



# ***Out of the Abyss: Growth, Challenges and Opportunities in the Post-Crisis World***

**Annual Issues Symposium of the National Council  
on Compensation Insurance**

**Orlando, FL**

**May 5, 2011**

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

**Robert P. Hartwig, Ph.D., CPCU, President & Economist**

**Insurance Information Institute ♦ 110 William Street ♦ New York, NY 10038**

**Tel: 212.346.5520 ♦ Cell: 917.453.1885 ♦ [bobh@iii.org](mailto:bobh@iii.org) ♦ [www.iii.org](http://www.iii.org)**

# **What in the World Is Going On?**

**Is the World Becoming a  
Riskier Place?**

***Are We Really Crawling Out of the  
Abyss or Falling Into a New One?***

# Uncertainty, Risk and Fear Abound

- **Resurgent Terrorism Risk (e.g., Bin Laden Killing)**
- **Record Tornado Activity in the US**
- **Japan, New Zealand, Haiti, Chile Earthquakes**
- **Political Upheaval in the Middle East**
- **Echoes of the Financial Crisis**
- **Housing Crisis**
- **US Debt and Budget Crisis**
- **Sovereign Debt & Currency Crises**
- **Inflation**
- **Runaway Energy & Commodity Prices**
- **Era of Fiscal Austerity**
- **Reshuffling the Global Economic Deck**
- **China Becomes #2 Economy in the World**
- **Nuclear Fears**
- **Manmade Disasters (e.g., Deepwater Horizon)**



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

# **Terrorism, Workers Compensation and the Killing of Osama bin Laden**

## **Do We Still Need the Terrorism Risk Insurance Program?**

# Bin Laden, Justice and the Future of Terrorism, Risk and Insurance

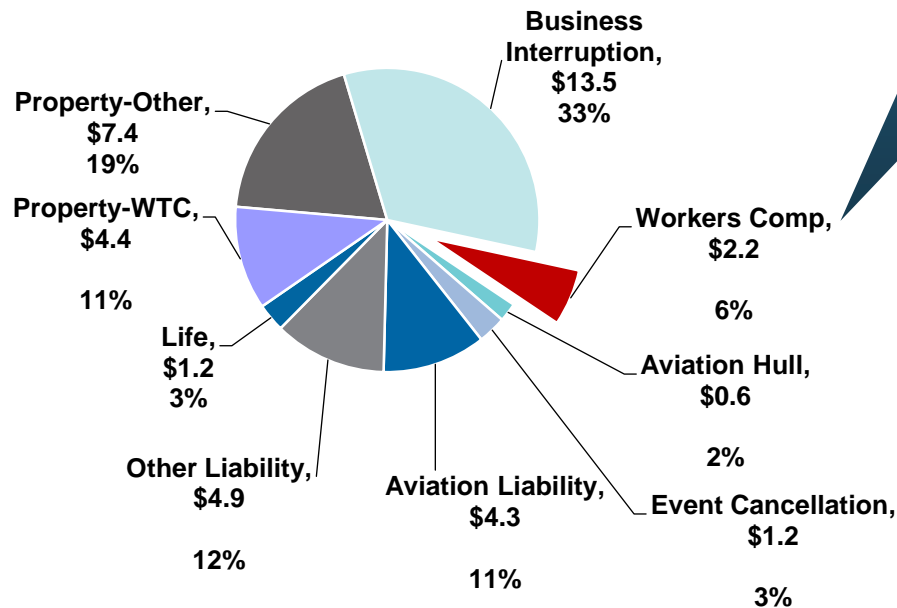


**Bin Laden is Dead and Justice Is Served, But What Are the Implications for the P/C Insurance Industry and Workers Comp in Particular?**

# Distribution of Insured September 11 Losses by Line (\$ Billions, 2009 Dollars)

**9/11 losses totaled \$40.0 billion in 2010 dollars (\$32.5 billion in 2001 dollars)**

**9/11 remains the largest WC loss in US history (\$2.2B), even though 9/11 property losses were surpassed by Hurricane Katrina in 2005**



(1) Loss total does not include NYC March 2010 settlement of up to \$657.5 million to compensate about 10,000 Ground Zero workers.

(2) Sum of segment totals may not equal overall total due to rounding. Adjusted to 2010 dollars using the Bureau of Labor Statistics (BLS) Inflation Calculator.

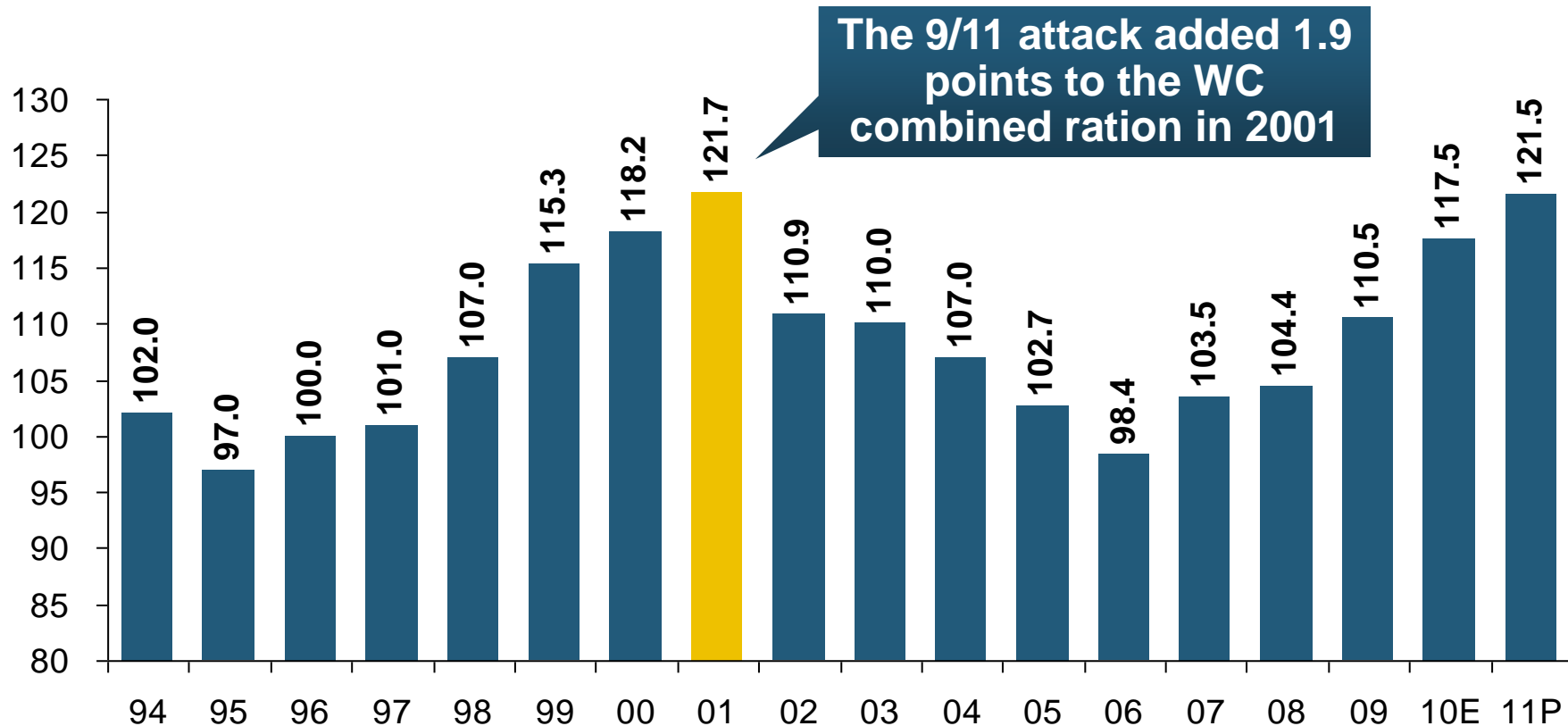


# Thwarted and Failed Terrorism Attempts Against the US in 2009 and 2010

Date	Location	Event
December 8, 2010	Baltimore, MD	Attempted bombing of Armed Forces recruiting center by U.S. citizen Antonio Martinez, aka Muhammad Hussain
November 26, 2010	Portland, OR	Attempted bombing at Christmas tree lighting ceremony in downtown Portland by naturalized U.S. citizen Mohamed Osman Mohamud
October, 2010	Washington D.C.	Attempted plot to bomb D.C.-area metro stations
May 1, 2010	New York City, NY	Attempted SUV bombing in Times Square, New York City, by naturalized U.S. citizen Faisal Shahzad
December 25, 2009	Over Detroit, MI	Attempted bombing of Northwest Airlines passenger jet over Detroit by underwear bomber Umar Farouk Abdulmutallab
September, 2009	New York City, NY	U.S. resident Najibullah Zazi and others charged with conspiracy to use weapons of mass destruction in New York City
September, 2009	Springfield, IL	Attempted plot to detonate a vehicle bomb at the federal building in Springfield, IL
September, 2009	Dallas, TX	Attempted bombing of skyscraper in Dallas, TX
May, 2009	New York City, NY	Foiled plot to bomb Jewish synagogue and shoot down military planes in New York City
May, 2009	Various U.S. targets	Conviction of Liberty City six for conspiring to plan attacks on U.S. targets, including Sears Tower, Chicago

**There Have Been Numerous Unsuccessful Attempts by Terrorists to Attack the US Over the Past 2 Years**

# Workers Compensation Combined Ratio: 1994–2011P



**Workers Comp Results Can Be Materially Influenced by Terrorism Activity**



# Insured Loss Estimates: Large CNBR Terrorist Attack (\$ Bill)

Type of Coverage	New York	Washington	San Francisco	Des Moines
Group Life	\$82.0	\$22.5	\$21.5	\$3.4
General Liability	14.4	2.9	3.2	0.4
<b>Workers Comp</b>	<b>483.7</b>	<b>126.7</b>	<b>87.5</b>	<b>31.4</b>
Residential Prop.	38.7	12.7	22.6	2.6
Commercial Prop.	158.3	31.5	35.5	4.1
Auto	1.0	0.6	0.8	0.4
<b>TOTAL</b>	<b>\$778.1</b>	<b>\$196.8</b>	<b>\$171.2</b>	<b>\$42.3</b>

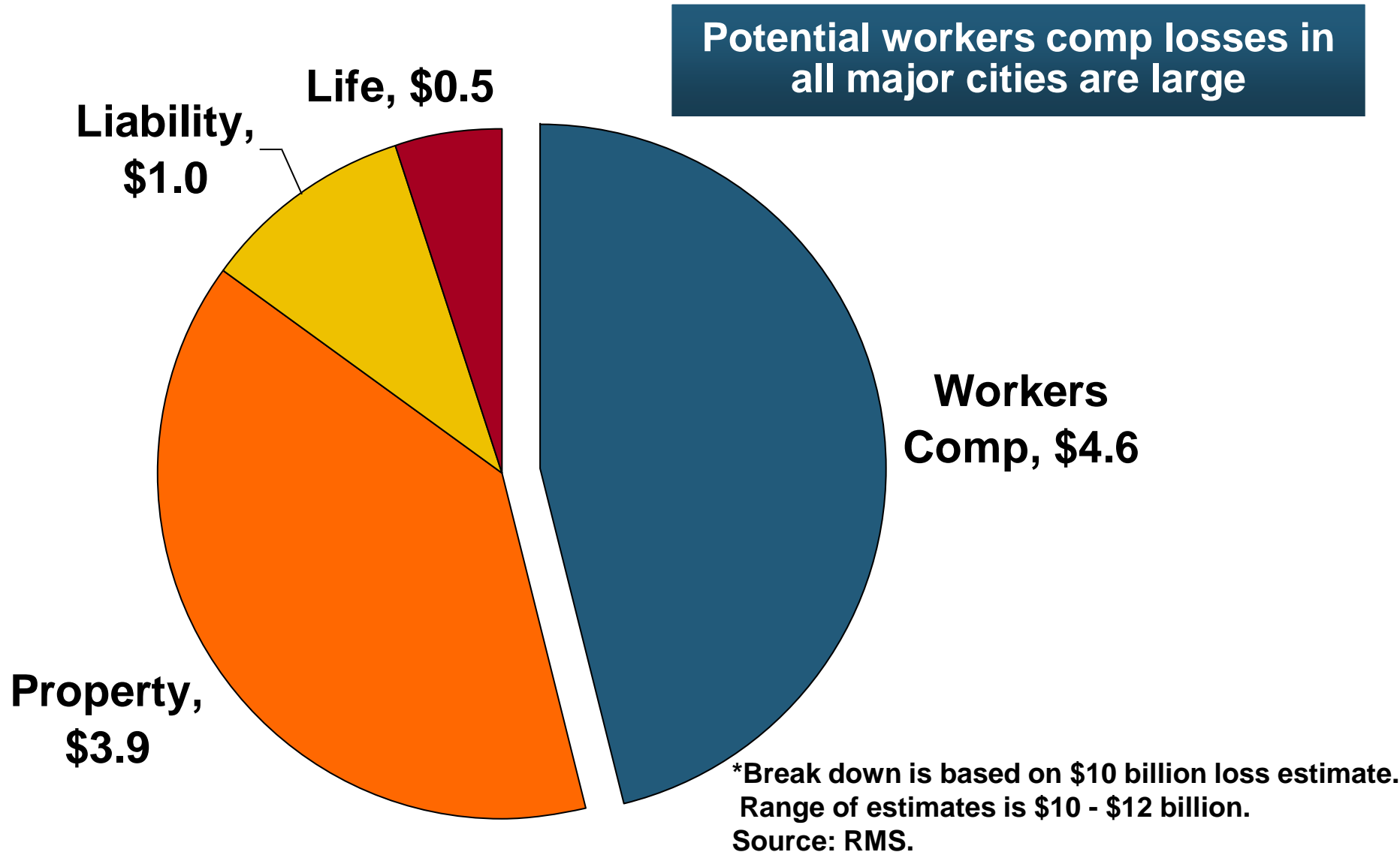
**Workers Comp is and Remains the Most Vulnerable  
of All P/C Lines, Despite Killing of Bin Laden**

# Insured Loss Estimates: Truck Bomb Terrorist Attack (\$ Bill)

Type of Coverage	New York	Washington	San Francisco	Des Moines
Group Life	\$0.3	\$0.2	\$0.3	\$0.1
General Liability	1.2	0.4	0.7	0.2
Workers Comp	<b>3.5</b>	<b>2.8</b>	<b>3.9</b>	<b>1.5</b>
Residential Prop.	0.0	0.0	0.0	0.0
Commercial Prop.	6.8	2.1	3.9	1.2
Auto	0.0	0.0	0.0	0.0
<b>TOTAL</b>	<b>\$11.8</b>	<b>\$5.5</b>	<b>\$8.8</b>	<b>\$3.0</b>

**Workers Comp is and Remains the Most Vulnerable  
of All P/C Lines, Despite Killing of Bin Laden**

# Potential Insured Losses from Terrorist Attack on Major Corporate HQ in Houston



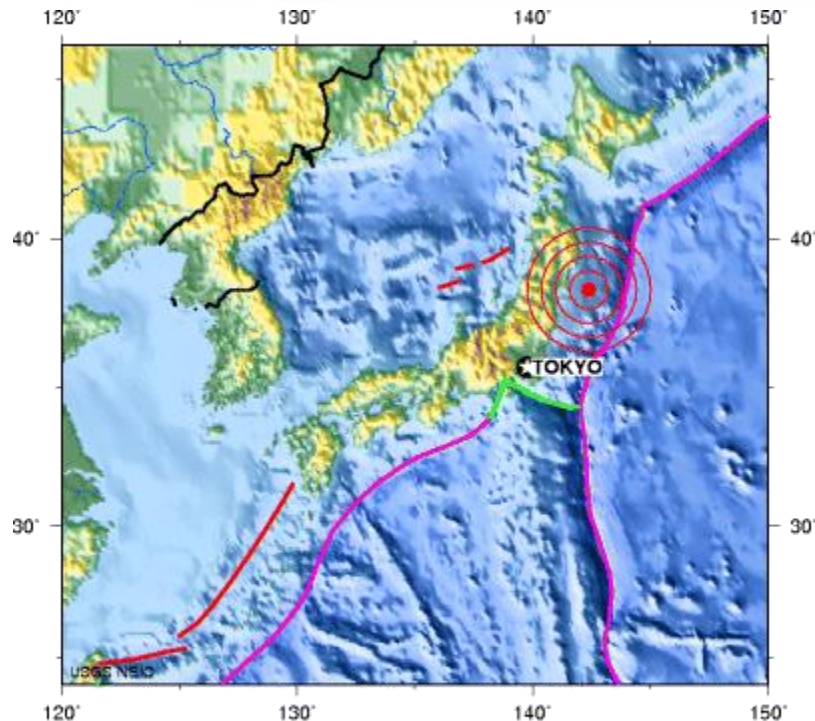
# Workers Compensation, Terrorism Risk Insurance and bin Laden's Death

- **Bin Laden's Killing, at Least in the Short Run, Could Actually Increase Risk as Al Qaeda's Sympathizers Seek to Avenge His Death**
  - ◆ US State Department: "Enhanced potential for anti-American violence."
- **Longer-Run Impact is Unclear**
  - ◆ Al Qaeda has many splinter groups
  - ◆ Current Mideast conflicts (e.g., Libya/Qaddafi attack) could increase risk
- **Domestic/Home Grown Terror Risk Looms Large Today than in 2001**
  - ◆ Several potentially severe attacks have been thwarted
- **Challenge to Maintain Terrorism Risk Insurance Program through 2014**
  - ◆ Will the Administration try to scale TRIPRA back under budget pressure using bin Laden's death as the rationale?
- **Will a Lack of Attacks, Death of bin Laden Influence Terrorism Risk Insurance Program Renewal Debate Ahead of 2014 Expiration?**
  - ◆ Narrowing of coverage (WC is the least likely of lines to be excluded)
  - ◆ Increased private insurer retention relative to federal government backstop
- **TRIA and Its Successors: Economic Stimulus Programs that Have Cost the Government Nothing**
  - ◆ Programs promote employment, construction and investment

# **Summary of Japan Earthquake & Impacts on US P/C Markets**

**The March 11 Quake & Other Major  
CATs Are Big Events, But Will They,  
Can They Impact US P/C Markets?**

# Location of March 11, 2011 Earthquake Near Sendai, Honshu, Japan



NEAR EAST COAST OF HONSHU, JAPAN

2011 03 11 05:46:23 UTC 38.32N 142.37E Depth: 24.4 km

Earthquake Location

## LOCATION

130 km (80 miles) E of **Sendai, Honshu, Japan**  
178 km (110 miles) E of **Yamagata, Honshu, Japan**  
178 km (110 miles) ENE of **Fukushima, Honshu, Japan**  
373 km (231 miles) NE of **TOKYO, Japan**

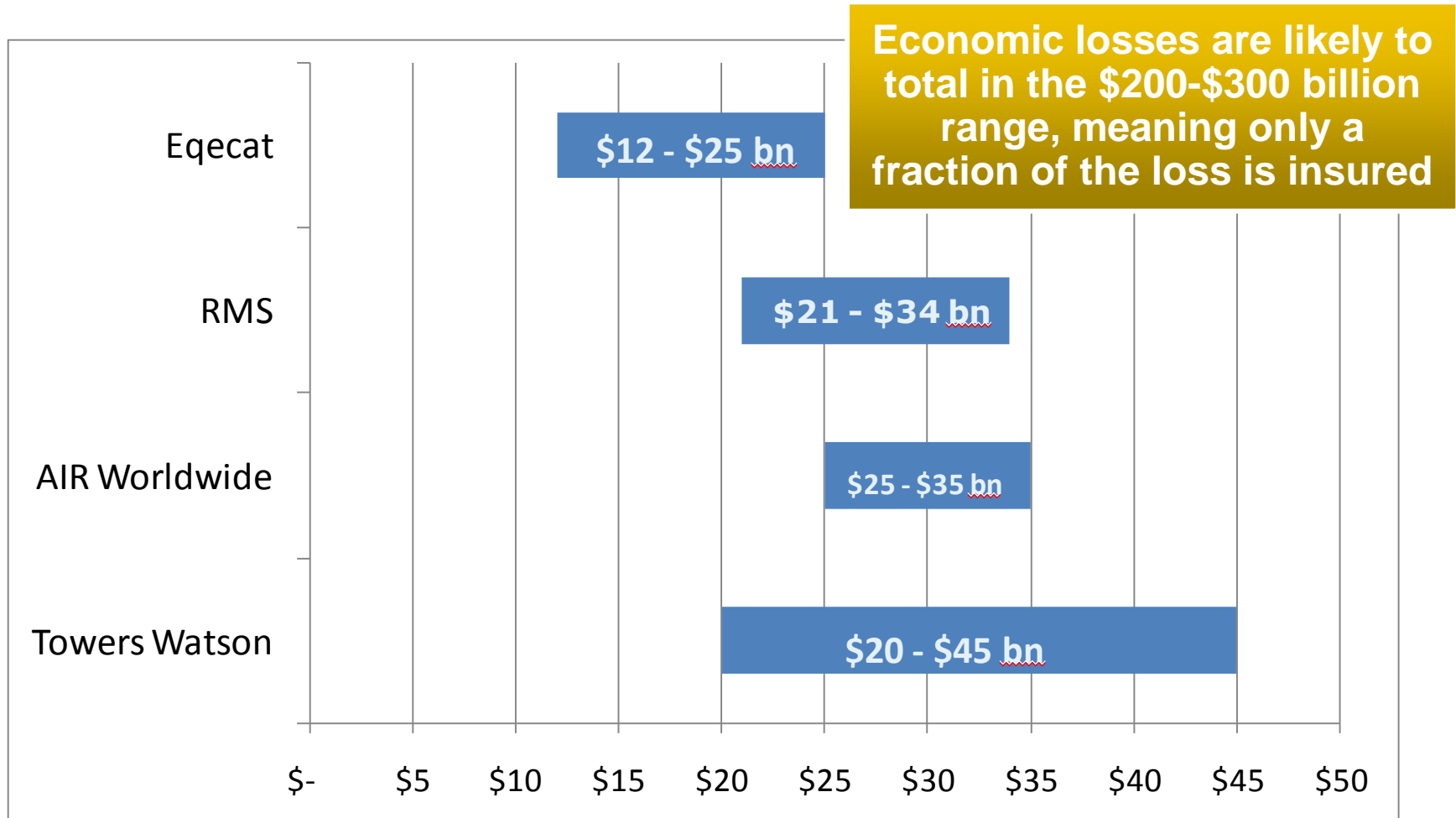
Source: US Geological Service; Insurance Information Institute.

## March 11 Earthquake Facts as of 4/21/2011

- Magnitude 9.0 earthquake struck Japan at 2:46PM local time (2:46AM Eastern) off northeast coast of Honshu, 80 miles east of Sendai
- Quake is among the 5 strongest in recorded history and the strongest in the 140 years for which records have been kept in Japan
- 12,000+ fatalities
- Economic loss: \$100 - \$300 bn
- Insured losses up to \$45 bn
- Fukushima Nuclear Plant threat level raised to Category 7 on April 11 (highest, same as Chernobyl)
- Significant tsunami damage was recorded in Japan; relatively minor damage on the U.S. West Coast

# Insured Japan Earthquake Loss Estimates\*

(Insured Losses, \$ Billions)



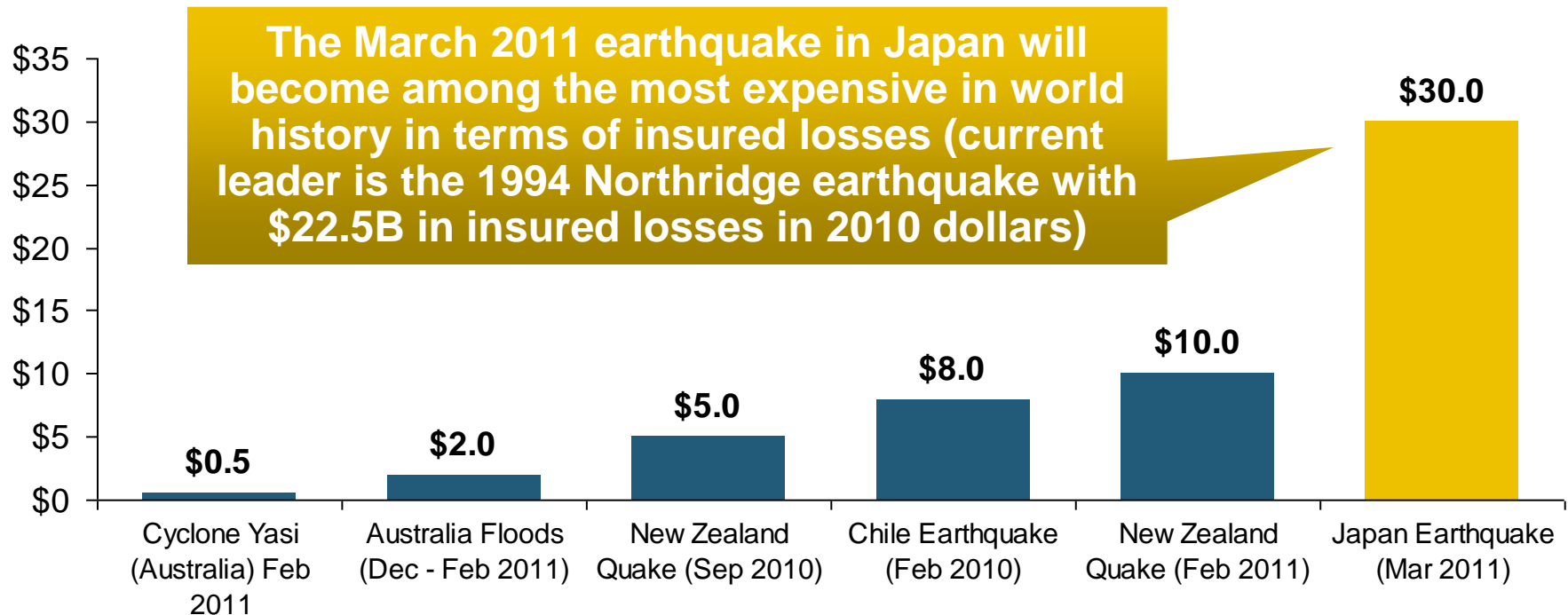
\*As of April 21, 2011. Towers Watson estimate includes \$3.0 (low) to \$4.9 billion (high) in life insurance losses. RMS estimate includes insured life/health losses of \$3 to \$8 billion.

