



Top Trends and Challenges in Auto & Home Insurance Markets

**NAMIC Personal Lines Seminar
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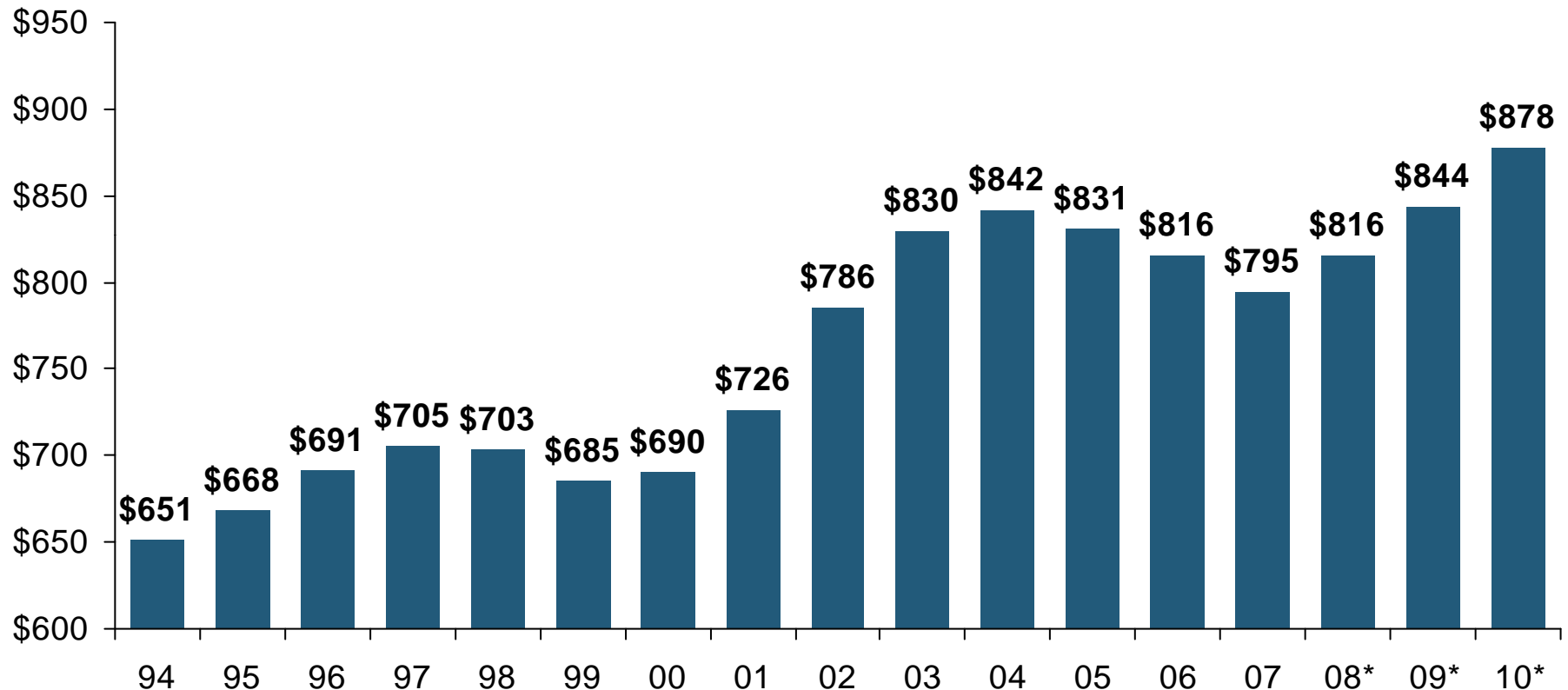
- Pricing Trends in Auto & Home Insurance
- Premium and Growth Trends: Auto and Home
- Exposure Trends in Auto and Home Insurance
- Economic Trends Impacting Auto and Home Insurance
- Key Cost Drivers in Auto Insurance
- Claim Trends in Auto Insurance
 - ◆ BI, PD Liability, PIP, Collision and Comprehensive
- Underwriting Trends in Auto and Home Insurance
- Trends in Fraud and Abuse
 - ◆ New York Case Study: No-Fault Claims Fraud
- Catastrophe Loss Trends
- Demographic Trends Impact Personal Lines
- Underwriting: The Technological Arms Race
- Q&A



Pricing Trends in Auto and Home Insurance

**Modest Improvements in Pricing
Can Help Profitability Amid
Slack Demand**

Average Expenditures on Auto Insurance

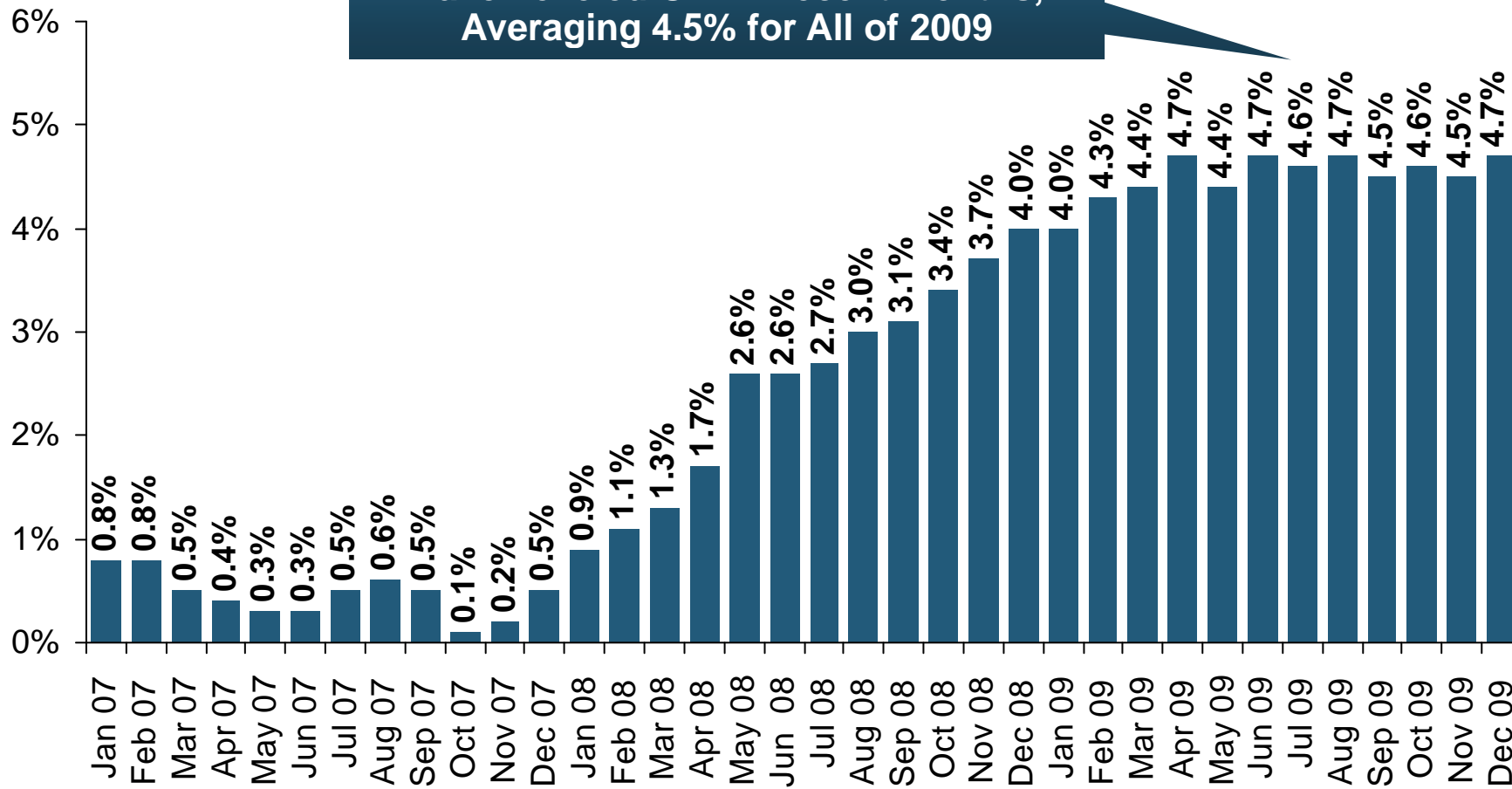


**Countrywide Auto Insurance Expenditures Increased
2.6% in 2008 and 3.5% Pace in 2009 (est.) and 4% in 2010 (est.)**

Monthly Change in Auto Insurance Prices*

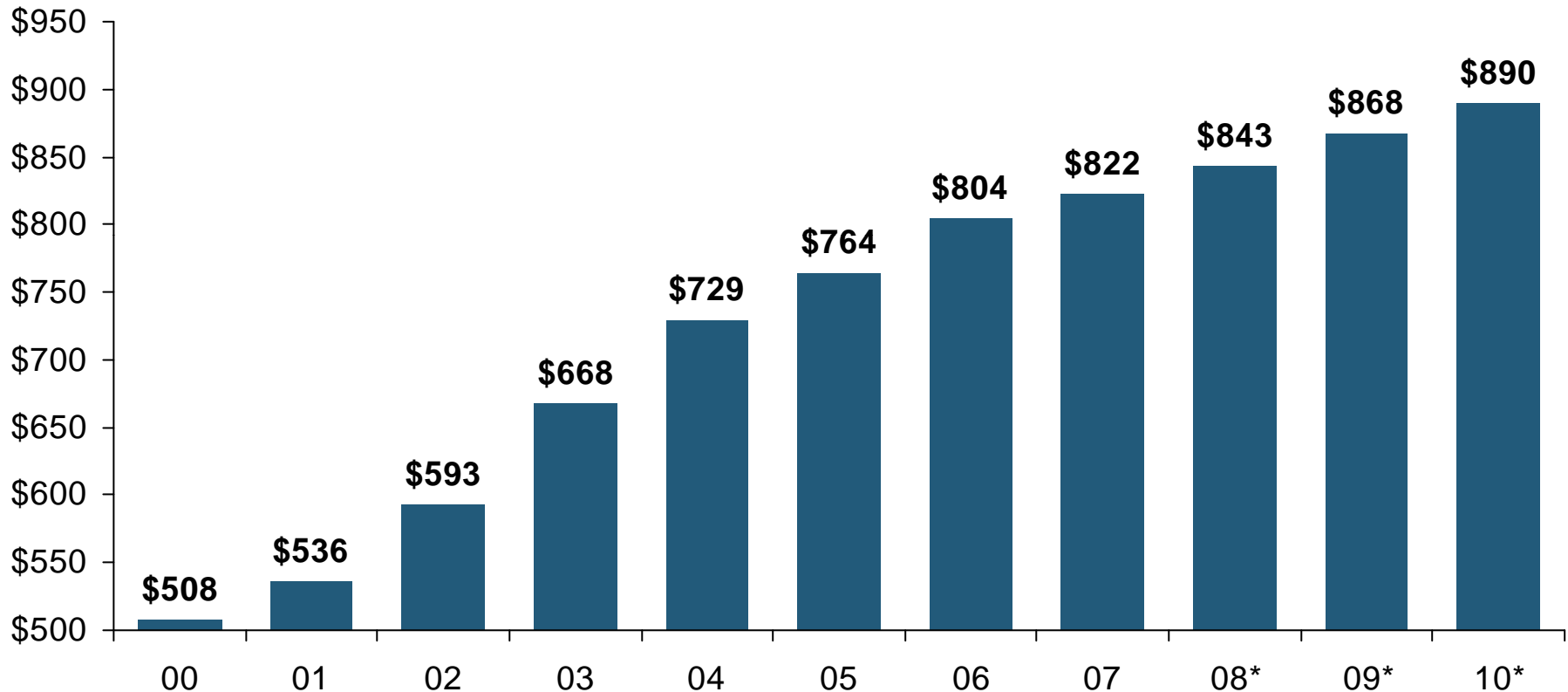
(Percent)

Auto Insurance Price Increases Seem to Have Levelled Off in Recent Months, Averaging 4.5% for All of 2009



* Percentage change from same month in prior year.
Source: US Bureau of Labor Statistics

Average Premium for Home Insurance Policies**

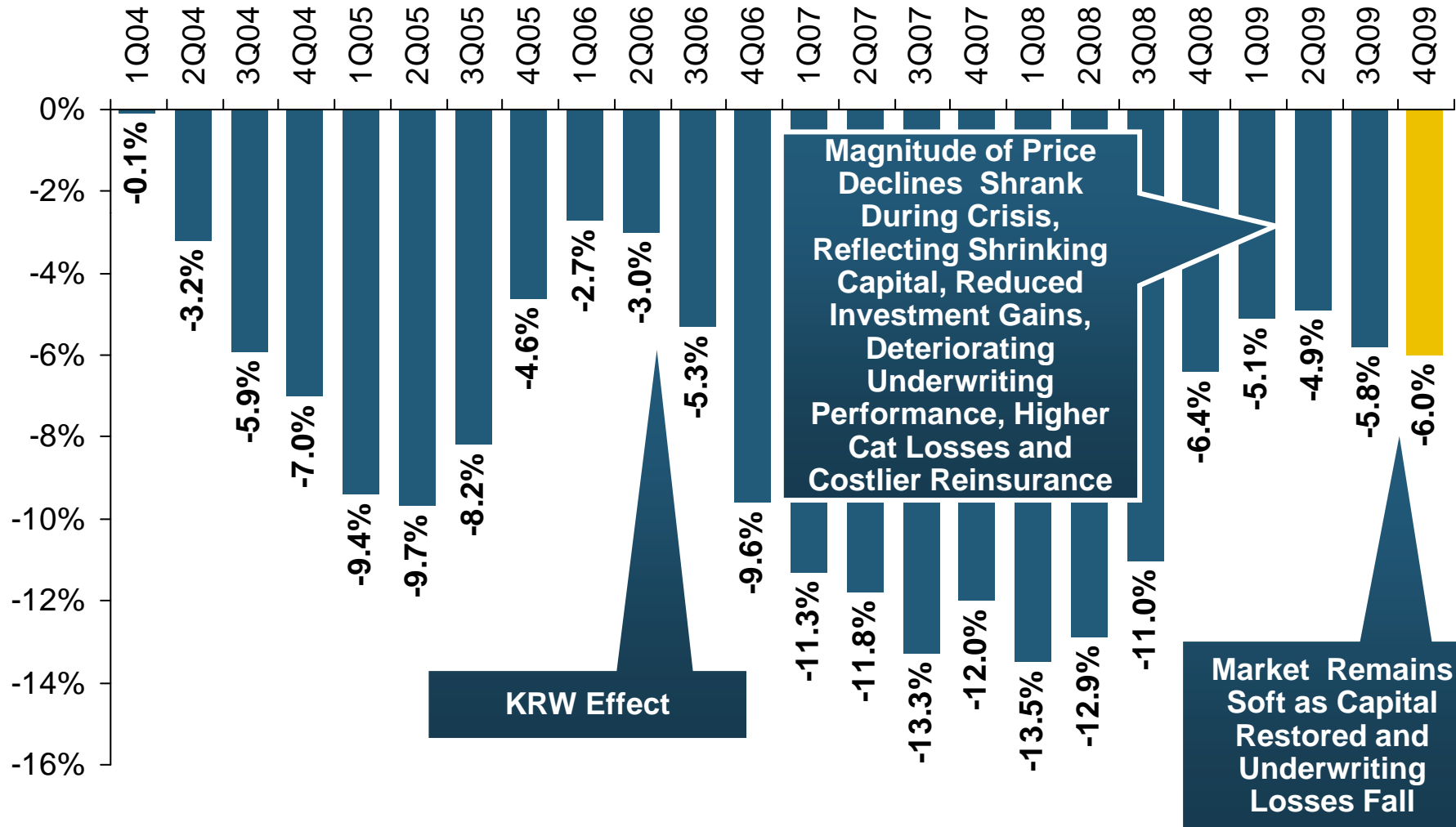


Countrywide Home Insurance Expenditures Increased by an Estimated 2.5% in 2008, 3% in 2009 and 2010

* Insurance Information Institute Estimates/Forecasts **Excludes state-run insurers.
Source: NAIC, Insurance Information Institute estimates 2008-2010 based on CPI data.

Average Commercial Rate Change, All Lines, (1Q:2004–4Q:2009)

(Percent)



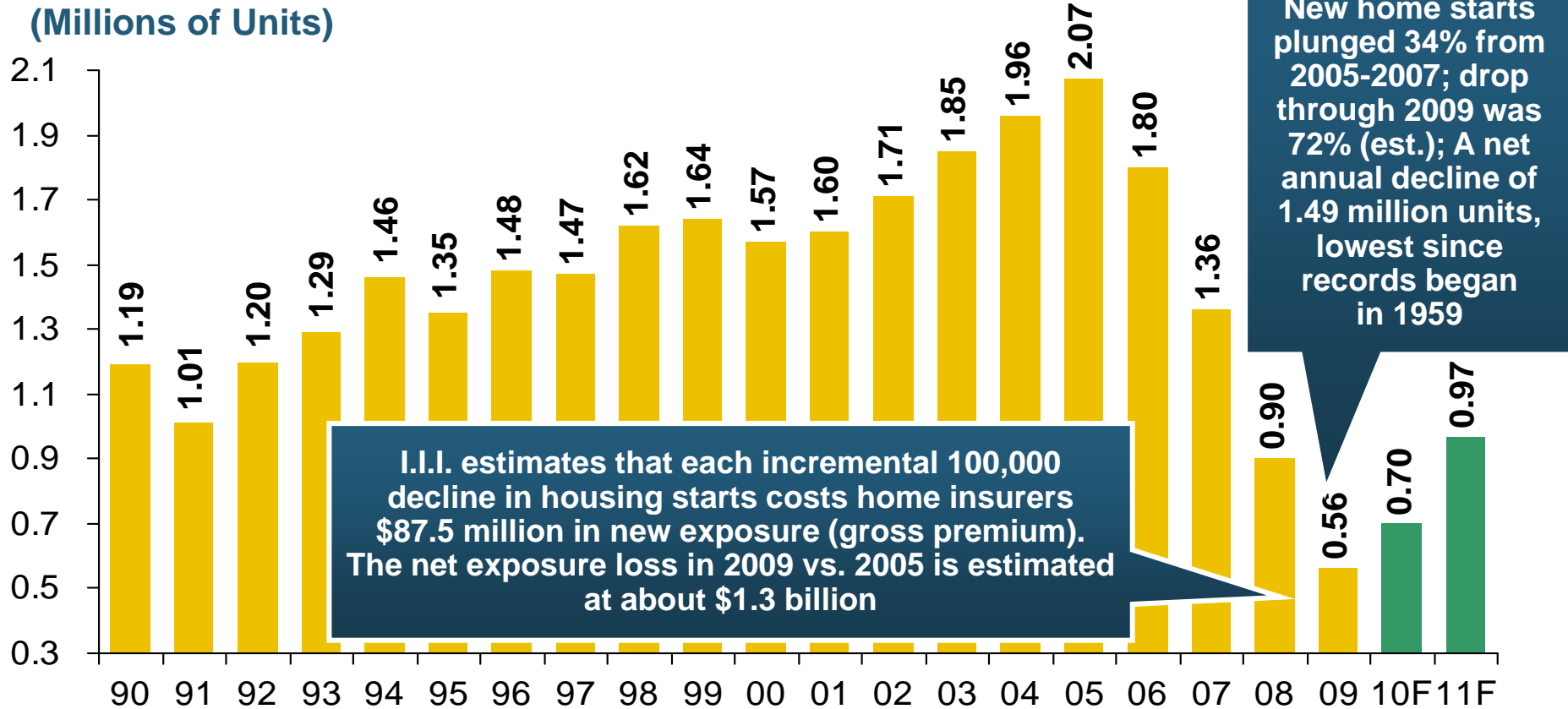
Source: Council of Insurance Agents & Brokers; Insurance Information Institute



Exposure Trends in Auto and Home Insurance

Recession, Unemployment, Credit Crisis Have Hurt Personal Lines Exposures, But a Gradual Recovery Is Underway

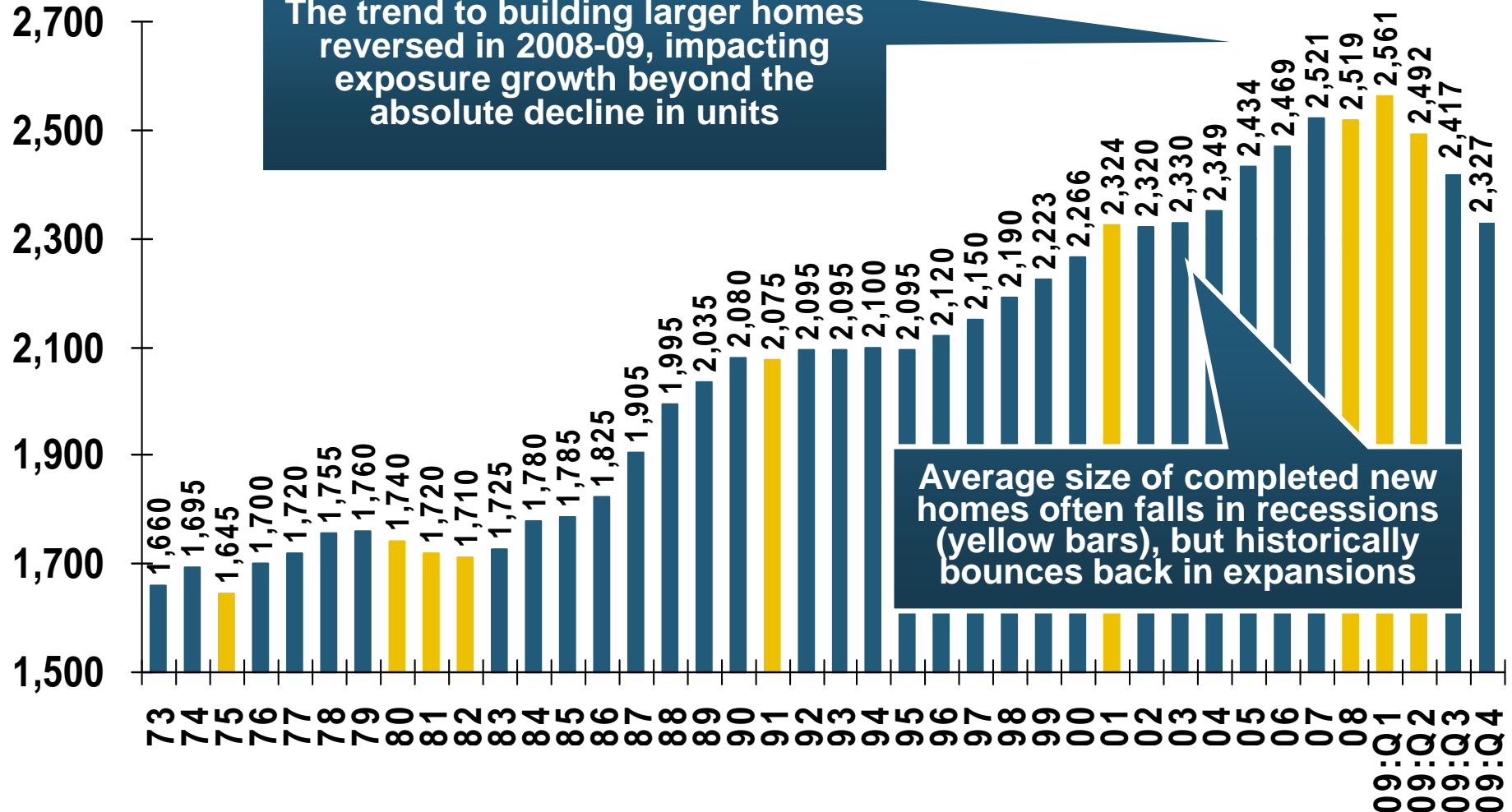
New Private Housing Starts, 1990-2011F



**Little Exposure Growth Likely for Homeowners Insurers
Due to Weak Home Construction Forecast for 2010-2011.
Also Affects Commercial Insurers with Construction Risk Exposure, Surety**

Average Square Footage of Completed New Homes in U.S., 1973-2010:Q4

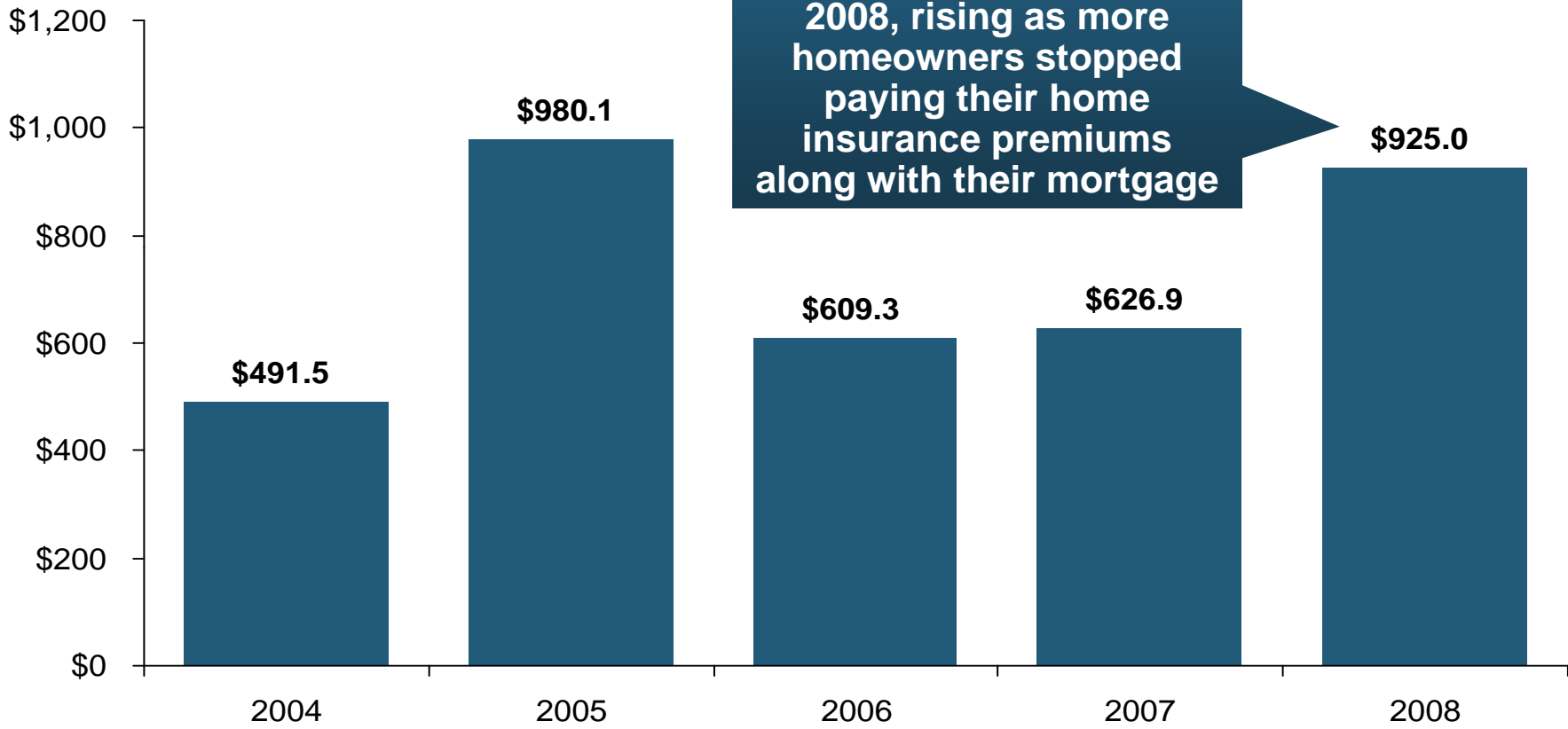
Square Ft



Source: U.S. Census Bureau: http://www.census.gov/const/www/quarterly_starts_completions.pdf; Insurance Information Institute.

Value of Claims Paid to Policyholders with Creditor-Placed Homeowners Insurance, 2004-2008

(Millions)



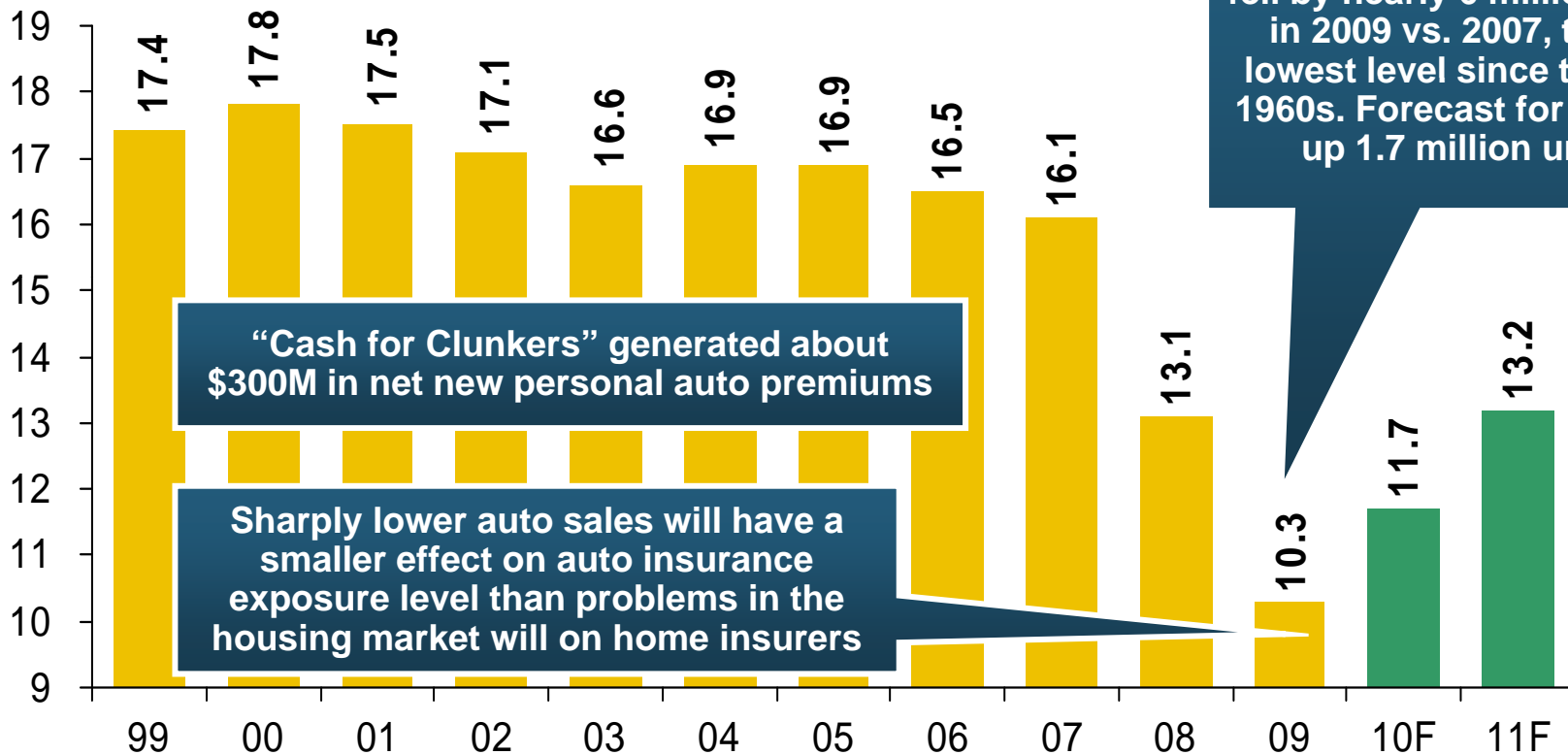
Creditor-Placed insurers paid nearly \$1 billion in 2008, rising as more homeowners stopped paying their home insurance premiums along with their mortgage

Creditor-Placed Home Insurers paid \$3.6 billion in claims on behalf of policyholders from 2004-2008. If lenders had not purchased this coverage on behalf of homeowners, tens of thousands of families would have had no source of recovery and would still be responsible for mortgage payments.

Source: Insurance Information Institute calculations based on data from NAIC Credit Insurance Experience Exhibit.

