



Insurance in the Obama Era: ***The Road Ahead in the Post-Crisis World***

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Reasons for Optimism in the Overall P/C Insurance Industry & Workers Comp Line

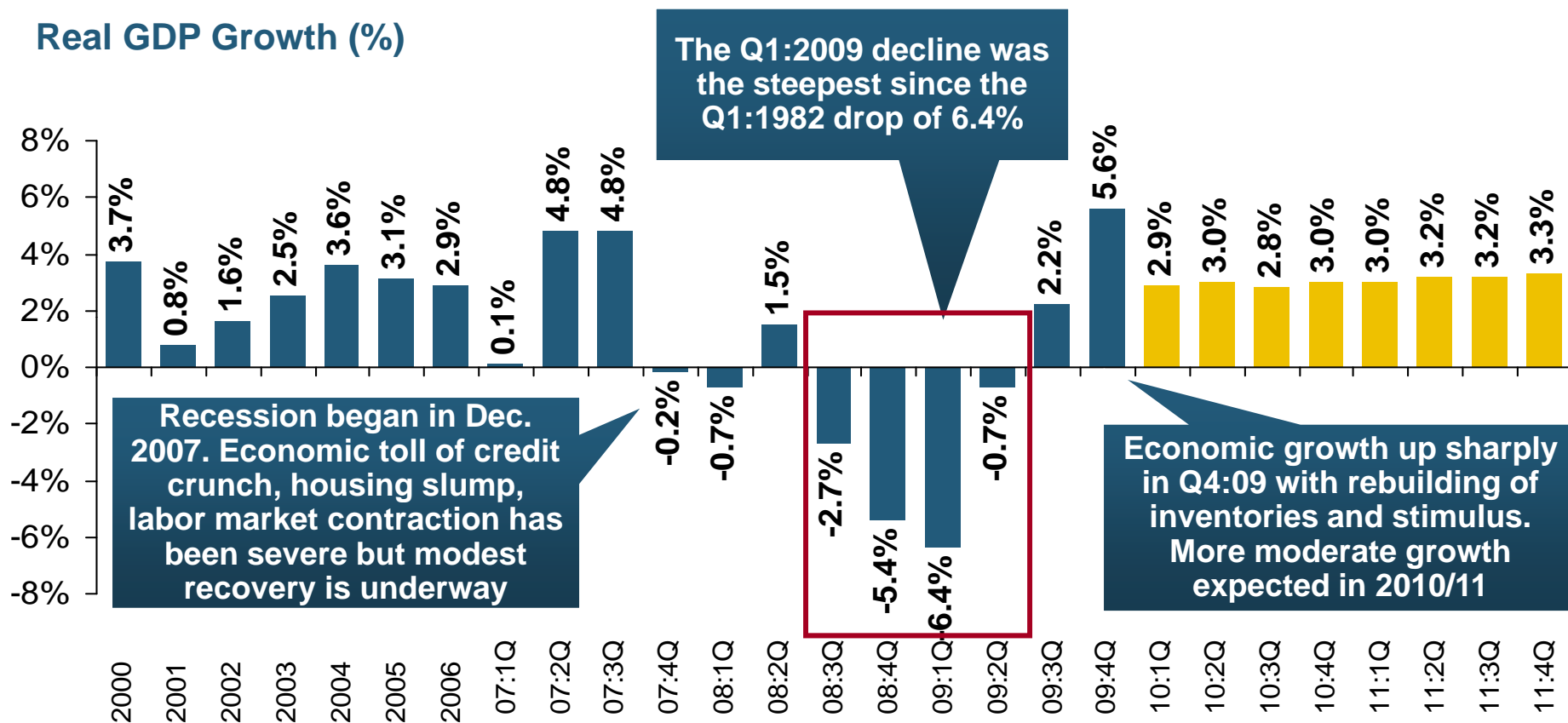
- **Economic Recovery is Self-Sustaining: No Double Dip Recession**
- **Era of Mass Exposure Destruction Has Ended, Including WC Payroll Loss**
- **No Secondary Spike in Unemployment or Swoon in Payrolls/WC Exposure**
 - ◆ But wage growth remains sluggish
- **Exposure Growth Will Begin in Earnest in 2nd Half 2010, Accelerate in 2011**
- **Increase in Demand for Commercial Insurance is in its Earliest Stages and Will Accelerate in 2011, Including Workers Compensation**
- **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 lines like workers comp
- **P/C Insurance Industry Capacity as of 3/31/10 Has Recovered 100%+ of the Capital Lost During the Financial Crisis**
 - ◆ As of 12/31/09 capacity was within 2% of pre-crisis high
- **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**

The Economic Storm

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

Real GDP Growth*

Real GDP Growth (%)



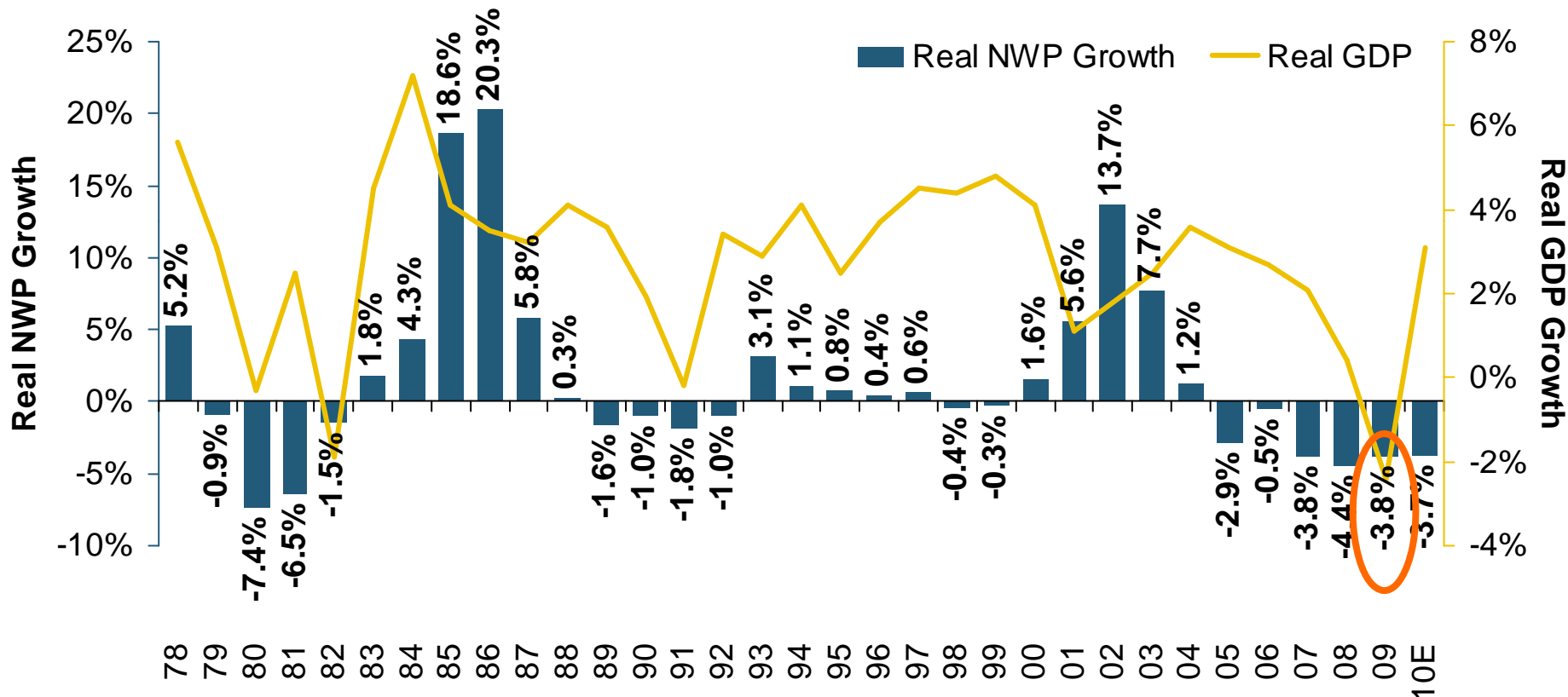
Commercial Lines Exposure Base Was Hit Hard, Including Workers Comp and Will Be Slow to Come Back

* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 4/10; 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**



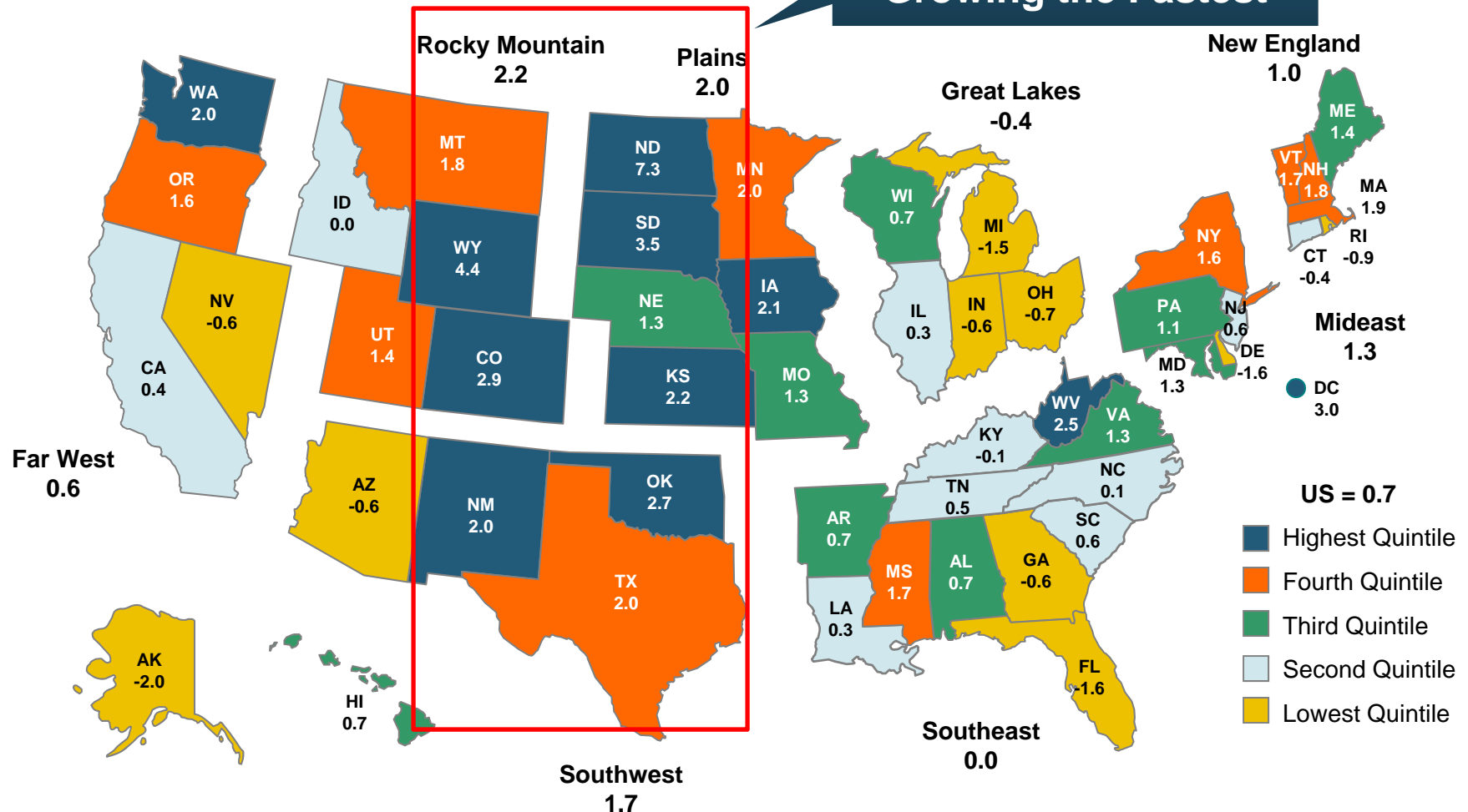
**Regional Differences Will
Significantly Impact P/C Markets
and Growth Opportunities in WC**

