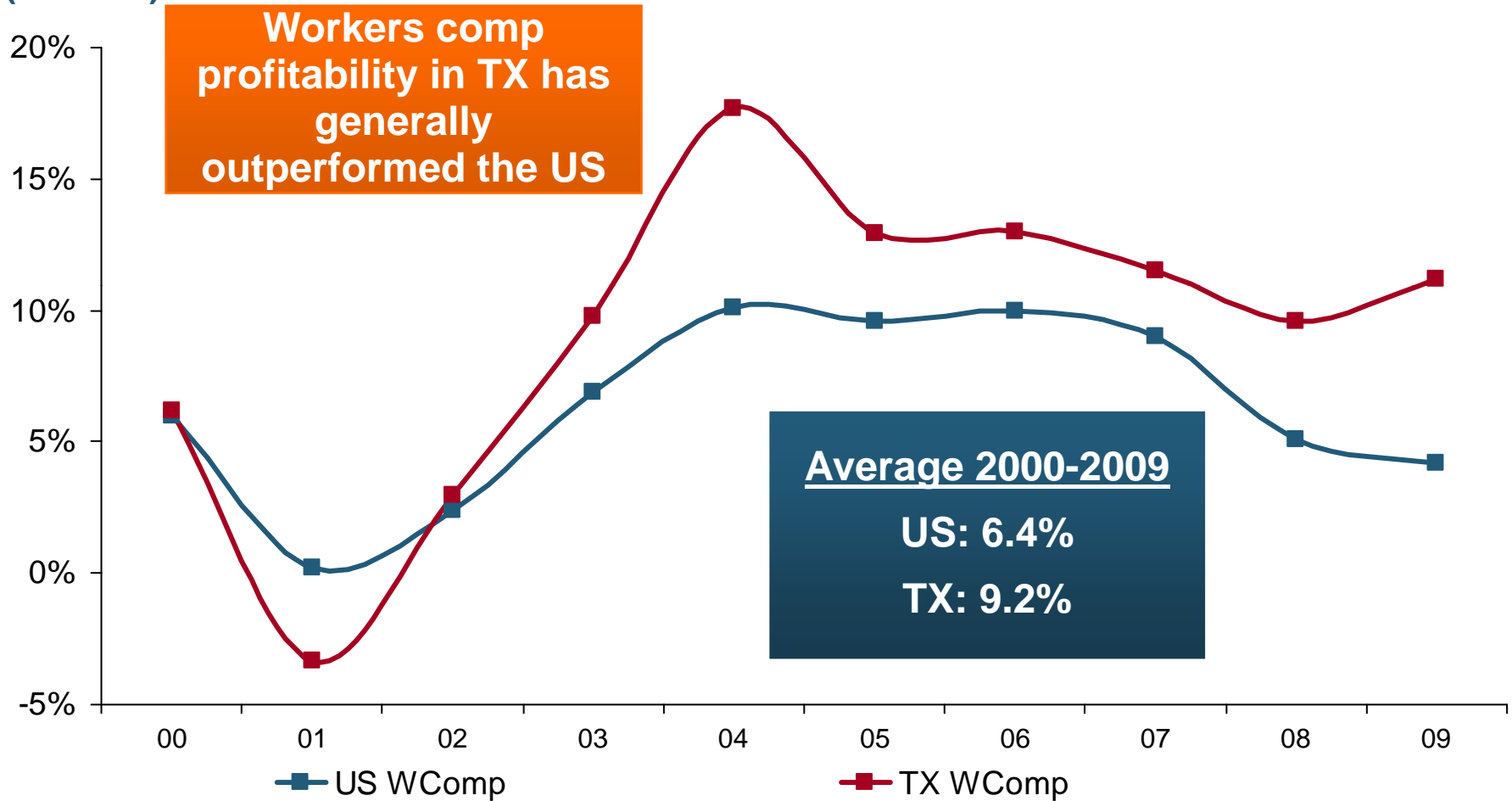
(Percent)

Homeowners Profitability: Mold,
Hurricanes, Hail & Tornadoes
(Need I Say More?)

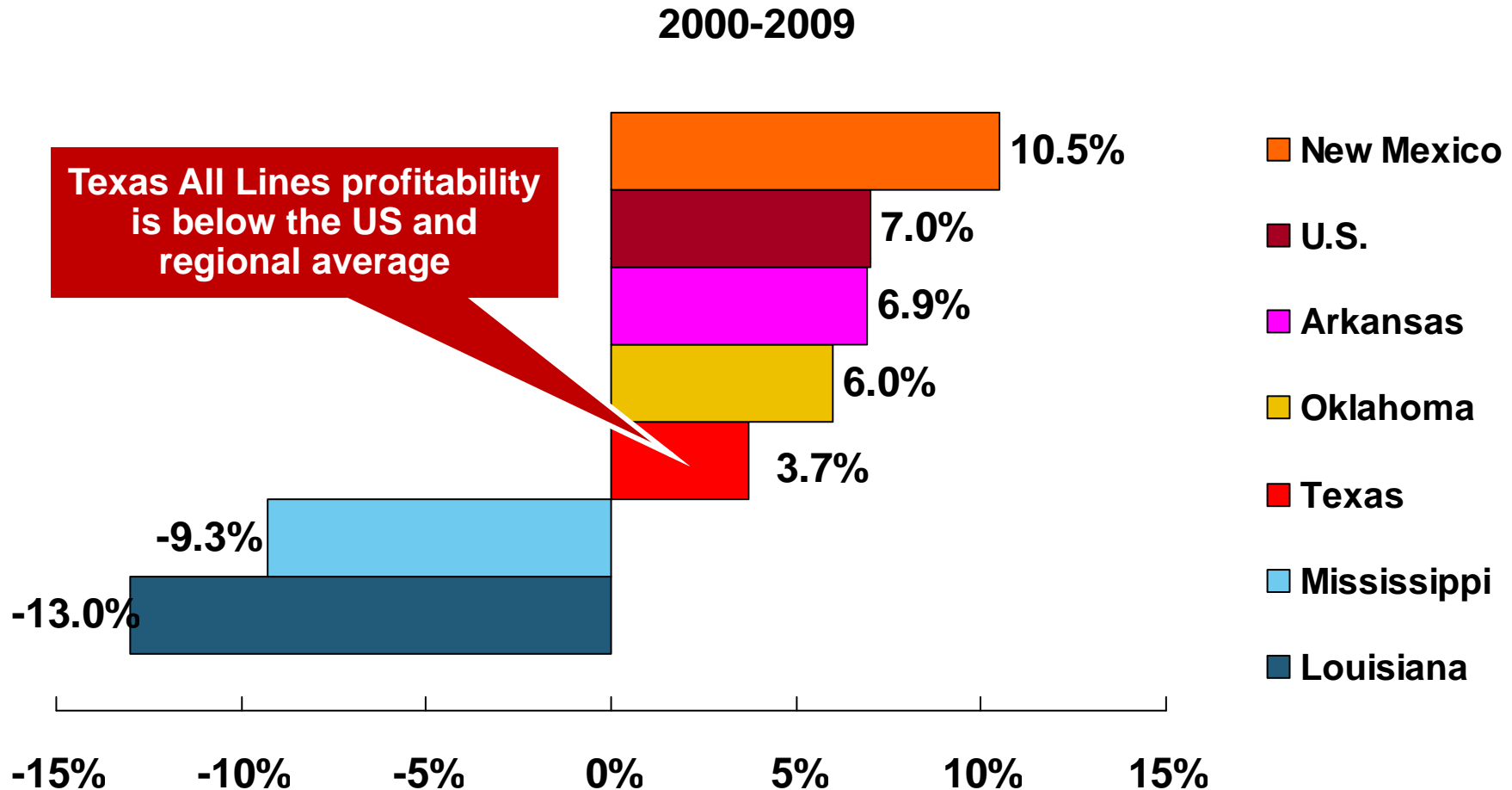


RNW Workers Comp: TX vs. U.S., 2000-2009

(Percent)



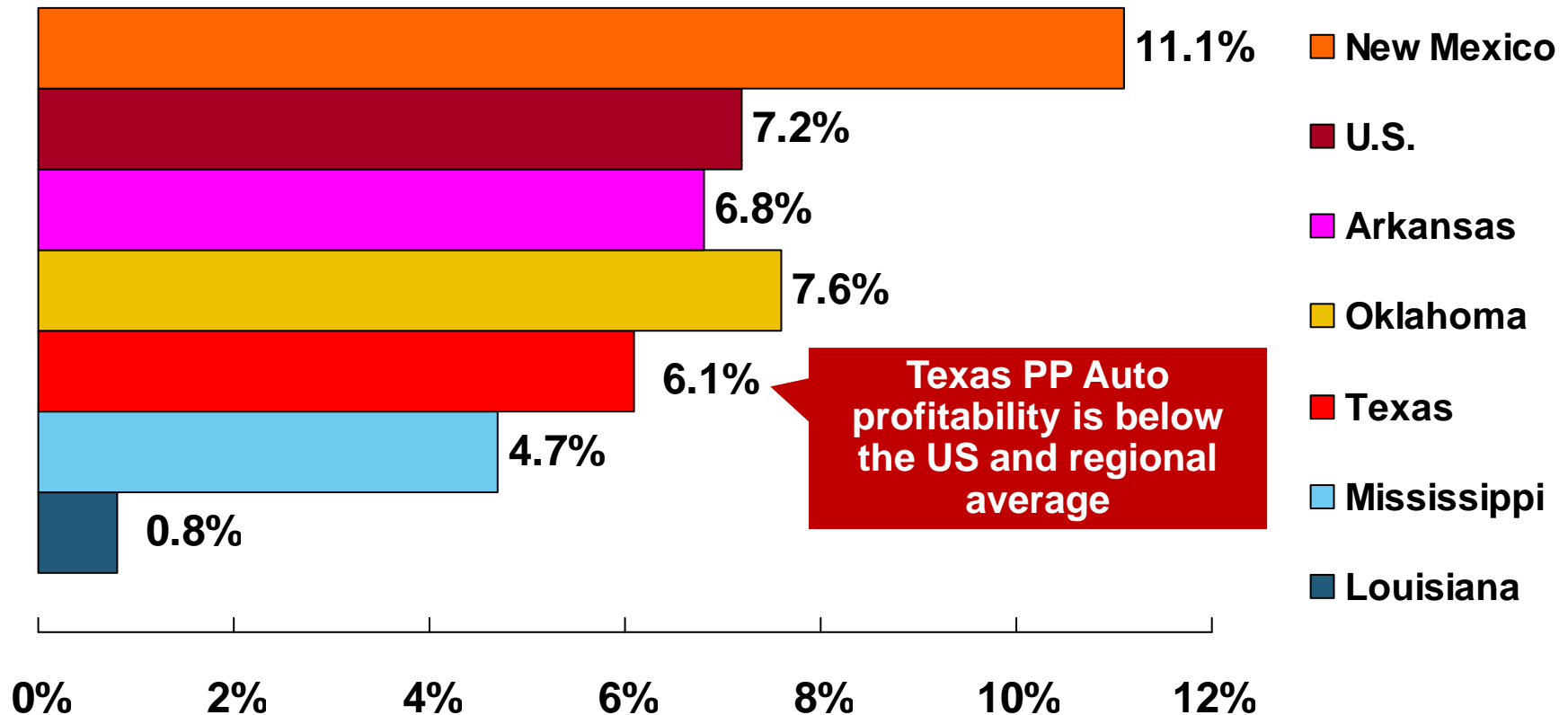
All Lines: 10-Year Average RNW TX & Nearby States



Source: NAIC, Insurance Information Institute

PP Auto: 10-Year Average RNW TX & Nearby States

2000-2009



Source: NAIC, Insurance Information Institute

Top Ten Most Expensive And Least Expensive States For Automobile Insurance, 2008 (1)

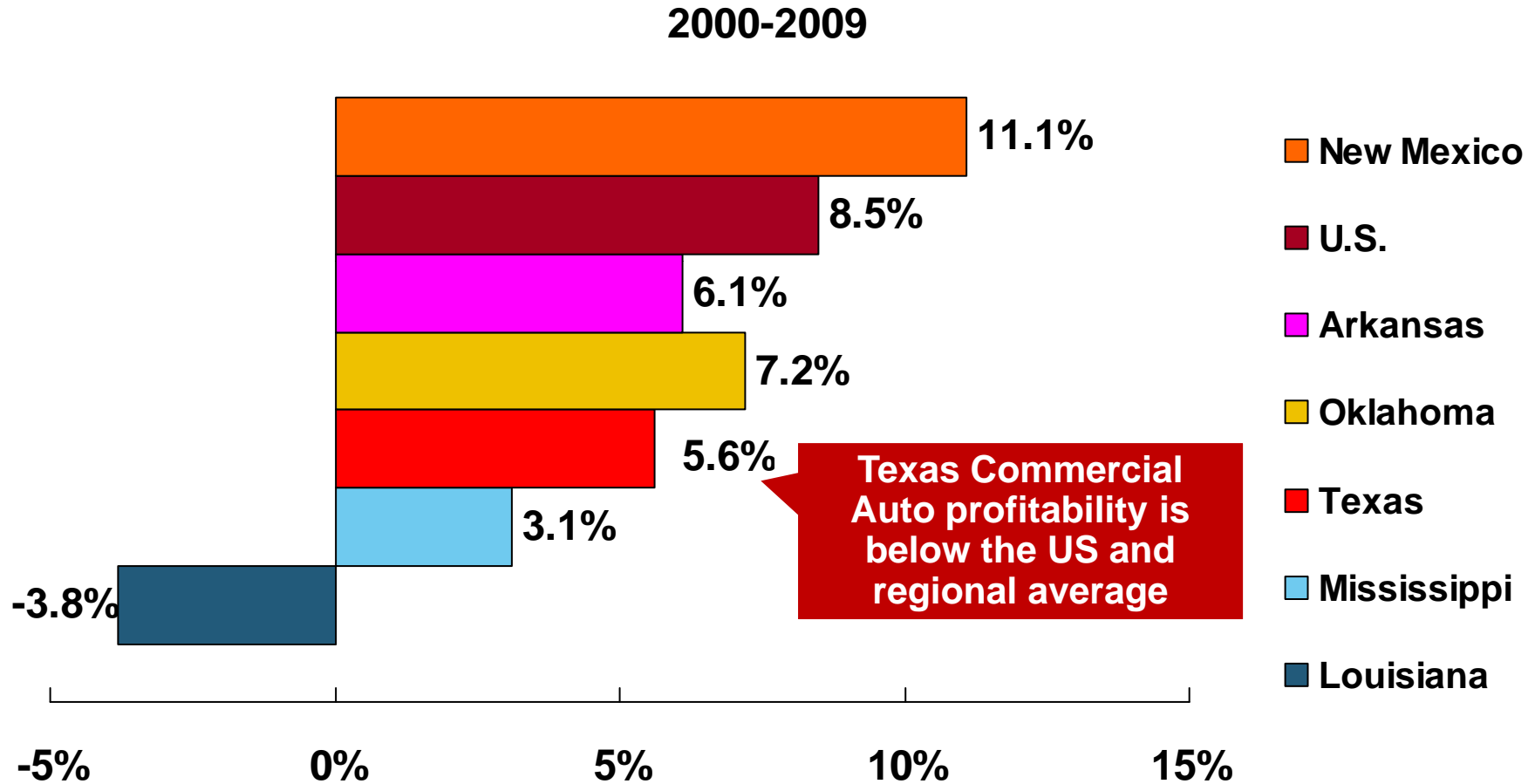
Rank	Most expensive states	Average expenditure	Rank	Least expensive states	Average expenditure
1	D.C.	\$1,126	1	North Dakota	\$503
2	Louisiana	1,105	2	Iowa	519
3	New Jersey	1,081	3	South Dakota	520
4	Florida	1,055	4	Nebraska	547
5	New York	1,044	5	Idaho	562
6	Delaware	1,007	6	Kansas	576
7	Rhode Island	986	7	Wisconsin	581
8	Nevada	970	8	North Carolina	595
9	Connecticut	950	9	Maine	600
10	Maryland	922	10	Indiana	612

Texas ranked 15th in 2008, with an average expenditure for auto insurance of \$854.

(1) Based on average automobile insurance expenditures.

Source: © 2010 National Association of Insurance Commissioners.

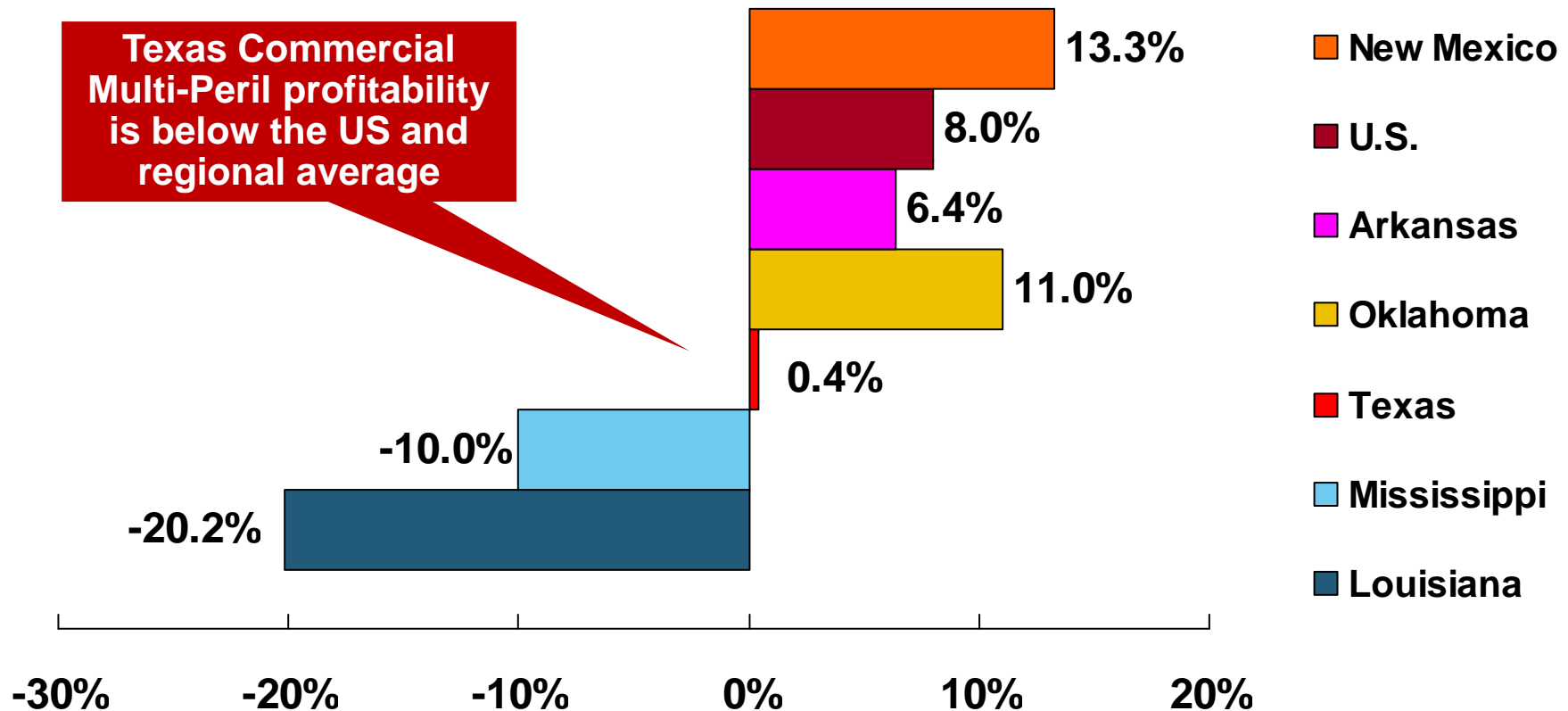
Comm. Auto: 10-Year Average RNW TX & Nearby States



Source: NAIC, Insurance Information Institute

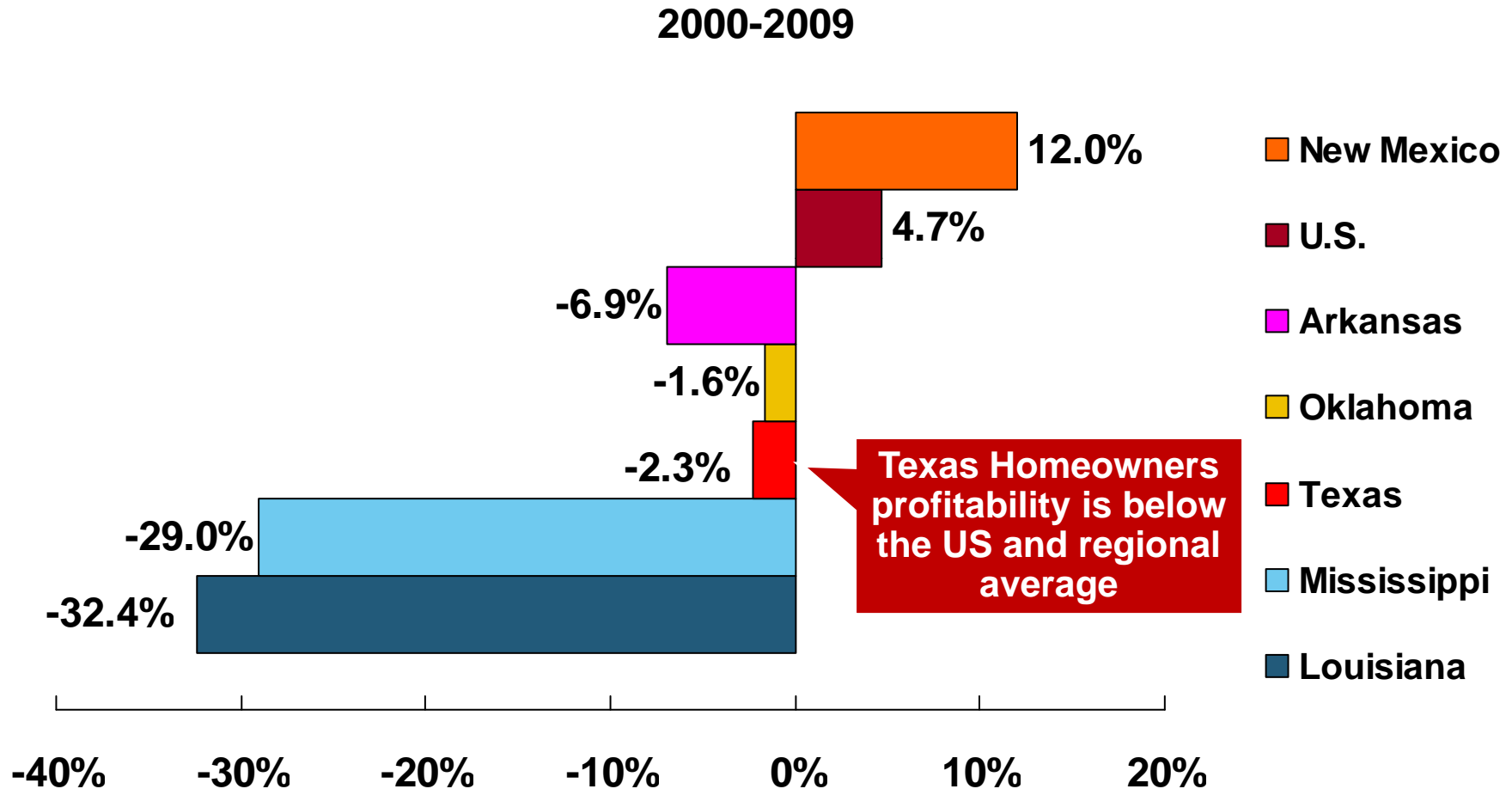
Comm. M-P: 10-Year Average RNW TX & Nearby States

2000-2009



Source: NAIC, Insurance Information Institute

Homeowners: 10-Year Average RNW TX & Nearby States



Source: NAIC, Insurance Information Institute

Top Ten Most Expensive And Least Expensive States For Homeowners Insurance, 2008 (1)

Texas ranked as the most expensive state for homeowners insurance in 2008, with an average expenditure of \$1,460.

Rank	Most expensive states	Average expenditure	Rank	Least expensive states	Average expenditure
1	Texas (3)	\$1,460	1	Idaho	\$387
2	Florida (4)	1,390	2	Utah	432
3	Louisiana	1,155	3	Oregon	439
4	Oklahoma	1,048	4	Washington	471
5	Massachusetts	1,026	5	Wisconsin	503
6	New York	983	6	Delaware	535
7	Connecticut	980	7	Ohio	565
8	Mississippi	980	8	Maine	572
9	D.C.	926	9	Pennsylvania	586
10	Kansas	916	10	Kentucky	601

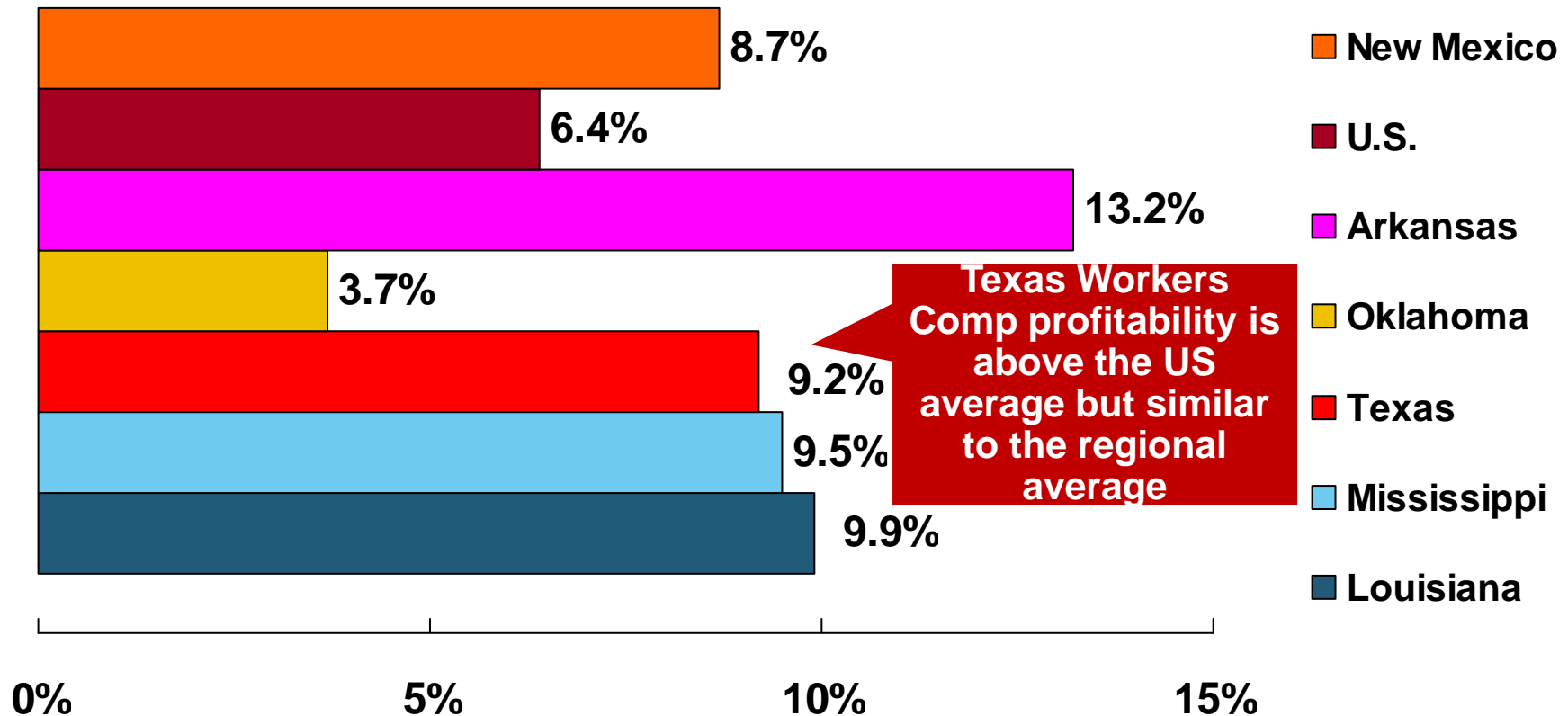
- (1) States with the same premium receive the same rank.
- (2) Based on the HO-3 homeowner package policy for owner-occupied dwellings, 1 to 4 family units. Provides “all risks” coverage (except those specifically excluded in the policy) on buildings and broad named-peril coverage on personal property,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

Note: Average premium=Premiums/exposure per house years. A house year is equal to 365 days of insured coverage for a single dwelling. The NAIC does not rank State Average Expenditures and does not endorse any conclusions drawn from this data.

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

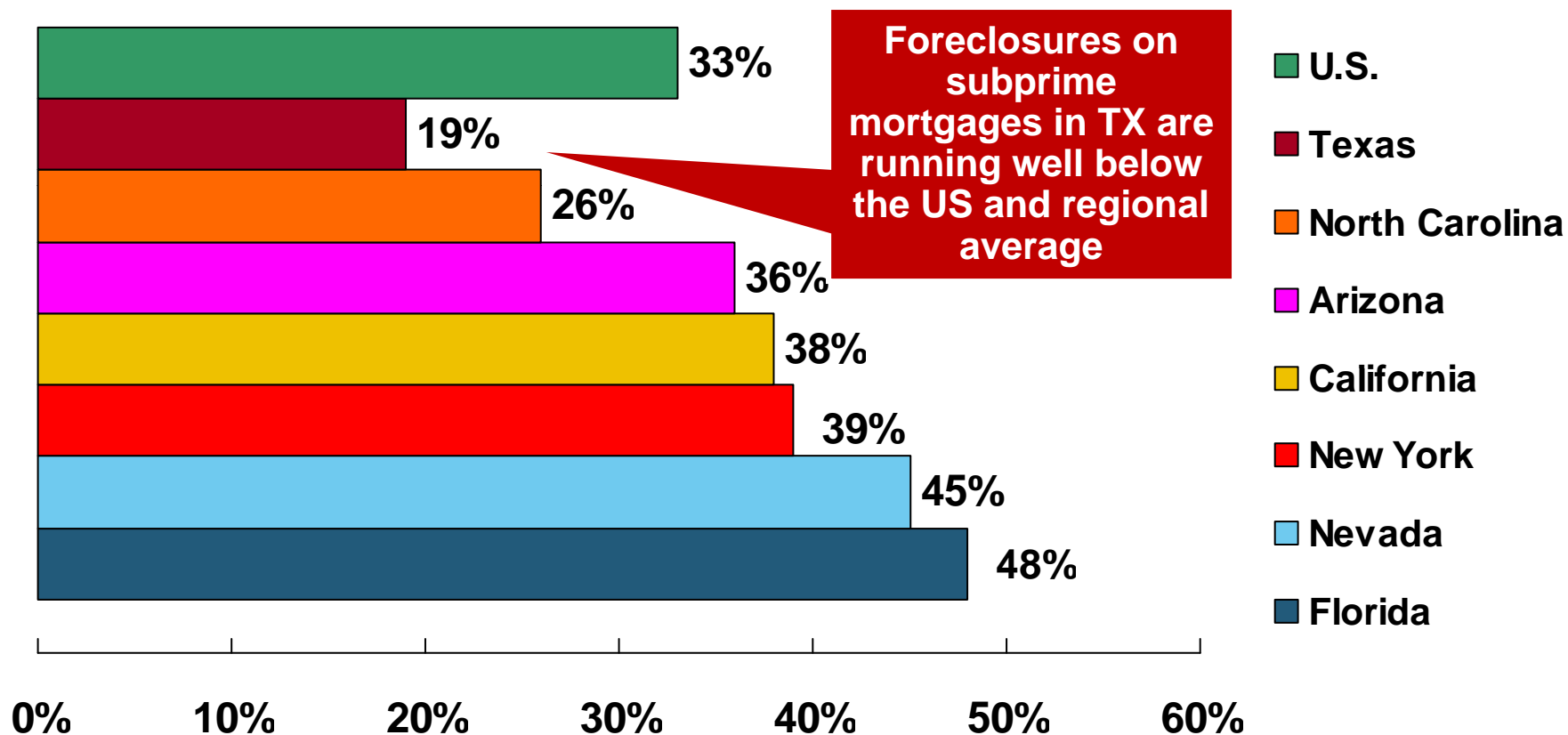
Workers Comp: 10-Year Average RNW TX & Nearby States

2000-2010



Source: NAIC, Insurance Information Institute

Percentage of Subprime Mortgages in Foreclosure, as of April 2010*

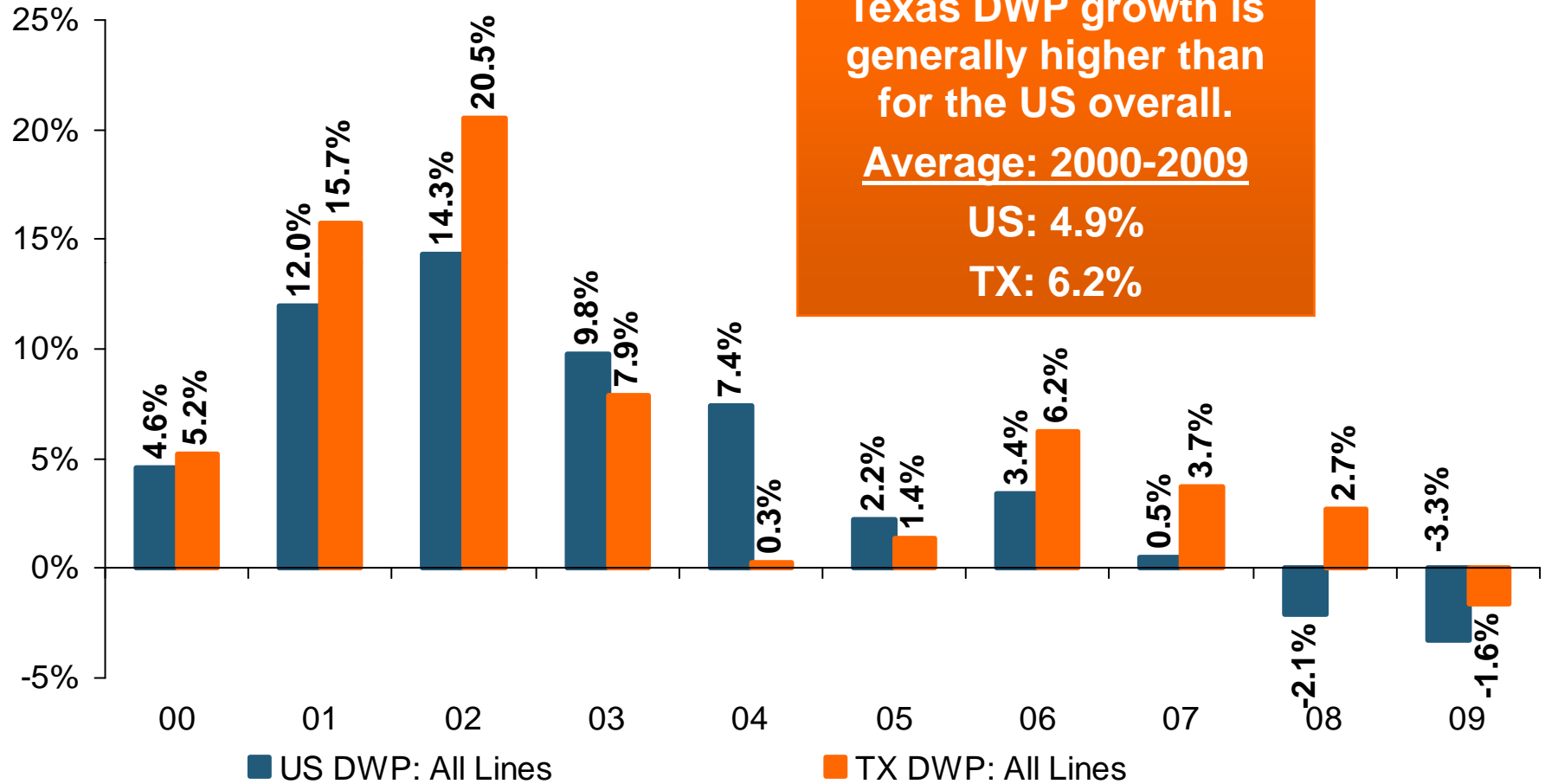


*Or at least 90 days delinquent

Source: New York Federal Reserve; Wall Street Journal, *Housing's Fragile States*, 06/30/10

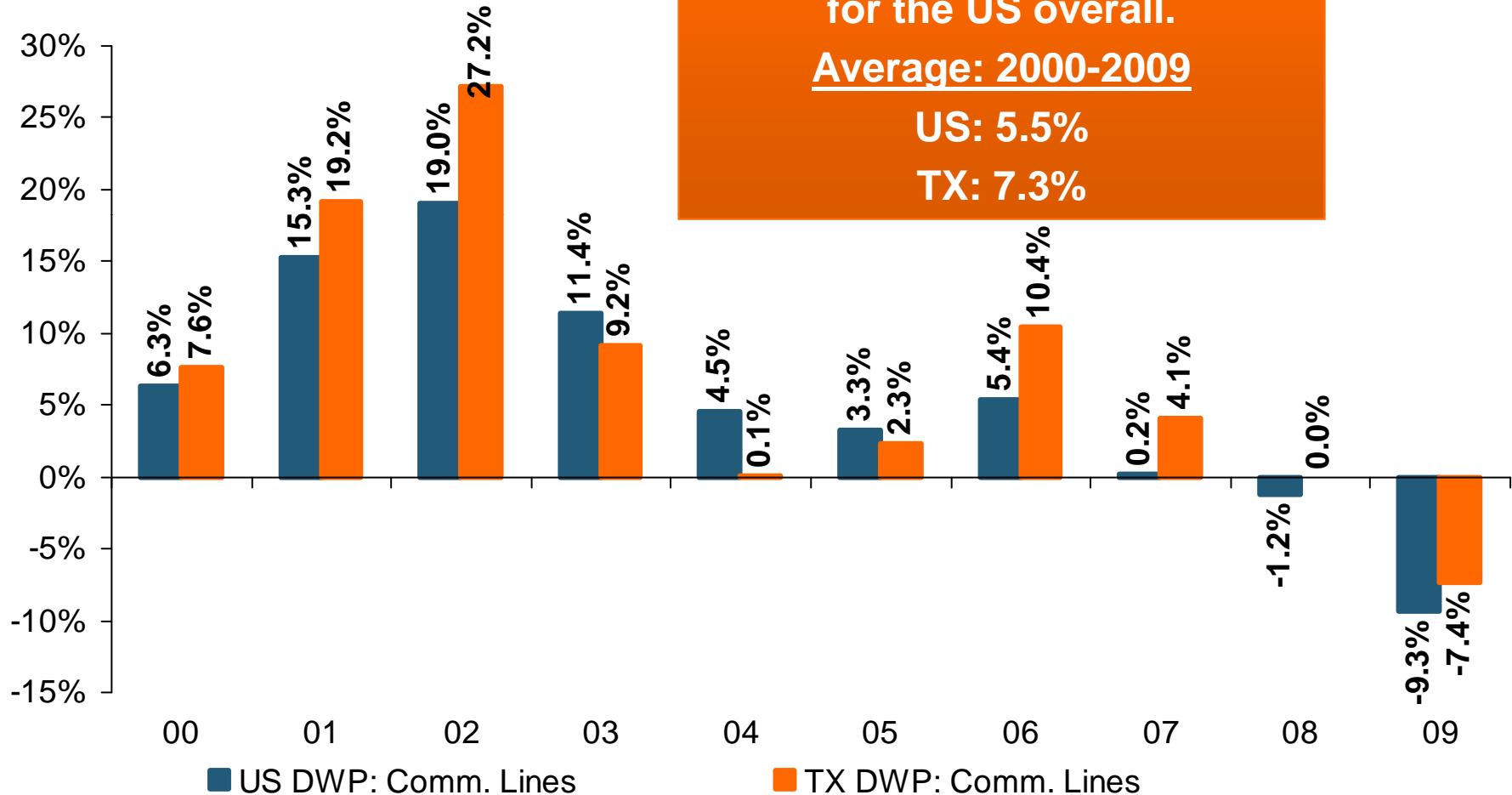
All Lines DWP Growth: TX vs. U.S., 2000-2009

(Percent)



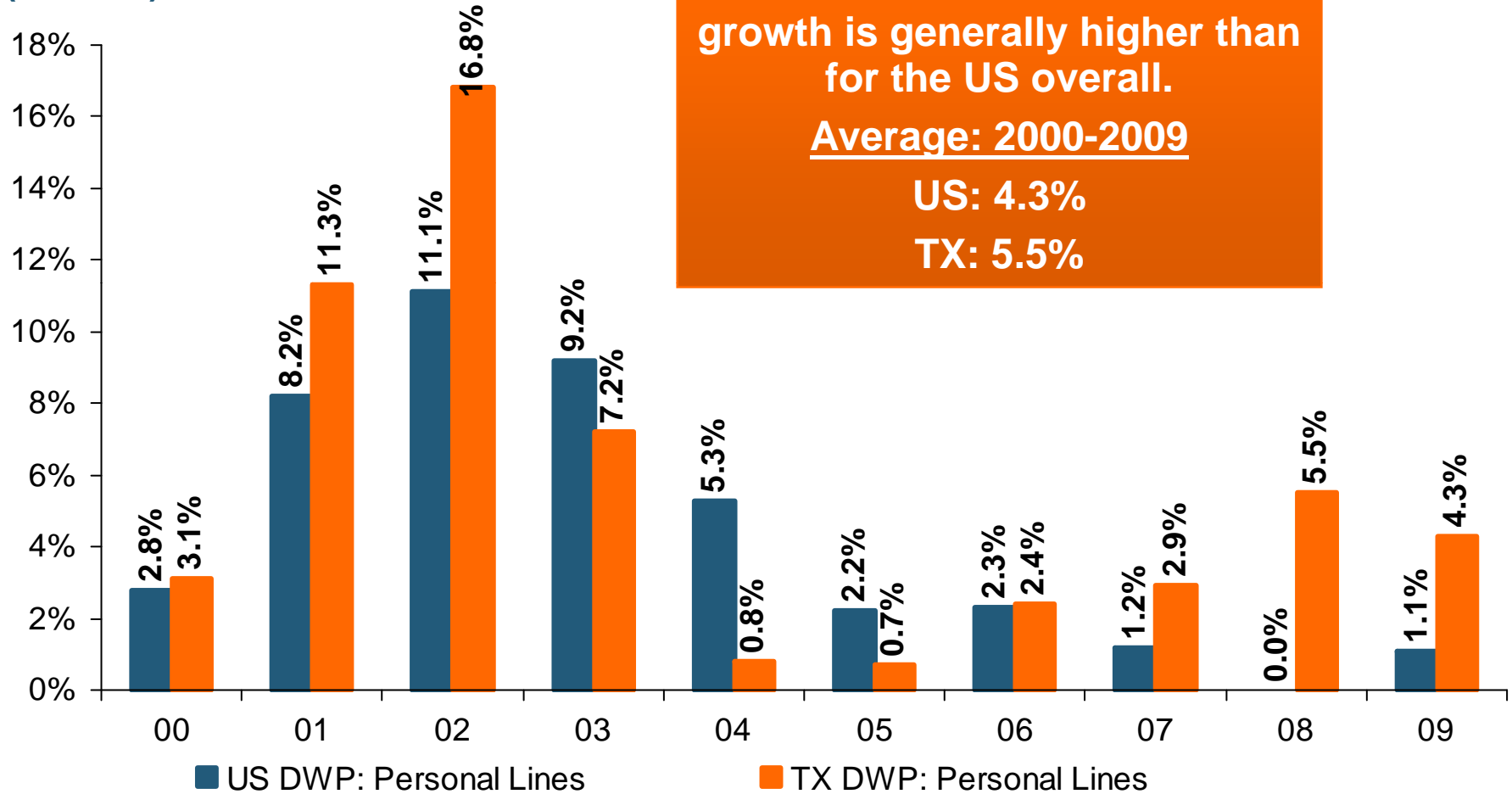
Comm. Lines DWP Growth: TX vs. U.S., 2000-2009

(Percent)



Personal Lines DWP Growth: TX vs. U.S., 2000-2009

(Percent)

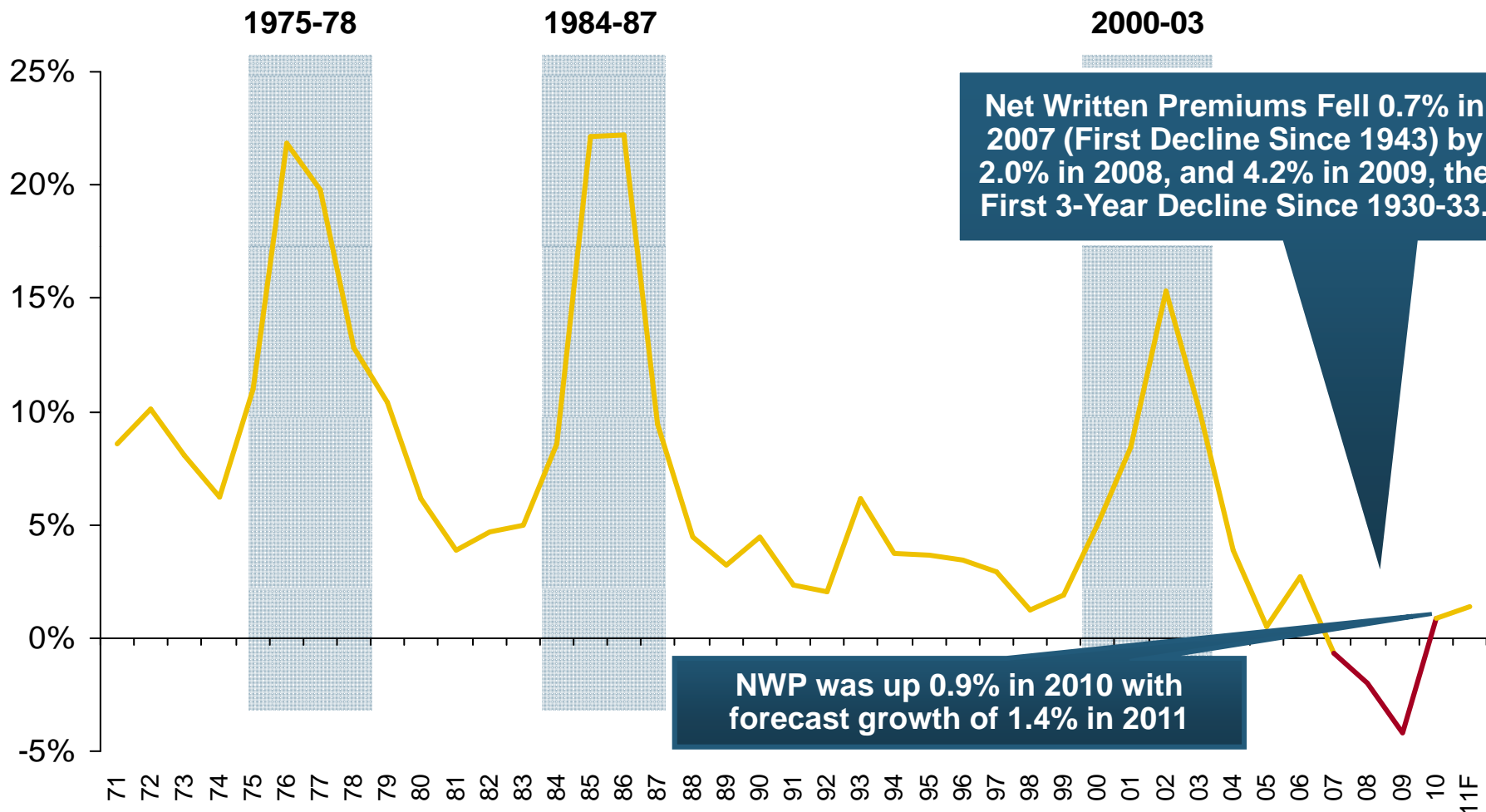


PRICING TRENDS

**Winds of Change or
Moving Sideways?**

Soft Market Persisted in 2010 but Growth Returned: More in 2011?

