



# **Overview & Outlook for the P/C Insurance Industry**

## ***Challenges & Opportunities for 2011 & Beyond***

**New York Society of Securities Analysts  
New York, NY**

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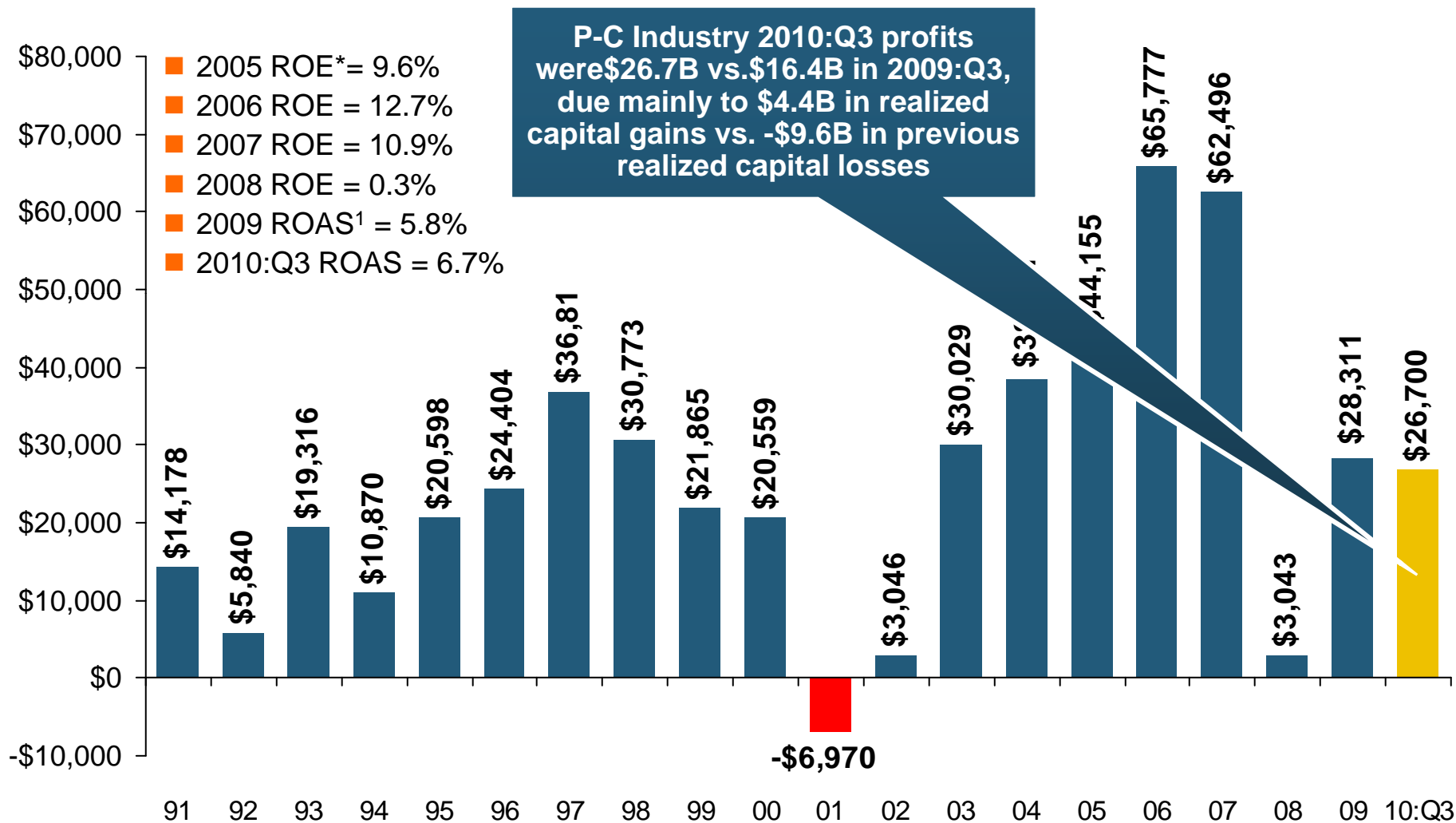
- **Insurance Industry Financial Overview & Outlook**
  - ◆ Profitability
  - ◆ Premium Growth
  - ◆ Capital & Capacity
  - ◆ Underwriting Performance: Commercial & Personal Lines
  - ◆ Financial/Investment Review & Outlook
  - ◆ Financial Strength
- **Tort System Review: Overview and Causes for Concern**
- **Exposure Analysis: Where Will Growth Come from in the Aftermath of the Great Recession?"**
  - ◆ Crisis-Driven Exposure Issues: Personal & Commercial Lines
  - ◆ Growth in the Post-Crisis World
- **Catastrophe Loss Review**
- **Q&A**



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

**Profit Recovery Continues  
Early Stage Growth Begins**

# P/C Net Income After Taxes 1991–2010:Q3 (\$ Millions)

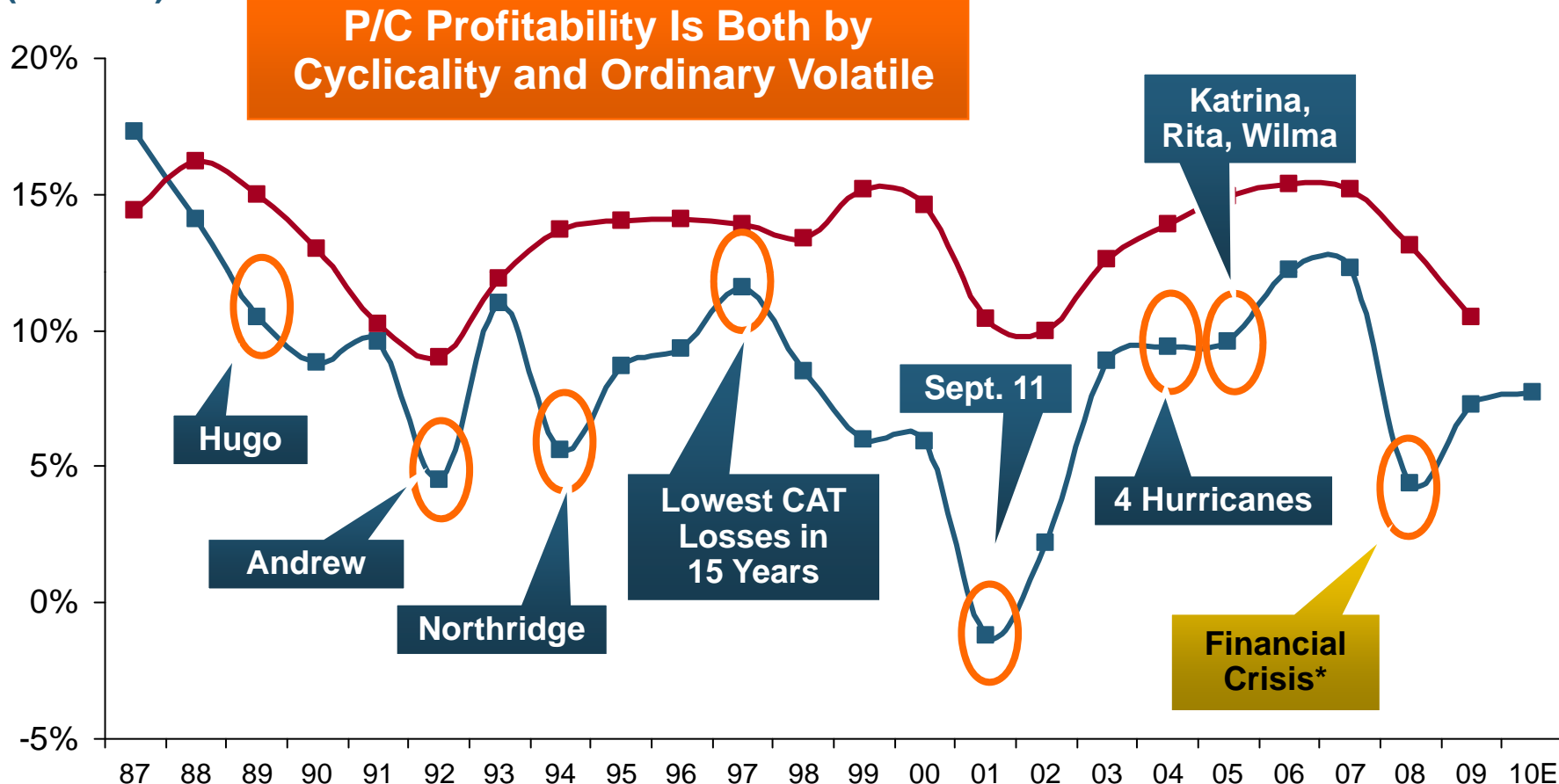


\* ROE figures are GAAP; <sup>1</sup>Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 7.7% ROAS for 2010:Q3 and 4.6% for 2009. 2009:Q3 net income was \$29.8 billion excluding M&FG.

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

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

(Percent)

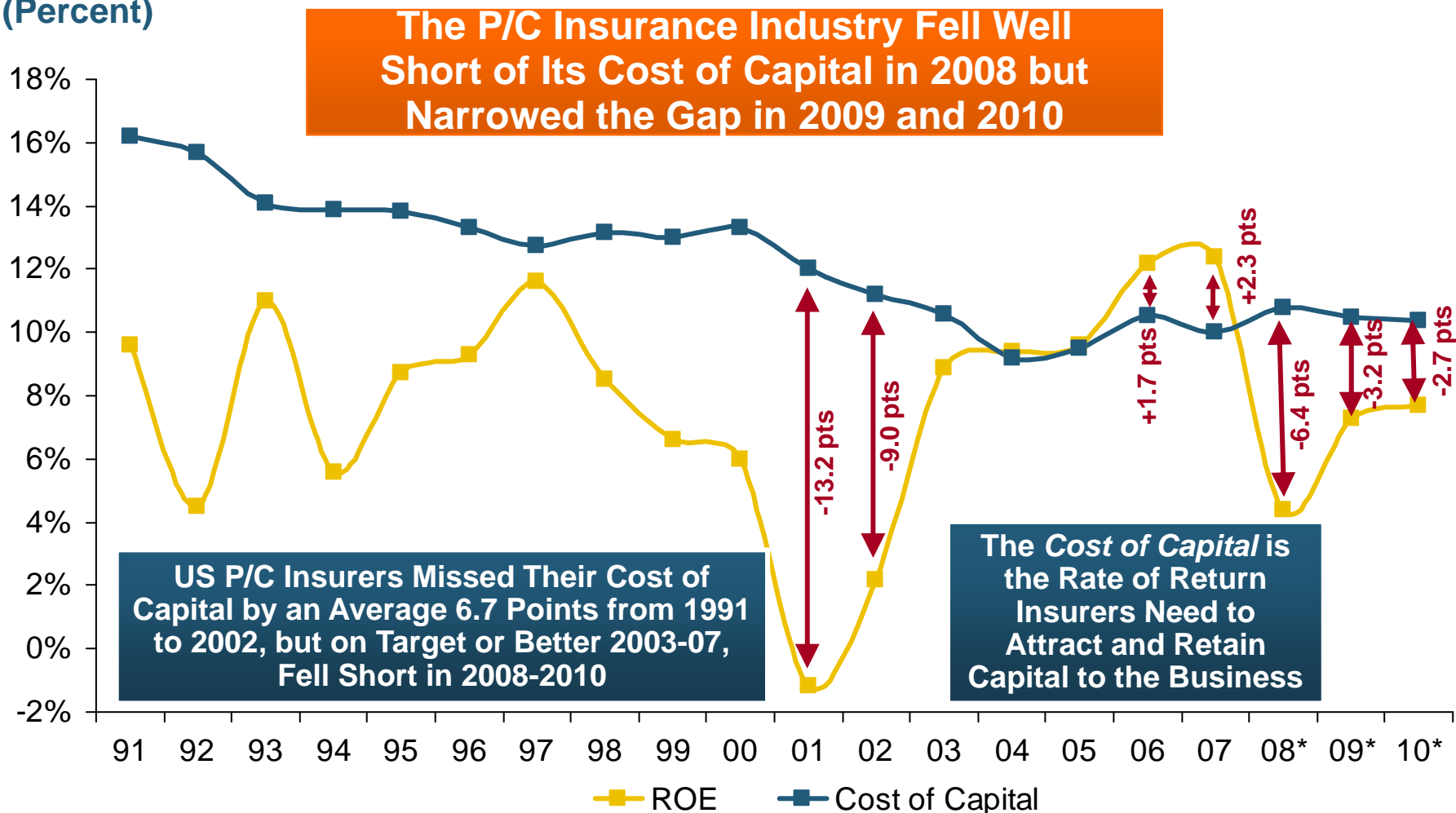


\* Excludes Mortgage & Financial Guarantee in 2008 - 2010.

Sources: ISO, *Fortune*; Insurance Information Institute figure for 2010 is actual through 2010:Q3.

# ROE vs. Equity Cost of Capital: U.S. P/C Insurance:1991-2010:H1\*

(Percent)

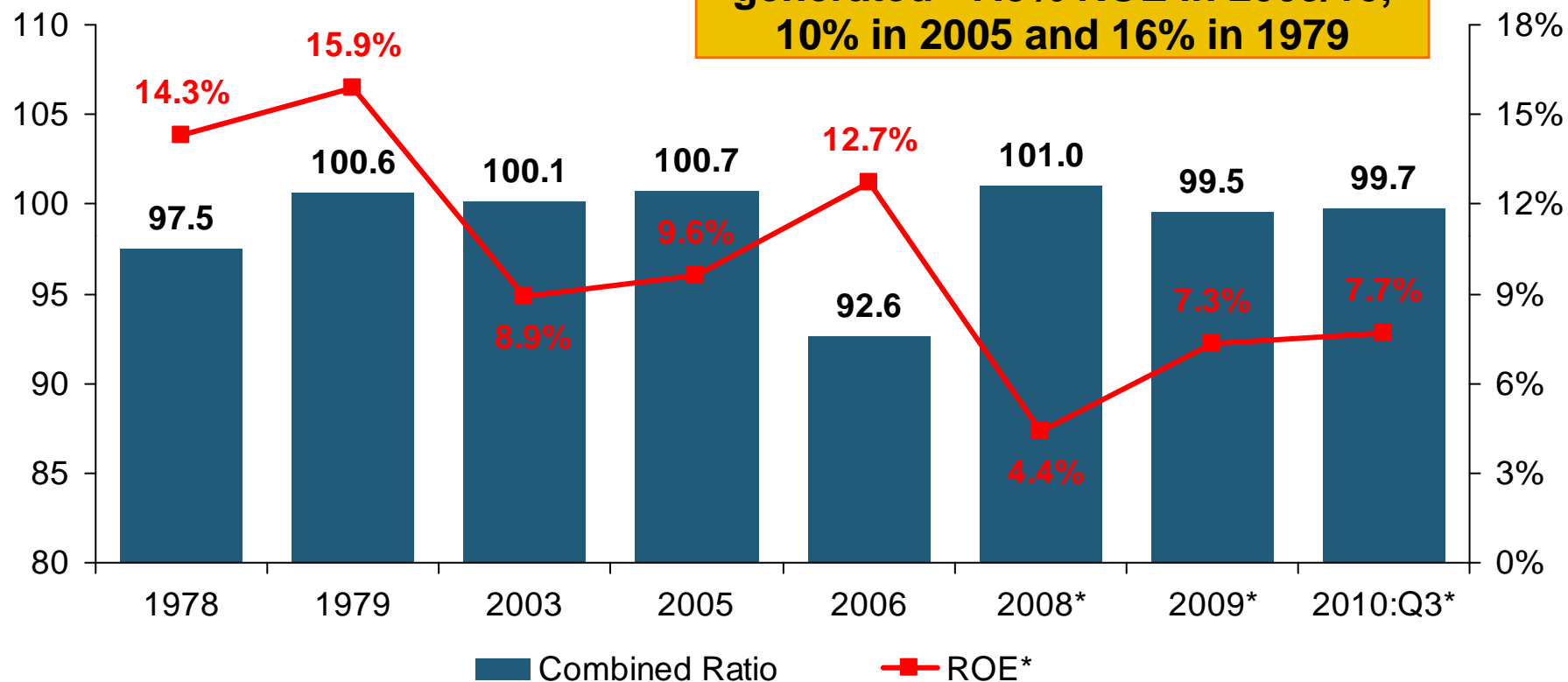


\* Return on average surplus in 2008-2010 excluding mortgage and financial guaranty insurers.

Source: The Geneva Association, Insurance Information Institute

# 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:Q3 figures are return on average statutory surplus. 2008, 2009 and 2010:H1 figures exclude mortgage and financial guaranty insurers

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

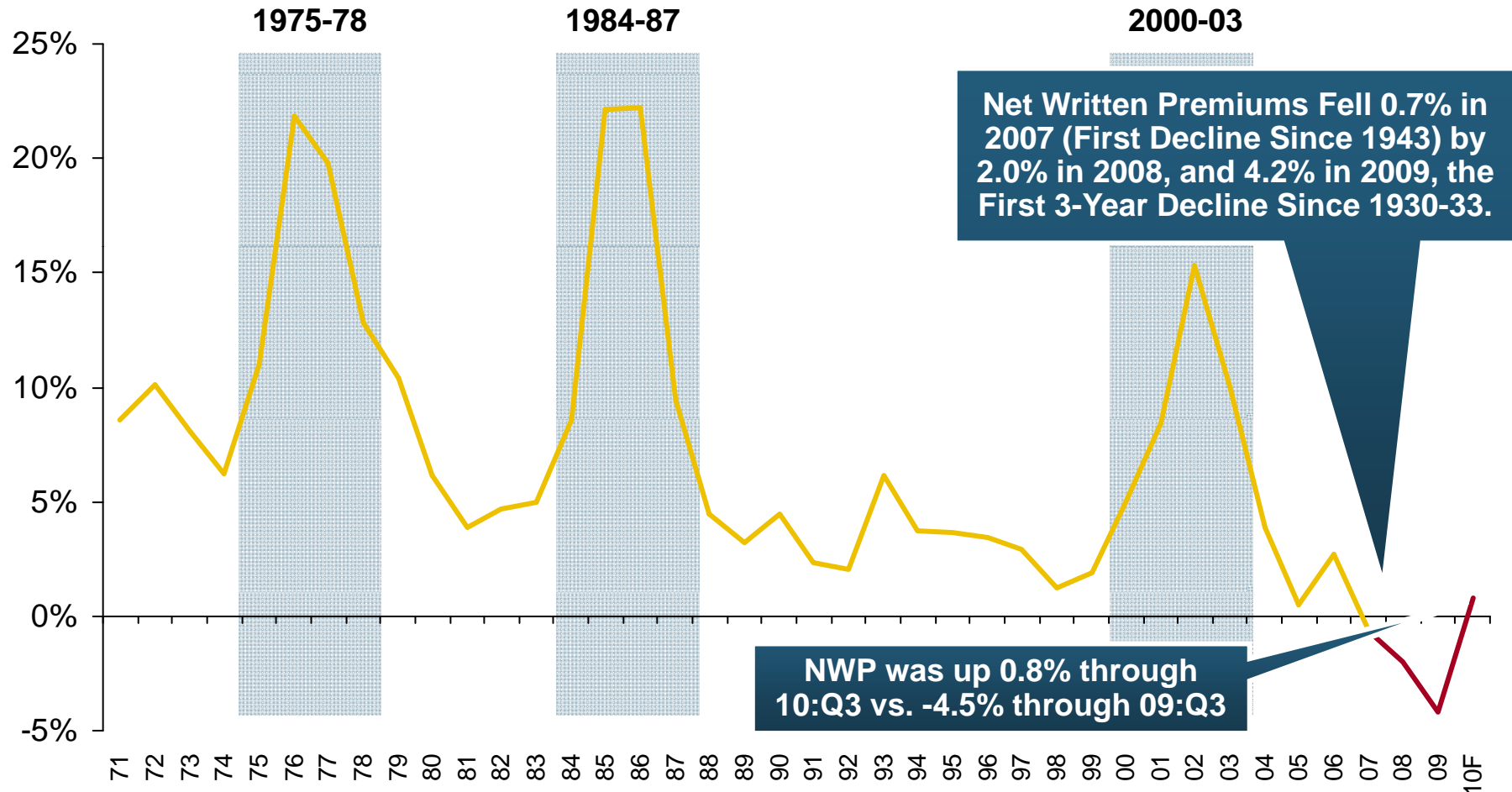
## **P/C Premium Growth Cycles**

**Cyclicalities are Driven Primarily  
by the Industry's Underwriting  
Cycle, Not the Economy**



# Soft Market Persisted in 2010 but May Be Easing: Relief in 2011?

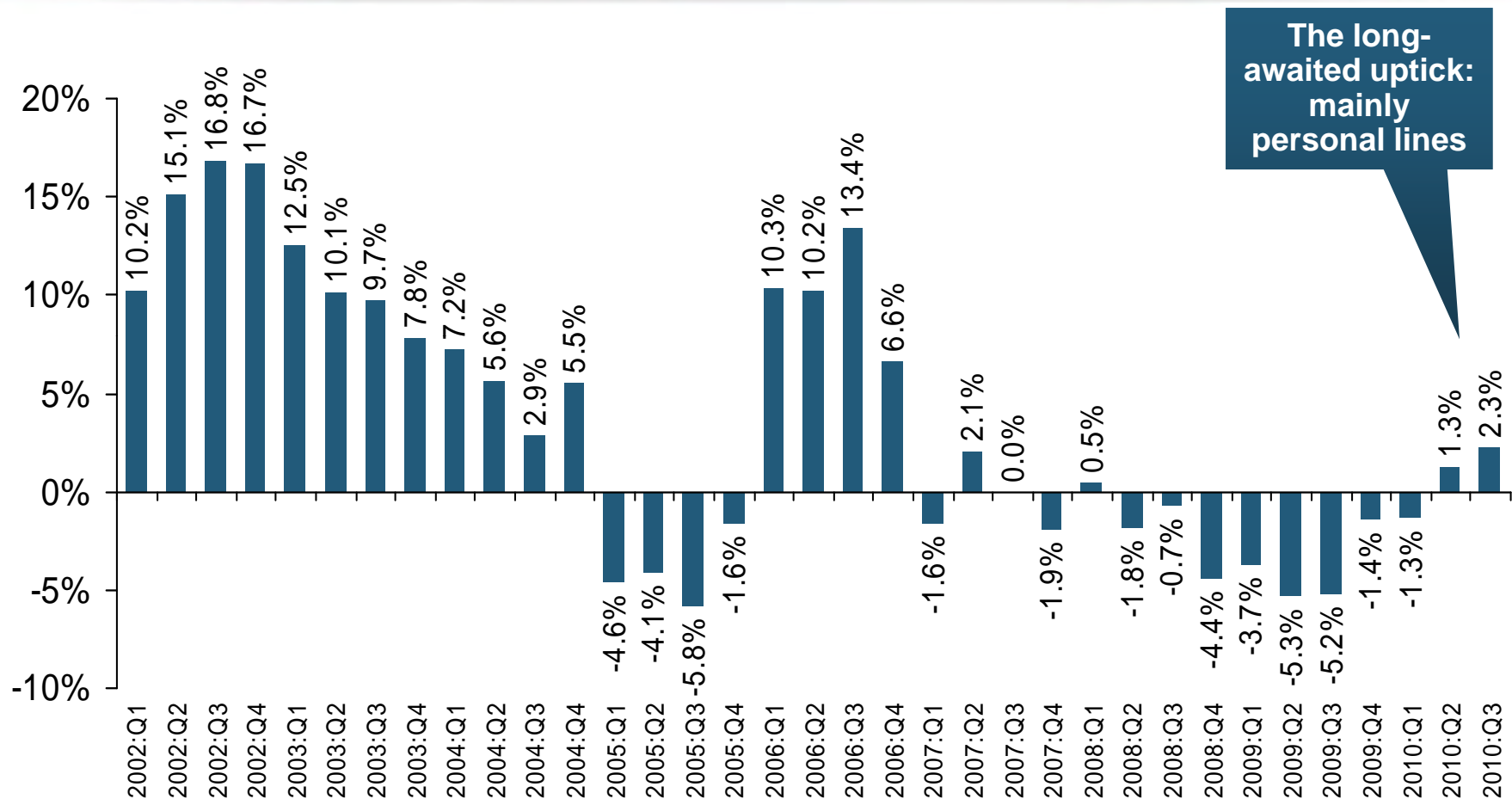
(Percent)



Shaded areas denote "hard market" periods

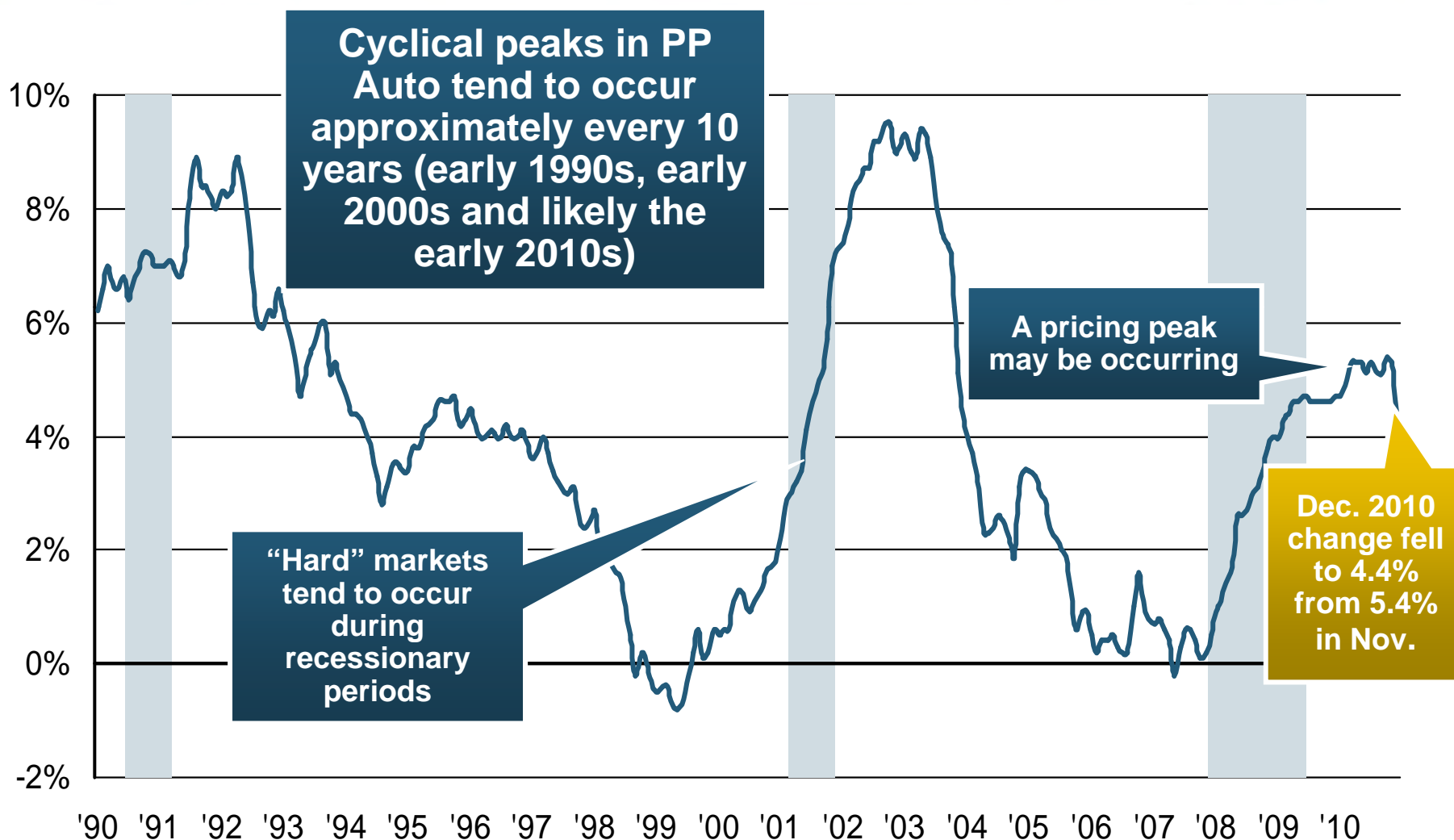
Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute.

# 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)**

# Monthly Change\* in Auto Insurance Prices, 1991–2010\*

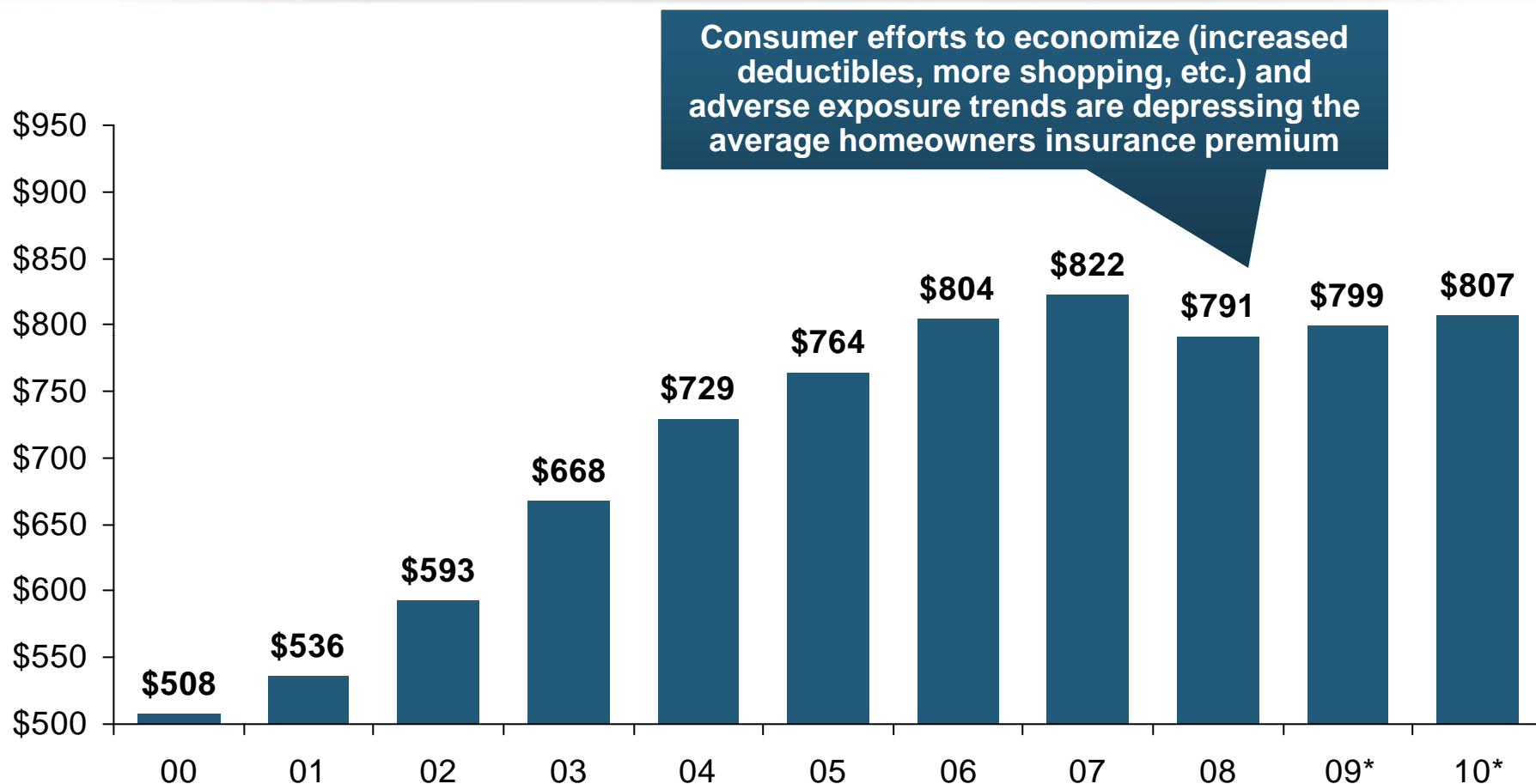


\*Percentage change from same month in prior year; through December 2010; seasonally adjusted

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

# Average Premium for Home Insurance Policies\*\*

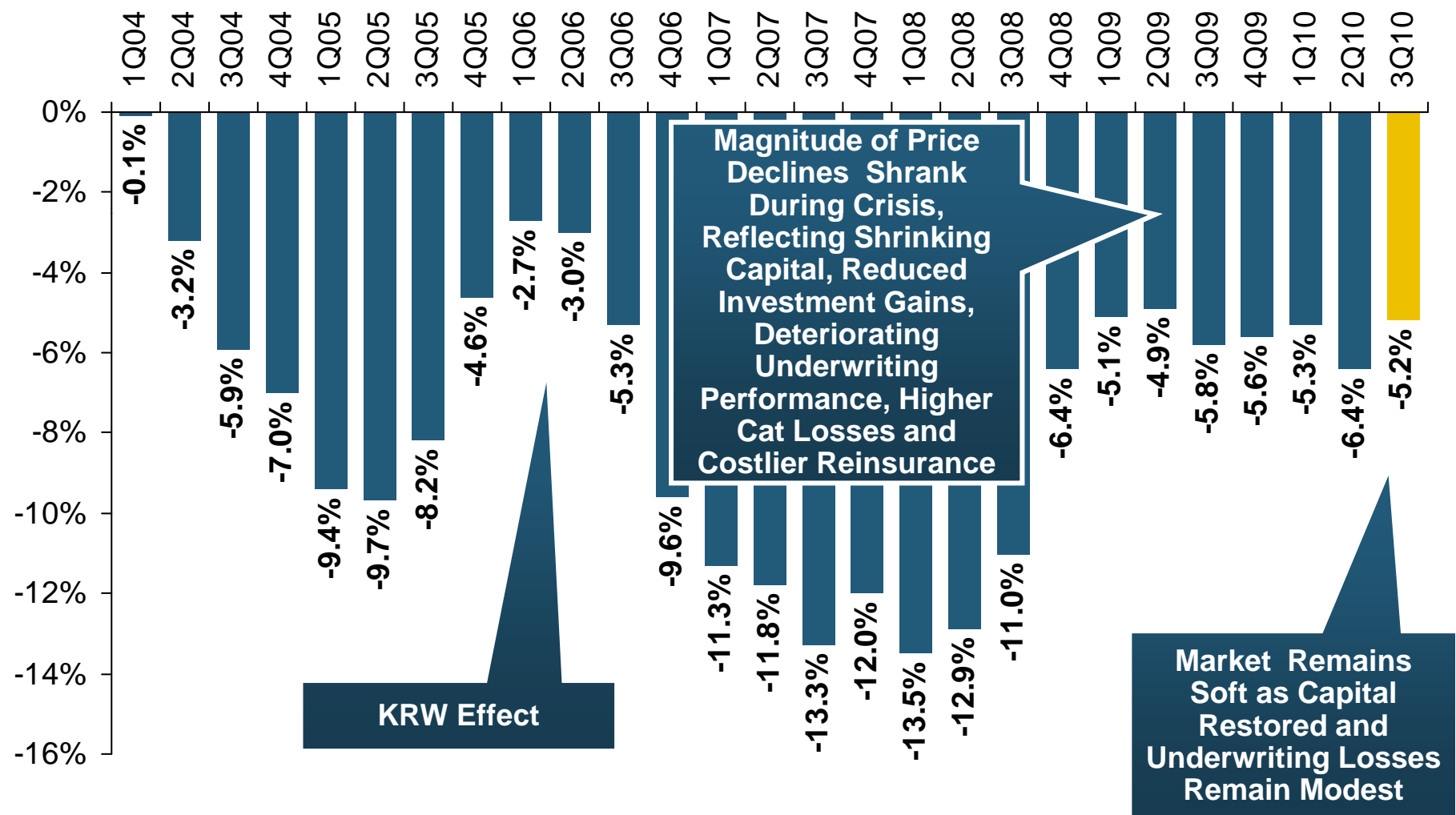


\* Insurance Information Institute Estimates/Forecasts \*\*Excludes state-run insurers.

Source: NAIC, Insurance Information Institute estimates 2009-2010 based on CPI and other data.

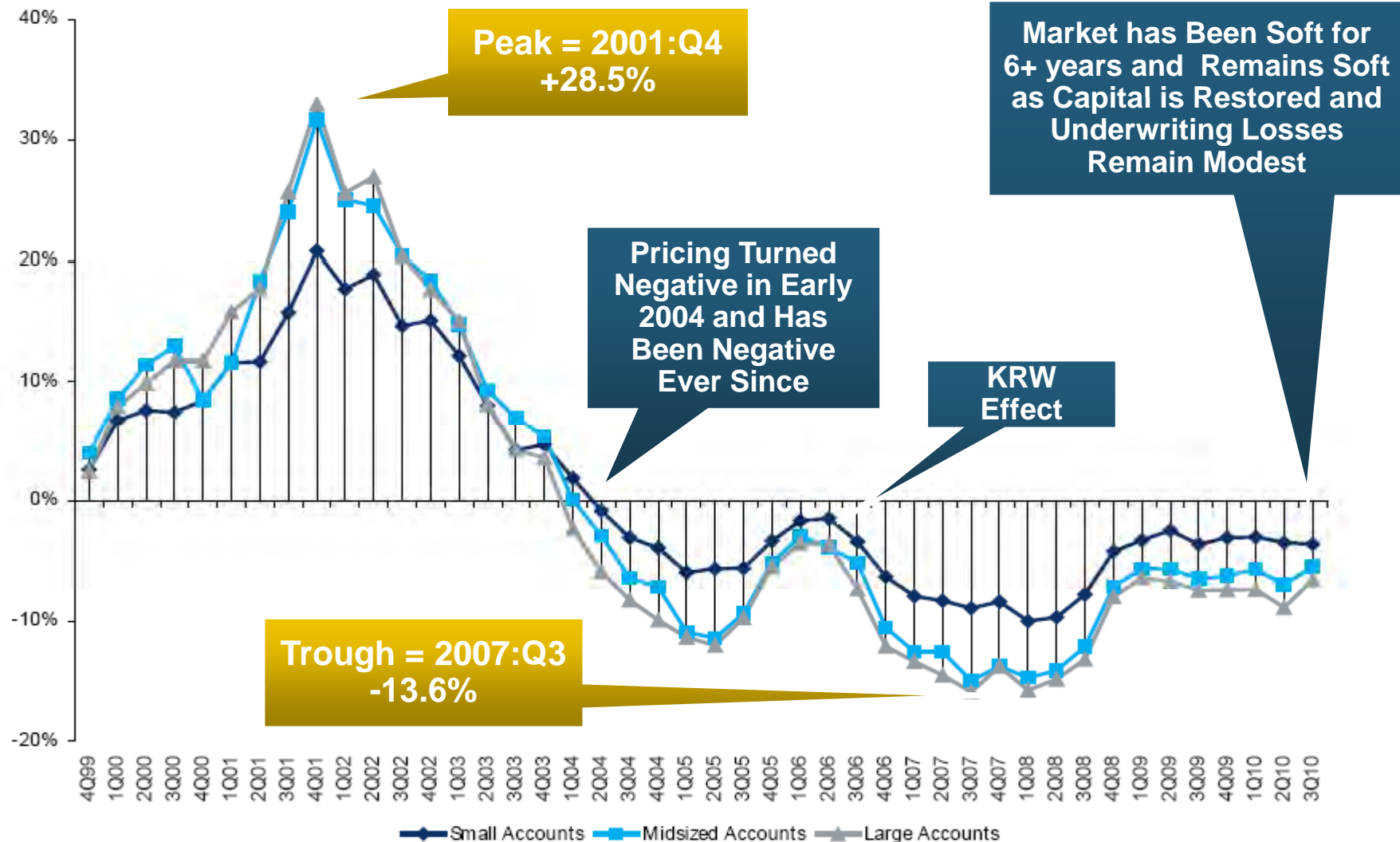
# Average Commercial Rate Change, All Lines, (1Q:2004–3Q:2010)

(Percent)



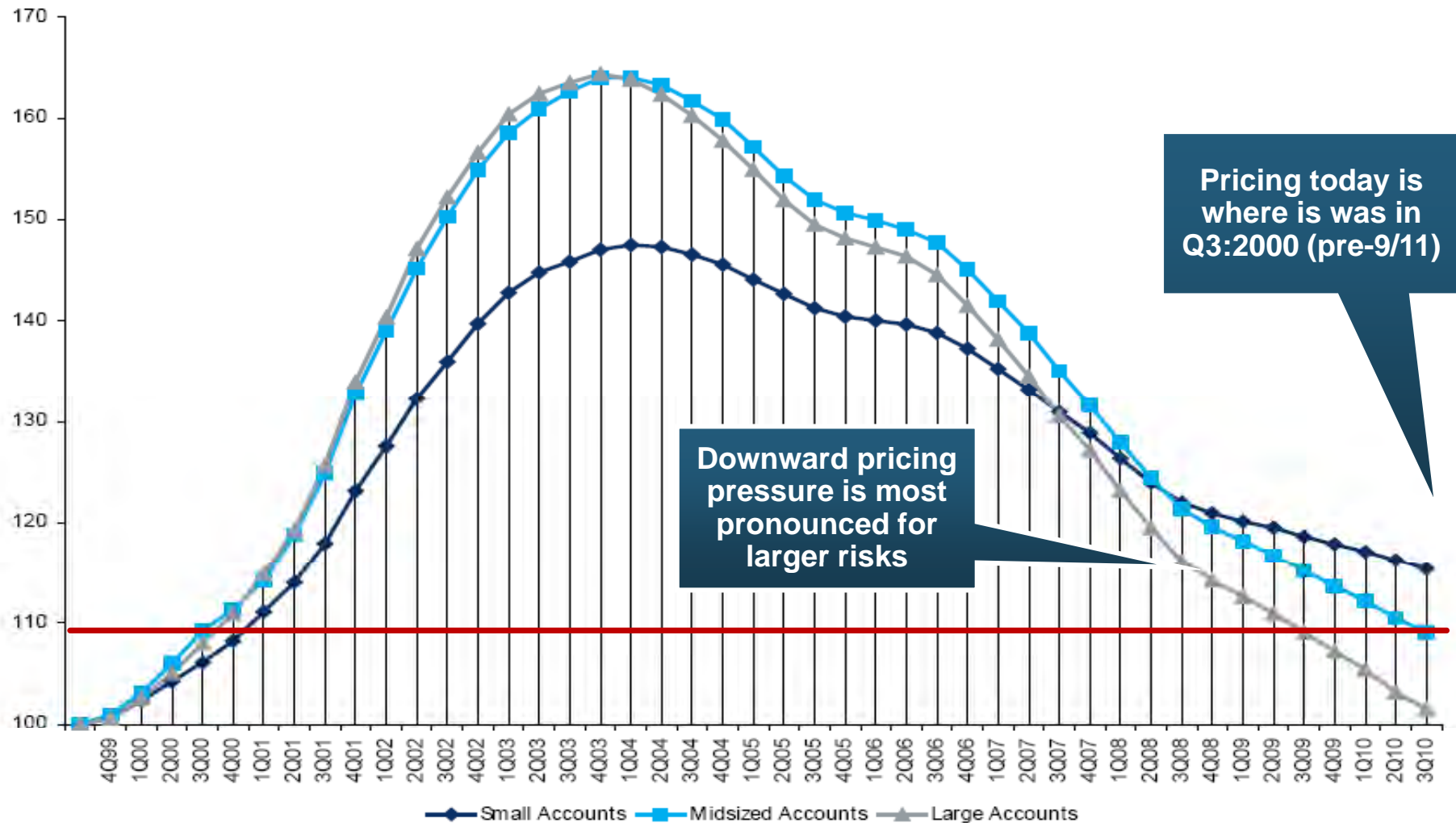
# Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2010:Q3

Percentage Change (%)



# Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2010:Q3

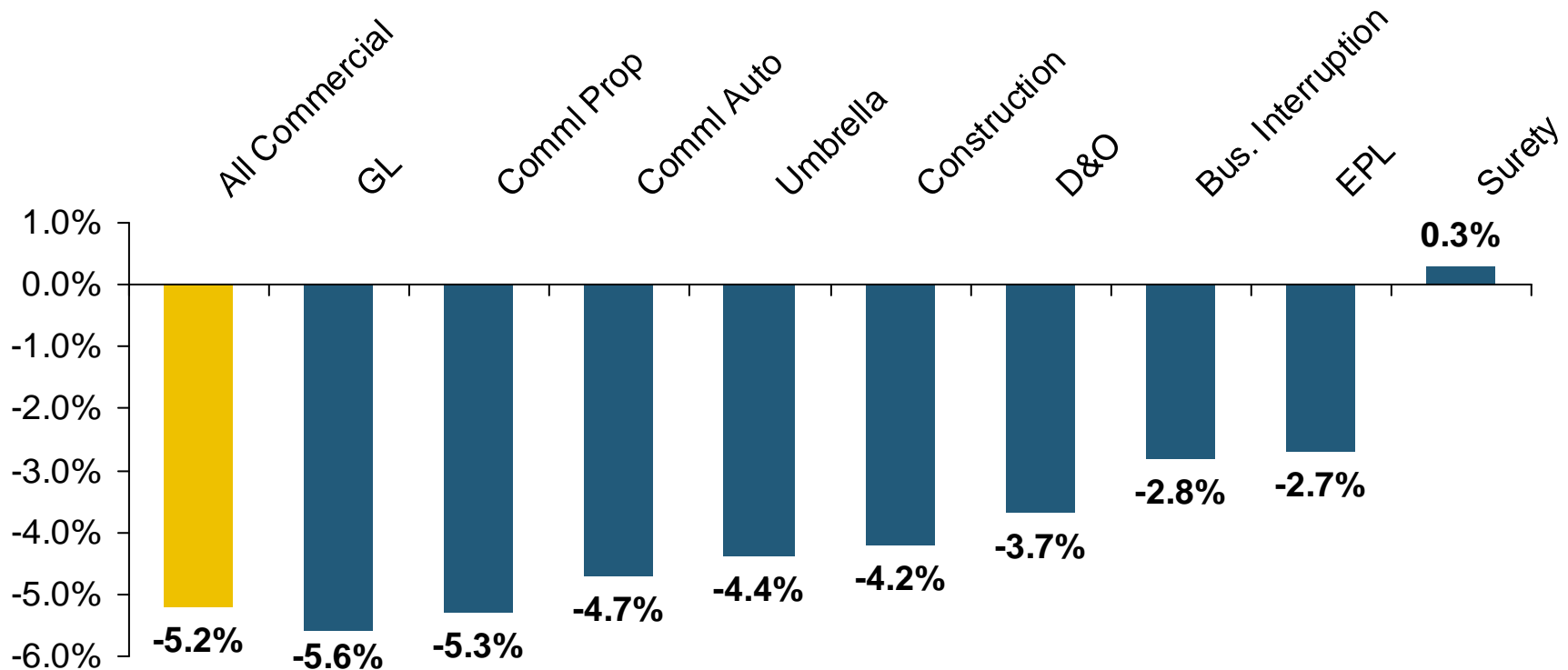
1999:Q4 = 100





# Change in Commercial Rate Renewals, by Line: 2010:Q3

Percentage Change (%)

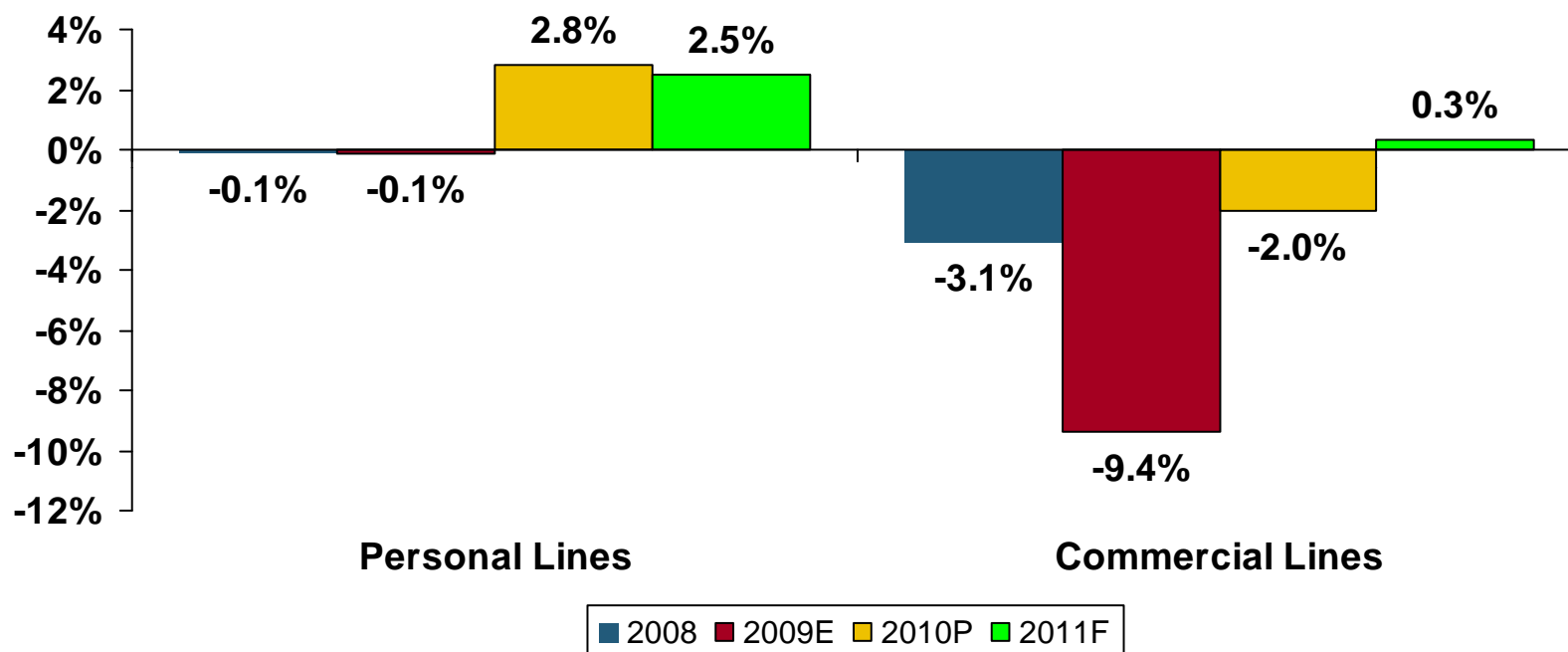


**Most Major Commercial Lines Renewed Down in Q3:2010 at a Pace Similar to that of a Year Earlier**



# 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



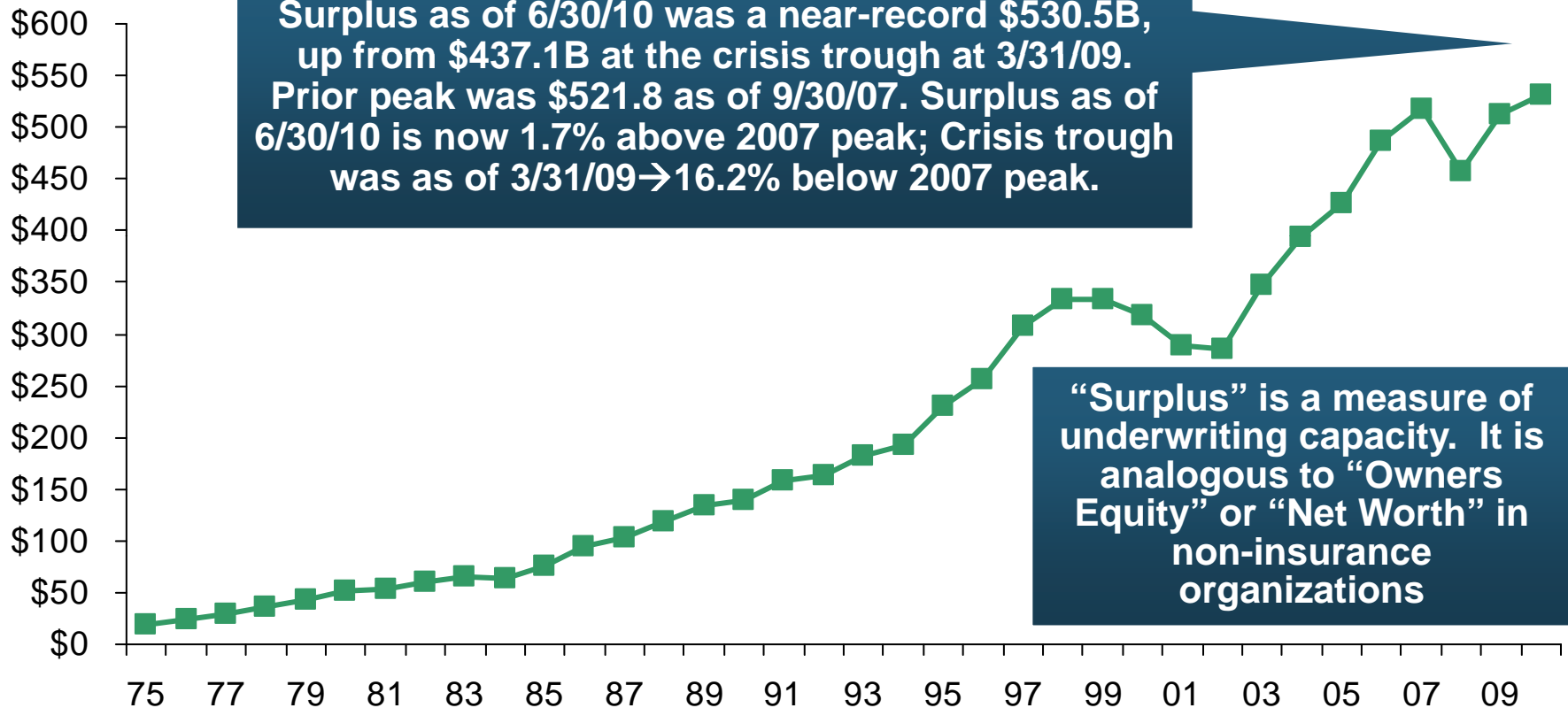
Rate and exposure are more favorable in personal lines, whereas a prolonged soft market and sluggish recovery from the recession weigh on commercial lines.

## **Capital/Policyholder Surplus (US)**

**Total Surplus Exhibits Little  
Cyclicality, While Surplus Leverage  
Ratios Influence Cycle**

# US Policyholder Surplus: 1975–2010\*

(\$ Billions)

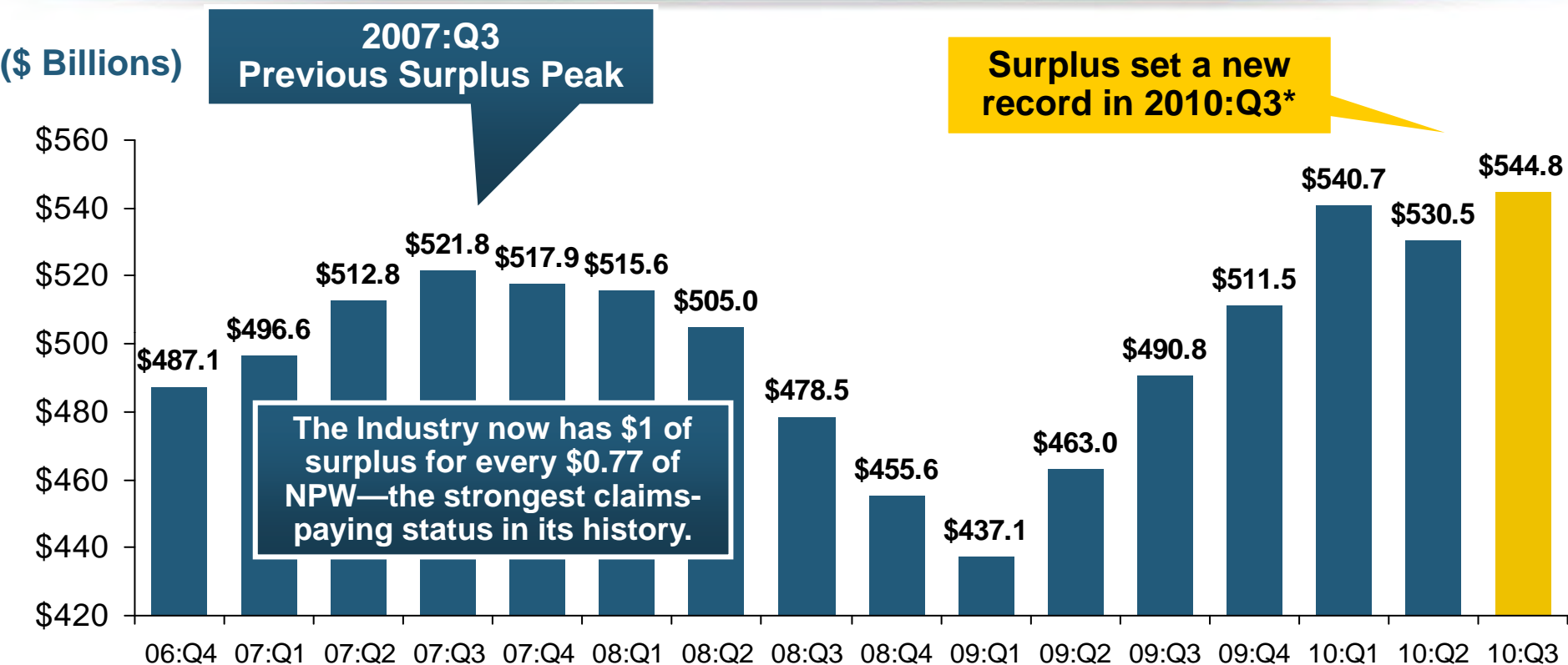


**The Premium-to-Surplus Ratio Stood at \$0.80:\$1 as of 6/30/10, A Record Low (at Least in Recent History)\*\***

\* As of 6/30/10; \*\*Calculated using annualized net premiums written based on H1 2010 data.

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

# Policyholder Surplus, 2006:Q4–2010:Q3



## 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%)**

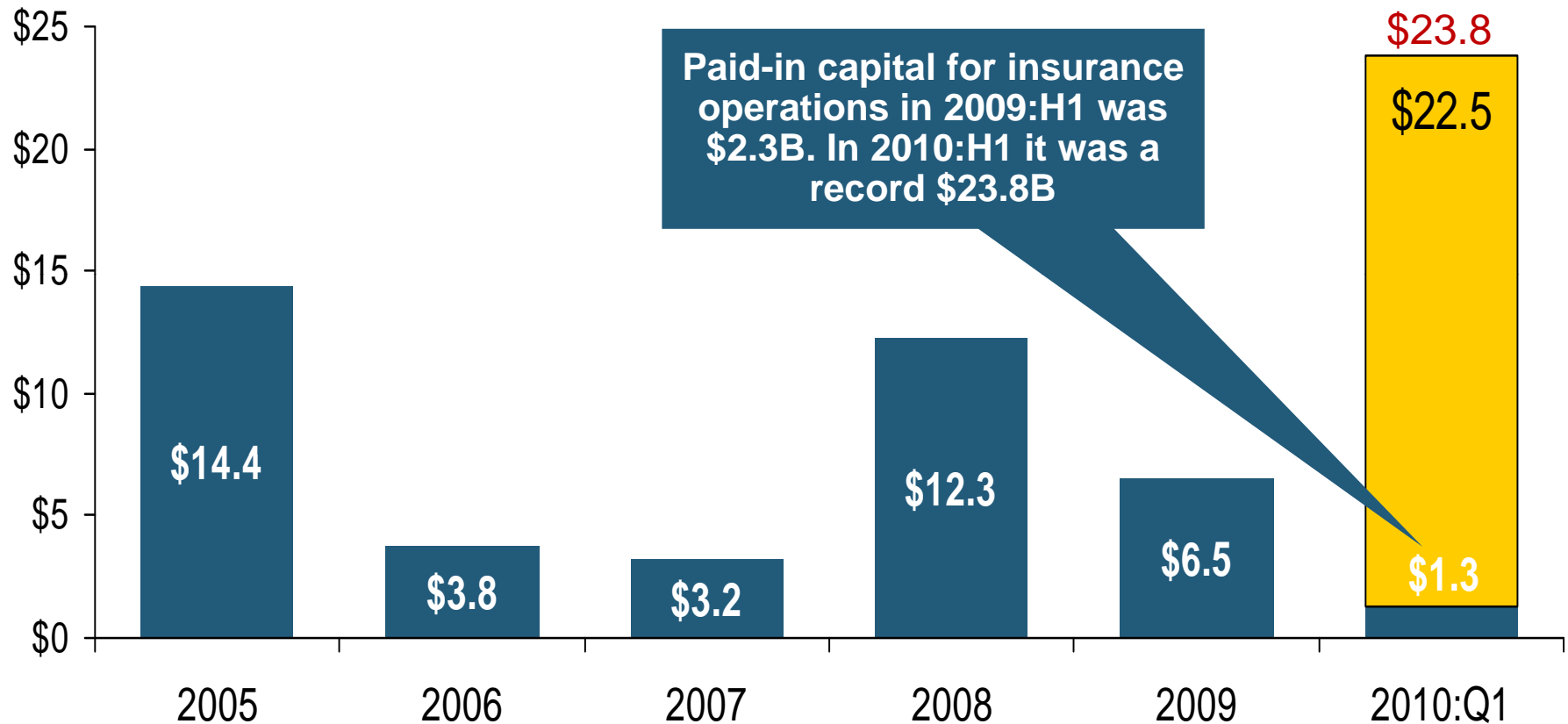
**10:Q2: +\$8.7B (+1.7%)**

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

\*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.

# Paid-in Capital, 2005–2010:H1

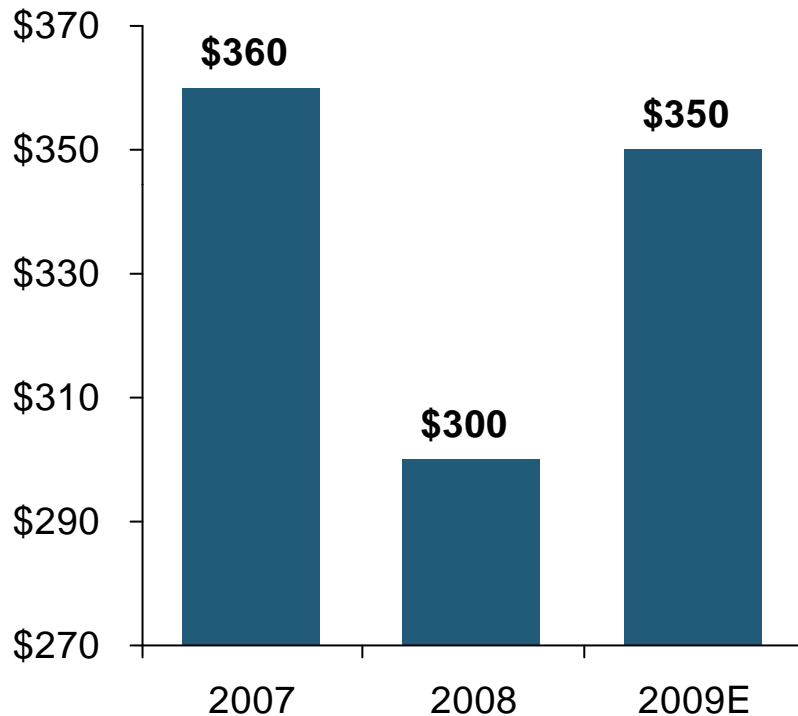
(\$ Billions)



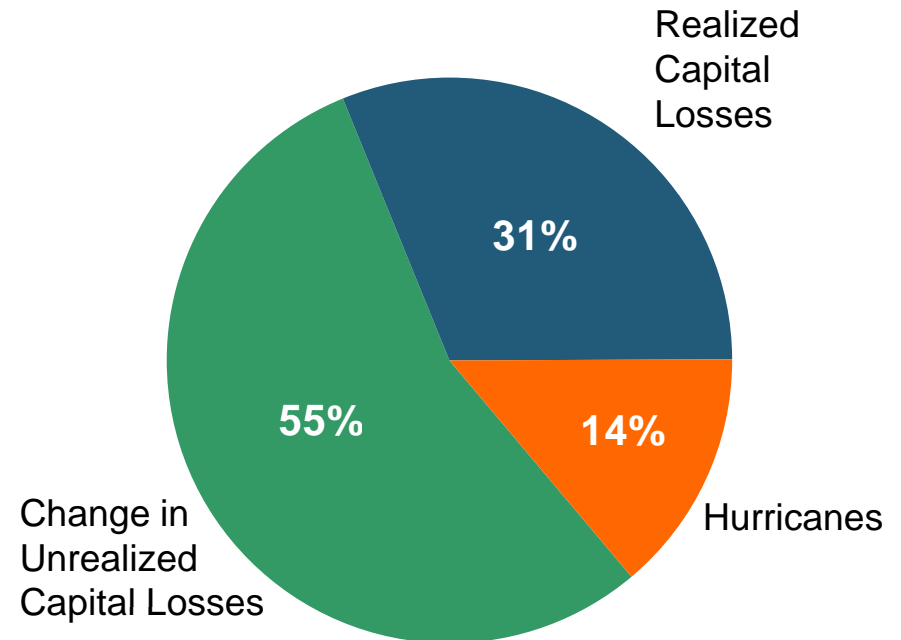
**In 2010:H1 One Insurer's Paid-in Capital Rose by \$22.5B as Part of an Investment in a Non-insurance Business**

# Global Reinsurance Capacity Shrank in 2008, Mostly Due to Investments

## Global Reinsurance Capacity



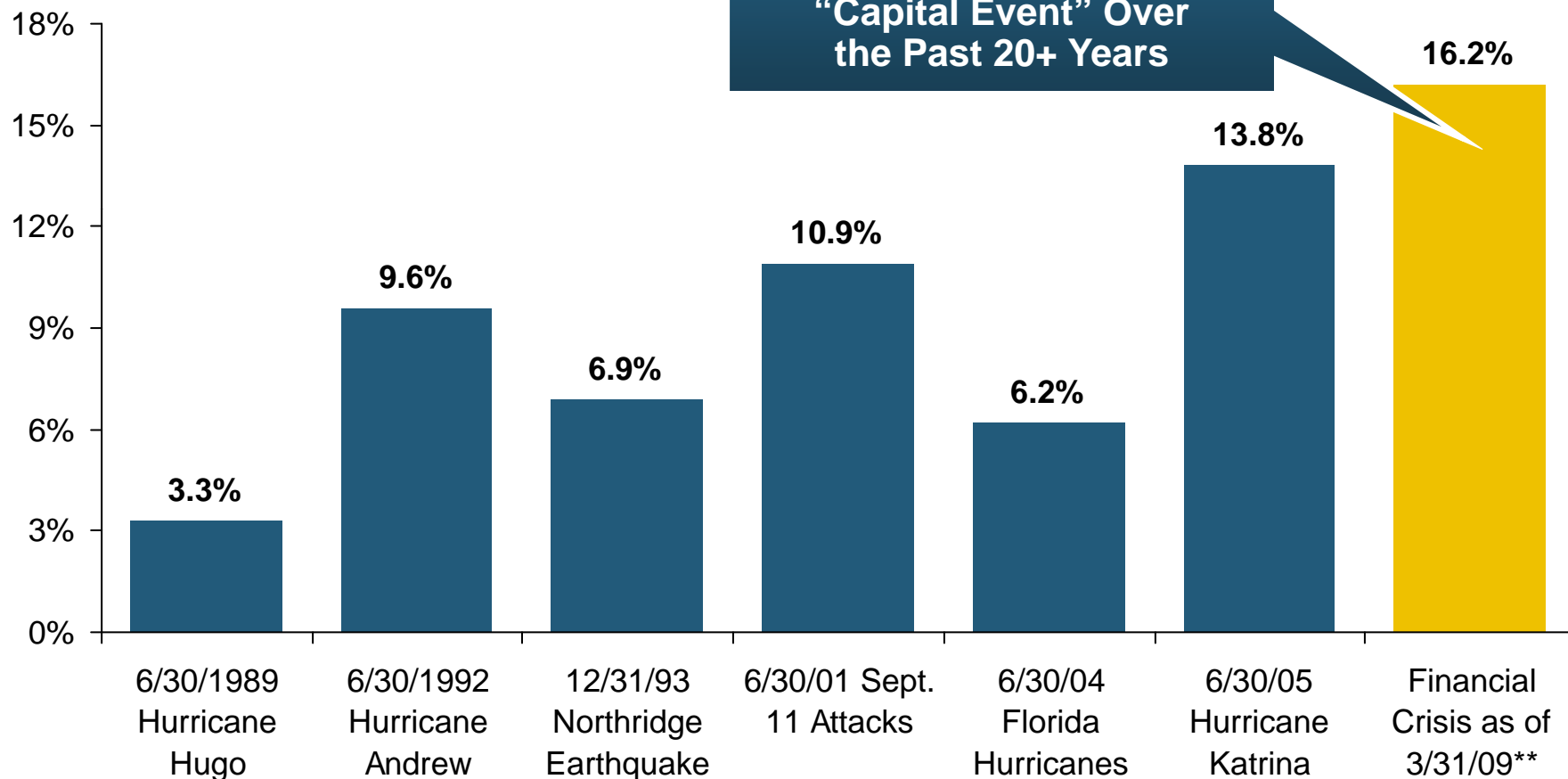
## Source of Decline in 2008



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

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

(Percent)



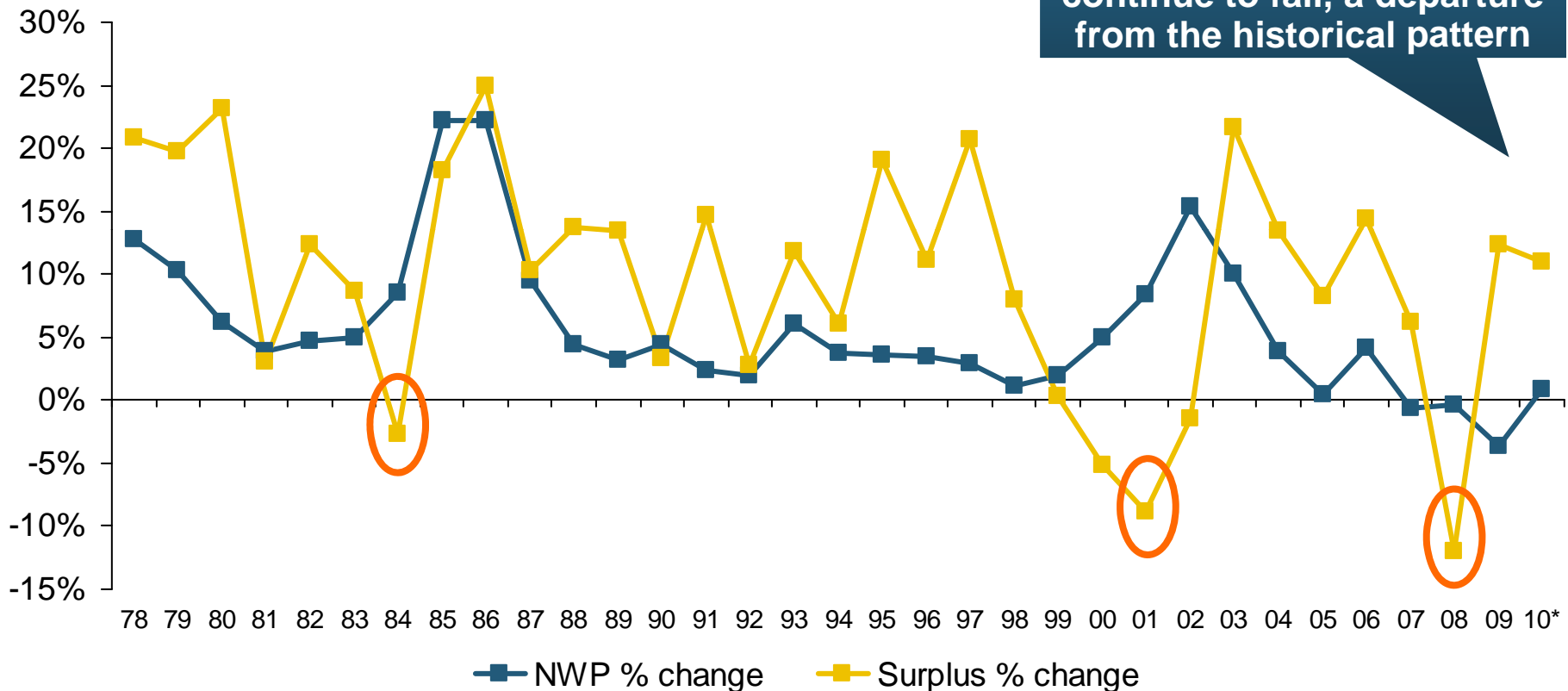
\* Ratio is for end-of-quarter surplus immediately prior to event. Date shown is end of quarter prior to event

\*\* Date of maximum capital erosion; As of 9/30/09 (latest available) ratio = 5.9%

Source: PCS; Insurance Information Institute

# Historically, Hard Markets Follow When Surplus “Growth” is Negative\*

(Percent)



**Sharp Decline in Capacity is a Necessary but Not Sufficient Condition for a True Hard Market**

\* 2010 NWP and Surplus figures are % changes as of Q3:10 vs Q3:09.

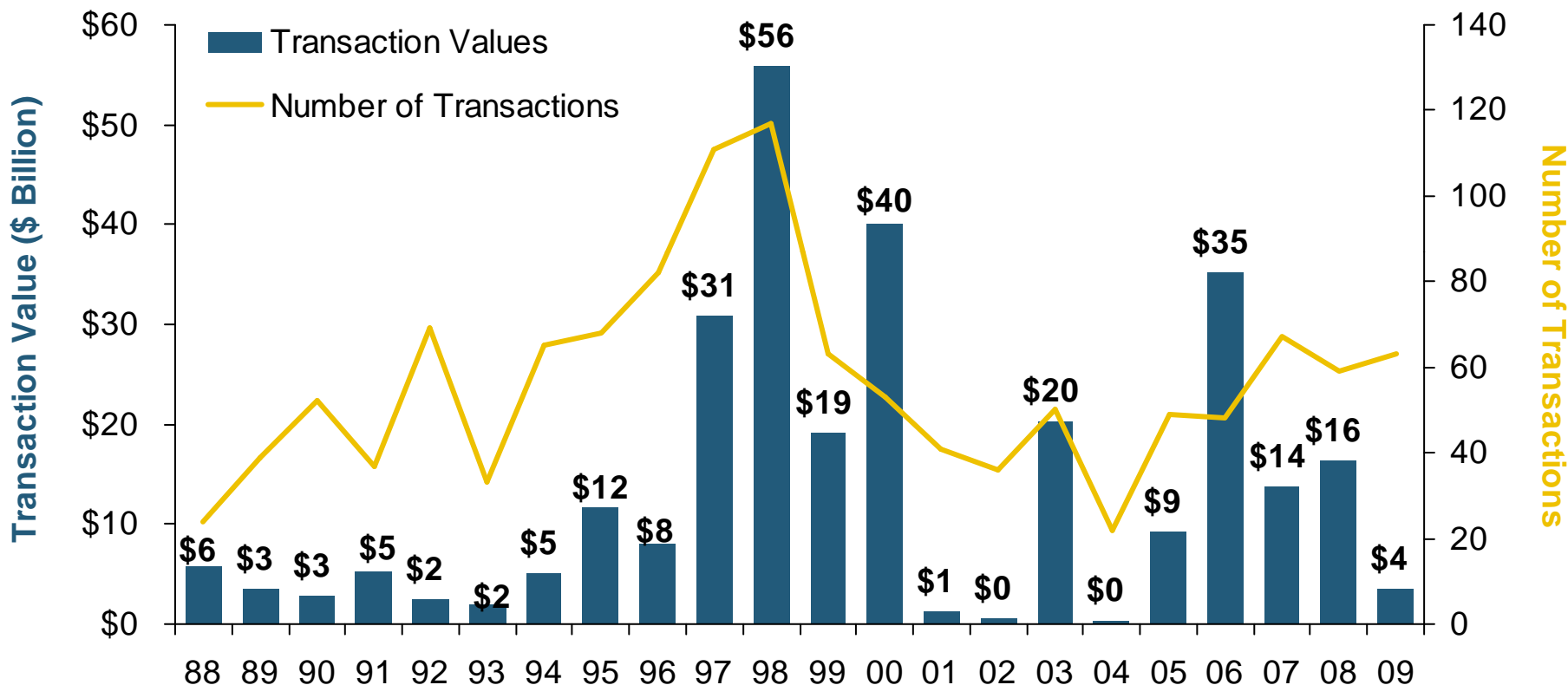
Sources: A.M. Best, ISO, Insurance Information Institute



# **Merger & Acquisition**

**Capital Cycles Can  
Drive Consolidation**

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



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

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

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

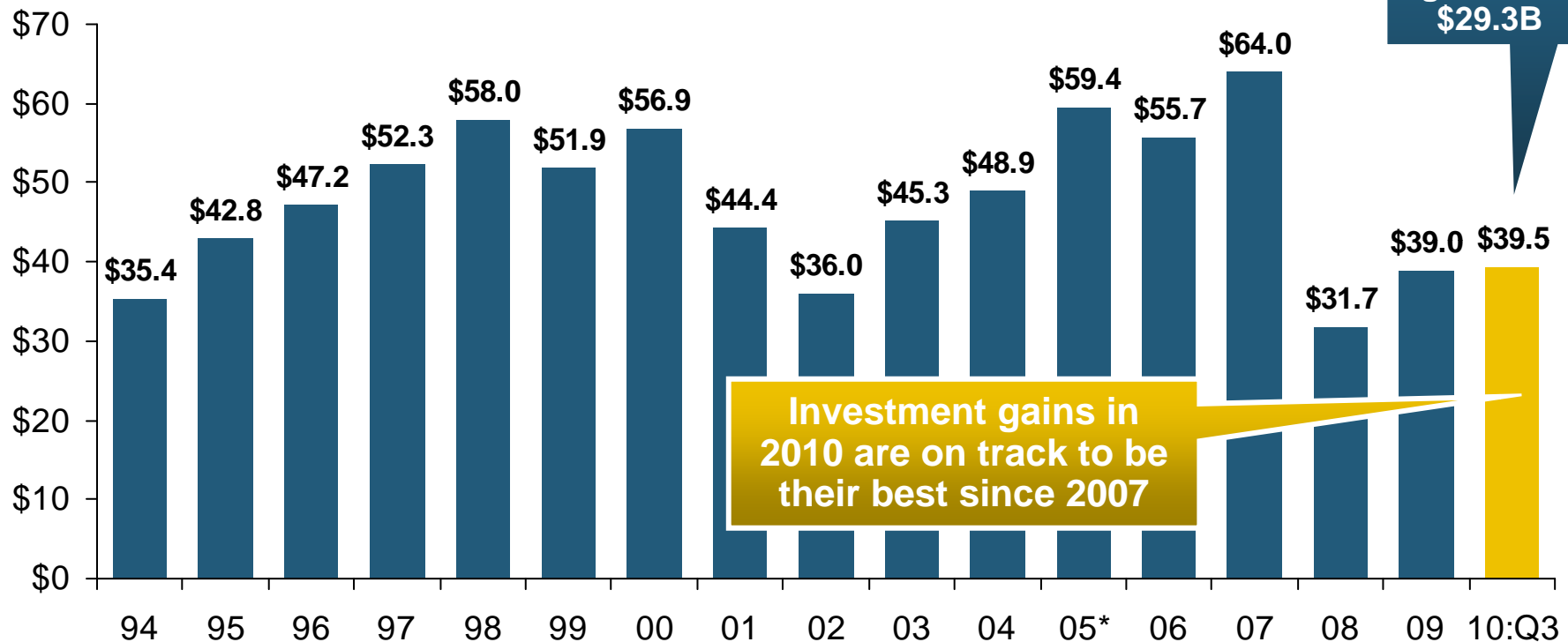
Source: Conning Research & Consulting.

# **Investment Performance**

**Investments Cycles Also Influence  
P/C Insurer Profitability**

# Property/Casualty Insurance Industry Investment Gain: 1994–2010:Q3<sup>1</sup>

(\$ Billions)



**In 2008, Investment Gains Fell by 50% Due to Lower Yields and Nearly \$20B of Realized Capital Losses**  
**2009 Saw Smaller Realized Capital Losses But Declining Investment Income**  
**Investment Gains Recovered Significantly in 2010**

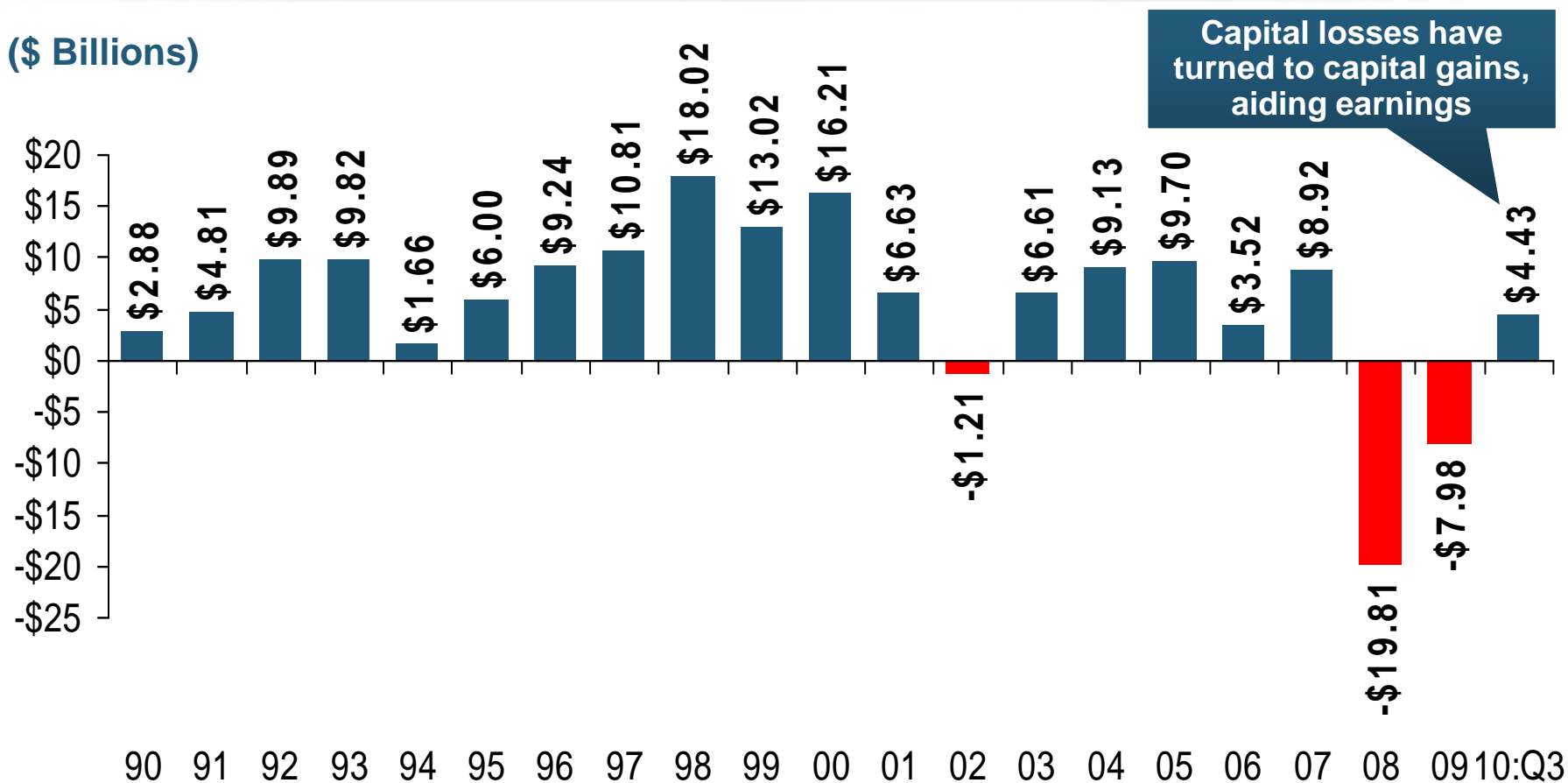
<sup>1</sup> Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.

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

Sources: ISO; Insurance Information Institute.

