



Overview & Outlook for the P/C Insurance Industry

Drivers of Revenue, Cost and Competition

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What in the World Is Going On?

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

***And If It Is, Should Guaranty Funds
Be Concerned?***

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?

Recent Events Illustrate the Importance of Guaranty Events

Uncertainty, Volatility and Catastrophe



Terrorism, P/C Insurance 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

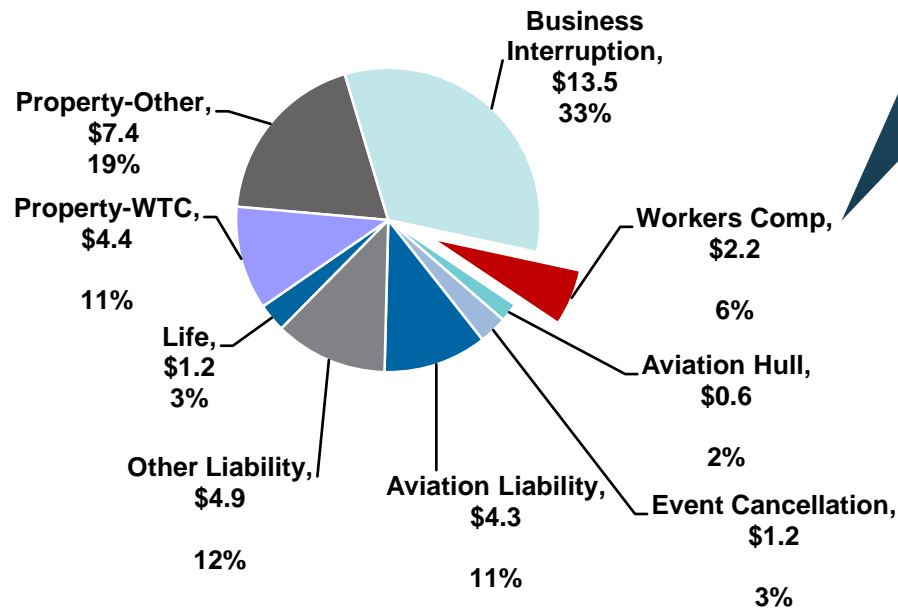


Bin Laden is Dead and Justice Is Served, But What Are the Implications for the P/C Insurance Industry?

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 (\$2.2 bn), 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

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
Workers Comp	483.7	126.7	87.5	31.4
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
TOTAL	\$778.1	\$196.8	\$171.2	\$42.3

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

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

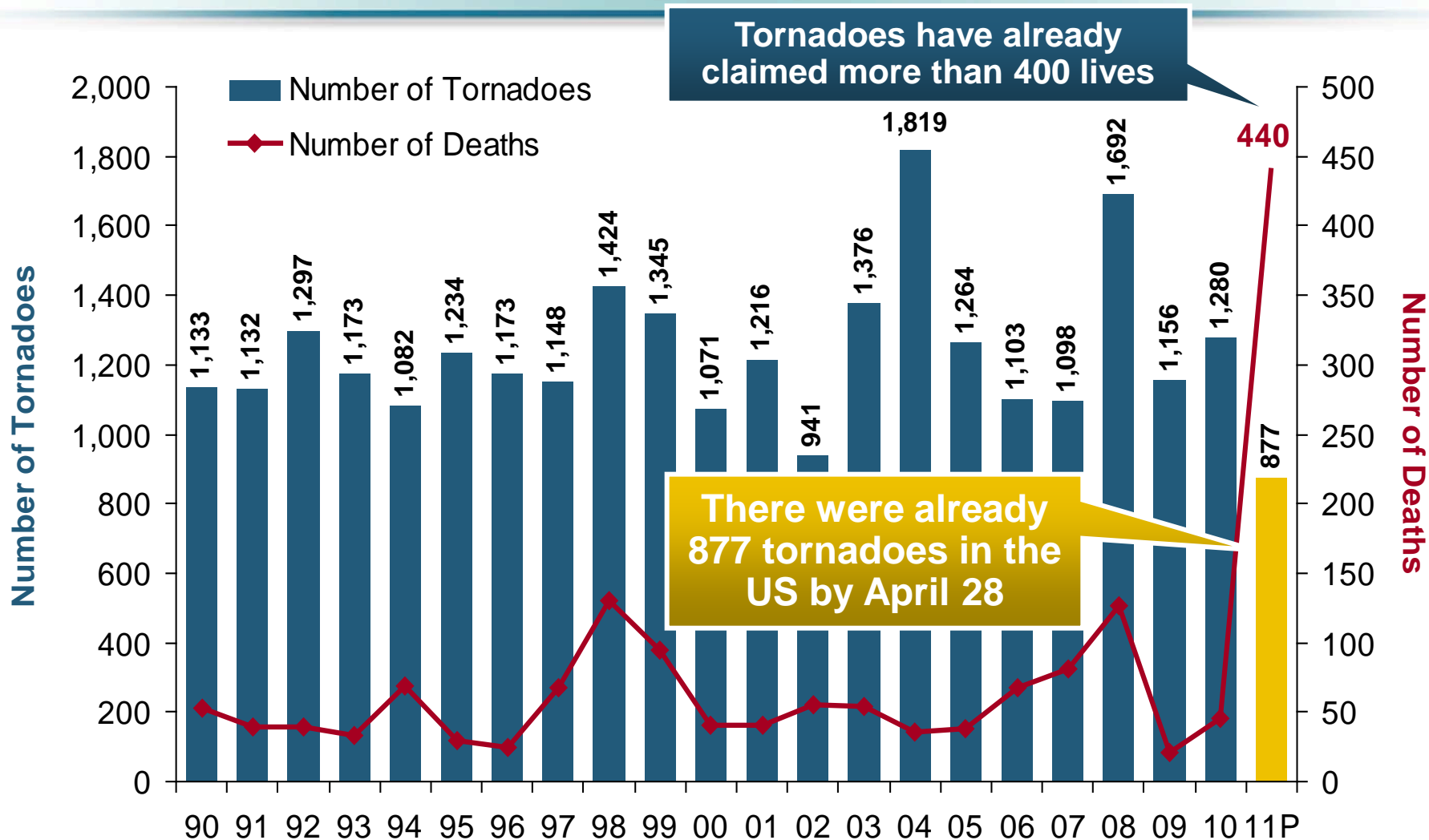
Summary of April 2011 Tornado Outbreak

**2011 Will Be Among the Most
Deadly and Expensive for
Tornadoes in History**

Summary of Recent Tornado Activity

- **There Have Been 877 Tornadoes Through April 28 in the US**
- **Approximately 450 People Have Died**
- **The April 27 Tornado Outbreak Killed at Least 342 People**
 - ◆ Now the 2nd deadliest outbreak in US history (747 killed in march 1925 event)
 - ◆ States impacted: AR, TN, LA, MS, GA and especially AL
- **Insured Losses Estimated at \$2 Bill to \$5 Bill (Eqecat)**
- **Economic Losses Likely in the \$4 Bill to \$10 Bill Range**
- **P/C Insurers (and their Reinsurers) Will Settle Tens of Thousands of Home, Business and Auto Claims**
- **P/C Insurance Industry is Very Strong and Will Encounter No Difficulties in Paying these Claims**

Number of Tornadoes and Related Deaths, 1990 – 2011*

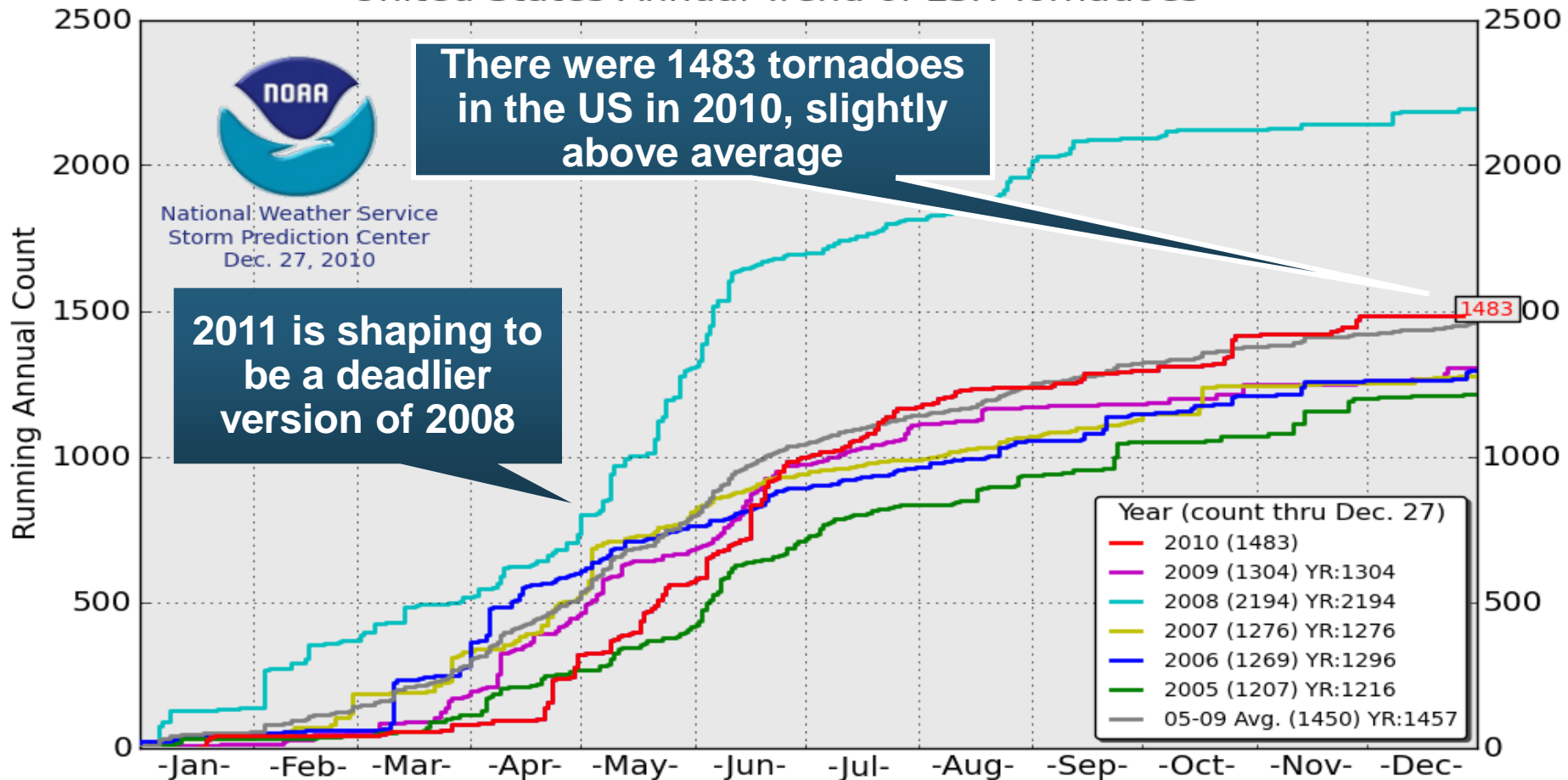


*2011 is preliminary data through April 28; Death count is III estimate based on official sources as of April 30.

Source: U.S. Department of Commerce, Storm Prediction Center, National Weather Service.

U.S. Tornado Count, 2010

United States Annual Trend of LSR Tornadoes*

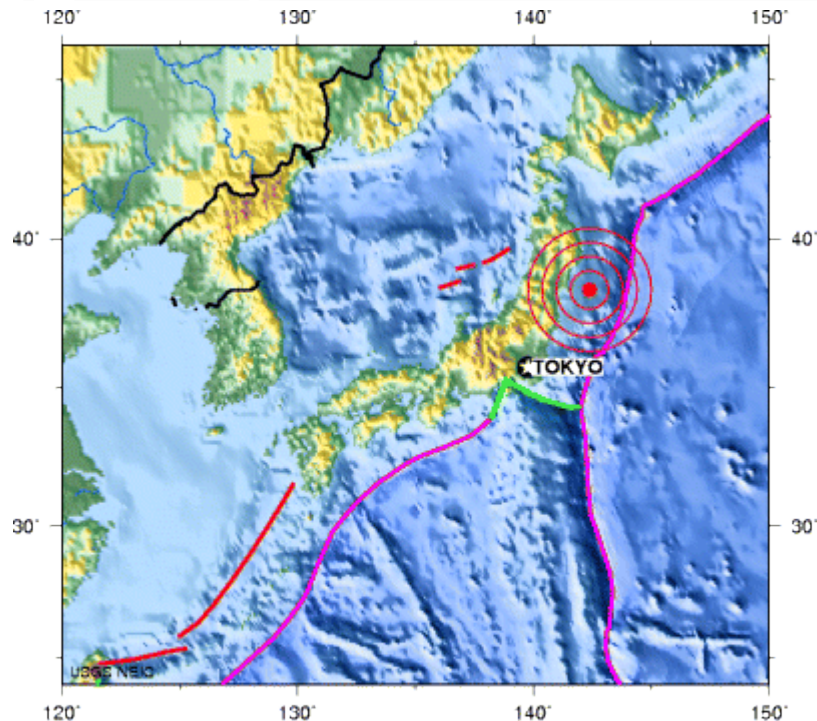


*Preliminary tornadoes from NWS Local Storm Reports (LSRs)
Annual average is based on preliminary LSRs, 2005-2009

Summary of Japan Earthquake

**The March 11 Quake is Just the
Most Recent of Several Large
Catastrophe Losses**

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**

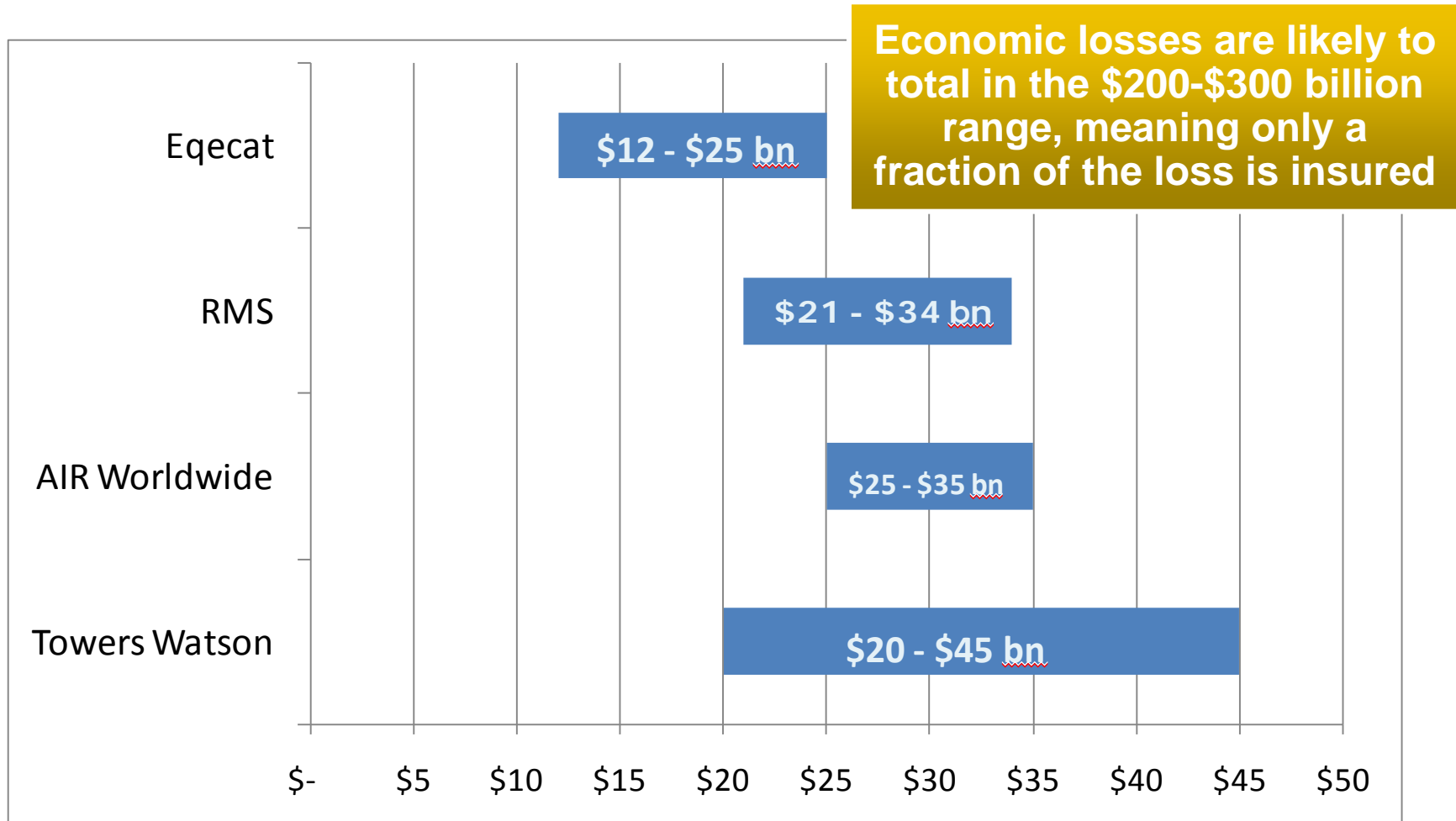
Source: US Geological Service; Insurance Information Institute.

March 11 Earthquake Facts as of 3/24/2011

- 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.

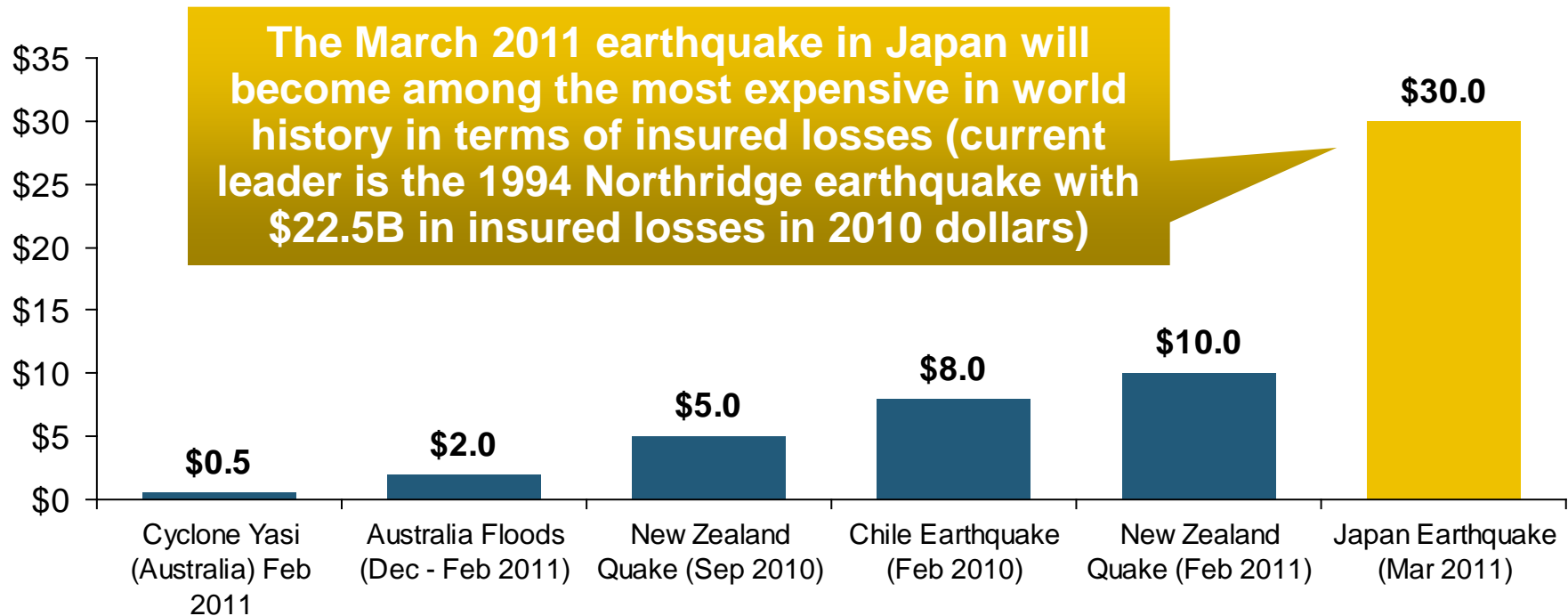
Sources: AIR Worldwide, Eqecat, RMS, Towers Perrin; Insurance Information Institute.