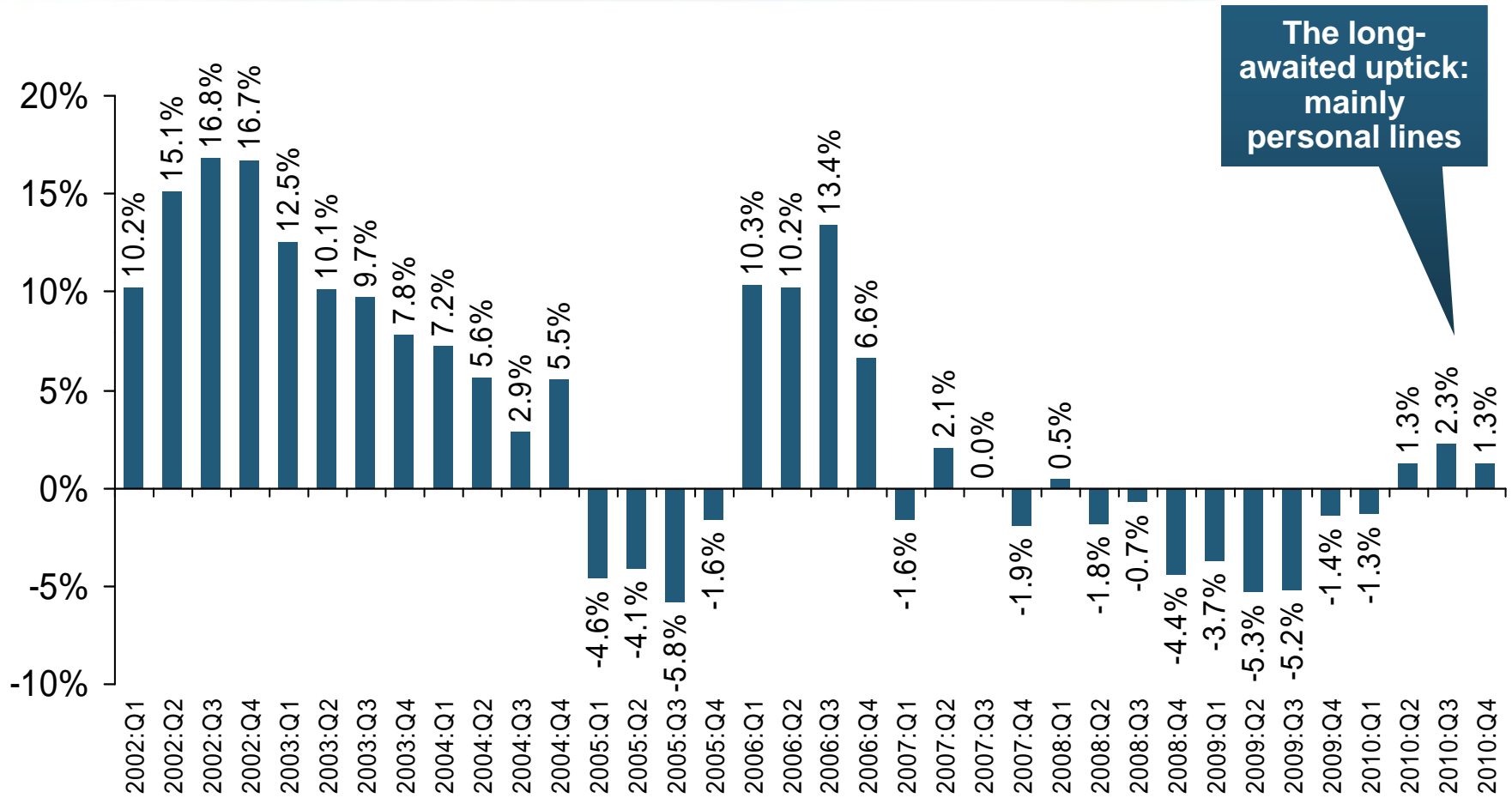
(Percent)



Shaded areas denote "hard market" periods

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

P/C Net Premiums Written: % Change, Quarter vs. Year-Prior Quarter



The long-awaited uptick: mainly personal lines

Finally! Back-to-back quarters of net written premium growth (vs. the same quarter, prior year)

Sources: ISO, Insurance Information Institute.

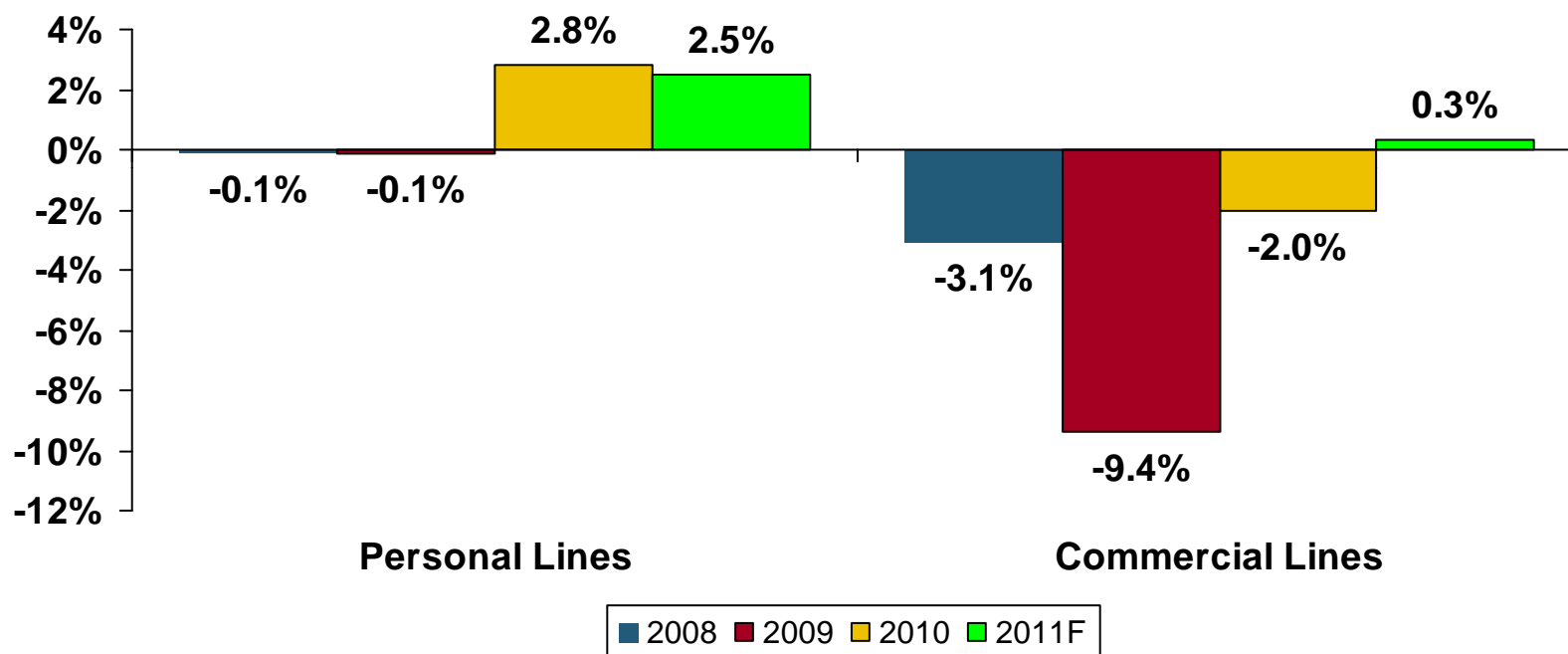
P/C Net Written Premiums by Line: 2008-2010P

Line of Business	2008	2009	2010P	2009-2010P Change
Personal Auto	\$150.0B	\$156.6B	\$159.1B	+1.6%
Homeowners	\$55.6	\$56.9	\$61.2	+7.6%
Other Liab (incl. Prod Liab)	\$42.0	\$39.1	\$38.2	-2.4%
Workers Compensation	\$33.8	\$30.3	\$29.9	-1.3%
Commercial Multi Peril	\$30.1	\$28.5	\$28.7	+0.8%
Commercial Auto	\$23.7	\$21.8	\$20.9	-4.3%
Fire & Allied Lines (incl EQ)	\$24.2	\$23.4	\$22.6	-3.4%
All Other Lines	\$67.7	\$61.9	\$61.6	-0.5%
Total P/C Industry	\$434.9B	\$418.4B	\$422.1B	+0.9

Source: All lines except WC for 2008-09, A.M. Best; Worker Comp., NCCI; 2010P data, ISO; Private carriers only.

Net Written Premium Growth by Segment: 2008-2011F

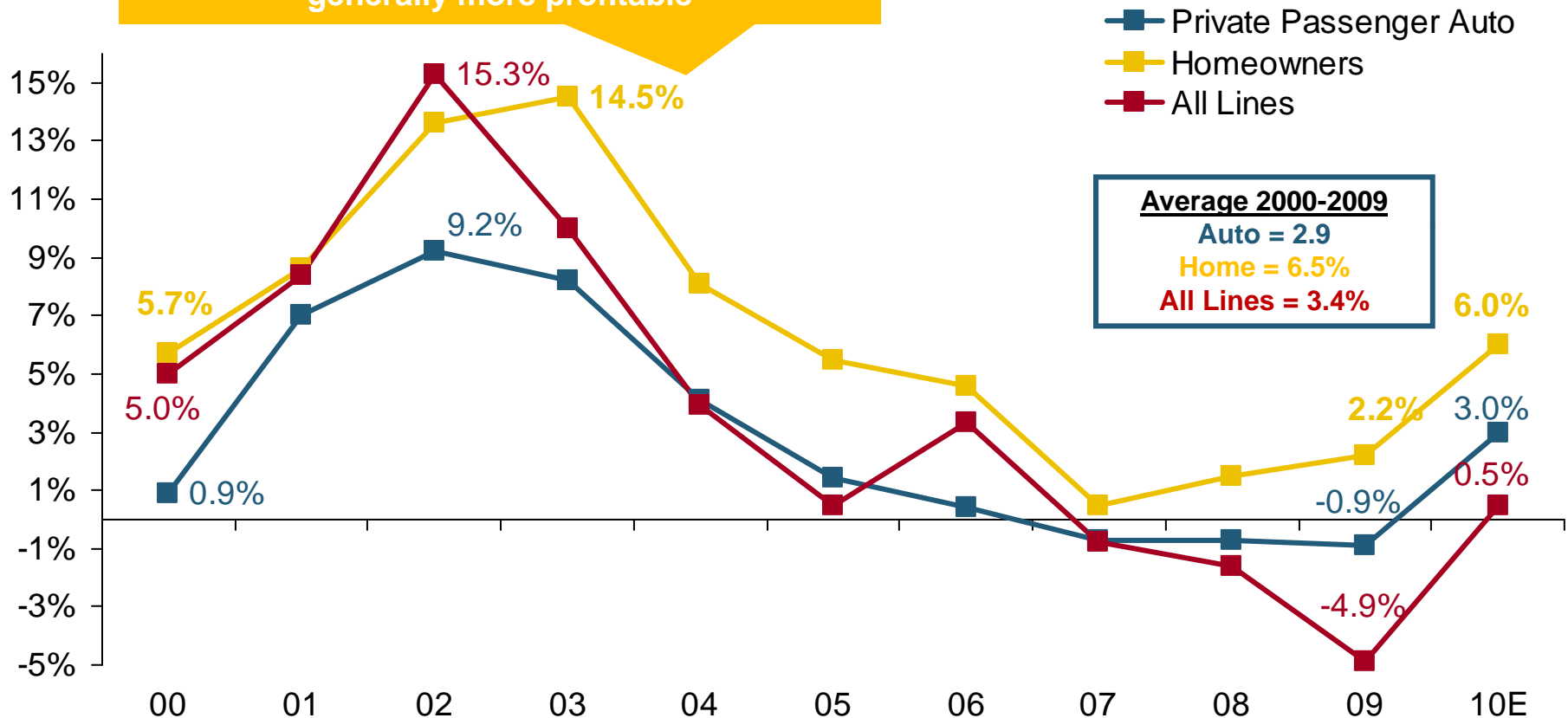
Personal lines growth resumed in 2010 and will continue in 2011, while commercial lines contracted again in 2010 and but will stabilize in 2011



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

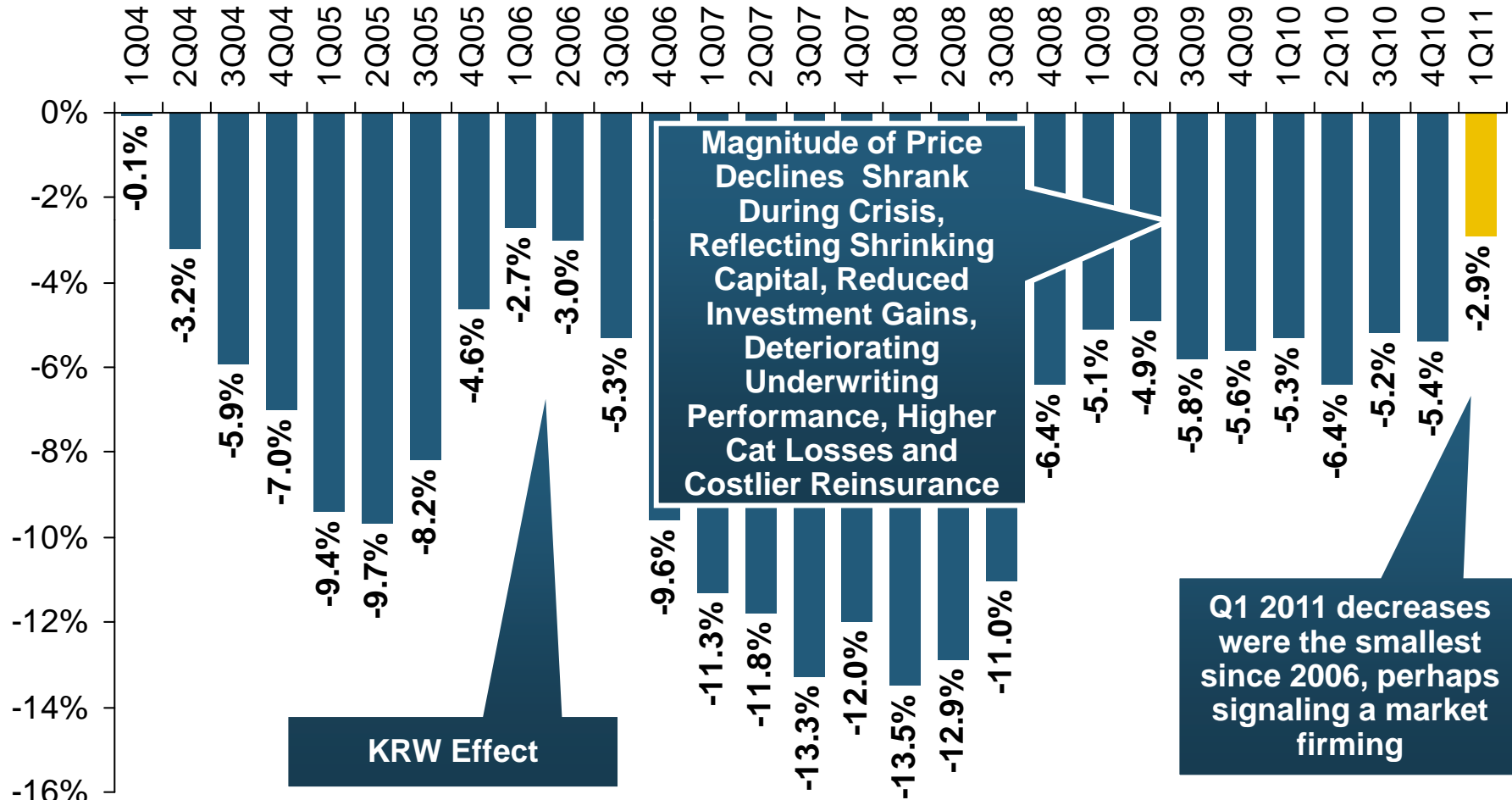
Auto & Home vs. All Lines, Net Written Premium Growth, 2000–2010E

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



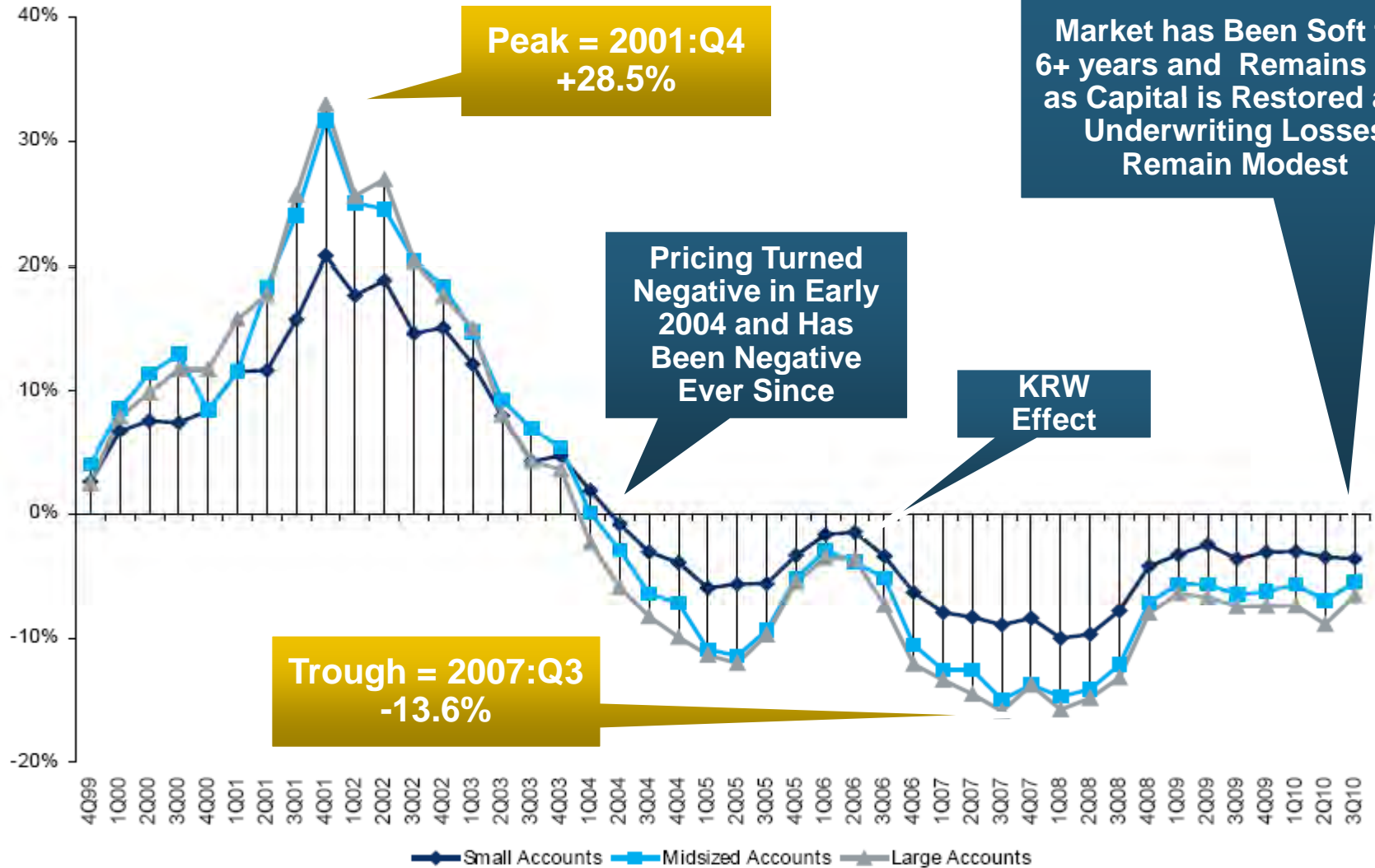
Average Commercial Rate Change, All Lines, (1Q:2004–1Q:2011)

(Percent)



Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2010:Q3

Percentage Change (%)

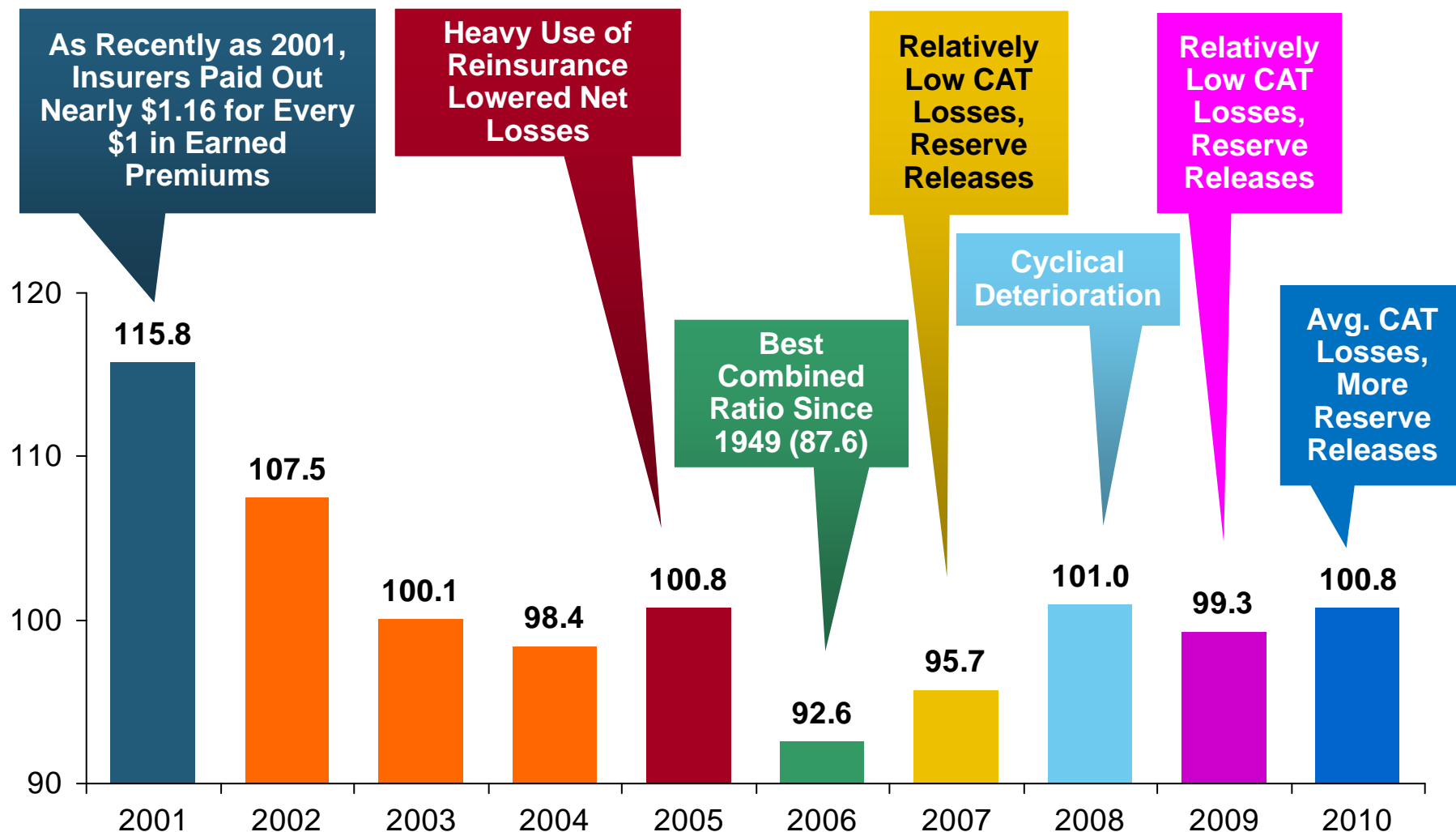


Source: Council of Insurance Agents and Brokers; Insurance Information Institute.

UNDERWRITING

**Cyclicalicity is Driven Primarily
by the Industry's Underwriting
Cycle, Not the Economy**

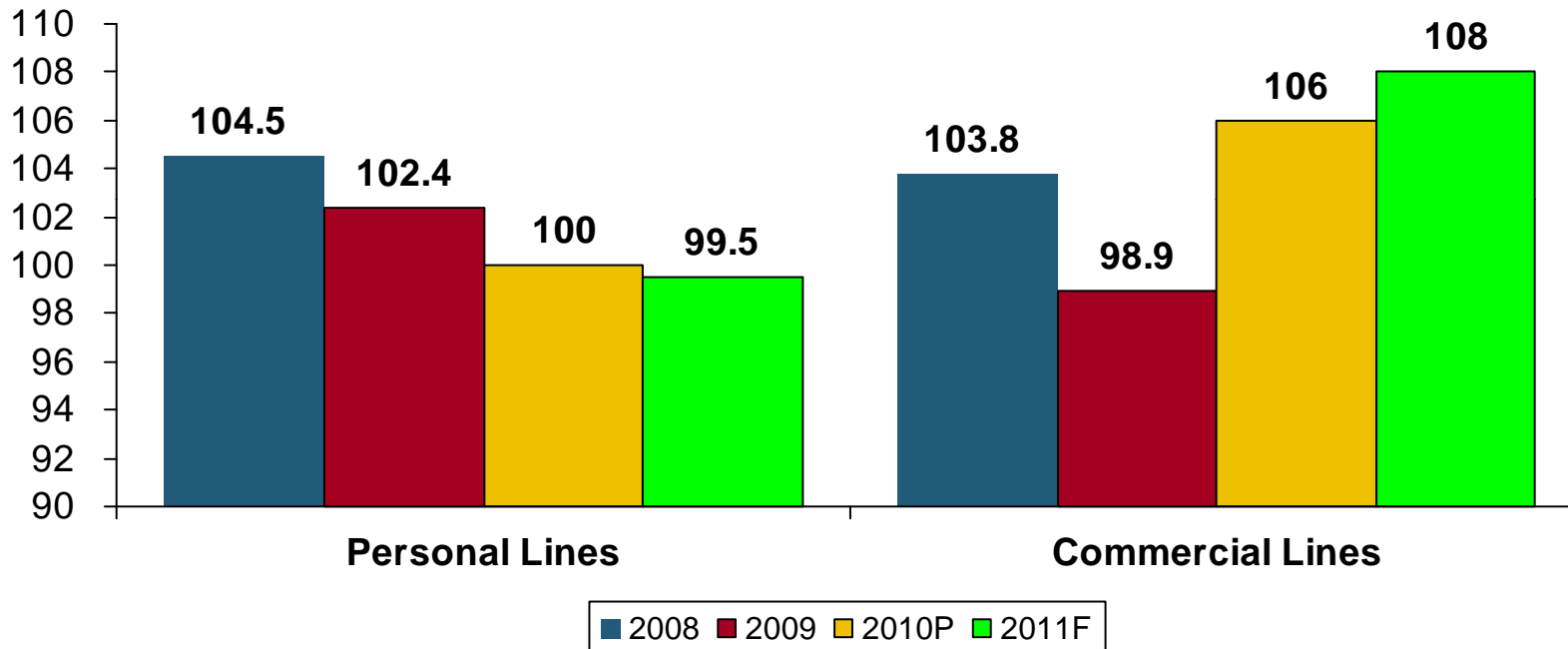
P/C Insurance Industry Combined Ratio, 2001–2010*



* Excludes Mortgage & Financial Guaranty insurers in 2008, 2009 and 2010. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4
Sources: A.M. Best, ISO.

Calendar Year Combined Ratios by Segment: 2008-2011F

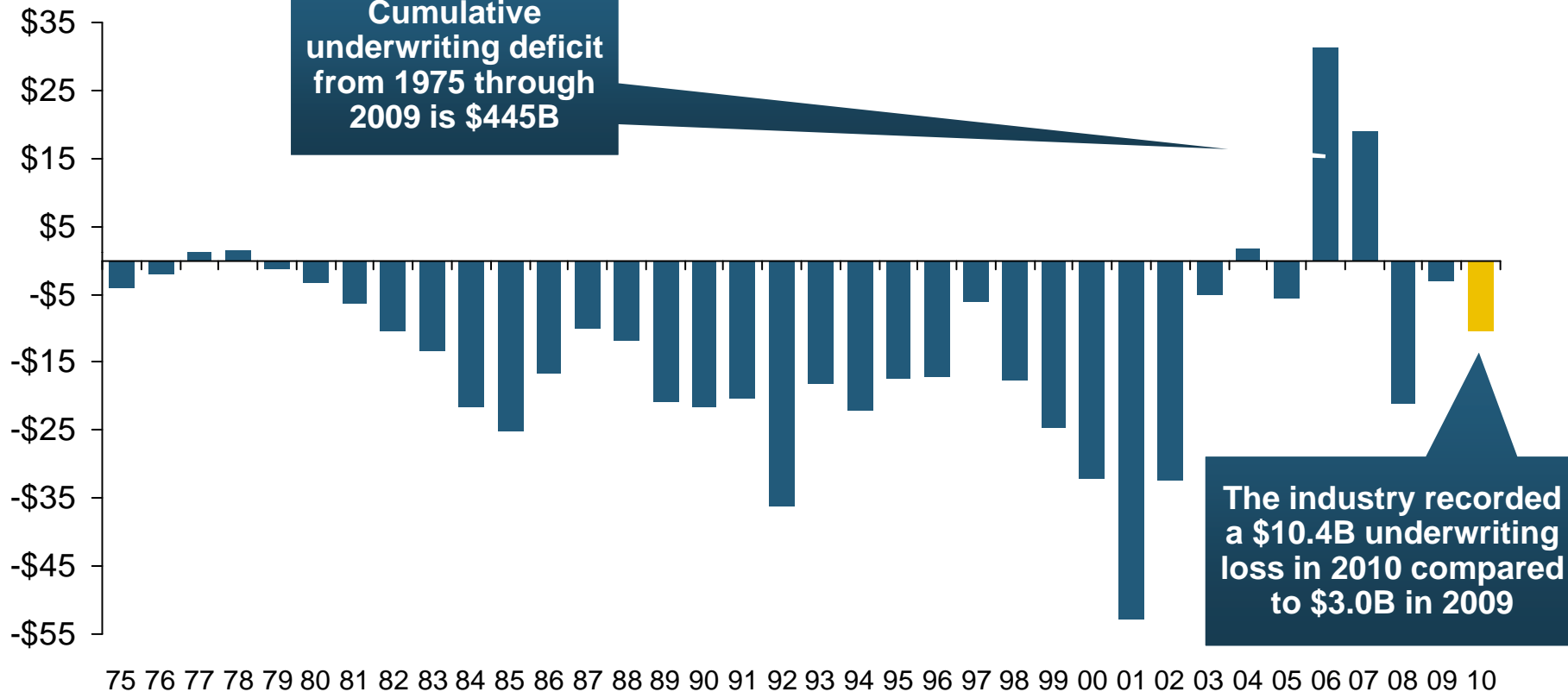
Personal lines combined ratio is expected to remain stable in 2010 while commercial lines and reinsurance deteriorate



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

Underwriting Gain (Loss) 1975–2010*

(\$ Billions)

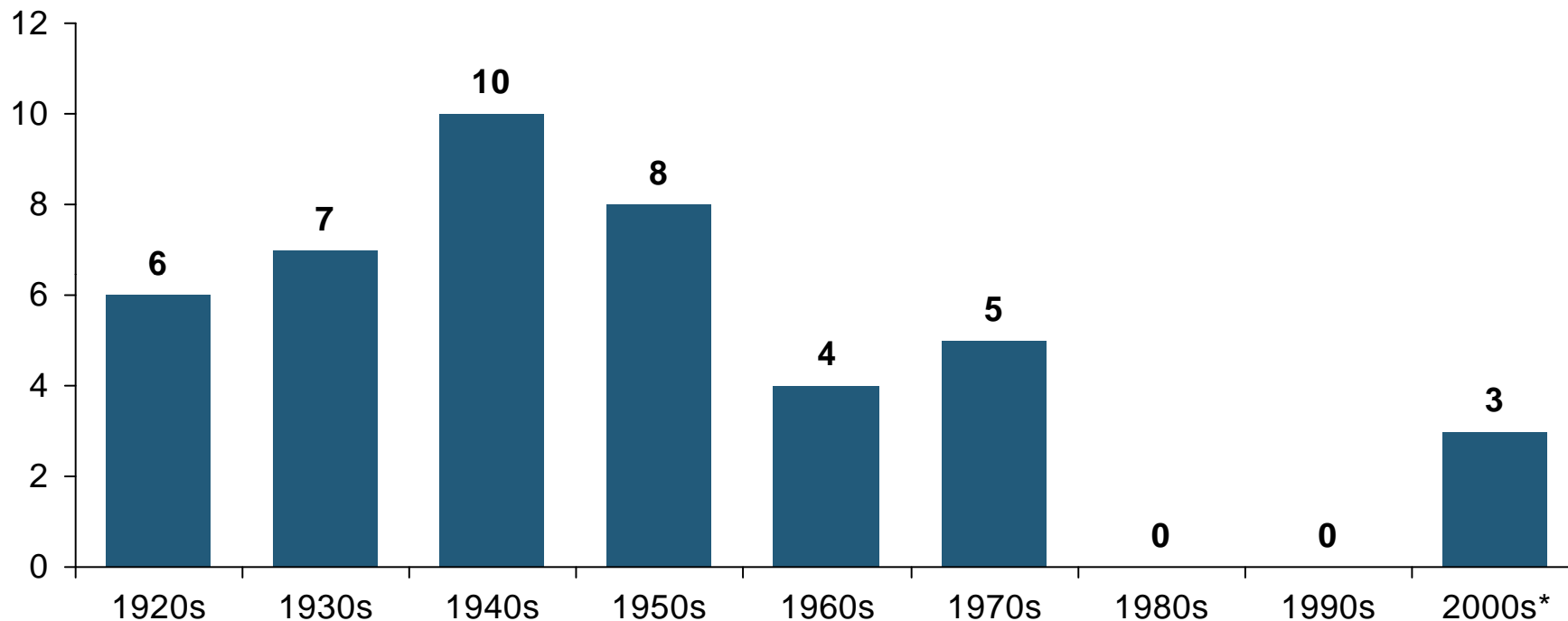


**Large Underwriting Losses Are *NOT* Sustainable
in Current Investment Environment**

* Includes mortgage and financial guaranty 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



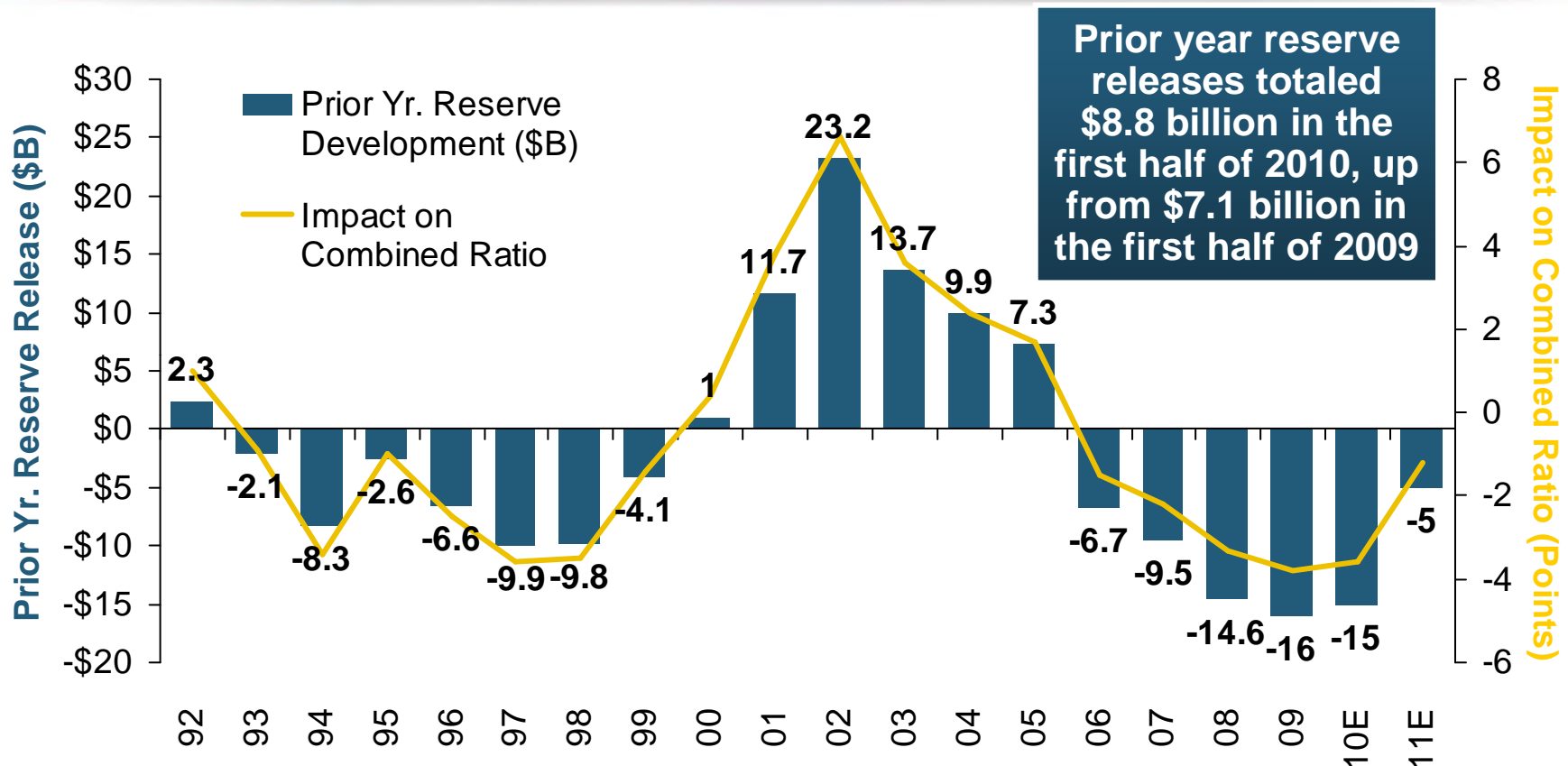
Underwriting Profits Were Common Before the 1980s (40 of the 60 Years Before 1980 Had Combined Ratios Below 100) – But Then They Vanished. Not a Single Underwriting Profit Was Recorded in the 25 Years from 1979 Through 2003

* 2000 through 2009. 2009 combined ratio excluding mortgage and financial guaranty insurers was 99.3, which would bring the 2000s total to 4 years with an underwriting profit.

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

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

P/C Reserve Development, 1992–2011E



Prior year reserve releases totaled \$8.8 billion in the first half of 2010, up from \$7.1 billion in the first half of 2009

Reserve Releases Are Remained Strong in 2010 But Should Begin to Taper Off 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.

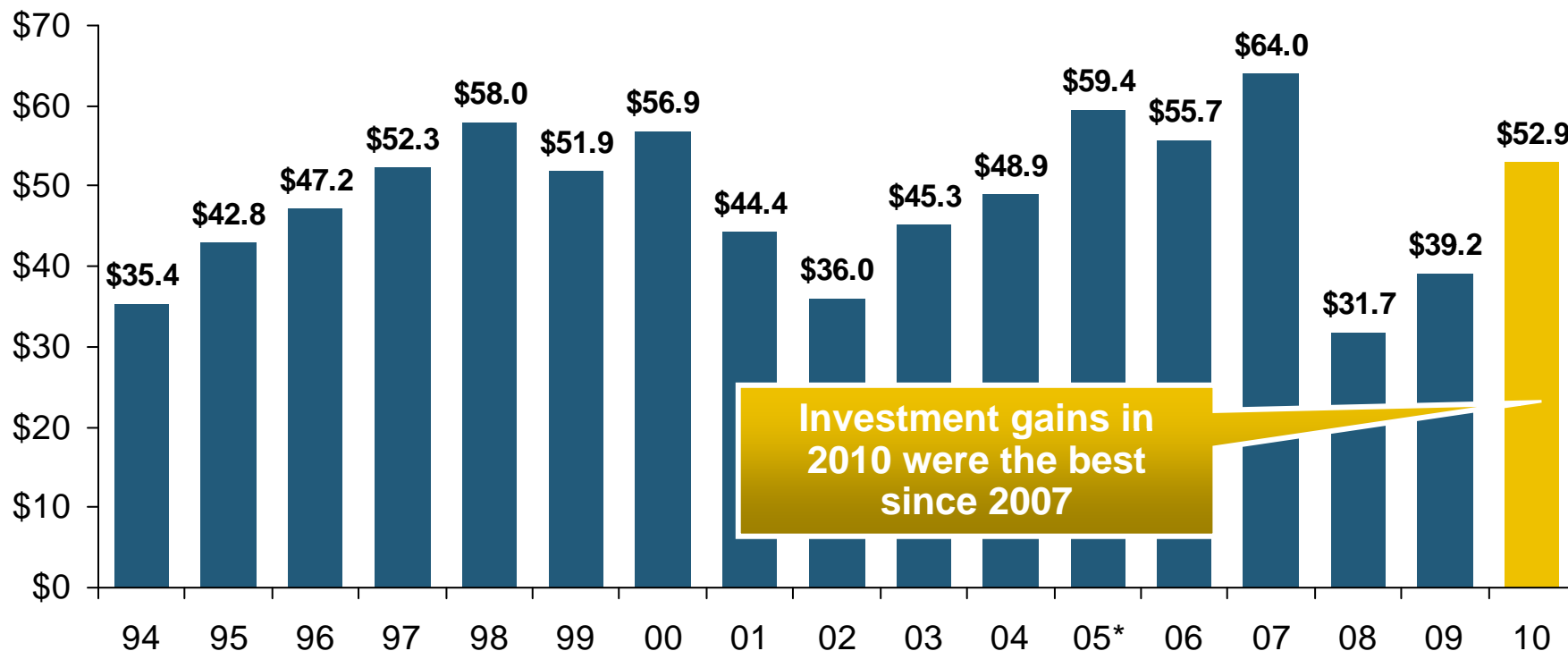
Sources: Barclay's Capital; A.M. Best.