**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

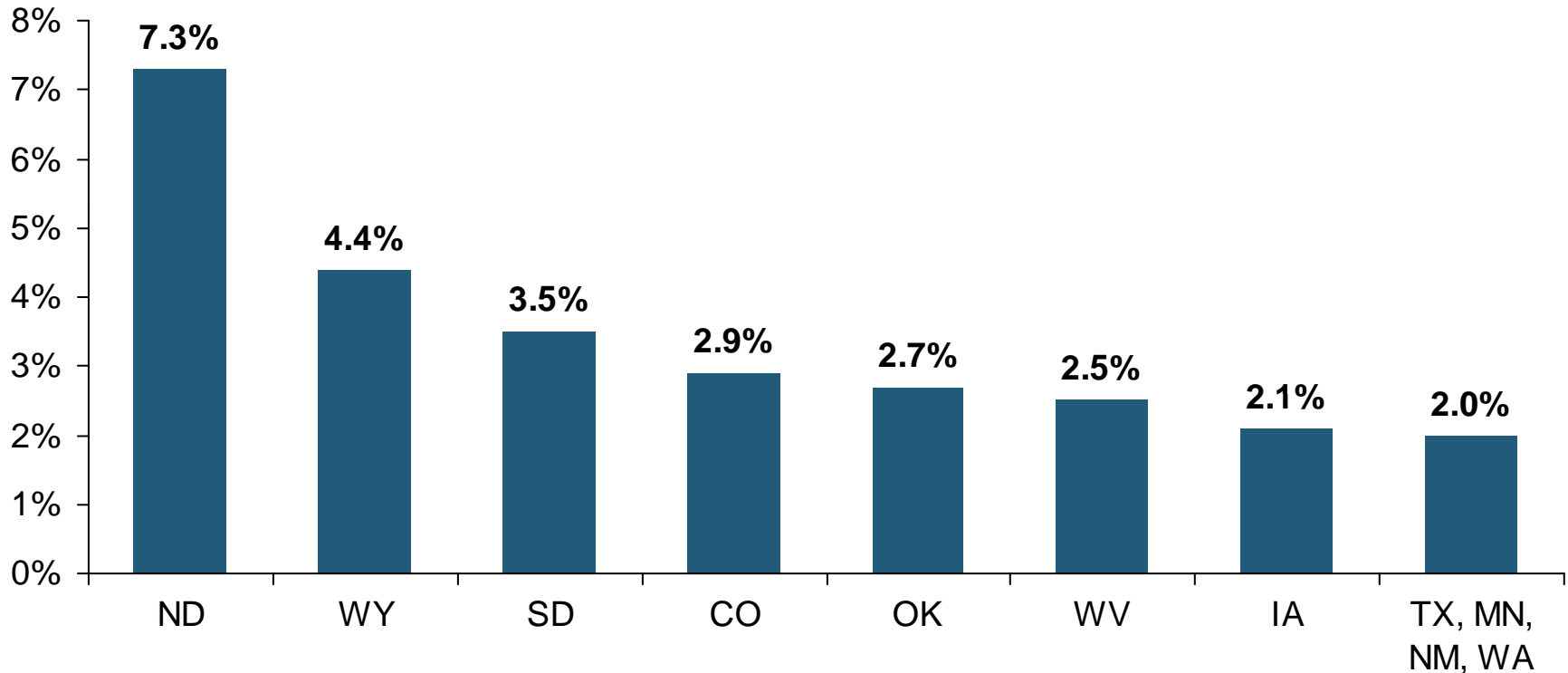
Percent Change in Real GDP by State, 2007–2008

Mountain, Plains States
Growing the Fastest



Fastest Growing States in 2008: Plains, Mountain States Lead

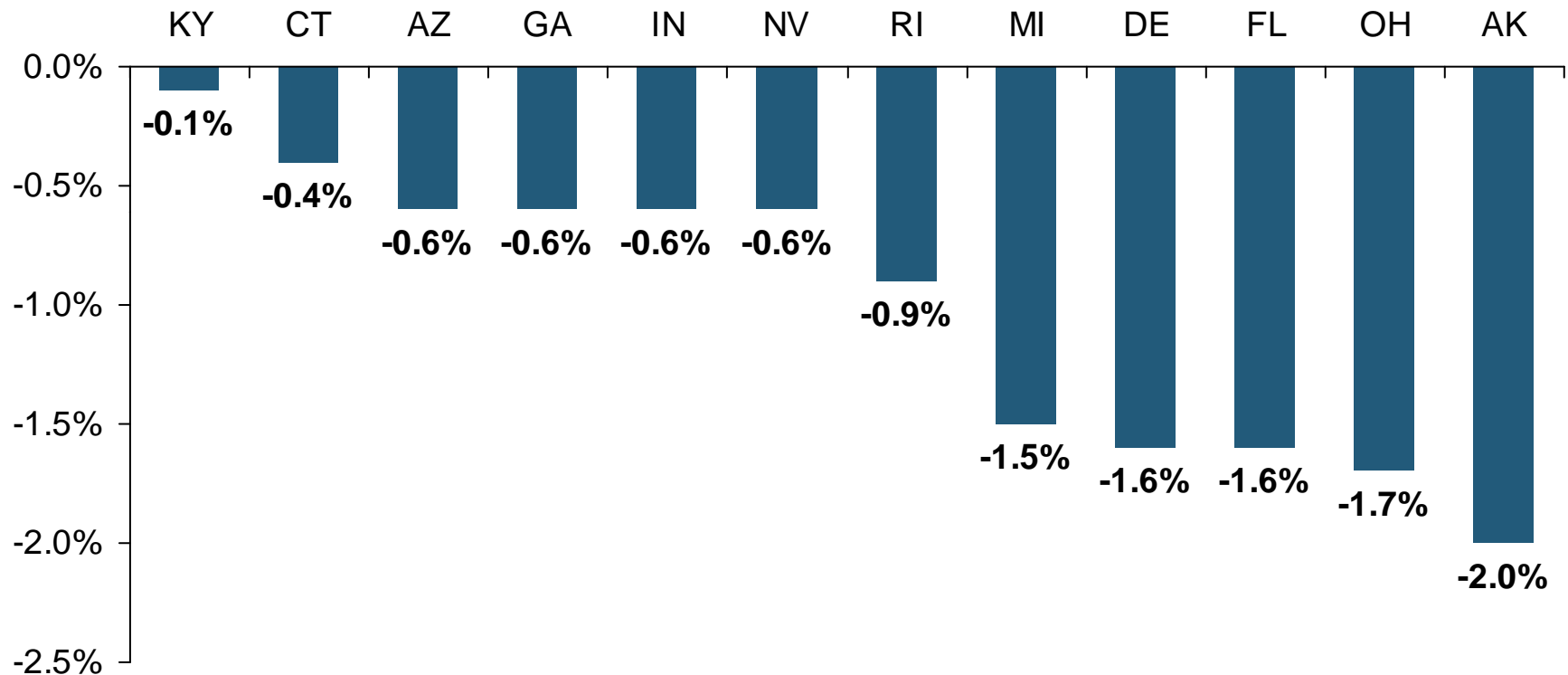
Real State GDP Growth (%)



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 (%)



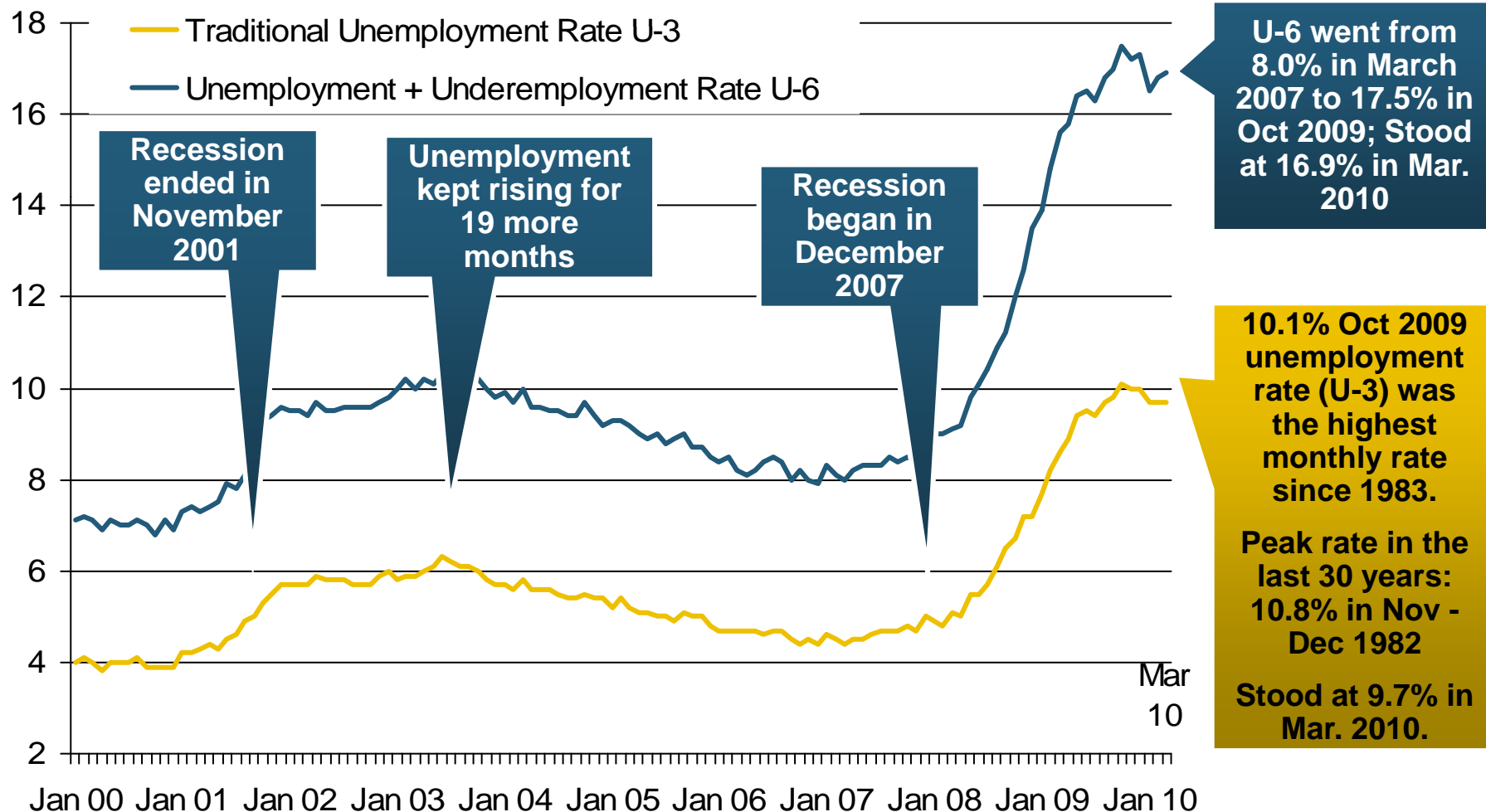
States in the North, South, East and West All Represented Among Hardest Hit, But for Differing Reasons