Sources: AIR Worldwide, Eqecat, RMS, Towers Perrin; Insurance Information Institute.



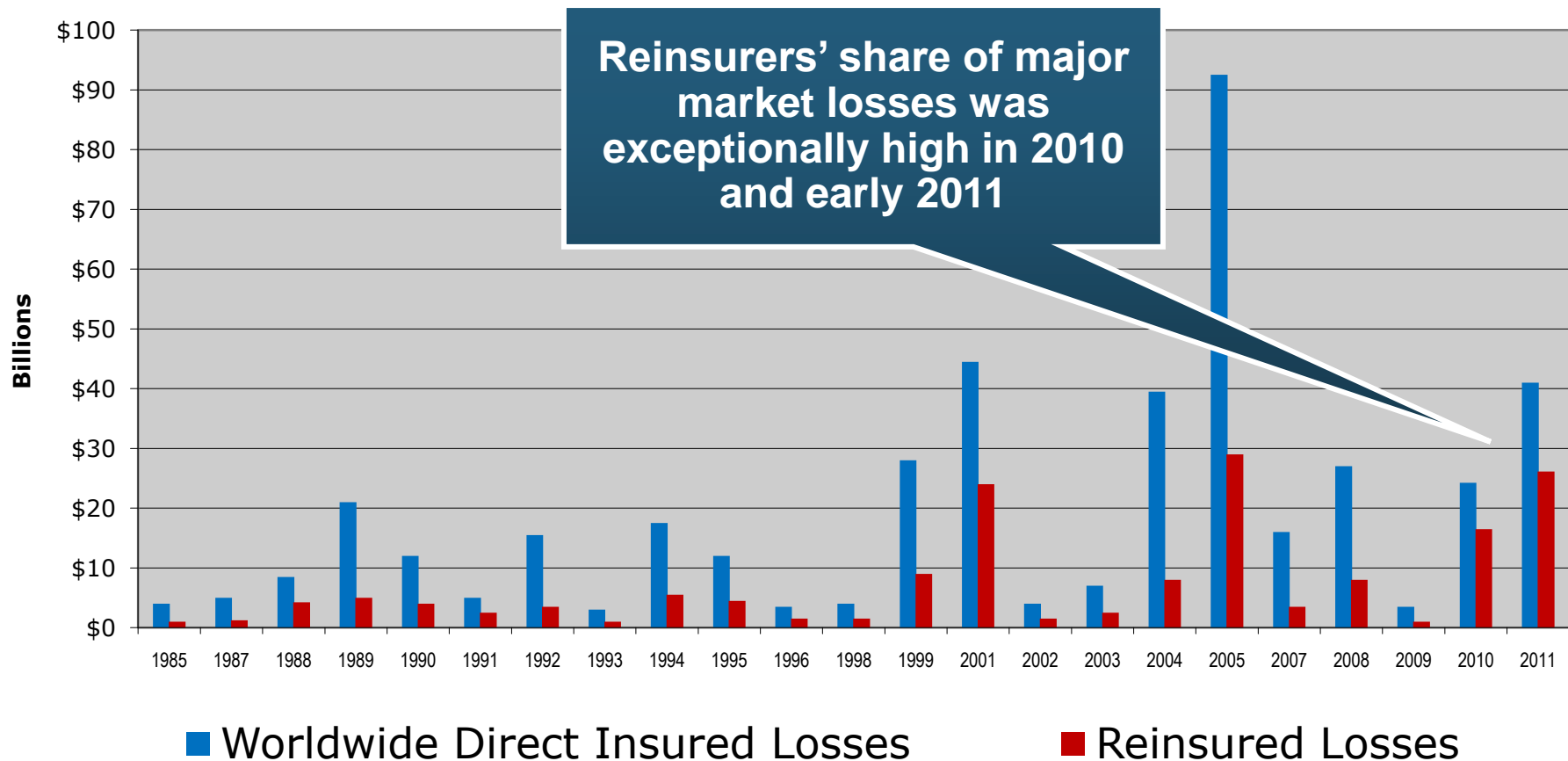
# Recent Major Catastrophe Losses

(Insured Losses, \$US Billions)



**Insured Losses from Recent Major Catastrophe Events Exceed \$55 Billion, an Estimated \$53 Billion of that from Earthquakes**

# Significant Market Losses, 1985-2011\*

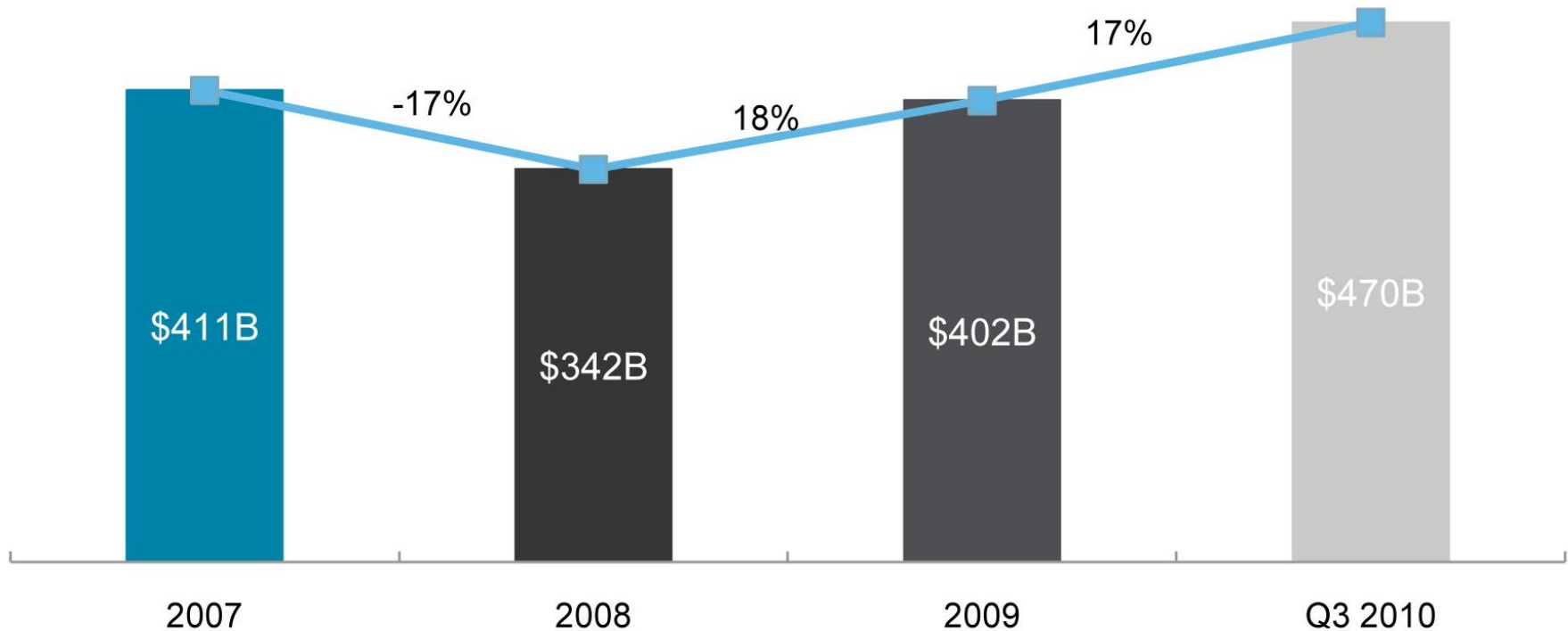


Source: Holborn; RAA.

\* 2011 events are as of March 31 and are preliminary and may change as loss estimates are refined further.

# Change in Reinsurer Capital, 2007-2010:Q3

## Change in Reinsurer Capital



Source: Aon Benfield Analytics

# **Potential Impacts of Japan Quake & Other Major CATs on P/C (Re)Insurance Markets**

## **Impacts Could Be Felt Well Beyond Japan**

# Nonlife (P/C) Insurance Market Impacts of Japan Earthquake

- **No Impact for US Workers Compensation Markets**
- **Primary Insurance: Domestic Japanese Insurers Take Big Losses**
- **Few US/Foreign Insurers Had Direct Exposure to Japanese P/C Market**
  - ◆ Low single-digit market share for a small number of companies
  - ◆ Not a capital event for any non-Japanese primary insurer
- **Significant Absorption of Loss by Japanese Government**
  - ◆ Residential earthquake damage
  - ◆ Nuclear-related property and liability damage
- **Significant Impacts for Global Reinsurers**
  - ◆ Property-Catastrophe covers on Commercial Lines
  - ◆ Business Interruption/Contingent Business Interruption
- **Currently an Earnings Event for Global Reinsurers**
  - ◆ Not a capital event: Global reinsurance markets entered 2011 with record capital
- **Cost of Property/Cat Reinsurance Rising in Japan, New Zealand, Australia**
  - ◆ Up for all; Magnitude of increase is sensitive to size of loss
- **Reinsurance Coverage Remains Available in Affected Regions**
- **Marginal Impact of Cost of US Property-Cat Reinsurance**
  - ◆ Market remains well capitalized and competitive
  - ◆ *Elevated global cat activity could halt price declines for property/cat reinsurance*

**What a Tumultuous Year It Has  
Been for the US Economy!**

**Labor Market Challenges Are the  
Root of Most Exposure Growth  
Challenges—Especially in WC**

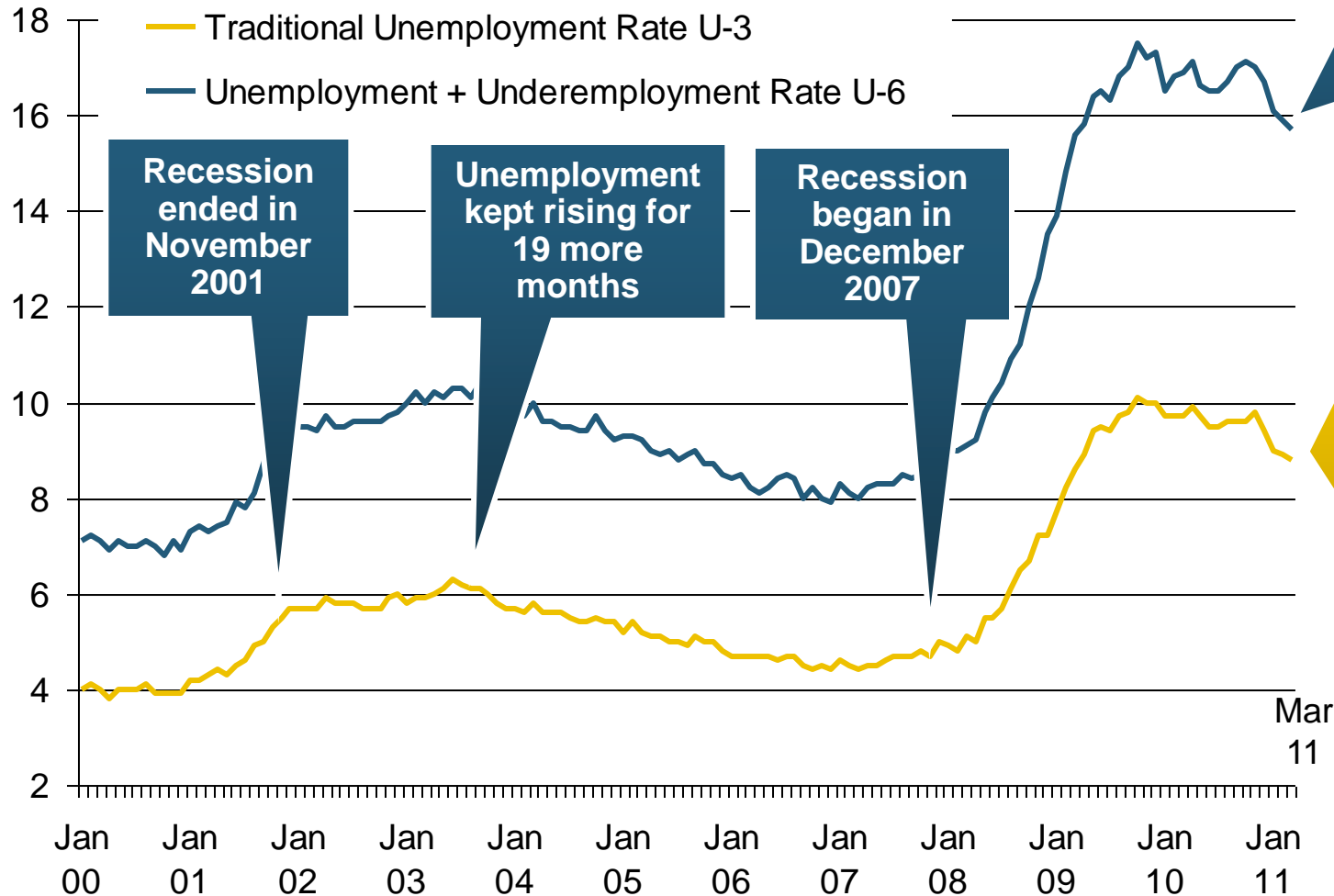
# **Labor Market Trends**

**Massive Job Losses Sapped the  
Economy and P/C Exposure, But  
Trend is Improving**



# Unemployment and Underemployment Rates: Falling Faster in 2011?

January 2000 through March 2011, Seasonally Adjusted (%)



U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 15.7% in March 2011

Unemployment rate fell to 8.8% in March

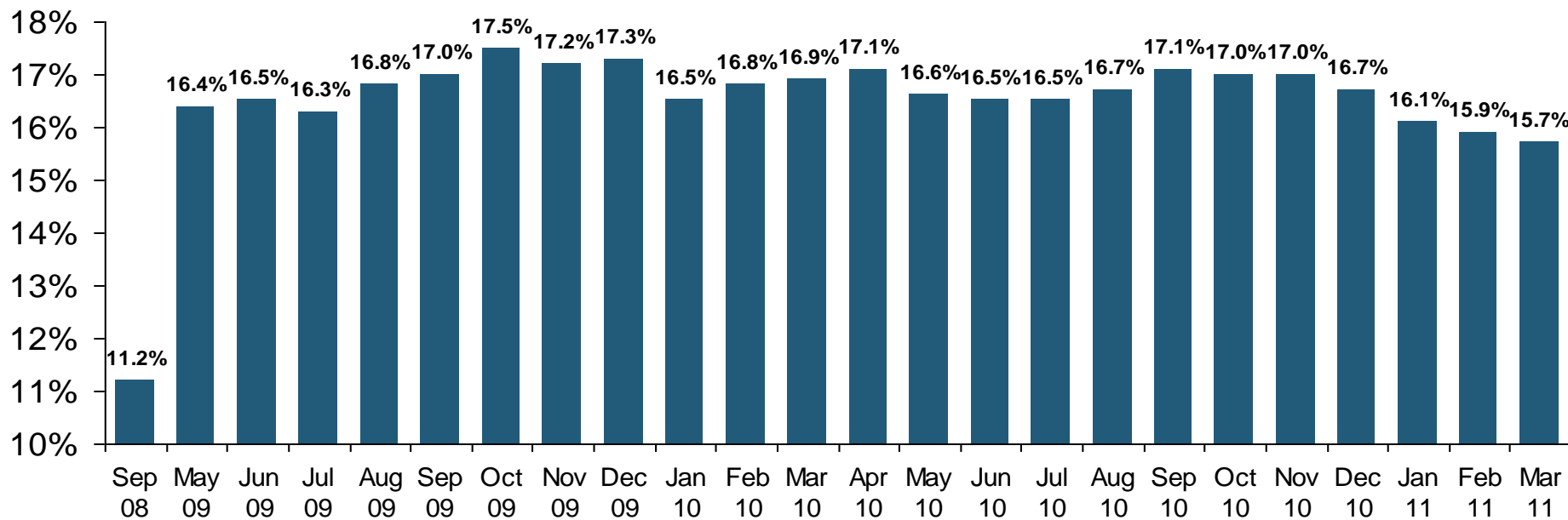
Unemployment peaked at 10.1% in October 2009, highest monthly rate since 1983.

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

**Stubbornly high unemployment and underemployment will constrain payroll growth, which directly affects WC exposure**

# Labor Underutilization: Broader than Just Unemployment

## % of Labor Force



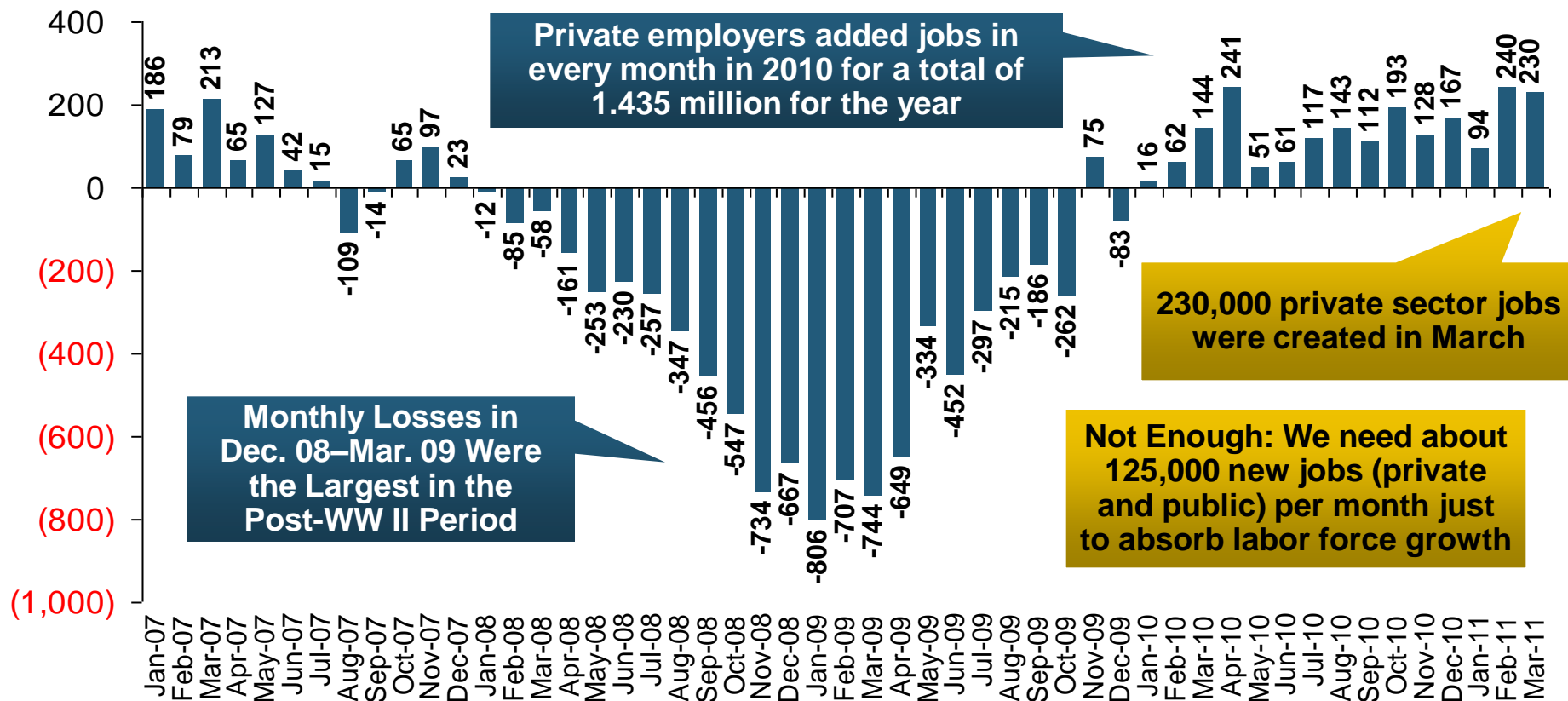
**Marginally Attached and Unemployed Persons Account for 15.7% of the Labor Force in March 2011 (1 Out Every 6.4 People). Unemployment Rate Alone was 8.8%. Underutilization Shows a Broader Impact on WC and Other Commercial Exposures**

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.

# Monthly Change in Private Employment

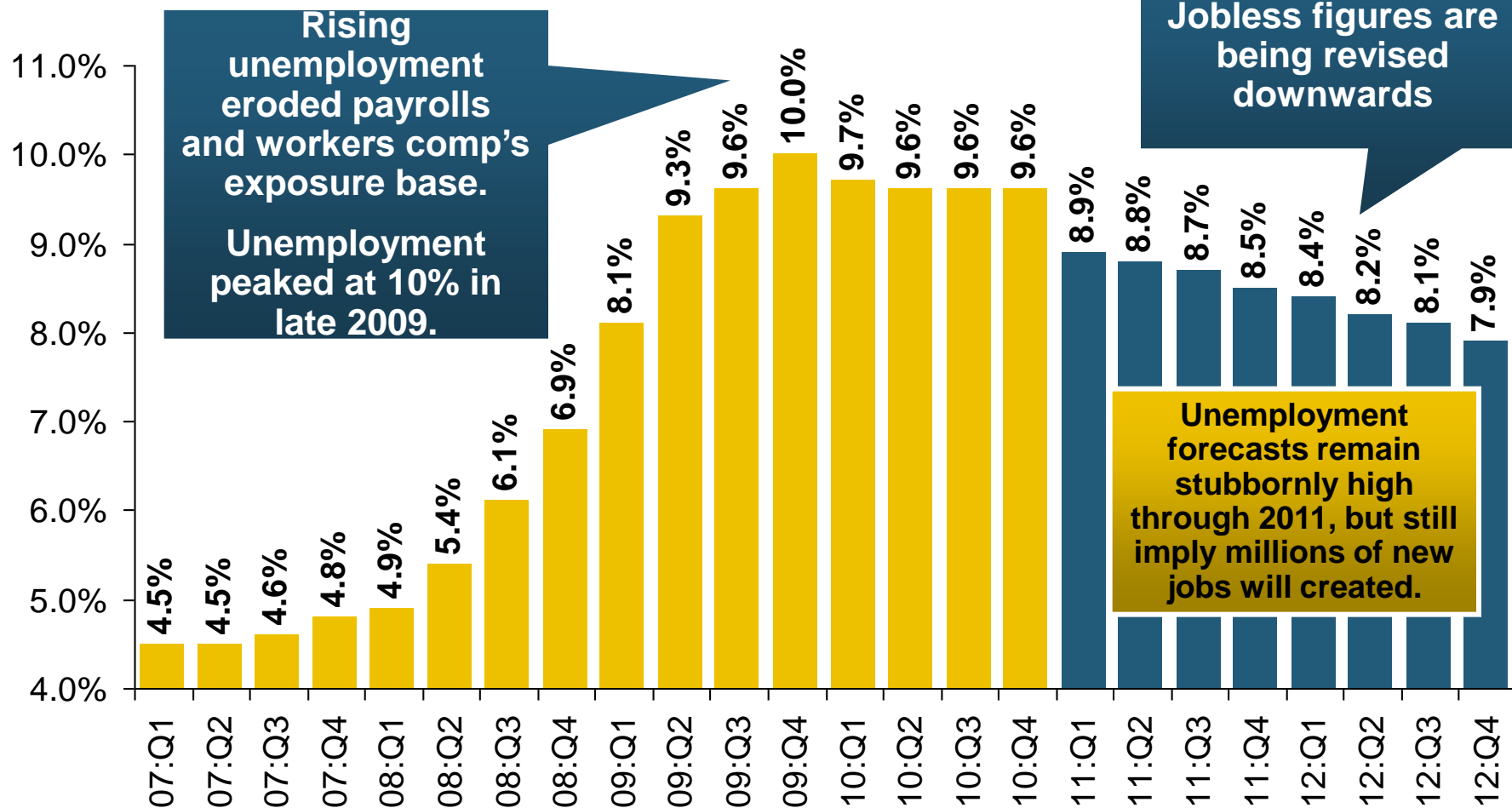
January 2008 through March 2011\* (Thousands)



**Private Employers Added 1.999 million Jobs Since Jan. 2010 After Having Shed 4.66 Million Jobs in 2009 and 3.81 Million in 2008 (Local Govt. Employment is Down 416,000 Since Sept. 2008 Peak)**

