



After the Crisis: Challenges and Opportunities in the P-C Insurance Industry in the Aftermath of the “Great Recession”

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- **Reasons for Optimism, Causes for Concern**
- **Industry Financial Overview for 2010 and Outlook for 2011 & Beyond**
 - ◆ Profitability
 - ◆ Premium Growth
 - ◆ Capital & Capacity
 - ◆ Financial Strength
 - ◆ Underwriting Performance: Commercial & Personal Lines
 - ◆ Financial/Investment Review & Outlook
 - ◆ Catastrophe Loss Trends
- **P/C Growth Overview & Analysis: Price and Exposure Trends**
 - ◆ Economic Crisis and Exposure(Insurance Demand): Personal & Commercial Lines
 - ◆ Pricing: Personal & Commercial Lines
- **Regulatory and Legislative Overview**
 - ◆ Financial Services Reform
 - ◆ Impacts of 2011 on P-C Insurance Industry
 - ◆ Tort System Concerns
- **Leading Challenges Facing the P/C Insurance Industry: 2011-2015**
- **Q&A**

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

- **Economic Recovery in US is Self-Sustaining: No Double Dip Recession**
- **Pessimism “Bubble” Persists; Negative Economic News Amplified; Positive News is Discounted**
 - ◆ Financial market volatility will remain a reality
- **Era of Mass P/C Insurance Exposure Destruction Has Ended**
 - ◆ But restoration of destroyed exposure will take 3+ years in US
- **No Secondary Spike in Unemployment or Swoon in Payrolls/WC Exposure**
 - ◆ But job and wage growth remains sluggish
- **Exposure Growth Beginning in 2nd Half 2010, Accelerate in 2011**
- **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
- **P/C Insurance Industry Will See Growth in 2011 for the First Time Since 2006**
- **Investment Environment Is/Remains Much More Favorable**
 - ◆ Volatility, however, will persist and yields remain low
 - ◆ Both are critical issues in long-tailed commercial lines like WC, Med Mal, D&O

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

- **P/C Insurance Industry Capacity as of 6/30/10 Is at Record Levels and Has Recovered 100%+ of the Capital Lost During the Financial Crisis**
 - ◆ As of 12/31/09 capacity was within 2% of pre-crisis high
- **Record Capacity, Depressed Exposures Mean that Generally Soft Market Conditions Will Persist through 2010 and Potentially into 2011**
- **There is No Catalyst for a Robust Hard Market at the Current Time**
- **High Global First Half 2010 CAT Losses Insufficient to Trigger Hard Market**
 - ◆ Localized insurance and reinsurance impacts are occurring, especially earthquake coverage in Latin/South America, Offshore Energy Markets, European Wind Cover
- **Inflation Outlook for US and Major European Economies and Japan is Tame**
 - ◆ Will temper claims inflation
 - ◆ Deflation is highly unlikely
- **Financial Strength & Ratings of Global (Re)Insurance Industries Remained Strong Throughout the Financial Crisis in Sharp Contrast With Banks**
- **Insurers Avoided the Most Draconian Outcomes in Financial Services Reform Legislation**
- **Tort Environment in US is Beginning to Deteriorate; No Tort Reform in US**
- **Major Transformation of US Economy Underway with Major Opportunities for Insurers through 2020 in Health, Tech, Natural Resources, Ag., Energy**

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)

I.

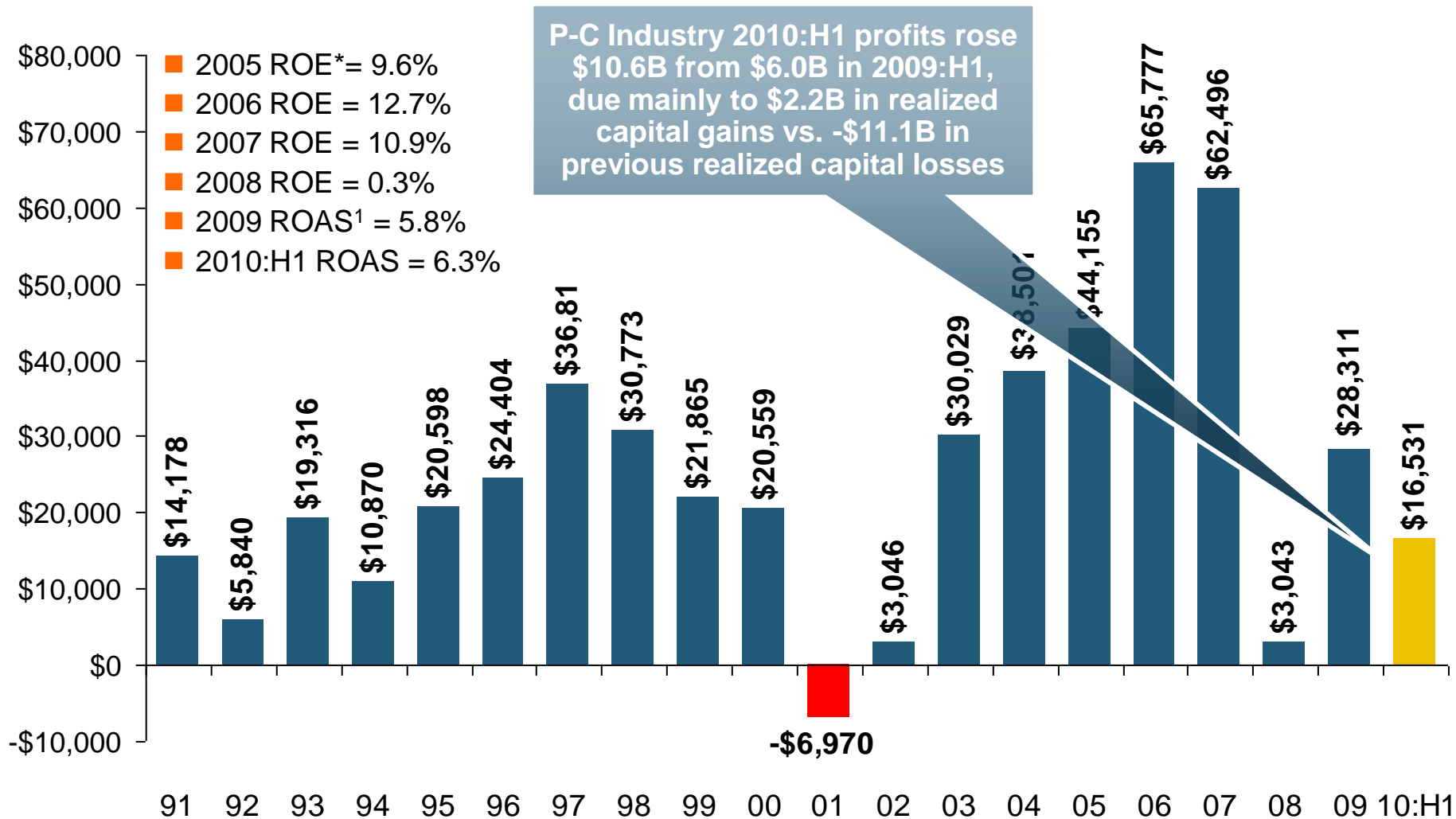
P/C Insurance Industry Financial Overview & Outlook for 2011

Recession, Recovery & Volatility

Profitability

Historically Volatile

P/C Net Income After Taxes 1991–2010:H1 (\$ Millions)

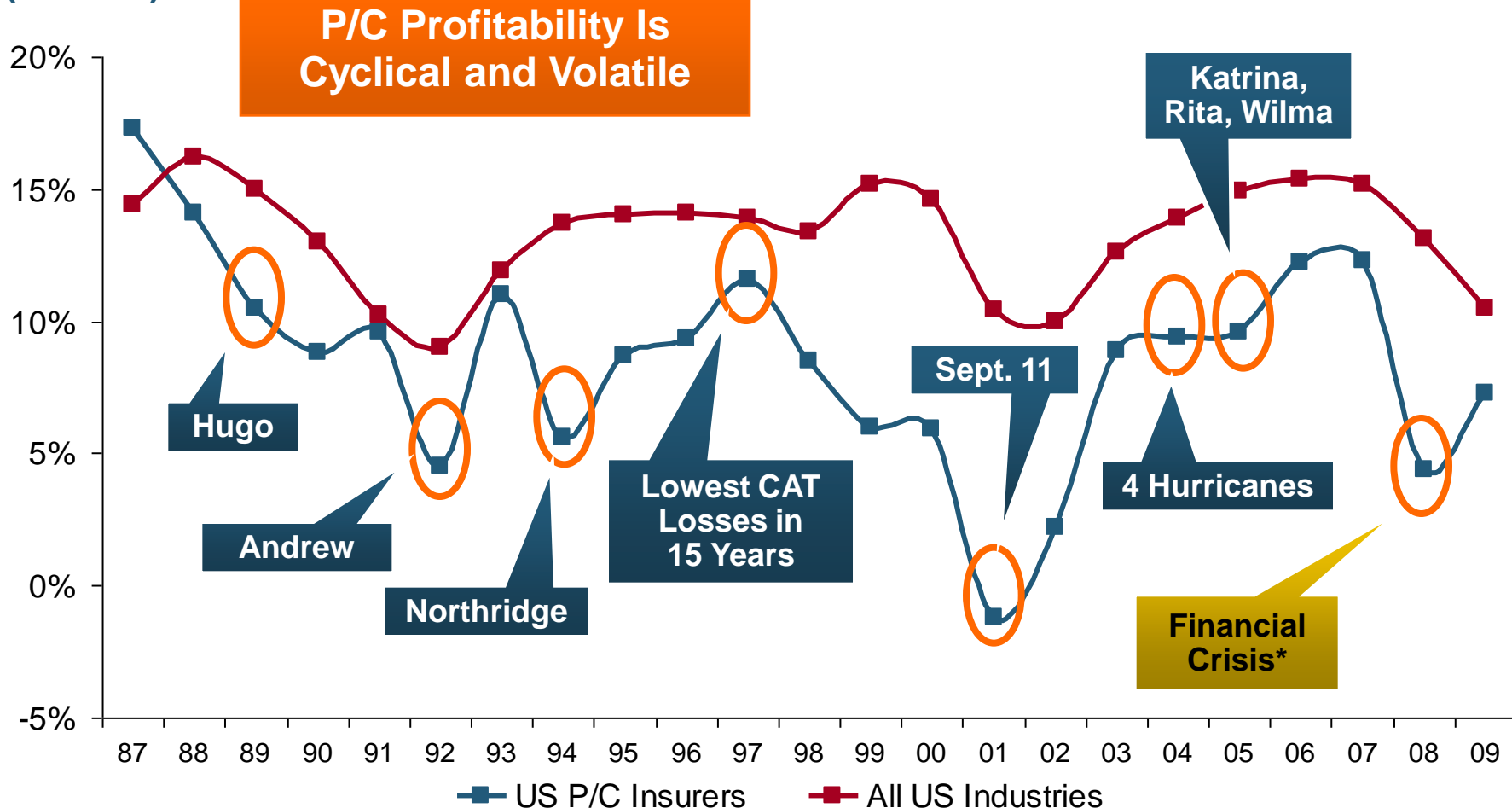


* ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 7.5% ROAS for 2010:H1 and 4.6% for 2009. 2009:H1 net income was \$19.2 billion and \$10.2 billion in 2008:H1 excluding M&FG.

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

ROE: P/C vs. All Industries 1987–2009*

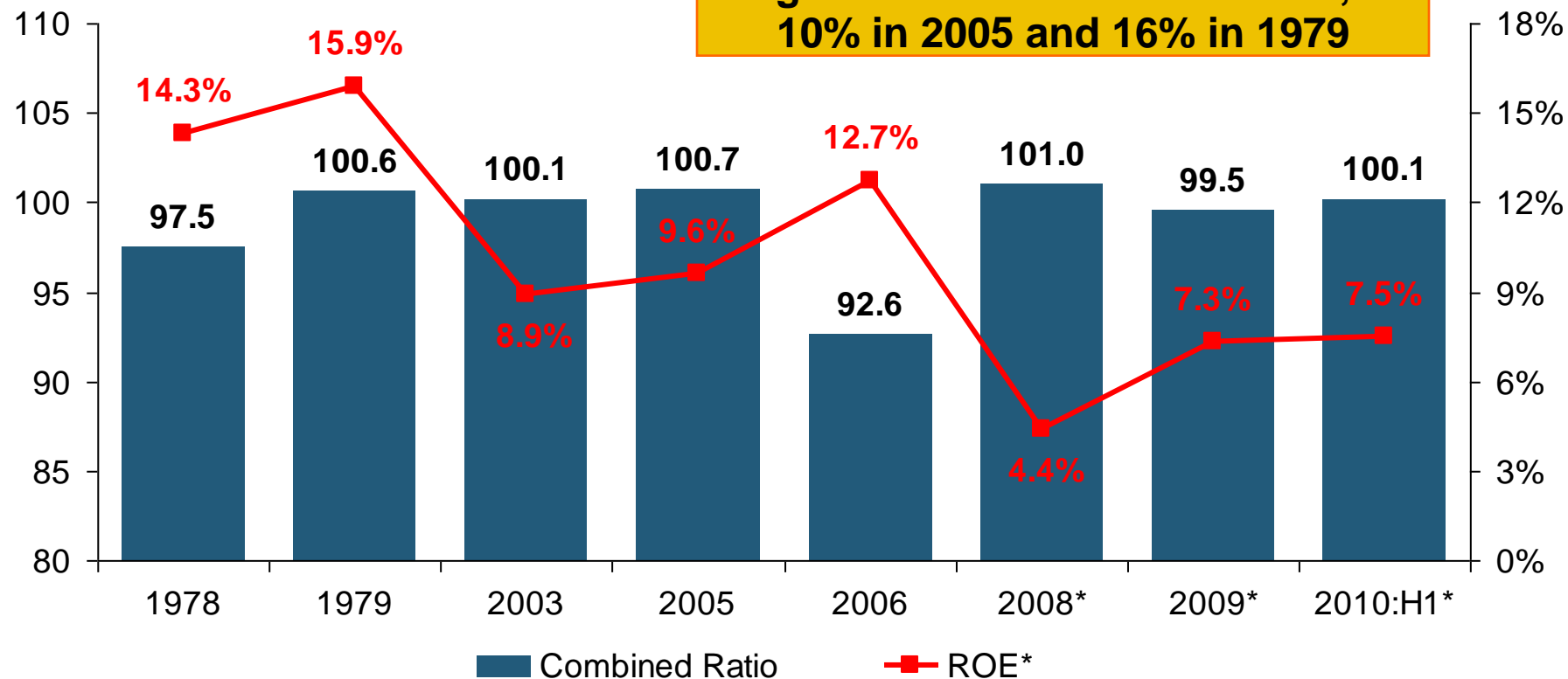
(Percent)



* Excludes Mortgage & Financial Guarantee in 2008 and 2009.
Sources: ISO, *Fortune*; Insurance Information Institute.

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

Combined Ratio / ROE



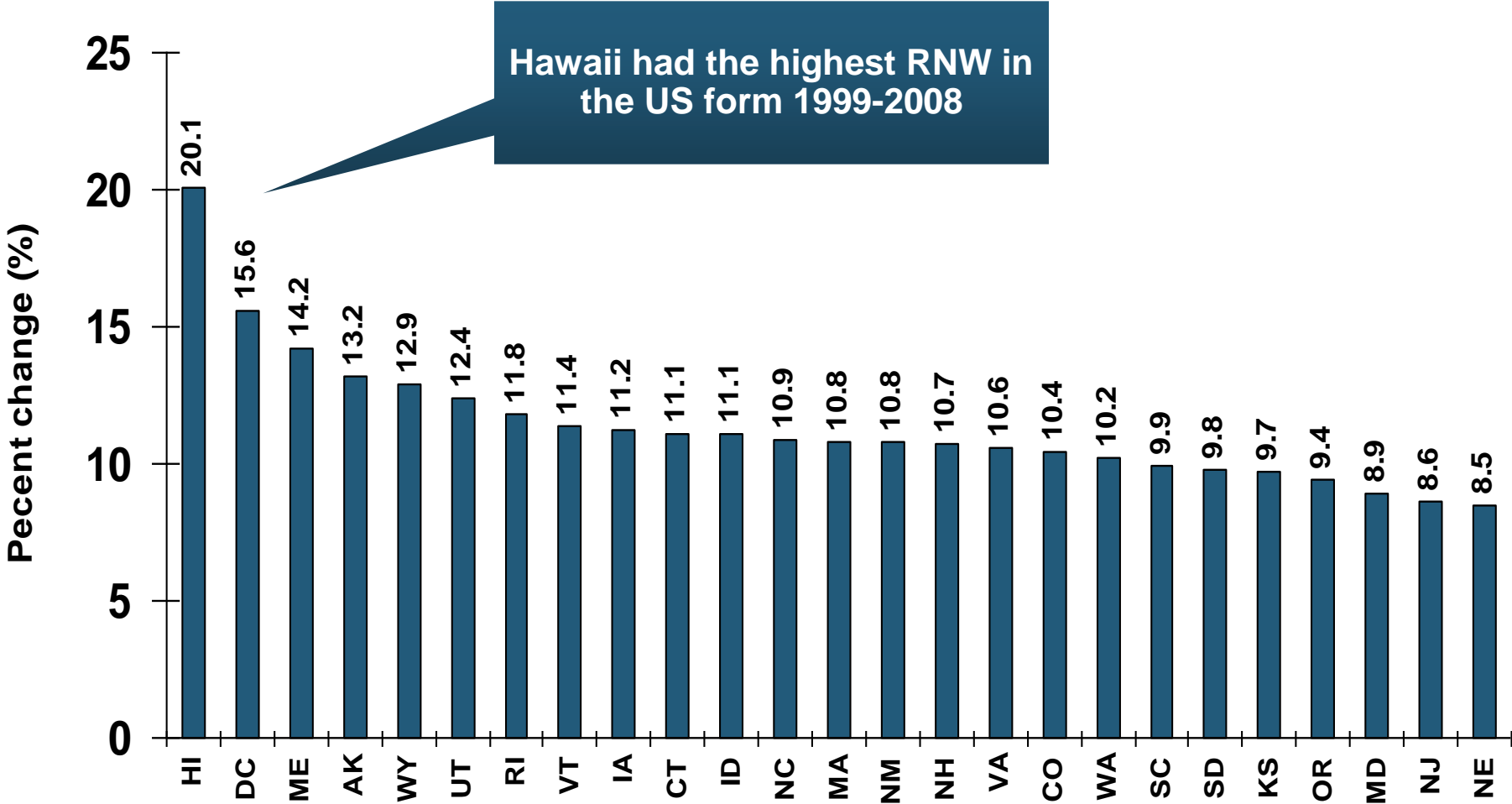
Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2009 and 2010:Q1 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.

Return of Net Worth: 10-Year Average, 1999-2008*: All Lines

Top 25 States

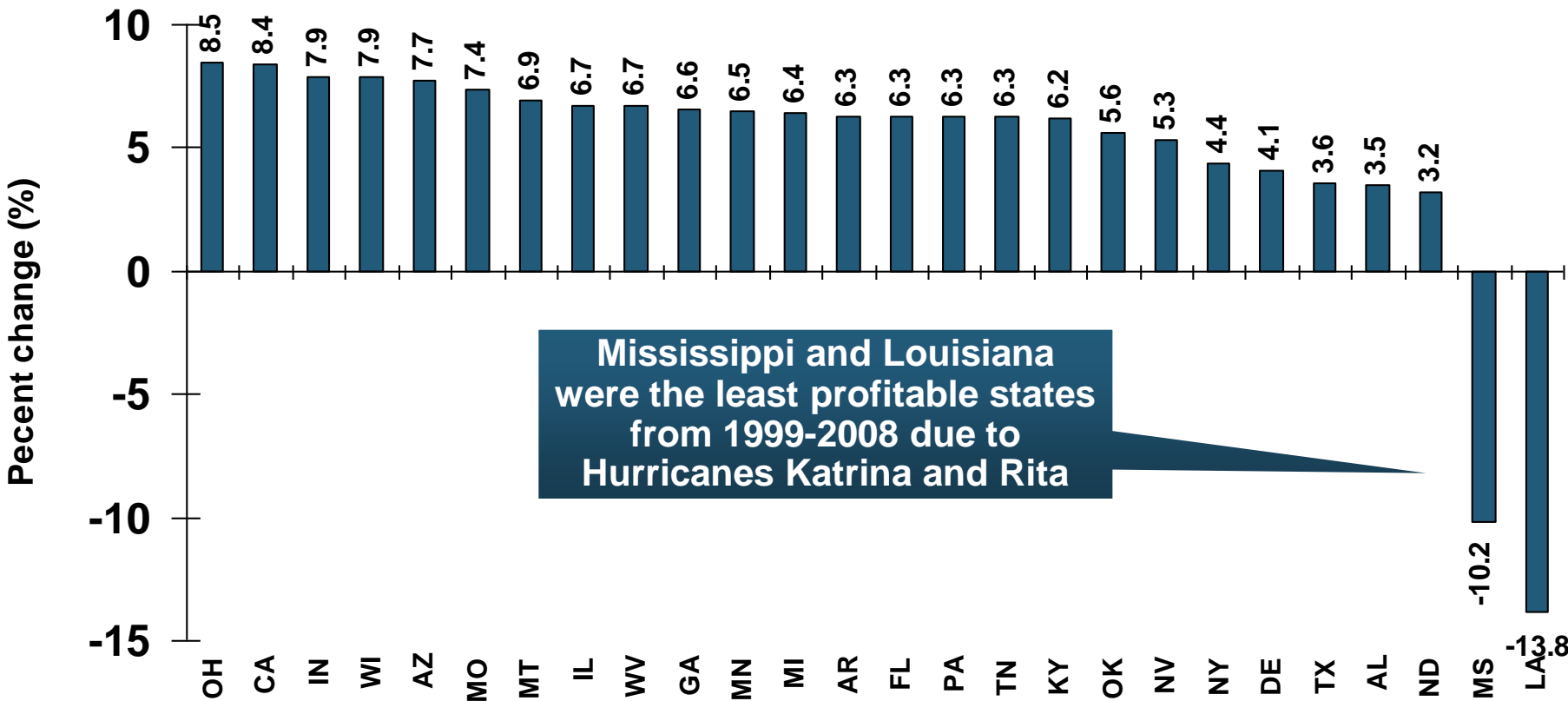


*Latest available.

Source: 2009 NAIC Report on Profitability.

Return of Net Worth: 10-Year Average, 1999-2008: All Lines

Bottom 25 States

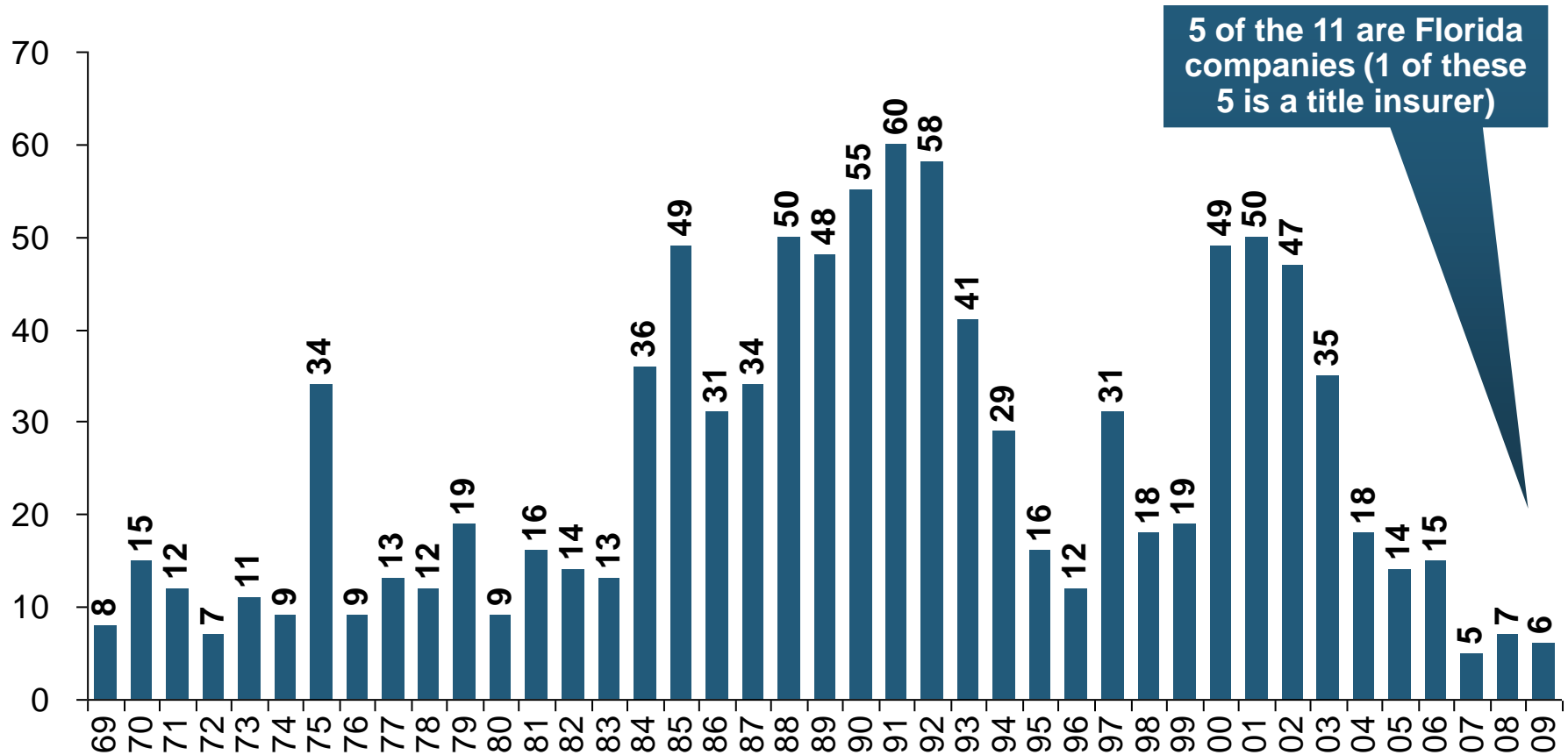


Sources: 2009 NAIC Report on Profitability.

