Insurance Information Institute

Presentation to the IPRC

Challenges & Opportunities for Insurers During and Economic Catastrophe

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PRESENTATION OVERVIEW

- I.I.I. & the Economic Downturn
- I.I.I. Insurance Pulse
- Communications Challenges & Opportunities
- Resources
- Questions for Discussion

I.I.I. & the Economic Downturn

- **For the last nine months, the economy has been the primary issue for the I.I.I.**
- **The Executive Communications Committee has identified it as the dominant issue for the remainder of the year.**
- **It has permeated every aspect of the I.I.I.'s communications program and the majority of the presentations that Dr. Hartwig has created on behalf of the industry. It is also the primary media issue.**

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- Who's Boring Now? Insurers Set the Financial Services Pace: Trends & Challenges Amid the Economic Storm (April 28, 2009)
- The Financial Crisis & Its Impacts on the Insurance Industry: Challenges Amid the Economic and Regulatory Storm (April 23, 2009)
- Financing Catastrophe Losses Amid a Financial Catastrophe: A Growing Challenge (April 16, 2009)
- Financing Catastrophe Losses Amid a Financial Catastrophe: A Growing Challenge (April 10, 2009) - This PowerPoint report, presented by Robert Hartwig, president of the Insurance Information Institute, before the National Hurricane Center Conference in Austin, Texas, focuses on the major changes facing catastrophe financing in the midst of the financial crisis and the insurance impacts of the weakening global economy.
- The Global Financial Crisis and Its Impacts on Energy Insurance Markets: Trends & Challenges (April 2, 2009) - This PowerPoint report, presented by Robert Hartwig, president of the Insurance Information Institute, discusses what the weakening economy and the financial crisis mean for the P/C insurance industry and energy concerns.

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I.I.I. MEDIA INDEX -- FIRST QUARTER 2009

PROPERTY/CASUALTY

The following table compares the number of newspaper, magazine, and newswire stories that focused on selected insurance industry issues, in corresponding periods in 2008 and 2009.* (Media Index By Topic By Month)

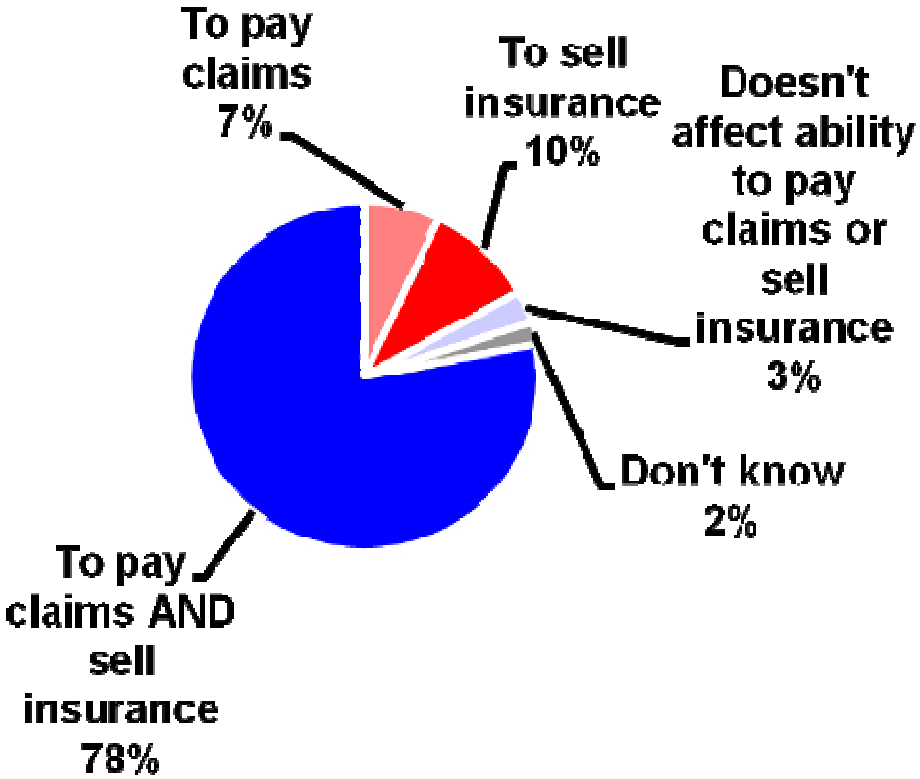
	Top Issues First Quarter 2008 vs. First Quarter 2009	2008	2009	% increase/decrease
1	Solvency	2,141	5,983	179%
2	Market Conditions	3,113	3,550	14%
3	Bond Insurance	6,411	2,424	-62%
4	Asbestos	1,986	1,763	-11%
5	Workers Comp	2,141	1,562	-27%
6	Auto	1,467	1,458	-1%
7	Hurricanes	1,582	1,398	-12%
8	Investigations	490	1,384	182%
9	Homeowners	1,126	1,002	-11%
10	Terrorism	866	755	-13%
11	Global Warming/Climate Change	675	634	-6%
12	Medical Malpractice	704	582	-17%
13	Tort	296	303	2%
14	Credit Scoring	254	242	-5%
15	Tornadoes	741	208	-72%
16	Mold	79	166	110%
17	Wildfires	217	149	-31%
18	Silica	23	21	-9%
19	CLUE	5	2	-60%
	TOTAL	**24,317**	**23,586**	**-3%**