# US Unemployment Rate

2007:Q1 to 2012:Q4F\*

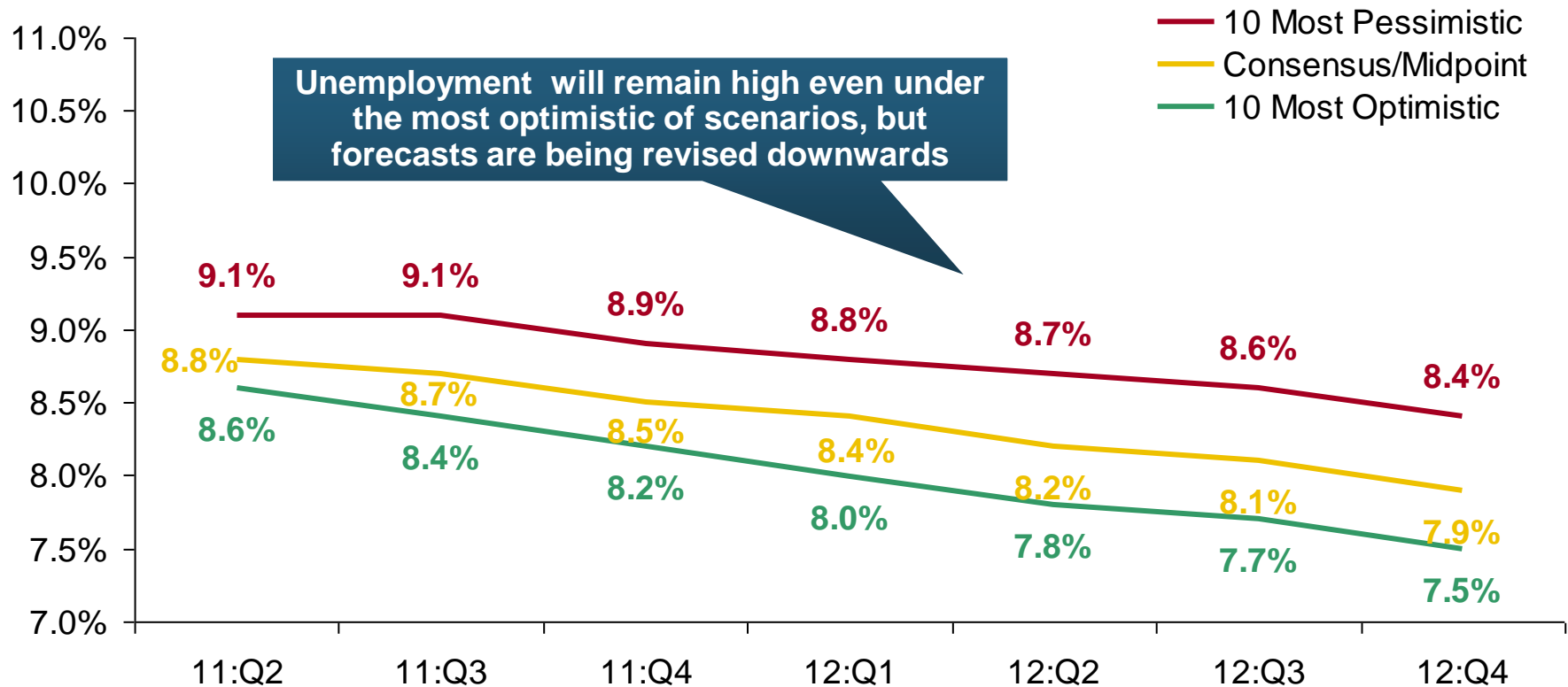


\* Yellow = actual; Blue = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (4/11); Insurance Information Institute

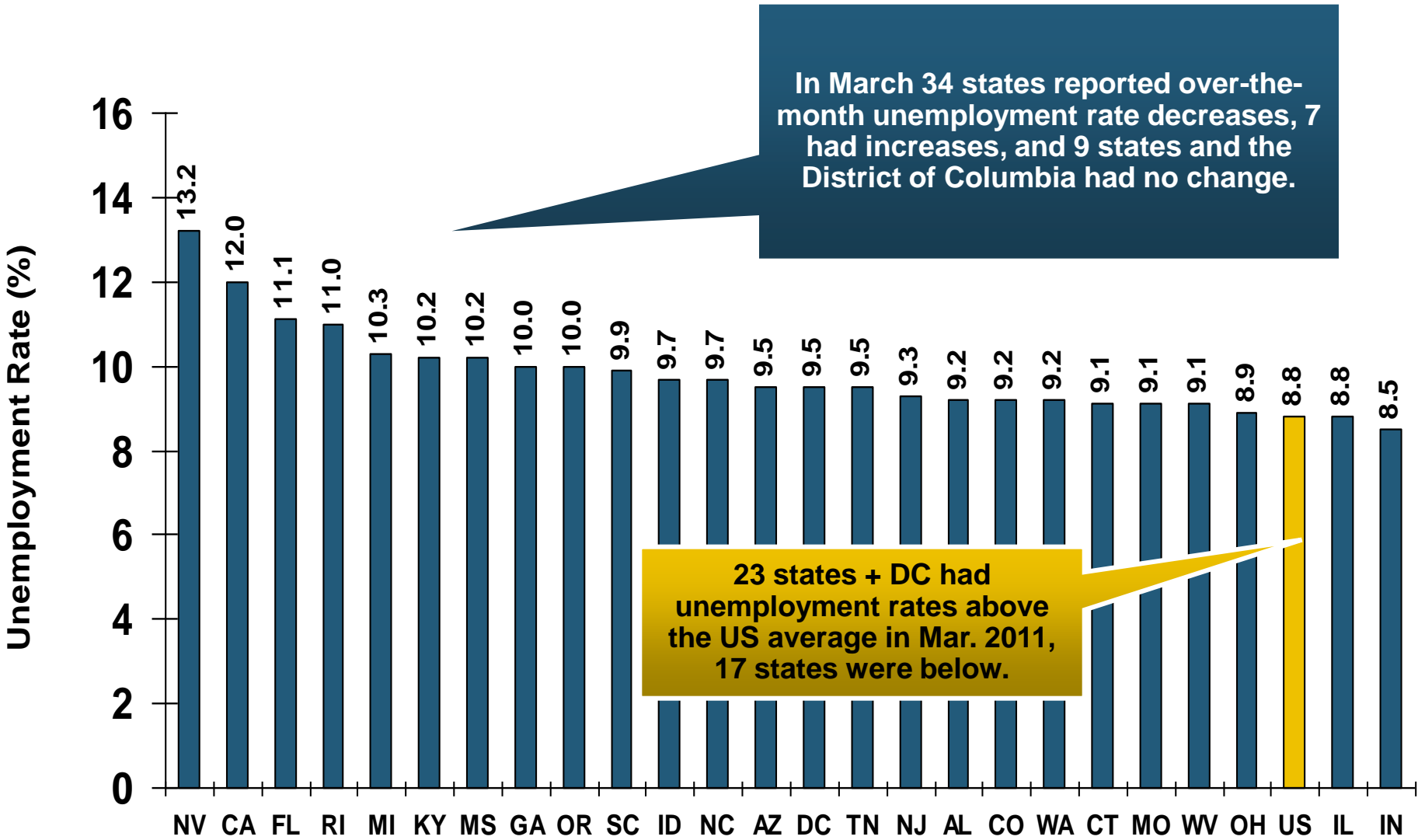
# US Unemployment Rate Forecasts

Quarterly, 2011:Q2 to 2012:Q4



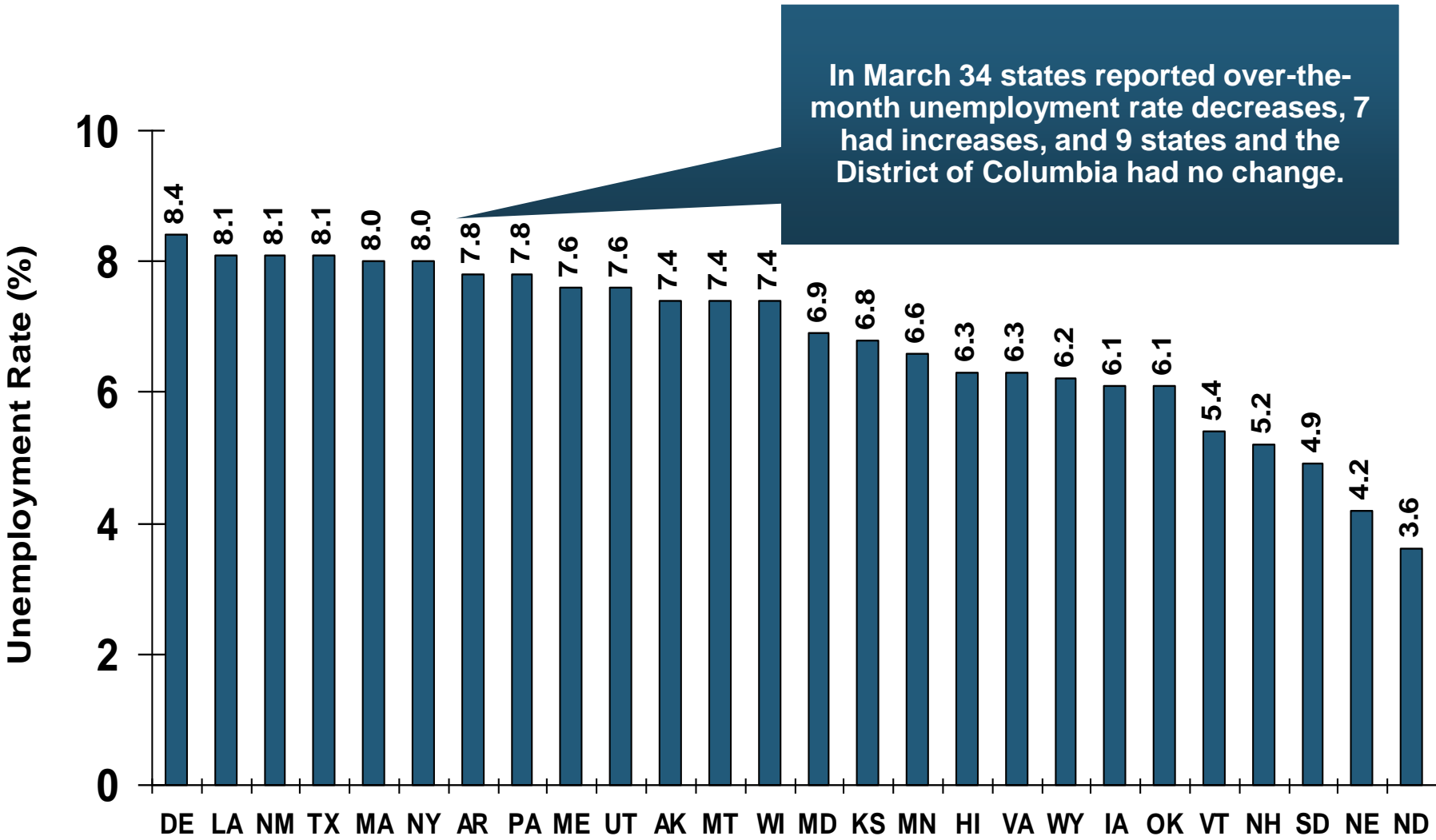
**Stubbornly High Unemployment Will Slow the Recovery of the Workers Comp Exposure Base, But Momentum Is Moving in the Right Direction**

# Unemployment Rates by State, March 2011: Highest 25 States\*



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

# Unemployment Rates By State, March 2011: Lowest 25 States\*



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



# Change in Number Employed in Select Industries, Mar. 2011 vs. Mar. 2010

Thousands

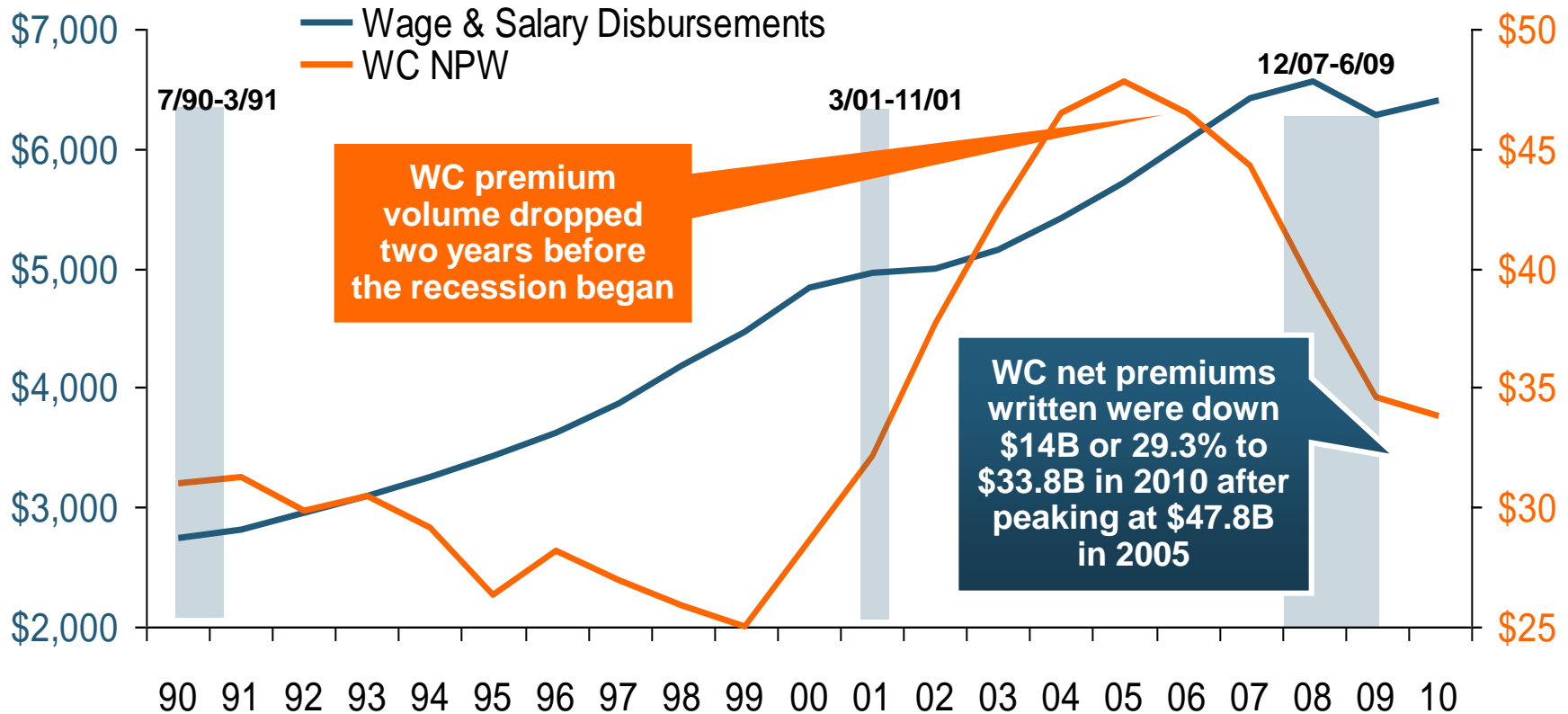


**There is a great deal of variation in employment growth by industry, indicating a very uneven and slow recovery**

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

**Payroll Base\***  
**\$Billions**

**WC NWP**  
**\$Billions**



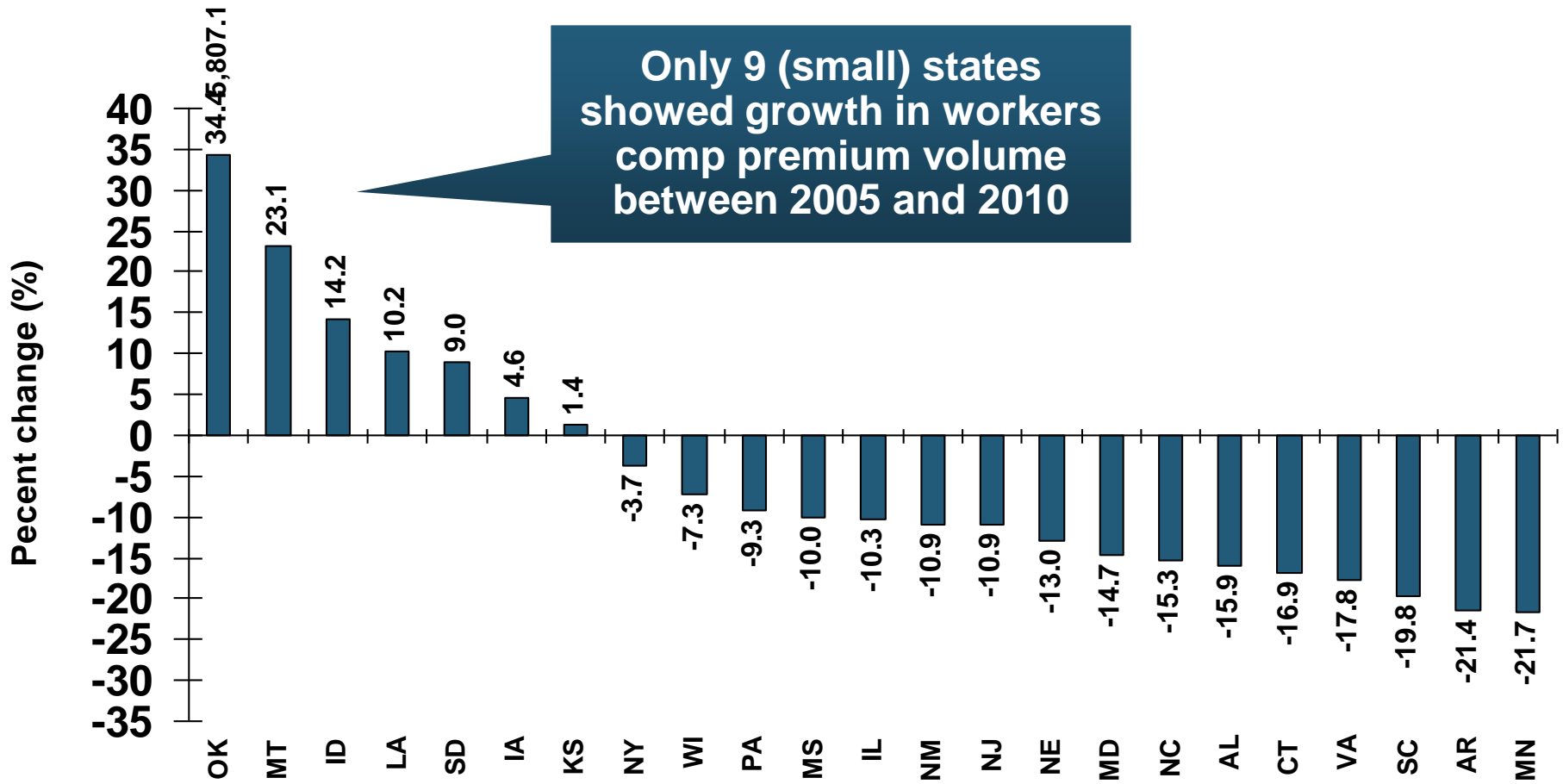
**29% of NPW has been eroded away by the soft market and weak economy**

\*Private employment; Shaded areas indicate recessions.

Sources: NBER (recessions); Federal Reserve Bank of St. Louis at <http://research.stlouisfed.org/fred2/series/WASCUR> ; NCCI; I.I.I.

# Direct Premiums Written: Worker's Comp Percent Change by State, 2005-2010\*

## Top 25 States

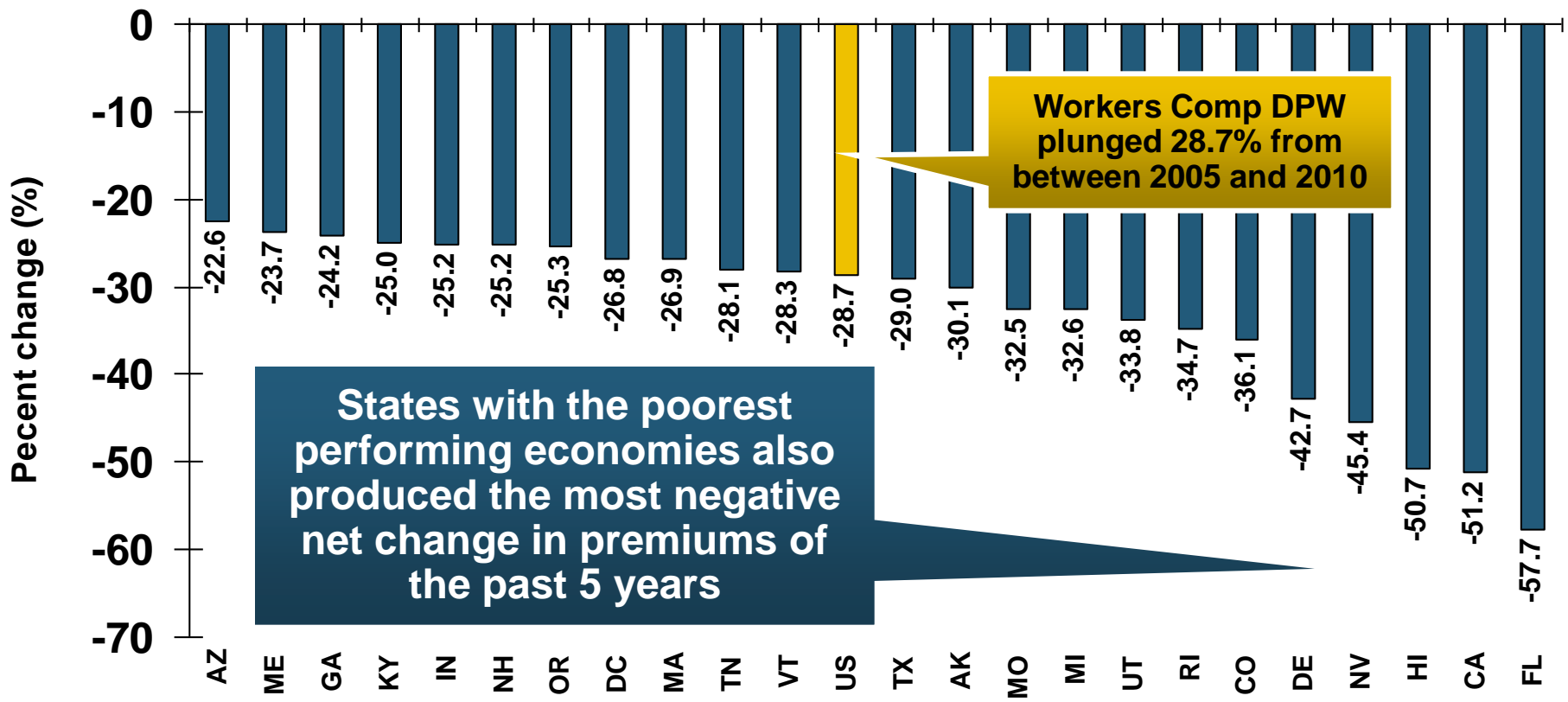


\*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

Sources: SNL Financial LC.; Insurance Information Institute.

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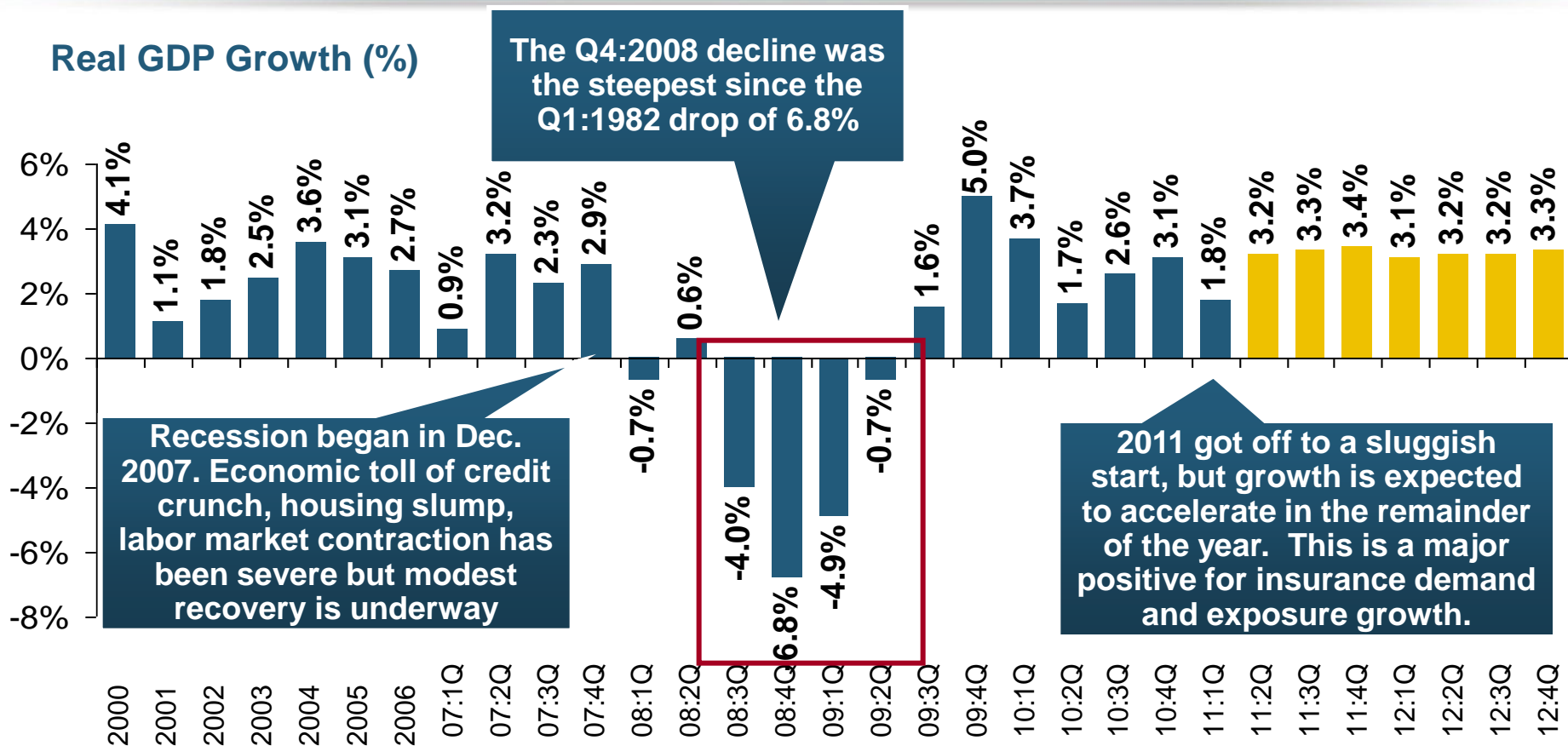
Sources: SNL Financial LC.; Insurance Information Institute.