Financial Strength & Ratings

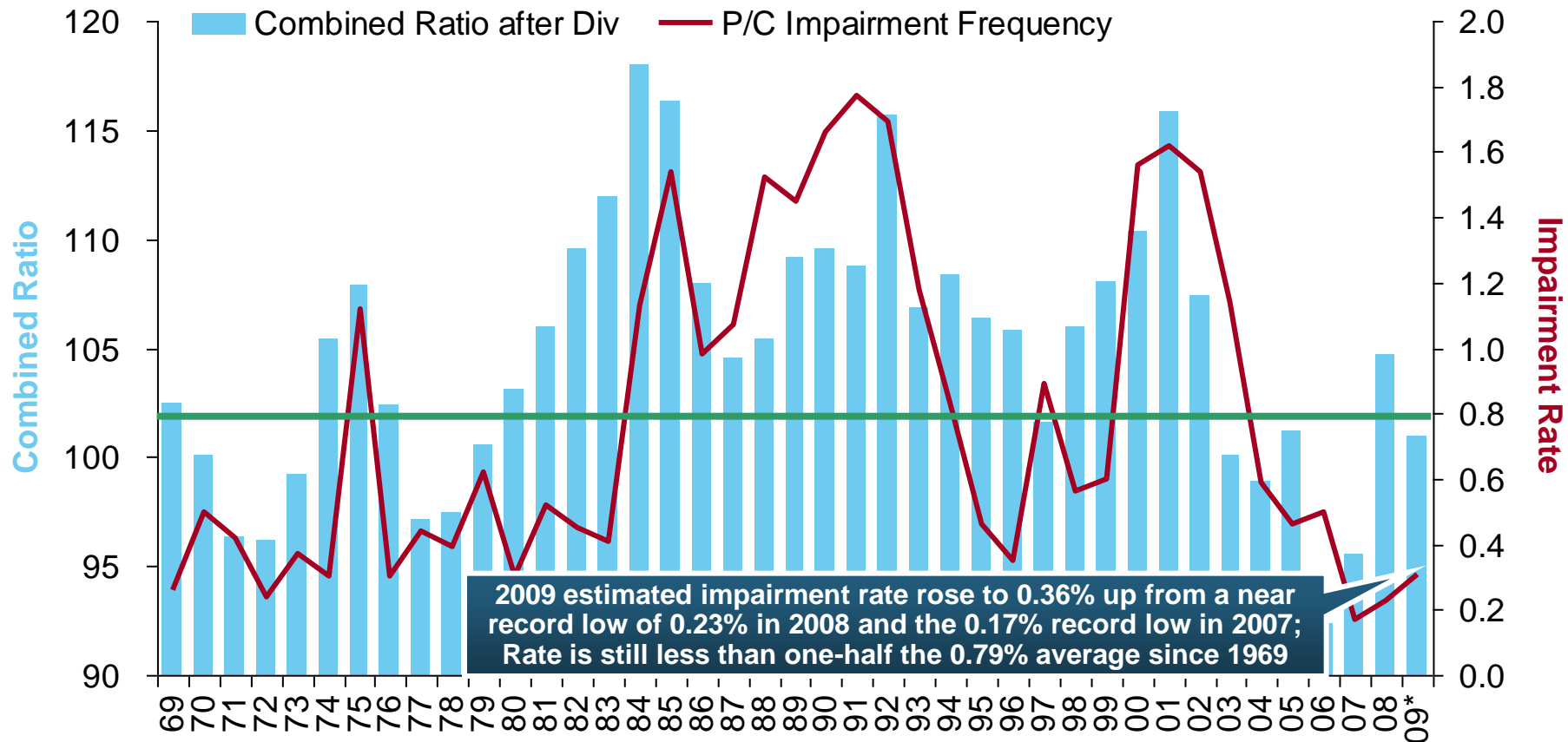
**Industry Has Weathered
the Storms Well**

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

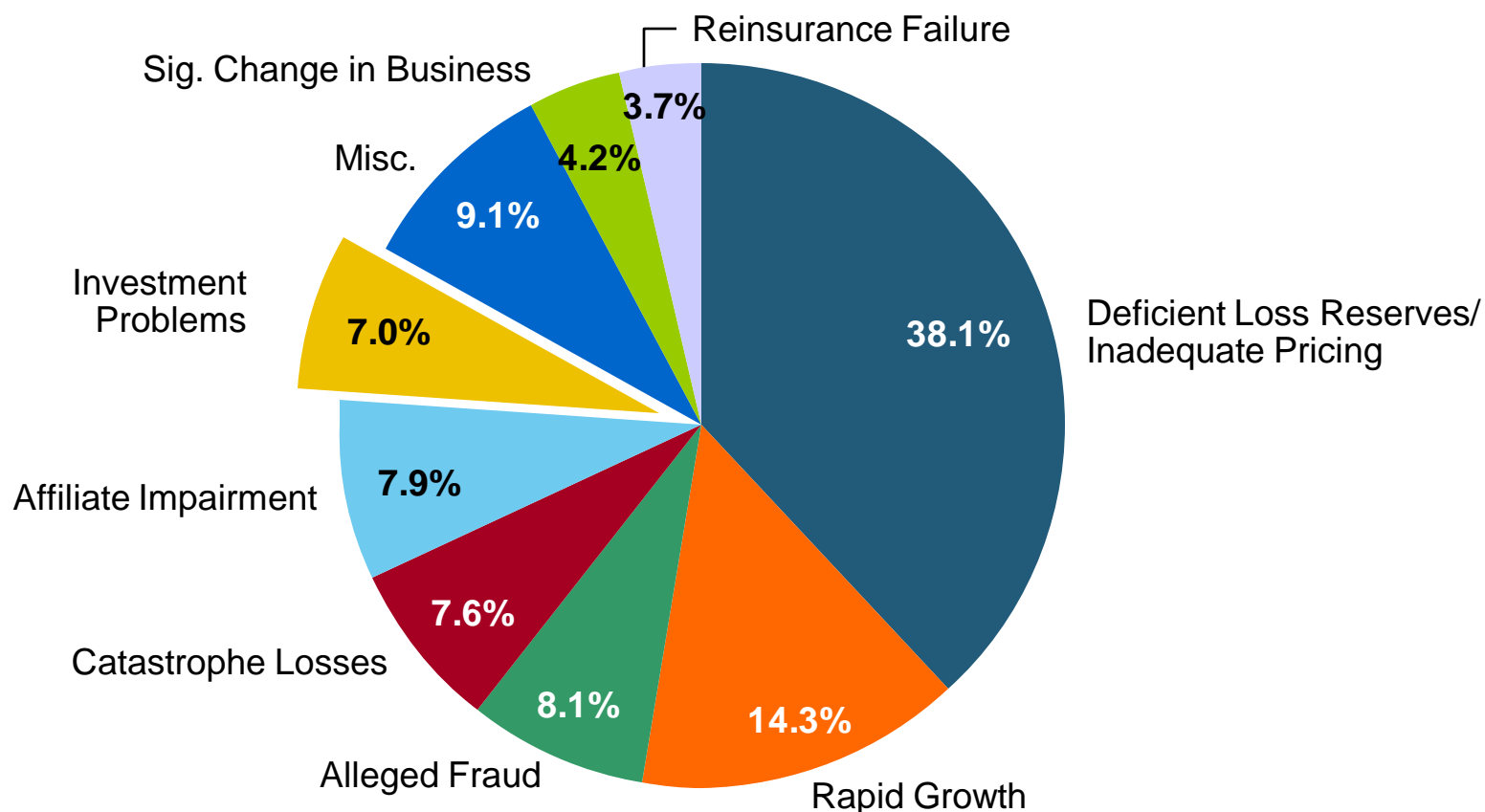
P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2009



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



Critical Differences Between P/C Insurers and Banks

**Superior Risk Management Model and
Low Leverage Make a Big Difference**

How P/C Insurance Industry Stability Has Benefitted Consumers

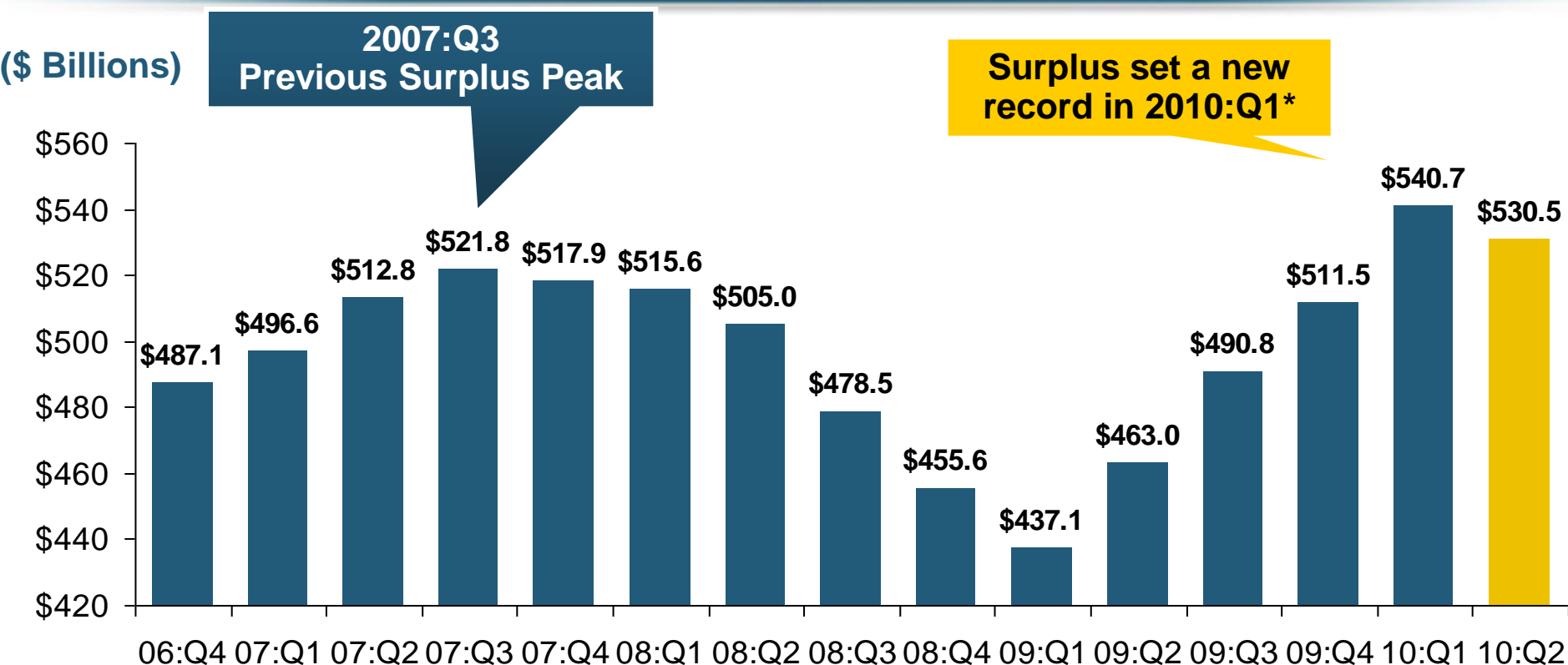
Bottom Line:

- Insurance markets – unlike banking – are operating **normally**
- The basic function of insurance – the orderly transfer of risk from client to insurer – **continues uninterrupted**
- This means that insurers continue to:
 - ◆ Pay claims (whereas 311 banks have gone under as of 11/5/10)
 - **The promise is being fulfilled**
 - ◆ Renew existing policies (*banks are reducing and eliminating lines of credit*)
 - ◆ Write new policies (*banks are turning away people and businesses who want or need to borrow*)
 - ◆ Develop new products (*banks are scaling back the products they offer*)
 - ◆ Compete intensively (*banks are consolidating, reducing consumer choice*)

Capital/Policyholder Surplus (US)

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

Policyholder Surplus, 2006:Q4–2010:Q2



Quarterly Surplus Changes Since 2009:Q1 Trough

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

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

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

10:Q2: -\$10.2B (-1.9%)

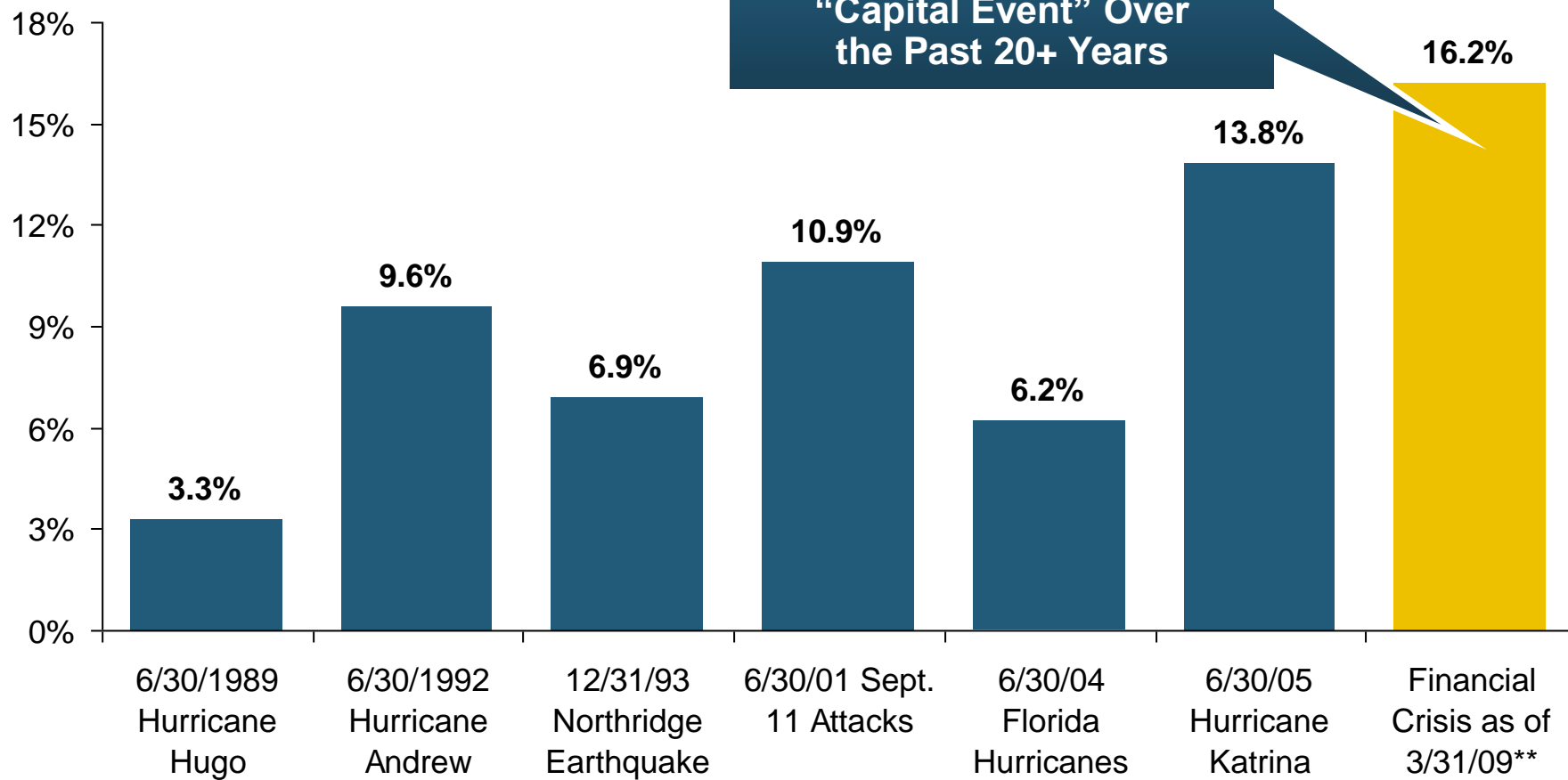
09:Q3: -\$31.8B (-5.9%)

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

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

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

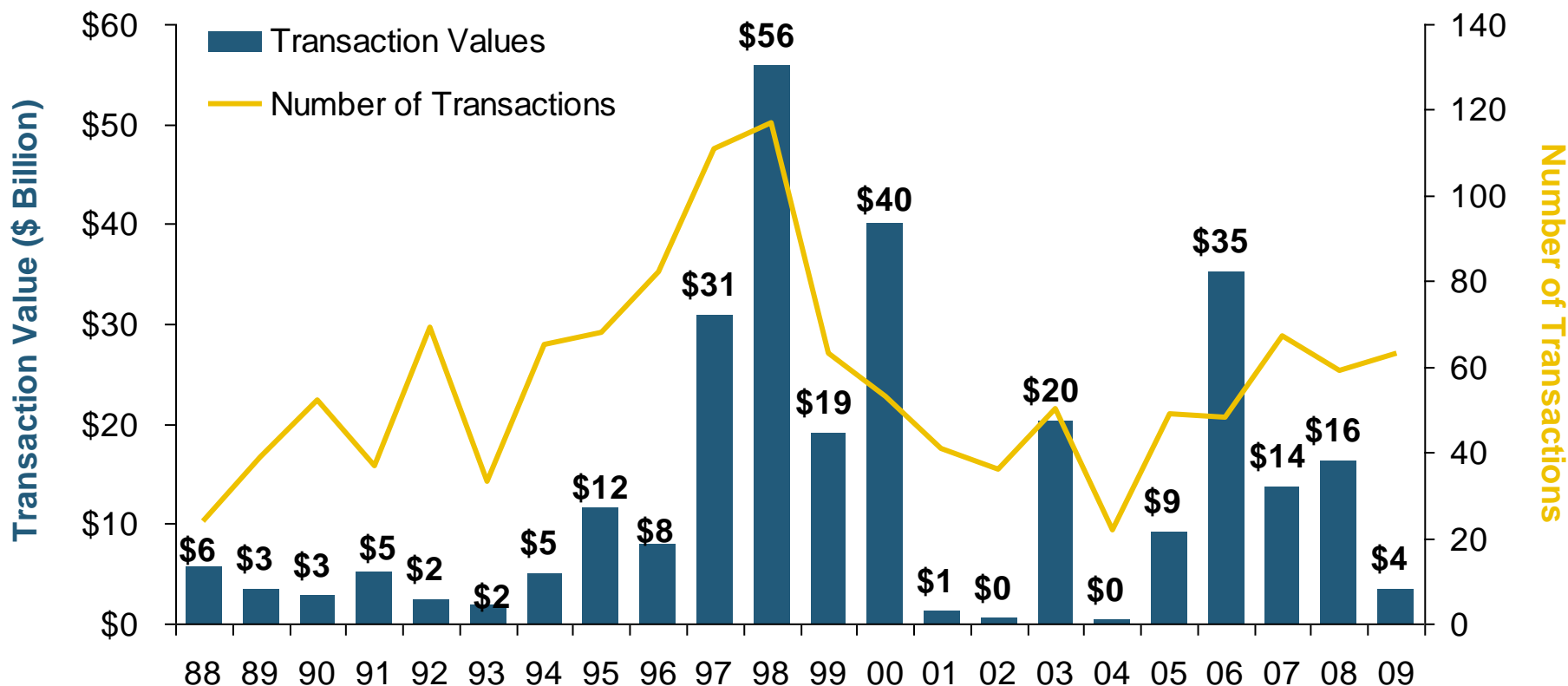
** Date of maximum capital erosion; As of 9/30/09 (latest available) ratio = 5.9%

Source: PCS; Insurance Information Institute

Merger & Acquisition

**Barriers to Consolidation Will
Diminish in 2010**

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.

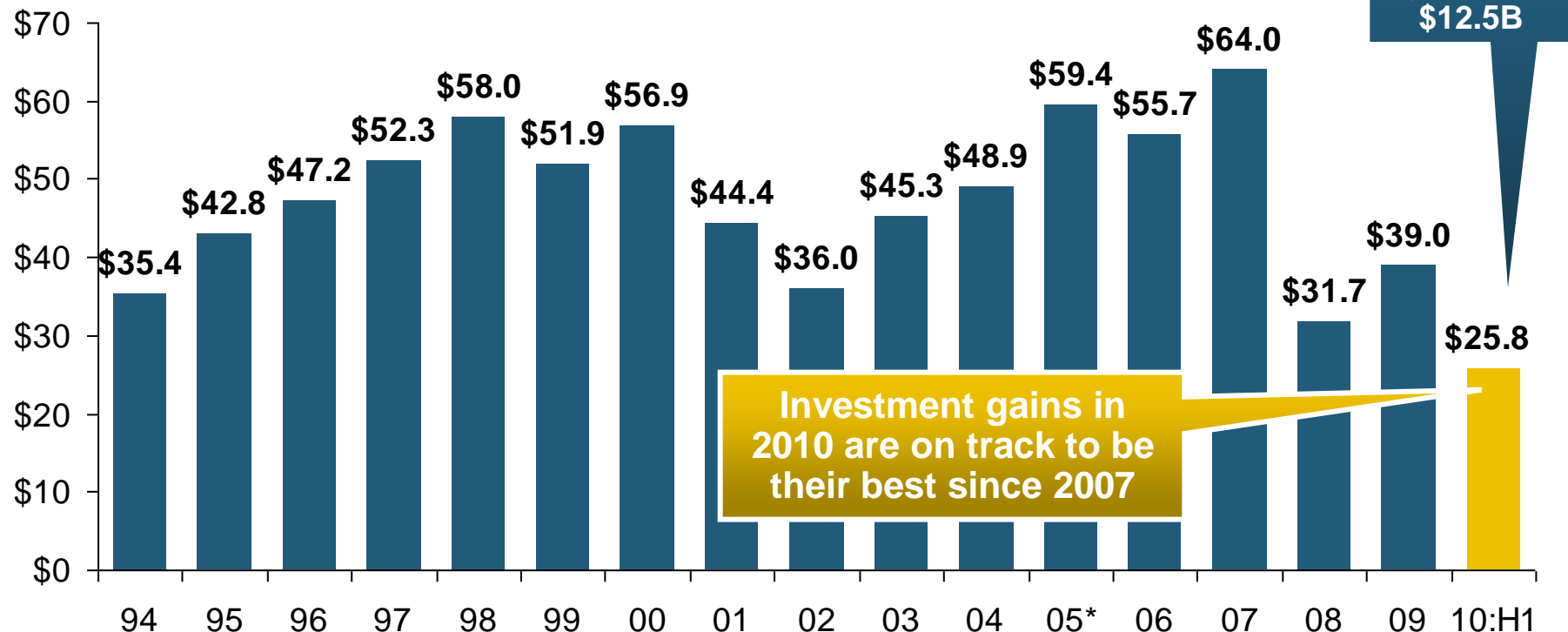
Investment Performance

**Investments Are a Principle
Source of Declining Profitability**

Property/Casualty Insurance Industry Investment Gain: 1994–2010:H1¹



(\$ Billions)



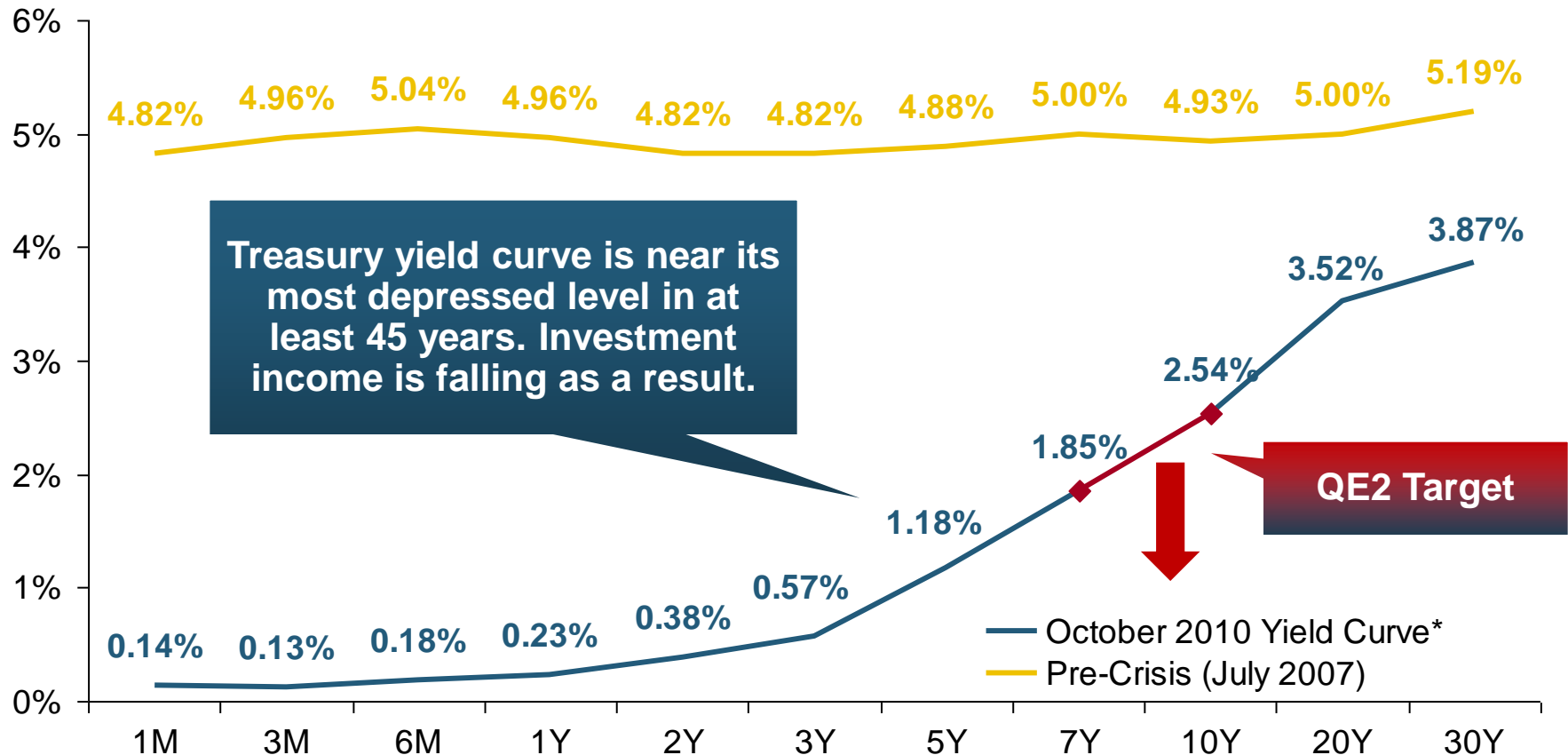
In 2008, Investment Gains Fell by 50% Due to Lower Yields and Nearly \$20B of Realized Capital Losses
2009 Saw Smaller Realized Capital Losses But Declining Investment Income
Investment Gains Are Recovering So Far in 2010

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.

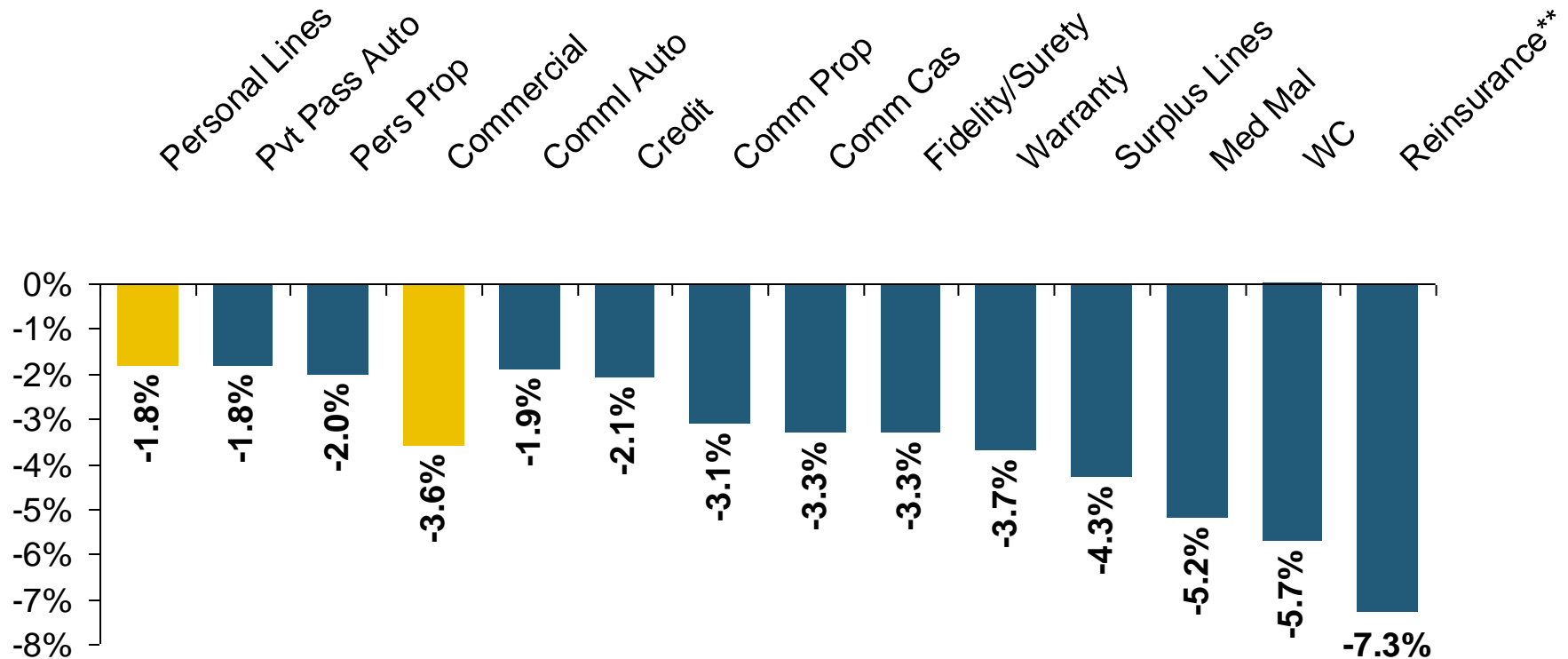
Sources: ISO; Insurance Information Institute.