Labor Market Trends

**Massive Job Losses Sapped the
Workers Comp Exposure Base, but
Improvements Are on the Horizon**

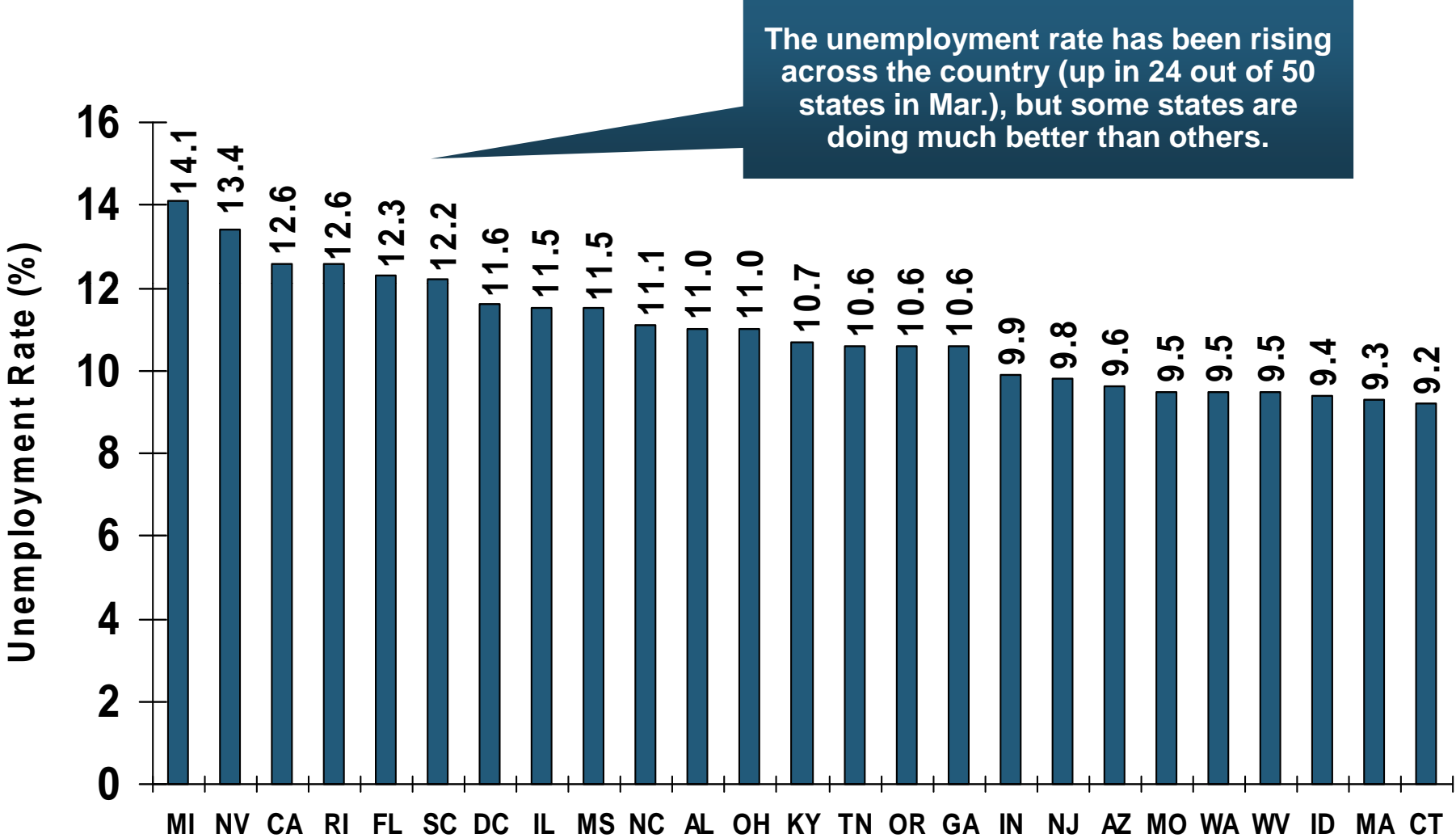
Unemployment and Underemployment Rates: Beginning to Improve in 2010

January 2000 through March 2010, Seasonally Adjusted (%)



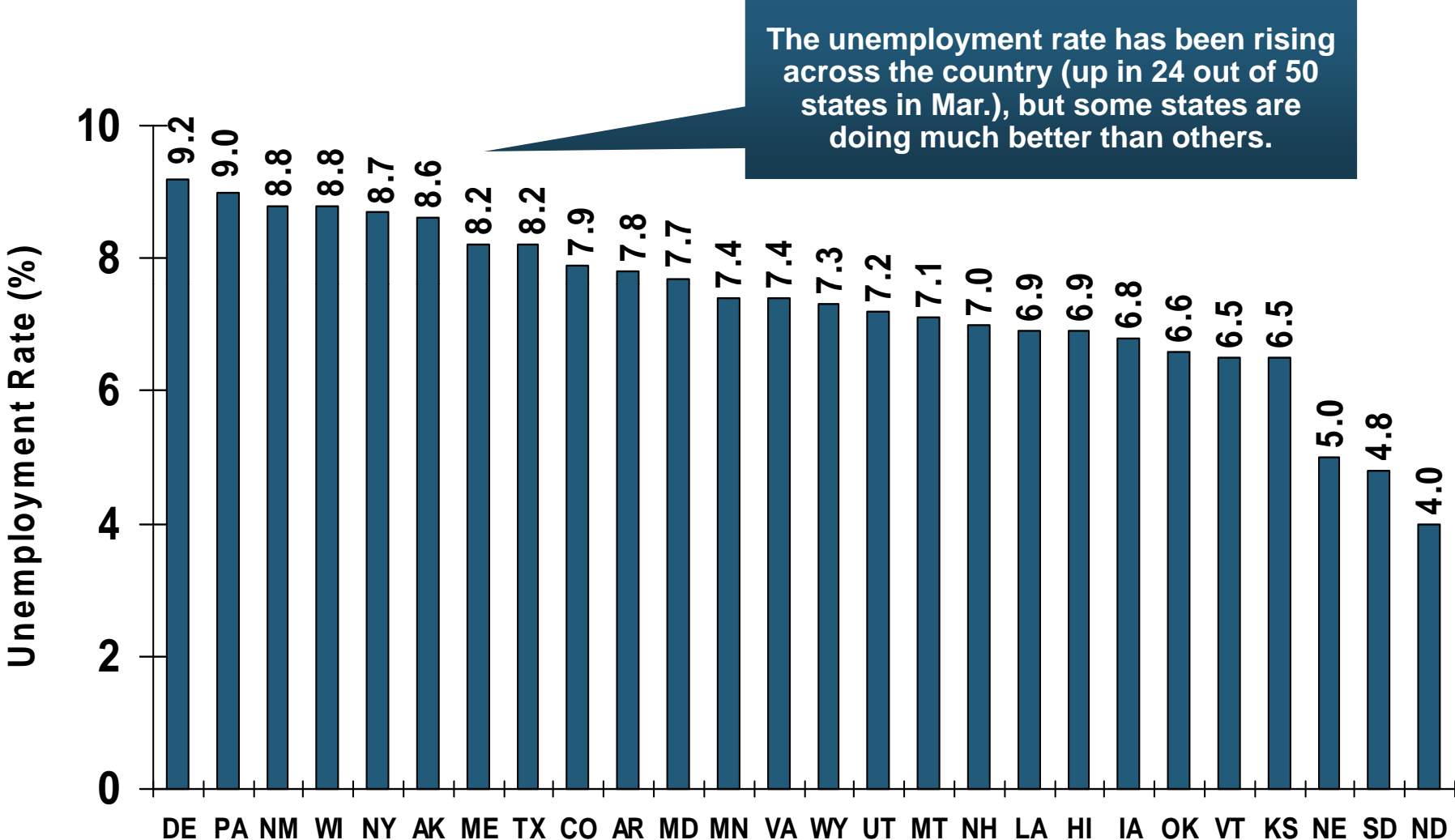
Source: US Bureau of Labor Statistics; Insurance Information Institute.

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



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

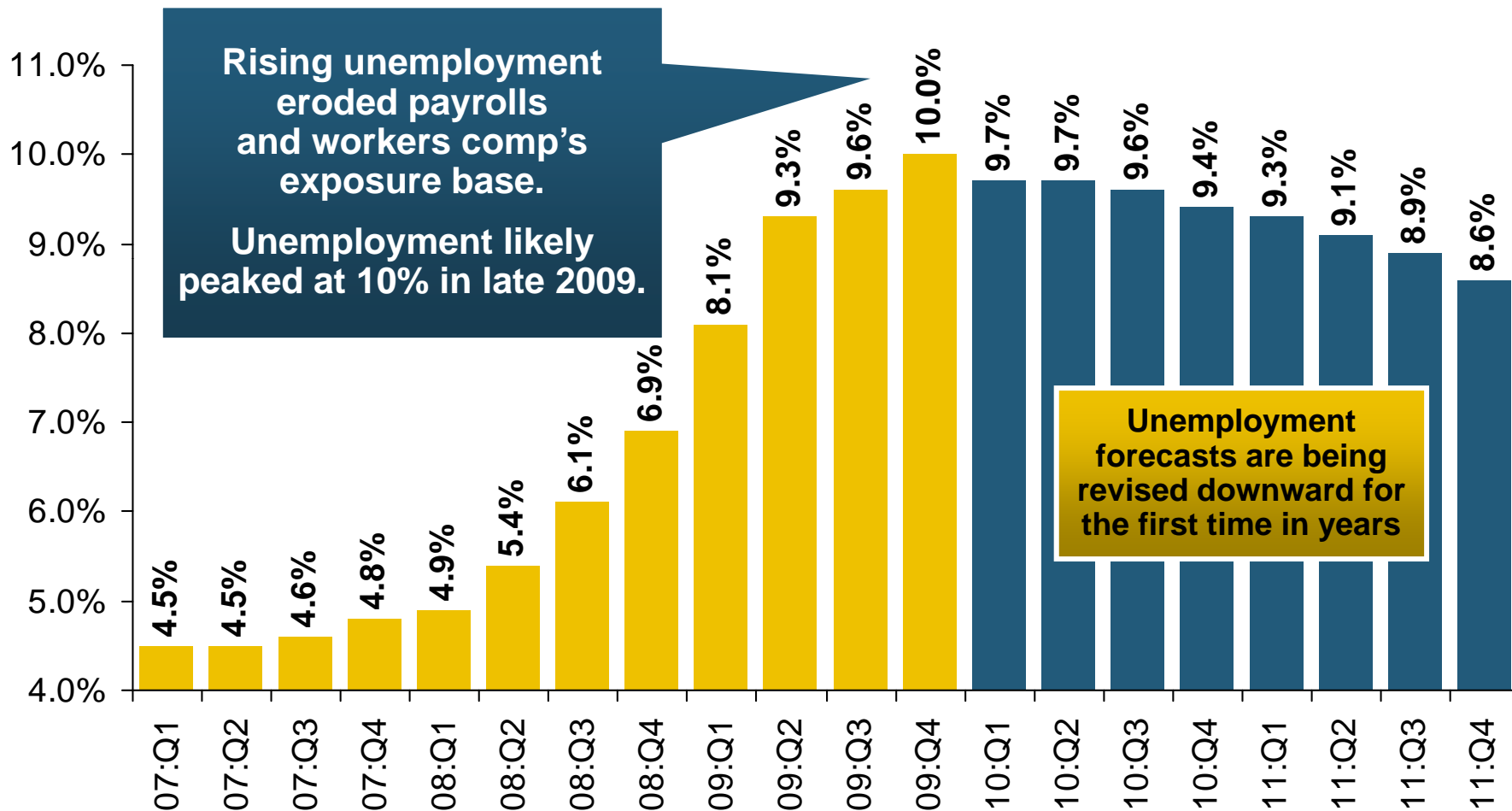
Unemployment Rates By State, March 2010: Lowest 25 States*



