



# **Personal Lines P-C Insurance Markets: *Trends, Challenges & Opportunities for 2012 & Beyond***

**NAMIC Personal Lines Seminar  
Orlando, FL  
April 11, 2012**

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- **Personal Lines Growth Overview**
  - ◆ Auto, Home: US and by State
  - ◆ Average Premium/Expenditures
- **Personal Lines Growth Drivers**
  - ◆ Exposure, Pricing Factors
- **Personal Lines Profitability Analysis**
- **Catastrophe Loss Trends: US & Global Impacts**
- **Reinsurance Market Overview & Outlook**
- **Cyclical Drivers in Personal Lines**
  - ◆ Loss as a Cyclical Driver
- **Private Passenger Auto Performance**
- **Distribution Trends**
- **P/C Financial Overview & Outlook: The Role of Cyclicity**
  - ◆ Profitability
  - ◆ Premium Growth
  - ◆ Capital, Capacity and Financial Strength
  - ◆ Underwriting Performance
  - ◆ Investment Performance
- **Financial Crisis, Recession & Recovery: P/C Insurer Impacts**
- **Regulatory Environment “Report Card”**
- **Q&A**

# **Personal Lines Growth Analysis**

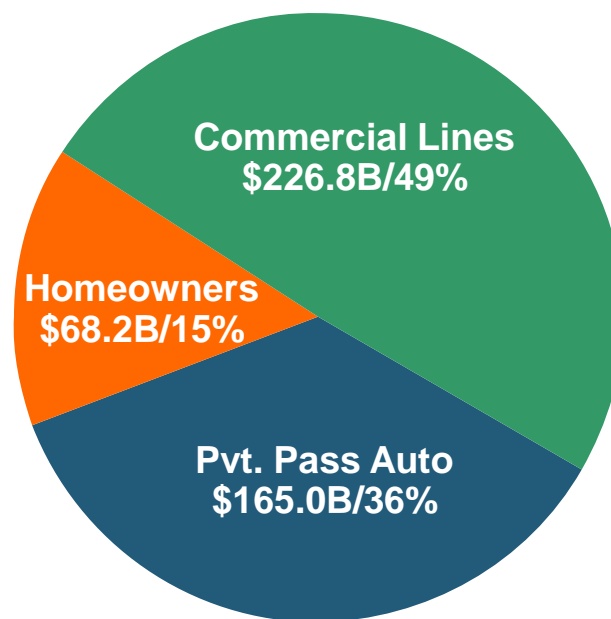
**Growth Trajectories Differ  
Substantially by Line, by  
State and Over Time**

# Distribution of Direct Premiums Written by Segment/Line, 2010

## Distribution Facts

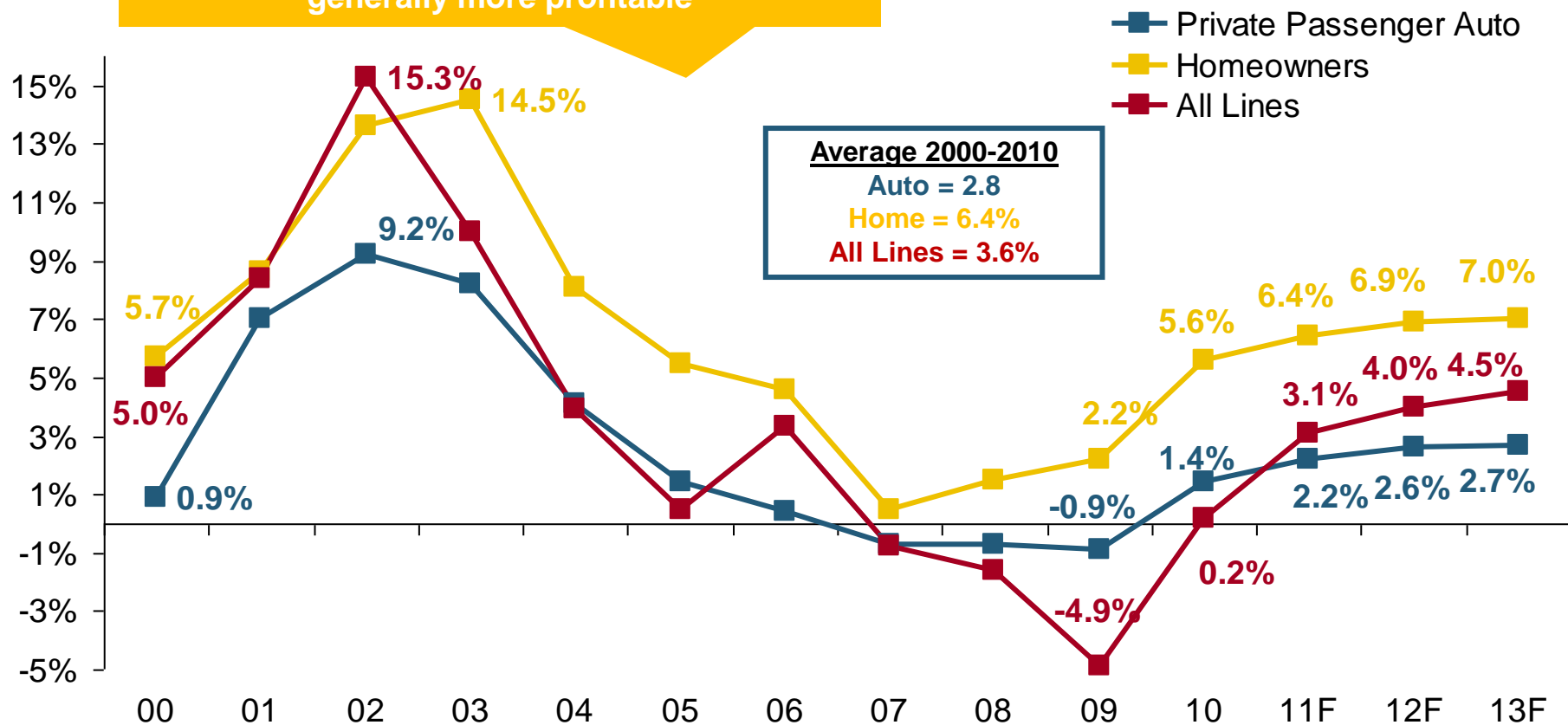
- Personal/Commercial lines split has been about 50/50 for many years; Personal Lines overtook Commercial Lines in 2010
- Pvt. Passenger Auto is by far the largest line of insurance and is currently the most important source of industry profits
- Billions of additional dollars in homeowners insurance premiums are written by state-run residual market plans

2010



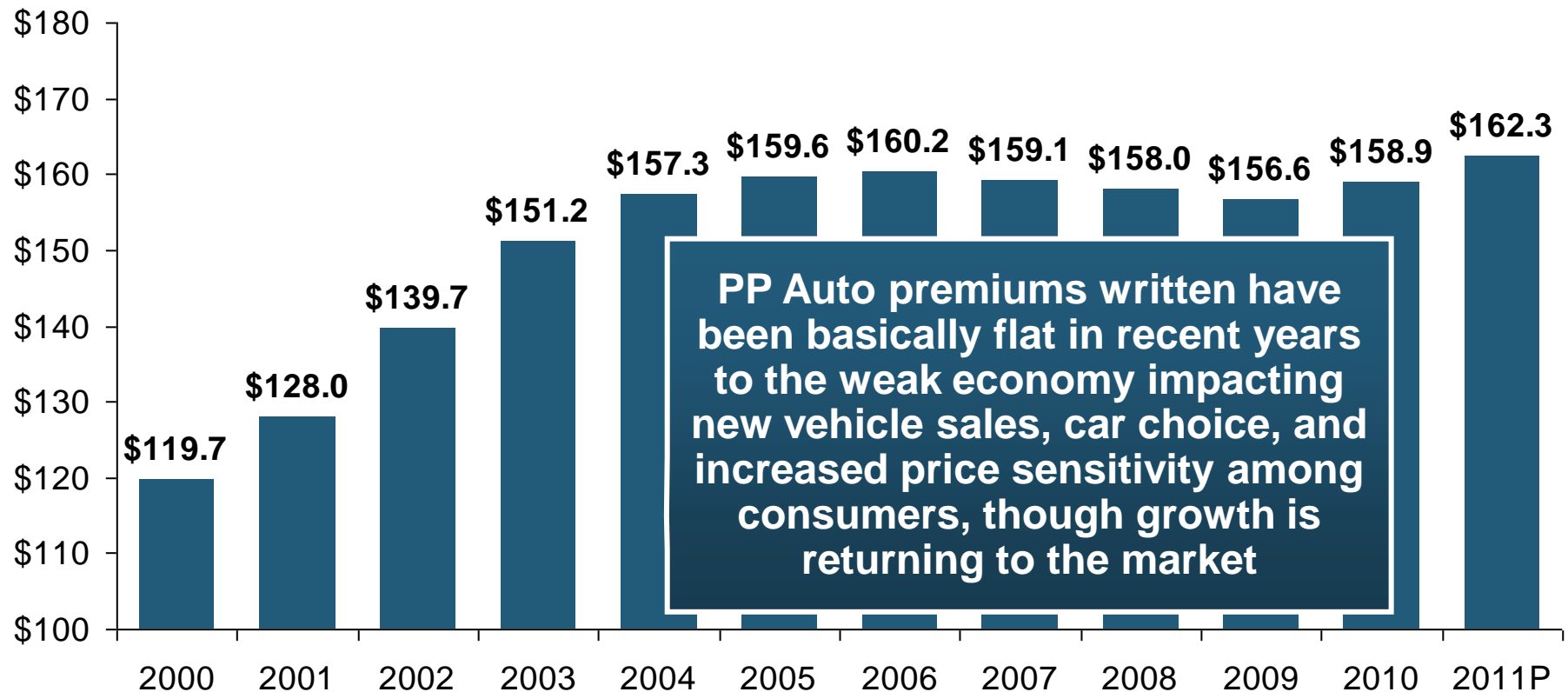
# Auto & Home vs. All Lines, Net Written Premium Growth, 2000–2013F

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



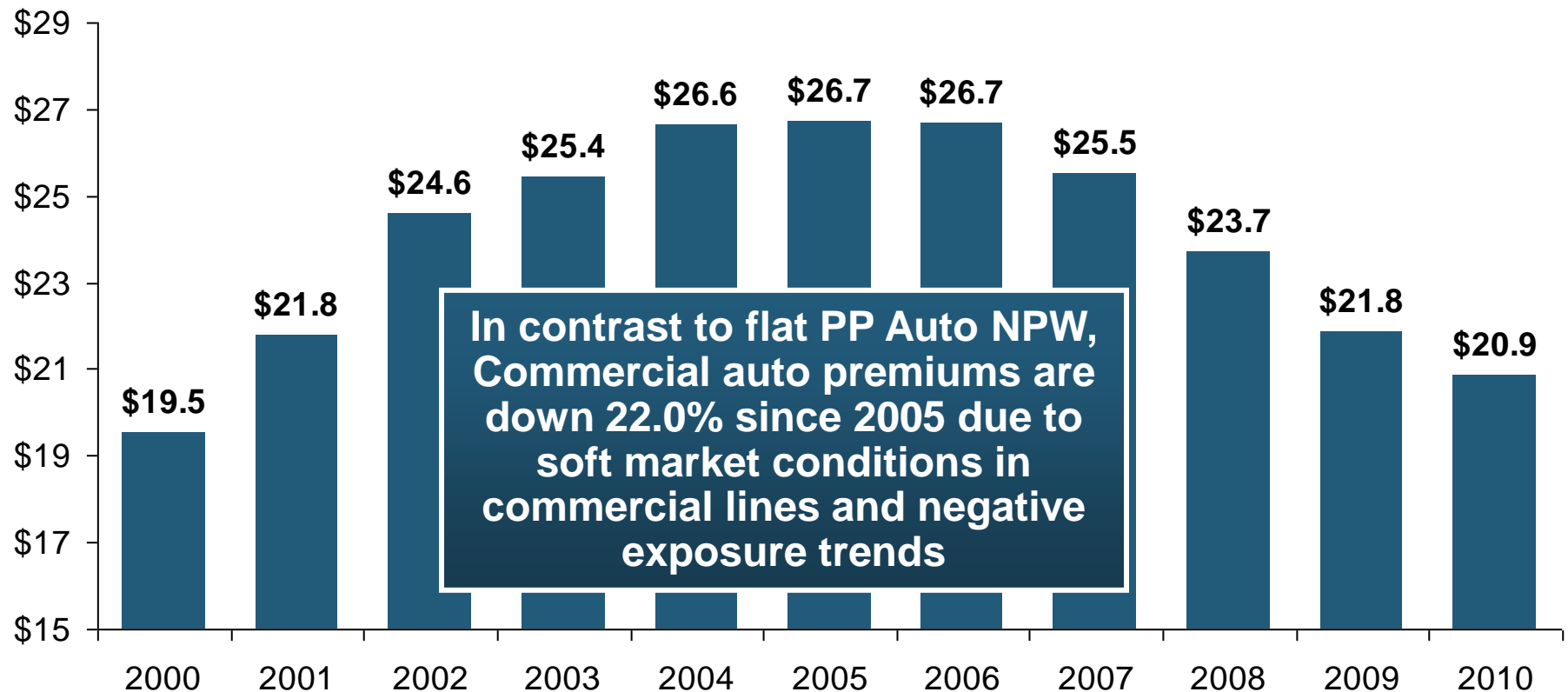
# Private Passenger Auto Insurance Net Written Premium, 2000–2011P

\$ Billion



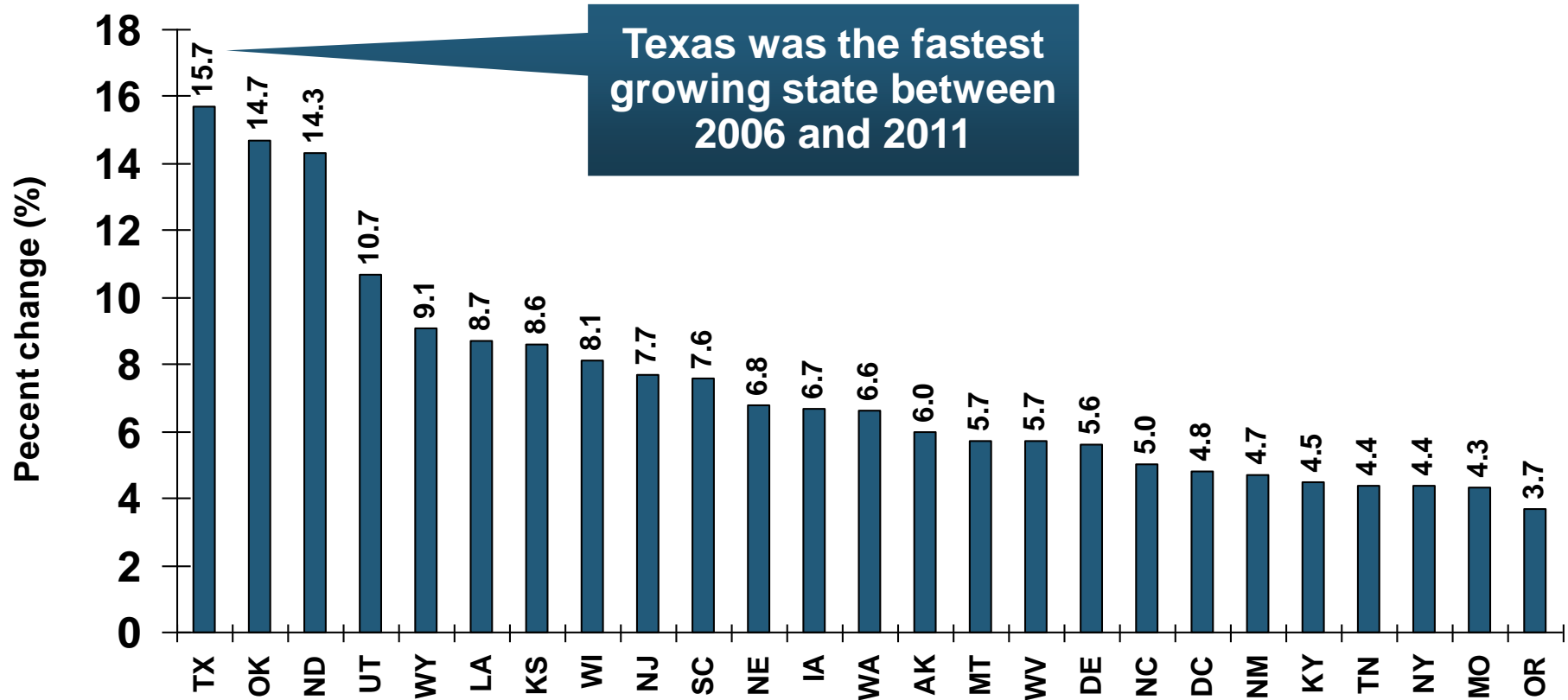
# Commercial Auto Insurance Net Written Premium, 2000–2010

\$ Billion



# Direct Premiums Written: Auto Percent Change by State, 2006-2011

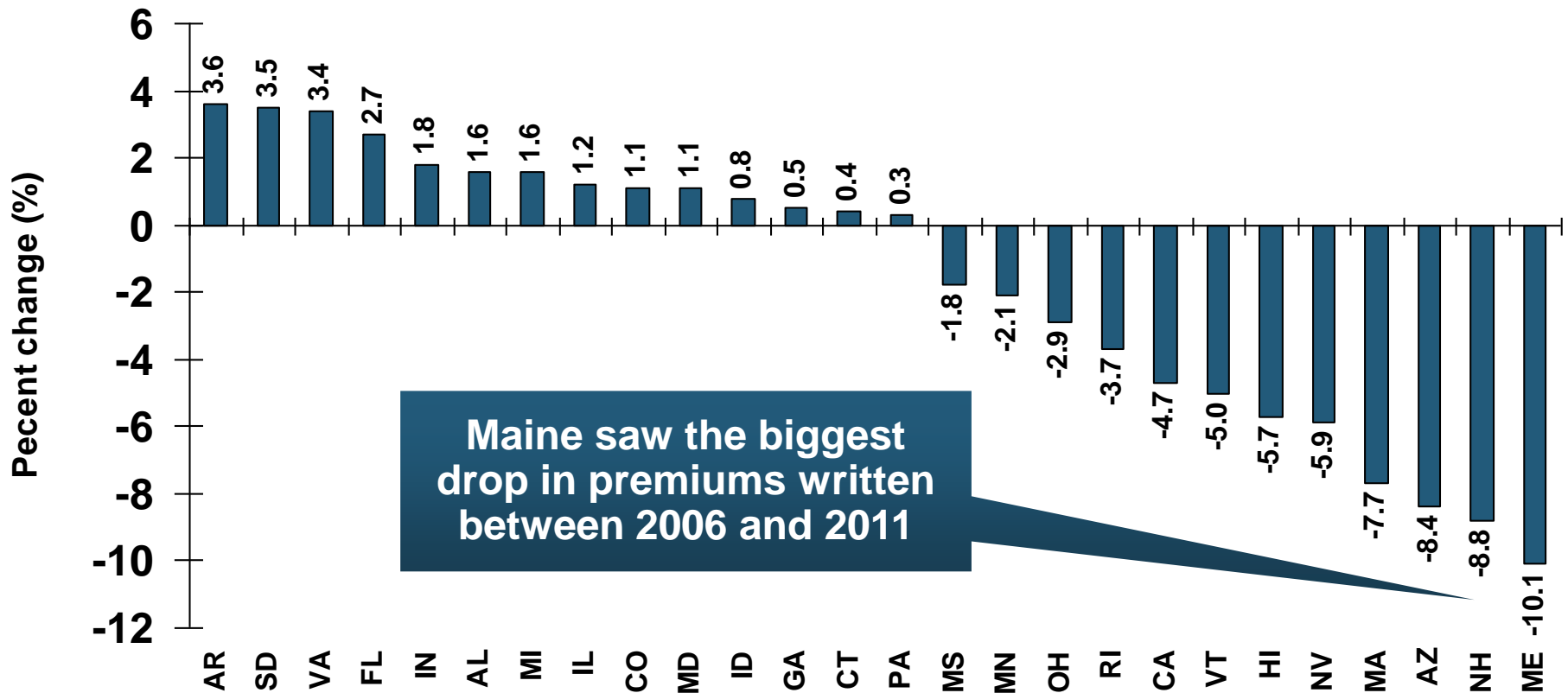
## Top 25 States





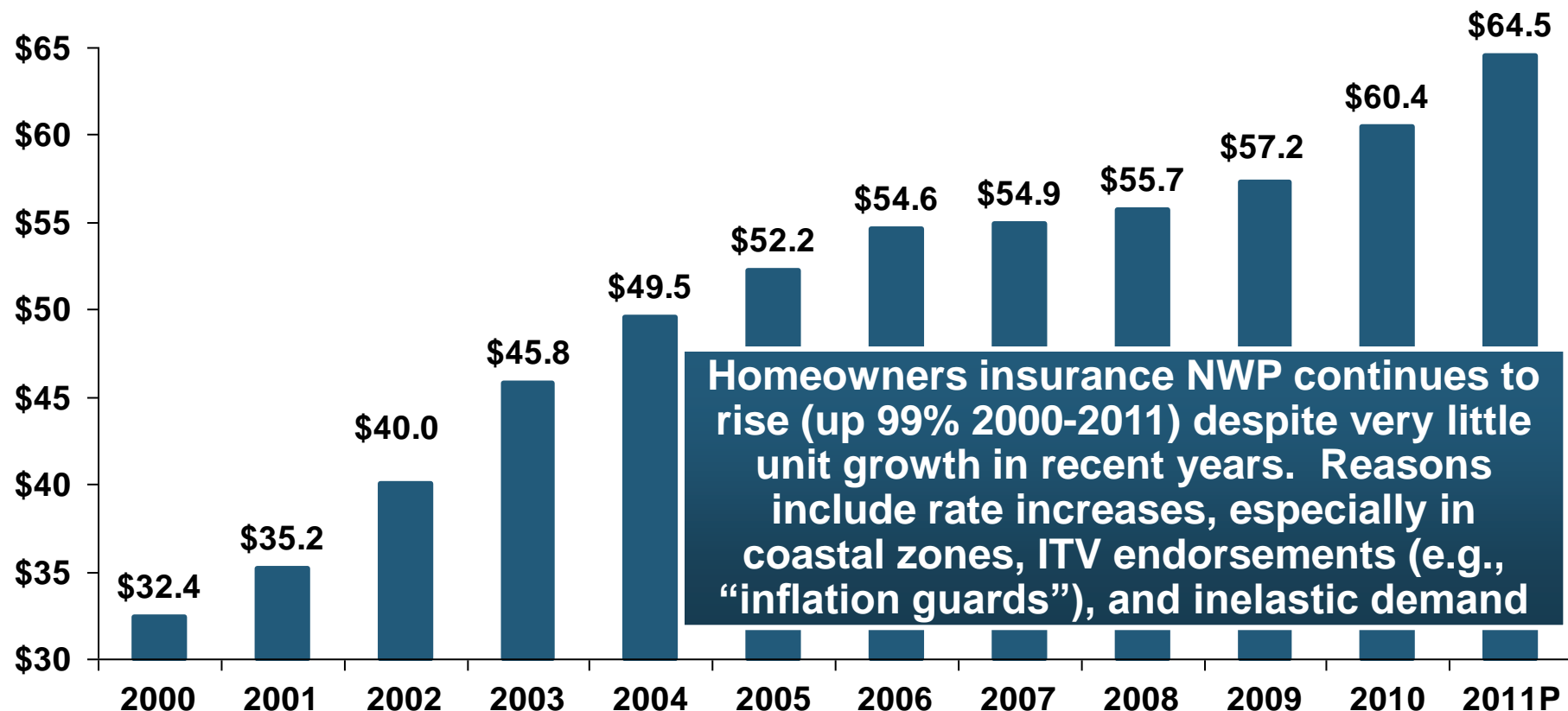
# Direct Premiums Written: Auto Percent Change by State, 2006-2011

## Bottom 25 States



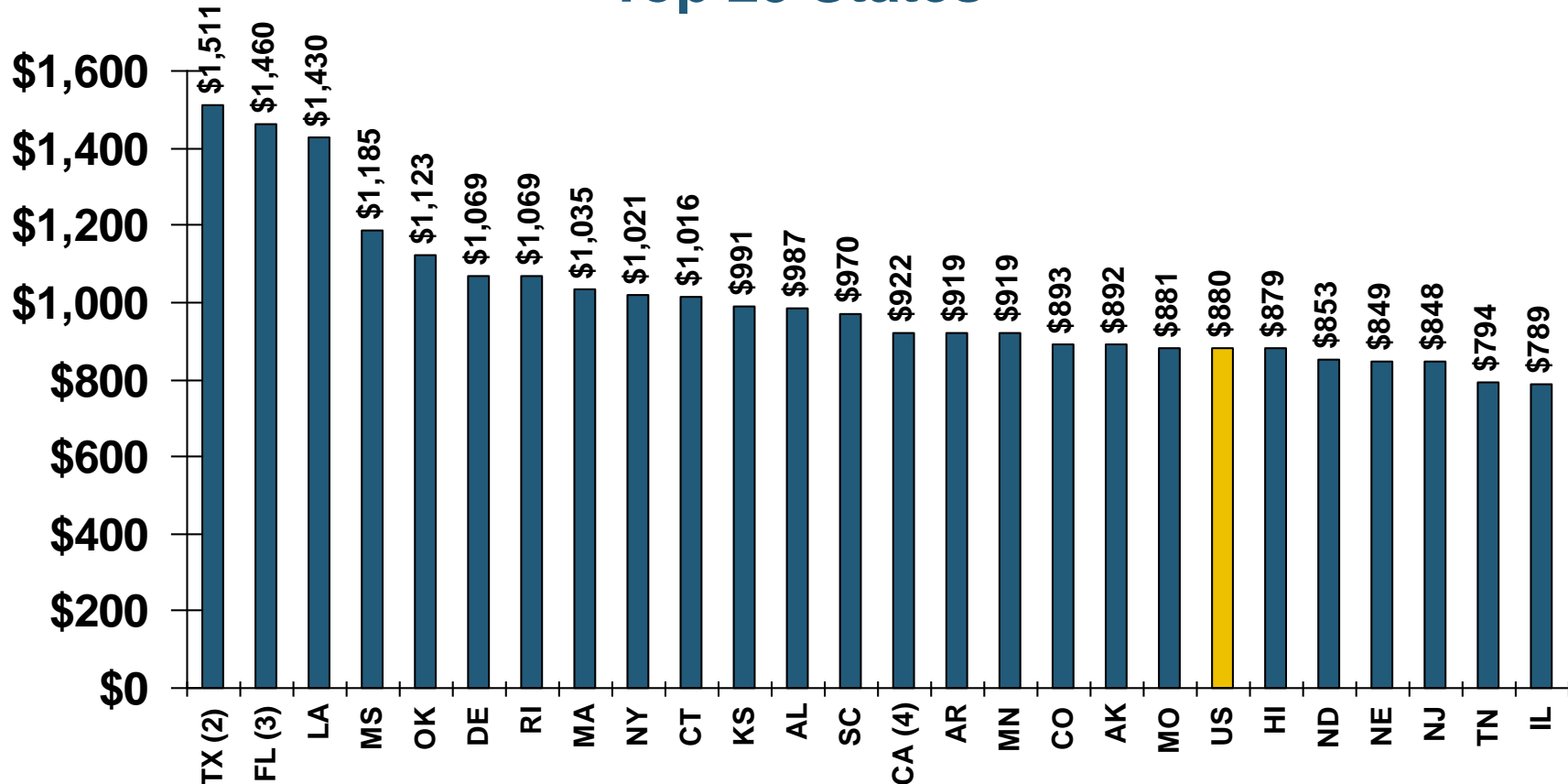
# Homeowners Insurance Net Written Premium, 2000–2011P

\$ Billions



# Average Premiums For Home Insurance By State, 2009\* (1)

## Top 25 States



\*Latest available.

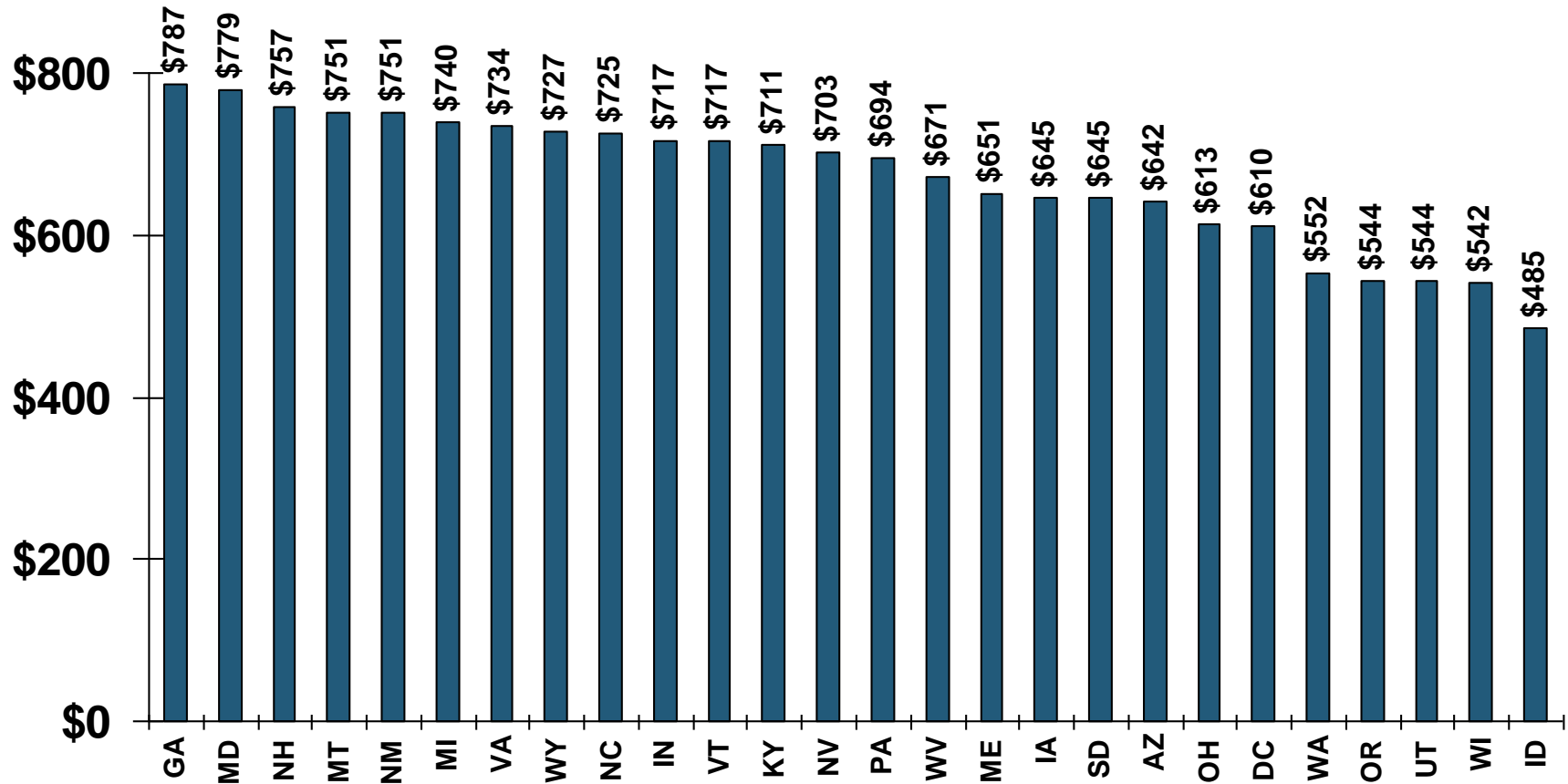
(1) Based on the HO-3 homeowner package policy for owner-occupied dwellings, 1 to 4 family units. Provides "all risks" coverage (except those specifically excluded in the policy) on buildings and broad named-peril coverage on personal property, and is the most common package written.

Note: Average premium=Premiums/exposure per house years. A house year is equal to 365 days insured coverage for a single dwelling.

Source: NAIC; Insurance Information Institute.

# Average Premiums For Home Insurance By State, 2009\* (1)

## Bottom 25 States

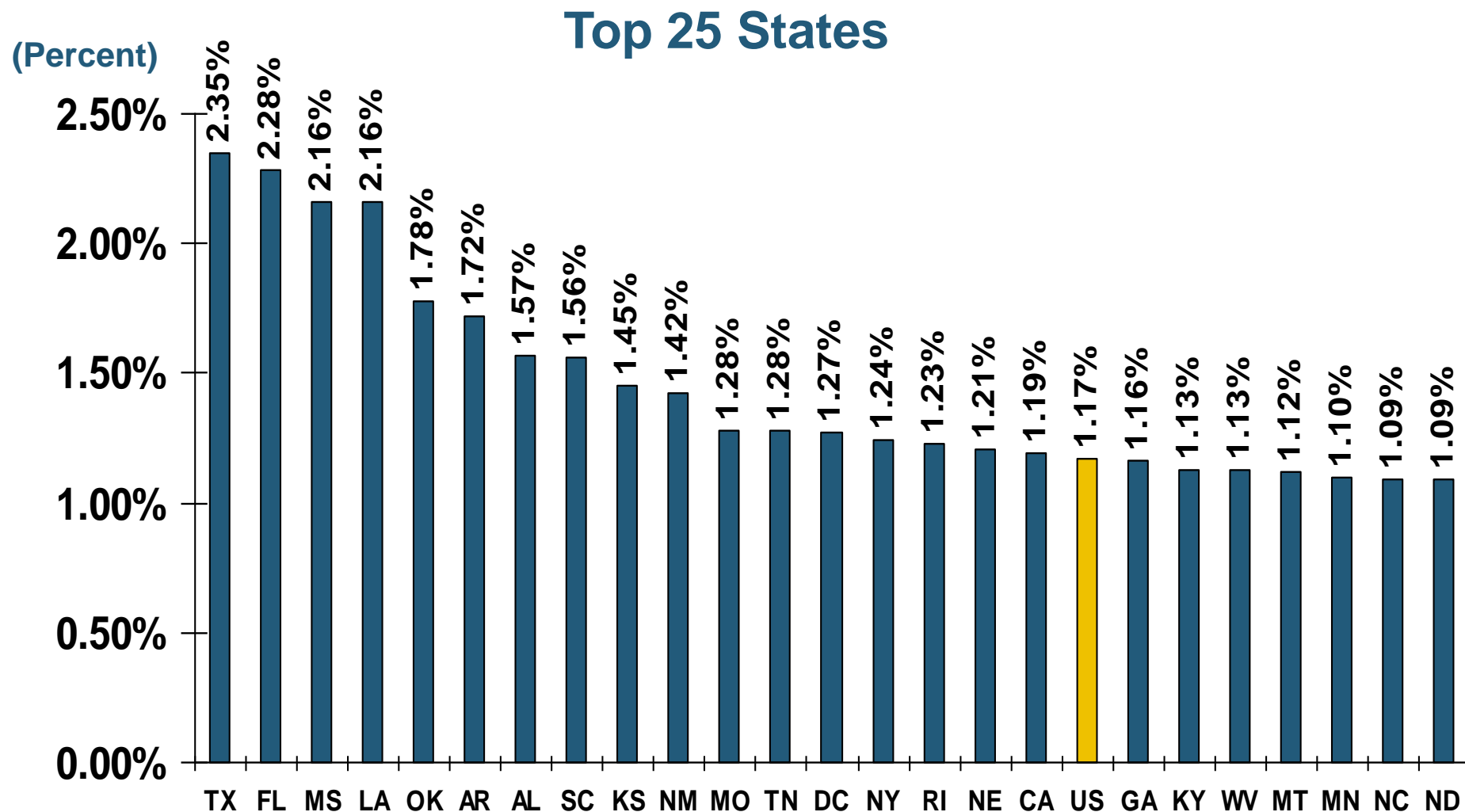


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Source: © 2010 National Association of Insurance Commissioners (NAIC). Reprinted with permission. Further reprint or distribution strictly prohibited without written permission of NAIC.

# Ratio of Avg. Premium for Homeowners Insurance to Median Family Income, 2009



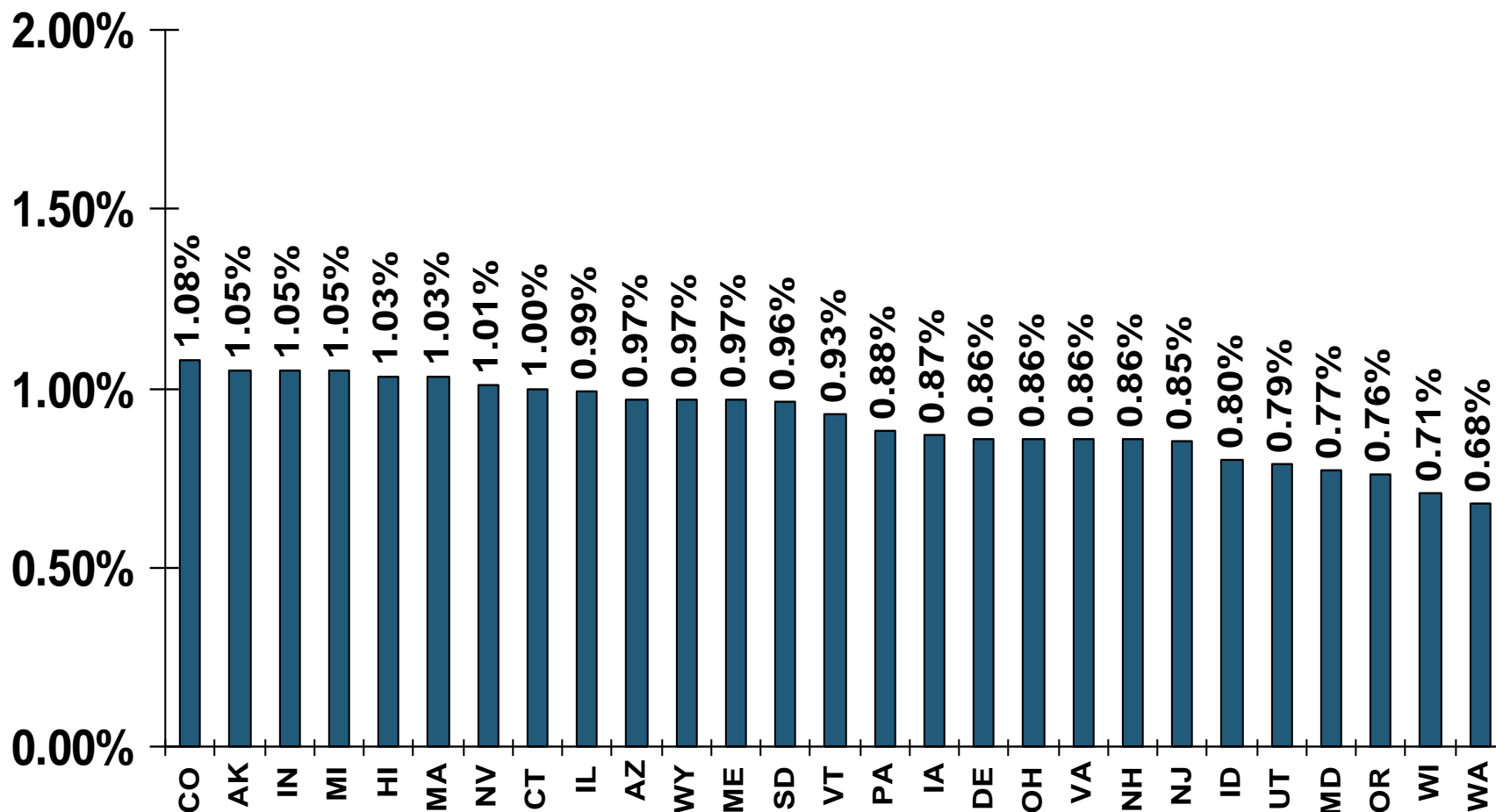
\*Average homeowners insurance expenditure as a percentage of the 2009 median income for a family of four

Sources: Prepared by the Insurance Information Institute, based on data from the U.S. Census and the National Association of Insurance Commissioners.

# Ratio of Avg. Premium for Homeowners Insurance to Median Family Income, 2009

(Percent)

## Bottom 25 States

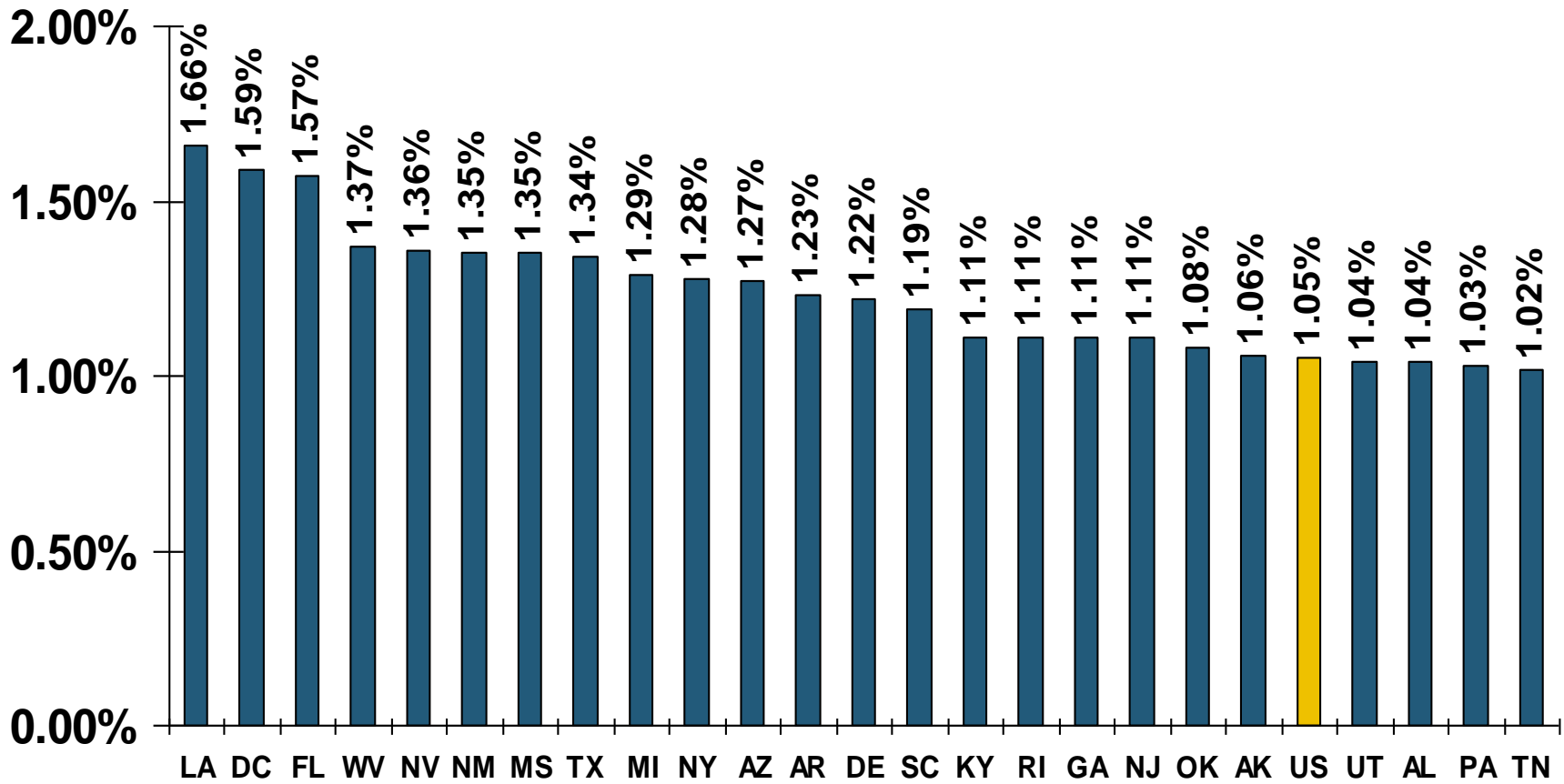


\*Average homeowners insurance expenditure as a percentage of the 2009 median income for a family of four

Sources: Prepared by the Insurance Information Institute, based on data from the U.S. Census and the National Association of Insurance Commissioners.

# Ratio of Avg. Expenditure for Pvt. Passenger Auto Insurance to Median Family Income, 2009

## (Percent) Top 25 States



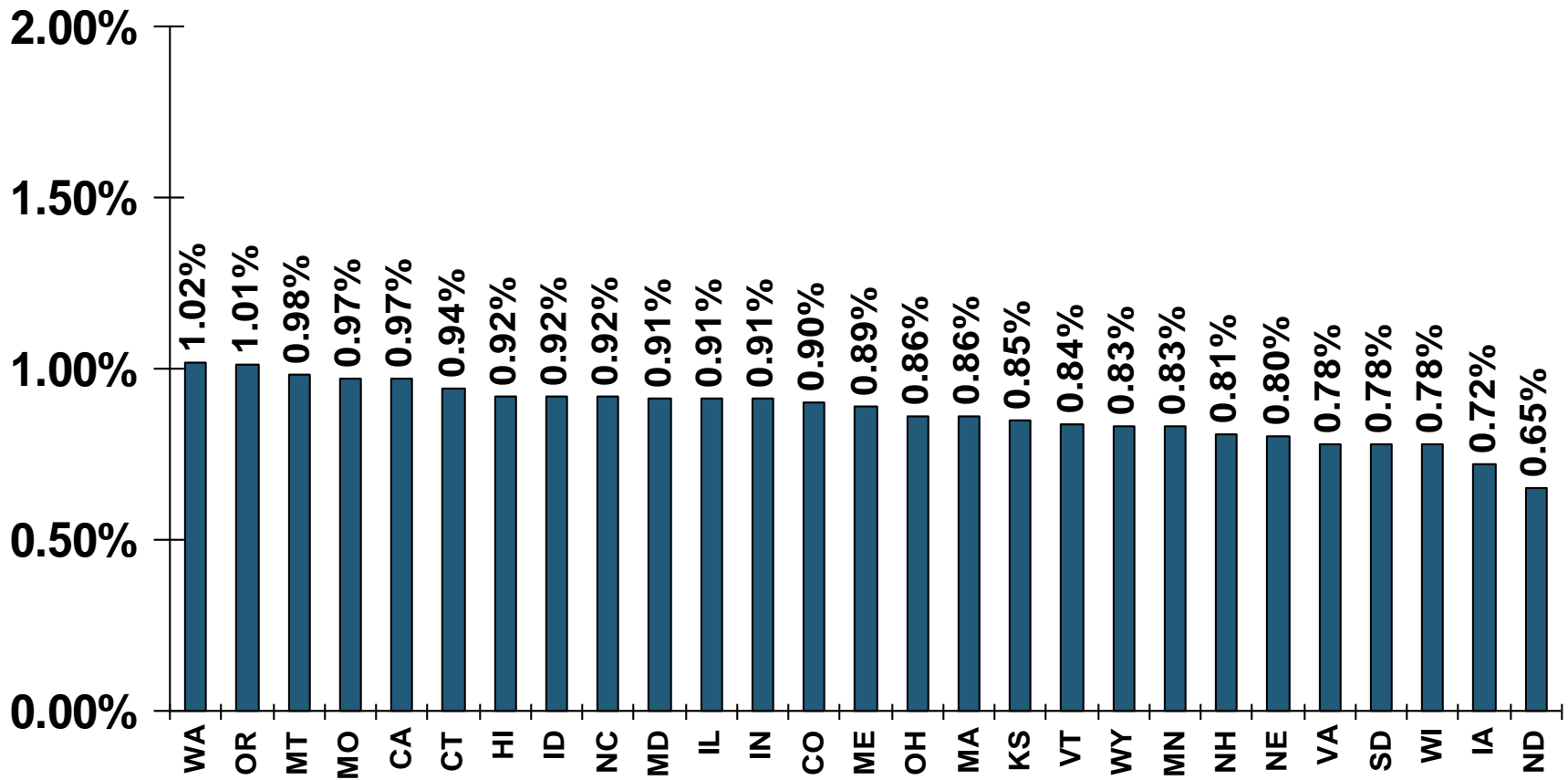
\*Average auto insurance expenditure as a percentage of the 2009 median income for a family of four

Sources: Prepared by the Insurance Information Institute, based on data from the U.S. Census and the National Association of Insurance Commissioners.

# Ratio of Avg. Expenditure for Pvt. Passenger Auto Insurance to Median Family Income, 2009

(Percent)

## Bottom 25 States



\*Average auto insurance expenditure as a percentage of the 2009 median income for a family of four

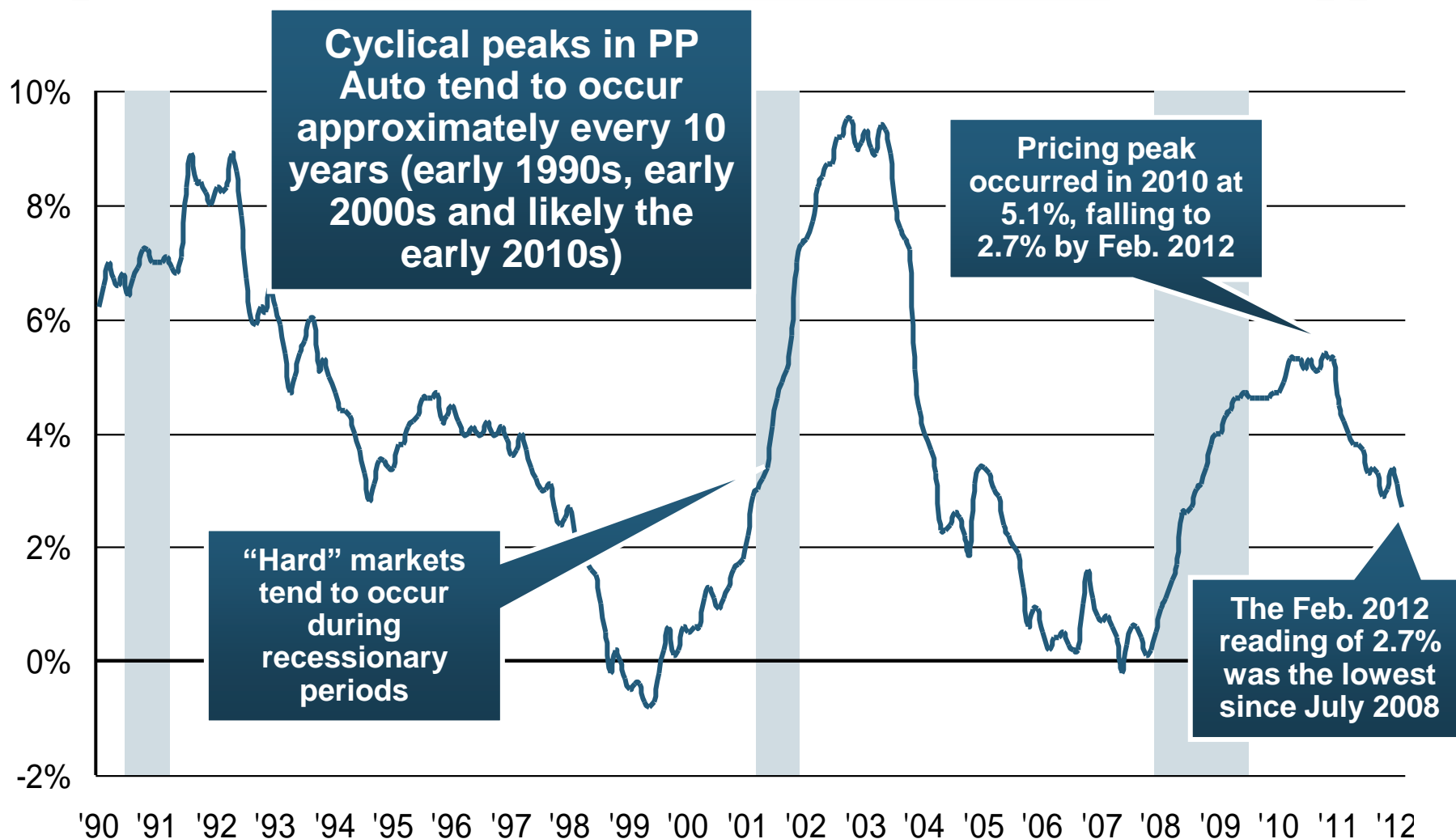
Sources: Prepared by the Insurance Information Institute, based on data from the U.S. Census and the National Association of Insurance Commissioners.



# **Personal Lines Growth Drivers**

**Rate is Presently a Bigger  
Driver than Exposure**

# Monthly Change\* in Auto Insurance Prices, 1991–2012\*



\*Percentage change from same month in prior year; through February 2012; seasonally adjusted

Note: Recessions indicated by gray shaded columns.

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

# Monthly Change\* in Auto Insurance Prices, January 2005 - March 2012

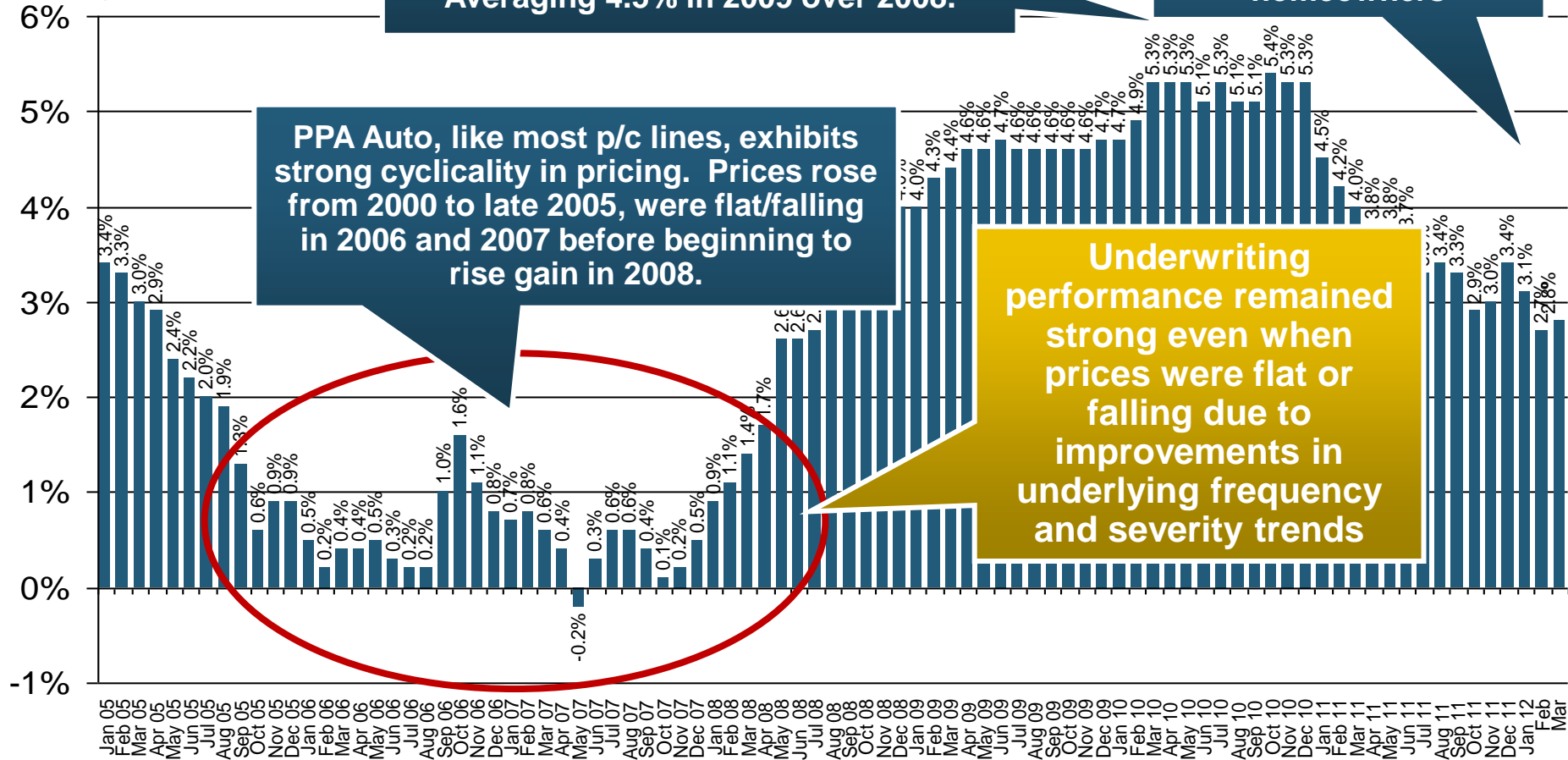
(Percent Change from same month, prior year)

Auto Insurance Price Increases Averaged 5.1% in 2010 over 2009, After Averaging 4.5% in 2009 over 2008.

Pricing weakened materially in 2011/12 and growth now lags homeowners

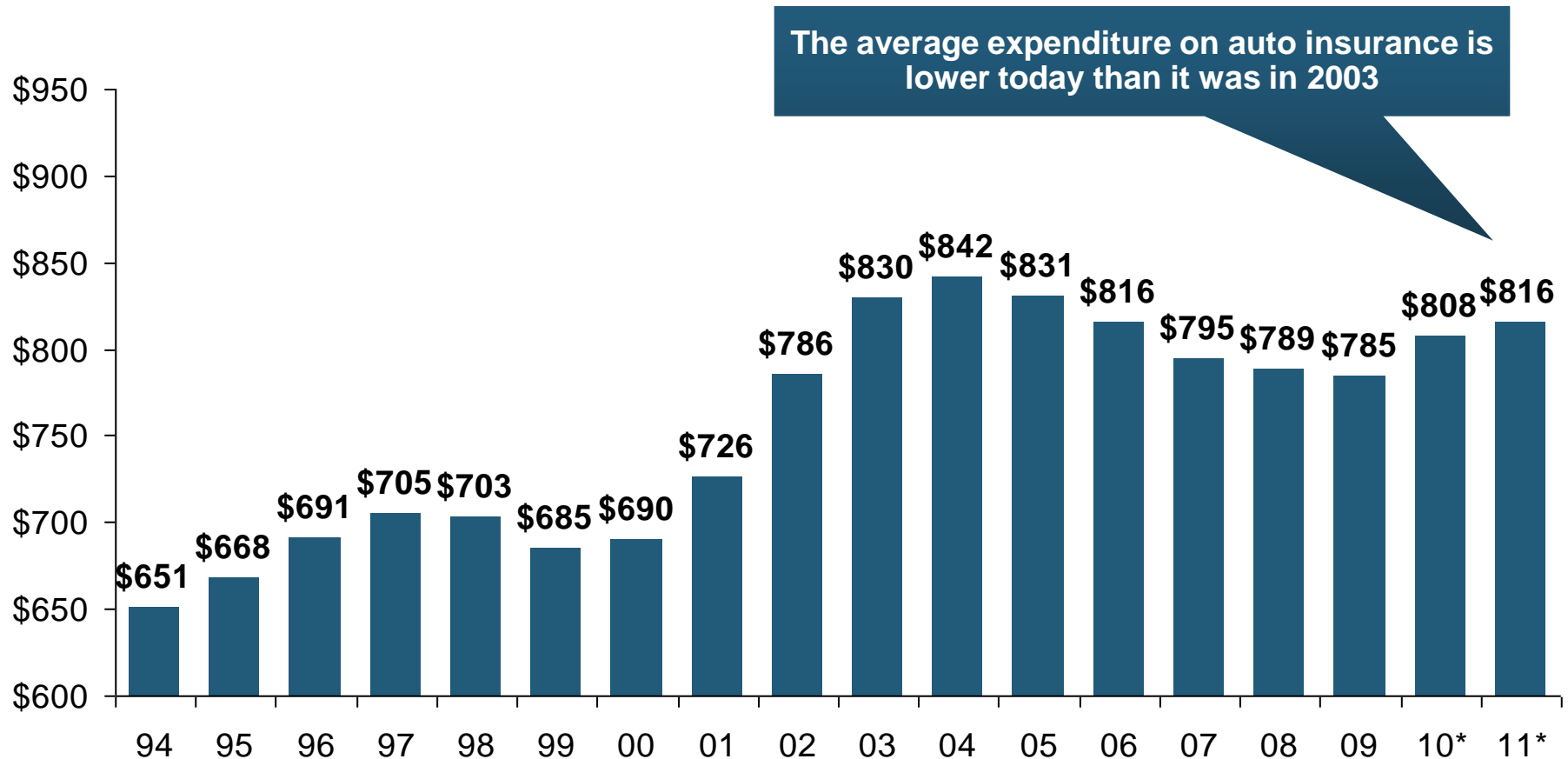
PPA Auto, like most p/c lines, exhibits strong cyclical in pricing. Prices rose from 2000 to late 2005, were flat/falling in 2006 and 2007 before beginning to rise gain in 2008.

Underwriting performance remained strong even when prices were flat or falling due to improvements in underlying frequency and severity trends



\*Percentage change from same month in prior year, seasonally adjusted.  
Sources: US Bureau of Labor Statistics; Insurance Information Institute

# Average Expenditures on Auto Insurance



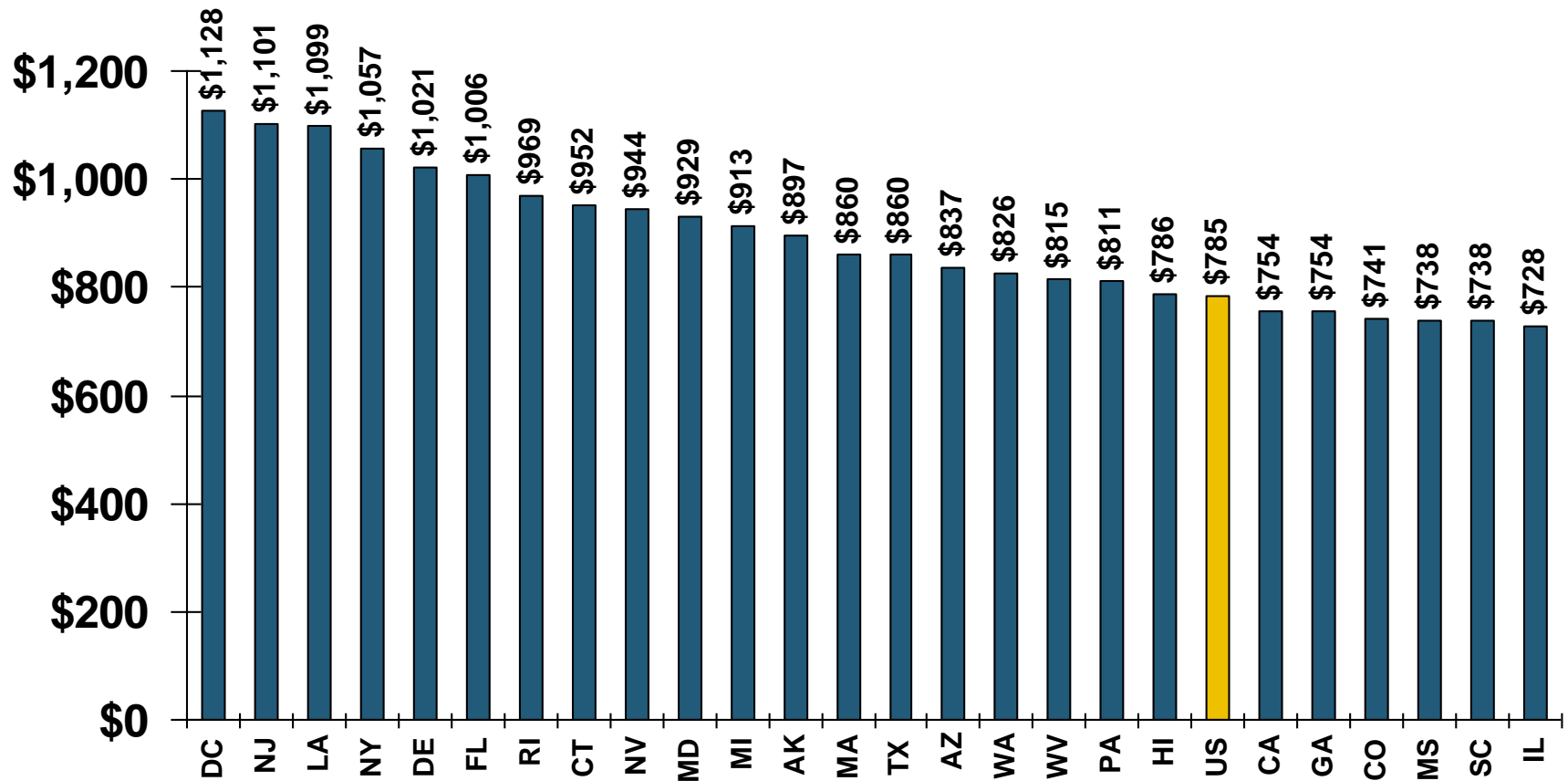
**Countrywide Auto Insurance Expenditures Decreased by 0.8% in 2008 and 0.5% in 2009 and Increased 3.0% in 2010 (est.) and 2.0% in 2011 (est.)**

\* Insurance Information Institute Estimates/Forecasts

Source: NAIC, Insurance Information Institute estimate for 2010 based on CPI and other data.

# Average Expenditures For Auto Insurance By State, 2009

## Top 25 States

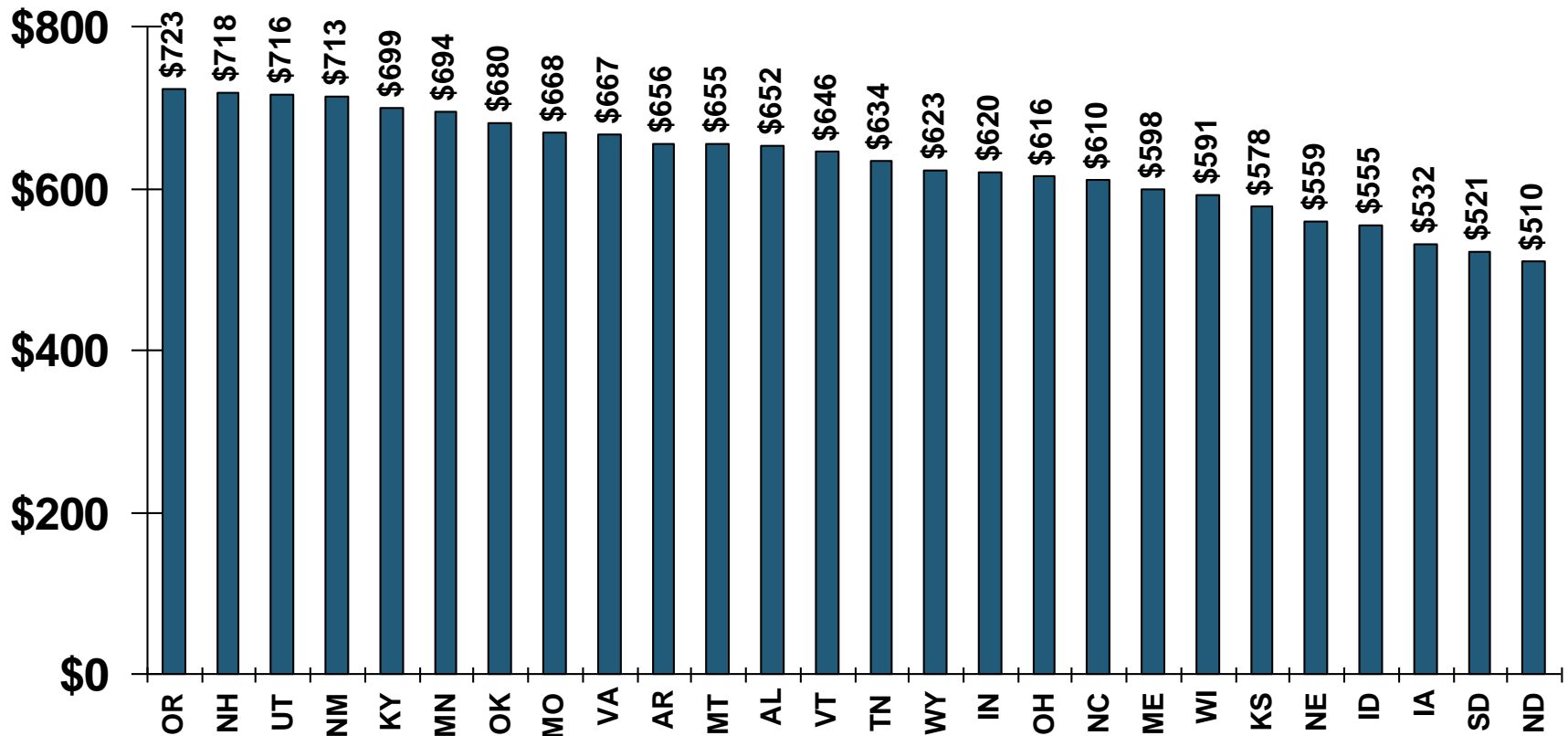


Note: Average expenditure=Total written premium/liability car years. A car year is equal to 365 days of insured coverage for a single vehicle.

Source: © 2010 National Association of Insurance Commissioners.

# Average Expenditures For Auto Insurance By State, 2009

## Bottom 25 States



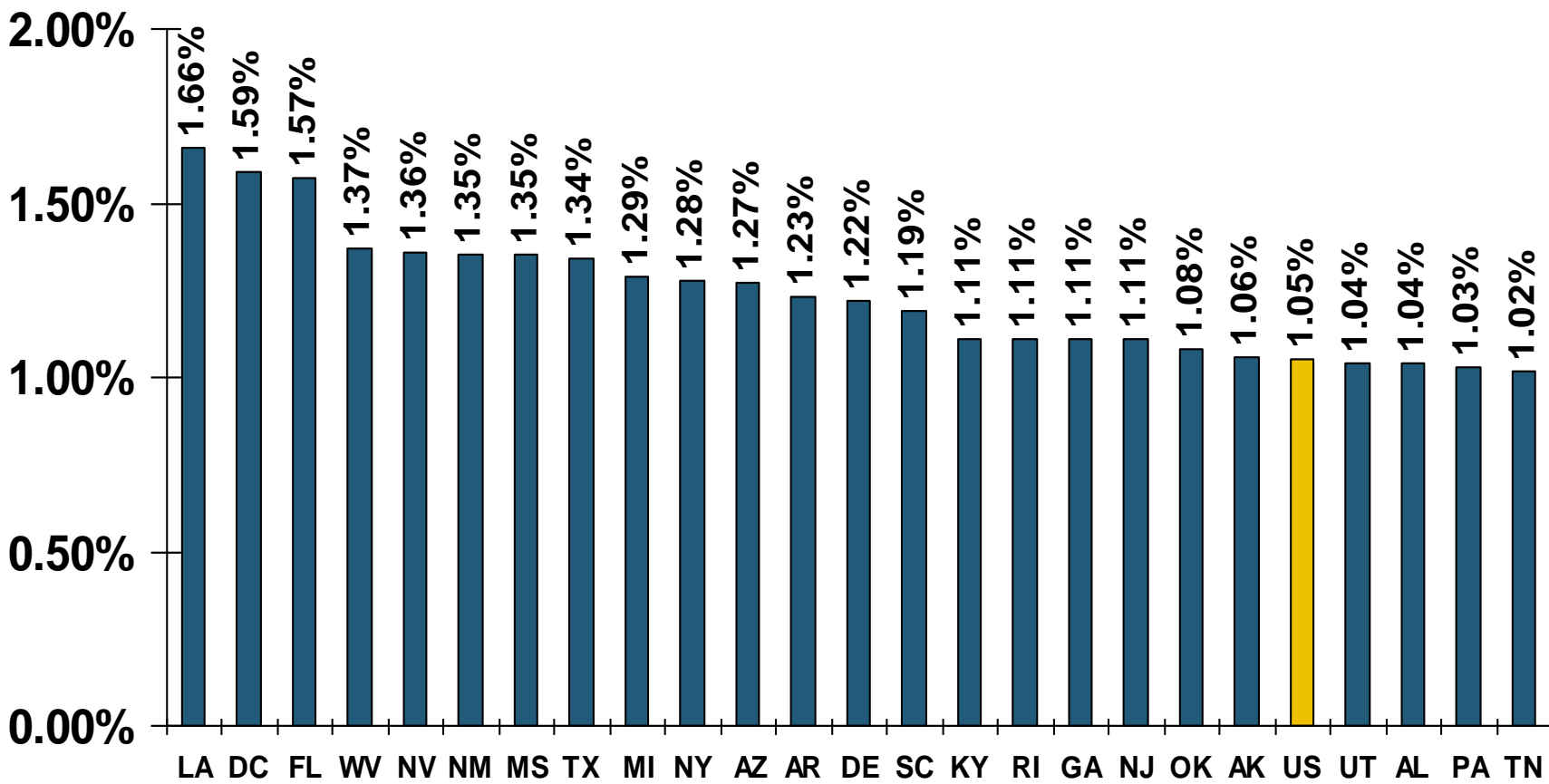
Note: Average expenditure=Total written premium/liability car years. A car year is equal to 365 days of insured coverage for a single vehicle.

Source: © 2010 National Association of Insurance Commissioners.

# Ratio of Avg. Expenditure for Pvt. Passenger Auto Insurance to Median Family Income, 2009



(Percent) **Top 25 States**

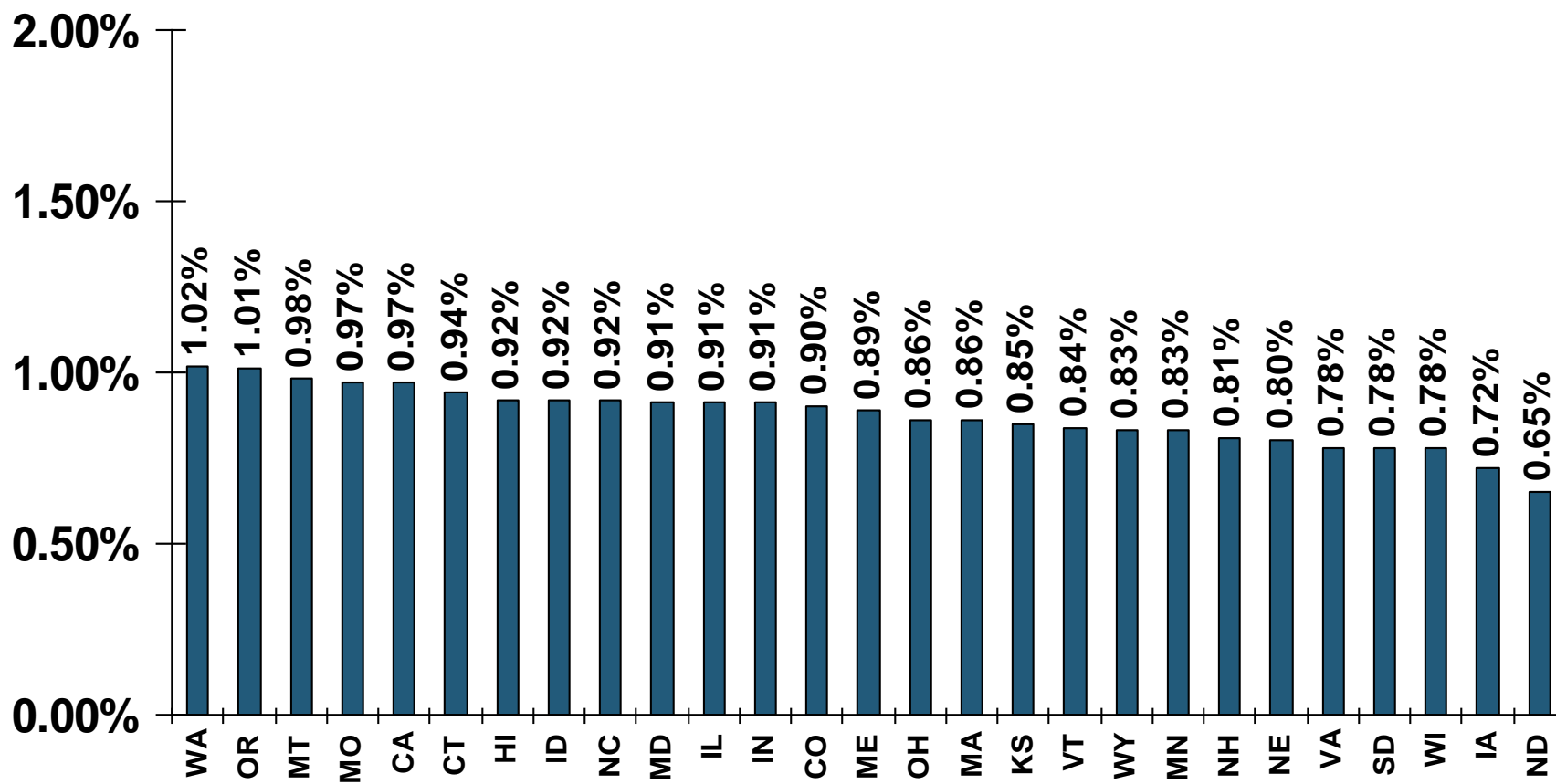


\*Average auto insurance expenditure as a percentage of the 2009 median income for a family of four  
Sources: Prepared by the Insurance Information Institute, based on data from the U.S. Census and the National Association of Insurance Commissioners.