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



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

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

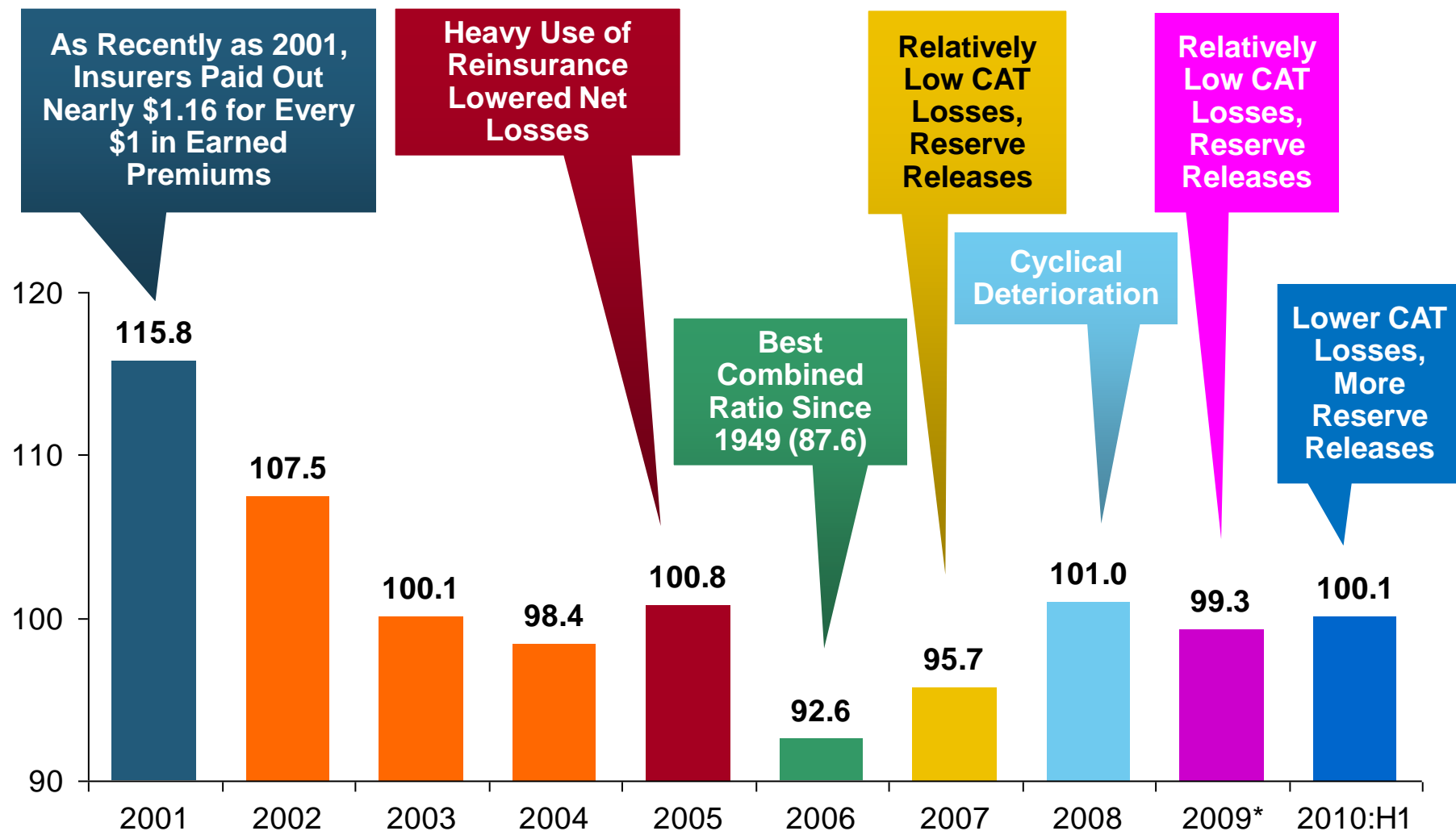
*Based on 2008 Invested Assets and Earned Premiums

**US domestic reinsurance only

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

**Underwriting Trends –
Financial Crisis Does *Not*
Directly Impact Underwriting
Performance: Cycle, Catastrophes
Were 2008's Drivers**

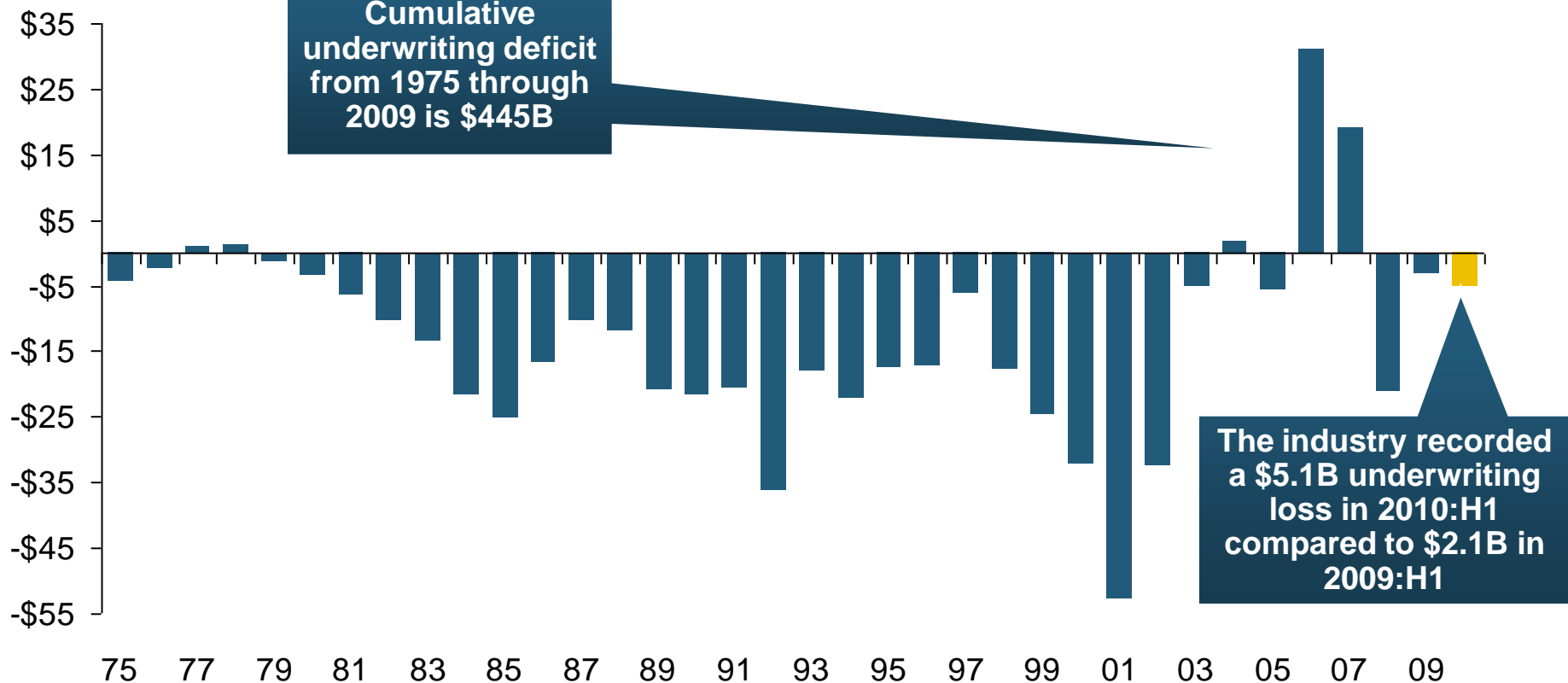
P/C Insurance Industry Combined Ratio, 2001–2010:H1*



* Excludes Mortgage & Financial Guaranty insurers in 2008, 2009 and 2010. Including M&FG, 2008=105.1, 2009=100.7, 2010:H1=101.7
Sources: A.M. Best, ISO.

Underwriting Gain (Loss) 1975–2010:H1*

(\$ Billions)

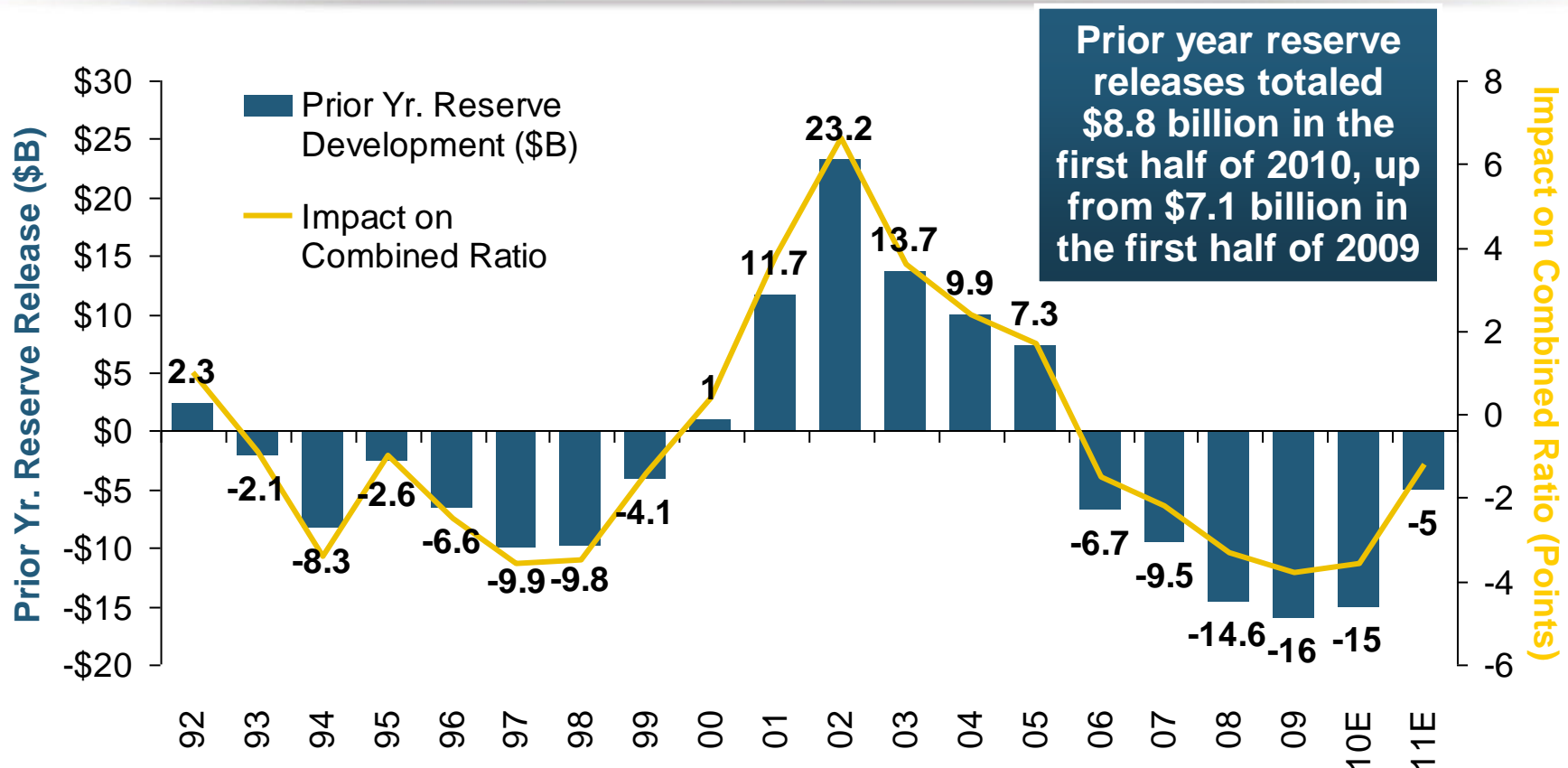


**Large Underwriting Losses Are *NOT* Sustainable
in Current Investment Environment**

* Includes mortgage and financial guarantee insurers.

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

P/C Reserve Development, 1992–2011E



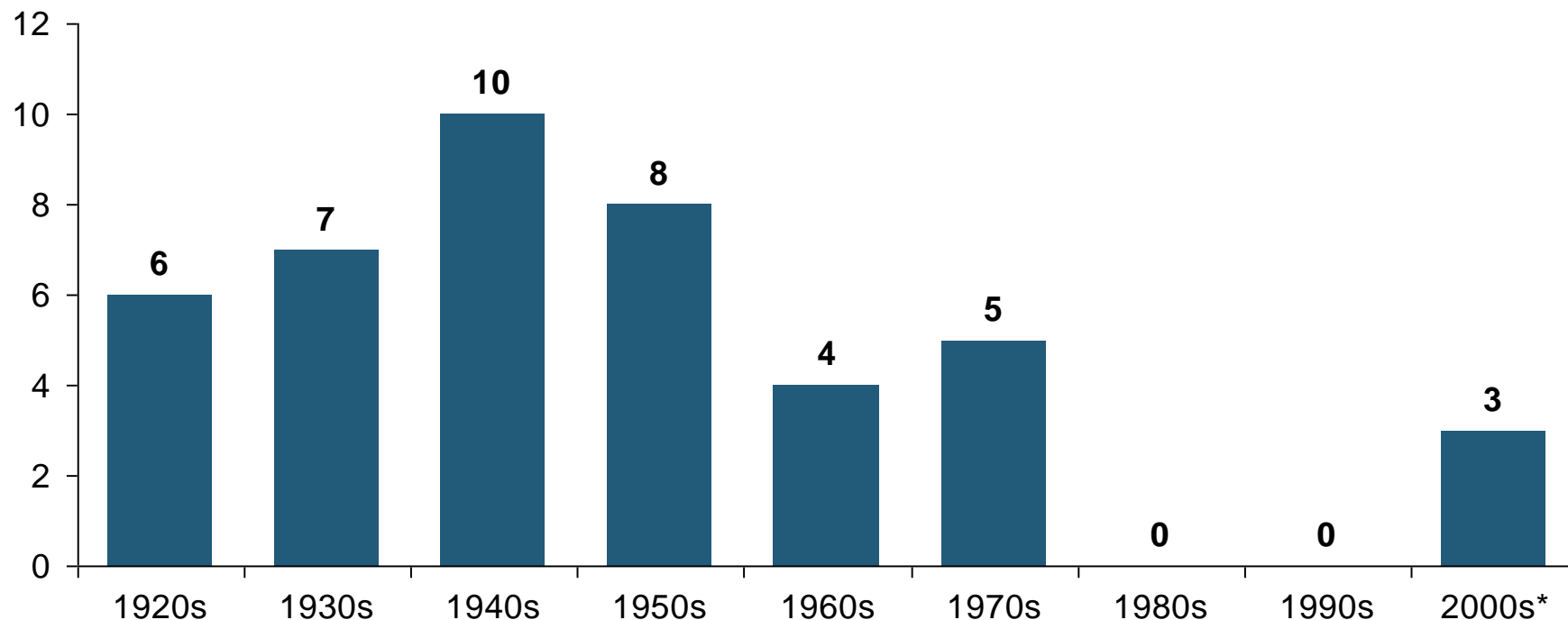
Reserve Releases Are Continuing Strong in 2010 But Should Begin to Taper Off in 2011

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.

Number of Years with Underwriting Profits by Decade, 1920s–2000s

Number of Years with Underwriting Profits



**Underwriting Profits Were Common Before the 1980s
(40 of the 60 Years Before 1980 Had Combined Ratios Below 100) –
But Then They Vanished. Not a Single Underwriting Profit Was
Recorded in the 25 Years from 1979 Through 2003**

* 2000 through 2009. 2009 combined ratio excluding mortgage and financial guaranty insurers was 99.3, which would bring the 2000s total to 4 years with an underwriting profit.

Note: Data for 1920–1934 based on stock companies only.

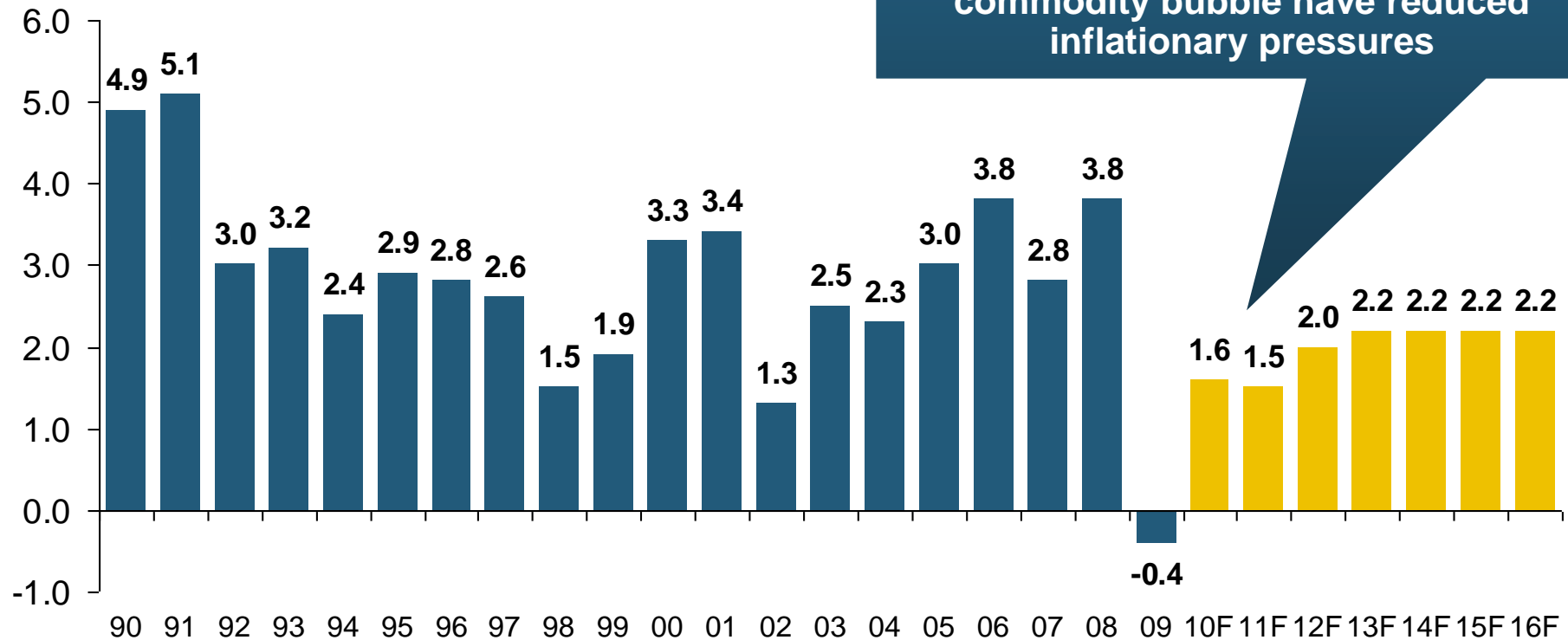
Sources: Insurance Information Institute research from A.M. Best Data.

Inflation Trends: Benign Inflation Tempers Claim Severity

**Fed Efforts to Stimulate Inflation Will
Ultimately Pressure Claim
Cost Severities**

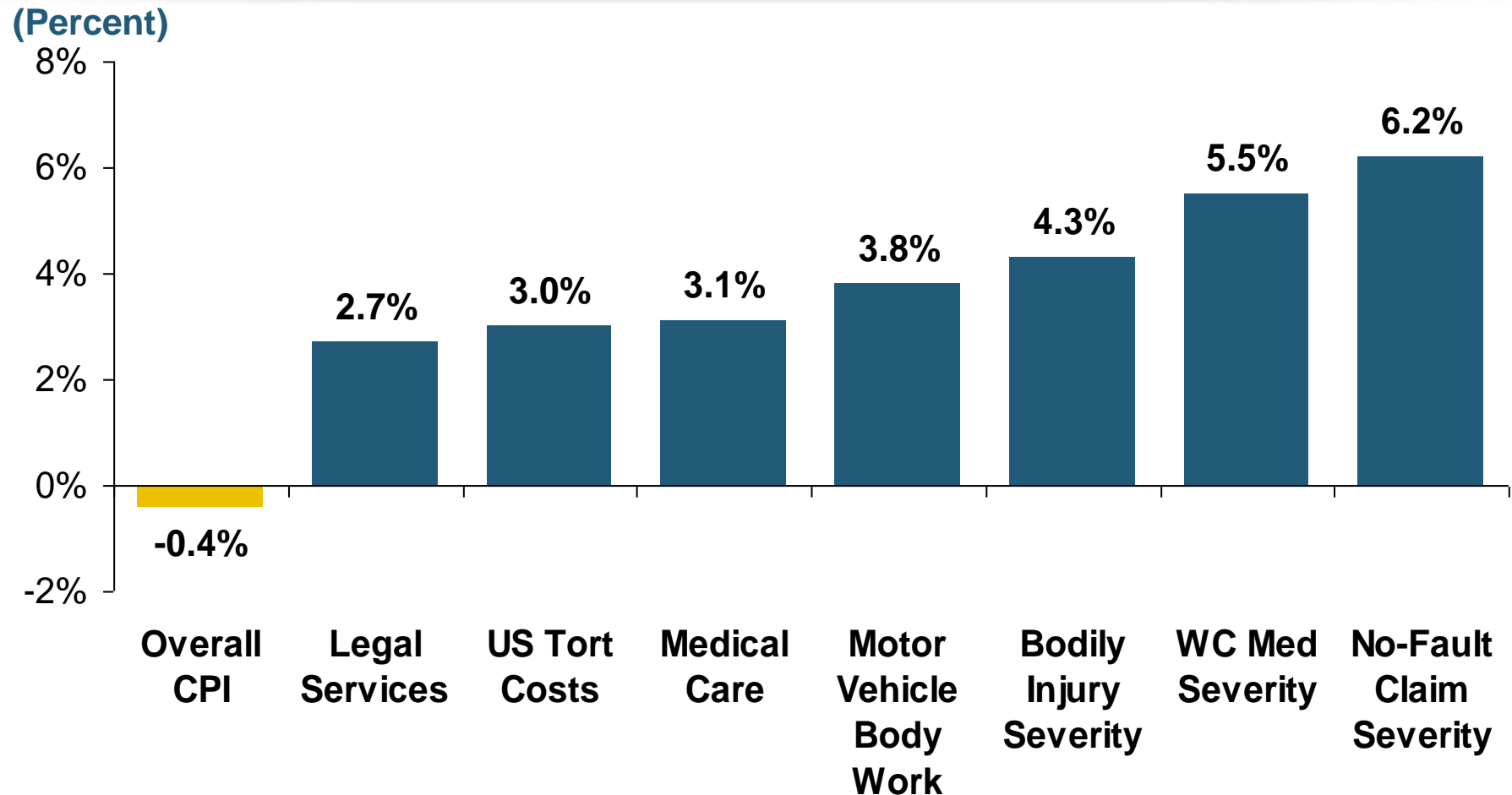
Annual Inflation Rates (CPI-U, %), 1990–2016F

Annual Inflation Rates (%)



There is So Much Slack in the US Economy Inflation Should Not Be a Concern Through 2010-12 Despite Fed's Quantitative Easing Efforts. Deficits and Monetary Policy Remain Longer Run Concerns

P/C Insurers Experience Inflation More Intensely than 2009 CPI Suggests

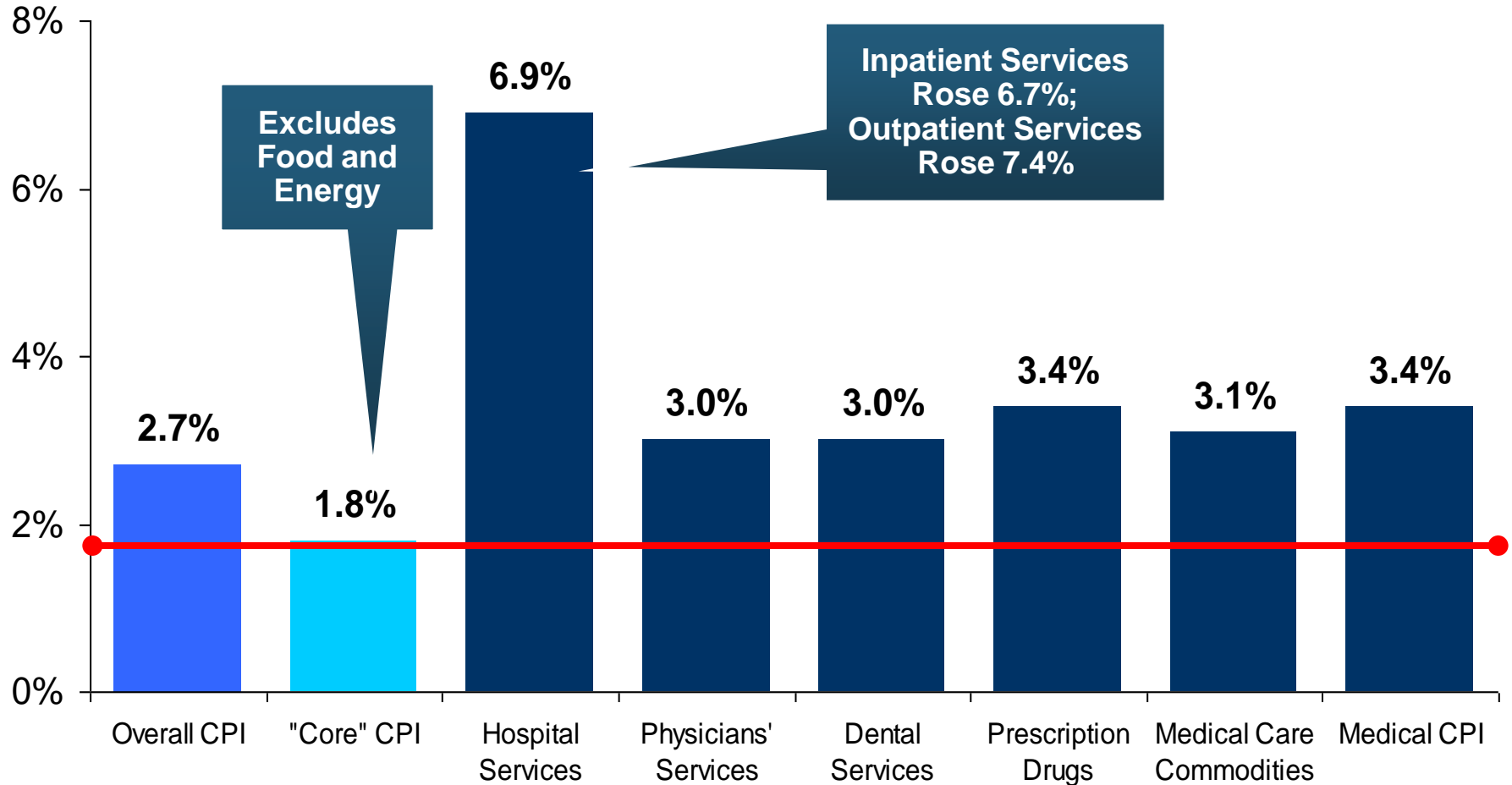


Healthcare and Legal/Tort Costs Are a Major P/C Insurance Cost Driver. These Are Expected to Increase Above the Overall Inflation Rate (CPI) Indefinitely

Source: CPI is Blue Chip Economic Indicator 2009 estimate, 12/09; Legal services, medical care and motor vehicle body work are avg. monthly year-over-year change from BLS; BI and no-fault figures from ISO Fast Track data for 4 quarters ending 09:Q3. Tort costs is 2009 Towers-Perrin estimate. WC figure is I.I.I. estimate based on historical NCCI data.

