



Property-Casualty Insurance: *The Road Ahead in the Post- Recession World*

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- **Reasons for Optimism, Causes for Concern**
- **Insurance Industry Financial Overview & Outlook**
 - ◆ Profitability
 - ◆ Premium Growth
 - ◆ Underwriting Performance: Commercial & Personal Lines
 - ◆ Financial Market Impacts
- **Capital & Capacity**
- **Financial Strength & Ratings**
 - ◆ Key Differences Between Insurer and Bank Performance During Crisis
- **The Global Economic Storm: Financial Crisis & Recession**
 - ◆ Exposure, Growth & Profitability
- **Crisis-Driven Exposure Issues: Personal & Commercial Lines**
 - ◆ When and Where Will Growth Return?
- **Threats and Issues Facing P/C Insurers Through 2015**
- **Catastrophe Loss Trends**
- **Q&A**

Reasons for Optimism, Causes for Concern in the P/C Insurance Industry

- **Economic Recovery in US is Self-Sustaining: No Double Dip Recession**
- **European Debt Crisis Will Pass; Concerns are Overblown**
 - ◆ Volatility will remain a reality, however
- **Era of Mass Commercial Insurance Exposure Destruction Has Ended**
 - ◆ But restoration of destroyed exposure will take 3+ years in US
- **No Secondary Spike in Unemployment or Swoon in Payrolls/WC Exposure**
 - ◆ But wage growth remains sluggish
- **Exposure Growth Will Begin in Earnest in 2nd Half 2010, Accelerate in 2011**
- **Increase in Demand for Commercial Insurance is in its Earliest Stages and Will Accelerate in 2011**
 - ◆ Includes workers comp, commercial auto, marine, many liability coverages, D&O
 - ◆ Laggards: Property, inland marine, aviation
 - ◆ Personal Lines: Auto leads, homeowners lags
- **P/C Insurance Industry Will See Growth in 2011 for the First Time Since 2006**
- **Investment Environment Is/Remains Much More Favorable**
 - ◆ Volatility, however, will persist and yields remain low
 - ◆ Both are critical issues in long-tailed commercial lines like WC, Med Mal, D&O

Reasons for Optimism, Causes for Concern in the P/C Insurance Industry

- **P/C Insurance Industry Capacity as of 3/31/10 Is at Record Levels and Has Recovered 100%+ of the Capital Lost During the Financial Crisis**
 - ◆ As of 12/31/09 capacity was within 2% of pre-crisis high
- **Record Capacity, Depressed Exposures Mean that Generally Soft Market Conditions Will Persist through 2010 and Potentially into 2011**
- **There is No Catalyst for a Robust Hard Market at the Current Time**
- **High First Half 2010 CAT Losses Insufficient to Trigger Hard Market**
 - ◆ Localized insurance and reinsurance impacts are occurring, especially earthquake coverage in Latin/South America, Offshore Energy Markets, European Wind Cover
- **Inflation Outlook for US and Major European Economies and Japan is Tame**
 - ◆ Will temper claims inflation
- **Financial Strength & Ratings of Global (Re)Insurance Industries Remained Strong Throughout the Financial Crisis in Sharp Contrast With Banks**
- **Insurers Have Avoided (So Far) the Most Draconian Outcomes in Financial Services Reform Legislation**
- **Tort Environment in US is Beginning to Deteriorate; No Tort Reform in US**
- **Major Transformation of US Economy Underway with Major Opportunities for Insurers through 2020 in Health, Tech, Natural Resources, Energy**

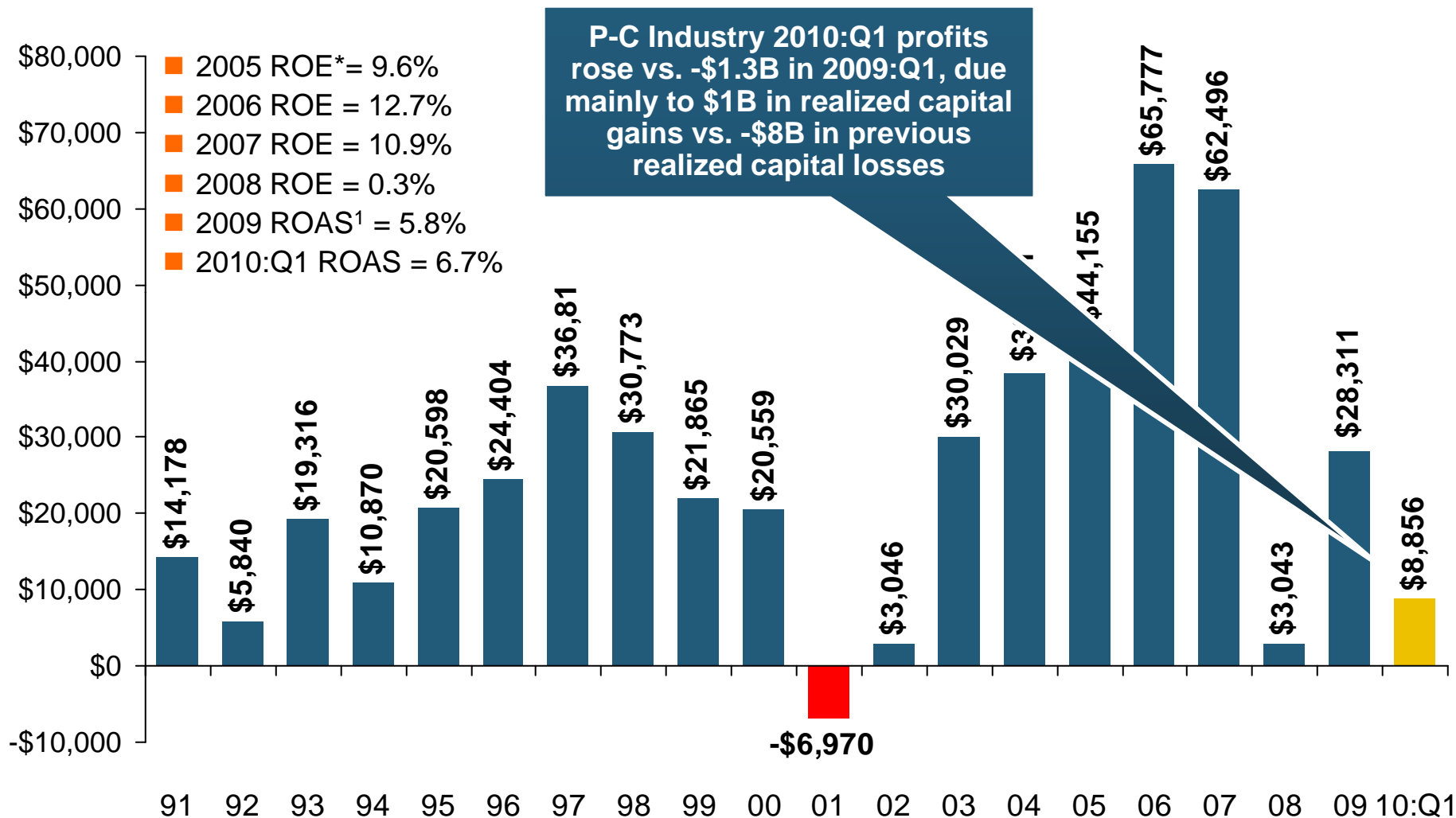
P/C (Re) Insurance Financial Performance

A Resilient Industry in Challenging Times

Profitability

Historically Volatile

P/C Net Income After Taxes 1991–2010:Q1 (\$ Millions)

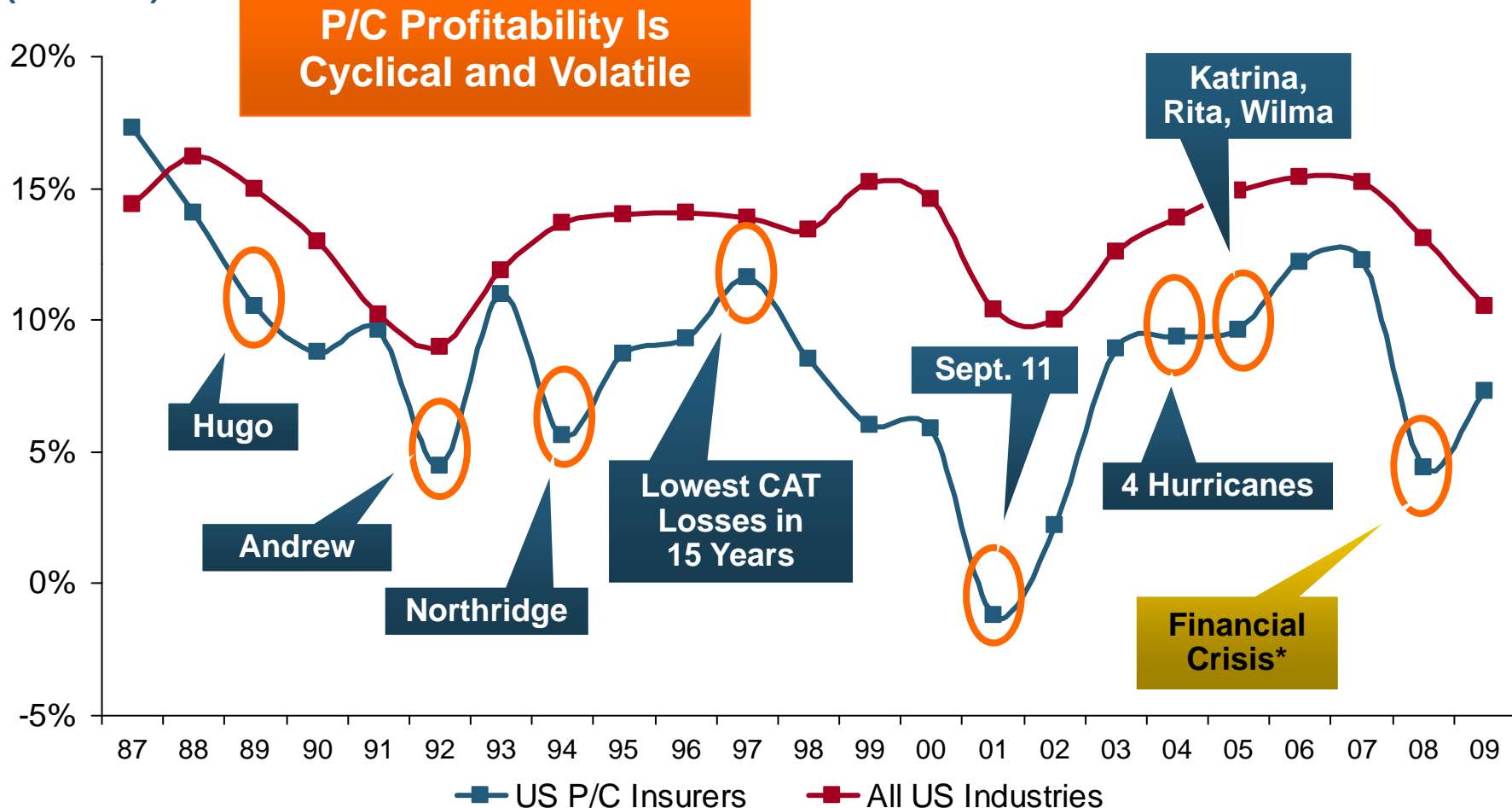


* ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields an 8.3% ROAS for 2010:Q1, 7.3% for 2009 and 4.4% for 2008. 2009 net income was \$34.5 billion and \$20.8 billion in 2008 excluding M&FG.

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

ROE: P/C vs. All Industries 1987–2009*

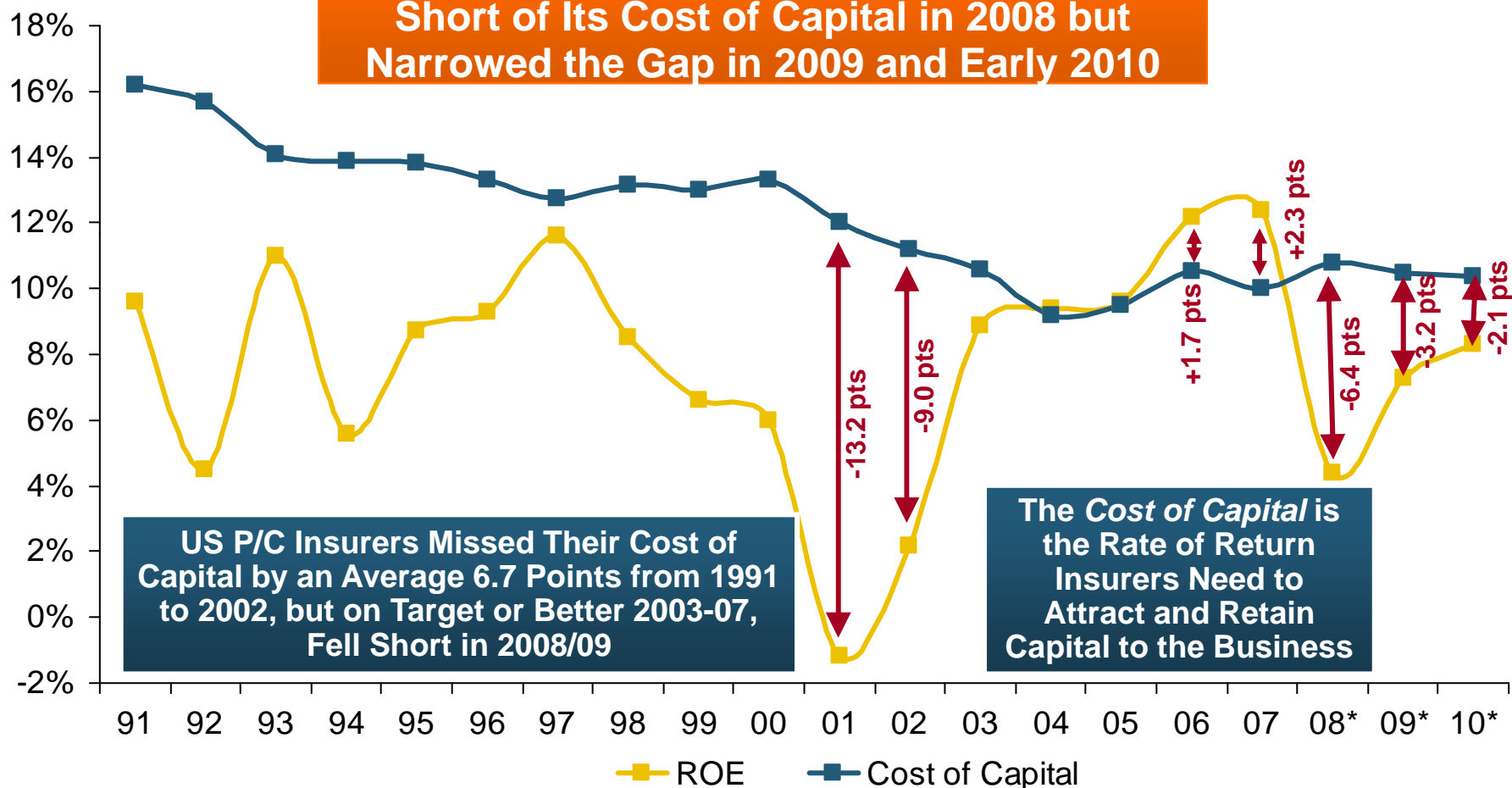
(Percent)



* Excludes Mortgage & Financial Guarantee in 2008 and 2009.
Sources: ISO, *Fortune*; Insurance Information Institute.

ROE vs. Equity Cost of Capital: U.S. P/C Insurance:1991-2010*

(Percent)

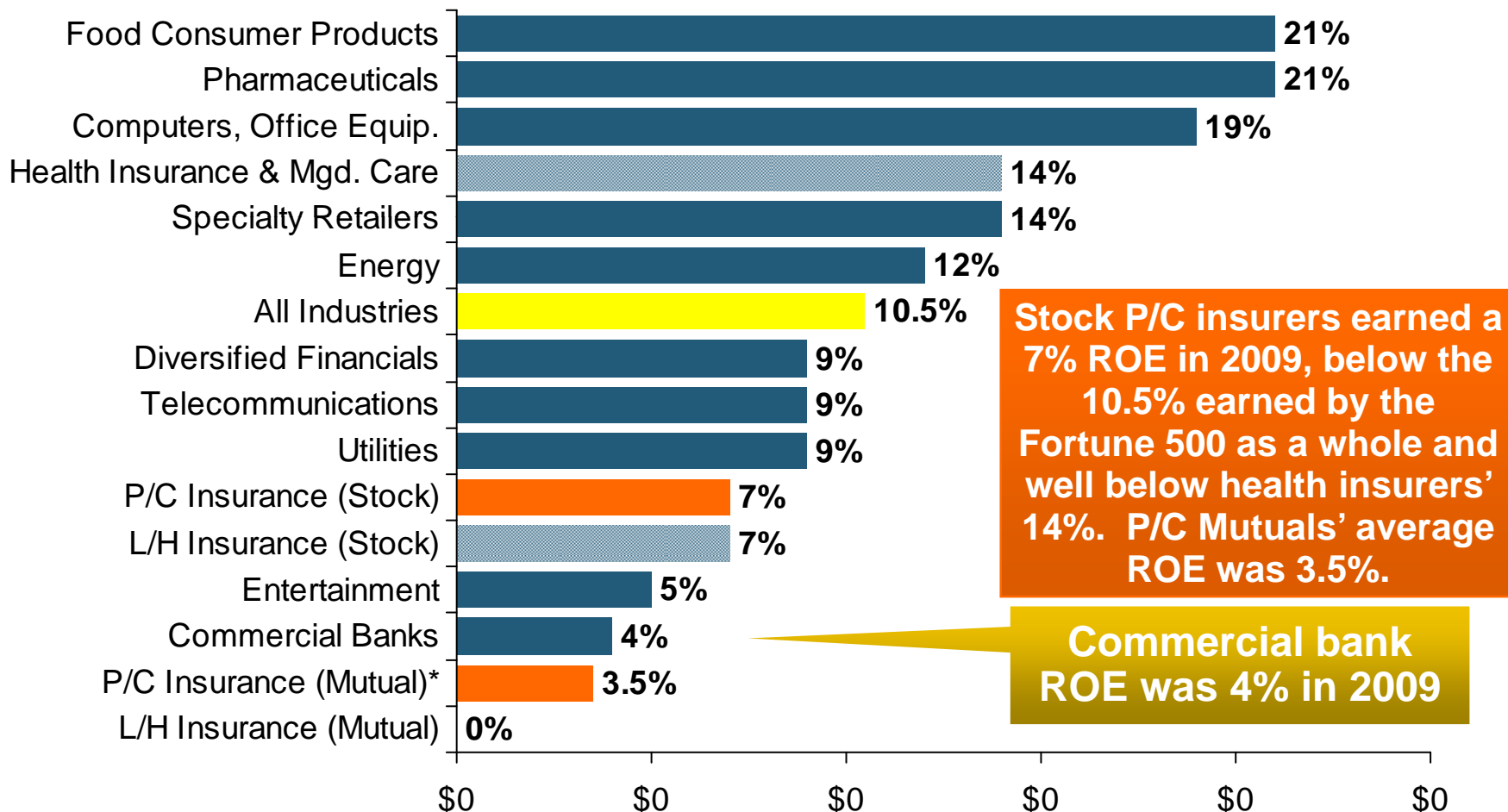


* Return on average surplus in 2008/09 excluding mortgage and financial guaranty insurers.

Source: The Geneva Association, Insurance Information Institute

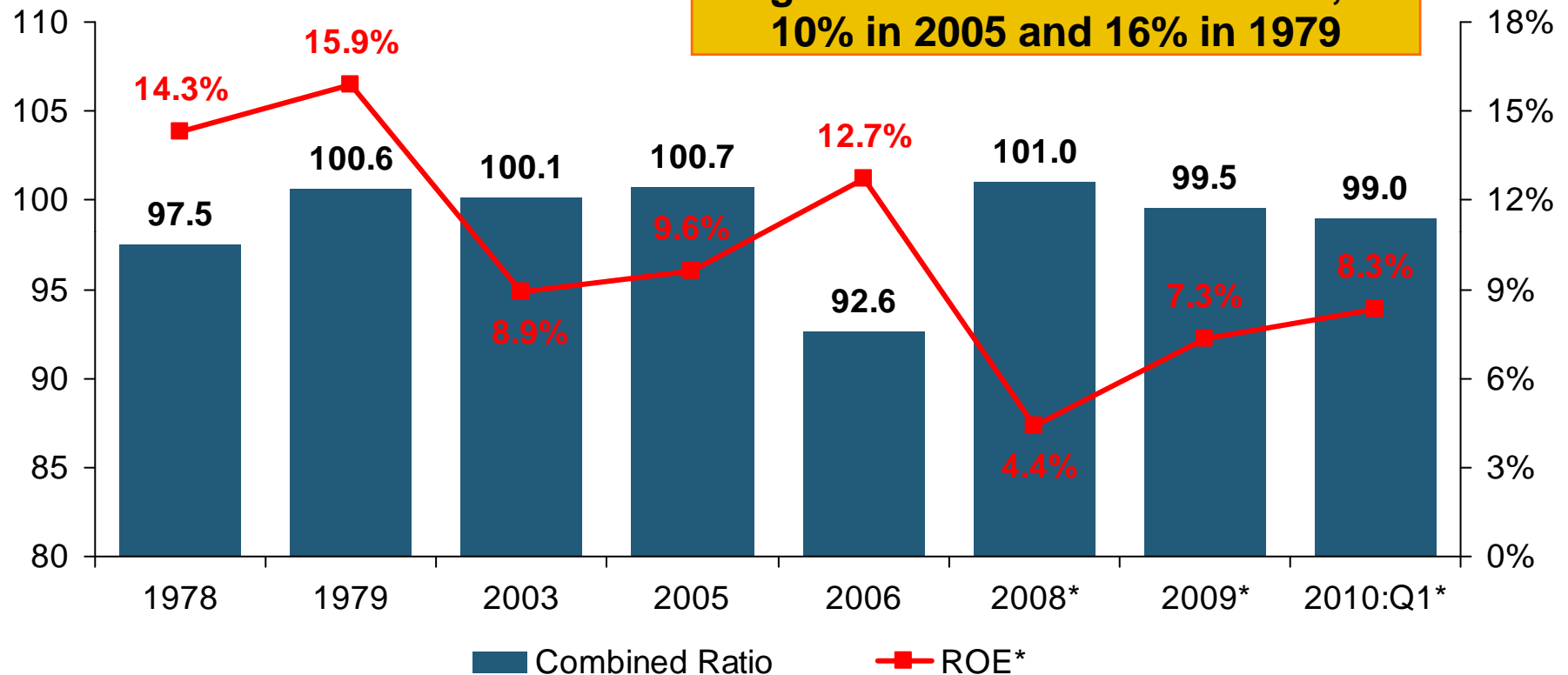
Median ROE for Insurers vs. Financial Firms & Other Key Industries 2009

(Profits as a % of Stockholders' Equity)



A 100 Combined Ratio Isn't What It Once Was: 90-95 Is Where It's At Now

Combined Ratio / ROE



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

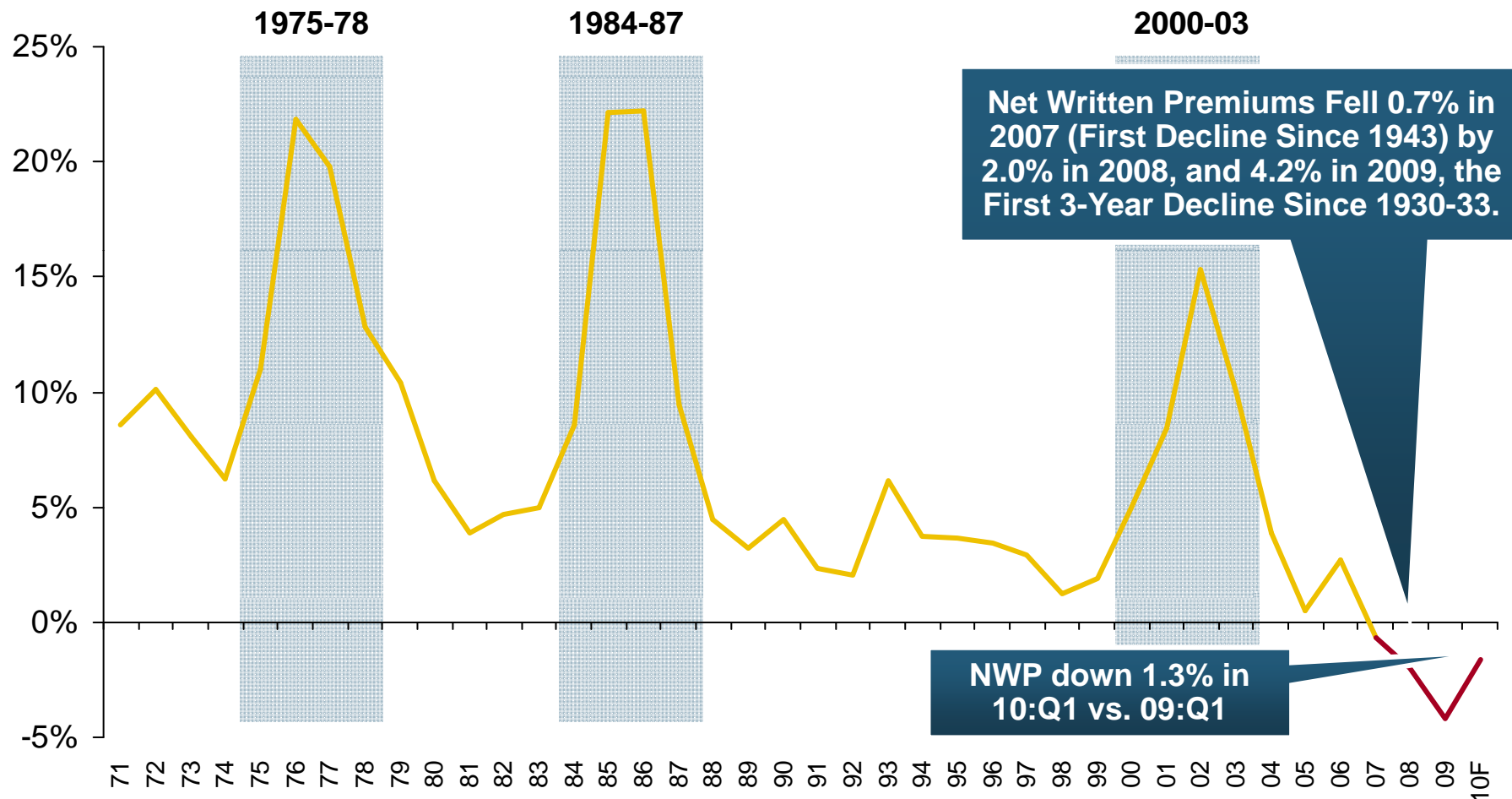
* 2009 and 2010:Q1 figures are return on average statutory surplus. 2008, 2009 and 2010:Q1 figures exclude mortgage and financial guarantee insurers

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

**P/C Premium Growth
Primarily Driven by the
Industry's Underwriting Cycle,
Not the Economy**

Soft Market Appears to Persist in 2010. Relief in 2011?

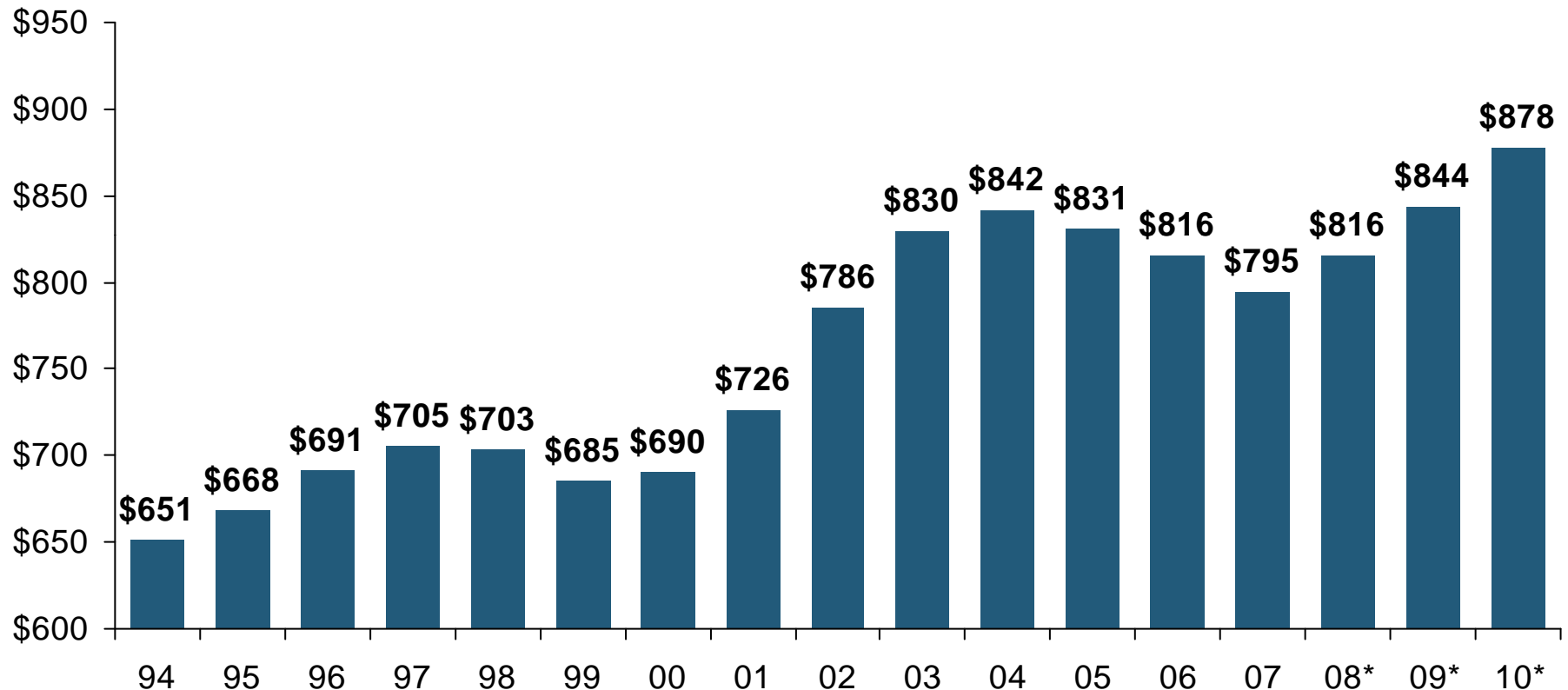
(Percent)



Shaded areas denote "hard market" periods

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

Average Expenditures on Auto Insurance



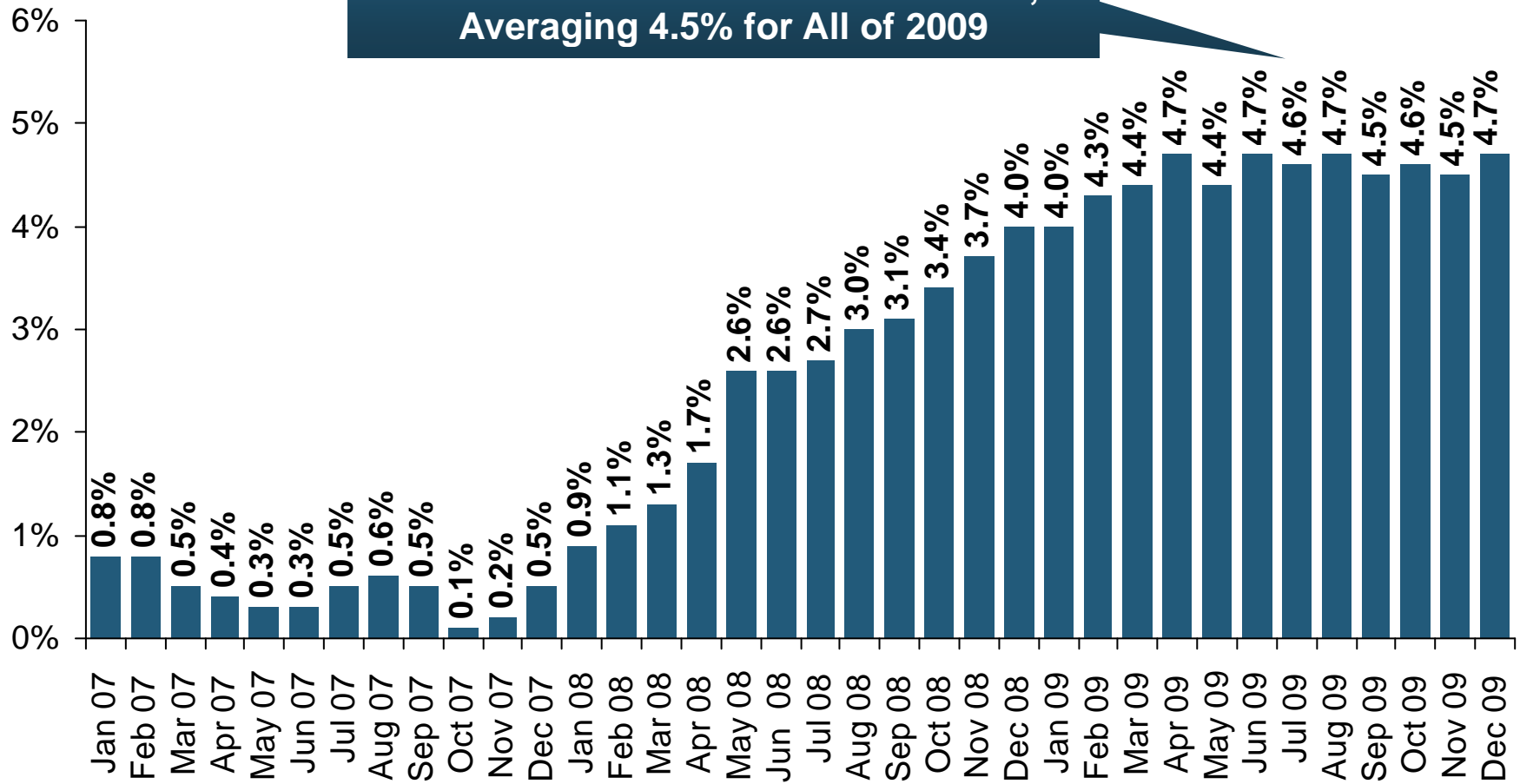
**Countrywide Auto Insurance Expenditures Increased
2.6% in 2008 and 3.5% Pace in 2009 (est.) and 4% in 2010 (est.)**

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

Monthly Change in Auto Insurance Prices*

(Percent)

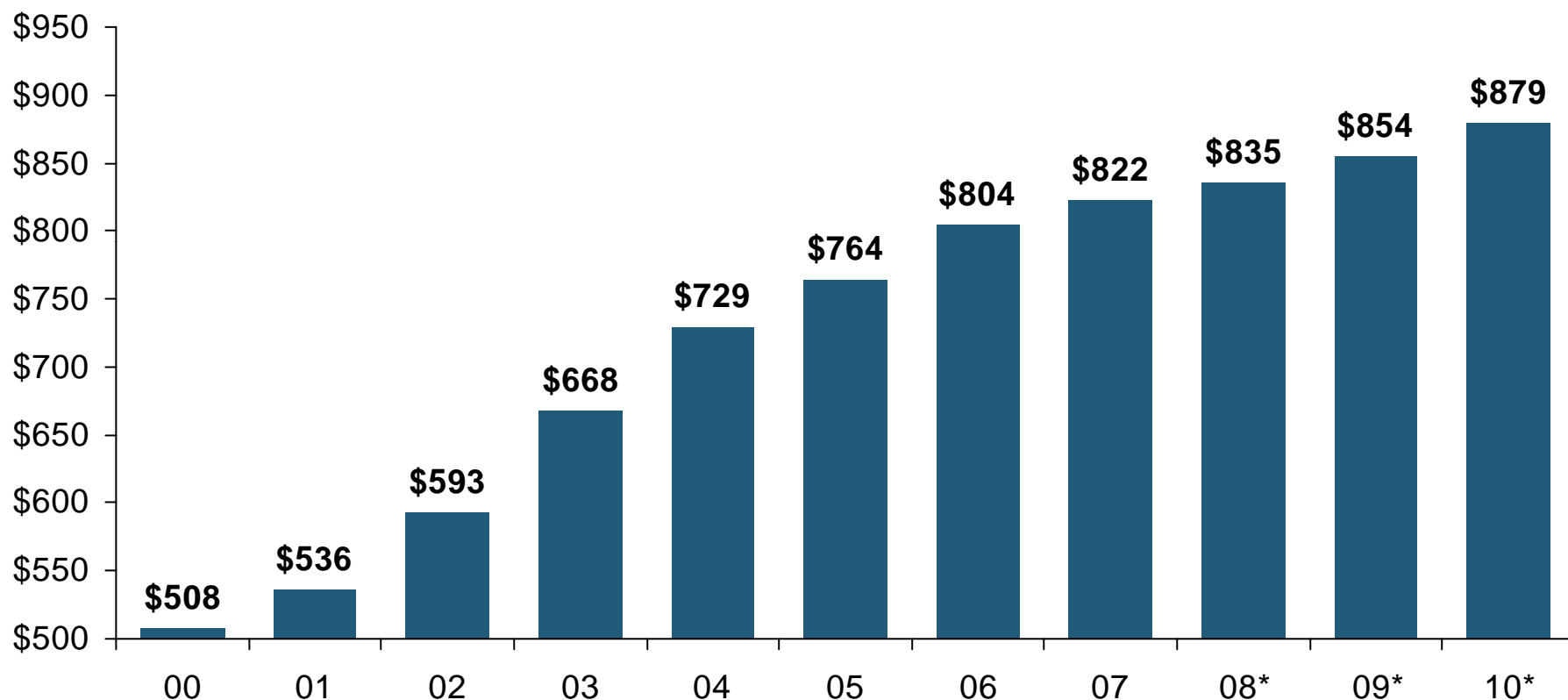
Auto Insurance Price Increases Seem to Have Levelled Off in Recent Months, Averaging 4.5% for All of 2009



* Percentage change from same month in prior year.

Source: US Bureau of Labor Statistics

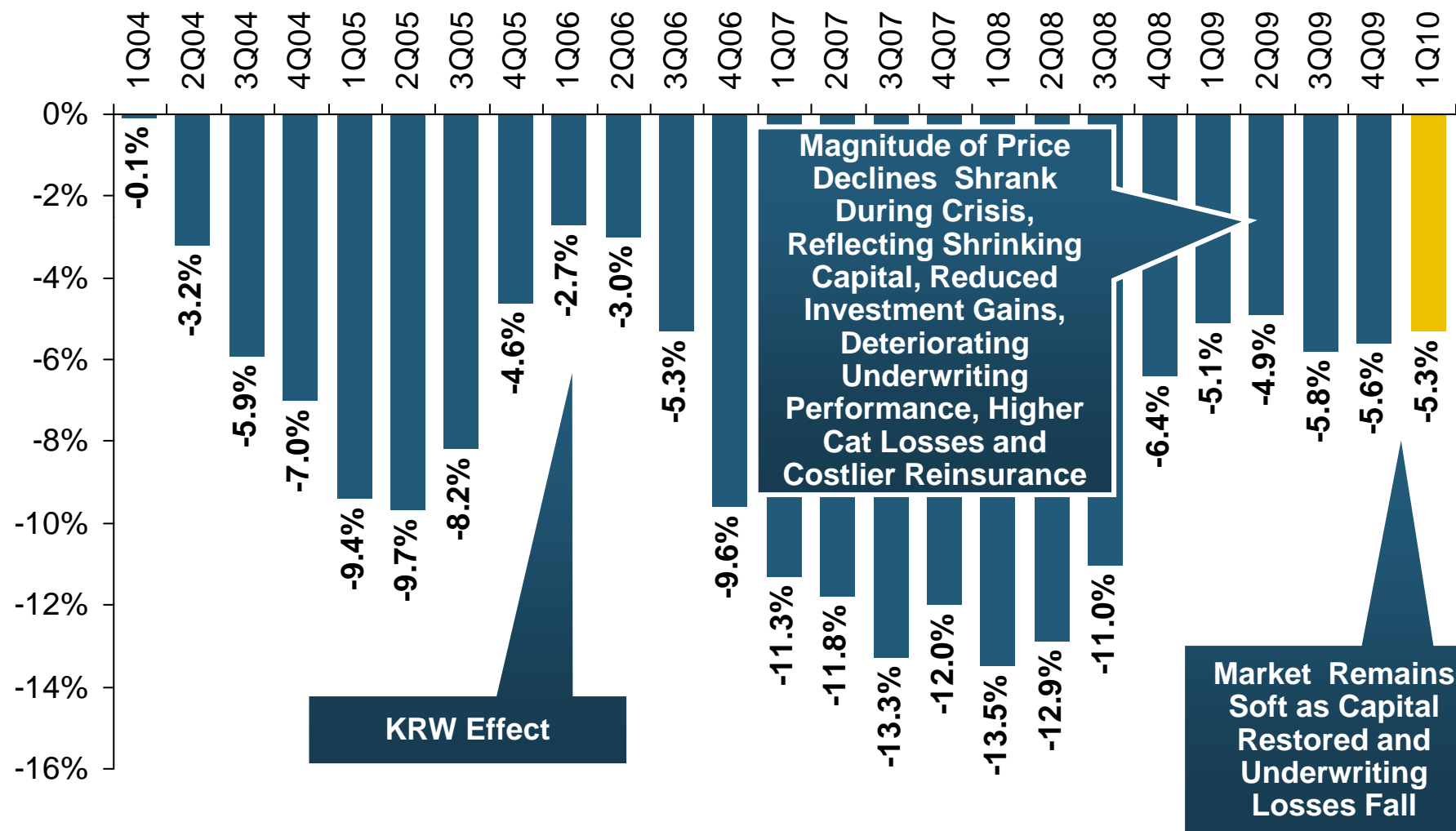
Average Premium for Home Insurance Policies**



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

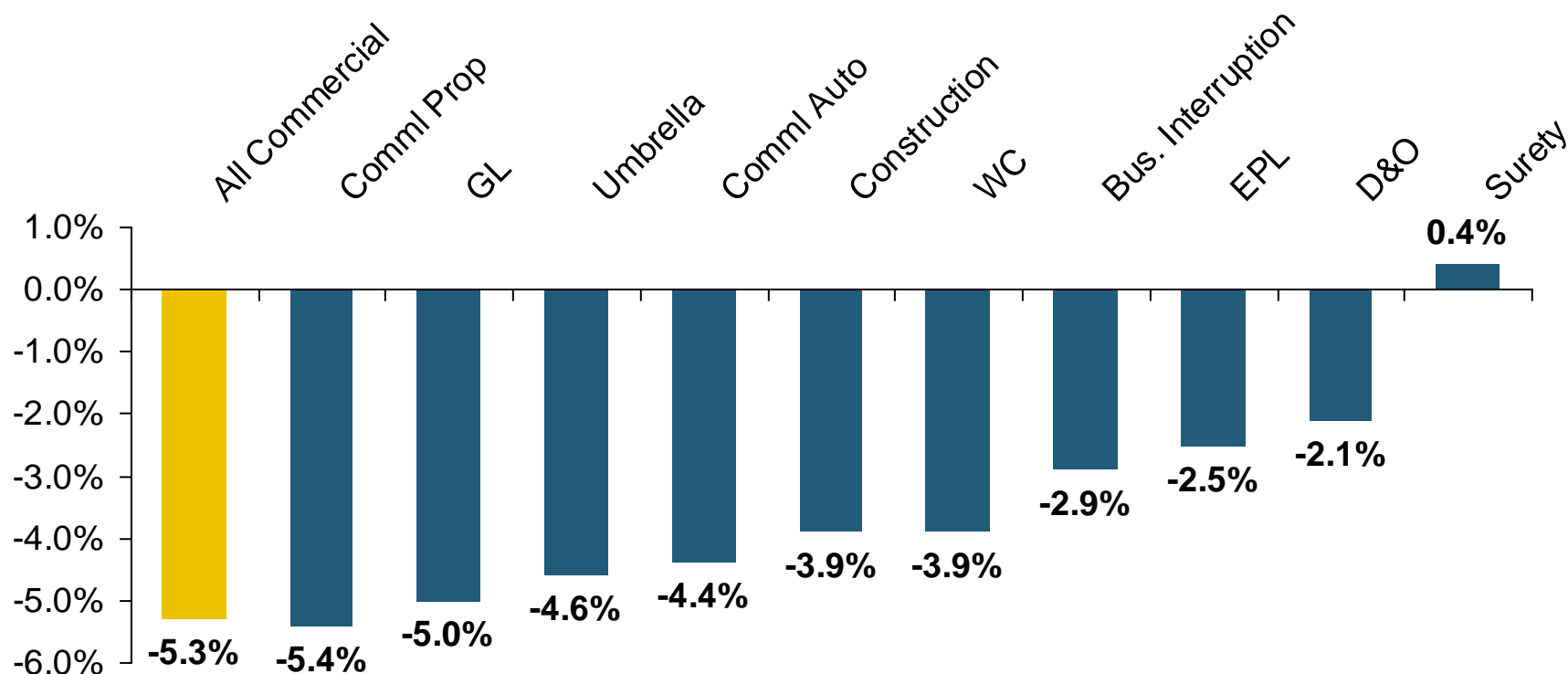
Average Commercial Rate Change, All Lines, (1Q:2004–1Q:2010)

(Percent)



Change in Commercial Rate Renewals, by Line: 2010:Q1

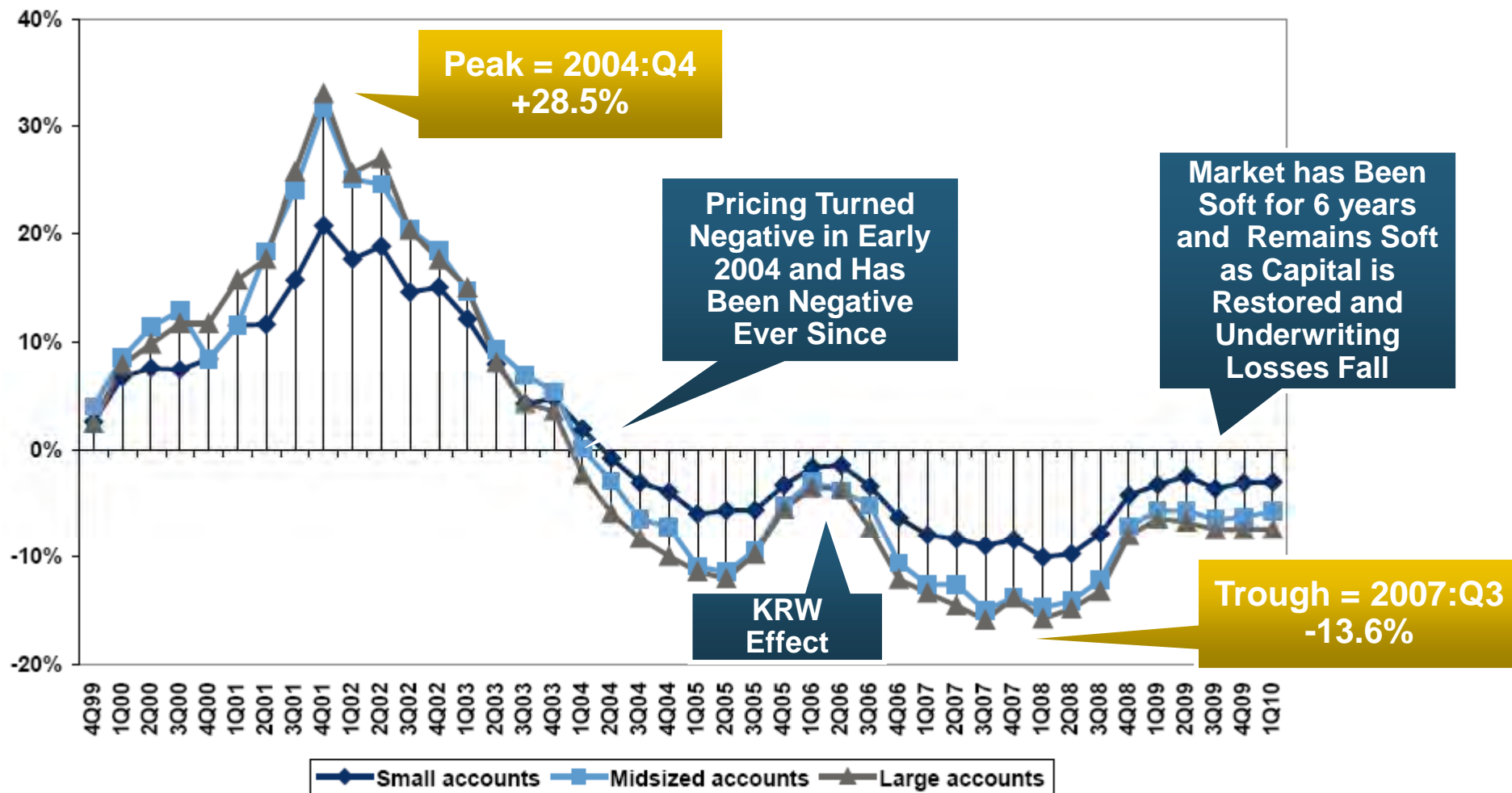
Percentage Change (%)



Most Major Commercial Lines Renewed Down in Q1:2010 by Roughly the Same Margin as a Year Earlier

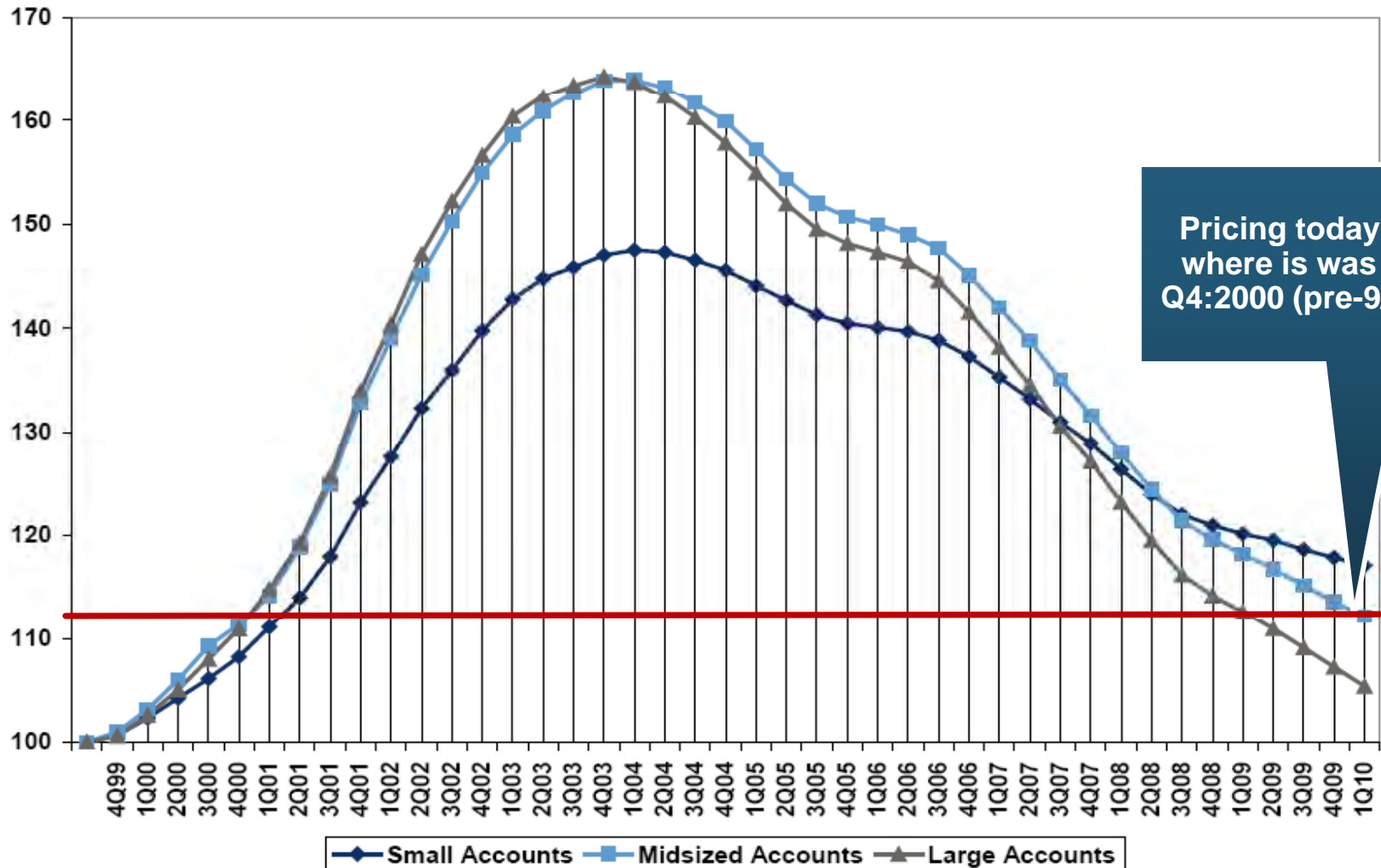
Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2010:Q1

Percentage Change (%)



Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2010:Q1

1999:Q4 = 100

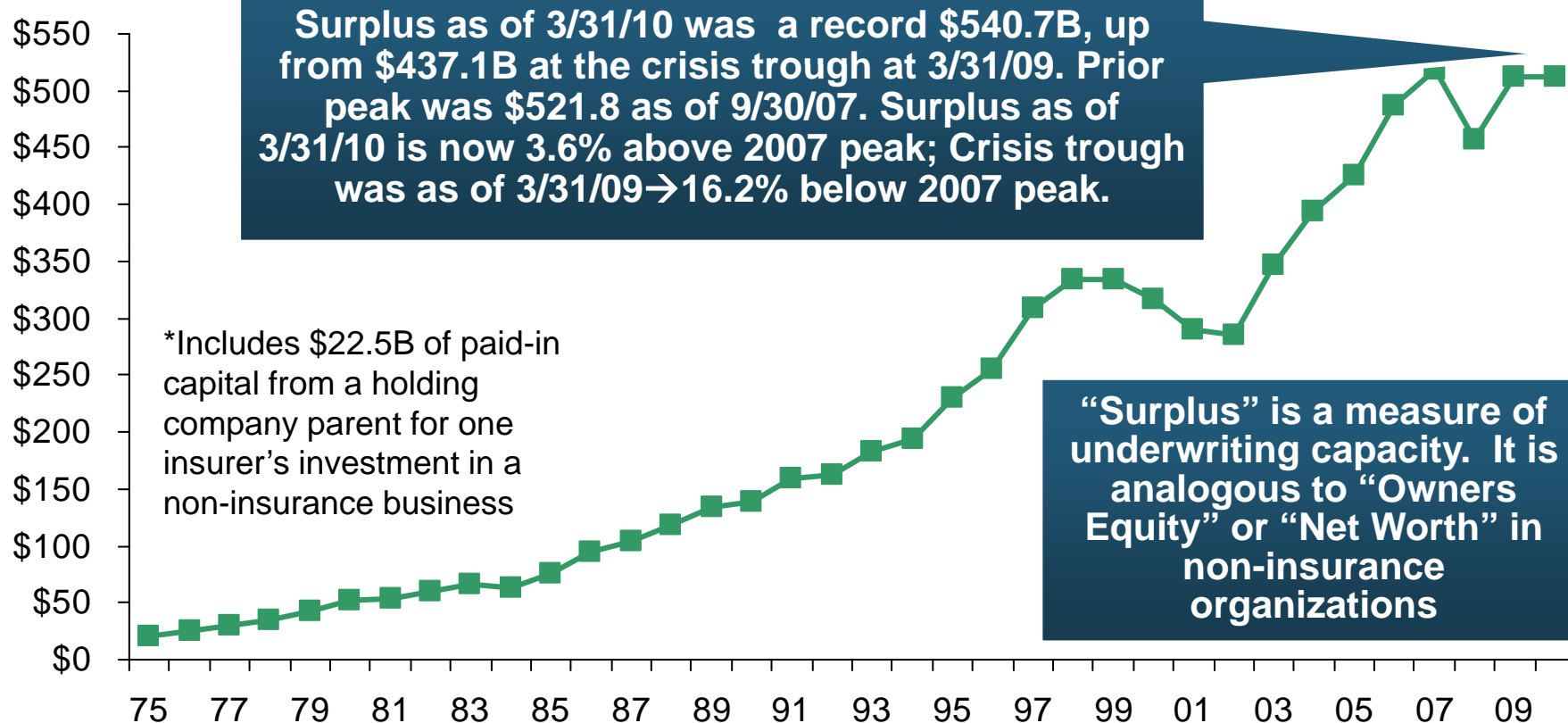


Capital/Policyholder Surplus (US)

**Shrinkage, but Not Enough
to Trigger Hard Market**

US Policyholder Surplus: 1975–2010*

(\$ Billions)

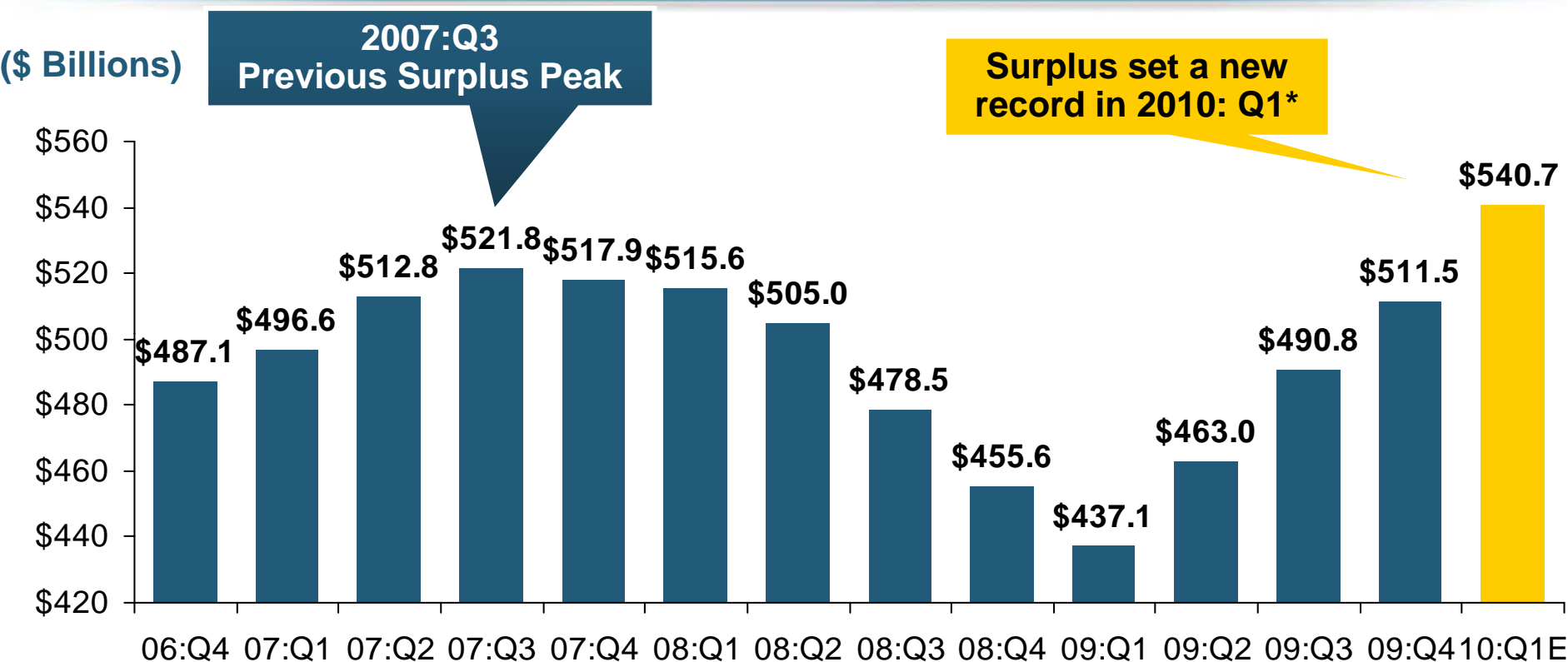


The Premium-to-Surplus Ratio Stood at \$0.82:\$1 as of 12/31/09, A Record Low (at Least in Recent History)

* As of 3/31/10

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

Policyholder Surplus, 2006:Q4–2010:Q1E



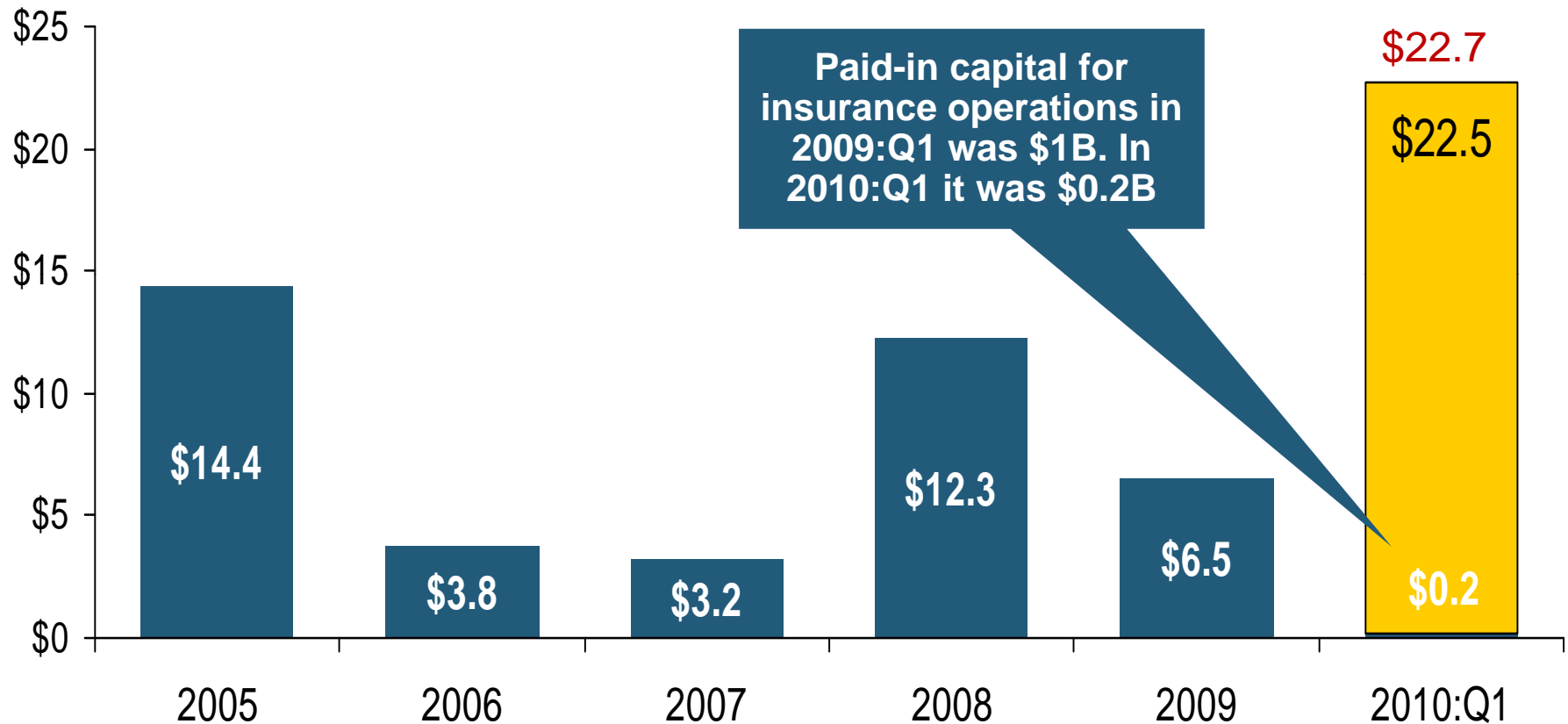
Quarterly Surplus Changes Since 2007:Q3 Peak

08:Q2: -\$16.6B (-3.2%)	09:Q2: -\$58.8B (-11.2%)
08:Q3: -\$43.3B (-8.3%)	09:Q3: -\$31.8B (-5.9%)
08:Q4: -\$66.2B (-12.9%)	09:Q4: -\$10.3B (-2.0%)
09:Q1: -\$84.7B (-16.2%)	10:Q1: +\$18.9B (+3.6%)

*Includes \$22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business

Paid-in Capital, 2005–2010:Q1

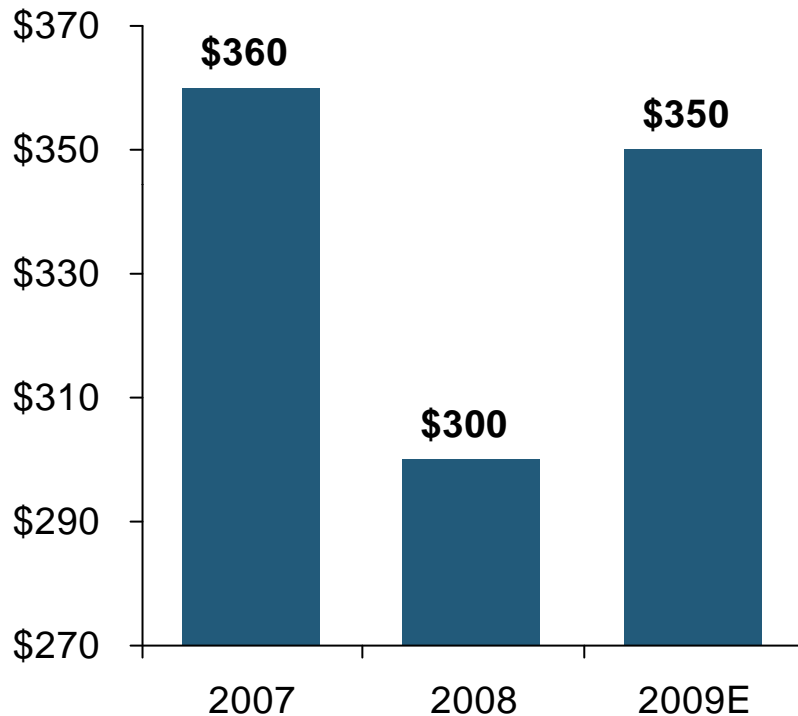
(\$ Billions)



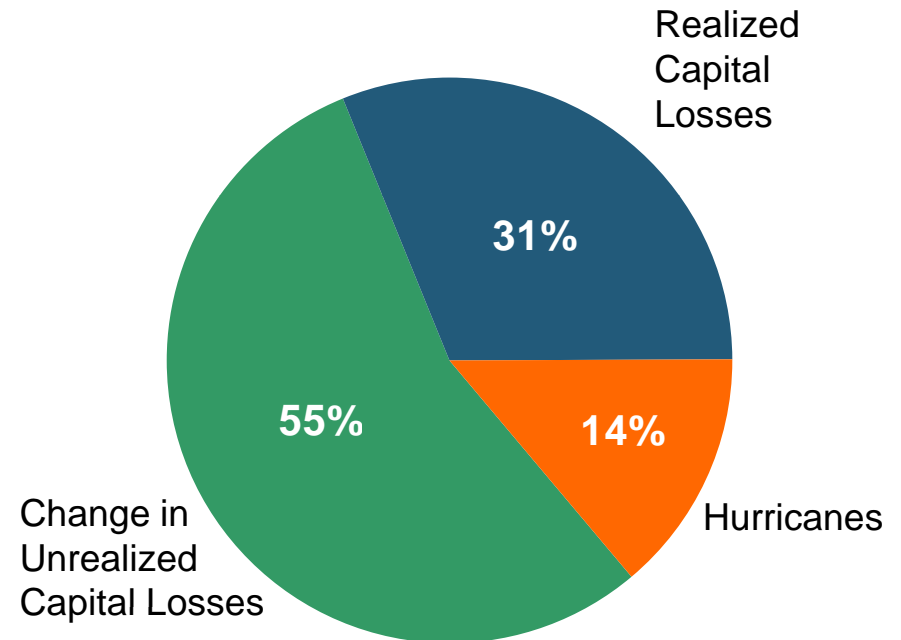
In 2010:Q1 One Insurer's Paid-in Capital Rose by \$22.5B as Part of an Investment in a Non-insurance Business

Global Reinsurance Capacity Shrank in 2008, Mostly Due to Investments

Global Reinsurance Capacity



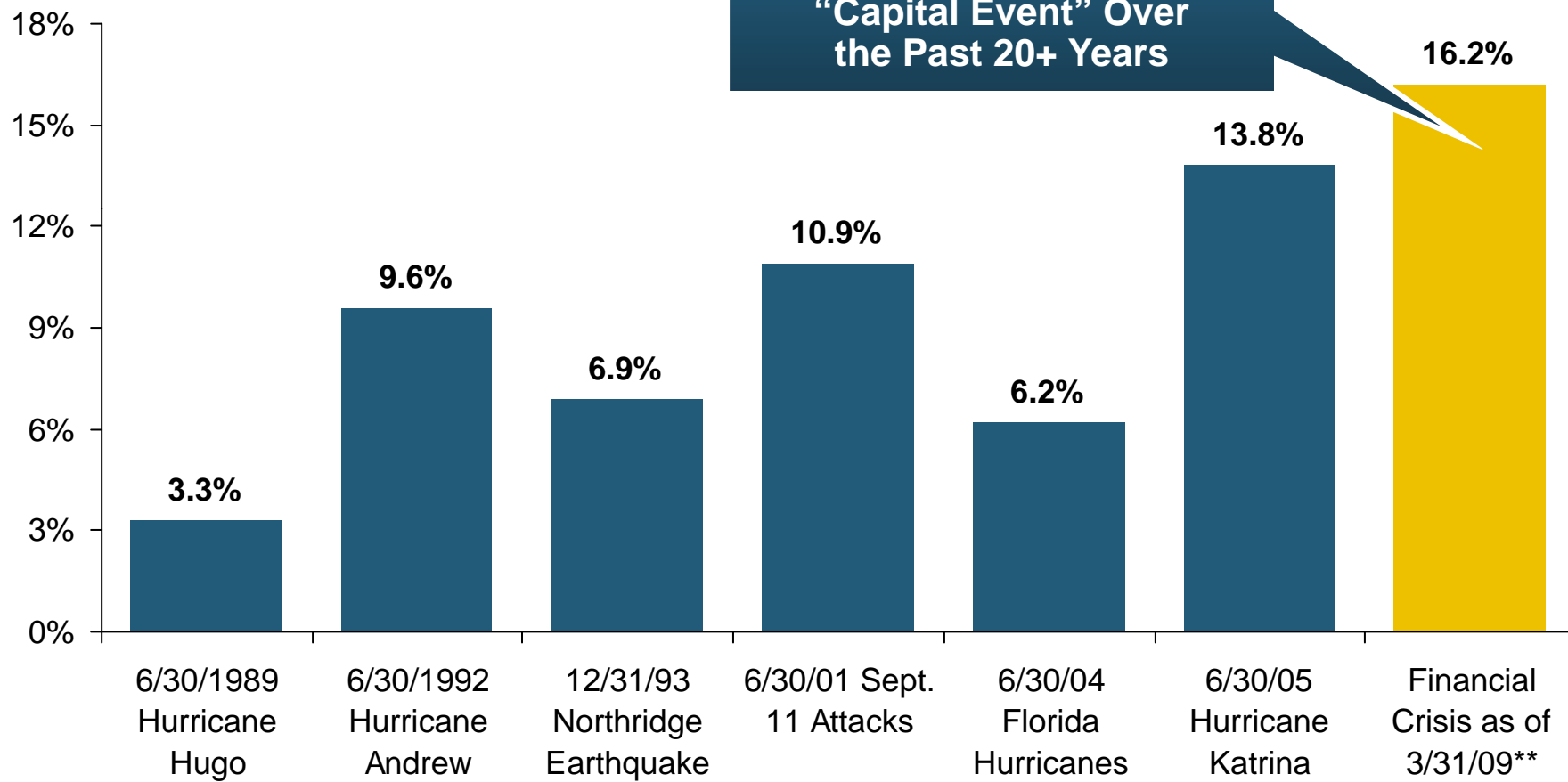
Source of Decline in 2008



**Global Reinsurance Capacity
Fell by an Estimated 17% in 2008**

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

(Percent)



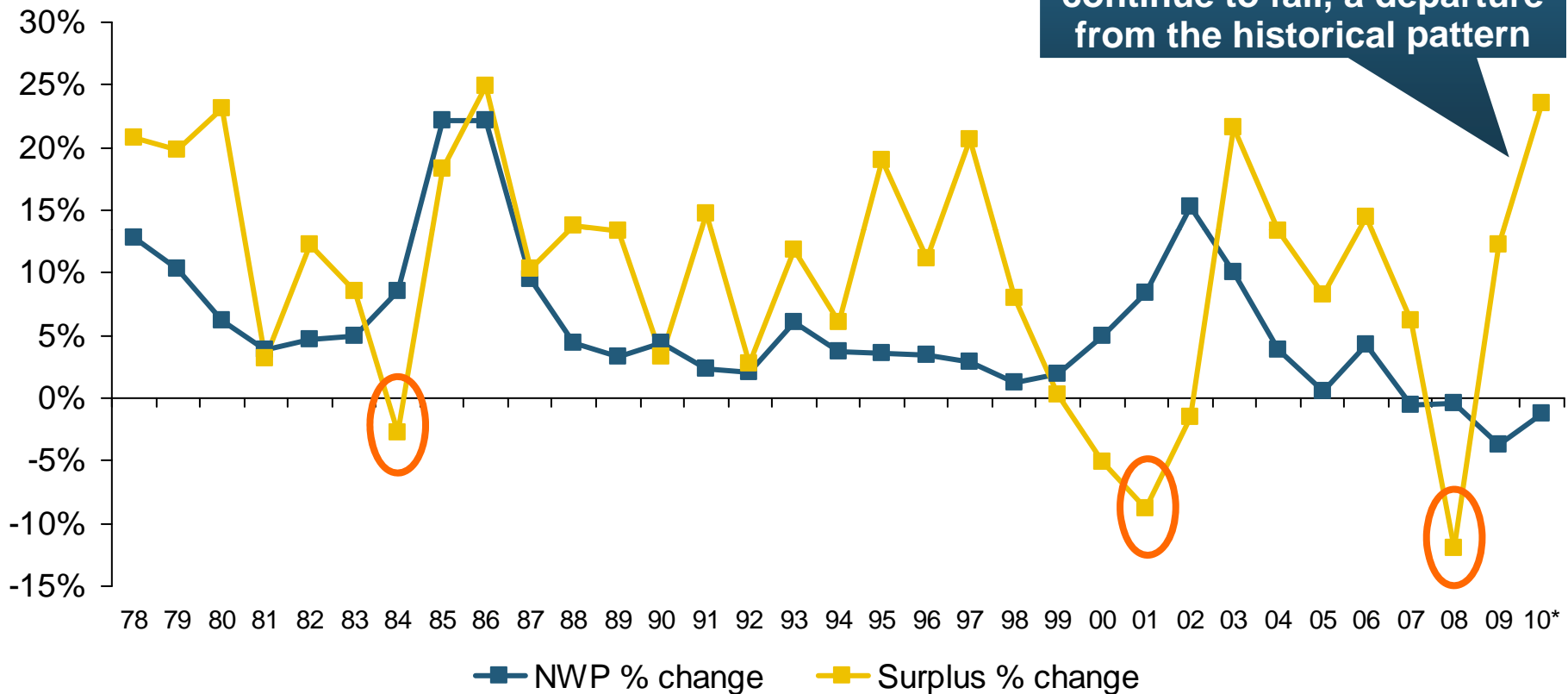
* Ratio is for end-of-quarter surplus immediately prior to event. Date shown is end of quarter prior to event

** 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

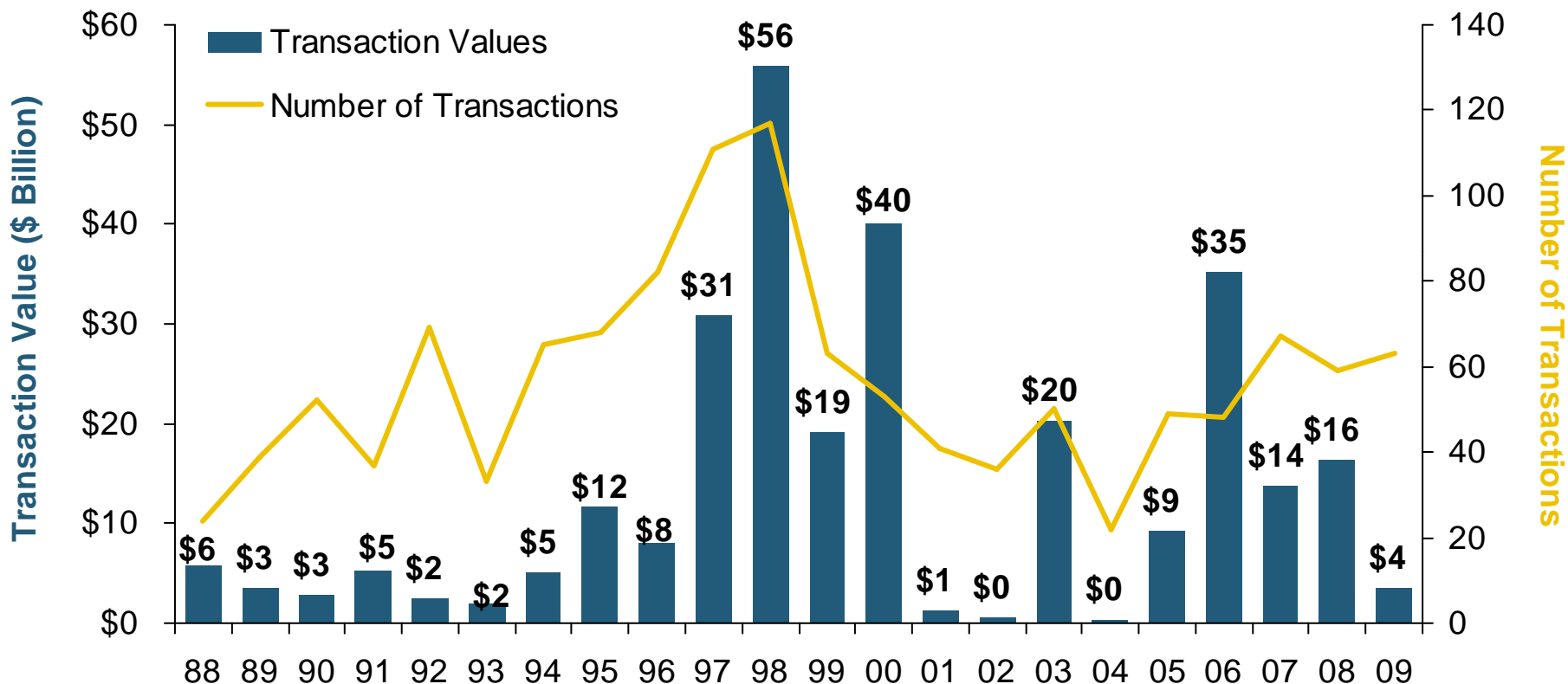
* 2010 NWP and Surplus figures are % changes as of Q1:10 vs Q1:09. Adjusting for unique transaction of insurer the increase is 18.4%.

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

Merger & Acquisition

**Barriers to Consolidation Will
Diminish in 2010**

U.S. P/C Insurance-Related M&A Activity, 1988–2009



**\$ Value of Deals Down 78%
in 2009, Volume Up 7%**

**2010: No Mega Deals So Far, Despite
Record Capital, Slow Growth and Improved
Financial Market Conditions**

Note: U.S. Company was the acquirer and/or target.

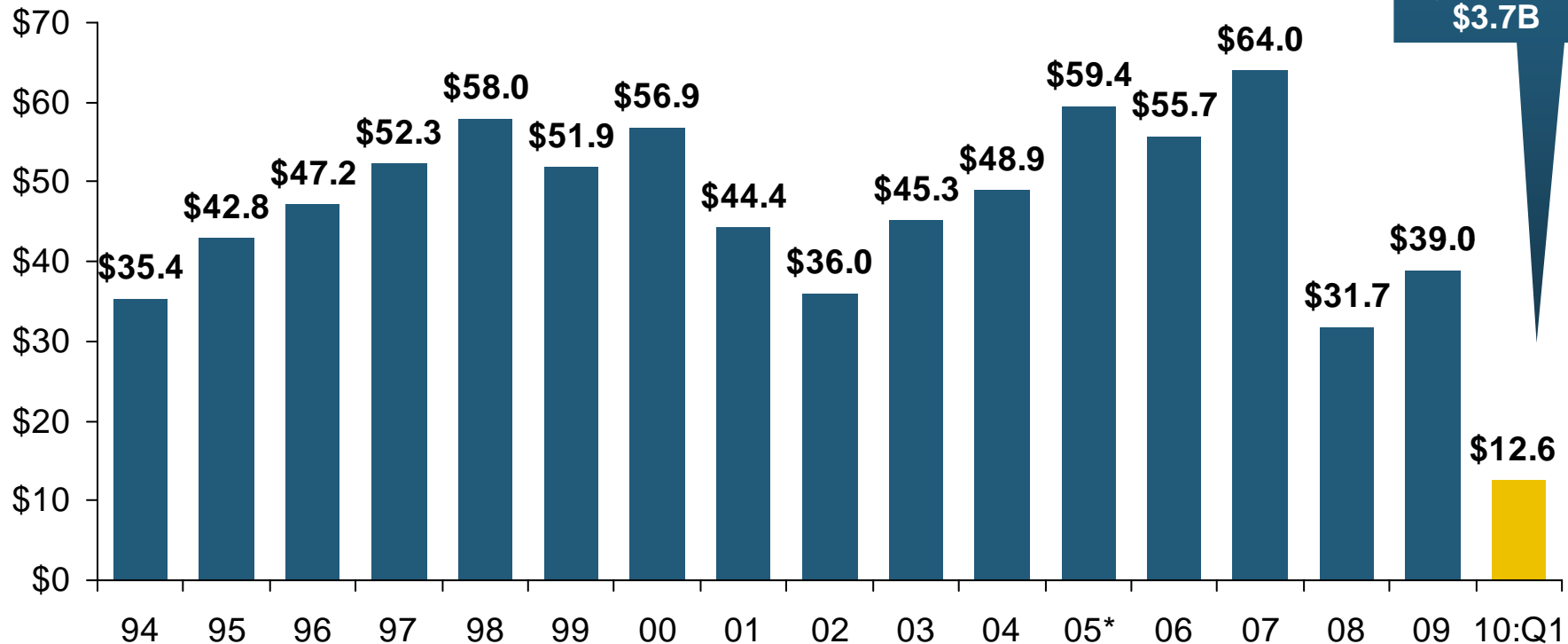
Source: Conning Research & Consulting.

Investment Performance

**Investments Are a Principle
Source of Declining Profitability**

Property/Casualty Insurance Industry Investment Gain: 1994–2010:Q1¹

(\$ Billions)



**In 2008, Investment Gains Fell by 50% Due to Lower Yields and
Nearly \$20B of Realized Capital Losses
2009 Saw Smaller Realized Capital Losses But Declining Investment Income**

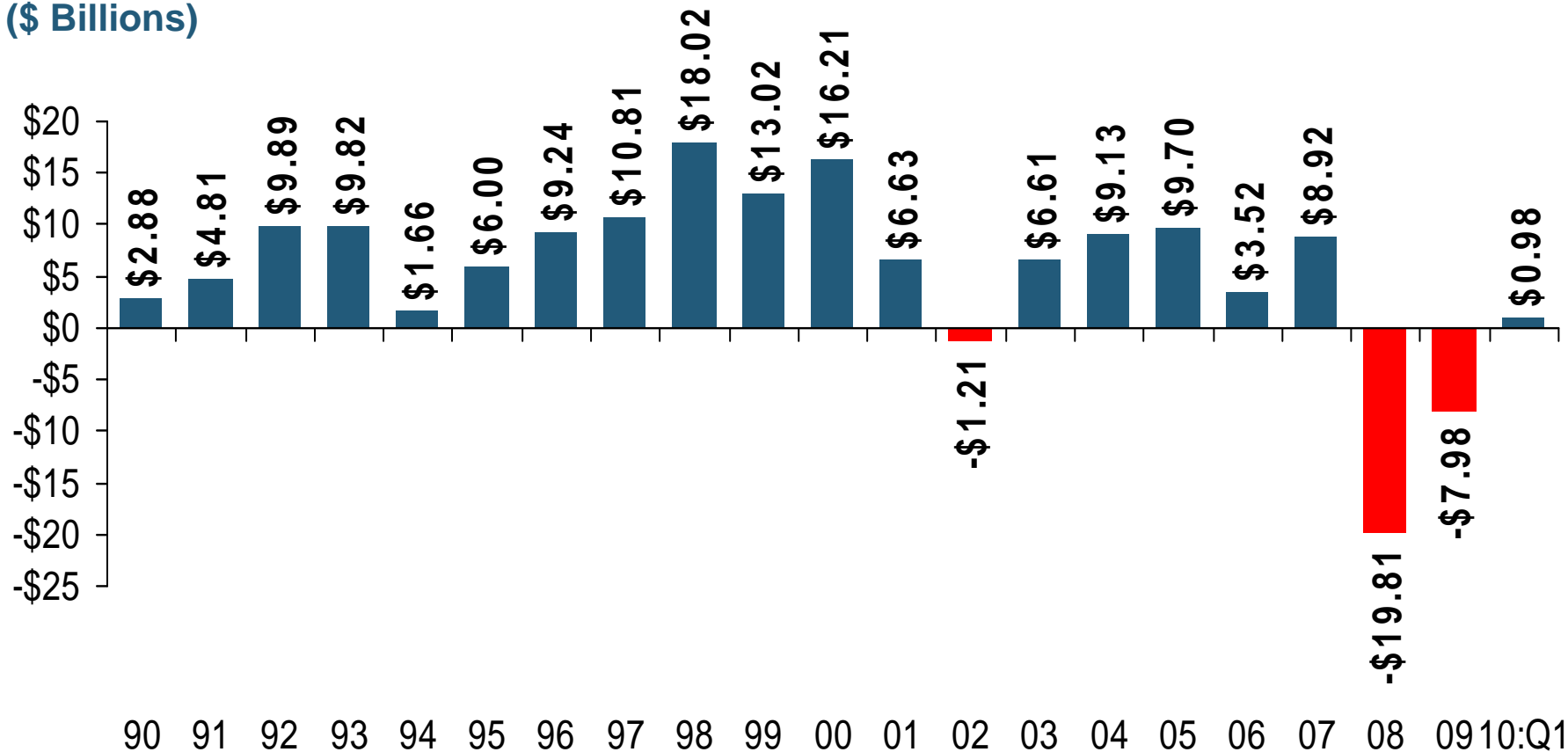
¹ Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.

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

Sources: ISO; Insurance Information Institute.

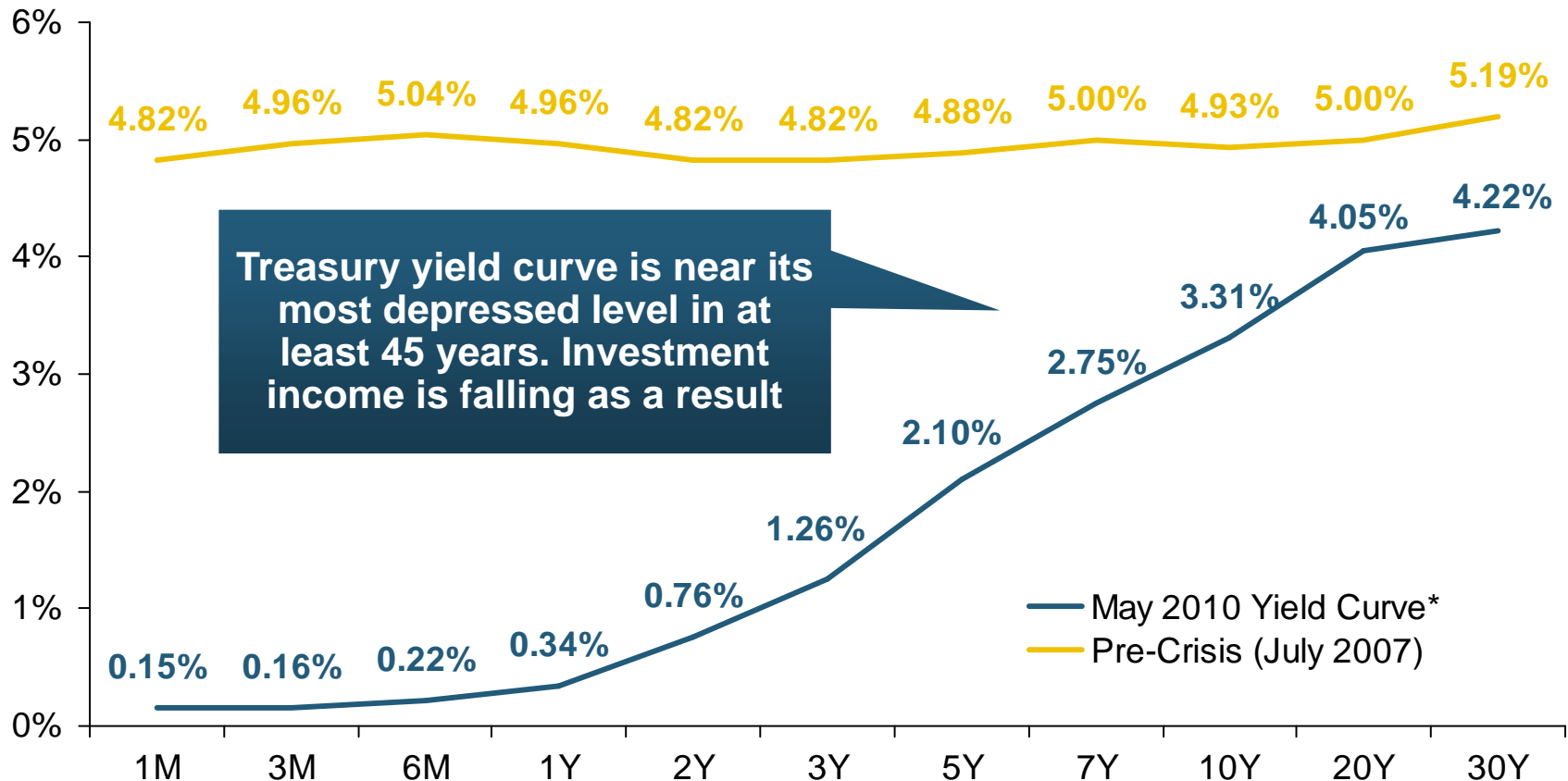
P/C Insurer Net Realized Capital Gains, 1990-2010:Q1

(\$ Billions)



**Realized Capital Losses Were the Primary Cause
of 2008/2009's Large Drop in Profits and ROE**

Treasury Yield Curves: Pre-Crisis (July 2007) vs. May 2010*

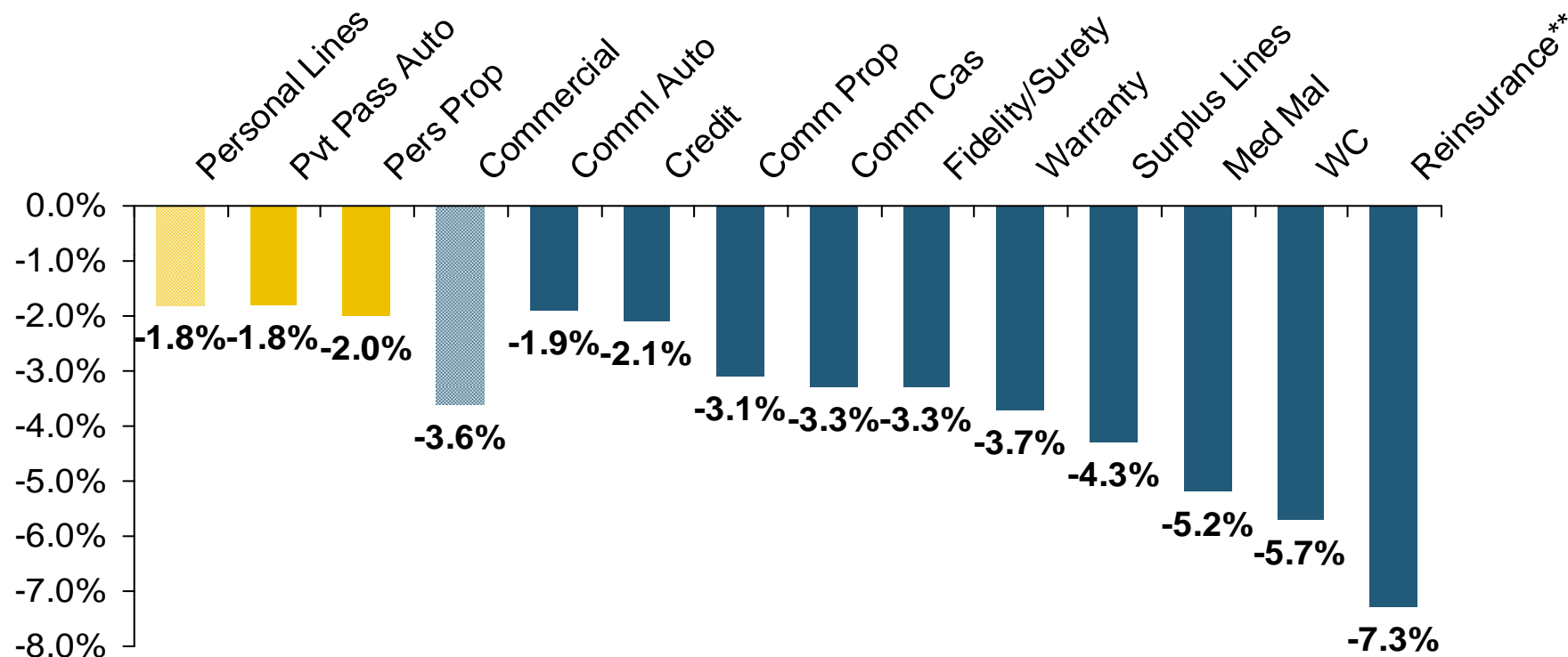


Stock Dividend Cuts Have Further Pressured Investment Income

*Week ending May 24, 2010.

Sources: Board of Governors of the United States Federal Reserve Bank; 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.

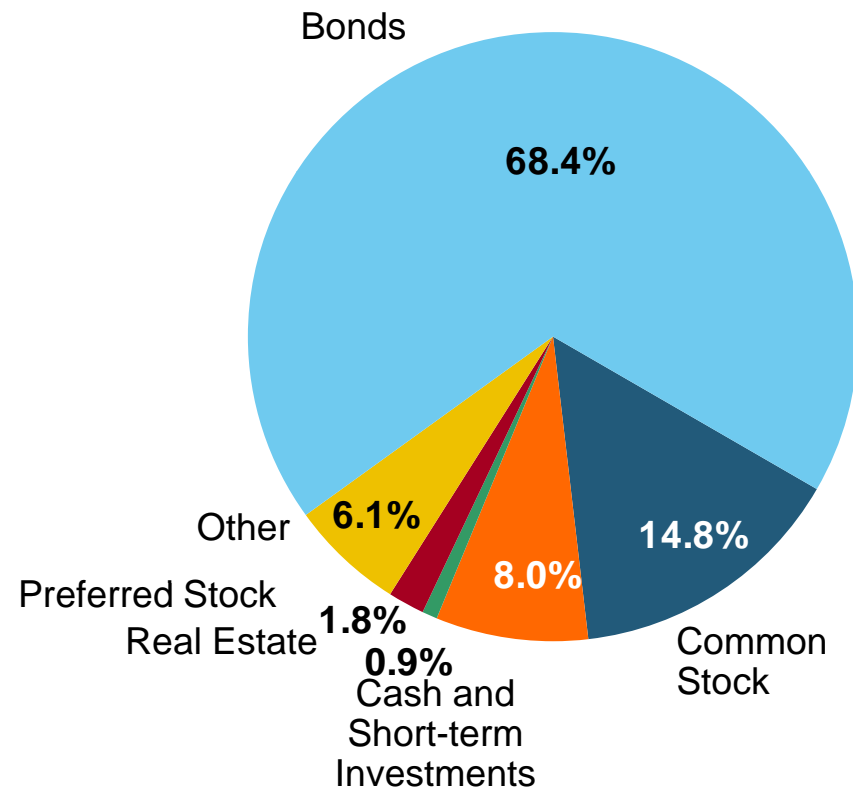
Source: A.M. Best; Insurance Information Institute.

Distribution of P/C Insurance Industry's Investment Portfolio

Portfolio Facts

- Invested assets totaled \$1.214 trillion as of 12/31/08
- Insurers are generally conservatively invested, with more than 2/3 of assets invested in bonds as of 12/31/08
- Only about 15% of assets were invested in common stock as of 12/31/08
- Even the most conservative of portfolios was hit hard in 2008

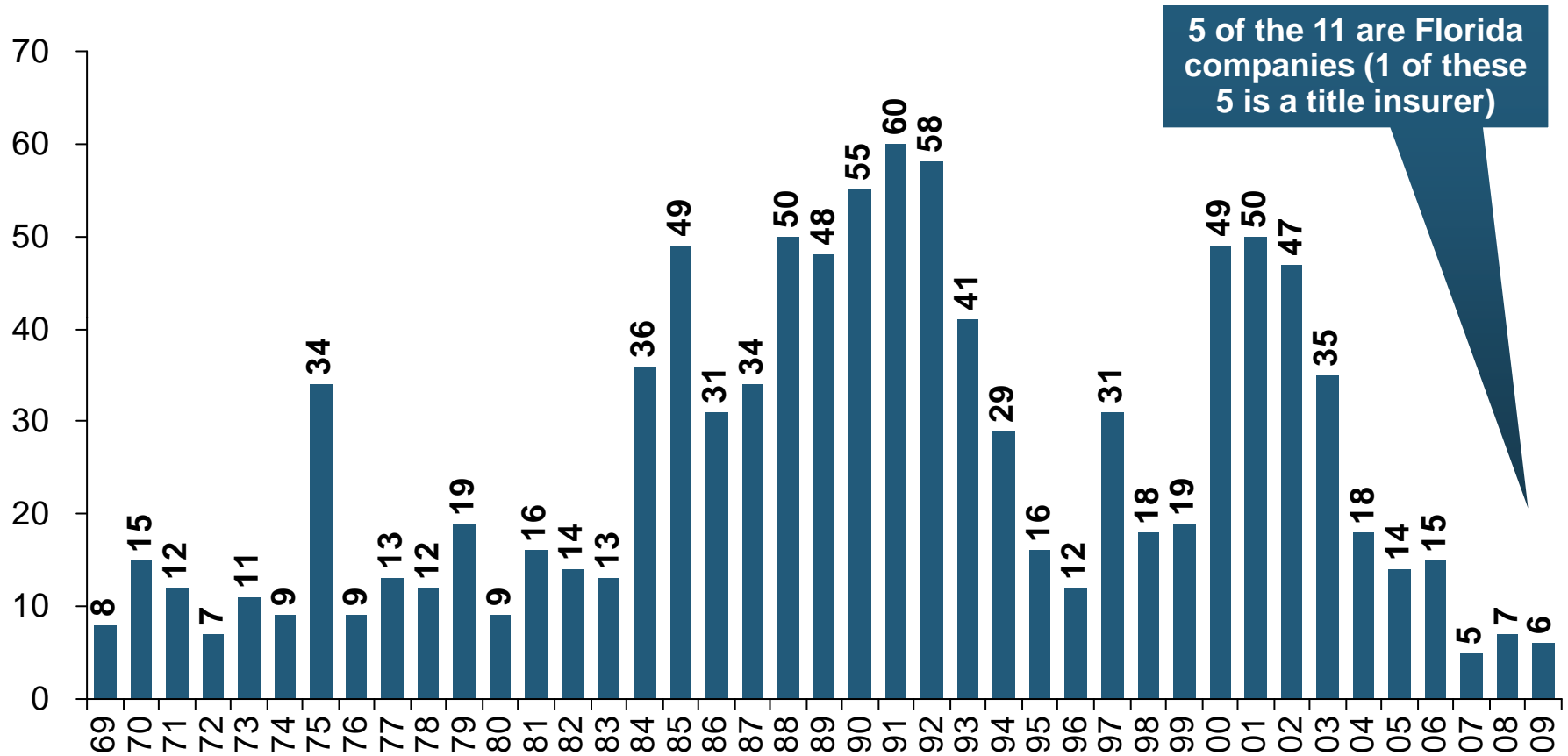
As of December 31, 2008



Financial Strength & Ratings

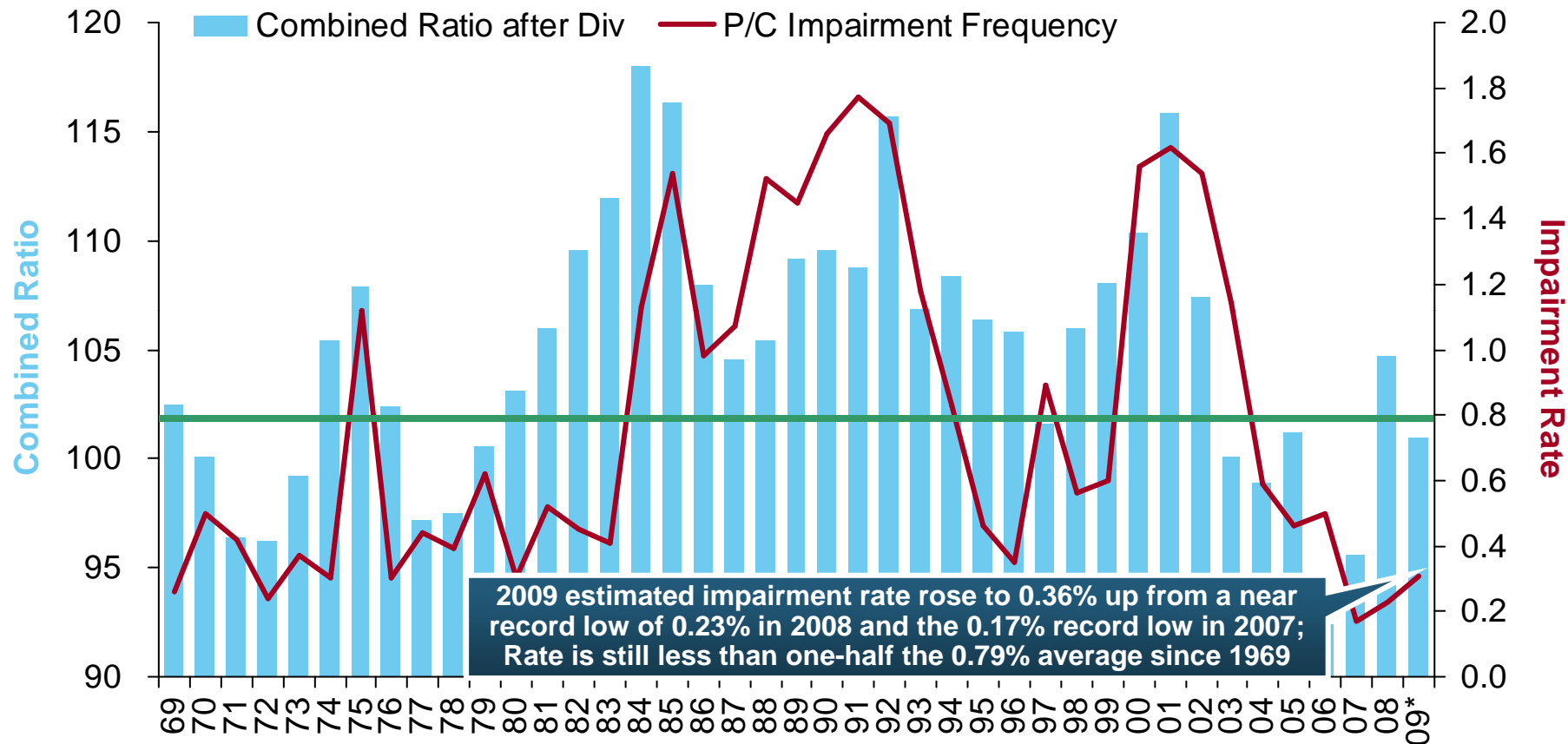
**Industry Has Weathered
the Storms Well**

P/C Insurer Impairments, 1969–2009



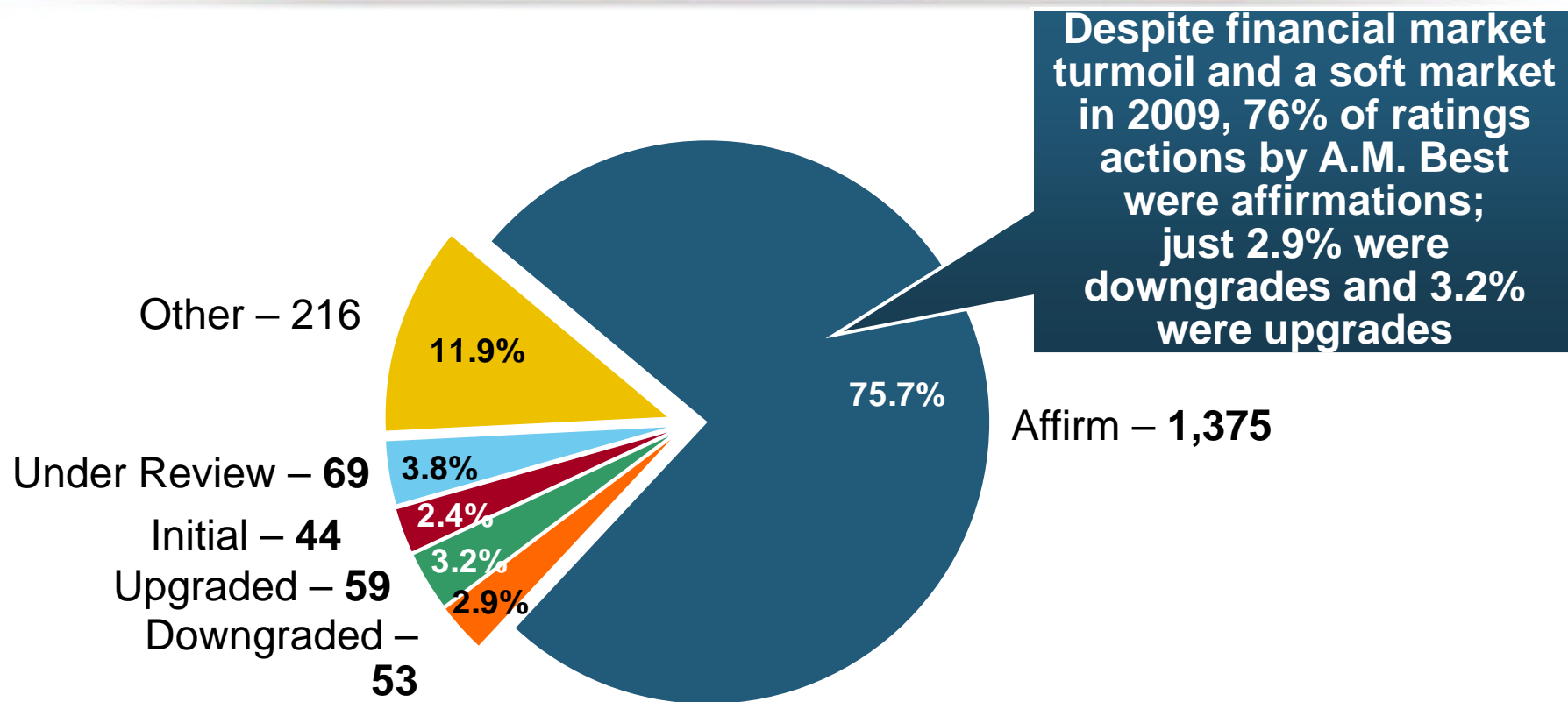
The Number of Impairments Varies Significantly Over the P/C Insurance Cycle, With Peaks Occurring Well into Hard Markets