INVESTMENTS: THE NEW REALITY

**Investment Performance is a
Key Driver of Profitability
*Does It Influence
Underwriting or Cyclicalities?***

Property/Casualty Insurance Industry Investment Gain: 1994–2010¹

(\$ Billions)



Investment gains in 2010 were the best since 2007

Investment Gains Recovered Significantly in 2010 Due to Realized Investment Gains; The Financial Crisis Caused Investment Gains to Fall by 50% in 2008

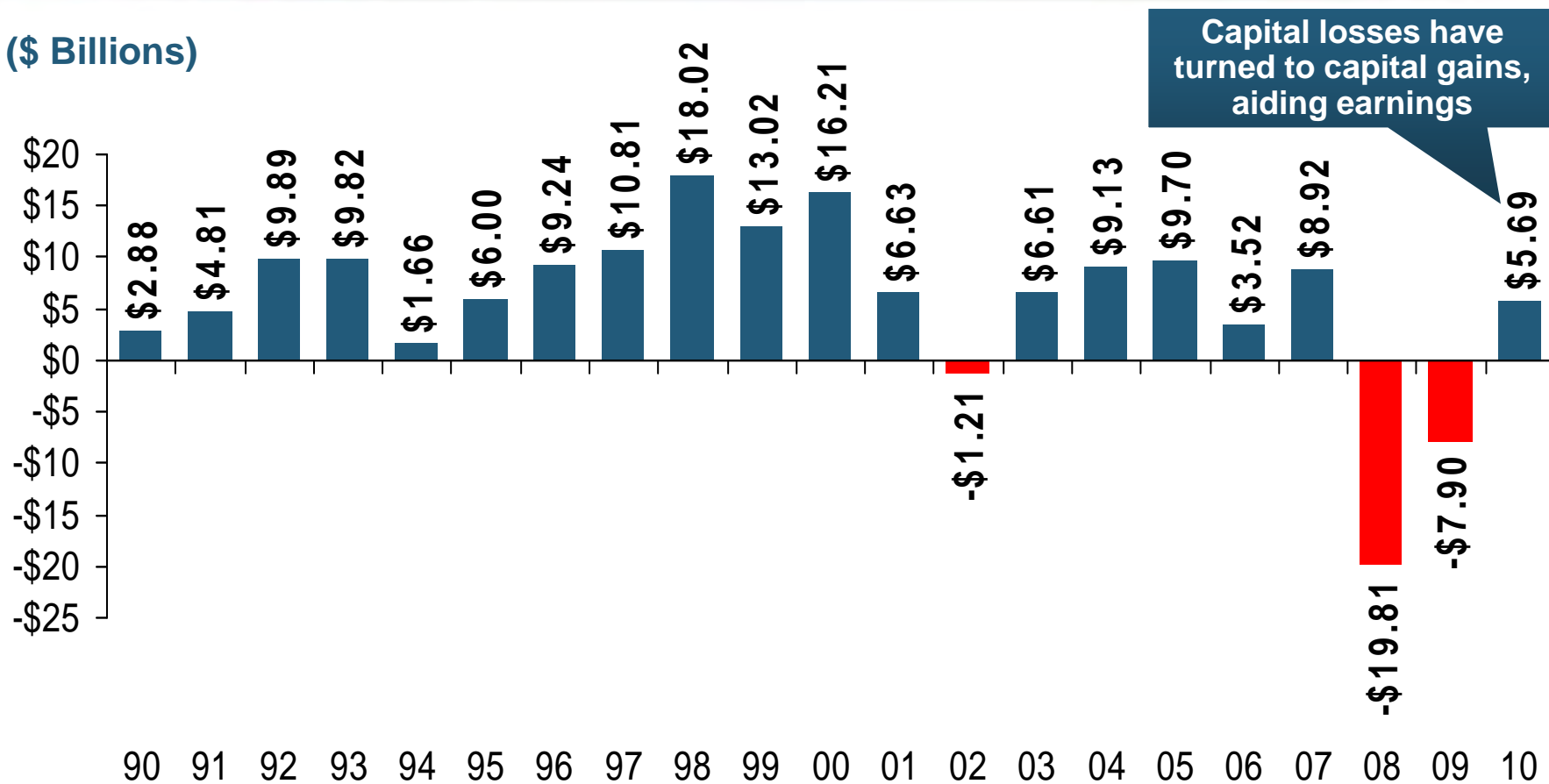
¹ Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.

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

Sources: ISO; Insurance Information Institute.

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

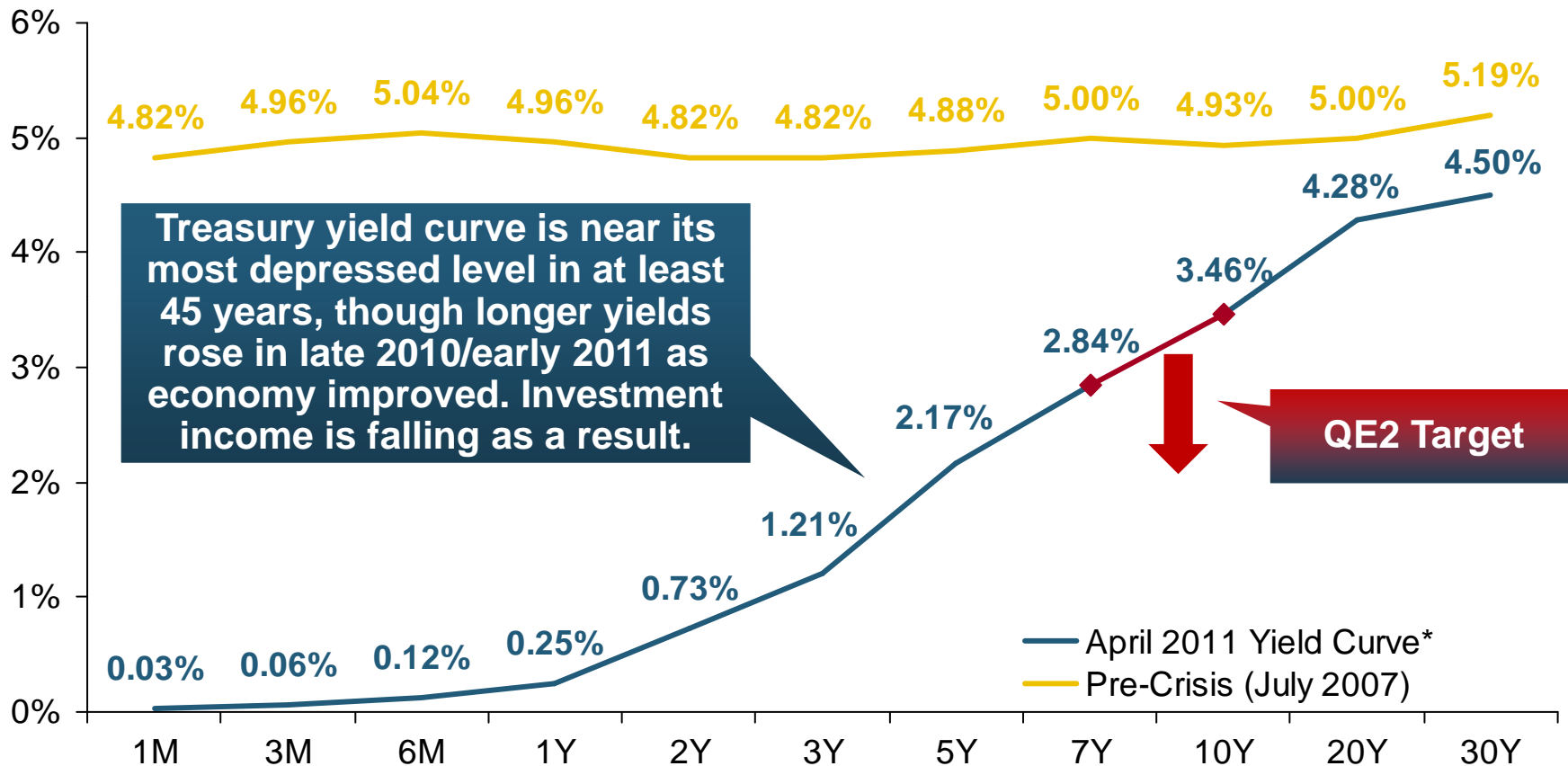
(\$ Billions)



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

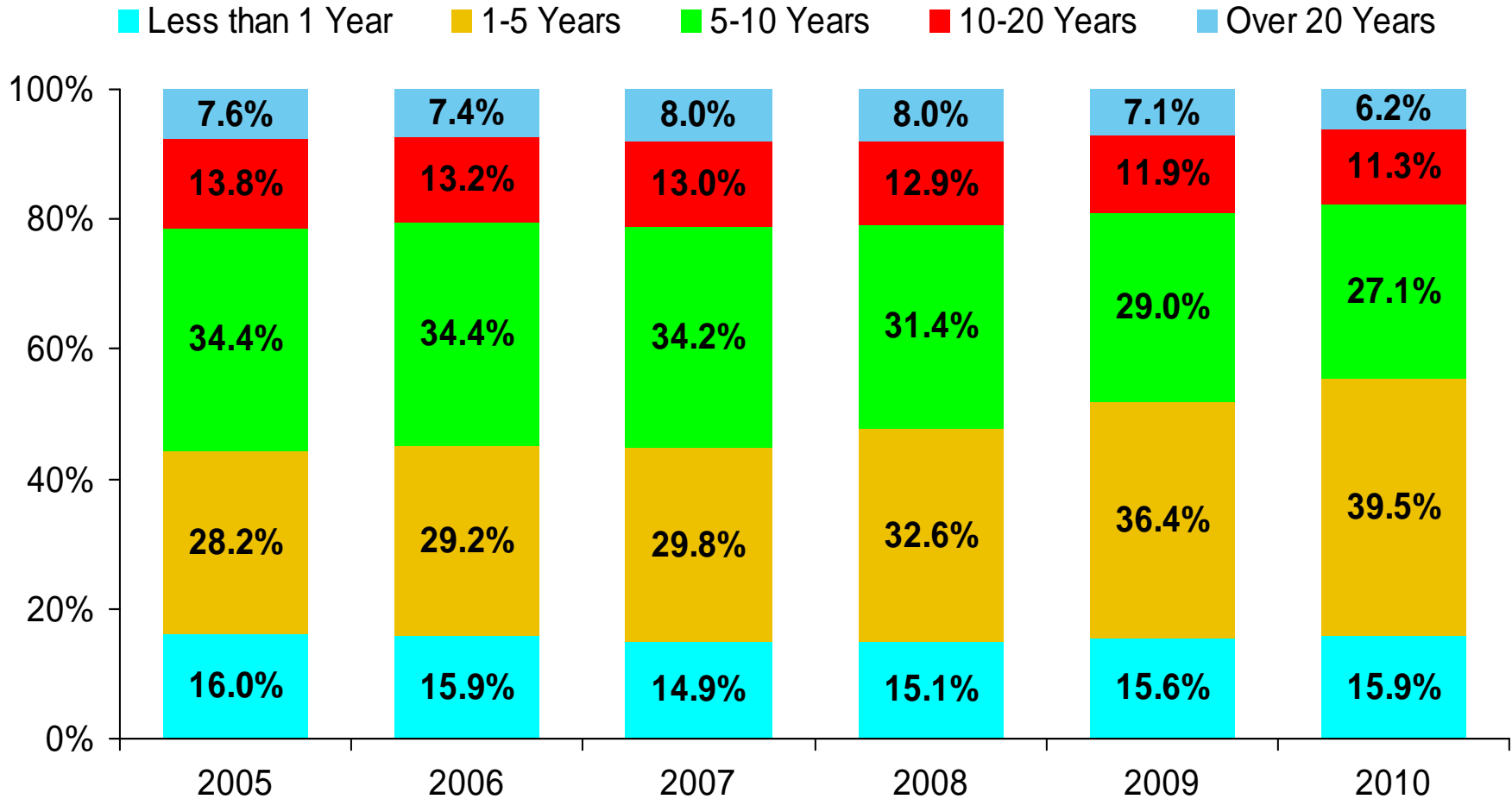
Sources: A.M. Best, ISO, Insurance Information Institute.

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



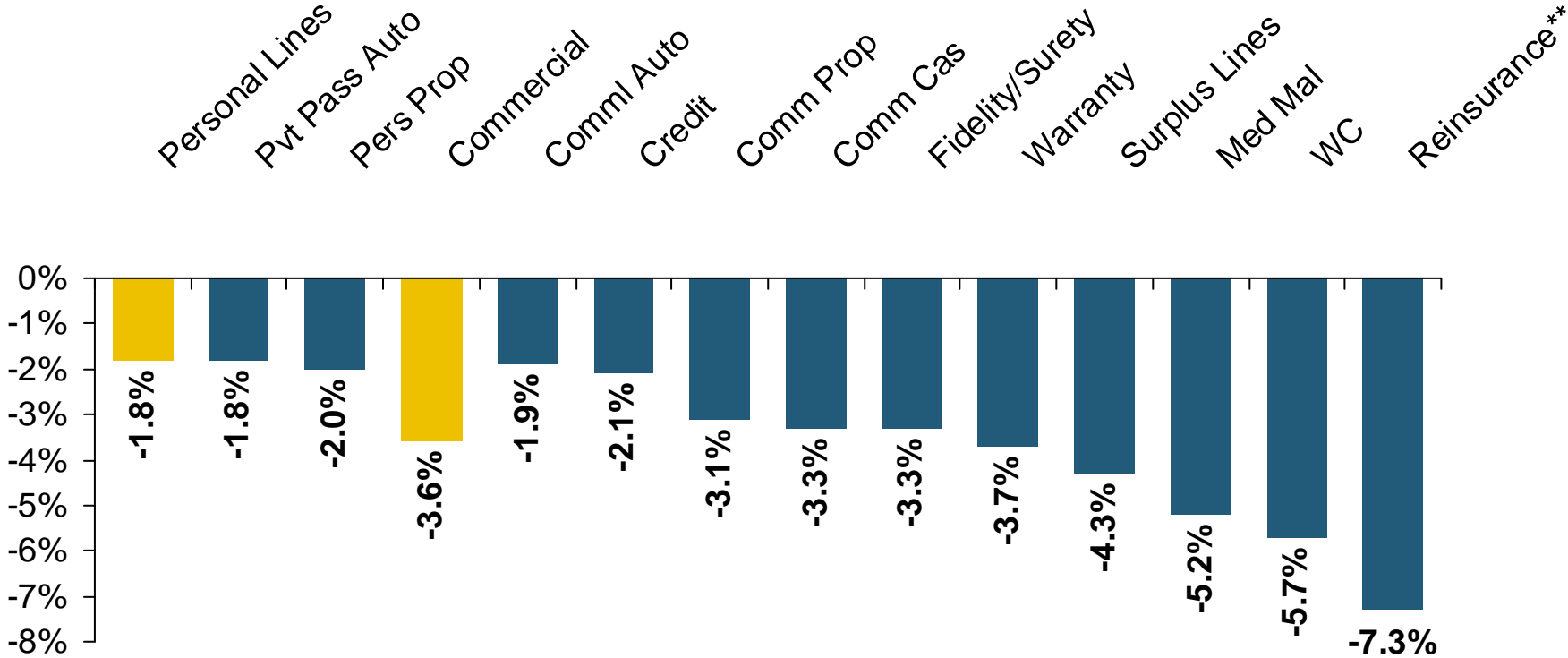
The Fed's Announced Intention to Pursue Additional Quantitative Easing Could Depress Rates in the 7 to 10-Year Maturity Range through June

The Recession Changed the Distribution of Bond Maturities in P-C Investment Portfolios



Since the Recession Began, Insurers Increased the Percentage of Bonds With Maturities of 1-5 Years and Lowered the Percentage With Maturities Over 5 Years

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

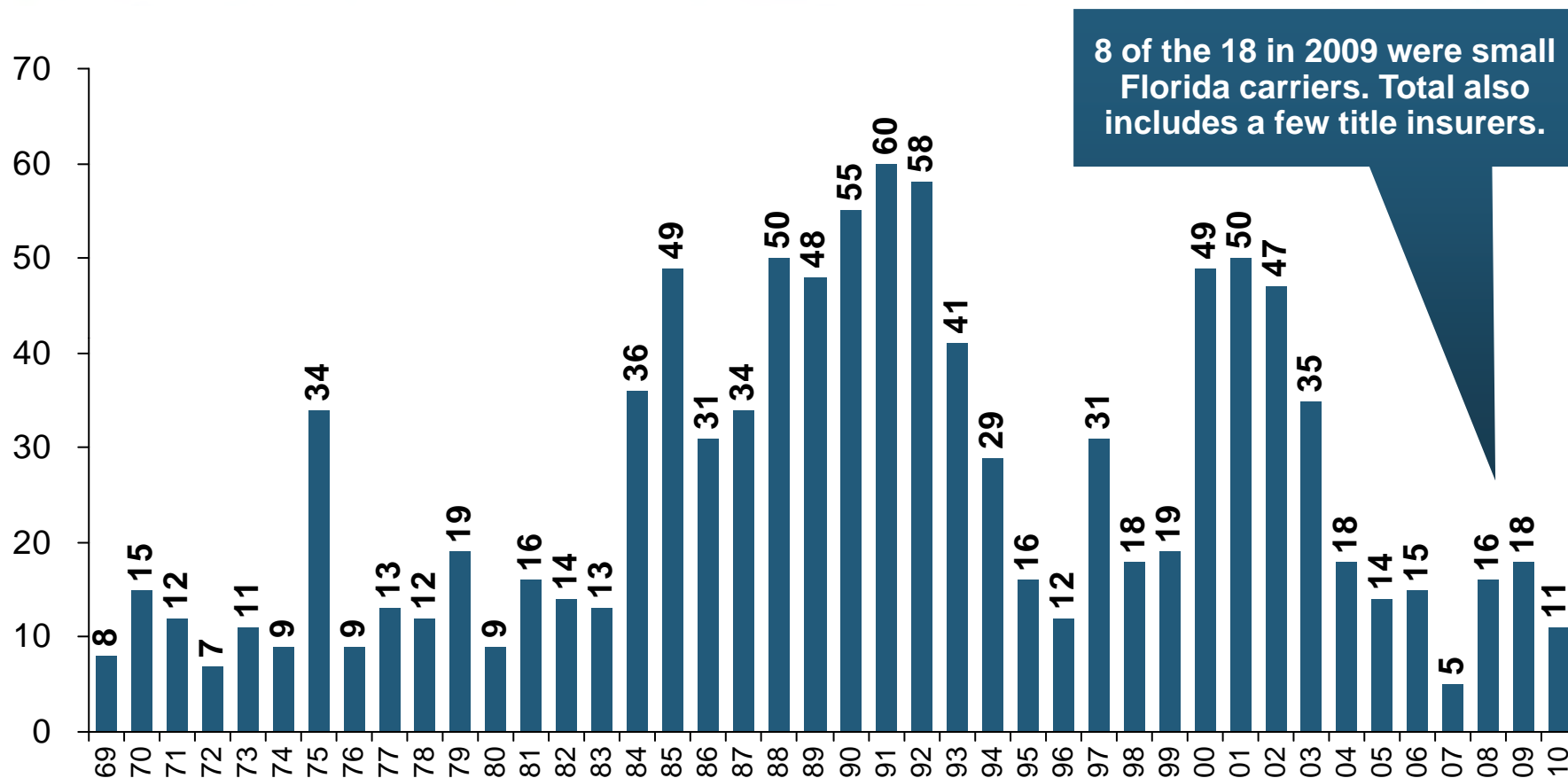
**US domestic reinsurance only

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

Financial Strength & Underwriting

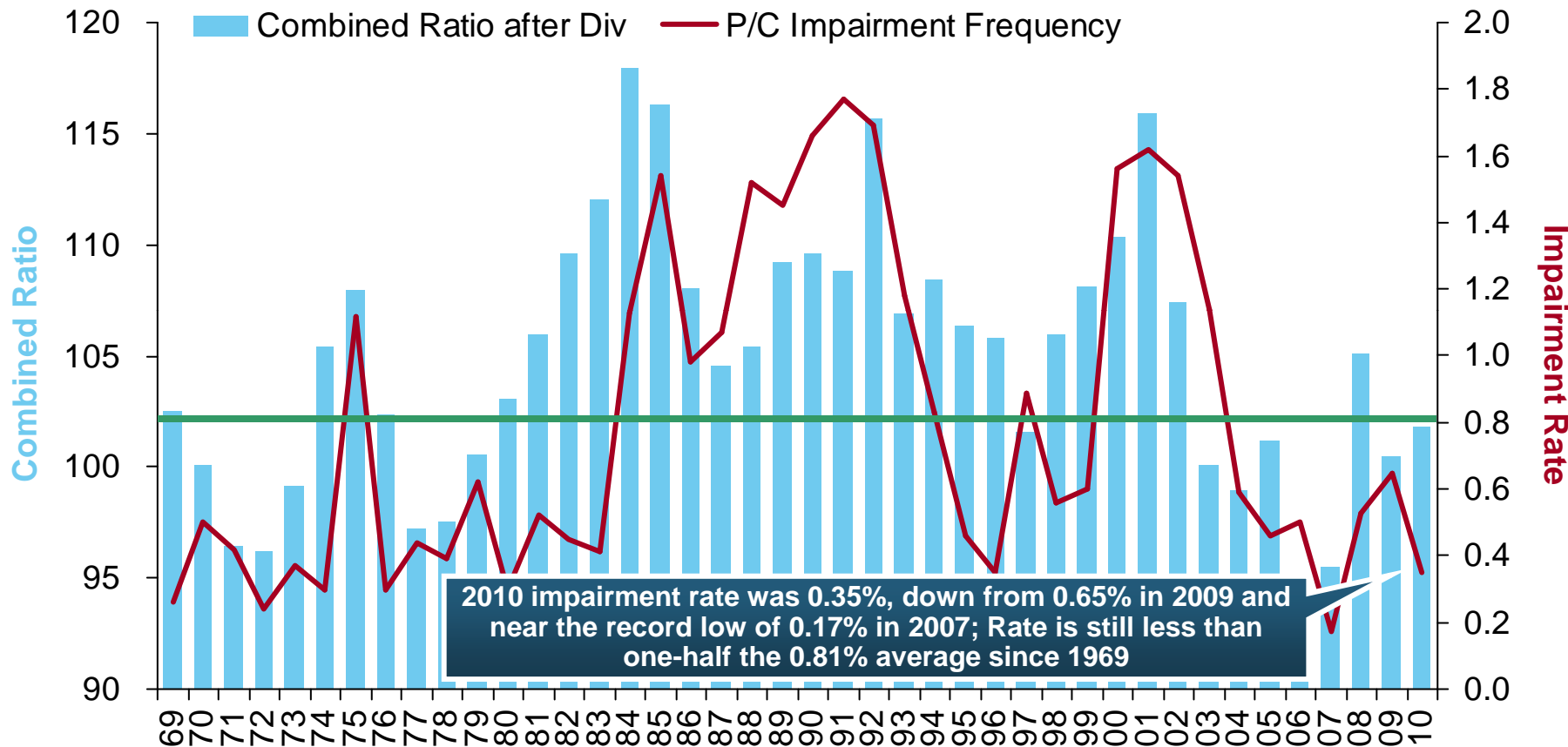
**Cyclical Pattern is P-C Impairment
History is Directly Tied to
Underwriting, Reserving & Pricing**

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

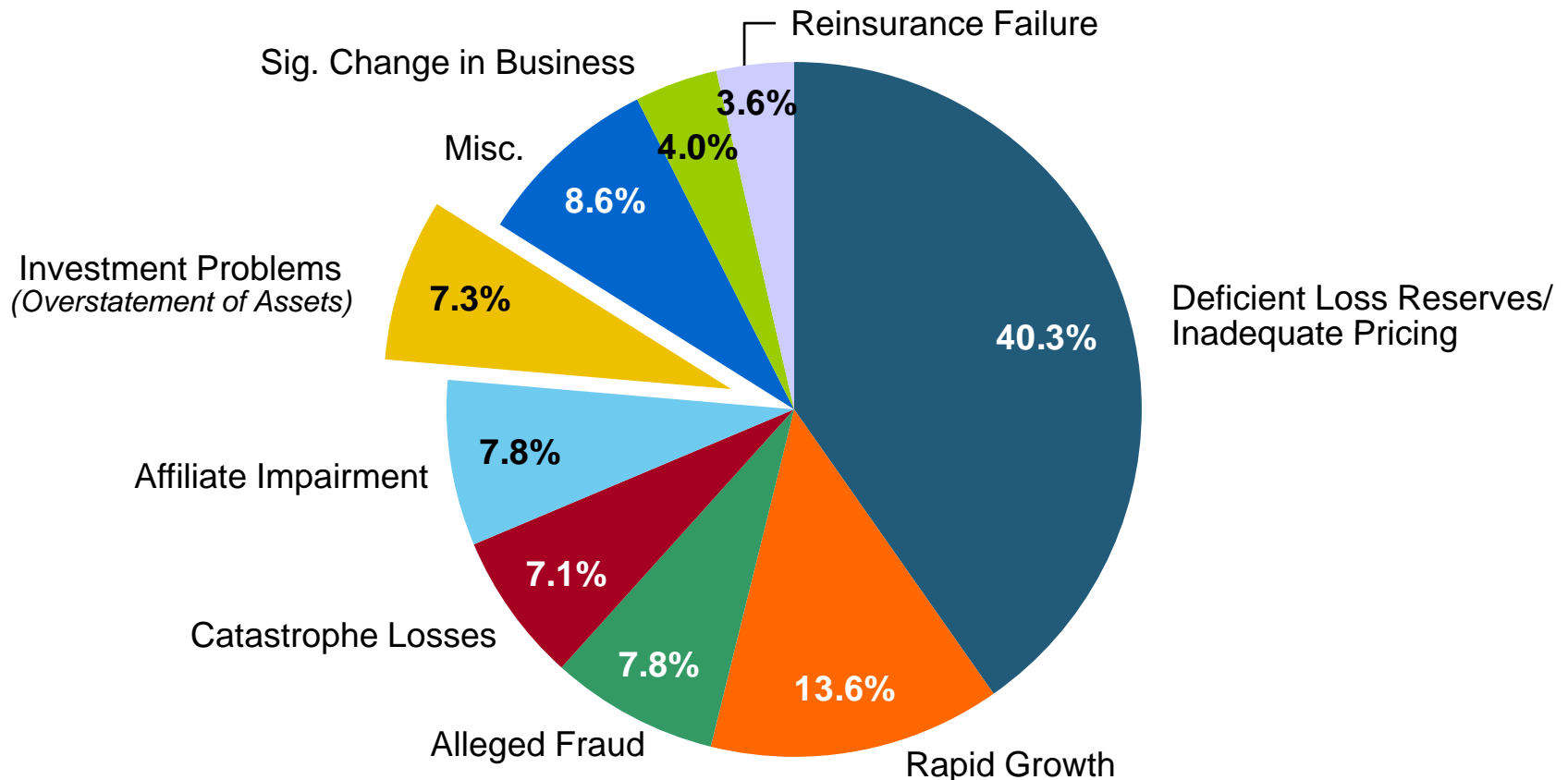
P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2010



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

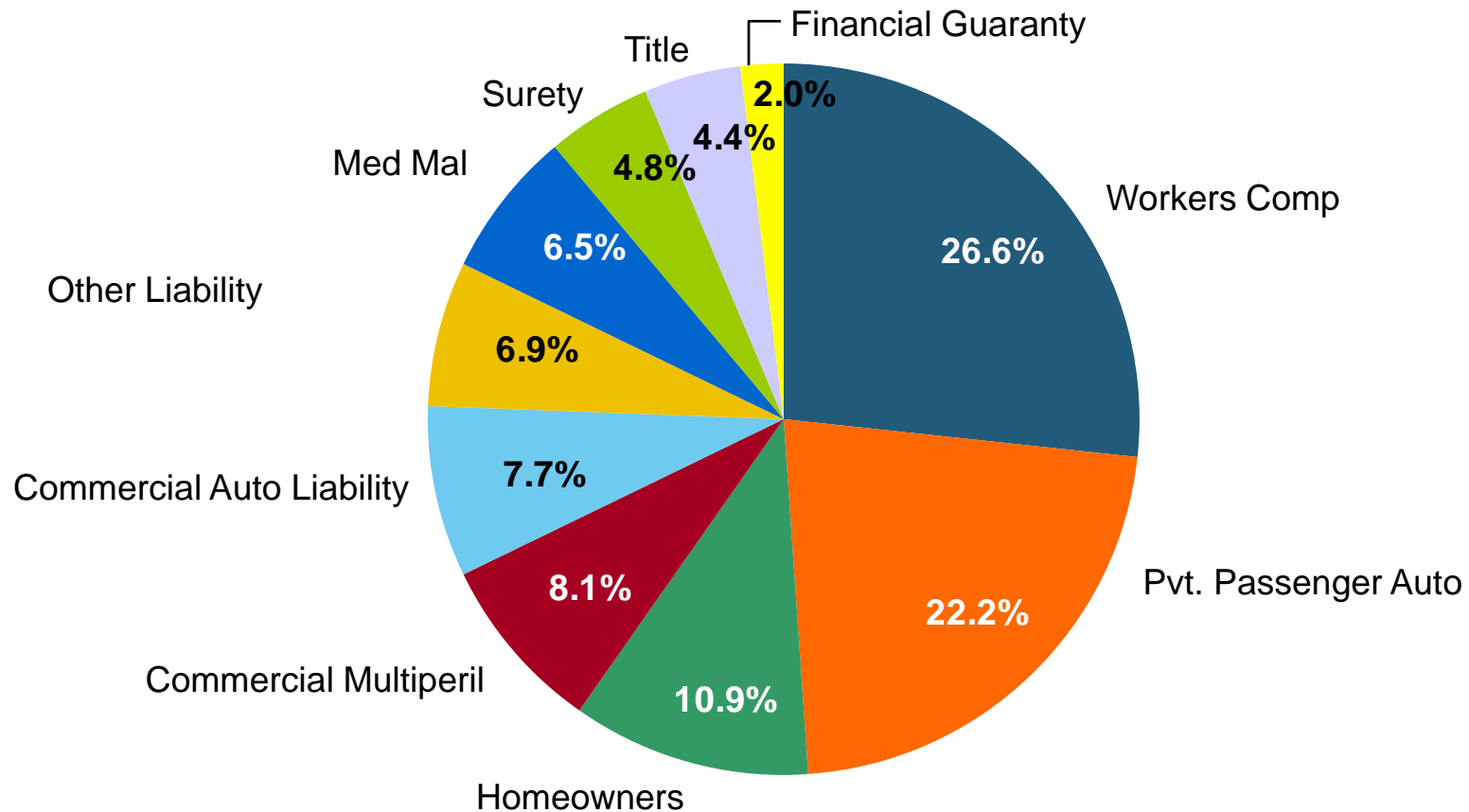
Reasons for US P/C Insurer Impairments, 1969–2010

Historically, Deficient Loss Reserves and Inadequate Pricing Are By Far the Leading Cause of P-C Insurer Impairments. Investment and Catastrophe Losses Play a Much Smaller Role



Top 10 Lines of Business for US P/C Impaired Insurers, 2000–2010

Workers Comp and Pvt. Passenger Auto Account for Nearly Half of the Premium Volume of Impaired Insurers Over the Past Decade





Performance by Segment: Commercial/Personal Lines & Reinsurance

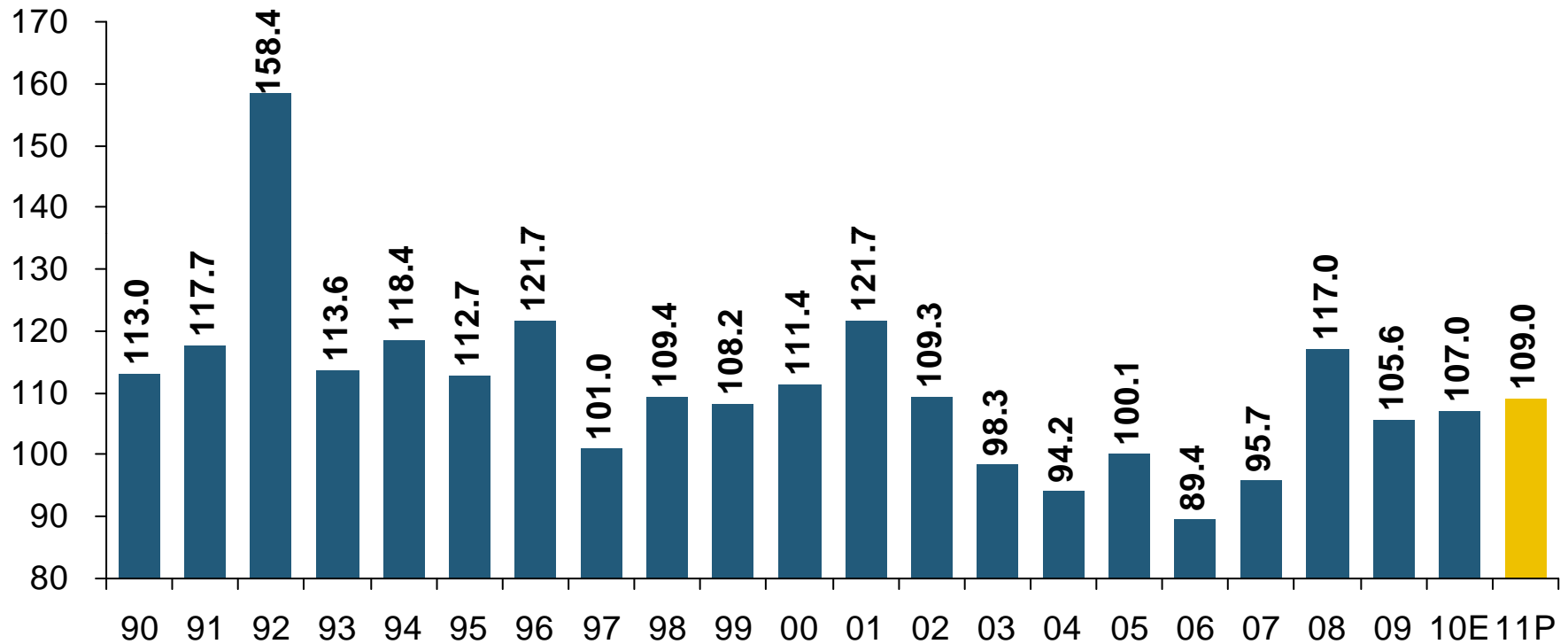
P/C Underwriting Results: 2008-2010P



Line of Business	2008	2009	2010P
Personal Auto	100.3	101.3	101
Homeowners	117.0	105.6	107
Other Liability (incl. Prod Liab)	95	105	110
Workers Compensation	101	110.5	115
Commercial Multi Peril	104	97	101
Commercial Auto	96.8	99.5	98
Fire & Allied Lines (incl. EQ)	99	80	83
All Other Lines	113	96	101
Total P/C Industry	104	101	102

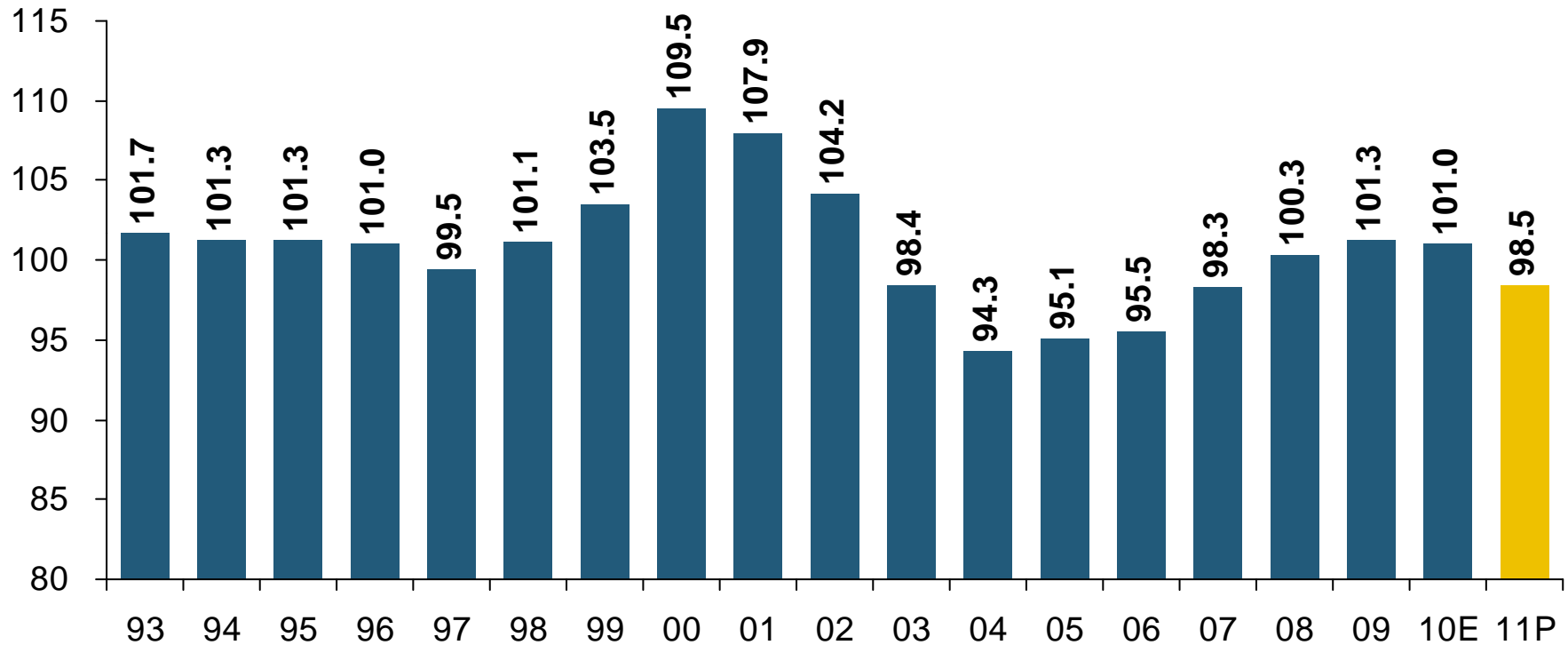
Source: All lines except WC for 2008-09, A.M. Best; Worker Comp., NCCI; 2010P data, ISO. Private carriers only.

Homeowners Insurance Combined Ratio: 1990–2011P



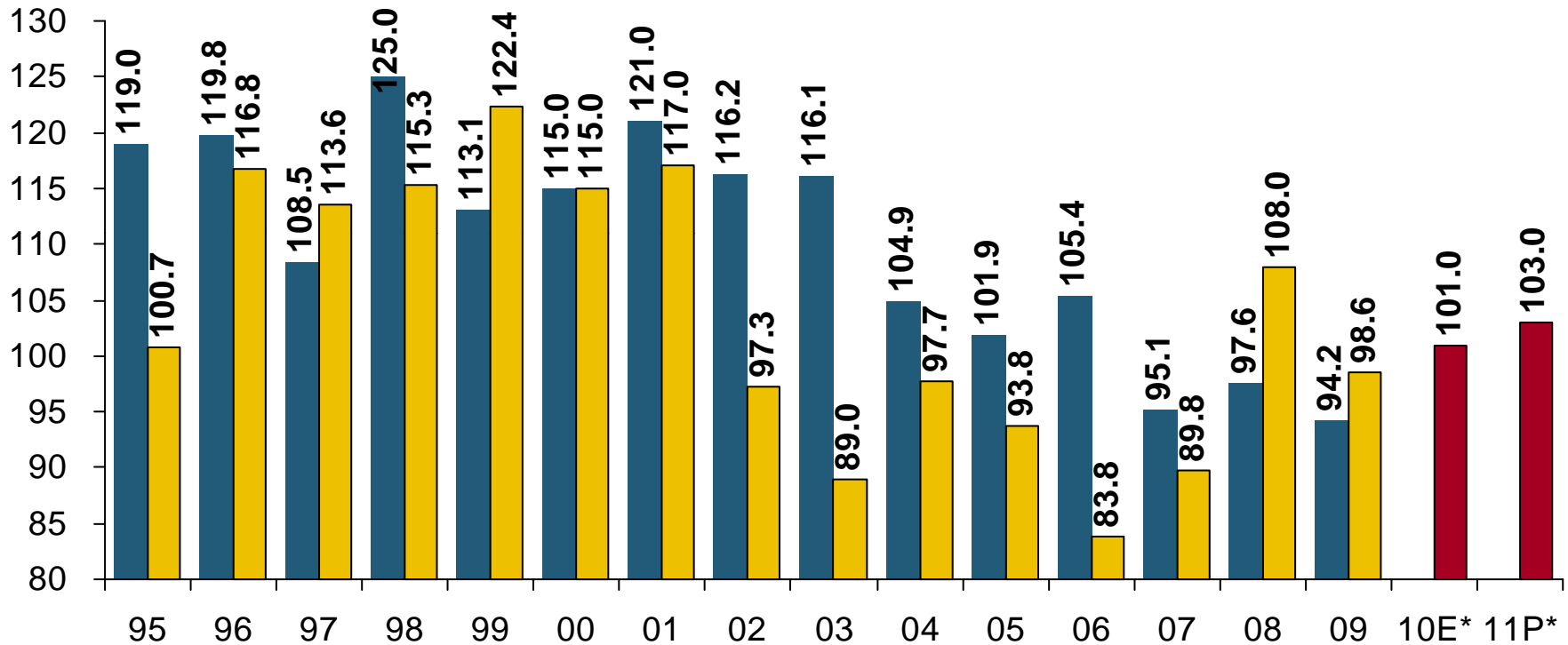
Homeowners Line Could Deteriorate in 2011 Due to Large Q2 Cat Losses. Extreme Regional Variation Can Be Expected Due to Local Catastrophe Loss Activity

Private Passenger Auto Combined Ratio: 1993–2011P



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

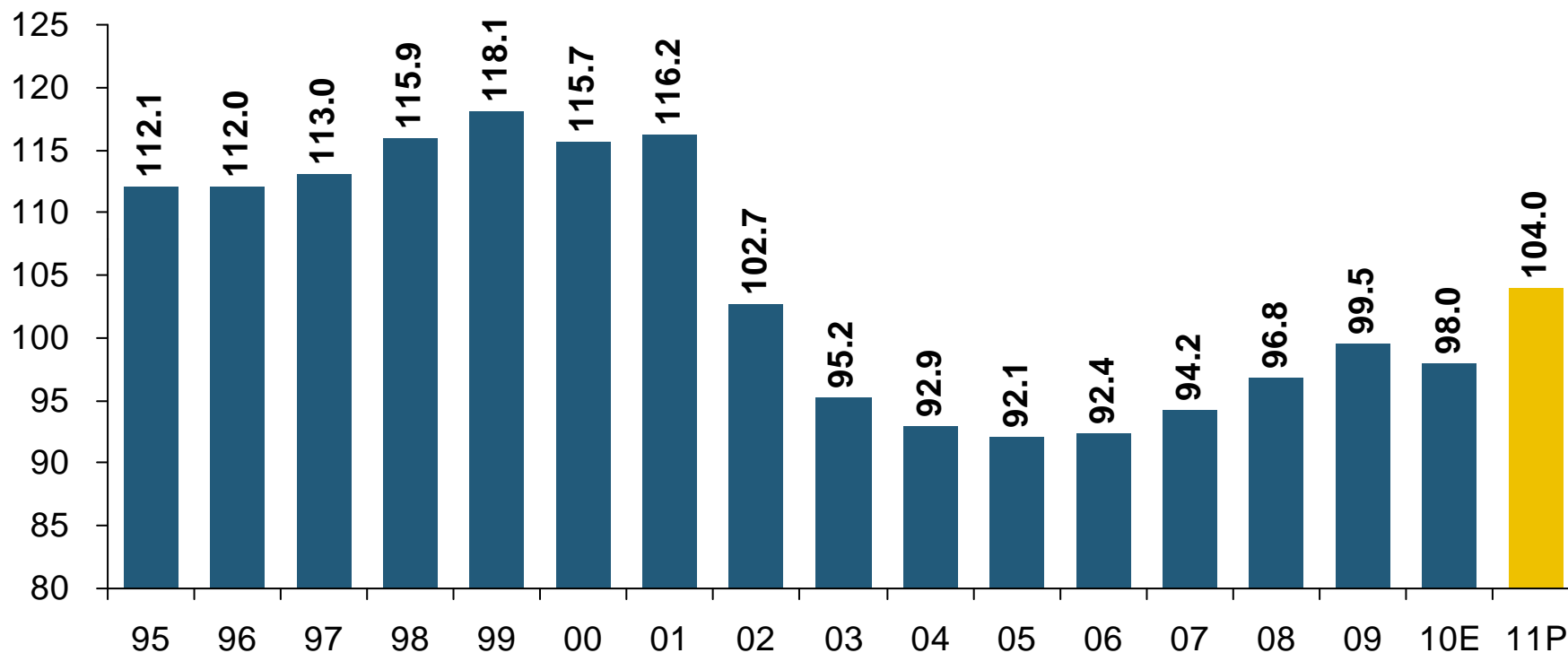
Commercial Multi-Peril Combined Ratio: 1995–2011P



Commercial Multi-Peril Underwriting Performance is Expected to Deteriorate Modestly

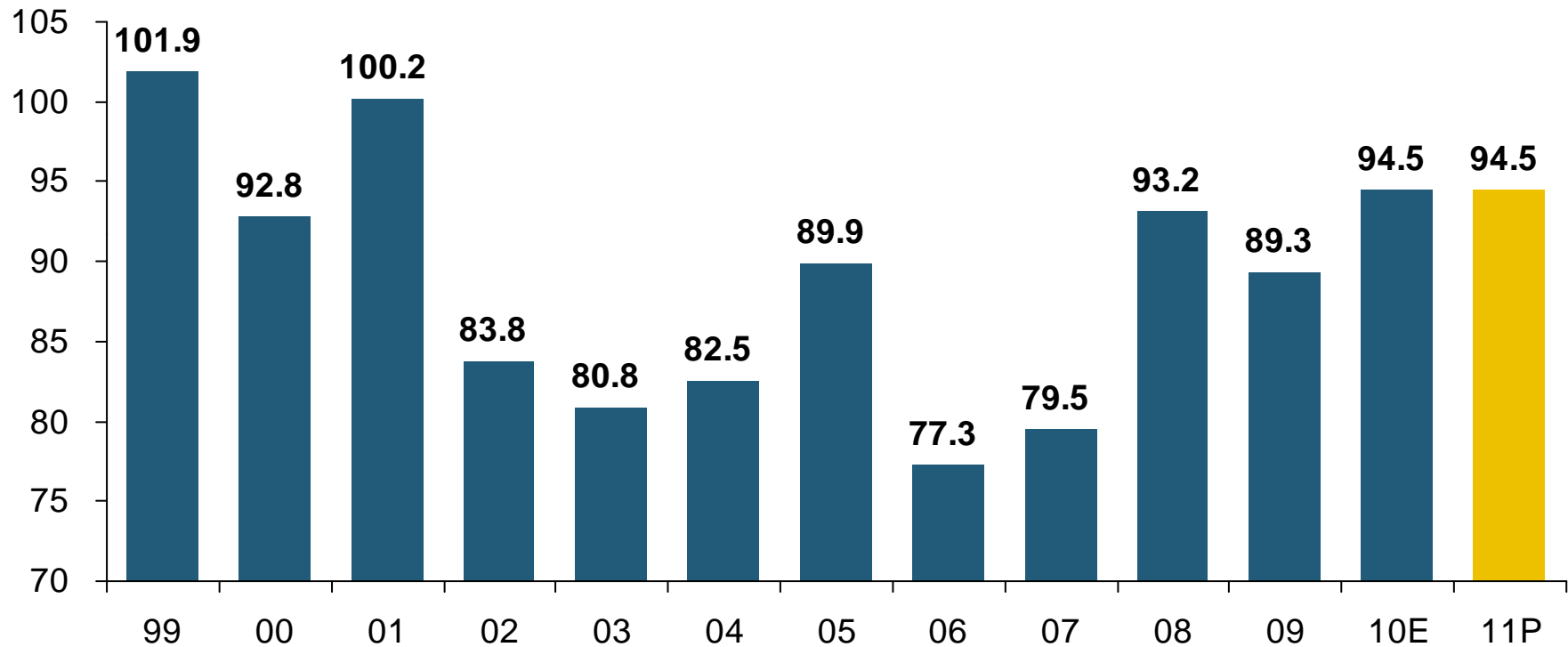
*2010E and 2011P figures are for the combined liability and non-liability components.
Sources: A.M. Best; Insurance Information Institute.

