



# Overview & Outlook for the P/C Insurance Industry: *Focus on the Mining Sector*

**Lockton Mining Summit**  
**St. Louis, MO**  
**March 6, 2013**

***Download at [www.iii.org/presentations](http://www.iii.org/presentations)***

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## ■ P/C Insurance Market Overview

- ◆ Where is the market today?
- ◆ Where is it headed?
- ◆ Market drivers

## ■ Overview of Mining Industry

- ◆ Demand (Economic) Drivers
- ◆ Supply (price) Drivers

## ■ Catastrophe Loss Update

- ◆ History & drivers of loss

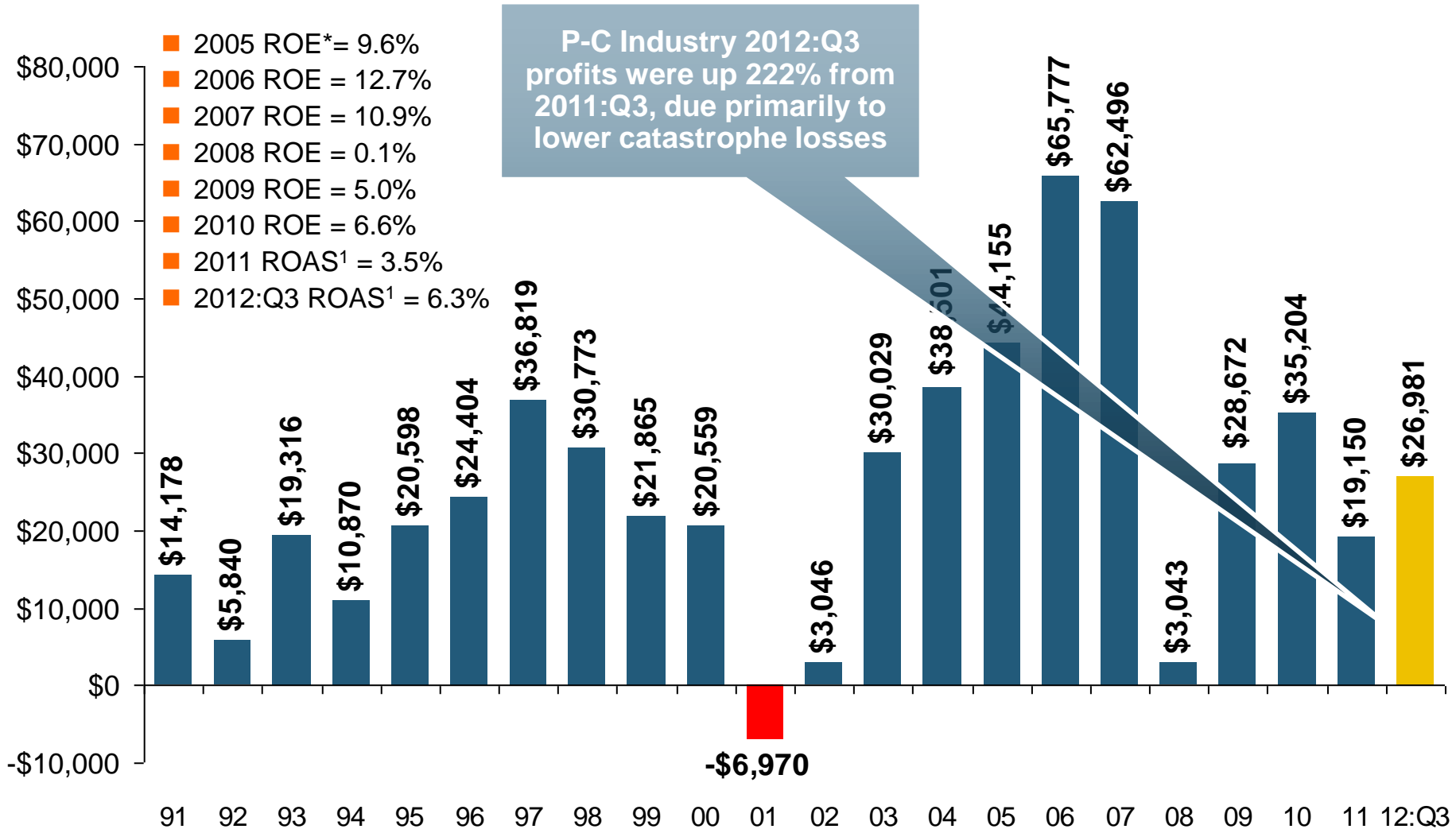
## ■ Tort System Update

## ■ Q&A

# **P/C Insurance Industry Financial Overview**

**The P/C Insurance Industry is  
Very Strong but Like Mining  
Can Be a Volatile & Cyclical  
Business**

# P/C Net Income After Taxes 1991–2012:Q3 (\$ Millions)



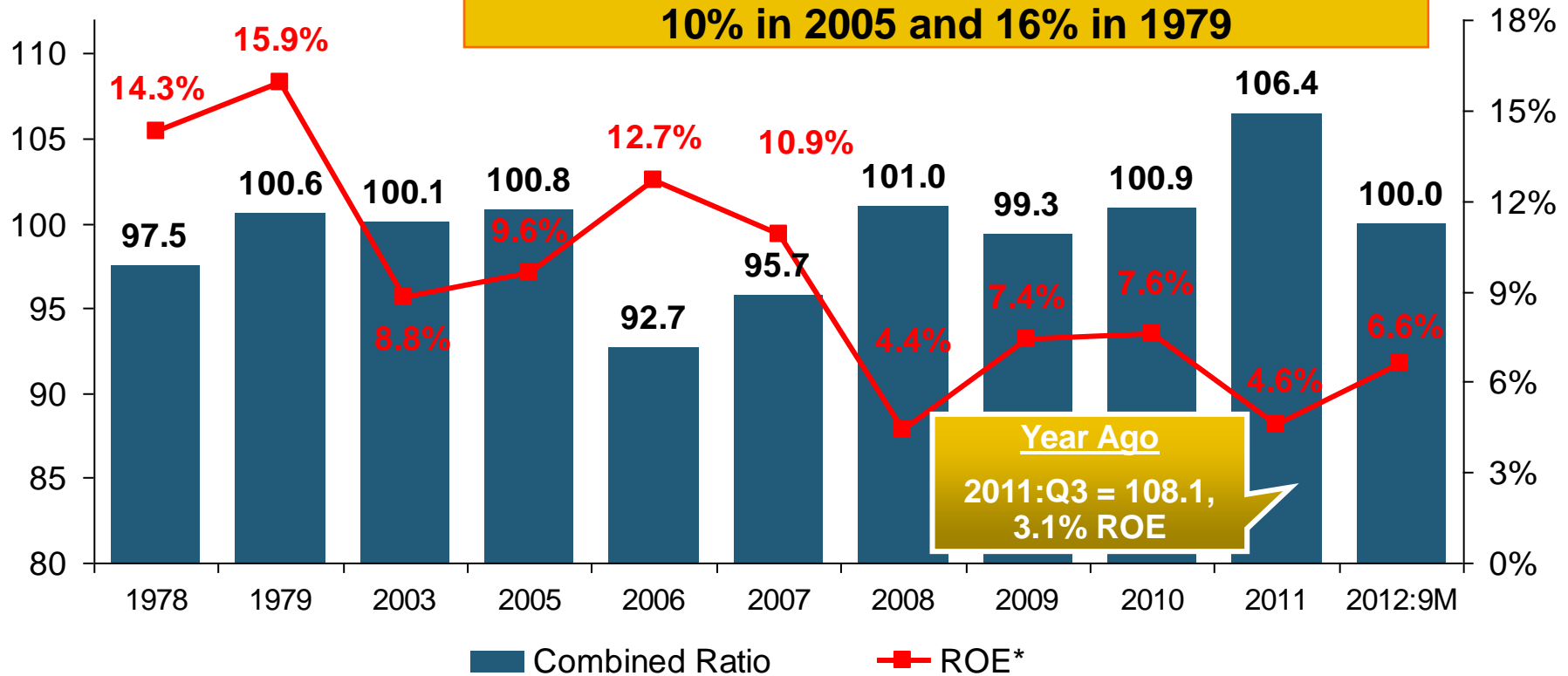
\* ROE figures are GAAP; <sup>1</sup>Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 6.6% ROAS through 2012:Q3, 4.6% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009.

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

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

## Combined Ratio / ROE

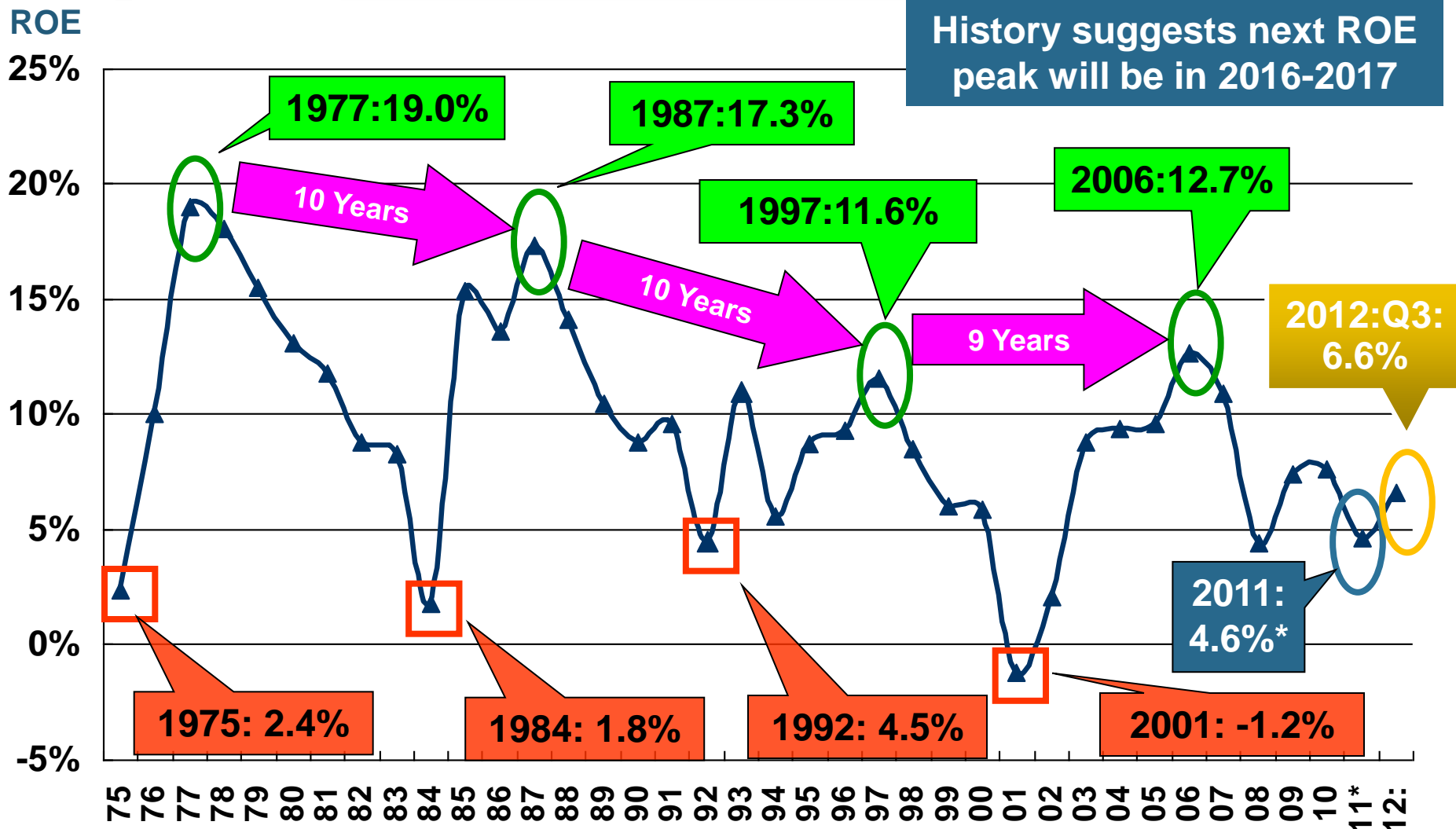
A combined ratio of about 100 generates an ROE of ~6.6% in 2012, ~7.5% ROE in 2009/10, 10% in 2005 and 16% in 1979



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

\* 2008 -2012 figures are return on average surplus and exclude mortgage and financial guaranty insurers. 2012:Q3 combined ratio including M&FG insurers is 100.9, ROAS = 6.3%; 2011 combined ratio including M&FG insurers is 108.2, ROAS = 3.5%. Source: Insurance Information Institute from A.M. Best and ISO data.

# Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2012:Q3\*

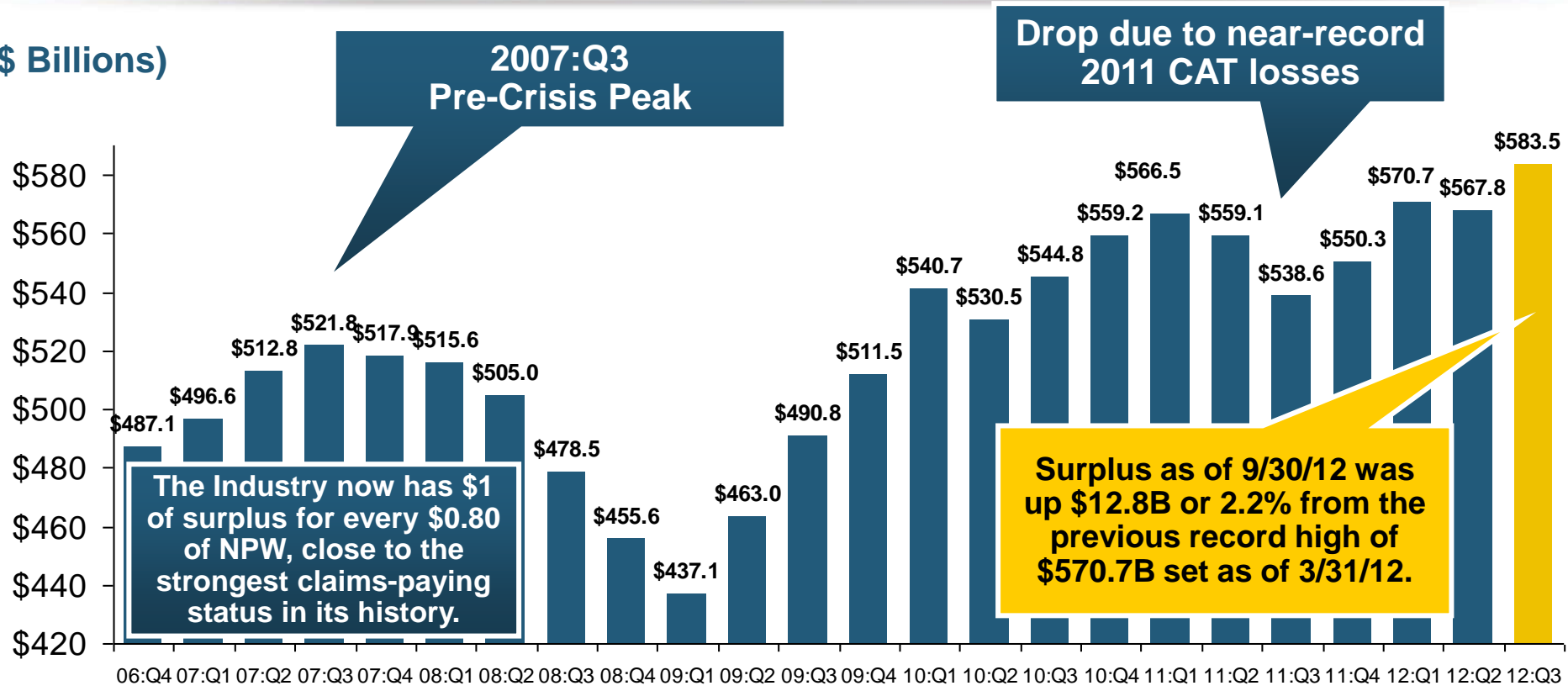


\*Profitability = P/C insurer ROEs. 2011 figure is an estimate based on ROAS data. Note: Data for 2008-2012 exclude mortgage and financial guaranty insurers. 2012:Q3 ROAS = 6.2% including M&FG.

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

# Policyholder Surplus, 2006:Q4–2012:Q3

(\$ Billions)



**2007:Q3  
Pre-Crisis Peak**

**Drop due to near-record  
2011 CAT losses**

**The Industry now has \$1 of surplus for every \$0.80 of NPW, close to the strongest claims-paying status in its history.**

**Surplus as of 9/30/12 was up \$12.8B or 2.2% from the previous record high of \$570.7B set as of 3/31/12.**

\*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.

**The P/C Insurance Industry Both Entered and Emerged from the 2012 Hurricane Season Very Strong Financially.**

# The BIG Question: Where Is the Market Heading?

**Catastrophes and Other Factors Are  
Pressuring Insurance Markets**

***New Factor: Record Low Interest  
Rates Are Contributing to  
Underwriting and Pricing Pressures***

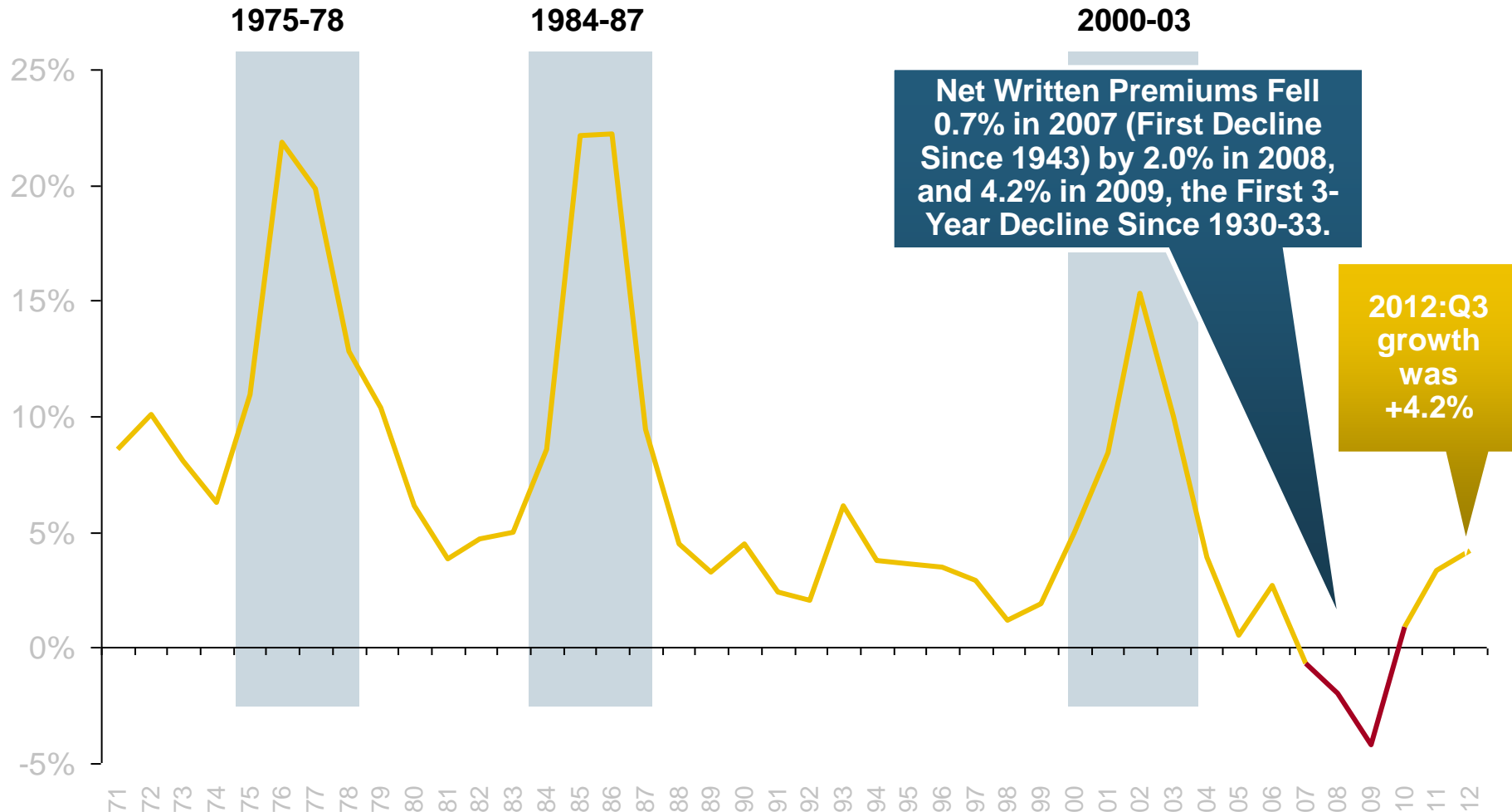


# Historical Criteria for a “Market Turn”: Low Interest Rates Add New Pressure

Criteria	Status	Comments
<b>Sustained Period of Large Underwriting Losses</b>	<i>Large CAT Losses in 2011/12 Pushed Up Combined</i>	<ul style="list-style-type: none"> <li>•CAT Losses contributing to higher underwriting losses</li> <li>•Apart from CAT losses, overall p/c underwriting losses remain modest</li> <li>•Combined ratios (ex-CATs) still in low 100s (vs. 110+ at onset of last hard market); CR= 101.1 in H1:2012 (ex-M&amp;FG)</li> <li>•Prior-year reserve releases continue to reduce u/w losses, boost ROEs, though more modestly</li> </ul>
<b>Material Decline in Surplus/ Capacity</b>	<i>Small Decline Due to 2011 Cats; Could drop in 2012</i>	<ul style="list-style-type: none"> <li>•Fell 1.6% in 2011 due to CATs</li> <li>•Surplus reached record as of 9/30/12 record \$583.5B</li> <li>•Likely drop as of 12/31/12 due to Sandy impact</li> <li>•Modest growth in demand for insurance should begin to absorb some capacity</li> </ul>
<b>Tight Reinsurance Market</b>	<i>Somewhat in Place</i>	<ul style="list-style-type: none"> <li>•Ample capacity</li> <li>•Market is generally flat except up for cat-impacted accounts</li> <li>•Lower prices in Europe</li> </ul>
<b>Renewed Underwriting &amp; Pricing Discipline</b>	<i>Firming Broad, Sustained, esp. in Property, WC</i>	<ul style="list-style-type: none"> <li>•Commercial lines pricing is consistently and uniformly across all major lines, esp. Property &amp; WC;</li> <li>•Markets remain competitive in most segments</li> </ul>

# Net Premium Growth: Annual Change, 1971—2012:Q3

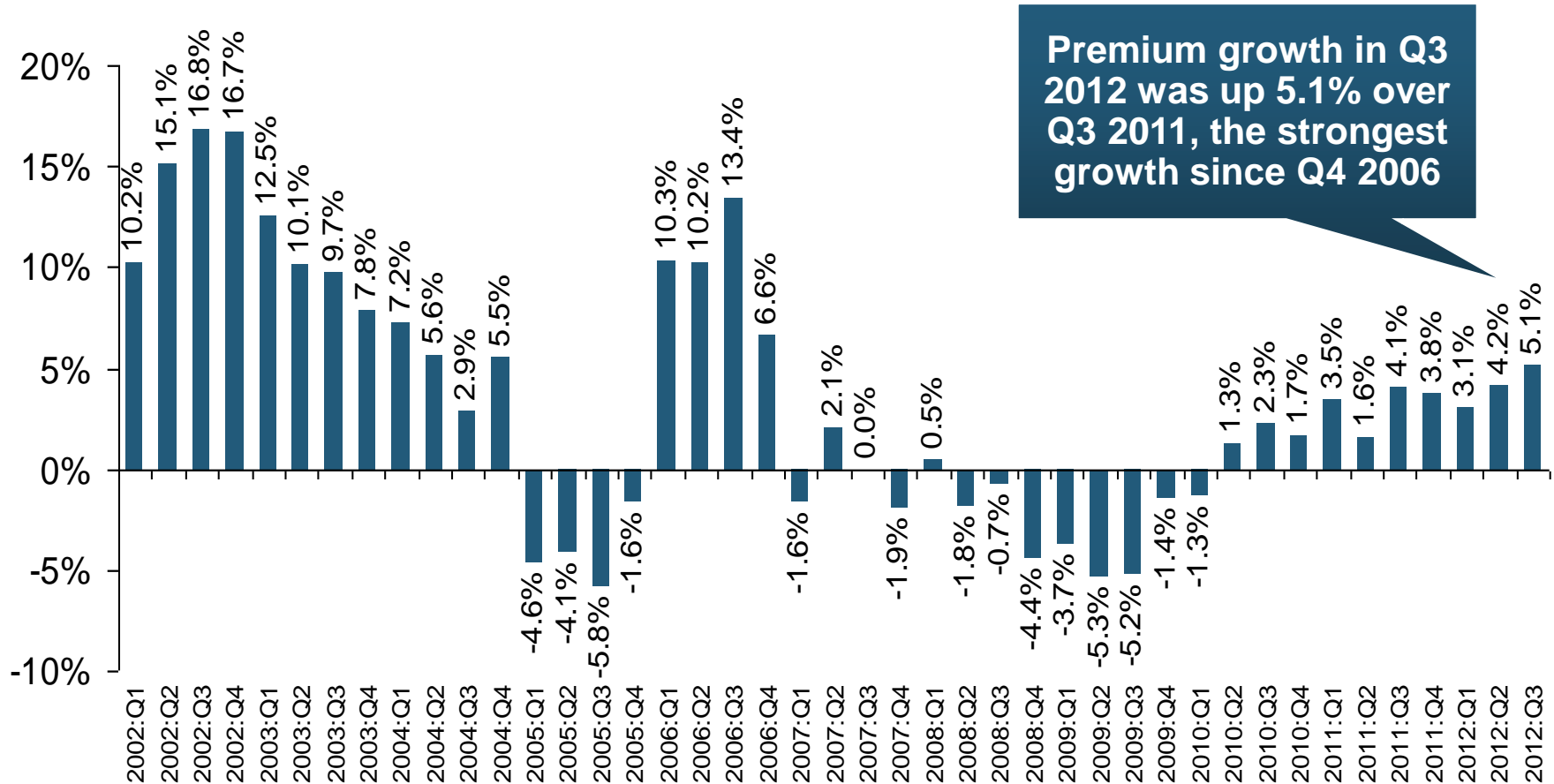
(Percent)



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

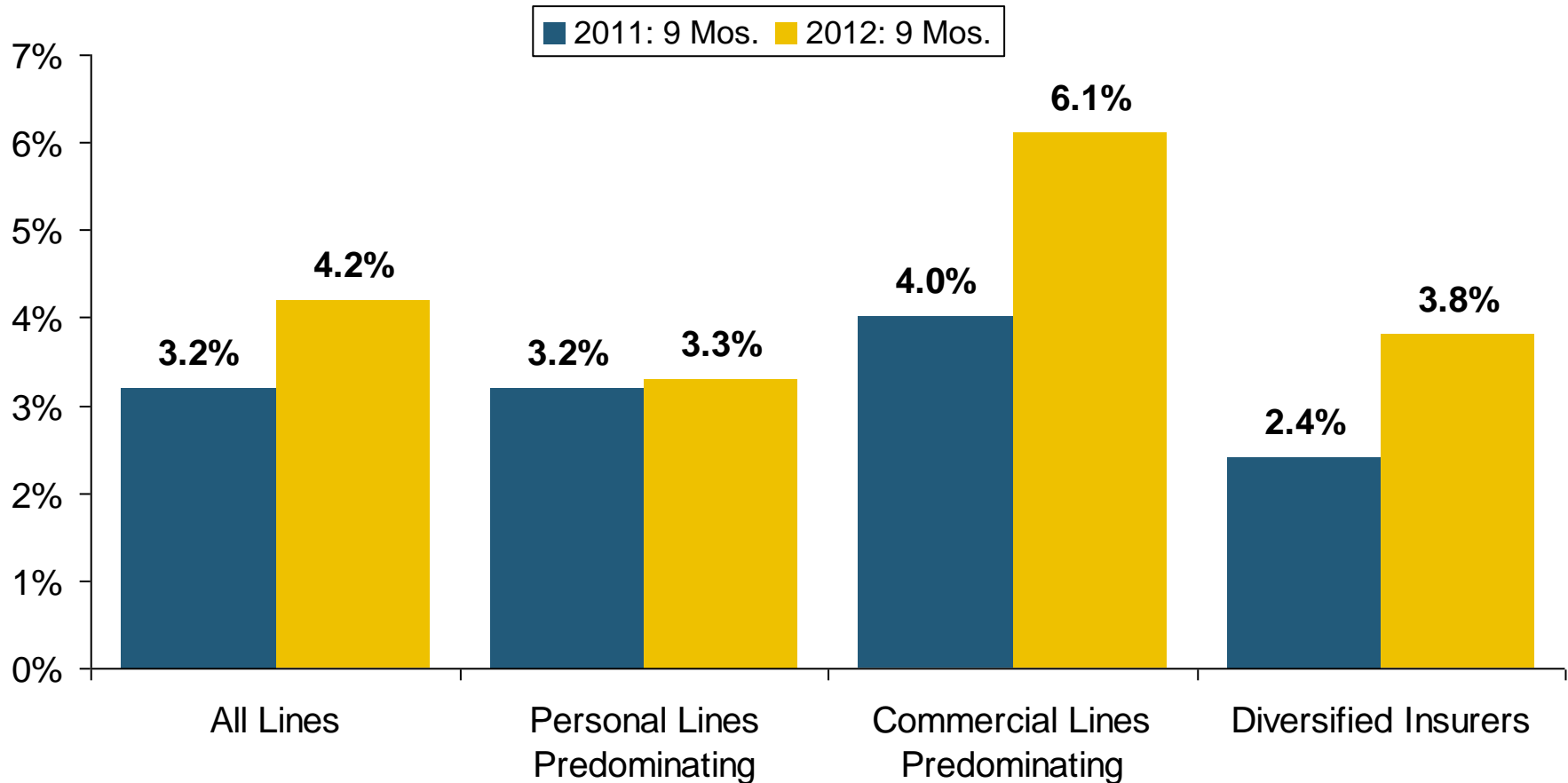


Premium growth in Q3 2012 was up 5.1% over Q3 2011, the strongest growth since Q4 2006

**Sustained Growth in Written Premiums (vs. the same quarter, prior year) Will Continue into 2013**

# Growth in Net Written Premium by Segment, 2012:9 Mos. vs. 2011:9 Mos.\*

(Percent)

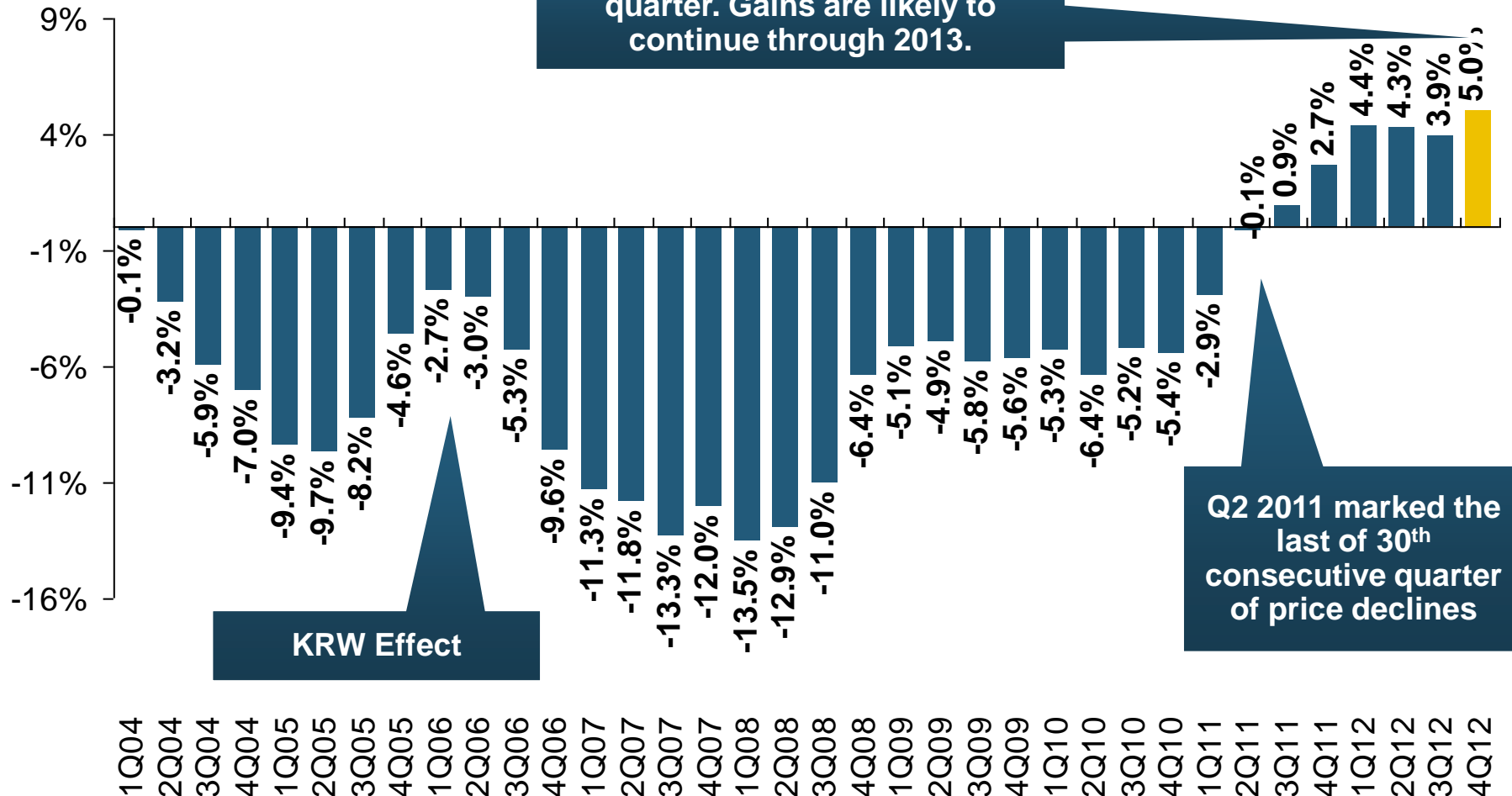


\*Excludes mortgage and financial guaranty insurers.

Source: ISO/PCI; Insurance Information Institute

# Average Commercial Rate Change, All Lines, (1Q:2004–4Q:2012)

(Percent)



Pricing as of Q4:2012 was positive for the 6<sup>th</sup> consecutive quarter. Gains are likely to continue through 2013.

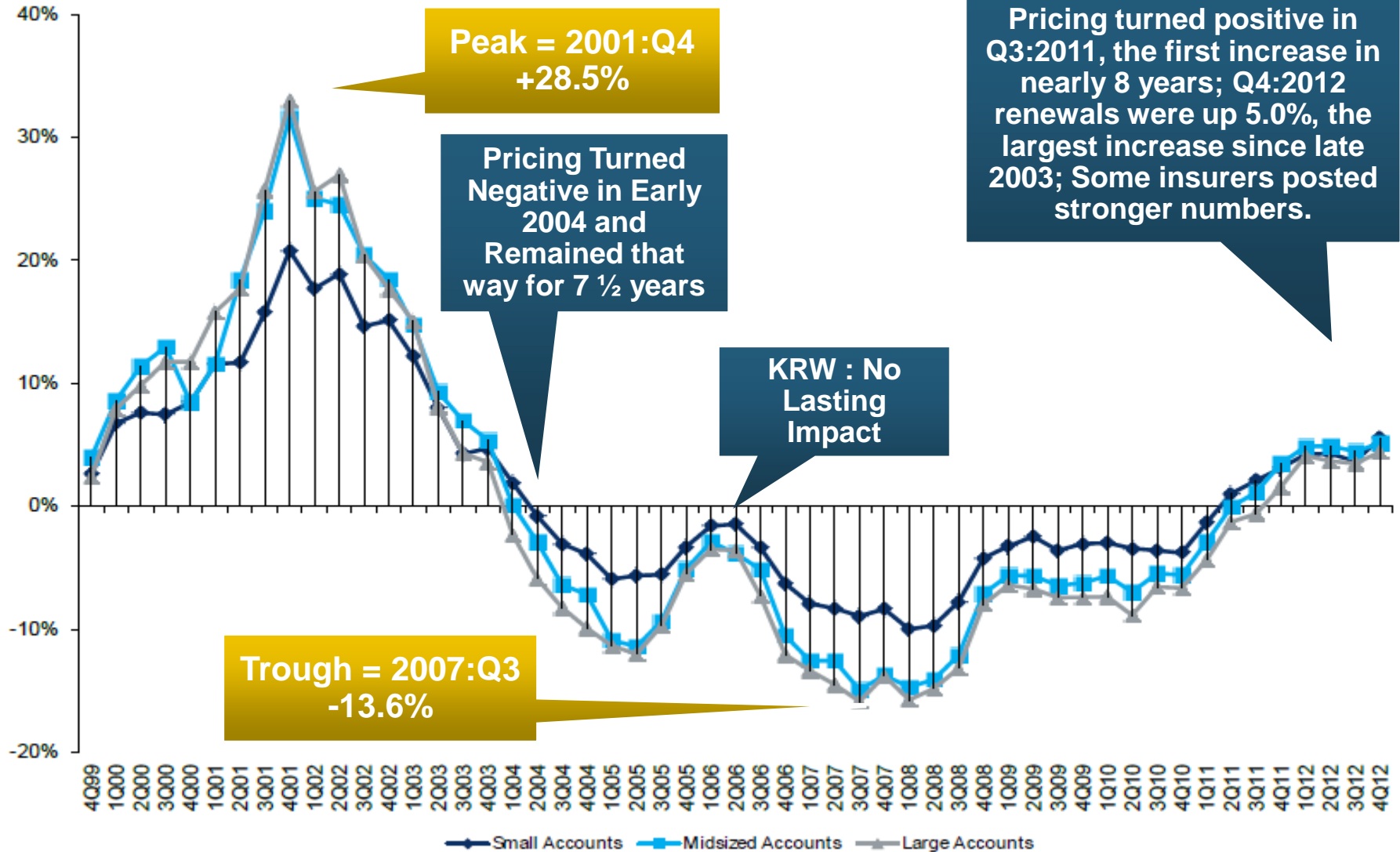
KRW Effect

Q2 2011 marked the last of 30<sup>th</sup> consecutive quarter of price declines

Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.  
 Source: Council of Insurance Agents & Brokers; Insurance Information Institute

# Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2012:Q4

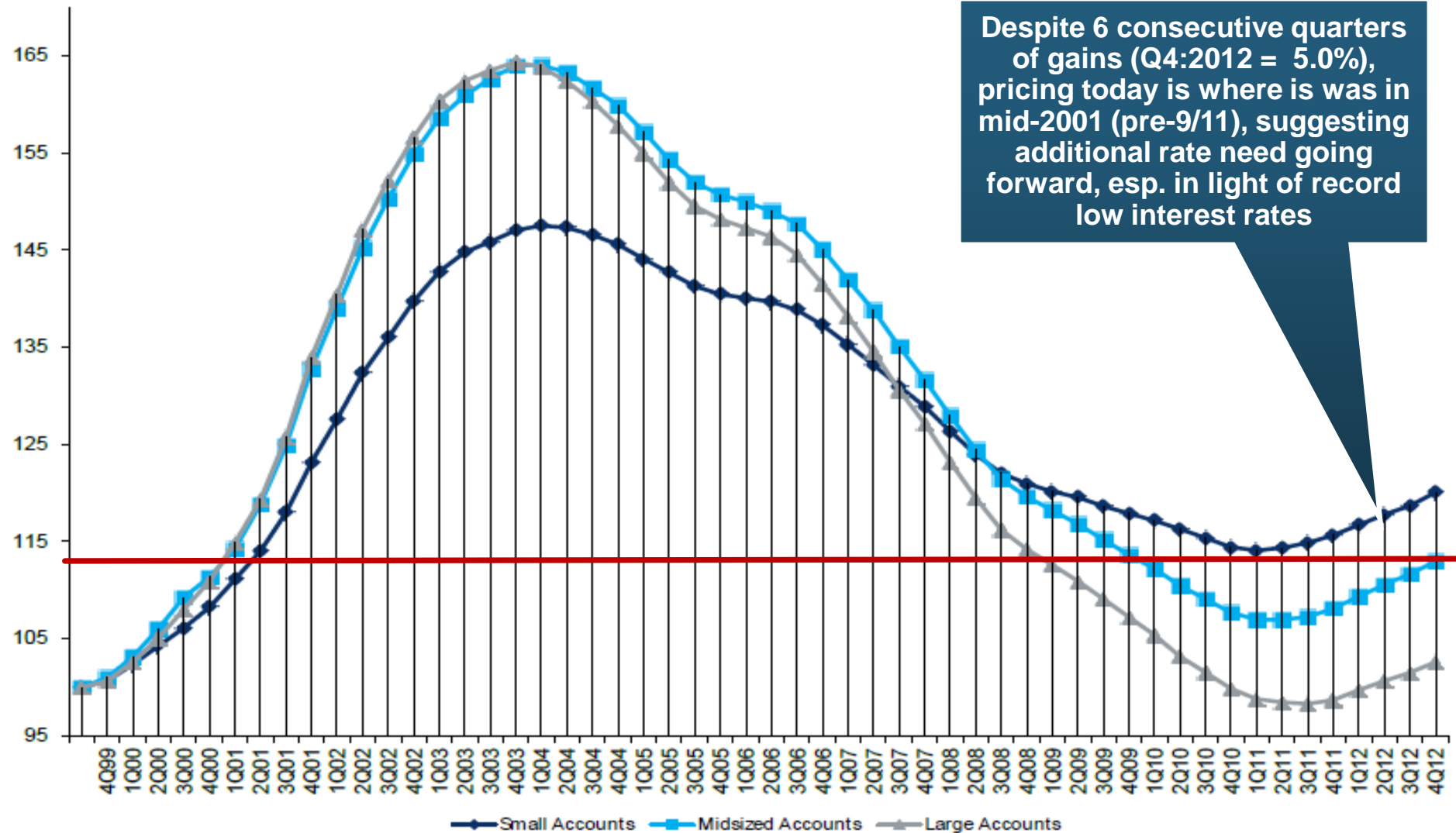
Percentage Change (%)



Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.  
 Source: Council of Insurance Agents and Brokers; Barclay's Capital; Insurance Information Institute.

# Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2012:Q4

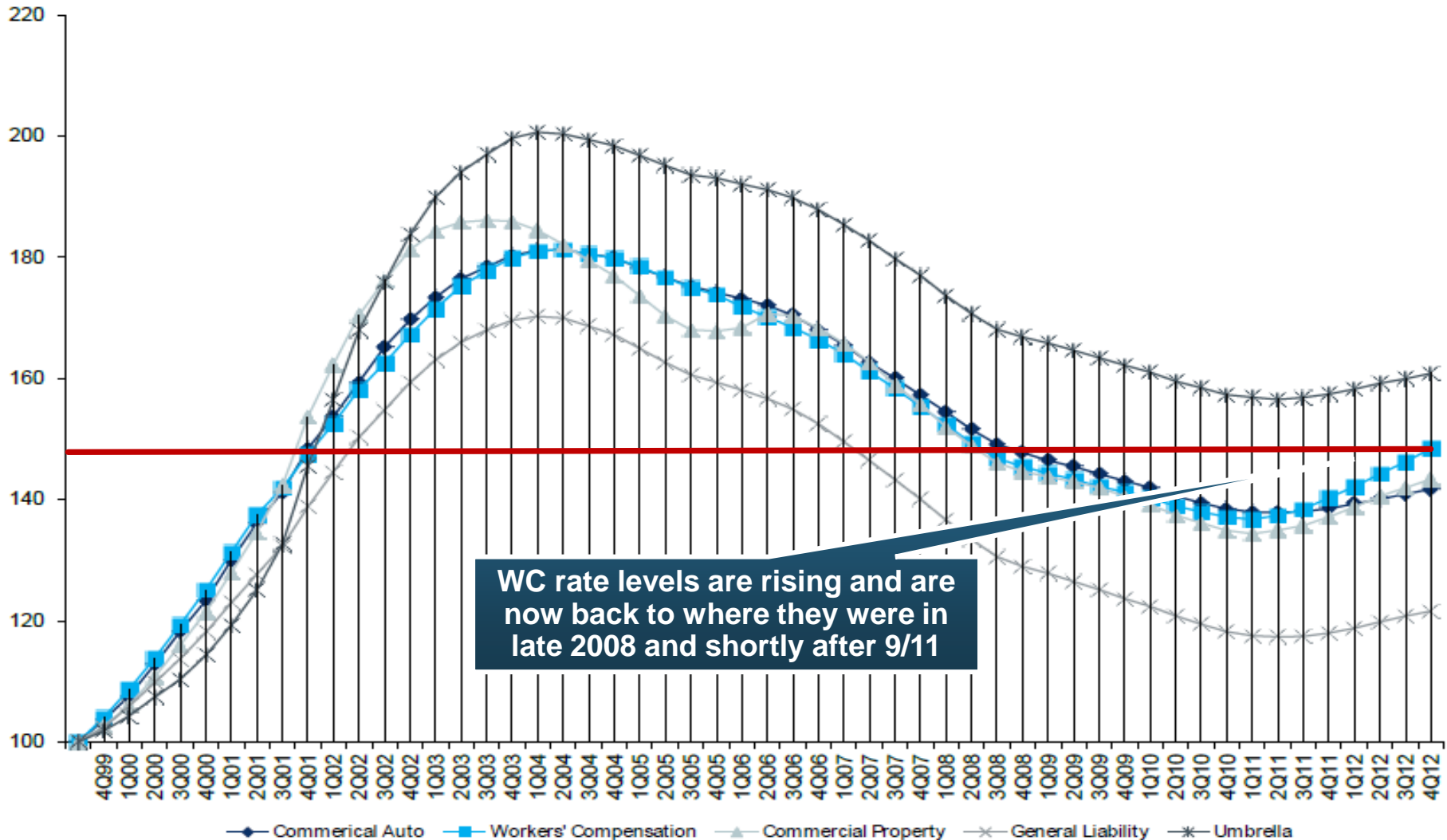
1999:Q4 = 100



Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially. Source: Council of Insurance Agents and Brokers; Barclay's Capital; Insurance Information Institute.

# Cumulative Qtrly. Commercial Rate Changes, by Line: 1999:Q4 to 2012:Q4

1999:Q4 = 100

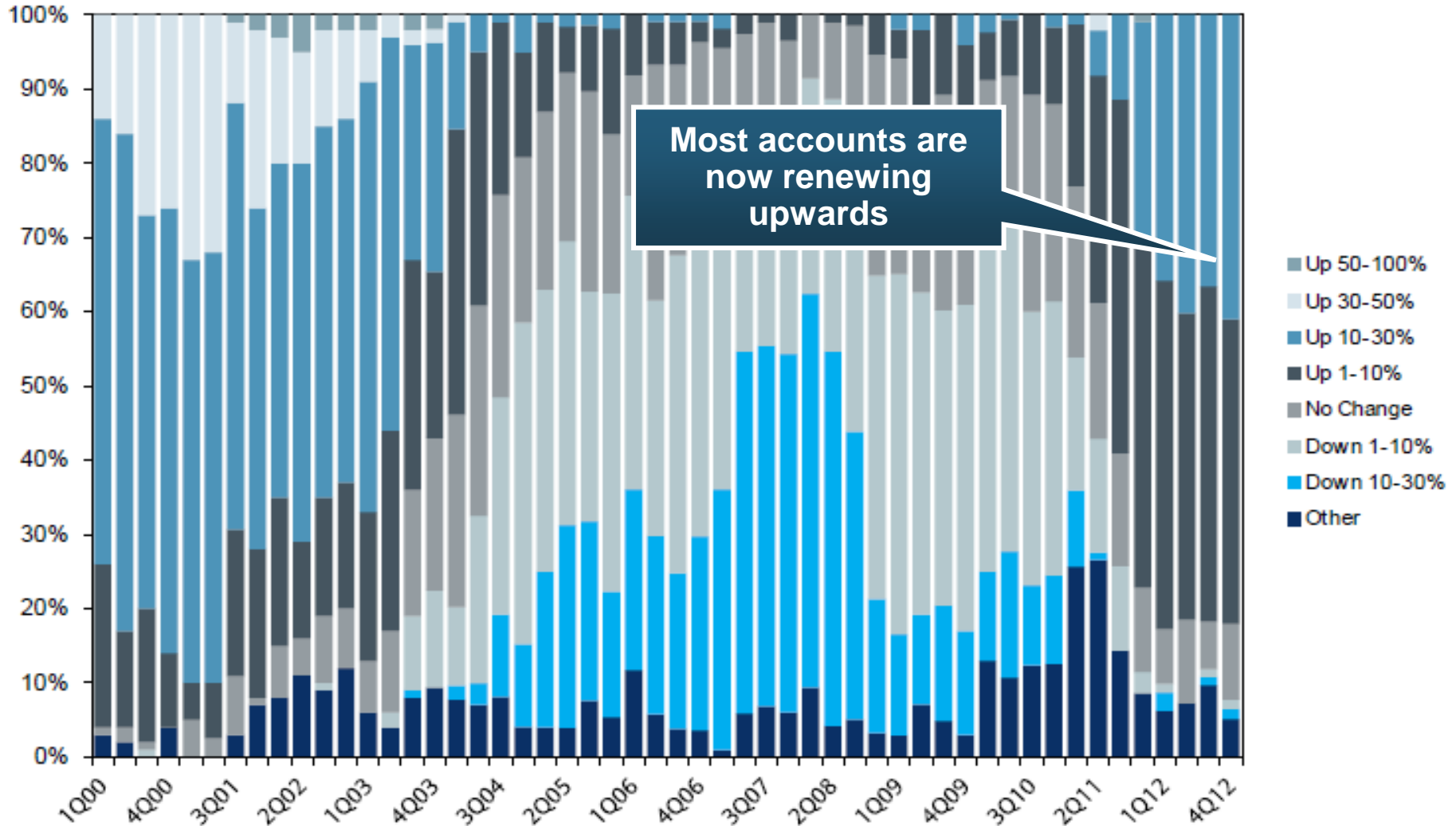


Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.  
 Source: Council of Insurance Agents and Brokers; Barclay's Capital; Insurance Information Institute.



# Workers Comp. Quarterly Rate Changes, by Line: 2000:Q1 to 2012:Q4

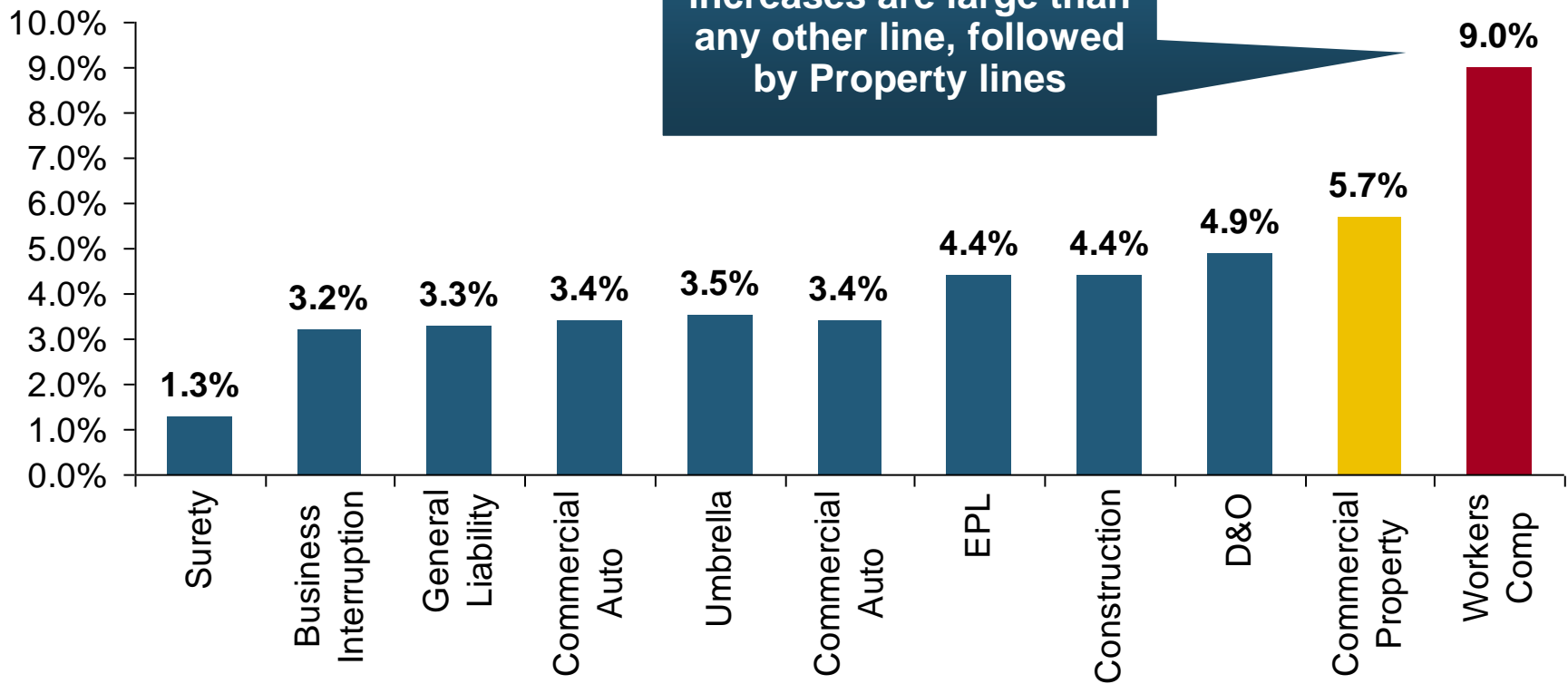
1999:Q4 = 100



Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.  
 Source: Council of Insurance Agents and Brokers; Barclay's Capital; Insurance Information Institute.

# Change in Commercial Rate Renewals, by Line: 2012:Q4

## Percentage Change (%)

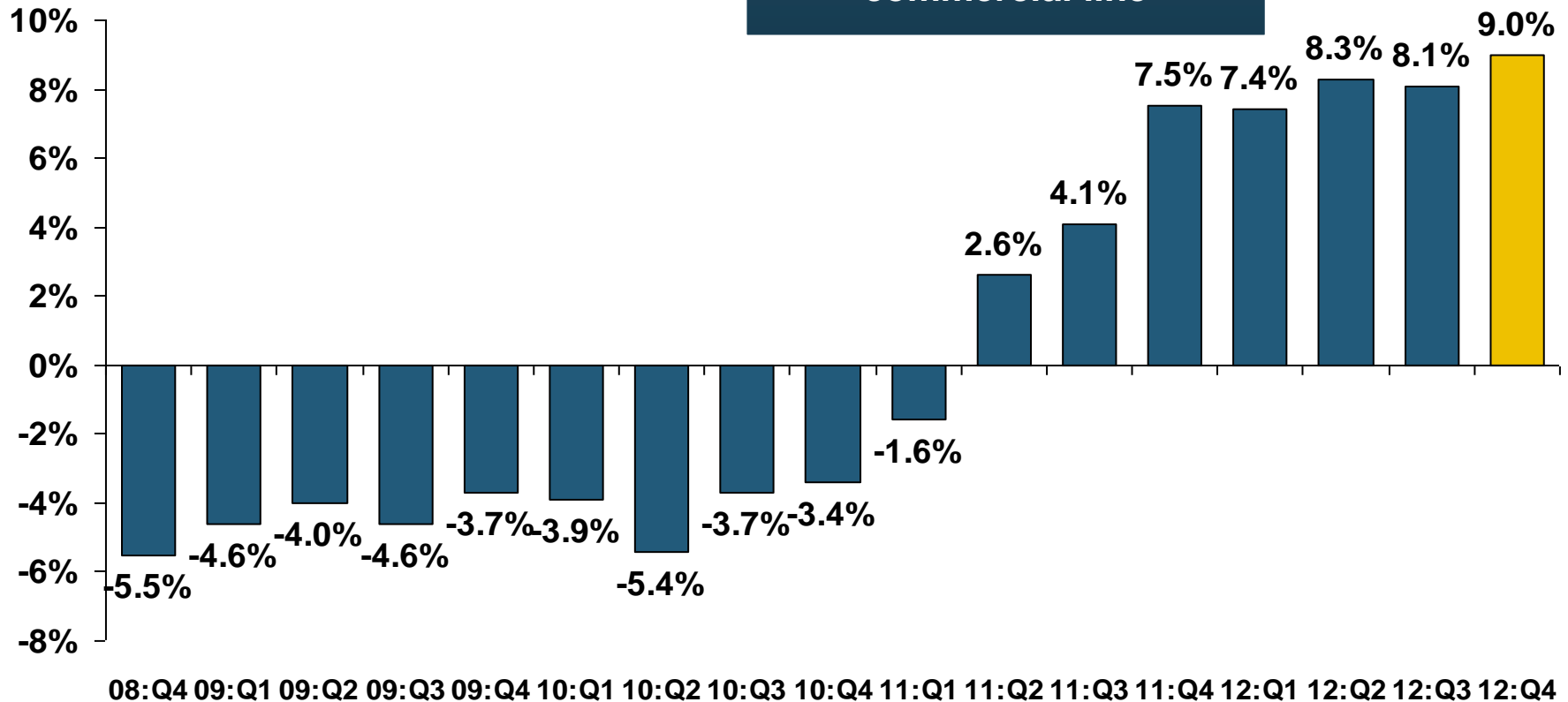


**Major Commercial Lines Renewed Uniformly Upward in Q4:2012 for the Sixth Consecutive Quarter; Property Lines & Workers Comp Leading the Way; Cat Losses and Low Interest Rates Provide Momentum Going Forward**

Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially. Source: Council of Insurance Agents and Brokers; Insurance Information Institute.

