



The Election Season, Tax Breaks and the Eurozone...*And* *Hurricane Sandy*: Assessing the Political Landscape

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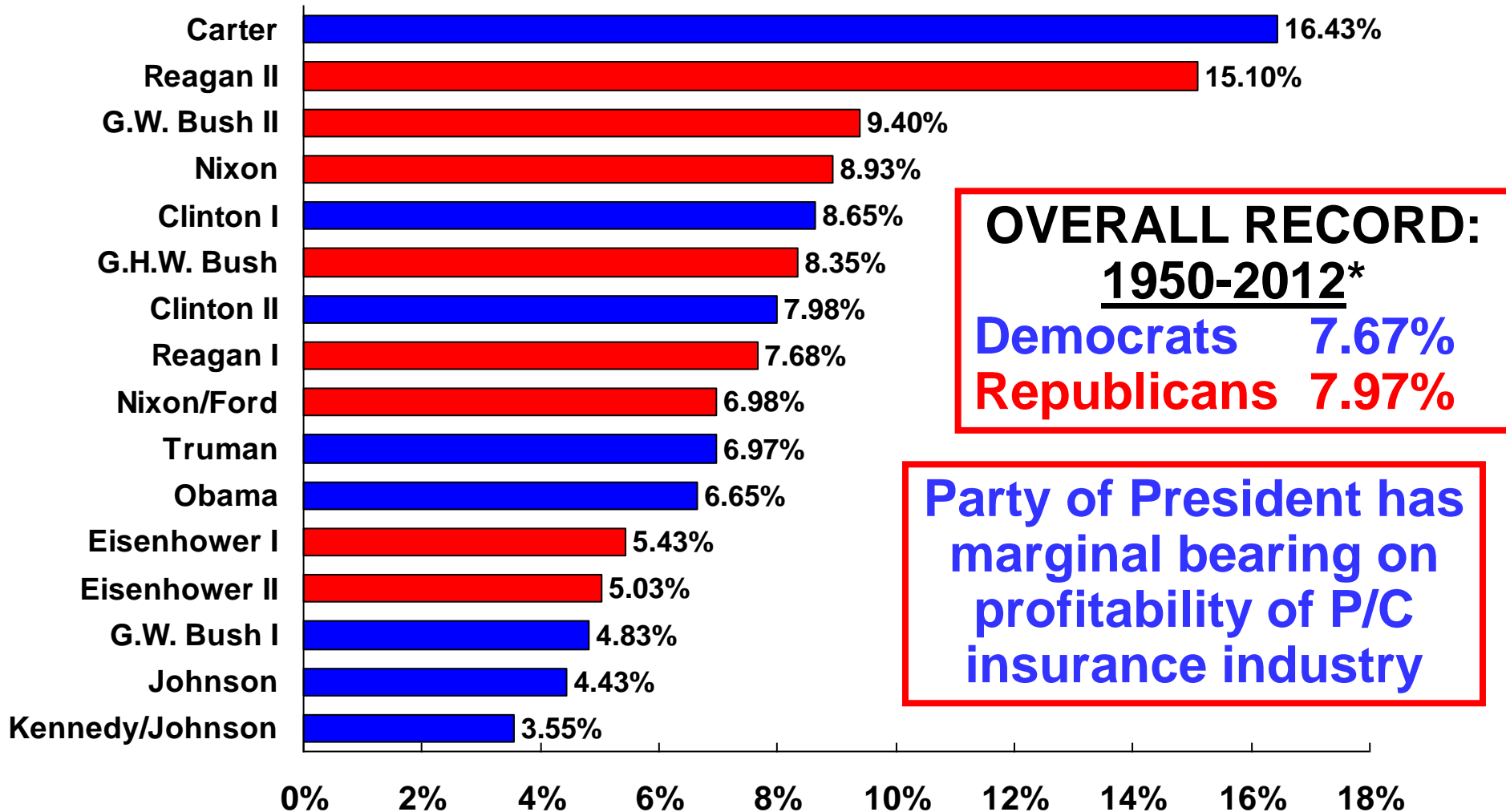
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Presidential Politics & the P/C Insurance Industry

How Is Profitability Affected by the President's Political Party?

P/C Insurance Industry ROE by Presidential Administration, 1950- 2012*



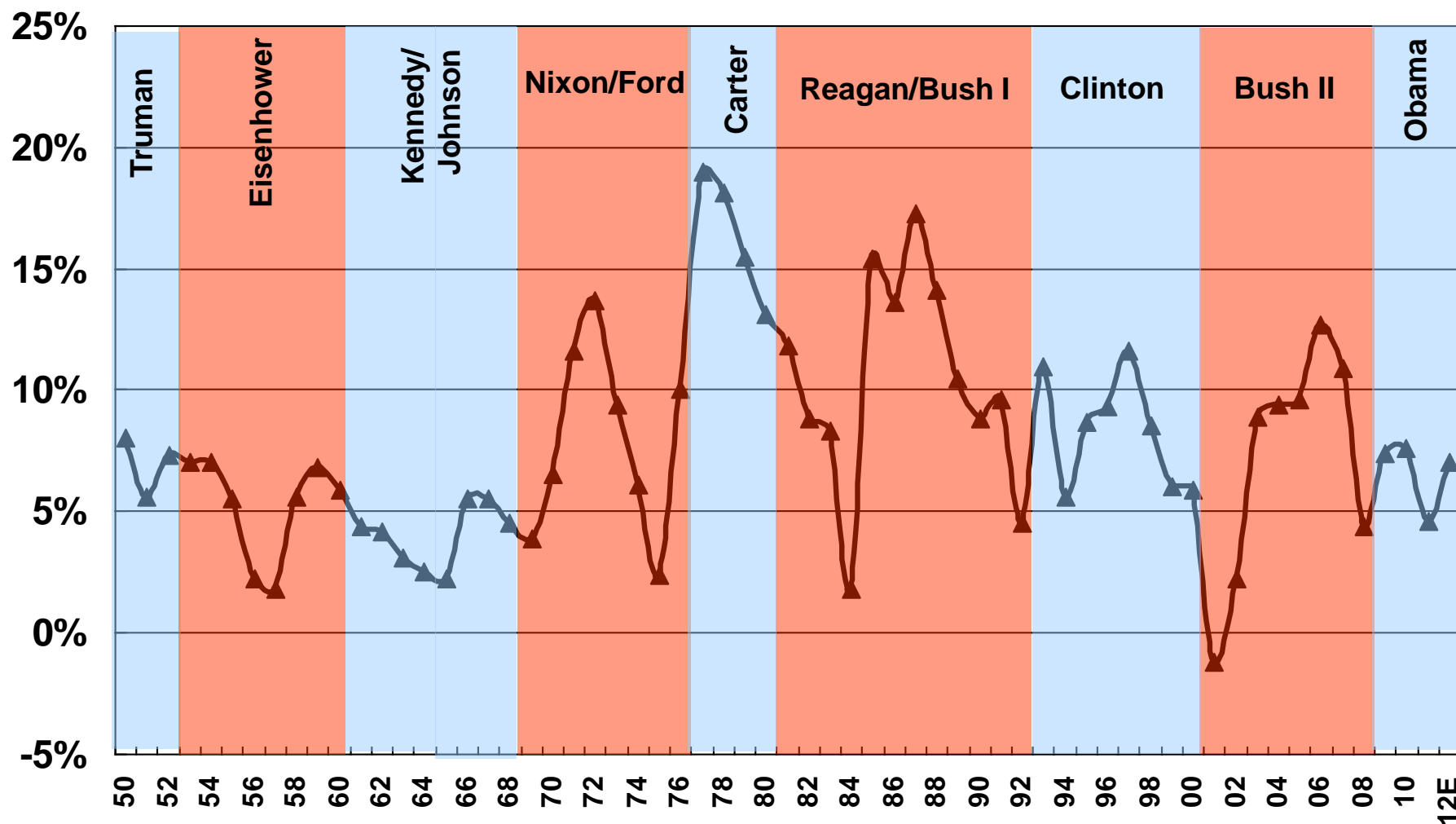
*Truman administration ROE of 6.97% based on 3 years only, 1950-52; ROEs for the years 2008 forward exclude mortgage and financial guaranty segments. Estimated ROE for 2012 = 7.0%.

Source: Insurance Information Institute

P/C Insurance Industry ROE by Presidential Party Affiliation, 1950- 2012*

BLUE = Democratic President

RED = Republican President



*ROEs for the years 2008 forward exclude mortgage and financial guaranty segments; Estimated 2012 ROE = 7.0%

Source: Insurance Information Institute



Hurricane Sandy Summary

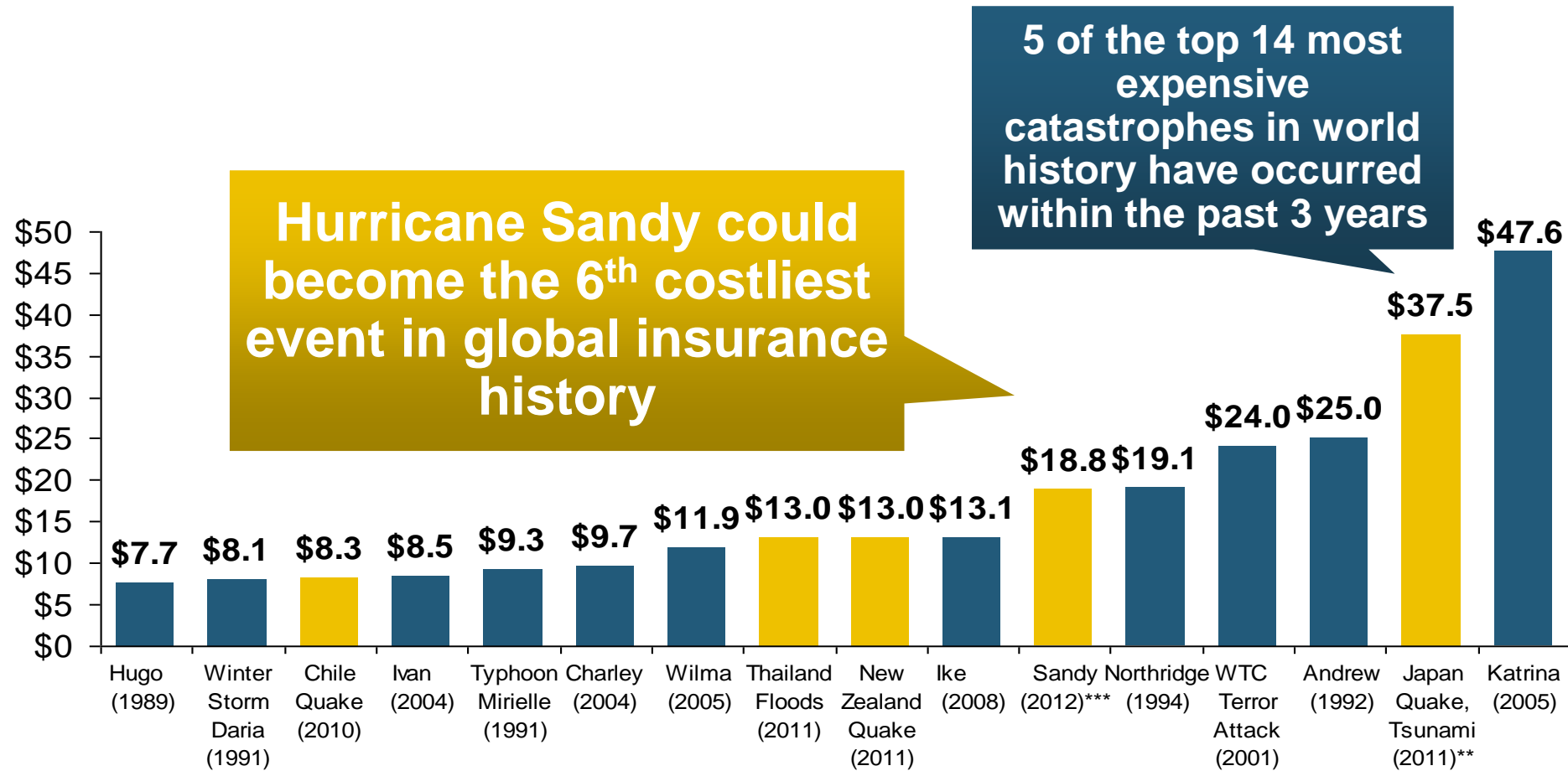
**Sandy Will Become One of the
Most Expensive Events in
Insurance History—
*And a Highly Politicized Disaster***