# **Economic Impediments to Faster Growth in Workers Comp Payroll Exposures**

## **The Economy is Still Not Firing on All Cylinders**

# US Real GDP Growth\*

## Real GDP Growth (%)



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

\* Estimates/Forecasts from Blue Chip Economic Indicators.

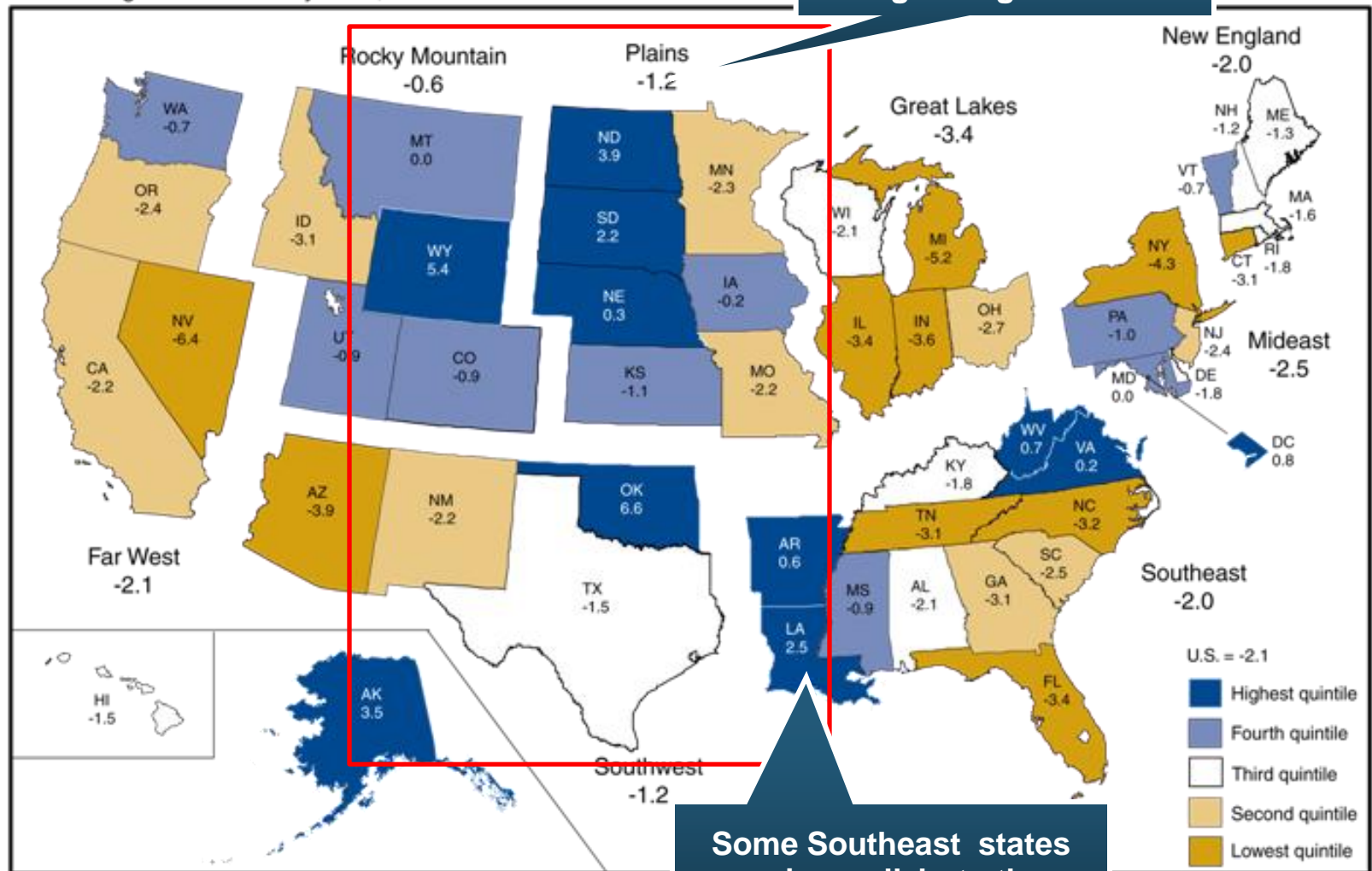
Source: US Department of Commerce, Blue Economic Indicators 4/11; Insurance Information Institute.

# 2011 Financial Overview

## State Economic Growth Varied in 2009

Mountain, Plains states  
still growing the fastest

Percent Change in Real GDP by State, 2008-2009

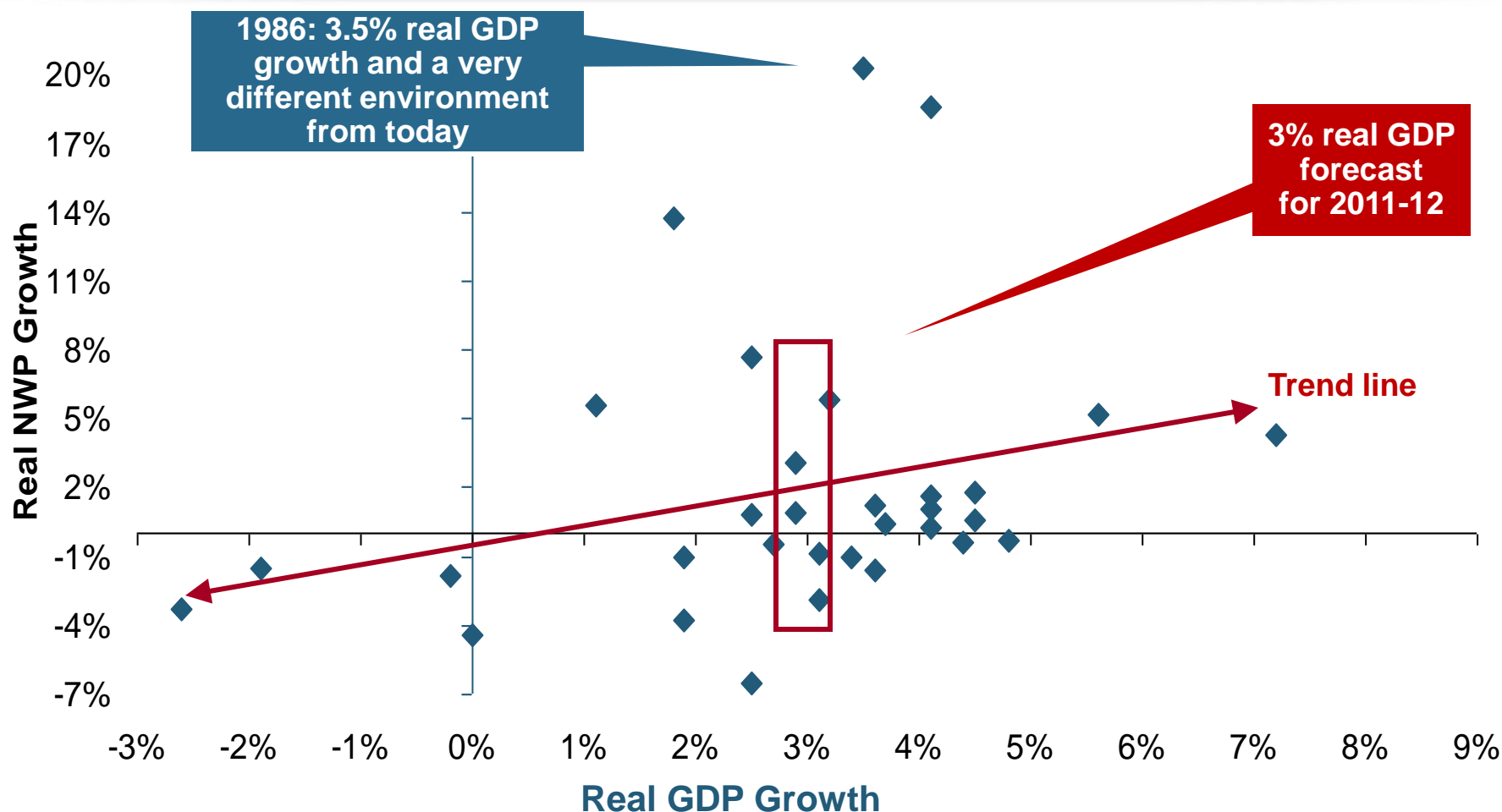


U.S. Bureau of Economic Analysis

Some Southeast states  
growing well, but others  
among the weakest



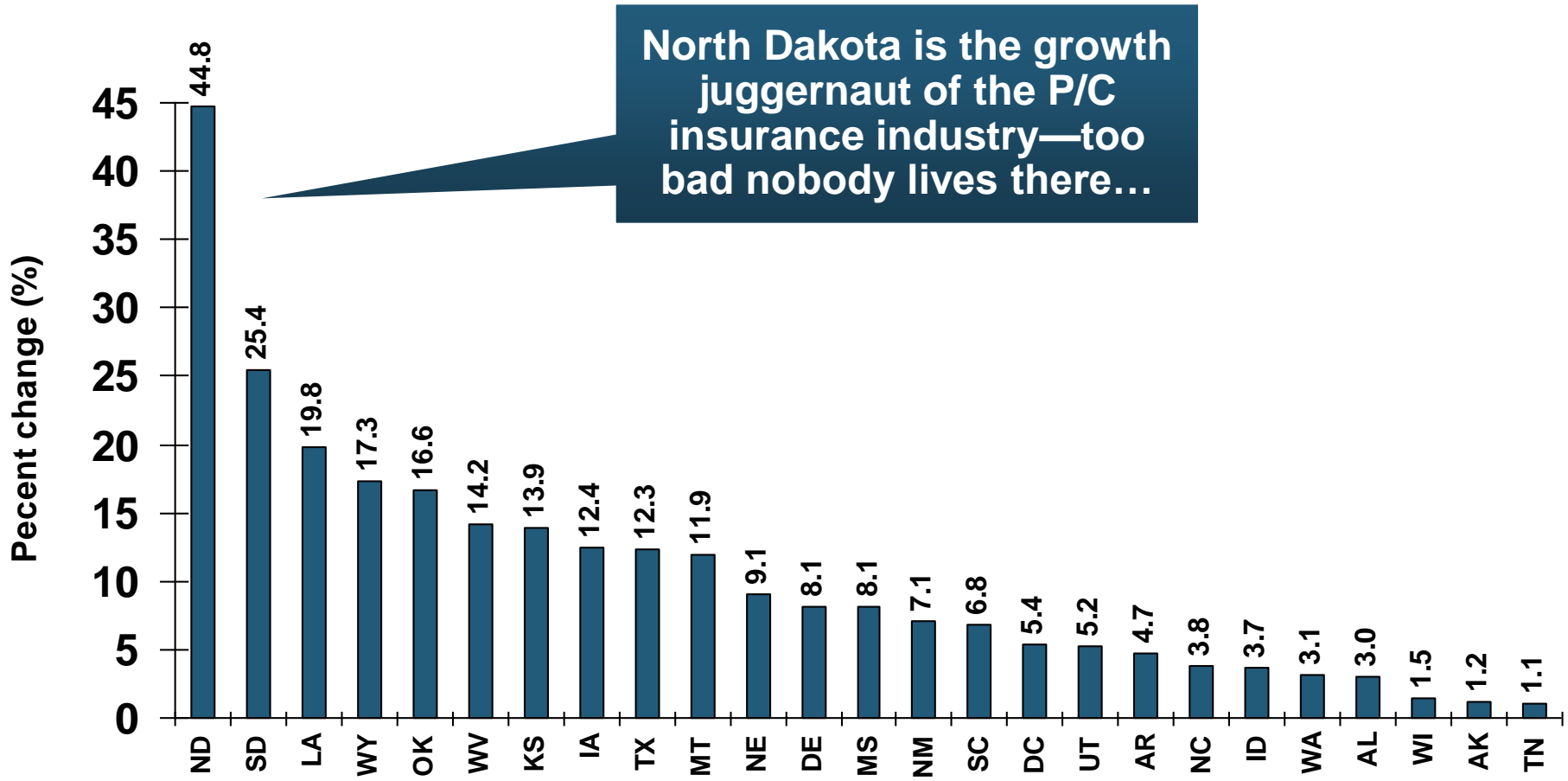
# Real GDP Growth vs. Real P/C NWP Growth: 1978-2010



When real GDP grows by about 3%, as is forecast for 2011-2012, real NWP growth has ranged from -2.9% to +5.8%

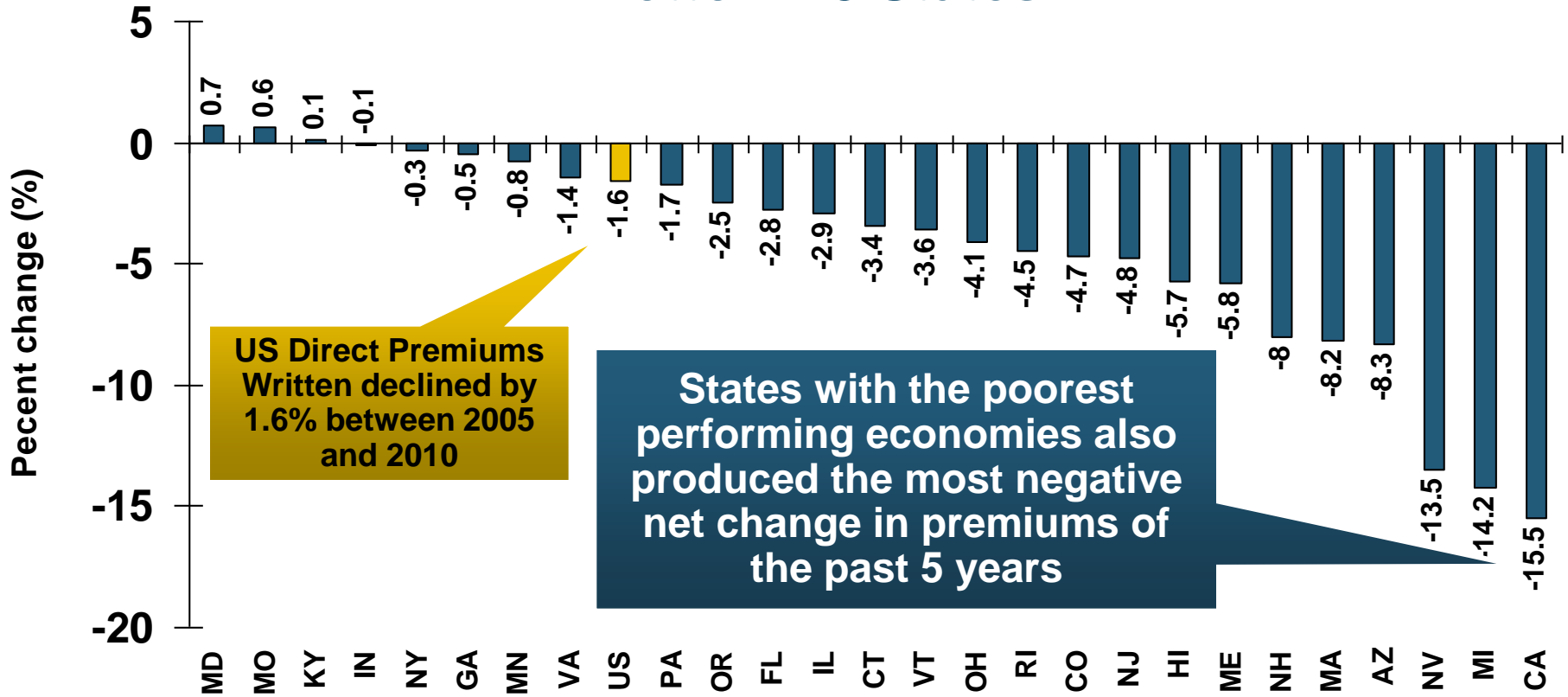
# Direct Premiums Written: All P/C Lines Percent Change by State, 2005-2010

## Top 25 States

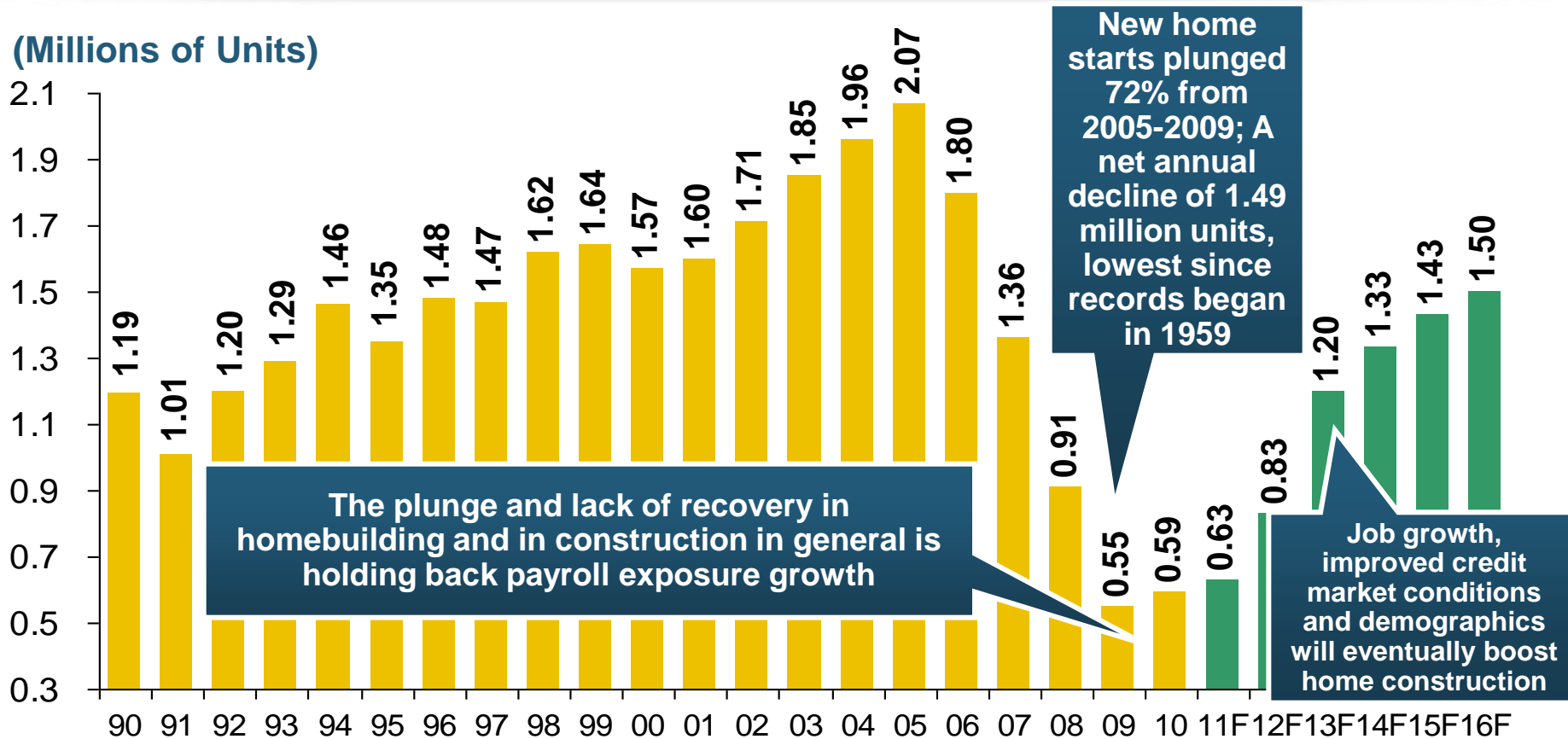


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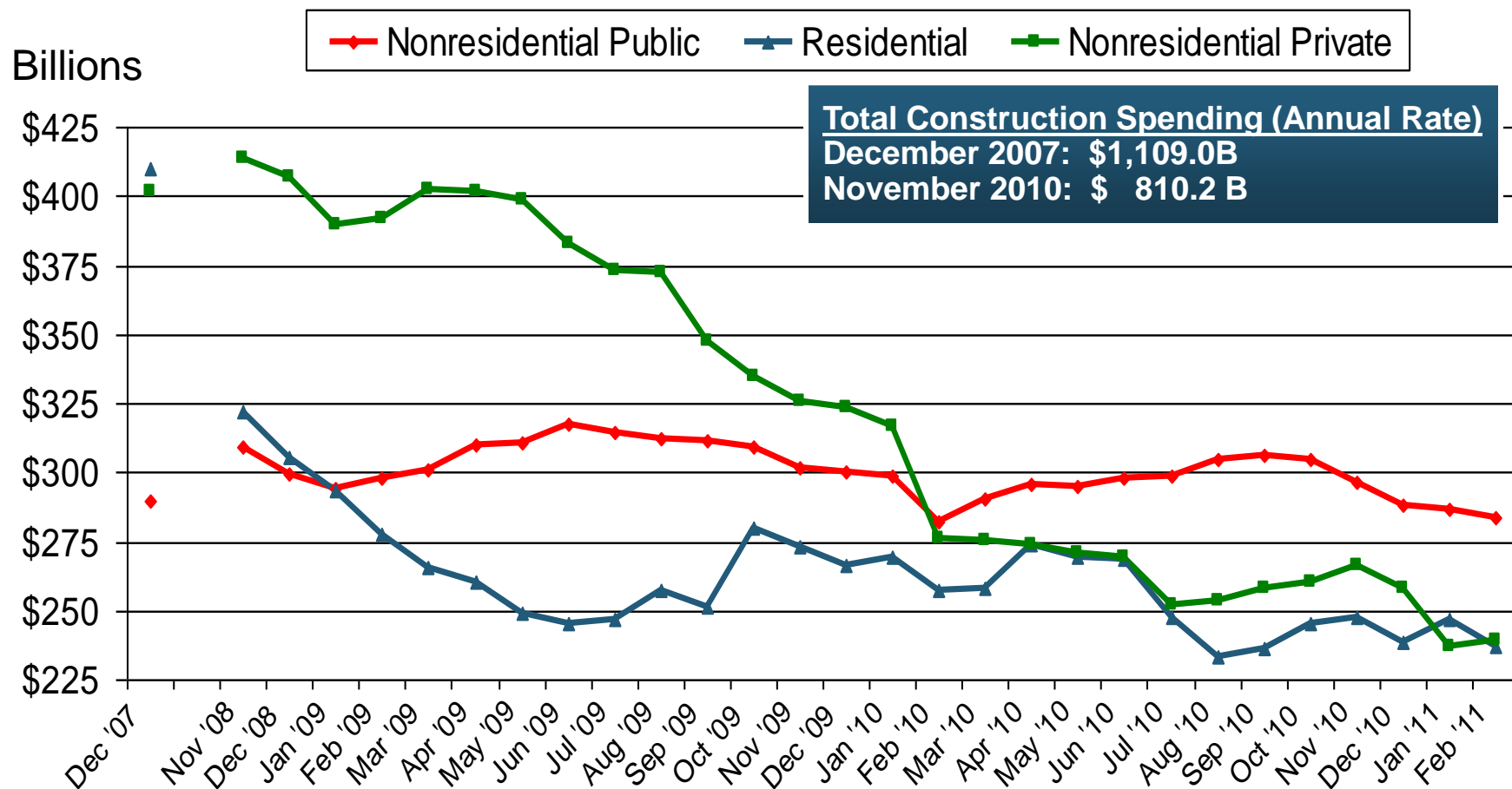


# New Private Housing Starts, 1990-2016F



**Little Exposure Growth Likely for Homeowners Insurers Until 2013.  
Also Affects Commercial Insurers with Construction Risk Exposure, Surety**