Auto/Light Truck Sales, 1999-2011F

(Millions of Units)



“Cash for Clunkers” generated about \$300M in net new personal auto premiums

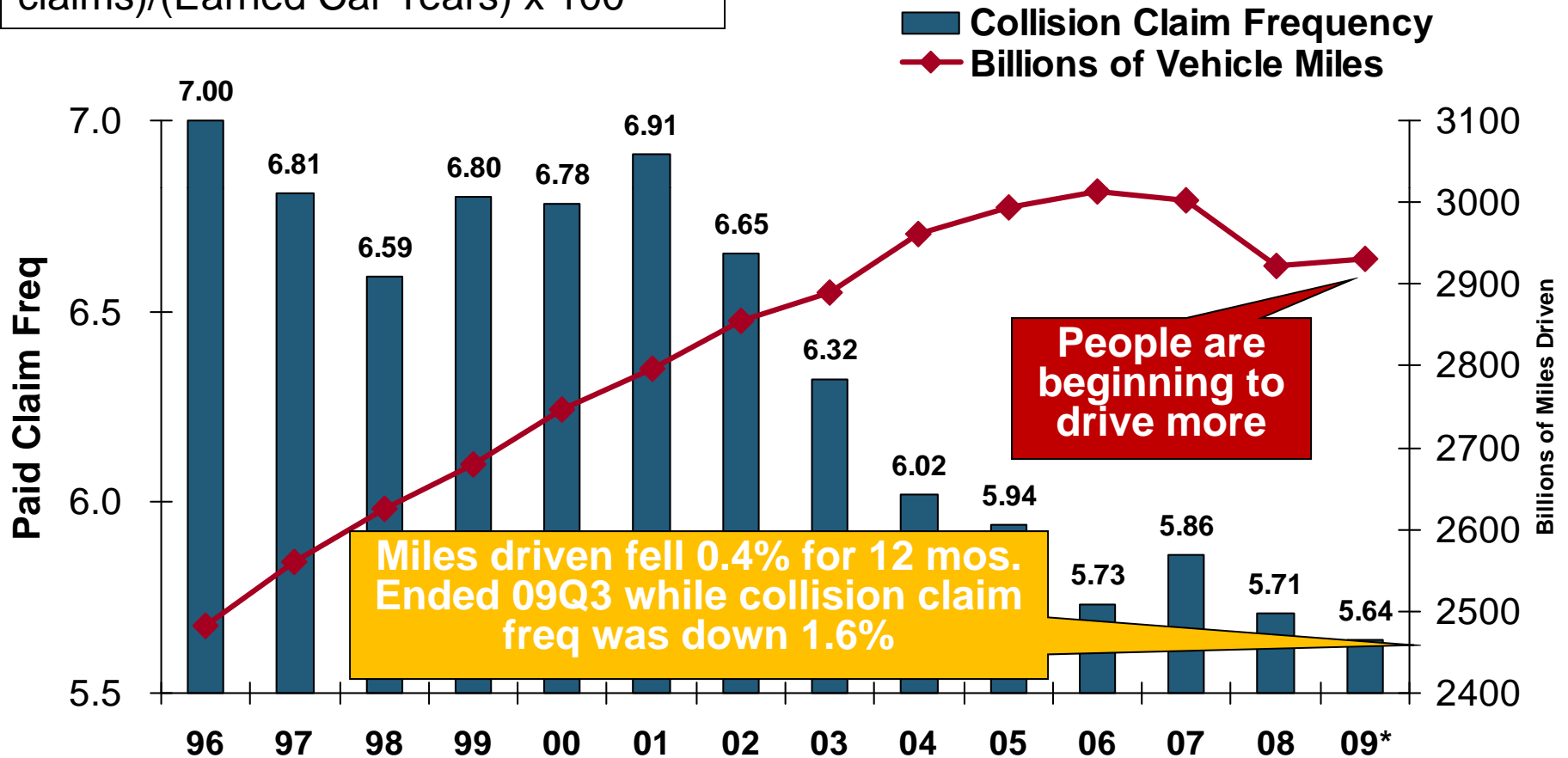
Sharply lower auto sales will have a smaller effect on auto insurance exposure level than problems in the housing market will on home insurers

New auto/light truck sales fell by nearly 6 million units in 2009 vs. 2007, to the lowest level since the late 1960s. Forecast for 2010 is up 1.7 million units

Car & Truck Sales Will Begin to Recover but Weak Economy, Credit Woes Are Still Restraining Sales; Gas Prices Could Once Again Become a Factor Too

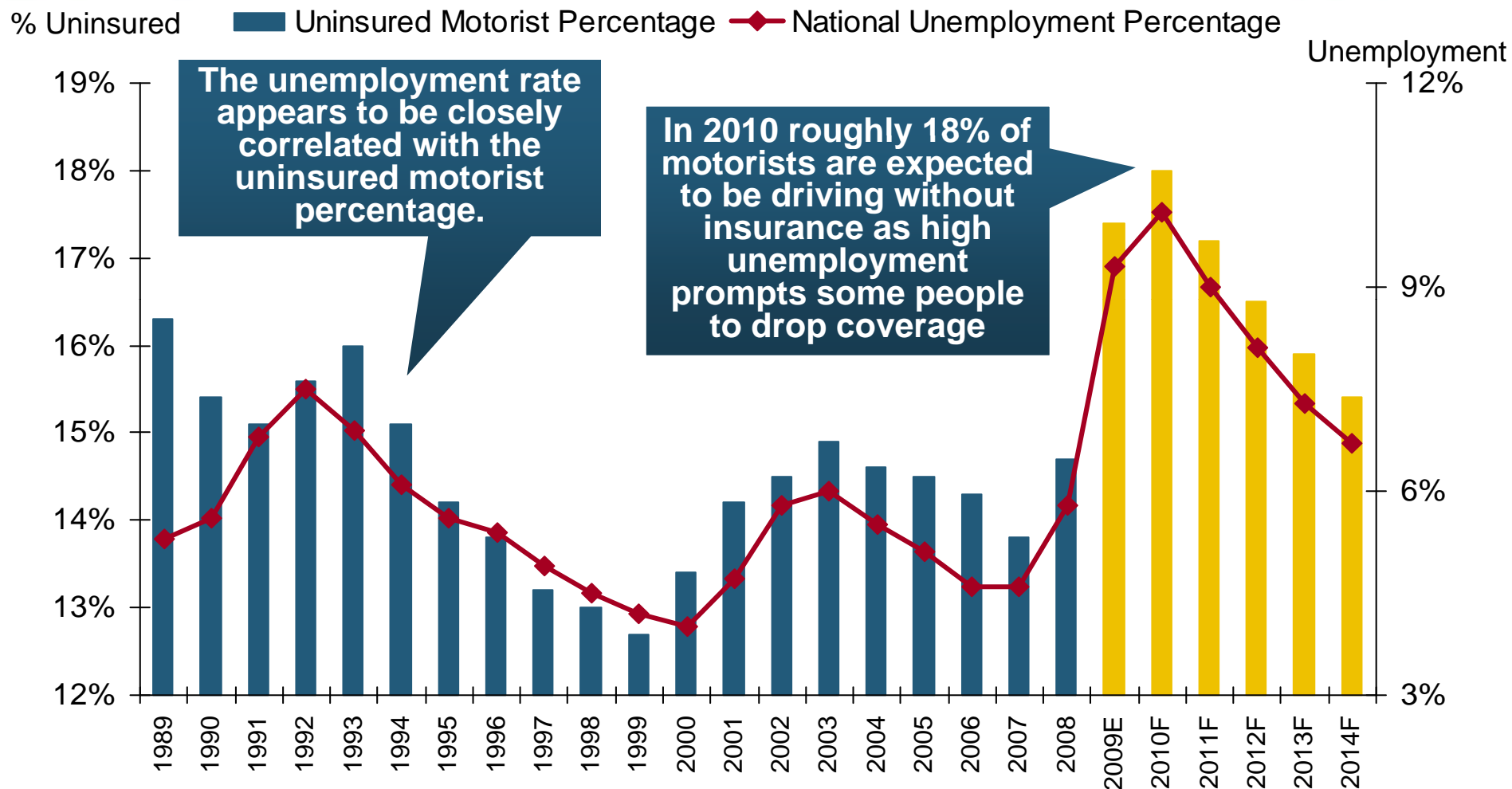
Do Changes in Miles Driven Affect Auto Collision Claim Frequency?

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



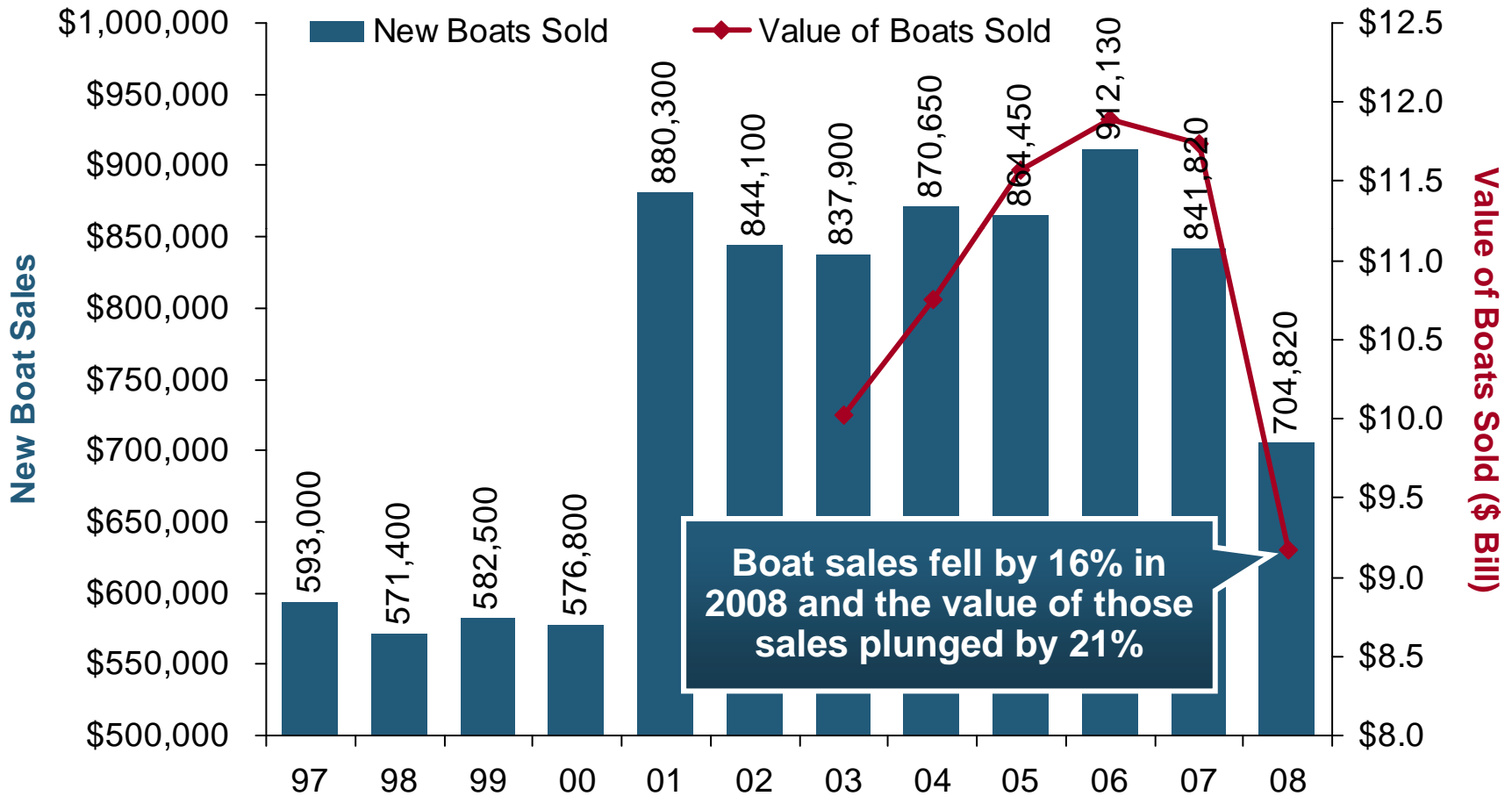
Sources: Federal Highway Administration (<http://www.fhwa.dot.gov/ohim/tvtw/09dectvt/page2.cfm>); ISO Fast Track Monitoring System, *Private Passenger Automobile Fast Track Data: 3rd Qtr. 2009*, published Dec. 31, 2009 and earlier reports. *2009 ISO/FHWA figure is for 12 months ending 9/30/2009.

Unemployment's Effect on Percent of Uninsured Motorists, 1989-2014F



Source: *Uninsured Motorists*, 2008 Edition, Insurance Research Council; Blue Chip Economic Indicators (Unemployment data, including forecasts); Insurance Information Institute.

New Boat Sales Symptomatic of Decline in Insured Exposure Growth for Luxury/Discretionary Items



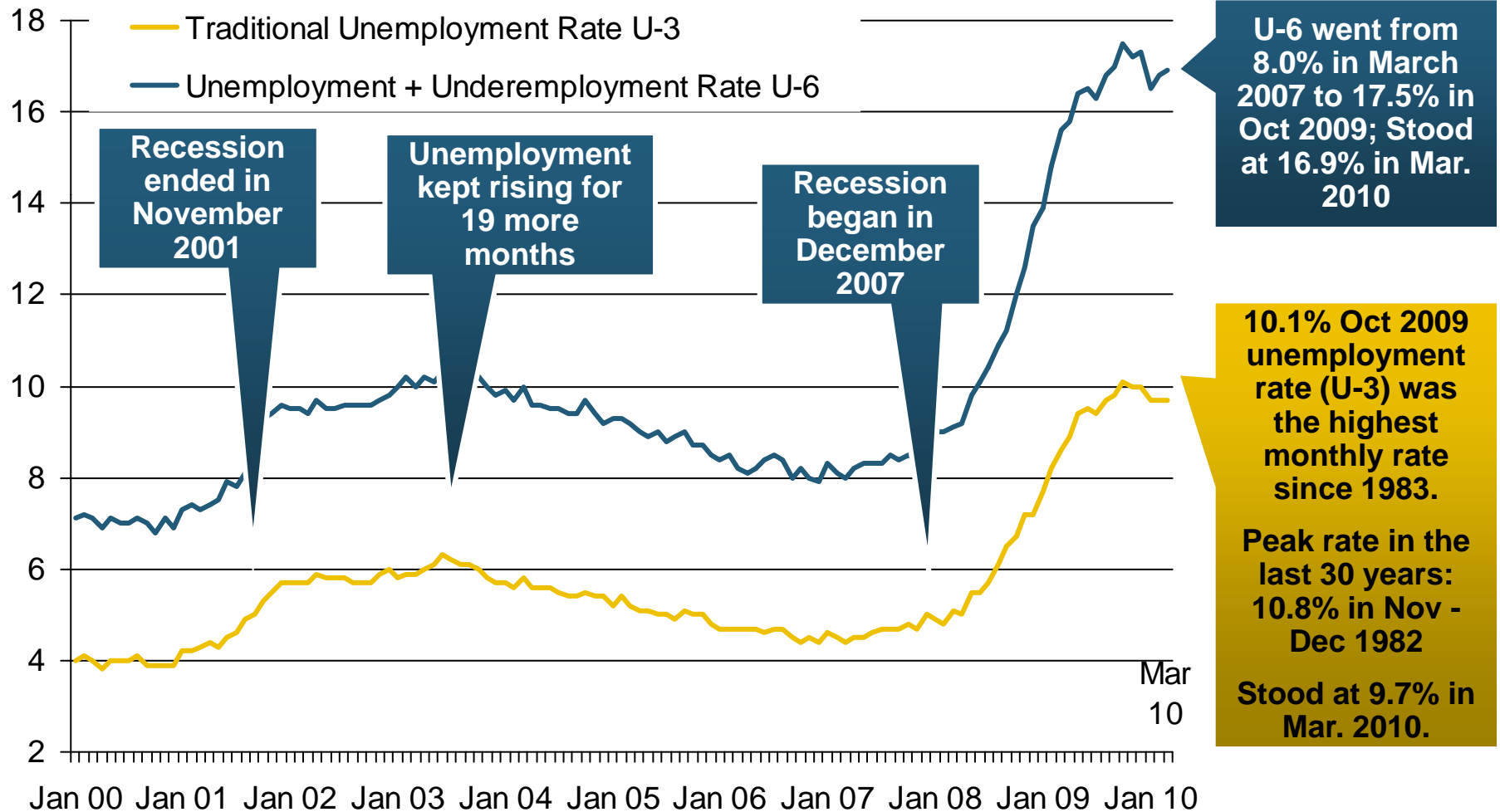


Economic Trends Impacting Auto/Home Insurance Markets

Recession, Recovery Can Influence Claiming Behavior

Unemployment and Underemployment Rates: Rocketing Up in 2008-09

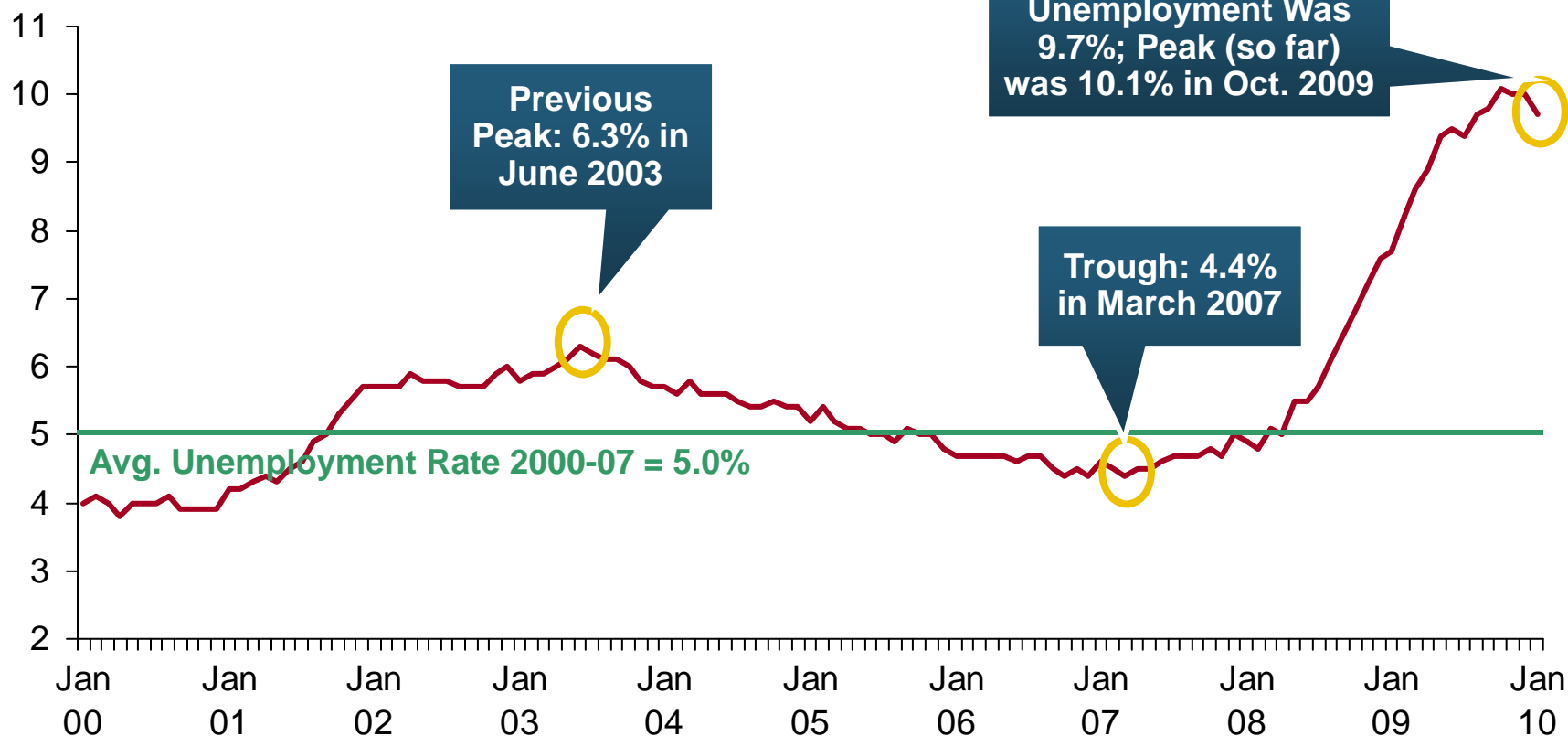
January 2000 through March 2010, Seasonally Adjusted (%)



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

Unemployment Rate: Has it Peaked?

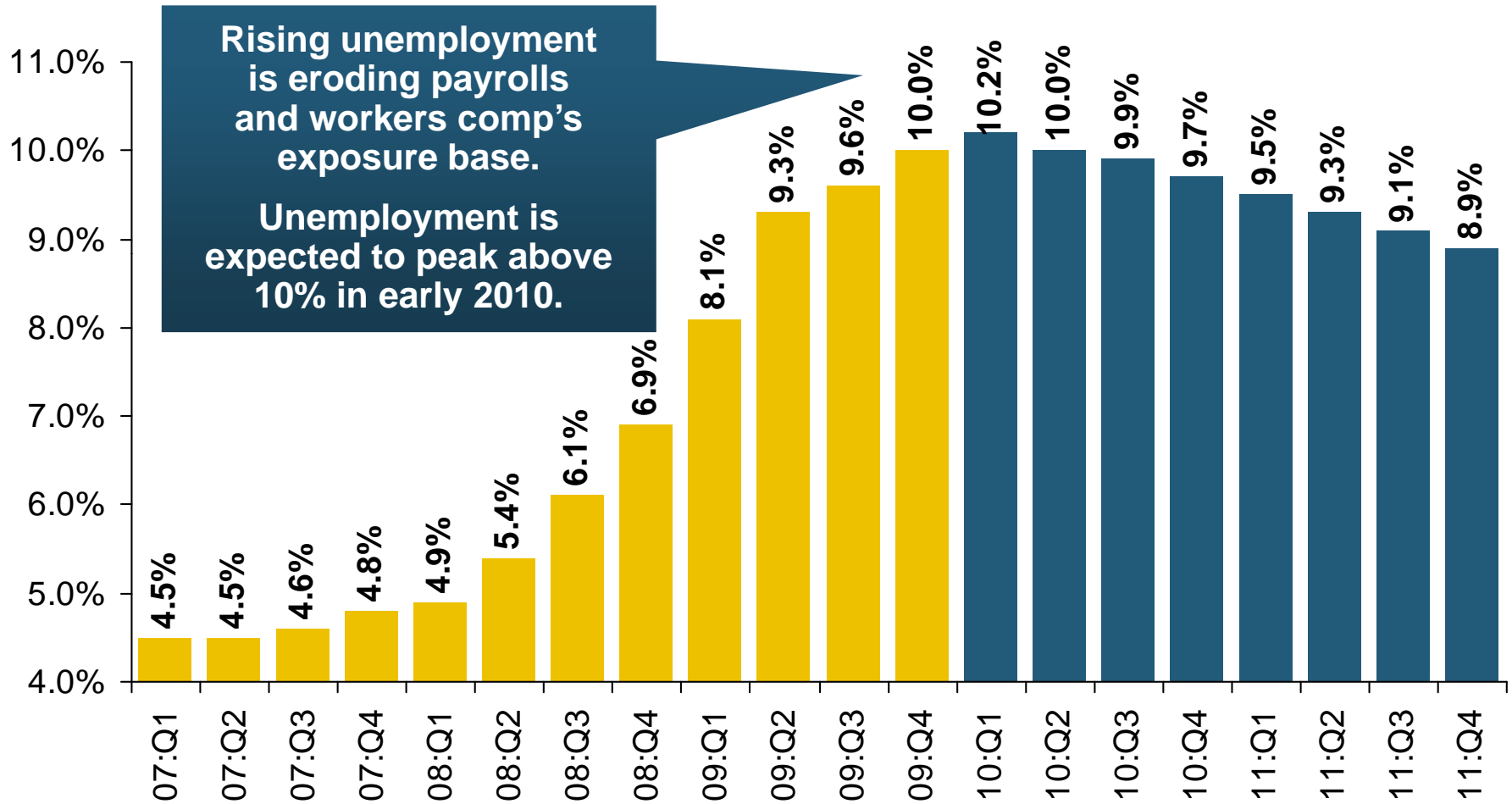
January 2000 through January 2010* (%)



Unemployment Will Likely Rise Again During This Cycle, Impacting Payroll Sensitive P/C and L/H Exposures

US Unemployment Rate

2007:Q1 to 2011:Q4F*

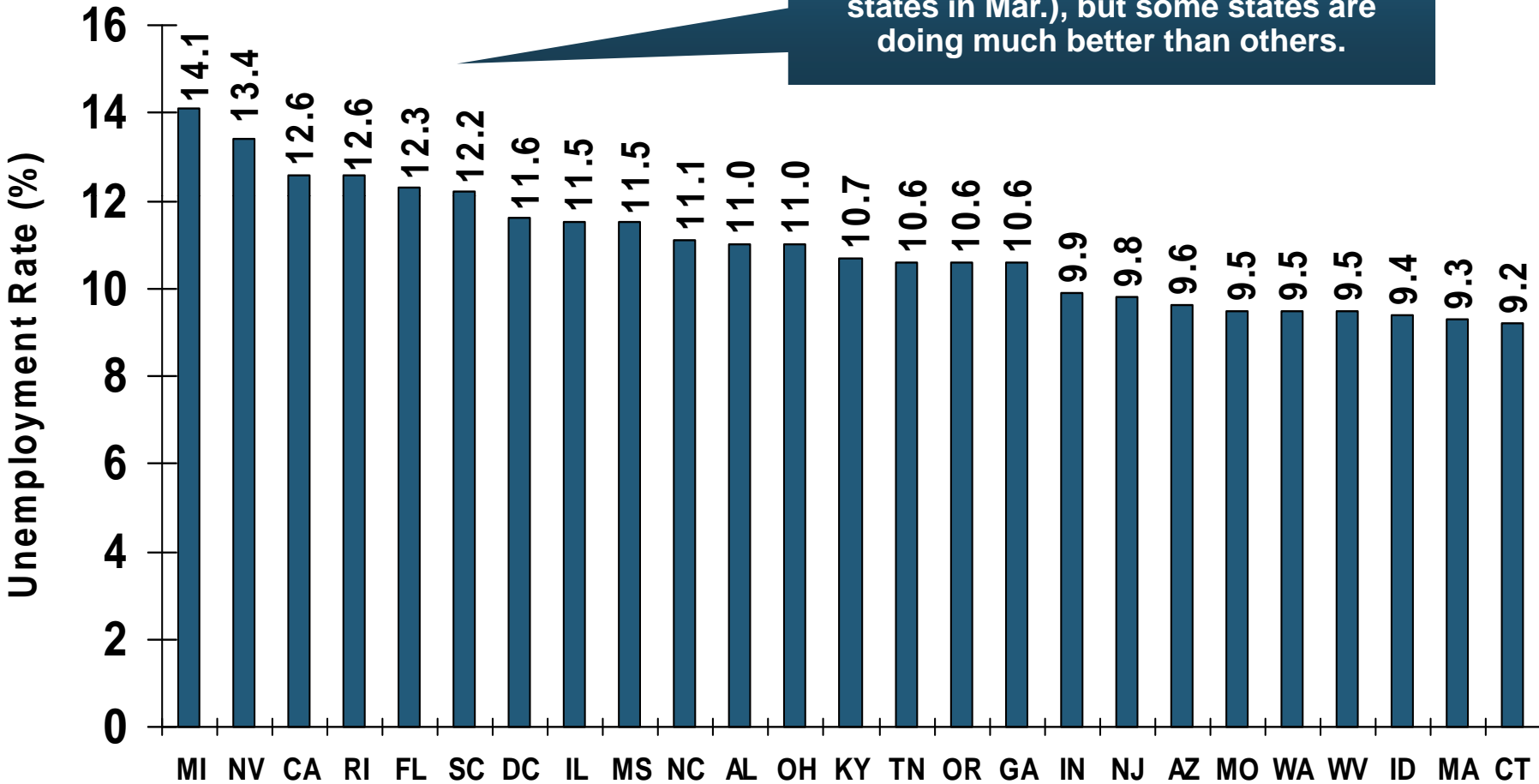


*  = actual;  = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (2/10); Insurance Information Institute

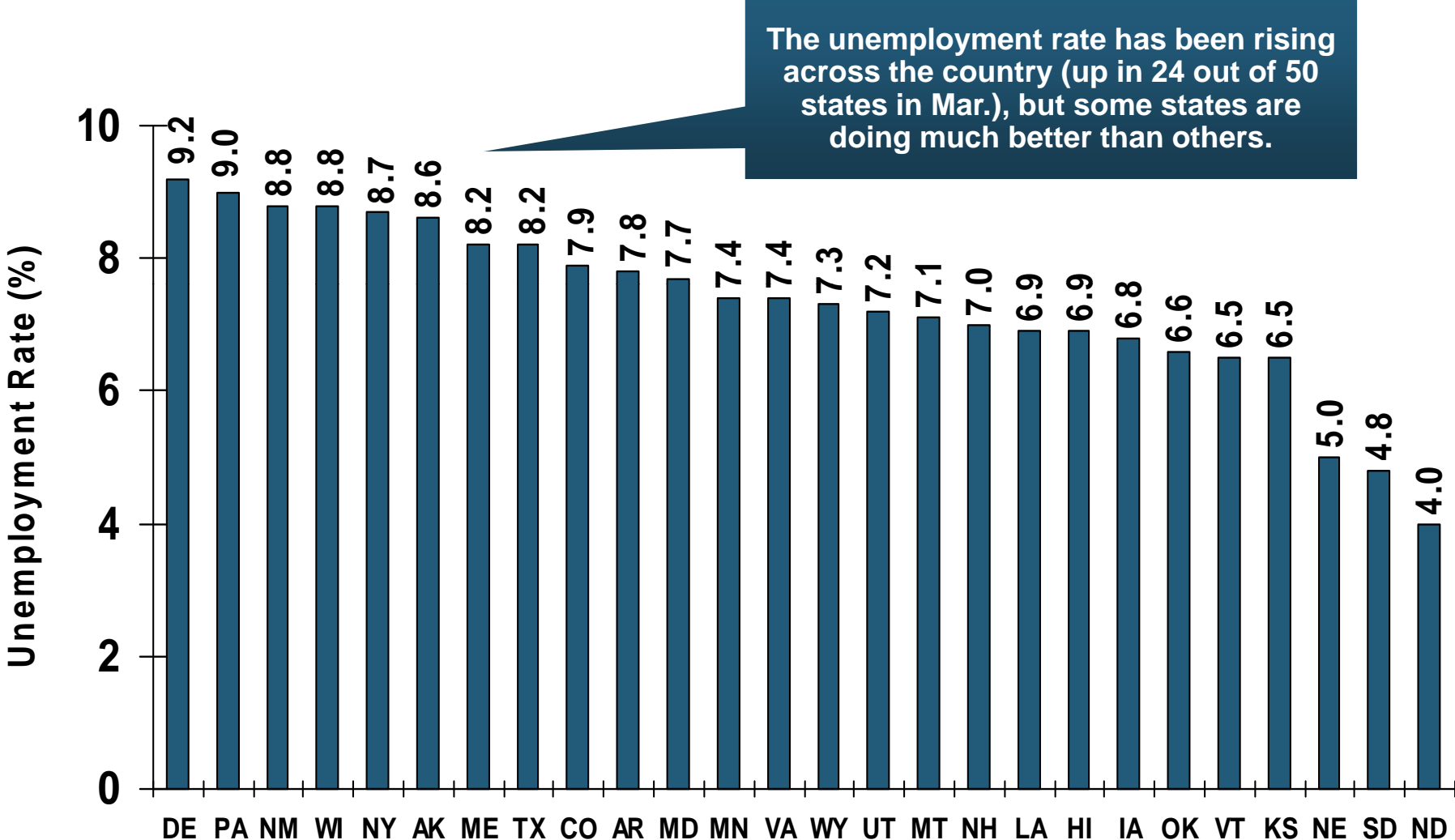
Unemployment Rates by State, March 2010: Highest 25 States*

The unemployment rate has been rising across the country (up in 24 out of 50 states in Mar.), but some states are doing much better than others.