P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2009



Impairment Rates Are Highly Correlated With Underwriting Performance and Reached Record Lows in 2007/08

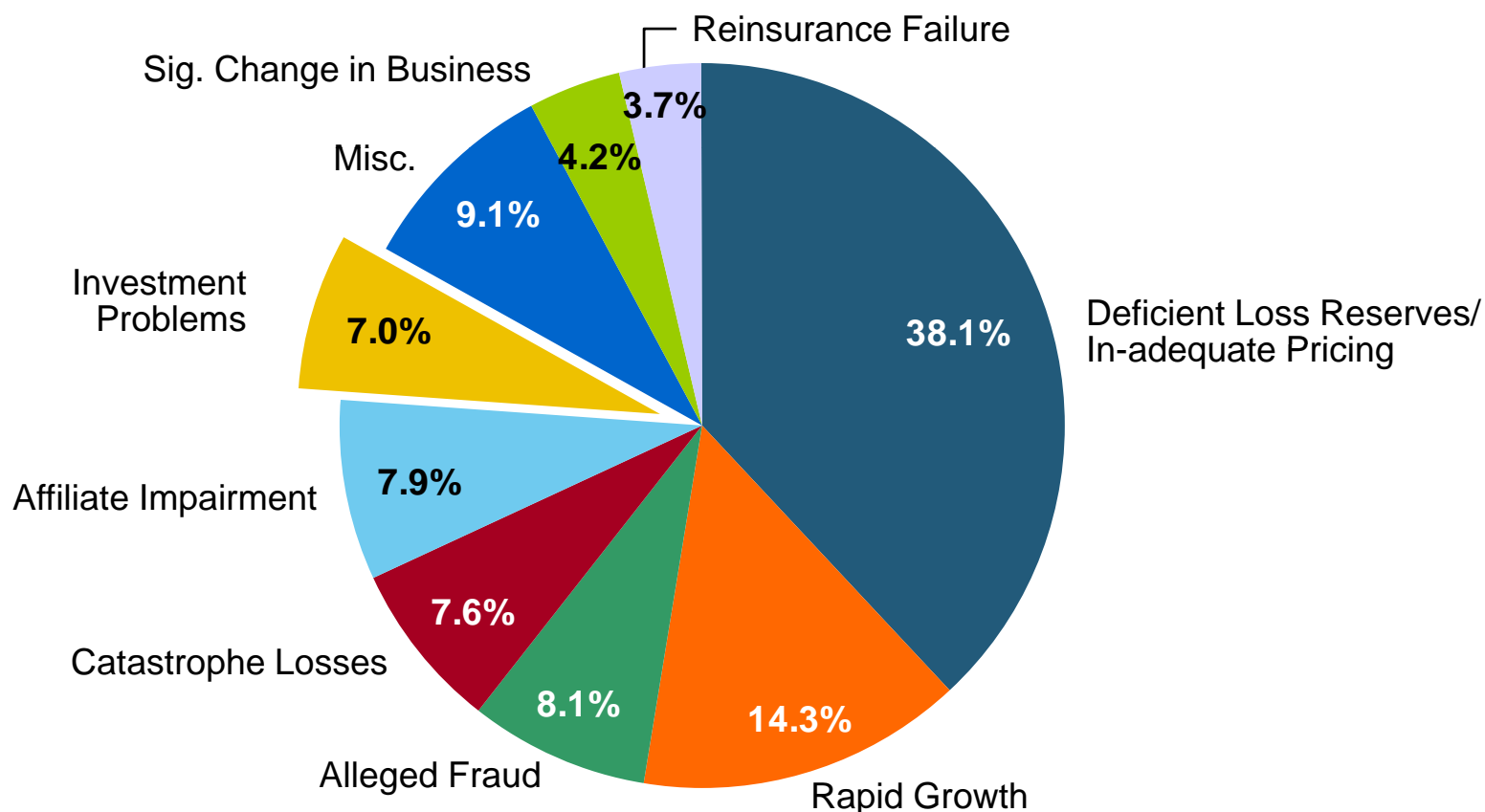
Summary of A.M. Best's P/C Insurer Ratings Actions in 2009



**P/C Insurance is by Design a Resilient Business.
The Dual Threat of Financial Disasters and Catastrophic Losses
Are Anticipated in the Industry's Risk Management Strategy**

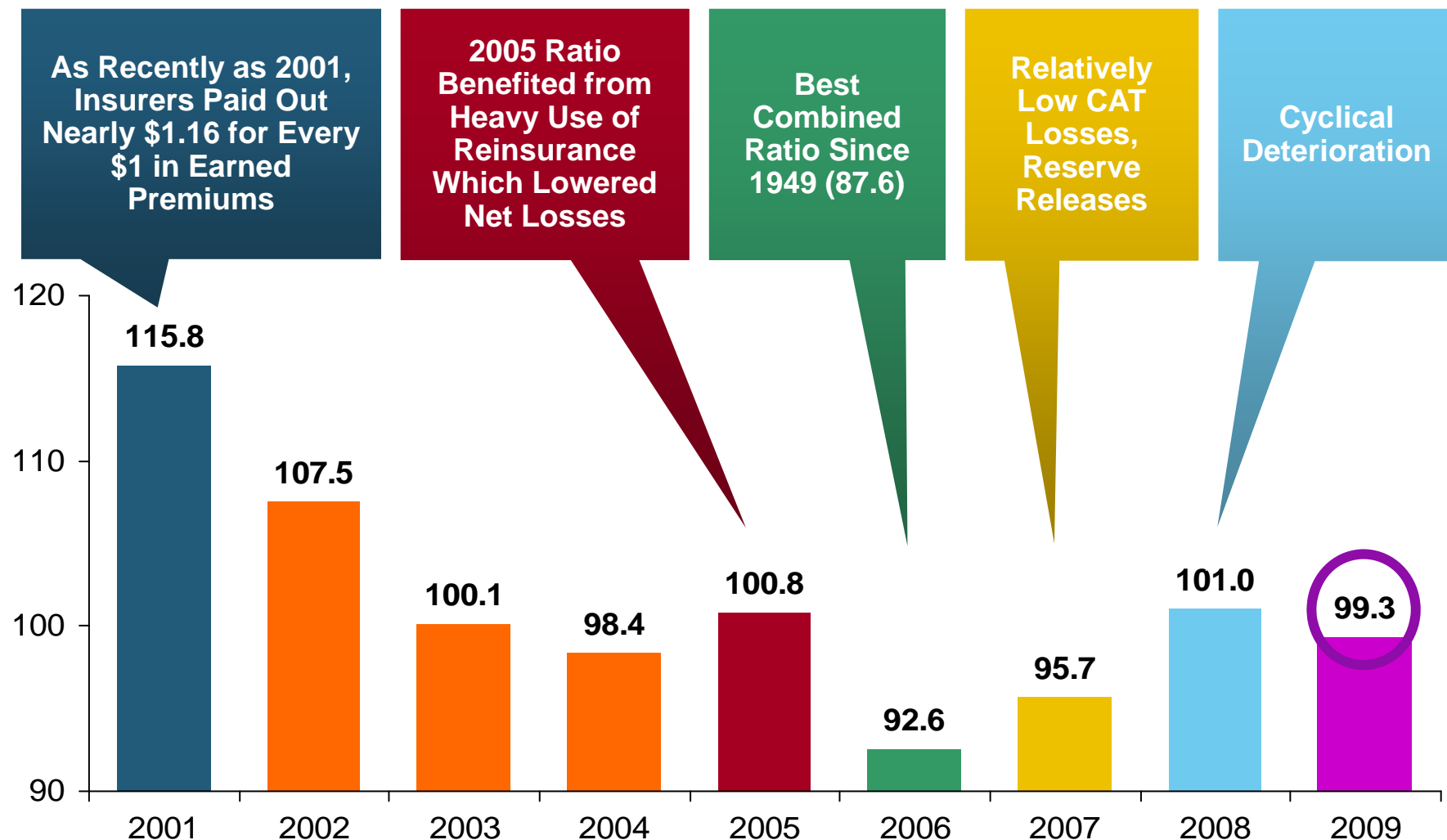
Reasons for US P/C Insurer Impairments, 1969–2008

Deficient Loss Reserves and Inadequate Pricing Are the Leading Cause of Insurer Impairments, Underscoring the Importance of Discipline. Investment Catastrophe Losses Play a Much Smaller Role



**Underwriting Trends –
Financial Crisis Does *Not*
Directly Impact Underwriting
Performance: Cycle, Catastrophes
Were 2008's Drivers**

P/C Insurance Industry Combined Ratio, 2001–2009*

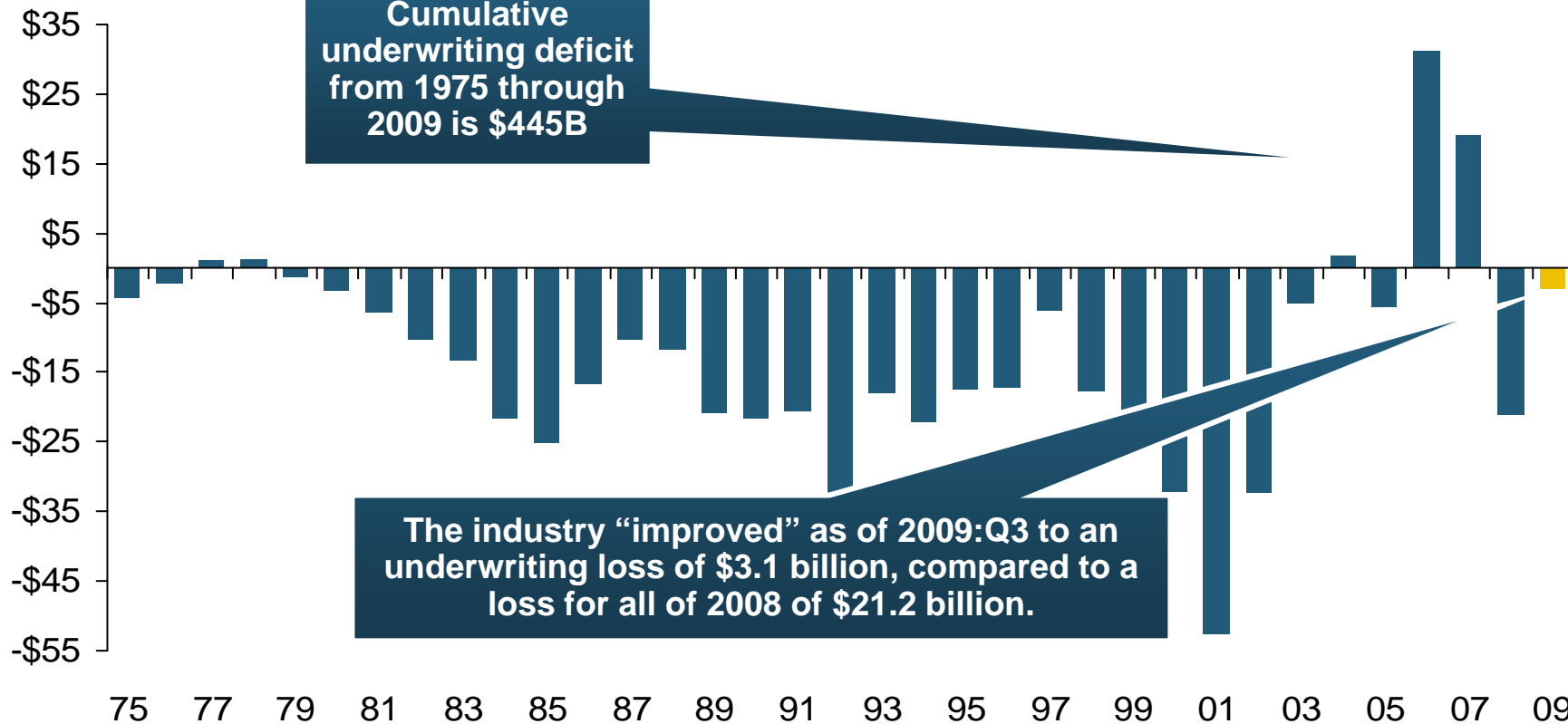


* Excludes Mortgage & Financial Guaranty insurers in 2008/2009. Including M&FG, 2008=105.0, 2009=101.0

Sources: A.M. Best, ISO.

Underwriting Gain (Loss) 1975–2009*

(\$ Billions)

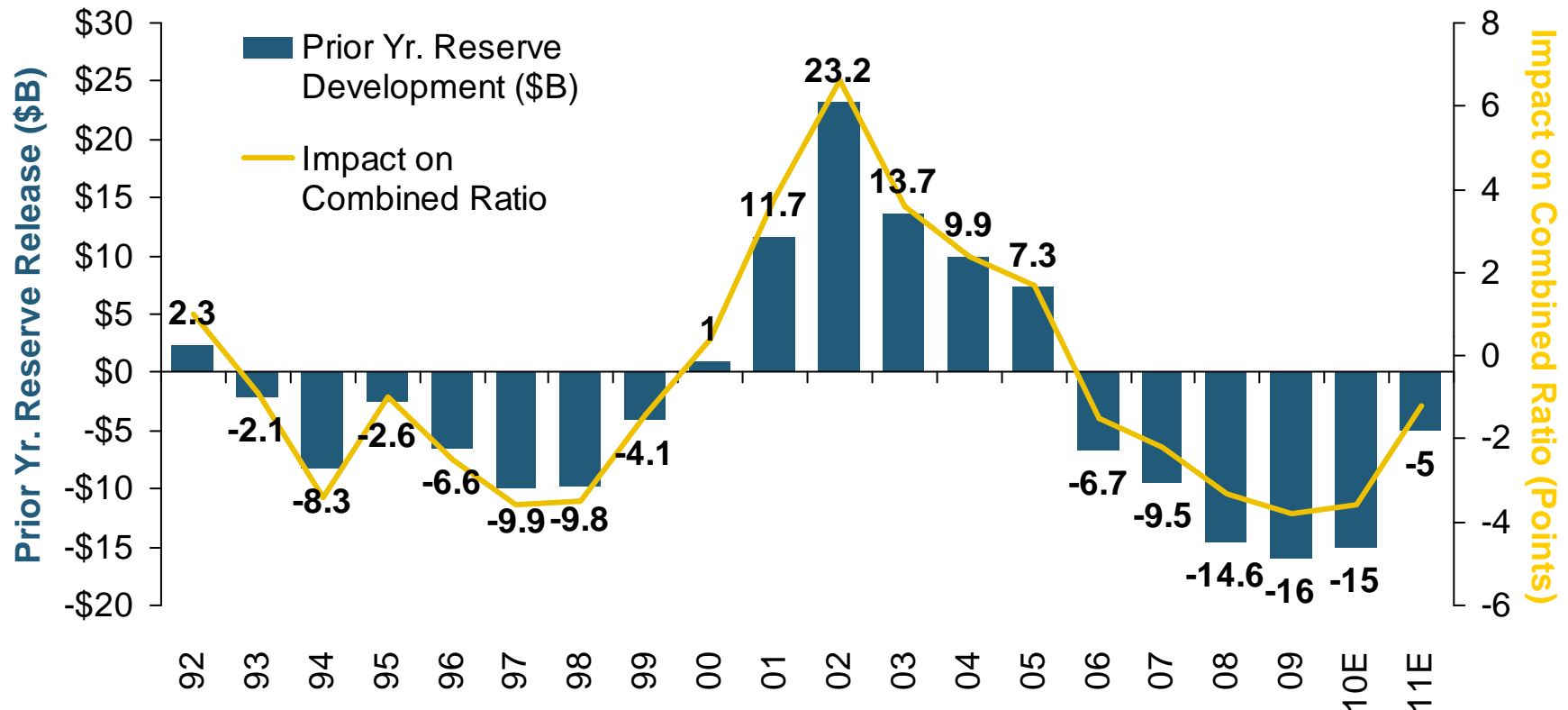


**Large Underwriting Losses Are *NOT* Sustainable
in Current Investment Environment**

* Includes mortgage and financial guarantee insurers.

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

P/C Reserve Development, 1992–2011E

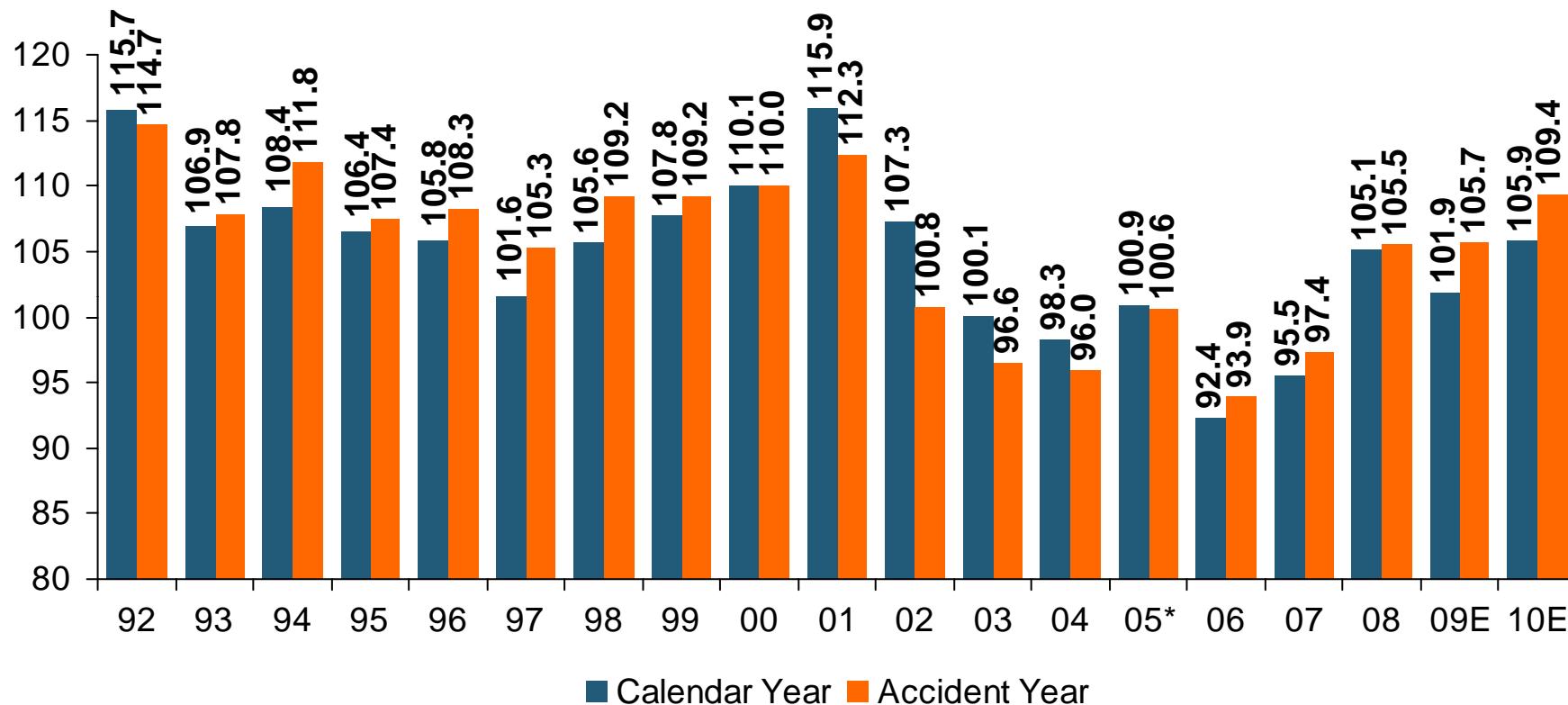


**Reserve Releases Will Expected to Taper Off
in 2010 and Drop Significantly in 2011**

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.

Calendar Year vs. Accident Year P/C Combined Ratio: 1992–2010E¹



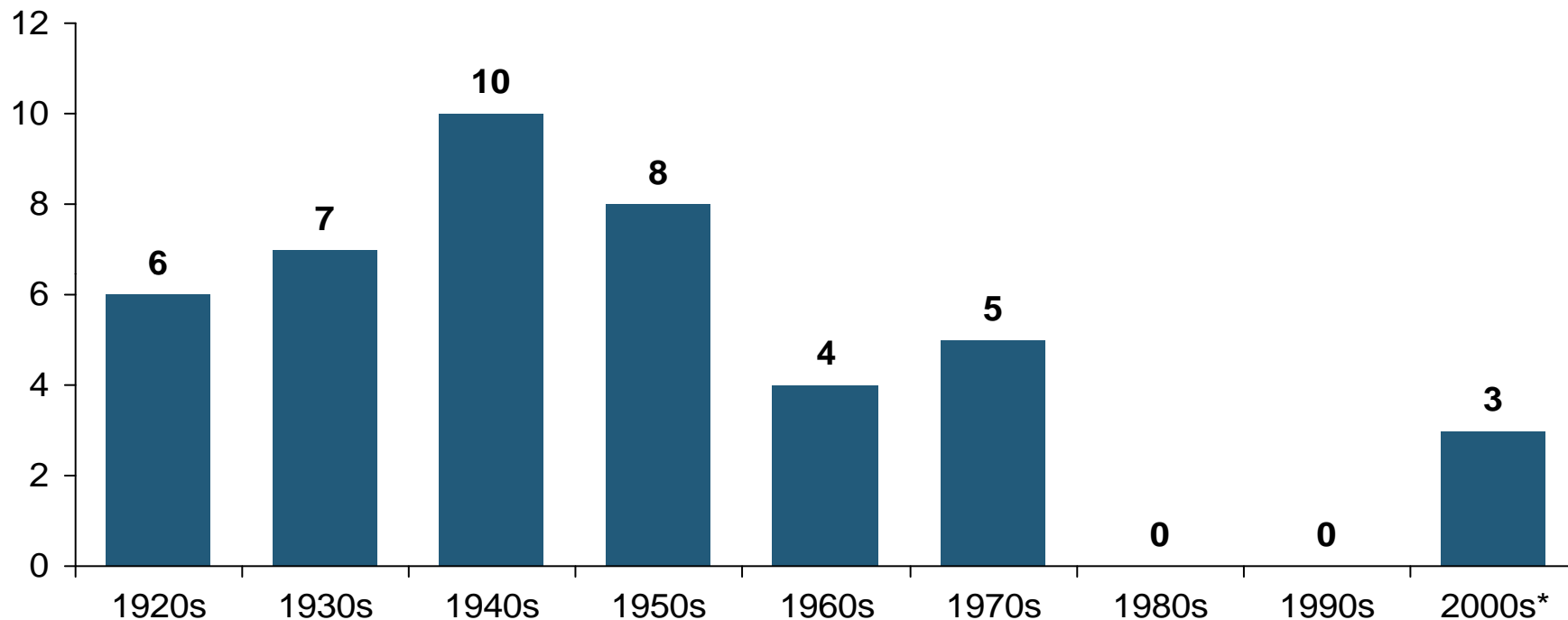
Accident Year Results Show a More Significant Deterioration in Underwriting Performance. Calendar Year Results Are Helped by Reserve Releases

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.

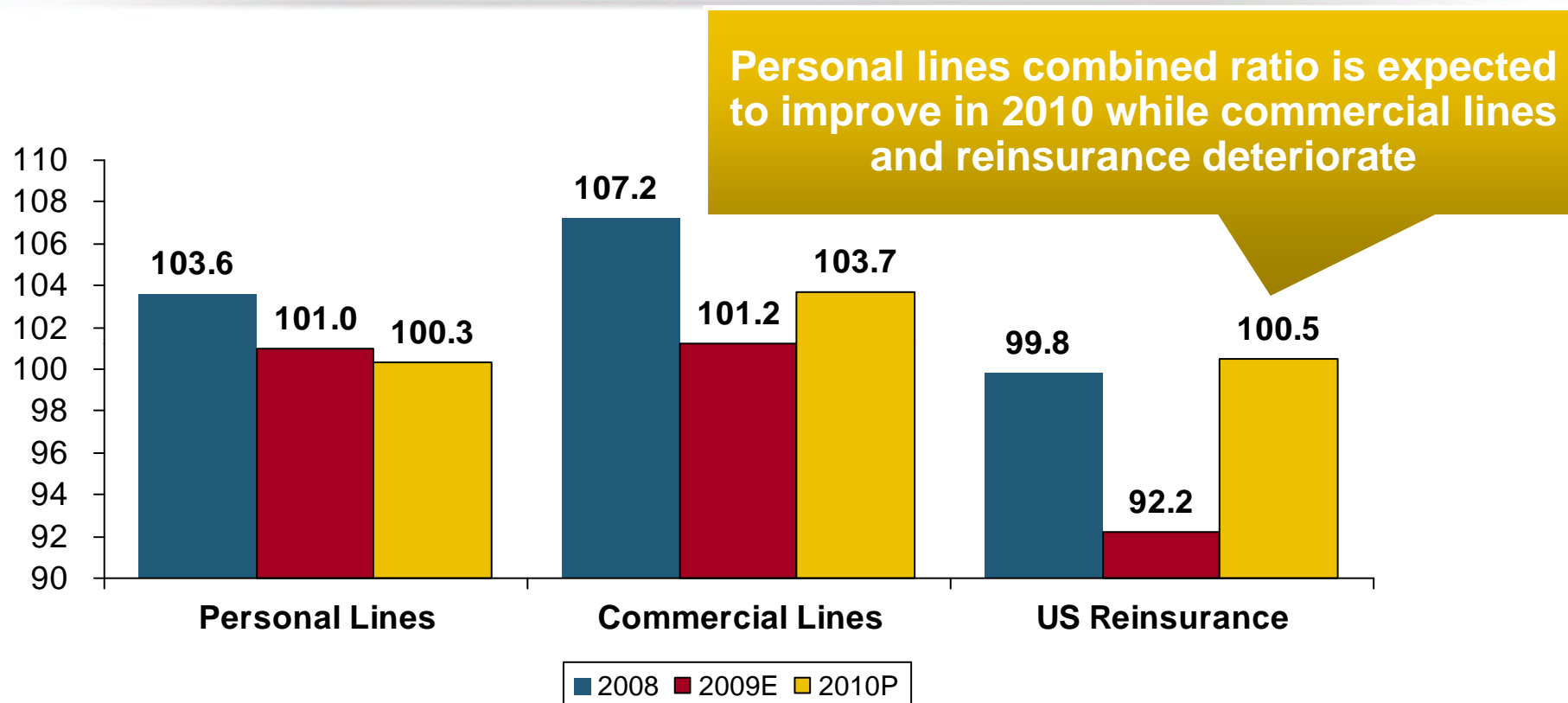
Note: Data for 1920–1934 based on stock companies only.

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



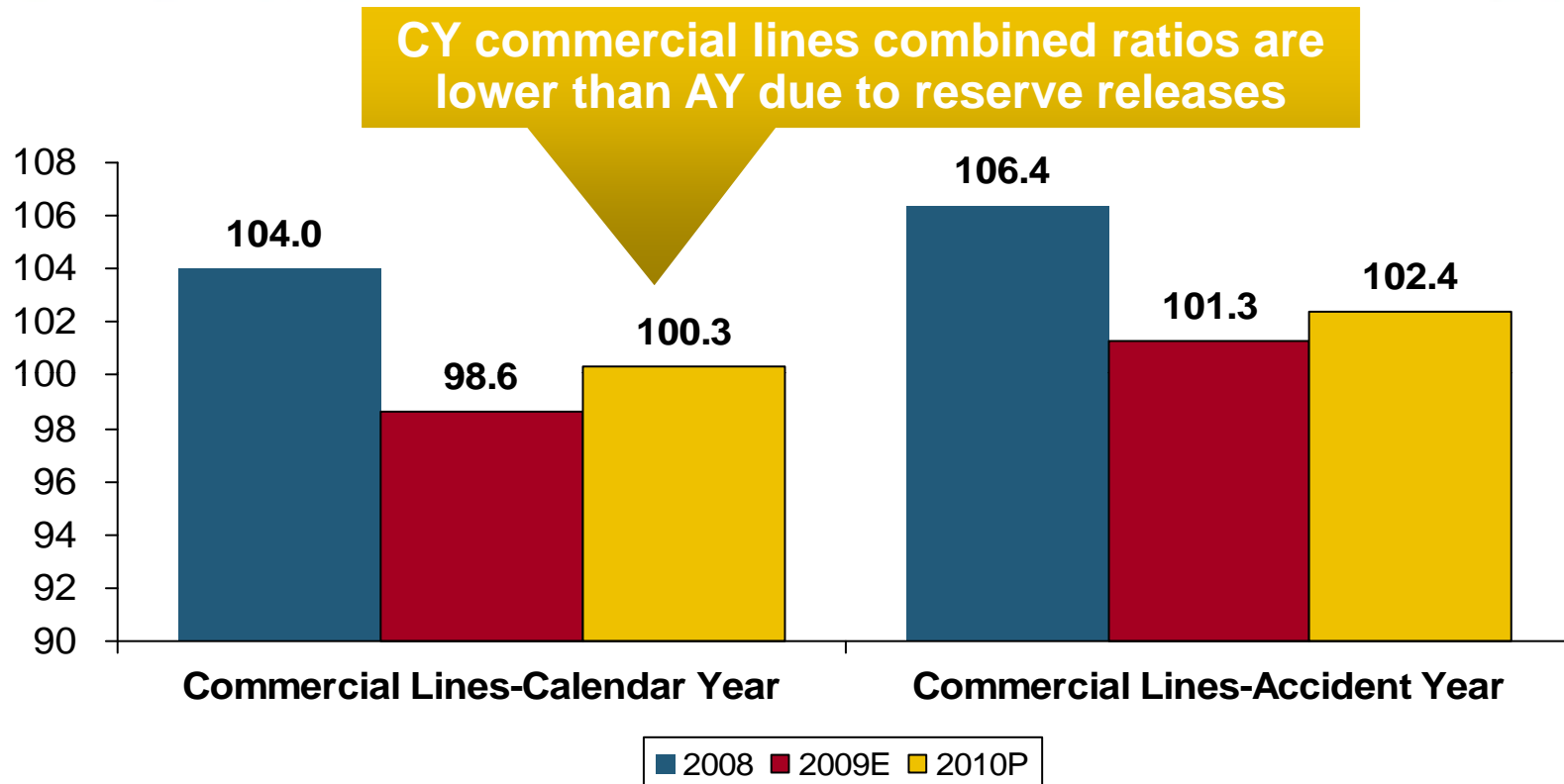
Performance by Segment: Commercial/Personal Lines & Reinsurance

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

Calendar vs. Accident Year Combined Ratios by Segment: 2008-2010P*

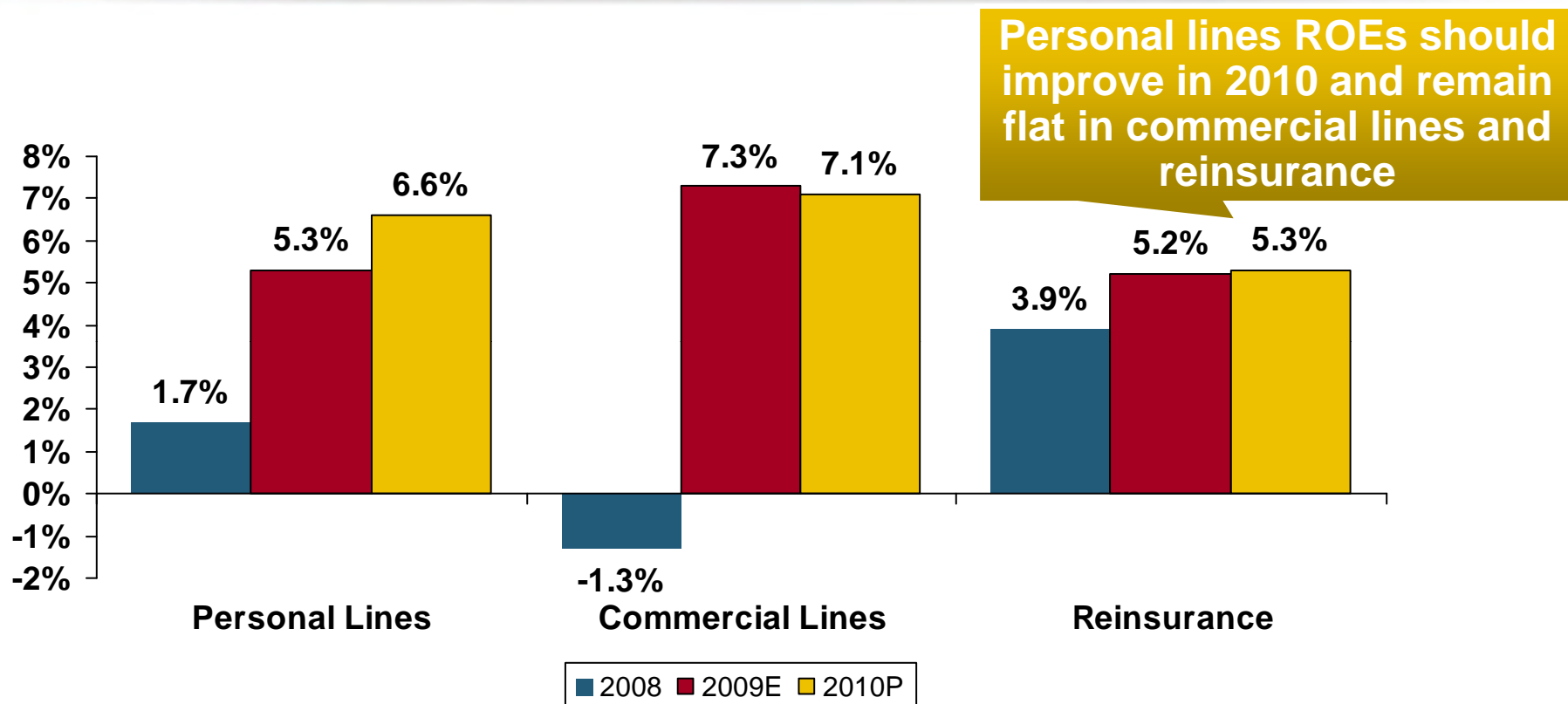


The ability of reserves releases to favorably impact calendar year results will diminish over time reserved redundancies fall

*Normalized to reflect average/typical level of catastrophe losses.

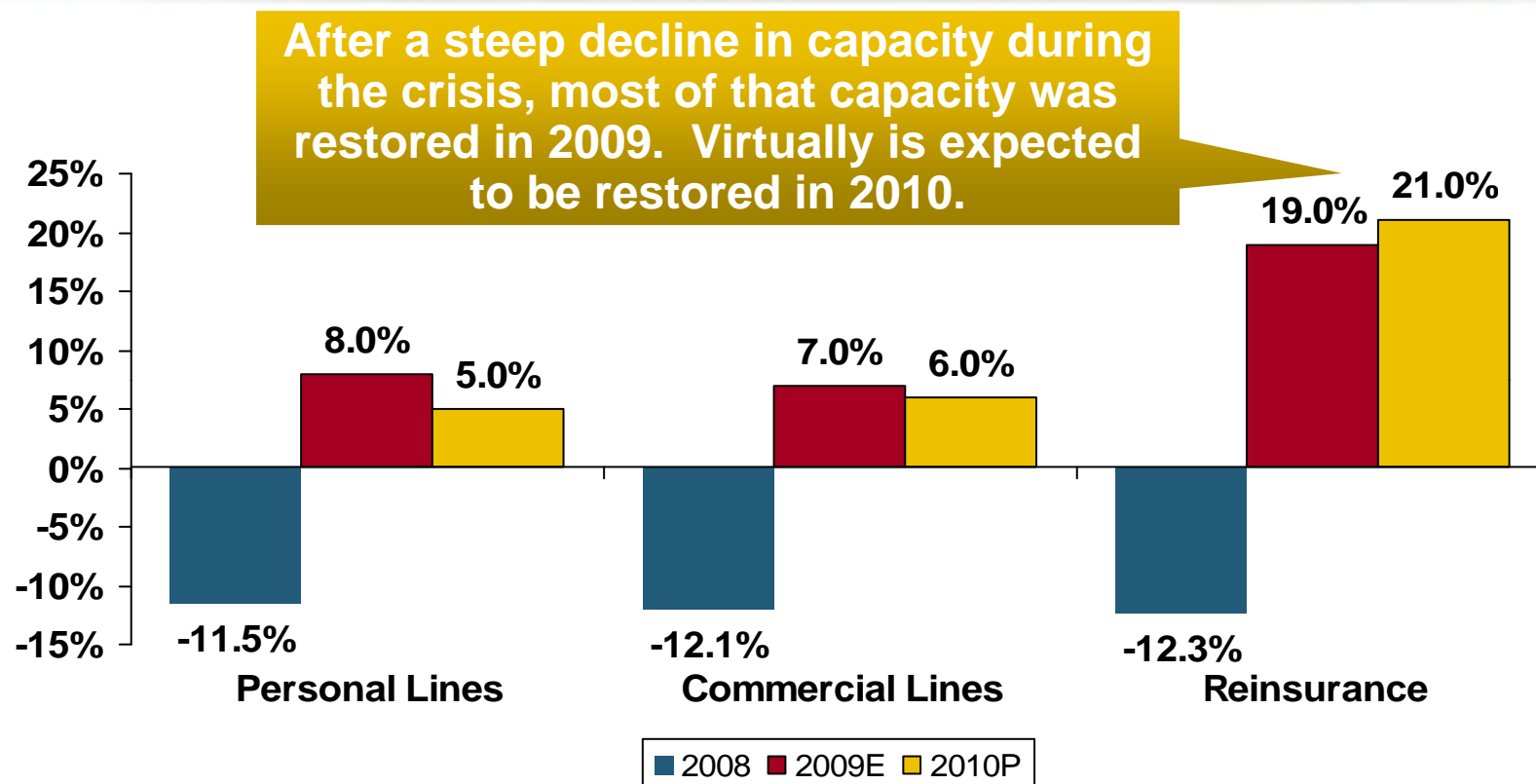
Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute.

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



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

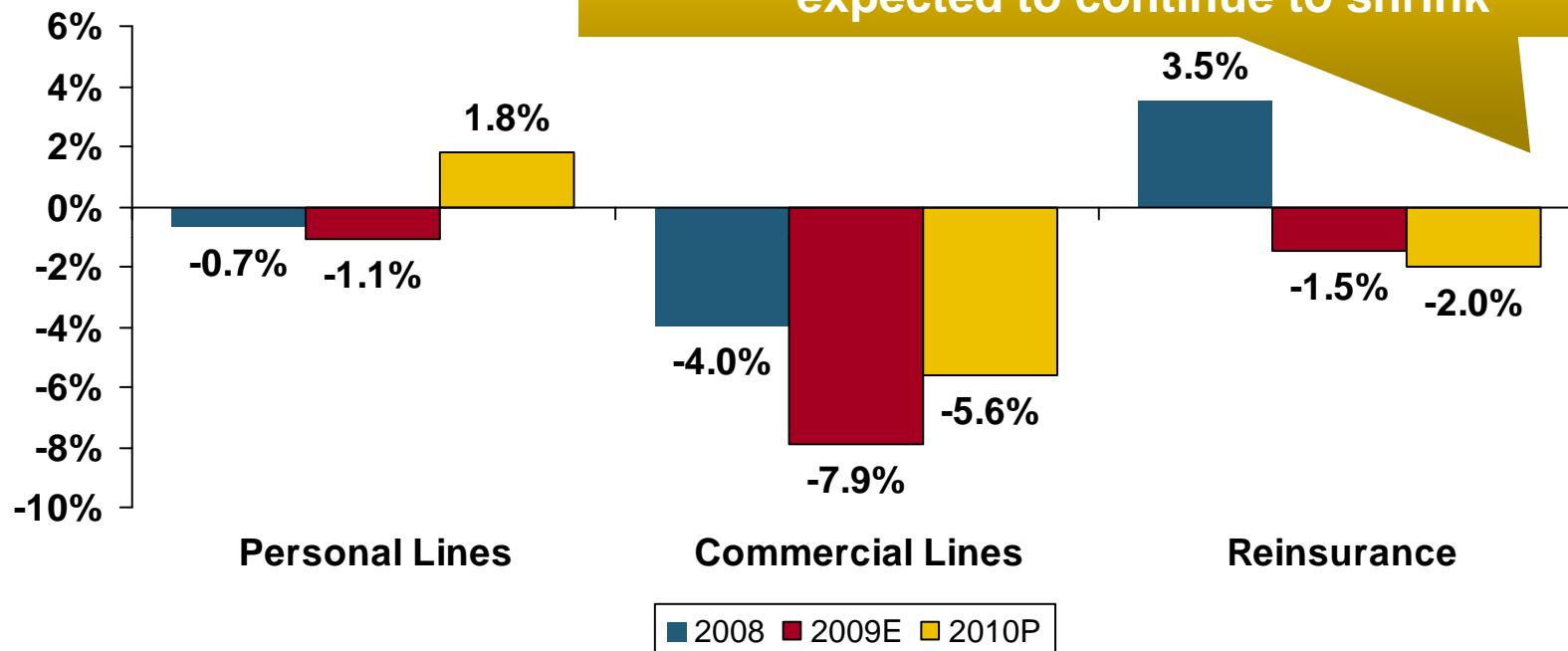
Change in Policyholder Surplus by Segment: 2008-2010P



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

Net Written Premium Growth by Segment: 2008-2010P

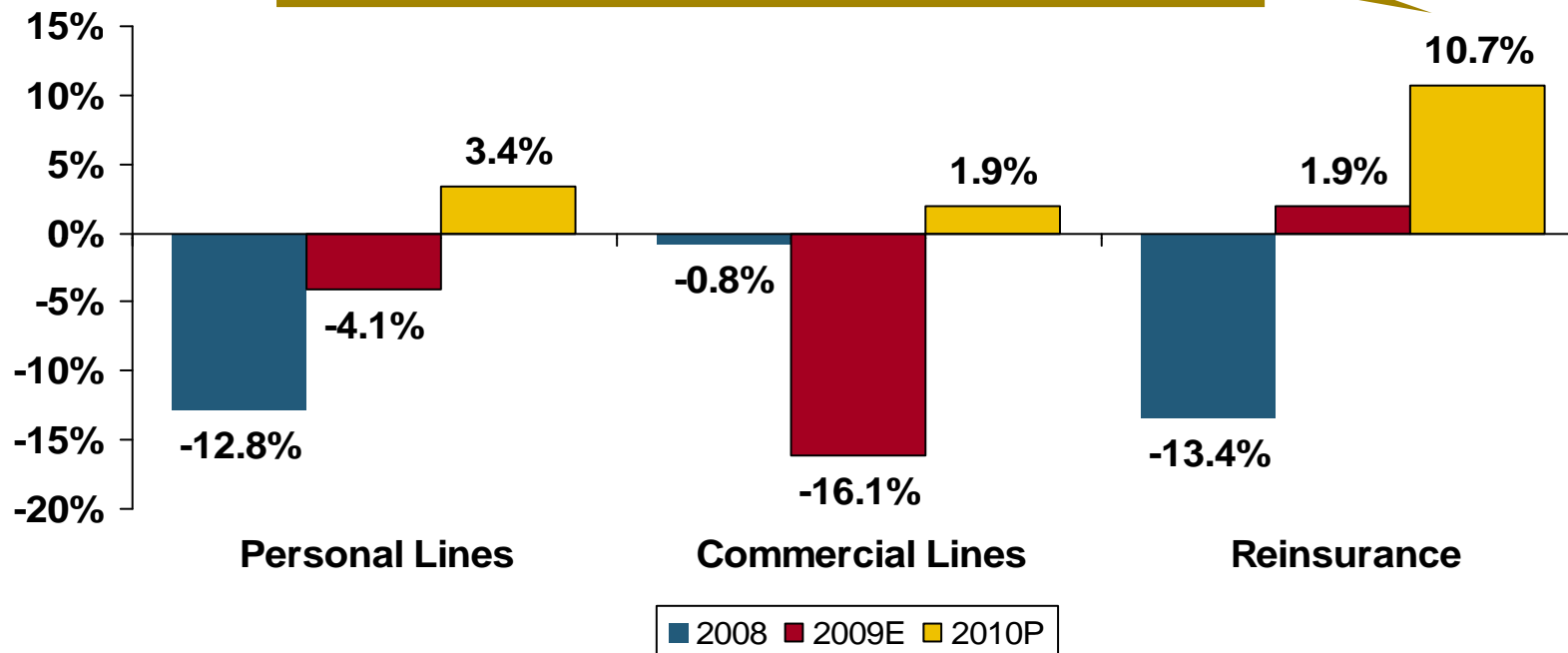
Personal lines will return to growth in 2010 while commercial lines and reinsurance are expected to continue to shrink



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

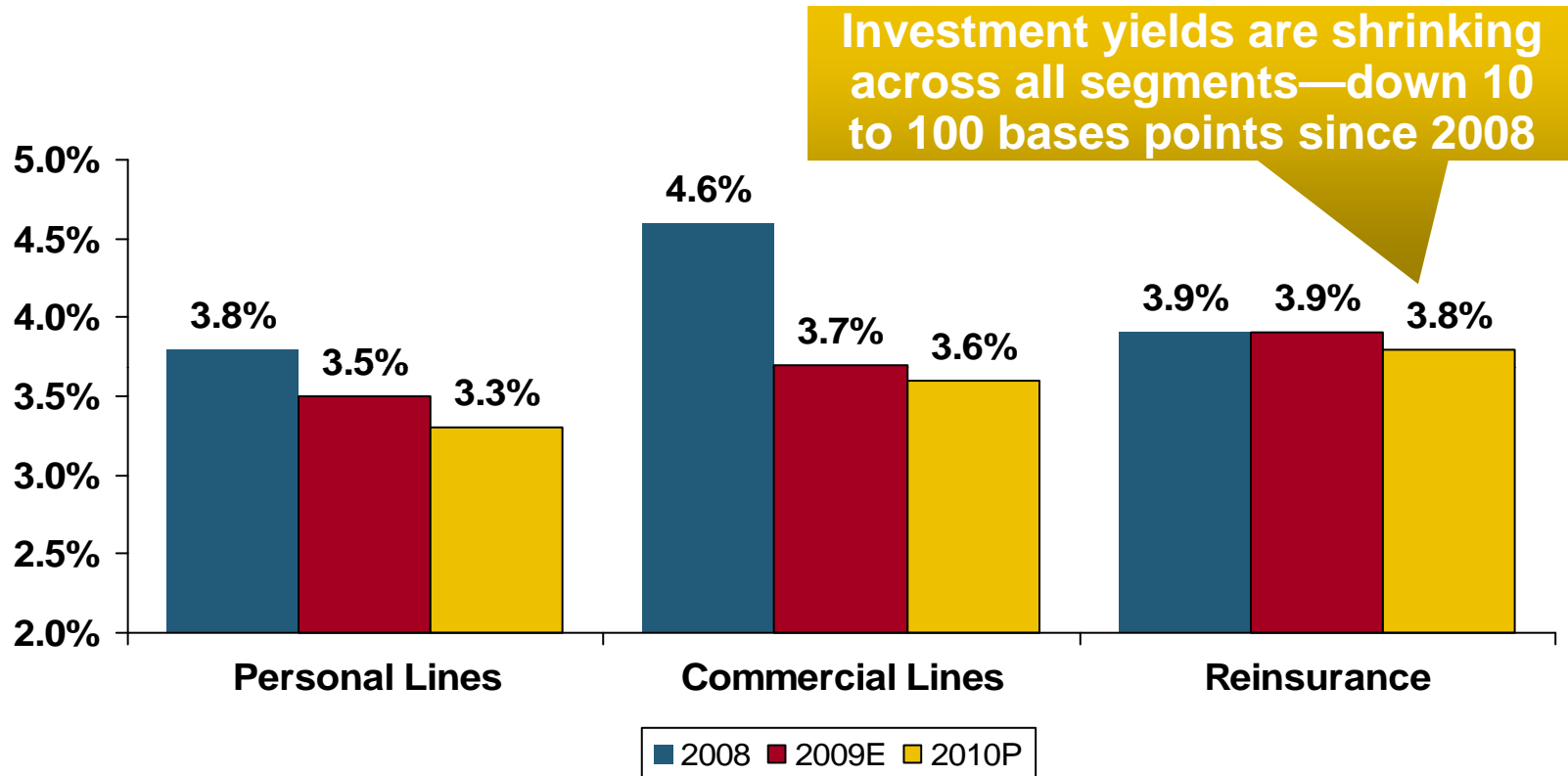
Change in Net Investment Income by Segment: 2008-2010P*

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



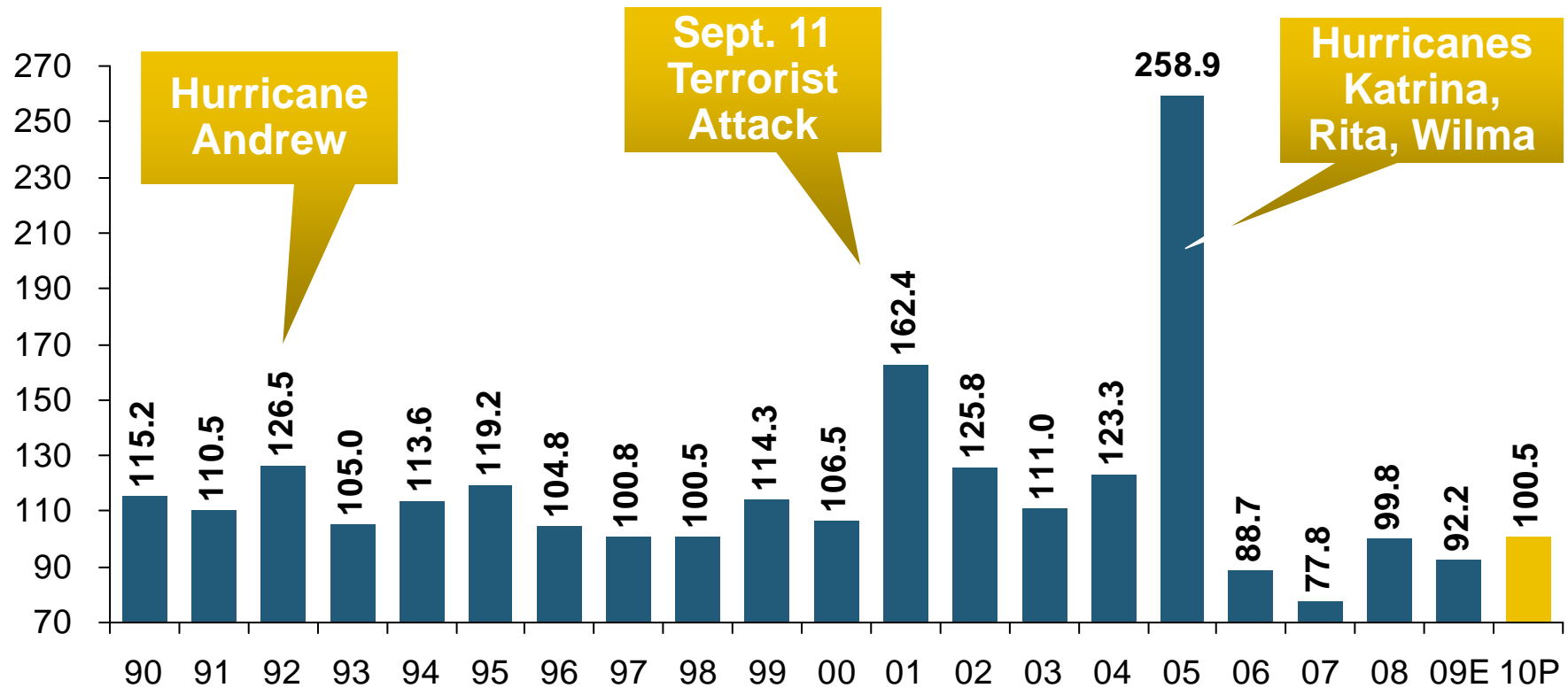
Investment income consists primarily of interest on bonds and stock dividends. Both were hit hard during the financial crisis as the Fed slashed interest rates to near zero and corporations cut dividends. A recovery in investment asset values beginning in Q2 2009—which reduced realized capital losses—has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

Reinsurance Combined Ratio: 1990–2010P

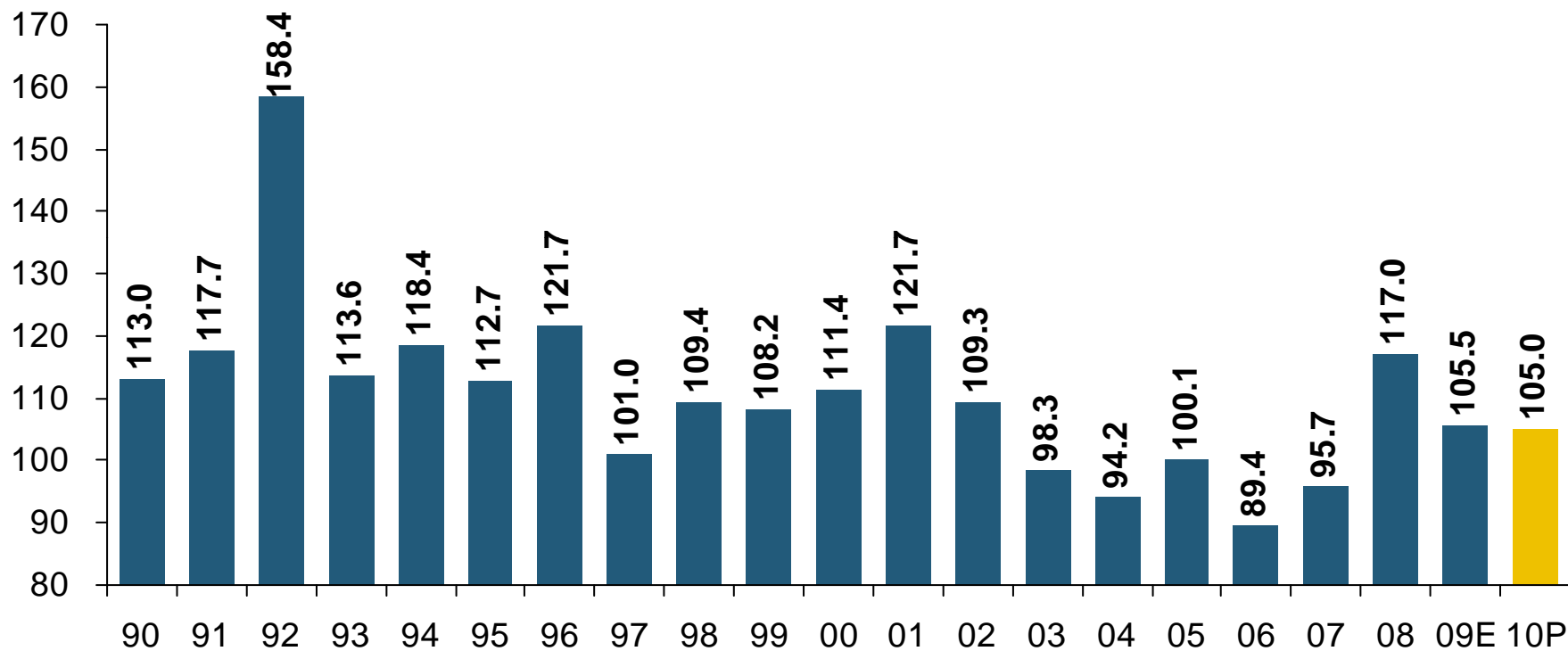


Reinsurance is a Highly Volatile Line and the Future is Unlikely to be Any Different

Note: 2008-2010 figures are from A.M. Best's *P/C Review and Preview*, February 8, 2010.