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

US Unemployment Rate

2007:Q1 to 2011:Q4F*

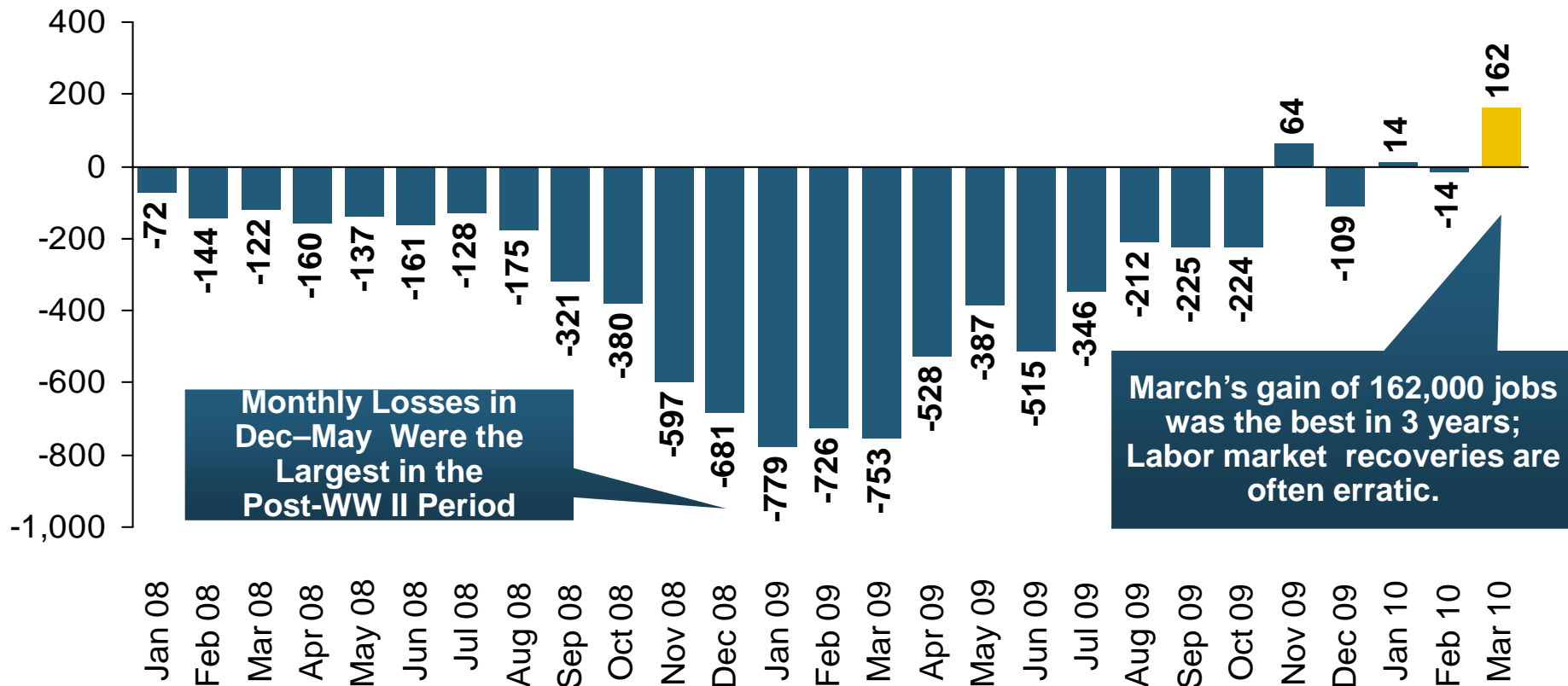


* ■ = actual; ■ = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (4/10); Insurance Information Institute

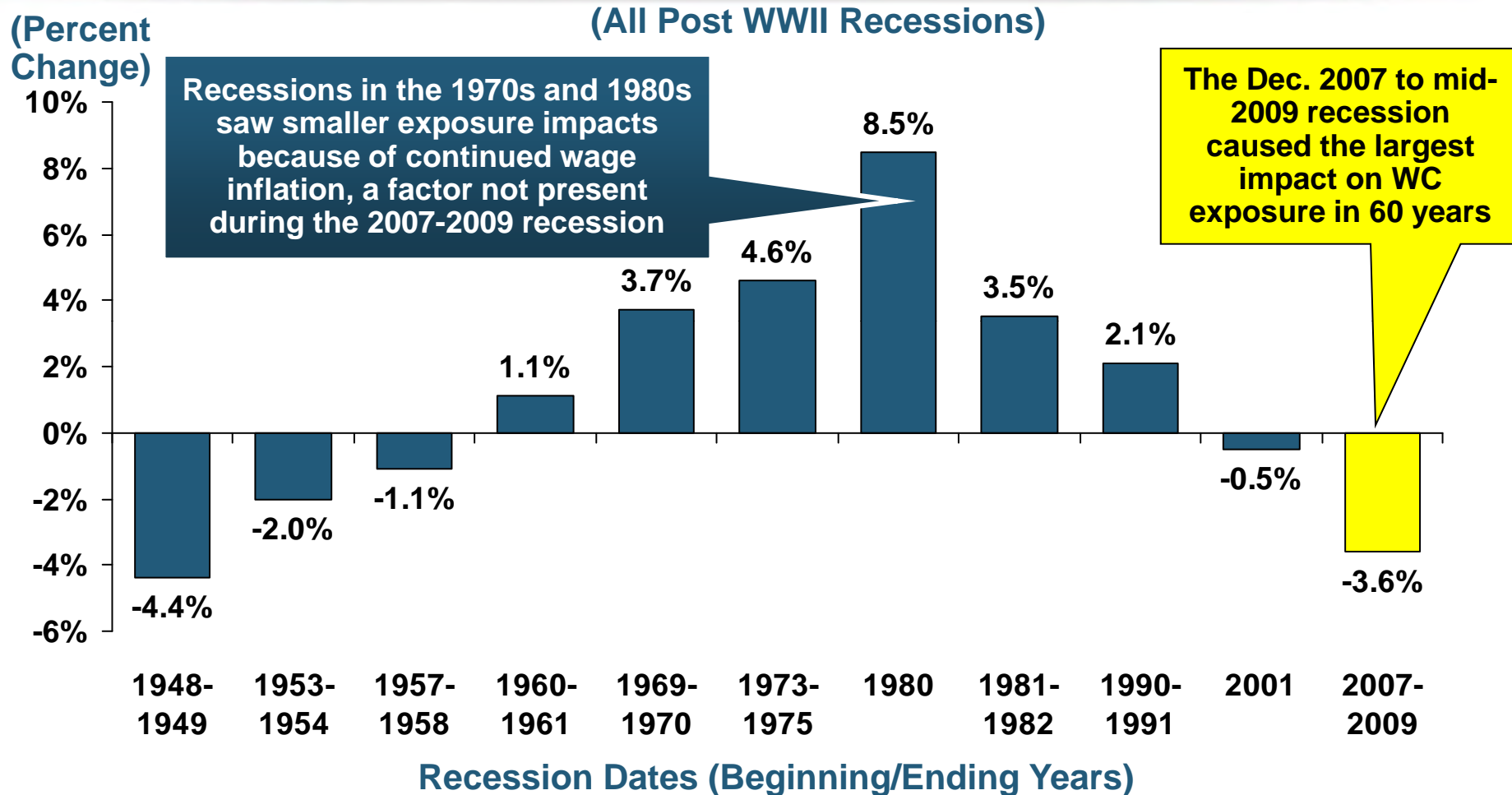
Monthly Change Employment*

January 2008 through March 2010 (Thousands)



**Job Losses Since the Recession Began in Dec. 2007 Total 8.4 Million;
14.9 Million People are Now Defined as Unemployed**

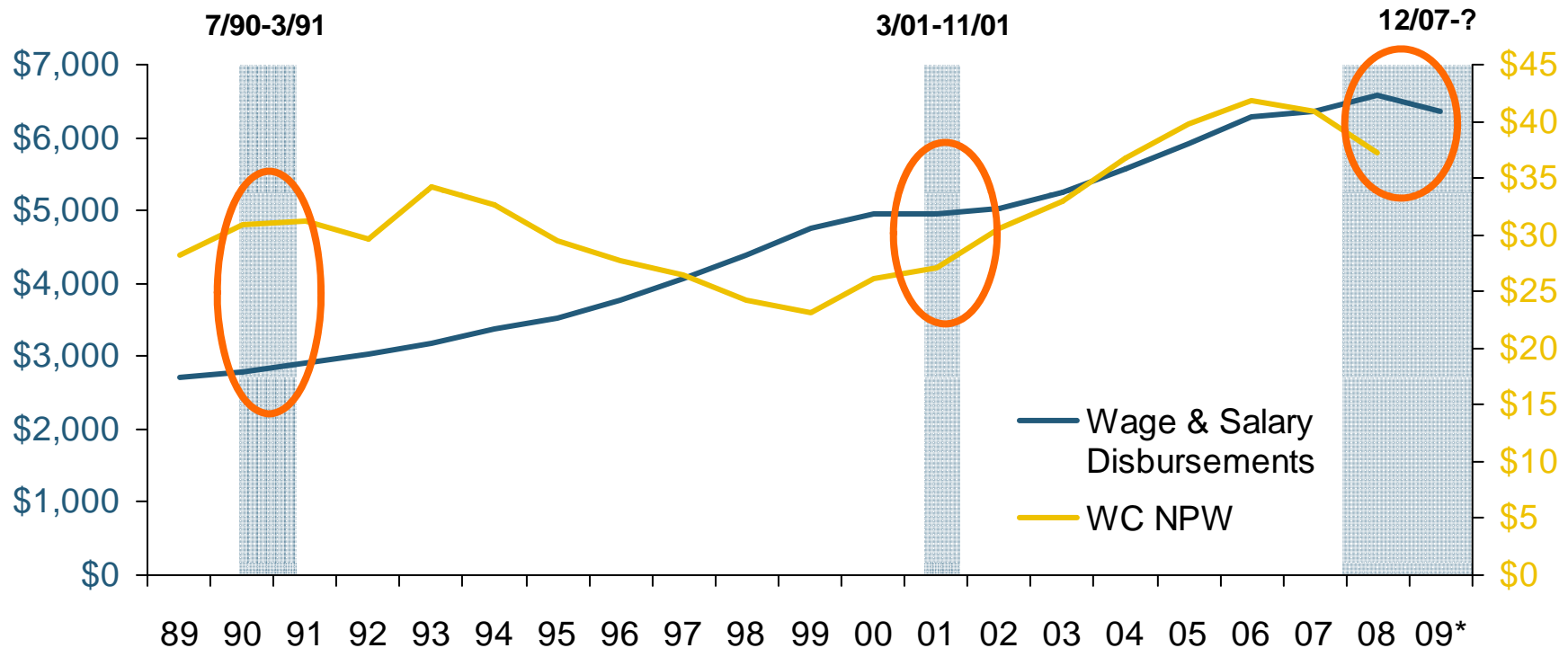
Estimated Effect of Recessions* on Payroll (Workers Comp Exposure)



*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).