# Ratio of Avg. Expenditure for Pvt. Passenger Auto Insurance to Median Family Income, 2009

(Percent)

## Bottom 25 States



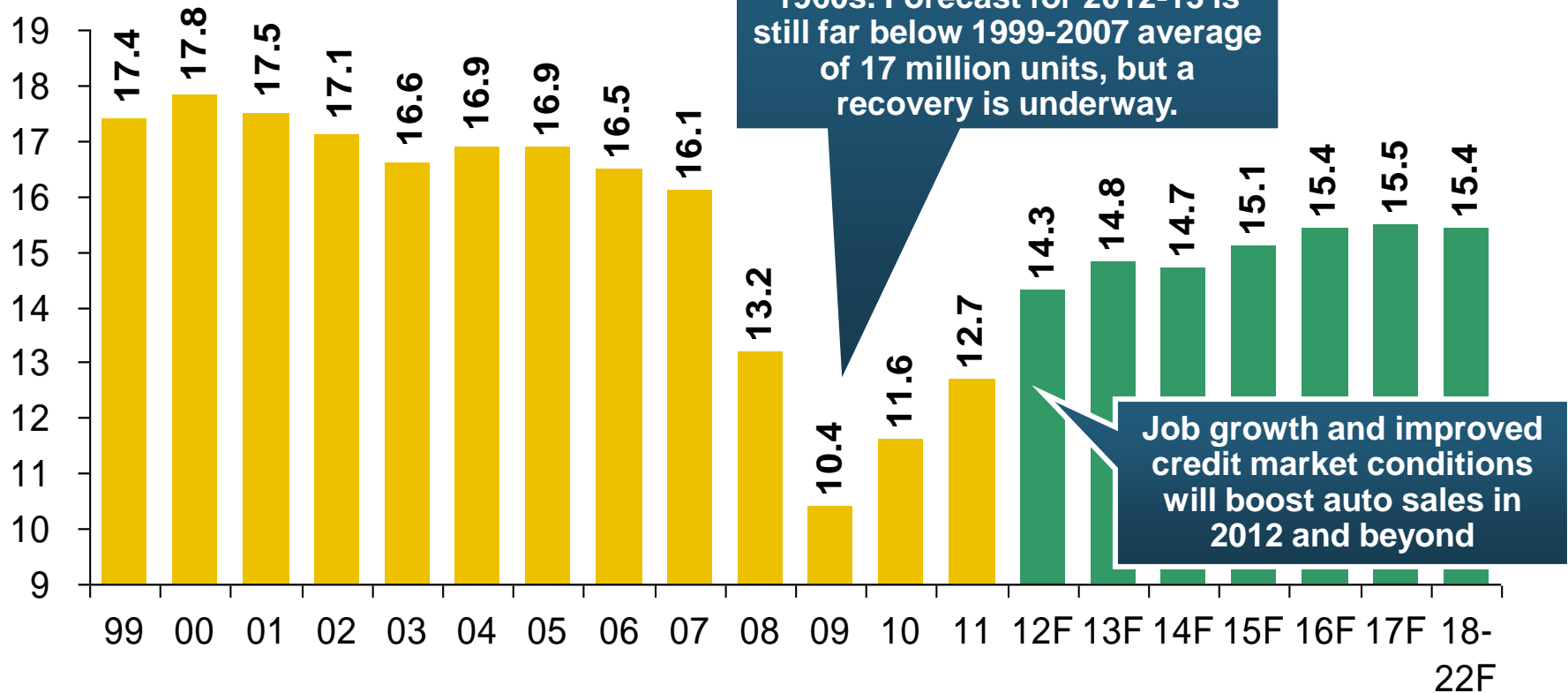
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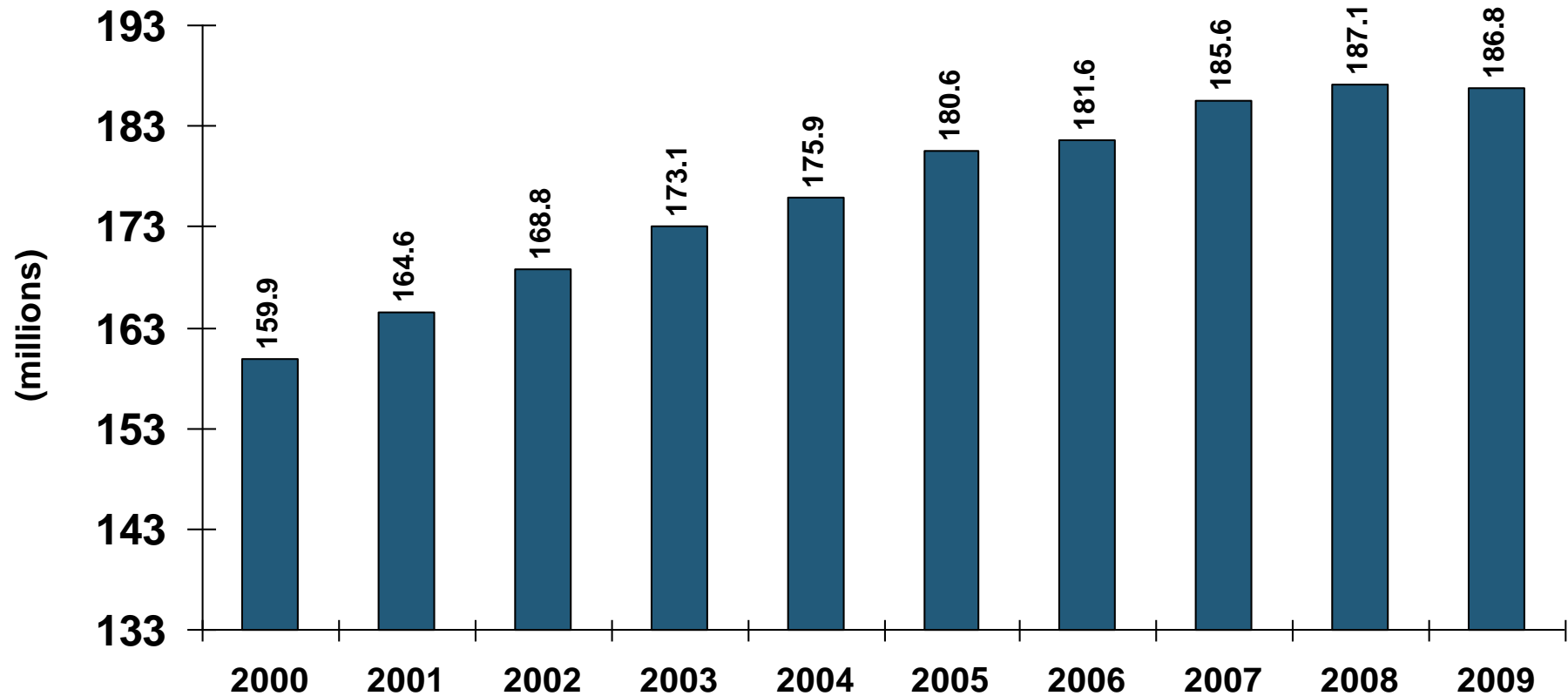
# Auto/Light Truck Sales, 1999-2022F

(Millions of Units)



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

# Number of Insured Vehicles in the US, 2000-2009\*



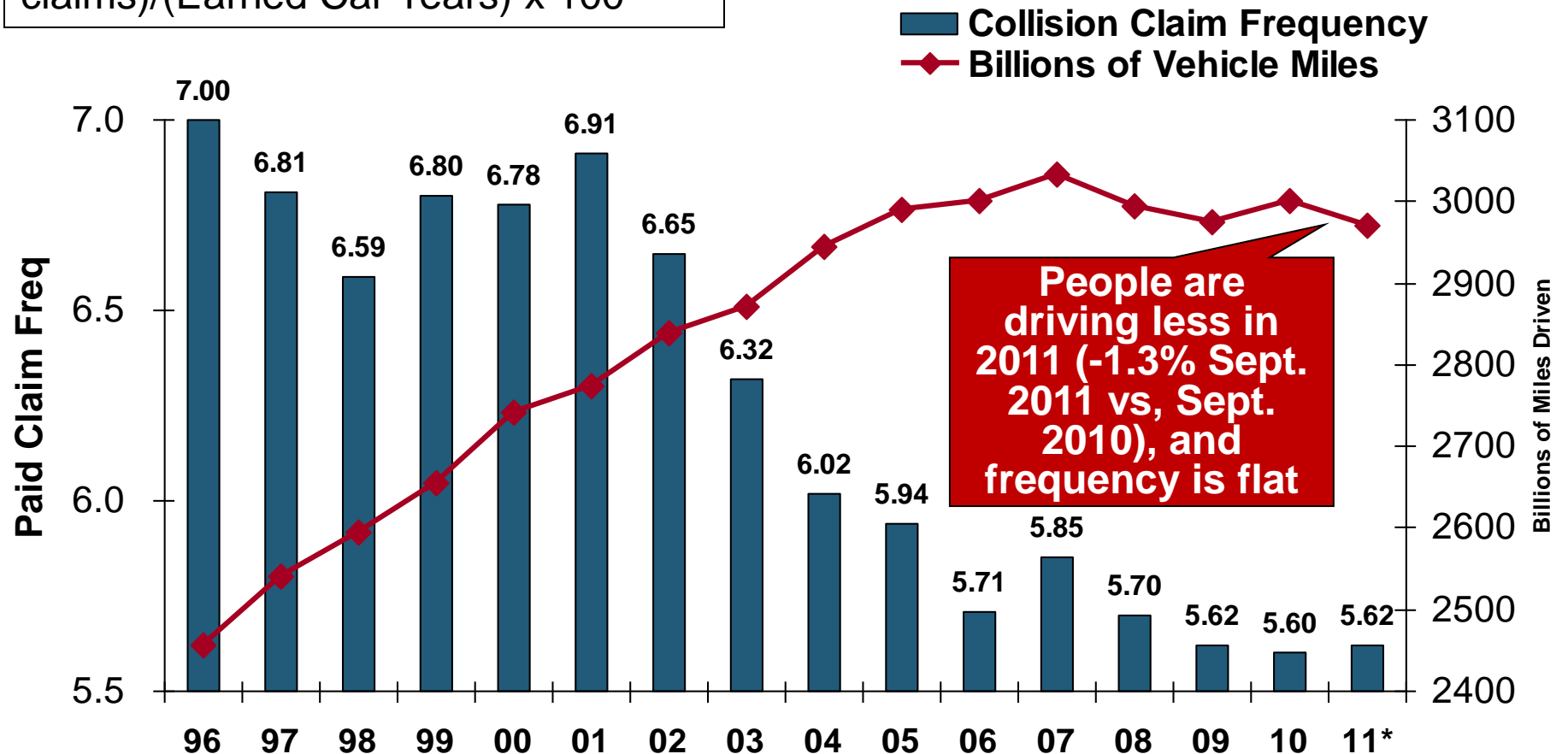
**The Number of Insured Passenger Vehicles Stopped Growing During the Economic Downturn. Growth Has Likely Returned.**

\*Latest available as of Nov. 2011.

Source: Automobile Insurance Plans Service Office.

# Do Changes in Miles Driven Affect Auto Collision Claim Frequency?

Paid Claim Frequency = (No. of paid claims)/(Earned Car Years) x 100

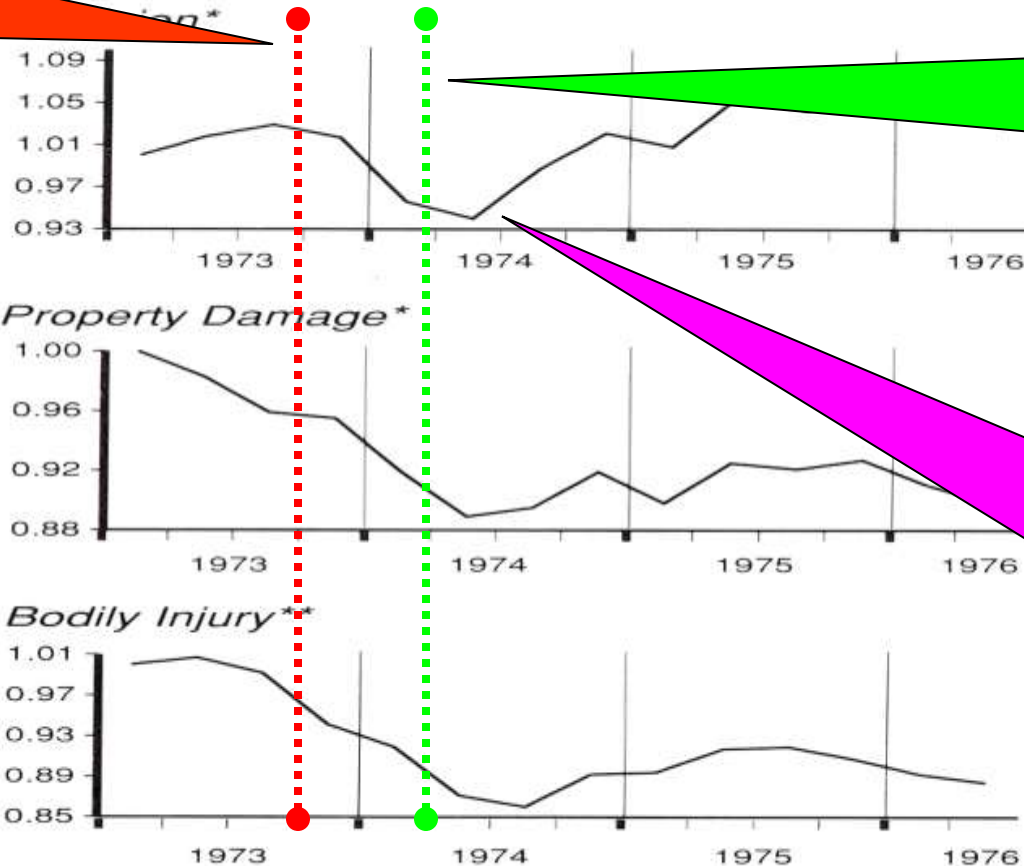


Sources: Federal Highway Administration (<http://www.fhwa.dot.gov/ohim/tvtw/tvtpage.cfm>); ISO Fast Track Monitoring System, *Private Passenger Automobile Fast Track Data*: 2nd Qtr. 2011, published Sep. 30, 2011 and earlier reports. \*2011 ISO figure is for 12 months ending 6/30/2011; FHA data is for 12 months ending Sep. 2011.

# Auto Insurance: Claim Frequency Impacts of Energy Crisis/Recession of 1973/74

Figure 6

## The First Crisis—Frequency



\*Seasonally Adjusted, Quarterly Paid Fast Track data indexed to First Quarter 1973.

\*\*ISO Paid Data, year-ended quarter indexed to First Quarter 1973.

**Oct. 17, 1973: Arab oil embargo begins**

**Frequency Impacts**  
Collision: -7.7%  
PD: -9.5%  
BI: -13.3%

**Driving Stats**  
•Gas prices rose 35-40%  
•Miles driven fell 6.7% in 1974

**March 17, 1974: Arab oil states announce end to embargo**

**Frequency began to rebound almost immediately after the embargo ended**

# Auto Insurance: Claim Severity Impacts of Energy Crisis/Recession of 1973/74

**Oct. 17,  
1973: Arab  
oil  
embargo  
begins**

**Severity  
Impacts**  
**Collision: -  
7.5%**  
**PD: +15.9%**  
**BI: N/A\***

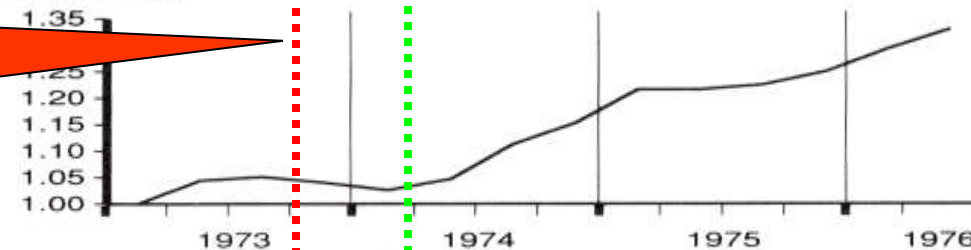
## Driving Stats

- Gas prices rose 35-40%
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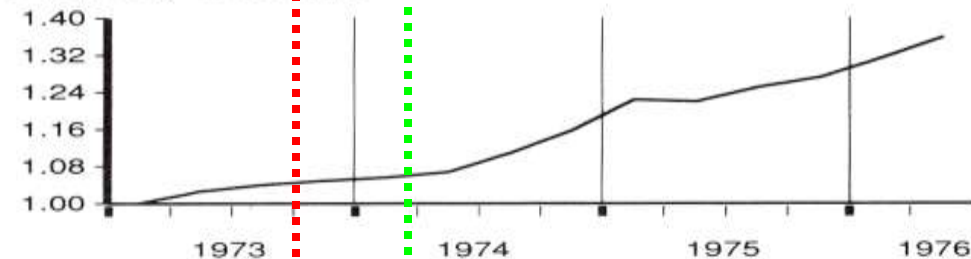
Figure 7

## *The First Crisis—Severity\**

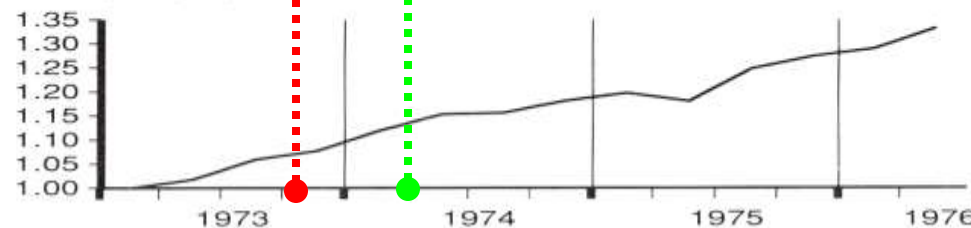
### *Collision*



### *Property Damage*



### *Bodily Injury*

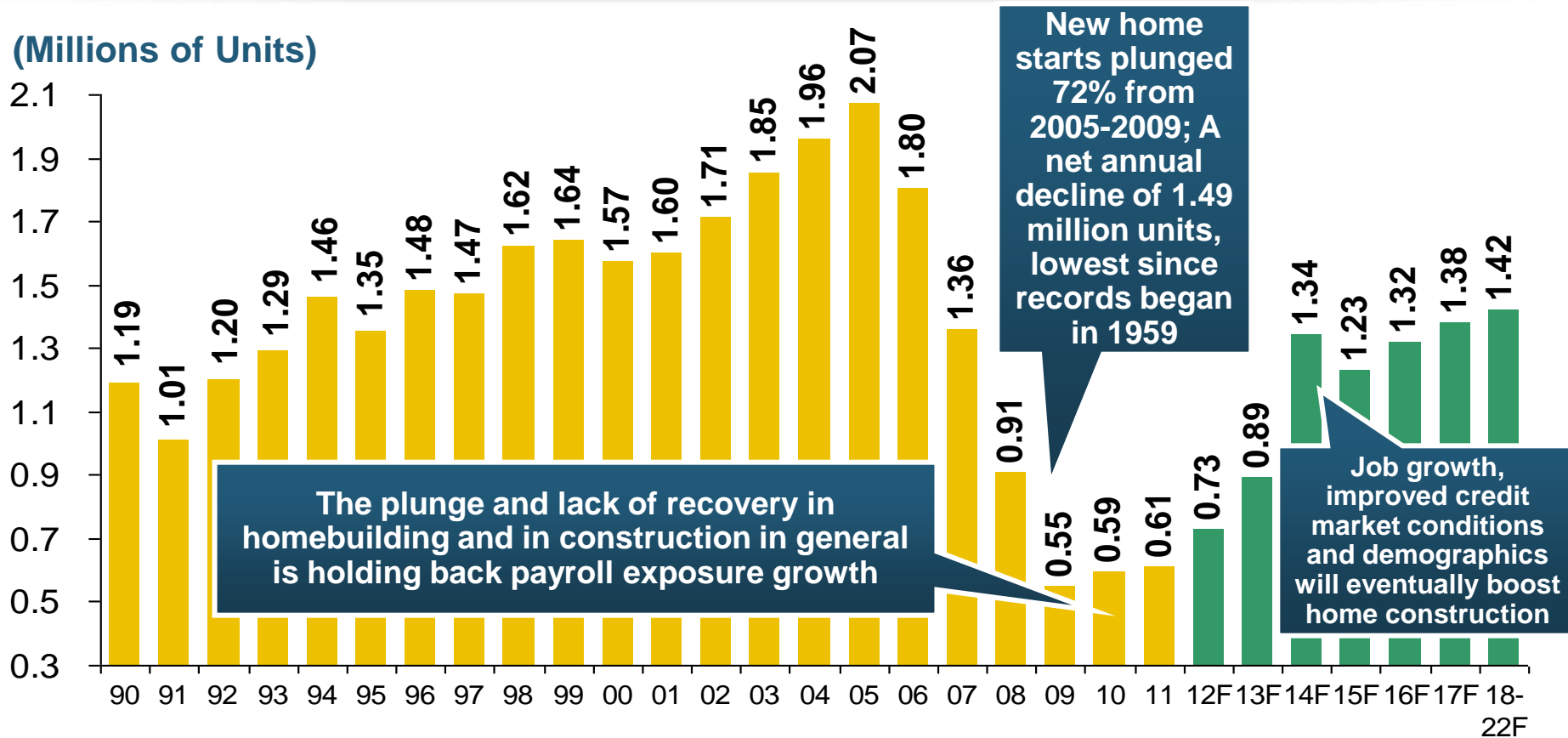


\*Seasonally Adjusted, Quarterly Paid Fast Track data indexed to First Quarter 1973.

**March 17,  
1974: Arab  
oil states  
announce  
end to  
embargo**

**Collision  
severity  
began to  
rebound  
almost  
immediately  
after the  
embargo  
ended; PD  
accelerated  
as inflation  
rose; No  
discernable  
trend change  
in BI.**

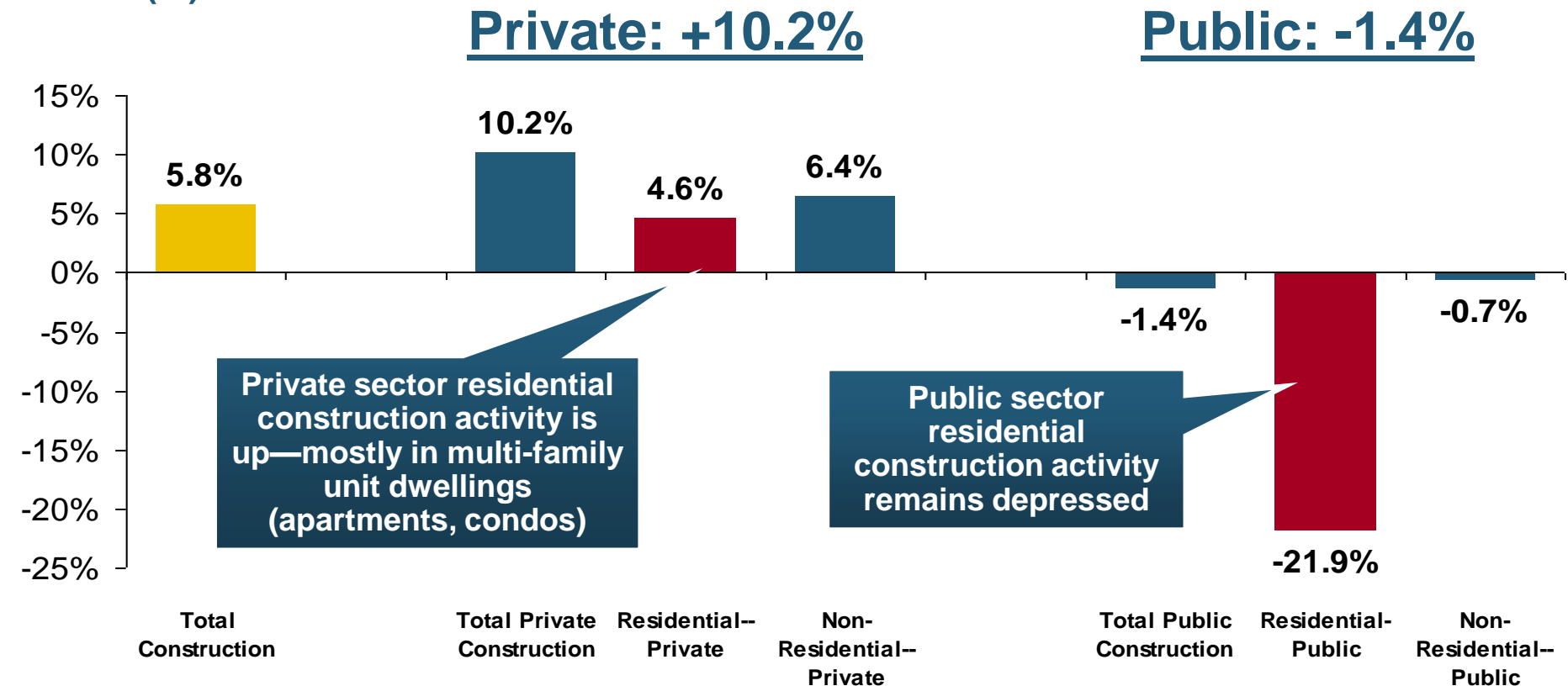
# New Private Housing Starts, 1990-2022F



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

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

Growth (%)

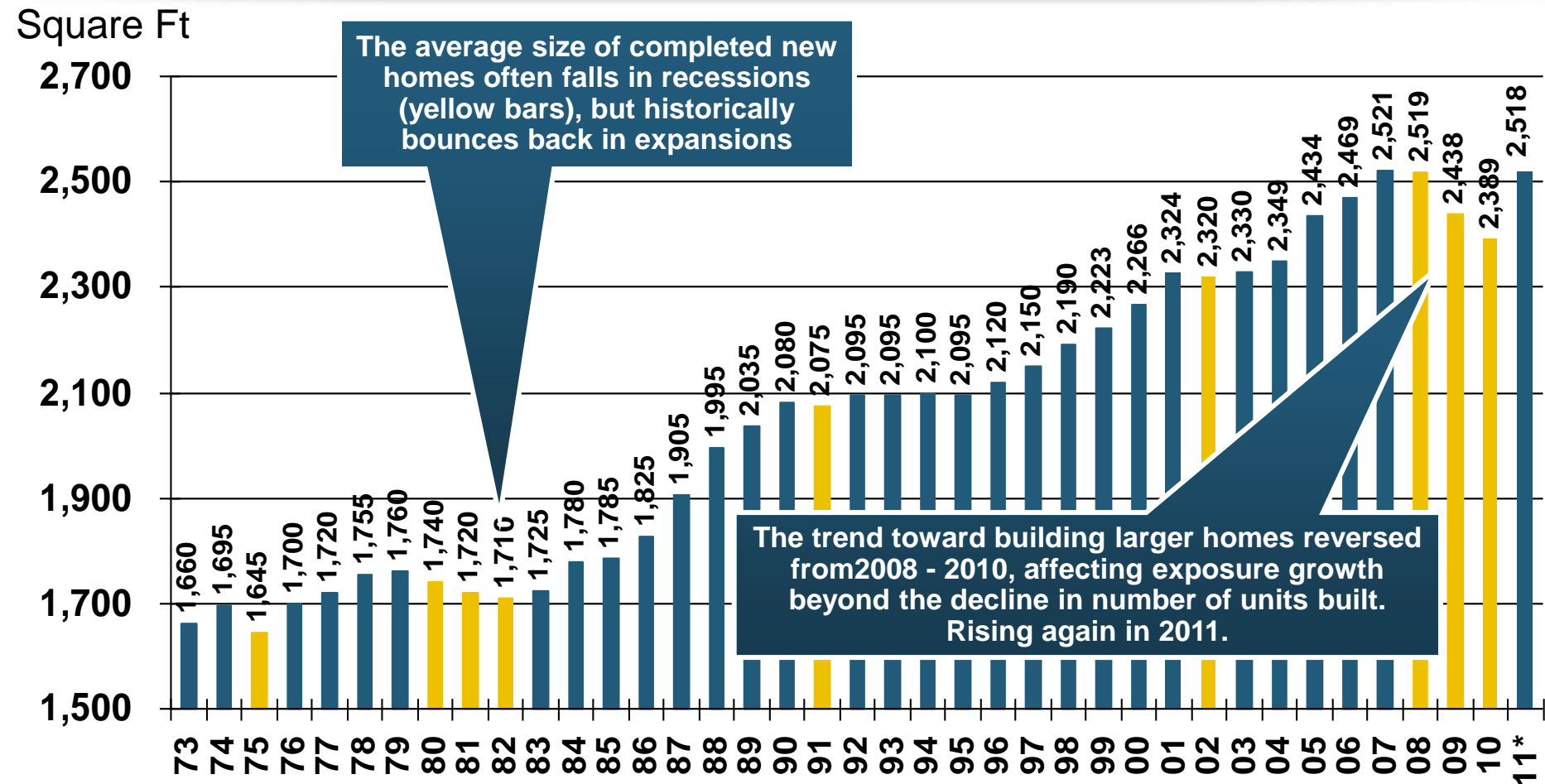


**Overall Construction Activity is Up, But Growth Is Entirely in the Private Sector as State/Local Government Budget Woes Continue**

\*seasonally adjusted

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

# Average Square Footage of Completed New Homes in U.S., 1973-2011\*



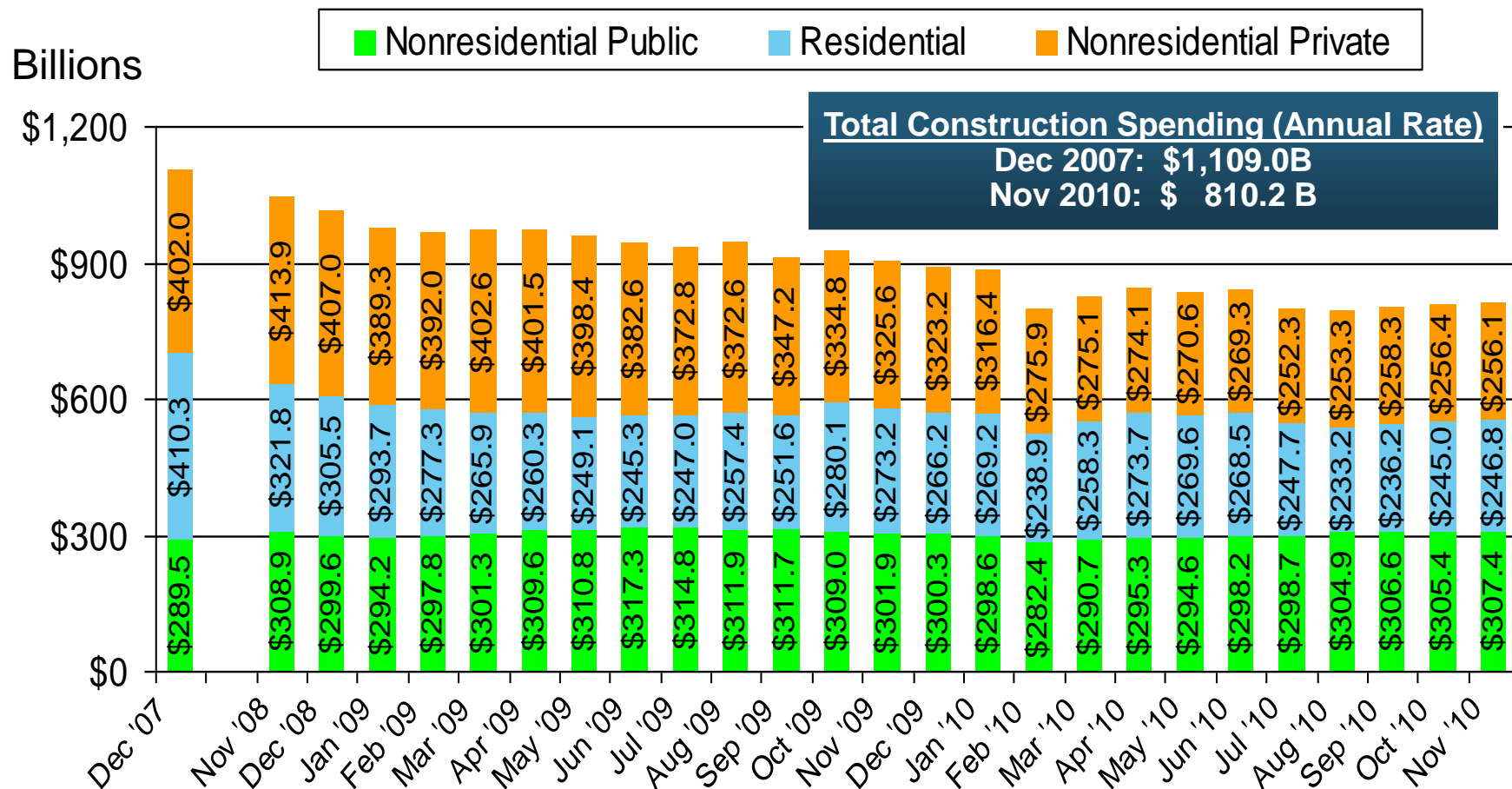
**The average size of completed new homes fell by 147 square feet (5.75%) from 2008-2010. This was the largest recession-based drop in nearly four decades.**

\*2011 figure is weighted average square feet of completed homes in first three quarters of 2011

Source: U.S. Census Bureau: [http://www.census.gov/construction/quarterly/starts\\_completions.pdf](http://www.census.gov/construction/quarterly/starts_completions.pdf); Insurance Information Institute.



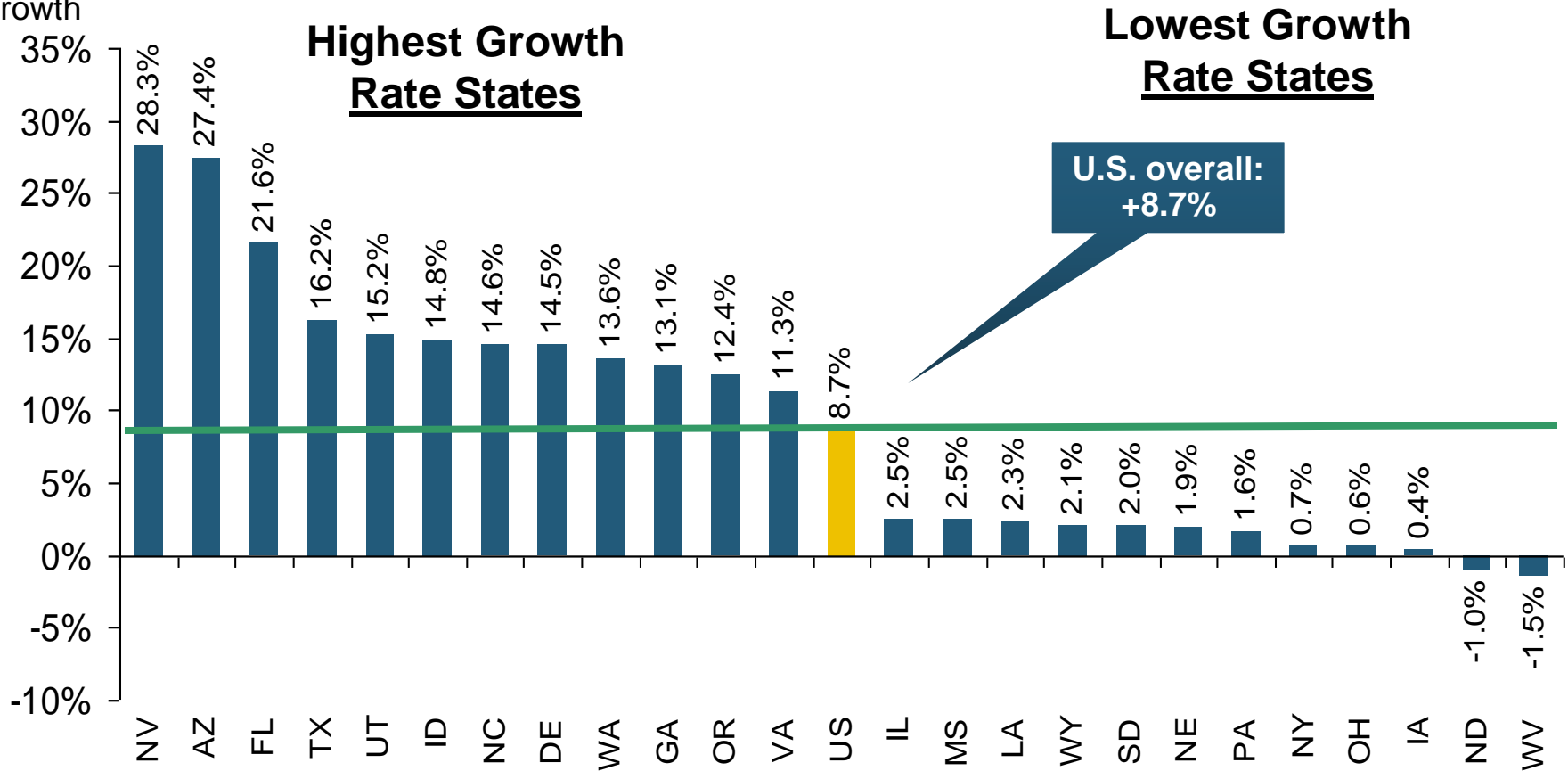
# Value\* of Construction Put In Place



**Since the recession started, private residential and nonresidential construction together are down \$300 billion (annual rate) – a drop of 38%. This affects property, surety, and other construction-related exposures.**

# State Population Growth Rate Projections, 2010-2020\*

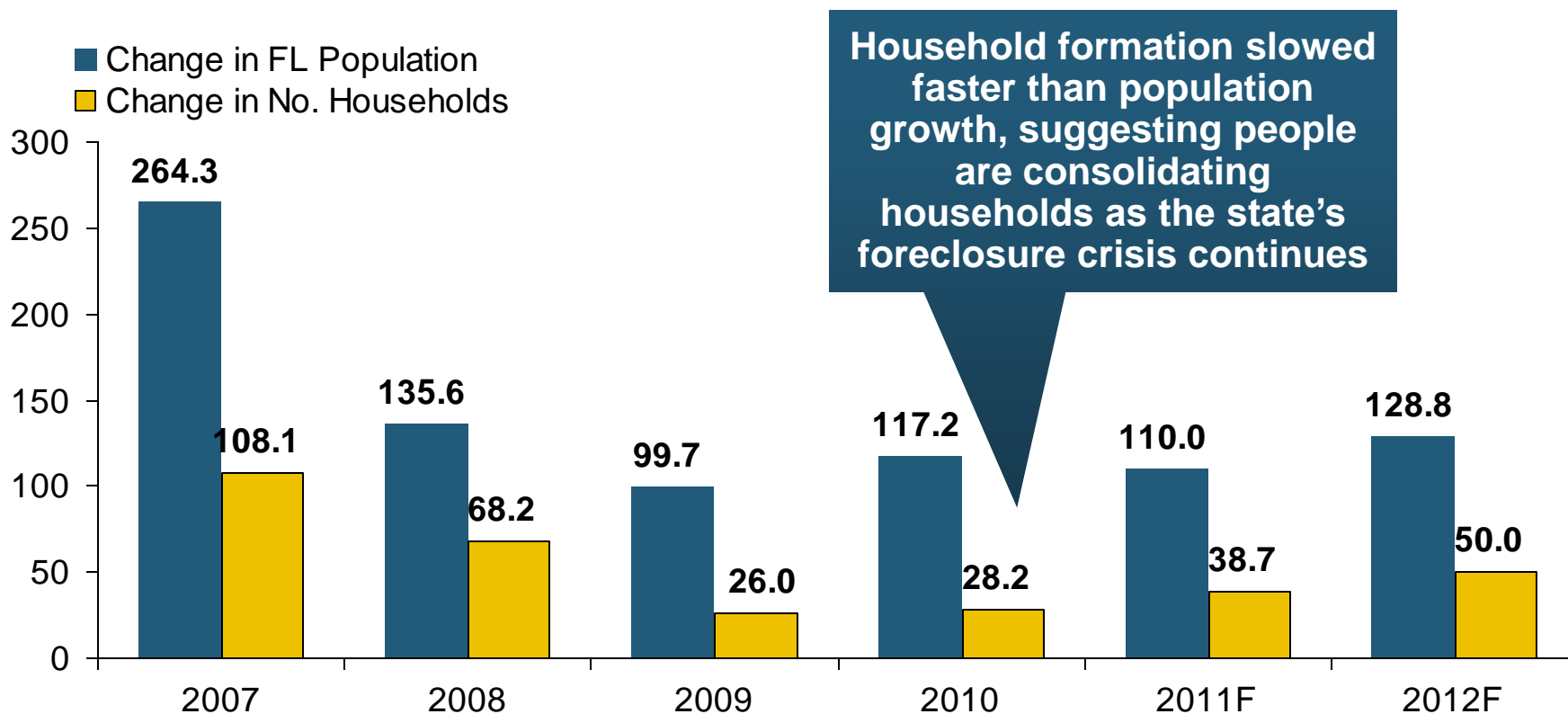
Projected Population  
Growth



**The Mountain West region is projected to grow the most from now to 2020 (up 17.6%), followed by the South Atlantic (up 14.5%) and Pacific (up 11.2%). The Mid-Atlantic is projected to be the slowest-growing region (up 1.9%).**

# FLORIDA CASE STUDY: Weak Population Growth, Slow Household Formation Hurt Personal Lines Exposure Gains

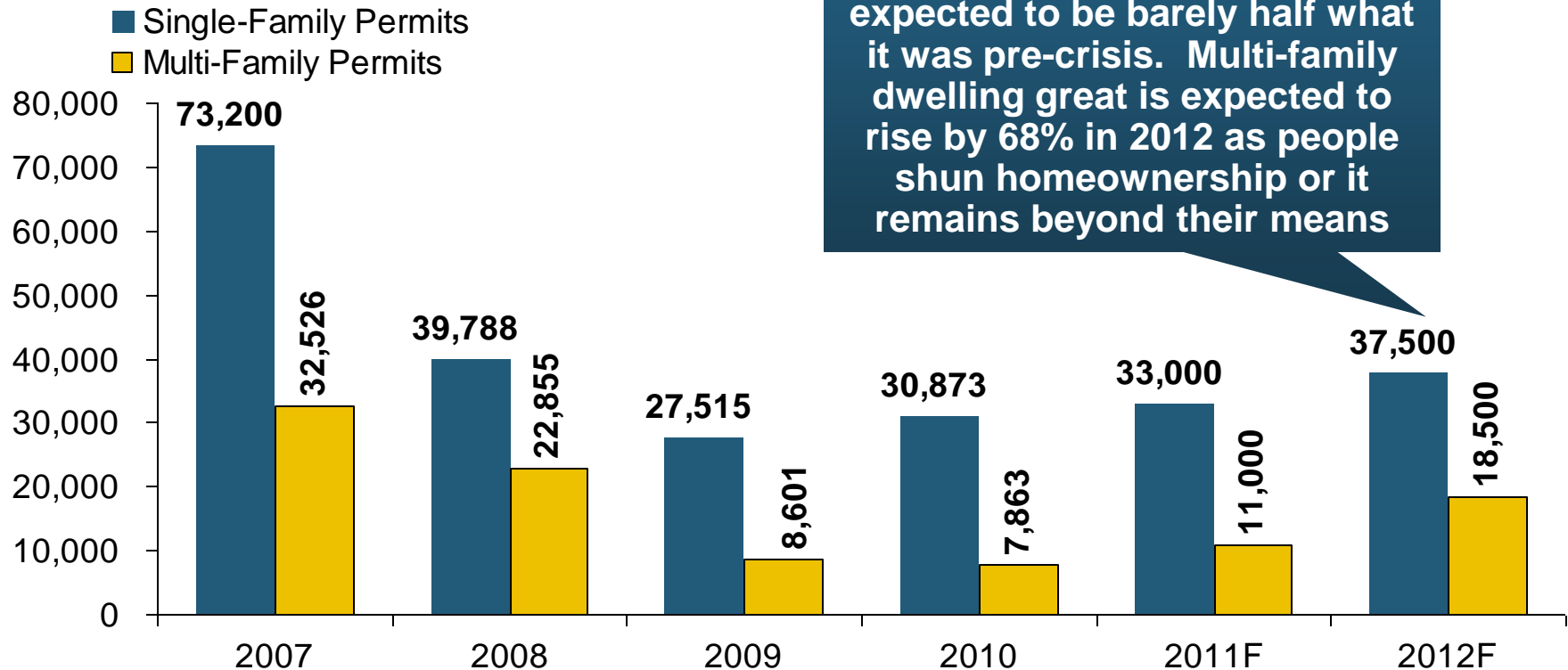
Thousands



**FL's Construction Sector, One of Most Critical of FL's Growth Engines, Remains in a Deep Recession**

# FL Housing Permits: Multi-Family Unit Growth Poised to Soar, Single-Family Weak

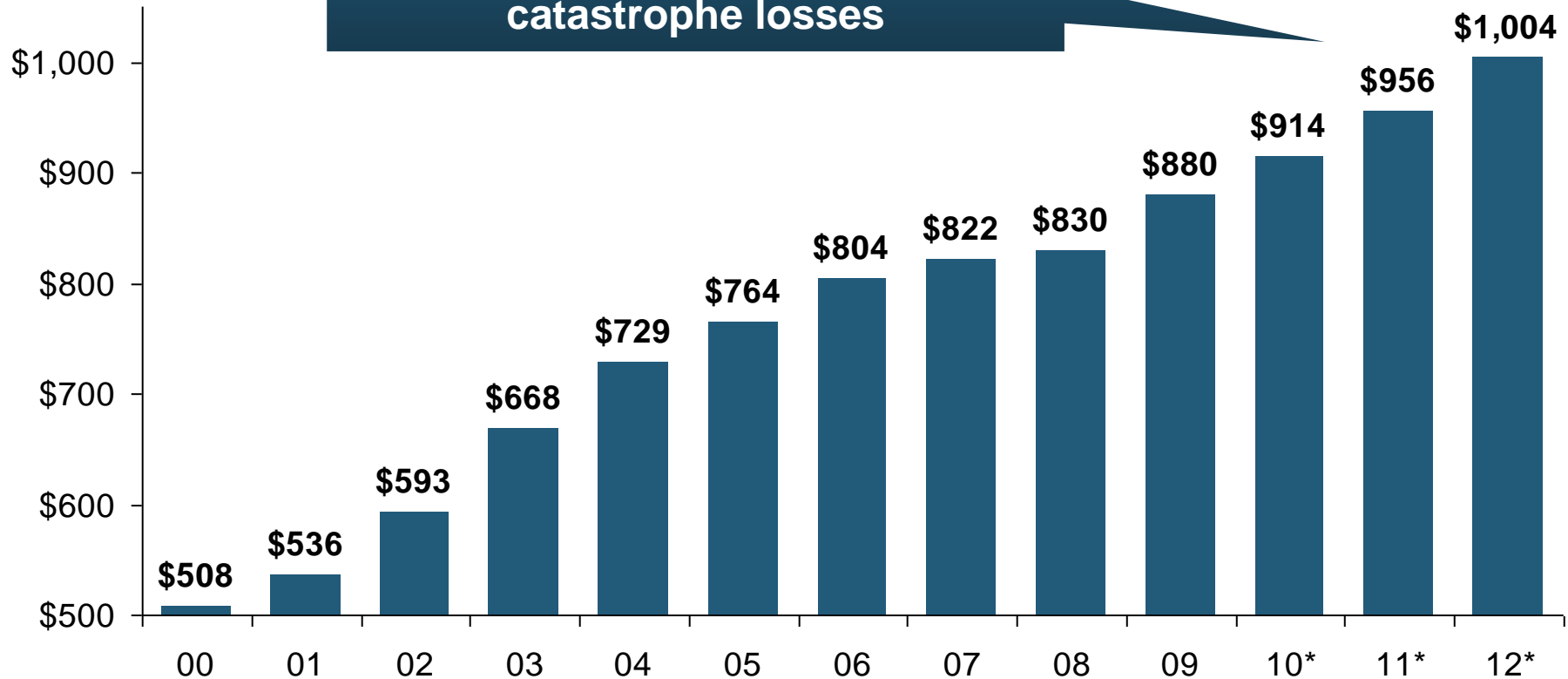
Annual Change, 2007 through 2012F



**FL's Construction Sector, One of Most Critical of FL's Growth Engines, Remains in a Deep Recession**

# Average Premium for Home Insurance Policies\*\*

Home insurance premiums are rising in response to higher catastrophe losses

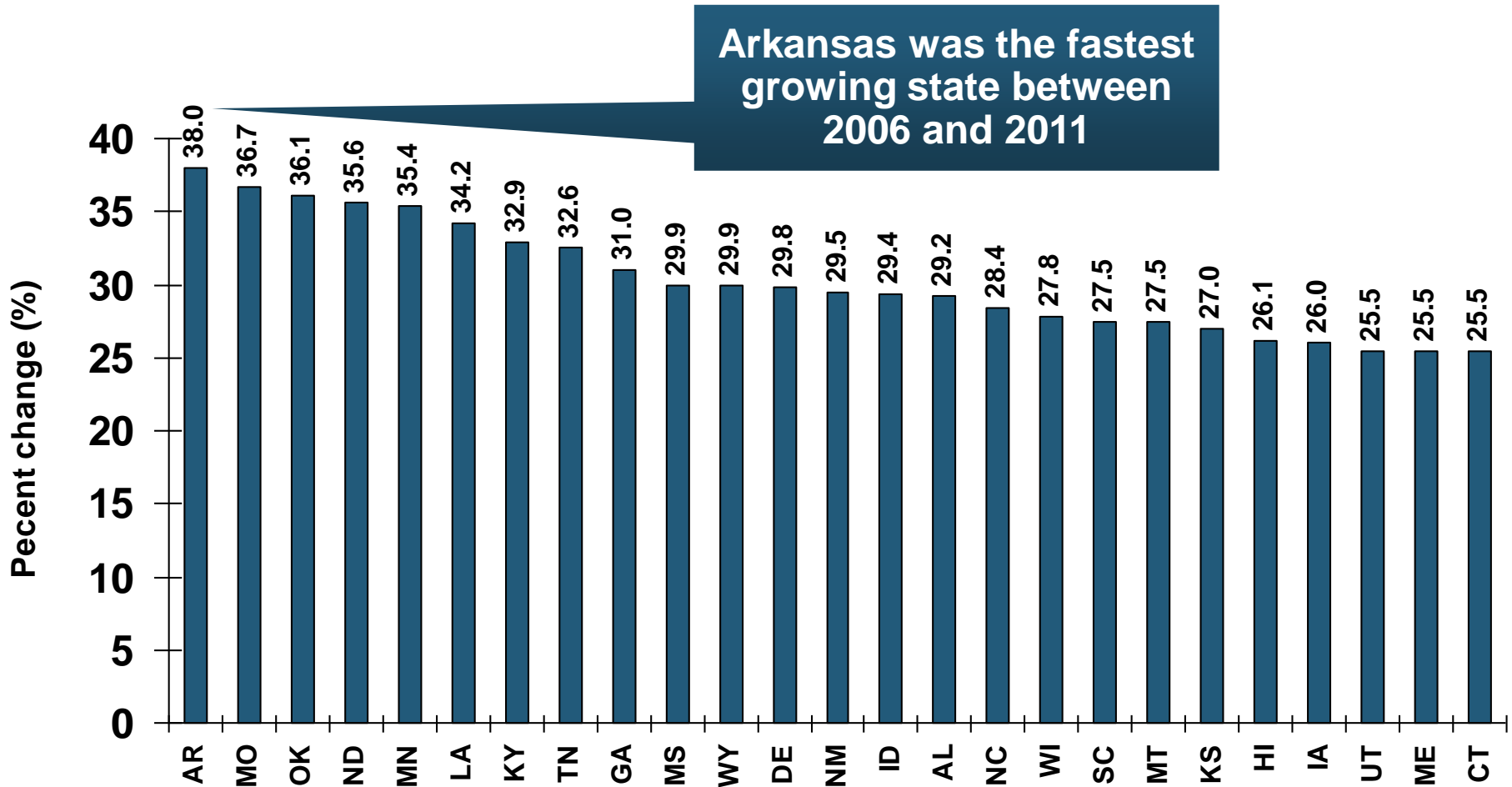


\* Insurance Information Institute Estimates/Forecasts \*\*Excludes state-run insurers.

Source: NAIC, Insurance Information Institute estimates 2010-2012 based on CPI and other data.

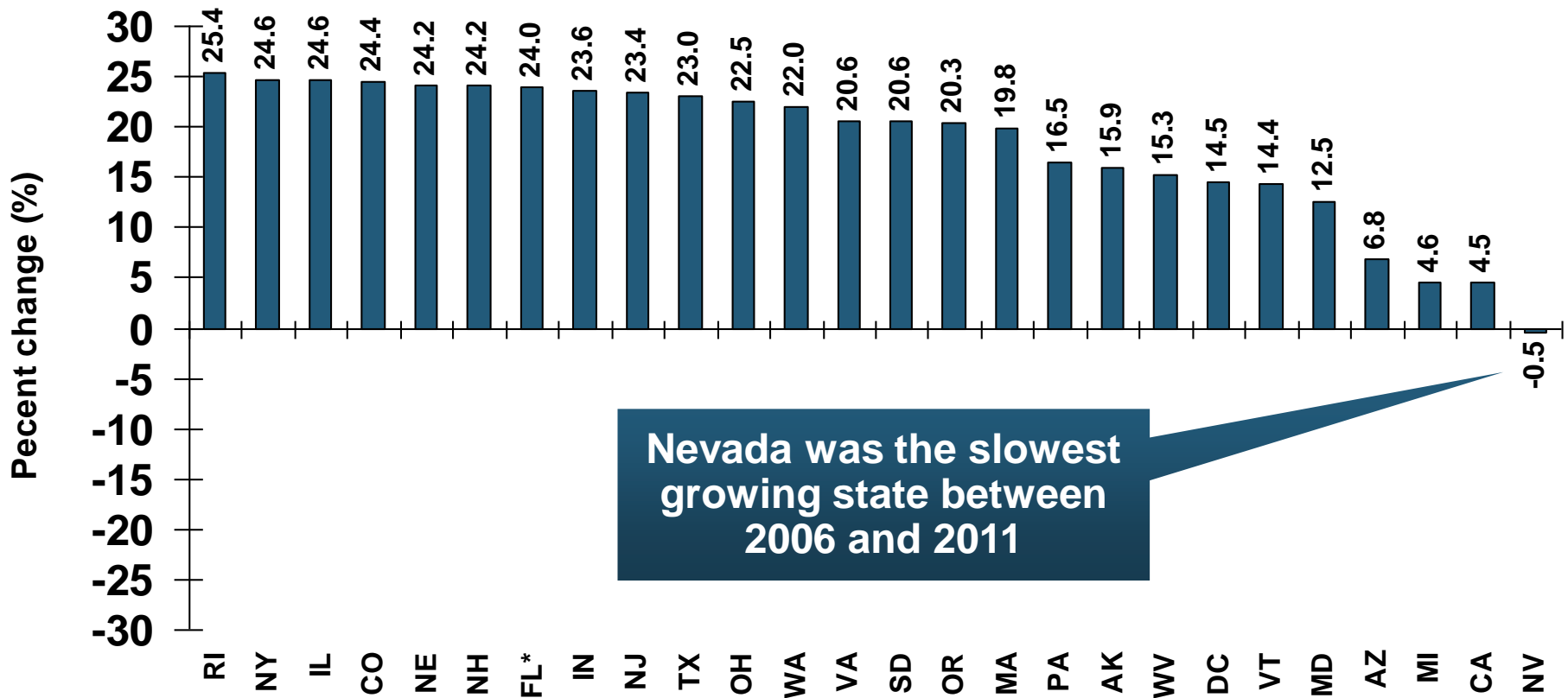
# Direct Premiums Written: Home Percent Change by State, 2006-2011

## Top 25 States



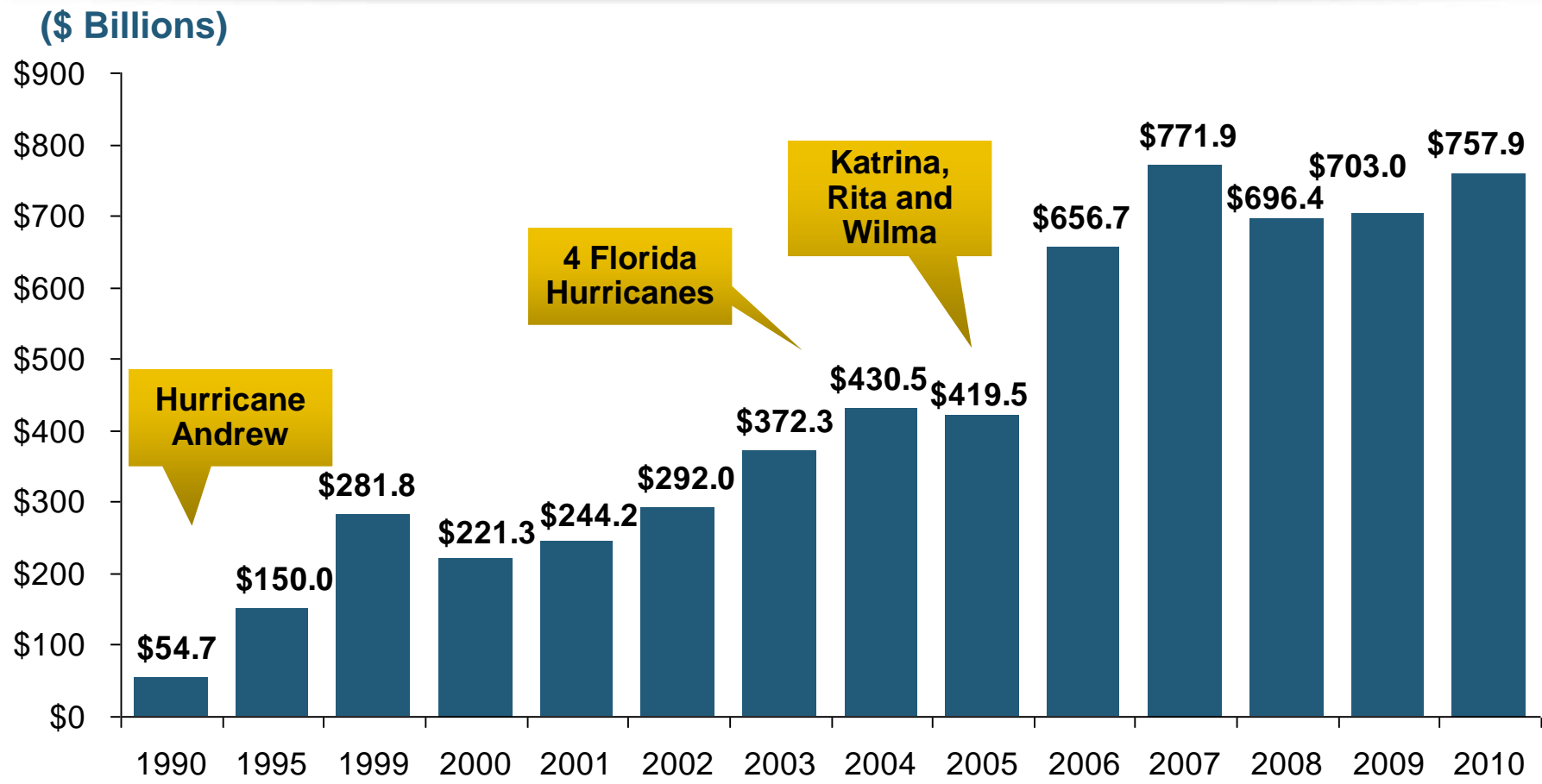
# Direct Premiums Written: Home Percent Change by State, 2006-2011

## Bottom 25 States



\*FL data are for the period 2005-2010. Data for 2011 inclusive of Florida Citizens are not yet available.

# U.S. Residual Market Exposure to Loss (\$ Billions)

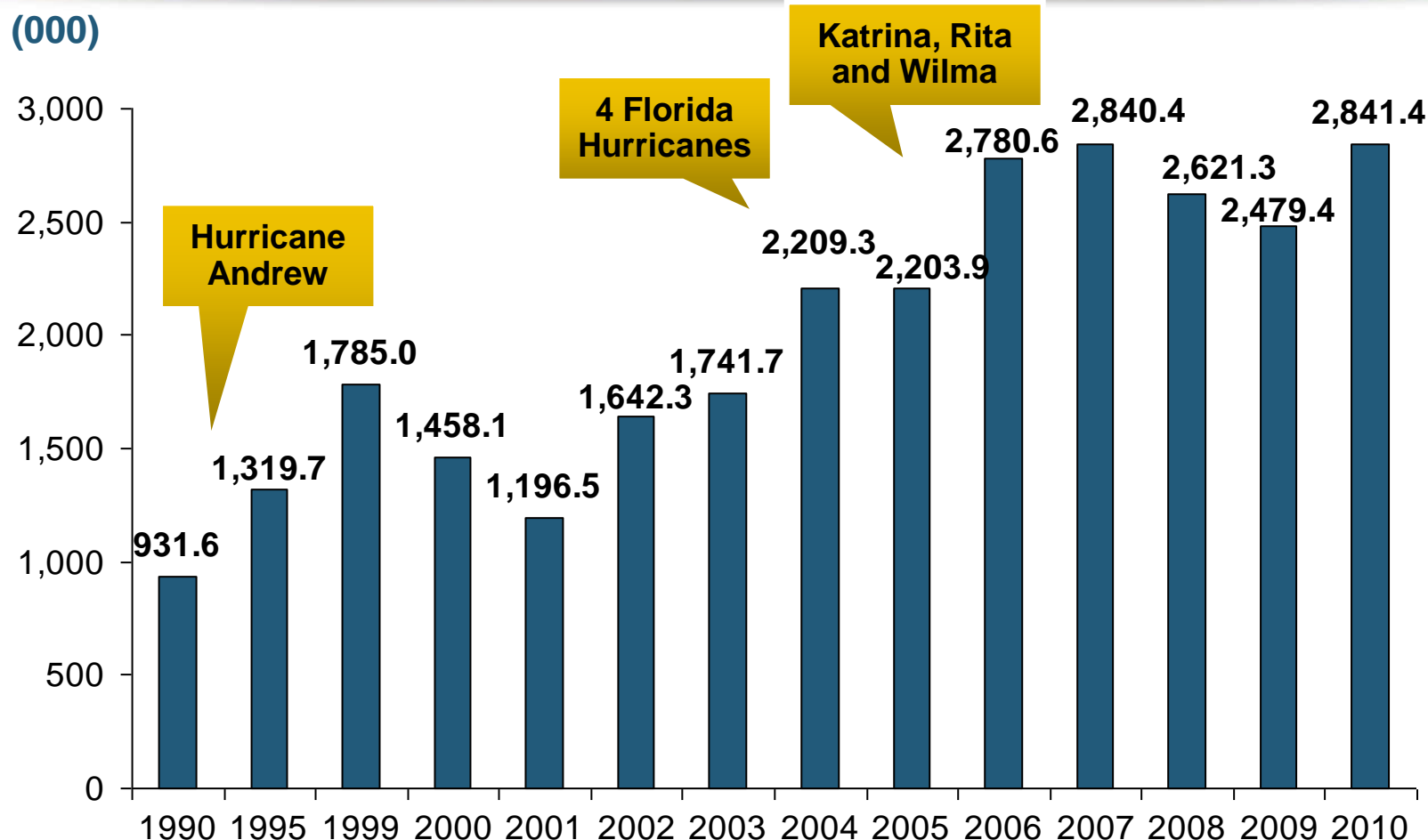


**In the 21-year period from 1990 through 2010, total exposure to loss in the residual market (FAIR & Beach/Windstorm) Plans has surged from \$54.7 billion in 1990 to \$757.9 billion in 2010.**

Source: PIPSO; Insurance Information Institute (I.I.I.).



# U.S. Residual Market: Total Policies In-Force (1990-2010) (000)

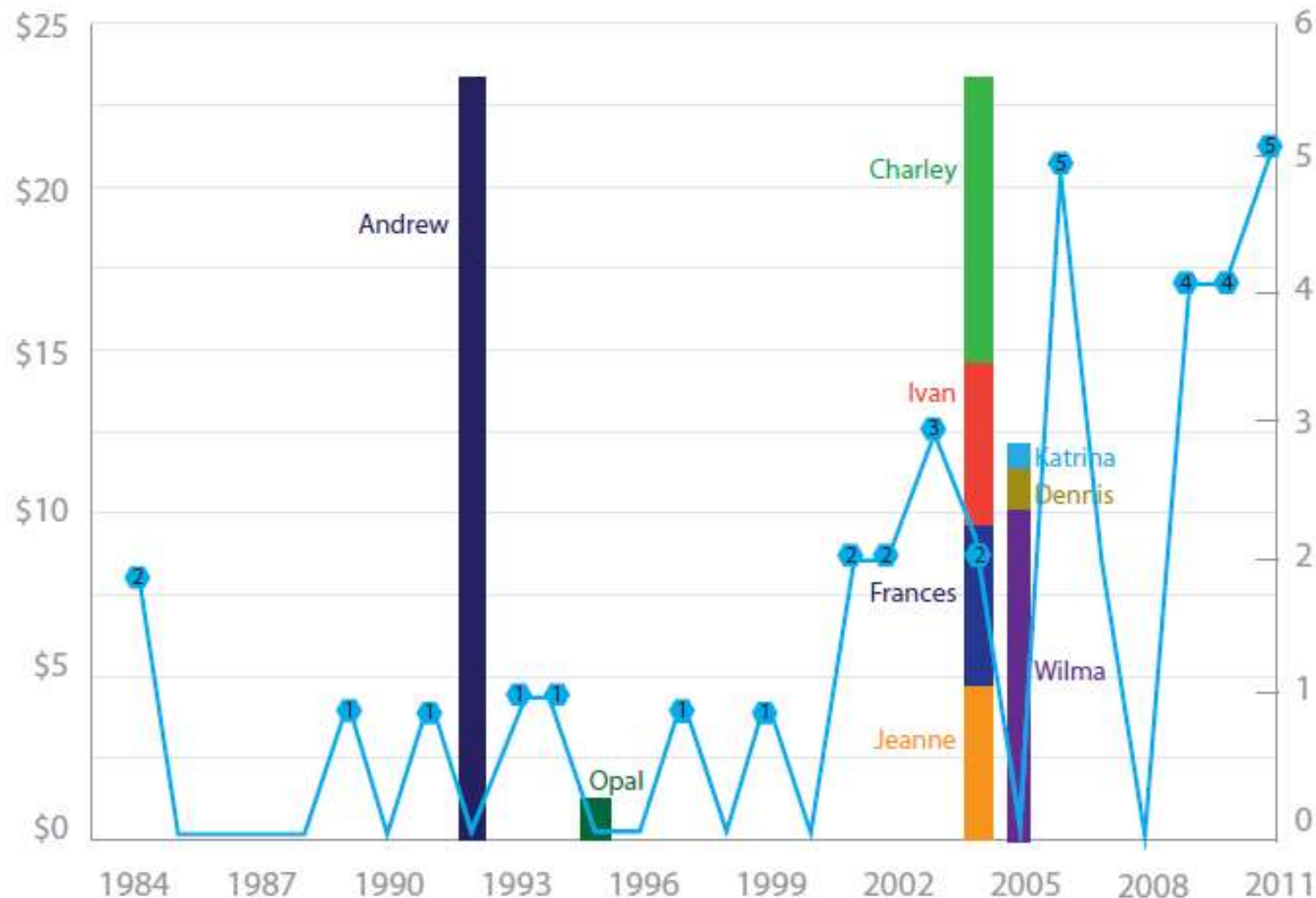


**In the 21-year period between 1990 and 2010, the total number of policies in-force in the residual market (FAIR & Beach/Windstorm) Plans has more than tripled.**

# Hurricanes, Insolvencies and Insured Losses, 1984-2011

Insured Loss (\$ Bill, 2009 Dollars)

No. of Insolvent Insurers



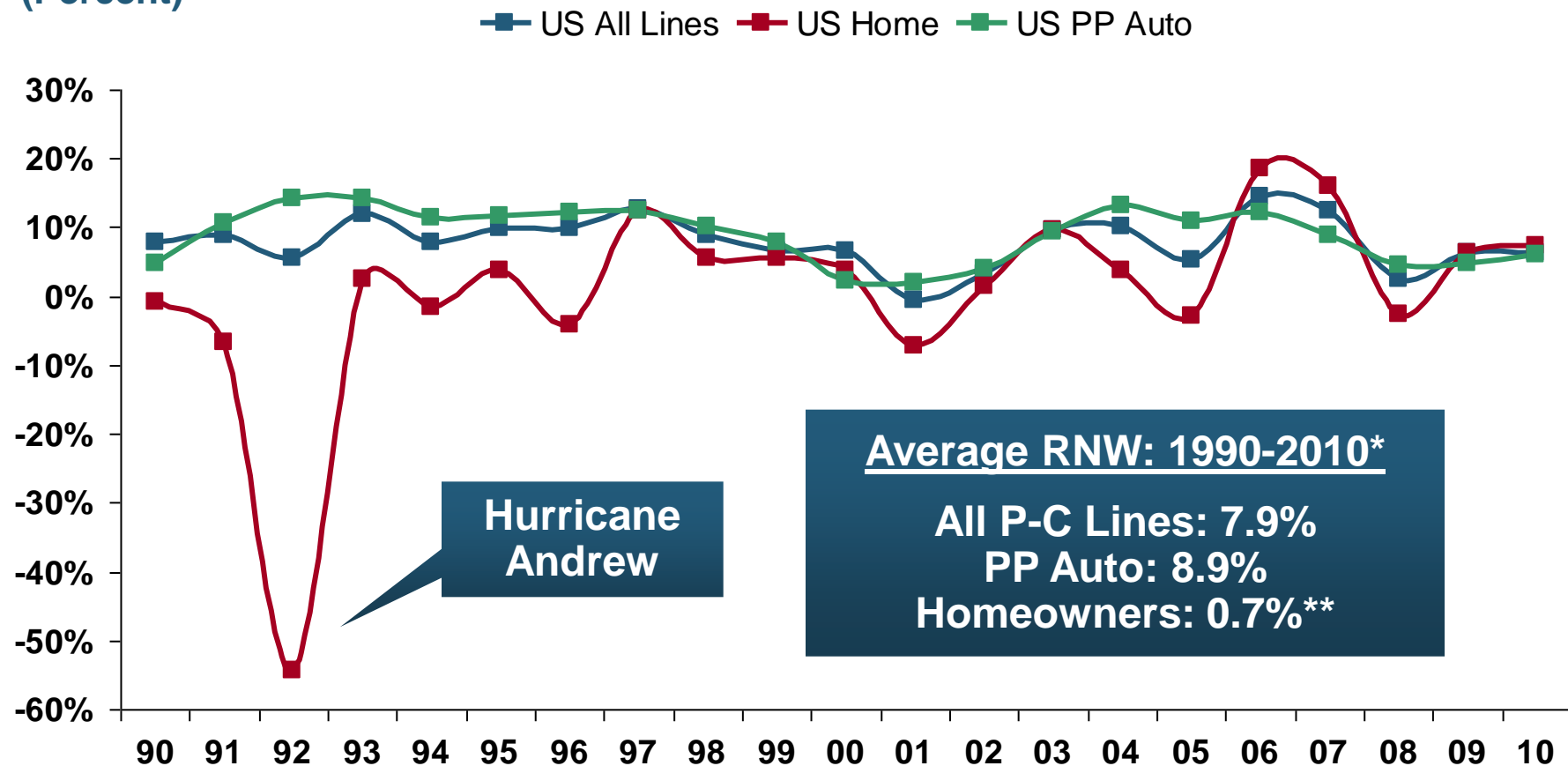
Sources: Florida TaxWatch, *Risk & Reform: A Florida TaxWatch Analysis of Florida's Property Insurance System*, November 2011, citing the Insurance Information Institute and the Florida Hurricane Fact File.

# **Personal Lines Profitability Analysis**

**Significant Variability Over  
Time and Across States**

# Return on Net Worth: All P-C Lines vs. Homeowners & Pvt. Pass. Auto, 1990-2010\*

(Percent)



**Pvt.Pass. Auto Has Consistently Outperformed the P-C Industry as a Whole. Homeowners Volatility is Associated Primarily With Coastal Exposure Issues**

\*Latest available.

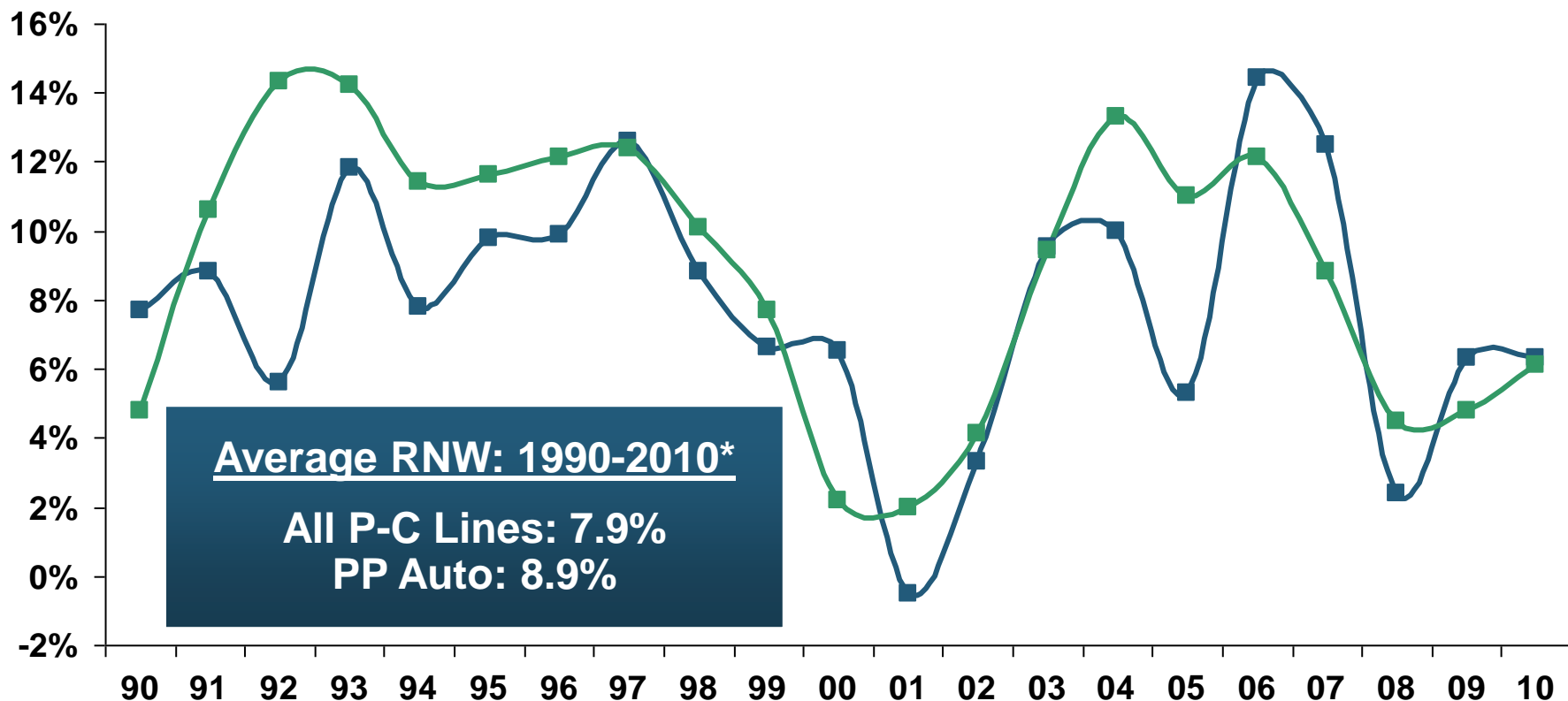
\*\*Excluding 1992, the Hurricane Andrew, produces a homeowners RNW of 3.5%.

Sources: NAIC.

# Return on Net Worth: All P-C Lines vs. Pvt. Pass. Auto, 1990-2010\*

(Percent)

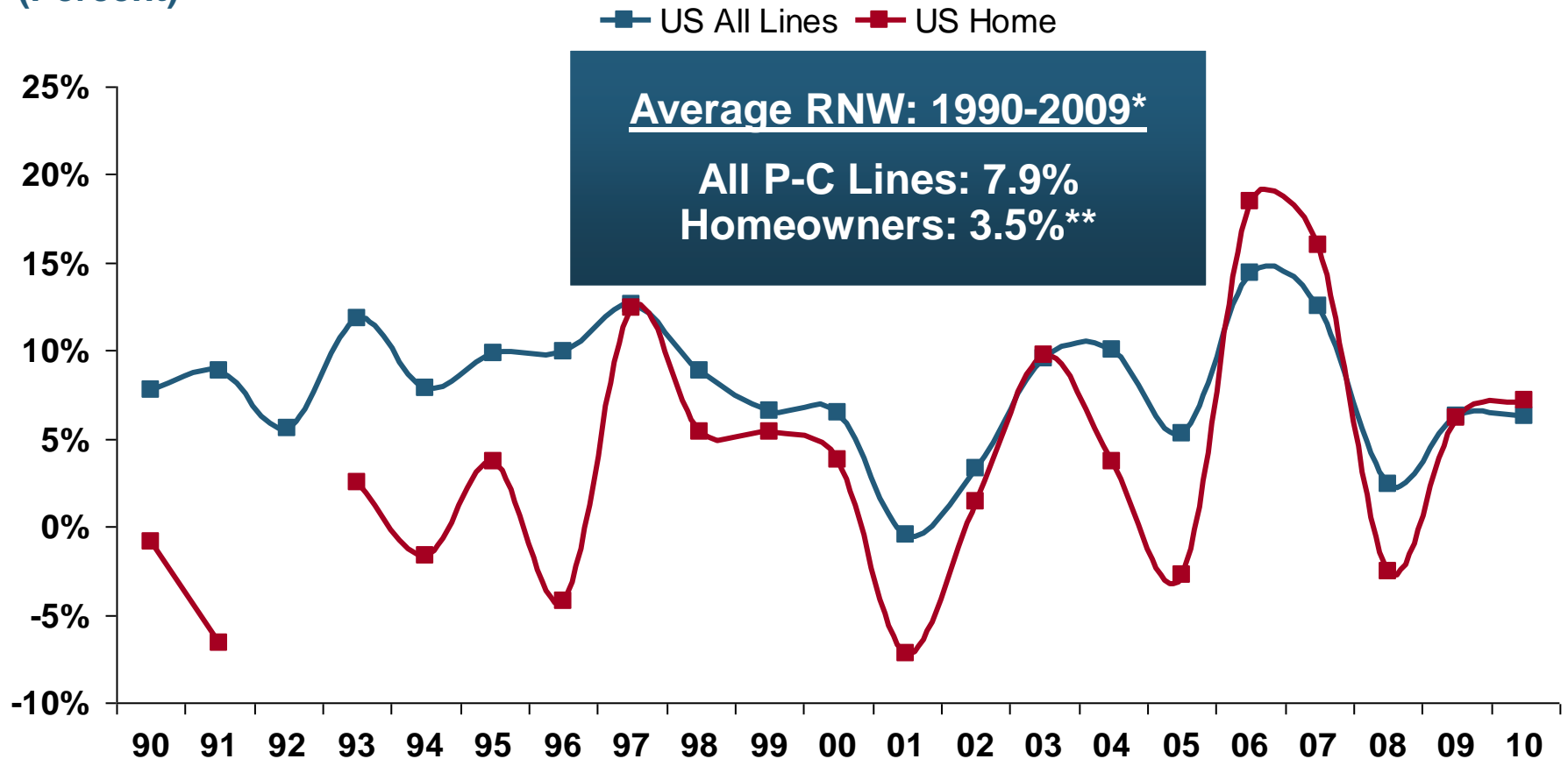
■ US All Lines ■ US PP Auto



**Pvt.Pass. Auto Profitability Has Exceeded the P-C Industry as a Whole in 13 of the 21 Years from 1990-2010 (Inclusive)**

# Return on Net Worth: All P-C Lines vs. Homeowners, 1990-2010\*

(Percent)



**Homeowners Insurance Is Considerably More Volatile than the Market Overall Due to Coastal Exposure and Interior Wind/Hail Events**

\*Latest available.