Top 20 Nonlife Insurance Companies in Japan by DPW, 2008

Rank	Companies	Direct premiums written, 2008		Market share	Cumulative Market Share
		JPY (millions)	U.S. (\$) (millions)		
1	Tokio & Marine Nichido	\$2,032,131.2	\$19,660.9	24.0%	24.0%
2	Sompo Japan	1,504,262.7	14,553.8	17.8	41.8%
3	Mitsui Sumitomo	1,455,161.8	14,078.7	17.2	59.0%
4	Aioi	897,182.6	8,680.3	10.6	69.6%
5	Nipponkoa	728,262.9	7,046.0	8.6	78.2%
6	Nisay Dowa	361,530.7	3,497.8	4.3	82.5%
7	Fuji	329,345.7	3,186.4	3.9	86.4%
8	AIU	253,522.8	2,452.8	3.0	89.4%
9	Kyoei	199,393.1	1,929.1	2.4	91.8%
10	Nisshin	149,735.8	1,448.7	1.8	93.6%
11	American Home	82,889.8	802.0	1.0	94.6%
12	Asahi	73,600.1	712.1	0.9	95.5%
13	Sony	60,868.3	588.9	0.7	96.2%
14	ACE	54,876.2	530.9	0.7	96.9%
15	Zurich	45,471.3	439.9	0.5	97.4%
16	SECOM	44,245.0	428.1	0.5	97.9%
17	Sumi Sei	33,594.0	325.0	0.4	98.3%
18	AXA	30,418.9	294.3	0.4	98.7%
19	Mitsui Direct	29,471.9	285.1	0.4	99.1%
20	Daido	15,690.4	151.8	0.2	99.3%

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

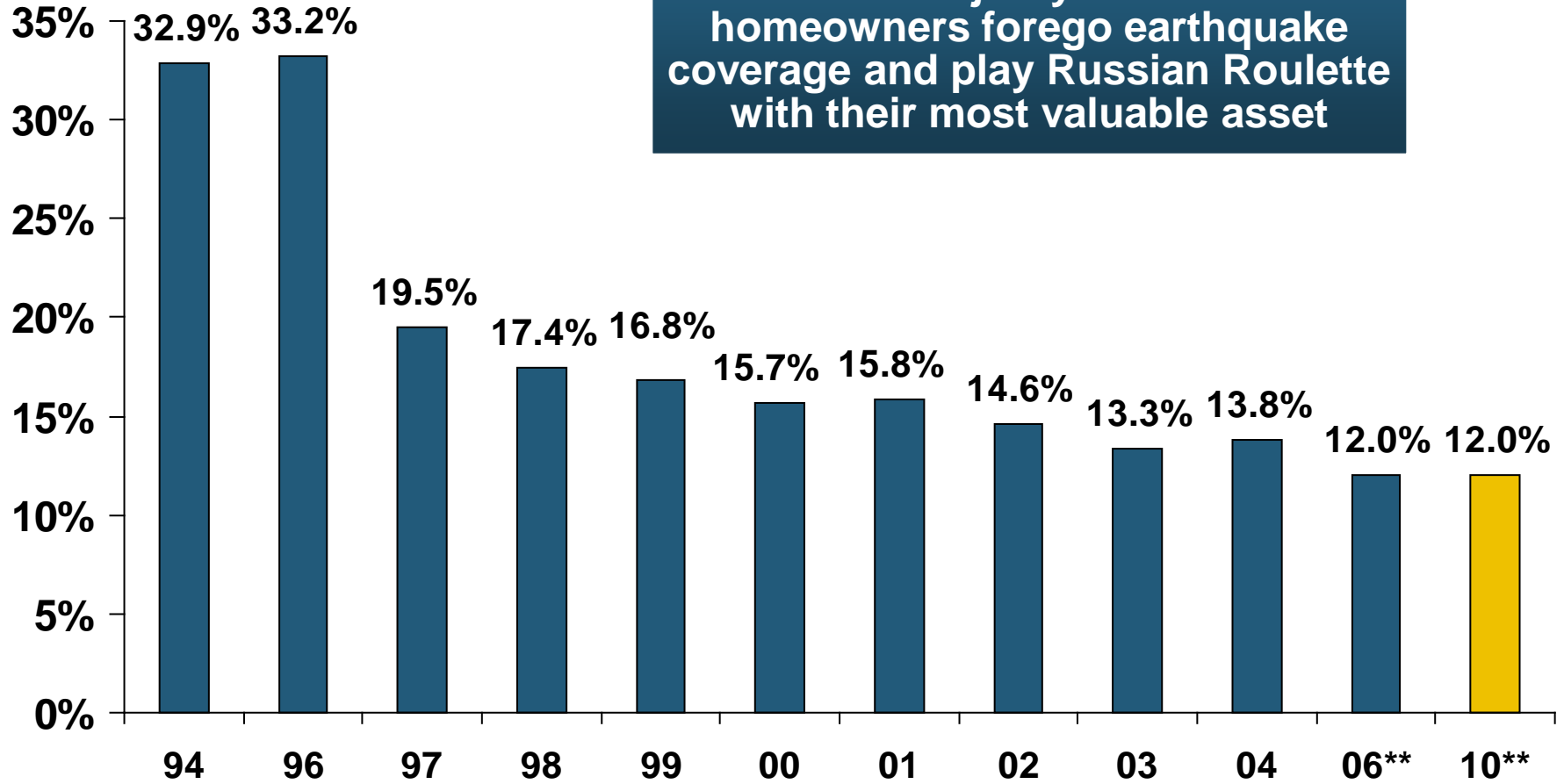
Potential Impacts of Japan Quake & Other Major CATs on P/C (Re)Insurance Markets

Impacts Could Be Felt Well Beyond Japan

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

- **No Direct Impact for US Domestic Primary Insurers**
- **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 on Cost of US Property-Cat Reinsurance**
 - ◆ Market remains well capitalized and competitive
 - ◆ Elevated global cat activity could halt/hike price declines for property/cat reinsurance

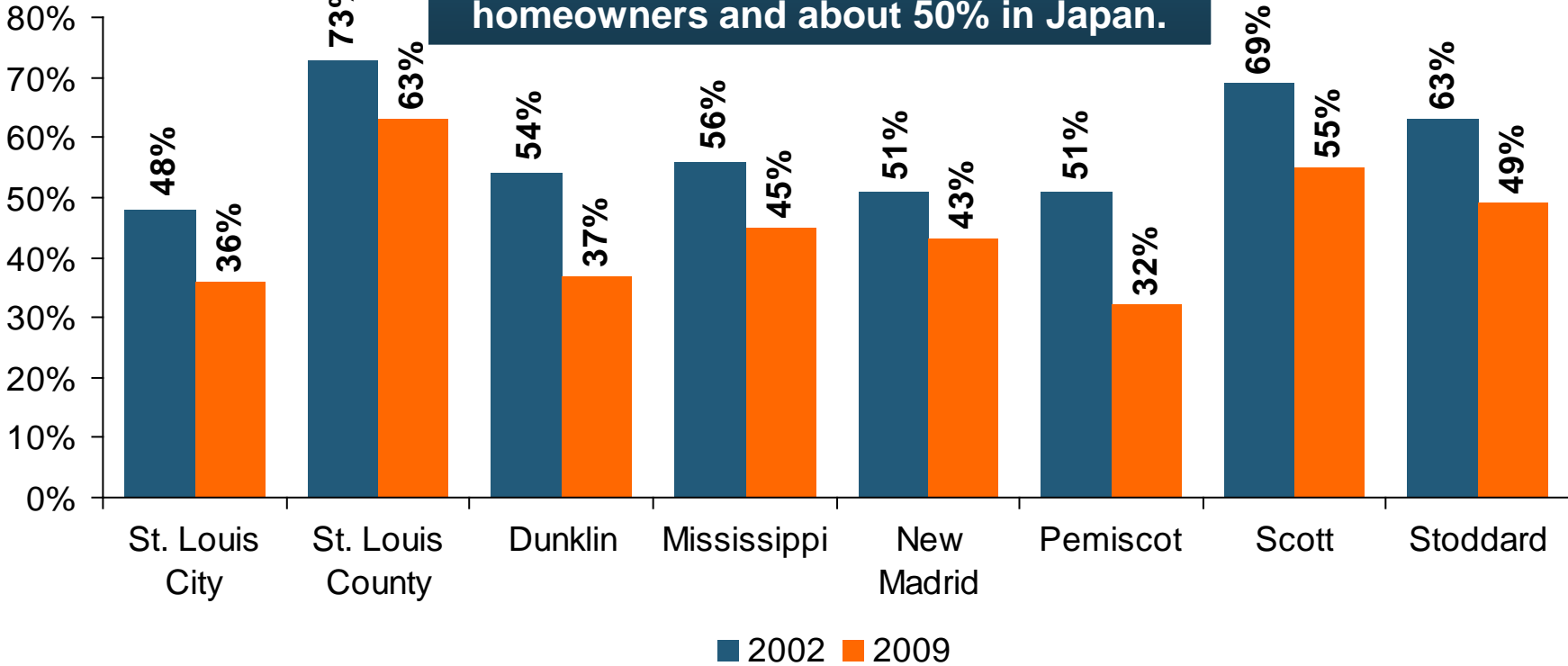
Percentage of California Homeowners with Earthquake Insurance, 1994-2010*



*Includes CEA policies beginning in 1996. **2006/10 estimates from Insurance Information Network of CA.
Source: California Department of Insurance; Insurance Information Institute.

% of Residences in MO Quake-Prone Areas with Earthquake Coverage, 2009 vs. 2002

Between 32% and 63% of MO homeowners buy quake coverage in vulnerable areas compared to 12% of CA homeowners and about 50% in Japan.



Residential Take-Up Rates in Missouri Quake-Prone Counties Have Fallen Significantly in Recent Years, but Compare Favorably to California (12%)

Sources: Missouri Department of Insurance news release, Feb. 11, 2011; Insurance Information Institute.

Estimated Insured Losses for the Top 10 Historical Earthquakes Based on Current Exposures (1) (\$ Billion)



Rank	Date	Location	Magnitude	Insured loss (current exposures)
1	Feb. 7, 1812	New Madrid, MO	7.7	\$100
2	Apr. 18, 1906	San Francisco, CA	7.8	96
3	Aug. 31, 1886	Charleston, SC	7.3	37
4	Jun. 1, 1838	San Francisco, CA	7.4	27
5	Jan. 17, 1994	Northridge, CA	6.7	21
6	Oct. 21, 1868	Hayward, CA	7.0	21
7	Jan. 9, 1857	Fort Tejon, CA	7.9	8
8	Oct. 17, 1989	Loma Prieta, CA	6.3	6
9	Mar. 10, 1933	Long Beach, CA	6.4	5
10	Jul. 1, 1911	Calaveras, CA	6.4	4

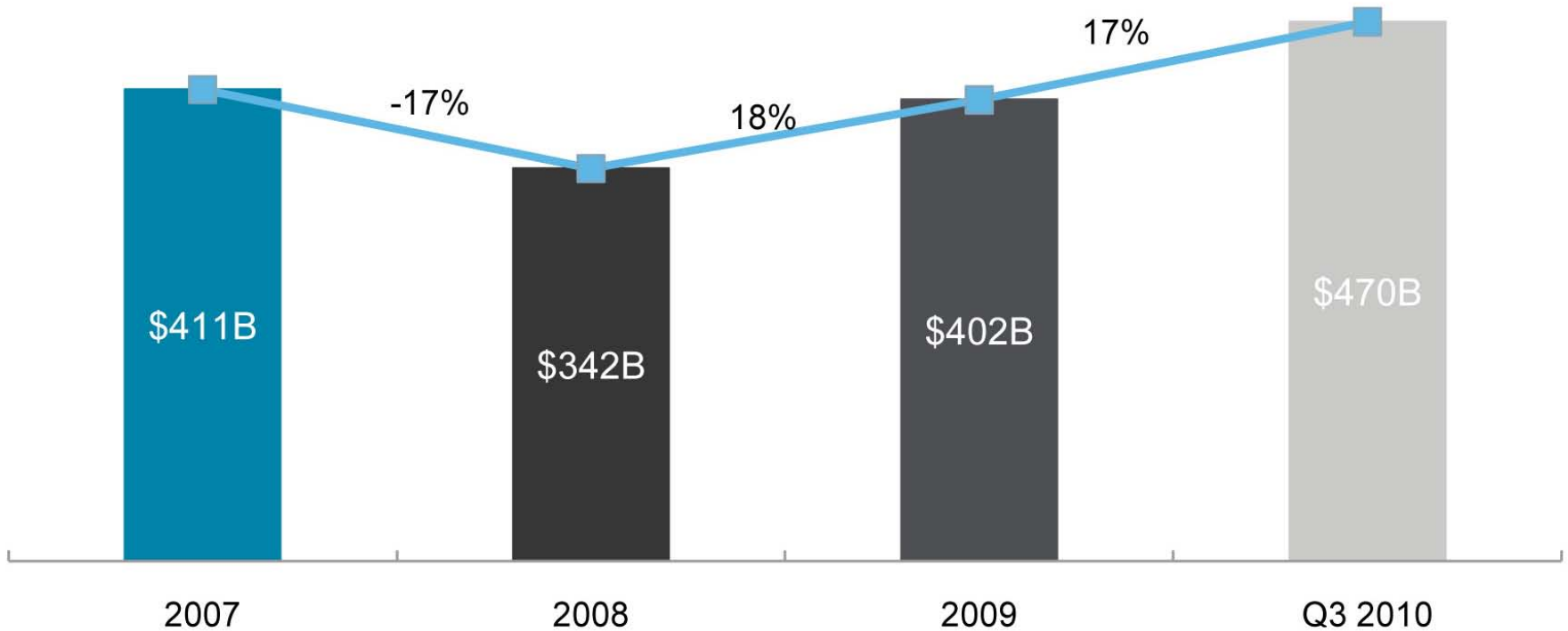
(1) Modeled loss to property, contents, and business interruption and additional living expenses for residential, mobile home, commercial and auto exposures as of December 31, 2008. Losses include demand surge and fire following earthquake. Policy conditions and earthquake insurance take up rates are based on estimates by state insurance departments and client claims data.

Reinsurance Market Overview

**Reinsurers Will Bear a
Significant Share of Recent
Major Catastrophes Losses**

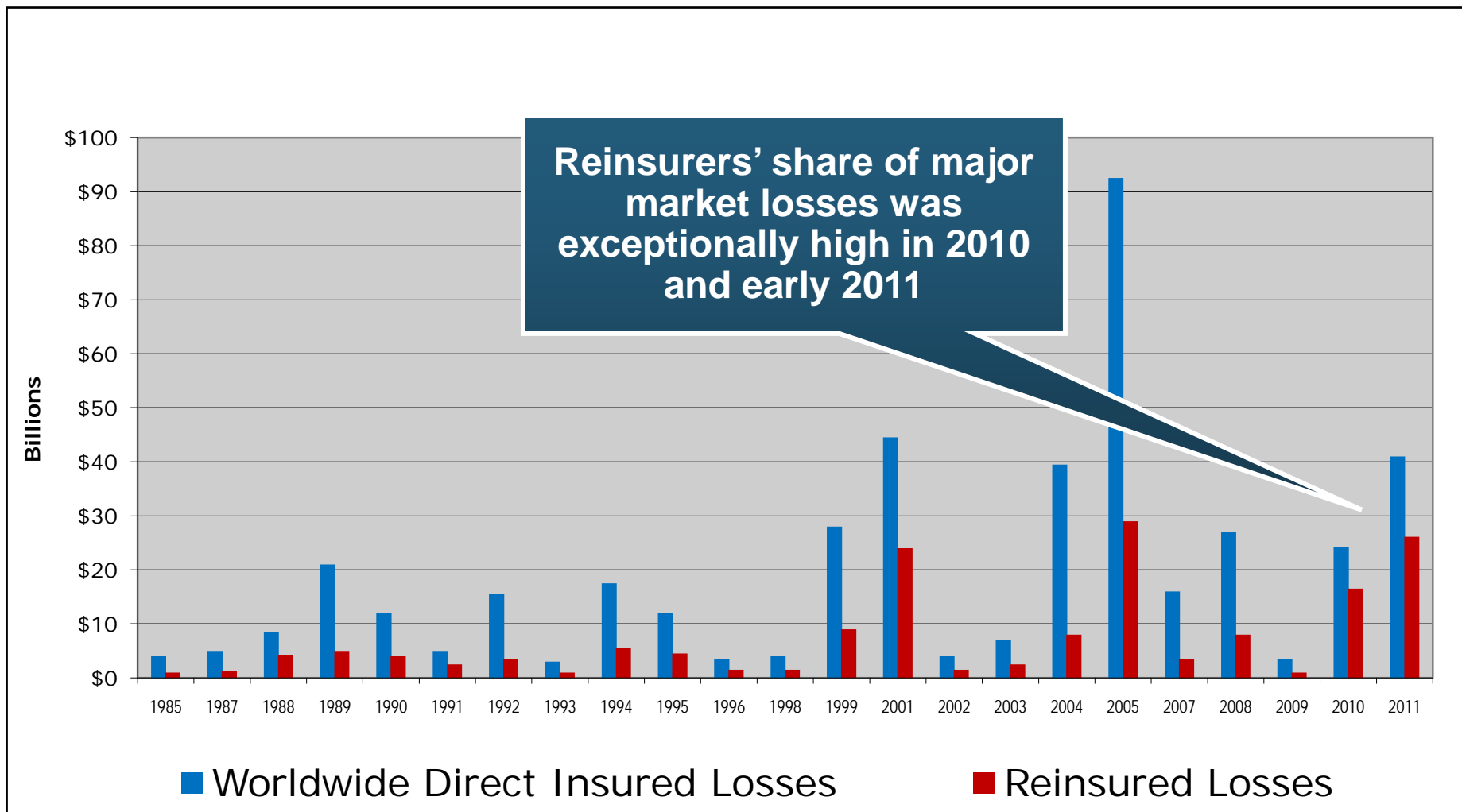
Change in Reinsurer Capital, 2007-2010:Q3

Change in Reinsurer Capital



Source: Aon Benfield Analytics

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.