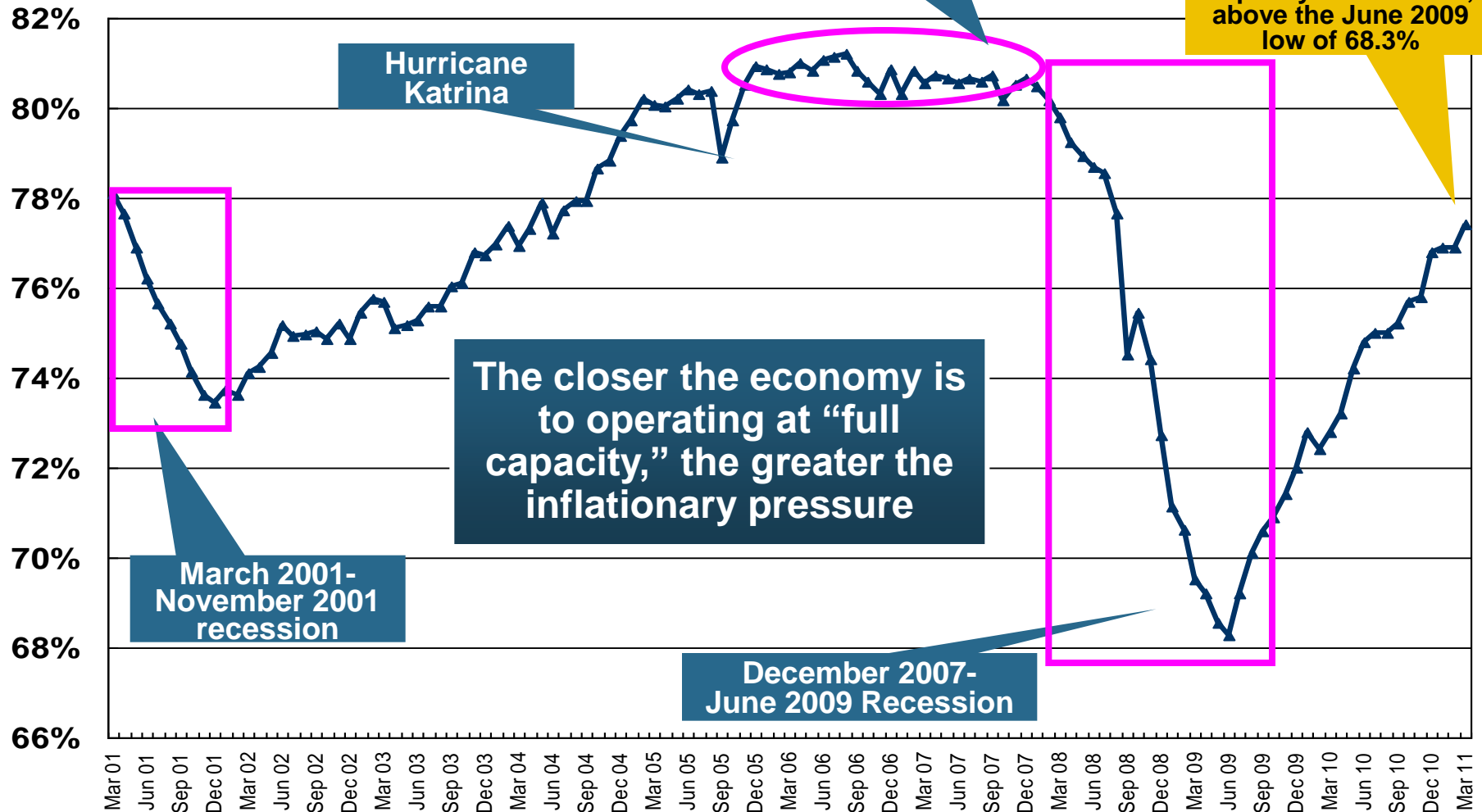
# Value\* of Construction Put In Place



**Since the recession started, private residential and nonresidential construction together are down \$300 billion (annual rate), a drop of 38%. Public construction has hardly moved.**

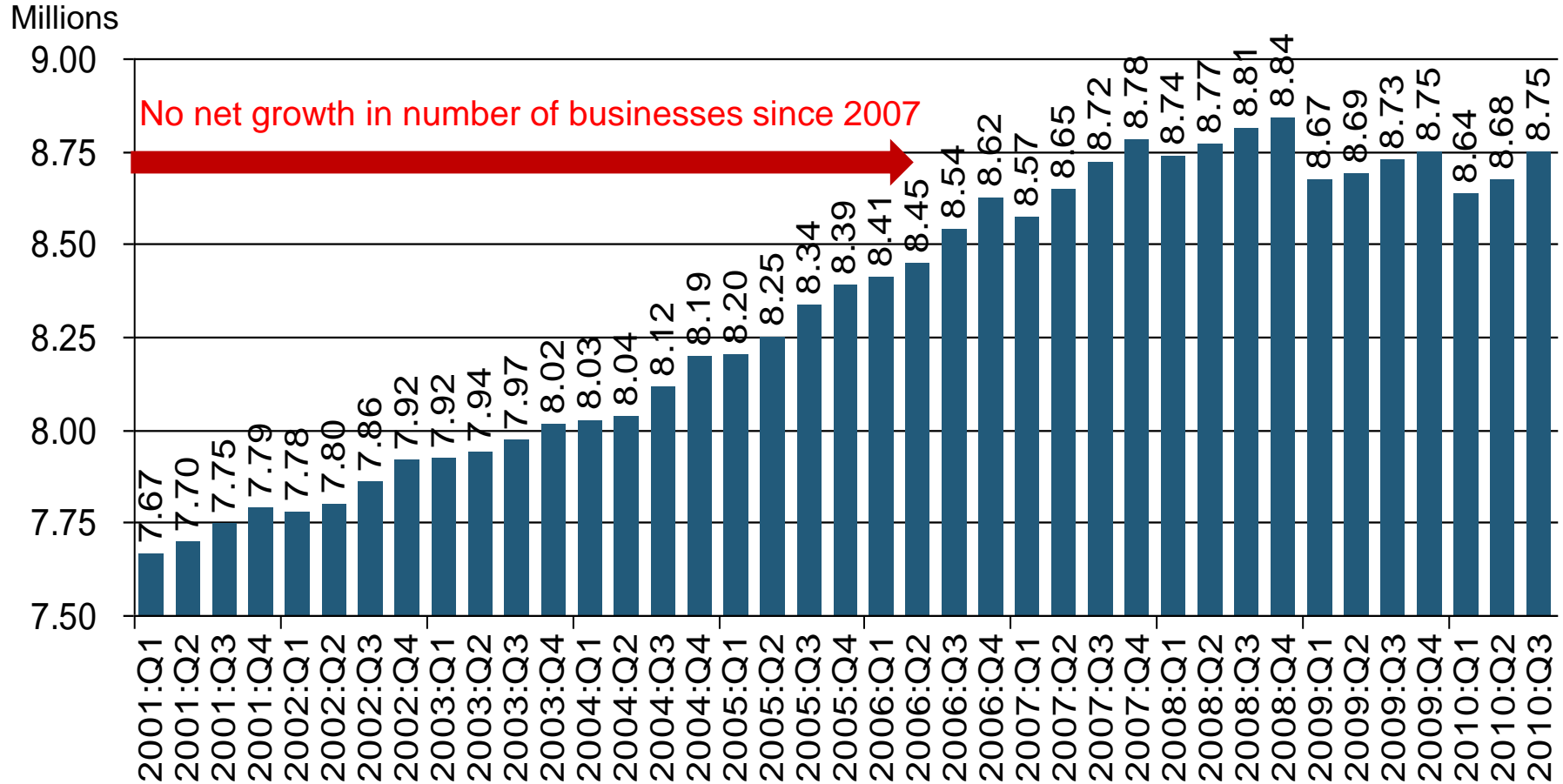
# Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures

Percent of  
Industrial Capacity



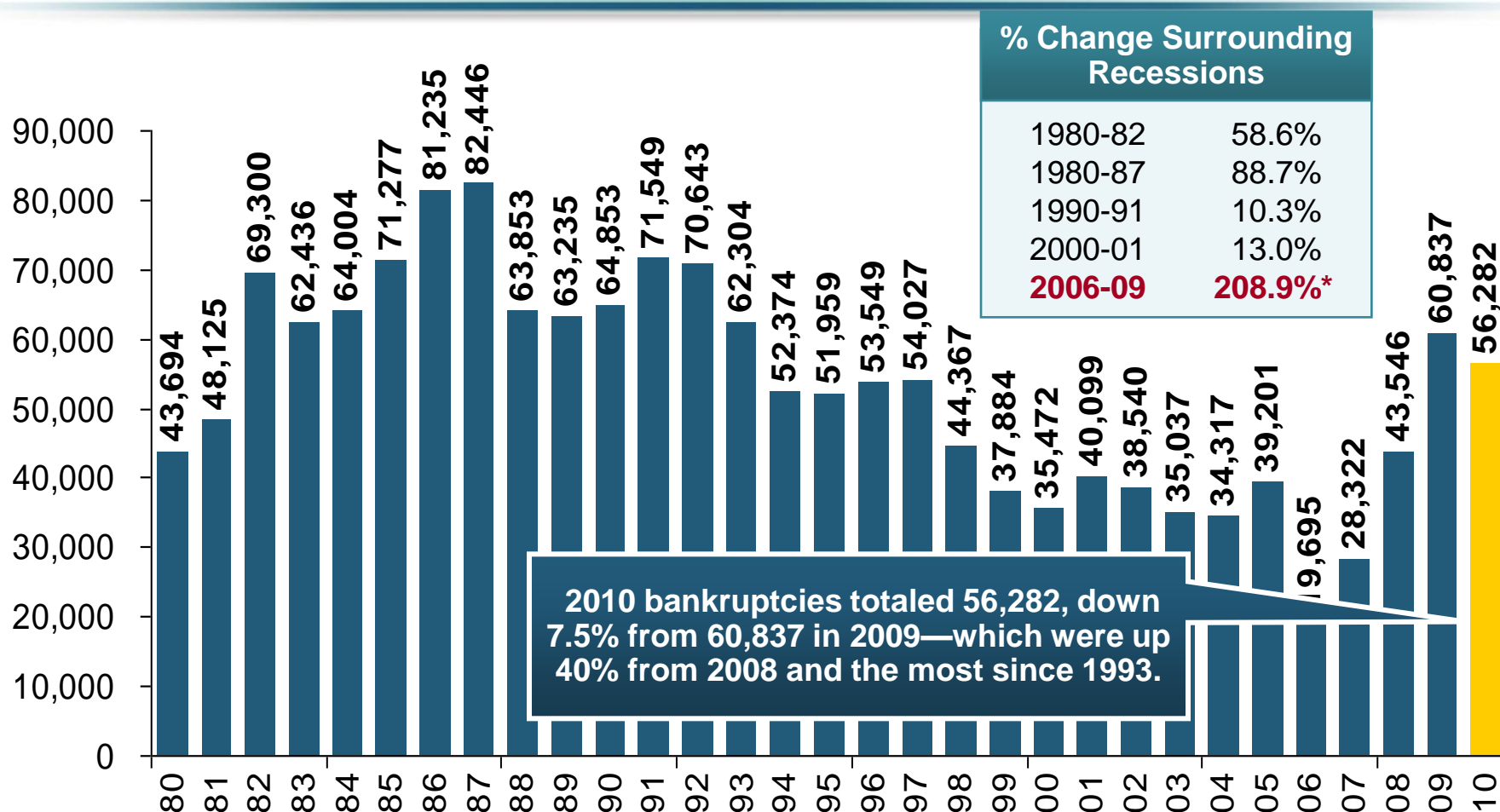
Source: Federal Reserve Board statistical releases at <http://www.federalreserve.gov/releases/g17/Current/default.htm>.

# Number of Private Business Establishments, 2001:Q1-2010:Q3



**In 2009:Q1 a net of 165,000 businesses disappeared.  
By 2010:Q3 73,000 new ones appeared,  
returning us to the level first attained three years before, in 2007:Q3.**

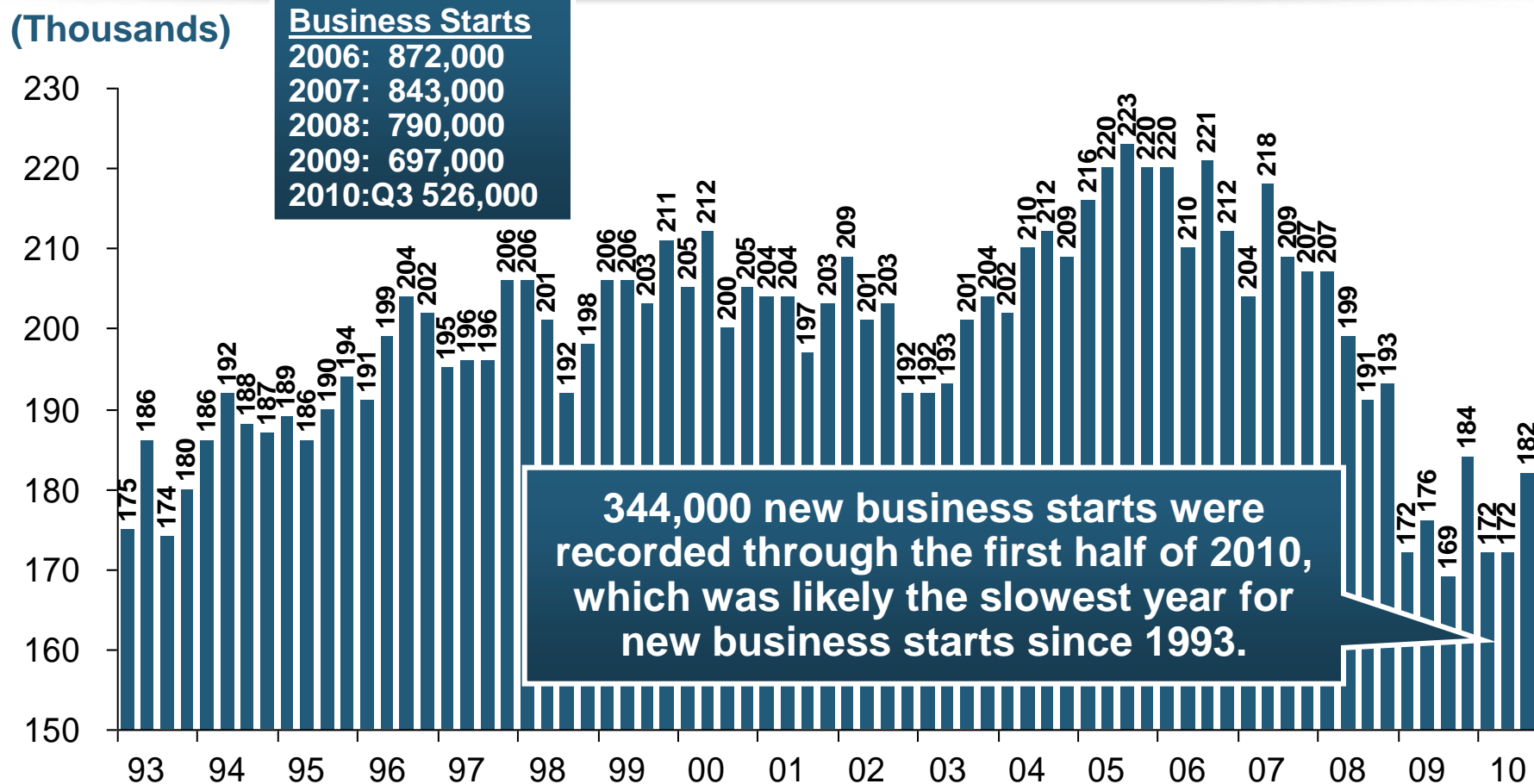
# Business Bankruptcy Filings, 1980-2010



**Significant Exposure Implications for All Commercial Lines as Business Bankruptcies Begin to Decline**



# Private Sector Business Starts, 1993:Q2 – 2010:Q3\*



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

\* Data through September 30, 2010 are the latest available as of May 3, 2011; Seasonally adjusted

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

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

Health Care
Health Sciences
Energy (Traditional)
Alternative Energy
Agriculture
Natural Resources
Environmental
Technology (incl. Biotechnology)
Light Manufacturing
Export-Oriented Industries
Shipping (Rail, Marine, Trucking)

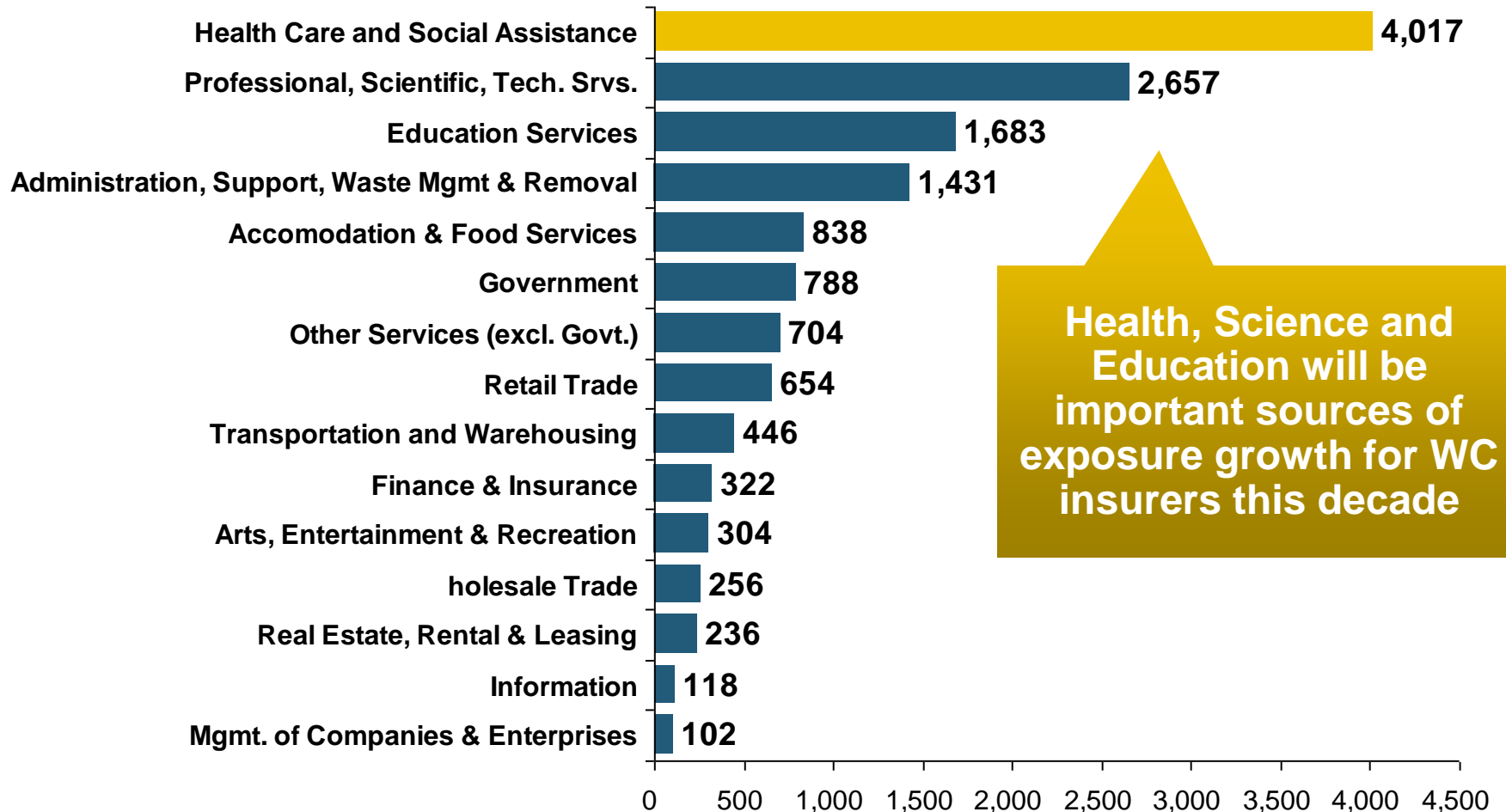
**Many industries are poised for growth, but many insurers do not write in these economic segments**

# **Where Will the Growth in WC Exposure Come From?**

## **Industry and Occupation Growth Analysis**

# Numeric Change in Wage and Salary Employment in Service-Providing Industries: 2008-2018P

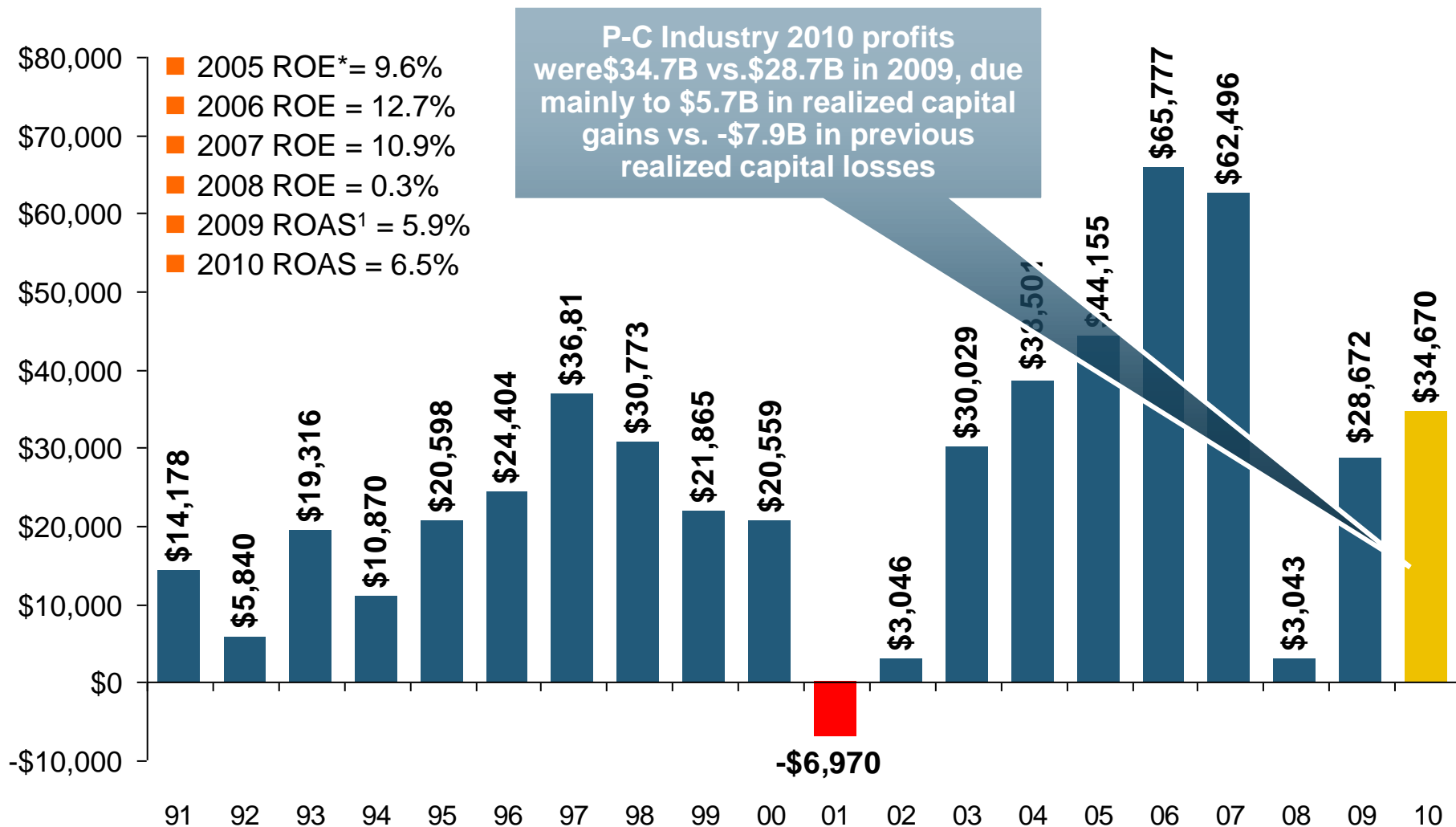
(Thousands)



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

**Profit Recovery Continues  
Early Stage Growth Begins**

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

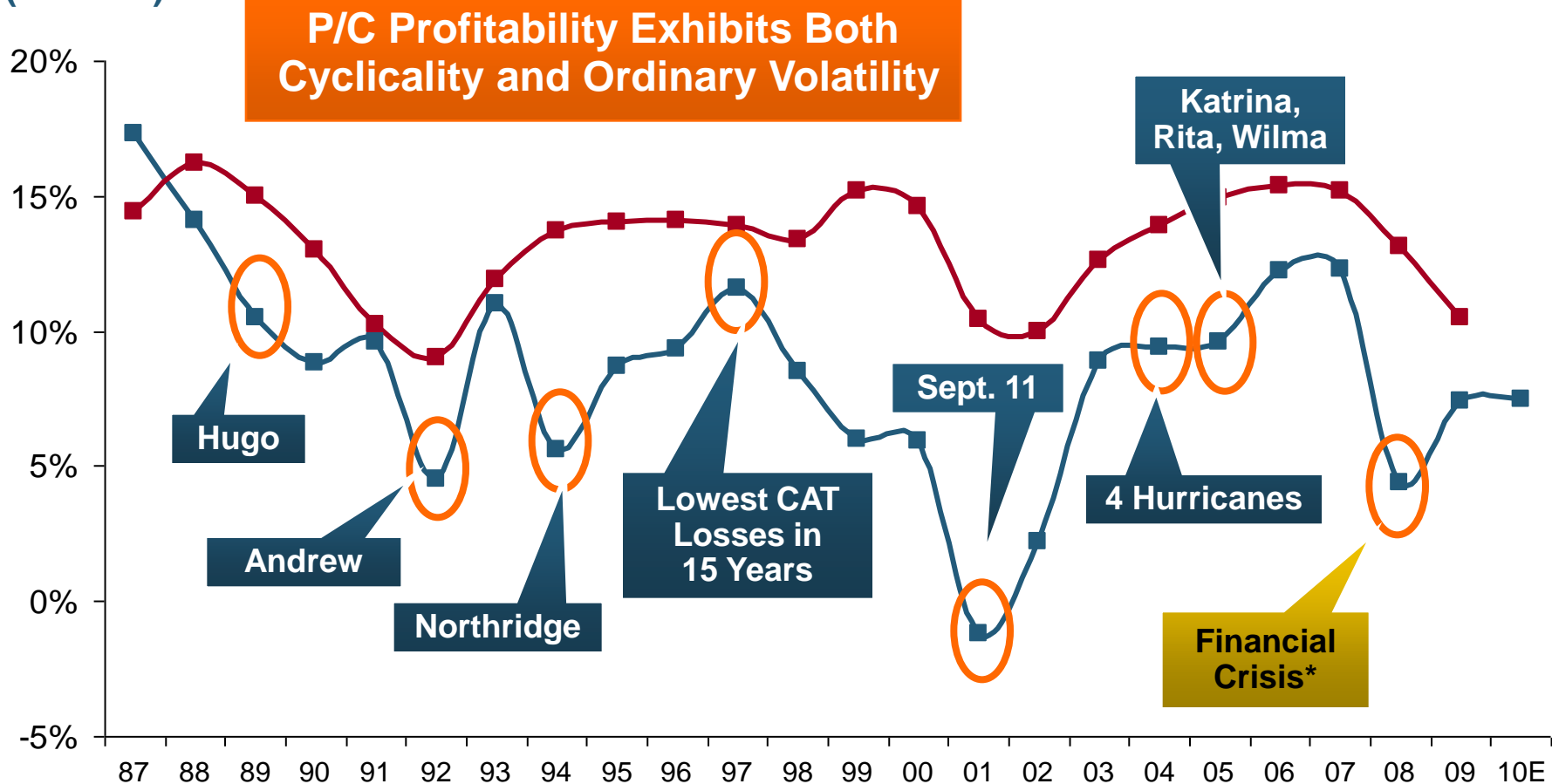


\* ROE figures are GAAP; <sup>1</sup>Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 7.5% ROAS for 2010 and 7.4% for 2009.

