



Homeowners Insurance: *Is a Minnesota Meltdown Coming?*

Insurance Federation of Minnesota
Minneapolis, MN

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What in the World Is Going On?

**Is the World (Including Minnesota)
Becoming a Riskier Place?**

***What Are the Implications for the
Insurance Industry and Policyholders?***

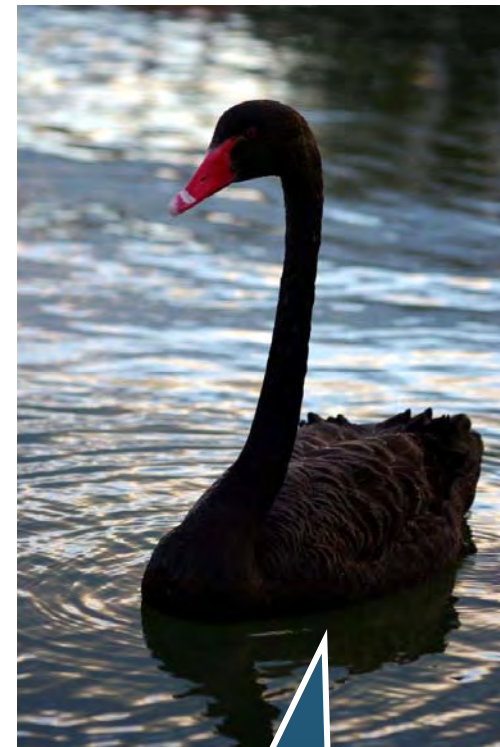
Uncertainty, Risk and Fear Abound

ECONOMIC & POLITICAL CONCERNS

- Global Economic Slowdown
- European Sovereign Debt, Bank & Currency Crises
- US Debt and Budget Crisis and S&P Downgrade
- Echoes of the Financial Crisis
- Housing Crisis
- Persistently High Unemployment
- Inflation/Deflation
- Runaway Energy & Commodity Prices
- Political Upheaval in the Middle East
- 2012 US Elections

CATASTROPHIC LOSS

- Japan, New Zealand, Turkey, Haiti, Chile Earthquakes
- Nuclear Fears
- *US: Tornadoes, Flooding, Wildfires, Hurricanes, Winter Storms*
- Manmade Disasters (e.g., Deepwater Horizon)
- Cyber Attacks
- Resurgent Terrorism Risk (e.g., Bin Laden, Gadhafi Killings)



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

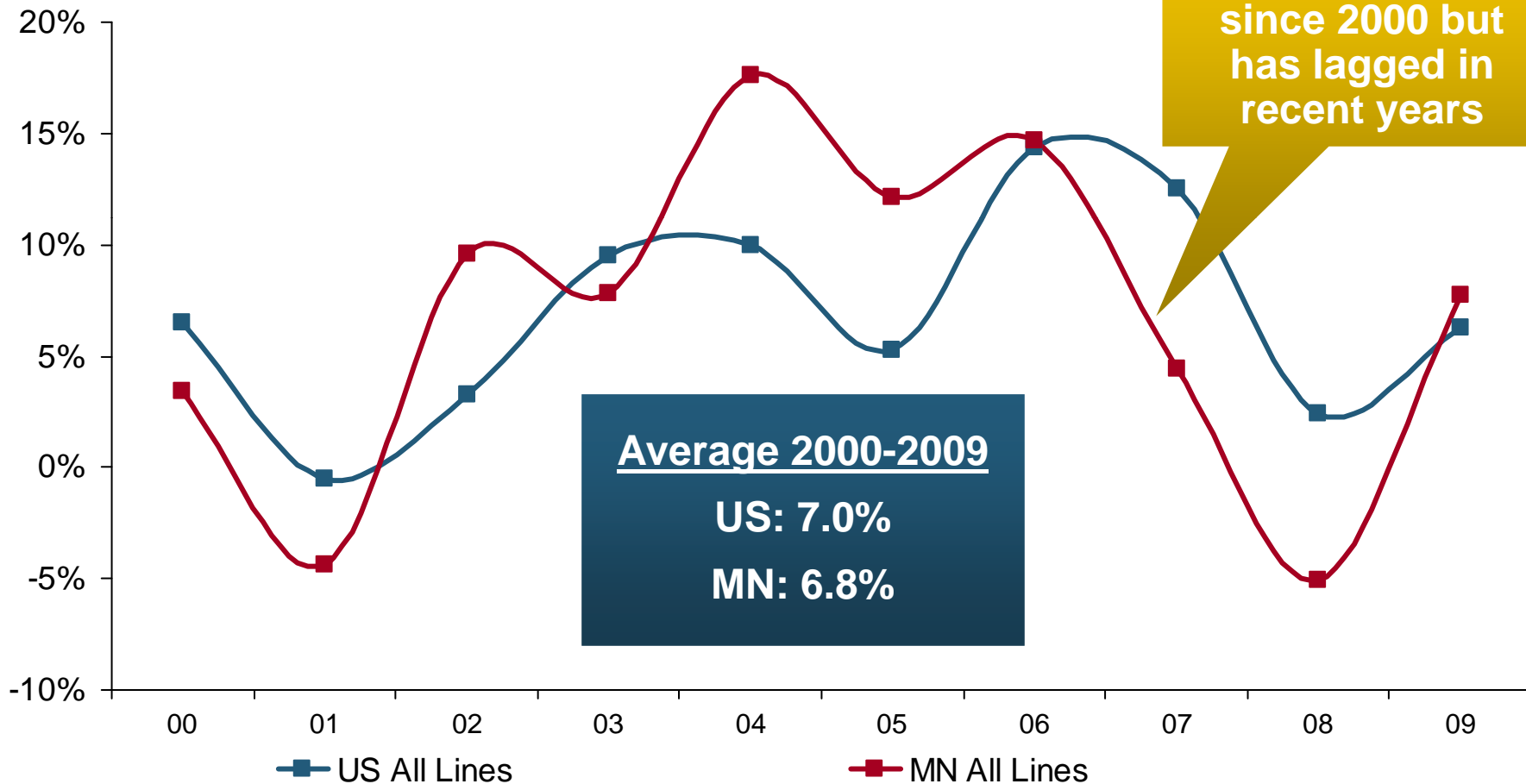


Minnesota's Homeowners Insurance Market

**Profitability and Growth in MN vs.
Other Lines and States**

Return of Net Worth, All Lines: MN vs. U.S., 2000-2009*

(Percent)

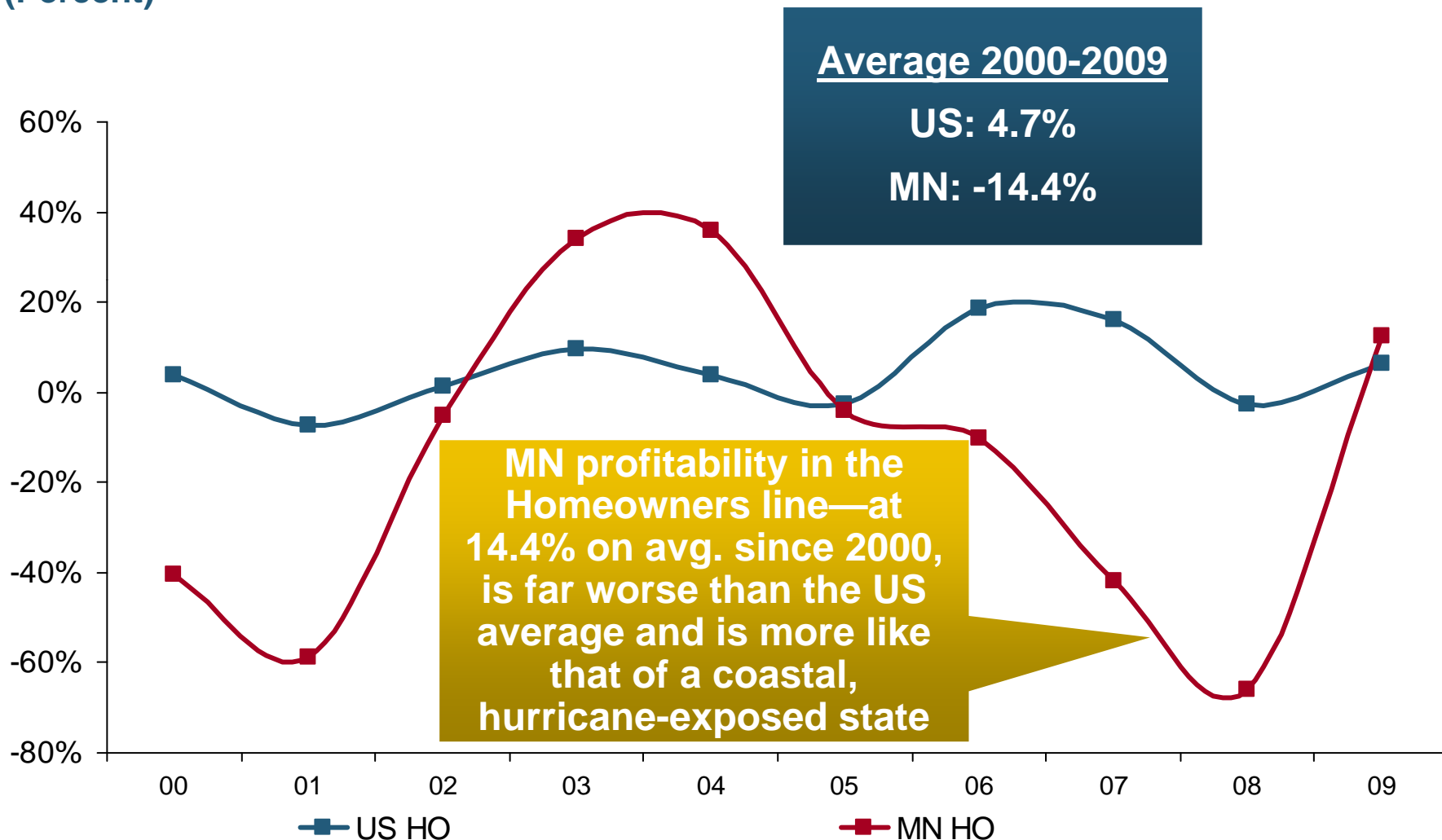


*Latest available.

Sources: NAIC; Insurance Information Institute.

Return on Net Worth, Homeowners: MN vs. U.S., 2000-2009*

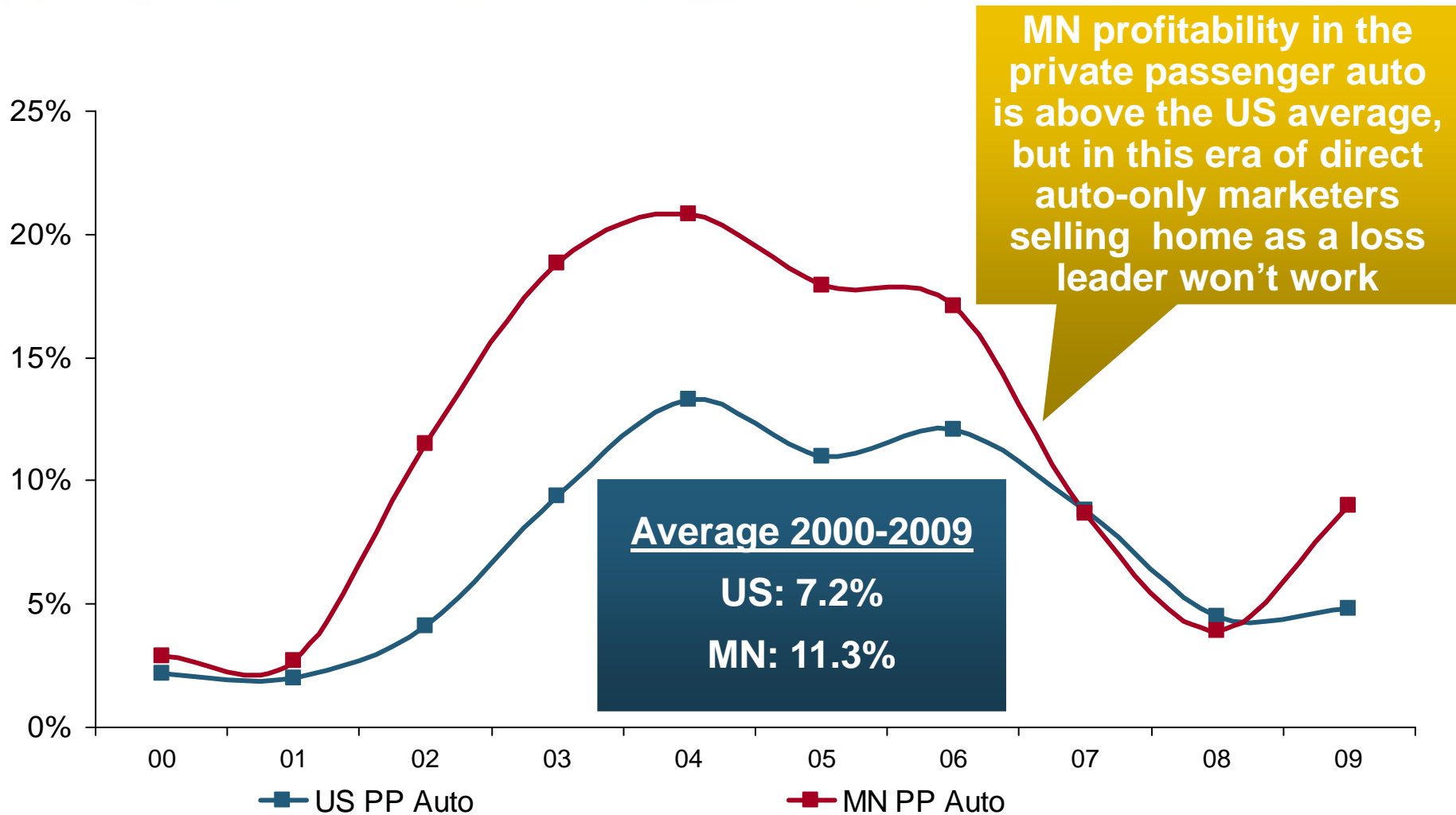
(Percent)



*Latest available.

Sources: NAIC; Insurance Information Institute.

Return on Net Worth, Pvt. Passenger Auto: MN vs. U.S., 2000-2009

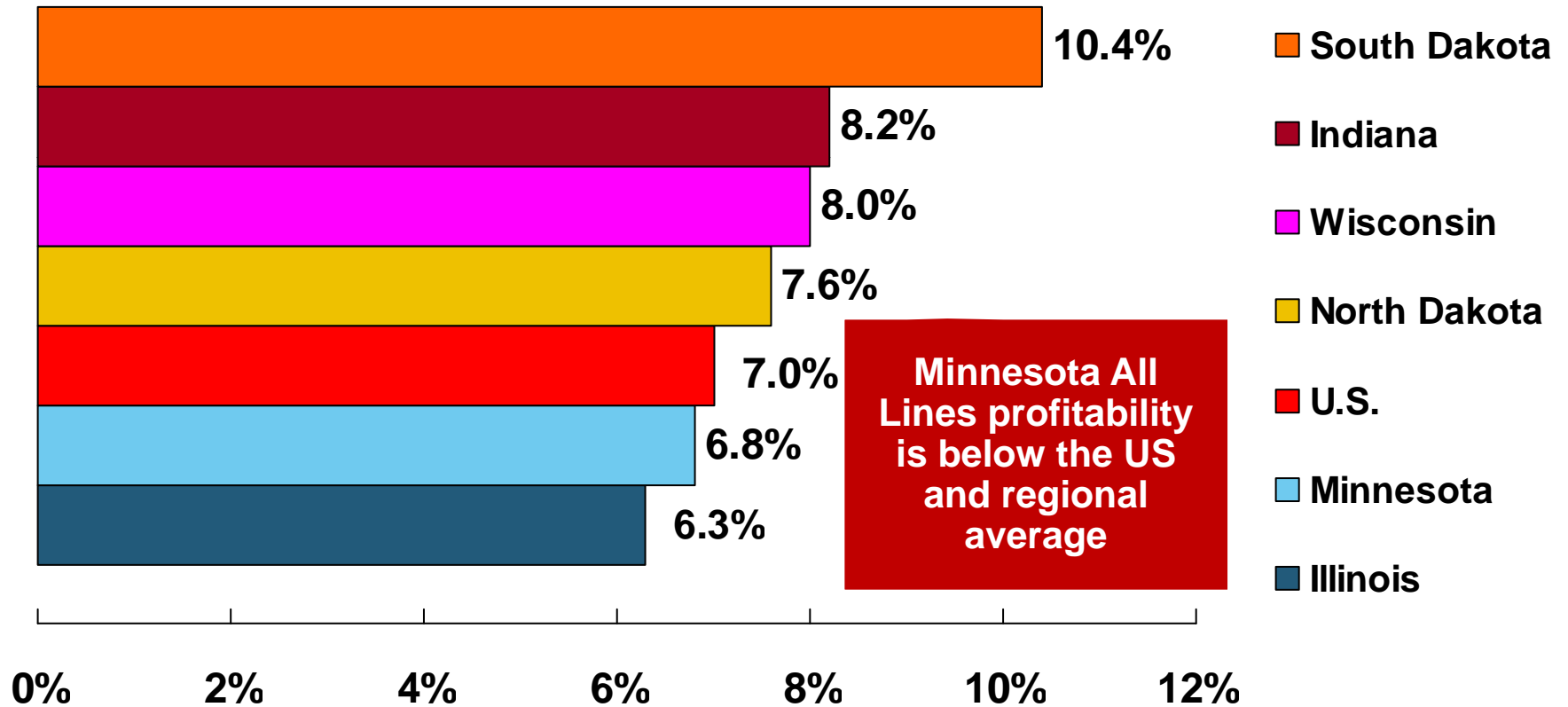


*Latest available.

Sources: NAIC; Insurance Information Institute.

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

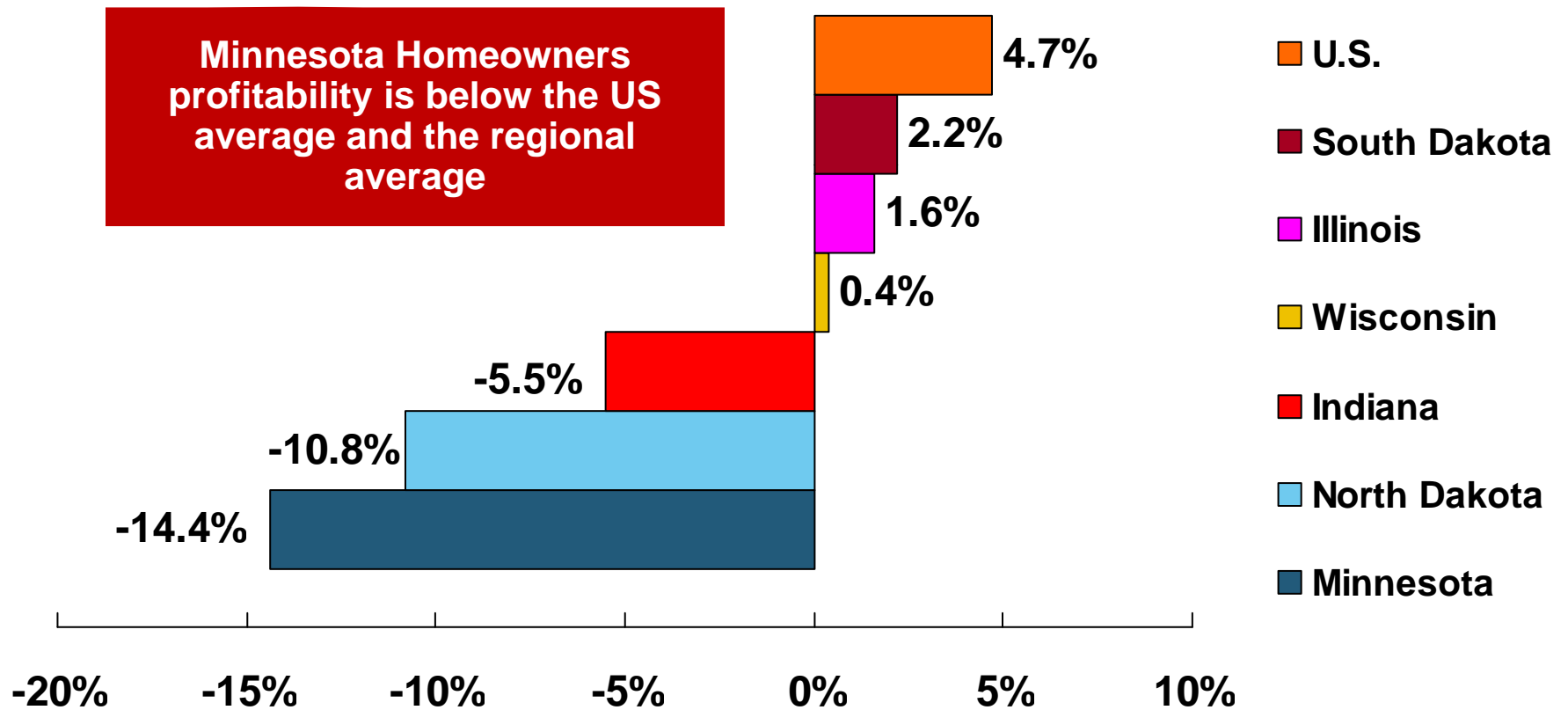
2000-2009



Source: NAIC, Insurance Information Institute

Homeowners: 10-Year Average RNW MN & Nearby States

2000-2009



Source: NAIC, Insurance Information Institute

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

Minnesota ranked as the 14th most expensive state for homeowners insurance in 2008, with an average expenditure of \$845.

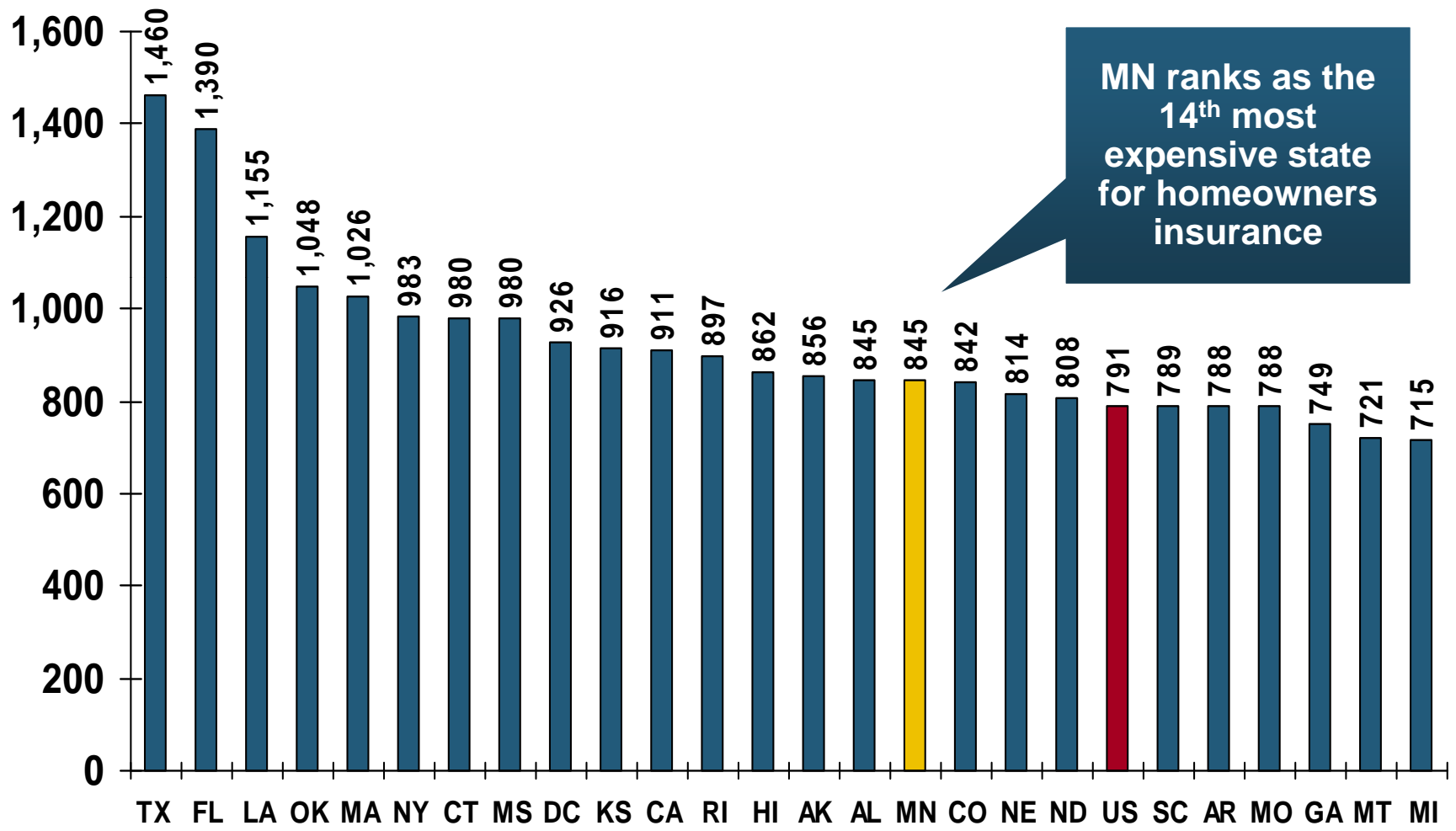
| Rank | Most expensive states | Average expenditure | Rank | Least expensive states | Average expenditure |
|------|-----------------------|---------------------|------|------------------------|---------------------|
| 1 | Texas (3) | \$1,460 | 1 | Idaho | \$387 |
| 2 | Florida (4) | 1,390 | 2 | Utah | 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.

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Homeowners Average Expenditure by State, 2008: Highest 25 States

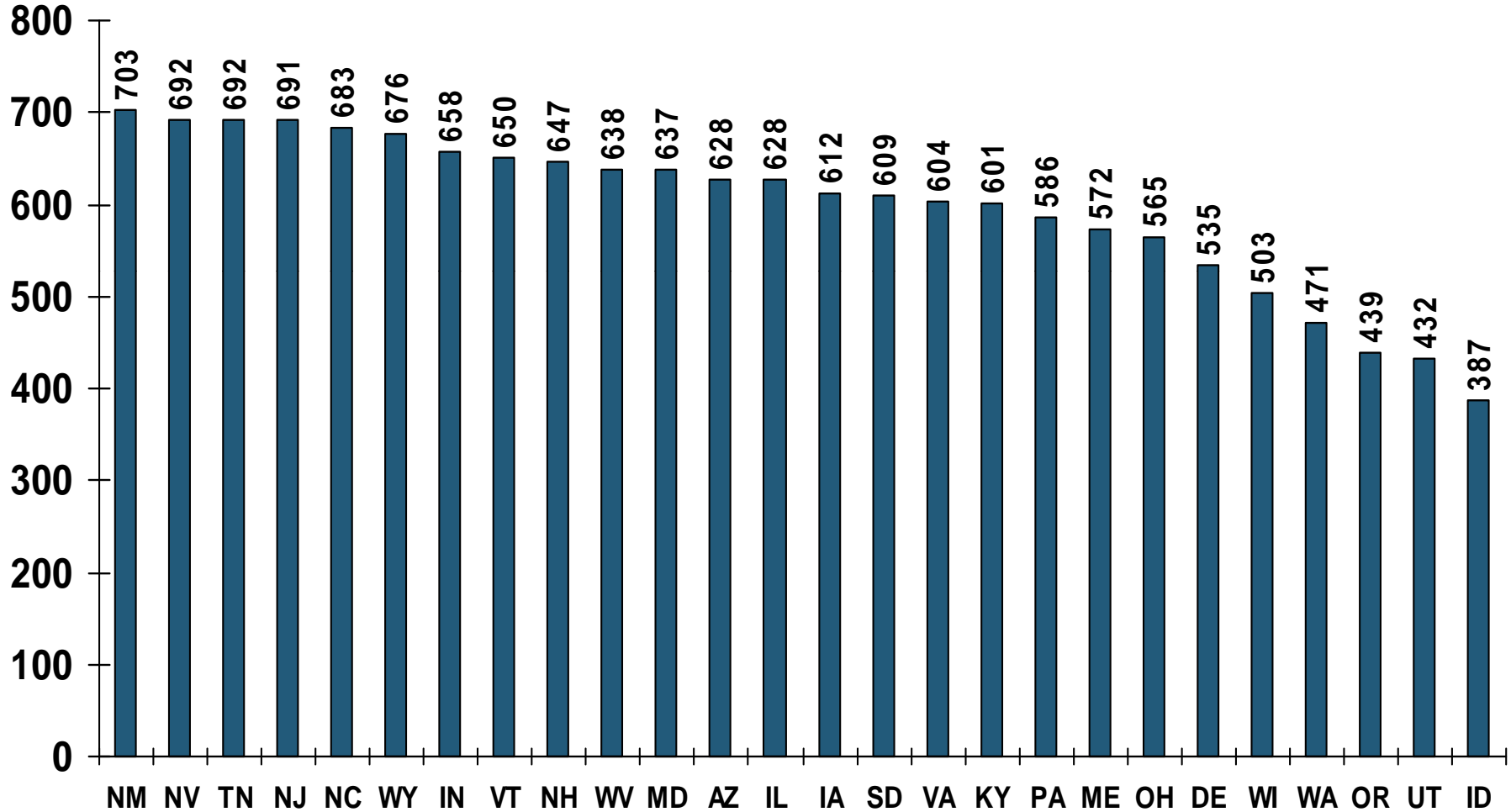


MN ranks as the 14th most expensive state for homeowners insurance

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.

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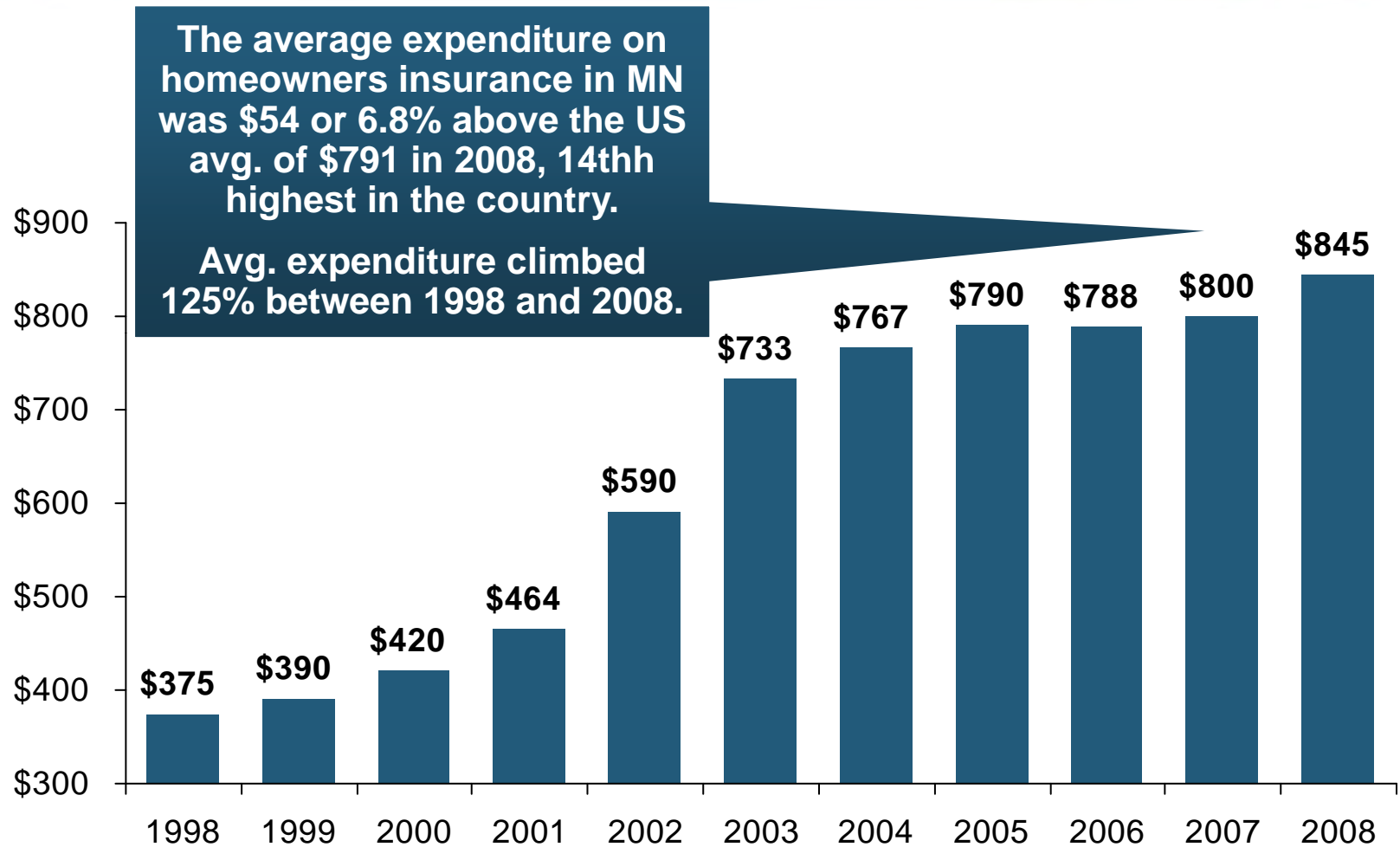
Homeowners Average Expenditure by State, 2008: Lowest 25 States



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.