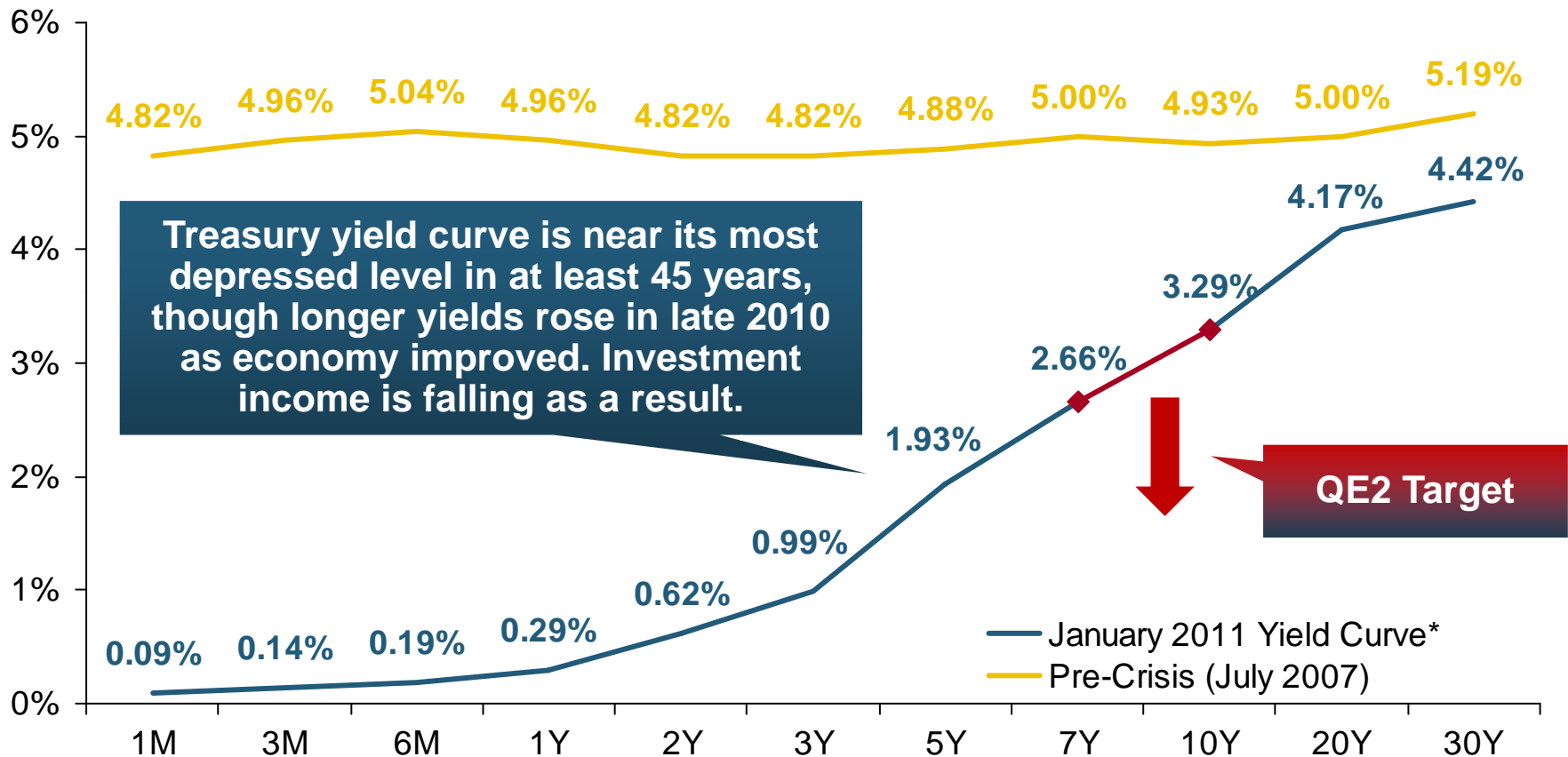
# P/C Insurer Net Realized Capital Gains, 1990-2010:Q3

(\$ Billions)



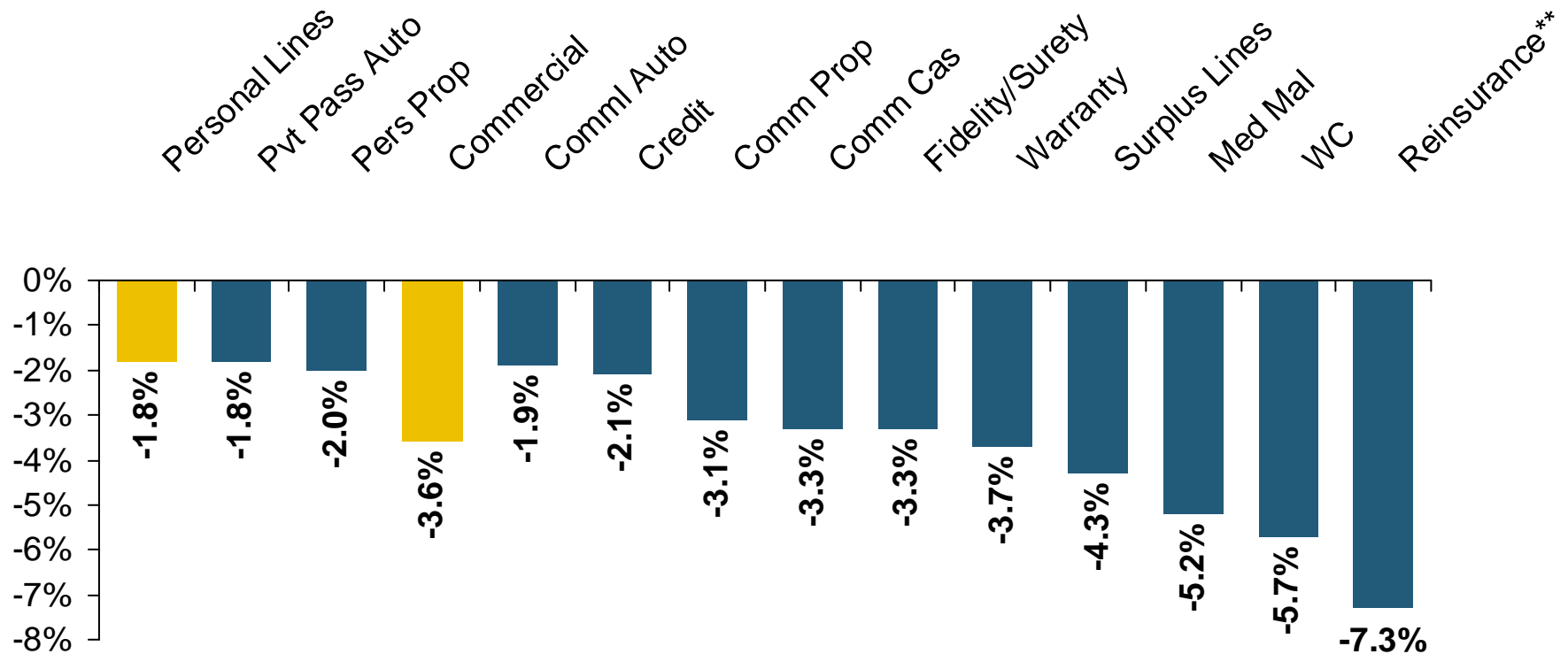
**Realized Capital Losses Were the Primary Cause of 2008/2009's Large Drop in Profits and ROE and Were a Major Driver of Its Recovery in 2010**

# Treasury Yield Curves: Pre-Crisis (July 2007) vs. January 2011



**The Fed's Announced Intention to Pursue Additional Quantitative Easing Could Depress Rates in the 7 to 10-Year Maturity Range through June**

# Reduction in Combined Ratio Necessary to Offset 1% Decline in Investment Yield to Maintain Constant ROE, by Line\*



**Lower Investment Earnings Place a Greater Burden on Underwriting and Pricing Discipline**

\*Based on 2008 Invested Assets and Earned Premiums

\*\*US domestic reinsurance only

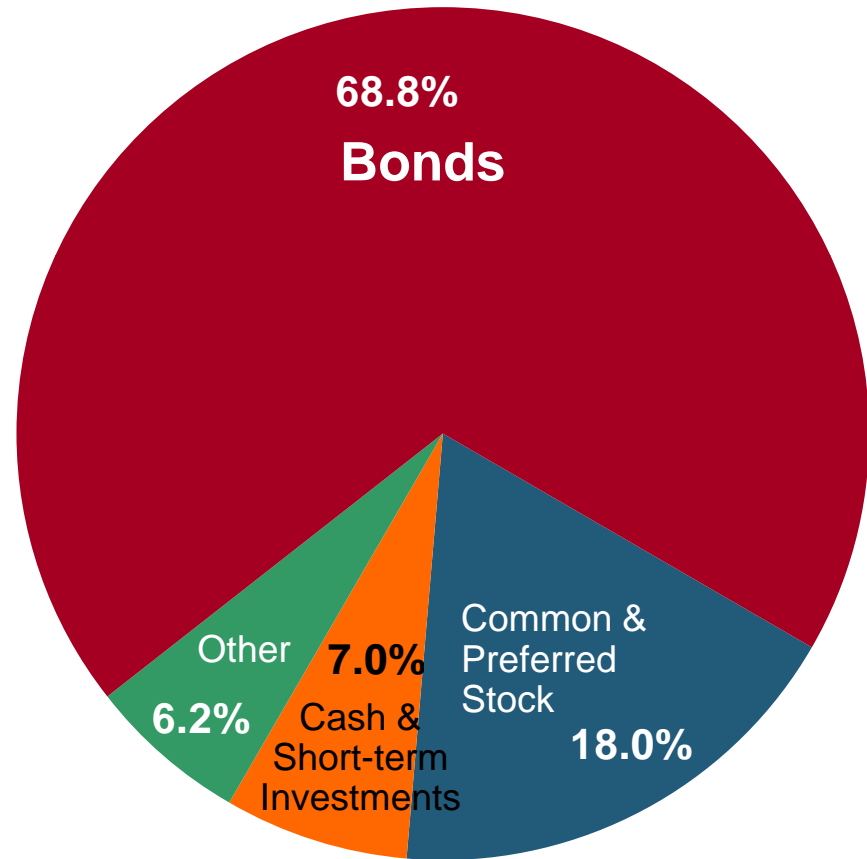
Source: A.M. Best; Insurance Information Institute.

# Distribution of P/C Insurance Industry's Investment Portfolio

## Portfolio Facts as of 12/31/2009

- Invested assets totaled \$1.26 trillion
- Generally, insurers invest conservatively, with over 2/3 of invested assets in bonds
- Only 18% of invested assets were in common or preferred stock

As of December 31, 2009





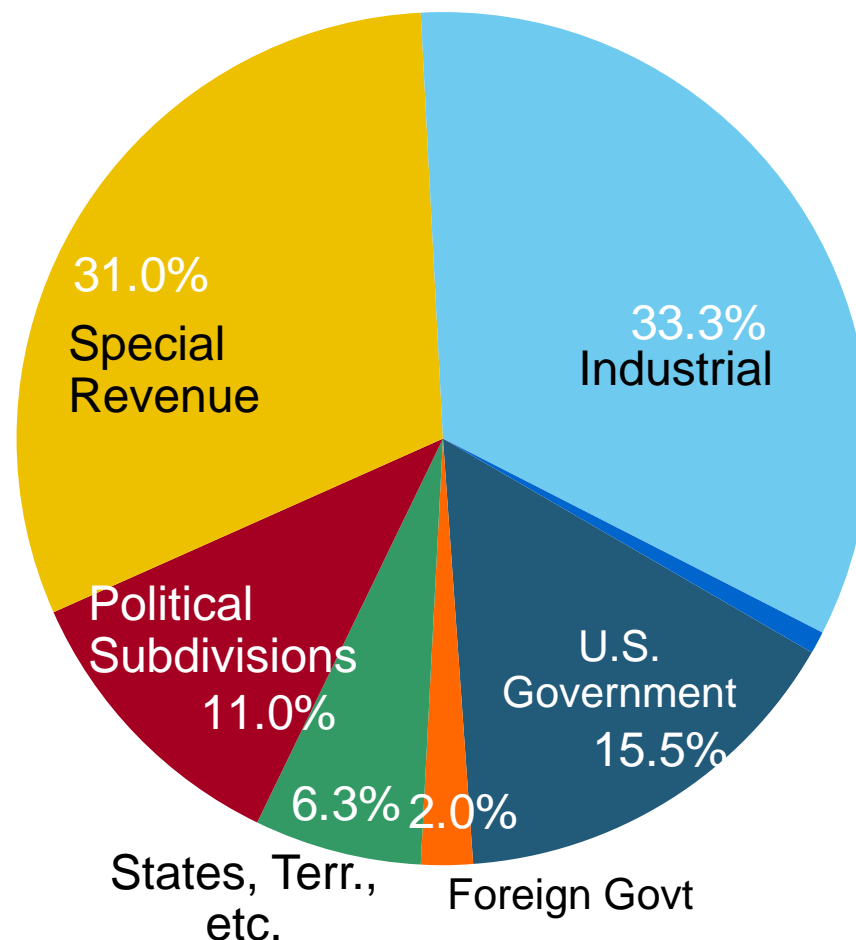
# 2011 Financial Overview

## About Half of the P/C Insurance Industry's Bond Investments Are in Municipal Bonds

### Bond Investment Facts as of 12/31/09

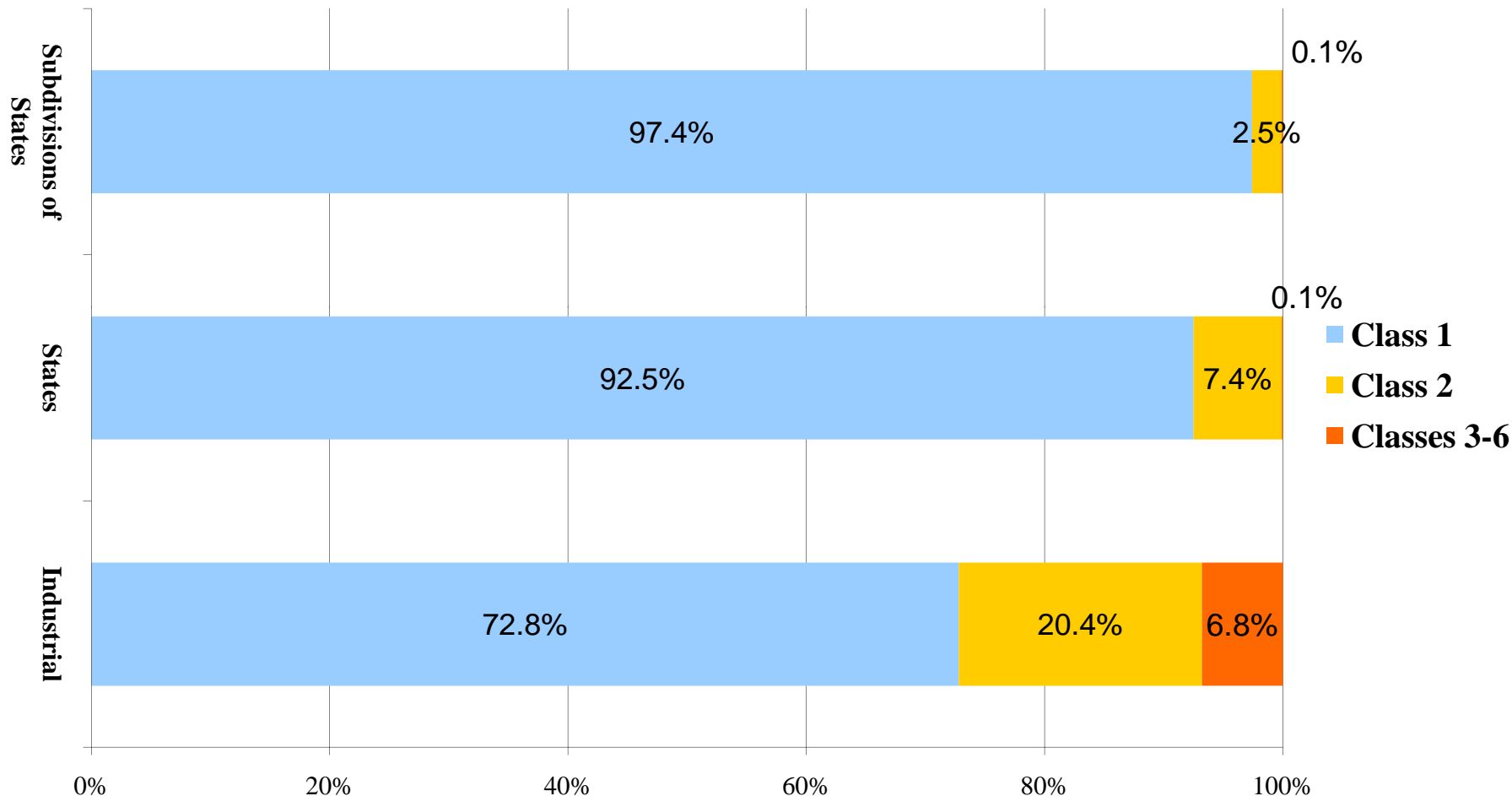
- Investments in "Political Subdivision [of states]" bonds were \$102.5 billion
- Investments in "States, Territories, & Possessions" bonds were \$58.9 billion
- Investments in "Special Revenue" bonds were \$288.2 billion
- All state, local, and special revenue bonds totaled 48.2% of bonds, about 35.7% of total invested assets

As of December 31, 2009



# 2011 Financial Overview

## When P/C Insurers Invest in Higher Risk Bonds, It's Corporates, Not Munis

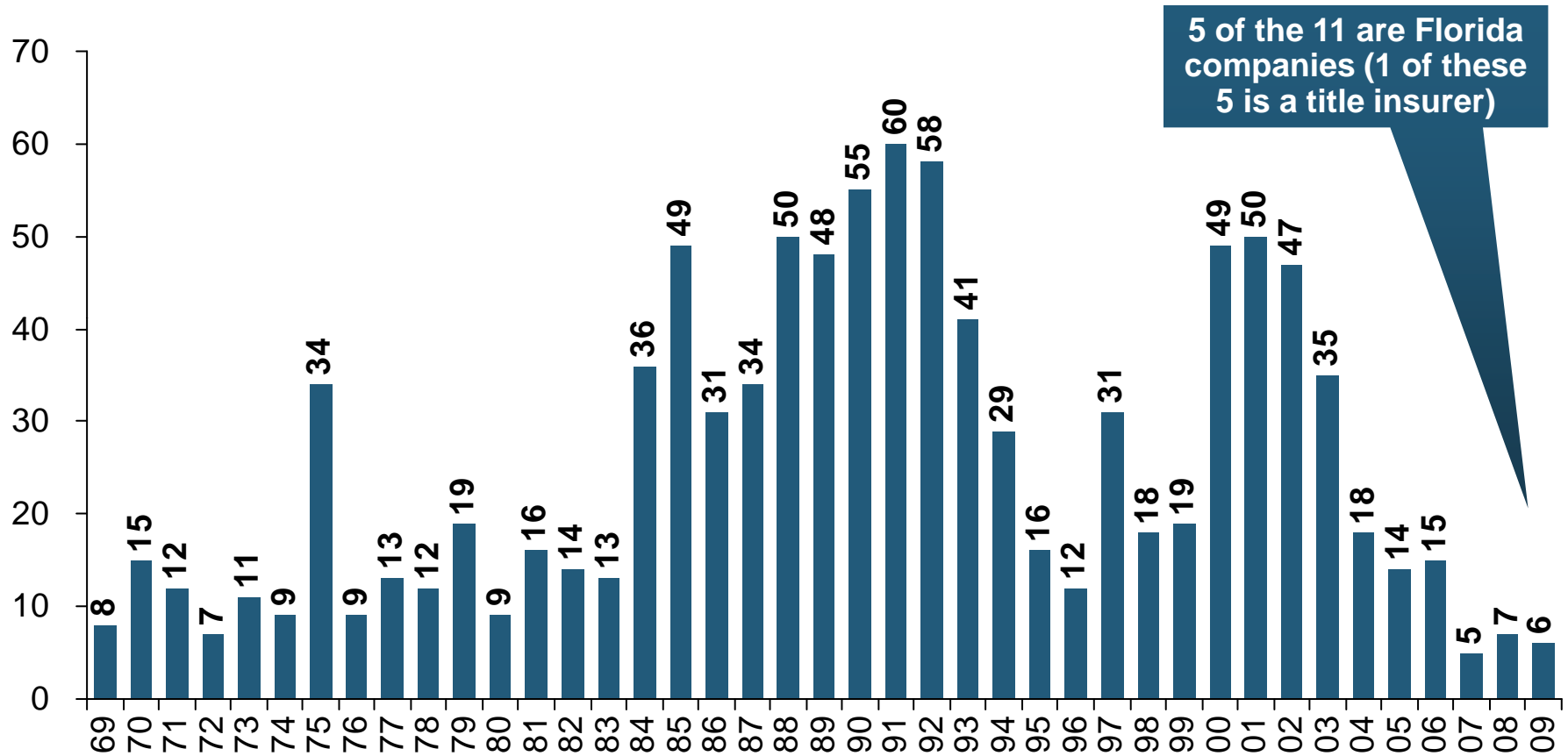


**The NAIC's Securities Valuation Office puts bonds into one of 6 classes: class 1 has the lowest expected impairments; successively higher numbered classes imply increasing impairment likelihood.**

# **Financial Strength & Underwriting**

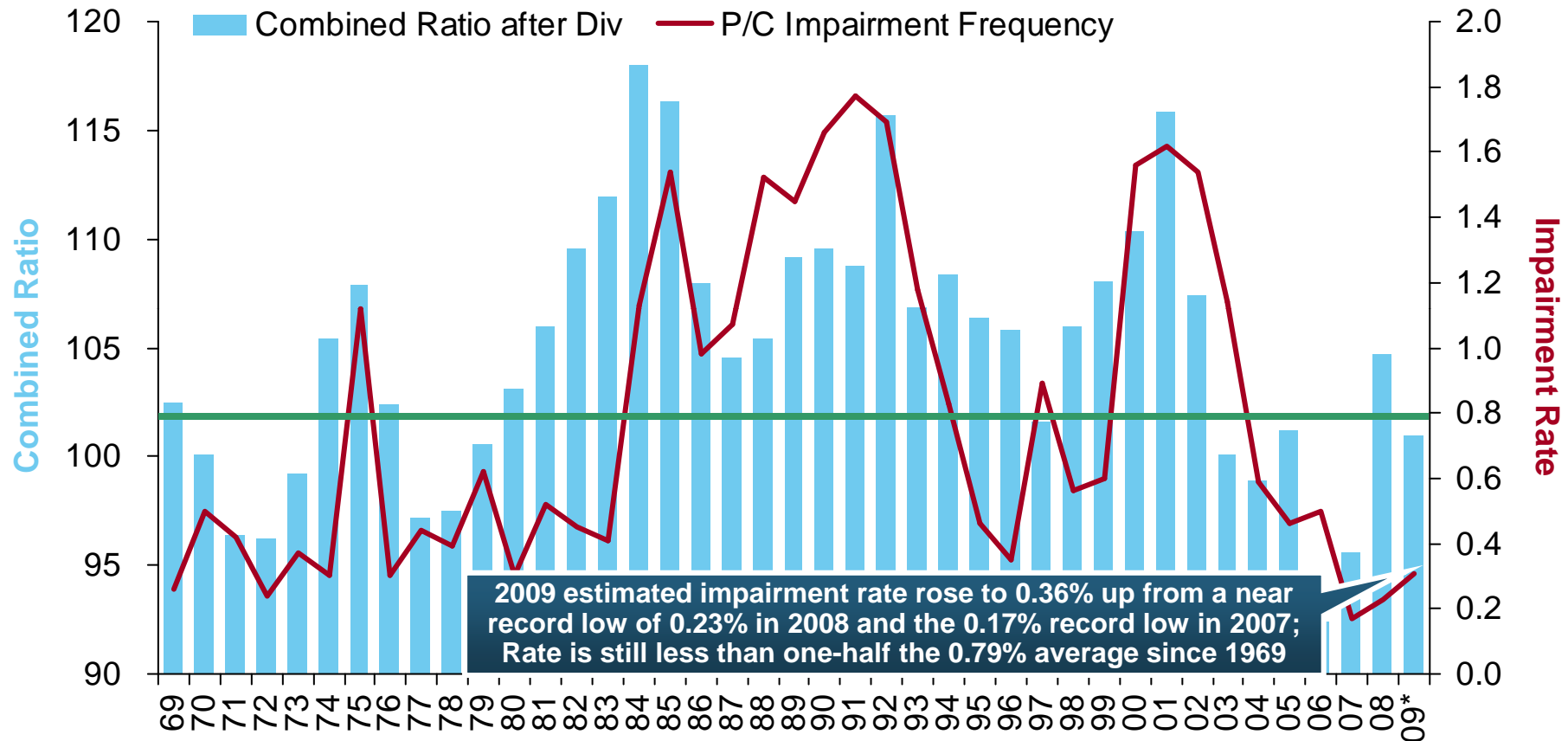
**Cyclical Pattern is P-C Impairment  
History is Directly Tied to  
Underwriting, Reserving & Pricing**

# P/C Insurer Impairments, 1969–2009



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

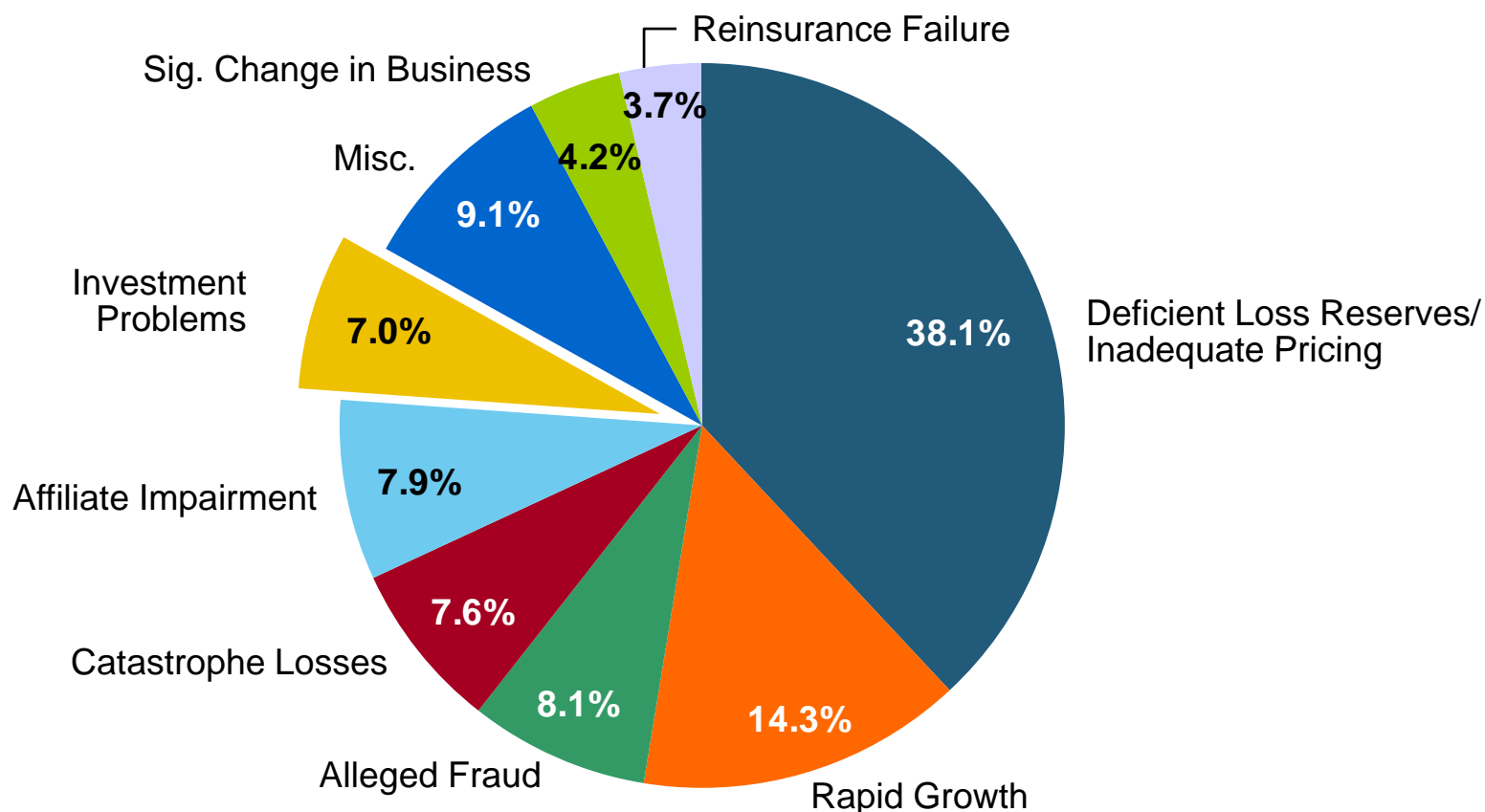
# P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2009



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

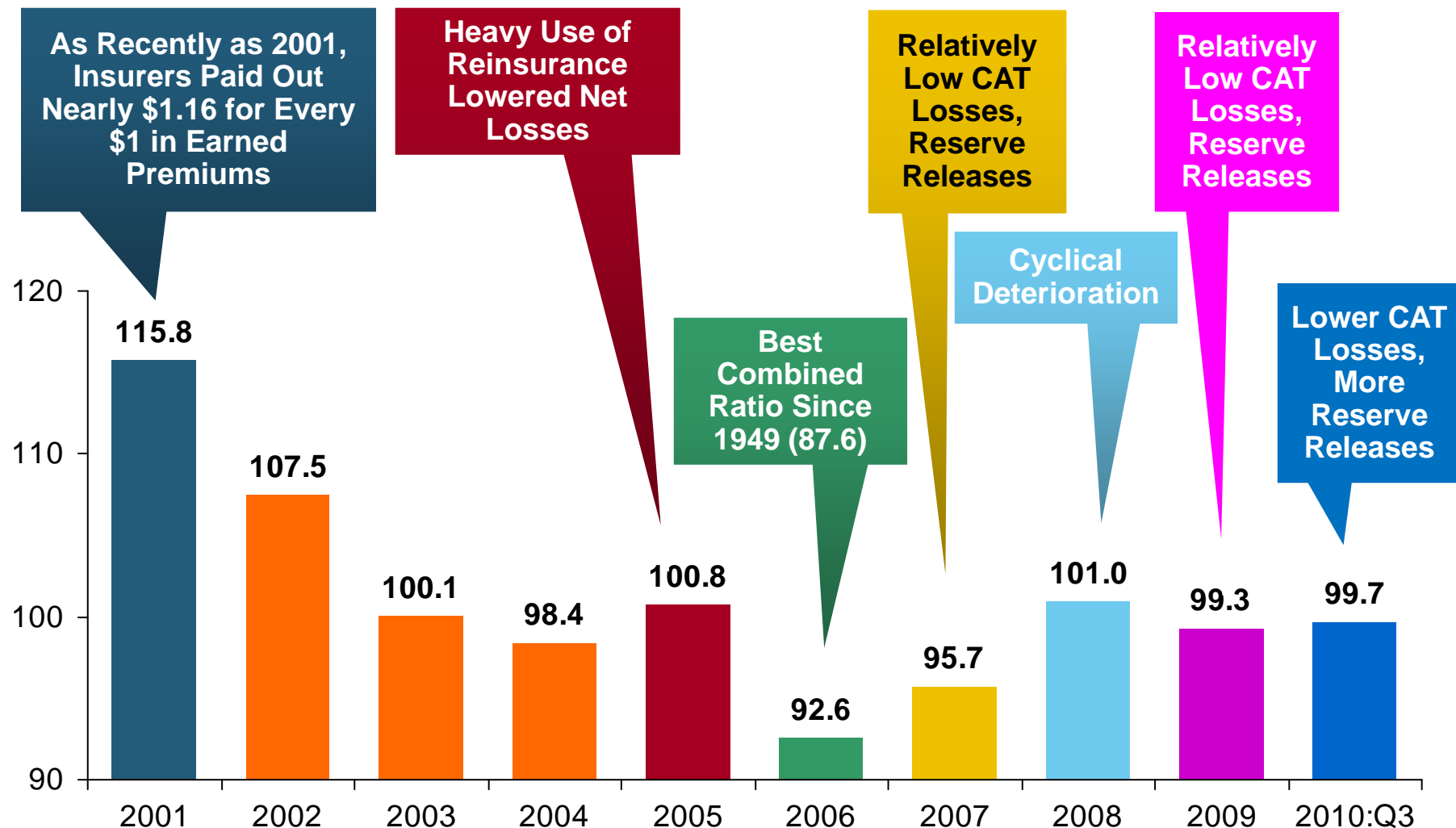
# Reasons for US P/C Insurer Impairments, 1969–2008

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



**Underwriting Trends –  
Financial Crisis Does *Not*  
Directly Impact Underwriting  
Performance**

# P/C Insurance Industry Combined Ratio, 2001–2010:Q3\*

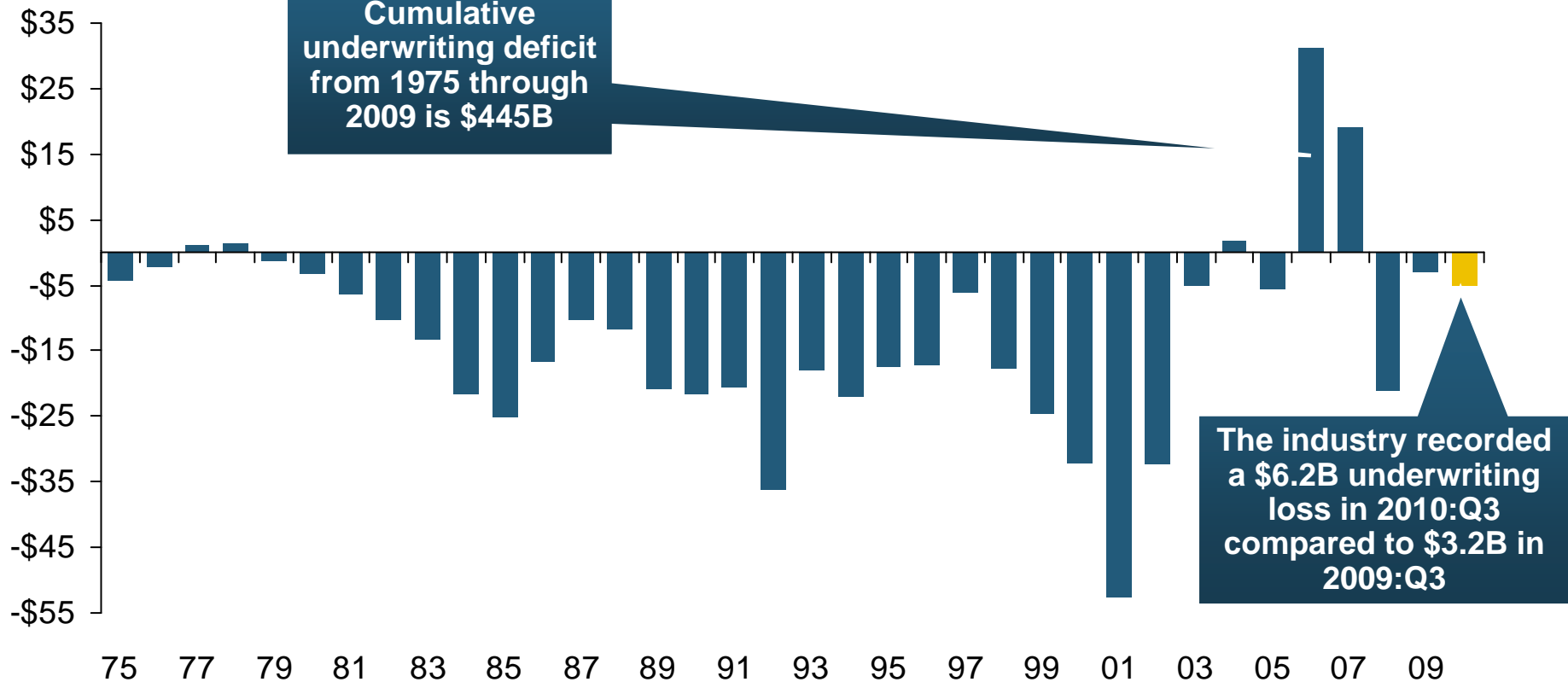


\* Excludes Mortgage & Financial Guaranty insurers in 2008, 2009 and 2010. Including M&FG, 2008=105.1, 2009=100.7, 2010:Q3=101.2  
Sources: A.M. Best, ISO.



# Underwriting Gain (Loss) 1975–2010:Q3\*

(\$ Billions)



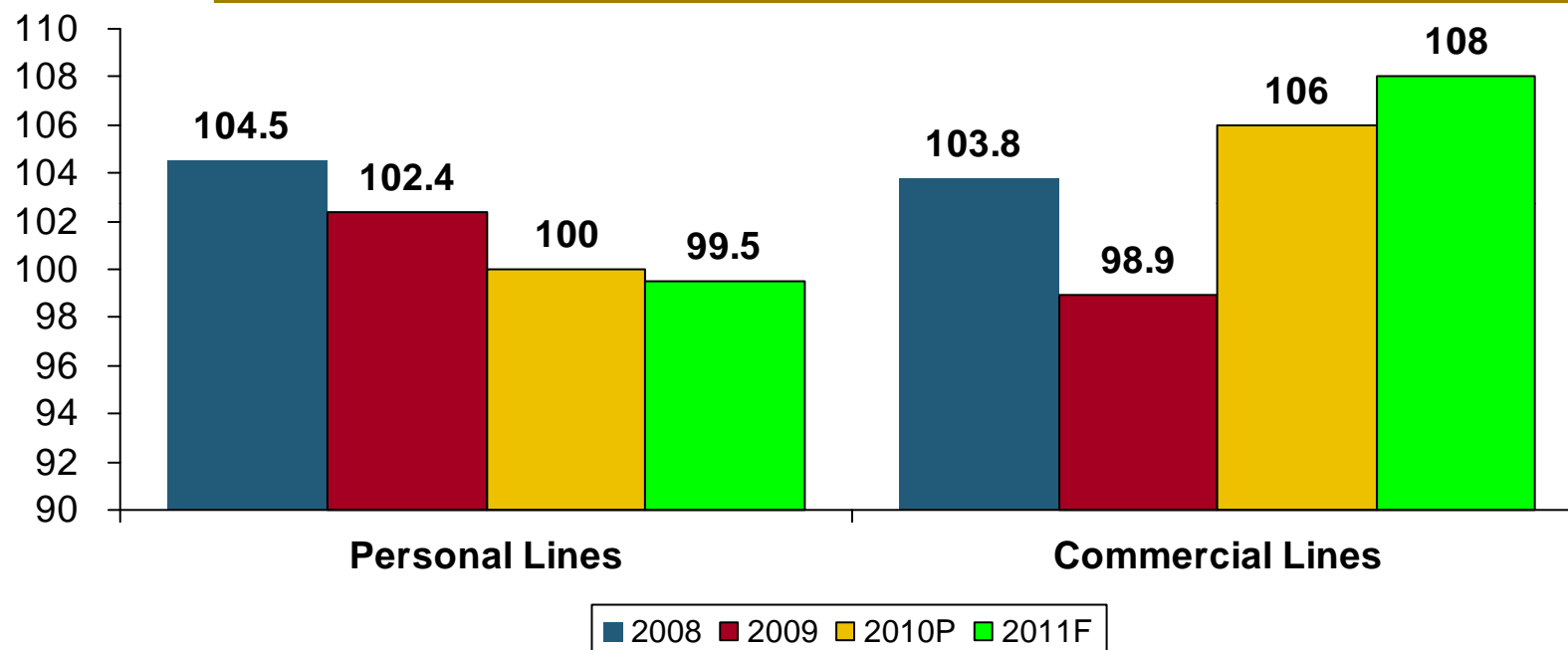
**Large Underwriting Losses Are *NOT* Sustainable  
in Current Investment Environment**

\* Includes mortgage and financial guarantee insurers.

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

# 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**

# **Shifting Legal Liability & Tort Environment**

## **Is the Tort Pendulum Swinging Against Insurers?**

# Important Issues & Threats Facing Insurers: 2010–2015



## Emerging Tort Threat

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

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



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

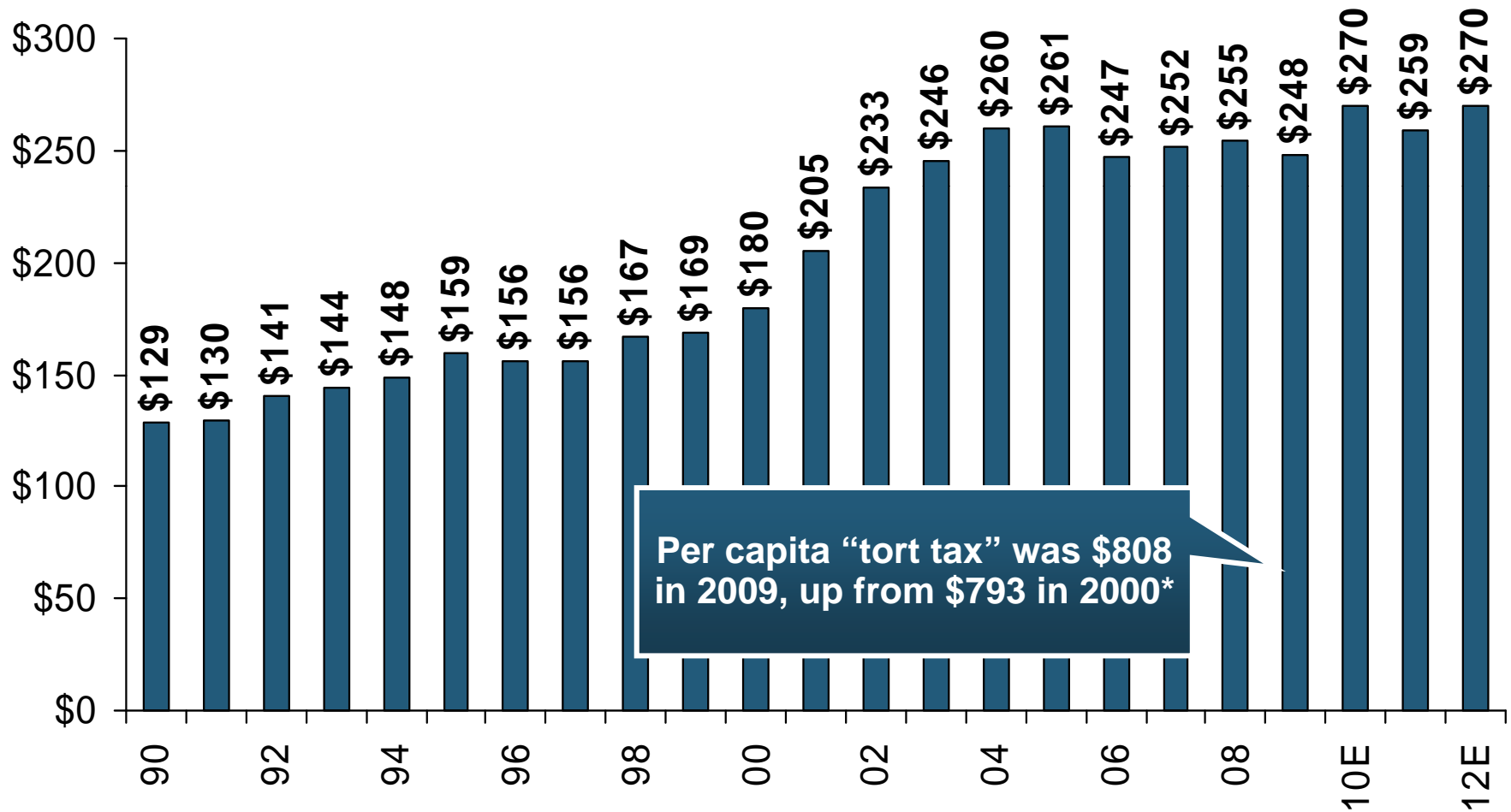
# Trial Lawyer Poll: Which Areas Offer the Greatest Potential Benefit?

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

***41 different practice areas were included as categories***

# Cost of US Tort System (\$ Billions)

Tort costs consumed 1.74% of GDP in 2009, down from 2.21% in 2003

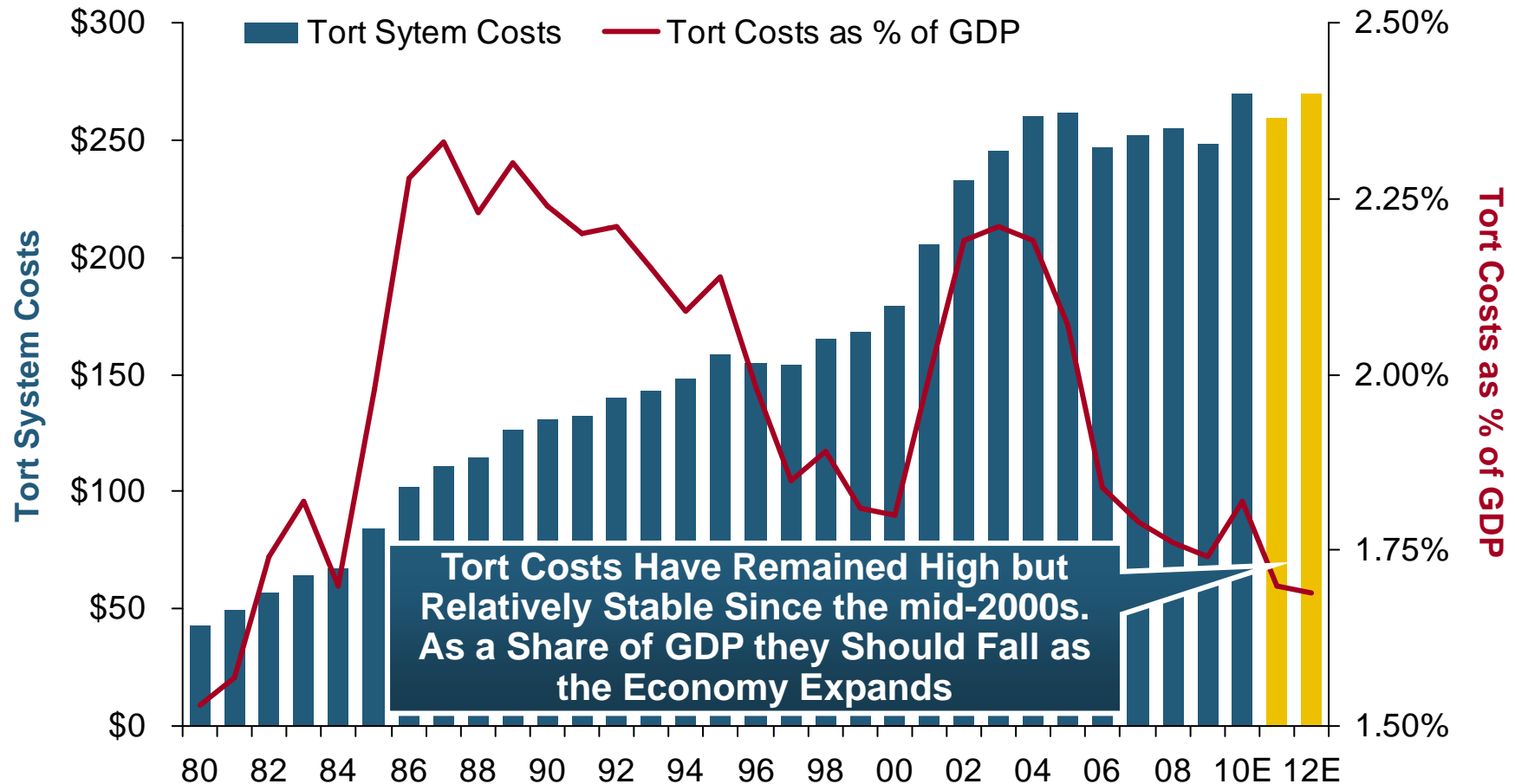


\* Restated in 2009 dollars, based on CPI.

Source: Towers Watson, 2010 Update on US Tort Cost Trends.

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

(\$ Billions)





# Business Leaders Ranking of Liability Systems in 2010

## Best States

1. Delaware
2. North Dakota
3. Nebraska
4. Indiana
5. Iowa
6. Virginia
7. Utah
8. Colorado
9. Massachusetts
10. South Dakota

### New in 2010

- North Dakota
- Massachusetts
- South Dakota

### Drop-offs

- Maine
- Vermont
- Kansas

Midwest/West has mix of good and bad states.