Commercial Auto Combined Ratio: 1993–2011P



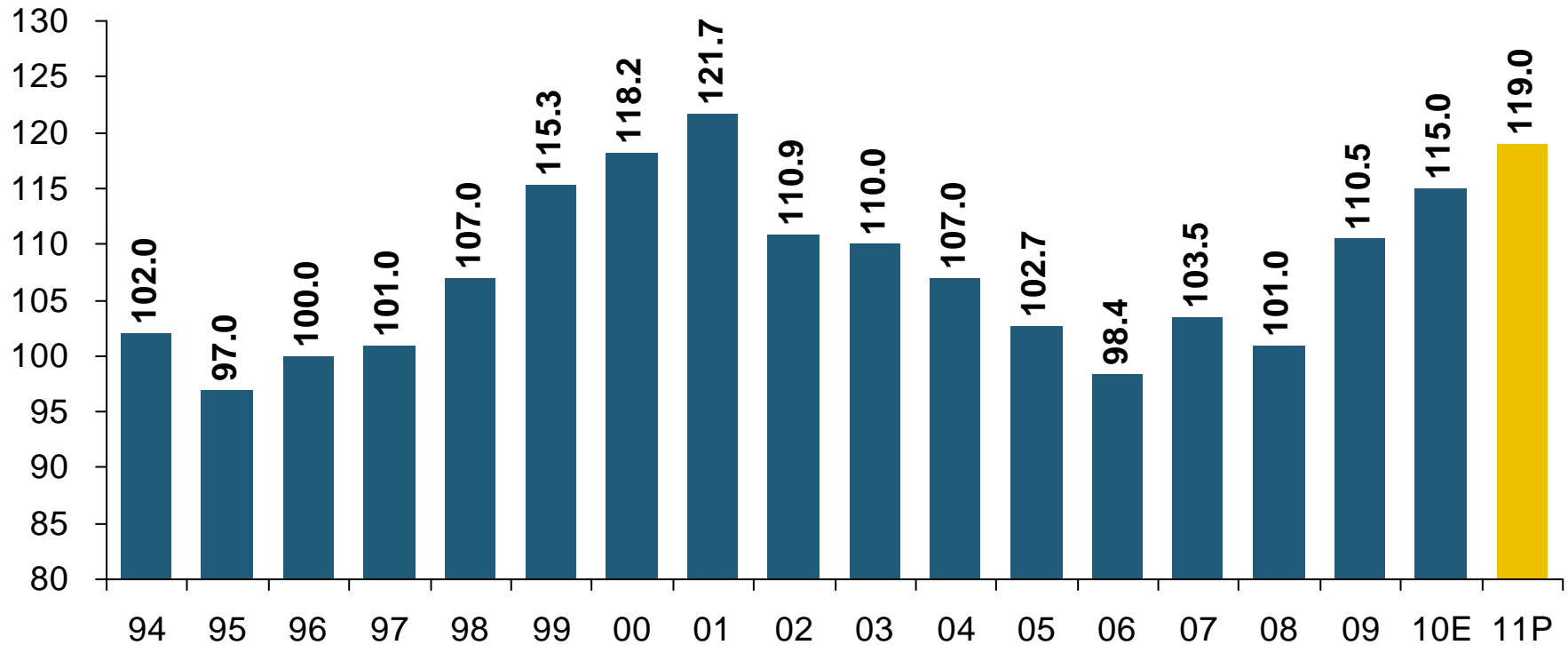
Commercial Auto Underwriting Performance is Expected to Deteriorate Modestly

Inland Marine Combined Ratio: 1999–2011P



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

Workers Compensation Combined Ratio: 1994–2011P



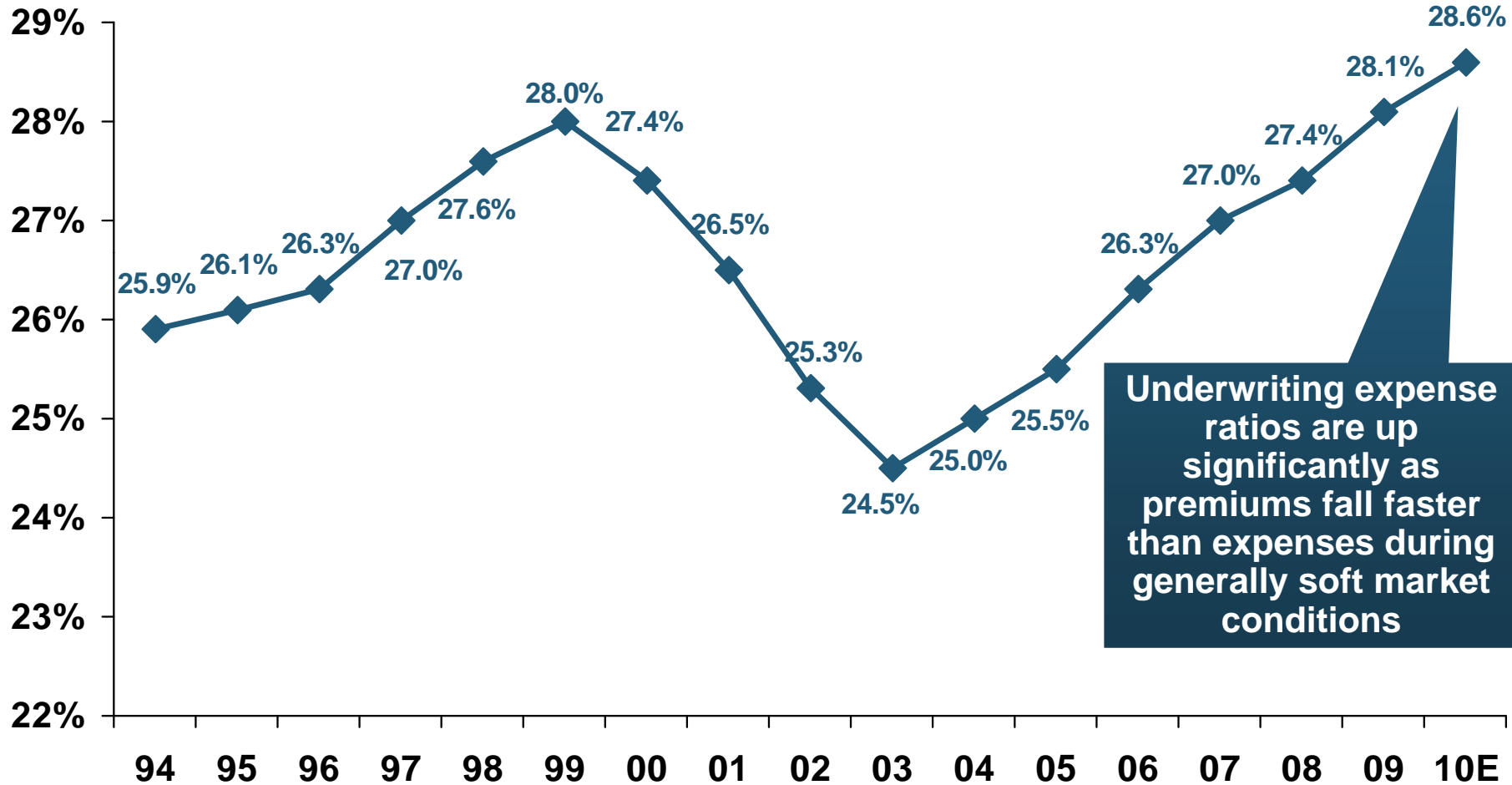
Workers Comp Underwriting Results Are Deteriorating Markedly and the Worst They Have Been in a Decade

EXPENSES

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

Underwriting Expense Ratio*

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



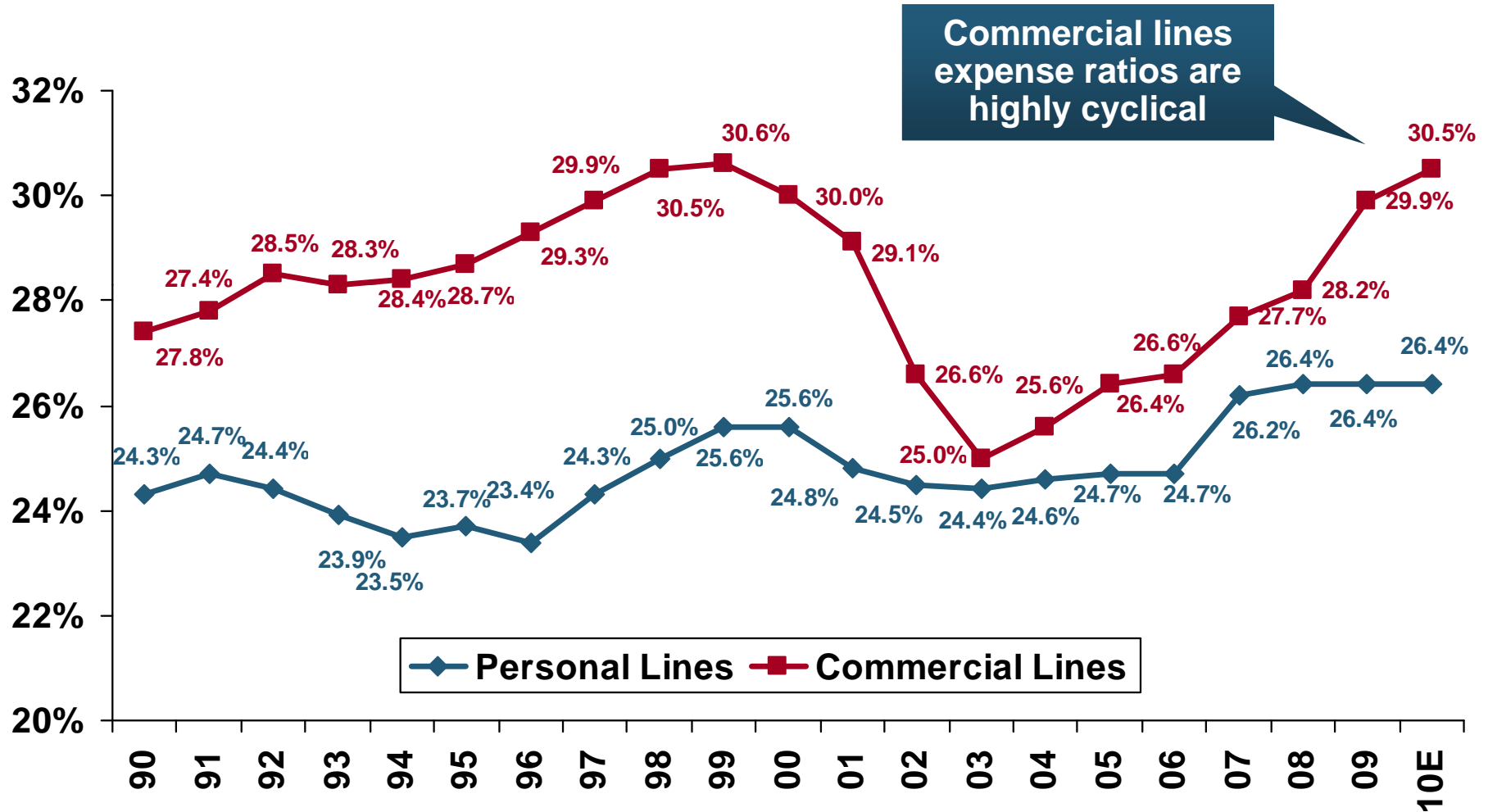
*Ratio of expenses incurred to net premiums written.

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

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

Underwriting Expense Ratio*:

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

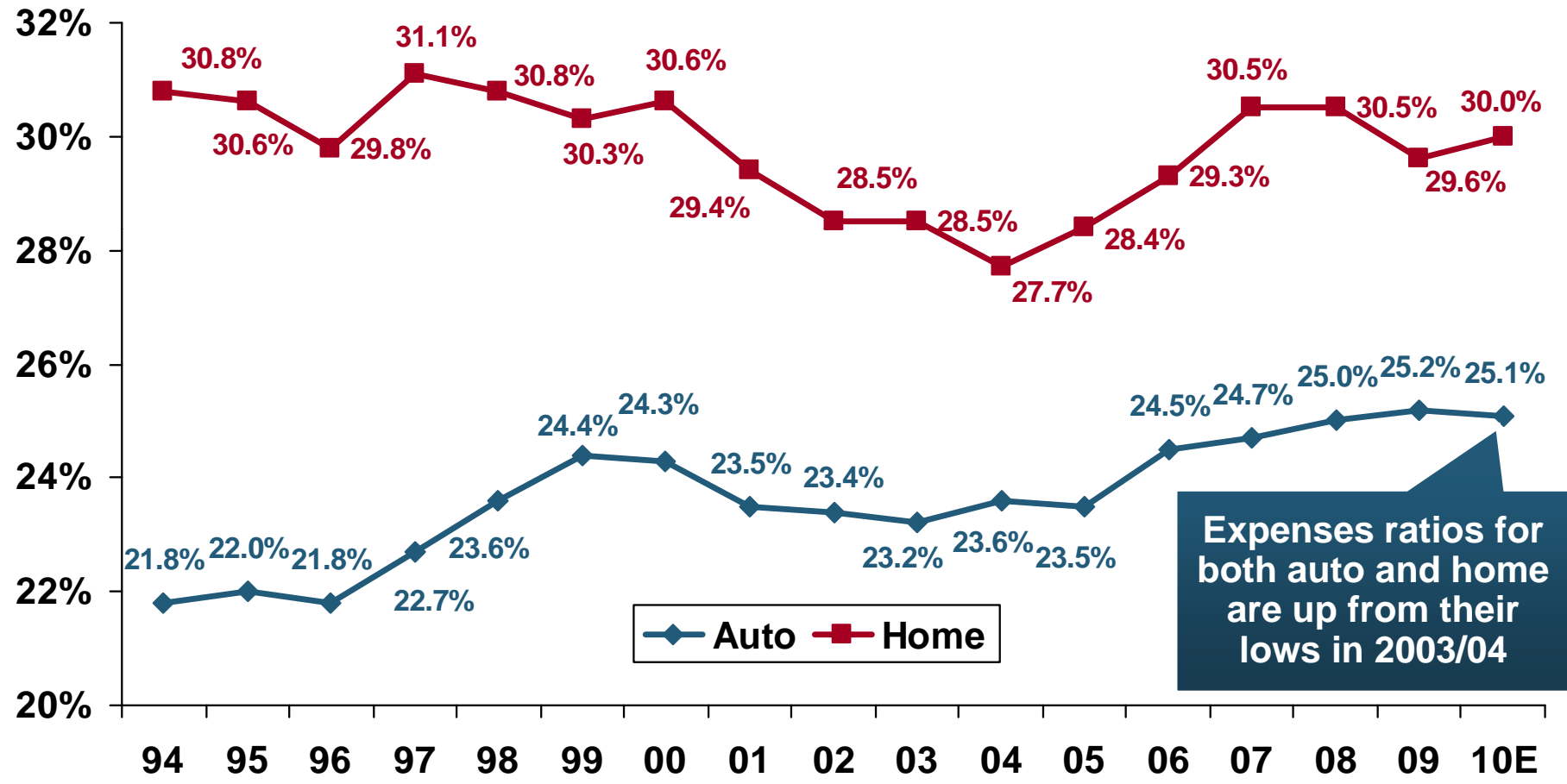


*Ratio of expenses incurred to net premiums written.

**2010 figures are estimates.

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

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



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

*Ratio of expenses incurred to net premiums written.

**2010 figures are estimates.

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

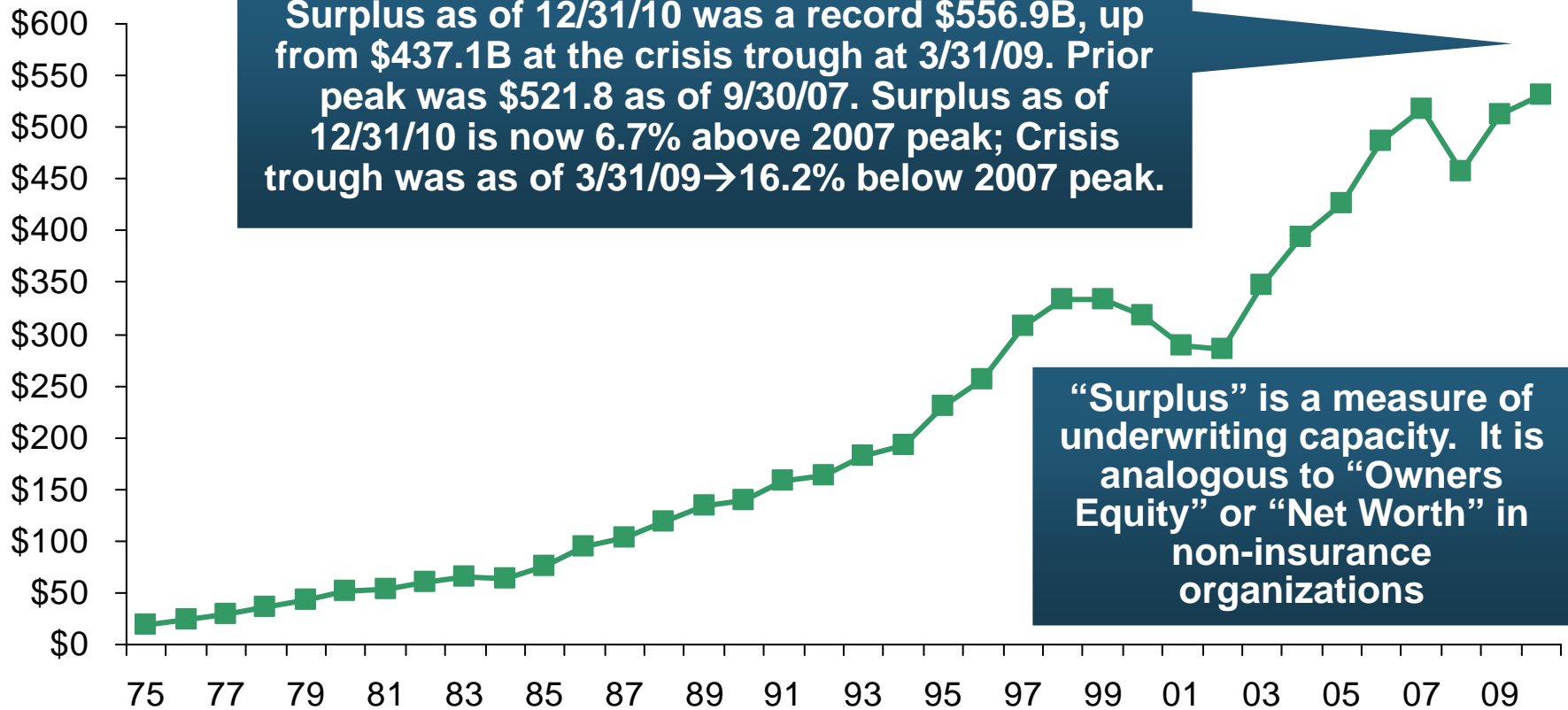
CAPITAL MANAGEMENT & LEVERAGE

**Excess Capital is a Major Obstacle
to a Market Turn;**

**Capital Management Decisions Will
Impact Market Direction**

US Policyholder Surplus: 1975–2010*

(\$ Billions)

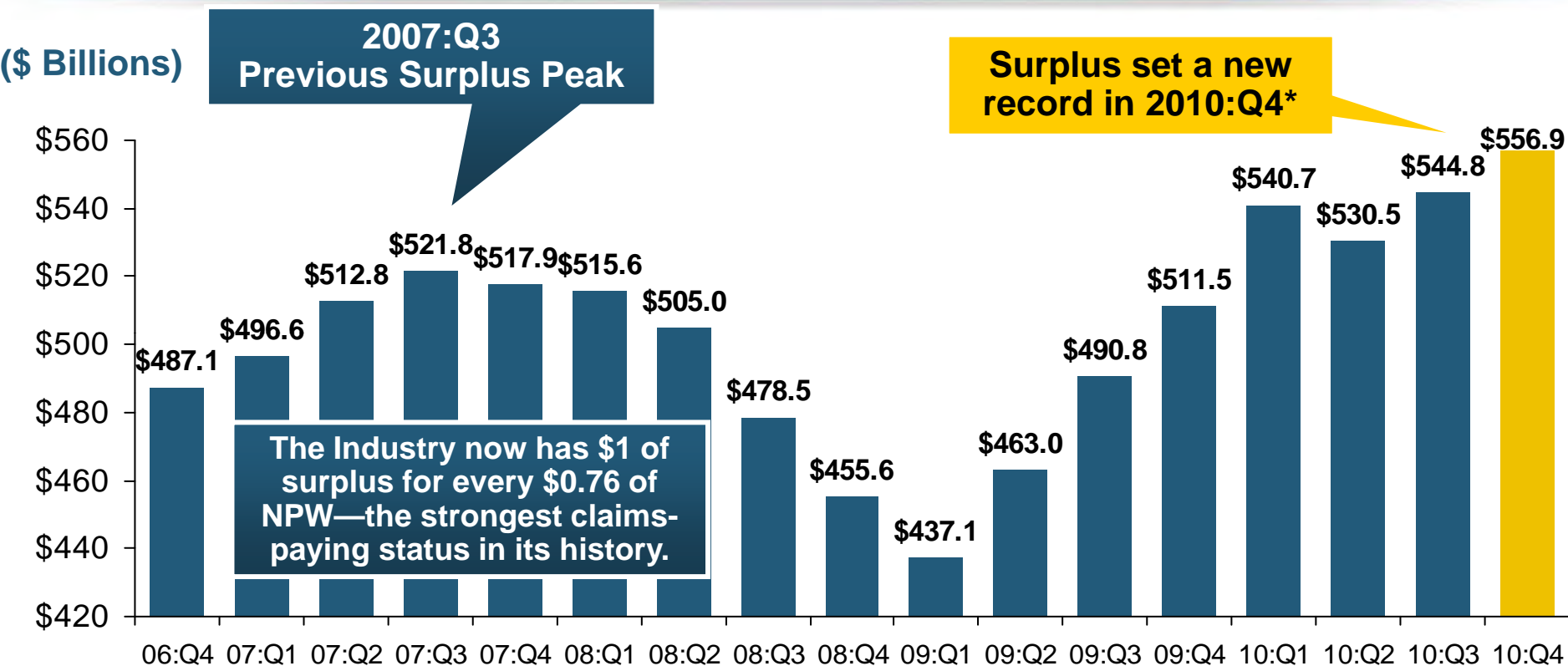


The Premium-to-Surplus Ratio Stood at \$0.76:\$1 as of 12/31/10, A Record Low (at Least in Recent History)**

* As of 12/31/10.

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

Policyholder Surplus, 2006:Q4–2010:Q4



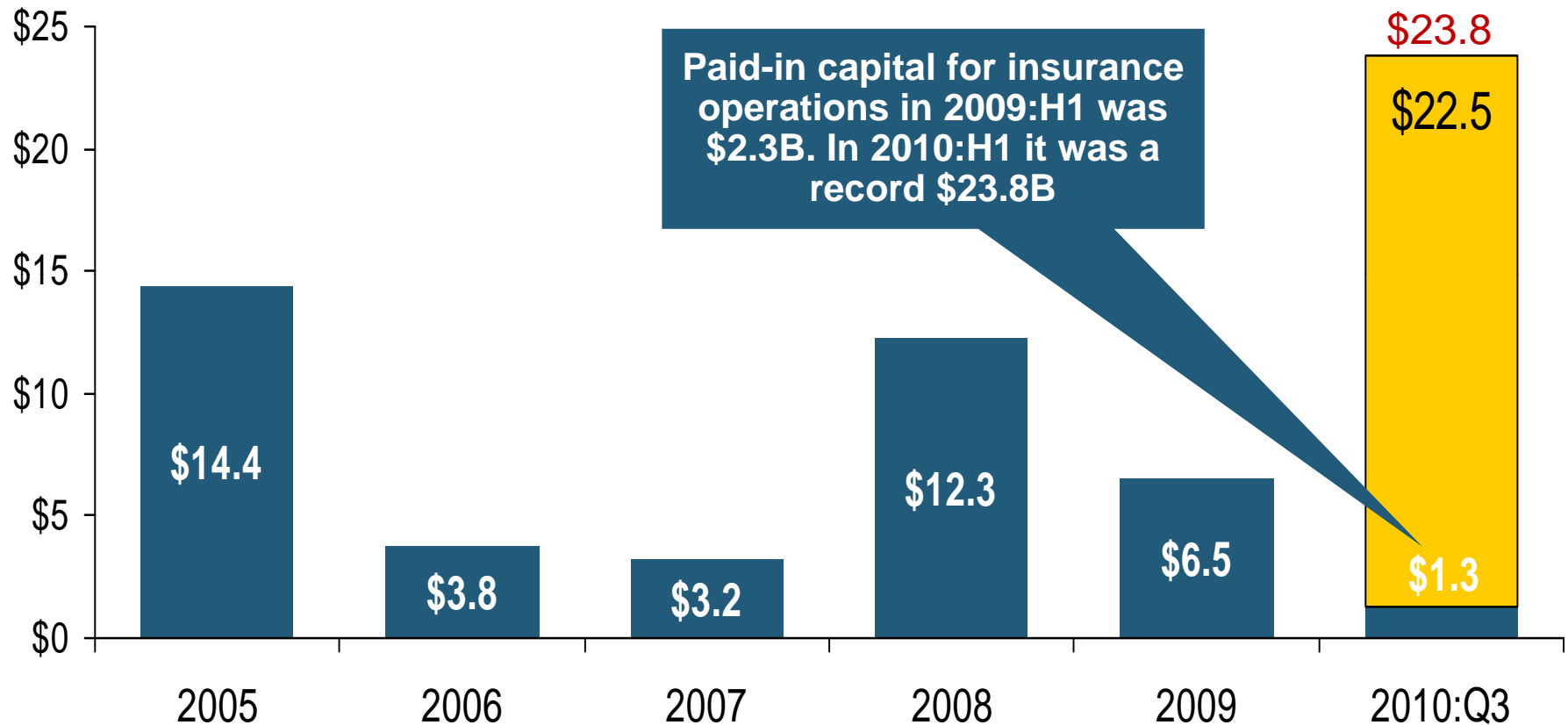
Quarterly Surplus Changes Since 2007:Q3 Peak

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

*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.

Paid-in Capital, 2005–2010:Q3

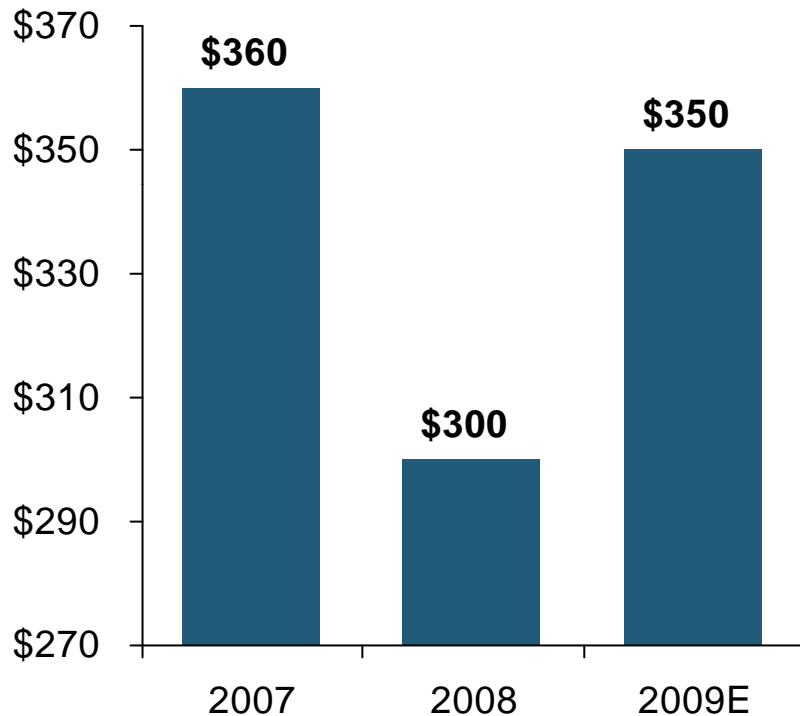
(\$ Billions)



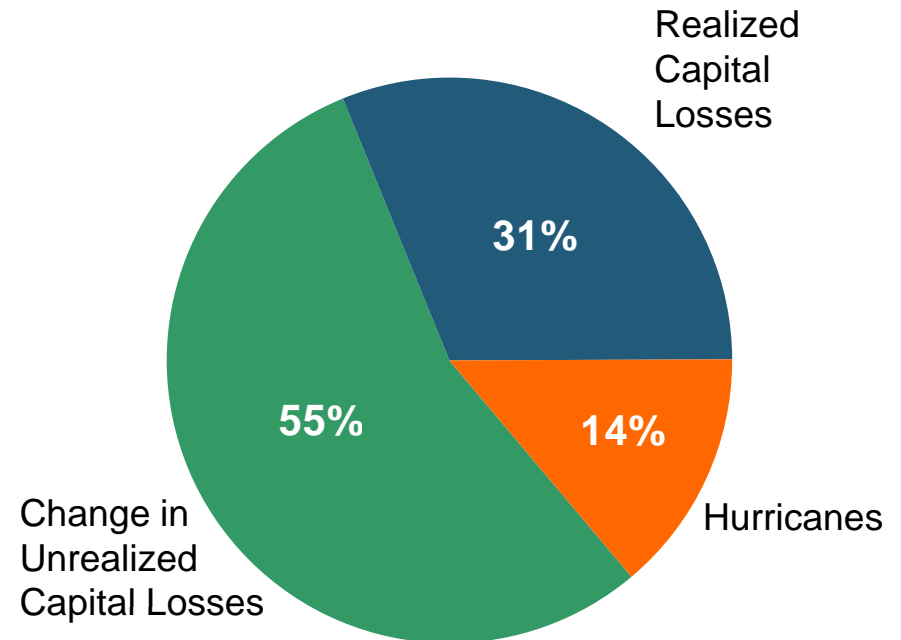
In 2010:Q3 One Insurer's Paid-in Capital Rose by \$22.5B as Part of an Investment in a Non-insurance Business

Global Reinsurance Capacity Shrank in 2008, Mostly Due to Investments

Global Reinsurance Capacity



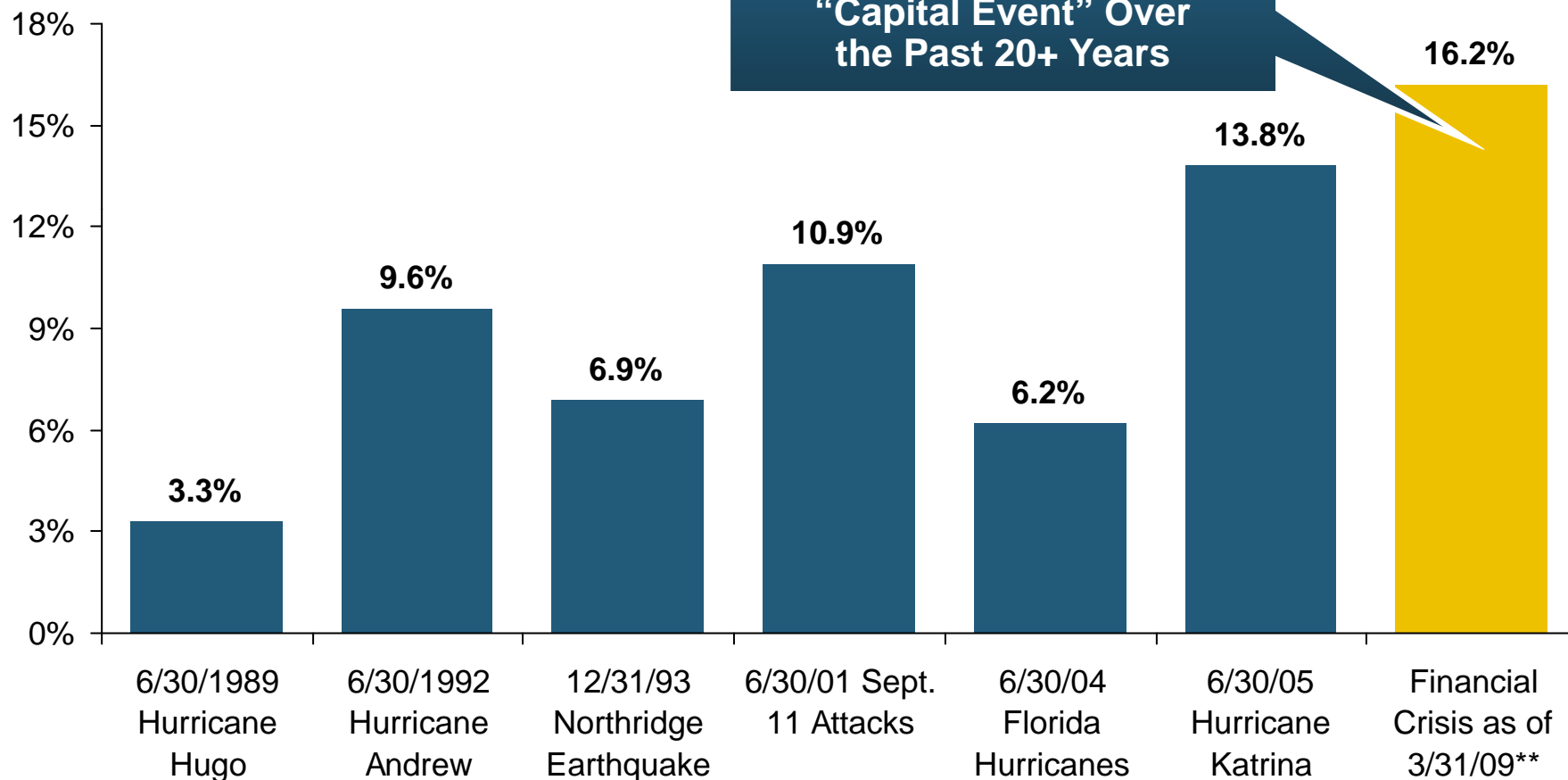
Source of Decline in 2008



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

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

(Percent)



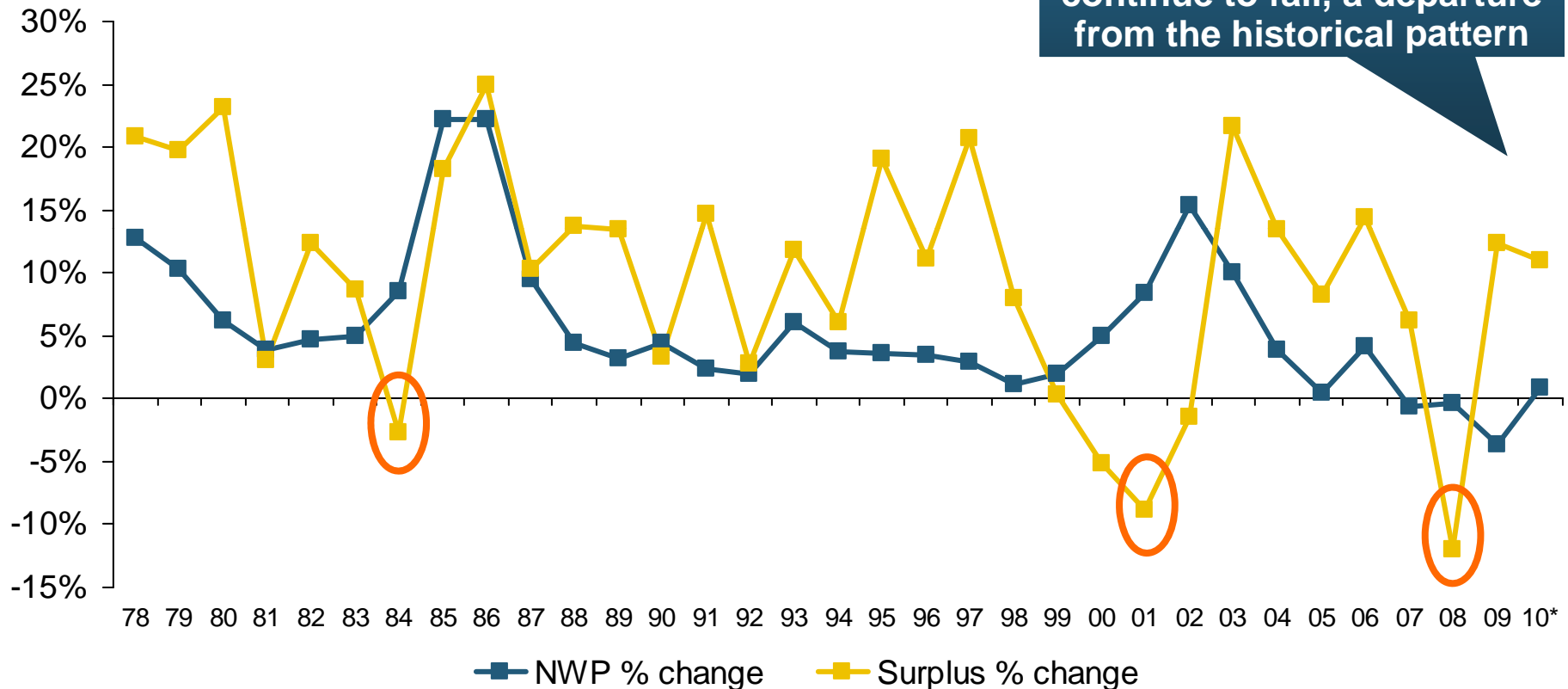
* Ratio is for end-of-quarter surplus immediately prior to event. Date shown is end of quarter prior to event

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

Source: PCS; Insurance Information Institute

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

(Percent)



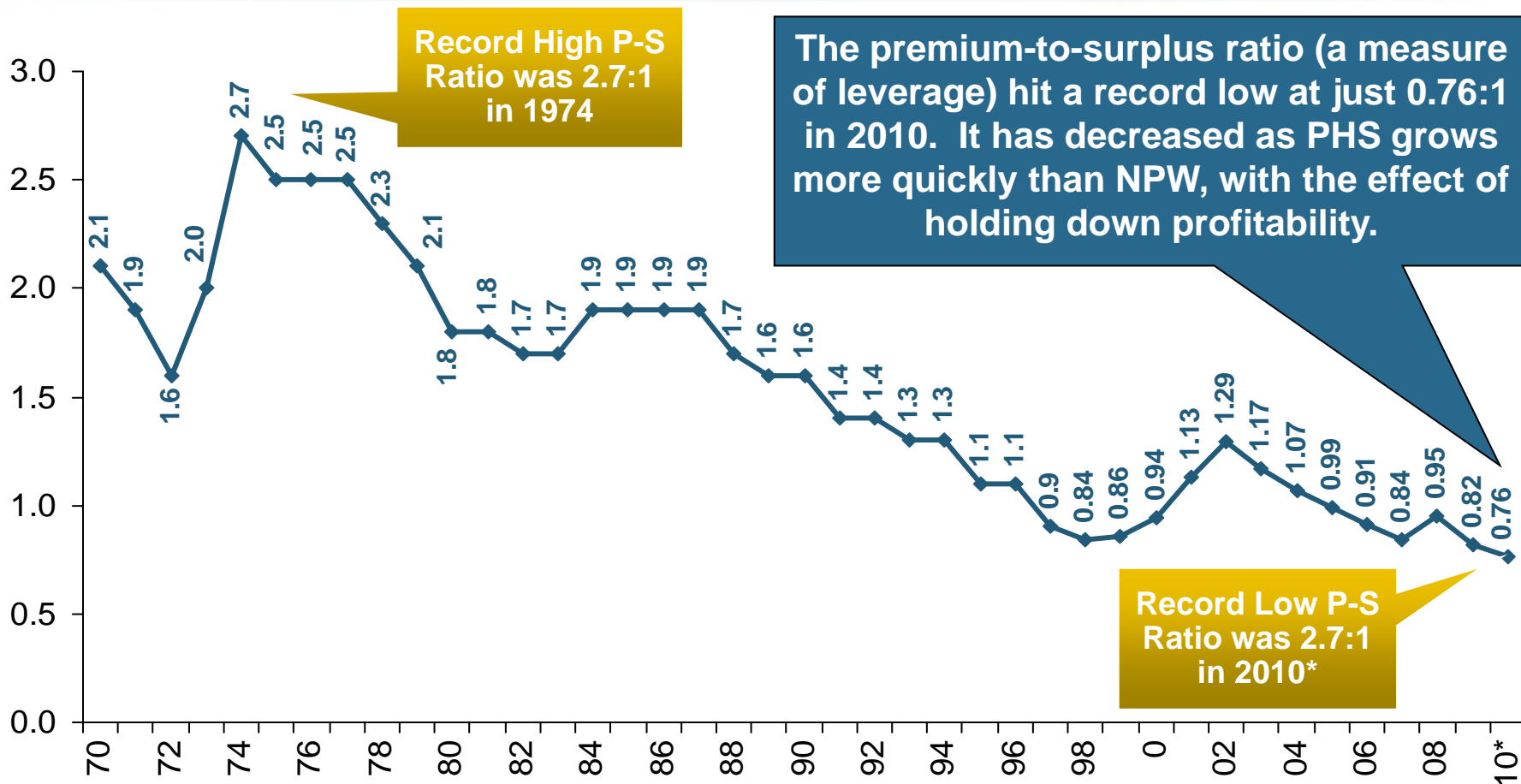
Surplus growth is now positive but premiums continue to fall, a departure from the historical pattern

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

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

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

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



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

The premium-to-surplus ratio (a measure of leverage) hit a record low at just 0.76:1 in 2010. It has decreased as PHS grows more quickly than NPW, with the effect of holding down profitability.