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MN Homeowners Average Expenditure, 1998-2008*



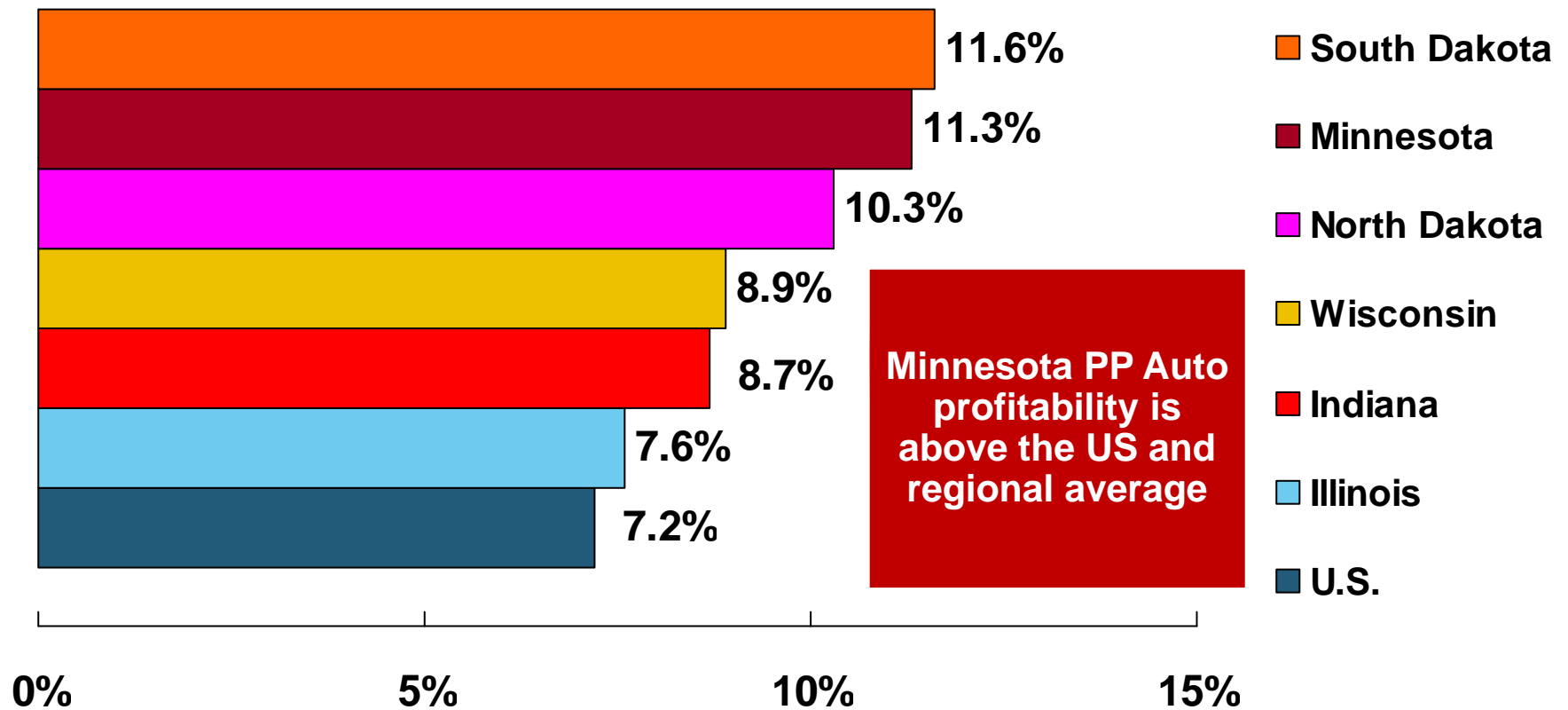
*Latest available.

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.

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PP Auto: 10-Year Average RNW MN & 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 |

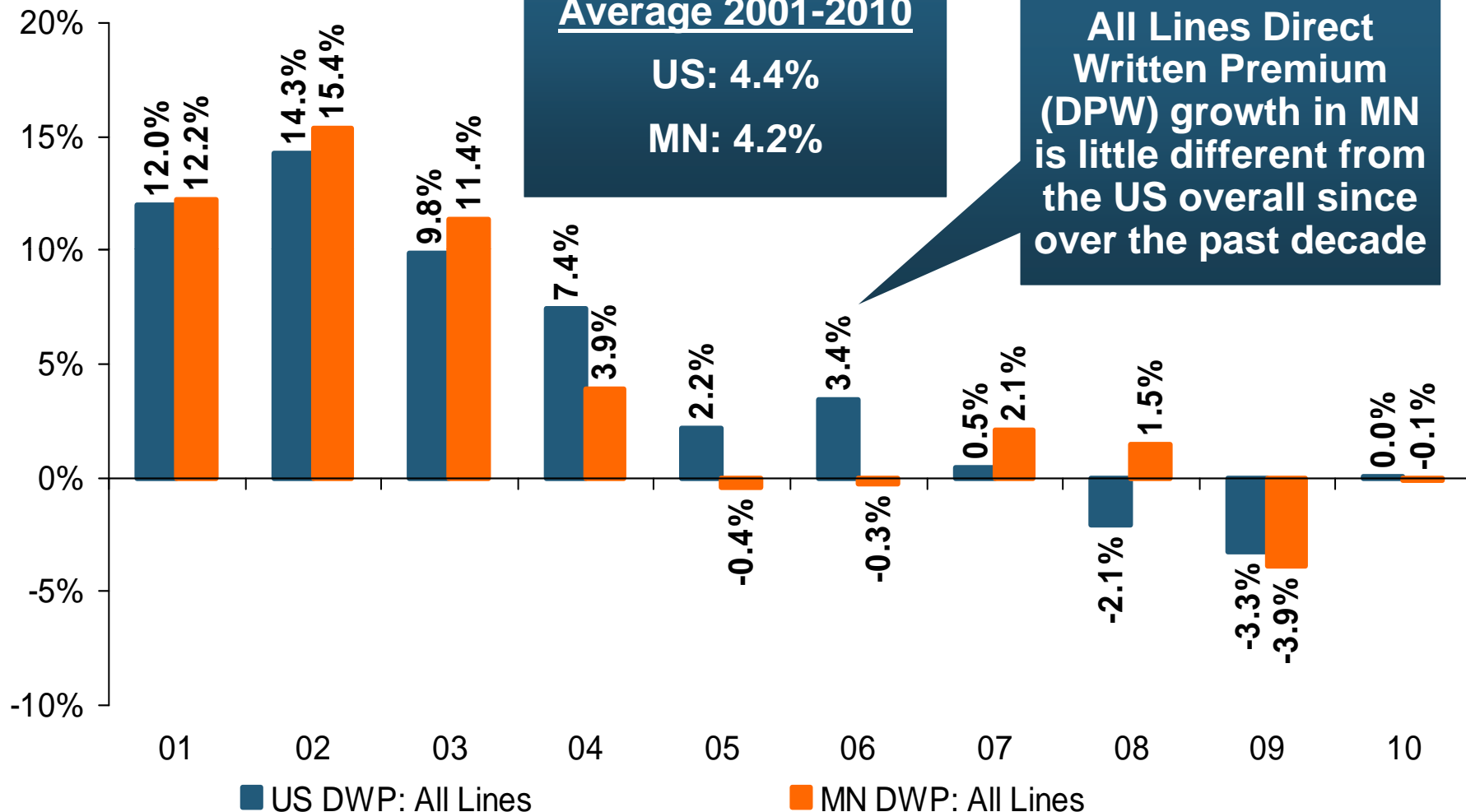
Minnesota ranked 30th in 2008, with an average expenditure for auto insurance of \$698.

(1) Based on average automobile insurance expenditures.

Source: © 2010 National Association of Insurance Commissioners.

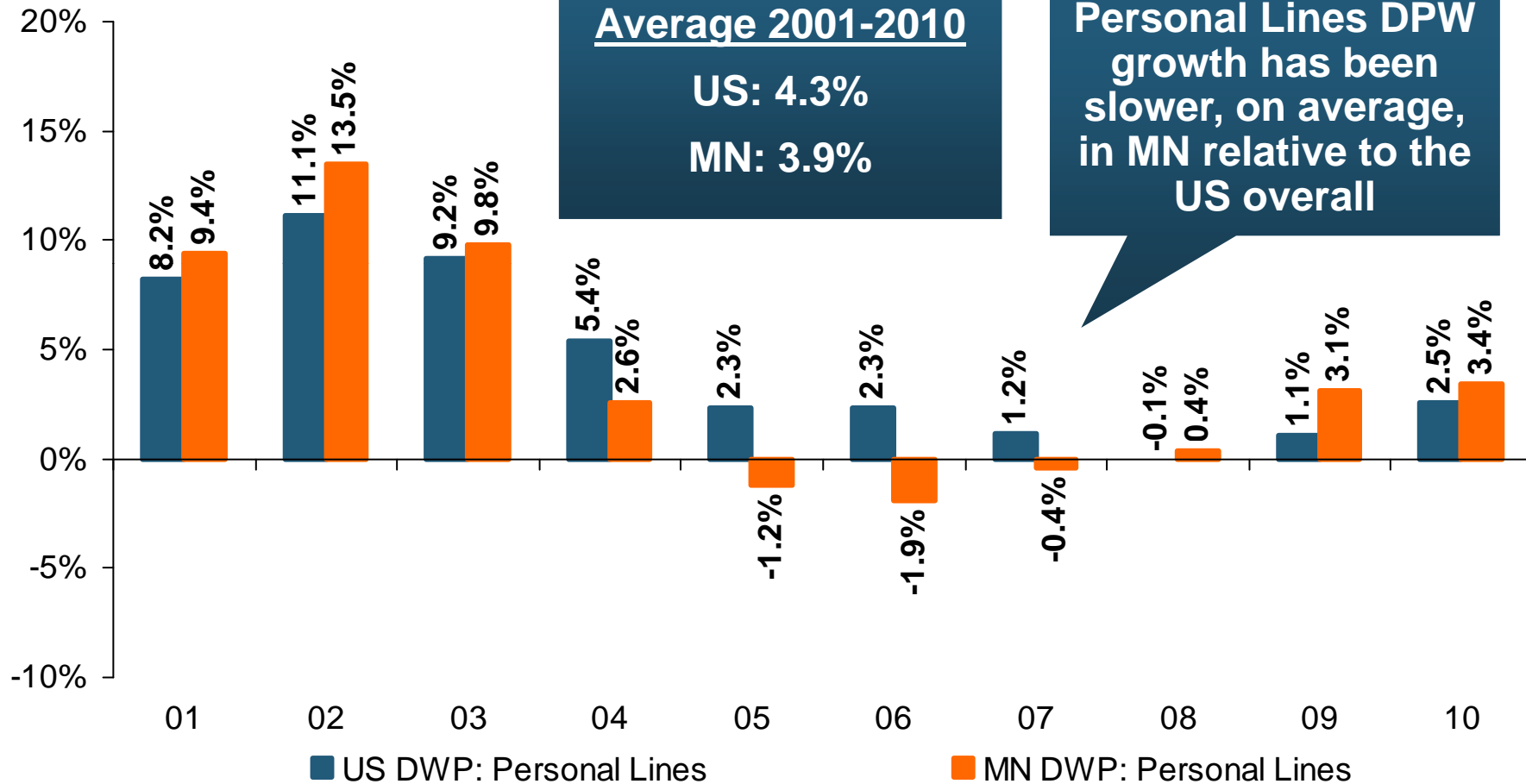
All Lines DWP Growth: MN vs. U.S., 2001-2010

(Percent)



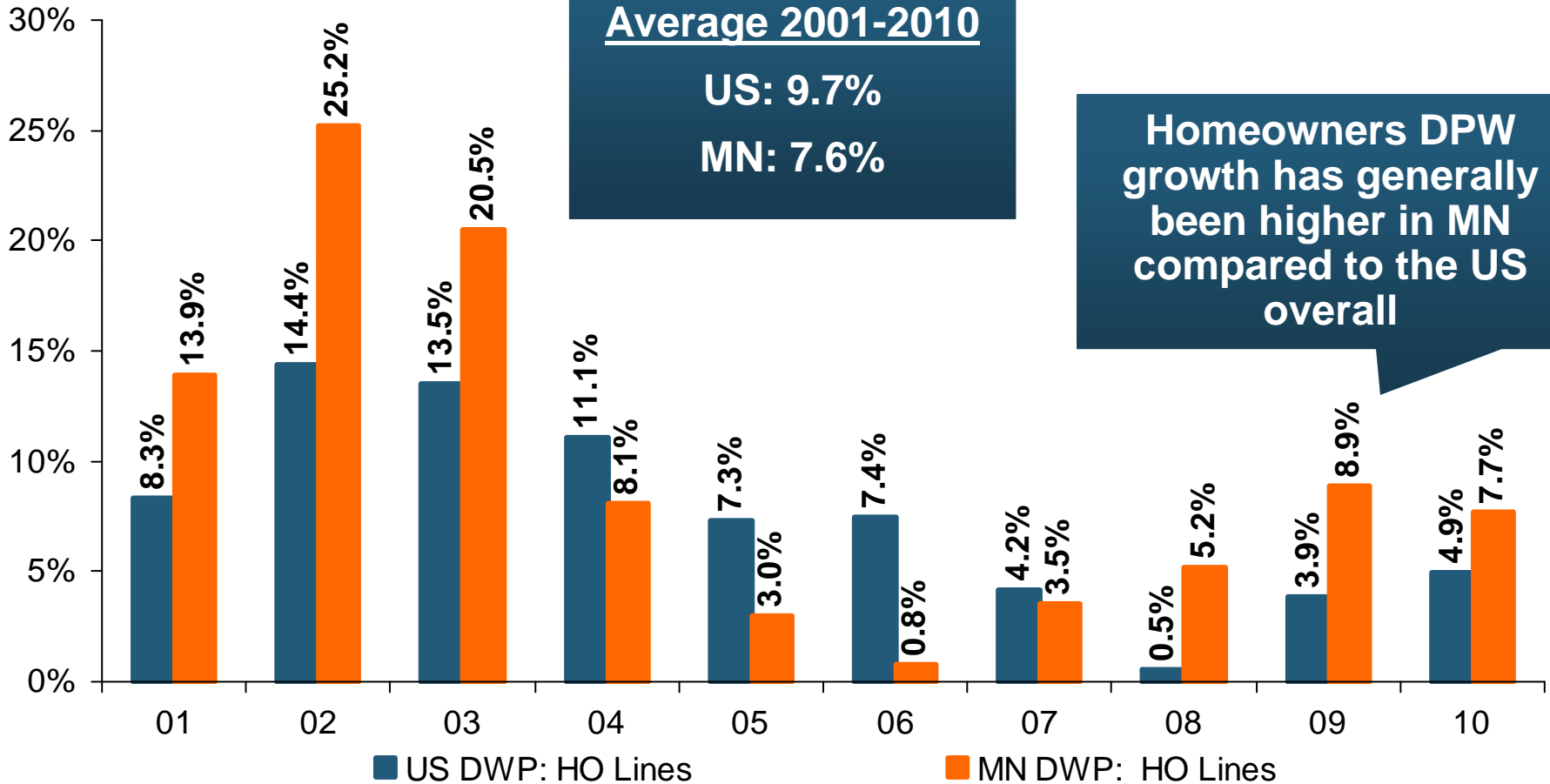
Personal Lines DWP Growth: MN vs. U.S., 2001-2010

(Percent)



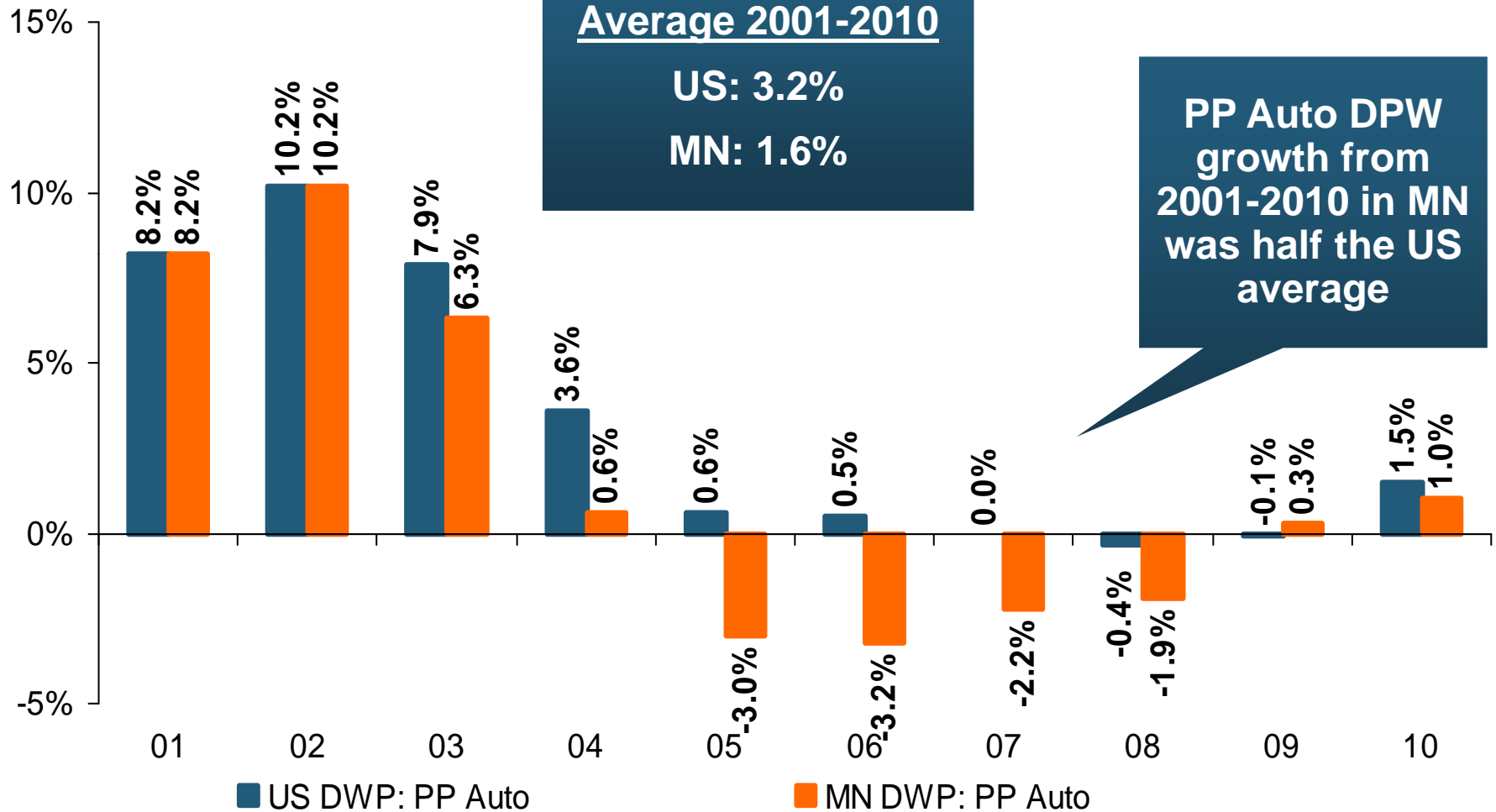
Homeowner's MP DWP Growth: MN vs. U.S., 2001-2010

(Percent)



Private Passenger Auto DWP Growth: MN vs. U.S., 2001-2010

(Percent)



Leading Writers of HO Insurance in Minnesota by DPW, 2010 (1)

| Rank | Company/Group | DPW (\$ 000) | Market share |
|------|--|--------------|--------------|
| 1 | State Farm Mutual Automobile Insurance | \$399,439 | 26.6% |
| 2 | American Family Mutual | \$209,230 | 13.9% |
| 3 | Zurich Financial Services Ltd. | \$144,657 | 9.6% |
| 4 | Allstate Corp. | \$84,564 | 5.6% |
| 5 | Auto-Owners Insurance Co. | \$76,633 | 5.1% |
| 6 | Liberty Mutual | \$50,499 | 3.4% |
| 7 | Travelers Companies Inc. | \$48,148 | 3.2% |
| 8 | MetLife Inc. | \$42,225 | 2.8% |
| 9 | USAA Insurance Group | \$35,594 | 2.4% |
| 10 | Nationwide Mutual Group | \$33,339 | 2.2% |
| 11 | Auto Club Insurance Association Group | \$33,136 | 2.2% |
| 12 | Western National Insurance Group | \$32,073 | 2.1% |
| 13 | North Star Mutual Insurance Co. | \$28,499 | 1.9% |
| 14 | COUNTRY Financial | \$25,616 | 1.7% |
| 15 | Chubb Corp. | \$21,884 | 1.5% |
| 16 | Hartford Financial Services | \$20,408 | 1.4% |
| 17 | State Auto Insurance Companies | \$17,929 | 1.2% |
| 18 | Austin Mutual Insurance Co. | \$15,101 | 1.0% |
| 19 | Homesite Group Inc. | \$13,709 | 0.9% |
| 20 | Horace Mann Educators Corp. | \$13,507 | 0.9% |
| 21 | Farm Bureau P&C Insurance Co. | \$12,112 | 0.8% |
| 22 | American National Insurance | \$10,261 | 0.7% |
| 23 | West Bend Mutual Insurance Co. | \$8,905 | 0.6% |
| 24 | Grange Mutual Casualty Co. | \$8,698 | 0.6% |
| 25 | Westfield Group | \$7,881 | 0.5% |

MN's homeowners insurance market remains competitive with dozens of insurers despite recent poor results

The Fifteen Costliest U.S. Winters by Insured Losses, 1980-2010 (1) (\$ mill)

| Rank | Date | Event | Location | Overall economic losses | Incurred losses when occurred (2) | Deaths |
|------|----------------------|--|--|-------------------------|-----------------------------------|--------|
| 1 | Mar. 11-14, 1993 | Blizzard | 24 states affected | \$5,000 | \$1,980 | 270 |
| 2 | Apr. 13-17, 2007 | Winter storm, tornadoes, floods | Northeast, Southeast, South: CT, D.C., DE, GA, LA, MA, MD, ME, MS, NC, NH, NJ, NY, PA, RI, SC, TX, VA, VT, WV | 2,000 | 1,575 | 19 |
| 3 | Dec. 10-13, 1992 | Winter storm | Northeast, Midwest: VA, MD, DE, NJ, NY, CT, RI, MA, NE | 3,000 | 1,000 | 19 |
| 4 | Dec. 17-30, 1983 | Winter storms | FL, GA, ID, IL, IN, IA, KS, KY, LA, MD, MA, MI, MN, MS, MO, MT, NE, NJ, NY, NC, ND, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VA, WA, WV, WI, WY | 1,000 | 880 | 500 |
| 5 | Jan. 17-20, 1994 | Winter damage, cold wave | Midwest | 1,000 | 800 | 70 |
| 6 | Feb. 10-12, 1994 | Winter damage | South, Southeast: TX, OK, AR, LA, MS, AL, TN, GA, SC, NC, VA | 3,000 | 800 | 9 |
| 7 | Jan. 1-4, 1999 | Winter storm | South, Midwest, Southeast, Northeast: TX, OK, AR, MO, LA, MS, AL, GA, FL, SC, NC, TN, IL, IN, OH, PA, WV, VA, MD, DE, NJ, NY, CT, RI, MA, ME | 1,000 | 775 | 25 |
| 8 | Jan. 4-9, 2008 | Winter storm | South, Southwest, Midwest, North, Northeast, Northwest: AR, CA, CO, IL, IN, KS, MI, MO, NY, OH, OK, OR, WA, WI, NV | 1,000 | 745 | 12 |
| 9 | Jan. 31-Feb. 6, 1996 | Winter damage | 31 states affected | 1,500 | 735 | 16 |
| 10 | Jan. 6-9, 1996 | Snowstorm | Midwest, Northeast | 1,200 | 600 | 85 |
| 11 | Feb. 9.-14. 2010 | Winter storm, blizzards, winter damage | VA, KY, SC, MS, MD: Dundalk, Harford; DC, DE, PA, NJ, NY, RI, MA, OH, IL, IA, TX, OK, NC, WV | 800 | 600 | NA |
| 12 | Jan. 13-16, 1999 | Winter damage, ice storm | Midwest, North, Northeast, Southeast: IL, IN, MI, OH, PA, WV, VA, MD, NJ, NY, CT, MA, VT, NH, ME | 750 | 575 | NA |
| 13 | Jan. 26-28, 2009 | Winter damage, ice storm | Southeast, South Central, East, Midwest: AR, IN, KY, MO, OH, OK, WV | 1,100 | 565 | 58 |
| 14 | Jan. 22-25, 2000 | Winter storm | Southeast, South, Northeast: AL, GA, LA, NC, SC, TN, VA, D.C., NY, PA, MA | 700 | 550 | 4 |
| 15 | Jan. 3-10, 1995 | Winter storms, flood | Southwest, Northwest, Southeast: CA, OR, FL, GA, LA, NC, SC | 1,800 | 545 | 33 |

(1) Costliest U.S. winters occurring from 1980 to 2010, based on insured losses when occurred.

(2) Based on property losses including, if applicable, agricultural, offshore, marine, aviation and National Flood Insurance Program losses in the United States and may differ from data shown elsewhere.

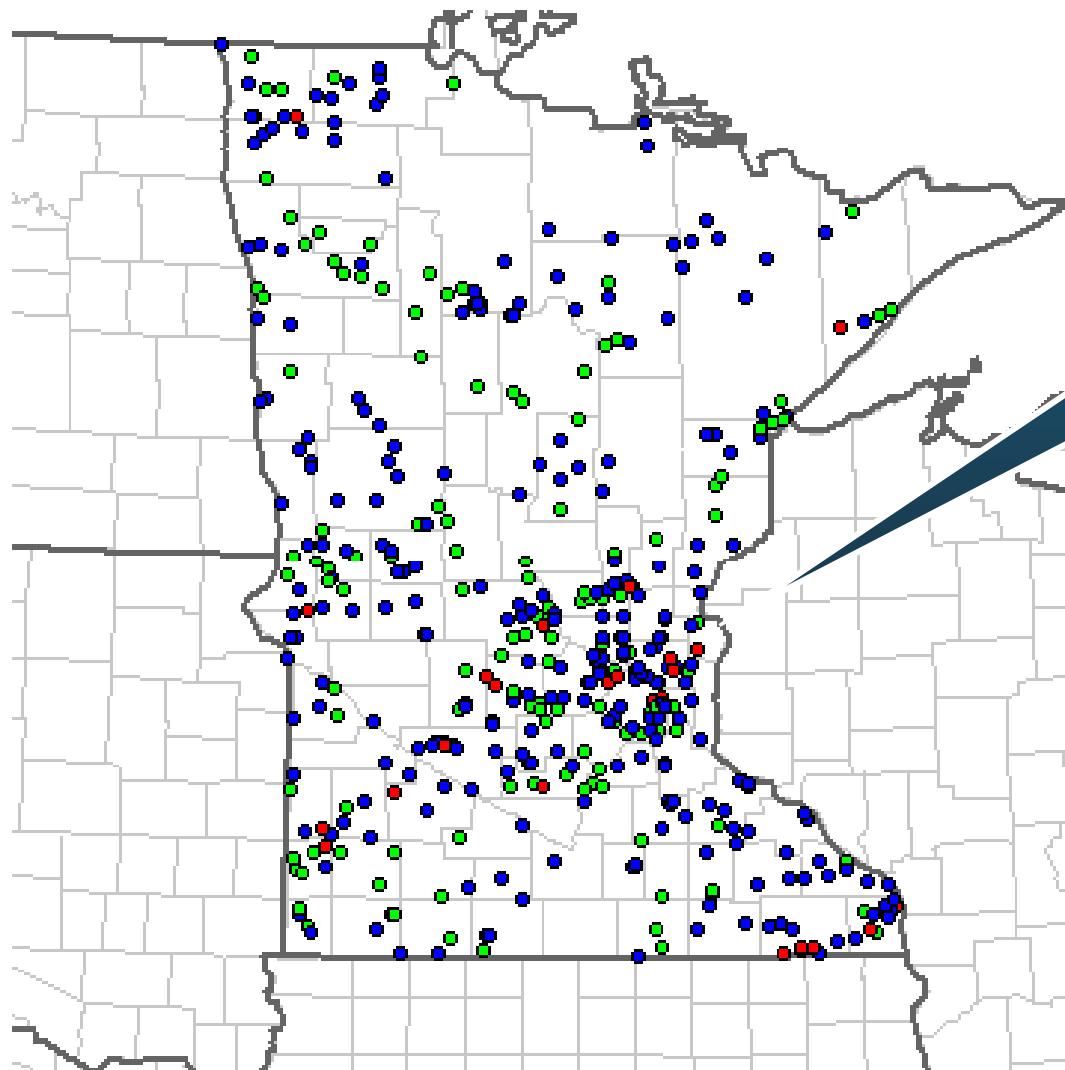
NA=Data not available.



Minnesota's Catastrophe Loss History

**It May Not Be a Coastal State, but
MN is No Stranger to Catastrophe**

Severe Weather Reports in Minnesota, January 1—October 25, 2011



There were 552
severe weather
reports in MN
through Oct. 25

MN

Total Reports = 552

Tornadoes = 30 (Red)

Hail Reports = 192 (Green)

Wind Reports = 330 (Blue)

States With Highest Insured Catastrophe Losses, 2007 (\$ millions)

| State | Estimated insured loss (1) |
|------------|----------------------------|
| California | \$1,427 |
| Minnesota | 747 |
| Texas | 677 |
| Georgia | 320 |
| Illinois | 272 |
| Oklahoma | 270 |
| Kansas | 262 |
| Missouri | 223 |
| New York | 202 |
| Colorado | 200 |
| Alabama | 200 |

(1) Does not include flood damage covered by the federally administered National Flood Insurance Program.

Note: Catastrophes are assigned serial numbers by the Property Claim Services (PCS) unit of ISO when the insured loss to the industry resulting from an occurrence reaches at least \$25 million and affects a significant number of policyholders and insurers.

Source: ISO's Property Claims Services (PCS) unit.