## Worst States

41. New Mexico
42. Florida
43. Montana
44. Arkansas
45. Illinois
46. California
47. Alabama
48. Mississippi
49. Louisiana
50. West Virginia

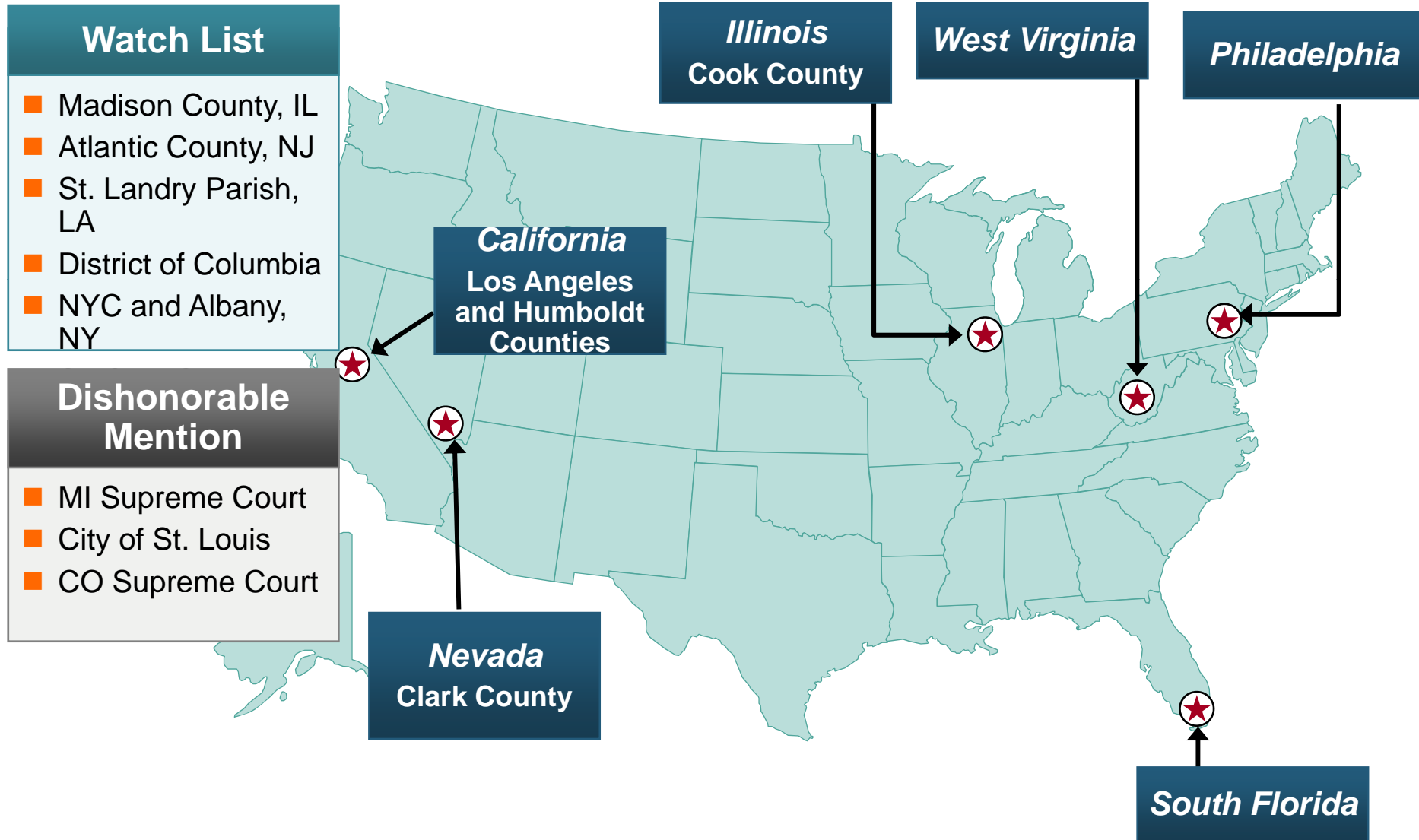
### Newly Notorious

- New Mexico
- Montana
- Arkansas

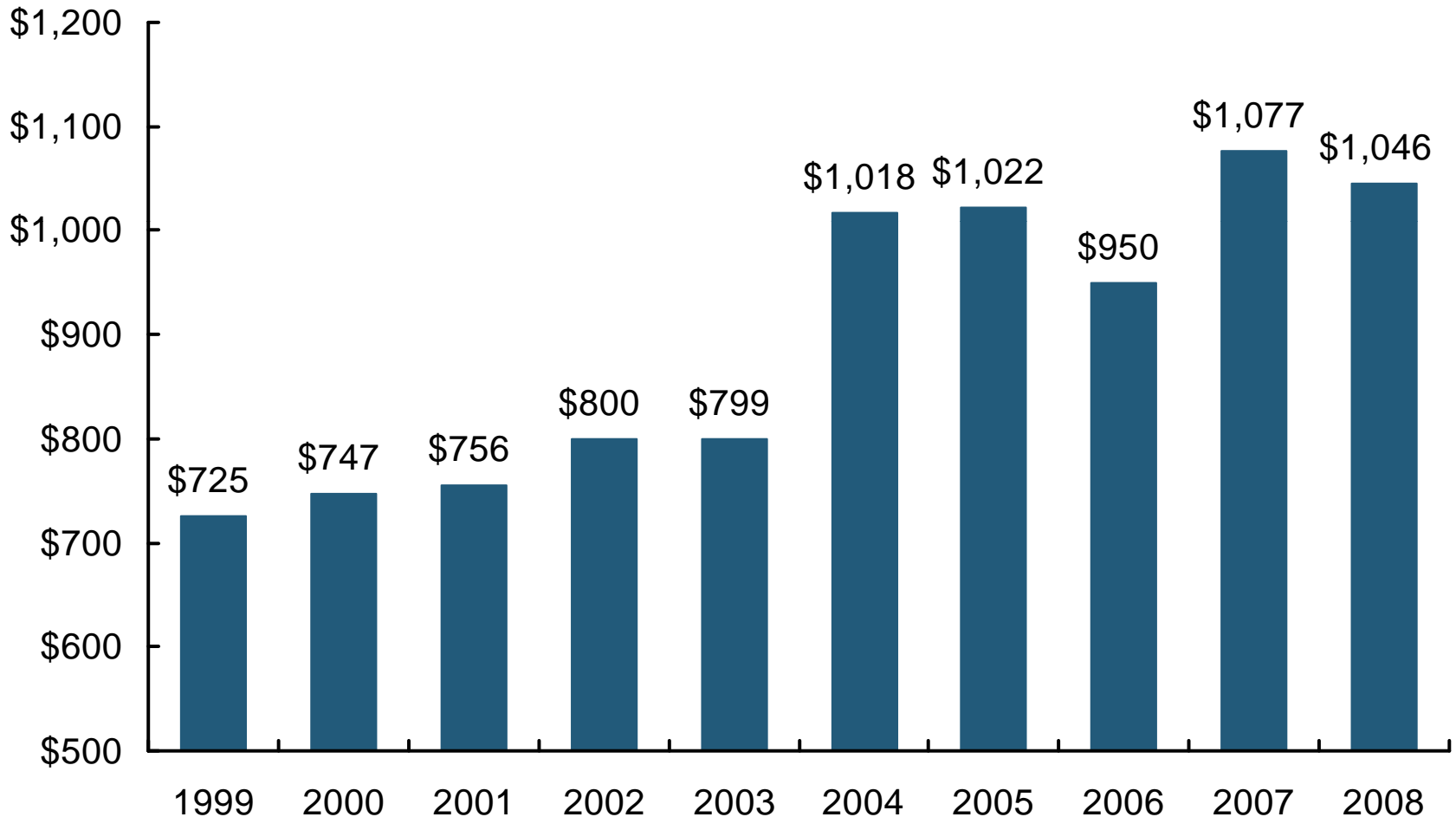
### Rising Above

- **Texas**
- South Carolina
- Hawaii

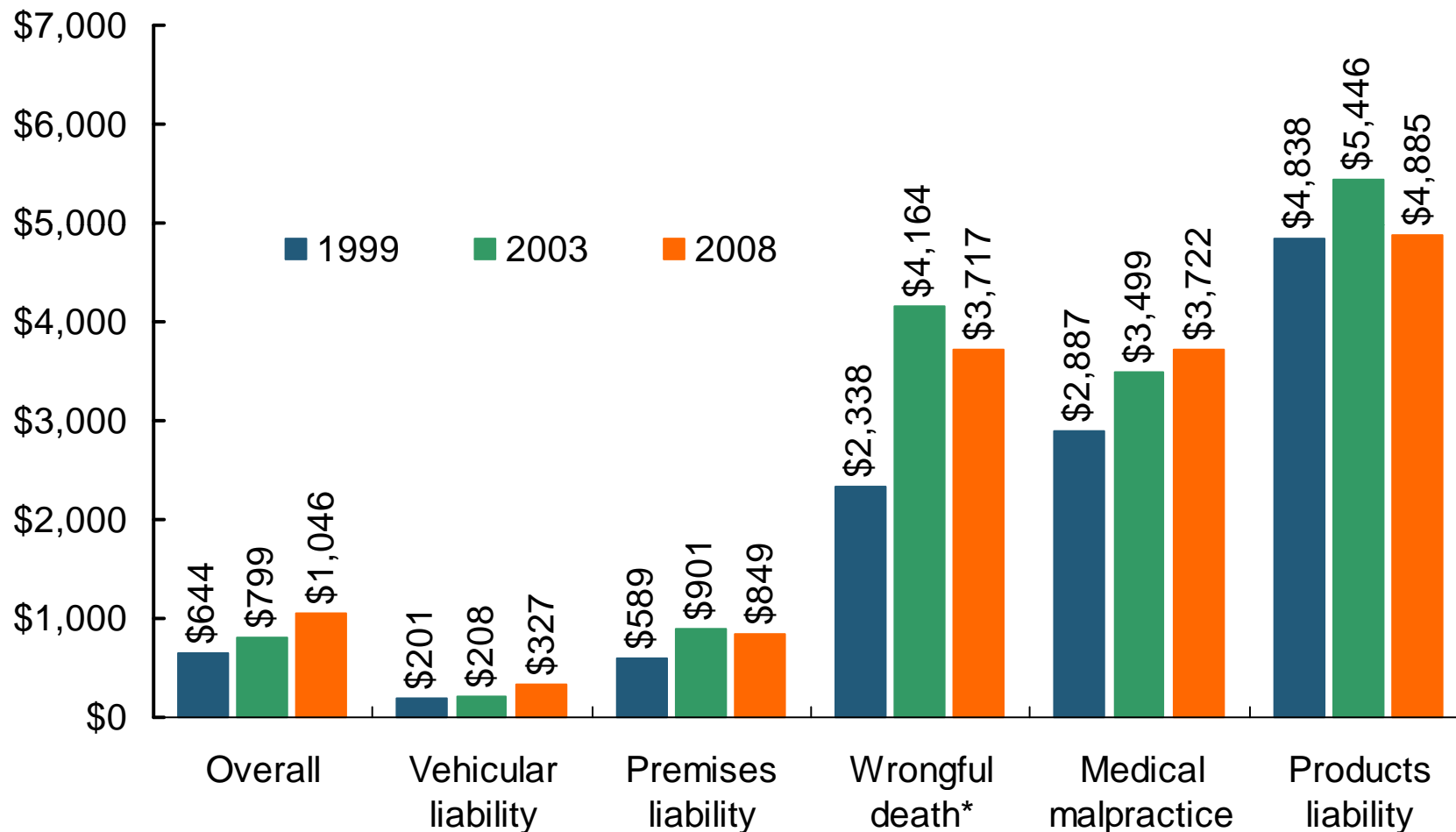
# The Nation's Judicial Hellholes: 2010



# Average Jury Awards 1999 - 2008



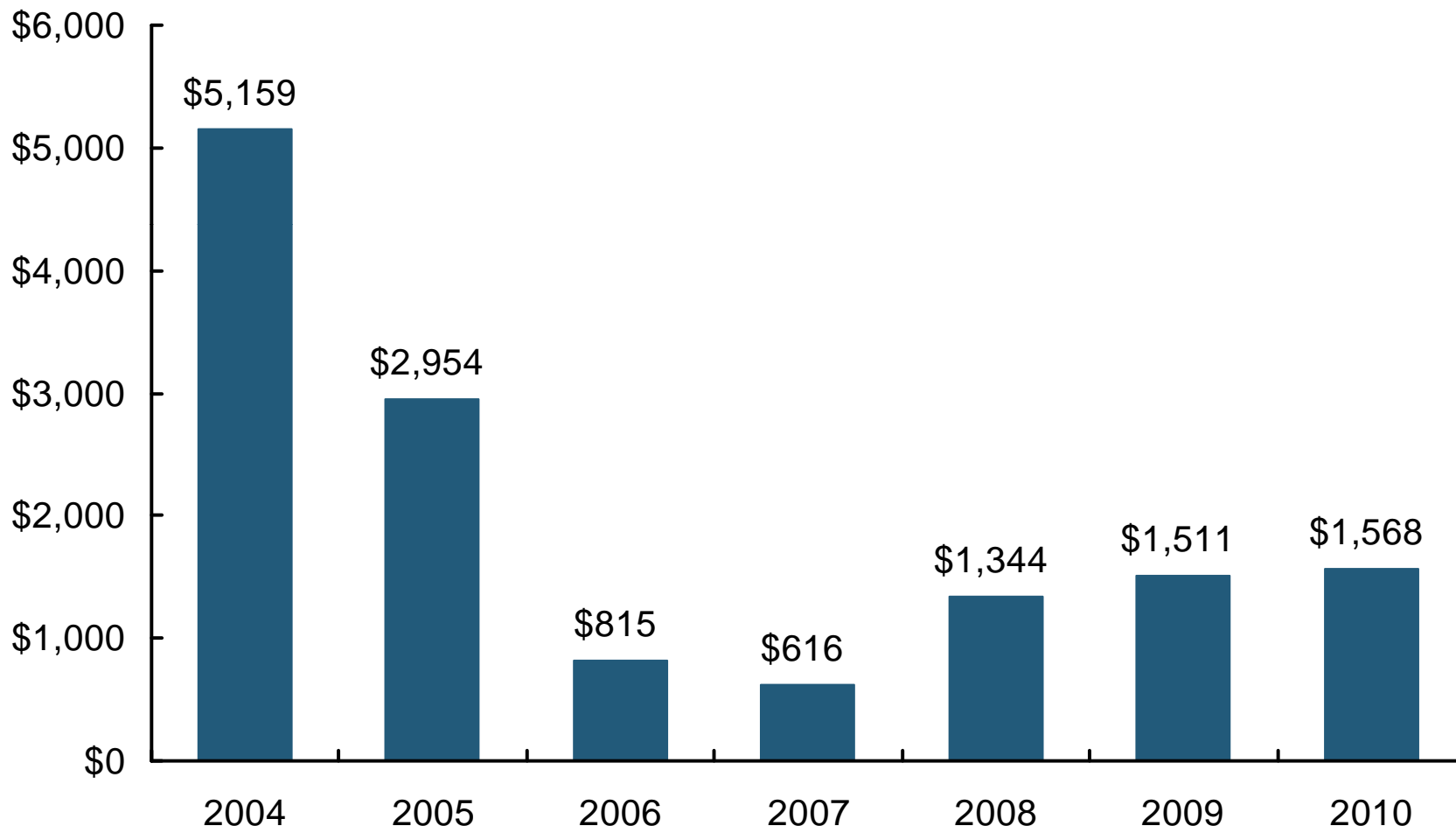
# Avg. Jury Awards 1999 vs. 2003 and 2008



\*Award trends in wrongful deaths of adult males.

Source: Jury Verdict Research; Insurance Information Institute.

# Sum of Top 10 Jury Awards 2004-2010



Source: Insurance Information Institute from Lawyers USA, January 2005, 2006, 2007, 2008, 2009, and 2010.

# 2010 Top Ten Jury Verdicts

Value	Issue	State
\$505.1 Million	Products Liability	Nevada
\$208.8 Million	Personal Injury (Asbestos/Mesothelioma case)	California
\$152 Million	Wrongful Death (Tobacco verdict)	Massachusetts
\$132.5 Million	Personal Injury (Ford rollover retrial)	Mississippi
<i>\$124.5 Million</i>	<i>Personal Injury (Passenger van rollover case)</i>	<i>Texas</i>
\$103 Million	Legal Malpractice/Breach of Fiduciary Duty	Mississippi
\$90.8 Million	Products Liability, Wrongful Death (Tobacco verdict)	Florida
\$89 Million	Personal Injury, Products Liability	Pennsylvania
<i>\$82.5 Million</i>	<i>Wrongful Death</i>	<i>Texas</i>
\$80 Million	Wrongful Death (Tobacco verdict)	Florida

# 2009 Top Ten Jury Verdicts

Value	Issue	State
\$370 Million	Defamation	California
\$330 Million	Personal Injury (Drunk driving case)	Florida
\$300 Million	Personal Injury (Tobacco verdict)	Florida
\$89 Million	Personal Injury (Drunk driving case)	Missouri
\$78.75 Million	Personal Injury (Prempro)	New Jersey
\$77.4 Million	Medical Malpractice	New York
<i>\$71 Million</i>	<i>Conversion and Breach of Fiduciary Duty</i>	<i>Texas</i>
<i>\$70 Million</i>	<i>Workers Comp Case</i>	<i>Texas</i>
\$65 Million	Personal Injury	Florida
\$60 Million	Medical Malpractice	New York

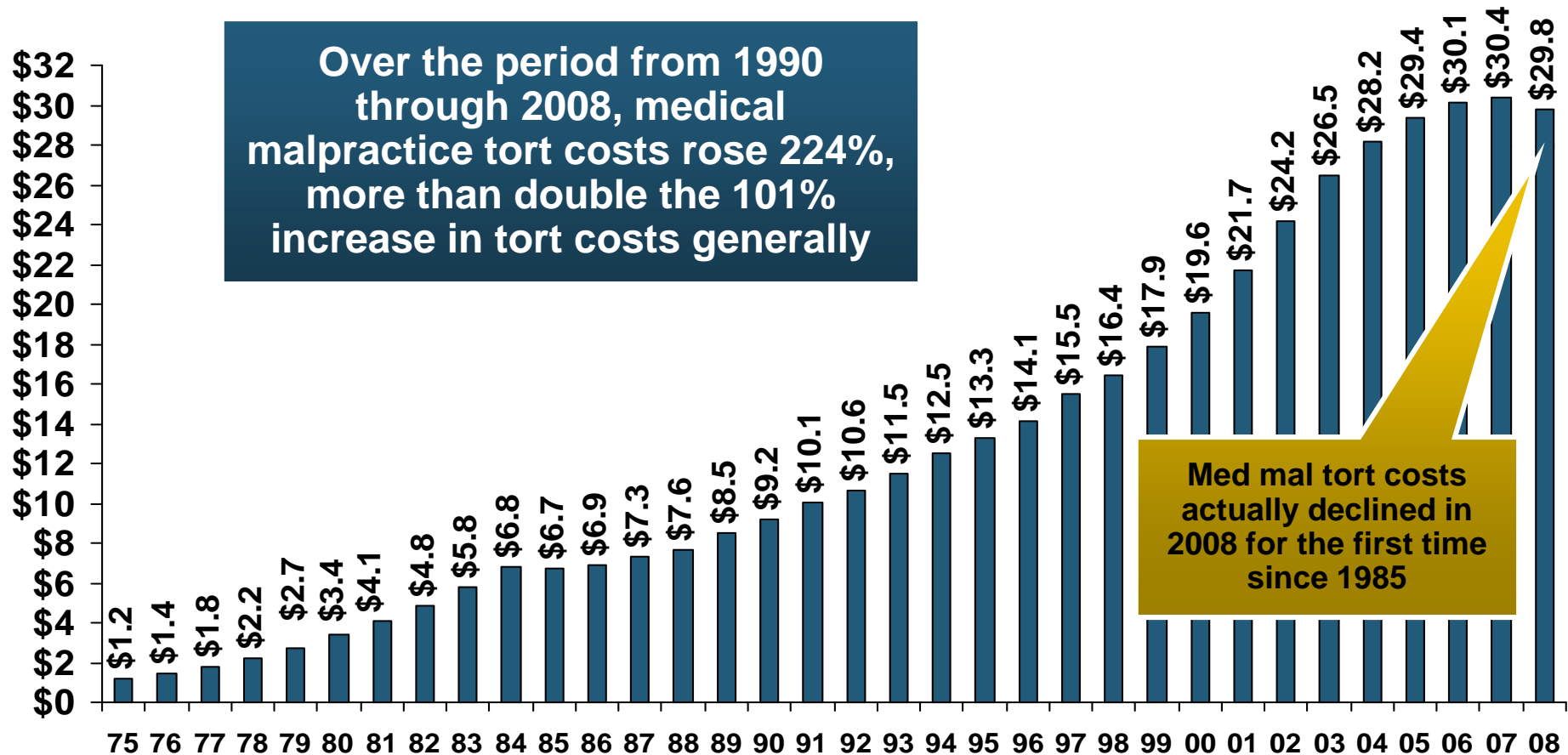
# 2008 Top Ten Jury Verdicts

Value	Issue	State
\$388 Million	Fraud, Intentional Infliction of Emotional Distress	Nevada
\$316 Million	Breach of Contract	Georgia
\$188 Million	Defamation	New York
\$85 Million	Premises Liability	Pennsylvania
<i>\$84 Million</i>	<i>Negligence, Personal Injury</i>	<i>Texas</i>
\$66 Million	Breach of Fiduciary Duty	Oklahoma
\$60 Million	Insurance Bad Faith	Nevada
\$55 Million	Negligence	California
\$54 Million	Wrongful Death	Georgia
\$48 Million	Negligence	Indiana

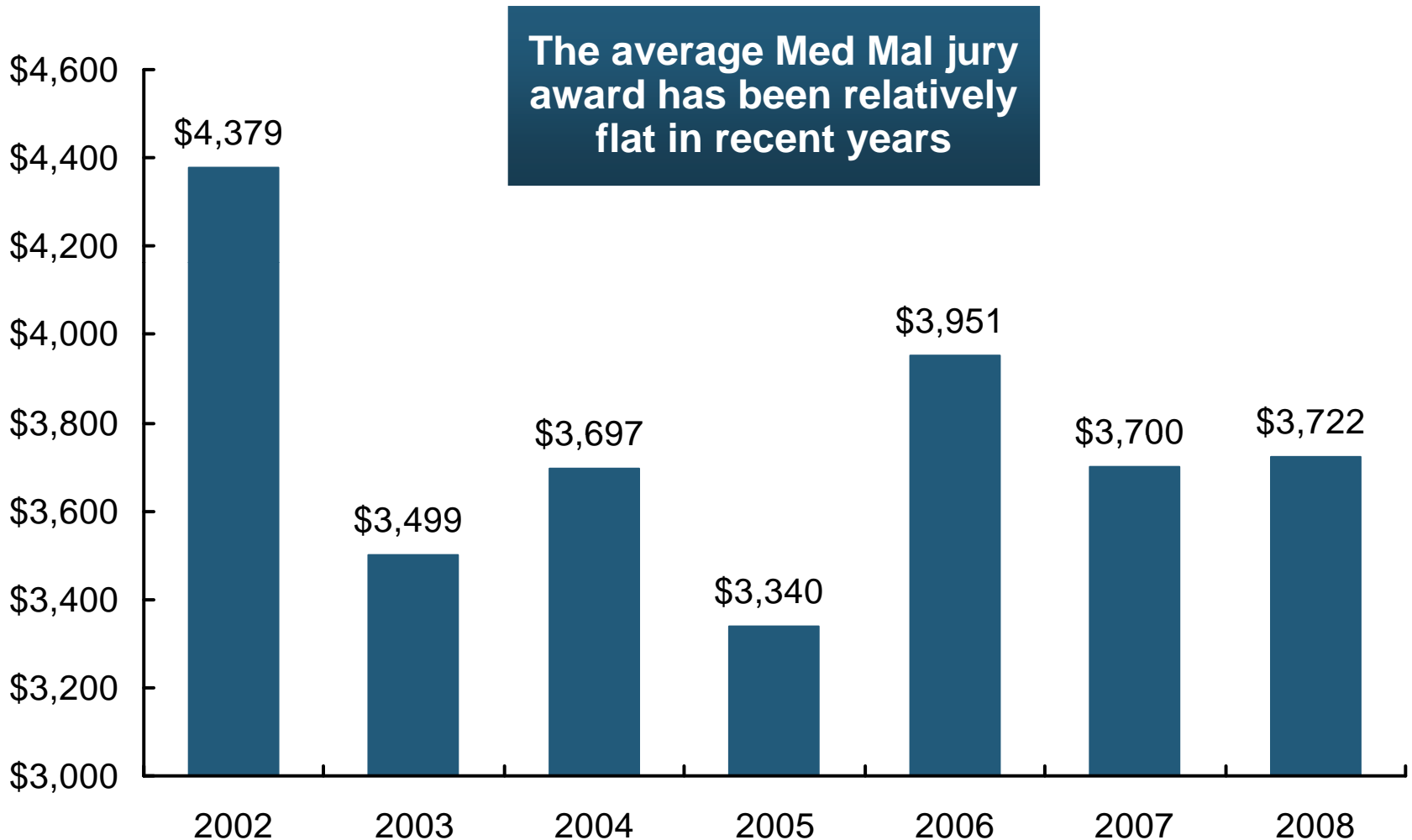


# Medical Malpractice Tort Cost: Growth Continues, Though Modestly

(\$ Billions)



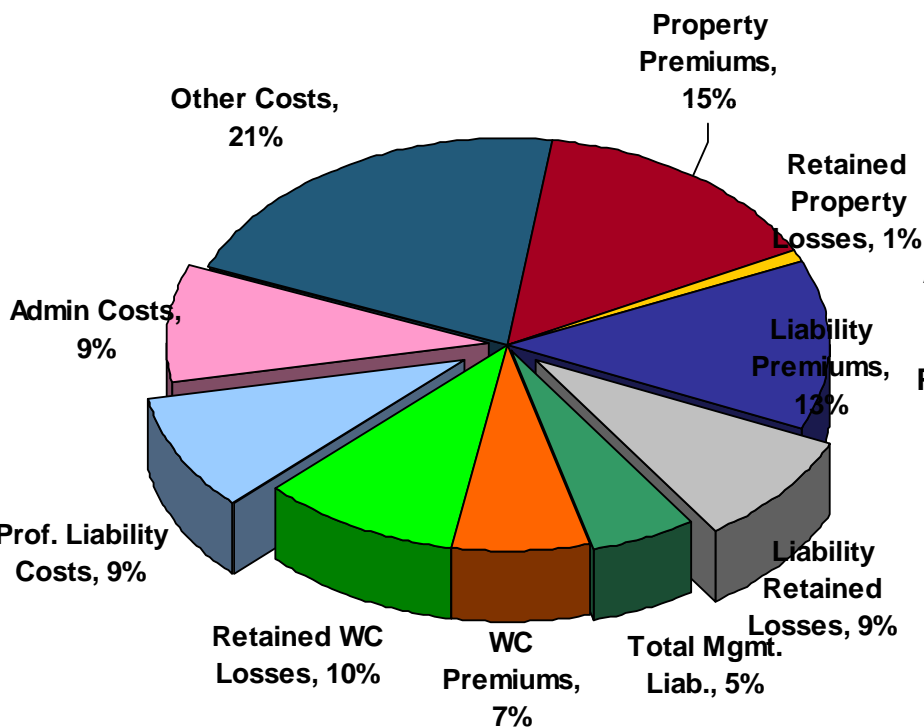
# Average Medical Malpractice Jury Award: 2002 - 2008



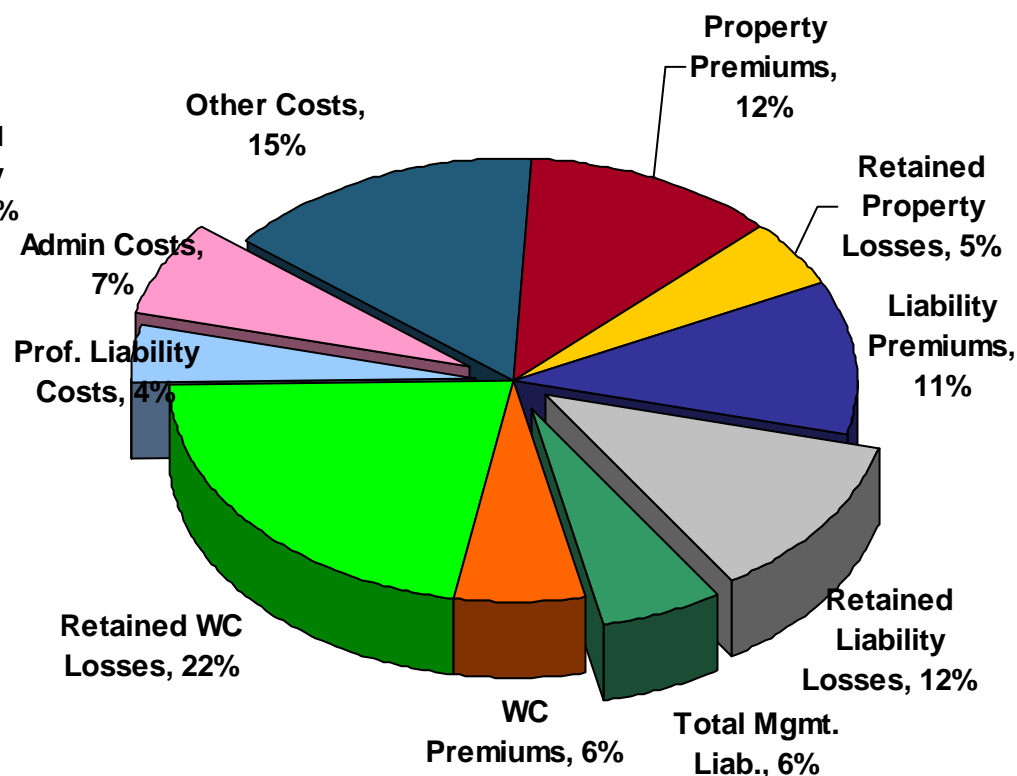
# How the Risk Dollar is Spent (2008)

Total liability costs account for about 30% of the risk dollar

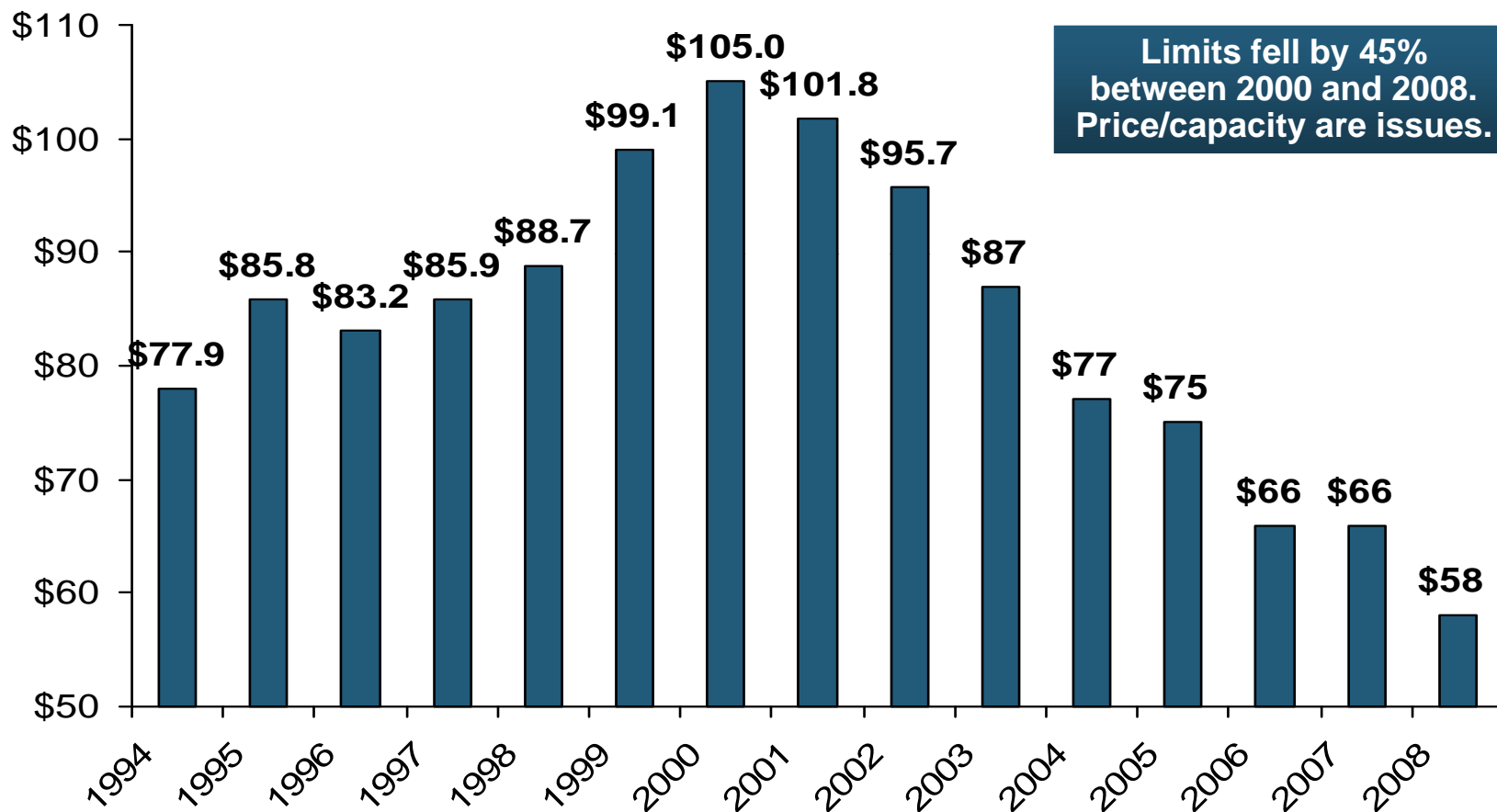
## Firms w/Revenues < \$1 Billion



## Firms w/Revenues > \$1 Billion



# Average Total Limits Purchased by All U.S. Firms\* (\$ Millions)

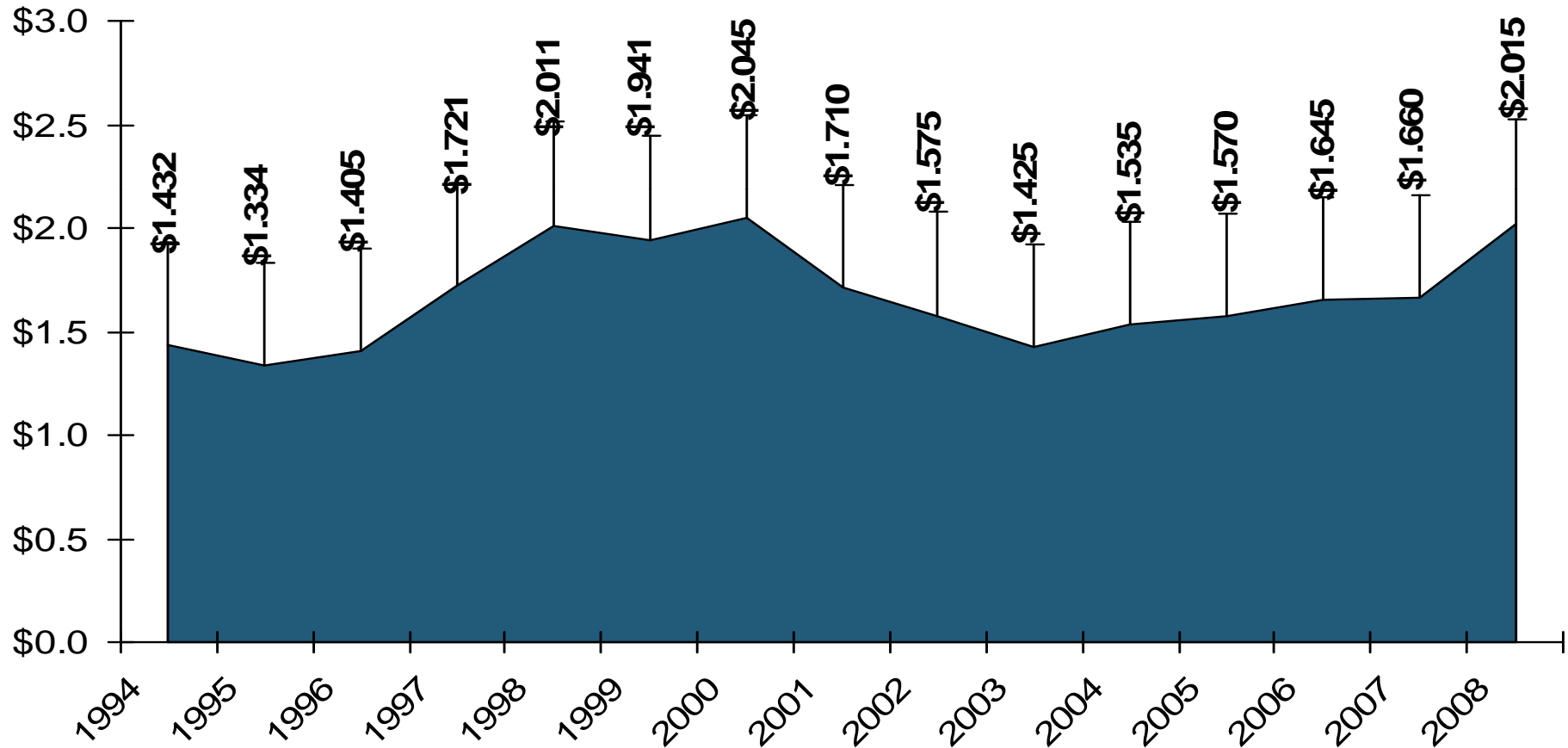


\*Includes underlying primary limits

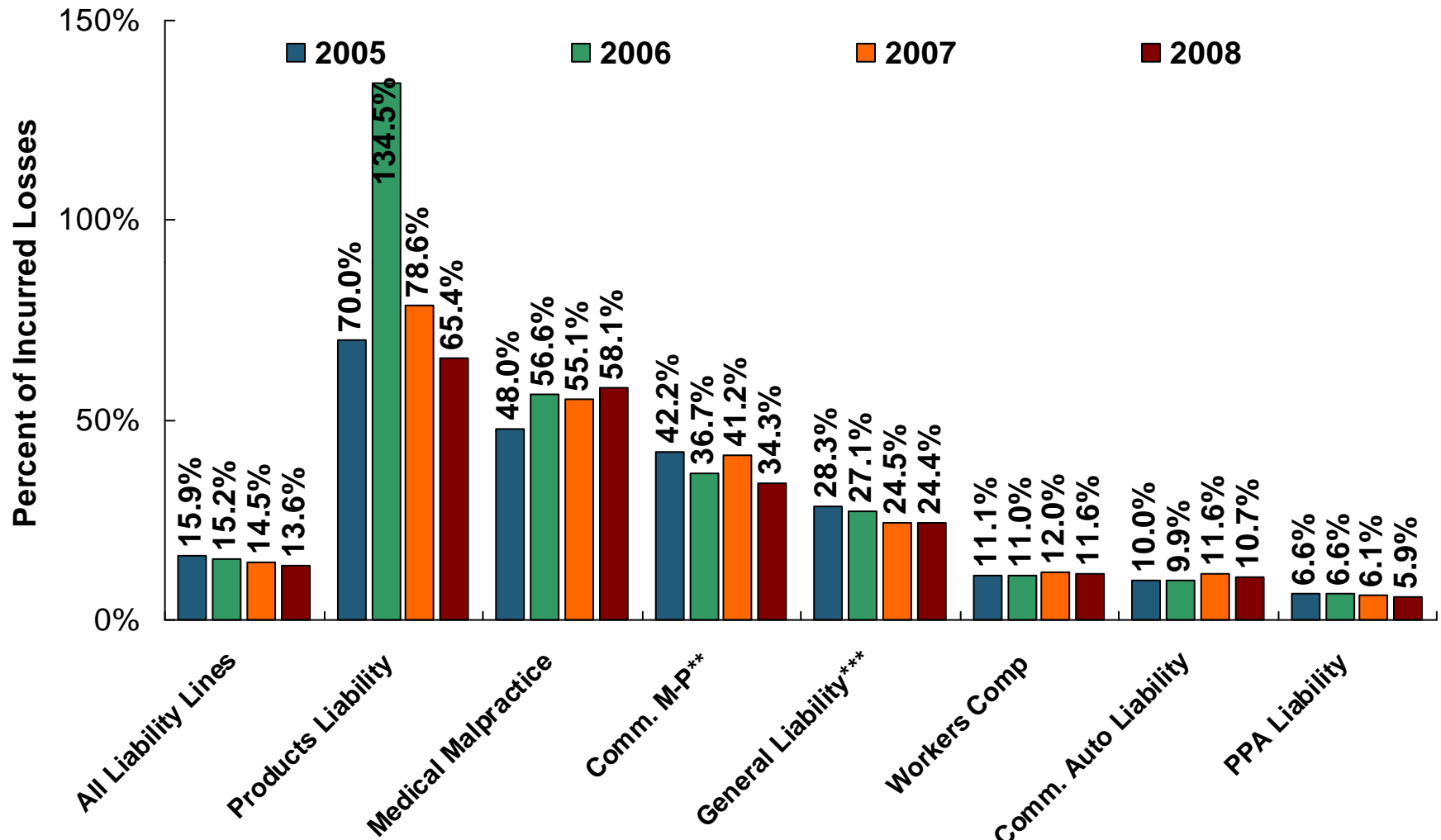
Source: *Limits of Liability 2008*, Marsh, Inc.

# Excess Liability Market Capacity North America (\$ Billions)

In 2008, capacity is back to 2000 levels.



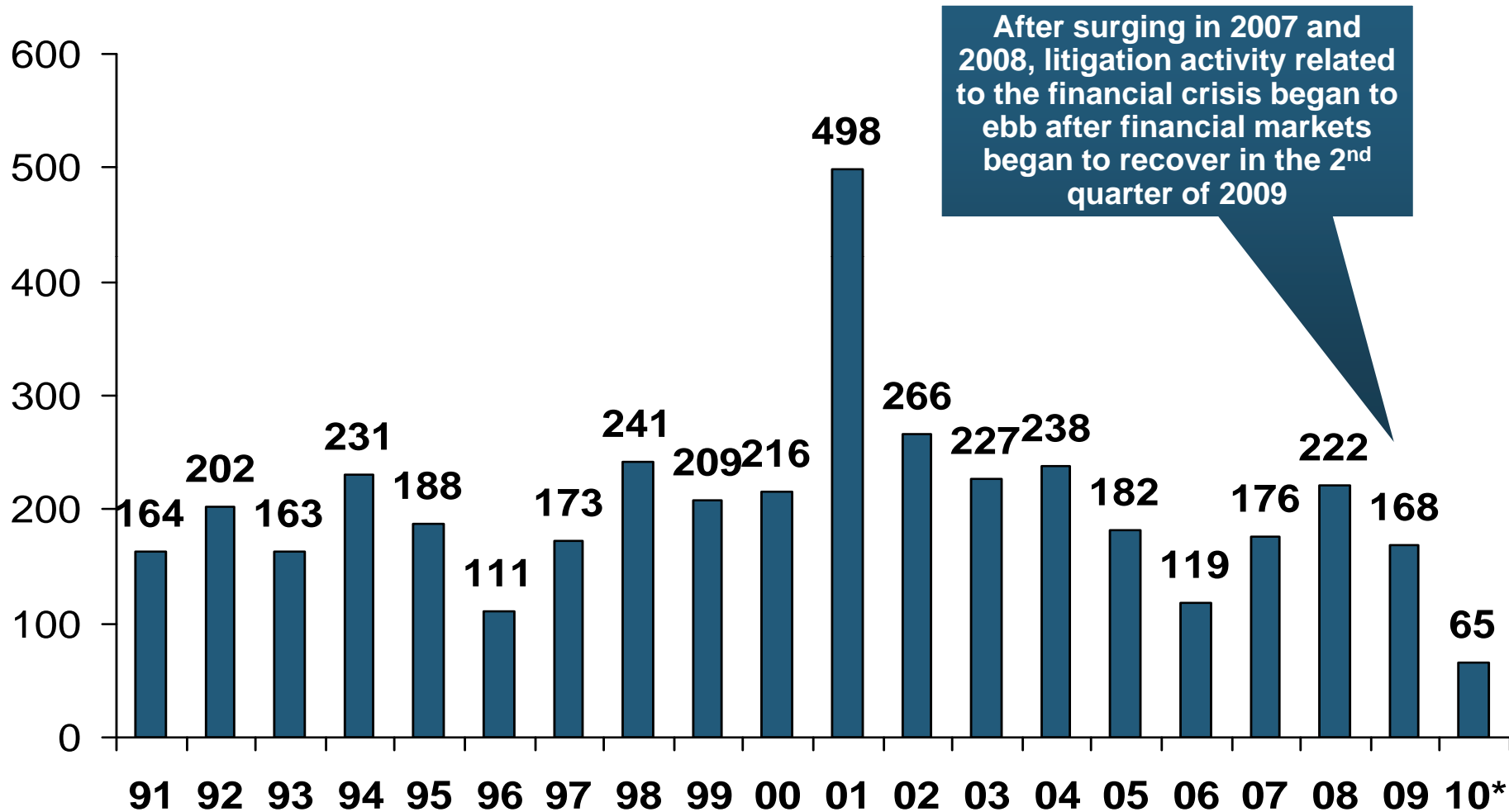
# Insurer Defense & Cost Containment Expenses as a % of Incurred Losses, 2005-2008\*



\*Net of reinsurance, excl. state funds. \*\*Liability portion only. \*\*\*Excludes products liability.