WC Insurers Experience Inflation More Intensely than 2009 CPI Suggests

(Percent increase Dec 08 to Dec 09)



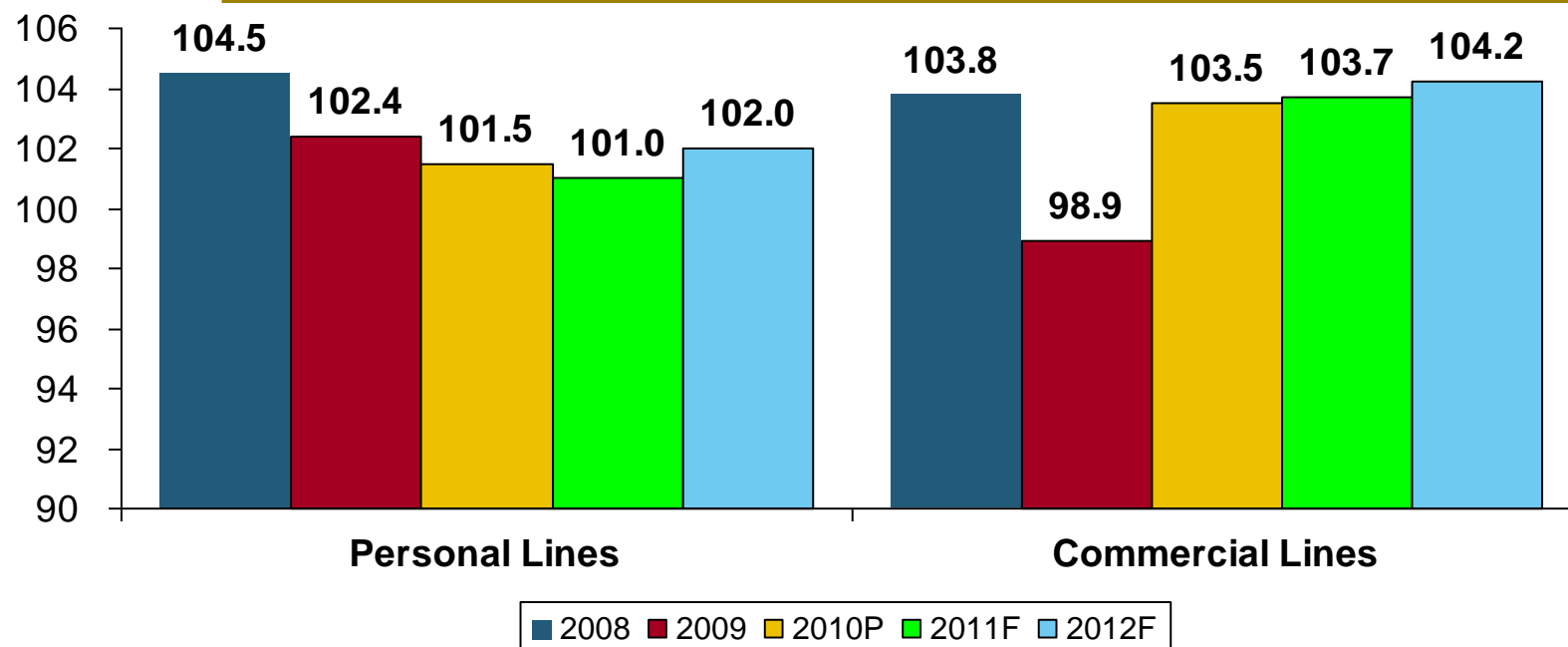
Healthcare Costs Are a Major WC Insurance Cost Driver. They Are Likely to Increase Faster than the CPI for the Next Few Years, at Least



Performance by Segment: Commercial/Personal Lines

Calendar Year Combined Ratios by Segment: 2008-2012F

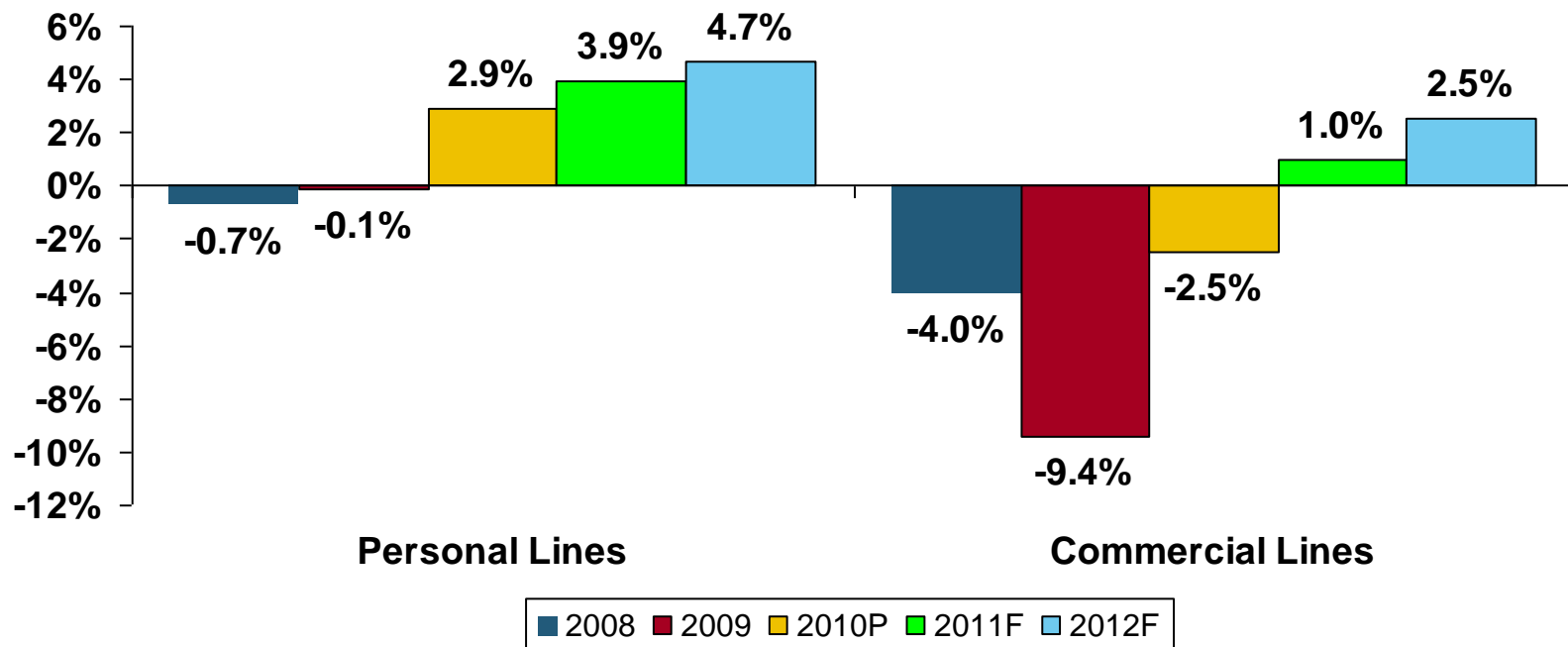
Personal lines combined ratio is expected to remain stable in 2010 while commercial lines and reinsurance deteriorate



Overall deterioration in 2010 underwriting performance is due to expected return to normal catastrophe activity along with deteriorating underwriting performance related to the prolonged commercial soft market

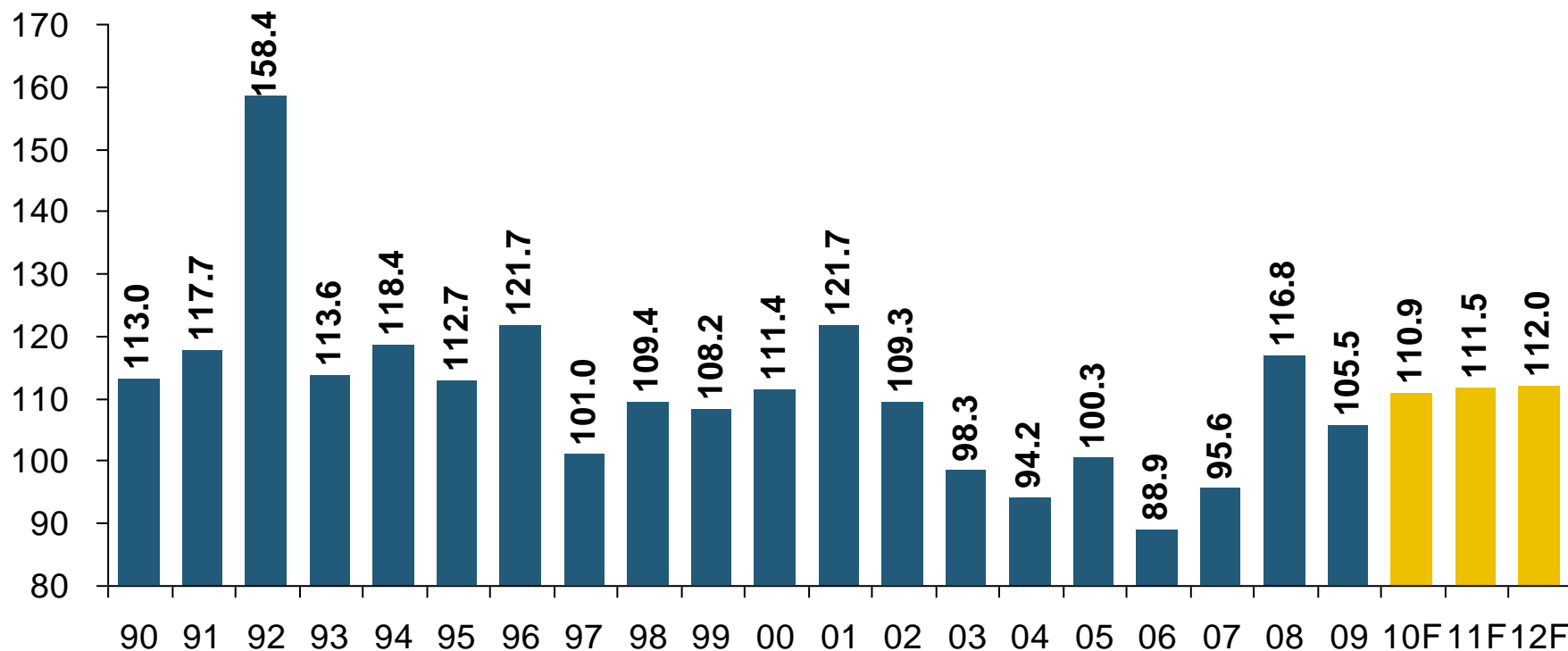
Net Written Premium Growth by Segment: 2008-2012F

Personal lines will show growth in 2010 while commercial lines is expected to continue to shrink



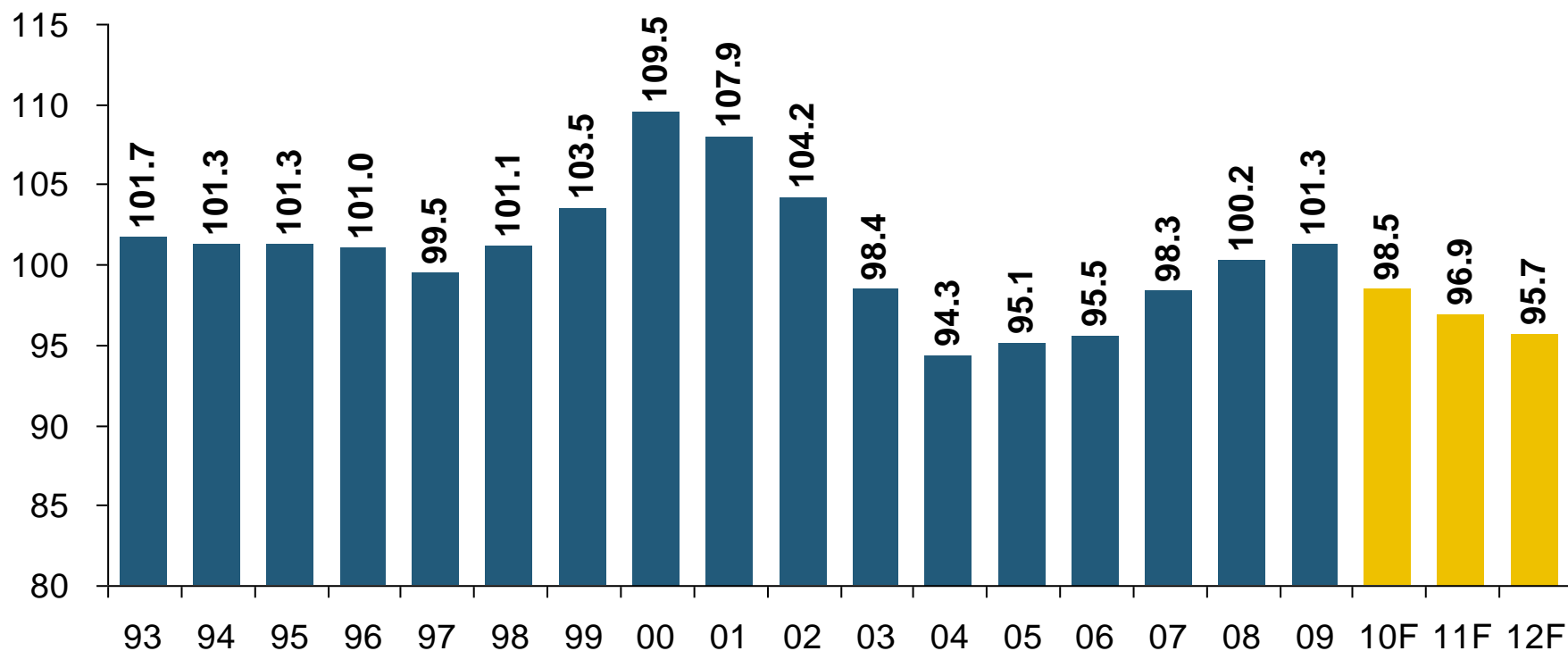
Rate and exposure are more favorable in personal lines, whereas a prolonged soft market and sluggish recovery from the recession weigh on commercial lines.

Homeowners Insurance Combined Ratio: 1990–2012F



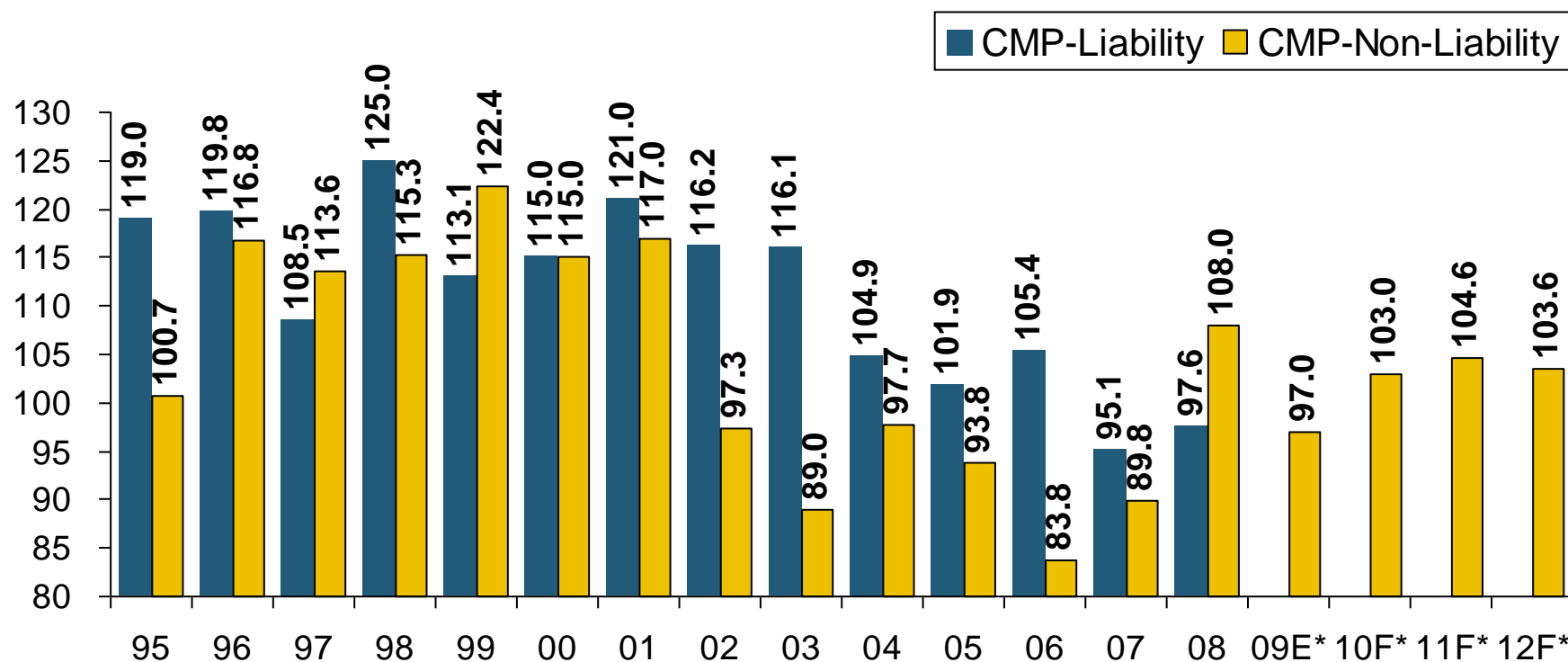
Homeowners Line Is Expected to Be Less Profitable Overall in 2010 Due Largely to Higher Catastrophe Losses. Volatility Due to Catastrophe Losses Will Persist.

Private Passenger Auto Combined Ratio: 1993–2012F



Private Passenger Auto Accounts for 34% of Industry Premiums and Remains the Profit Juggernaut of the P/C Insurance Industry

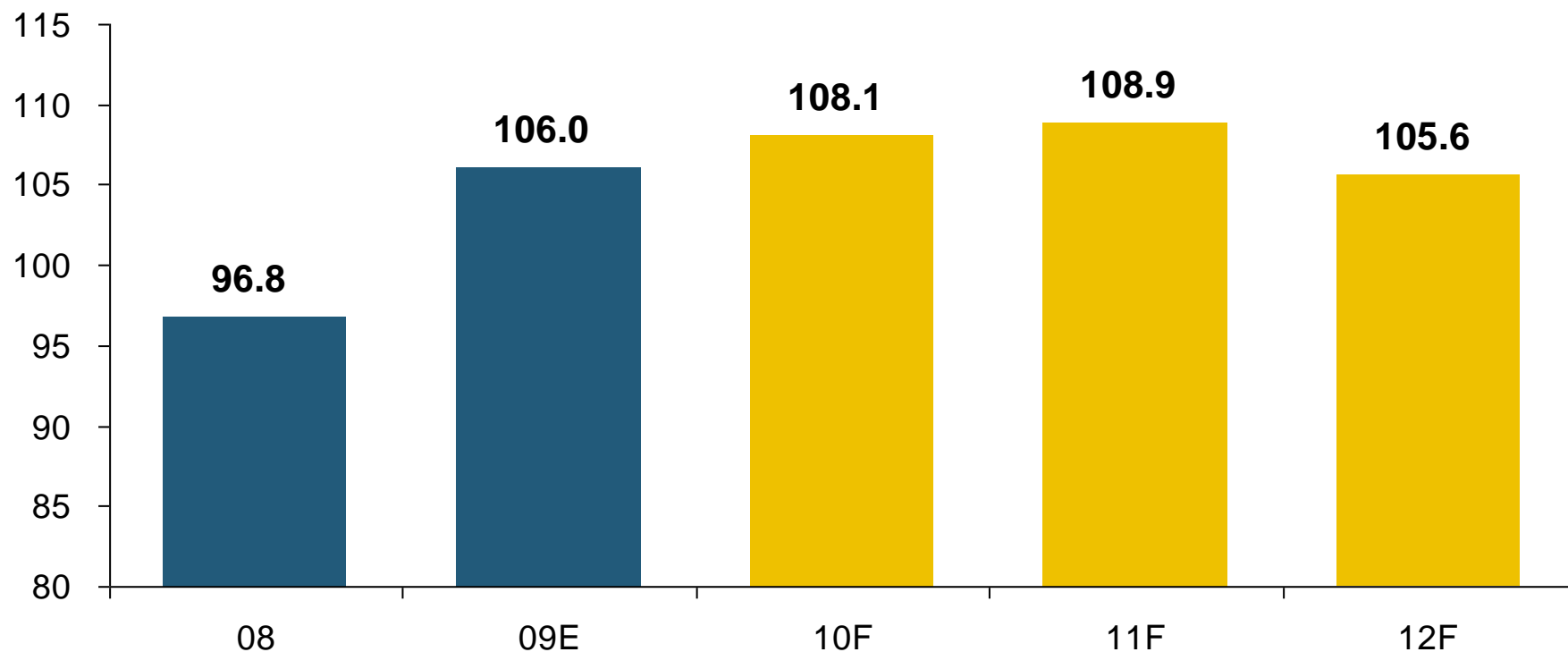
Commercial Multi-Peril Combined Ratio: 1995–2012F*



Commercial Multi-Peril is Expected to Continue to Perform Reasonably Well

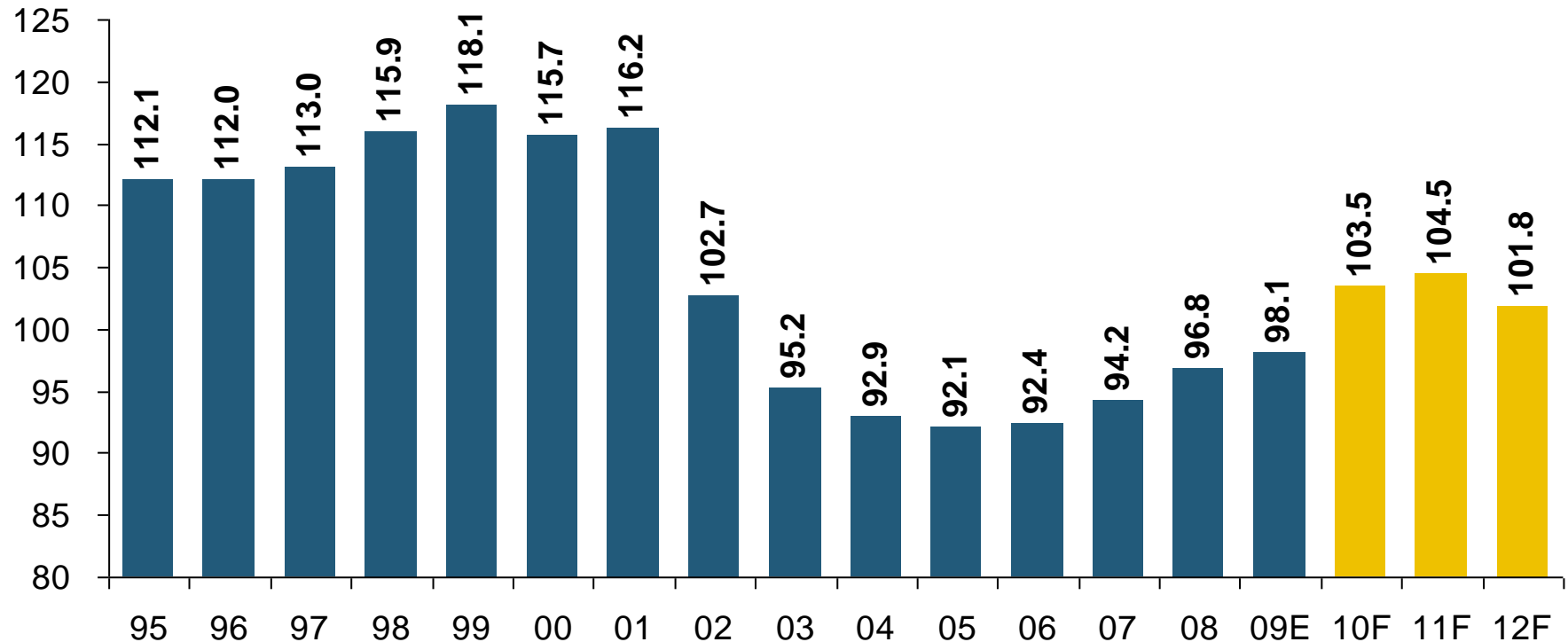
*2009E and 2010P figures are for the combined liability and non-liability components.
Sources: A.M. Best (history); Conning (forecasts) Insurance Information Institute.

General Liability Combined Ratio: 2008–2012F



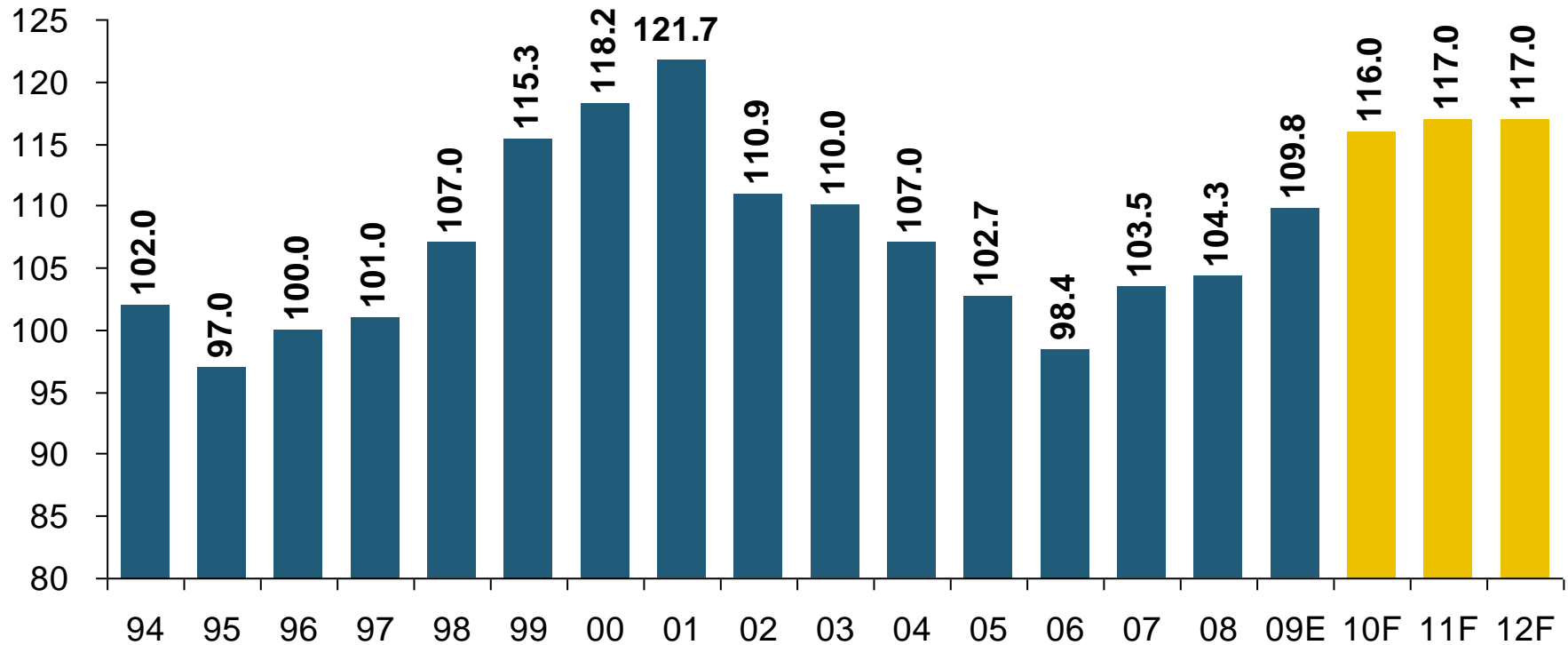
General Liability is Expected to Deteriorate if Loss Frequency and Severity Trends Deteriorate 2010-2012

Commercial Auto Combined Ratio: 1993–2012F



Commercial Auto is Expected to Deteriorate if Loss Frequency and Severity Trends Deteriorate 2010-2012