Summary of Key Financial Issues Related to Hurricane Sandy

- **Sandy Will Likely Become the 3rd Most Expensive Hurricane in US History in Terms of Insured Losses—With Insured Losses of Up to \$25 Billion**
 - ◆ Ranks behind 2005's Katrina (\$47.6B) and 1992's Andrew (\$25.0B) *[in 2011 \$]*
- **Total Claim Count is Estimated at Approximately 1.38 million**
 - ◆ Hurricane Katrina produced 1.743 million claims
- **2012 Could Become the 3rd Costliest Year in US History in Terms of Insured Losses—Totaling Approximately \$34-\$35 Billion as of Late 2012**
 - ◆ Ranking behind 2005 (\$71.7B) and 1992 (\$36.9B) *[both stated in 2011 dollars]*
- **2012 Will Likely Be the 2nd Costliest Year for the NFIP (~\$7B+), Likely Exhausting the Flood Program's Remaining Borrowing Authority**
 - ◆ Record was \$17.74B in 2005 (original dollars), the year of Hurricane Katrina
- **Too Soon to Determine Impact on P/C Insurance Industry Financials**
 - ◆ Impact of US insurers' combined ratio and ROEs will be influenced by the degree to which reinsurance coverage is triggered
 - ◆ US Cat losses had been running 40% - 50% below 2011 levels prior to Sandy
- **P/C Insurance Industry Entered 2012 Hurricane Very Strong Financially**
 - ◆ Industry remains very strong in the wake of Sandy, despite high losses

Top 16 Most Costly World Insurance Losses, 1970-2011**

(Insured Losses, 2011 Dollars, \$ Billions)



*Figures do not include federally insured flood losses.

**Average of range estimates of \$35B - \$40B as of 1/4/12; Privately insured losses only.

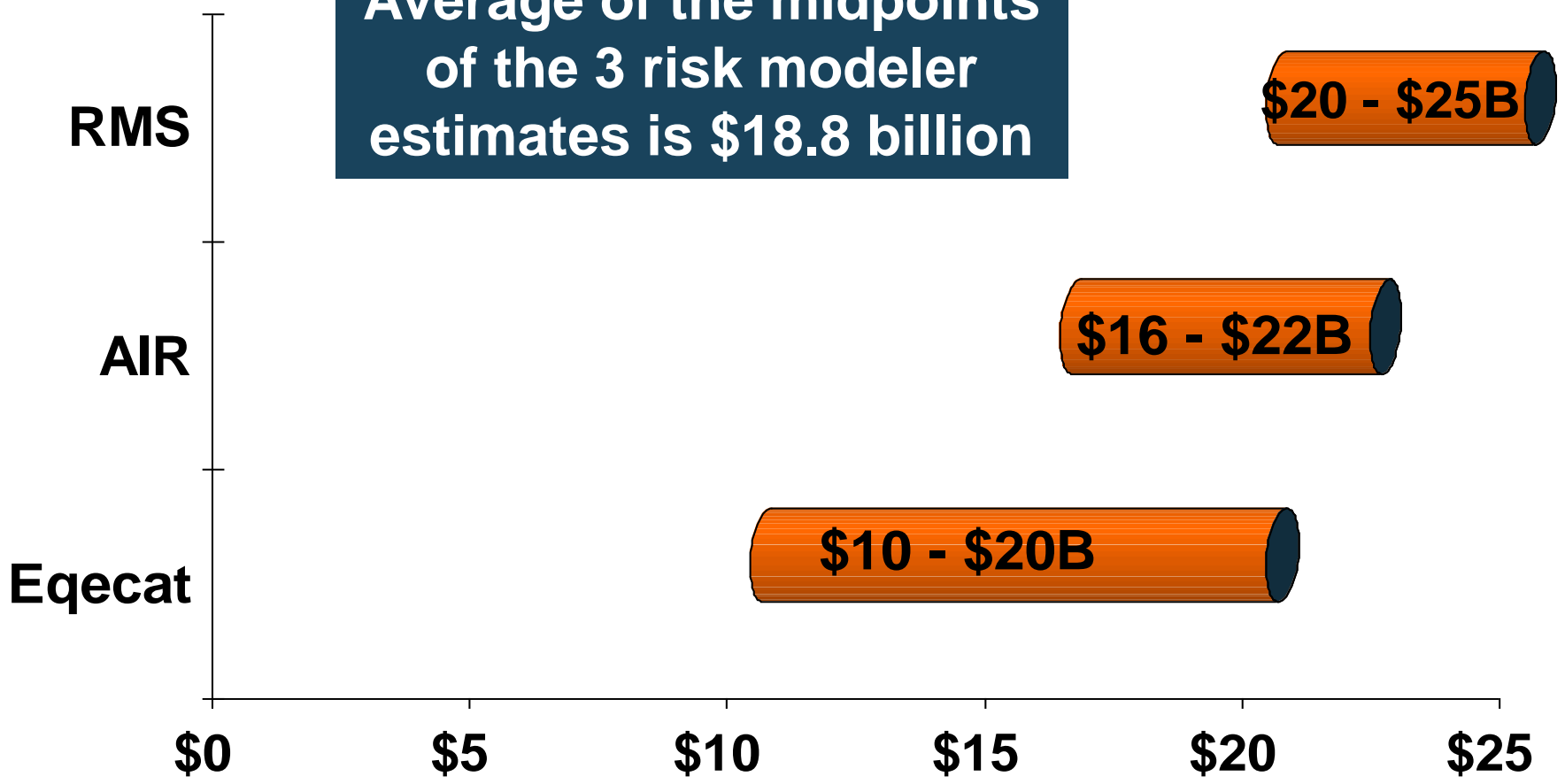
***Estimate as of 11/26/12, stated in 2012 dollars based on average of midpoints from range estimates from AIR, RMS and Egecat.

Sources: Swiss Re *sigma* 1/2011; Munich Re; Insurance Information Institute research.

Hurricane Sandy Insured Loss Estimates: Late Season Large Loss* (\$ Billions)



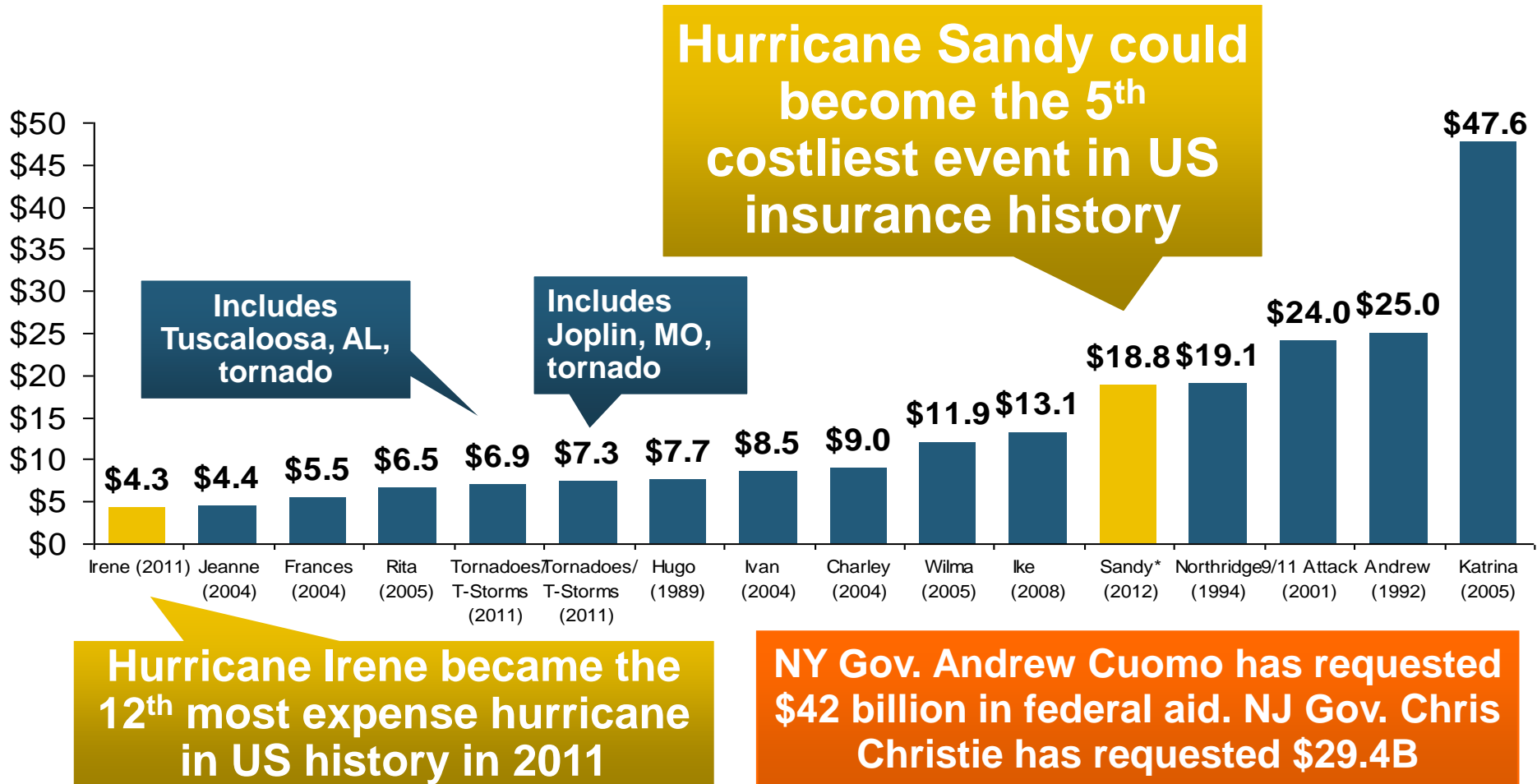
Average of the midpoints
of the 3 risk modeler
estimates is \$18.8 billion



*US insured property and business interruption losses only. Sandy's landfall in the northeast US occurred Oct. 29, 2012.
Sources: RMS (11/14/12 est.), AIR (11/26/12 est.), Eqecat (11/1/12 est.); Compiled by the Insurance Information Institute.