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

# ROE: Property/Casualty Insurance, 1987–2010\*

(Percent)

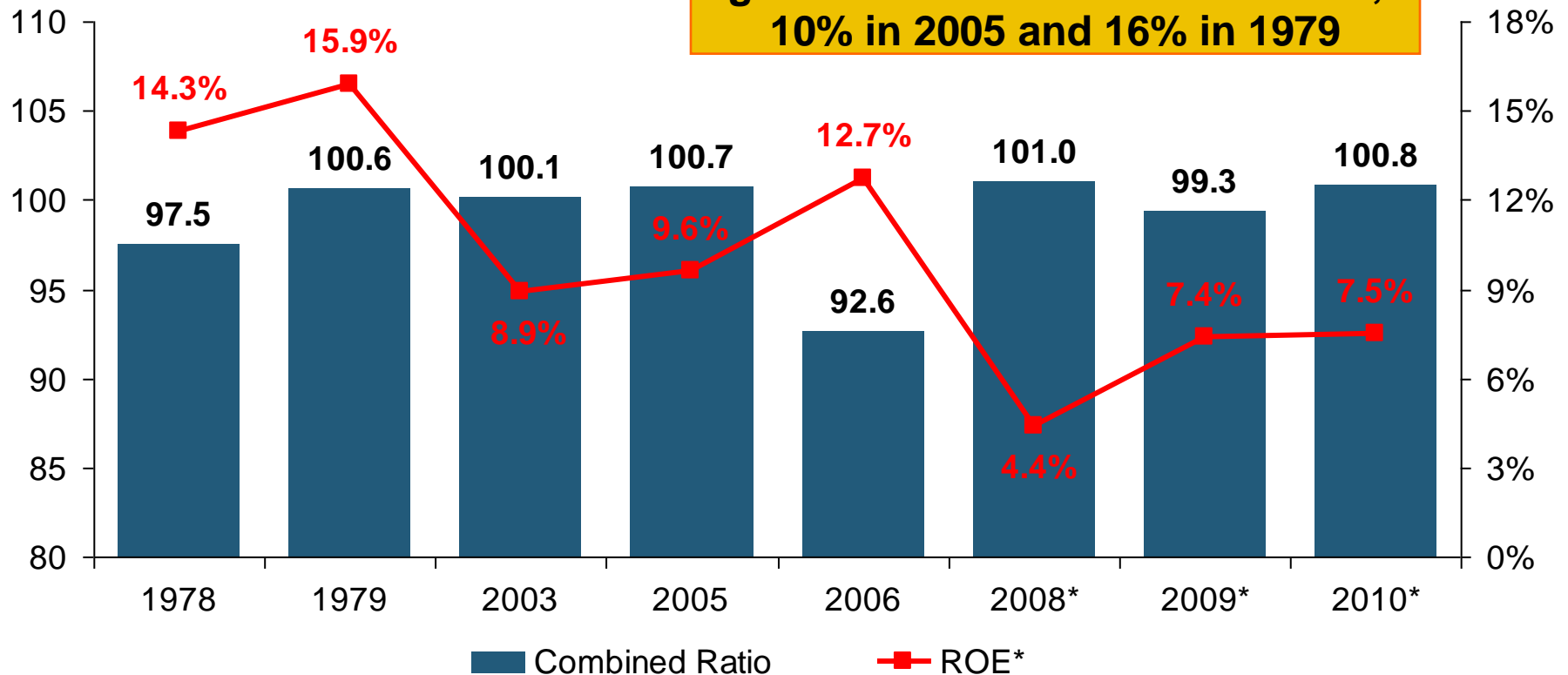


\* Excludes Mortgage & Financial Guaranty in 2008 - 2010.

Sources: ISO, *Fortune*;

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

## Combined Ratio / ROE



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

\* 2009 and 2010 figures are return on average statutory surplus. 2008, 2009 and 2010 figures exclude mortgage and financial guaranty insurers

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

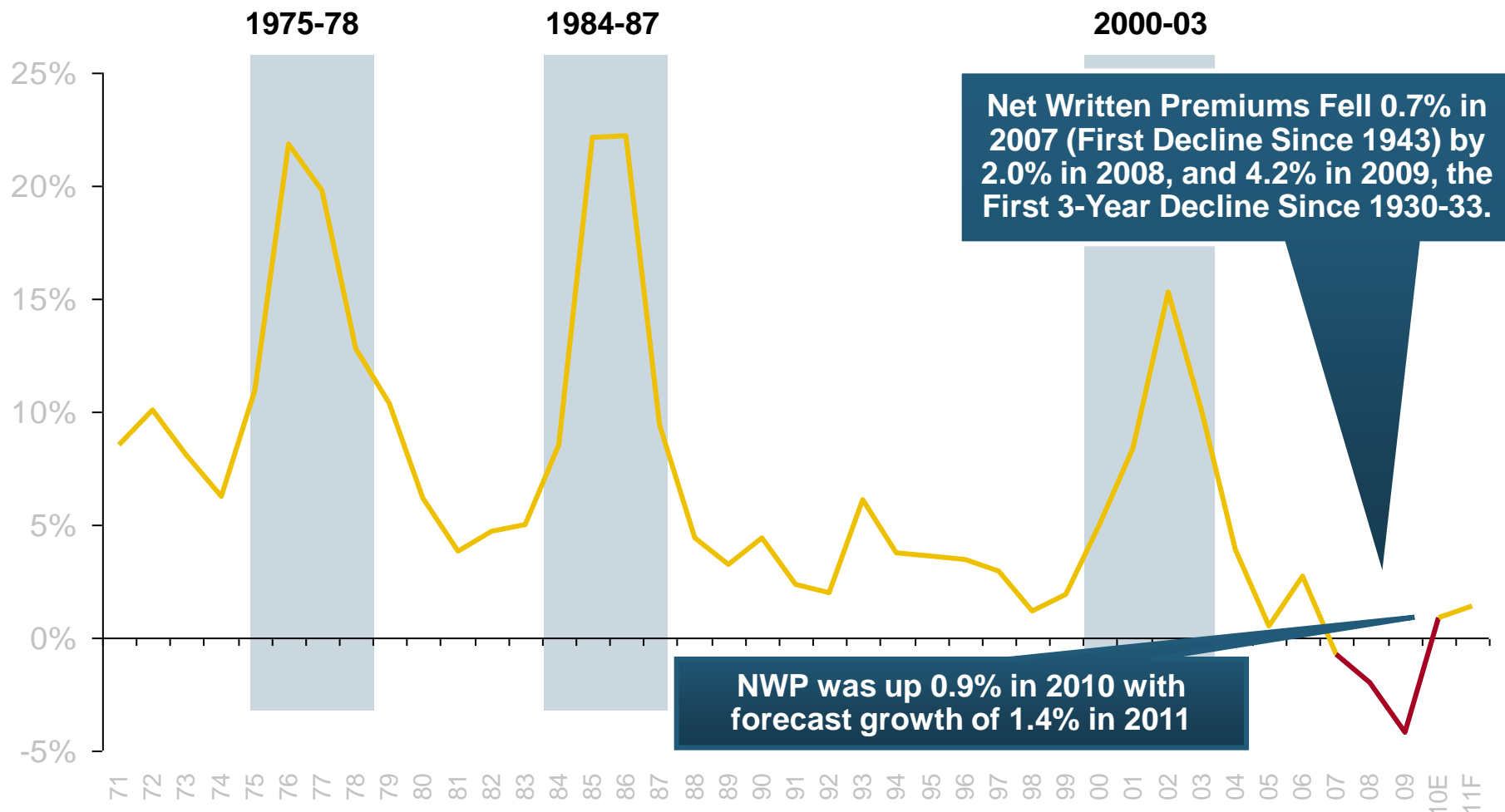


# **PREMIUM GROWTH TRENDS**

**Winds of Change or  
Moving Sideways?**

# Soft Market Persisted in 2010 but Growth Returned: More in 2011?

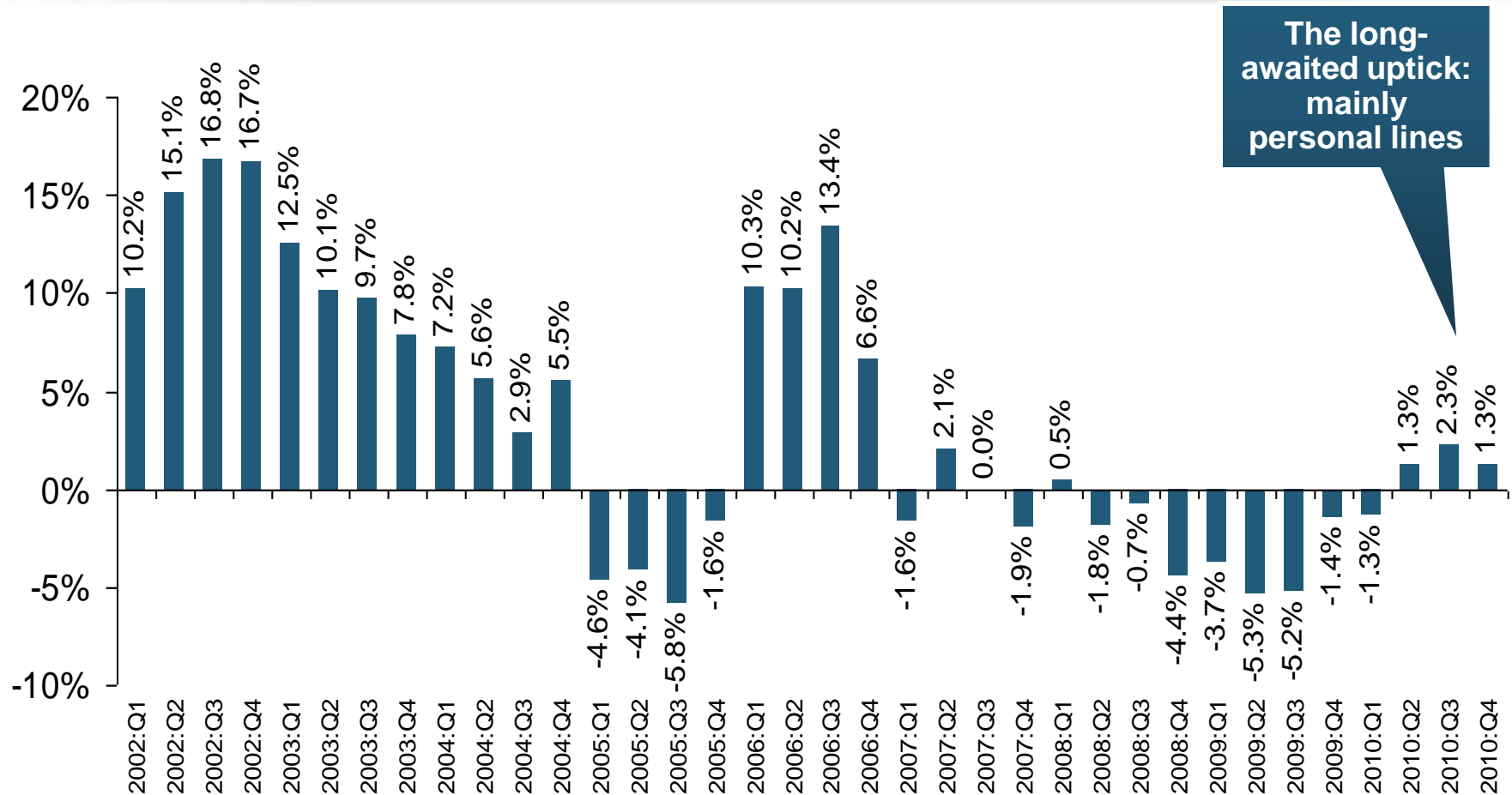
(Percent)



Shaded areas denote "hard market" periods

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

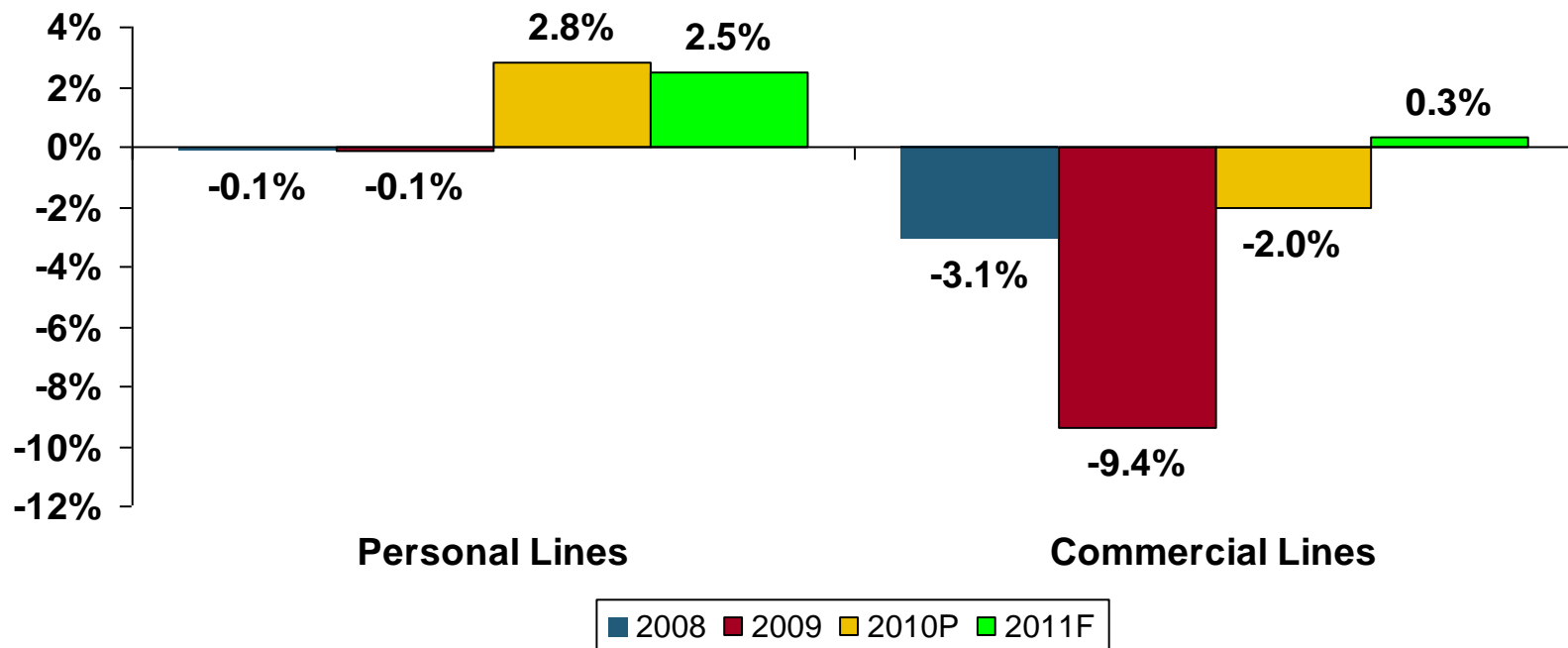
# P/C Net Premiums Written: % Change, Quarter vs. Year-Prior Quarter



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

# Net Written Premium Growth by Segment: 2008-2011F

Personal lines growth resumed in 2010 and will continue in 2011, while commercial lines contracted again in 2010 and but will stabilize in 2011

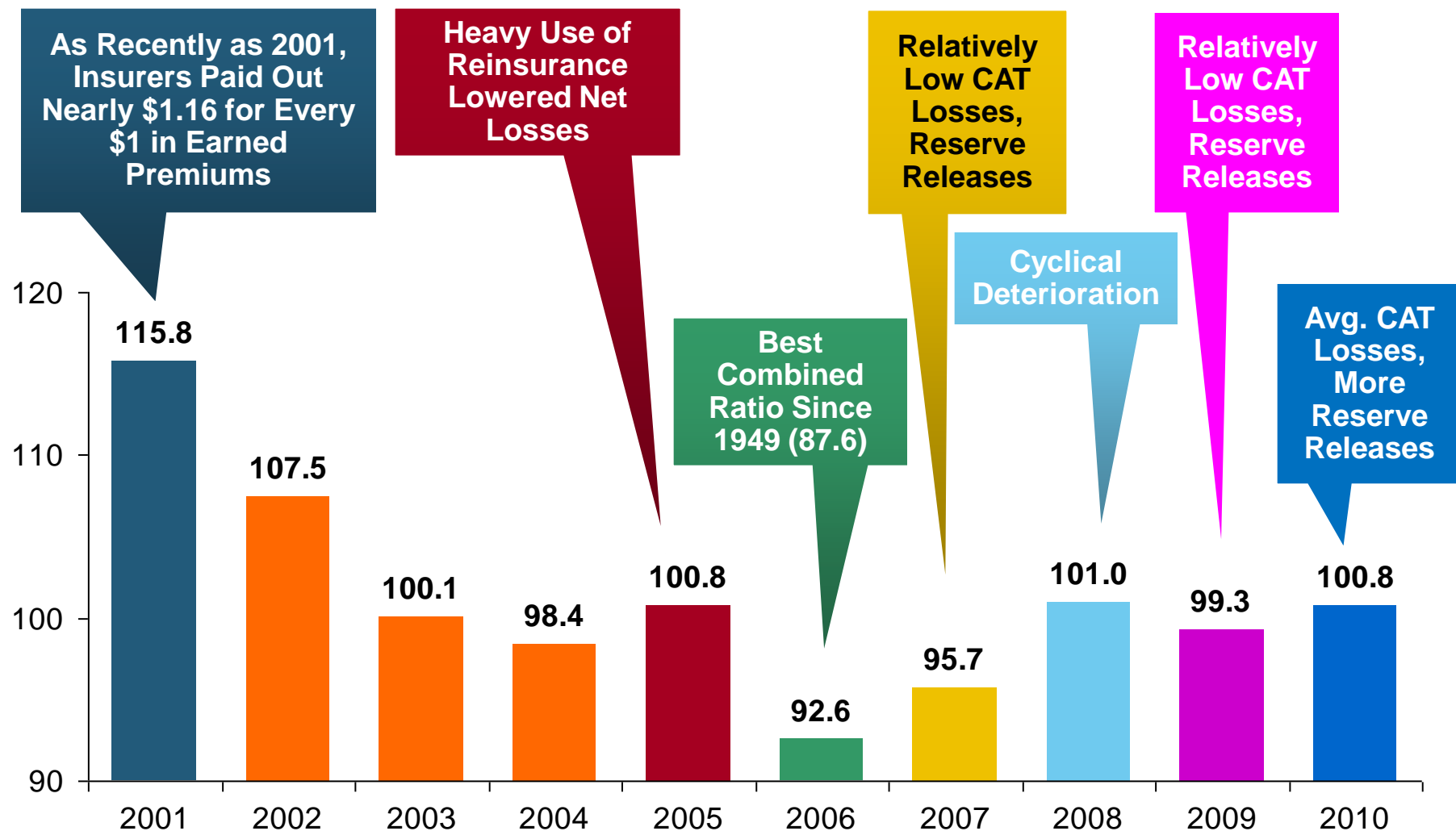


Rate and exposure are more favorable in personal lines, whereas a prolonged soft market and sluggish recovery from the recession weigh on commercial lines.

# **UNDERWRITING**

**Cyclicalality is Driven Primarily  
by the Industry's Underwriting  
Cycle, Not the Economy**

# P/C Insurance Industry Combined Ratio, 2001–2010\*

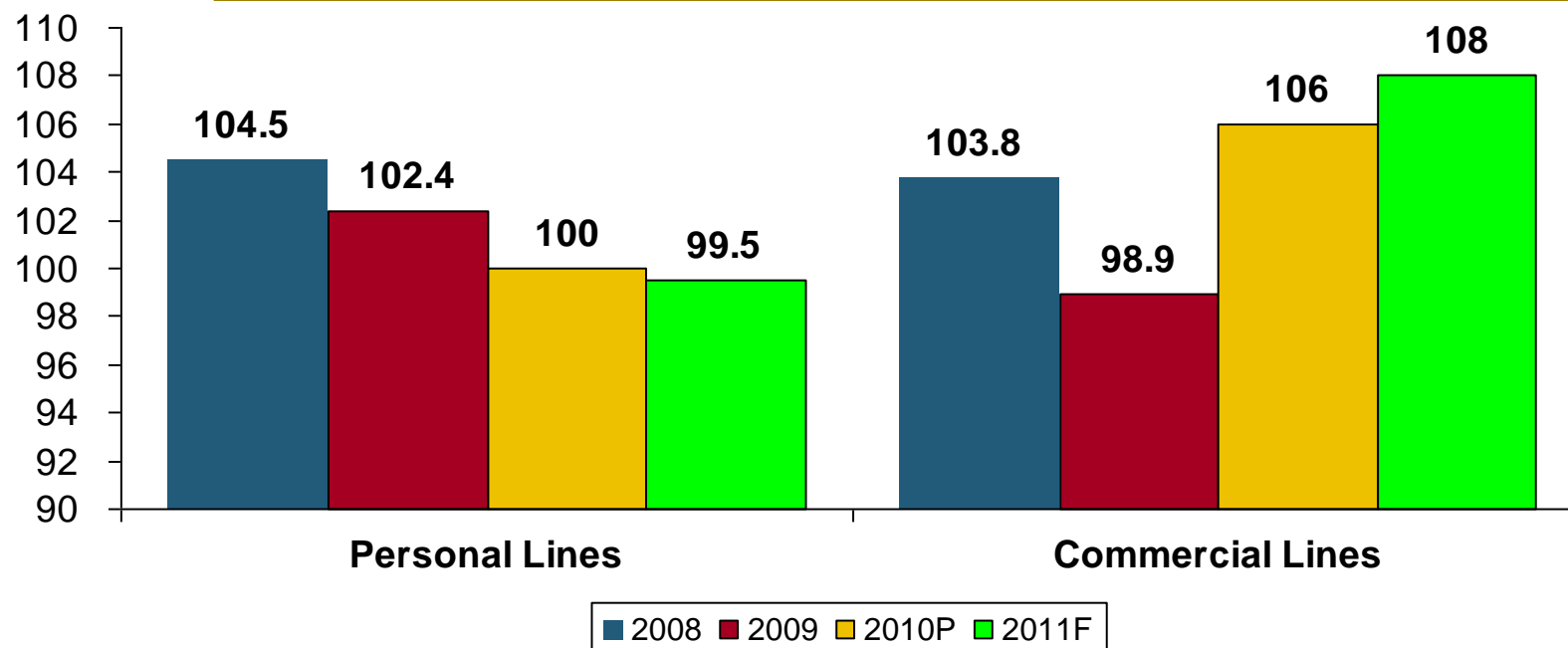


\* Excludes Mortgage & Financial Guaranty insurers in 2008, 2009 and 2010. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4

Sources: A.M. Best, ISO.