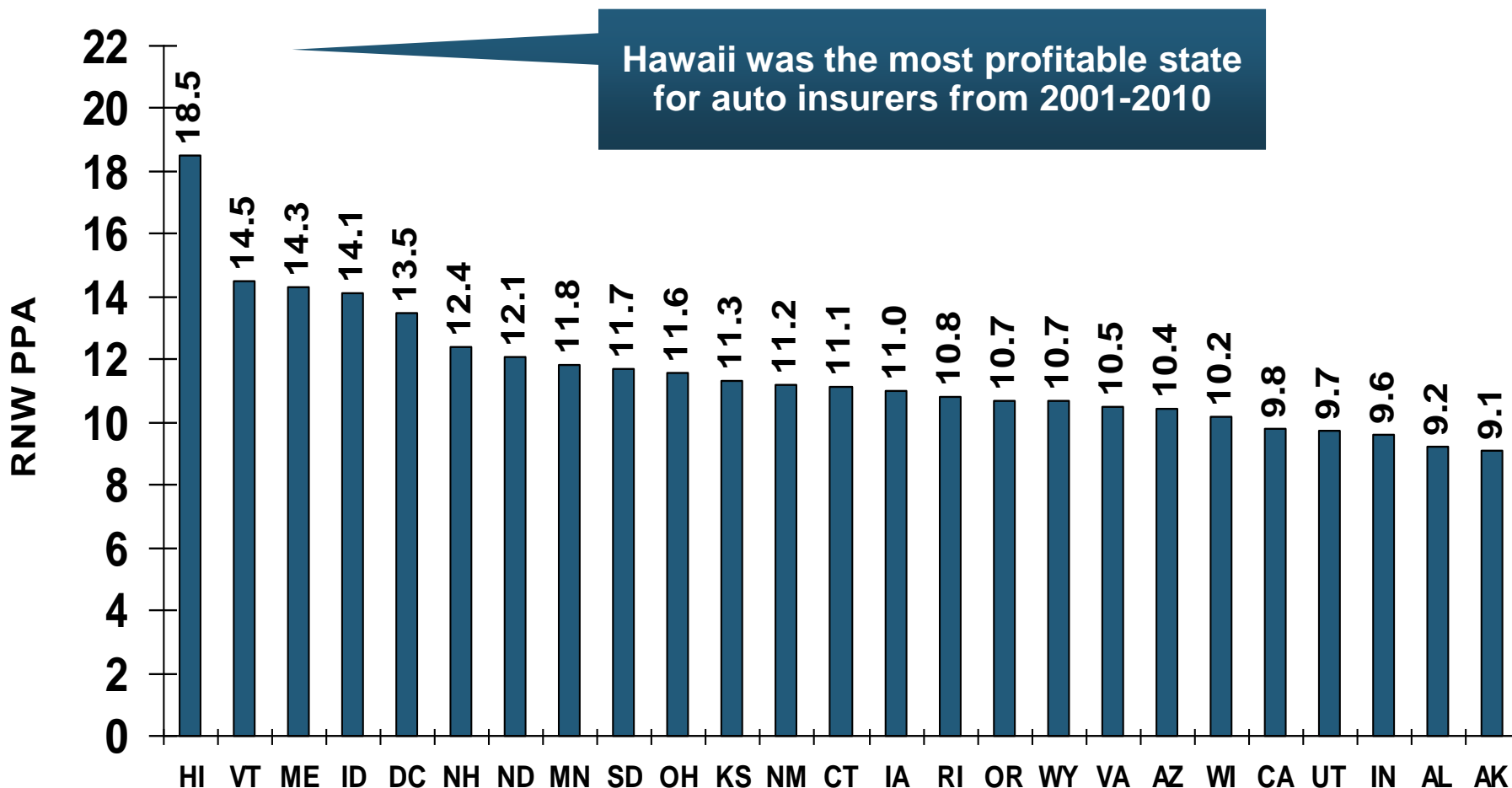
\*\*Excluding Hurricane Andrew (1992); including 1992 produces an average homeowners RNW of 0.7%.

Sources: NAIC.

# Return on Net Worth: Pvt. Passenger Auto, 10-Year Average (2001-2010\*)

## Top 25 States

(Percent)



\*Latest available.

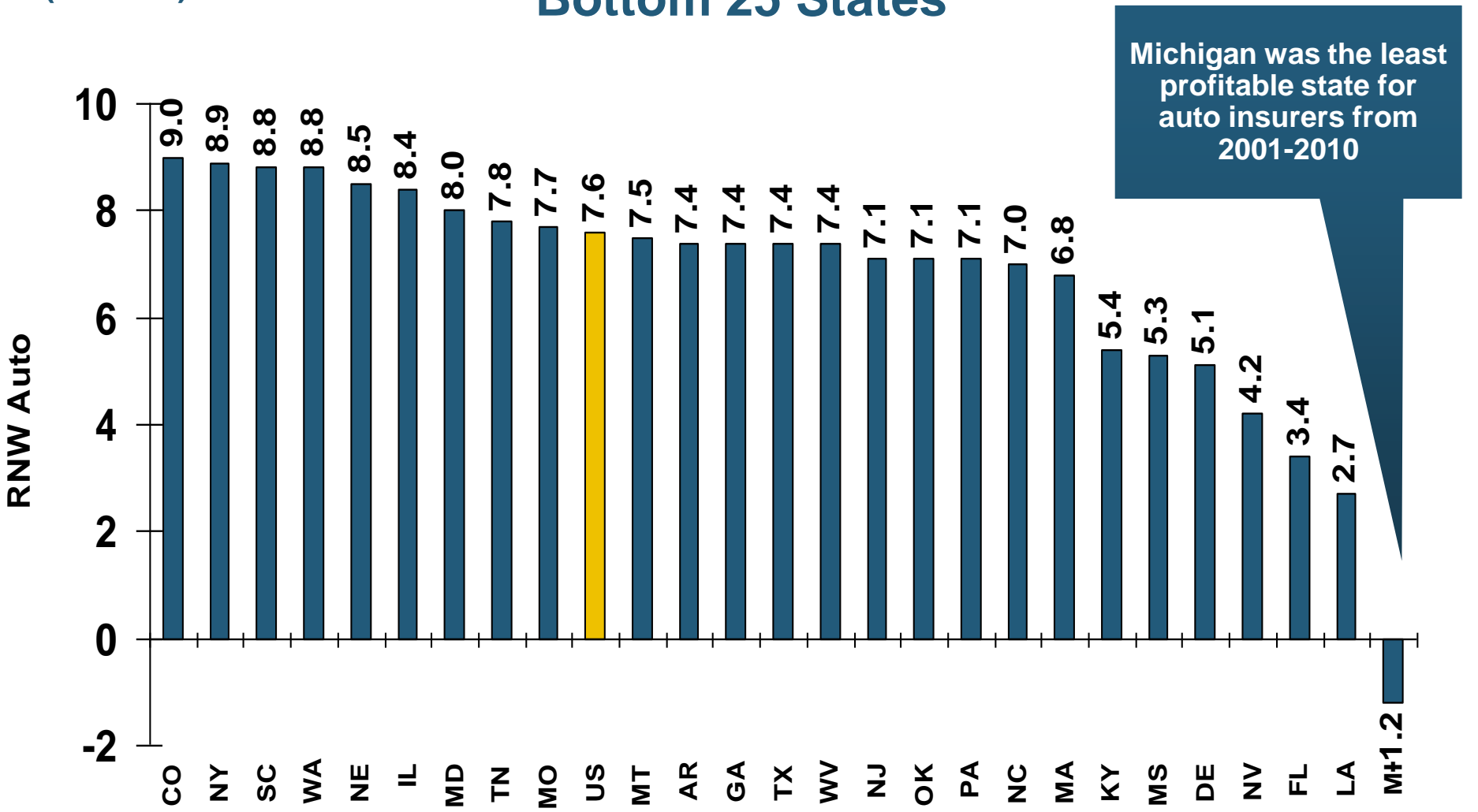
Sources: NAIC.

# Return on Net Worth: Pvt. Passenger Auto, 10-Year Average (2001-2010\*)



(Percent)

## Bottom 25 States



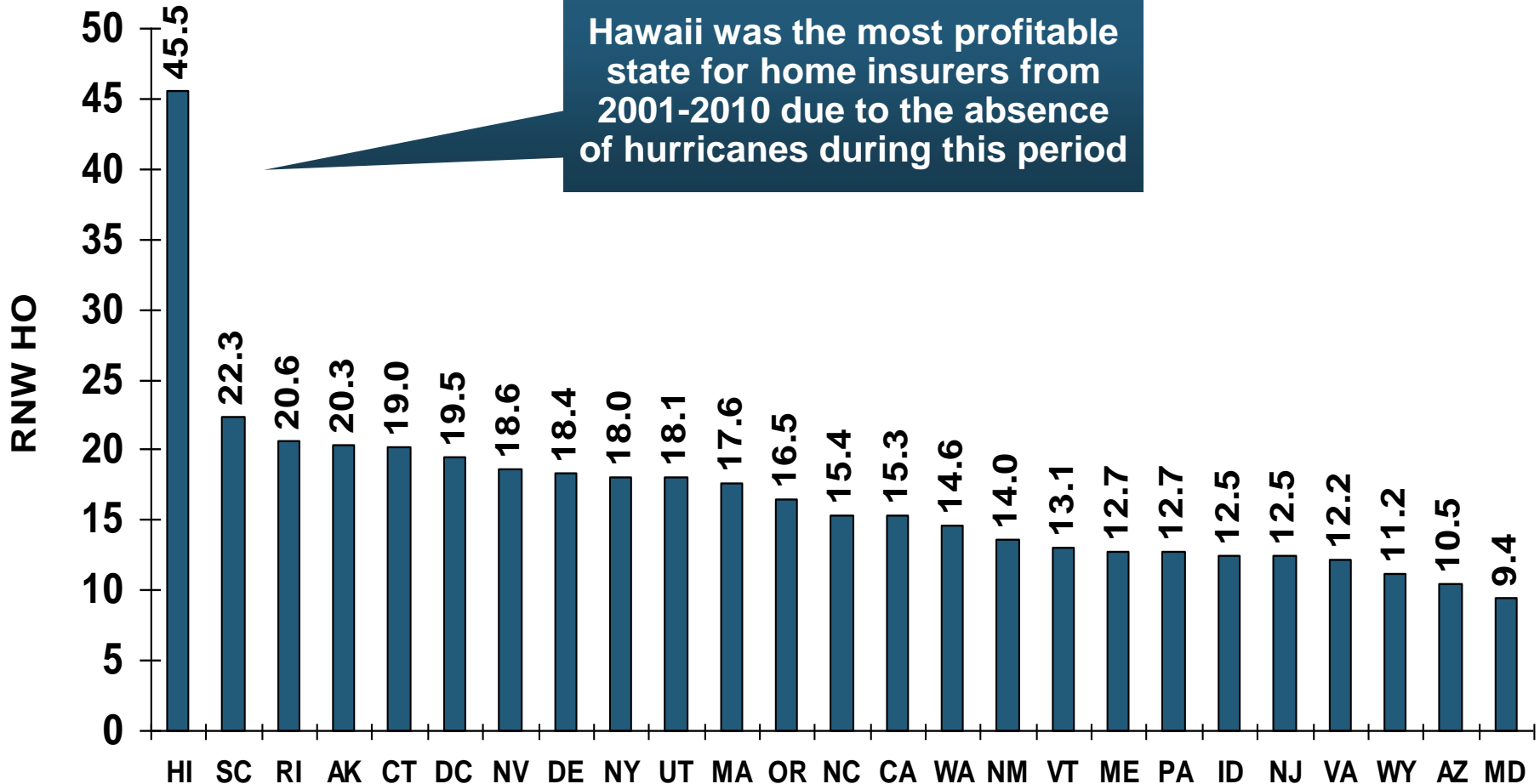
\*Latest available.  
Sources: NAIC



# Return on Net Worth: Homeowners Insurance, 10-Year Average (2001-2010\*)

## Top 25 States

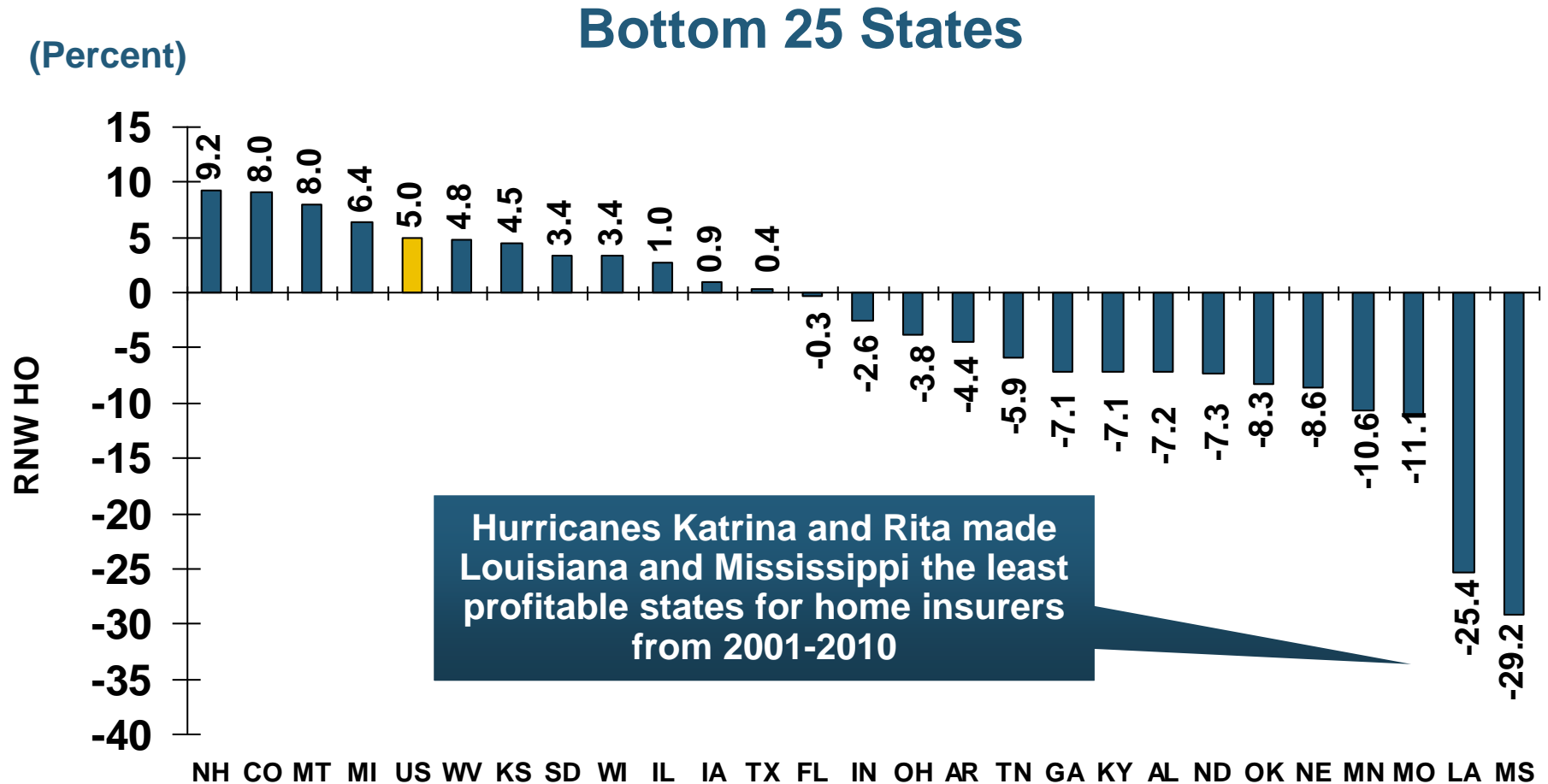
(Percent)



\*Latest available.

Sources: NAIC.

# Return on Net Worth: Homeowners Insurance, 10-Year Average (2001-2010\*)



# **Global Catastrophe Loss Developments and Trends**

**2011 Will Rewrite Catastrophe Loss  
and Insurance History**

***But Will Losses Turn the Market?***

# Global Catastrophe Loss Summary: 2011

## ■ 2011 Was the *Highest* Loss Year on Record for Economic Losses Globally

- ◆ Extraordinary accumulation of severe natural catastrophe: Earthquakes, tsunami, floods and tornadoes are the primary causes of loss

## ■ \$380 Billion in *Economic* Losses Globally (New Record)

- ◆ New record, exceeding the previous record of \$270B in 2005

## ■ \$105 Billion in *Insured* Losses Globally

- ◆ 2011 losses were 2.5 times 2010 insured losses of \$42B
- ◆ Second only to 2005 on an inflation adjusted basis (new record on a unadjusted basis)
- ◆ Over 5 times the 30-year average of \$19B

## ■ \$72.8 Billion in *Economic* Losses in the US

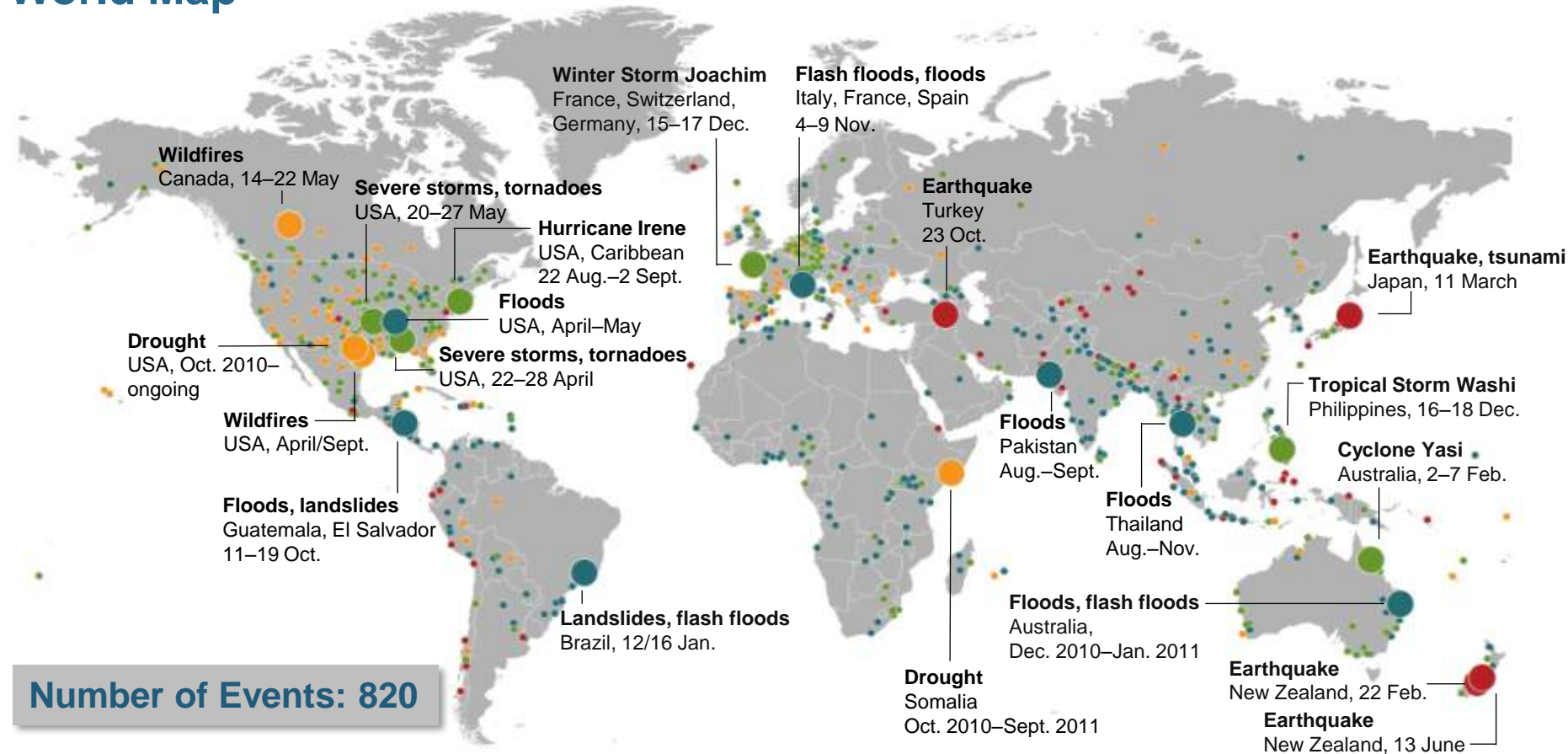
- ◆ Represents a 129% increase over the \$11.8 billion amount through the first half of 2010

## ■ \$35.9 Billion in *Insured* Losses in the US Arising from 171 CAT Events

- ◆ Fifth highest year on record
- ◆ Represents 51% increase over the \$23.8 billion total in 2010

# Natural Loss Events, 2011

## World Map



○ **Natural catastrophes**

○ **Selection of significant  
loss events (see table)**

● **Geophysical events**  
(earthquake, tsunami, volcanic activity)

● **Meteorological events**  
(storm)

● **Hydrological events**  
(flood, mass movement)

● **Climatological events**  
(extreme temperature, drought, wildfire)

# Natural Catastrophes Worldwide, 2011

## Overview and Comparison with Previous Years

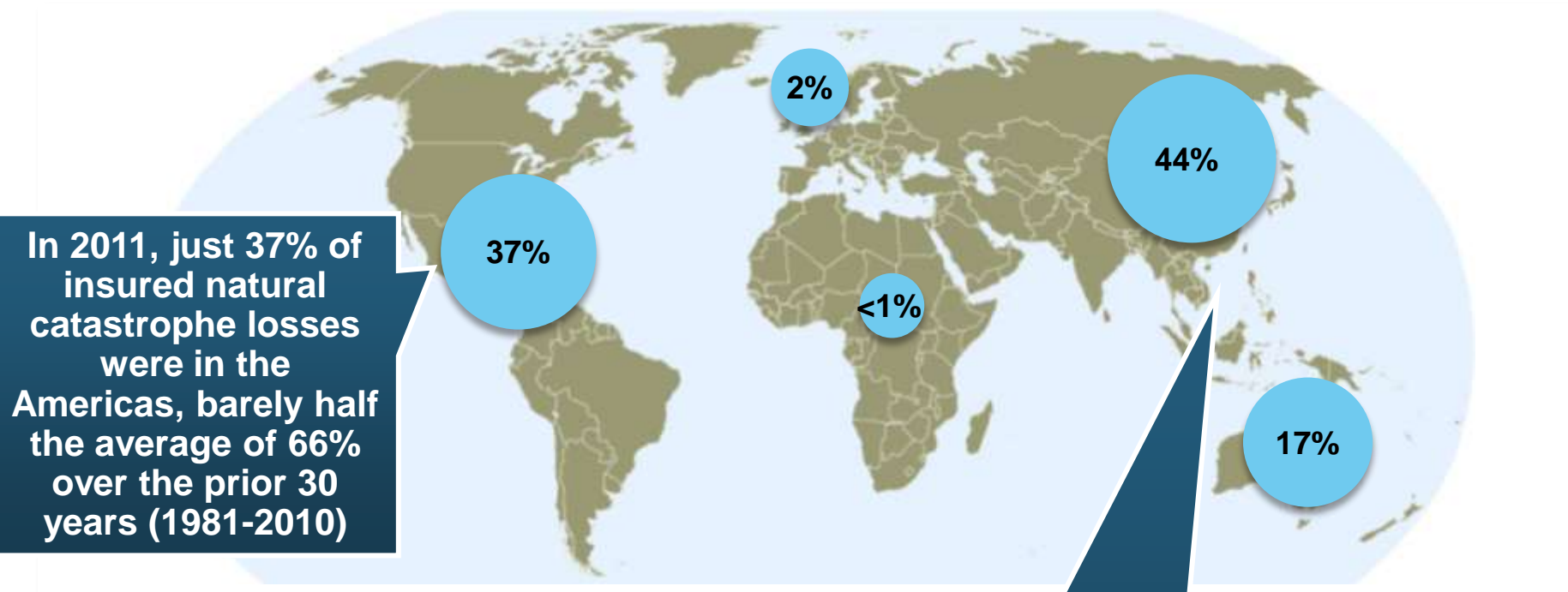
	2011	2010	Average of the last 10 years 2001-2010	Average of the last 30 years 1981-2010	Top Year 1981- 2010
Number of events	820	970	790	630	<b>2007 (1,025)</b>
Overall losses in US\$ m (original values)	380,000	152,000	113,000	75,000	<b>2005 (227,000)</b>
Insured losses in US\$ m (original values)	105,000	42,000	35,000	19,000	<b>2005 (101,000)</b>
Fatalities	27,000	296,000	106,000	69,000	<b>2010 (296,000)</b>

# 5 Costliest Natural Catastrophes Worldwide in Terms of Insured Losses, 2011 (\$Mill)

Date	Region	Event	Fatalities	Overall losses US\$ m	Insured losses US\$ m
March 11	Japan	Earthquake, tsunami	15,840	210,000	35,000-40,000
Feb. 22	New Zealand	Earthquake	181	16,000	13,000
Aug. 1 – Nov. 15	Thailand	Floods, landslides	813	40,000	10,000
Apr. 22-28	USA	Severe storms/tornadoes	350	15,000	7,300
Aug. 22 – Sep. 2	USA, Caribbean	Hurricane Irene	55	15,000	7,000

# Natural Catastrophes Worldwide 2011

Insured losses US\$ 105bn - Percentage distribution per continent



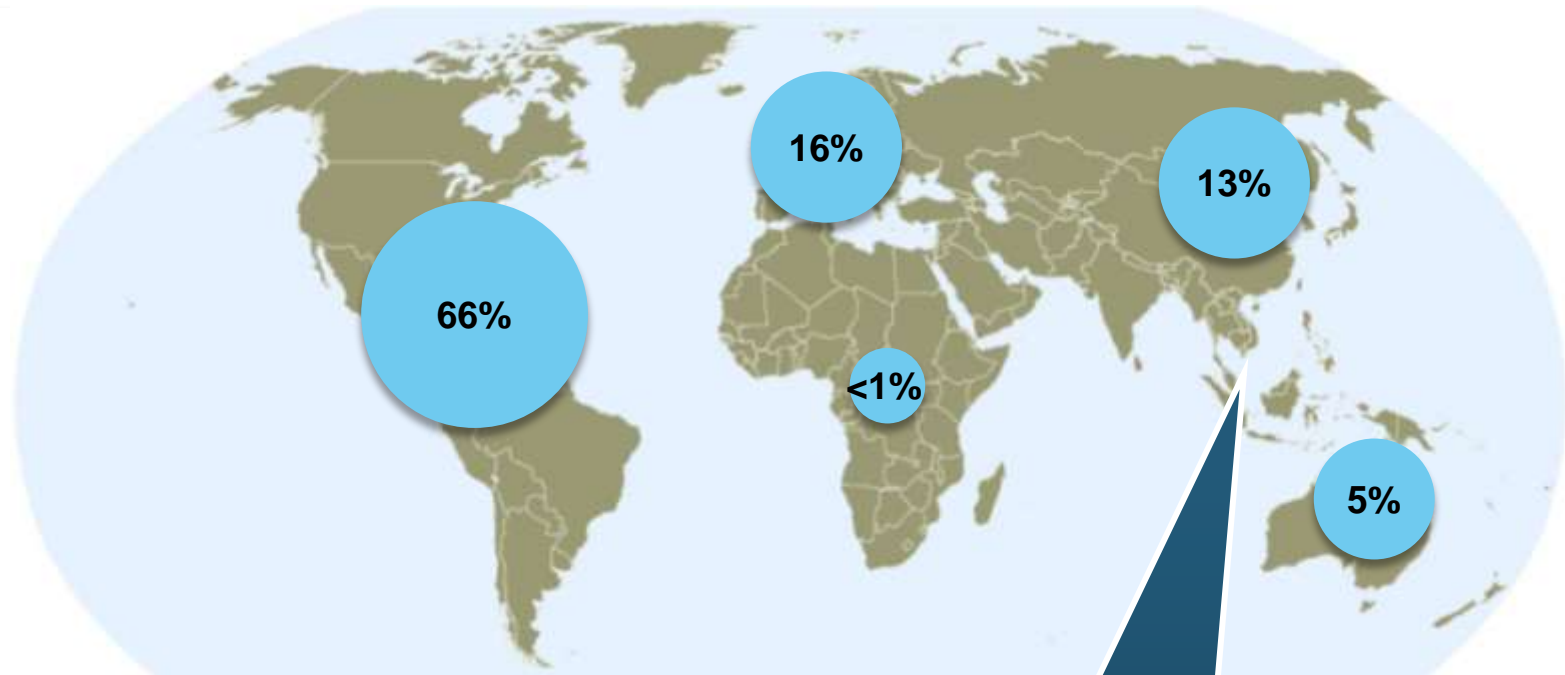
Continent	Insured losses US\$ m
America (North and South America)	40,000
Europe	2,000
Africa	Minor damages
Asia	45,000
Australia/Oceania	18,000

In 2011, 61% of insured natural catastrophe losses were in the Asia/Pacific region, nearly 3.5 times the average of 13% over the prior 30 years (1981-2010)



# Natural Catastrophes Worldwide 1980 – 2011

Insured losses US\$ 870bn - Percentage distribution per continent



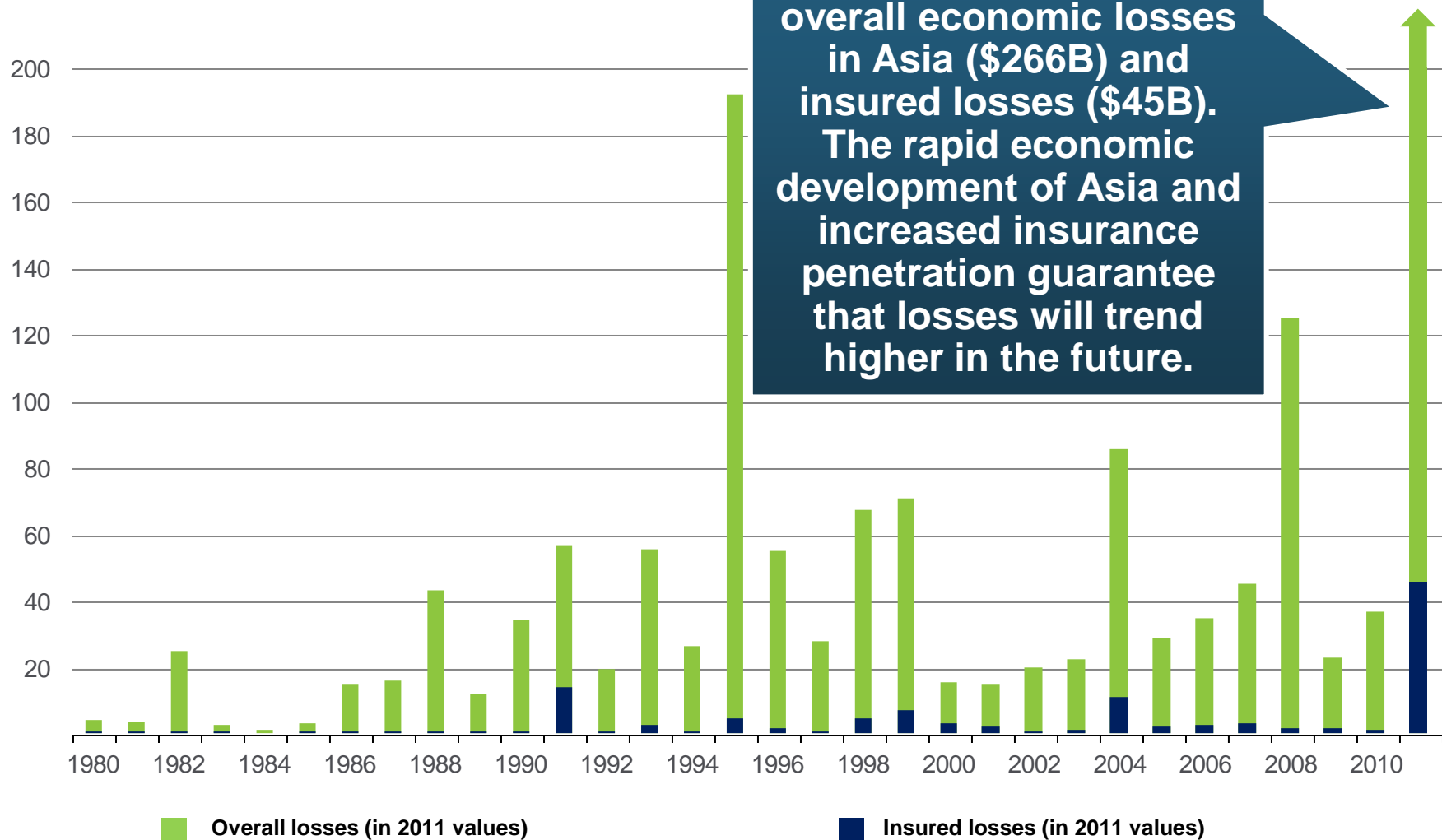
Continent	Insured losses US\$ m
America (North and South America)	566,000
Europe	146,000
Africa	2,000
Asia	115,000
Australia/Oceania	41,000

**In 2011, 61% of natural catastrophe losses were in the Asia/Pacific region, nearly 3.5 times the average of 13% over the prior 30 years (1981-2010)**

# Natural Catastrophes in Asia 1980 – 2011

Overall and insured losses in 2011 Dollars

(\$ Billions)

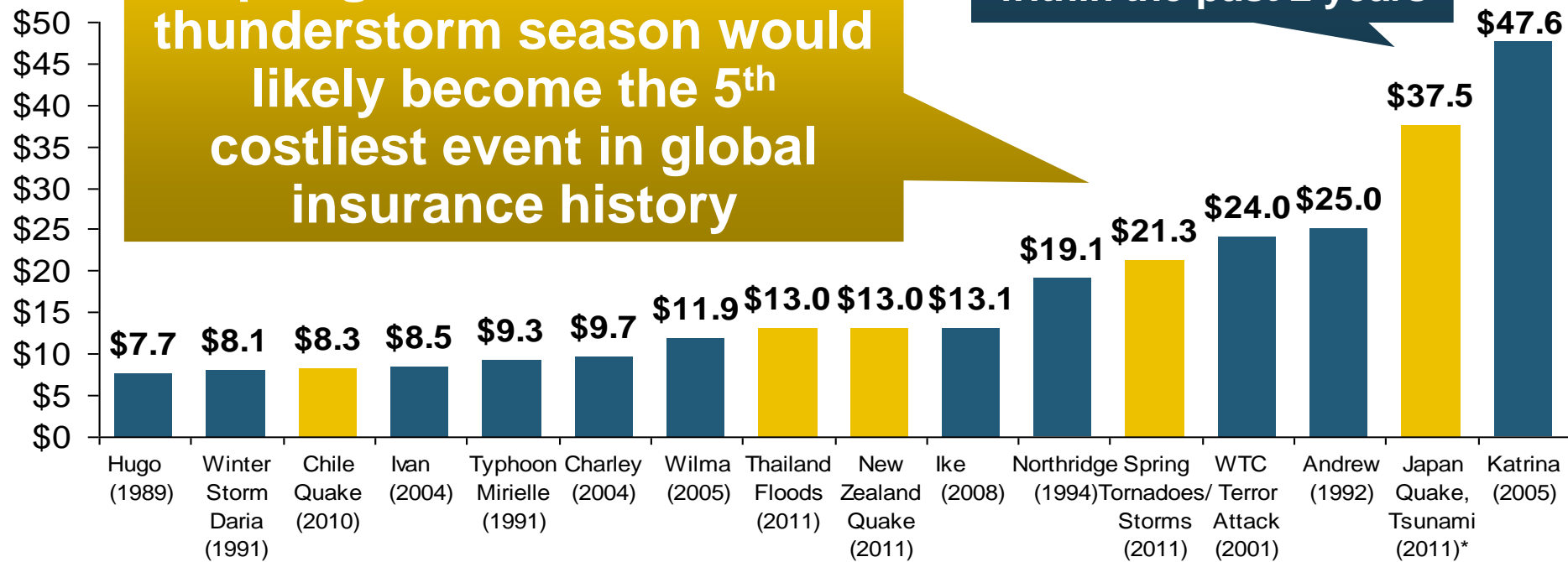


# Top 16 Most Costly World Insurance Losses, 1970-2011\*\*

(Insured Losses, 2011 Dollars, \$ Billions)

**Taken as a single event, the Spring 2011 tornado and thunderstorm season would likely become the 5<sup>th</sup> costliest event in global insurance history**

**5 of the top 14 most expensive catastrophes in world history have occurred within the past 2 years**



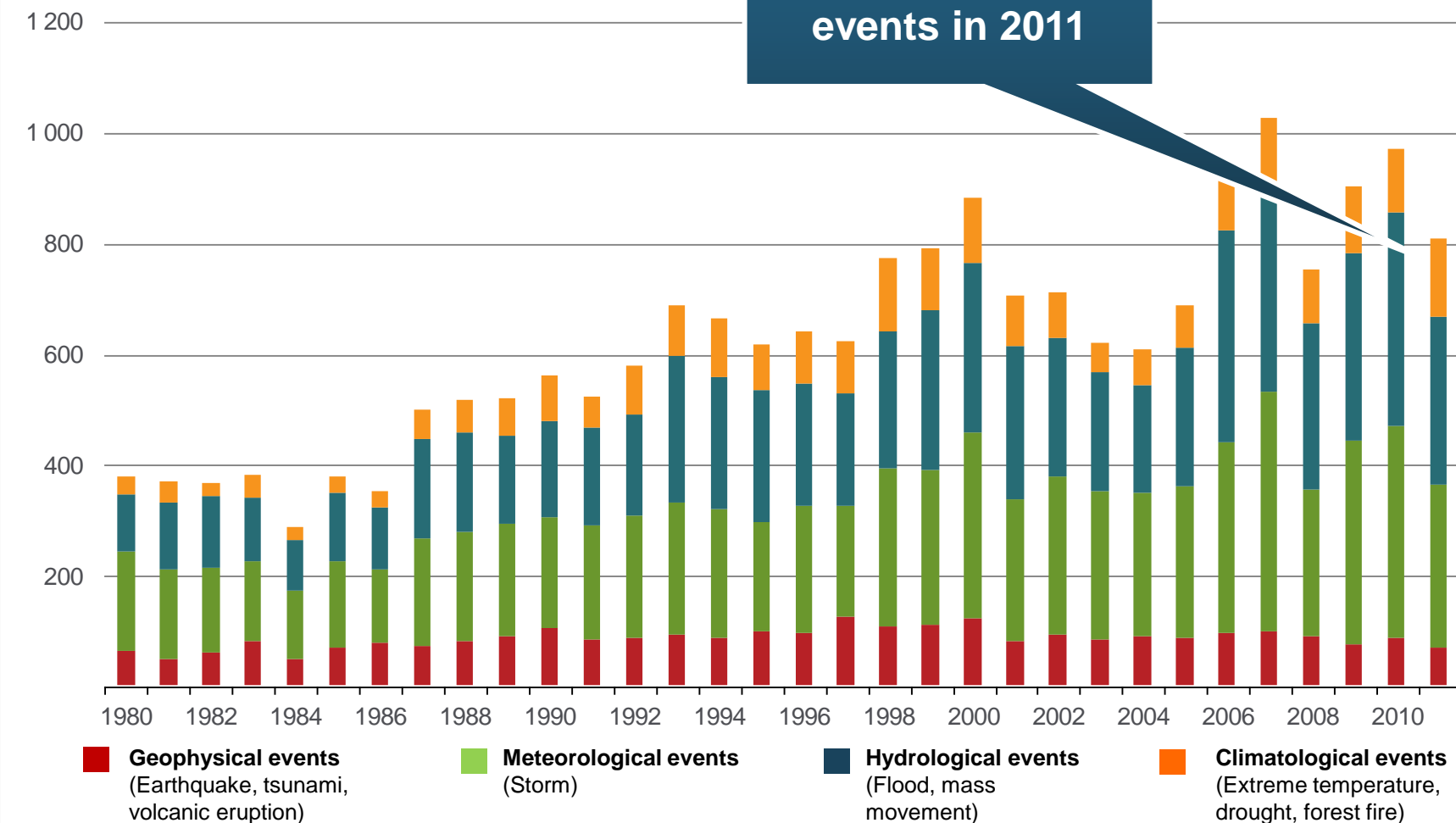
\*Average of range estimates of \$35B - \$40B as of 1/4/12; Privately insured losses only.

\*\*Figures do not include federally insured flood losses.

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

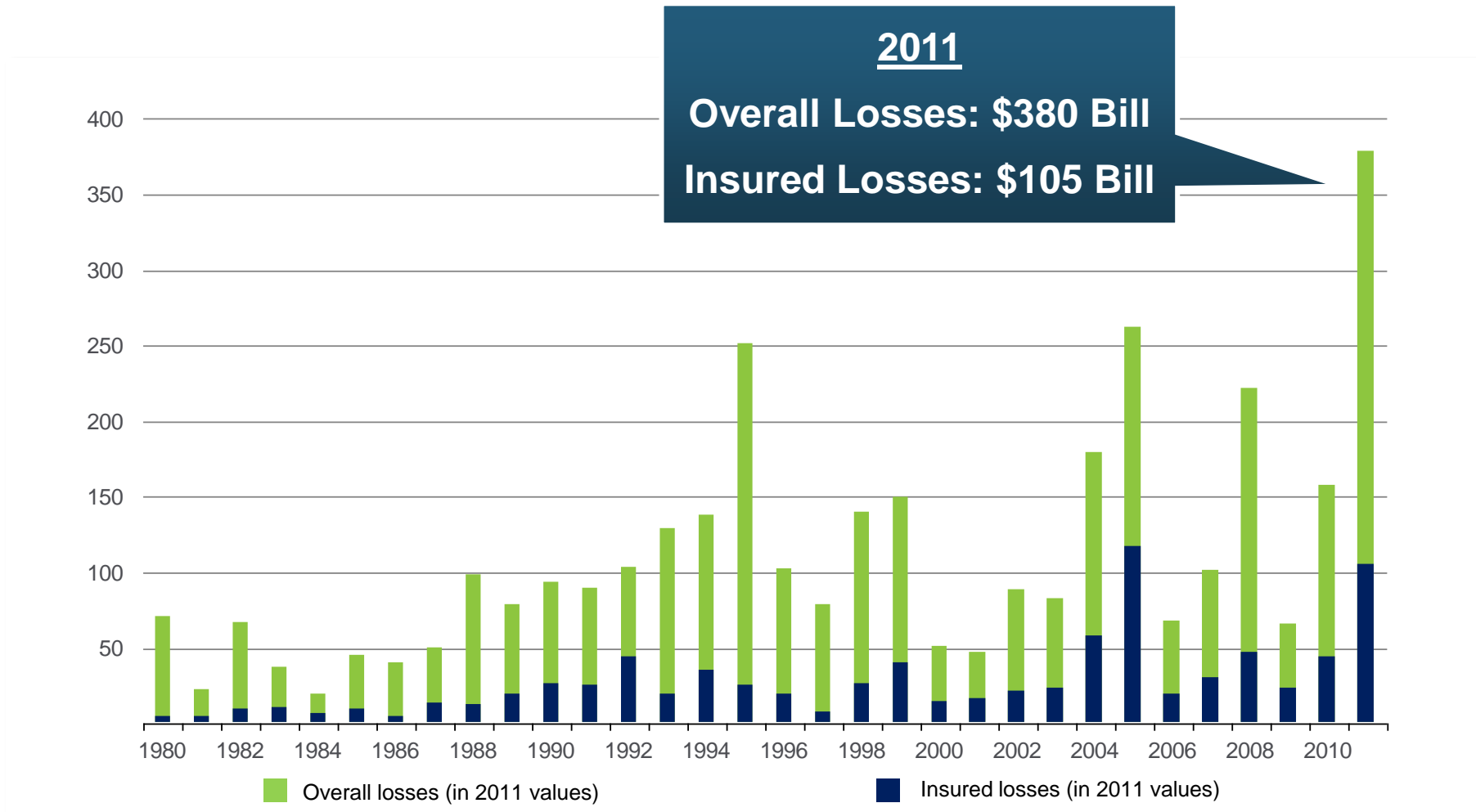
# Worldwide Natural Disasters, 1980 – 2011

## Number of Events



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

(Insured Losses, 2011 Dollars, \$ Billions)



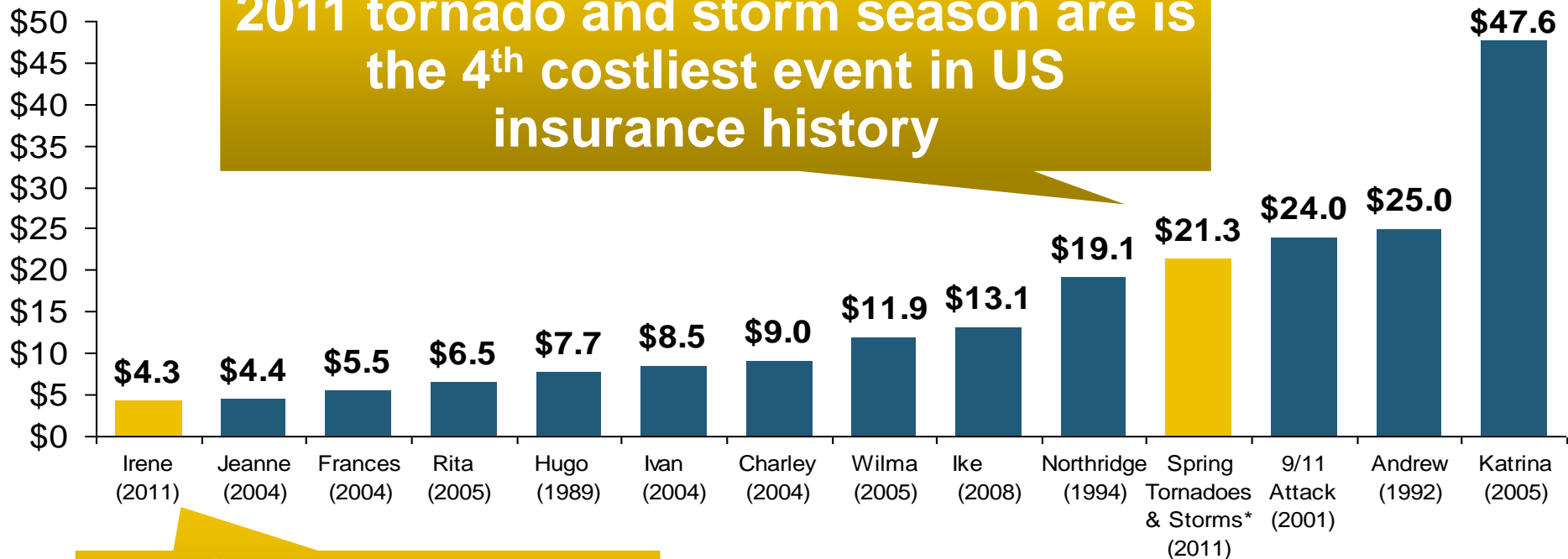
# **U.S. Insured Catastrophe Loss Update**

**2011 Was One of the Most Expensive  
Years on Record**

# Top 14 Most Costly Disasters in U.S. History

(Insured Losses, 2011 Dollars, \$ Billions)

Taken as a single event, the Spring 2011 tornado and storm season are is the 4<sup>th</sup> costliest event in US insurance history



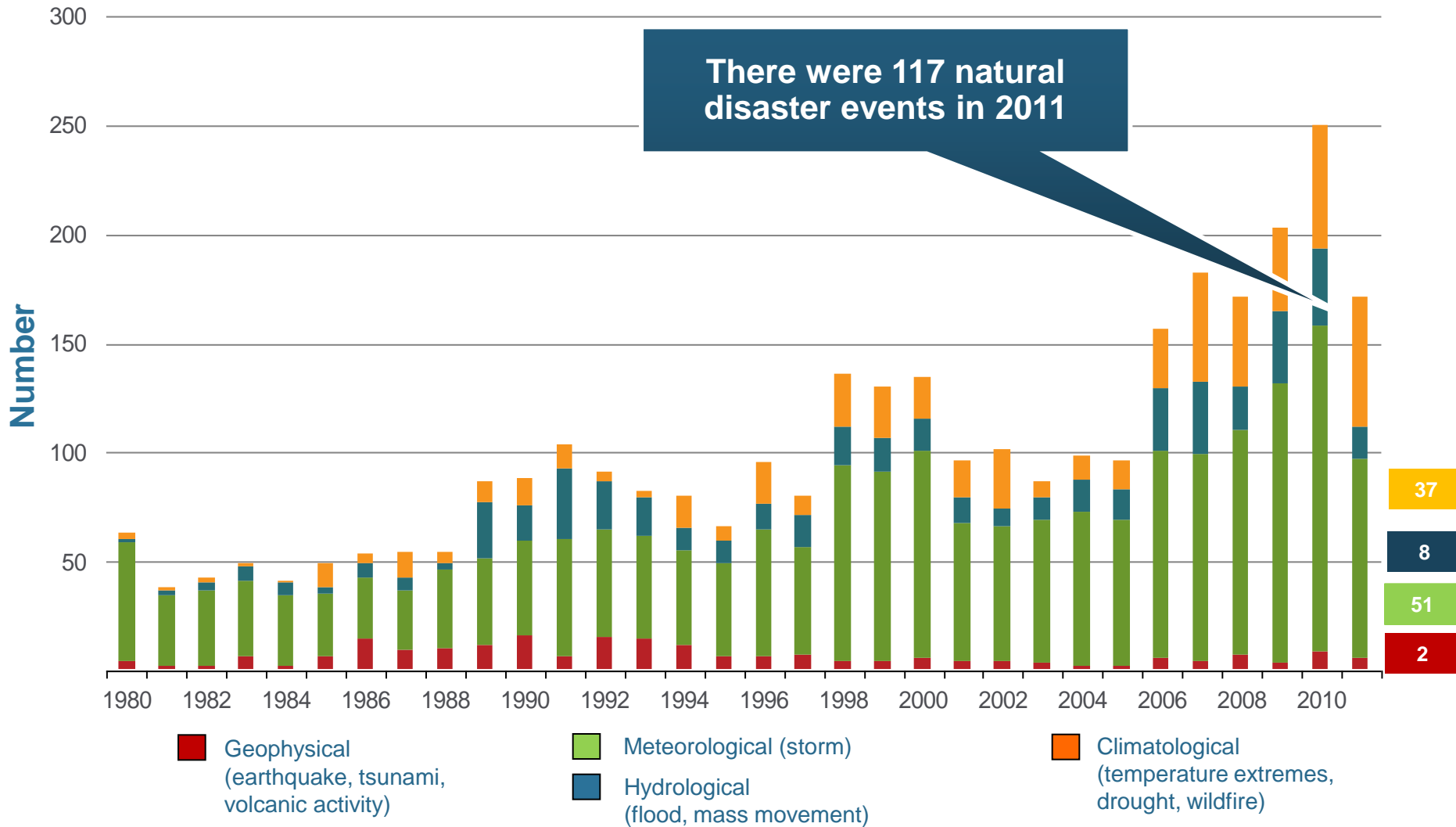
Hurricane Irene became the 11<sup>th</sup> most expensive hurricane in US history

\*Losses will actually be broken down into several "events" as determined by PCS. Includes losses for the period April 1 – June 30.

Sources: PCS; Insurance Information Institute inflation adjustments.

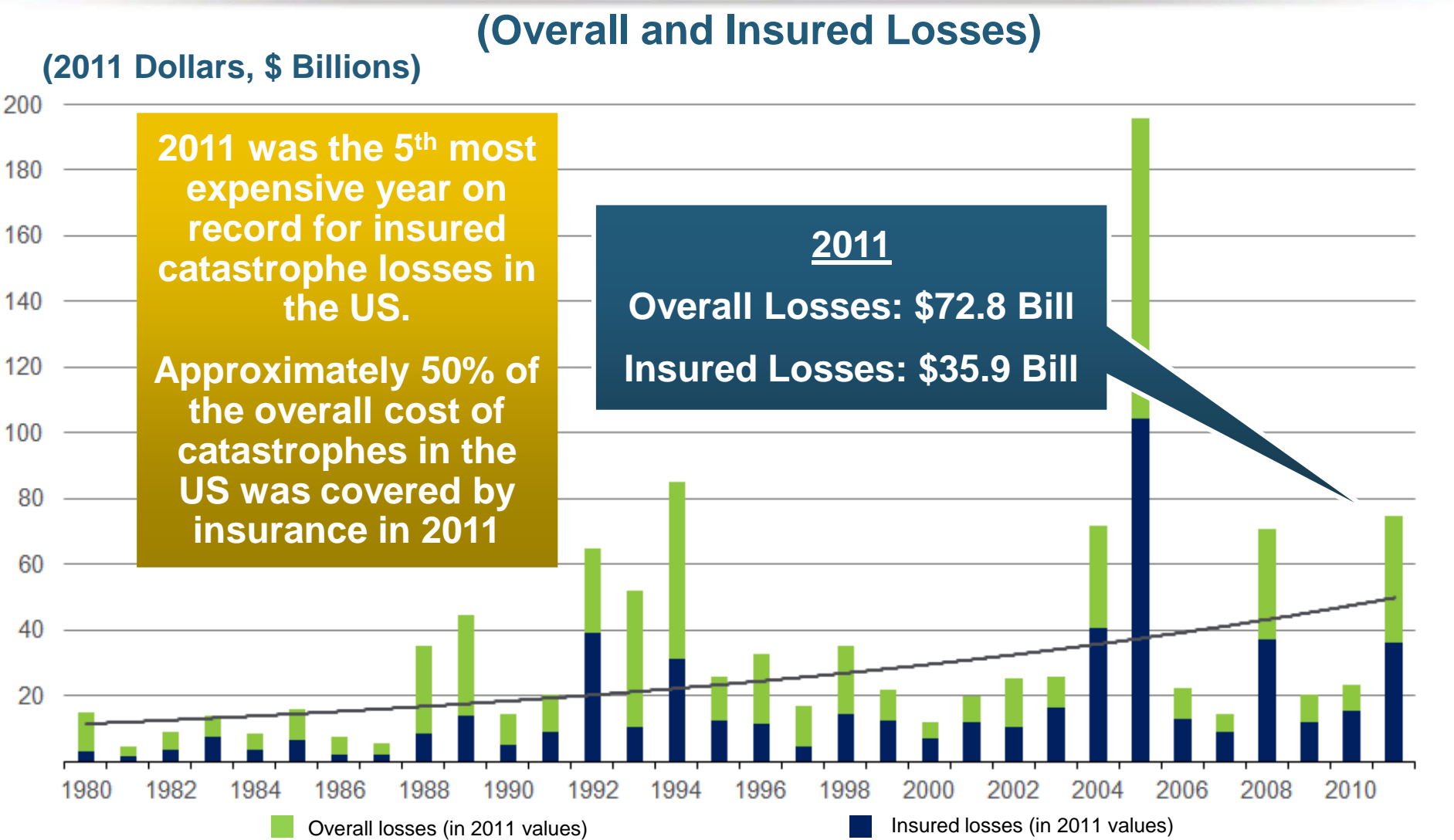
# Natural Disasters in the United States, 1980 – 2011

Number of Events (Annual Totals 1980 – 2011)



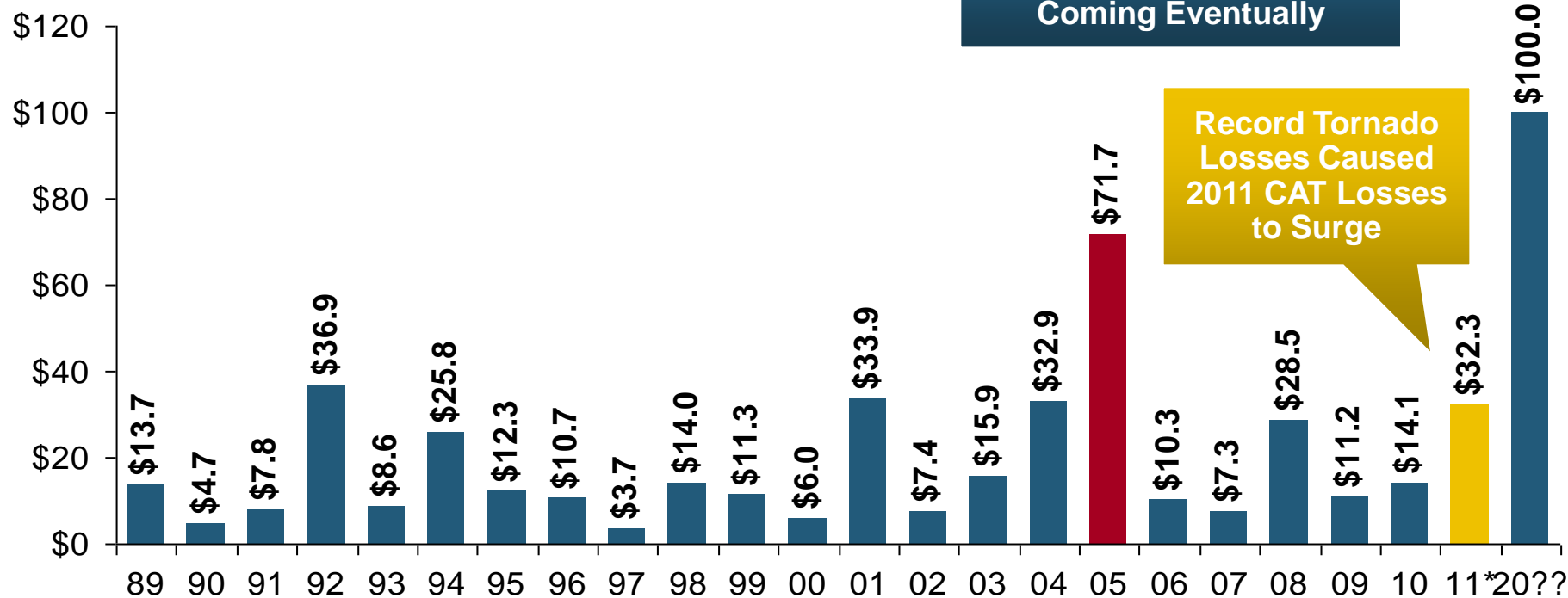


# Losses Due to Natural Disasters in the US, 1980–2011 (Overall & Insured Losses)



# US Insured Catastrophe Losses

(\$ Billions, 2011 Dollars)



**US CAT Losses in 2011 Were the 5<sup>th</sup> Highest in US History on An Inflation Adjusted Basis**

\*PCS figure as of April 6, 2012.

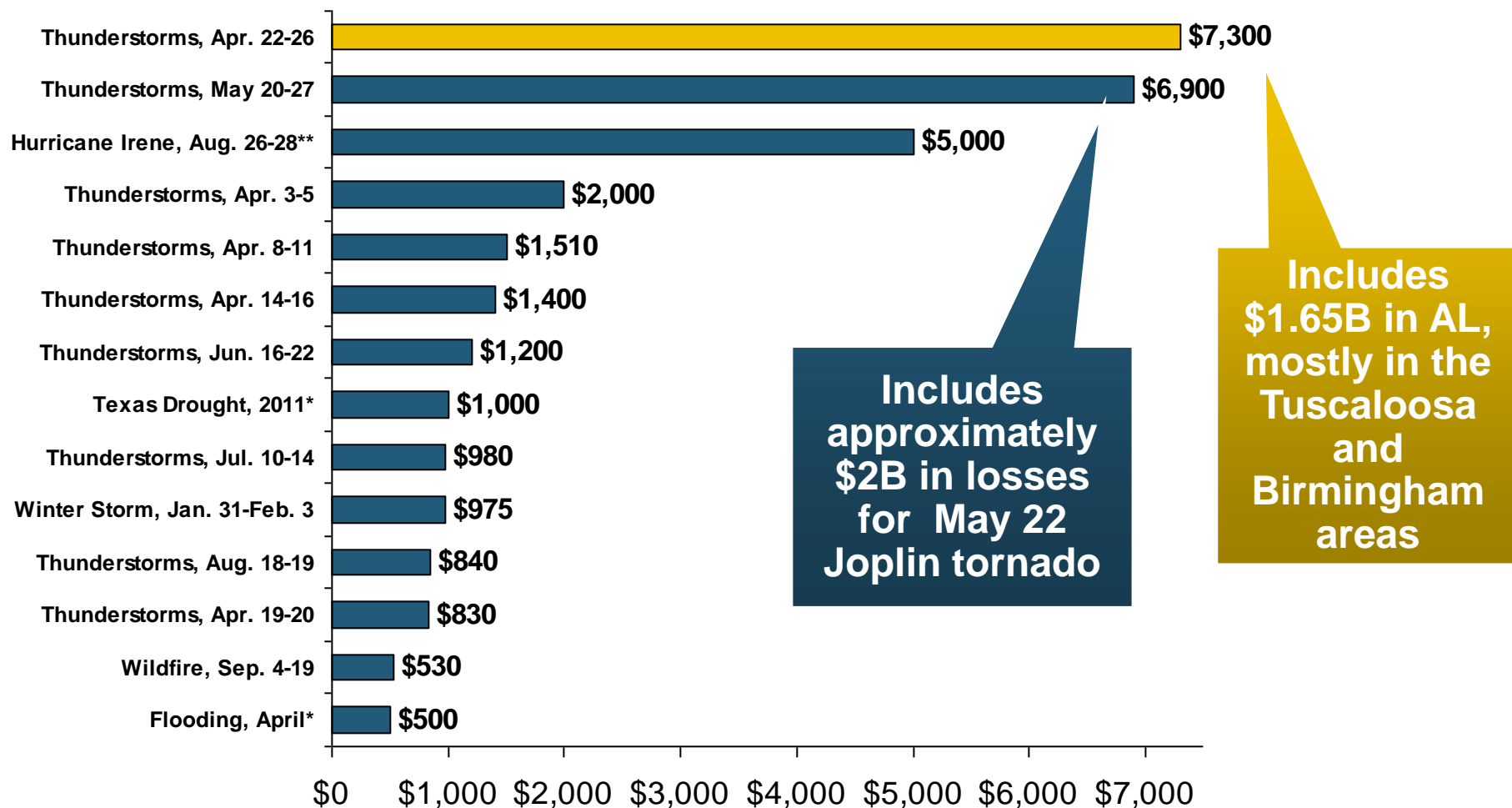
Note: 2001 figure includes \$20.3B for 9/11 losses reported through 12/31/01 (\$25.9B 2011 dollars). Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = \$12.2B (\$15.6B in 2011 dollars.)

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

# Natural Disaster Losses in the United States: 2011

As of Jan. 1, 2012	Number of Events	Fatalities	Estimated Overall Losses (US \$m)	Estimated Insured Losses (US \$m)
<b>Severe Thunderstorm</b>	69	617	46,548	25,813
<b>Winter Storm</b>	9	67	2,708	2,017
<b>Flood</b>	14	20	2,705	535
<b>Earthquake</b>	5	1	257	50
<b>Tropical Cyclone</b>	3	0	10,700	5,510
<b>Wildfire</b>	58	15	1,922	855
<b>Other</b>	2	33	8,000	1,000

# 2011's Most Expensive Catastrophes, Insured Losses



\*\*Includes \$700 million in flood losses insured through the National Flood Insurance Program.

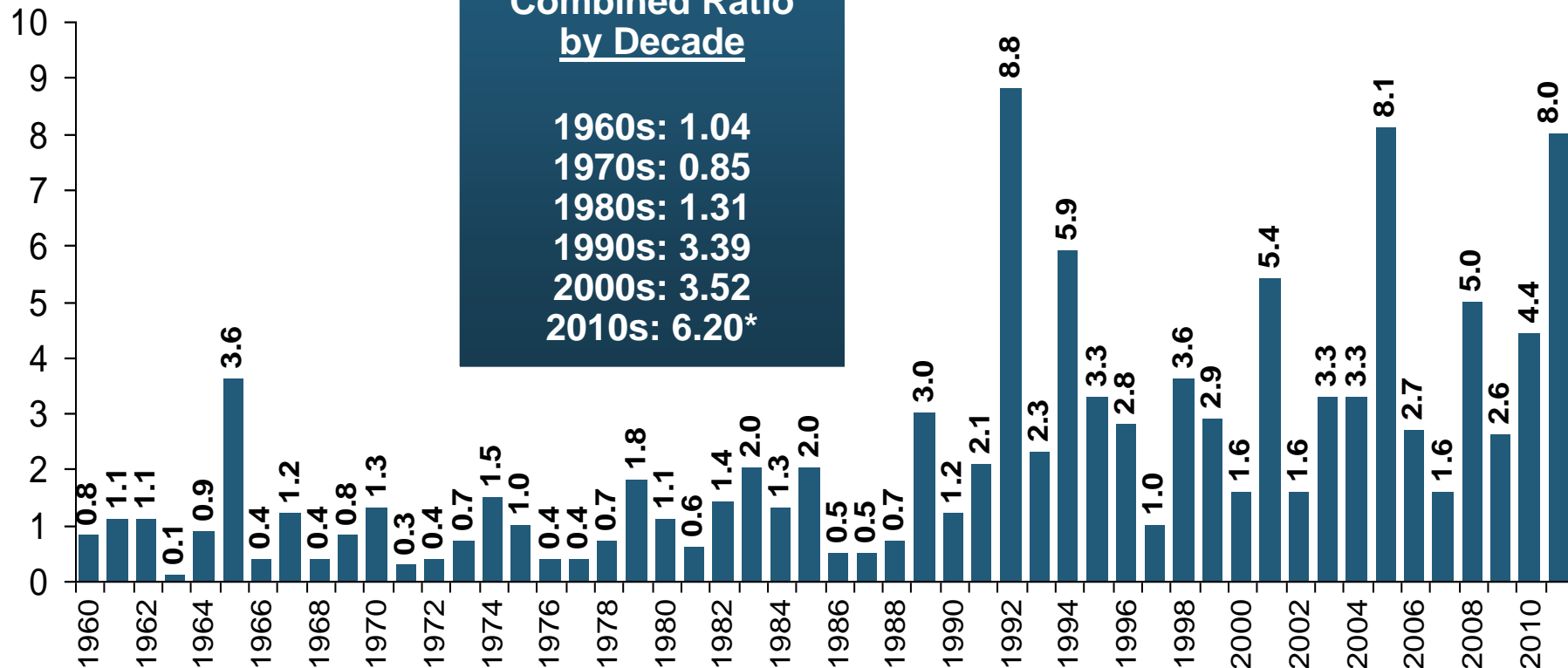
Source: PCS except as noted by “\*\*” which are sourced to Munich Re; Insurance Information Institute.

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

## 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: 6.20\*



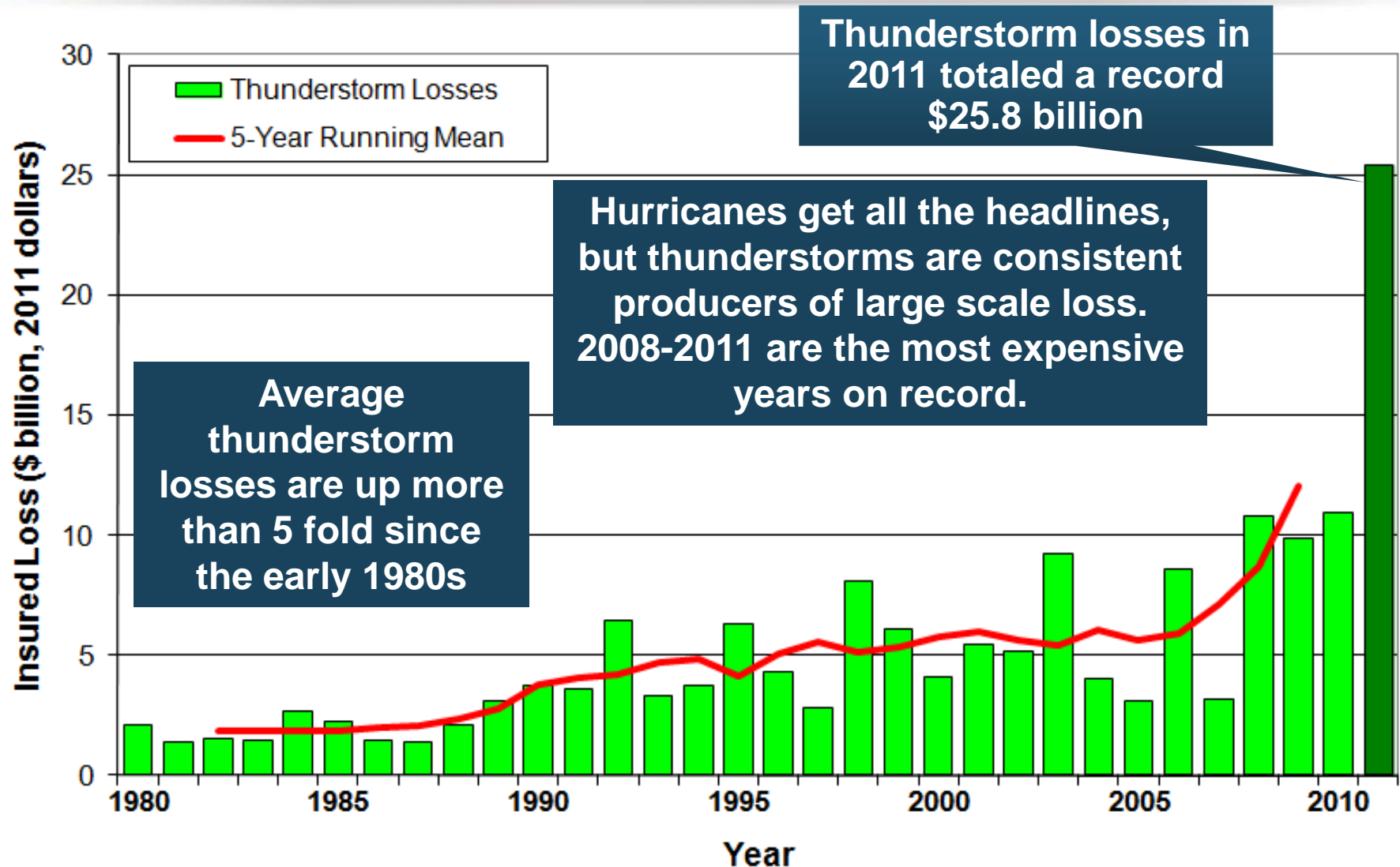
**The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades**

\*Insurance Information Institute estimates for 2010 and 2011 based on A.M. Best and ISO data.

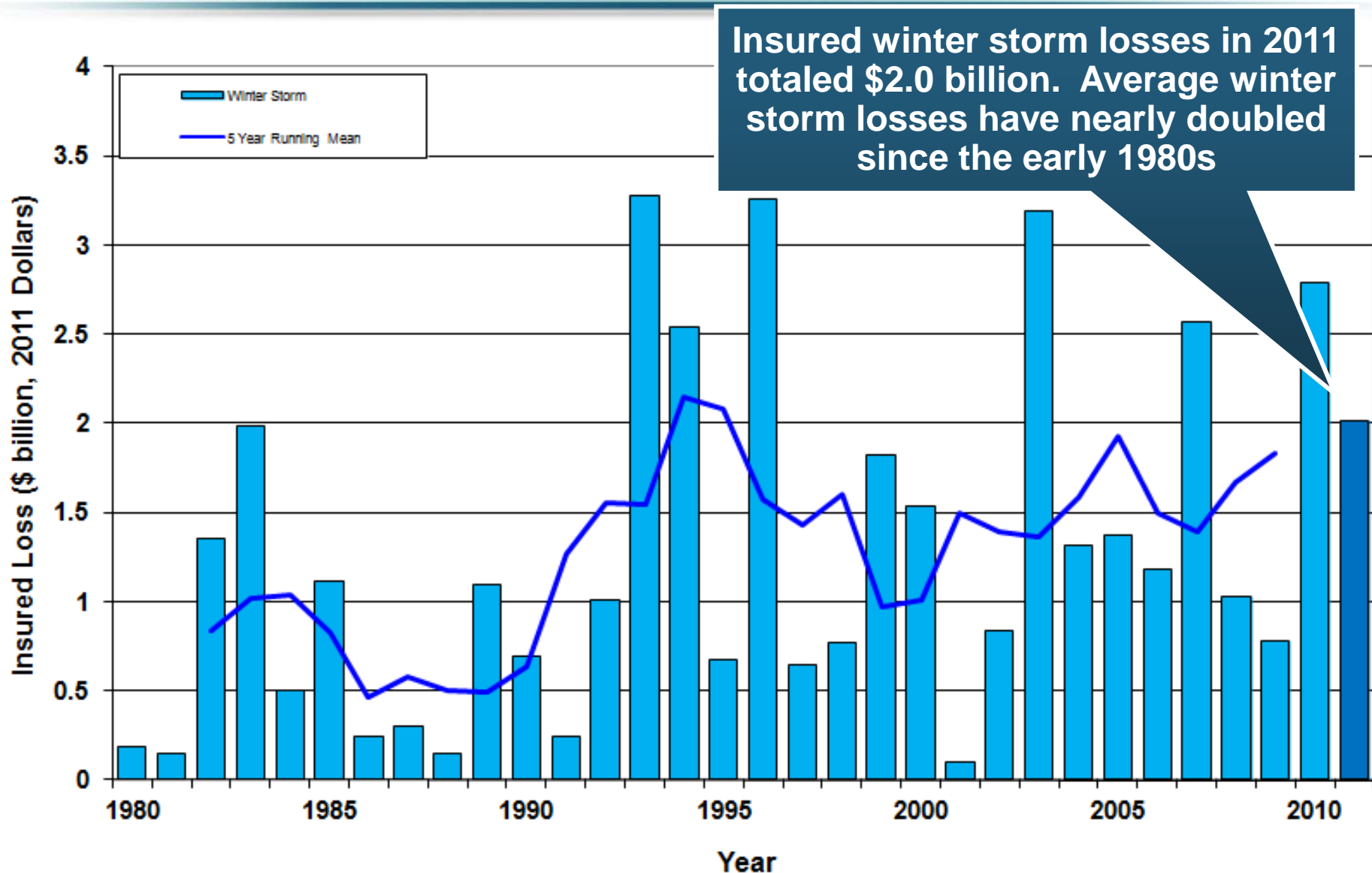
Notes: Private carrier losses only. Excludes loss adjustment expenses and reinsurance reinstatement premiums. Figures are adjusted for losses ultimately paid by foreign insurers and reinsurers.

Source: ISO; Insurance Information Institute.