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

Where Will the Growth in WC Exposure Come From?

Industry and Occupation Growth Analysis

Fastest Growing Occupations, 2008–2018:

Health/Science/Tech Dominate

**WC exposure growth will be the fastest
in the health, science and tech areas**

Occupations	Percent change	Number of new jobs (in thousands)	Wages (May 2008 median)	Education/training category
Biomedical engineers	72	11.6	\$ 77,400	Bachelor's degree
Network systems and data communications analysts	53	155.8	71,100	Bachelor's degree
Home health aides	50	460.9	20,460	Short-term on-the-job training
Personal and home care aides	46	375.8	19,180	Short-term on-the-job training
Financial examiners	41	11.1	70,930	Bachelor's degree
Medical scientists, except epidemiologists	40	44.2	72,590	Doctoral degree
Physician assistants	39	29.2	81,230	Master's degree
Skin care specialists	38	14.7	28,730	Postsecondary vocational award
Biochemists and biophysicists	37	8.7	82,840	Doctoral degree
Athletic trainers	37	6.0	39,640	Bachelor's degree
Physical therapist aides	36	16.7	23,760	Short-term on-the-job training
Dental hygienists	36	62.9	66,570	Associate degree
Veterinary technologists and technicians	36	28.5	28,900	Associate degree
Dental assistants	36	105.6	32,380	Moderate-term on-the-job training
Computer software engineers, applications	34	175.1	85,430	Bachelor's degree
Medical assistants	34	163.9	28,300	Moderate-term on-the-job training
Physical therapist assistants	33	21.2	46,140	Associate degree
Veterinarians	33	19.7	79,050	First professional degree
Self-enrichment education teachers	32	81.3	35,720	Work experience in a related occupation
Compliance officers, except agriculture, construction, health and safety, and transportation	31	80.8	48,890	Long-term on-the-job training

SOURCE: BLS Occupational Employment Statistics and Division of Occupational Outlook

Occupations with Largest Numerical Growth, 2008–2018: *Health, Services Dominate*

Dollar growth in WC exposures should grow the most (at current rate levels) in the health and services industries

Occupations	Number of new jobs (in thousands)	Percent change	Wages (May 2008 median)	Education/training category
Registered nurses	581.5	22	\$ 62,450	Associate degree
Home health aides	460.9	50	20,460	Short-term on-the-job training
Customer service representatives	399.5	18	29,860	Moderate-term on-the-job training
Combined food preparation and serving workers, including fast food	394.3	15	16,430	Short-term on-the-job training
Personal and home care aides	375.8	46	19,180	Short-term on-the-job training
Retail salespersons	374.7	8	20,510	Short-term on-the-job training
Office clerks, general	358.7	12	25,320	Short-term on-the-job training
Accountants and auditors	279.4	22	59,430	Bachelor's degree
Nursing aides, orderlies, and attendants	276.0	19	23,850	Postsecondary vocational award
Postsecondary teachers	256.9	15	58,830	Doctoral degree
Construction laborers	255.9	20	28,520	Moderate-term on-the-job training
Elementary school teachers, except special education	244.2	16	49,330	Bachelor's degree
Truck drivers, heavy and tractor-trailer	232.9	13	37,270	Short-term on-the-job training
Landscaping and groundskeeping workers	217.1	18	23,150	Short-term on-the-job training
Bookkeeping, accounting, and auditing clerks	212.4	10	32,510	Moderate-term on-the-job training
Executive secretaries and administrative assistants	204.4	13	40,030	Work experience in a related occupation
Management analysts	178.3	24	73,570	Bachelor's or higher degree, plus work experience
Computer software engineers, applications	175.1	34	85,430	Bachelor's degree
Receptionists and information clerks	172.9	15	24,550	Short-term on-the-job training
Carpenters	165.4	13	38,940	Long-term on-the-job training

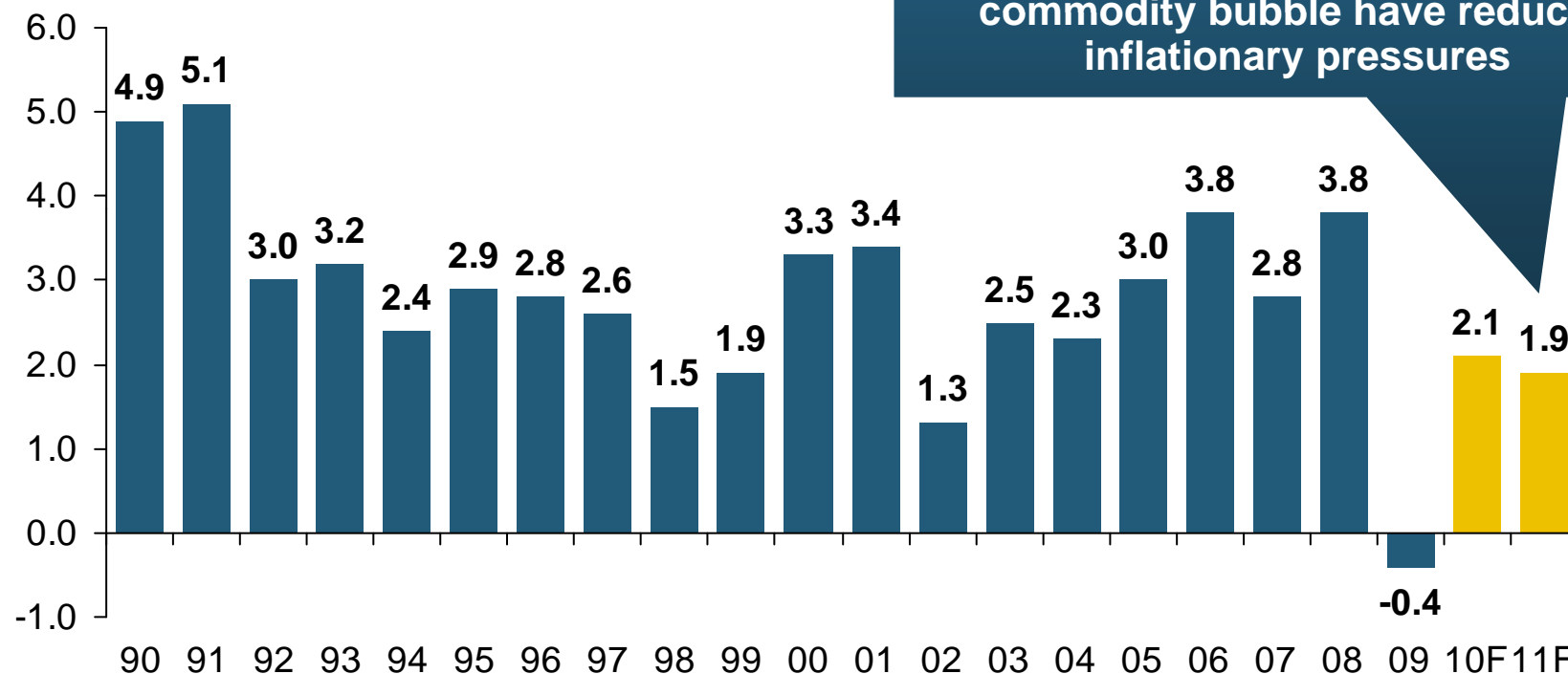
SOURCE: BLS Occupational Employment Statistics and Division of Occupational Outlook

**Inflation Trends:
*Could Rising Deficits, Bailouts &
Stimulus Spark Inflation?***

**Is Workers Compensation Claim
Severity at Risk of Accelerating?**

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

Annual Inflation Rates (%)

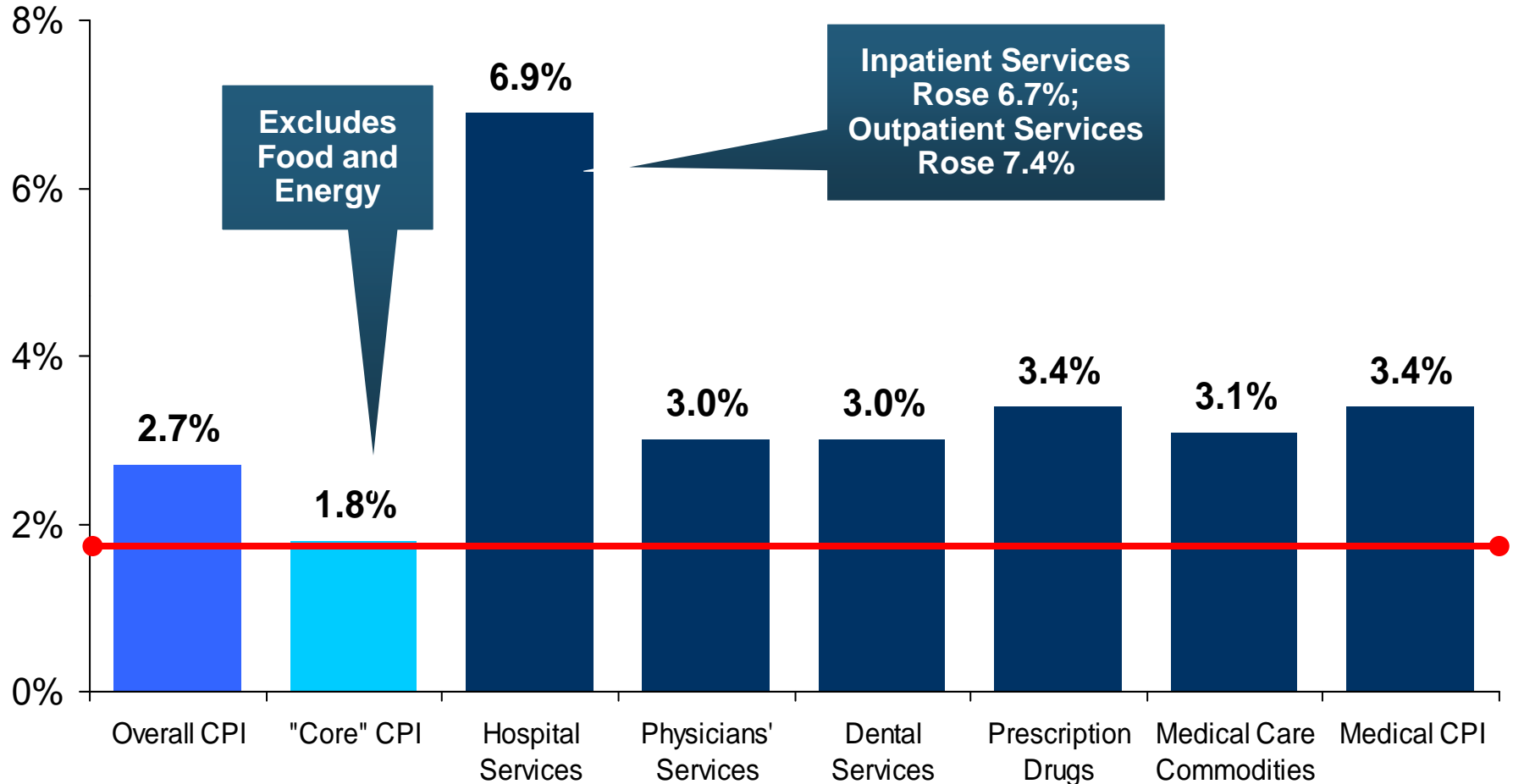


Inflation peaked at 5.6% in August 2008 on high energy and commodity crisis. The recession and the collapse of the commodity bubble have reduced inflationary pressures