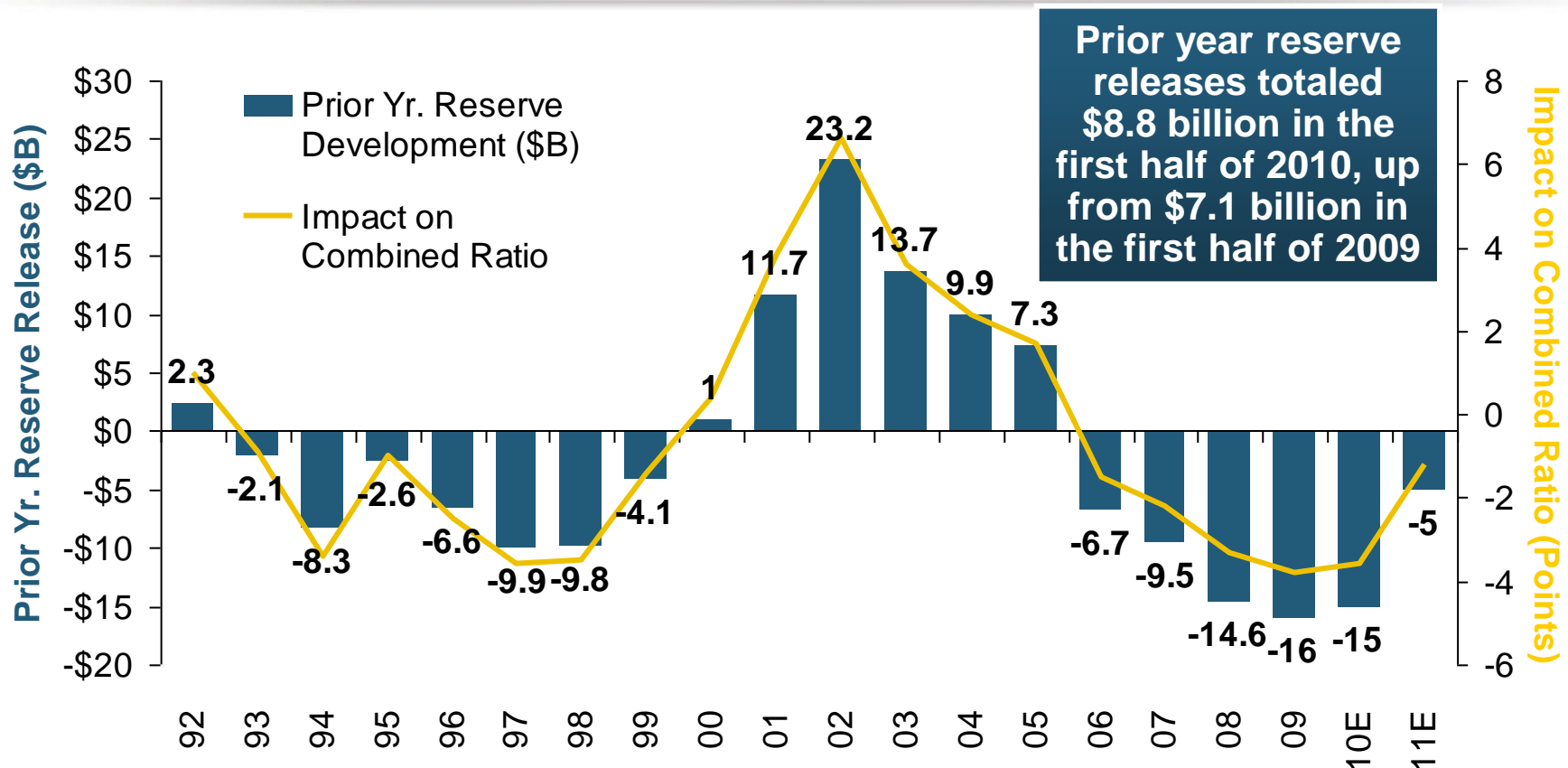
# Calendar Year Combined Ratios by Segment: 2008-2011F

**Personal lines combined ratio is expected to remain stable in 2010 while commercial lines and reinsurance deteriorate**



**Overall deterioration in 2011 underwriting performance is due to expected return to normal catastrophe activity along with deteriorating underwriting performance related to the prolonged commercial soft market**

# P/C Reserve Development, 1992–2011E



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

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

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

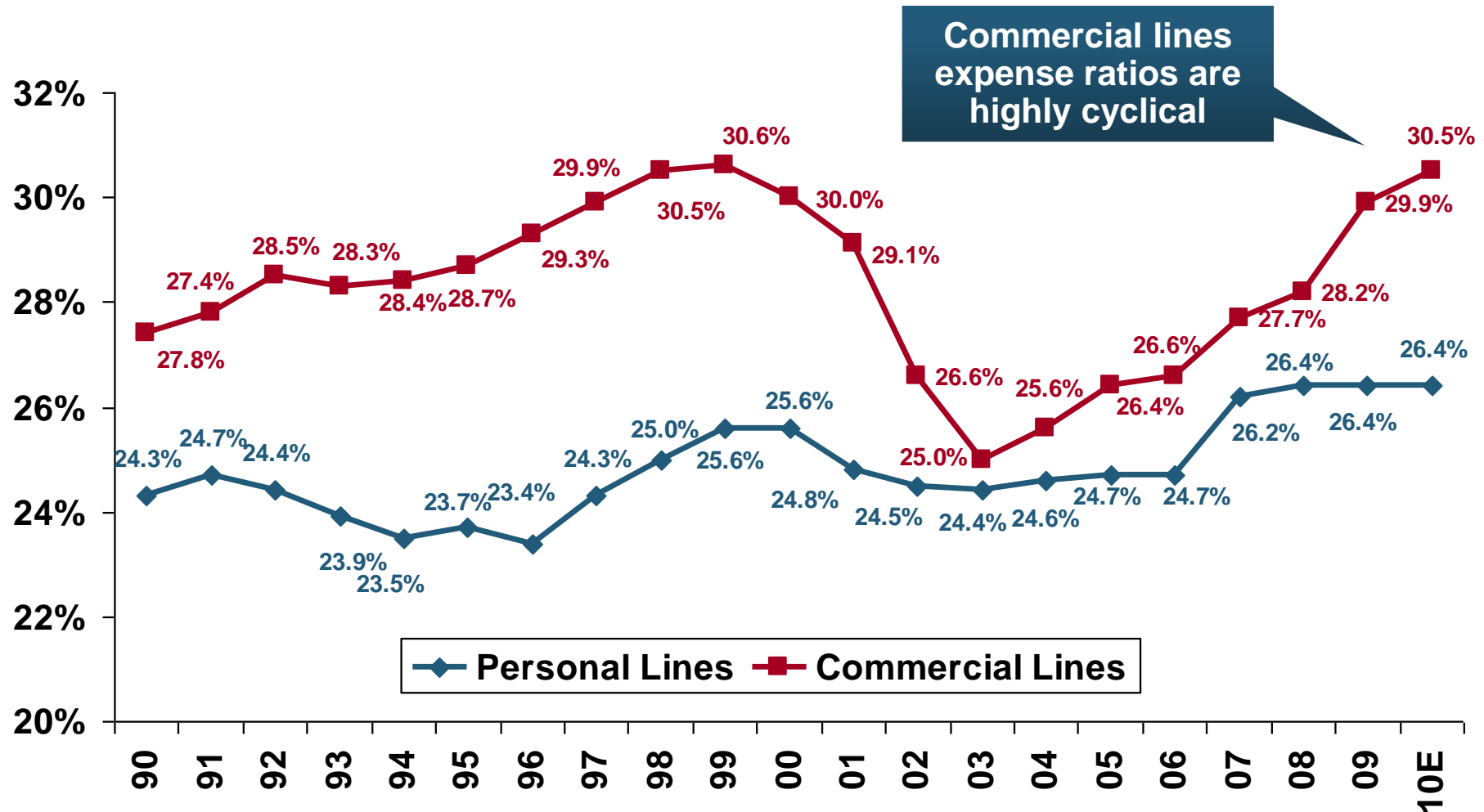


# **EXPENSES**

**Expense Ratios Are Highly Cyclical  
and Contribute Deteriorating  
Underwriting Performance**

# Underwriting Expense Ratio\*:

## Personal vs. Commercial Lines, 1990-2010E\*\*



\*Ratio of expenses incurred to net premiums written.

\*\*2010 figures are estimates.

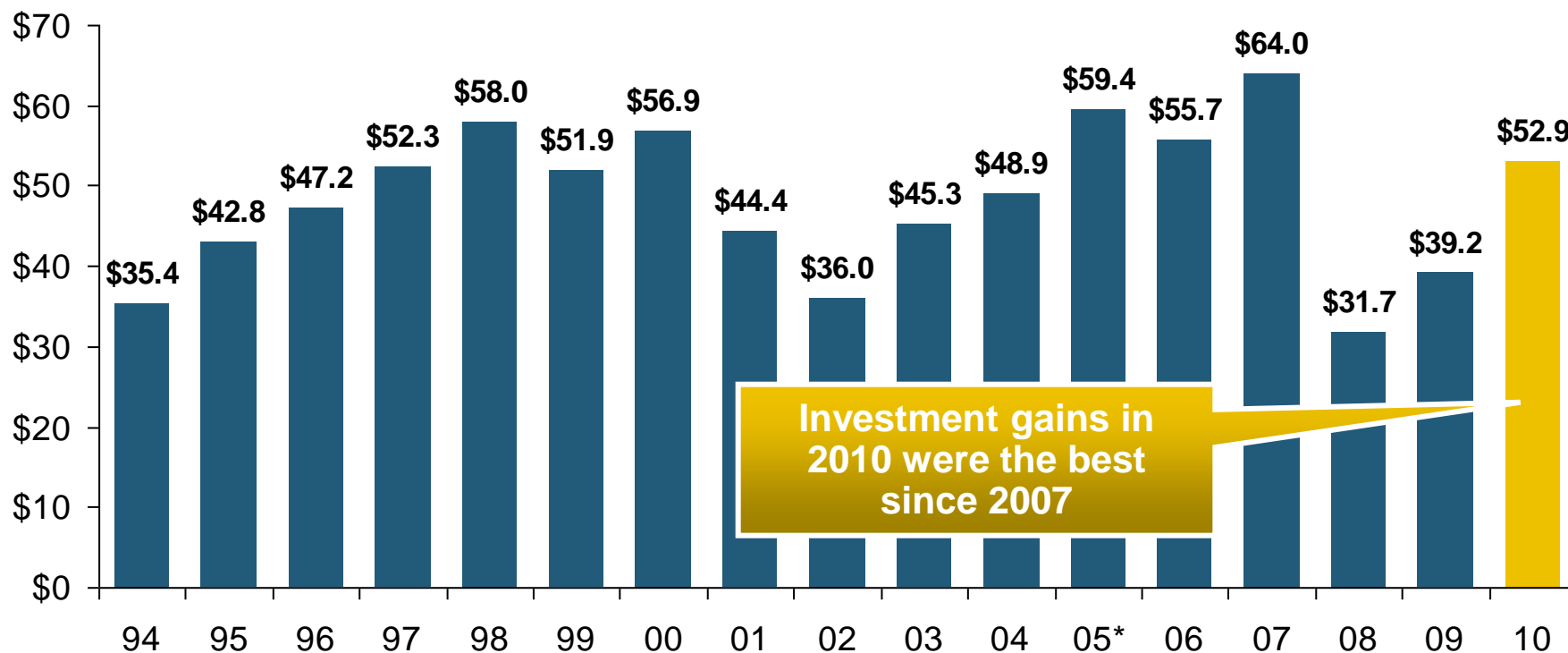
Source: A.M. Best; Insurance Information Institute.

## INVESTMENTS: THE NEW REALITY

**Investment Performance is a  
Key Driver of Profitability  
*Does It Influence  
Underwriting or Cyclicalities?***

# Property/Casualty Insurance Industry Investment Gain: 1994–2010<sup>1</sup>

(\$ Billions)



Investment gains in  
2010 were the best  
since 2007

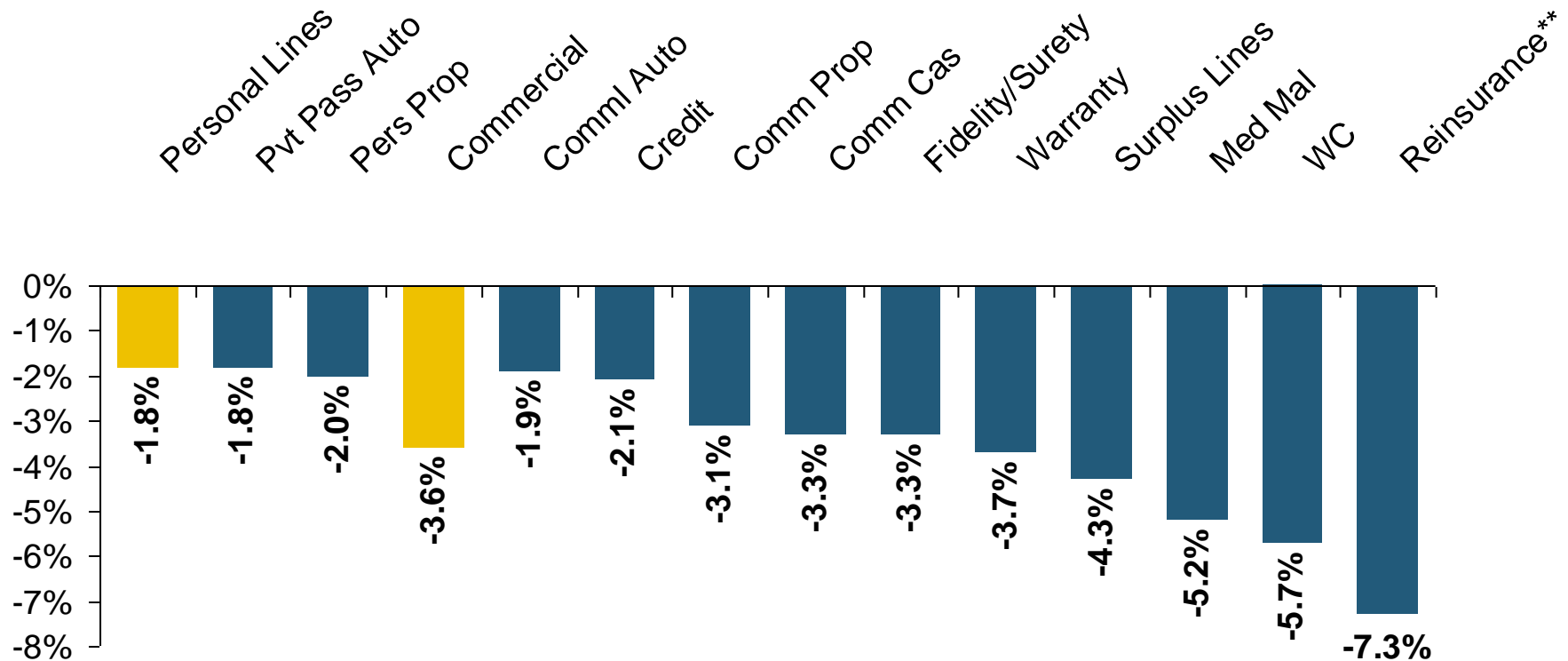
**Investment Gains Recovered Significantly in 2010 Due to Realized Investment Gains; The Financial Crisis Caused Investment Gains to Fall by 50% in 2008**

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

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

Sources: ISO; Insurance Information Institute.

# 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

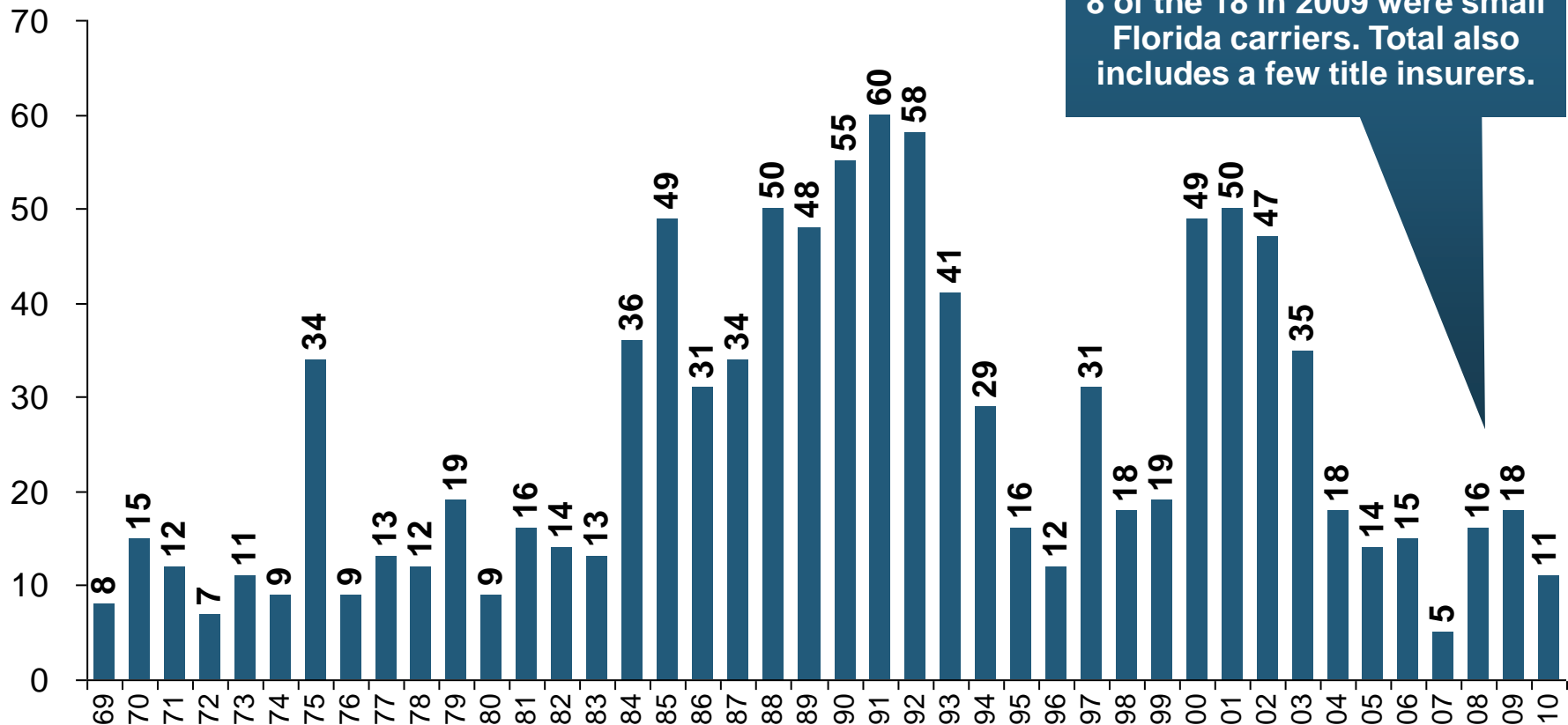
\*\*US domestic reinsurance only

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

# **Financial Strength & Underwriting**

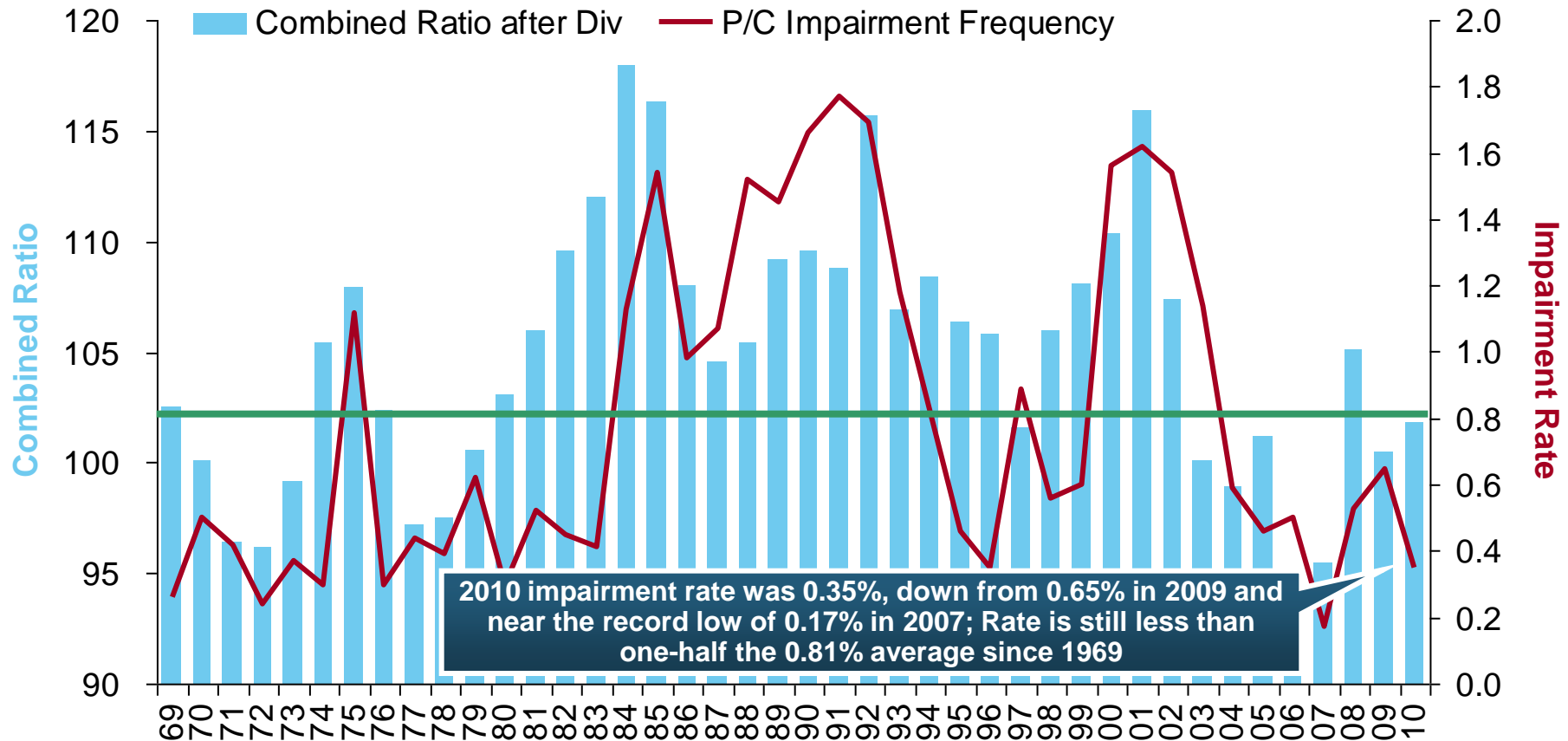
**Cyclical Pattern is P-C Impairment  
History is Directly Tied to  
Underwriting, Reserving & Pricing**