Top 16 Most Costly Disasters in U.S. History

(Insured Losses, 2011 Dollars, \$ Billions)



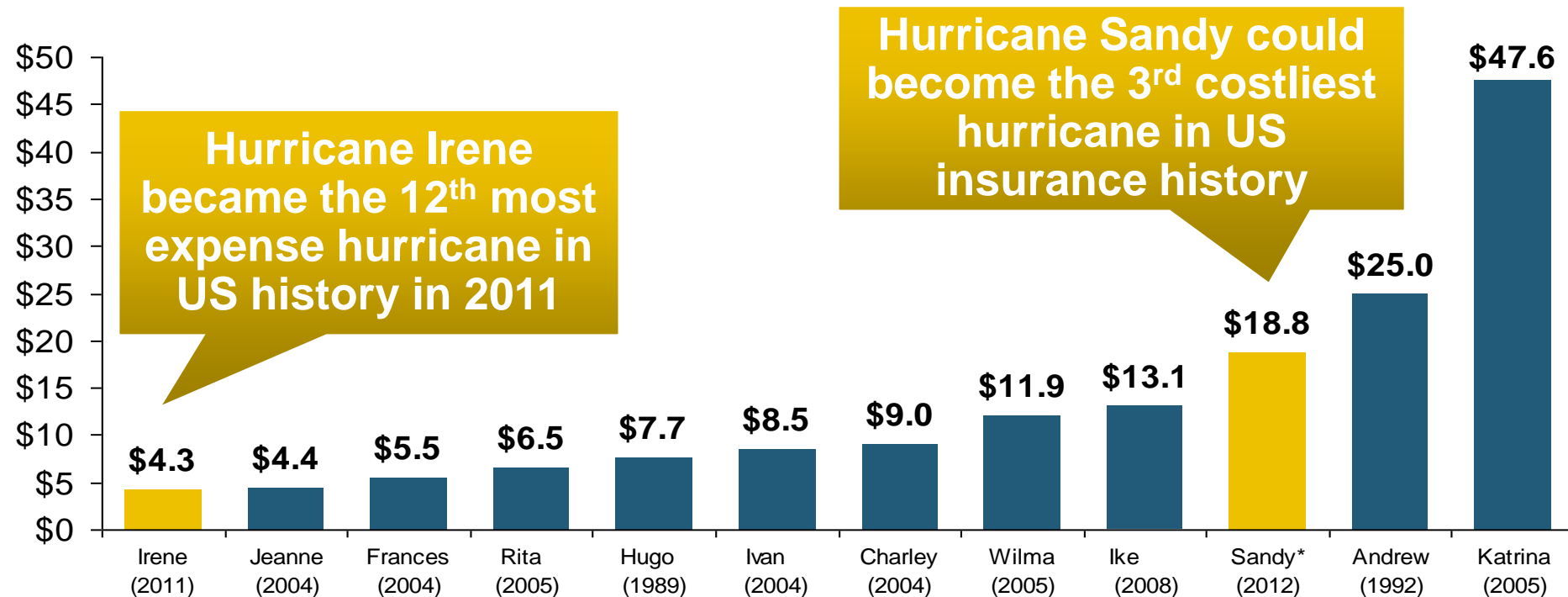
*Estimate as of 11/26/12 based on average of range midpoints from AIR, RMS and Eqecat..

Sources: PCS; Insurance Information Institute inflation adjustments.

Top 12 Most Costly Hurricanes in U.S. History

(Insured Losses, 2011 Dollars, \$ Billions)

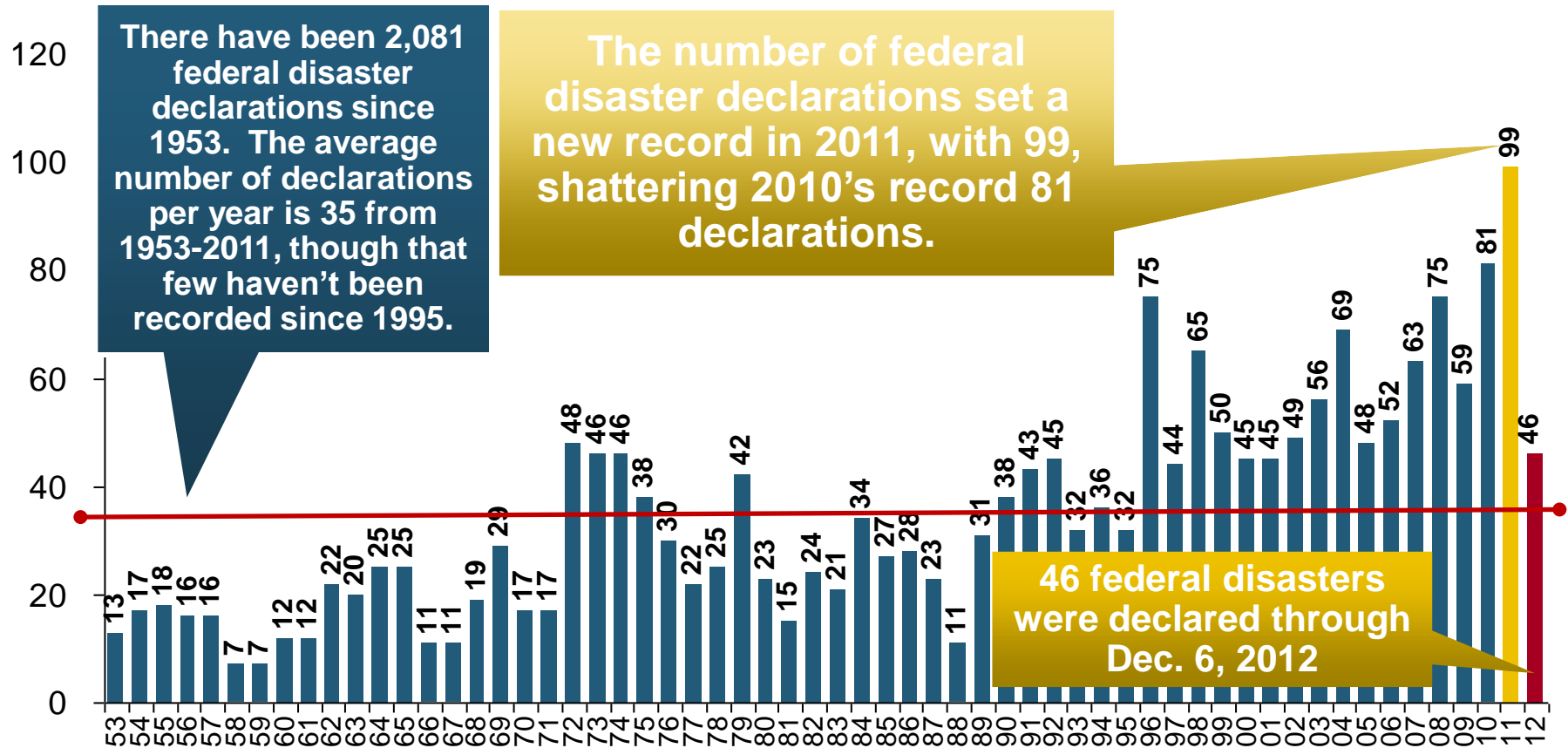
10 of the 12 most costly hurricanes in insurance history occurred over the past 8 years (2004—2012)



*Estimate as of 11/26/12 based on average of range estimate midpoints from AIR, Egecat and RMS..

Sources: PCS; Insurance Information Institute inflation adjustments.

Number of Federal Disaster Declarations, 1953-2012*



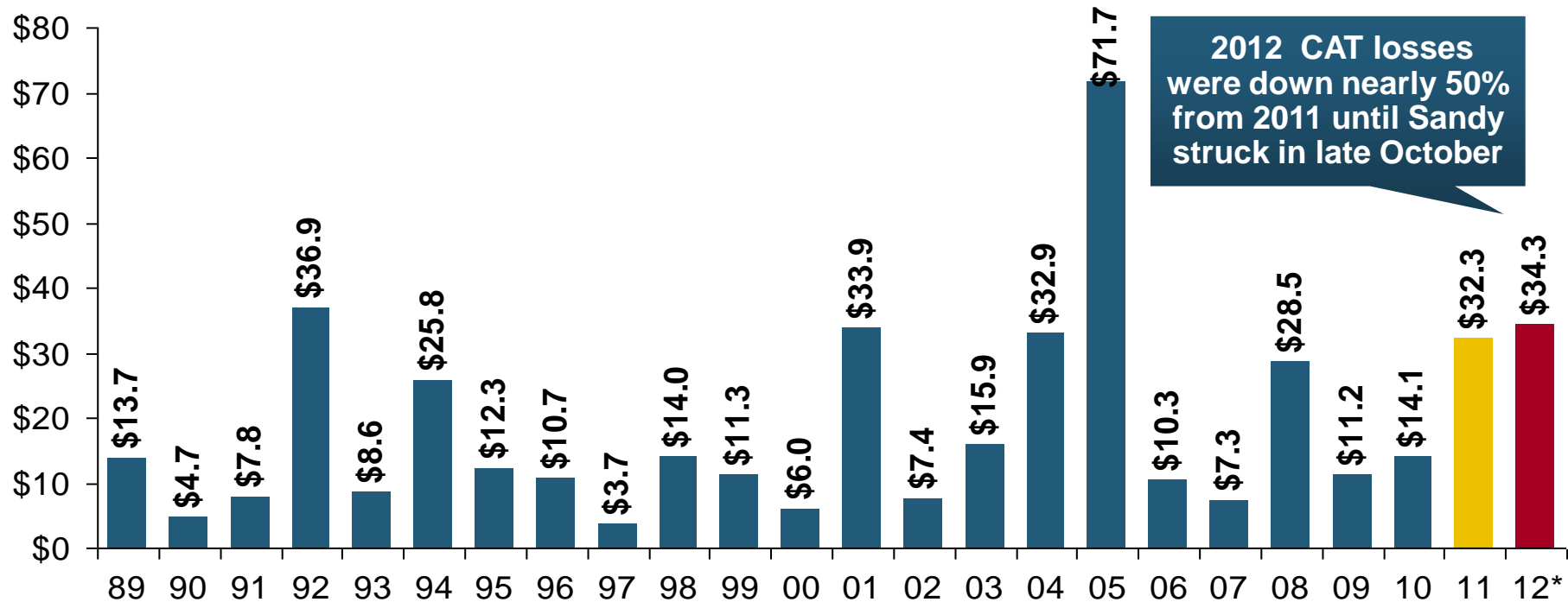
The Number of Federal Disaster Declarations Is Rising and Set New Records in 2010 *and* 2011. Hurricane Sandy Produced 9 Declarations in 2012.