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

WC Insurers Experience Inflation More Intensely than 2009 CPI Suggests

(Percent increase Dec 08 to Dec 09)

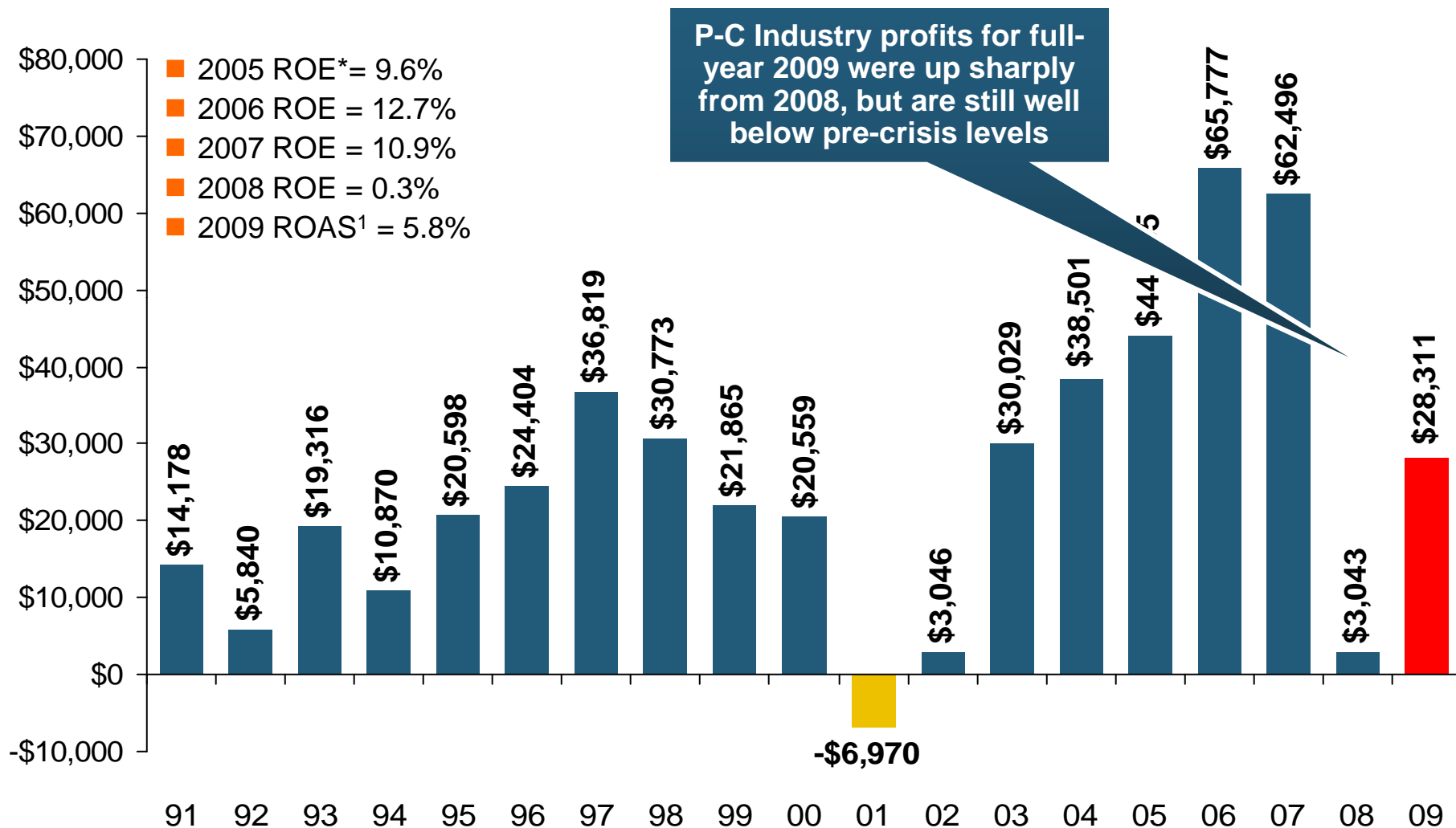


Healthcare Costs Are a Major WC Insurance Cost Driver. They Are Likely to Increase Faster than the CPI for the Next Few Years, at Least

P/C Insurance Financial Performance

A Resilient Industry in Challenging Times

P/C Net Income After Taxes 1991–2009 (\$ Millions)



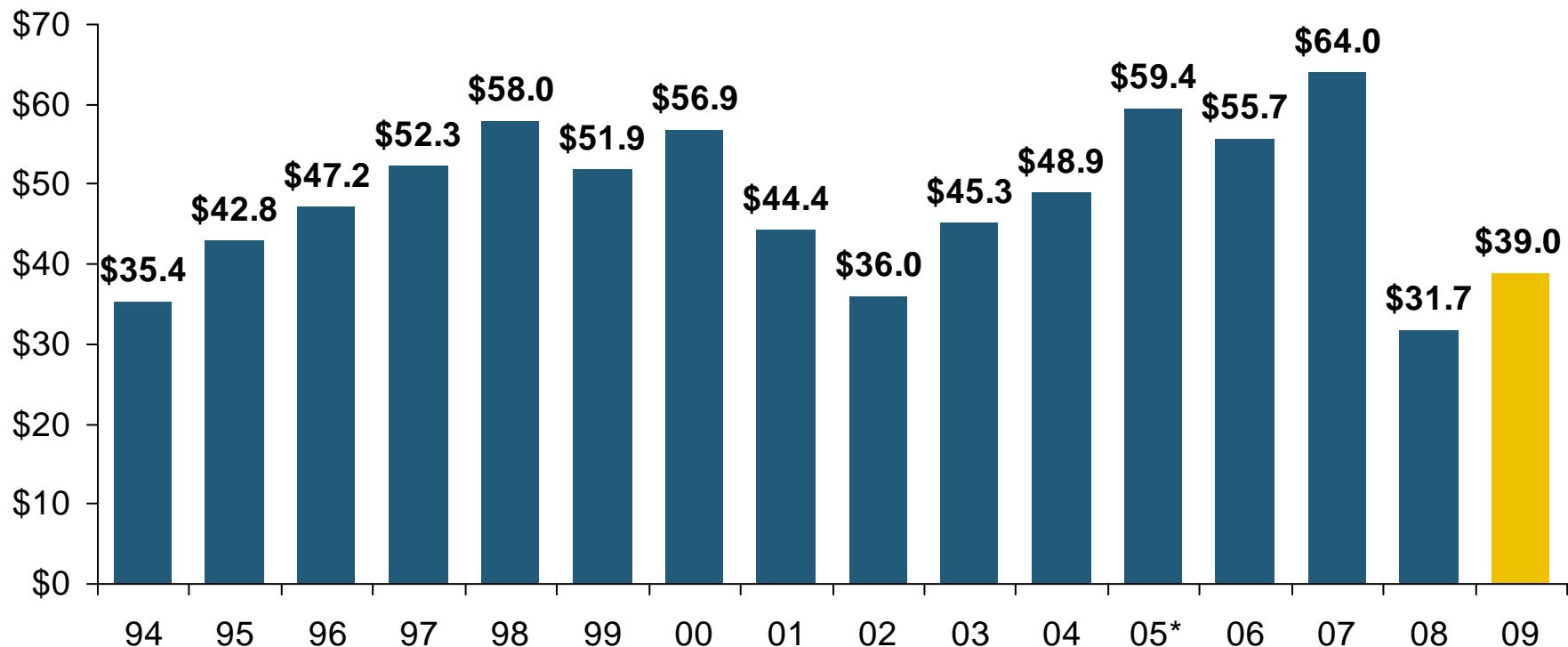
* ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 7.3% ROAS for 2009 and 4.4% for 2008. 2009 net income was \$34.5 billion and \$20.8 billion in 2008 excluding M&FG.

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

Property/Casualty Insurance Industry Investment Gain: 1994–2009¹



(\$ Billions)



Investment Gains Fell by 50% In 2008 Due to Lower Yields, Poor Equity Market Conditions. In 2009, the Lower Realized Capital Losses Helped Offset Lower Investment Income

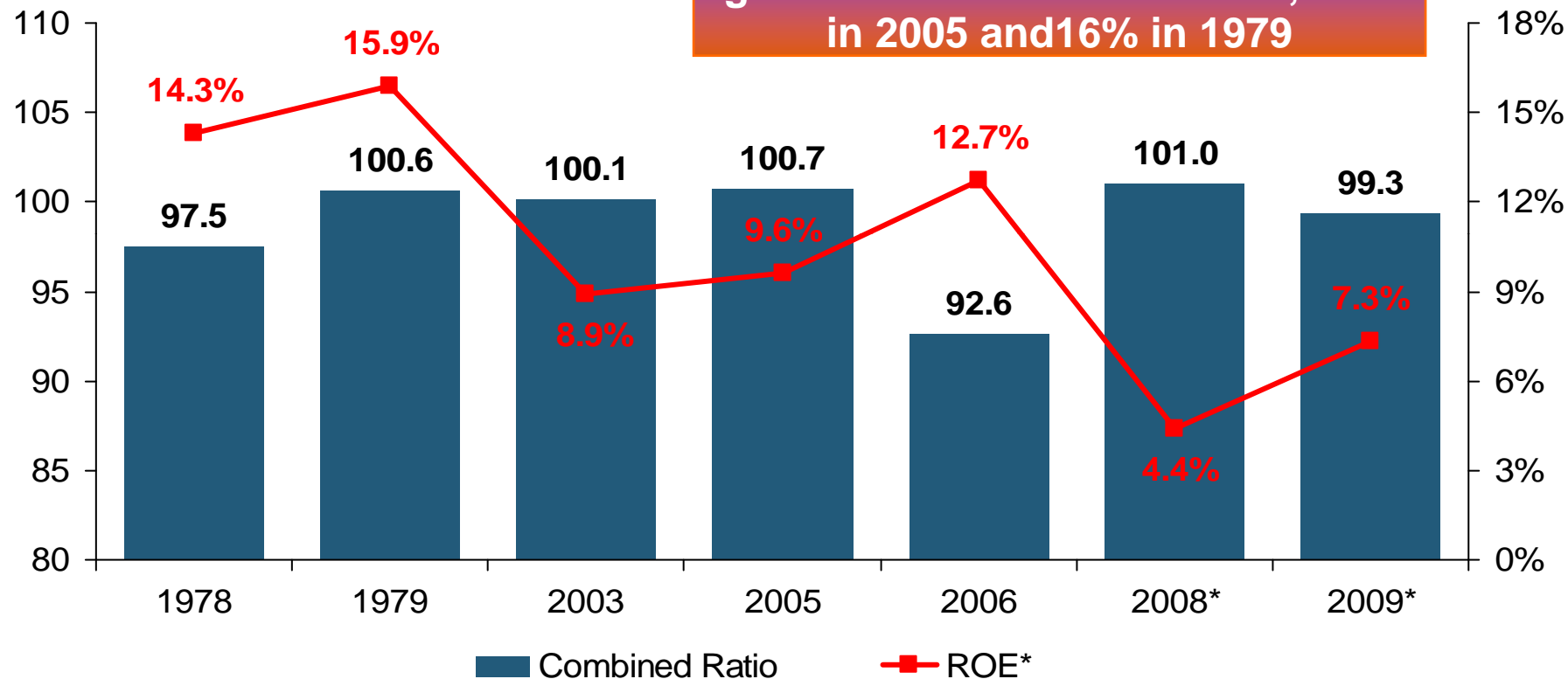
¹ Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.