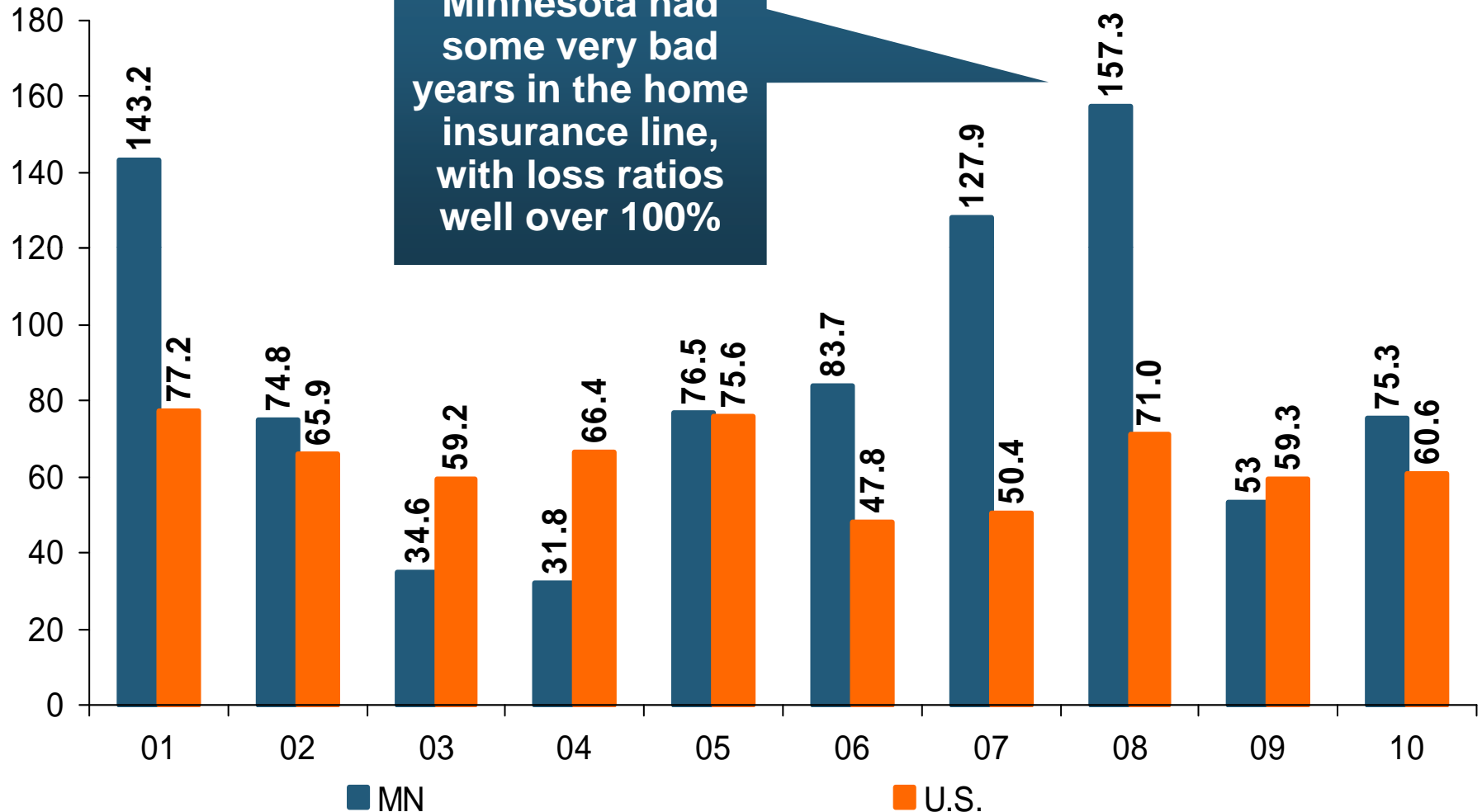
Top Ten States By Highest Insured Catastrophe Losses, 2008 (\$ millions)

| Rank | State | Estimated insured loss |
|------|-----------|------------------------|
| 1 | Texas | \$11,669.0 |
| 2 | Louisiana | 2,228.0 |
| 3 | Minnesota | 1,583.0 |
| 4 | Ohio | 1,459.0 |
| 5 | Georgia | 1,040.0 |
| 6 | Arkansas | 786.5 |
| 7 | Indiana | 785.0 |
| 8 | Kentucky | 743.0 |
| 9 | Illinois | 640.0 |
| 10 | Kansas | 638.0 |

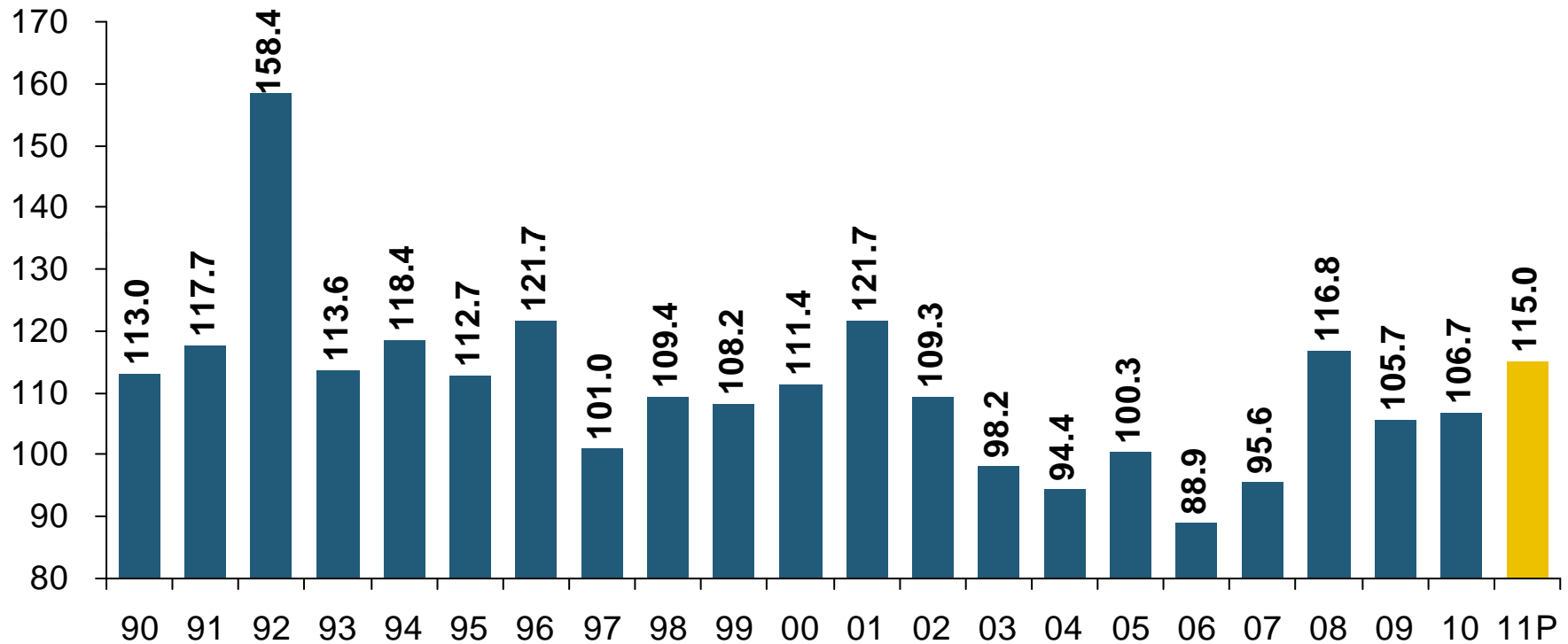
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Source: ISO's Property Claims Services (PCS) unit.

MN & U.S. Homeowners Loss Ratio, 2001-2010

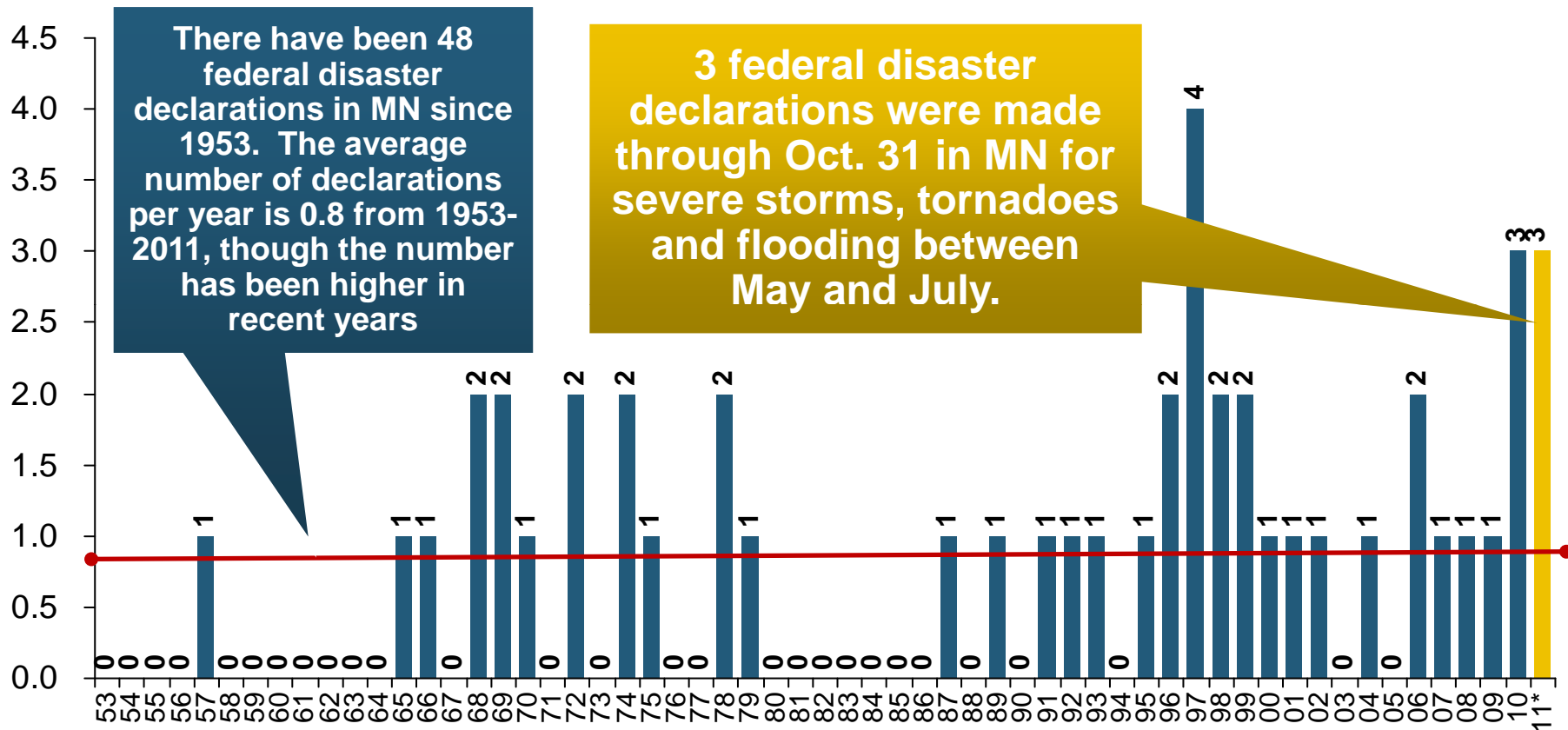


Homeowners Insurance Combined Ratio: 1990–2011P



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

Number of Federal Disaster Declarations In Minnesota, 1953-2011*

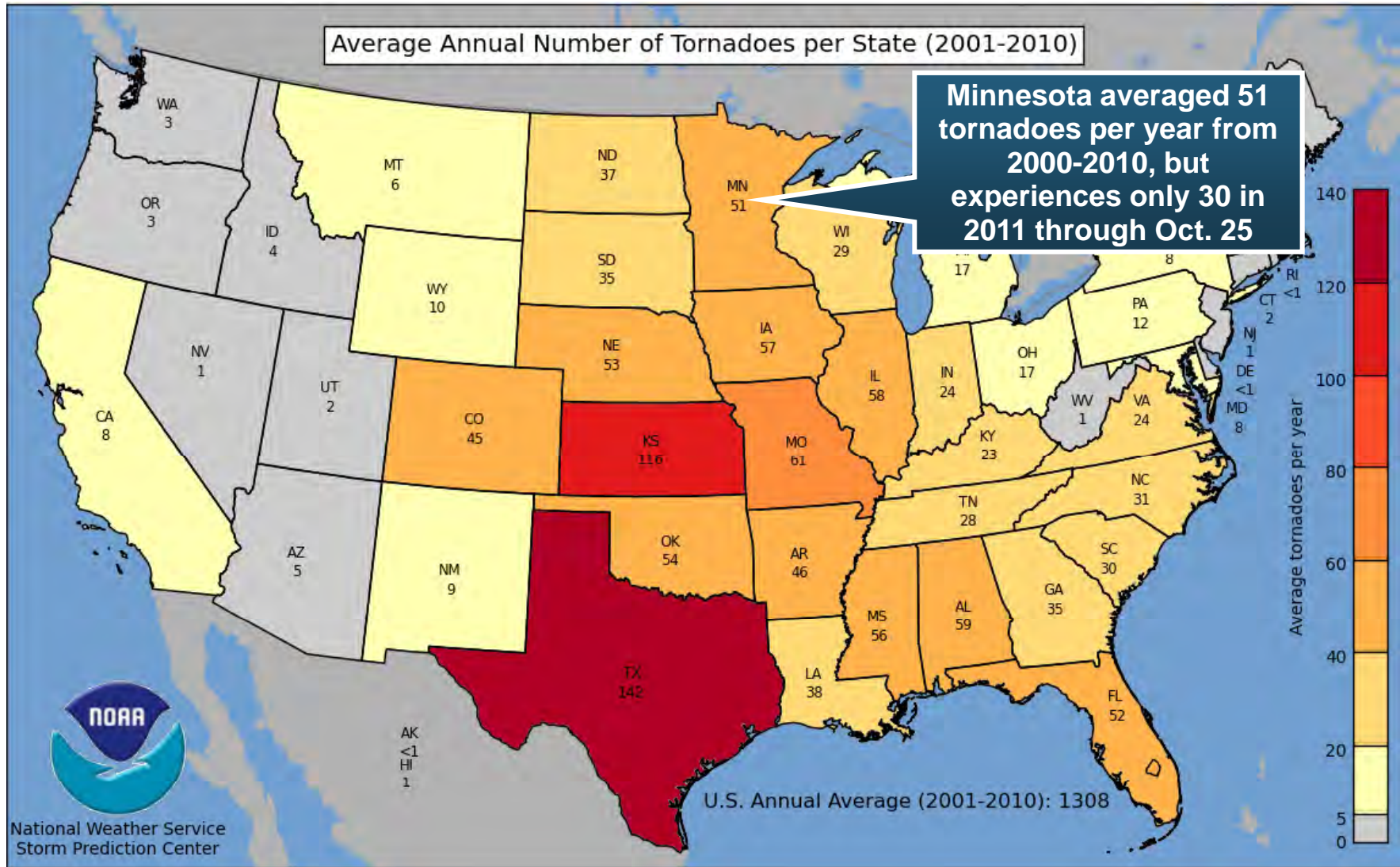


The Number of Federal Disaster Declarations Spike in 2010 and 2011 with Three Events Each Year, Second Only to 1997

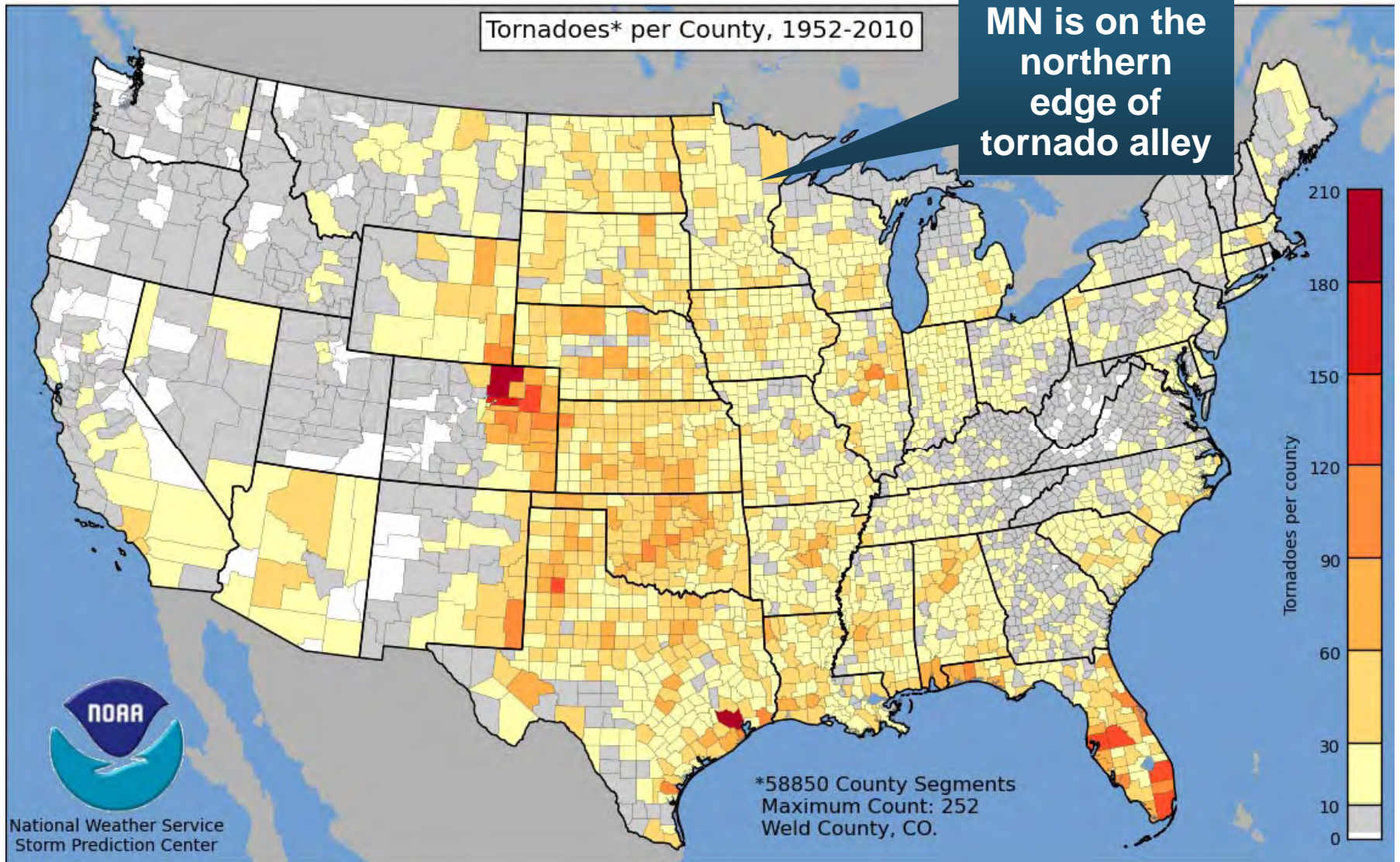
*Through October 31, 2011.

Source: Federal Emergency Management Administration: http://www.fema.gov/news/disaster_totals_annual.fema ; Insurance Information Institute.

Average Number of Tornadoes per Year, 2000-2010

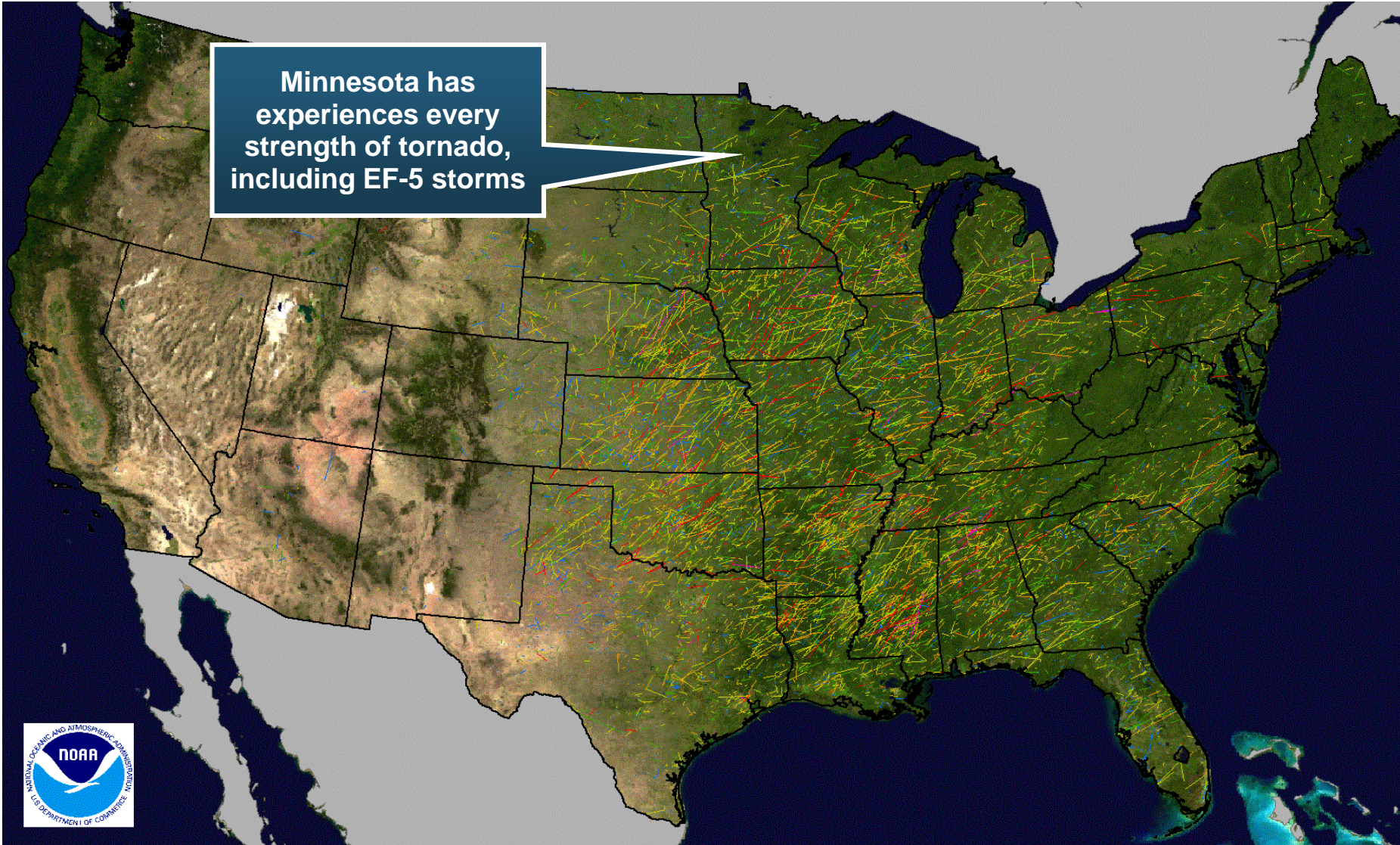


Tornado by County, 1952-2010



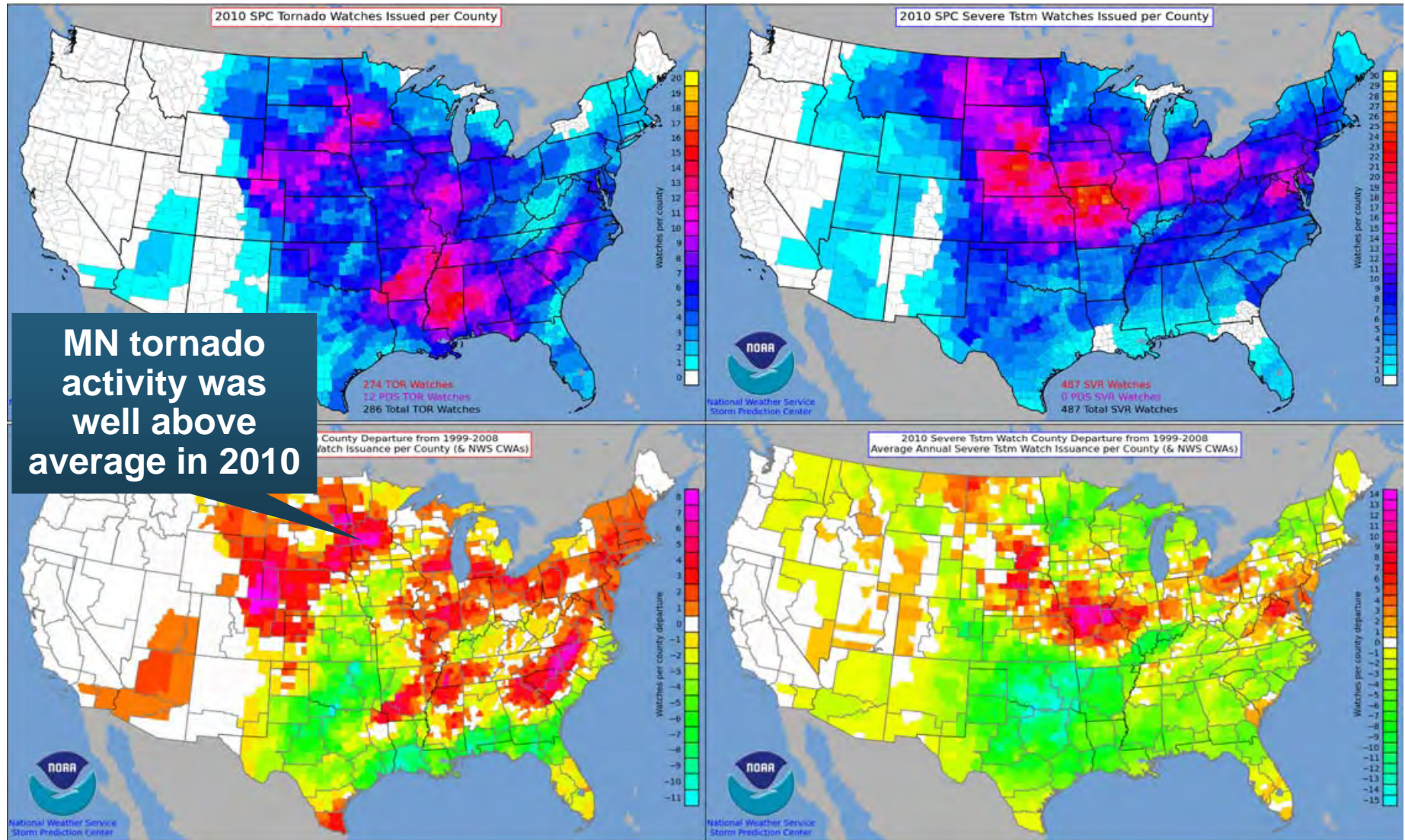
Tornado Tracks by EF Scale, 1950-2010

Minnesota has
experiences every
strength of tornado,
including EF-5 storms



Source: NOAA at: http://www.spc.noaa.gov/gis/svrgis/images/EF_tracks.gif

2010 Tornado and Severe Thunderstorm Watches & Departure from Average

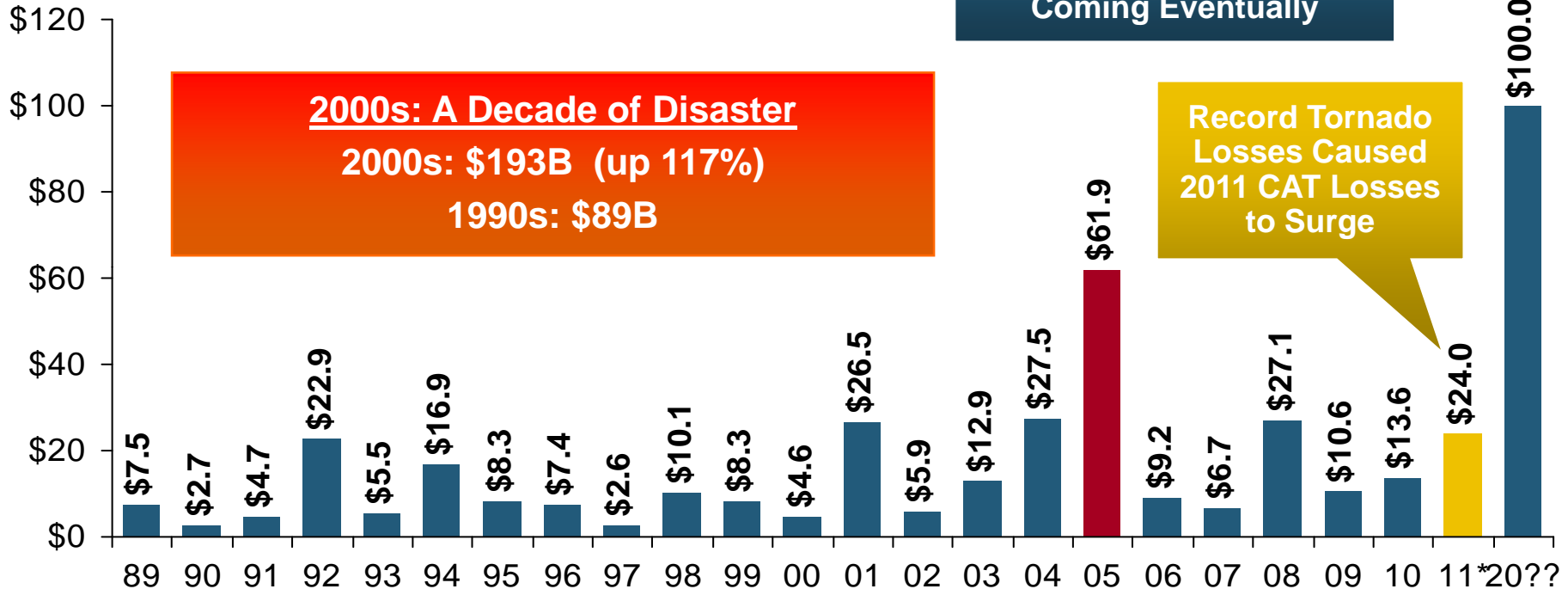


U.S. Insured Catastrophe Loss Update

**2011 CAT Losses Already Greatly
Exceed All of 2010 and Will Become One
of the Most Expensive Years on Record**

US Insured Catastrophe Losses

(\$ Billions)



2000s: A Decade of Disaster
 2000s: \$193B (up 117%)
 1990s: \$89B

\$100 Billion CAT Year is Coming Eventually

Record Tornado Losses Caused 2011 CAT Losses to Surge

First Half 2011 US CAT Losses Already Exceed Losses from All of 2010. Even Modest Hurricane Losses Will Make 2011 Among the Most Expensive Ever for CATs

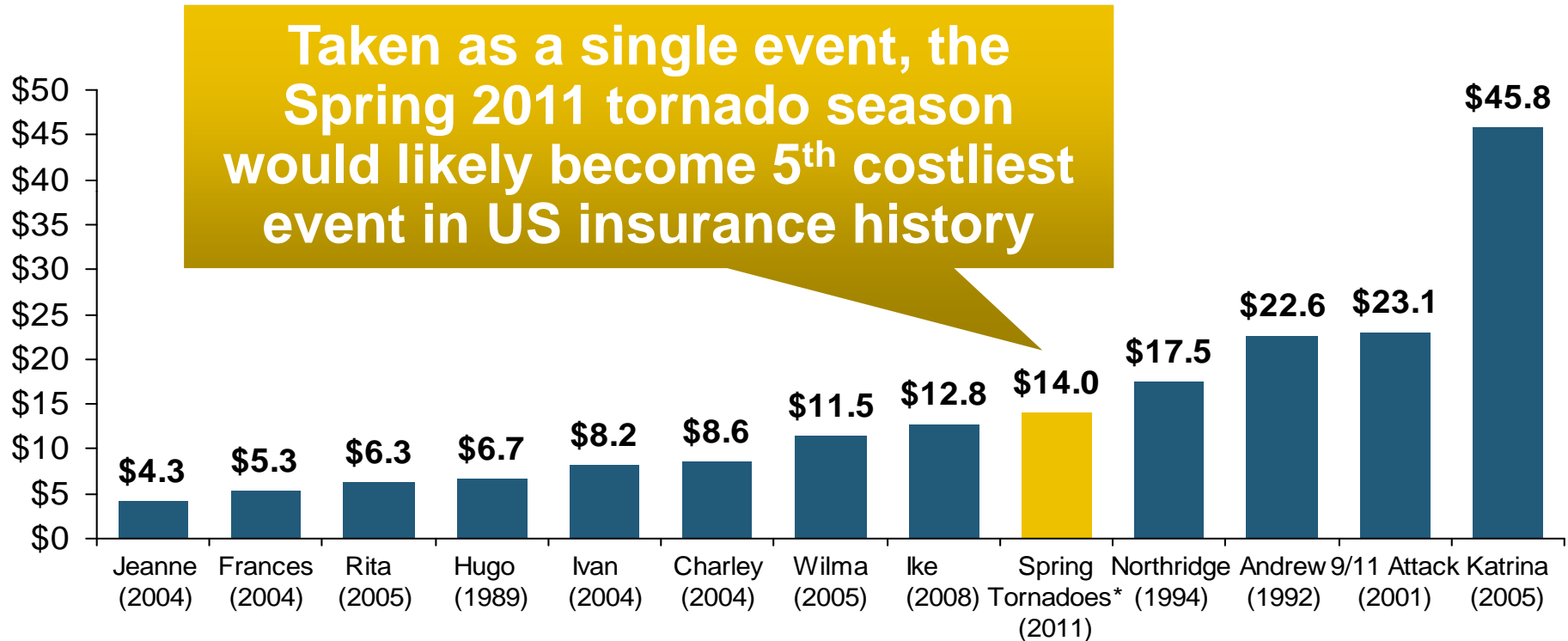
*Estimate through Sept. 30, 2011.