*Through Dec. 6, 2012.

Source: Federal Emergency Management Administration; <http://www.fema.gov/disasters>; Insurance Information Institute.

US Insured Catastrophe Losses

(\$ Billions, 2011 Dollars)



US CAT Losses in 2012 Could Become the 3rd Highest in US History on An Inflation-Adjusted Basis. 2011 Losses Were the 5th Highest

Record Tornado Losses Caused 2011 CAT Losses to Surge

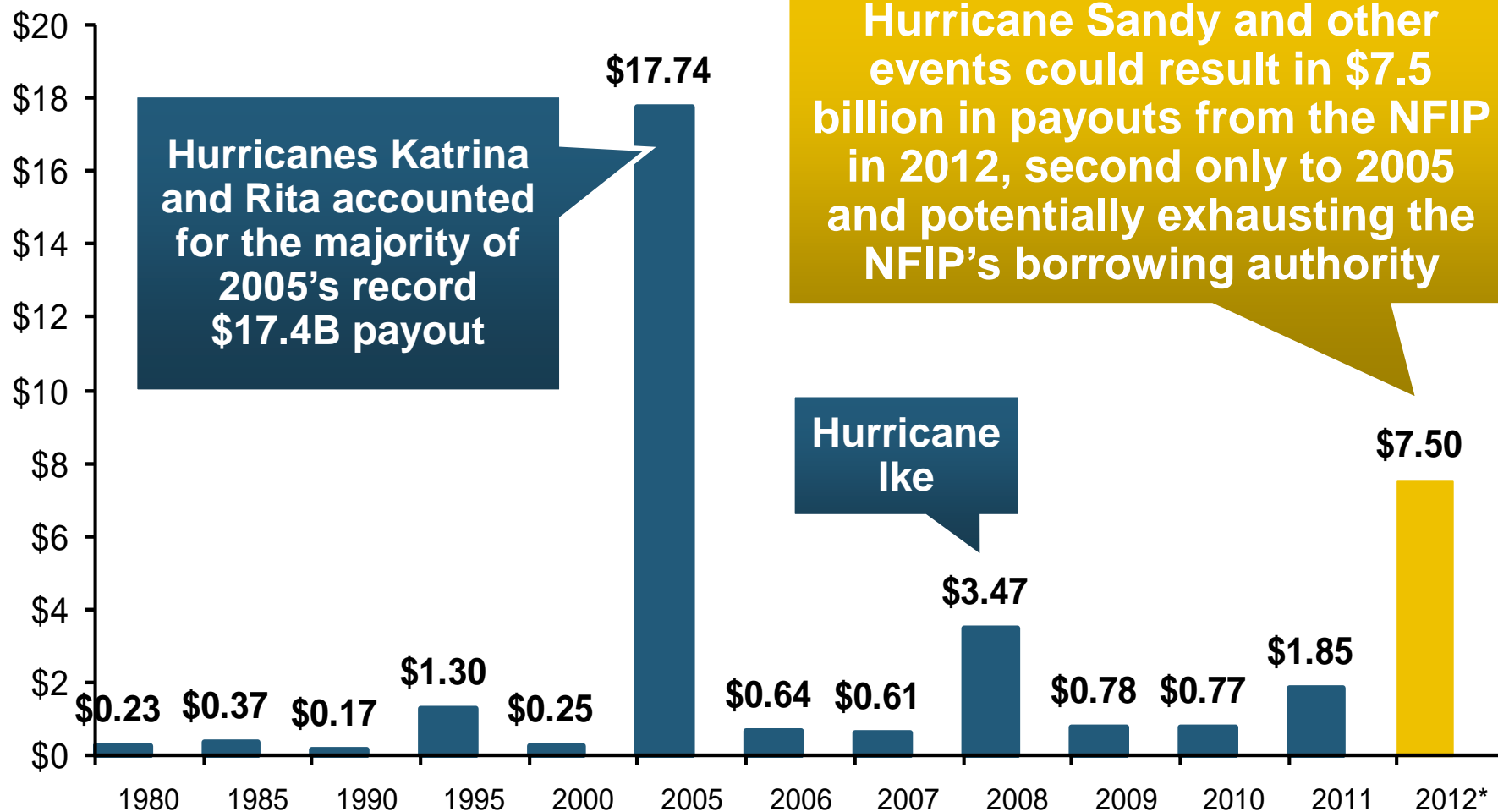
*As of 11/26/12 in 2012 dollars. Includes \$18.8B gross loss estimate for Hurricane Sandy.

Note: 2001 figure includes \$20.3B for 9/11 losses reported through 12/31/01 (\$25.9B 2011 dollars). Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = \$12.2B (\$15.6B in 2011 dollars.)

Sources: Property Claims Service/ISO; Insurance Information Institute.

Flood Loss Paid by the National Flood Insurance Program, 1980-2012E

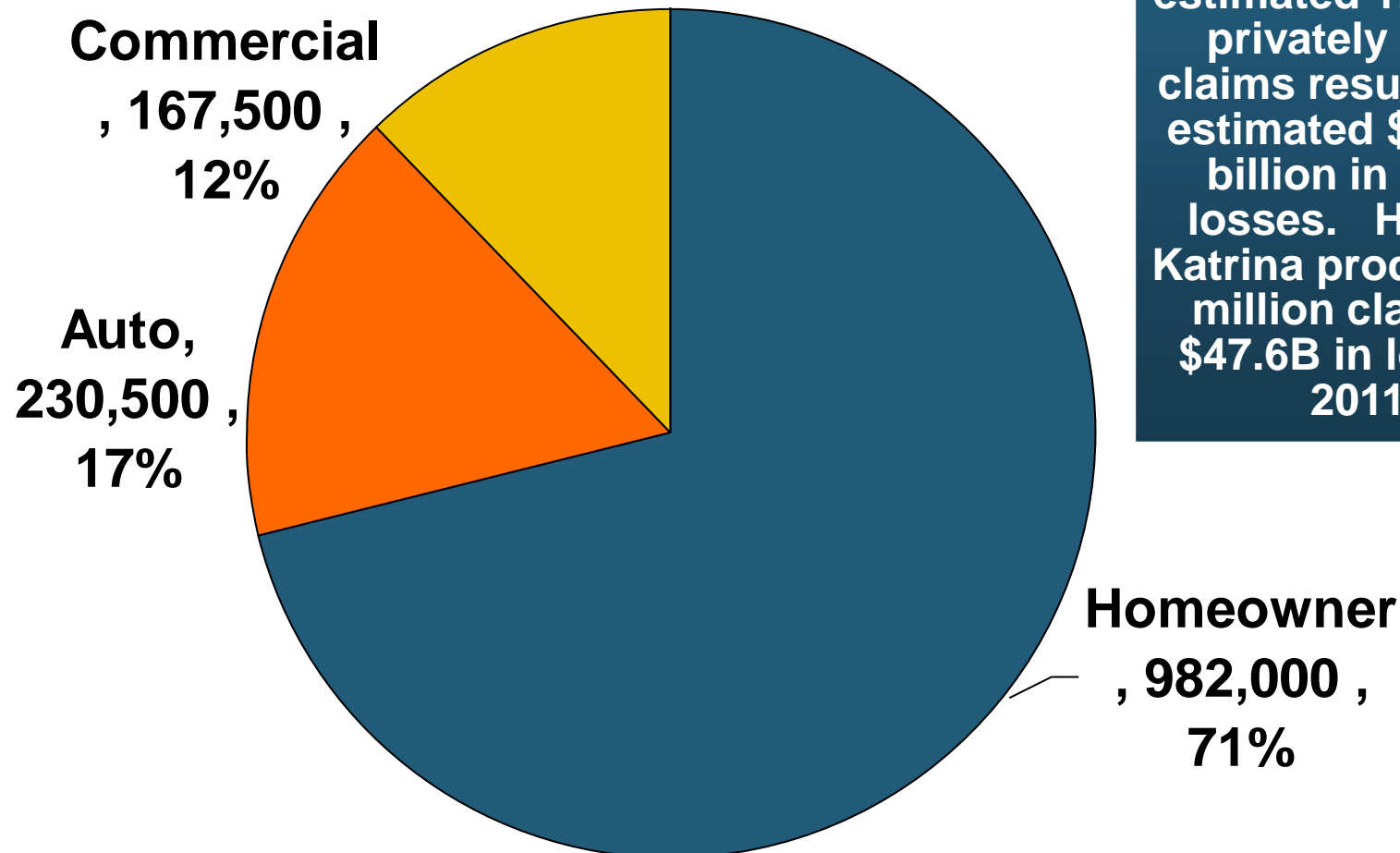
Billions (Original Values)



*Estimate as of 11/25/12.

Sources: Department of Homeland Security, Federal Emergency Management Agency, NFIP; Insurance Information Institute.