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

Sources: ISO; Insurance Information Institute.

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

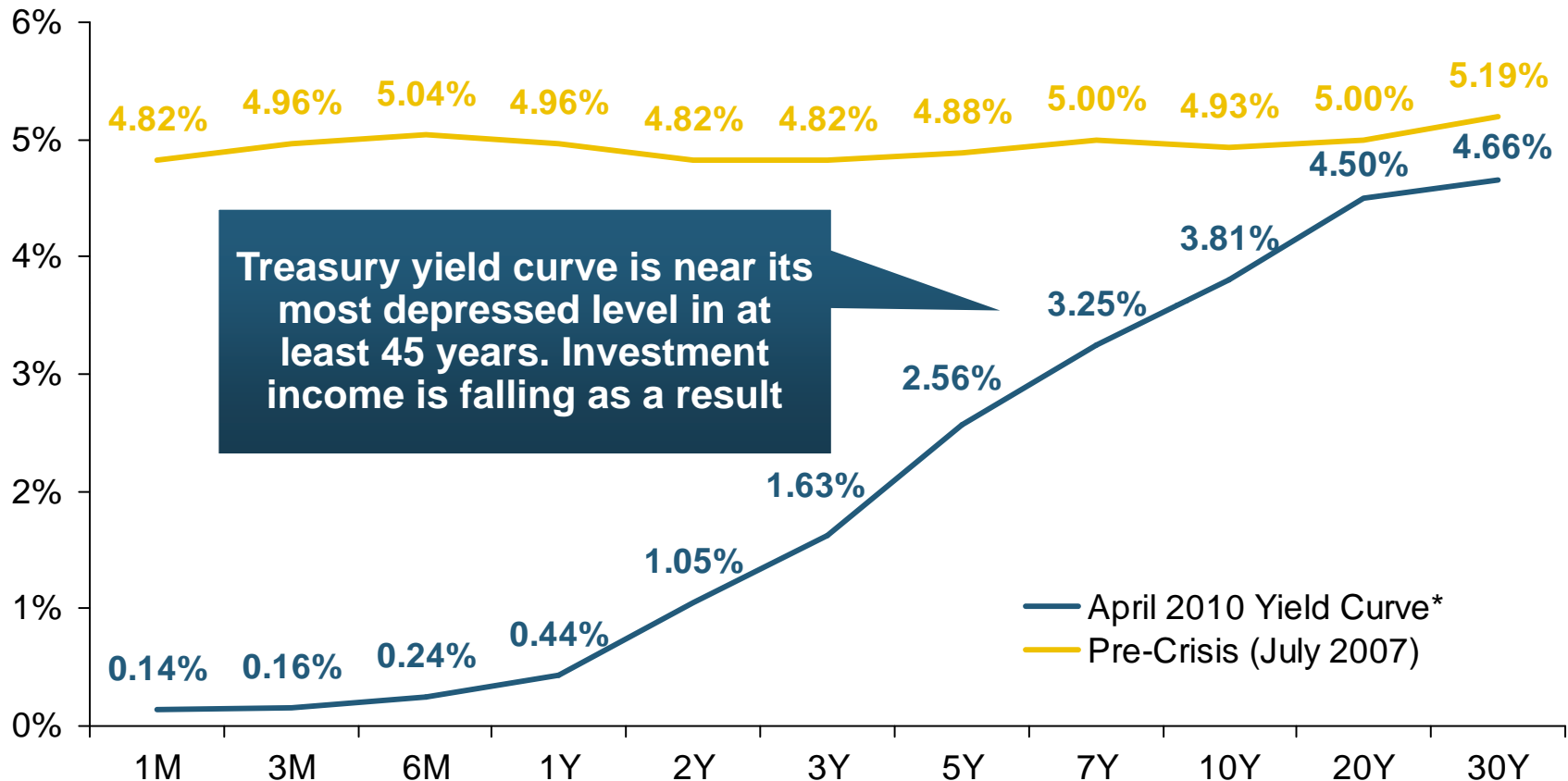
Combined Ratio / ROE



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

* 2009/2008 figures are return on average statutory surplus. 2008 and 2009 figures exclude mortgage and financial guaranty insurers
Source: Insurance Information Institute from A.M. Best and ISO data

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

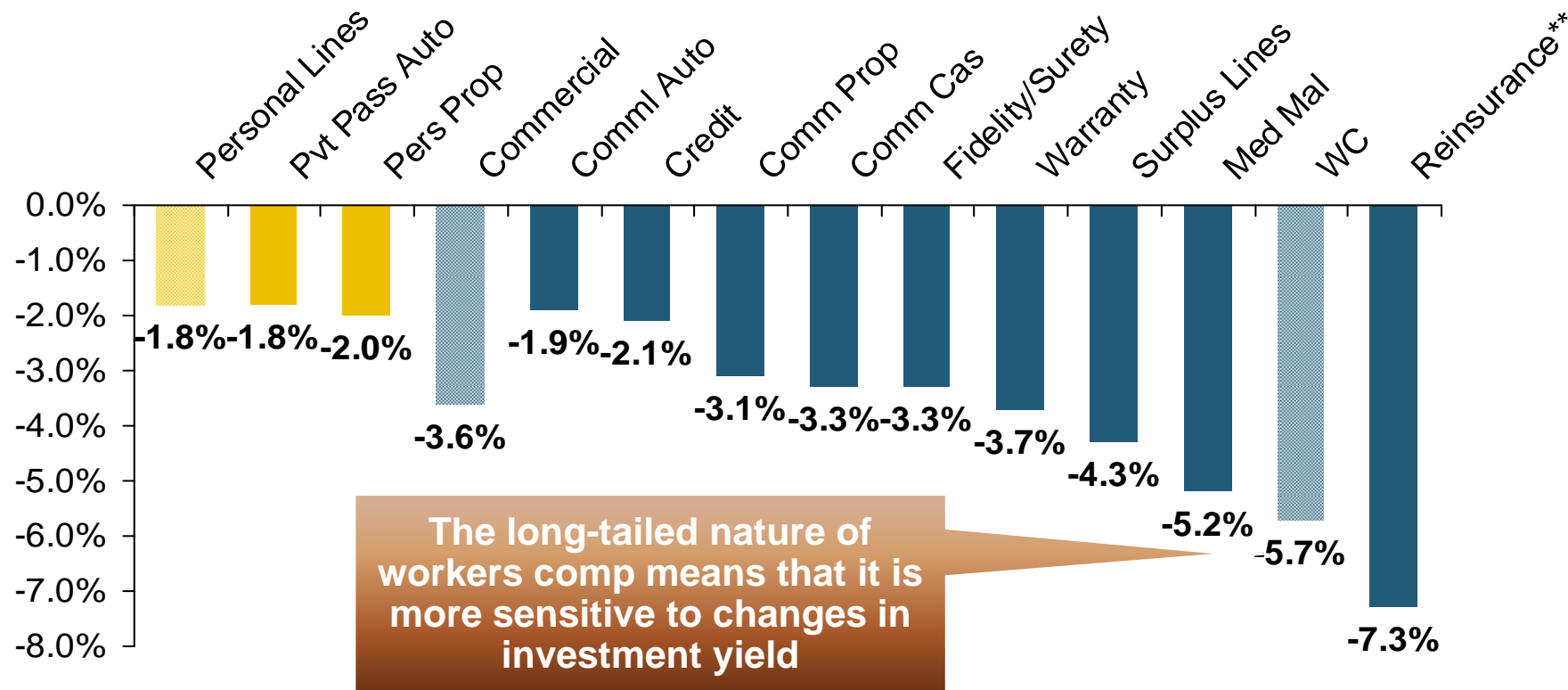


Stock Dividend Cuts Have Further Pressured Investment Income

*Week ending April 23, 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 Performance

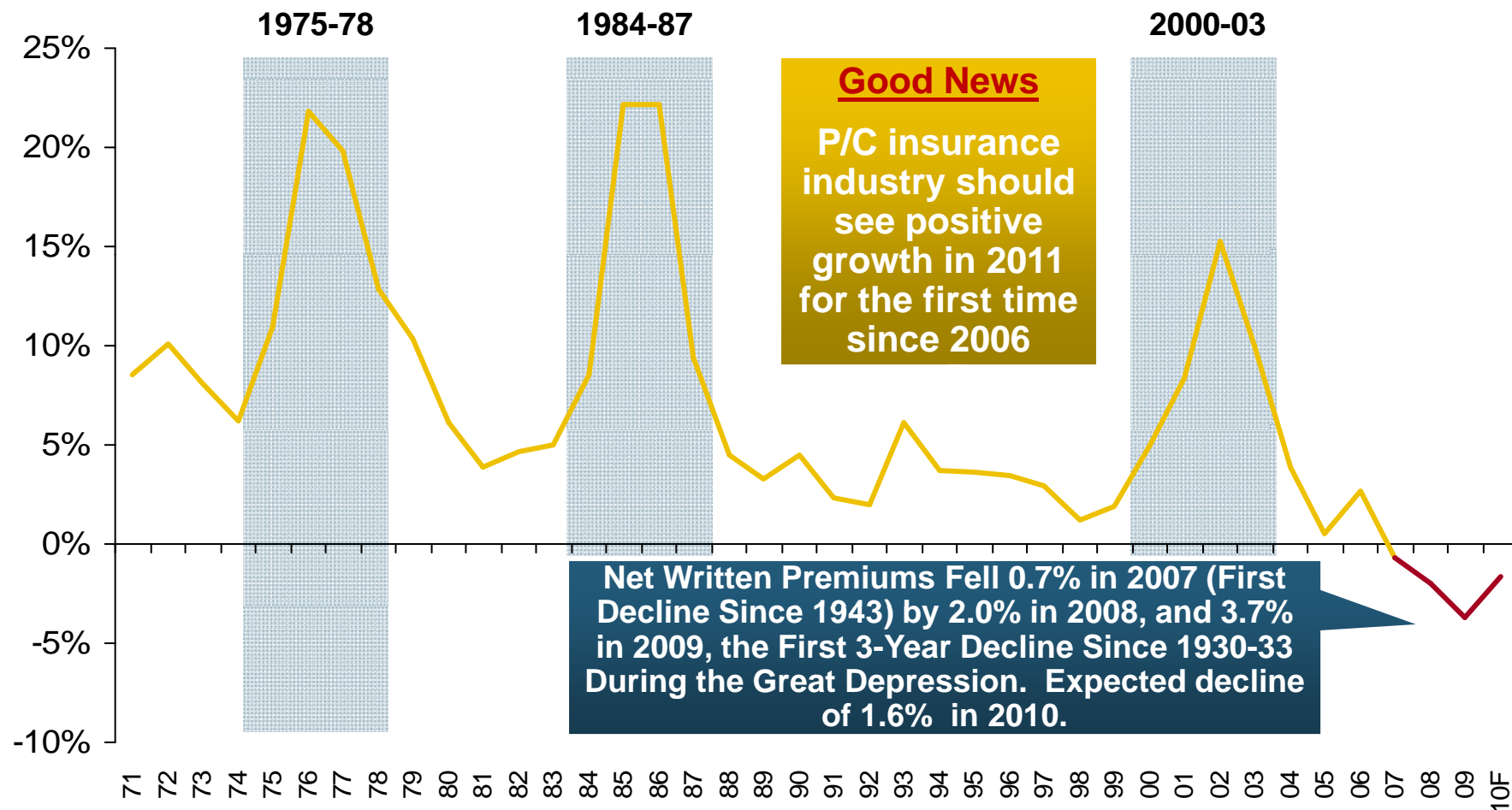
*Based on 2008 Invested Assets and Earned Premiums