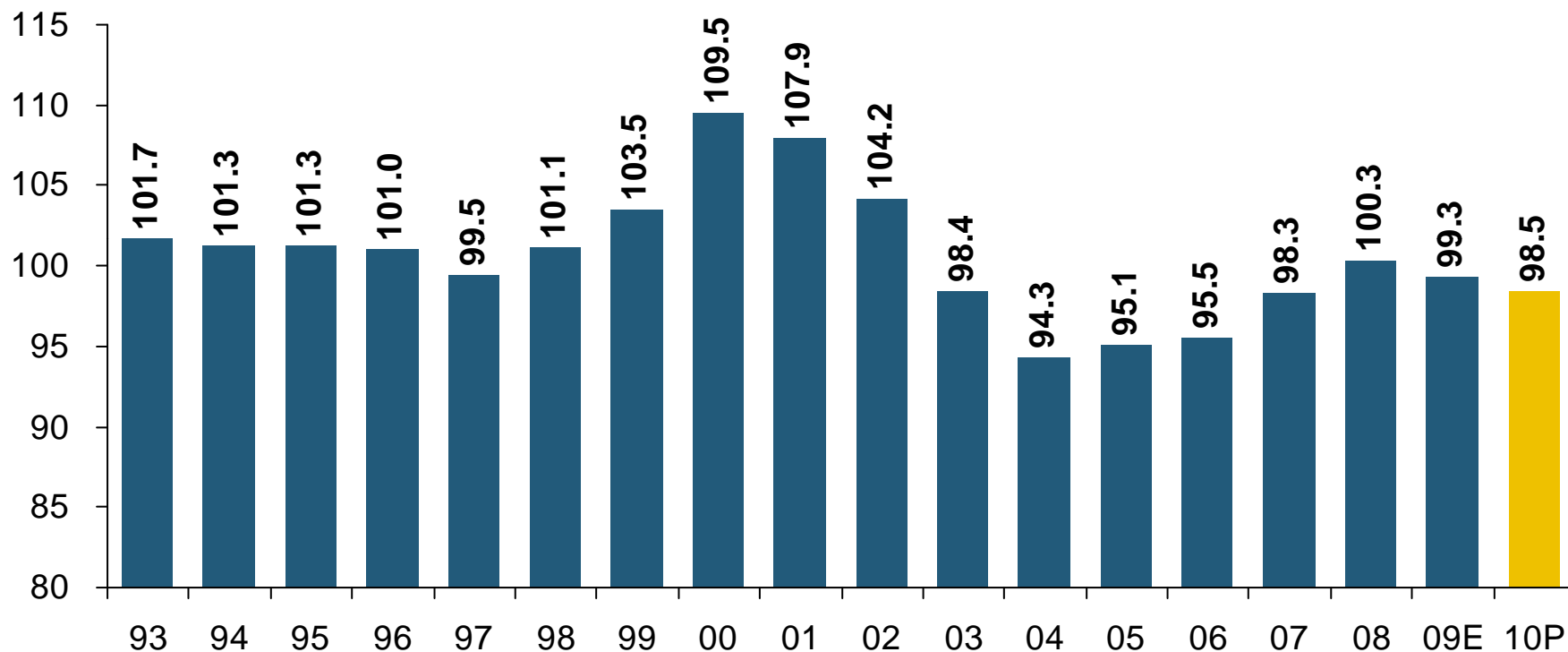
Sources: A.M. Best *Aggregates & Averages* for years 1990-2007; Insurance Information Institute.

Homeowners Insurance Combined Ratio: 1990–2010P



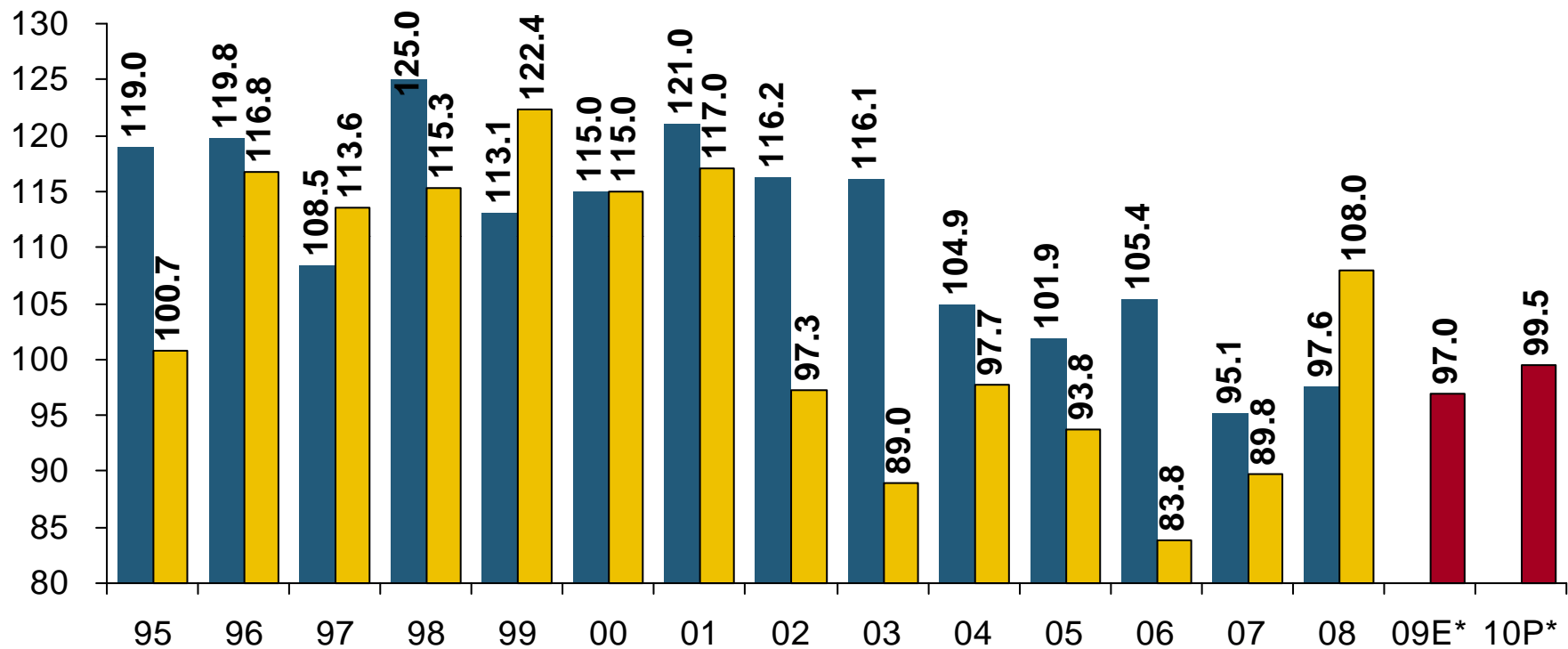
Homeowners Line Is Expected to Be Marginally Profitable Overall in 2010, but in Many States Could Be Quite Profitable. Volatility Due to Catastrophe Losses Will Persist

Private Passenger Auto Combined Ratio: 1993–2010P



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

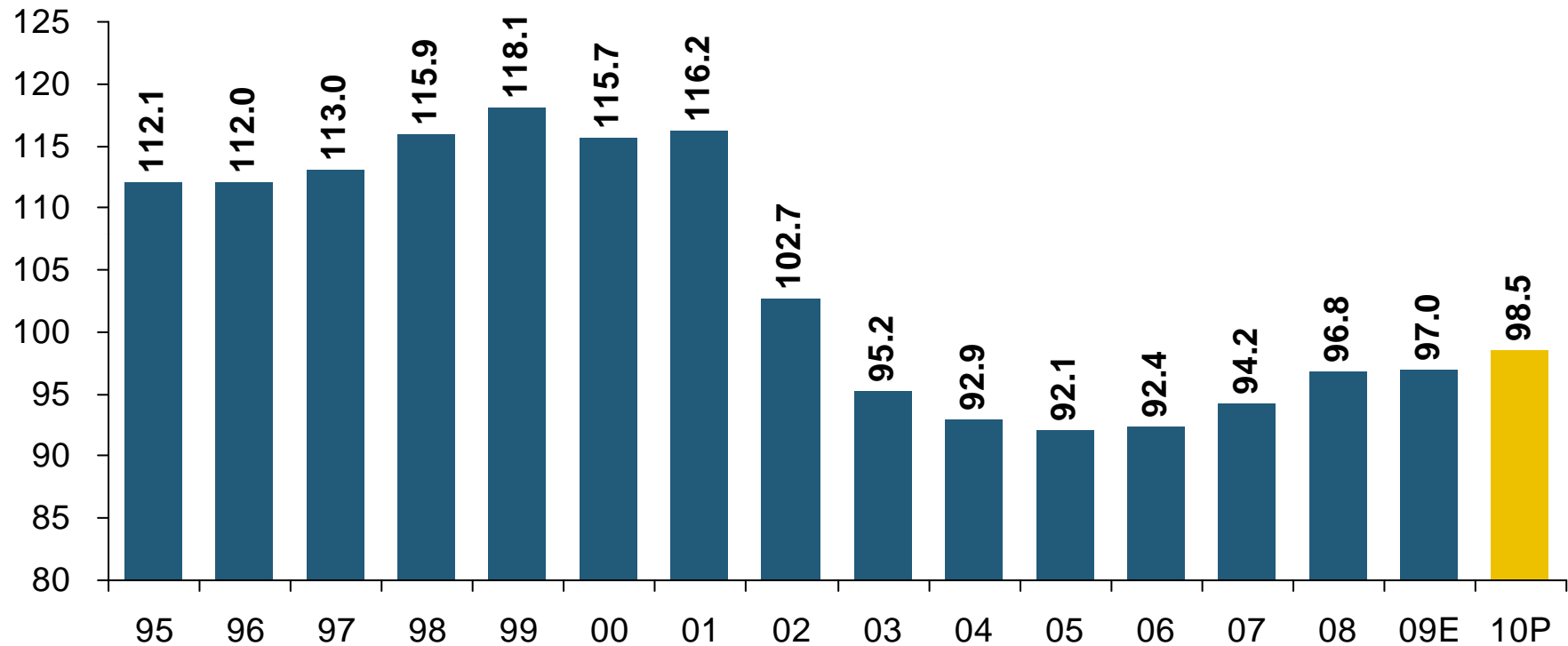
Commercial Multi-Peril Combined Ratio: 1995–2010P



Commercial Multi-Peril is Expected to Continue to Perform Reasonably Well

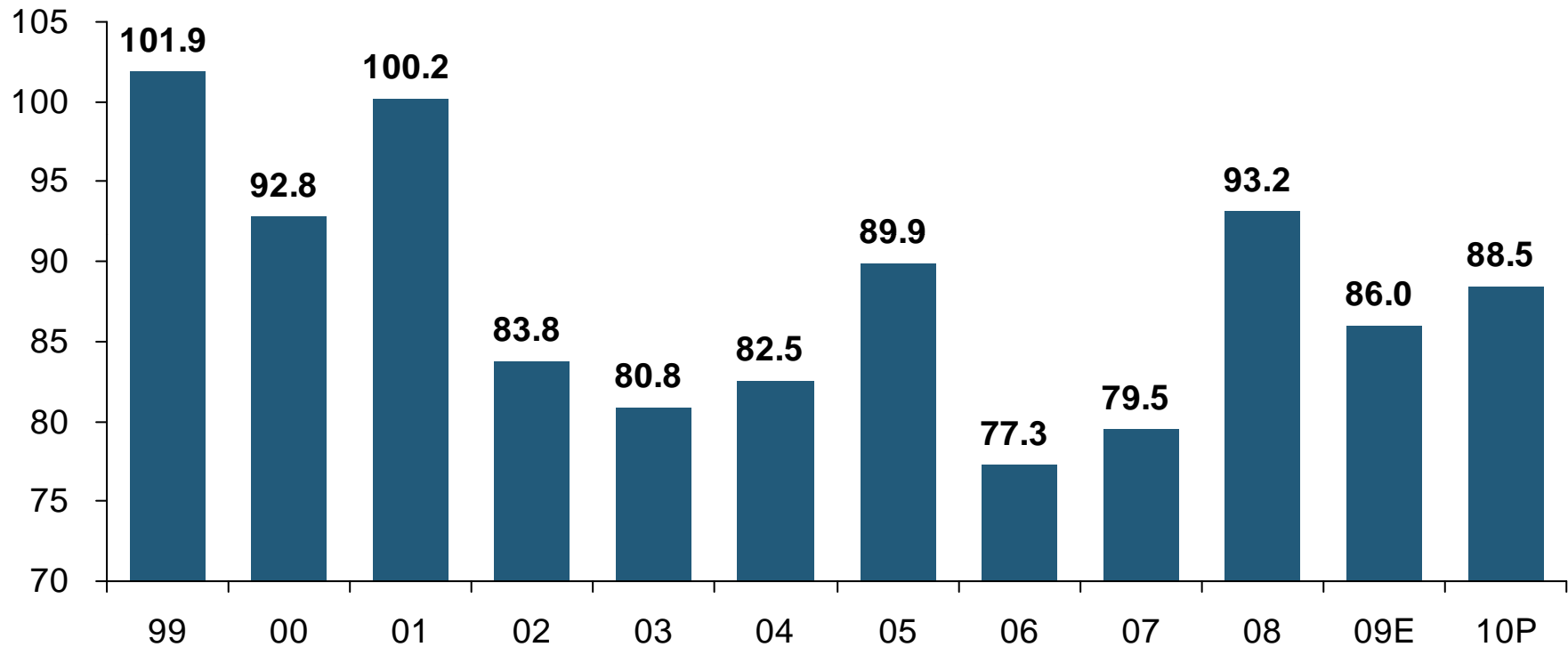
*2009E and 2010P figures are for the combined liability and non-liability components.
Sources: A.M. Best; Insurance Information Institute.

Commercial Auto Combined Ratio: 1993–2010P



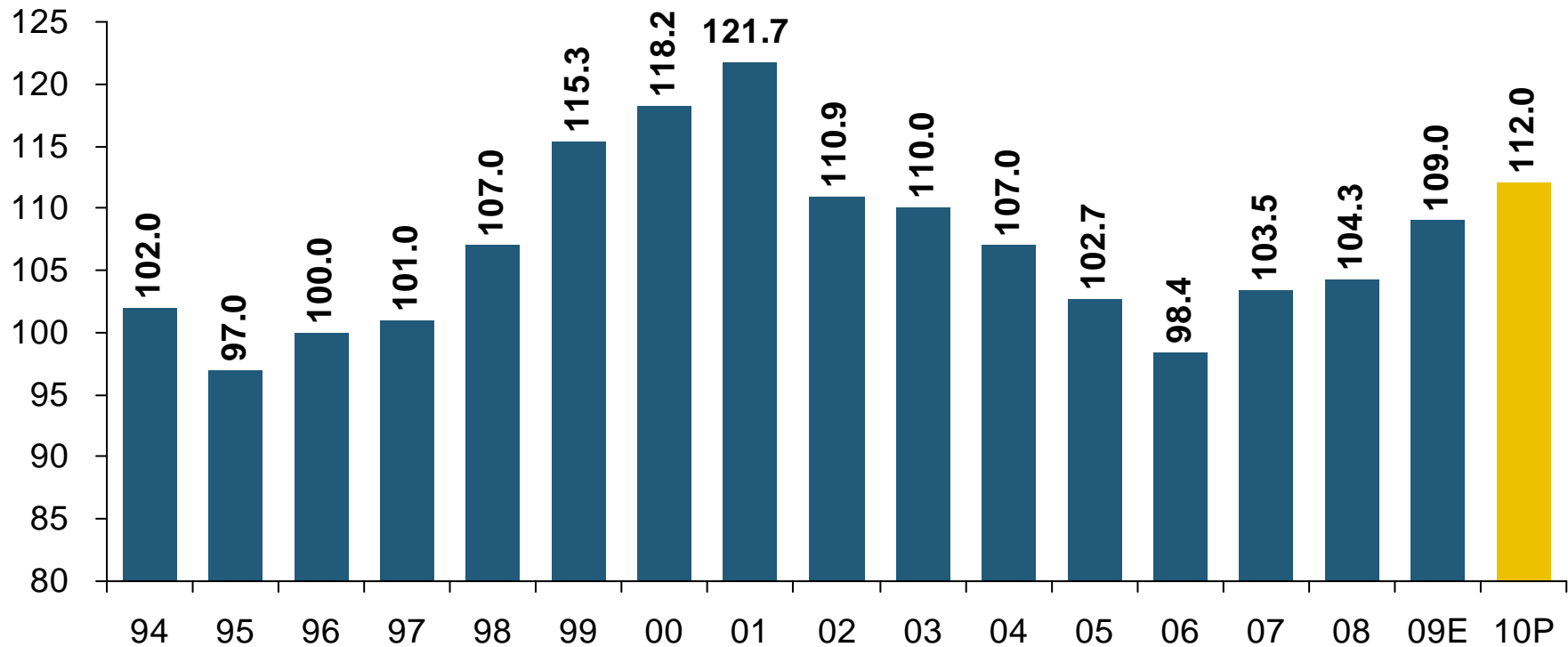
Commercial Auto is Expected to Remain Reasonably Profitable in 2010

Inland Marine Combined Ratio: 1999–2010P



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

Workers Compensation Combined Ratio: 1994–2010P

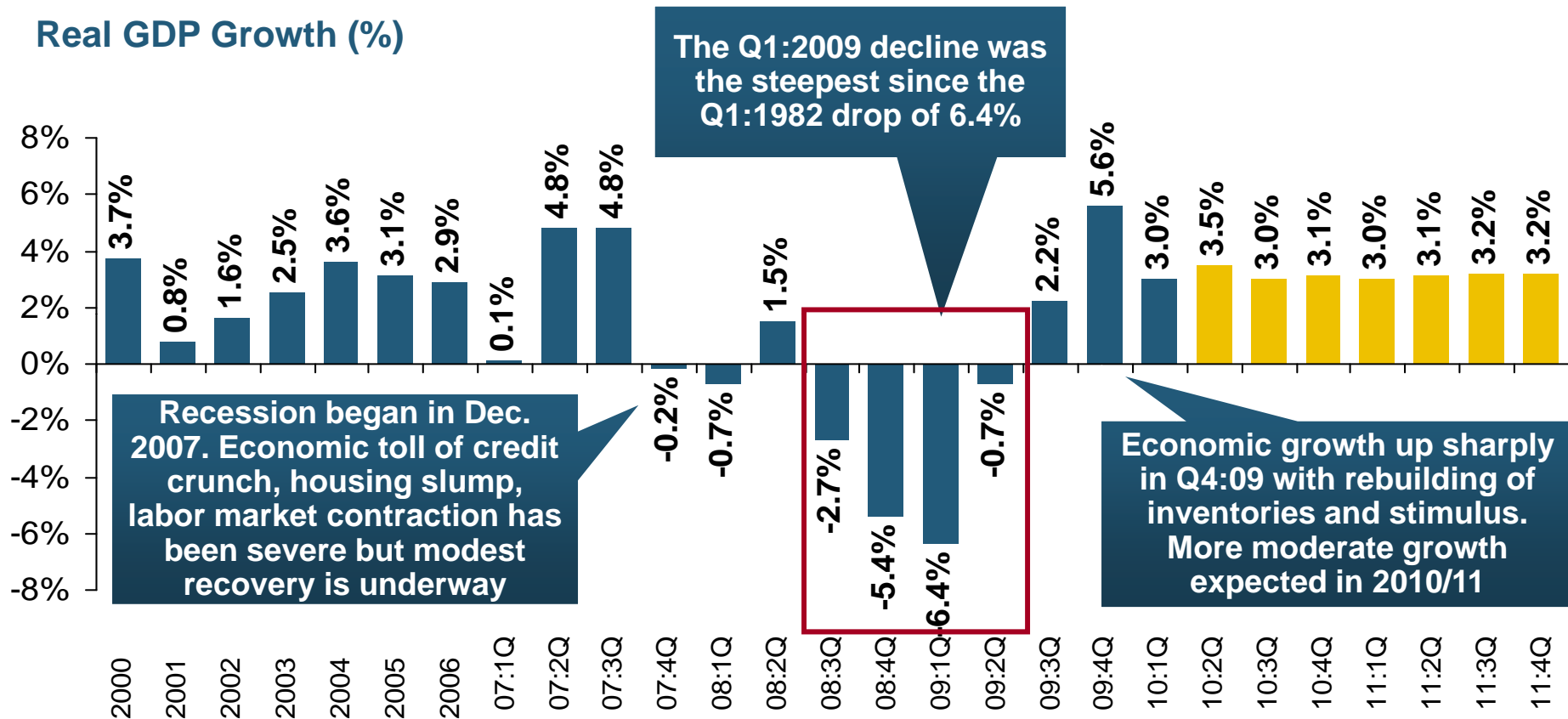


Workers Comp Underwriting Results Are Deteriorating Markedly

The Economic Storm

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

Real GDP Growth*



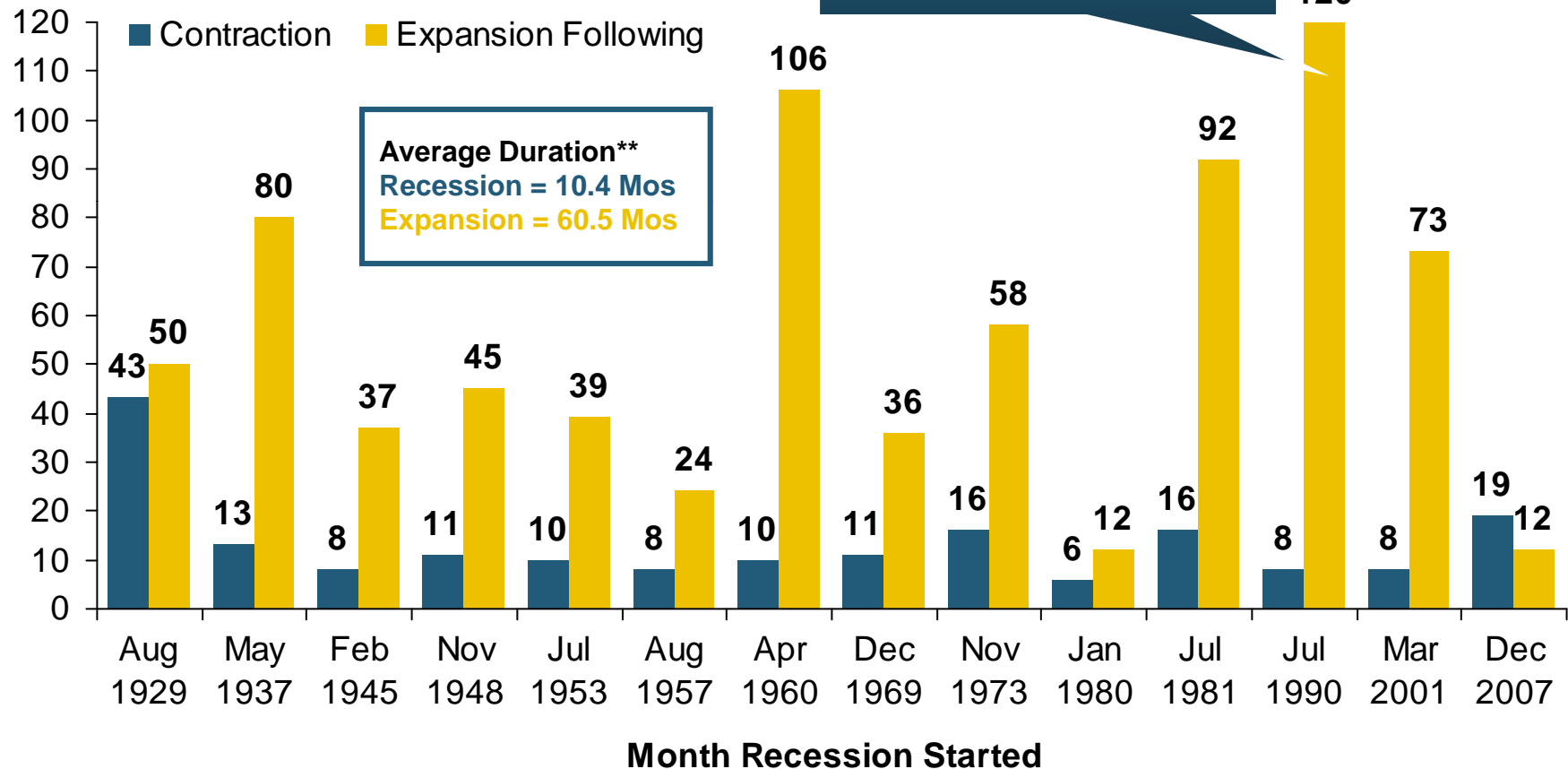
Personal and Commercial Lines Exposure Base Have Been Hit Hard and Will Be Slow to Come Back

* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 6/10; Insurance Information Institute.

Length of US Business Cycles, 1929–Present*

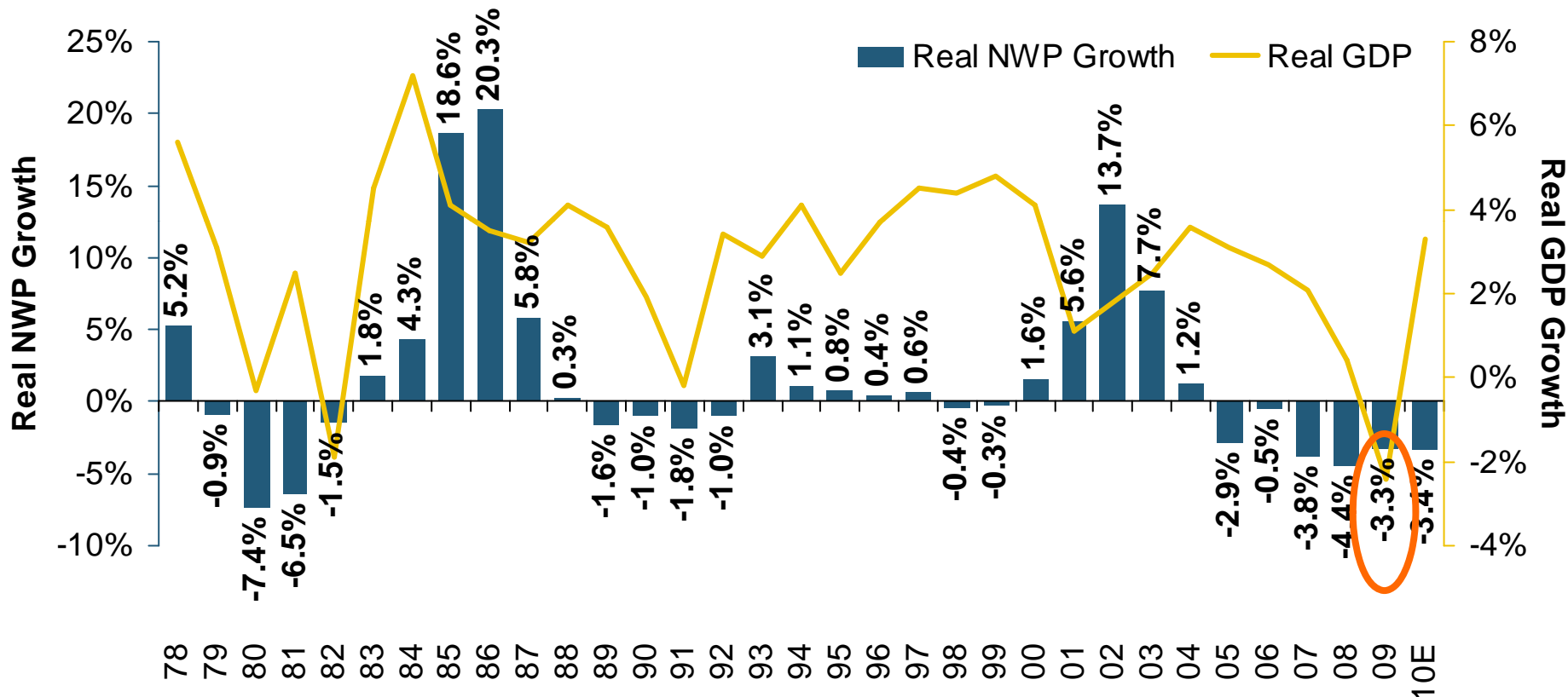
Duration (Months)



* Through June 2010. Assumes “official” end of recession was June 2009. ** Post-WW II period through end of most recent expansion.
 Sources: National Bureau of Economic Research; Insurance Information Institute.

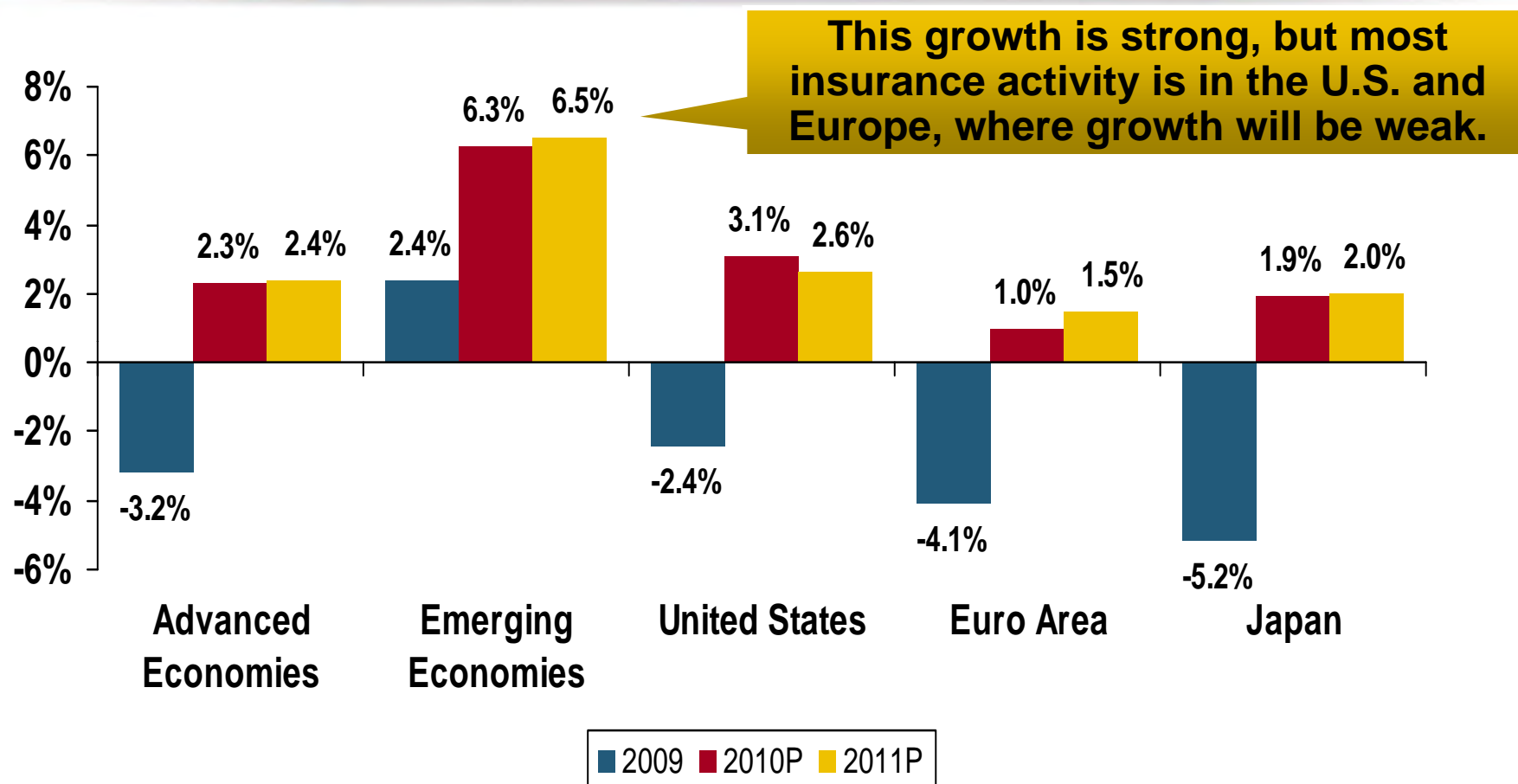
Real GDP Growth vs. Real P/C Premium Growth: Modest Association

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



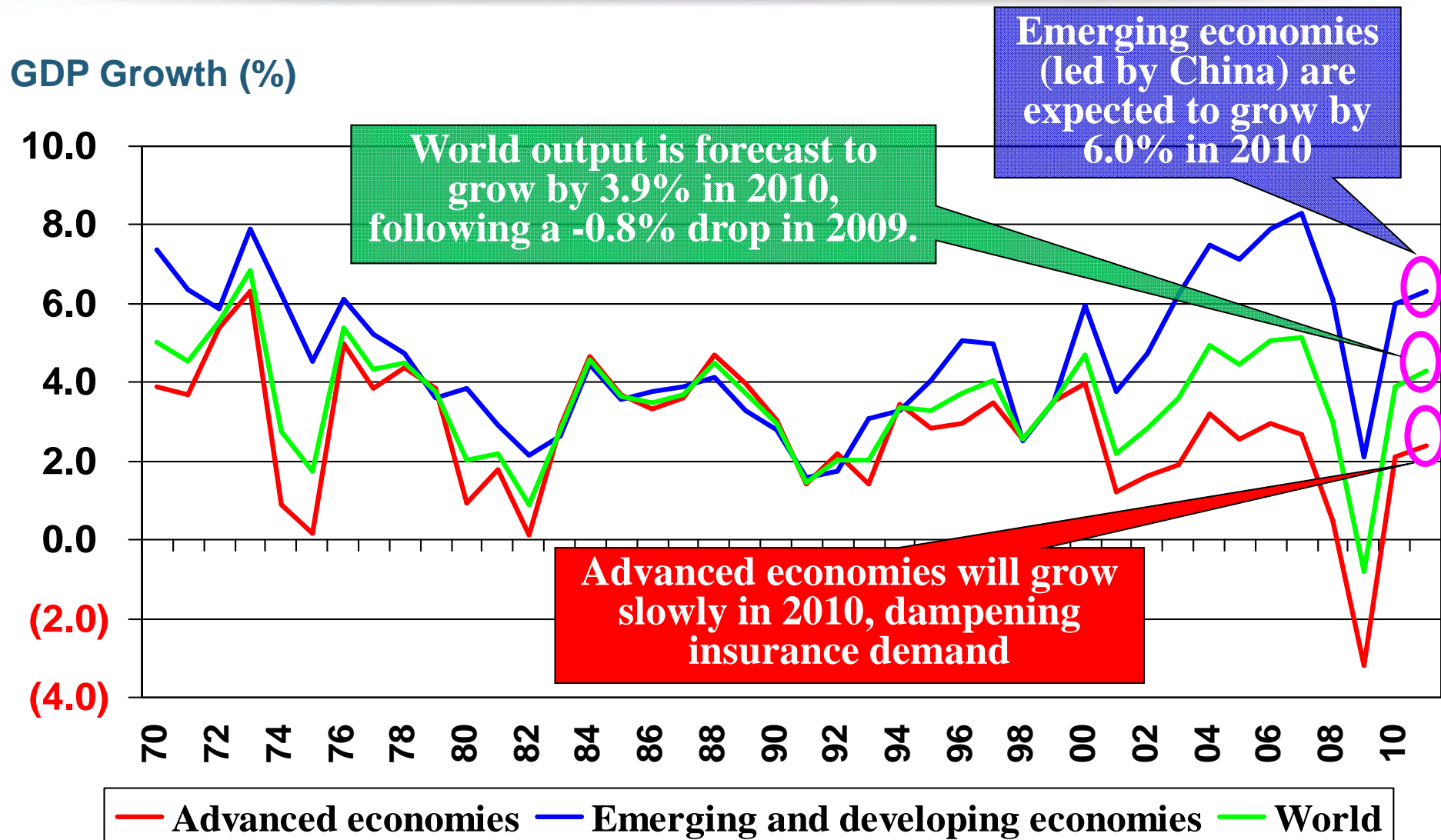
**P/C Insurance Industry's Growth is Influenced Modestly
by Growth in the Overall Economy**

World Economic Outlook: 2009-2011P



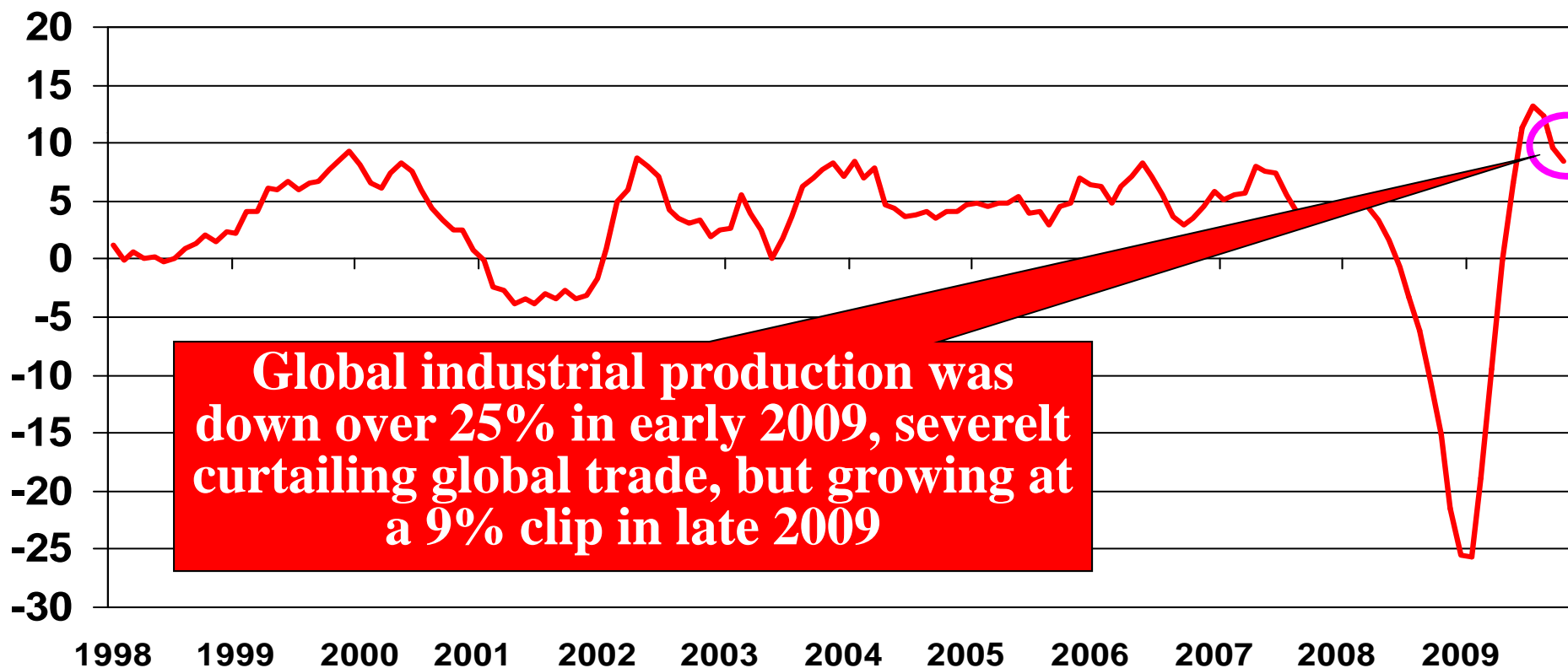
Outlook uncertain: The world economy is recovering from the global crisis, but at different speeds in different parts of the world, according to the IMF. Insurance exposure growth will vary regionally and by industry.

GDP Growth: Advanced & Emerging Economies vs. World, 1970-2011F



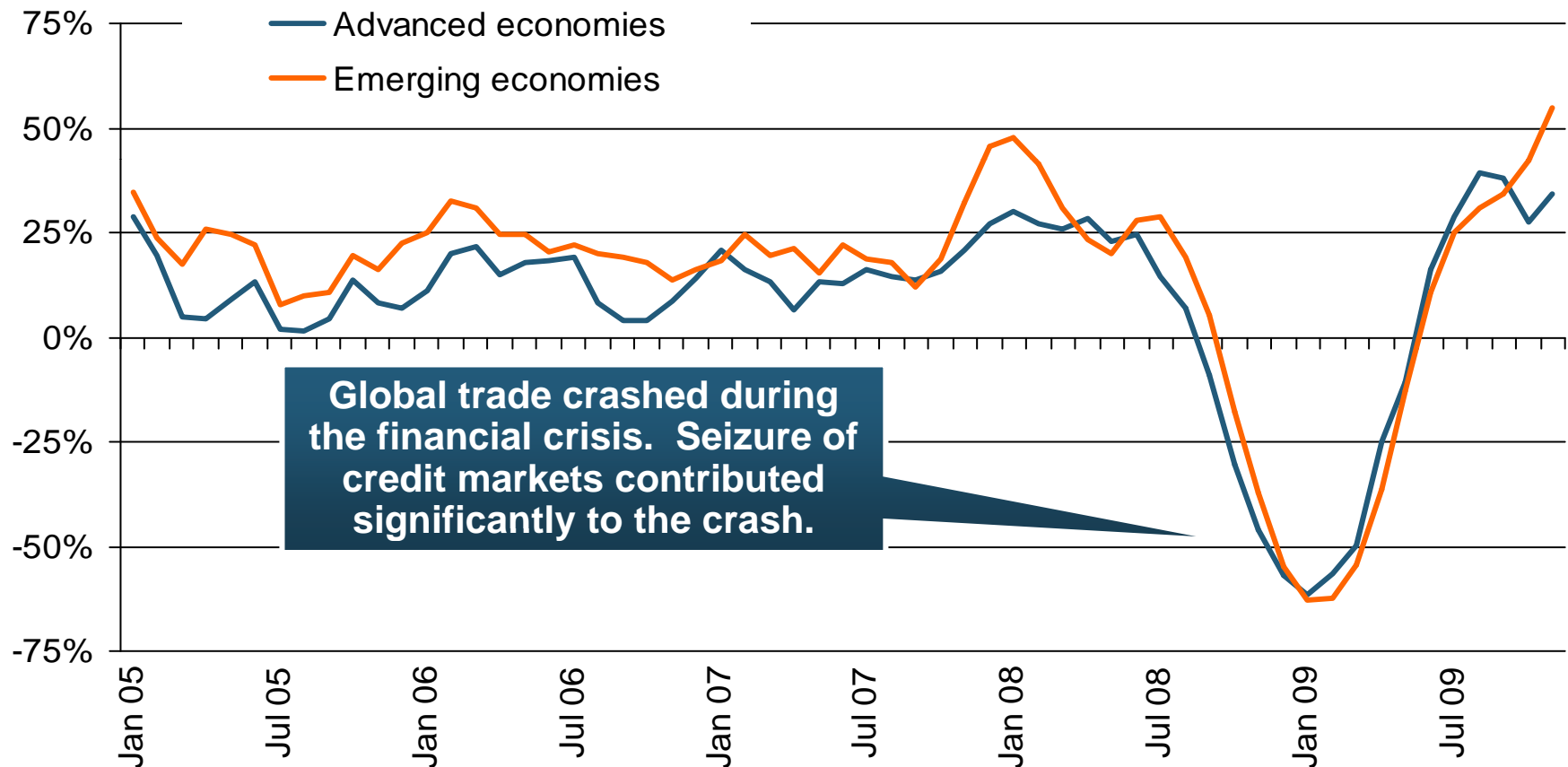
Global Industrial Production Rebounds From a Tailspin; Global Trade Recovering

Annualized 3-Month Percent Change



Merchandise Exports Are Growing at Pre-Crisis Levels Again

Annualized % change of 3-month
moving average over previous 3-
month moving average

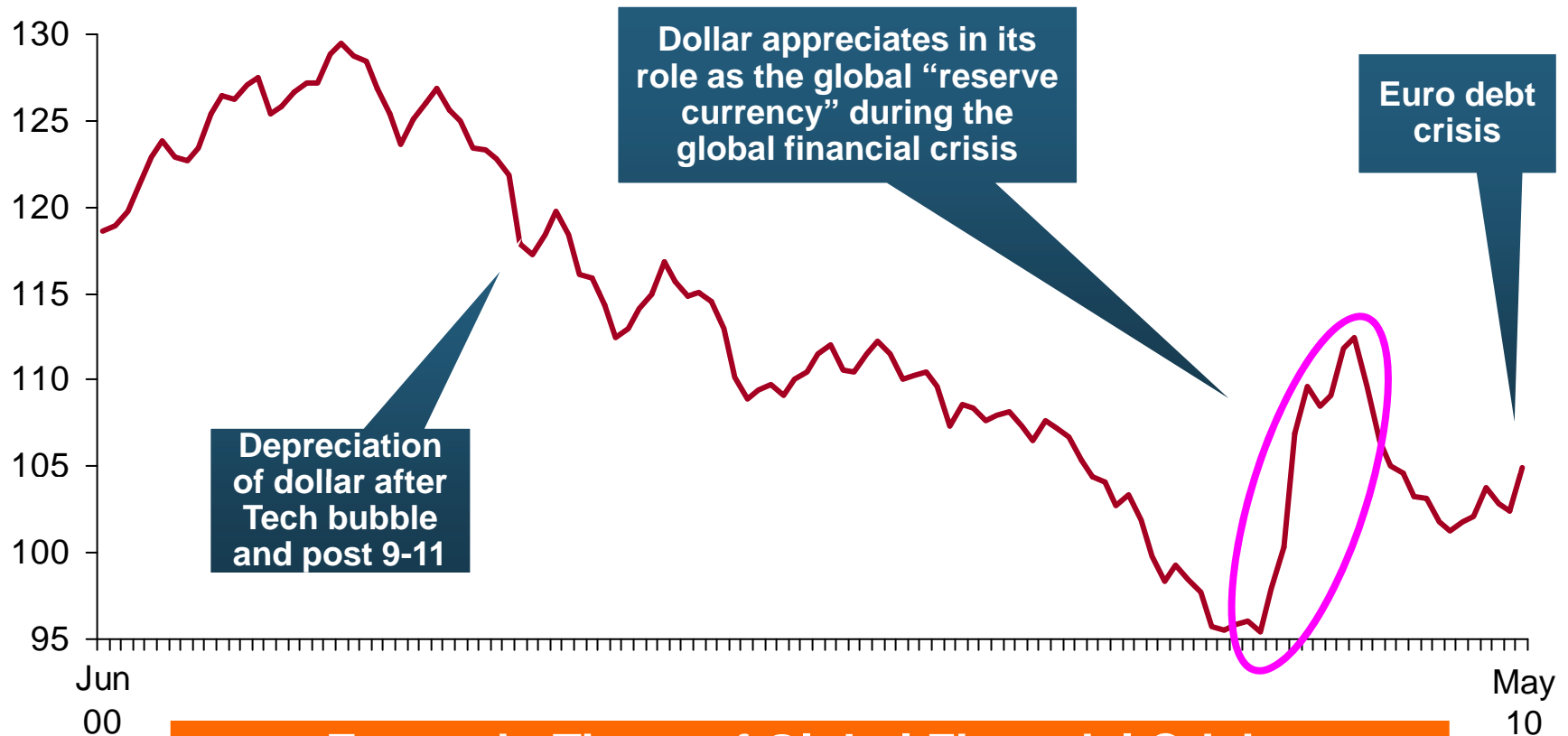


Note: data are through November 2009

Source: International Monetary Fund World Economic Outlook January 2010 update at
http://www.imf.org/external/pubs/ft/weo/2010/update/01/data/figure_2.csv

Trade-Index-Weighted US Dollar Exchange Rate*

June 2000 through May 2010



**Except in Times of Global Financial Crisis,
The U.S. Dollar Has Weakened vs. Other Currencies**

*The broad index is a weighted average of the foreign exchange values of the U.S. dollar against the currencies of a large group of major U.S. trading partners. The index weights, which change over time, are derived from U.S. export shares and from U.S. and foreign import shares.

Sources: US Federal Reserve, Board of Governors, at <http://www.federalreserve.gov/releases/g5/current/> ; Insurance Information Institute.