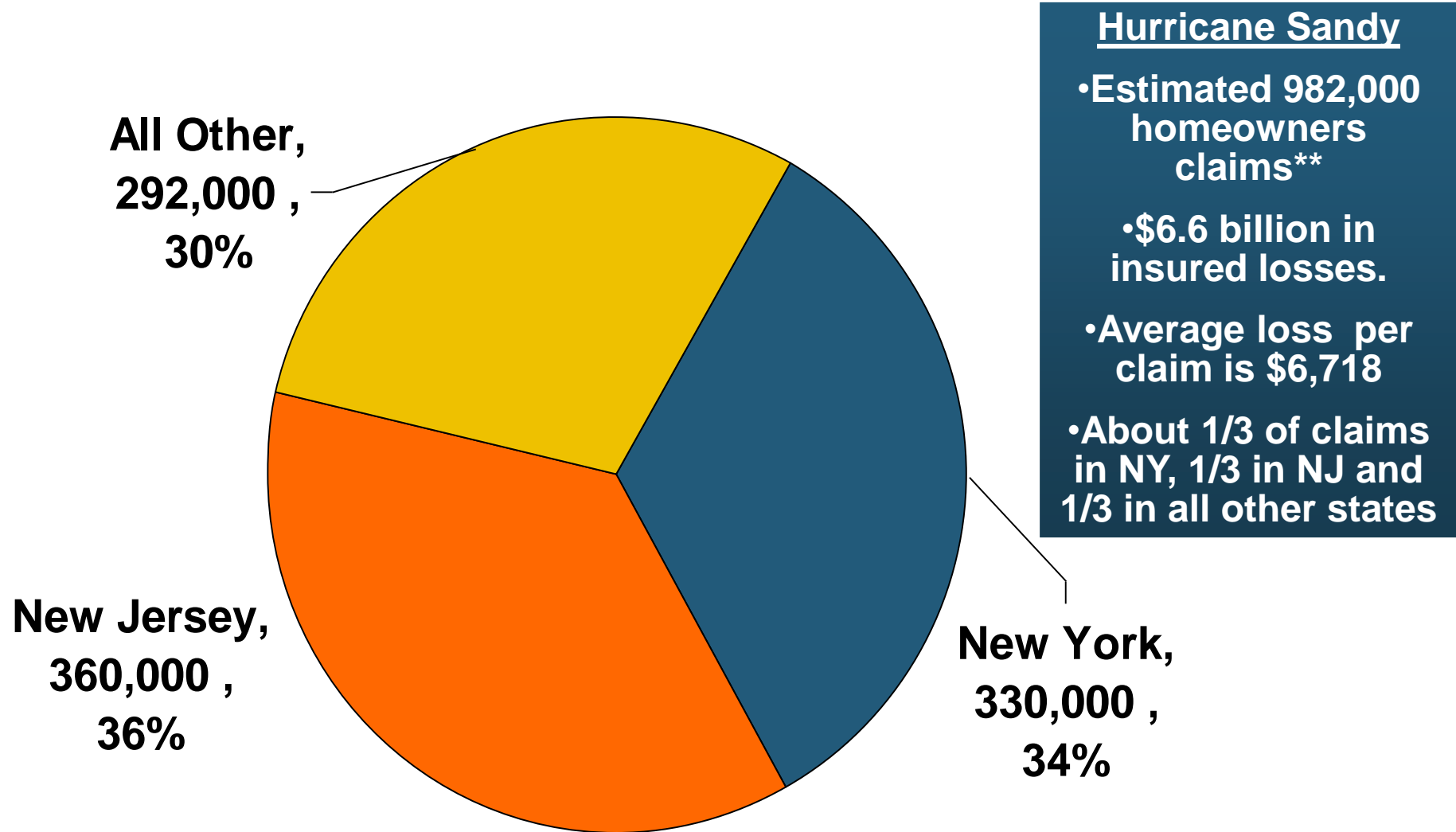
Hurricane Sandy: Number of Claims by Type*



Hurricane Sandy resulted in an estimated 1.38 million privately insured claims resulting in an estimated \$10 to \$25 billion in insured losses. Hurricane Katrina produced 1.74 million claims and \$47.6B in losses (in 2011 \$)

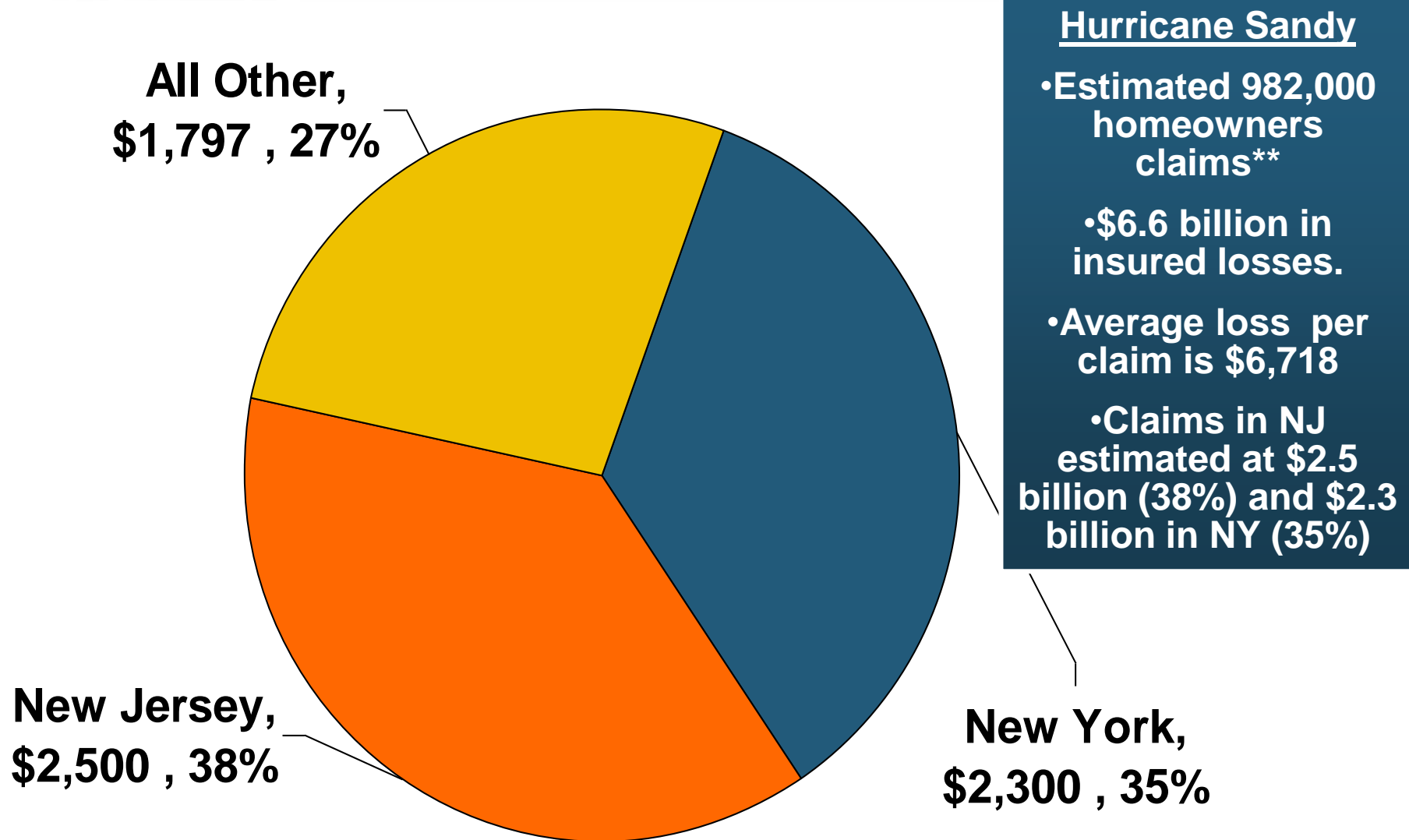
*PCS claim count estimate as of 11/26/12. Loss estimate represents high and low end estimates by risk modelers RMS, Eqecat and AIR. PCS estimate of insured losses as of 11/26/12 \$11 billion. All figures exclude losses paid by the NFIP.
Source: PCS; AIR, Eqecat, AIR Worldwide; Insurance Information Institute.

Hurricane Sandy: Number of Homeowners Claims by State*



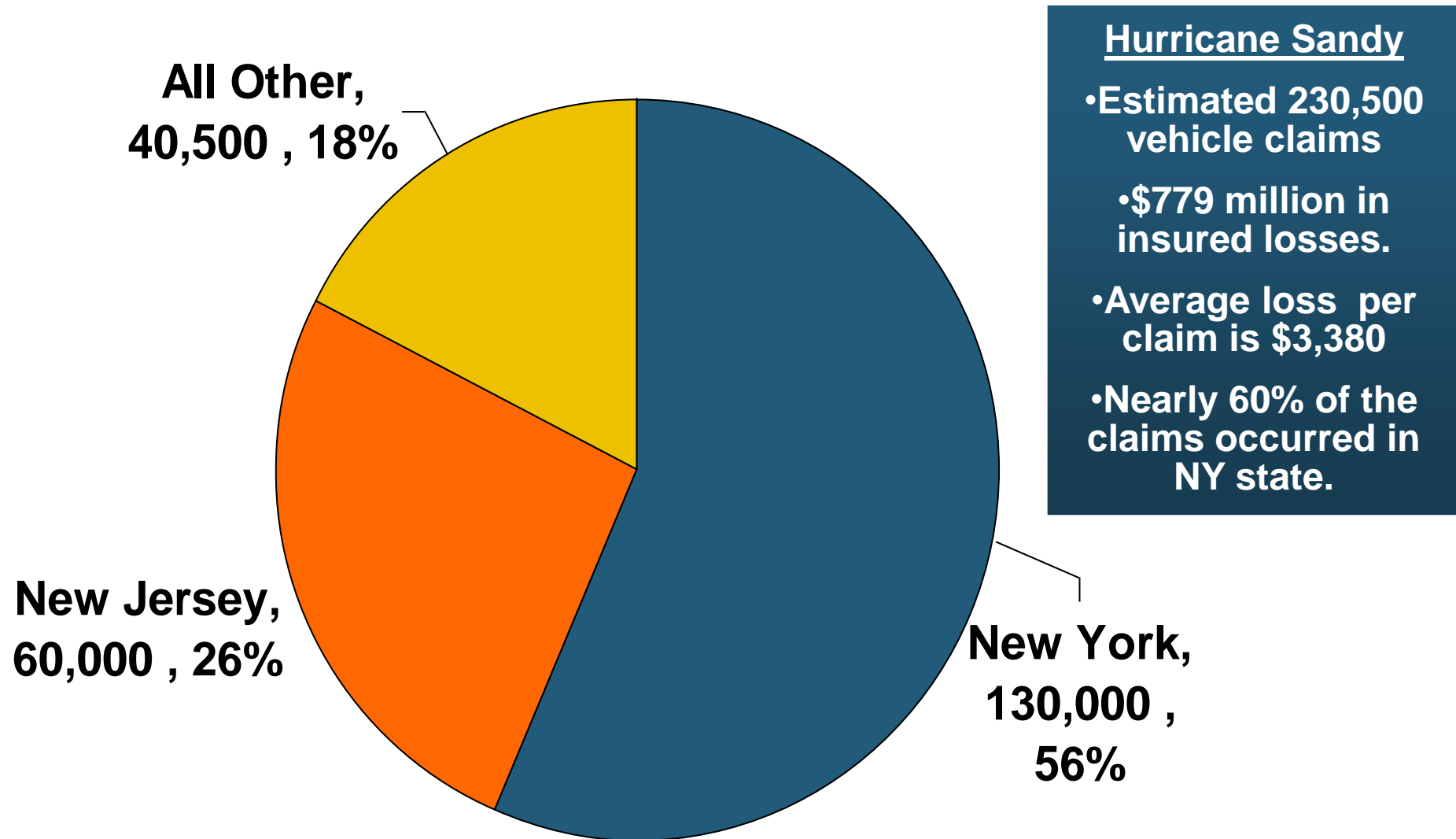
*Preliminary as of 11/26/12.
Source: PCS.