# Workers Comp Rate Changes, 2008:Q4 – 2012:Q4

(Percent Change)

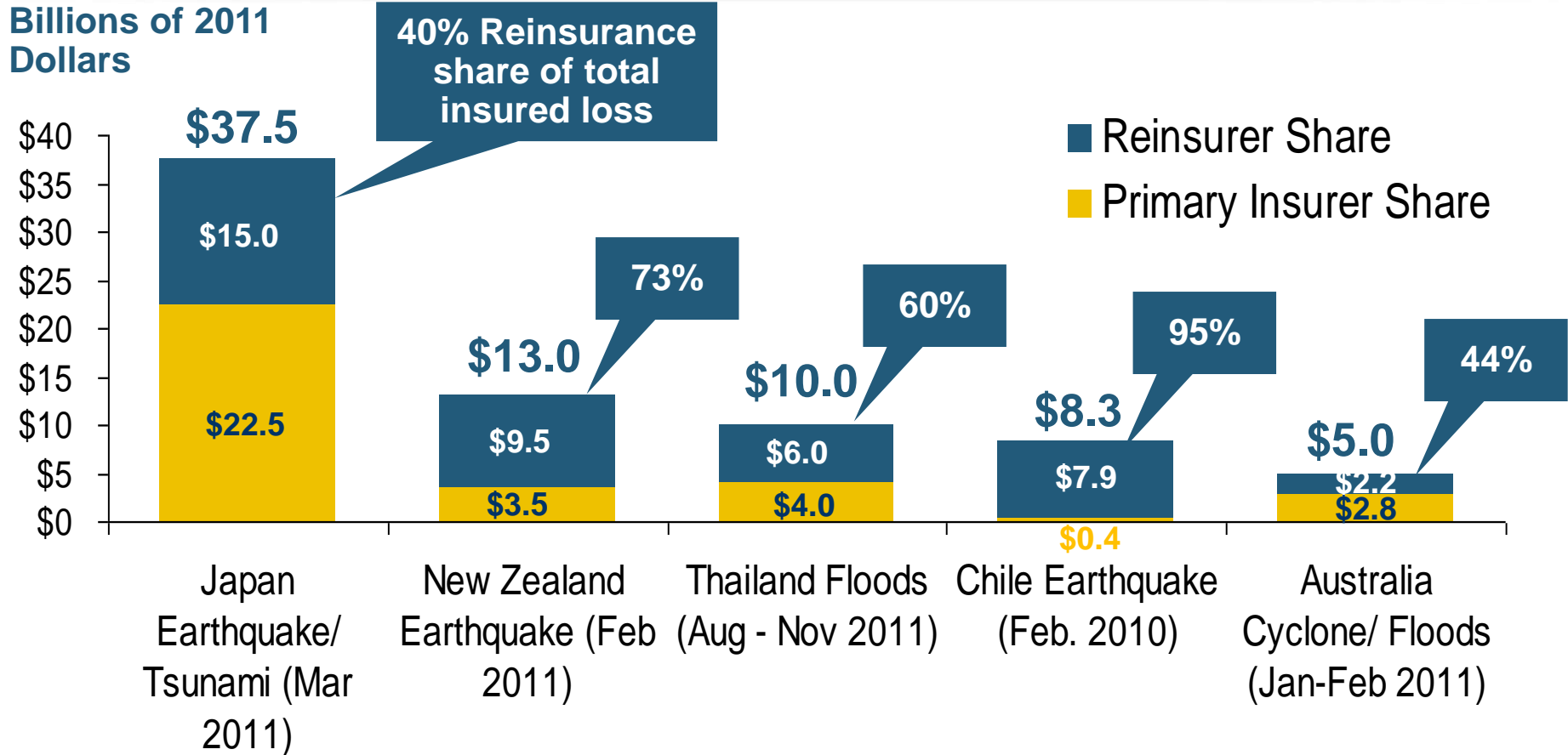


Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.  
Source: Council of Insurance Agents and Brokers; Information Institute.

# **REINSURANCE MARKET CONDITIONS**

**Record Global  
Catastrophes Activity is  
Pressuring Pricing**

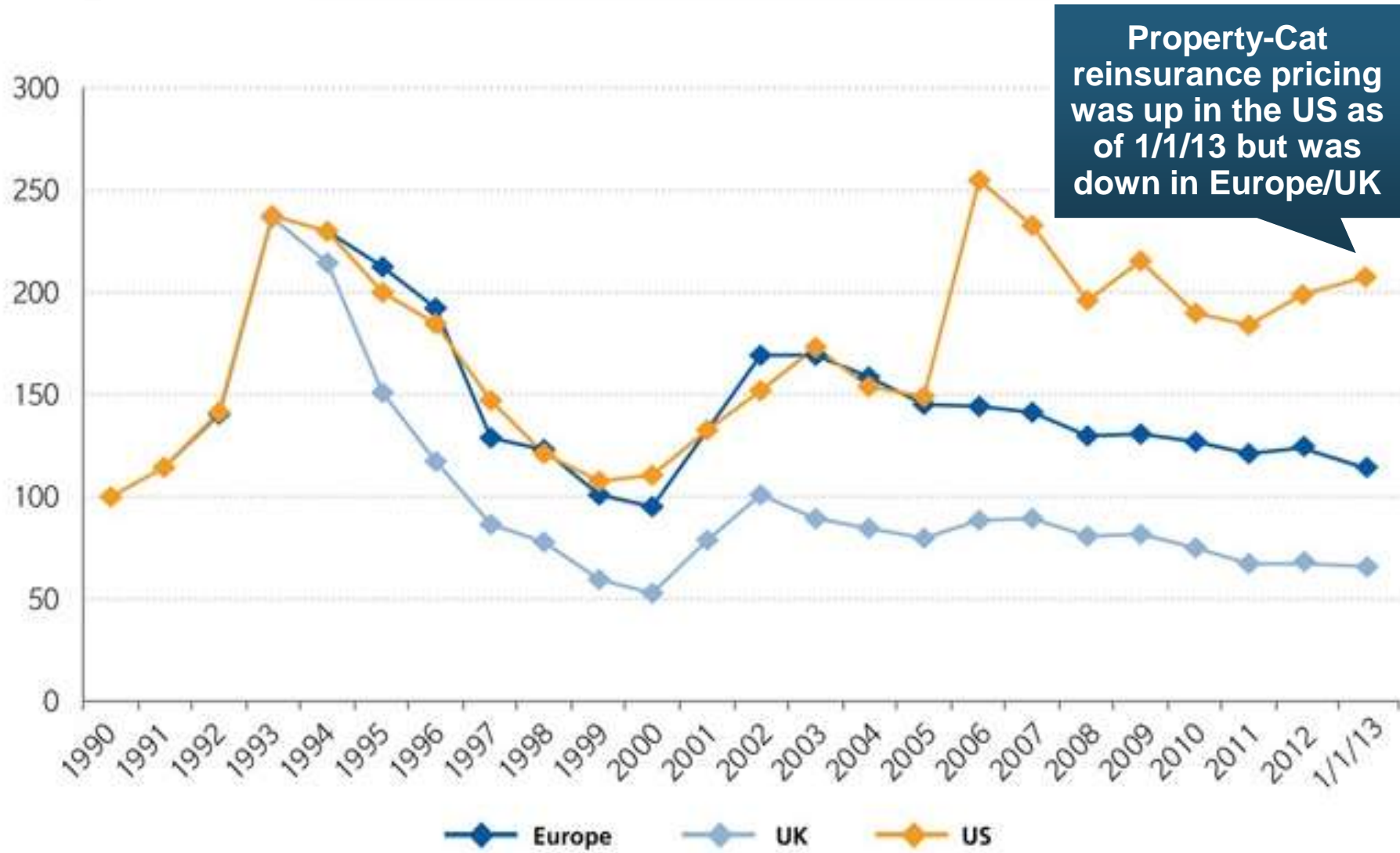
# Reinsurer Share of Recent Significant Market Losses



**Reinsurers Paid a High Proportion of Insured Losses Arising from Major Catastrophic Events Around the World in Recent Years**

Source: Insurance Information Institute from reinsurance share percentages provided in RAA, ABIR and CEA press release, Jan. 13, 2011.

# Regional Property Catastrophe Rate on Line Index, 1990—2013 (as of January 1)



Sources: Guy Carpenter; Insurance Information Institute.

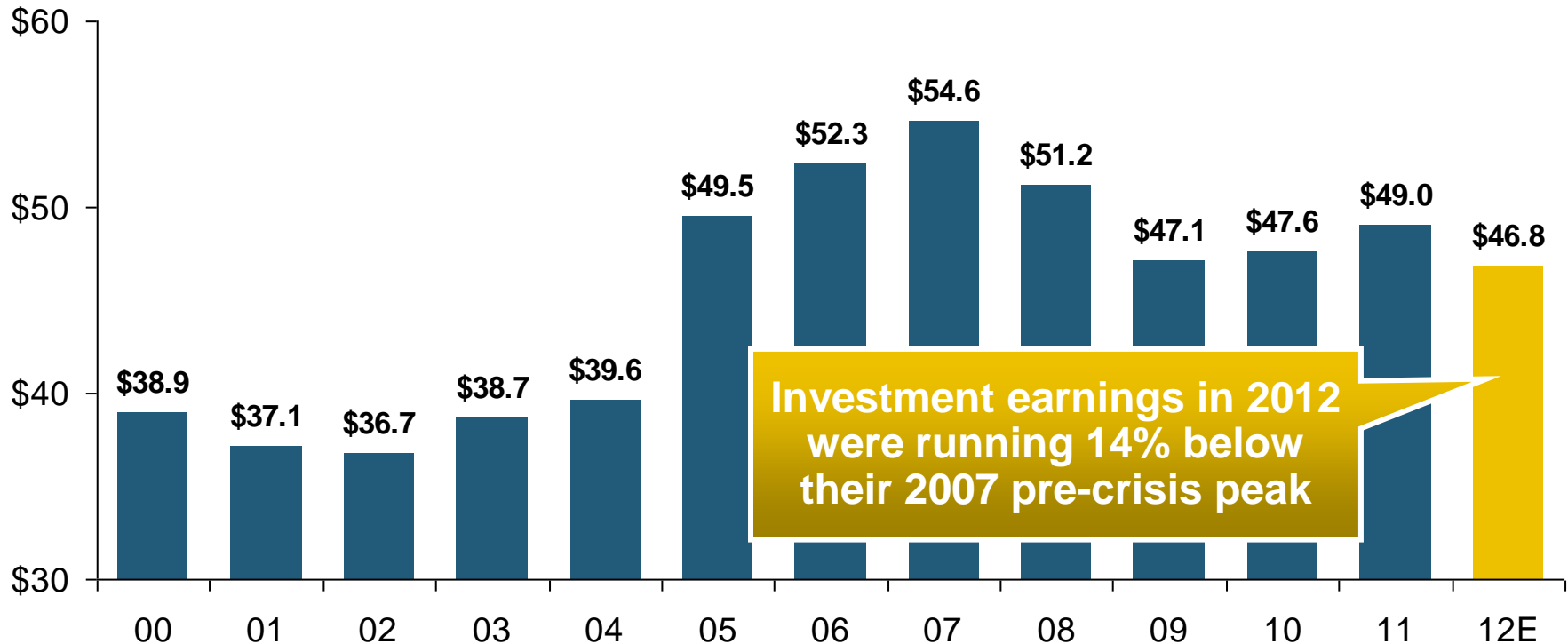
# **INVESTMENTS: THE NEW REALITY**

**Investment Performance is a Key  
Driver of Profitability**

***Depressed Yields Will Necessarily  
Influence Underwriting & Pricing***

# Property/Casualty Insurance Industry Investment Income: 2000–2012E<sup>1</sup>

(\$ Billions)



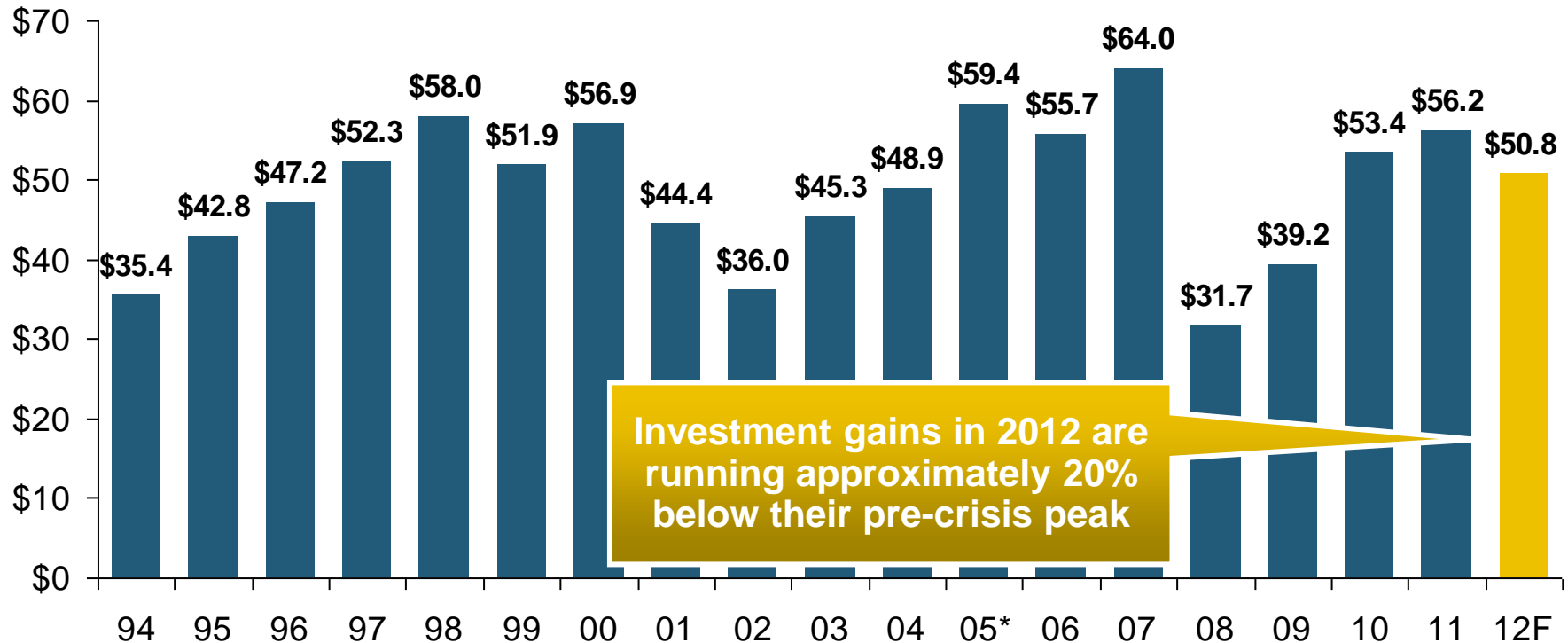
**Investment Income Fell in 2012 Due to Persistently Low Interest Rates,  
Putting Additional Pressure on (Re) Insurance Pricing**

<sup>1</sup> Investment gains consist primarily of interest and stock dividends.  
\*2012F is based on annualized 9M:2012 actual figure of \$35.131B.  
Sources: ISO; Insurance Information Institute.



# Property/Casualty Insurance Industry Investment Gain: 1994–2012F<sup>1</sup>

(\$ Billions)



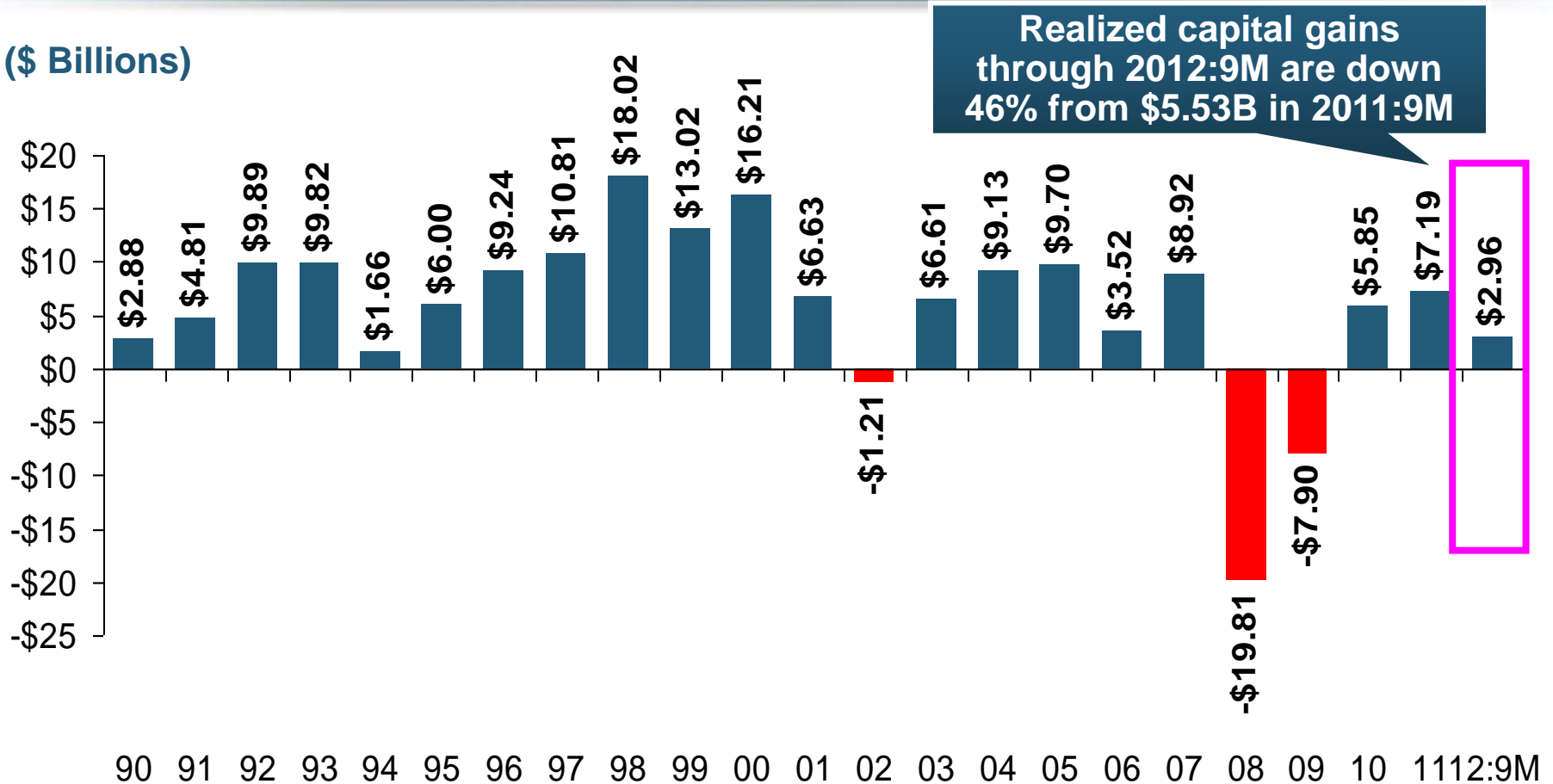
**Investment Gains Are Slipping in 2012 as Low Interest Rates Reduce Investment Income and Lower Realized Investment Gains; The Financial Crisis Caused Investment Gains to Fall by 50% in 2008**

<sup>1</sup> Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.

\* 2005 figure includes special one-time dividend of \$3.2B; 2012F figure is III estimate based on annualized actual 9M:2012 result of \$38.089B. Sources: ISO; Insurance Information Institute.

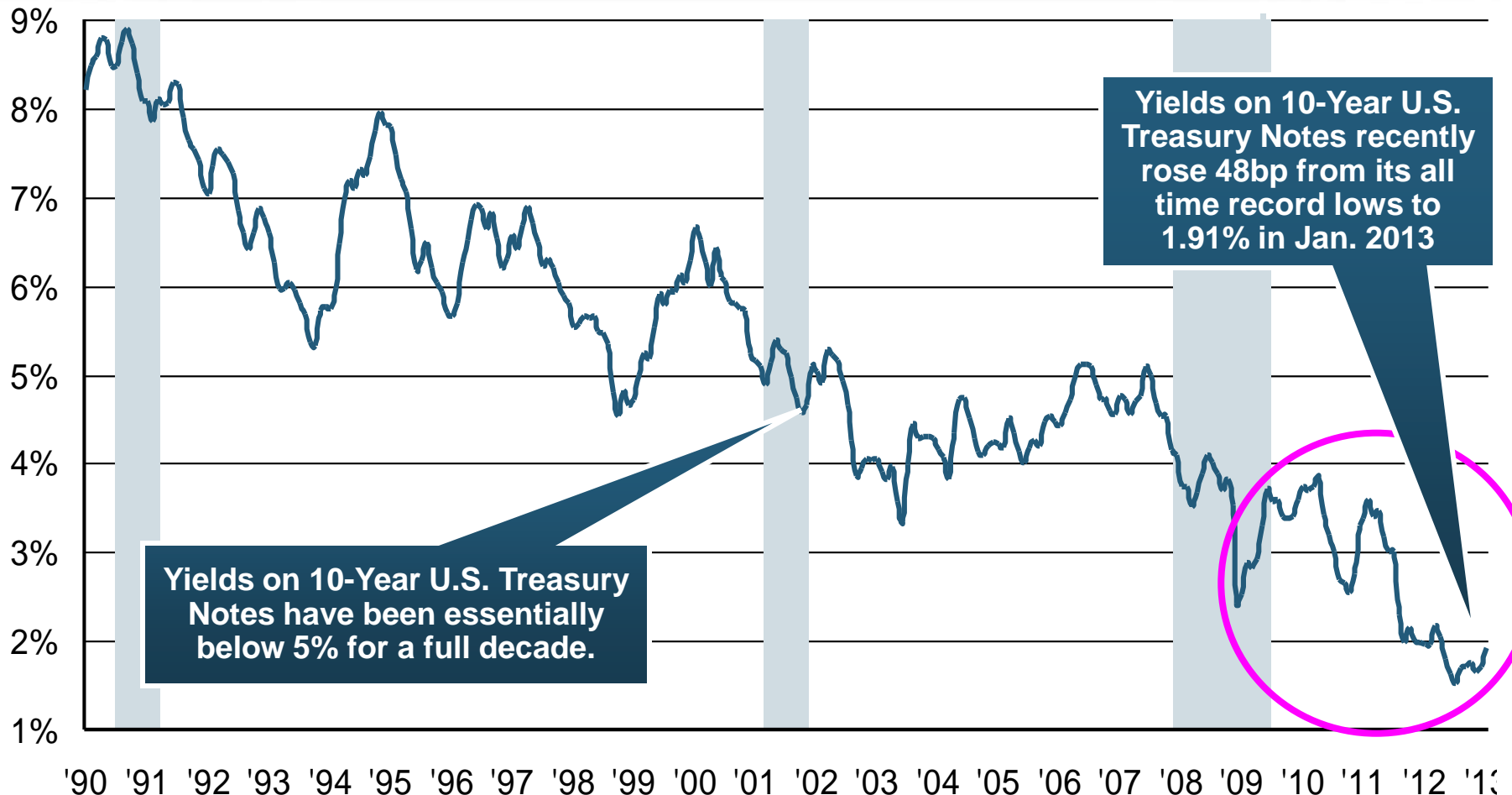
# P/C Insurer Net Realized Capital Gains/Losses, 1990-2012:Q3

(\$ Billions)



**Insurers Posted Net Realized Capital Gains in 2010, 2011 and 2012 Following Two Years of Realized Losses During the Financial Crisis. Realized Capital Losses Were the Primary Cause of 2008/2009's Large Drop in Profits and ROE**

# U.S. 10-Year Treasury Note Yields: A Long Downward Trend, 1990–2013\*



**Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.**

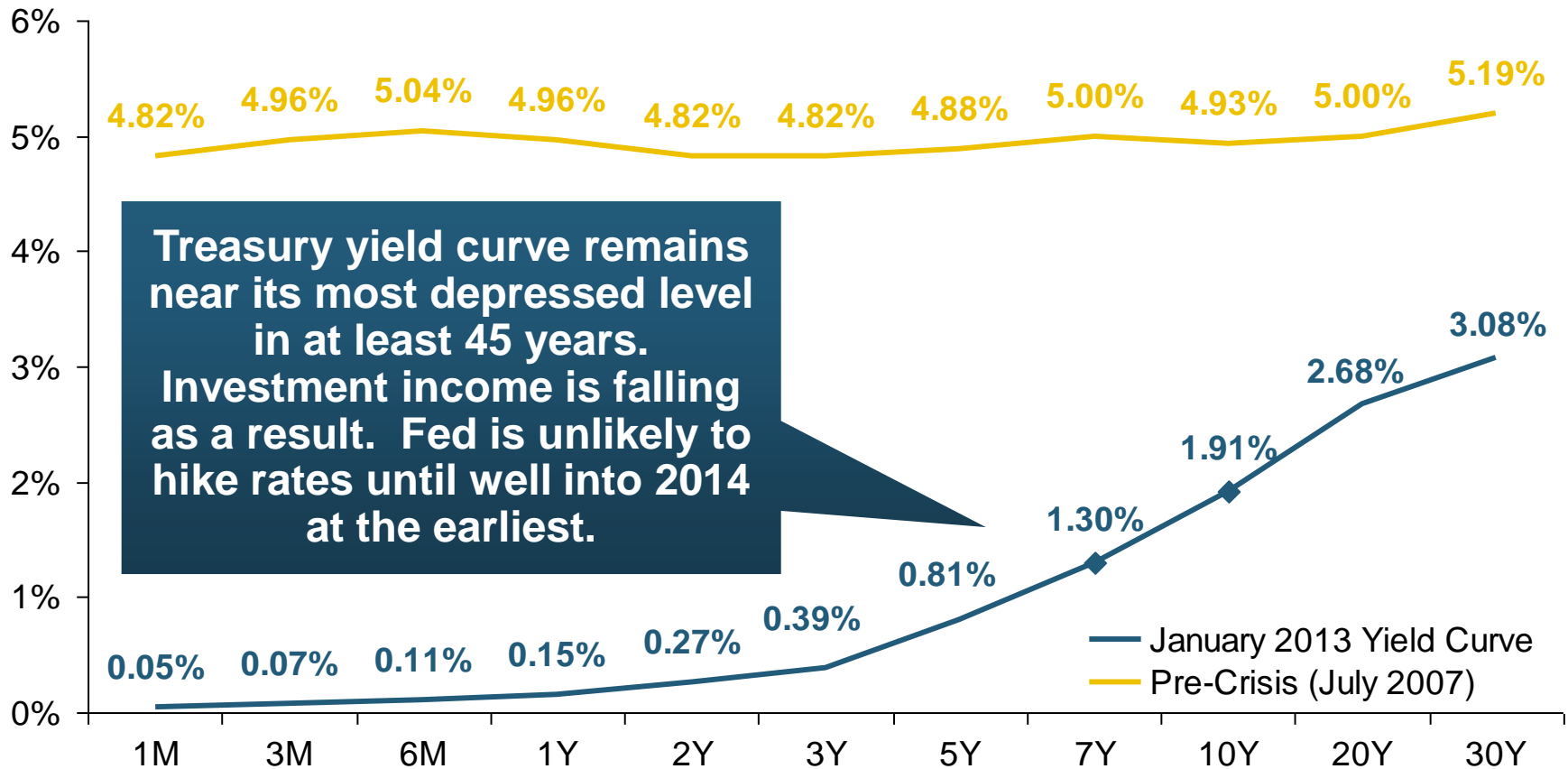
\*Monthly, through Jan. 2013.

Note: Recessions indicated by gray shaded columns.

Sources: Federal Reserve Bank at <http://www.federalreserve.gov/releases/h15/data.htm>.

National Bureau of Economic Research (recession dates); Insurance Information Institutes.

# Treasury Yield Curves: Pre-Crisis (July 2007) vs. Jan. 2013

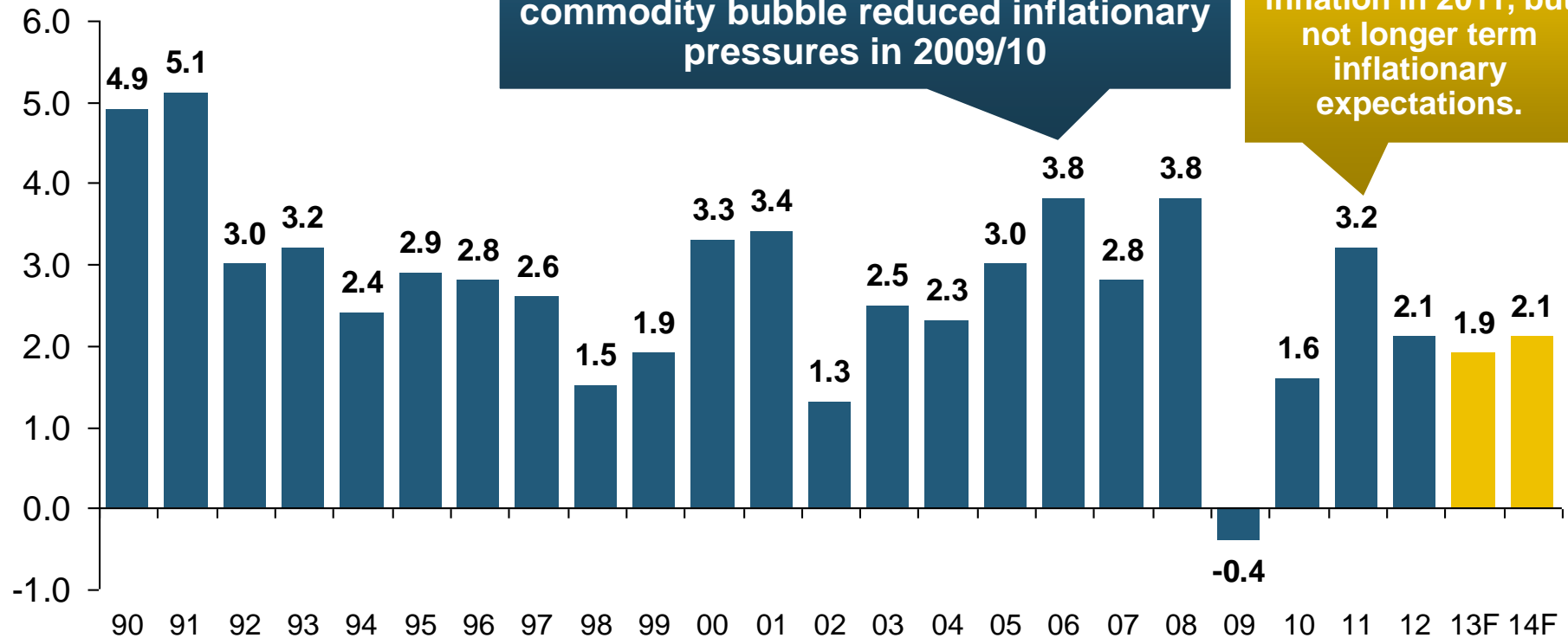


Treasury yield curve remains near its most depressed level in at least 45 years. Investment income is falling as a result. Fed is unlikely to hike rates until well into 2014 at the earliest.

The Fed Is Actively Signaling that it Is Determined to Keep Rates Low Until Unemployment Drops Below 6.5% or Until Inflation Expectations Exceed 2.5%; Low Rates Add to Pricing Pressure for Insurers.

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

Annual Inflation Rates (%)

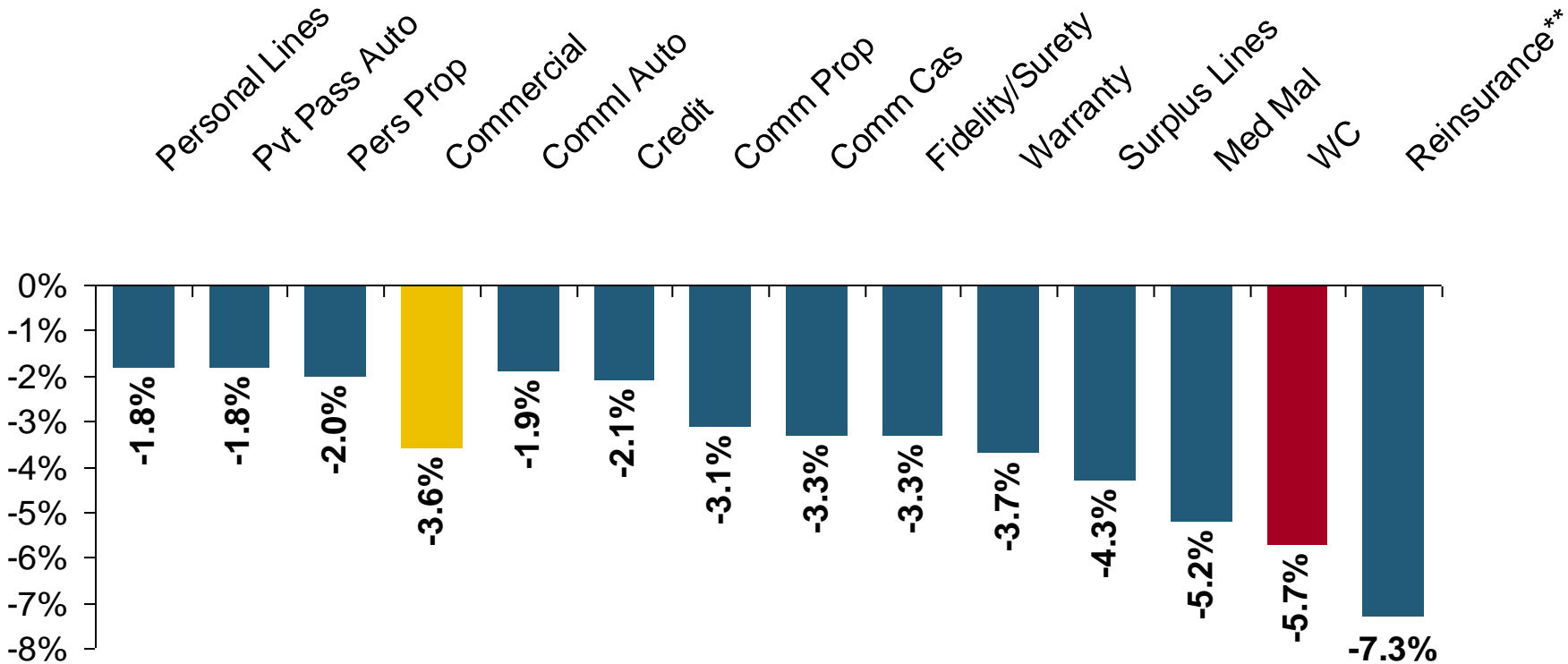


Inflation peaked at 5.6% in August 2008 on high energy and commodity crisis. The recession and the collapse of the commodity bubble reduced inflationary pressures in 2009/10

Higher energy, commodity and food prices pushed up inflation in 2011, but not longer term inflationary expectations.

The slack in the U.S. economy suggests that inflationary pressures should remain subdued for an extended period of times. Energy, health care and commodity prices, plus U.S. debt burden, remain longer-run concerns

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



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

\*Based on 2008 Invested Assets and Earned Premiums

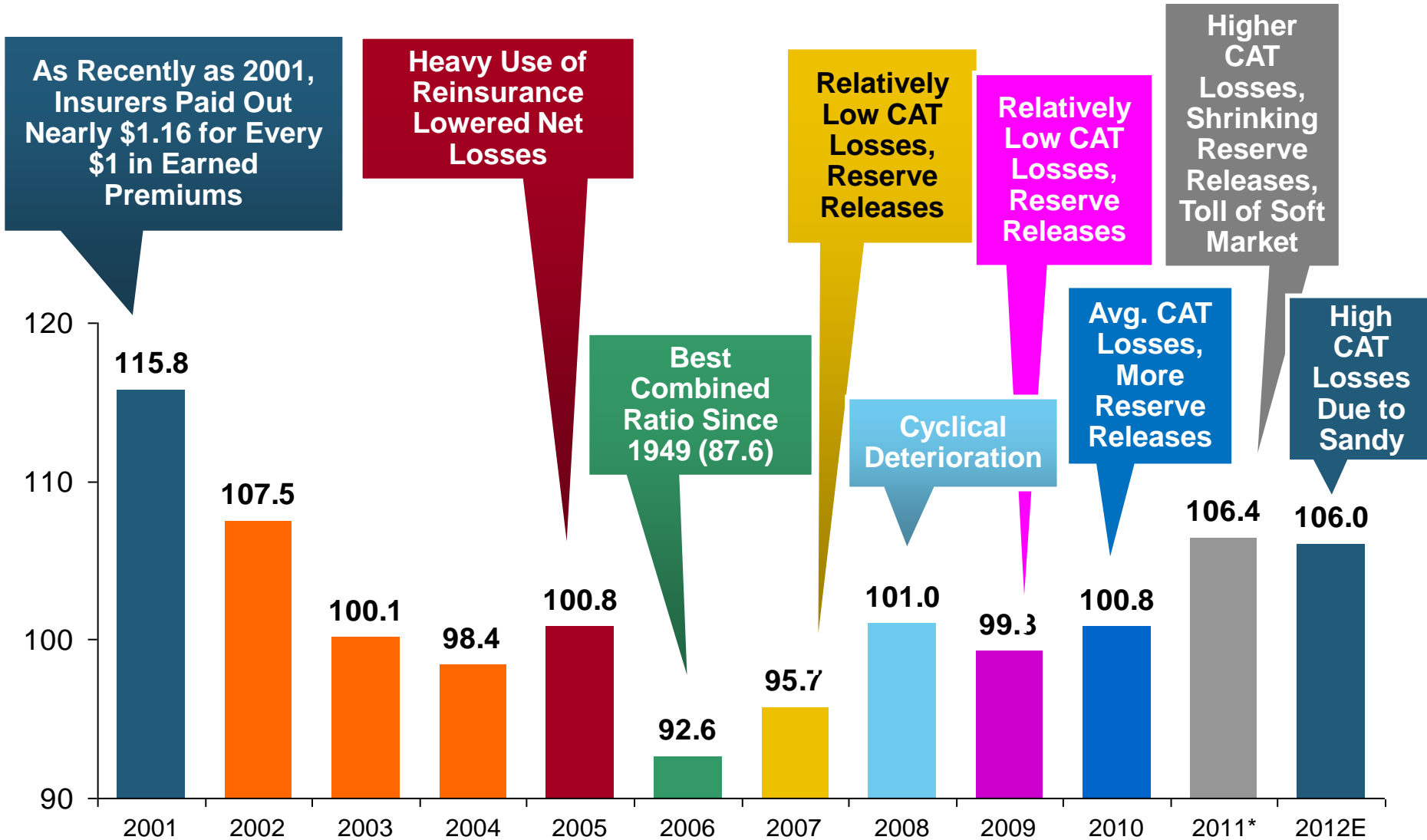
\*\*US domestic reinsurance only

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



# P/C Insurance Industry Underwriting Performance

# P/C Insurance Industry Combined Ratio, 2001–2012\*

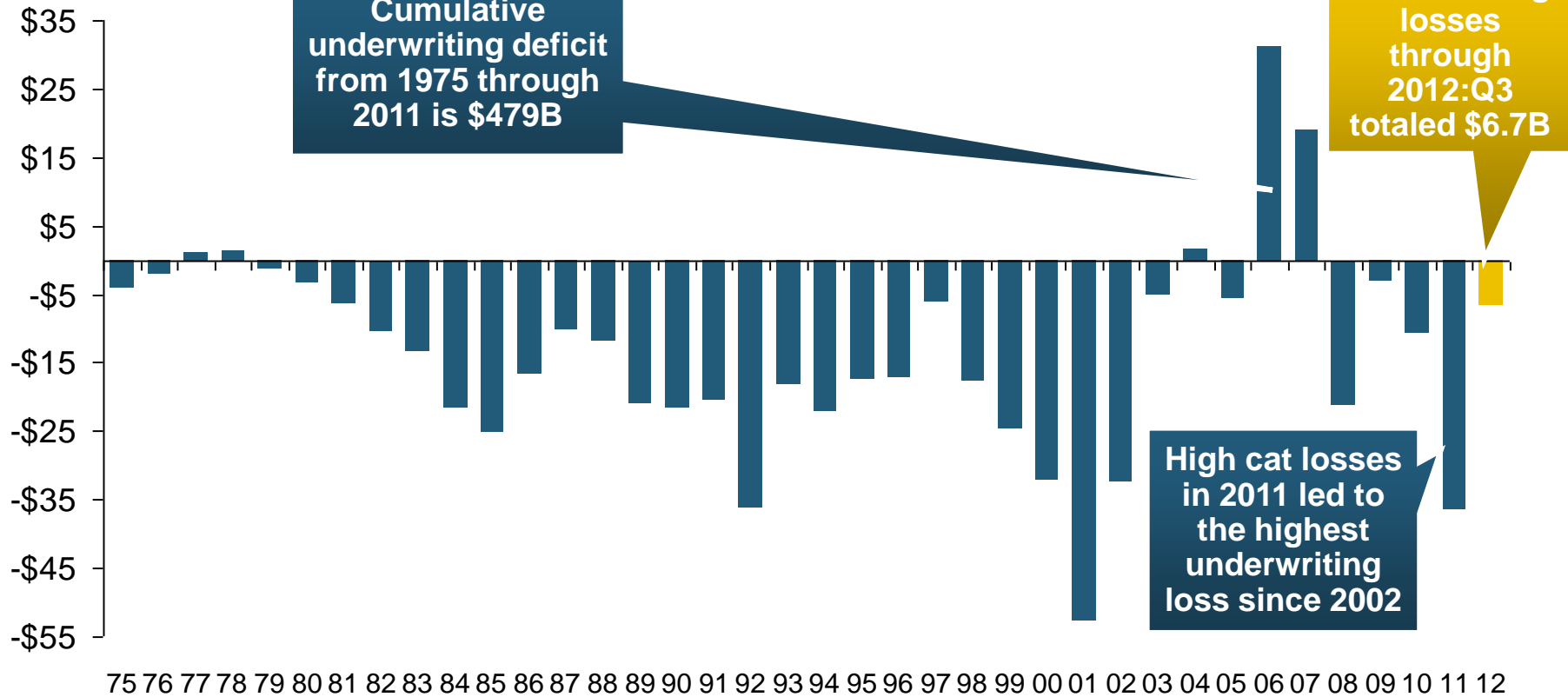


\* Excludes Mortgage & Financial Guaranty insurers 2008--2012. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.2; 2012:Q3=100.0.  
Sources: A.M. Best, ISO.



# Underwriting Gain (Loss) 1975–2012:Q3\*

(\$ Billions)

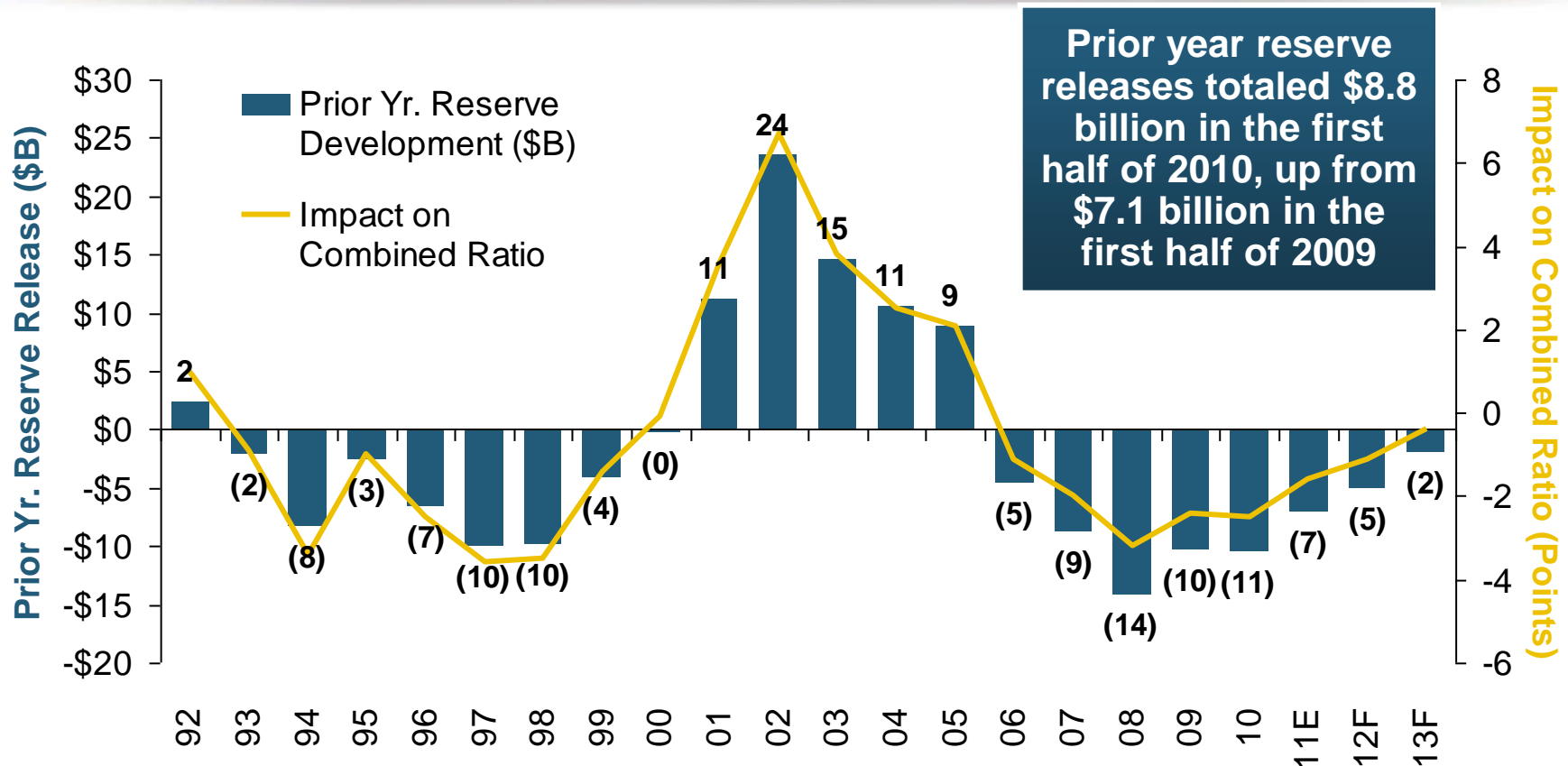


**Large Underwriting Losses Are *NOT* Sustainable  
in Current Investment Environment**

\* Includes mortgage and financial guaranty insurers in all years.

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

# P/C Reserve Development, 1992–2013F



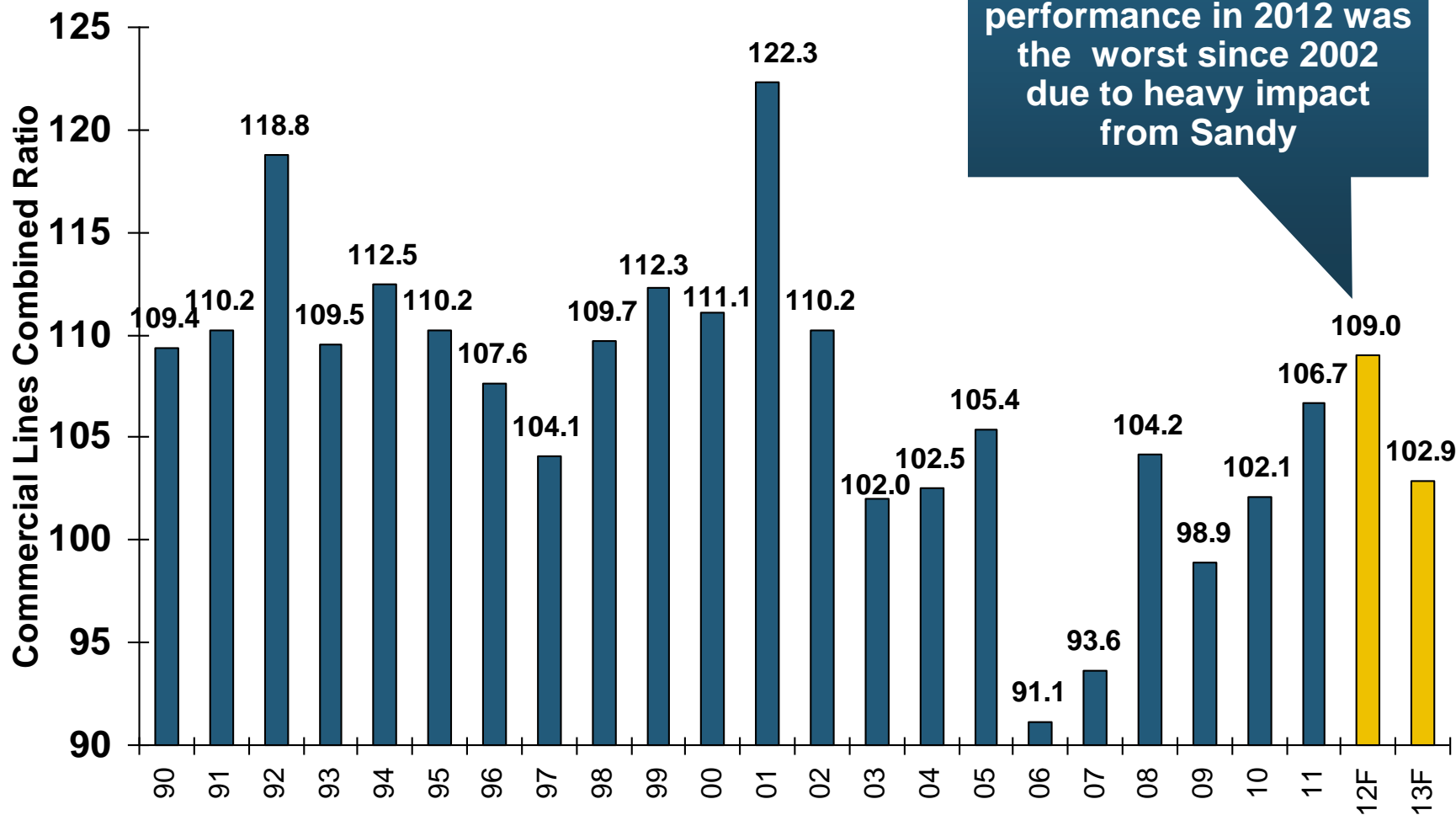
Prior year reserve releases totaled \$8.8 billion in the first half of 2010, up from \$7.1 billion in the first half of 2009

**Reserve Releases Remained Strong in 2010 But Tapered Off in 2011. Releases Are Expected to Further Diminish in 2012 and 2103**

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: Barclays Capital; A.M. Best.

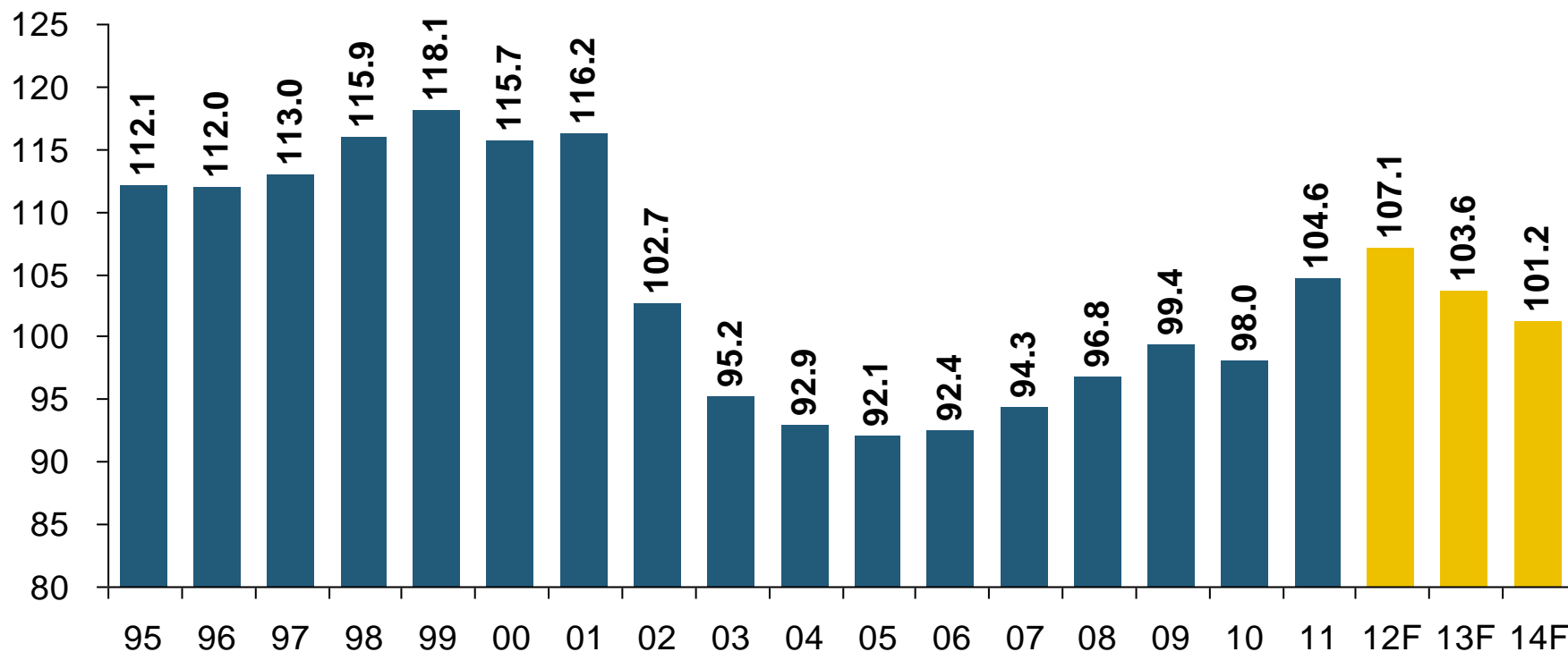
# Commercial Lines Combined Ratio, 1990-2013F\*



\*2007-2013F figures exclude mortgage and financial guaranty segments.