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; Insurance Information Institute.

Top 12 (13?) Most Costly Disasters in U.S. History

(Insured Losses, 2010 Dollars, \$ Billions)



*Losses will actually be broken down into several "events" as determined by PCS.

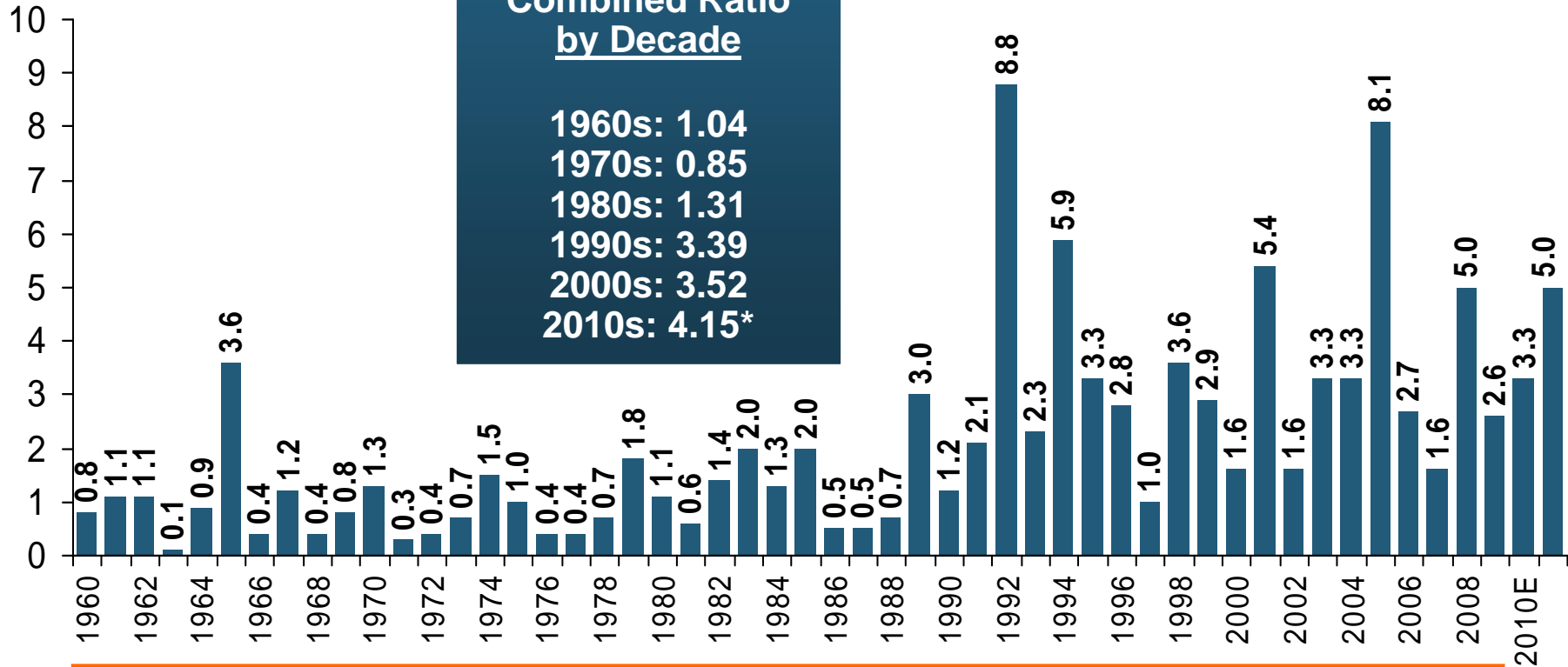
Sources: PCS; Insurance Information Institute inflation adjustments.

Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2011:H1*

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: 4.15*



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

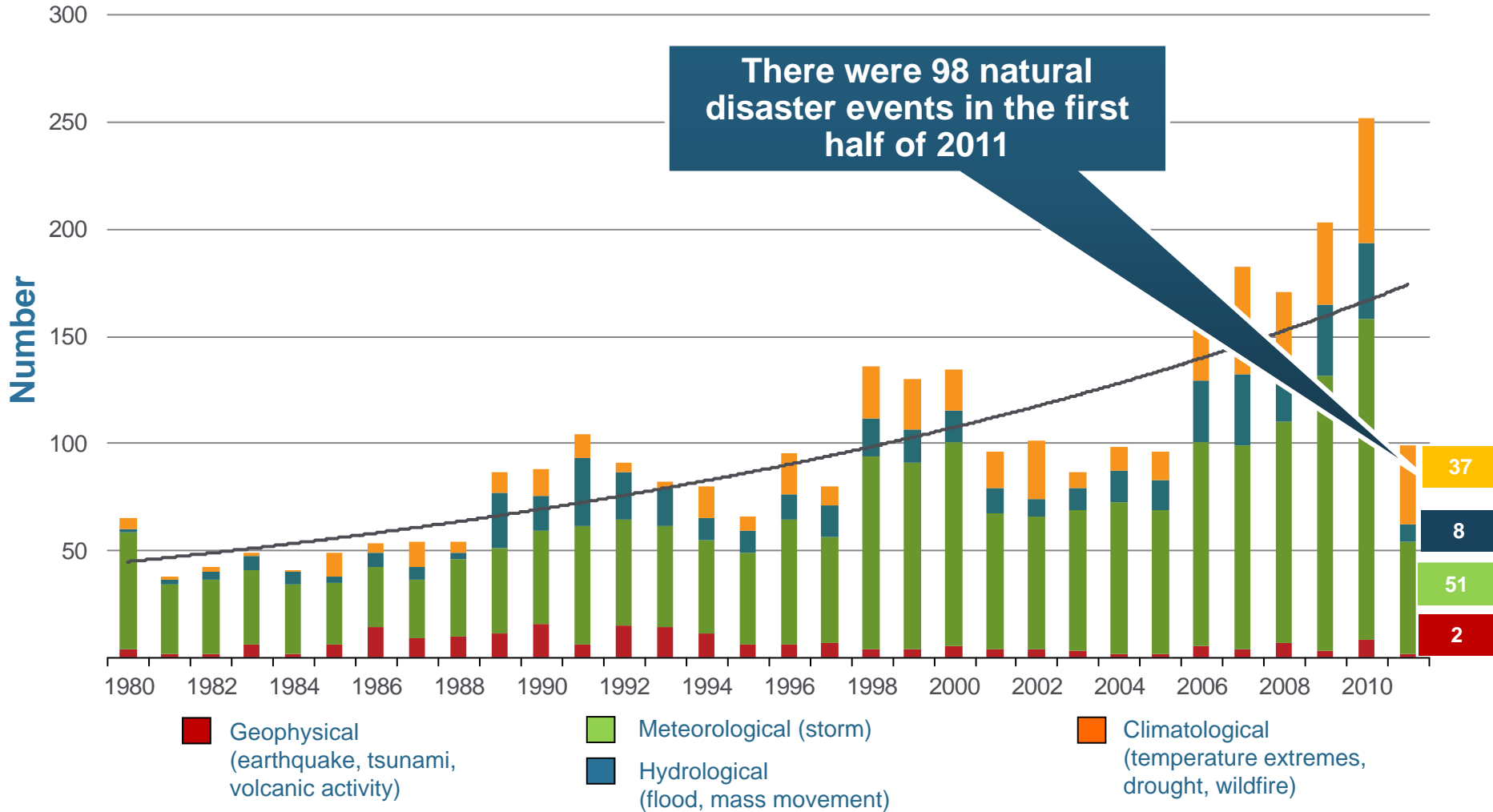
*Insurance Information Institute estimates for 2010 and 2011:H1

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.

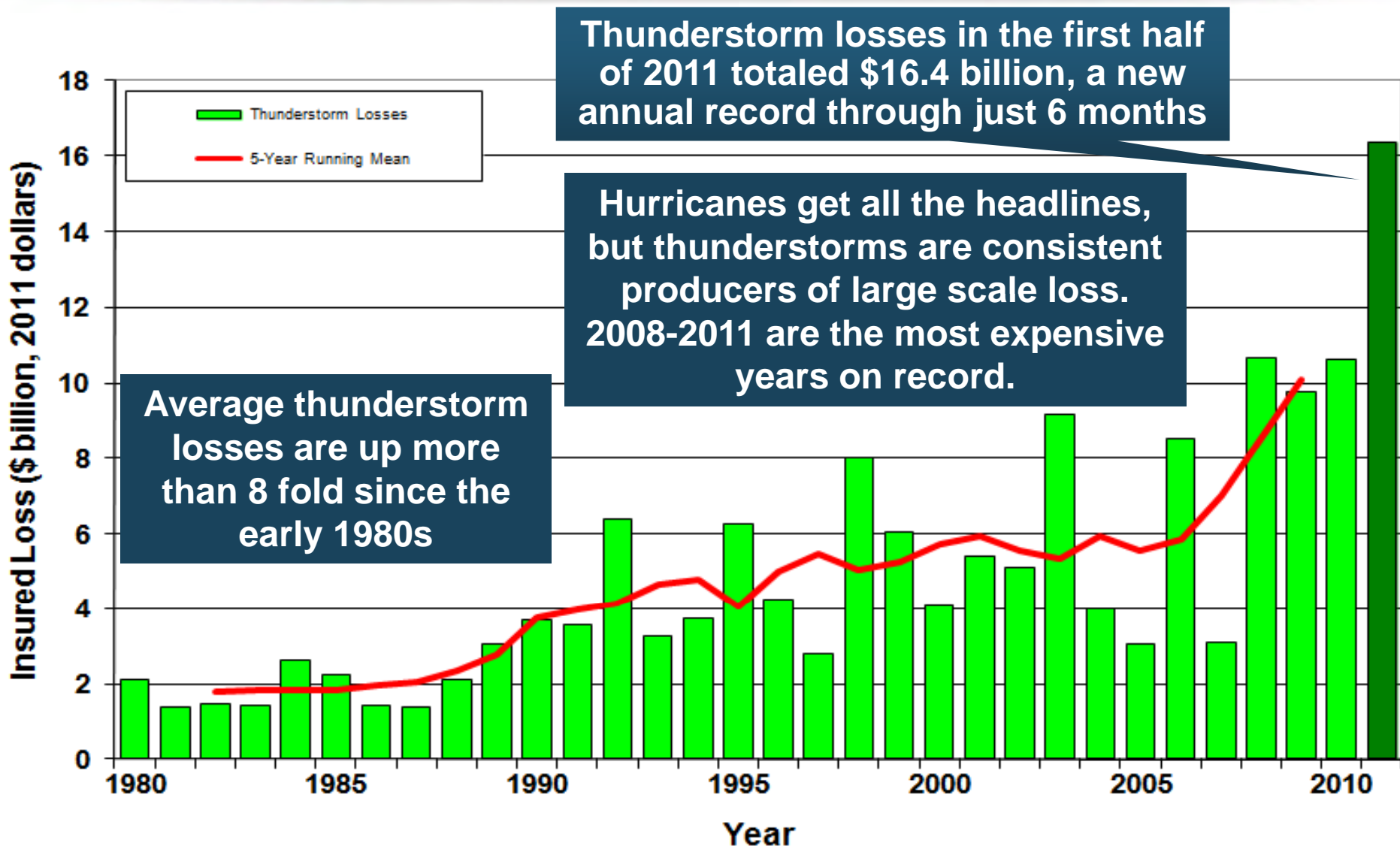
Natural Disasters in the United States, 1980 – 2011*

Number of Events (Annual Totals 1980 – 2010 and First Half 2011)



*Through June 30.
Source: MR NatCatSERVICE

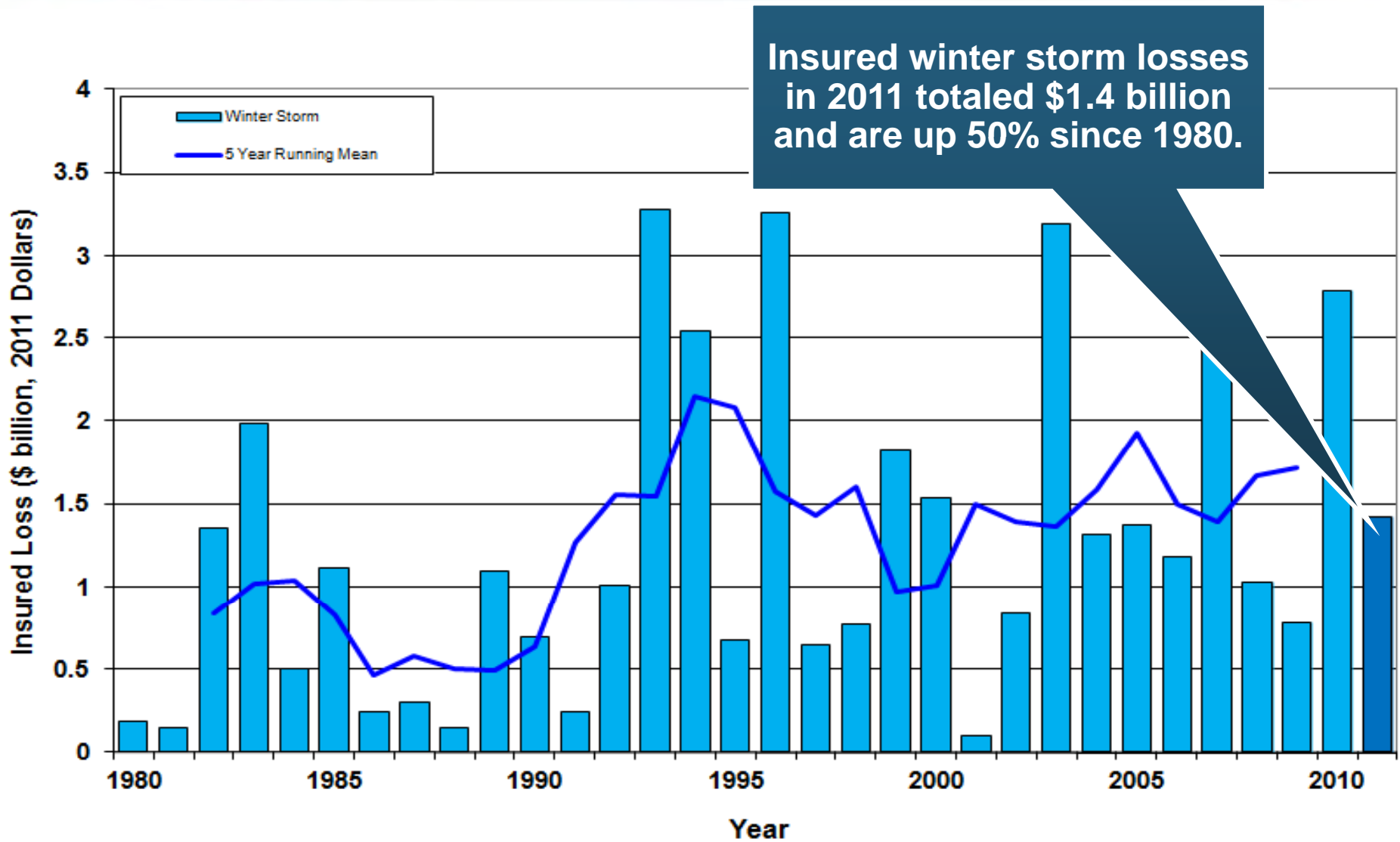
U.S. Thunderstorm Loss Trends, 1980 – 2011*



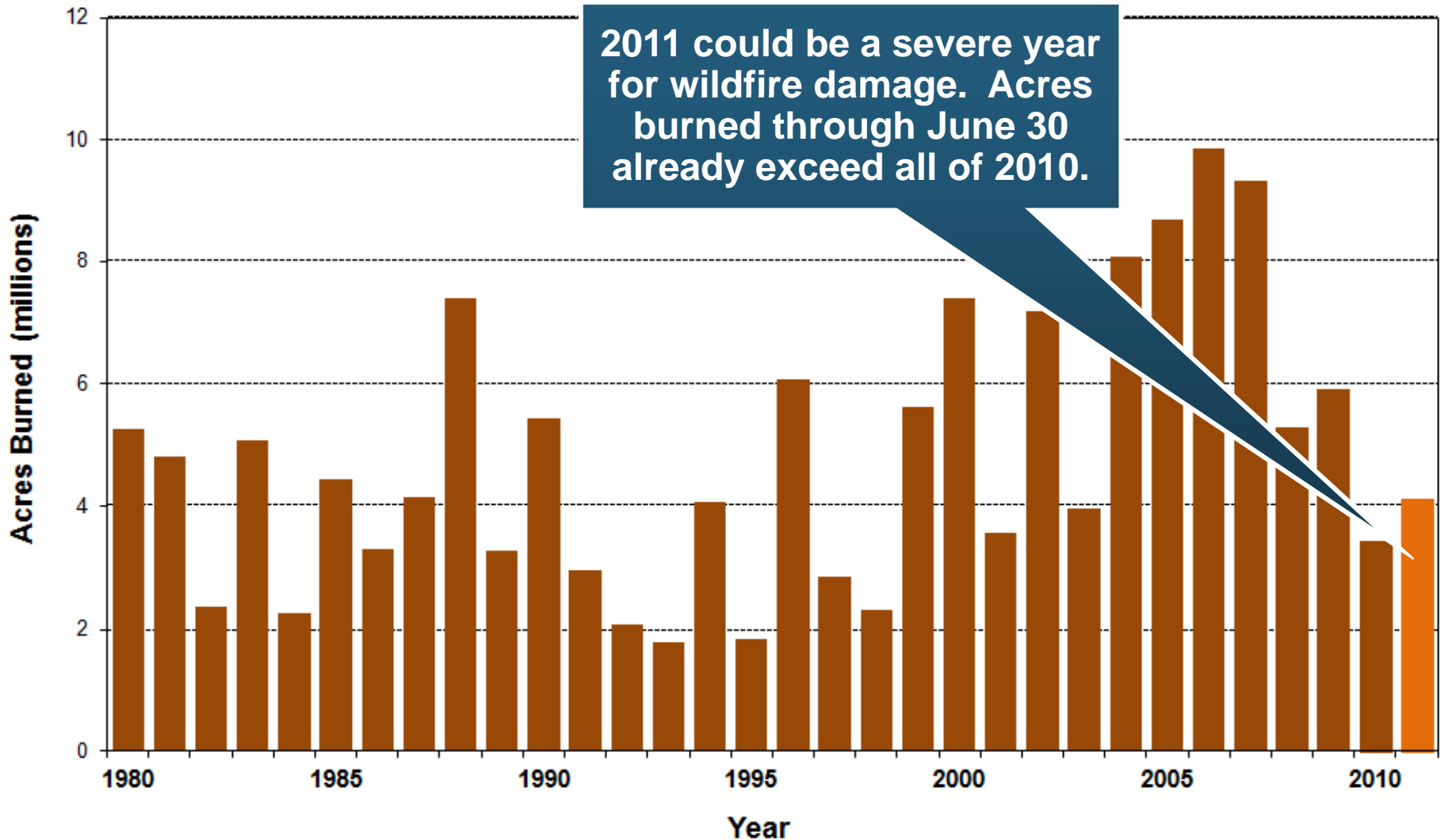
*Through June 30, 2011.

Source: Property Claims Service, MR NatCatSERVICE

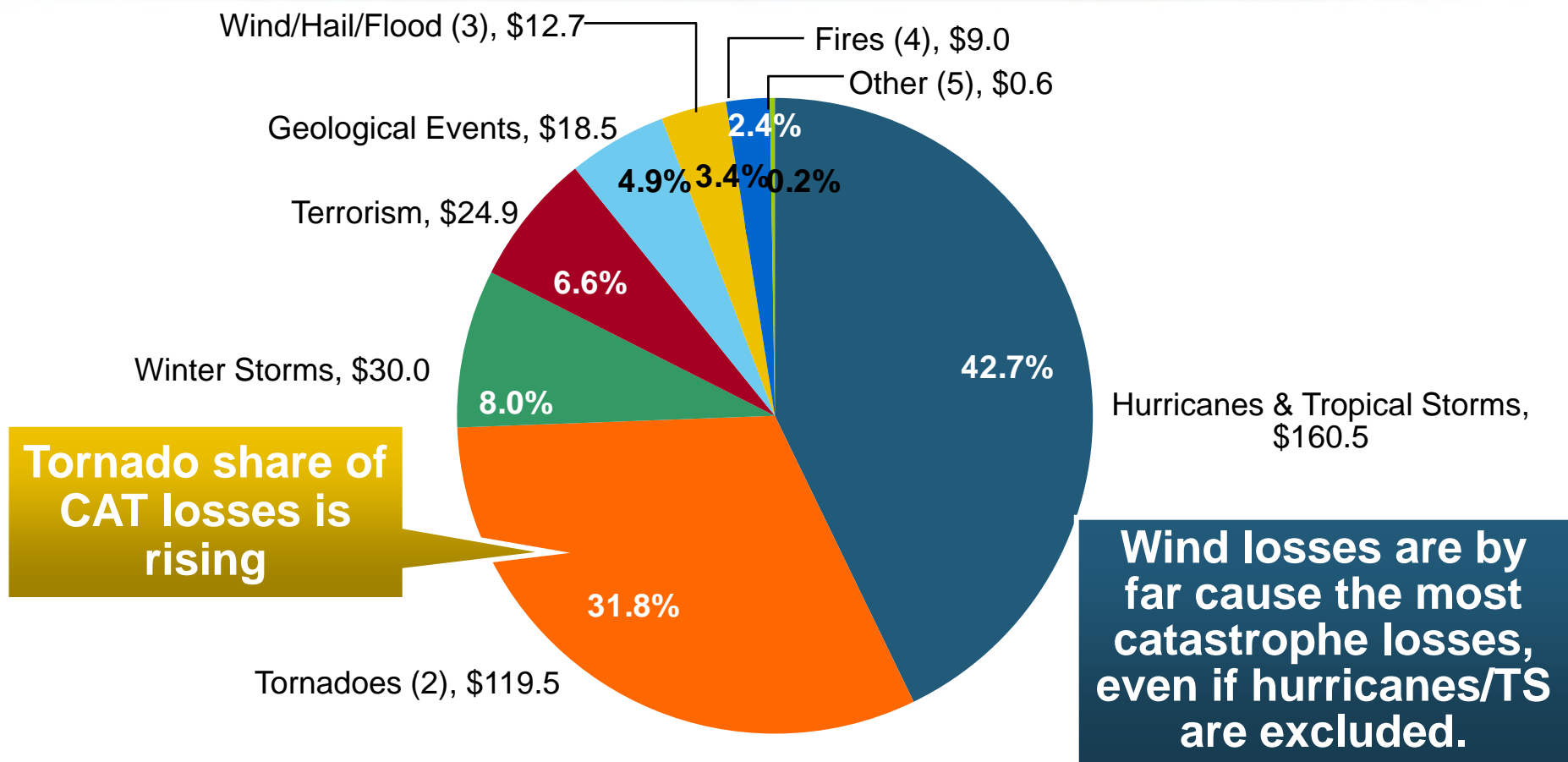
U.S. Winter Storm Loss Trends, 1980 – 2010 (Annual Totals) vs. First Half 2011



U.S. Acreage Burned by Wildfires, 1980 – 2010 (Annual Totals) vs. First Half 2011



Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1990–2011:H1¹



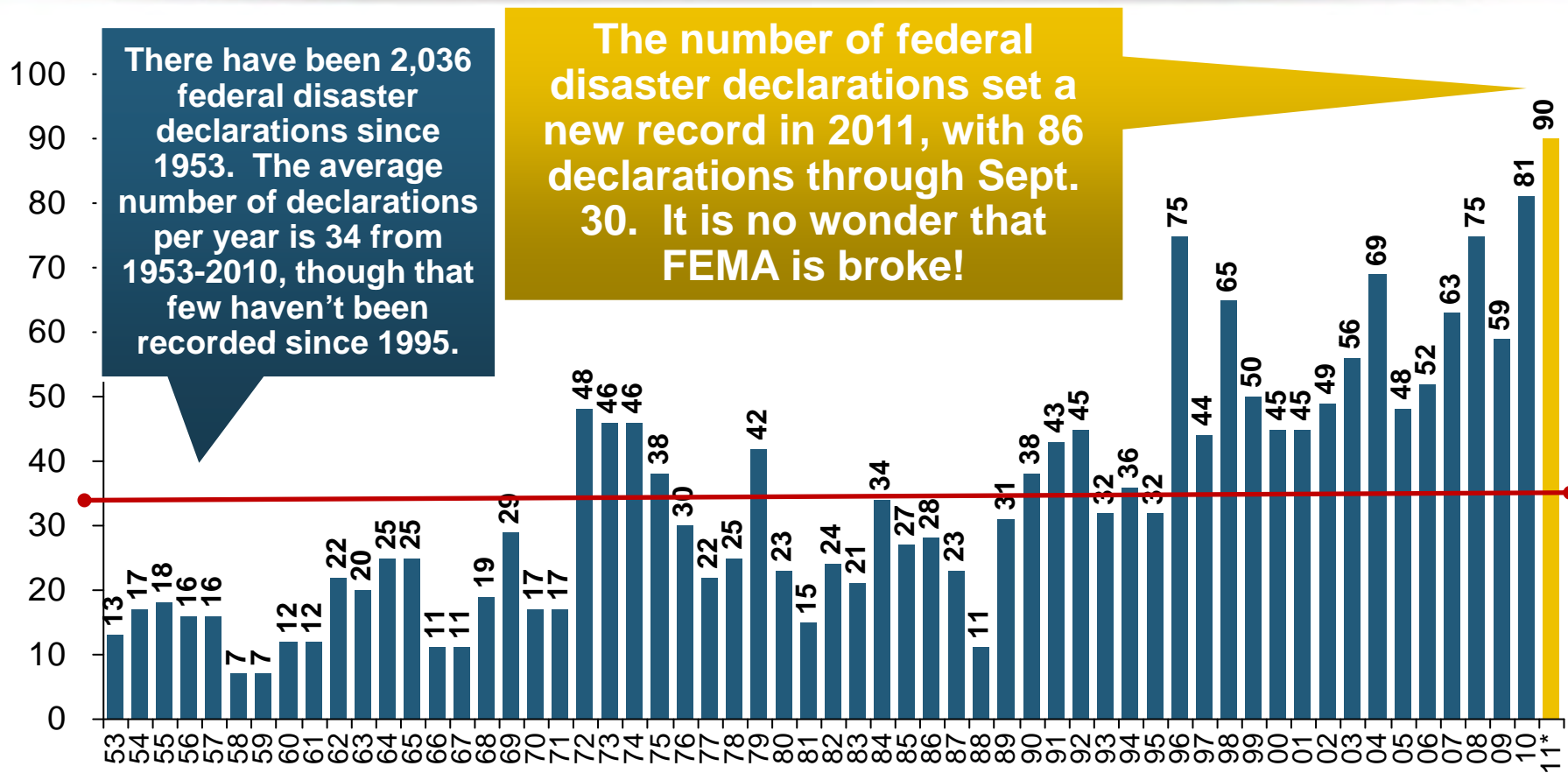
Tornado share of CAT losses is rising

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.

Number of Federal Disaster Declarations, 1953-2011*

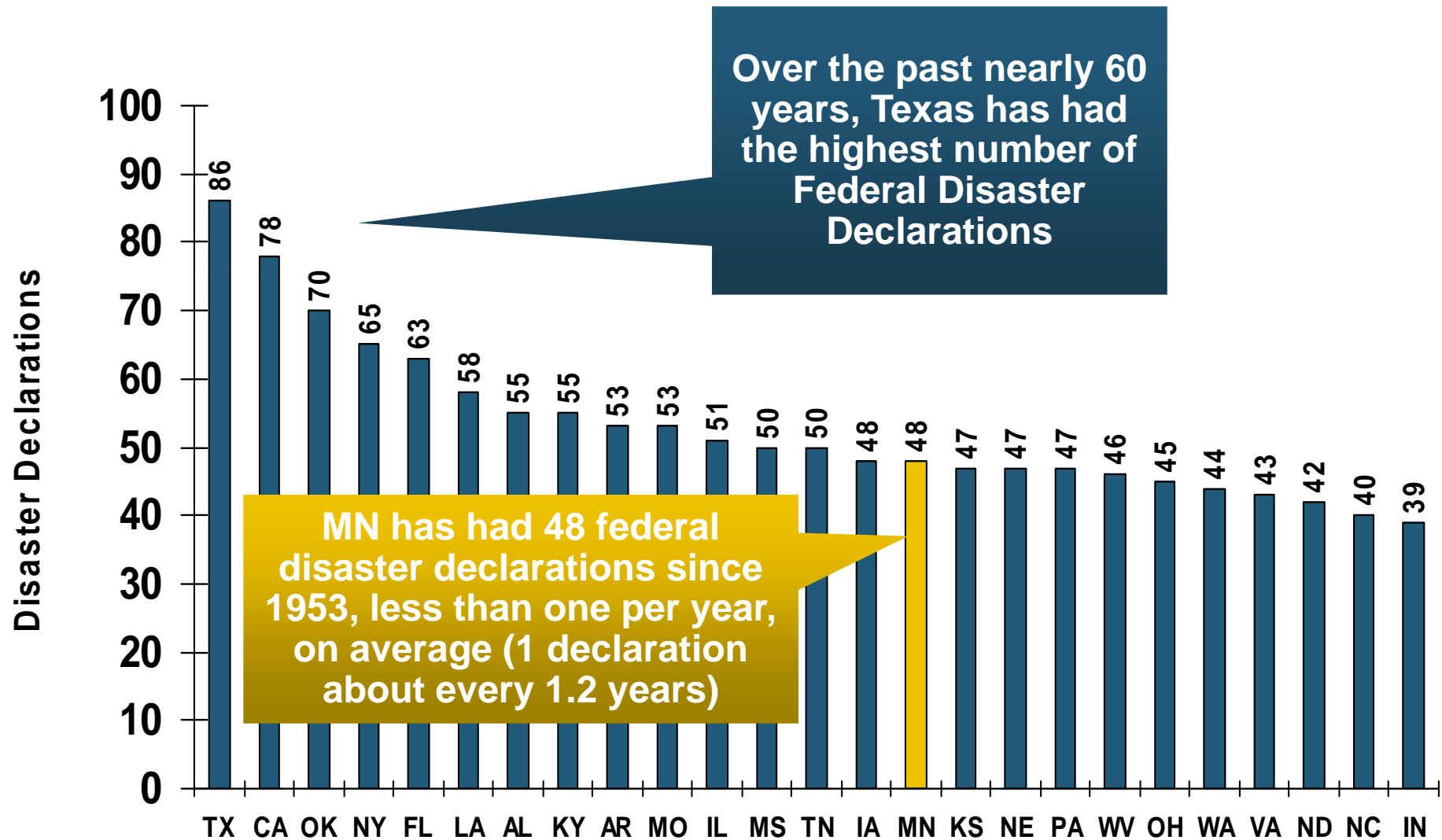


The Number of Federal Disaster Declarations Is Rising and Set a New Record in 2011

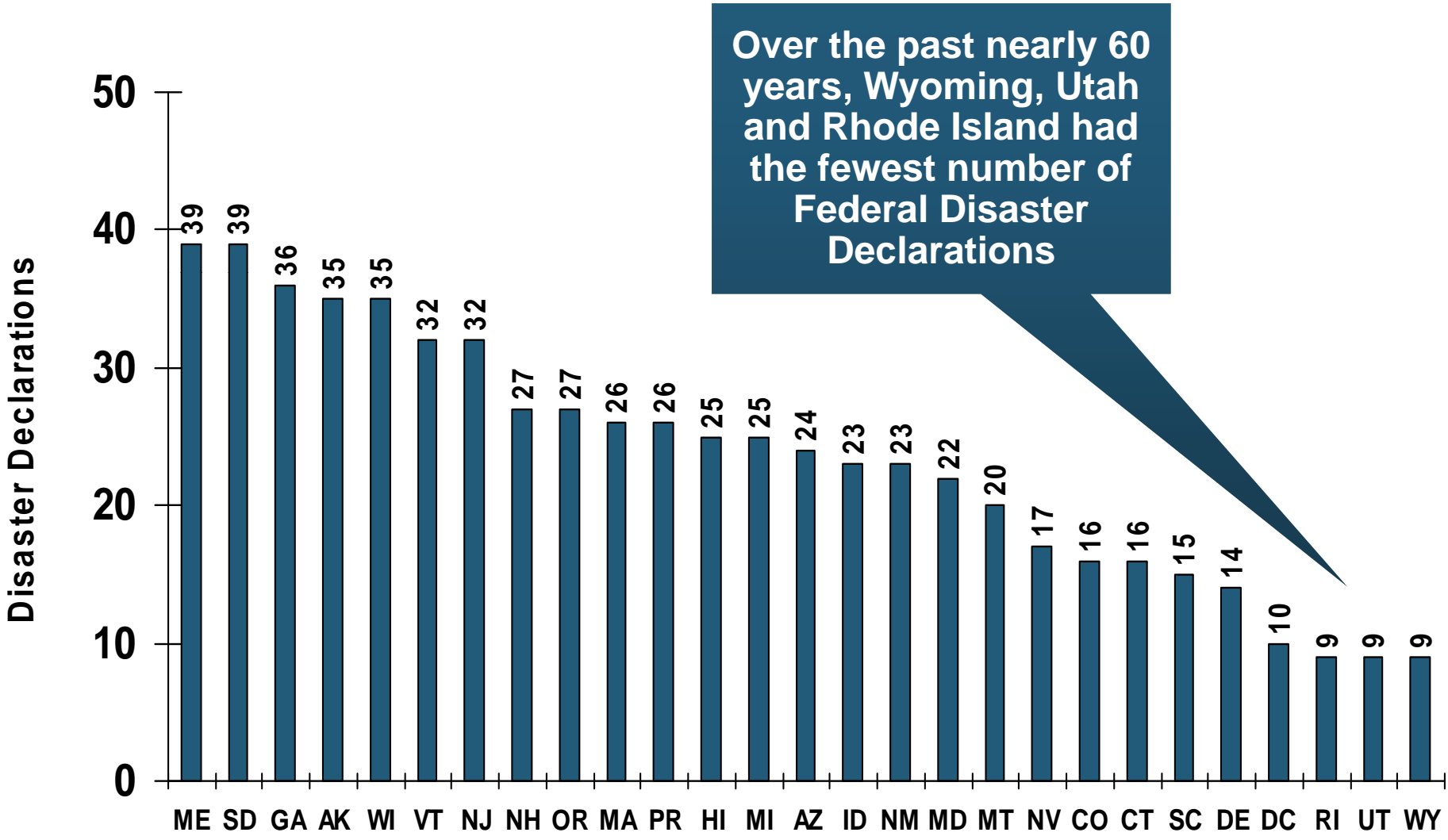
*Through October 31, 2011.