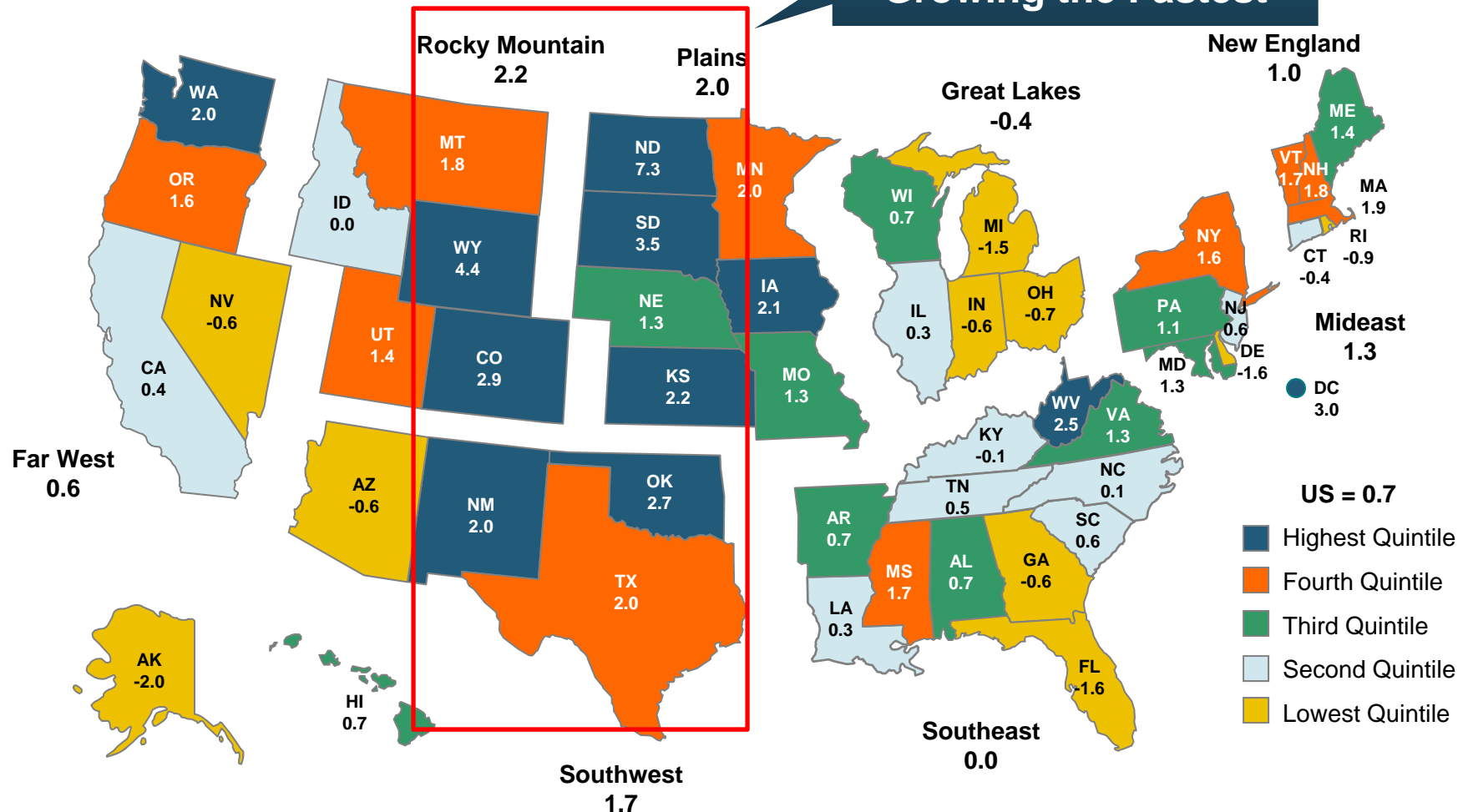
Regional Differences Will Significantly Impact P/C Markets

**Recovery in Some Areas Will
Begin Years Ahead of Others
and Speed of Recovery Will Differ
by Orders of Magnitude**

State Economic Growth Varied Tremendously in 2008

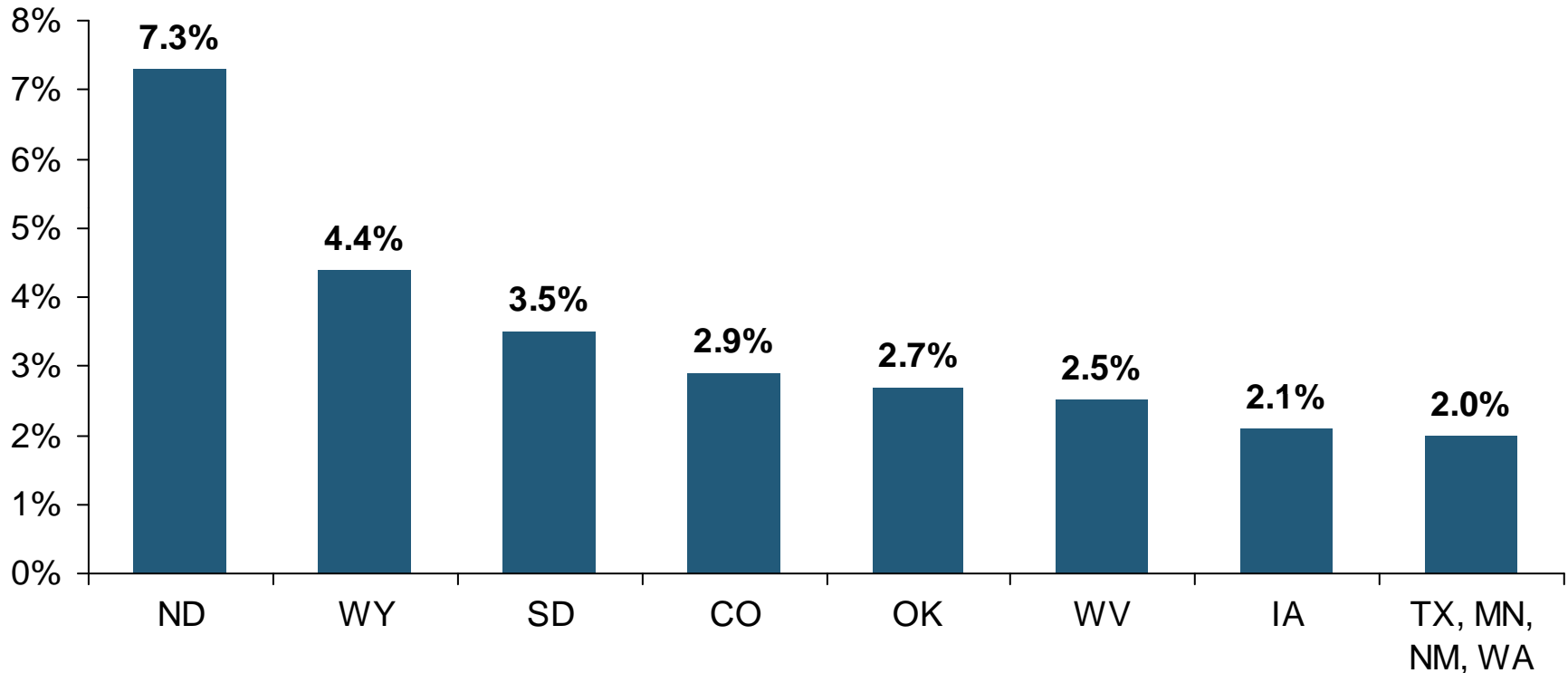
Percent Change in Real GDP by State, 2007–2008

**Mountain, Plains States
Growing the Fastest**



Fastest Growing States in 2008: Plains, Mountain States Lead

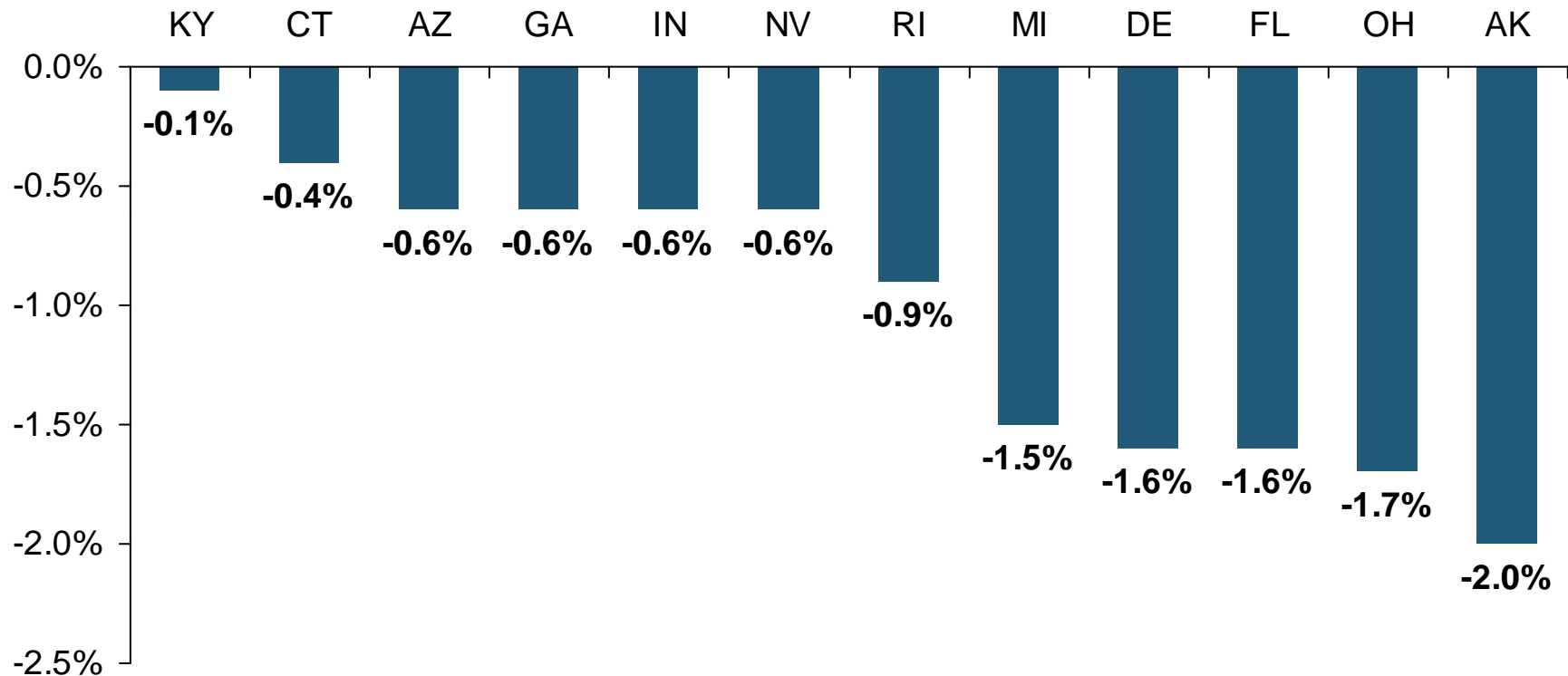
Real State GDP Growth (%)



Natural Resource and Agricultural States Have Done Better Than Most Others Recently, Helping Insurance Exposure in Those Areas

Slowest Growing States in 2008: Diversity of States Suffering

Real State GDP Growth (%)



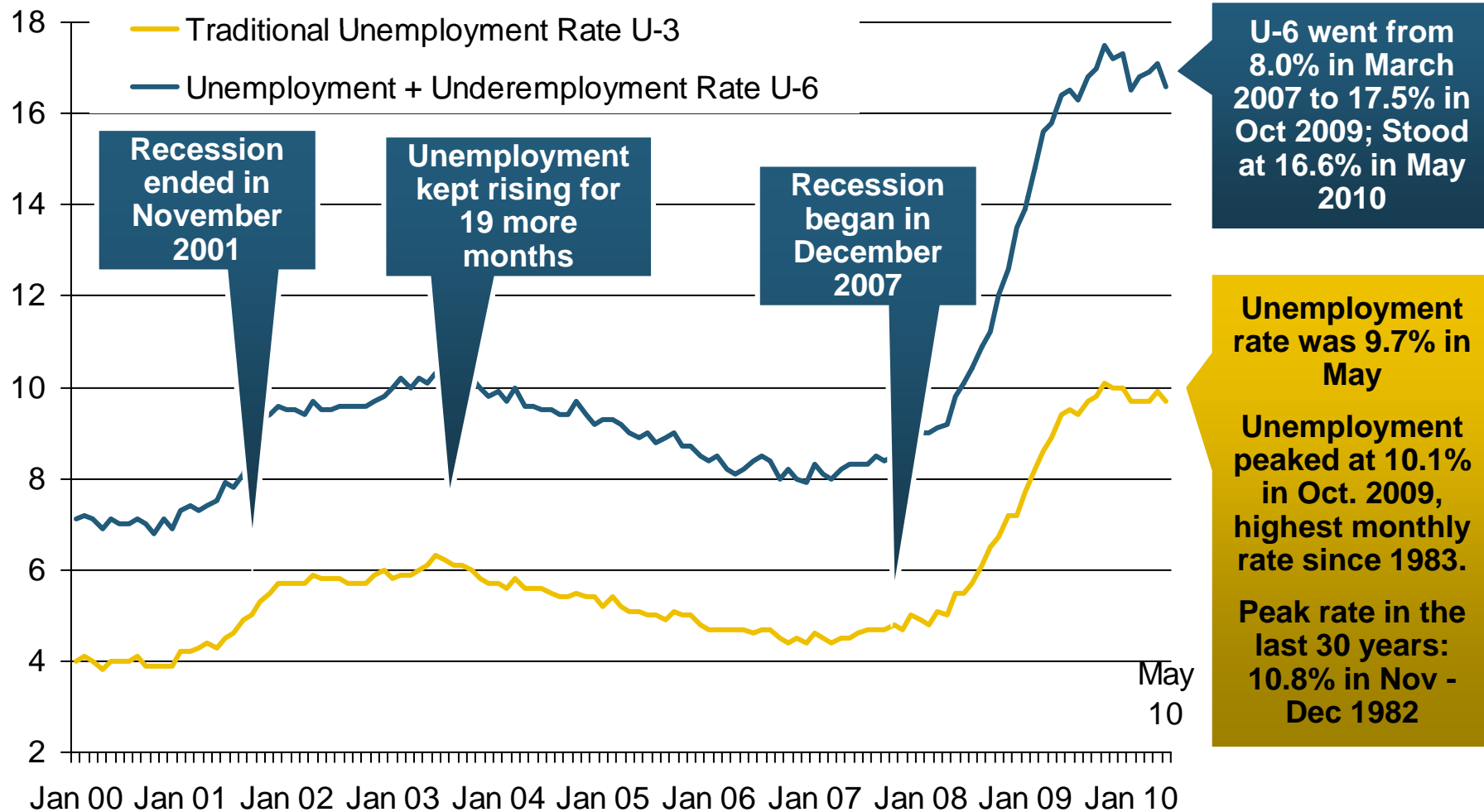
States in the North, South, East and West All Represented Among Hardest Hit, But for Differing Reasons

Labor Market Trends

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

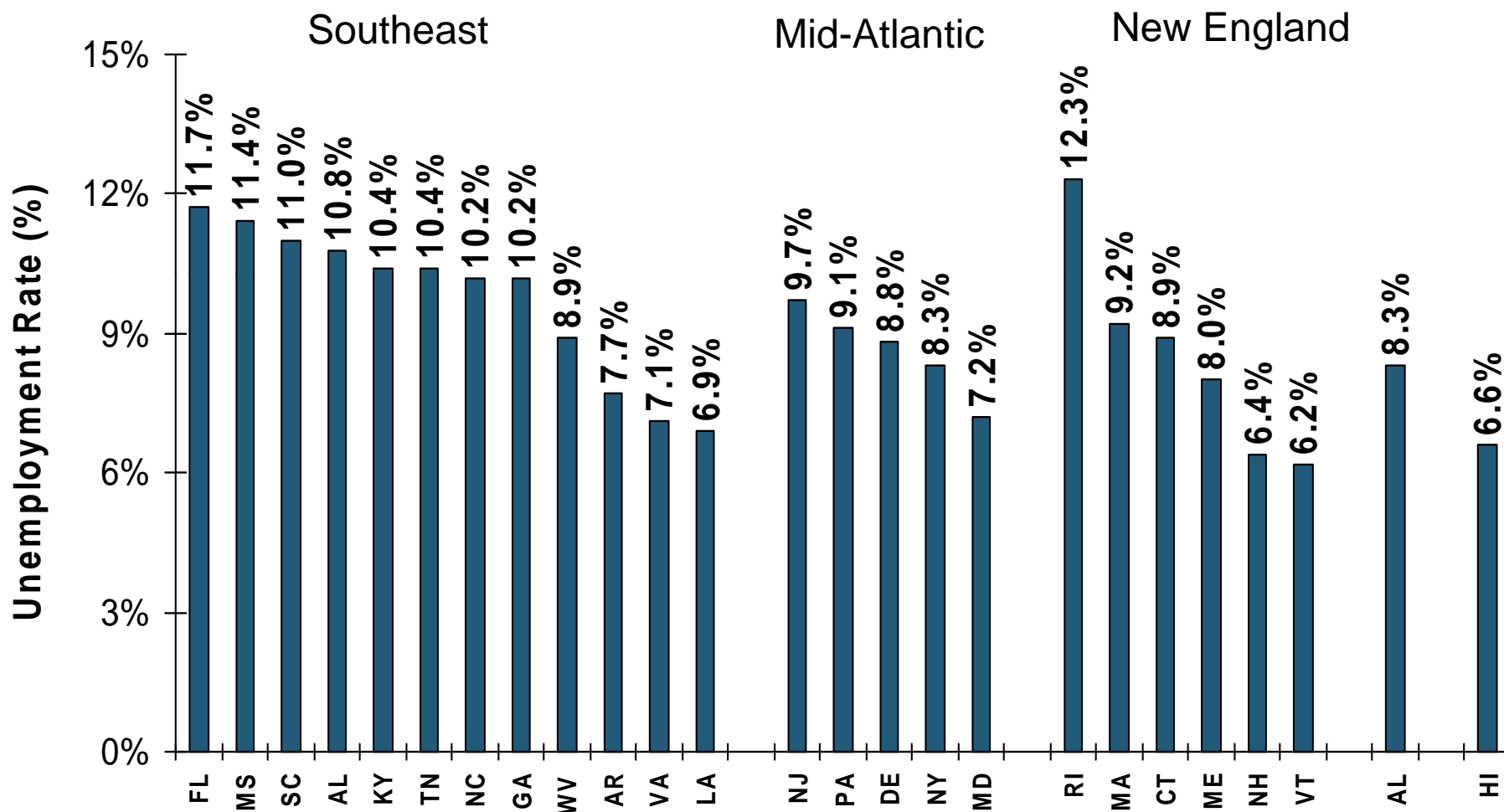
Unemployment and Underemployment Rates: Rocketed Up in 2008-09; Stabilizing in 2010?

January 2000 through May 2010, Seasonally Adjusted (%)



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

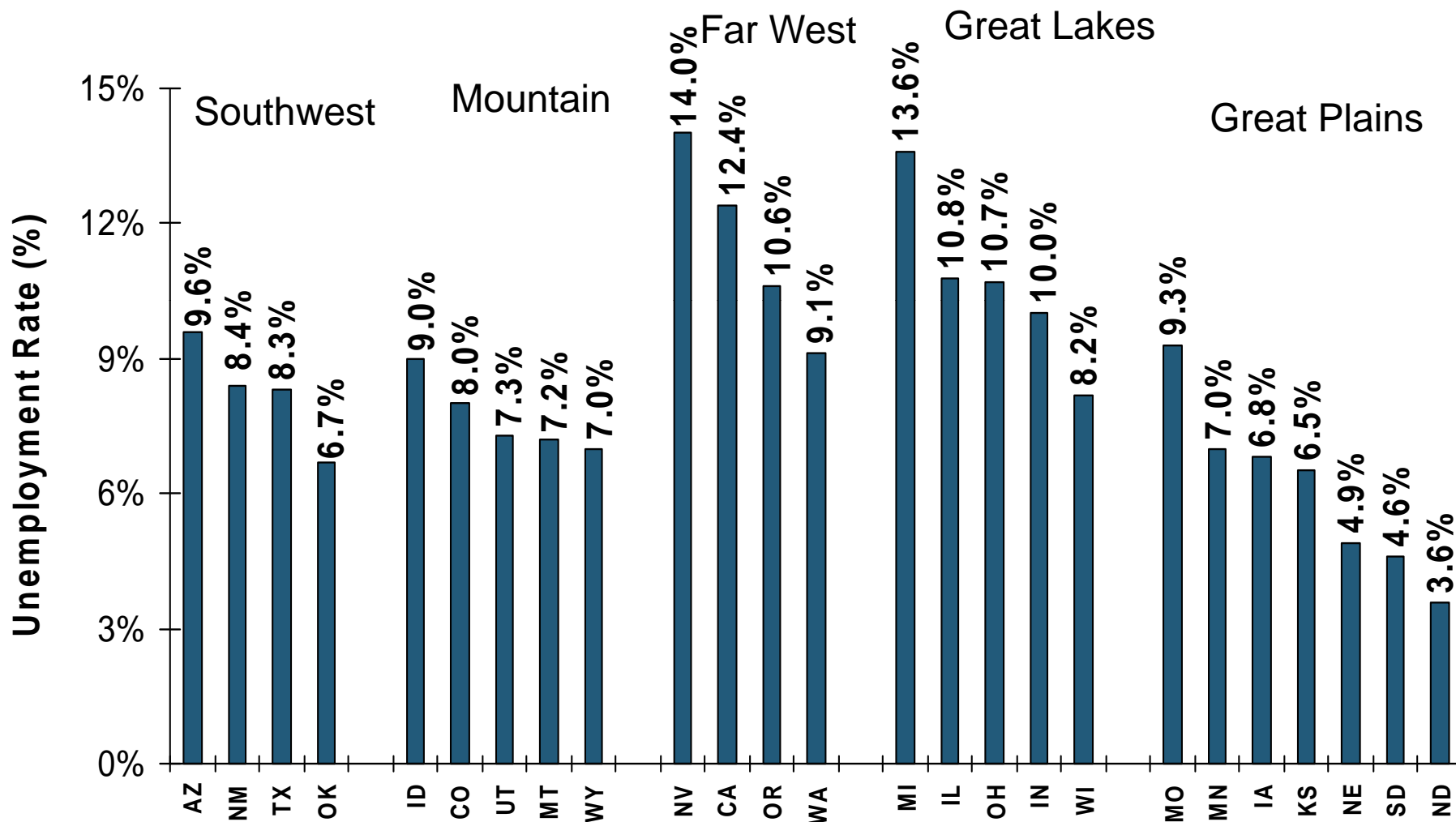
Unemployment Rates Vary Widely by State and Region*



*Provisional figures for May 2010, seasonally adjusted.

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

Unemployment Rates Vary Widely by State and Region* (cont'd)

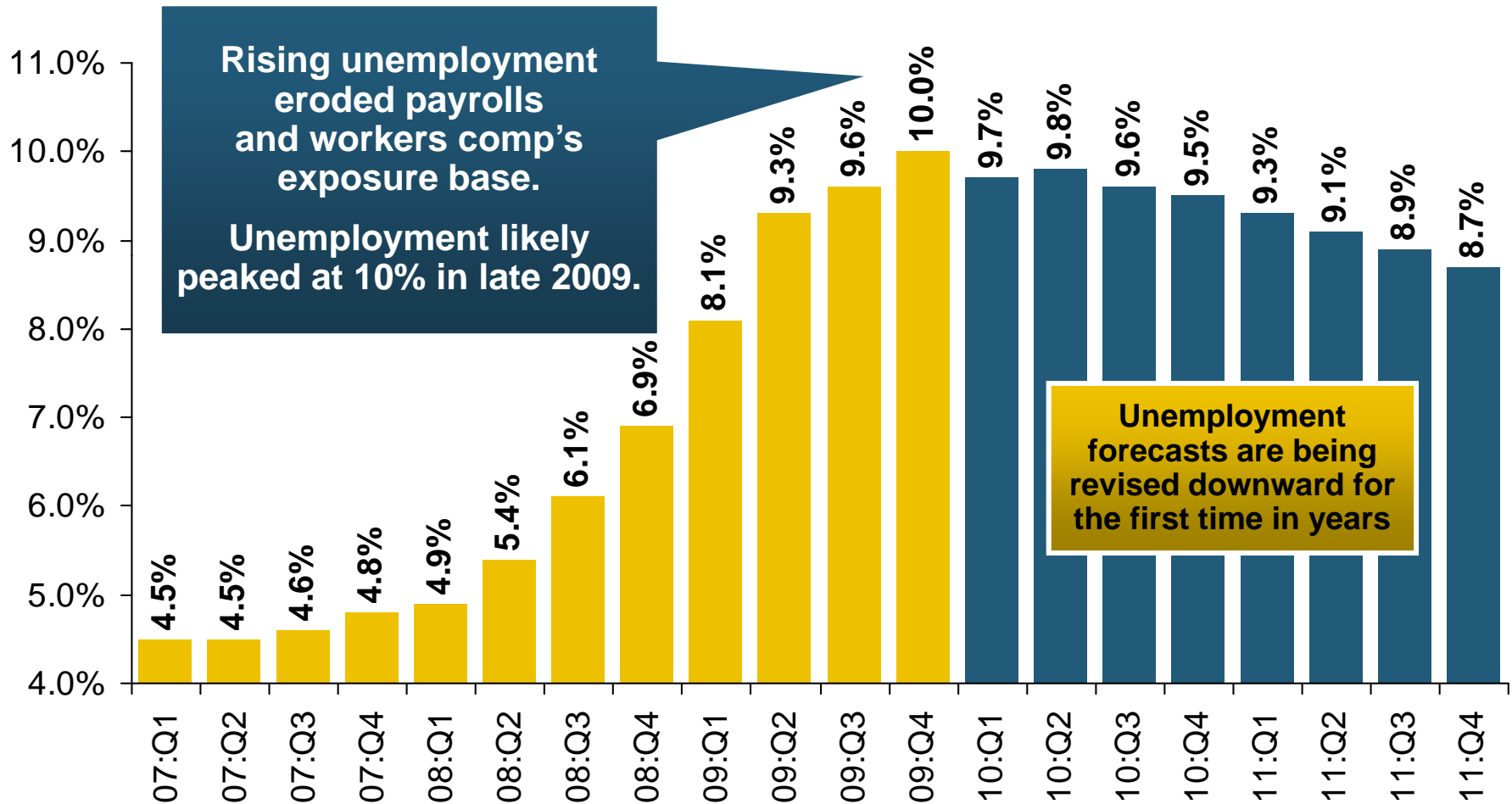


*Provisional figures for May 2010, seasonally adjusted.

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

US Unemployment Rate

2007:Q1 to 2011:Q4F*

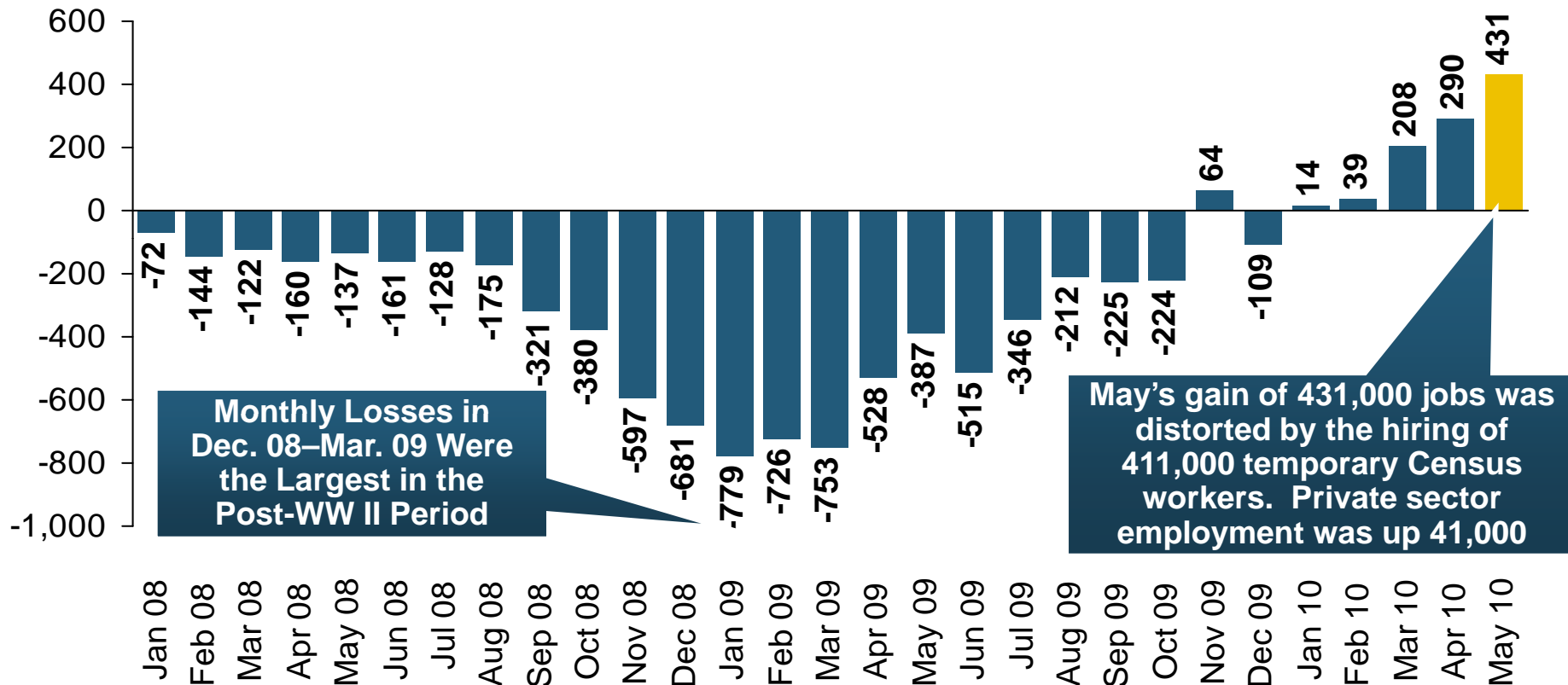


* ■ = actual; ■ = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (6/10); Insurance Information Institute

Monthly Change Employment*

January 2008 through April 2010* (Thousands)



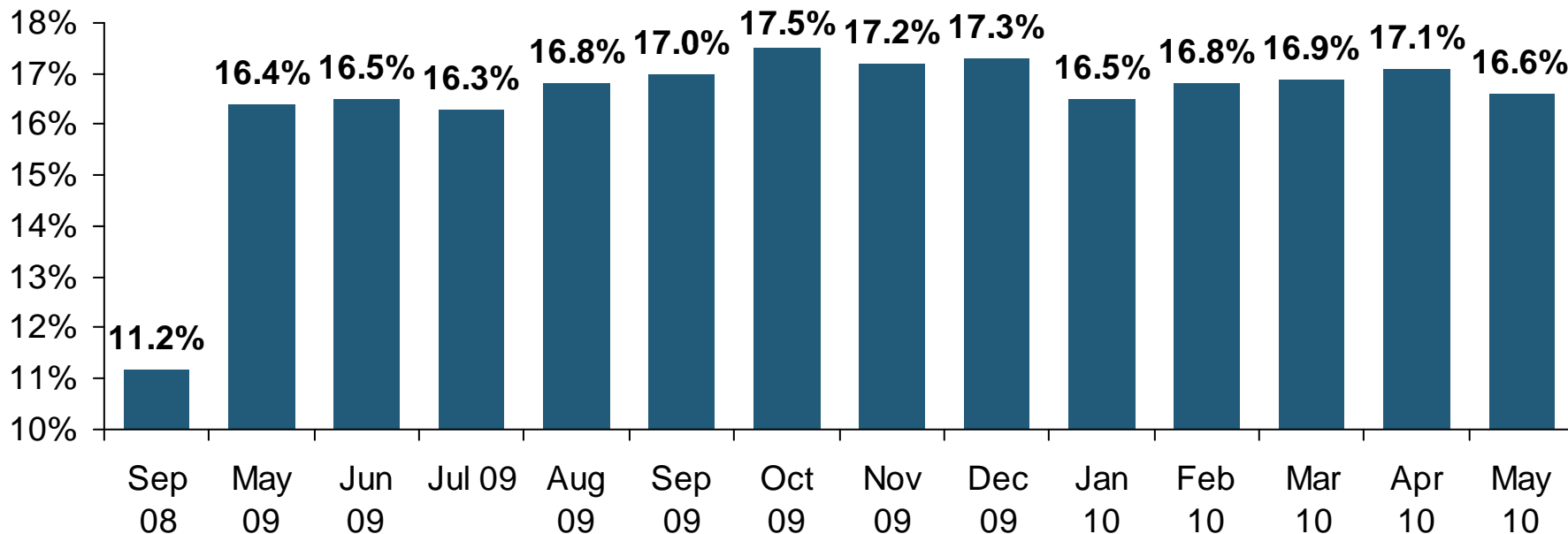
Job Losses Since the Recession Began in Dec. 2007 Peaked at 8.4 Mill in Dec. 09; Stands at 7.4 Million Through May 2010; 15.0 Million People are Now Defined as Unemployed

*Estimate based on Reuters poll of economists.

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

Labor Underutilization: Broader than Just Unemployment

% of Labor Force



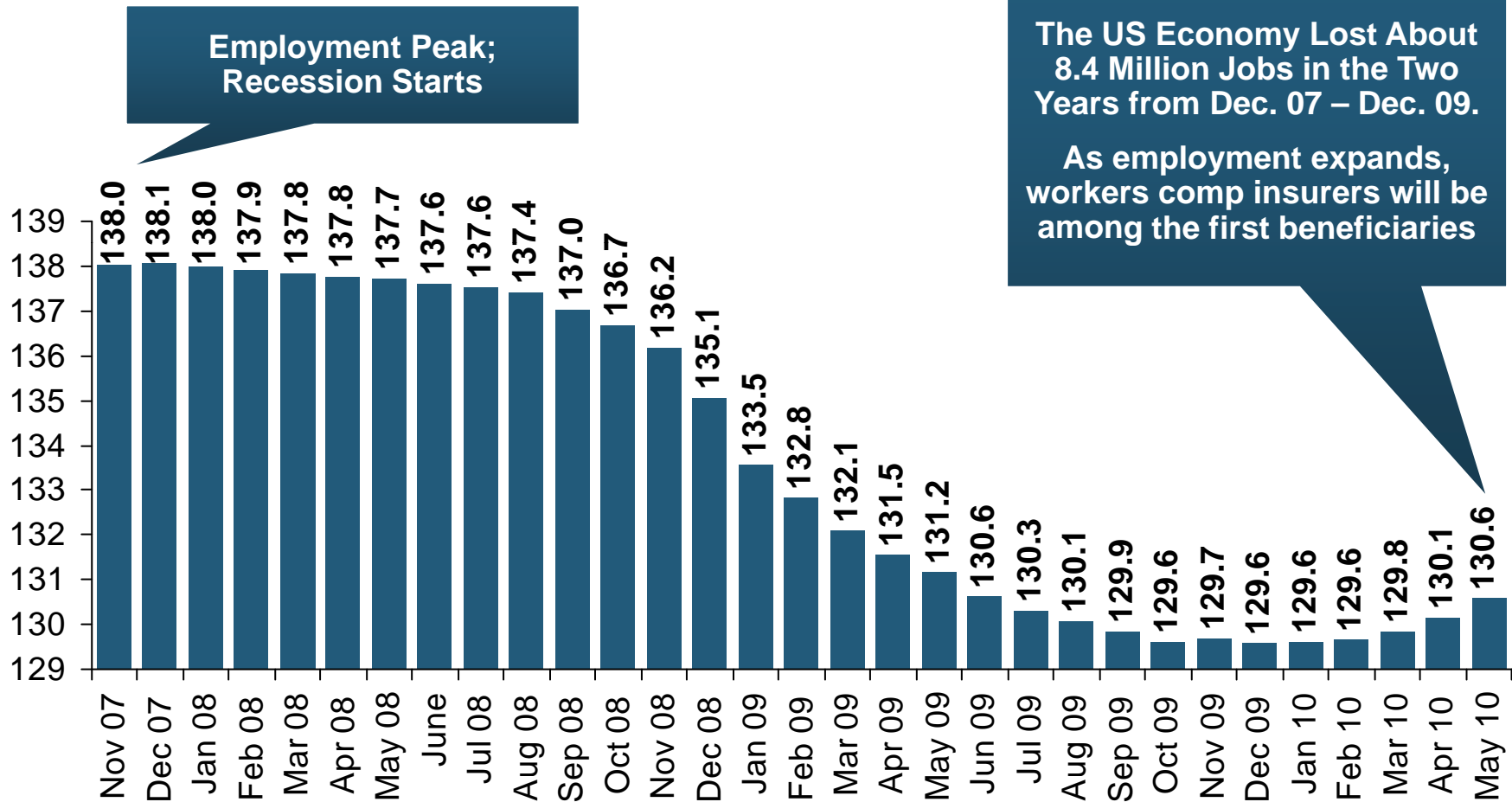
Marginally Attached and Unemployed Persons Account for 16.6% of the Labor Force in May 2010 (1 Out 6 People). Unemployment Rate Alone was 9.7%. Underutilization Shows a Broader Impact on WC and Other Commercial Exposures

NOTE: Marginally attached workers are persons who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the recent past. Discouraged workers, a subset of the marginally attached, have given a job-market related reason for not looking currently for a job. Persons employed part time for economic reasons are those who want and are available for full-time work but have had to settle for a part-time schedule.

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

US Nonfarm Private Employment

Monthly, Nov 2007 – May 2010 (Millions)

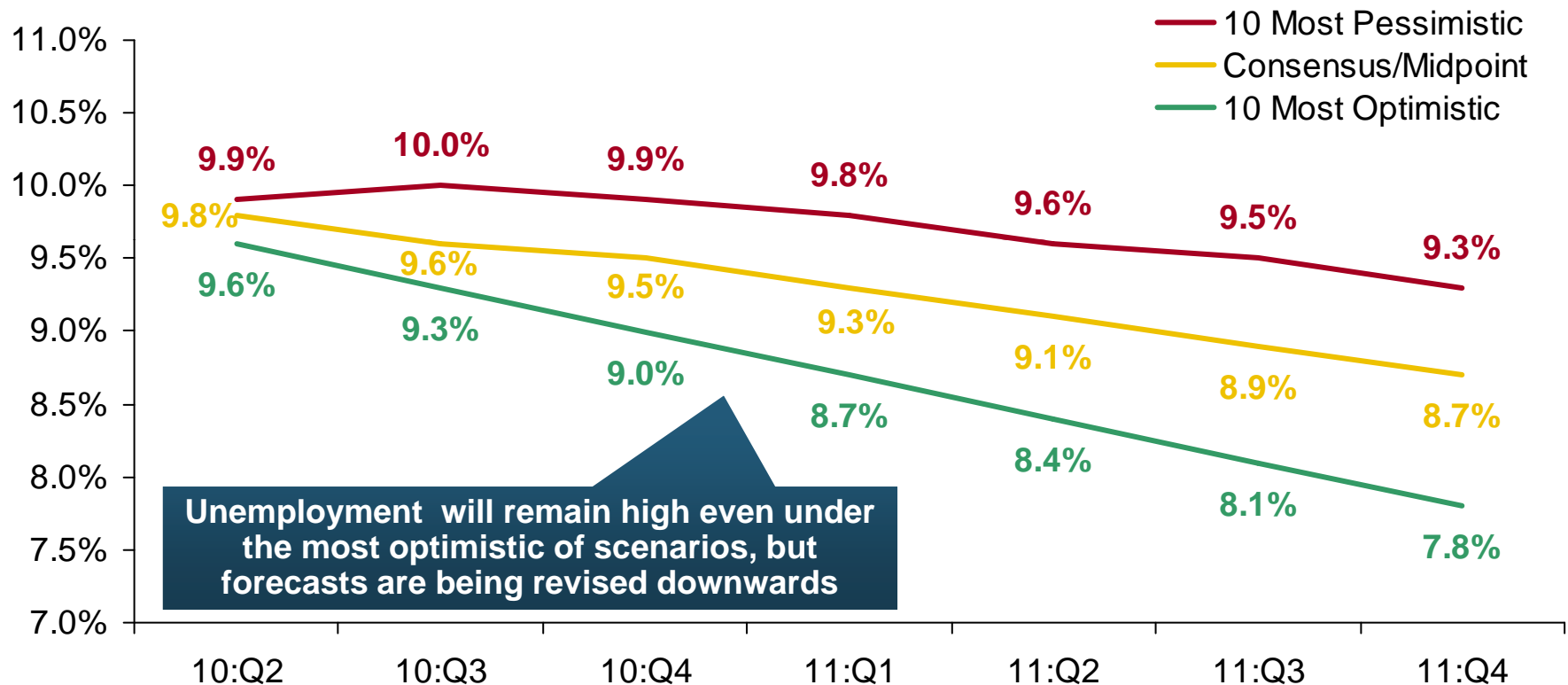


Seasonally adjusted.

Source: US Bureau of Labor Statistics

US Unemployment Rate Forecasts

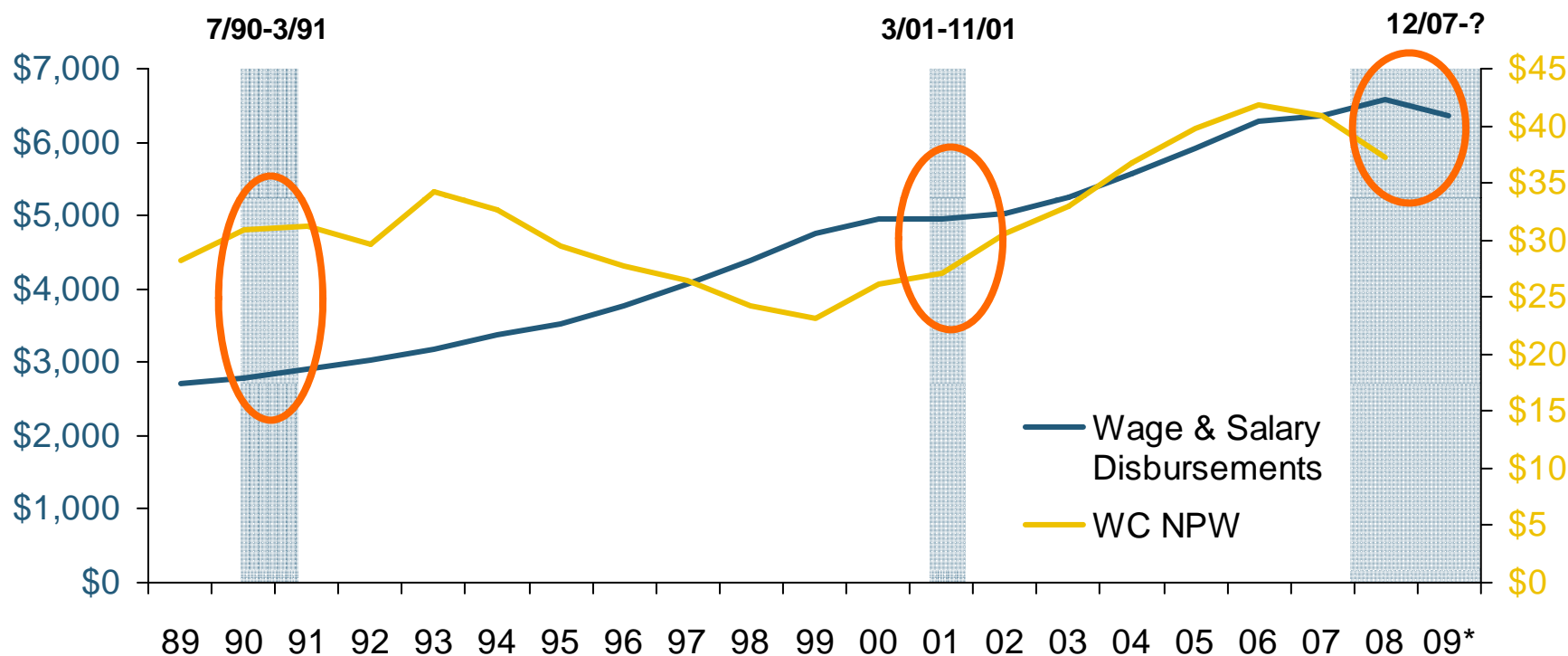
Quarterly, 2010:Q1 to 2011:Q4



Stubbornly High Unemployment Will Slow the Recovery of the Workers Comp Exposure Base

Wage & Salary Disbursements (Payroll Base) vs. Workers Comp Net Written Premiums

Wage & Salary Disbursement (Private Employment) vs. WC NWP (\$ Billions)

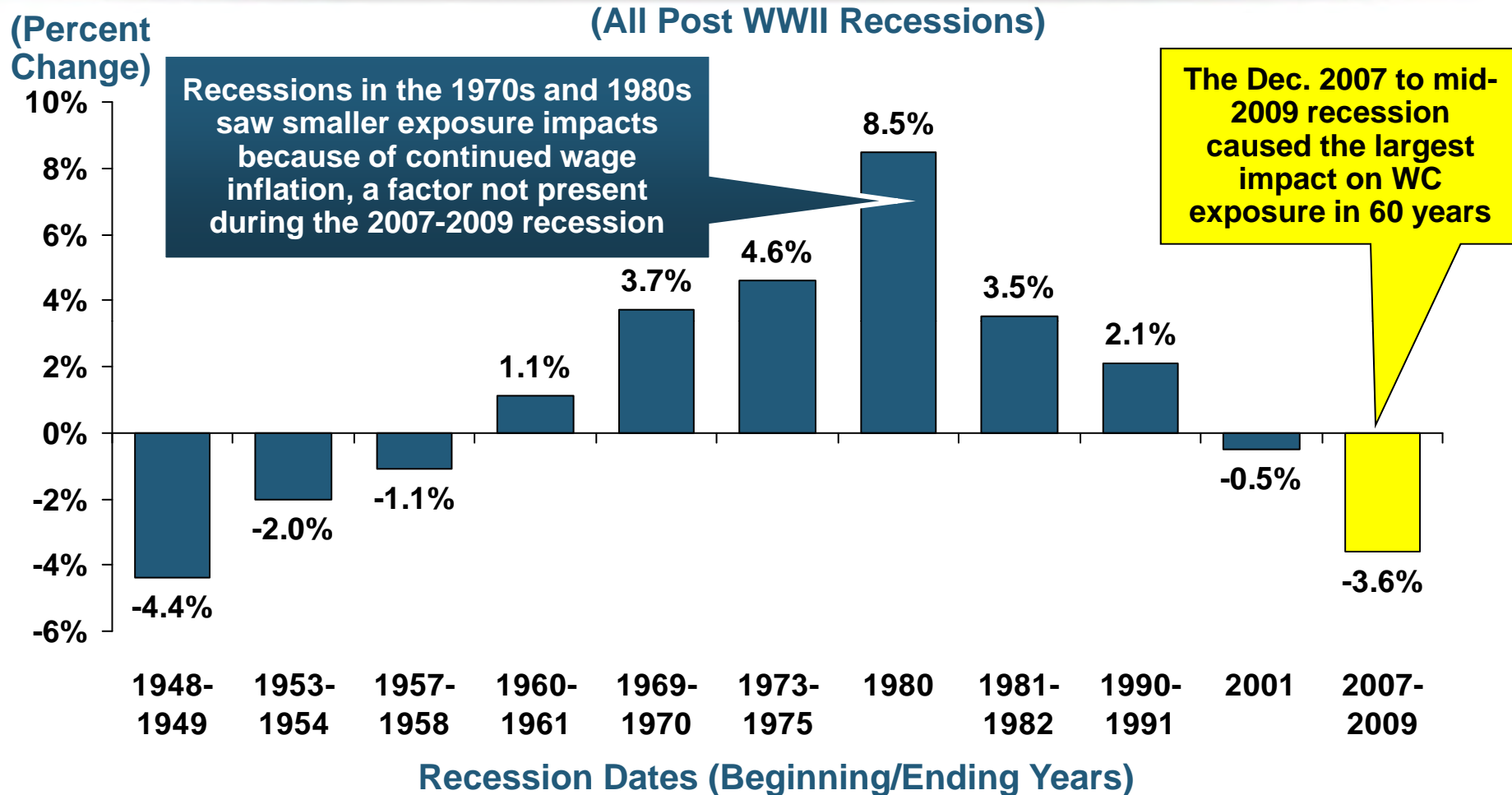


Weakening Payrolls Have Eroded \$2B+ in Workers Comp Premiums

* Average Wage and Salary data as of 10/1/2009. Shaded areas indicate recessions

Source: US Bureau of Economic Analysis; Federal Reserve Bank of St. Louis at <http://research.stlouisfed.org/fred2/series/WASCUR> ; I.I.I. Fact Books

Estimated Effect of Recessions* on Payroll (Workers Comp Exposure)

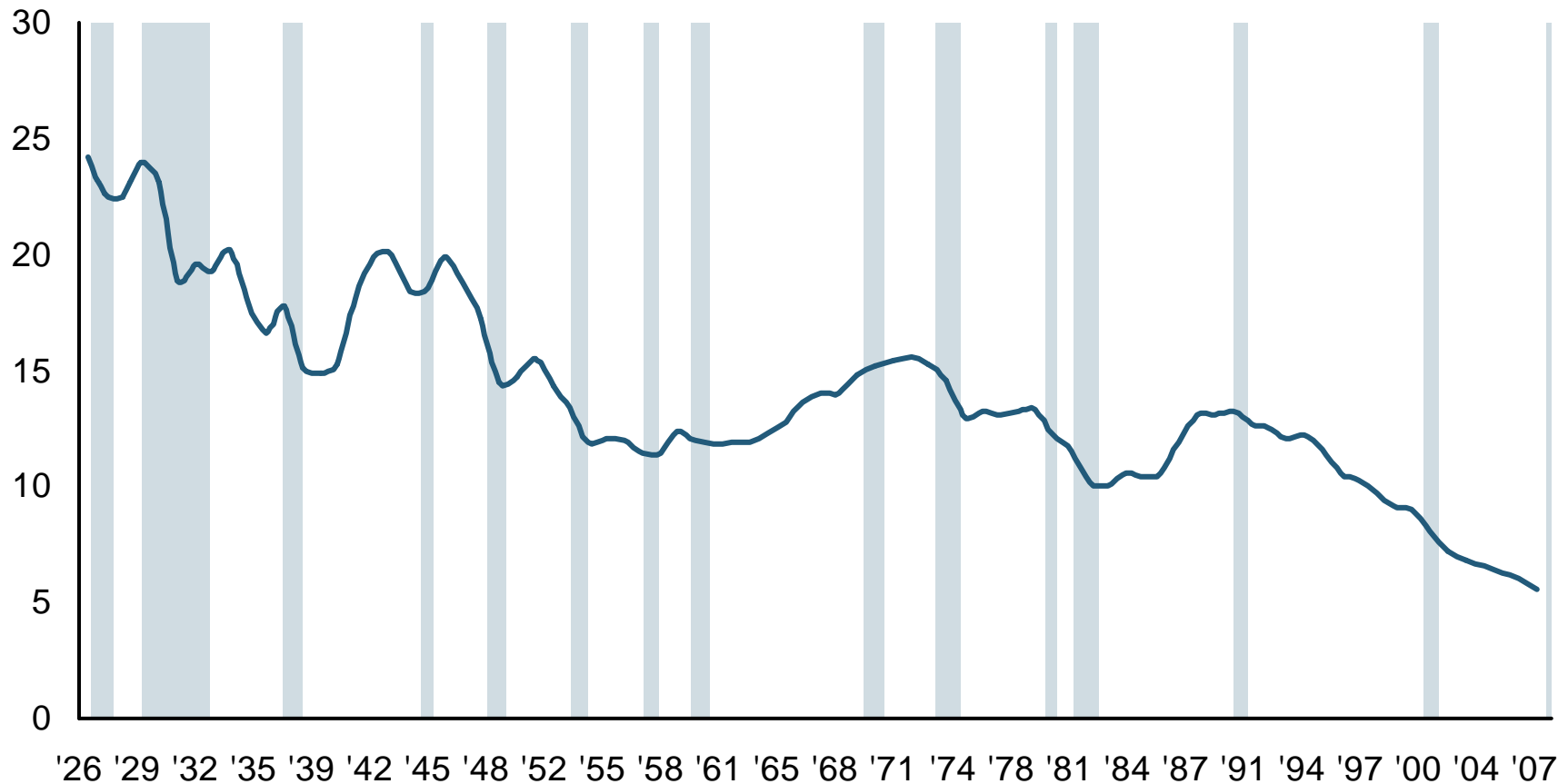


*Data represent maximum recorded decline over 12-month period using annualized quarterly wage and salary accrual data
Source: Insurance Information Institute research; Federal Reserve Bank of St. Louis (wage and salary data); National Bureau of Economic Research (recession dates).

Frequency: 1926–2008

A Long-Term Drift Downward

Manufacturing – Total Recordable Cases
Rate of Injury and Illness Cases per 100 Full-Time Workers



Note: Recessions indicated by gray bars.