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

The Outlook for the Economy Has Brightened, But the Outlook for P/C Insurance Is Mixed

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

- **Economic Recovery in US is Self-Sustaining and Strengthening**
 - ◆ No Double Dip or Second Recession
 - ◆ Economy is more resilient than most pundits presume
- **Consumer Confidence is Gradually Improving**
- **Consumer Spending is Recovering Gradually**
- **Consumer and Business Lending Are Expanding**
- **Housing Market Remains Weak, but Some Improvement Expected in 2011**
- **Inflation Remains Under Control**
 - ◆ Runaway inflation is highly unlikely; Fed has things under control
 - ◆ Deflation—threat has disappeared
- **Private Sector Hiring is Consistently Positive for 14 Months**
 - ◆ Acceleration in hiring later in 2011 compared to 2010
 - ◆ No significant secondary spike in unemployment
- **Japan Threat to Global Economy Overstated**
- **Sovereign Debt, Muni Bond “Crises” Overblown**
- **Current Middle East Turmoil Poses Only Moderate Risk to US Economy**
- **Interest Rates Are Rising but Remain Low by Historical Standards**
- **Stock and Bond Markets More Stable, Less Volatile**
- **Political Environment Is More Hospitable to Business Interests**

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

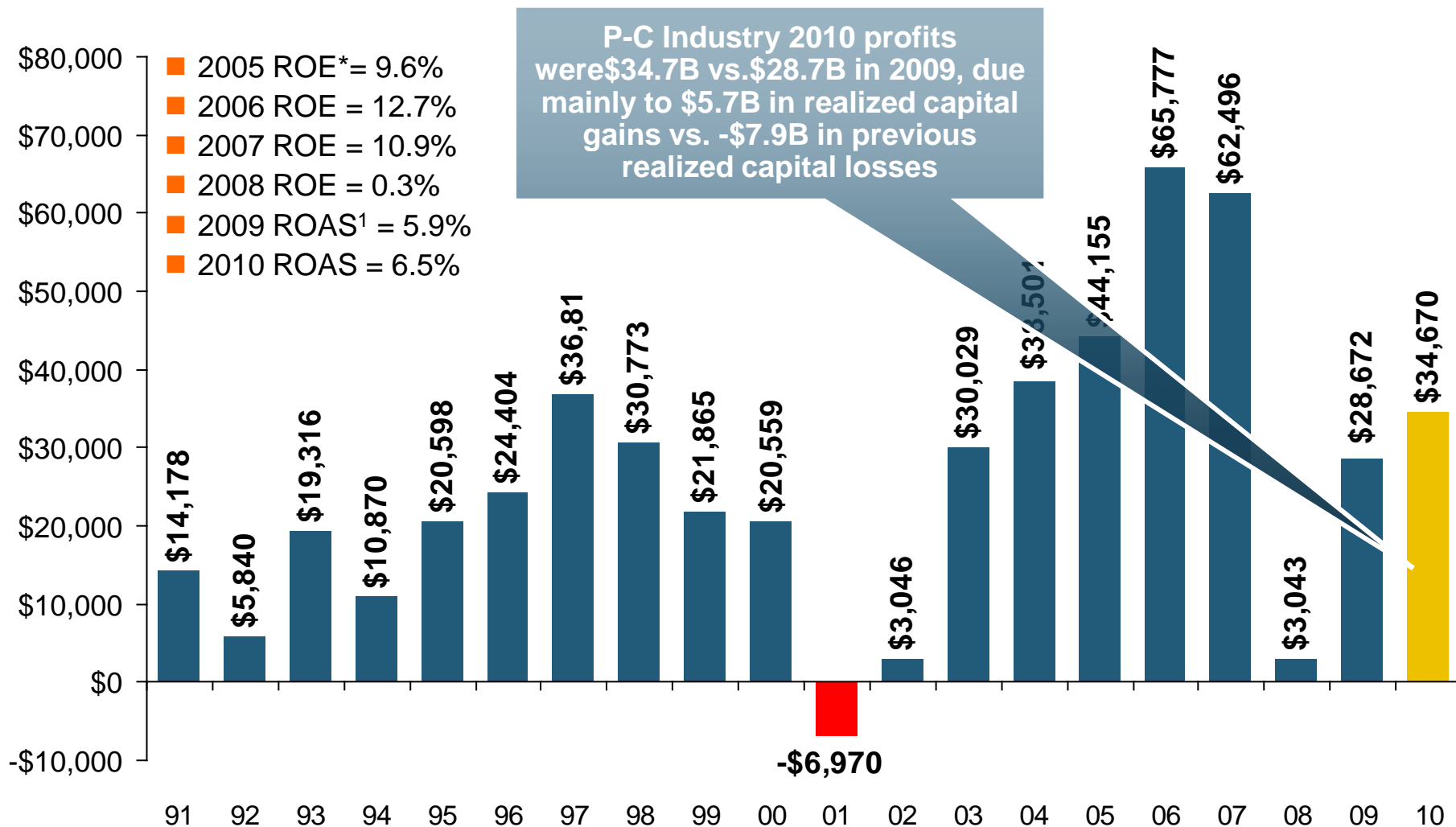
- **Era of Mass P/C Insurance Exposure Destruction Has Ended**
 - ◆ Personal and commercial exposure growth is virtually certain in 2011
 - ◆ But restoration of destroyed exposure will take 3-5 years in US
- **Exposure Growth Returned in 2nd Half 2010, Will Accelerate in 2011**
- **P/C Industry Saw Growth in 2010 (+0.8%) for the First Time Since 2006**
- **Increasing Private Sector Hiring Will Drive Payrolls/WC Exposures**
 - ◆ Wage growth is also positive and could modestly accelerate
- **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
- **Investment Environment Is/Remains Much More Favorable**
 - ◆ Return of realized capital gains as a profit driver
 - ◆ Interest rates are low but are rising→Boost to investment income
- **Agent Commissions Should Begin to Rise in 2011**
- **Demand, Capital Management Strategies Will Temper Overcapitalization**



P/C Insurance Industry Financial Overview

**Profit Recovery Continues
Early Stage Growth Begins**

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

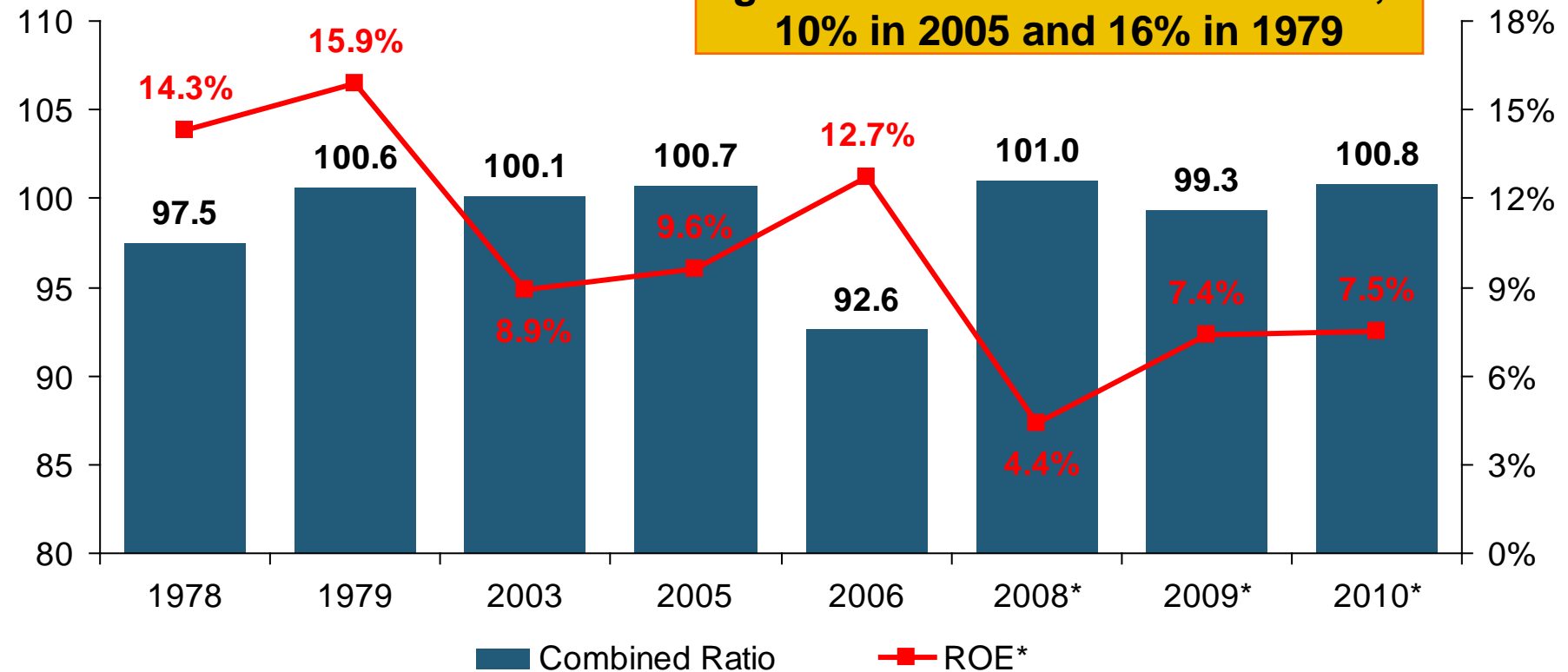


* ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 7.5% ROAS for 2010 and 7.4% for 2009.

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

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

Combined Ratio / ROE



A combined ratio of about 100 generated ~7.5% ROE in 2009/10, 10% in 2005 and 16% in 1979

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

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

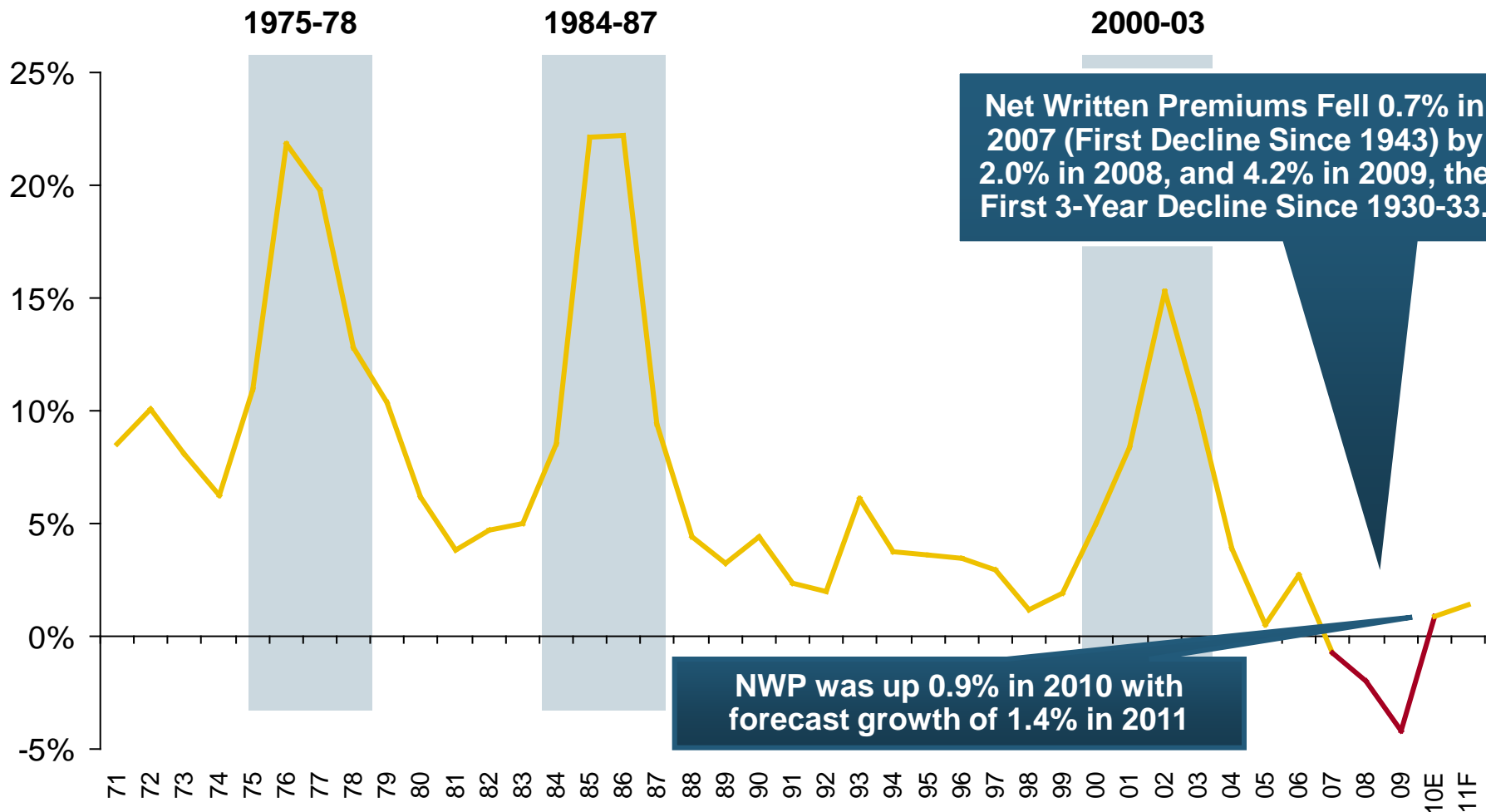
Source: Insurance Information Institute from A.M. Best and ISO data.

PRICING TRENDS

**Winds of Change or
Moving Sideways?**

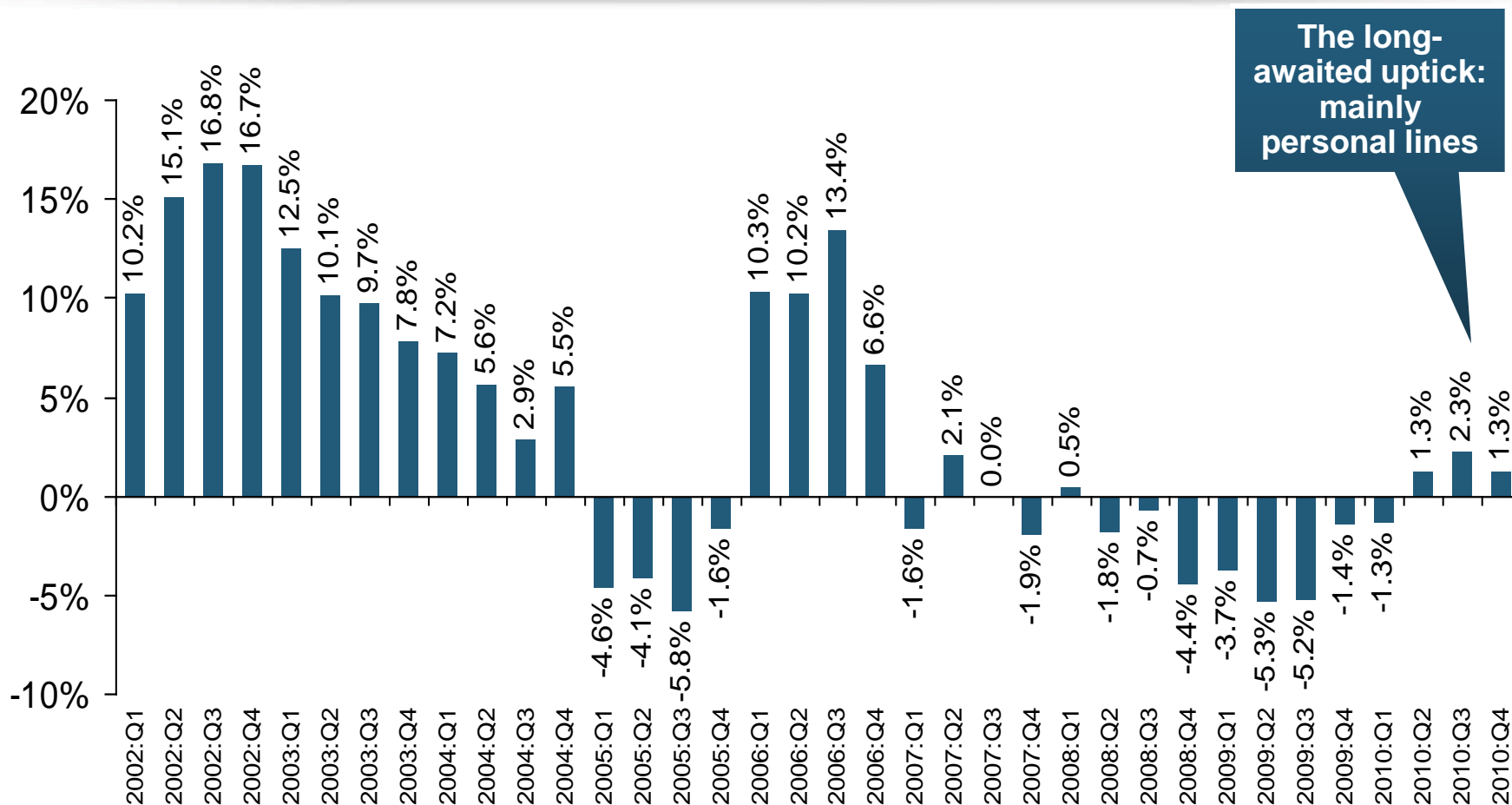
Soft Market Persisted in 2010 but Growth Returned: More in 2011?