Workers Compensation Combined Ratio: 1994–2012F



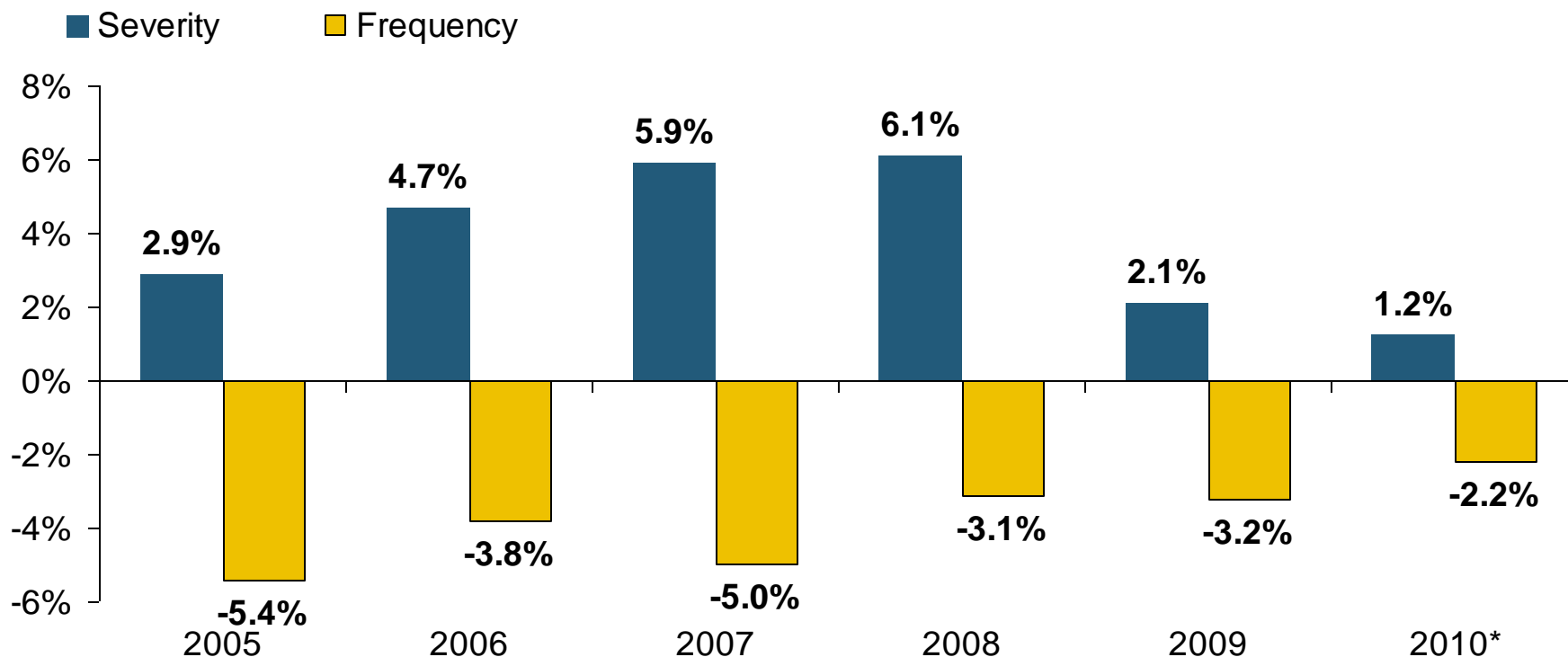
Workers Comp Underwriting Results Are Deteriorating Markedly

Claim Trends in Auto Insurance

**Rising Costs Held in Check by
Falling Frequency:
Can That Pattern Be Sustained?**

Bodily Injury: Severity Trend Moderating, Frequency Decline Continues

Annual Change, 2005 through 2010*



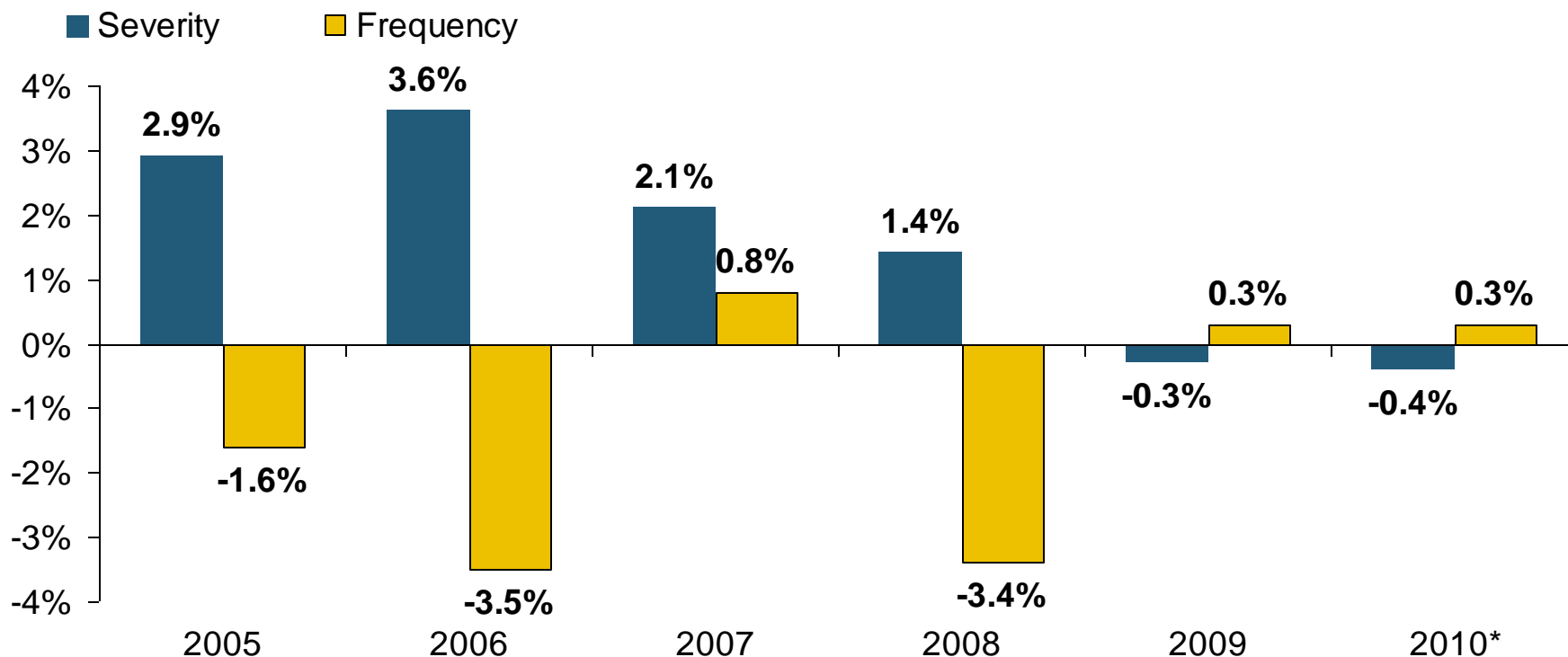
**Cost Pressures Will Increase if BI Severity Increases
Outpace Declines in Frequency**

*For 2010, data are for the 4 quarters ending with 2010:Q2.

Source: ISO/PCI *Fast Track* data; Insurance Information Institute

Property Damage Liability: Frequency and Severity Trends Nearly Offset in 2009/10

Annual Change, 2005 through 2010*



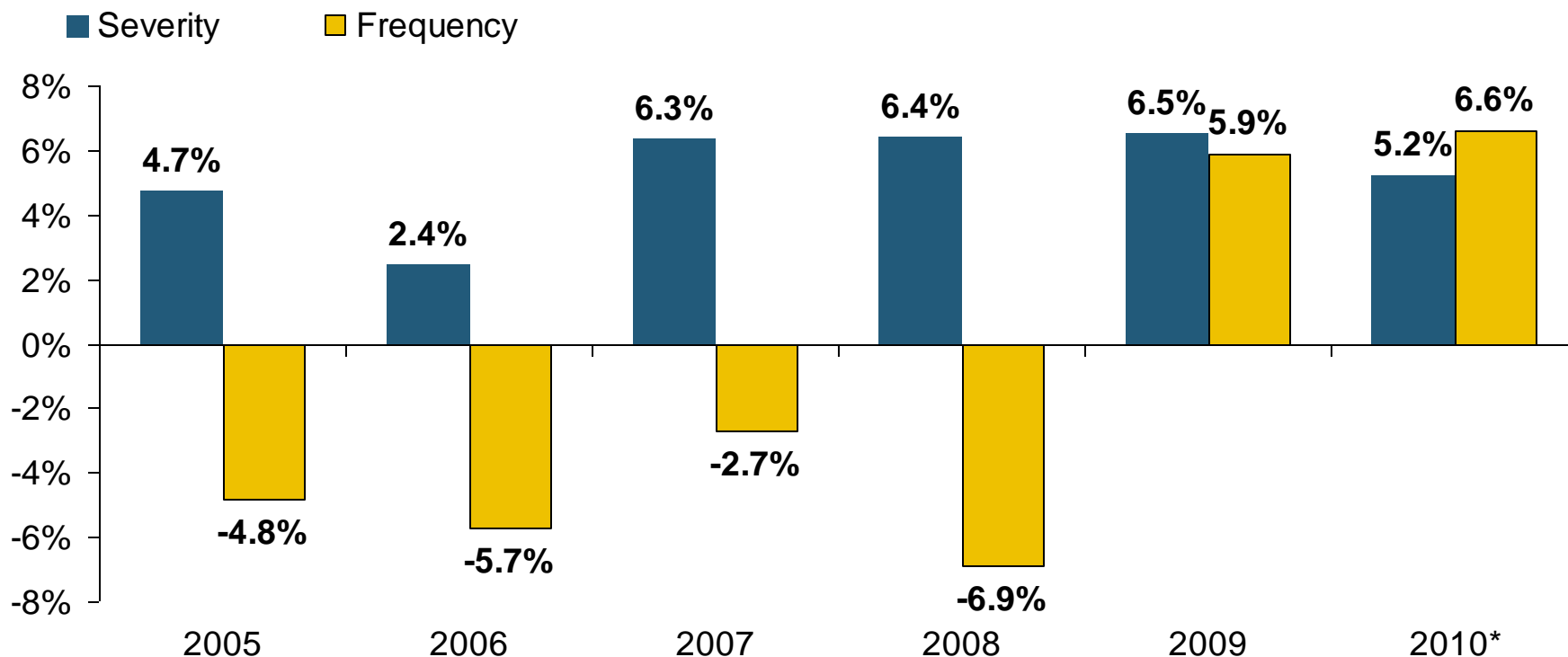
Stable Severity/Frequency Trends Keeping PD Costs in Check, But Are These Trends Sustainable?

*For 2010, data are for the 4 quarters ending with 2010:Q2.

Source: ISO/PCI *Fast Track* data; Insurance Information Institute

No-Fault (PIP) Liability: Frequency and Severity Trends Are Adverse*

Annual Change, 2005 through 2010*



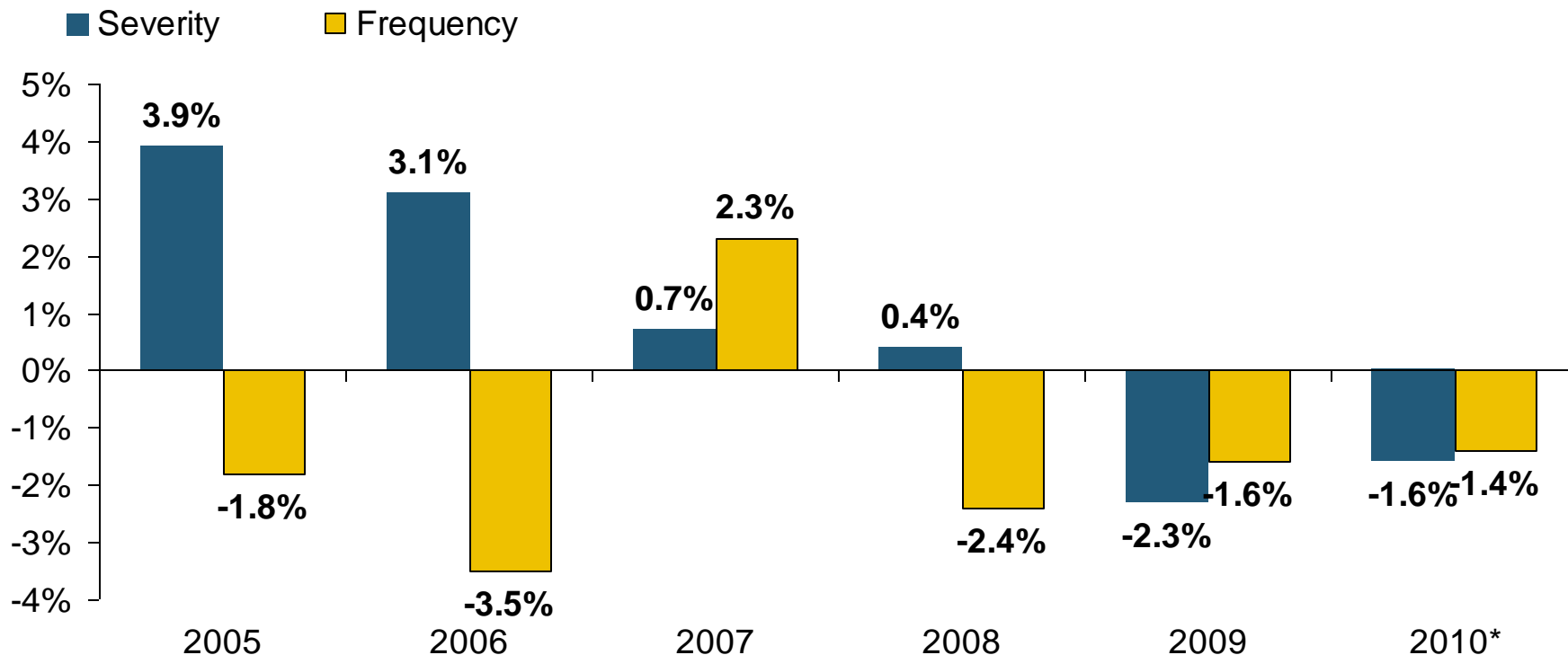
Multiple States Are Experiencing Severe Fraud and Abuse Problems in their No-Fault Systems, Especially FL, MI, NY and NJ

*No-fault states included are: FL, HI, KS, KY, MA, MI, MN, NY, ND and UT; 2010 data are for the 4 quarters ending 2010:Q2.

Source: ISO/PCI *Fast Track* data; Insurance Information Institute

Collision Coverage: Frequency and Severity Trends Have Been Favorable

Annual Change, 2005 through 2010*



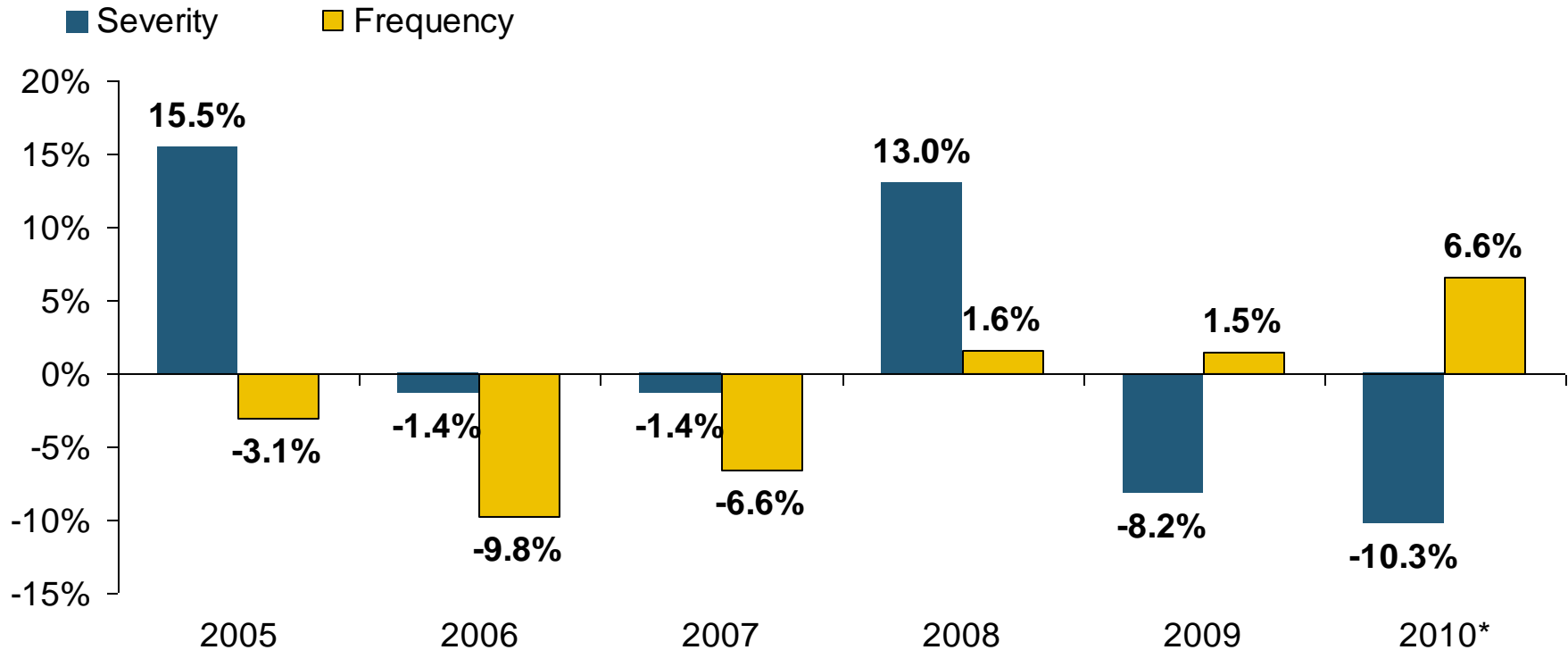
The Recession, High Fuel Prices Have Helped Push Down Frequency and Temper Severity, But this Trend Will Likely Be Reversed Based on Evidence from Past Recoveries

*For 2010, data are for the 4 quarters ending with 2010:Q2.

Source: ISO/PCI *Fast Track* data; Insurance Information Institute

Comprehensive Coverage: Recent Severity Trends Favorable, Frequency is Up in 2010

Annual Change, 2005 through 2010*



Weather Creates Volatility for Comprehensive Coverage; Recession Has Helped Push Down Frequency and Temper Severity, But This Factors Will Weaken as Economy Recovers

*For 2010, data are for the 4 quarters ending with 2010:Q2.

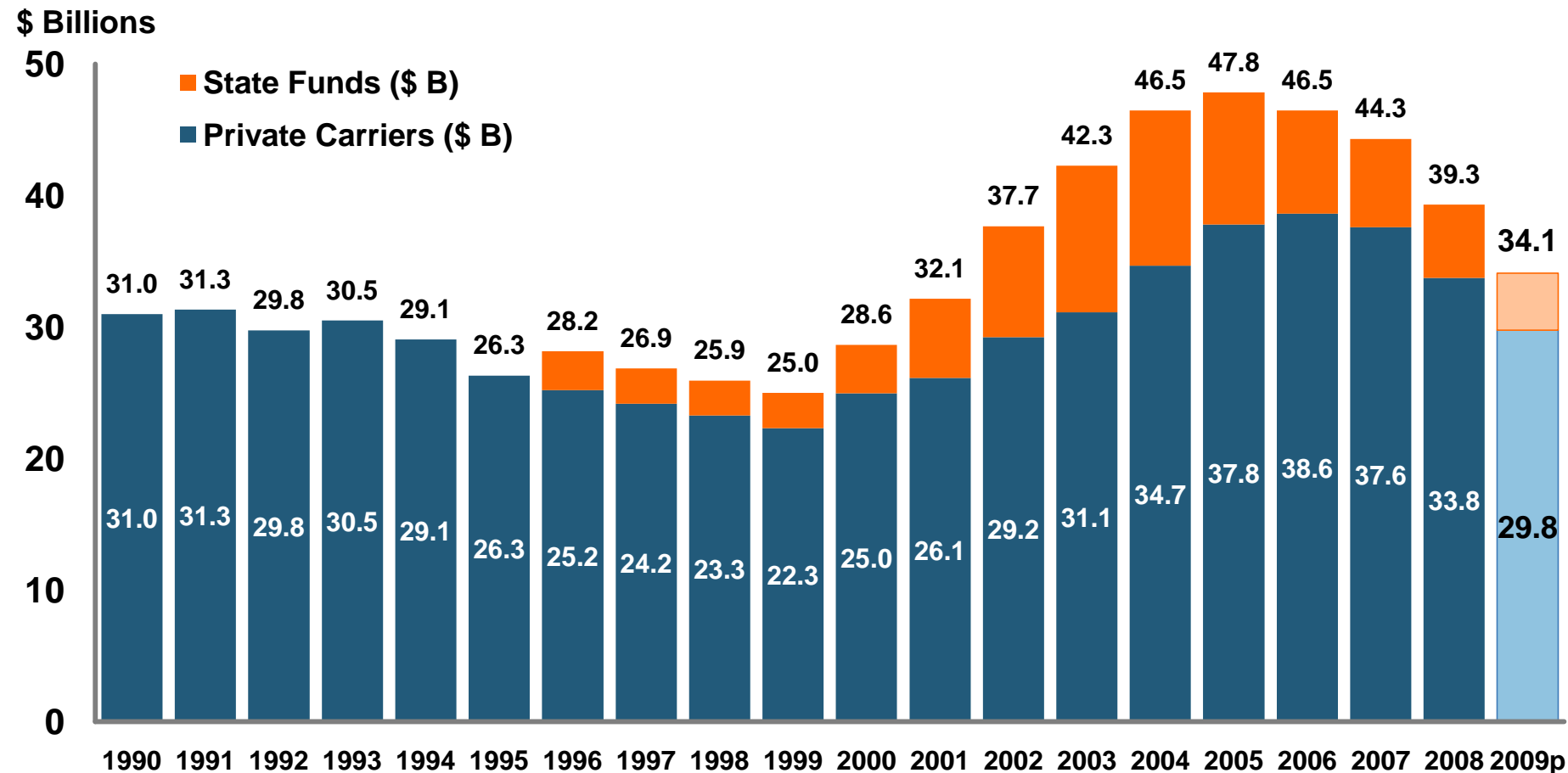
Source: ISO/PCI *Fast Track* data; Insurance Information Institute

Workers Compensation Operating Environment

**The Weak Economy and Soft Market Have
Made the Workers Comp Operating
Increasingly Challenging**

Workers Compensation Premium Continues Its Sharp Decline

Net Written Premium



p Preliminary

Source: 1990–2008 Private Carriers, *Best's Aggregates & Averages*; 2009p, NCCI

1996–2009p State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

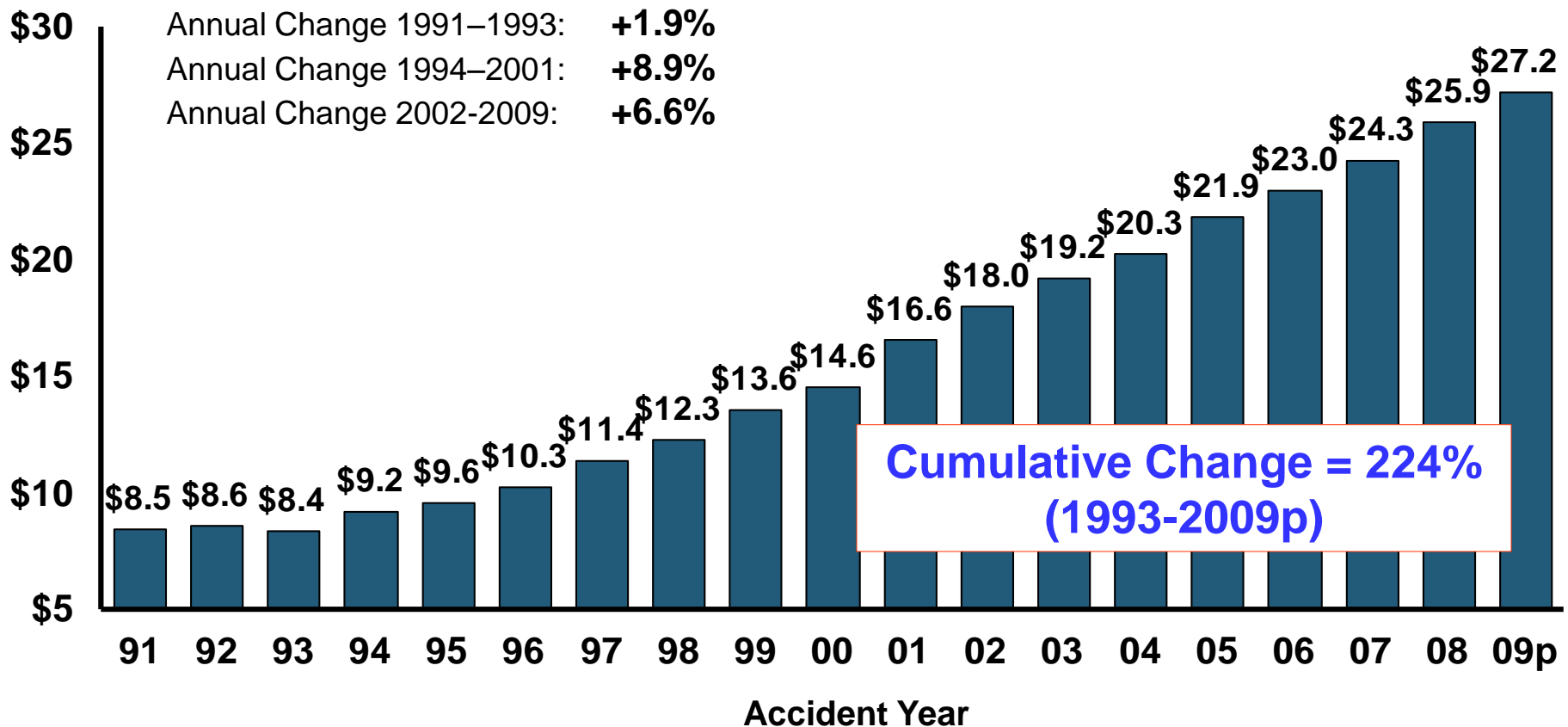
State Funds available for 1996 and subsequent

Workers Compensation Medical & Indemnity Claim Cost Trends

Rising Medical Costs Exert Pressure While Indemnity Costs Rise Well Ahead of Wage Inflation

Workers Comp Medical Claim Costs Continue to Rise

Medical Claim Cost (\$000s)