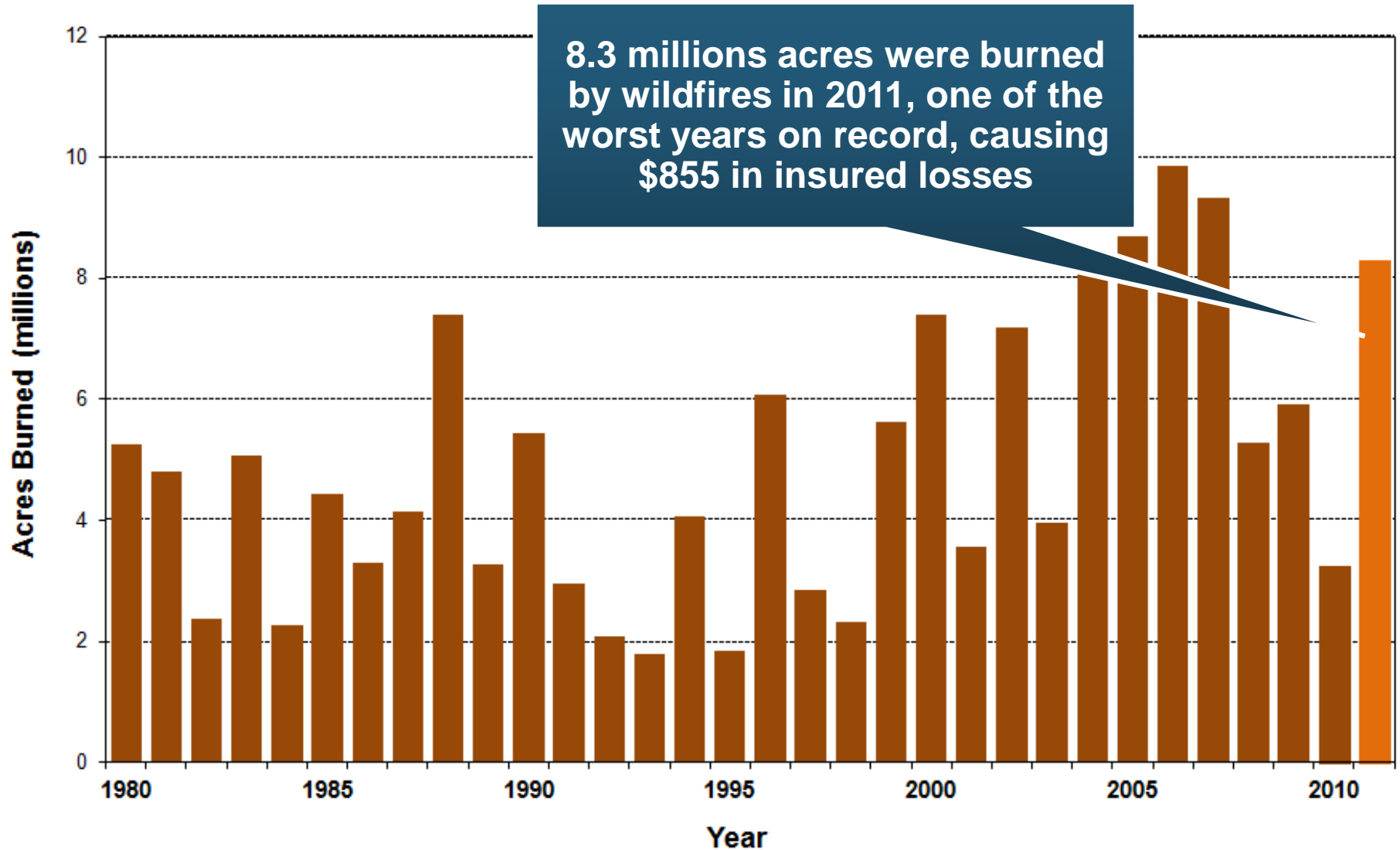
# U.S. Thunderstorm Loss Trends, 1980 – 2011



# U.S. Winter Storm Loss Trends, 1980 – 2011



# U.S. Acreage Burned by Wildfires, 1980 – 2011



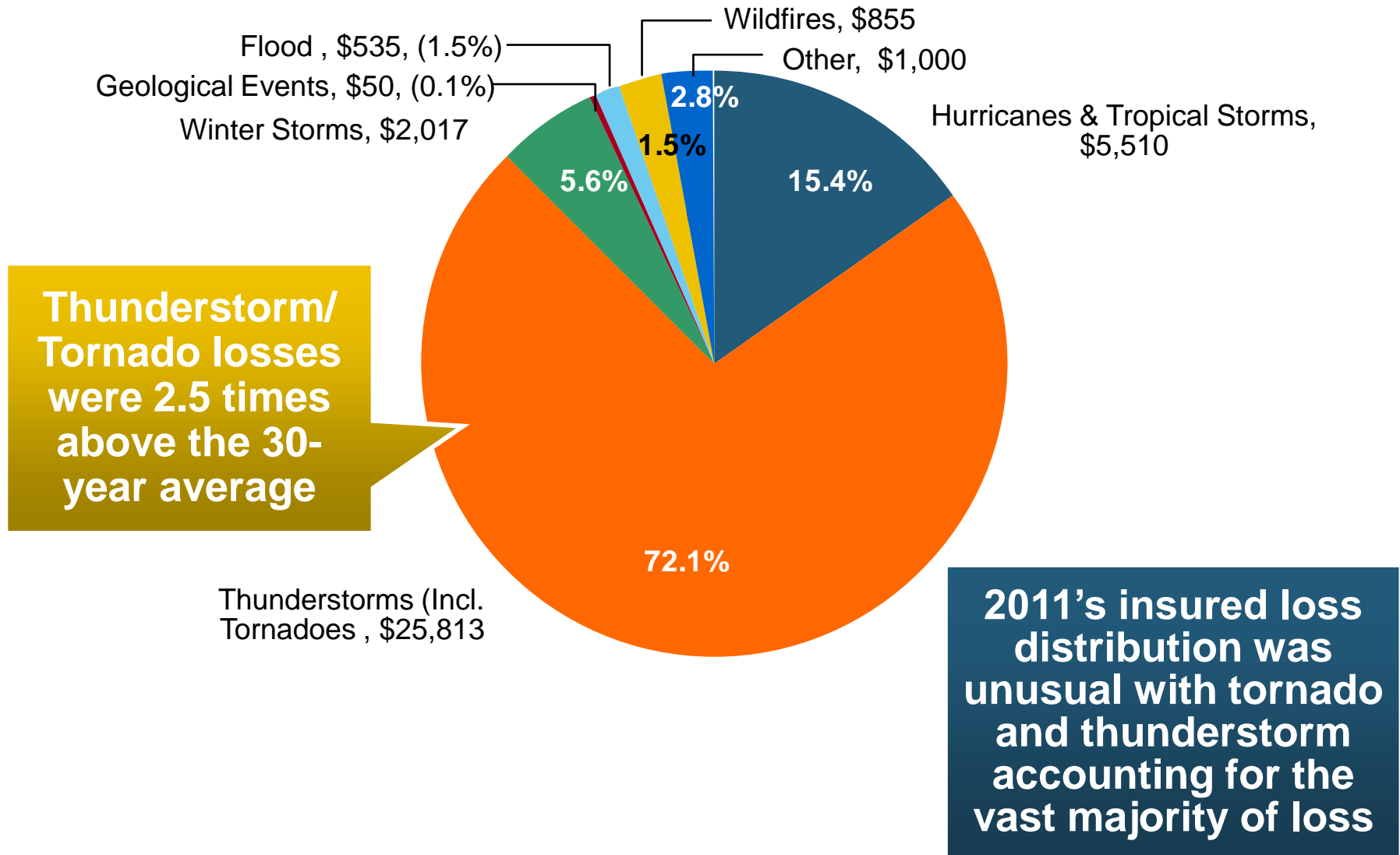


# Notable Wildfires in 2011

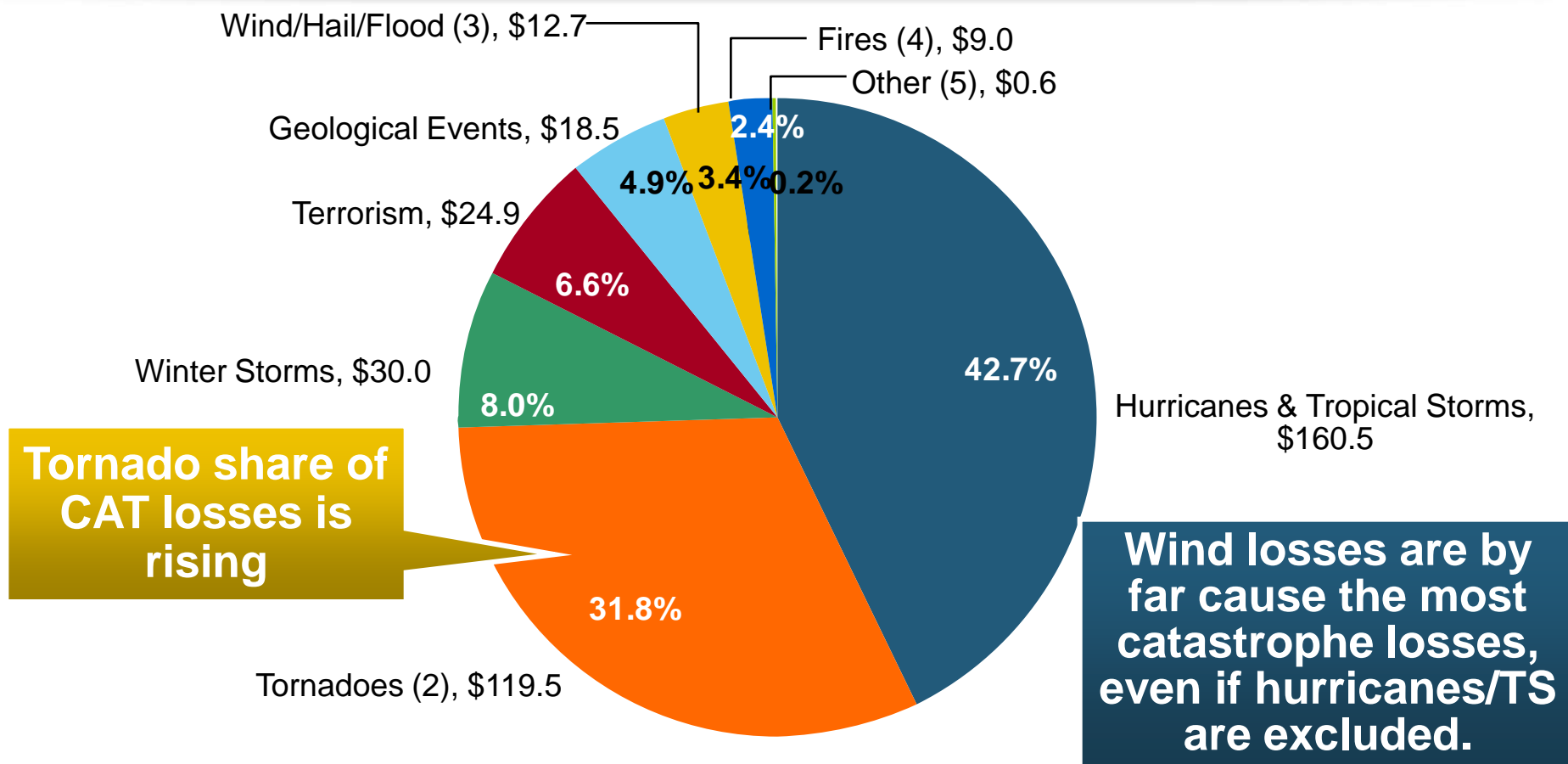
- Worst wildfire year on record in Texas due to persistent drought.
- **Spring:** Over 3 million acres burned in west Texas from 12 major seats of fire. Over 200 homes and businesses destroyed, \$50 million insured loss.
- **September:** Bastrop County Complex Fire near San Antonio destroys over 1,600 homes, insured loss of \$530 million.



# U.S. Insured Catastrophe Losses by Cause of Loss, 2011 (\$ Millions)



# Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1990–2011:H1<sup>1</sup>



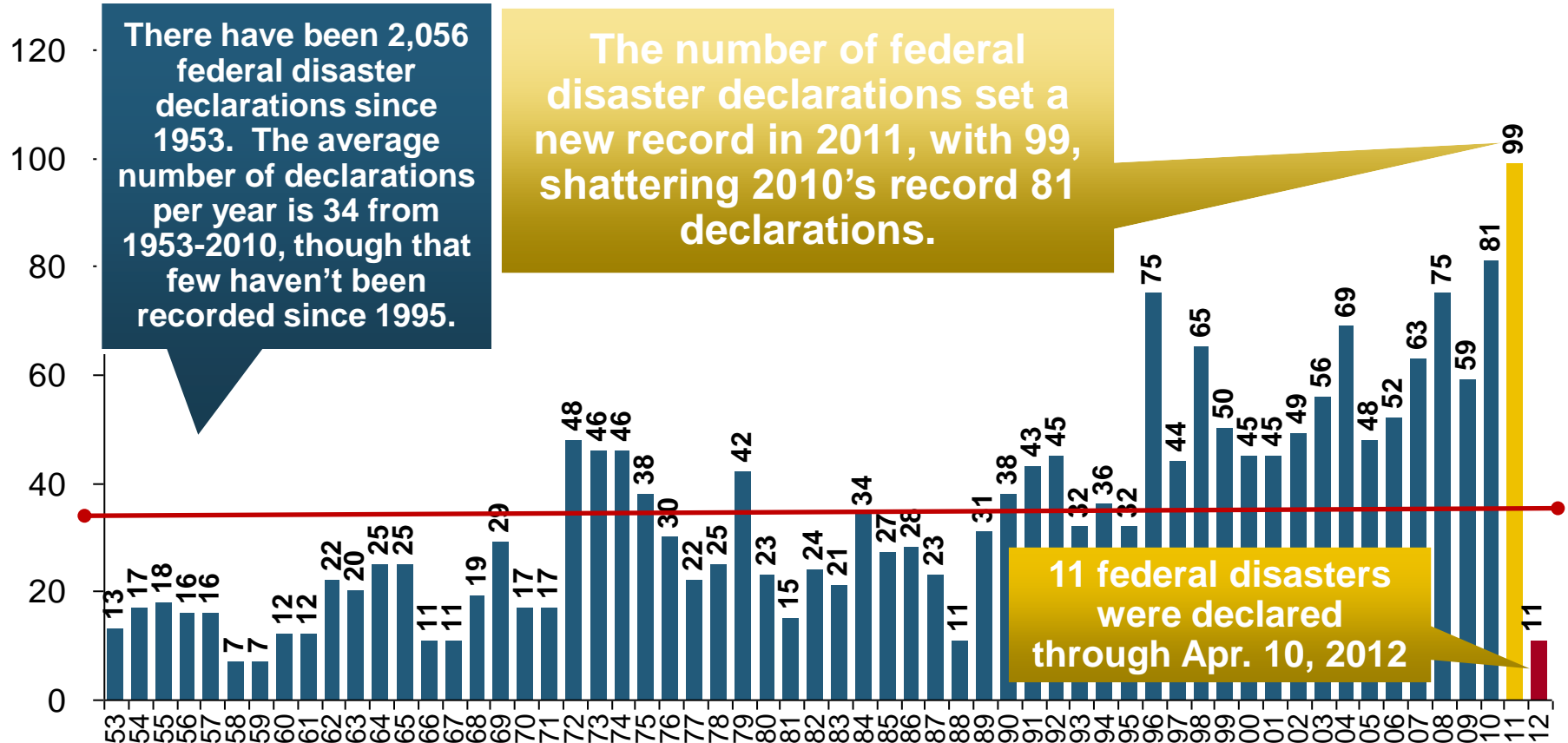
1. Catastrophes are defined as events causing direct insured losses to property of \$25 million or more in 2009 dollars.
2. Excludes snow.
3. Does not include NFIP flood losses
4. Includes wildland fires
5. Includes civil disorders, water damage, utility disruptions and non-property losses such as those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

Source: ISO's Property Claim Services Unit.

# **Federal Disaster Declarations Patterns: 1953-2012**

**Records Were Set for Federal  
Disaster Declarations in 2010 and  
2011—Most Declarations Were  
Unrelated to Tropical Activity**

# Number of Federal Disaster Declarations, 1953-2012\*

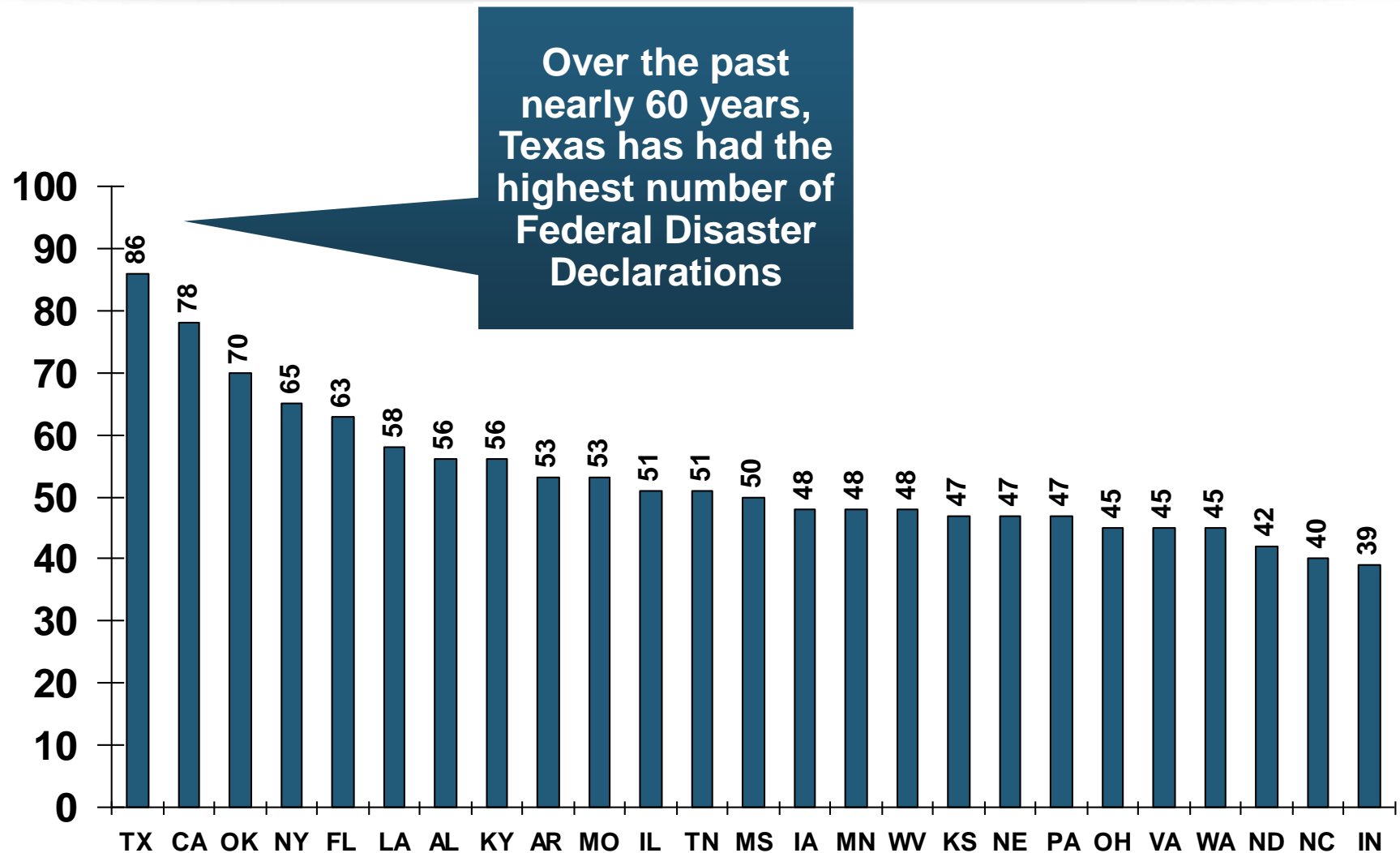


**The Number of Federal Disaster Declarations Is Rising and Set New Records in 2010 *and* 2011**

\*Through April 10, 2012.

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

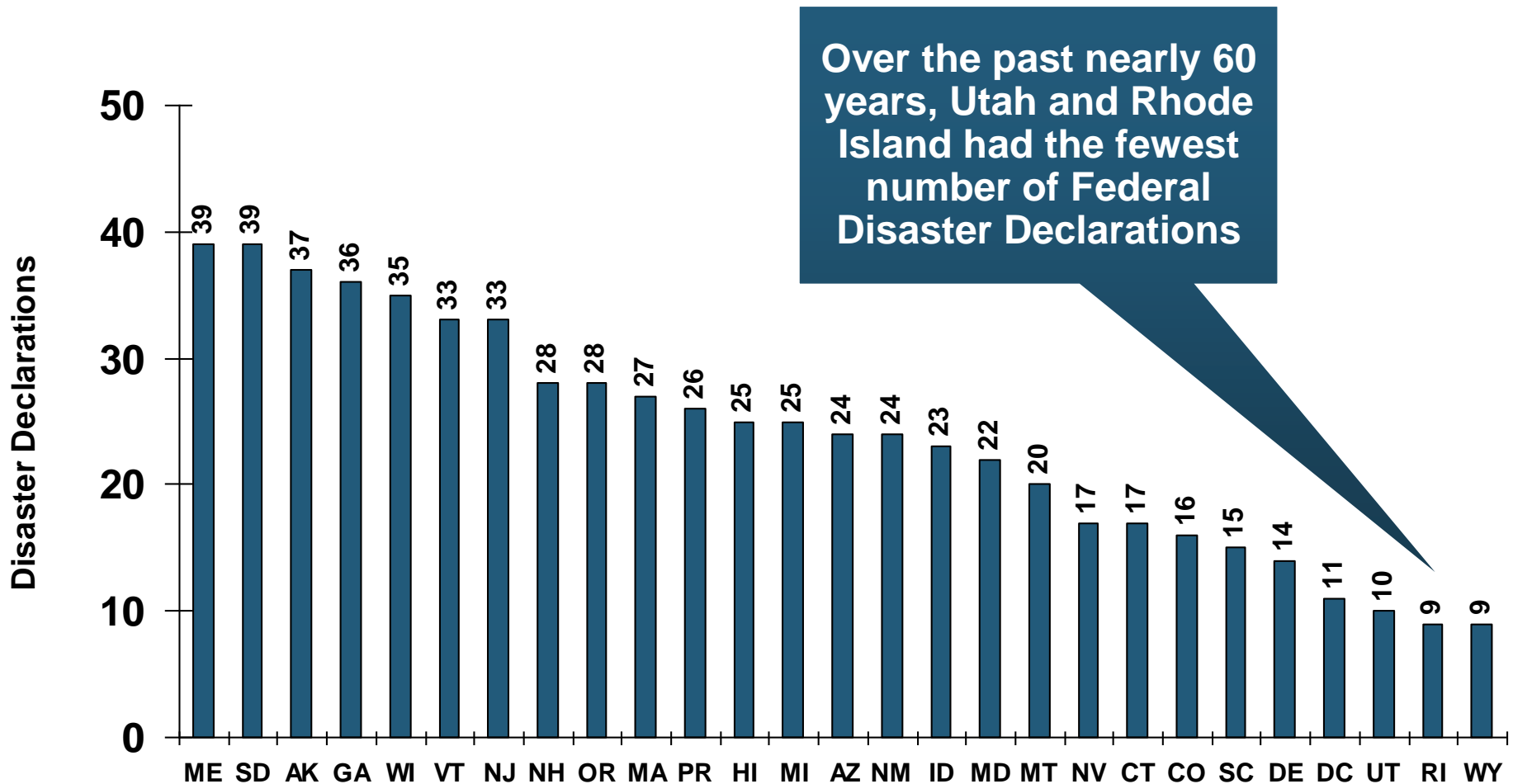
# Federal Disasters Declarations by State, 1953 – 2012: Highest 25 States\*



\*Through Apr. 10, 2012.

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

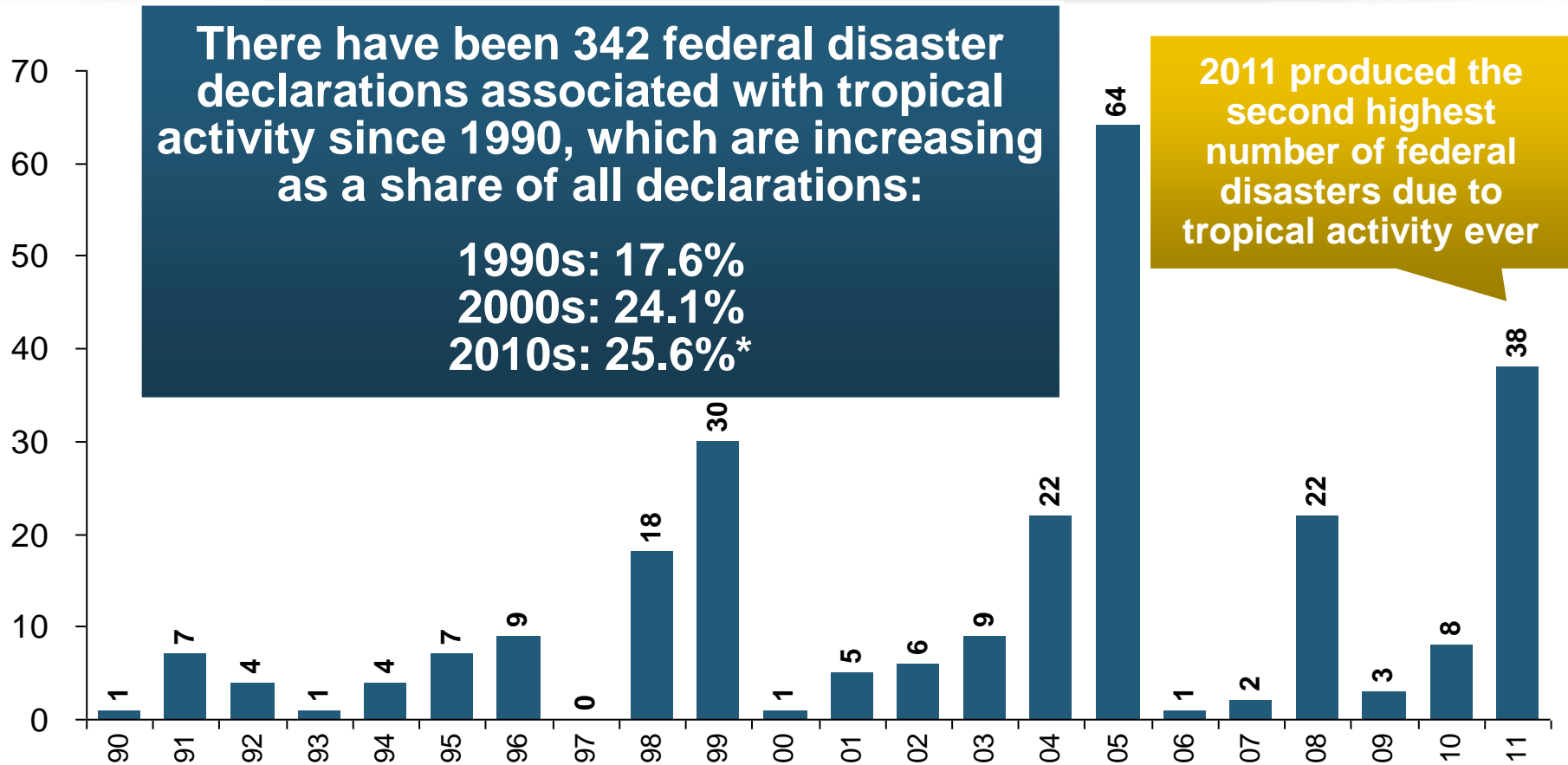
# Federal Disasters Declarations by State, 1953 – 2012: Lowest 25 States\*



\*Through Apr. 10, 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.

# Number of Federal Disaster Declarations Associated w/ Tropical Systems, 1990-2011



**The Share of Federal Disaster Declarations Associated with Tropical Activity Has Been Rising**

\*Consists of data for 2010 and 2011.

Source: Federal Emergency Management Administration: [http://www.fema.gov/news/disaster\\_totals\\_annual.fema](http://www.fema.gov/news/disaster_totals_annual.fema) ; Insurance Information Institute research.

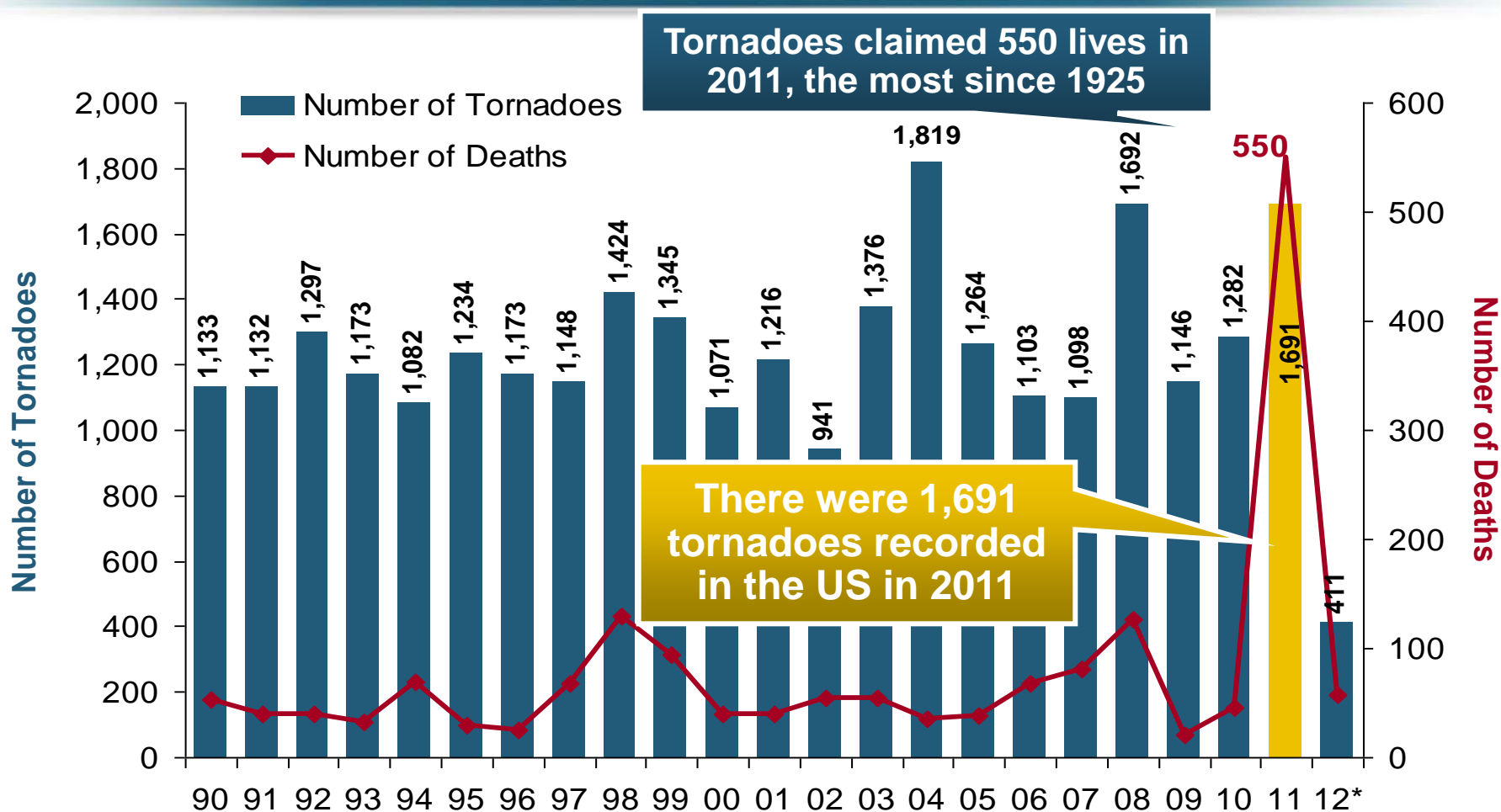




## **SPRING 2012 TORNADO & SEVERE STORM OUTBREAK**

**2012 Is Off to a Worrisome Start, But  
a Repeat of 2011 Is Unlikely**

# Number of Tornadoes and Related Deaths, 1990 – 2012\*

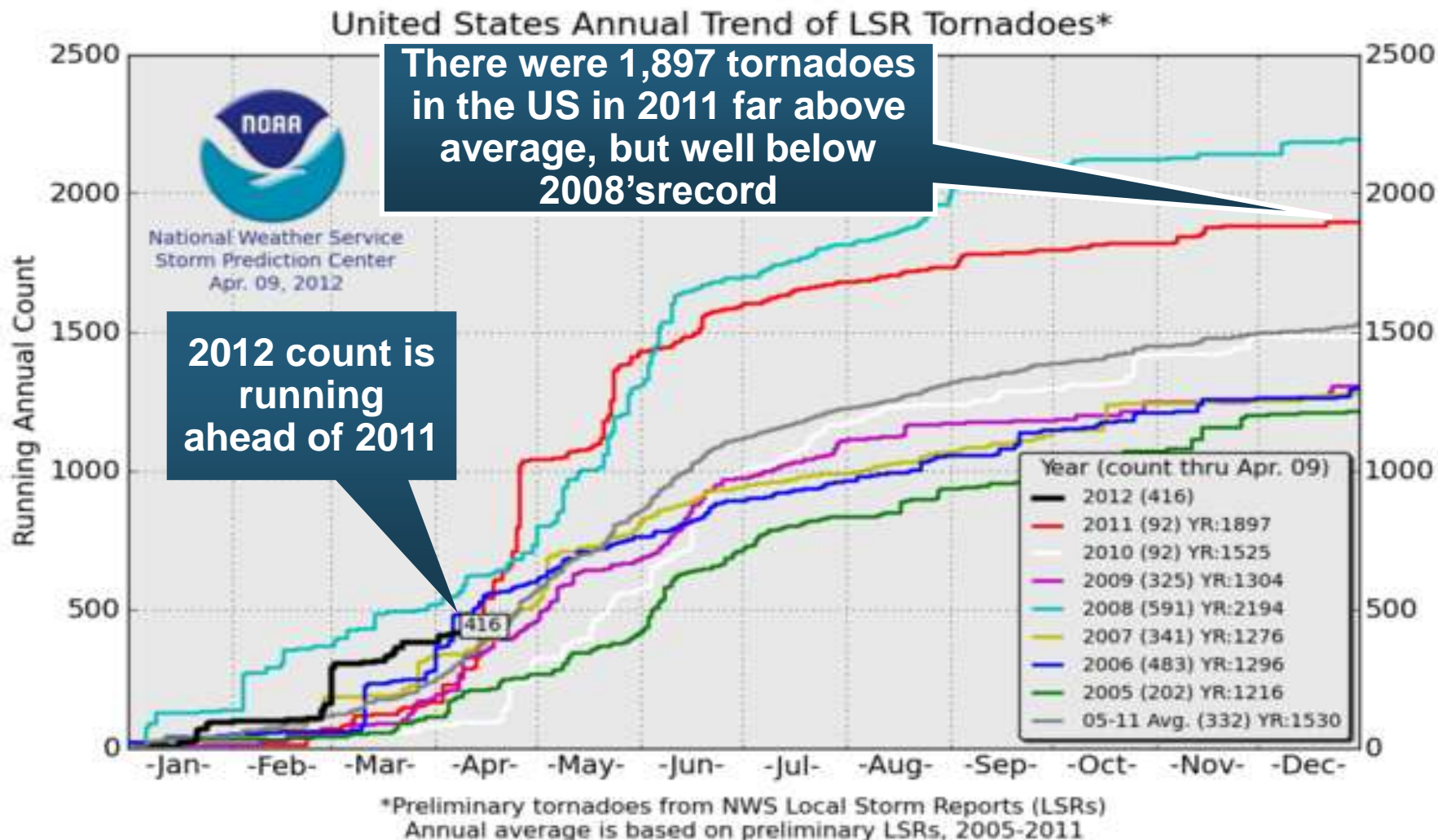


**2012 Tornado Losses Is Off to a Ominous Beginning. First Half 2011 Insured Losses from Tornadoes and Thunderstorms Topped \$21B.**

\*Through April 7, 2012.

Source: U.S. Department of Commerce, Storm Prediction Center, National Weather Service at <http://www.spc.noaa.gov/climo/online/monthly/newm.html>

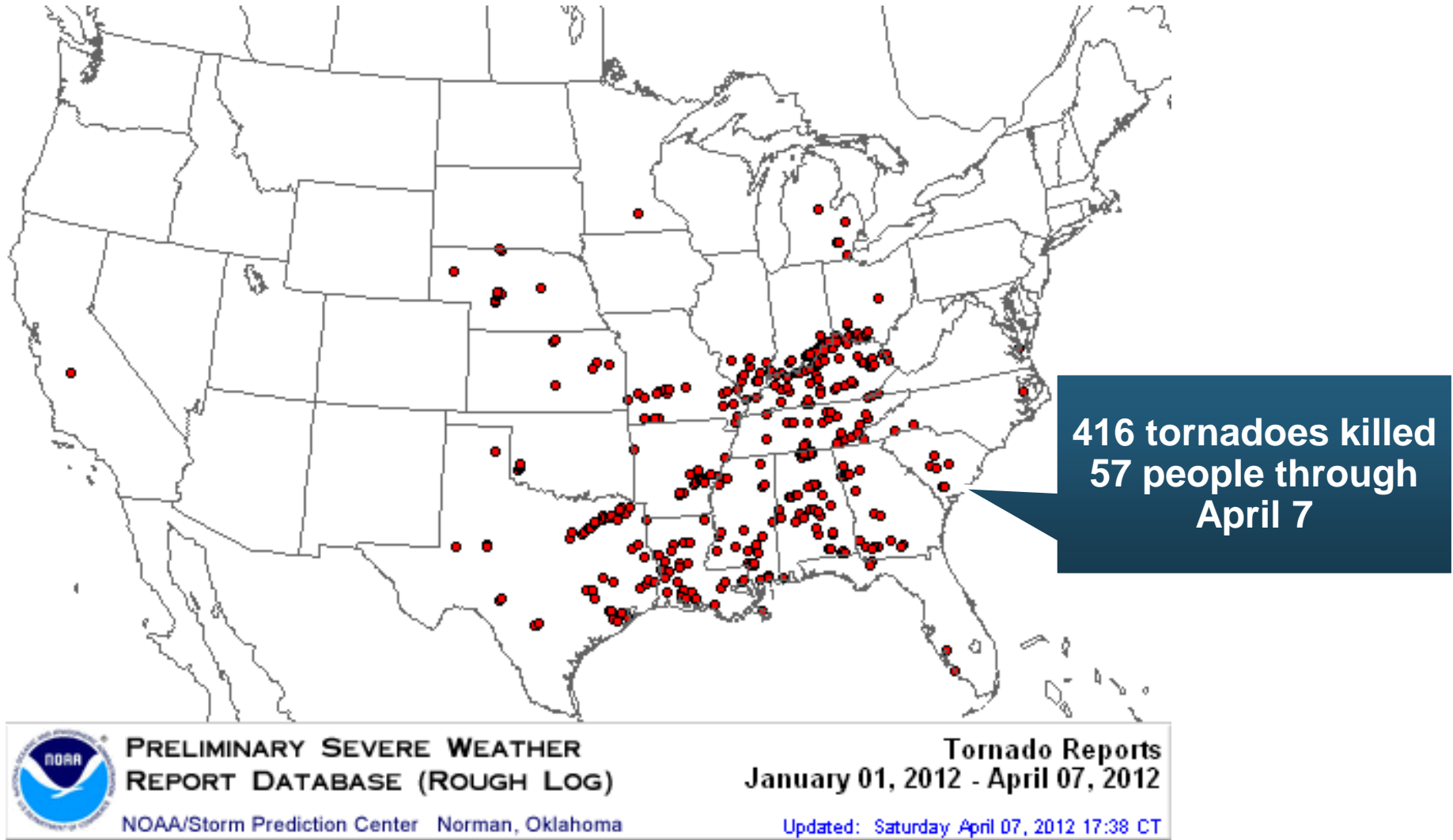
# U.S. Tornado Count, 2005-2012\*



\*Through April 9, 2012.

Source: <http://www.spc.noaa.gov/wcm/>

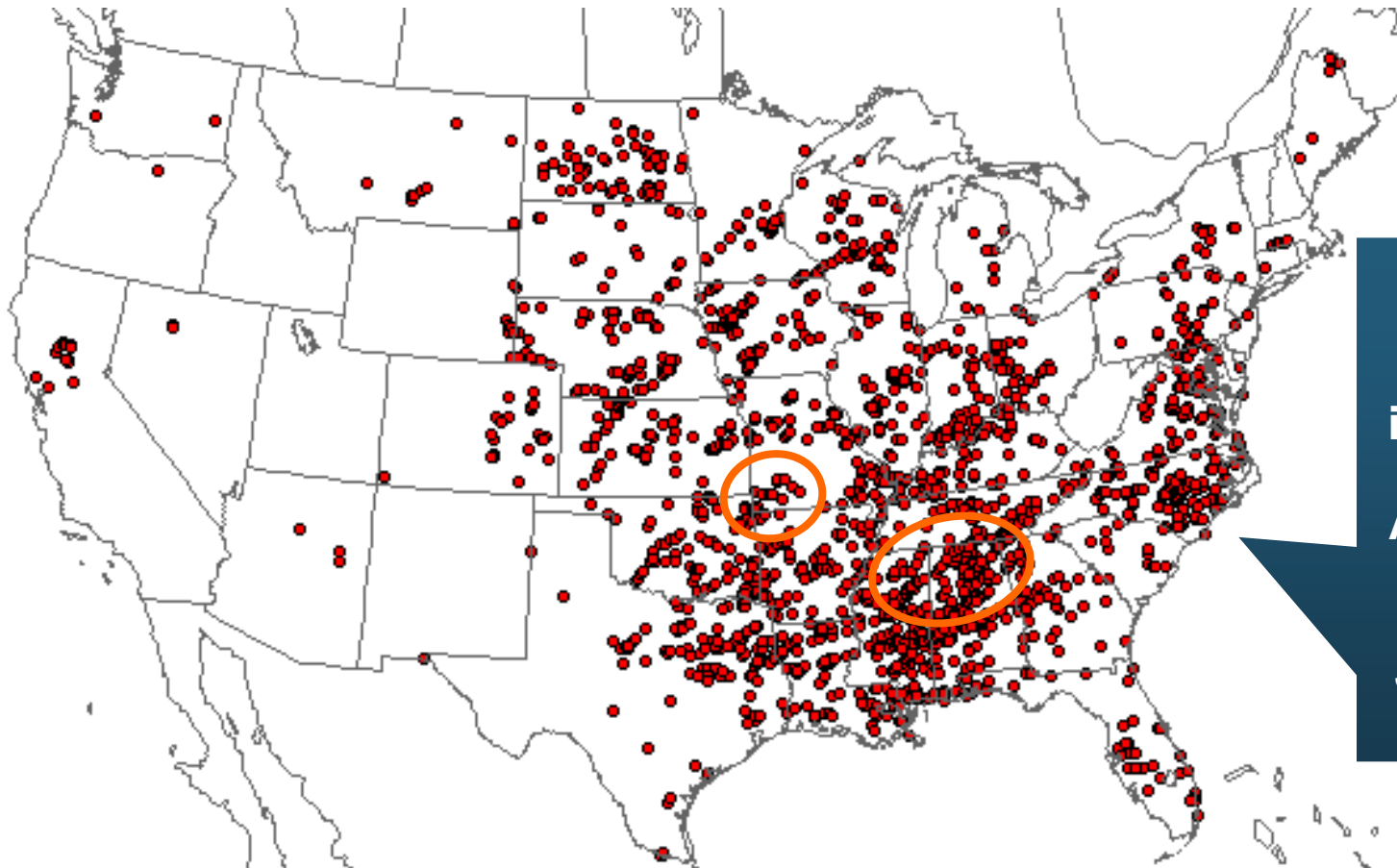
# Location of Tornadoes in the US, 2012\*



\*Through April 7, 2012.

Source: NOAA Storm Prediction Center; [http://www.spc.noaa.gov/climo/online/monthly/2012\\_annual\\_summary.html#](http://www.spc.noaa.gov/climo/online/monthly/2012_annual_summary.html#)

# Location of Tornadoes in the US, 2011



1,894 tornadoes killed 552 people in 2011, including at least 340 on April 26 mostly in the Tuscaloosa area, and 130 in Joplin on May 22



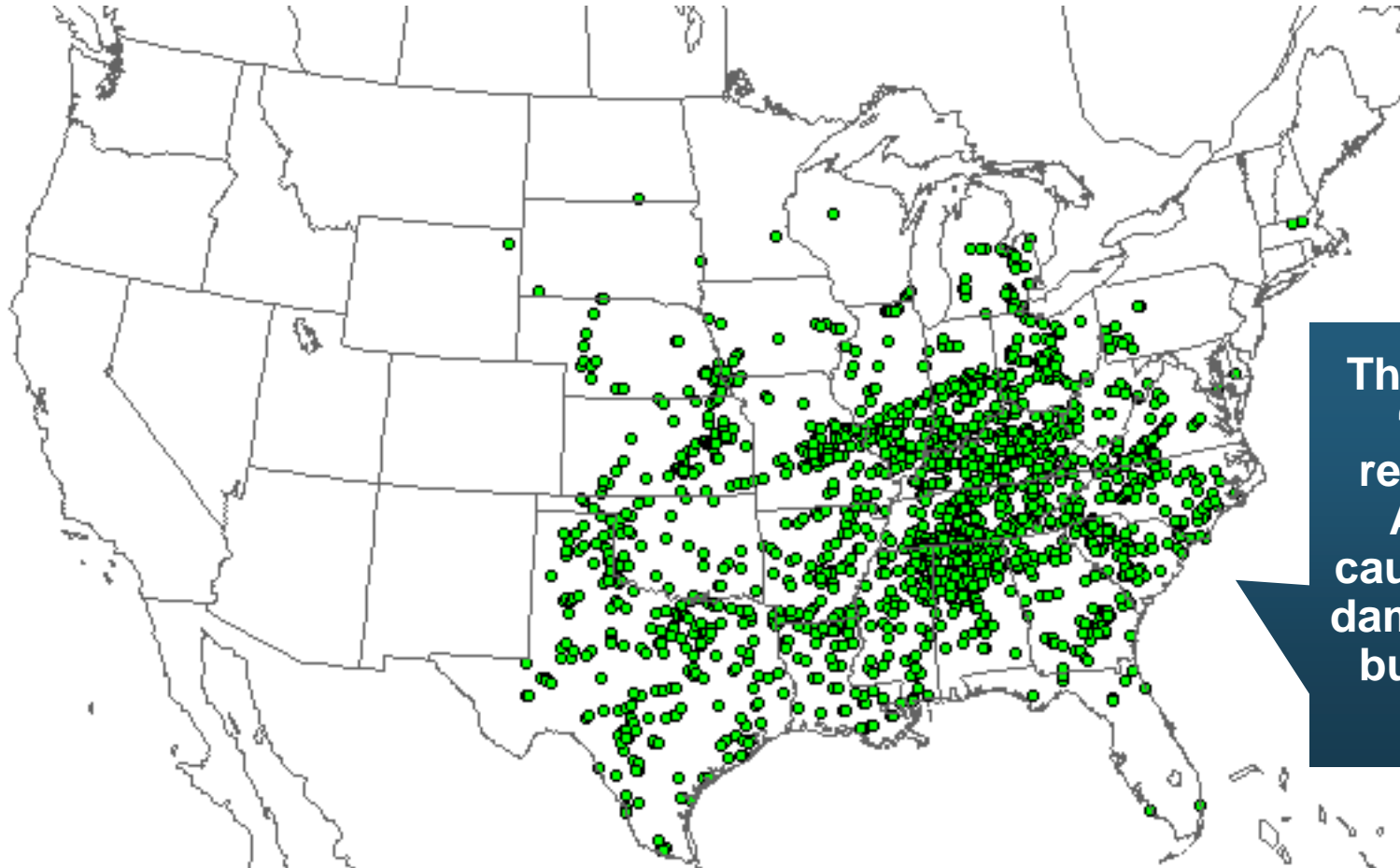
PRELIMINARY SEVERE WEATHER  
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Tornado Reports  
January 01, 2011 - December 27, 2011

Updated: Tuesday December 27, 2011 16:35 CT

# Location of Large Hail Reports in the US, 2012\*



There were 1,693  
“Large Hail”  
reports through  
April 7, 2012,  
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, 2012 - April 07, 2012**

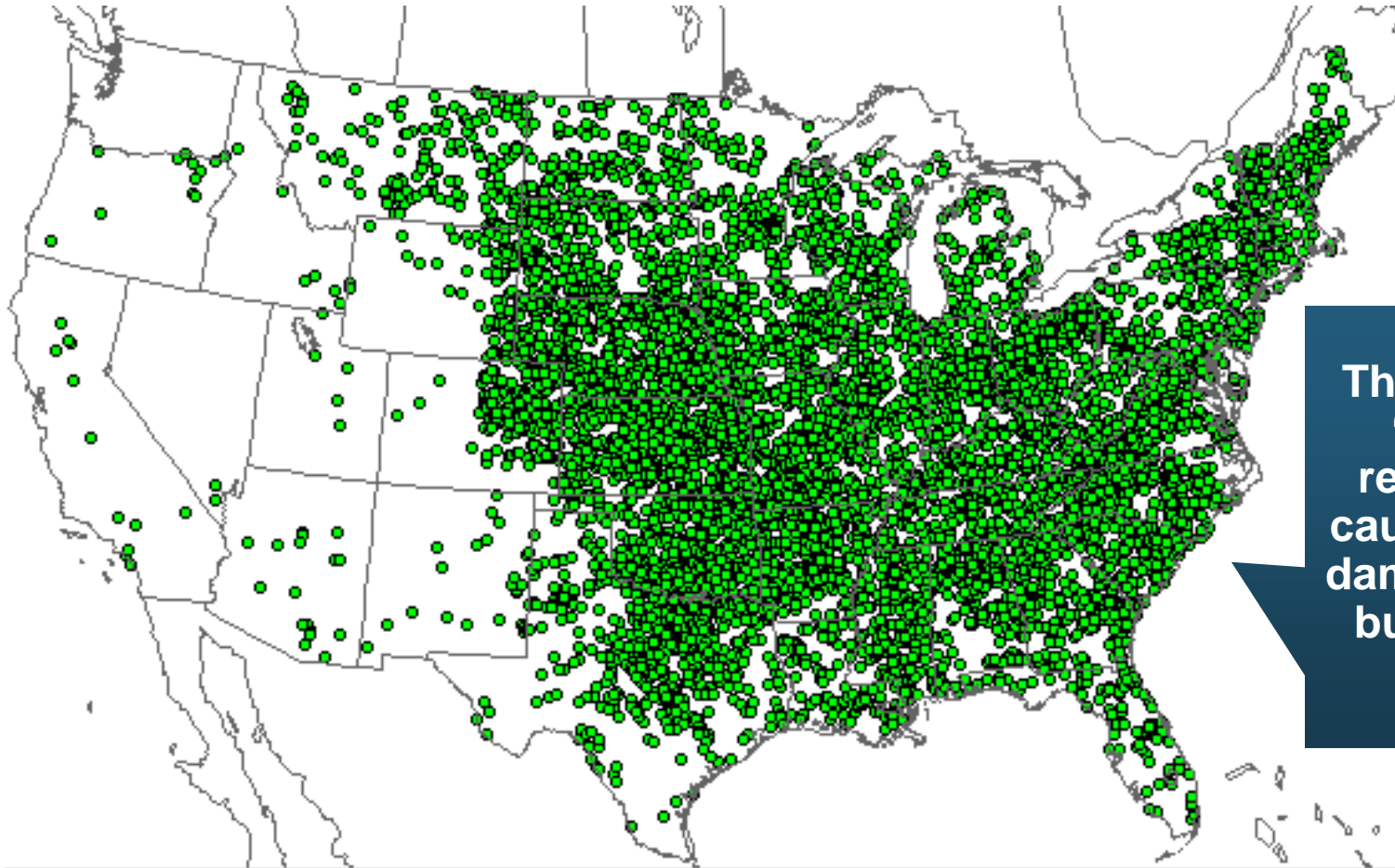
Updated: Saturday April 07, 2012 17:38 CT

\*Through April 7, 2012.

Source: NOAA Storm Prediction Center; [http://www.spc.noaa.gov/climo/online/monthly/2012\\_annual\\_summary.html#](http://www.spc.noaa.gov/climo/online/monthly/2012_annual_summary.html#)



# Location of Large Hail Reports in the US, 2011



There were 9,417  
“Large Hail”  
reports in 2011,  
causing extensive  
damage to homes,  
businesses and  
vehicles



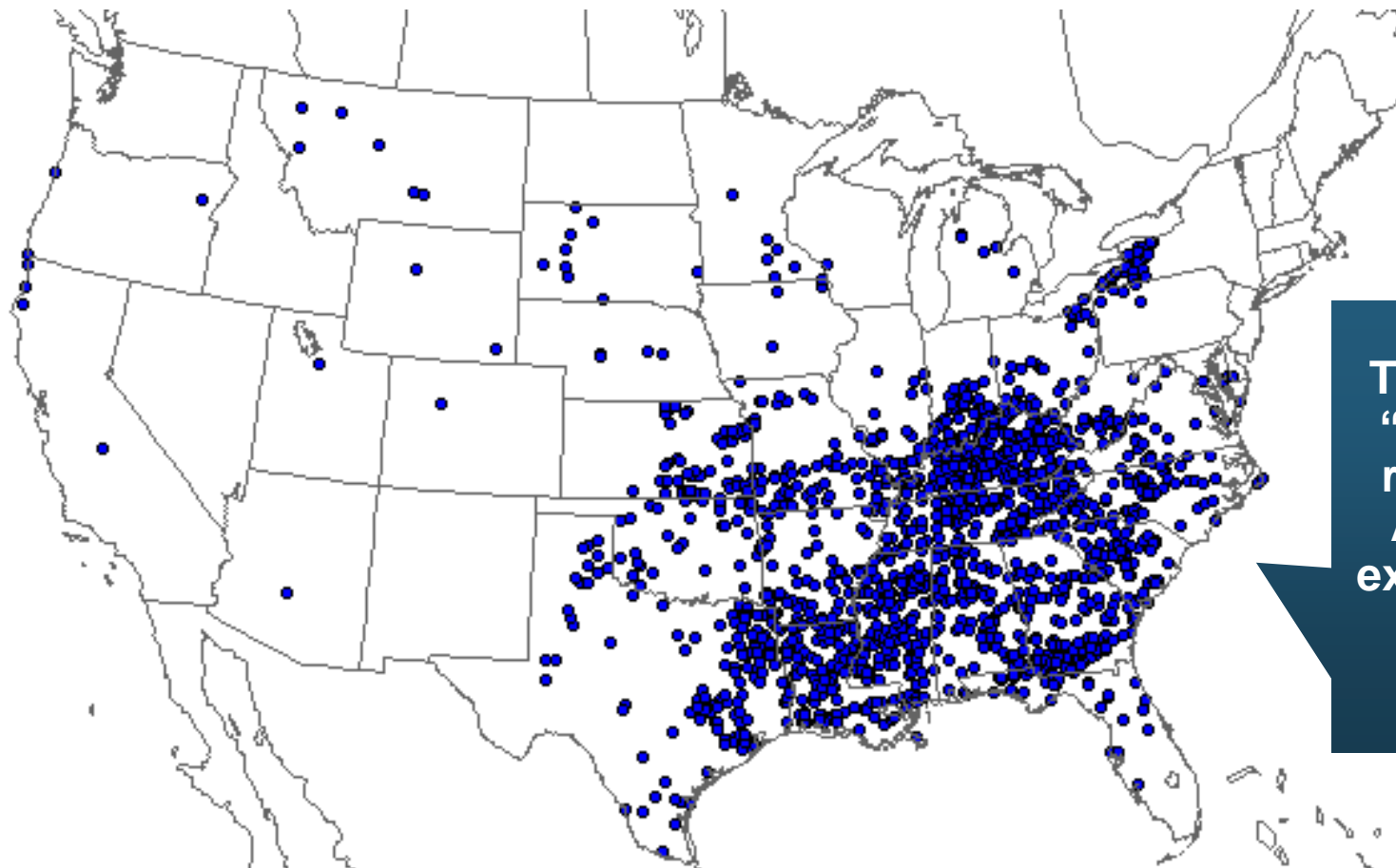
PRELIMINARY SEVERE WEATHER  
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Hail Reports  
January 01, 2011 - December 27, 2011

Updated: Tuesday December 27, 2011 16:35 CT

# Location of Wind Damage Reports in the US, 2012\*



There were 1,659  
“Wind Damage”  
reports through  
Apr. 7, causing  
extensive damage  
to homes and,  
businesses



PRELIMINARY SEVERE WEATHER  
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Wind Reports  
January 01, 2012 - April 07, 2012

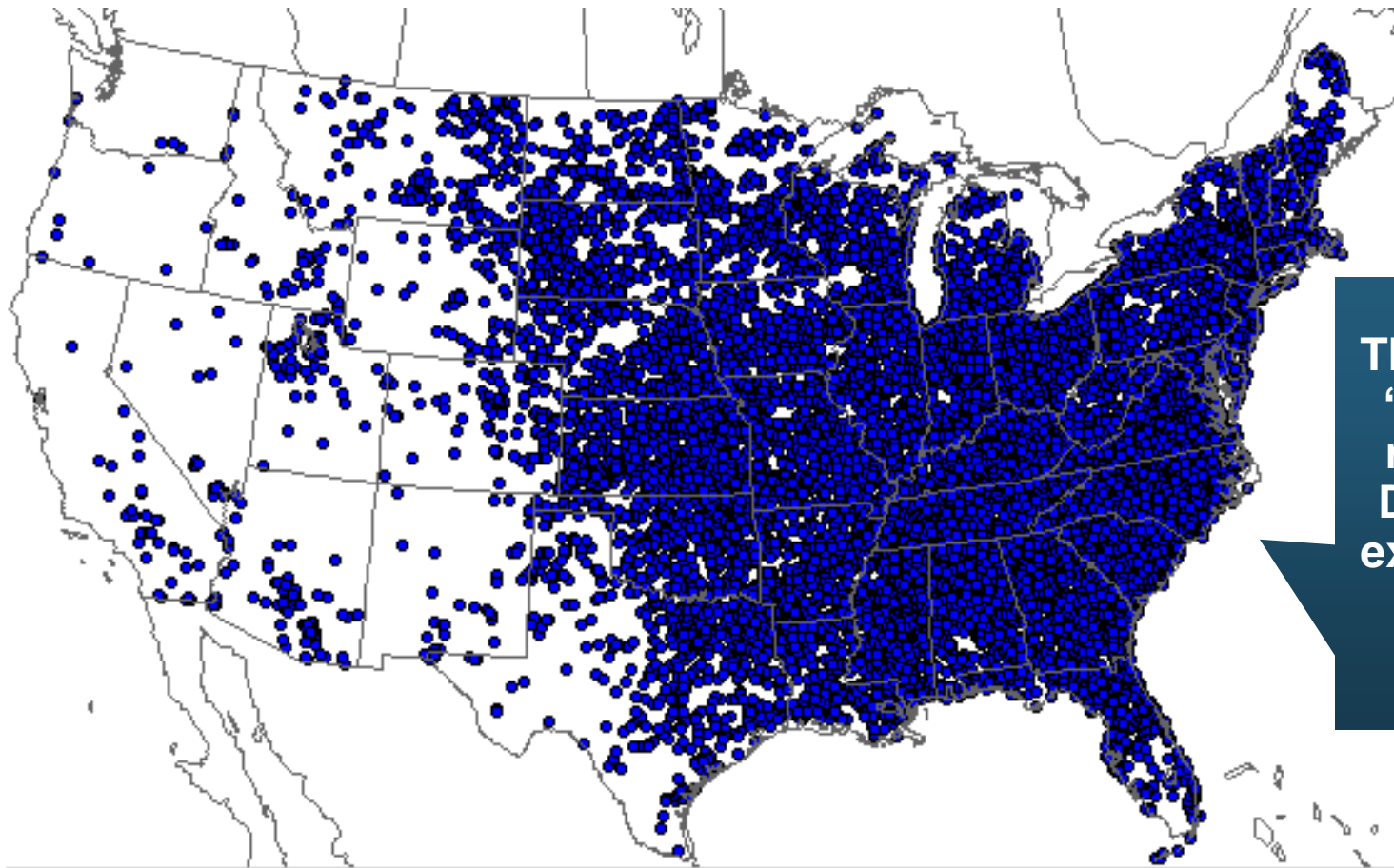
Updated: Saturday April 07, 2012 17:38 CT

\*Through April 7, 2012.

Source: NOAA Storm Prediction Center; [http://www.spc.noaa.gov/climo/online/monthly/2012\\_annual\\_summary.html#](http://www.spc.noaa.gov/climo/online/monthly/2012_annual_summary.html#)



# Location of Wind Damage Reports in the US, 2011



There were 18,685  
“Wind Damage”  
reports through  
Dec. 27, causing  
extensive damage  
to homes and,  
businesses



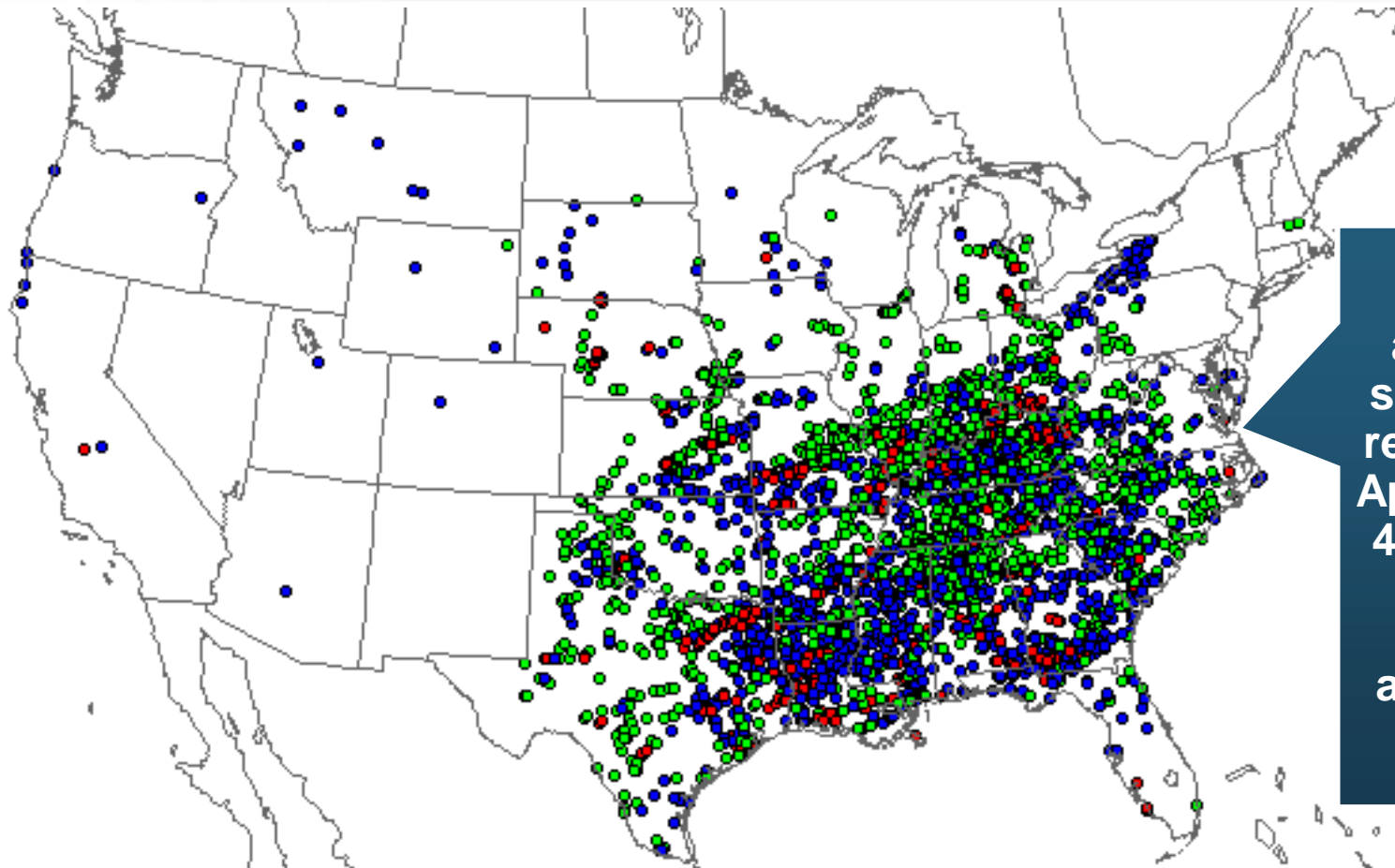
PRELIMINARY SEVERE WEATHER  
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Wind Reports  
January 01, 2011 - December 27, 2011

Updated: Tuesday December 27, 2011 16:35 CT

# Severe Weather Reports, 2012\*



There were already 3,766 severe weather reports through Apr. 7; including 416 tornadoes; 1,693 “Large Hail” reports and 1,659 high wind events



PRELIMINARY SEVERE WEATHER  
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

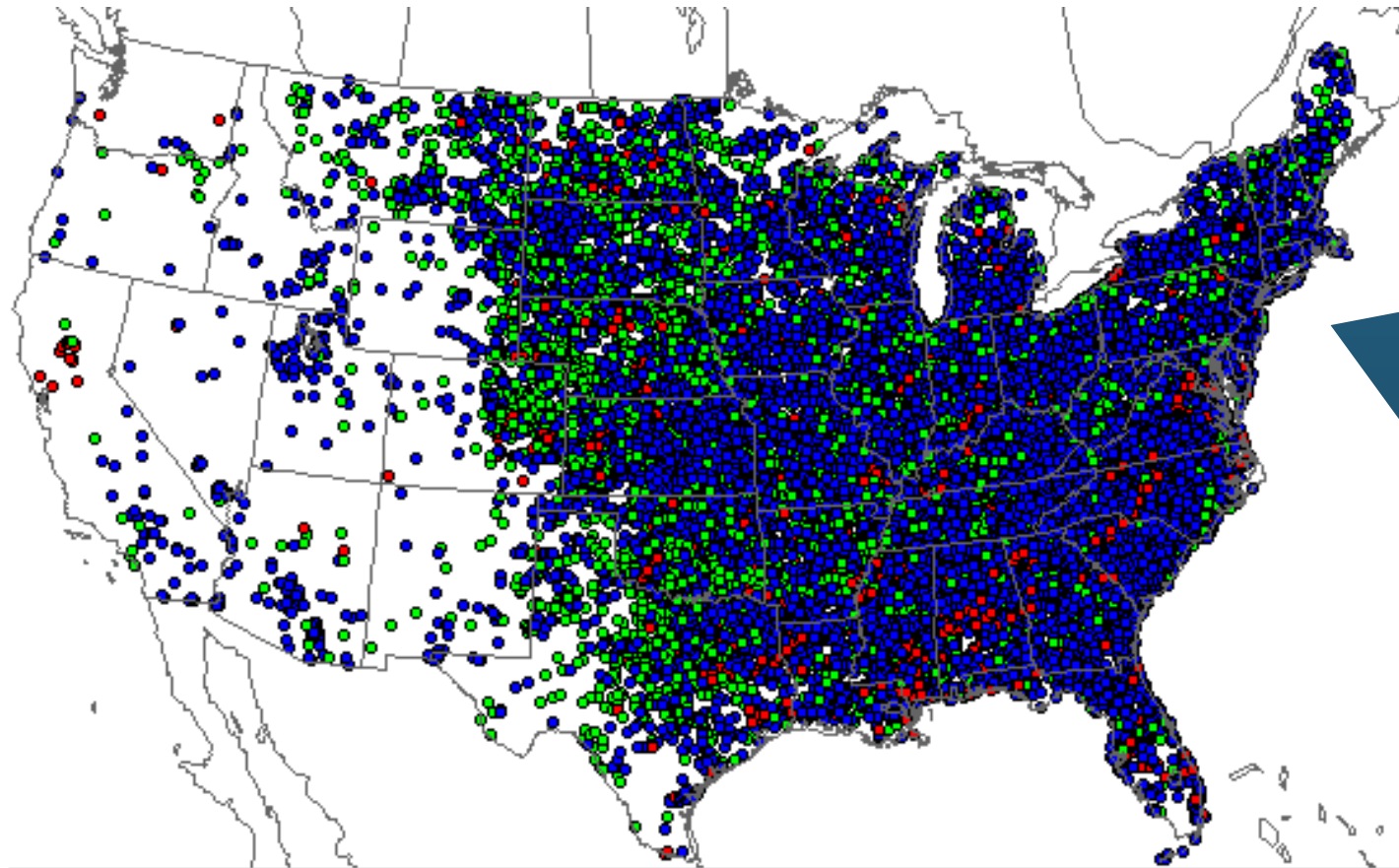
Severe Weather Reports  
January 01, 2012 - April 07, 2012

Updated: Saturday April 07, 2012 17:38 CT

\*Through April 7, 2012.

Source: NOAA Storm Prediction Center; [http://www.spc.noaa.gov/climo/online/monthly/2012\\_annual\\_summary.html#](http://www.spc.noaa.gov/climo/online/monthly/2012_annual_summary.html#)

# Severe Weather Reports, 2011



There were  
29,996 severe  
weather reports  
in 2011;  
including 1,894  
tornadoes;  
9,417 “Large  
Hail” reports  
and 18,685 high  
wind events



PRELIMINARY SEVERE WEATHER  
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Severe Weather Reports  
January 01, 2011 - December 27, 2011

Updated: Tuesday December 27, 2011 16:35 CT

# Insurers Making a Difference in Impacted Communities



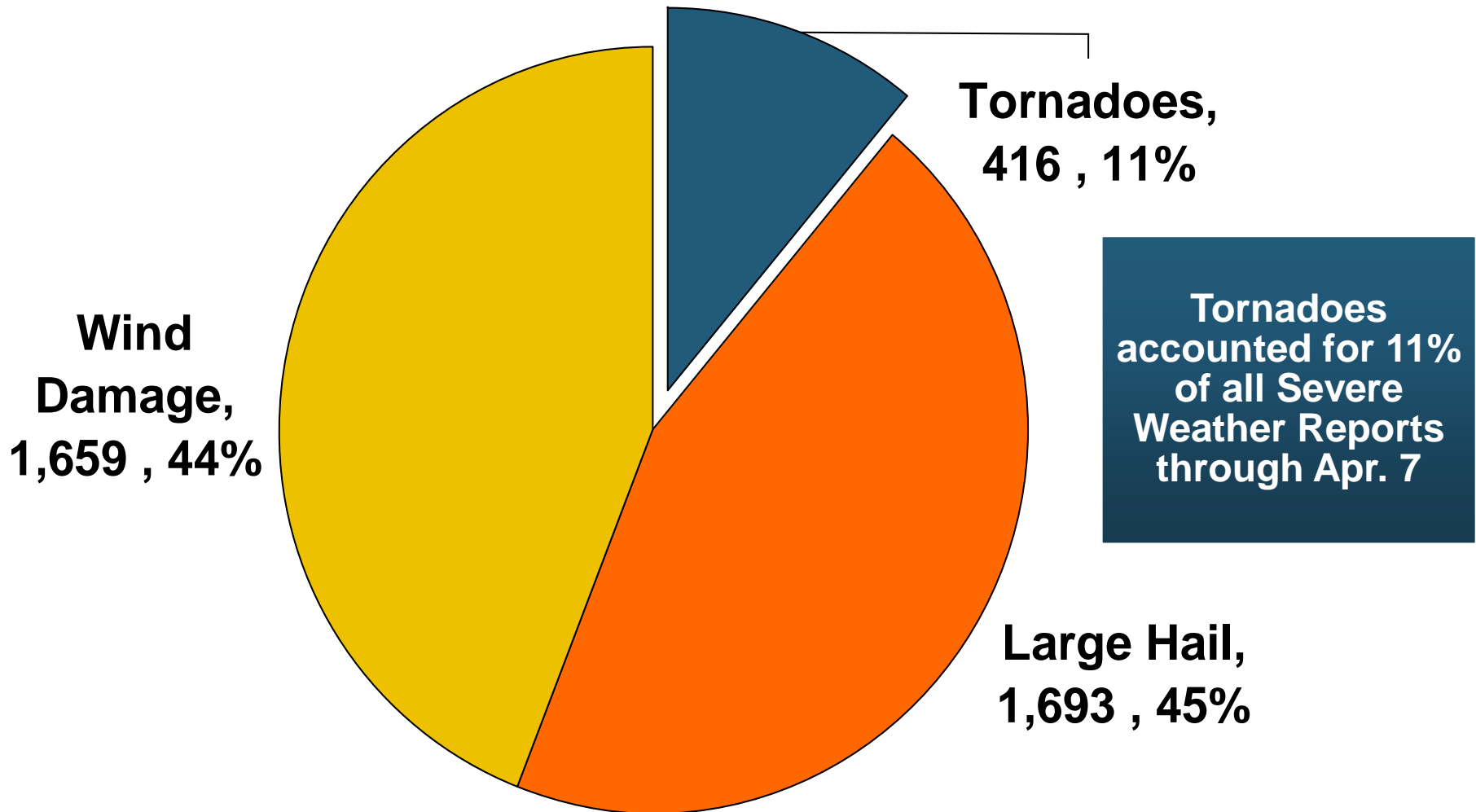
**Destroyed home in Tuscaloosa. Insurers will pay some 165,000 claims totaling \$2 billion in the Tuscaloosa/Birmingham areas alone.**

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





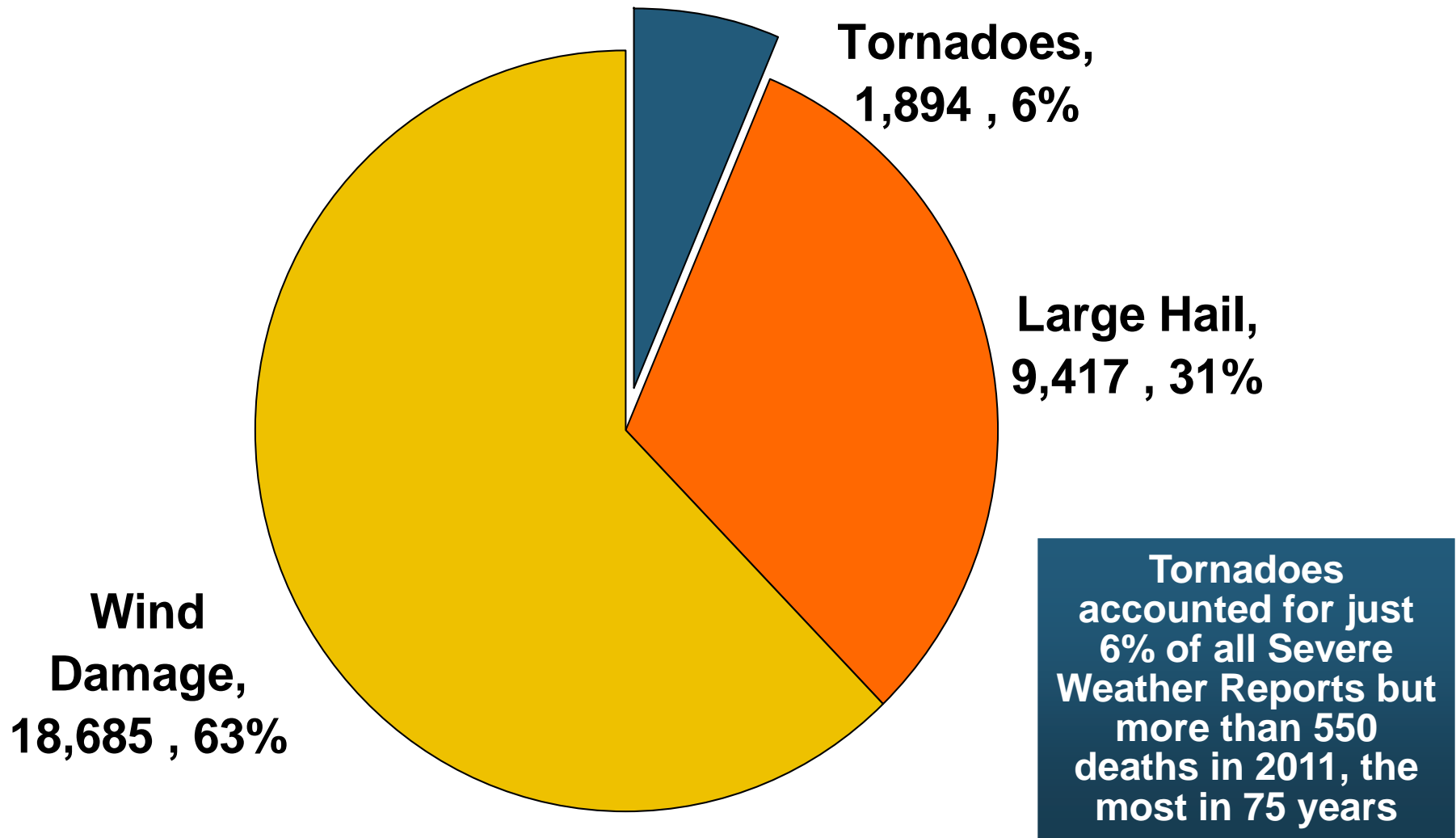
# Number of Severe Weather Reports in US, by Type, 2012\*



\*Through April 7.