(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



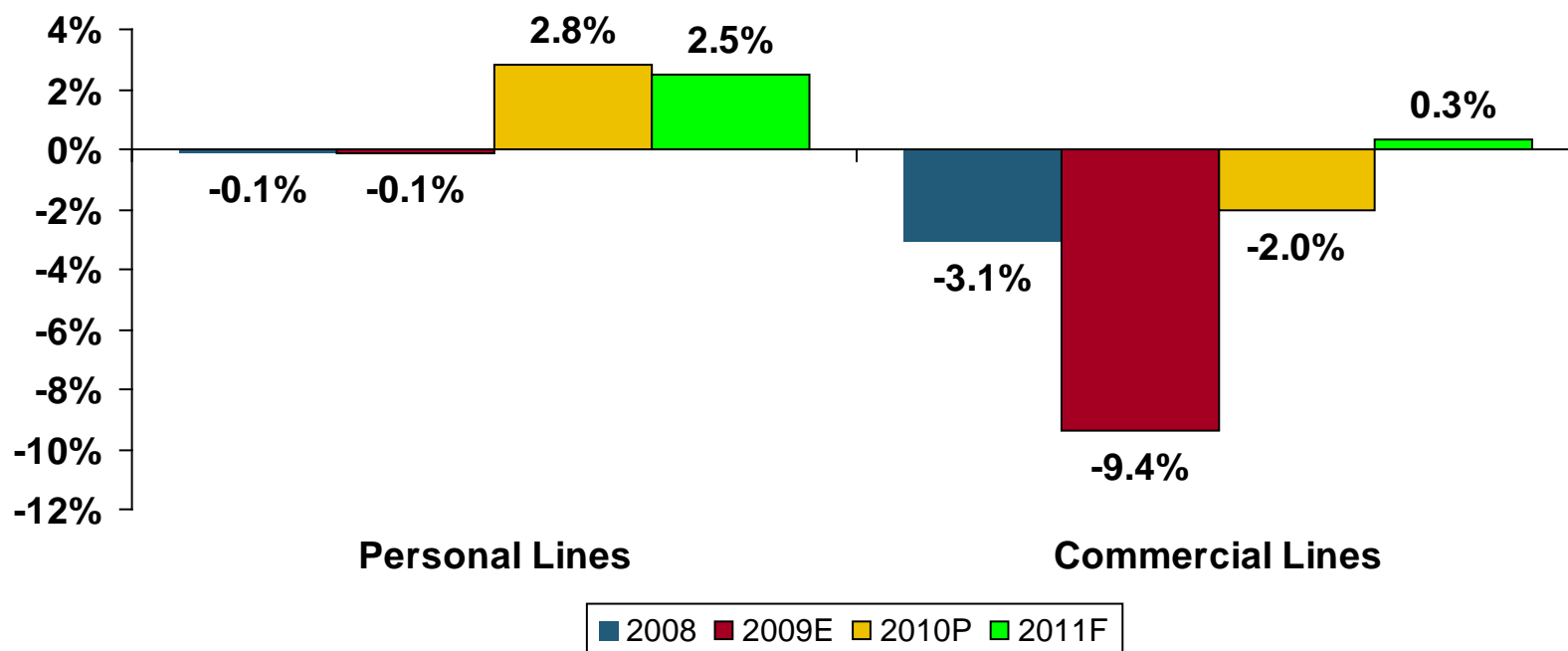
The long-awaited uptick: mainly personal lines

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

Sources: ISO, Insurance Information Institute.

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

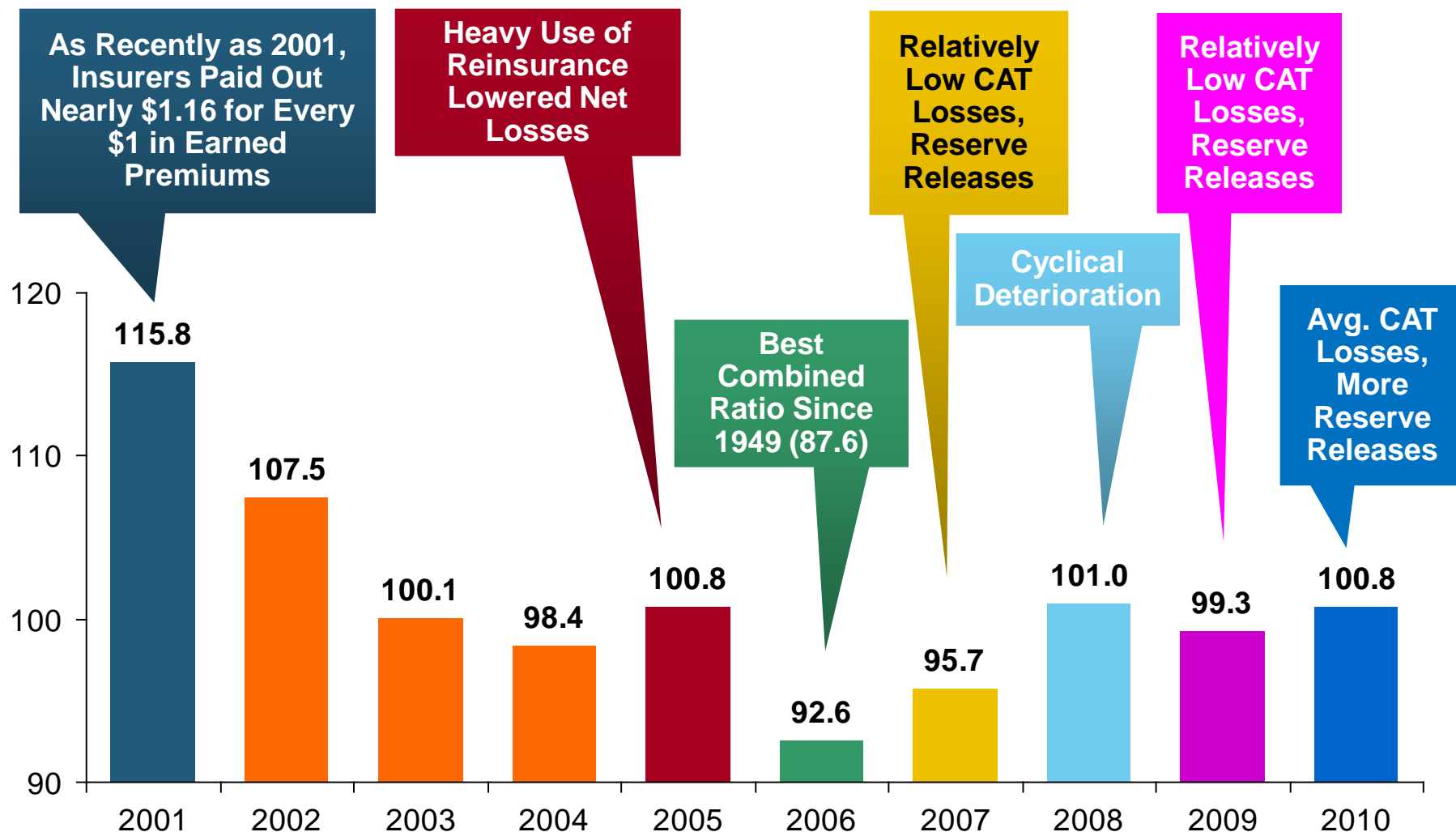


Rate and exposure are more favorable in personal lines, whereas a prolonged soft market and sluggish recovery from the recession weigh on commercial lines.

UNDERWRITING

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

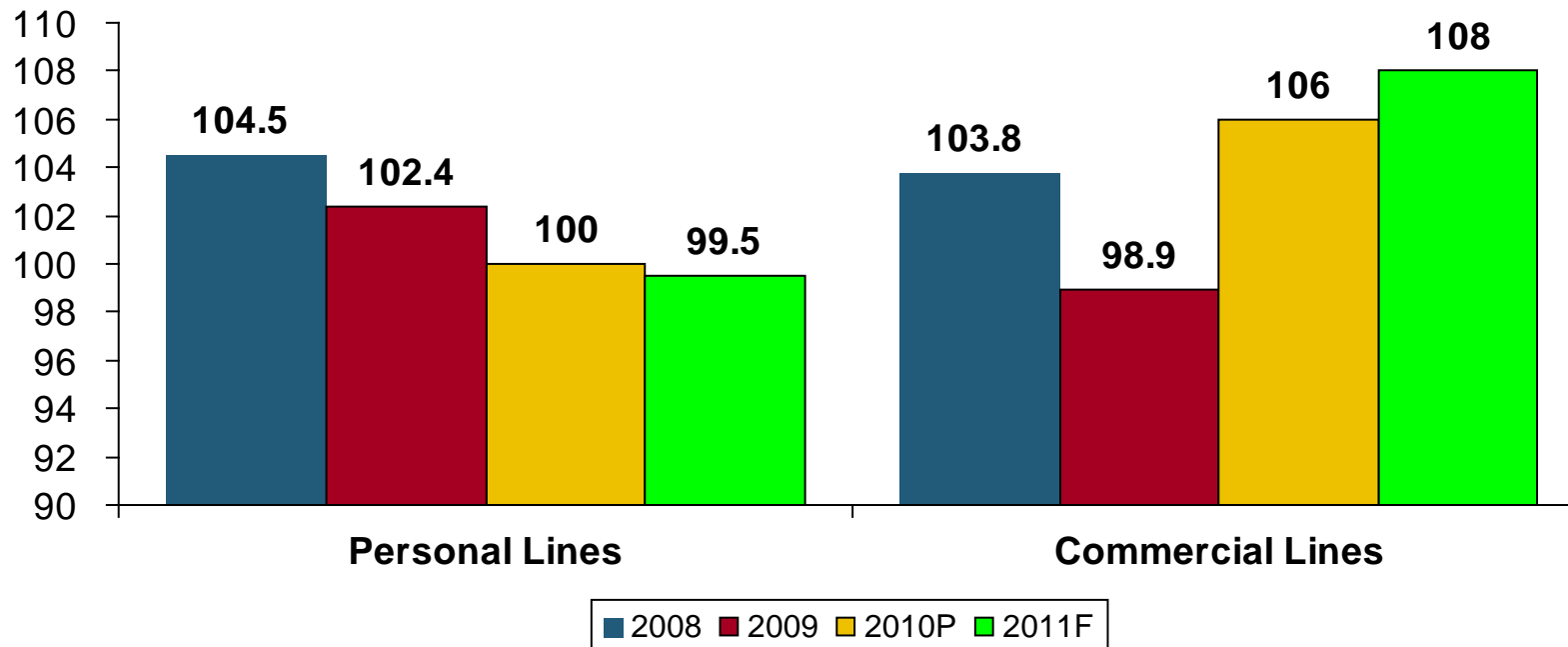
P/C Insurance Industry Combined Ratio, 2001–2010*



* 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.

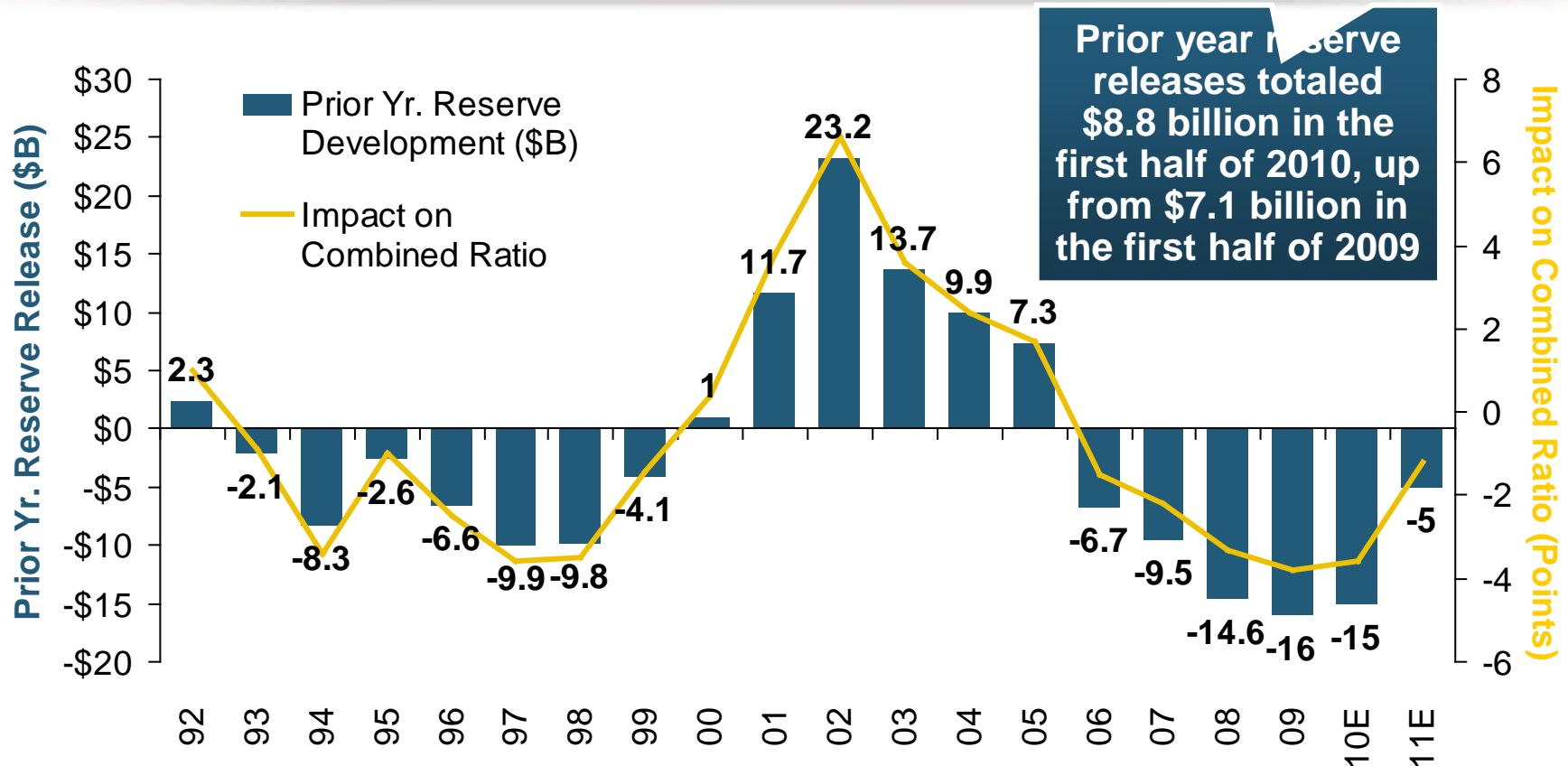
Calendar Year Combined Ratios by Segment: 2008-2011F

Personal lines combined ratio is expected to remain below 100 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.

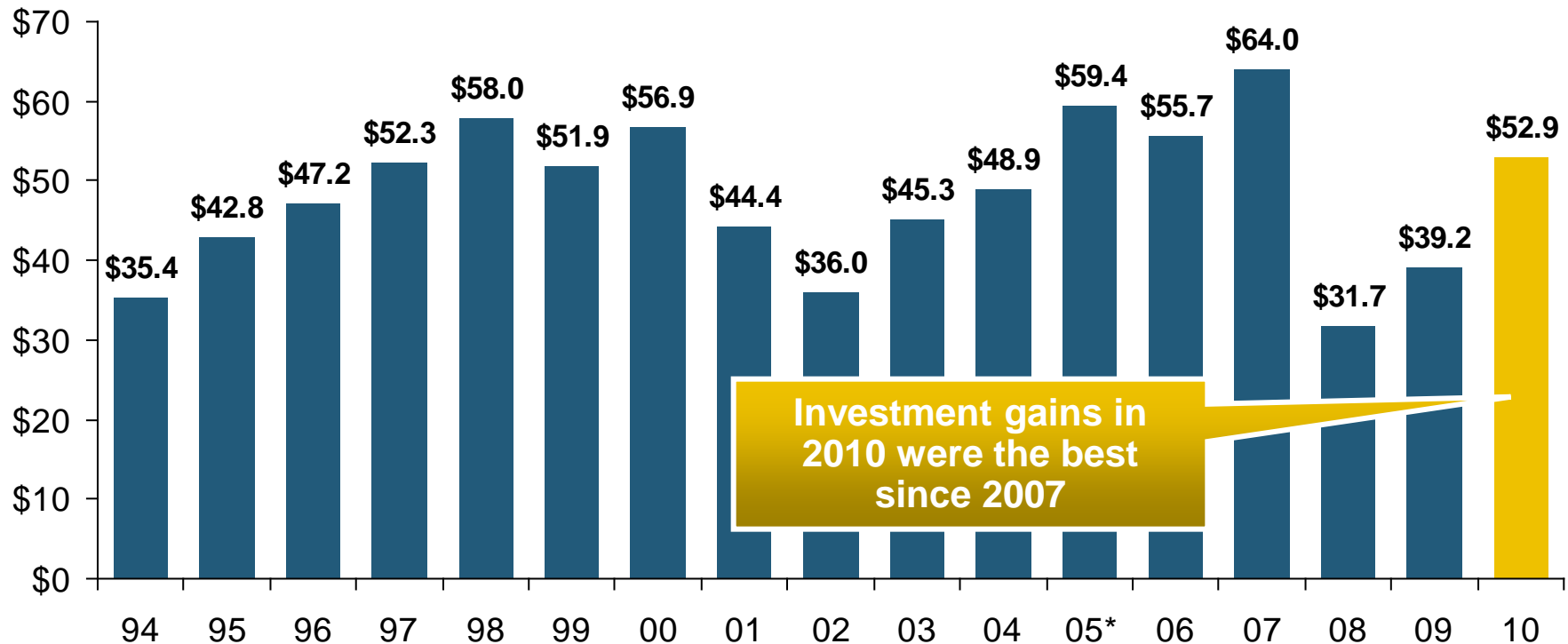
Sources: Barclay’s Capital; A.M. Best.

INVESTMENTS: THE NEW REALITY

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

Property/Casualty Insurance Industry Investment Gain: 1994–2010¹

(\$ Billions)



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

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

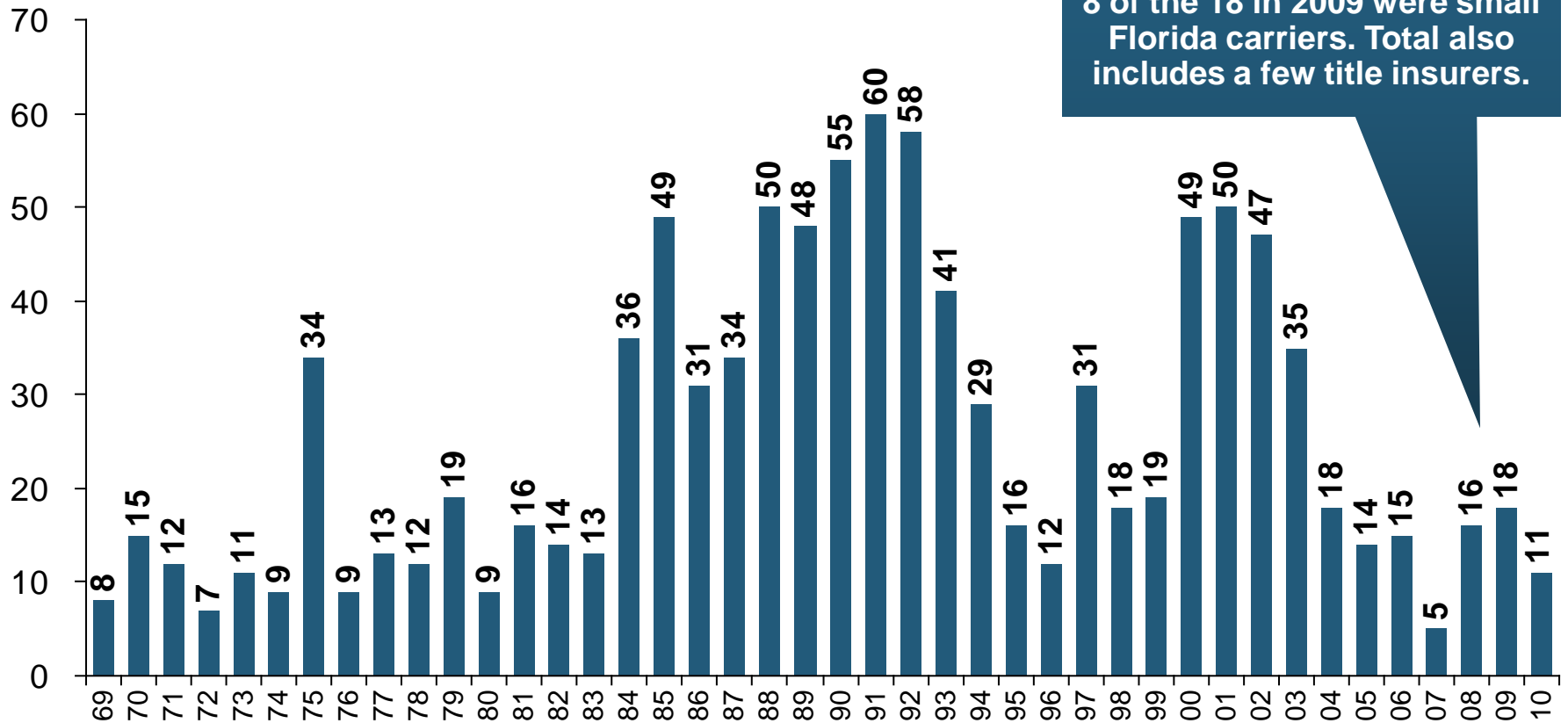
* 2005 figure includes special one-time dividend of \$3.2B.