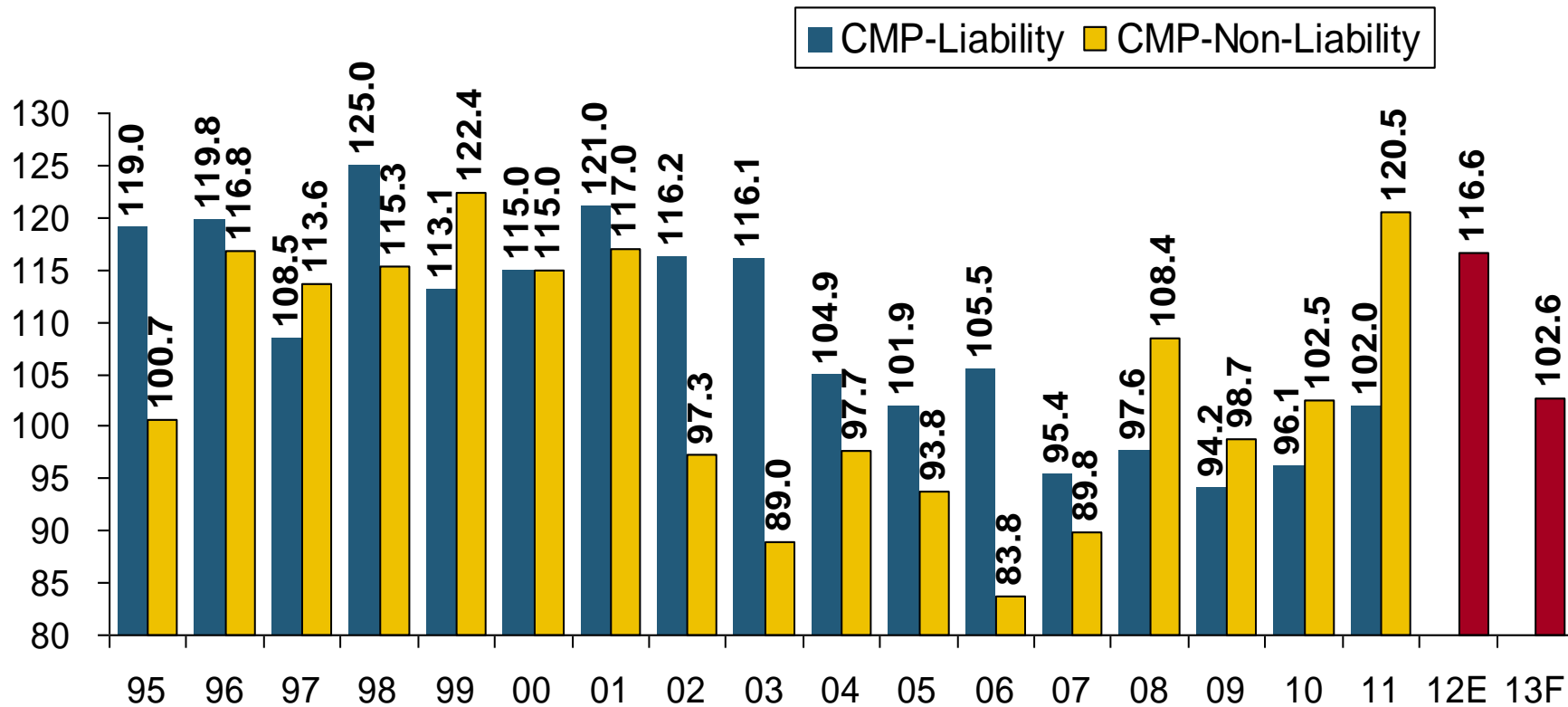
Source: A.M. Best; Insurance Information Institute

# Commercial Auto Combined Ratio: 1993–2014F



**Commercial Auto is Expected to Improve as Rate Gains Outpace Any Adverse Frequency and Severity Trends**

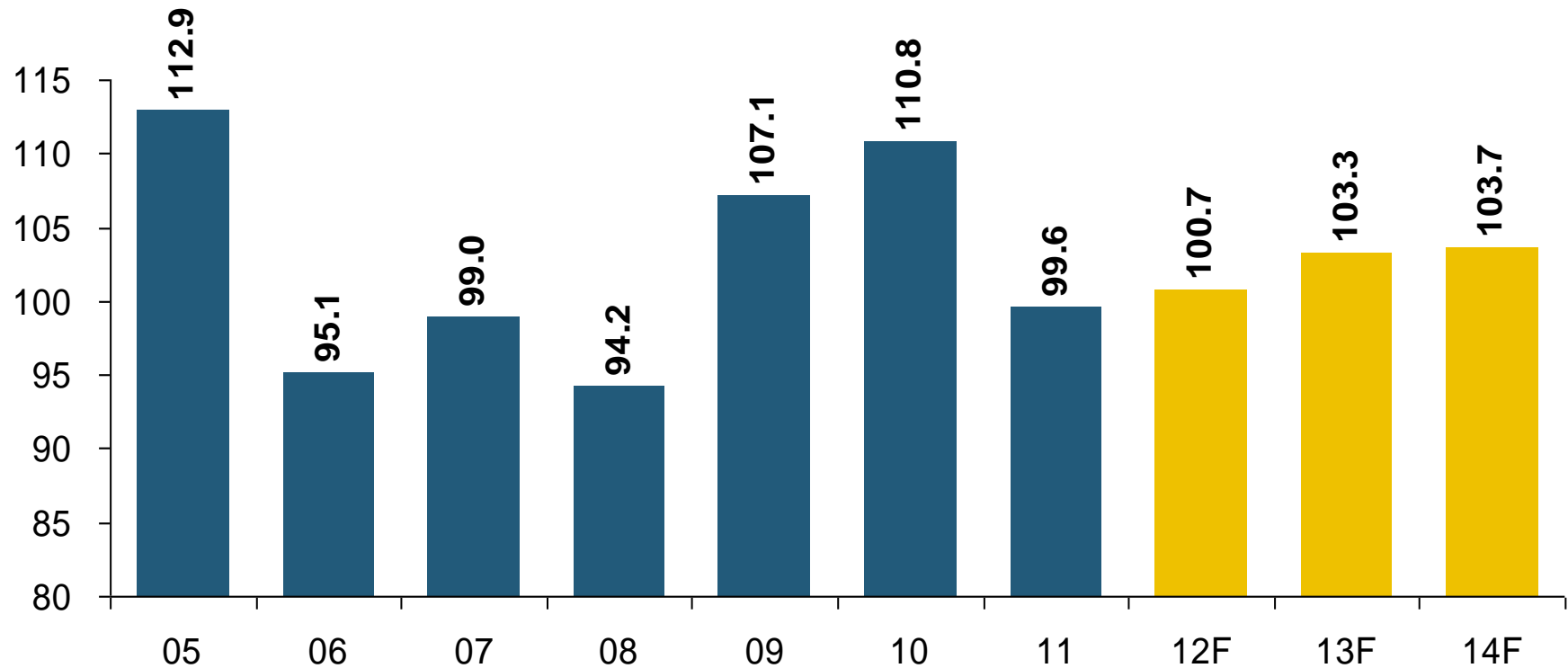
# Commercial Multi-Peril Combined Ratio: 1995–2013F



**Commercial Multi-Peril Underwriting Performance is Expected to Improve in 2013 Assuming Normal Catastrophe Loss Activity**

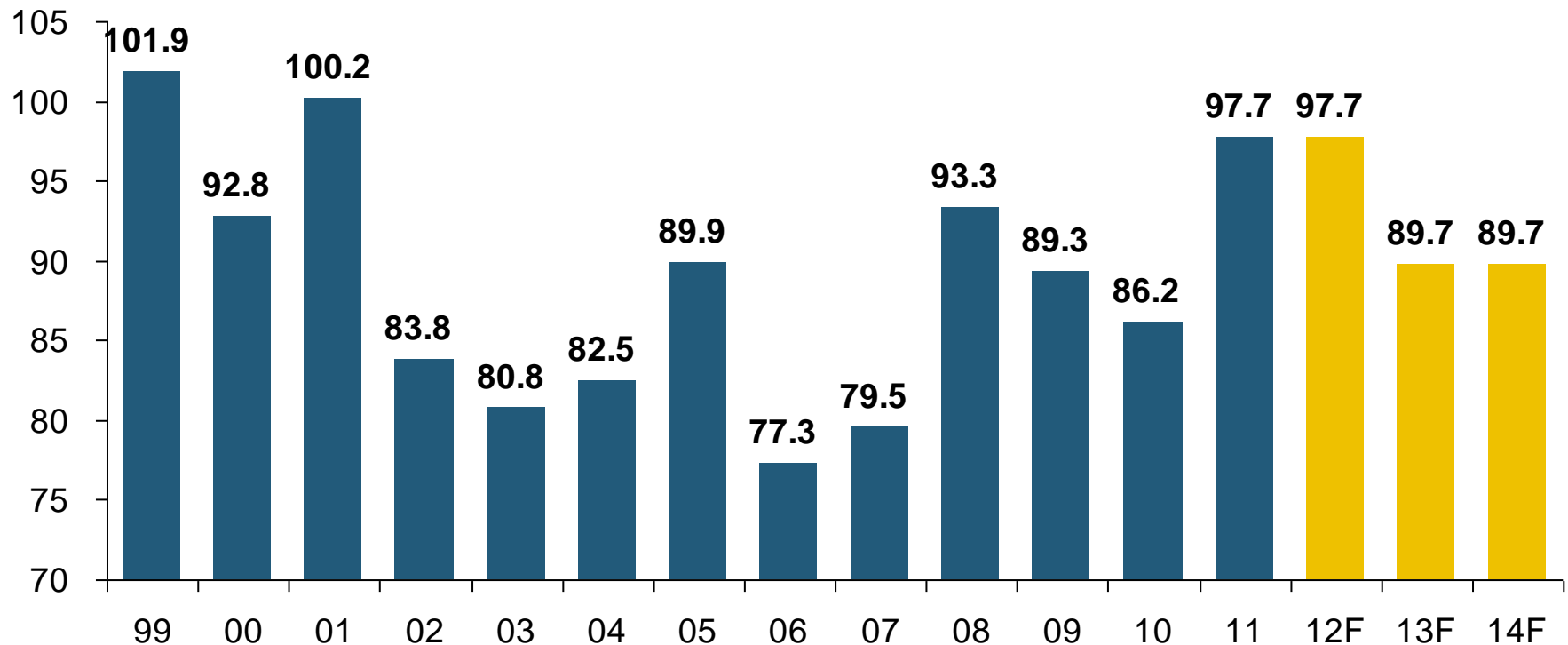
\*2012-2013 figures are A.M. Best estimate/forecast for the combined liability and non-liability components. Sources: A.M. Best; Insurance Information Institute.

# General Liability Combined Ratio: 2005–2014F



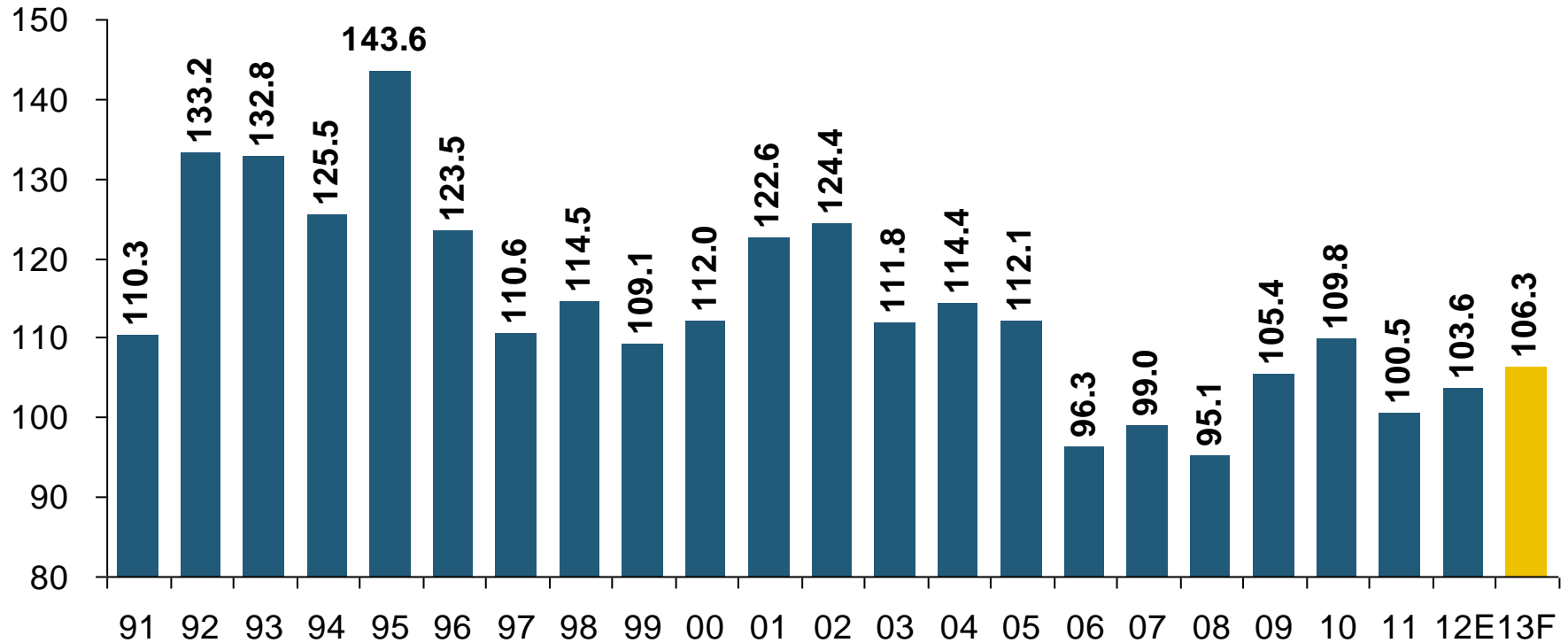
**Commercial General Liability Underwriting  
Performance Has Been Volatile in Recent Years**

# Inland Marine Combined Ratio: 1999–2014F



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

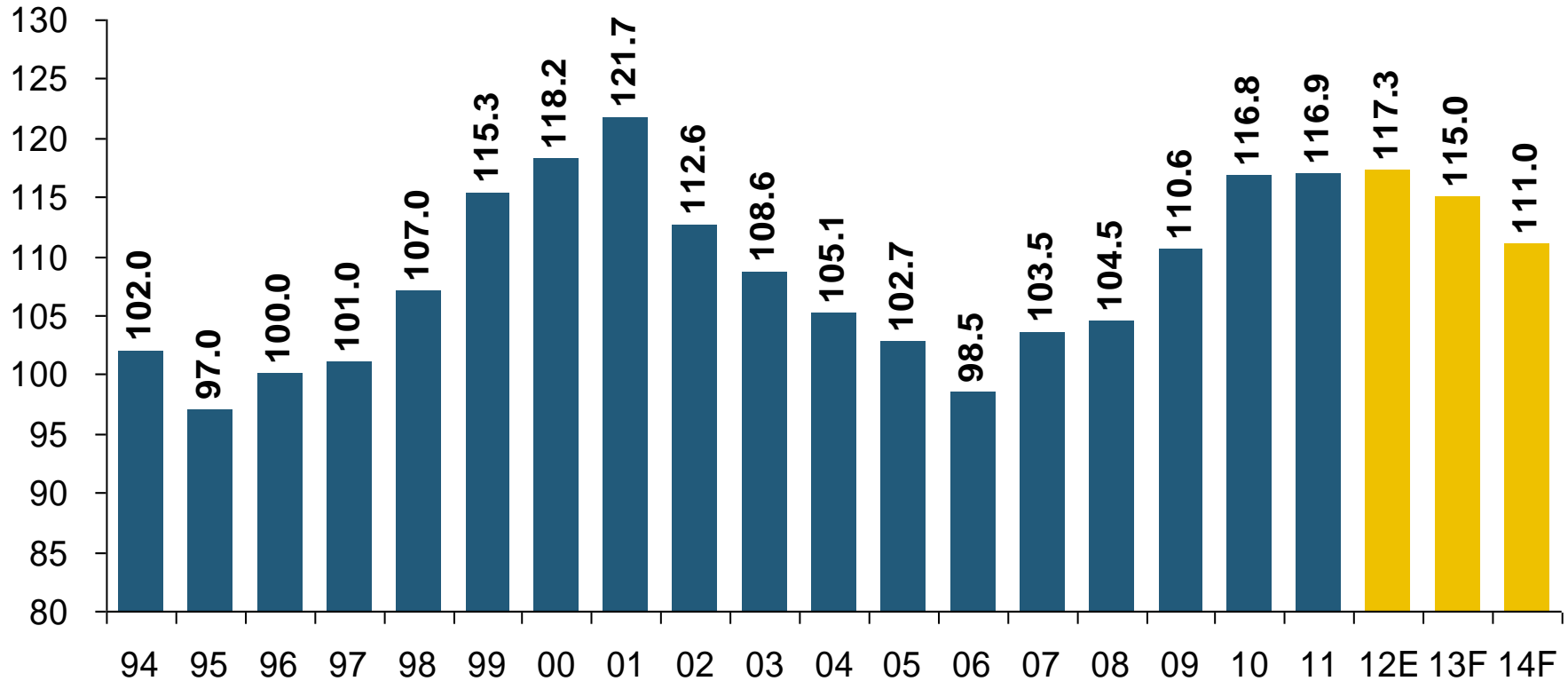
# Other & Products Liability Combined Ratio: 1991–2013F



**Liability Lines Have Performed Better in the Post-Tort Reform Era (~2005), but There Has Been Some Deterioration in Recent Years**



# Workers Compensation Combined Ratio: 1994–2014F



**Workers Comp Results Should Begin to Improve in 2013. Underwriting Results Deteriorated Markedly from 2007-2012 and Were the Worst They Had Been in a Decade.**



# Workers Compensation Operating Environment

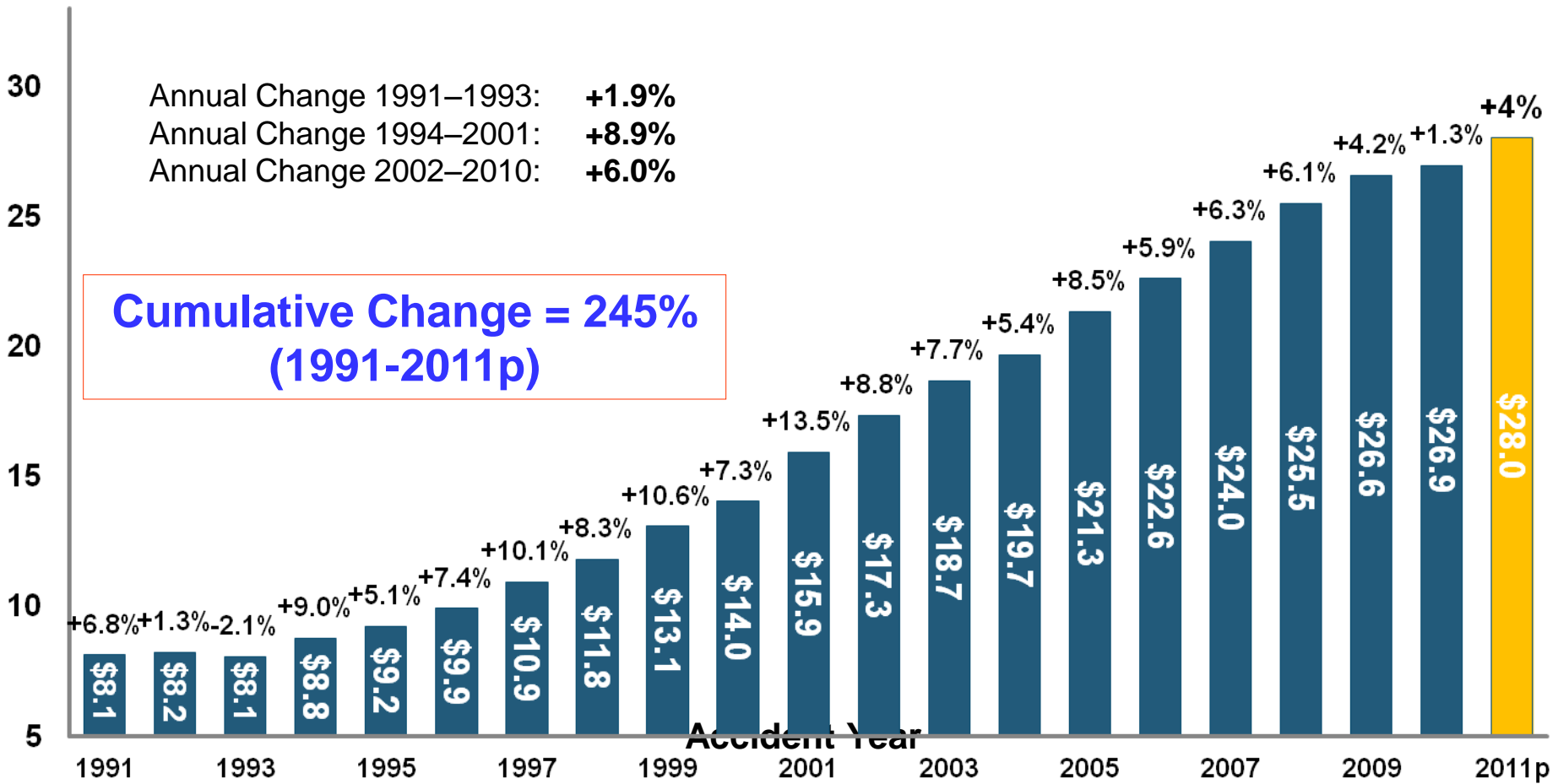
**The Weak Economy and Soft Market Have  
Made the Workers Comp Operating  
Increasingly Challenging**

# Workers Compensation Medical Severity Moderate Increase in 2011



## Average Medical Cost per Lost-Time Claim

Medical Claim Cost (\$000s)



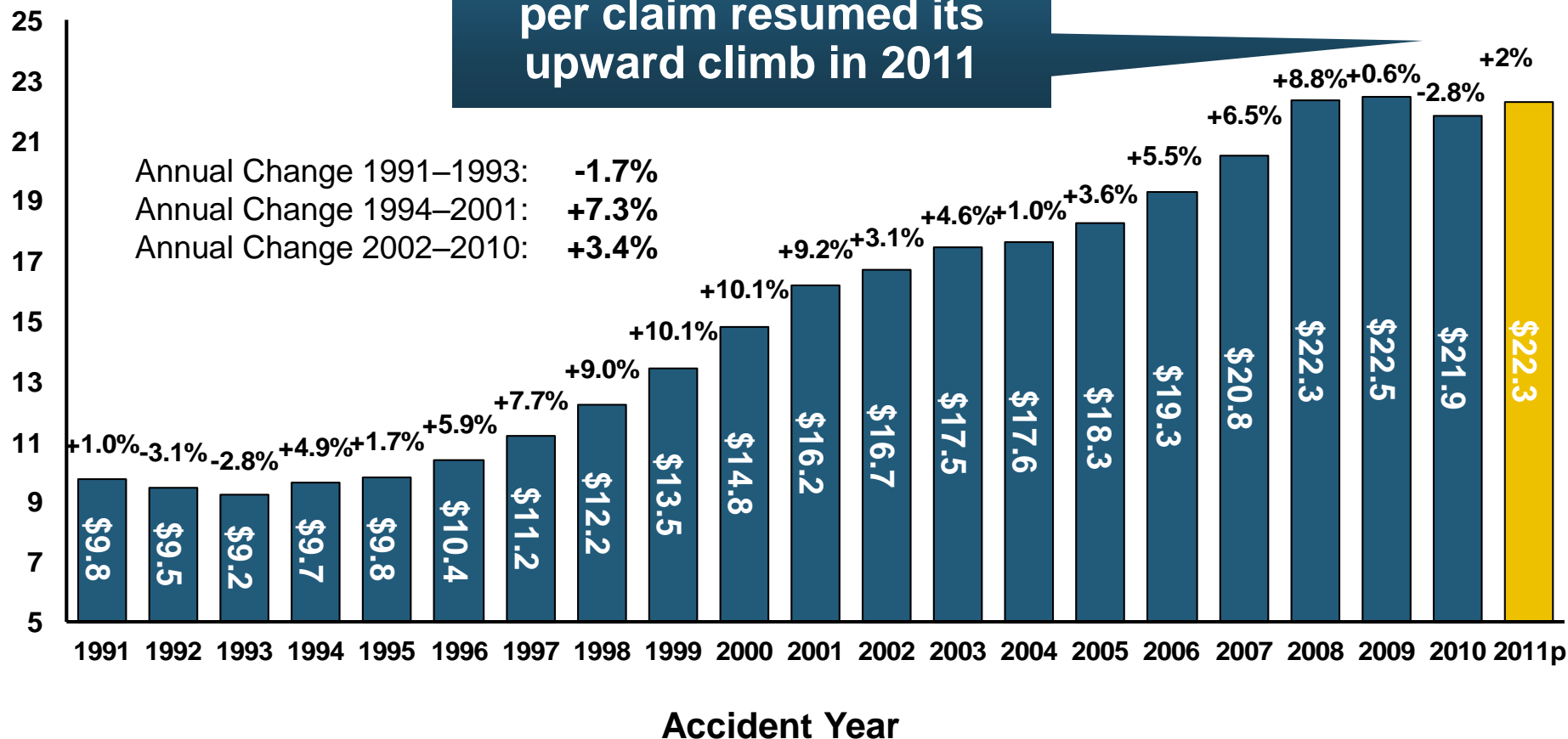
2011p: Preliminary based on data valued as of 12/31/2011  
 1991-2010: Based on data through 12/31/2010, developed to ultimate  
 Based on the states where NCCI provides ratemaking services; Excludes high deductible policies

# Workers Comp Indemnity Claim Costs: Modest Increase in 2011

## Average Indemnity Cost per Lost-Time Claim

Indemnity Claim Cost (\$ 000s)

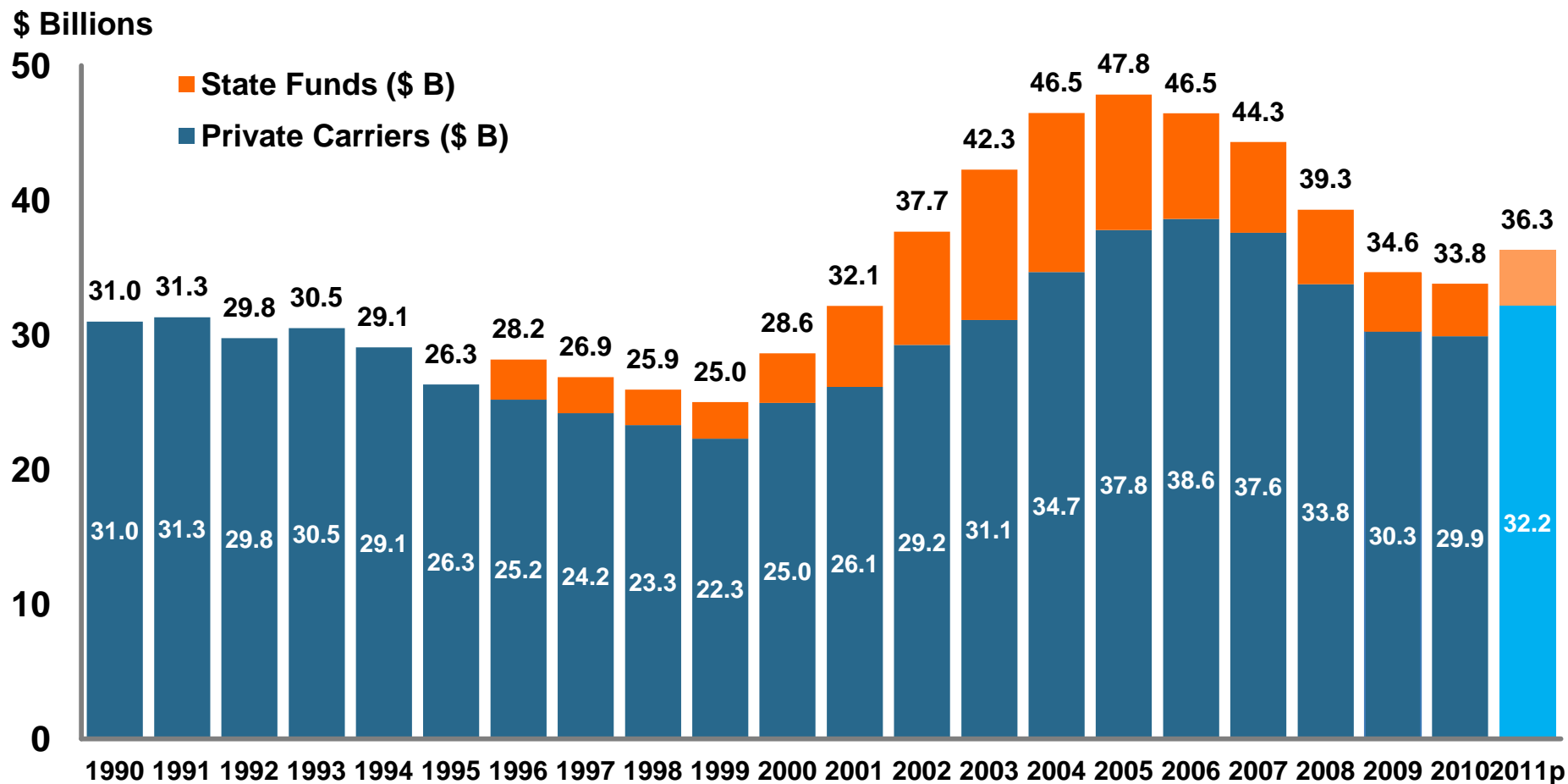
Average indemnity costs per claim resumed its upward climb in 2011



2010p: Preliminary based on data valued as of 12/31/2011  
 1991–2010: Based on data through 12/31/2010, developed to ultimate  
 Based on the states where NCCI provides ratemaking services  
 Excludes high deductible policies

# Workers Compensation Premium: First Increase in Years

## Net Written Premium



p Preliminary

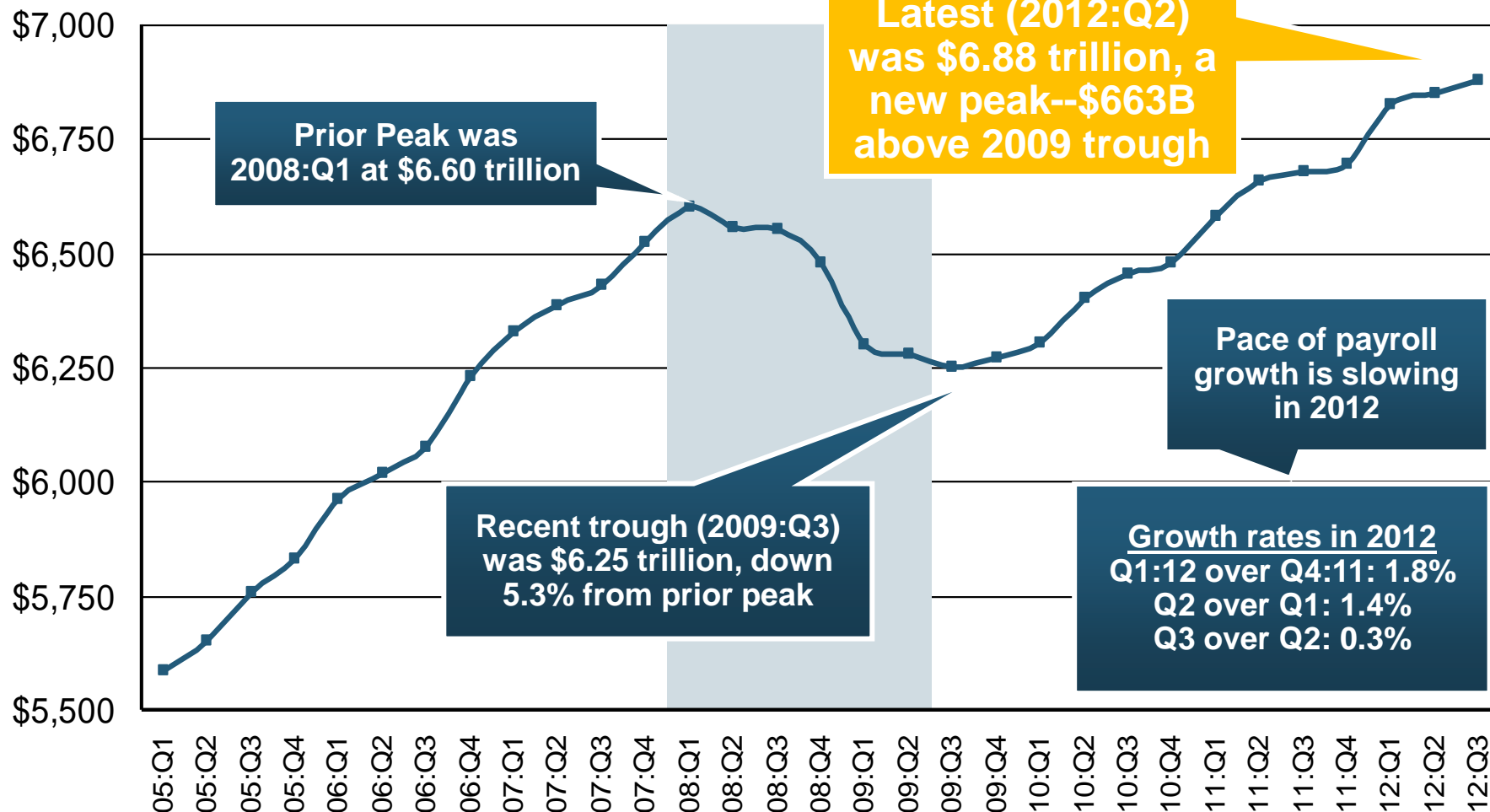
Source: 1990–2010 Private Carriers, *Best's Aggregates & Averages*; 2011p, NCCI

1996–2011p State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

State Funds available for 1996 and subsequent

# Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2012:Q3

Billions



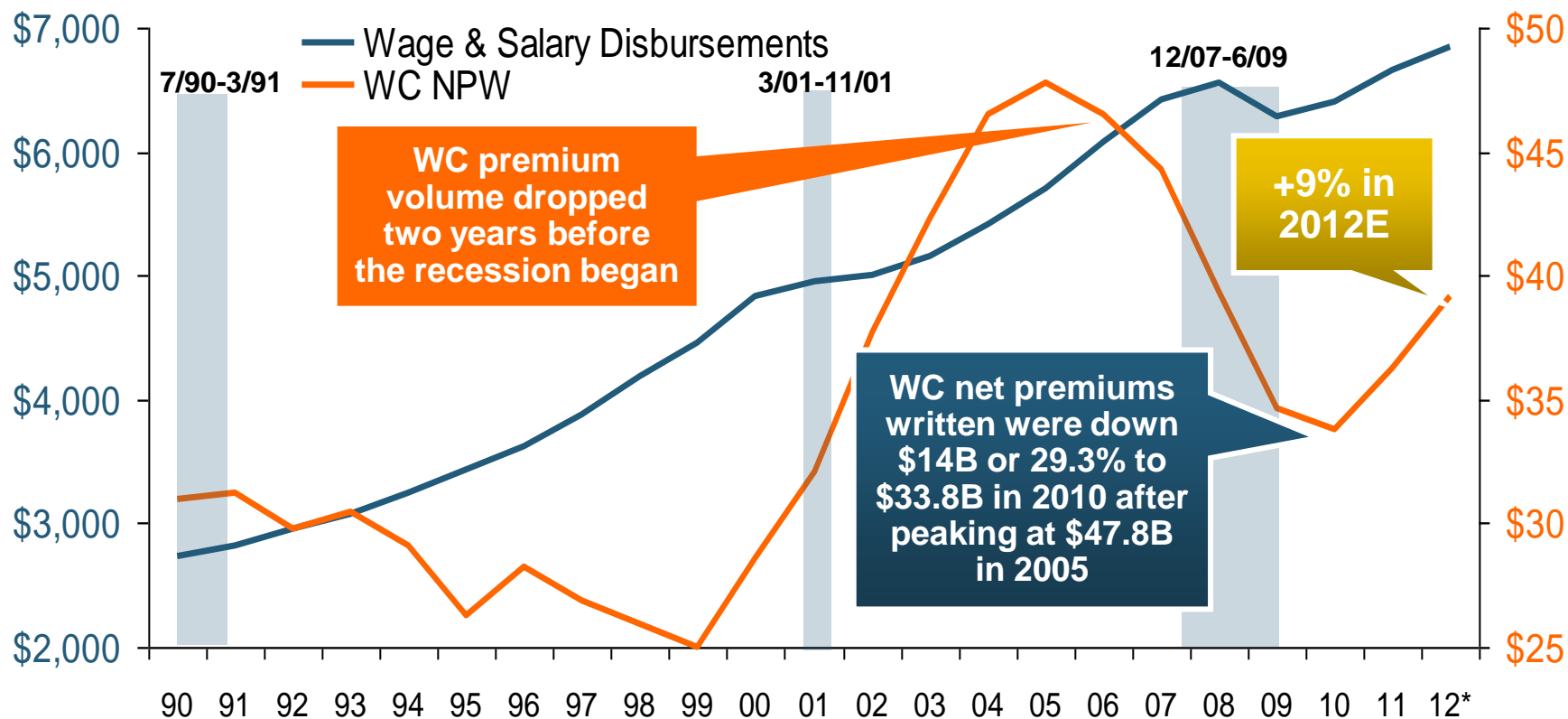
Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

Sources: <http://research.stlouisfed.org/fred2/series/WASCUR>; National Bureau of Economic Research (recession dates); Insurance Information Institute.

# Payroll vs. Workers Comp Net Written Premiums, 1990-2012E

Payroll Base\*  
\$Billions

WC NWP  
\$Billions



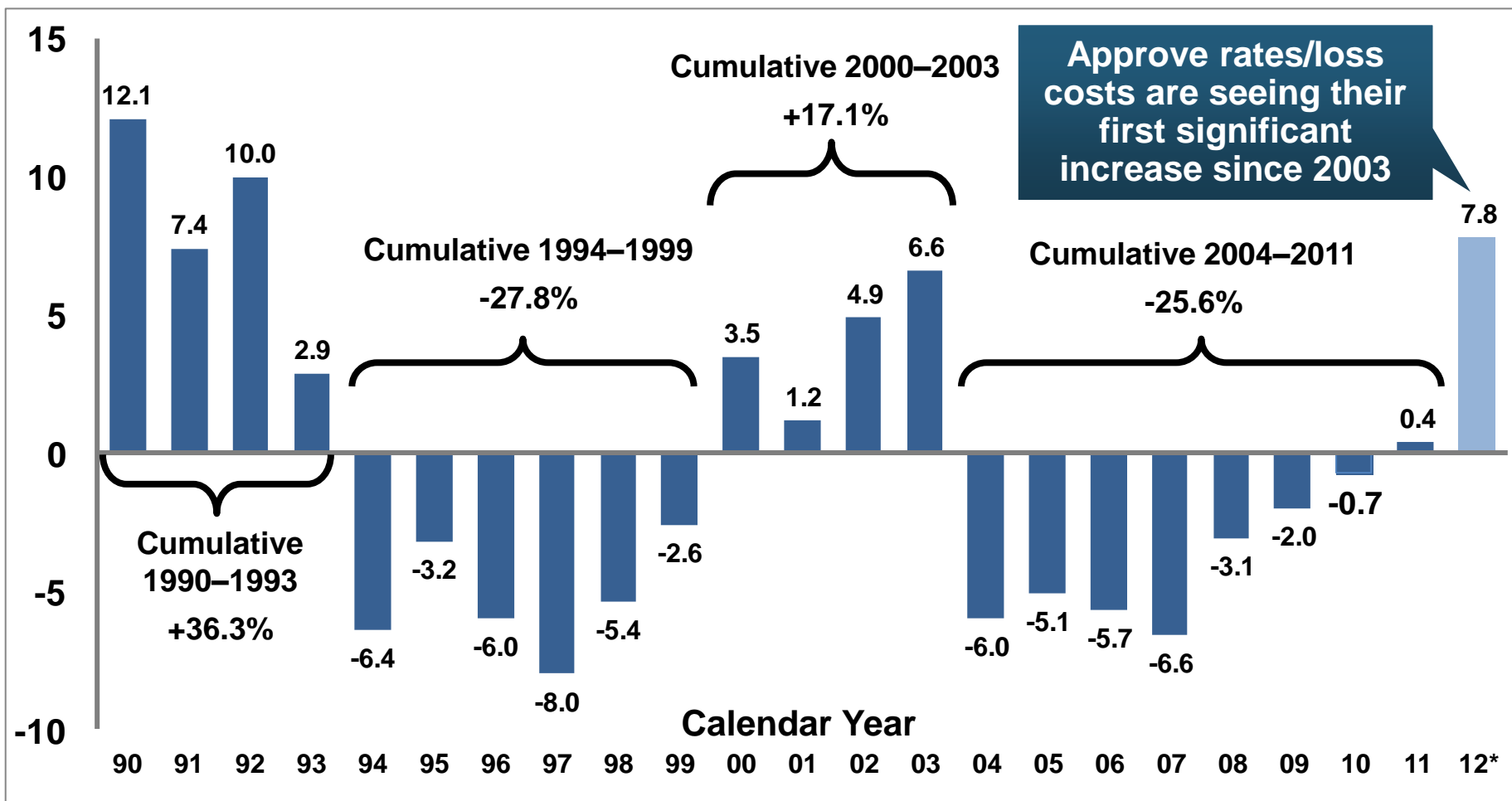
**Continued Payroll Growth and Rate Increases Suggest WC NWP Will Grow Again in 2012; +7.9% Growth in 2011 Was the First Gain Since 2005**

\*Private employment; Shaded areas indicate recessions. Payroll and WC premiums for 2012 is I.I.I. estimate based YTD 2012 actuals. Sources: NBER (recessions); Federal Reserve Bank of St. Louis at <http://research.stlouisfed.org/fred2/series/WASCUR> ; NCCI; I.I.I.

# Average Approved Bureau Rates/Loss Costs

## History of Average WC Bureau Rate/Loss Cost Level Changes

Percent



\*States approved through 7/31/12.

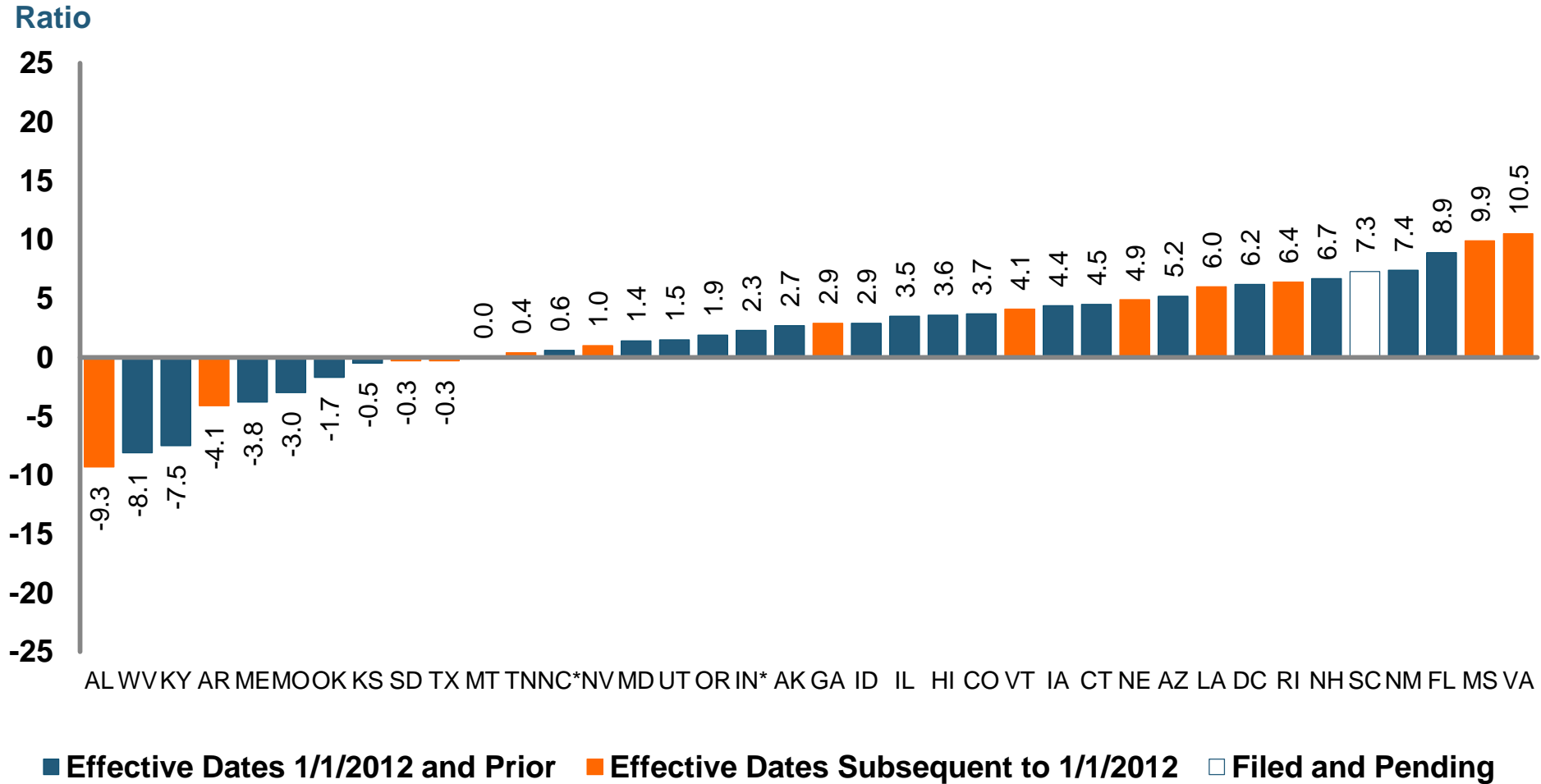
Note: Countrywide approved changes in advisory rates, loss costs and assigned risk rates as filed by applicable rating organization.

Source: NCCI.



# Current NCCI Voluntary Market Filed Rate/Loss Cost Changes

(Excludes Law-Only Filings)

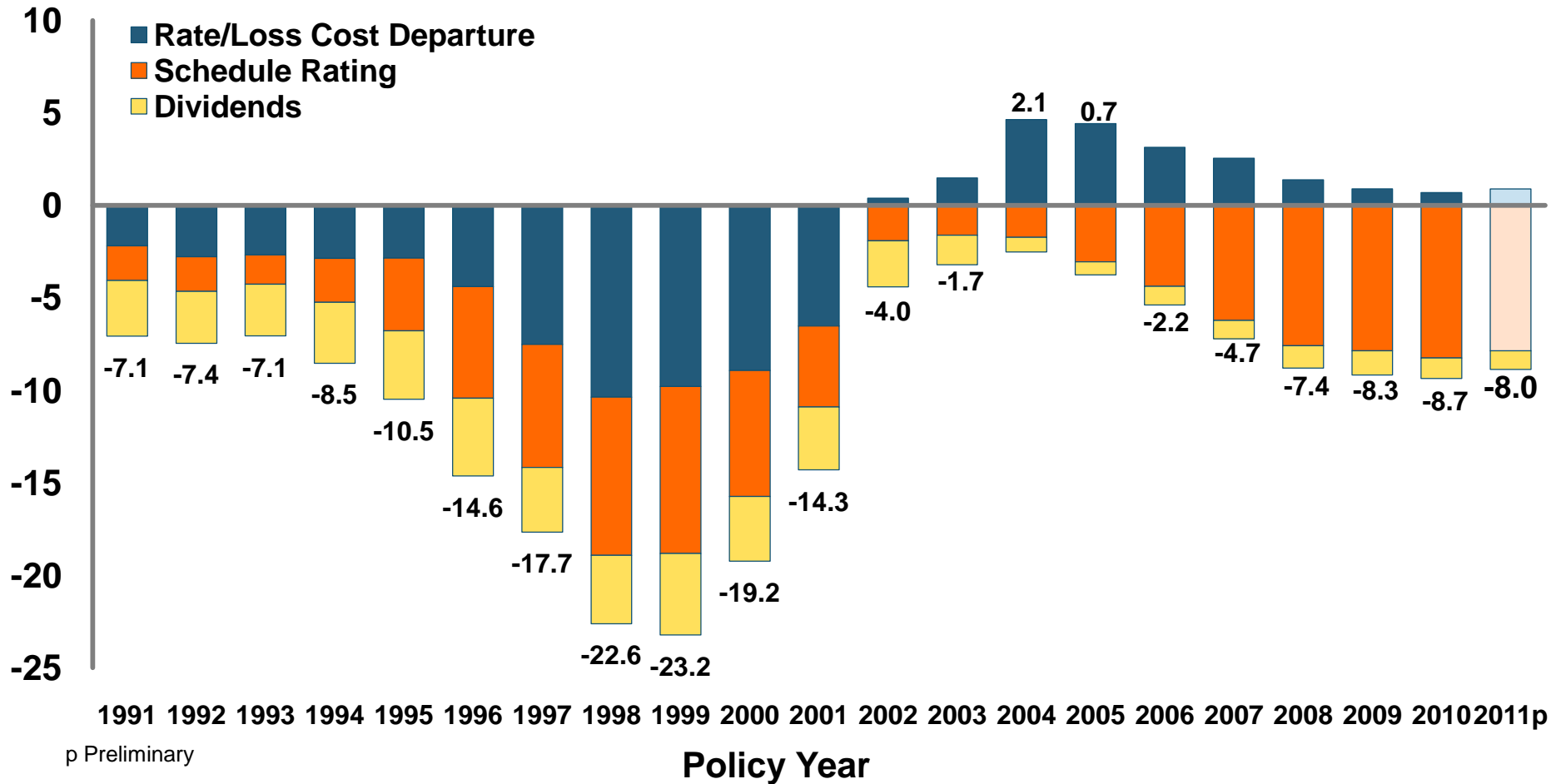


\*IN and NC filed in cooperation with state rating bureau  
Source: NCCI

# Impact of Discounting on Workers Compensation Premium

## NCCI States—Private Carriers

Percent



p Preliminary

Dividend ratios are based on calendar year statistics

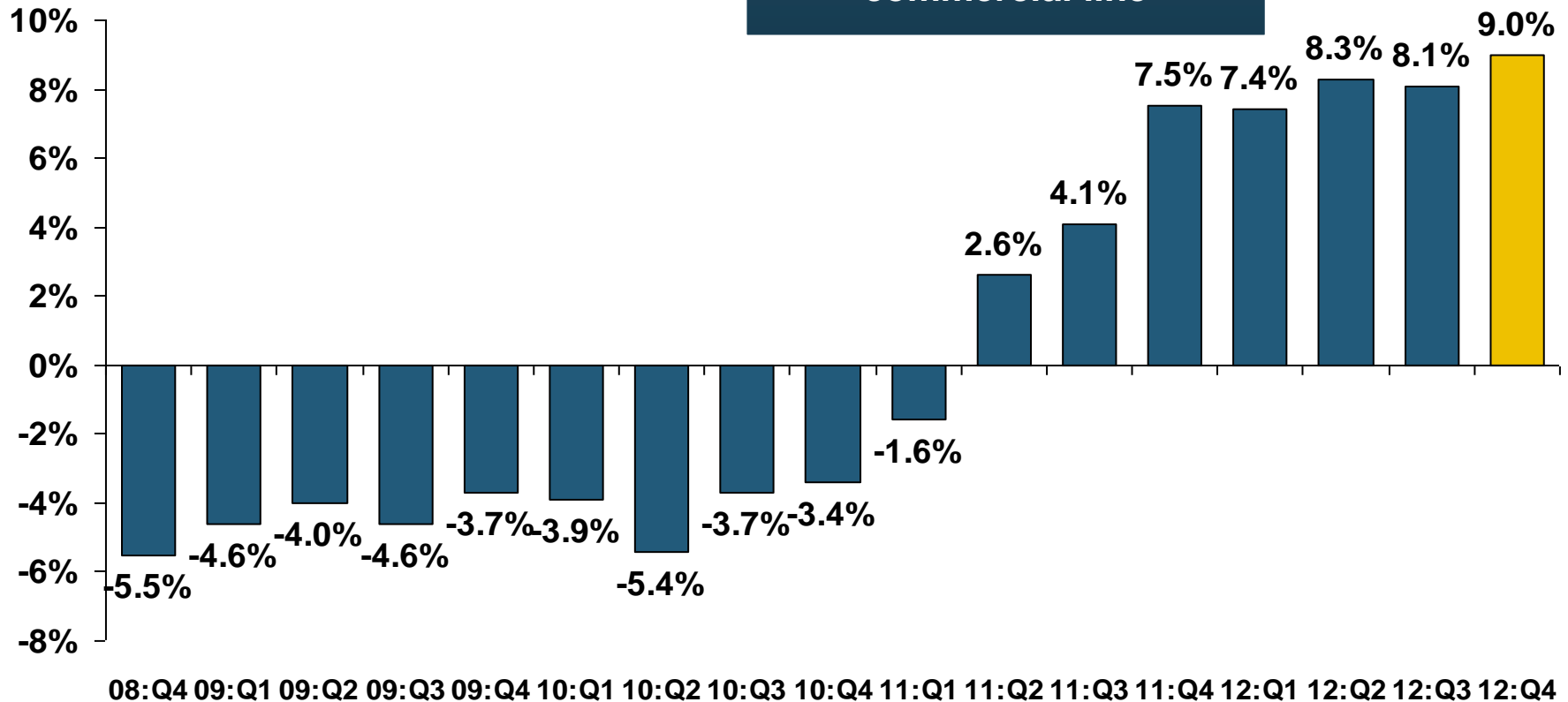
NCCI benchmark level does not include an underwriting contingency provision

Based on data through 12/31/2011 for the states where NCCI provides ratemaking services

Source: NCCI.

# Workers Comp Rate Changes, 2008:Q4 – 2012:Q4

(Percent Change)



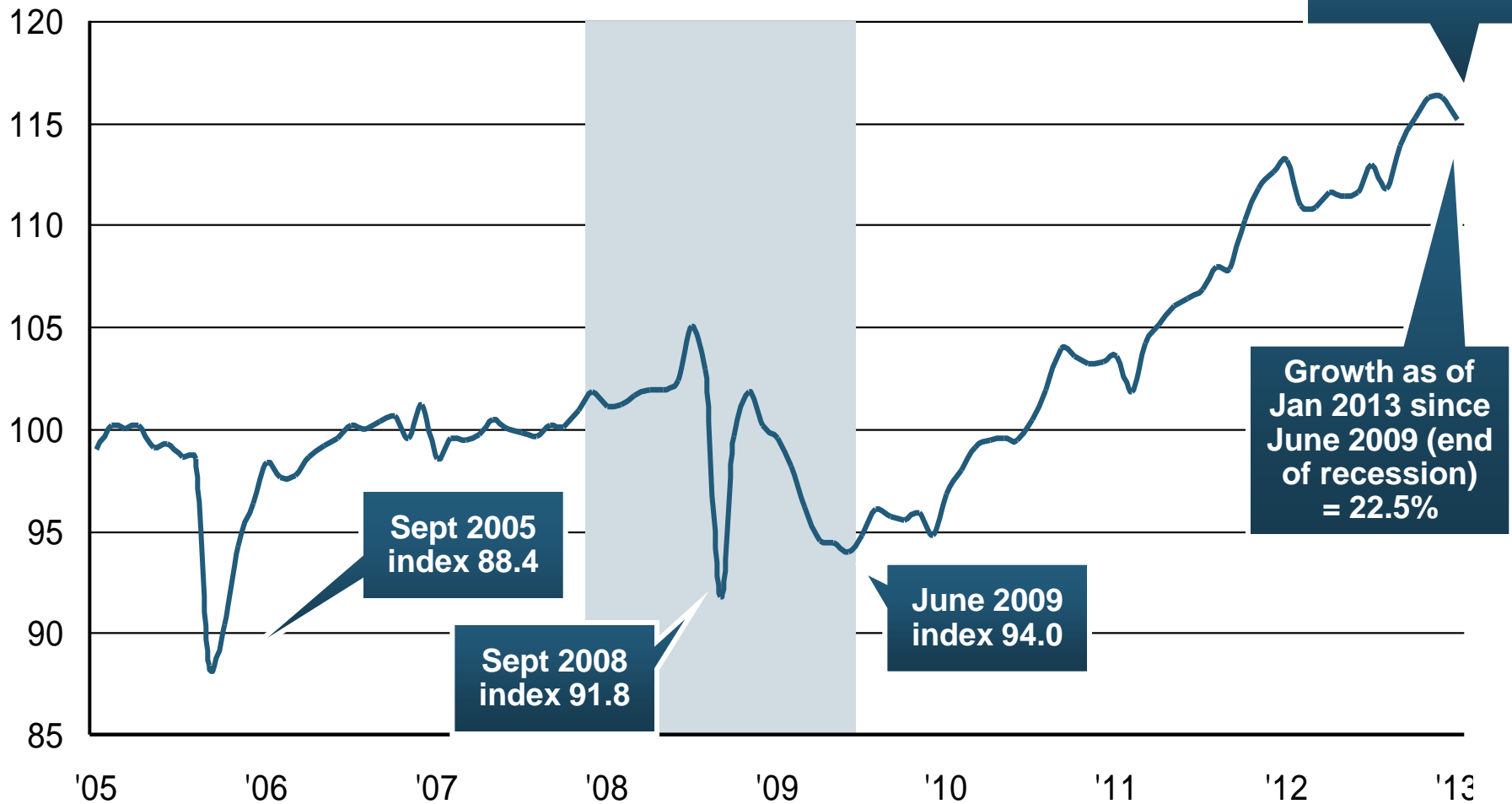
Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.  
Source: Council of Insurance Agents and Brokers; Information Institute.

# **US Mining Drivers for Extractive Mining Operations**

**Natural Resources/Commodities Have  
Been Among the Strongest Sectors in  
Recent Years, Driving Insurance Demand**

# U.S. Mining Production, Monthly, Jan 2005 – Jan. 2013\*

Index: 2007=100

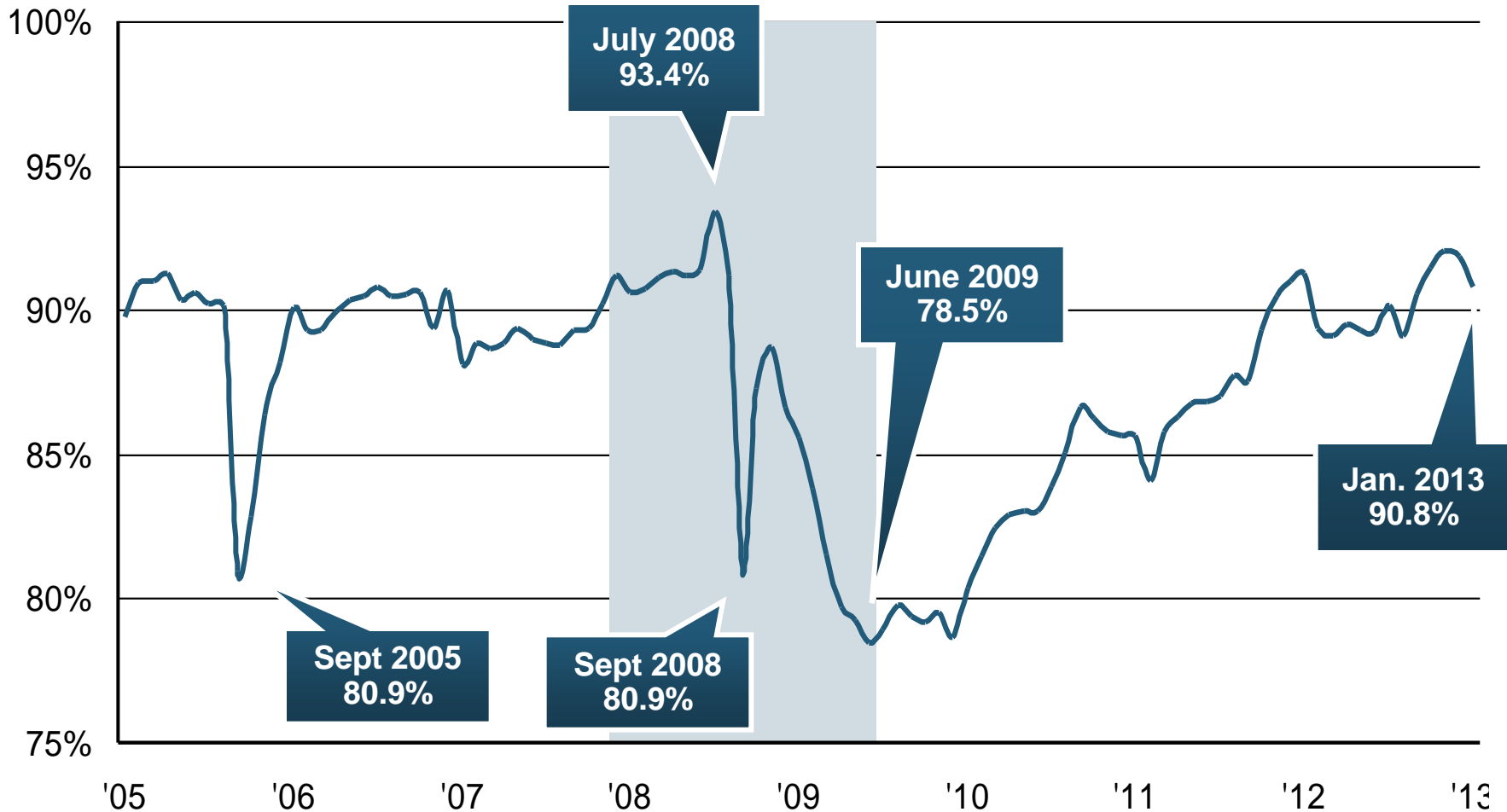


\*seasonally adjusted; Jan 2013 number is preliminary

Note: Recession indicated by gray shaded column.