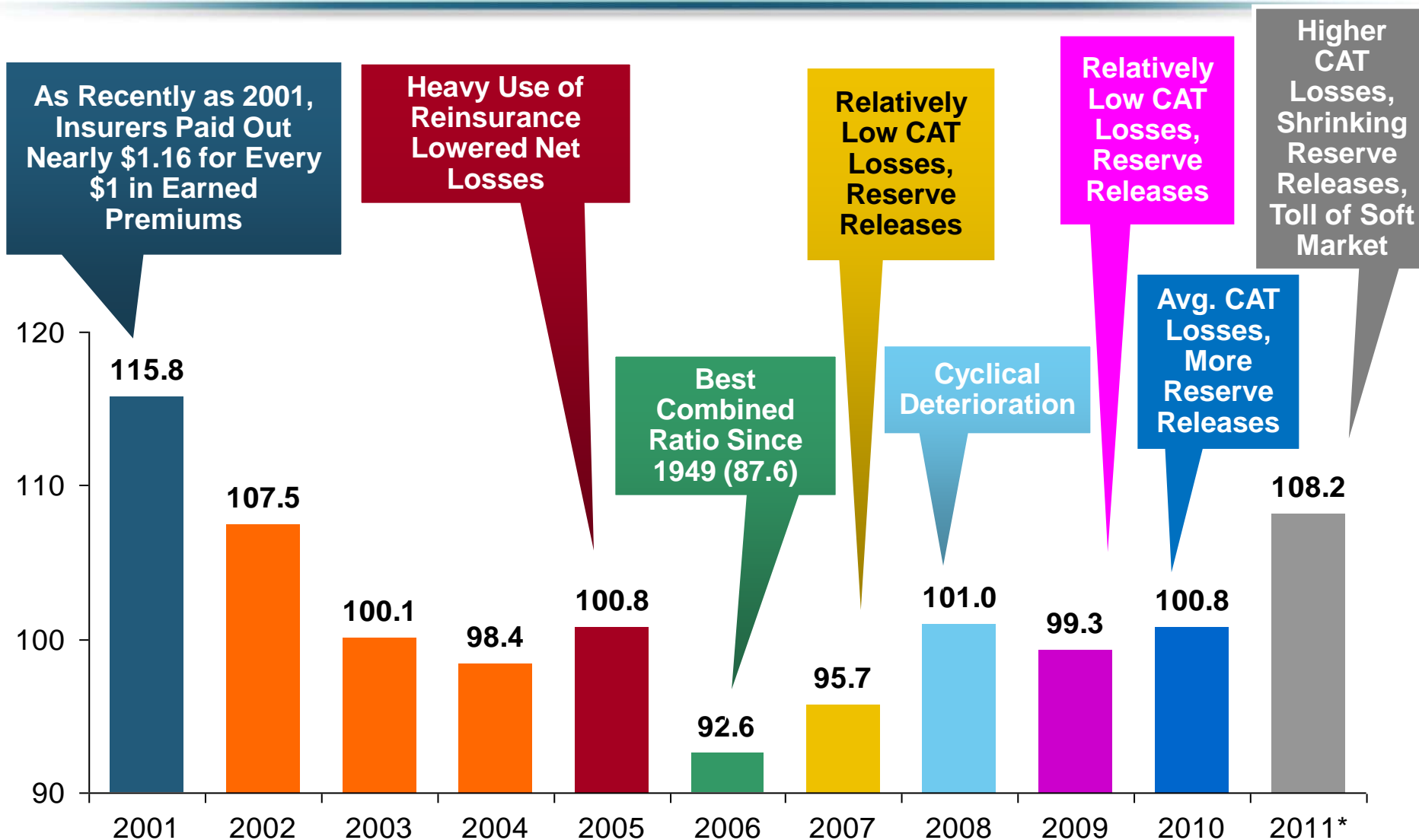
Source: NOAA Storm Prediction Center; [http://www.spc.noaa.gov/climo/online/monthly/2011\\_annual\\_summary.html#](http://www.spc.noaa.gov/climo/online/monthly/2011_annual_summary.html#)

# Number of Severe Weather Reports in US, by Type, 2011



# **Underwriting Trends: Cycle, Catastrophes Are Among 2011 and 2012 Drivers**

# P/C Insurance Industry Combined Ratio, 2001–2011\*



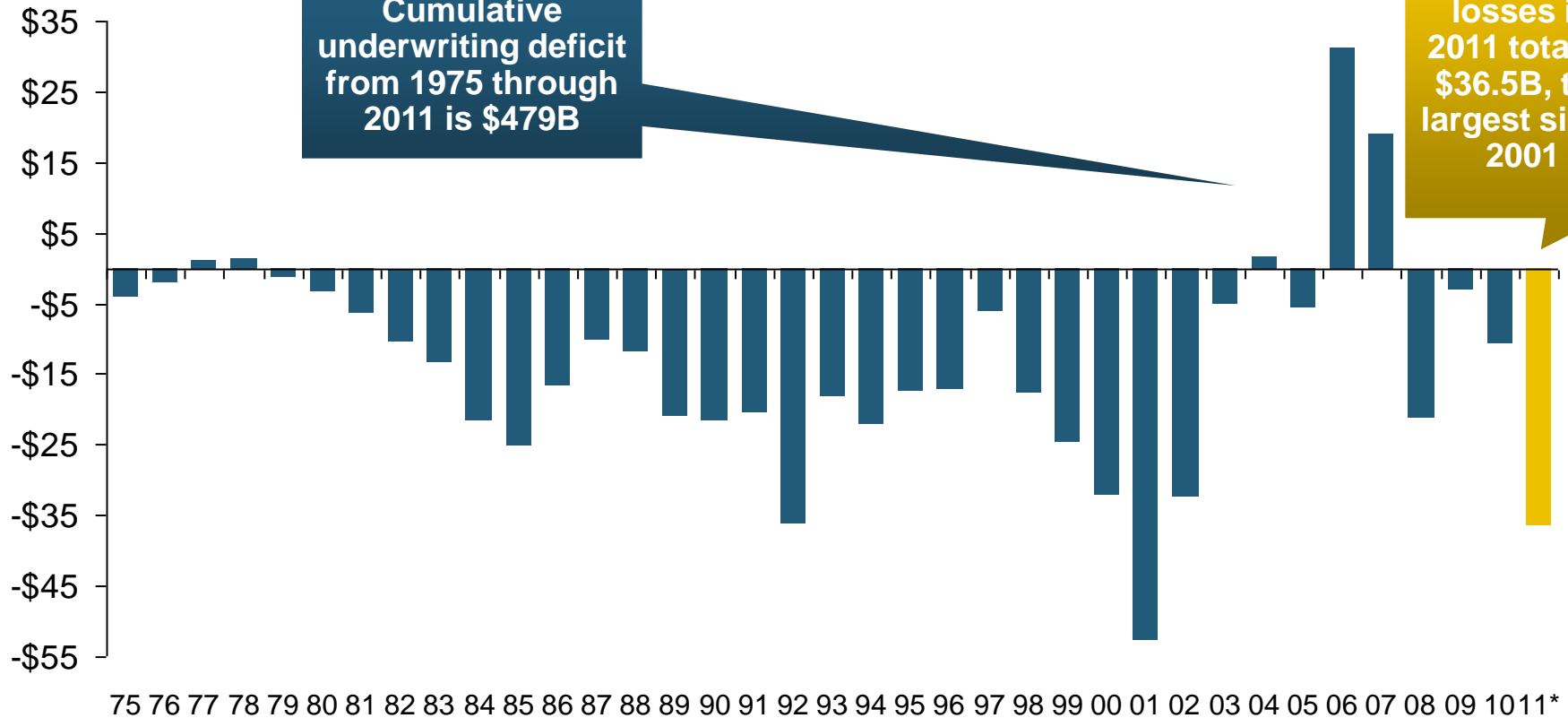
\* Excludes Mortgage & Financial Guaranty insurers 2008--2011. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=106.4

Sources: A.M. Best, ISO.



# Underwriting Gain (Loss) 1975–2011E\*

(\$ Billions)

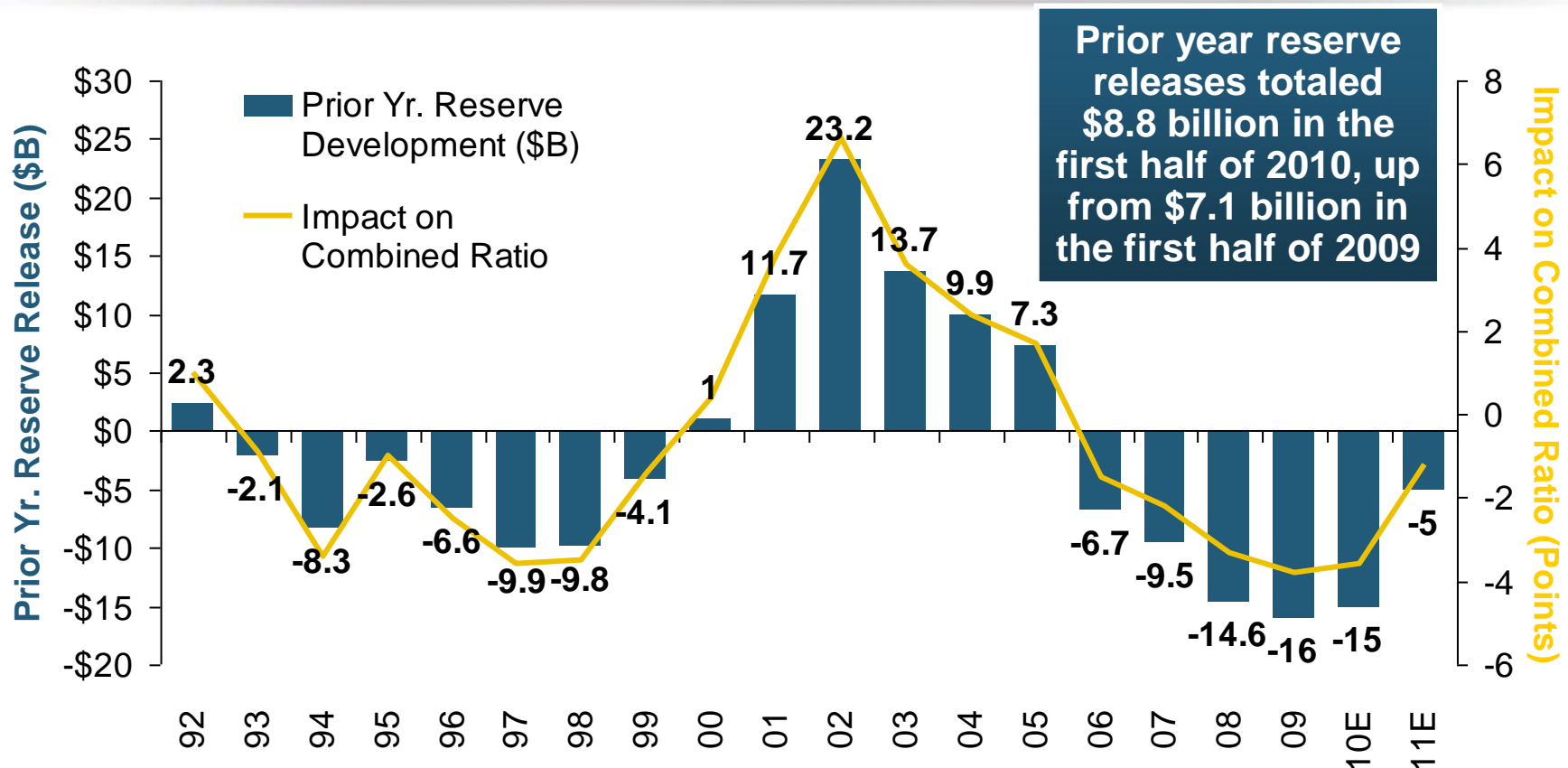


**Large Underwriting Losses Are *NOT* Sustainable  
in Current Investment Environment**

\* Includes mortgage and financial guaranty insurers in all years

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

# P/C Reserve Development, 1992–2011E



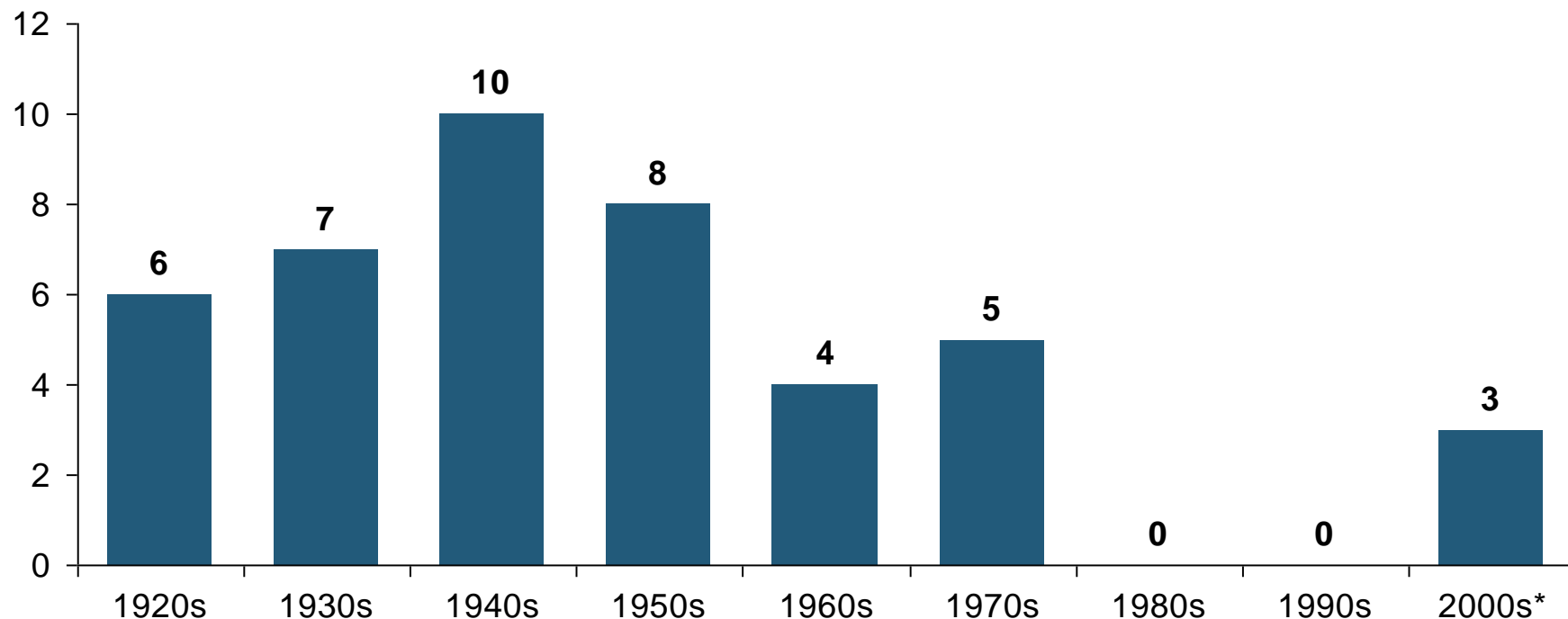
**Reserve Releases Are Continuing Strong in 2010 But Should Begin to Taper Off in 2011**

Note: 2005 reserve development excludes a \$6 billion loss portfolio transfer between American Re and Munich Re. Including this transaction, total prior year adverse development in 2005 was \$7 billion. The data from 2000 and subsequent years excludes development from financial guaranty and mortgage insurance.

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

# Number of Years with Underwriting Profits by Decade, 1920s–2000s

Number of Years with Underwriting Profits



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

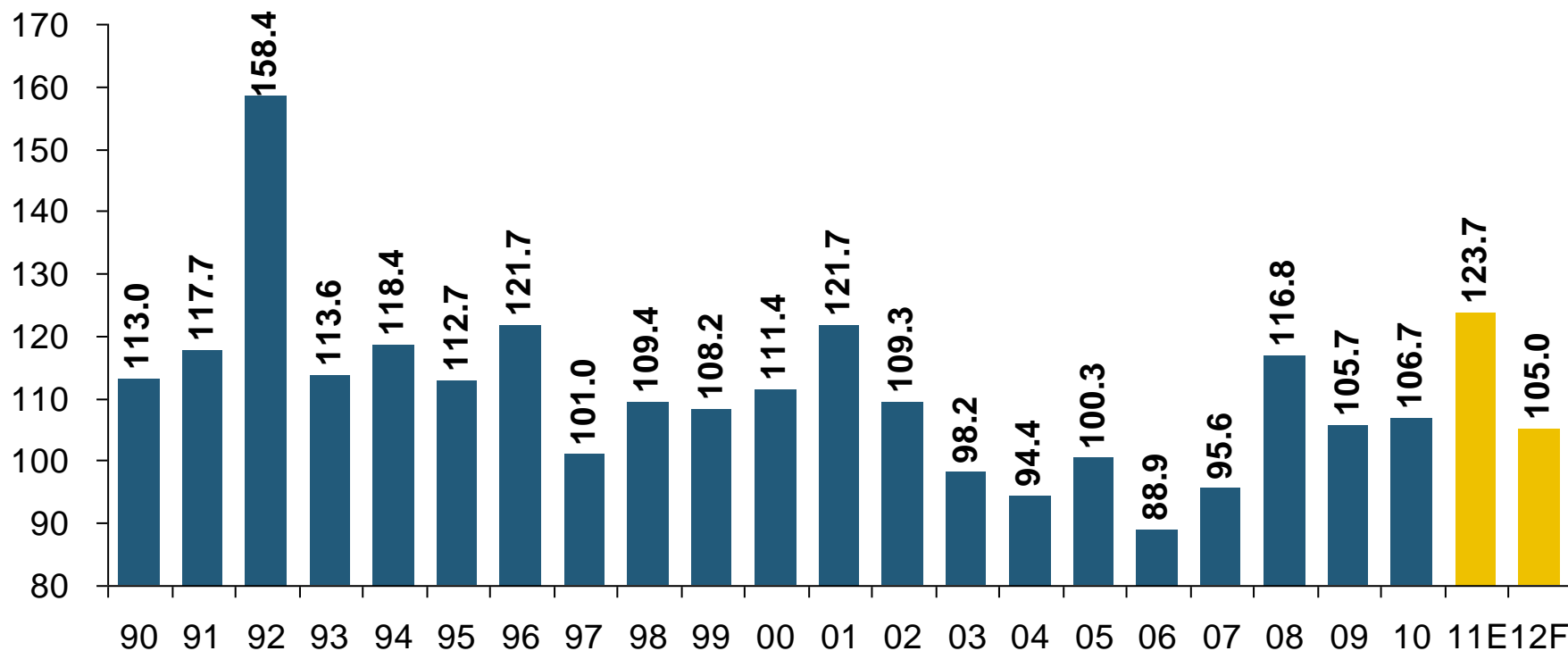
\* 2000 through 2009. 2009 combined ratio excluding mortgage and financial guaranty insurers was 99.3, which would bring the 2000s total to 4 years with an underwriting profit.

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

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

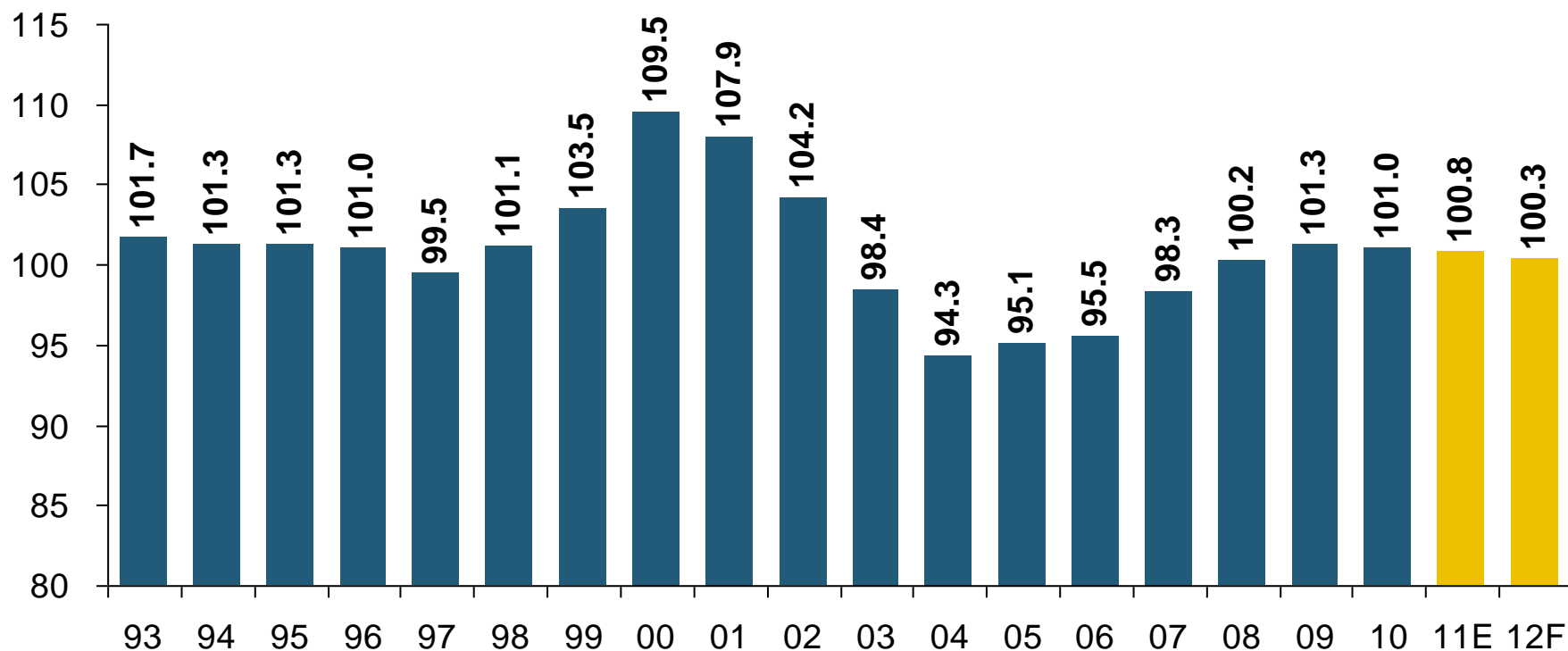
# **Performance by Segment: Personal Lines**

# Homeowners Insurance Combined Ratio: 1990–2012F



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

# Private Passenger Auto Combined Ratio: 1993–2012P

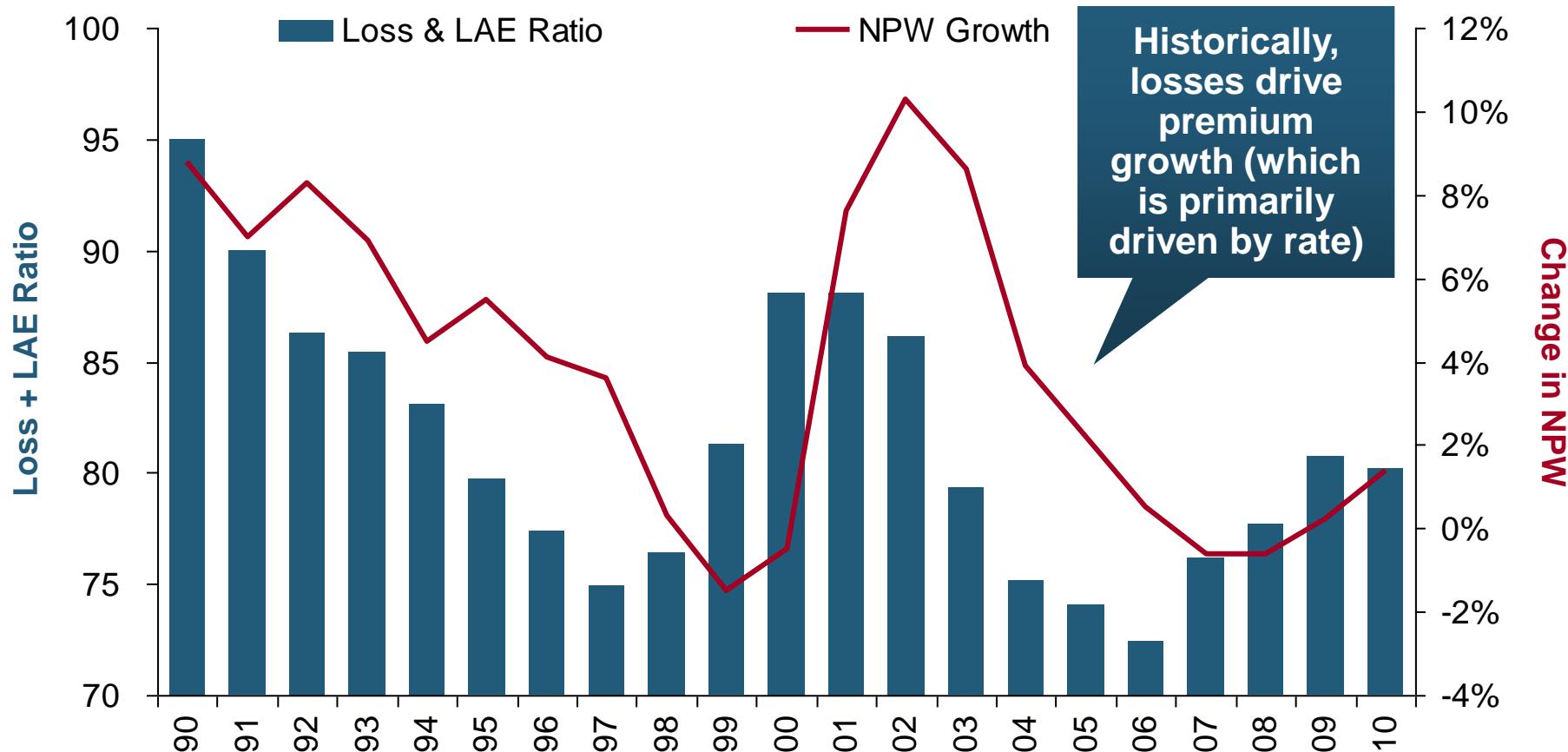


**Private Passenger Auto Accounts for 34% of Industry Premiums and Remains the Profit Juggernaut of the P/C Insurance Industry**

# Cycle Drivers

## The Role of Losses and Reserves in the Underwriting Cycle

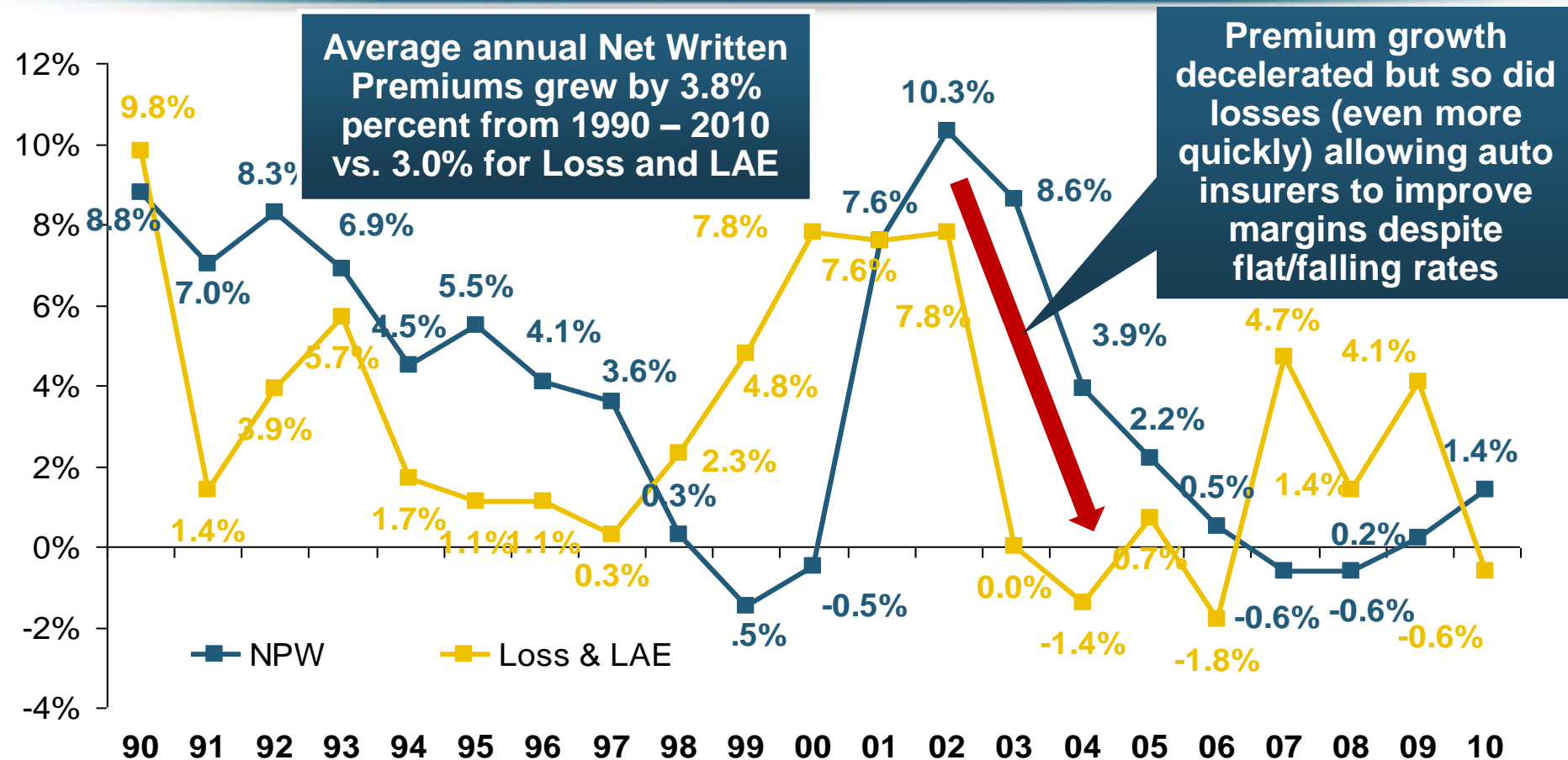
# PP Auto Liability: Loss and LAE vs. Net Premiums Written, 1990-2010



**While Premium Growth Decelerated, the Driver Was Primarily Lower Losses, Allowing Auto Insurers to Maintain String Margins**



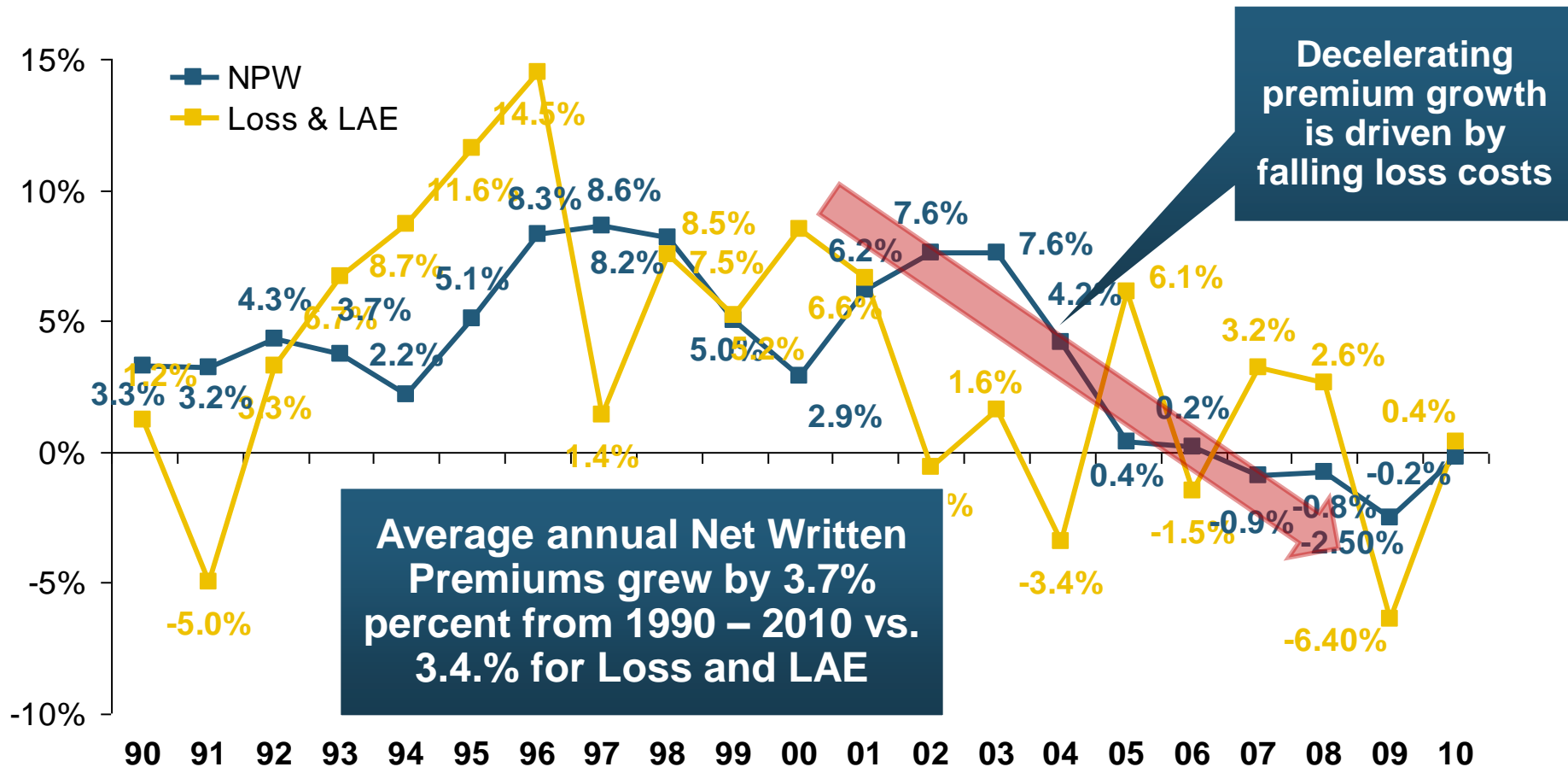
# PP Auto Liability: % Change in NPW vs. % Change in Loss & LAE, 1990 - 2010



## Losses Drive Premiums

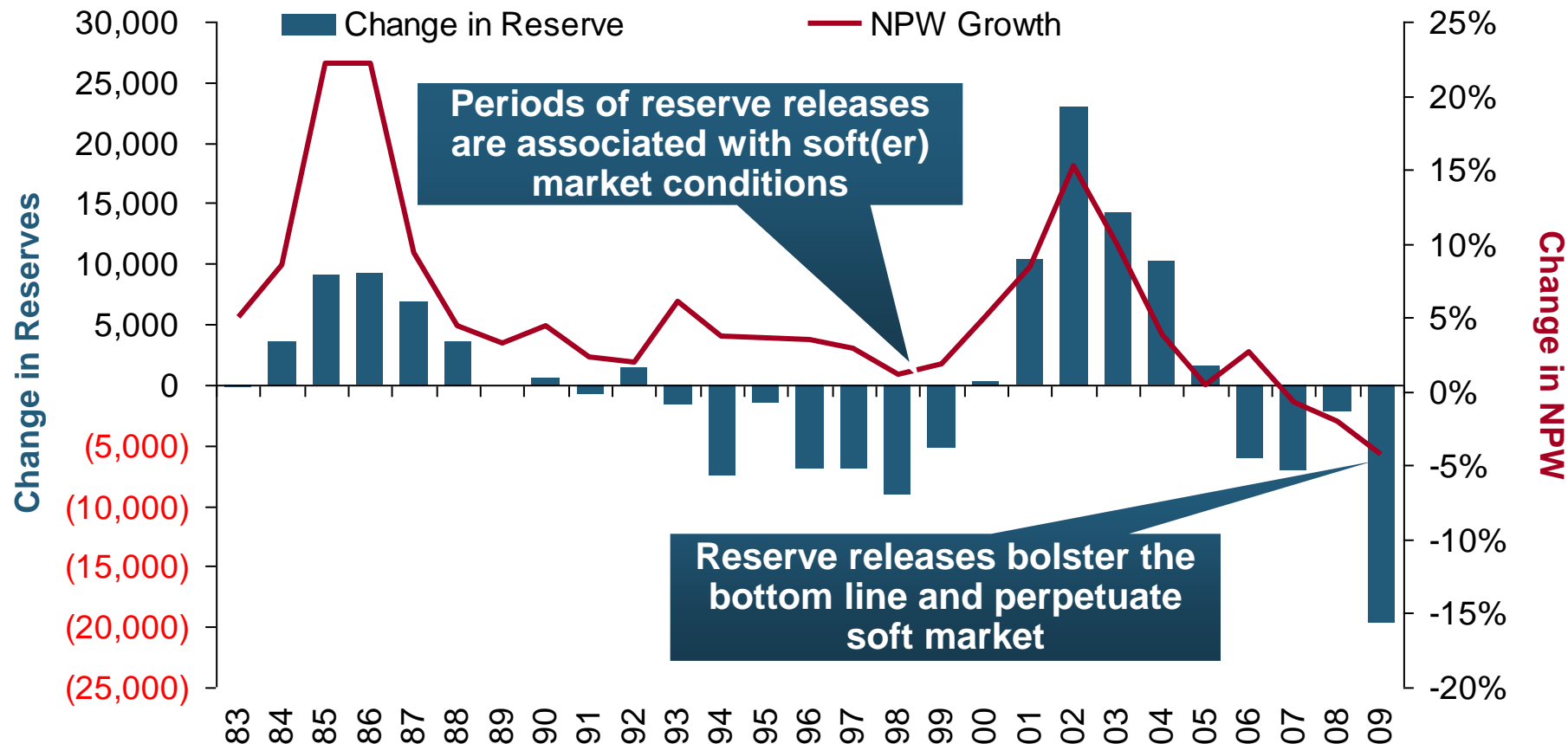
**Premiums Exhibit an Elastic Response (with a Lag) to Changes in Losses**

# PP Auto Physical Damage: Change in NPW vs. Change in Loss & LAE, 1990 - 2010



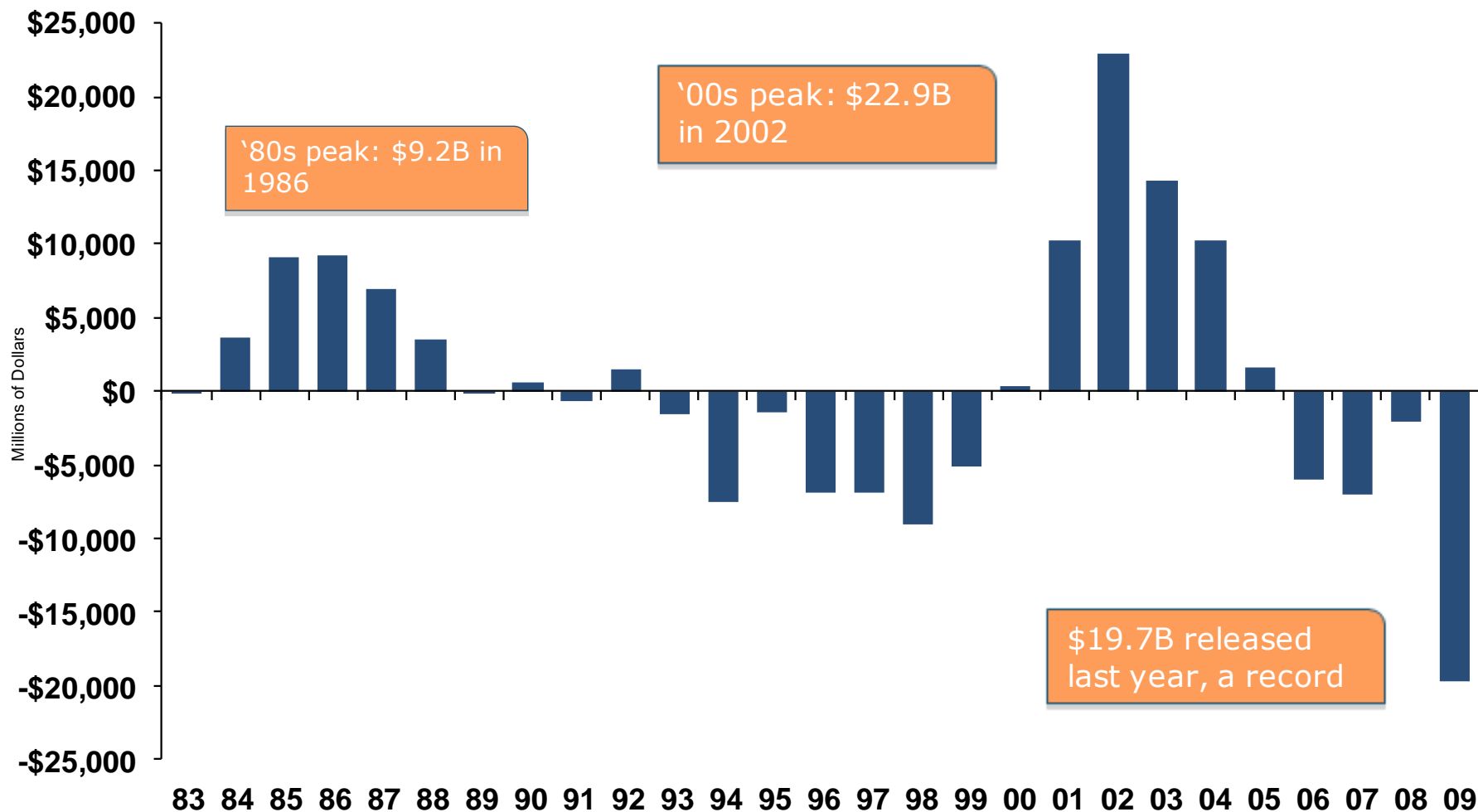
**Loss Trends Ultimately Drive Premium Trends**

# P-C Loss Development vs. Change in NPW, 1983-2009

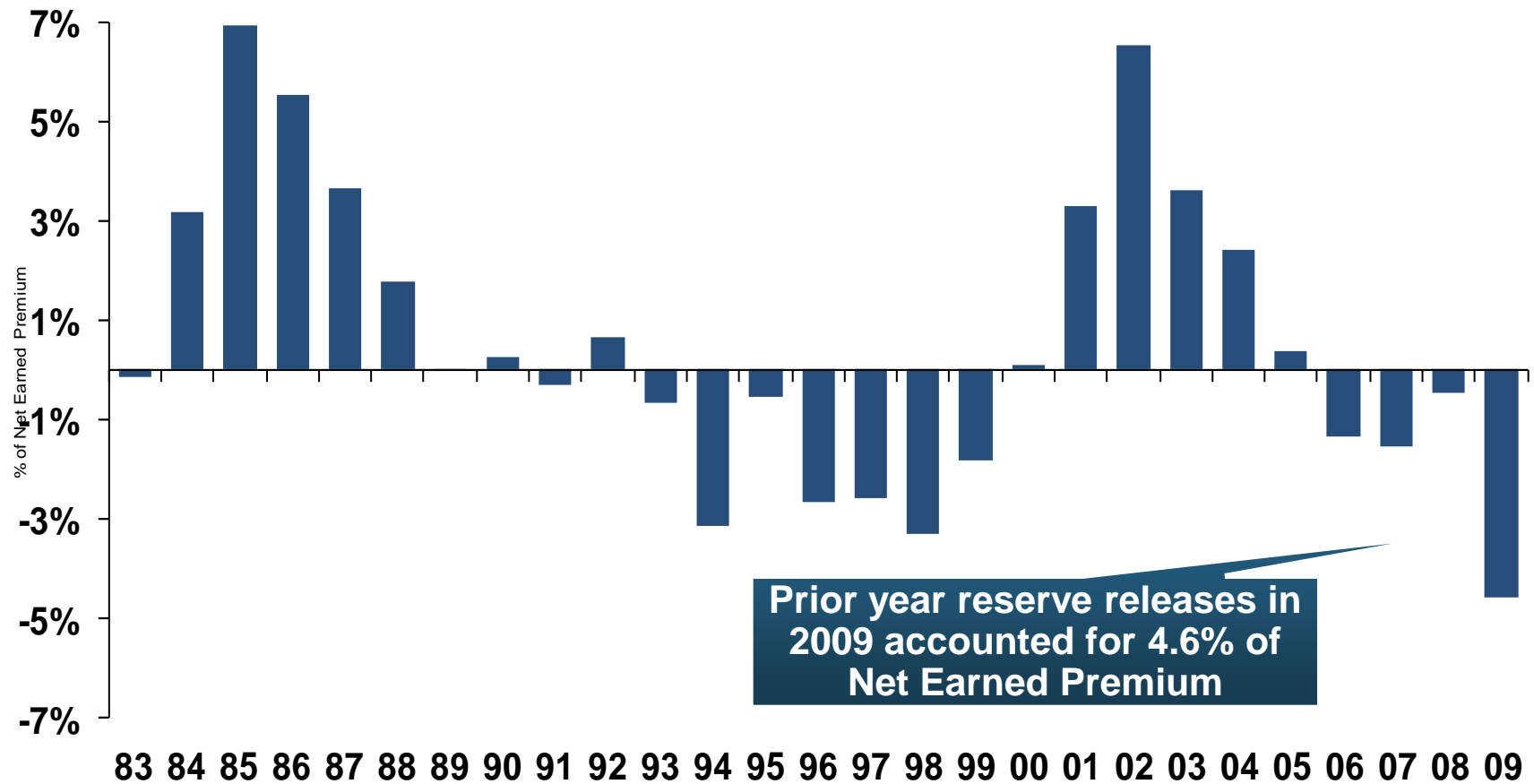


**Reserve Releases, in Addition to Losses, Drive Pricing Cycles**

# P-C Industry Loss Development, 1983-2009 (\$ Millions)



# Industry Loss Development as % of Net Earned Premium, 1983-2009

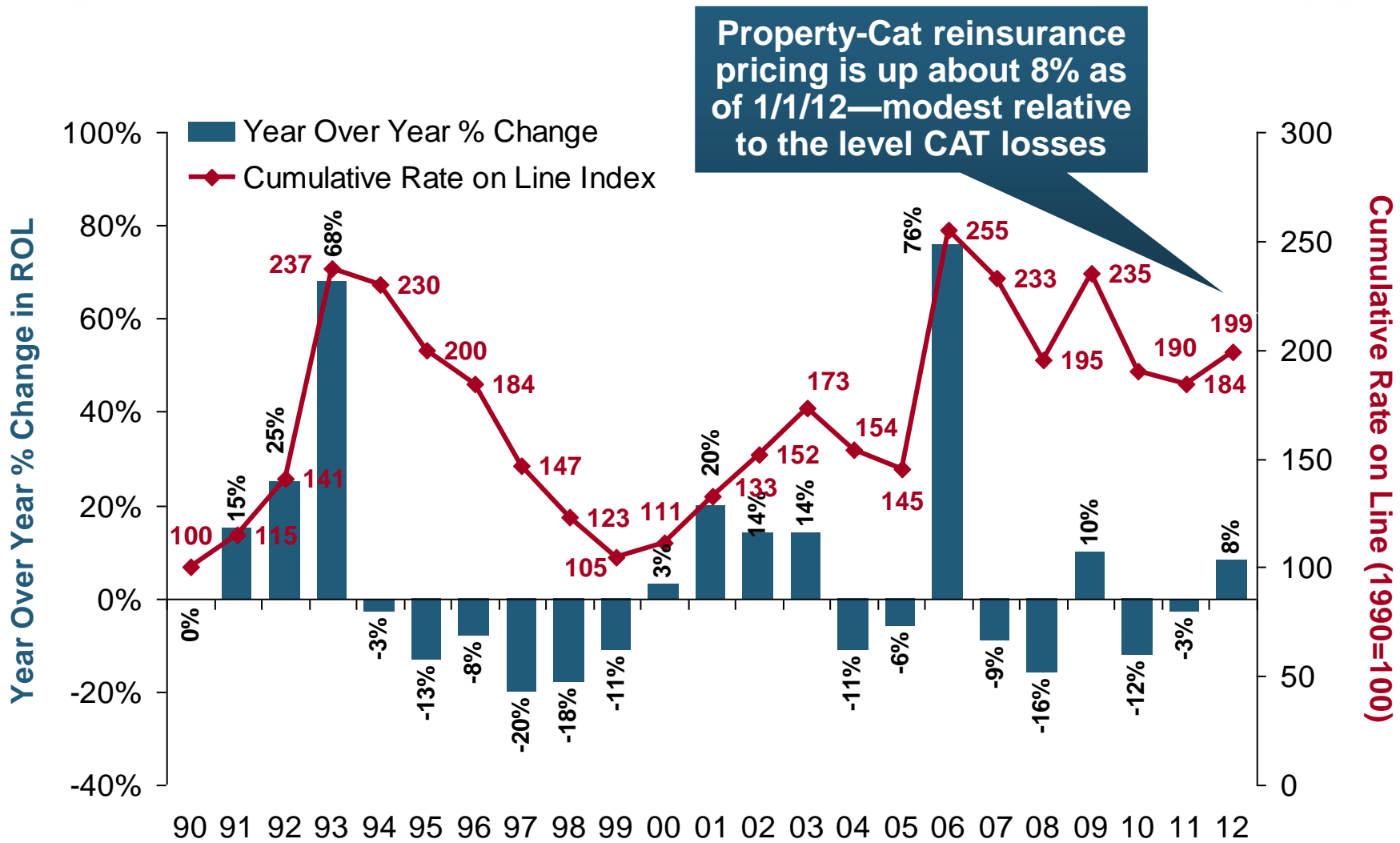


Sources: A.M. Best, Insurance Information Institute

# **REINSURANCE MARKET CONDITIONS**

**Record Global  
Catastrophes Activity is  
Pressuring Pricing**

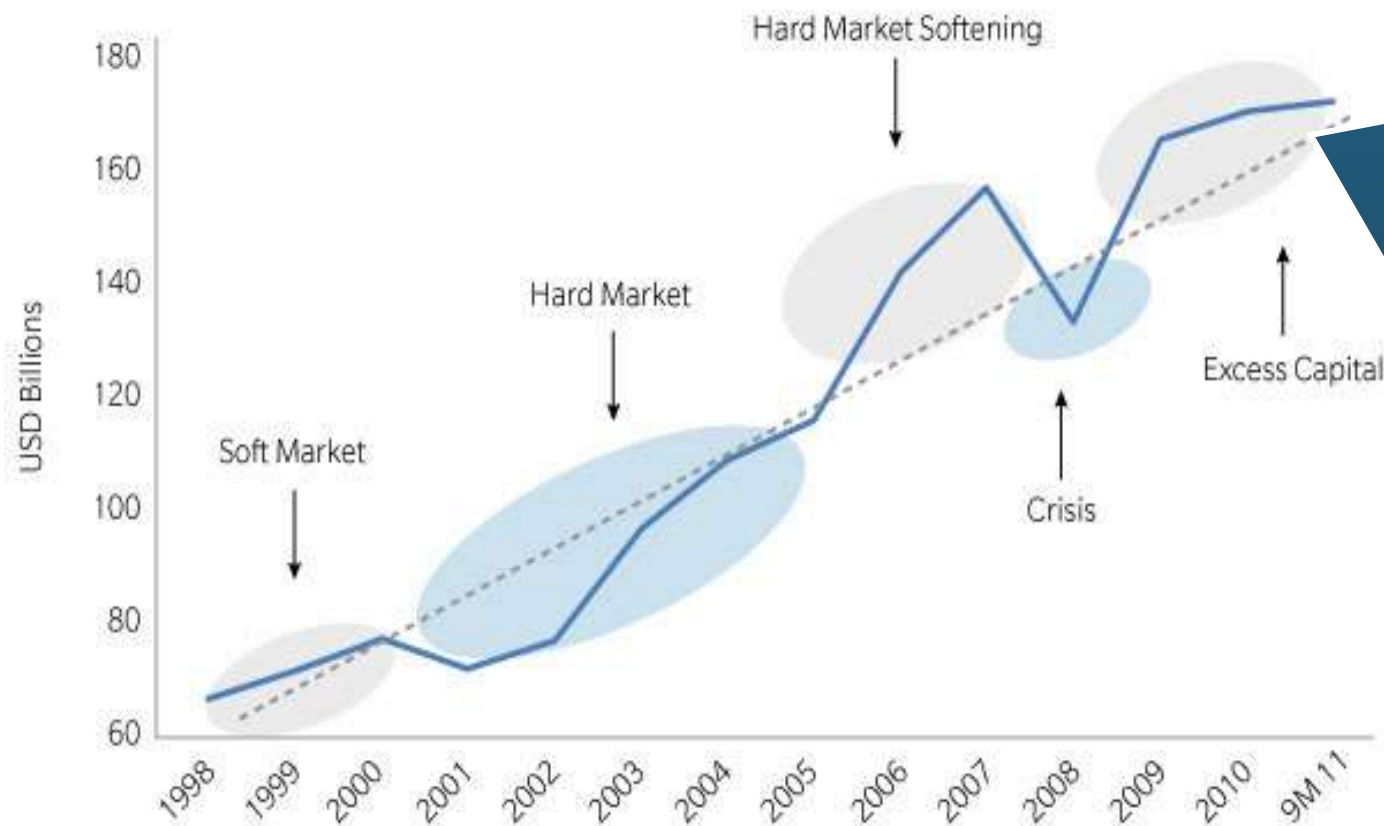
# Global Property Catastrophe Rate on Line Index, 1990—2012 (as of Jan. 1)



Sources: Guy Carpenter; Insurance Information Institute.

# Historical Capital Levels of Guy Carpenter Reinsurance Composite, 1998—3Q11

LONG-TERM EVOLUTION OF SHAREHOLDERS' FUNDS  
FOR THE GUY CARPENTER GLOBAL REINSURANCE COMPOSITE



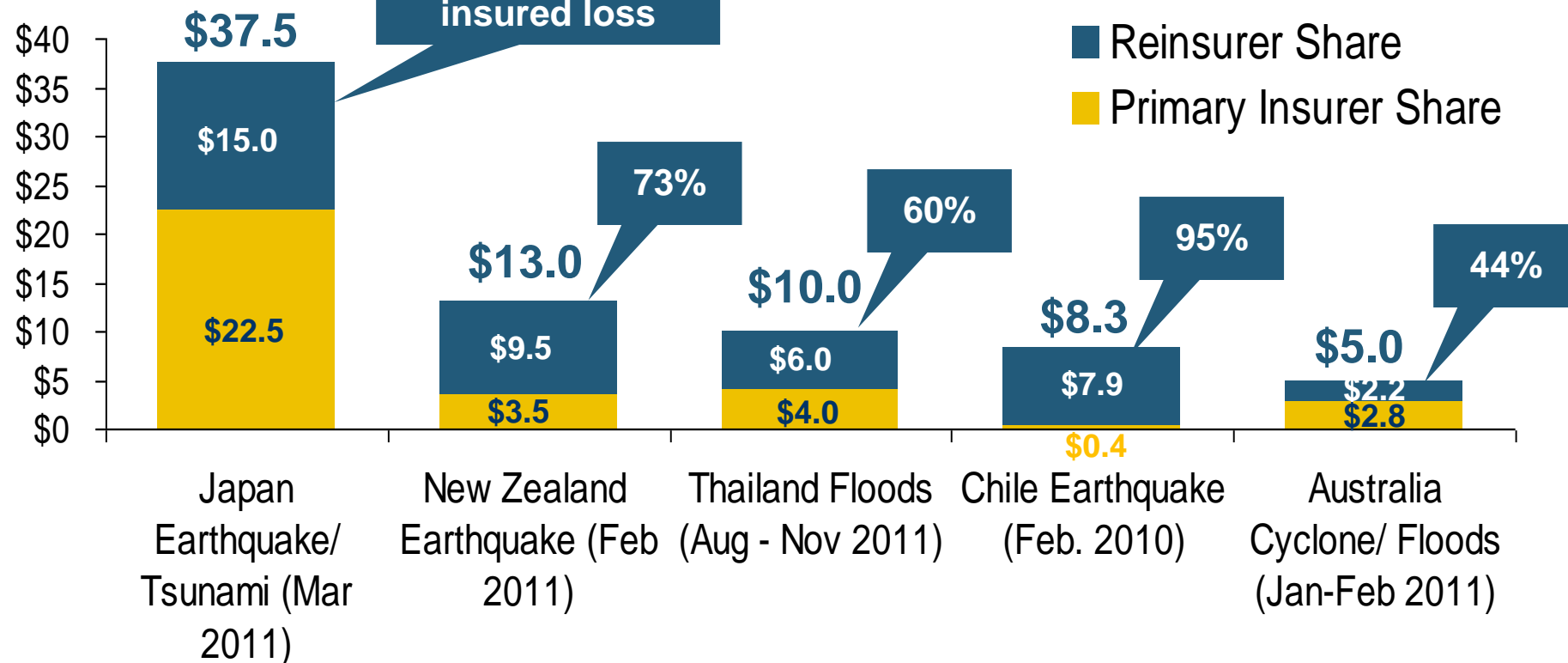
Source: Guy Carpenter & Company, LLC

**Most excess reinsurance capacity was removed from the market in 2011, but there does not appear to be a shortage, leading to modest increases in 2012 reinsurance renewals except in areas hit hard by CATs.**



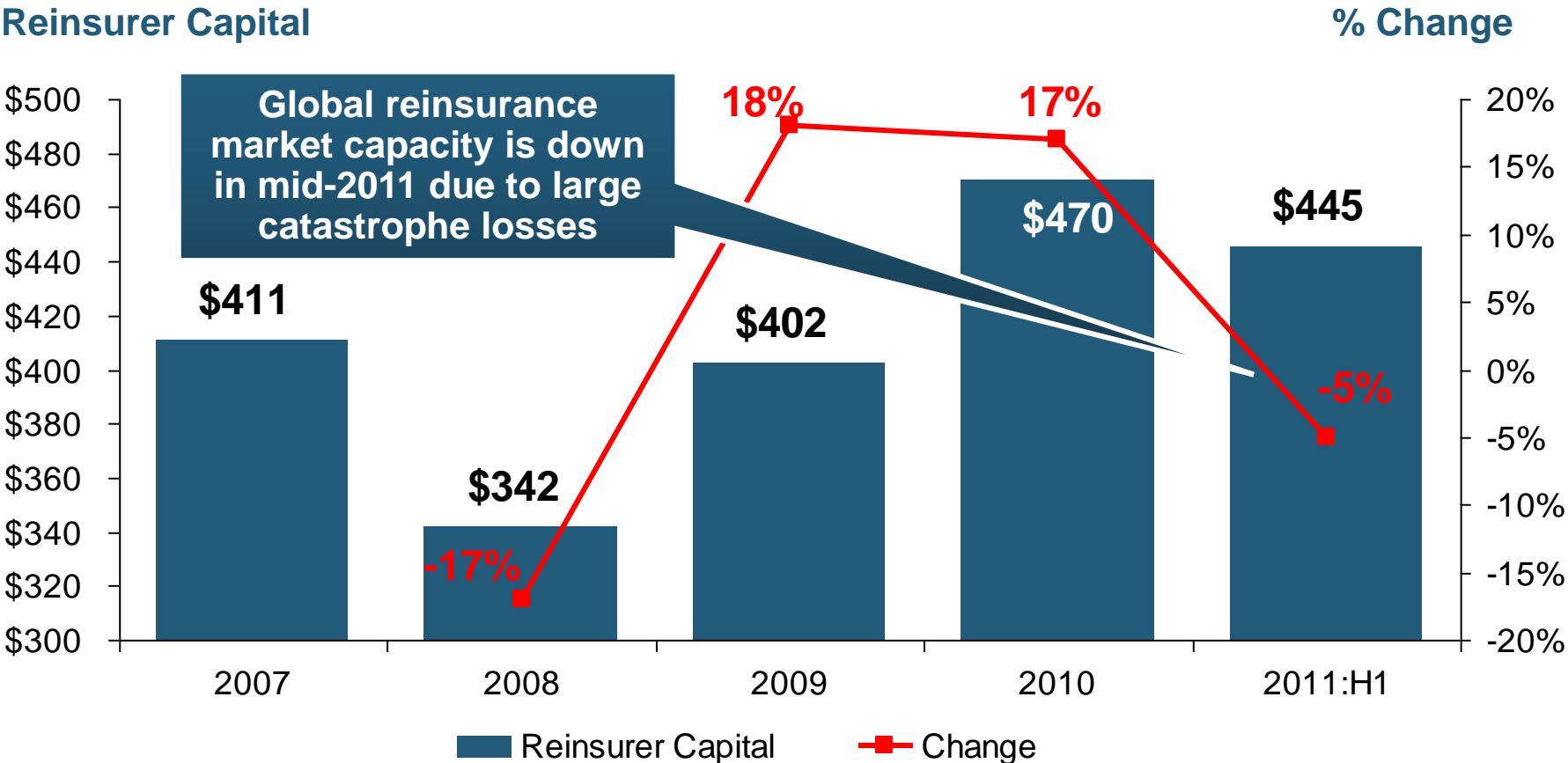
# Reinsurer Share of Recent Significant Market Losses

Billions of 2011  
Dollars



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

# Global Reinsurance Capital, 2007-2011:H1



**High Global Catastrophe Losses Have Had a Modest Adverse Impact on Global Reinsurance Market Capacity**

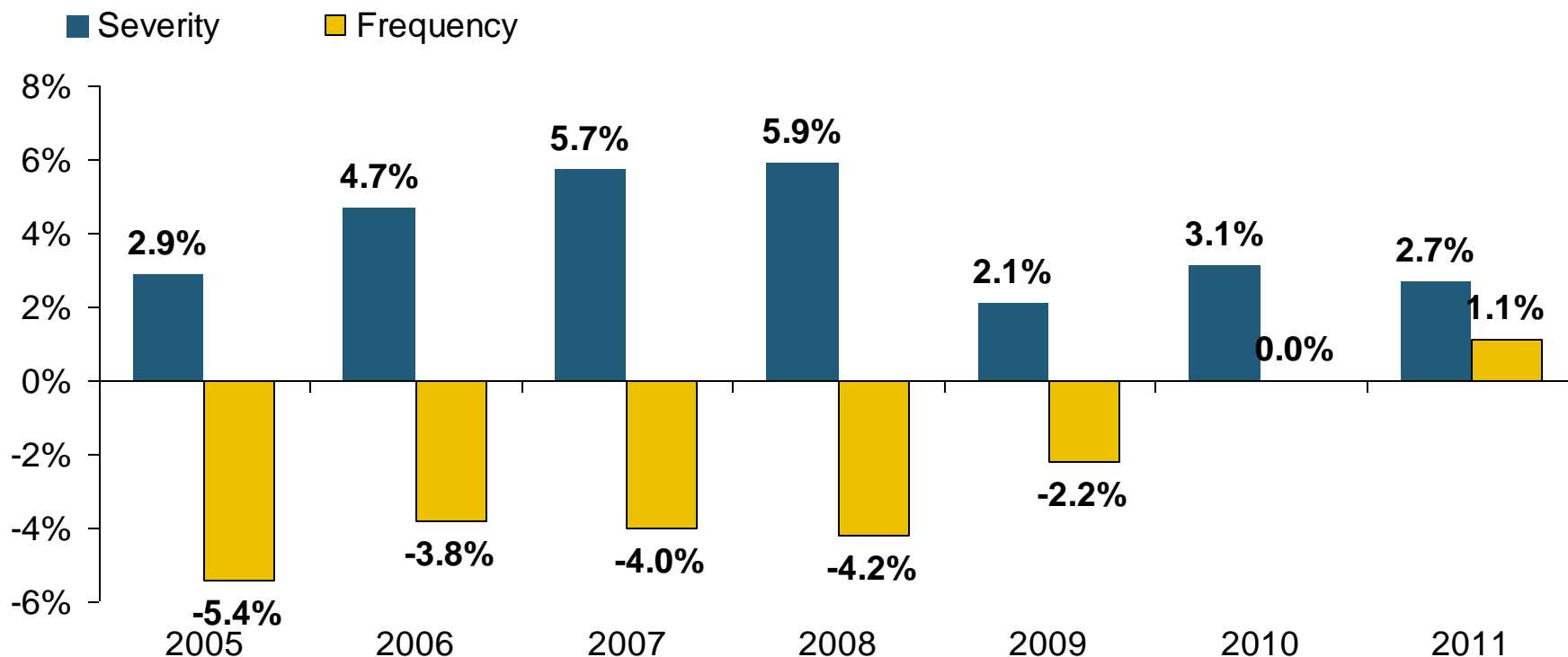
Source: Aon Reinsurance Market Outlook, September 2011 from Individual Company and AonBenfield Analytics; Insurance Information Institute.

# **Claim Trends in Auto Insurance**

**Rising Costs Held in Check by  
Falling Frequency:  
Can That Pattern Be Sustained?**

# Bodily Injury: Severity Trend Rising, Frequency Decline Has Ended

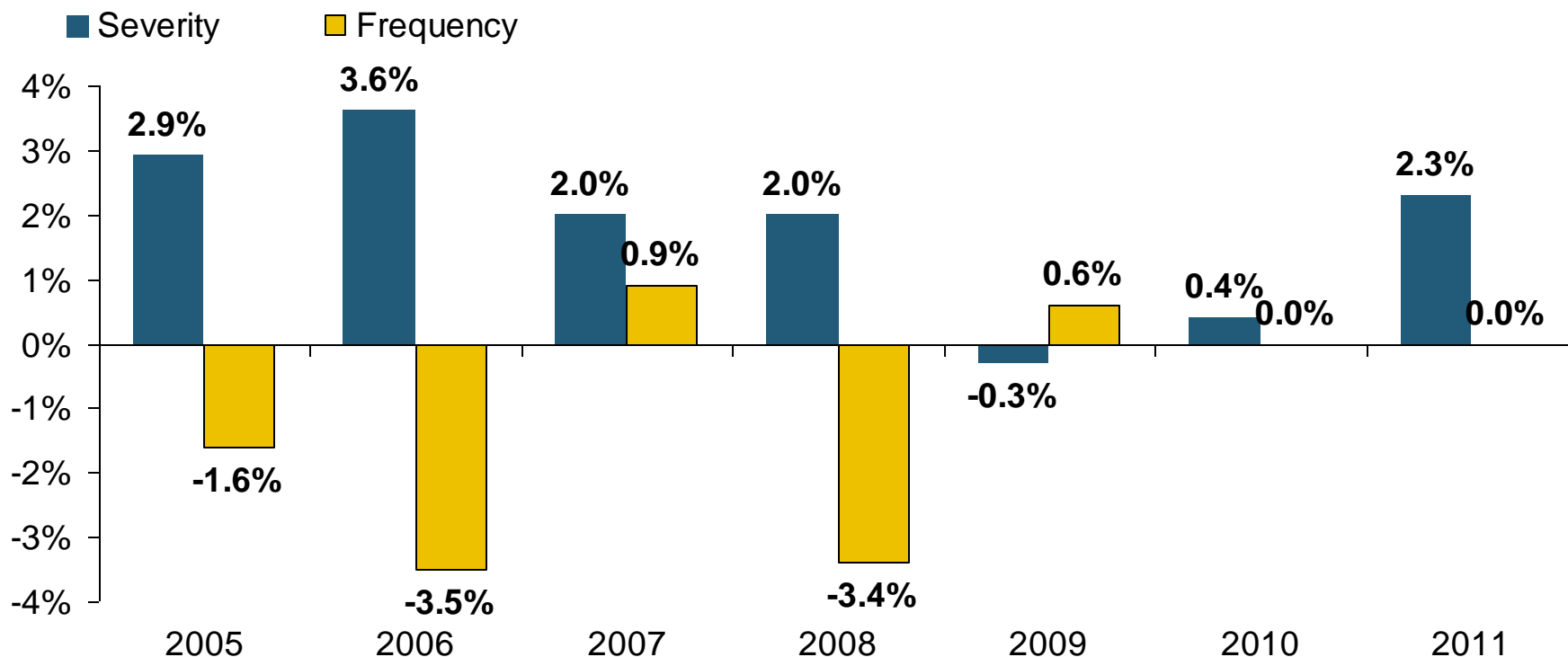
Annual Change, 2005 through 2011



**Cost Pressures Will Increase if BI Severity Frequency Increases Continue**

# Property Damage Liability: Severity is Up, Frequency Nearly Flat Since 2009

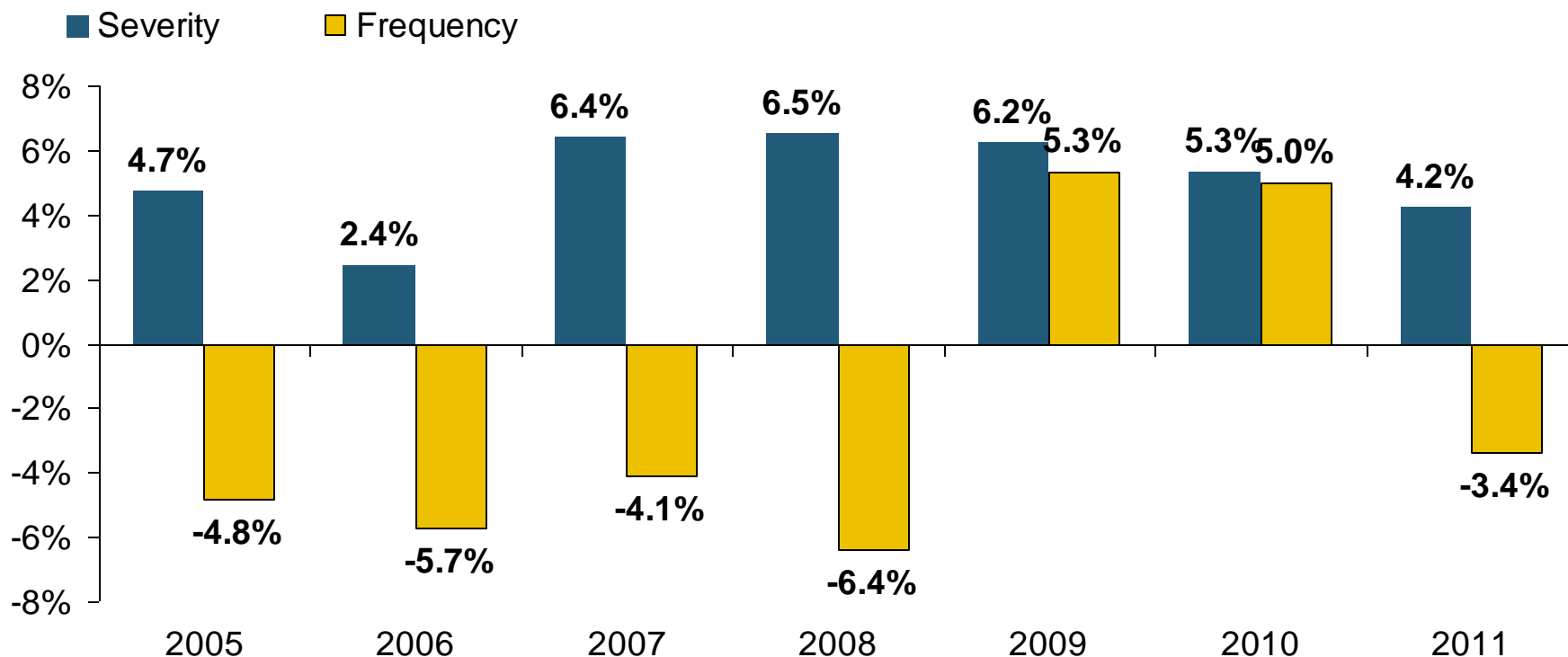
Annual Change, 2005 through 2011



**Severity/Frequency Trends Were Stable Through 2010, But Rising Severity in 2011 Is a Concern**

# No-Fault (PIP) Liability: Severity Trend Remains Adverse\*

Annual Change, 2005 through 2011



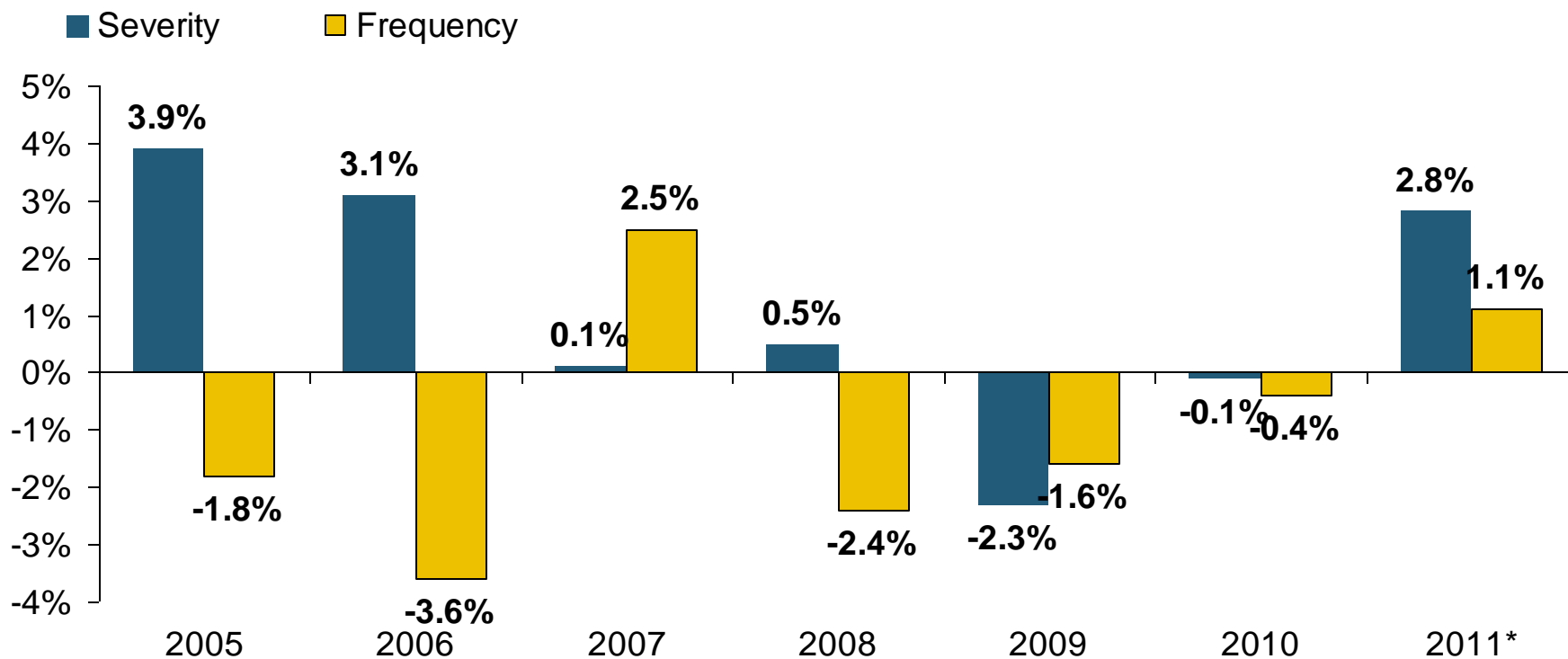
**Multiple States Are Experiencing Severe Fraud and Abuse Problems in their No-Fault Systems, Especially FL, MI, NY and NJ**

\*No-fault states included are: FL, HI, KS, KY, MA, MI, MN, NY, ND and UT.