Sources: ISO; Insurance Information Institute.

Financial Strength & Underwriting

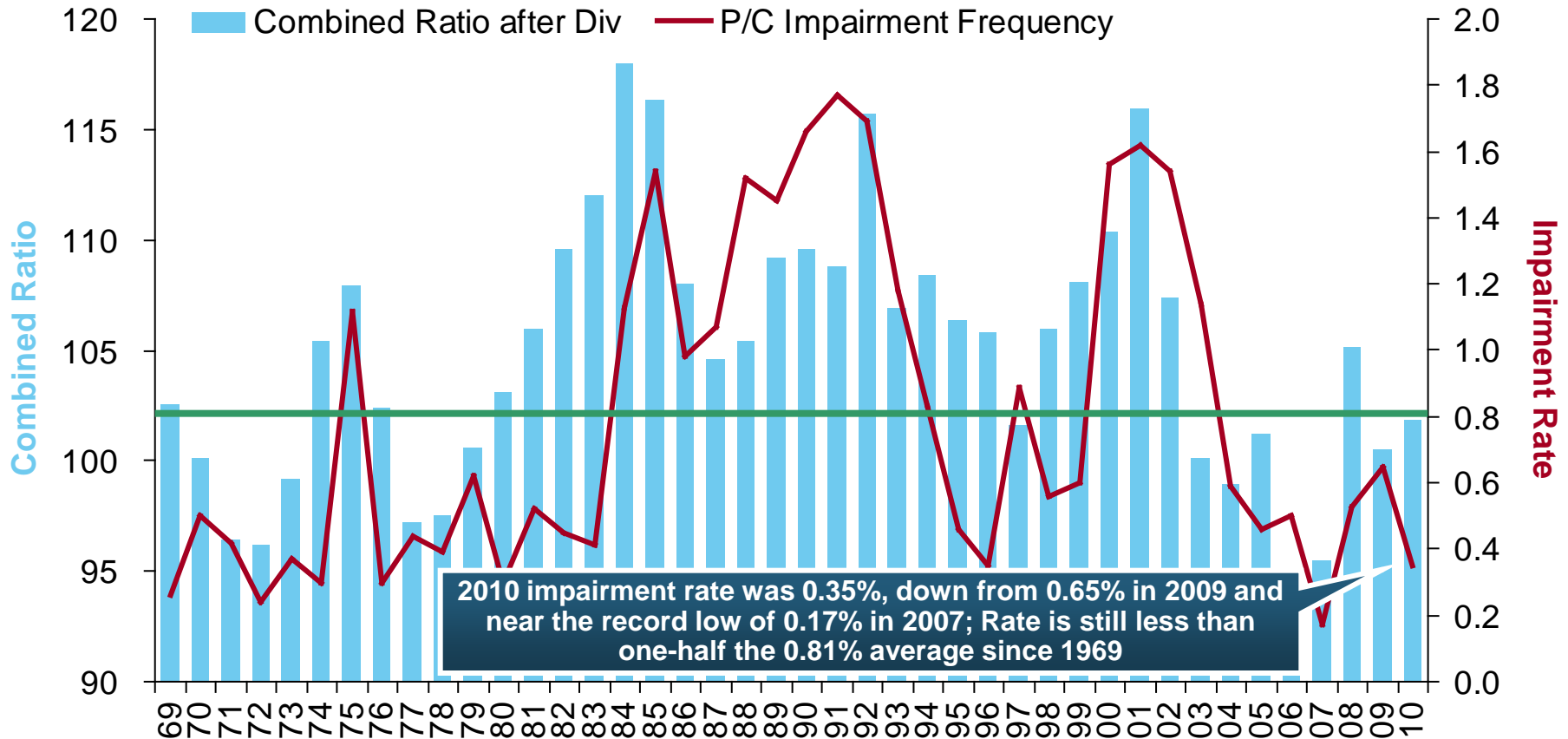
**Cyclical Pattern is P-C Impairment
History is Directly Tied to
Underwriting, Reserving & Pricing**

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

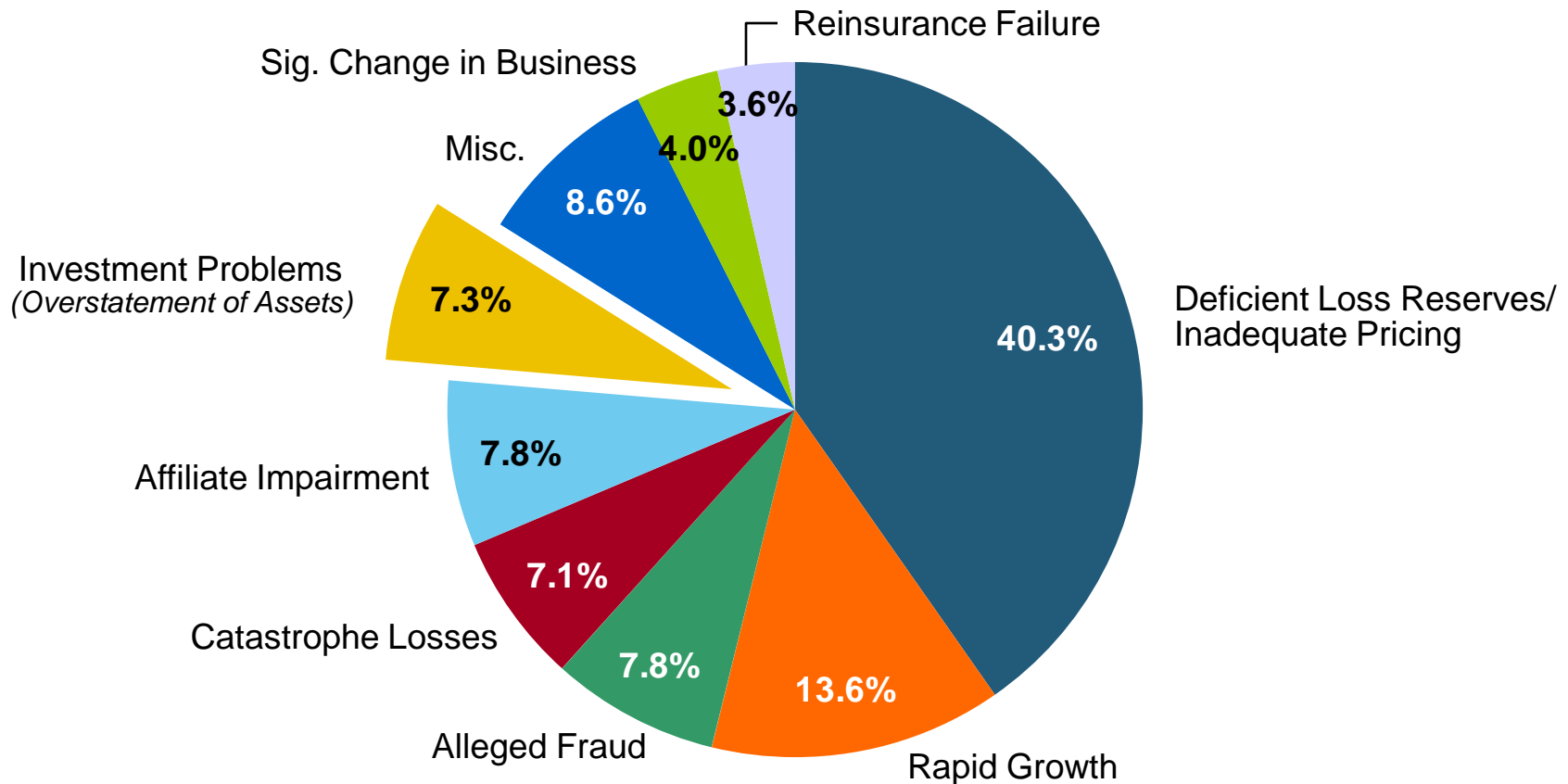
P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2010



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

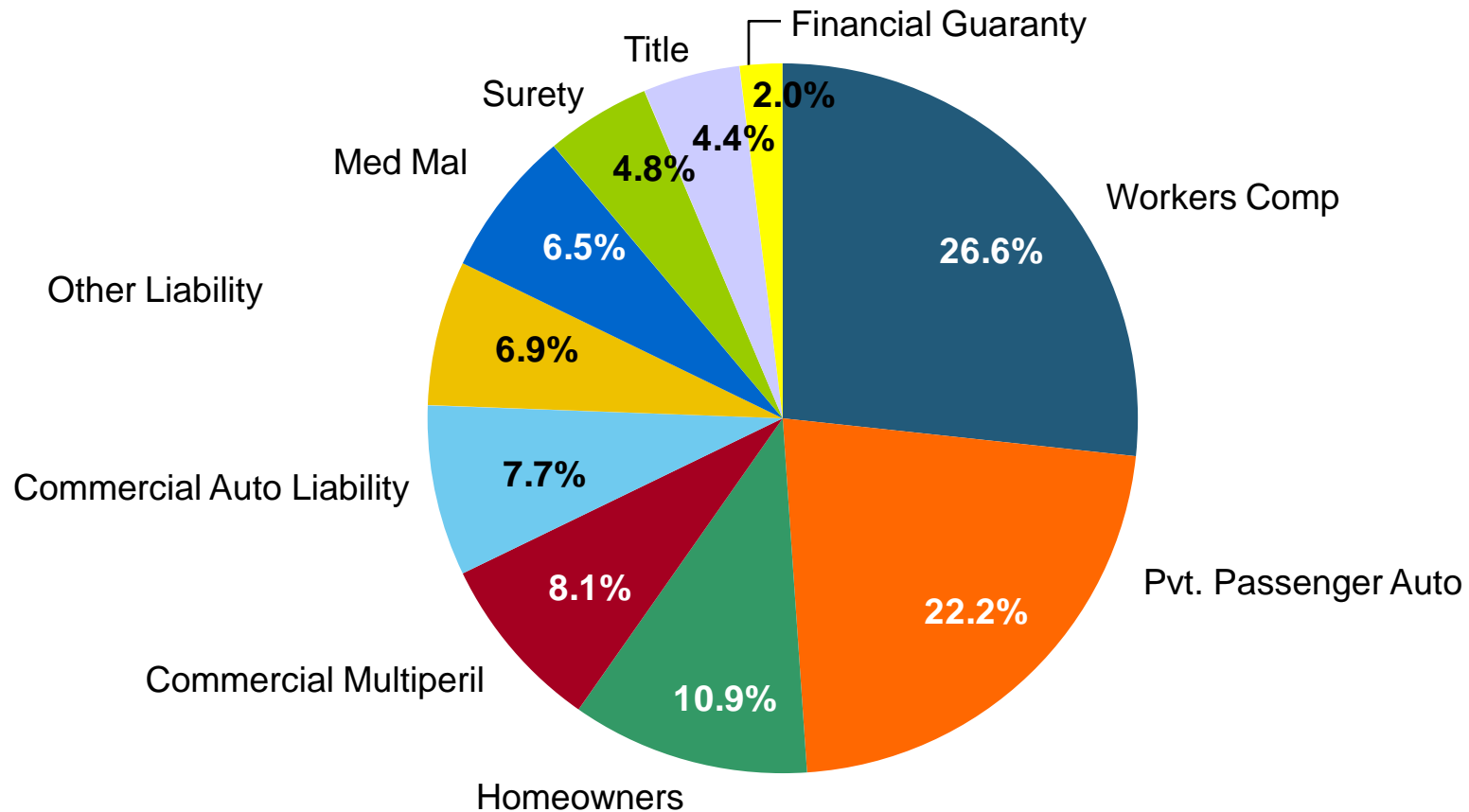
Reasons for US P/C Insurer Impairments, 1969–2010

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

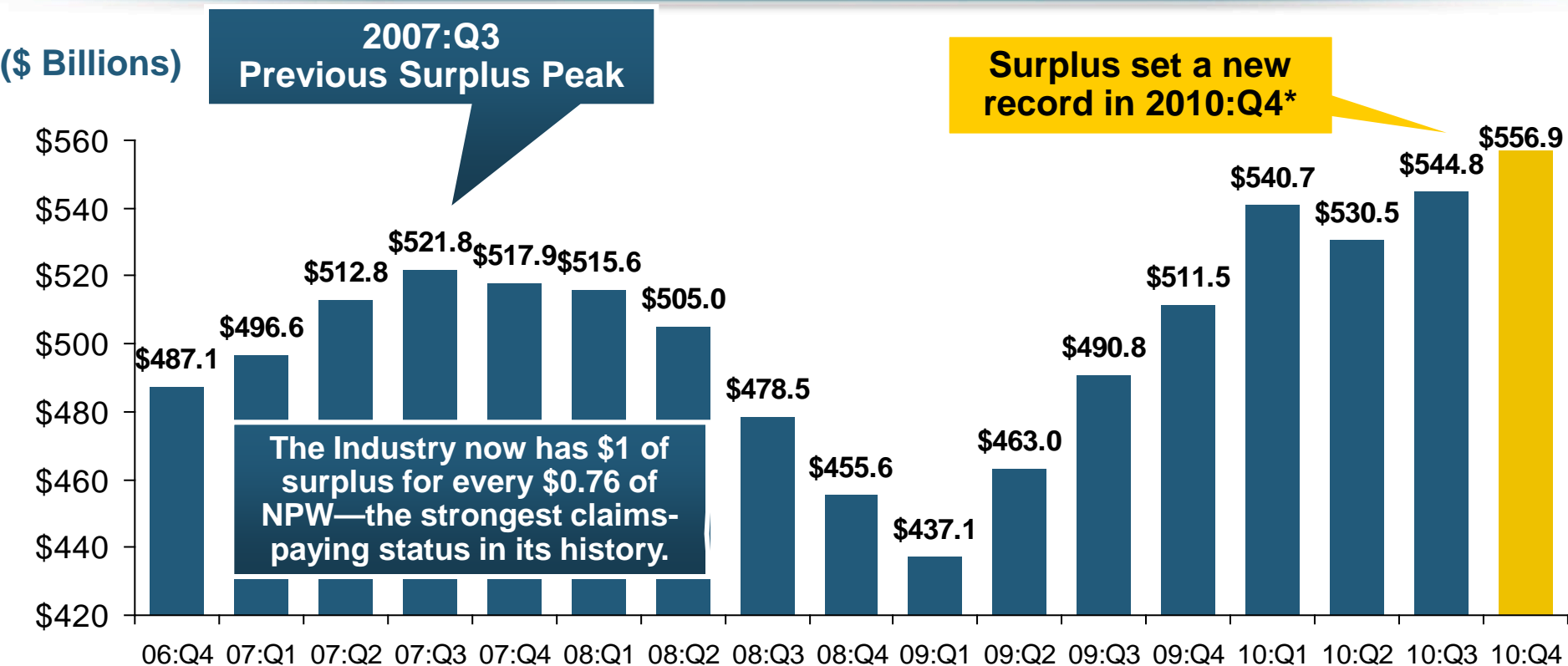


CAPITAL MANAGEMENT & LEVERAGE

**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%)

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

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

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

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

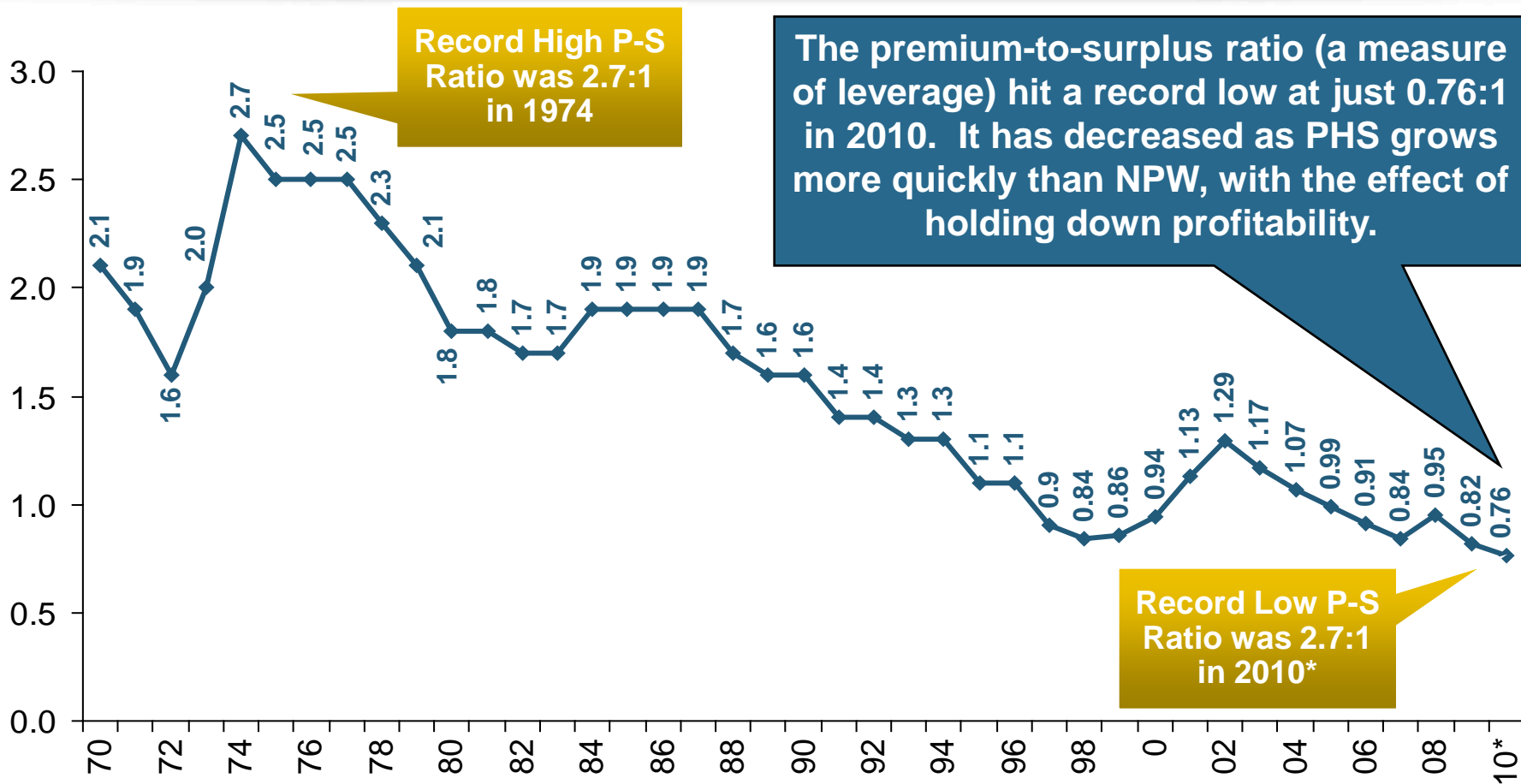
10:Q3: +\$23.0B (+4.4%)

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

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.