*Provisional figures for March 2010, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

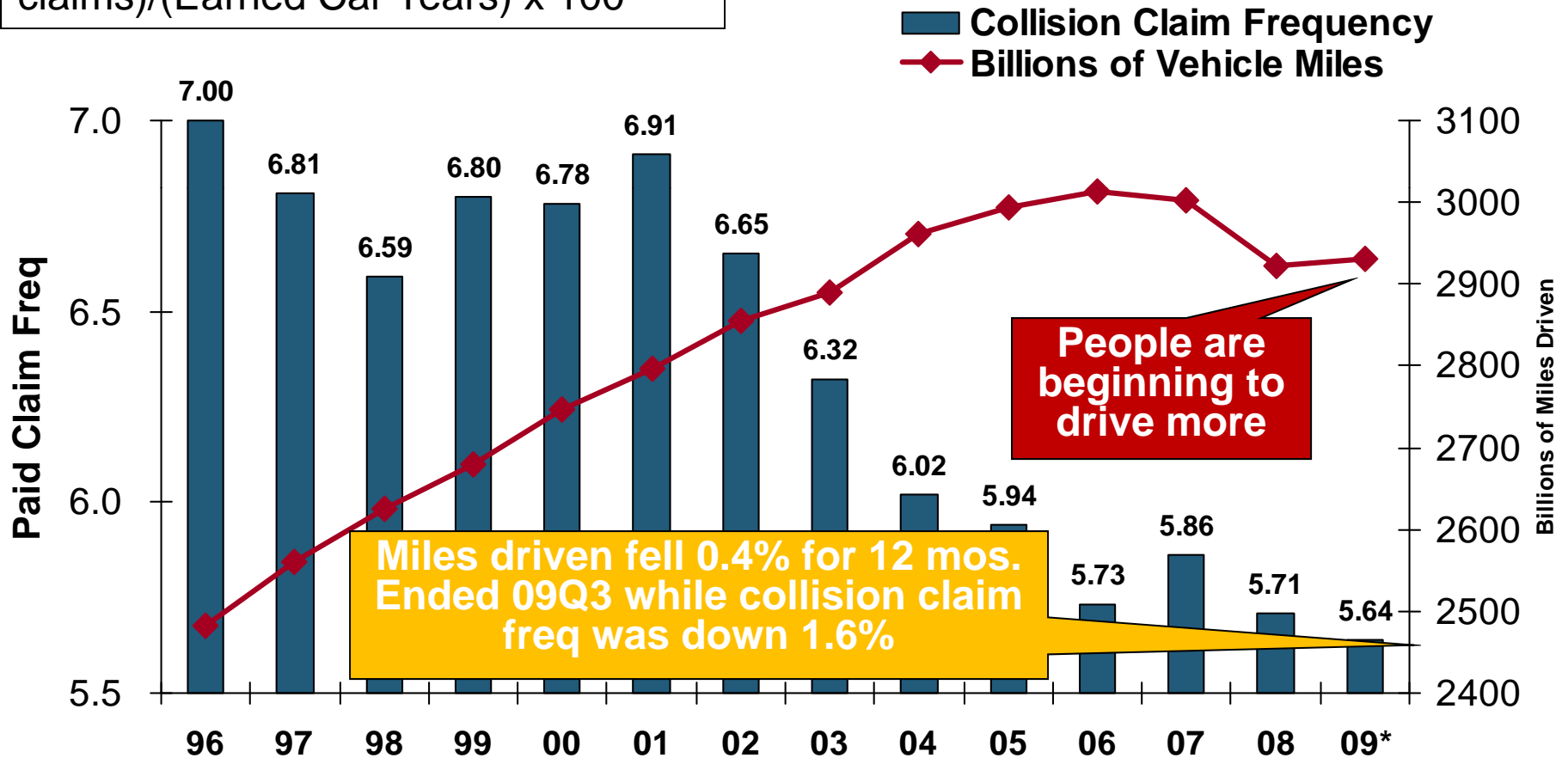
Unemployment Rates By State, March 2010: Lowest 25 States*



*Provisional figures for March 2010, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

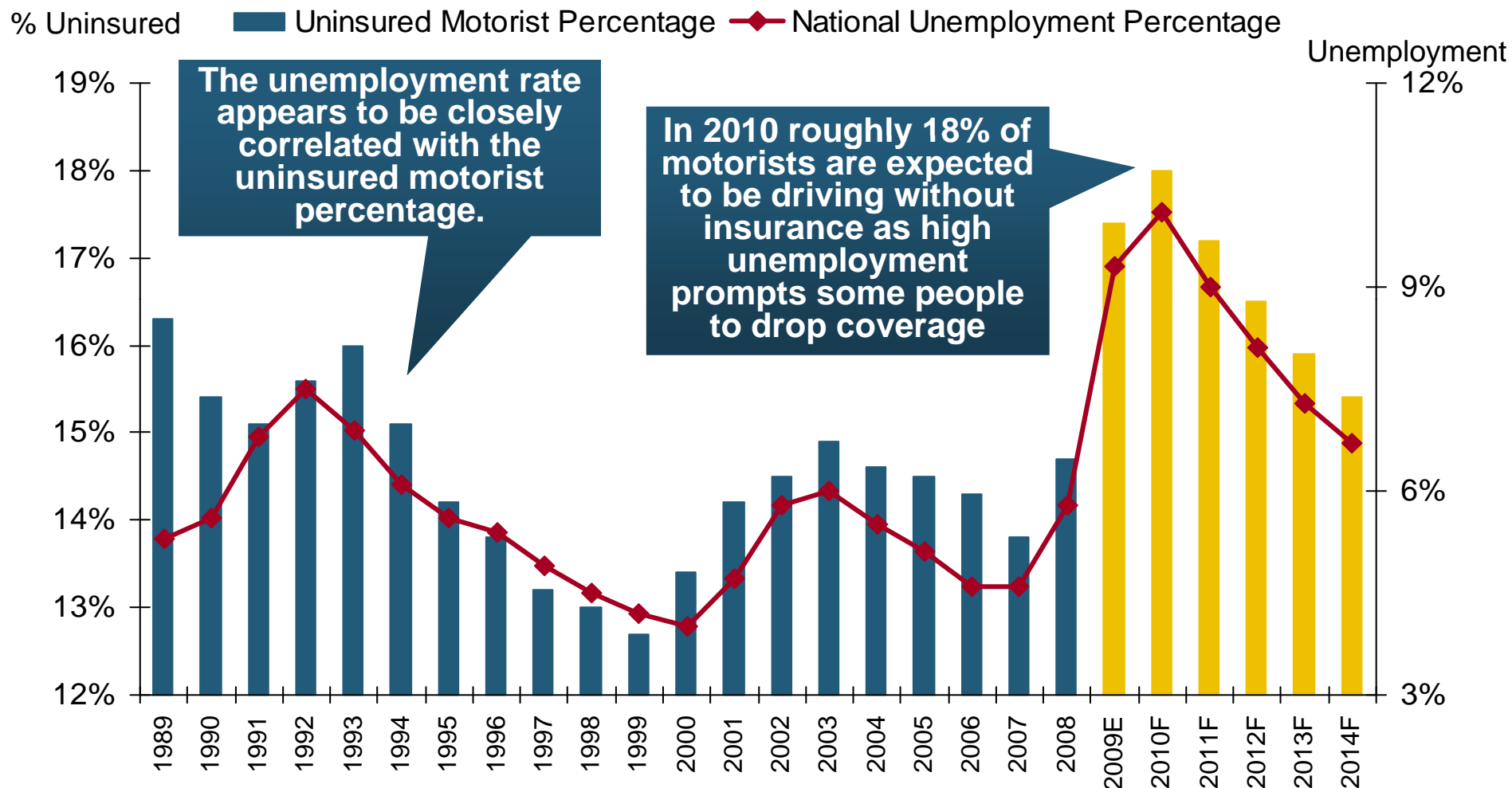
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Unemployment's Effect on Percent of Uninsured Motorists, 1989-2014F



Source: *Uninsured Motorists*, 2008 Edition, Insurance Research Council; Blue Chip Economic Indicators (Unemployment data, including forecasts); Insurance Information Institute.

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

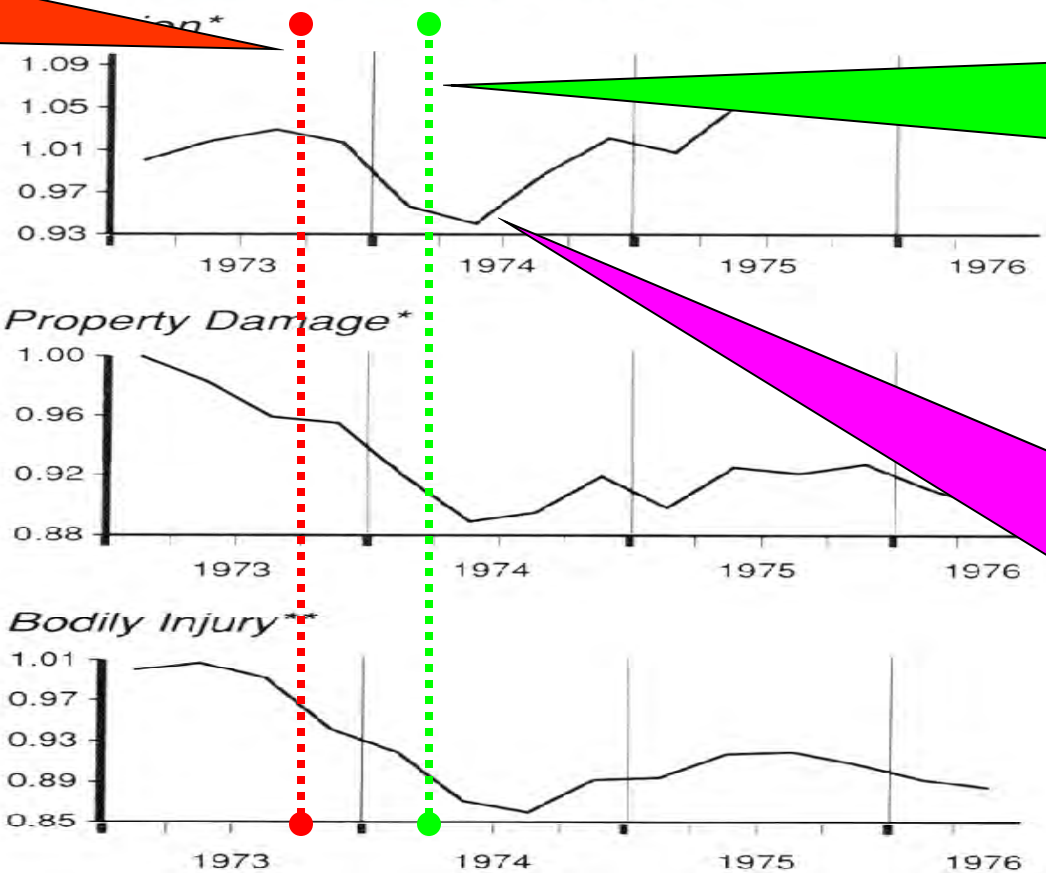
Oct. 17, 1973: Arab oil embargo begins

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

Figure 6

The First Crisis—Frequency



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

Frequency began to rebound almost immediately after the embargo ended

*Seasonally Adjusted, Quarterly Paid Fast Track data indexed to First Quarter 1973.
 **ISO Paid Data, year-ended quarter indexed to First Quarter 1973.

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

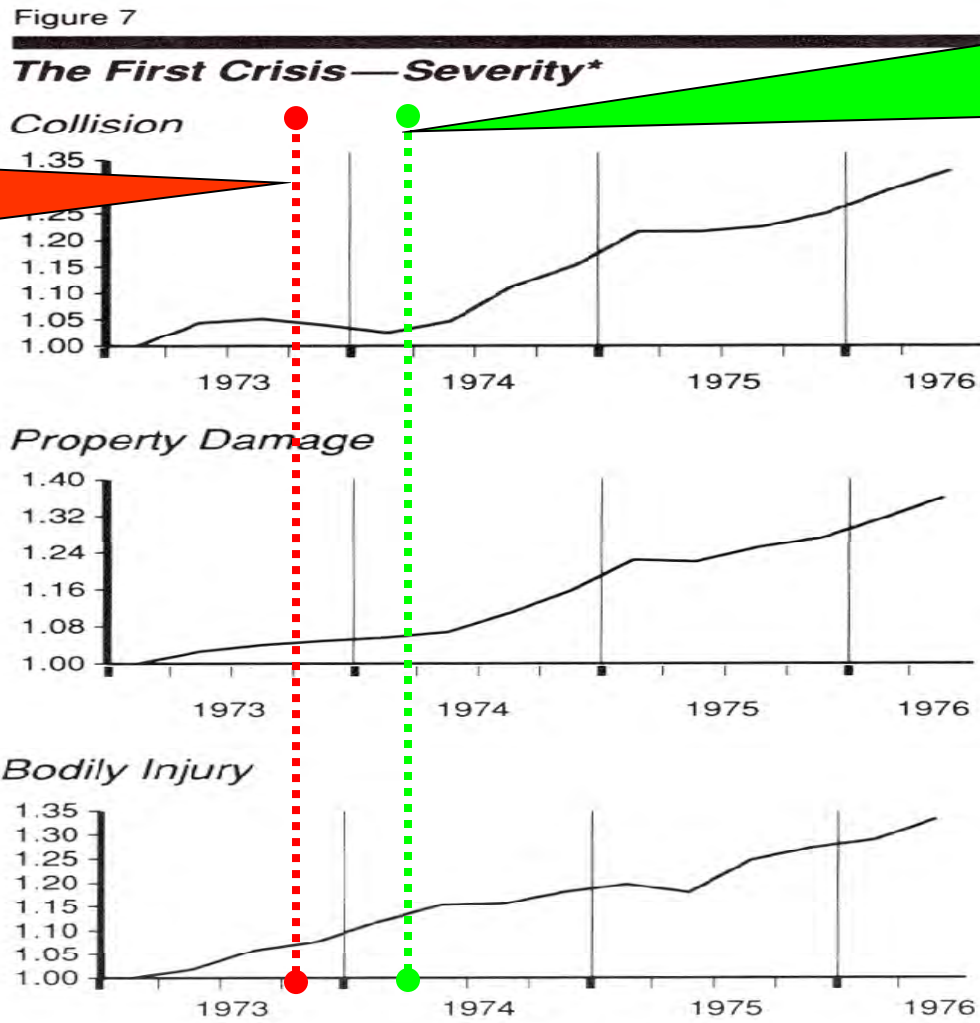


Oct. 17, 1973: Arab oil embargo begins

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

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

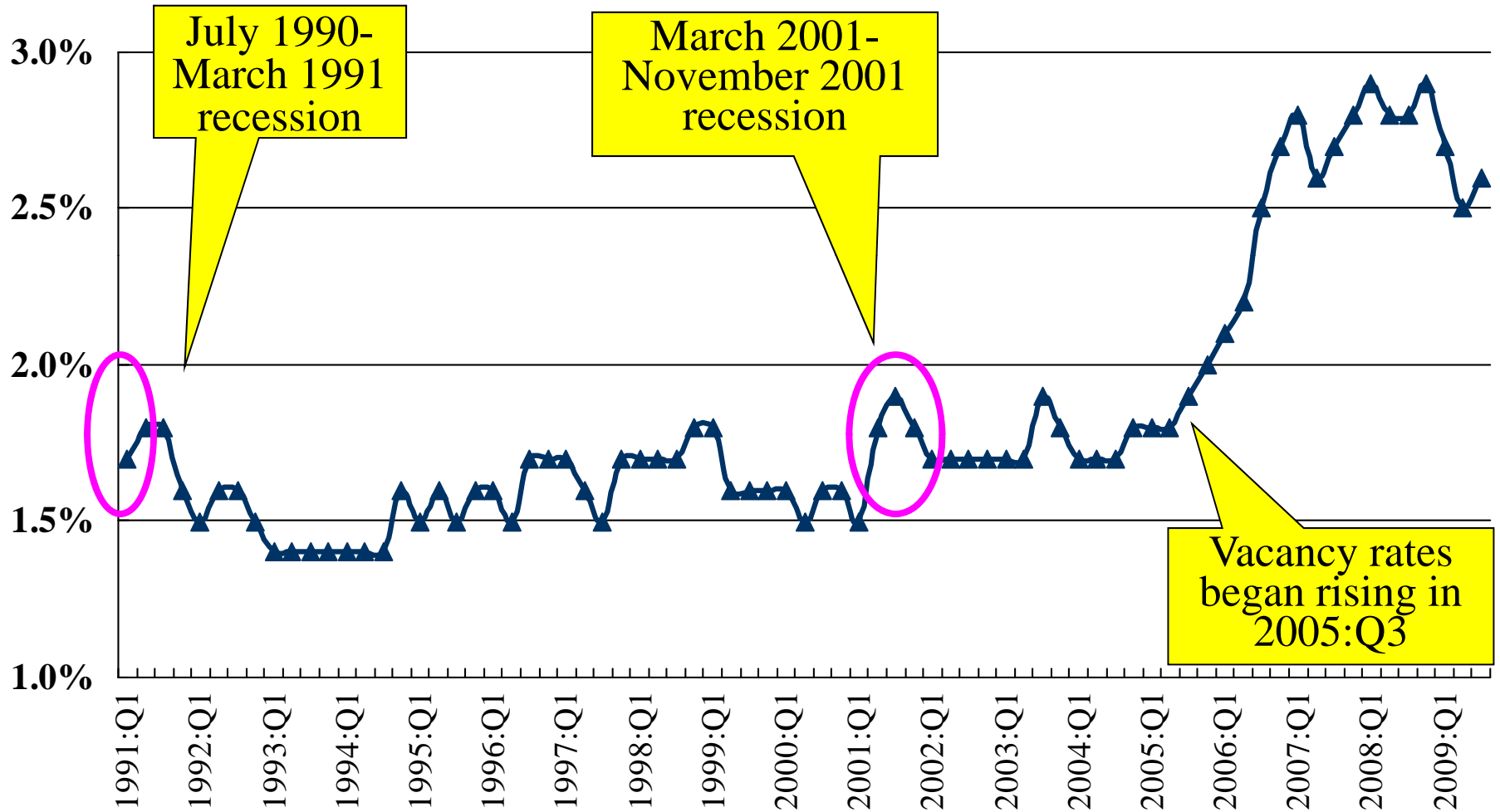
Driving Stats
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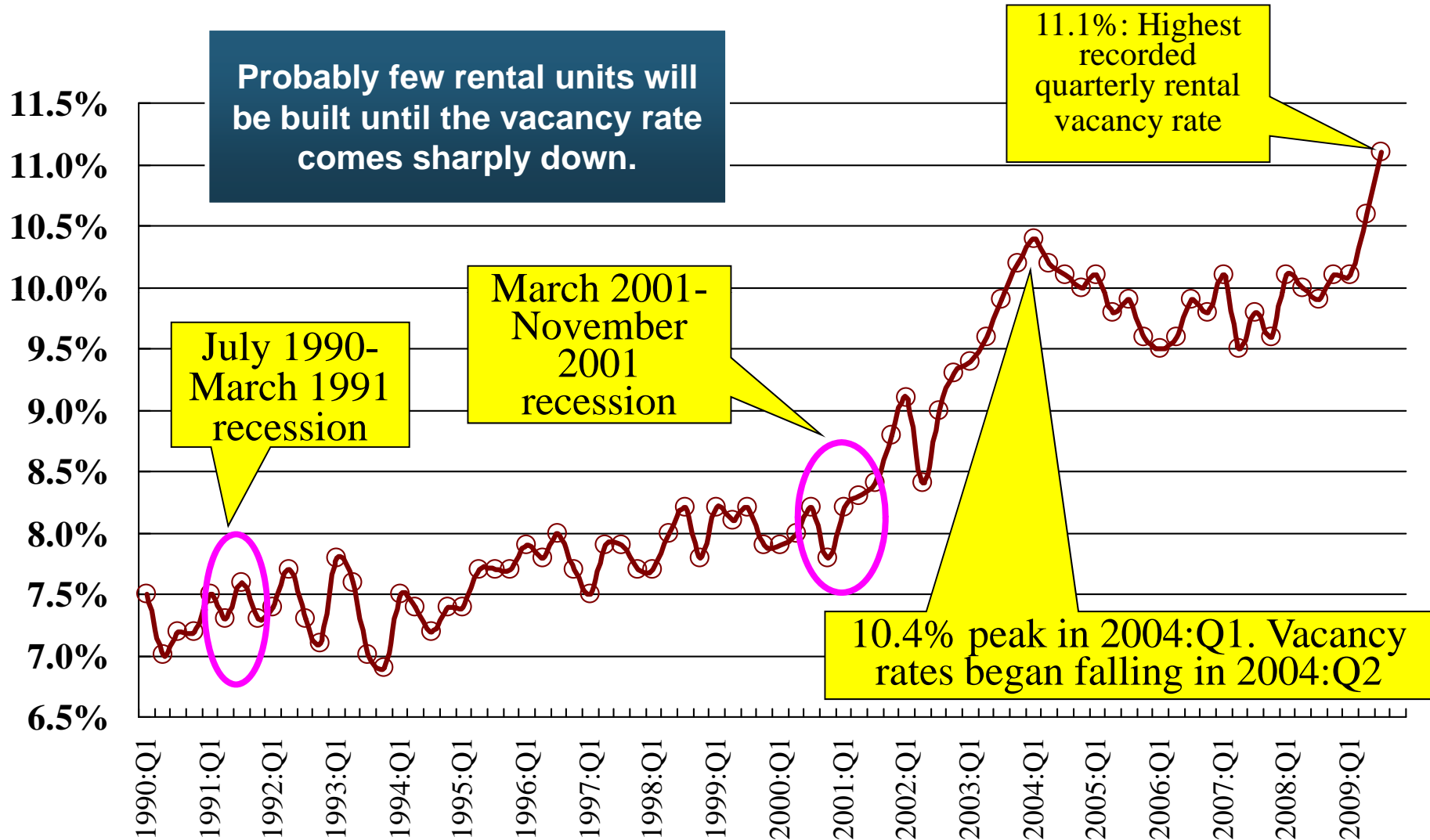
*Seasonally Adjusted, Quarterly Paid Fast Track data indexed to First Quarter 1973.

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

Estimated Homeowner Vacancy Rates, Quarterly, 1991-2009:Q3

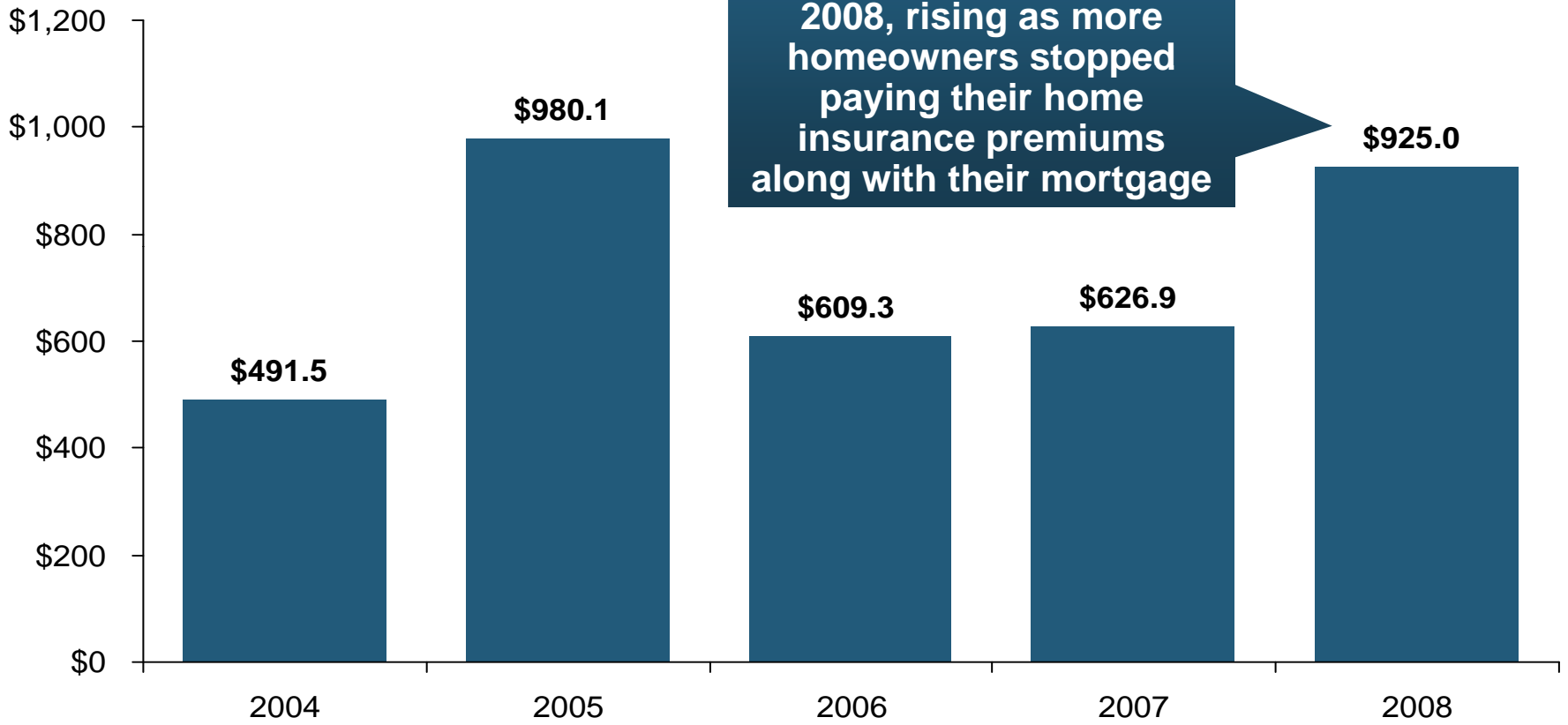


Estimated Rental Vacancy Rates, Quarterly, 1991-2008:Q3



Value of Claims Paid to Policyholders with Creditor-Placed Homeowners Insurance, 2004-2008

(Millions)



Creditor-Placed insurers paid nearly \$1 billion in 2008, rising as more homeowners stopped paying their home insurance premiums along with their mortgage

Creditor-Placed Home Insurers paid \$3.6 billion in claims on behalf of policyholders from 2004-2008. If lenders had not purchased this coverage on behalf of homeowners, tens of thousands of families would have had no source of recovery and would still be responsible for mortgage payments.

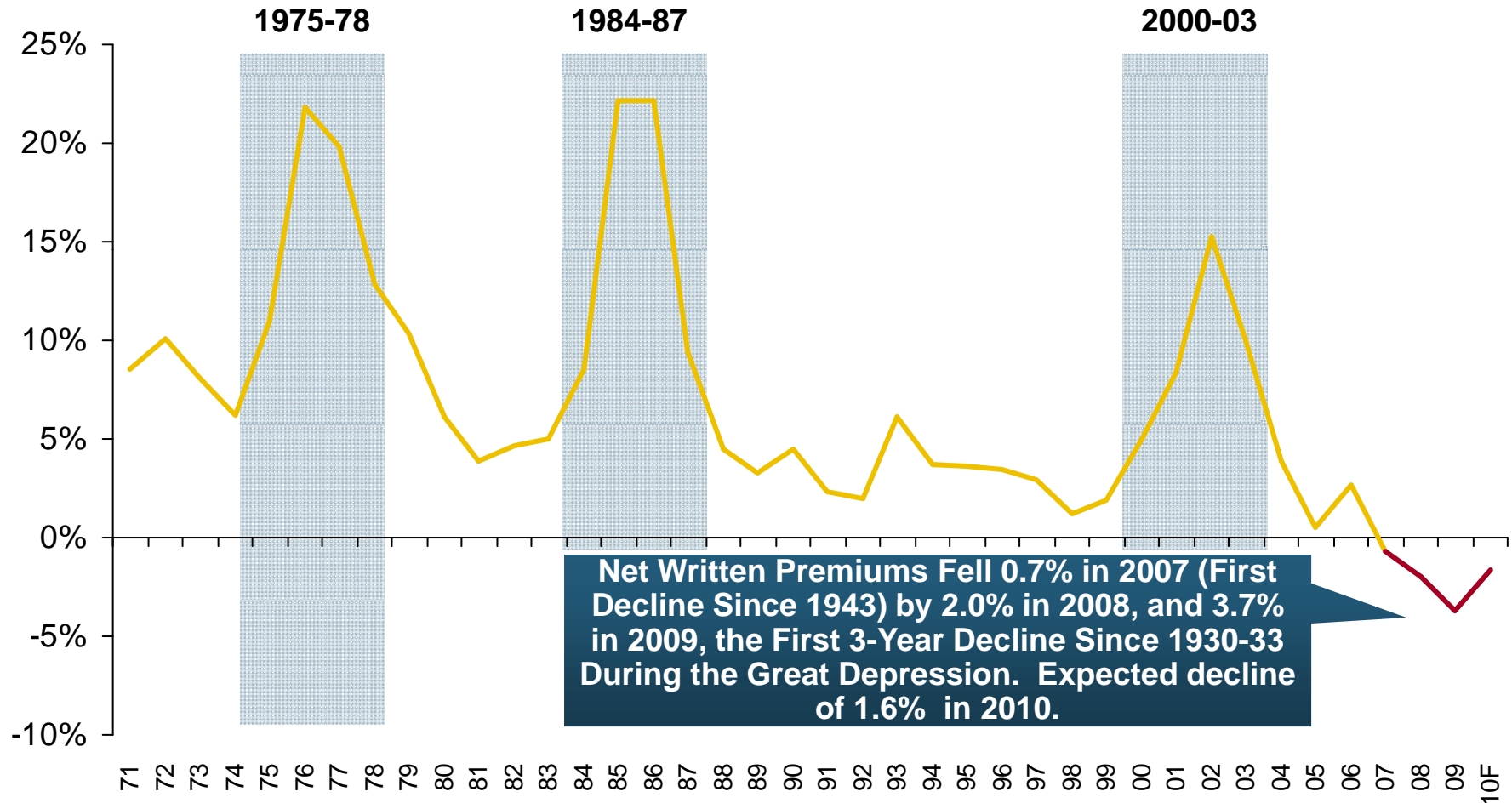
Source: Insurance Information Institute calculations based on data from NAIC Credit Insurance Experience Exhibit.