Sources: [www.federalreserve.gov](http://www.federalreserve.gov) ; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

# U.S. Mining Capacity Utilization, Monthly, Jan 2005 – Jan 2013\*



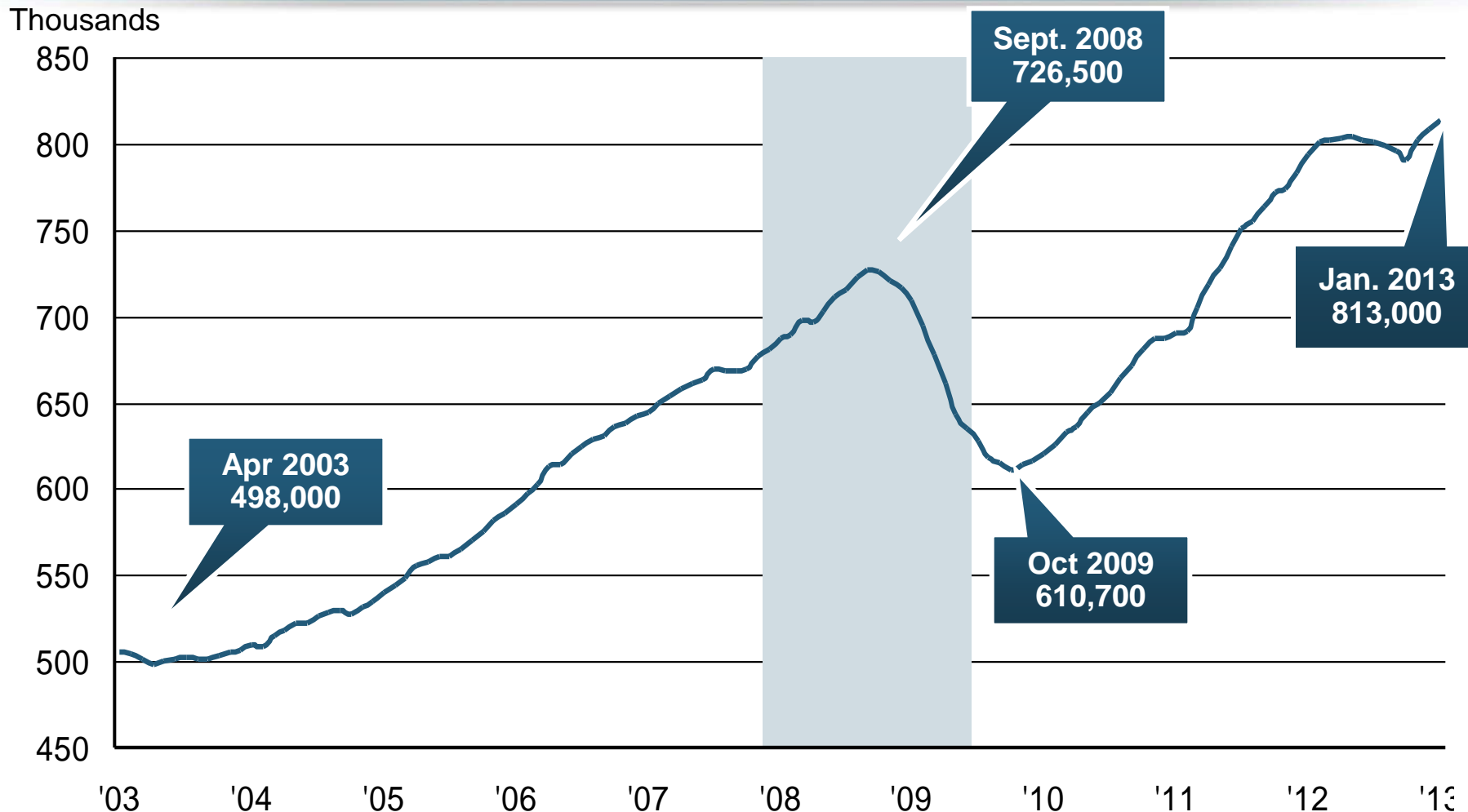
**Mining capacity utilization is back to pre-recession levels**

\*seasonally adjusted; Jan 2013 data is preliminary

Note: Recession indicated by gray shaded column.

Sources: [www.federalreserve.gov](http://www.federalreserve.gov) ; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

# U.S. Mining Employment, Monthly, Jan 2003 – Jan 2013\*



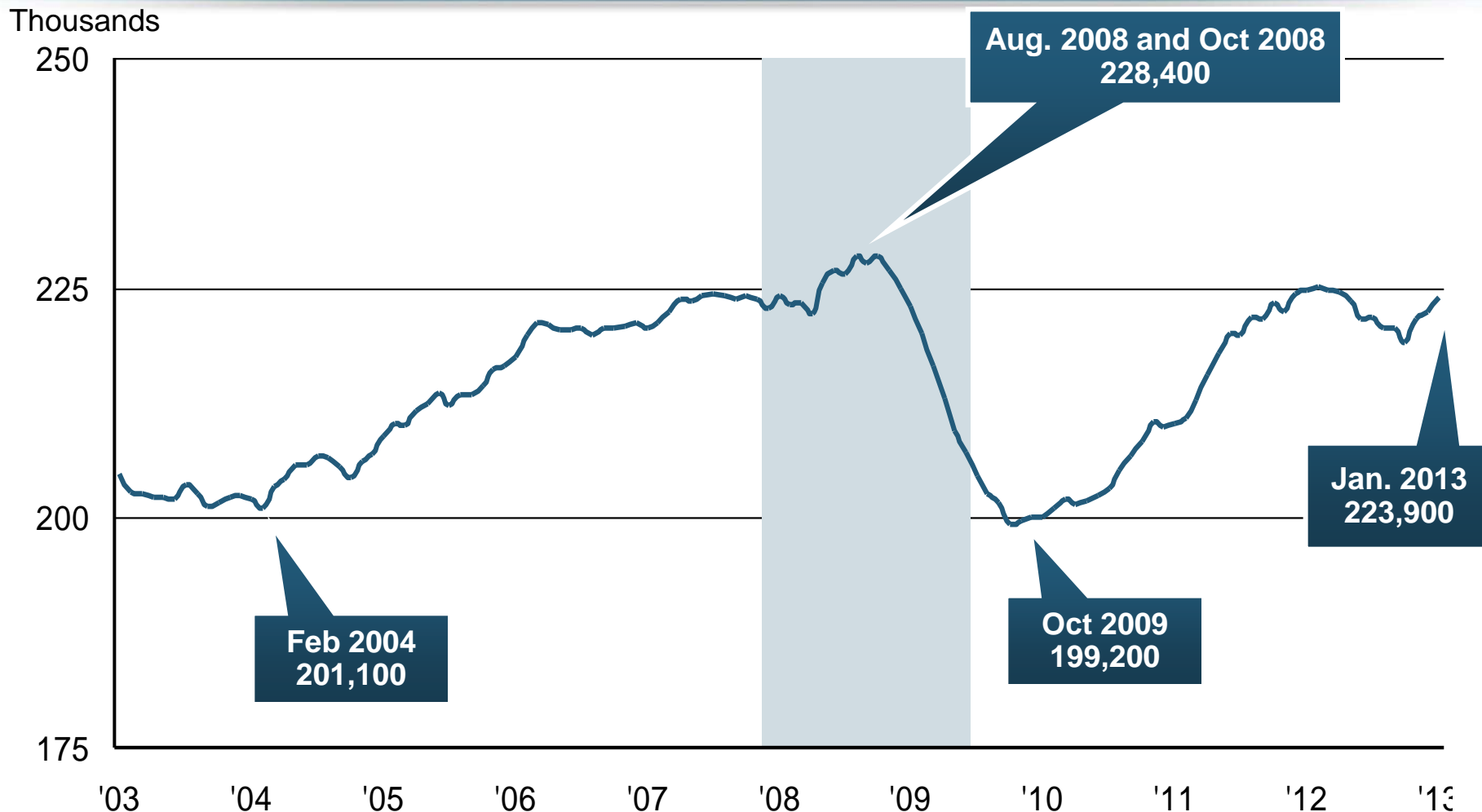
**Mining employment is well above pre-recession levels,  
and growing (up 33% from Oct 2009 trough)**

\*seasonally adjusted; Jan 2013 data is preliminary

Note: Recession indicated by gray shaded column.

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

# Mining (except Oil & Gas) Employment, Monthly, Jan 2003 – Jan 2013\*



**Half of the mining jobs lost in the recession were in coal mining**

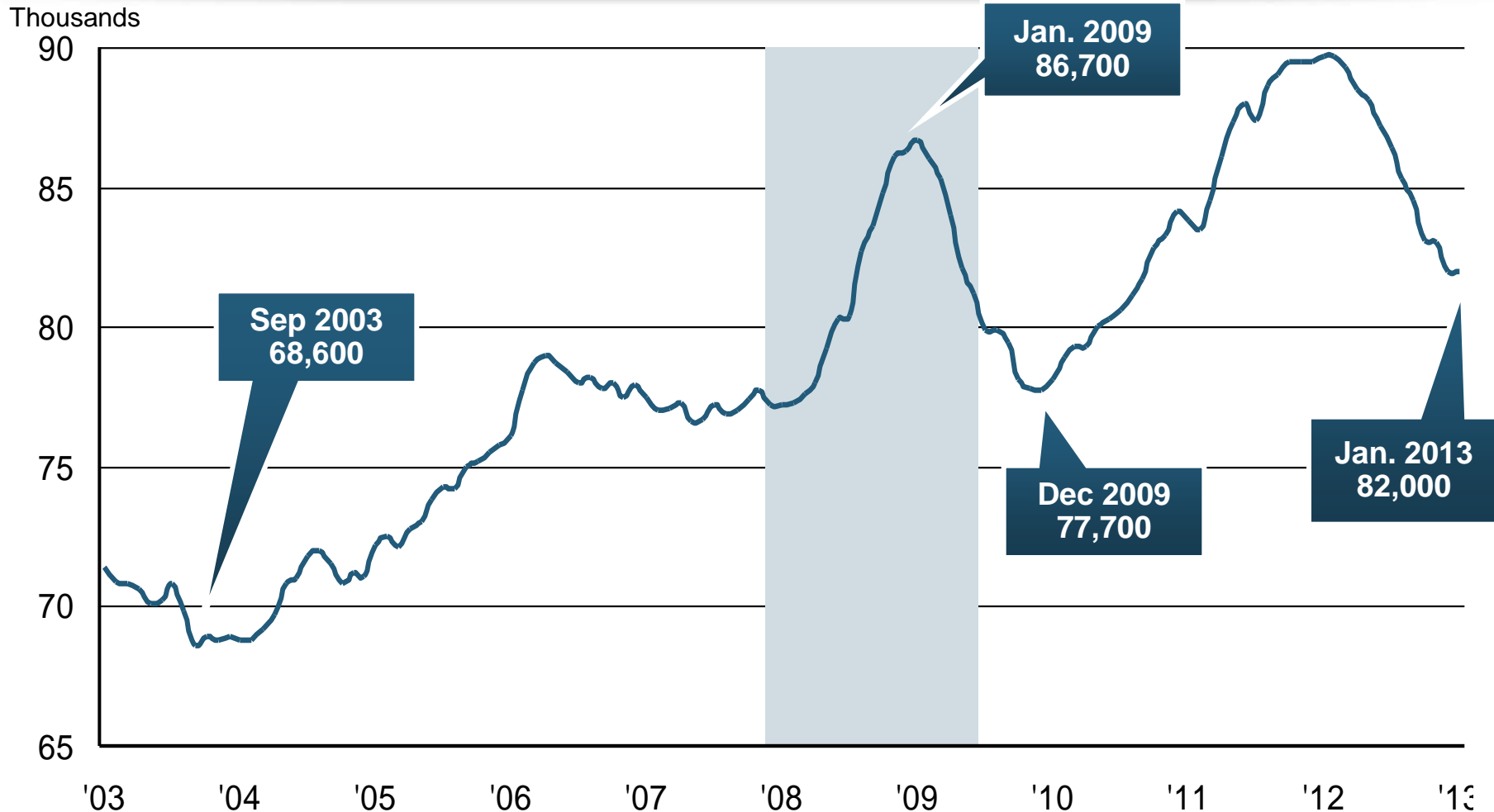
\*seasonally adjusted; Jan 2013 data is preliminary

Note: Recession indicated by gray shaded column.

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



# U.S. Coal Mining Employment, Monthly, Jan 2003 – Jan 2013\*



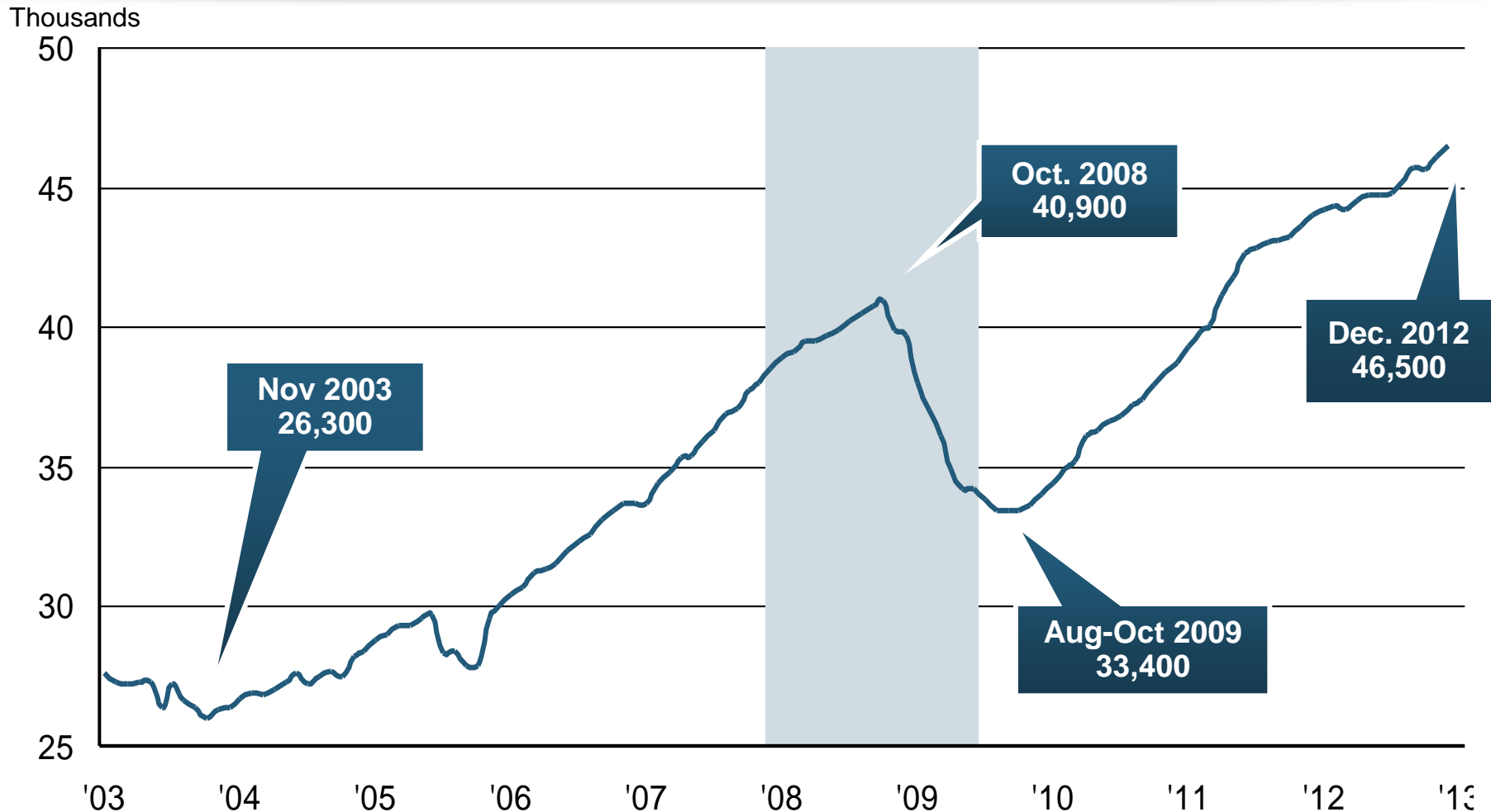
**Coal mining employment appears to be cyclical;  
lately in a down cycle, but growing over the long term**

\*seasonally adjusted; Jan 2013 data is preliminary

Note: Recession indicated by gray shaded column.

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

# U.S. Metal Ore Mining Employment, Monthly, Jan 2003 – Dec 2012\*



**Strong employment growth in metal ore mining; growth since Oct 2009 is over 13,000 jobs, up 39%**

\*seasonally adjusted; Dec 2012 data is preliminary

Note: Recession indicated by gray shaded column.

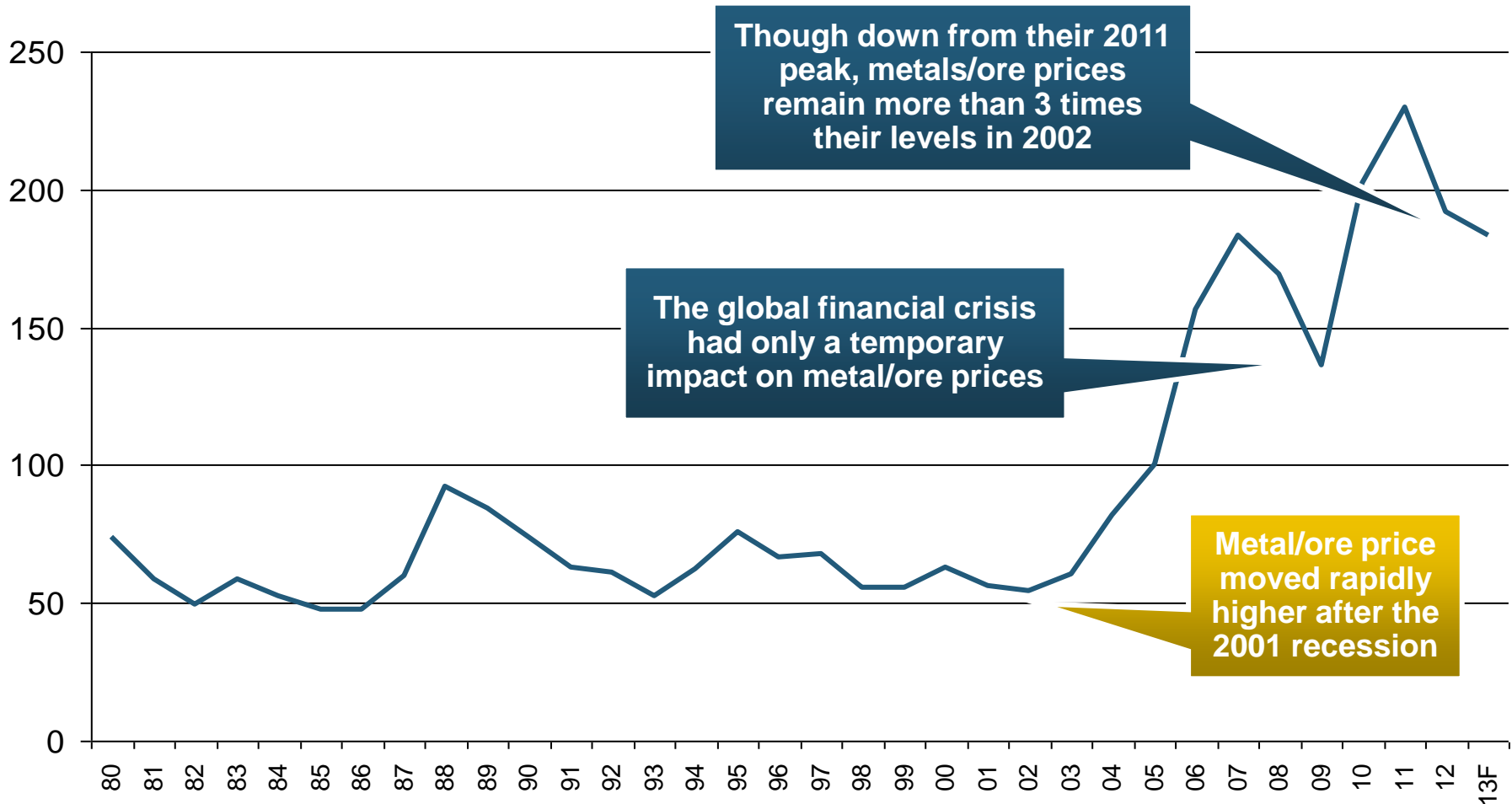
Sources: Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

# Price Drivers

## Pricing Trends for Major Mined Resources

# Commodity Metals Global Price Index, 1980—2013F\* (2005 =100)

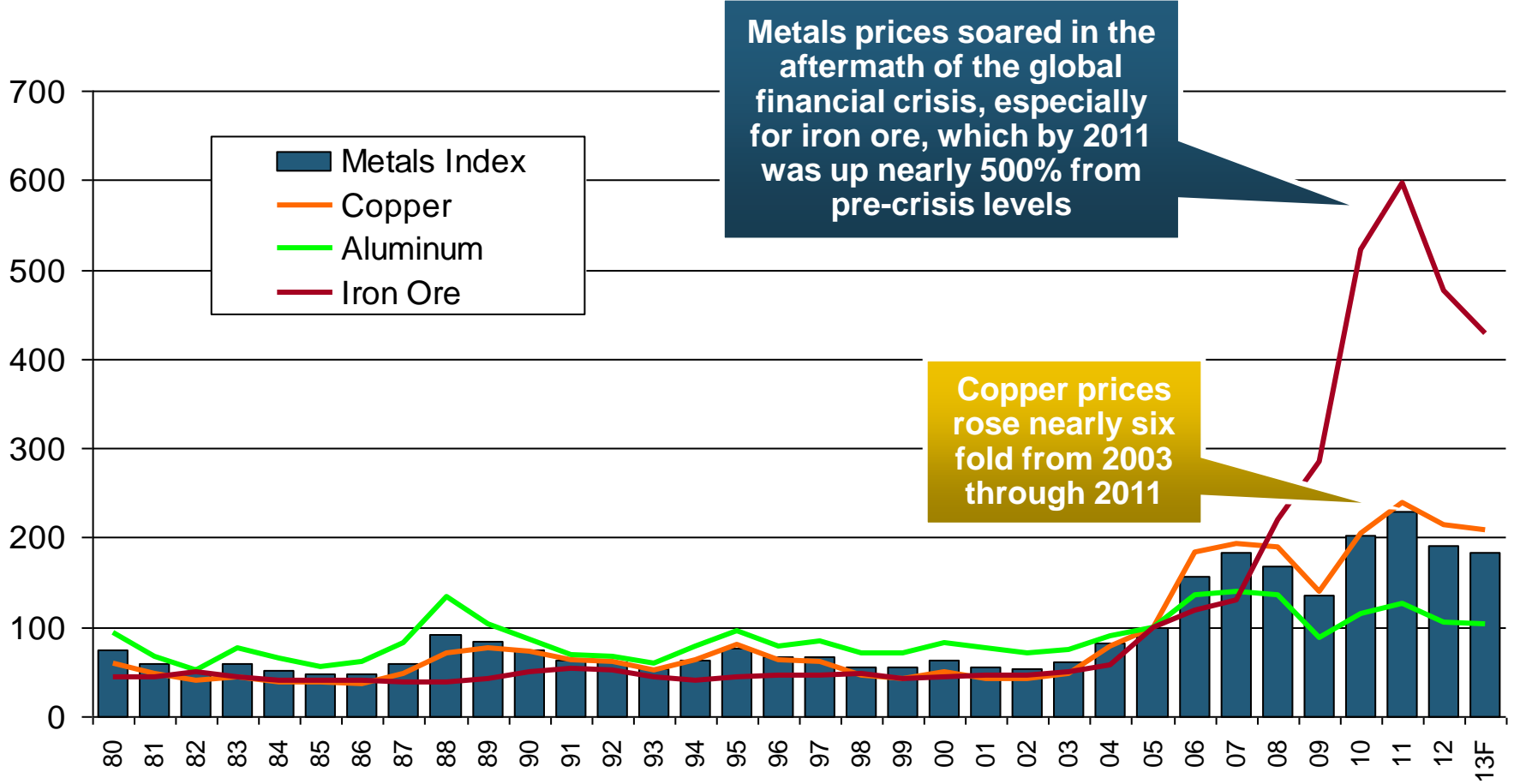
## Index Value



\* Includes: Copper, Aluminum, Iron Ore, Tin, Nickel, Zinc, Lead and Uranium.  
Sources: International Monetary Fund; Insurance Information Institute.

# Global Price Index: Copper, Aluminum & Iron Ore vs. Full Metals Index, 1980—2013F\*

Index Value (2005 = 100)



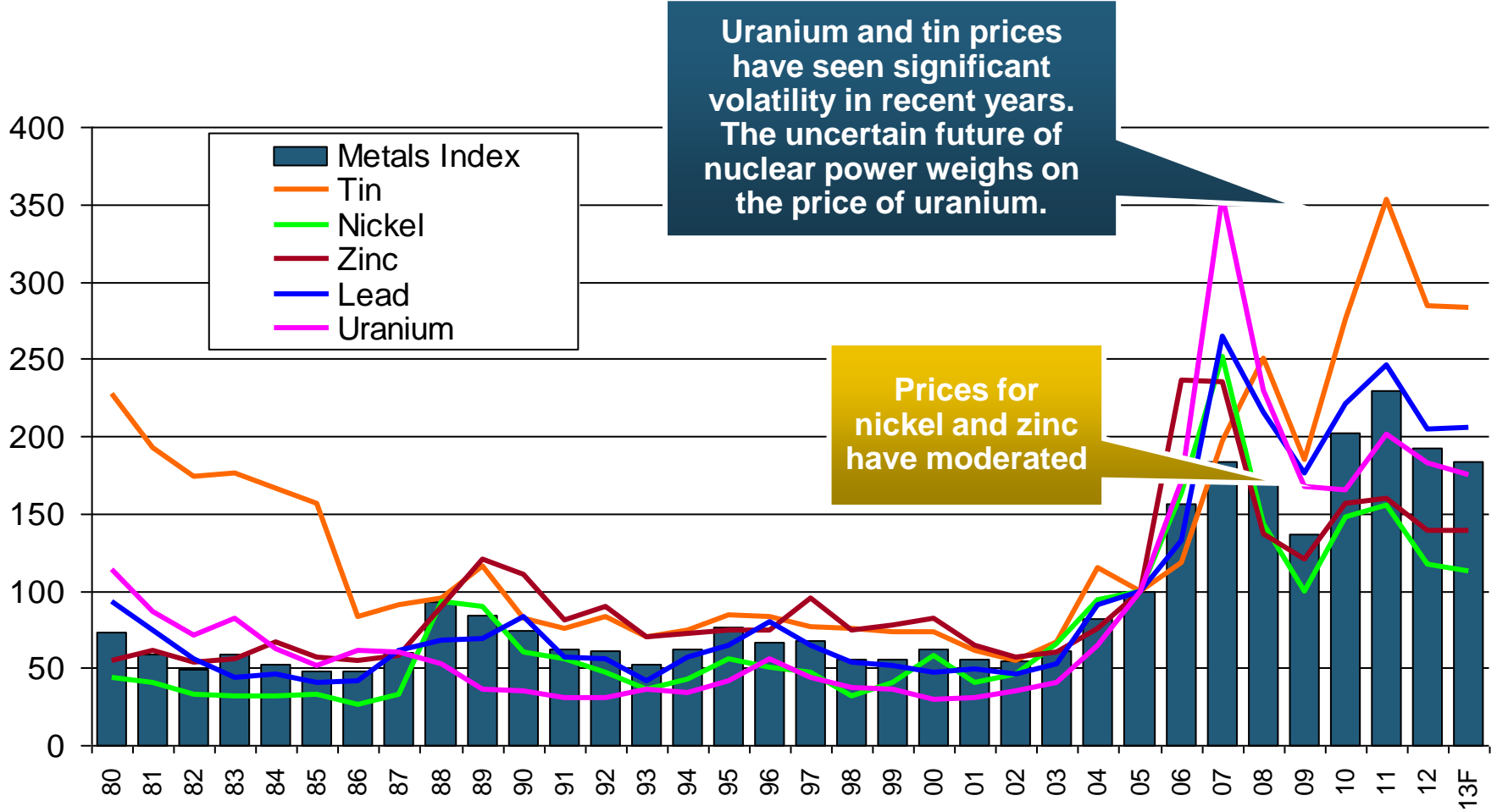
Metals prices soared in the aftermath of the global financial crisis, especially for iron ore, which by 2011 was up nearly 500% from pre-crisis levels

Copper prices rose nearly six fold from 2003 through 2011

\* Full Metals Index Includes: Copper, Aluminum, Iron Ore, Tin, Nickel, Zinc, Lead and Uranium.  
Sources: International Monetary Fund; Insurance Information Institute.

# Global Price Index: Tin, Nickel, Zinc, Lead & Uranium vs. Full Metals Index, 1980—2013F\*

Index Value (2005 = 100)

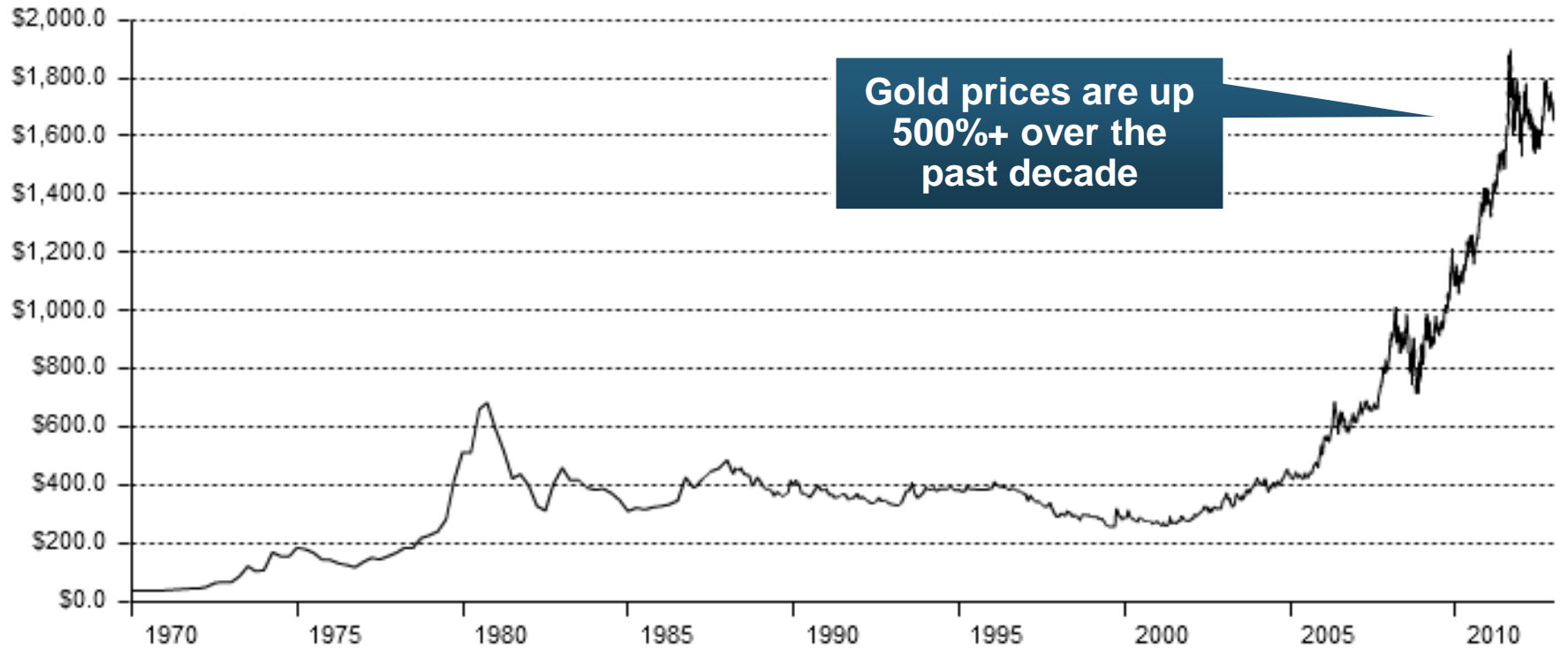


\* Full Metals Index Includes: Copper, Aluminum, Iron Ore, Tin, Nickel, Zinc, Lead and Uranium. Sources: International Monetary Fund; Insurance Information Institute.

# Spot Price for Gold, Jan. 1970—Feb. 2013

Dollars per Troy Ounce

Spot gold price in USD



Source: World Gold Council [www.gold.org](http://www.gold.org)

Currencies: USD

Weight: oz

# Spot Price for Silver: Jan. 1994—Mar. 4, 2013

Dollars per Troy Ounce

20 Year Silver Price in USD/oz

Last Close: 28.46

High: 48.58 Low: 3.56 ▲ 24.88 696.56%



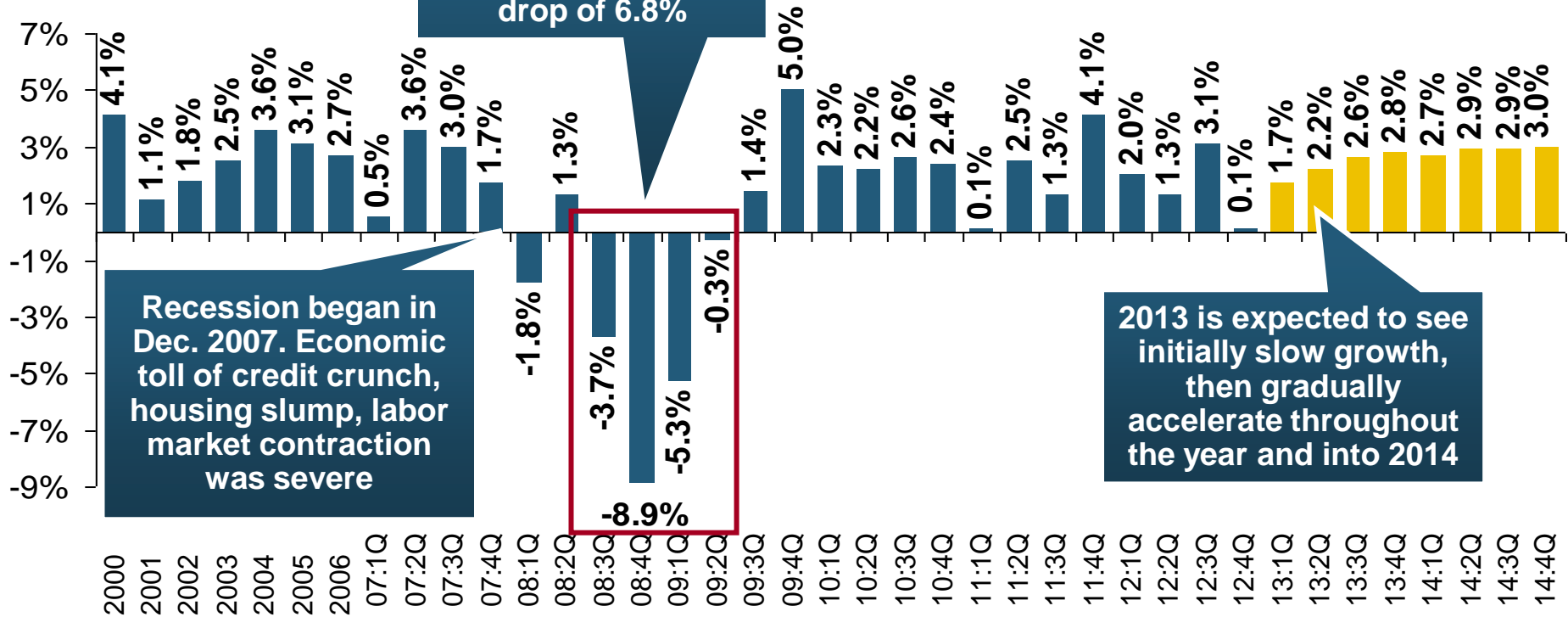


**The Strength of the Global  
Economy Will Impact the  
Mining Industry and Demand  
for Insurance**

**Growth Will Expand Insurer Exposure  
Base Across Most Lines**

# 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 2/13; Insurance Information Institute.

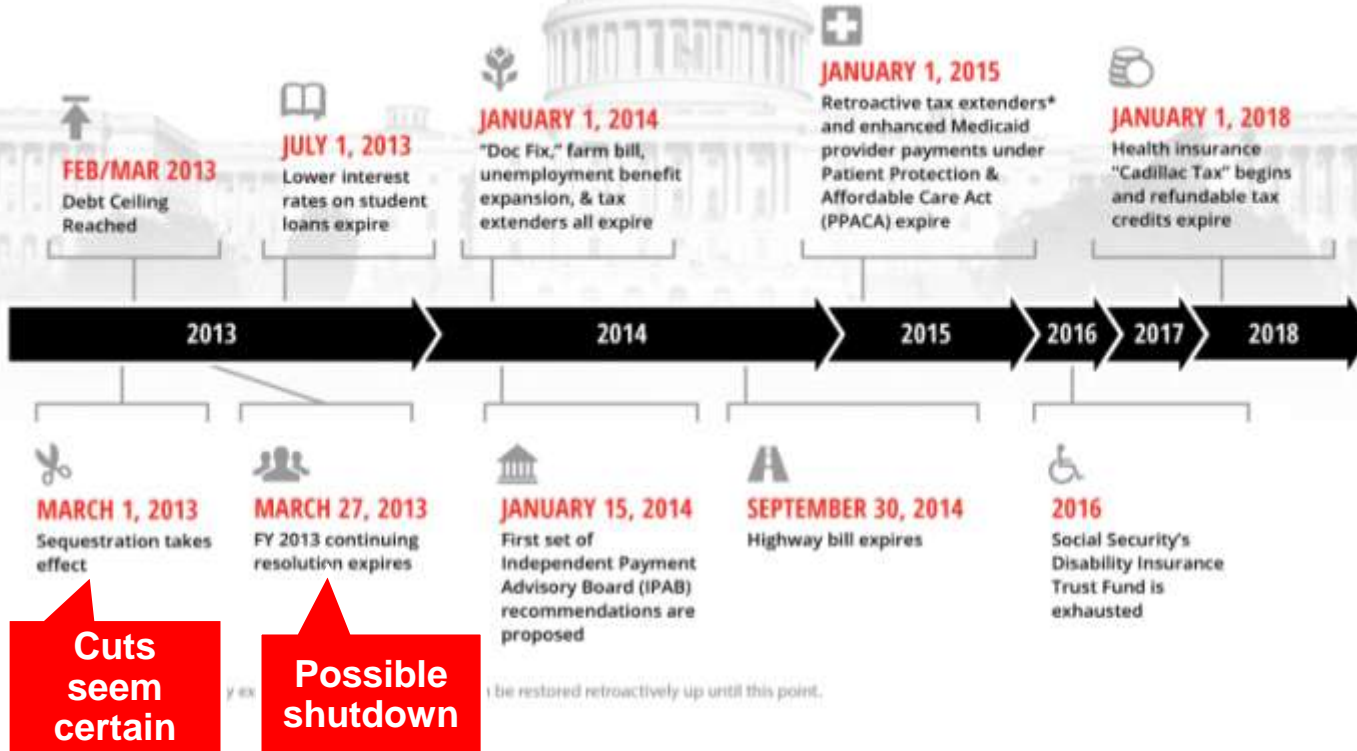
# The Fiscal Cliff Was Just the Beginning: Budget Battles for Years to Come?

*Poll: 94% of P/C insurance executives think looming budget battles In Washington will hurt the economy.\**

- The “Fiscal Cliff” was just the beginning
- There are 10+ “Fiscal Speed Bumps” over the next 5 years, setting up a potentially extended period of fiscal uncertainty
- Creates long-term uncertainty around federal spending, tax policy, entitlements
- Insurable exposures impacted

## Impending “Fiscal Speed Bumps”

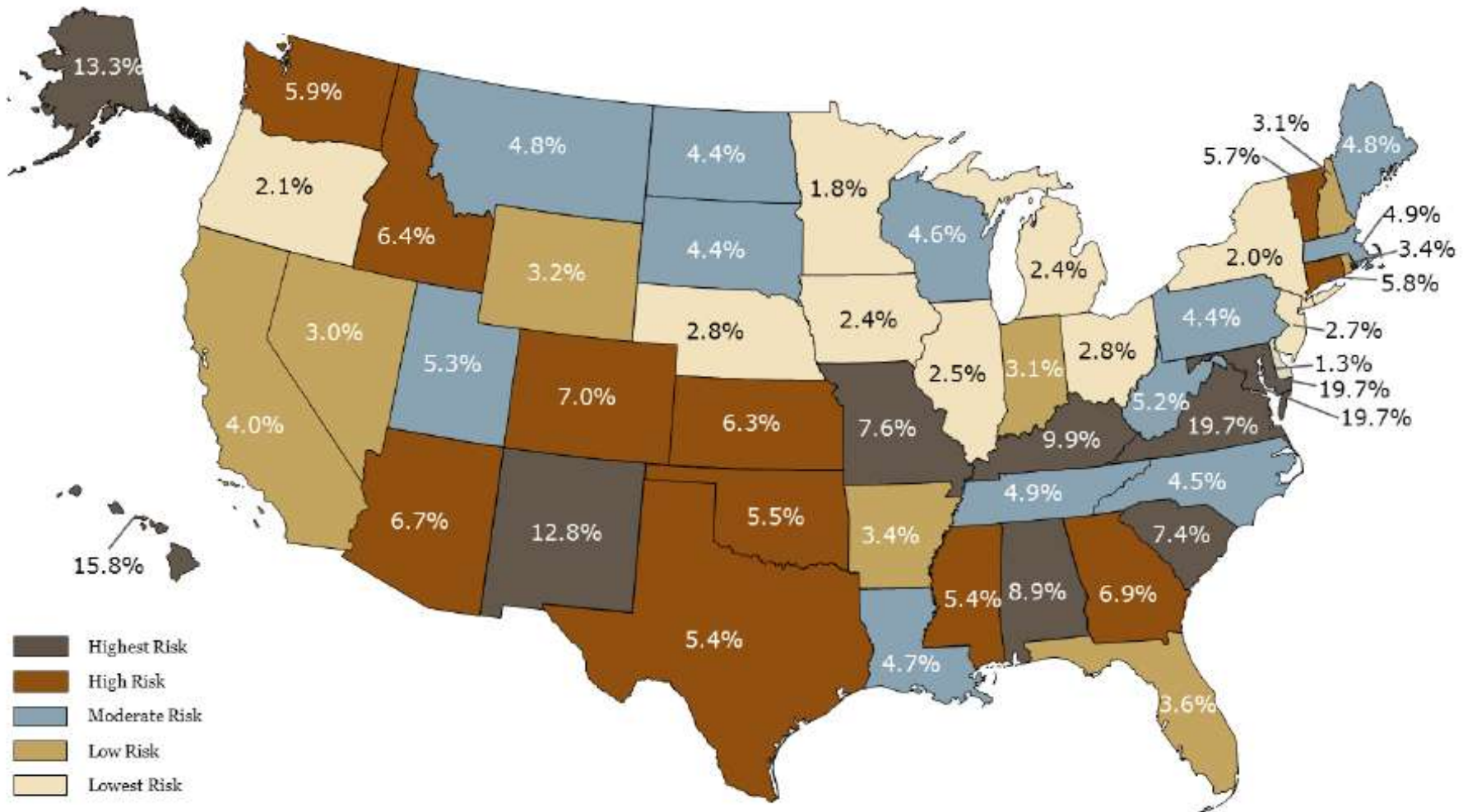
2013-2018



\*P/C Insurance Joint Industry Forum press release ([www.iii.org/press\\_releases](http://www.iii.org/press_releases)), January 15, 2013.

Source: Fix the Debt Coalition, January 18, 2013; Insurance Information Institute

# Federal Spending as a Share of State GDP: Vulnerability to Sequestration Varies

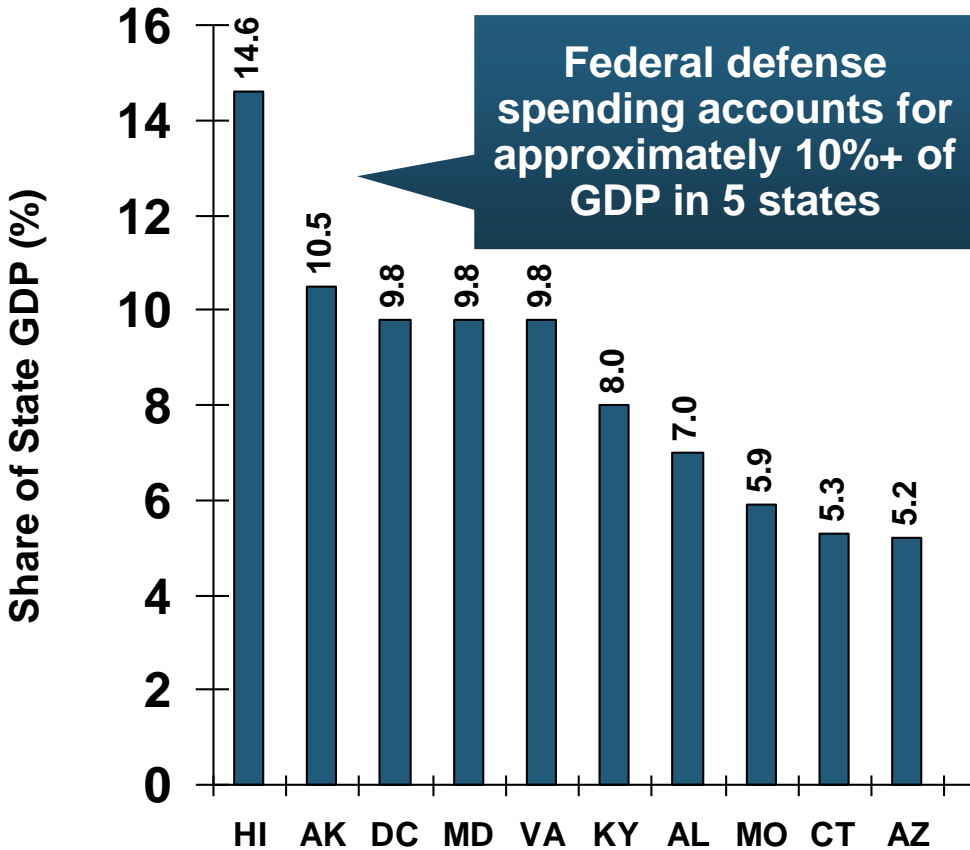


Sources: Pew Center on the States (2012) *Impact of the Fiscal Cliff on the States*; Wells Fargo; Insurance Information Institute.

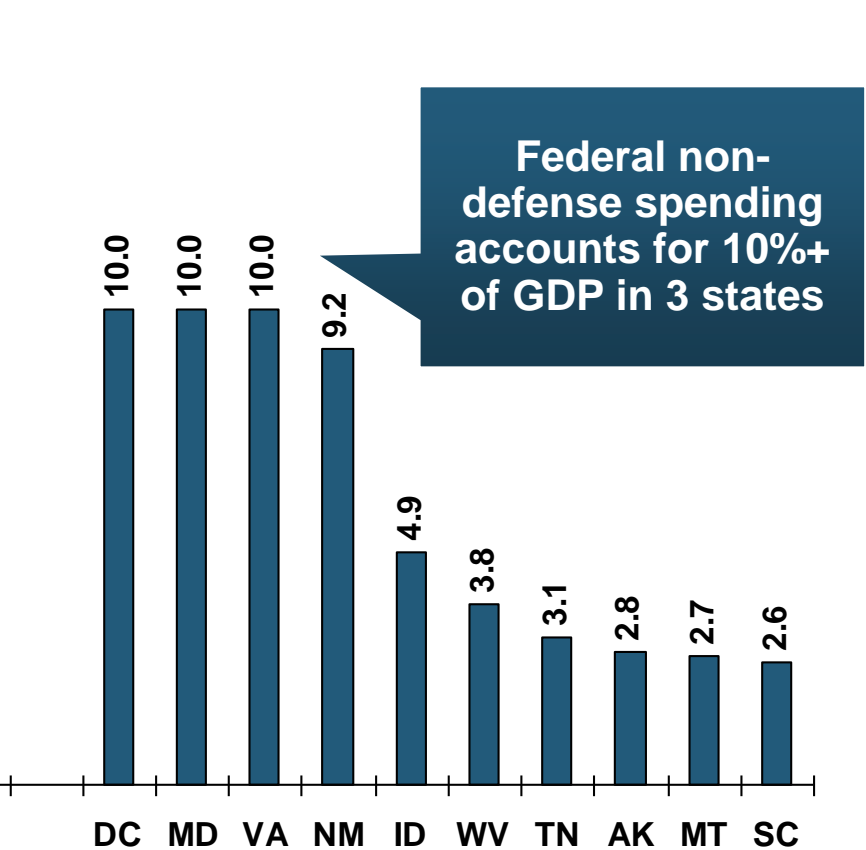
# Defense and Non-Defense Federal Spending as a Share of State GDP: Top 10 States\*



## Defense Spending



## Non-Defense Spending



**Sequestration Could Adversely Impact Commercial Insurance Exposures Directly at Defense Contractors and Indirectly in Impacted Communities**

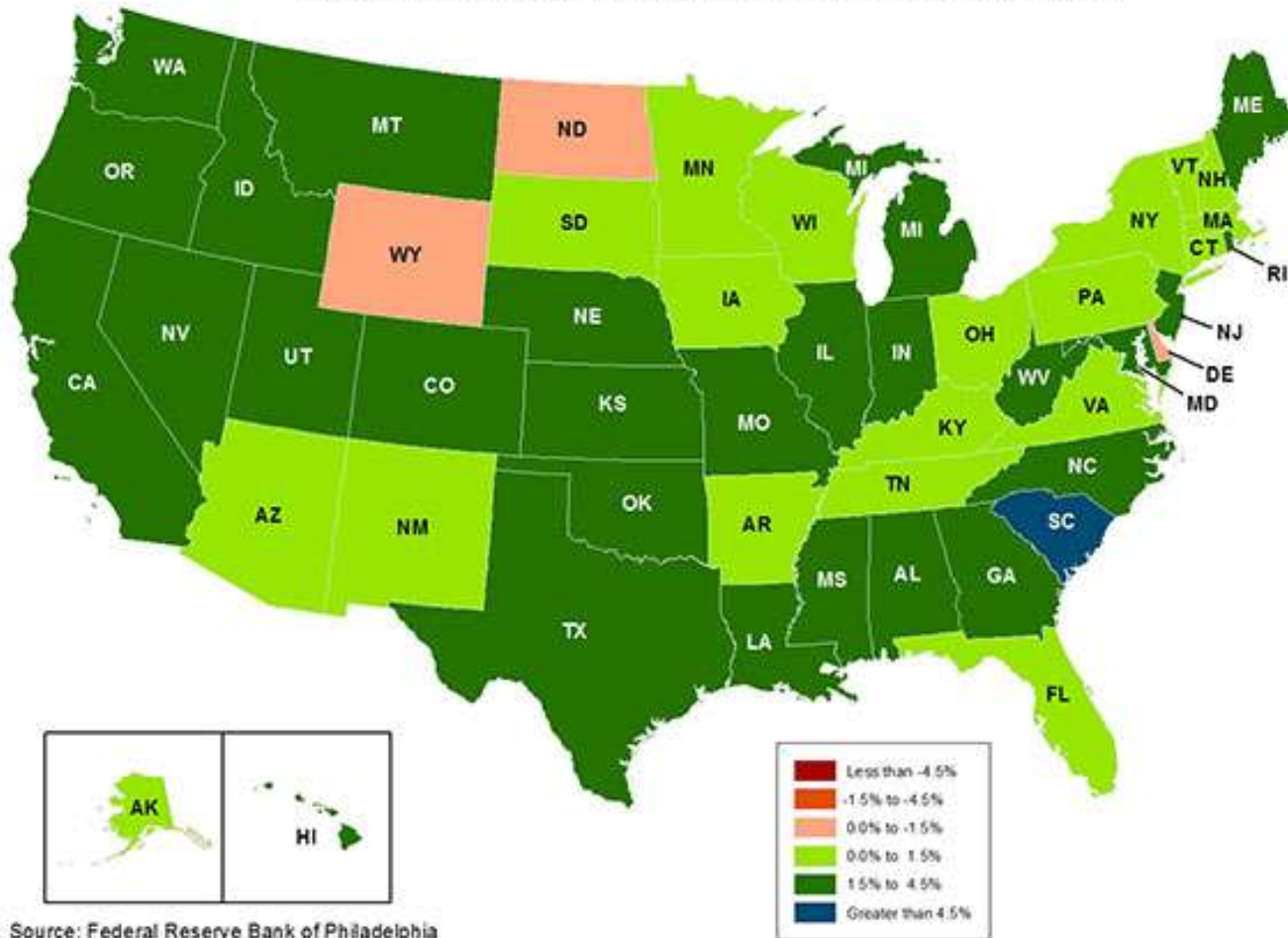
\*As of 2010.

Sources: Pew Center on the States (2012) *Impact of the Fiscal Cliff on the States*; Wells Fargo Securities; Insurance Information Institute.