Source: ISO/PCI *Fast Track* data; Insurance Information Institute

# Collision Coverage: Frequency and Severity Trends Are Up in 2011

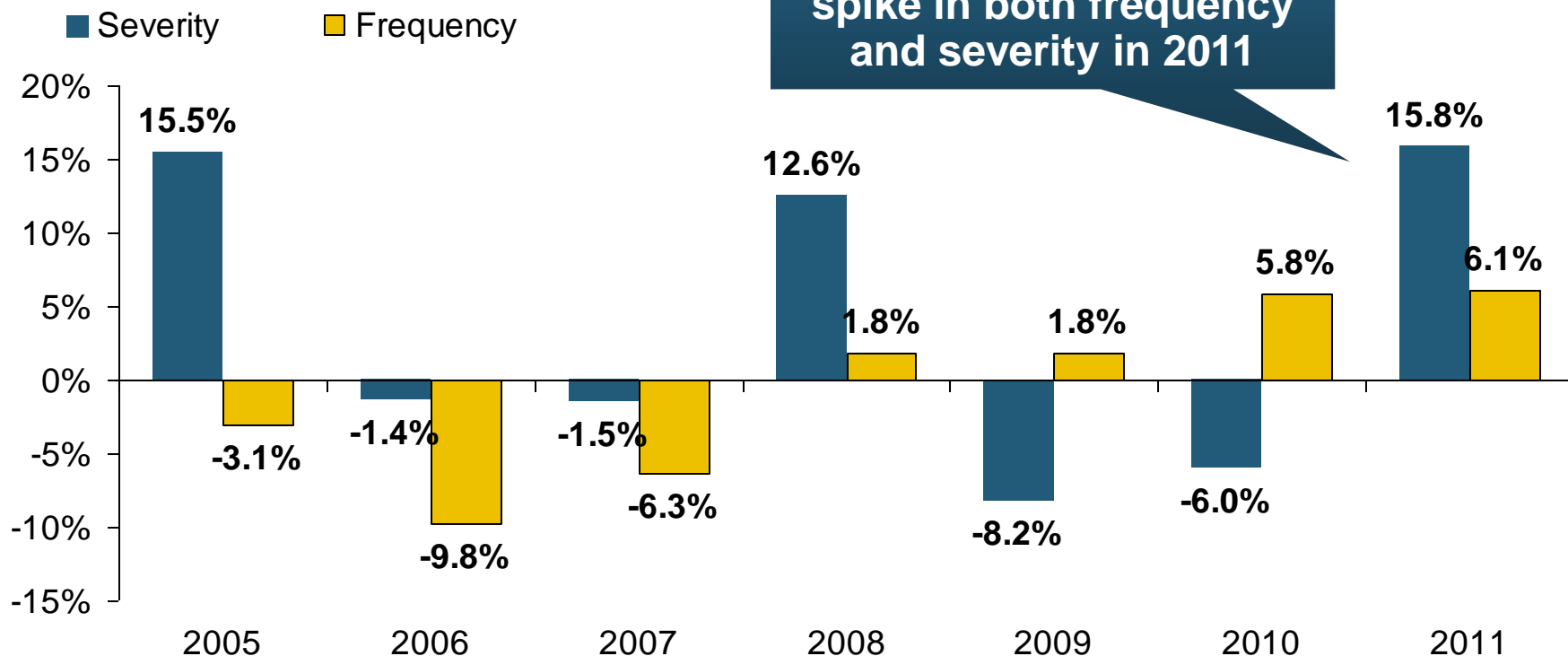
Annual Change, 2005 through 2011



**The Recession, High Fuel Prices Have Helped Temper Frequency and Severity, But this Trend Will Likely Be Reversed Based on Evidence from Past Recoveries**

# Comprehensive Coverage: Frequency and Severity Trends in 2011 Were Unfavorable

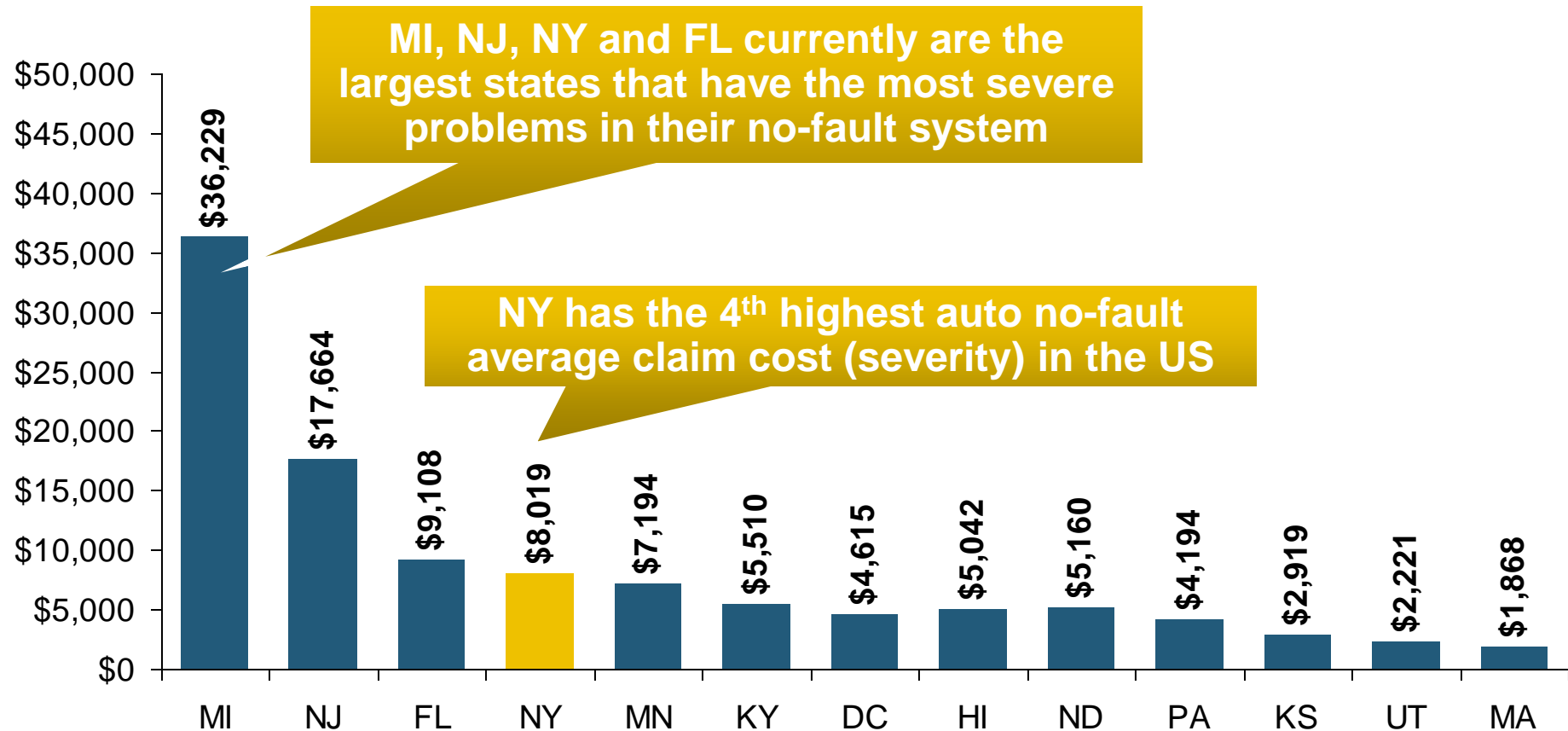
Annual Change, 2005 through 2011



**Weather Creates Volatility for Comprehensive Coverage; Recession Has Helped Push Down Frequency and Temper Severity, But This Factor Will Weaken as Economy Recovers**



# Average No-Fault Claim Severity, 2011:Q3\*

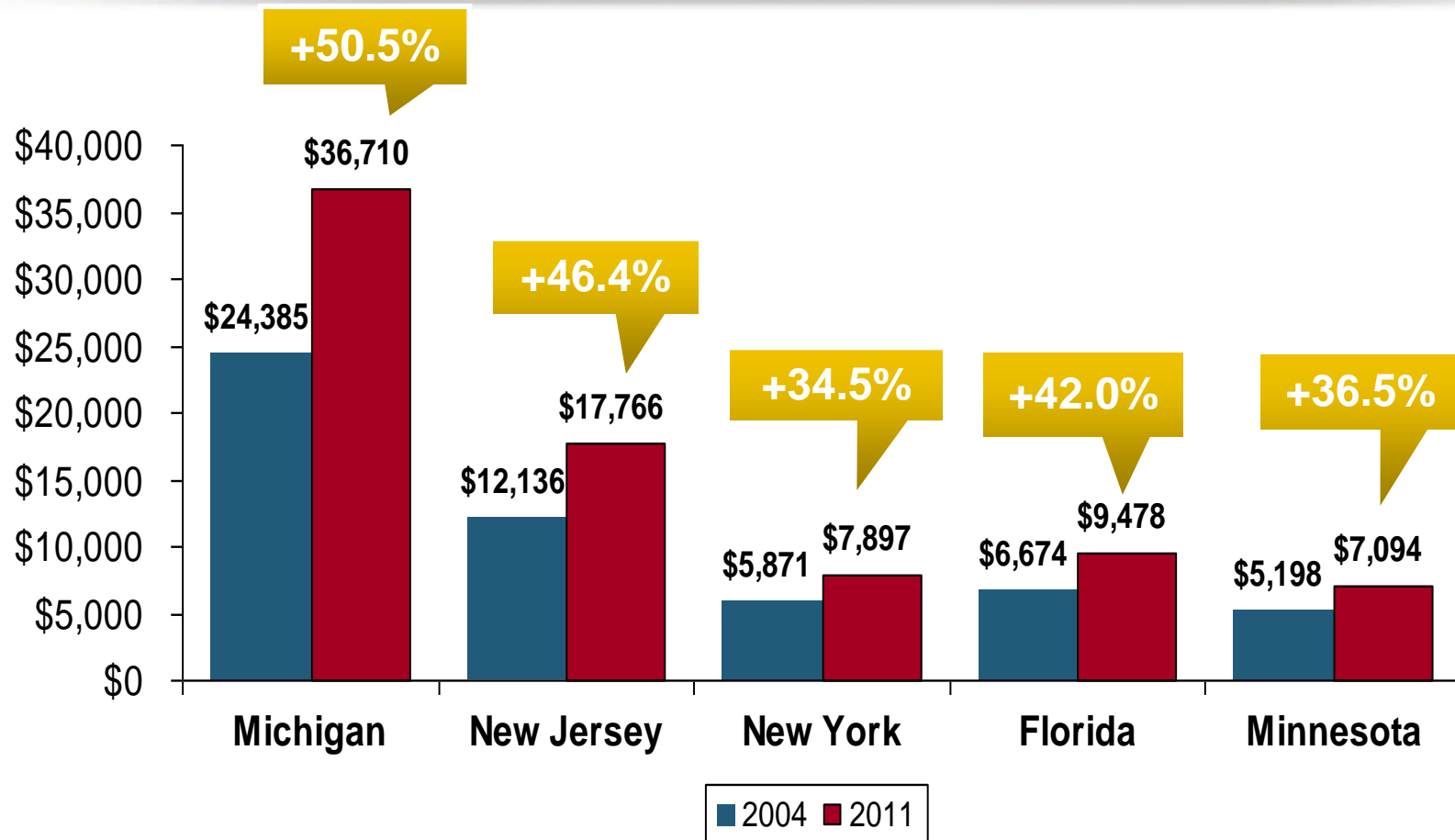


**Several States Including NY Have Severe and Growing Problems With Rampant Fraud and Abuse in their No-Fault Systems. Claim Severities Are Up Sharply.**

\*Average of the four quarters ending 2011:Q3.

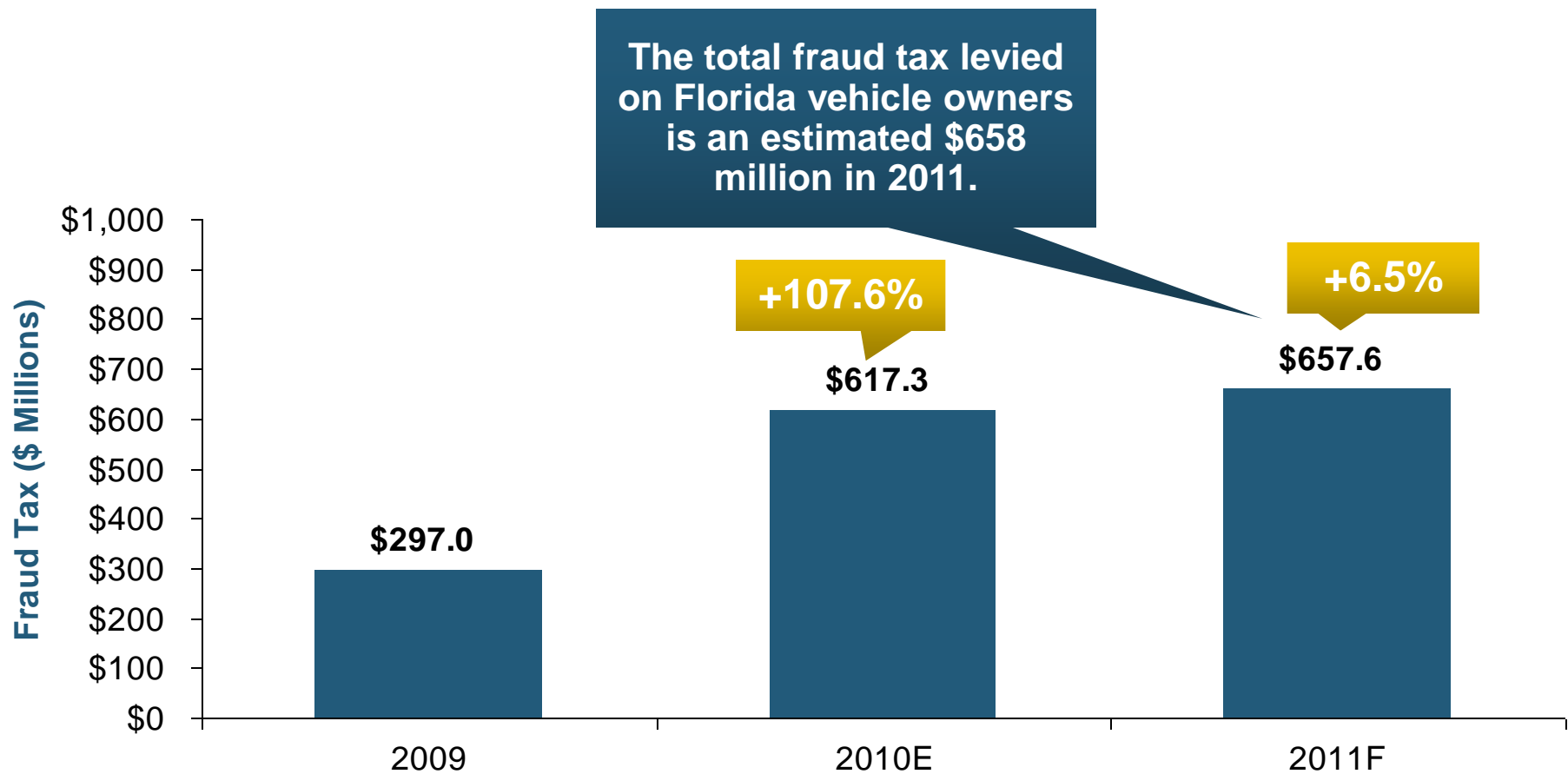
Source: ISO/PCI *Fast Track* data; Insurance Information Institute.

# Increase in No-Fault Claim Severity: Selected States, 2004-2011



**The no-fault systems in MI, NJ, NY, FL, and MN are under stress due to rising fraud and abuse, which leads to higher premiums for honest drivers.**

# Florida's No-Fault Fraud Tax: Estimated Aggregate Annual Cost, 2009-2011E (\$ Millions)



**Unscrupulous Medical Providers and Attorneys Are Costing Honest Florida Drivers Hundreds of Millions of Dollars**

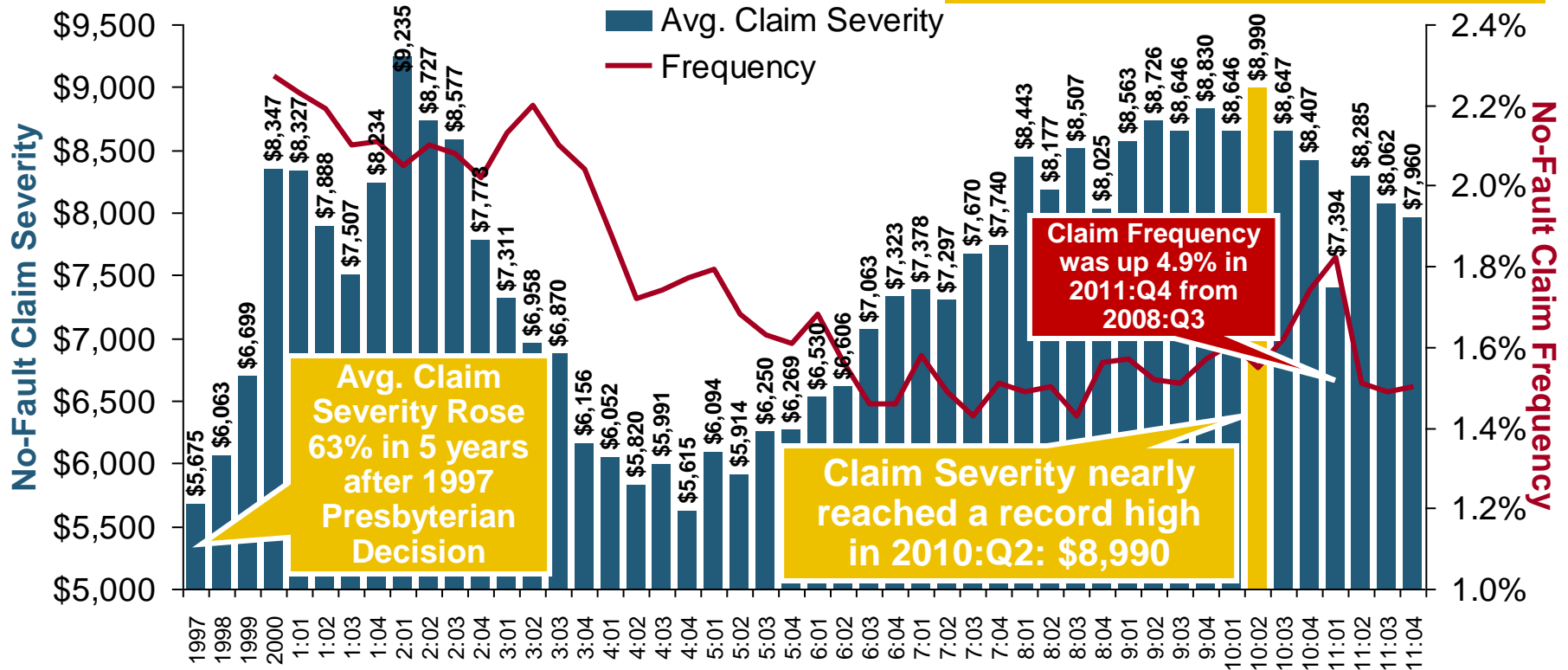
\*2011 estimate is based on data through Q2:2011.

Source: Insurance Information Institute calculations and research from ISO/PCI and AIPSO data.

# New York State No-Fault Claim Frequency and Severity, 1997–2011:Q4

## No-Fault Claim Severity

**Avg. Claim Severity is up 42% since 2004:Q4 though 2011:Q4**



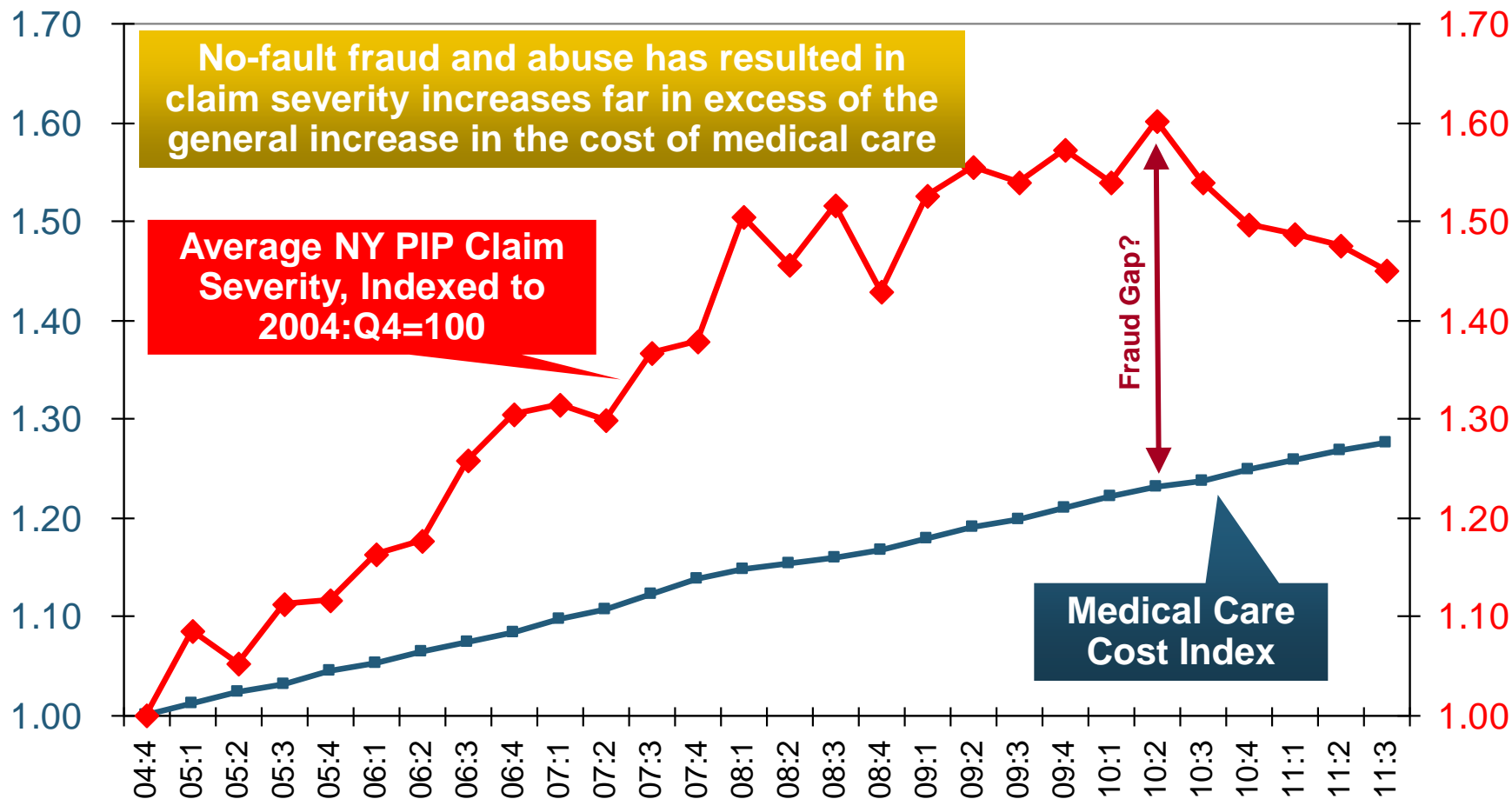
**About 10% of No-Fault Claim Costs in 2011 Were Estimated to Be Attributable to Fraud and Abuse**

# New York's No-Fault Fraud Problem, Paid Claims Severity\*\*

**Medical  
Care Cost  
Index**

—■ US city medical care index\* —◆ NY PIP Avg claim severity

**NY PIP  
Severity  
Index**



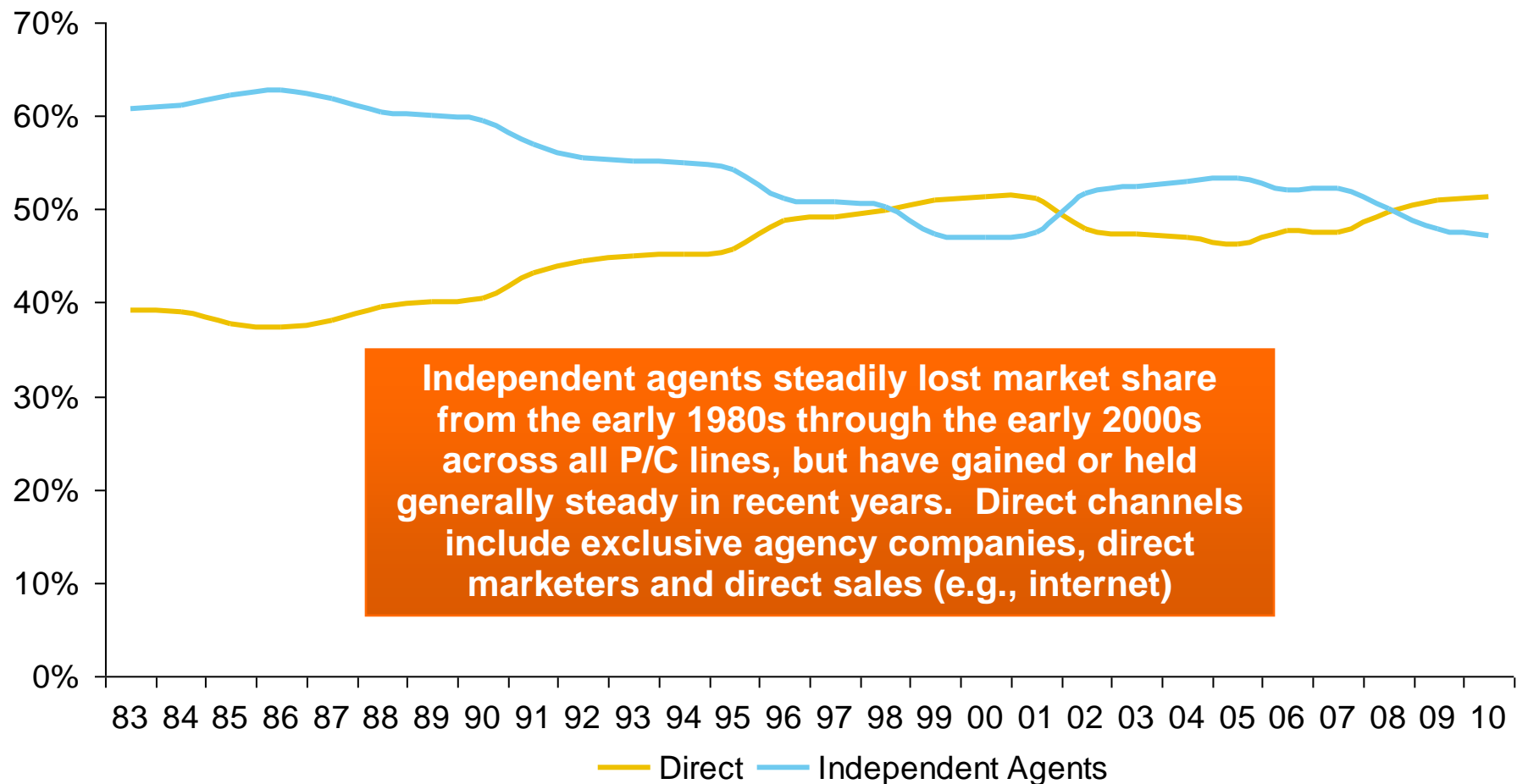
\*Middle month of quarter \*\*For the four quarters ending in quarter indicated

Sources: Insurance Information Institute calculations based on ISO/PCI *Fast Track* Data and BLS Medical Care CPI

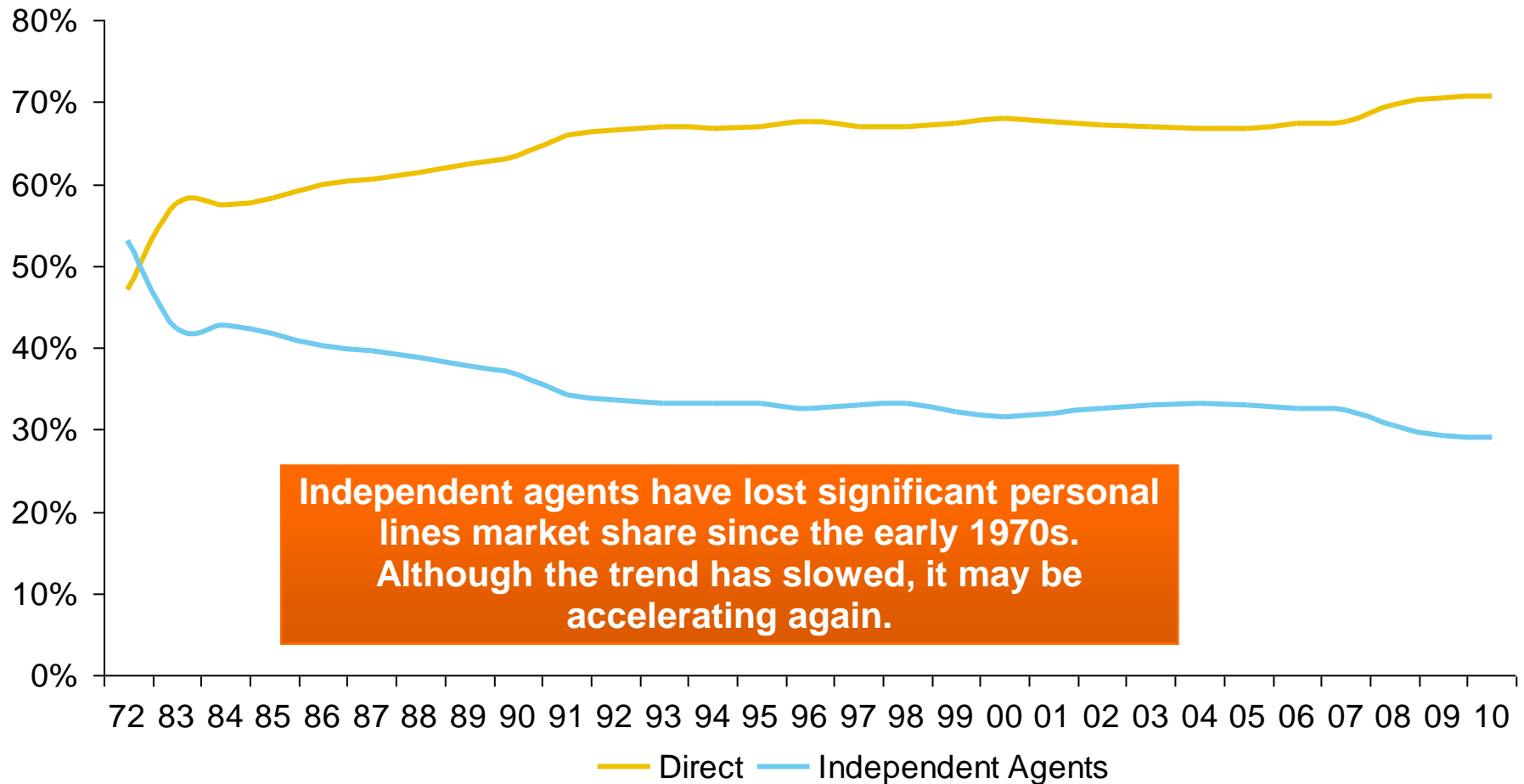
# **Distribution Trends**

**Distribution by Channel Type  
Continues to Evolve**

# All P/C Lines Distribution Channels, Direct vs. Independent Agents

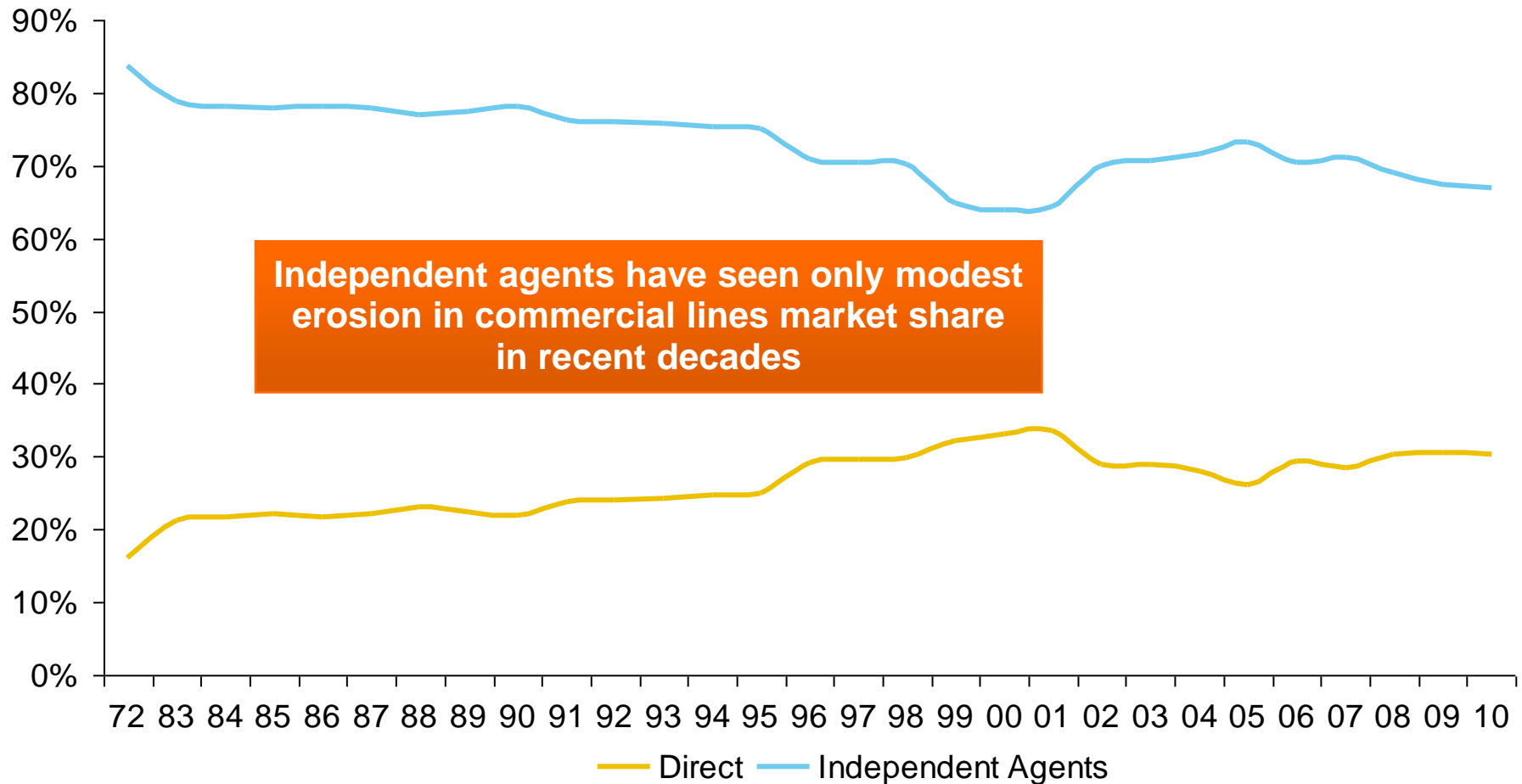


# Personal Lines Distribution Channels, Direct vs. Independent Agents





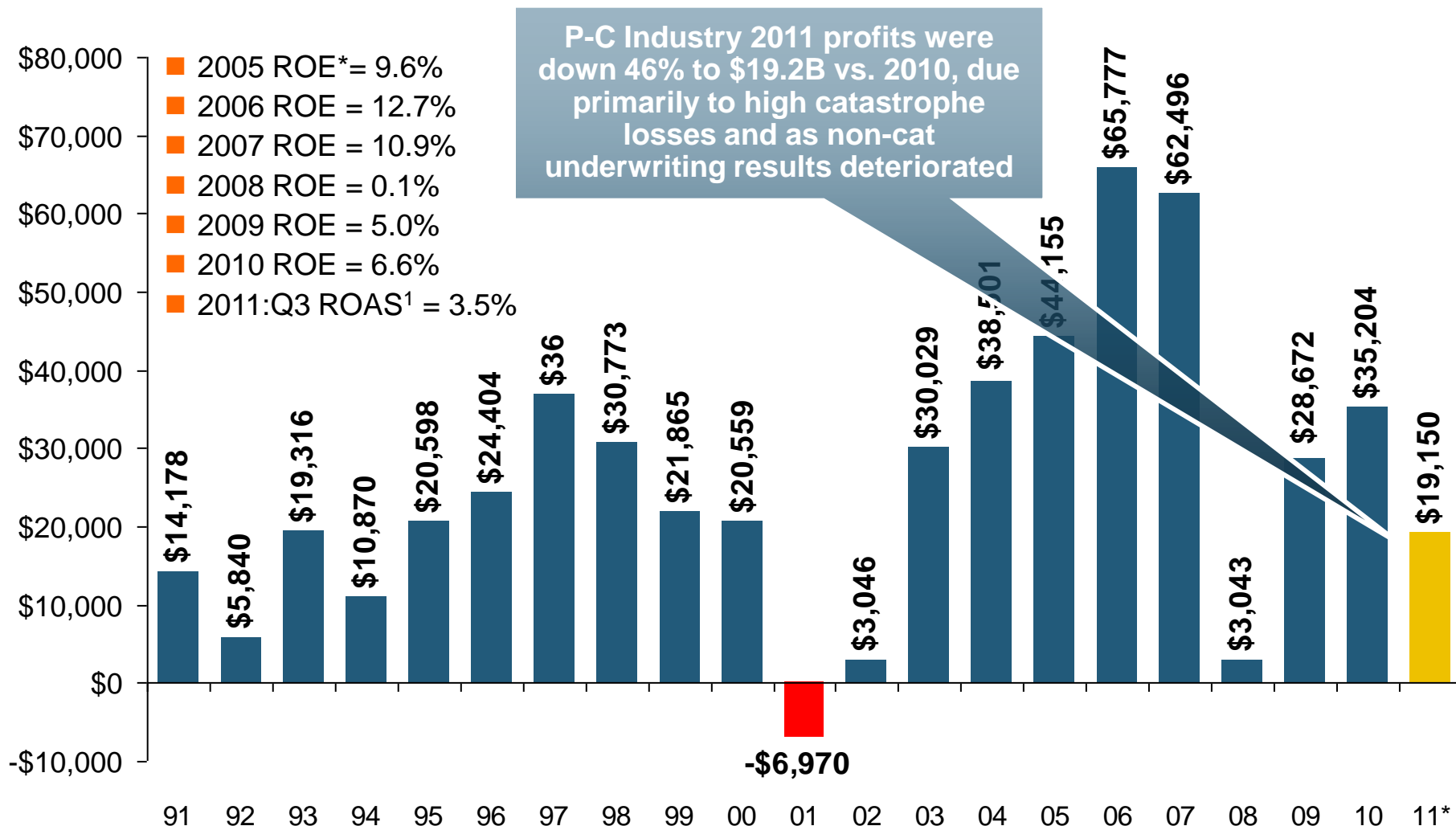
# Commercial P/C Distribution Channels, Direct vs. Independent Agents



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

**Profit Recovery Was Set Back  
in 2011 by High Catastrophe  
Loss & Other Factors**

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



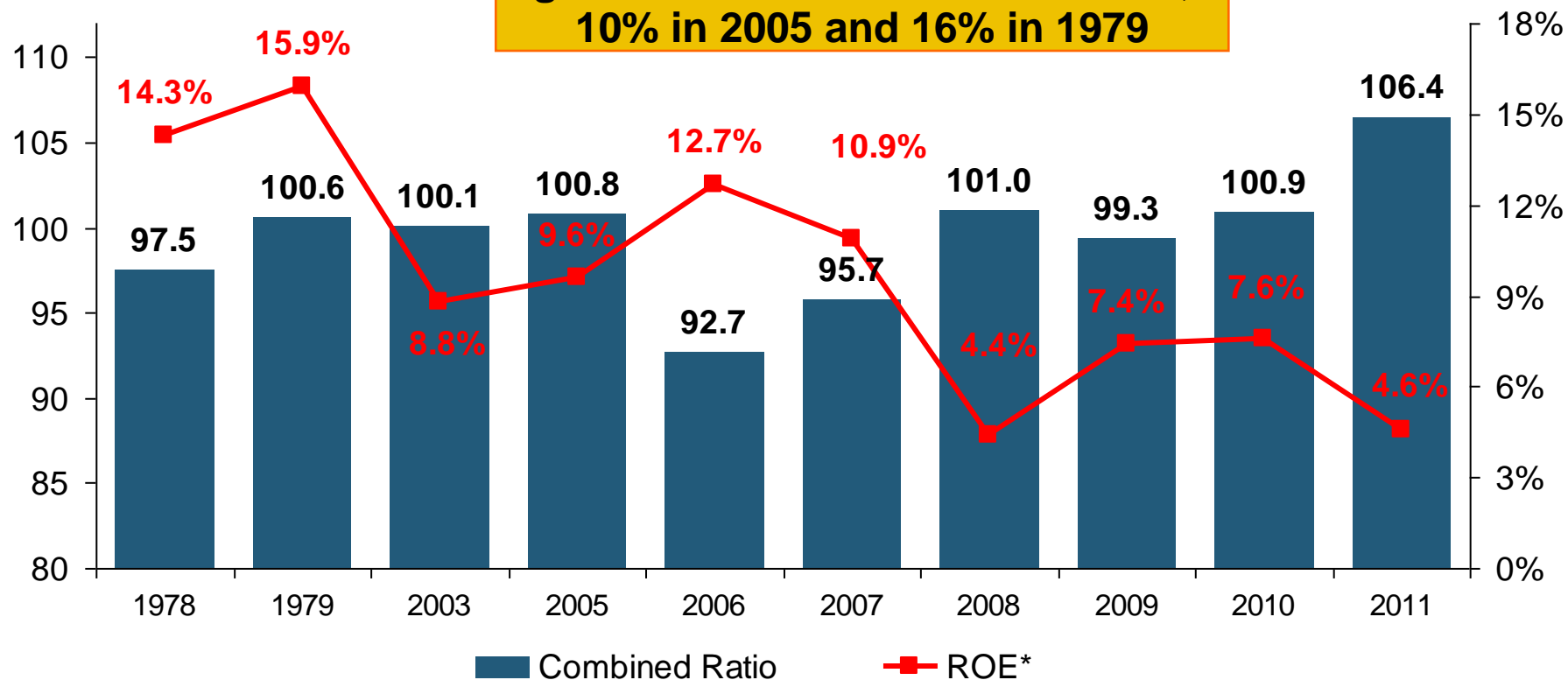
\* ROE figures are GAAP; <sup>1</sup>Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 4.6% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009.

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 generated ~5.5% ROE in 2009/10, 10% in 2005 and 16% in 1979**

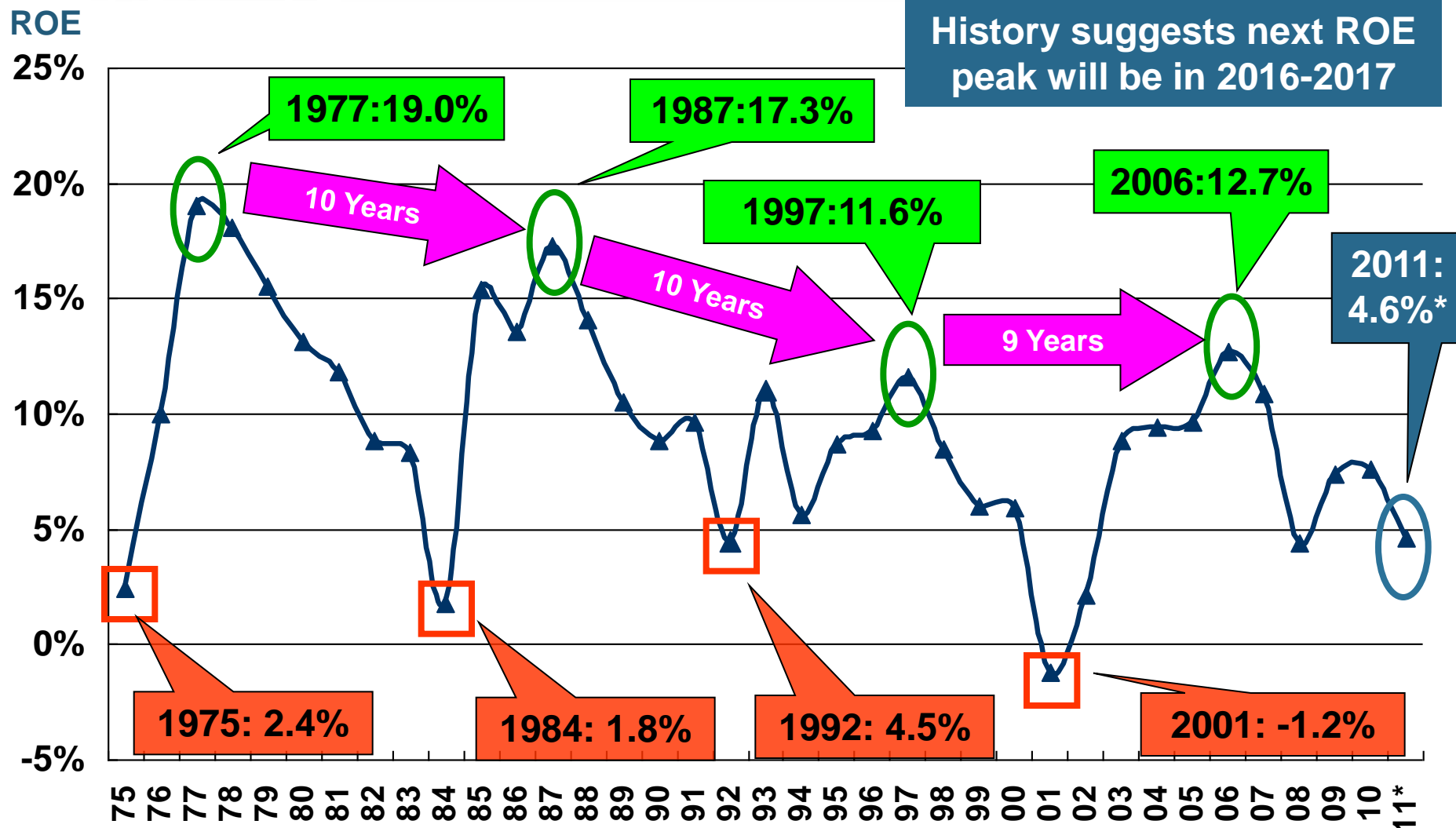


**Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs**

\* 2008 -2011 figures are return on average surplus and exclude mortgage and financial guaranty insurers. 2011 combined ratio including M&FG insurers is 108.2, ROAS = 3.5%.

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

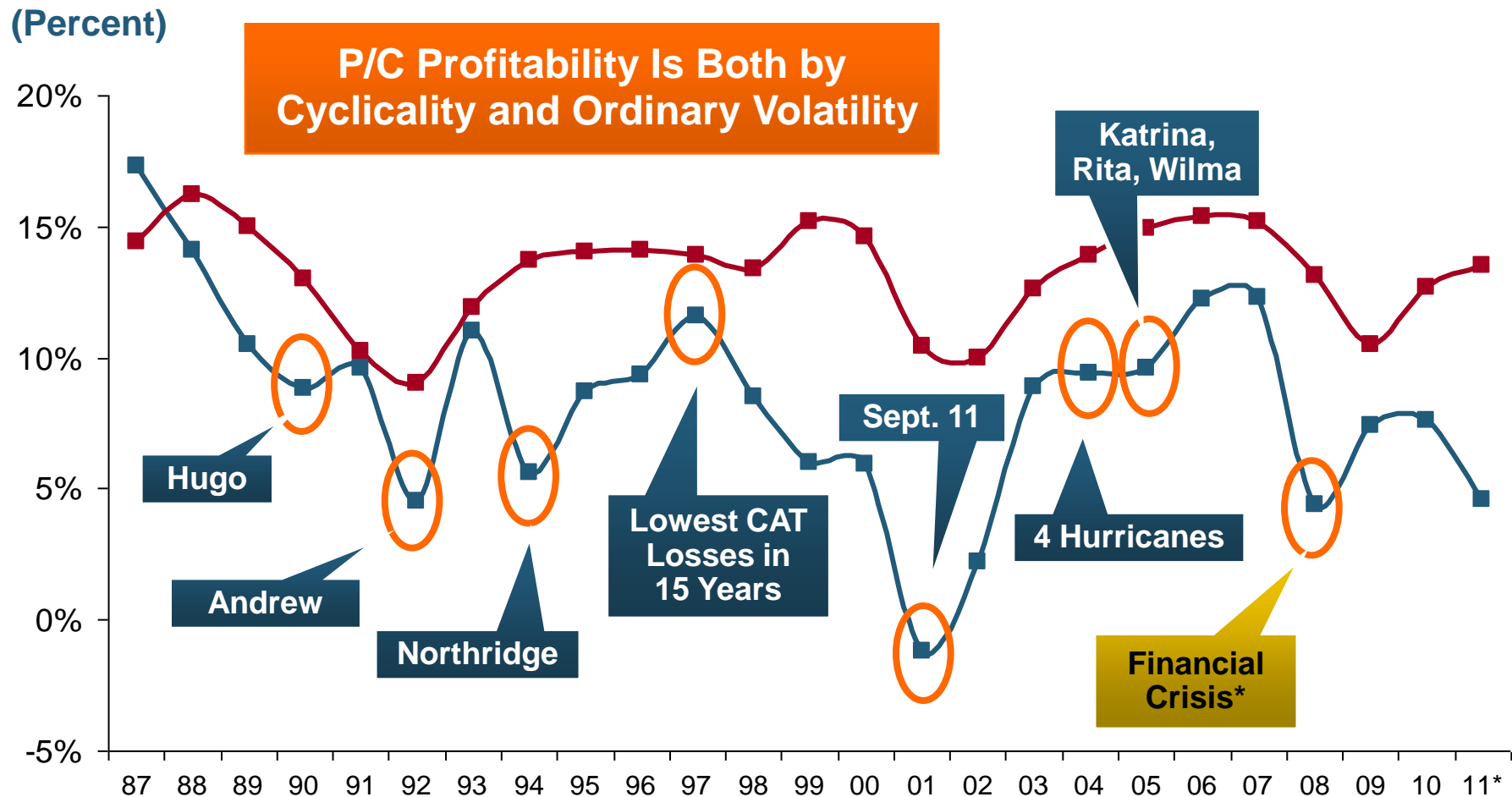
# Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2011\*



\*Profitability = P/C insurer ROEs are I.I.I. estimates. 2011 figure is an estimate based on ROAS data. Note: Data for 2008-2011 exclude mortgage and financial guaranty insurers. For 2011:Q3 ROAS = 3.5% including M&FG.

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

# ROE: Property/Casualty Insurance vs. Fortune 500, 1987–2011\*

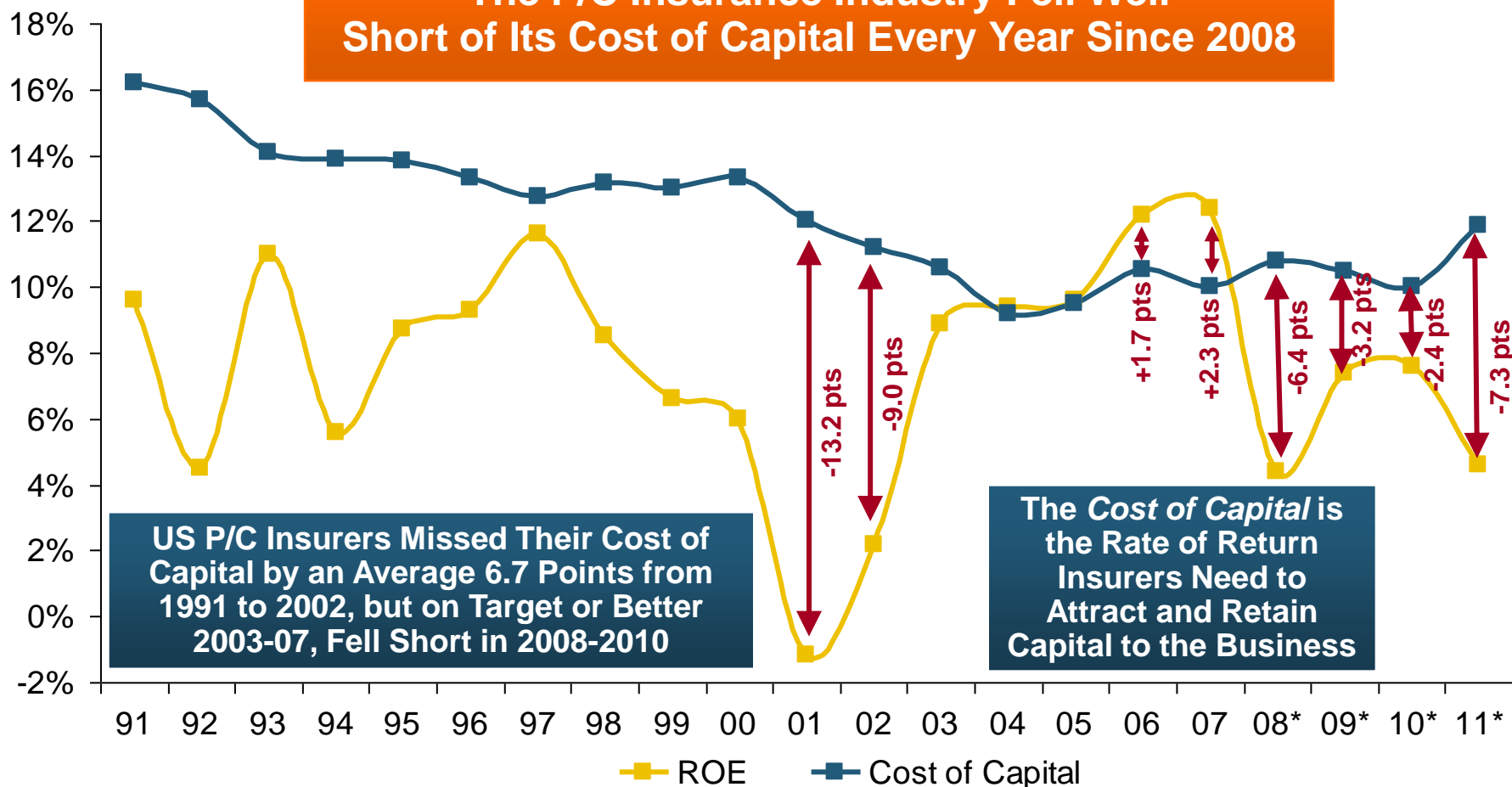


\* Excludes Mortgage & Financial Guarantee in 2008 - 2011; 2012 Fortune 500 figure is an III estimate.  
Sources: ISO, *Fortune*; Insurance Information Institute.

# ROE vs. Equity Cost of Capital: U.S. P/C Insurance:1991-2011\*

(Percent)

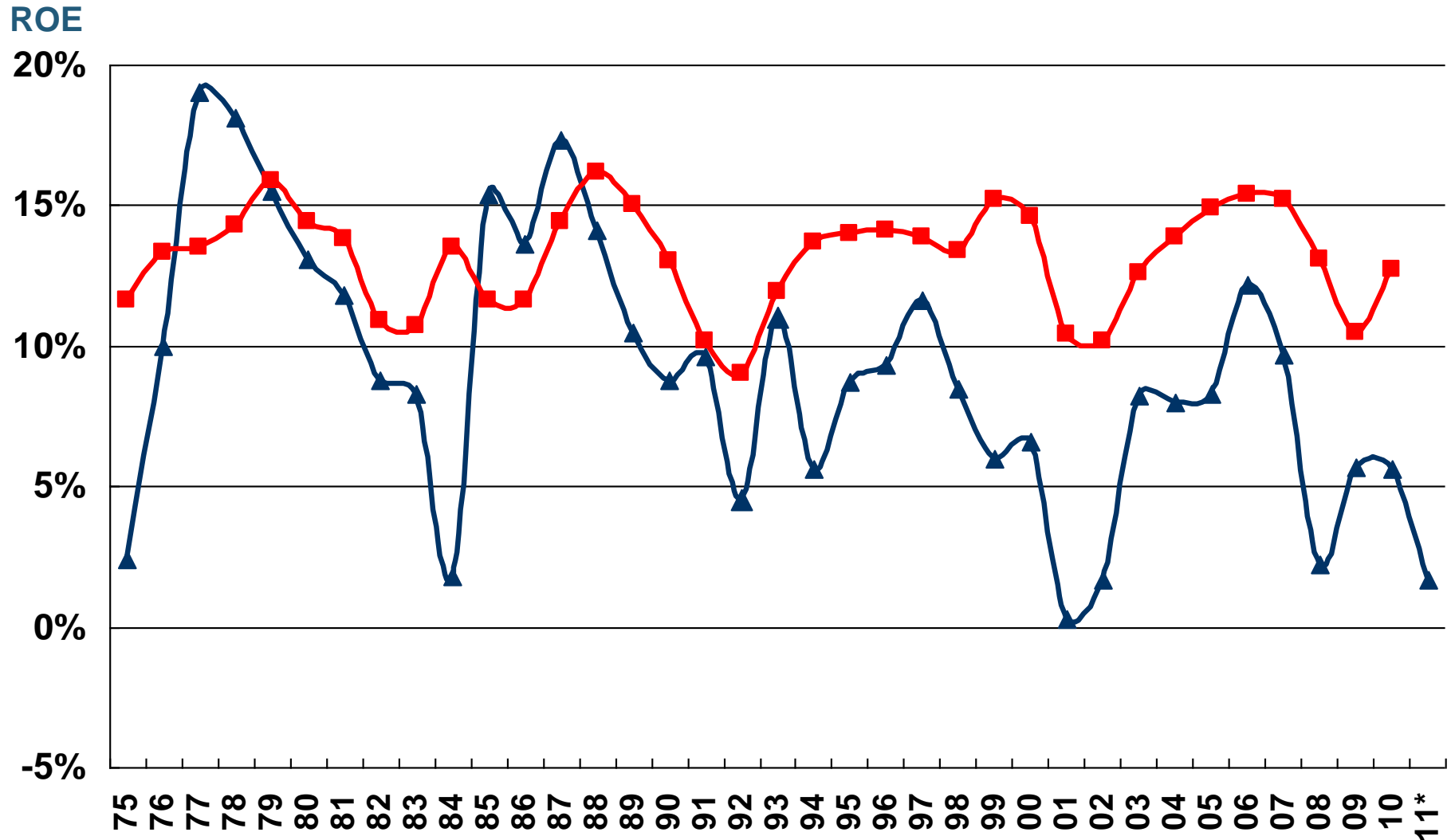
**The P/C Insurance Industry Fell Well  
Short of Its Cost of Capital Every Year Since 2008**



\* Return on average surplus in 2008-2011 excluding mortgage and financial guaranty insurers.

Source: The Geneva Association, Insurance Information Institute

# P/C Insurance Industry ROE vs. Fortune 500, 1975 – 2011\*



For 2011:H1 ROAS.

Source: Insurance Information Institute; NAIC, ISO.

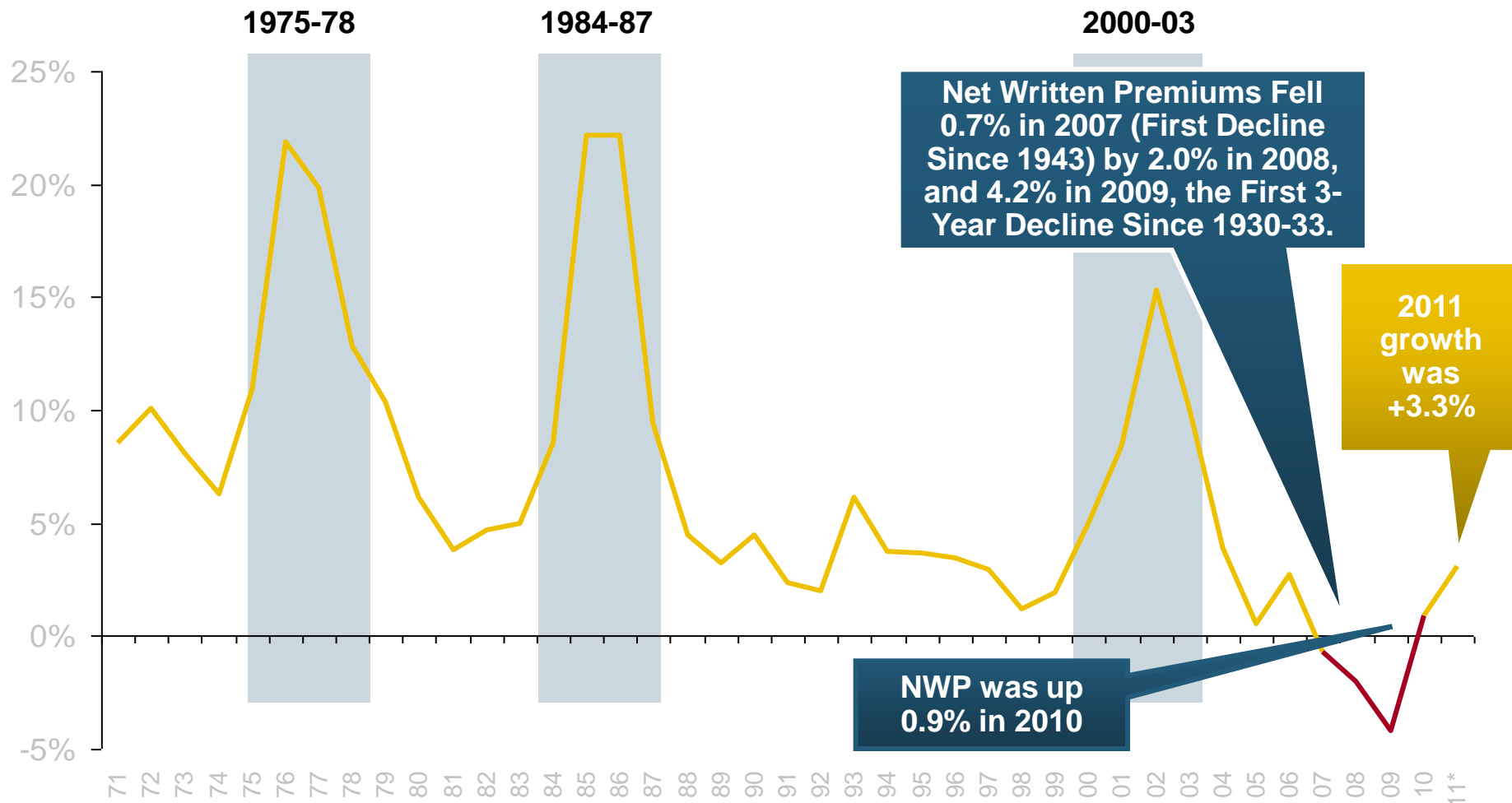


## **P/C Premium Growth Cycles**

**Cyclicalities are Driven Primarily  
by the Industry's Underwriting  
Cycle, Not the Economy**

# Premium Growth Is Up Modestly: More in 2012?

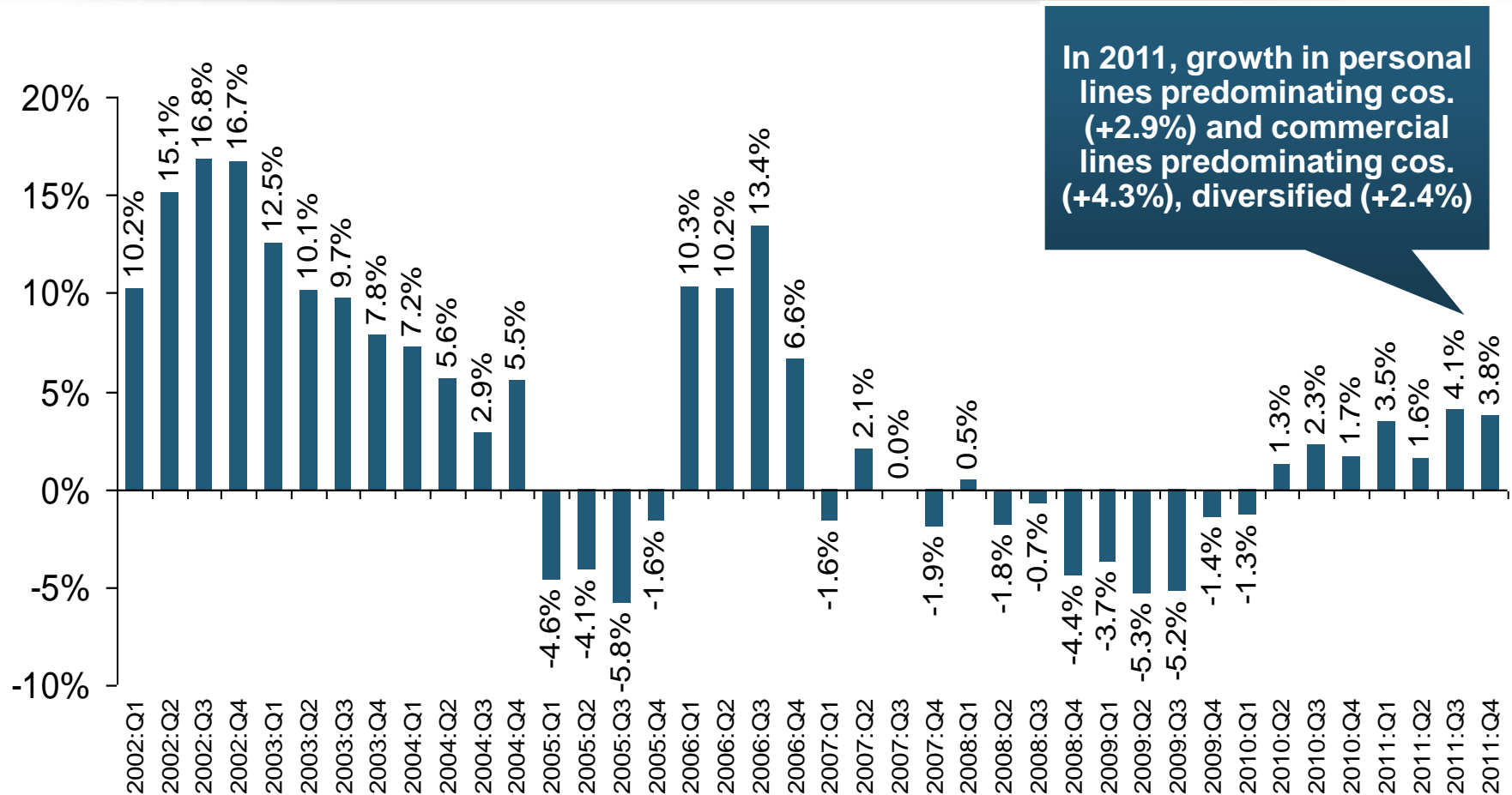
(Percent)



Shaded areas denote "hard market" periods

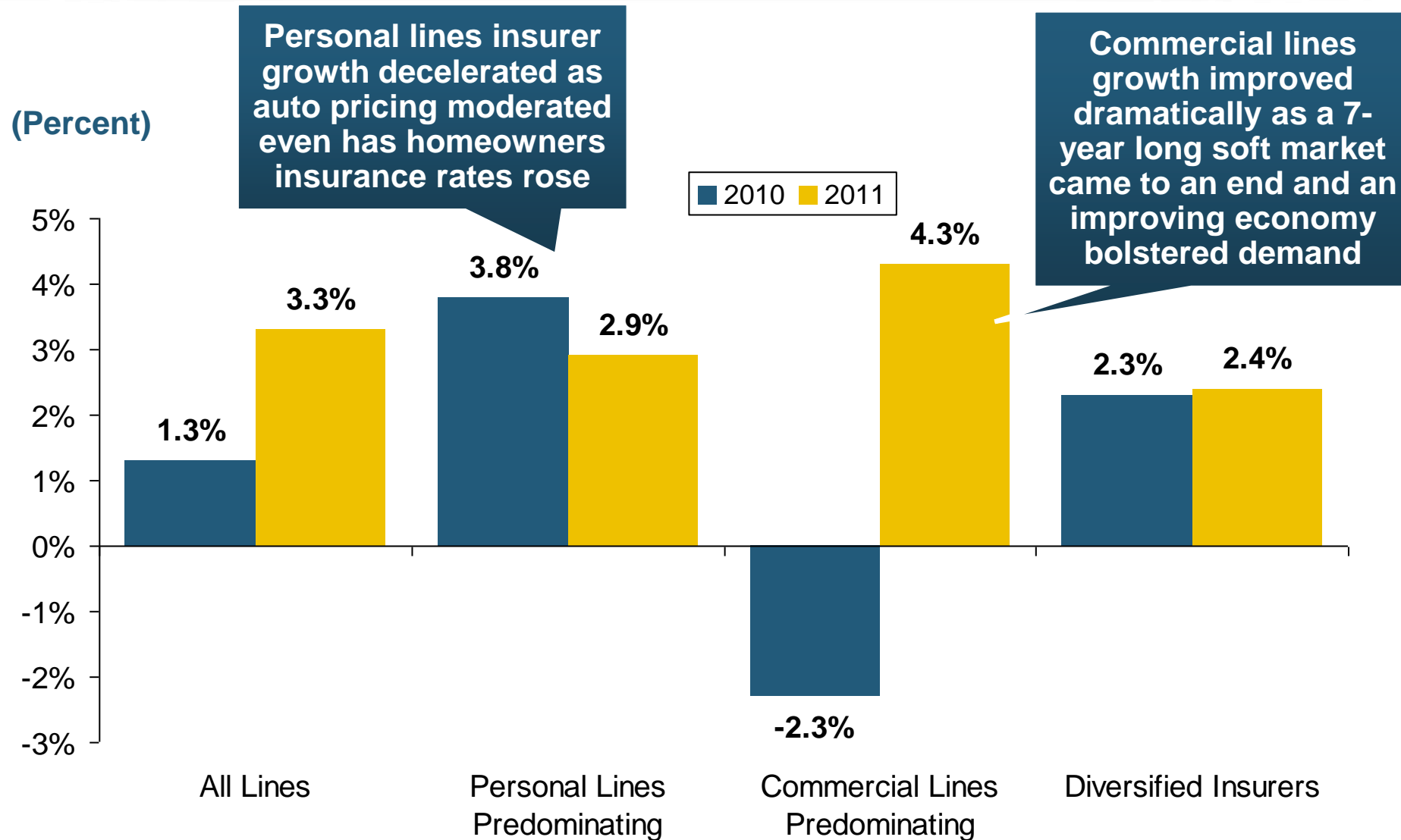
Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute.

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

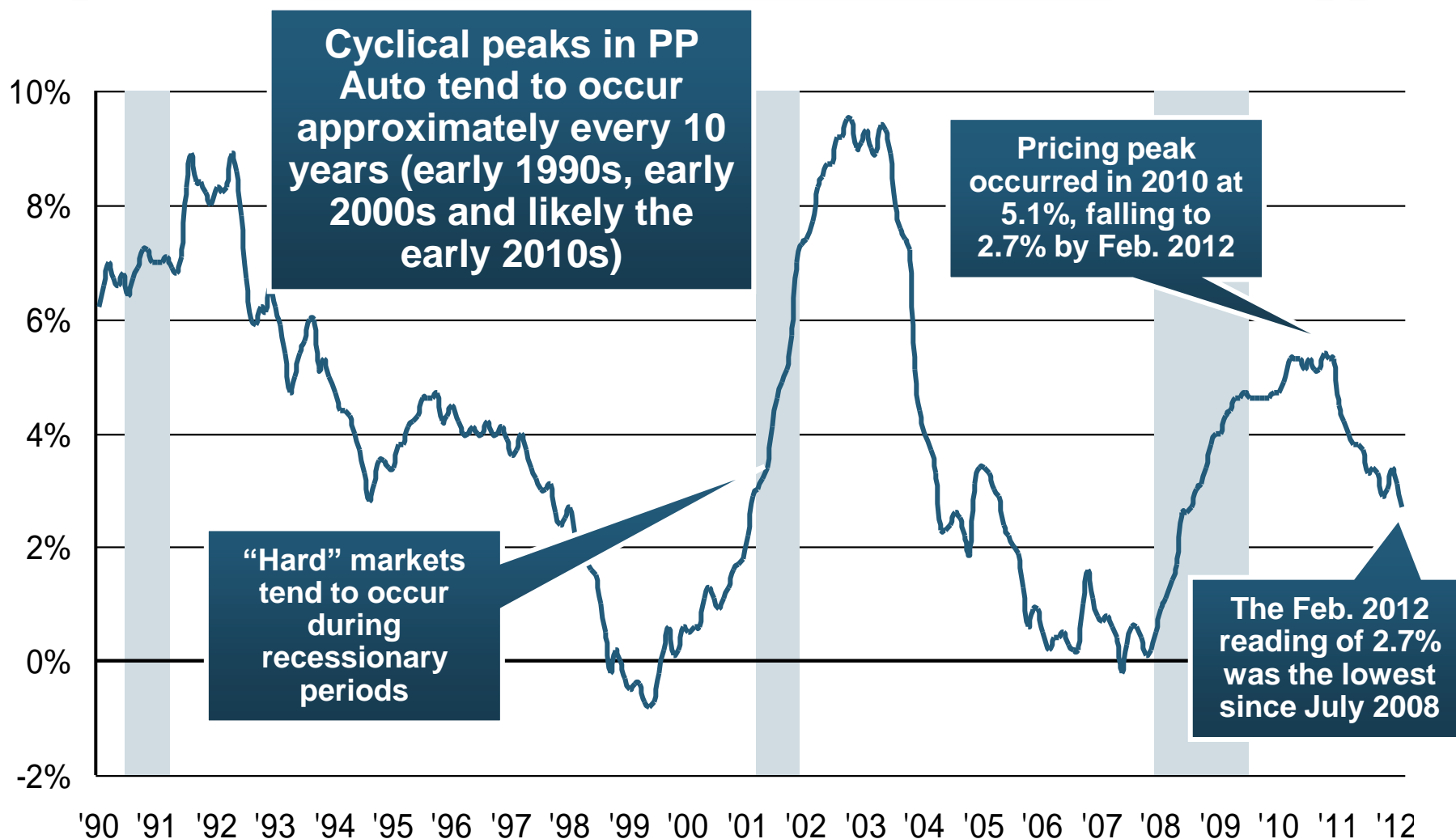


**Finally! Back-to-back quarters of net written premium growth  
(vs. the same quarter, prior year)**

# Growth in Net Written Premium by Segment, 2011 vs. 2010



# Monthly Change\* in Auto Insurance Prices, 1991–2012\*



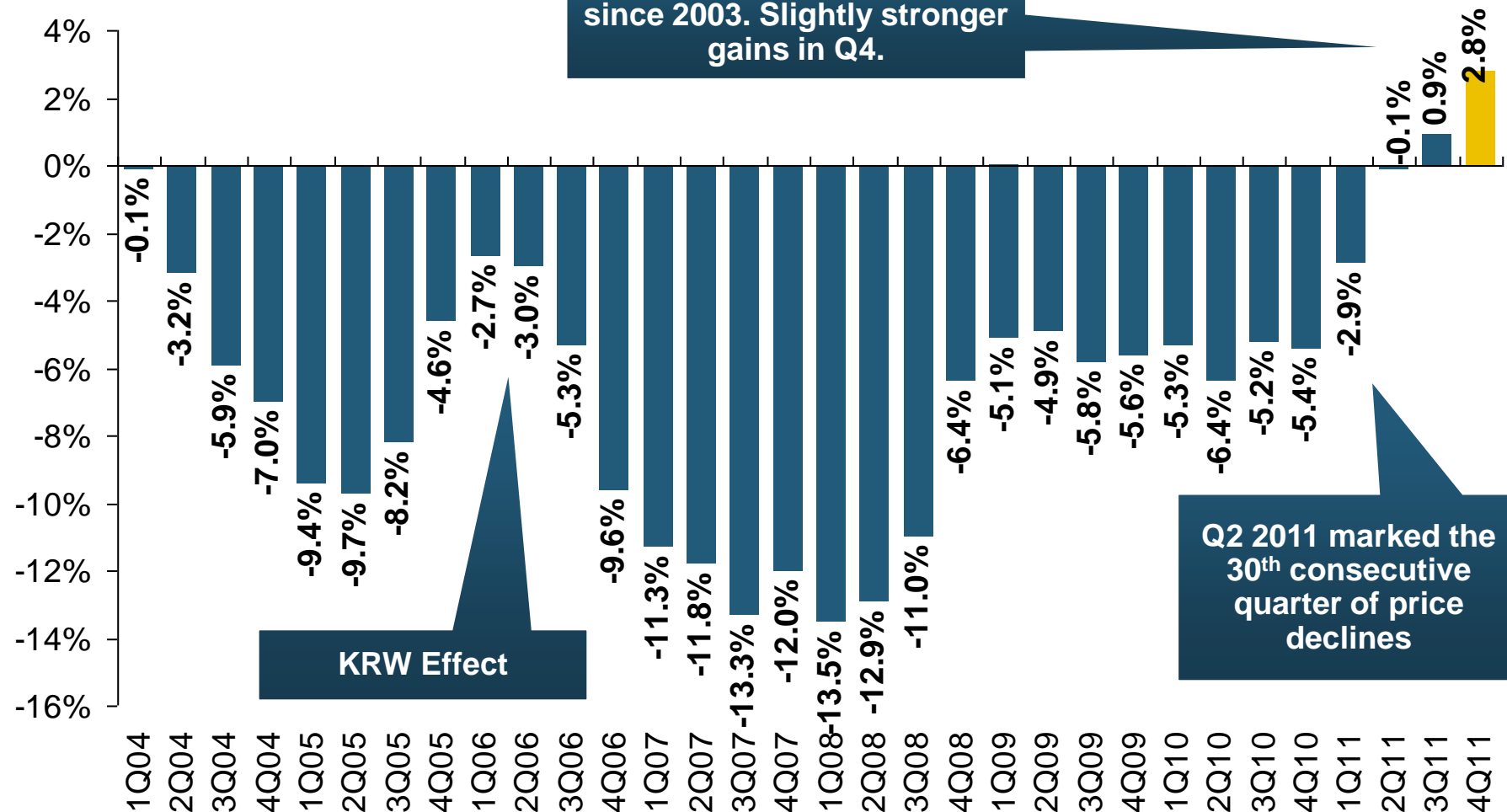
\*Percentage change from same month in prior year; through February 2012; seasonally adjusted

Note: Recessions indicated by gray shaded columns.