Source: National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data, LLC; Insurance Information Institute.

# Shareholder Class Action Lawsuits\*

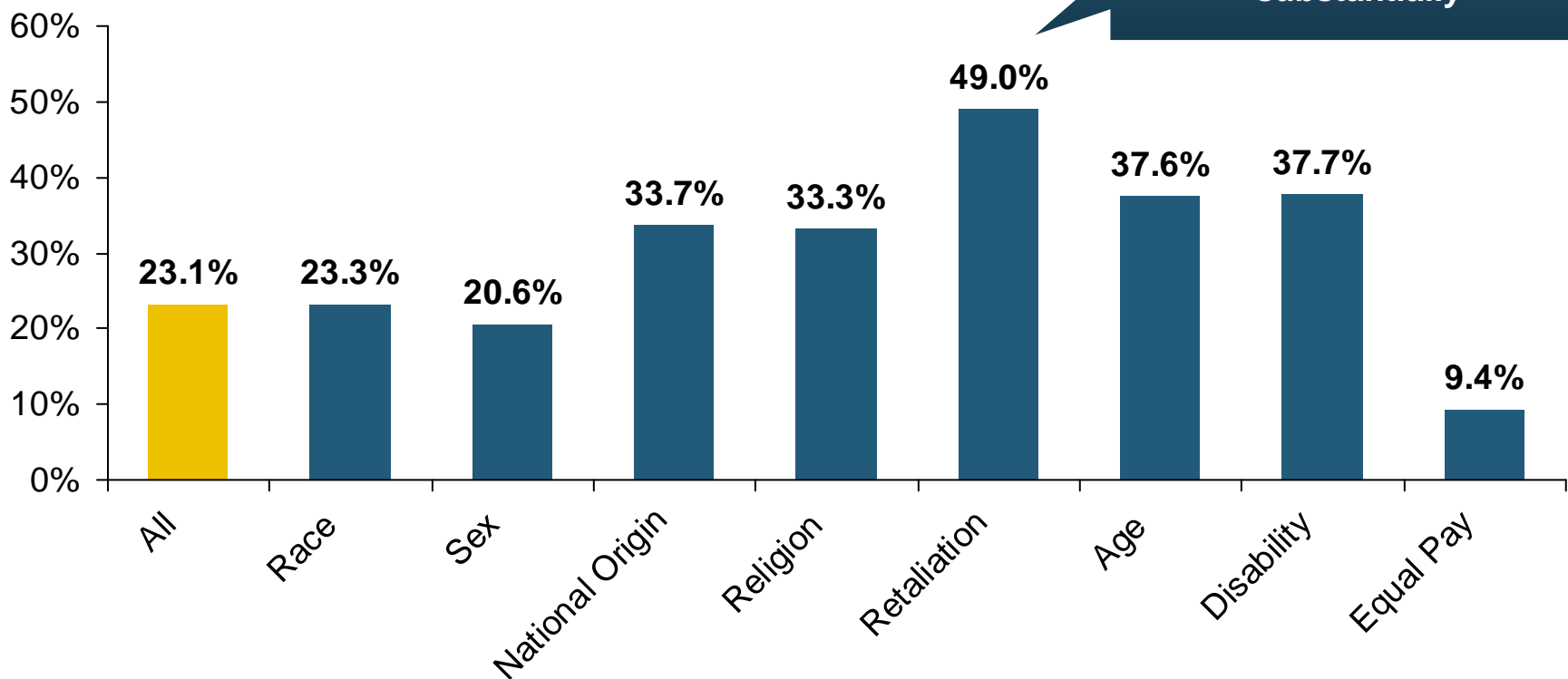


\*Securities fraud suits filed in U.S. federal courts as of June 25, 2010.

Source: Stanford University School of Law (securities.stanford.edu); Insurance Information Institute

# Discrimination Charges Filed with EEOC by Type: Percent Change FY06-FY09

Change in Charges Filed (%)



Retaliation and age discrimination suits are up substantially

The Financial Crisis and Poor Labor Market Conditions Have Contributed to a Surge Employment Discrimination Charges

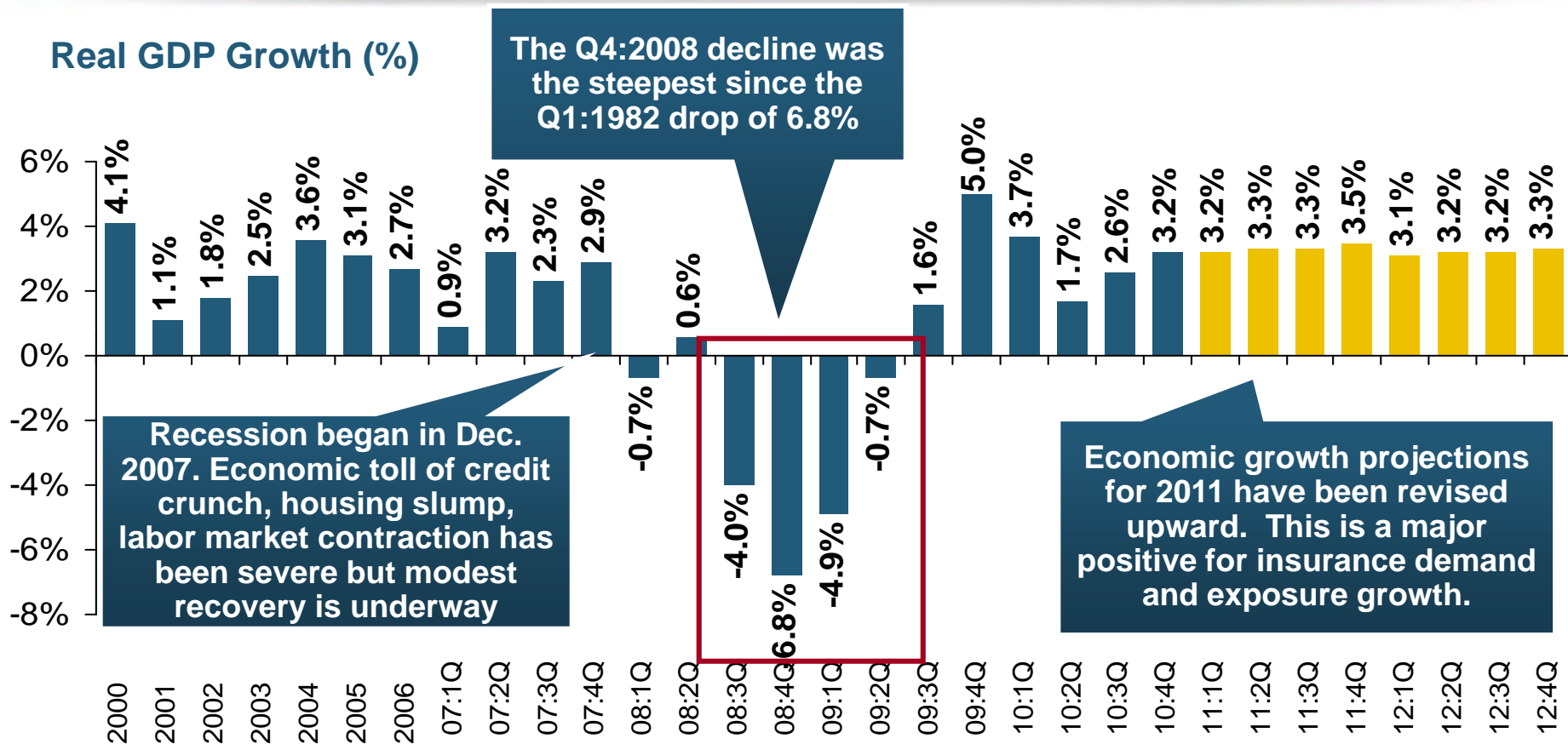


# **Economic Drivers of P/C Insurance Exposures**

**Growth in the Wake  
of the “Great Recession”**

# US Real GDP Growth\*

## Real GDP Growth (%)



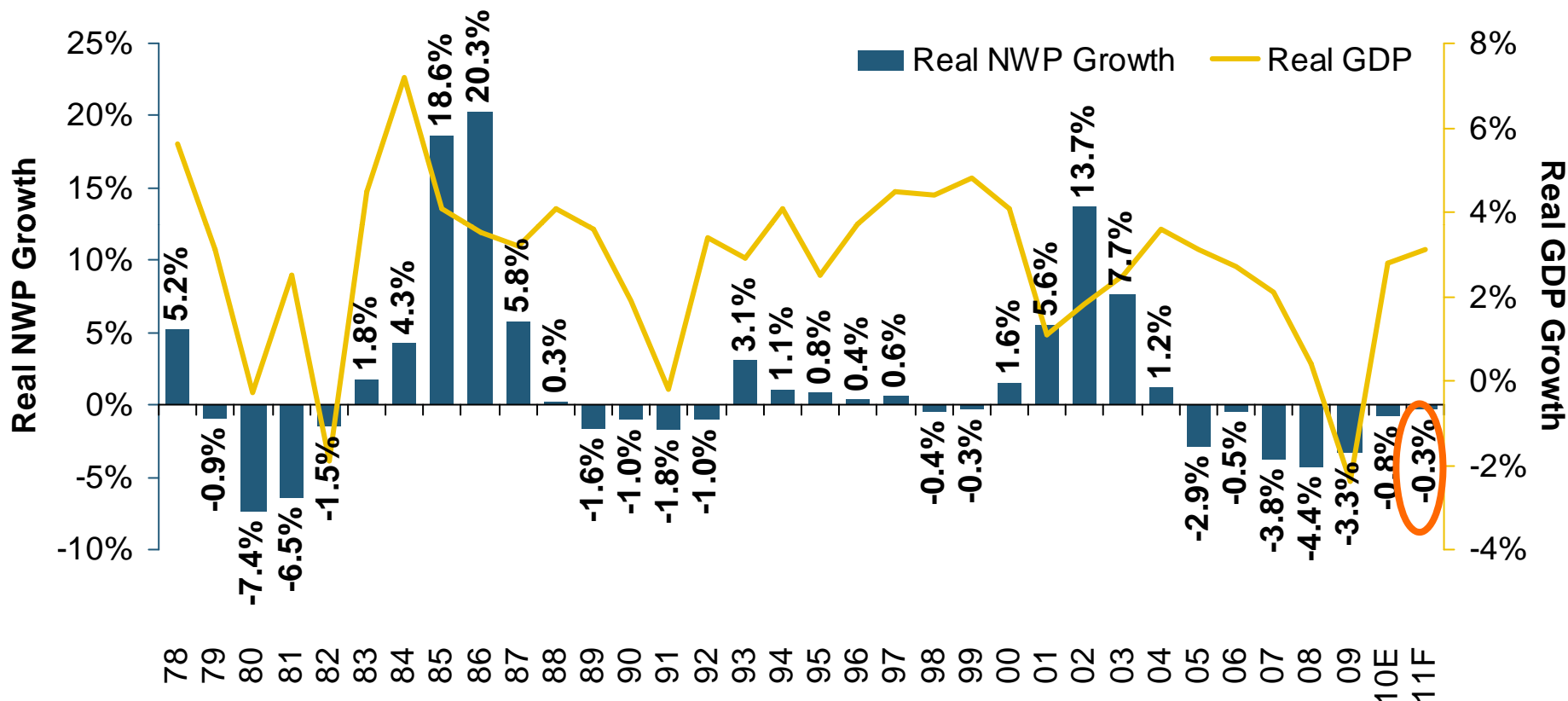
**Demand for Insurance Continues To Be Impacted by Sluggish Economic Conditions, but the Benefits of Even Slow Growth Will Compound and Gradually Benefit the Economy Broadly**

\* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 1/11; Insurance Information Institute.

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

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



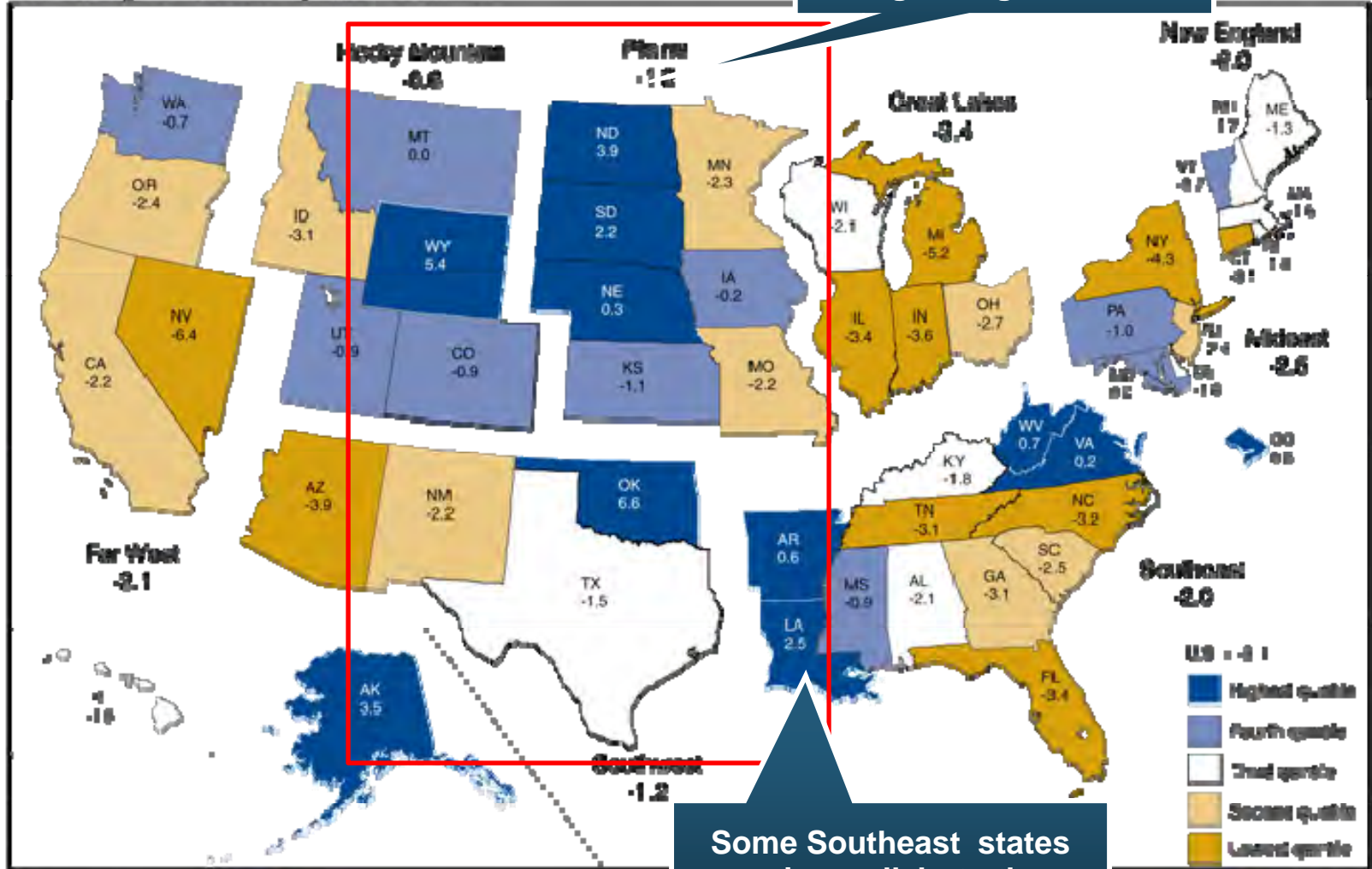
**P/C Insurance Industry's Growth is Influenced Modestly  
by Growth in the Overall Economy**

# 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

# 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)**

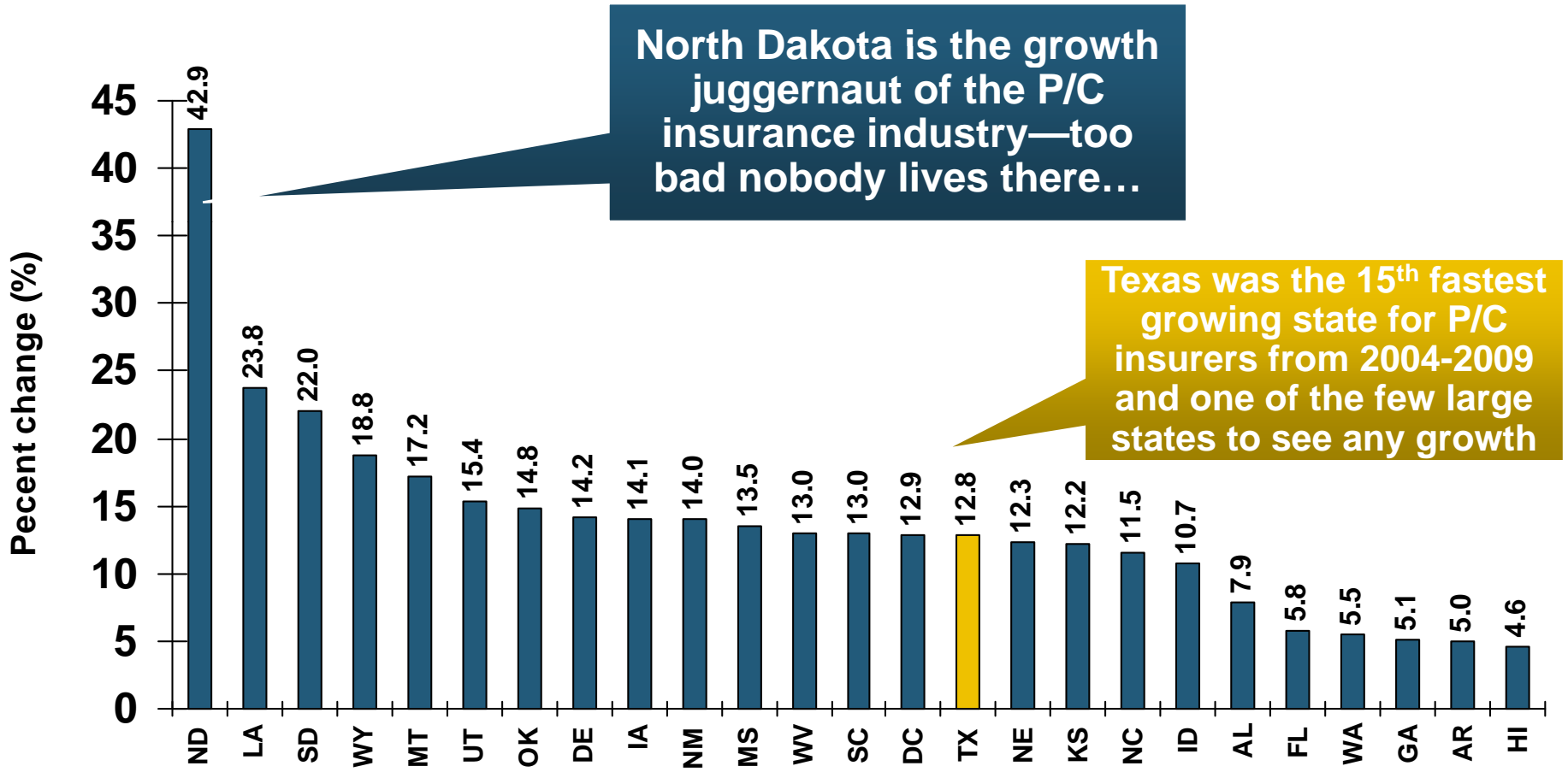
**Light Manufacturing**

**Export-Oriented Industries**

**Shipping (Rail, Marine)**

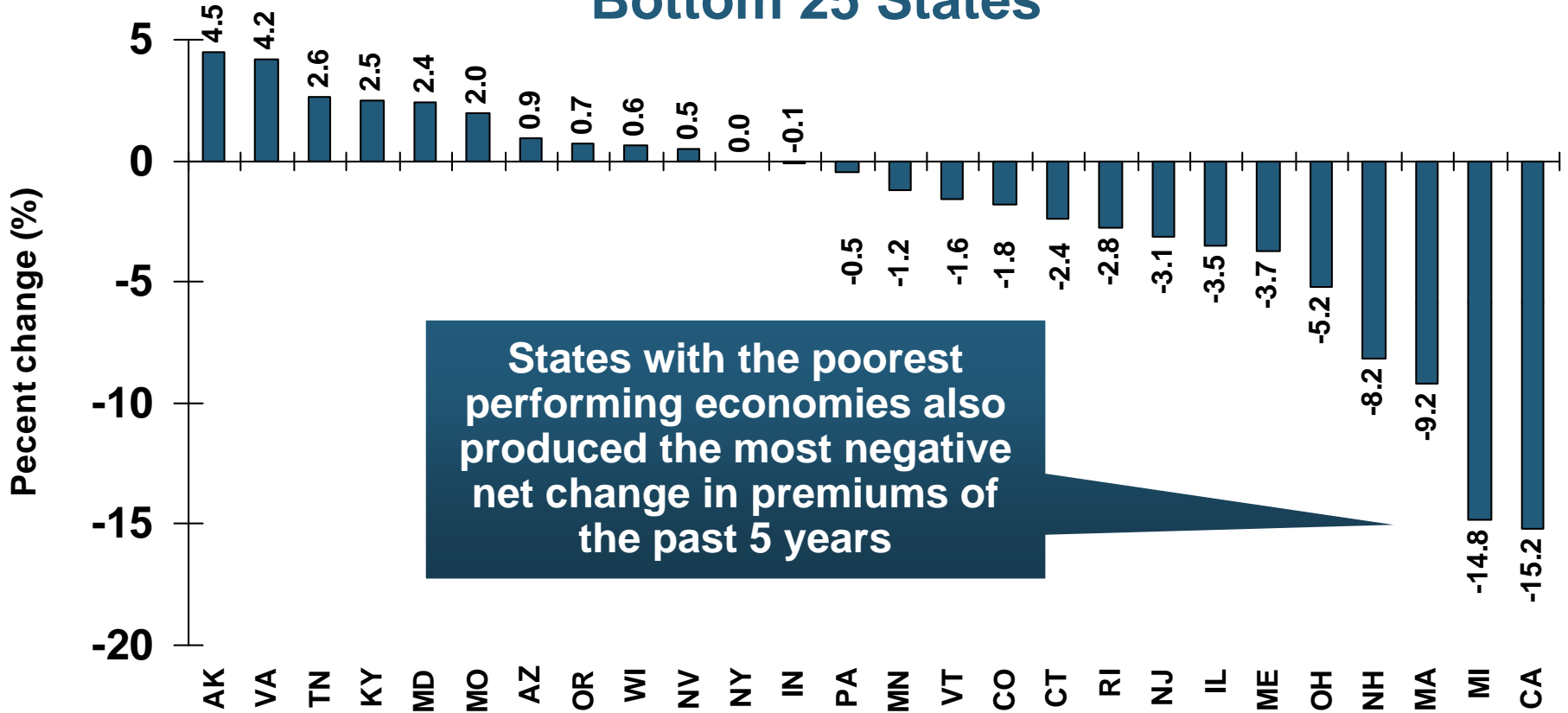
# Direct Premiums Written: All Lines Percent Change by State, 2004-2009

## Top 25 States



# Direct Premiums Written: All Lines Percent Change by State, 2004-2009

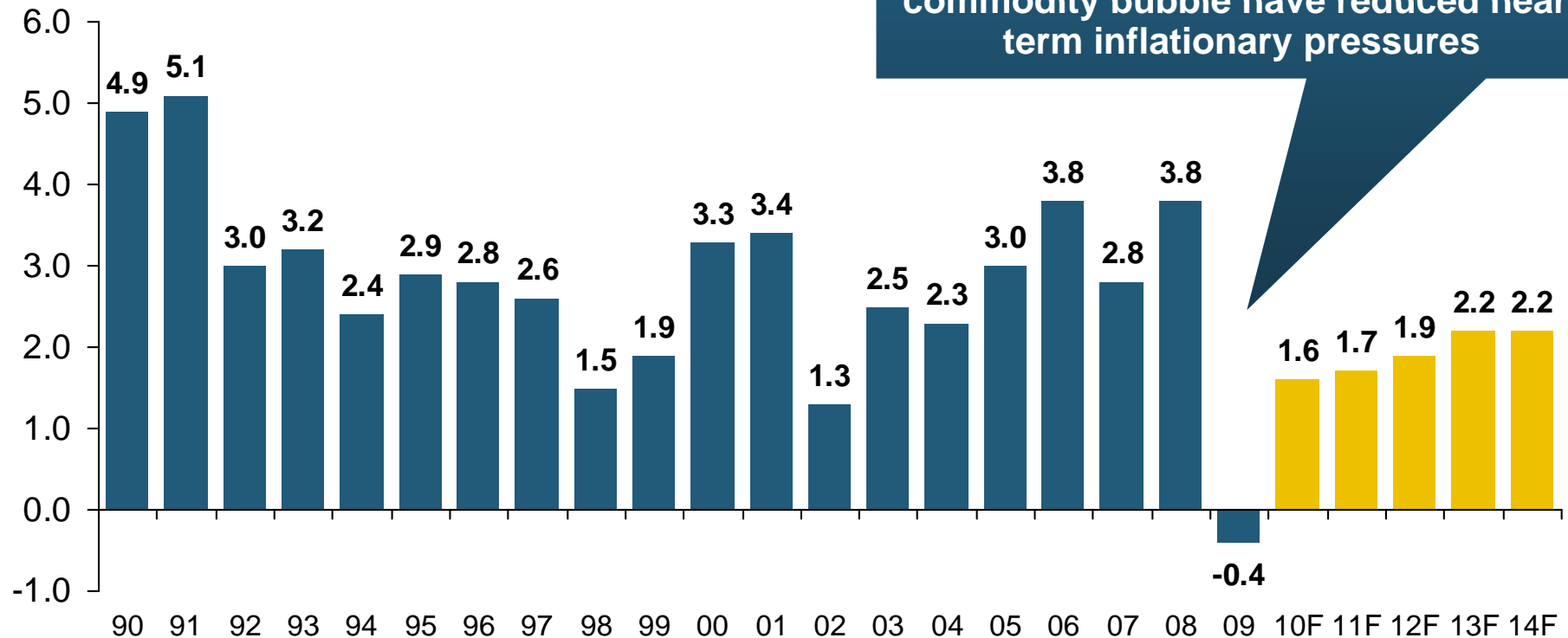
## Bottom 25 States



Over the 5 years from 2004-2009, 15 states saw premiums *shrink*, one had no growth, and 4 others grew premiums by less than 1%

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

## Annual Inflation Rates (%)

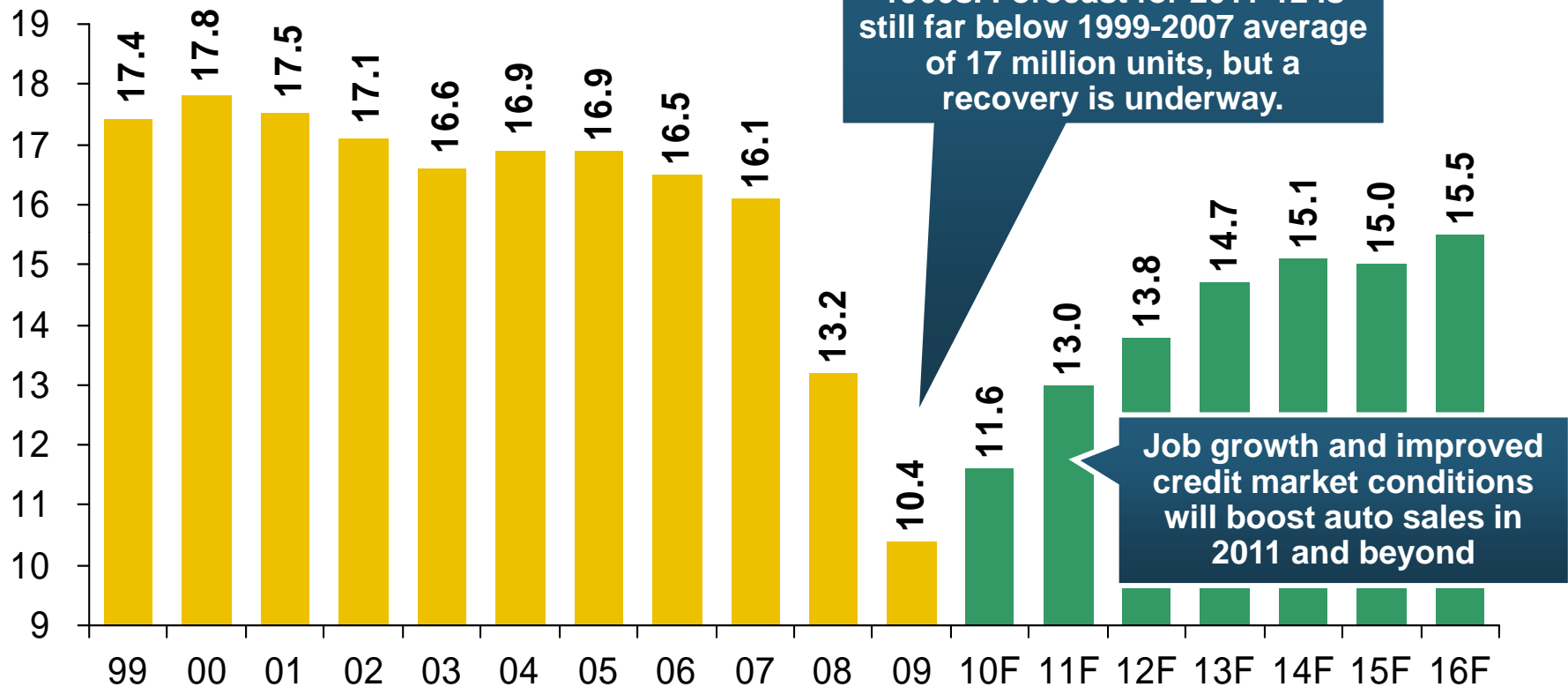


**The slack in the U.S. economy suggests that inflation should not heat up before 2012, but other forces (commodity prices, inflation in countries from which we import, etc.), plus U.S. debt burden, remain longer-run concerns**



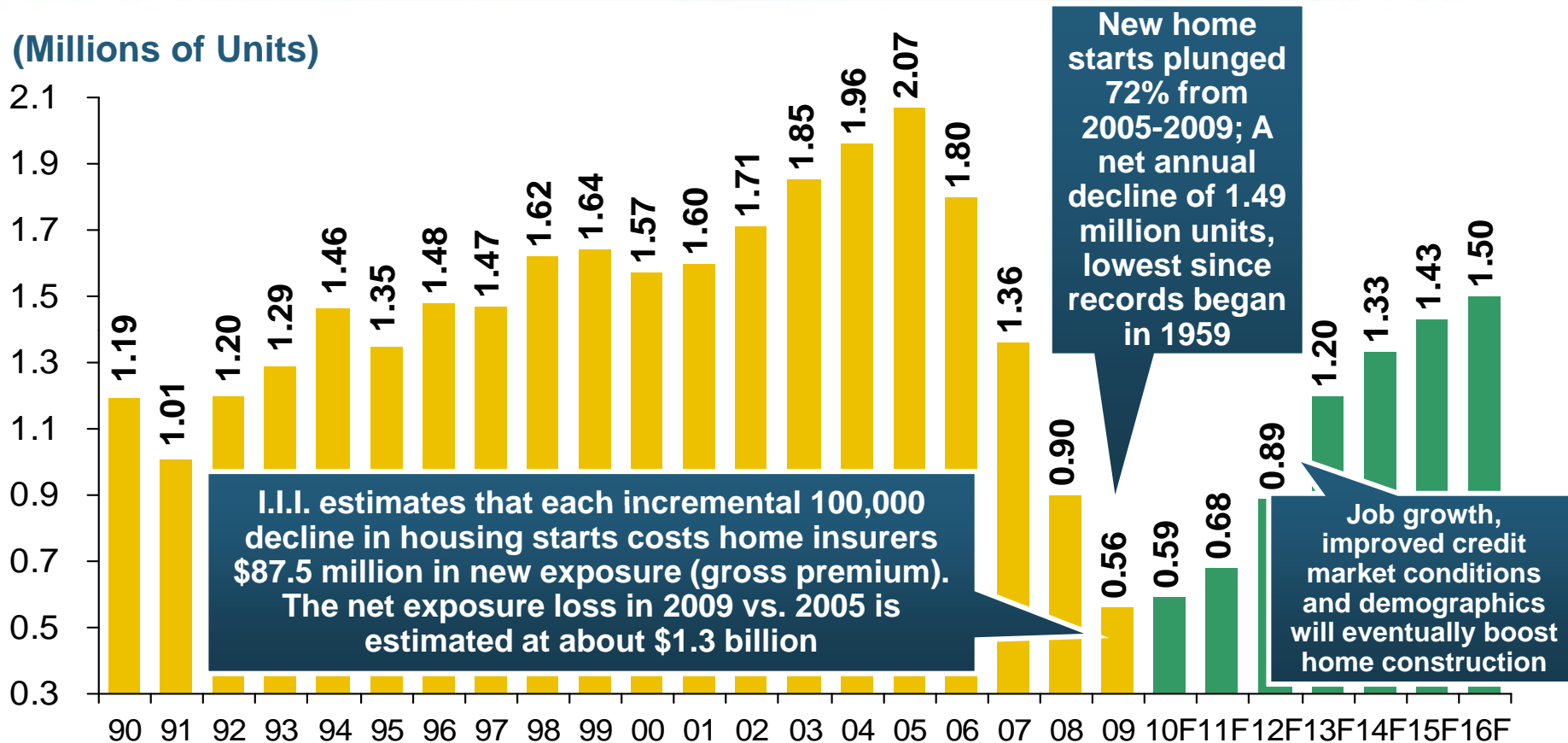
# Auto/Light Truck Sales, 1999-2016F

(Millions of Units)



**Car/Light Truck Sales Will Continue to Recover from the 2009 Low Point, but High Unemployment, Tight Credit Are Still Restraining Sales in 2011**

# New Private Housing Starts, 1990-2016F



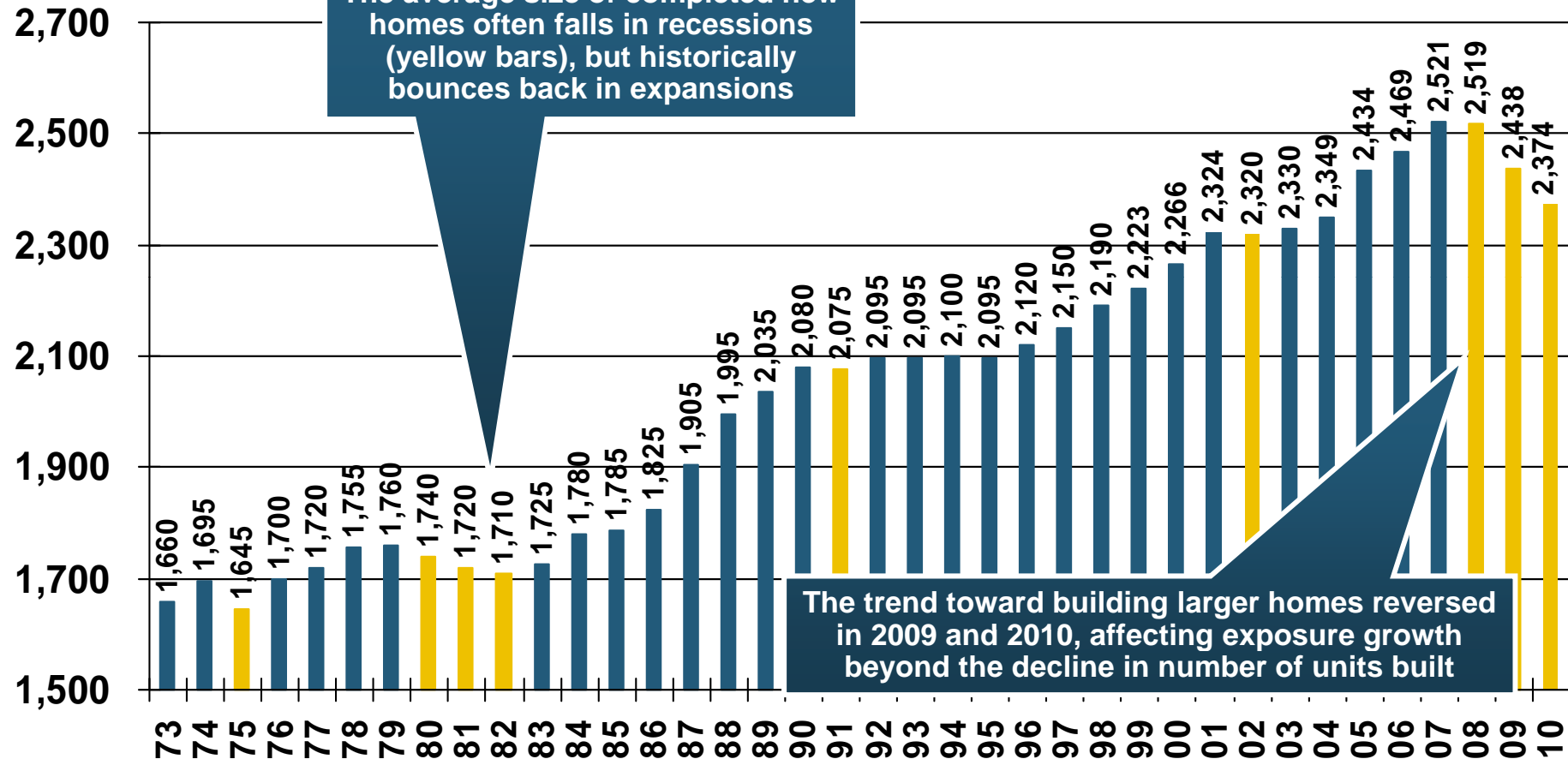
**Little Exposure Growth Likely for Homeowners Insurers Until 2012.  
Also Affects Commercial Insurers with Construction Risk Exposure, Surety**

# 2011 Financial Overview

## Average Square Footage of Completed New Homes in U.S., 1973-2010\*



Square Ft



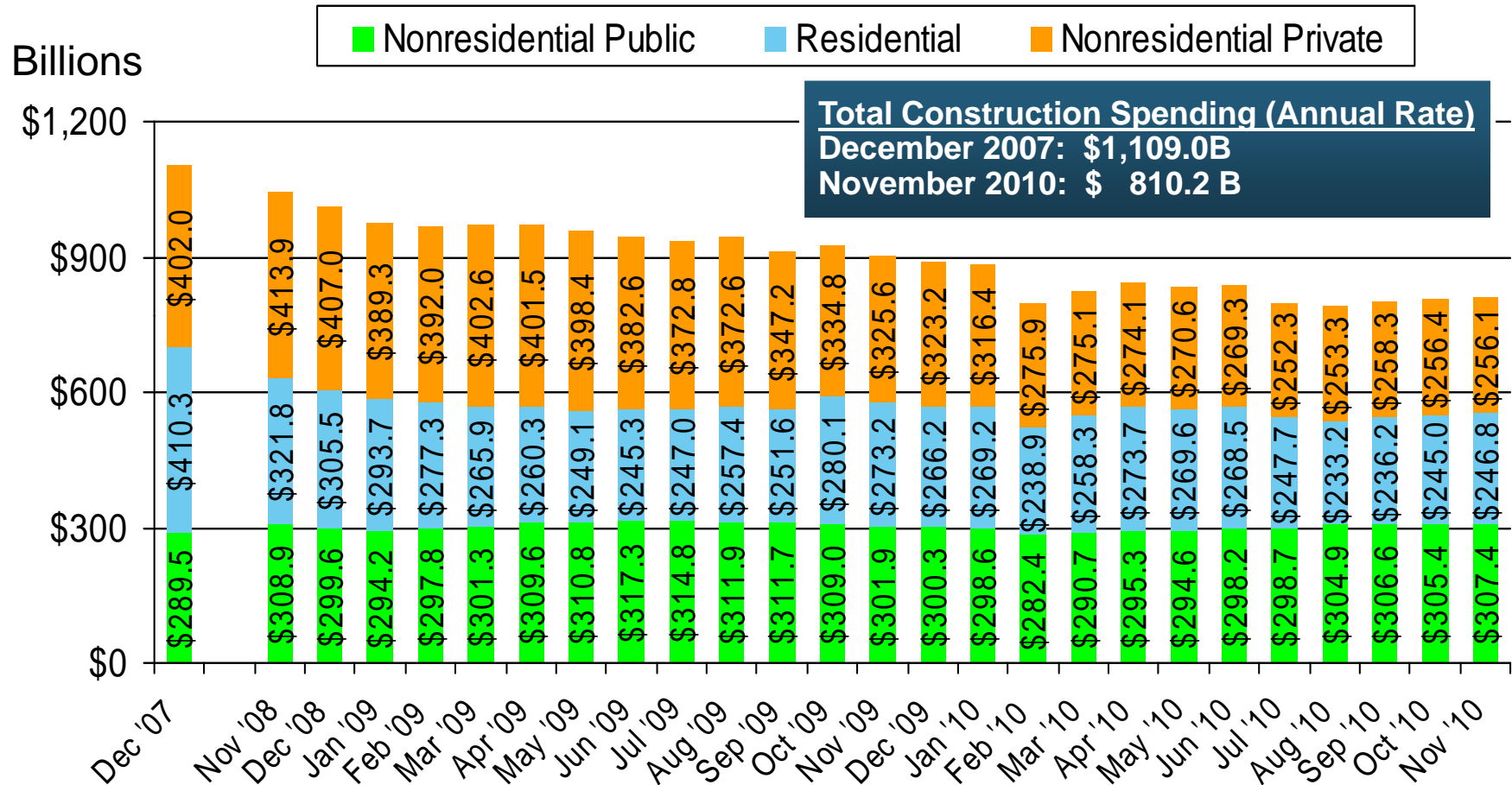
**The average size of completed new homes fell by 145 square feet (5.75%) from 2008-2010, the largest recession-based drop in nearly four decades**

\*2010 figure is weighted average square feet of completed homes in first three quarters of 2010

Source: U.S. Census Bureau: [http://www.census.gov/const/www/quarterly\\_starts\\_completions.pdf](http://www.census.gov/const/www/quarterly_starts_completions.pdf); Insurance Information Institute.