Source: Federal Emergency Management Administration: http://www.fema.gov/news/disaster_totals_annual.fema ; Insurance Information Institute.

Federal Disasters Declarations by State, 1953 – Oct. 31, 2011: Highest 25 States



Federal Disasters Declarations by State, 1953 – Oct. 31, 2011: Lowest 25 States*



*Includes Puerto Rico and the District of Columbia.

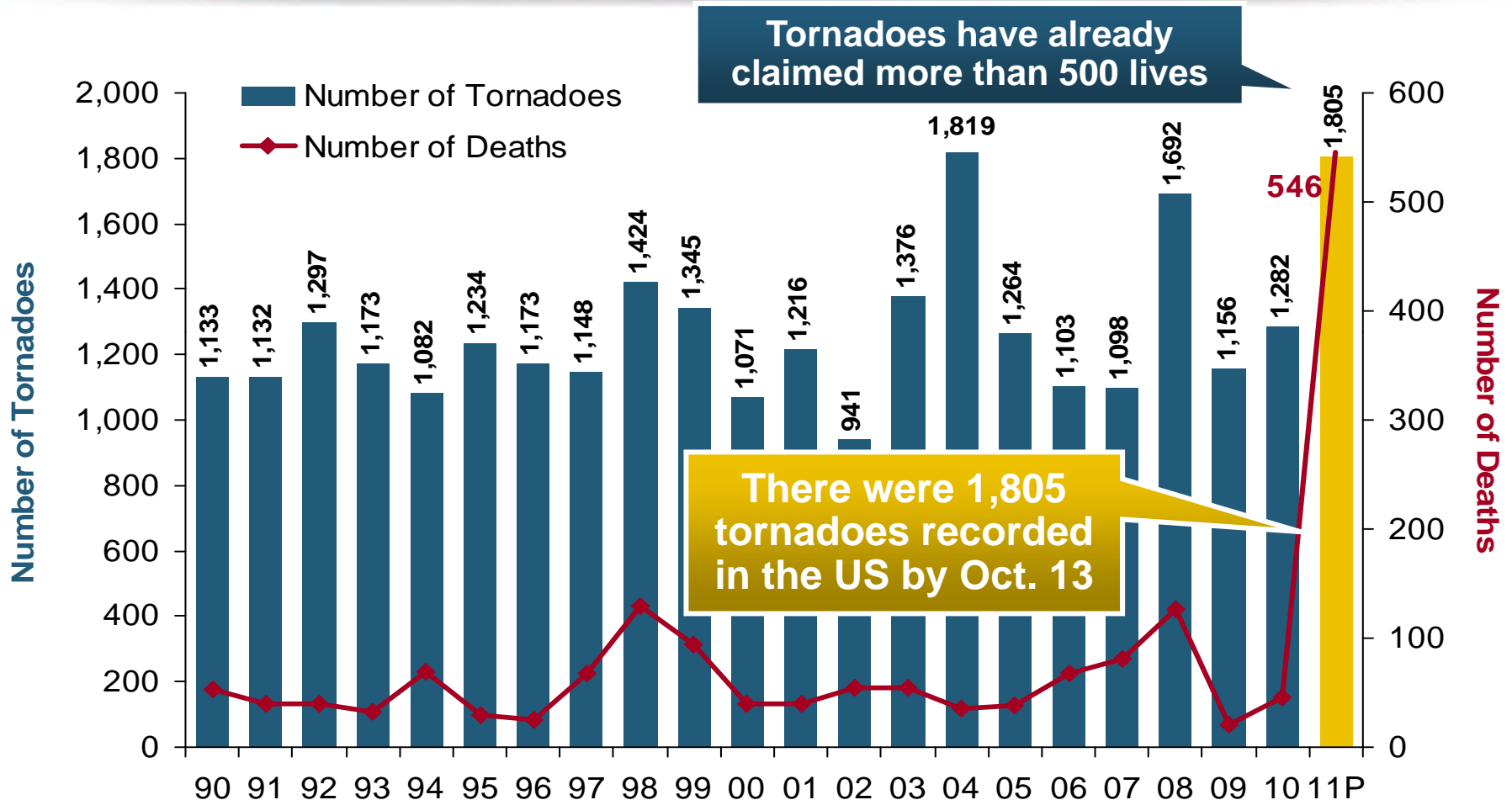
Source: FEMA: http://www.fema.gov/news/disaster_totals_annual.fema; Insurance Information Institute.



SPRING 2011 TORNADO & SEVERE STORM OUTBREAK

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

Number of Tornadoes and Related Deaths, 1990 – 2011*



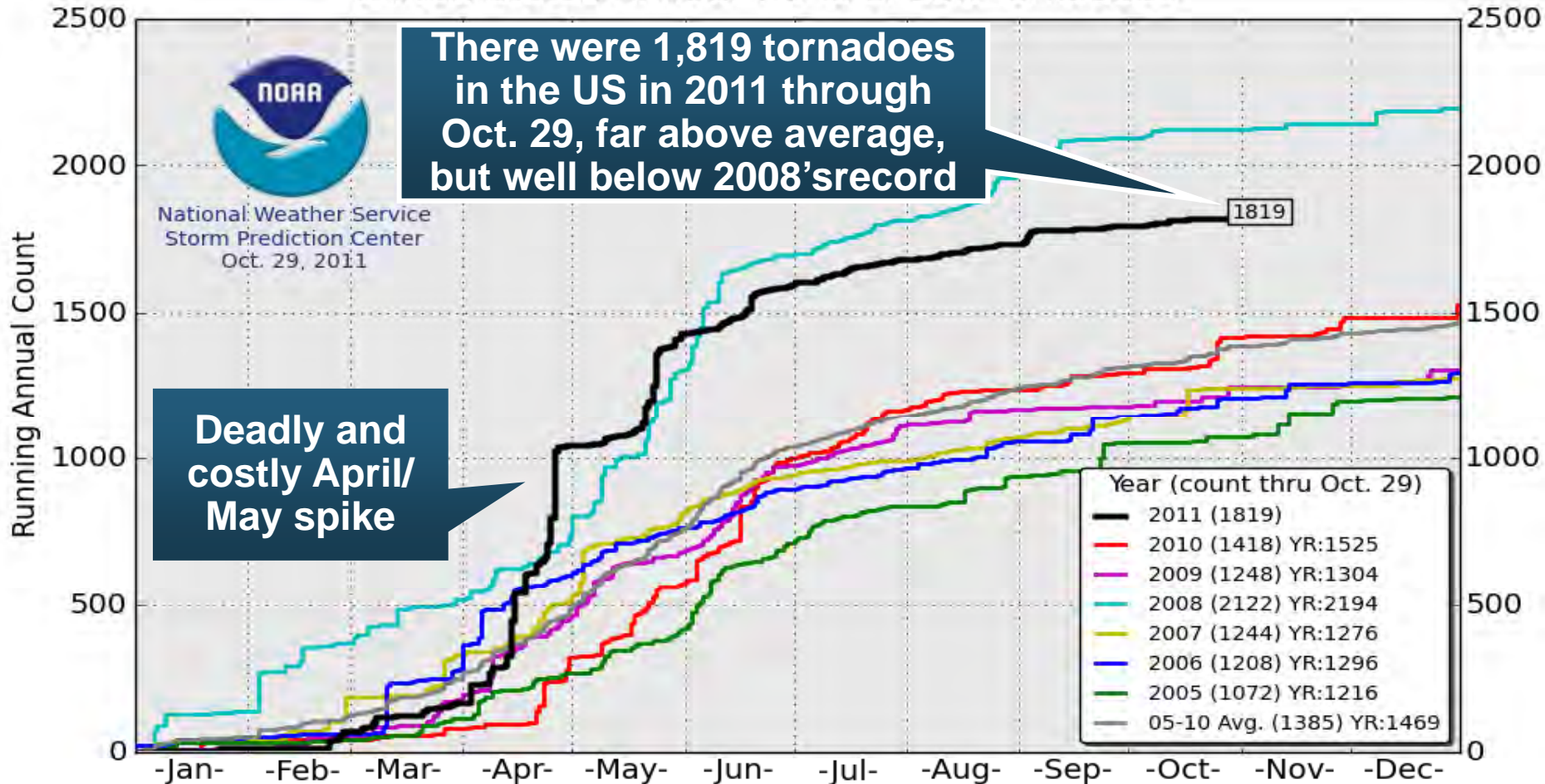
Insurers Expect to Pay at Least \$2 Billion Each for the April 2011 Tornadoes in Alabama and a Similar Amount for the May Storms in Joplin

*2011 is preliminary data through October 13.

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

U.S. Tornado Count, 2005-2011*

United States Annual Trend of LSR Tornadoes*



*Preliminary tornadoes from NWS Local Storm Reports (LSRs)
Annual average is based on preliminary LSRs, 2005-2010

Insurers Making a Difference in Impacted Communities

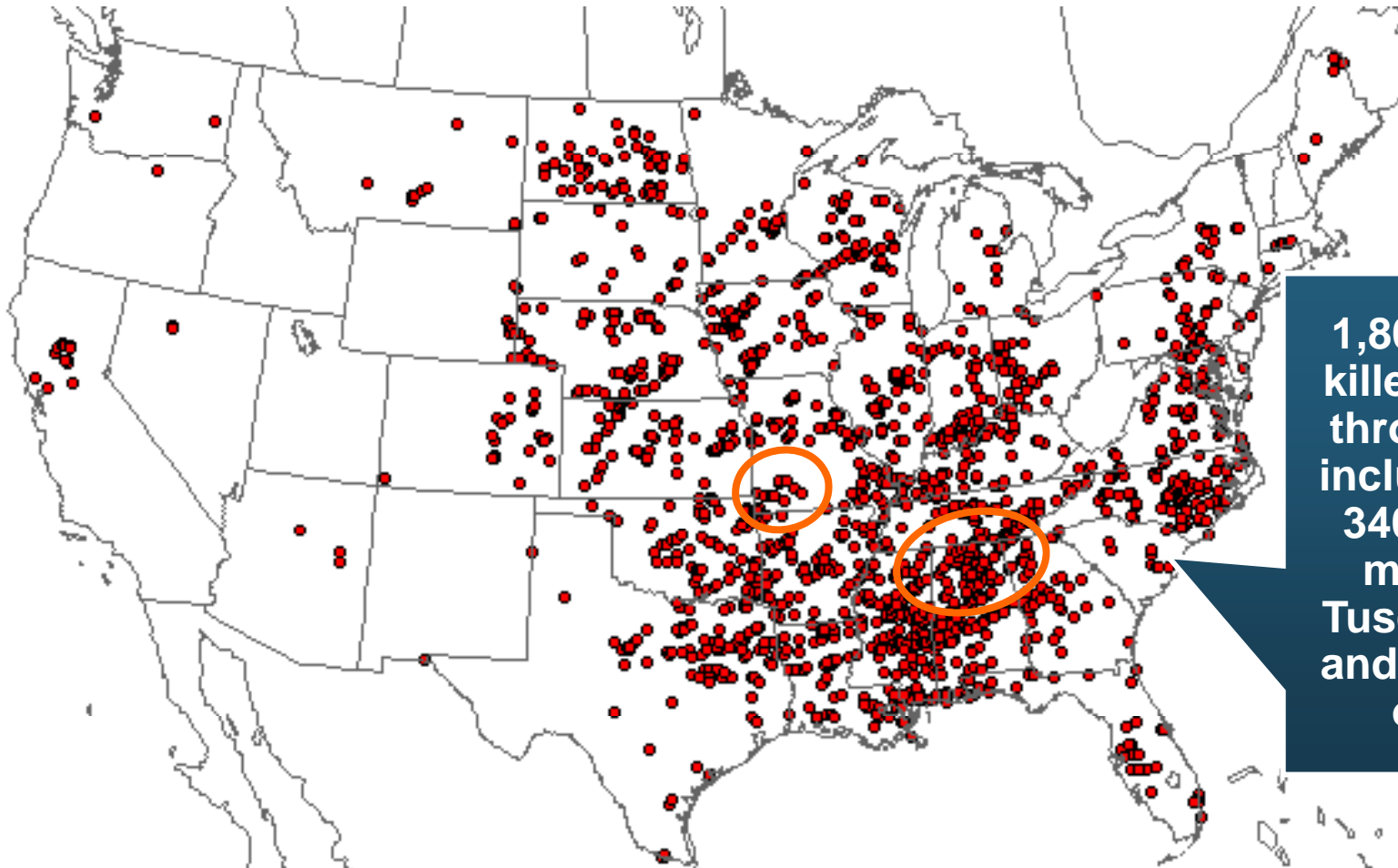


Destroyed home in Tuscaloosa. Insurers will pay some 165,000 claims totaling \$2 billion in the Tuscaloosa/Birmingham areas alone.

Presentation of a check to Tuscaloosa Mayor Walt Maddox to the Tuscaloosa Storm Recovery Fund



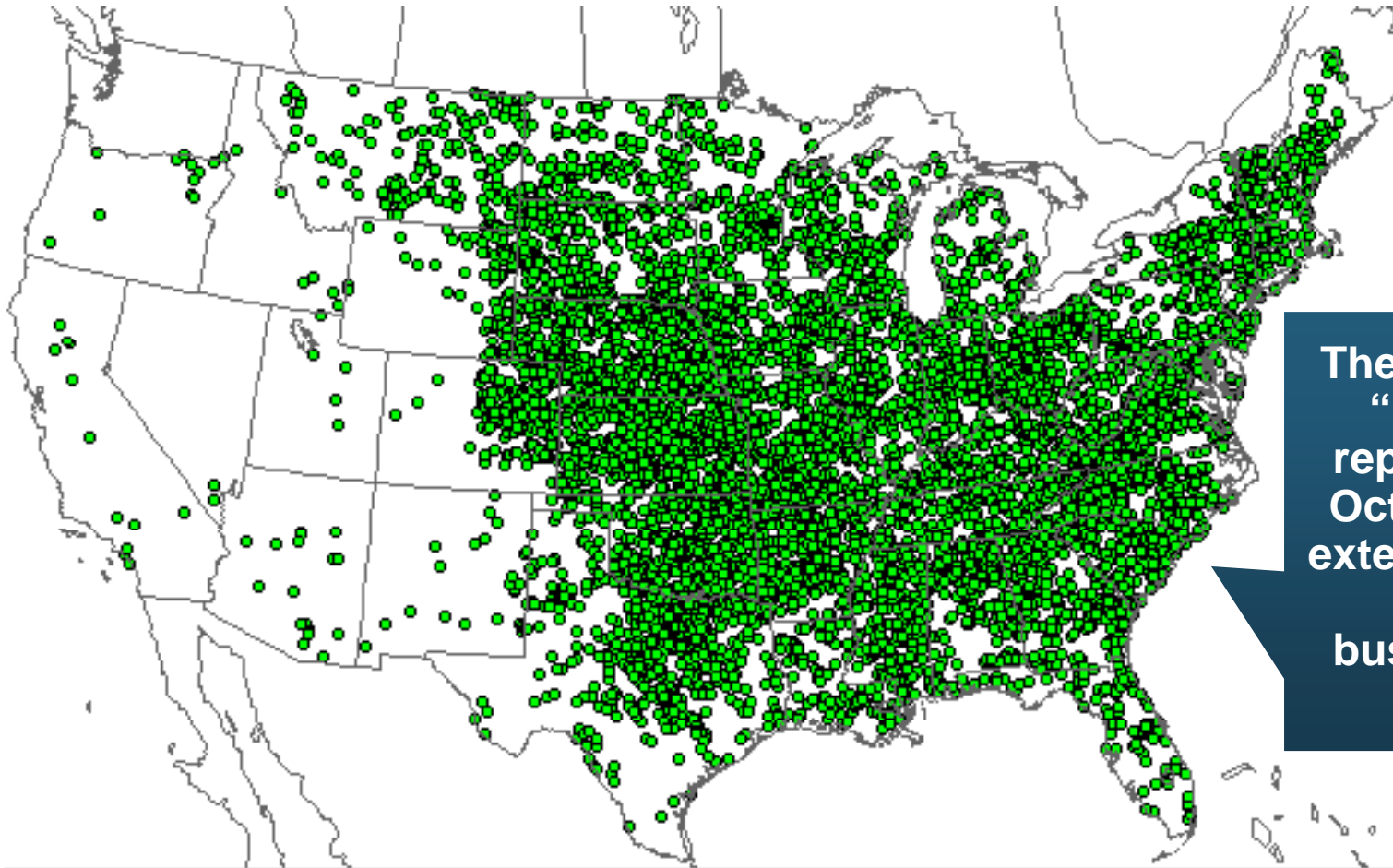
Location of Tornadoes in the US, January 1—October 13, 2011



1,805 tornadoes killed 546 people through Oct. 13, including at least 340 on April 26 mostly in the Tuscaloosa area, and 130 in Joplin on May 22

 **PRELIMINARY SEVERE WEATHER REPORT DATABASE (ROUGH LOG)** **Tornado Reports**
NOAA/Storm Prediction Center Norman, Oklahoma **January 01, 2011 - October 13, 2011**
Updated: Thursday October 13, 2011 12:59 CT

Location of Large Hail Reports in the US, January 1—October 13, 2011



There were 9,287
“Large Hail”
reports through
Oct. 13, causing
extensive damage
to homes,
businesses and
vehicles



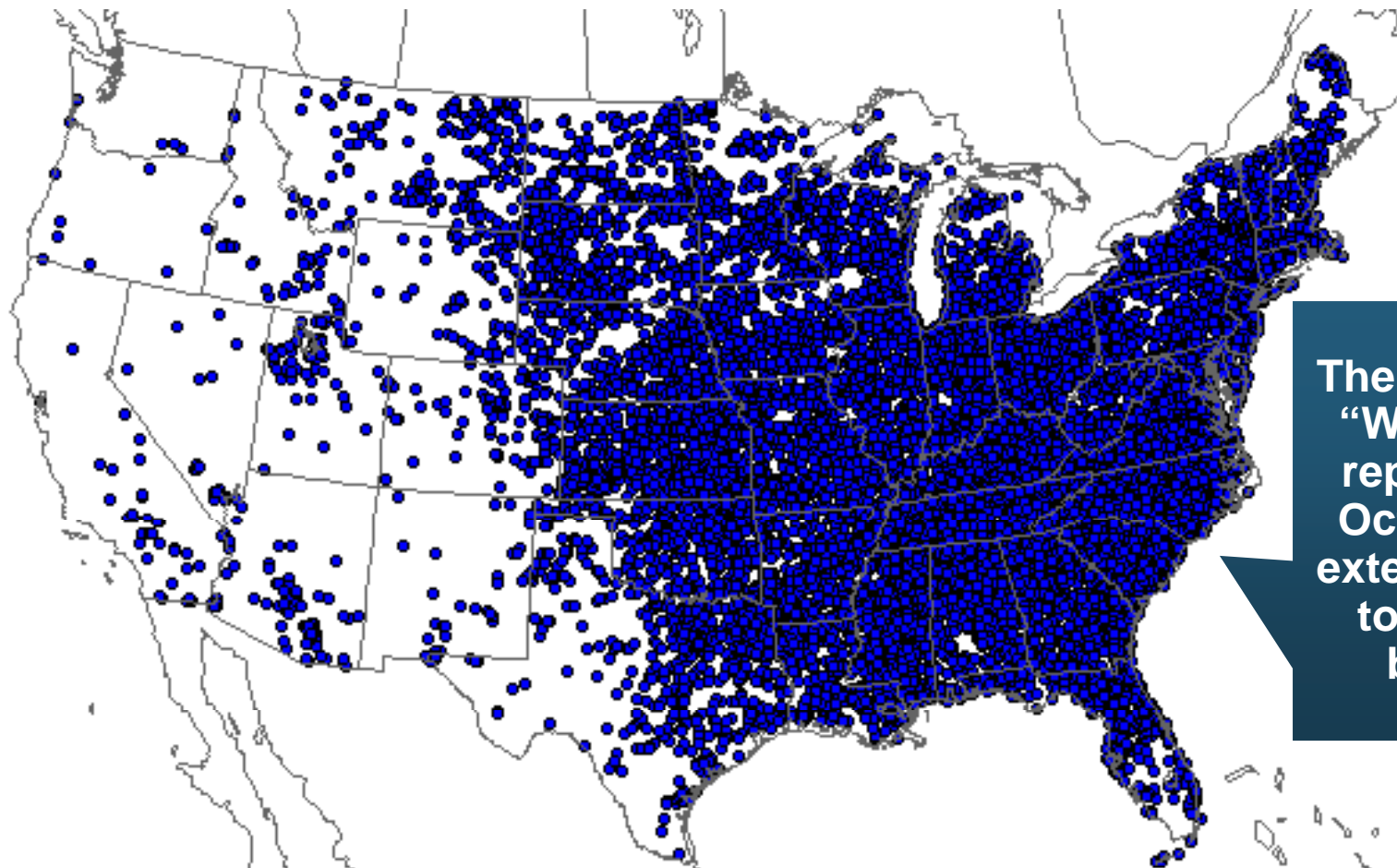
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Hail Reports
January 01, 2011 - October 13, 2011

Updated: Thursday October 13, 2011 12:59 CT

Location of Wind Damage Reports in the US, January 1—Oct. 13, 2011



There were 18,293
“Wind Damage”
reports through
Oct. 13, causing
extensive damage
to homes and,
businesses



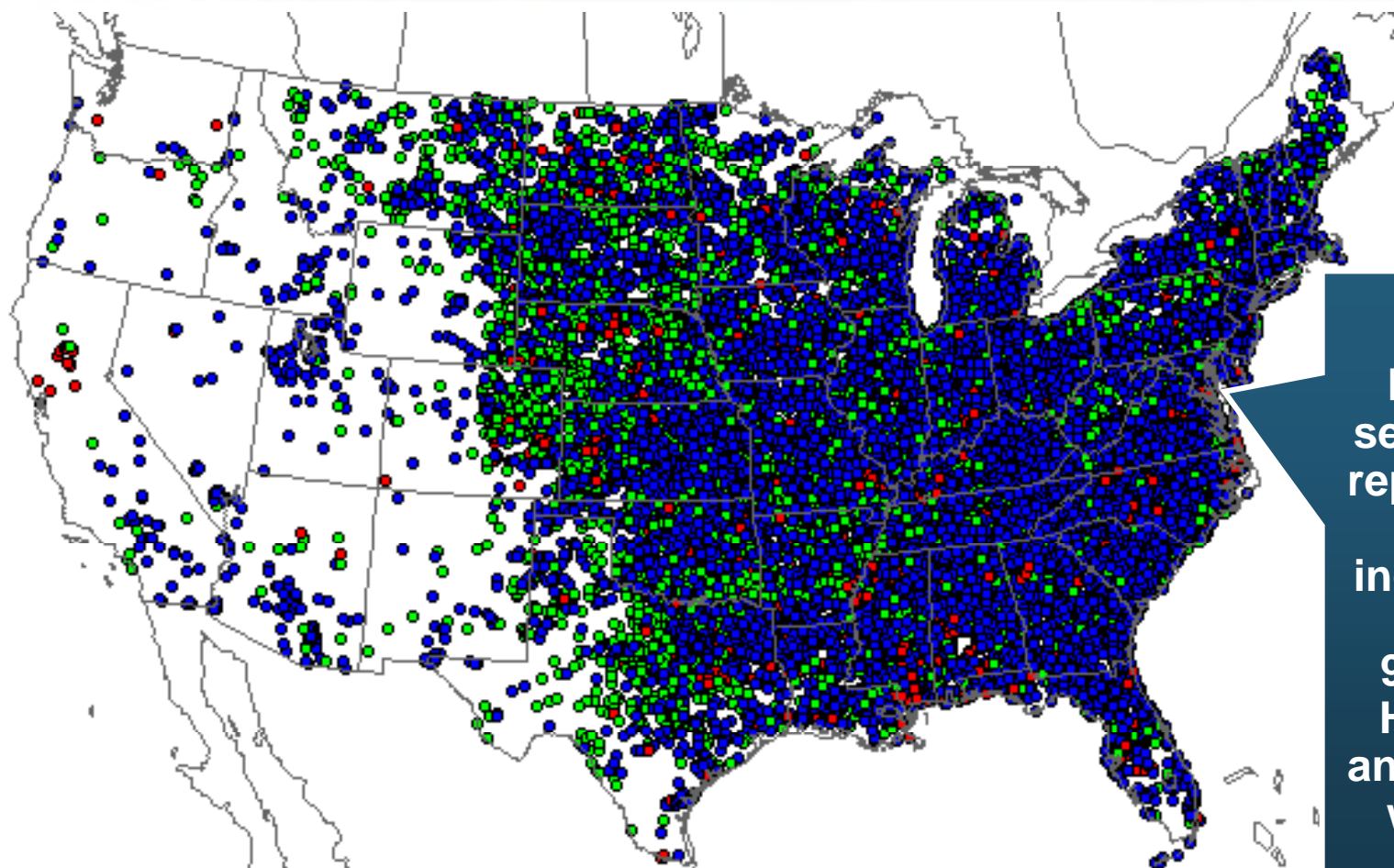
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Wind Reports
January 01, 2011 - October 13, 2011

Updated: Thursday October 13, 2011 12:59 CT

Severe Weather Reports, January 1—October 13, 2011



There have been 29,385 severe weather reports through Oct. 13; including 1,805 tornadoes; 9,287 “Large Hail” reports and 18,293 high wind events



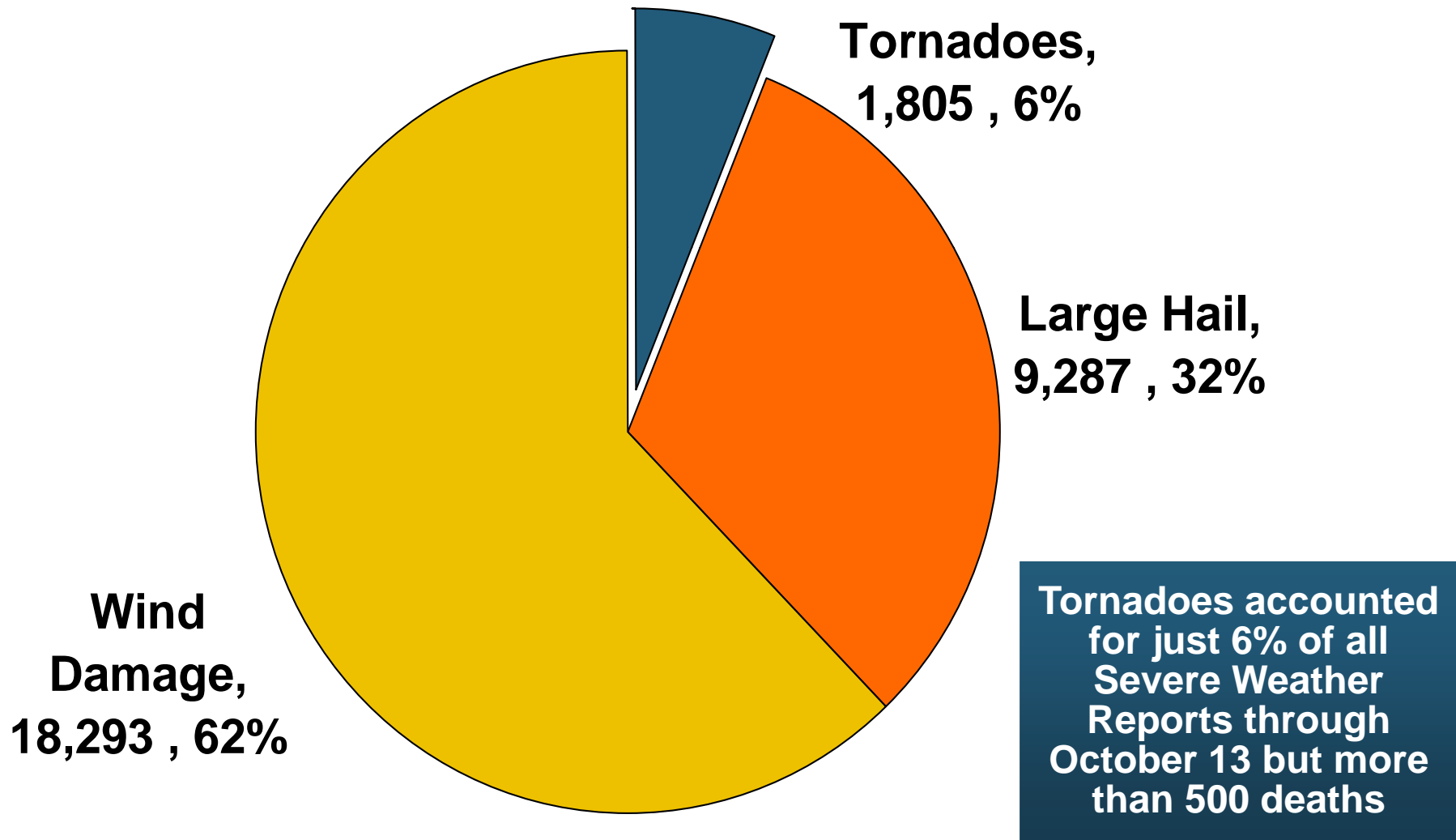
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Severe Weather Reports
January 01, 2011 - October 13, 2011