**US domestic reinsurance only.

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

Strength of Recent Hard Markets by NWP Growth

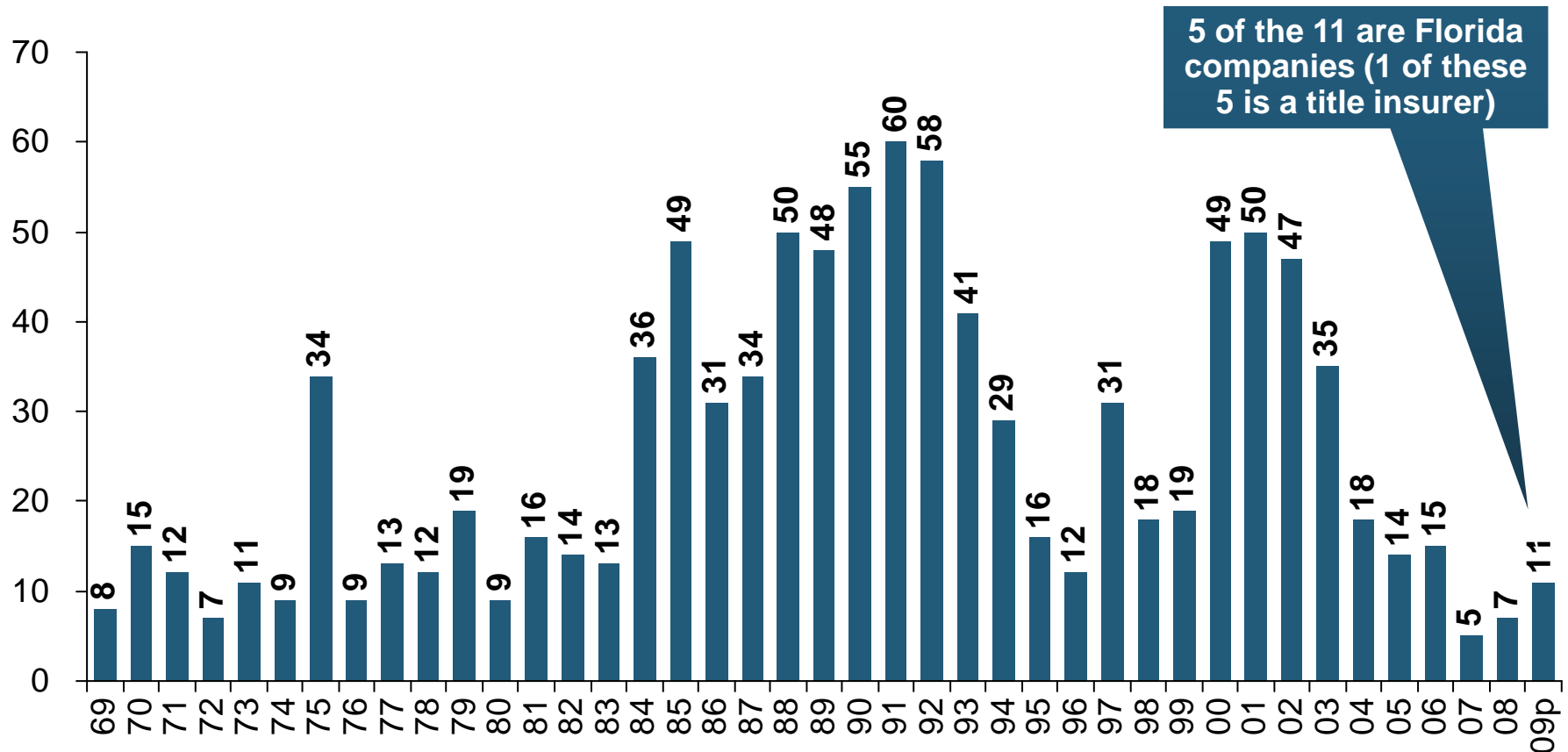
(Percent)



Shaded areas denote "hard market" periods

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

P/C Insurer Impairments, 1969–2009p



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

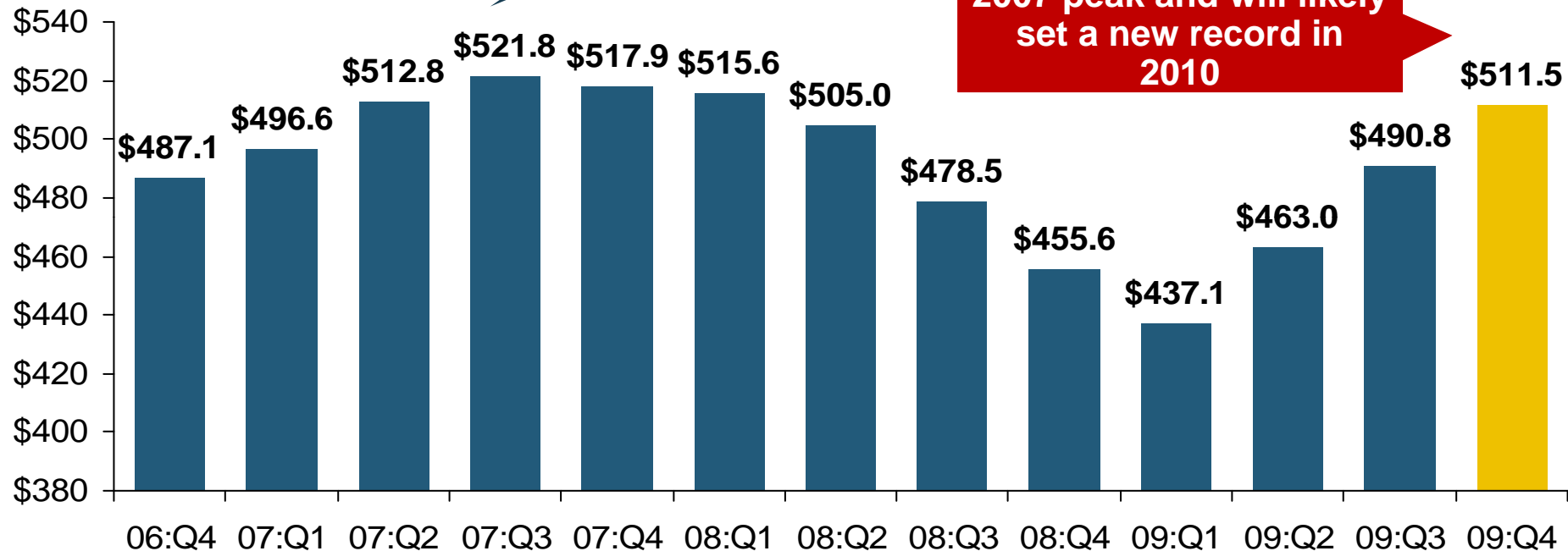
Capacity/Capital/Policyholder Surplus (US)

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

***Capacity Has Been 100% Restored
to Pre-Crisis Levels***

Policyholder Surplus, 2006:Q4–2009:Q4

(\$ Billions)



Declines Since 2007:Q3 Peak

08:Q2: -\$16.6B (-3.2%)

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

08:Q3: -\$43.3B (-8.3%)

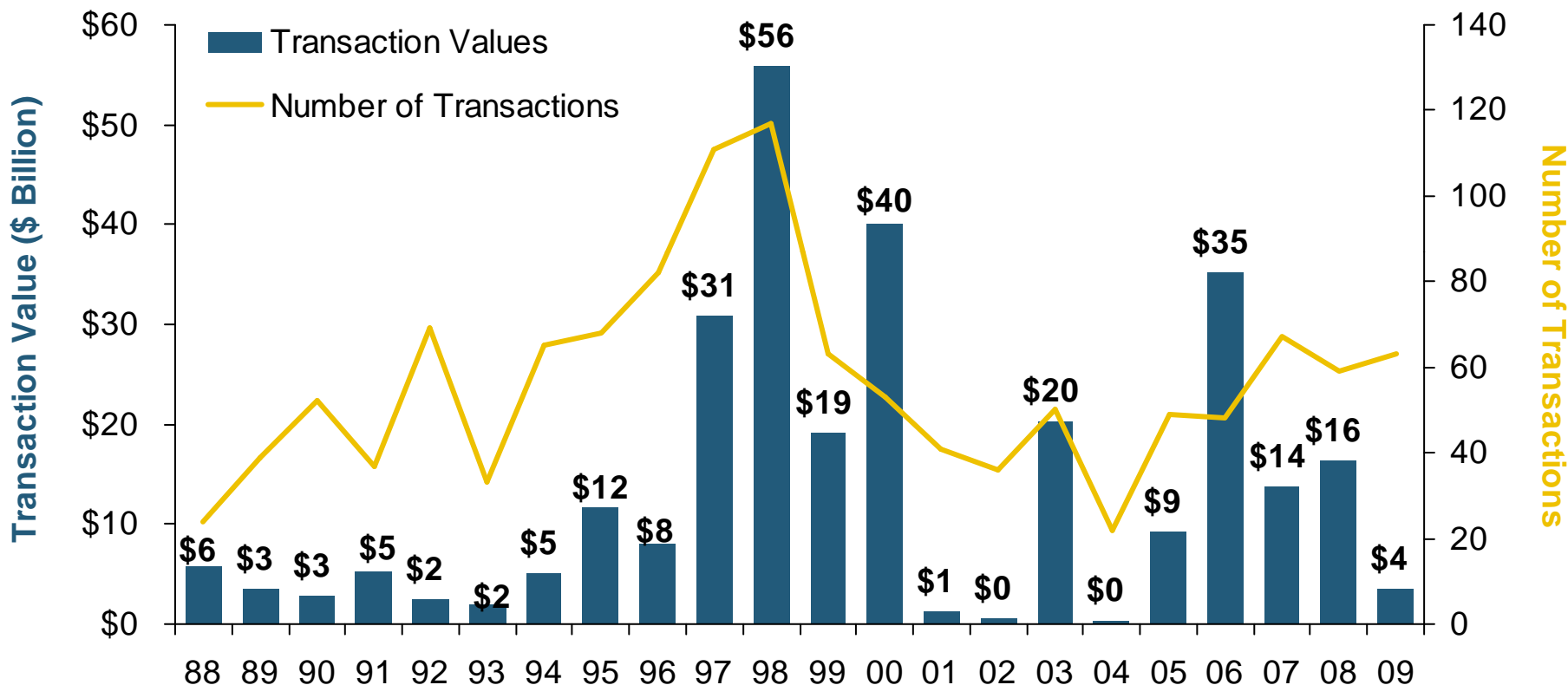
09:Q3: -\$31.8B (-5.9%)

08:Q4: -\$66.2B (-12.9%)

09:Q4: -\$2.5B (-0.5%)

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

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.

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***Thank you for your time
and your attention!***

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