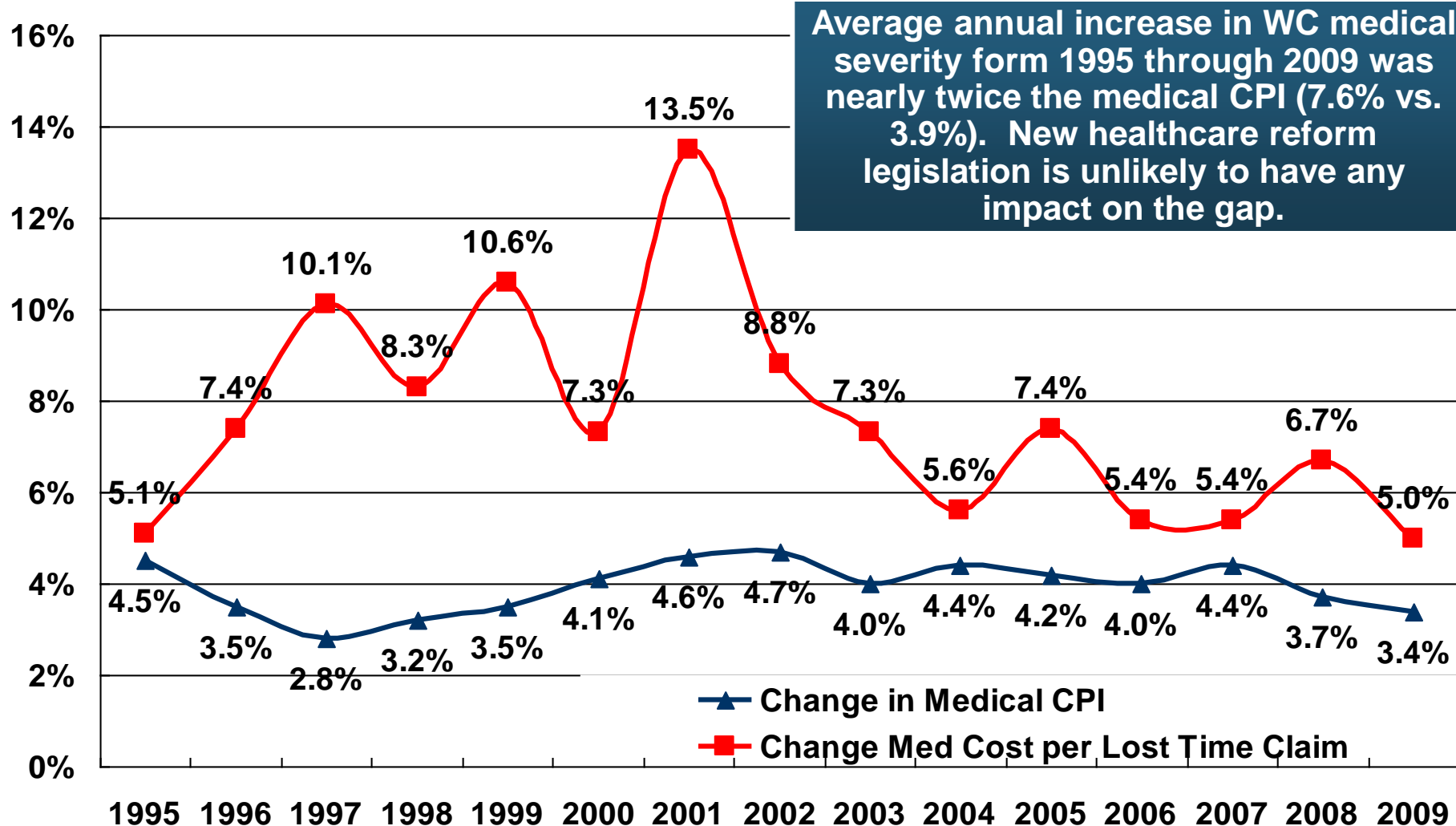


2009p: Preliminary based on data valued as of 12/31/2009

1991-2008: Based on data through 12/31/2008, developed to ultimate

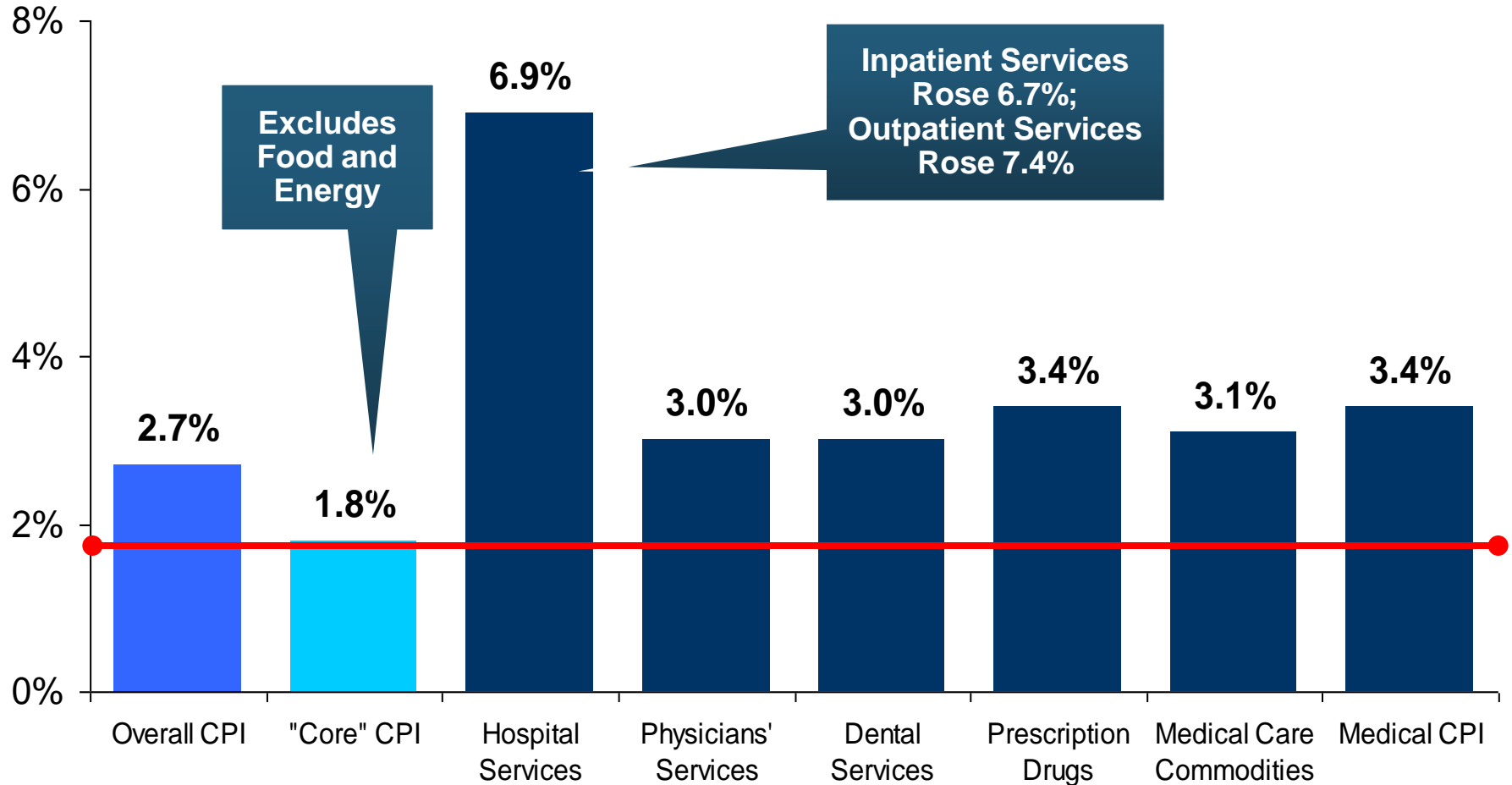
Based on the states where NCCI provides ratemaking services; Excludes the effects of deductible policies

WC Medical Severity Rising at Twice the Medical CPI Rate



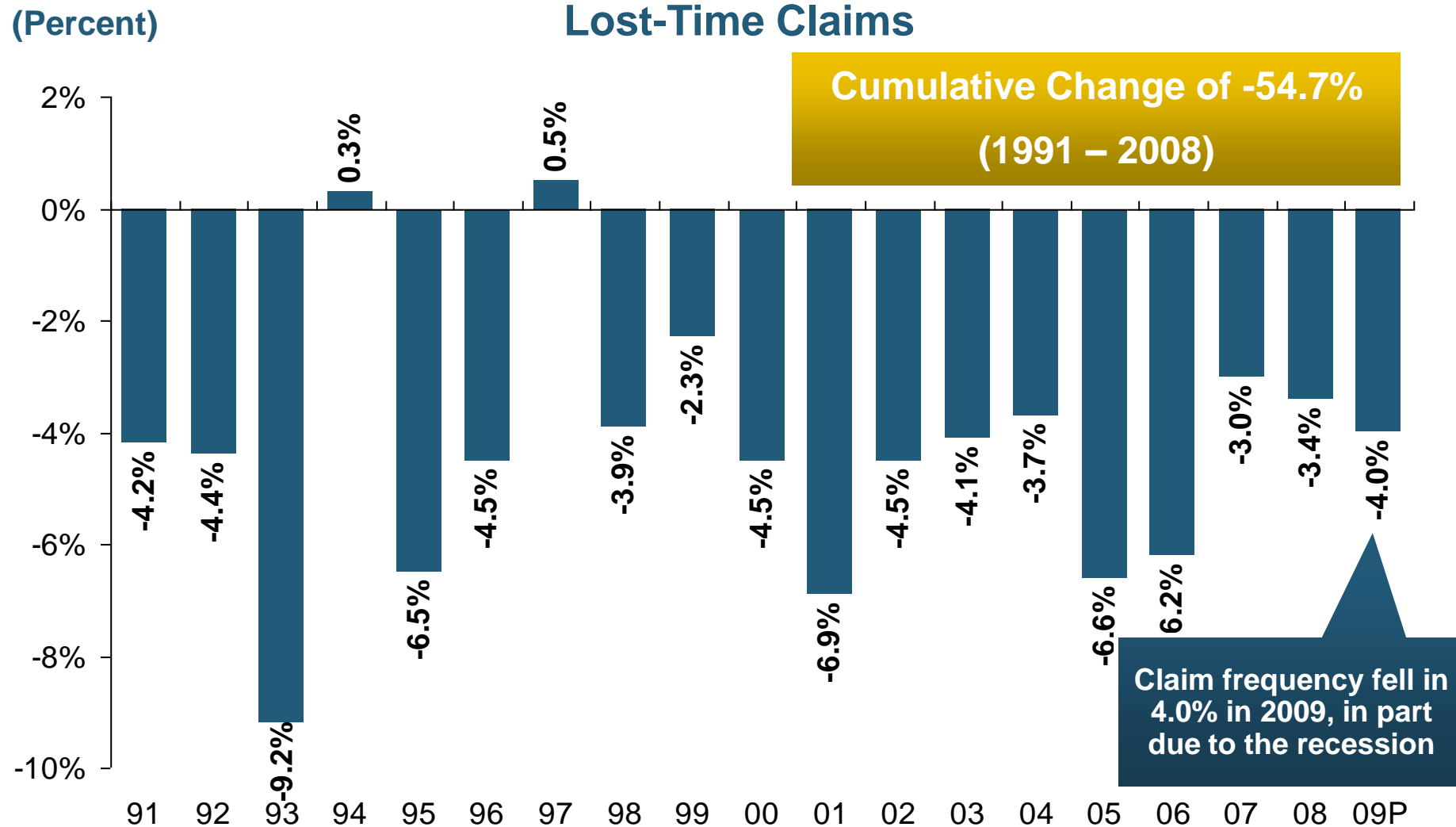
WC Insurers Experience Inflation More Intensely than 2009 CPI Suggests

(Percent increase Dec 08 to Dec 09)



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

Workers Compensation Lost-Time Claim Frequency Continues to Decline*



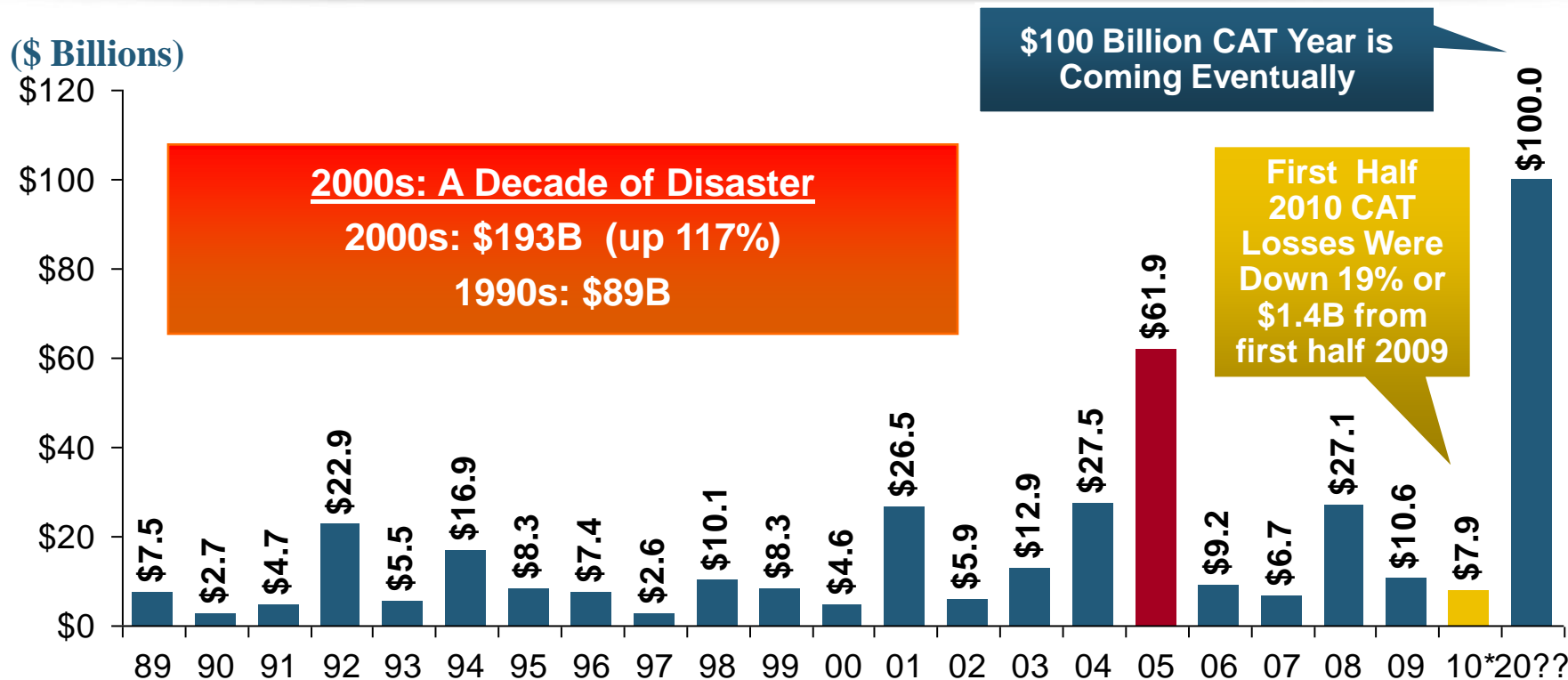
2009p: Preliminary based on data valued as of 12/31/2009;
1991-2008: Based on data through 12/31/2008, developed to ultimate

*Frequency is defined as the number of lost-time claims per 100,000 workers.

Based on the states where NCCI provides ratemaking services including state funds; Excludes the effects of deductible policies

Catastrophic Loss – Catastrophe Losses Trends Are Trending Adversely

US Insured Catastrophe Losses



2010 CAT Losses Are Running Below 2009, So Far
Figures Do Not Include an Estimate of Deepwater Horizon Loss

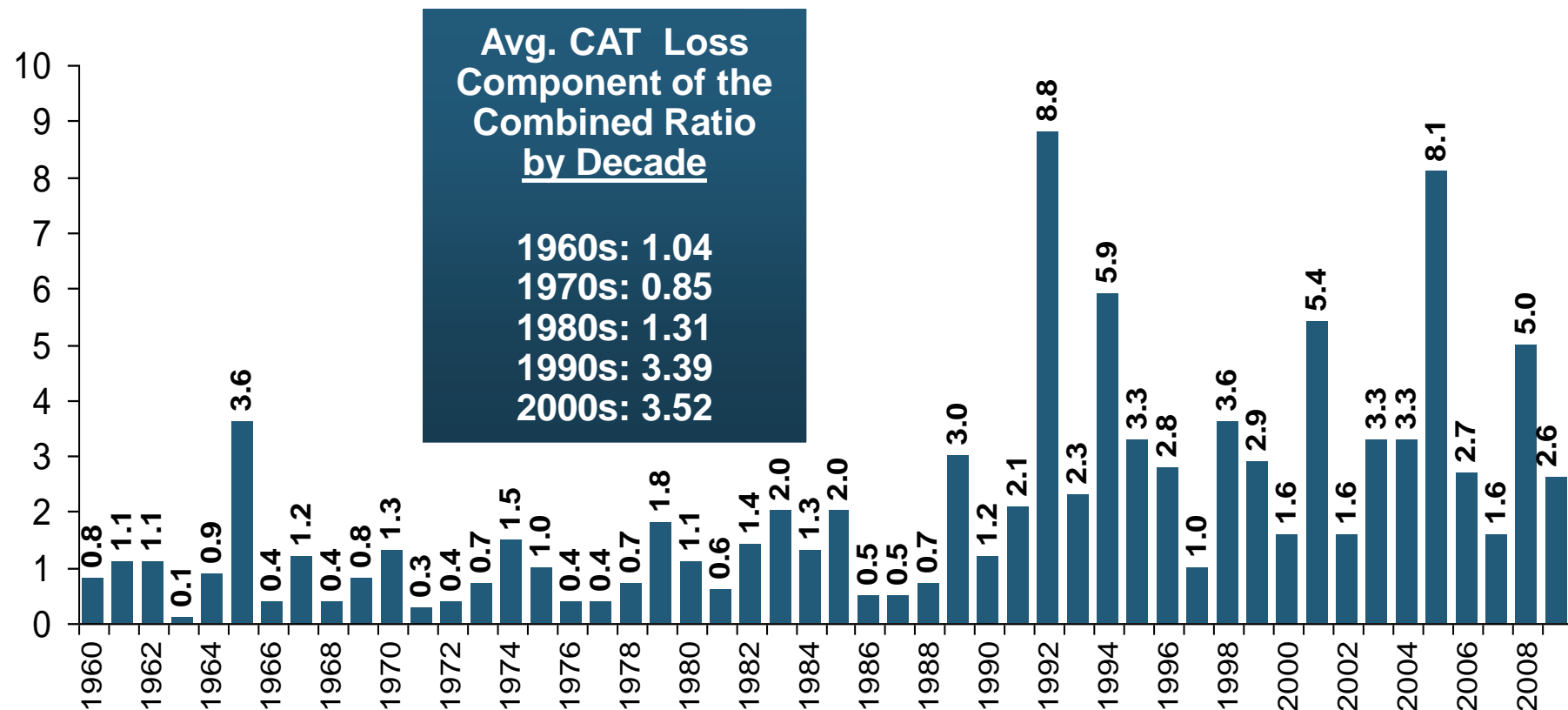
*Through June 30, 2010.

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 – 2009

Combined Ratio Points



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

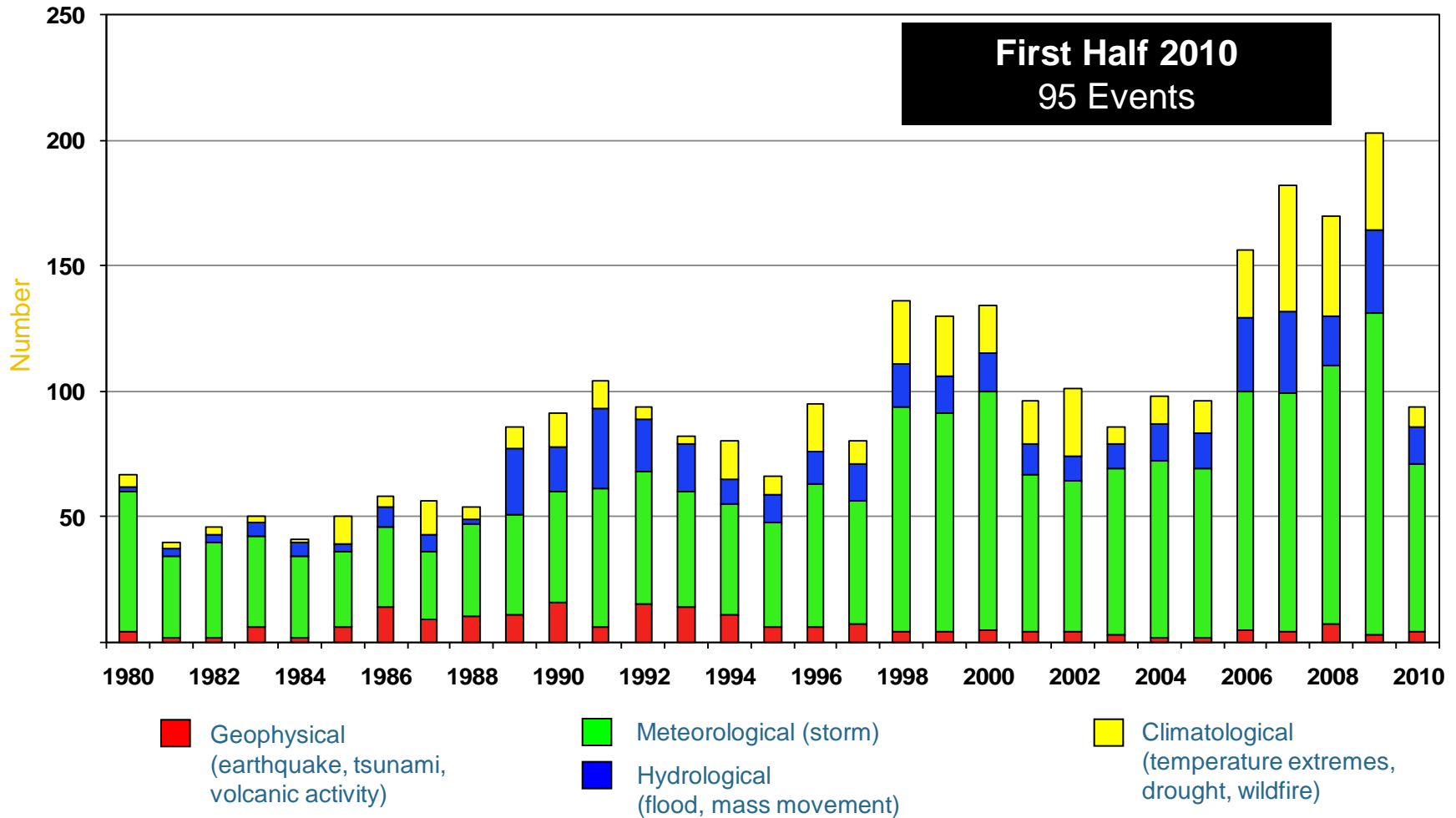
Notes: Private carrier losses only. Excludes loss adjustment expenses and reinsurance reinstatement premiums. Figures are adjusted for losses ultimately paid by foreign insurers and reinsurers.

Source: ISO; Insurance Information Institute.

Natural Disasters in the United States, 1980 – 2010

Number of Events (Annual Totals 1980 – 2009 vs. First Half 2010)

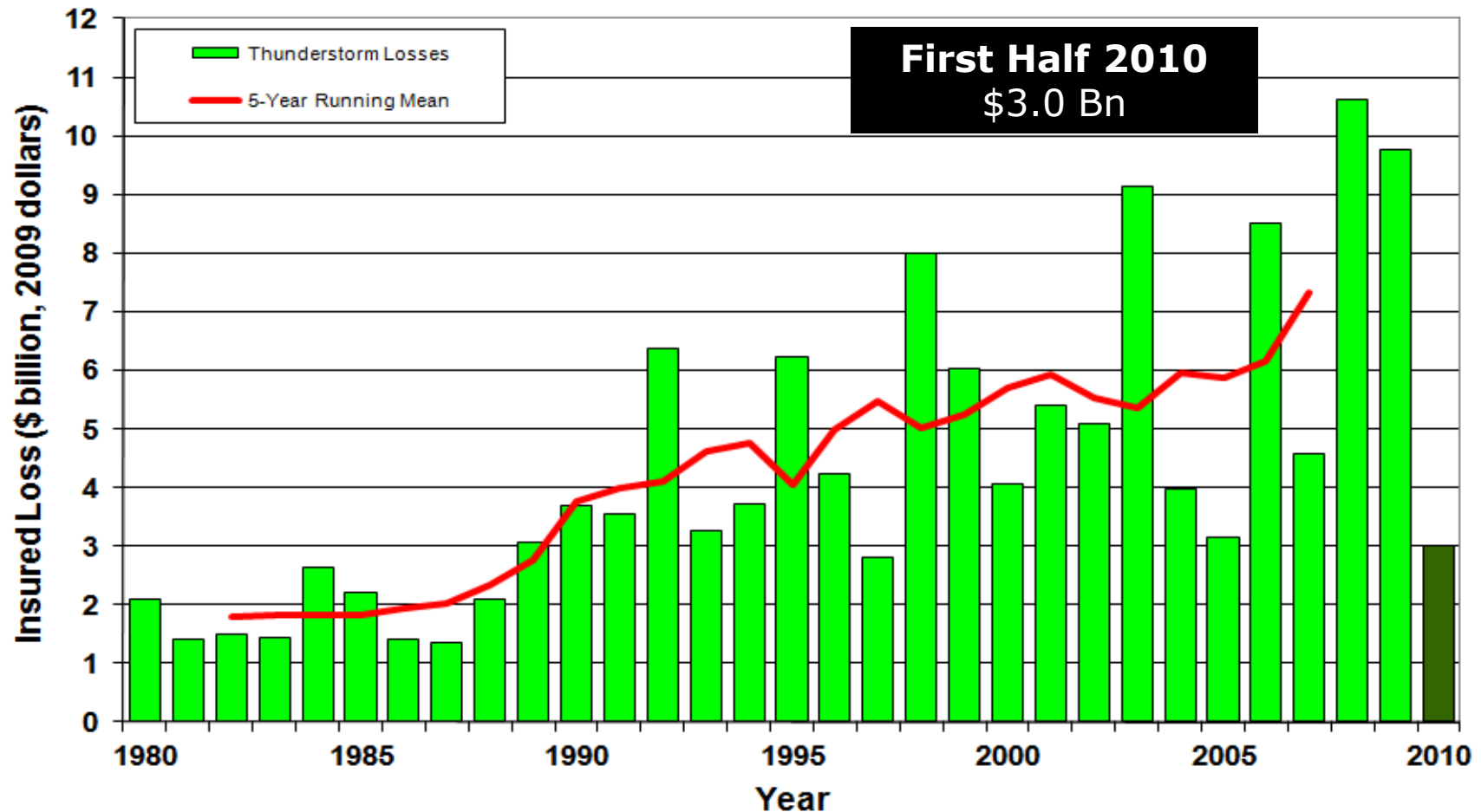
Number of events in first half of 2010 is close to the annual totals from five of past ten years.



U.S. Thunderstorm Loss Trends

Annual Totals 1980 – 2009 vs. First Half 2010

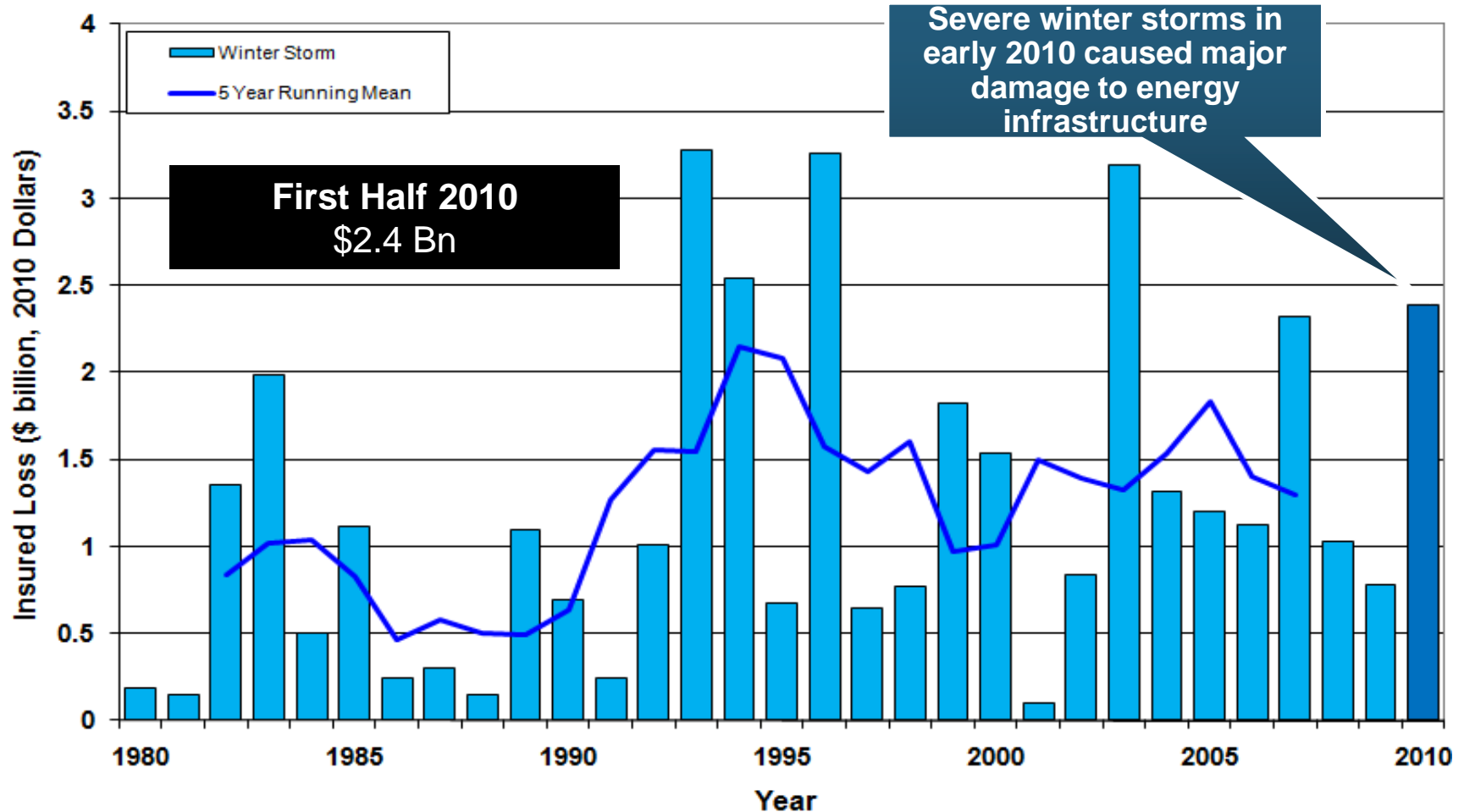
Thunderstorm losses have quadrupled since 1980.