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

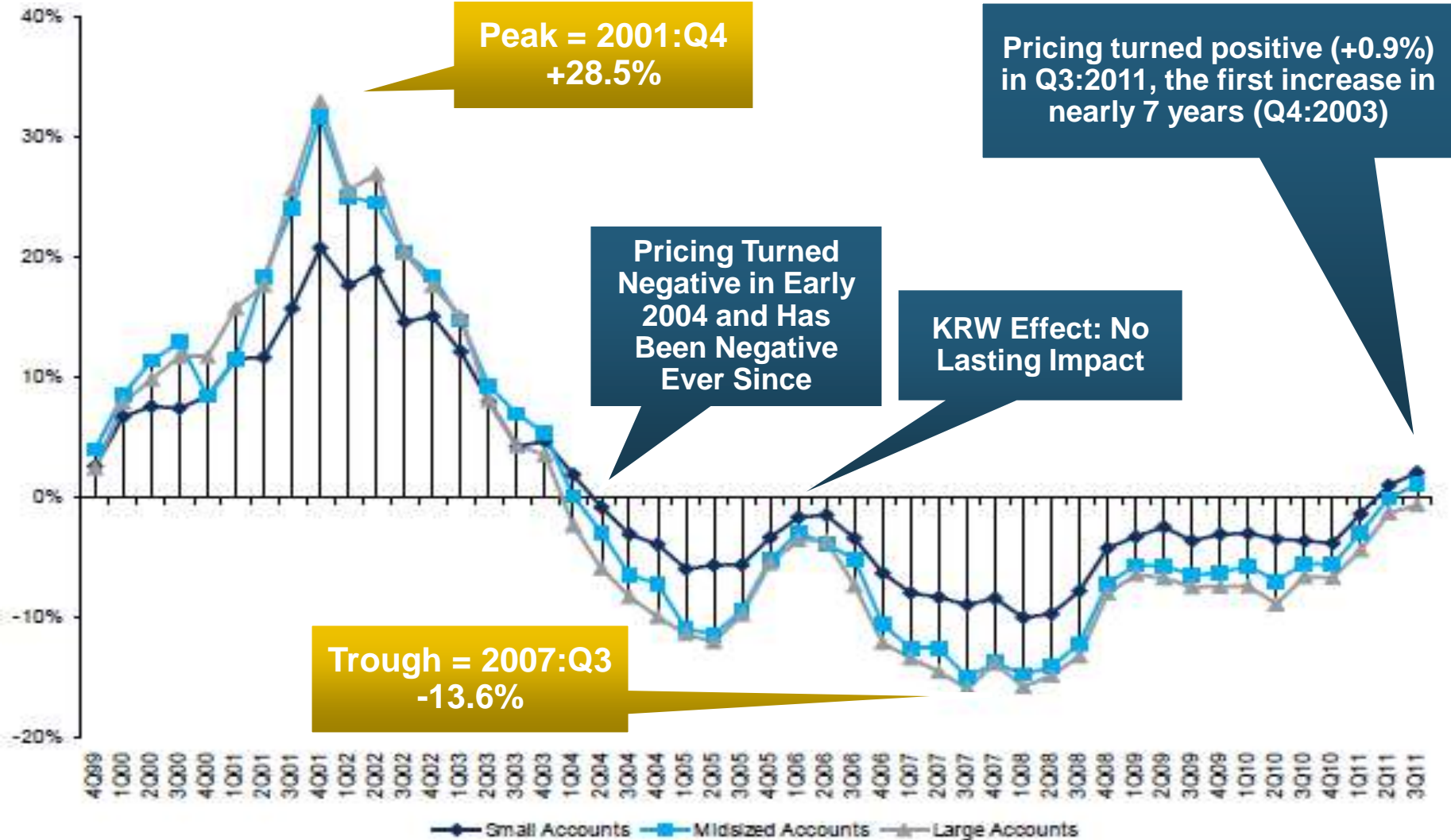
# Average Commercial Rate Change, All Lines, (1Q:2004–4Q:2011)

(Percent)



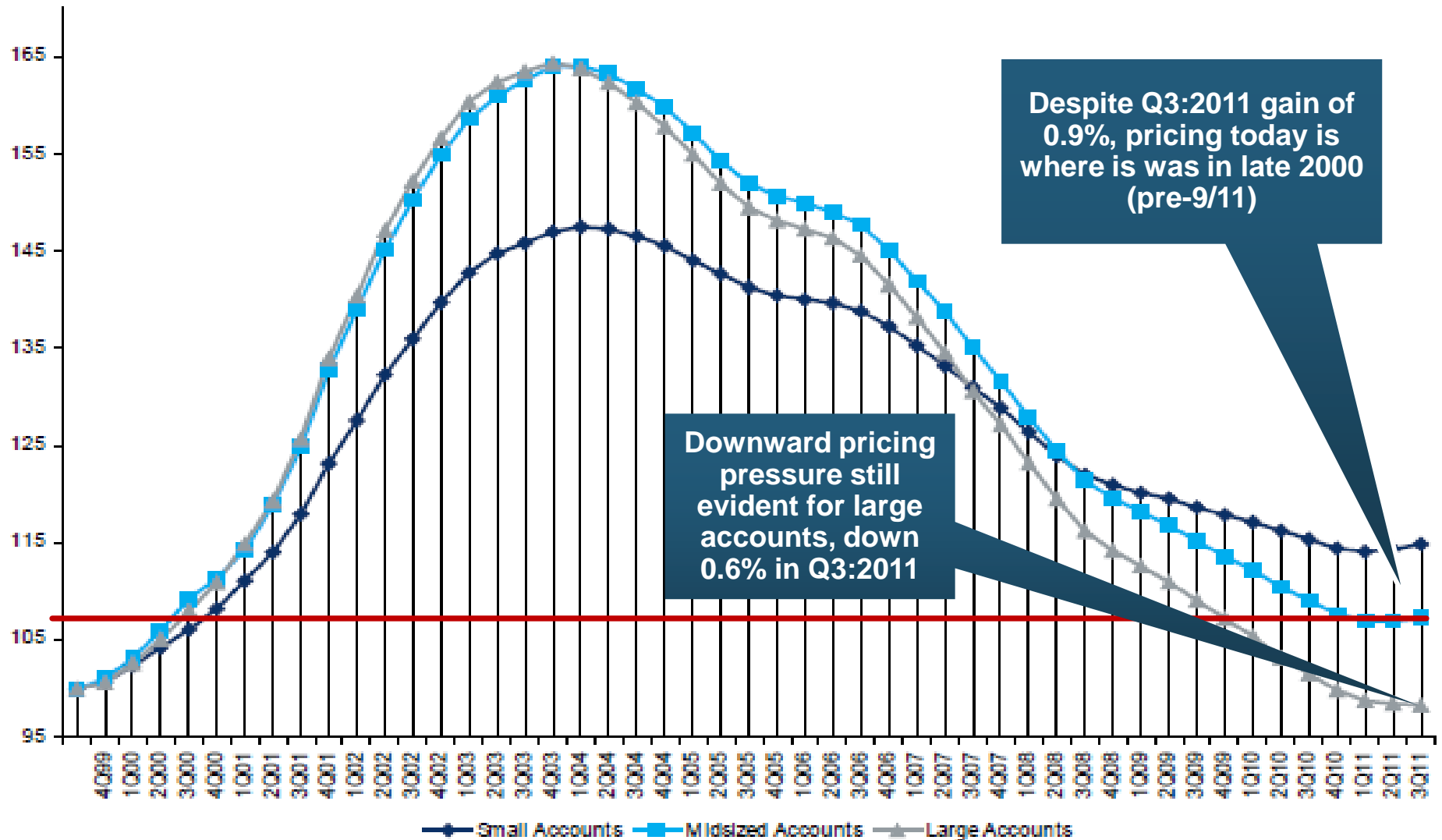
# Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2011:Q3

Percentage Change (%)



# Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2011:Q3

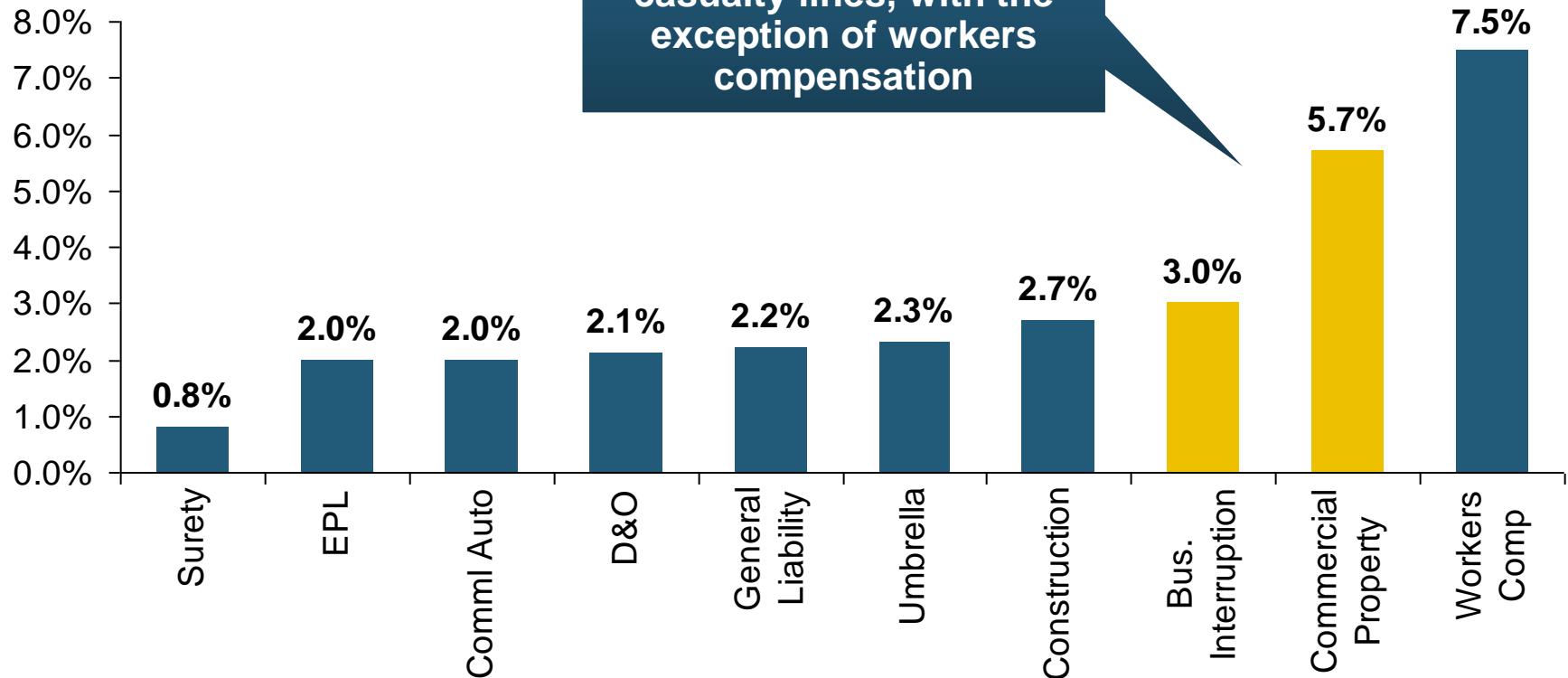
1999:Q4 = 100





# Change in Commercial Rate Renewals, by Line: 2011:Q4

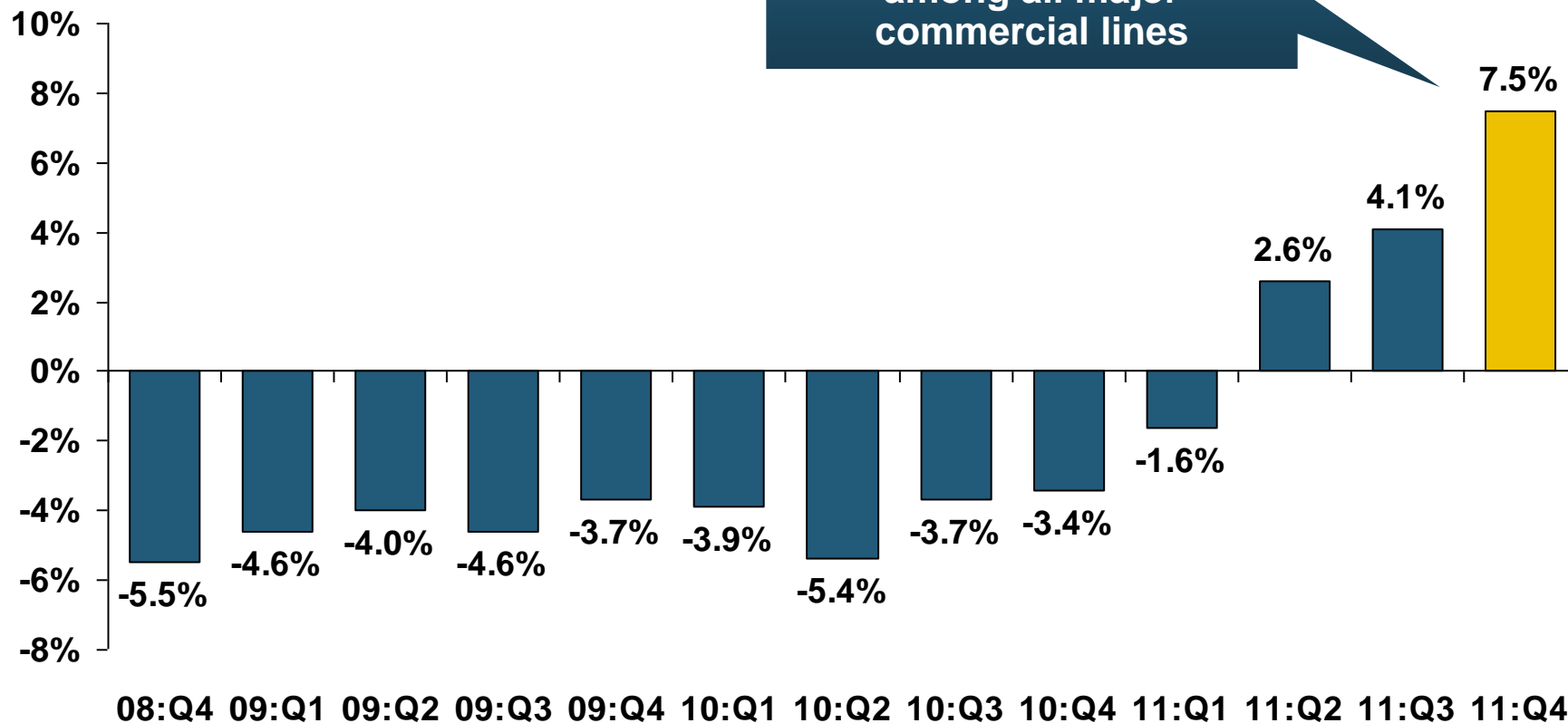
Percentage Change (%)



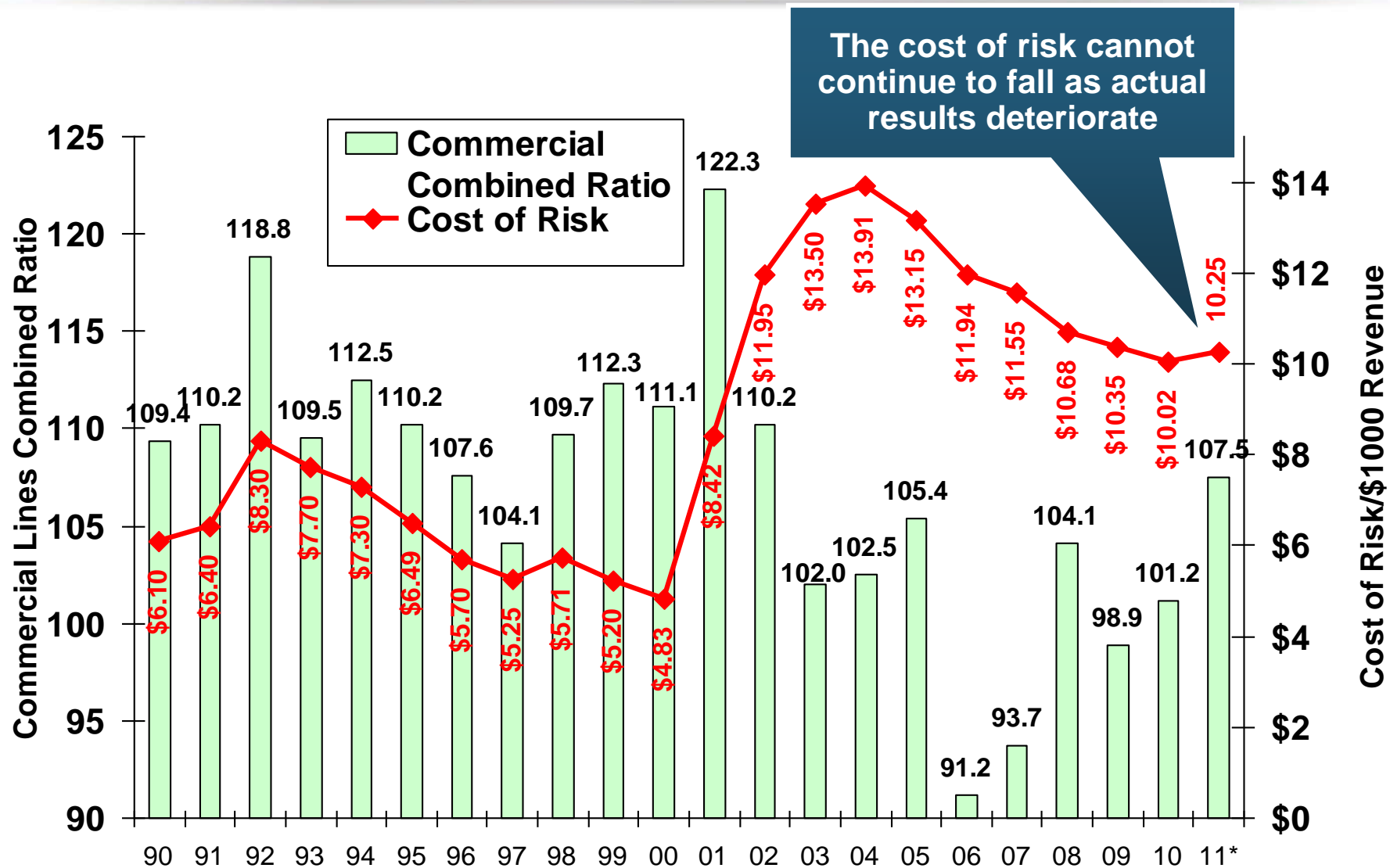
**Major Commercial Lines Renewed Uniformly Upward in Q4:2011 for Only the Second Time Since 2003; Property Lines & Workers Comp Leading the Way**

# Workers Comp Rate Changes, 2008:Q4 – 2011:Q4

(Percent  
Change)



# Cost of Risk vs. Commercial Lines Combined Ratio



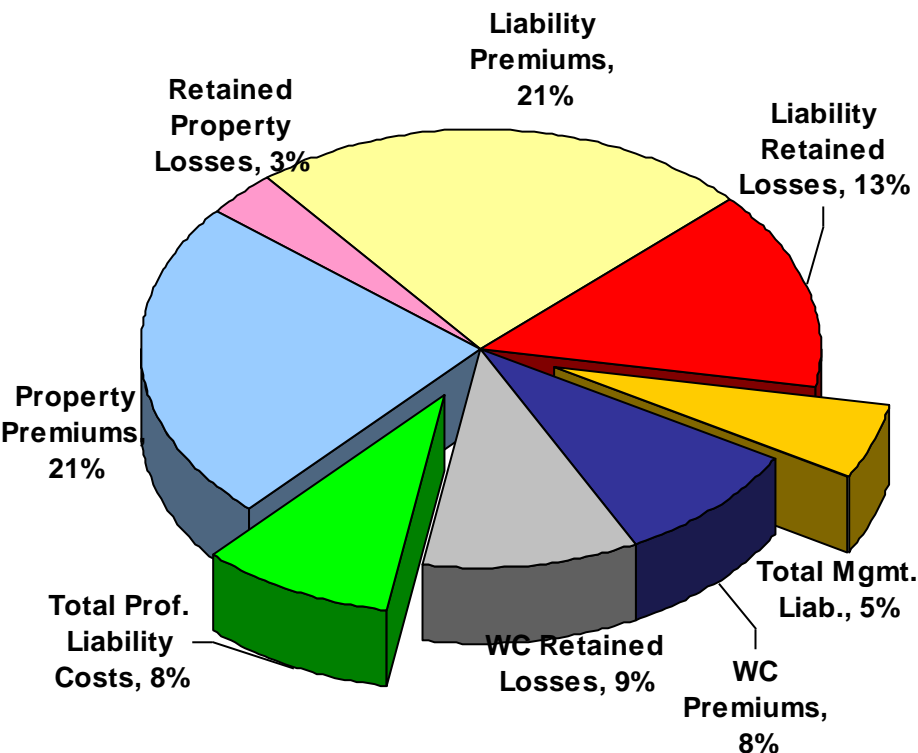
\*Insurance Information Institute estimates for 2011.

Source: 2011 RIMS Benchmark Survey; A.M. Best; Insurance Information Institute

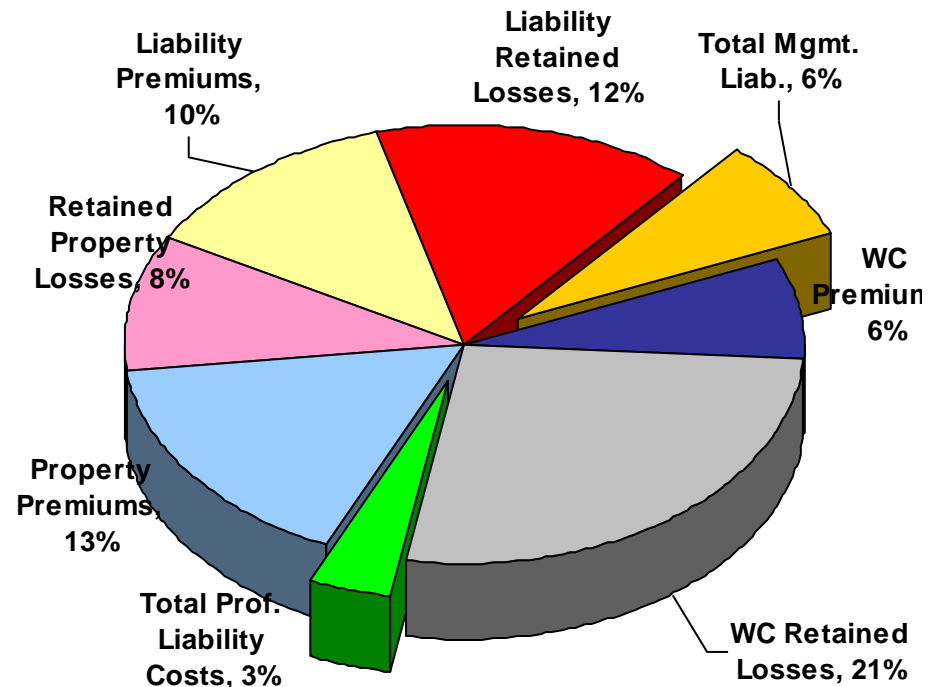
# How the Risk Dollar is Spent (2011)

**Management & Professional Liability Costs Account for  
9% - 13% of the Risk Dollar**

## Firms w/Revenues < \$1 Billion

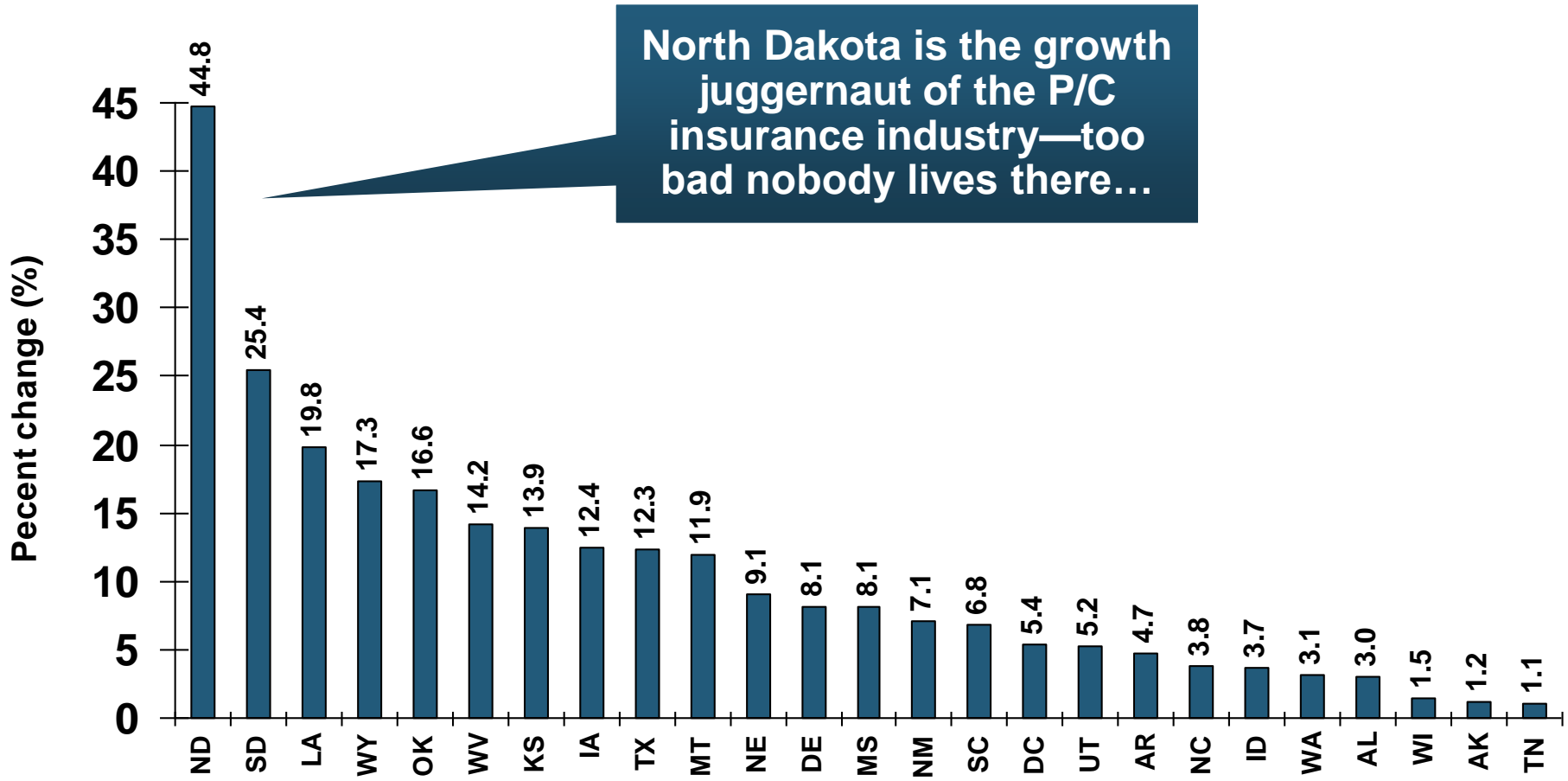


## Firms w/Revenues > \$1 Billion



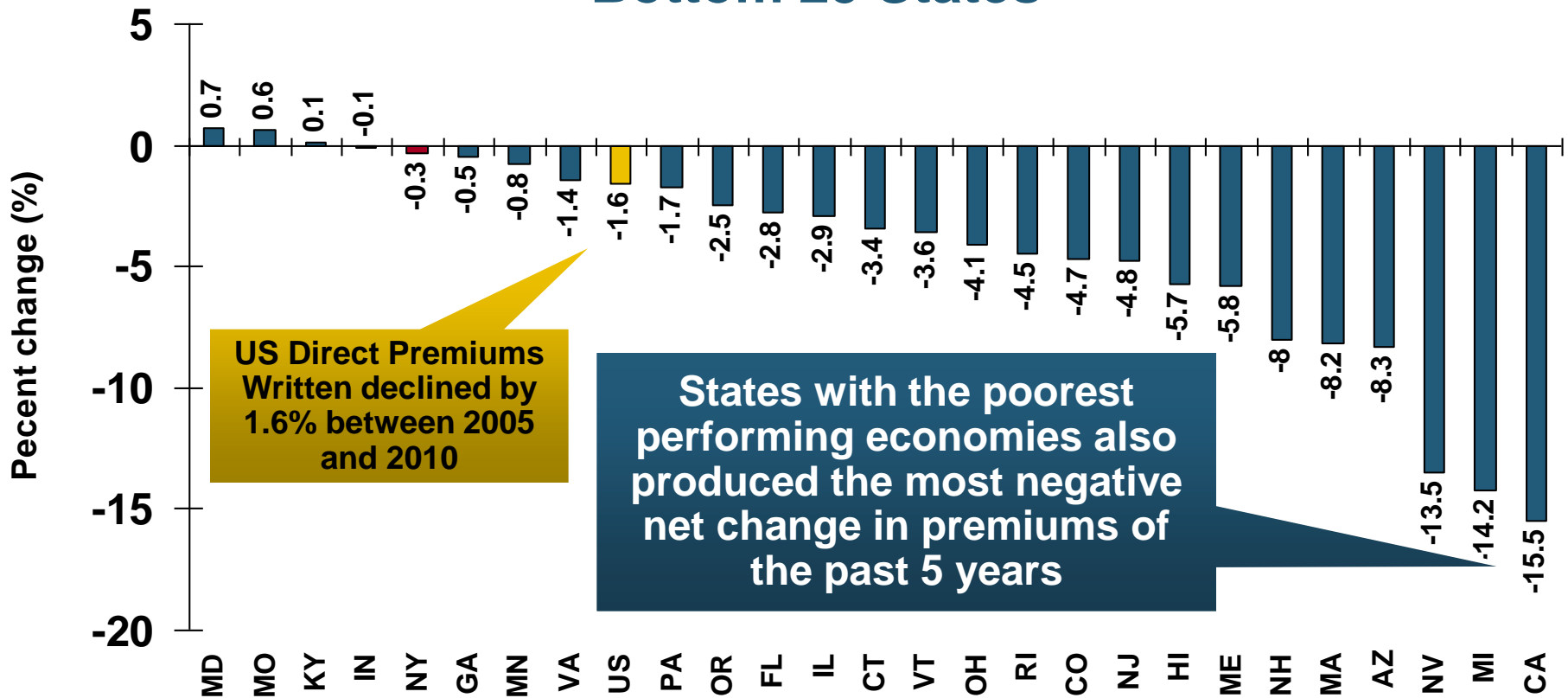
# Direct Premiums Written: All P/C Lines Percent Change by State, 2005-2010

## Top 25 States



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

## Bottom 25 States

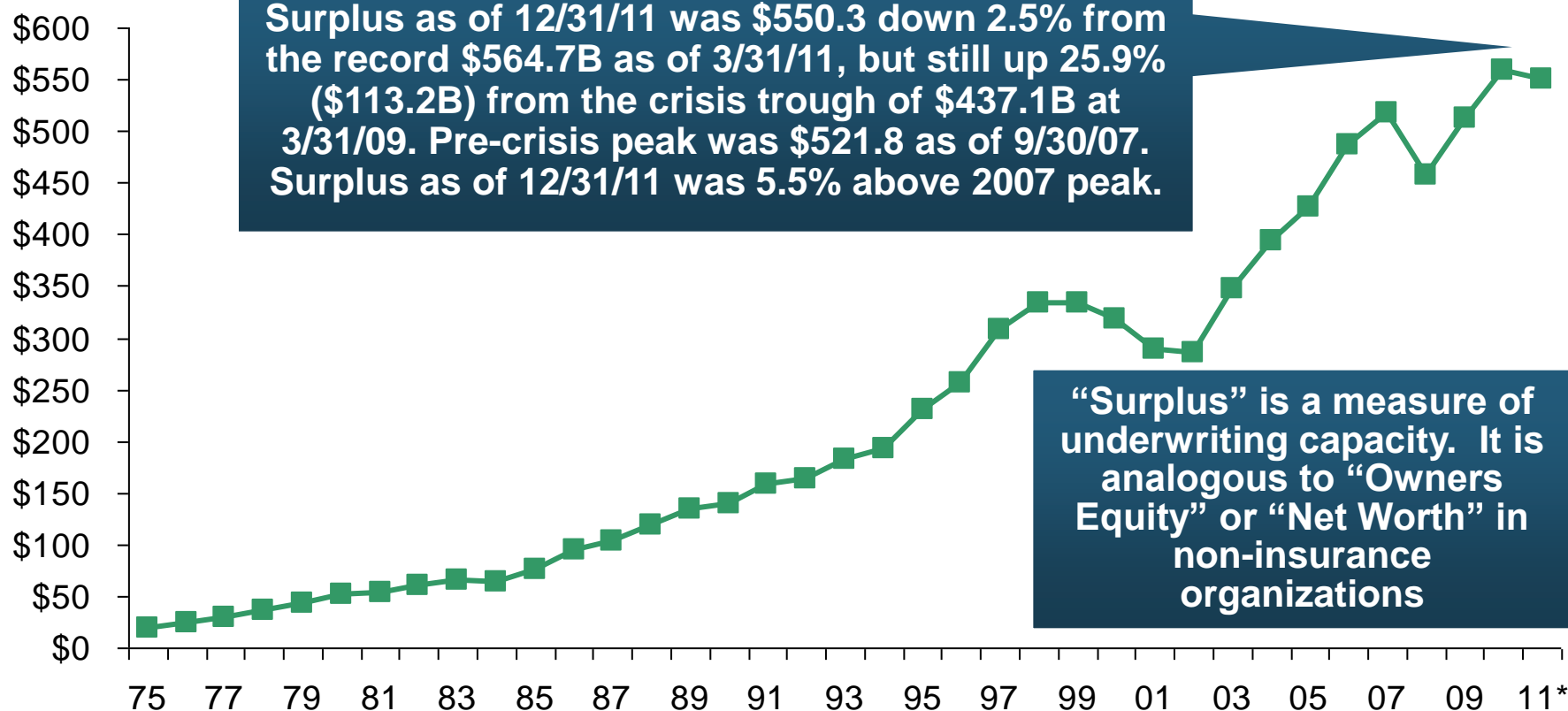


## **Capital/Policyholder Surplus (US)**

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

# US Policyholder Surplus: 1975–2011\*

(\$ Billions)



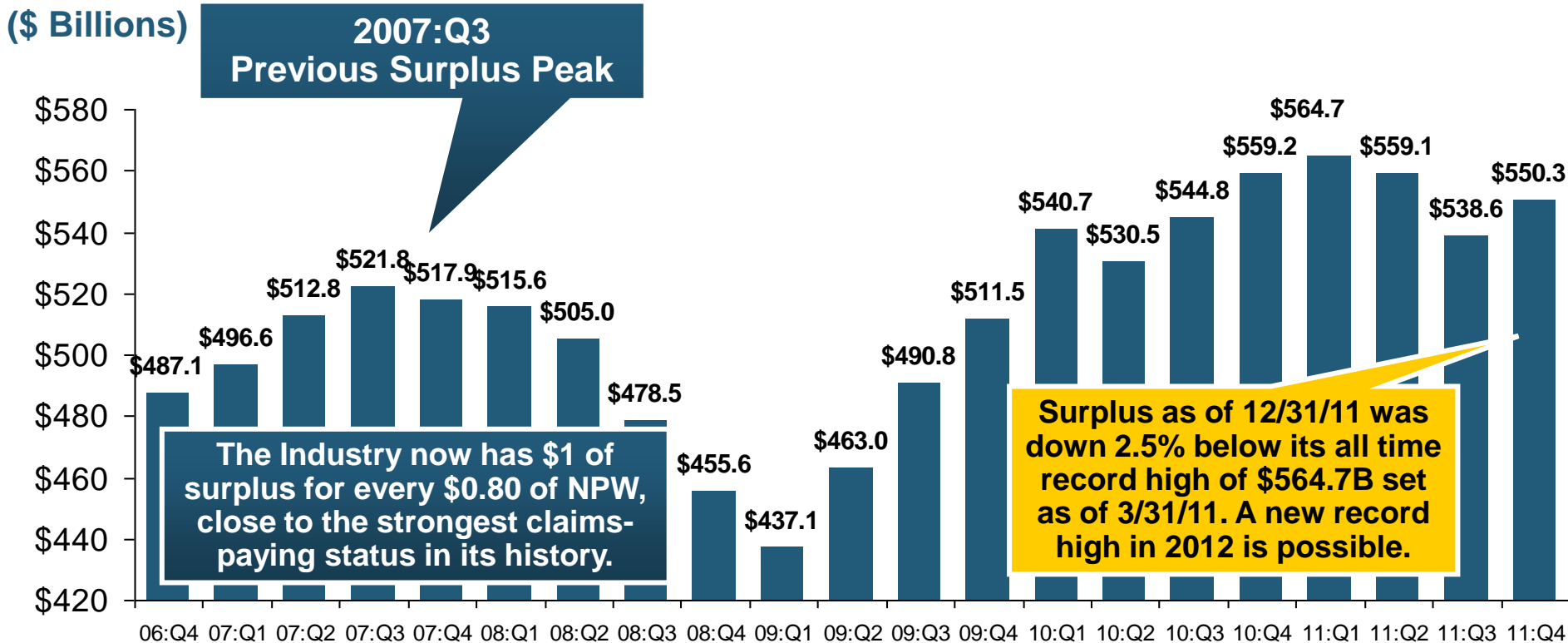
**The Premium-to-Surplus Ratio Stood at \$0.80:\$1 as of 12/31/11, A Near Record Low (at Least in Recent History)\***

\* As of 12/31/11.

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



# Policyholder Surplus, 2006:Q4–2011:Q4



## Quarterly Surplus Changes Since 2011:Q1 Peak

**11:Q2: -\$5.6B (-1.0%)**

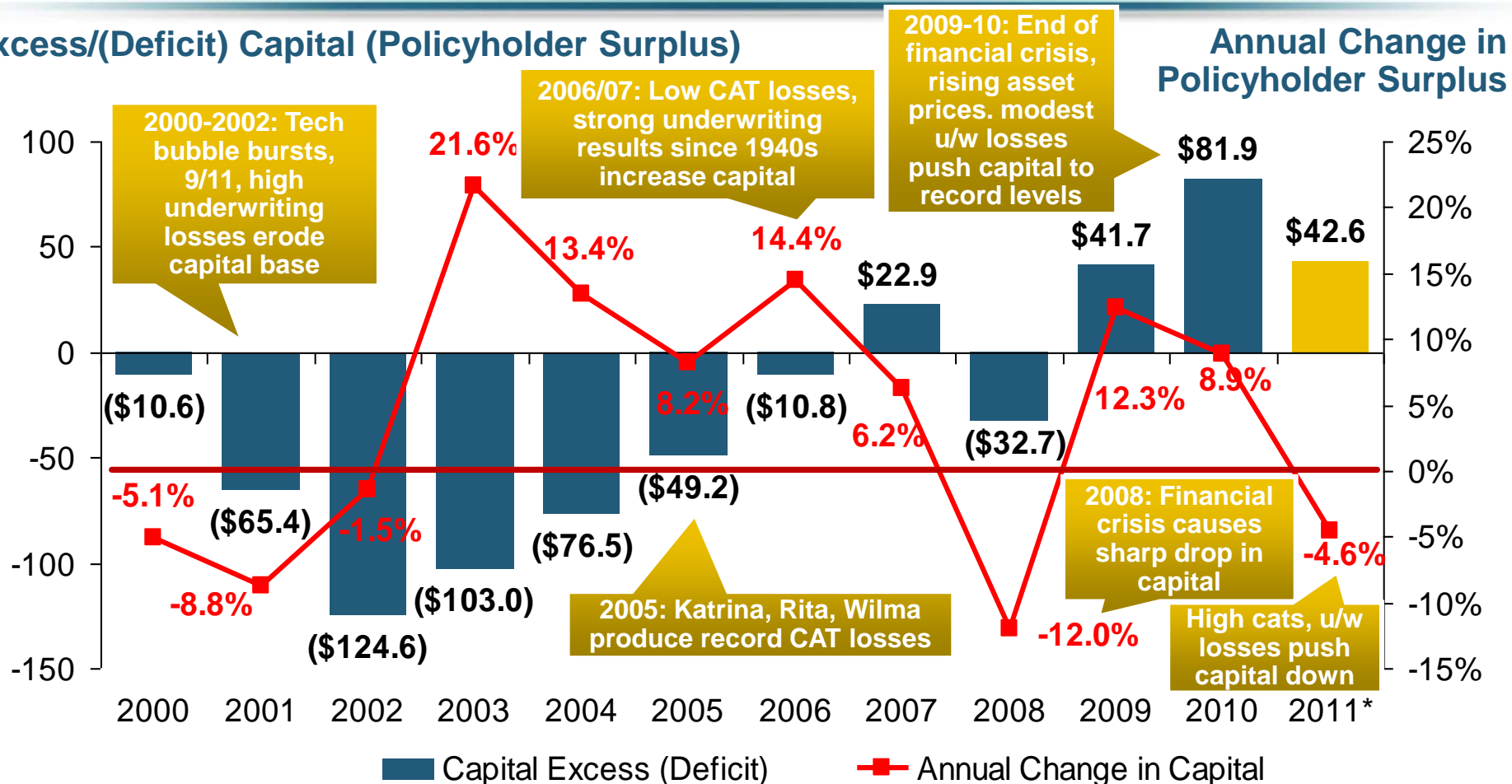
**11:Q3: -\$26.1B (-4.6%)**

**11:Q4: -\$14.3B (-2.5%)**

\*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.

# Implied Excess (Deficit) Capital Assuming Premium/Surplus Ratio = 0.9:1

## Excess/(Deficit) Capital (Policyholder Surplus)



**Record Policyholder Surplus (Capital) Resulted in Significant Excess Capital in the P/C Insurance Sector in 2010. Deteriorating Underwriting Losses, Higher CAT Activity, More Modest Market Returns Shrank Excess Capital in 2011 by Nearly Half.**

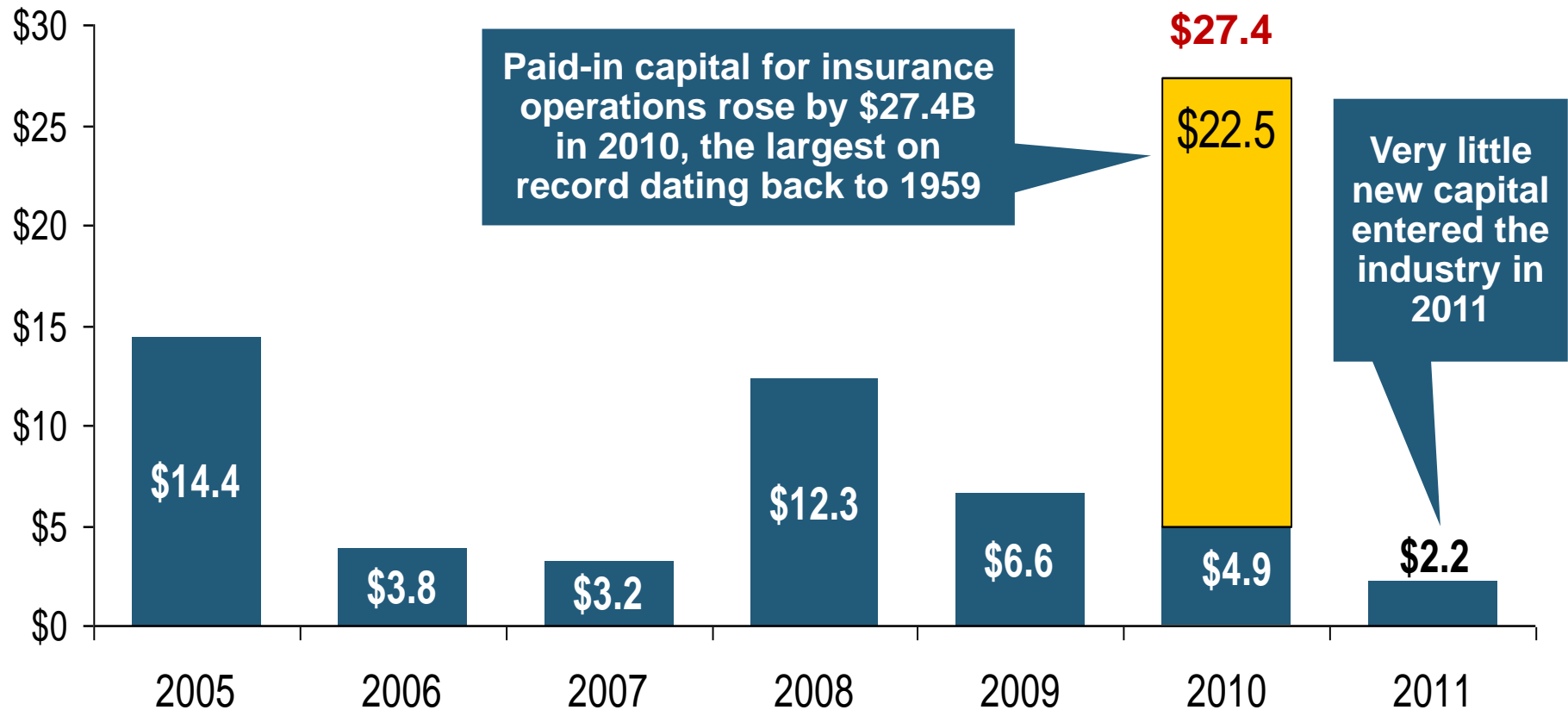
Note: The assumption of a 0.9:1 P/S ratio is derived from a Feb. 2011 announcement by Advisen, Ltd., that the US P/C insurance industry has \$74 billion in excess capital. The implied P/S ratio (calculated by III) is 0.88:1, which was rounded to 0.9:1.

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

\* Net Premiums Written

# Paid-in Capital, 2005–2011

(\$ Billions)

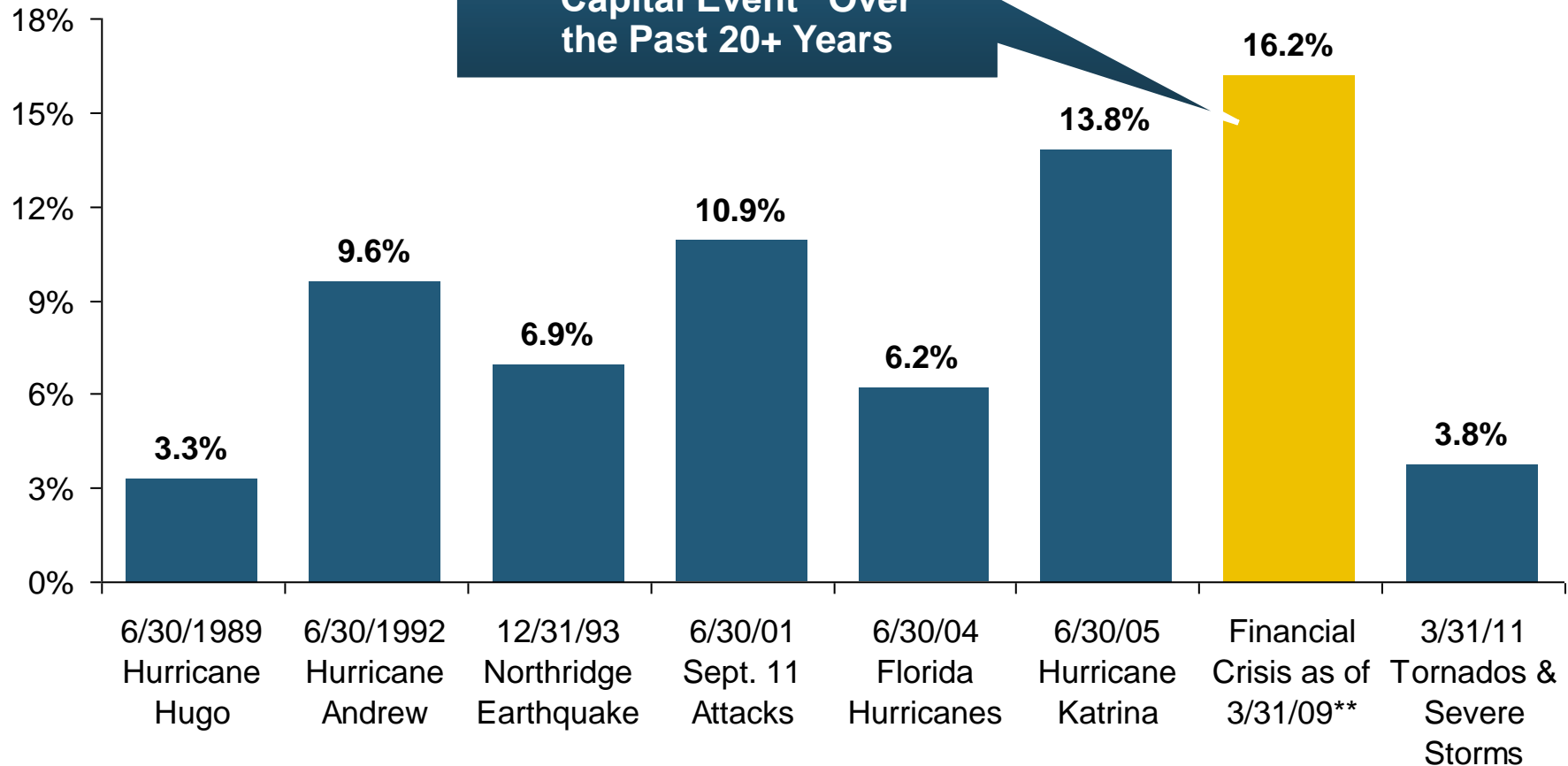


**In 2010 One Insurer's Paid-in Capital Rose by \$22.5B as Part of an Investment in a Non-insurance Business**

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

(Percent)

The Financial Crisis at its Peak Ranks as the Largest “Capital Event” Over the Past 20+ Years



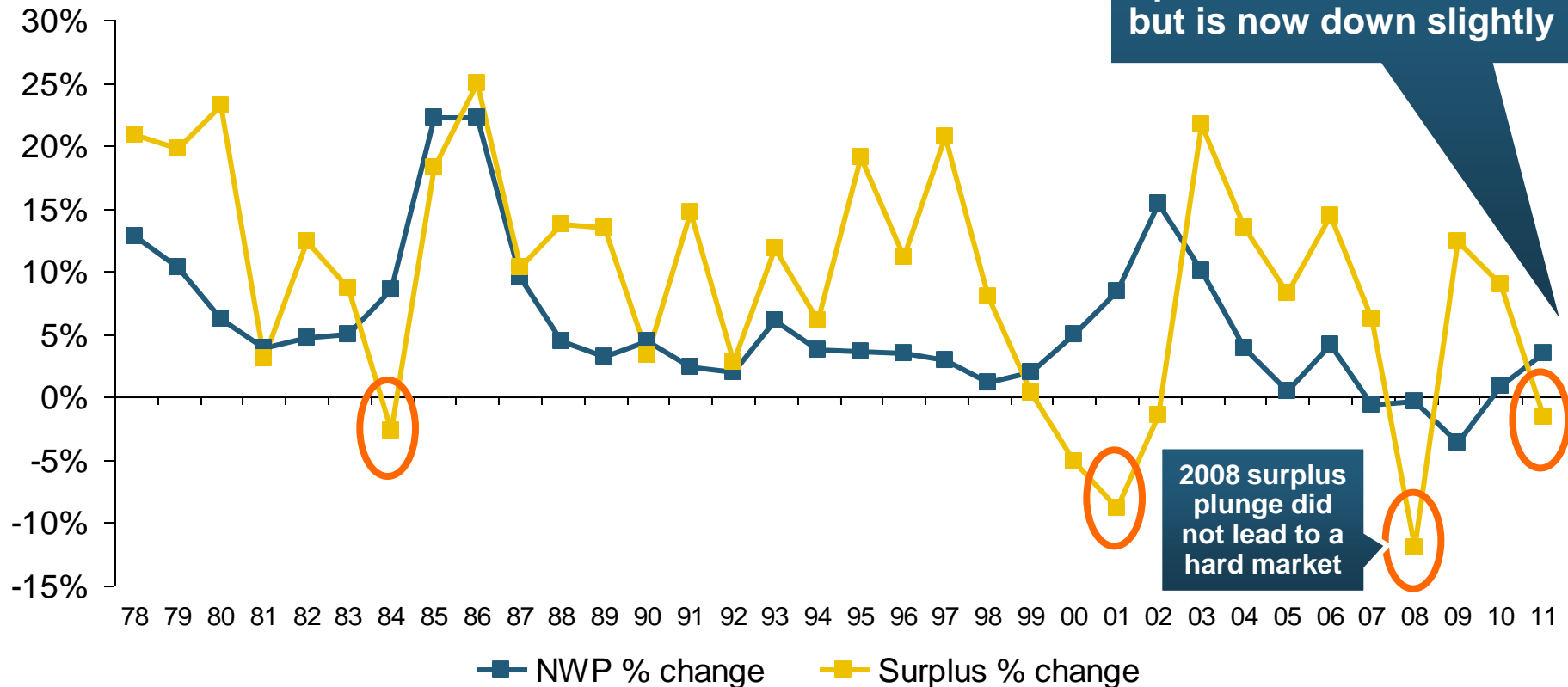
\* Ratio is for end-of-quarter surplus immediately after the event. Date shown is end of quarter prior to event

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

Source: PCS; Insurance Information Institute

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

(Percent)

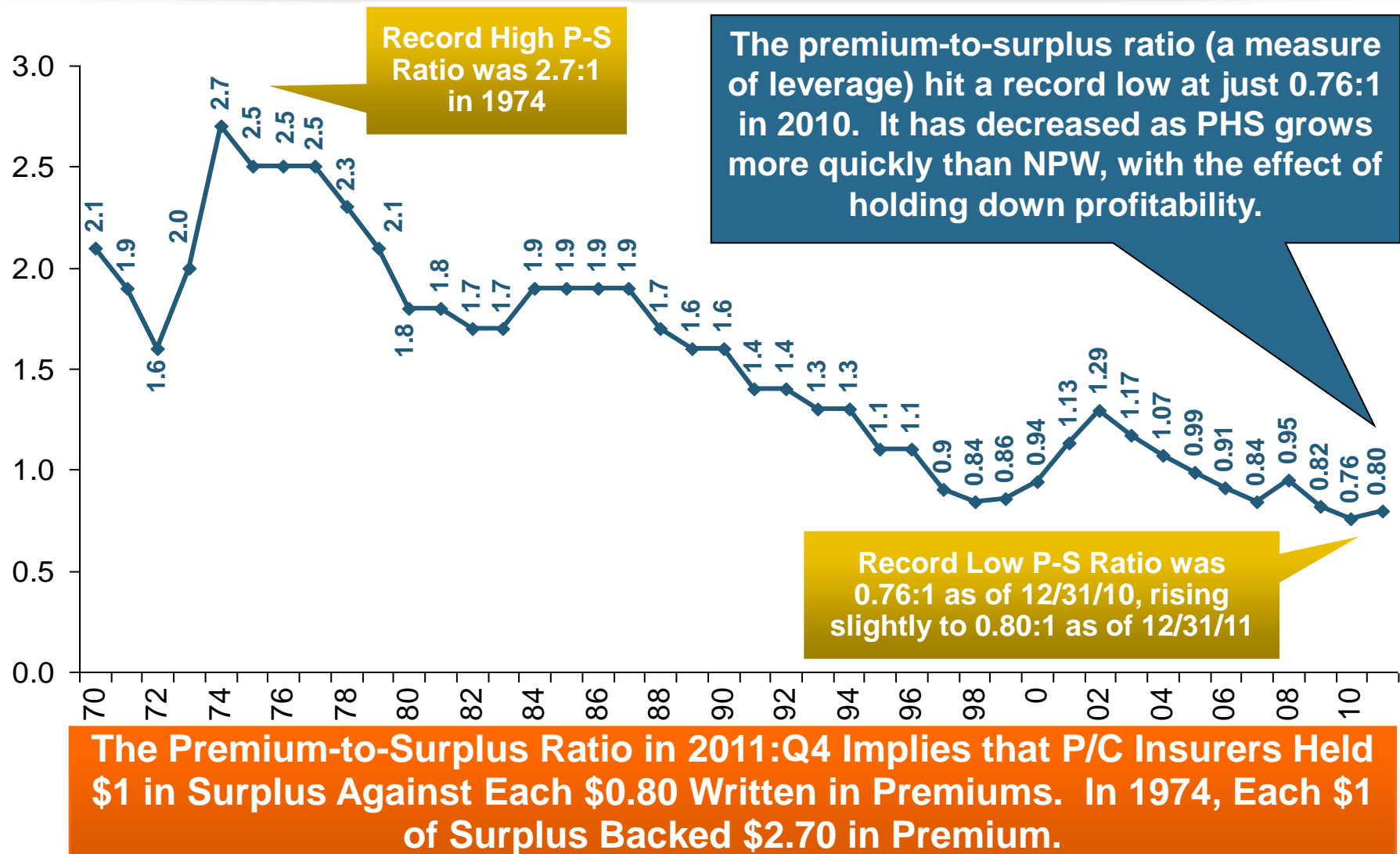


**Sharp Decline in Capacity is a Necessary but Not Sufficient Condition for a True Hard Market**

\* 2011 NWP and Surplus figures are % changes as of Q4:11 vs. Q4:10.

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

# Ratio of Net Premiums Written to Policyholder Surplus, 1970-2011\*



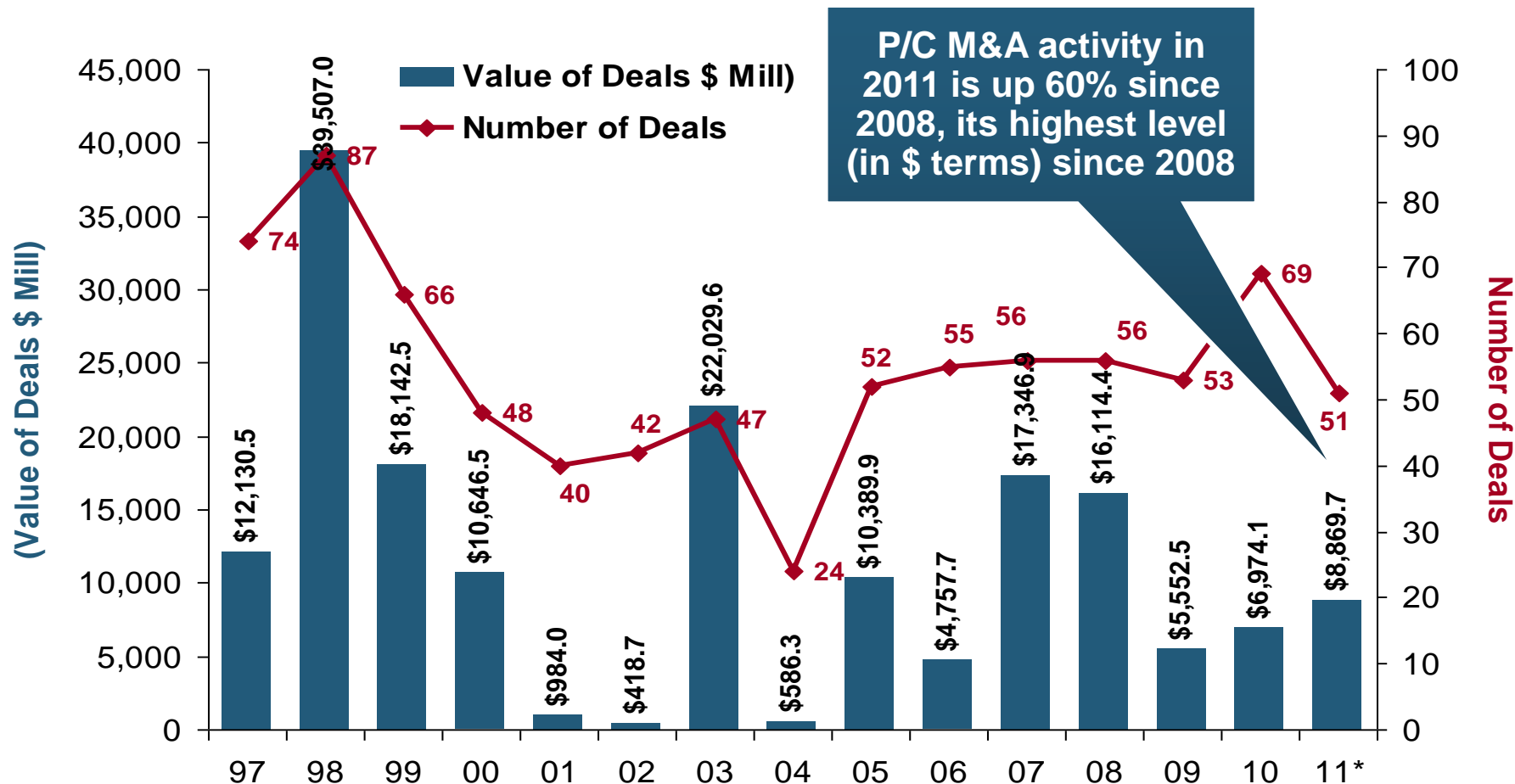
\*2011 data are as of 12/31/11.

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

# **Merger & Acquisition**

**Capital Cycles Can  
Drive Consolidation**

# M&A Activity in the US P/C Insurance Industry, 1997-2011\*



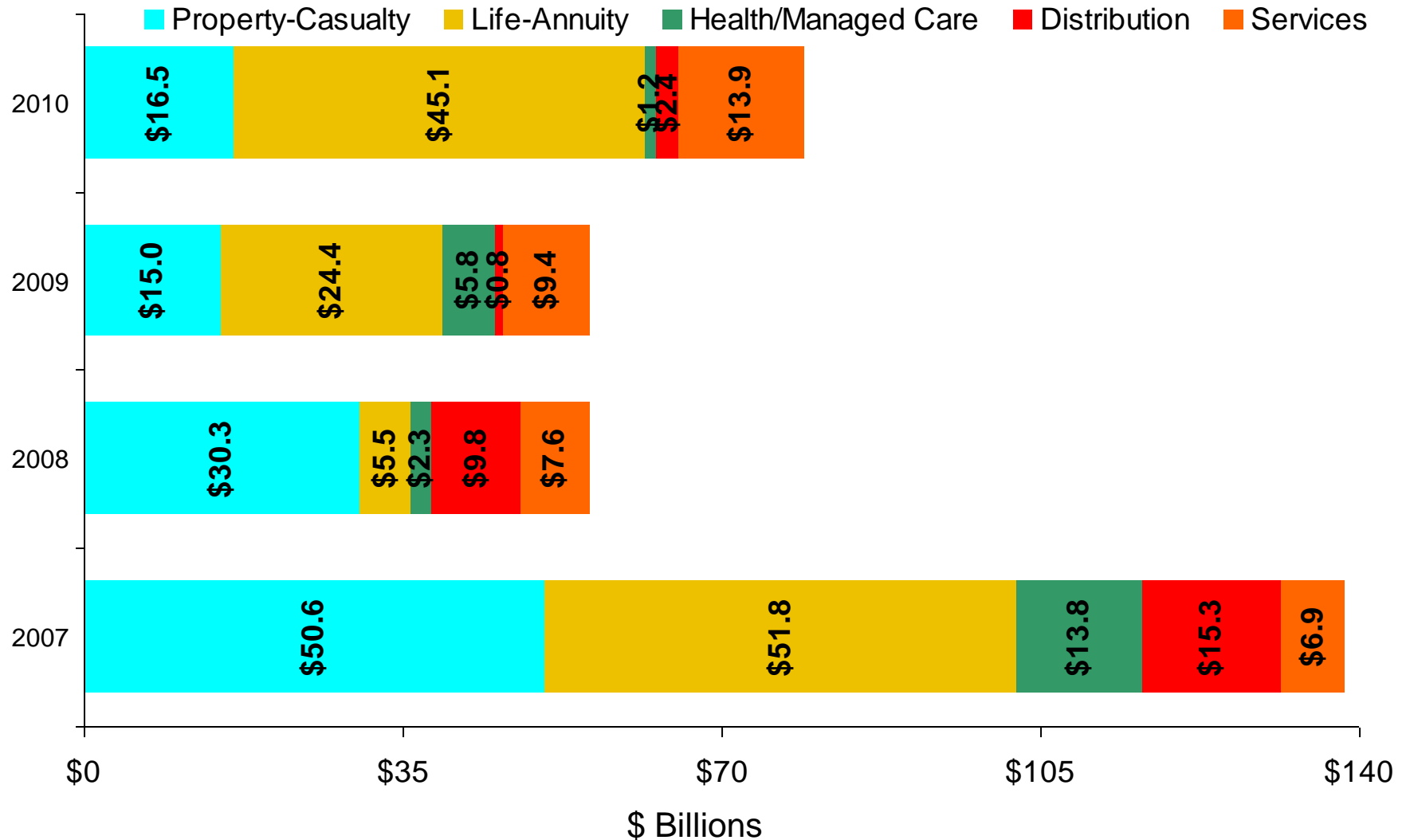
**M&A Activity in the P/C Insurance Industry Remains Well Below its 1990s Peak**

\*2011 data are through December 1.

Source: SNL Securities; Insurance Information Institute.



# M&A Activity Globally Among P/C Insurers Remains Subdued: Little Capacity Leaving

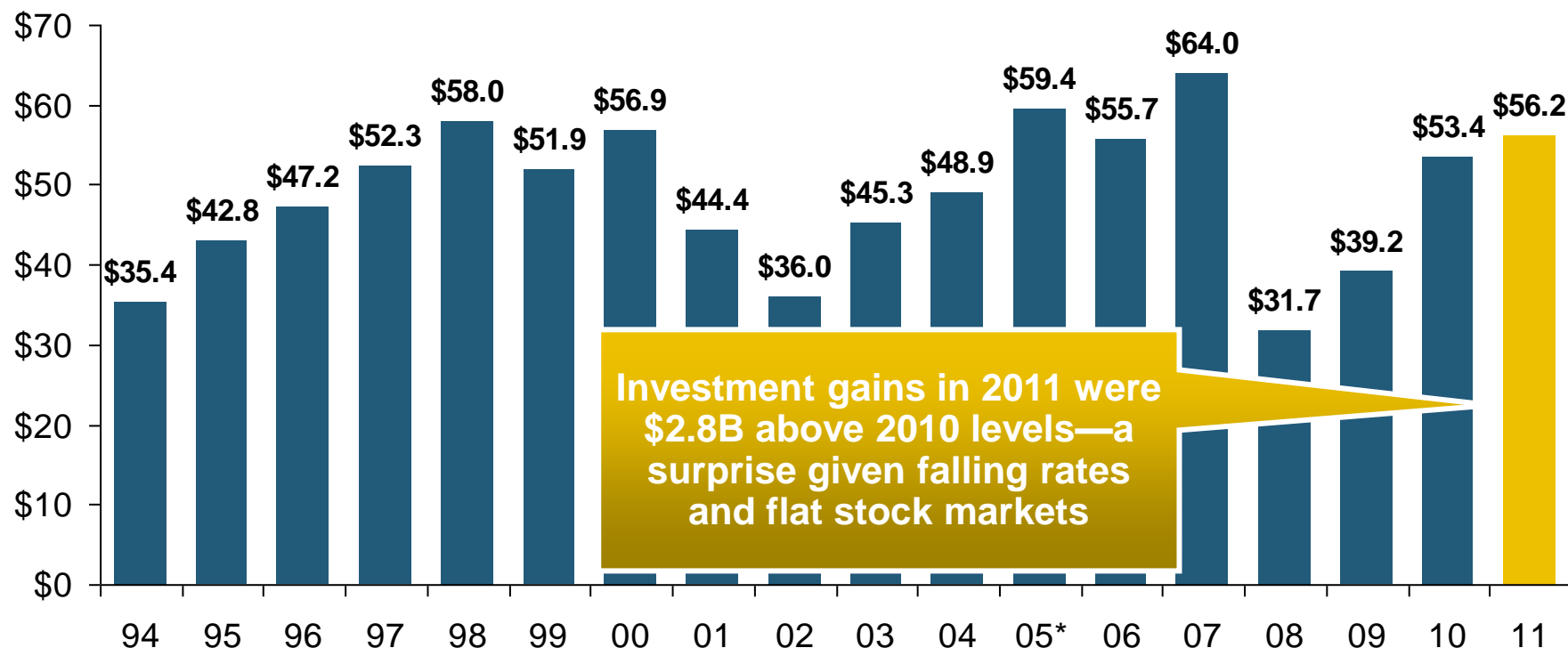


# **INVESTMENTS: THE NEW REALITY**

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

# Property/Casualty Insurance Industry Investment Gain: 1994–2011:Q4<sup>1</sup>

(\$ Billions)



**Investment Gains in 2011 Were Surprisingly Robust. Investment Gains Recovered Significantly in 2011 Due to Realized Investment Gains; The Financial Crisis Caused Investment Gains to Fall by 50% in 2008**

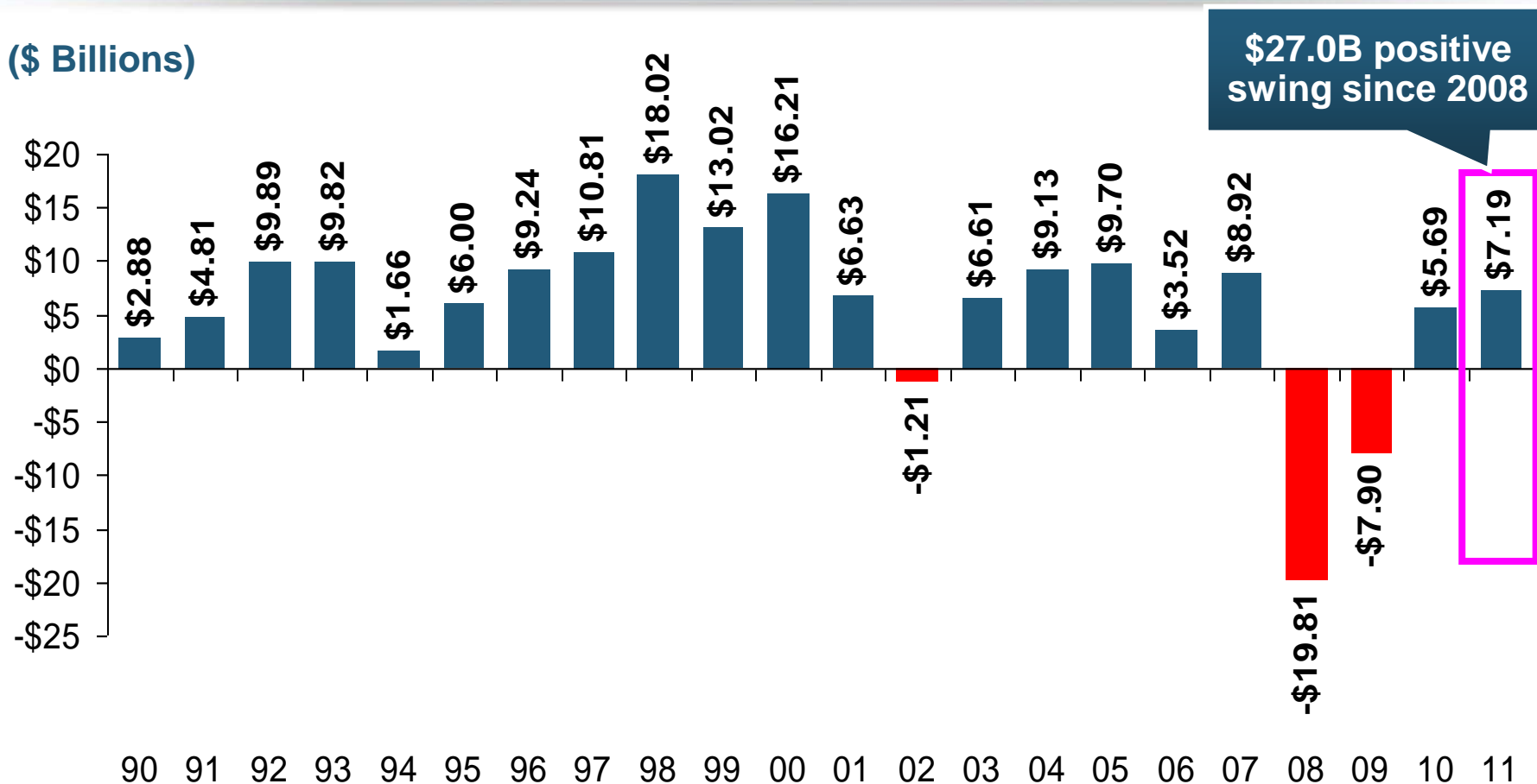
<sup>1</sup> Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.

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

Sources: ISO; Insurance Information Institute.

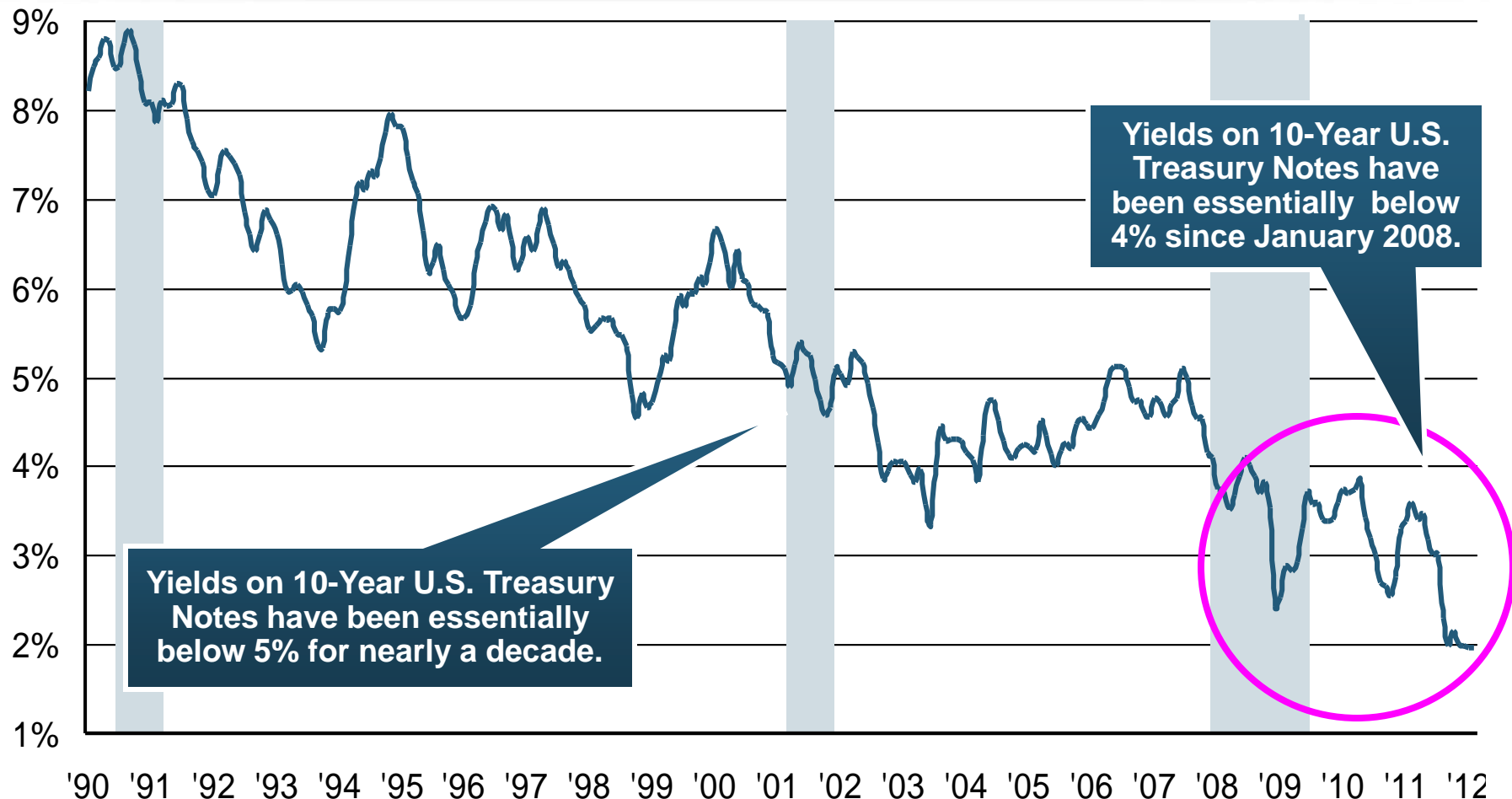
# P/C Insurer Net Realized Capital Gains/Losses, 1990-2011

(\$ Billions)



**Insurers Posted Net Realized Capital Gains in 2010 and 2011 After 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, 1990–2012\*



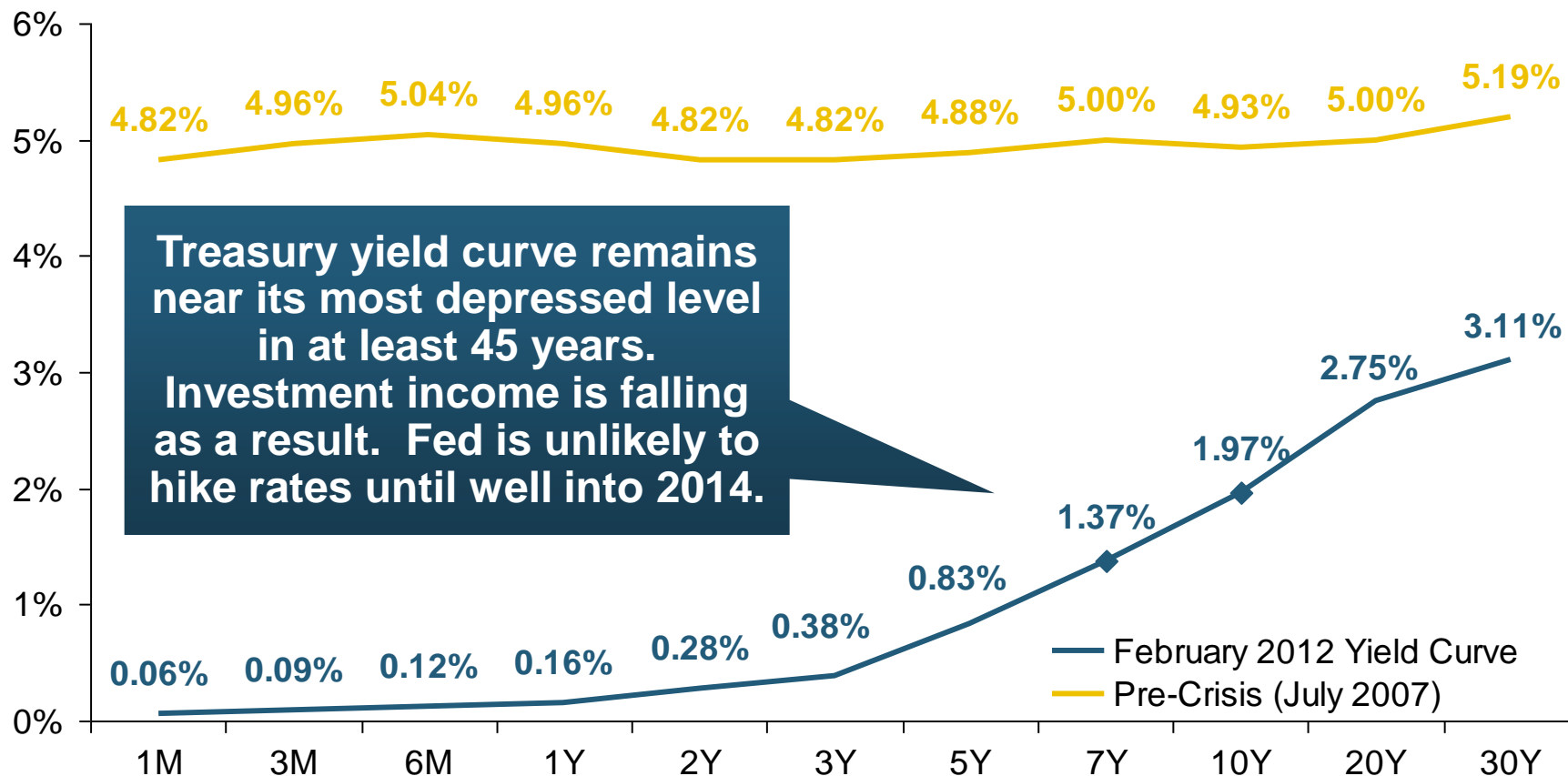
**Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.**

\*Monthly, through February 2012.

Note: Recessions indicated by gray shaded columns.