Record Low P-S Ratio was 0.76:1 in 2010*

The Premium-to-Surplus Ratio in 2010 Implies that P/C Insurers Held \$1 in Surplus Against Each \$0.76 Written in Premiums. In 1974, Each \$1 of Surplus Backed \$2.70 in Premium.

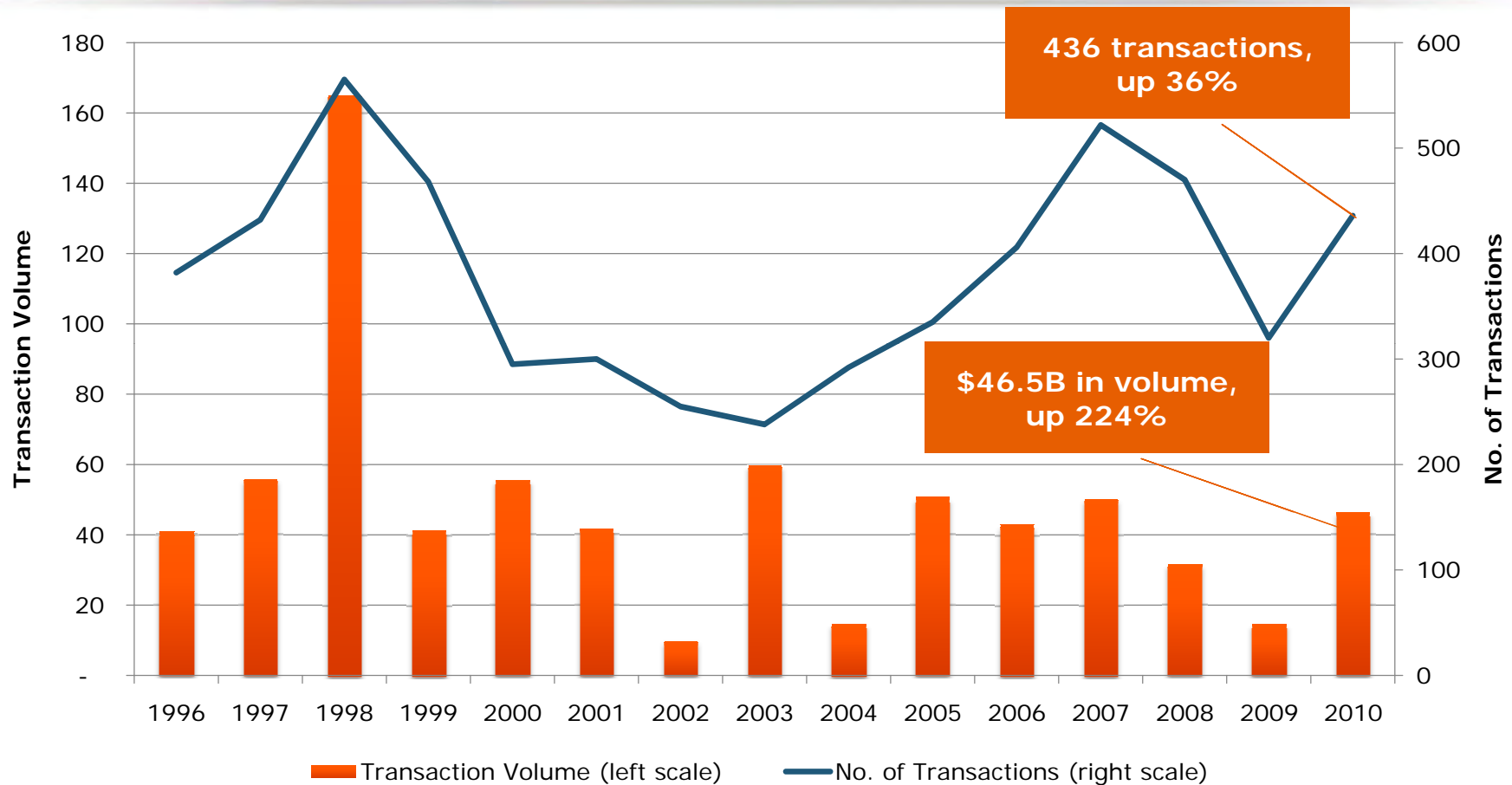
*2010 data are as of 12/31/10.

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

Merger & Acquisition

**Capital Cycles Can
Drive Consolidation**

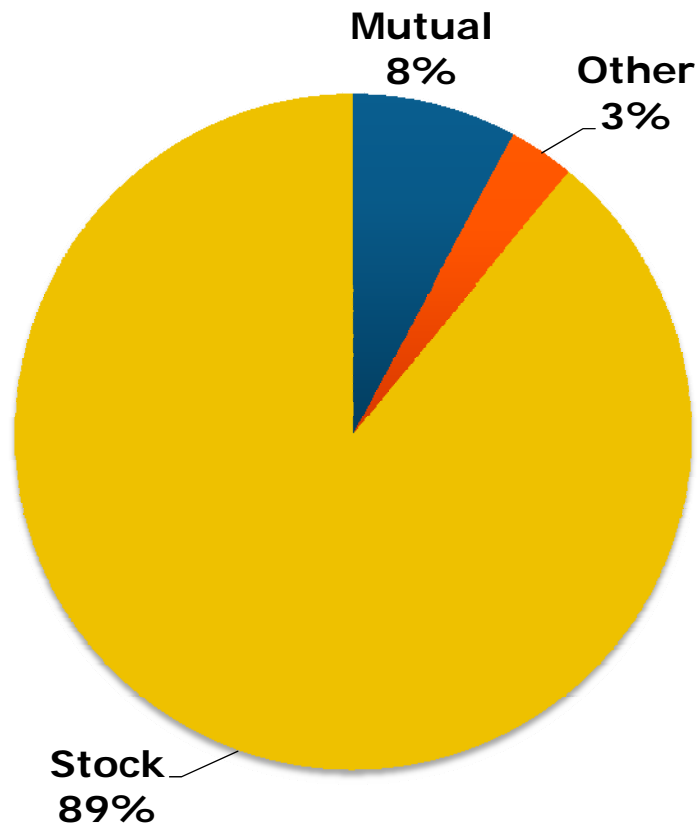
2010: U.S. Insurance M&A Bounces Back (All Segments)



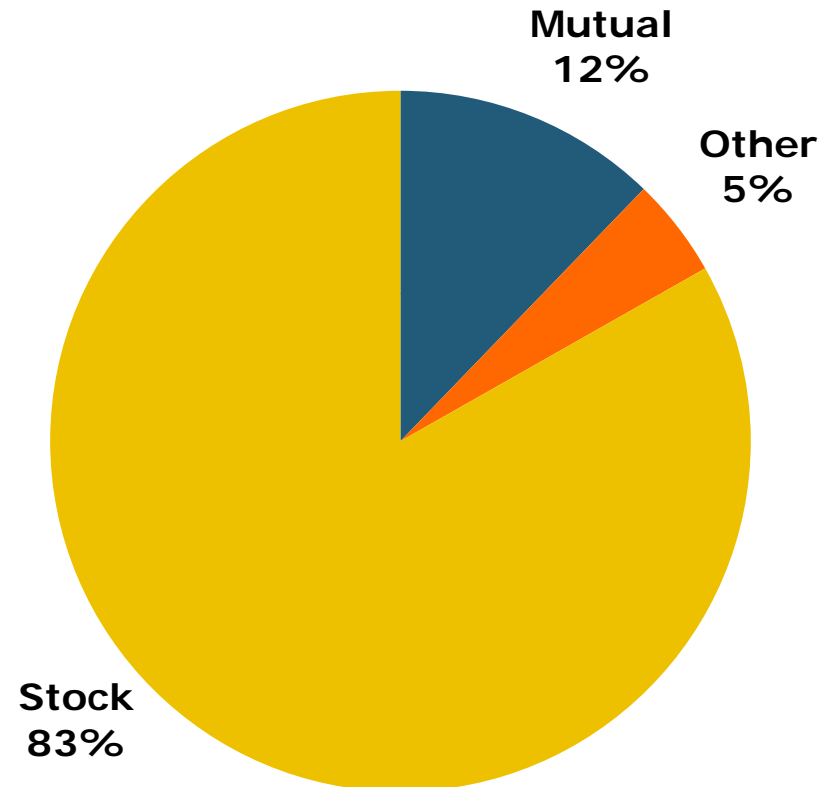
U.S. activity rebounded from lows recorded in 2009. M&A also made a comeback worldwide, with global activity rising 20%.

Type of acquisition is shifting

2005 to 2007

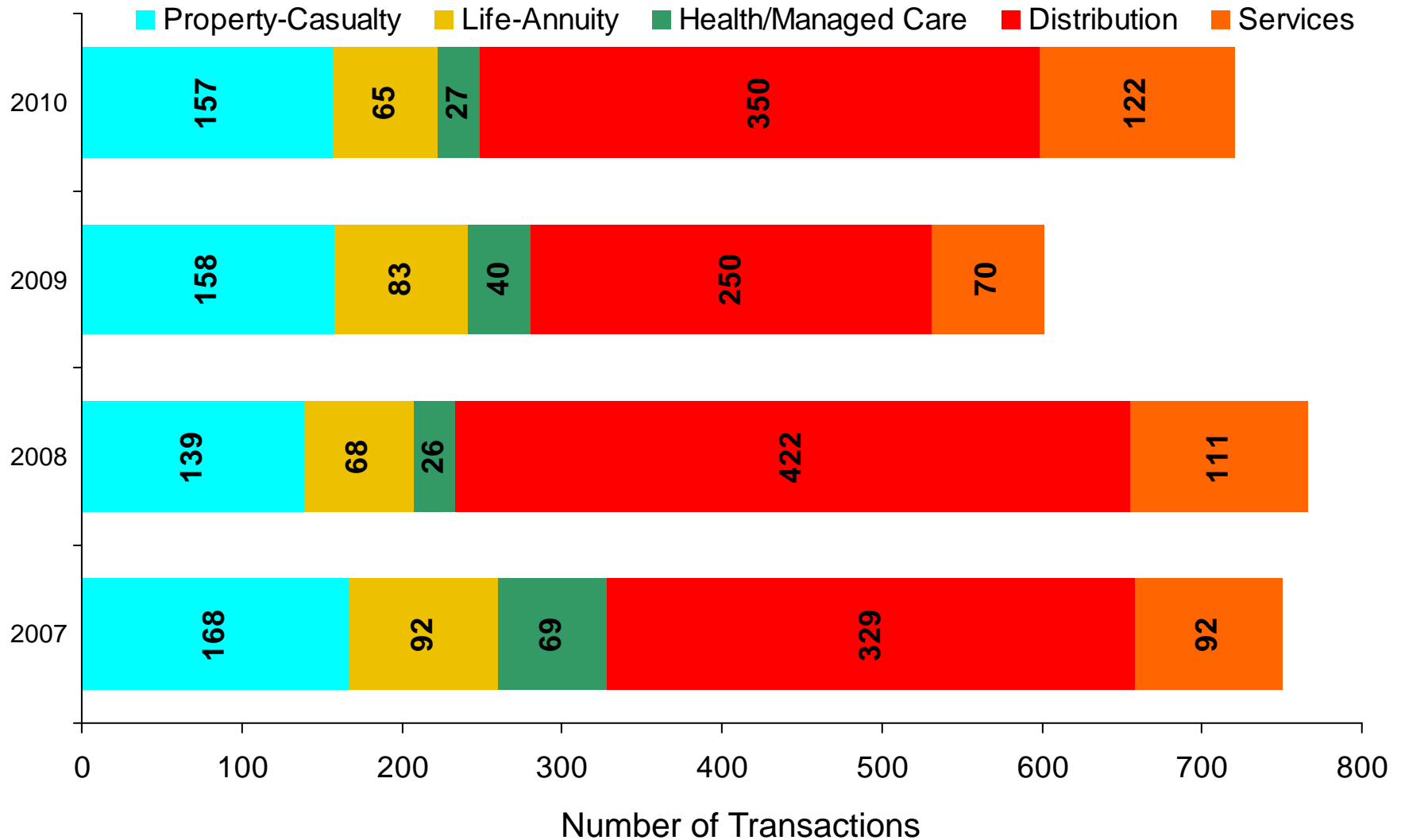


2008 to 2010

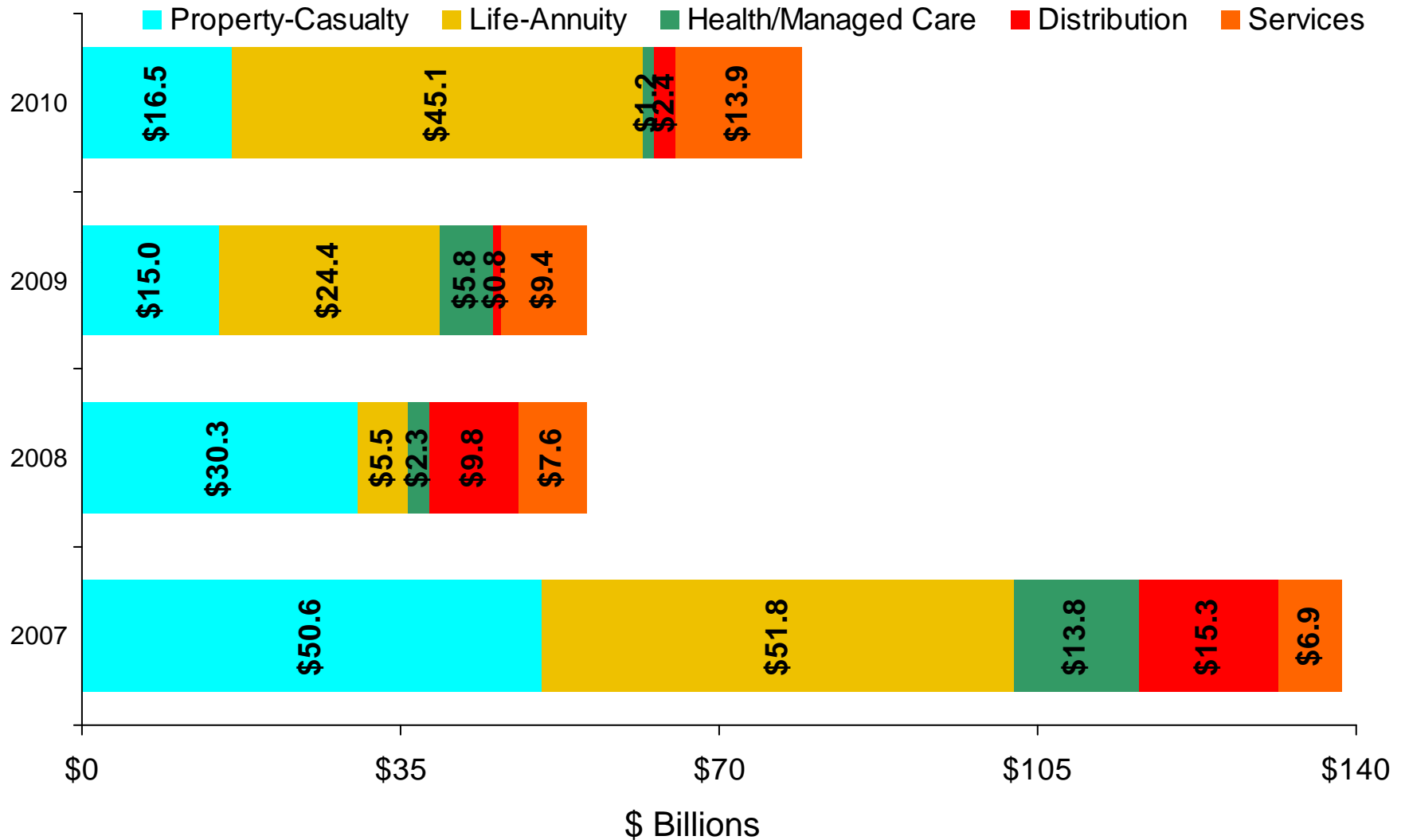


There were 16 mutual targets in 2008-2010, up from 10 in the three prior years.

of Mergers & Acquisitions, Worldwide: Will Reform Stifle or Boost Them?



\$ Value of Mergers & Acquisitions, Worldwide: Will Reform Stifle or Boost Them?



Shifting Legal Liability & Tort Environment

Is the Tort Pendulum Swinging Against Insurers?

Important Issues & Threats Facing Insurers: 2010–2015

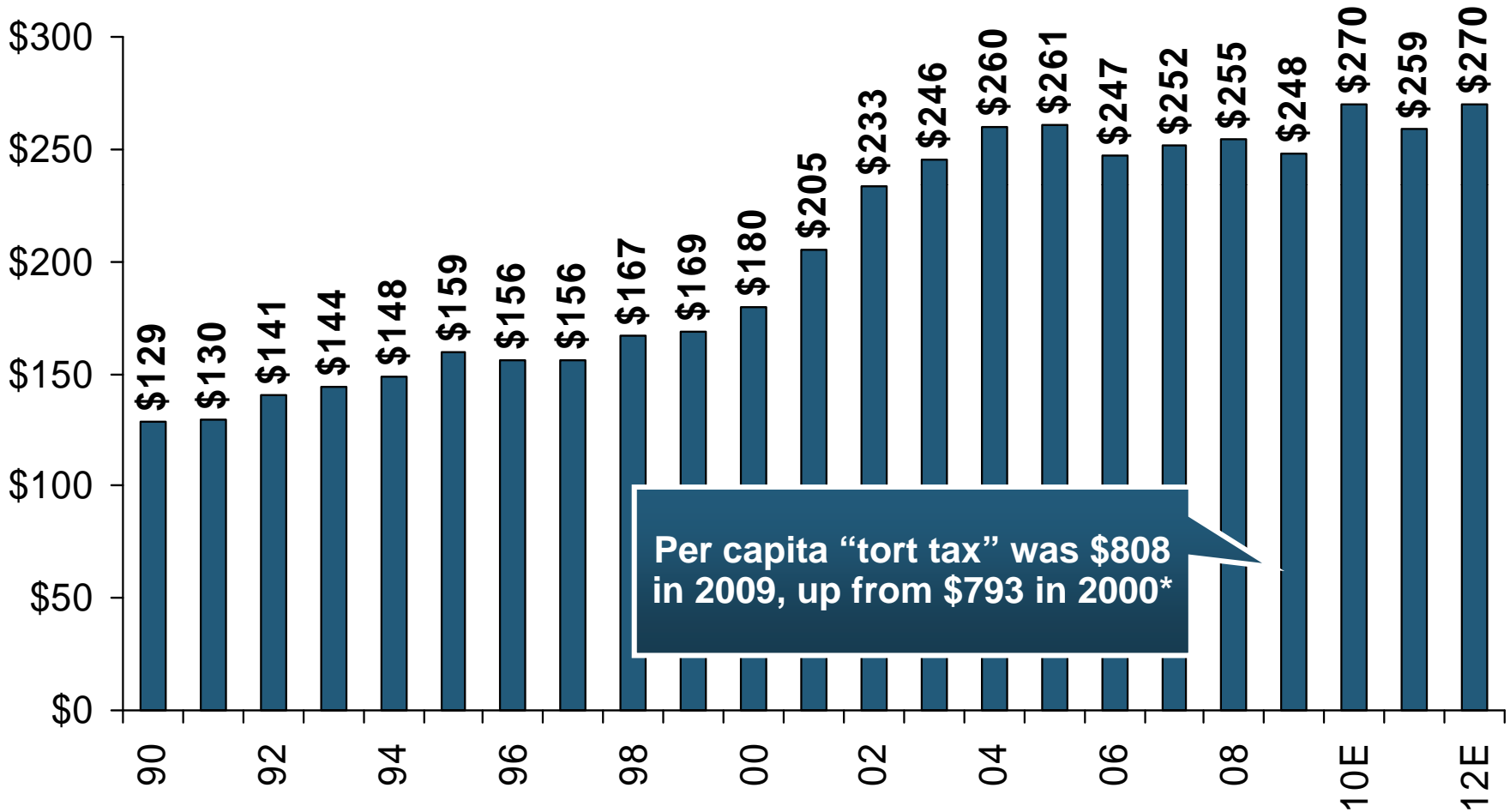
Emerging Tort Threat

- No tort reform (or protection of recent reforms) is forthcoming from the current Congress or Administration
- Erosion of recent reforms is a certainty (already happening)
- Innumerable legislative initiatives will create opportunities to undermine existing reforms and develop new theories and channels of liability
- Torts twice the overall rate of inflation
- Influence personal and commercial lines, esp. auto liability
- Historically *extremely* costly to p/c insurance industry
- Leads to reserve deficiency, rate pressure

***Bottom Line:* Tort “crisis” is on the horizon and will be recognized as such by 2012–2014**

Cost of US Tort System (\$ Billions)

Tort costs consumed 1.74% of GDP in 2009, down from 2.21% in 2003

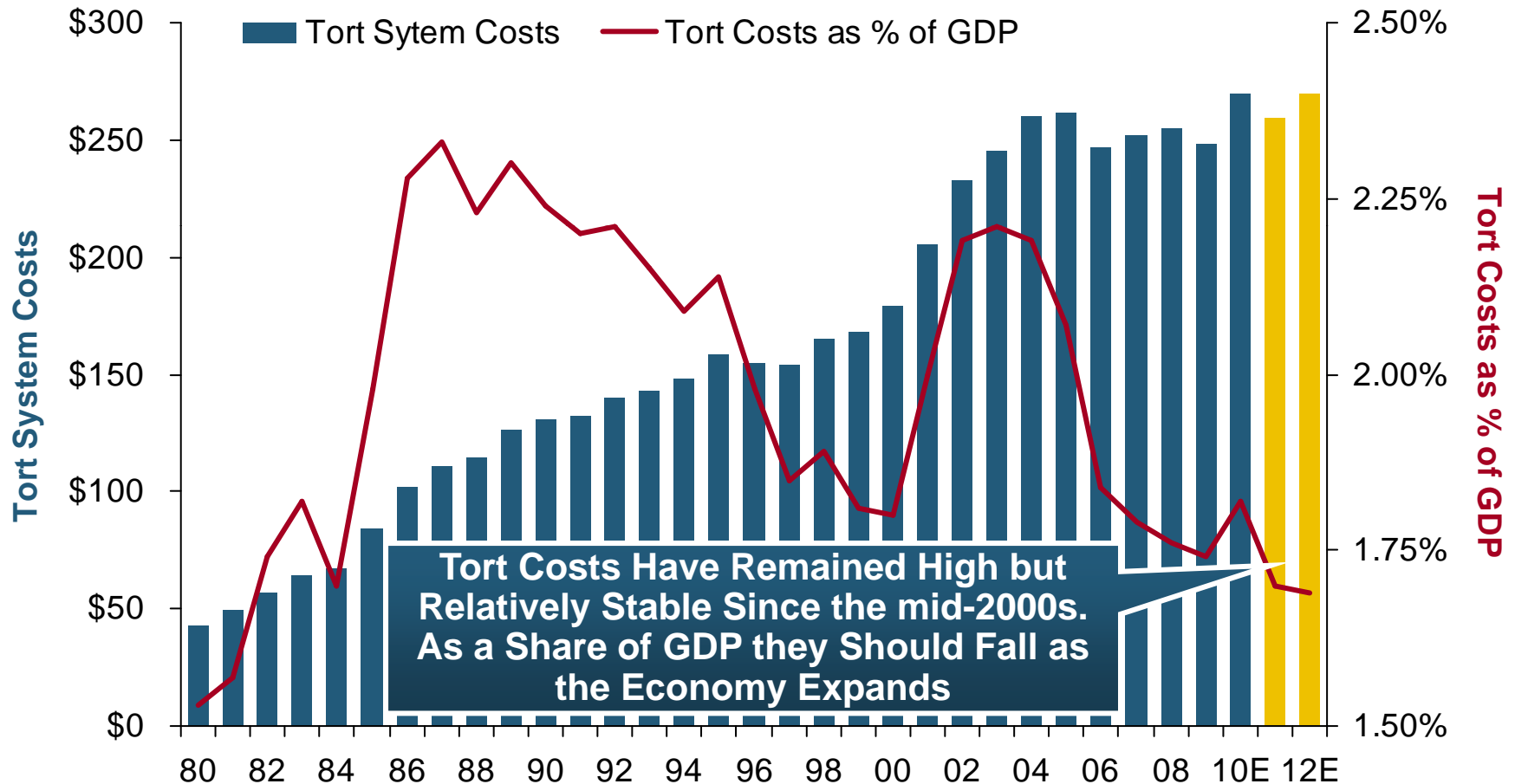


* Restated in 2009 dollars, based on CPI.

Source: Towers Watson, 2010 Update on US Tort Cost Trends.

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

(\$ Billions)



Business Leaders Ranking of Liability Systems in 2010

Best States

1. Delaware
2. North Dakota
3. Nebraska
4. Indiana
5. Iowa
6. Virginia
7. Utah
8. Colorado
9. Massachusetts
10. South Dakota

New in 2010

- North Dakota
- Massachusetts
- South Dakota

Drop-offs

- Maine
- Vermont
- Kansas

Midwest/West has mix of good and bad states.

Worst States

41. New Mexico
42. Florida
43. Montana
44. Arkansas
45. Illinois
46. California
47. Alabama
48. Mississippi
49. Louisiana
50. West Virginia

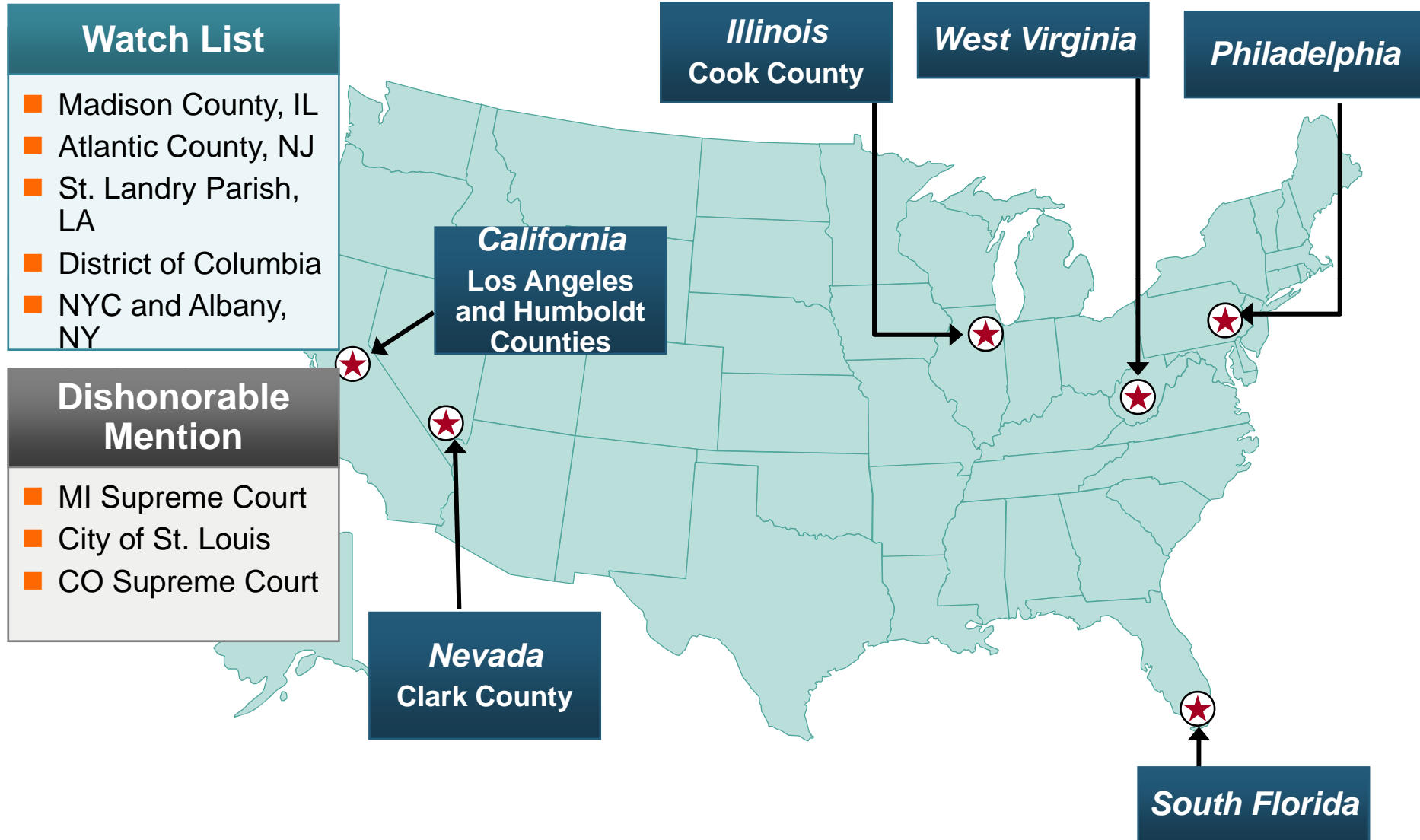
Newly Notorious

- New Mexico
- Montana
- Arkansas

Rising Above

- Texas
- South Carolina
- Hawaii

The Nation's Judicial Hellholes: 2010

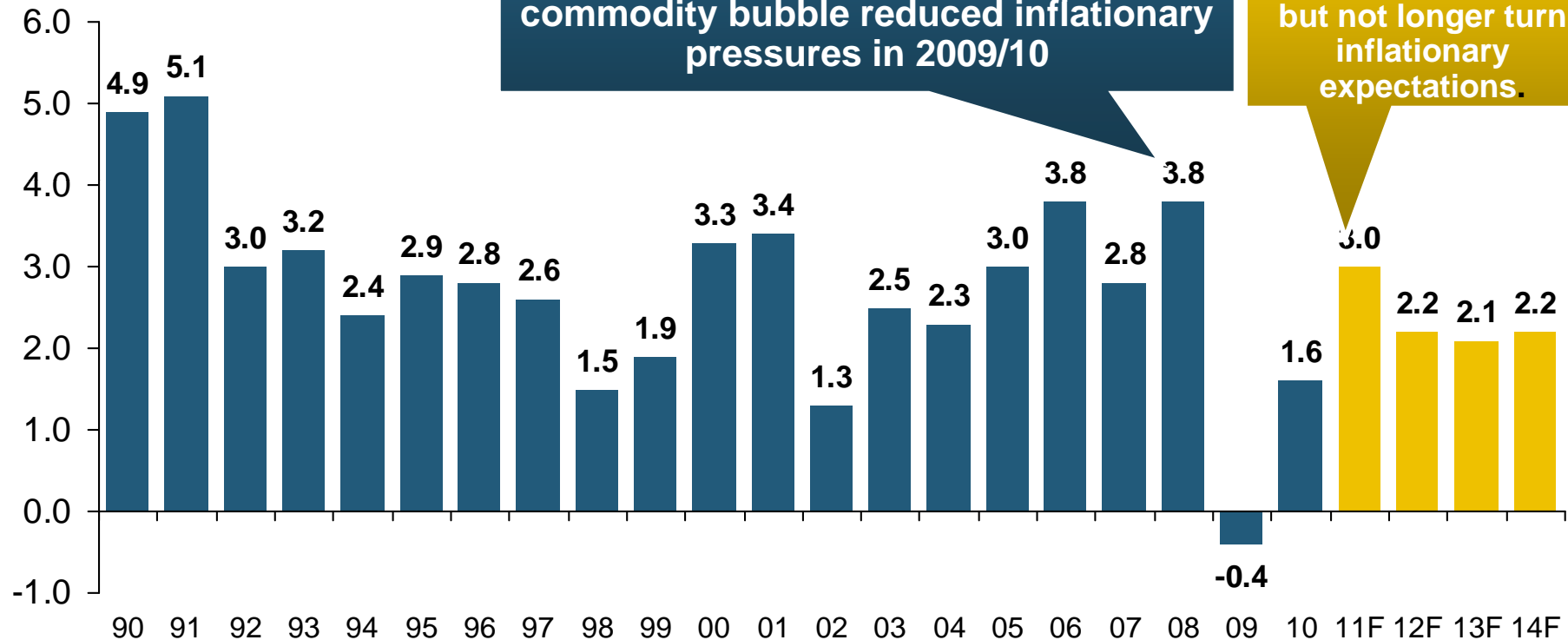


Inflation

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

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

Annual Inflation Rates (%)



Inflation peaked at 5.6% in August 2008 on high energy and commodity crisis. The recession and the collapse of the commodity bubble reduced inflationary pressures in 2009/10

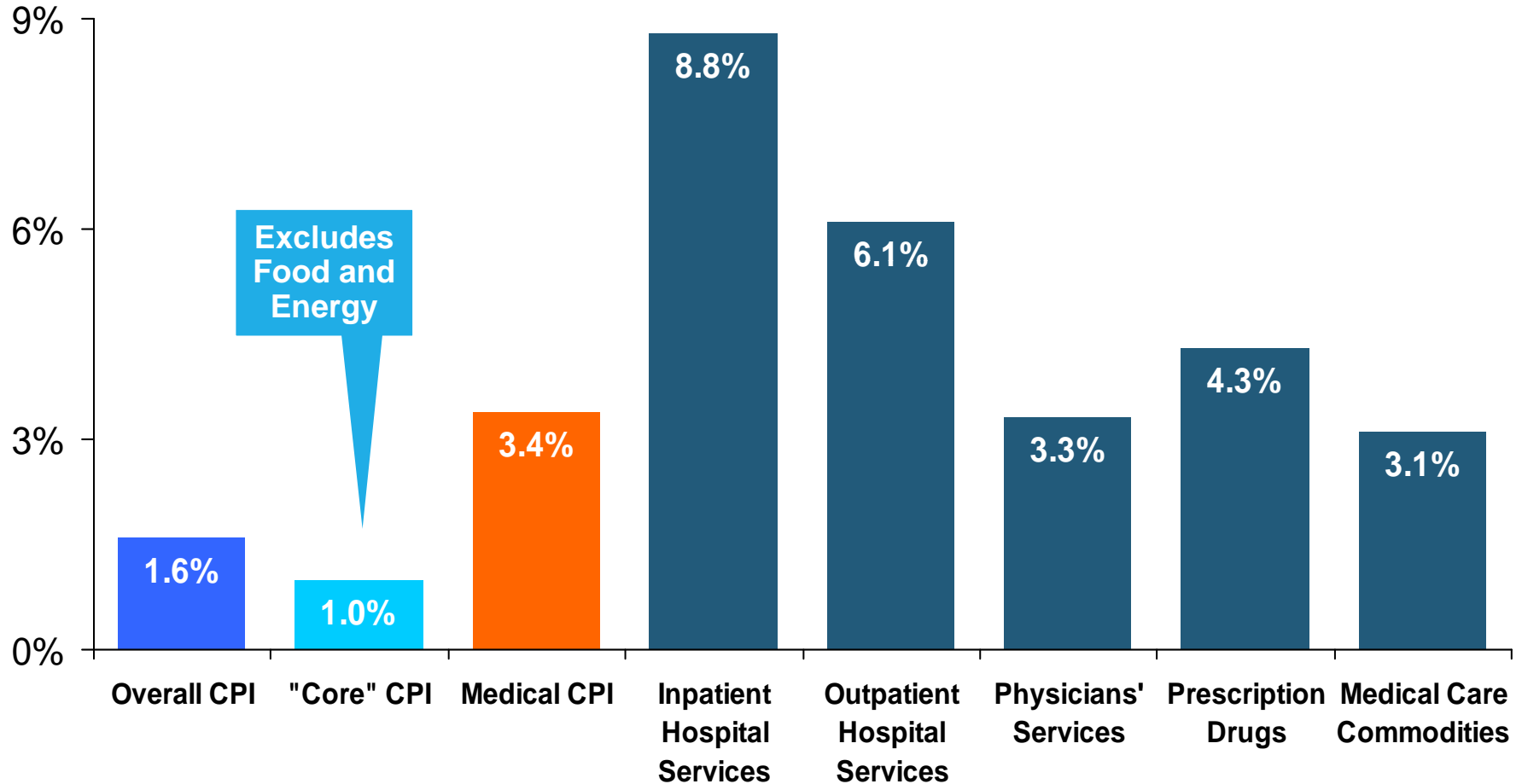
Higher energy, commodity and food prices are pushing up inflation in 2011, but not longer turn inflationary expectations.

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

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators, 3/11 and 5/11 (forecasts).

P/C Insurance Claim Cost Drivers Grow Faster than even the Medical CPI Suggests

Price Changes
in 2010



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

Financial Services Reform

**Insurers Not as Impacted as
Banks, But Dodd-Frank
Implementation Has Been a
Concern for Insurers**

Financial Services Reform: *What does it mean for insurers?*

The Dodd Frank Wall Street Reform and Consumer Protection Act

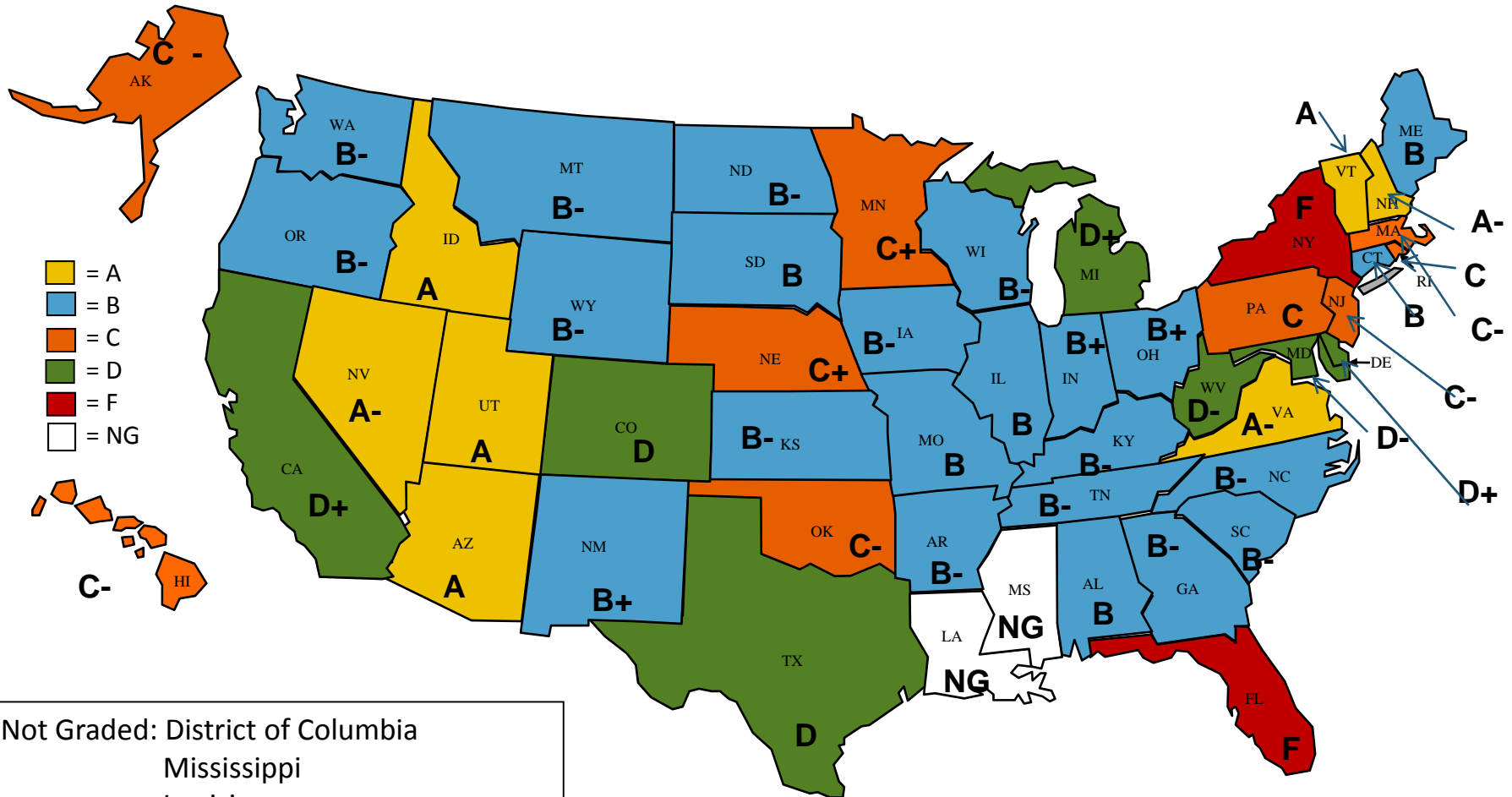
■ Systemic Risk and Resolution Authority

- Creates the Financial Stability Oversight Council and the Office of Financial Research
- Regulator representative is MO Insurance Commissioner Huff
- *No industry representative has been appointed yet*
- Imposes heightened federal regulation on large bank holding companies and “systemically risky” nonbank financial companies, including insurers
- ***Concern some insurers may be labeled as systemically risky based on size alone***

■ Federal Insurance Office (FIO)

- Establishes the FIO (while maintaining state regulation of insurance) within the Department of Treasury, headed by a Director appointed by the Secretary of Treasury
- FIO will have authority to monitor the insurance industry, identify regulatory gaps that could contribute to systemic crisis
- **IL Insurance Director Michael McGraith will become first FIO Director on June 1**
- **Creation of Federal Advisory Committee on Insurance to Advise FIO**
- ***CONCERN: FIO morphs into quasi/shadow or actual regulator***

2010 Property and Casualty Insurance Report Card



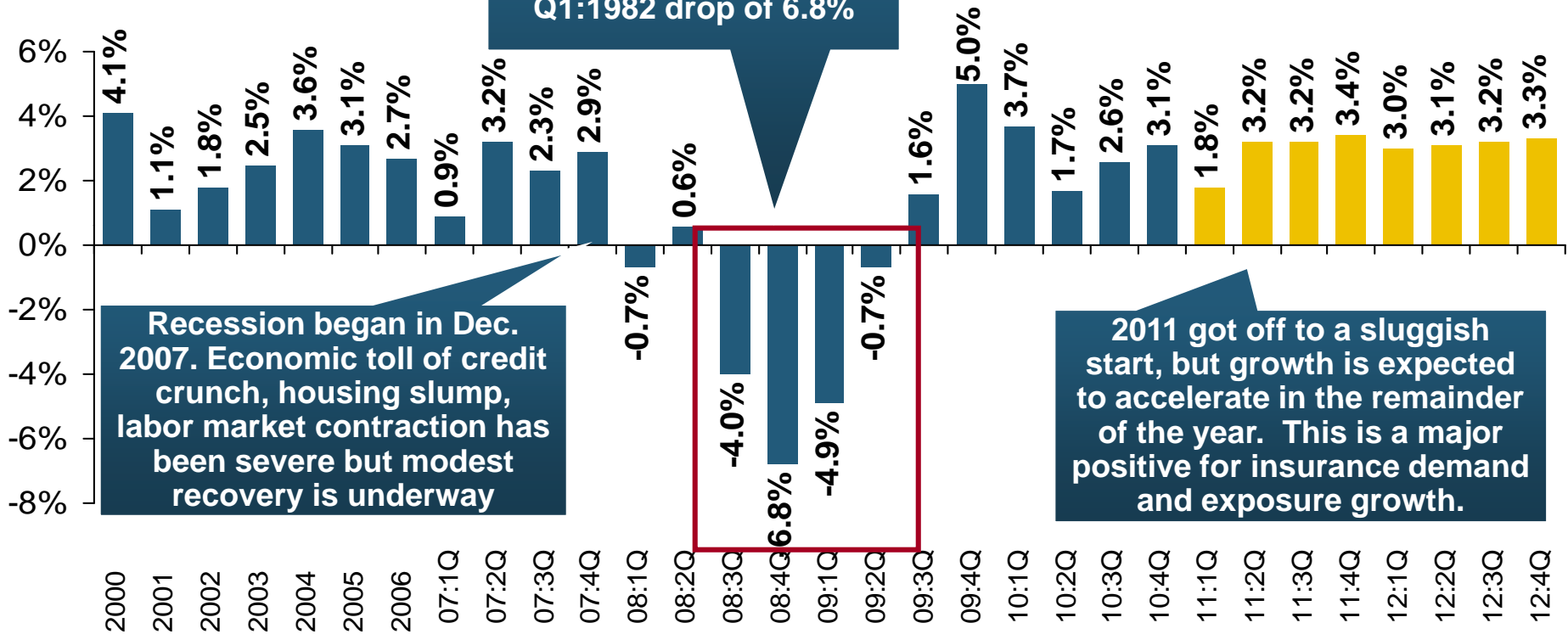


Economic Issues for the Next 3-5 Years

**P/C Insurance Industry Growth in the
Wake of the “Great Recession”**

US Real GDP Growth*

Real GDP Growth (%)



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

* Estimates/Forecasts from Blue Chip Economic Indicators.