Premium Growth Trends in Auto and Home Insurance

**Modest Improvements in Pricing
Can Will Help Profitability Amid
Slack Demand**

Strength of Recent Hard Market Periods by NWP Growth

(Percent)

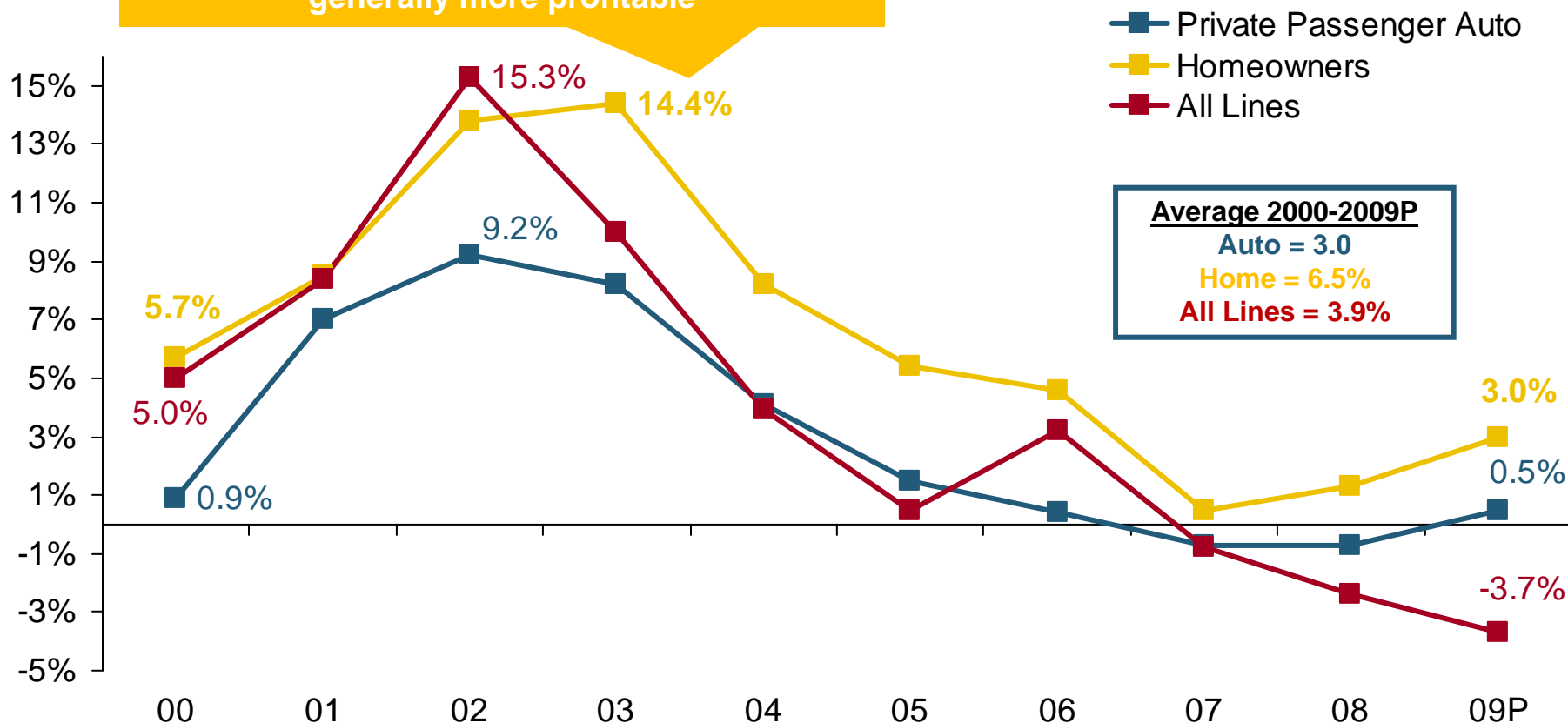


Shaded areas denote "hard market" periods

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

Auto & Home vs. All Lines, Net Written Premium Growth, 2000–2009P*

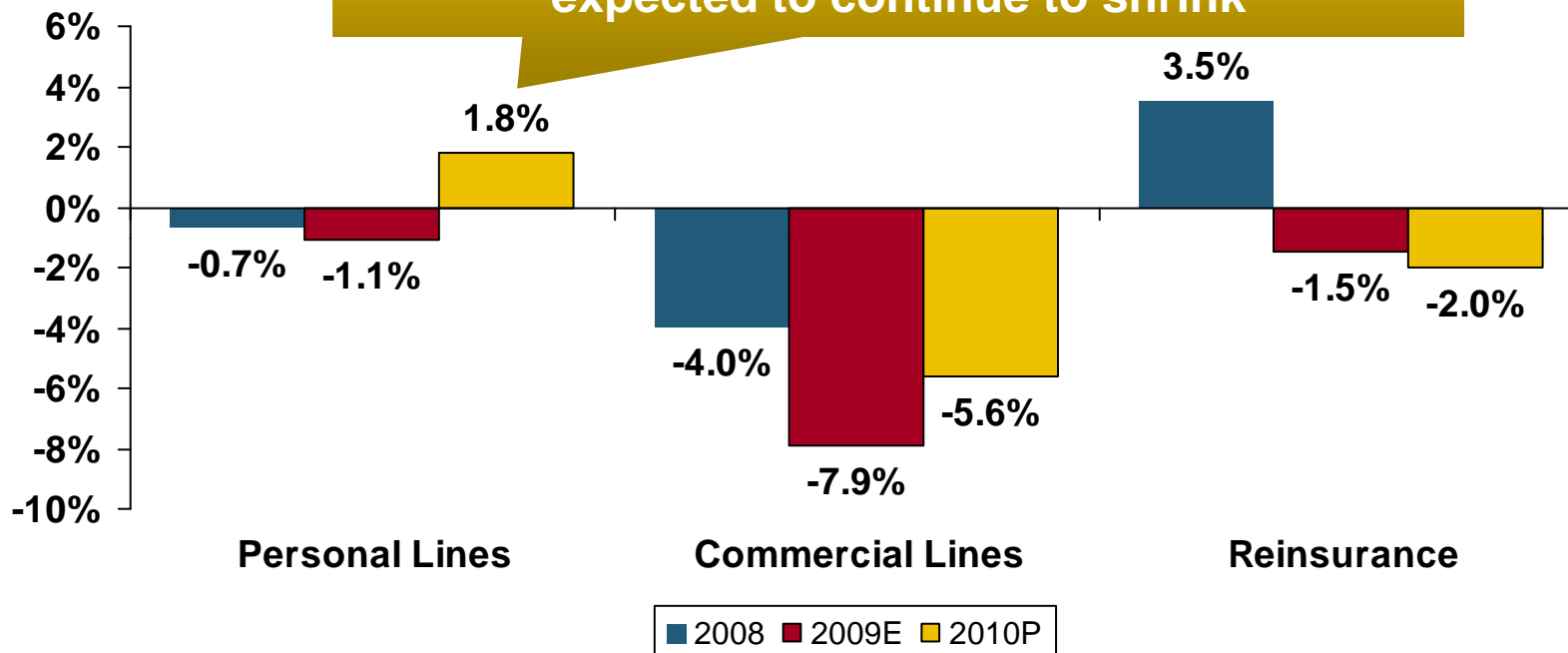
While homeowners insurance has grown faster than auto over the past decade, auto is generally more profitable



*2009 auto and home figures are preliminary.
Sources: A.M. Best; Insurance Information Institute.

Net Written Premium Growth by Segment: 2008-2010P

Personal lines will return to growth in 2010 while commercial lines and reinsurance are expected to continue to shrink



Rate and exposure are more favorable in personal lines, whereas a prolonged soft market and sluggish recovery from the recession weigh on commercial lines. Low catastrophe losses and ample capacity are holding down reinsurance prices while higher insurer retentions impact premiums

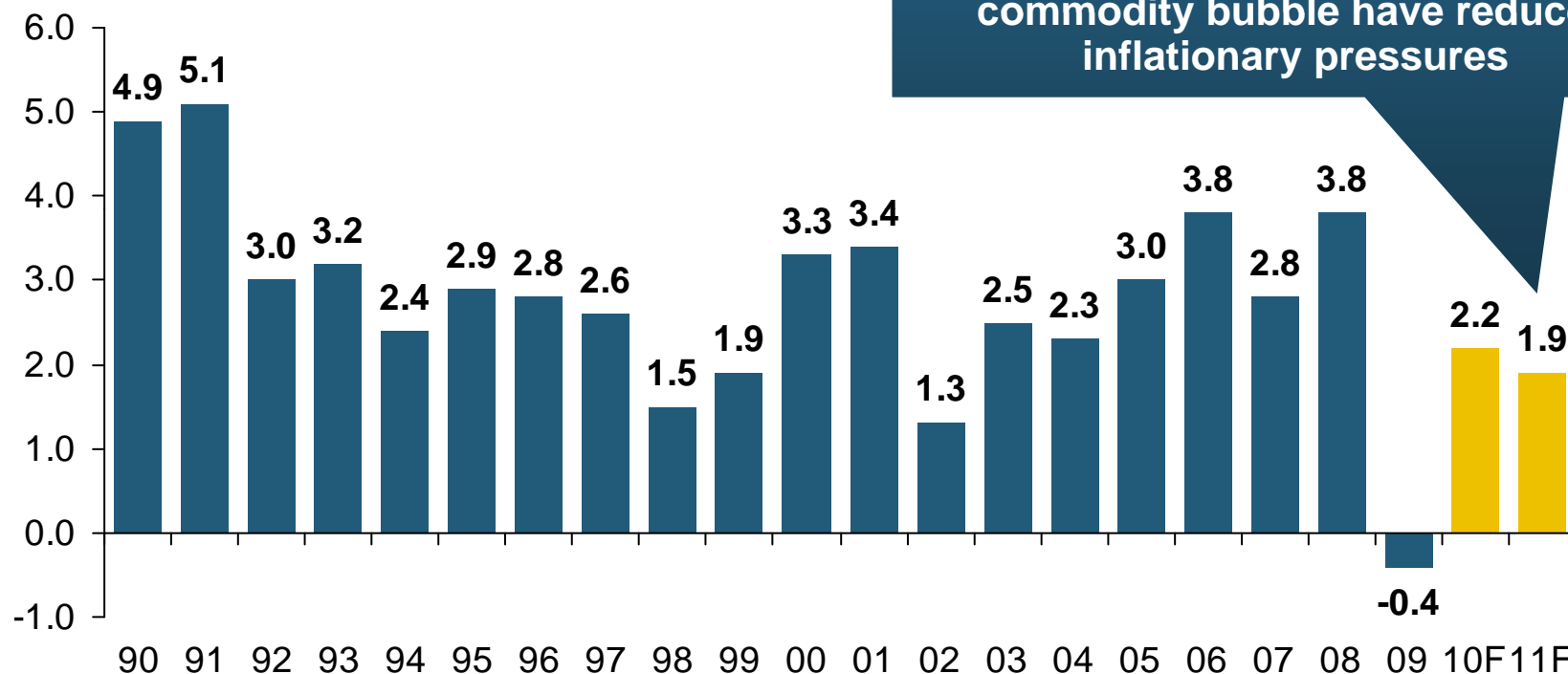


Cost Drivers in Auto Insurance

**Auto Insurers Experience
Inflation Very Differently
Than the Overall Economy**

Annual Inflation Rates (CPI-U, %), 1990–2011F

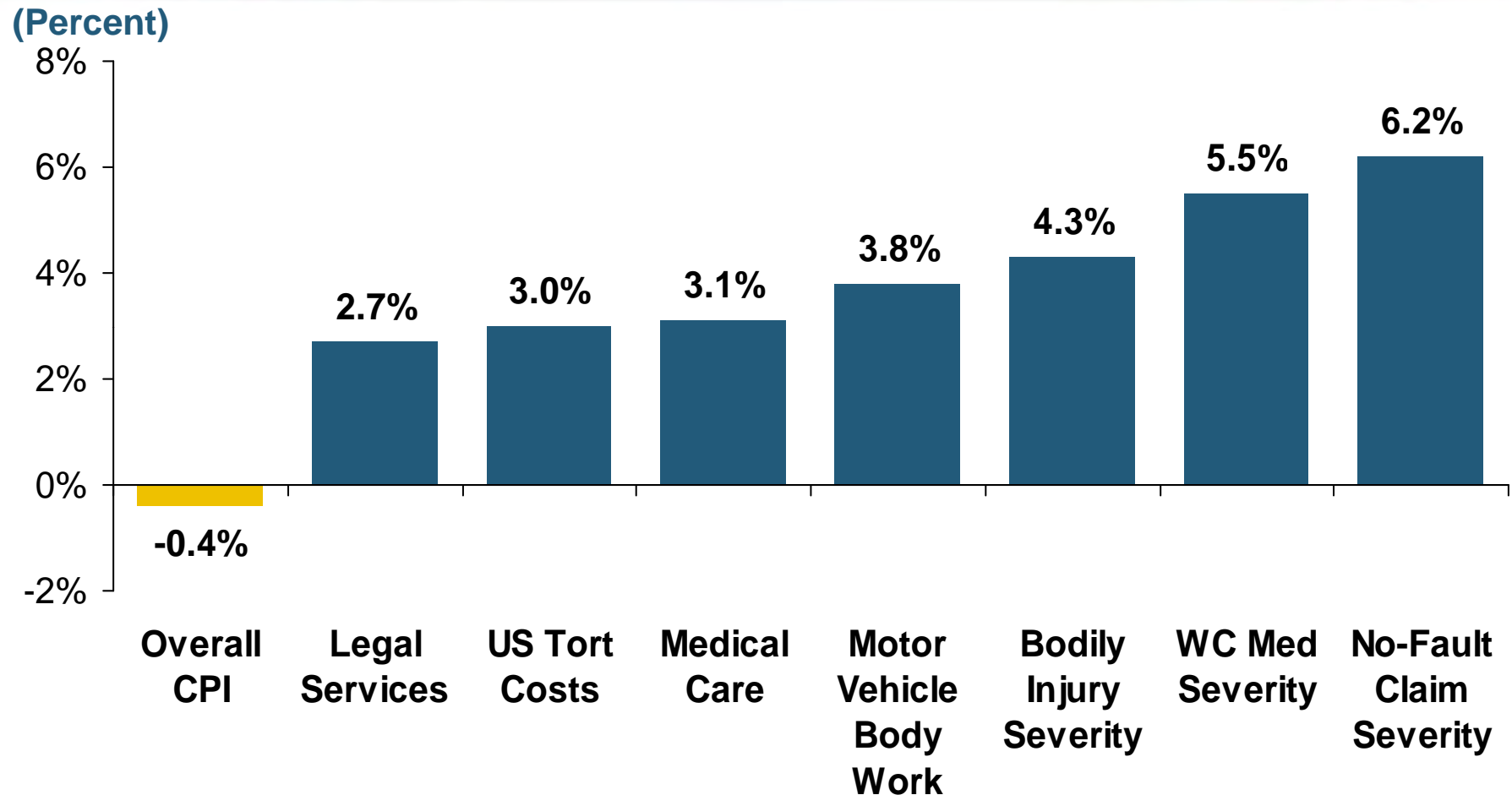
Annual Inflation Rates (%)



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

There is So Much Slack in the US Economy That Inflation Should Not Be a Concern Through 2010/11, but Depreciation of Dollar is Concern Longer Run

P/C Insurers Experience Inflation More Intensely than 2009 CPI Suggests



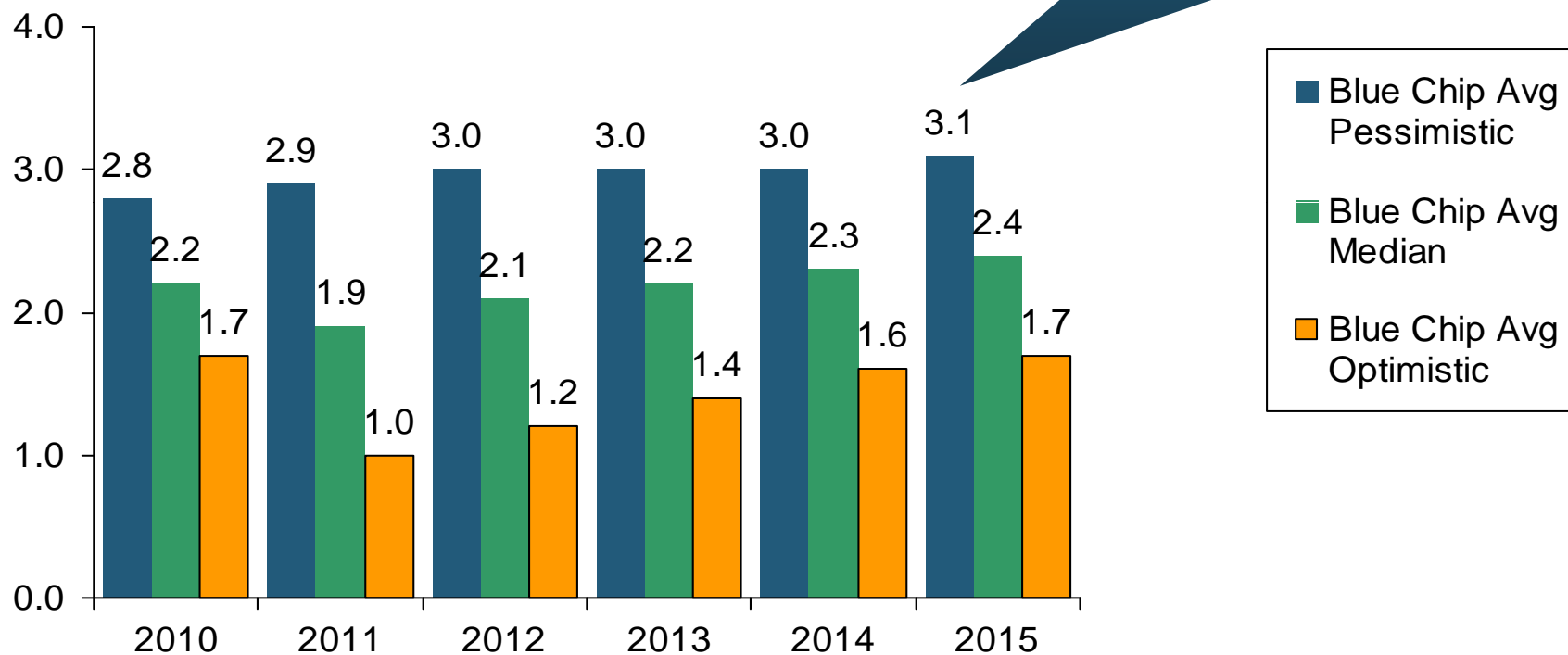
Healthcare and Legal/Tort Costs Are a Major P/C Insurance Cost Driver. These Are Expected to Increase Above the Overall Inflation Rate (CPI) Indefinitely

Source: CPI is Blue Chip Economic Indicator 2009 estimate, 12/09; Legal services, medical care and motor vehicle body work are avg. monthly year-over-year change from BLS; BI and no-fault figures from ISO Fast Track data for 4 quarters ending 09:Q3. Tort costs is 2009 Towers-Perrin estimate. WC figure is I.I.I. estimate based on historical NCCI data.

Forecasts of Annual Inflation Rates (CPI-U, %), 2010–2015F

Annual Inflation Rates (%)

Even the pessimistic forecasts don't see the CPI rising much above 3% in the next five years



Inflation Will Accelerate Modestly through 2015 but Should Is Not Expected to Become a Major Concern or Threat

Top Concerns/Risks for Insurers if Inflation Is Reignited

Concerns

The Federal Reserve Has Flooded Financial System with Cash (Turned on the Printing Presses), the Federal Gov't Has Approved a \$787B Stimulus and the Deficit is Expected to Mushroom to \$1.8 Trillion. All Are Potentially Inflationary.

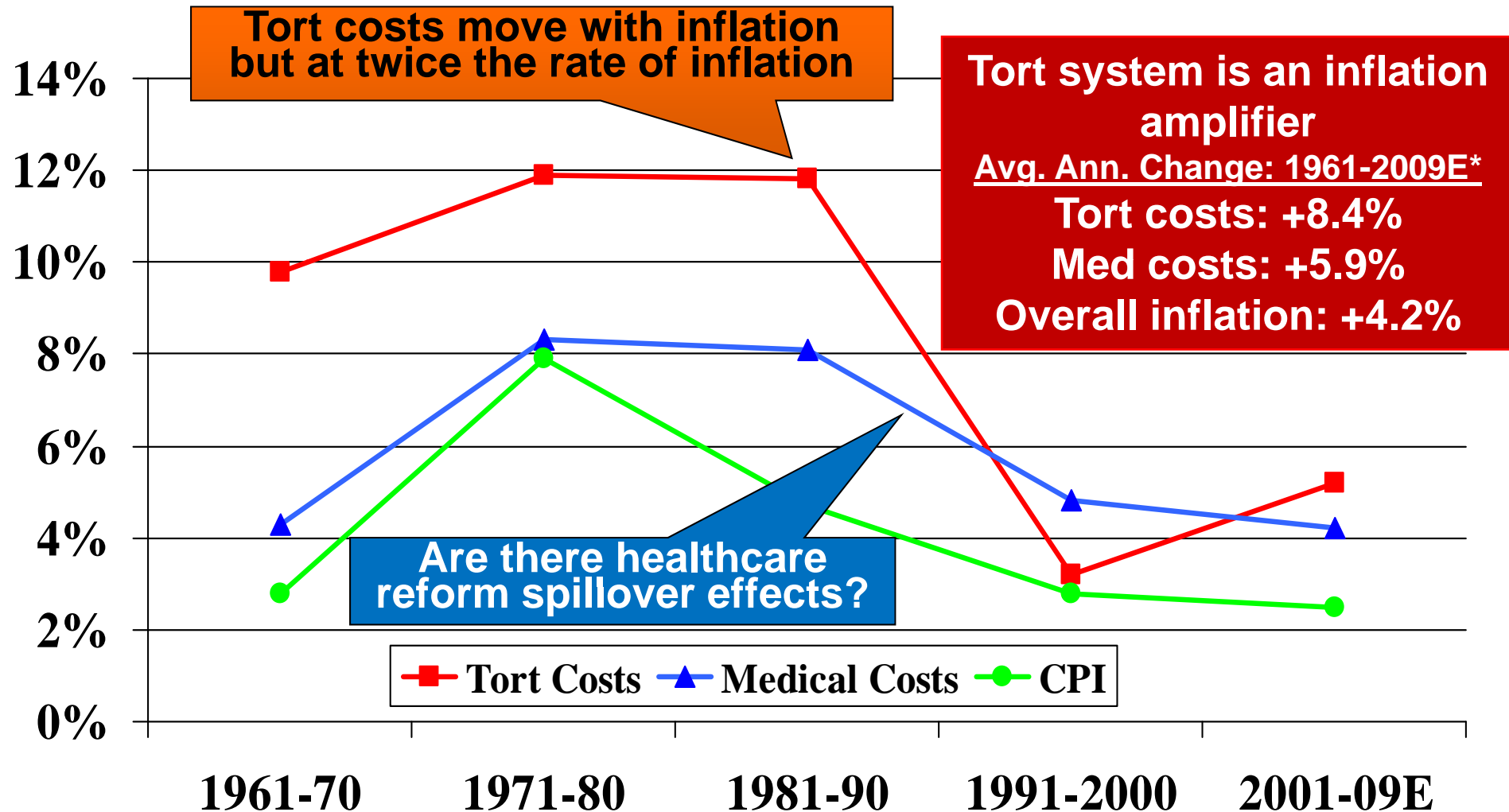
- What are the potential impacts for insurers?
- What can/should insurers do to protect themselves from the risks of inflation?

Key Risks

From Sustained/Accelerating Inflation

- **Rising Claim Severities**
 - ◆ Cost of claims settlement rises across the board (property and liability)
- **Rate Inadequacy**
 - ◆ Rates inadequate due to low trend assumptions arising from use of historical data
- **Reserve Inadequacy**
 - ◆ Reserves may develop adversely and become inadequate (deficient)
- **Burn Through on Retentions**
 - ◆ Retentions, deductibles burned through more quickly
- **Reinsurance Penetration/Exhaustion**
 - ◆ Higher costs → risks burn through their retentions more quickly, tapping into reinsurance more quickly and potentially exhausting their reinsurance more quickly

Tort Cost Growth & Medical Cost Inflation vs. Overall Inflation (CPI-U), 1961-2009E*



* CPI-U and medical costs as of Sept 2009; Tort figure is for full-year 2009 from Tillinghast.

Source: U.S. Bureau of Labor Statistics; Tillinghast-Towers Perrin, *2008 Update on U.S. Tort Costs*; I.I.I.

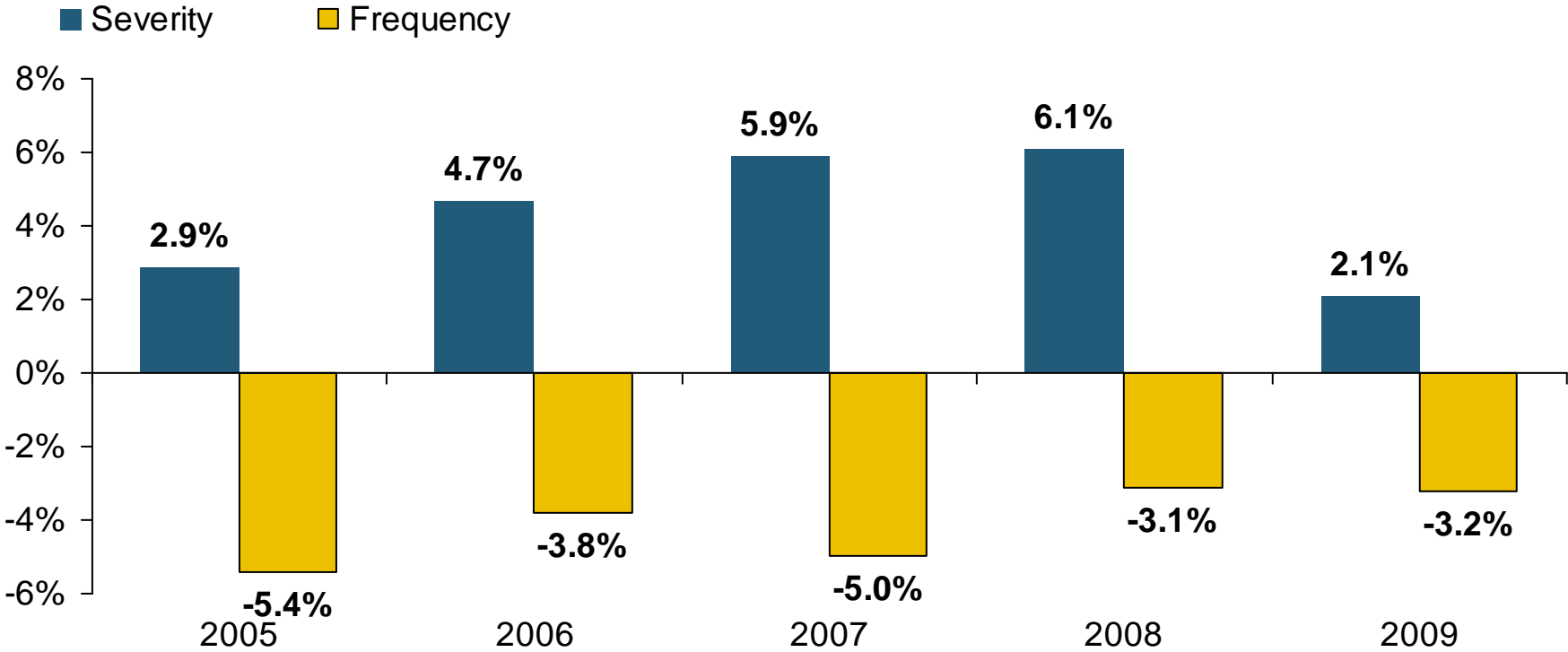


Claim Trends in Auto Insurance

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

Bodily Injury: Severity Trends Generally Above Decline in Frequency

Annual Change, 2005 through 2009

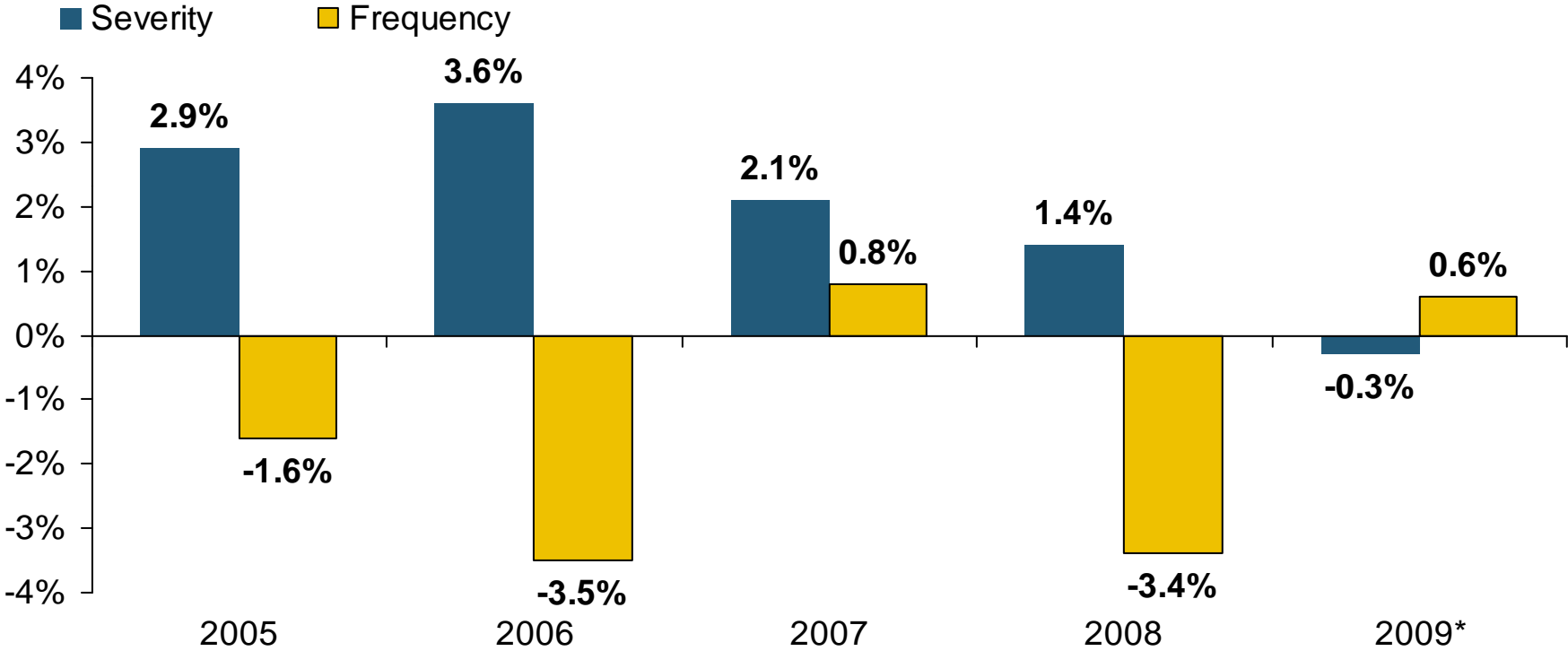


Cost Pressures Will Increase if Current BI Frequency and Severity Trends Continue

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

Property Damage Liability: Frequency and Severity Trends Nearly Offset in 2009

Annual Change, 2005 through 2009

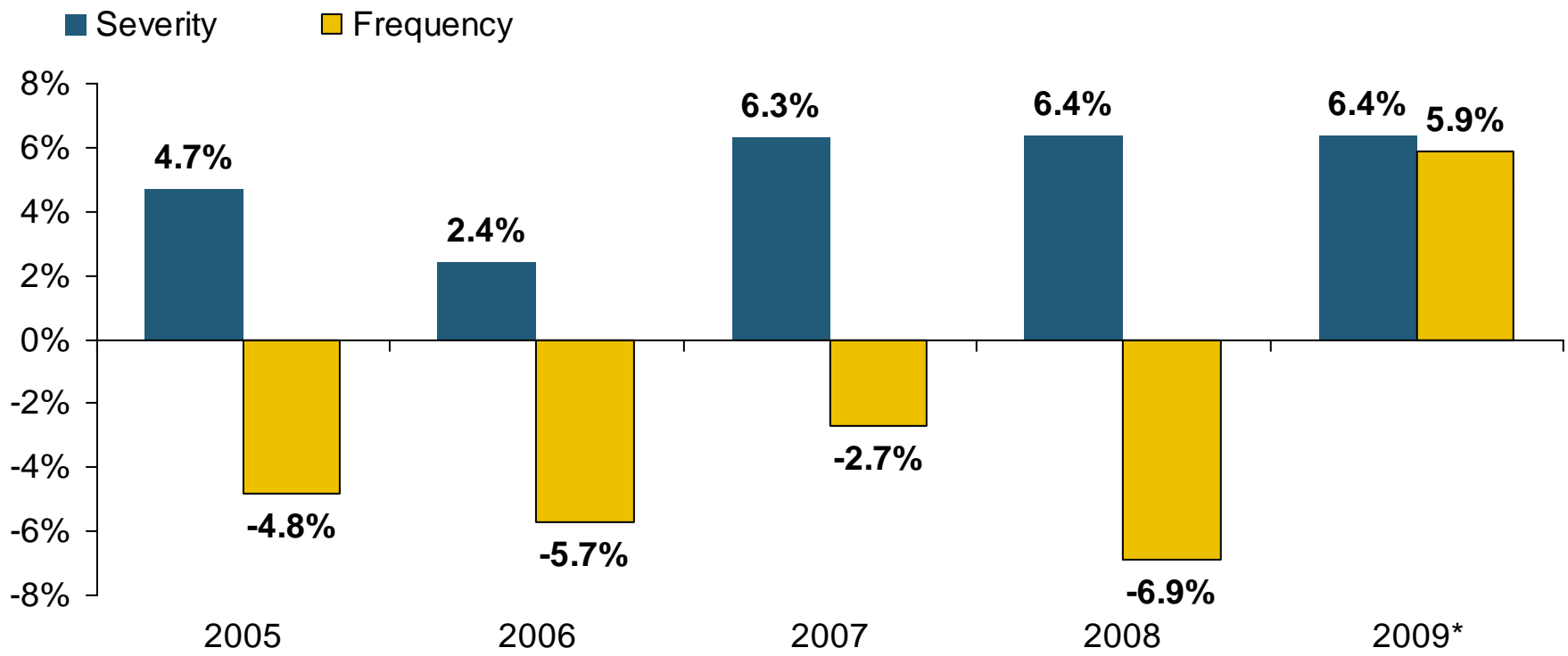


Favorable Severity/Frequency Trends Keeping PD Costs in Check, But Are These Trends Sustainable?