Hurricane Sandy: Value of Homeowners Claims Paid, by State* (\$ Millions)



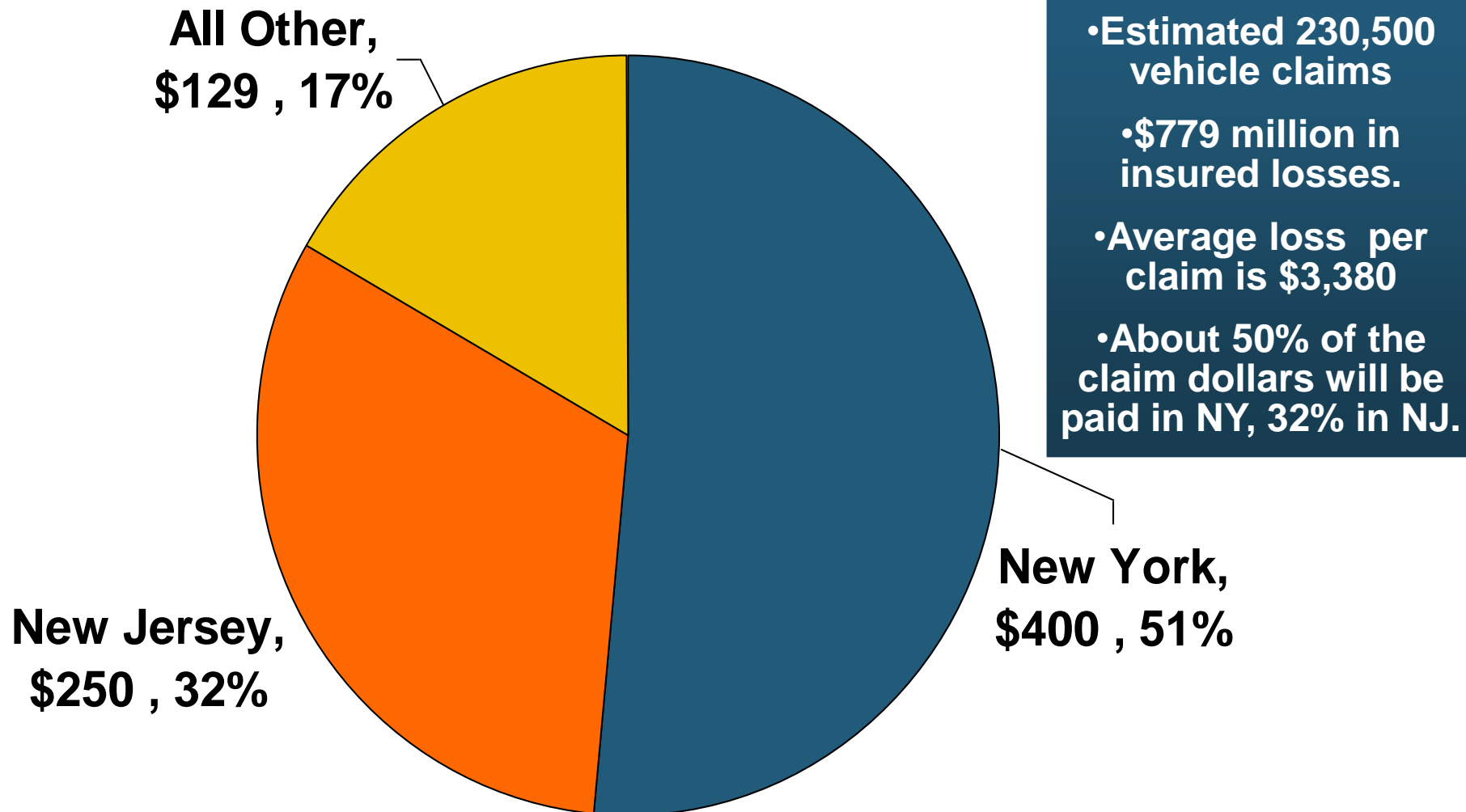
*Preliminary as of 11/26/12.
Source: PCS.

Hurricane Sandy: Number of Auto Claims by State*



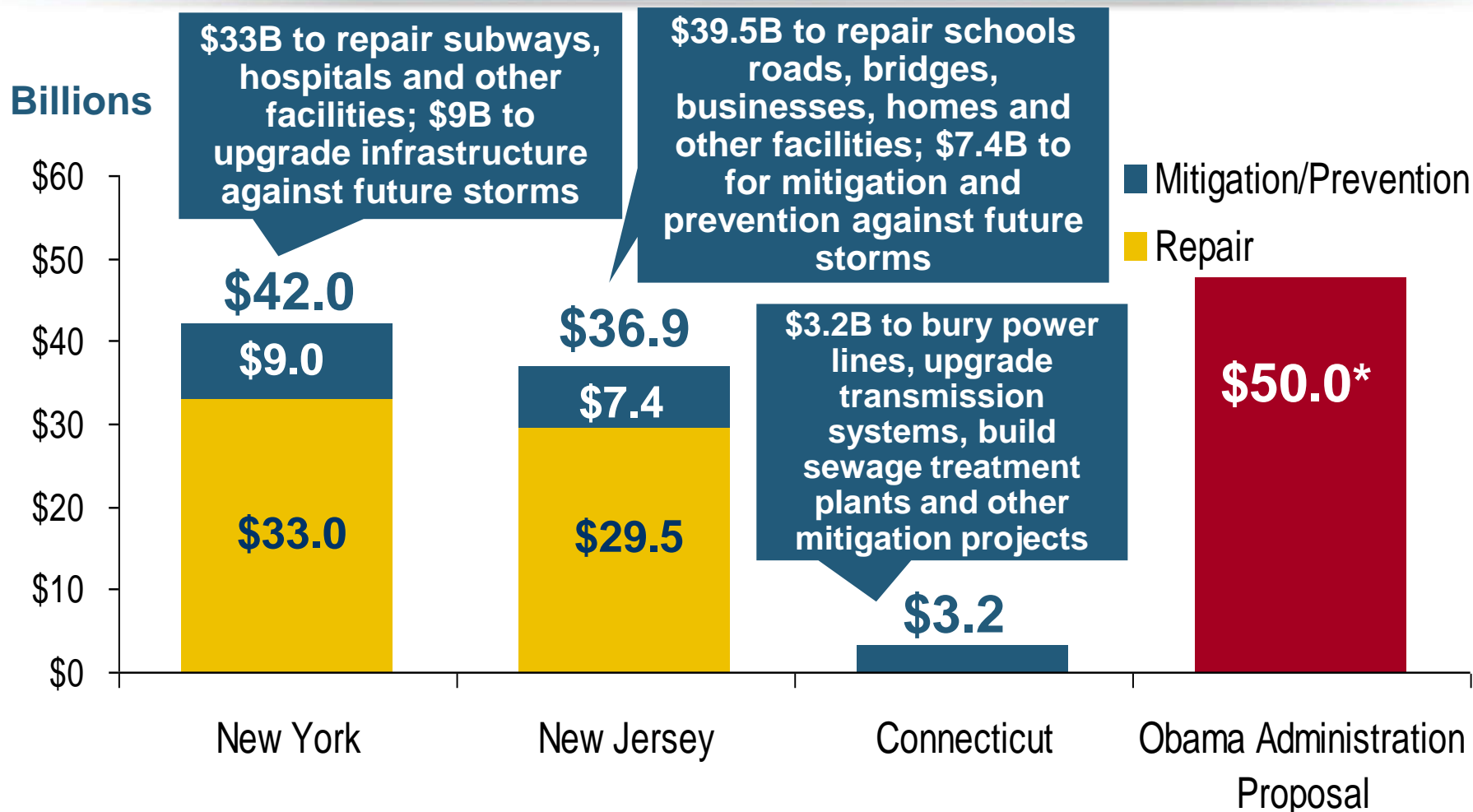
*Preliminary as of 11/26/12.
Source: PCS.

Hurricane Sandy: Value of Auto Claims Paid, by State* (\$ Millions)



*Preliminary as of 11/26/12.
Source: PCS.

Federal Aid Requests by States With Greatest Sandy Impact (as of 12/6/12)



States Are Requesting Enormous Sums in Sandy Aid in the Middle of a Massive Budget Struggle at the Edge of the “Fiscal Cliff”

*Midpoint of \$45B to \$55B range currently under consideration.

Source: *New York Times*, Dec. 6, 2012; Insurance Information Institute.