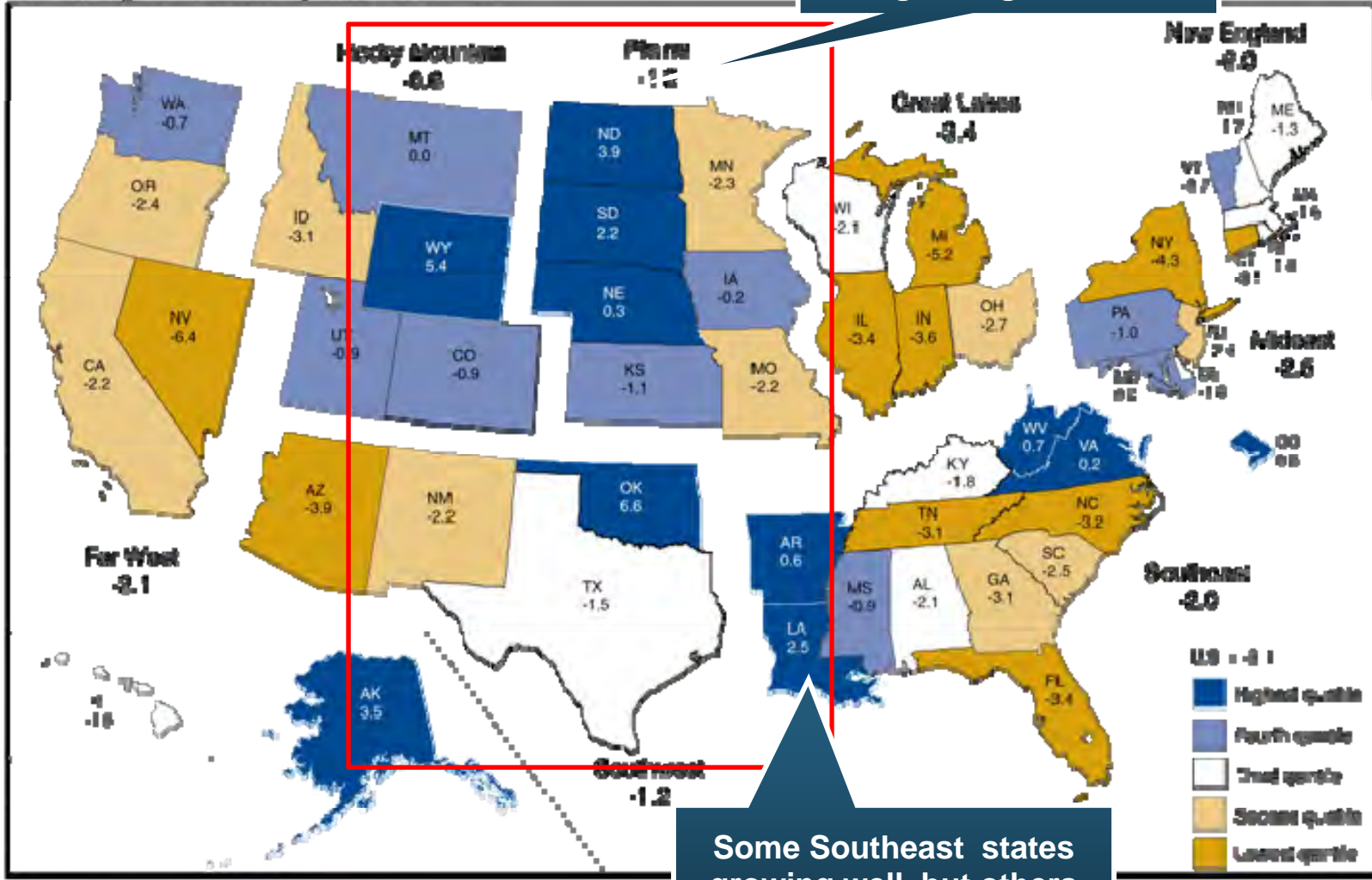
Source: US Department of Commerce, Blue Economic Indicators 5/11; Insurance Information Institute.

2011 Financial Overview

State Economic Growth Varied in 2009

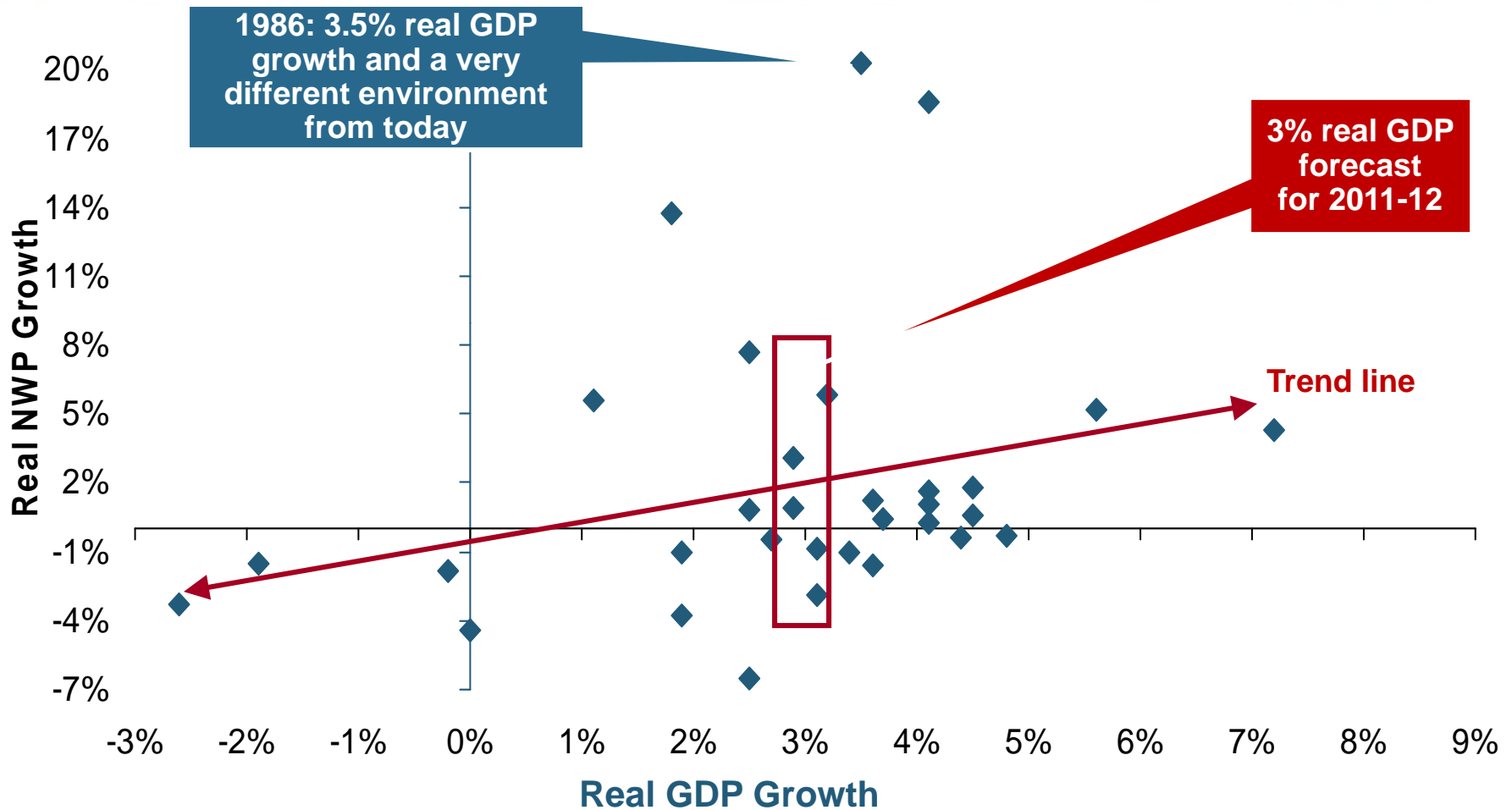
Mountain, Plains states still growing the fastest

Percent Change in Real GDP by State 2008-2009



Some Southeast states growing well, but others among the weakest

Real GDP Growth vs. Real P/C NWP Growth: 1978-2010

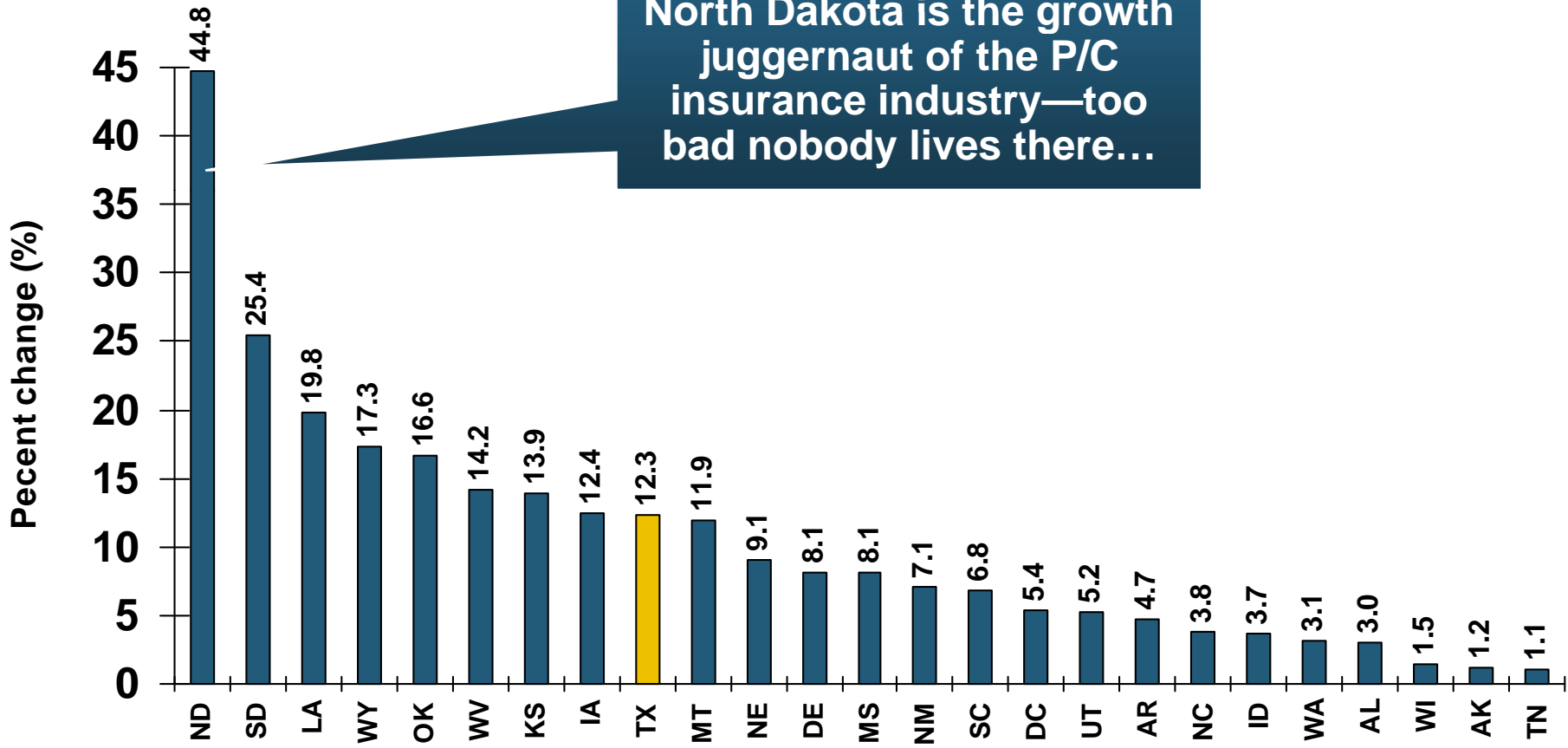


When real GDP grows by about 3%, as is forecast for 2011-2012, real NWP growth has ranged from -2.9% to +5.8%

Direct Premiums Written: All P/C Lines Percent Change by State, 2005-2010

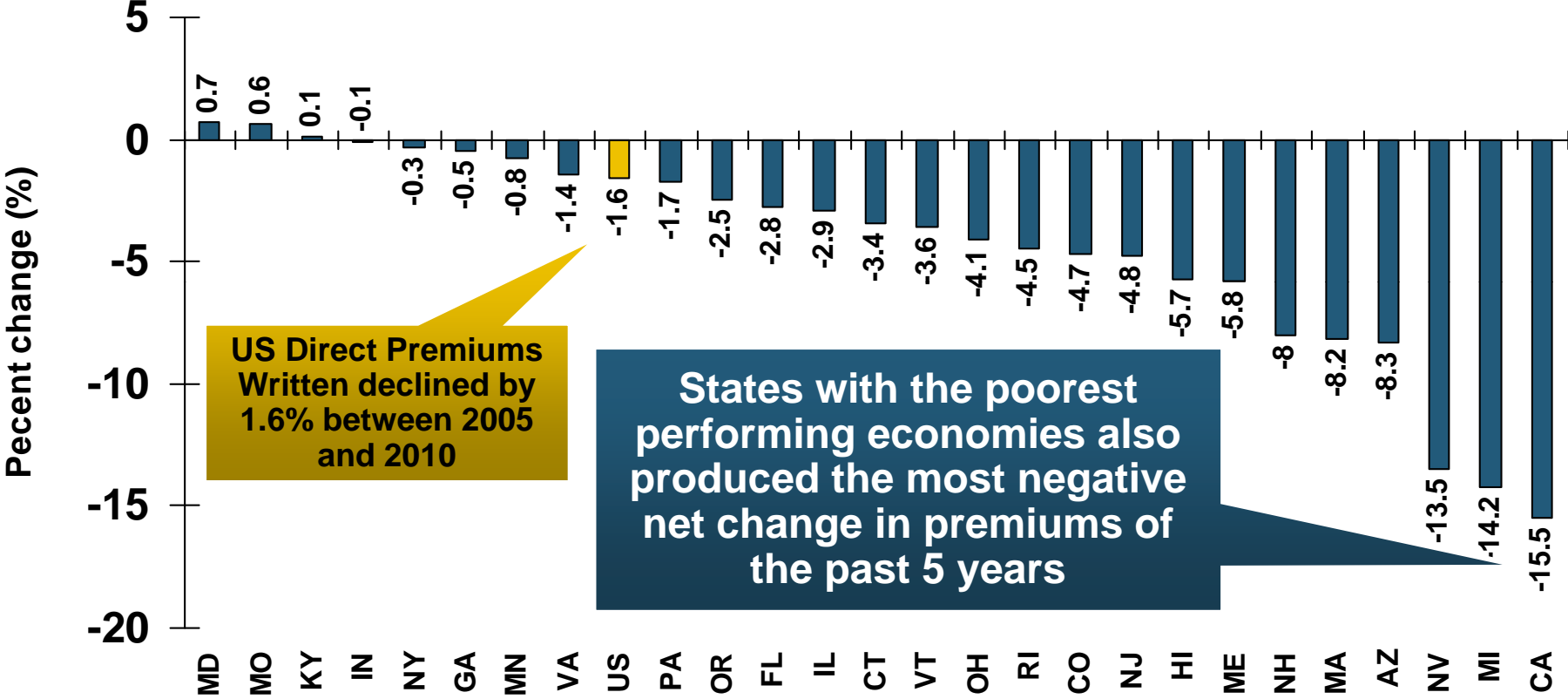
Top 25 States

North Dakota is the growth juggernaut of the P/C insurance industry—too bad nobody lives there...



Direct Premiums Written: All P/C Lines Percent Change by State, 2005-2010

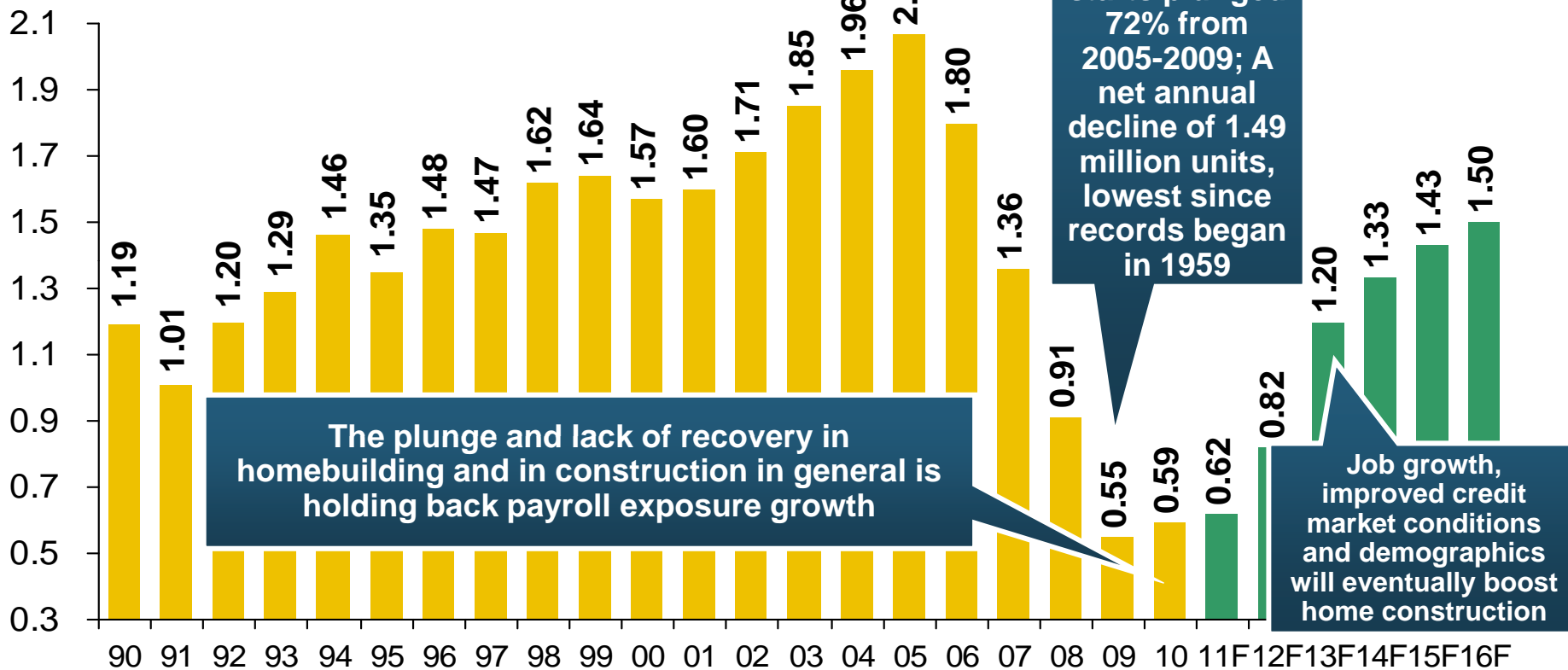
Bottom 25 States



Sources: SNL Financial LC; Insurance Information Institute.

New Private Housing Starts, 1990-2016F

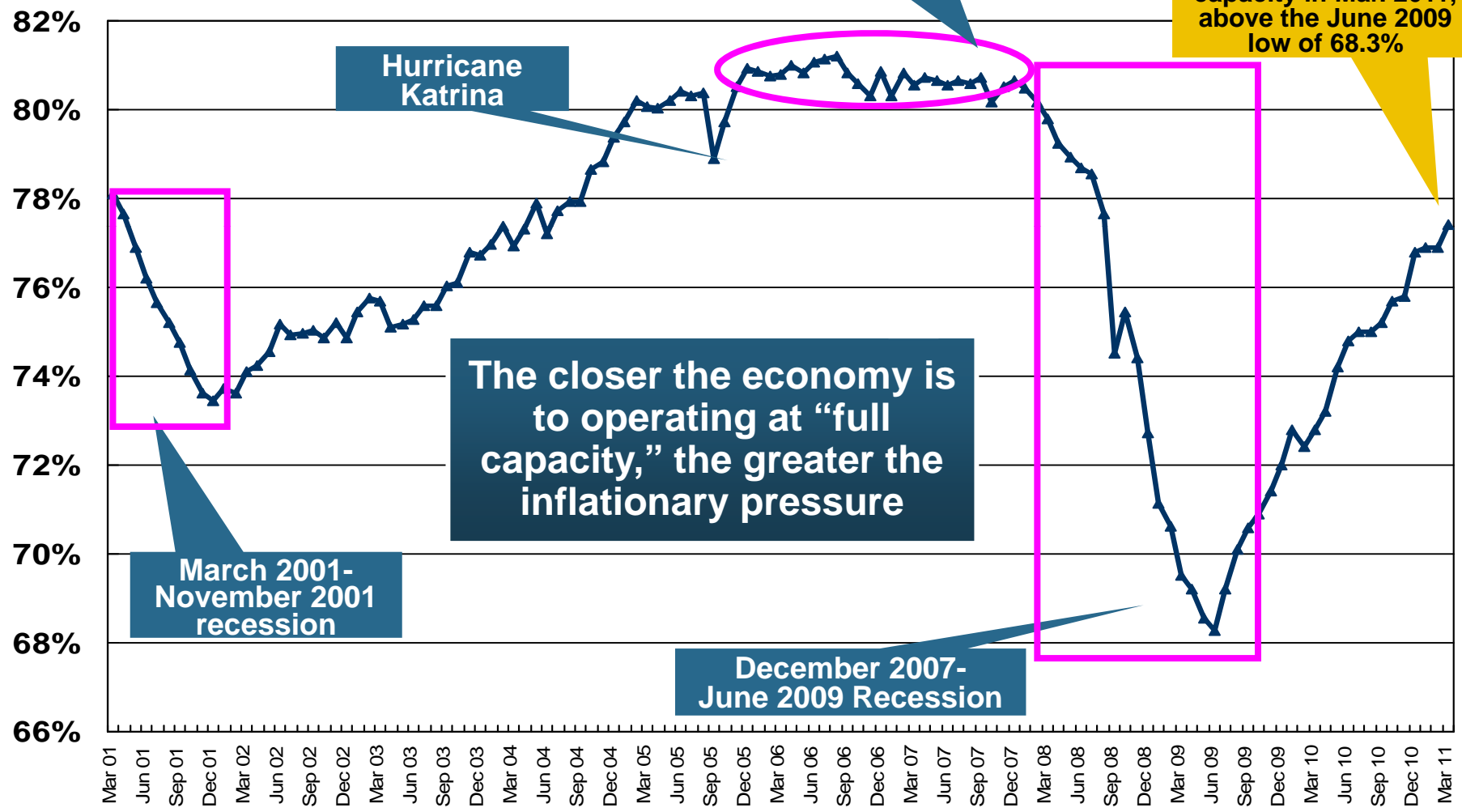
(Millions of Units)



Little Exposure Growth Likely for Homeowners Insurers Until 2013. Also Affects Commercial Insurers with Construction Risk Exposure, Surety

Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures

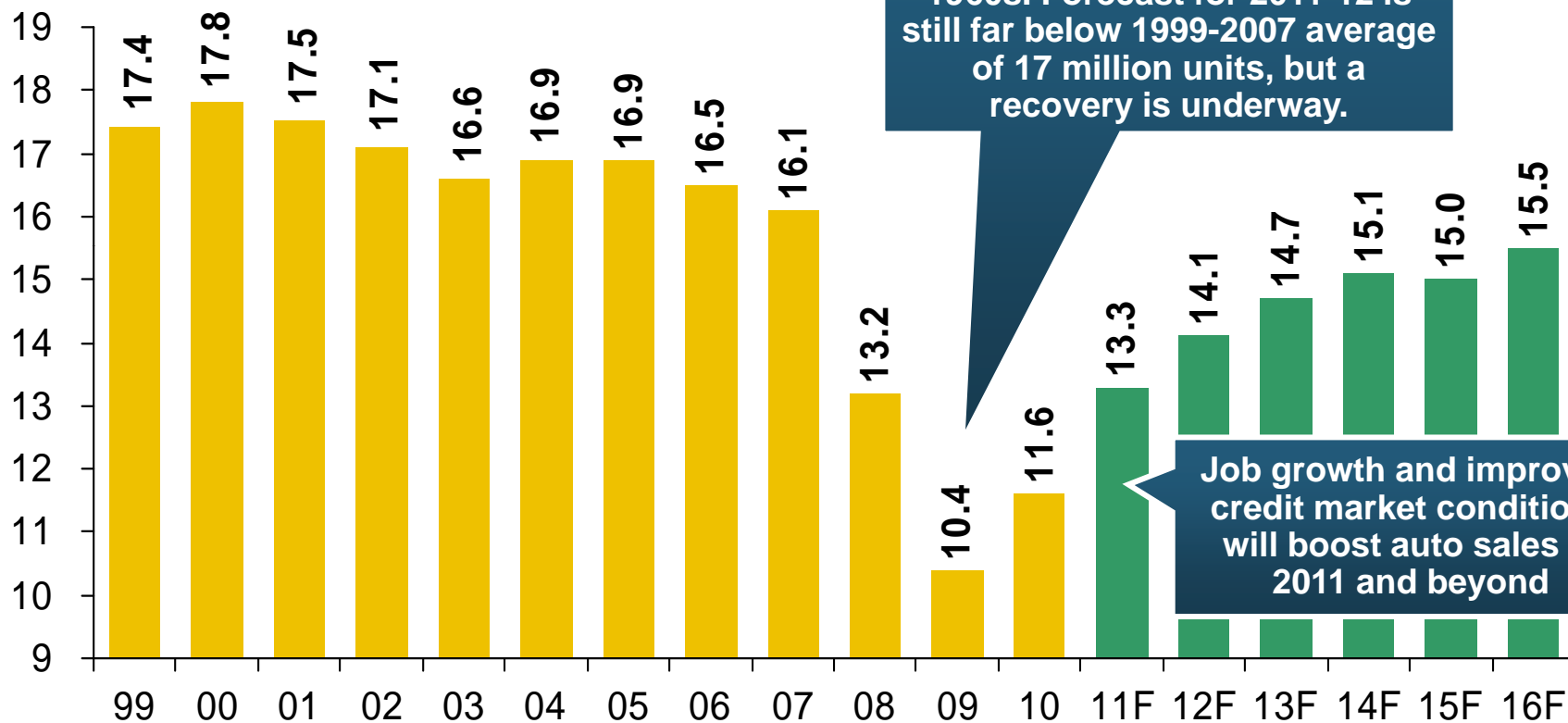
Percent of Industrial Capacity



Source: Federal Reserve Board statistical releases at <http://www.federalreserve.gov/releases/q17/Current/default.htm>.

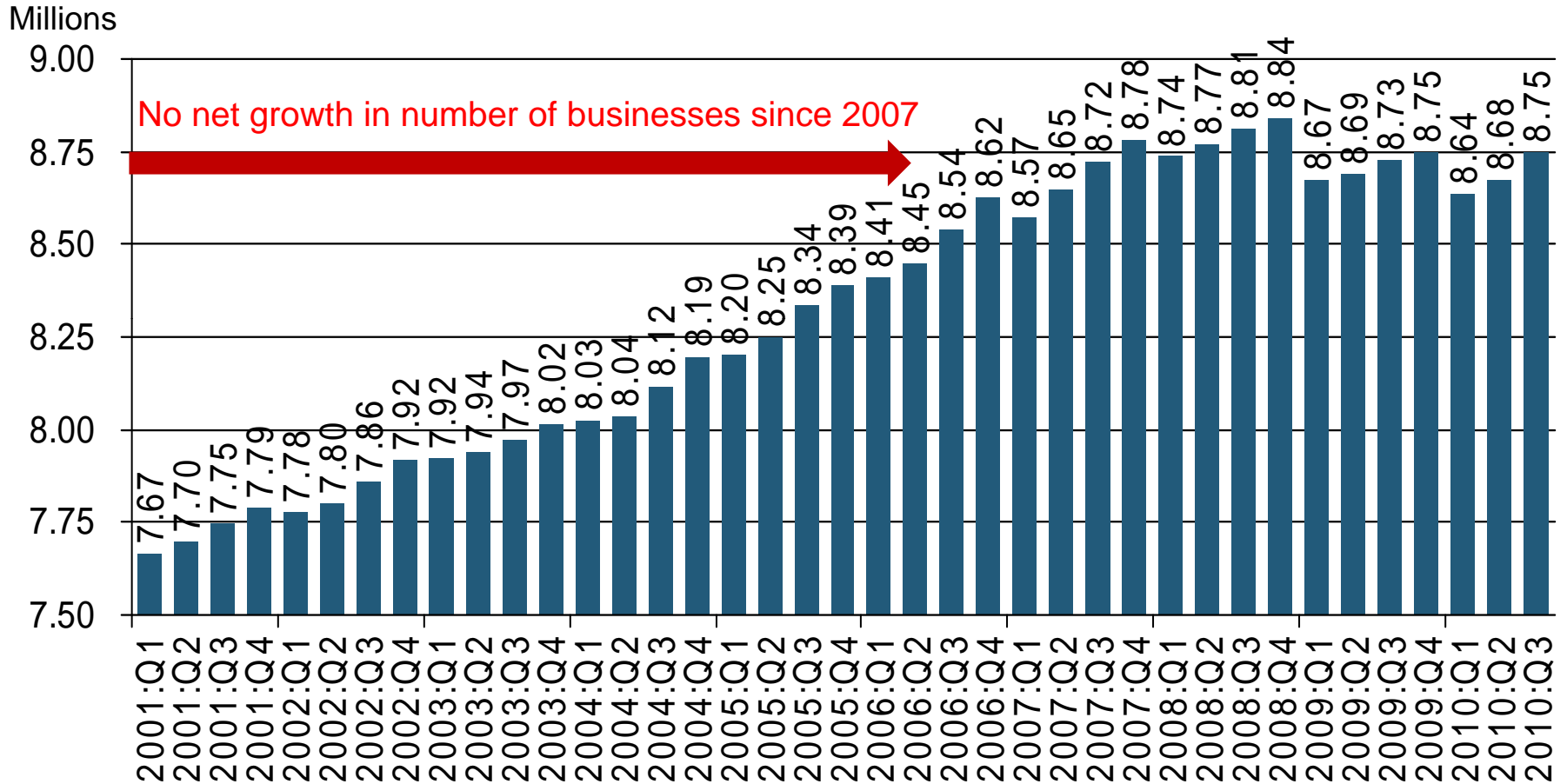
Auto/Light Truck Sales, 1999-2016F

(Millions of Units)



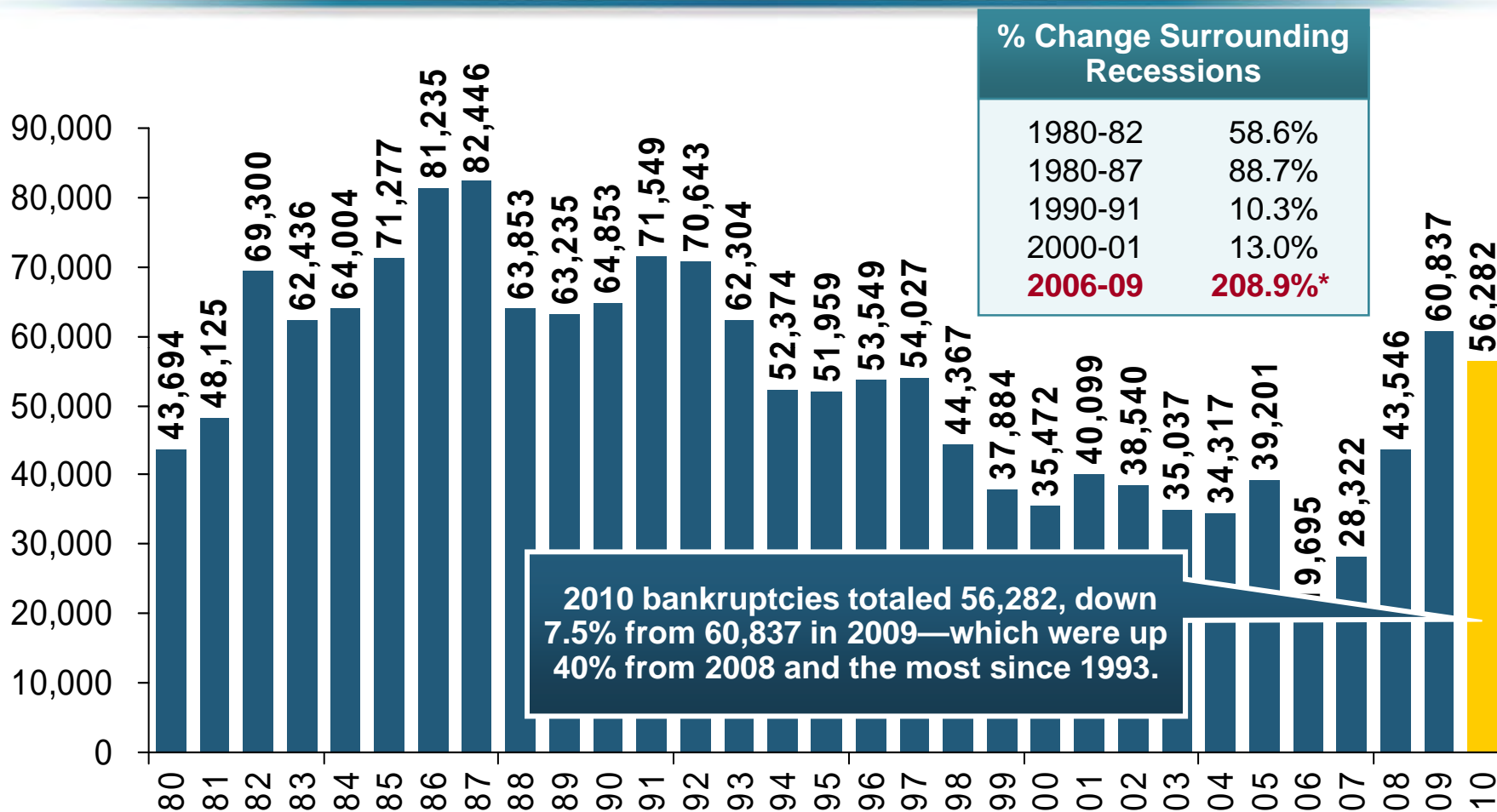
Car/Light Truck Sales Will Continue to Recover from the 2009 Low Point. It is Too Soon to Assess the Impact of Higher Gas Prices.

Number of Private Business Establishments, 2001:Q1-2010:Q3



**In 2009:Q1 a net of 165,000 businesses disappeared.
By 2010:Q3 73,000 new ones appeared,
returning us to the level first attained three years before, in 2007:Q3.**

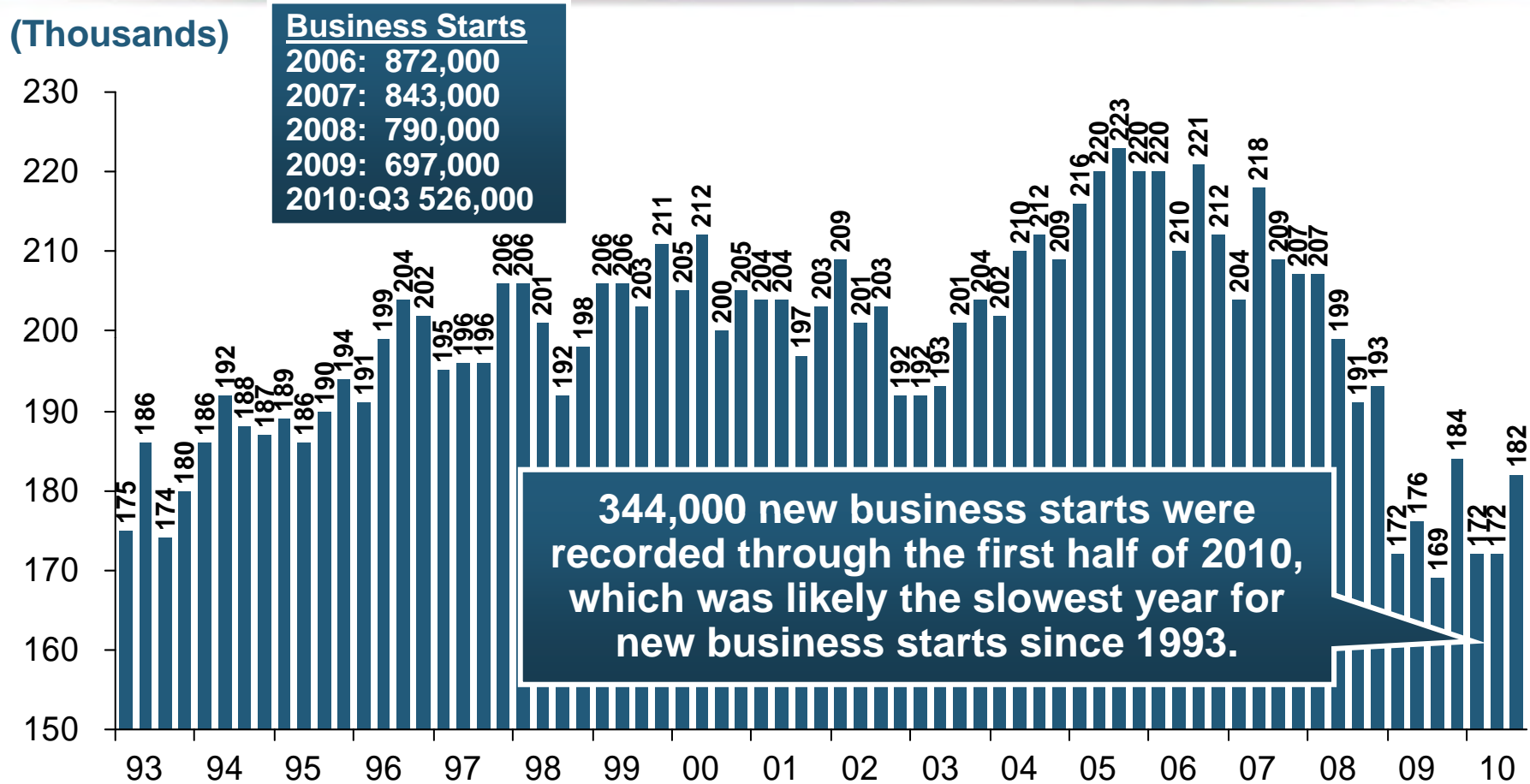
Business Bankruptcy Filings, 1980-2010



Significant Exposure Implications for All Commercial Lines as Business Bankruptcies Begin to Decline

Sources: American Bankruptcy Institute at <http://www.abiworld.org/AM/AMTemplate.cfm?Section=Home&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=61633> ; Insurance Information Institute

Private Sector Business Starts, 1993:Q2 – 2010:Q3*



Business Starts Were Down Nearly 20% in the Recession, Holding Back Most Types of Commercial Insurance Exposure

* Data through September 30, 2010 are the latest available as of May 3, 2011; Seasonally adjusted
 Source: Bureau of Labor Statistics, <http://www.bls.gov/news.release/cewbd.t08.htm>.

11 Industries for the Next 10 Years: Insurance Solutions Needed

Health Care

Health Sciences

Energy (Traditional)

Alternative Energy

Agriculture

Natural Resources

Environmental

Technology (incl. Biotechnology)

Light Manufacturing

Export-Oriented Industries

Shipping (Rail, Marine, Trucking)



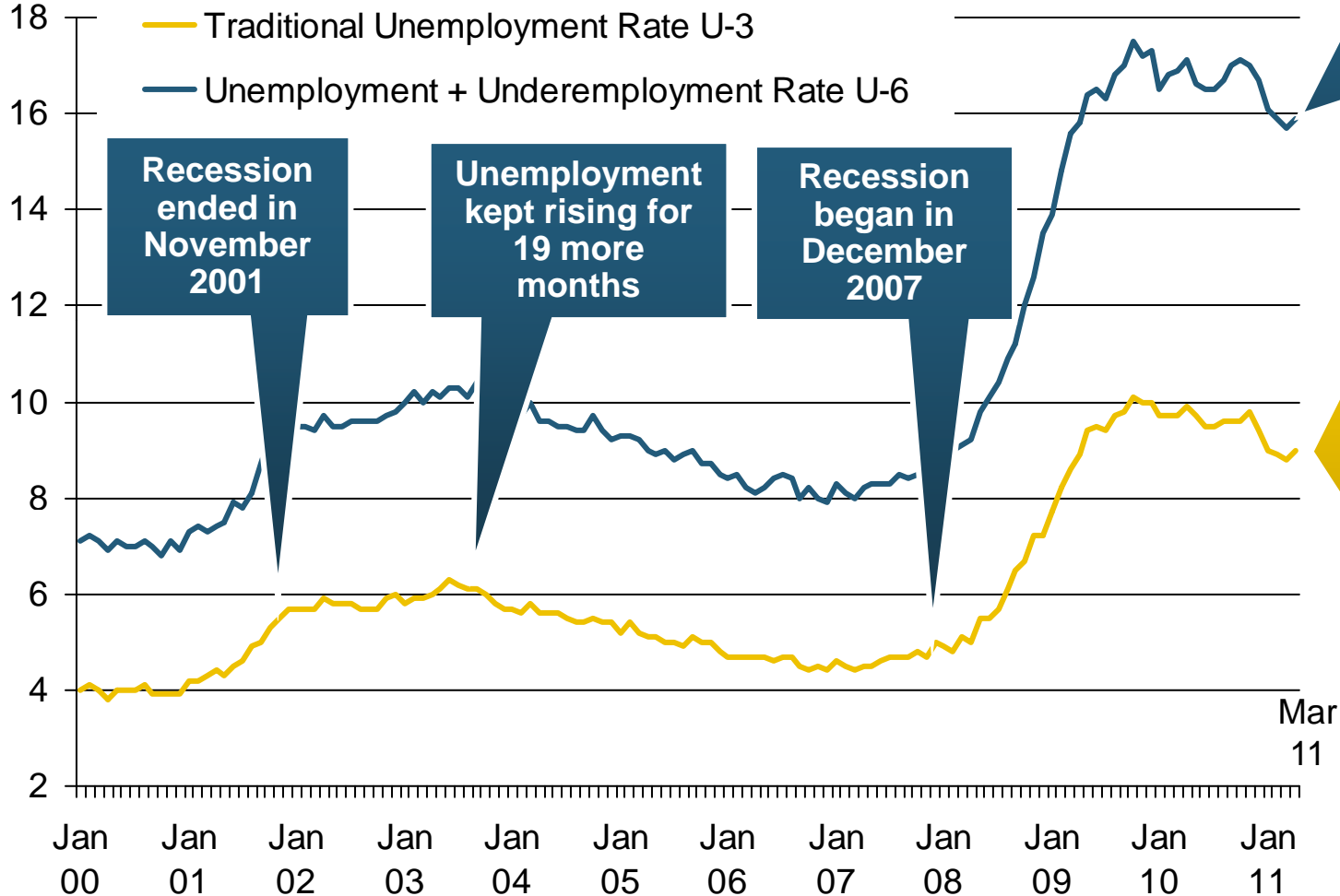
Many industries are poised for growth, but many insurers do not write in these economic segments

Labor Market Trends

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

Unemployment and Underemployment Rates: Falling in 2011

January 2000 through April 2011, Seasonally Adjusted (%)



Recession ended in November 2001

Unemployment kept rising for 19 more months

Recession began in December 2007

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

Unemployment rate rose to 9.0% in April

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

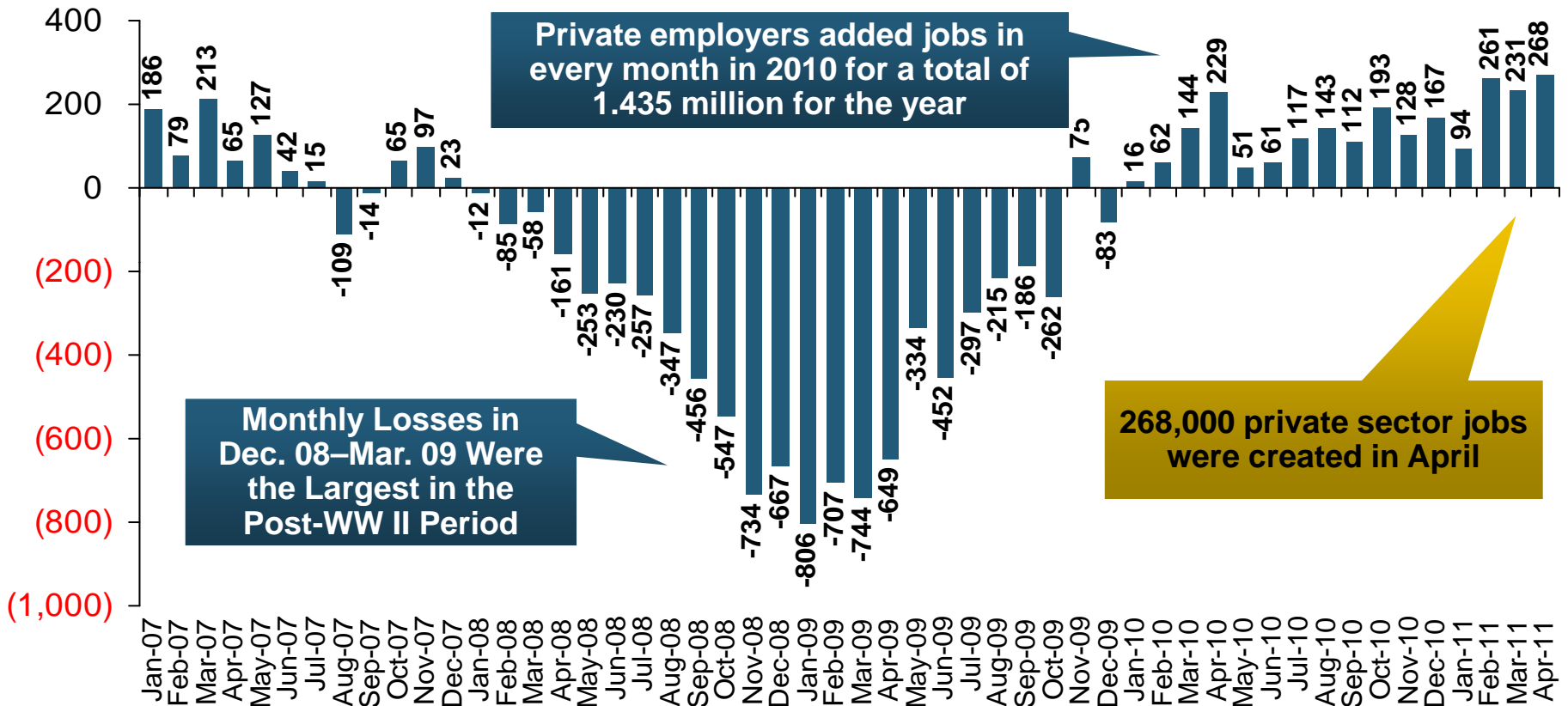
Peak rate in the last 30 years: 10.8% in November - December 1982

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

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

Monthly Change in Private Employment

January 2008 through April 2011* (Thousands)



Private Employers Added 2.269 million Jobs Since Jan. 2010 After Having Shed 4.66 Million Jobs in 2009 and 3.81 Million in 2008 (Local Govt. Employment is Down 416,000 Since Sept. 2008 Peak)

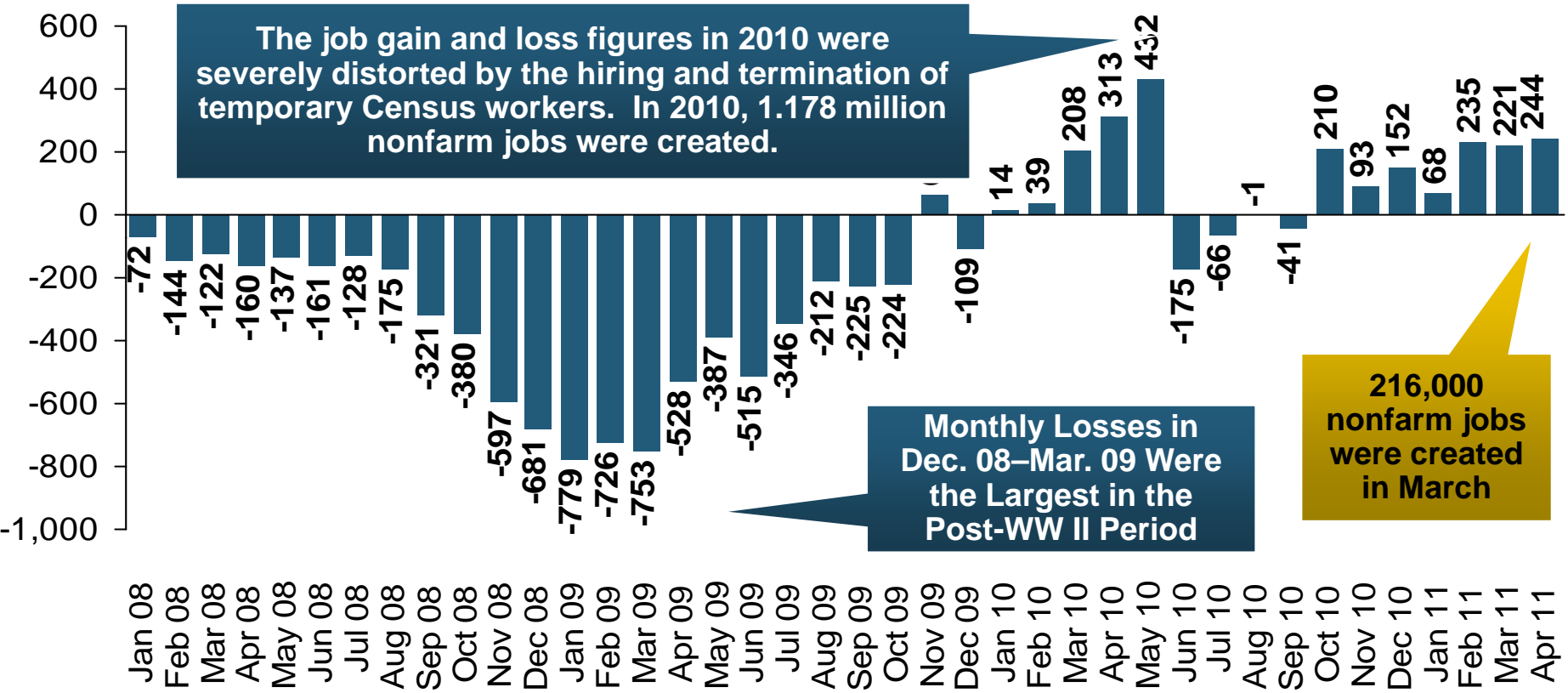
Monthly Change Employment*

January 2008 through April 2011* (Thousands)

The job gain and loss figures in 2010 were severely distorted by the hiring and termination of temporary Census workers. In 2010, 1.178 million nonfarm jobs were created.