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

No-Fault (PIP) Liability: Frequency and Severity Trends Are Adverse*

Annual Change, 2005 through 2009

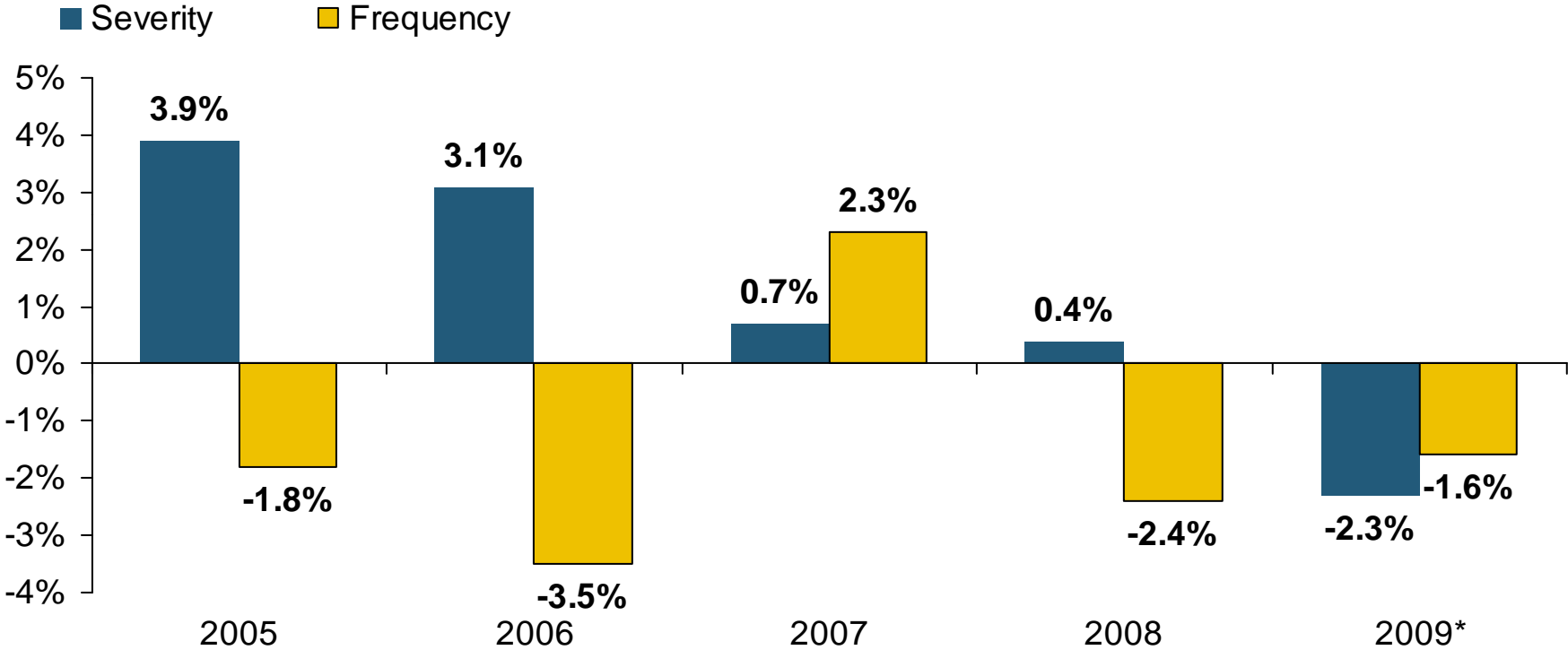


Multiple States Are Experiencing Severe Fraud and Abuse Problems in their No-Fault Systems, Especially FL, MI, NY and NJ

*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 Have Been Favorable

Annual Change, 2005 through 2009

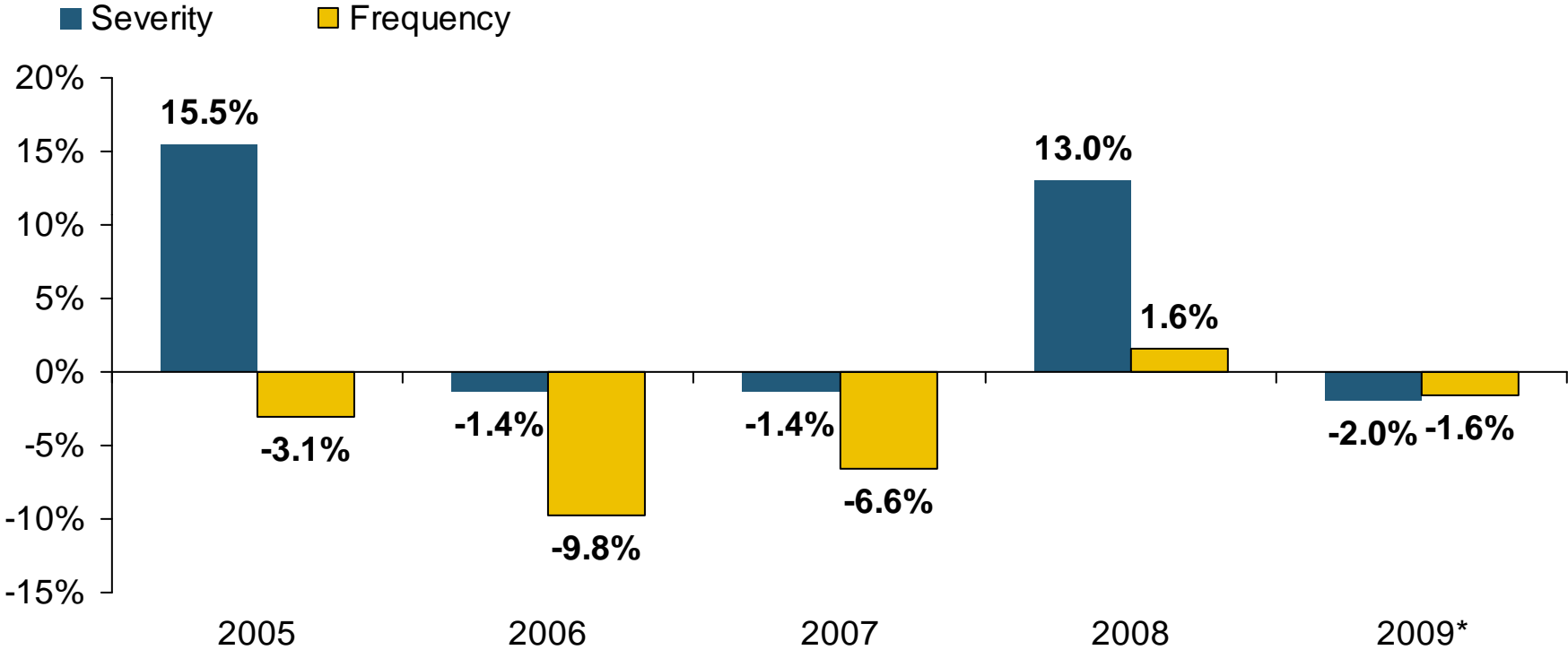


The Recession, High Fuel Prices Have Helped Push Down Frequency and Temper Severity, But this Trend Will Likely Be Reversed Based on Evidence from Past Recoveries

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

Comprehensive Coverage: Frequency and Severity Trends Favorable in 2009

Annual Change, 2005 through 2009



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

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



Fraud & Abuse in Private Passenger Auto Insurance

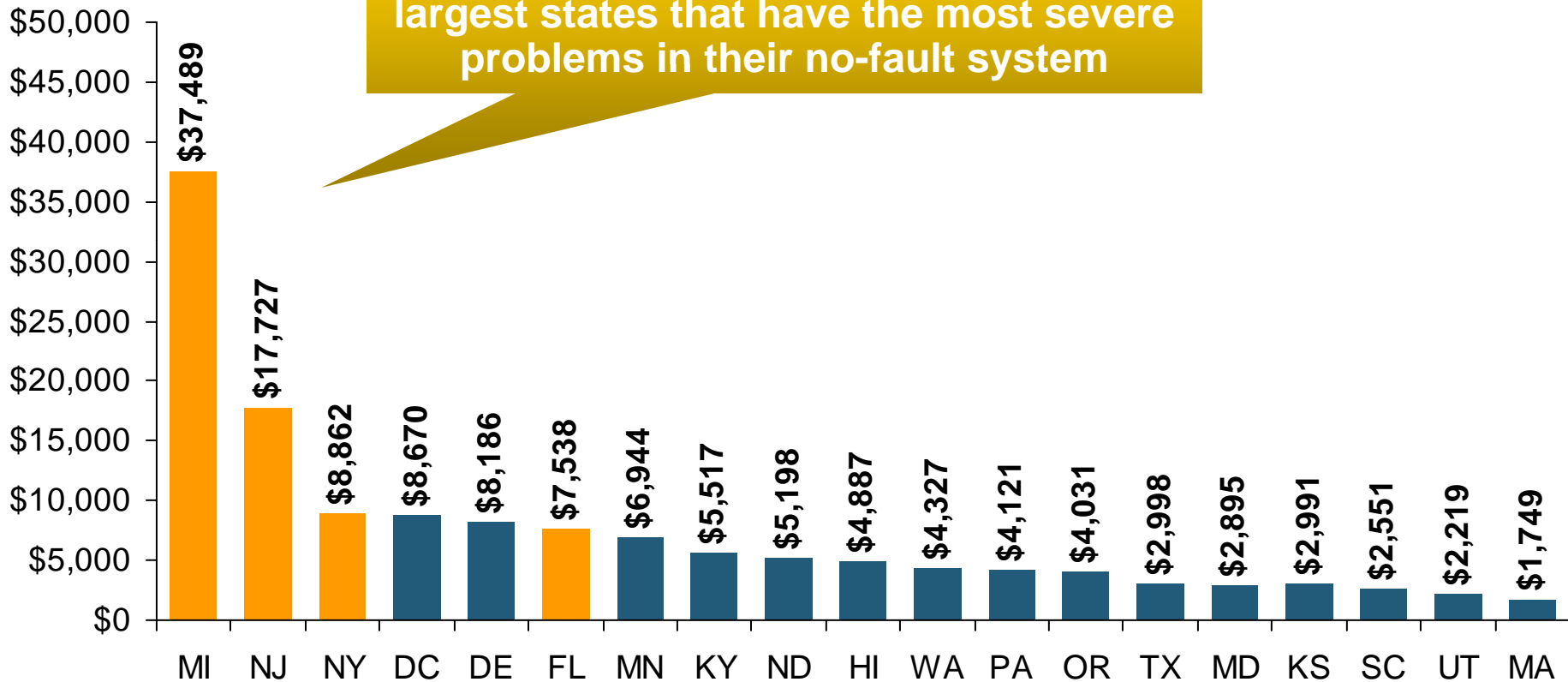
Skyrocketing No-Fault (PIP) Claim Costs Are a Major Concern in Several States



Survey of No-Fault Claim Costs Across the U.S.

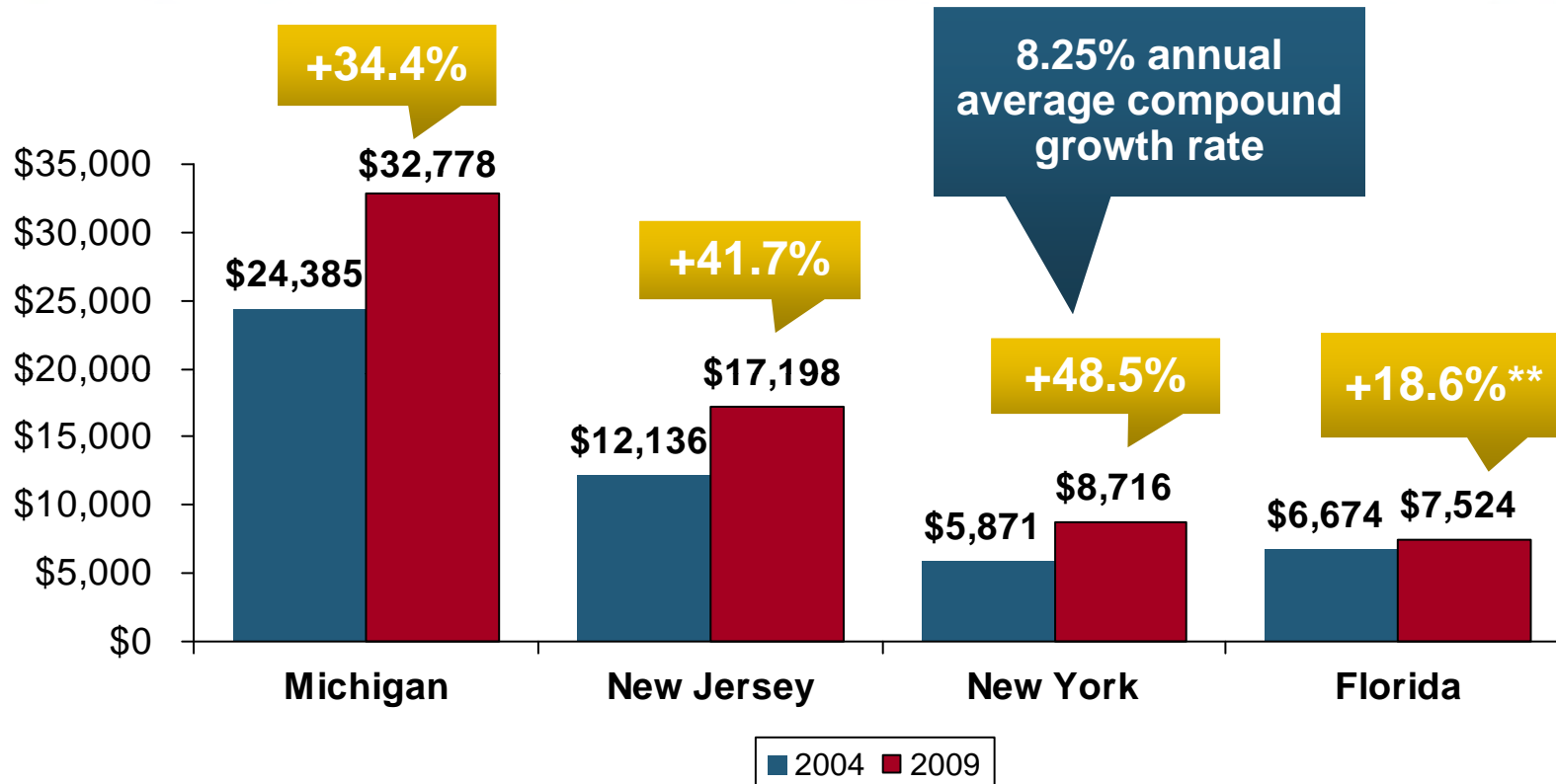
**Skyrocketing No-Fault (PIP) Claim
Costs Are a Major Concern in
Several States**

Average No-Fault Claim Severity, 2009:Q4



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

Increase in No-Fault Claim Severity: 2004-2009*



The no-fault systems in MI, NJ, NY and FL are under stress due to rising fraud and abuse which will ultimately lead to higher premiums for drivers

*2009 figure is for the 4 quarters ending 2009:Q4.

**Since 2006 the increase in Florida was 17.3% (average severity that year was \$6,344).

Sources: Insurance Information Institute research from ISO/PCI *Fast Track* data.



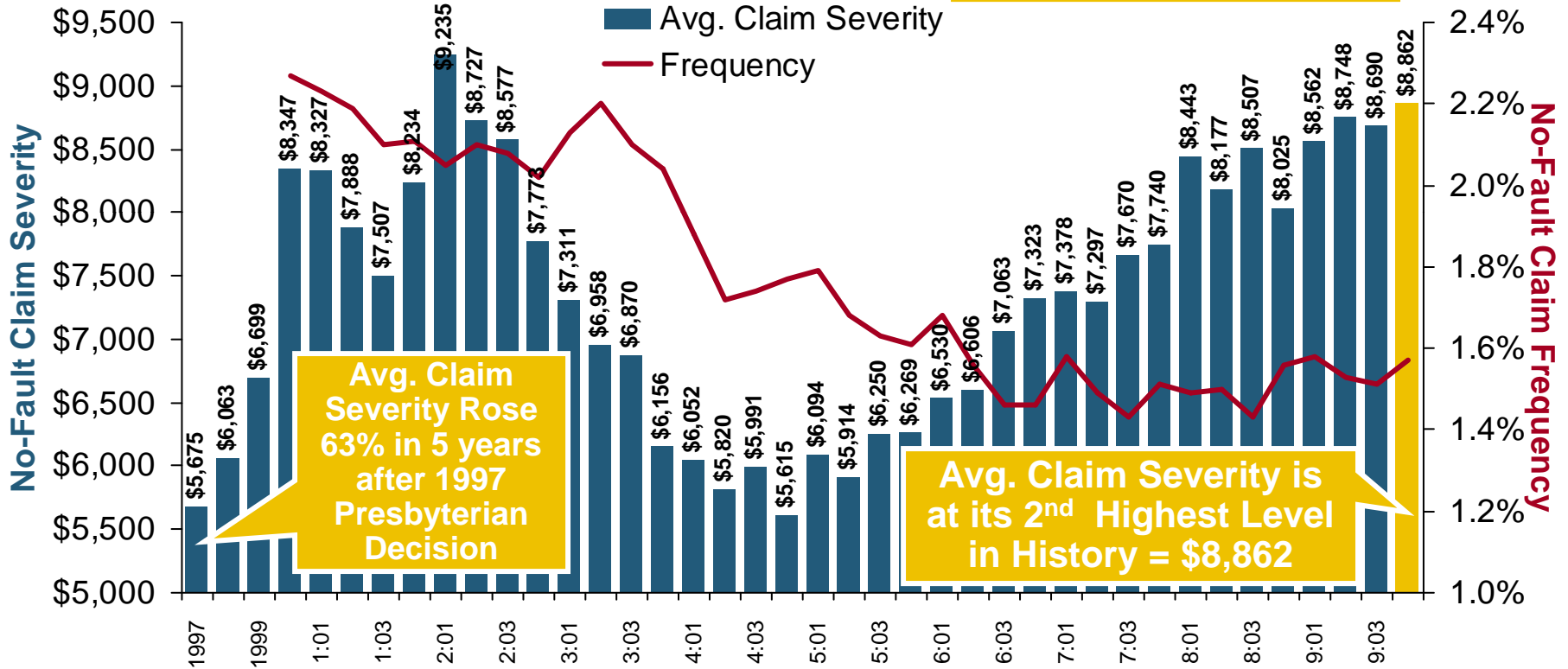
NY State No-Fault Costs & Evidence of Fraud

Skyrocketing No-Fault (PIP) Claim Costs Are a Major Concern in Several States

New York State No-Fault Claim Severity, 1997–2009:Q4

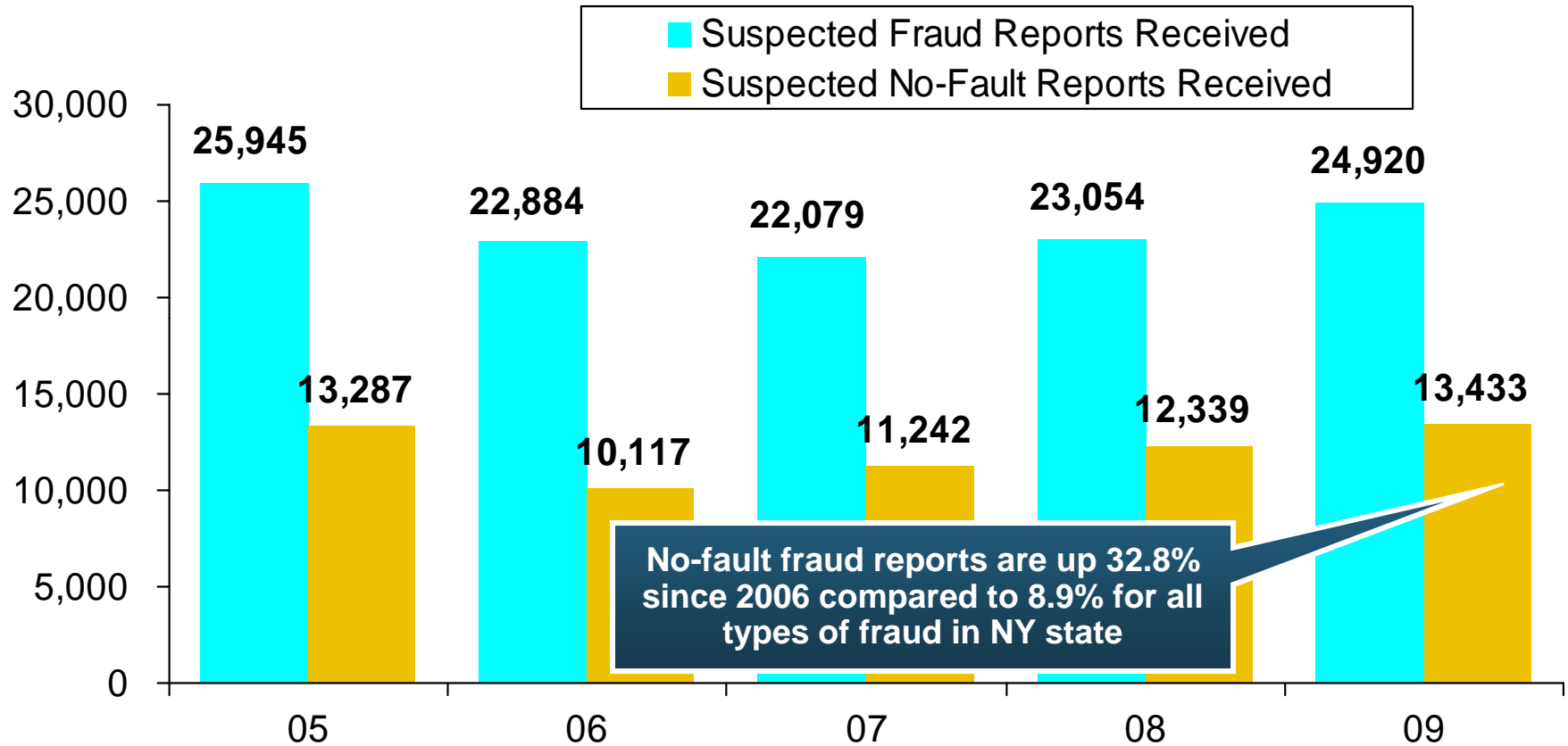
No-Fault Claim Severity

Avg. Claim Severity is up 58% since 2004:Q4



About 20% of No-Fault Claim Costs Are Attributable to Fraud and Abuse

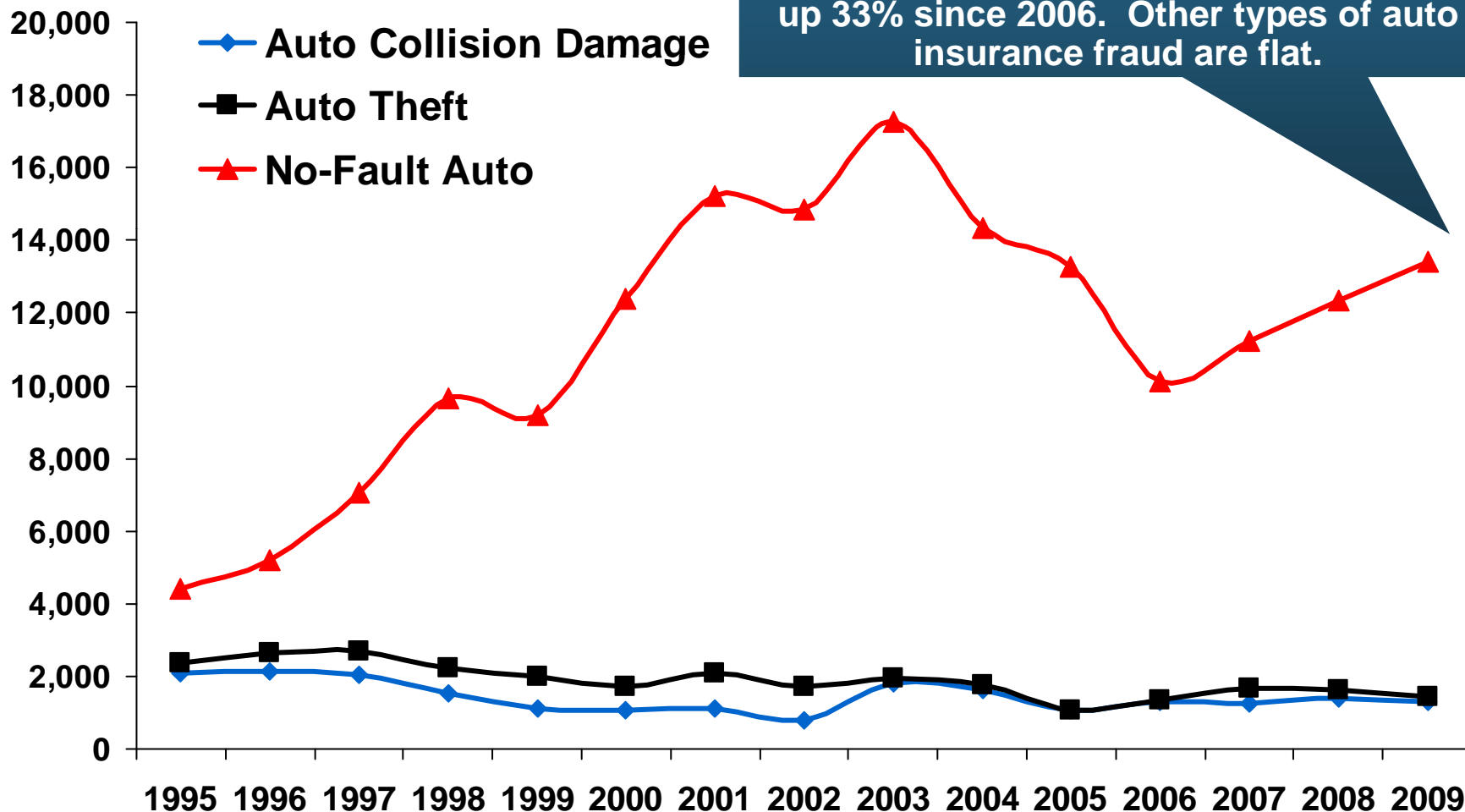
Suspected No-Fault Fraud Reports vs. All Insurance Fraud Reports, 2005-2009



The Total Number of Insurance Fraud Reports in NY State Would Have Plunged Nearly 15% Since 2006 Were It Not for the Return of No-Fault Fraud

New York Auto Insurance Fraud Reports, 1995 – 2009

No-fault fraud reports fell 35% between 2003 and 2006, but are rising once again—up 33% since 2006. Other types of auto insurance fraud are flat.



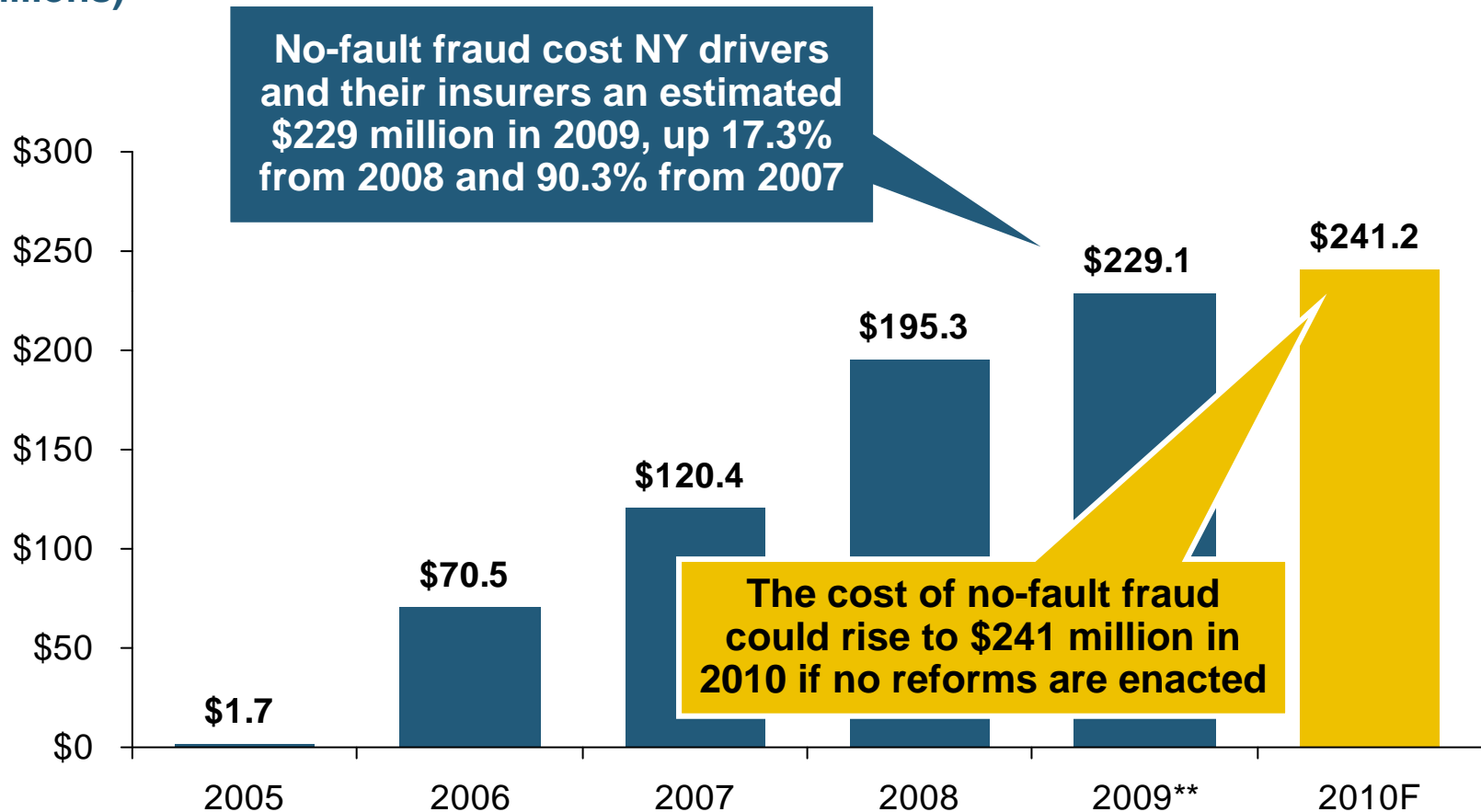


The Cost of No-Fault Fraud in NY State

**No-Fault (PIP) Fraud is Costing
Insurers and Drivers Billions**

Estimated Cost of No-Fault Fraud in New York State, 2005-2009*

(\$ Millions)



*No-fault severity reached a post-reform low in 2004 before, hence selection of 2005 as the first year of analysis.