Ratio of Net Premiums Written to Policyholder Surplus, 1970-2010*



Record High P-S Ratio was 2.7:1 in 1974

The premium-to-surplus ratio (a measure of leverage) hit a record low at just 0.76:1 in 2010. It has decreased as PHS grows more quickly than NPW, with the effect of holding down profitability.

Record Low P-S Ratio was 0.76:1 in 2010*

The Premium-to-Surplus Ratio in 2010 Implies that P/C Insurers Held \$1 in Surplus Against Each \$0.76 Written in Premiums. In 1974, Each \$1 of Surplus Backed \$2.70 in Premium.

*2010 data are as of 12/31/10.

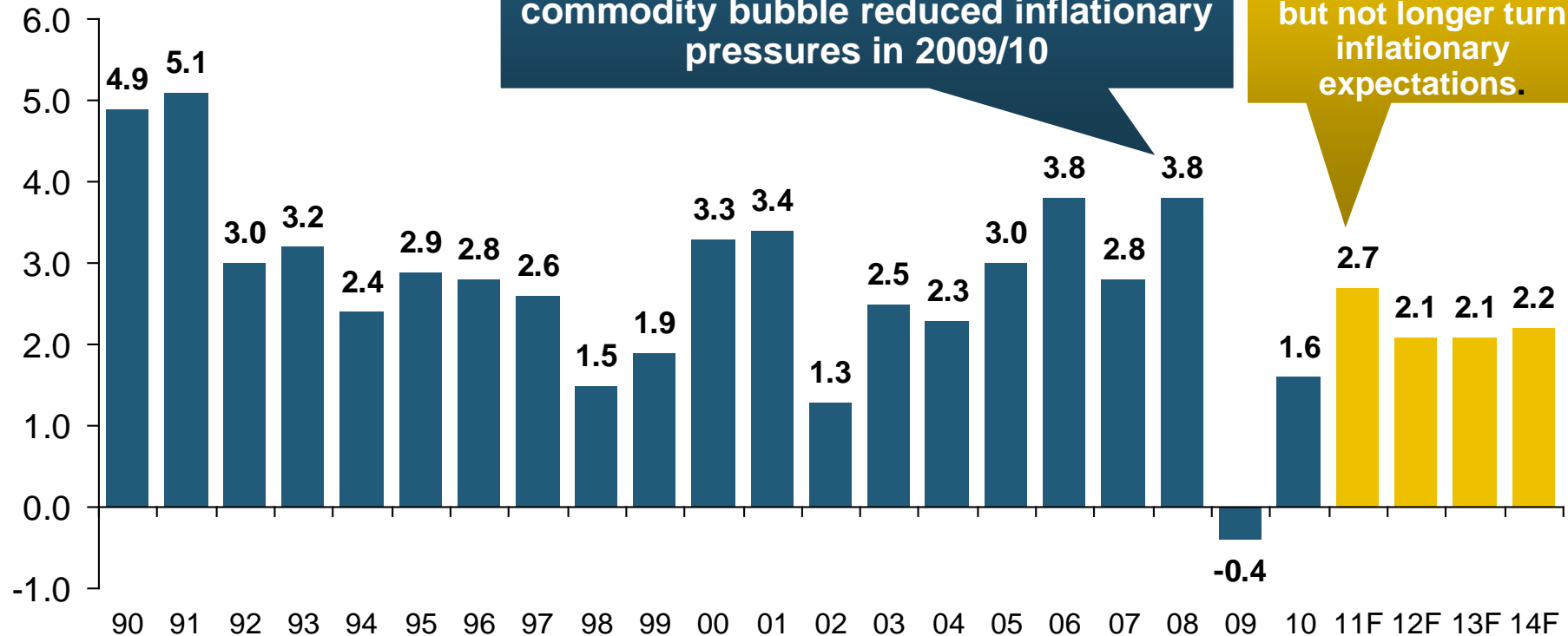
Sources: Insurance Information Institute calculations from A.M. Best data.

Inflation

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

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

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 reduced inflationary pressures in 2009/10

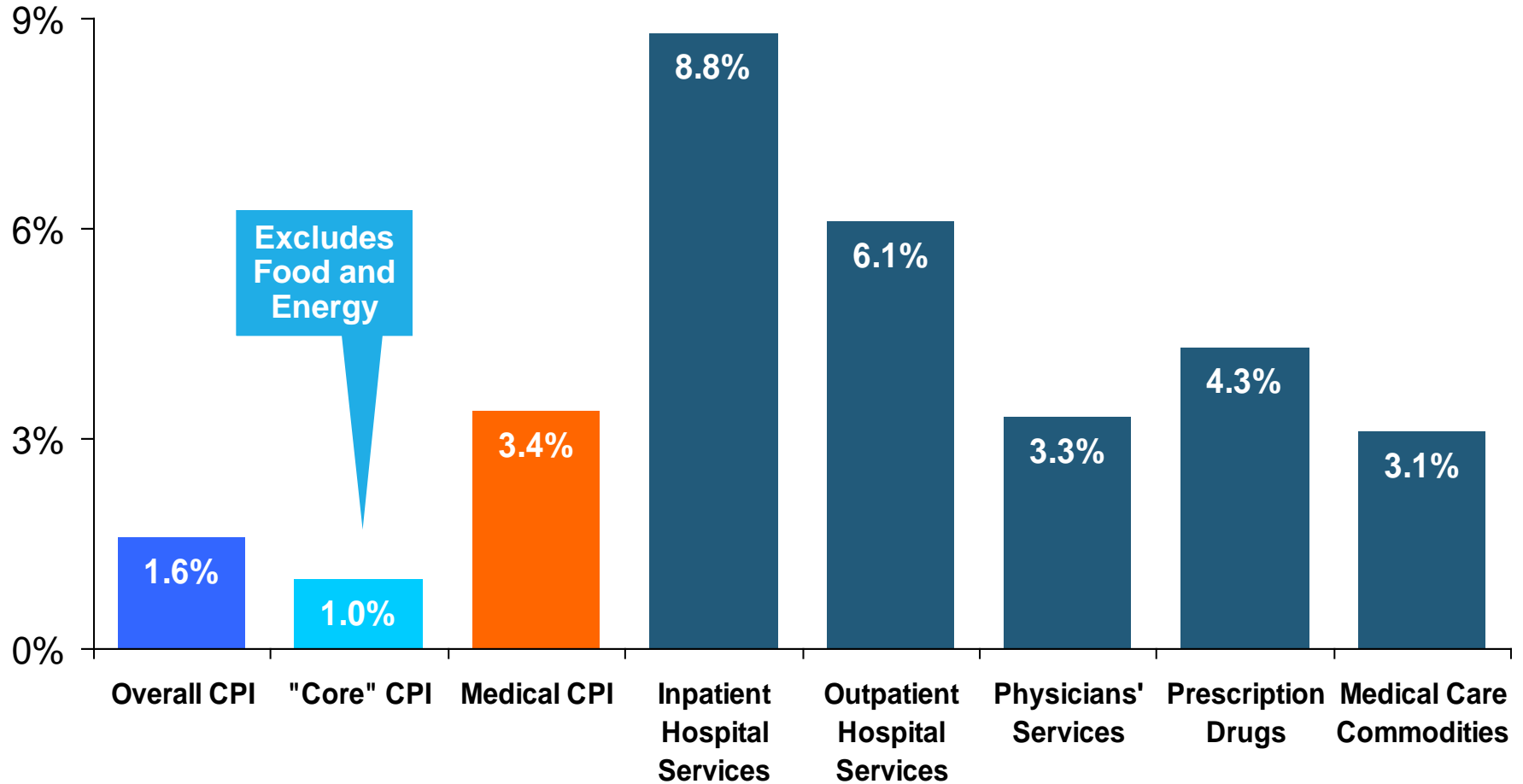
Higher energy, commodity and food prices are pushing up inflation in 2011, but not longer turn inflationary expectations.

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

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators, 3/11 and 4/11 (forecasts).

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

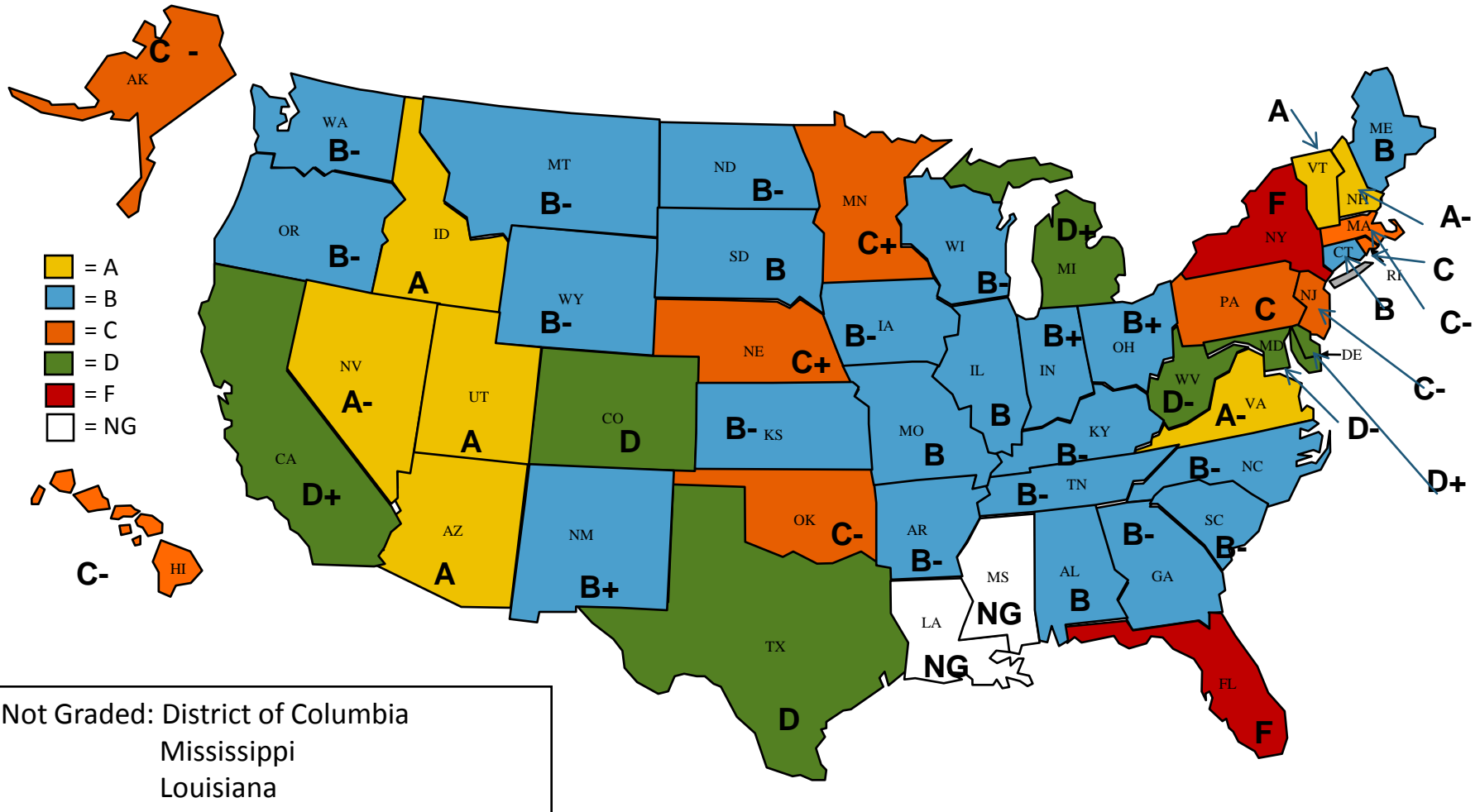
■ Systemic Risk and Resolution Authority

- 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



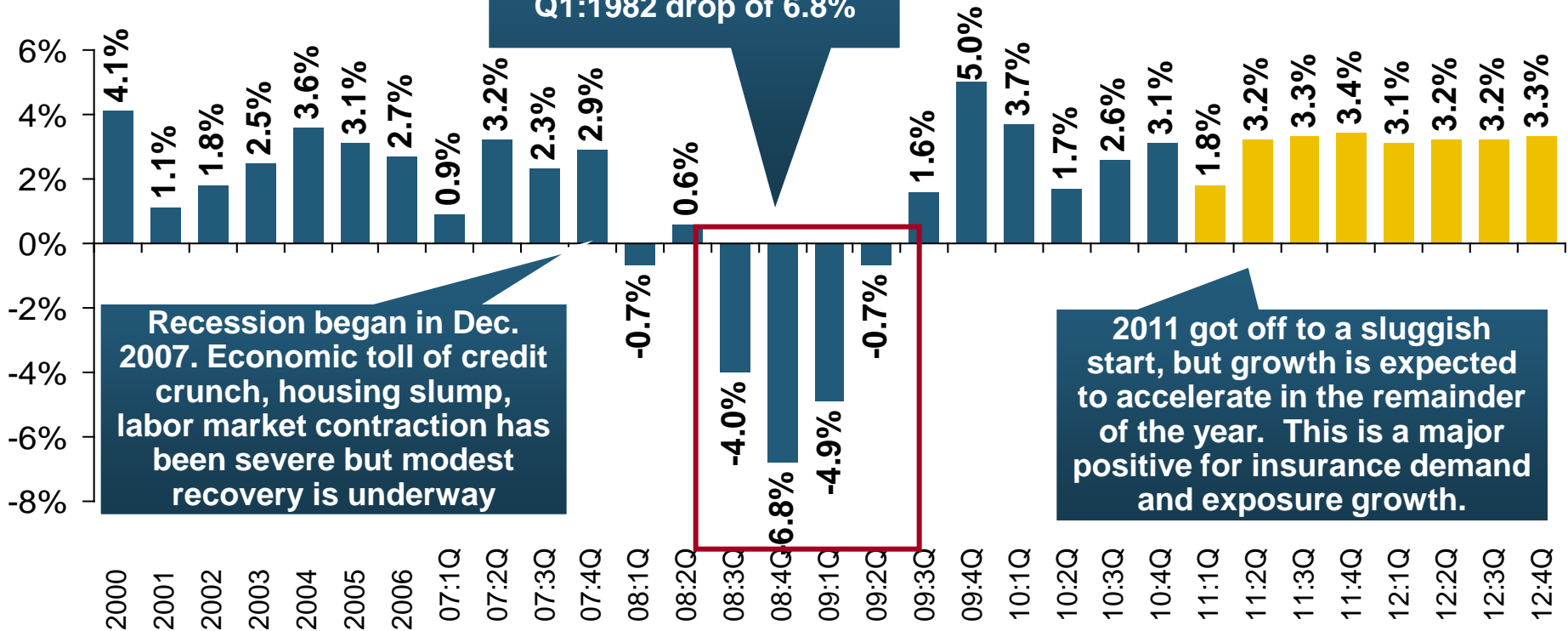


Economic Issues for the Next 3-5 Years

**P/C Insurance Industry Growth in the
Wake of the “Great Recession”**

US Real GDP Growth*

Real GDP Growth (%)



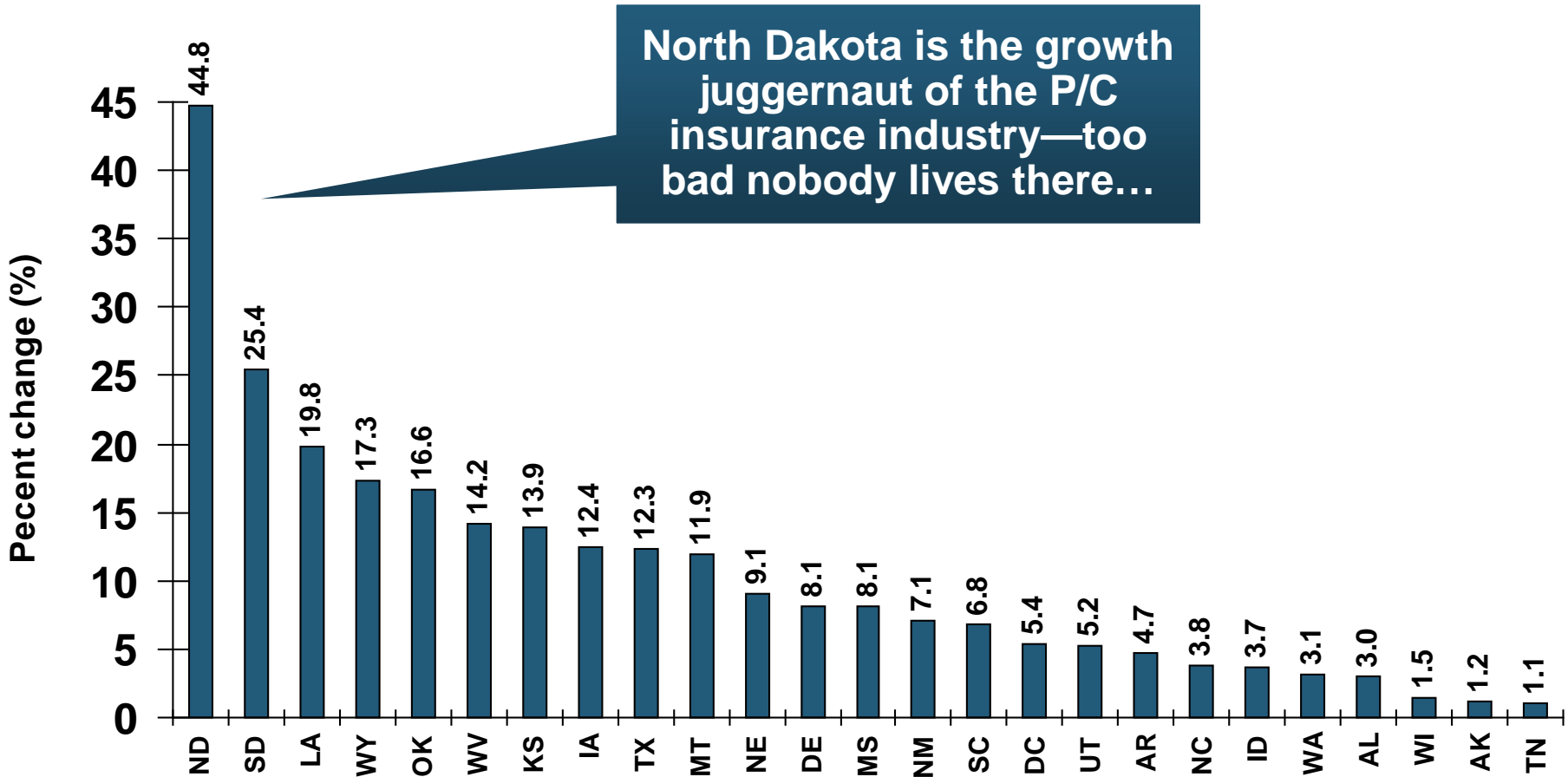
Demand for Insurance Continues To Be Impacted by Sluggish Economic Conditions, but the Benefits of Even Slow Growth Will Compound and Gradually Benefit the Economy Broadly

*  Estimates/Forecasts from Blue Chip Economic Indicators.