Monthly Losses in Dec. 08–Mar. 09 Were the Largest in the Post-WW II Period

216,000 nonfarm jobs were created in March

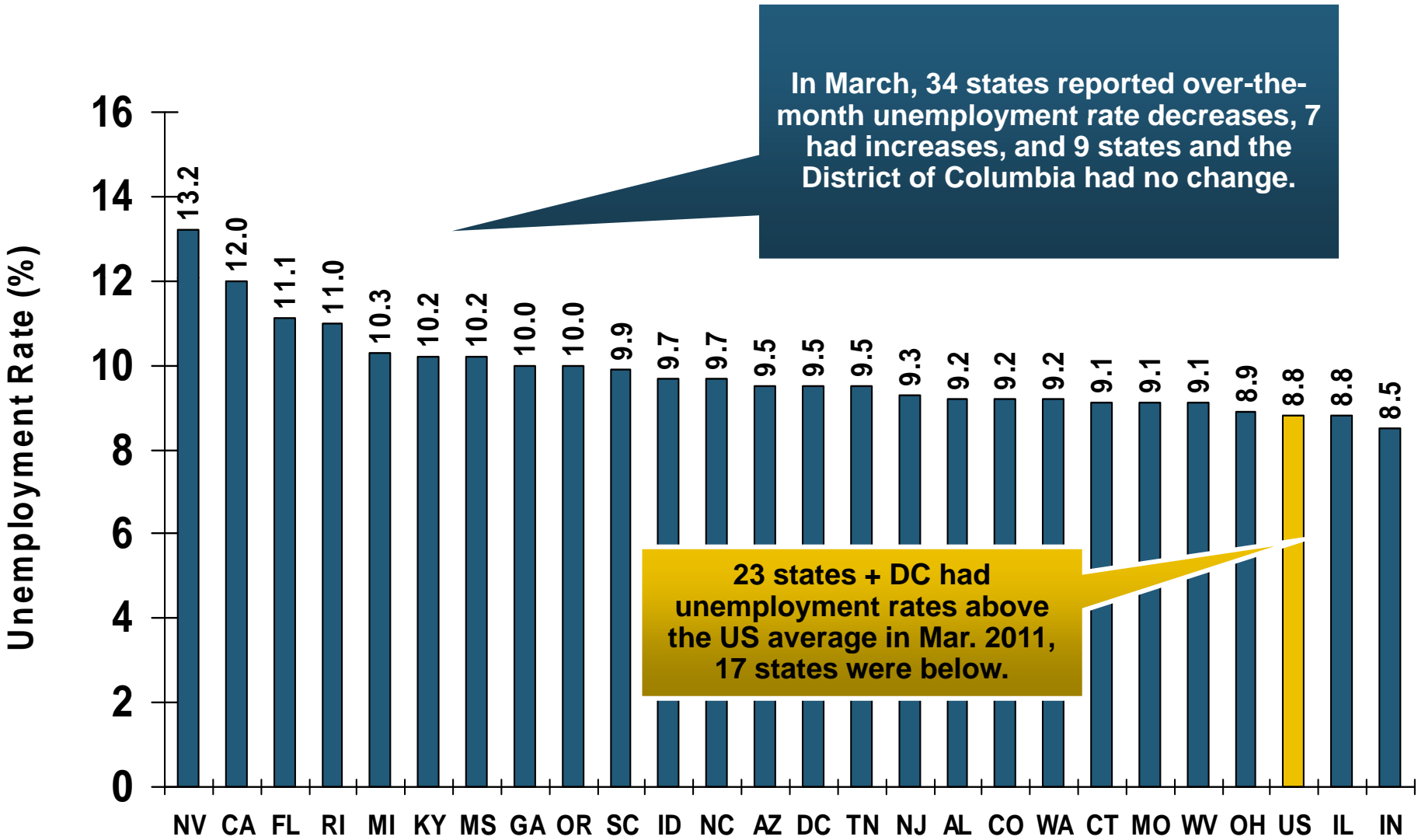


Job Losses Since the Recession Began in Dec. 2007 Peaked at 8.4 Mill in Dec. 09; Stands at 6.2 Million Through March 2011; 13.5 Million People are Now Defined as Unemployed

*Estimate based on Reuters poll of economists.

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

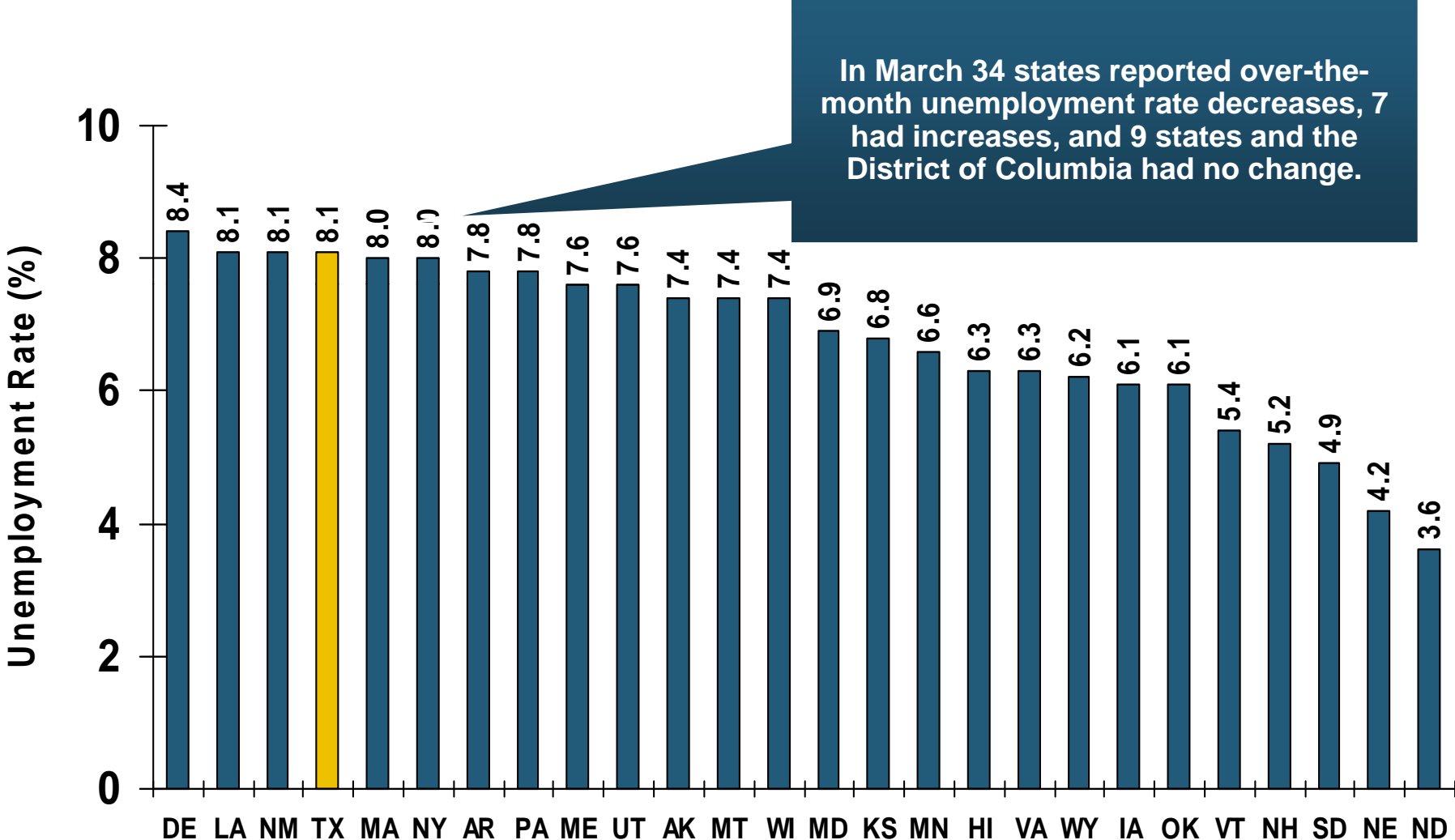
Unemployment Rates by State, March 2011: Highest 25 States*



*Provisional figures for March 2011, seasonally adjusted.

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

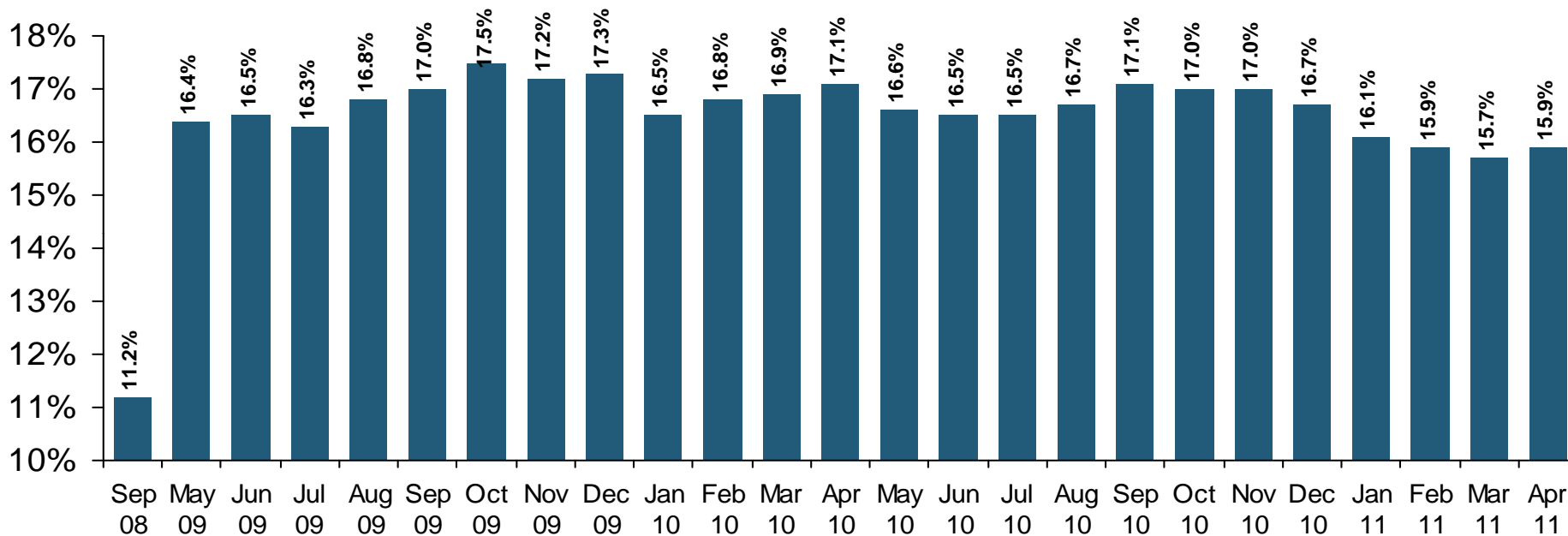
Unemployment Rates By State, March 2011: Lowest 25 States*



*Provisional figures for March 2011, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Labor Underutilization: Broader than Just Unemployment

% of Labor Force



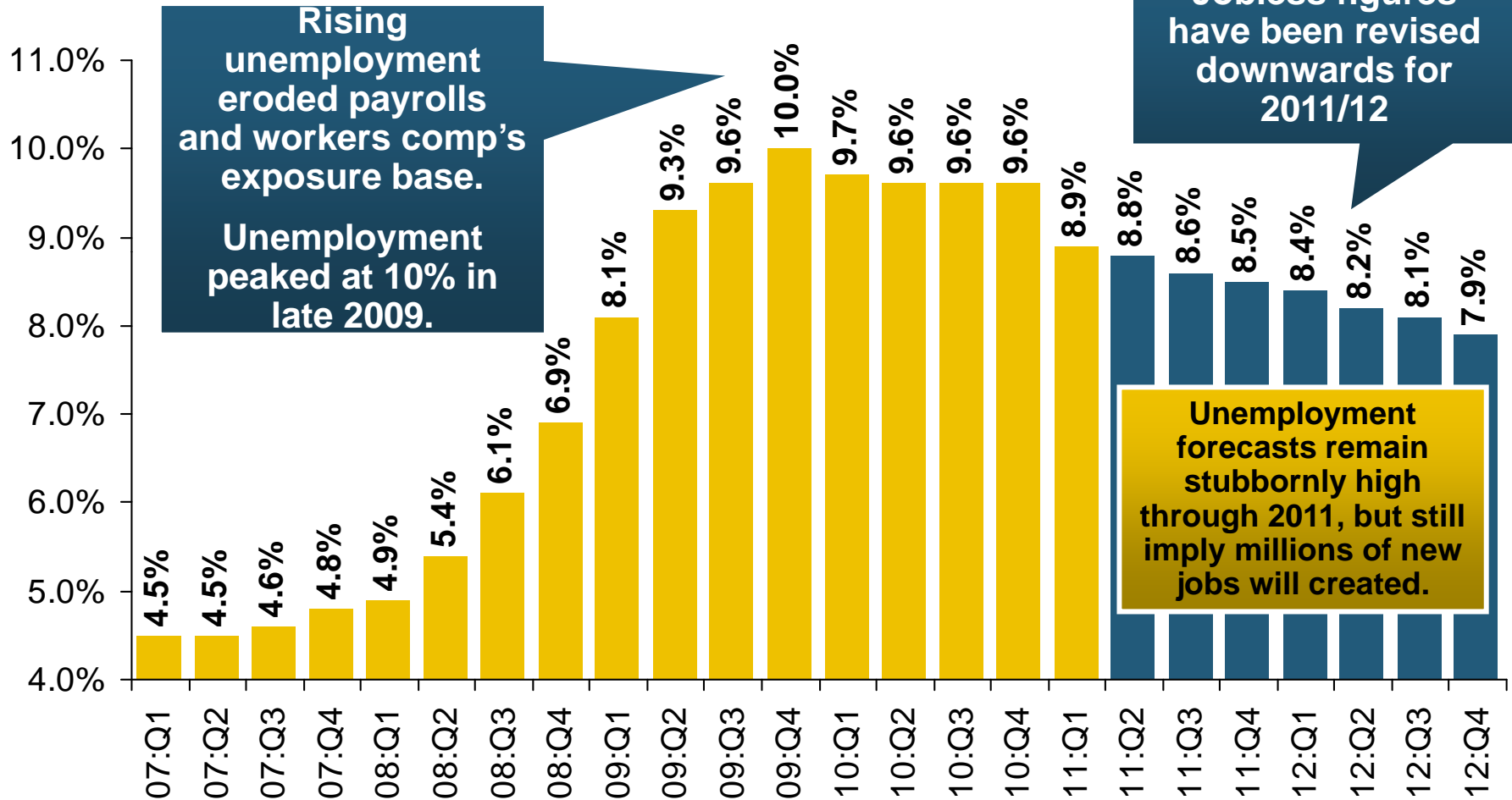
Marginally Attached and Unemployed Persons Account for 15.9% of the Labor Force in April 2011 (1 Out Every 6.4 People). Unemployment Rate Alone was 8.8%. Underutilization Shows a Broader Impact on WC and Other Commercial Exposures

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 Unemployment Rate

2007:Q1 to 2012:Q4F*

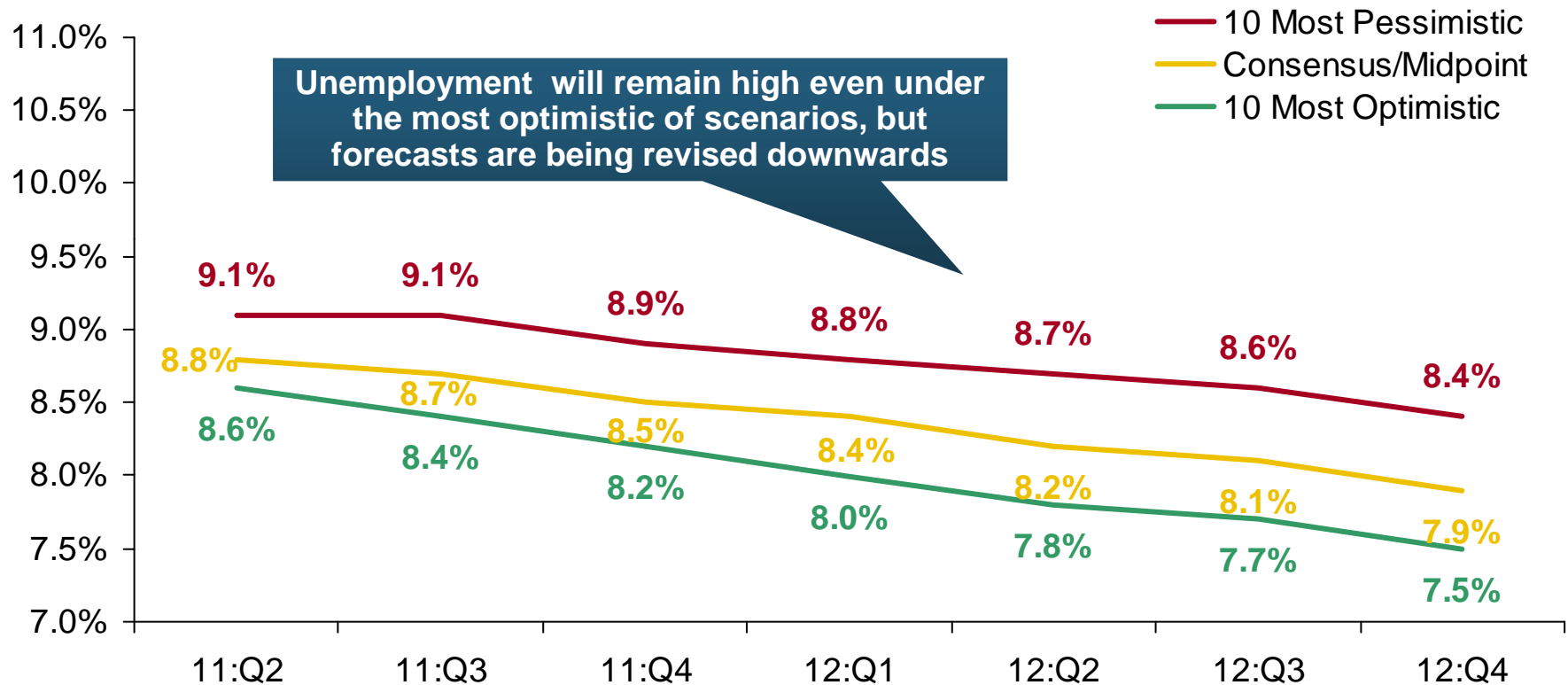


*  = actual;  = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (5/11); Insurance Information Institute

US Unemployment Rate Forecasts

Quarterly, 2011:Q2 to 2012:Q4

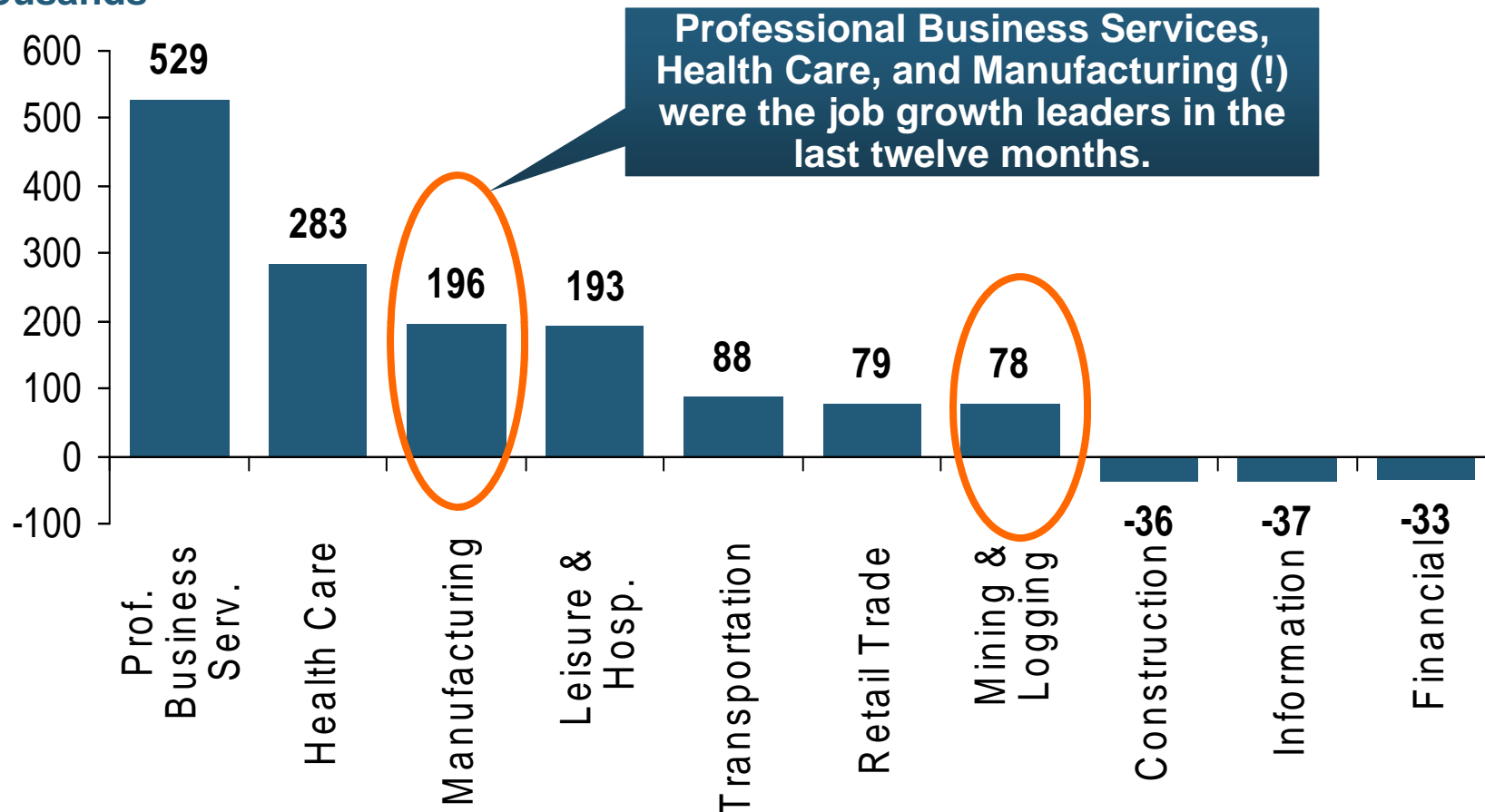


Unemployment will remain high even under the most optimistic of scenarios, but forecasts are being revised downwards

Stubbornly High Unemployment Will Slow the Recovery of the Workers Comp Exposure Base, But Momentum Is Moving in the Right Direction

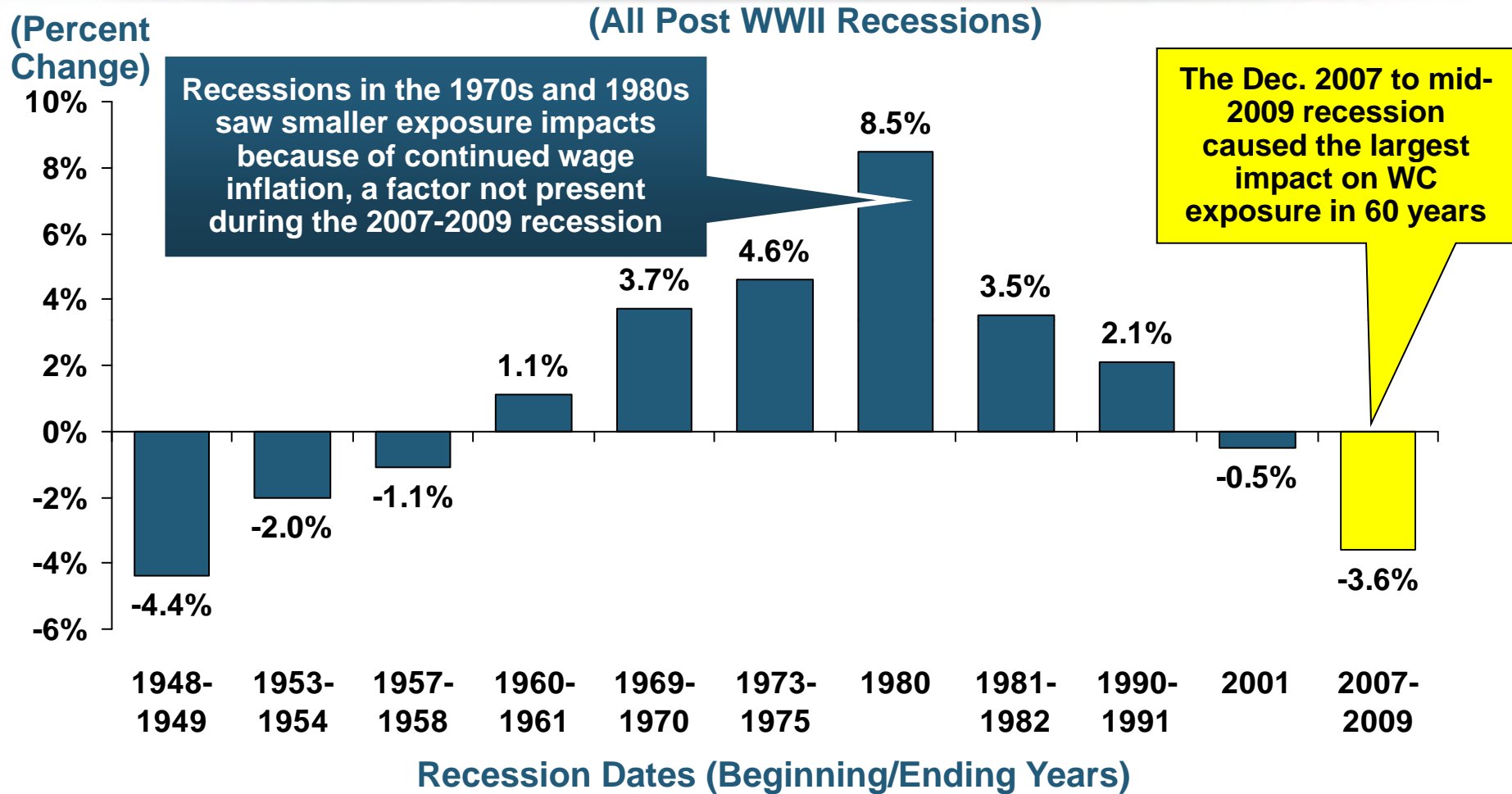
Change in Number Employed in Select Industries, Mar. 2011 vs. Mar. 2010

Thousands



There is a great deal of variation in employment growth by industry, indicating a very uneven and slow recovery

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

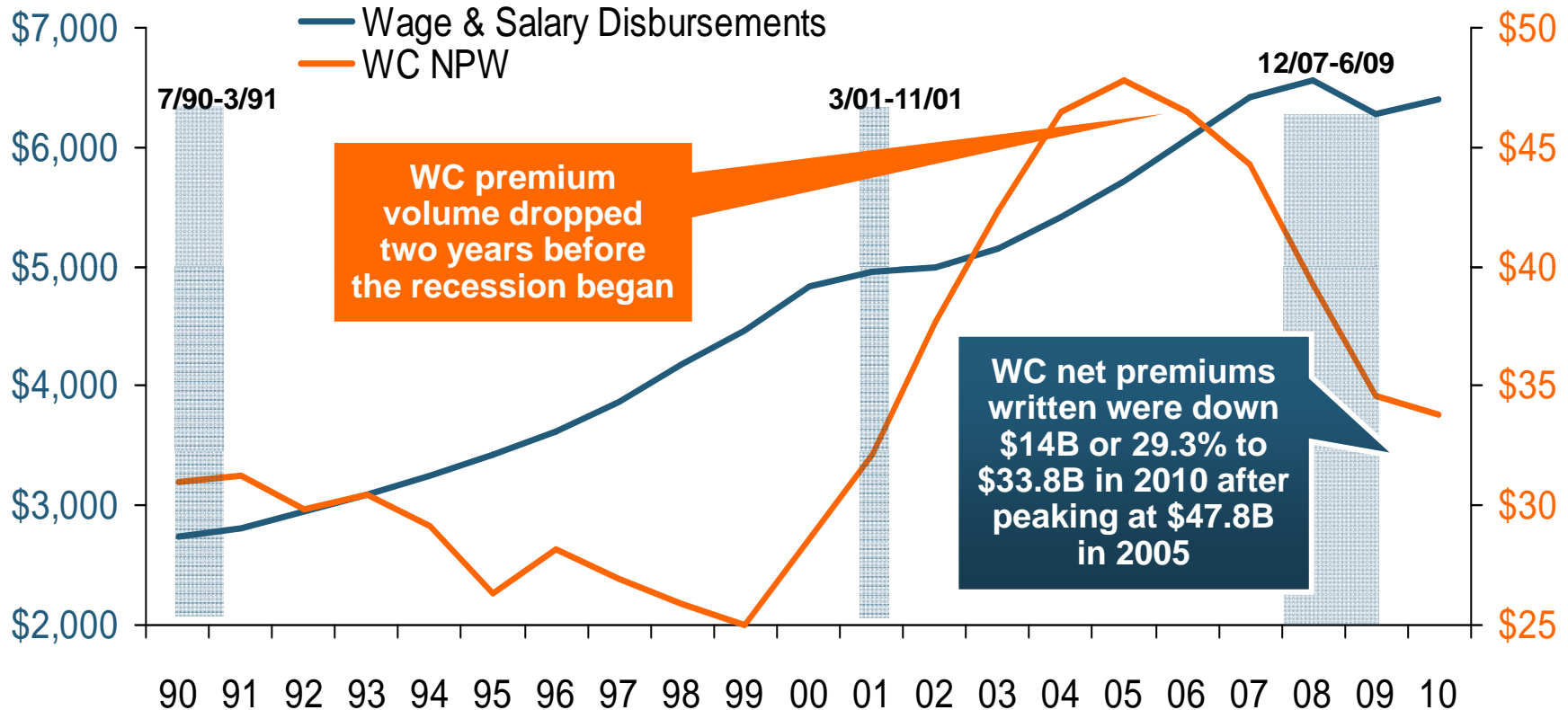


*Data represent maximum recorded decline over 12-month period using annualized quarterly wage and salary accrual data
 Source: Insurance Information Institute research; Federal Reserve Bank of St. Louis (wage and salary data); National Bureau of Economic Research (recession dates).

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

Payroll Base*
\$Billions

WC NWP
\$Billions



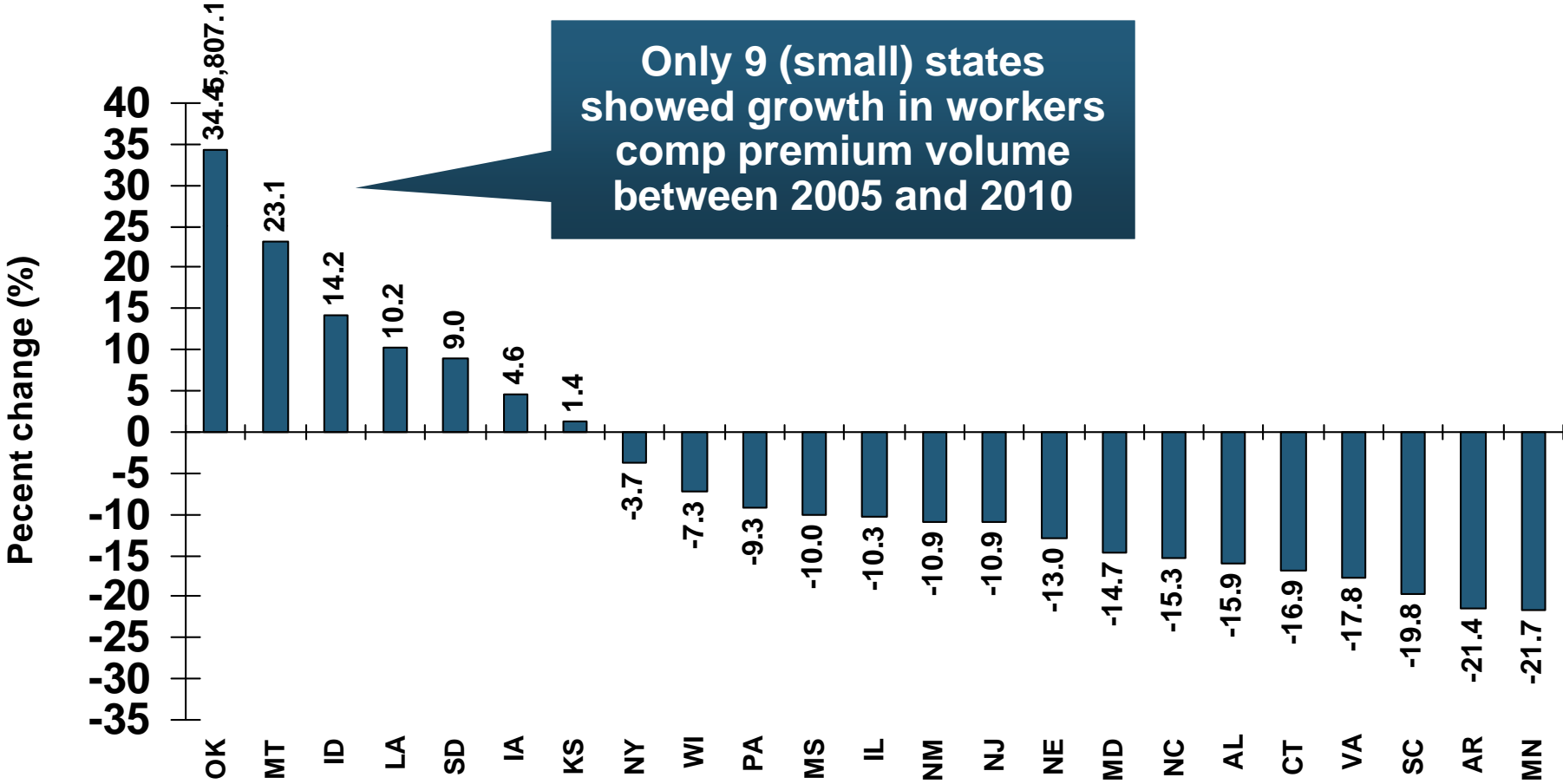
29% of NPW has been eroded away by the soft market and weak economy

*Private employment; Shaded areas indicate recessions.

Sources: NBER (recessions); Federal Reserve Bank of St. Louis at <http://research.stlouisfed.org/fred2/series/WASCUR> ; NCCI; I.I.I.

Direct Premiums Written: Worker's Comp Percent Change by State, 2005-2010*

Top 25 States

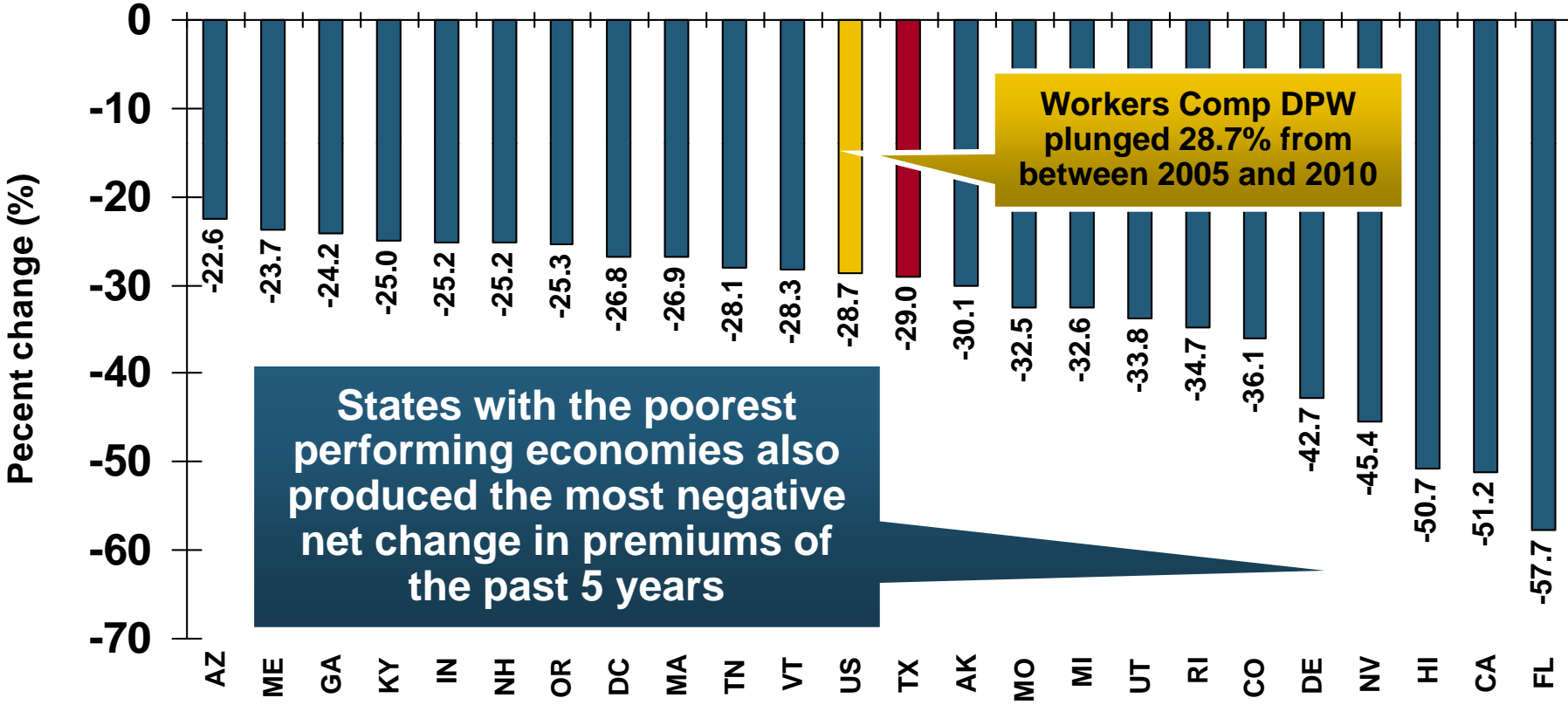


*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: Worker's Comp Percent Change by State, 2005-2010*

Bottom 25 States



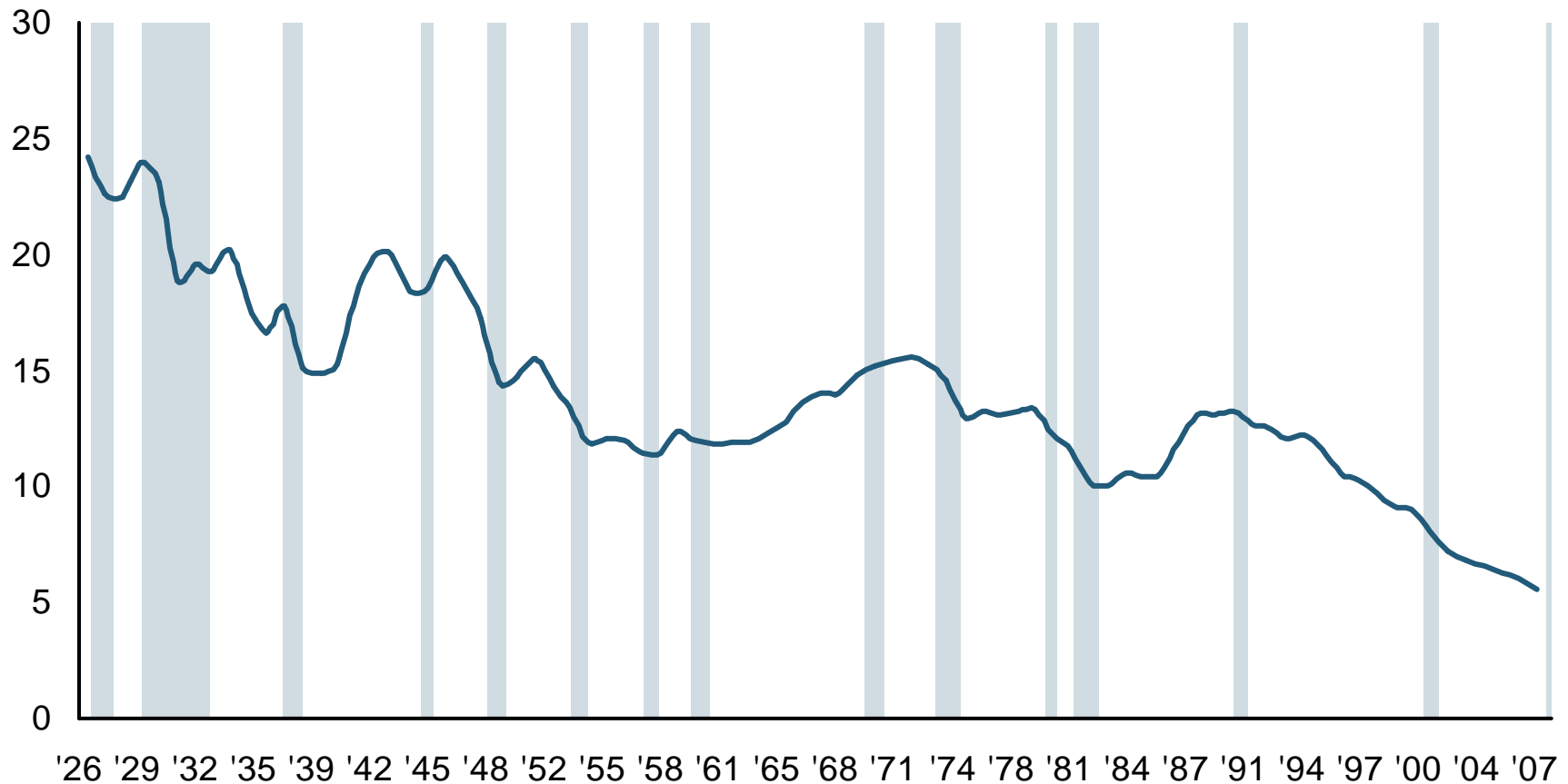
*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

Sources: SNL Financial LC.; Insurance Information Institute.