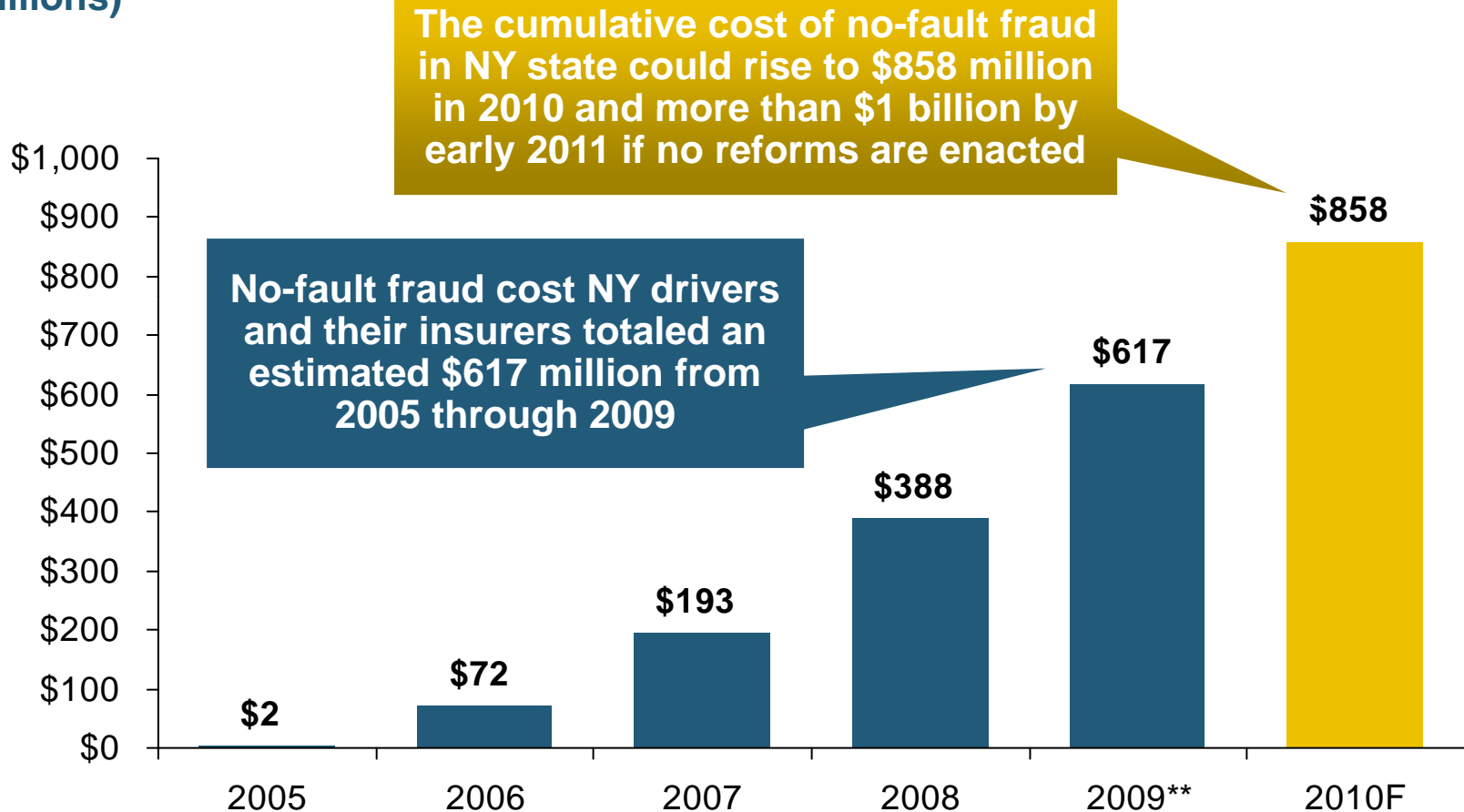
Actual no-fault losses in 2005 and beyond are higher than estimates indicate due to base level of fraud imbedded in 2004 data.

**2009 figure is estimated based on 4 quarters ending 2009:Q3 (latest available).

Source: Insurance Information Institute analysis and research.

Estimated Cumulative Cost of No-Fault Fraud in New York State, 2005-2010F*

(\$ Millions)

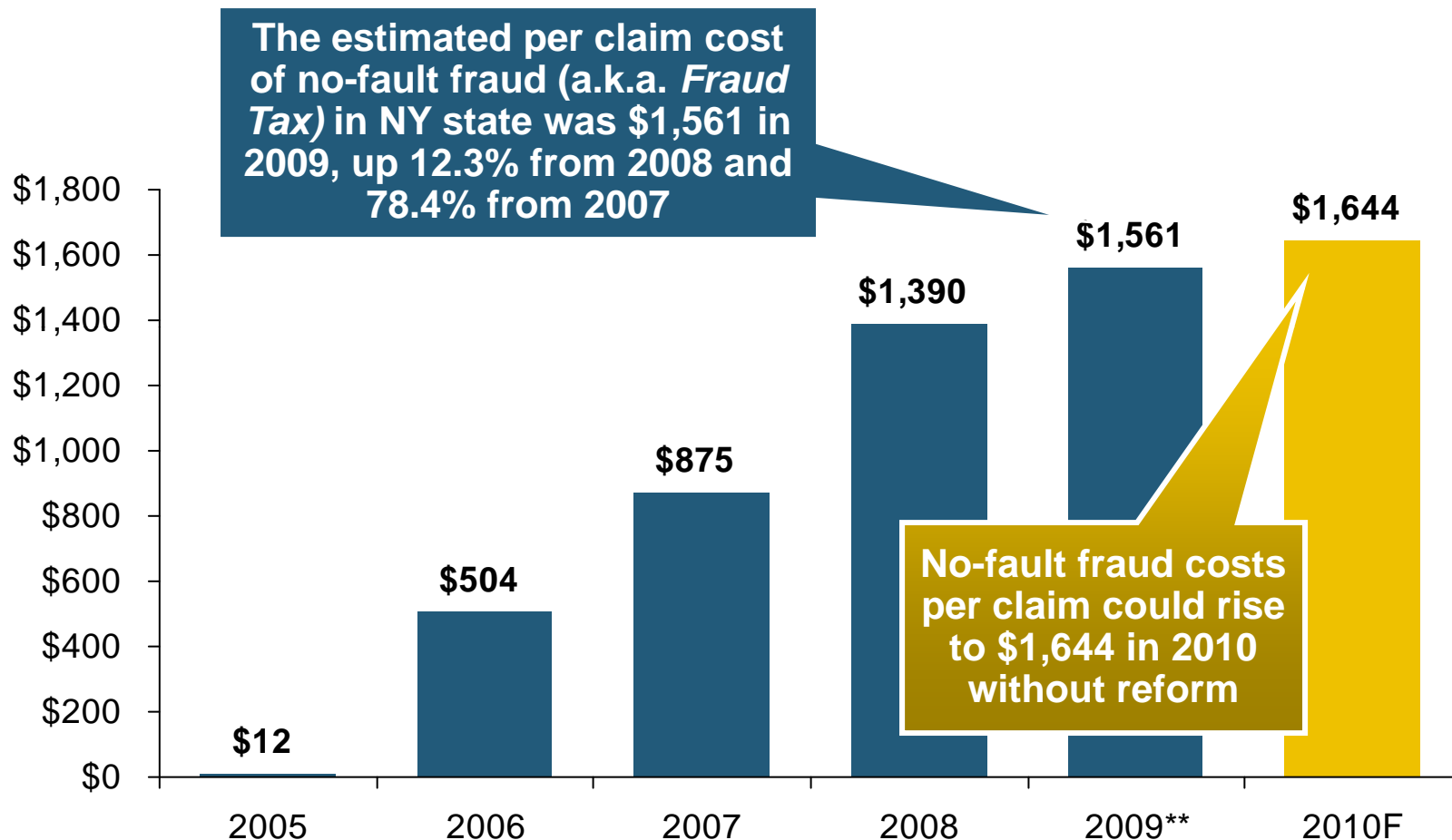


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**2009 figure is estimated based on 4 quarters ending 2009:Q3 (latest available).

Source: Insurance Information Institute analysis and research.

Estimated Per-Claim Cost of No-Fault Fraud in New York State, 2005-2010F*

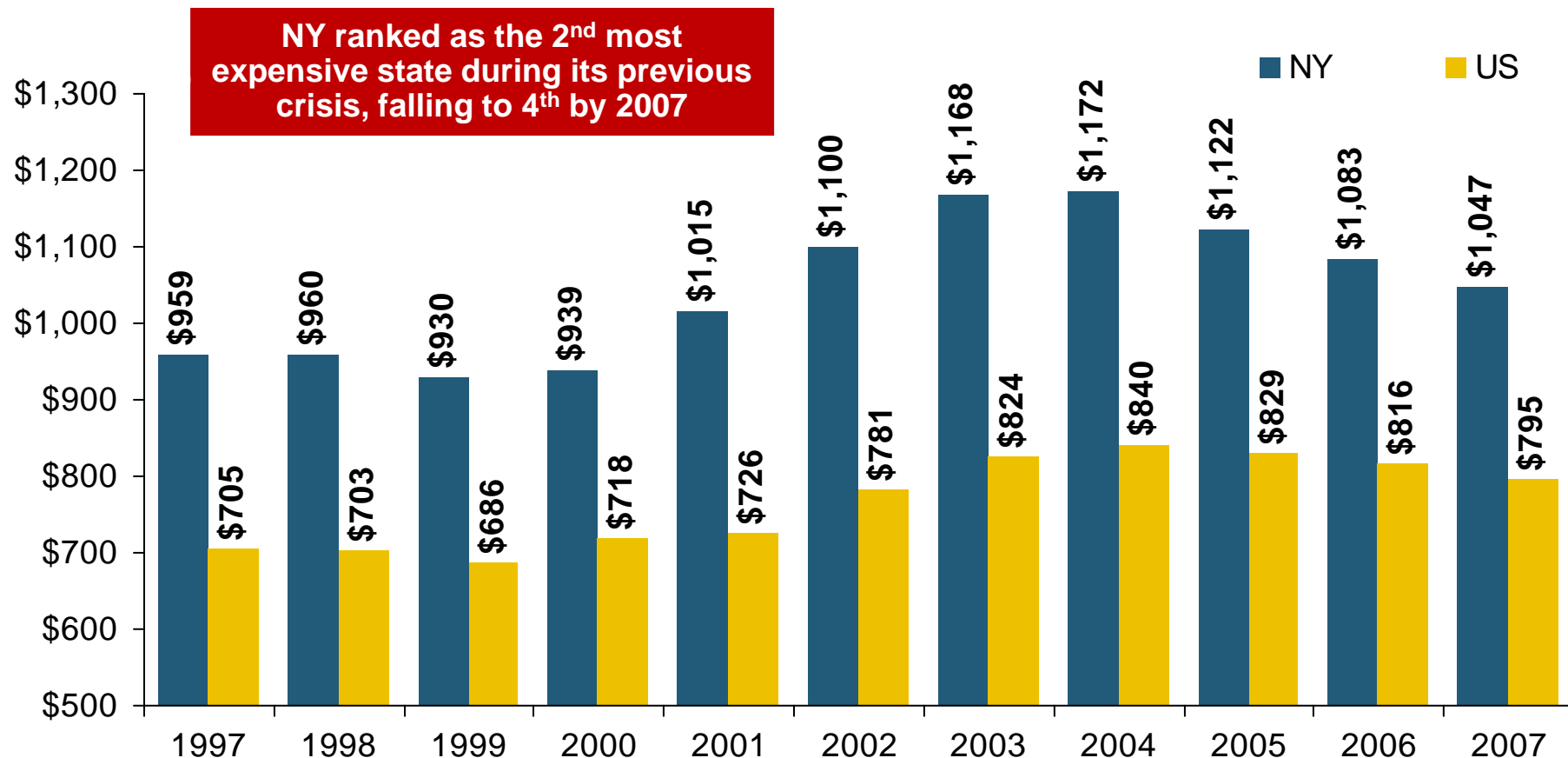


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**2009 figure is estimated based on 4 quarters ending 2009:Q3 (latest available).

Source: Insurance Information Institute analysis and research.

Average Expenditure on Auto Insurance In NY State, 1997-2007*



In the wake of NY's first no-fault crisis, the average expenditure on auto insurance fell by \$125 or 10.7% between 2004 and 2007, twice the 5.4% drop in the US overall

*Latest available.

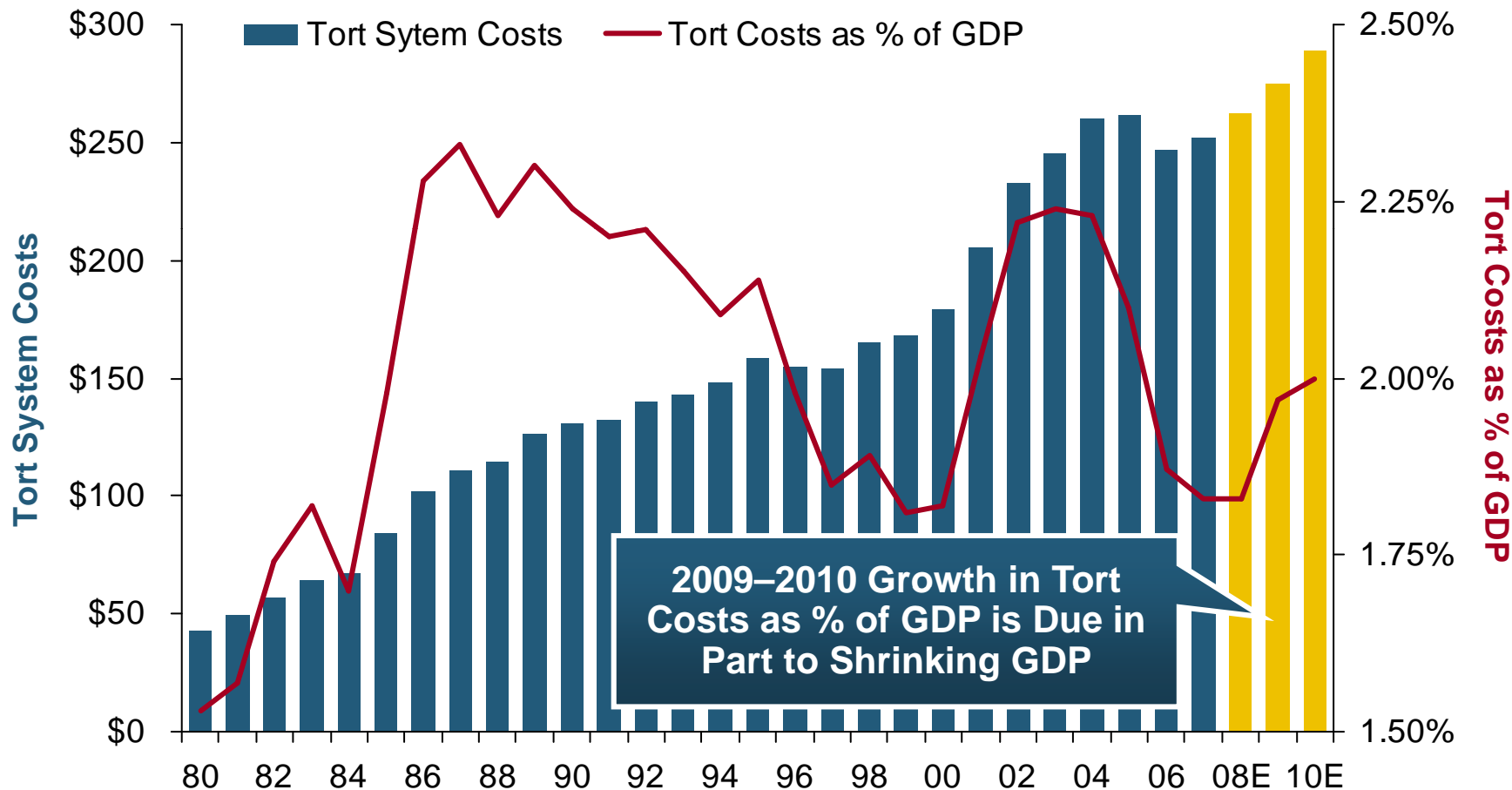
Sources: NAIC; Insurance Information Institute.

Shifting Legal Liability & Tort Environment

Is the Tort Pendulum Swinging Against Insurers?

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

(\$ Billions)



2009–2010 Growth in Tort Costs as % of GDP is Due in Part to Shrinking GDP

* Excludes the tobacco settlement, medical malpractice

Sources: Tillinghast-Towers Perrin, *2008 Update on US Tort Cost Trends*, Appendix 1A; I.I.I. calculations/estimates for 2009 and 2010

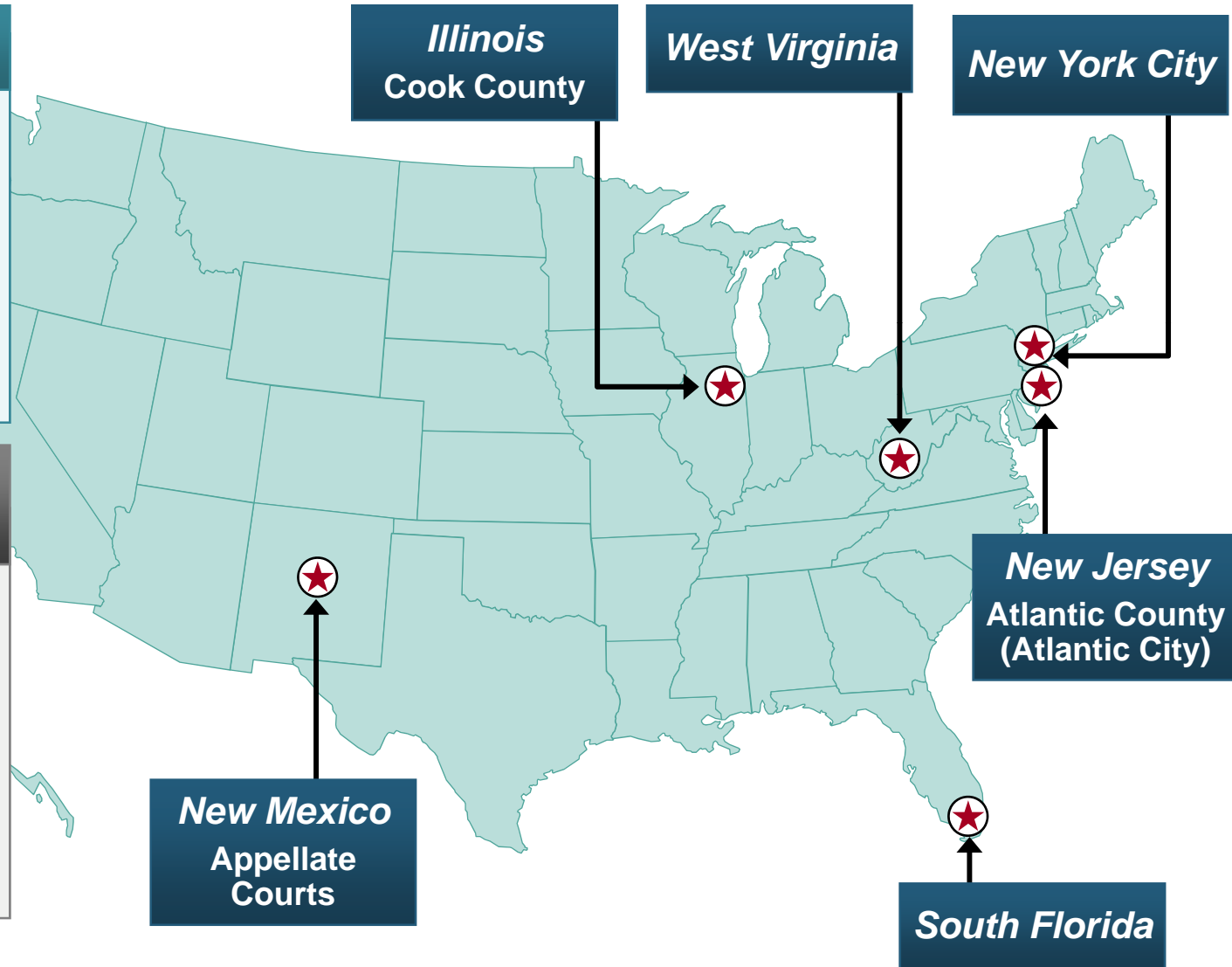
The Nation's Judicial Hellholes: 2010

Watch List

- California
- Alabama
- Madison County, IL
- Jefferson County, MS
- Texas Gulf Coast
- Rio Grande Valley, TX

Dishonorable Mention

- AR Supreme Court
- MN Supreme Court
- ND Supreme Court
- PA Governor
- MA Supreme Judicial Court
- Sacramento County

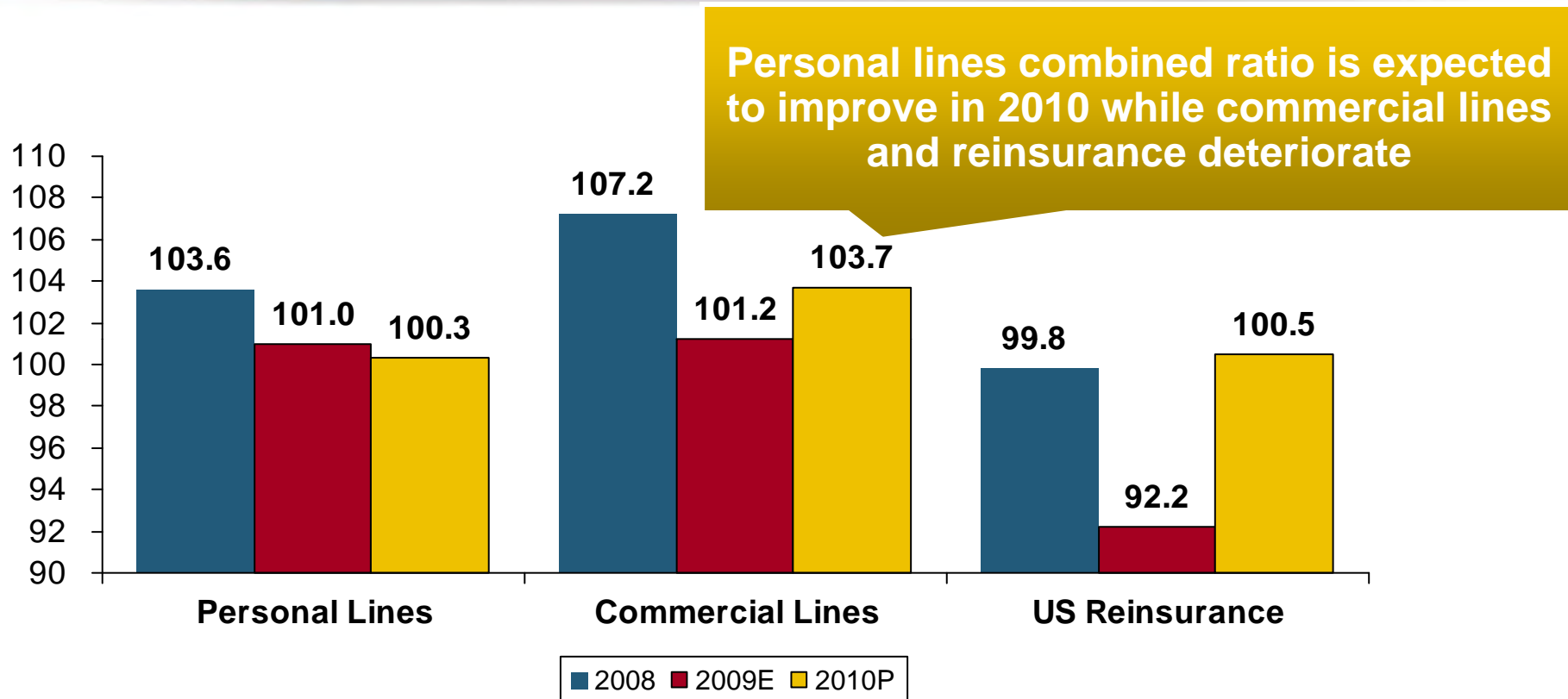




Underwriting Trends in Auto and Home Insurance

**Modest Improvements in Pricing
Can Will Help Profitability Amid
Slack Demand**

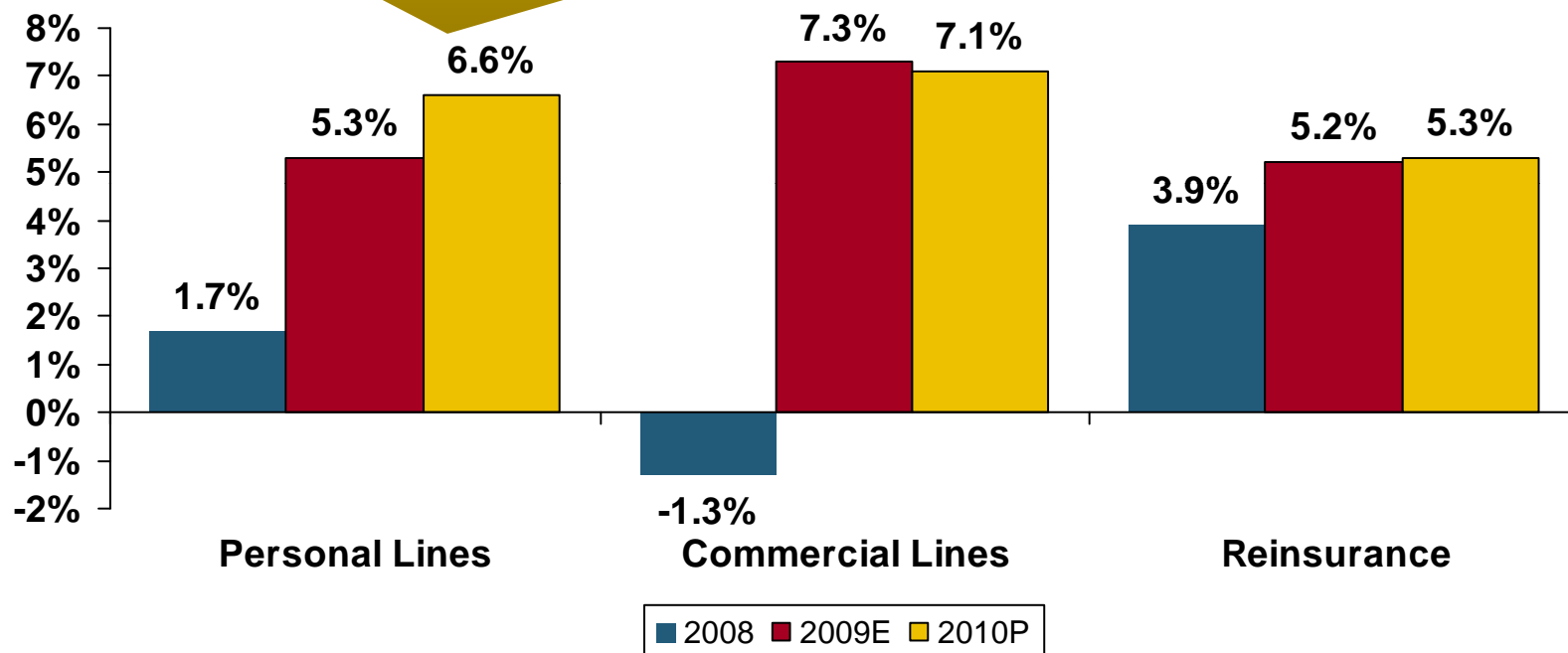
Calendar Year Combined Ratios by Segment: 2008-2010P



Overall deterioration in 2010 underwriting performance is due to expected return to normal catastrophe activity along with deteriorating underwriting performance related to the prolonged commercial soft market

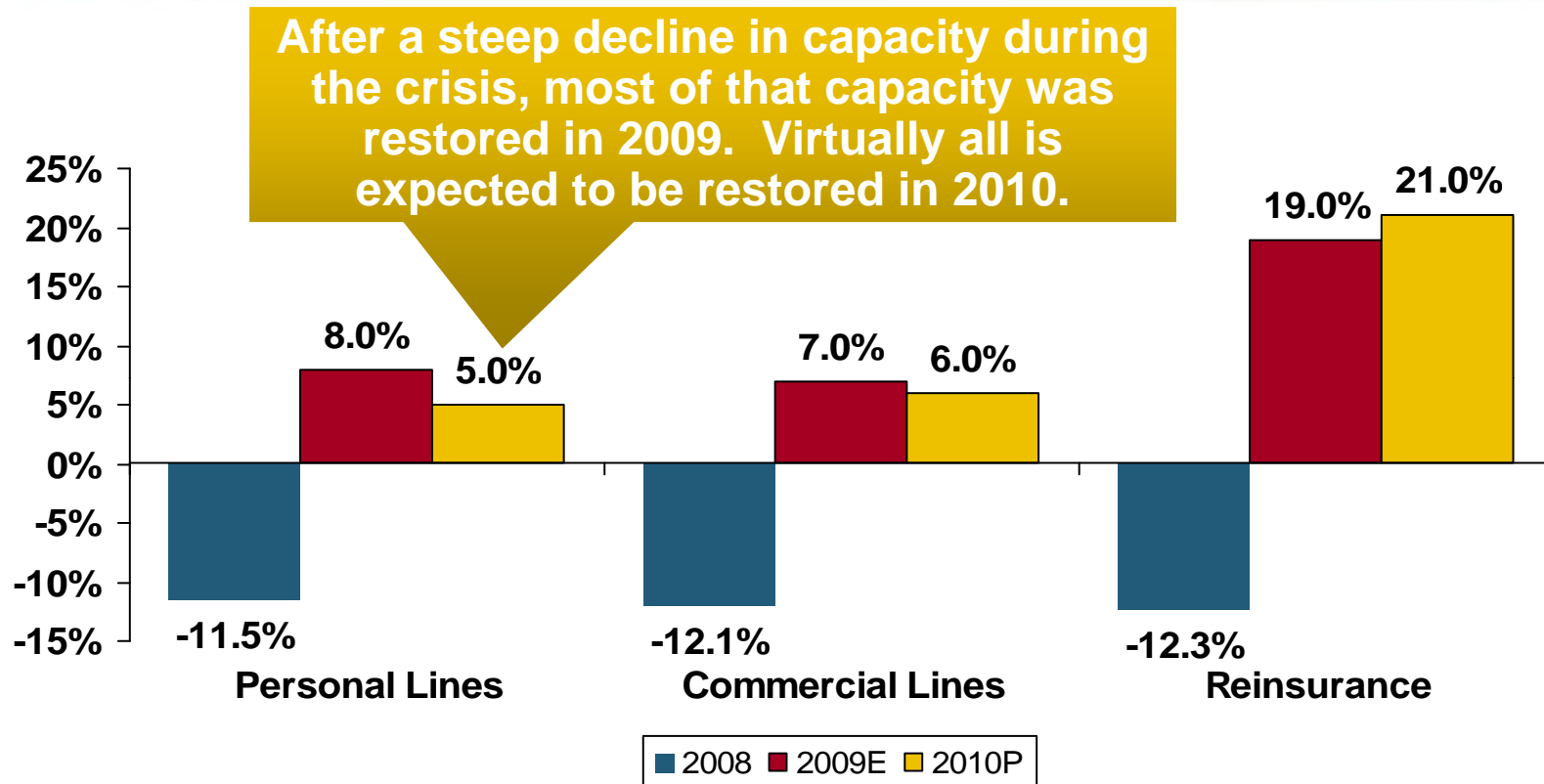
After-Tax Return on Surplus (ROE) by Segment: 2008-2010P

Personal lines ROEs should improve in 2010 and remain flat in commercial lines and reinsurance



Profitability will rise or stabilize across most p/c lines, barring a financial crisis relapse or major catastrophic losses