# State-by-State Leading Indicators through 2013:Q1

October 2012 State Leading Indexes: 6-Month Forecast



## Near-term growth forecasts vary widely by state

### 5 Fastest Growing States

South Carolina	6.97%
Michigan	4.32%
West Virginia	3.59%
Idaho	3.14%
Georgia	3.04%

### 5 Slowest Growing States

Wyoming	-1.09%
Delaware	-0.24%
North Dakota	-0.19%
Vermont	0.09%
Minnesota	0.18%

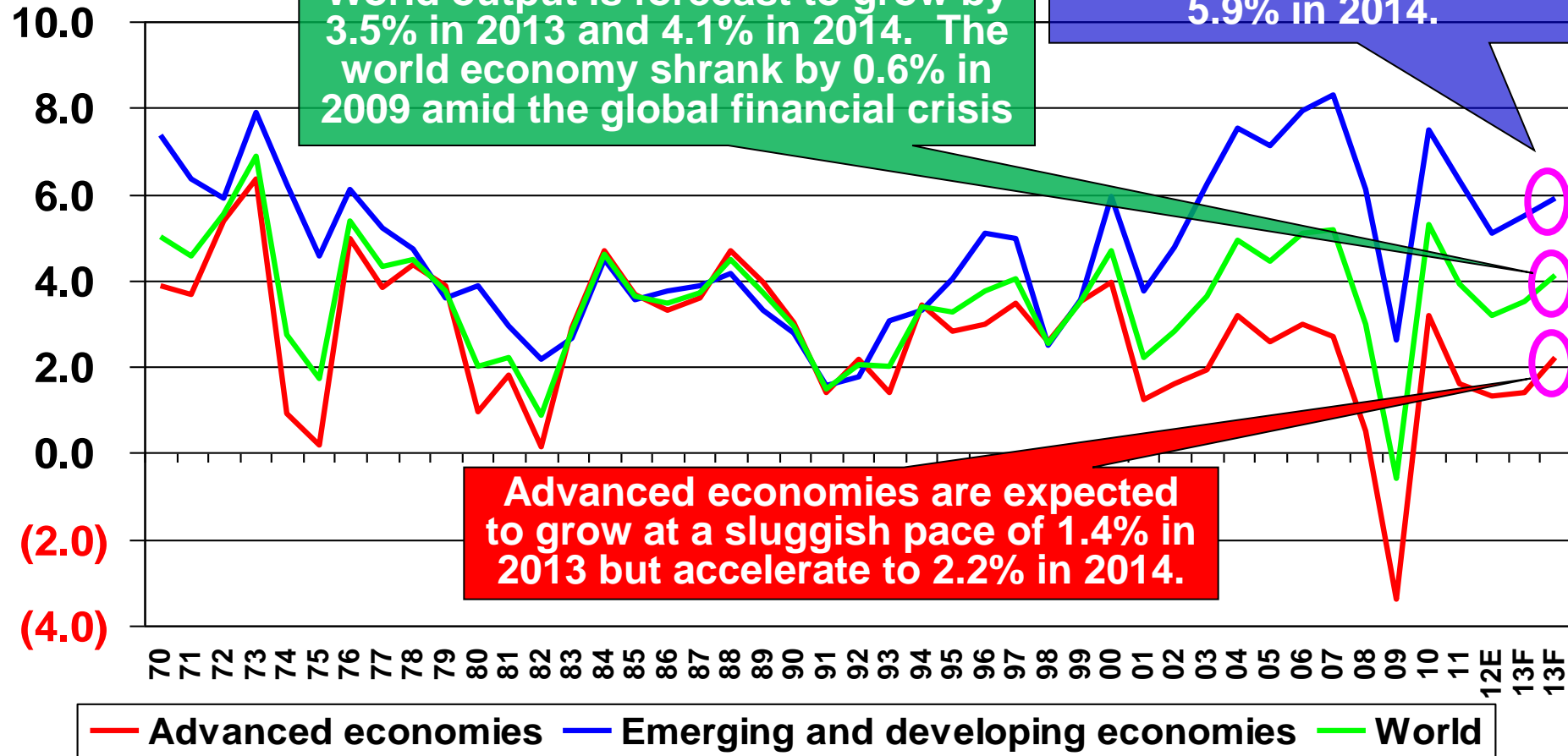
Source: Federal Reserve Bank of Philadelphia

# **Global Demand Drivers for Extractive Mining Operations**

**Demand Can Be Volatile But in a  
Resource Hungry World the Overall  
Outlook is Good**

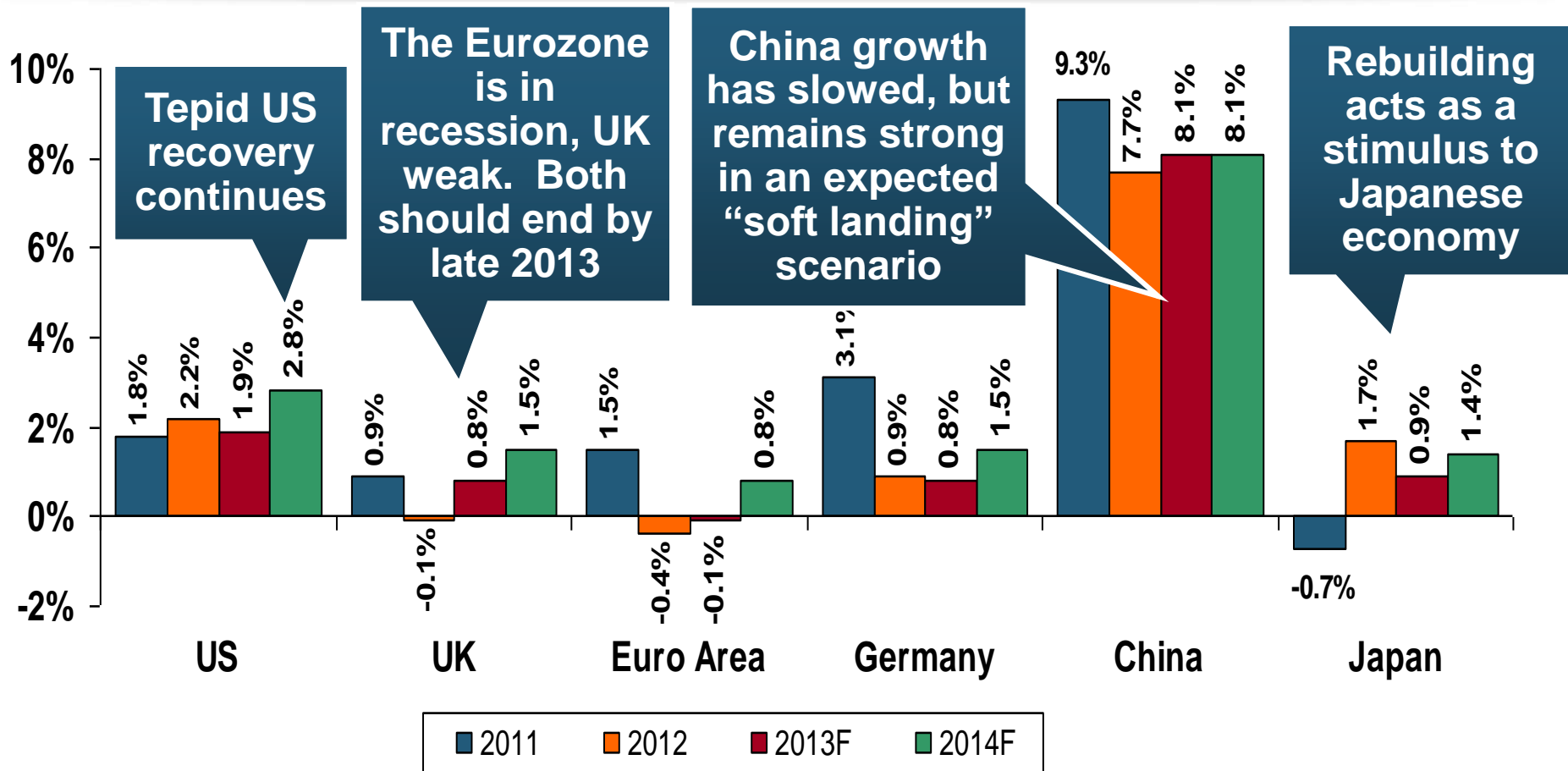
# GDP Growth: Advanced & Emerging Economies vs. World, 1970-2014F

GDP Growth (%)



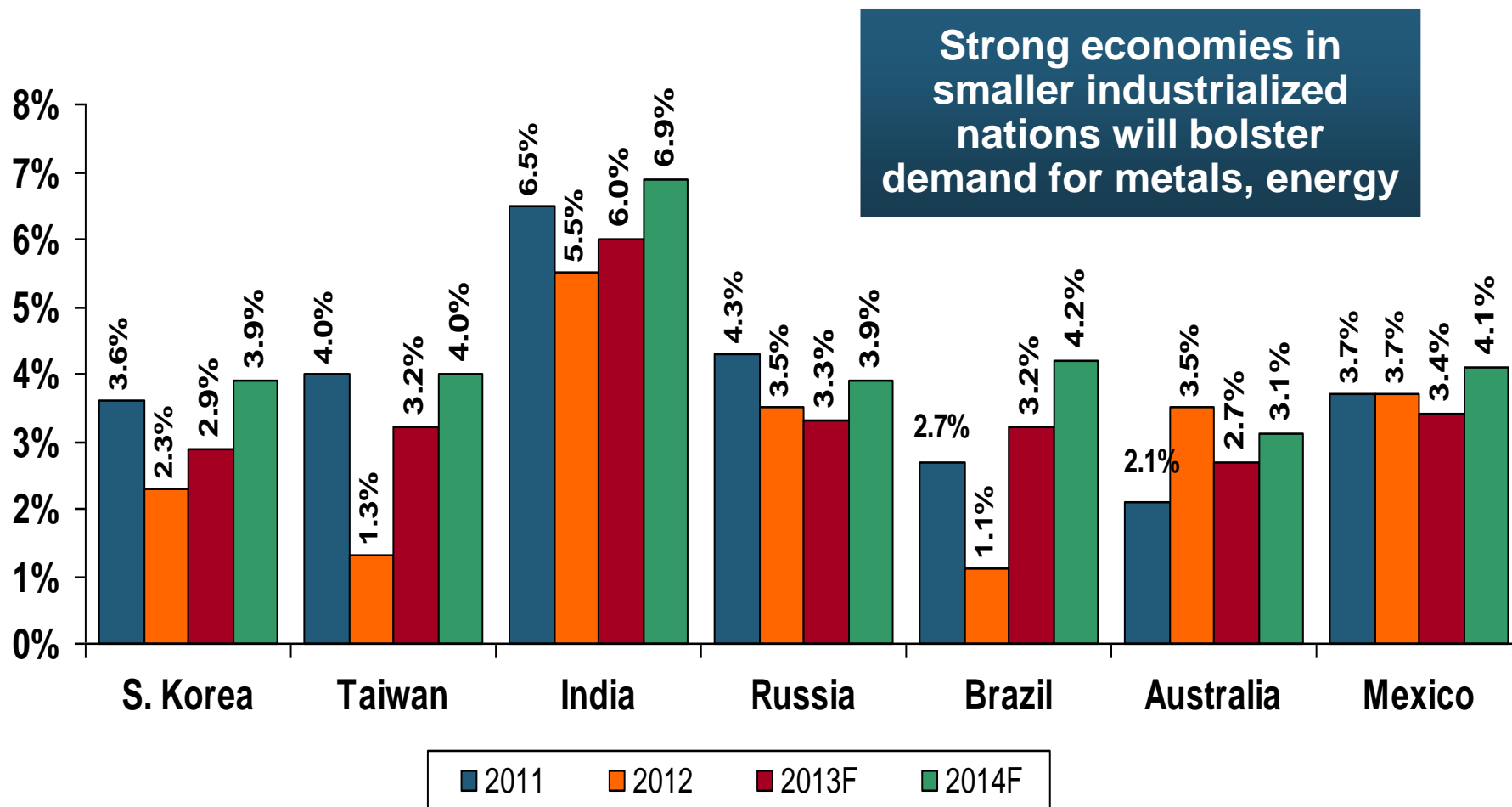


# Real GDP Growth Forecasts: Major Economies: 2011 – 2014F



**Growth Prospects Vary Widely by Region: Growth Returning in the US, Mild Recession in the Eurozone, A “Soft Landing” in China, Sluggish Growth in Japan and Modest Growth in America’s Largest Trading Partners—Canada and Mexico.**

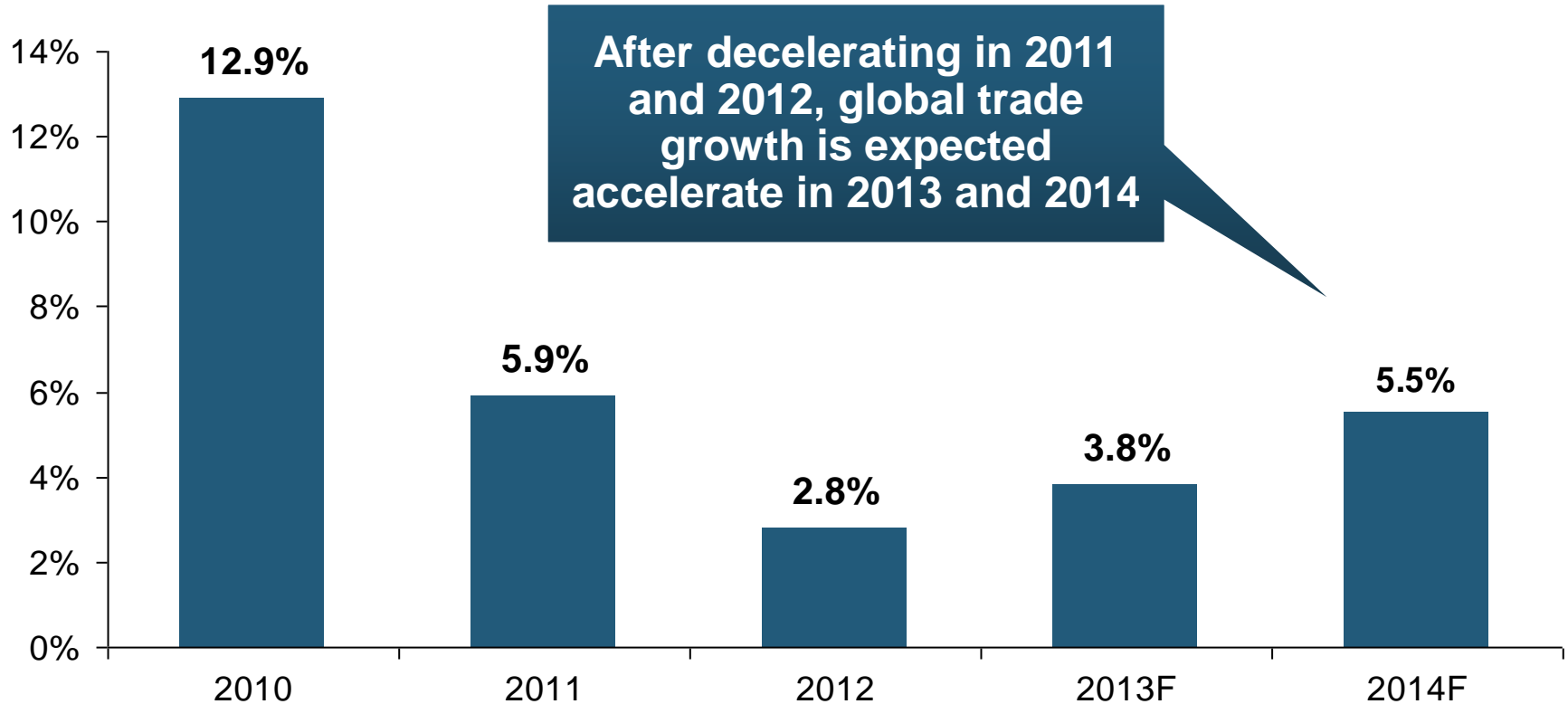
# Real GDP Growth Forecasts: Emerging Economies: 2011 – 2014F



**Growth Outside the US, Europe and Japan is Relatively Strong**

# World Trade Volume: 2010—2014F

## Percentage Change (%)



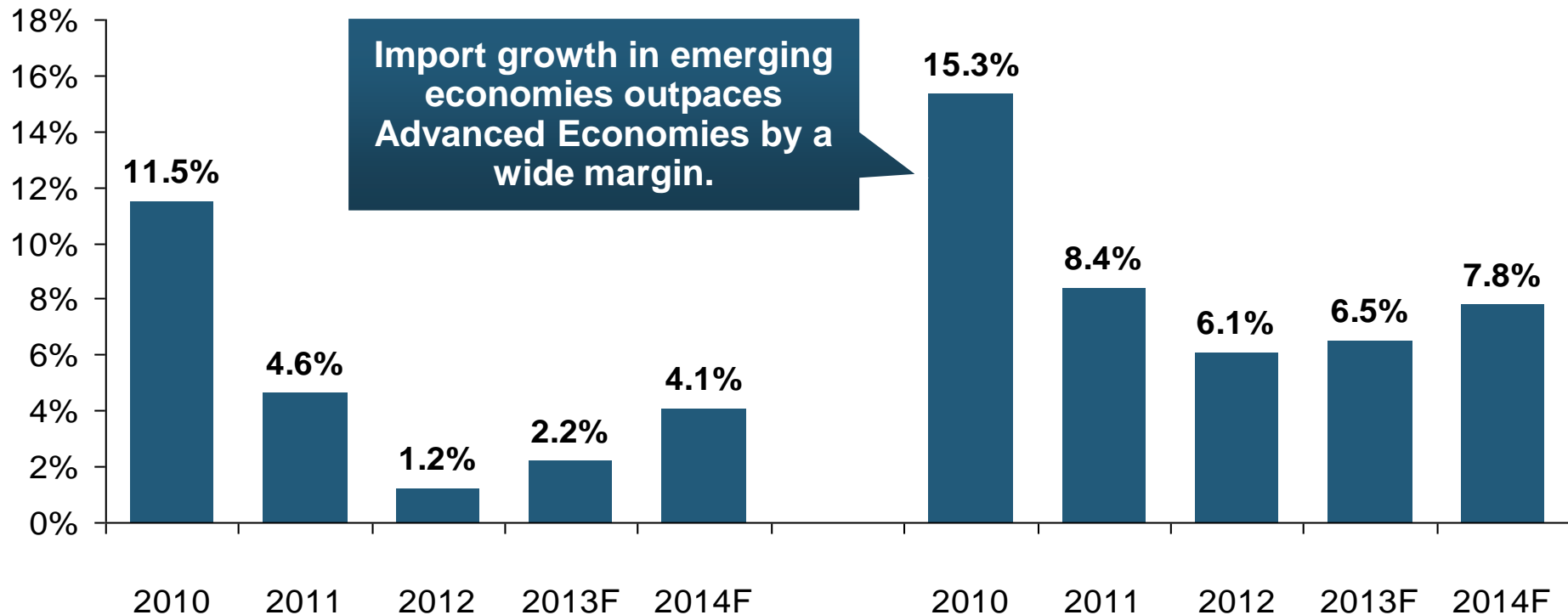
**Growth in World Trade Volume (Imports + Exports) Has Slowed But Continues to Grow**

# World Trade Volume: IMPORTS 2010 – 2014F

Growth (%)

## Advanced Economies

## Emerging Economies

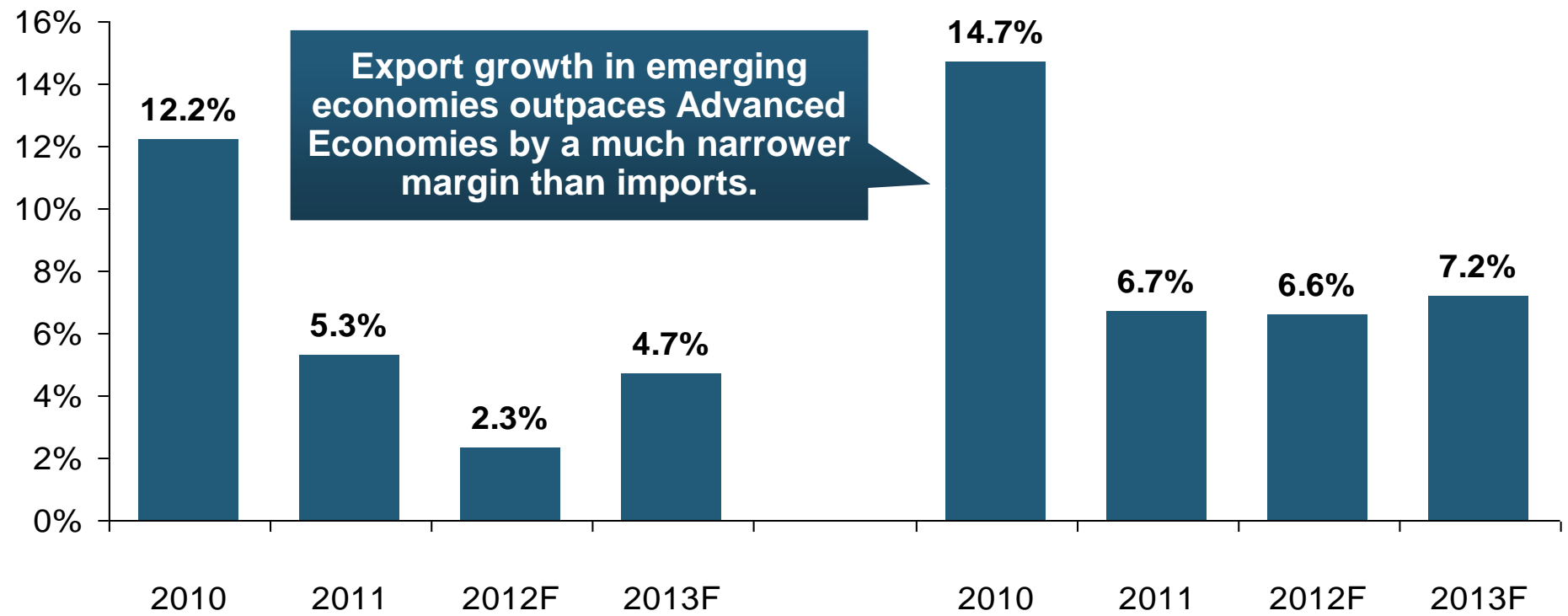


# World Trade Volume: EXPORTS 2010 – 2013F

Growth (%)

## Advanced Economies

## Emerging Economies



# Other Supply & Demand Drivers for Minerals

## ■ New Technologies

- ◆ Reduce the cost and increase the speed of processing

## ■ “Rare” Earths

- ◆ Chinese restricting supply; New sources will need to be found and developed

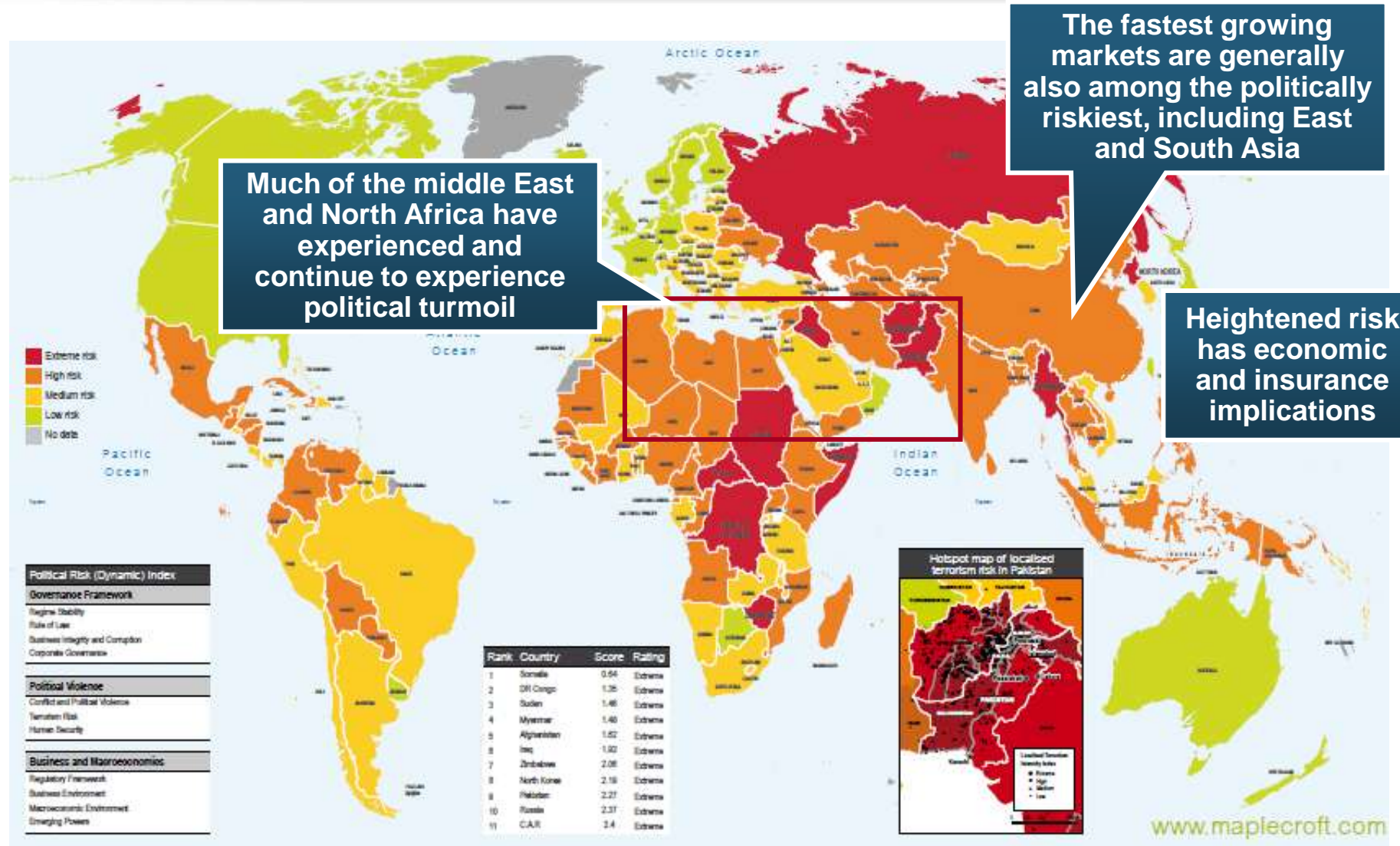
## ■ Miniaturization of Electronic Devices

- ◆ Increased demand for rare earths and other low-weight metals with special properties (conductivity, magnetism, strength, heat tolerance)

## ■ Low Energy Costs

- ◆ Should drive more operations to US and other areas with falling energy prices (shale gas) for manufacturing processes

# Political Risk in 2011/12: Greatest Business Opportunities Are Often in Risky Nations



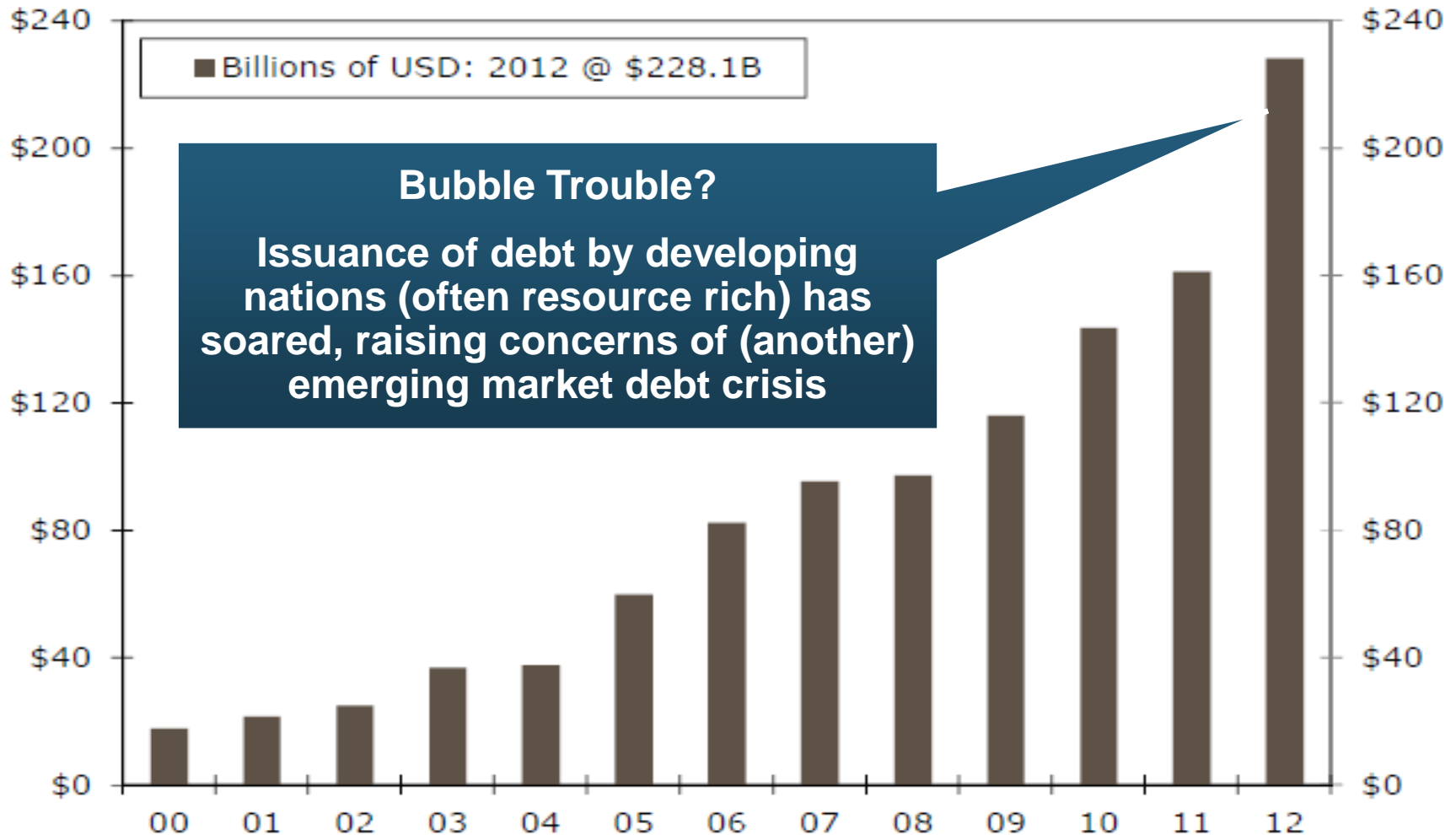
- Extreme risk
- High risk
- Medium risk
- Low risk
- No data

Political Risk (Dynamic) Index	
<b>Governance Framework</b>	
Regime Stability	
Rule of Law	
Business Integrity and Corruption	
Corporate Governance	
<b>Political Violence</b>	
Conflict and Political Violence	
Terrorism Risk	
Human Security	
<b>Business and Macroeconomics</b>	
Regulatory Framework	
Business Environment	
Macroeconomic Environment	
Emerging Powers	

Rank	Country	Score	Rating
1	Somalia	0.64	Extreme
2	DR Congo	1.35	Extreme
3	Sudan	1.46	Extreme
4	Myanmar	1.48	Extreme
5	Algeria	1.52	Extreme
6	Iraq	1.82	Extreme
7	Zimbabwe	2.08	Extreme
8	North Korea	2.15	Extreme
9	Palau	2.27	Extreme
10	Russia	2.37	Extreme
11	CAI	2.4	Extreme

# Sovereign Debt Issuance in Developing Countries, 2000-2012\*

\$ Billions



\*Wells Fargo Securities estimate based on a sample of countries.

Source: Wells Fargo Securities; Insurance Information Institute.

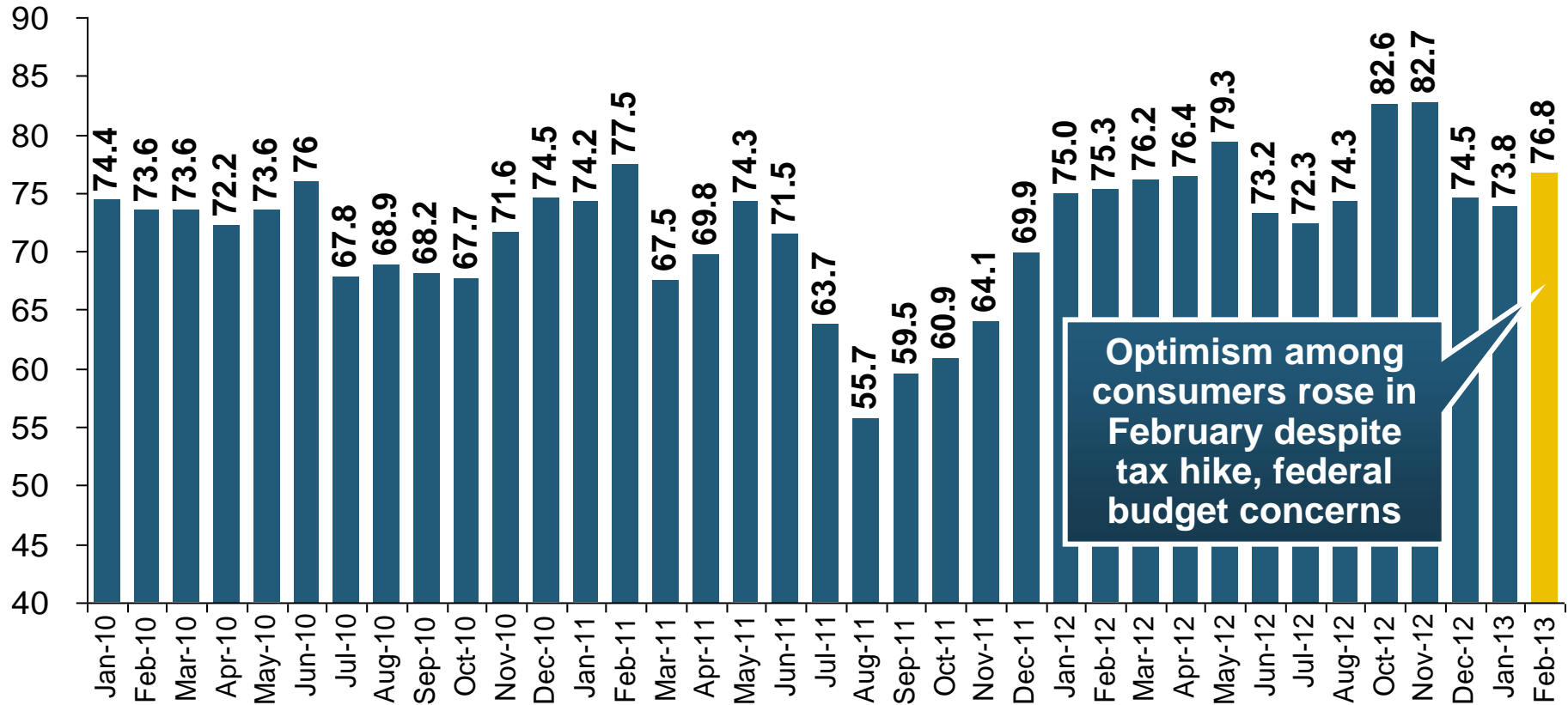


# **US Demand for Metals, Energy Is Growing**

**Construction, Manufacturing Increase  
Demand for Mined Resources and  
Insurance**

# Consumer Sentiment Survey (1966 = 100)

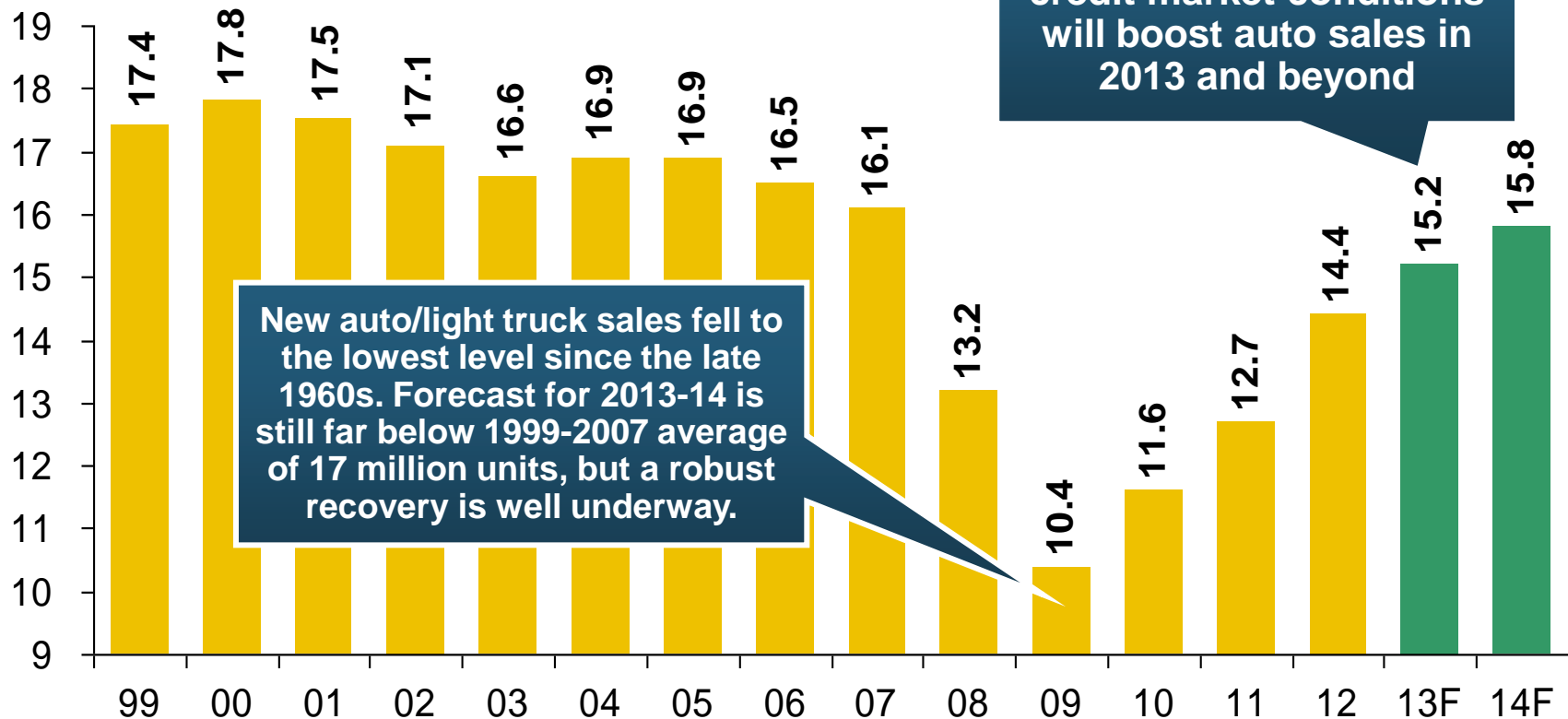
## January 2010 through February 2013



**Consumer confidence has been low for years amid high unemployment, falling home prices and other factors adversely impact consumers, but improved substantially in late 2011 and in 2012**

# Auto/Light Truck Sales, 1999-2014F

(Millions of Units)

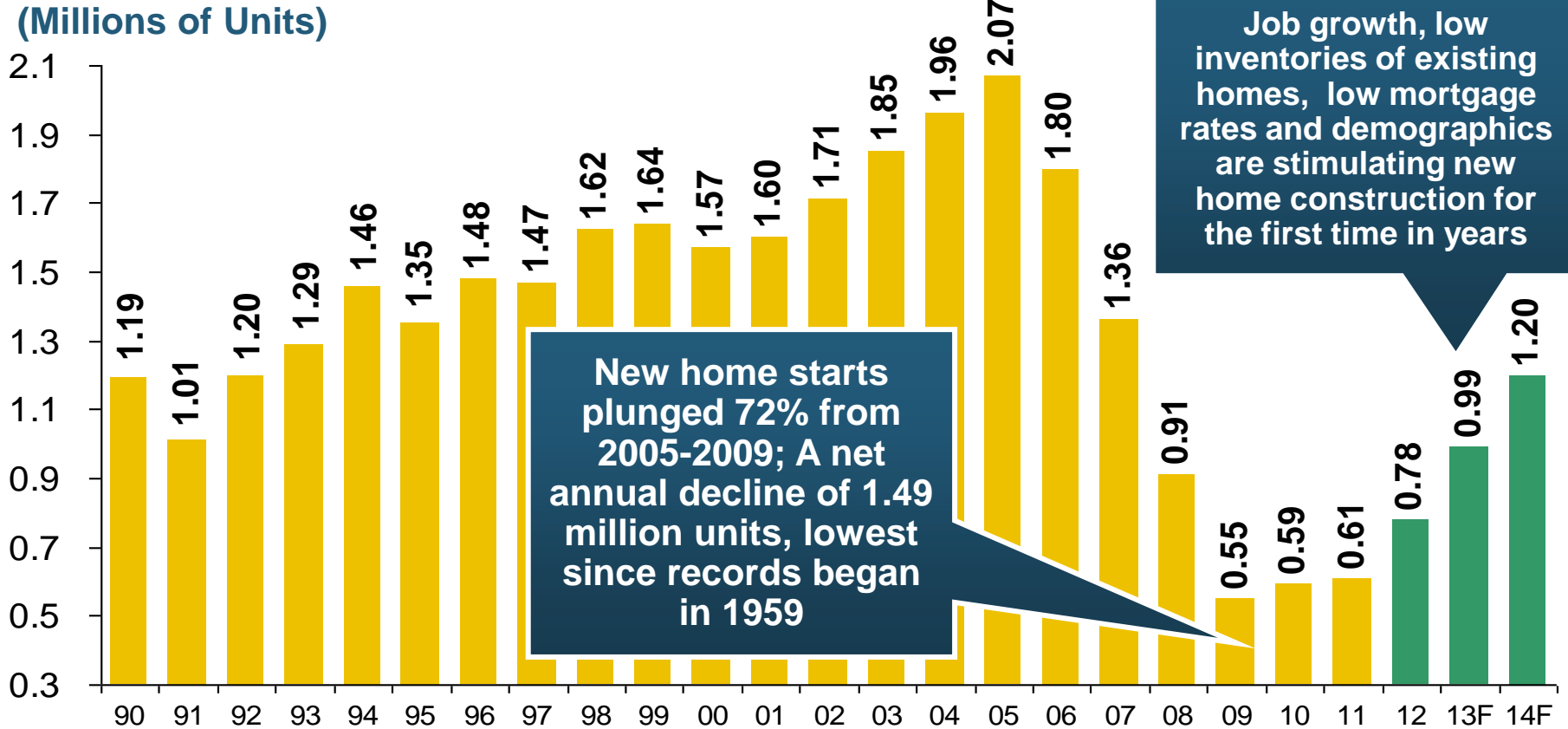


Job growth and improved credit market conditions will boost auto sales in 2013 and beyond

New auto/light truck sales fell to the lowest level since the late 1960s. Forecast for 2013-14 is still far below 1999-2007 average of 17 million units, but a robust recovery is well underway.

**Car/Light Truck Sales Will Continue to Recover from the 2009 Low Point, Bolstering the Auto Insurer Growth and the Manufacturing Sector.**

# New Private Housing Starts, 1990-2014F



**Homeowners Insurers Are Starting to See Meaningful Exposure Growth for the First Time Since 2005. Commercial Insurers with Construction Risk Exposure, Surety Also Benefit**

# Construction Employment, Jan. 2010—January 2013\*

(Thousands)

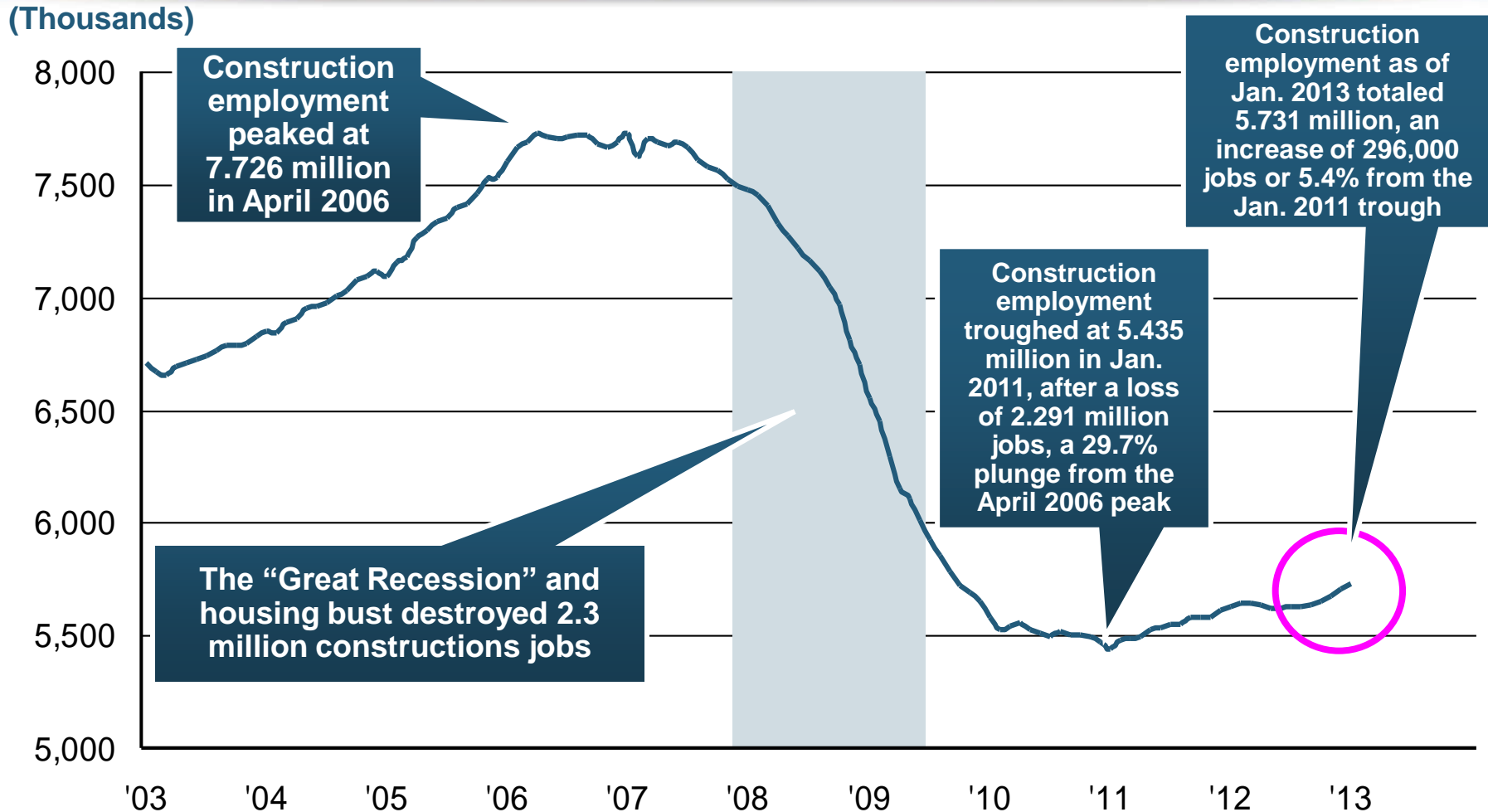
Construction employment growth accelerated in the second half of 2012. Stronger growth in this key sector is possible in 2013.



\*Seasonally adjusted

Sources: US Bureau of Labor Statistics at <http://data.bls.gov>; Insurance Information Institute.

# Construction Employment, Jan. 2003–Jan. 2013

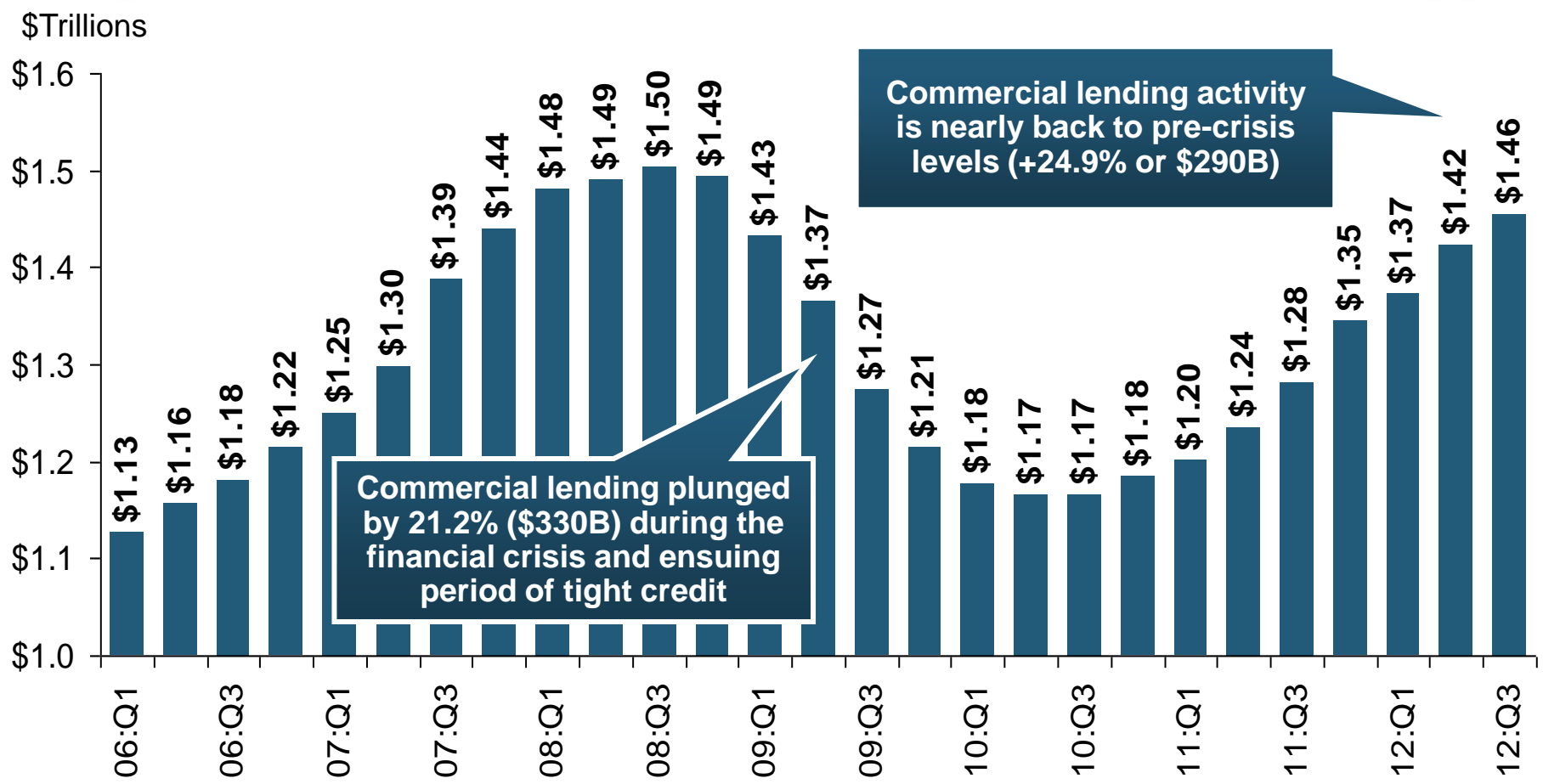


**The Construction Sector Could Be a Growth Leader in 2013 and 2014 as the Housing Market and Private Investment Recover. Commercial Insurers Will Benefit.**

Note: Recession indicated by gray shaded column.

Sources: U.S. Bureau of Labor Statistics; Insurance Information Institute.

# Commercial & Industrial Loans Outstanding at FDIC-Insured Banks, Quarterly, 2006-2012:Q3\*



Commercial lending activity is nearly back to pre-crisis levels (+24.9% or \$290B)

Commercial lending plunged by 21.2% (\$330B) during the financial crisis and ensuing period of tight credit

**Outstanding Commercial Loan Volume Has Been Growing for Over Two Years and Is Now Nearly Back to Early Recession Levels. Bodes Very Well for the Creation of Current and Future Commercial Insurance Exposures**

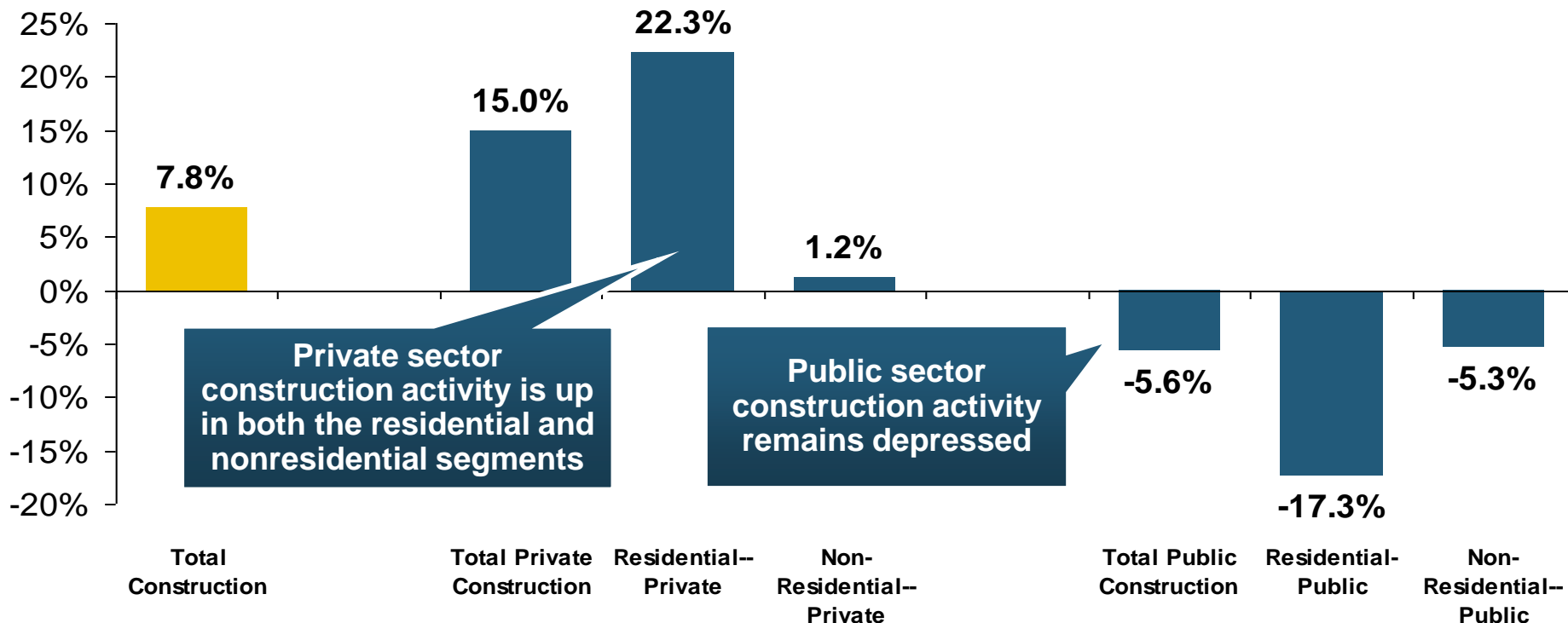
\*Latest data as of 2/24/2013.  
 Source: FDIC at <http://www2.fdic.gov/qbp/> (Loan Performance spreadsheet); Insurance Information Institute.

# Value of Construction Put in Place, December 2012 vs. December 2011\*

Growth (%)

**Private: +15.0%**

**Public: -5.6%**



**Overall Construction Activity is Up, But Growth Is Entirely in the Private Sector as State/Local Government Budget Woes Continue**

\*seasonally adjusted

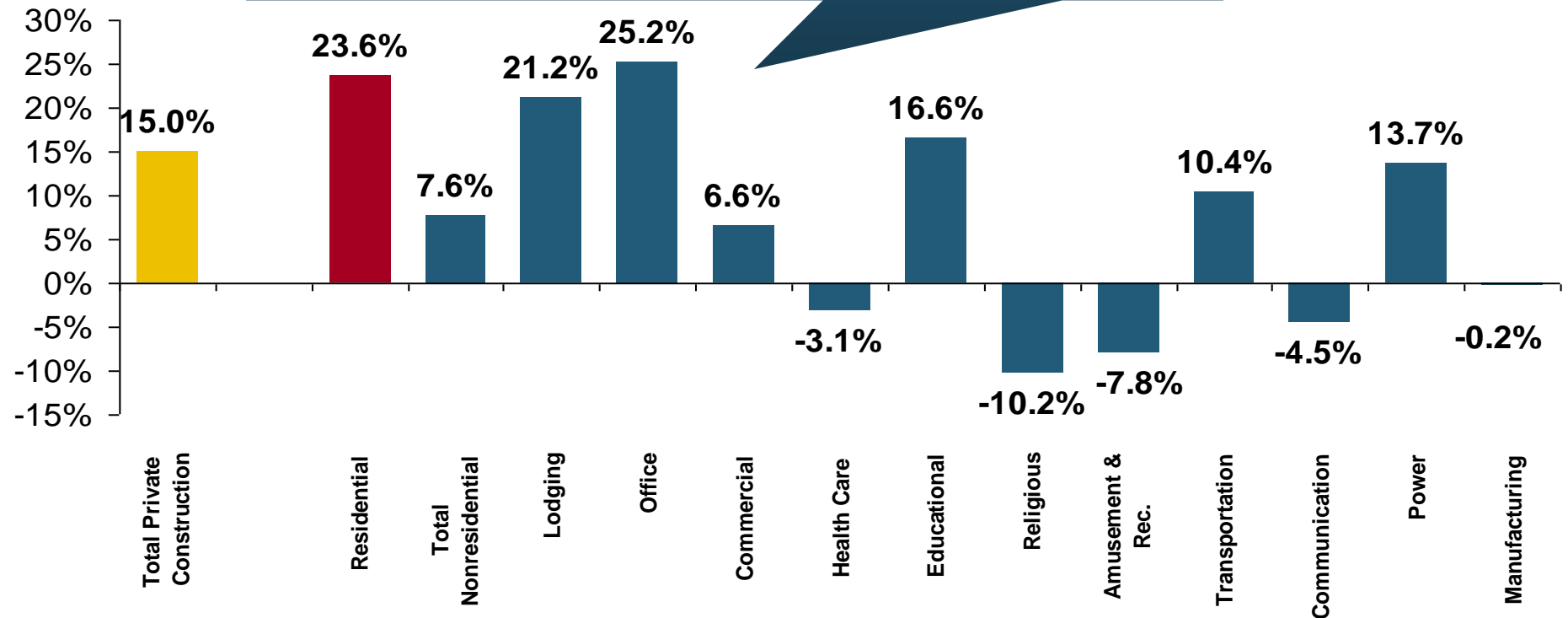
Source: U.S. Census Bureau, <http://www.census.gov/construction/c30/c30index.html> ; Insurance Information Institute.



# Value of Private Construction Put in Place, by Segment, Dec. 2012 vs. Dec. 2011\*

Growth (%)

Led by the Residential Construction, Lodging, Office, Transportation and Power industries, Private sector construction activity is up across many segments after plunging during the “Great Recession”

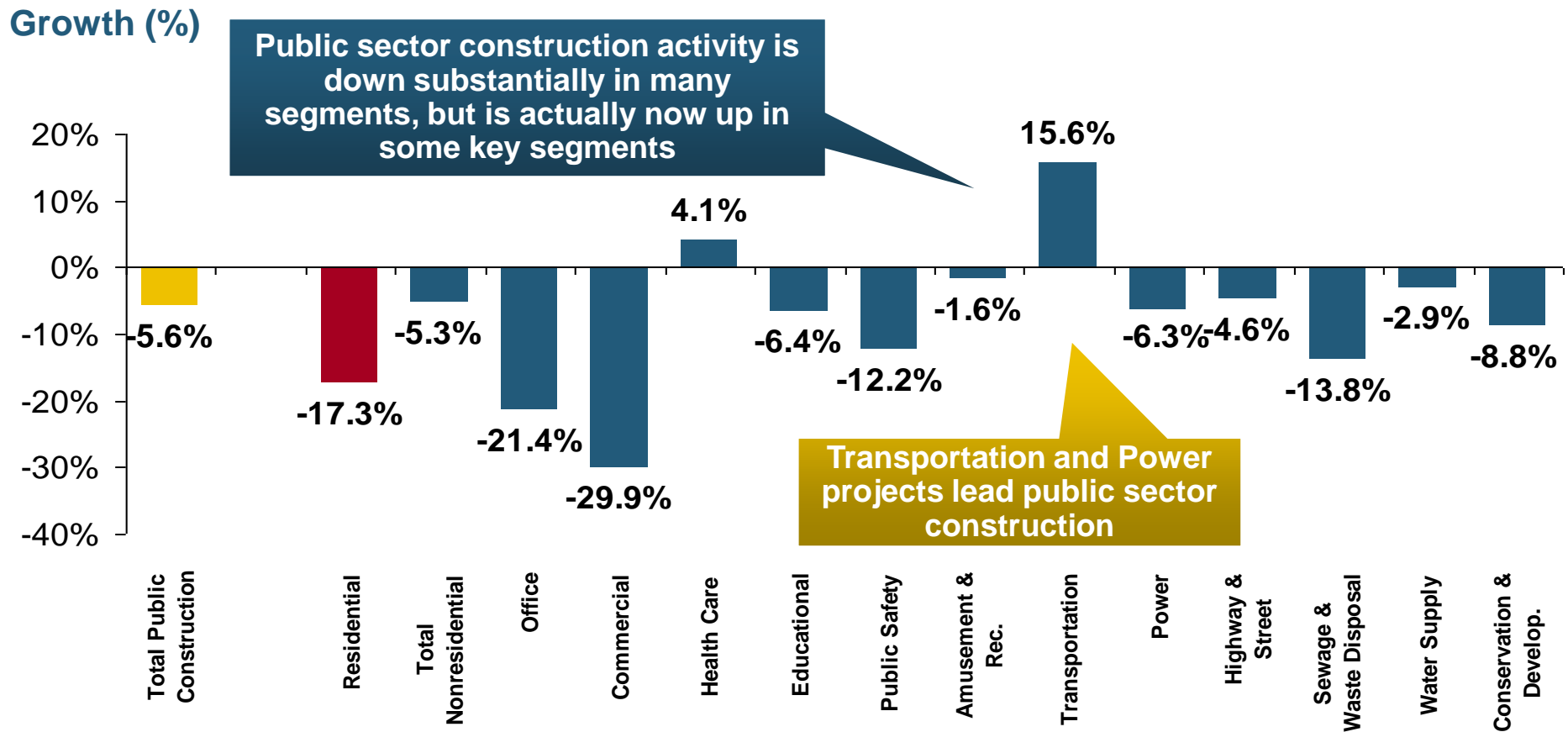


Private Construction Activity is Up in Most Segments, Including the Key Residential Construction Sector

\*seasonally adjusted

Source: U.S. Census Bureau, <http://www.census.gov/construction/c30/c30index.html> ; Insurance Information Institute.

# Value of Public Construction Put in Place, by Segment, Dec. 2012 vs. Dec. 2011\*



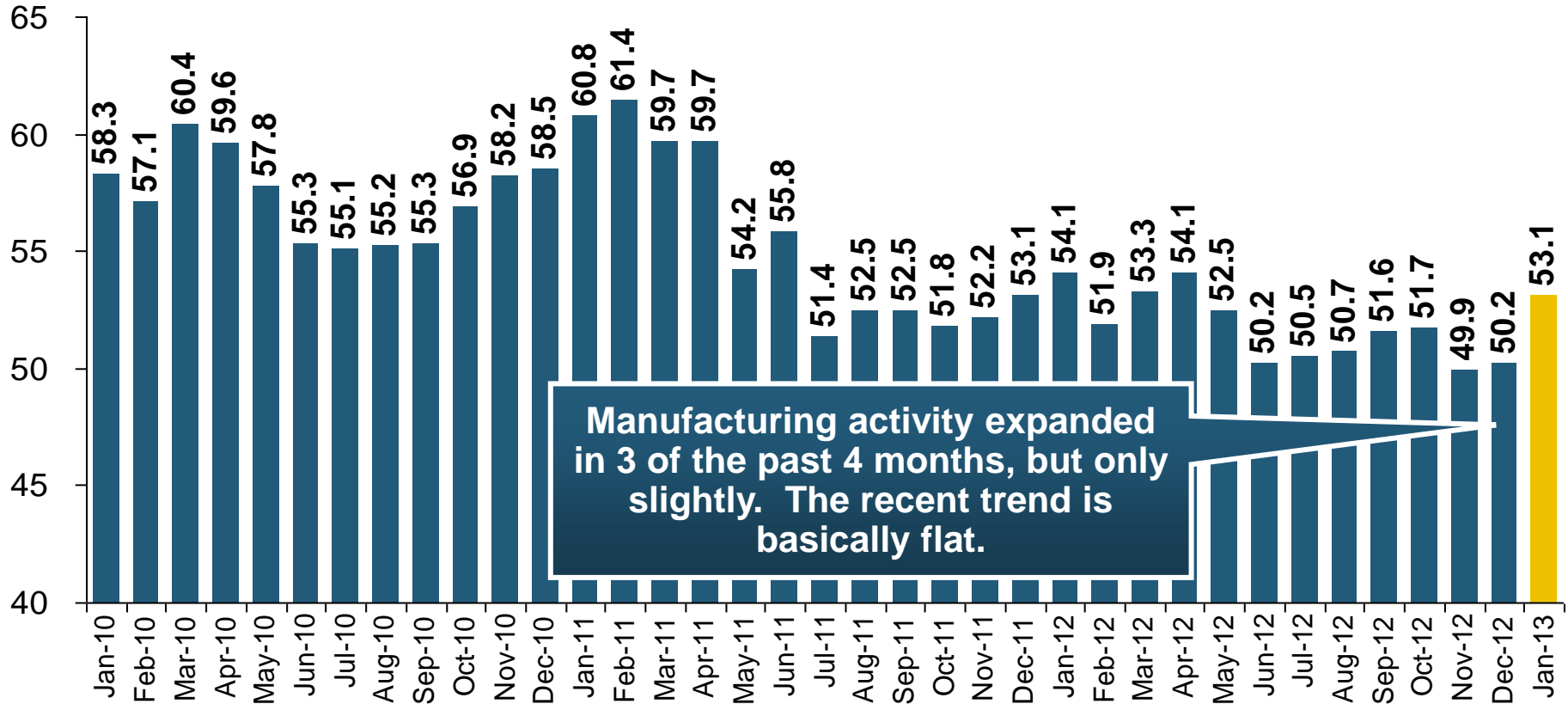
**Public Construction Activity is Down in Many Segments as State and Local Budgets Remain Under Stress; Improvement Possible in 2013.**

\*seasonally adjusted

Source: U.S. Census Bureau, <http://www.census.gov/construction/c30/c30index.html> ; Insurance Information Institute.