Political and Regulatory Environment Related to Hurricane Sandy

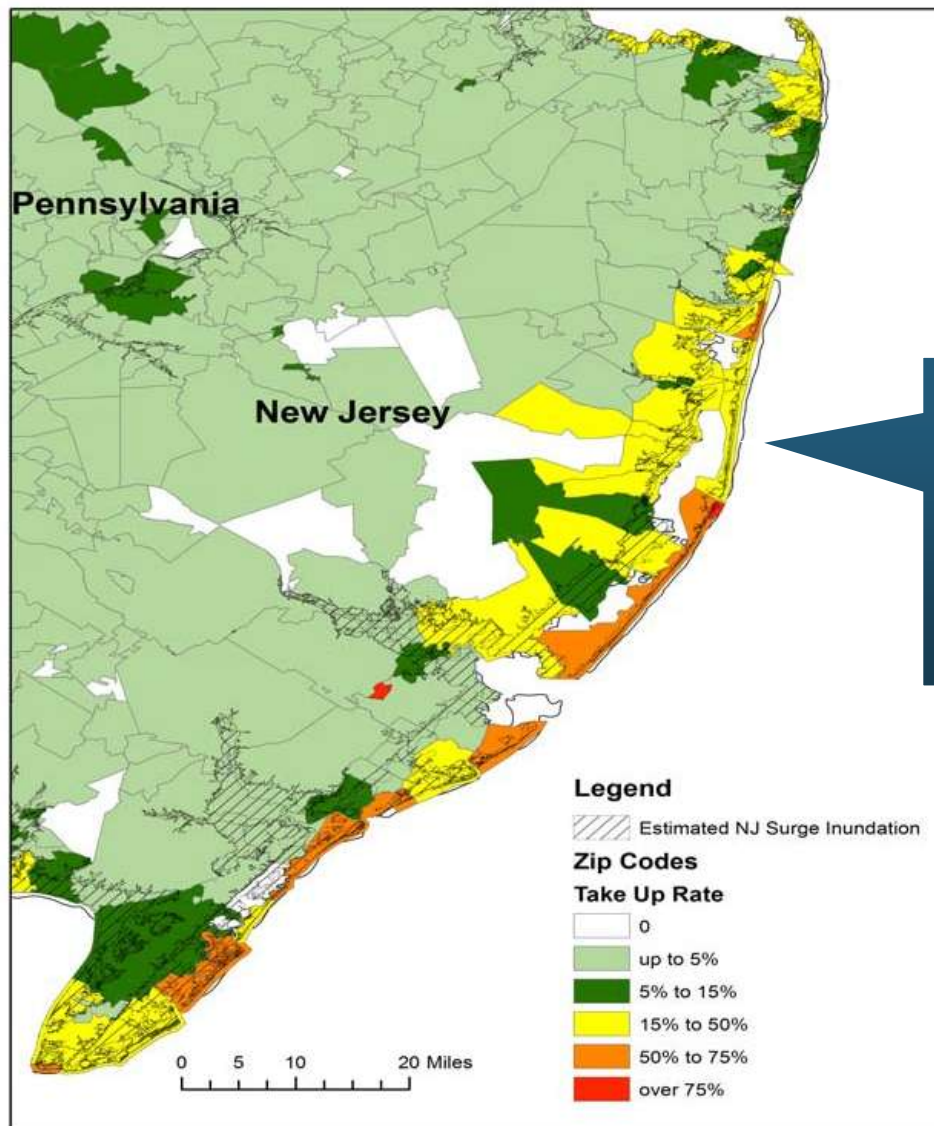
■ Political and Regulatory Environment

- ◆ Sandy immediately became a highly politicized event
- ◆ Gov. Andrew Cuomo NY and Gov. Chris Christie of NJ (both often mentioned as future presidential candidates) were highly public and aggressive on every dimension of Sandy as was NYC Mayor Bloomberg
- ◆ Politicians commanded enormous media air time
- ◆ Both governors issued a significant number of executive orders, some affecting insurance within days of landfall
- ◆ Governors' actions have made them, in effect, regulators regarding Sandy issues
- ◆ Moratoria on cancellations and nonrenewals in NY and NJ; Data calls
- ◆ Sen. Schumer press conference on hurricane deductibles (Nov. 11)
- ◆ DFS created an “Insurer Report Card” Documenting Responsiveness Metrics:
 - www.NYInsure.ny.gov
- ◆ Investigative Moreland Commission formed in NY—members include DFS Superintendent Benjamin Lawsky (current focus is utilities); Subpoena authority.
- ◆ Also created “NYS 2100 Commission” (Report due Jan. 3, 2013)
 - The NYS 2100 Commission is tasked with finding ways to improve the resilience and strength of the state's infrastructure in the face of natural disasters and other emergencies
 - Among other things, the Commission is tasked with identifying “*Reforms in the area of insurance and risk management related to natural disasters and other emergencies.*”

Flood Insurance Program: 2012 Reforms

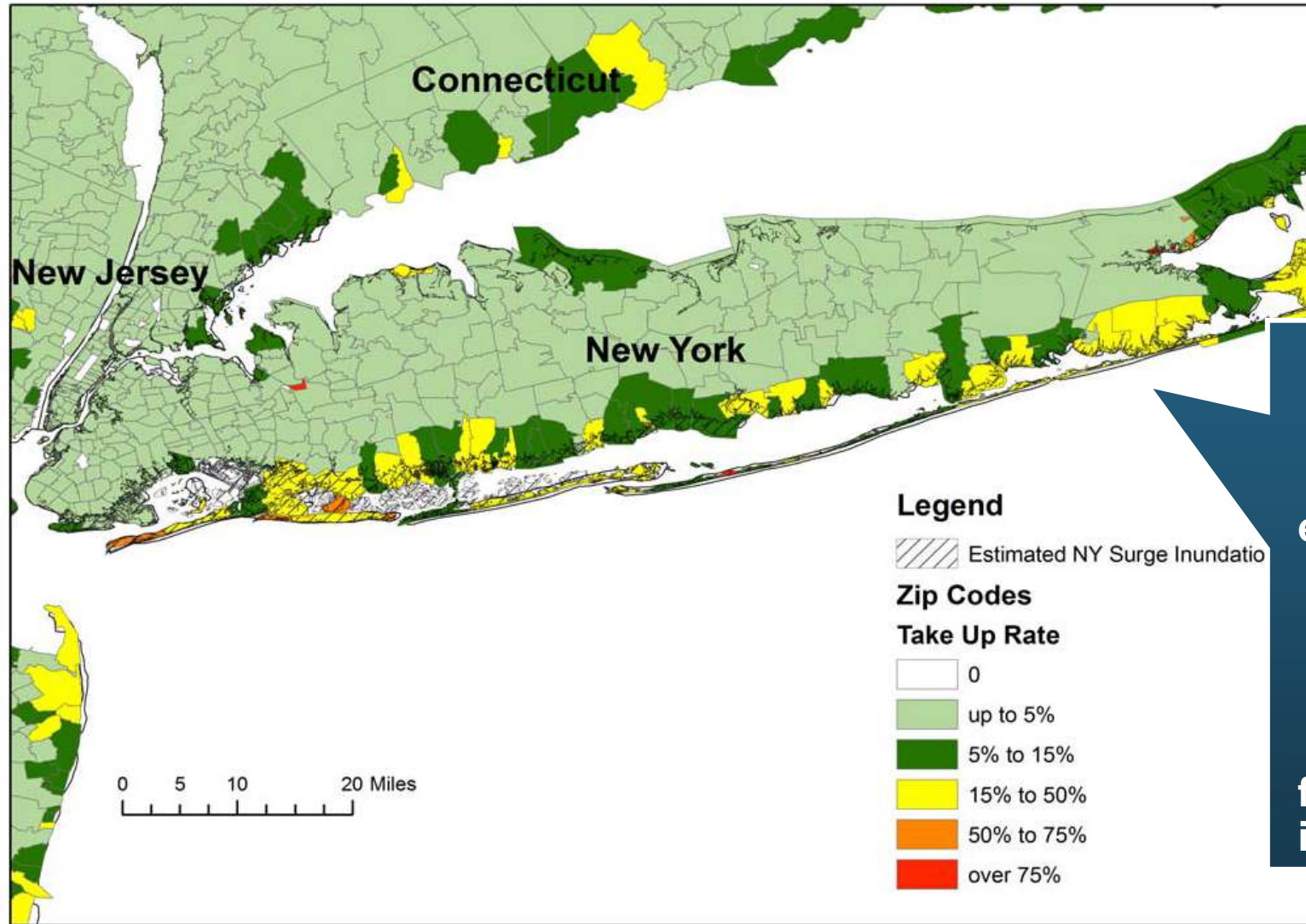
**2012 Reforms Were a Step in the
Right Direction—But Too Late to
Help With Sandy Shortfall**

Residential NFIP Flood Take-Up Rates in NJ (2010) & Sandy Storm Surge



Flood coverage penetration rates were extremely low in many very vulnerable areas in NJ, with take-up rates far below 50% in many areas

Residential NFIP Flood Take-Up Rates in NY, CT (2010) & Sandy Storm Surge



Flood coverage penetration rates were extremely low in many very vulnerable areas of NY and CT, with take-up rates far below 50% in many areas

Flood Insurance Reform & Modernization Act of 2012: Key Provisions



- **Reauthorized NFIP and Its Financing Through 9/30/17**
- **Increase in Average Annual Limit on Premium Increase**
 - ◆ Increases annual limit on premium increase from 10% to 20%
- **Phase-in of Actuarial Rates for Certain Properties**
 - ◆ Applies to non-primary residences, severe repetitive loss properties, properties where flood losses have exceed property value, business property, property that has sustained damage > 50% of fair market value
- **Actuarial Sound Rates for Certain Severe Repetitive Loss Properties**
 - ◆ Charge actuarially sound rates to any prospective or repetitive loss properties that refused to accept offers of mitigation assistance after a major disaster
- **Prohibition of Premium Rate Subsidy on New or Lapsed Policies**



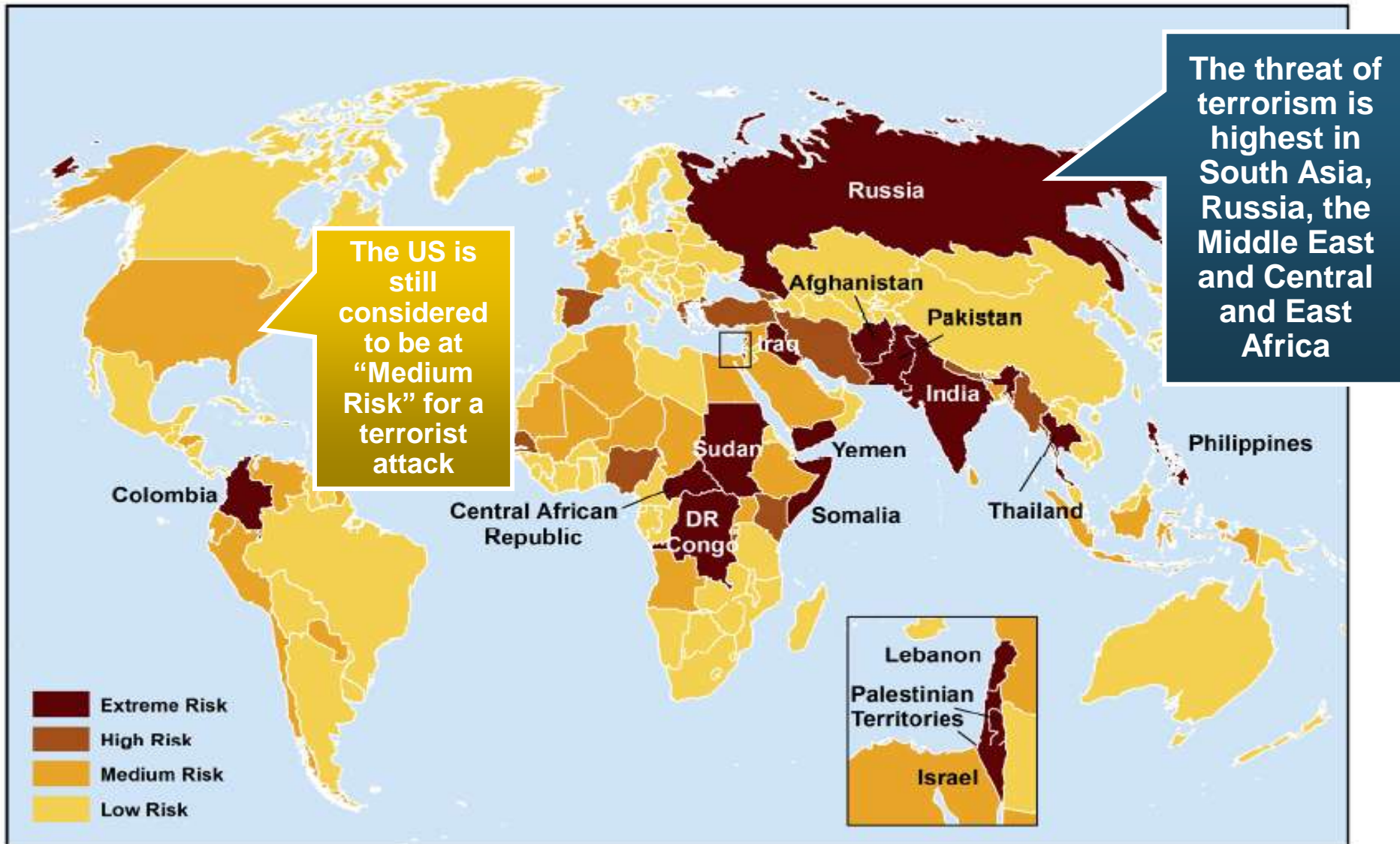
Terrorism Risk Insurance Program

**2014 Expiration Beginning to
Loom Large**

Key Provisions: Terrorism Risk Insurance Program Reauthorization Act (TRIPRA)