Frequency: 1926–2008

A Long-Term Drift Downward

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

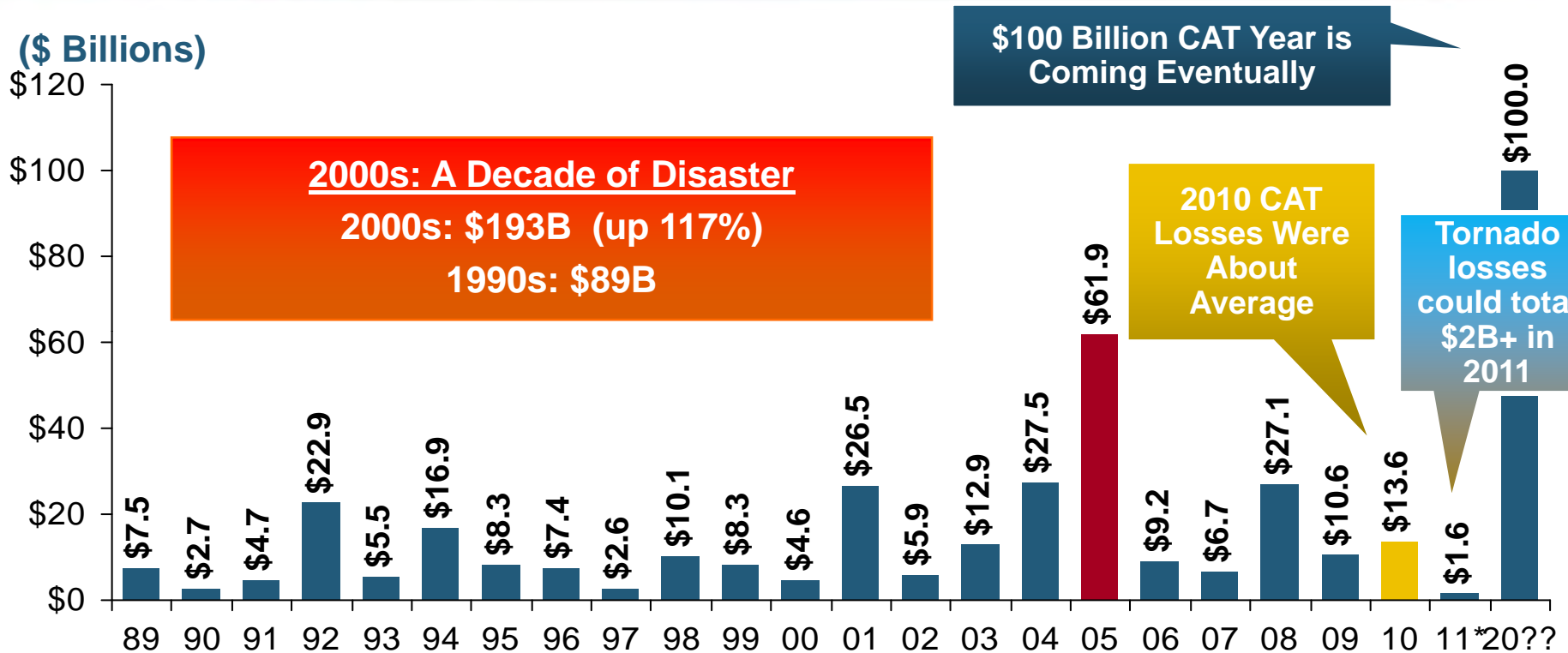


Note: Recessions indicated by gray bars.

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

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

US Insured Catastrophe Losses



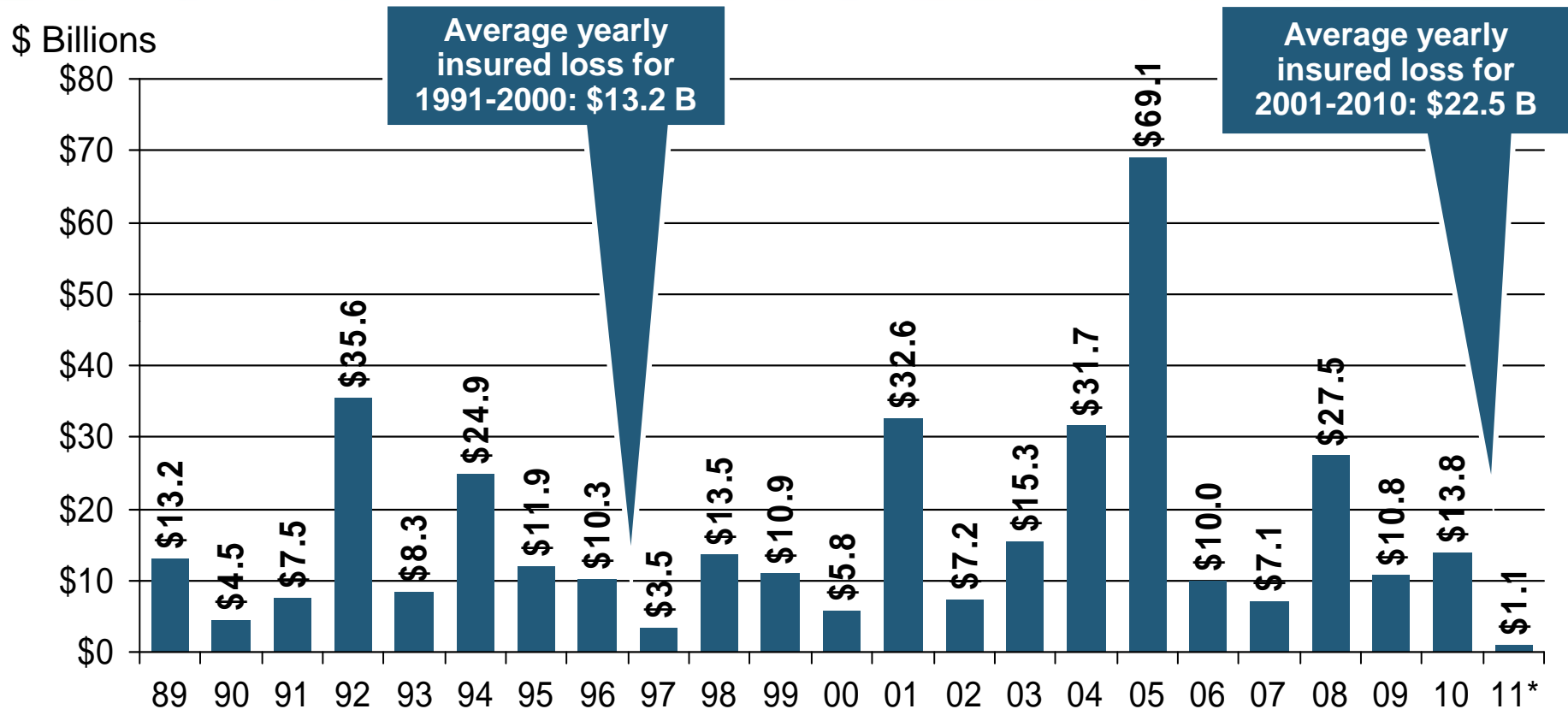
2010 CAT Losses Were Close to "Average"
Figures Do Not Include an Estimate of Deepwater Horizon Loss

*First quarter 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; Munich Re; Insurance Information Institute.

U.S. Insured Catastrophe Losses**



2010 CAT losses were below the 2001-2010 average of \$22.5 billion, but the \$13.8 billion figure doesn't include an estimate of losses associated with the Deepwater Horizon explosion and oil spill

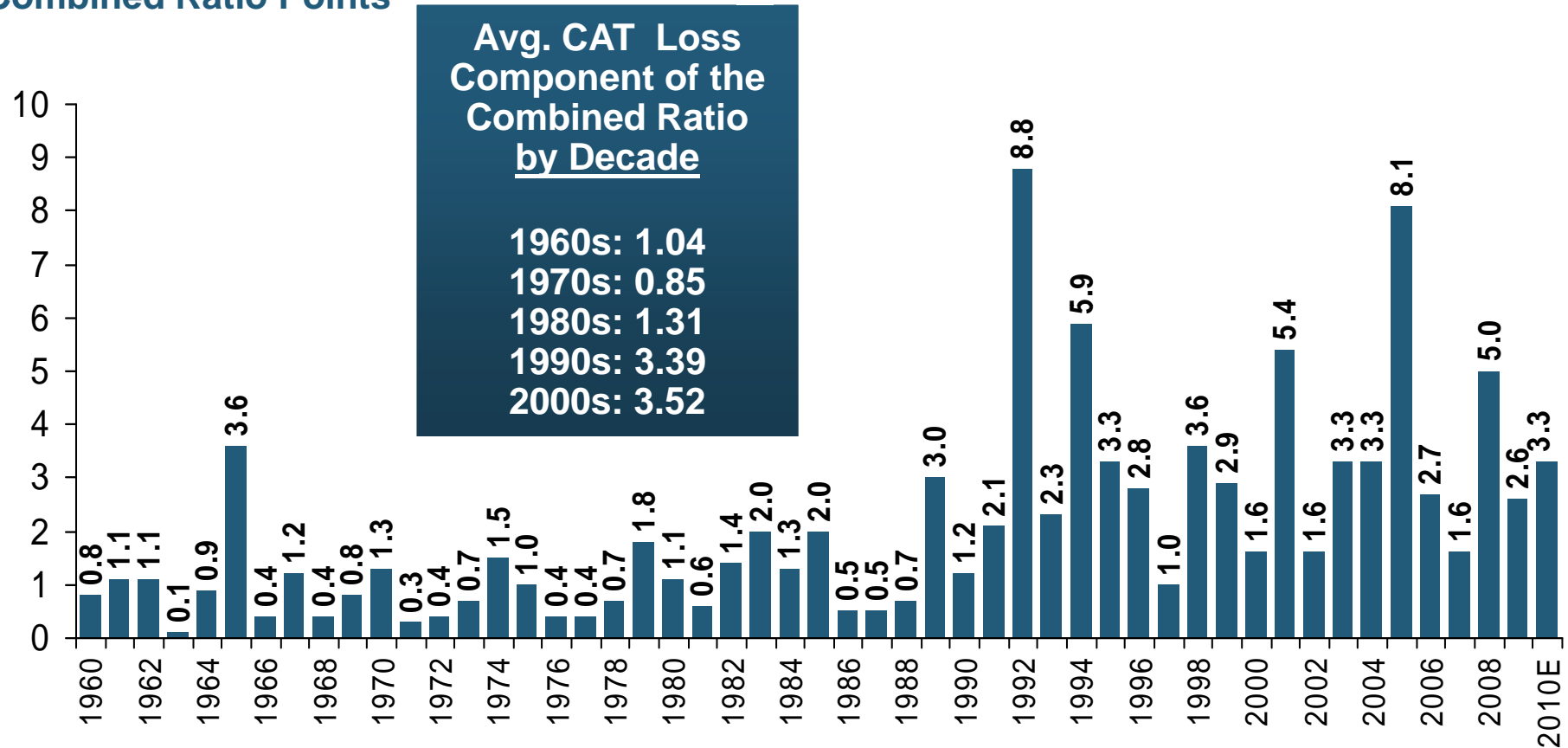
*First quarter 2011. **converted to 2010 dollars

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

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

Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2010E

Combined Ratio Points



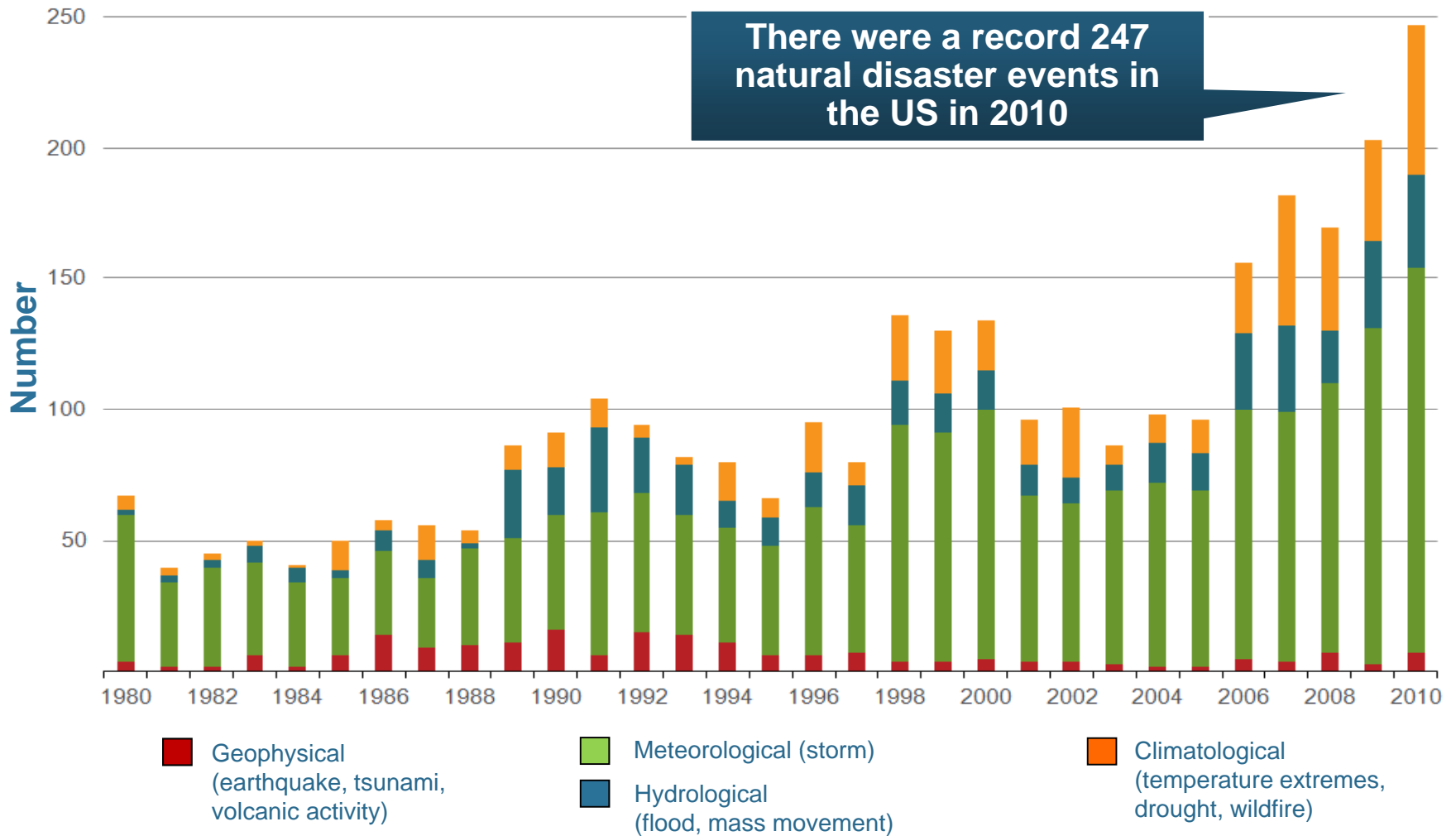
The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades

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

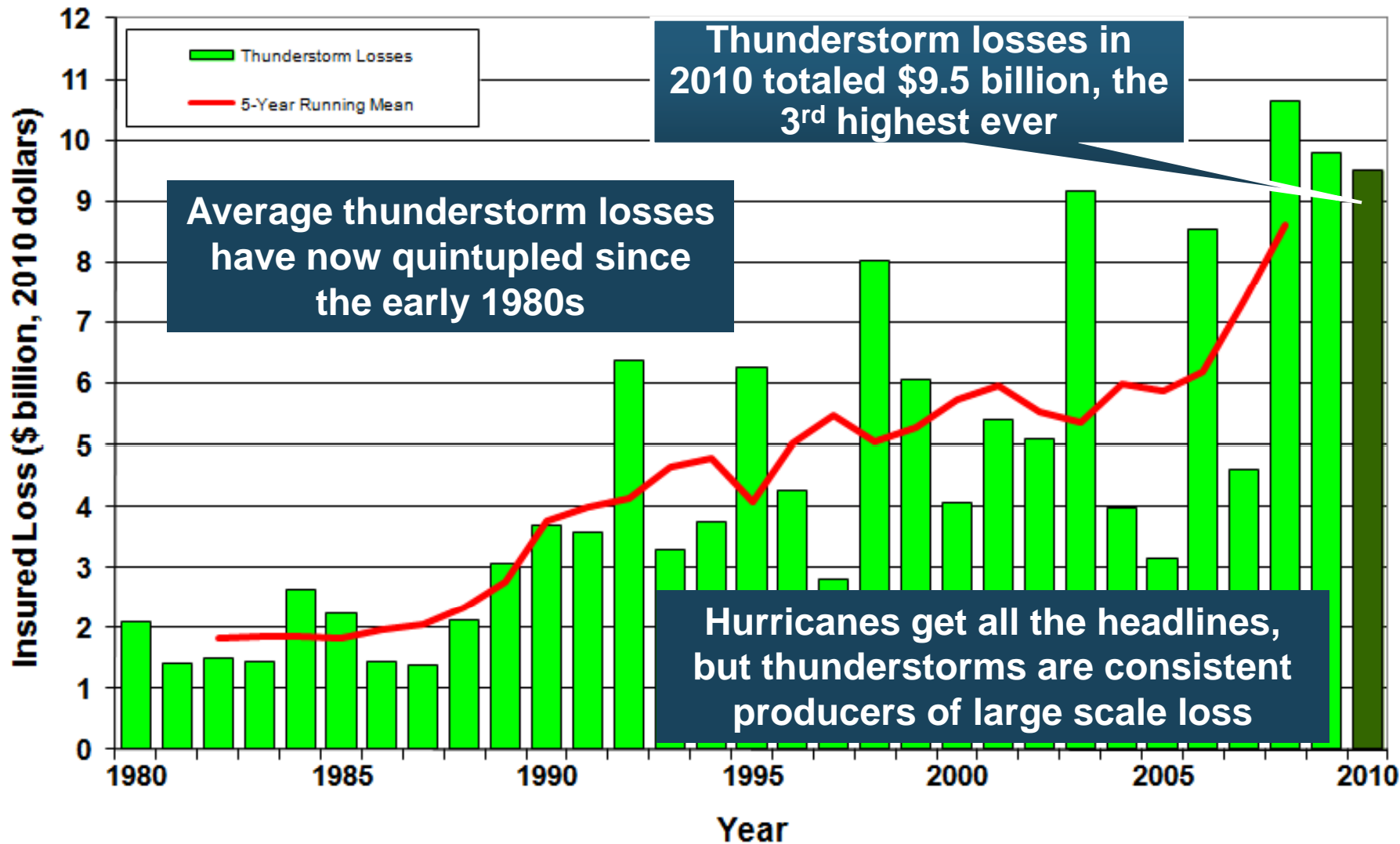
Source: ISO; Insurance Information Institute estimate for 2010.

Natural Disasters in the United States, 1980 – 2010

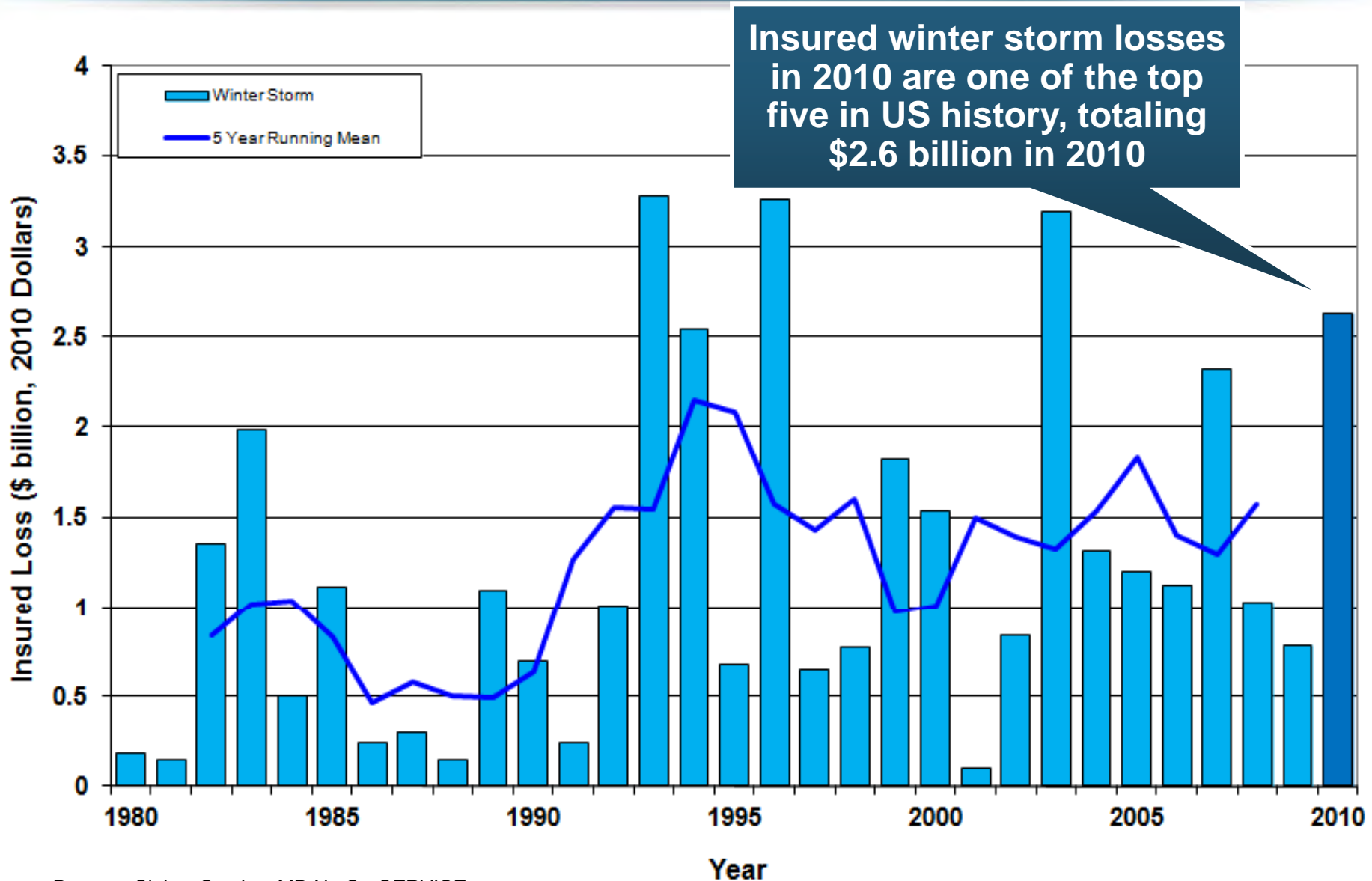
Number of Events (Annual Totals 1980 – 2010)



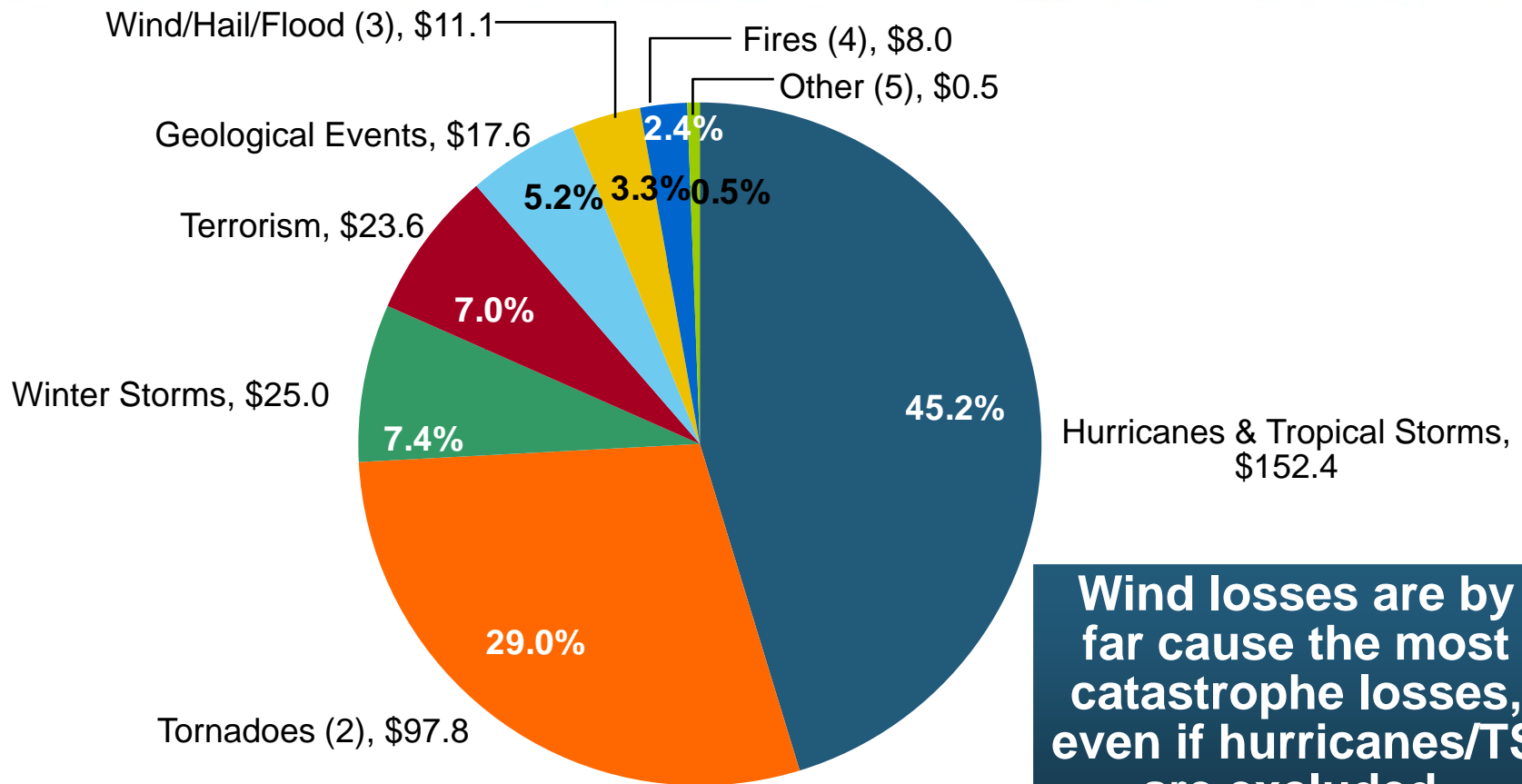
U.S. Thunderstorm Loss Trends, 1980 – 2010 (Annual Totals)



U.S. Winter Storm Loss Trends, 1980 – 2010 (Annual Totals)



Inflation Adjusted US Catastrophe Losses by Cause of Loss, 1990–2009¹



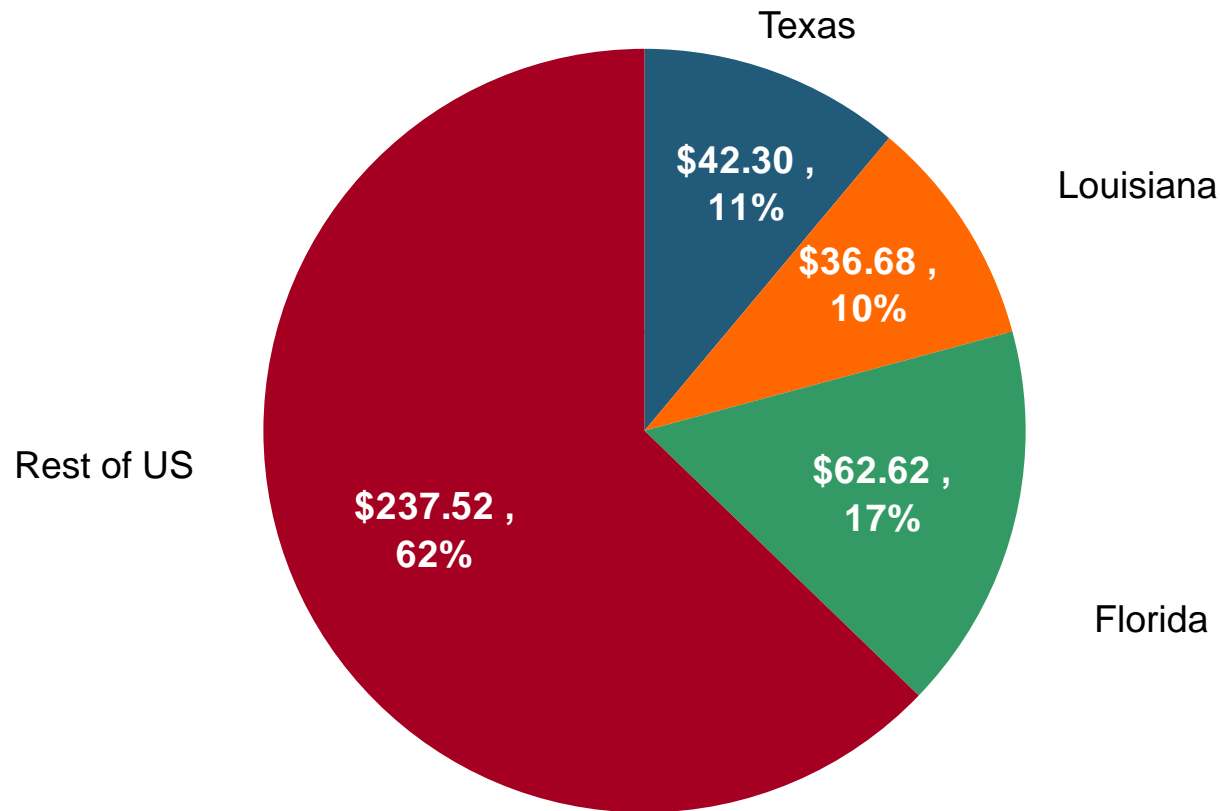
Wind losses are by far cause the most catastrophe losses, even if hurricanes/TS are excluded.

1. Catastrophes are defined as events causing direct insured losses to property of \$25 million or more in 2009 dollars.
2. Excludes snow.
3. Does not include NFIP flood losses
4. Includes wildland fires
5. Includes civil disorders, water damage, utility disruptions and non-property losses such as those covered by workers compensation.

Source: ISO's Property Claim Services Unit.

Distribution of US Insured CAT Losses: TX, FL, LA vs. US, 1980-2010*

(\$ Billions)



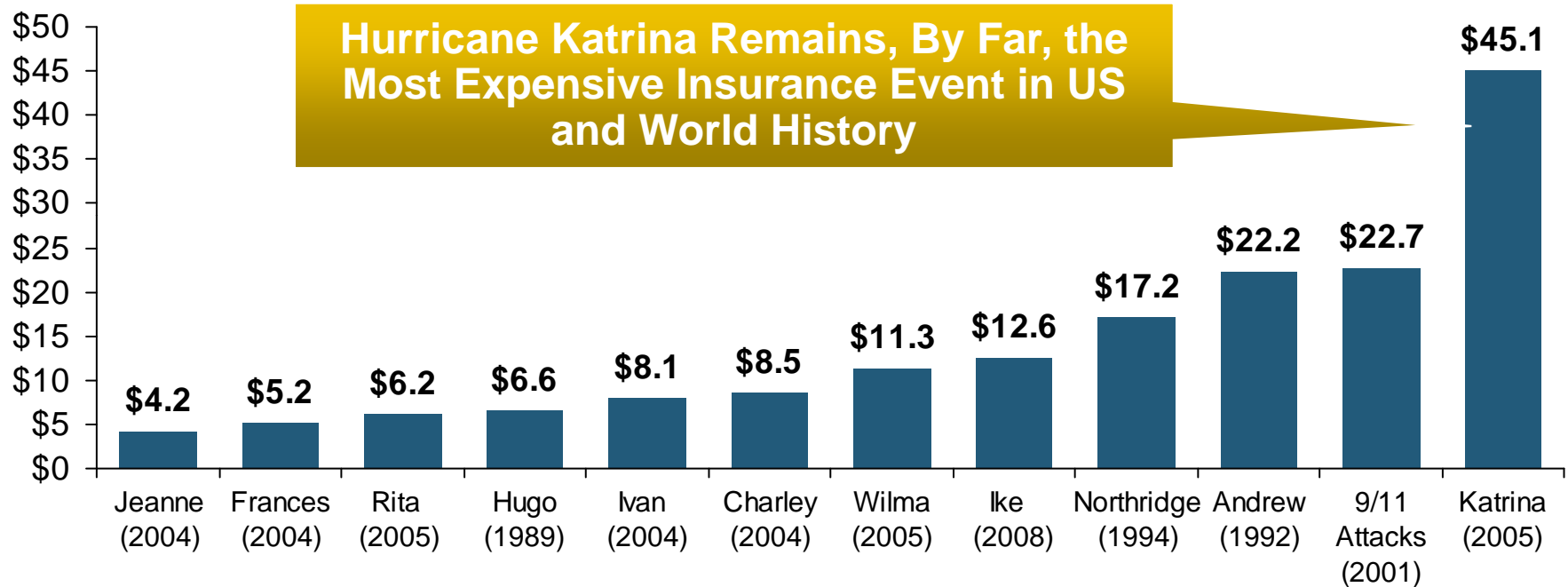
**Louisiana Accounted for 10% of All US Insured CAT Losses
from 1980-2010: \$36.7B out of \$237.5B**

* Adjusted to 2010 dollars.

Source: PCS division of ISO; Insurance Information Institute.

Top 12 Most Costly Disasters in US History

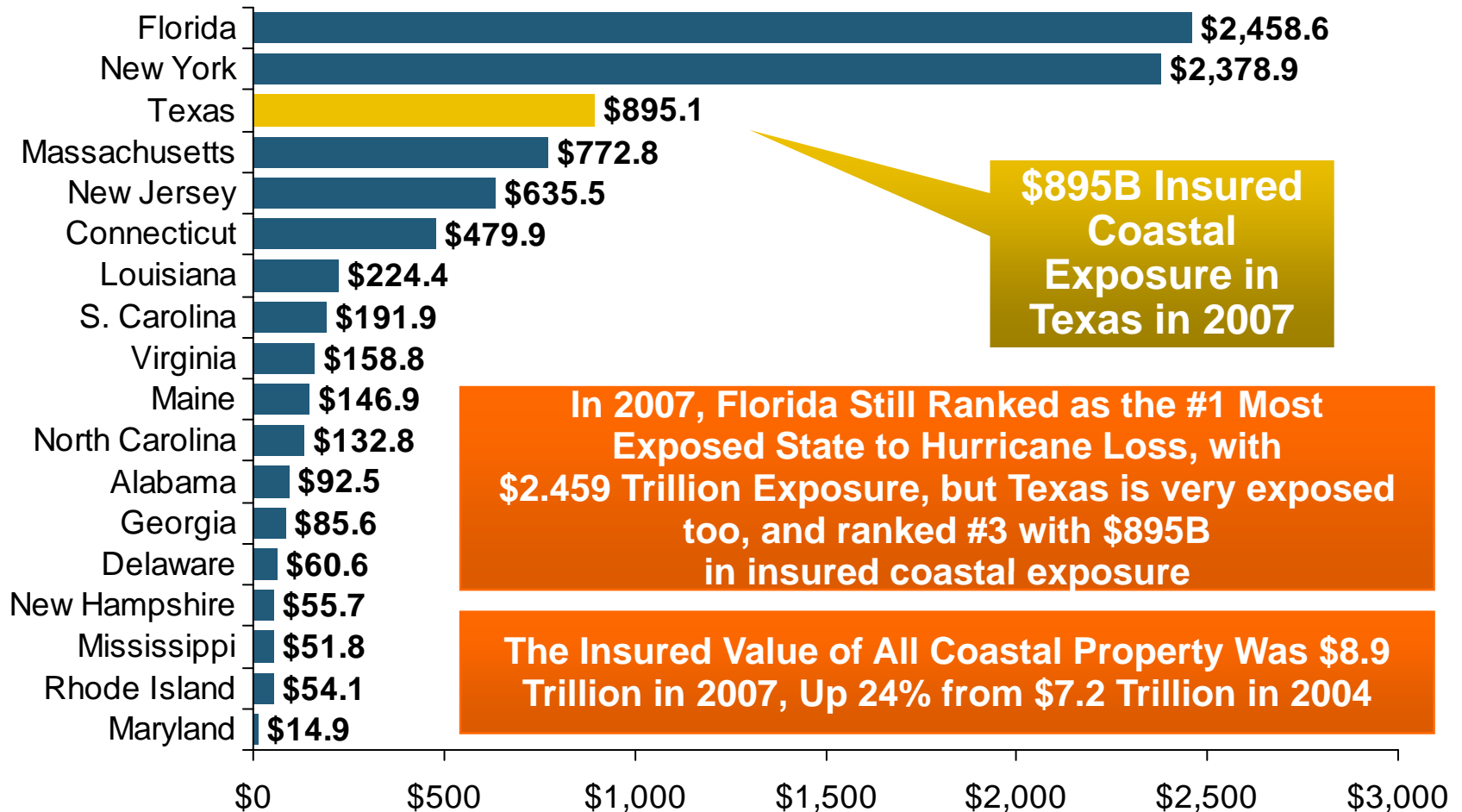
(Insured Losses, 2009, \$ Billions)



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

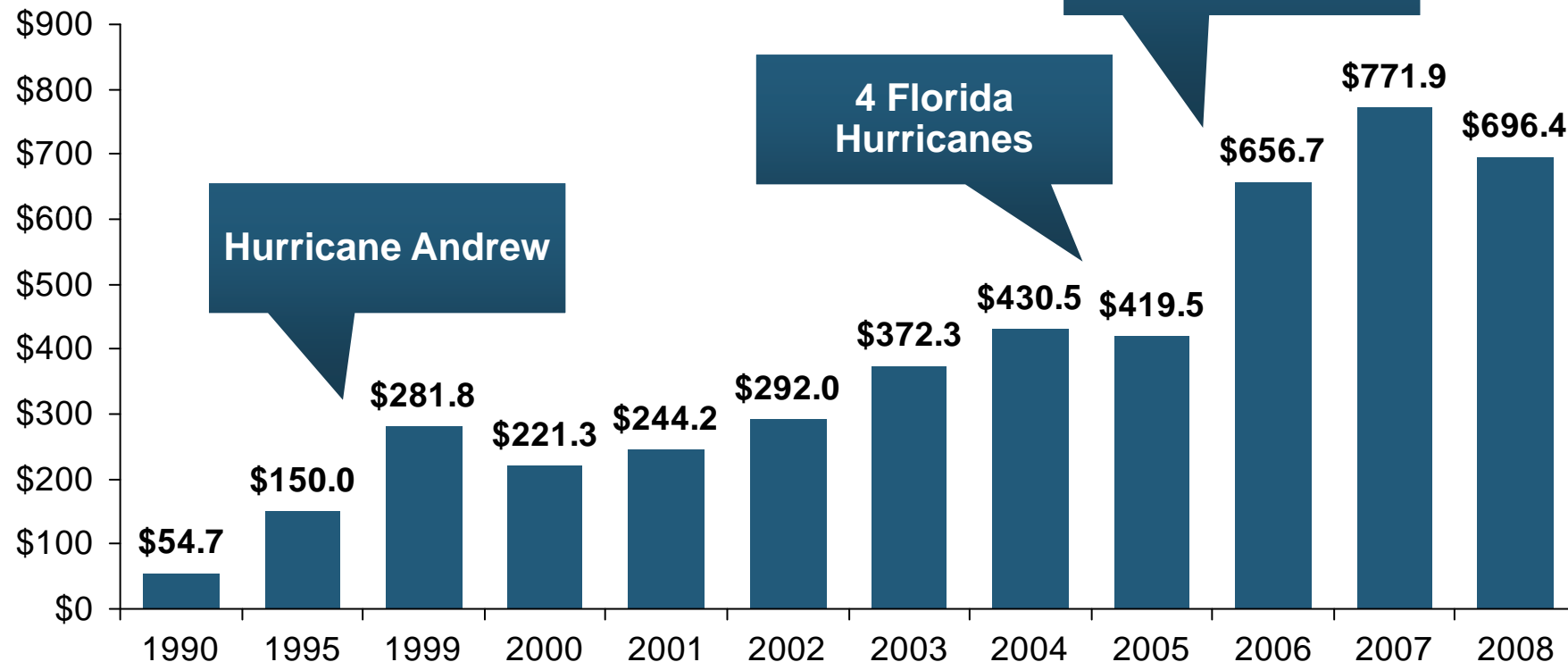
Total Value of Insured Coastal Exposure

(2007, \$ Billions)



US Residual Market Exposure to Loss

(\$ Billions)



In the 19-year Period Between 1990 and 2008, Total Exposure to Loss in the Residual Market (FAIR & Beach/Windstorm) Plans Has Surged from \$54.7B in 1990 to \$696.4B in 2008



Outlook for the 2011 Atlantic Hurricane Season

**Above Average Activity,
More Landfalls Expected**

Outlook for 2011 Hurricane Season: 75% More Active Than Average

	Average*	2005 (Katrina Year)	2011F
Named Storms	9.6	28	16
Named Storm Days	49.1	115.5	80
Hurricanes	5.9	14	9
Hurricane Days	24.5	47.5	35
Intense Hurricanes	2.3	7	5
Intense Hurricane Days	5.0	7	10
Accumulated Cyclone Energy	96.1	NA	160
Net Tropical Cyclone Activity	100%	275%	175%

*Average over the period 1950-2000.

Source: Dr. Philip Klotzbach and Dr. William Gray, Colorado State University, April 6, 2011.

Probability of Major Hurricane Landfall (CAT 3, 4, 5) in 2011

	Average*	2011F
Entire US Coast	52%	72%
US East Coast Including Florida Peninsula	31%	48%
Gulf Coast from FL Panhandle to Brownsville, TX	30%	47%
<i>ALSO...Above-Average Major Hurricane Landfall Risk in Caribbean for 2011 (61% vs. 42%)</i>		

*Average over the period 1950-2000.

Source: Dr. Philip Klotzbach and Dr. William Gray, Colorado State University, April 6, 2011.

Insurance Information Institute Online:

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*Thank you for your time
and your attention!*

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