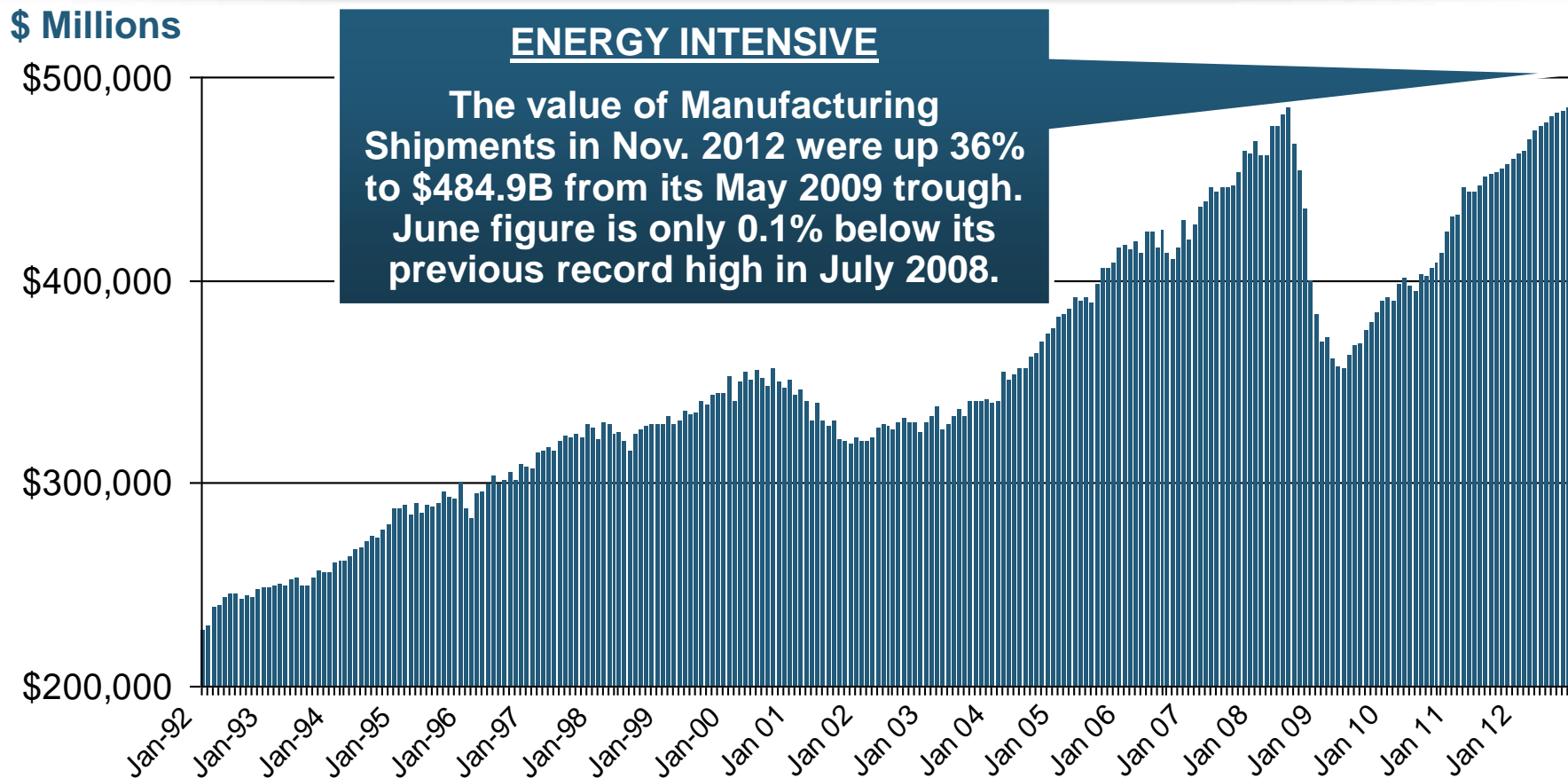
# ISM Manufacturing Index (Values > 50 Indicate Expansion)

January 2010 through January 2013



The manufacturing sector expanded for 33 of the 37 months from Jan. 2010 through Jan. 2013. The question is whether this will continue.

# Dollar Value\* of Manufacturers' Shipments Monthly, Jan. 1992—Dec. 2012



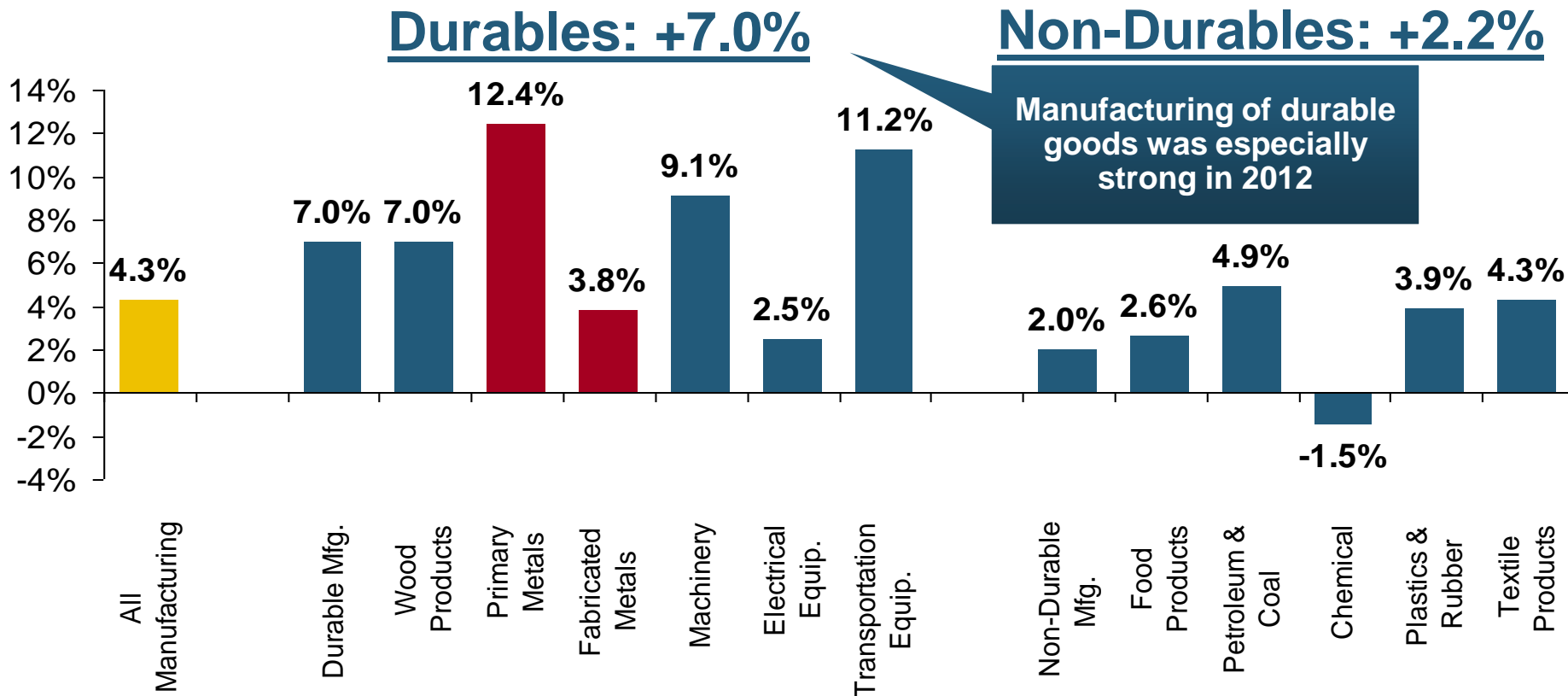
Monthly shipments are nearly back to peak (in July 2008, 8 months into the recession). Trough in May 2009. Growth from trough to Dec. 2012 was 36%. Manufacturing is an energy intensive activity and growth leads to gains in many commercial exposures: WC, Commercial Auto, Marine, Property and Various Liability Coverages

\*seasonally adjusted

Source: U.S. Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders*, <http://www.census.gov/manufacturing/m3/>

# Manufacturing Growth for Selected Sectors, 2012 vs. 2011\*

Growth (%)



**Manufacturing Is Expanding Across a Wide Range of Sectors that Will Contribute to Growth in Insurable Exposures Including: WC, Commercial Property, Commercial Auto and Many Liability Coverages**

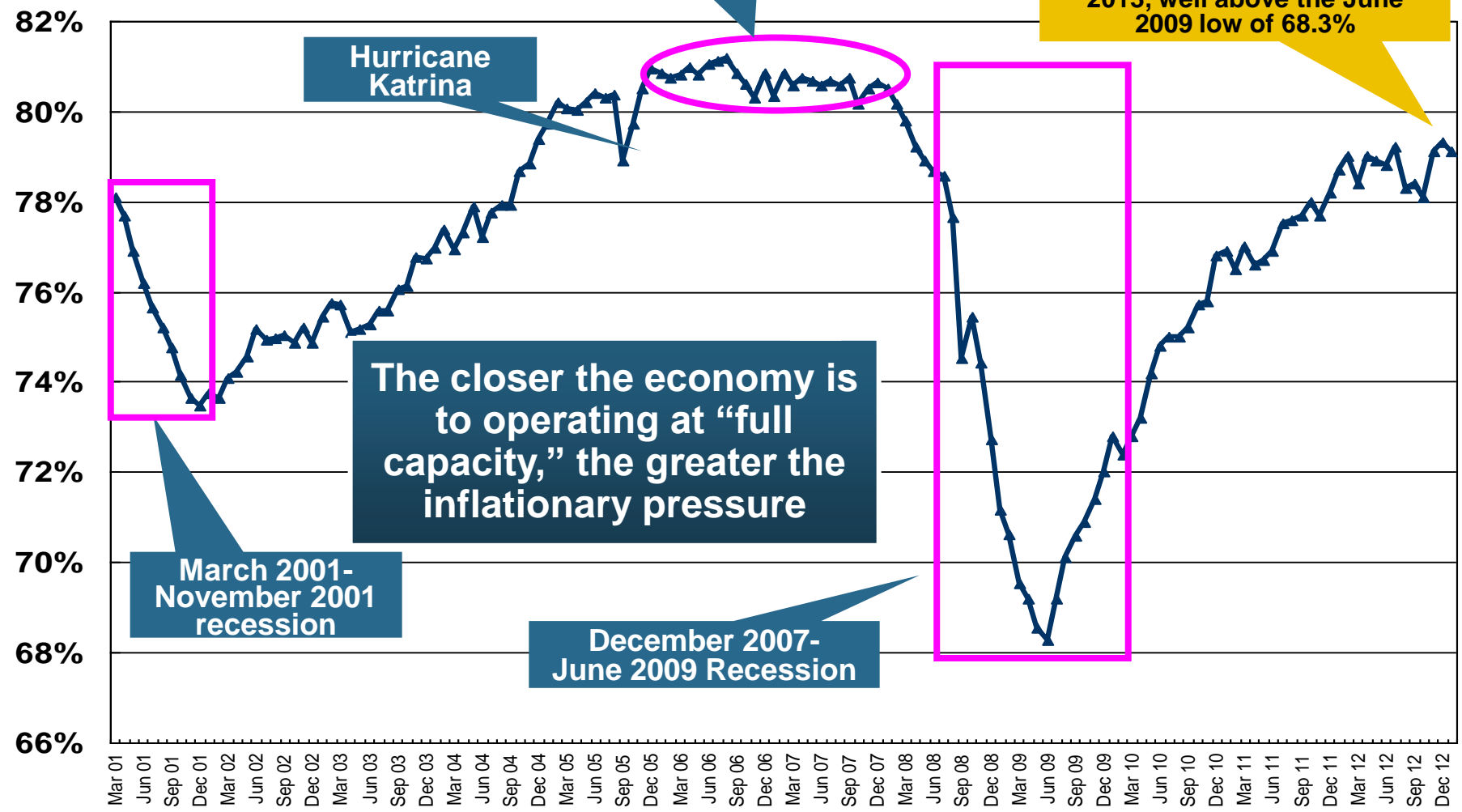
\*Seasonally adjusted; Date are YTD comparing data through December 2012 to the same period in 2011.

Source: U.S. Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders*, <http://www.census.gov/manufacturing/m3/>

# Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures

March 2001 through January 2013

Percent of Industrial Capacity



The closer the economy is to operating at “full capacity,” the greater the inflationary pressure

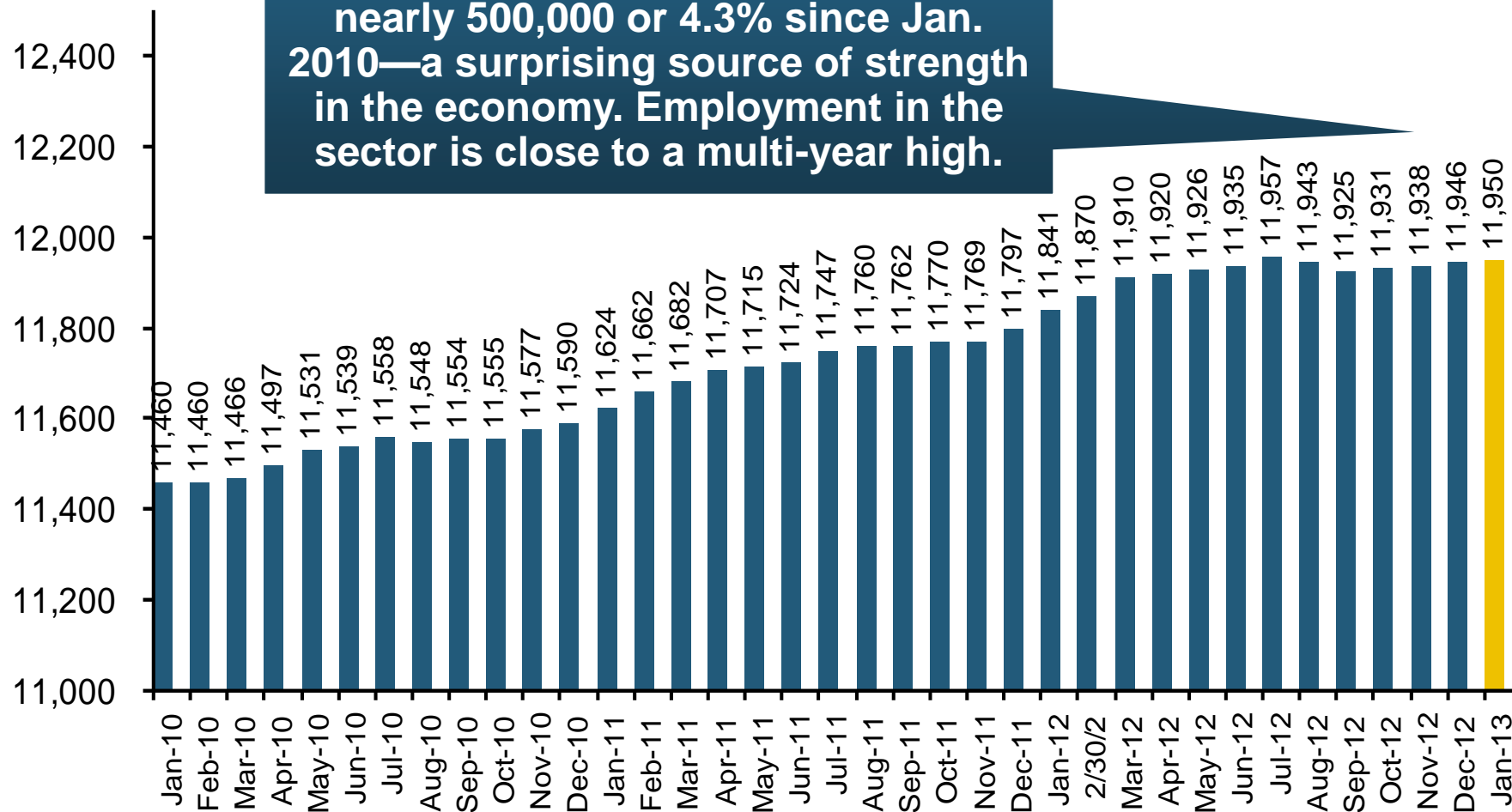
The US operated at 79.1% of industrial capacity in Jan. 2013, well above the June 2009 low of 68.3%

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

# Manufacturing Employment, Jan. 2010—January 2013\*

(Thousands)

Manufacturing employment is up by nearly 500,000 or 4.3% since Jan. 2010—a surprising source of strength in the economy. Employment in the sector is close to a multi-year high.

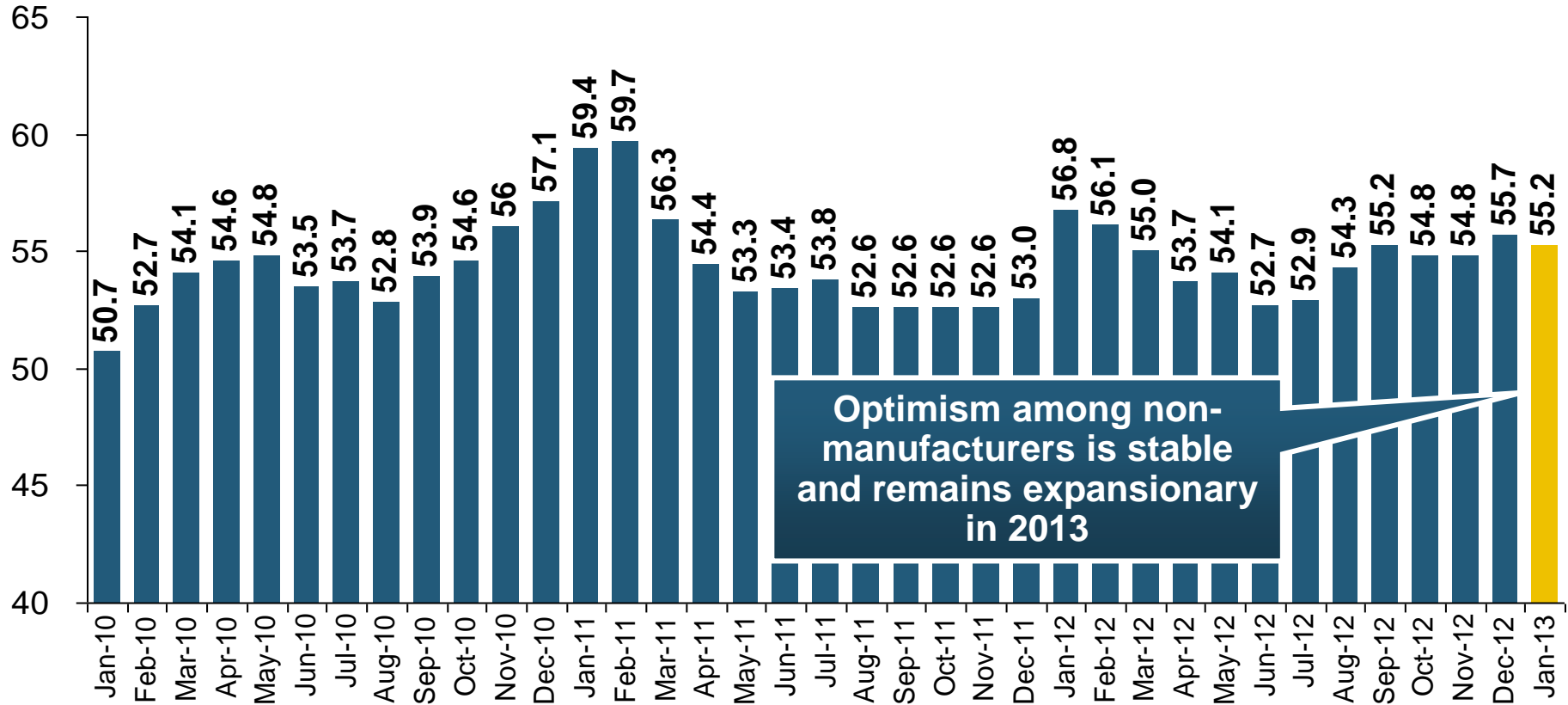


\*Seasonally adjusted

Sources: US Bureau of Labor Statistics at <http://data.bls.gov>; Insurance Information Institute.

# ISM Non-Manufacturing Index (Values > 50 Indicate Expansion)

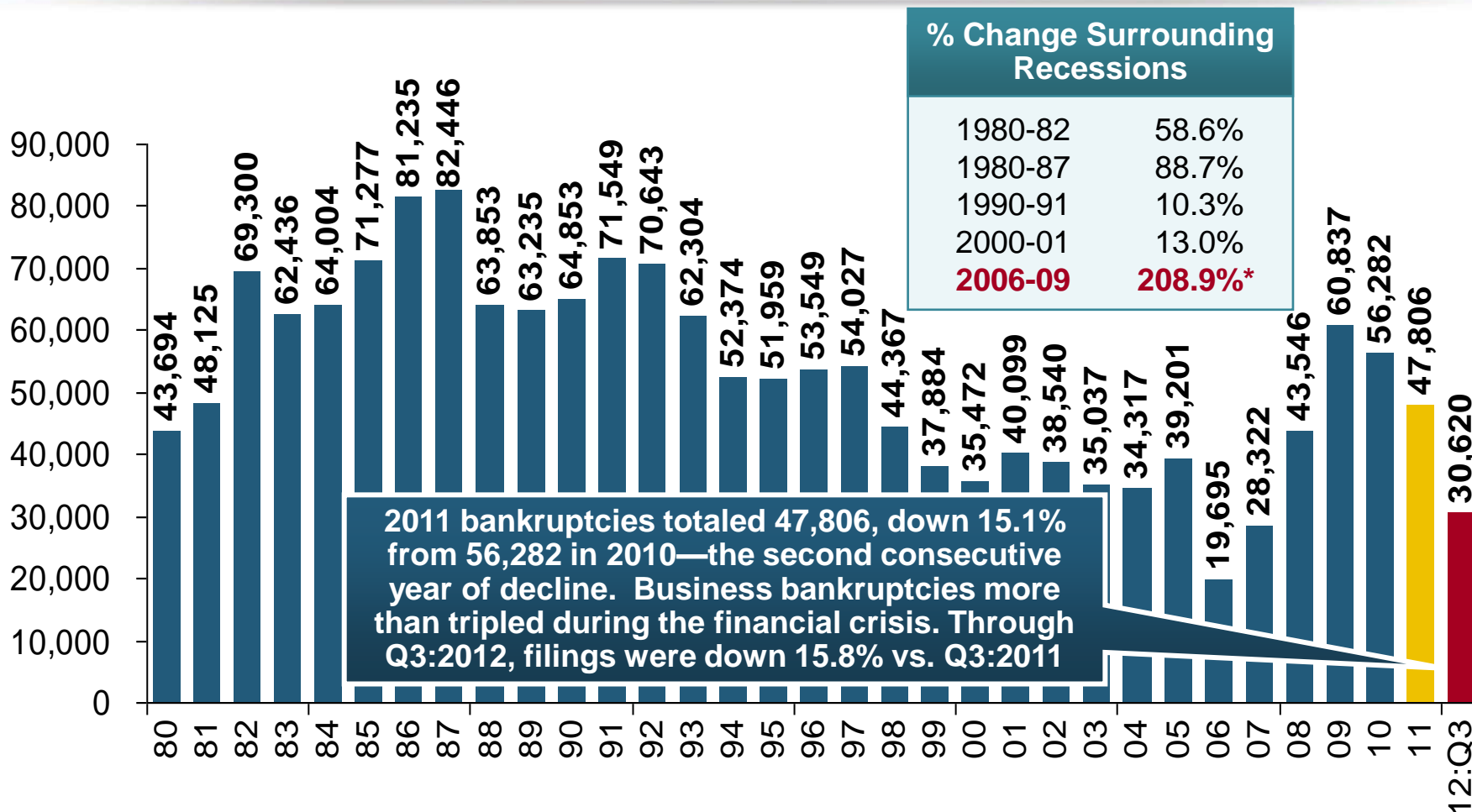
January 2010 through January 2013



**Non-manufacturing industries have been expanding and adding jobs. The question is whether this will continue.**



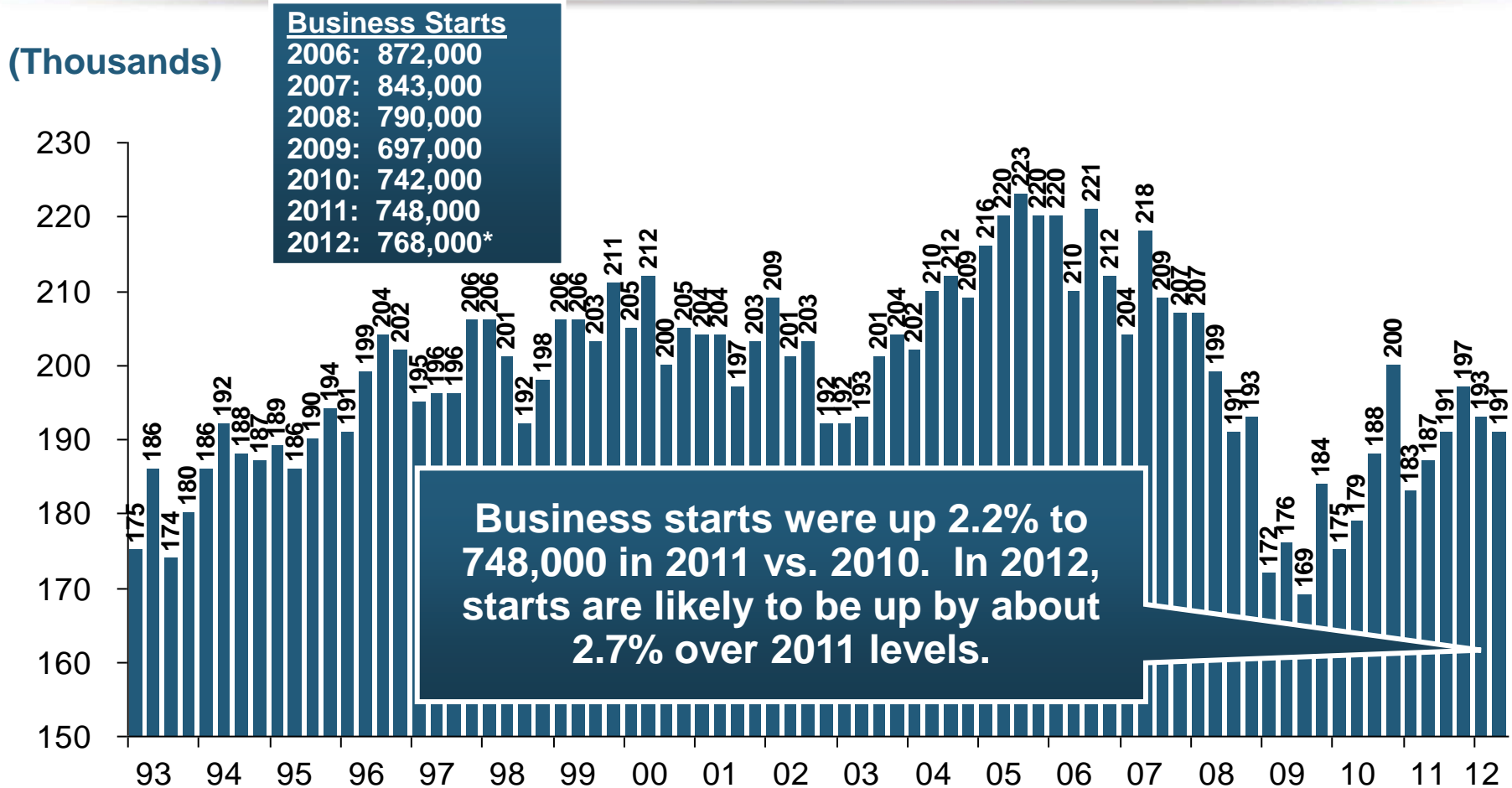
# Business Bankruptcy Filings, 1980-2012:Q3



**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 – 2012:Q2\*



**Business Starts Were Down Nearly 20% in the Recession, Holding Back Most Types of Commercial Insurance Exposure, But Are Recovering Slowly**

\* Annualized based on data through Jun. 30, 2012 (latest available as of Feb. 24, 2013); Seasonally adjusted.

Source: Bureau of Labor Statistics, <http://www.bls.gov/news.release/cewbd.t08.htm>.

# 12 Industries for the Next 10 Years: Insurance Solutions Needed

Health Care

Health Sciences

Energy (Traditional)

Alternative Energy

Petrochemical

Agriculture

Natural Resources

Technology (incl. Biotechnology)

Light Manufacturing

Inourced Manufacturing

Export-Oriented Industries

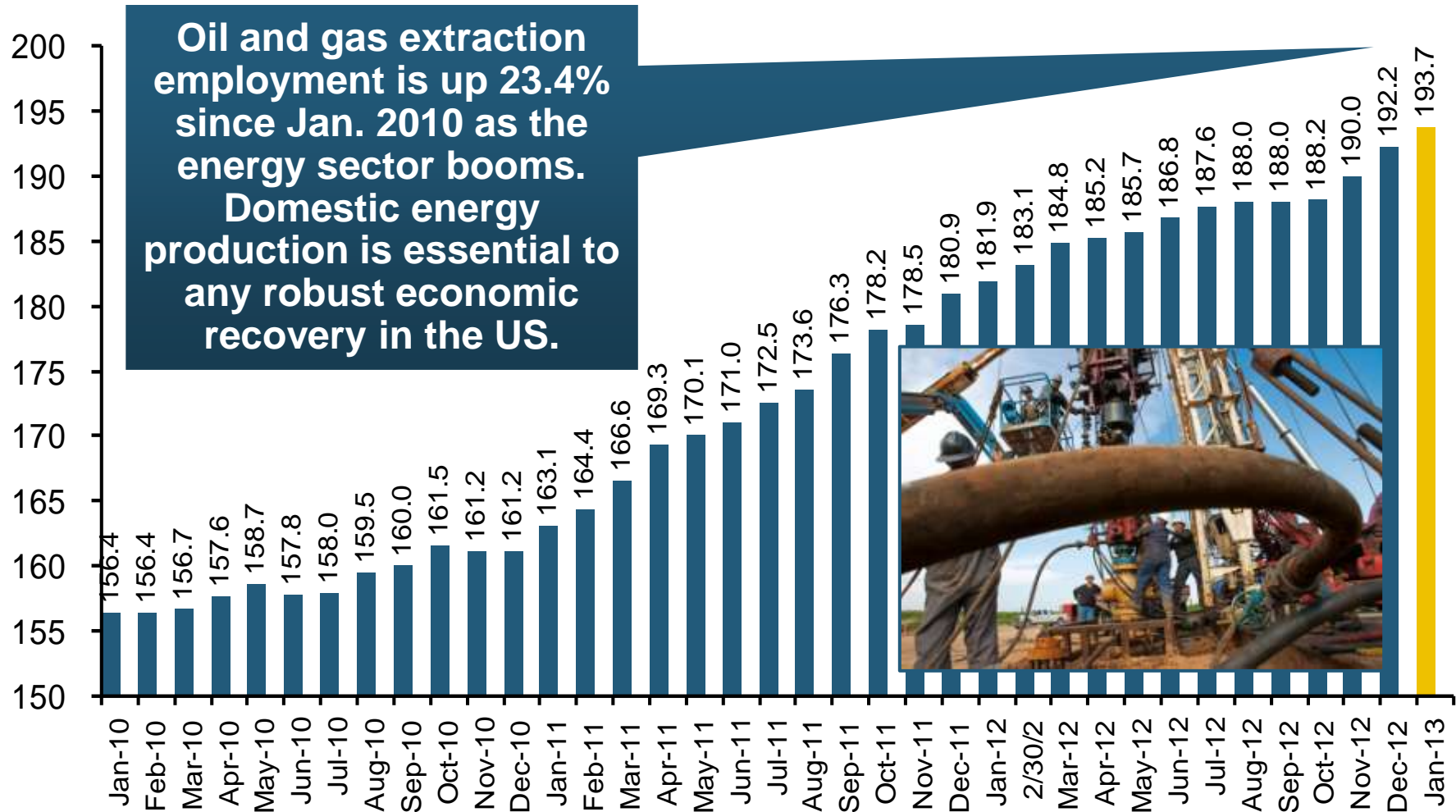
Shipping (Rail, Marine, Trucking)



Many industries are poised for growth, though insurers' ability to capitalize on these industries varies widely

# Oil & Gas Extraction Employment, Jan. 2010—January 2013\*

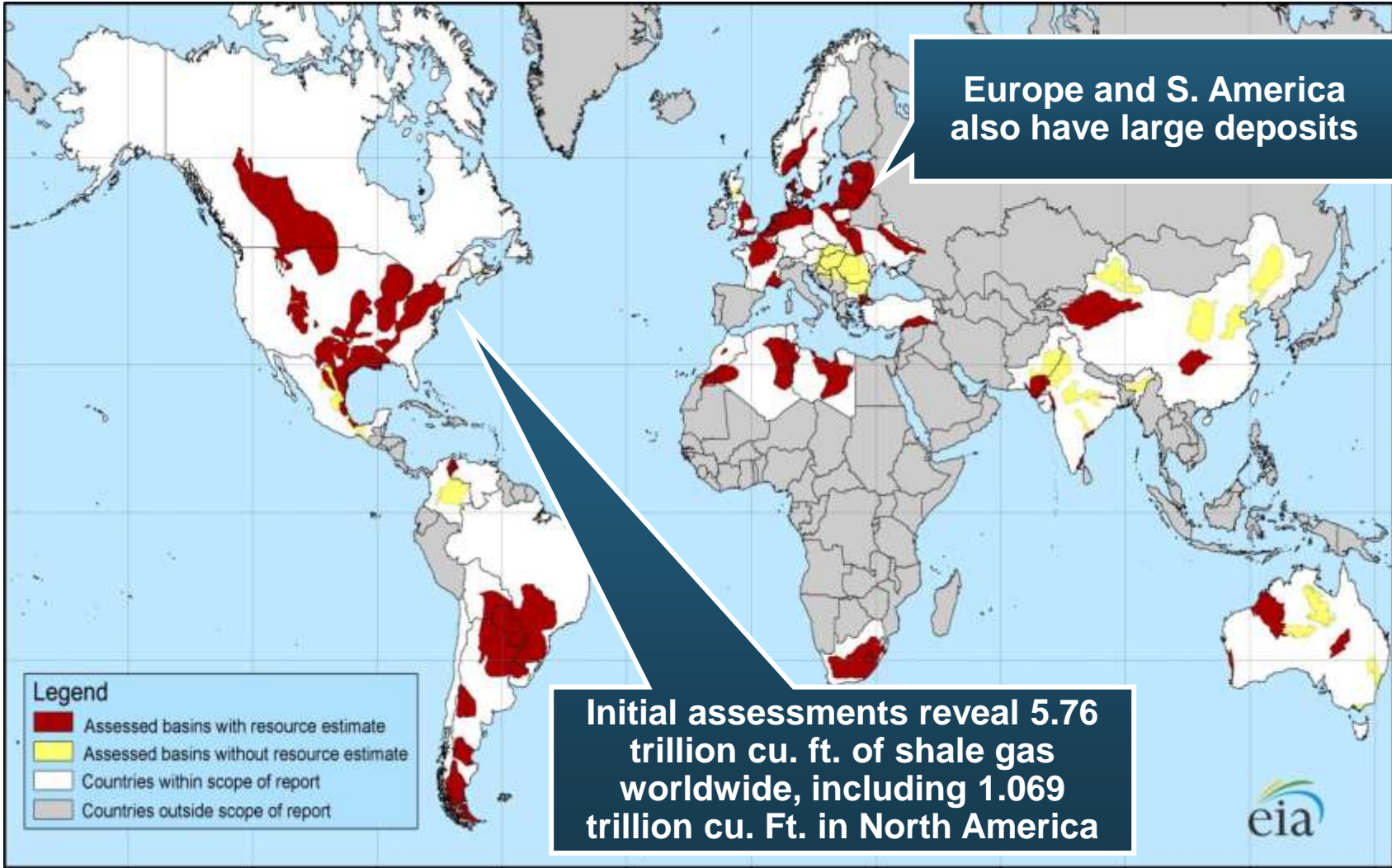
(Thousands)



\*Seasonally adjusted

Sources: US Bureau of Labor Statistics at <http://data.bls.gov>; Insurance Information Institute.

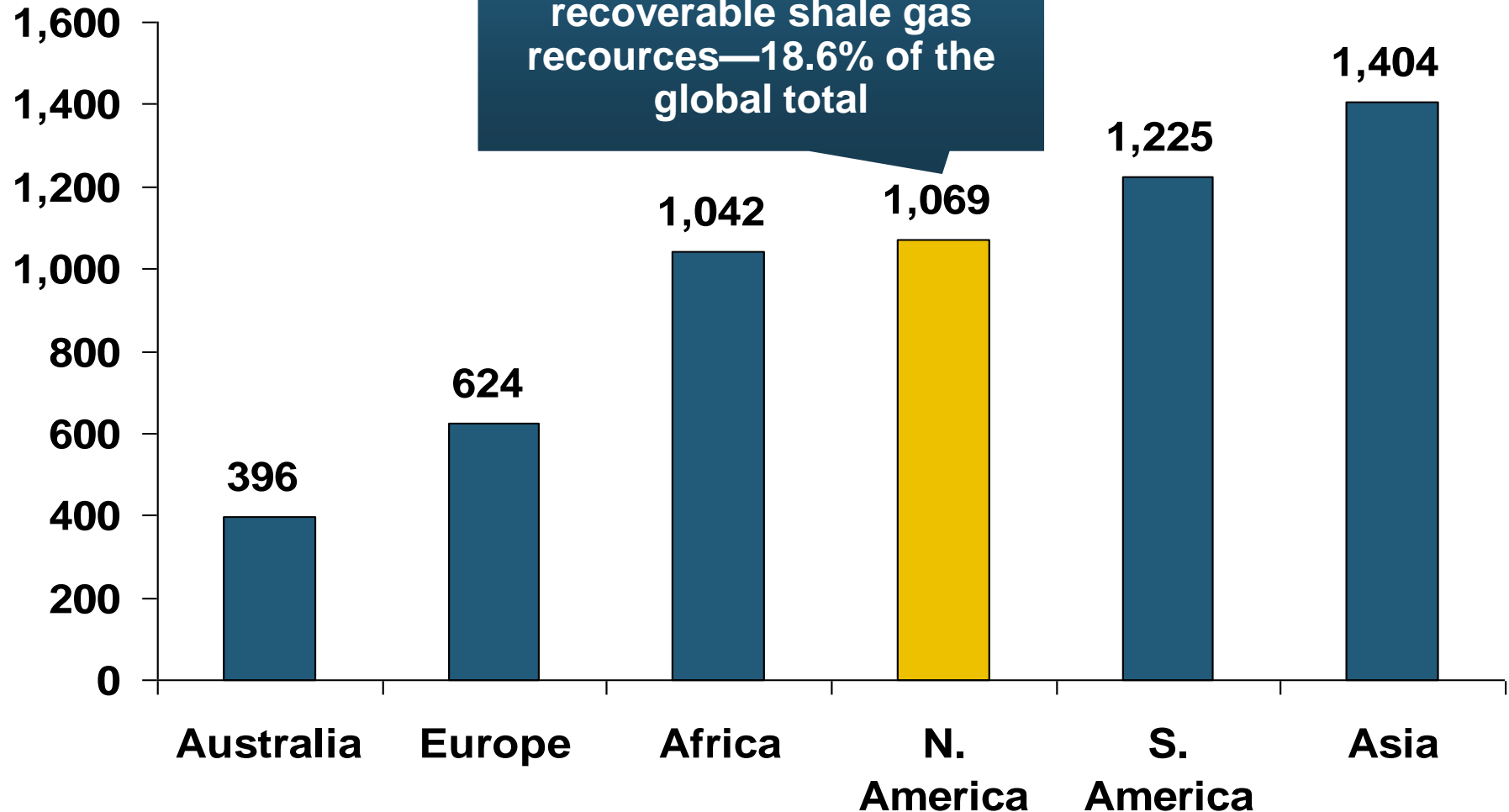
# Distribution of Major Shale Deposits: 5.76 Tr. Cu. Ft. in 48 Shale Basins in 32 Countries



Source: US Energy Information Administration; Insurance Information Institute.

# Technically Recoverable Shale Gas Deposits, by Region

Trillion Cubic Ft.tts



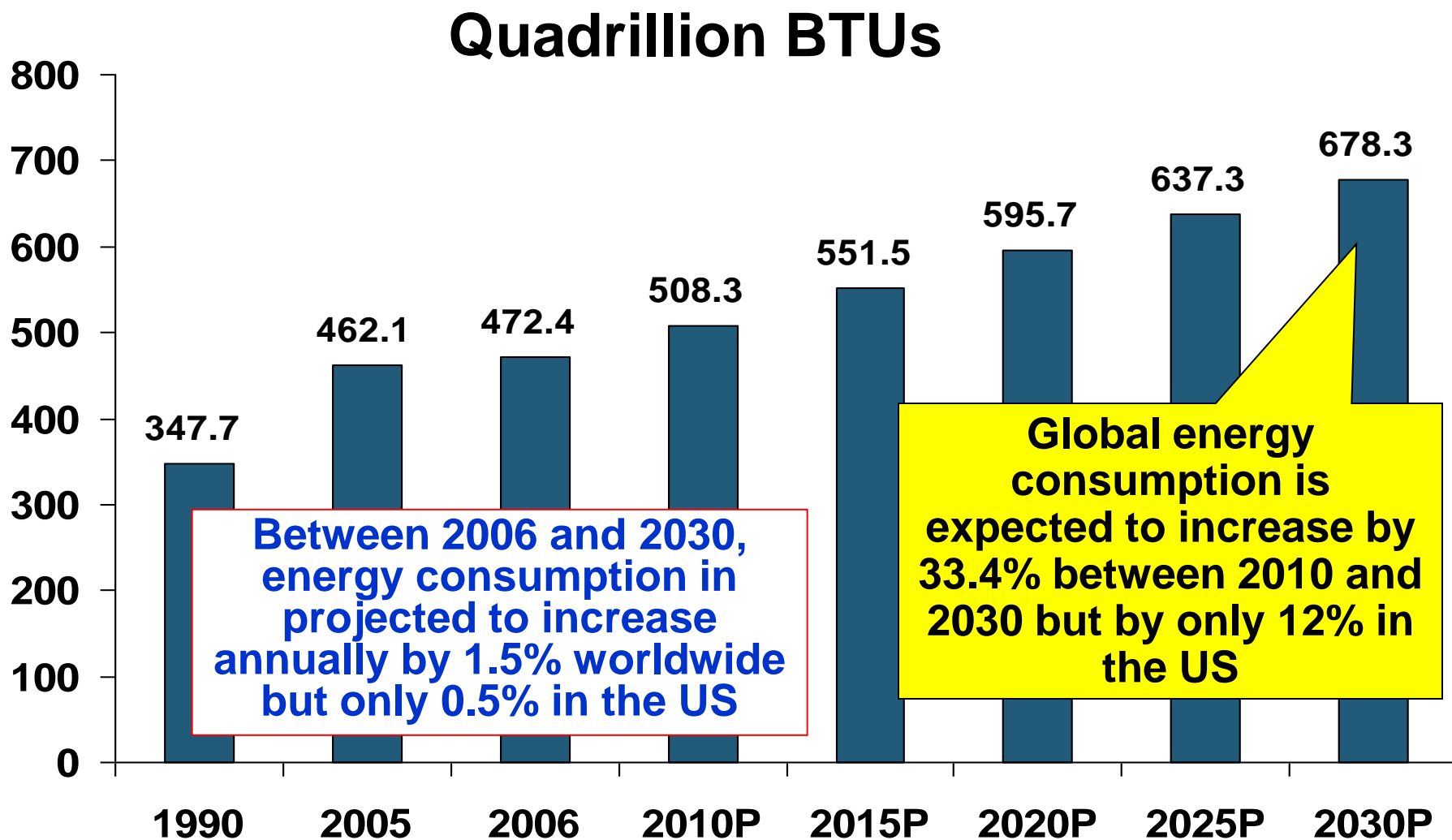
# Much Uncertainty Exists in the World, But Energy Demand Grows Under All Scenarios

**Energy is One of the Few Major Markets/Industries With Clear Growth Long-Term Trends**

***Coal Will Still Play a Big Role***



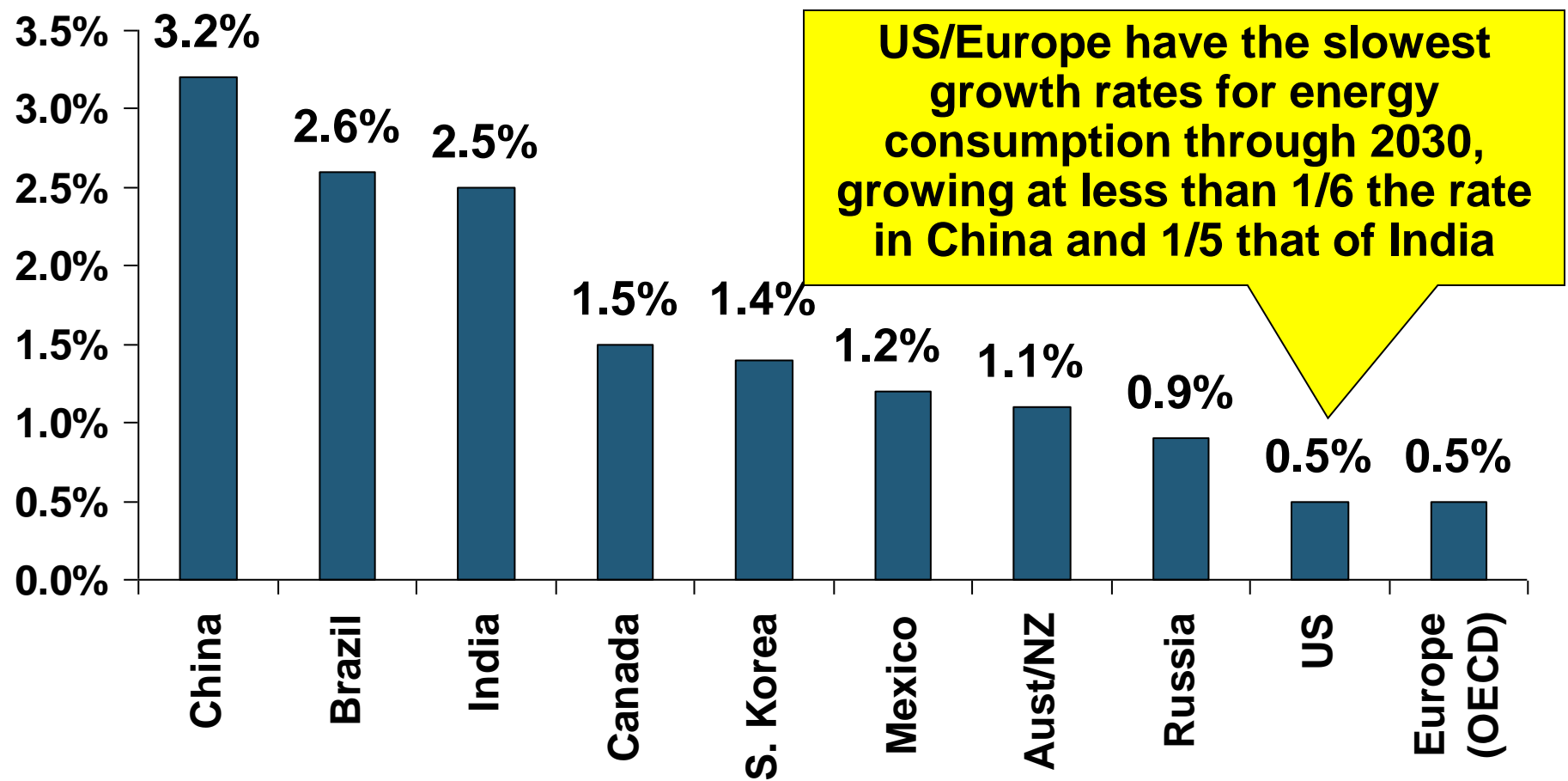
# World Primary Energy Consumption, 1990-2030P





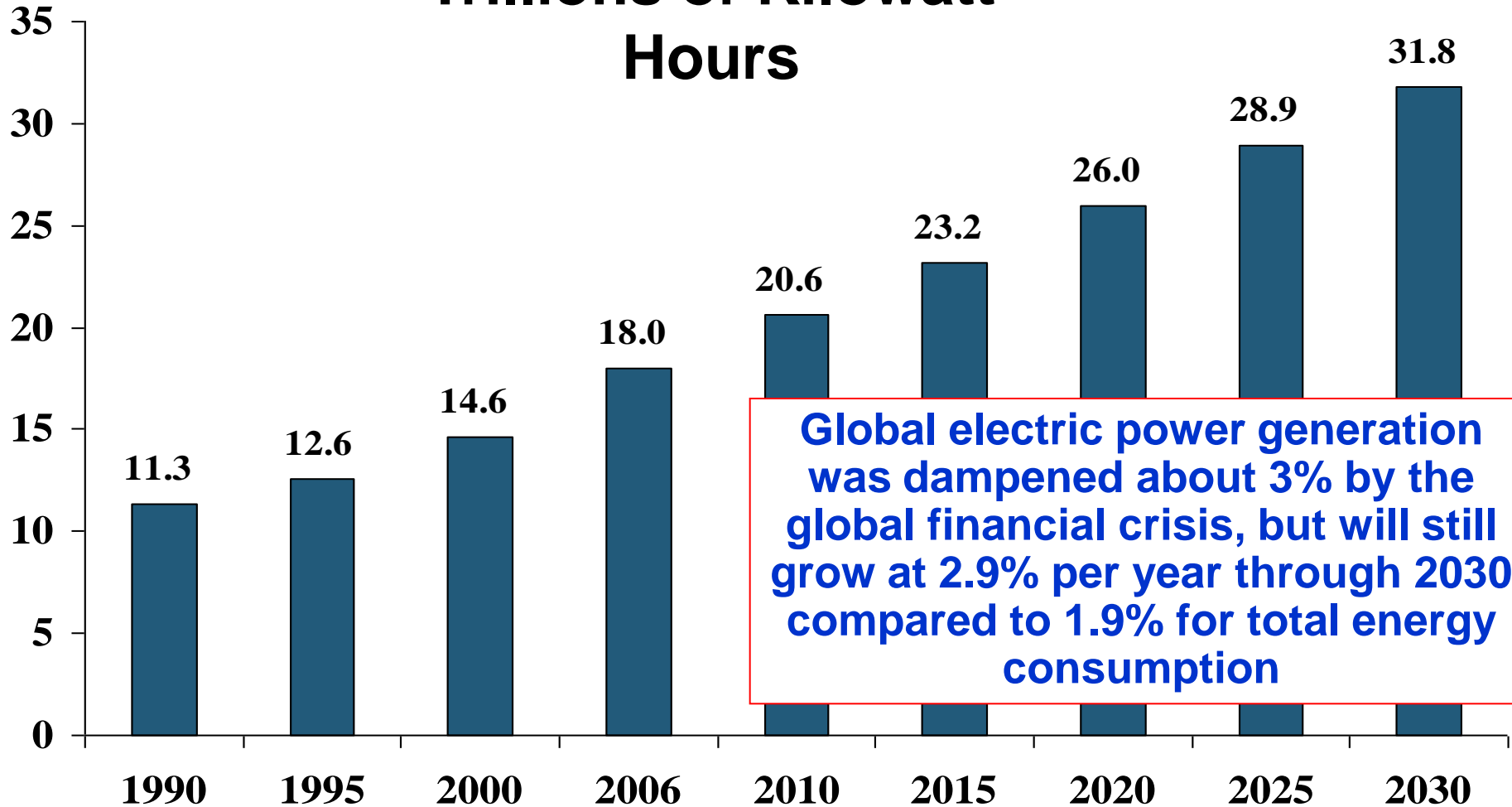
# Avg. Annual Change in Total Energy Consumption by Country/Region:2006-2030P

Average Annual Change in Consumption (Quadrillion BTUs)

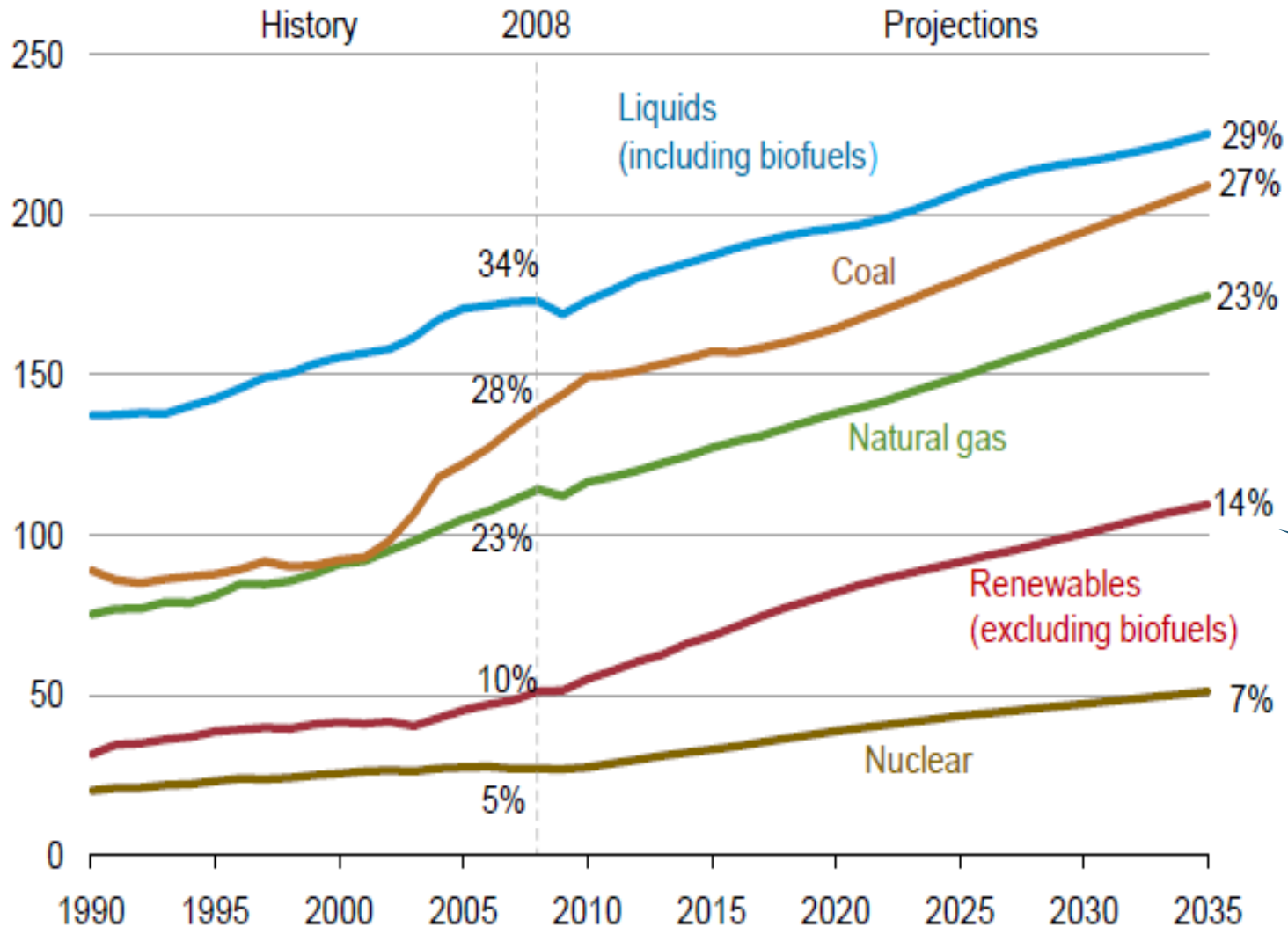


# World Net Effective Electric Power Generation, 1990-2030P

## Trillions of Kilowatt Hours



# World Energy Consumption by Fuel, 1990—2035F

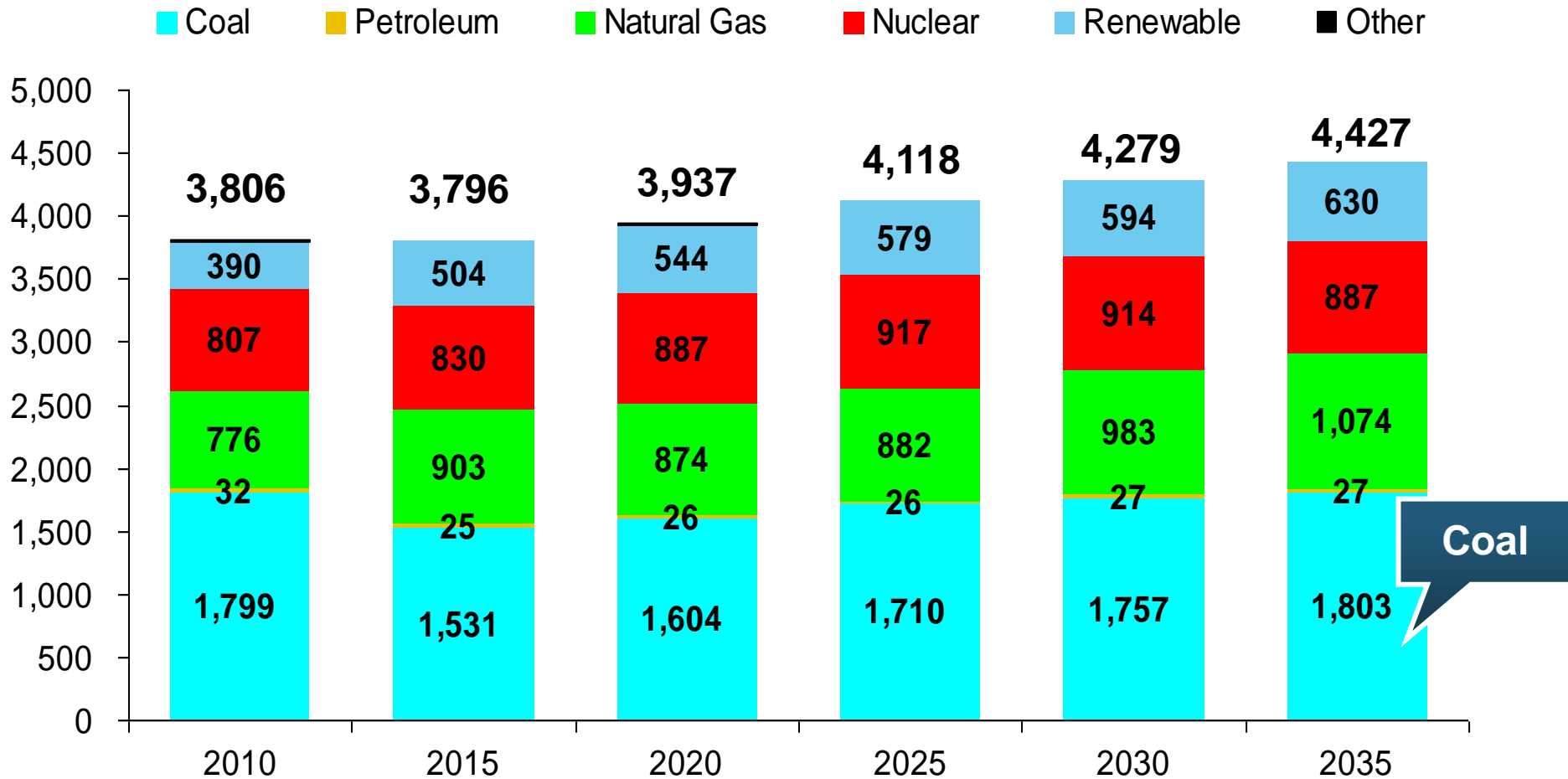


**Global consumption of coal will rise**

Share of world total

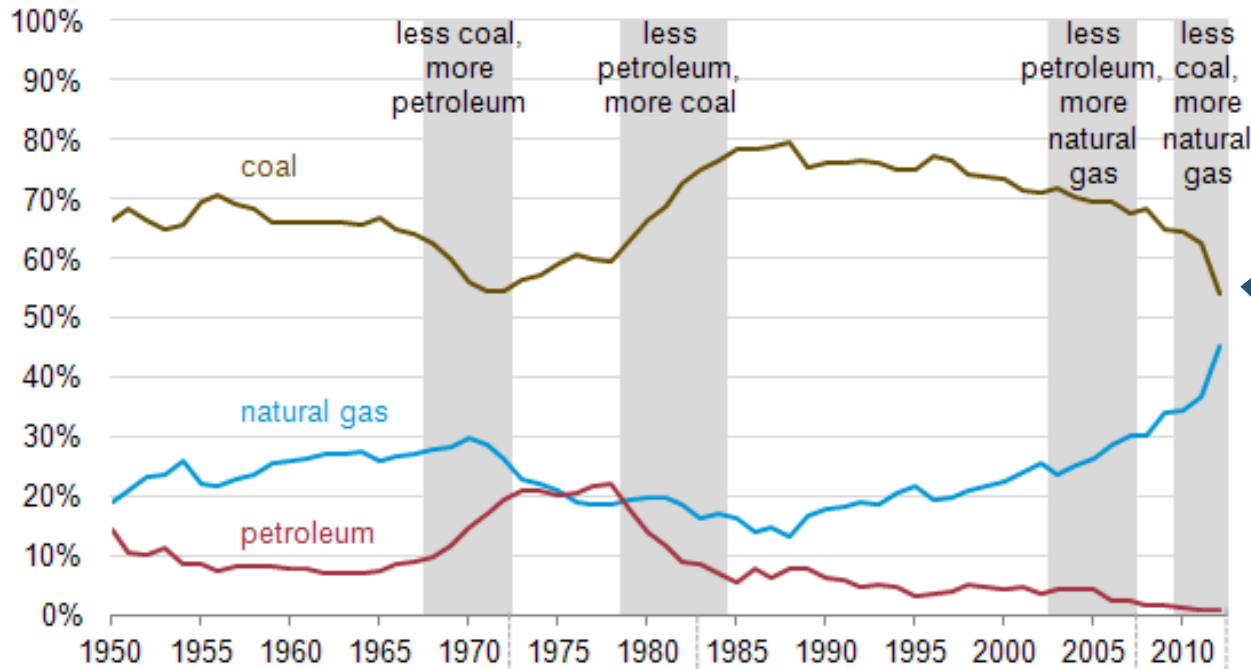
**Renewables will account for 14% of global energy consumption by 2035, up from 20% in 2008**

# US Electric Power Generation by Fuel Source, 2010-2035F (Billions of Kilowatt Hours)



**Demand for Electricity Is Expected to Grow at a 0.6% Annual Rate Through 2035. Renewables and Natural Gas Will Account for an Increasing Share of Fuel Source**

# U.S. Annual Share of Fossil Fired Electric Power Generation, 1950-2012\*



**Natural gas share of fossil fired generation has more than tripled to 45% in 2012 from less than 15% in 1988. Coal's share is down significantly and Petroleum's share is approaching zero**

Low oil prices during 1960s, combined with smog concerns, spur new additions to petroleum-fired capacity

Rapidly rising oil prices lead many generators to switch oil-fired peaking capacity to natural gas

Oil price shocks during 1970s lead to increased utilization of coal-fired capacity for baseload generation.