# 2011 Financial Overview

## Value\* of Construction Put In Place

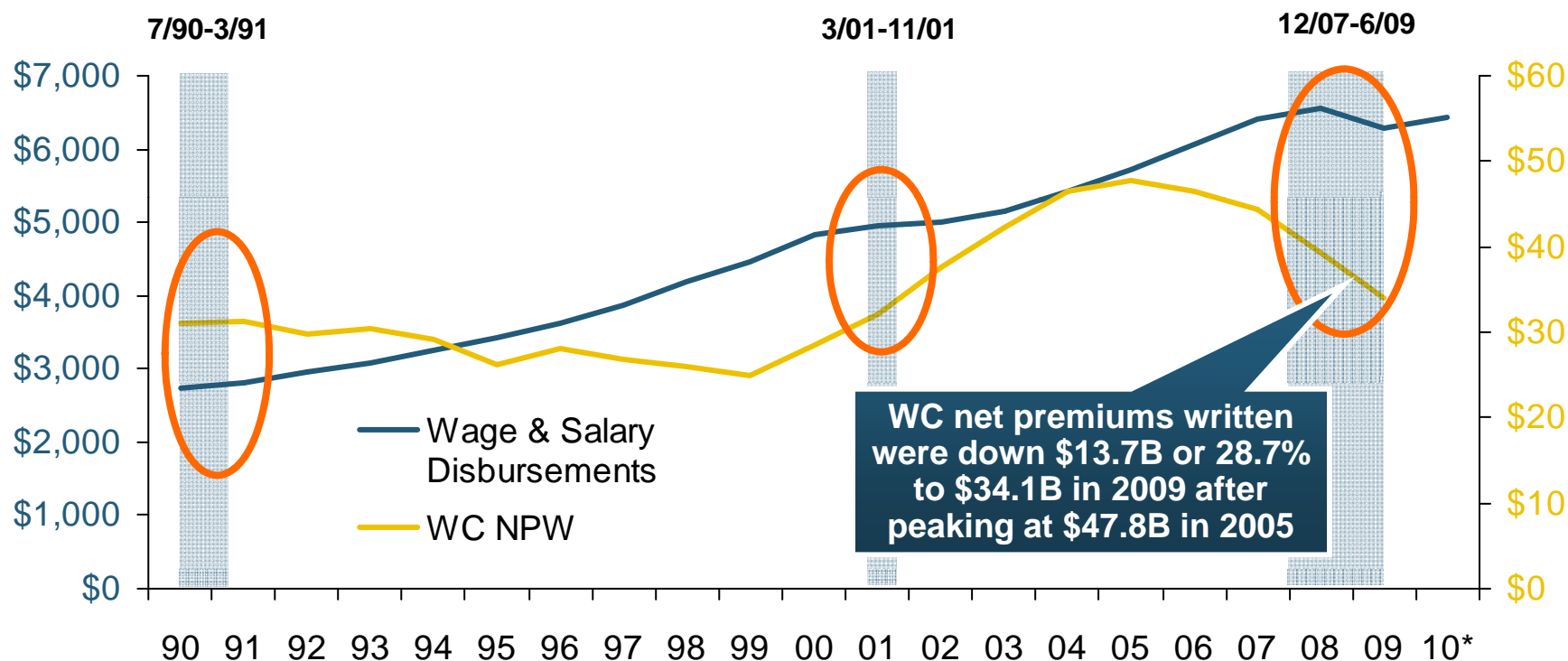


**Since the recession started, private residential and nonresidential construction together are down \$300 billion (annual rate), a drop of 38%. This affects property, surety, and other construction-related exposures**

# 2011 Financial Overview

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

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



**Weakening payrolls have eroded \$2B+ in workers comp premiums; nearly 29% of NPW has been eroded away by the soft market and weak economy**

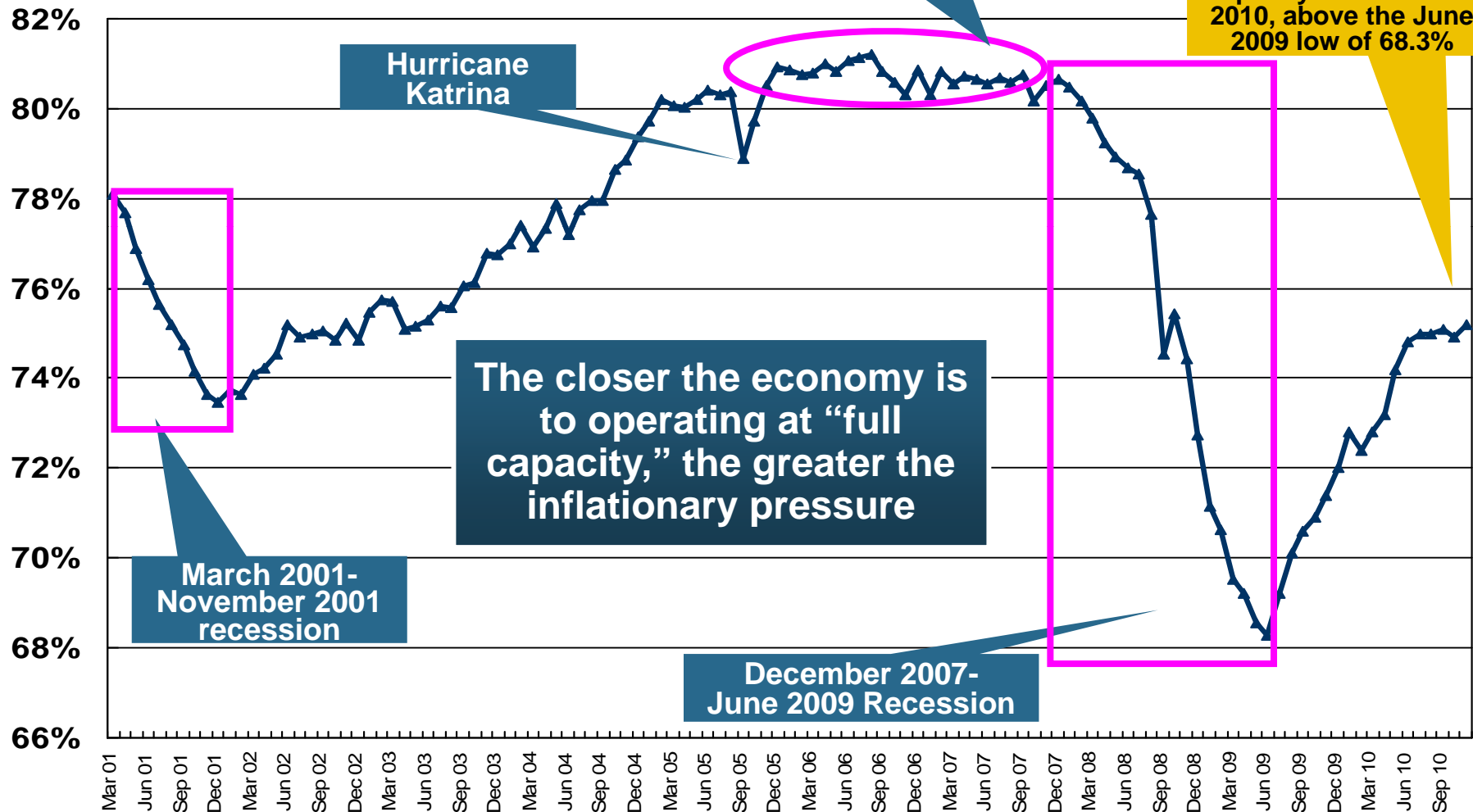
\* Average Wage and Salary data as of 7/1/2010. Shaded areas indicate recessions.

\*\*Estimated "official" end of recession June 2009.

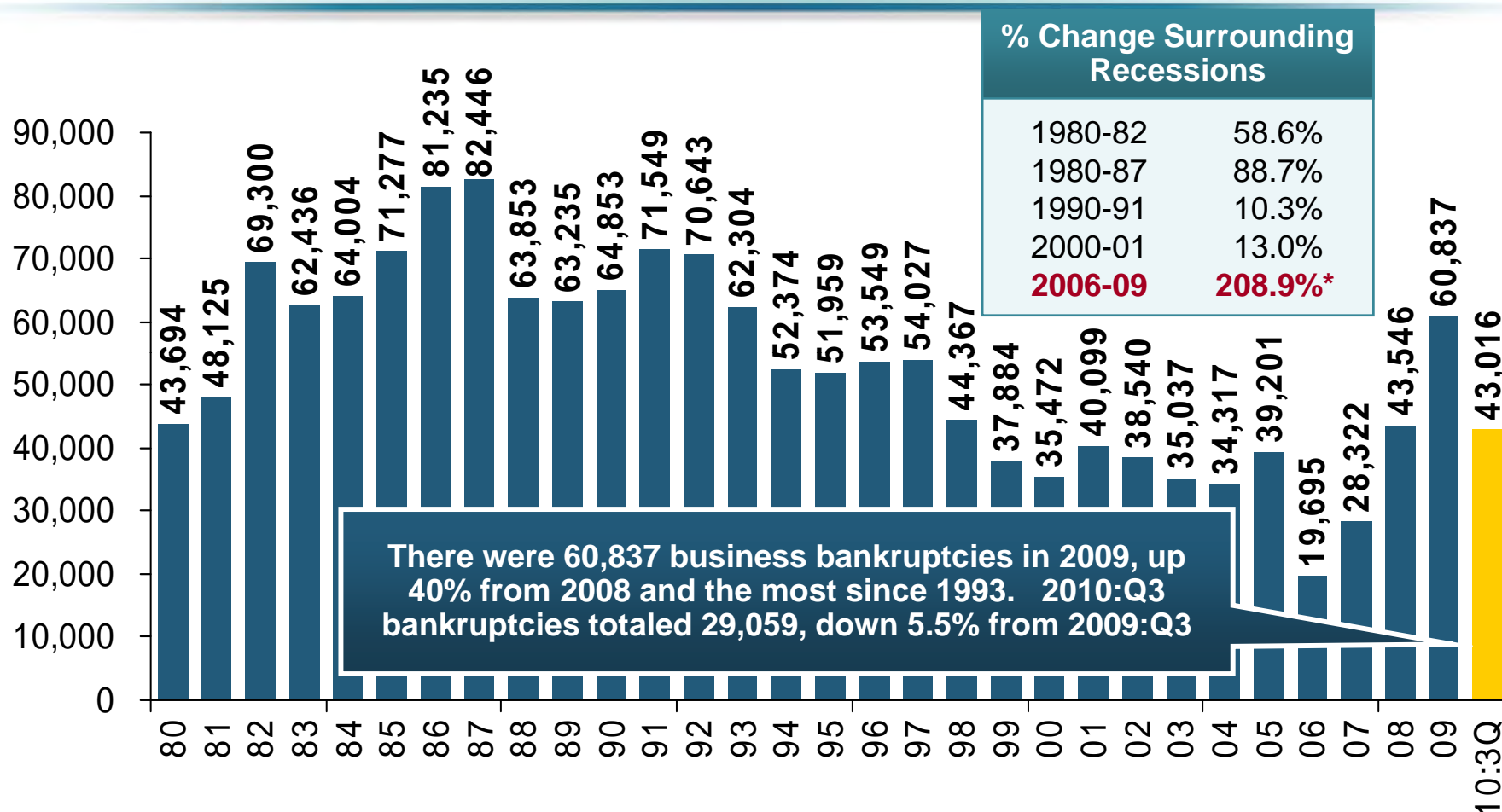
Source: US Bureau of Economic Analysis; Federal Reserve Bank of St. Louis at <http://research.stlouisfed.org/fred2/series/WASCUR> ; I.I.I. Fact Books

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

Percent of  
Industrial Capacity



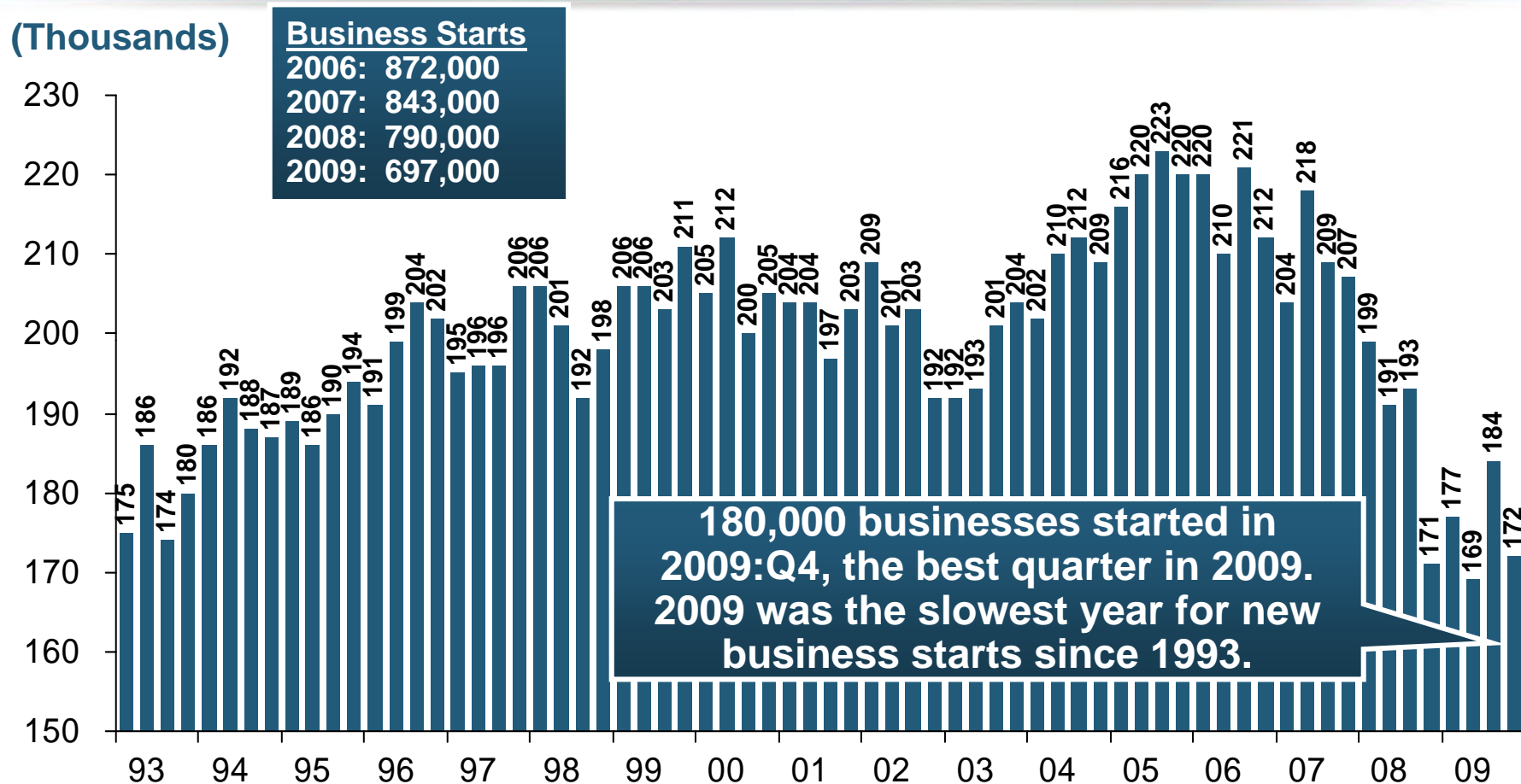
# Business Bankruptcy Filings, 1980-2010:Q3



**Significant Exposure Implications for All Commercial Lines**



# Private Sector Business Starts, 1993:Q2 – 2010:Q1\*



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

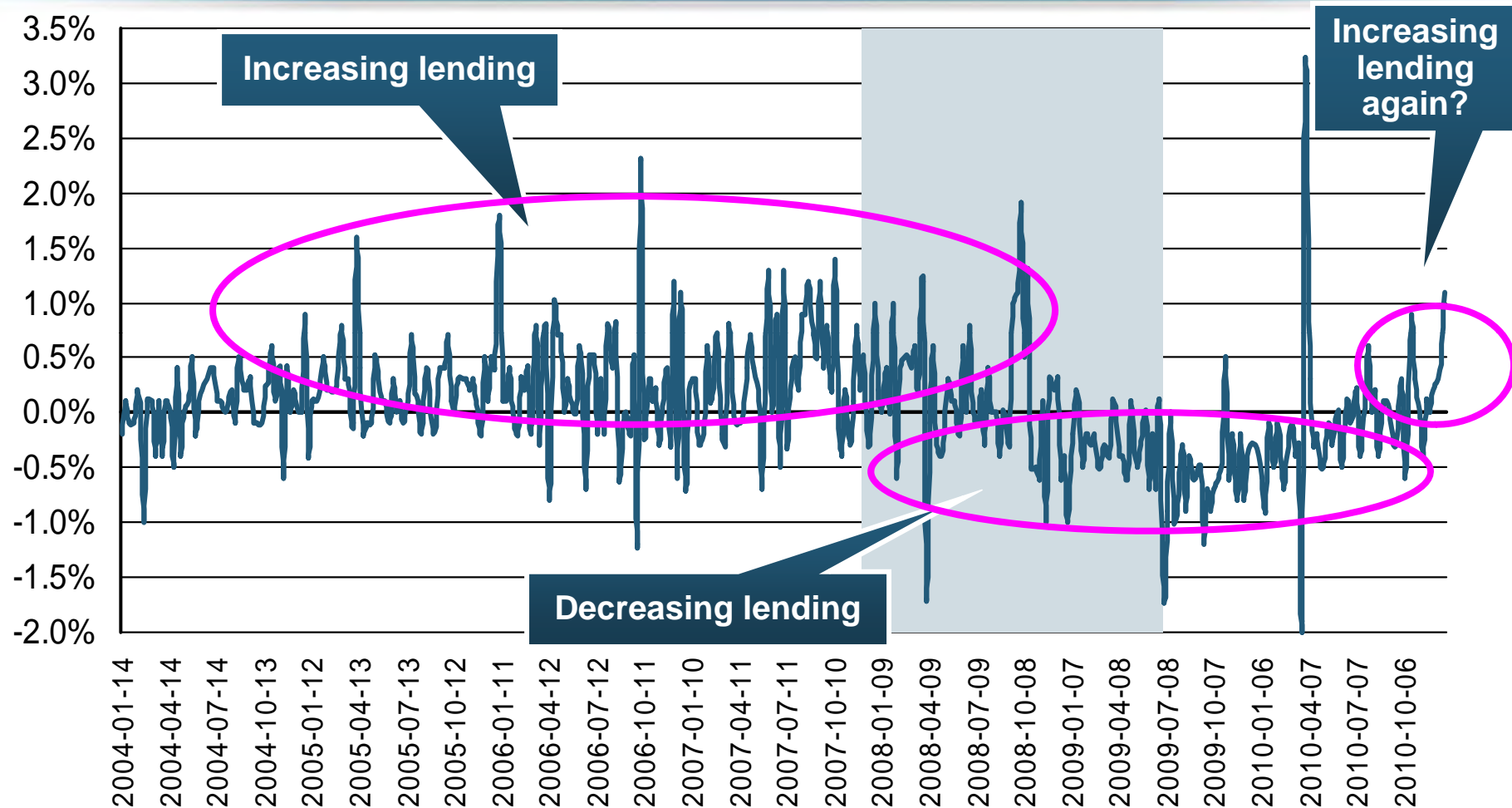
\* Latest available as of December 29, 2010, seasonally adjusted

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



# 2011 Financial Overview

## Weekly Percentage Change in Commercial and Industrial Loans by Large U.S. Banks, 2004-2010



**Lending peak: \$827.3 billion at mid-October 2008;  
Trough \$600.5 billion at mid-October 2010; Latest (12/20/2010) \$619.9 billion**

Note: Recession indicated by gray shaded column.

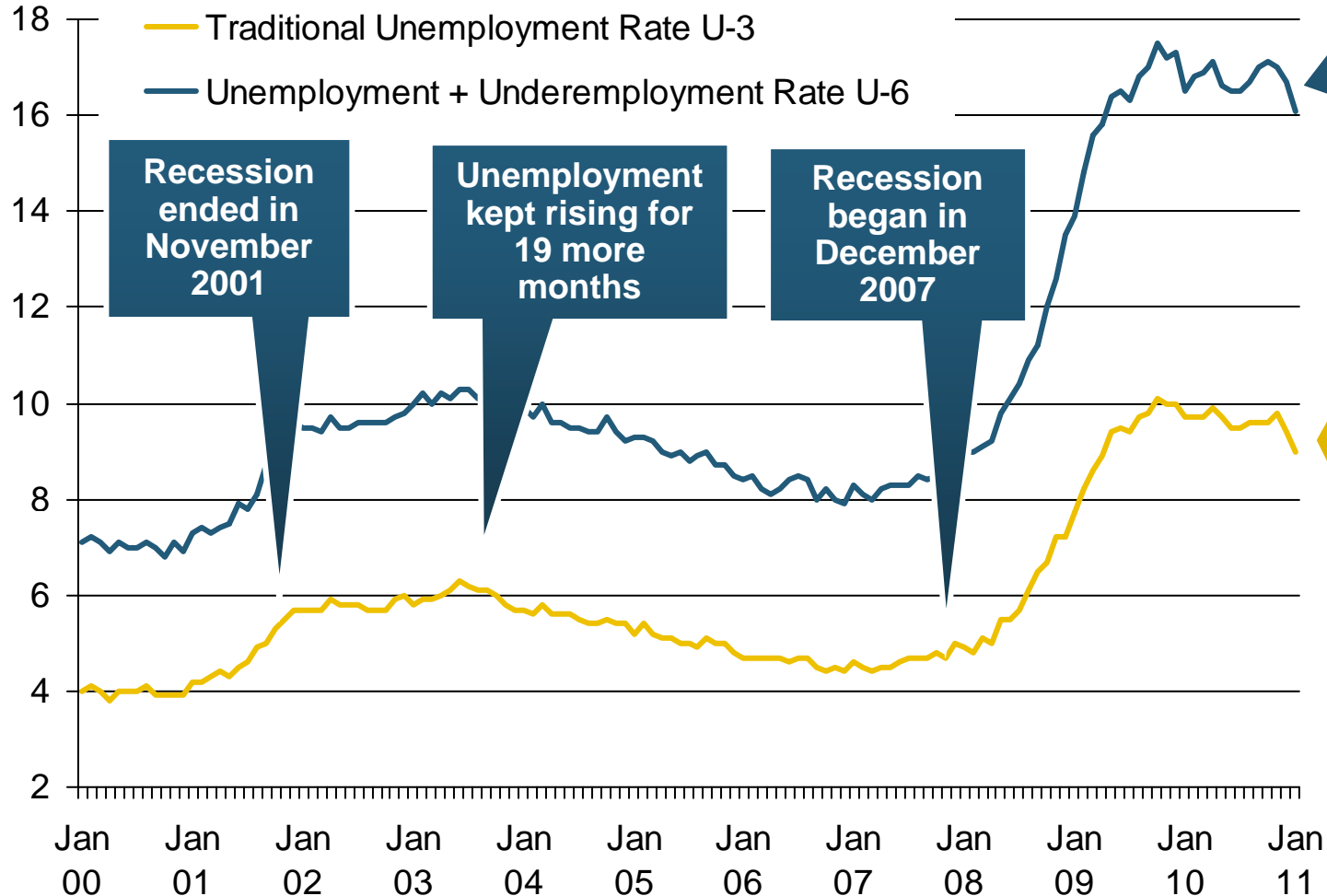
Sources <http://research.stlouisfed.org/fred2/series/CIBOARD/downloaddata?cid=100> ; National Bureau of Economic Research (recession dates); Insurance Information Institute.

# **Labor Market Trends**

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

# Unemployment and Underemployment Rates: Falling Faster in 2011?

January 2000 through January 2011, Seasonally Adjusted (%)



U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 16.1% in December 2010

Unemployment rate fell to 9.4% in December

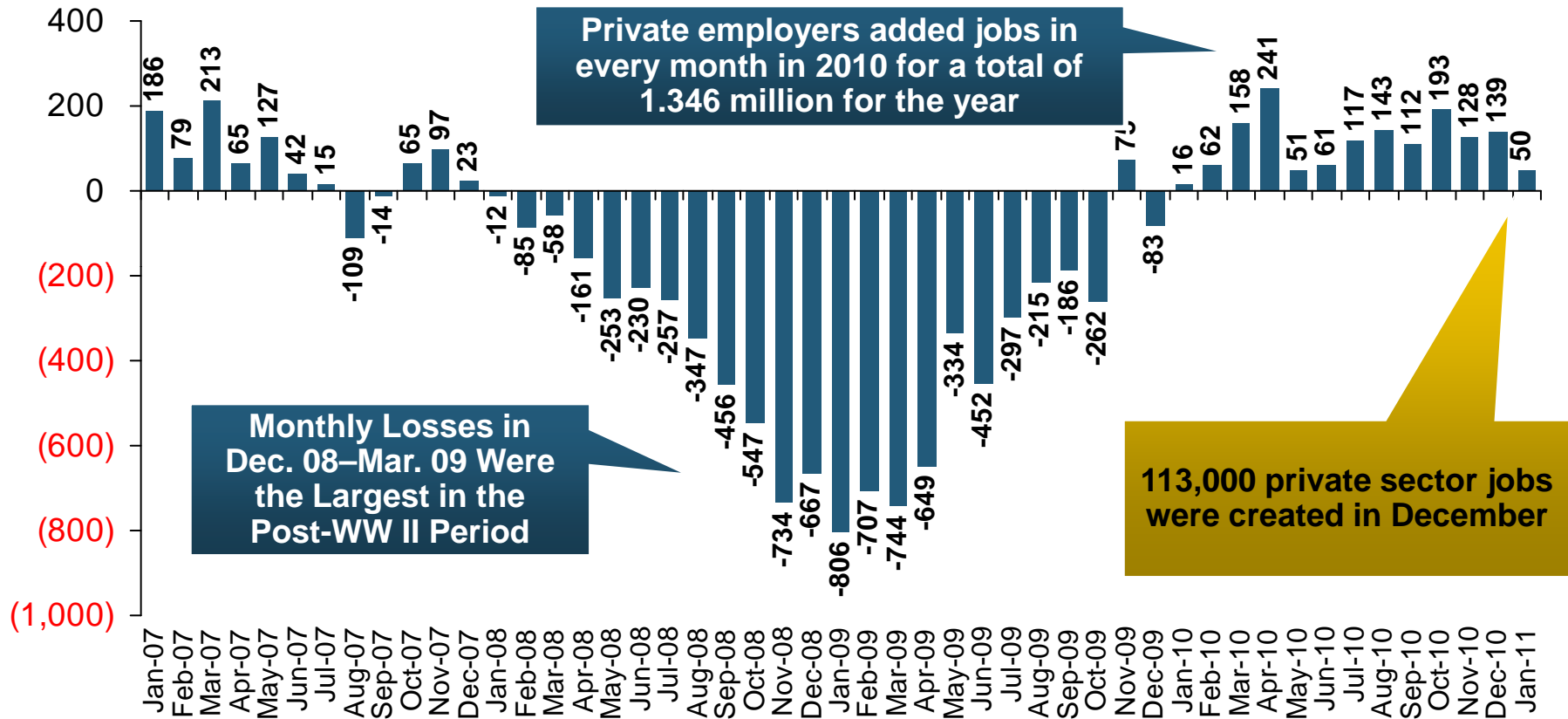
Unemployment peaked at 10.1% in October 2009, highest monthly rate since 1983.

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**

# Monthly Change in Private Employment

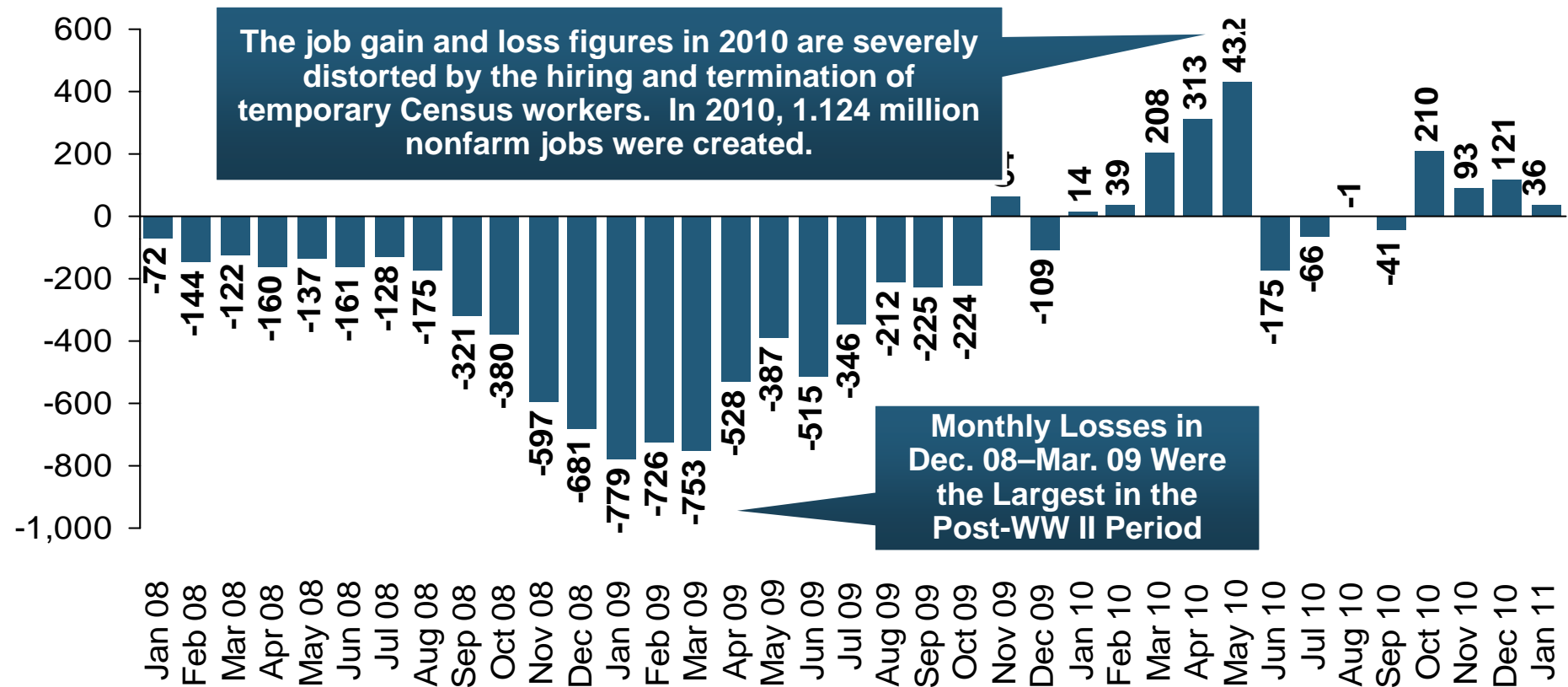
January 2008 through January 2011\* (Thousands)



**Private Employers Added 1.411 million Jobs in 2010 After Having Shed 4.66 Million Jobs in 2009 and 3.81 Million in 2008**

# Monthly Change Employment\*

January 2008 through January 2011\* (Thousands)



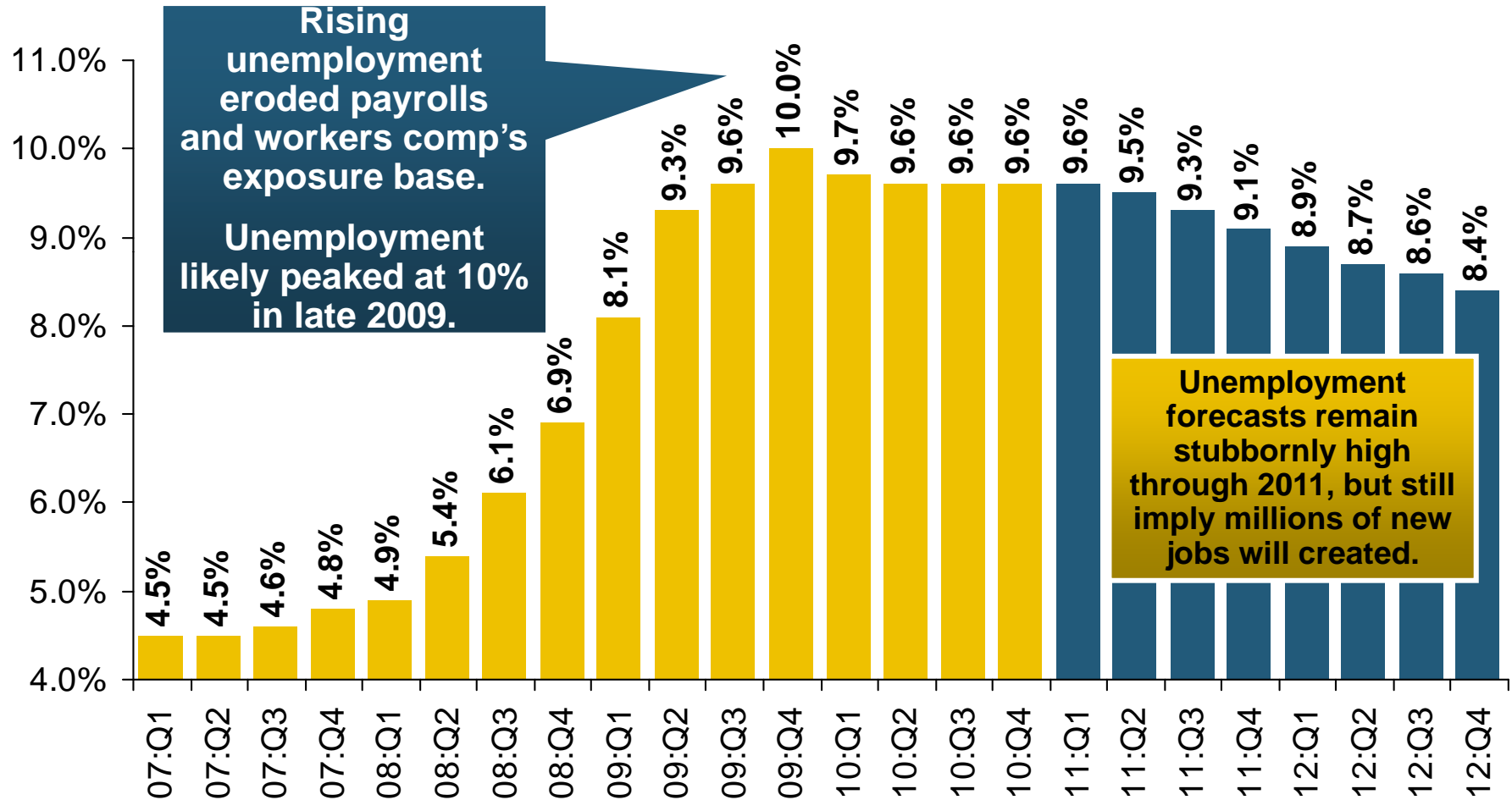
**Job Losses Since the Recession Began in Dec. 2007 Peaked at 8.4 Mill in Dec. 09; Stands at 7.5 Million Through October 2010; 14.5 Million People are Now Defined as Unemployed**

\*Estimate based on Reuters poll of economists.

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

# US Unemployment Rate

2007:Q1 to 2012:Q4F\*

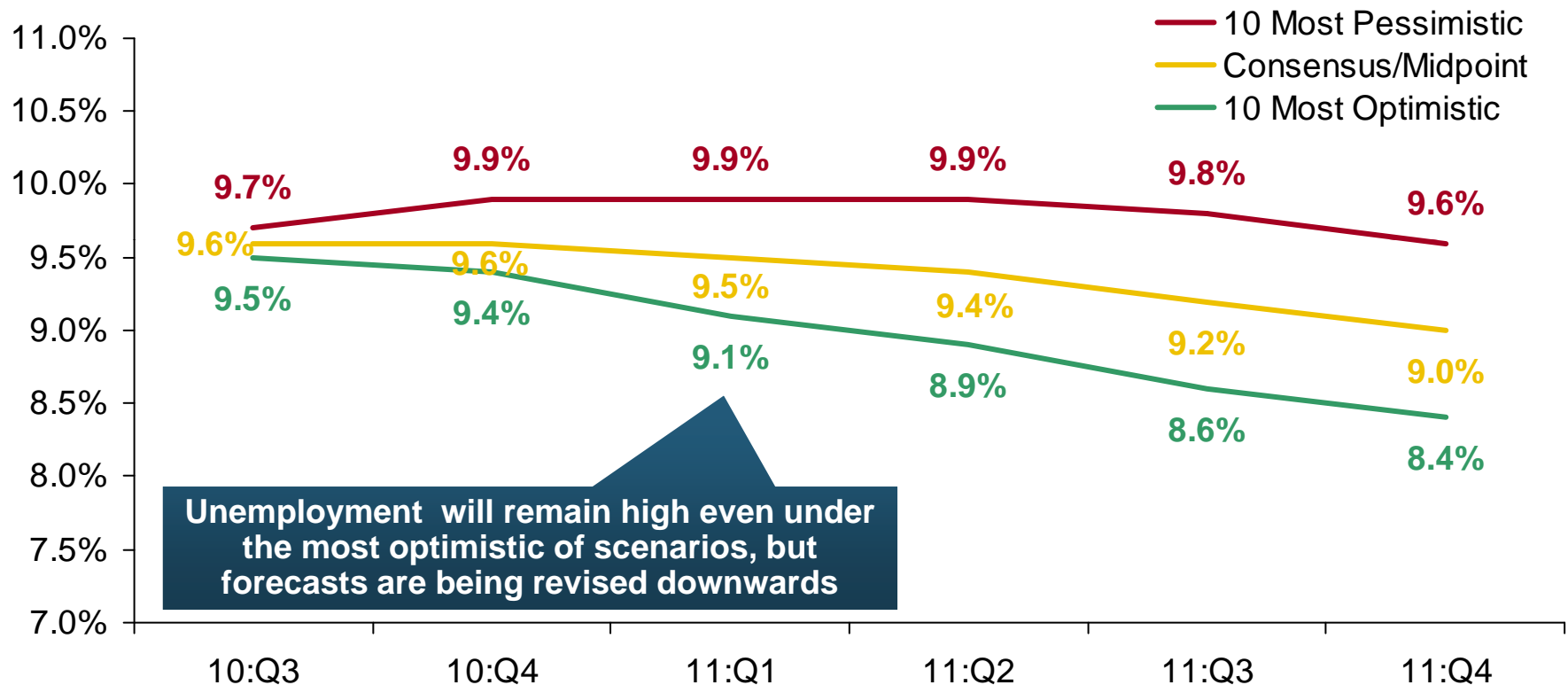


\* ■ = actual; ■ = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (1/11); Insurance Information Institute

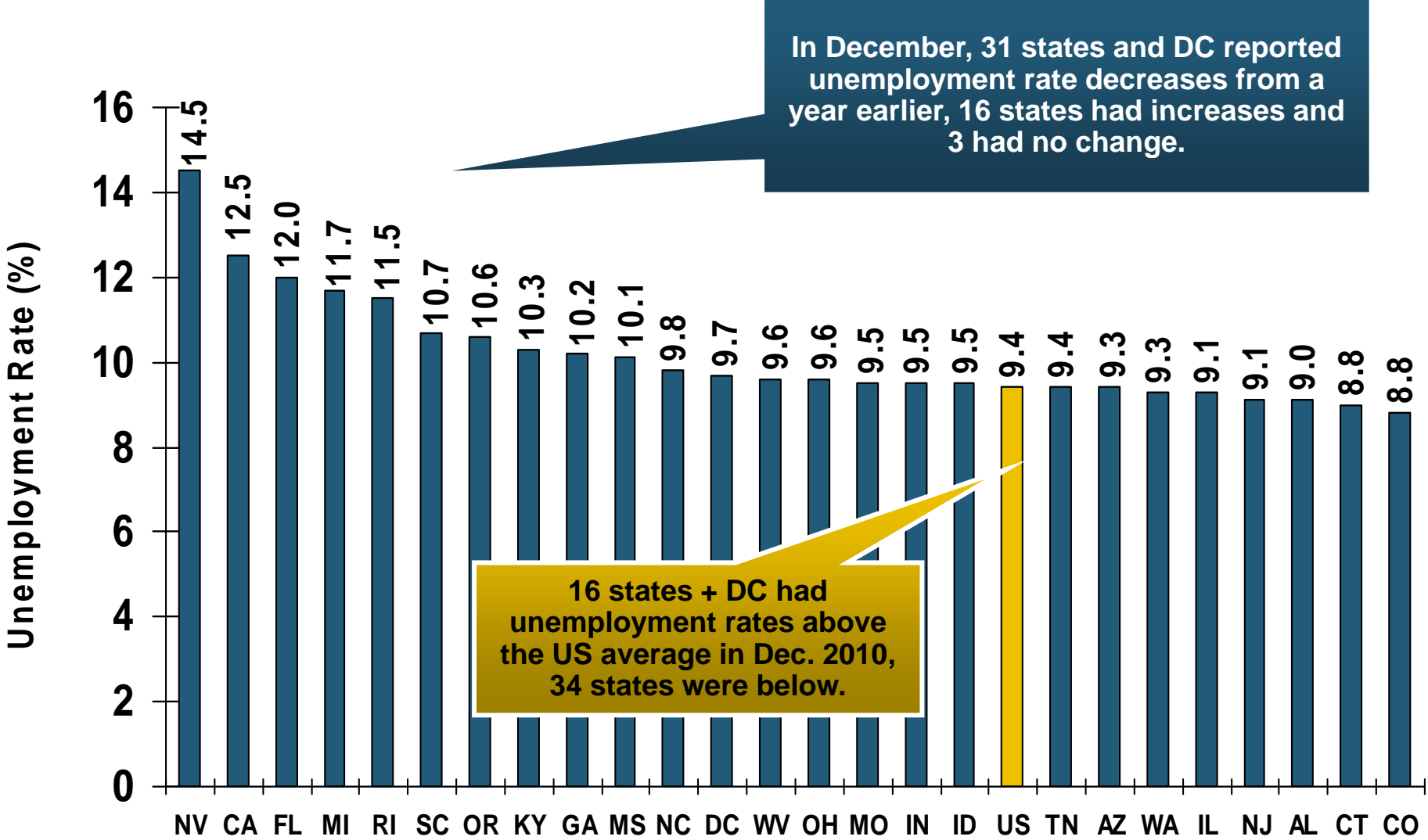
# US Unemployment Rate Forecasts

Quarterly, 2010:Q1 to 2011:Q4



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

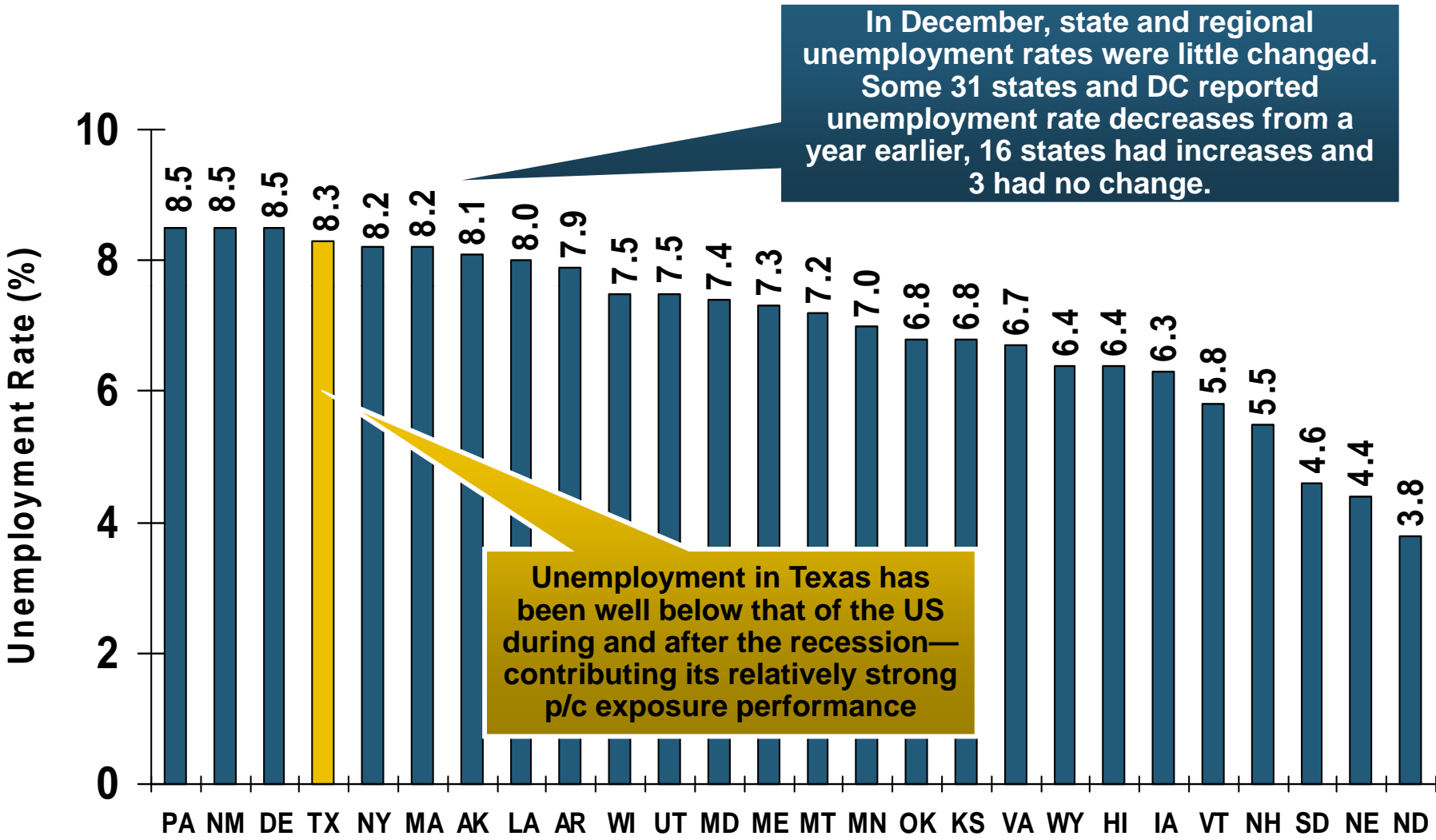
# Unemployment Rates by State, December 2010: Highest 25 States\*



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



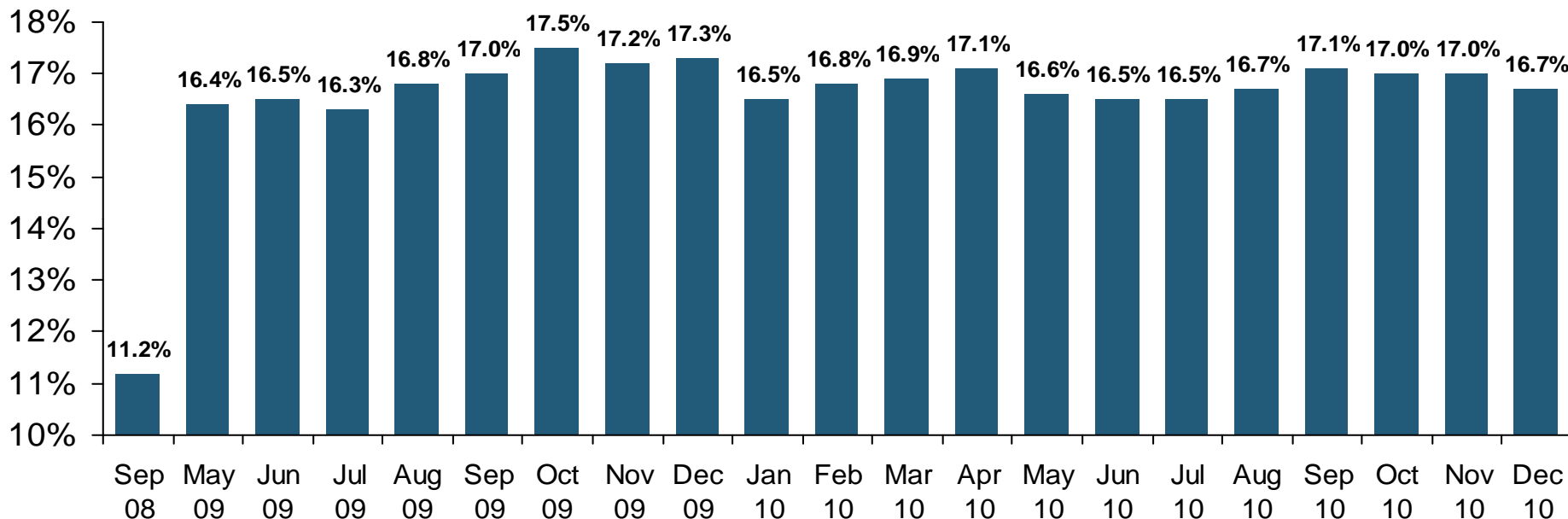
# Unemployment Rates By State, December 2010: Lowest 25 States\*



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

# Labor Underutilization: Broader than Just Unemployment

## % of Labor Force



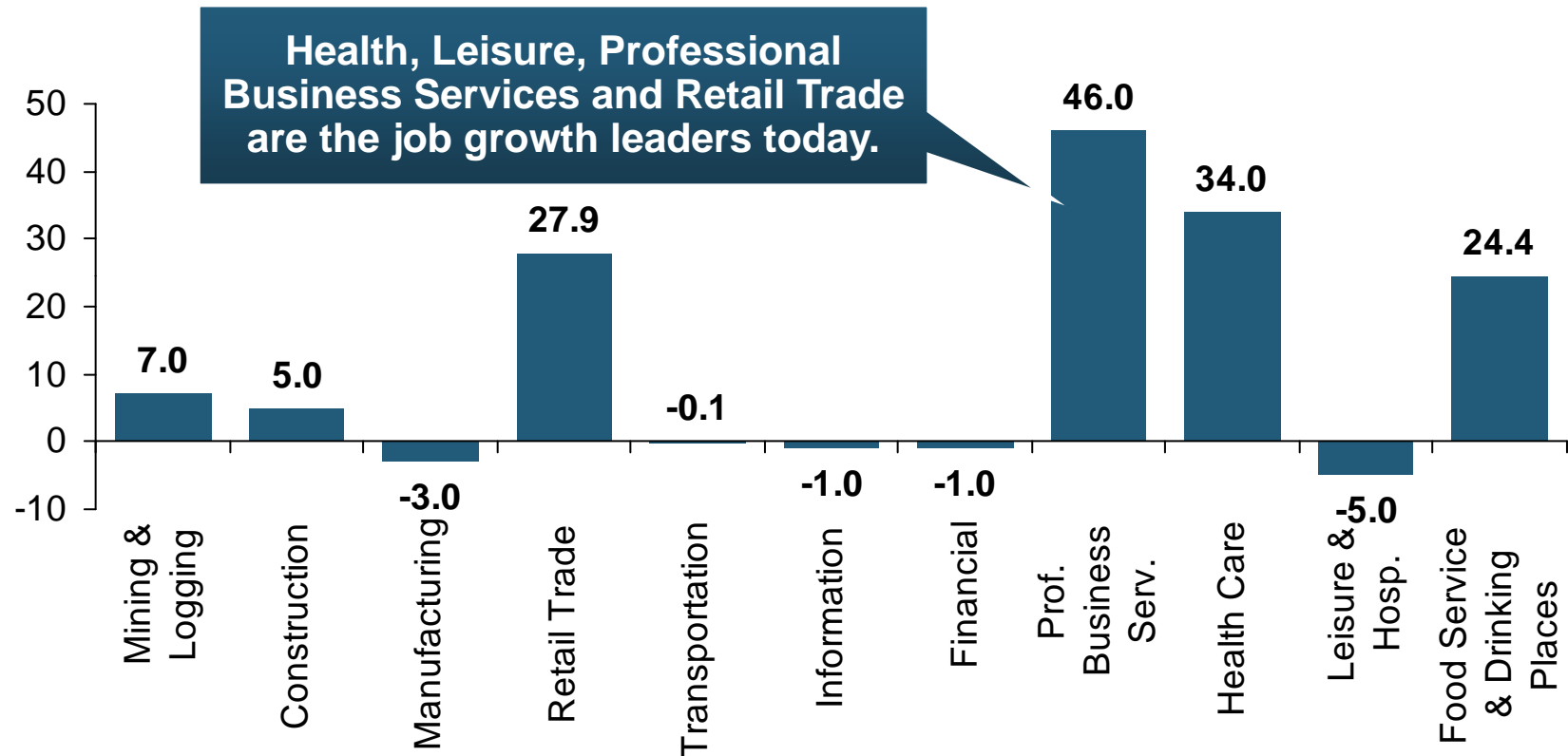
**Marginally Attached and Unemployed Persons Account for 16.7% of the Labor Force in December 2010 (1 Out 6 People). Unemployment Rate Alone was 9.4%. Underutilization Shows a Broader Impact on WC and Other Commercial Exposures**

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.