U.S. Winter Storm Loss Trends

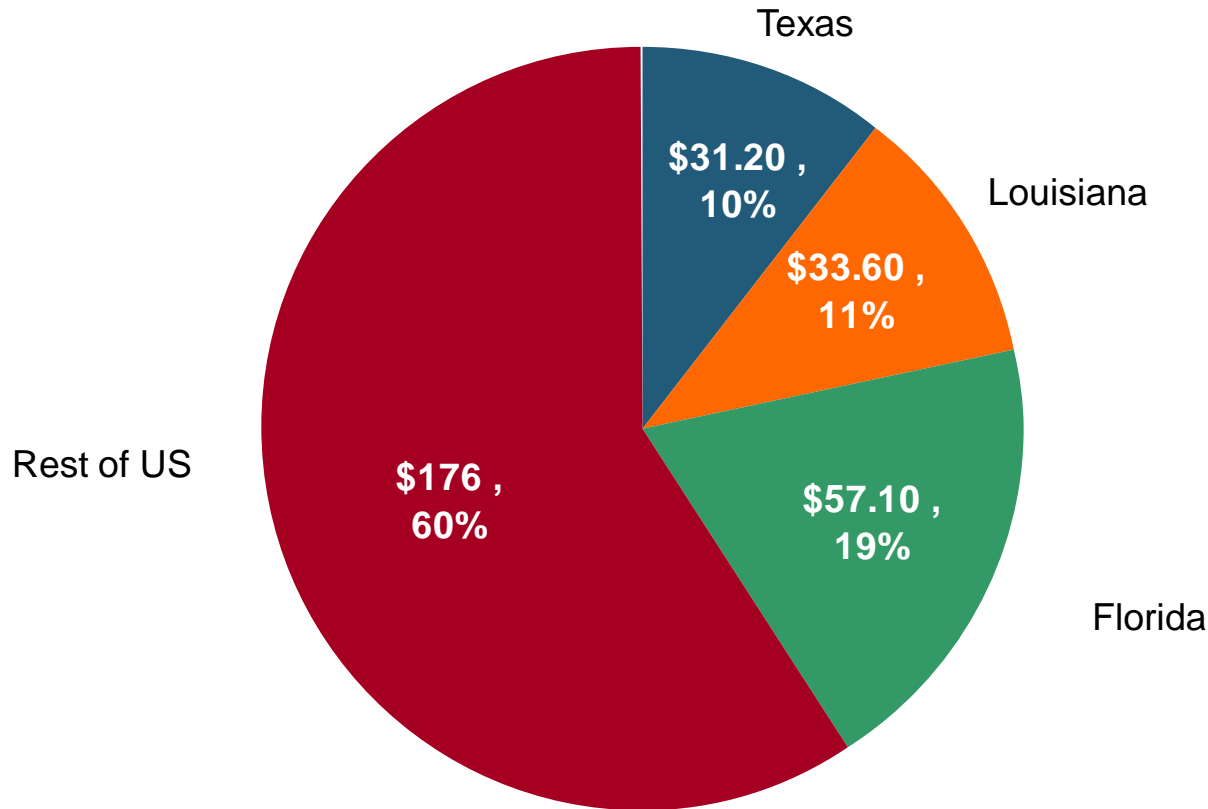
Annual totals 1980 – 2009 vs. First Half 2010

Average annual winter storm losses have increased over 50% since 1980.



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

(\$ Billions)



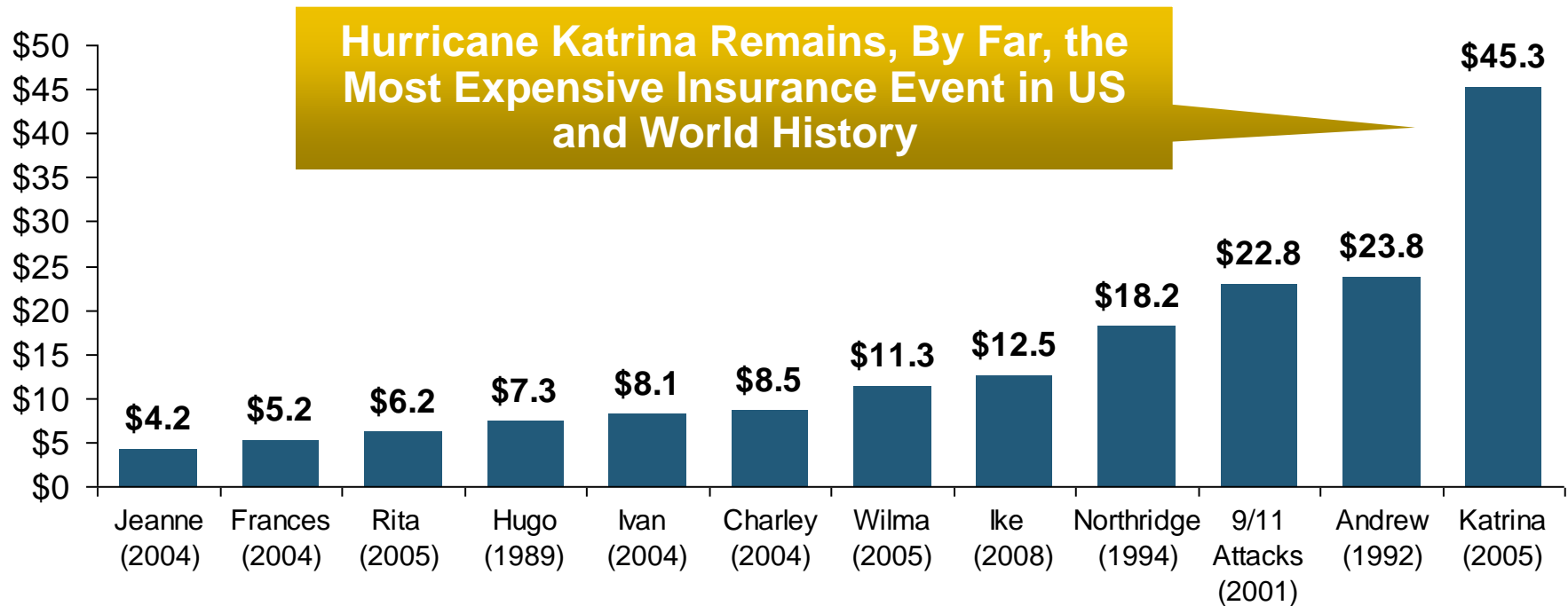
**Texas Accounted for 10% of All US Insured CAT Losses
from 1980-2008: \$57.1B out of \$297.9B**

* 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

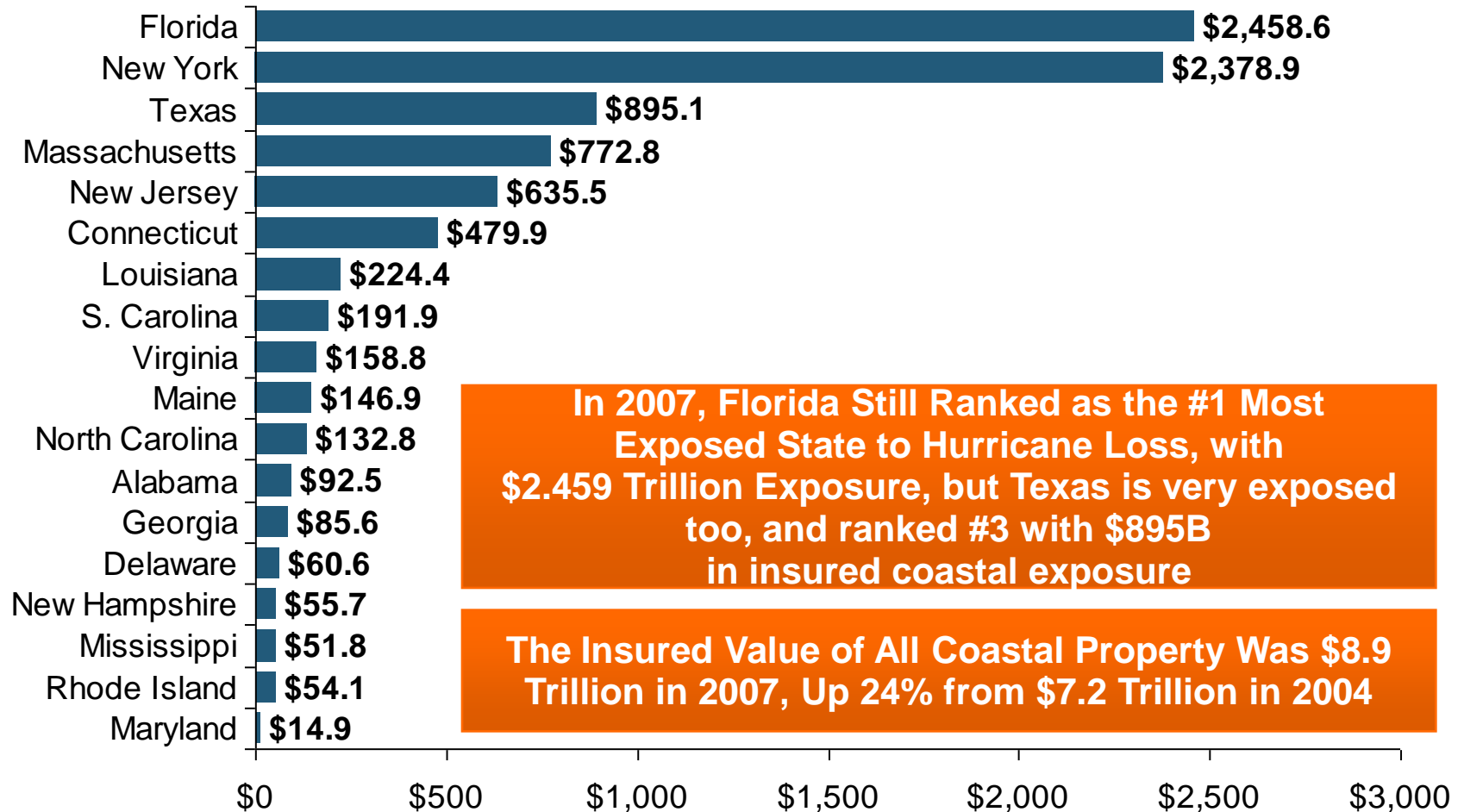
(Insured Losses, 2009, \$ Billions)



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

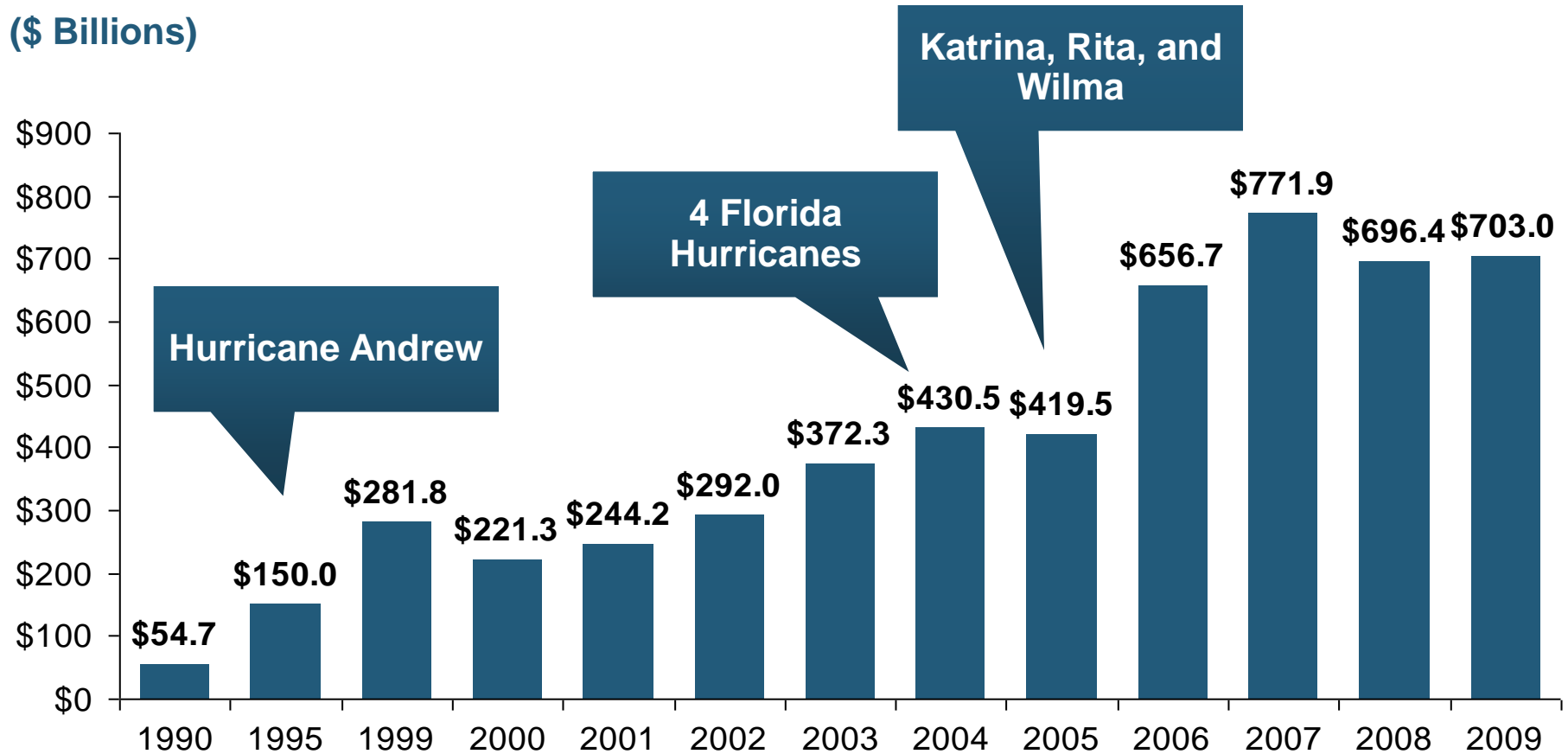
Total Value of Insured Coastal Exposure

(2007, \$ Billions)



US Residual Market Exposure to Loss

(\$ Billions)



In the 19-year Period Between 1990 and 2009, Total Exposure to Loss in the Residual Market (FAIR & Beach/Windstorm) Plans Has Surged from \$54.7B in 1990 to \$703.0B in 2009

II. Exposure Trends and Growth: Overview & Analysis

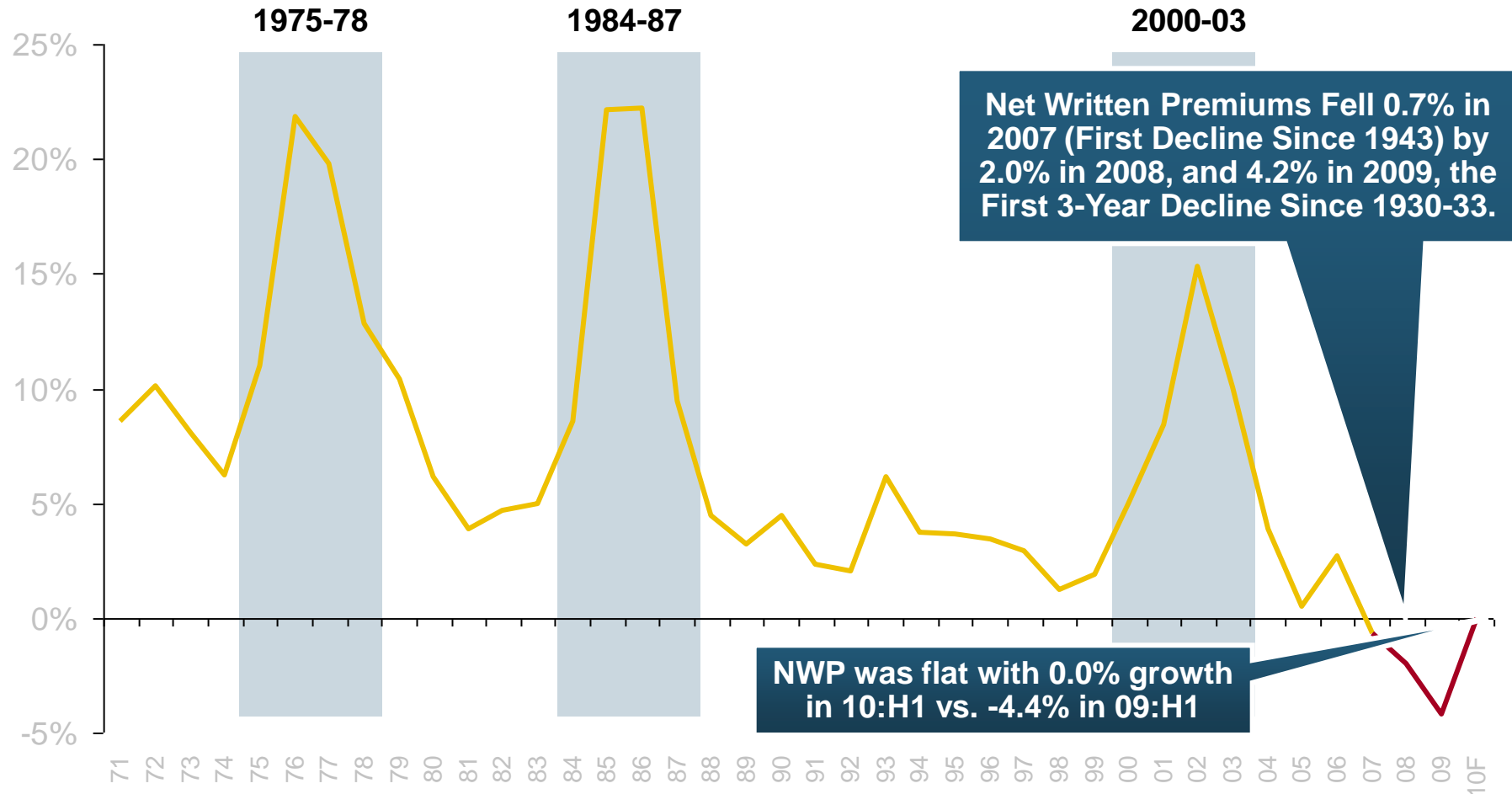
**Soft Market and Reduced Demand Due to
Recession Have Challenged Growth for Years**
Winds of Change for 2011 and Beyond?

**P/C Premium Growth
Primarily Driven by the
Industry's Underwriting Cycle,
Not the Economy**

**Personal and Commercial Lines
Pricing Trends**

Soft Market Appears to Persist in 2010 but May Be Easing: Relief in 2011?

(Percent)



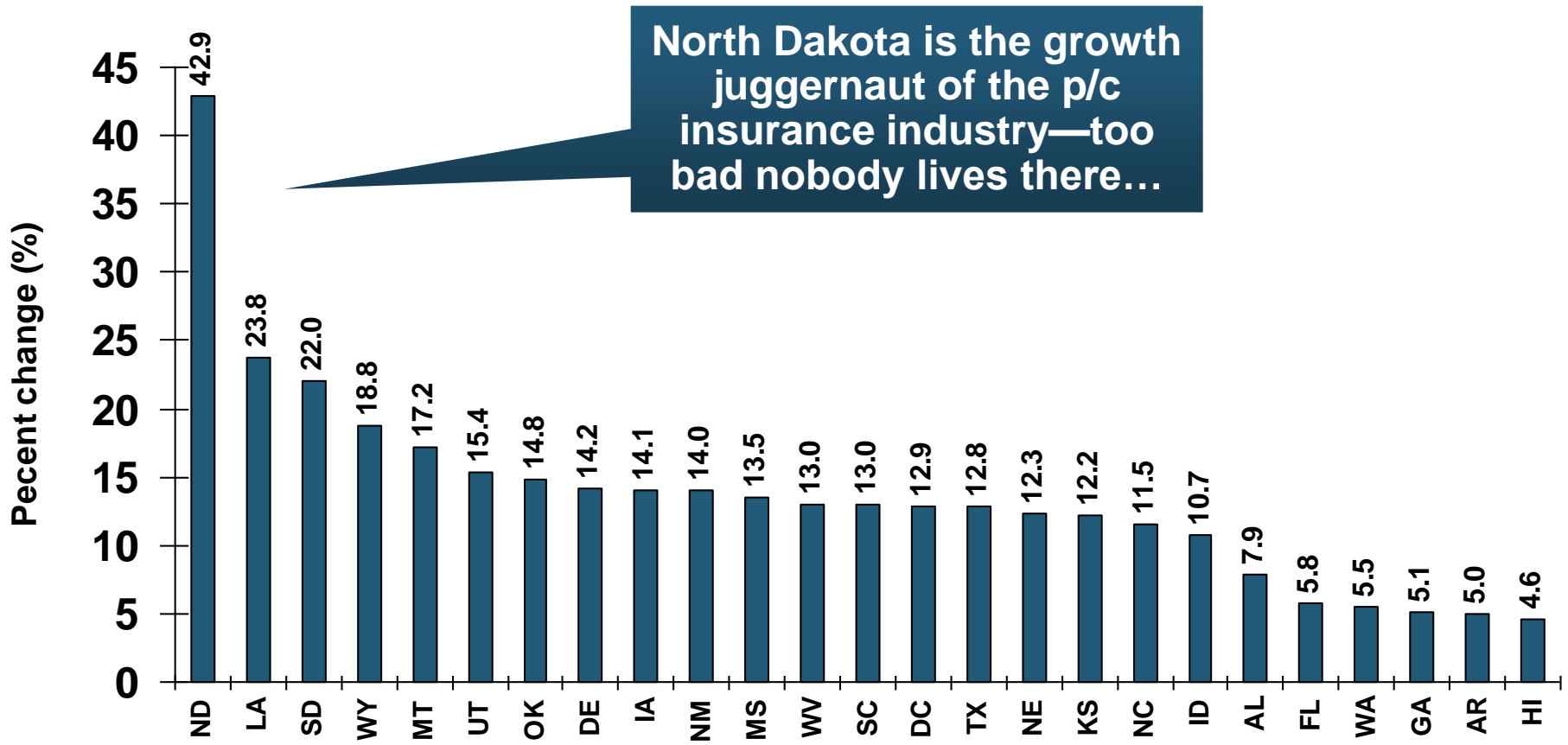
Shaded areas denote "hard market" periods