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

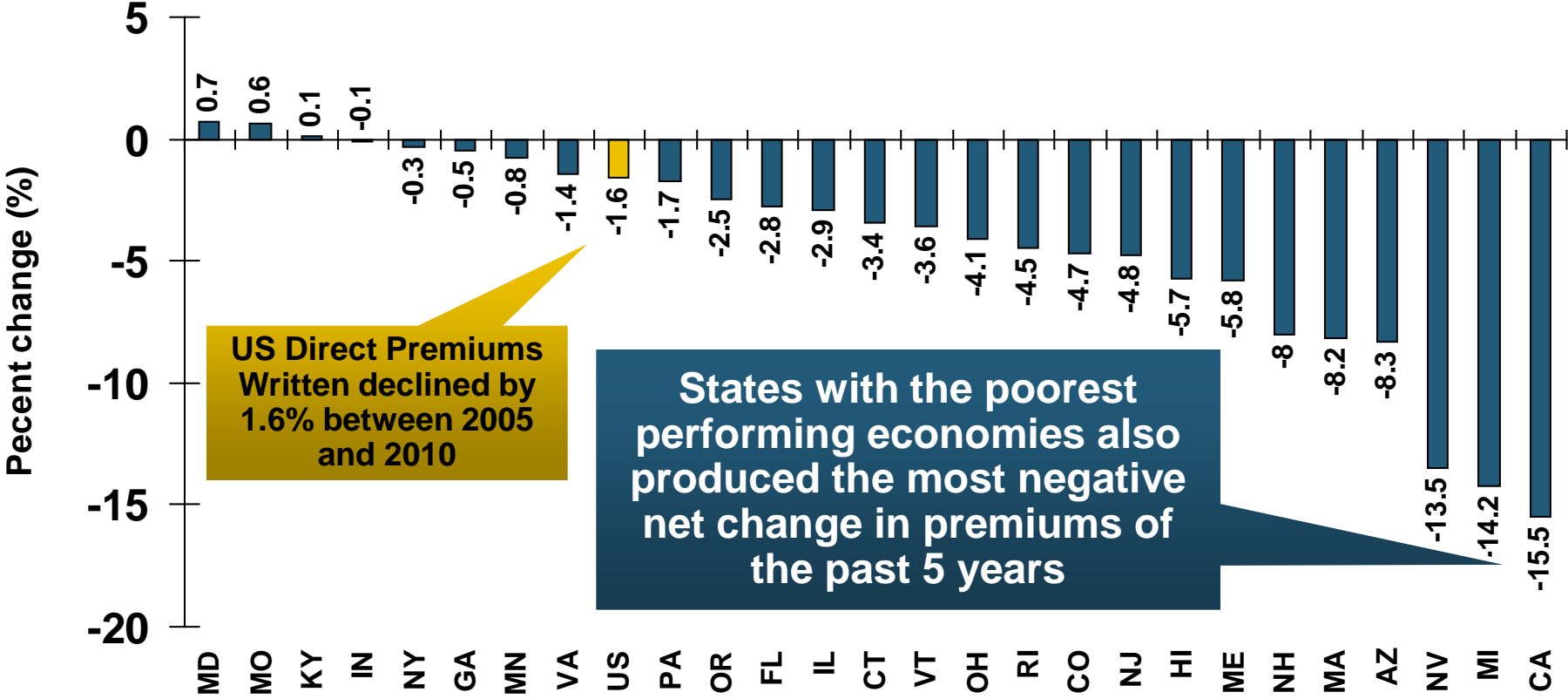
Direct Premiums Written: All P/C Lines Percent Change by State, 2005-2010

Top 25 States



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

Bottom 25 States



Sources: SNL Financial LC; Insurance Information Institute.

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

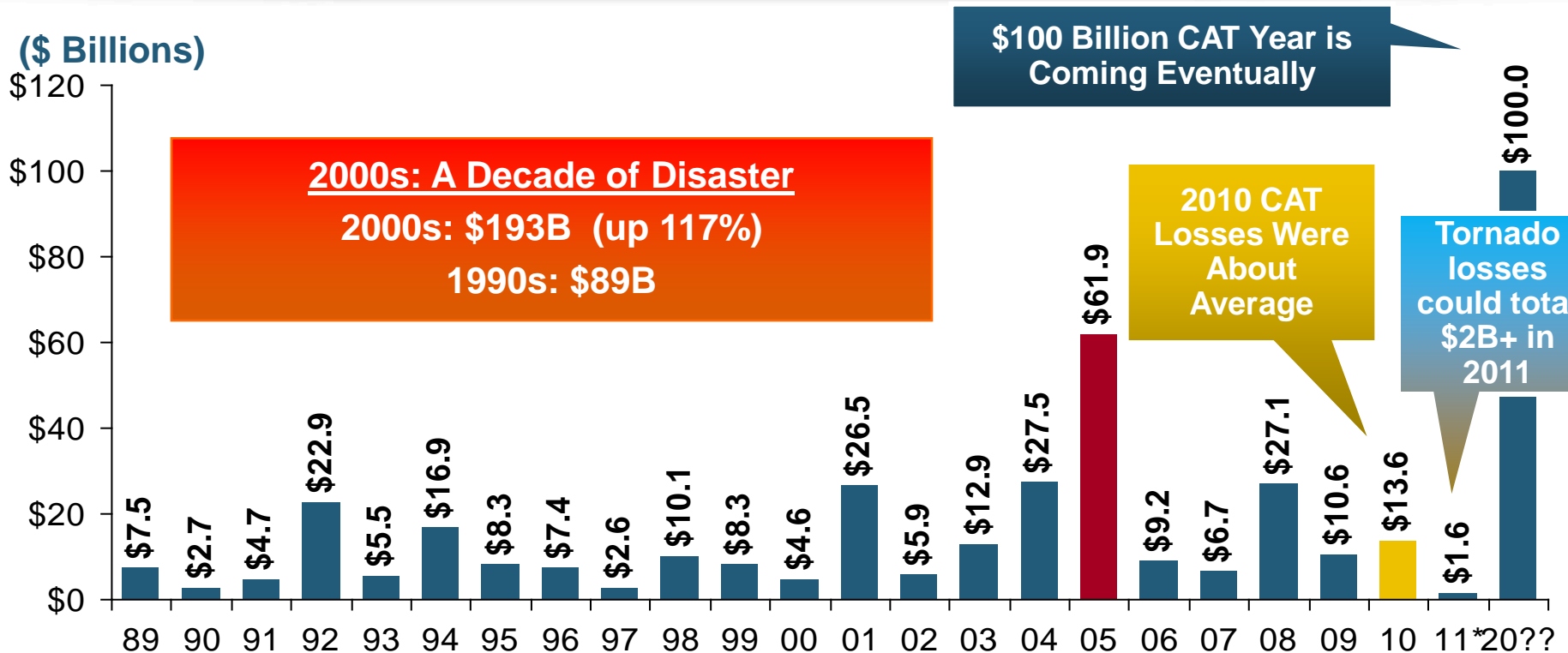
Shipping (Rail, Marine, Trucking)



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

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

US Insured Catastrophe Losses



2010 CAT Losses Were Close to "Average"
Figures Do Not Include an Estimate of Deepwater Horizon Loss

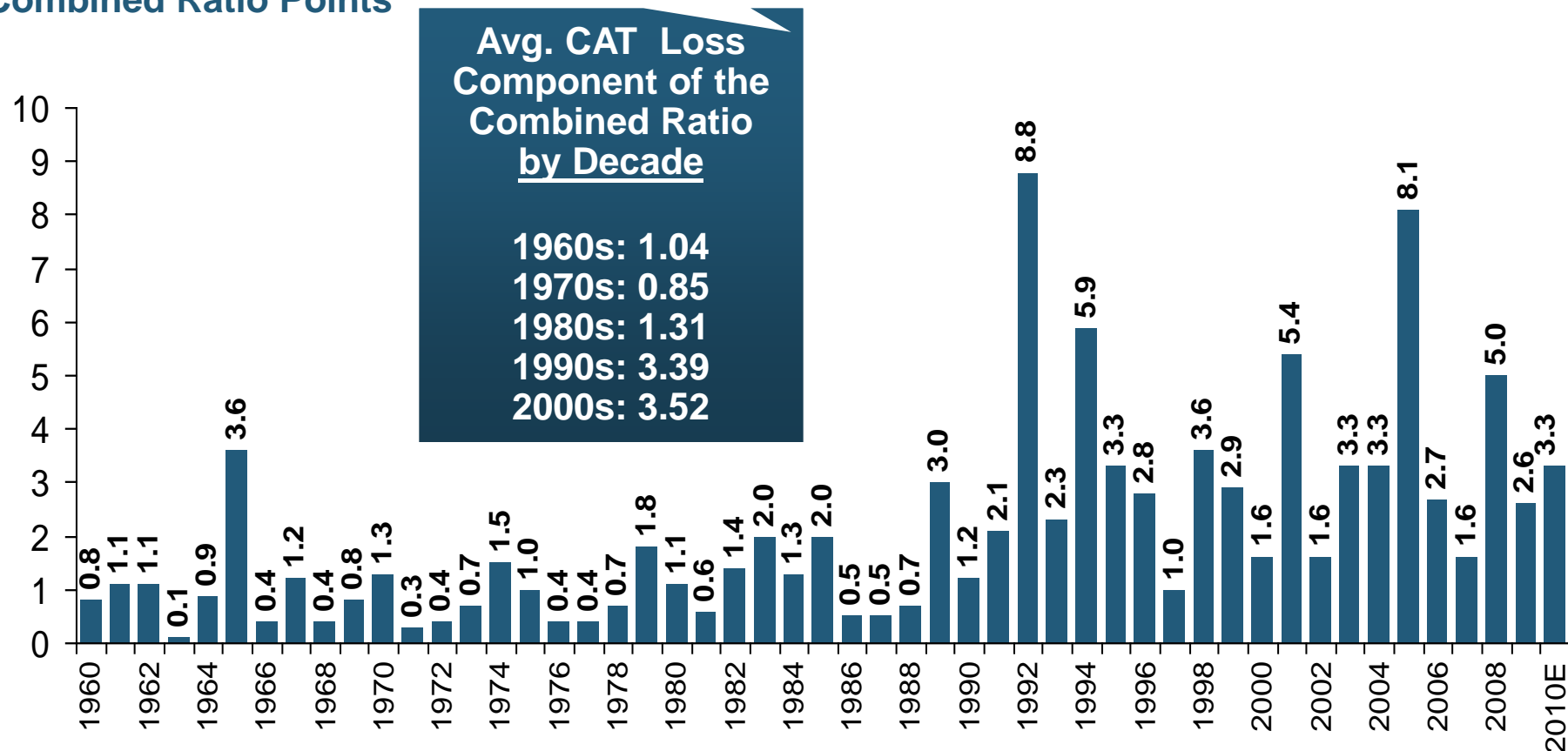
*First quarter 2011.

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; Munich Re; Insurance Information Institute.

Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2010E

Combined Ratio Points



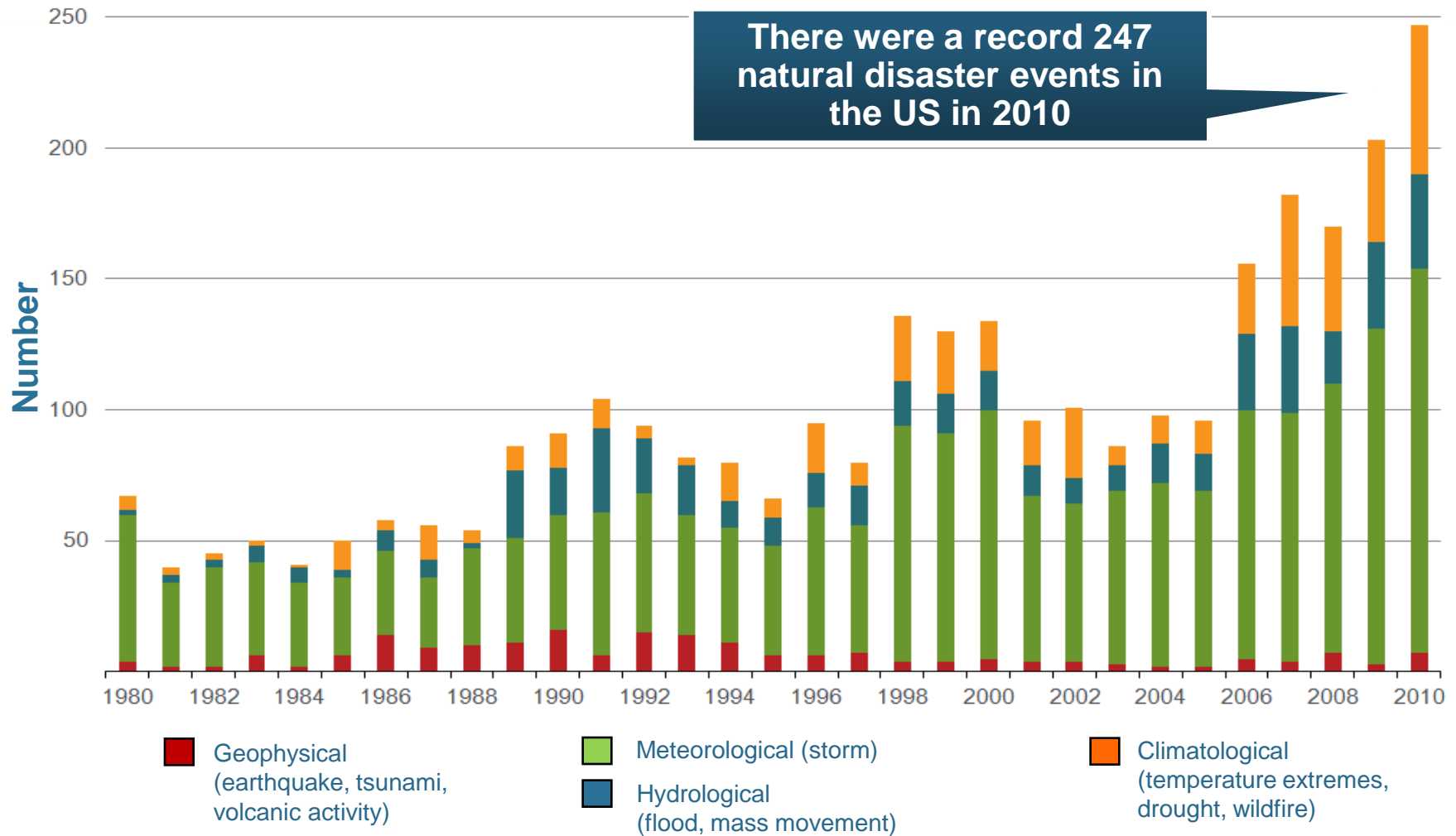
The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades

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

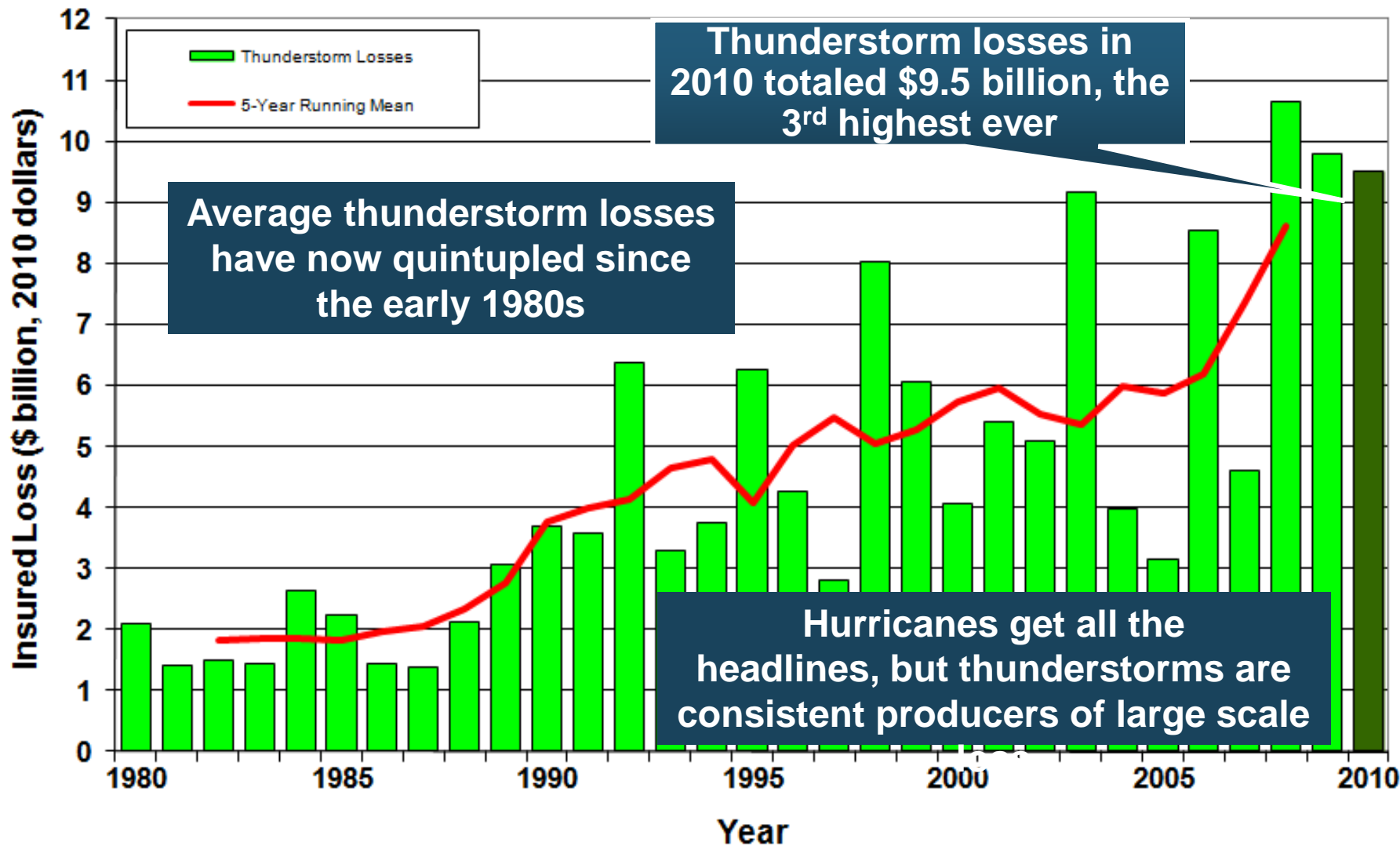
Source: ISO; Insurance Information Institute estimate for 2010.