# Change in Employment Level for Select Industries, Oct. 2010 vs. Sept. 2010

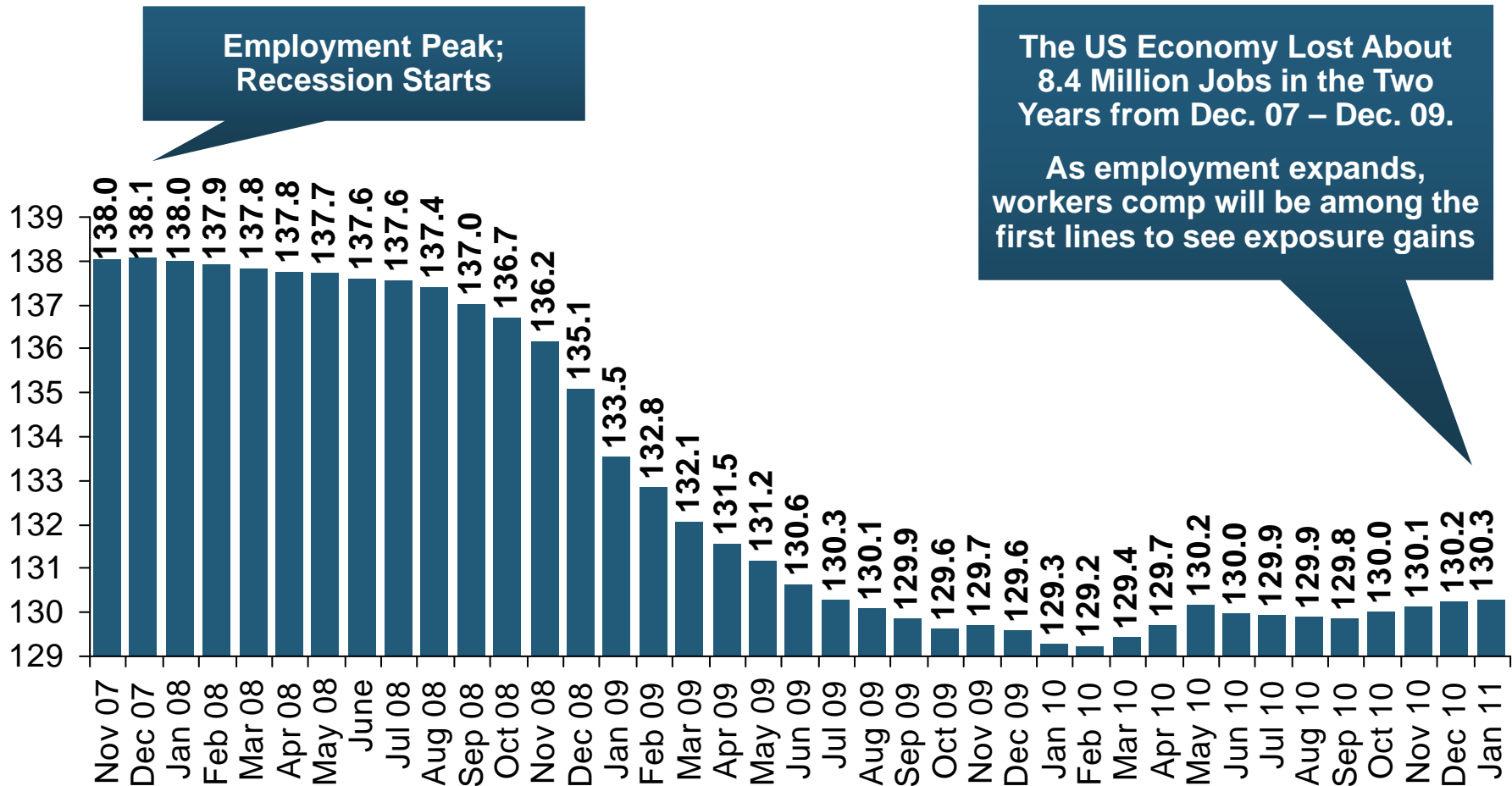
Change in Thousands



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

# US Nonfarm Private Employment

Monthly, Nov 2007 – January 2011 (Millions)

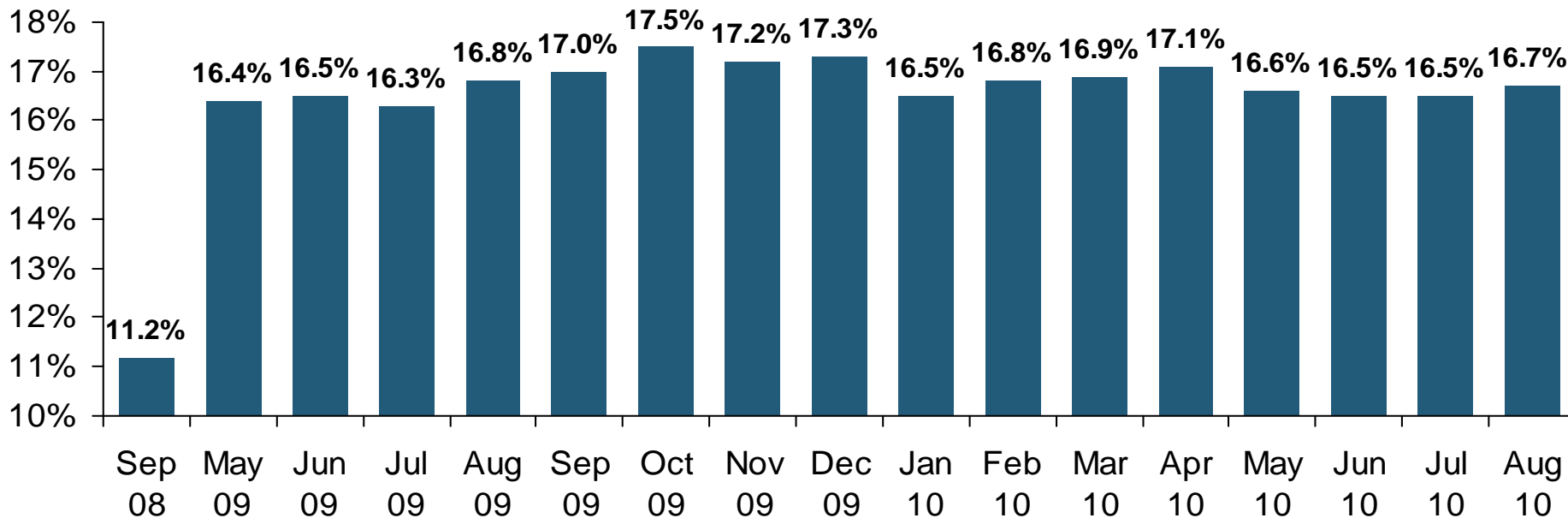


Seasonally adjusted.

Source: US Bureau of Labor Statistics

# Labor Underutilization: Broader than Just Unemployment

## % of Labor Force

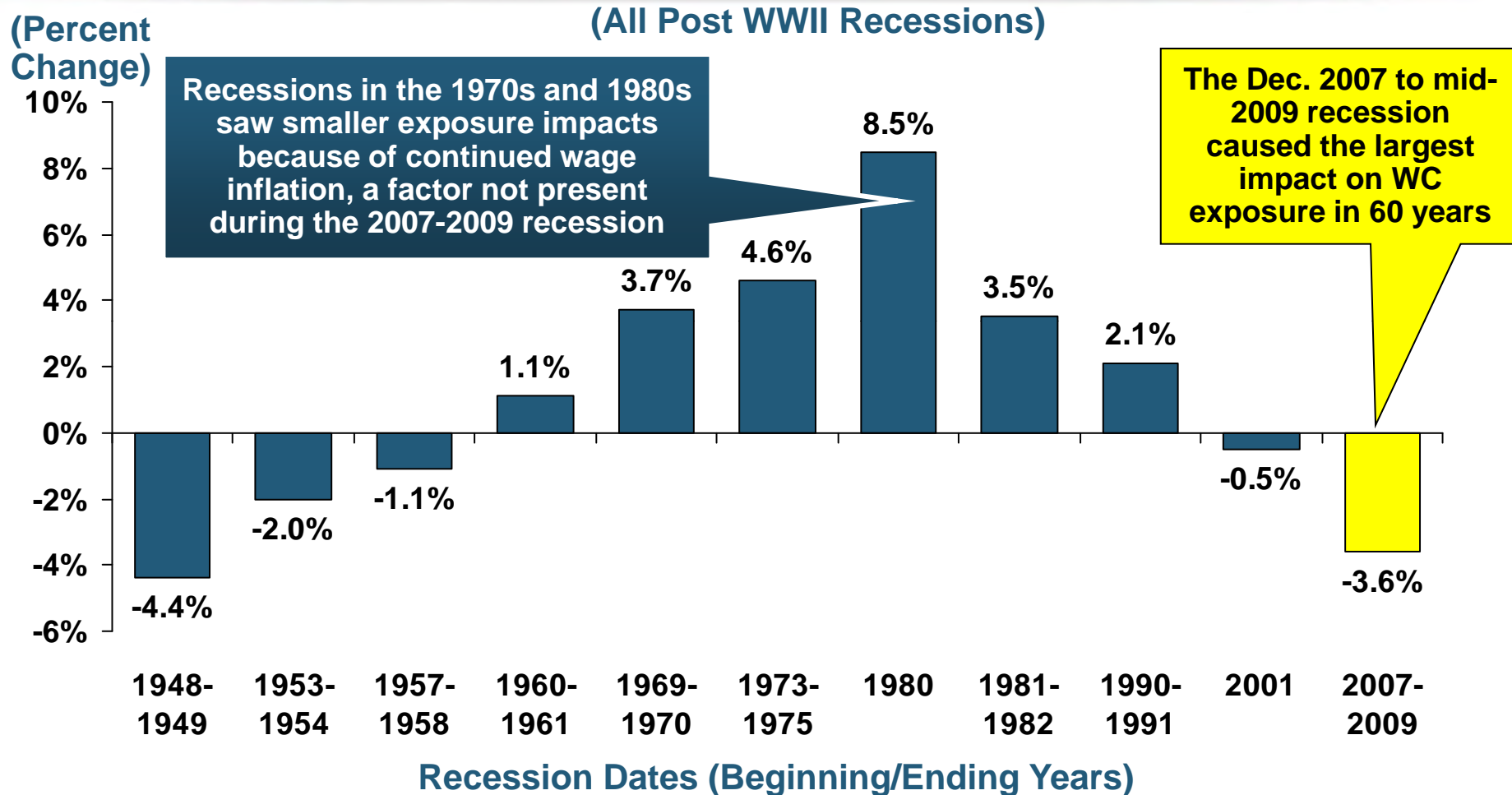


**Marginally Attached and Unemployed Persons Account for 16.7% of the Labor Force in August 2010 (1 Out 6 People). Unemployment Rate Alone was 9.6%. Underutilization Shows a Broader Impact on WC and Other Commercial Exposures**

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.

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

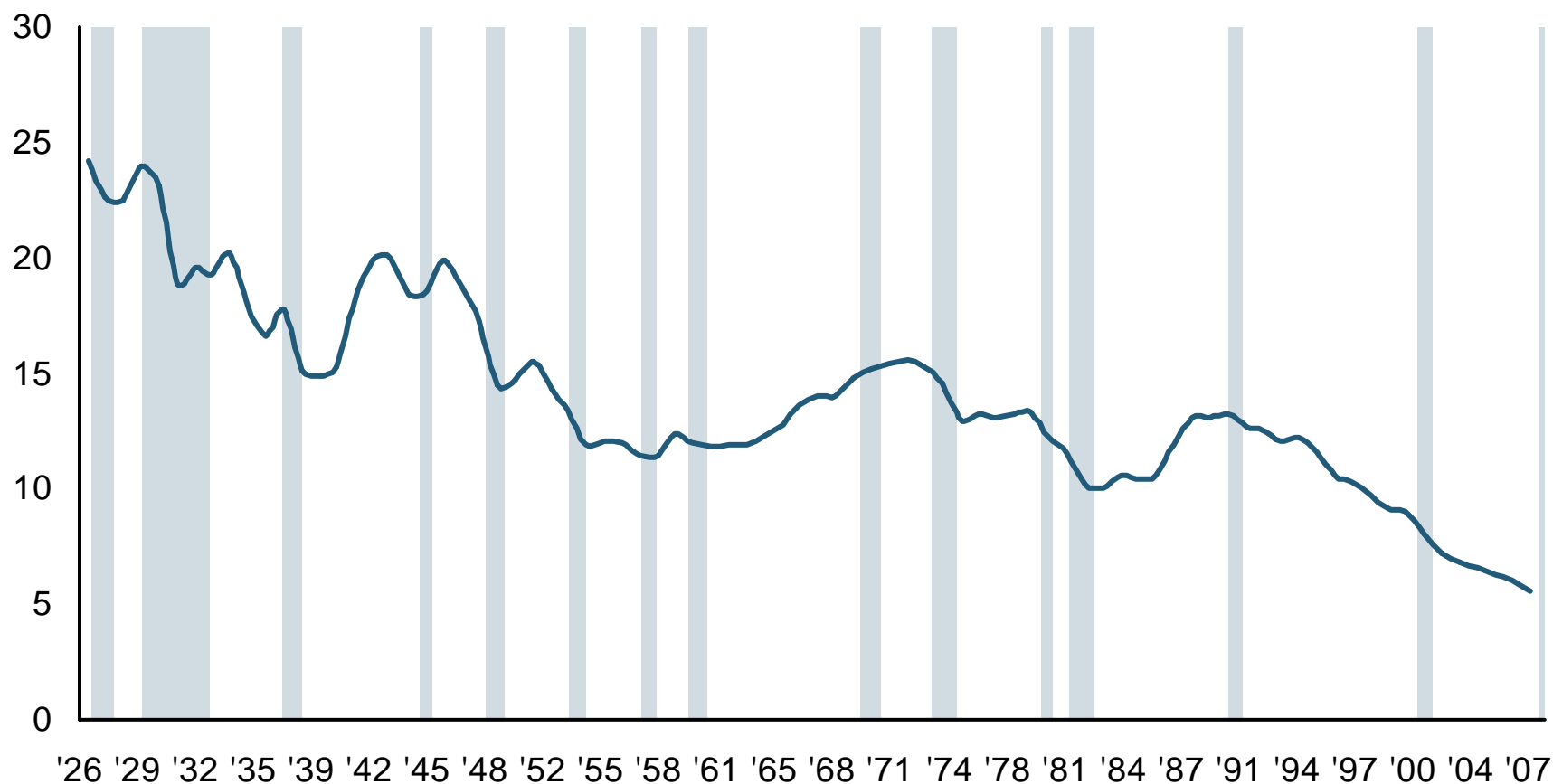


\*Data represent maximum recorded decline over 12-month period using annualized quarterly wage and salary accrual data  
Source: Insurance Information Institute research; Federal Reserve Bank of St. Louis (wage and salary data); National Bureau of Economic Research (recession dates).

# Frequency: 1926–2008

## A Long-Term Drift Downward

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



Note: Recessions indicated by gray bars.

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

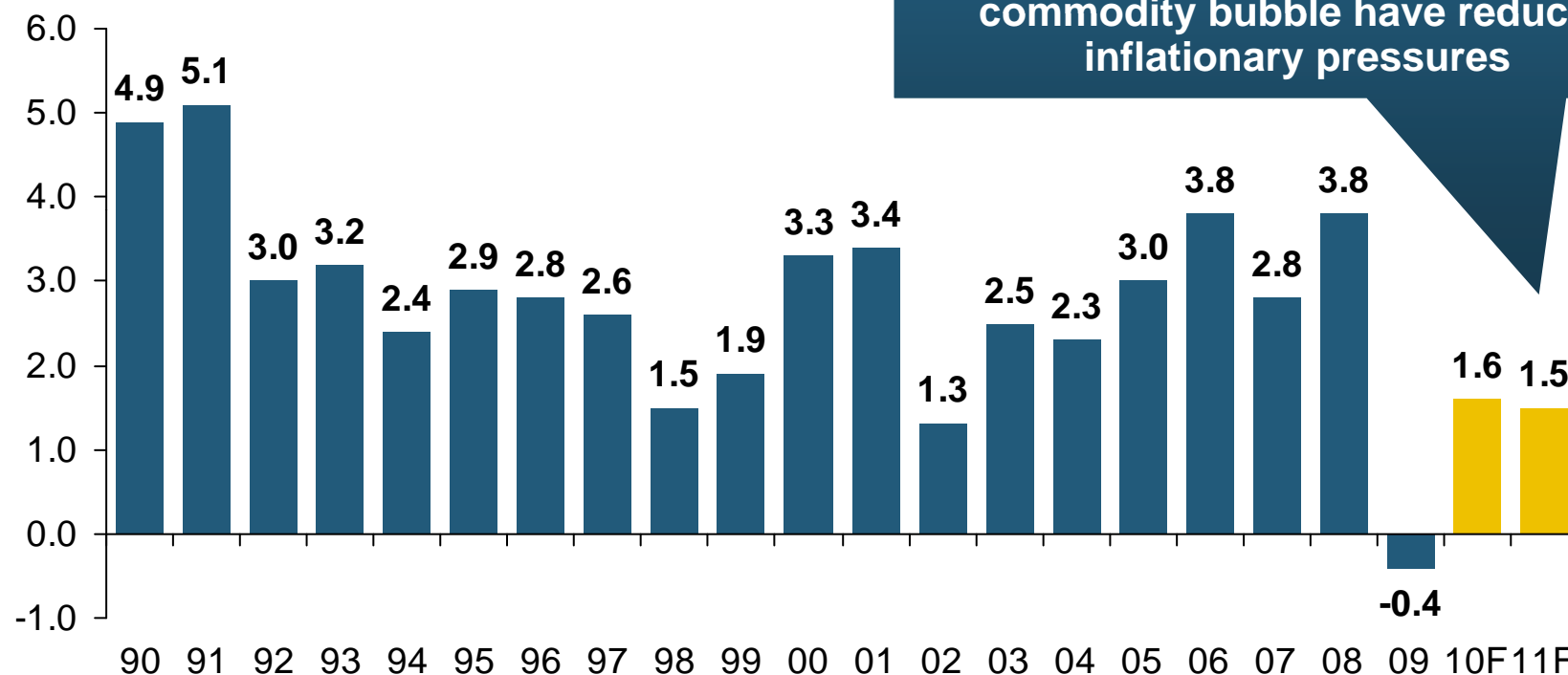
**Inflation Trends:  
*Concerns Over Stimulus Spending  
and Monetary Policy***

**Mounting Pressure on Claim  
Cost Severities?**



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

## Annual Inflation Rates (%)

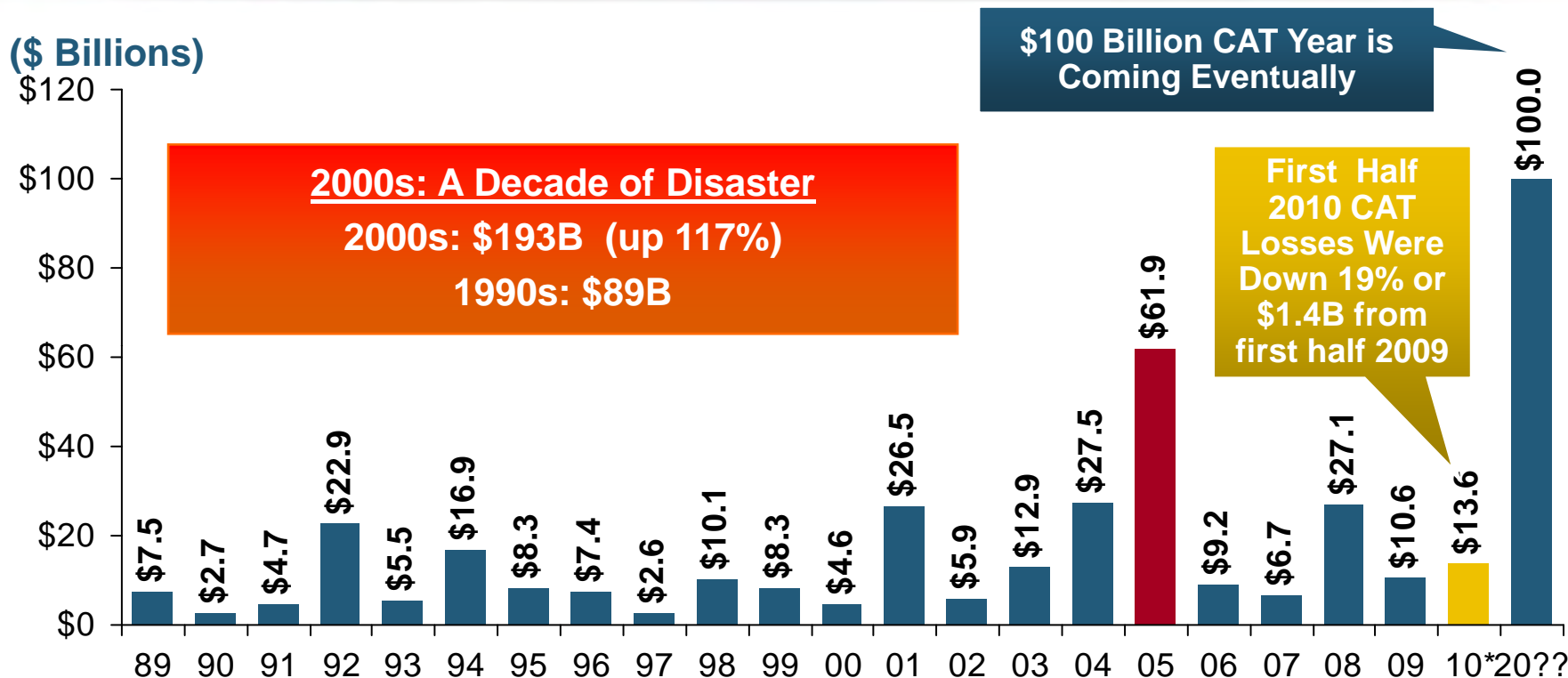


Inflation peaked at 5.6% in August 2008 on high energy and commodity crisis. The recession and the collapse of the commodity bubble have reduced inflationary pressures

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

# **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**

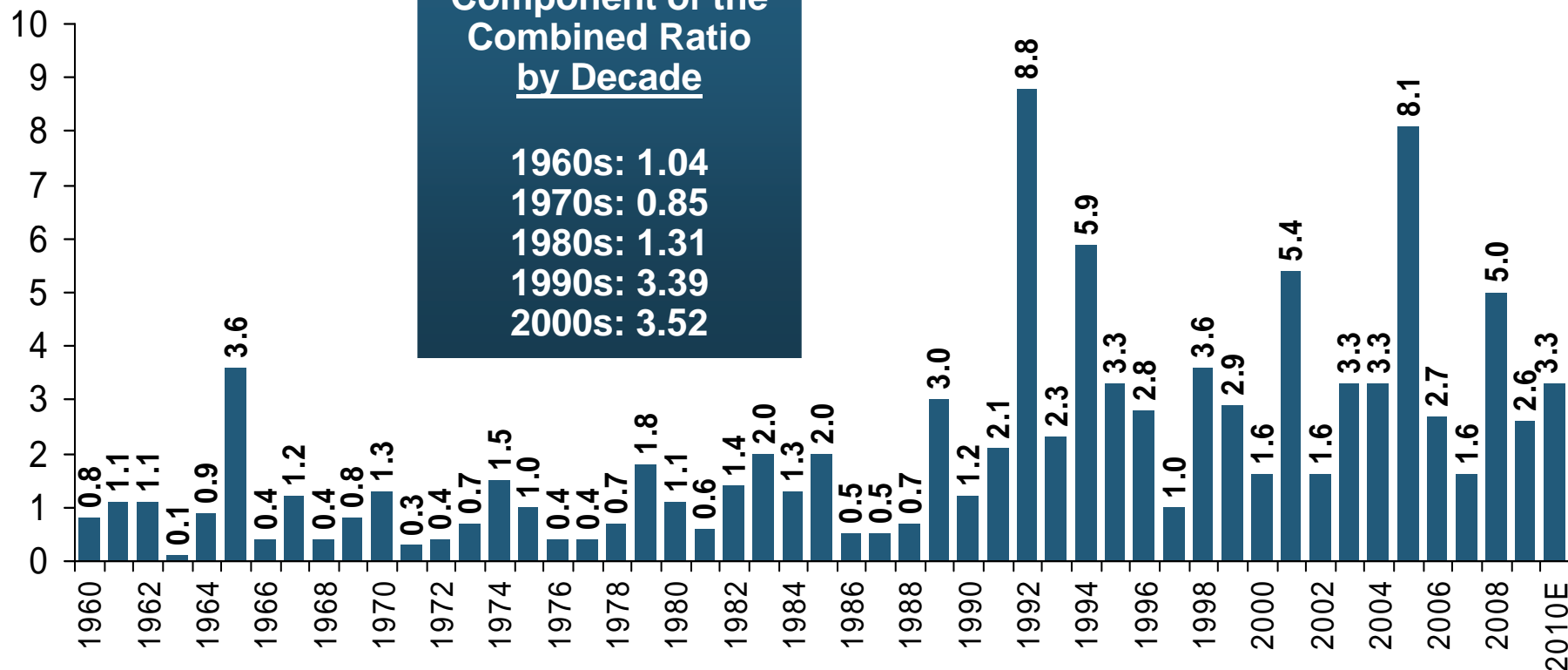
\*Estimate from Munich Re.

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



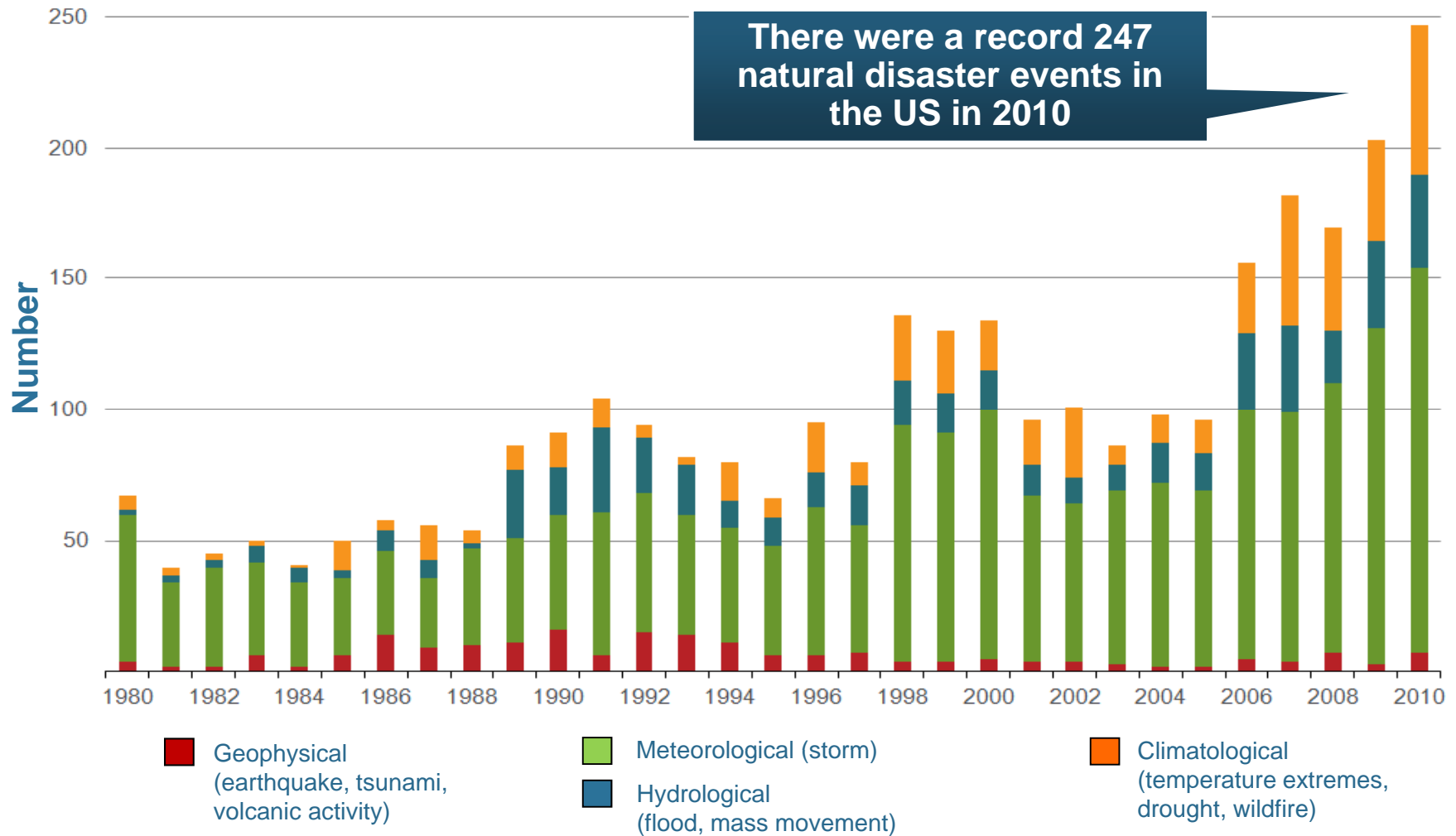
**The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades**

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.

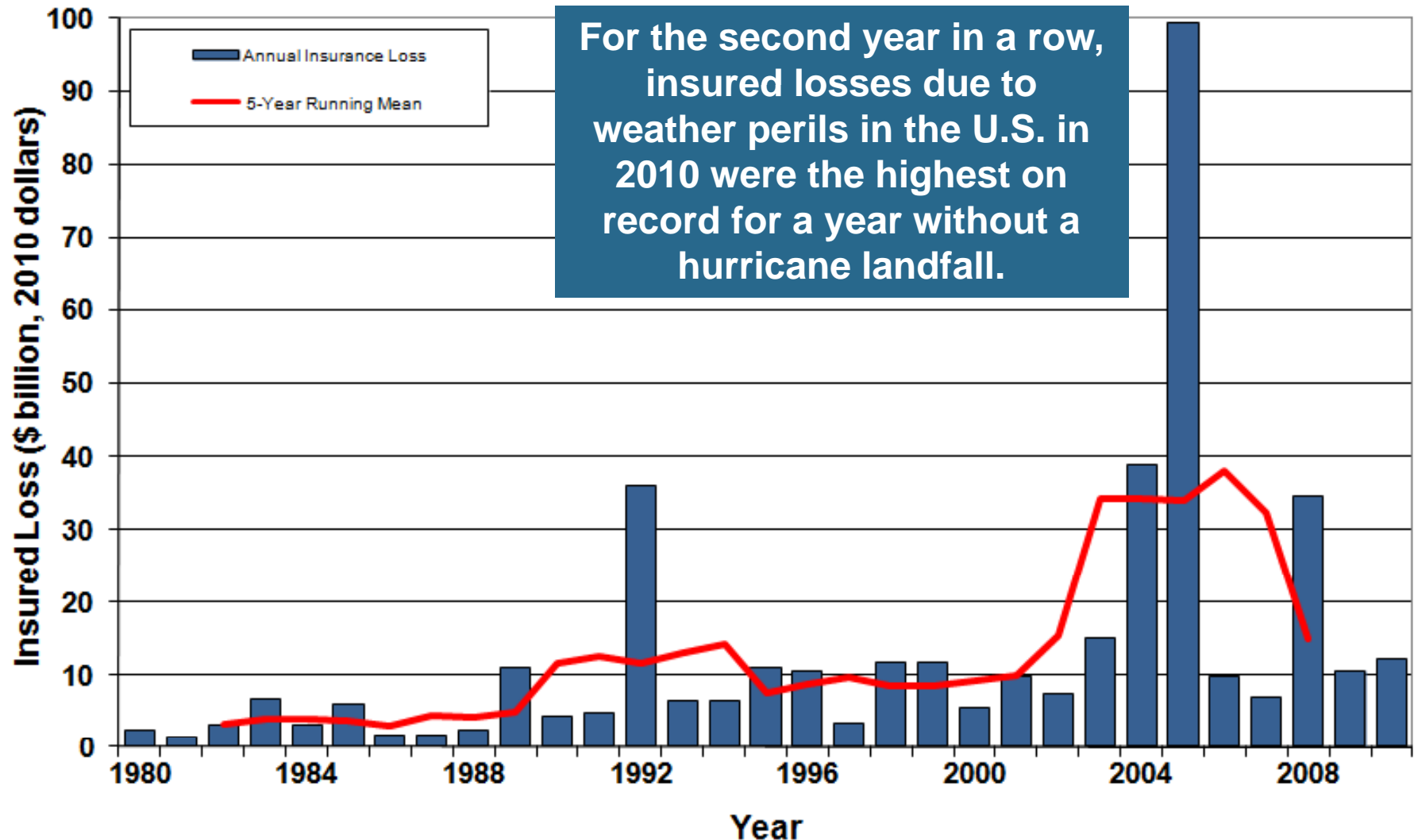
# Natural Disasters in the United States, 1980 – 2010

Number of Events (Annual Totals 1980 – 2010)



# Insured Losses Due to Weather Perils in the U.S.: 1980 – 2010

(Tropical Cyclone, Thunderstorm, and Winter Storm only)



# Significant Natural Catastrophes, 2010

(\$1 Billion + Economic Loss and/or 50 Fatalities)

Date (As of January 1, 2011)	Event	Estimated Economic Losses (US \$m)	Estimated Insured Losses (US \$m)
March 13 - 15	Winter Storm	1,700	1,225
April 30 – May 3	Thunderstorms	2,700	800
May 12 – 1	Thunderstorms	2,700	2,000 <sup>†</sup>
July 20 – 25	Thunderstorms	1,050	785 <sup>†</sup>
October 4 – 6	Thunderstorms	2,000	1,450 <sup>†</sup>

Sources: MR NatCat *SERVICE*,

<sup>†</sup> - Property Claims Services (PCS)

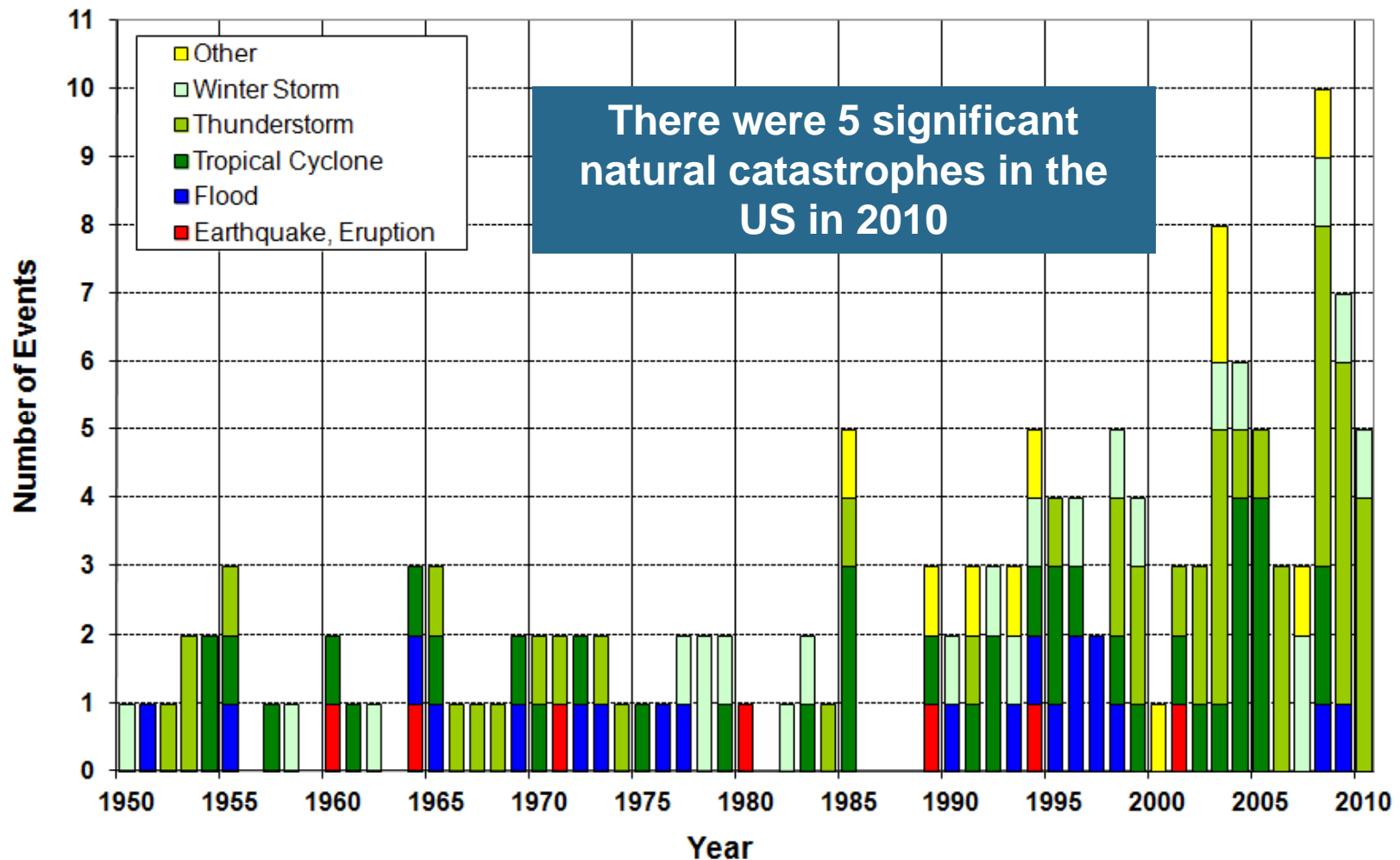
# Natural Disasters in the United States, 2010 (Insured Losses)

As of December 31, 2010	Fatalities	Estimated Overall Losses (US \$m)	Estimated Insured Losses (US \$m)
Severe Thunderstorms	56	13,185	9,503
Winter Storm	64	3,734	2,625
Flood	68	2,933	1,059
Wildfire	1	314	210
Earthquake	0	200	128
Tropical Cyclone	8	200	120