* Based on a search of Lexis/Nexis

CONSUMER POLL:
2008 I.I.I. PULSE SURVEY

Q. DO YOU THINK THAT THESE PROBLEMS (THE MORTGAGE PROBLEMS SOME AMERICANS FACE, THE DROP IN THE STOCK MARKET AND JOB LAYOFFS) AFFECT THE ABILITY OF INSURANCE COMPANIES TO PAY THEIR CLAIMS, TO SELL MORE INSURANCE, BOTH, NONE OF THESE (DOESN'T AFFECT ABILITY TO PAY CLAIMS OR SELL INSURANCE) OR DON'T KNOW?

95% Americans think that the downturn in the economy affects the basic business of the insurance industry: the ability to pay claims and/or sell insurance



Source: Insurance Information Institute, 2008 *Pulse* Survey, November 2008.

I.I.I. Insurance Pulse

- More than 50 percent of Americans believe that banks are the industry most affected by the financial crisis.
- About 60 percent of people believe that the price of insurance will go up because of the financial crisis.
- Nearly 80 percent of people surveyed believe the insurance industry should be more tightly regulated, compared with 85 percent for banks, 81 percent for securities firms and 74 percent for mutual fund firms.
- About one-half of purchasers of fixed annuities believe their annuity is as safe as when they first purchased it.
- One-third of Americans said that they have tried to save money on auto or home insurance because of the financial crisis.

Communications Challenges & Opportunities

Challenges

- Speaking for the entire industry
- Differentiating between the property/casualty insurance business and banks
- Differentiating between life insurance, annuities and the property/casualty insurance businesses.
- Communicating that the industry has the financial strength to pay claims this hurricane season
- Legislative Education

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http://www.iii.org/media/research/publicpolicymakershandbook/

III - Insurance Handbook For Policymakers

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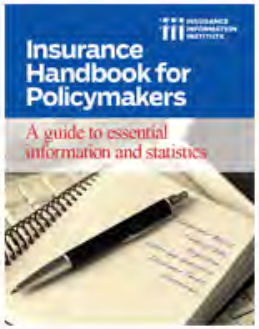

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- Insurance Industry At A Glance

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  2. Optional Federal Charter
  3. Solvency and Guaranty Funds
  4. McCarran Ferguson Act
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- Credit Scoring
- Reinsurance
- Captives and Alternative Markets
- Insurance Fraud
- Buying Insurance: Evolving Distribution Channels

Economic and Financial Data

- World Insurance Marketplace
- Contribution to the Economy
- U.S. Insurance Industry All Sectors
- Property/Casualty Financial Data
- Life/Health Financial Data

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Communications Challenges & Opportunities

Opportunities

- Use the economy an effective news hook in consumer-related releases.
- It has provided the opportunity to educate consumers about important but “evergreen” topics such as saving money on insurance, annuity suitability, uninsured motorist coverage (IRC study), insurance fraud and others.
- Provided a sense of urgency to prepare for disasters because in – most cases – it costs little to prepare for a disaster but could save much need money when a disaster strikes.
- Provided an opportunity to educate the media and other key stakeholders about the financial guaranty system in the U.S.

I.I.I. Resources

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http://www.iii.org/media/updates/press.810734/

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Trying to Save Money on Insurance? Proceed With Caution, Warns the I.I.I.