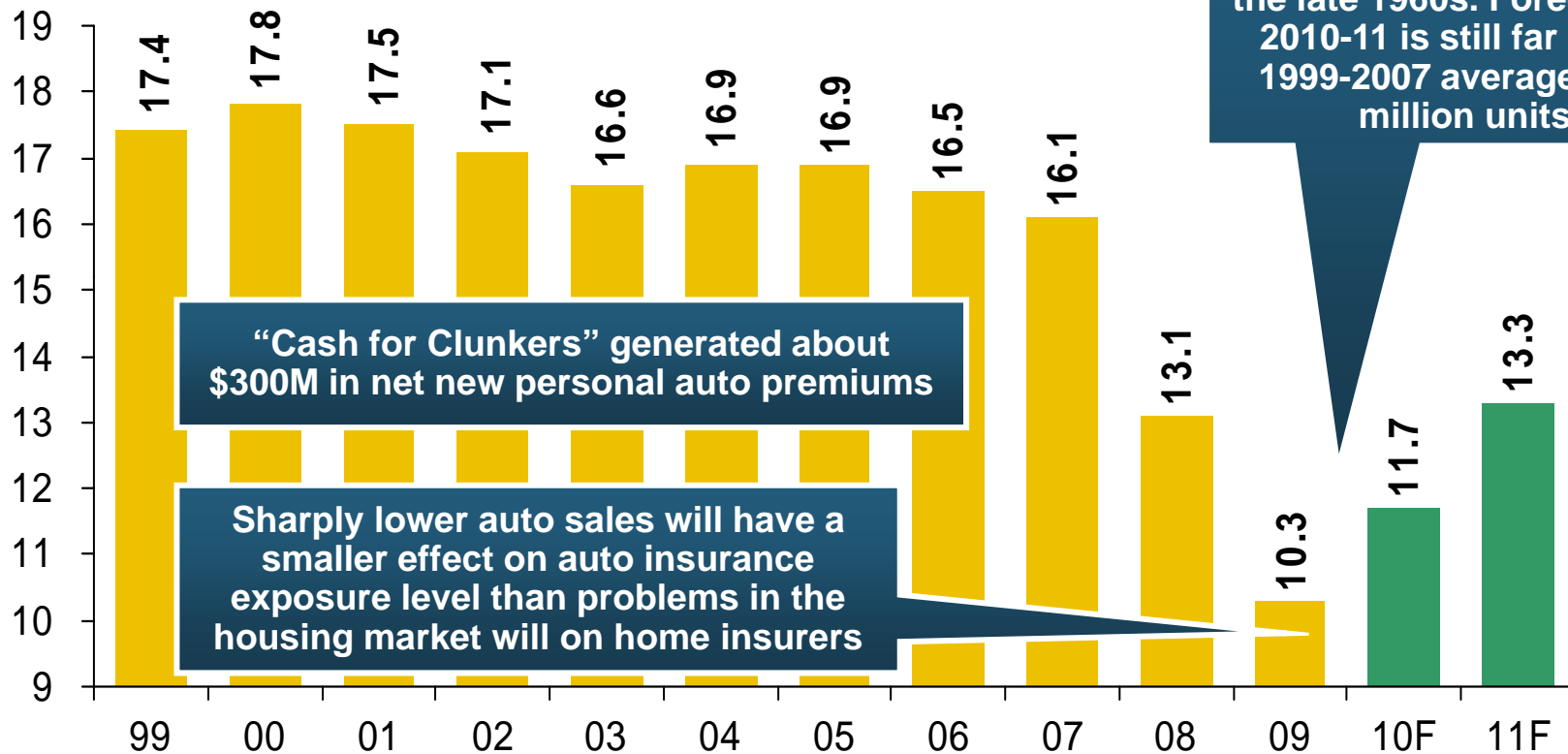
Sources: NCCI from US Bureau of Labor Statistics; National Bureau of Economic Research

Crisis-Driven Exposure Drivers

**Economic Obstacles
to Growth in P/C Insurance**

Auto/Light Truck Sales, 1999-2011F

(Millions of Units)



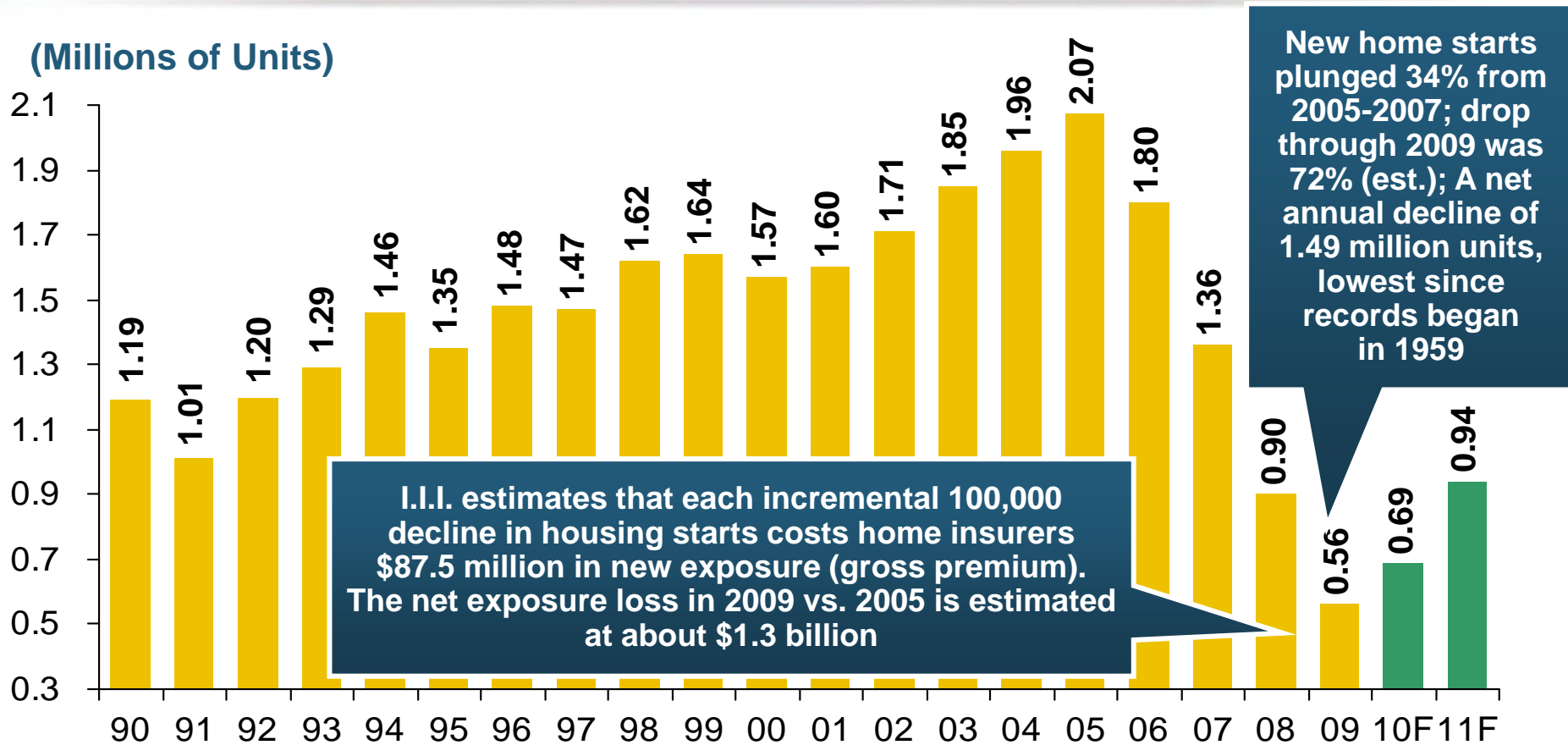
“Cash for Clunkers” generated about \$300M in net new personal auto premiums

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 to the lowest level since the late 1960s. Forecast for 2010-11 is still far below 1999-2007 average of 17 million units

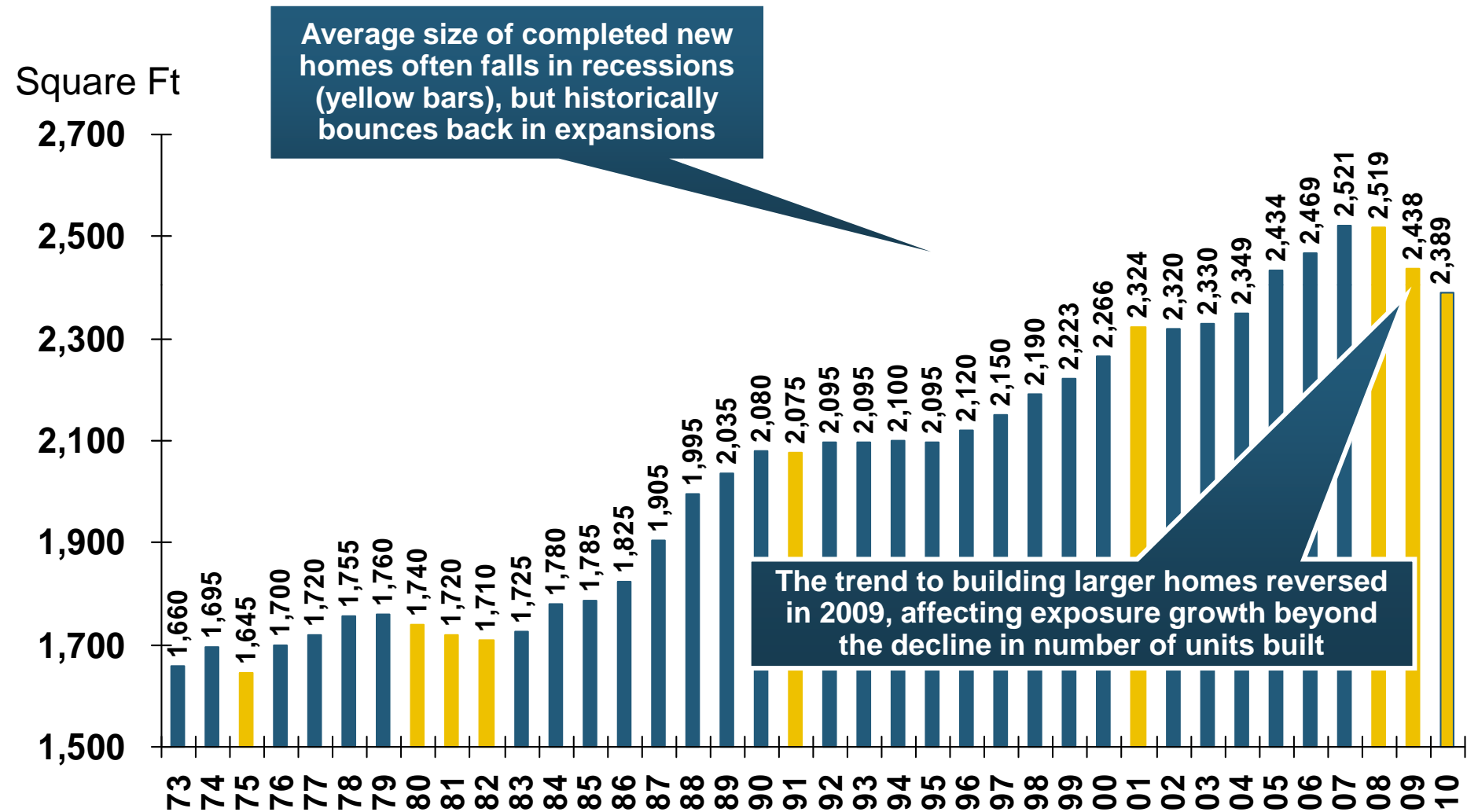
Car/Light Truck Sales Will Recover from the 2009 Low Point, but High Unemployment, Tight Credit Are Still Restraining Sales; Gas Prices Could Once Again Become a Factor, Too

New Private Housing Starts, 1990-2011F

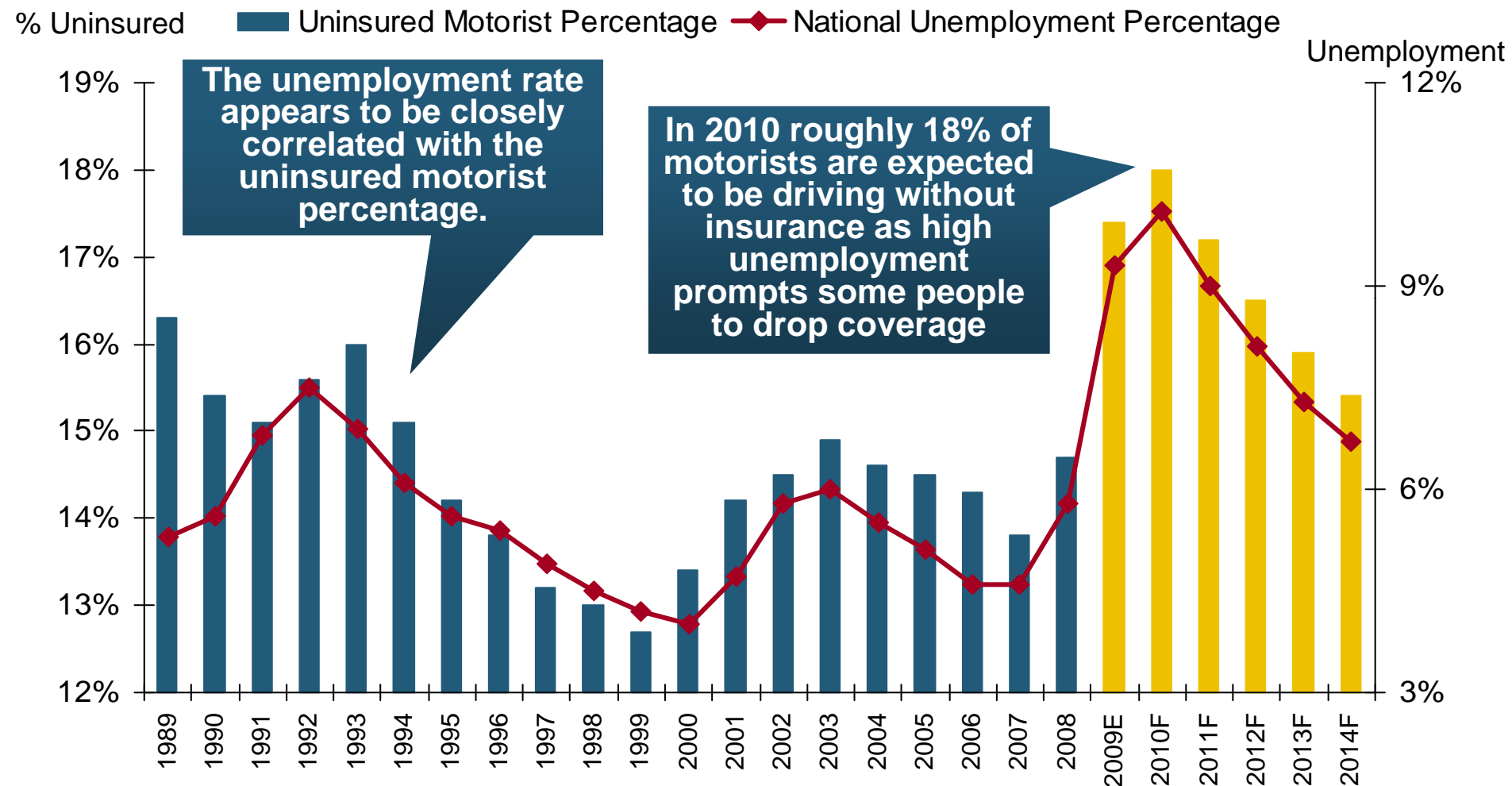


**Little Exposure Growth Likely for Homeowners Insurers
Due to Weak Home Construction Forecast for 2010-2011.
Also Affects Commercial Insurers with Construction Risk Exposure, Surety**

Average Square Footage of Completed New Homes in U.S., 1973-2010:Q1

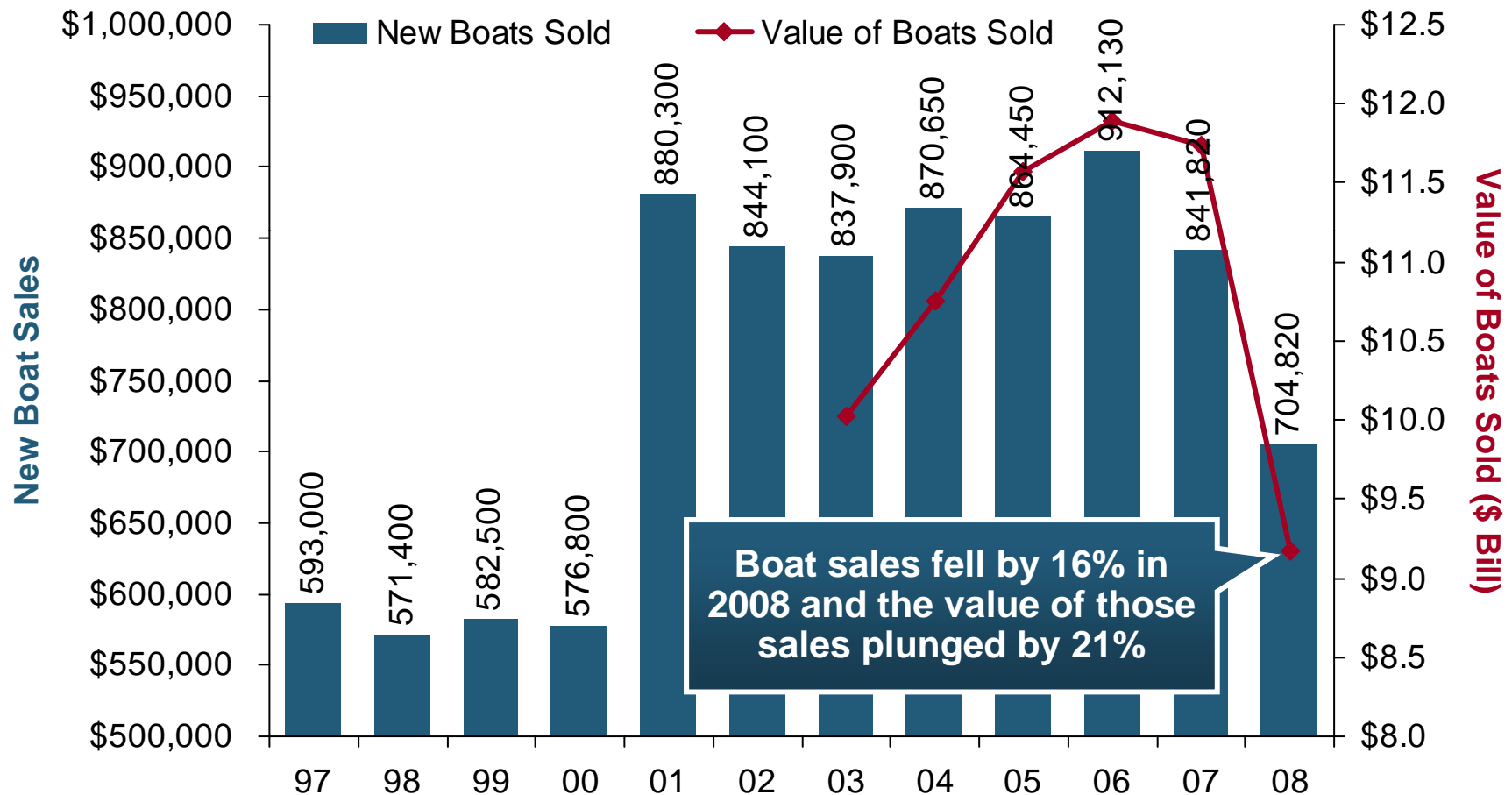


Unemployment's Effect on Percent of Uninsured Motorists, 1989-2014F

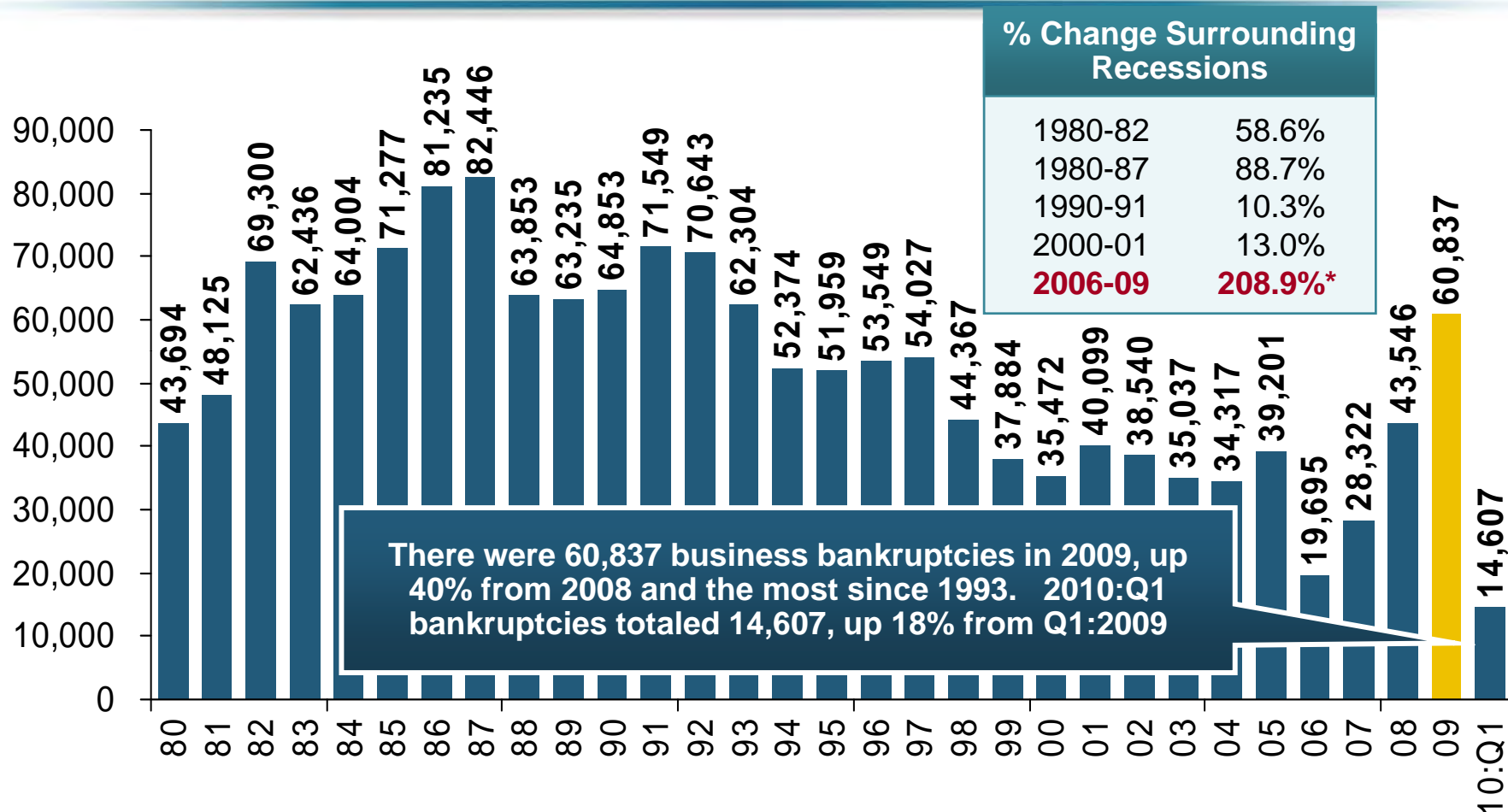


Source: *Uninsured Motorists*, 2008 Edition, Insurance Research Council; Blue Chip Economic Indicators (Unemployment data, including forecasts); Insurance Information Institute.

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



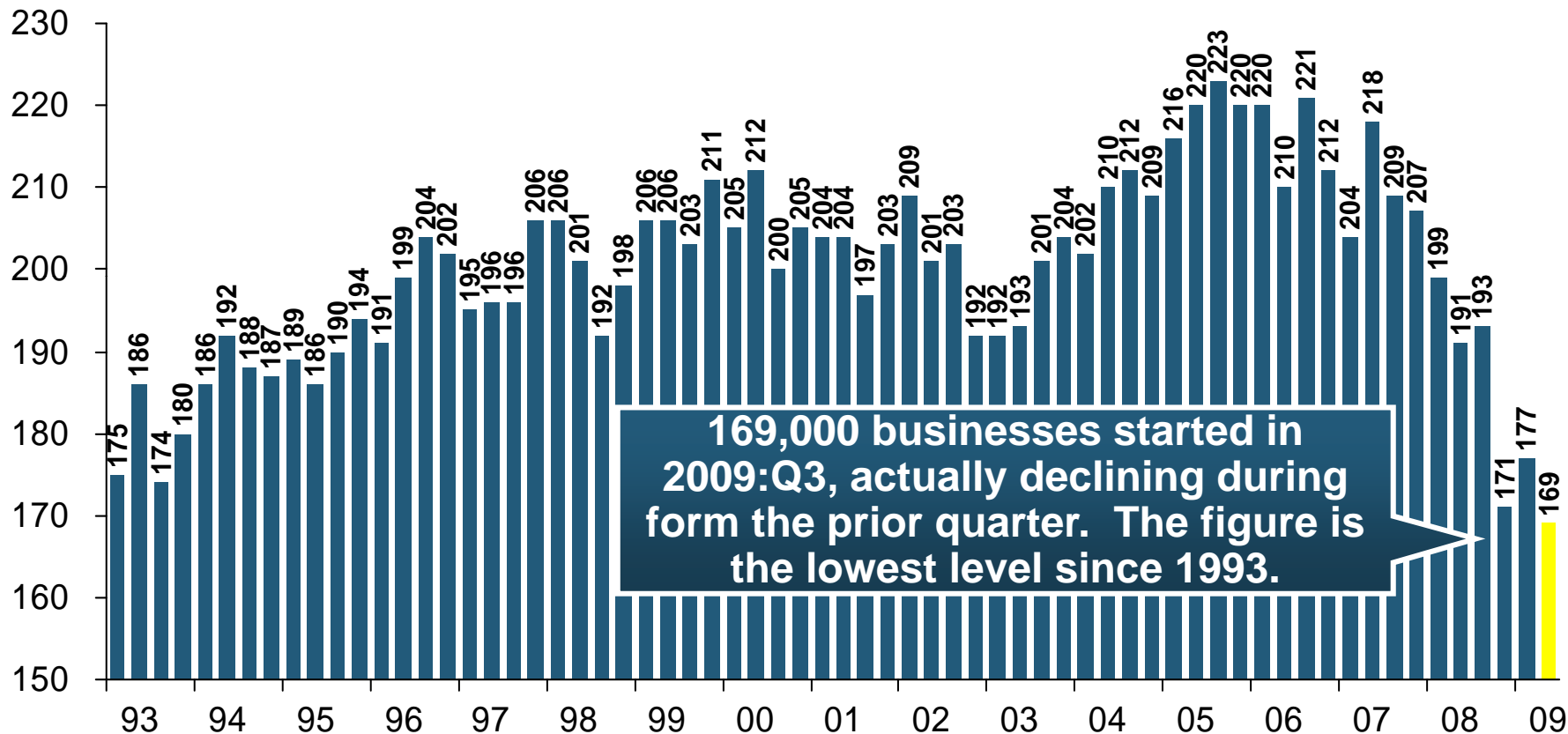
Business Bankruptcy Filings, 1980-2010:Q1



Significant Exposure Implications for All Commercial Lines

Private Sector Business Starts, 1993:Q2 – 2009:Q3*

(Thousands)



**Business Starts Are Down Nearly 20% in the Current Downturn,
Holding Back Most Types of Commercial Insurance Exposure**

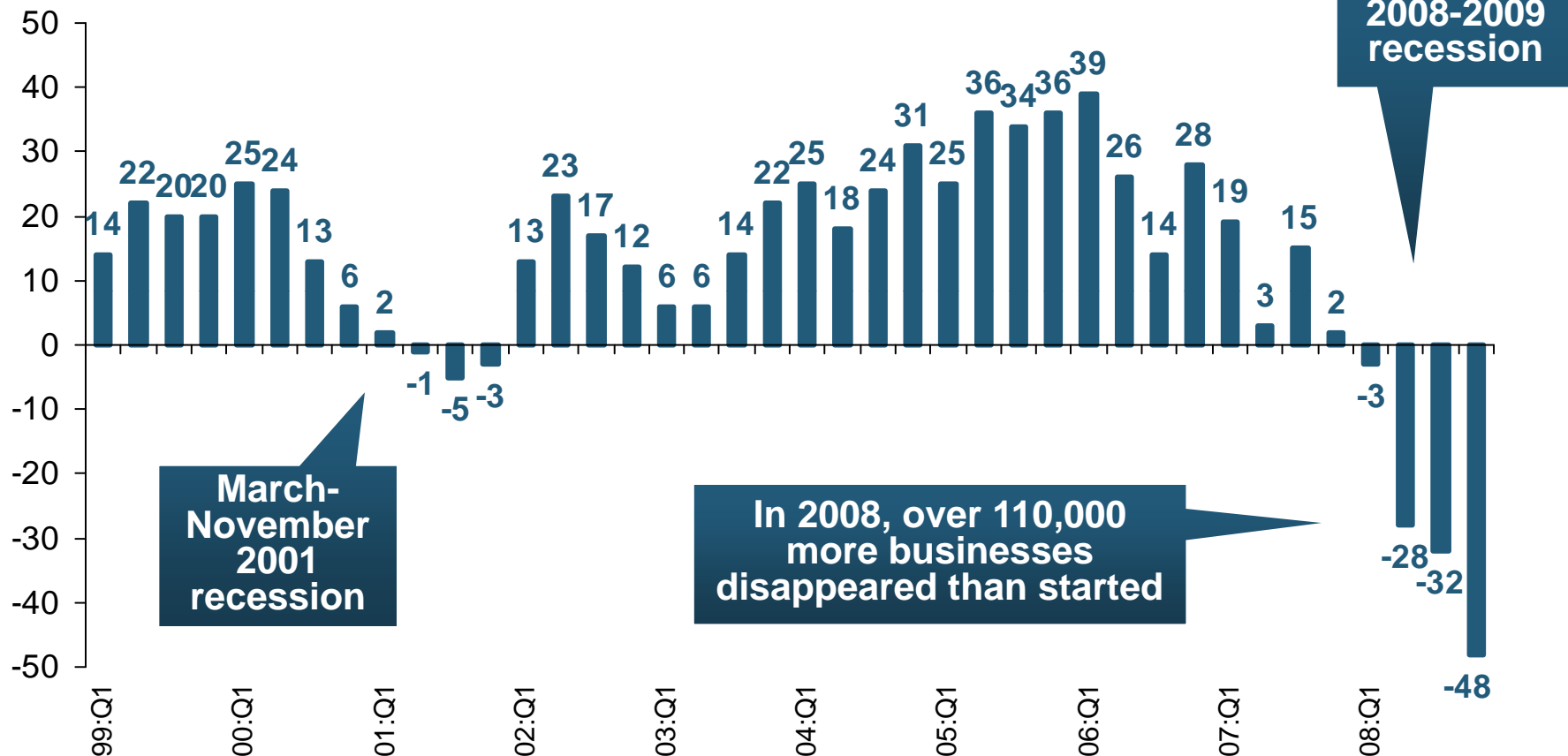
*Latest available as of June 7, 2010, seasonally adjusted

Source: Bureau of Labor Statistics, <http://www.bls.gov/news.release/cewbd.t07.htm>.

Net New Business Formations*

1999:Q1-2008:Q4*

Thousands



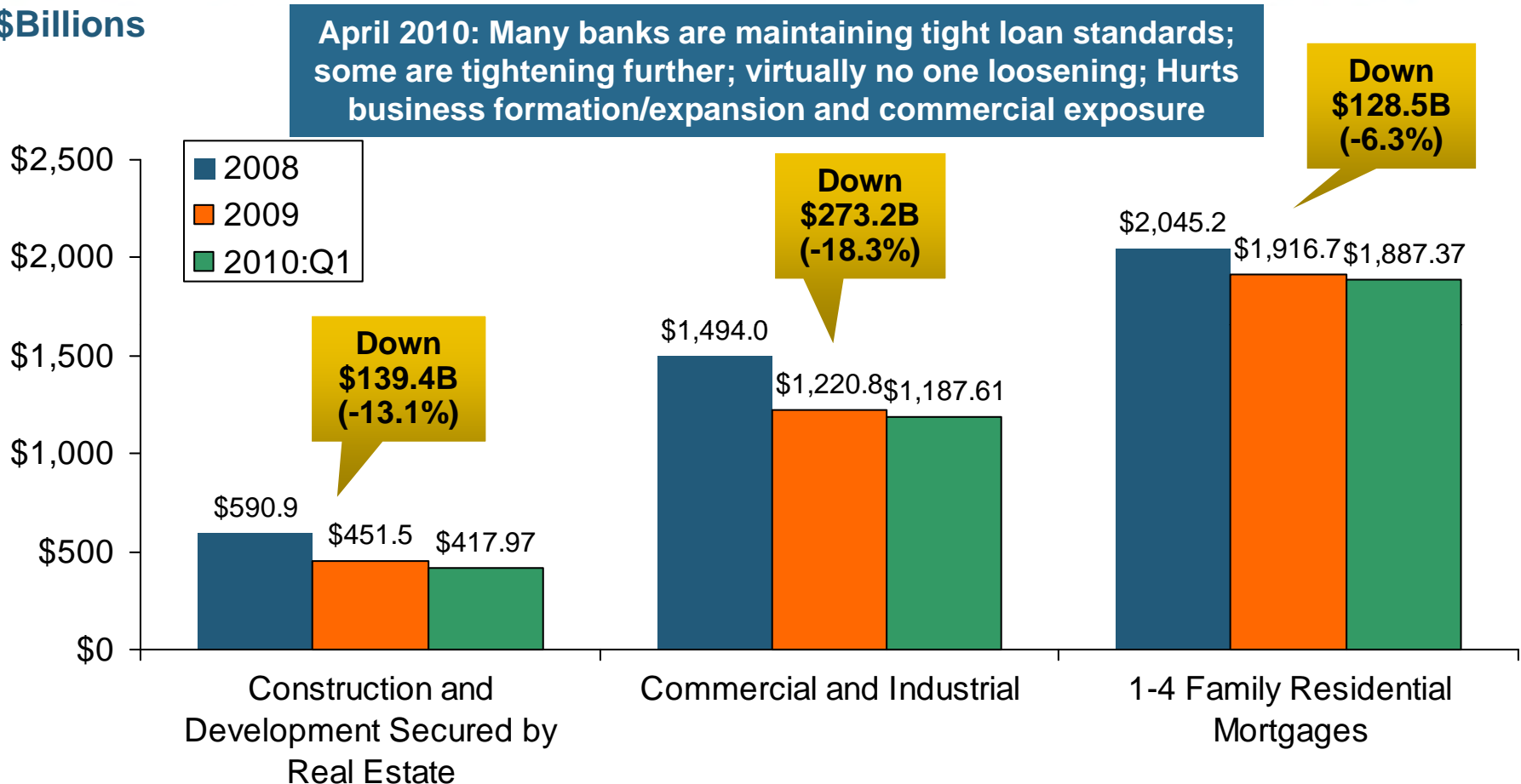
**Net Business Formations Likely Were Positive Again,
at Least in the Second Half of 2009 and into 2010.**

*Business "births" minus business "deaths." Latest data on business "deaths" is for 2008:Q4.

Sources: Bureau of Labor Statistics at <http://www.bls.gov/news.release/cewbd.t07.htm> ; Insurance Information Institute.

FDIC-Insured Banks Are Reducing Credit: 2008, 2009, 2010:Q1

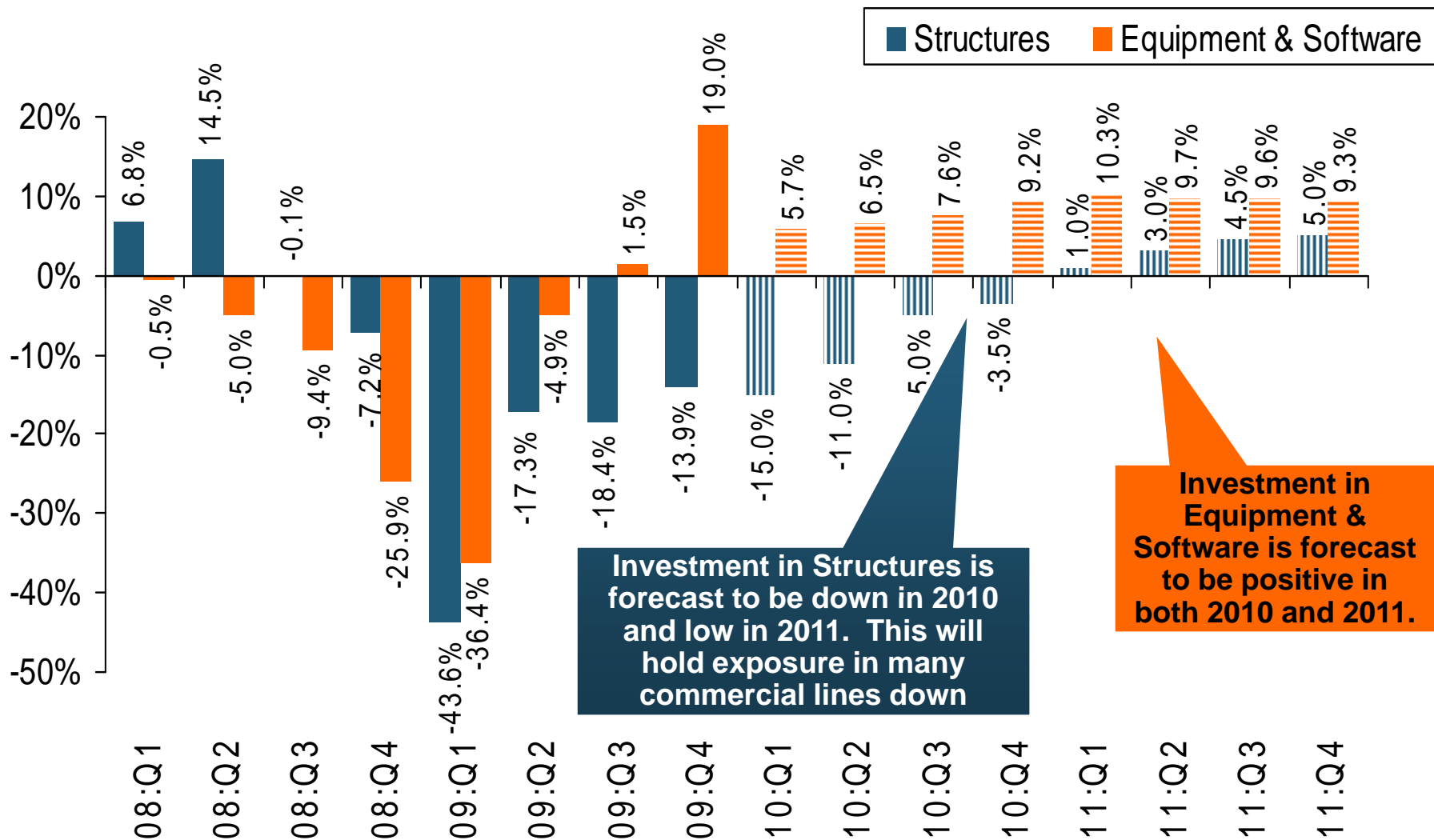
\$Billions



FDIC-Insured Institutions Had \$541.1B (-13.1%) Less in Outstanding Loans in These Three Categories at Year-end 2009 vs. 2008, and Even Less at End of 2010:Q1

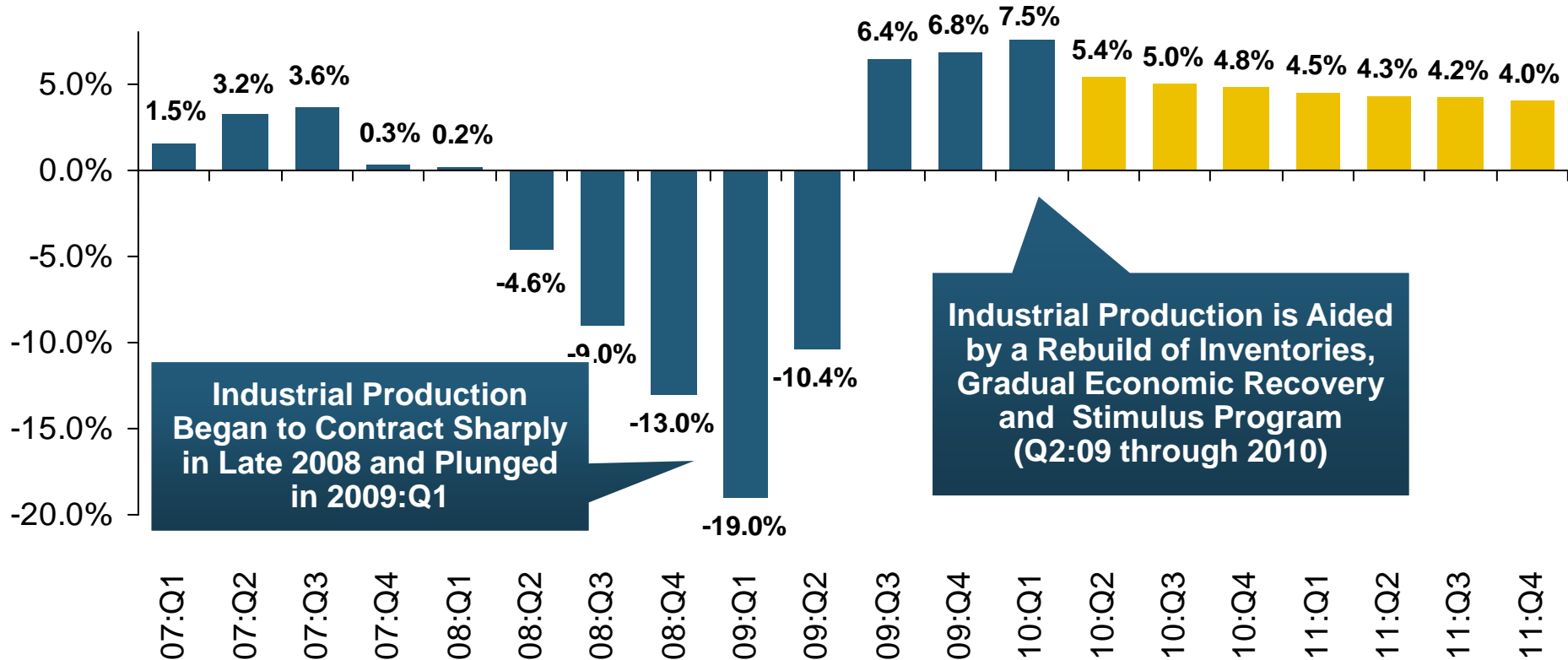
Business Fixed Investment

2008:Q1 to 2011:Q4F



Total Industrial Production

2007:Q1 to 2011:Q4F (%)

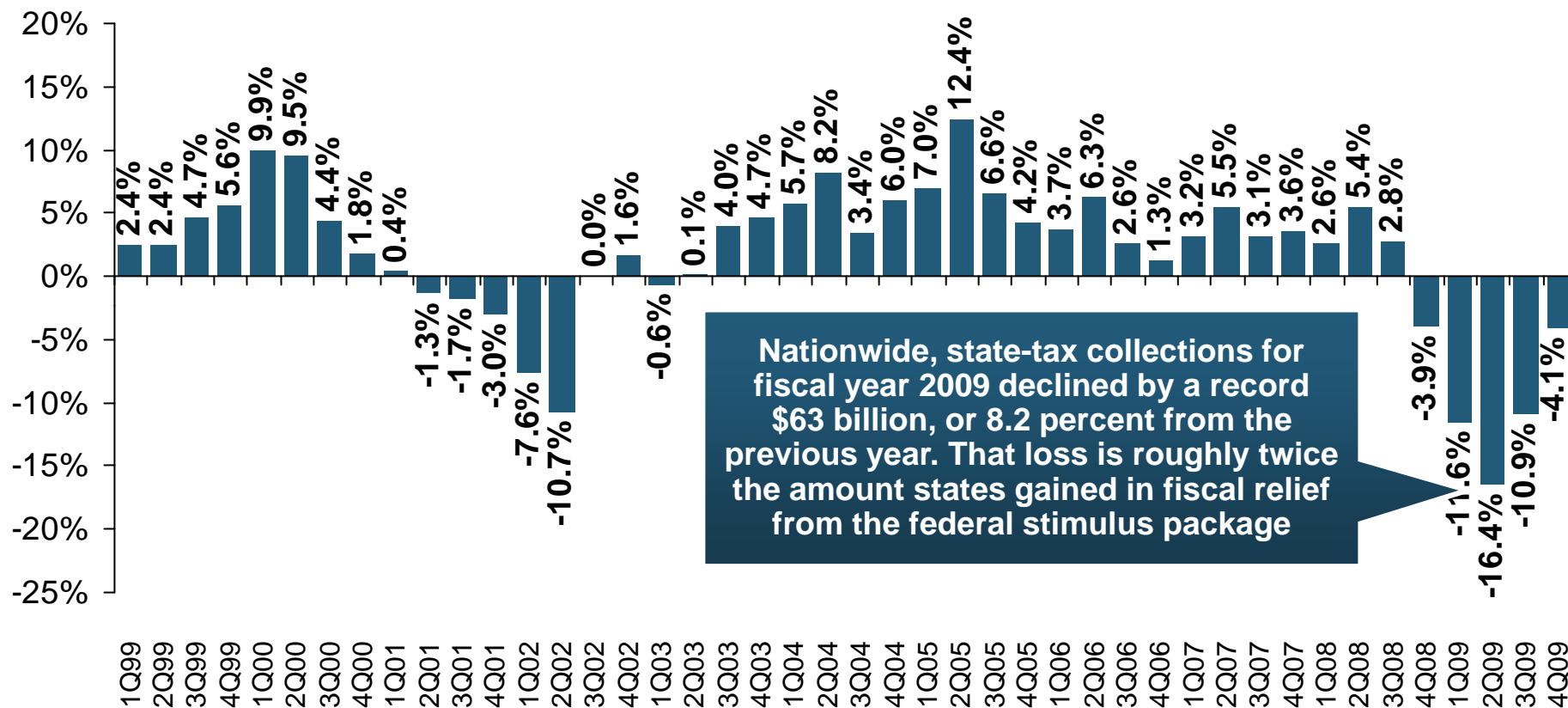


End of Recession in mid-2009, Stimulus Program Are Benefiting Industrial Production and Therefore Insurance Exposure Both Directly and Indirectly, Albeit Very Modestly

State & Local Government Finances in Dire Straits

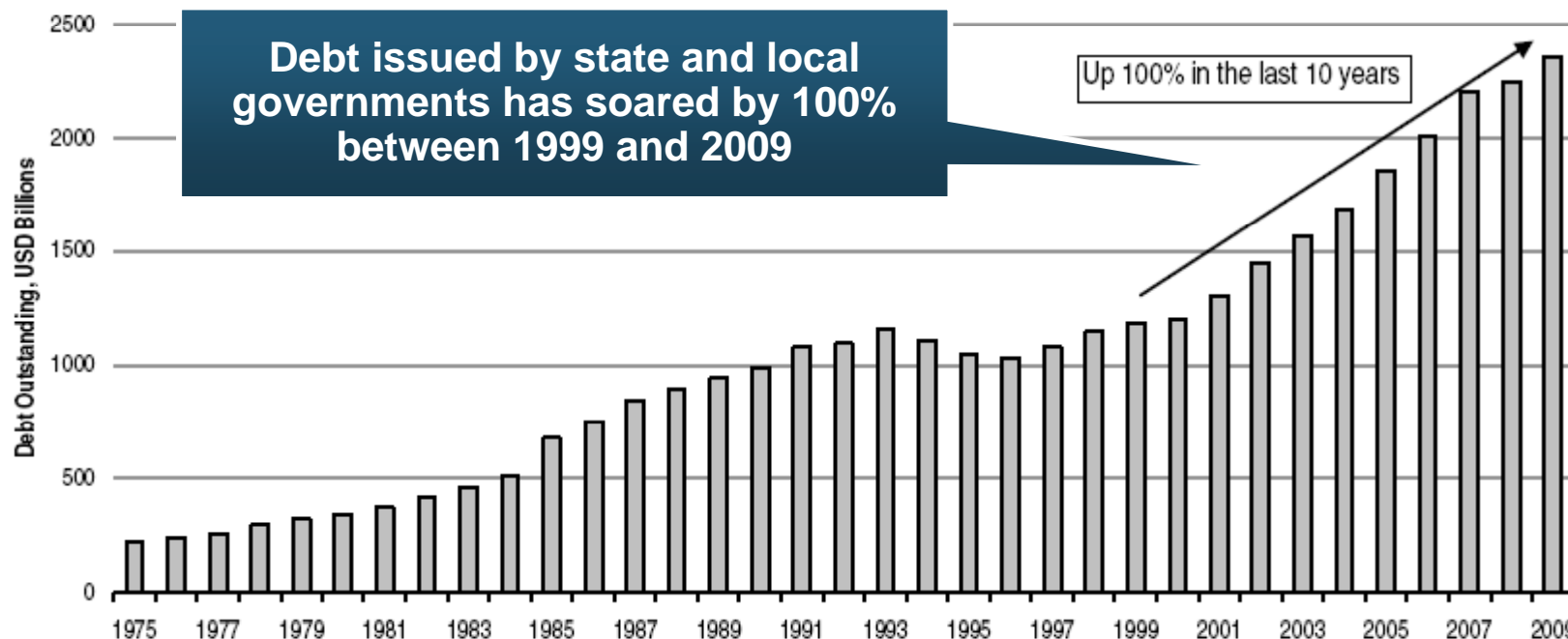
**Large, Long-Term Cuts Necessary
to Align Spending with Shrinking
Tax Revenues**

Year-Over-Year Change in Quarterly US State Tax Revenues, Inflation Adjusted



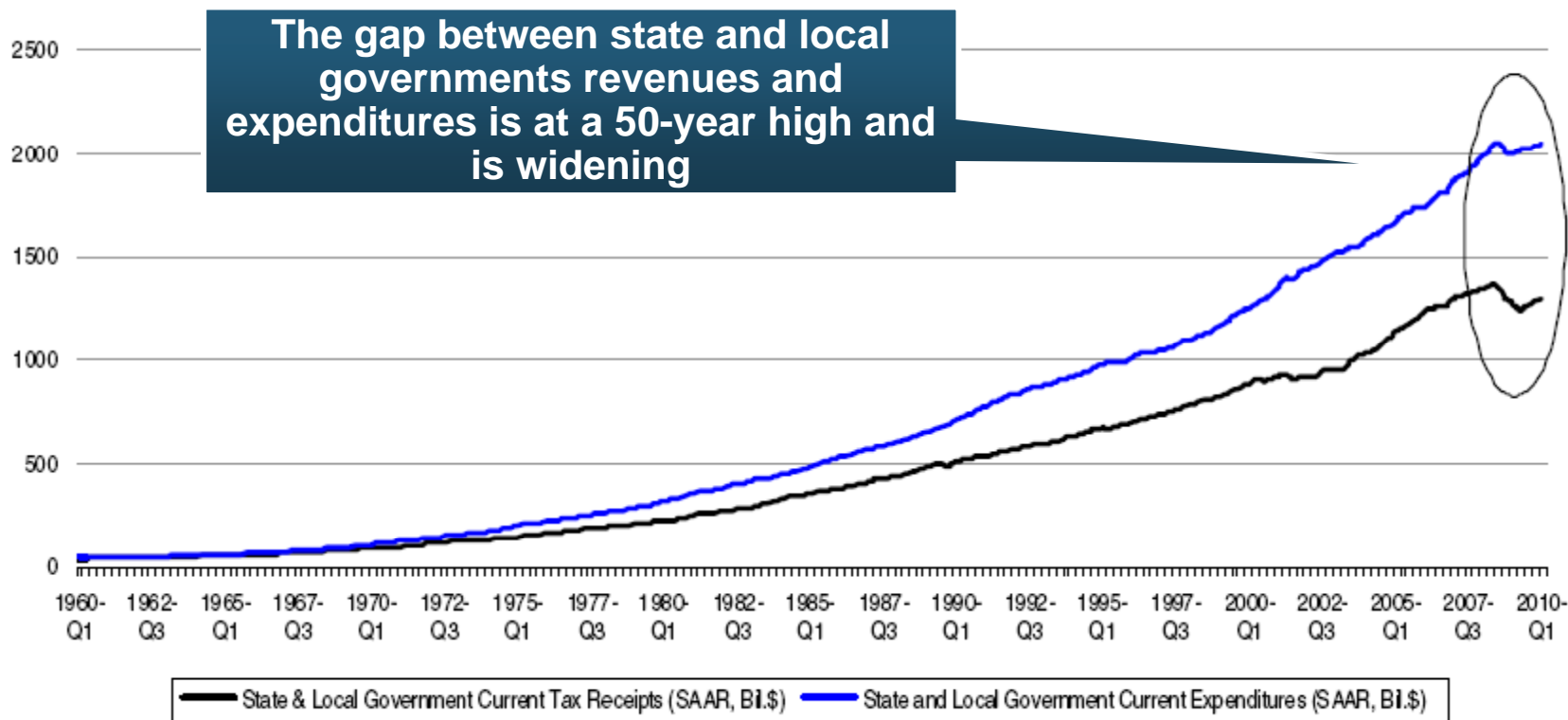
States Revenues Were Down 4.4% in Q4 2009, the 5th Consecutive Quarter of Revenue Decline. This Will Impact Public Infrastructure Spending Significantly and Related Insurance Exposures and Demand.