Natural Disasters in the United States, 1980 – 2010

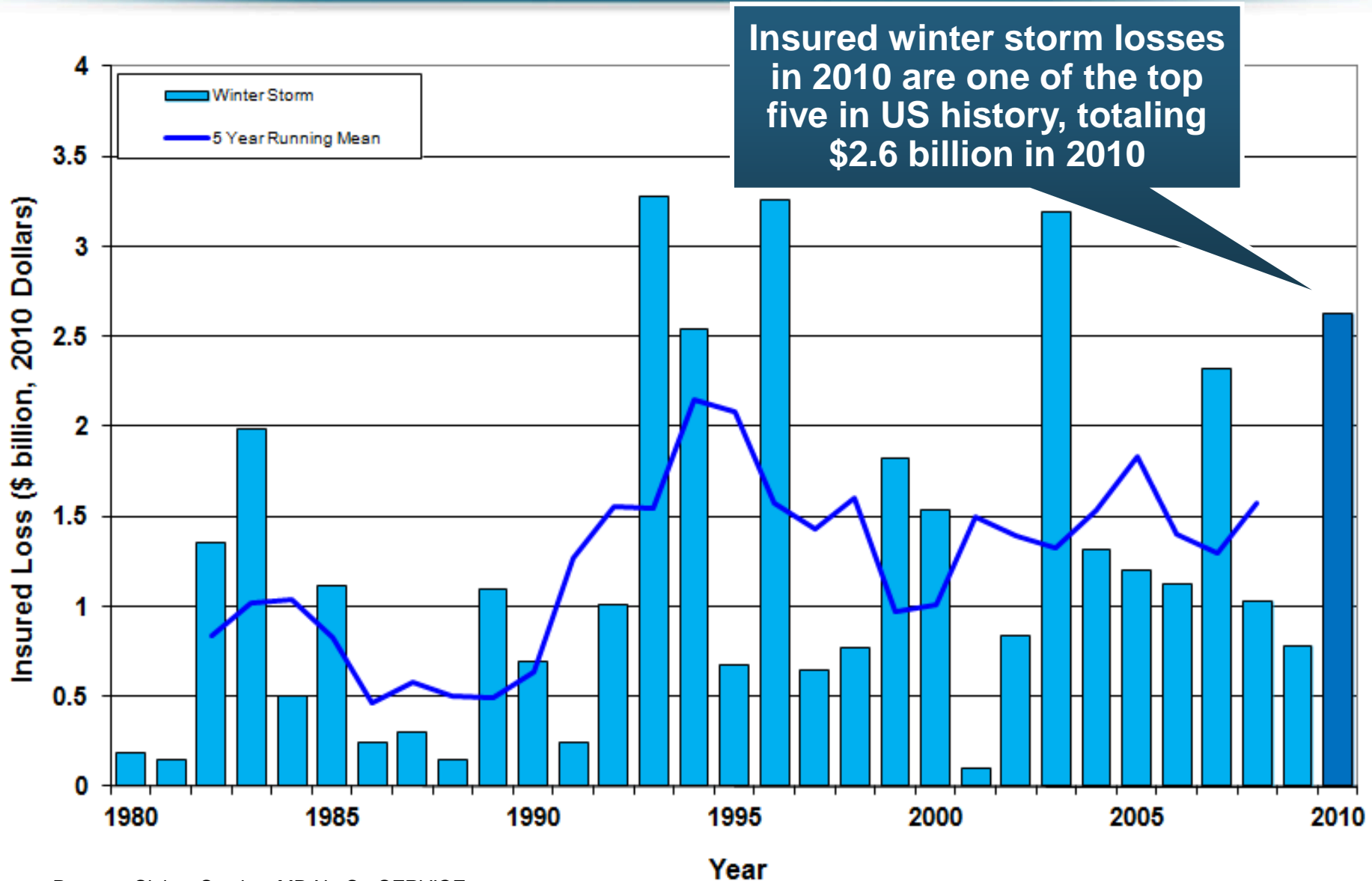
Number of Events (Annual Totals 1980 – 2010)



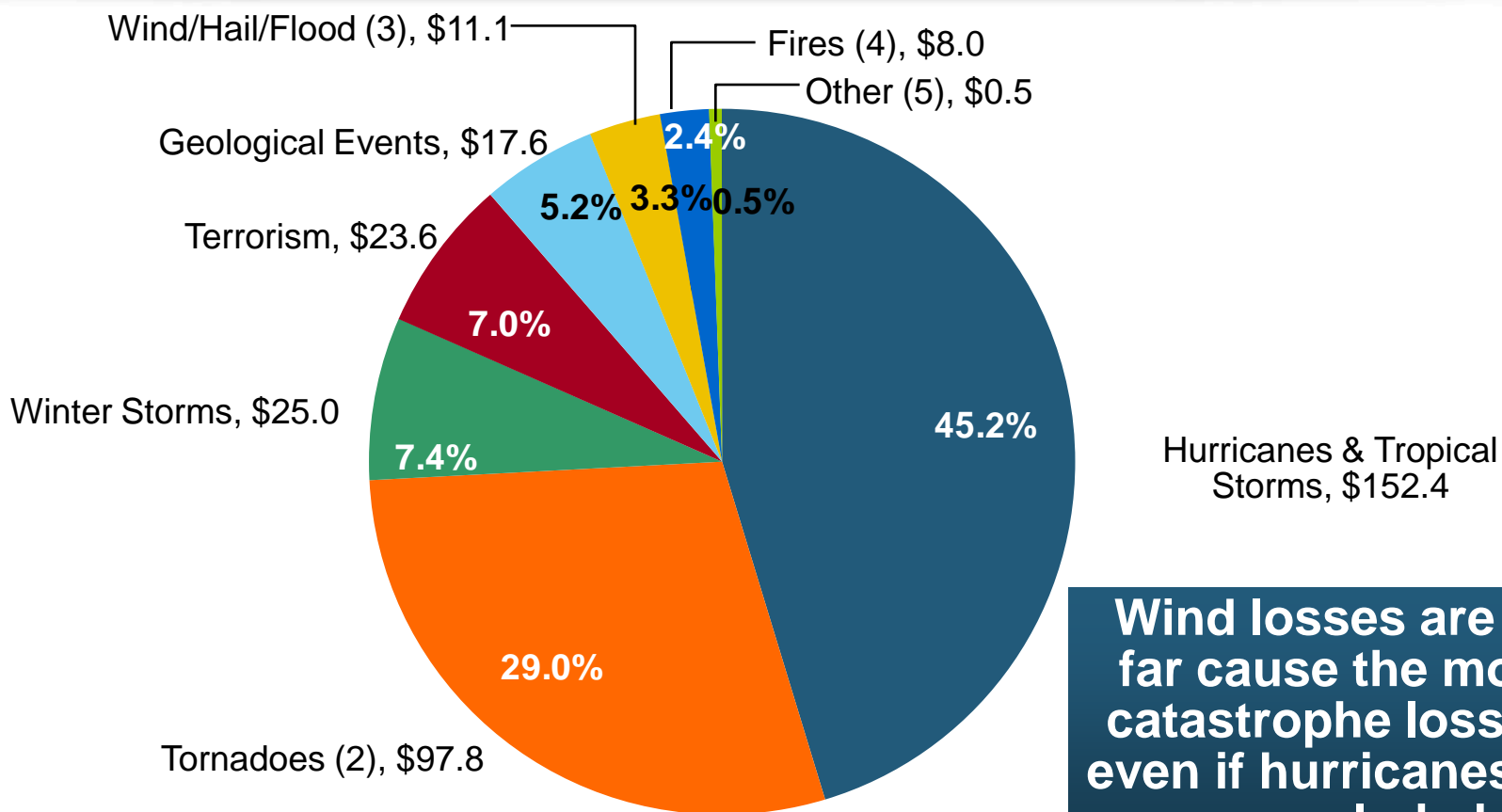
U.S. Thunderstorm Loss Trends, 1980 – 2010 (Annual Totals)



U.S. Winter Storm Loss Trends, 1980 – 2010 (Annual Totals)



Inflation Adjusted US Catastrophe Losses by Cause of Loss, 1990–2009¹



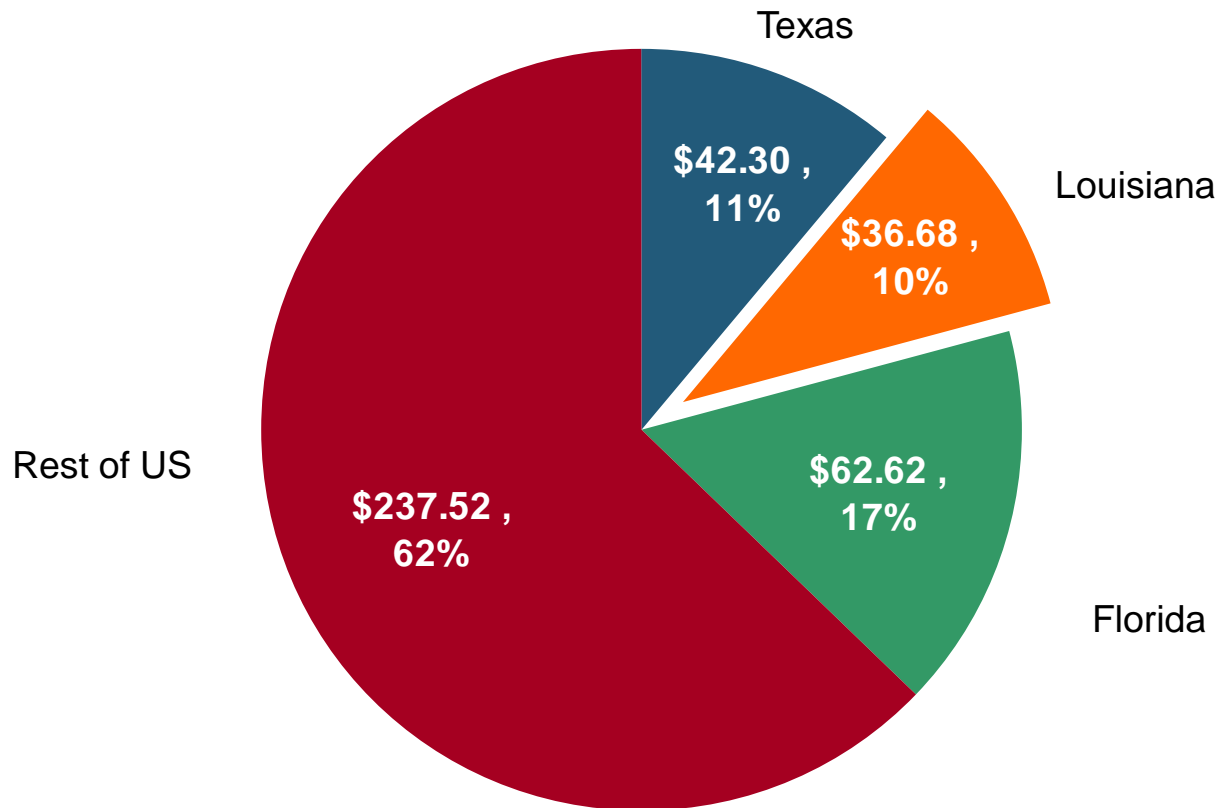
Wind losses are by far cause the most catastrophe losses, even if hurricanes/TS are excluded.

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

Source: ISO's Property Claim Services Unit.

Distribution of US Insured CAT Losses: TX, FL, LA vs. US, 1980-2010*

(\$ Billions)



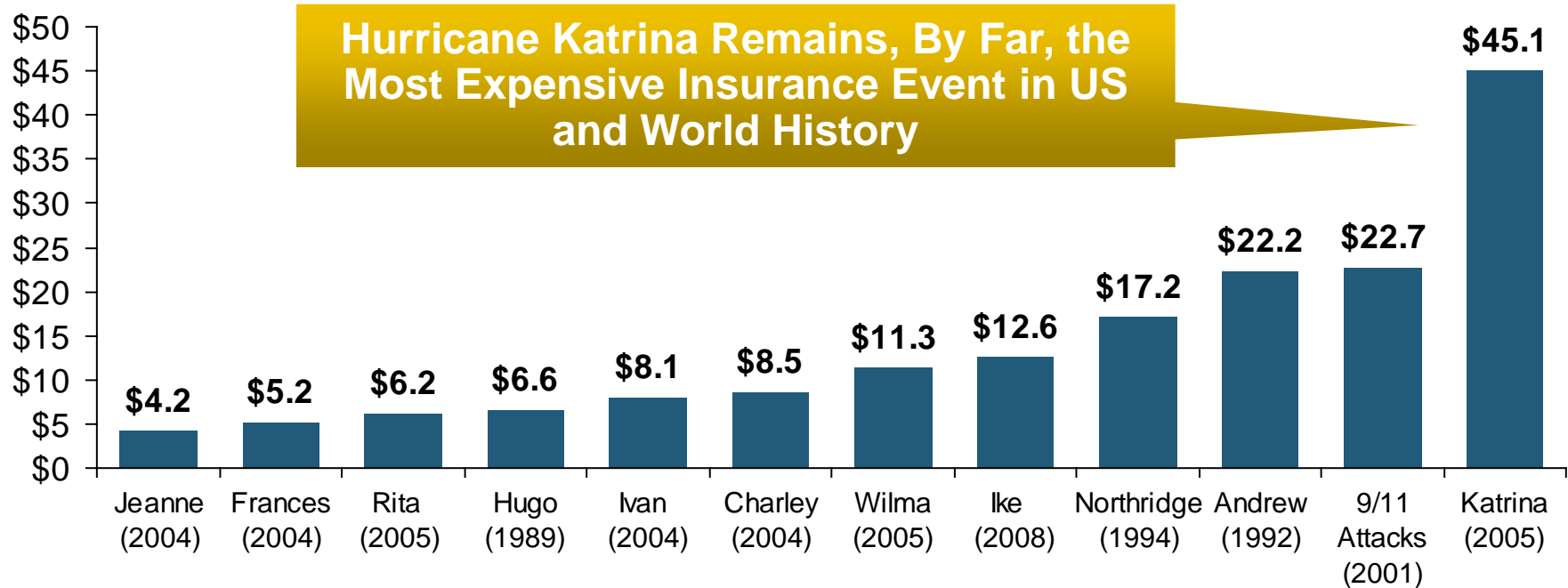
**Louisiana Accounted for 10% of All US Insured CAT Losses
from 1980-2010: \$36.7B out of \$237.5B**

* Adjusted to 2010 dollars.

Source: PCS division of ISO; Insurance Information Institute.

Top 12 Most Costly Disasters in US History

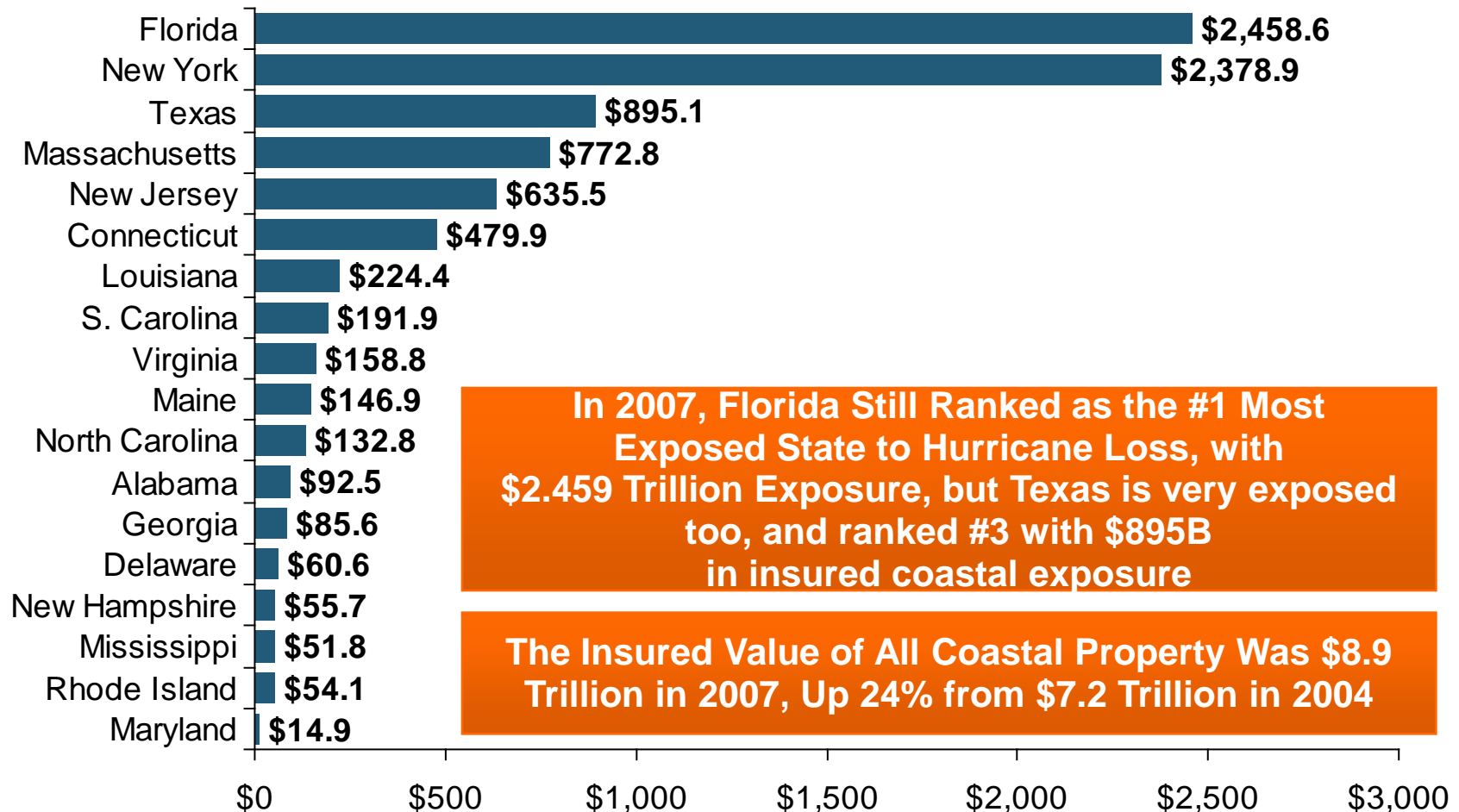
(Insured Losses, 2009, \$ Billions)



**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)





Outlook for the 2011 Atlantic Hurricane Season

**Above Average Activity,
More Landfalls Expected**

Outlook for 2011 Hurricane Season: 75% More Active Than Average

	Average*	2005 (Katrina Year)	2011F
Named Storms	9.6	28	16
Named Storm Days	49.1	115.5	80
Hurricanes	5.9	14	9
Hurricane Days	24.5	47.5	35
Intense Hurricanes	2.3	7	5
Intense Hurricane Days	5.0	7	10
Accumulated Cyclone Energy	96.1	NA	160
Net Tropical Cyclone Activity	100%	275%	175%

*Average over the period 1950-2000.

Source: Dr. Philip Klotzbach and Dr. William Gray, Colorado State University, April 6, 2011.

Probability of Major Hurricane Landfall (CAT 3, 4, 5) in 2011

	Average*	2011F
Entire US Coast	52%	72%
US East Coast Including Florida Peninsula	31%	48%
Gulf Coast from FL Panhandle to Brownsville, TX	30%	47%
<i>ALSO...Above-Average Major Hurricane Landfall Risk in Caribbean for 2011 (61% vs. 42%)</i>		

*Average over the period 1950-2000.

Source: Dr. Philip Klotzbach and Dr. William Gray, Colorado State University, April 6, 2011.

Insurance Information Institute Online:

www.iii.org

*Thank you for your time
and your attention!*

Twitter: twitter.com/bob_hartwig