Updated: Thursday October 13, 2011 12:59 CT

Number of Severe Weather Reports in US, by Type: January 1—October 13, 2011





Global Catastrophe Loss Developments and Trends

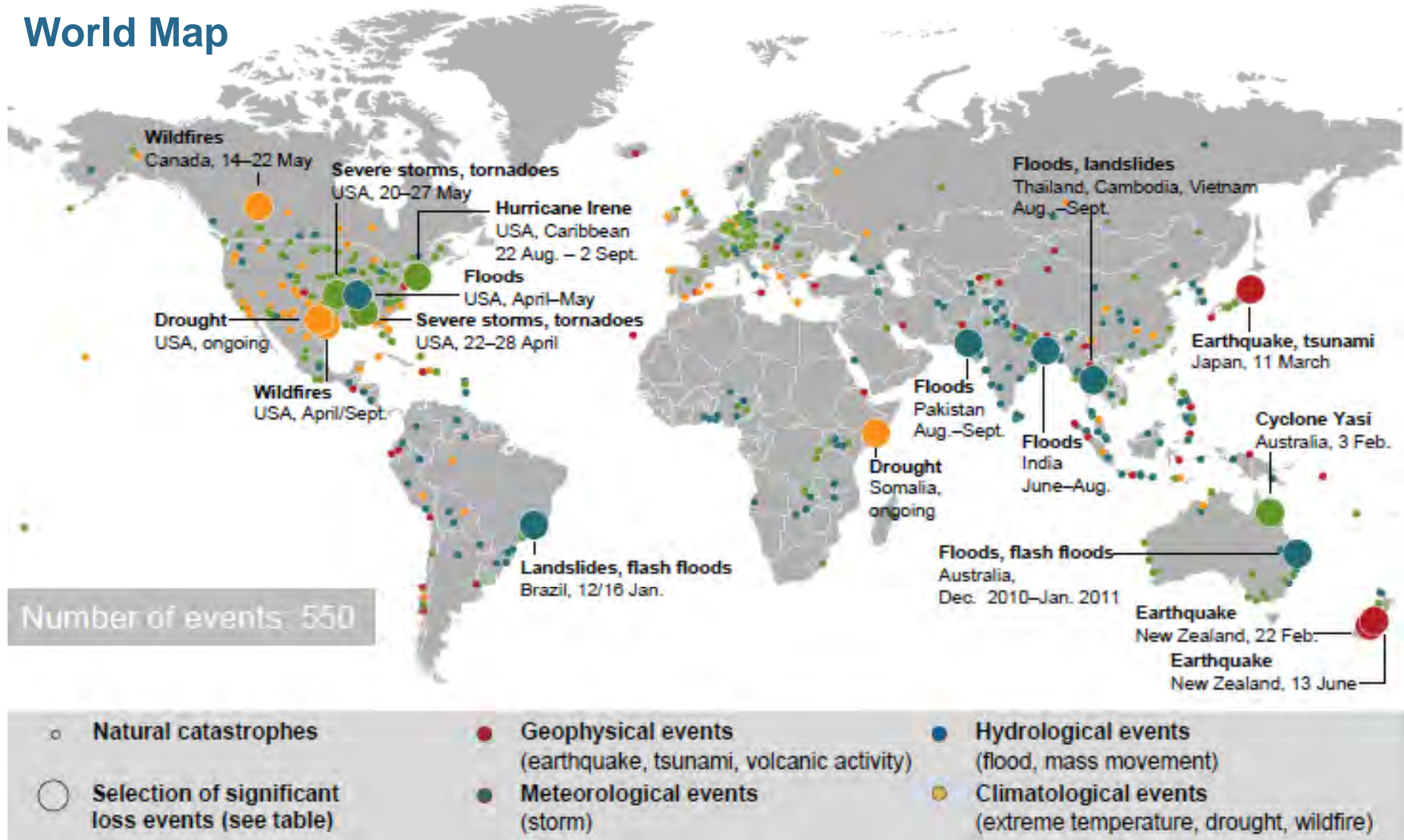
**2011 and 2010 Are Rewriting
Catastrophe Loss and
Insurance History**

Global Catastrophe Loss Summary: First Half 2011

- **2011 Is Already (as of June 30) the *Highest* Loss Year on Record Globally**
 - ◆ Extraordinary accumulation of severe natural catastrophe: Earthquakes, tsunami, floods and tornadoes are the primary causes of loss
- **\$260 Billion in *Economic* Losses Globally**
 - ◆ New record for the first six months, exceeding the previous record of \$220B in 2005
 - ◆ Economy is more resilient than most pundits presume
- **\$55 Billion in *Insured* Losses Globally**
 - ◆ More than double the first half 2010 amount
 - ◆ Over 4 times the 10-year average
- **\$27 Billion in *Economic* Losses in the US**
 - ◆ Represents a 129% increase over the \$11.8 billion amount through the first half of 2010
- **\$17.3 Billion in *Insured* Losses in the US Arising from 100 CAT Events**
 - ◆ Represents a 162% increase over the \$6.6 billion amount through the first half of 2010

Natural Loss Events, January – September 2011

World Map



Worldwide Natural Disasters 2011

Significant Natural Disasters (January – September only)

| Period | Loss event | Affected area | Overall losses* | Insured losses* | Fatalities* |
|-------------------|--------------------------|--|------------------------|-----------------|---------------------------|
| | | | US\$m, original values | | |
| Dec 2010–Jan 2011 | Floods, flash floods | Australia (Queensland) | 7,300 | 2,550 | 29 |
| 12/16 Jan. | Landslides, flash floods | Brazil (State of Rio de Janeiro) | ** | ** | 1,350 |
| 3 Feb. | Cyclone Yasi | Australia (Queensland) | 2,000 | 1,000 | 1 |
| 22 Feb. | Earthquake | New Zealand (Christchurch) | 25,000 | 13,000 | 181 |
| 11 March | Earthquake, tsunami | Japan (esp. northeastern Honshu) | 210,000 | ~30,000 | 15,800 (3,800 missing) |
| 22–28 April | Severe storms, tornadoes | USA (esp. AL, Tuscaloosa) | 12,000 | 7,300 | 350 |
| April–May | Floods | USA (esp. Ohio River, Mississippi River, Missouri River) | 2,600 | ** | 9 |
| April/Sept. | Wildfires | USA (TX) | 1,500 | 680 | 4 |
| 14–22 May | Wildfires | Canada (Alberta, Slave Lake) | >1,500 | 720 | 1 |
| 20–27 May | Severe storms, tornadoes | USA (esp. MO, Joplin) | 9,000 | 5,900 | 176 |
| 13 June | Earthquake | New Zealand (Christchurch) | ** | ** | 1 |
| Aug.–Sept. | Floods, landslides | Thailand, Cambodia, Vietnam | ** | ** | 370 |
| Aug.–Sept. | Floods | Pakistan | ** | ** | 445 |
| 22 Aug.–2 Sept. | Hurricane Irene | USA, Caribbean | 15,000 | 7,000 | 54 |

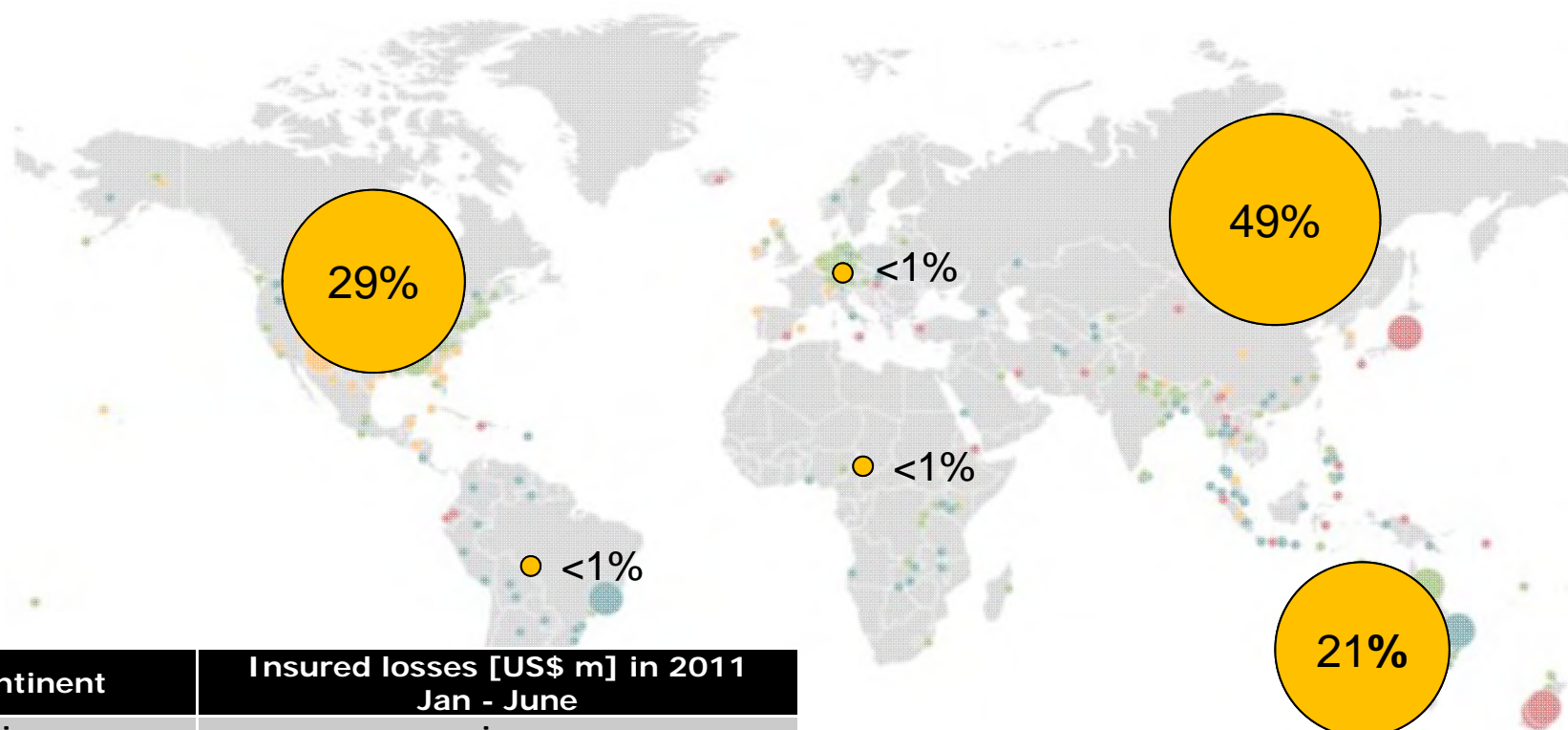
*As at October 2011

**Loss assessment still in progress

Worldwide Natural Disasters 2011

% Distribution of Insured Losses Per Continent (January – June only)

Insured losses 2011 (January – June only): US\$ 60bn

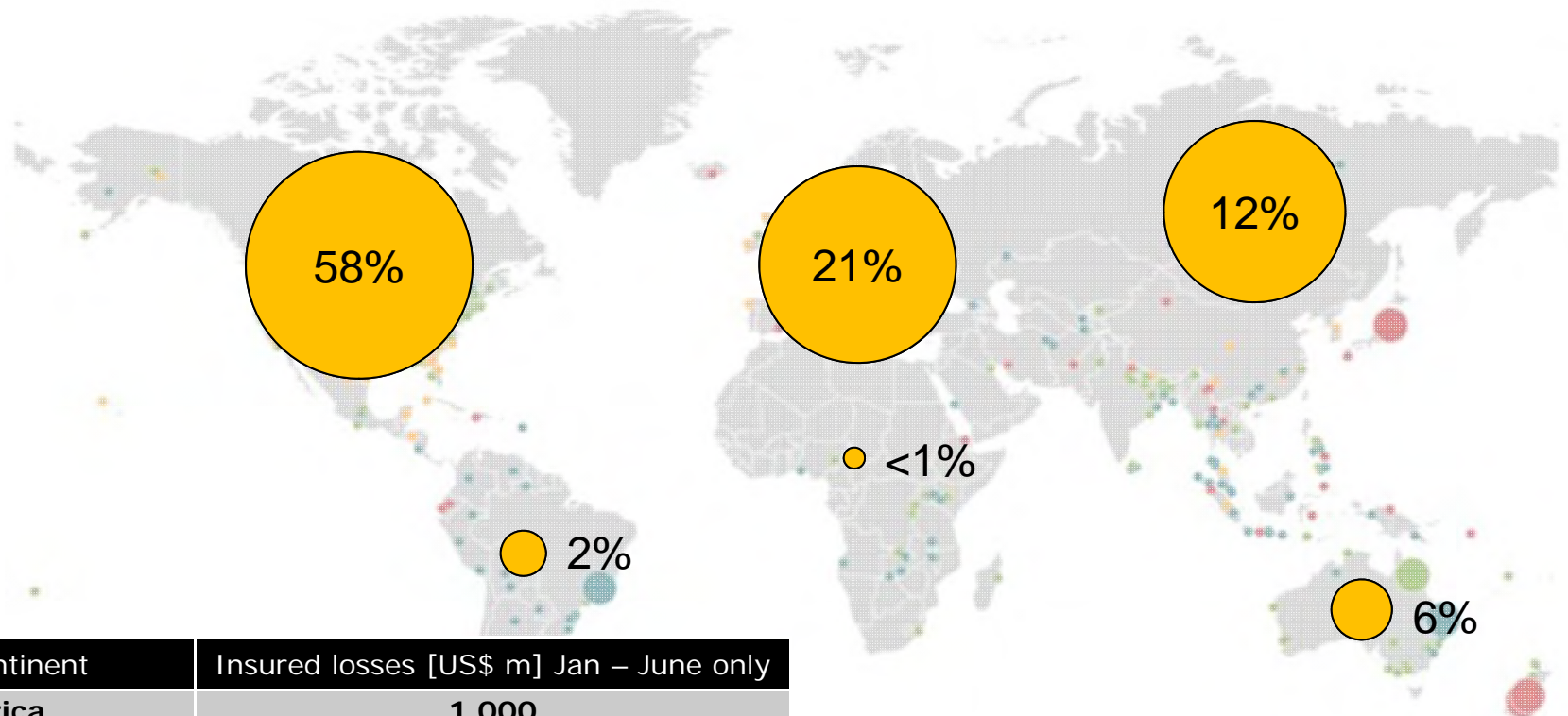


| Continent | Insured losses [US\$ m] in 2011 Jan - June |
|-------------------|---|
| Africa | minor |
| America | 17,800 |
| Asia | 30,080 |
| Australia/Oceania | 12,900 |
| Europe | 100 |

Worldwide Natural Disasters, 1980-2011

% Distribution of Insured Losses Per Continent (January – June only)

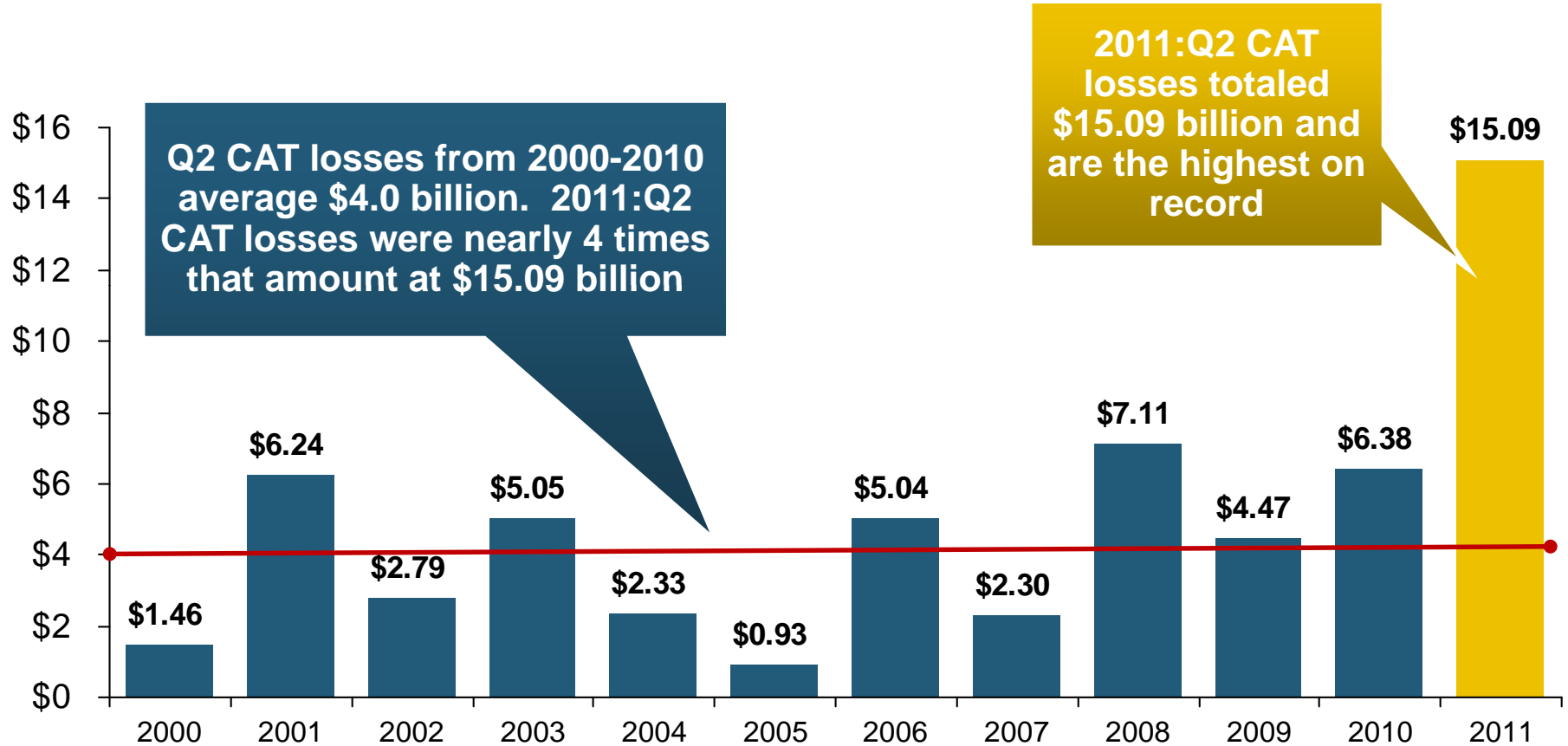
Insured losses 1980 - 2011 (January – June only): US\$ 389bn



| Continent | Insured losses [US\$ m] Jan – June only |
|-------------------|---|
| Africa | 1,000 |
| America | 237,200 |
| Asia | 45,100 |
| Australia/Oceania | 25,100 |
| Europe | 80,900 |

US Second Quarter Insured Catastrophe Losses, 2000–2011

\$ Billions



Record Q2 (and First Half) CAT Losses Will Adversely Impact Insurer Results in 2011

Top 15 Most Costly World Insurance Losses, 1970-2011*

(Insured Losses, 2010 Dollars, \$ Billions)



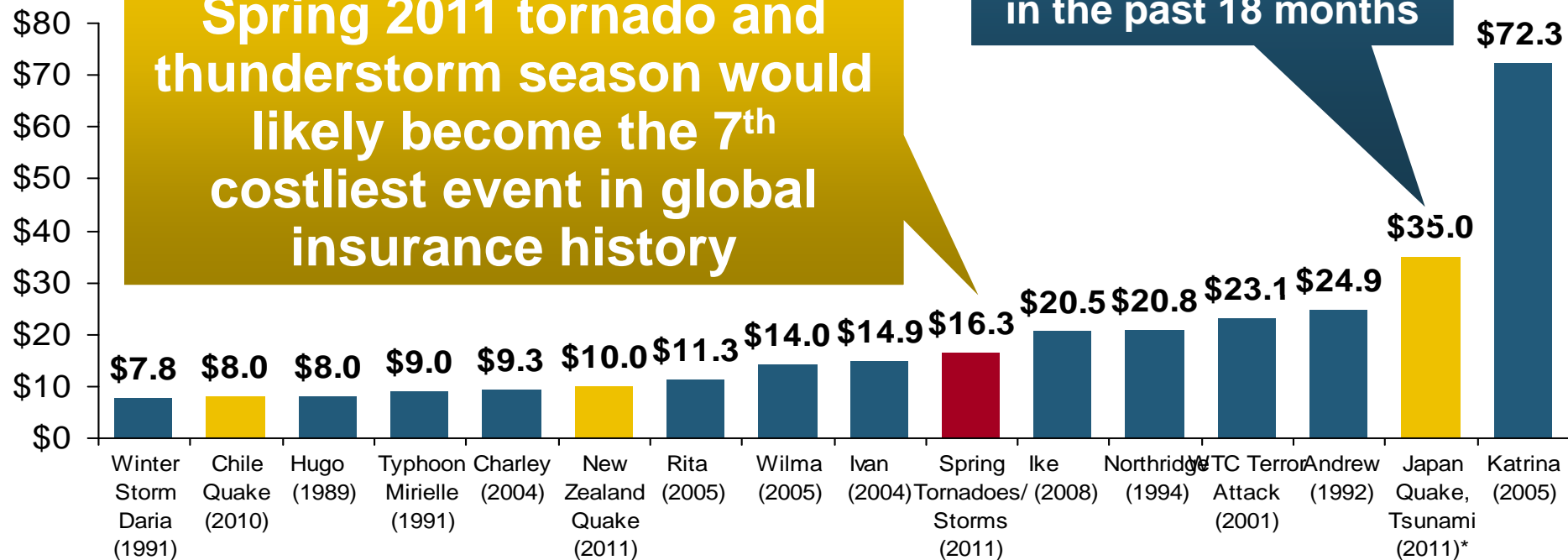
*Through June 20, 2011. 2011 disaster figures are estimates; Figures include federally insured flood losses, where applicable.
Sources: Swiss Re *sigma* 1/2011; AIR Worldwide, RMS, Eqecat; Insurance Information Institute.

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

(Insured Losses, 2010 Dollars, \$ Billions)

Taken as a single event, the Spring 2011 tornado and thunderstorm season would likely become the 7th costliest event in global insurance history

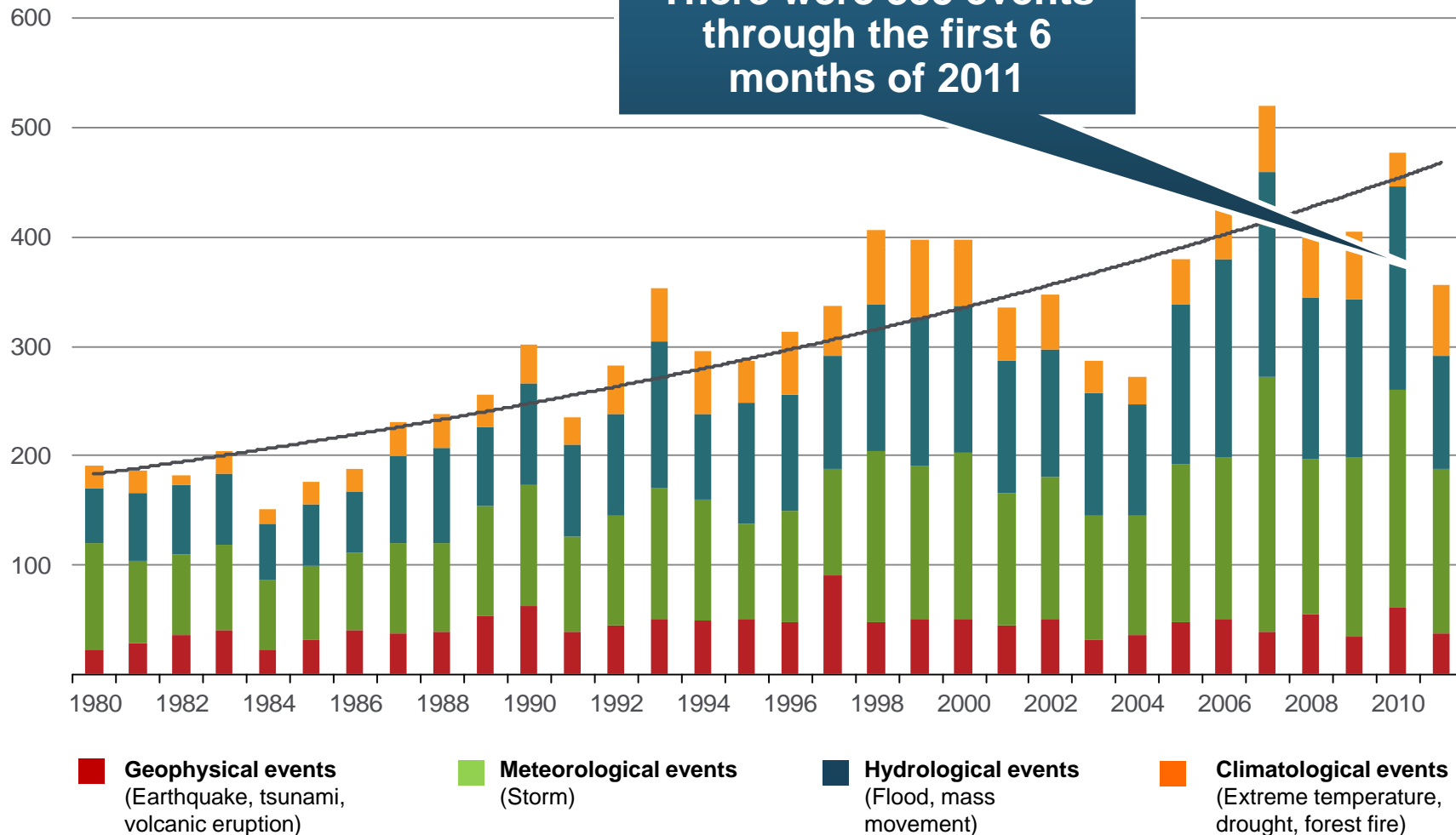
3 of the top 15 most expensive catastrophes in world history have occurred in the past 18 months



*Through June 20, 2011. 2011 disaster figures are estimates; Figures include federally insured flood losses, where applicable. Sources: Swiss Re *sigma* 1/2011; AIR Worldwide, RMS, Eqecat; Insurance Information Institute.

Worldwide Natural Disasters, 1980 – 2011*

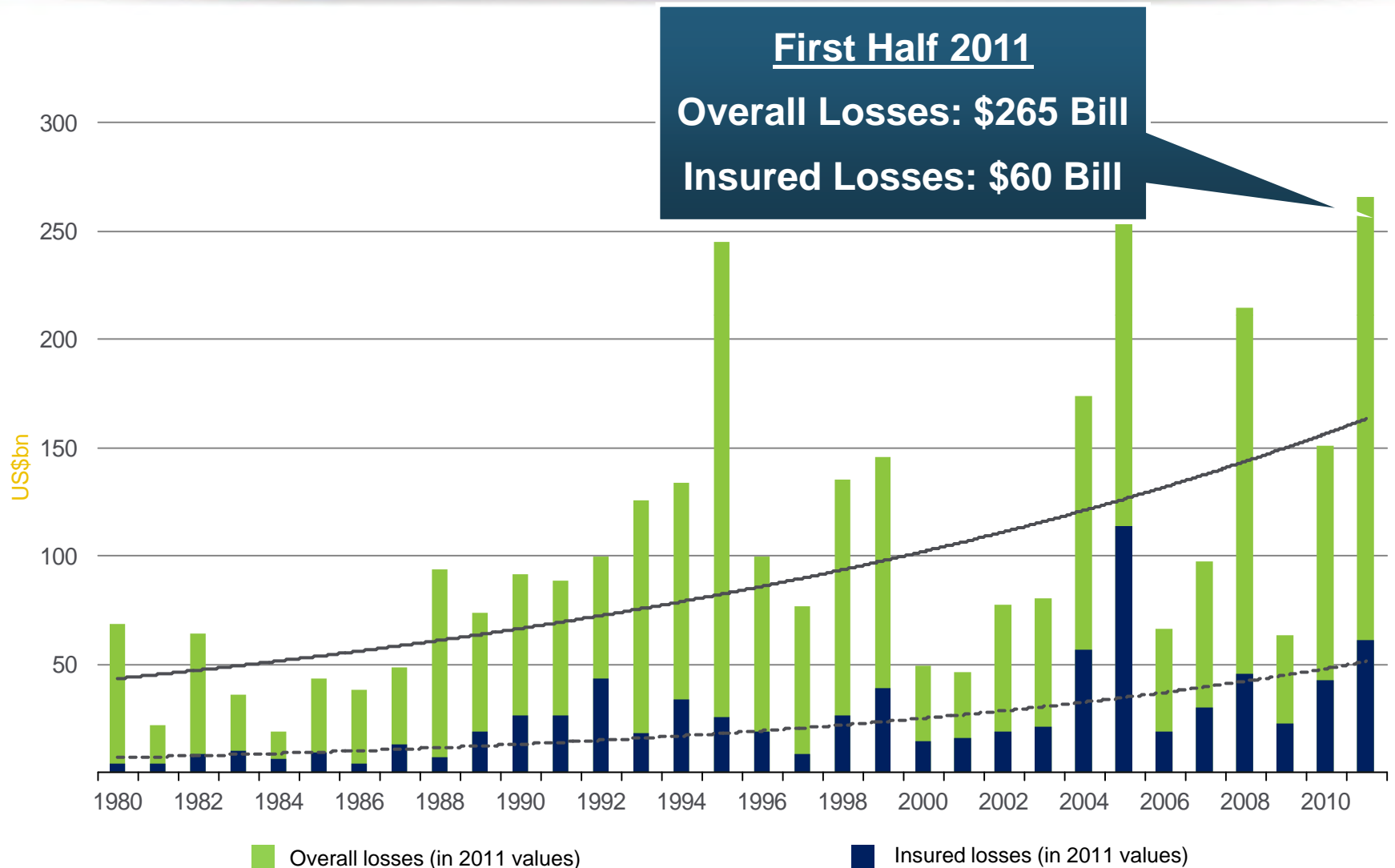
Number of Events



*2011 figure is through June 30.

Source: MR NatCatSERVICE

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



*2011 figure is through June 30.