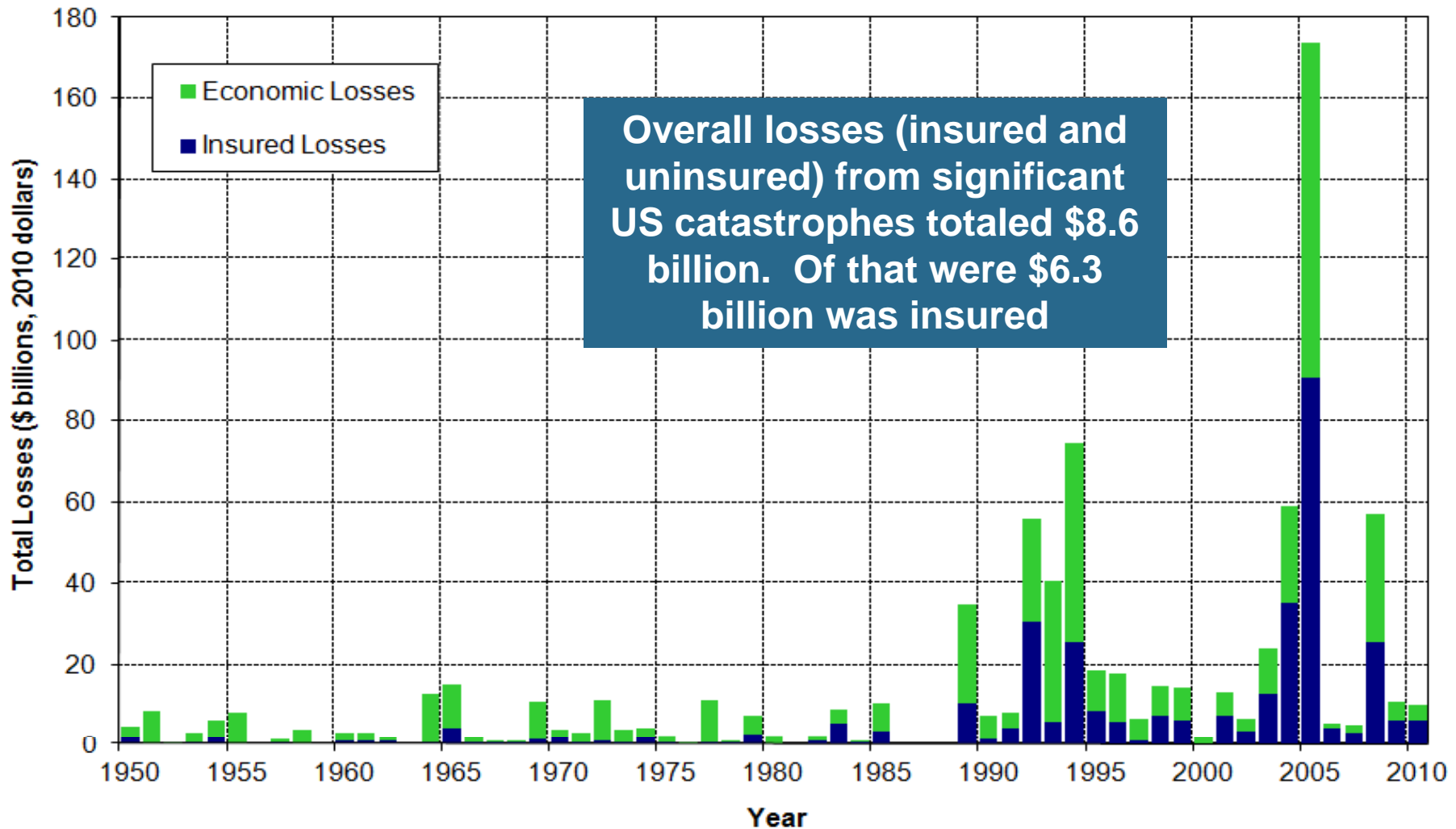
# Significant Natural Catastrophes, 1950 – 2010

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

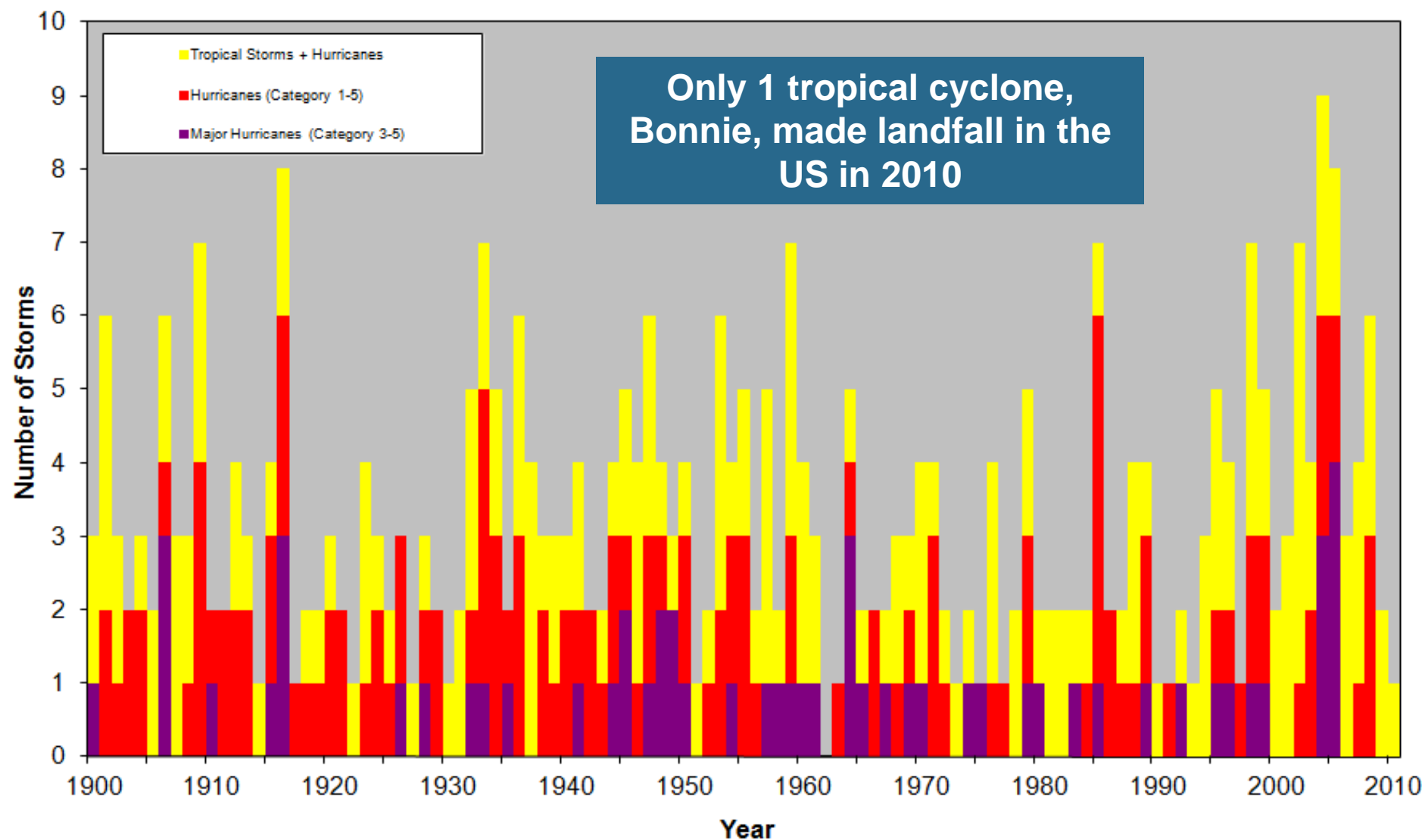


# Significant Natural Catastrophes, 1950 – 2010

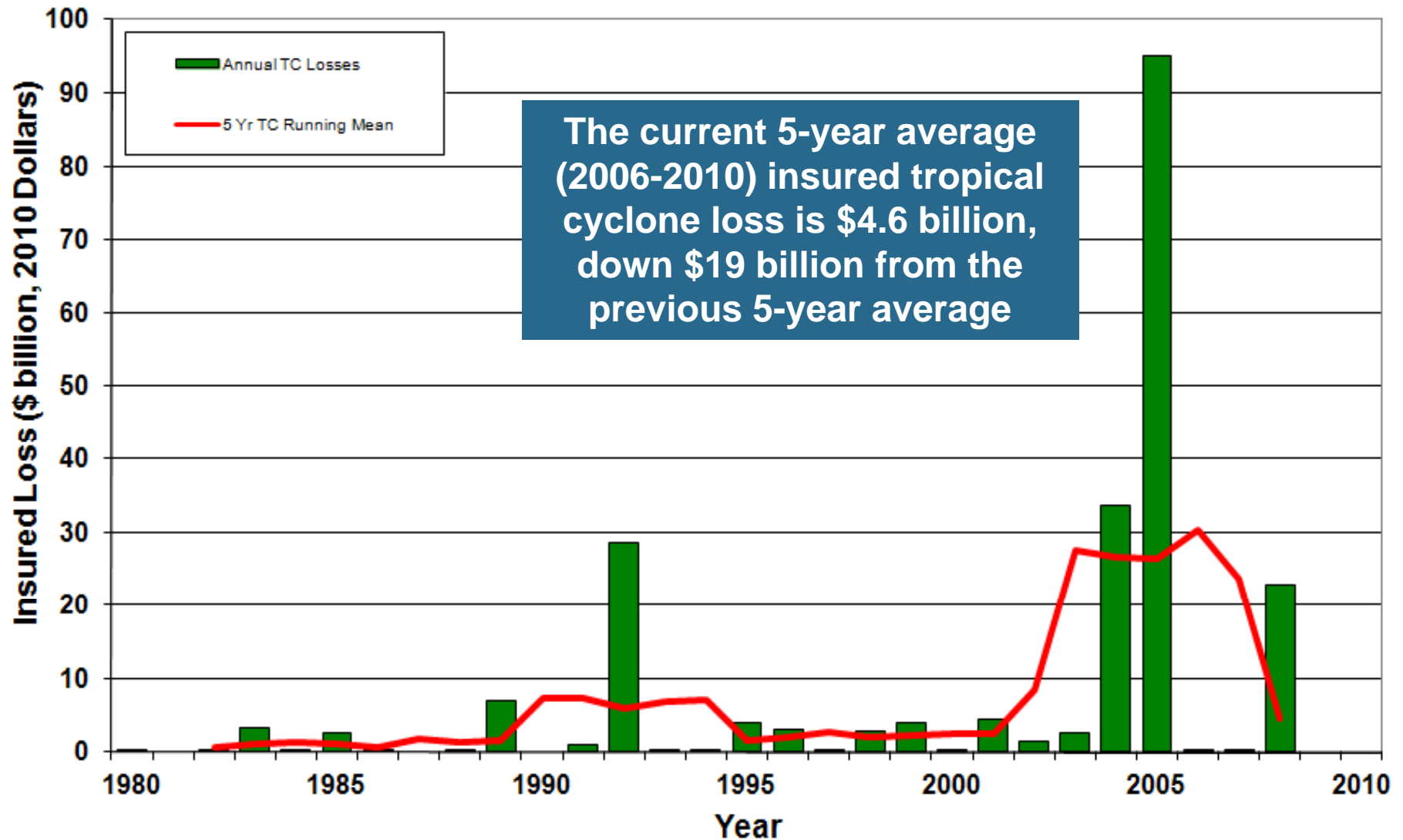
Losses (\$1 billion economic loss and/or 50 fatalities)



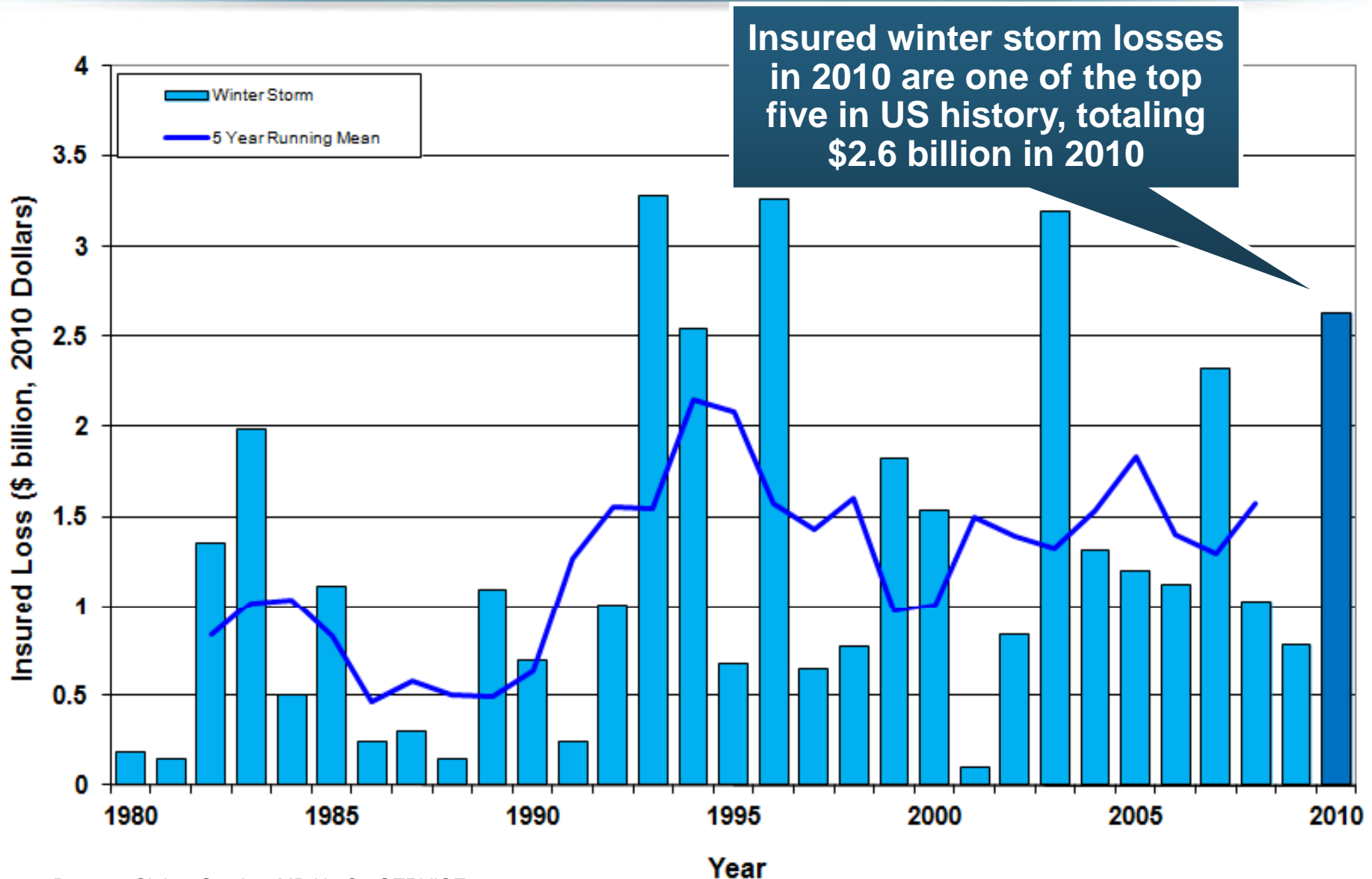
# Number of U.S. Landfalling Tropical Cyclones, 1900 – 2010



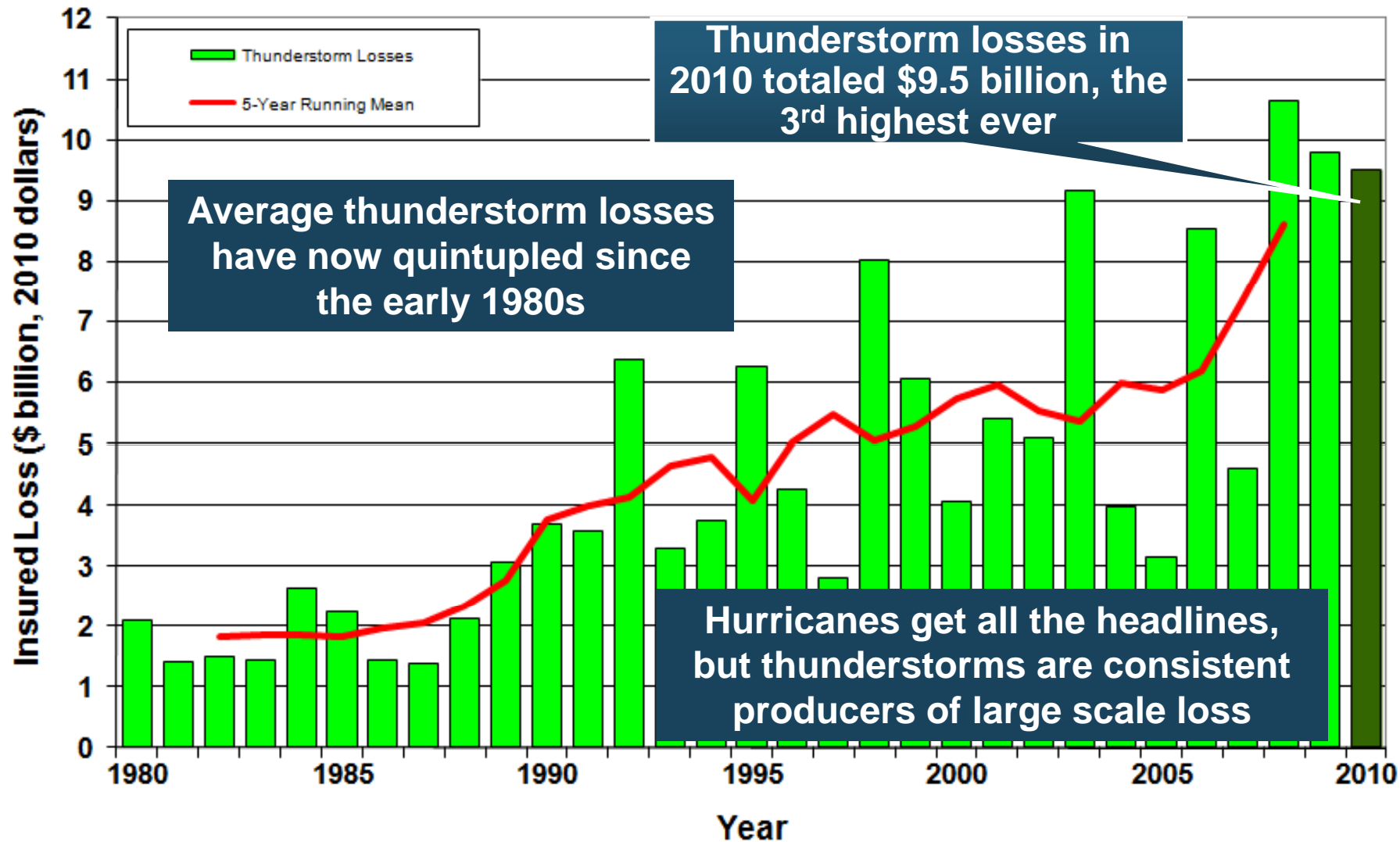
# Insured U.S. Tropical Cyclone Losses, 1980 – 2010



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

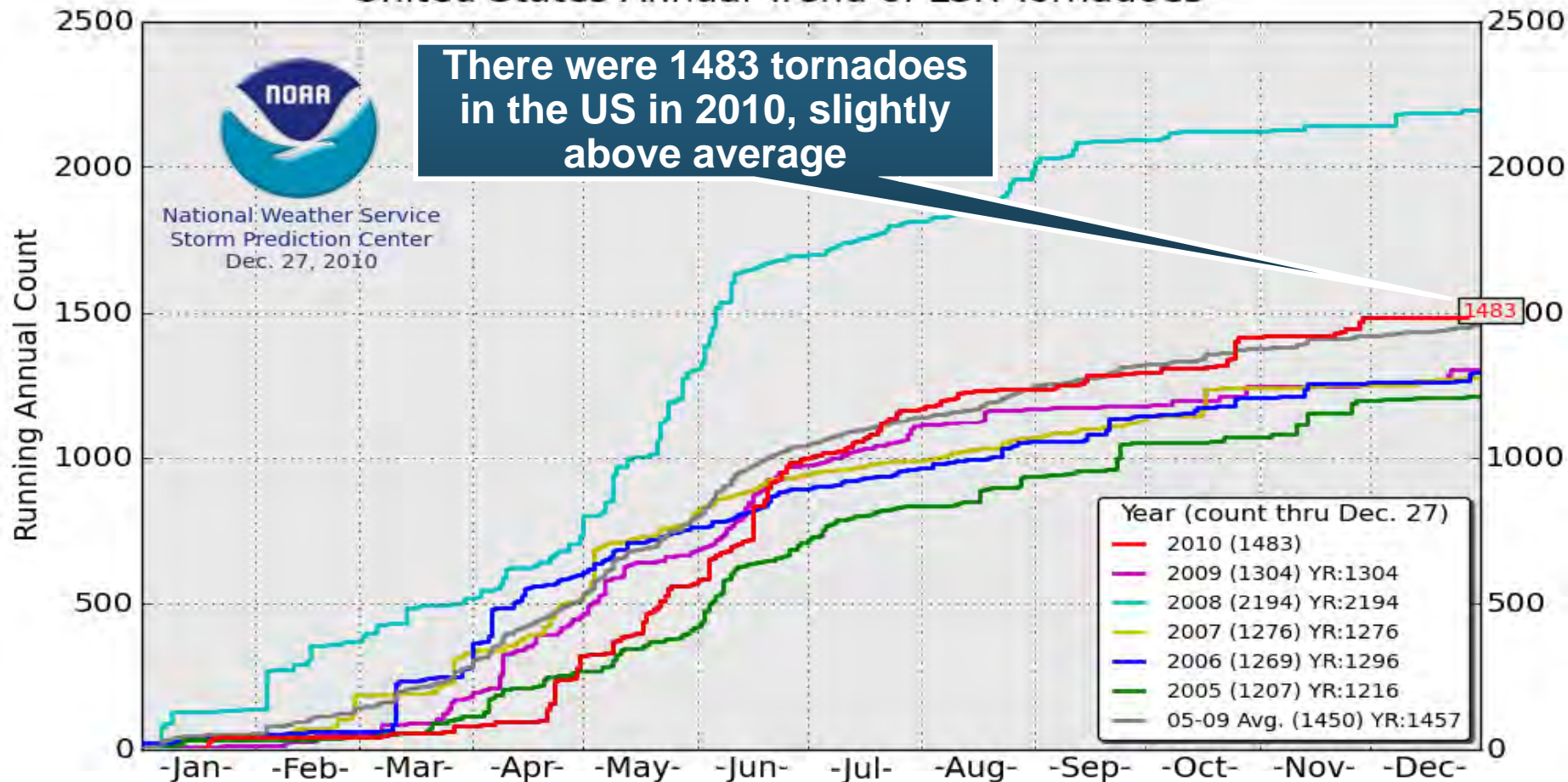


# U.S. Thunderstorm Loss Trends, 1980 – 2010 (Annual Totals)



# U.S. Tornado Count, 2010

United States Annual Trend of LSR Tornadoes\*

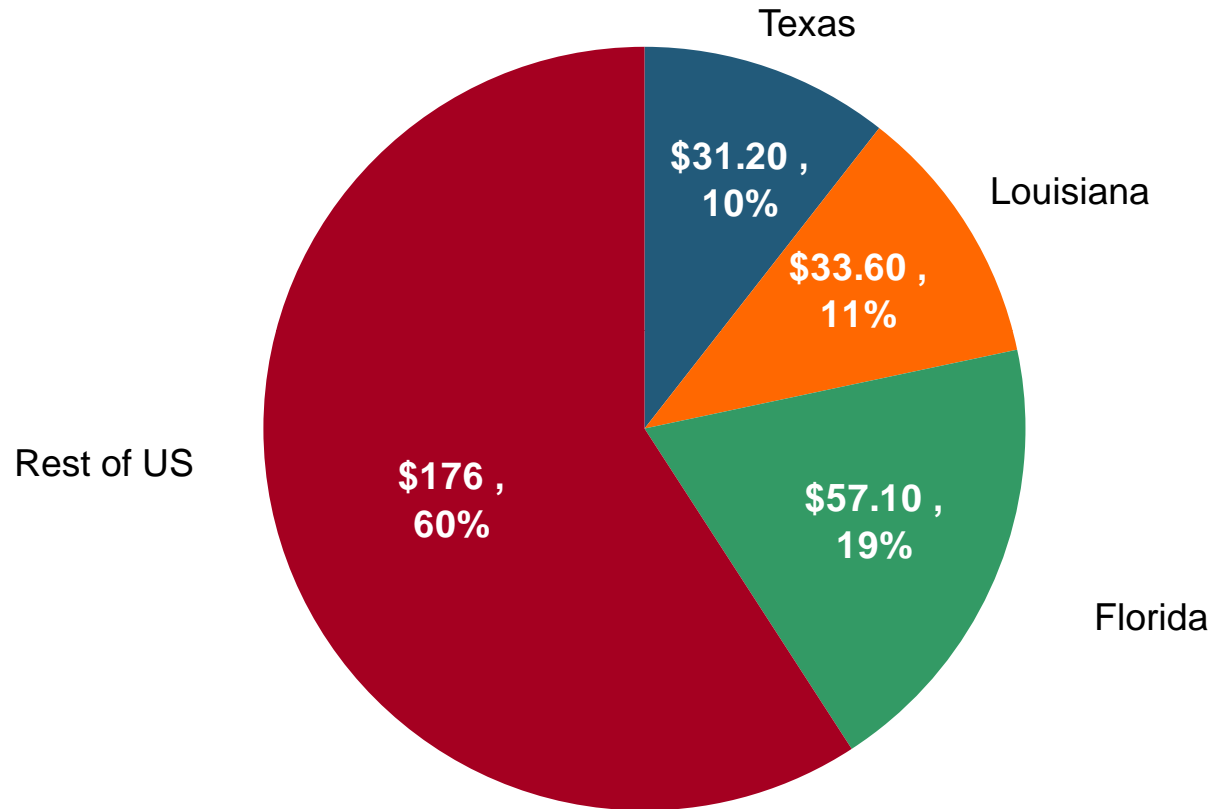


\*Preliminary tornadoes from NWS Local Storm Reports (LSRs)  
Annual average is based on preliminary LSRs, 2005-2009



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

(\$ Billions)



**Texas Accounted for 10% of All US Insured CAT Losses  
from 1980-2008: \$57.1B out of \$297.9B**

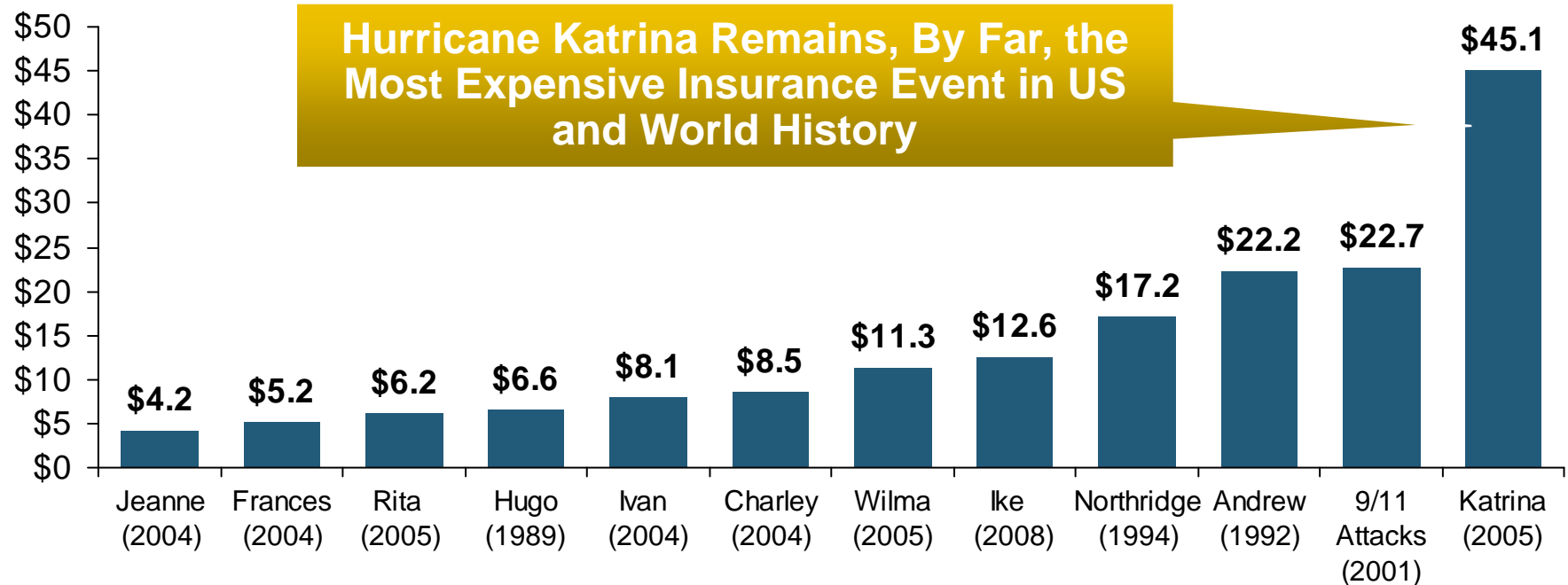
\* All figures (except 2006-2008 loss) have been adjusted to 2005 dollars.

Source: PCS division of ISO.



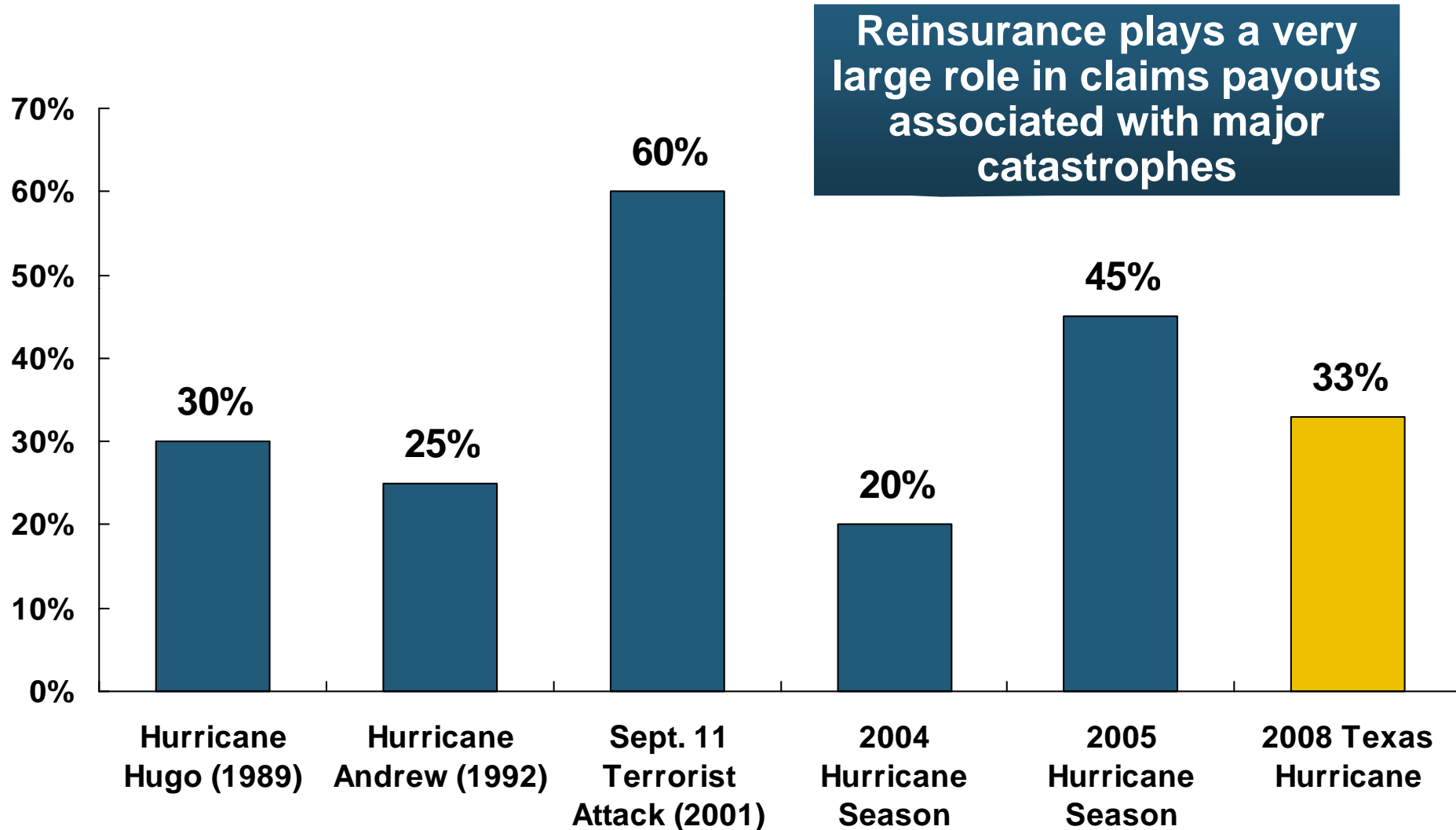
# Top 12 Most Costly Disasters in US History

(Insured Losses, 2009, \$ Billions)



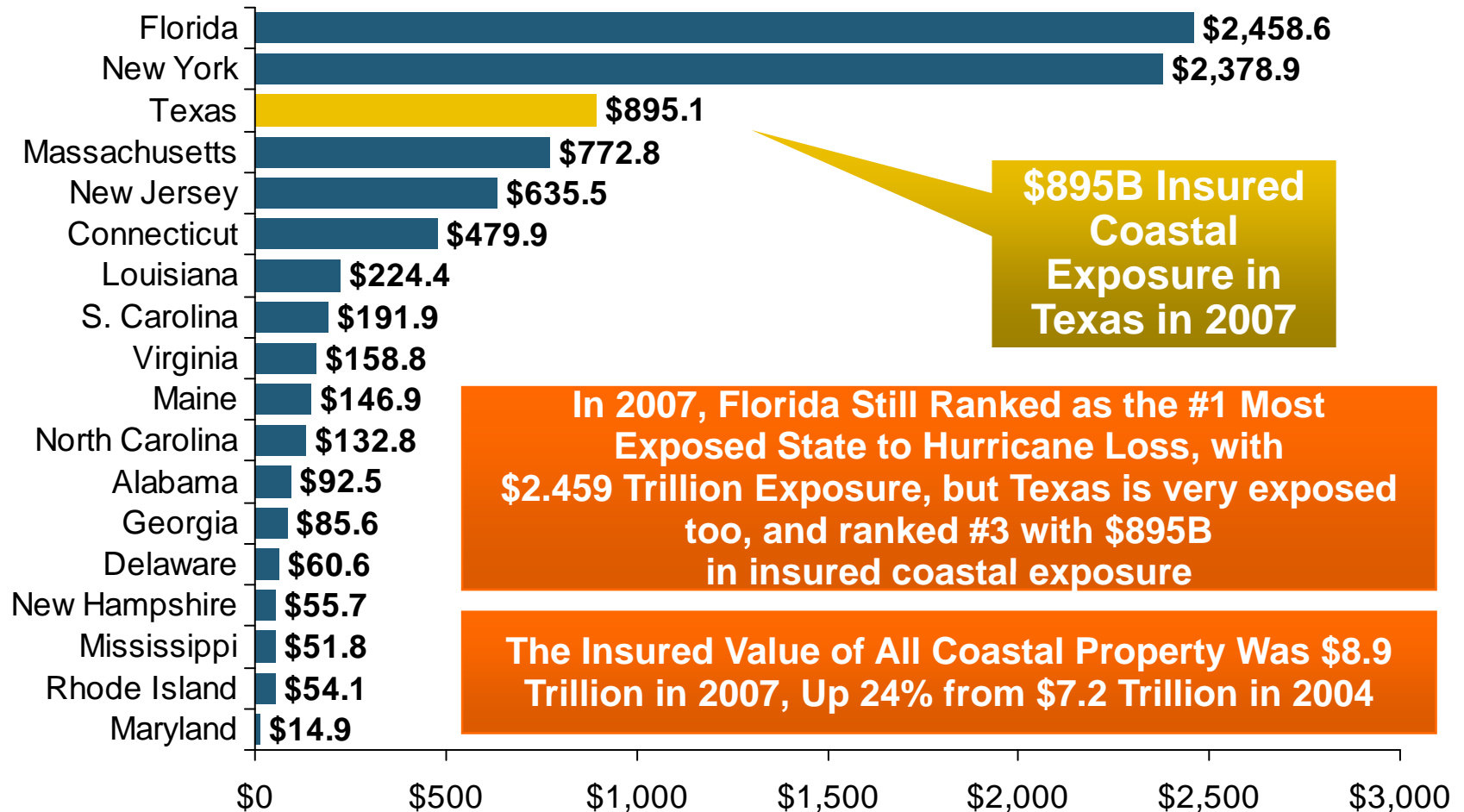
**8 of the 12 Most Expensive Disasters in US History  
Have Occurred Since 2004;  
*8 of the Top 12 Disasters Affected FL***

# Share of Losses Paid by Reinsurers for Major Catastrophic Events

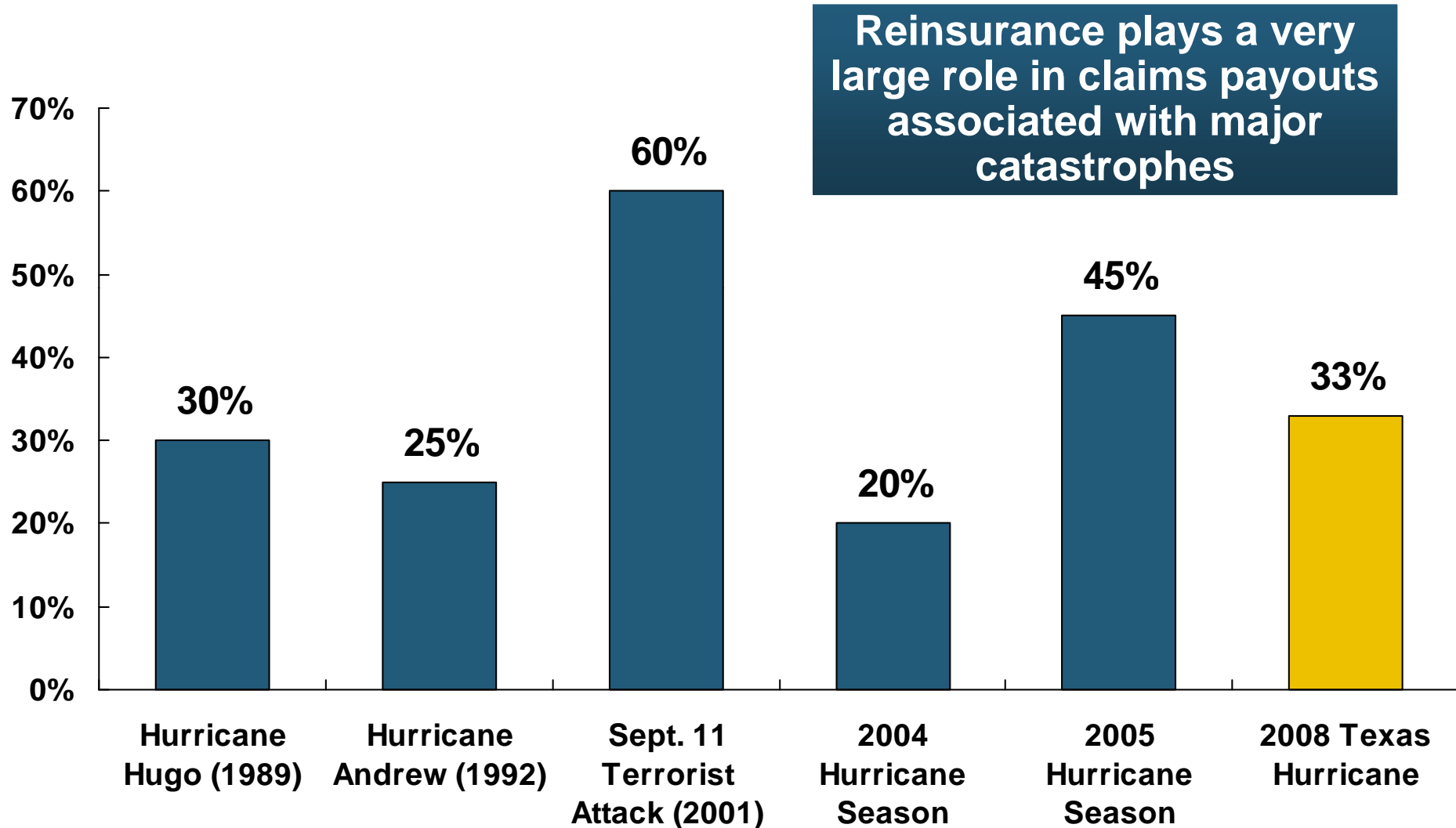


# Total Value of Insured Coastal Exposure

(2007, \$ Billions)

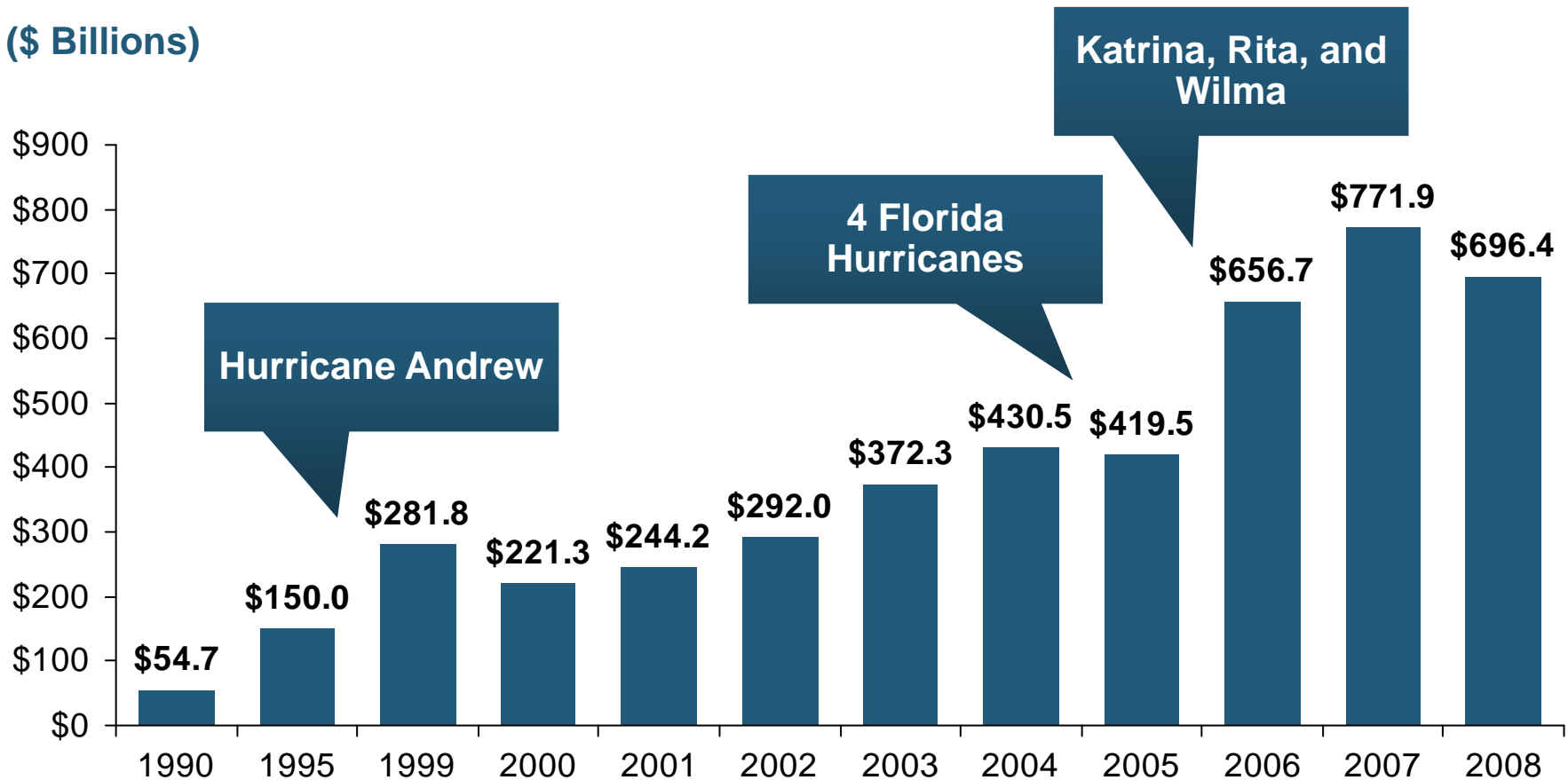


# Share of Losses Paid by Reinsurers for Major Catastrophic Events



# US Residual Market Exposure to Loss

(\$ Billions)



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

Insurance Information Institute Online:

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

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and your attention!*

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