Six Mistakes to Avoid in a Struggling Economy

INSURANCE INFORMATION INSTITUTE
Contact: Press Offices
New York: 212-346-5500; media@iii.org
Washington, D.C.: 202-833-1580

NEW YORK, March 11, 2009 – With increasing job instability and the value of paychecks a investments going down, you may be tempted to cut corners on your insurance While there many smart ways to save money on insurance, the Insurance Information Institute (I.I.I.) alert consumers that there are also mistakes that could result in being dangerously underinsured

"Asking about available discounts and comparison shopping are excellent ways to cut insura costs," said Jeanne M. Salvatore, senior vice president and consumer spokesperson for the "Consumers should not try to save money by reducing or dropping necessary coverage. Th could result in a financial disaster if there is a fire, hurricane, severe winter weather or other catastrophe."

Following are the six biggest insurance mistakes you should avoid:

1. **Insuring a Home for its Real Estate Value Rather than the Cost of Rebuilding**

   With the value of real estate going down, some home buyers may think that they can reduce the amount of insurance on their home. Insurance, however, is designed to cc the cost of rebuilding a home. It is not linked to the sale price of the home. Homeowne should be careful to purchase enough insurance coverage to completely rebuild their home and replace their belongings.

   A Better Way to Save Money: Take a higher deductible. Consider a deductible of at le $500. If you can raise the deductible to as much as $1,000, you may save up to 25 percent on many home insurance policies. The average person only files a claim ever eight to 10 years so most homeowners will save money over time.

2. **Selecting an Insurance Company by Price Alone**

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FORECASTS & FINANCIALS

Each quarter the Insurance Information Institute's President and Economist, Dr. Robert P. Hartwig, shares his insights into the latest financial developments in the property/casualty insurance industry.

Each quarter's commentary contains detailed discussions on premiums, losses, profits, the view from Wall Street, the outlook for the future and much more. A detailed income statement for the industry is also included.

Dr. Robert P. Hartwig, CPC
President

- 2008 - Year End Results
- 2008 - First Nine Months Results
- 2008 - First Half Results
- 2008 - First Quarter Results
- SPECIAL REPORT: Earlybird Forecast 2008

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http://www.iii.org/media/hottopics/insurance/insolvencies/

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Insolvencies/Guaranty Funds

THE TOPIC

APRIL 2009

The regulation of insurance company solvency is a function of the state. State regulators monitor the financial health of companies licensed to provide insurance in their state through analysis of the detailed annual financial statements that insurers are required to file and per on-site examinations. When a company is found to be in poor financial condition, regulators take various actions to try to save it. Insolvencies do occur, however, despite the best effort regulators.

All states have procedures through which the property/casualty insurance industry covers cl against insolvent insurers. New York has a pre-assessment system, which requires insurers contribute to a permanent insolvency fund, while the other states have established insuranc guaranty associations (known as guaranty funds). Insurers are required to be members of guaranty associations as a condition of licensing. When there is an insolvency, they are assessed based on business they do in that state so that claims can be paid.

The National Association of Insurance Commissioners (NAIC) moved to strengthen solvency regulation in the 1980s. It developed an accreditation program that requires state insurance departments to meet certain prescribed standards. It also established minimum capital requirements for insurers, based on the riskiness of their business, and it continues to refine regulations.

RECENT DEVELOPMENTS

- **Solvency Modernization:** The NAIC has created a high level Solvency Modernizatio Initiative (SMI) Task Force that will report directly to the Executive Committee, suggest that work on improving solvency regulation will receive greater prominence. The NAIC began work on its SMI in September 2008, the aim of which is to determine whether current U.S. solvency requirements need to be modified in light of regulations in other countries and the changes now being contemplated in the European Union under Solvency II. The analysis will include the solvency work of the International Associatior Insurance Supervisors, of which NAIC is a member, as well as Solvency II.
- Key elements in the EU's Solvency II, a project to strengthen and standardize solvenc

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- Challenges to Underwriting Criteria and Predictive Modeling Systems (01/2008)
- Climate Change (01/2008)
- Credit-Based Insurance Scoring (04/10/2009)
- Financial Crisis and Insurance (11/2008)
- Florida-Related Issues (01/2008)
- Impact of Fraud on the Insurance Market (01/2008)
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- Natural Disasters and the Cost and Availability of Coverage (01/2008)
- Rapid Response to High Profile Critics (01/2008)
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Questions for Discussion

- How has your role as insurance company communicator changed?
- Has it been harder or easier than other disasters?
- Is this a big issue for internal communications?
- Are you spending more time supporting the IR function?
- Do you have any suggestions for I.I.I. communications?
- Any ideas for big outside the box communications?

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