Source: MR NatCatSERVICE

Global Property Catastrophe Rate on Line Index, 1990-2011 YTD (6/1/11)

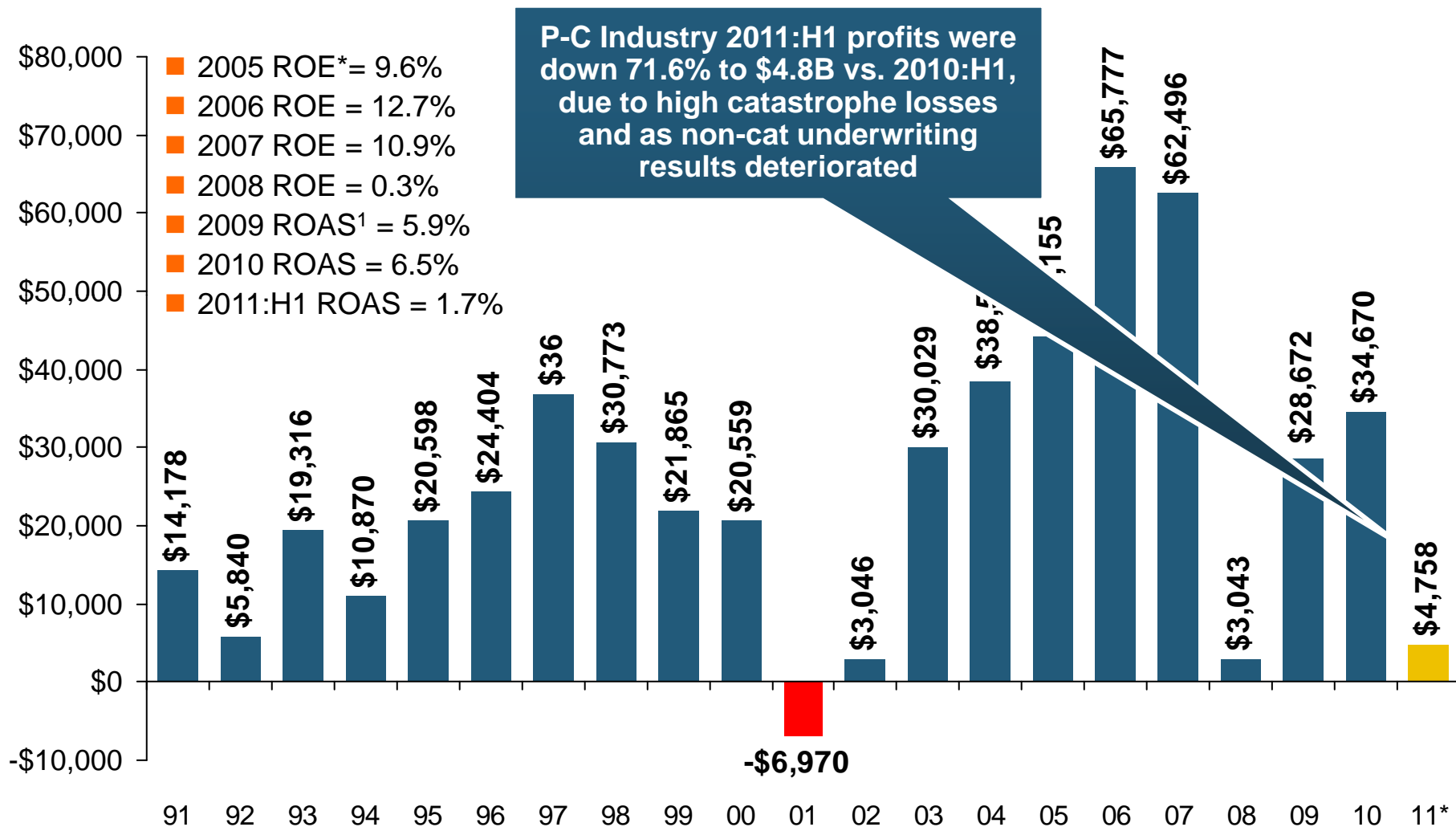
A modest increase in global property catastrophe reinsurance pricing was evident in June 1 renewals in the wake of record global catastrophe losses. Larger increase could occur for the Jan.1, 2012 renewals



P/C Insurance Industry Financial Overview

**Profit Recovery Will Be Set
Back by High CATs, Low
Interest Rates, Diminishing
Reserve Releases**

P/C Net Income After Taxes 1991–2011:H1 (\$ Millions)



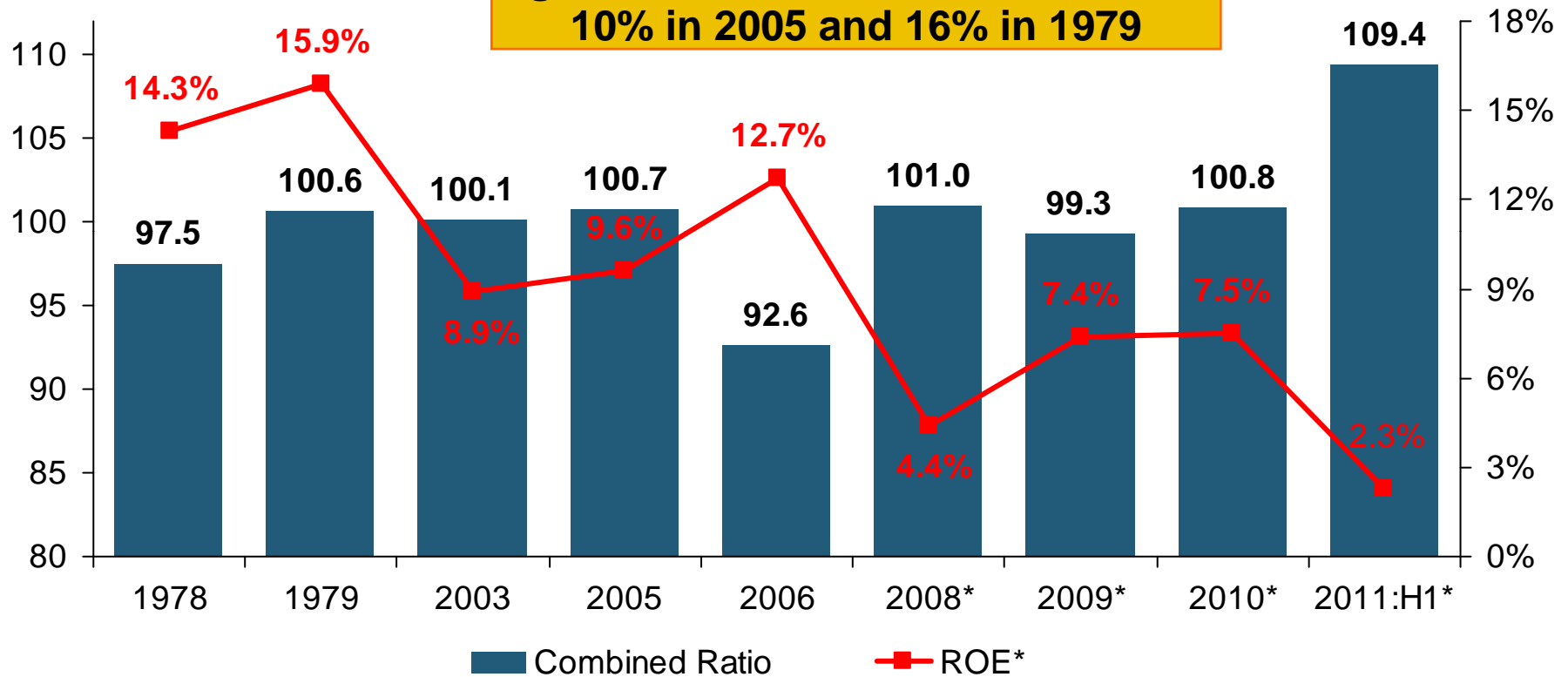
* ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 2.3% ROAS for 2011:H1, 7.5% for 2010 and 7.4% for 2009.

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 generated ~7.5% ROE in 2009/10, 10% in 2005 and 16% in 1979

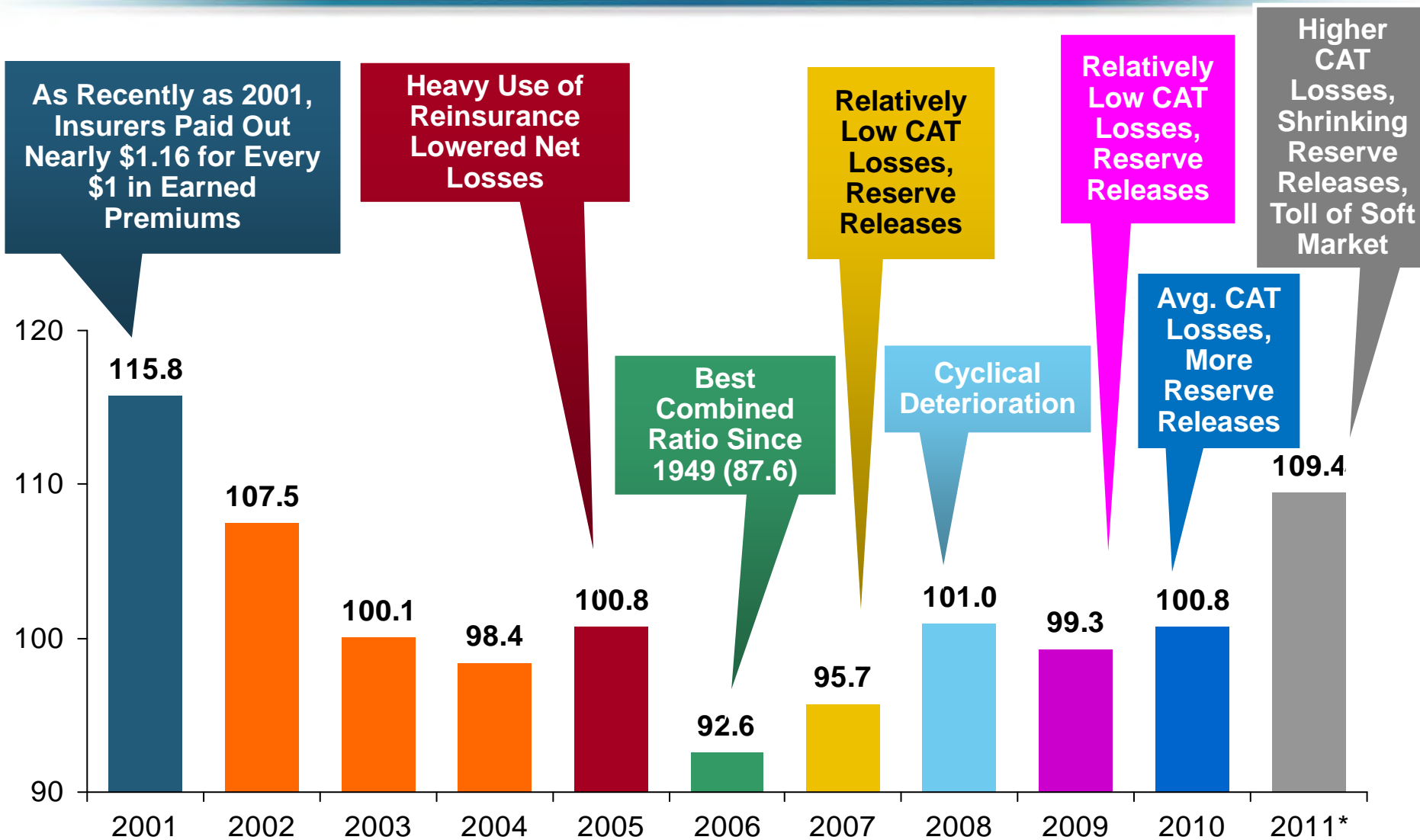


Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2009 and 2010 figures are return on average statutory surplus. 2008 -2011 figures exclude mortgage and financial guaranty insurers. 2011H1 combined ratio including M&FG insurers is 110.5 , ROAS = 2.3%.

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

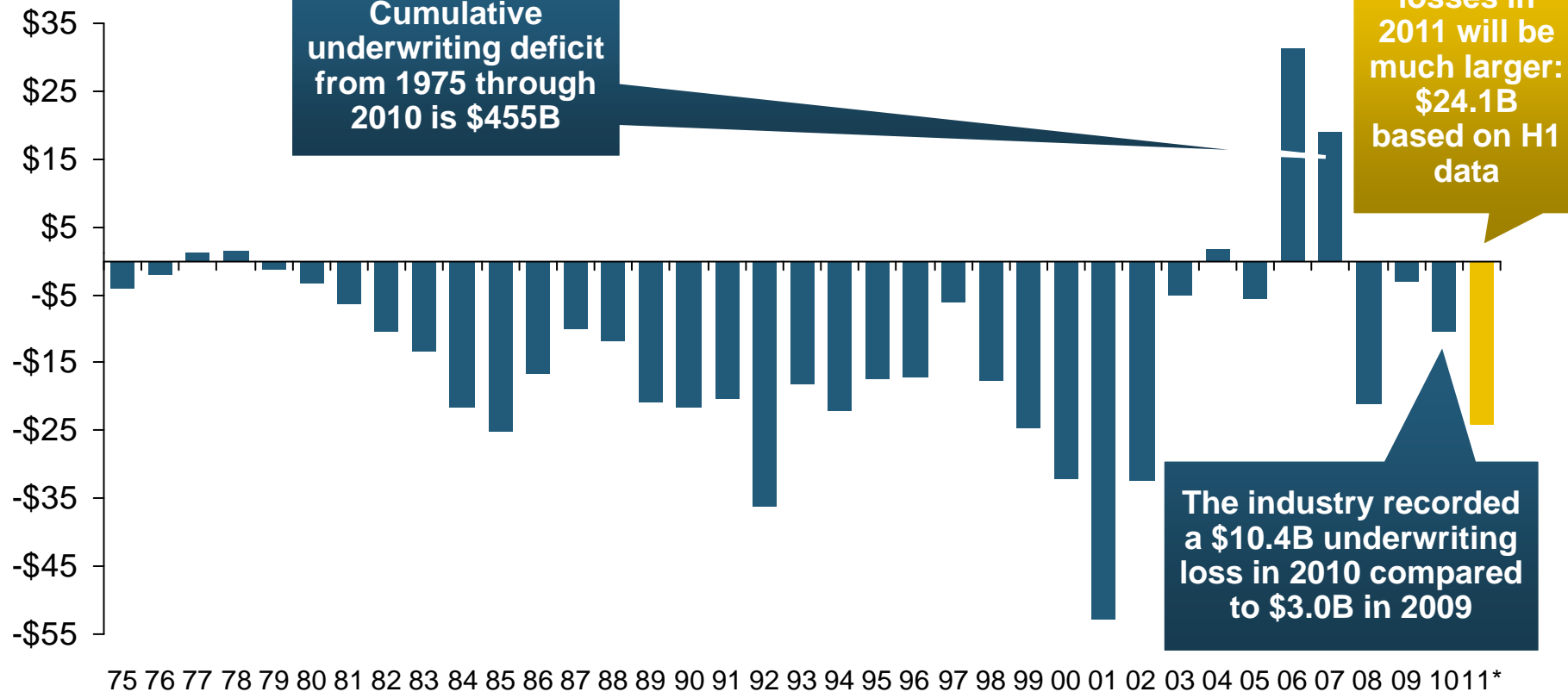
P/C Insurance Industry Combined Ratio, 2001–2011:H1*



* Excludes Mortgage & Financial Guaranty insurers 2008--2011. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=110.5
Sources: A.M. Best, ISO.; III Estimated for 2011:H1 (Q1 actual ex-M&FG was 102.2).

Underwriting Gain (Loss) 1975–2011*

(\$ Billions)



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

* Includes mortgage and financial guaranty insurers in all years. 2011 figure is actual H1 underwriting losses of \$24.098 billion.

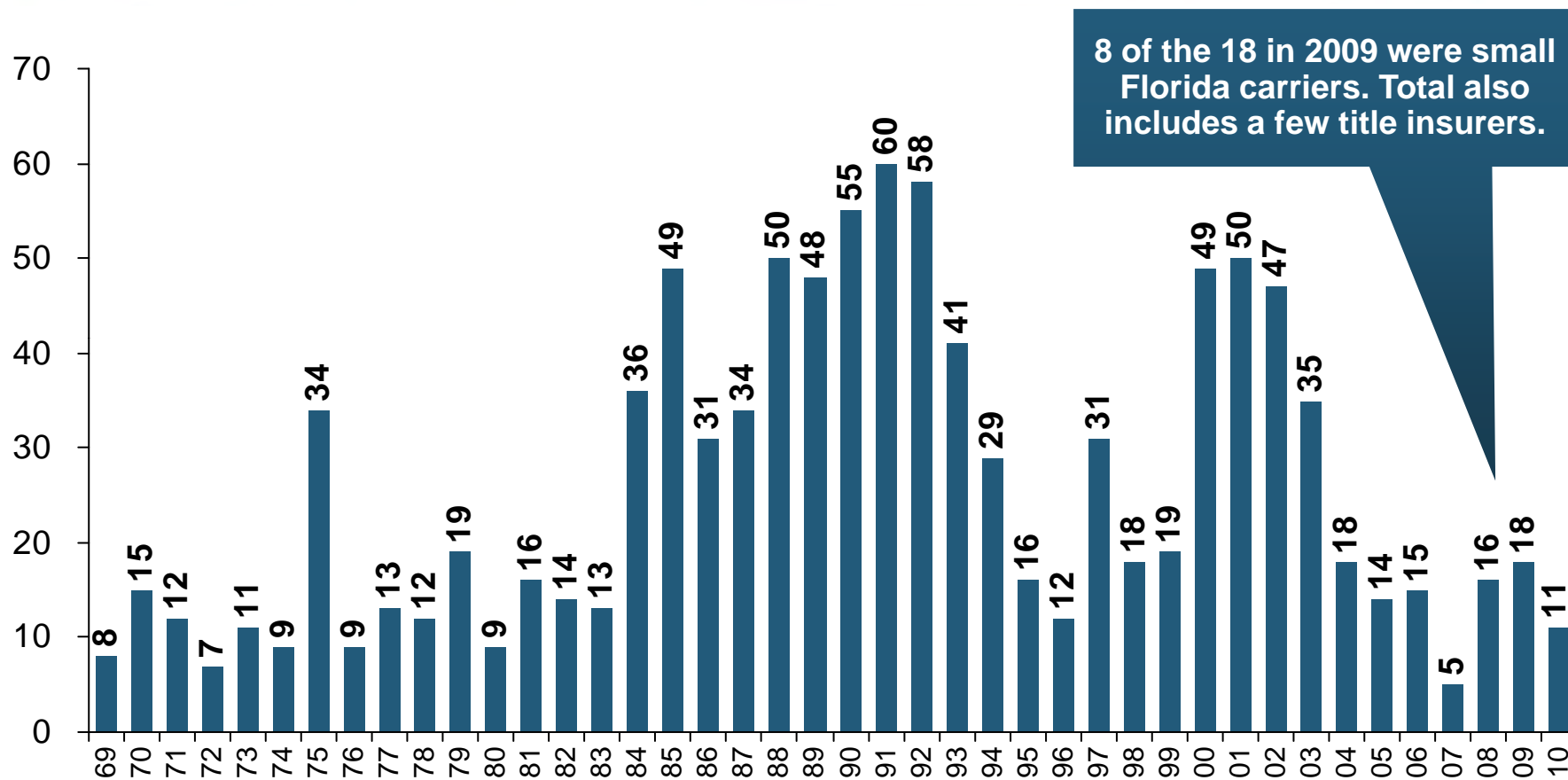
Sources: A.M. Best, ISO; Insurance Information Institute.



Financial Strength & Underwriting

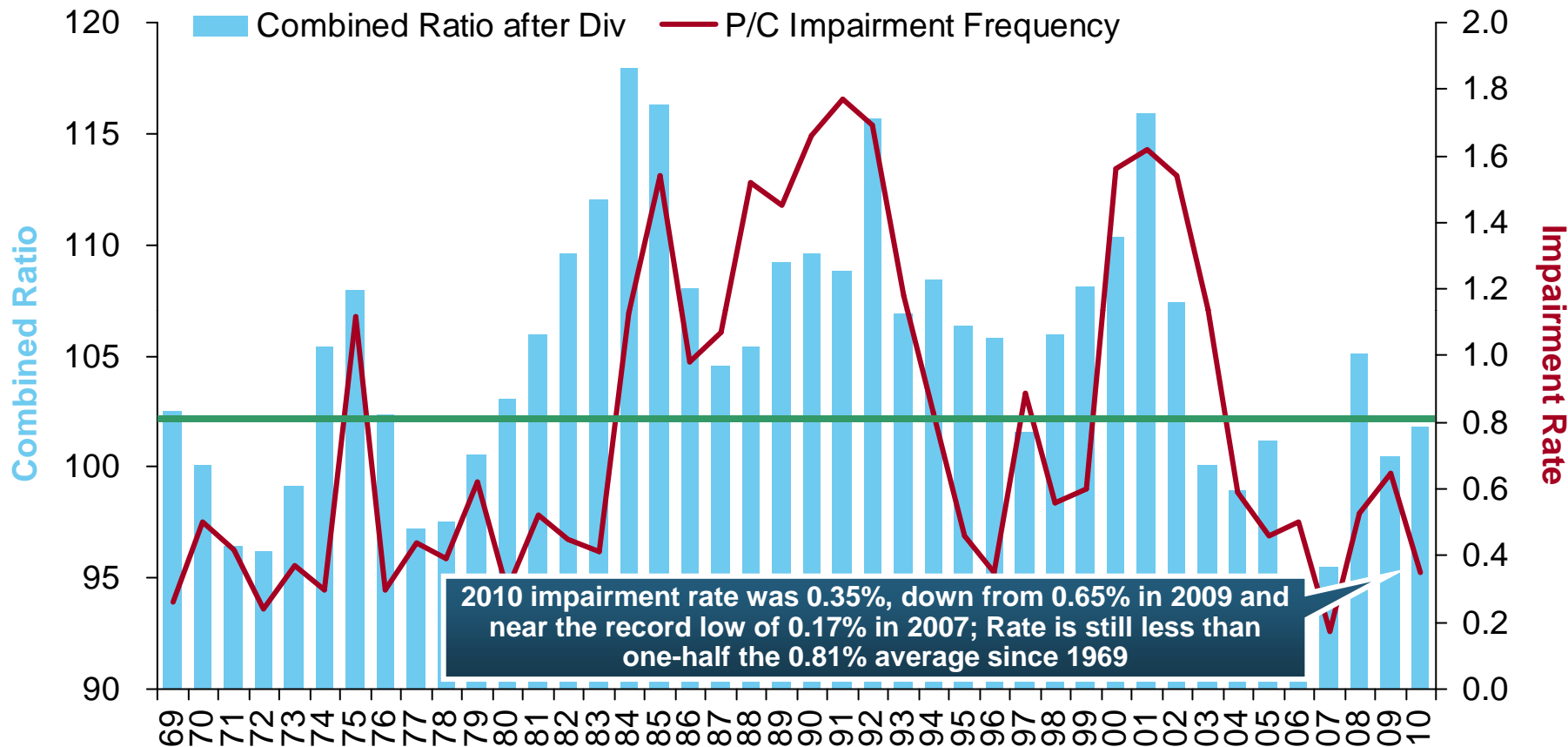
**Cyclical Pattern is P-C Impairment
History is Directly Tied to
Underwriting, Reserving & Pricing**

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

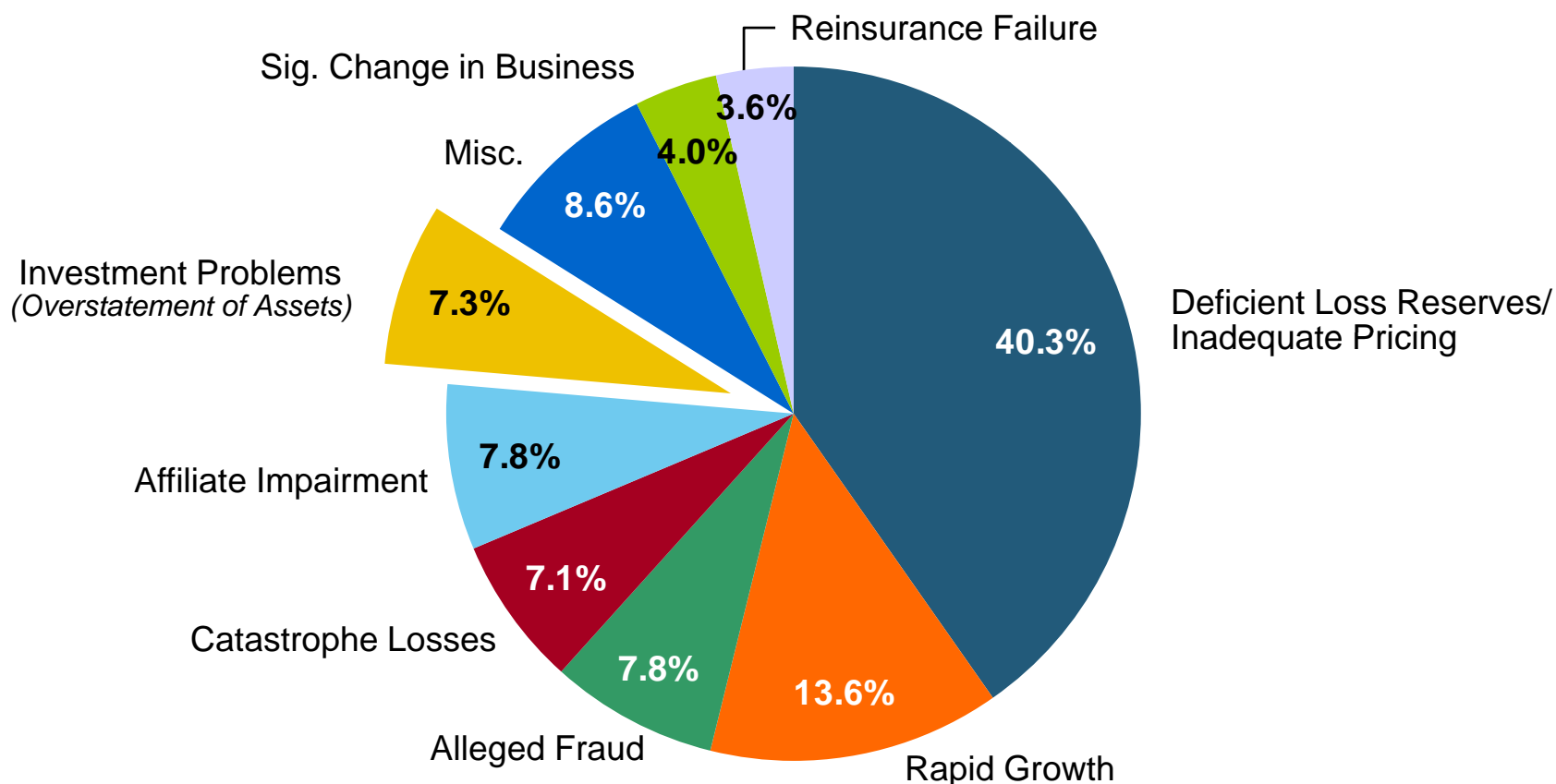
P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2010



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

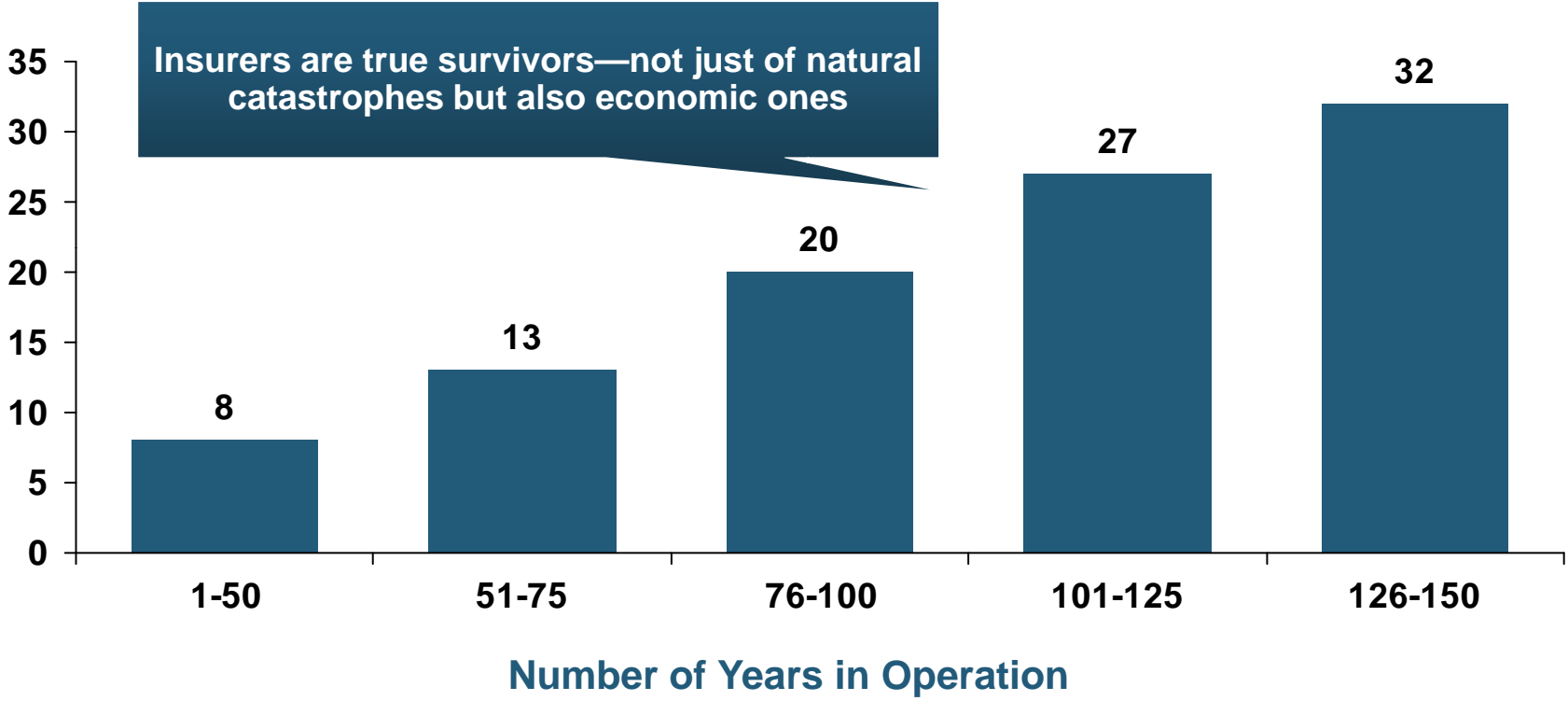
Reasons for US P/C Insurer Impairments, 1969–2010

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



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

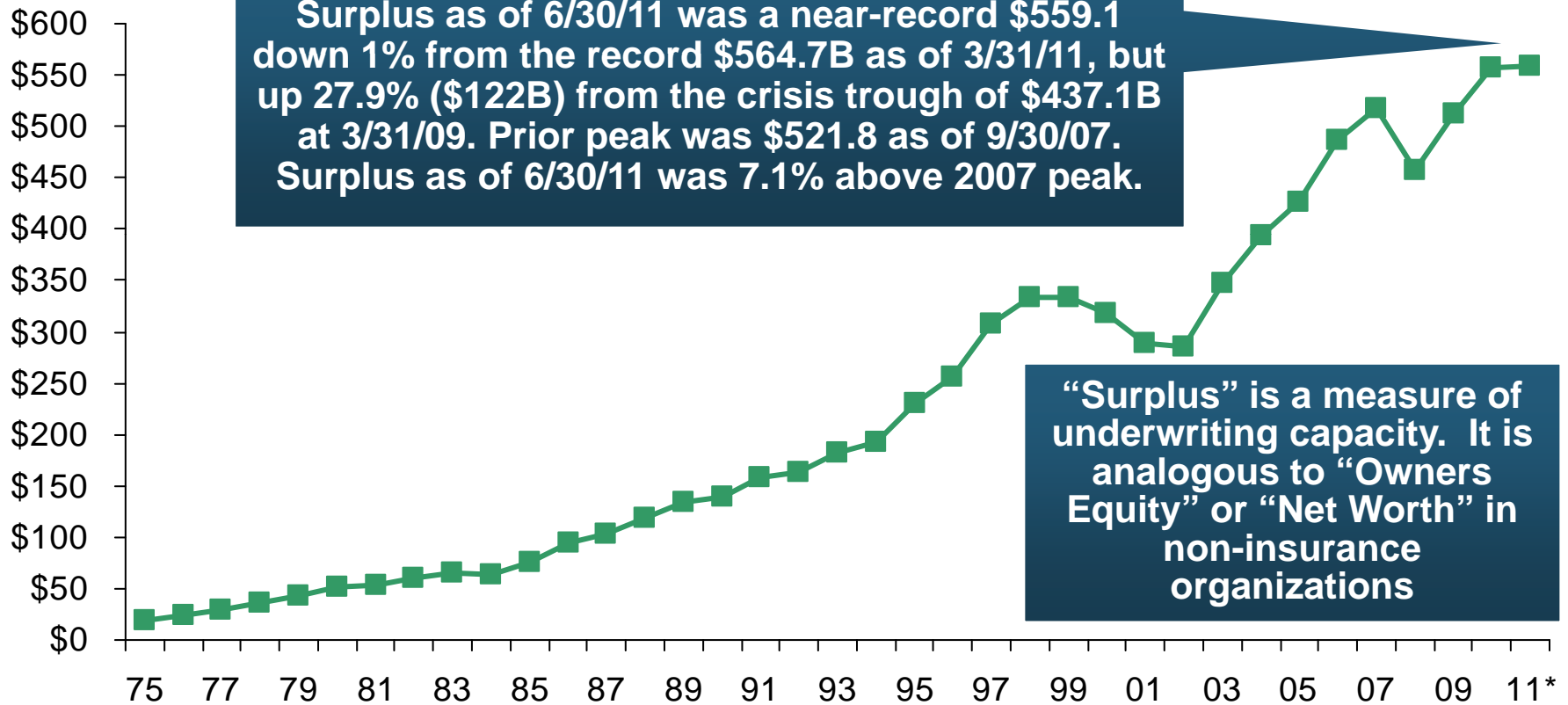
Sources: Insurance Information Institute research from National Bureau of Economic Research data.