Historically low natural gas prices lead to increased utilization of combined cycle plants at expense of coal units

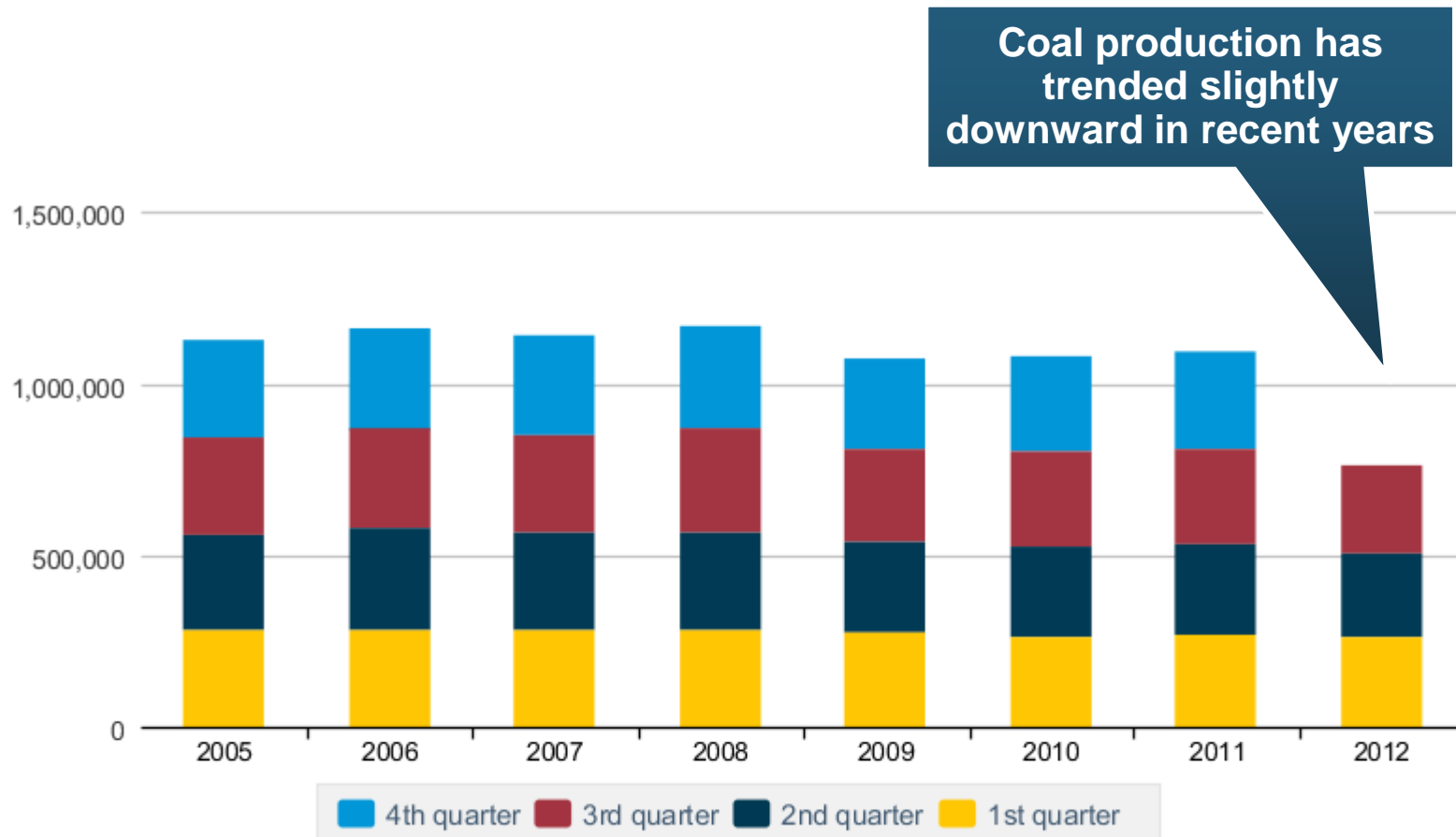
\*2012 reflects Jan to Apr data



Source: US Energy Information Administration, <http://www.eia.gov/todayinenergy/detail.cfm?id=7090#> ; Insurance Information Institute.

# Quarterly Coal Production in the US, 2005:Q1—2012:Q3\*

Thousands of Short Tons

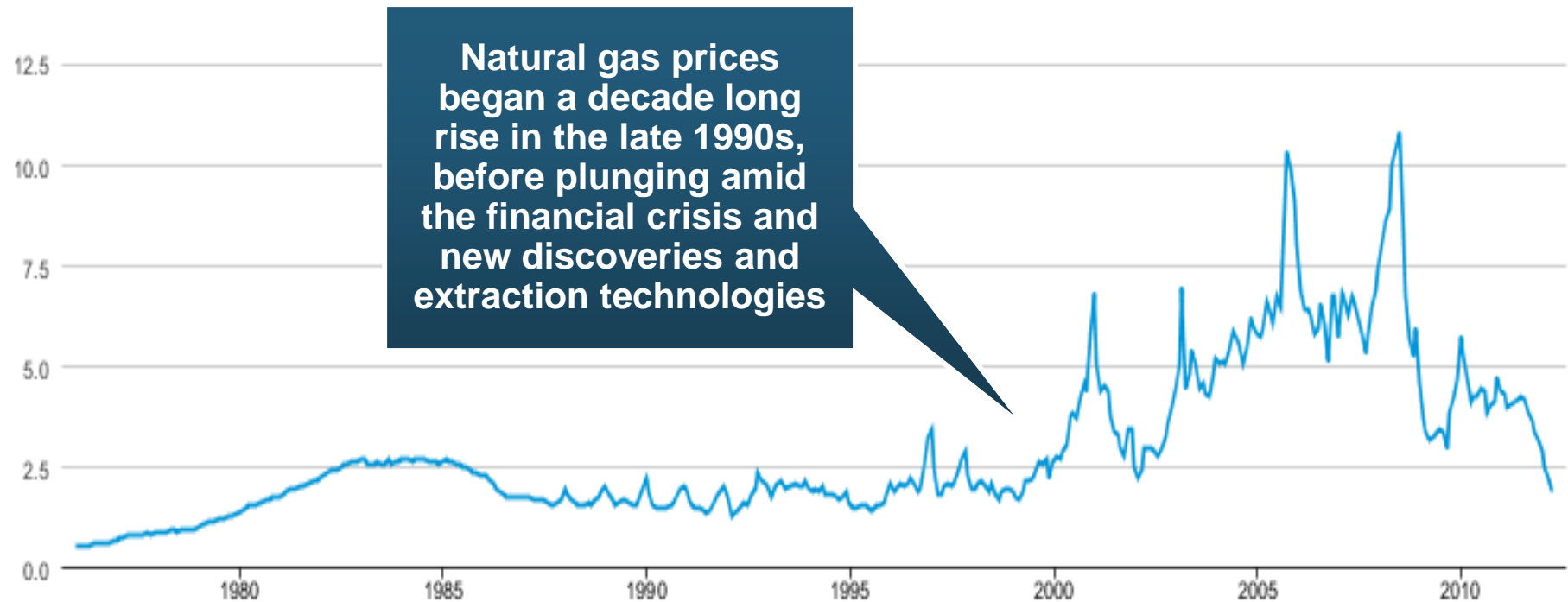


\*Latest available as of 3/4/12.

Source: Energy Information Administration; Insurance Information Institute.

# US Natural Gas Wellhead Price, Monthly, 1976-2012\*

Dollars per 1,000 Cubic Ft.

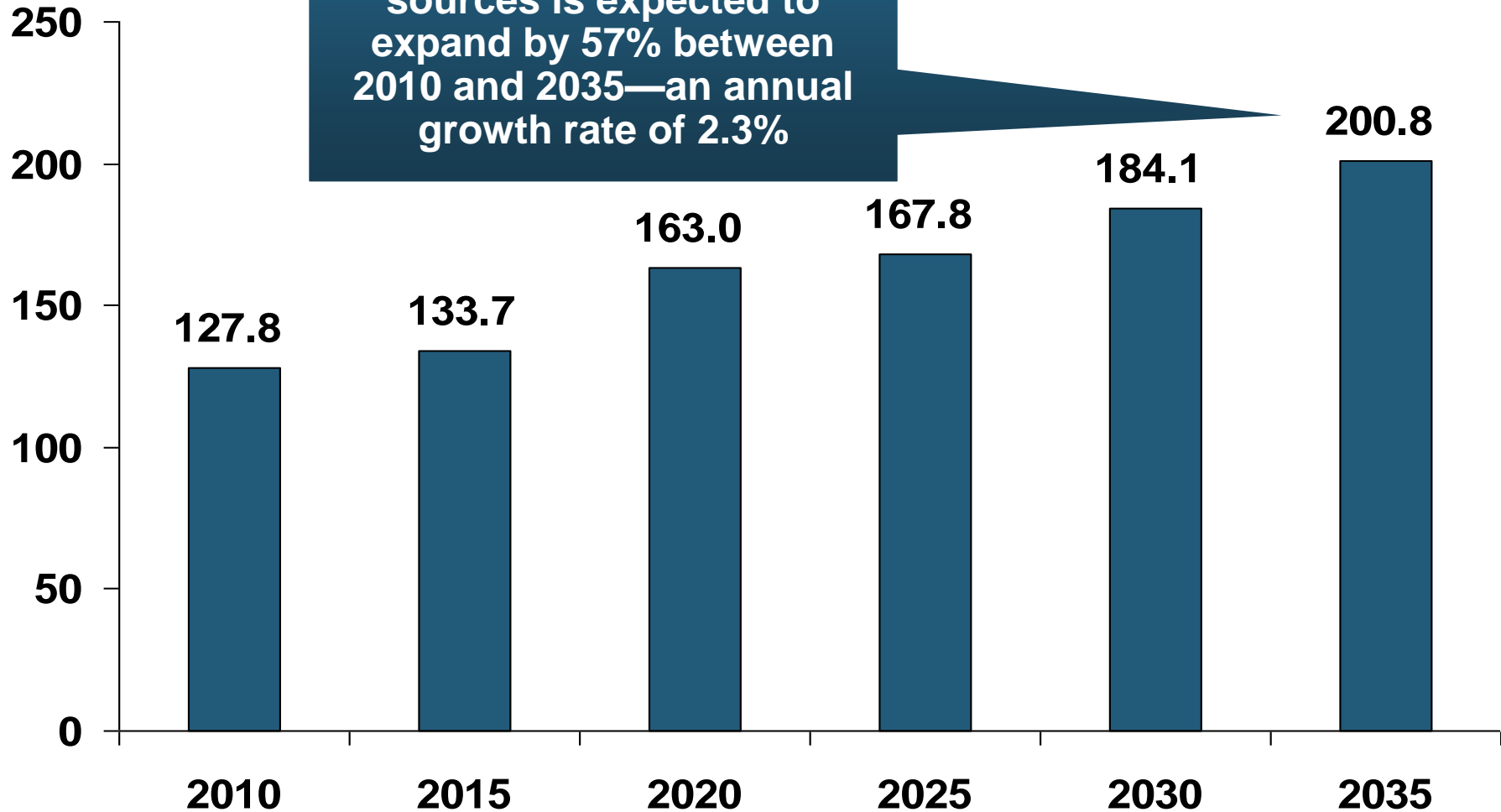


\*Through April 2012

Source: US Energy Information Administration, <http://www.eia.gov/todayinenergy/detail.cfm?id=7090#> ; Insurance Information Institute.

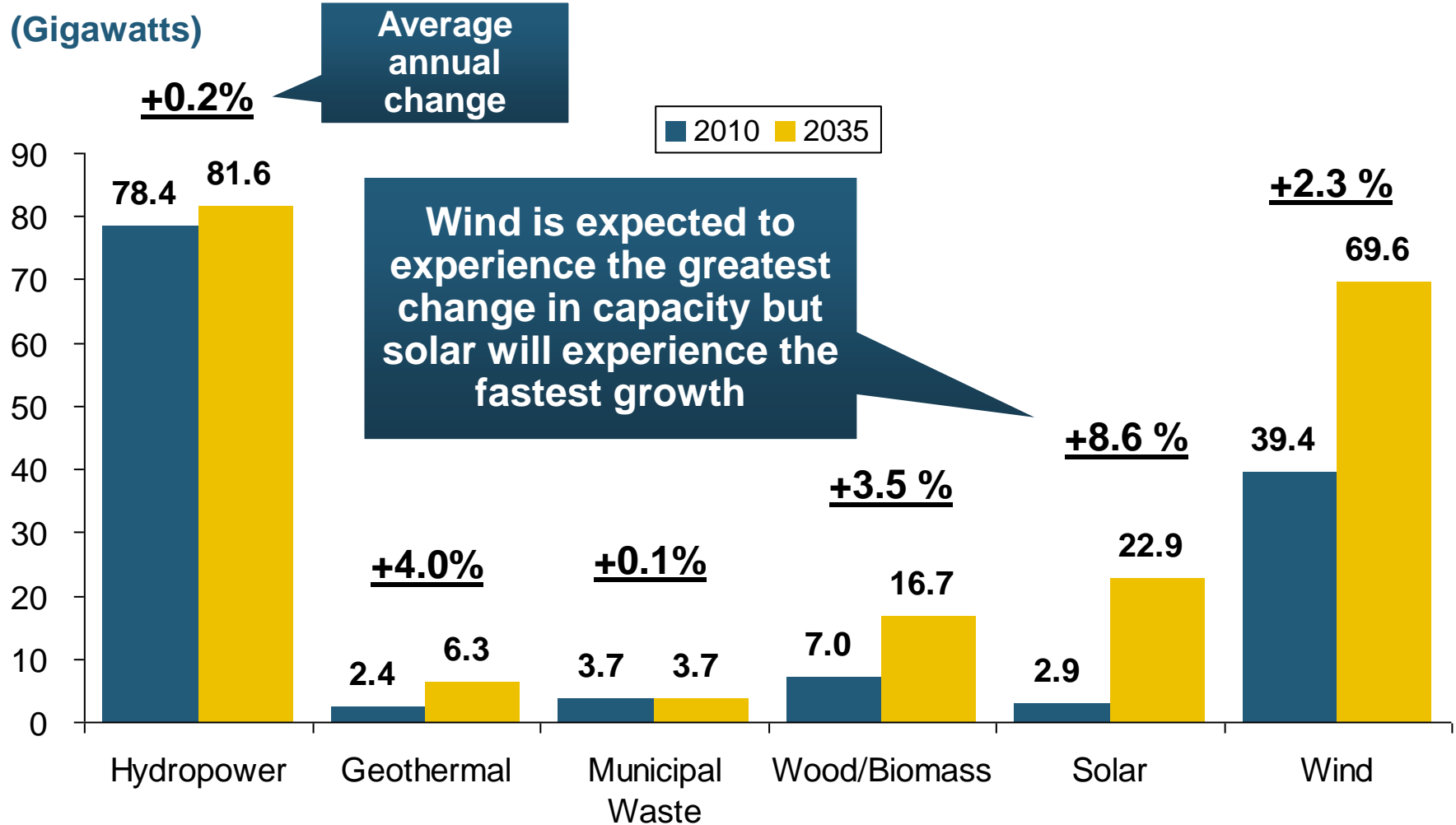
# U.S. Renewable Energy Net Summer Capacity, 2010 – 2035P

Gigawatts





# U.S. Renewable Energy Net Summer Capacity & Avg. Ann. Change, by Source, 2010 – 2035P



# Global Insured Catastrophe Loss Update

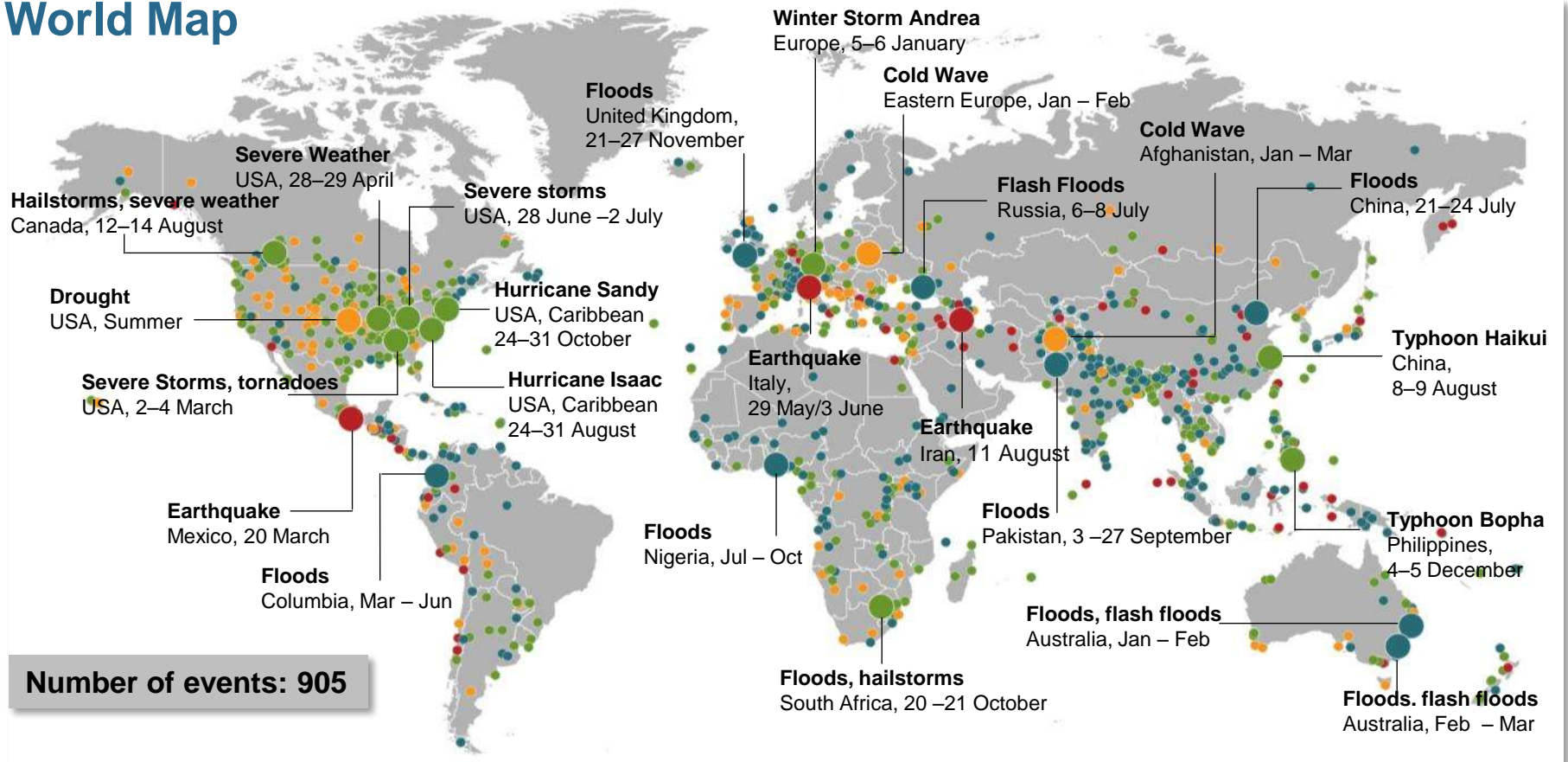
**2012 Catastrophe Losses in the US  
Were Close to “Average” Until Sandy Hit**  
***Globally Losses Fell from 2011 Record  
Levels, But Still High***

## ■ Catastrophe Communications: US & Global

- **U.S. Focus:** ~\$37-\$42B = 2<sup>nd</sup> Most Costliest Year Ever for Insured Catastrophe Loss (Behind 2005)
  - Economic Losses = \$101B
  - Crop = Additional ~\$16B (\$7B-\$8B privately insured)
  - NFIP Flood = Additional \$9B+
  - Flood losses/NFIP/FEMA has been the #1 communications “issue” in the wake of Sandy
- **Global Focus:** \$65B in Insured Losses → Well Below \$105B in 2011 but Above 10-Yr. Avg. of \$50B
  - Cats abroad did not drive media cycle in 2012, save ongoing Fukushima issues; Climate change
- **Market Consequences:** Primary & Reinsurance
  - Impacts on price, availability

# Natural Loss Events: Full Year 2012

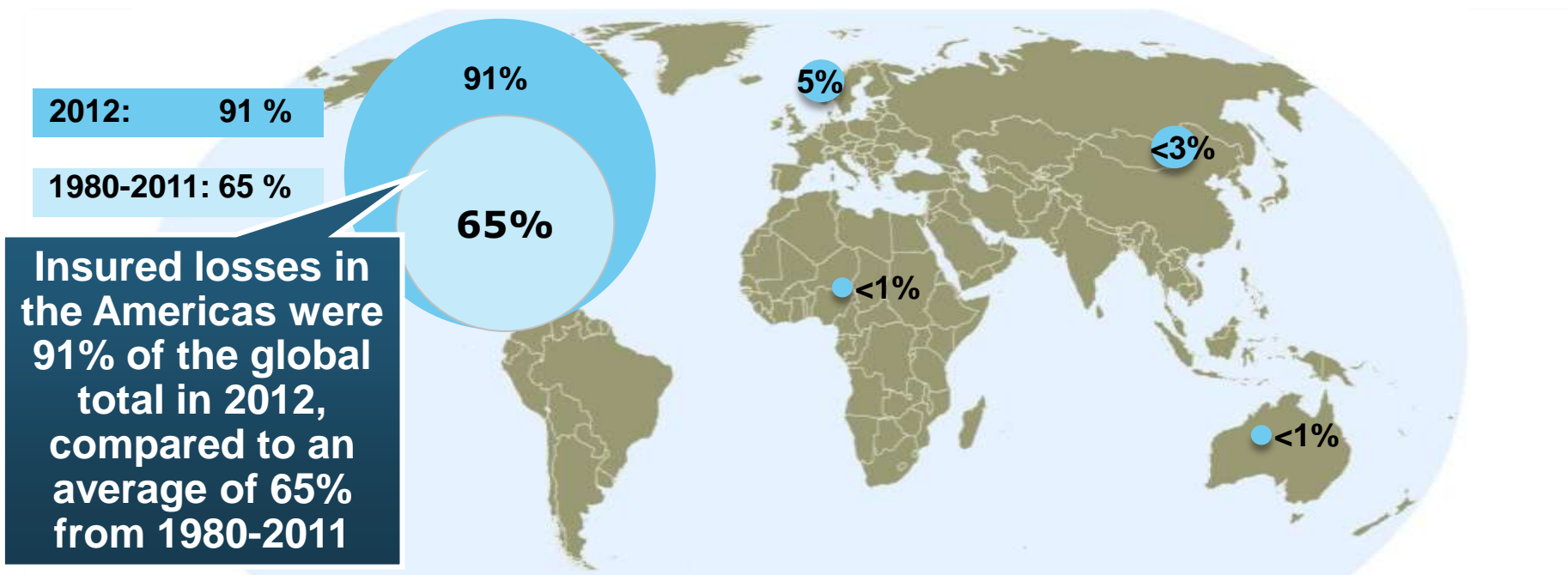
## World Map



- Natural catastrophes
- Geophysical events (earthquake, tsunami, volcanic activity)
- Hydrological events (flood, mass movement)
- Selection of significant Natural catastrophes
- Meteorological events (storm)
- Climatological events (extreme temperature, drought, wildfire)

# Natural Catastrophes Worldwide 2012

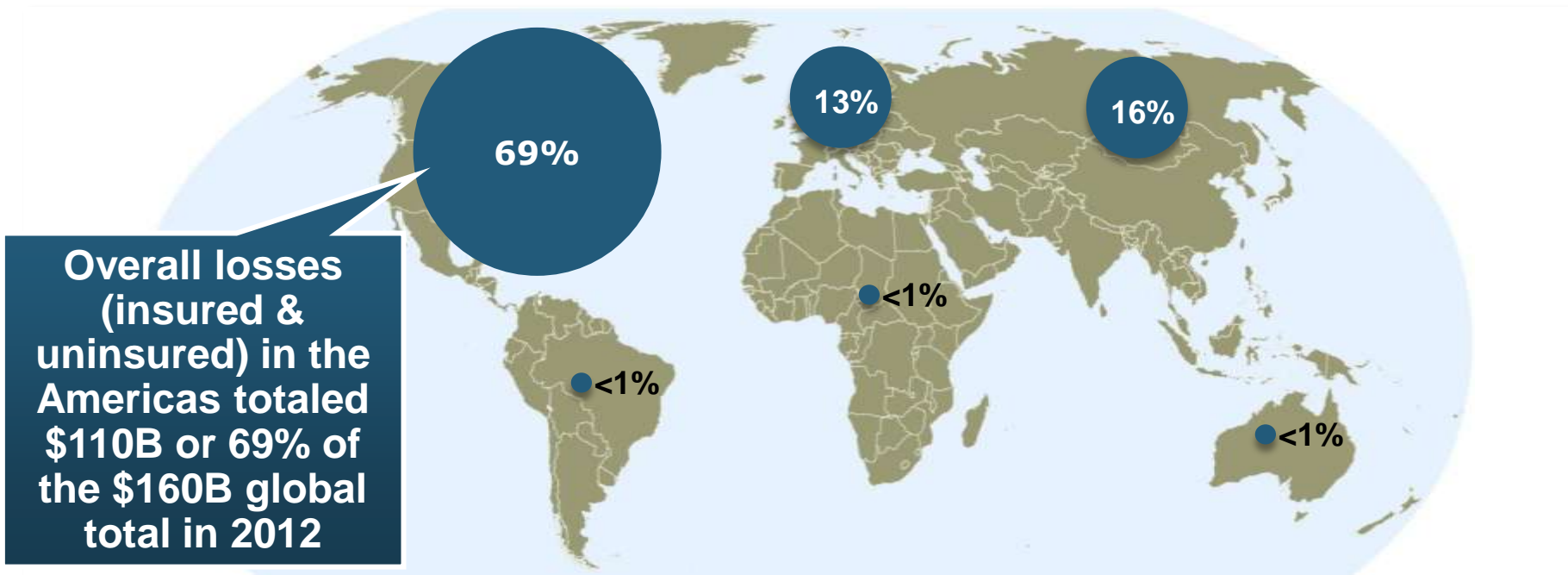
Insured Losses = \$65bn - % distribution per continent



Continent	Insured losses US\$ m
America (North & South Am.)	60,000
Europe	3,200
Africa	200
Asia	1,700
Australia/Oceania	300

# Natural Catastrophes Worldwide 2012

Overall Losses = \$160bn - % distribution per continent



Continent	Overall losses US\$ m
America (North & South)	110,000
Europe	21,000
Africa	1,000
Asia	26,000
Australia/Oceania	1,000

# Natural Disaster Losses in the United States: 2012

As of January 1, 2013	Number of Events	Fatalities	Estimated Overall Losses (US \$m)	Estimated Insured Losses (US \$m)
<b>Tropical Cyclone</b>	4	143	52,240	<b>26,360</b>
<b>Severe Thunderstorm</b>	115	118	27,688	<b>14,914</b>
<b>Drought</b>	2	0	20,000	<b>16,000<sup>†</sup></b>
<b>Wildfire</b>	38	13	1,112	<b>595</b>
<b>Winter Storm</b>	2	7	81	<b>38</b>
<b>Flood</b>	19	3	13	<b>0<sup>††</sup></b>
<b>TOTALS</b>	<b>184</b>	<b>284</b>	<b>\$101,134</b>	<b>\$57,907</b>

Source: MR NatCatSERVICE

† - Includes Federal Crop Insurance Losses. †† - Excludes federal flood.

# Significant Natural Catastrophes, 2012

(Events with \$1 billion economic loss and/or 50 fatalities)



Date	Event	Estimated Economic Losses (US \$m)	Estimated Insured Losses (US \$m)
June – Sept 2012	Central US Drought	20,000	16,000 <sup>†</sup>
March 2 - 3	Thunderstorms	5,000	2,500
April 2 – 4	Thunderstorms	1,550	775
April 13- 15	Thunderstorms	1,800	910
April 28 – 29	Thunderstorms	4,500	2,500
May 25 – 30	Thunderstorms	3,400	1,700
June 6 – 7	Thunderstorms	1,400	1,000
June 11 – 13	Thunderstorms	1,900	950
June 28 – July 2	Thunderstorms	4,000	2,000
August 26 - 30	Hurricane Isaac	2,000	1,220
October 28 - 30	Hurricane Sandy	50,000	25,000 <sup>††</sup>

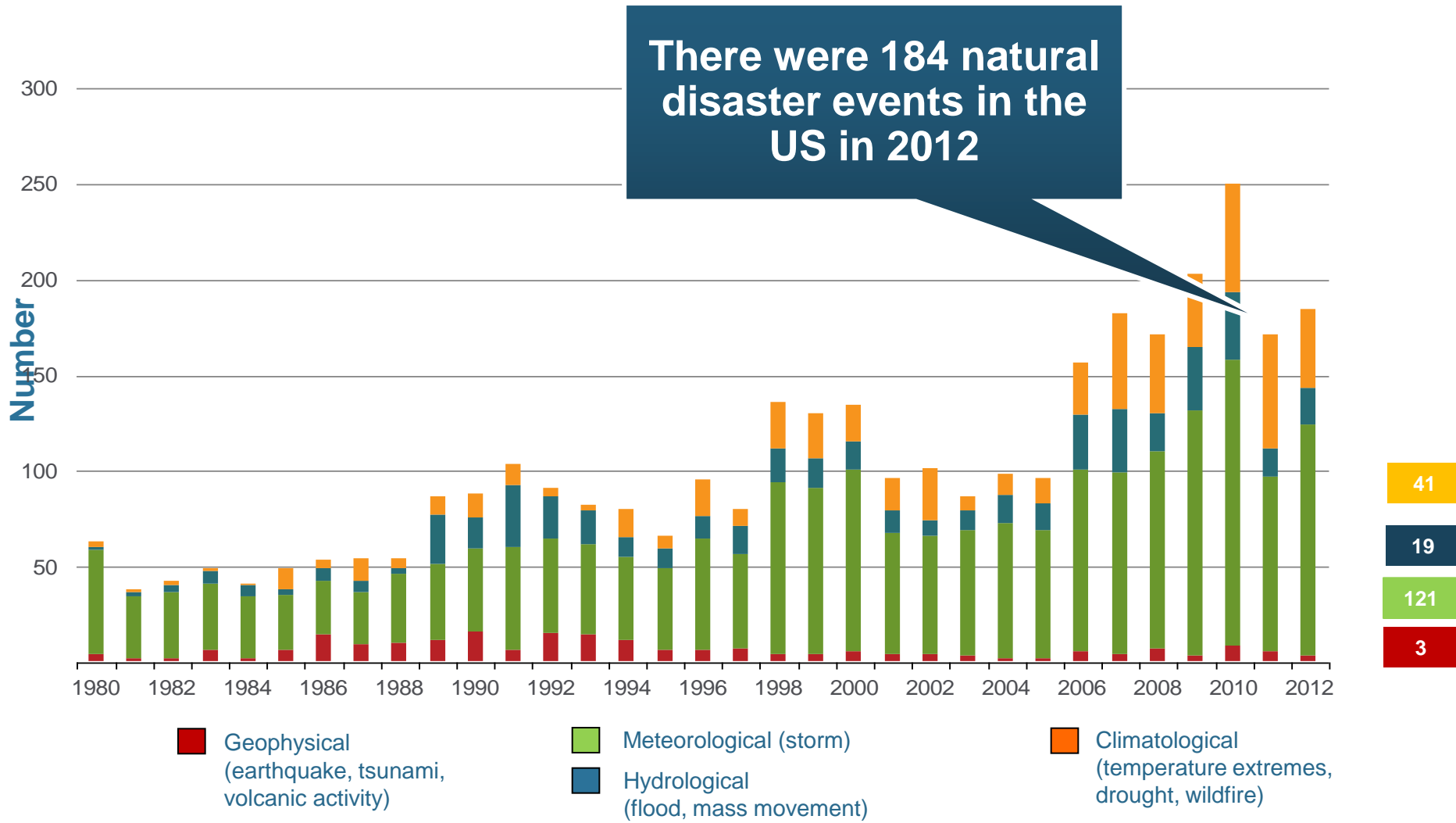
Source: MR NatCatSERVICE

<sup>†</sup> - Includes Federal Crop Insurance Losses.; <sup>††</sup> - Excludes NFIP losses.



# Natural Disasters in the United States, 1980 – 2012

Number of Events (Annual Totals 1980 – 2012)



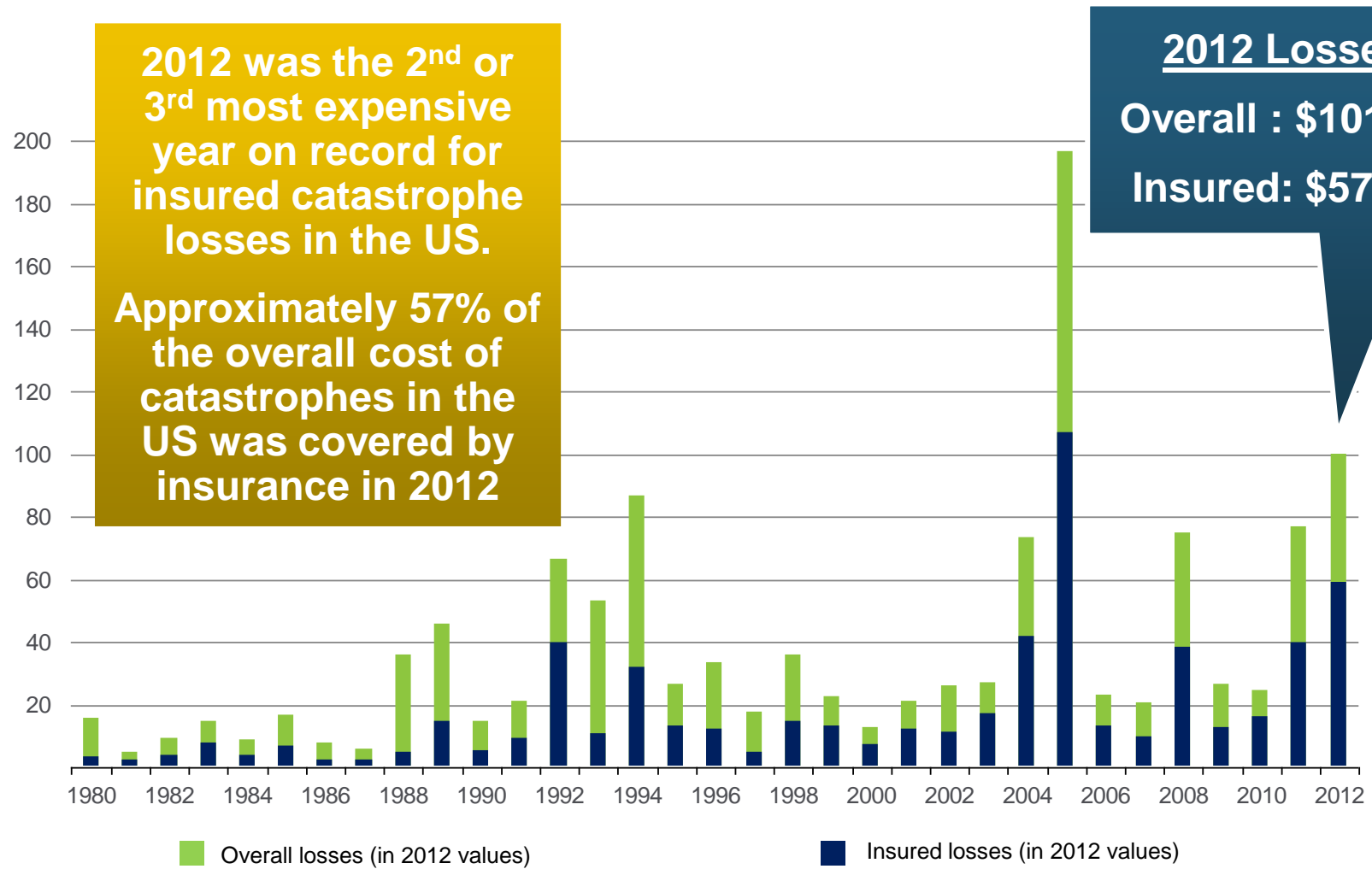
# Losses Due to Natural Disasters in the US, 1980–2012 (Overall & Insured Losses)

## (Overall and Insured Losses)

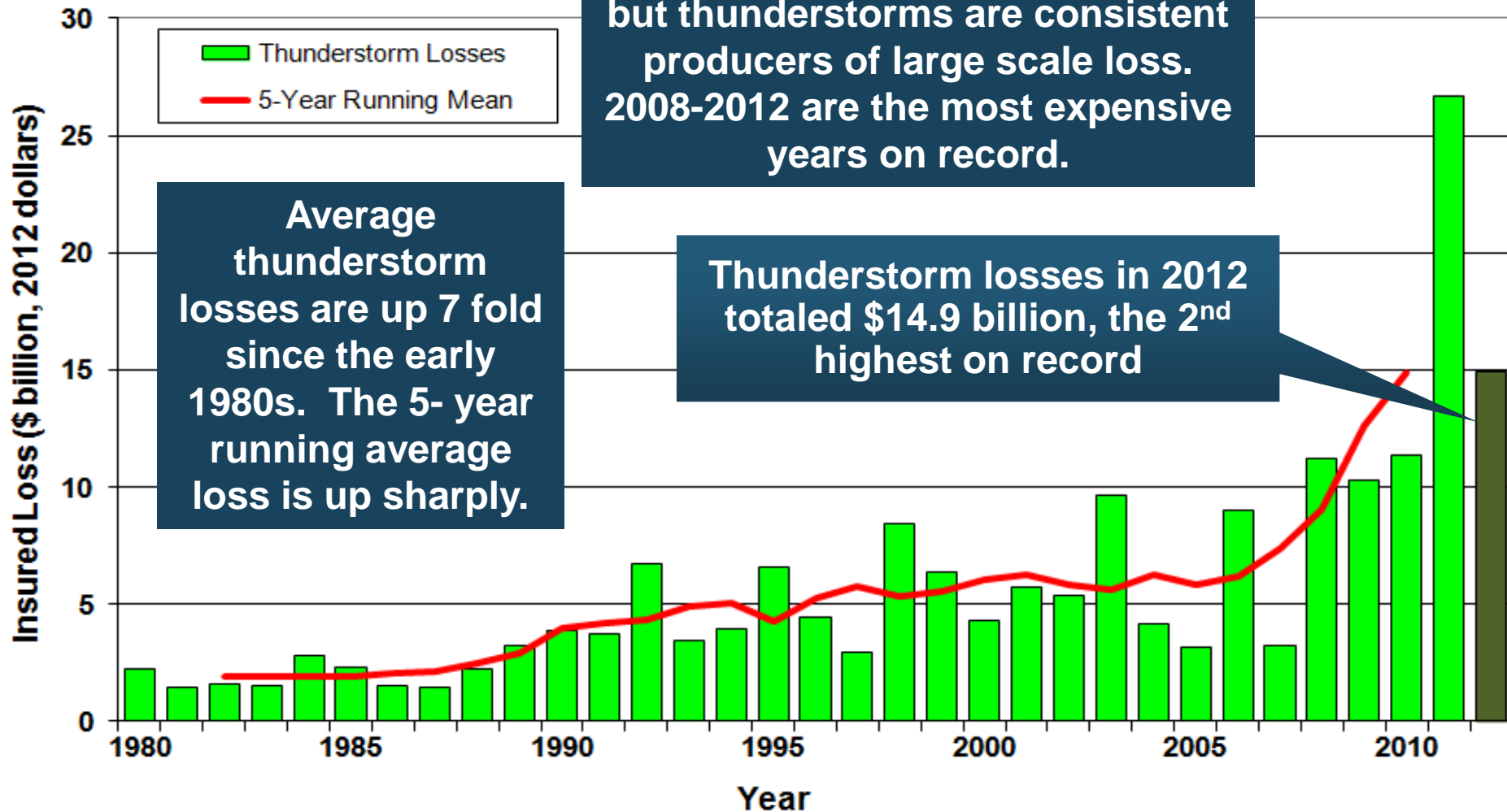
(2012 Dollars, \$ Billions)

2012 was the 2<sup>nd</sup> or 3<sup>rd</sup> most expensive year on record for insured catastrophe losses in the US.  
 Approximately 57% of the overall cost of catastrophes in the US was covered by insurance in 2012

2012 Losses  
 Overall : \$101.1B  
 Insured: \$57.9B

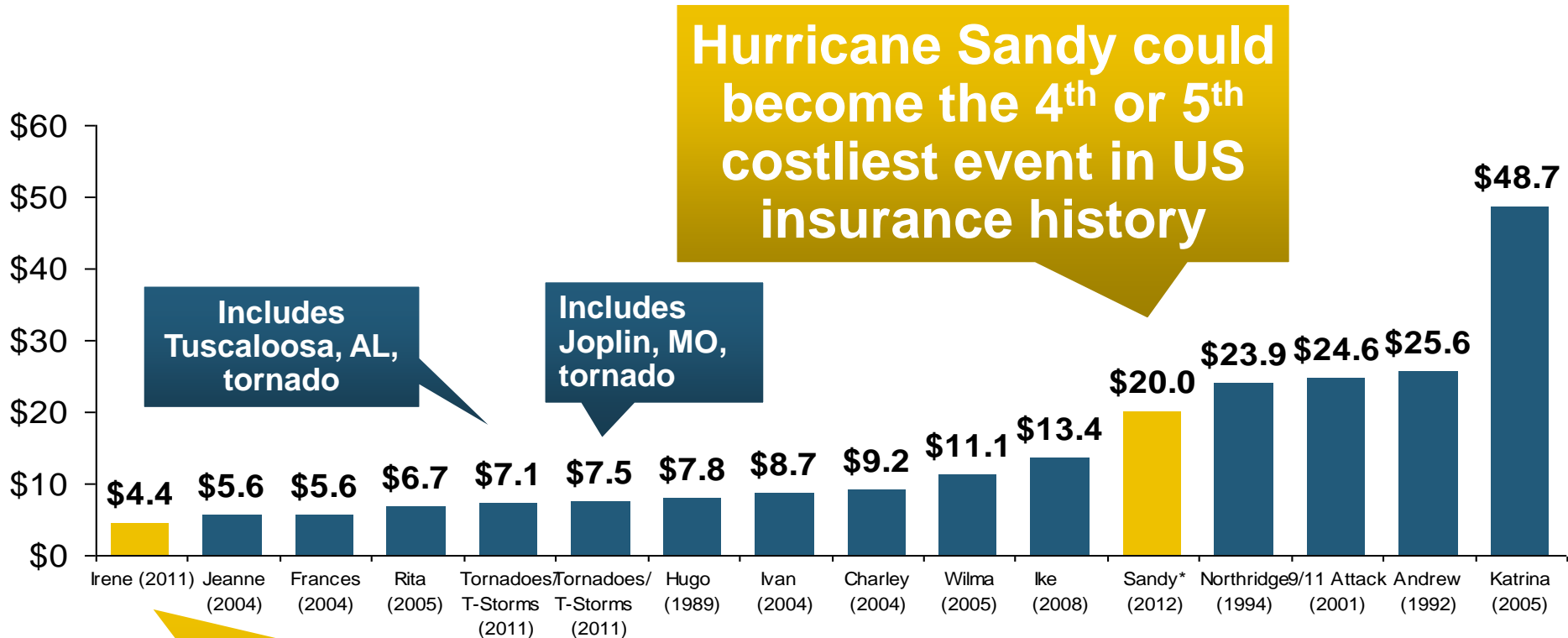


# U.S. Thunderstorm Loss Trends, 1980 – 2012



# Top 16 Most Costly Disasters in U.S. History

(Insured Losses, 2012 Dollars, \$ Billions)



Hurricane Sandy could become the 4<sup>th</sup> or 5<sup>th</sup> costliest event in US insurance history

Includes Tuscaloosa, AL, tornado

Includes Joplin, MO, tornado

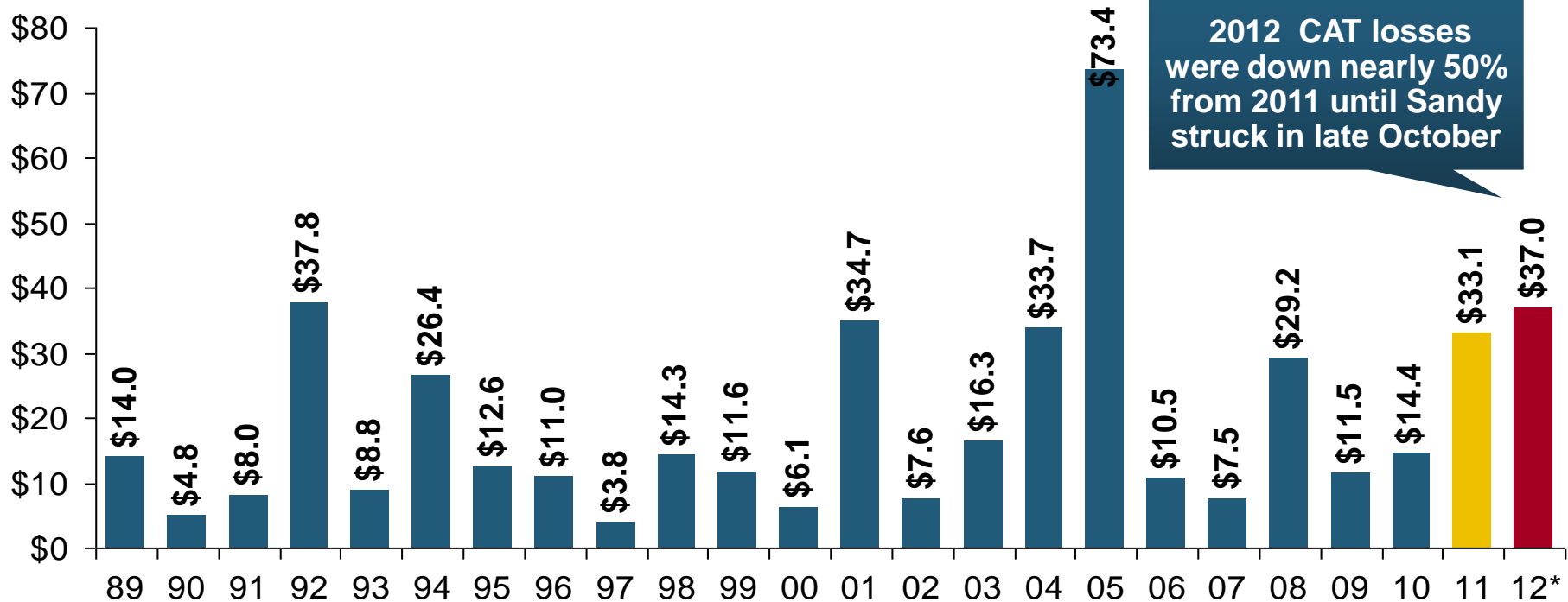
Hurricane Irene became the 12<sup>th</sup> most expensive hurricane in US history in 2011

12 of the 16 Most Expensive Events in US History Have Occurred Over the Past Decade

\*Estimate as of 12/09/12 based on estimates of catastrophe modeling firms and reported losses as of 1/12/13. Estimates range up to \$25B. Sources: PCS; Insurance Information Institute inflation adjustments to 2012 dollars using the CPI.

# US Insured Catastrophe Losses

(\$ Billions, 2012 Dollars)



2012 CAT losses were down nearly 50% from 2011 until Sandy struck in late October

**US CAT Losses in 2012 Will Likely Become the 2<sup>nd</sup> or 3<sup>rd</sup> Highest in US History on An Inflation-Adjusted Basis (Pvt Insured). 2011 Losses Were the 5<sup>th</sup> Highest**

**Record Tornado Losses Caused 2011 CAT Losses to Surge**

\*As of 1/2/13. Includes \$20B gross loss estimate for Hurricane Sandy.

Note: 2001 figure includes \$20.3B for 9/11 losses reported through 12/31/01 (\$25.9B 2011 dollars). Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = \$12.2B (\$15.6B in 2011 dollars.)