- **TRIPRA Expires Dec. 31, 2014**
 - ◆ End of 7-year extension
- **First Congressional Hearing Was Held 9/11/12 Before House Financial Services Subcommittee on Insurance, Housing & Community Opportunity**
 - ◆ Chaired by Judy Biggert (R-IL) but who lost re-election bid
 - ◆ Little institutional memory on committees in next Congress (last extension was in 2007)
- **Terrorism Program Extension Viewed as Critical Throughout Industry**
 - ◆ Significant educational effort will be needed
- **Efforts to Extend Program Could Face Opposition in Congress**
 - ◆ Some believe this risk is best managed entirely in the private sector
- **Expect Hearings, Studies, Reports in 2013/2014**

Terrorist Risk Index, 2011

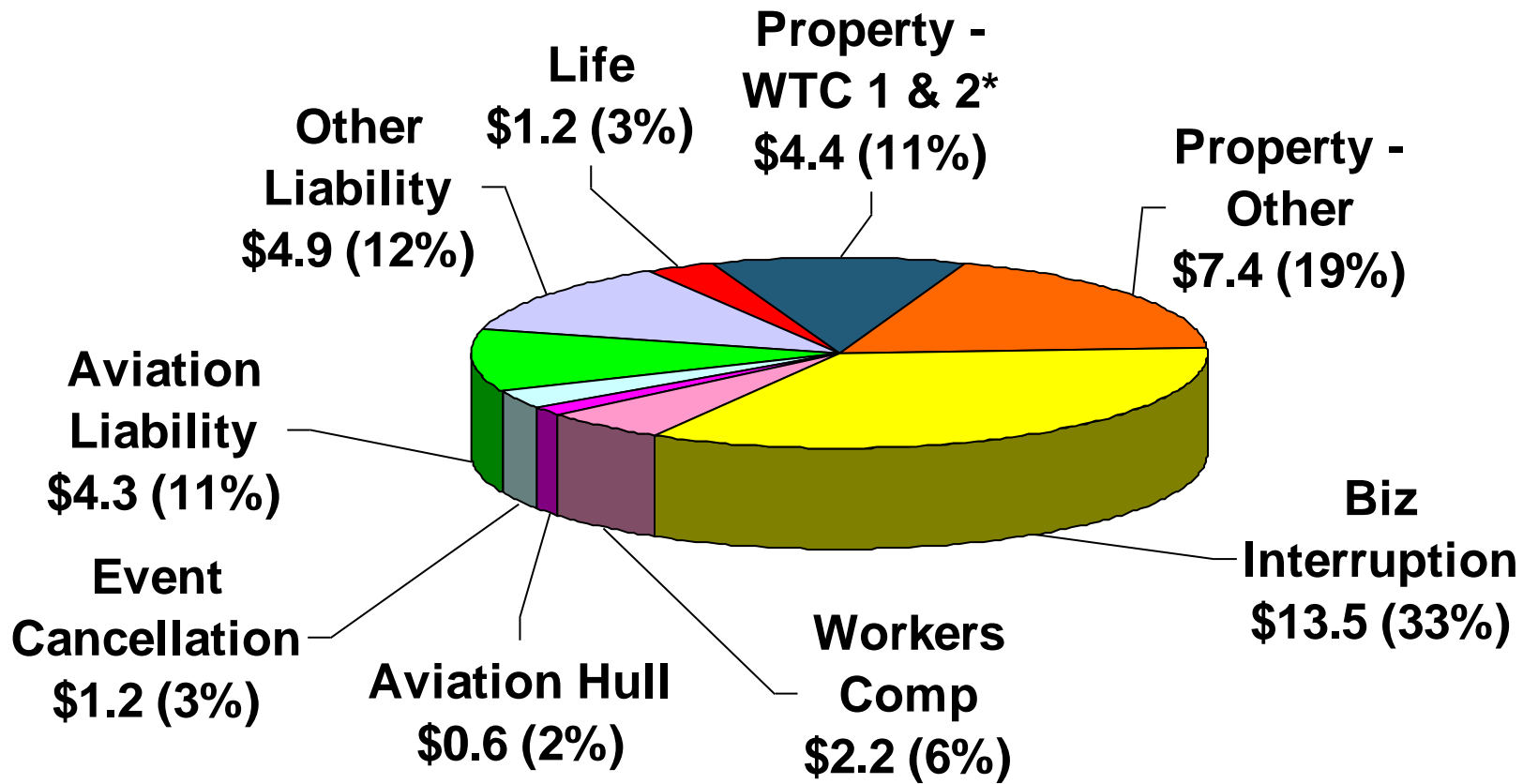


Sources: Maplecroft Terrorism Risk Index; Guy Carpenter; Insurance Information Institute.

Loss Distribution by Type of Insurance from Sept. 11 Terrorist Attack (\$ 2011)



(\$ Billions)



Total Insured Losses Estimate: \$40.0B**

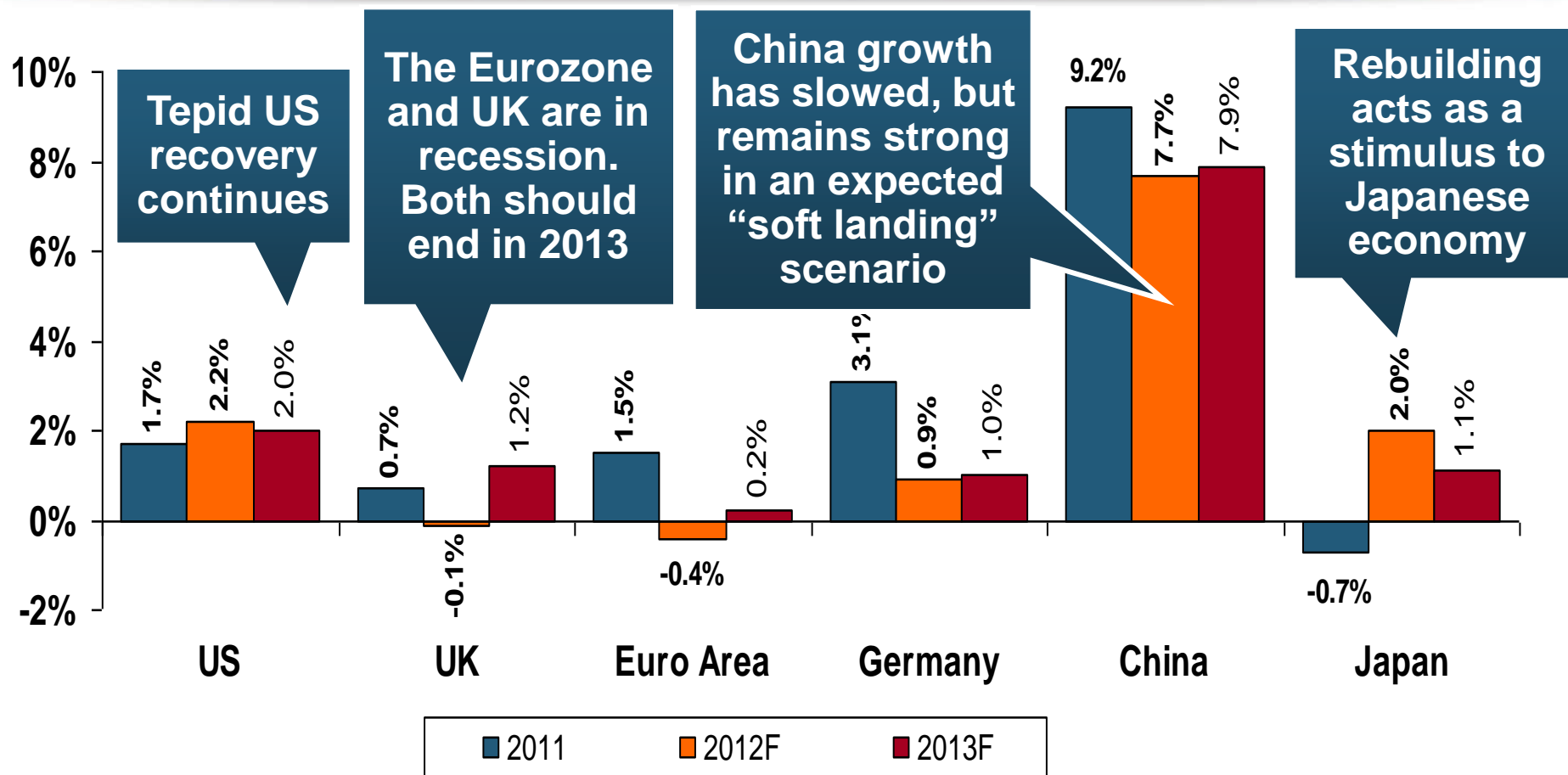
*Loss total does not include March 2010 New York City settlement of up to \$657.5 million to compensate approximately 10,000 Ground Zero workers or any subsequent settlements.

**\$32.5 billion in 2001 dollars.

Eurozone: Economic Stagnation Continues

**Europe's Problems Are Both
Political and Economic in Nature**

Real GDP Growth Forecasts: Major Economies: 2011 – 2013F



Growth Prospects Vary Widely by Region: Stabilizing in the US, Recession in the Eurozone but Followed by Stagnation, A “Soft Landing” in China and India, Reconstruction Stimulus in Japan and Modest Growth in America’s Largest Trading Partners—Canada and Mexico.

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