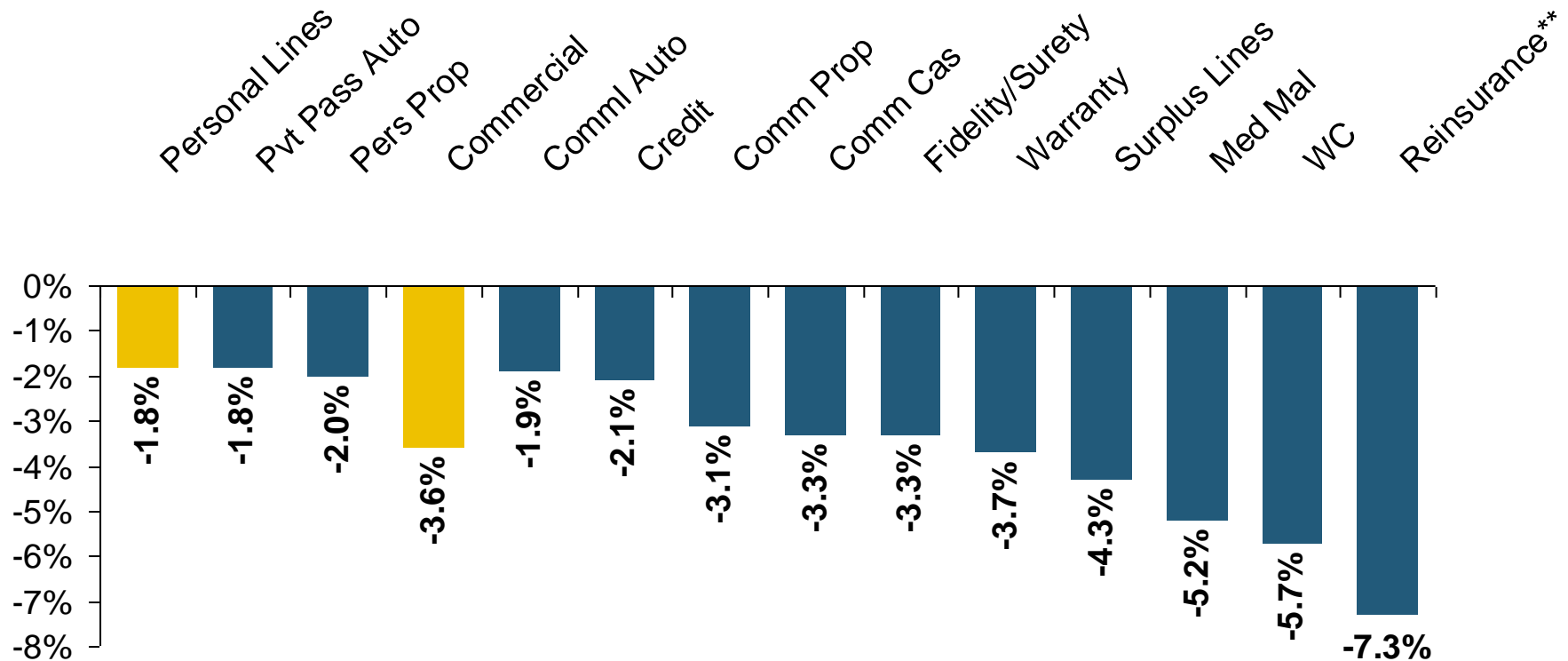
Sources: Federal Reserve Bank at [http://www.federalreserve.gov/releases/h15/data/Monthly/H15\\_TCMNOM\\_Y10.txt](http://www.federalreserve.gov/releases/h15/data/Monthly/H15_TCMNOM_Y10.txt)  
National Bureau of Economic Research (recession dates); Insurance Information Institutes.

# Treasury Yield Curves: Pre-Crisis (July 2007) vs. Feb. 2012



**The Fed Is Actively Signaling that it Is Determined to Keep Rates Low Through Late 2014**

# 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

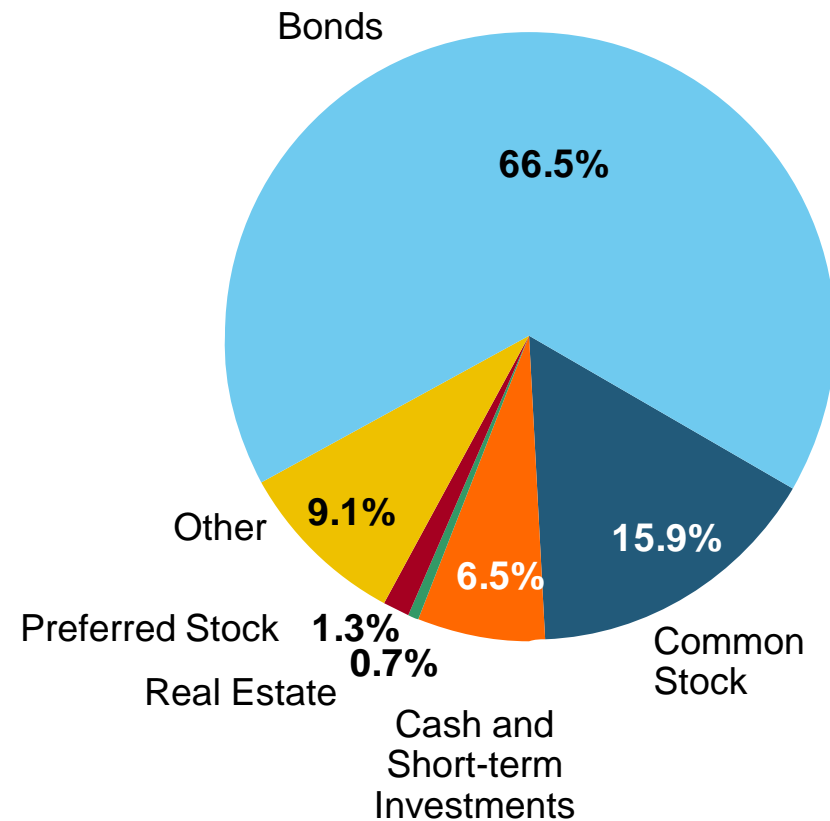
Source: A.M. Best; Insurance Information Institute.

# Distribution of P/C Insurance Industry's Investment Portfolio

## Portfolio Facts

- Invested assets totaled \$1.316 trillion as of 12/31/10
- Insurers are generally conservatively invested, with more than 2/3 of assets invested in bonds as of 12/31/10
- Only about 16% of assets were invested in common stock as of 12/31/10
- The portfolio is very conservative and returns are impacted by low interest rates.

As of December 31, 2010

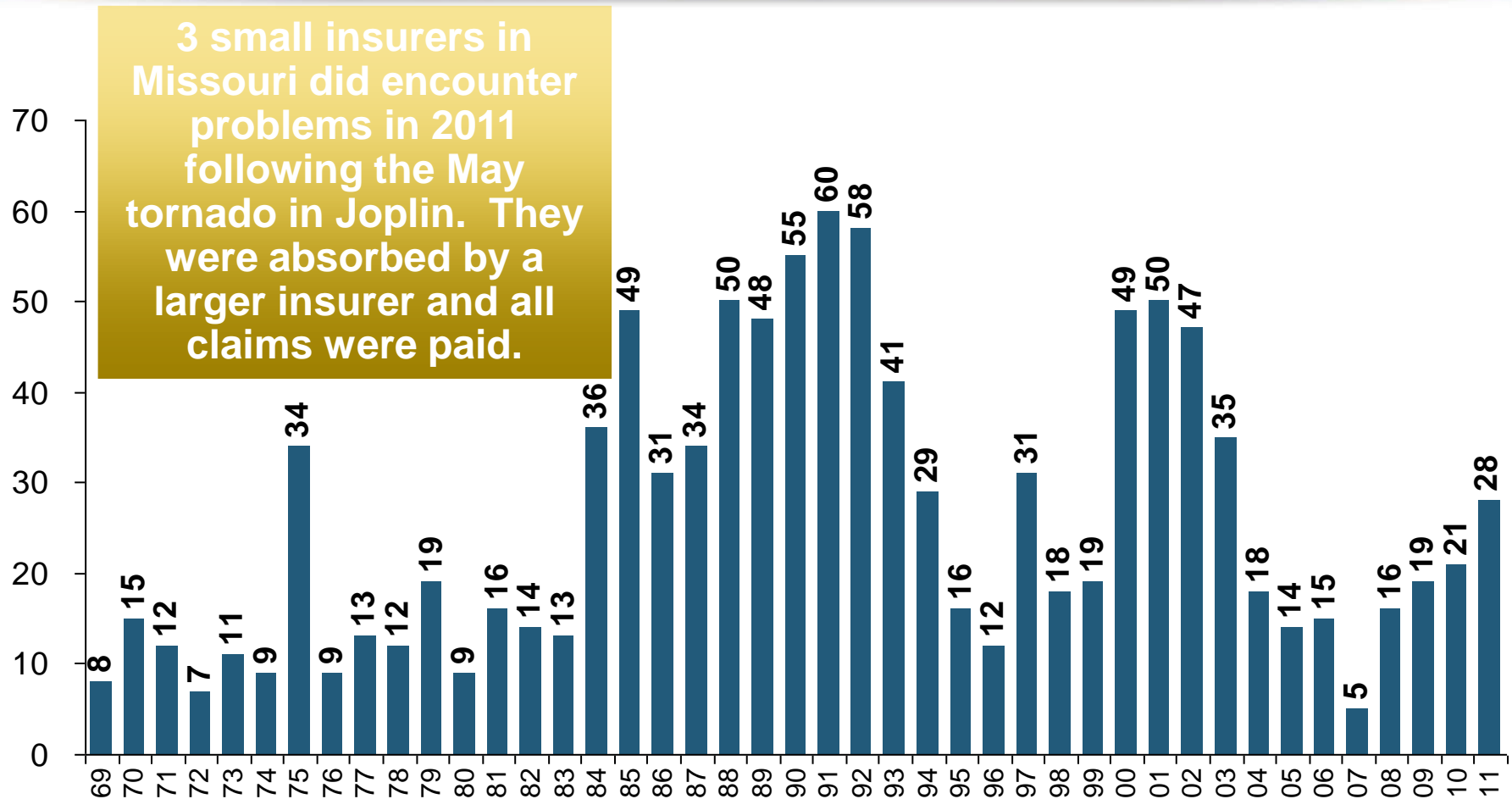




# **Financial Strength & Underwriting**

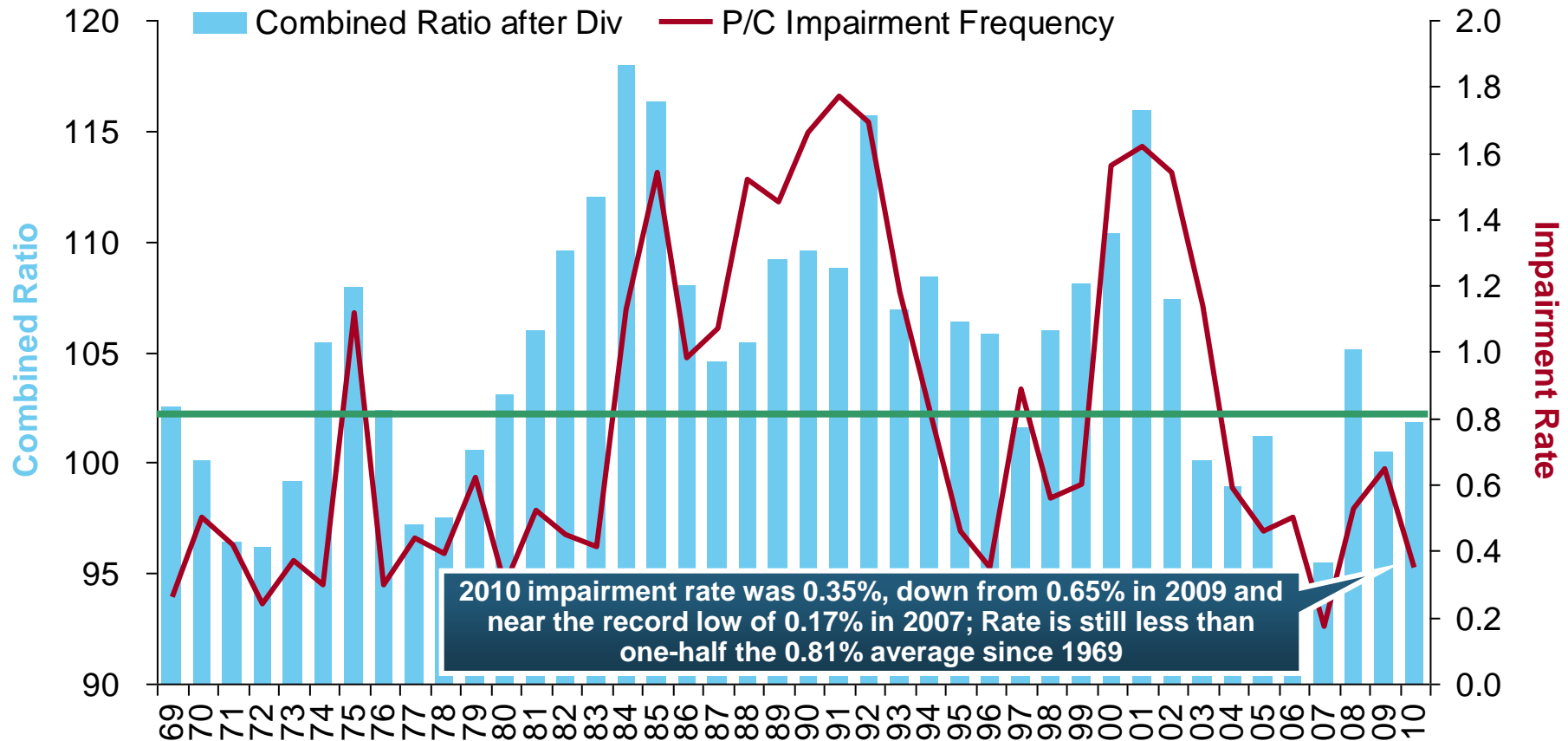
**Cyclical Pattern is P-C Impairment  
History is Directly Tied to  
Underwriting, Reserving & Pricing**

# 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**

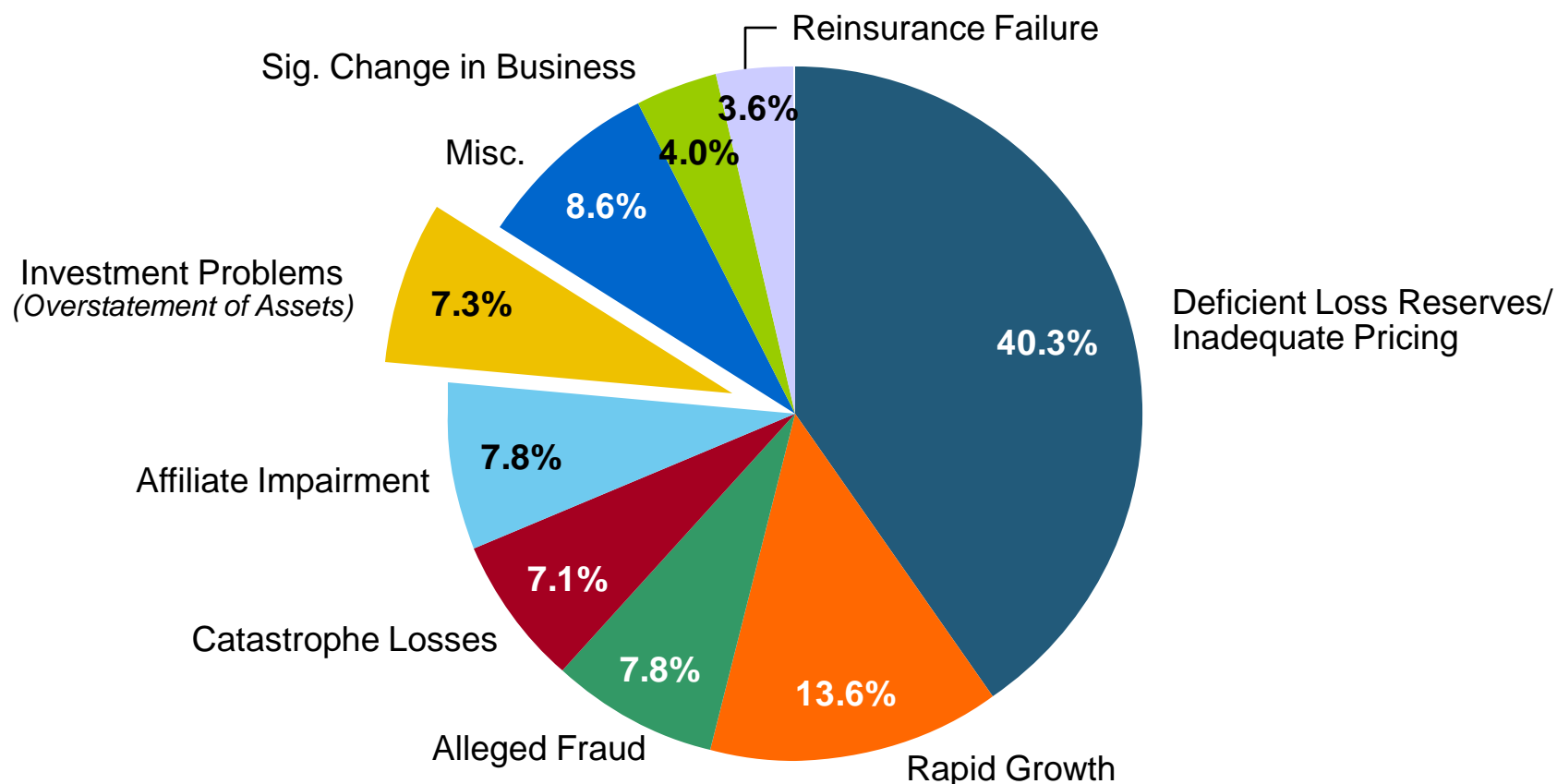
# P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2010



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

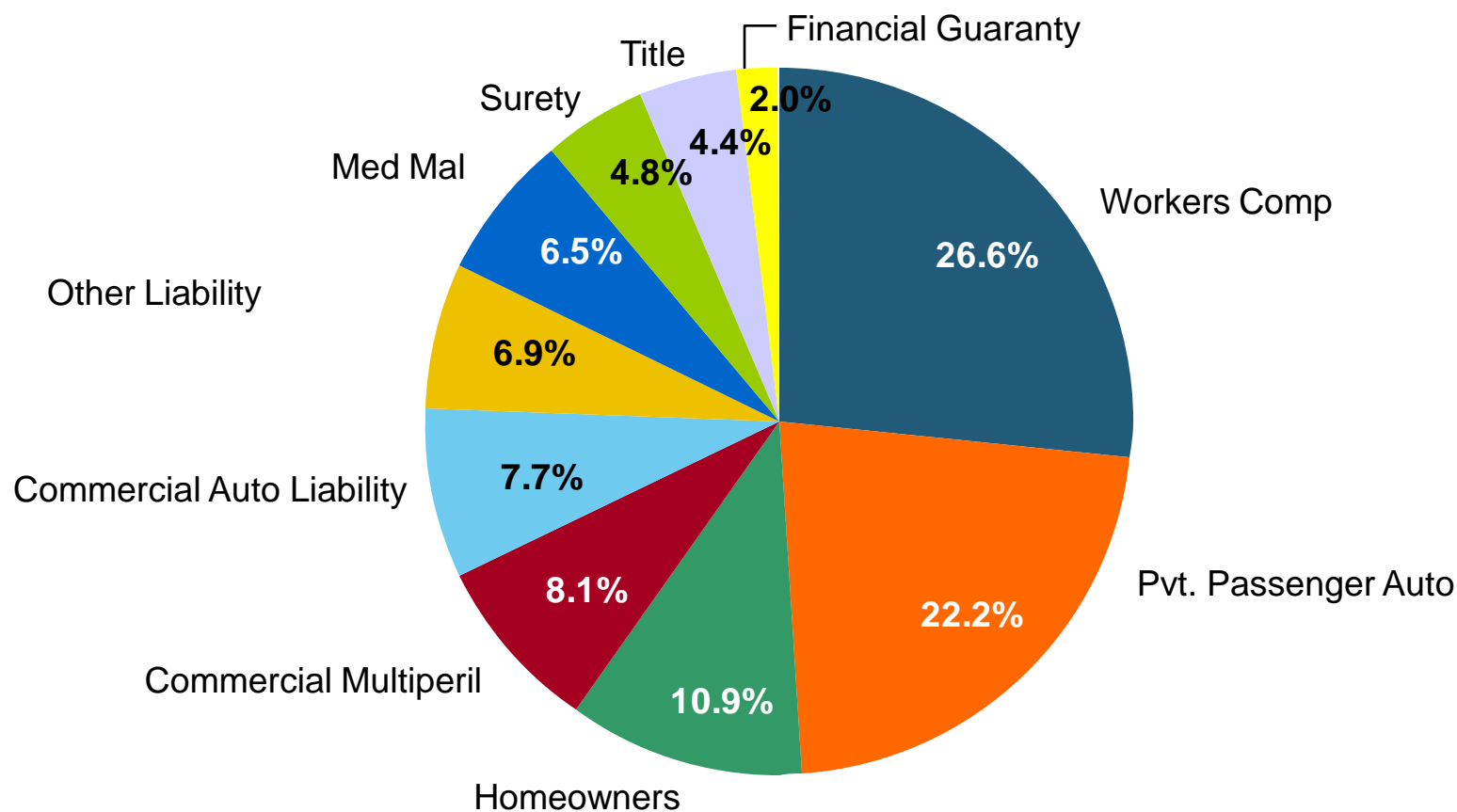
# Reasons for US P/C Insurer Impairments, 1969–2010

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



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

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



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

Number of Recessions Since 1860

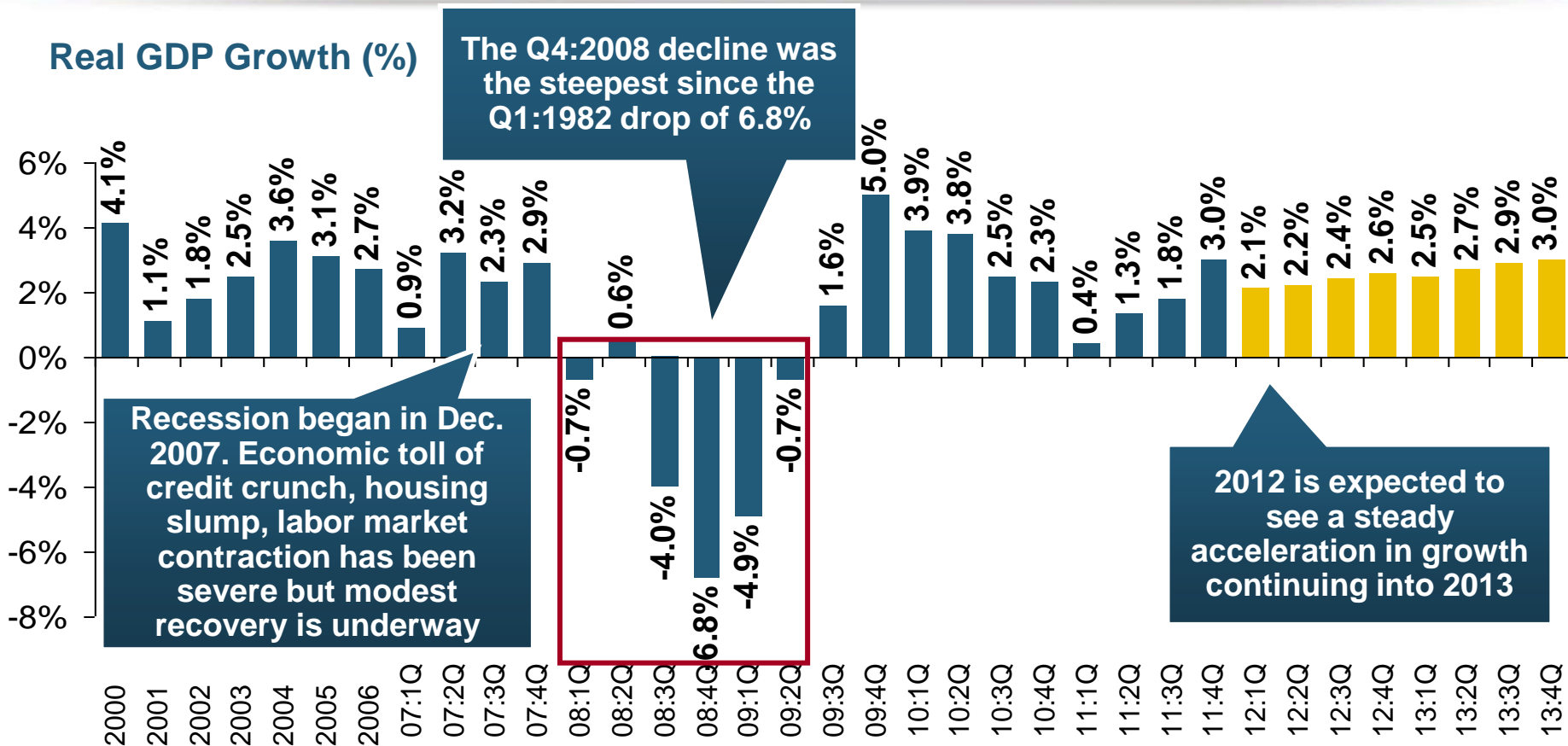


Many US Insurers Are Close to a Century Old or Older

# **The Economic Storm**

**What the Financial Crisis and  
Recession Mean for the Industry's  
Exposure Base, Growth and  
Profitability**

# US 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**

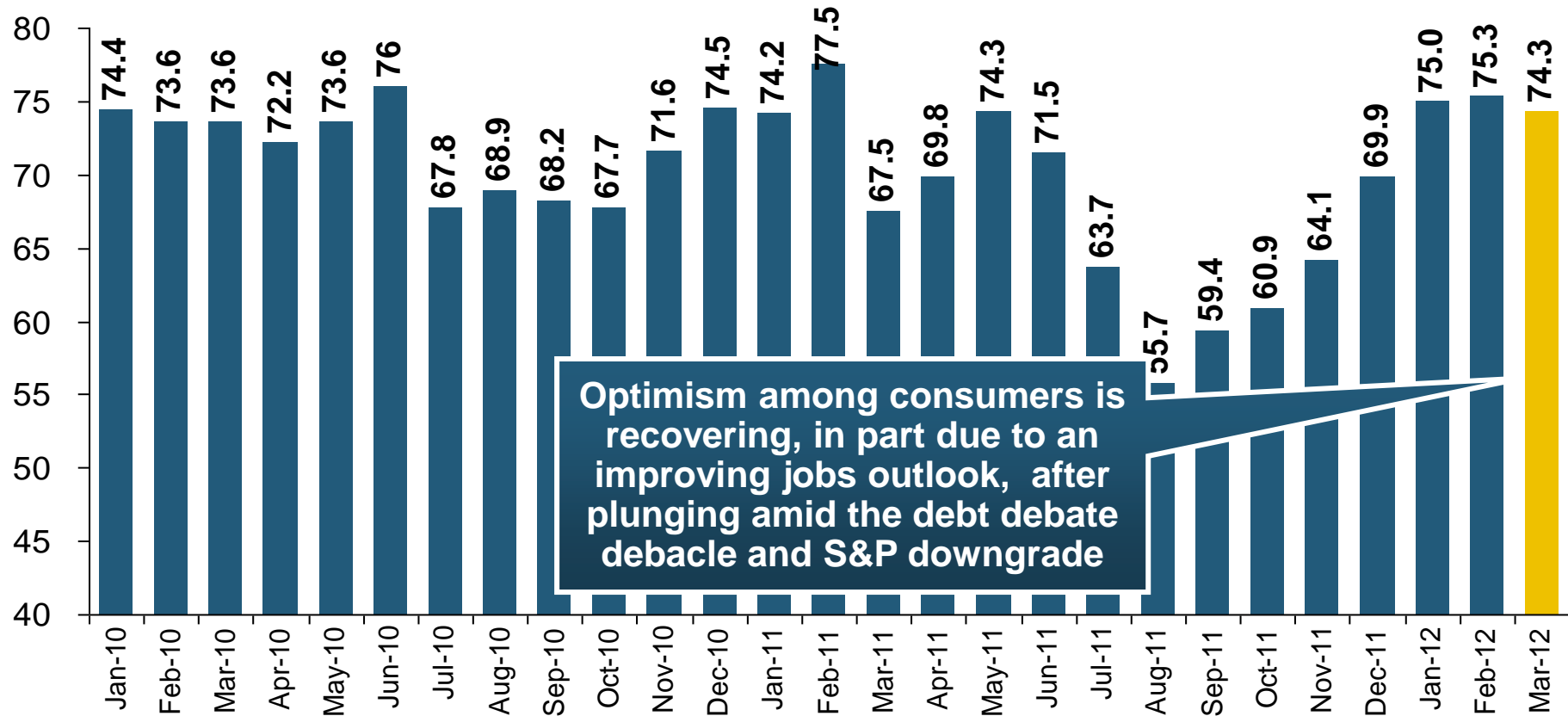
\* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 3/12; Insurance Information Institute.



# Consumer Sentiment Survey (1966 = 100)

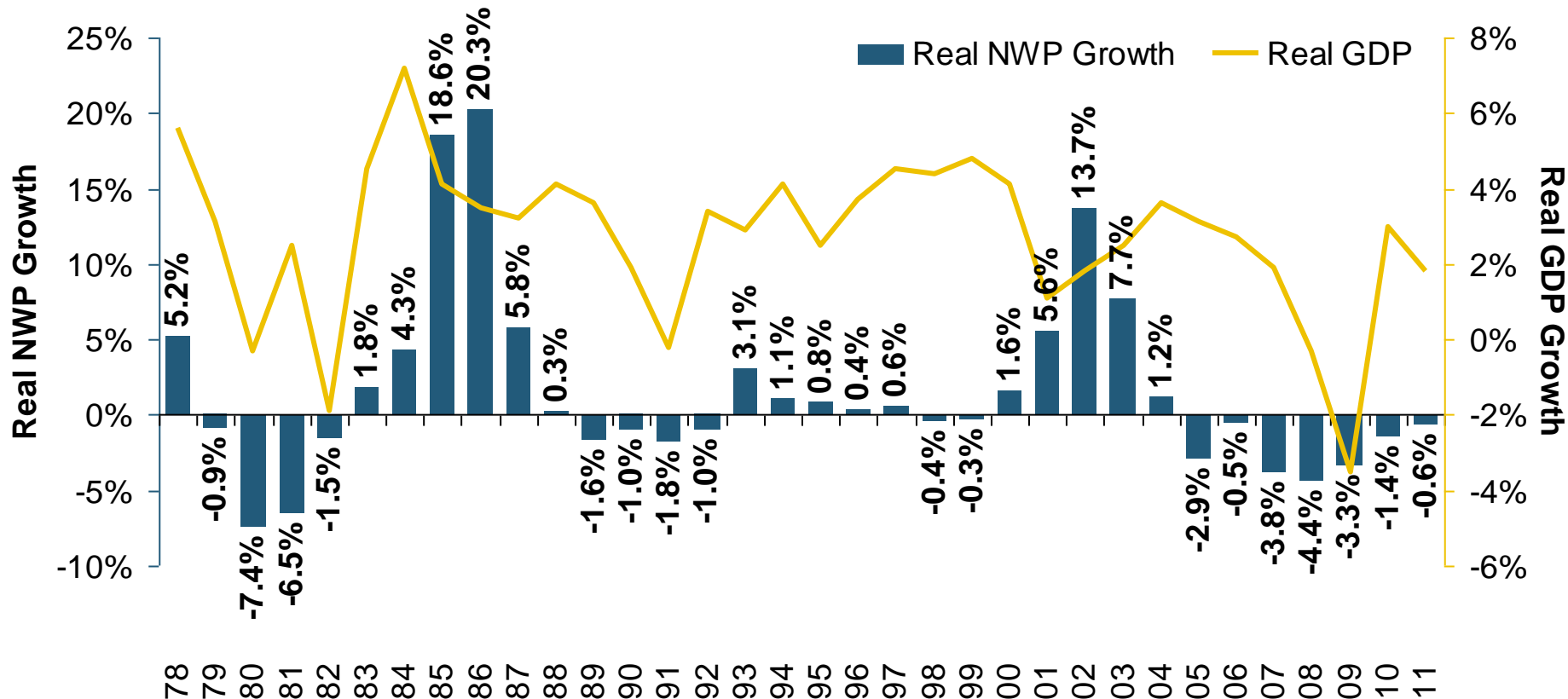
January 2010 through March 2012



**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 early 2012**

# Real GDP Growth vs. Real P/C Premium Growth: Modest Association

Real GDP Growth vs. Real P/C (%)



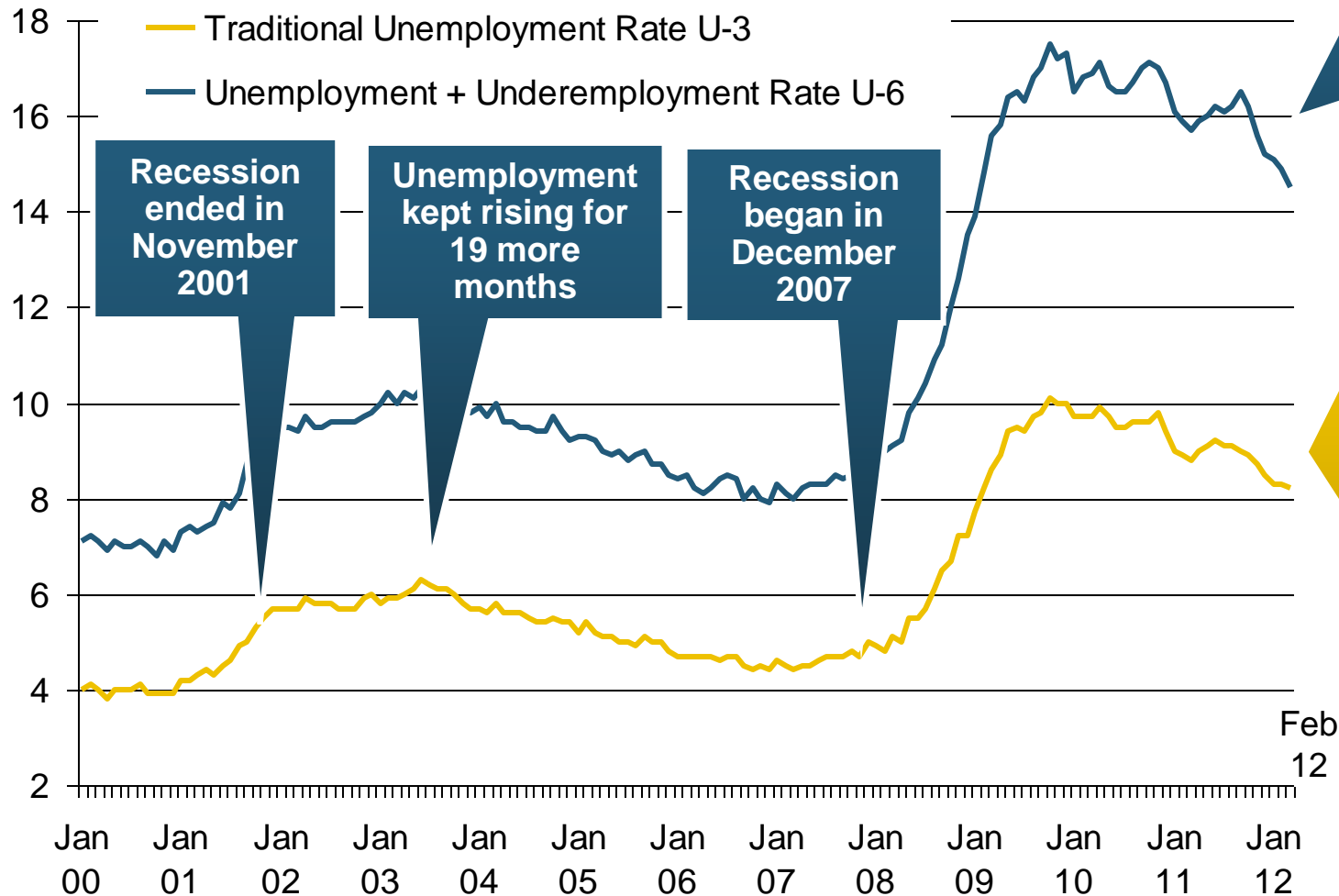
**P/C Insurance Industry's Growth is Influenced Modestly  
by Growth in the Overall Economy**

# **Labor Market Trends**

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

# Unemployment and Underemployment Rates: Stubbornly High in 2012, But Falling

January 2000 through March 2012, Seasonally Adjusted (%)



U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 14.5% in Mar. 2012

Unemployment stood at 8.2% in March 2012

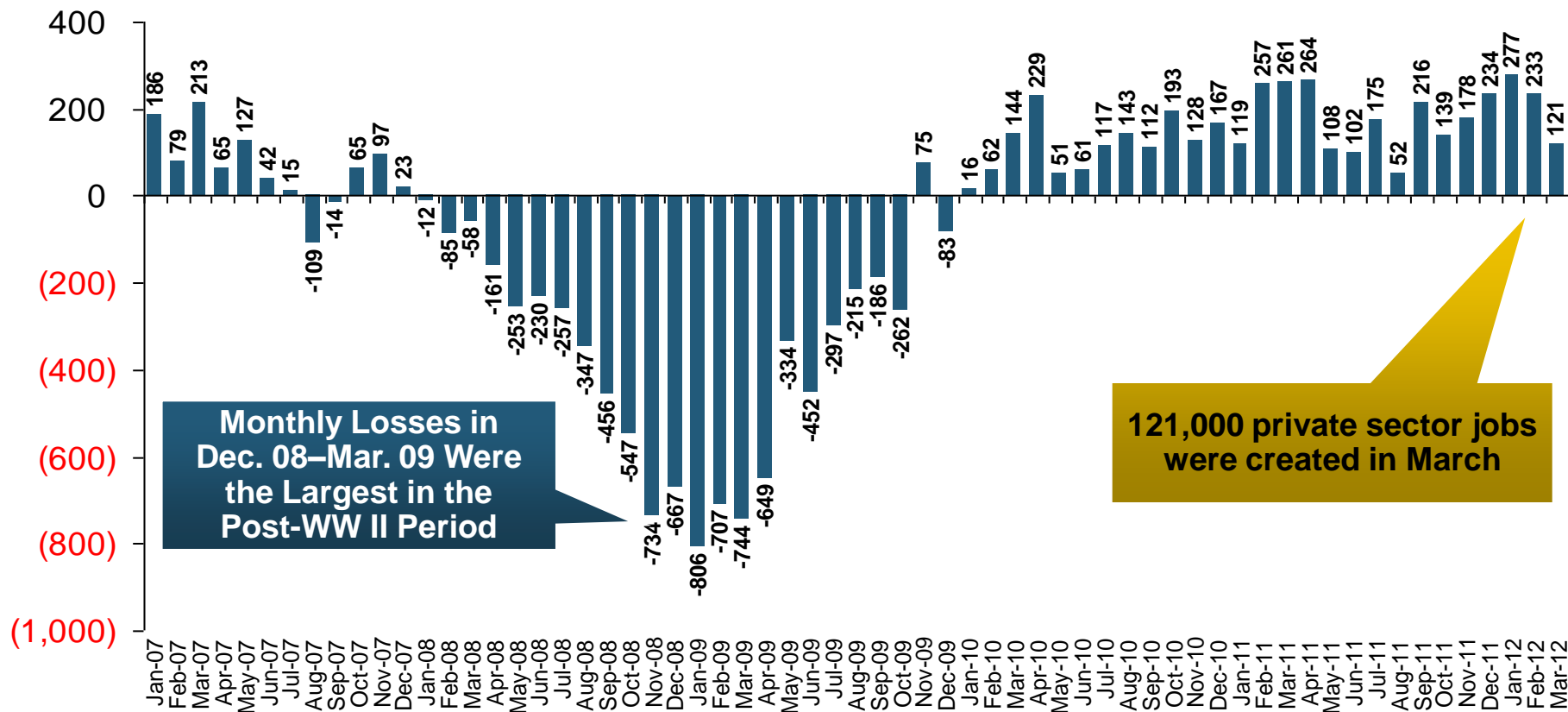
Unemployment peaked at 10.1% in October 2009, highest monthly rate since 1983.

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

**Stubbornly high unemployment and underemployment constrain overall economic growth, but the job market is now clearly improving**

# Monthly Change in Private Employment

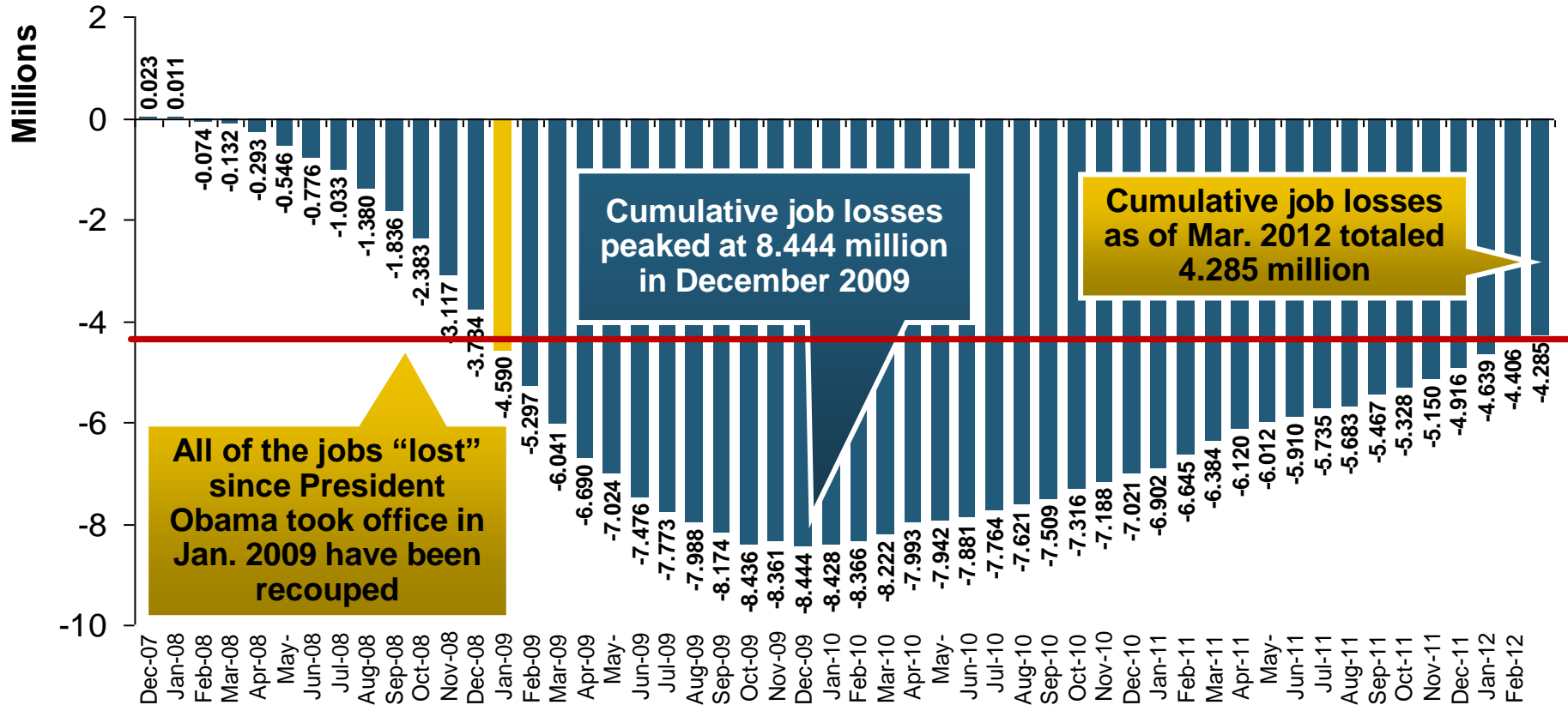
January 2008 through March 2012\* (Thousands)



**Private Employers Added 4.159 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)**

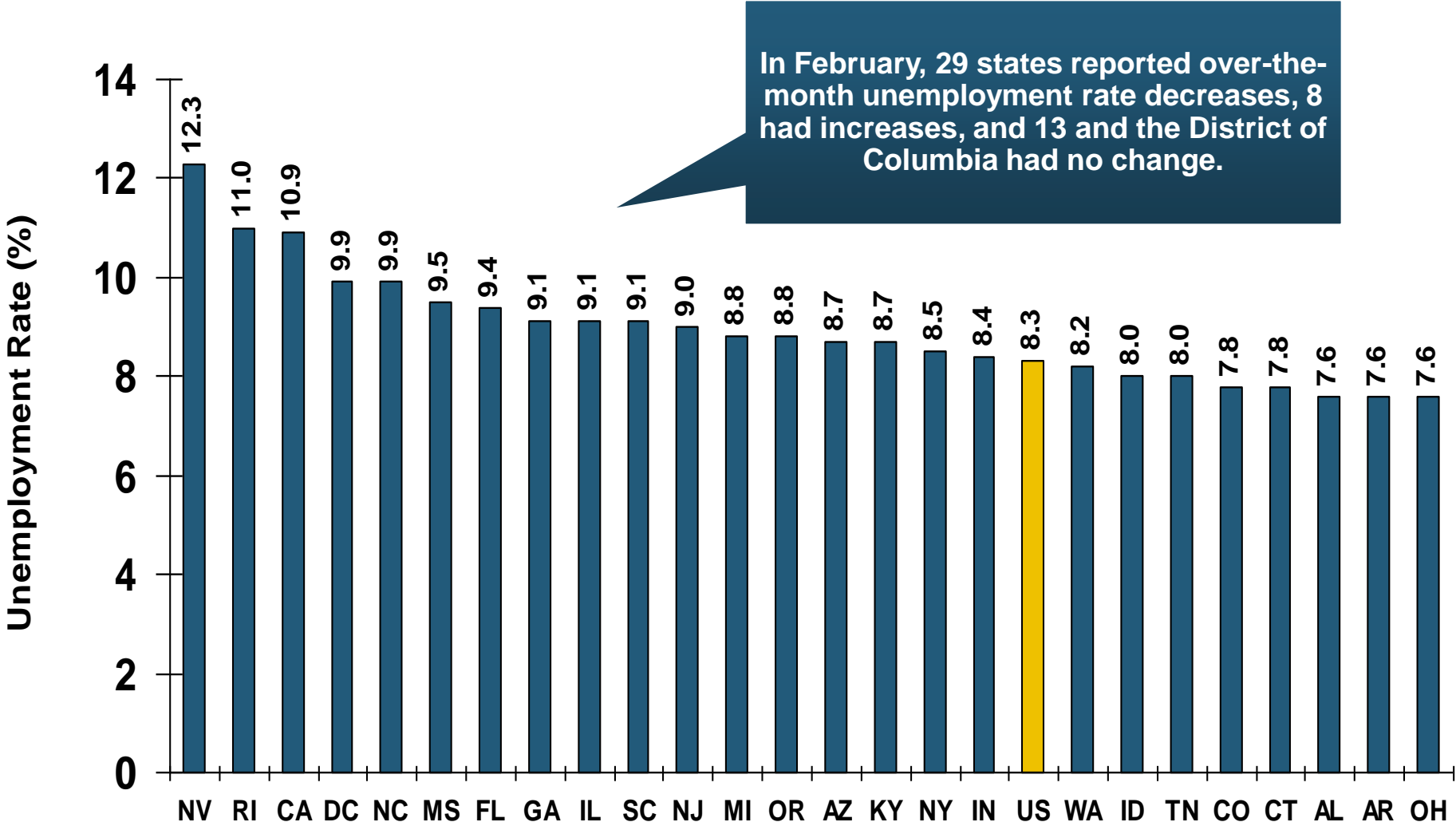
# Cumulative Change in Private Employment: Dec. 2007—Mar. 2012

December 2007 through March 2012\* (Millions)



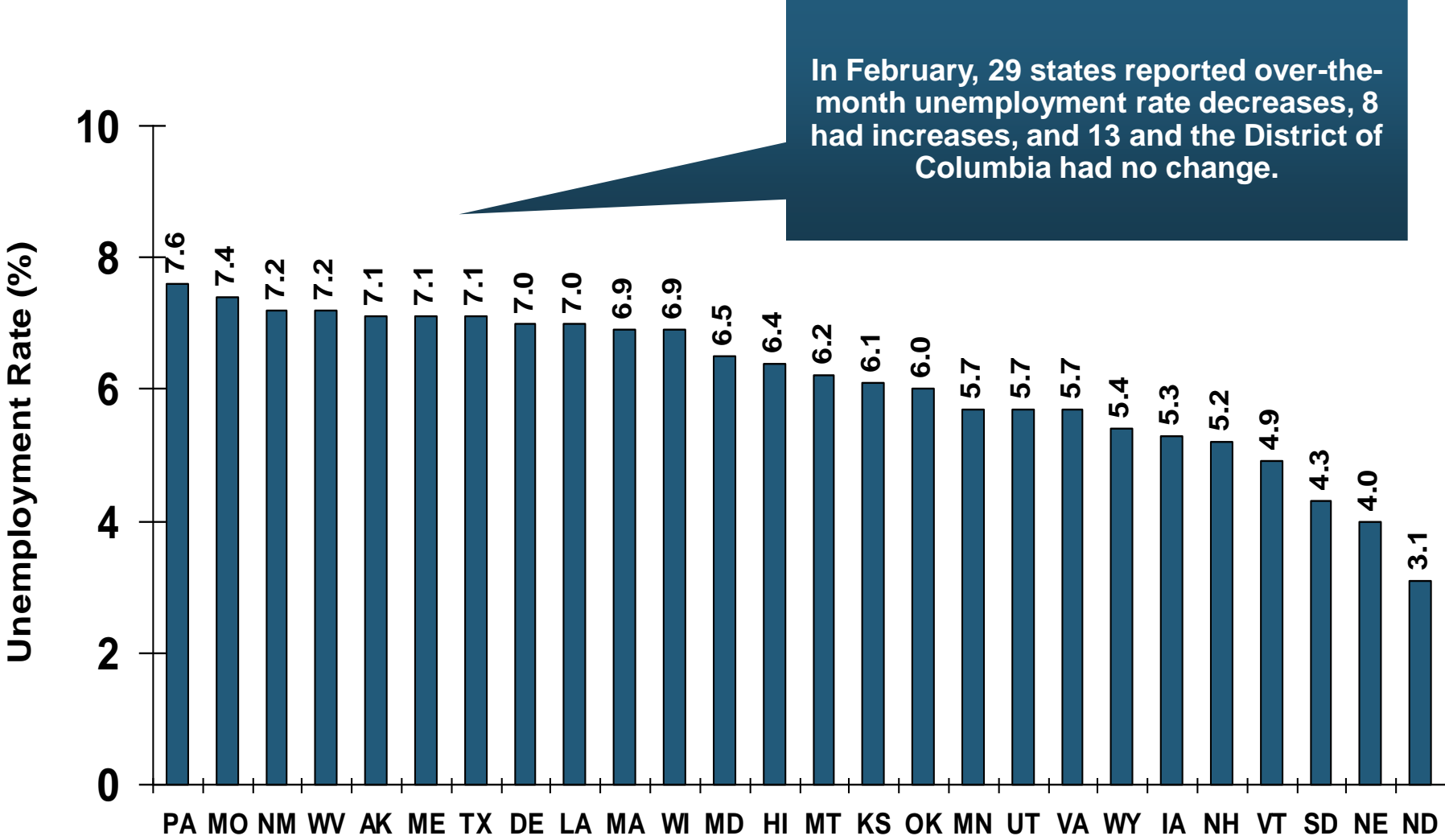
**Private Employers Added 4.159 million Jobs Since Jan. 2010 After Having Shed 4.66 Million Jobs in 2009 and 3.81 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)**

# Unemployment Rates by State, February 2012: Highest 25 States\*



\*Provisional figures for February 2012, seasonally adjusted.  
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

# Unemployment Rates By State, February 2012: Lowest 25 States\*

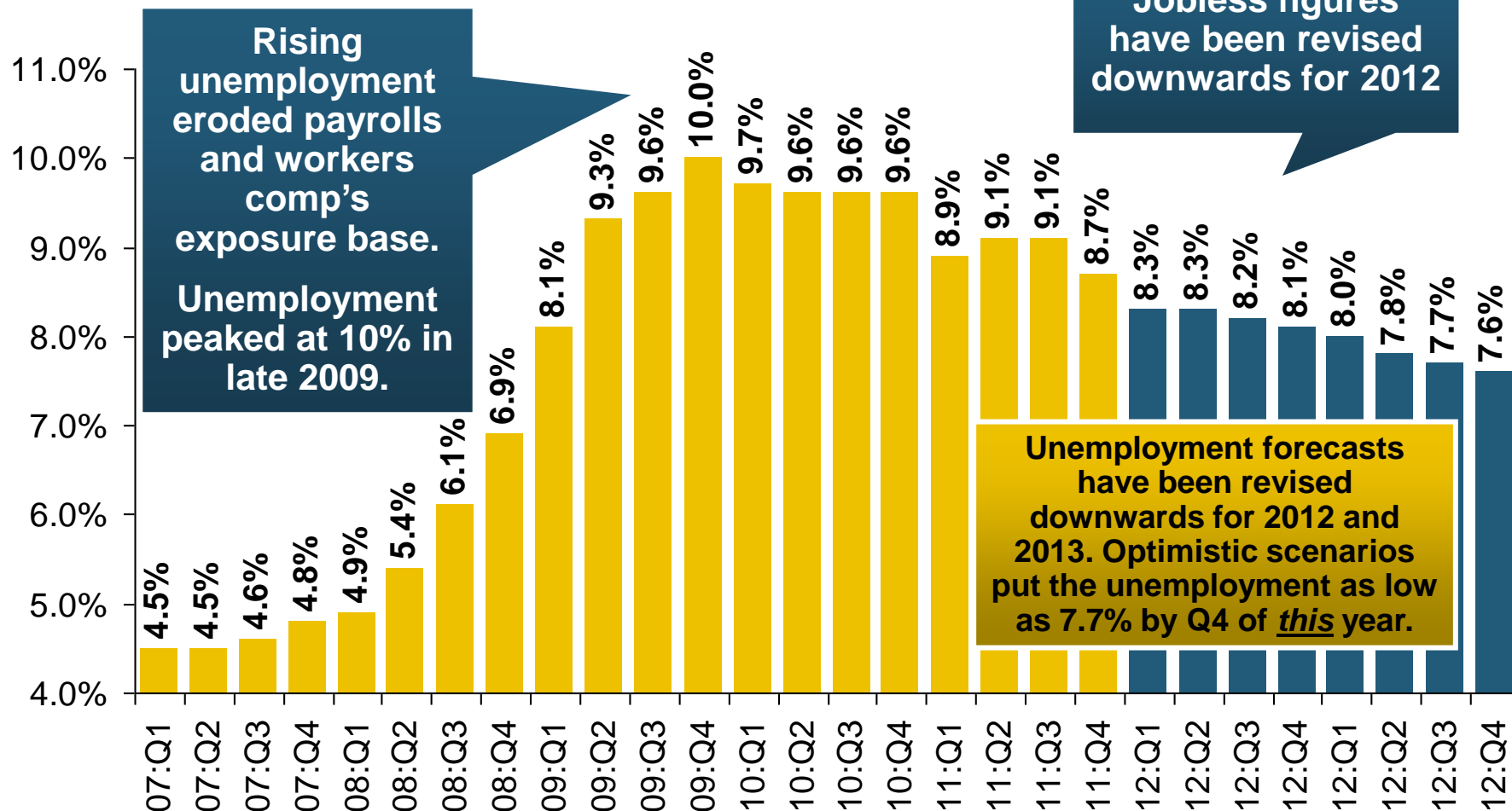


\*Provisional figures for February 2012, seasonally adjusted.  
Sources: US Bureau of Labor Statistics; Insurance Information Institute.



# US Unemployment Rate

2007:Q1 to 2013:Q4F\*

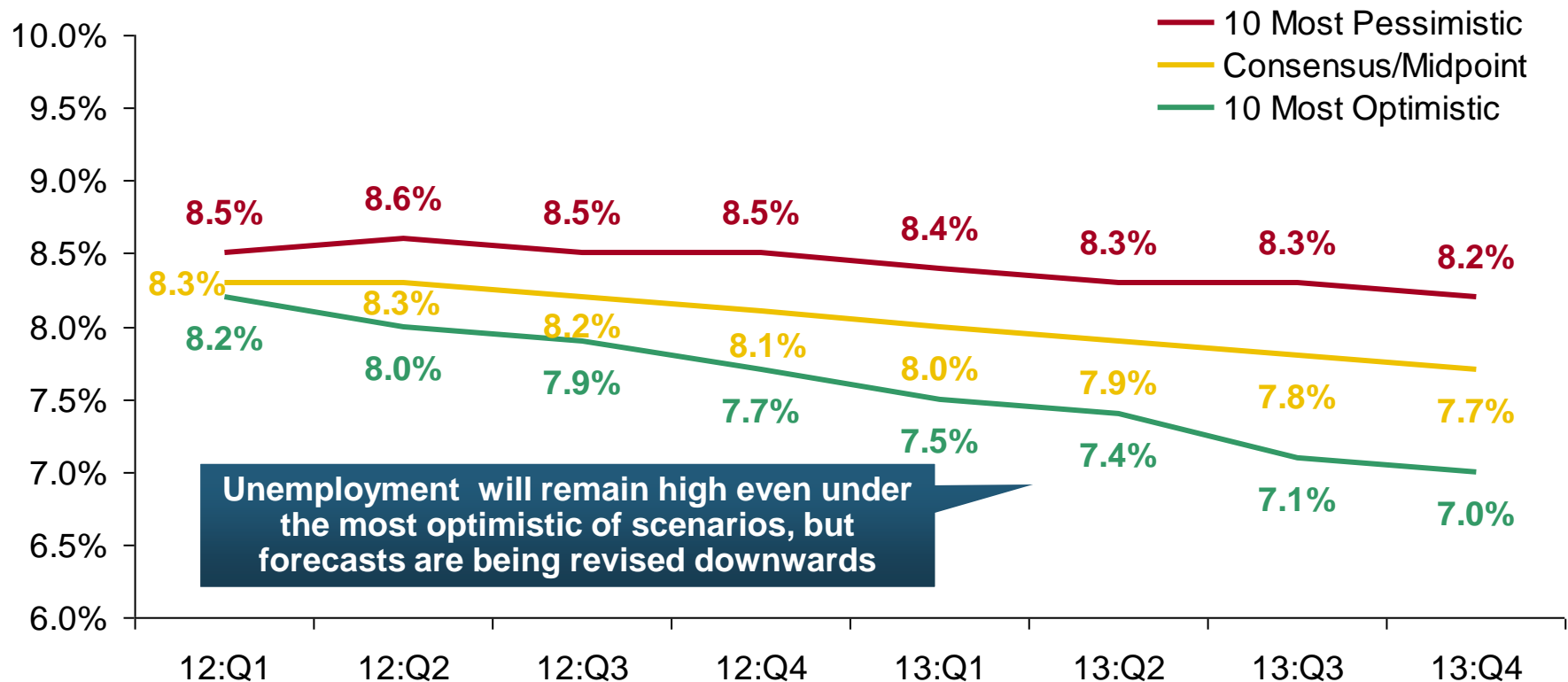


\* ■ = actual; ■ = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (3/12 edition); Insurance Information Institute.

# US Unemployment Rate Forecasts

Quarterly, 2012:Q1 to 2013:Q4



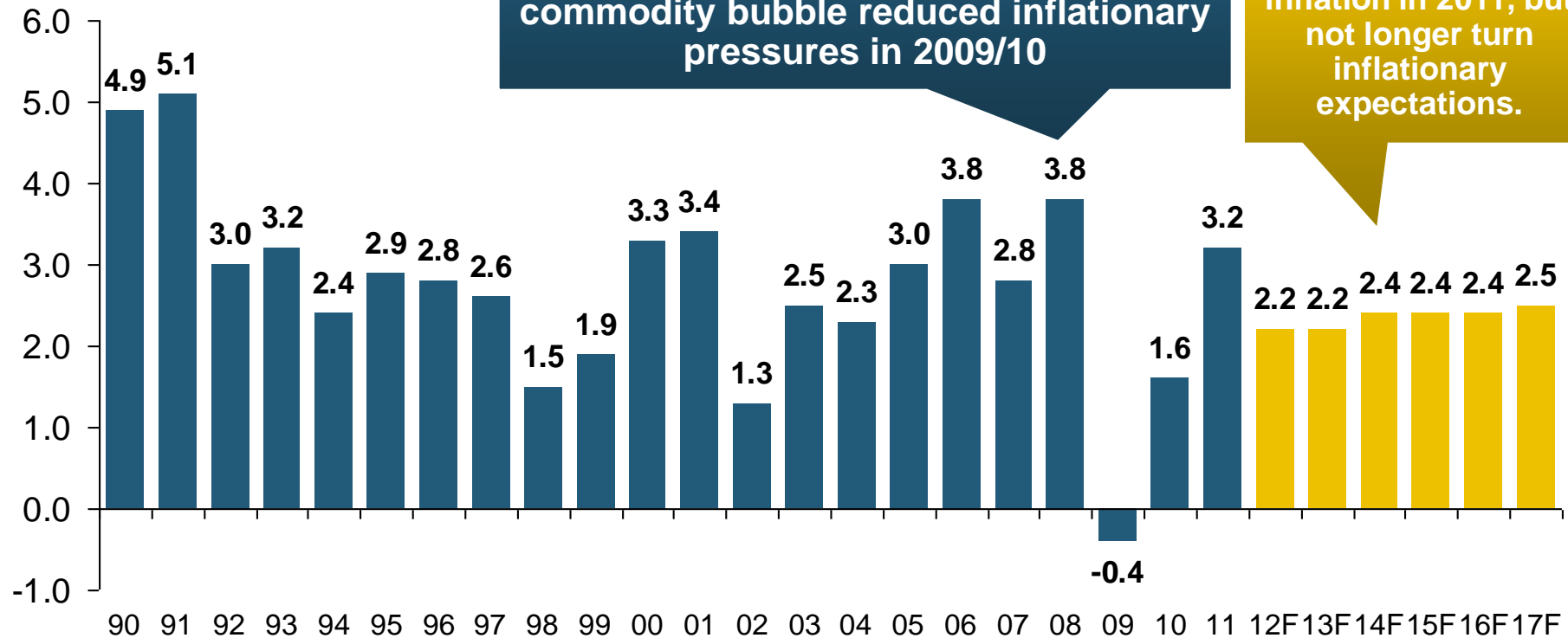
**Steadily Decreasing Unemployment Should Benefit the Workers Comp Exposure Base at Least Through 2013**

# **Inflation**

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

# Annual Inflation Rates, (CPI-U, %), 1990–2017F

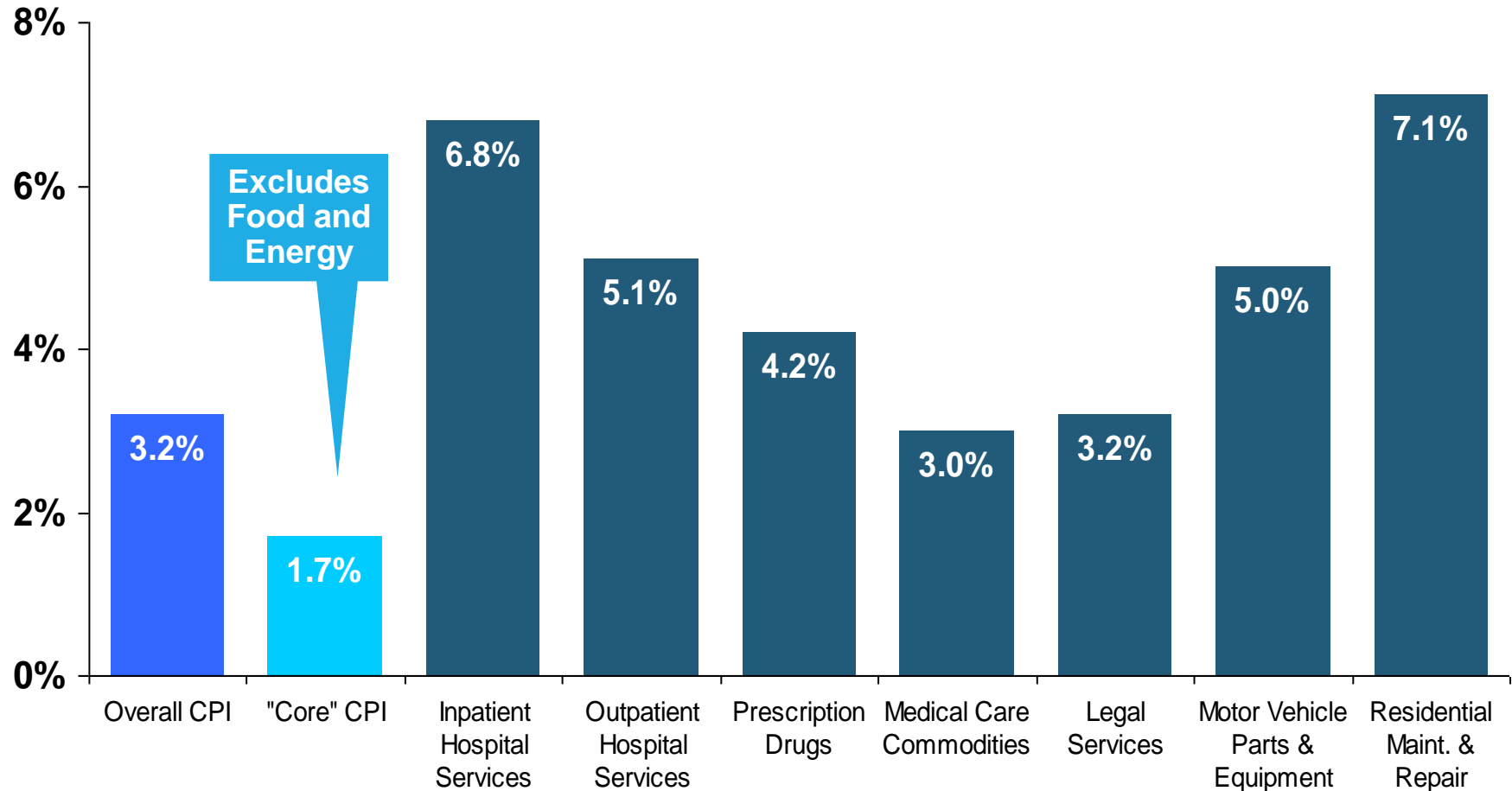
## Annual Inflation Rates (%)



**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**

# P/C Personal Insurance Claim Cost Drivers Grow Faster Than the Core CPI Suggests

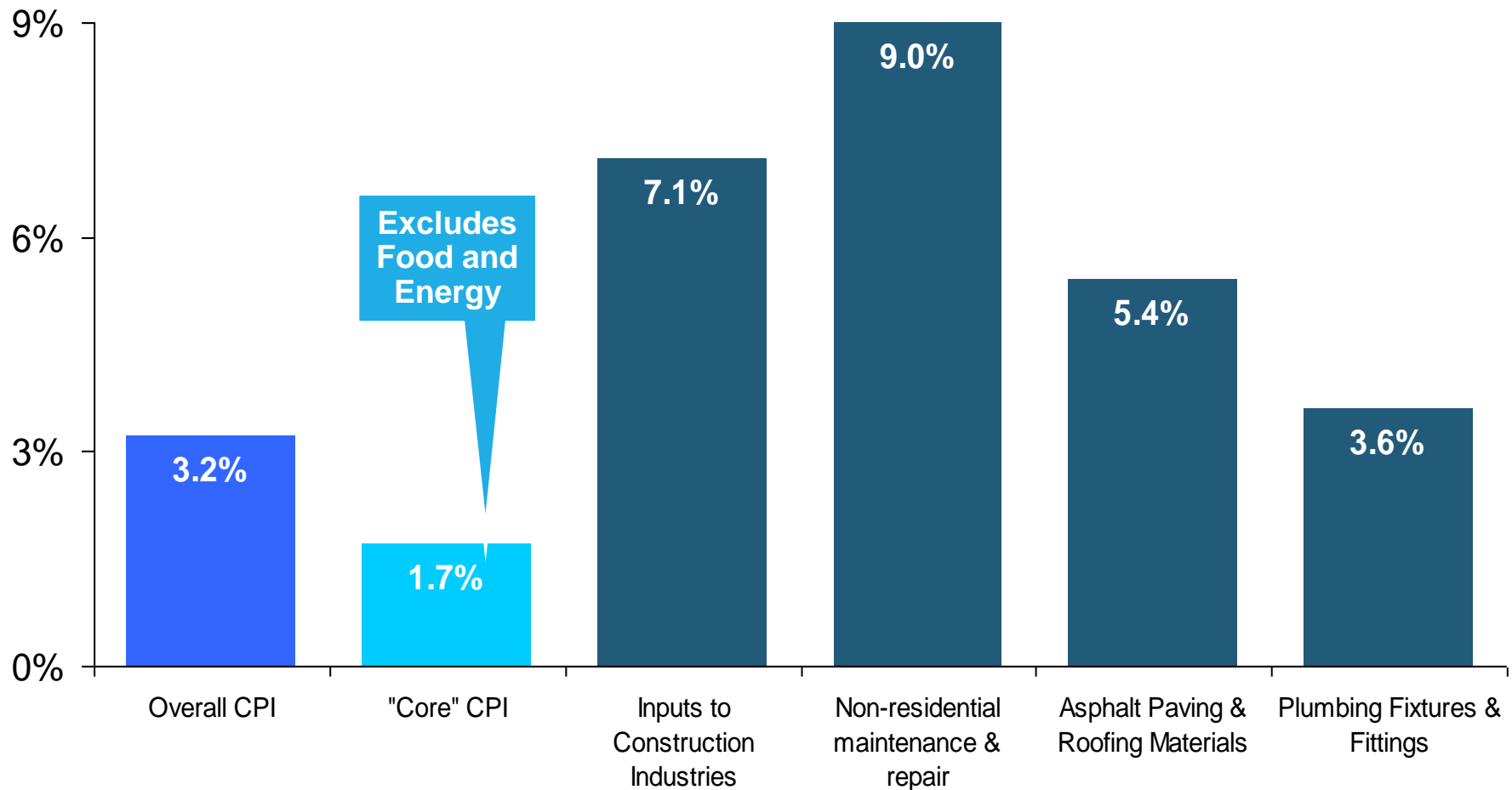
Price Level Change: 2011 vs. 2010



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

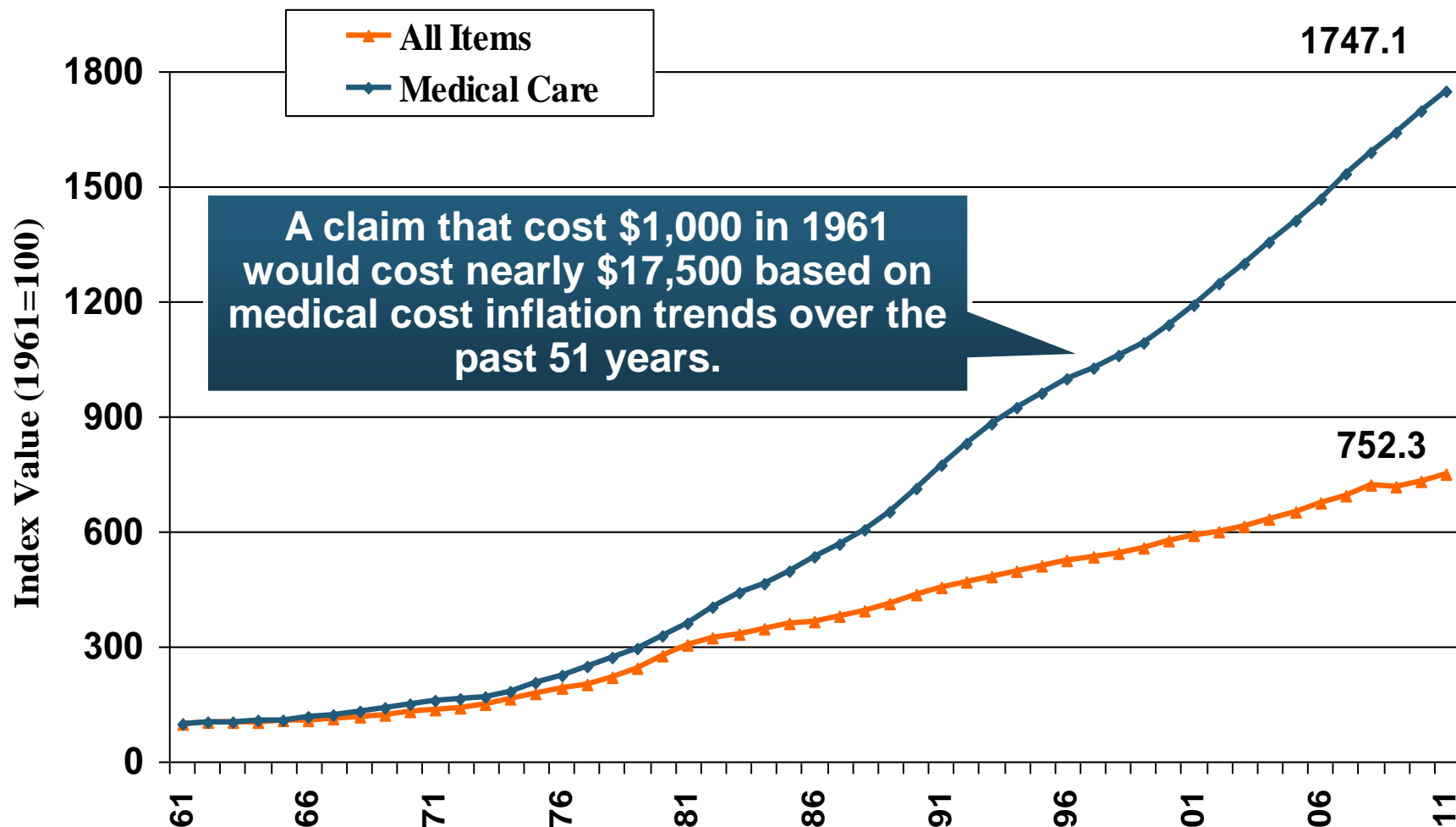
# P/C Commercial Property Insurance Claim Cost Drivers Grow Faster than the Overall CPI Suggests

Price Level Change: 2011 vs. 2010



**Copper prices spiked and retreated in 2011. In July its price was 33% higher than a year earlier; by November it cost 8% less than in November 2010.**

# Medical Cost Inflation Has Outpaced Overall Inflation For Over 50 Years



Source: Department of Labor (Bureau of Labor Statistics)

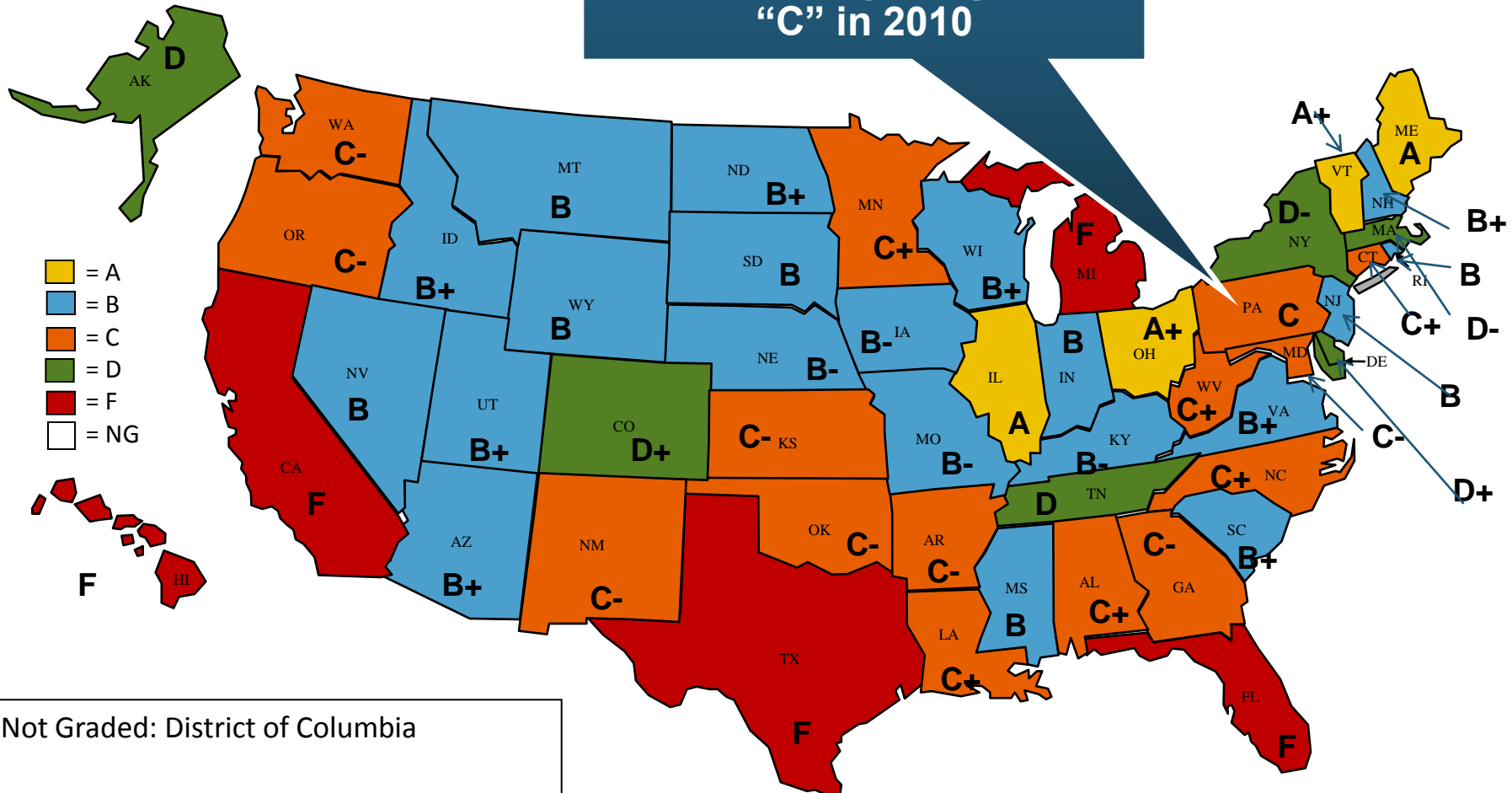
# **Regulatory Environment & Financial Services Reform**

**State Regulatory Environments  
Vary Tremendously and Can  
Impact Insurer Profitability and  
Ability to Compete**



# 2010 Property and Casualty Insurance Regulatory Report Card

Pennsylvania's regulatory environment got a grade of "C" in 2010



Insurance Information Institute Online:

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

*Thank you for your time  
and your attention!*

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