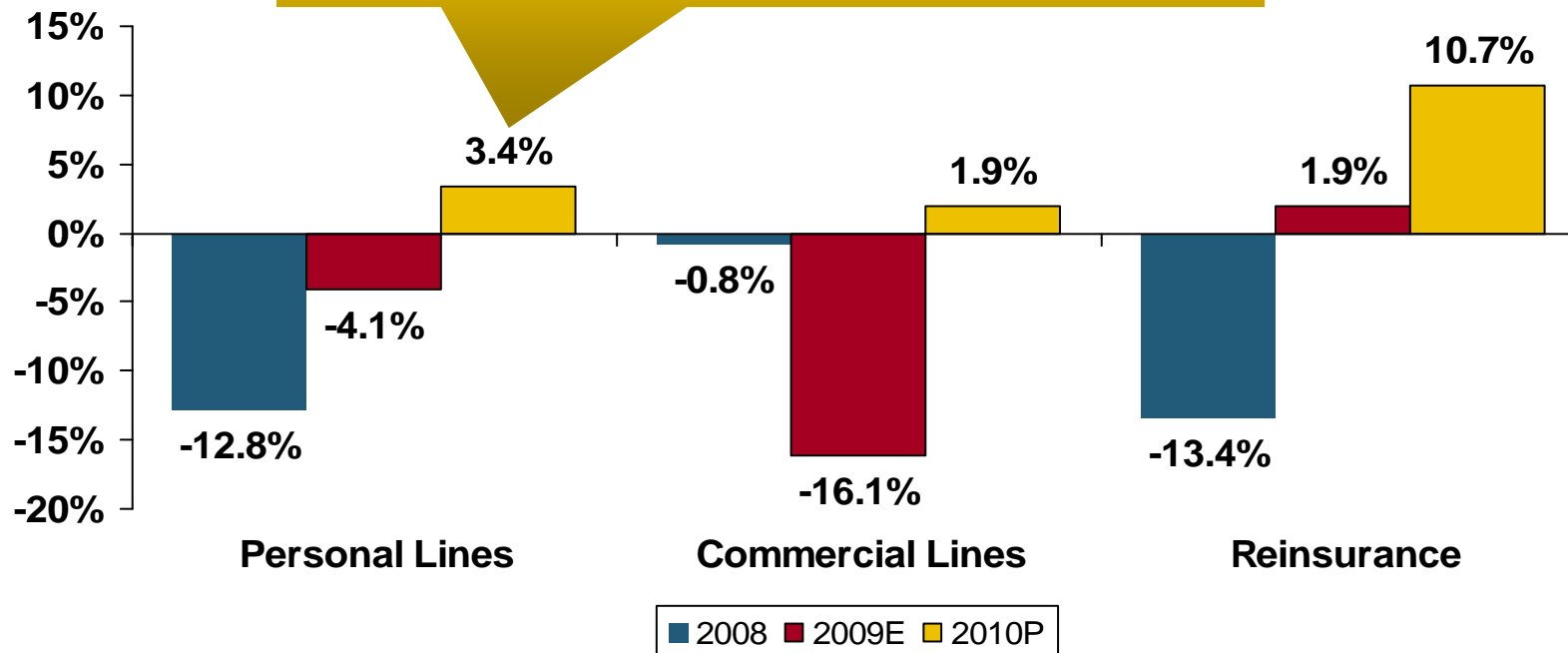
Change in Policyholder Surplus by Segment: 2008-2010P



Rapid growth in policyholder surplus to pre-crisis levels combined with ongoing slow growth or declines in premiums (esp. in commercial lines) implies a build-up of excess capacity—a major factor in weak commercial lines and reinsurance pricing

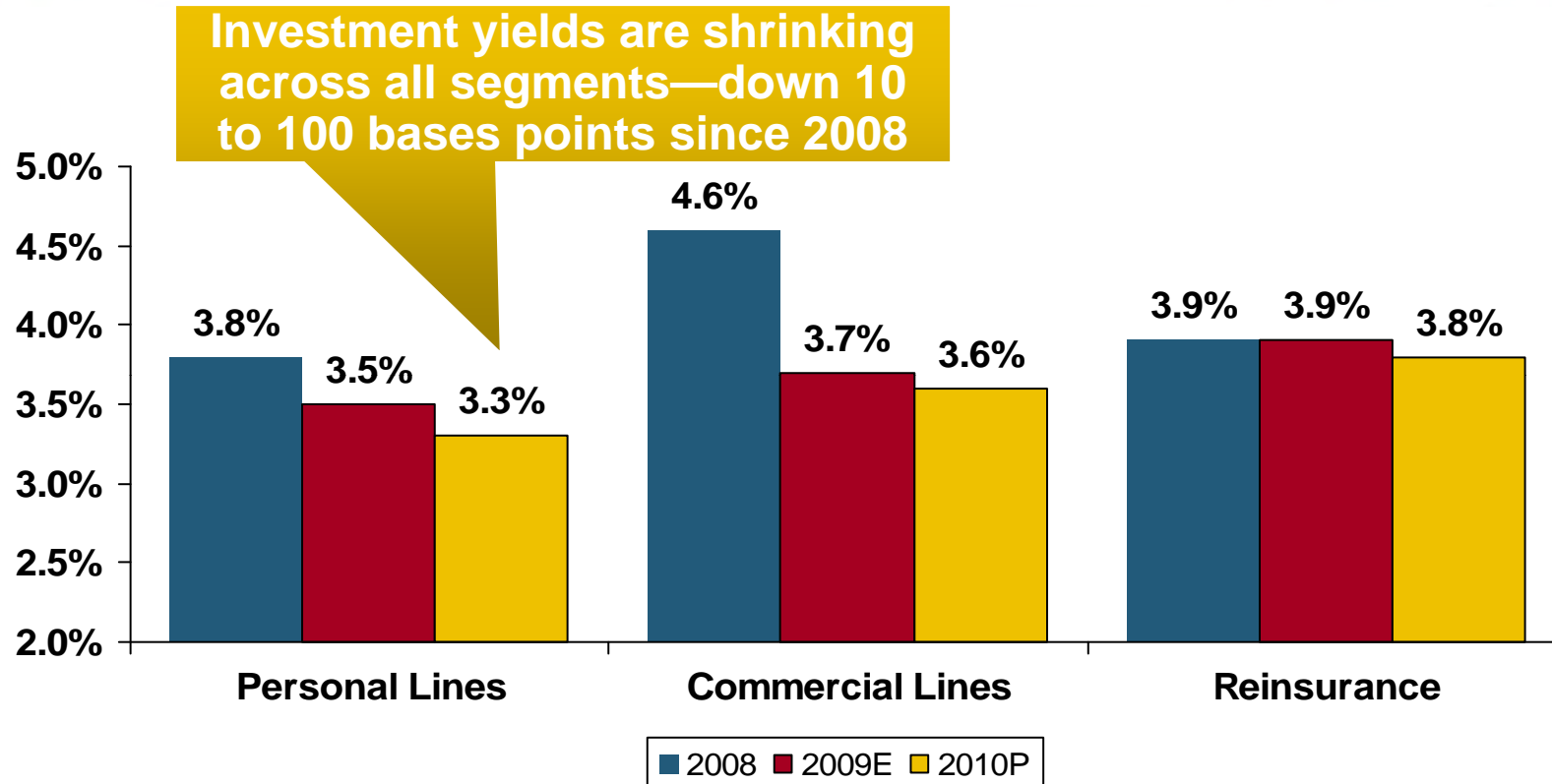
Change in Net Investment Income by Segment: 2008-2010P*

Net investment income is expected to begin to recover in all segments in 2010



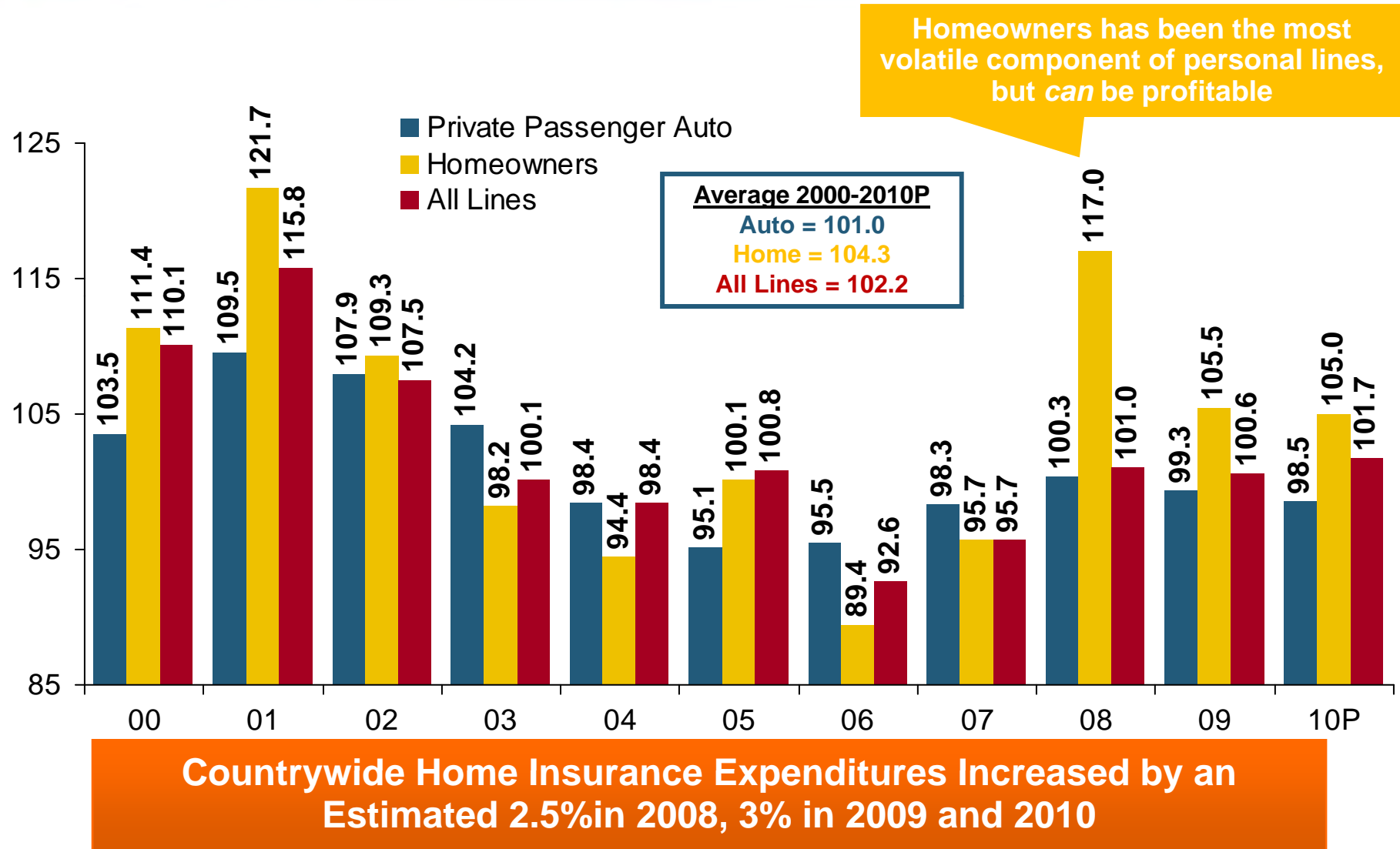
Investment income consists primarily of interest on bonds and stock dividends. Both were hit hard during the financial crisis as the Fed slashed interest rates to near zero and corporations cut dividends. A recovery in investment asset values beginning in Q2 2009—which reduced realized capital losses—has helped offset some of the decrease in investment income.

Investment Yield by Segment: 2008-2010P*



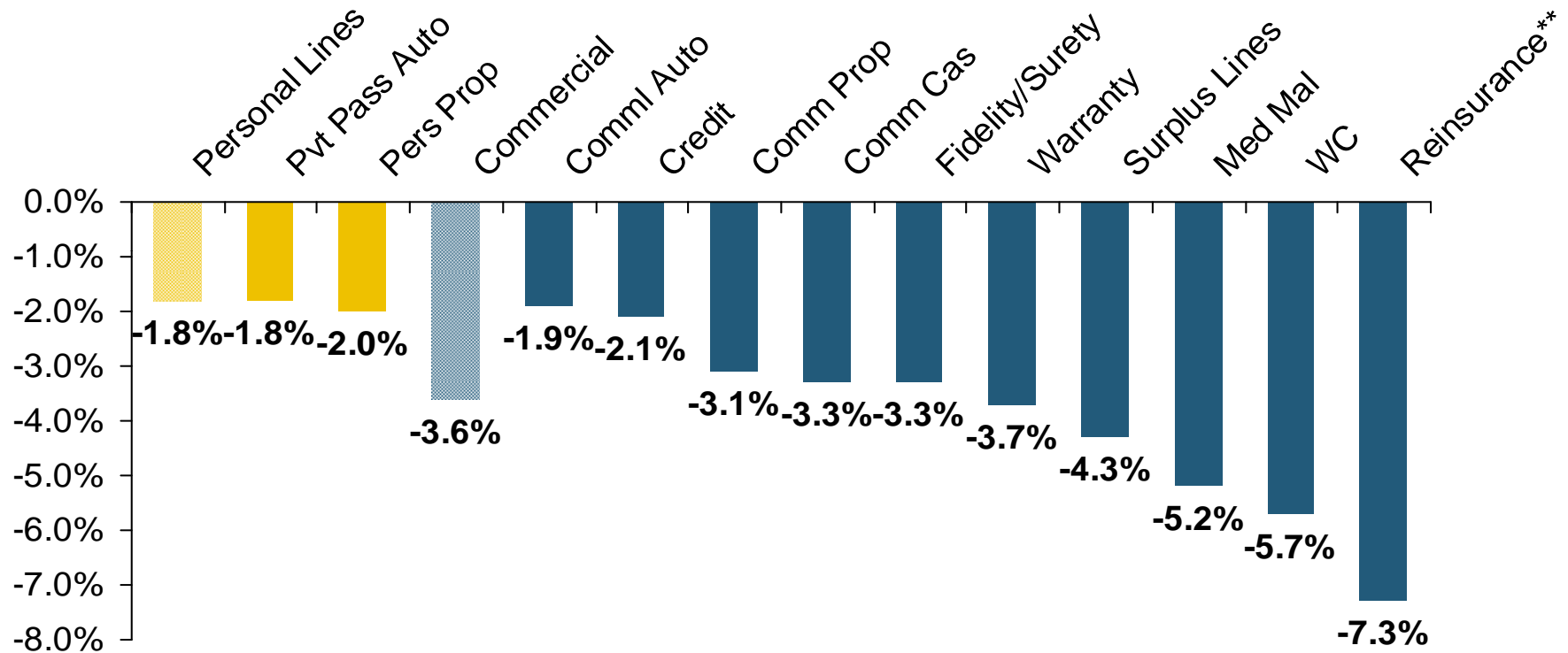
The Fed slashed interest rates in 2008 and has kept them low since, eroding the yield on all types of bonds, especially US Treasury securities. Yields will not recover until the Fed begins monetary policy tightening.

Auto & Home Combined Ratios vs. All Lines, 2000–2010P*



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

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

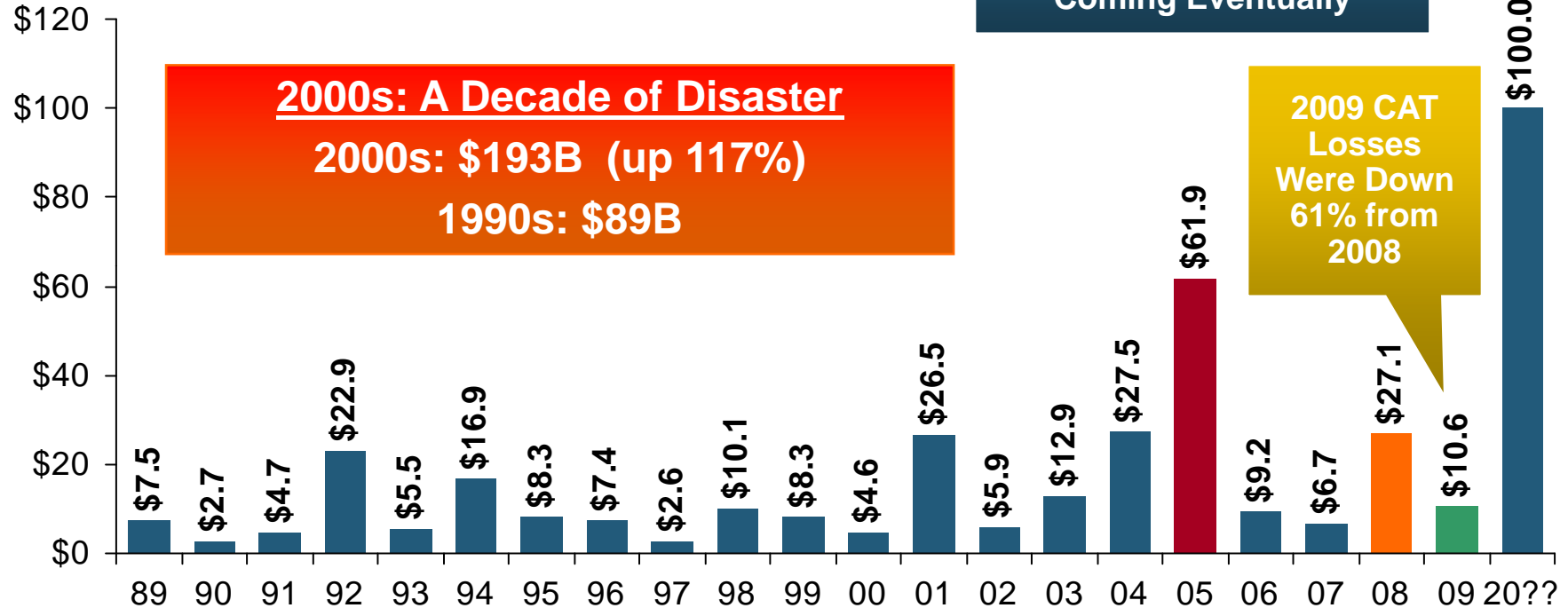
**US domestic reinsurance only.

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

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

US Insured Catastrophe Losses

(\$ Billions)



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

\$100 Billion CAT Year is Coming Eventually

2009 CAT Losses Were Down 61% from 2008

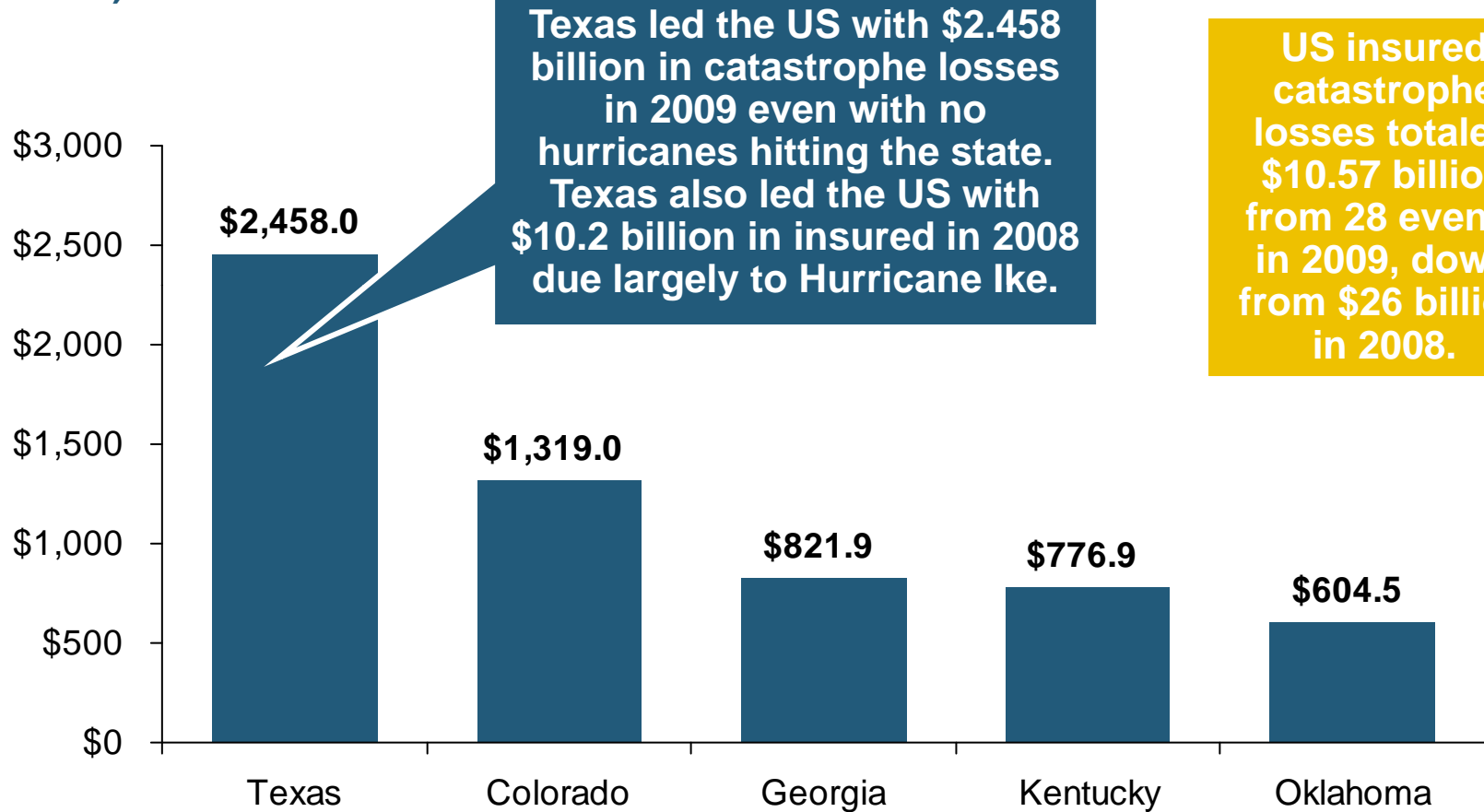
2009 CAT Losses Were Less than Half of 2008.
2005 Was by Far the Worst Year Ever for Insured Catastrophe Losses in the Decade of the 2000s Were More than Double the 1990s, But the Worst Has Yet to Come

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.

States with Highest Insured Catastrophe Losses in 2009

(\$ Millions)

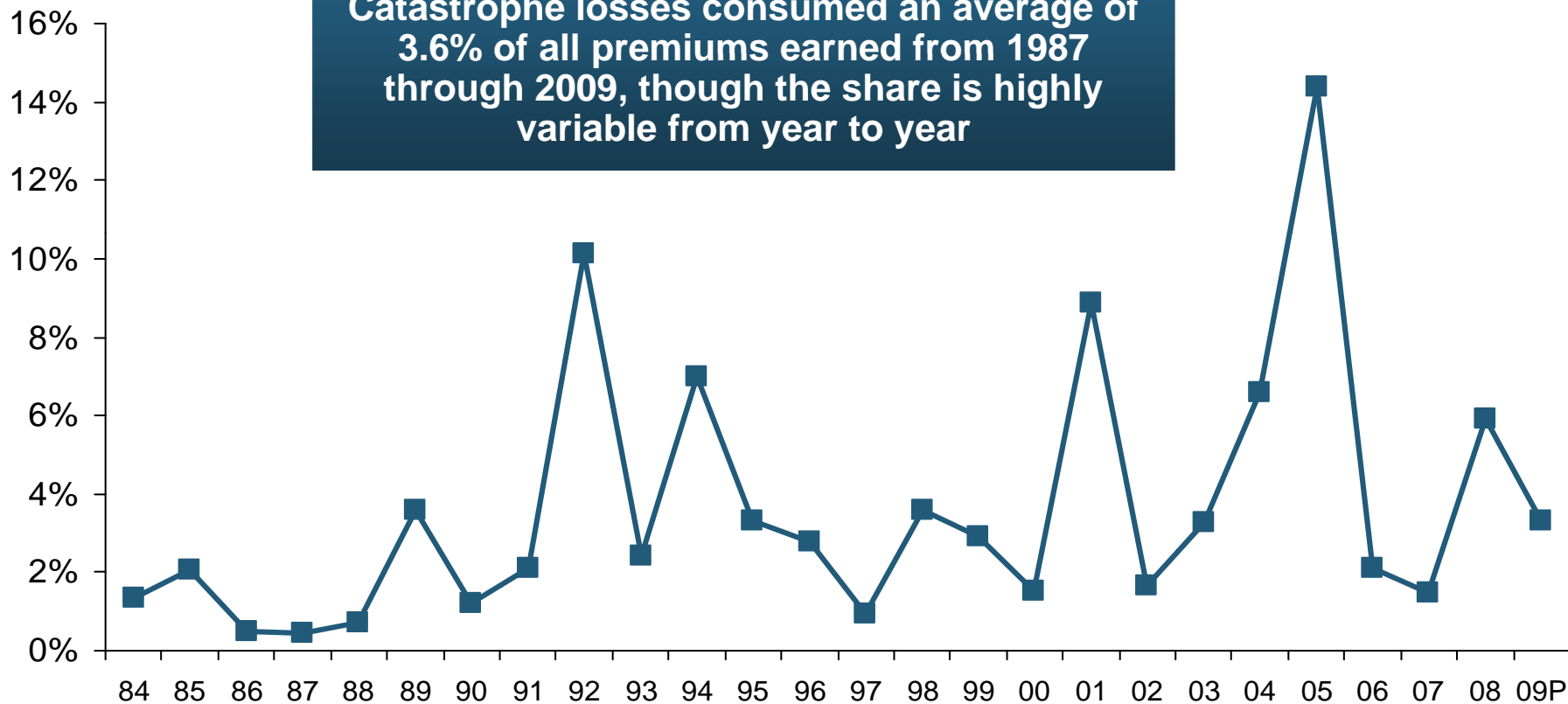


*As of February 22, 2010.
Source: PCS/ISO

Insured Property Catastrophe Losses as % Net Premiums Earned, 1984–2009P

(Percent)

Catastrophe losses consumed an average of 3.6% of all premiums earned from 1987 through 2009, though the share is highly variable from year to year



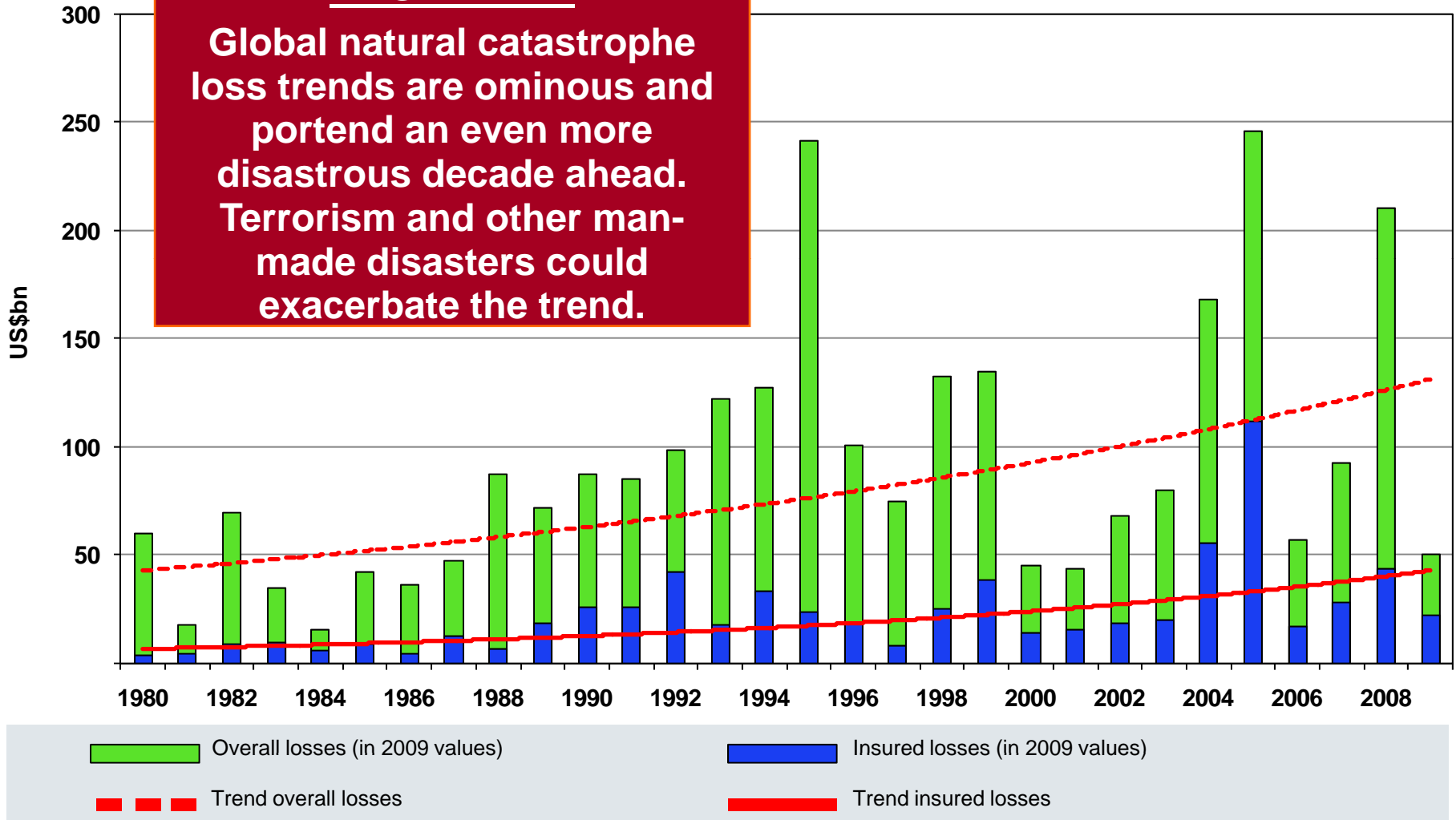
There is an Upward Trend in the Share of Premiums Needed to Finance Catastrophe Losses

Global Natural Catastrophes 1980–2009

Overall and insured losses with trend



MEGATREND
Global natural catastrophe loss trends are ominous and portend an even more disastrous decade ahead. Terrorism and other man-made disasters could exacerbate the trend.



Source: Munich Re NatCatSERVICE; Insurance Information Institute.