# P/C Insurer Impairments, 1969–2010



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

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

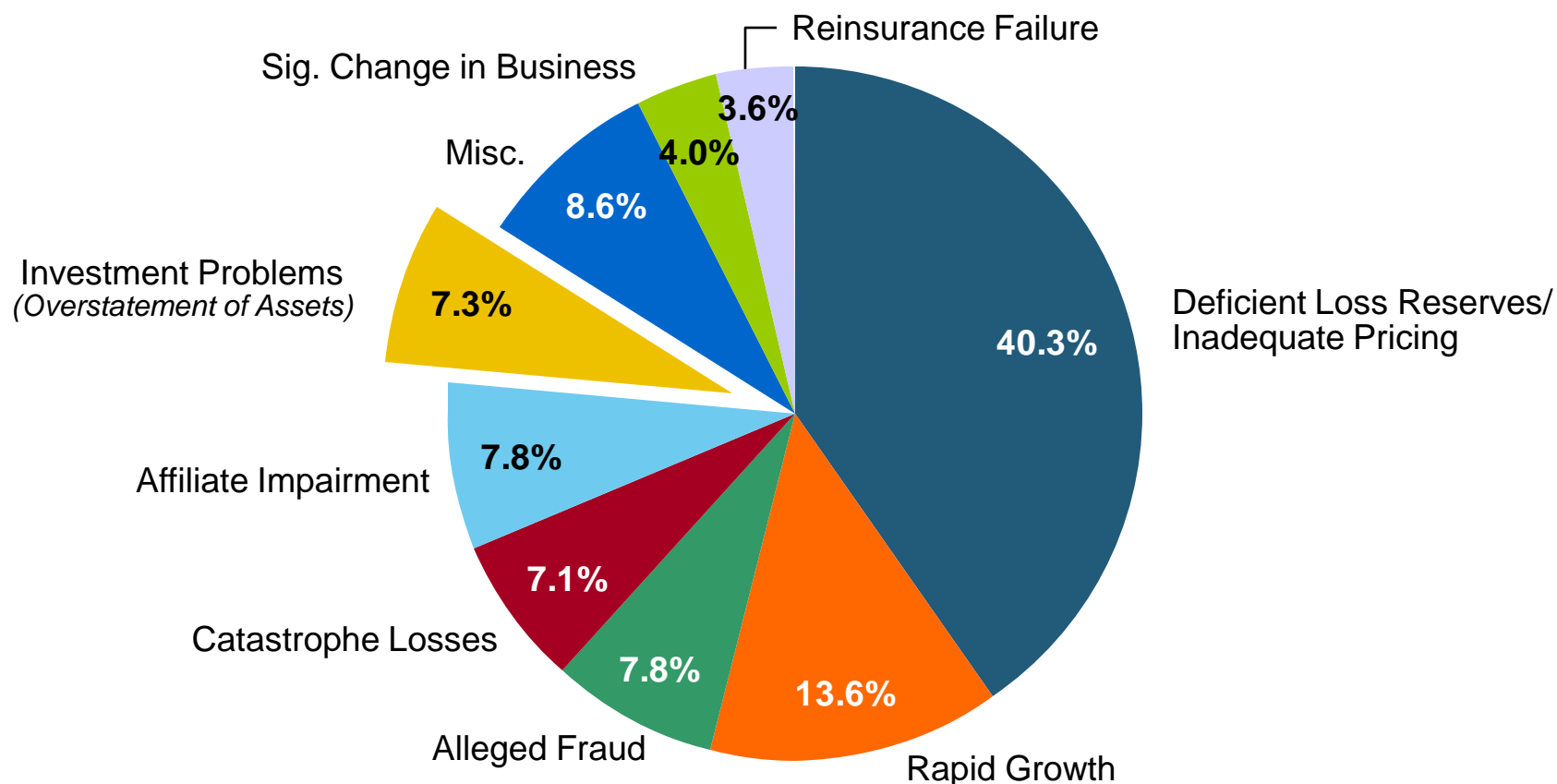


**Impairment Rates Are Highly Correlated With Underwriting Performance and Reached Record Lows in 2007**



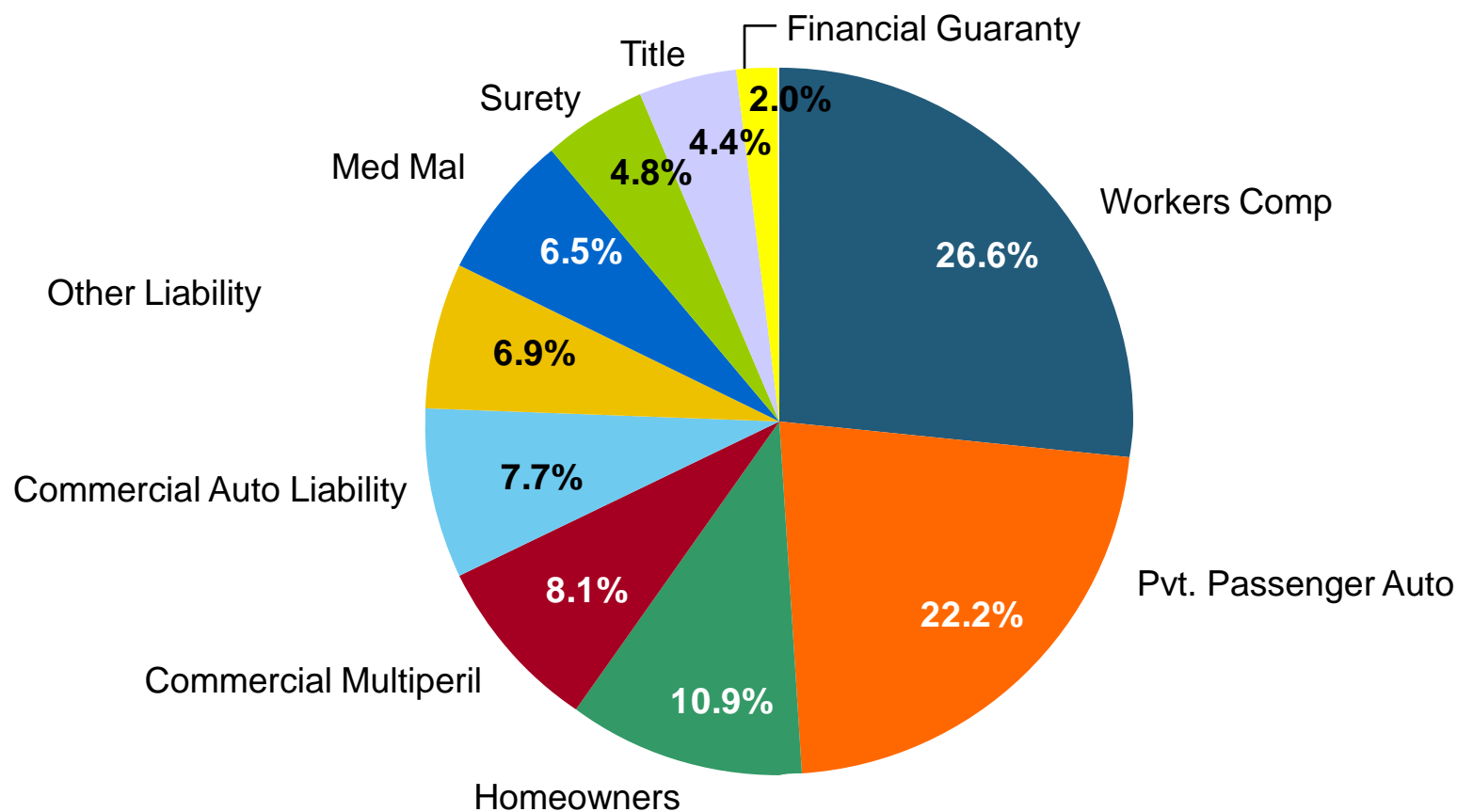
# Reasons for US P/C Insurer Impairments, 1969–2010

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



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

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

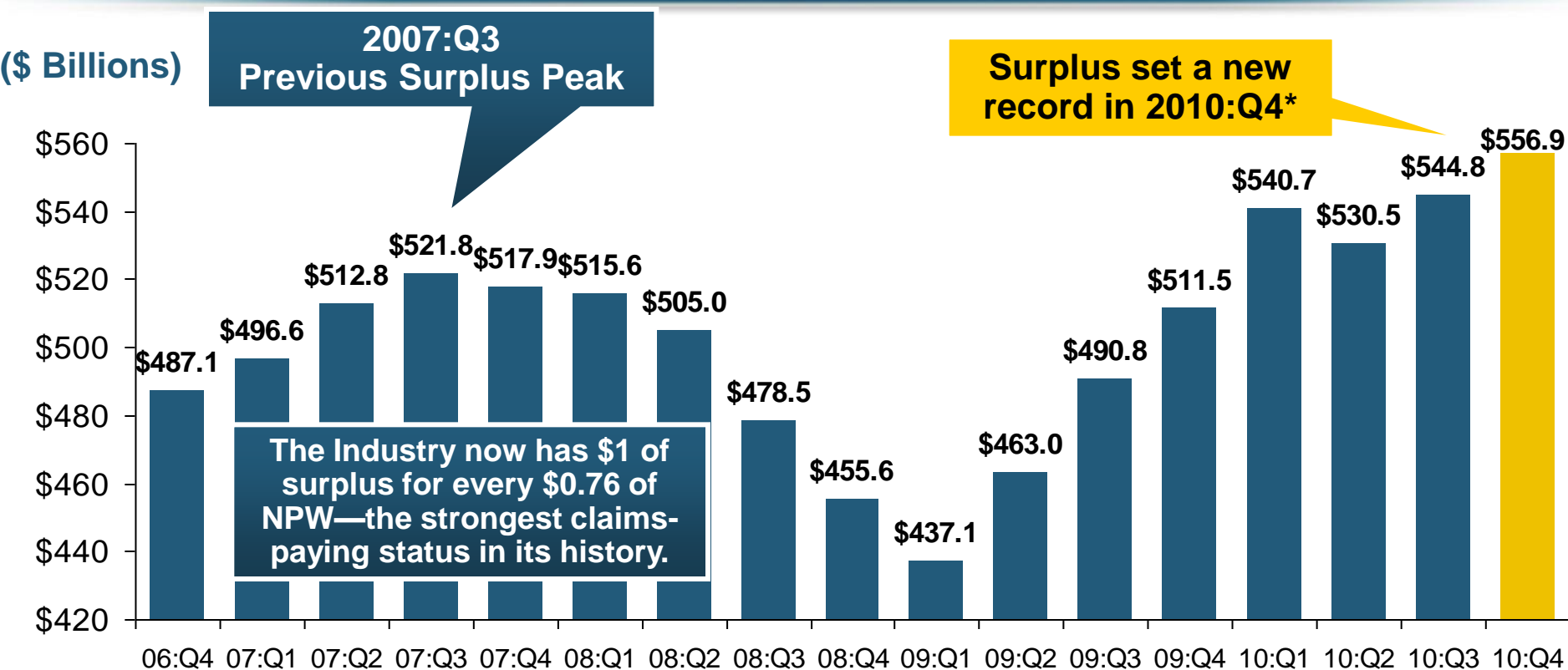


# **CAPITAL MANAGEMENT & LEVERAGE**

**Excess Capital is a Major Obstacle  
to a Market Turn;**

**Capital Management Decisions Will  
Impact Market Direction**

# Policyholder Surplus, 2006:Q4–2010:Q4



## Quarterly Surplus Changes Since 2007:Q3 Peak

**09:Q1: -\$84.7B (-16.2%)**

**09:Q2: -\$58.8B (-11.2%)**

**09:Q3: -\$31.0B (-5.9%)**

**09:Q4: -\$10.3B (-2.0%)**

**10:Q1: +\$18.9B (+3.6%)**

**10:Q2: +\$8.7B (+1.7%)**

**10:Q3: +\$23.0B (+4.4%)**

**10:Q4: +\$35.1B (+6.7%)**

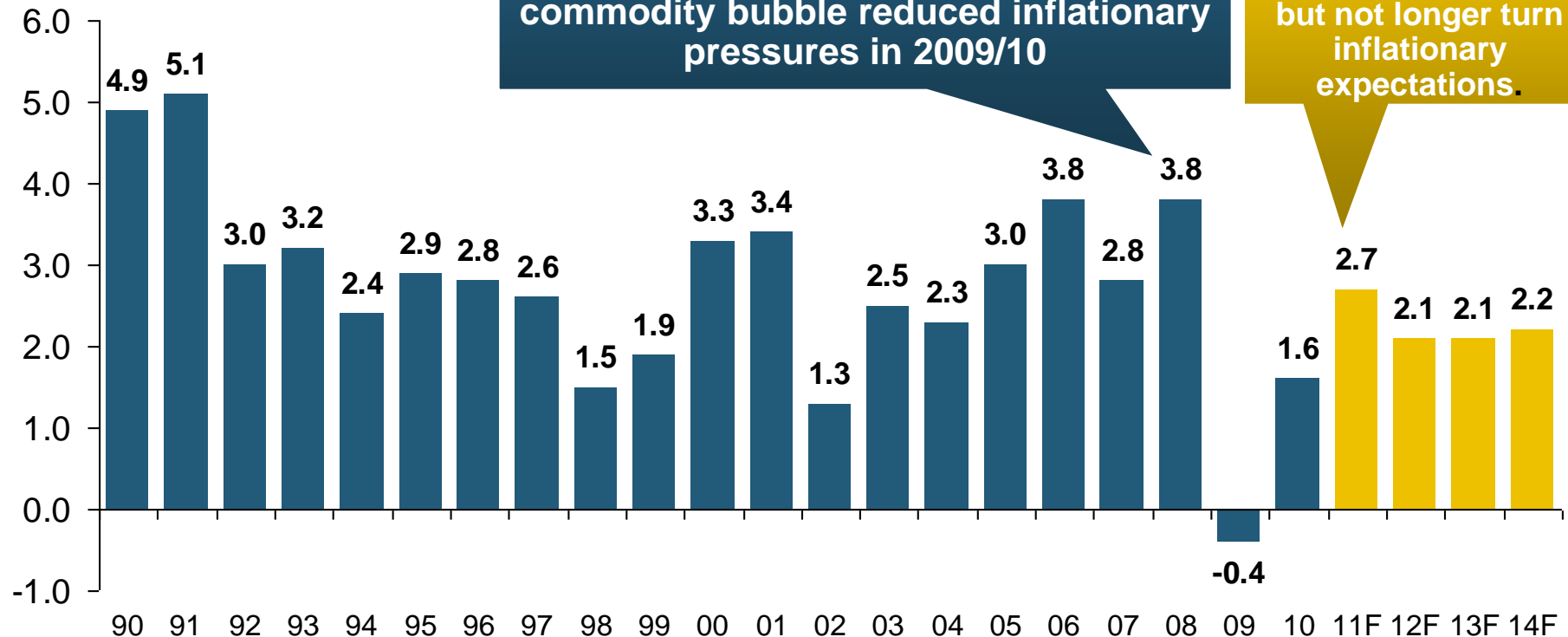
\*Includes \$22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business in early 2010.

# **Inflation**

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

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

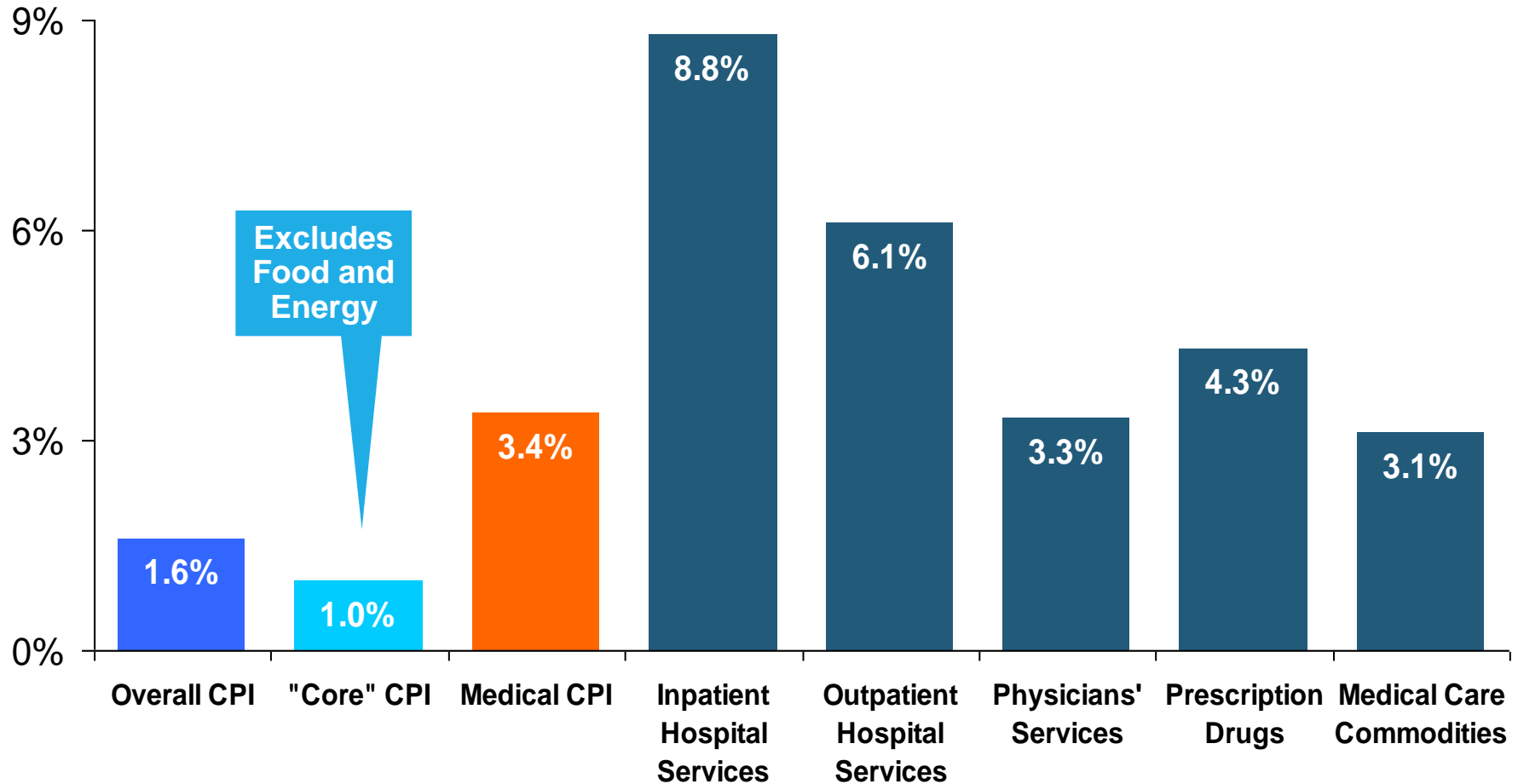
## Annual Inflation Rates (%)



The slack in the U.S. economy suggests that inflation should not heat up before 2012, but other forces (commodity prices, inflation in countries from which we import, etc.), plus U.S. debt burden, remain longer-run concerns

# P/C Insurance Claim Cost Drivers Grow Faster than even the Medical CPI Suggests

Price Changes  
in 2010



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

# **Financial Services Reform**

**Insurers Not as Impacted as  
Banks, But Dodd-Frank  
Implementation Has Been a  
Concern for Insurers**



# Financial Services Reform: *What does it mean for insurers?*

## The Dodd Frank Wall Street Reform and Consumer Protection Act

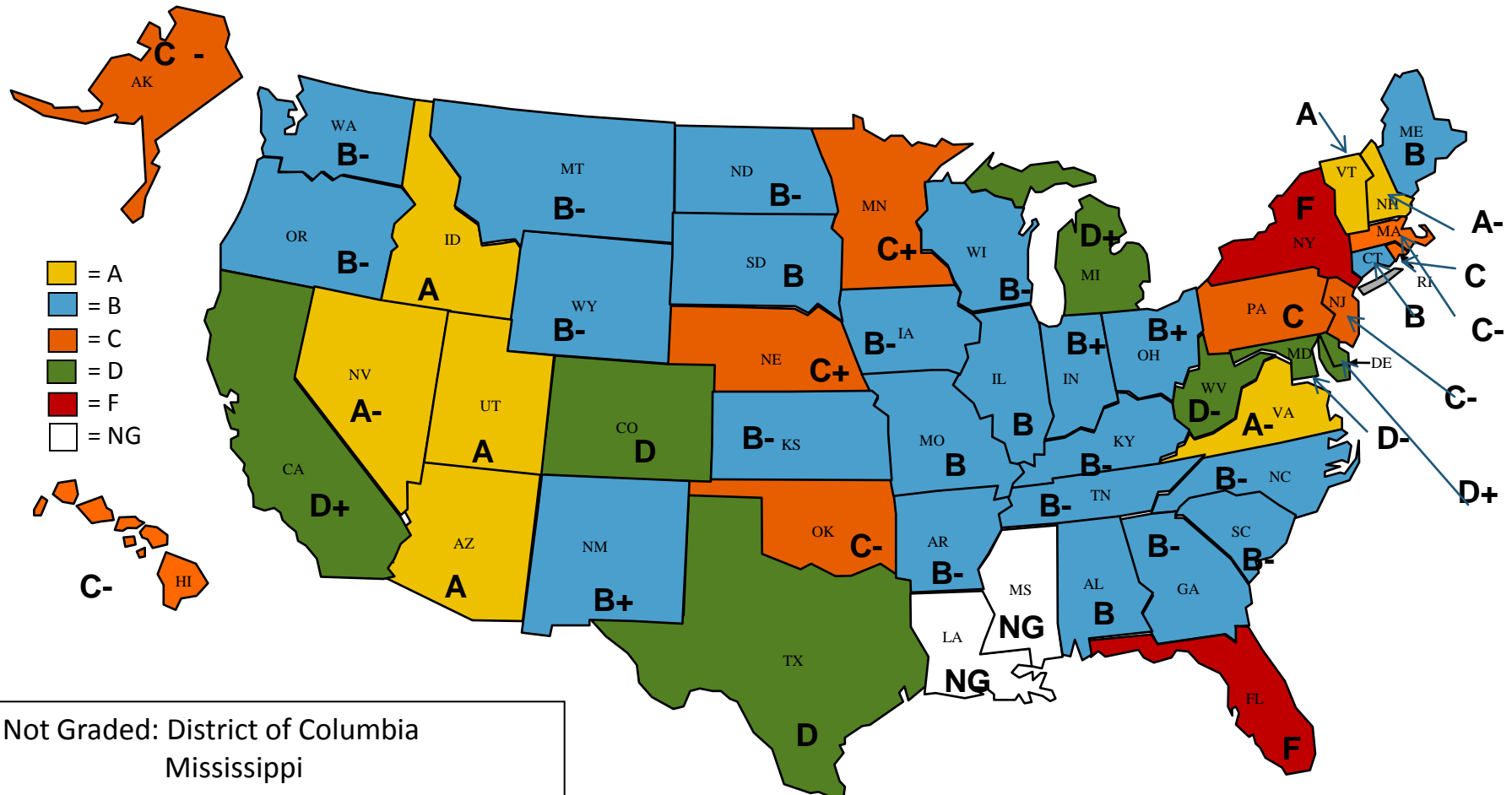
### ■ Systemic Risk and Resolution Authority

- Creates the Financial Stability Oversight Council and the Office of Financial Research
- Regulator representative is MO Insurance Commissioner Huff
- *No industry representative has been appointed yet*
- Imposes heightened federal regulation on large bank holding companies and “systemically risky” nonbank financial companies, including insurers
- ***Concern some insurers may be labeled as systemically risky based on size alone***

### ■ Federal Insurance Office (FIO)

- Establishes the FIO (while maintaining state regulation of insurance) within the Department of Treasury, headed by a Director appointed by the Secretary of Treasury
- FIO will have authority to monitor the insurance industry, identify regulatory gaps that could contribute to systemic crisis
- **IL Insurance Director Michael McGraith will become first FIO Director**
- ***CONCERN: FIO morphs into quasi/shadow or actual regulator***

# 2010 Property and Casualty Insurance Report Card

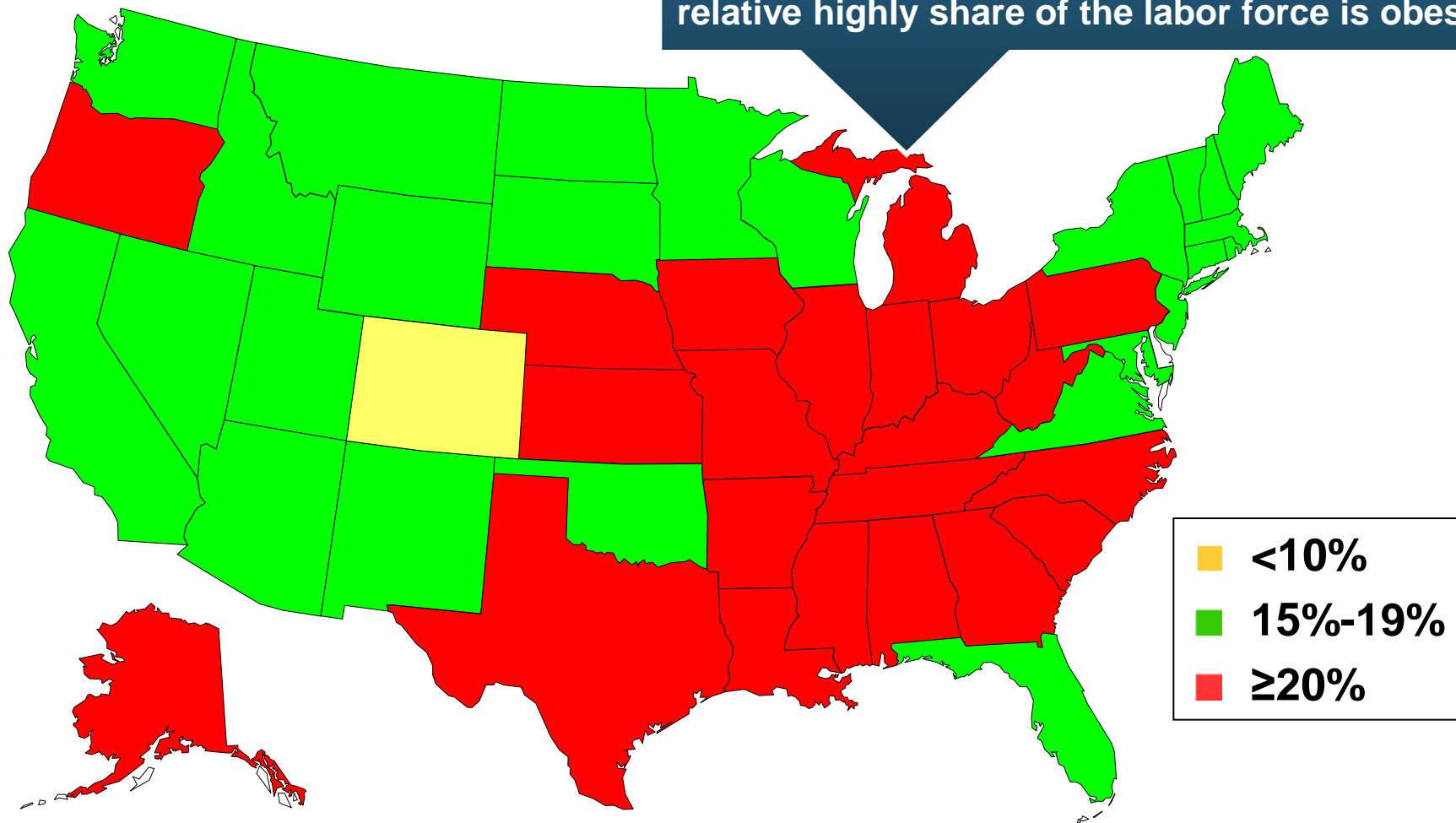


# Obesity

## **Obesity Remains a Growing Concern for Workers Comp Insurers**

# Impact of Obesity on WC Systems Varies With Health Fitness of Population

WC systems in the Southeast and Midwest incur a disproportionate burden because a relative highly share of the labor force is obese



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