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

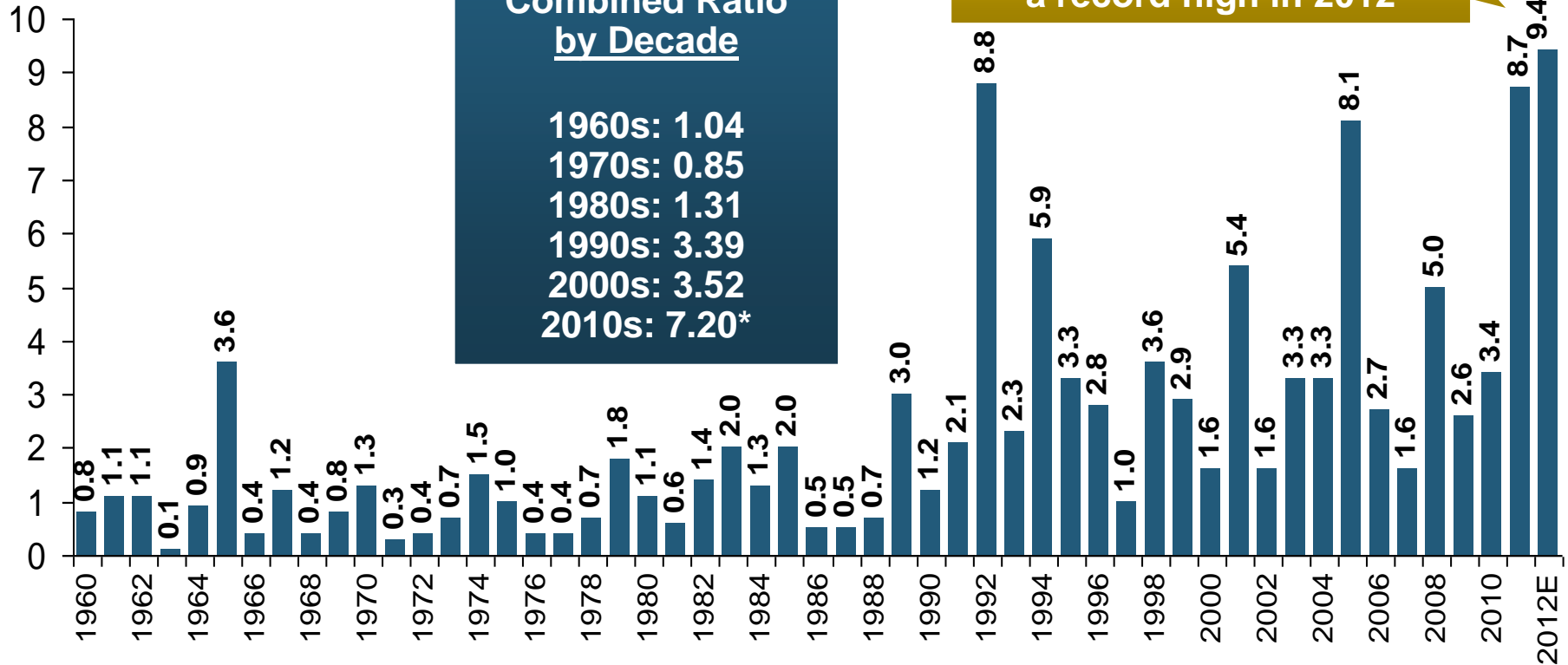
# Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2012\*

## Combined Ratio Points

**Avg. CAT Loss Component of the Combined Ratio by Decade**

1960s: 1.04  
 1970s: 0.85  
 1980s: 1.31  
 1990s: 3.39  
 2000s: 3.52  
 2010s: 7.20\*

Catastrophe losses as a share of all losses reached a record high in 2012



**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 (1960-2011); A.M. Best (2012E) Insurance Information Institute.

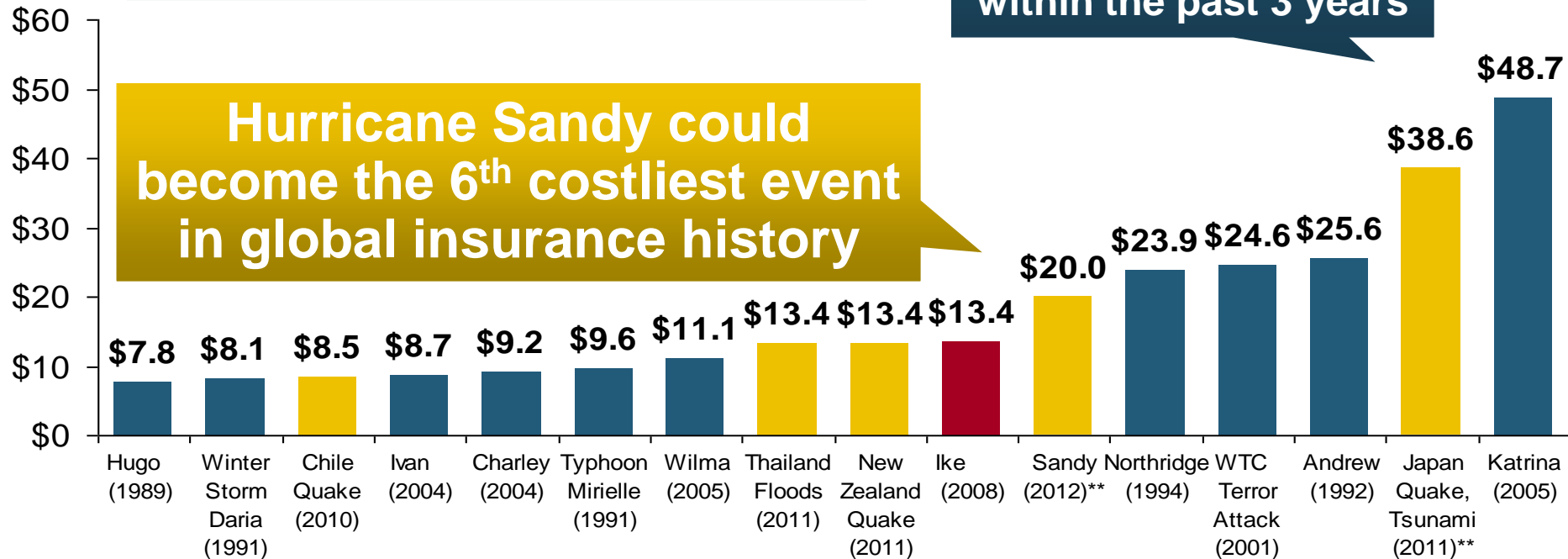
# Top 16 Most Costly World Insurance Losses, 1970-2012\*

(Insured Losses, 2012 Dollars, \$ Billions)

**2012 insured CAT Losses totaled \$60B; Economic losses totaled \$140B, according to Swiss Re**

**5 of the top 14 most expensive catastrophes in world history have occurred within the past 3 years**

**Hurricane Sandy could become the 6<sup>th</sup> costliest event in global insurance history**

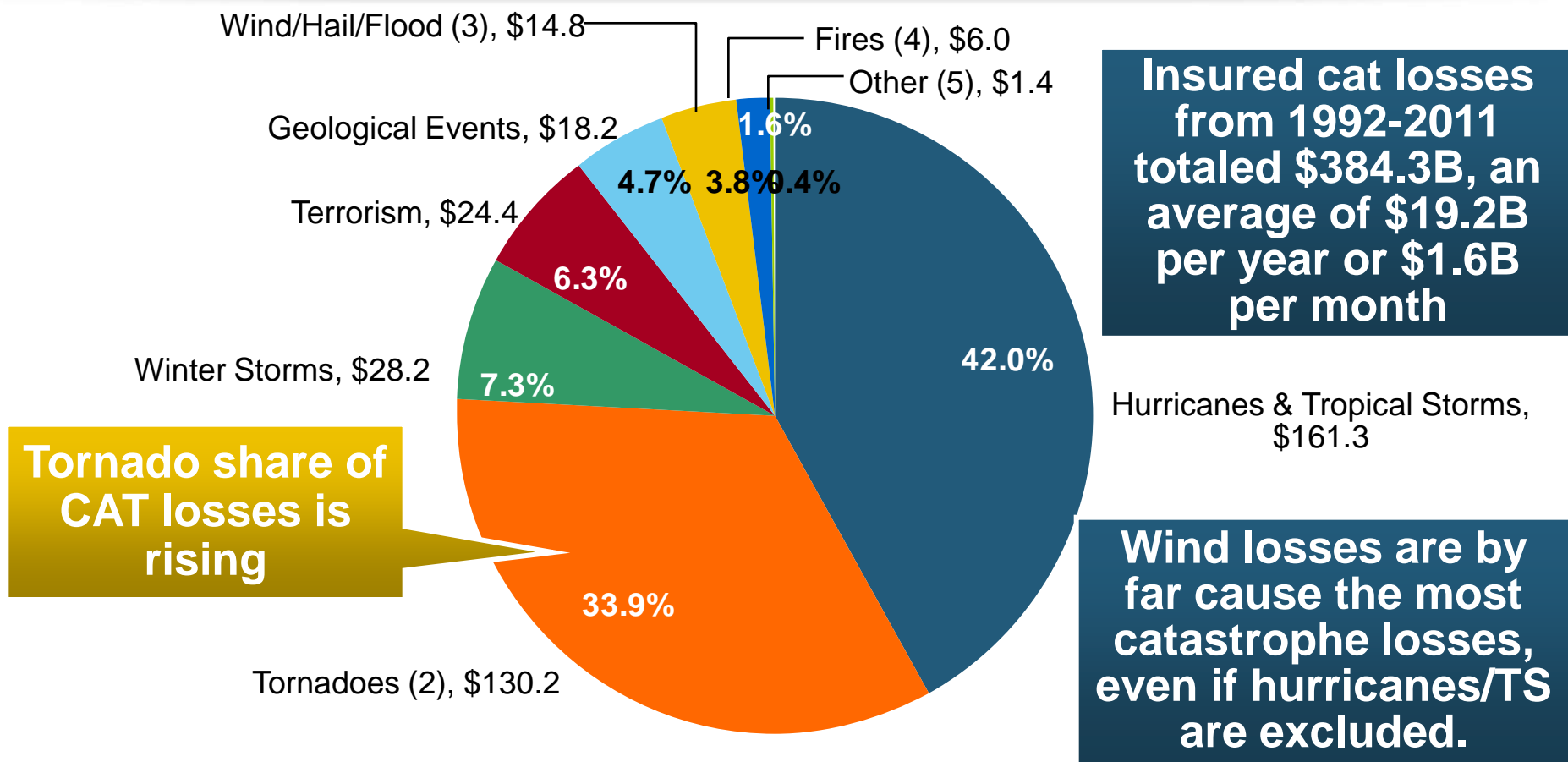


\*Figures do not include federally insured flood losses.

\*\*Estimate based on PCS value of \$18.75B as of 1/18/13 and assumption of upward development based on catastrophe modeler estimates ranging as high as \$25B.

Sources: Swiss Re *sigma* 1/2011; Munich Re; Insurance Information Institute research.

# Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1990–2011<sup>1</sup>



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.

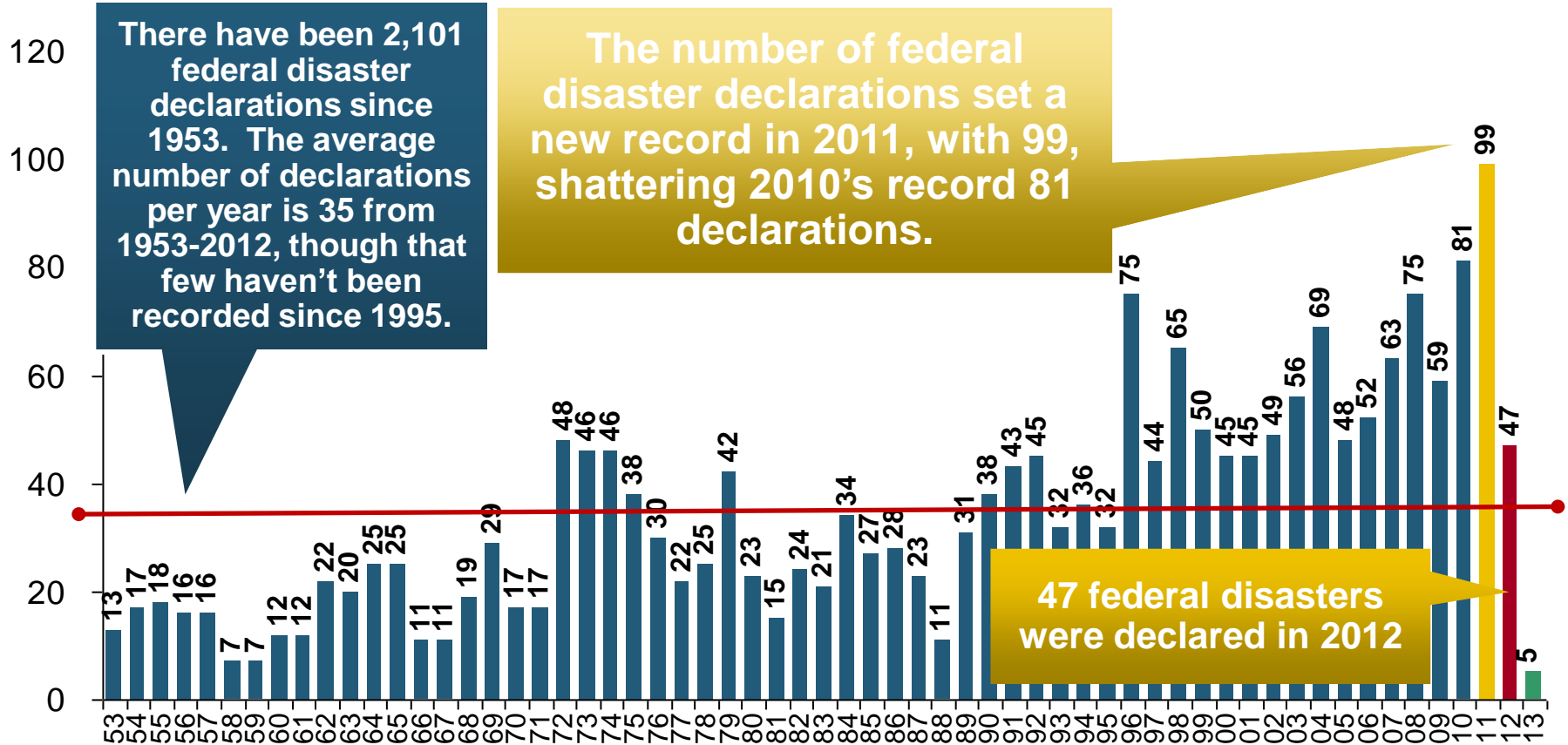




# Federal Disaster Declarations Patterns: 1953-2012

**Despite 11 Sandy Declarations,  
Fewer Disasters Were Declared in  
2012 than the Record Number of  
Declarations in 2010 and 2011**

# Number of Federal Disaster Declarations, 1953-2013\*

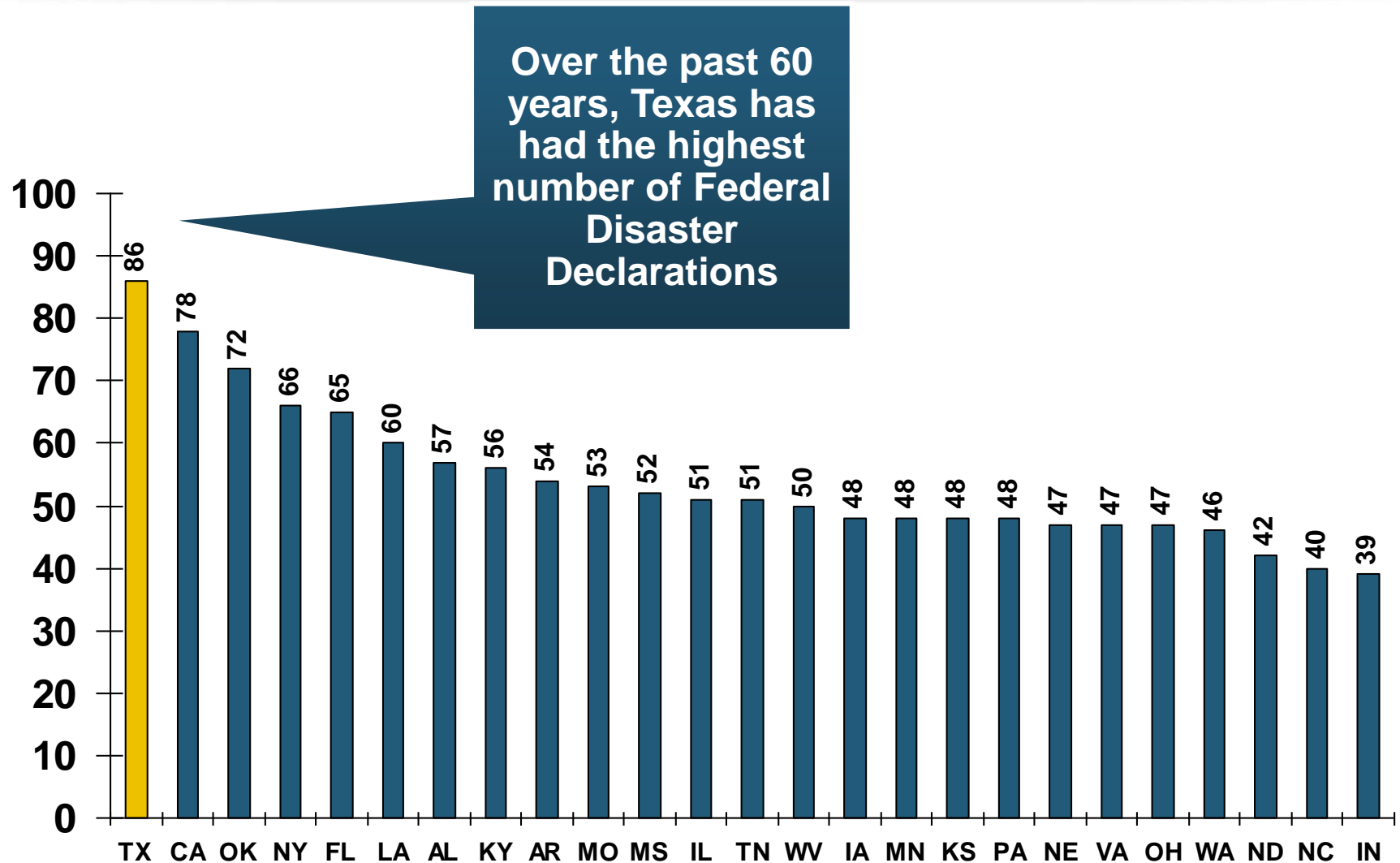


**The Number of Federal Disaster Declarations Is Rising and Set New Records in 2010 and 2011. Hurricane Sandy Produced 13 Declarations in 2012/13.**

\*Through Feb. 24, 2013.

Source: Federal Emergency Management Administration; <http://www.fema.gov/disasters>; Insurance Information Institute.

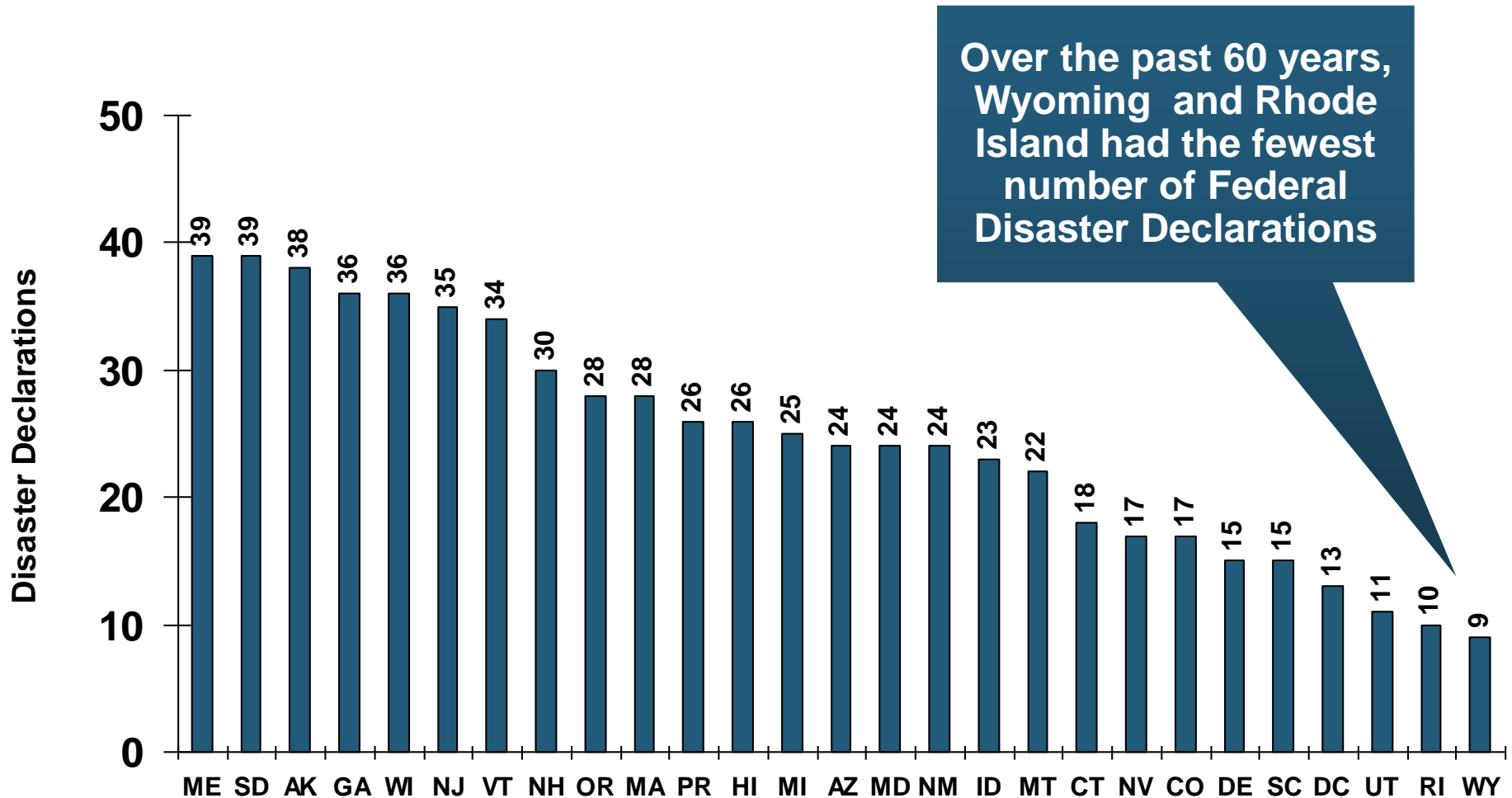
# Federal Disasters Declarations by State, 1953 – 2013: Highest 25 States\*



\*Through Feb. 24, 2012. Includes Puerto Rico and the District of Columbia.

Source: FEMA: [http://www.fema.gov/news/disaster\\_totals\\_annual.fema](http://www.fema.gov/news/disaster_totals_annual.fema); Insurance Information Institute.

# Federal Disasters Declarations by State, 1953 – 2013: Lowest 25 States\*

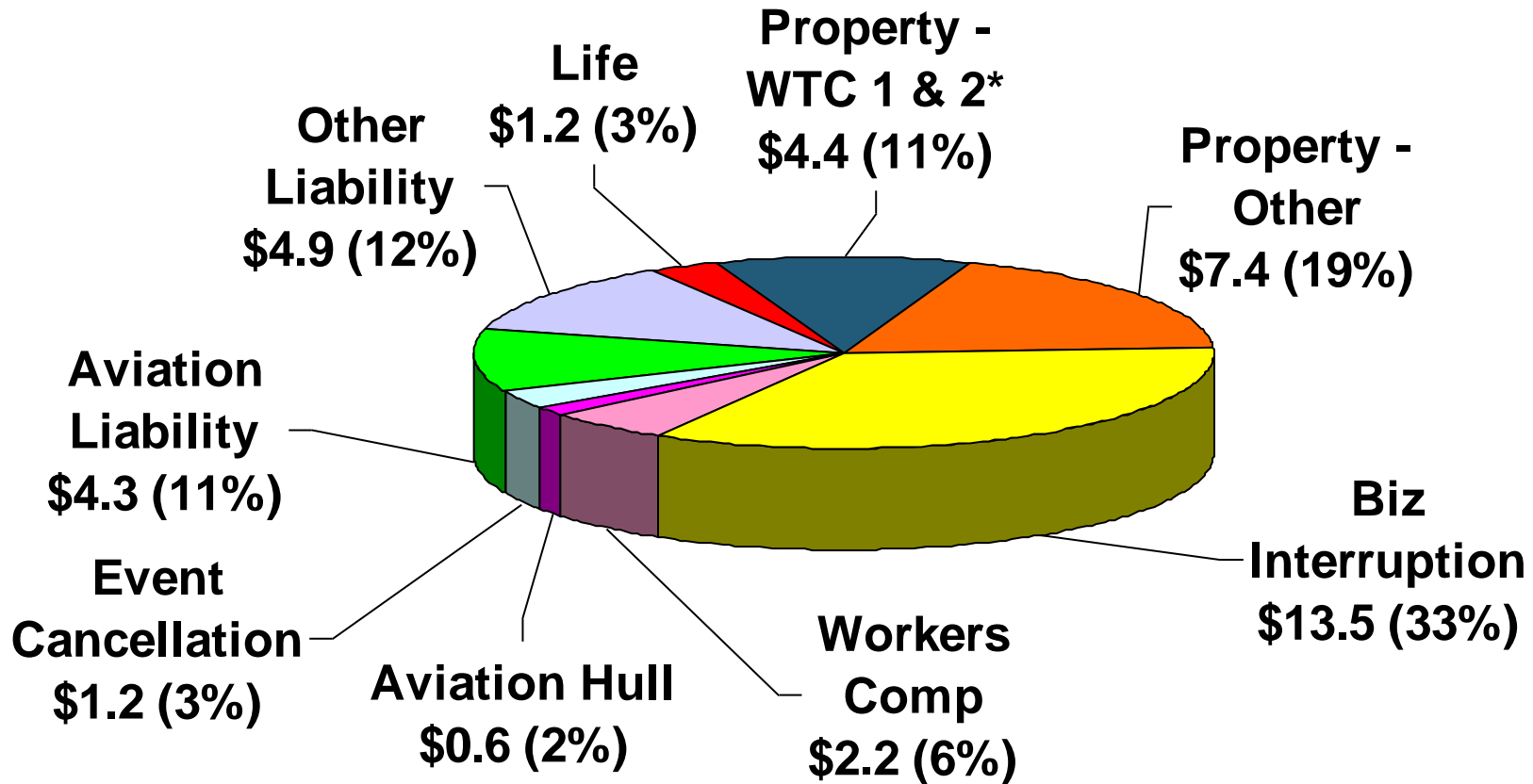


\*Through Feb. 24, 2013. Includes Puerto Rico and the District of Columbia.

Source: FEMA: [http://www.fema.gov/news/disaster\\_totals\\_annual.fema](http://www.fema.gov/news/disaster_totals_annual.fema); Insurance Information Institute.

# Loss Distribution by Type of Insurance from Sept. 11 Terrorist Attack (\$ 2011)

(\$ Billions)



**Total Insured Losses Estimate: \$40.0B\*\***

\*Loss total does not include March 2010 New York City settlement of up to \$657.5 million to compensate approximately 10,000 Ground Zero workers or any subsequent settlements.

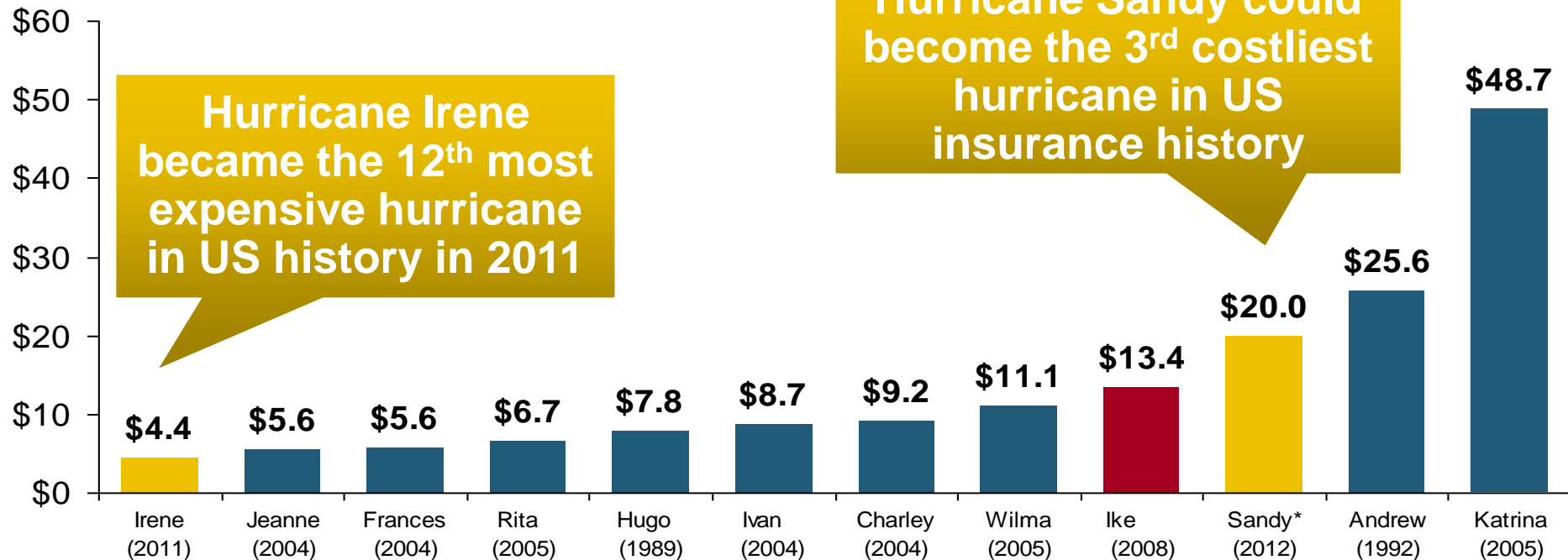
\*\*\$32.5 billion in 2001 dollars.

Source: Insurance Information Institute.

# Top 12 Most Costly Hurricanes in U.S. History

(Insured Losses, 2012 Dollars, \$ Billions)

10 of the 12 most costly hurricanes in insurance history occurred over the past 9 years (2004—2012)

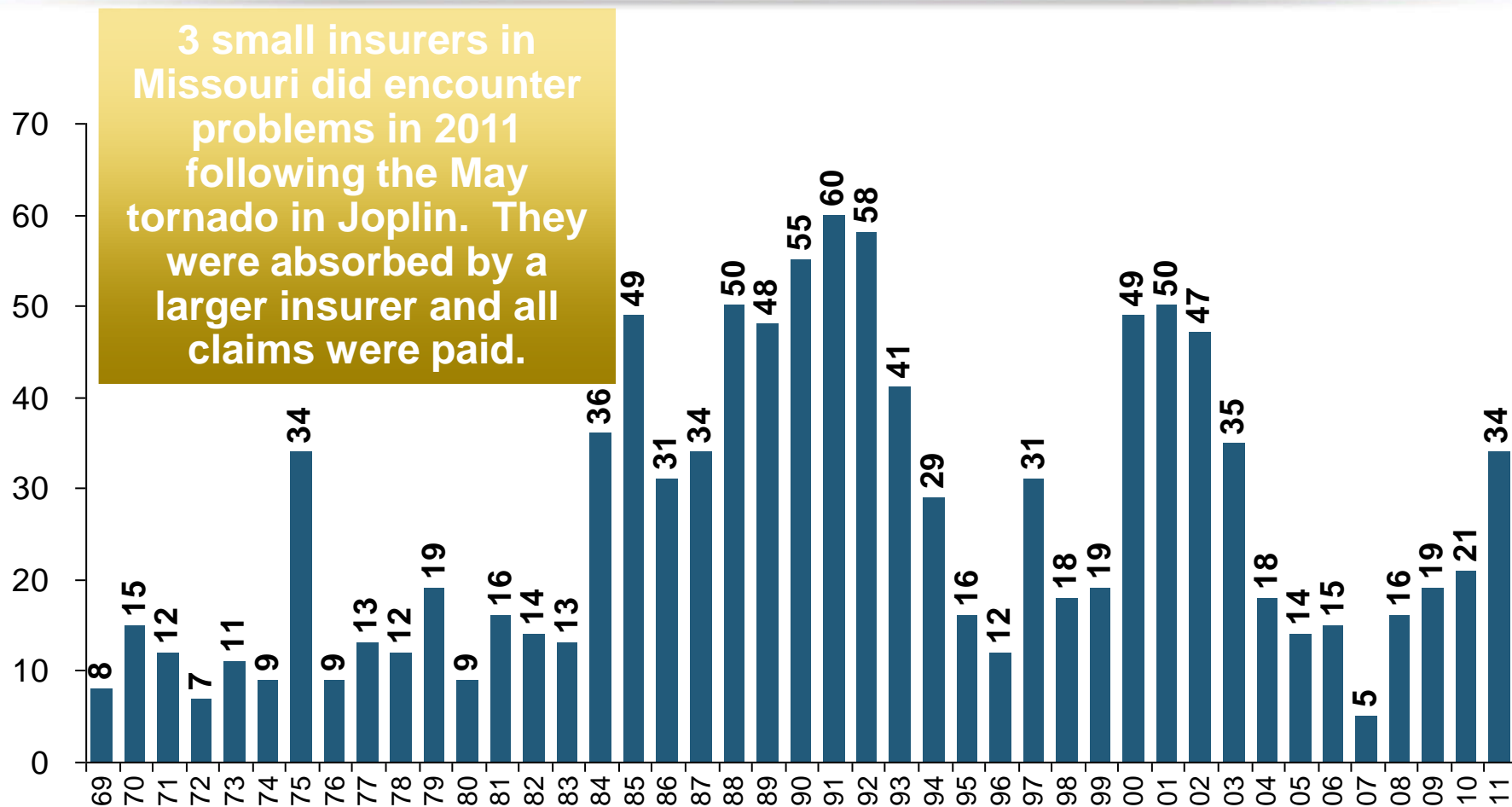


\*Estimate as of 12/09/12 based on estimates of catastrophe modeling firms and reported losses as of 1/12/13. Estimates range up to \$25B. Sources: PCS; Insurance Information Institute inflation adjustments to 2012 dollars using the CPI.

# **Financial Strength & Underwriting**

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

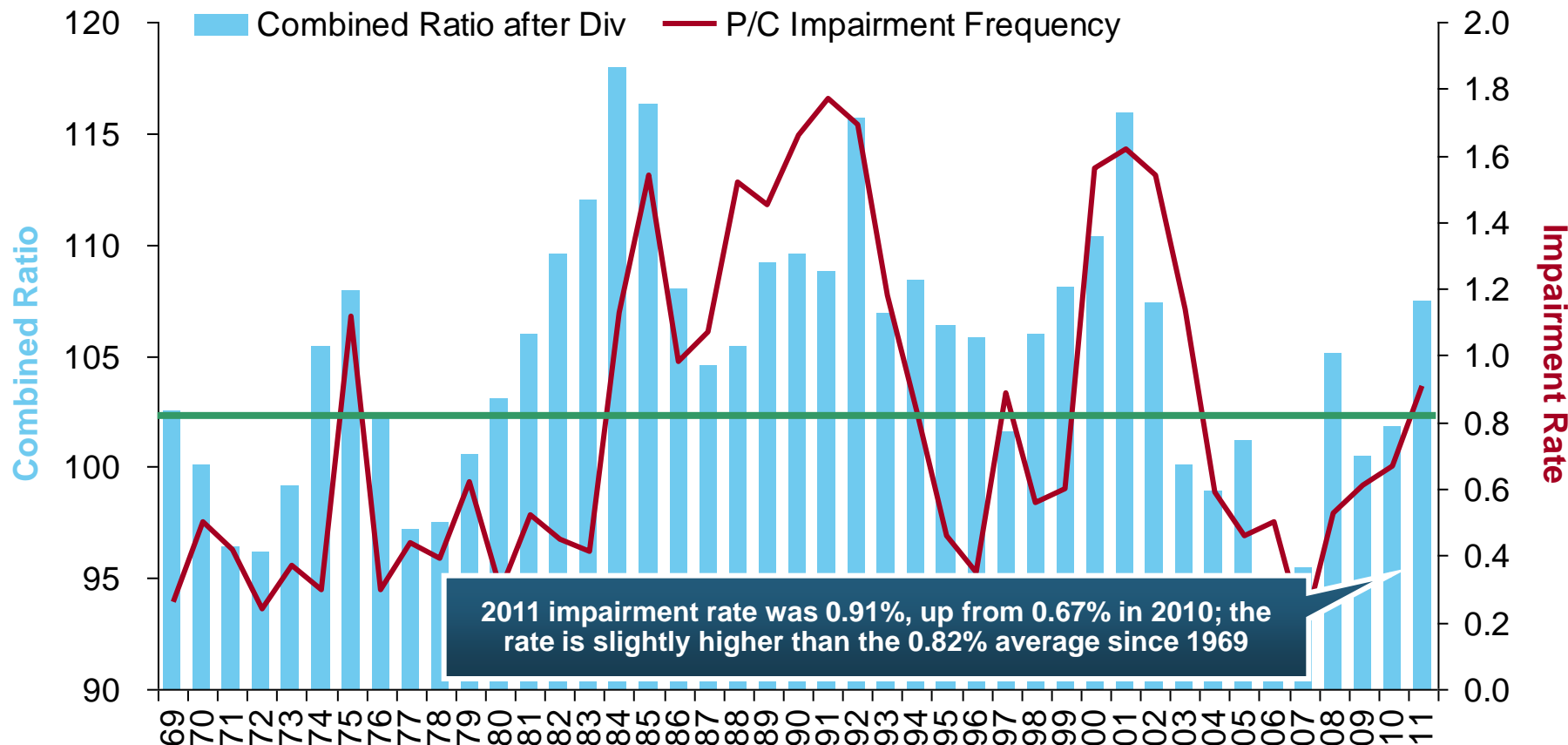
# P/C Insurer Impairments, 1969–2011



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, 1969-2011

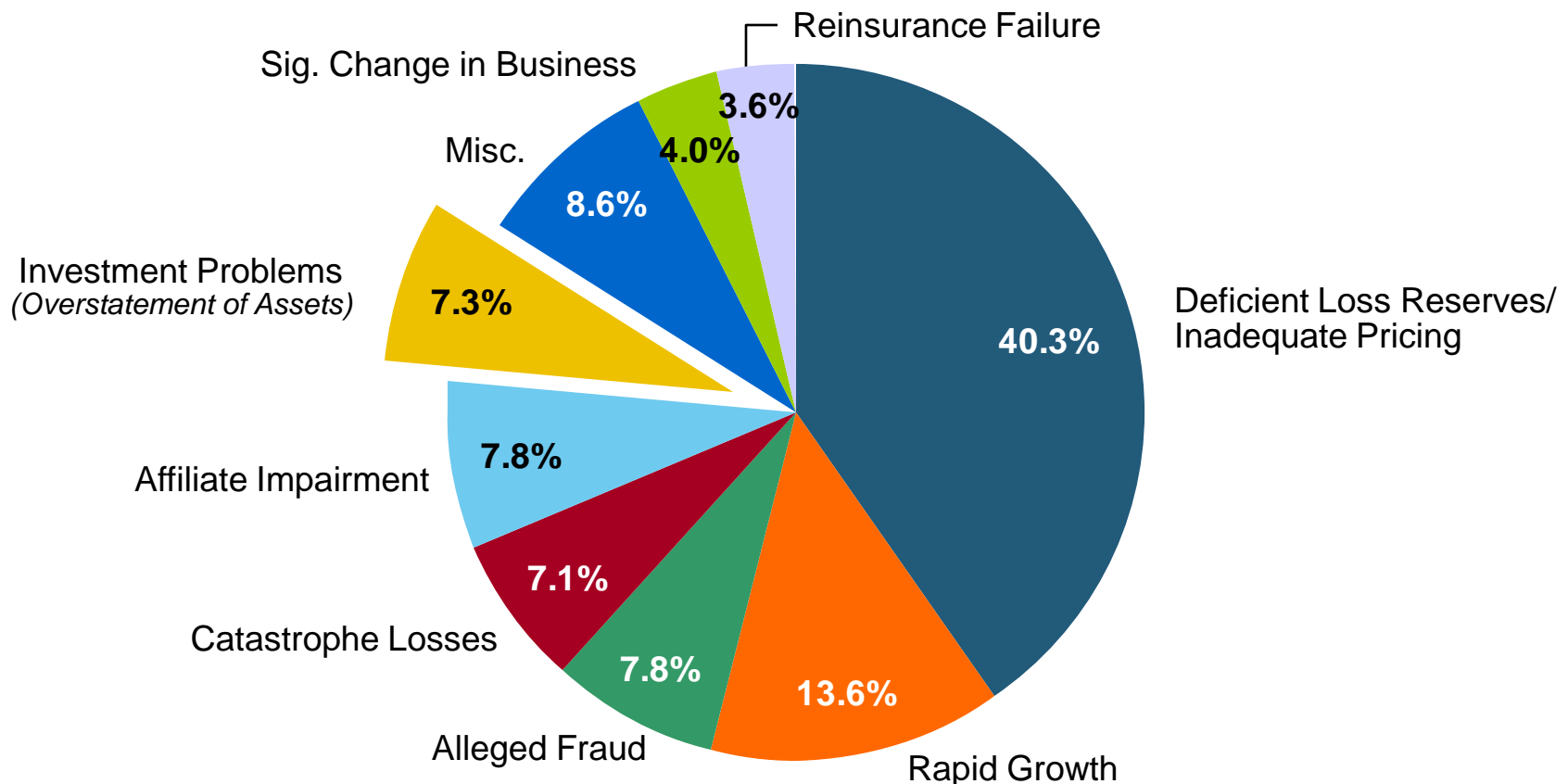


2011 impairment rate was 0.91%, up from 0.67% in 2010; the rate is slightly higher than the 0.82% average since 1969

**Impairment Rates Are Highly Correlated With Underwriting Performance and Reached Record Lows in 2007; Recent Increase Was Associated Primarily With Mortgage and Financial Guaranty Insurers and Not Representative of the Industry Overall**

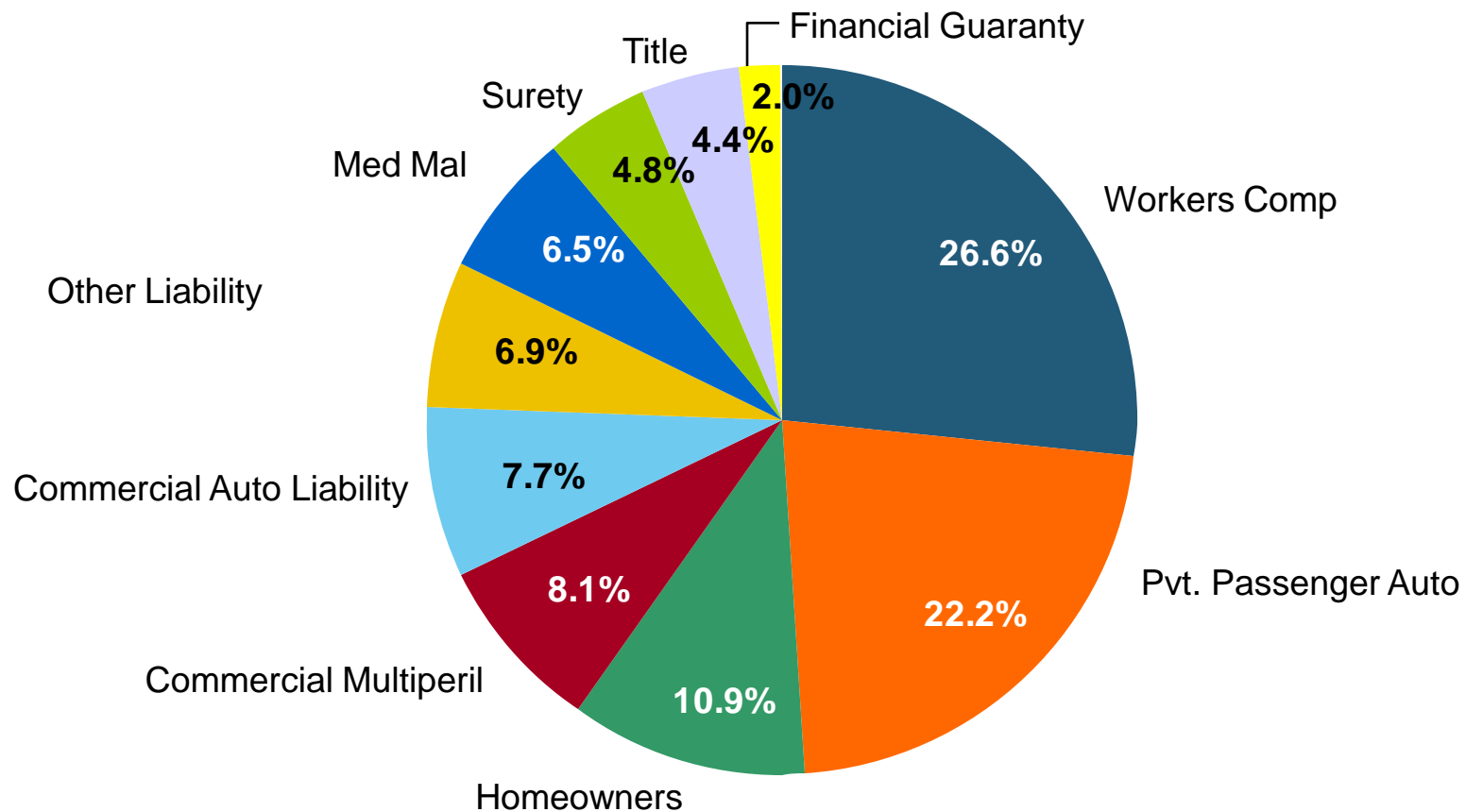
# Reasons for US P/C Insurer Impairments, 1969–2010

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



# Number of Recessions Endured by P/C Insurers, by Number of Years in Operation

Number of Recessions Since 1860



Insurers are true survivors—not just of natural catastrophes but also economic ones

Many US Insurers Are Close to a Century Old or Older

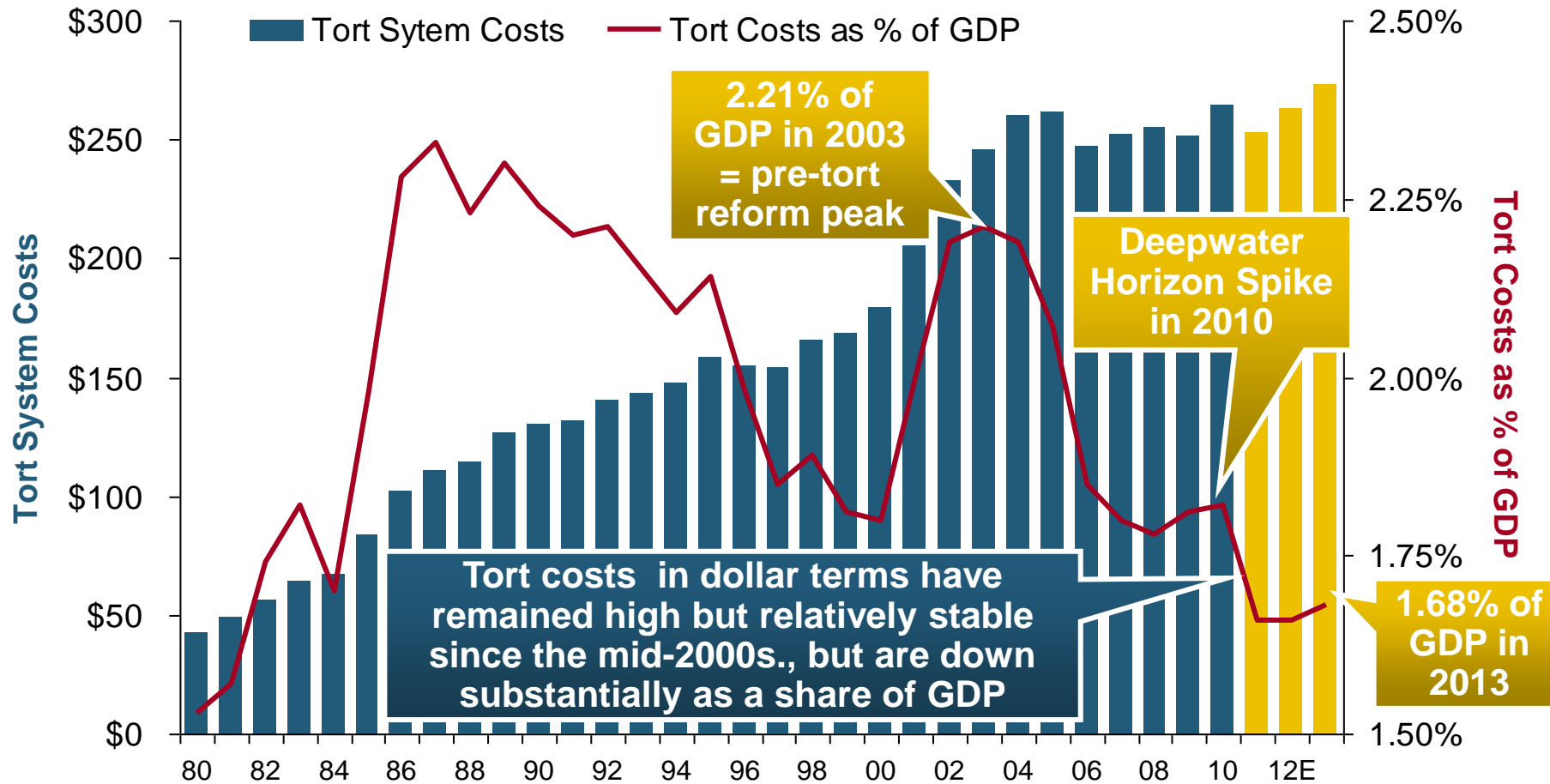
Sources: Insurance Information Institute research from National Bureau of Economic Research data.

# Shifting Legal Liability & Tort Environment

## Is the Tort Pendulum Swinging Against Insurers?

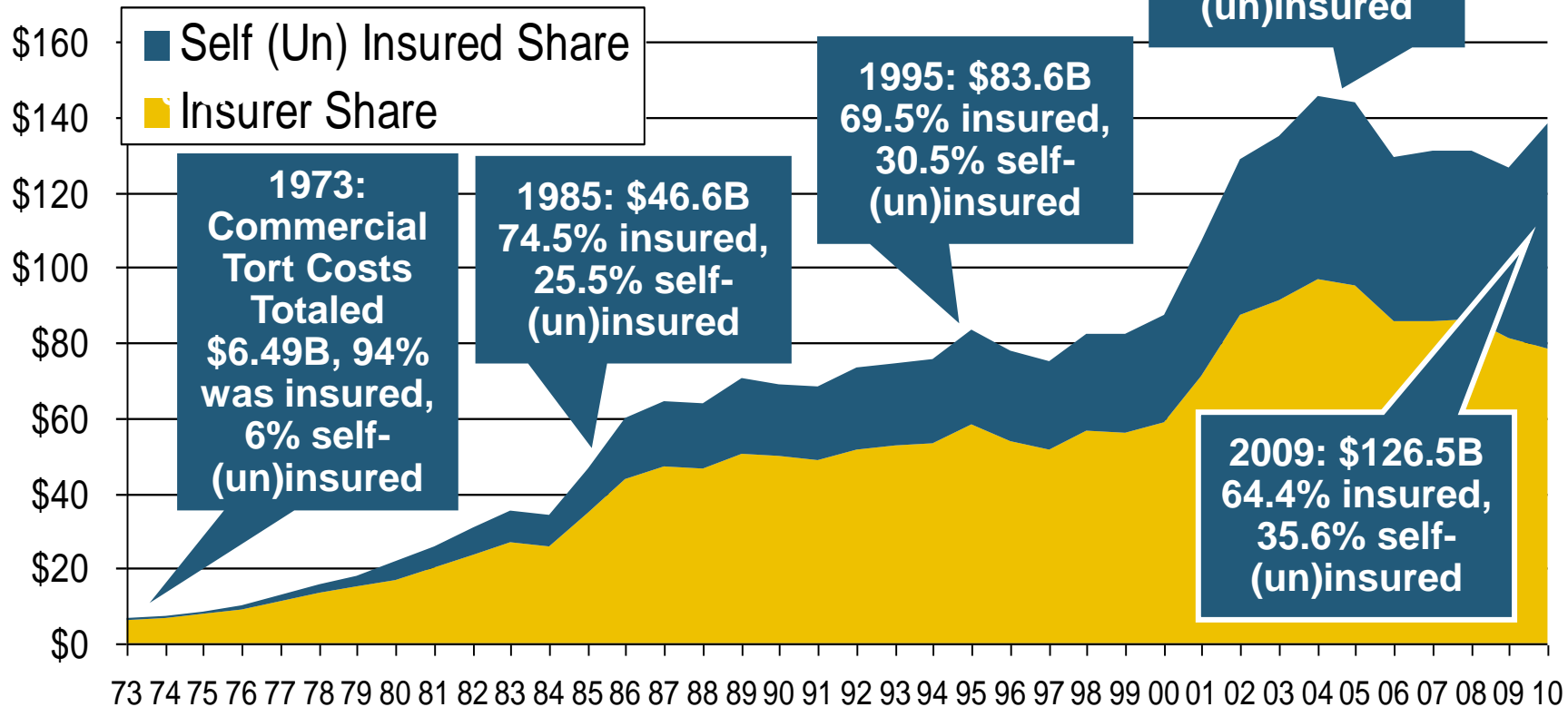
# Over the Last Three Decades, Total Tort Costs as a % of GDP Appear Somewhat Cyclical, 1980-2013E

(\$ Billions)



# Commercial Lines Tort Costs: Insured vs. Self-(Un)Insured Shares, 1973-2010

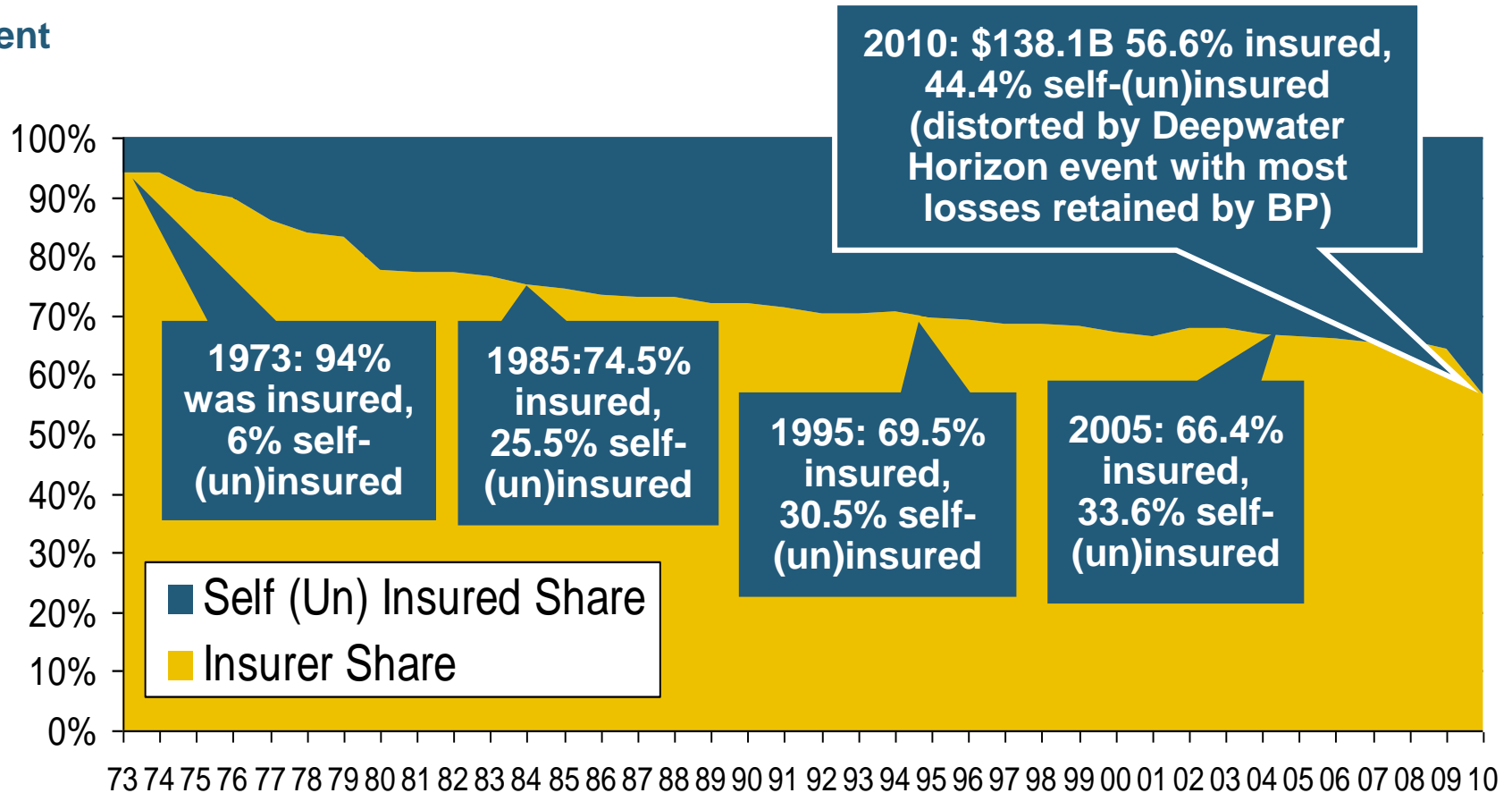
Billions of Dollars



**Tort Costs and the Share Retained by Risks Both Grew Rapidly from the mid-1970s to mid-2000s, When Tort Costs Began to Fall But Self-Insurance Shares Continued to Rise**

# Commercial Lines Tort Costs: Insured vs. Self-(Un)Insured Shares, 1973-2010

Percent



**The Share of Tort Costs Retained by Risks Has Been Steadily Increasing for Nearly 40 Years. This Trend Contributes Has Left Insurers With Less Control Over Pricing.**



# Business Leaders Ranking of Liability Systems in 2012

## Best States

1. Delaware
2. Nebraska
3. Wyoming
4. Minnesota
5. Kansas
6. Idaho
7. Virginia
8. North Dakota
9. Utah

### New in 2012

- Wyoming
- Minnesota
- Kansas
- Idaho

### Drop-offs

- Indiana
- Colorado
- Massachusetts
- South Dakota

## Worst States

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

### Newly Notorious

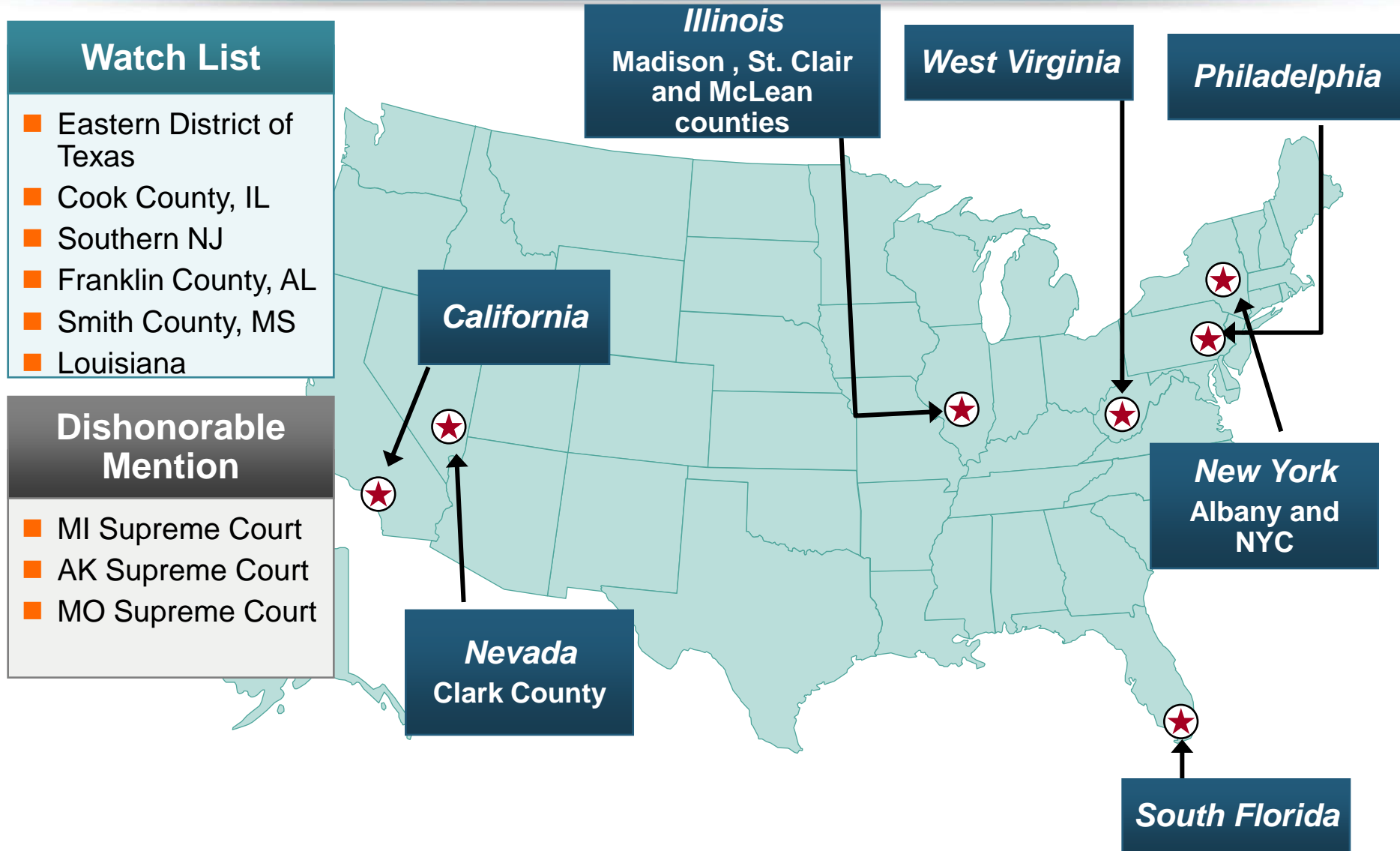
- Oklahoma

### Rising Above

- Arkansas

**10. Iowa**

# The Nation's Judicial Hellholes: 2011



**Insurance Information Institute Online:**

**[www.iii.org](http://www.iii.org)**

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