SURPLUS/CAPITAL/CAPACITY

**Have Large Global Catastrophe
Losses Reduced Capacity in the
Industry, Setting the Stage for a
Market Turn?**

US Policyholder Surplus: 1975–2011*

(\$ Billions)

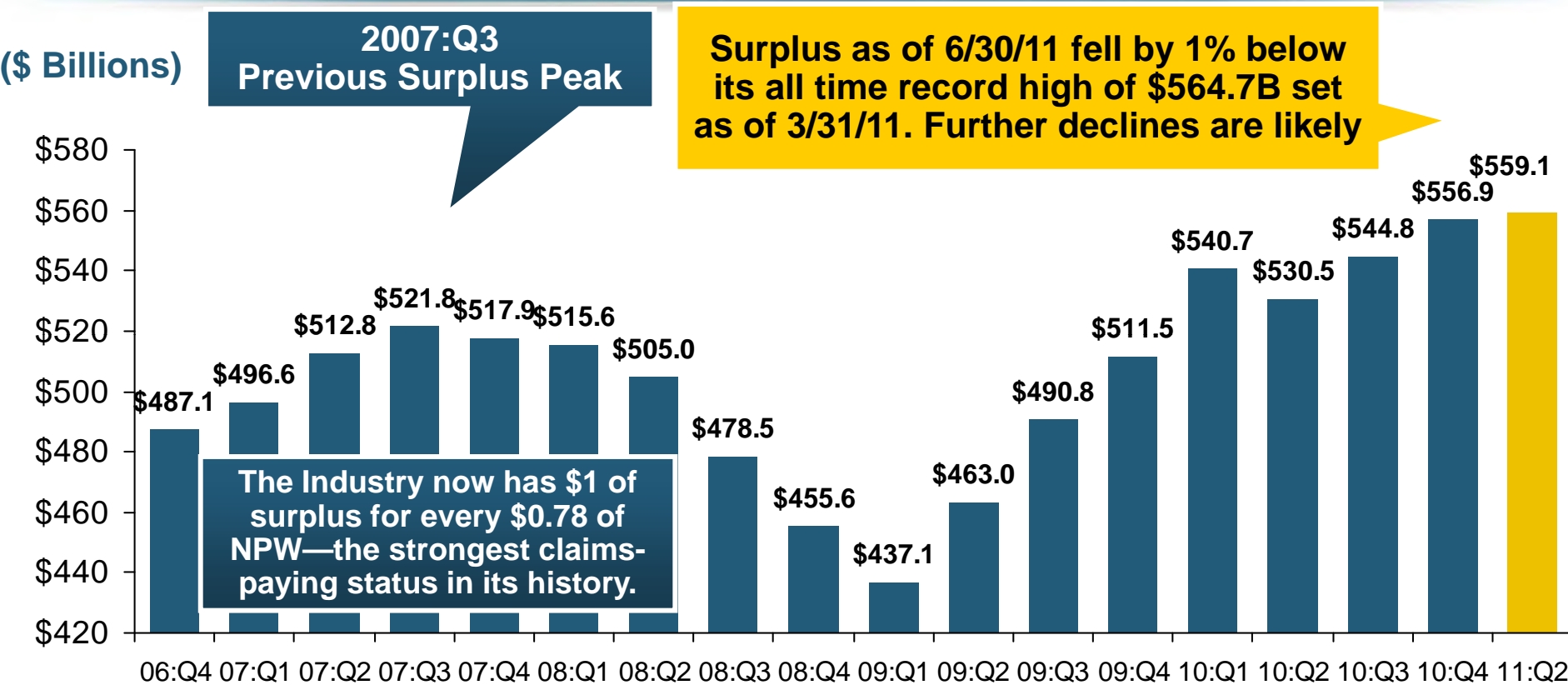


The Premium-to-Surplus Ratio Stood at \$0.78:\$1 as of 6/30/11, A Near Record Low (at Least in Recent History)**

* As of 6/30/11.

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

Policyholder Surplus, 2006:Q4–2011:Q2



Quarterly Surplus Changes Since 2007:Q3 Peak

| | |
|---------------------------------|--------------------------------|
| 09:Q1: -\$84.7B (-16.2%) | 10:Q2: +\$8.7B (+1.7%) |
| 09:Q2: -\$58.8B (-11.2%) | 10:Q3: +\$23.0B (+4.4%) |
| 09:Q3: -\$31.0B (-5.9%) | 10:Q4: +\$35.1B (+6.7%) |
| 09:Q4: -\$10.3B (-2.0%) | 11:Q1: +\$42.9B (+8.2%) |
| 10:Q1: +\$18.9B (+3.6%) | 11:Q2: +\$37.3B (+7.1%) |

*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.

Sources: ISO, A.M. Best.

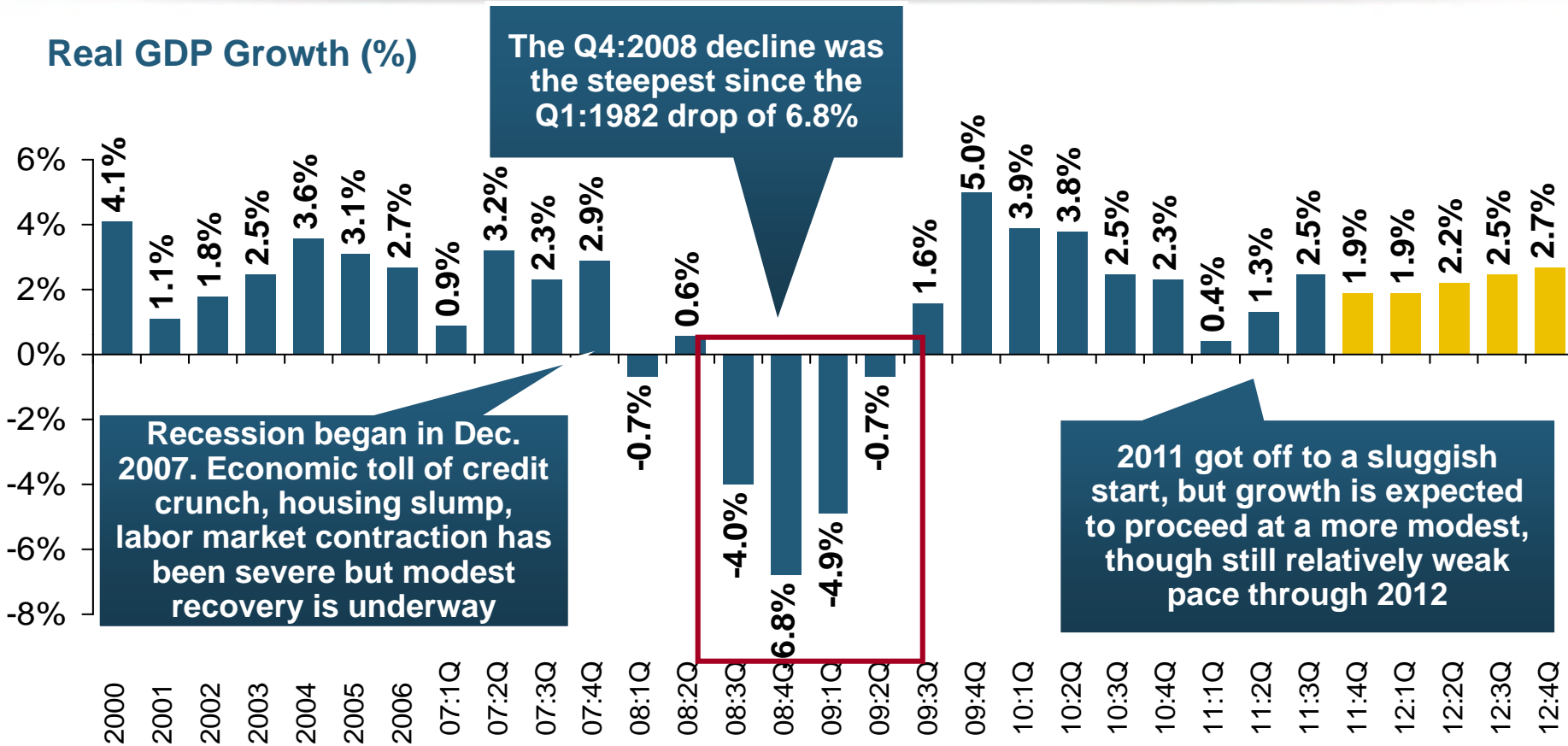


The Strength of the Economy Will Influence P/C Insurer Growth Opportunities

**Growth Would Also Help Absorb
Excess Capital**

US Real GDP Growth*

Real GDP Growth (%)

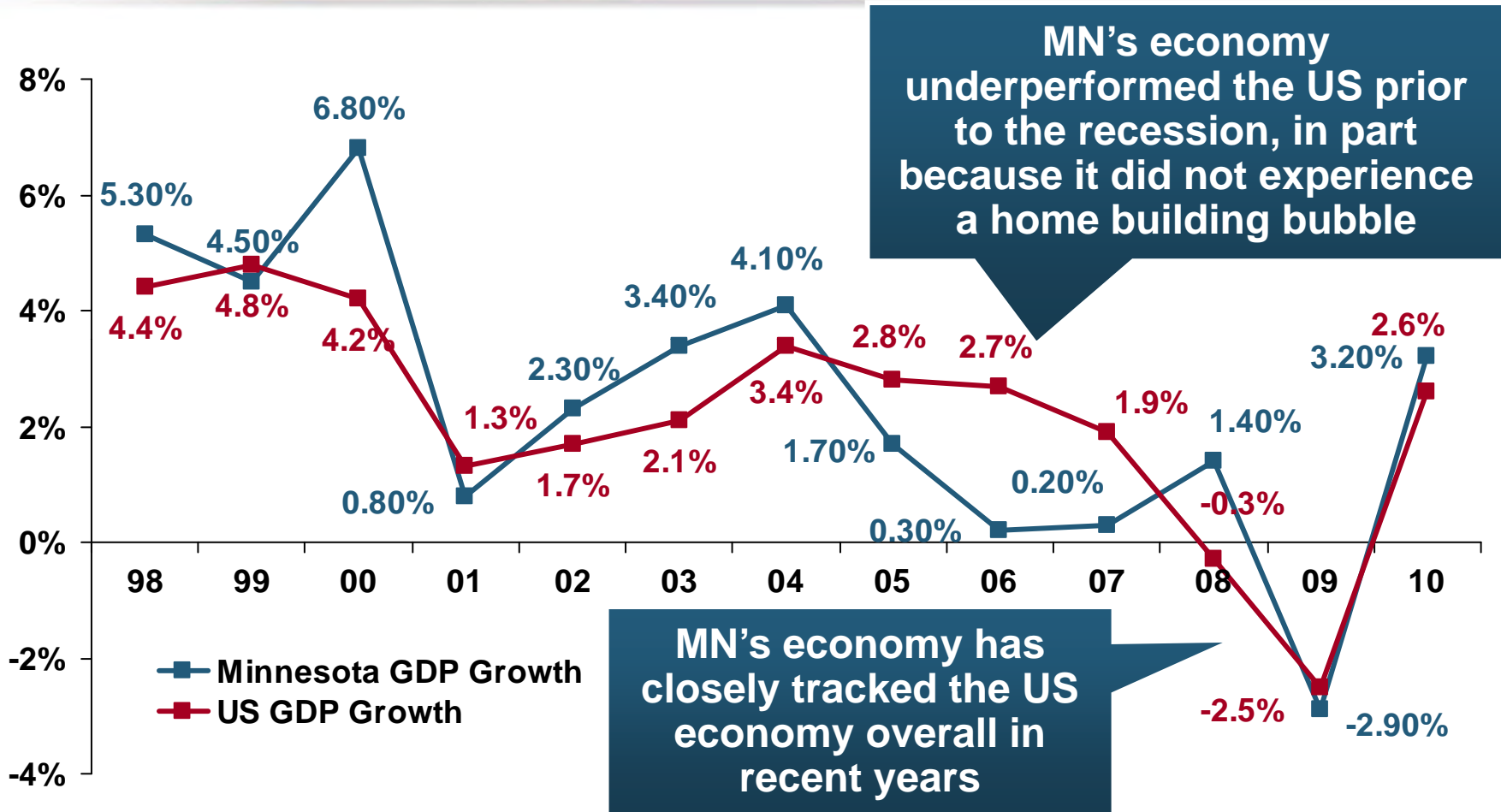


Demand for Insurance Continues To Be Impacted by Sluggish Economic Conditions, but the Benefits of Even Slow Growth Will Compound and Gradually Benefit the Economy Broadly

* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 10/11; Insurance Information Institute.

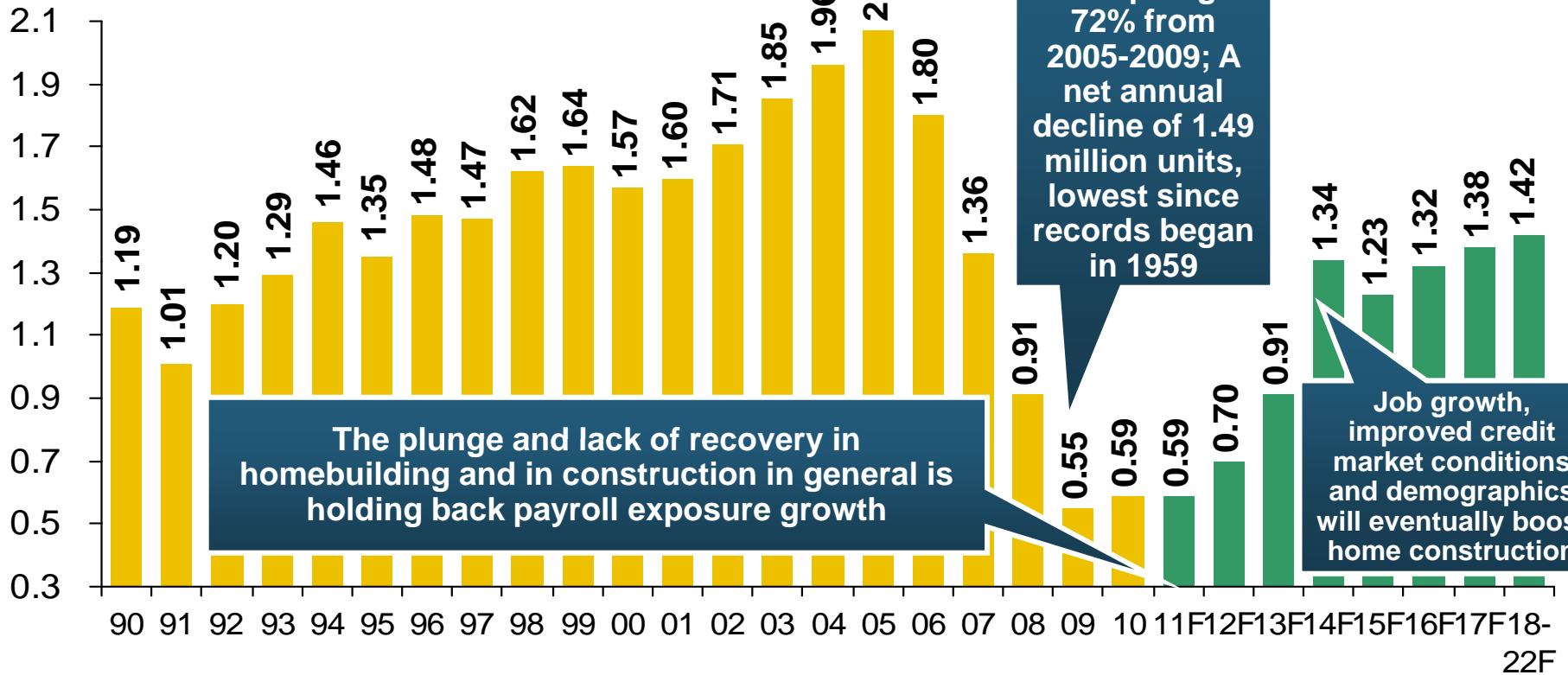
Real GDP Growth: Minnesota vs. US, 1998-2010



Florida's Dependence on the Construction Sector Will Cause it to Lag the Economic Recovery in the US Overall

New Private Housing Starts, 1990-2022F

(Millions of Units)



The plunge and lack of recovery in homebuilding and in construction in general is holding back payroll exposure growth

New home starts plunged 72% from 2005-2009; A net annual decline of 1.49 million units, lowest since records began in 1959

Job growth, improved credit market conditions and demographics will eventually boost home construction

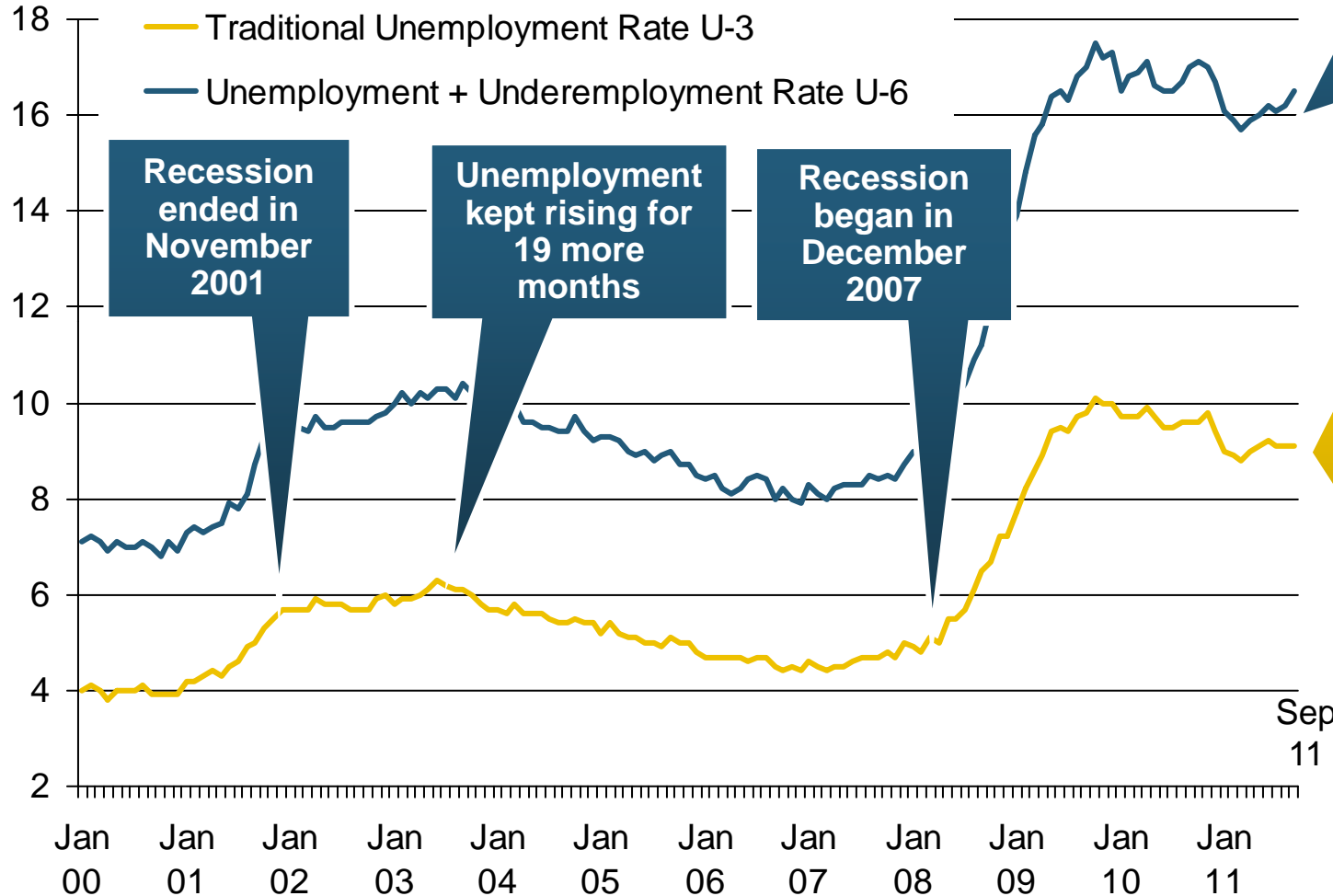
Little Exposure Growth Likely for Homeowners Insurers Until 2014. Also Affects Commercial Insurers with Construction Risk Exposure, Surety

Labor Market Trends

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

Unemployment and Underemployment Rates: Stubbornly High in 2011

January 2000 through September 2011, Seasonally Adjusted (%)



U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 16.5% in Sept. 2011

Unemployment stood at 9.1% in September

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

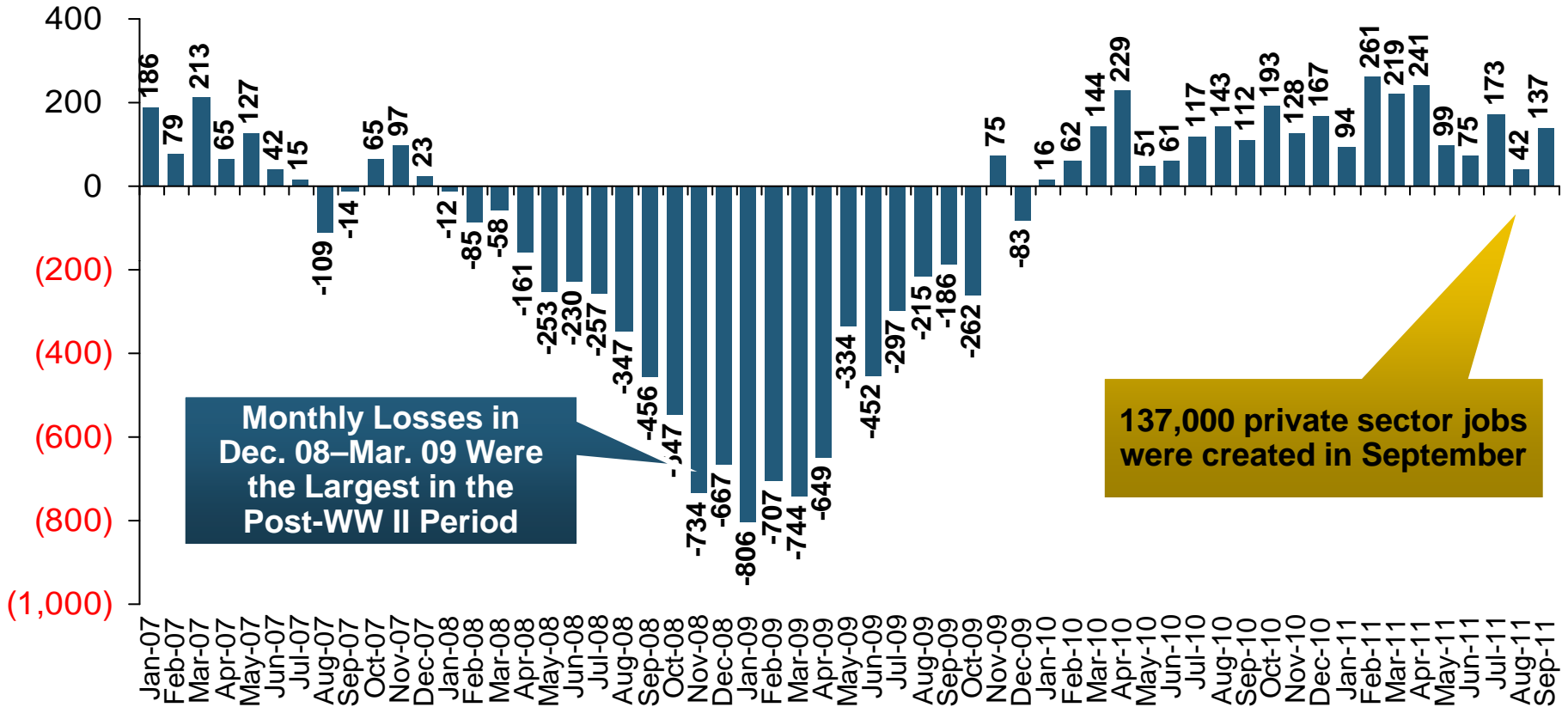
Peak rate in the last 30 years: 10.8% in November - December 1982

Stubbornly high unemployment and underemployment will constrain overall economic growth

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

Monthly Change in Private Employment

January 2008 through September 2011* (Thousands)



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

137,000 private sector jobs were created in September

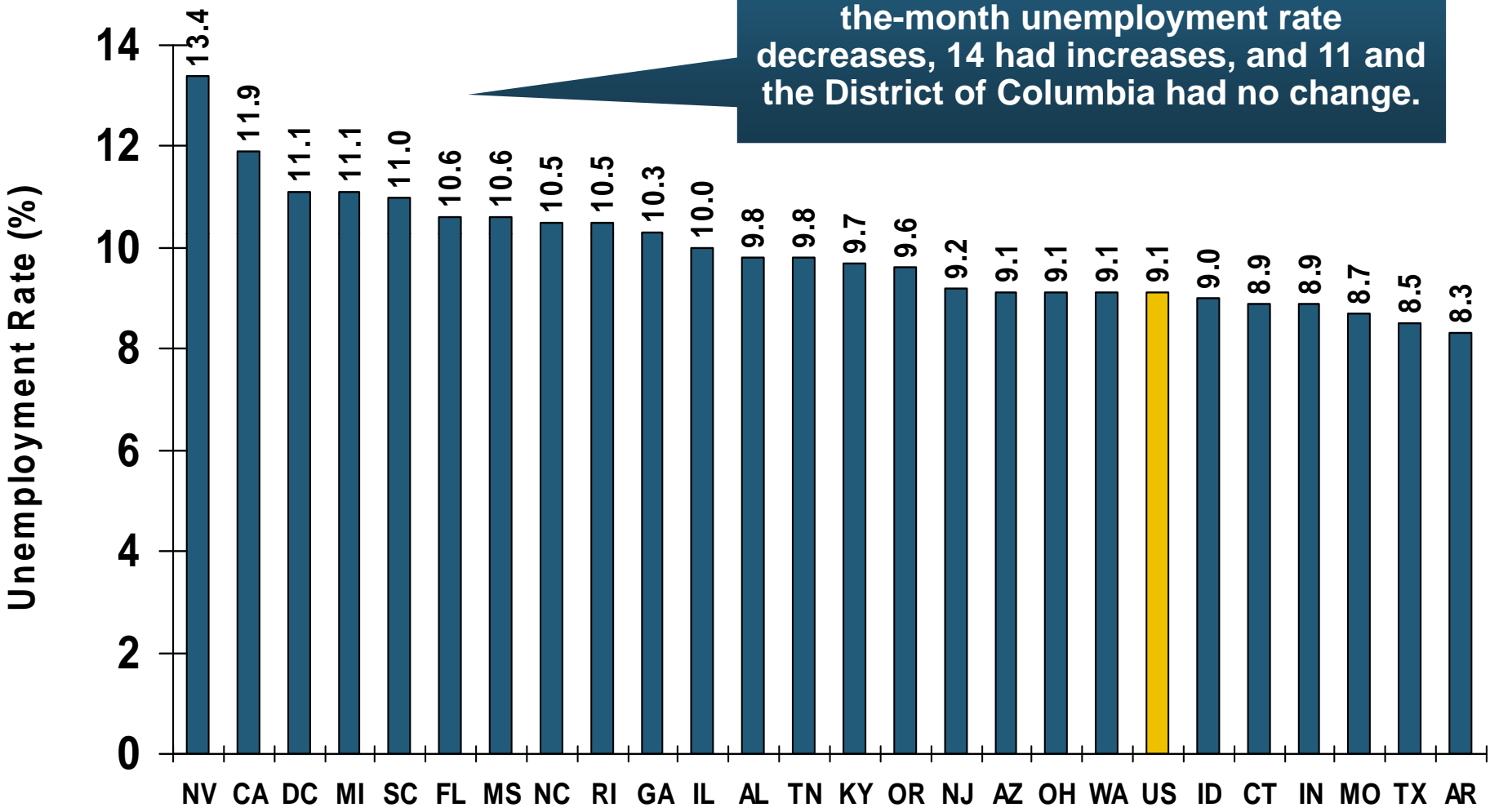
Private Employers Added 2.764 million Jobs Since Jan. 2010 After Having Shed 4.66 Million Jobs in 2009 and 3.81 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

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

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



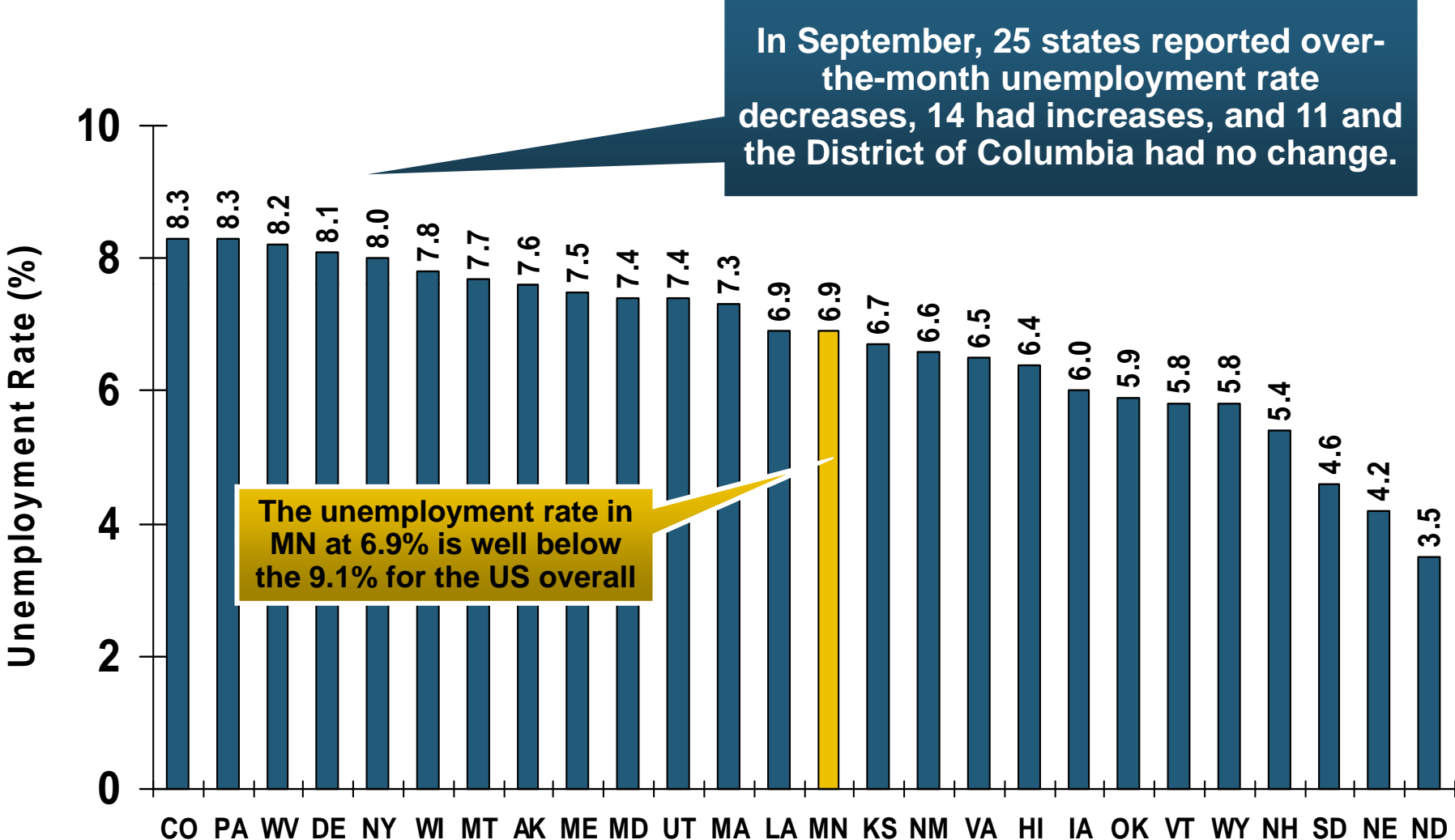
In September, 25 states reported over-the-month unemployment rate decreases, 14 had increases, and 11 and the District of Columbia had no change.



*Provisional figures for September 2011, seasonally adjusted.

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

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



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

Insurance Information Institute Online:

www.iii.org

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and your attention!*

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