State and Local Debt Outstanding, 1975-2009



Many States/Localities Are in Dire Fiscal Straights, but the Default Rate on Moody's-Rated Muni Debt is Just 0.09% over the Past 10 Years. Just 1 State Has Defaulted in the Past 100 Years (AR). Default Rate on Munis During the Great Depression was 1.8%, 97% of Which Was Ultimately Recovered

State and Local Expenditures vs. Tax Receipts, 1960-2010:Q1



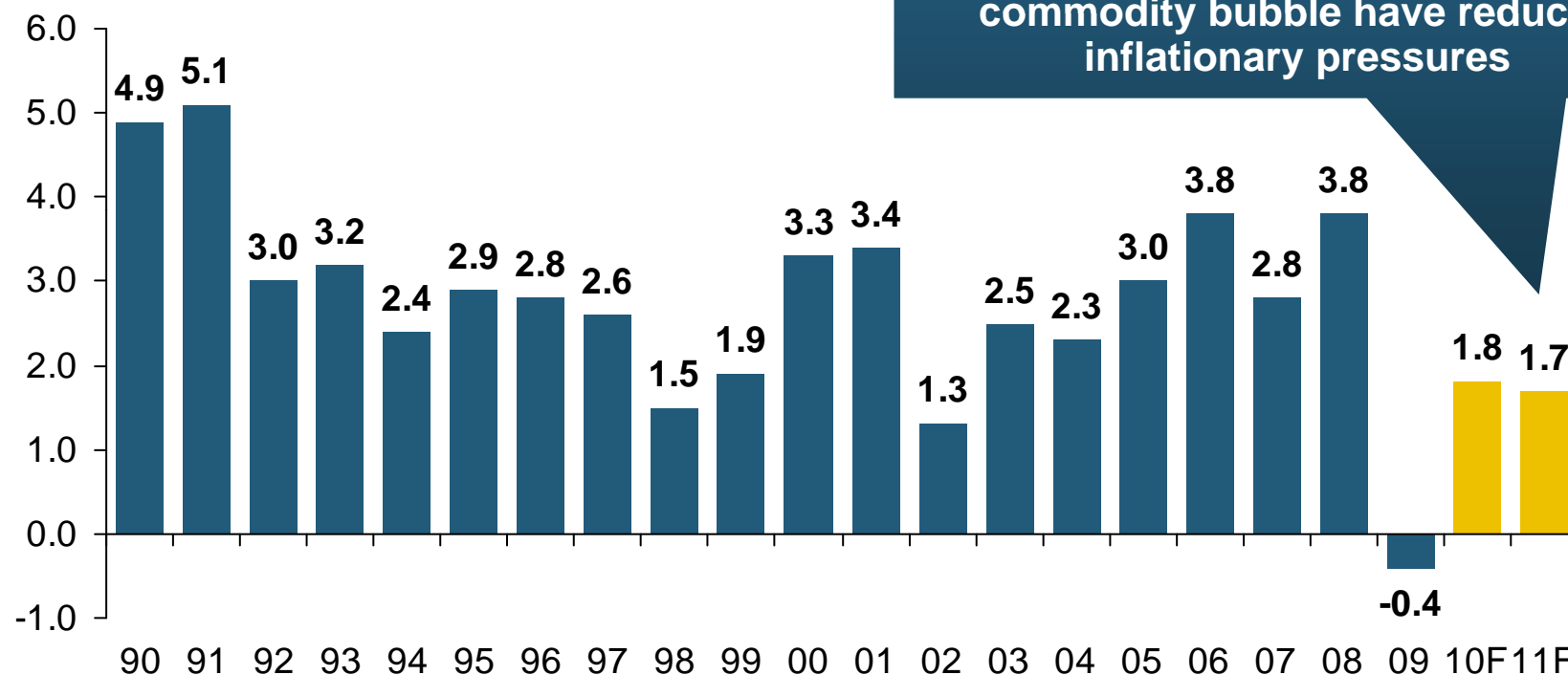
Many States/Localities Are in Dire Fiscal Straights, but the Default Rate on Moody's-Rated Muni Debt is Just 0.09% over the Past 10 Years. Just 1 State Has Defaulted in the Past 100 Years (AR). Default Rate on Munis During the Great Depression was 1.8%, 97% of Which Was Ultimately Recovered

**Inflation Trends:
*Concerns Over Stimulus Spending
and Monetary Policy***

**Mounting Pressure on Claim
Cost Severities?**

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

Annual Inflation Rates (%)



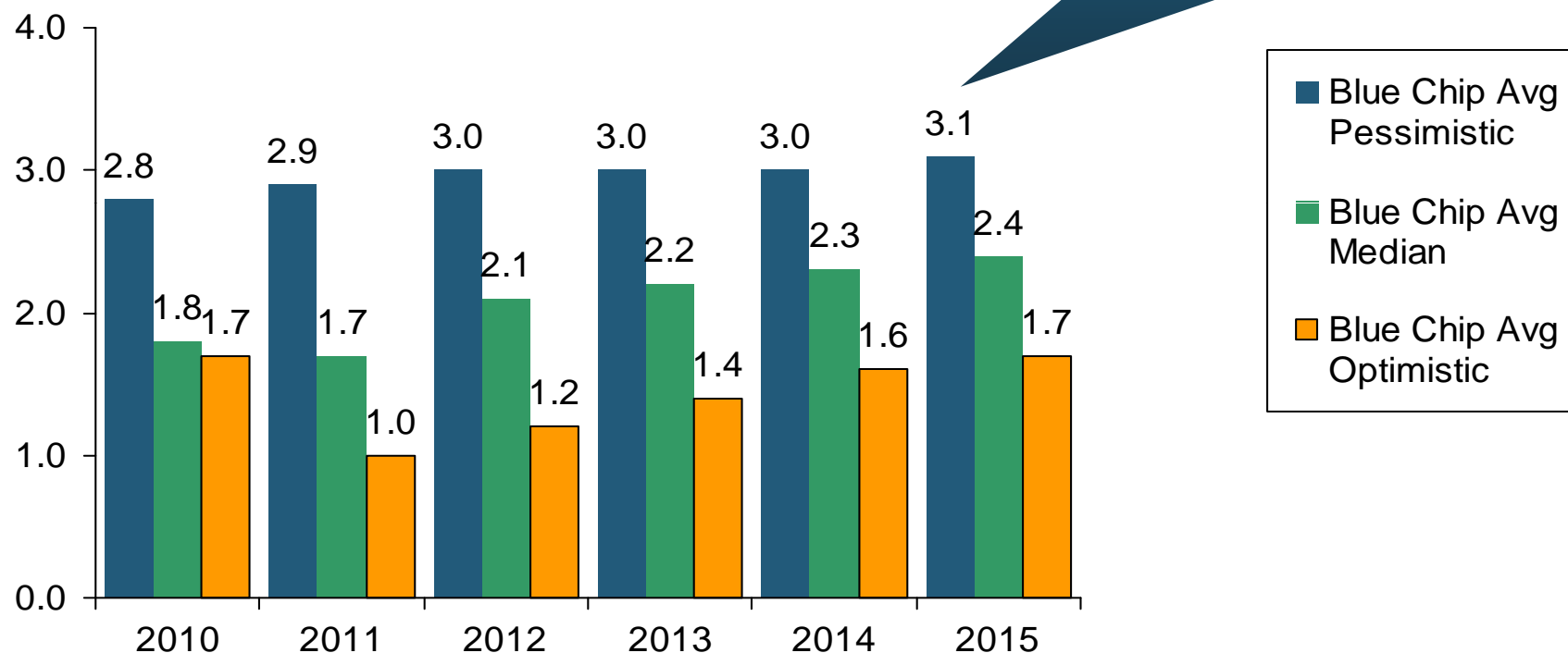
Inflation peaked at 5.6% in August 2008 on high energy and commodity crisis. The recession and the collapse of the commodity bubble have reduced inflationary pressures

There is So Much Slack in the US Economy Inflation Should Not Be a Concern Through 2010/11, but Deficits and Monetary Policy Remain Longer Run Concerns

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

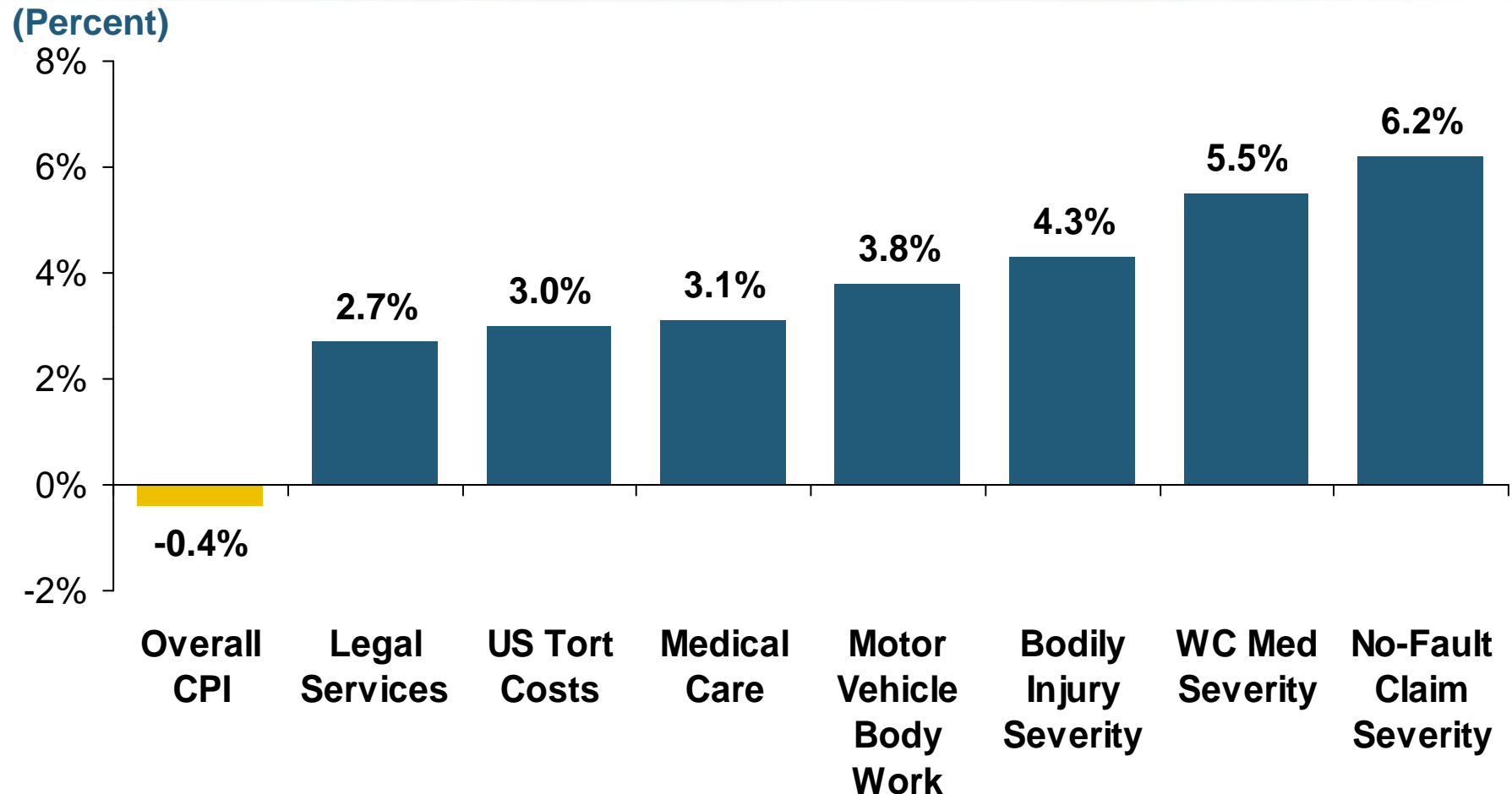
Annual Inflation Rates (%)

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

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

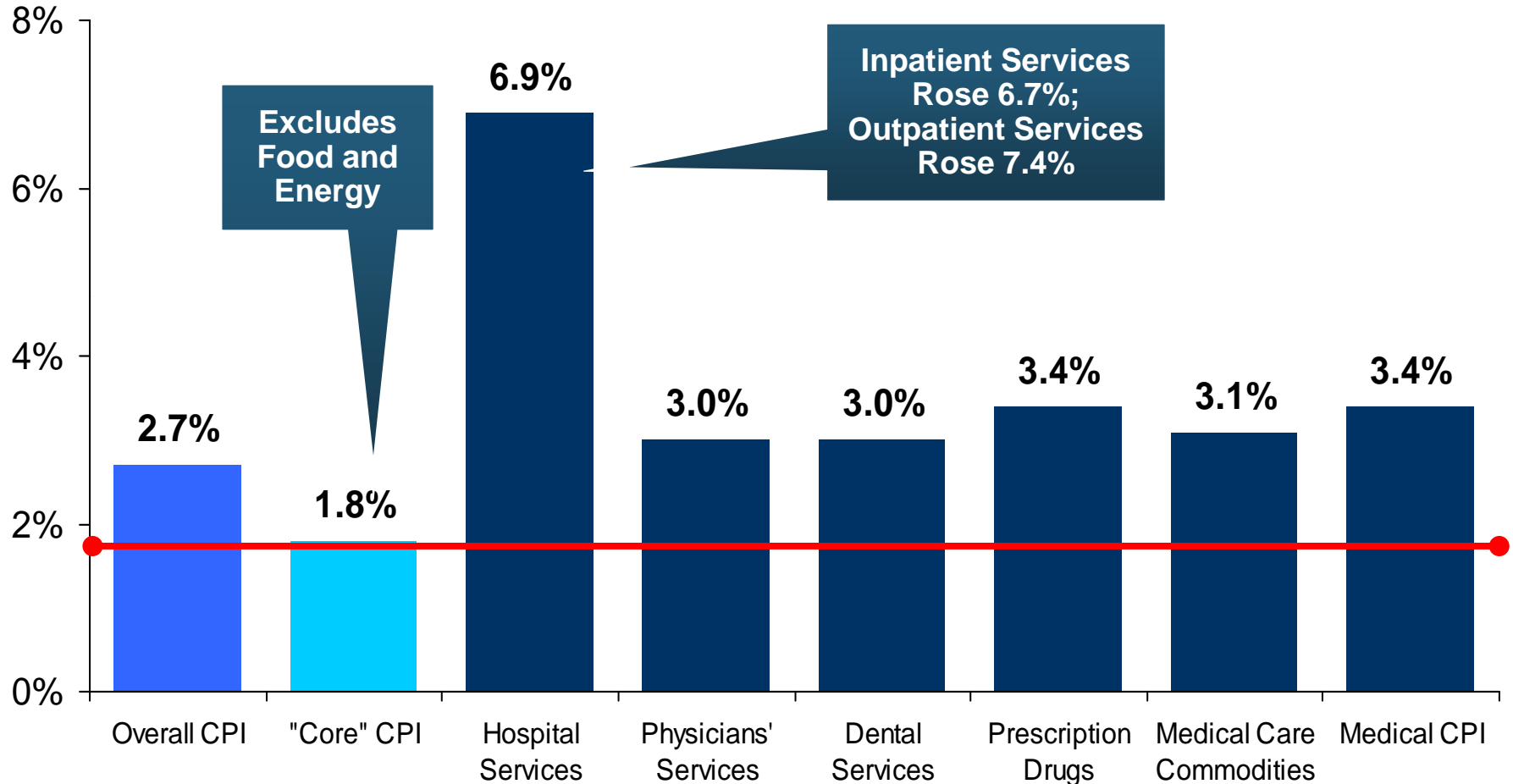


Healthcare and Legal/Tort Costs Are a Major P/C Insurance Cost Driver. These Are Expected to Increase Above the Overall Inflation Rate (CPI) Indefinitely

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.

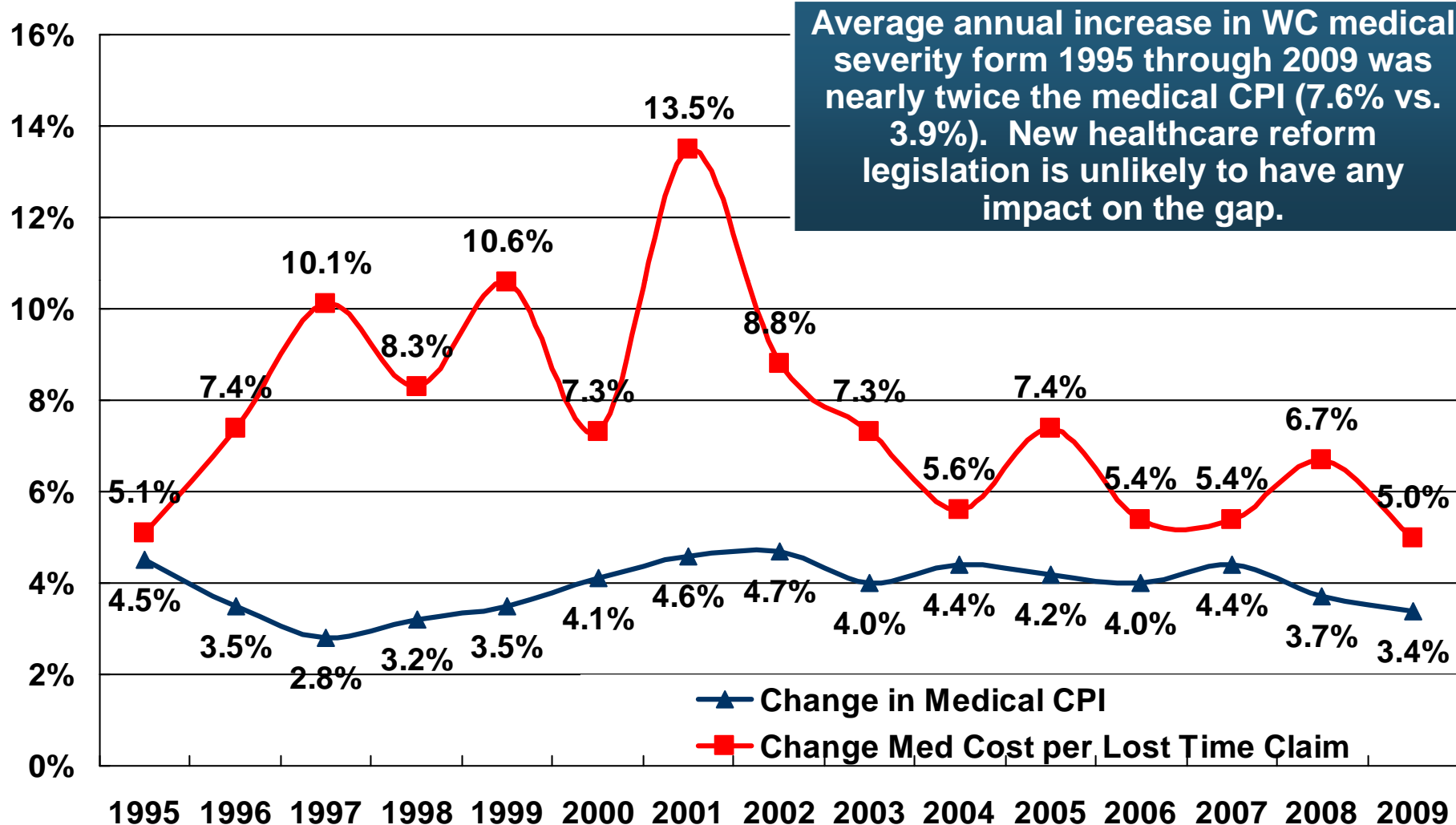
WC Insurers Experience Inflation More Intensely than 2009 CPI Suggests

(Percent increase Dec 08 to Dec 09)



Healthcare Costs Are a Major WC Insurance Cost Driver. They Are Likely to Increase Faster than the CPI for the Next Few Years, at Least

WC Medical Severity Rising at Twice the Medical CPI Rate



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.

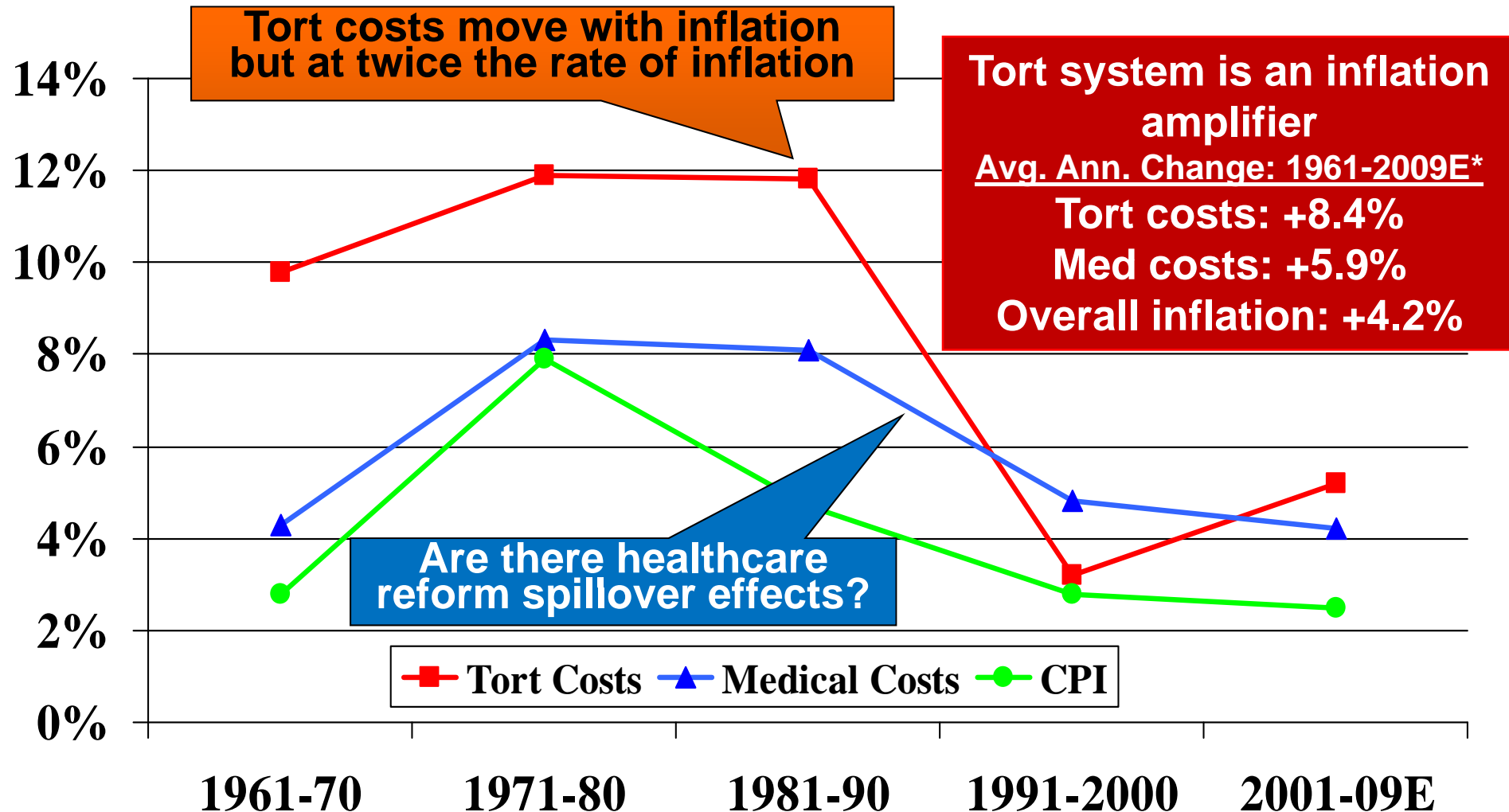
- What are the potential impacts for insurers?
- What can/should insurers do to protect themselves from the risks of inflation?

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.

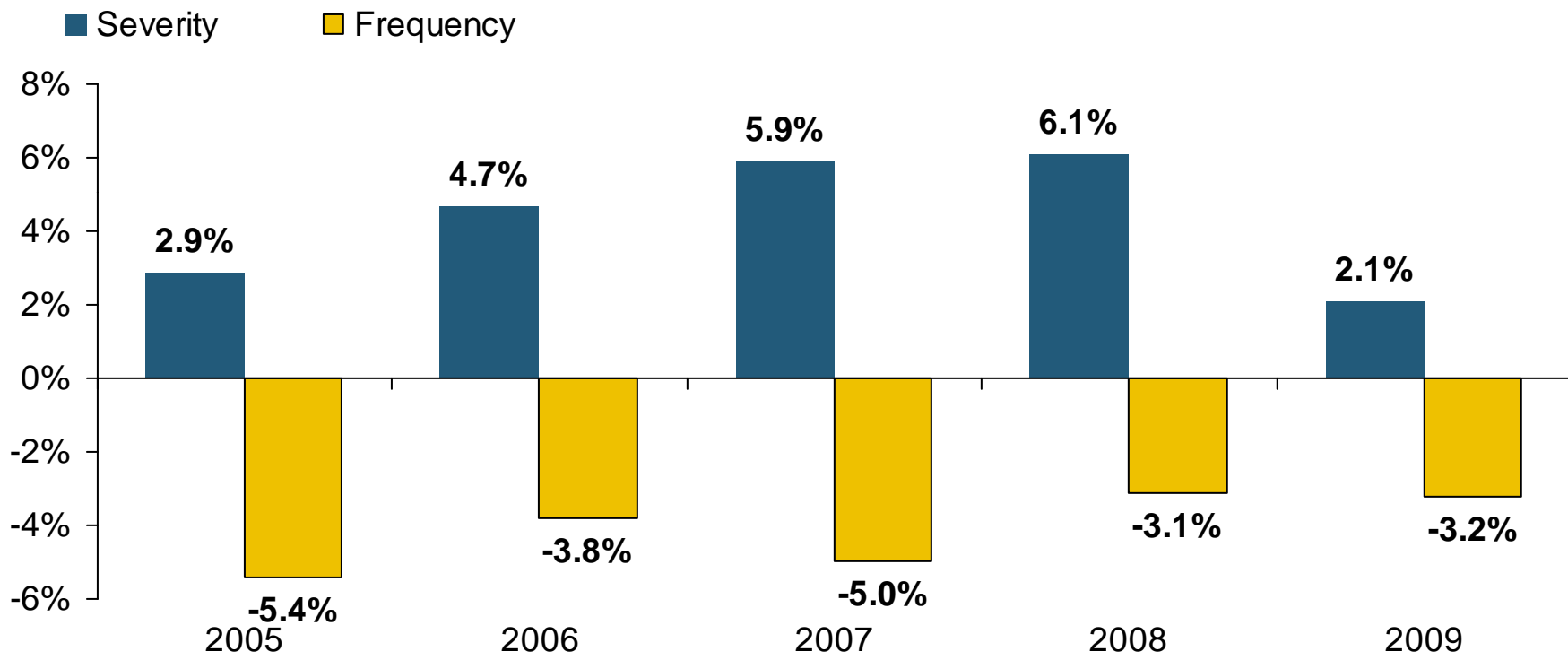
Source: U.S. Bureau of Labor Statistics; Tillinghast-Towers Perrin, *2008 Update on U.S. Tort Costs*; I.I.I.

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

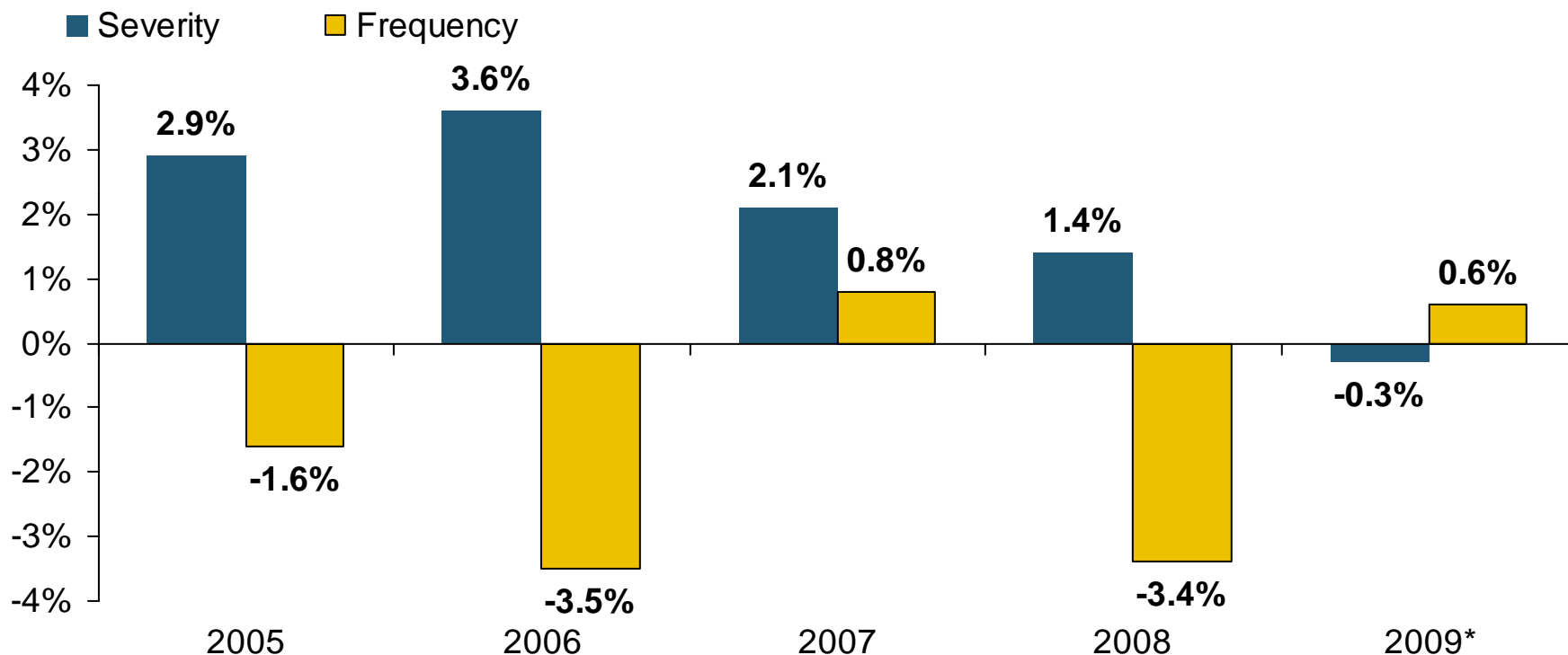
Annual Change, 2005 through 2009



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

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

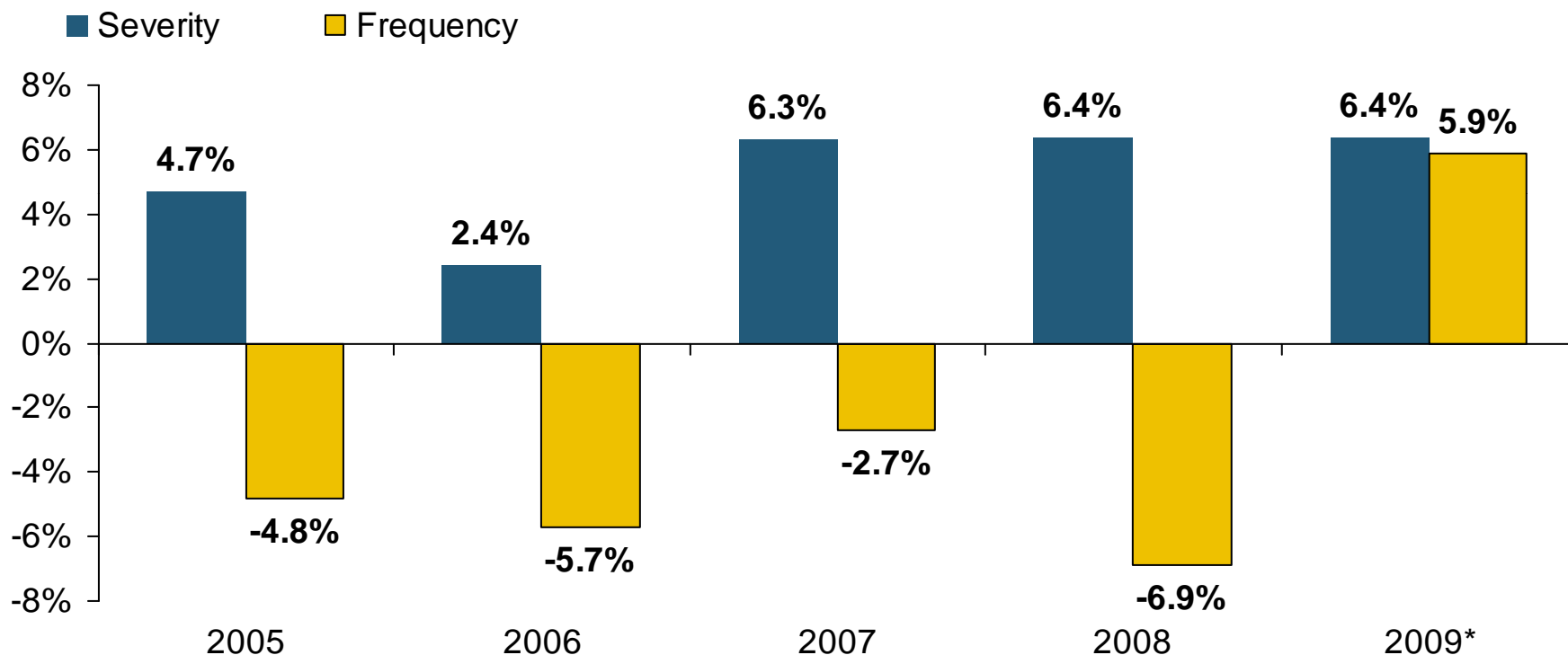
Annual Change, 2005 through 2009



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

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

Annual Change, 2005 through 2009



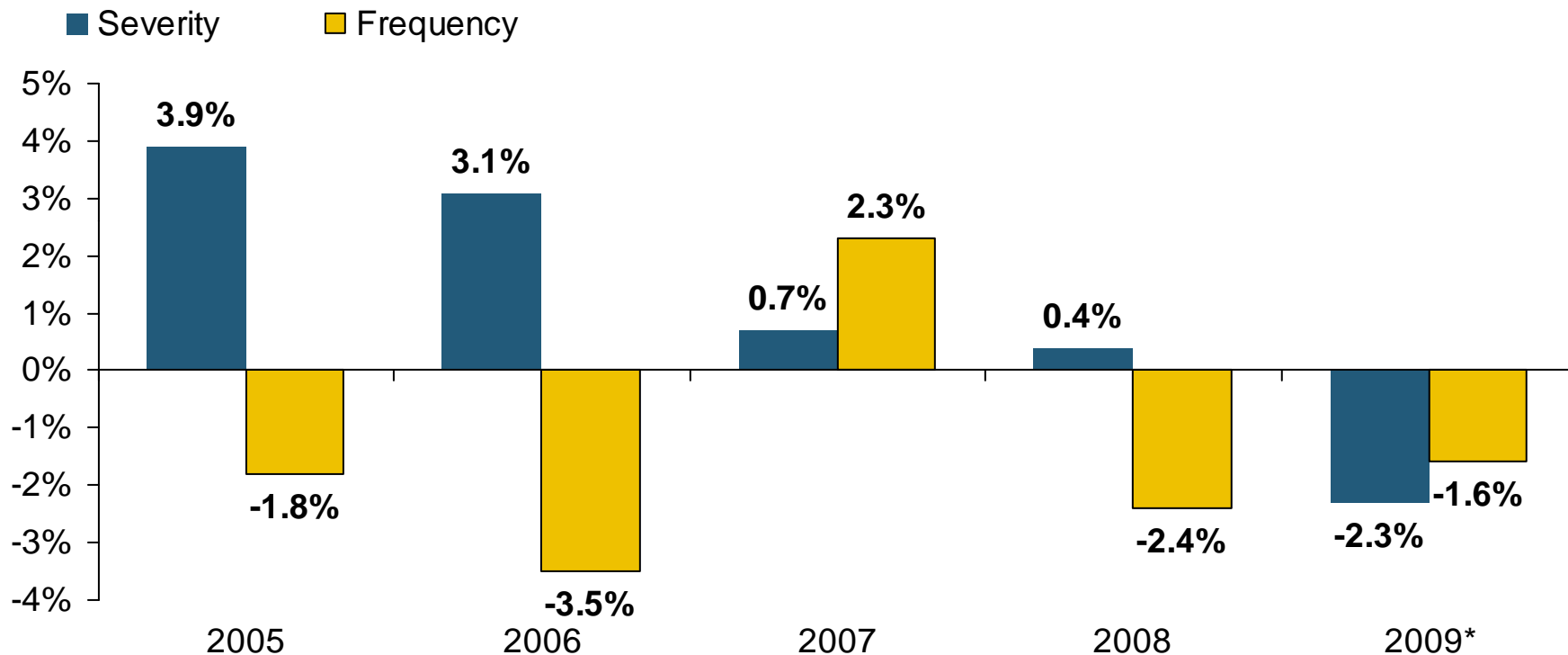
Multiple States Are Experiencing Severe Fraud and Abuse Problems in their No-Fault Systems, Especially FL, MI, NY and NJ

*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

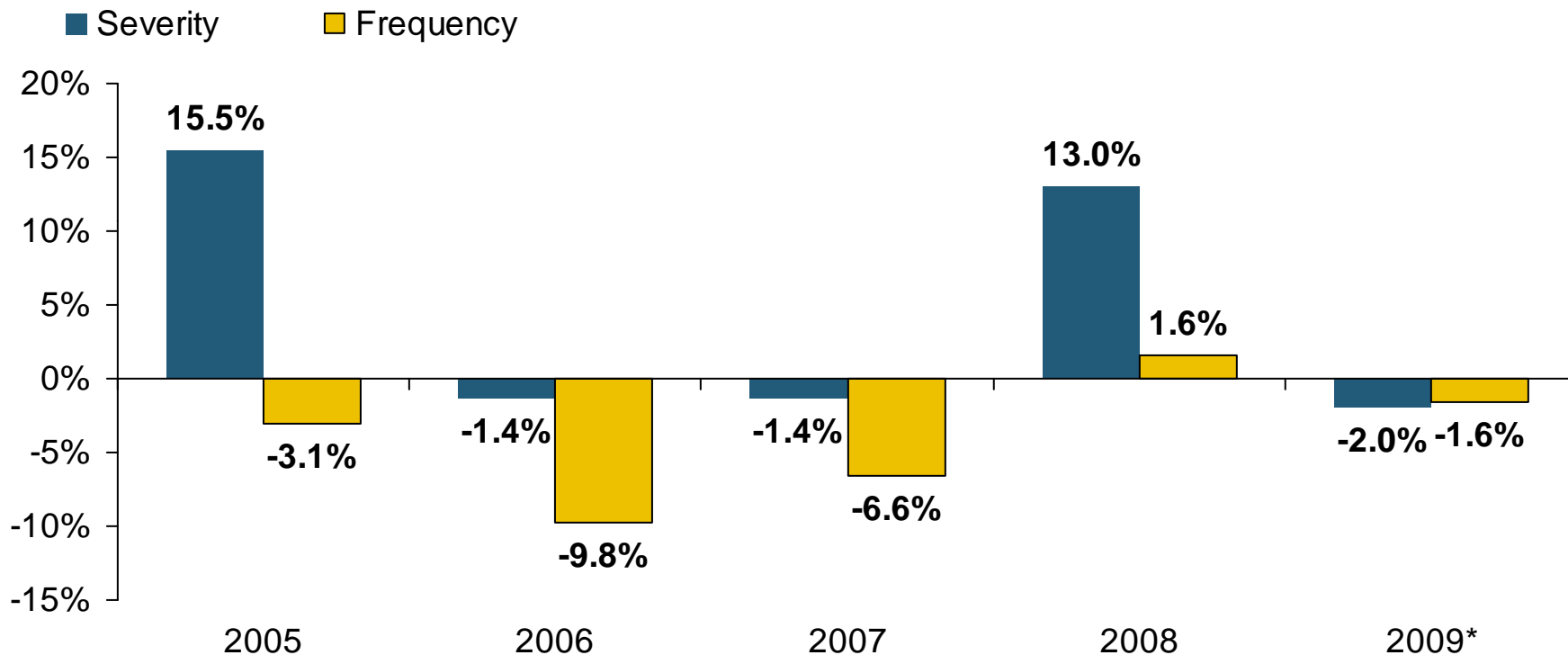
Annual Change, 2005 through 2009



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

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

Critical Differences Between P/C Insurers and Banks

**Superior Risk Management Model and
Low Leverage Make a Big Difference**

How P/C Insurance Industry Stability Has Benefitted Consumers

Bottom Line:

- Insurance markets – unlike banking – are operating **normally**
- The basic function of insurance – the orderly transfer of risk from client to insurer – **continues uninterrupted**
- This means that insurers continue to:
 - ◆ Pay claims (whereas 246 banks have gone under as of 5/28/10)
 - **The promise is being fulfilled**
 - ◆ Renew existing policies (*banks are reducing and eliminating lines of credit*)
 - ◆ Write new policies (*banks are turning away people and businesses who want or need to borrow*)
 - ◆ Develop new products (*banks are scaling back the products they offer*)
 - ◆ Compete intensively (*banks are consolidating, reducing consumer choice*)

Reasons Why P/C Insurers Have Fewer Problems Than Banks

A Superior Risk Management Model

■ Emphasis on Underwriting

- ◆ Matching of risk to price (via experience and modeling)
- ◆ Limiting of potential loss exposure
- ◆ *Some banks sought to maximize volume and fees and disregarded risk*

■ Strong Relationship Between Underwriting and Risk Bearing

- ◆ **Insurers always maintain a stake in the business they underwrite, keeping “skin in the game” at all times**
- ◆ *Banks and investment banks package up and securitize, severing the link between risk underwriting and risk bearing, with (predictably) disastrous consequences – straightforward moral hazard problem from Econ 101*

■ Low Leverage

- ◆ Insurers do not rely on borrowed money to underwrite insurance or pay claims → ***There is no credit or liquidity crisis in the insurance industry***

■ Conservative Investment Philosophy

- ◆ High quality portfolio that is relatively less volatile and more liquid

■ Comprehensive Regulation of Insurance Operations

- ◆ The business of insurance remained comprehensively regulated whereas a separate banking system had evolved largely outside the auspices and understanding of regulators (e.g., hedge funds, private equity, complex securitized instruments, credit derivatives – CDS's)

■ Greater Transparency

- ◆ Insurance companies are an open book to regulators and the public

Obama Administration Proposal to Scale Back Terrorism Risk Insurance Program

5 Administration's Budget Proposal for FY 2011:

- Includes proposal to scale back federal support for terrorism risk insurance program
- Proposal projects savings of \$249 million from 2011-2020
- Administration's justification is that this would "encourage the private sector to better mitigate terrorism risk through other means, such as developing alternative reinsurance options and building safer buildings."

Key Concerns

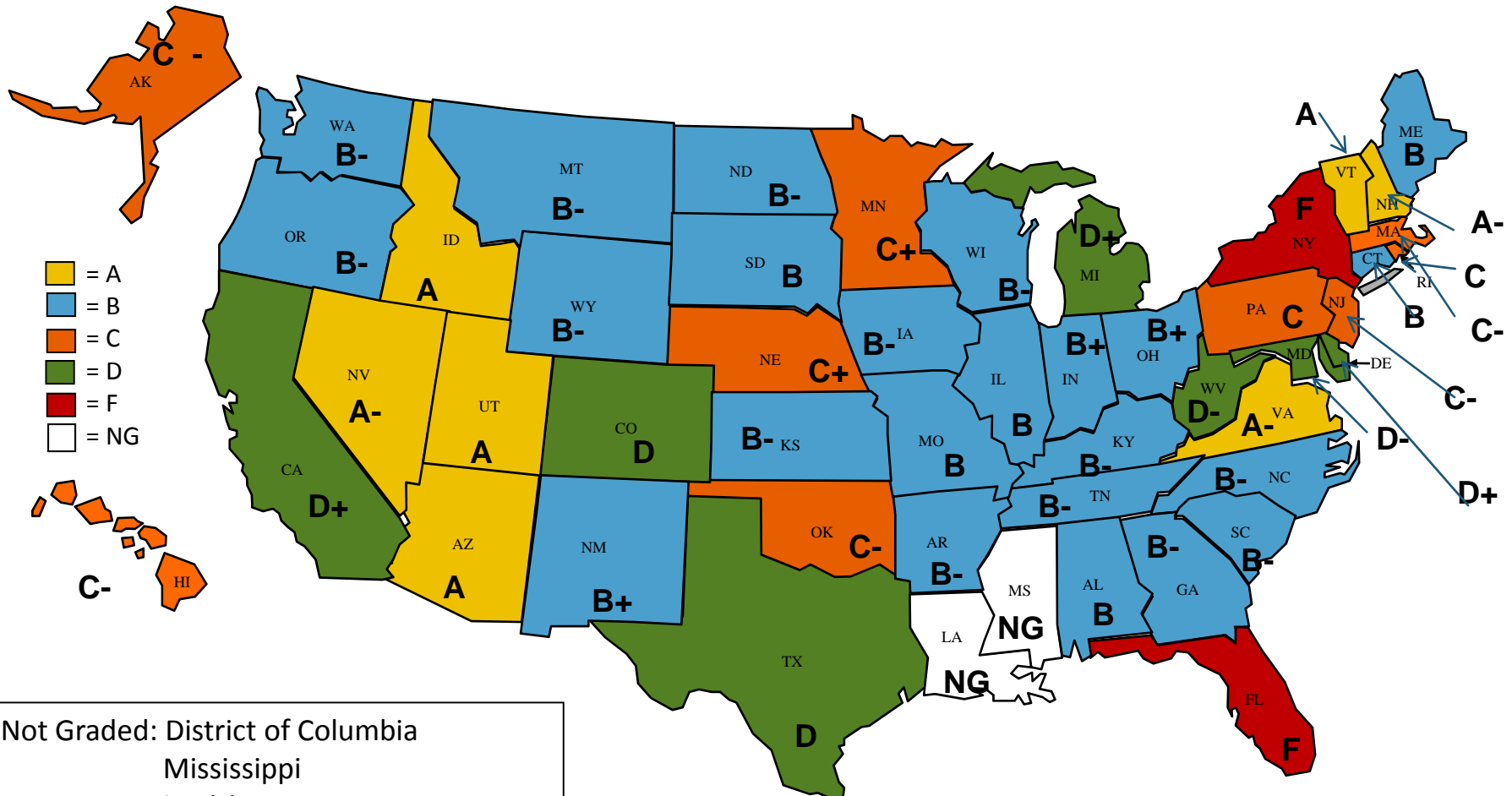
Among Industry Observers Over Proposed Reduction in Federal Support

- Suggestion of changes to law would have detrimental effect on availability and affordability of terrorism insurance
- A 2009 Aon study estimated some 70-80 percent of the commercial property insurance market would revert to absolute exclusions for terrorism, if TRIA is changed.

Reasons Why Concerns Are Mounting in 2010

- Perception (Reality) that U.S. vulnerability is rising
- Thwarted Christmas Day attack by “underwear bomber”
 - And new bin Laden tape claiming al Qaeda is responsible
- Foiled NYC Subway Bomber Plot (Zazi case)
- *Failed Times Square Car Bombing on May 1*
- Trials of Guantanamo 9/11 suspects in Manhattan Court (?)
- U.K. in January Raised Terror Alert Status to 2nd Highest Level
- Increased anti-terror efforts, including full-body scans
- Effort by government to appear more vigilant, prepared
- Rise of groups such al Qaeda in the Arabian Peninsula
- U.S. military surge in Afghanistan operations
- Most buyers/producers haven’t thought about coverage recently
- *Obama Administration’s Intent to Reduce Support for TRIA*

2010 Property and Casualty Insurance Report Card



Shifting Legal Liability & Tort Environment

Is the Tort Pendulum Swinging Against Insurers?

Important Issues & Threats Facing Insurers: 2010–2015



Emerging Tort Threat

- No tort reform (or protection of recent reforms) is forthcoming from the current Congress or Administration
- Erosion of recent reforms is a certainty (already happening)
- Innumerable legislative initiatives will create opportunities to undermine existing reforms and develop new theories and channels of liability
- Torts twice the overall rate of inflation
- Influence personal and commercial lines, esp. auto liability
- Historically **extremely** costly to p/c insurance industry
- Leads to reserve deficiency, rate pressure

Bottom Line: Tort “crisis” is on the horizon and will be recognized as such by 2012–2014



- Reverse U.S. Supreme Court decisions on pleadings
- Eliminate pre-dispute arbitration
- Erode federal preemption
- Expand securities litigation
- Pass Foreign Manufactures Legal Accountability Act
- Grant enforcement authorities to state
- Confirm pro-trial lawyer judges – “Federalize Madison County”
- Roll back existing legal reforms

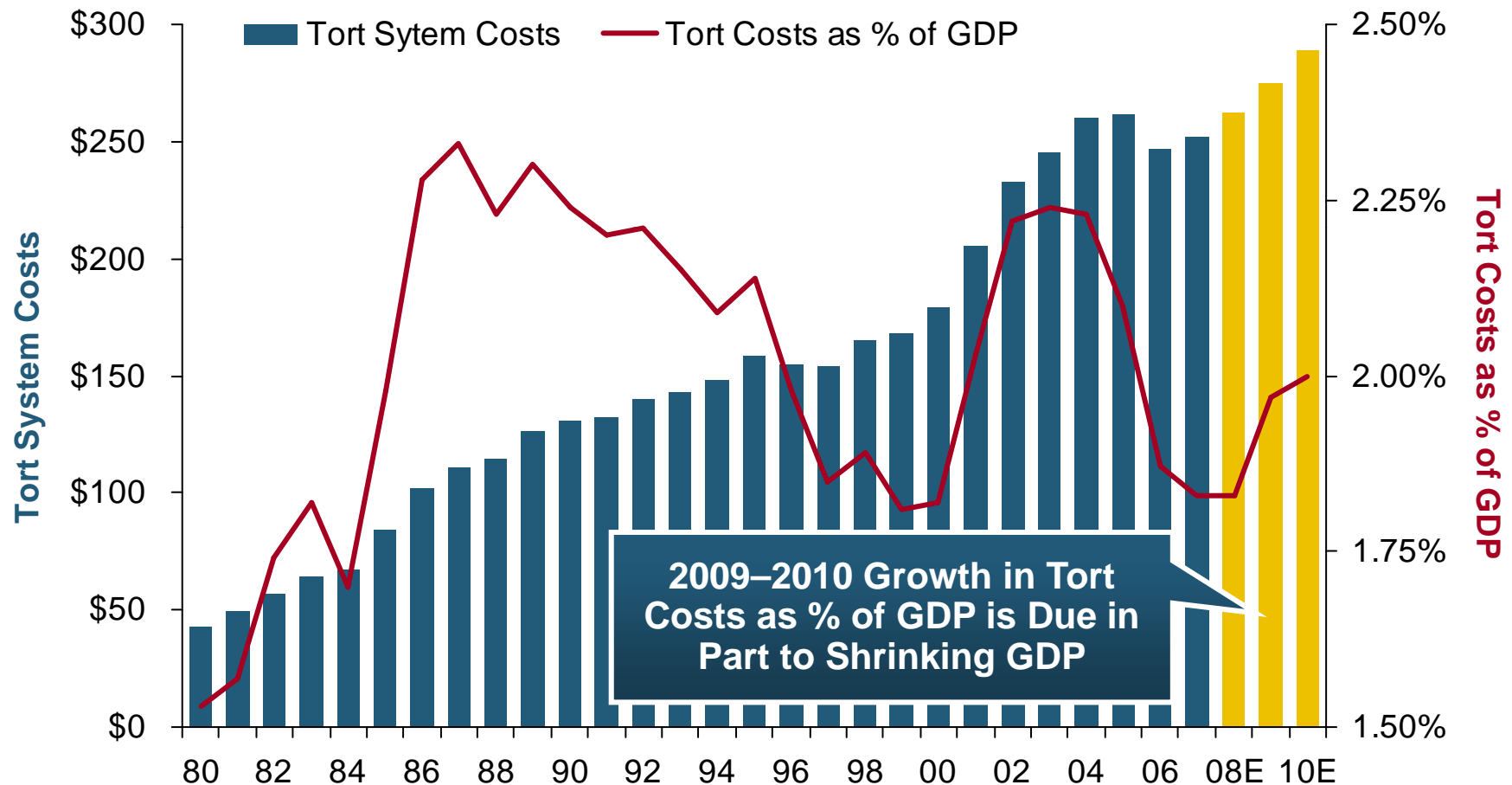
Trial Lawyer Poll: Which Areas Offer the Greatest Potential Benefit?