Natural Catastrophe Losses in the U.S. 2009

As of January 2010	Fatalities	Estimated Overall Losses (US \$m)	Estimated Insured Losses (US \$m)
Tropical Cyclones	8	Minor	Minor
Severe Thunderstorms	21	13,710	9,625 [†]
Winter Storms	70	1,600	770 [†]
Wildfires	6	280	185
Floods	22	1,600	232

2009 was a near record year for thunderstorm losses

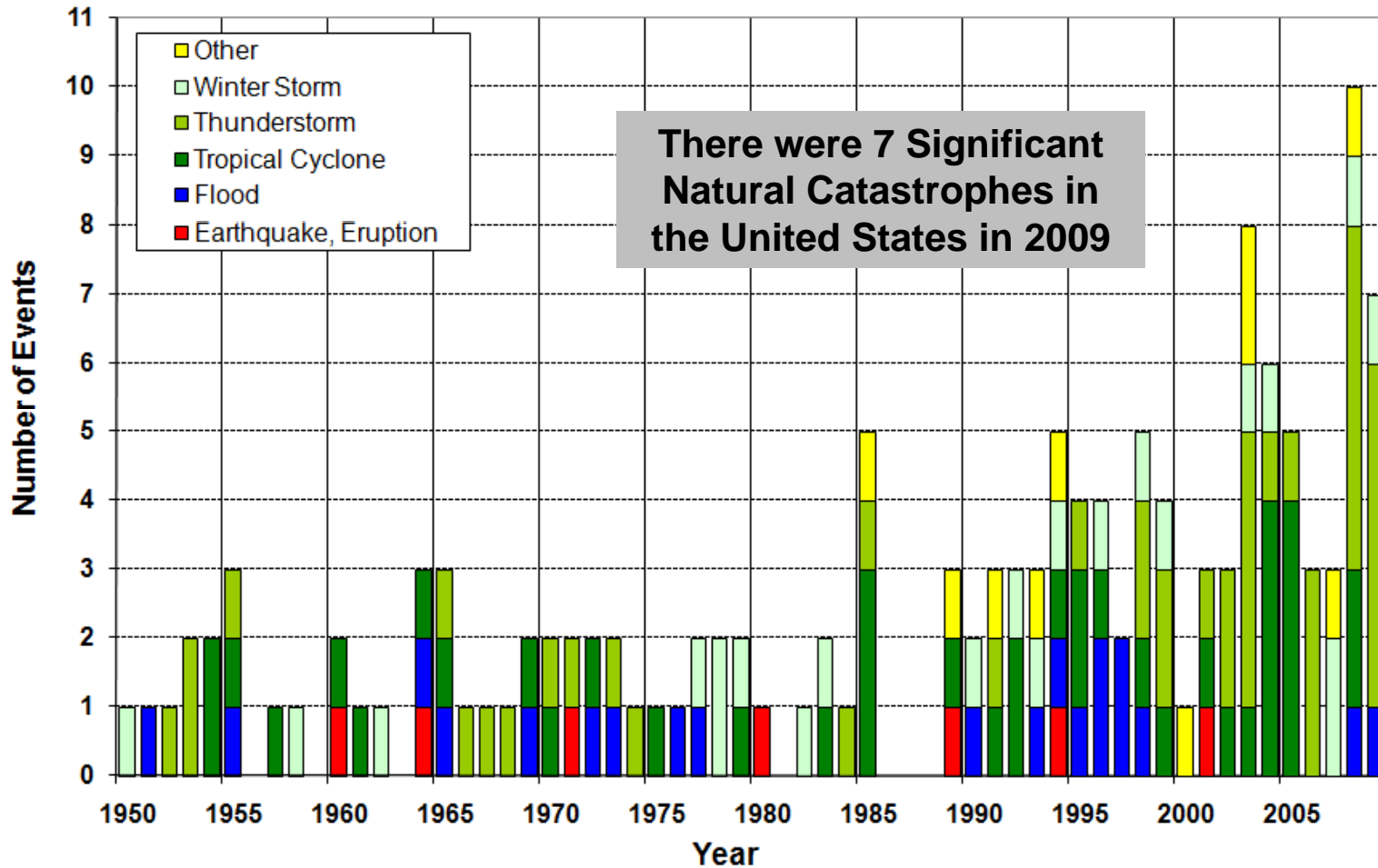
U.S. Significant Natural Catastrophes in 2009

\$1+ billion economic loss and/or 50+ fatalities (as of Jan. 2010)

Date	Event	Est. Economic Losses (US \$m)	Estimated Insured Losses (US \$m)
January 26 - 28	Winter Storm	1,100	565 [†]
February 10 - 13	Thunderstorms	2,500	1,350 [†]
March 25 - 26	Thunderstorms	1,500	995 [†]
March – April	Flood	1,000	75
April 9 -11	Thunderstorms	1,700	1,150 [†]
June 10 -18	Thunderstorms	2,000	1,100 [†]
July 20 -21	Thunderstorms	1,000	800 [†]

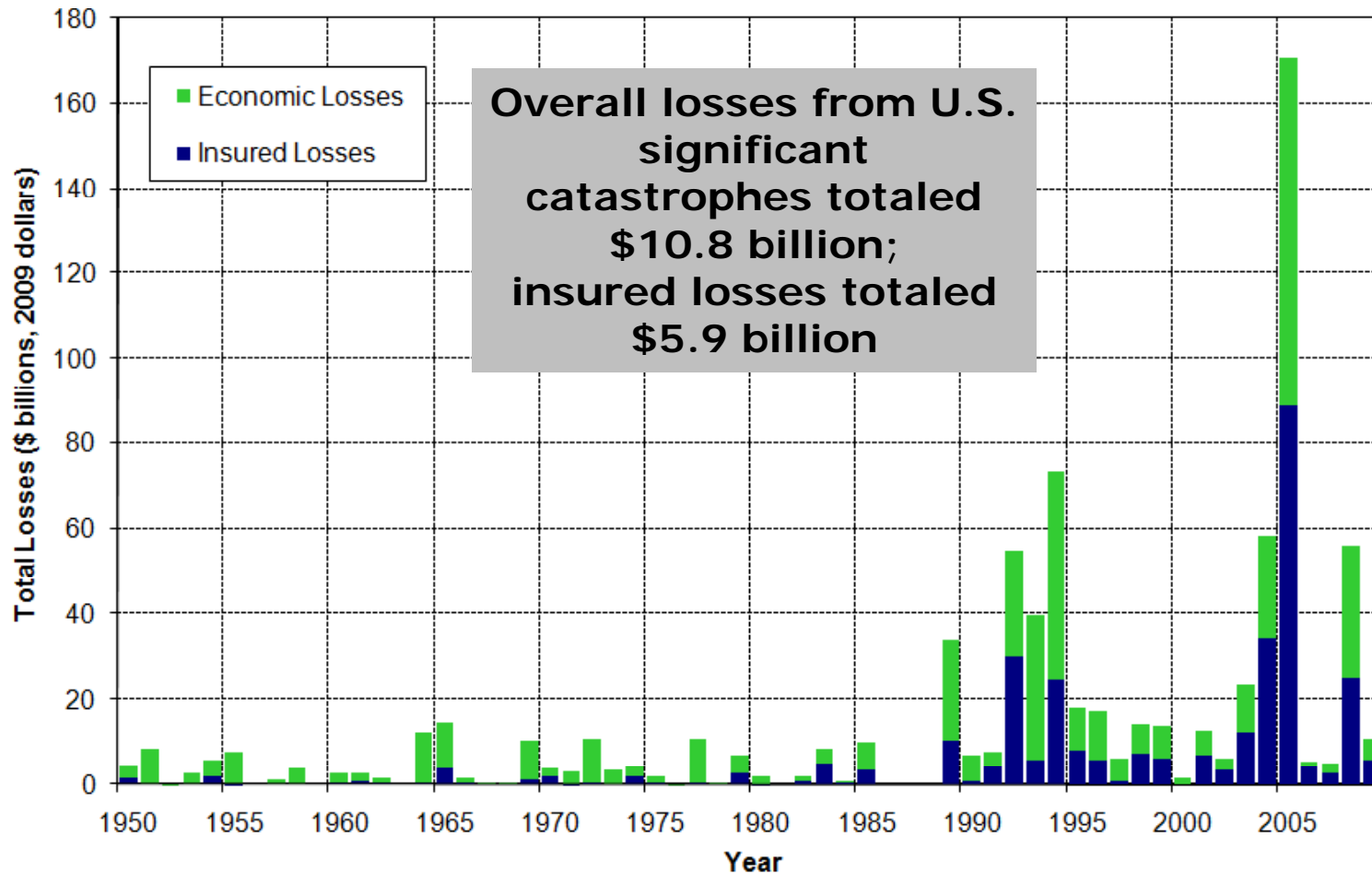
U.S. Significant Natural Catastrophes, 1950 – 2009

Number of Events (\$1+ Bill economic loss and/or 50+ fatalities)



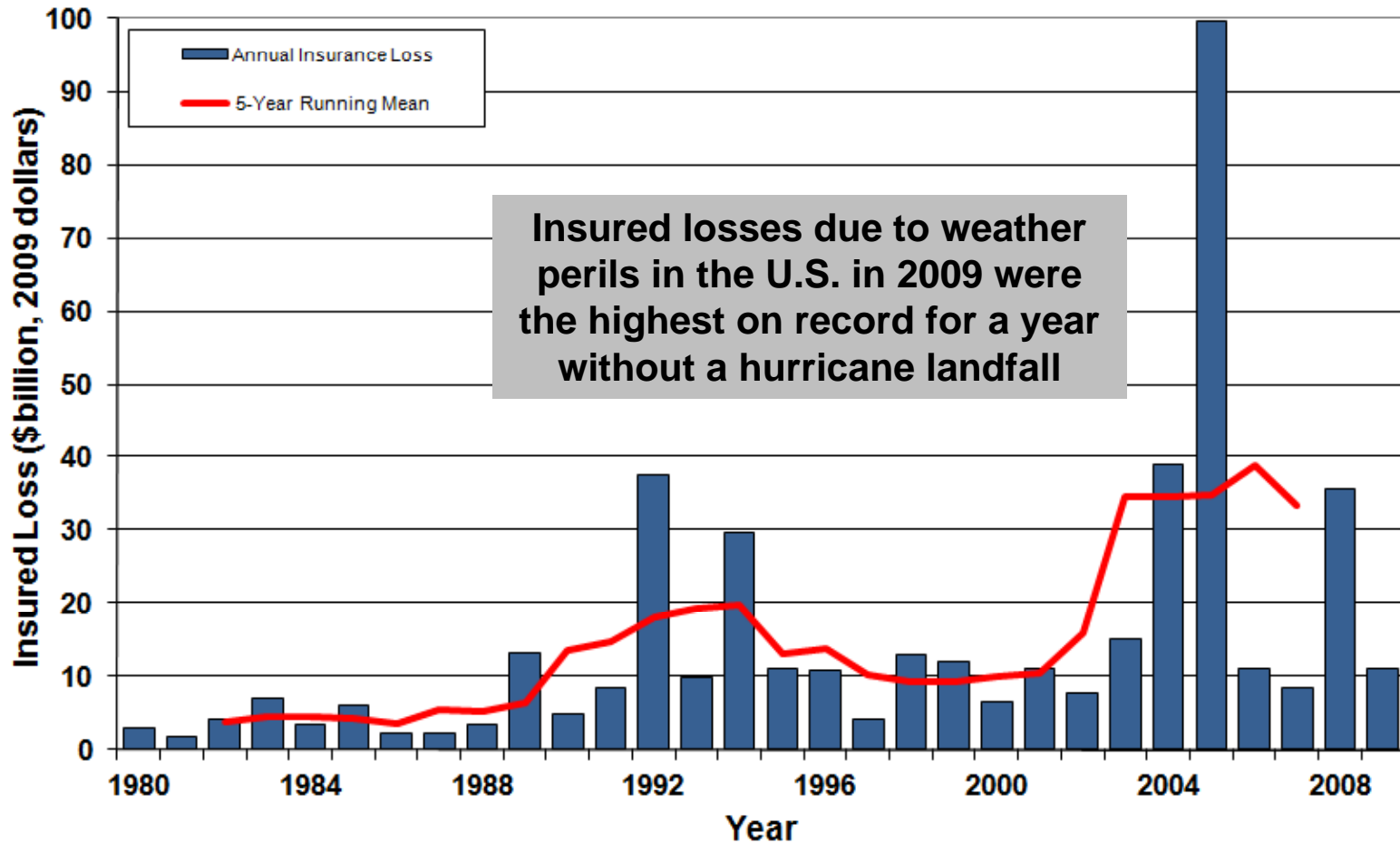
Losses from U.S. Significant Natural Catastrophes 1950 – 2009

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



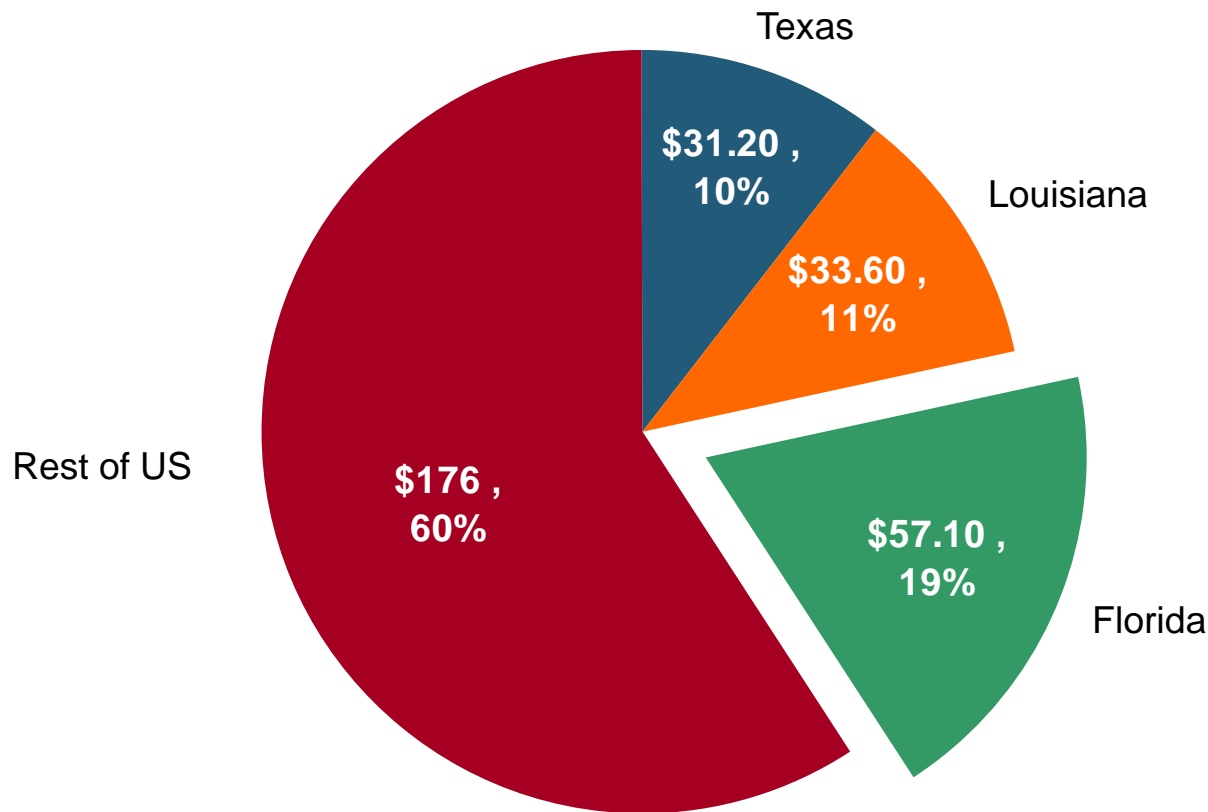
Insured Losses Due to Weather Perils in the U.S.: 1980 – 2009

(Tropical Cyclone, Thunderstorm, and Winter Storm only)



Distribution of US Insured CAT Losses: TX, FL, LA vs. US, 1980-2008*

(\$ Billions)

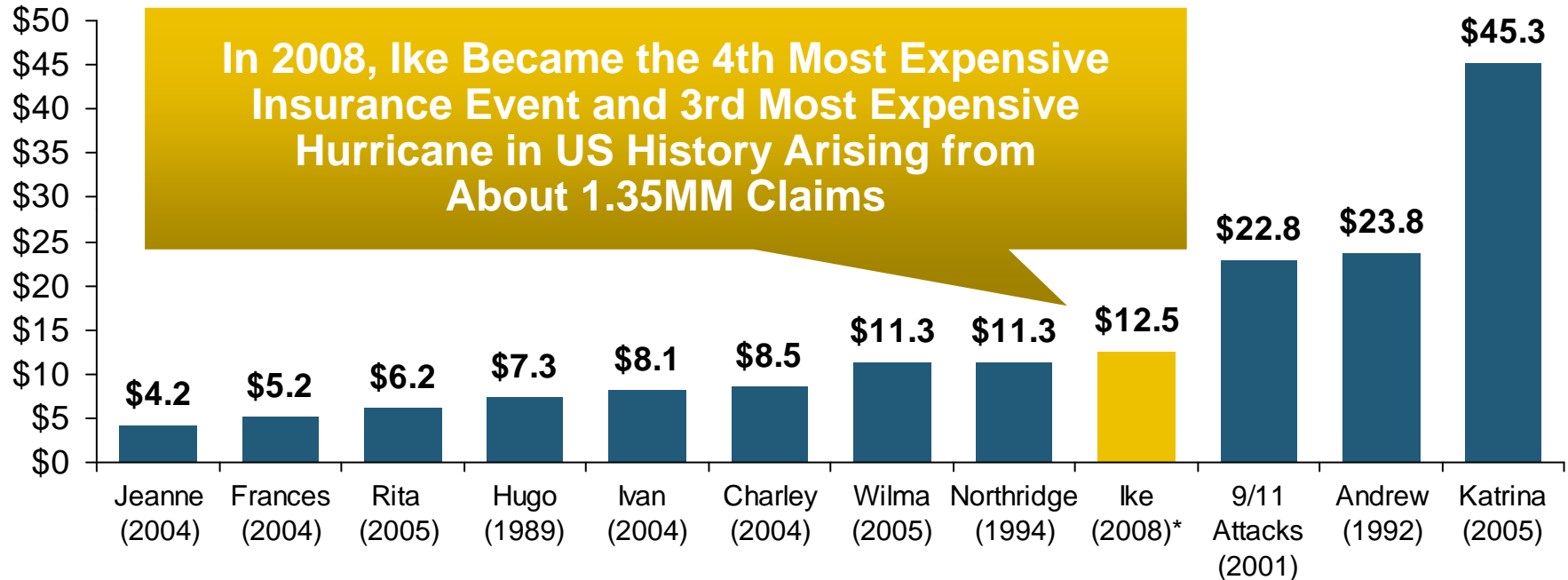


**Florida Accounted for 19% of All US Insured CAT Losses
from 1980-2008: \$57.1B out of \$297.9B**

* All figures (except 2006-2008 loss) have been adjusted to 2005 dollars.
Source: PCS division of ISO.

Top 12 Most Costly Disasters in US History

(Insured Losses, 2008, \$ Billions)



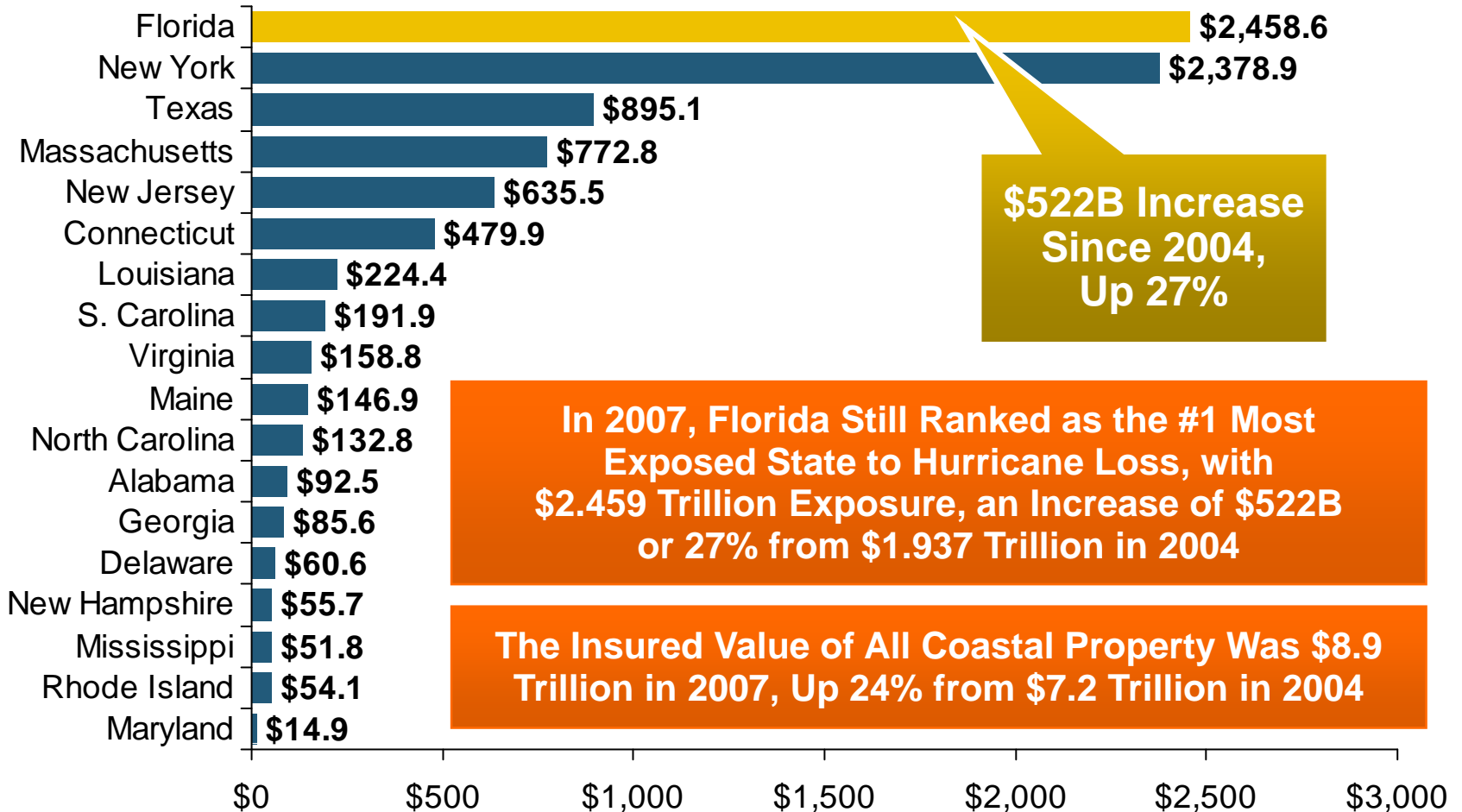
**8 of the 12 Most Expensive Disasters in US History
Have Occurred Since 2004;
8 of the Top 12 Disasters Affected FL**

* PCS estimate as of August 1, 2009.

Sources: PCS; Insurance Information Institute inflation adjustments.

Total Value of Insured Coastal Exposure

(2007, \$ Billions)



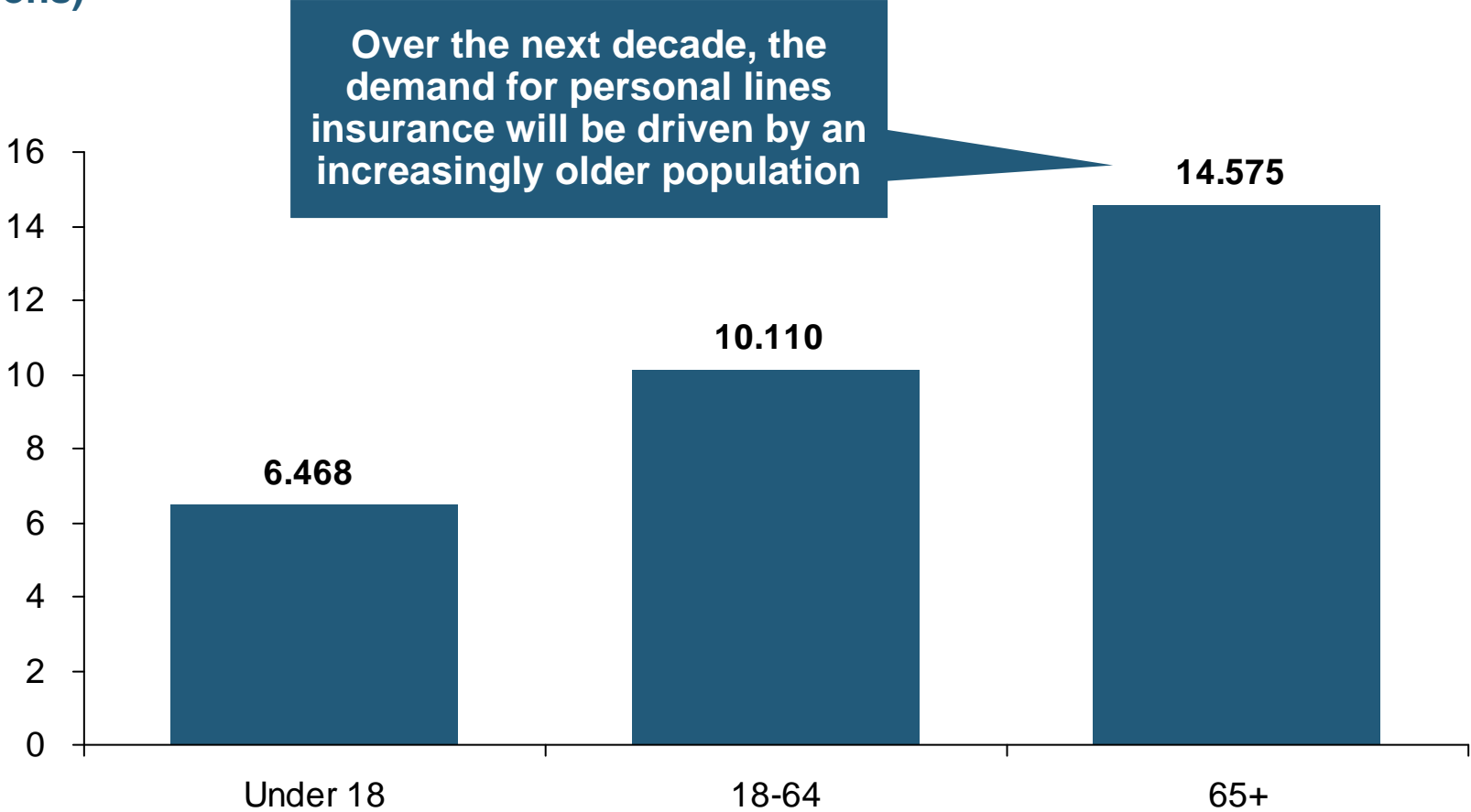


Demographic Trends Impacting Auto/Home Insurance Markets

**Aging, Immigration Will
Influence Insurance Demand**

Increase in Population by Age Category, 2010 to 2020

(Millions)



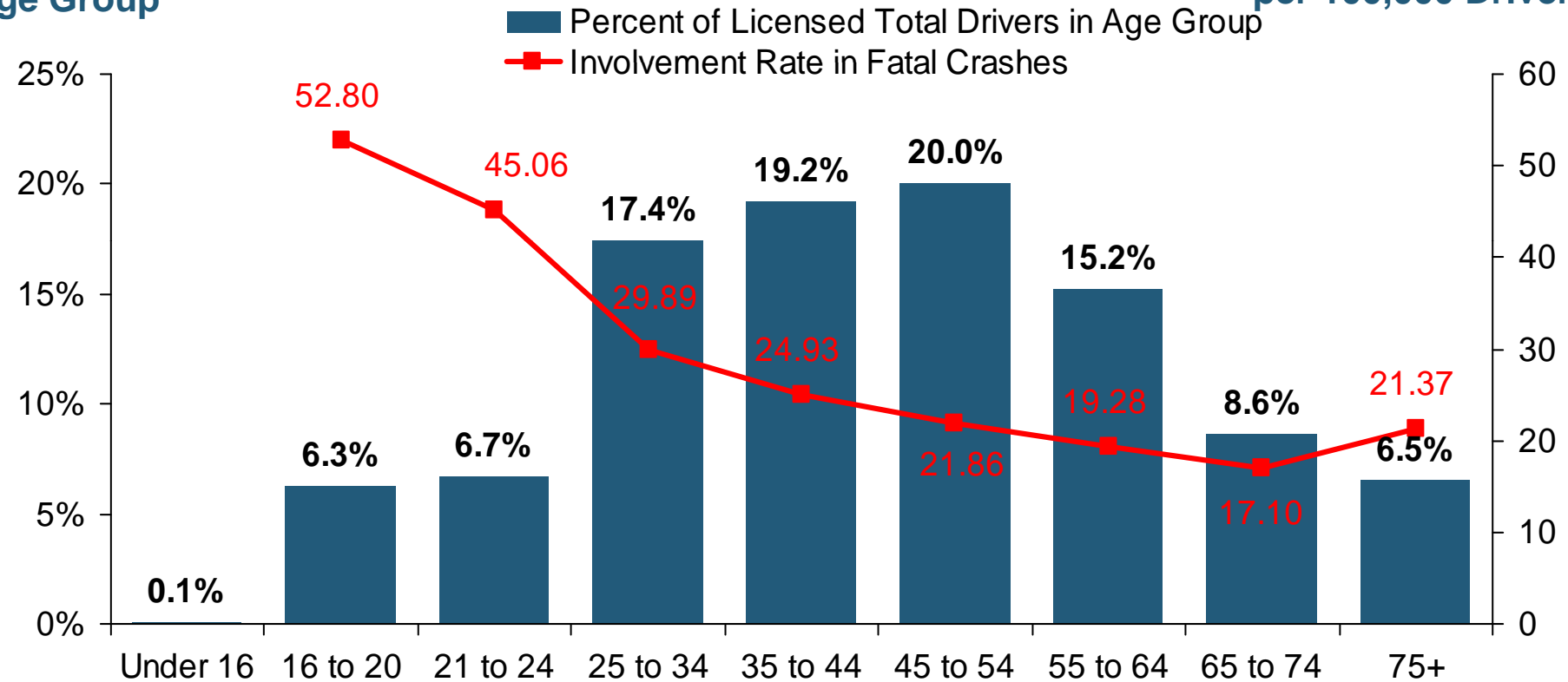
Claim Trends in Personal Lines Will Shift With Demographics; Insurers Must Adapt

Source: US Census Bureau

Younger and Older Drivers Are Over-Represented in Fatal Crashes

Share of Drivers in
Age Group

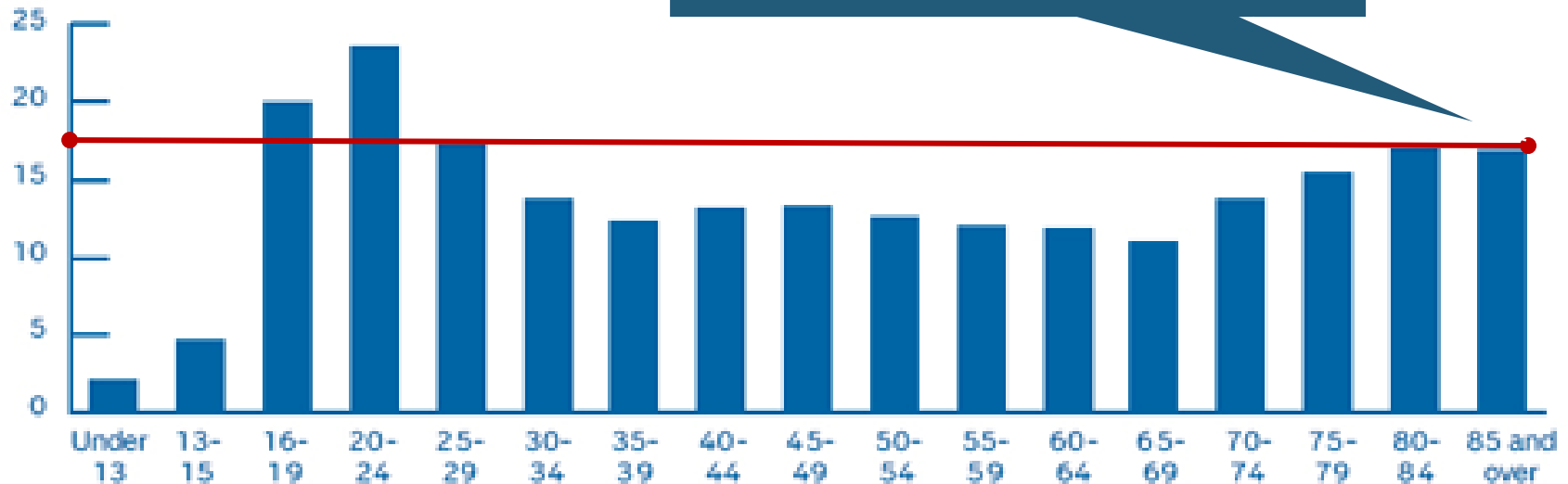
Involvement Rate
per 100,000 Drivers



Immigration and High Birth Rates in Some Demographic Groups, Combined With Baby Boomers Aging Creates Challenges for Insurers and Auto Safety Experts

Motor Vehicle Deaths per 100,000 Persons by Age, 2008

The elderly are almost as likely to be killed in a motor vehicle accident as a teenager. As the Baby Boomers age, this is a looming public health crisis



**Problem: How to Keep the Elderly Safe in Cars
(Not Just When They're Behind the Wheel)**

Underwriting Technology: The Competitive Front Line

**Underwriting Acumen Will
Determine Long-Run Success
*A Technological Arms Race?***

Competition: Success Defined More by Underwriting Acumen than by Price

- Consumers see competition mostly in terms of price and service
- While personal lines insurance is generally very price competitive, long-run success for insurers is not solely correlated with the lowest price
- Underwriting is the key to accurate risk assessment and pricing
- An insurer that systematically prices business more accurately will turn in a better financial performance and lead competitors misprice
- There are theoretically no boundaries when it comes to underwriting
- The past 15 years launched a technological revolution in underwriting
 - ◆ Now we're in the midst of a *Technological Arms Race*
- From Credit, to Predictive Modeling to Telematics to....???
- Next Wave of Innovations Will Include Integration of Real-Time Information About the Vehicle and Driver
- Interactive Technologies
 - ◆ Allows drivers to “log on” to view how driving behaviors influence risk and price
- Ability for Consumer to Adjust Behaviors
 - ◆ Tremendous public policy, public safety implications

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