Top Categories	Percentage
Environmental	14%
Insurance coverage	13%
Mortgage fraud	12%
Nursing home/seniors issues	11%
Bad-faith against insurance companies	10%

41 different practice areas were included as categories

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

(\$ Billions)



* 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

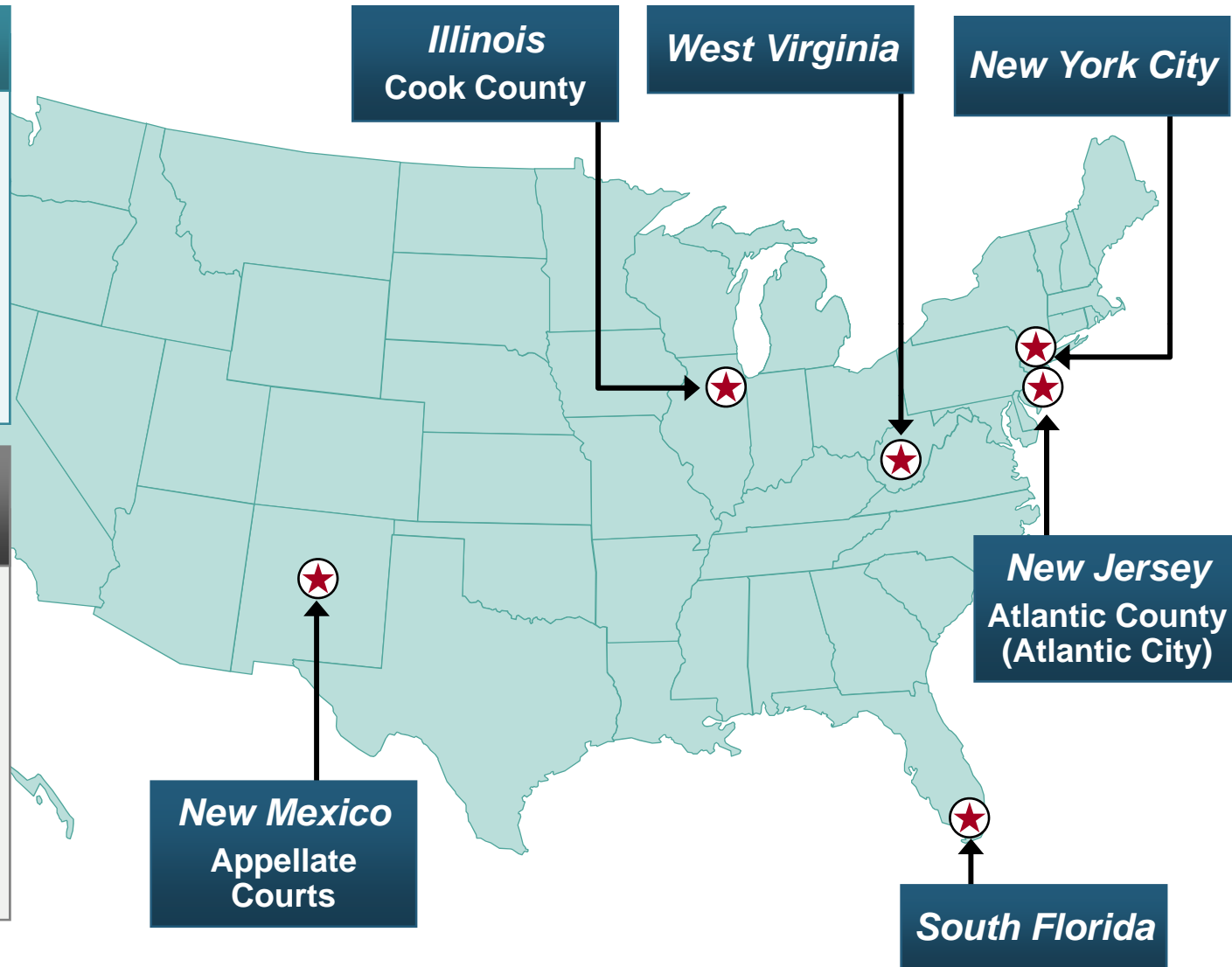
The Nation's Judicial Hellholes: 2010

Watch List

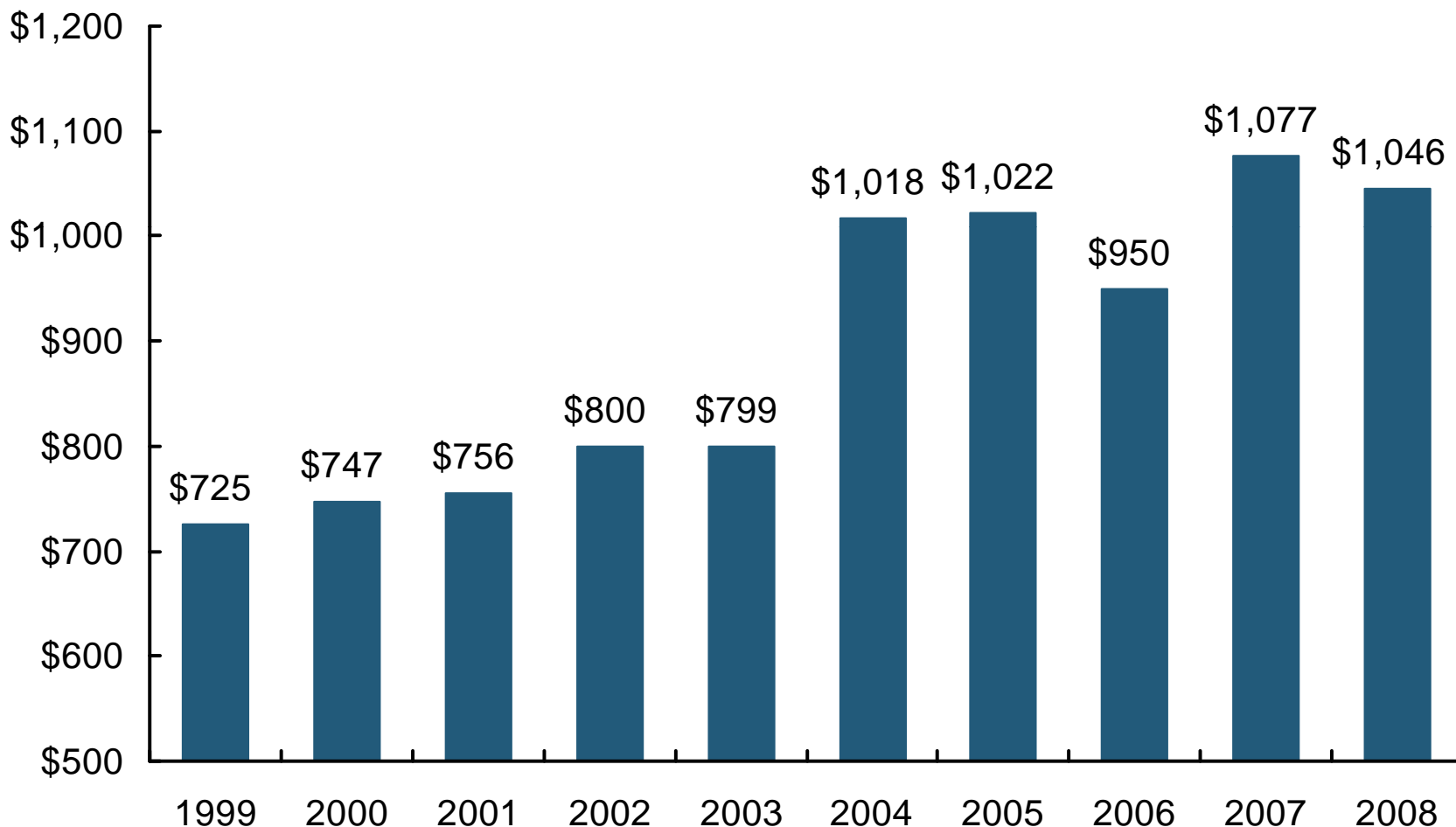
- California
- Alabama
- Madison County, IL
- Jefferson County, MS
- Texas Gulf Coast
- Rio Grande Valley, TX

Dishonorable Mention

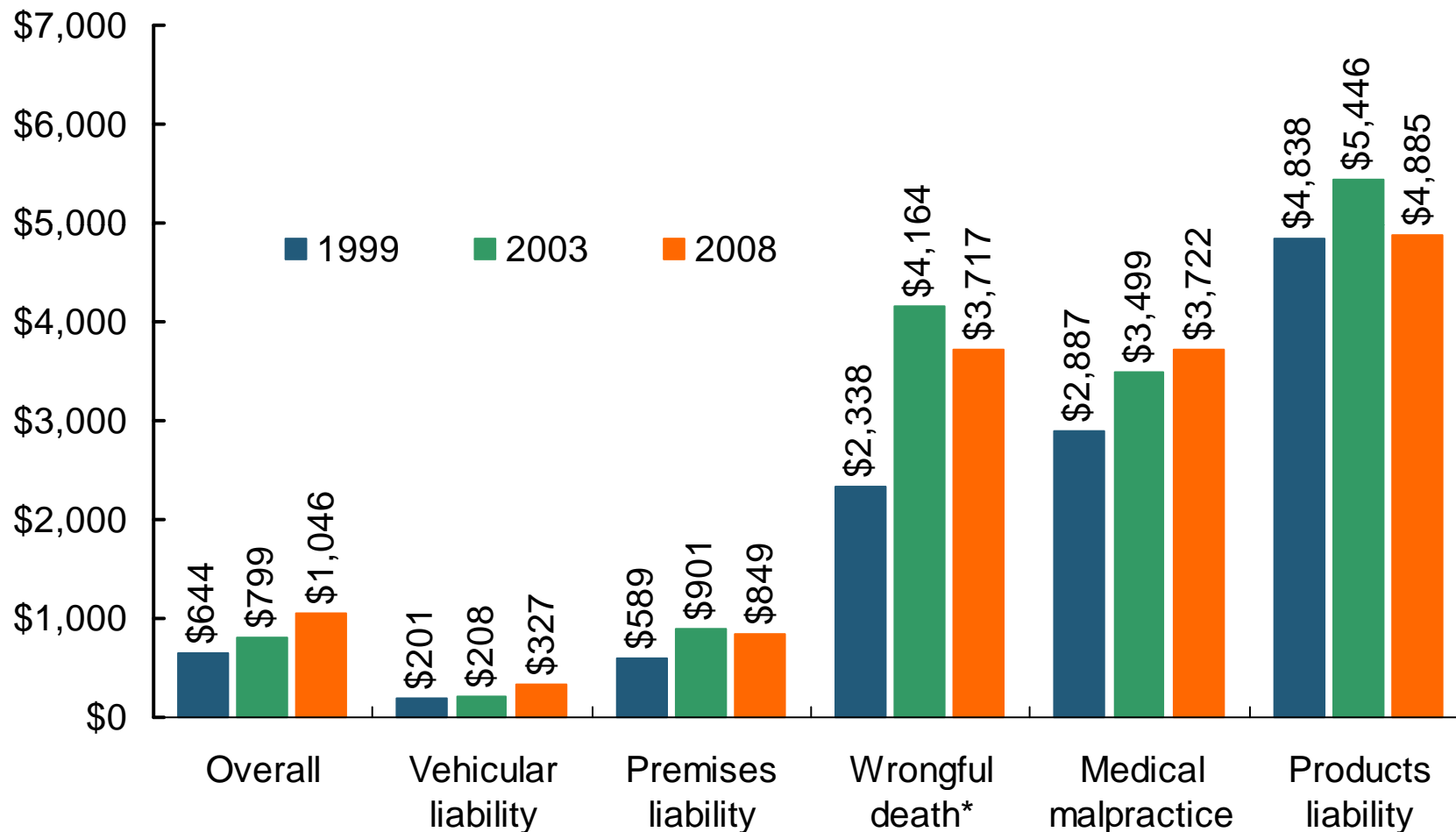
- AR Supreme Court
- MN Supreme Court
- ND Supreme Court
- PA Governor
- MA Supreme Judicial Court
- Sacramento County



Average Jury Awards 1999 - 2008



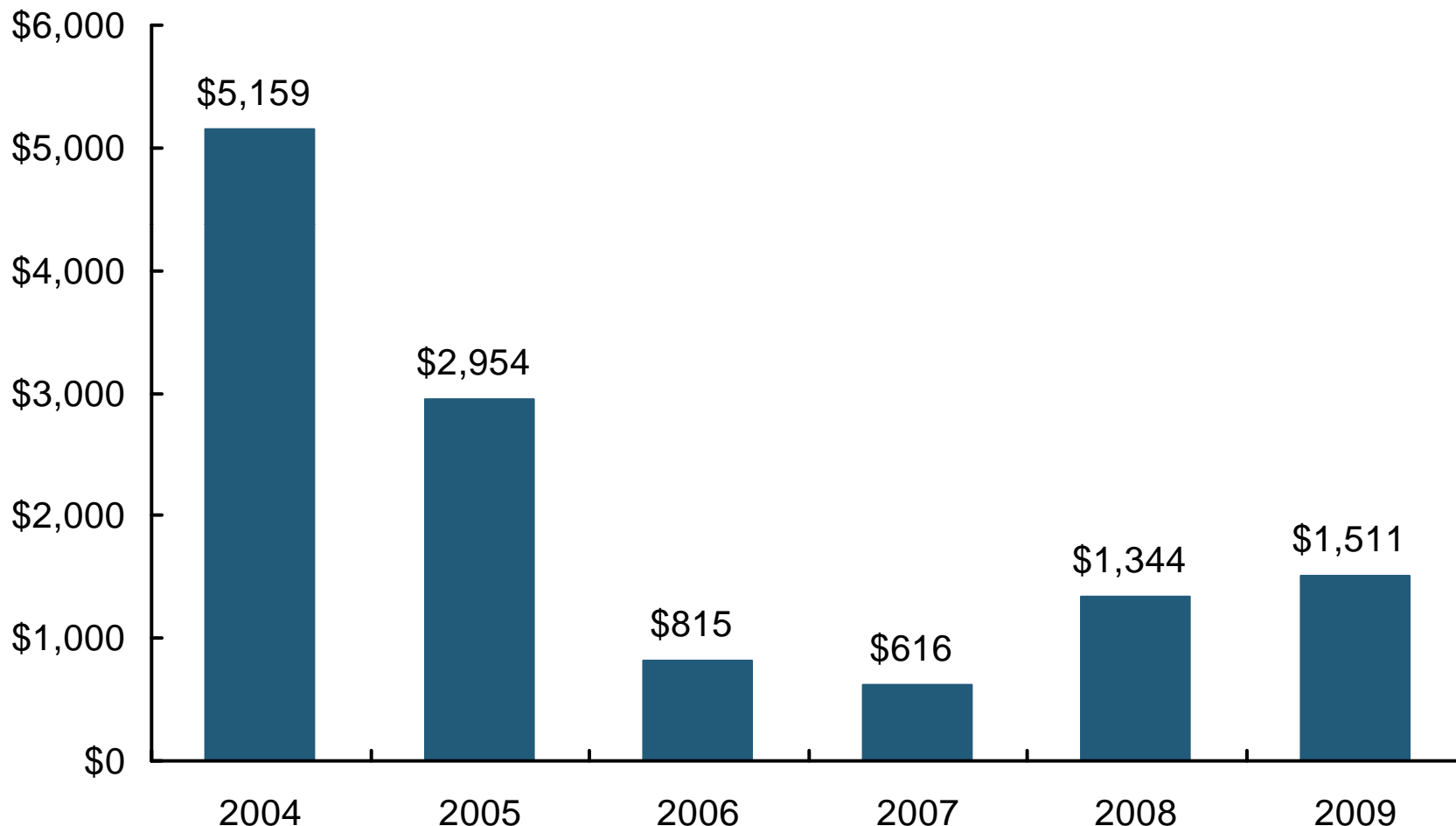
Avg. Jury Awards 1999 vs. 2003 and 2008



*Award trends in wrongful deaths of adult males.

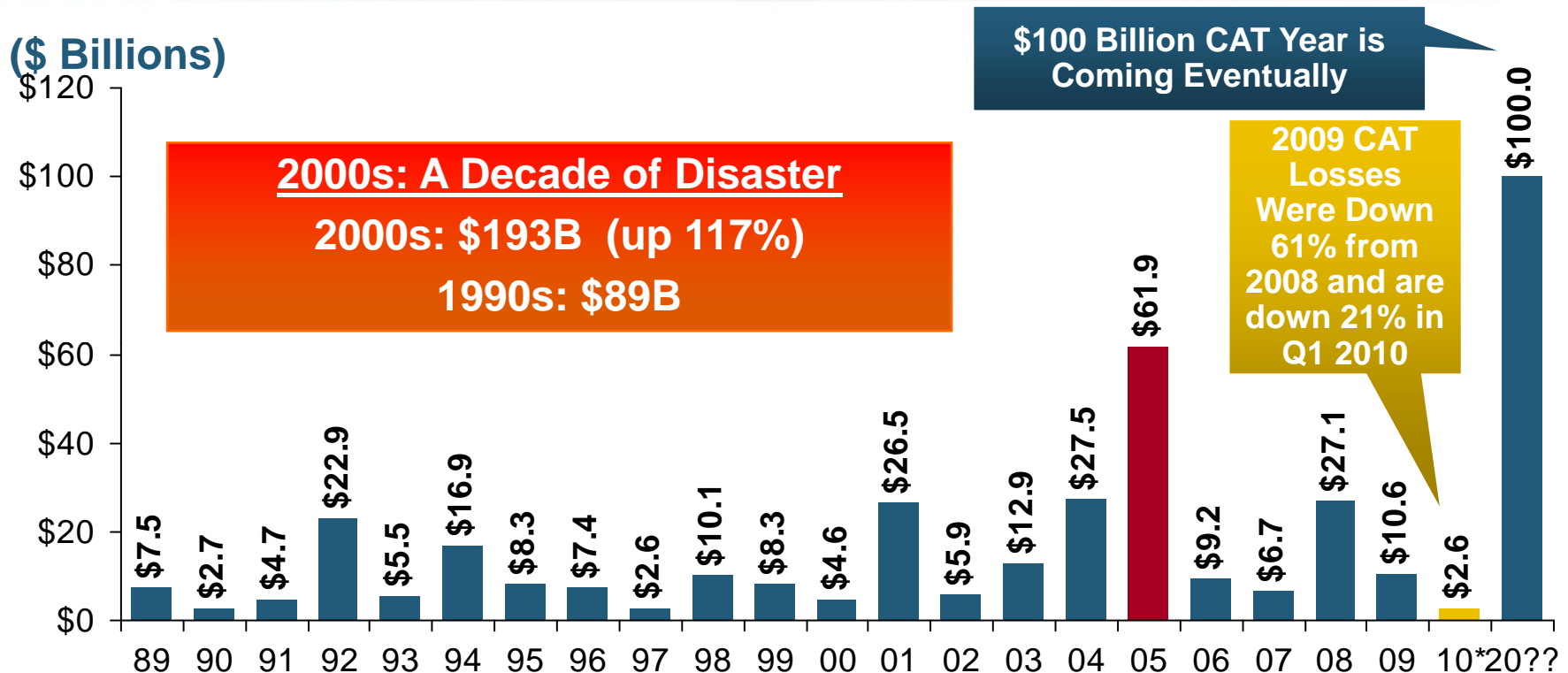
Source: Jury Verdict Research; Insurance Information Institute.

Sum of Top 10 Jury Awards 2004-2009



Catastrophic Loss – Catastrophe Losses Trends Are Trending Adversely

US Insured Catastrophe Losses



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

*Through March 31, 2010.

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.

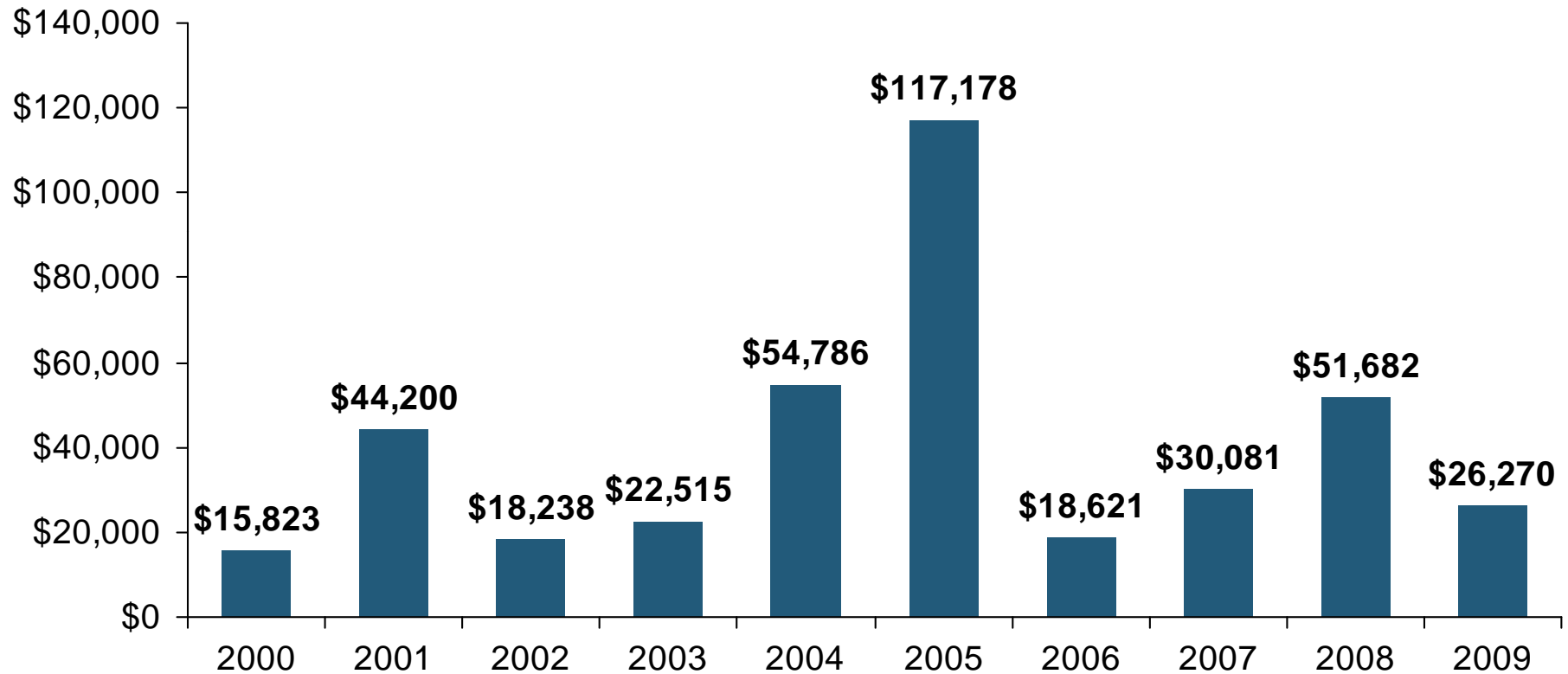
World Insured Catastrophe Losses, 2000-2009 (1) (2009 \$ millions)

Year	Weather-related natural catastrophes	Earthquake/ tsunami	Man-made disasters	Total
2000	\$10,414	\$25	\$5,384	\$15,823
2001	12,675	782	30,742	44,200
2002	14,677	0	3,561	18,238
2003	18,833	508	3,174	22,515
2004	47,829	3,020	3,937	54,786
2005	110,882	257	6,039	117,178
2006	12,870	86	5,665	18,621
2007	23,687	504	5,889	30,081
2008	43,365	420	7,897	51,682
2009	21,746	609	3,915	26,270

(1) In order to maintain comparability of the data over the course of time, the minimum threshold for losses was adjusted annually to compensate for inflation in the United States. Adjusted to 2009 dollars by Swiss Re.

Source: Swiss Re, *sigma*, No. 1/2010.

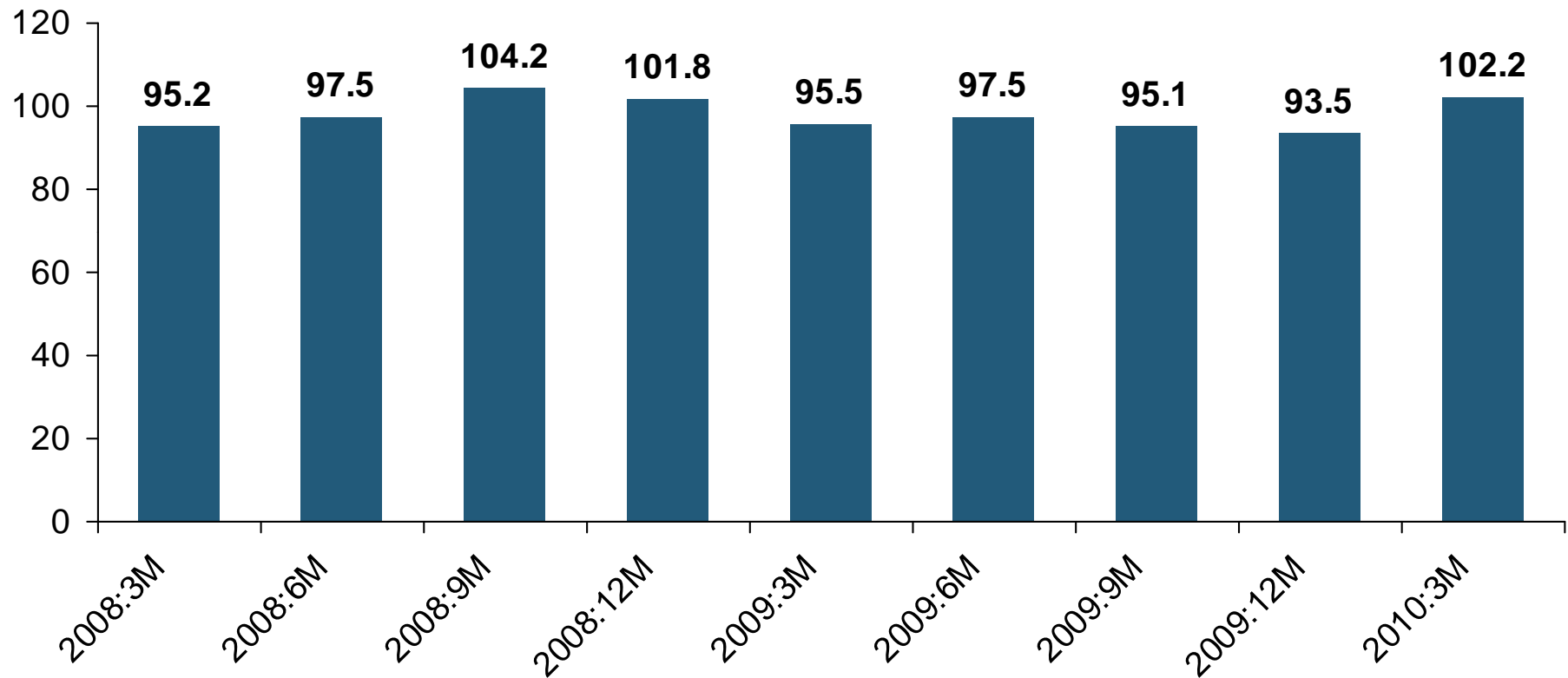
World Insured Catastrophe Losses, 2000-2009 (1) (2009 \$ millions)



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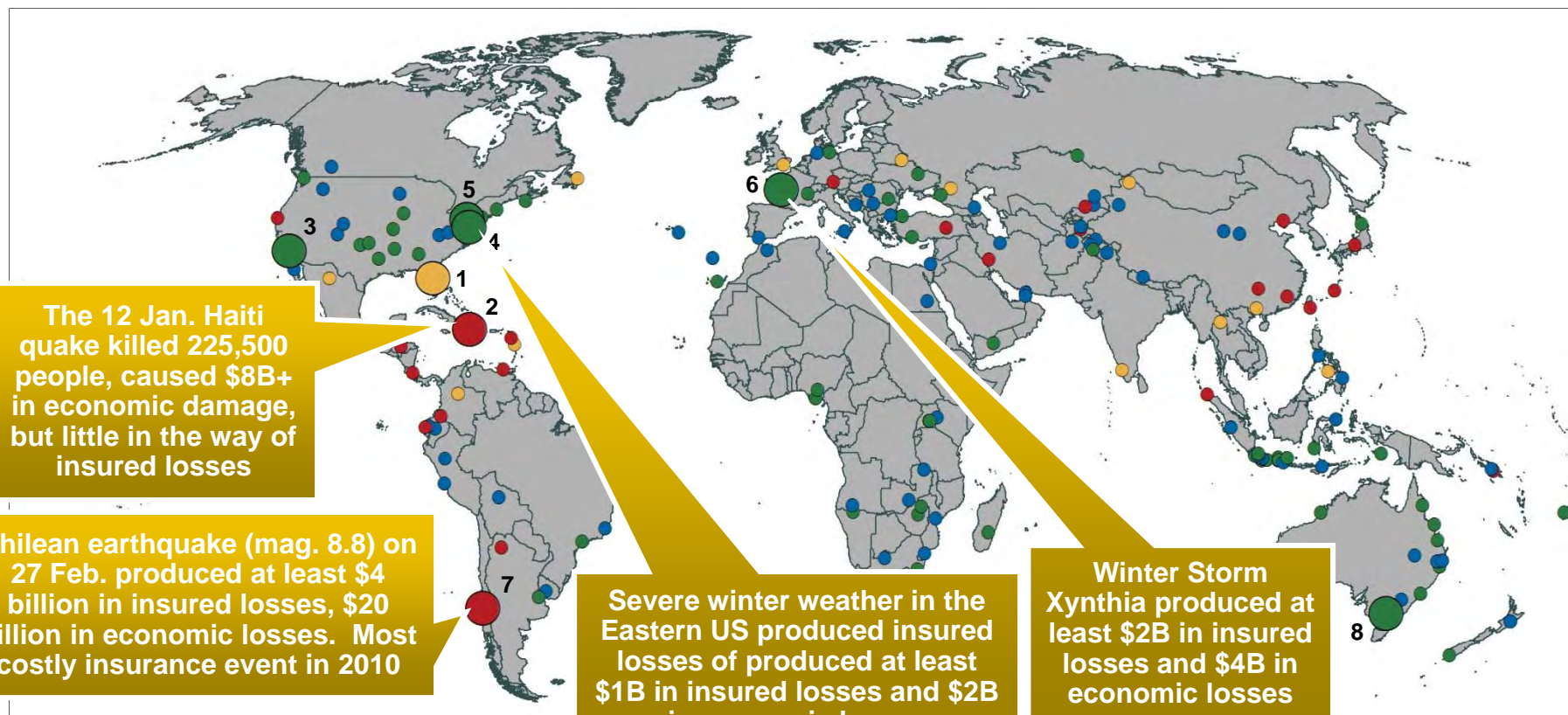
U.S. Reinsurance Combined Ratio



Source: Reinsurance Association of America.

Natural Catastrophes: Jan – Mar 2010

Worldmap



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

Natural Catastrophes: January – March 2010

Selection of Significant Events

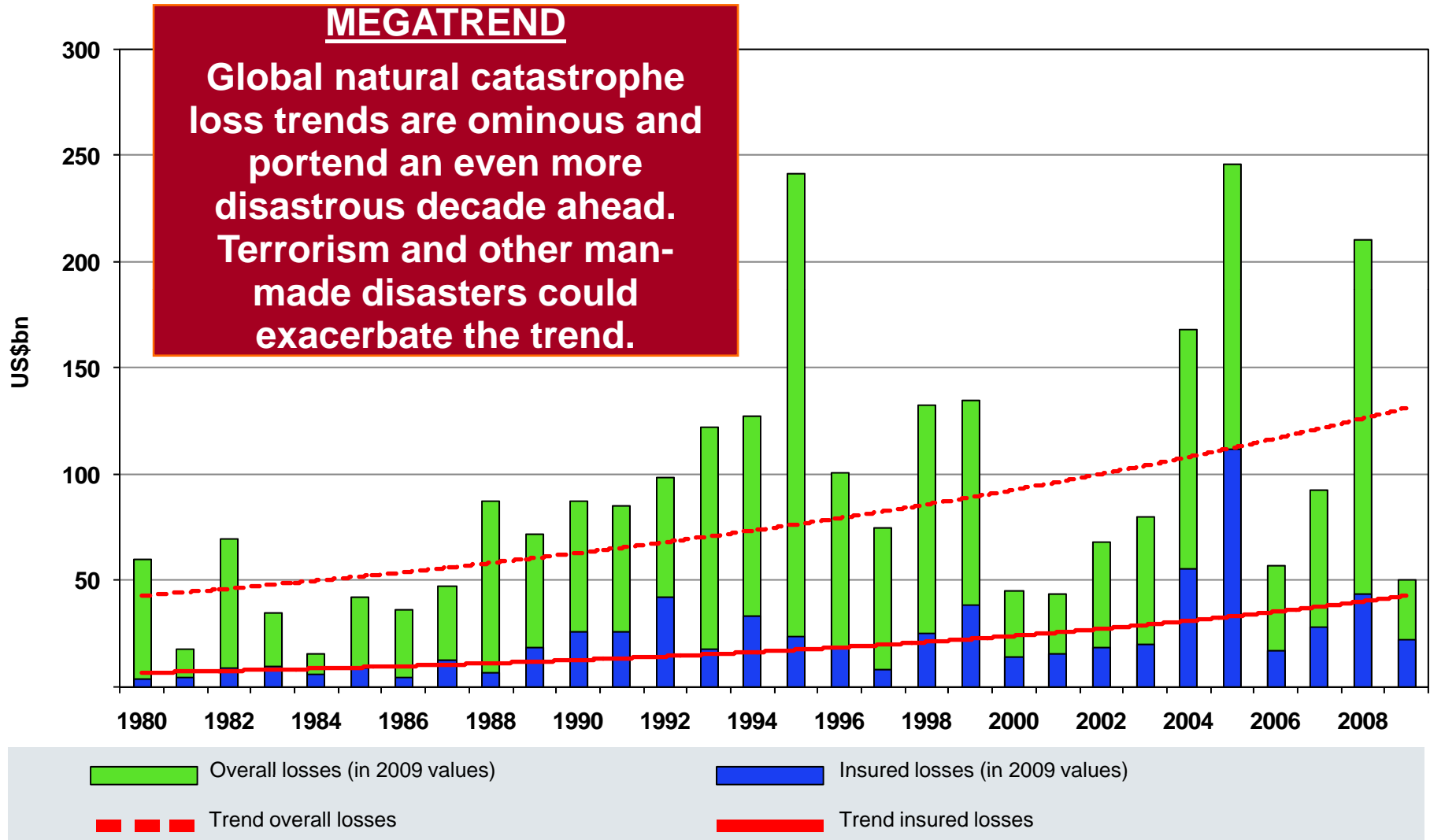
No.	Period	Event	Affected Area	Overall losses*	Insured losses*	Fatalities*
				US\$ m, original values		
1	7–12 January	Winter damage, cold wave	United States: Midwest (MO, IA); South (AR, LA, OK, TX); Southeast (FL, AL, GA, MS, NC, SC, TN)	800	160	5
2	12 January	Earthquake	Haiti: South (esp. Port-au-Prince)	>8,000		222,500
3	18–22 January	Severe storms	United States: Southwest (CA, AZ, UT)	180	120	20
4	4–6 February	Winter storm, blizzards	United States: Northeast (DC, DE, MD, NJ, PA); Southeast (NC, VA, WV)	180	135	2
5	9–14 February	Winter storm, blizzards, winter damage	United States. Canada	800	560	
6	26–28 February	Winter storm Xynthia, storm surge	Belgium. France. Germany. Netherlands. Portugal. Spain. Switzerland. United Kingdom	4,500	>2,000	63
7	27 February	Earthquake, tsunami	Chile: Central; South	>20,000	>4,000	507
8	6–7 March	Hailstorm, severe storms	Australia: Southeast (Victoria)	1,200	780	

*Preliminary figures

First Quarter 2010 Insured Major Catastrophe Losses Were Among the Highest on Record for Q1, Totaling at least \$7.755 Billion. Economic Losses Total at Least \$35.66. More than 223,000 People Were Killed in These Events.

Global Natural Catastrophes 1980–2009

Overall and insured losses with trend



Gulf Coast Near Deepwater Horizon Site

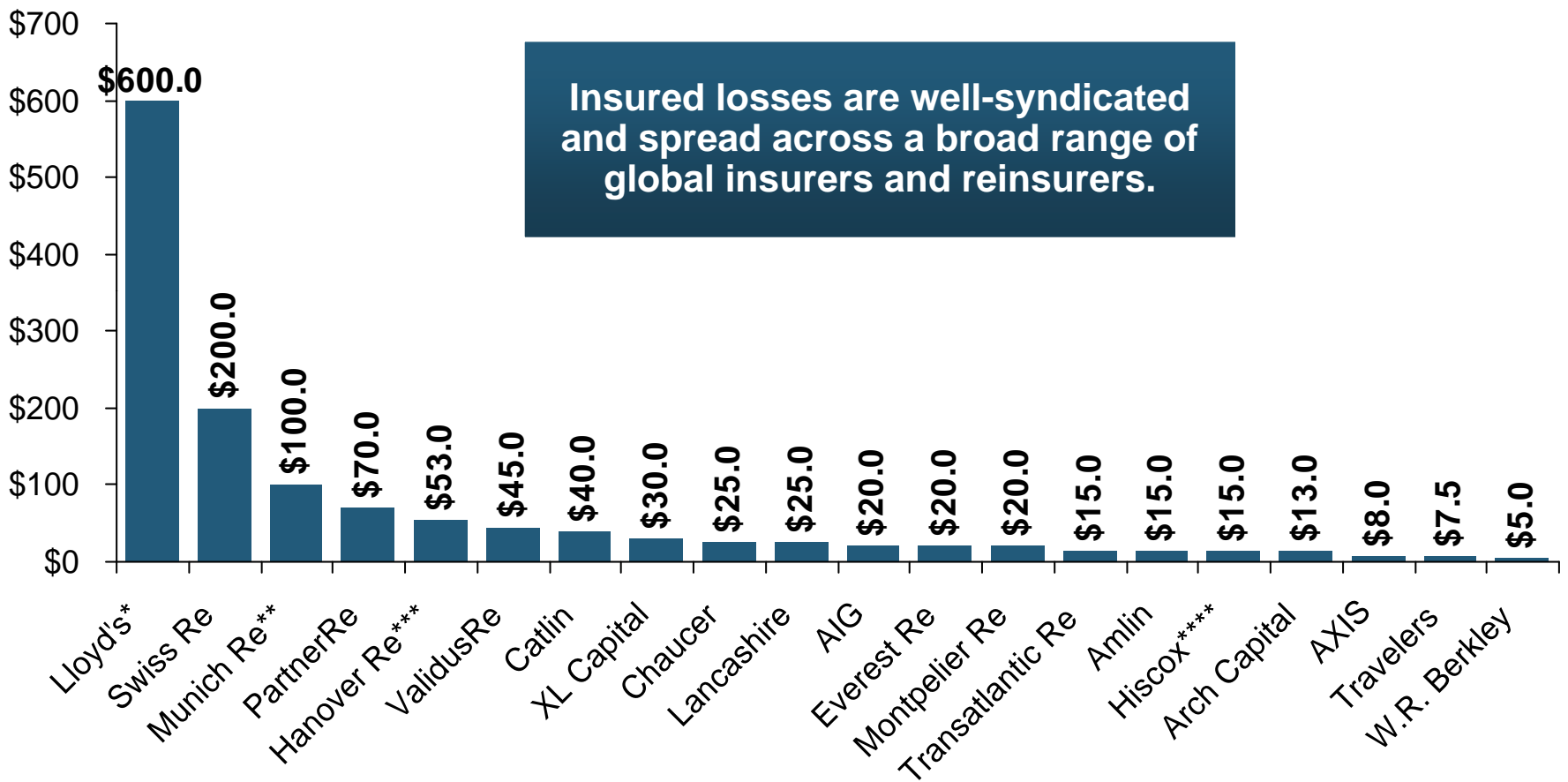


On April 20, 2010, an explosion and fire occurred on the offshore drilling rig Deepwater Horizon, which had been drilling an exploratory well in approx. 5,000 ft of water in the Gulf of Mexico, 52 miles SE of Venice, Louisiana.

The platform subsequently sank, with 11 crewmembers presumed dead, and the uncompleted well leaking oil.

Announced Deepwater Horizon Insured Losses

(Millions)



Insured losses are well-syndicated and spread across a broad range of global insurers and reinsurers.

*Lloyd's estimates net loss to the market of \$300 million to \$600 million. Includes estimate across all Lloyd's syndicates. Those syndicates that have reported losses individually are also shown in this chart and included in the Lloyd's total.

**Munich Re expects low triple digit million euro loss

Hanover Re expects a Eur40 million loss *Hiscox expects net claims of below GBP10 million (\$14.8 million)

Source: Insurance Information Institute (I.I.I.); Company disclosures, SNL Financial Citi research note 05/04/10; Barclays Capital research note 05/10/10

Probability of Landfall of at Least One Major Hurricane (CAT 3-4-5) in 2010*

Region	Average Over Last Century	2010 Forecast *
Entire U.S. Coastline	52%	76%
U.S. East Coast Incl. FL Peninsula	31%	51%
Gulf Coast from FL Panhandle to Brownsville, TX	30%	50%
Caribbean	42%	65%

The Probability of a Major Hurricane Making Landfall Somewhere Along the US Coast is Greatly Elevated in 2010, Including a 50% Chance Along the Oil Spill-Impacted Gulf Coast

*Forecast as of June 2, 2010.

Source: Colorado State University, Department of Atmospheric Sciences; Insurance Information Institute.

Outlook for 2010 North Atlantic Hurricane Season*

Forecast Parameter	Average (1950-2000)	2010 Forecast *
Named Storms	9.6	18
Named Storm Days	49.1	90
Hurricanes	5.9	10
Hurricane Days	24.5	40
Major Hurricanes	2.3	5
Major Hurricane Days	5.0	13
Accumulated Cyclone Energy	96.1	185
Net Tropical Cyclone Activity	100%	195%

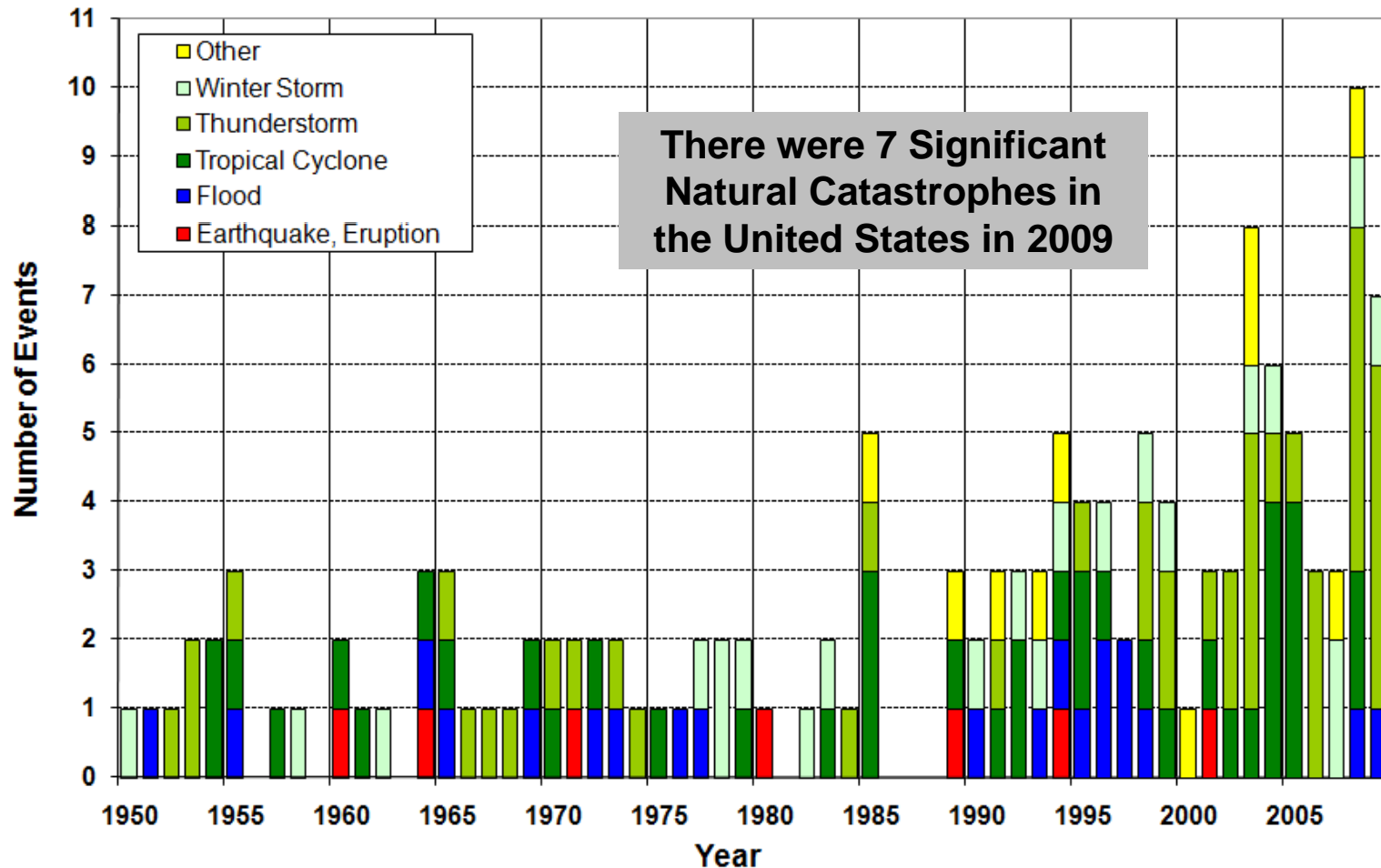
The 2010 Hurricane Season is Expected to Be Nearly Twice as Active as the Long-Run Average (195% of Normal)

*Forecast as of June 2, 2010.

Source: Colorado State University, Department of Atmospheric Sciences; Insurance Information Institute.

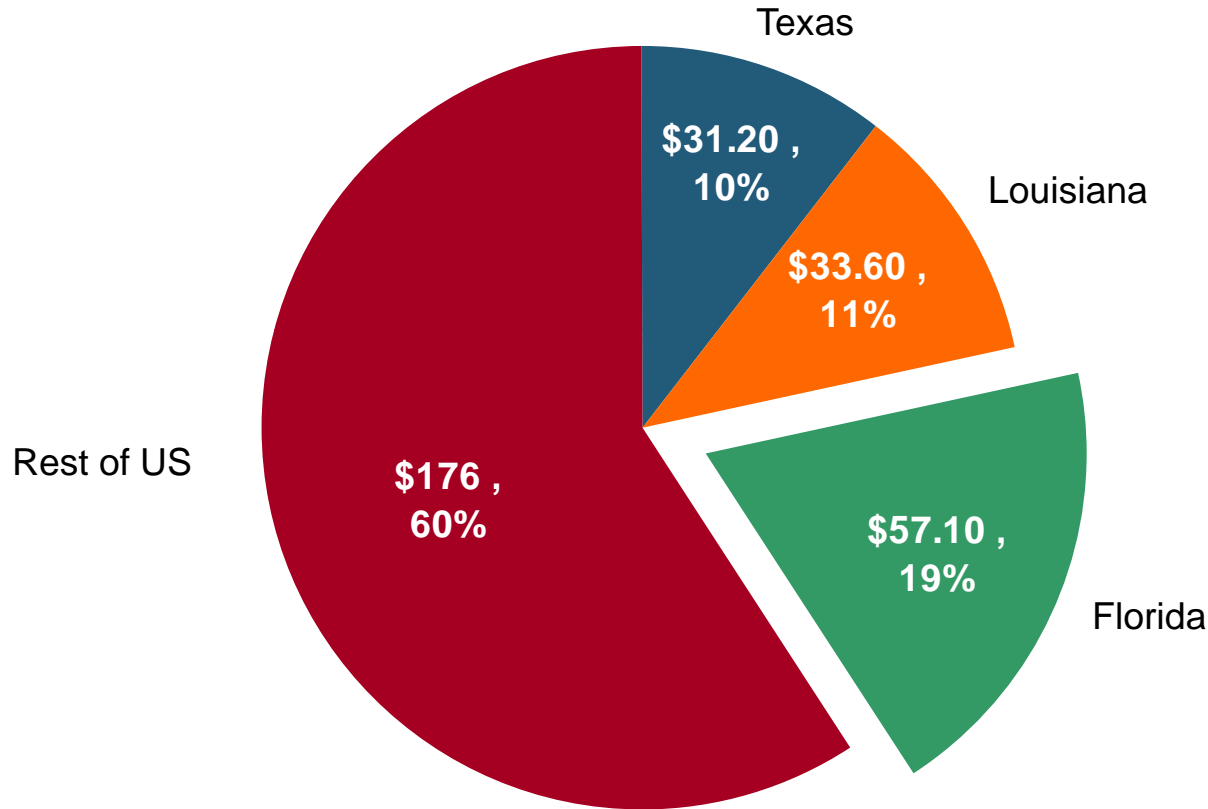
U.S. Significant Natural Catastrophes, 1950 – 2009

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



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

(\$ Billions)



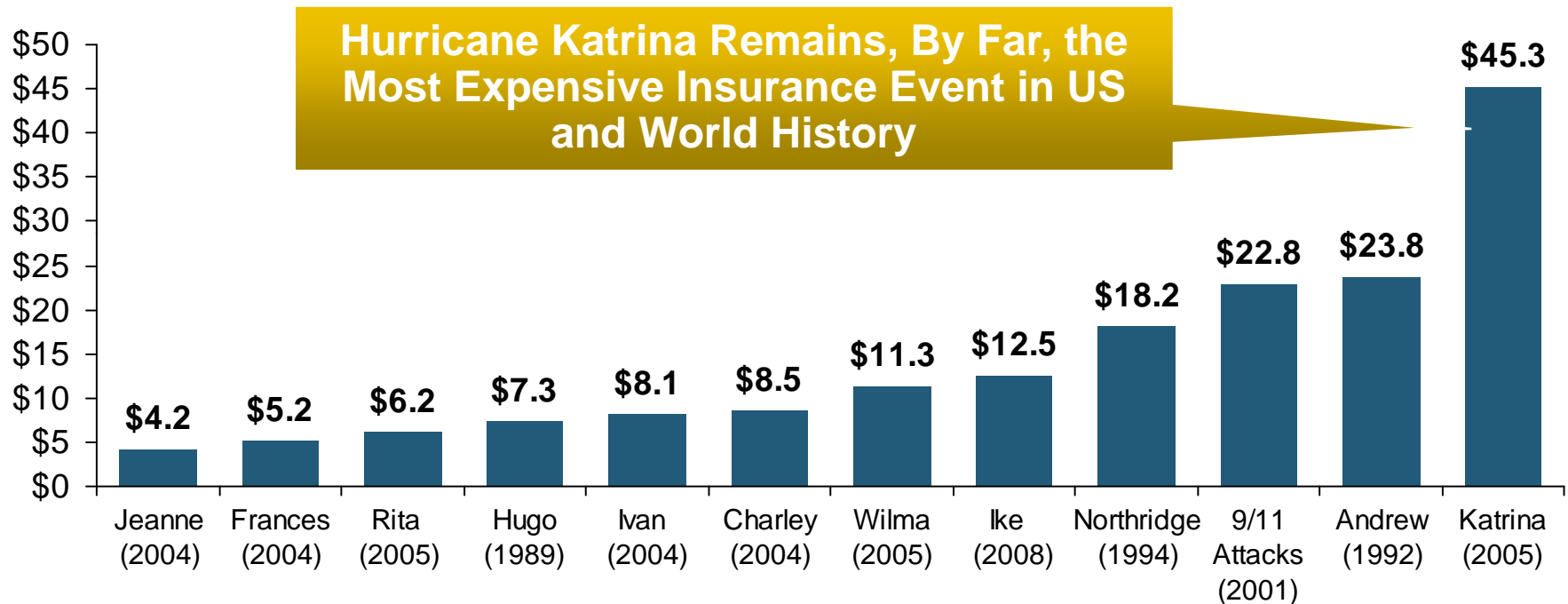
**Florida Accounted for 19% of All US Insured CAT Losses
from 1980-2008: \$57.1B out of \$297.9B**

* 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

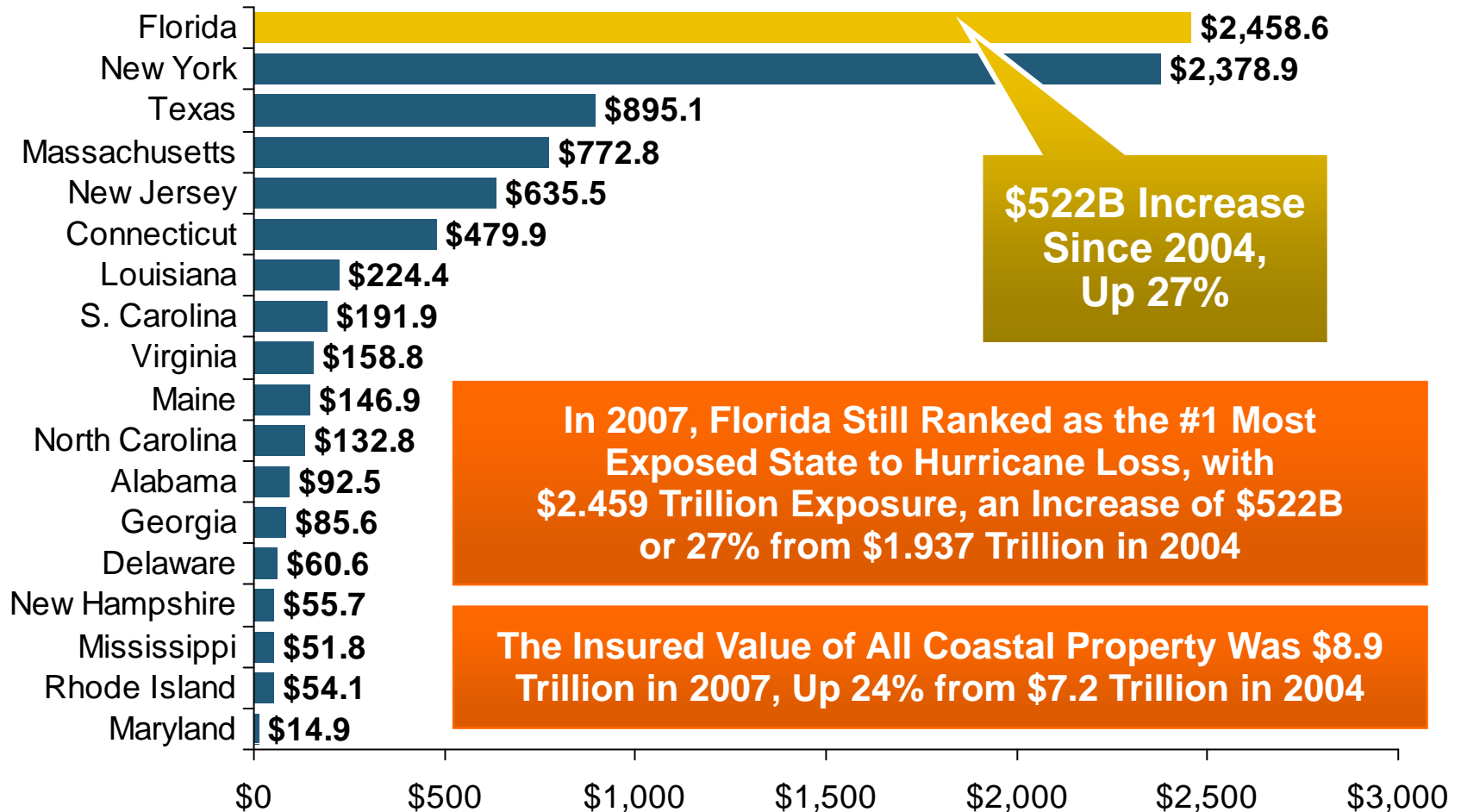
(Insured Losses, 2009, \$ Billions)



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

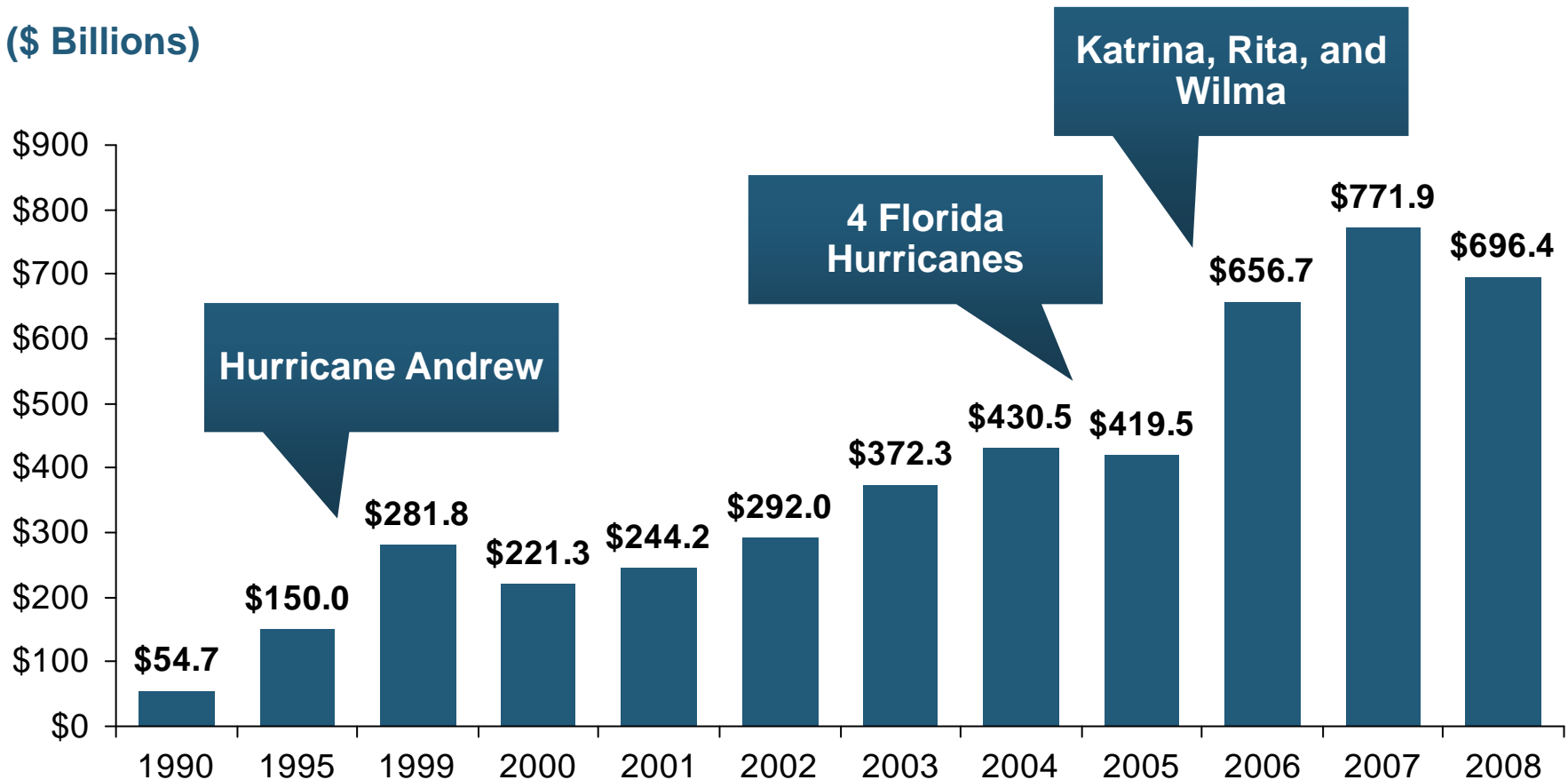
Total Value of Insured Coastal Exposure

(2007, \$ Billions)



US Residual Market Exposure to Loss

(\$ Billions)



In the 19-year Period Between 1990 and 2008, Total Exposure to Loss in the Residual Market (FAIR & Beach/Windstorm) Plans Has Surged from \$54.7B in 1990 to \$696.4B in 2008

Insurance Information Institute Online:

www.iii.org

*Thank you for your time
and your attention!*

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