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

Direct Premiums Written: All Lines

Percent change by State, 2004-2009

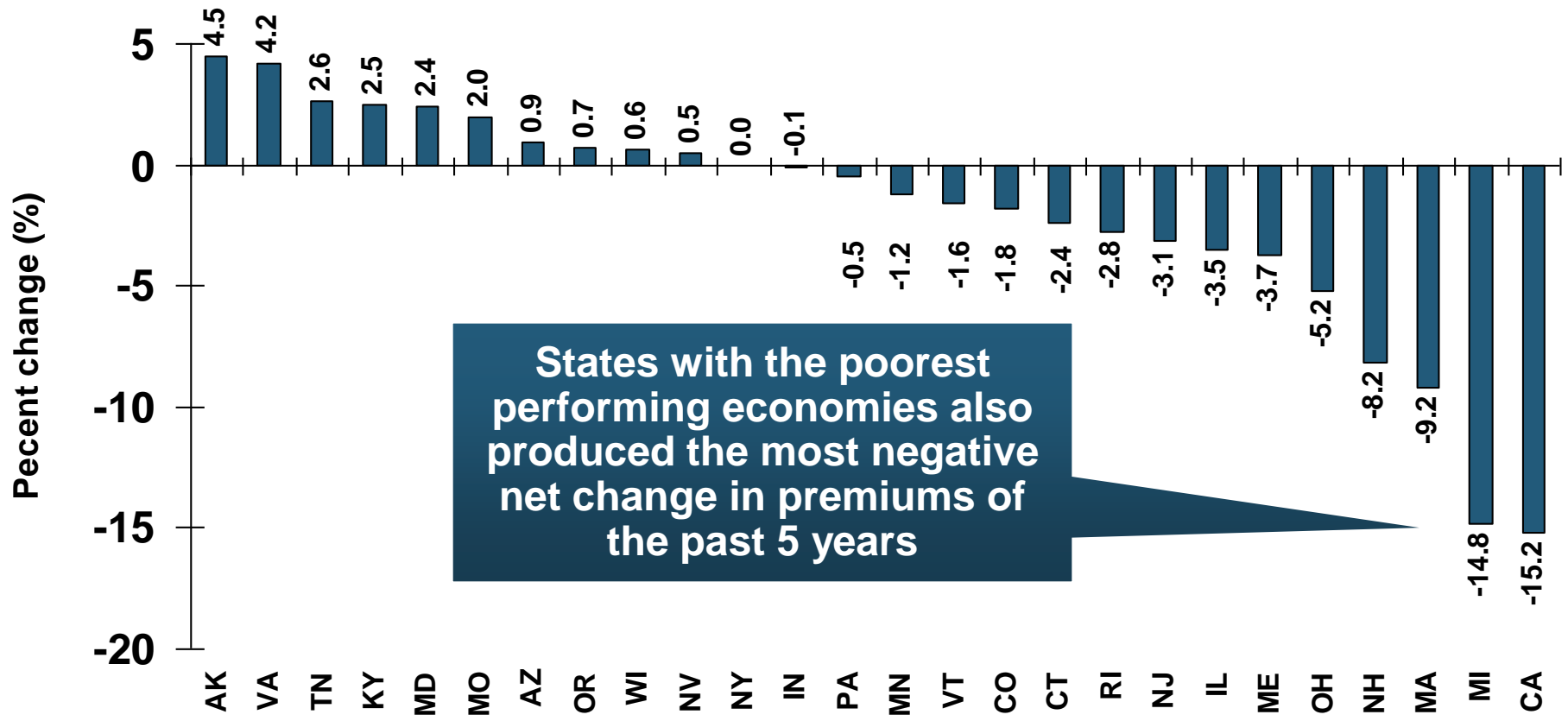
Top 25 States



Direct Premiums Written: All Lines

Percent change by State, 2004-2009

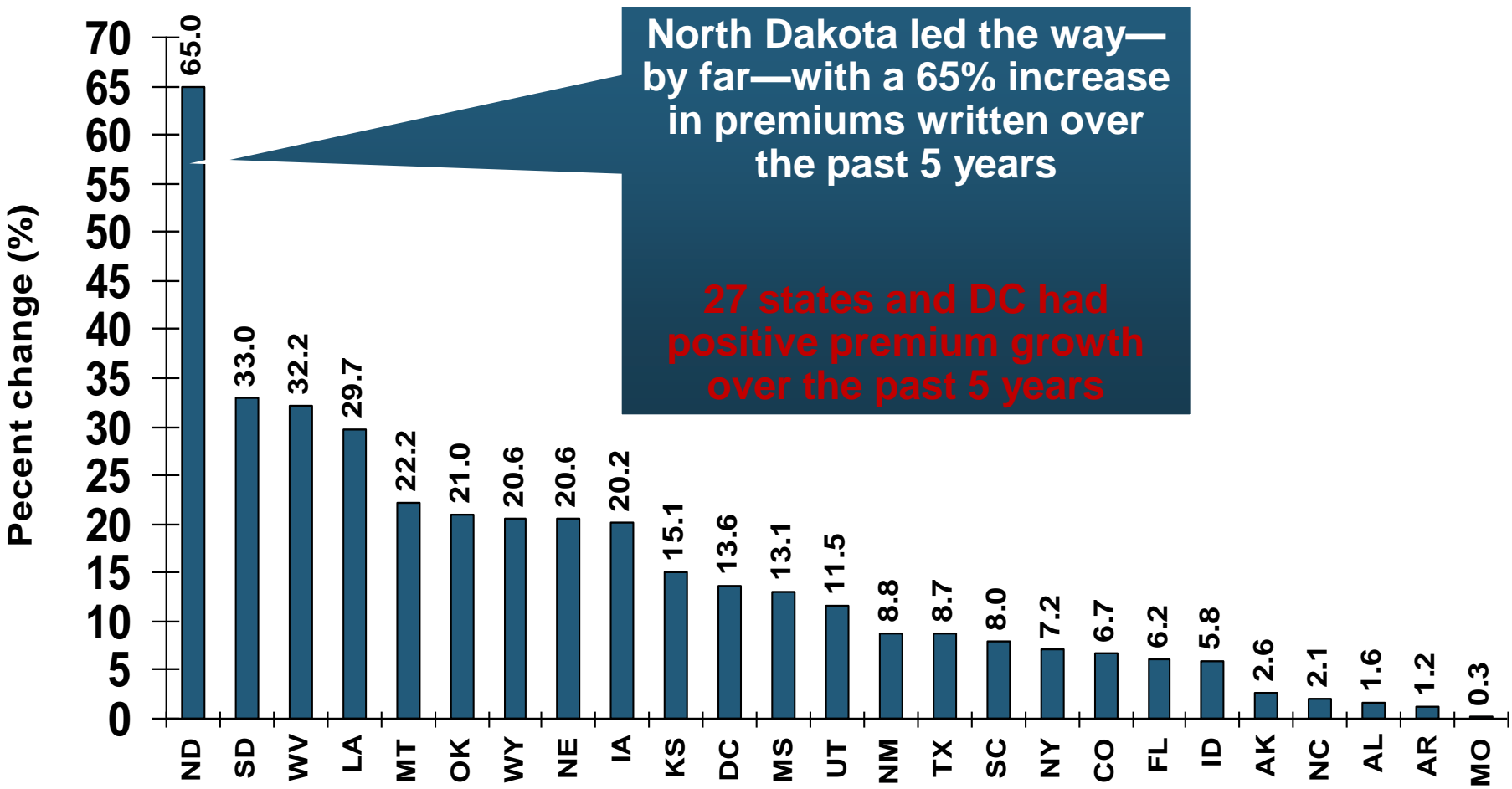
Bottom 25 States



Direct Premiums Written: Commercial Lines

Percent Change by State, 2004-2009

Top 25 States

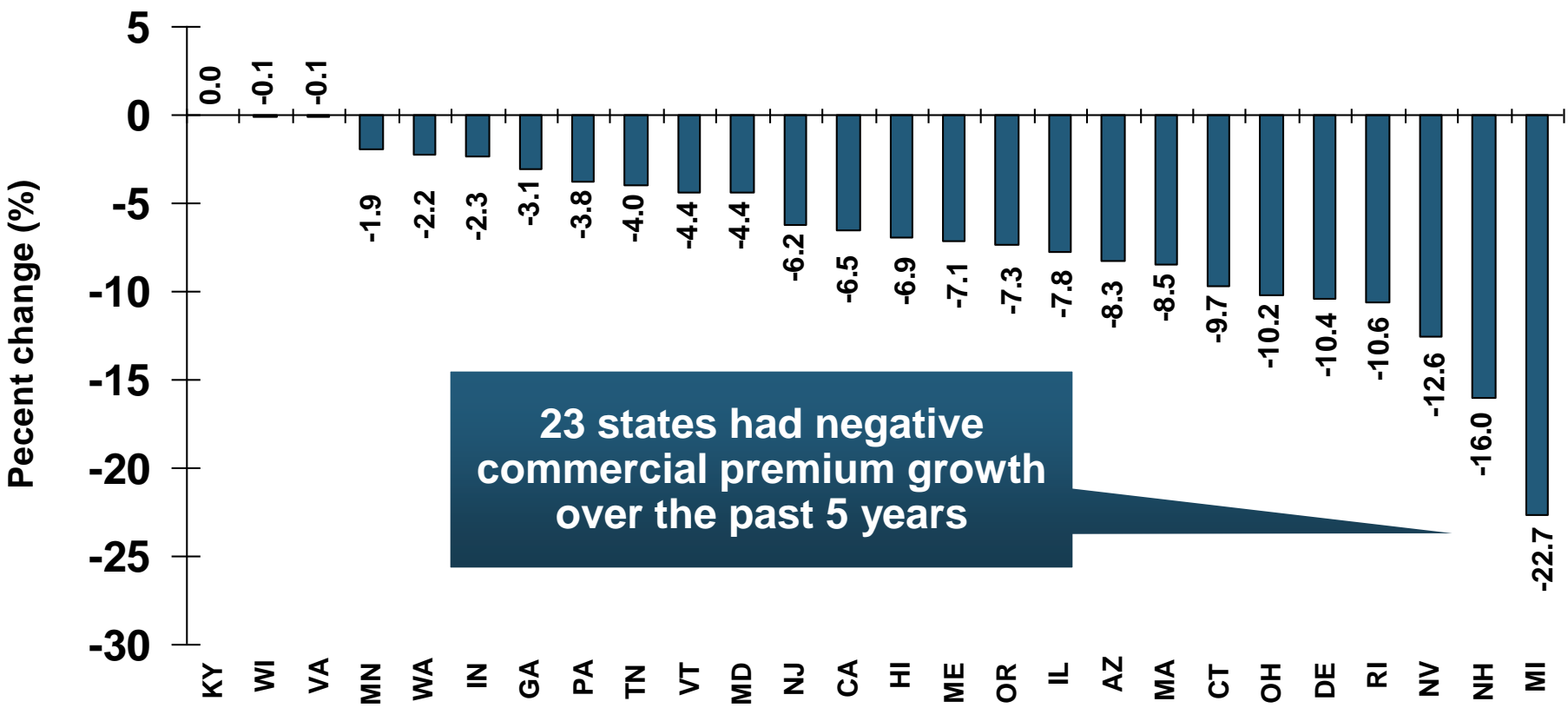


Sources: SNL Financial LC.; Insurance Information Institute.

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



Bottom 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

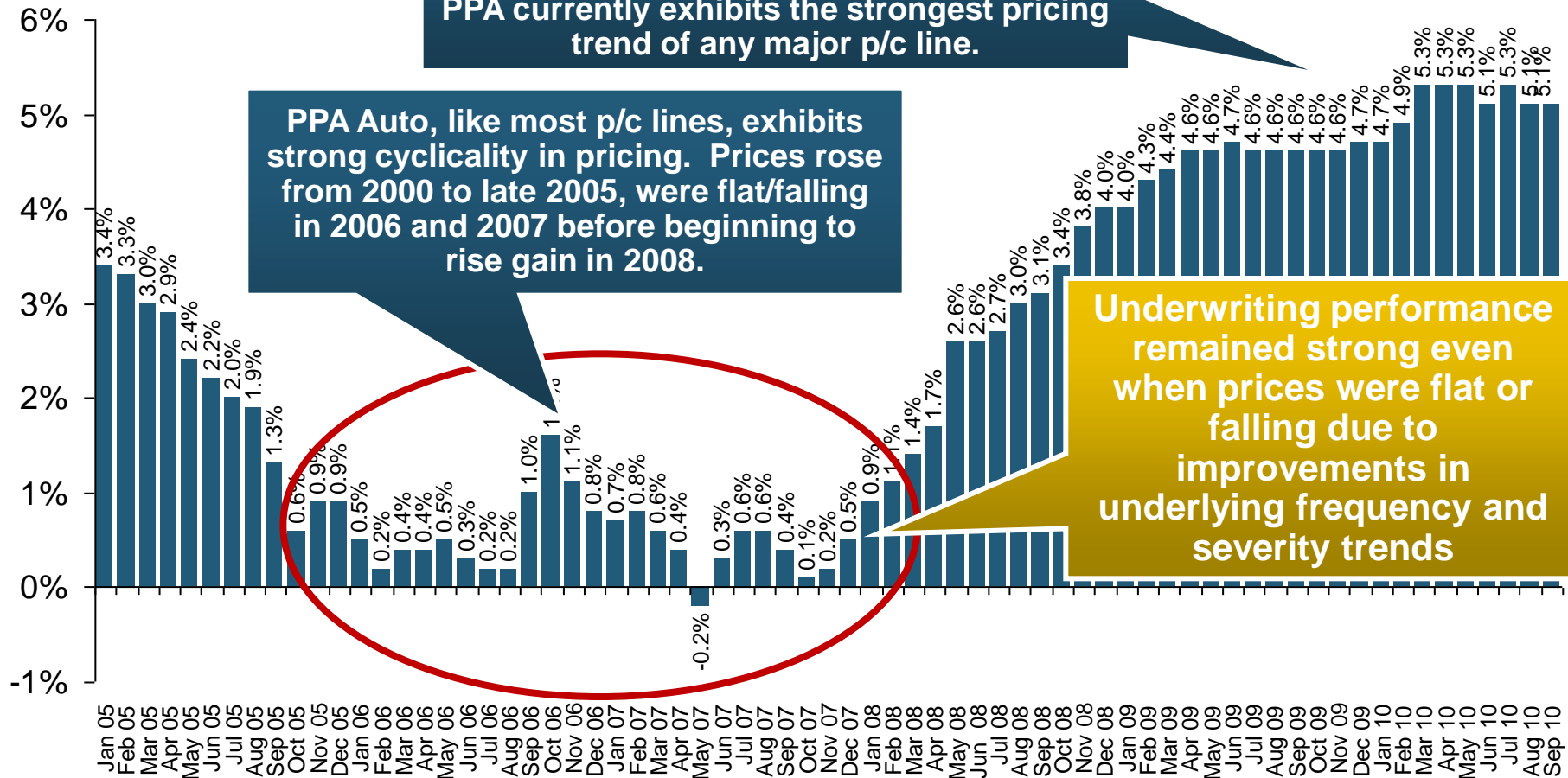
Monthly Change in Auto Insurance Prices, 2005-2010*

(Percent Change from same month, prior year)

Auto Insurance Price Increases Have Averaged About 5% in 2010 over 2009, After Averaging About 4.5% in 2009 over 2008. PPA currently exhibits the strongest pricing trend of any major p/c line.

PPA Auto, like most p/c lines, exhibits strong cyclical in pricing. Prices rose from 2000 to late 2005, were flat/falling in 2006 and 2007 before beginning to rise gain in 2008.

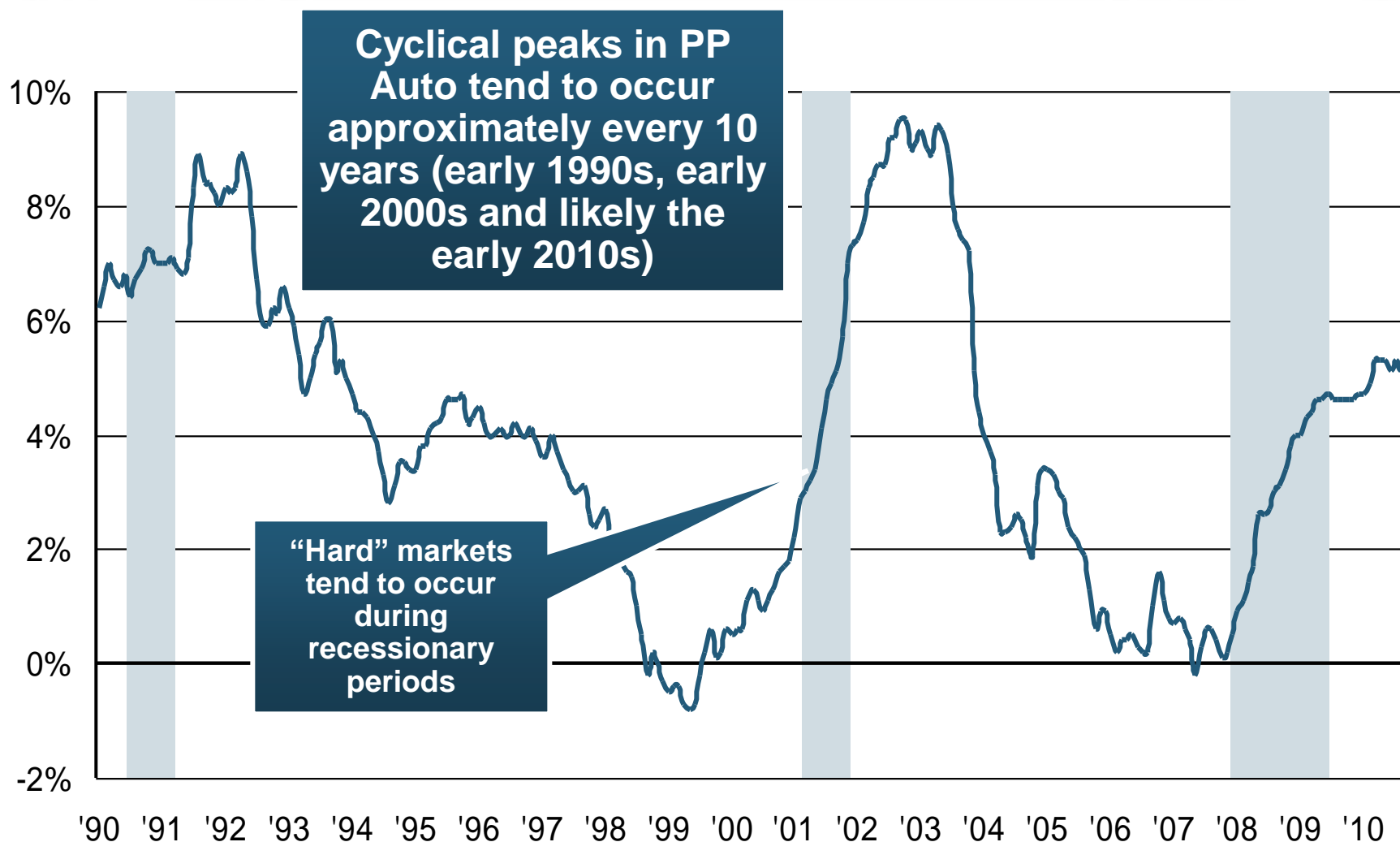
Underwriting performance remained strong even when prices were flat or falling due to improvements in underlying frequency and severity trends



*Through September 2010. Data are percentage change from same month in prior year, seasonally adjusted.

Sources: US Bureau of Labor Statistics; Insurance Information Institute

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

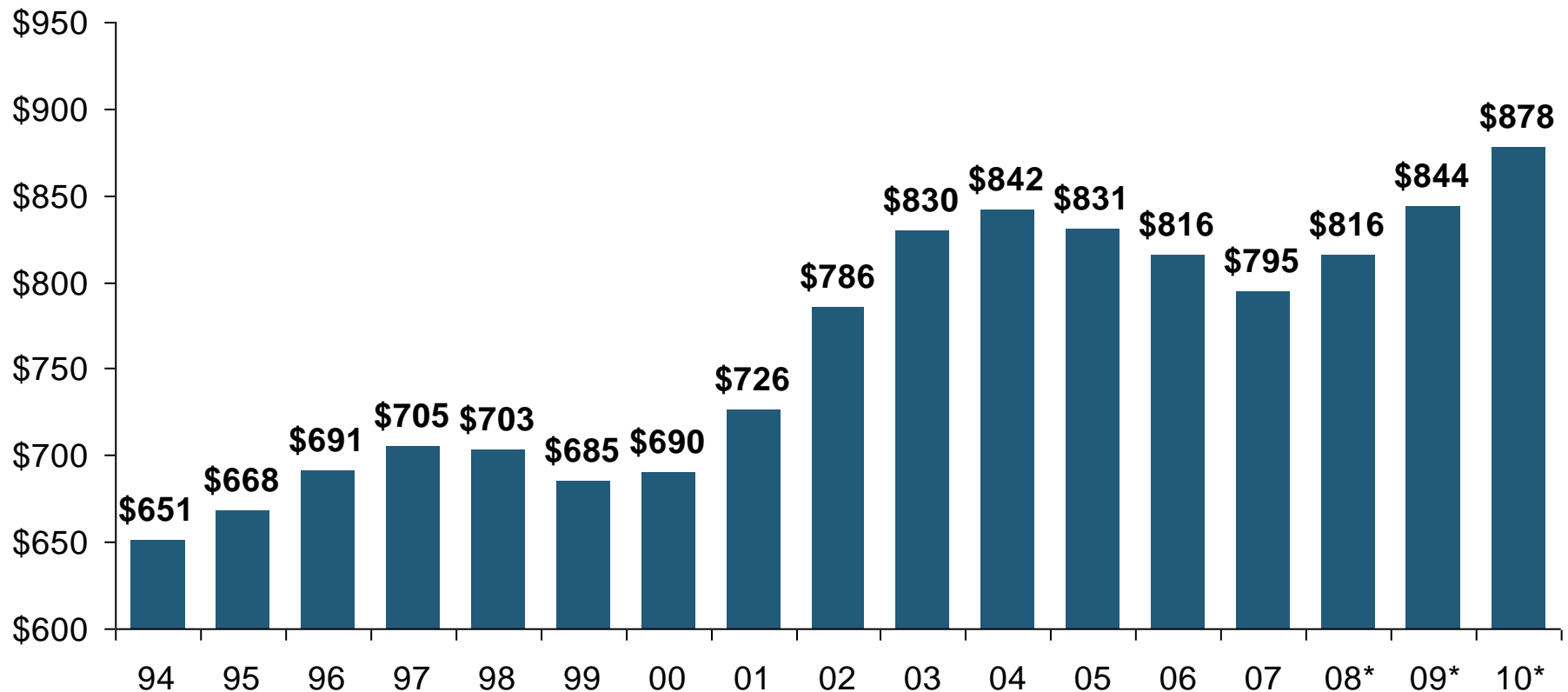


*Percentage change from same month in prior year; through September 2010; seasonally adjusted

Note: Recessions indicated by gray shaded columns.

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

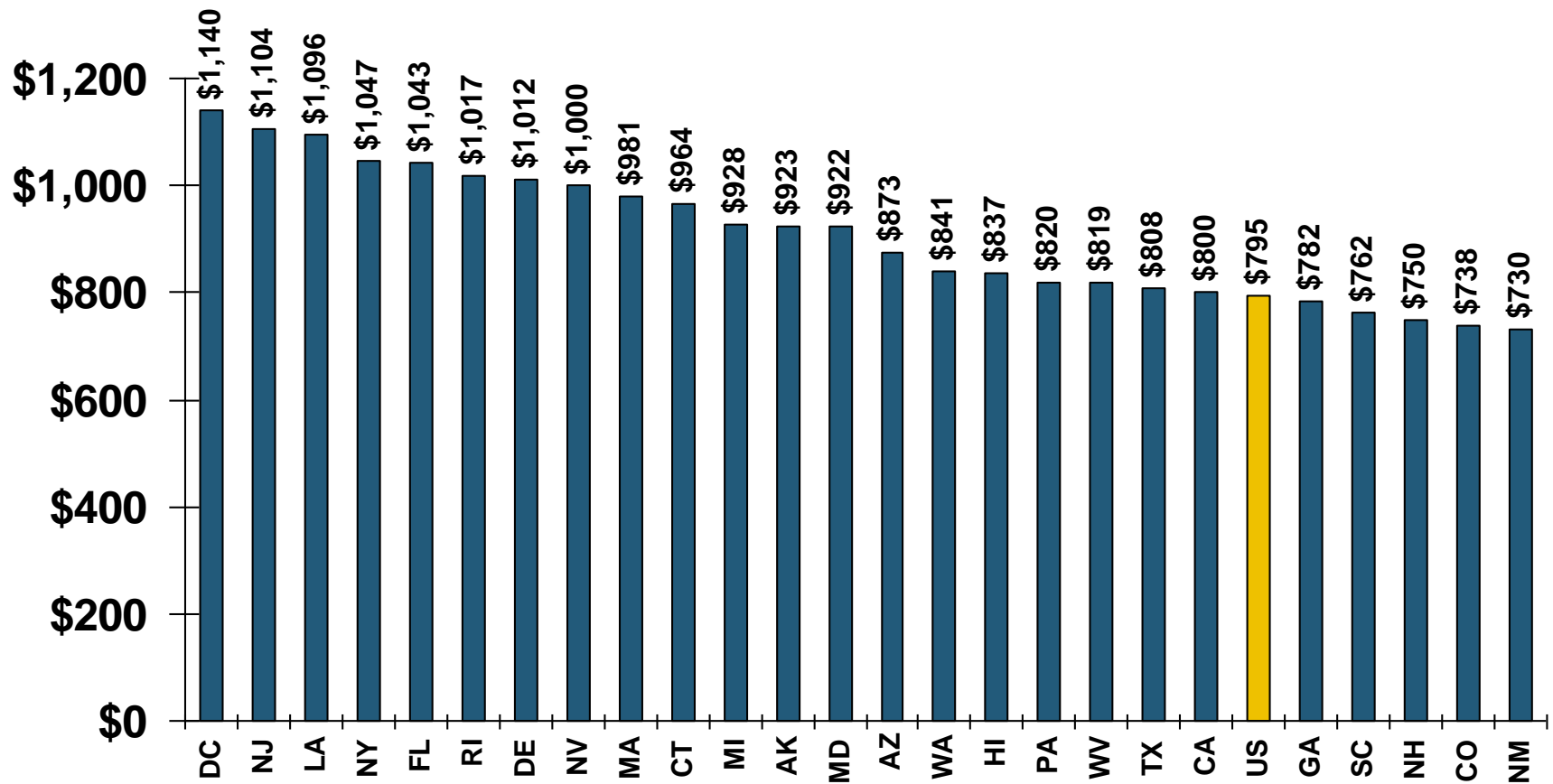
Average Expenditures on Auto Insurance



**Countrywide Auto Insurance Expenditures Increased
2.6% in 2008 and 3.5% Pace in 2009 (est.) and 4% in 2010 (est.)**

* Insurance Information Institute Estimates/Forecasts
Source: NAIC, Insurance Information Institute estimates 2008-2010 based on CPI data.

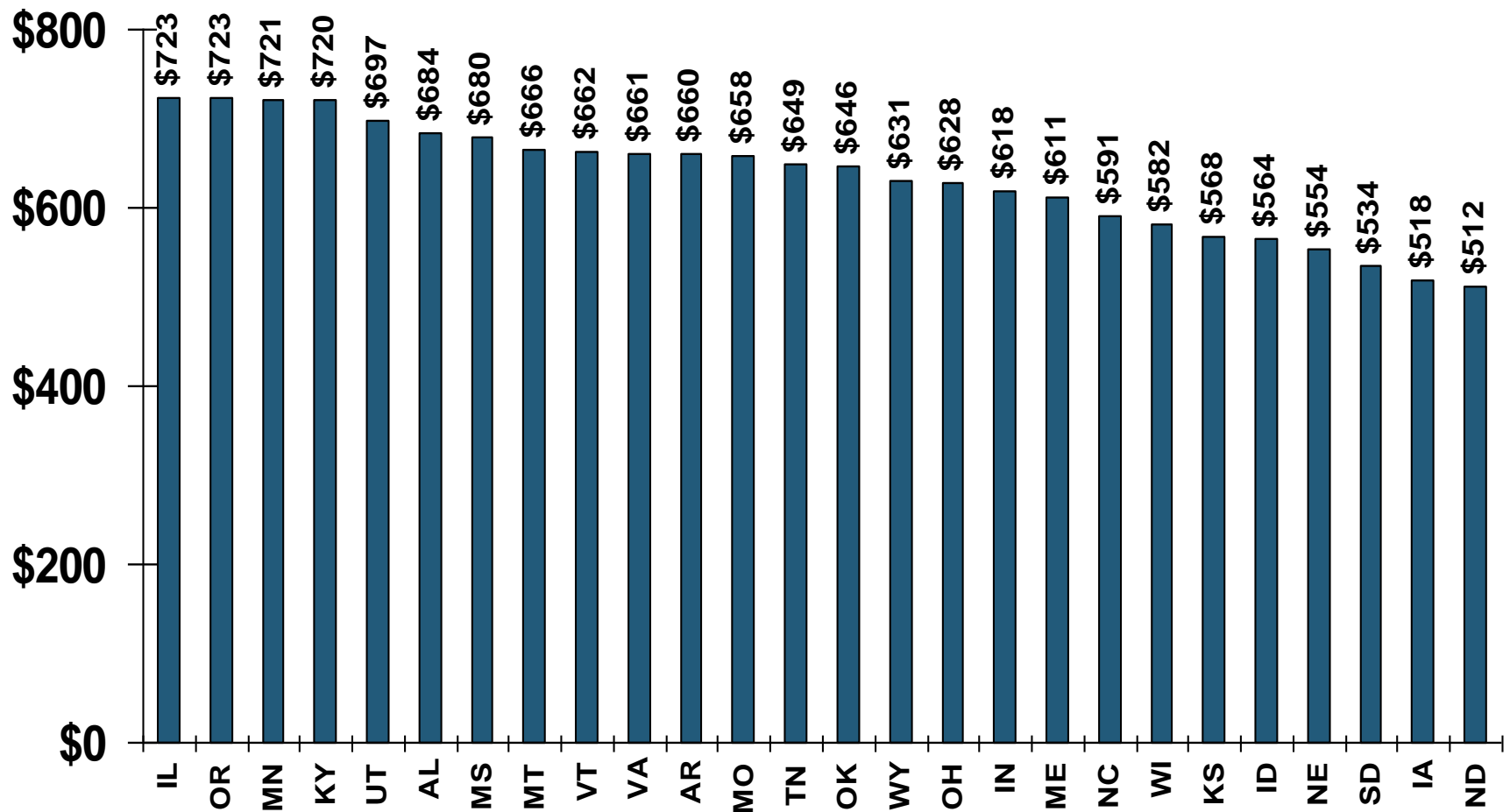
Average Expenditures For Auto Insurance By State, 2007



Note: Average expenditure=Total written premium/liability car years. A car year is equal to 365 days of insured coverage for a single vehicle.

Source: © 2009 National Association of Insurance Commissioners.

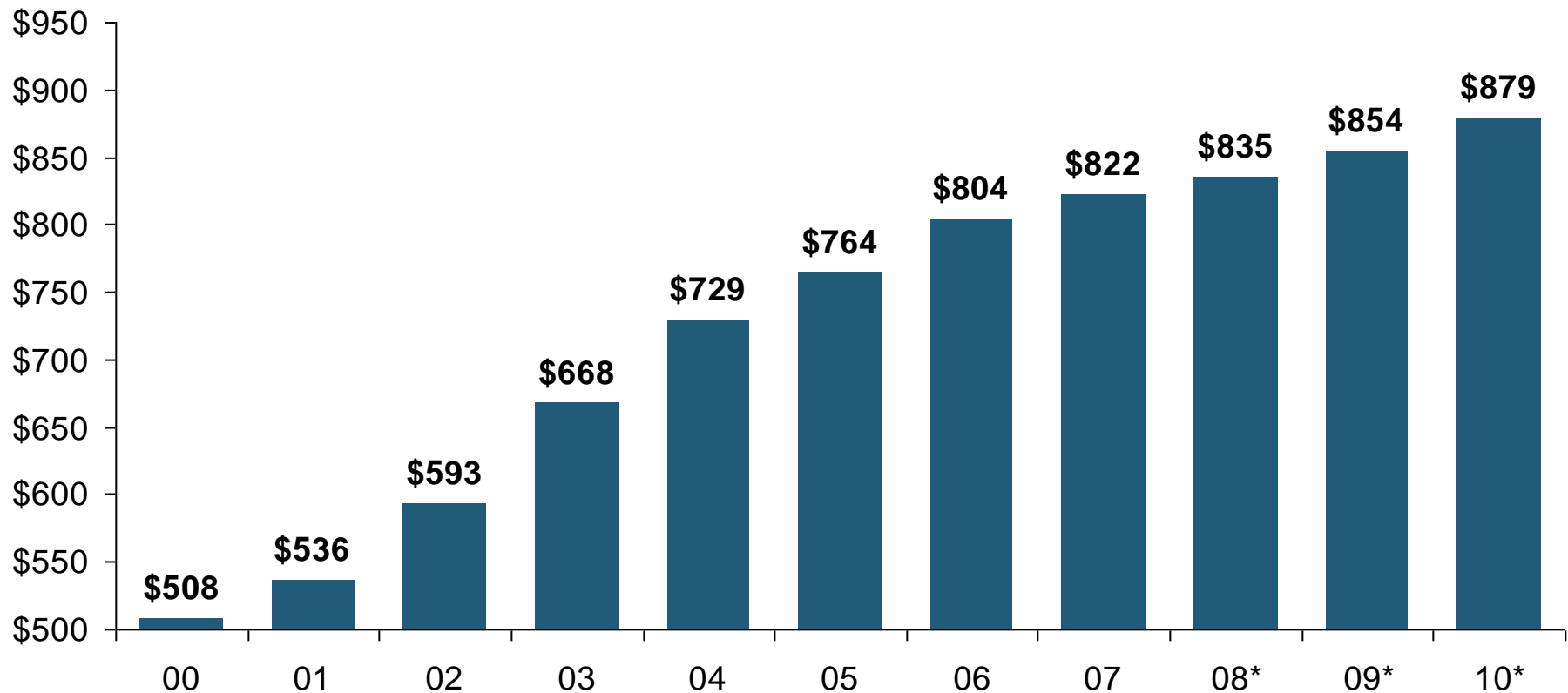
Average Expenditures For Auto Insurance By State, 2007 (con't)



Note: Average expenditure=Total written premium/liability car years. A car year is equal to 365 days of insured coverage for a single vehicle.

Source: © 2009 National Association of Insurance Commissioners.

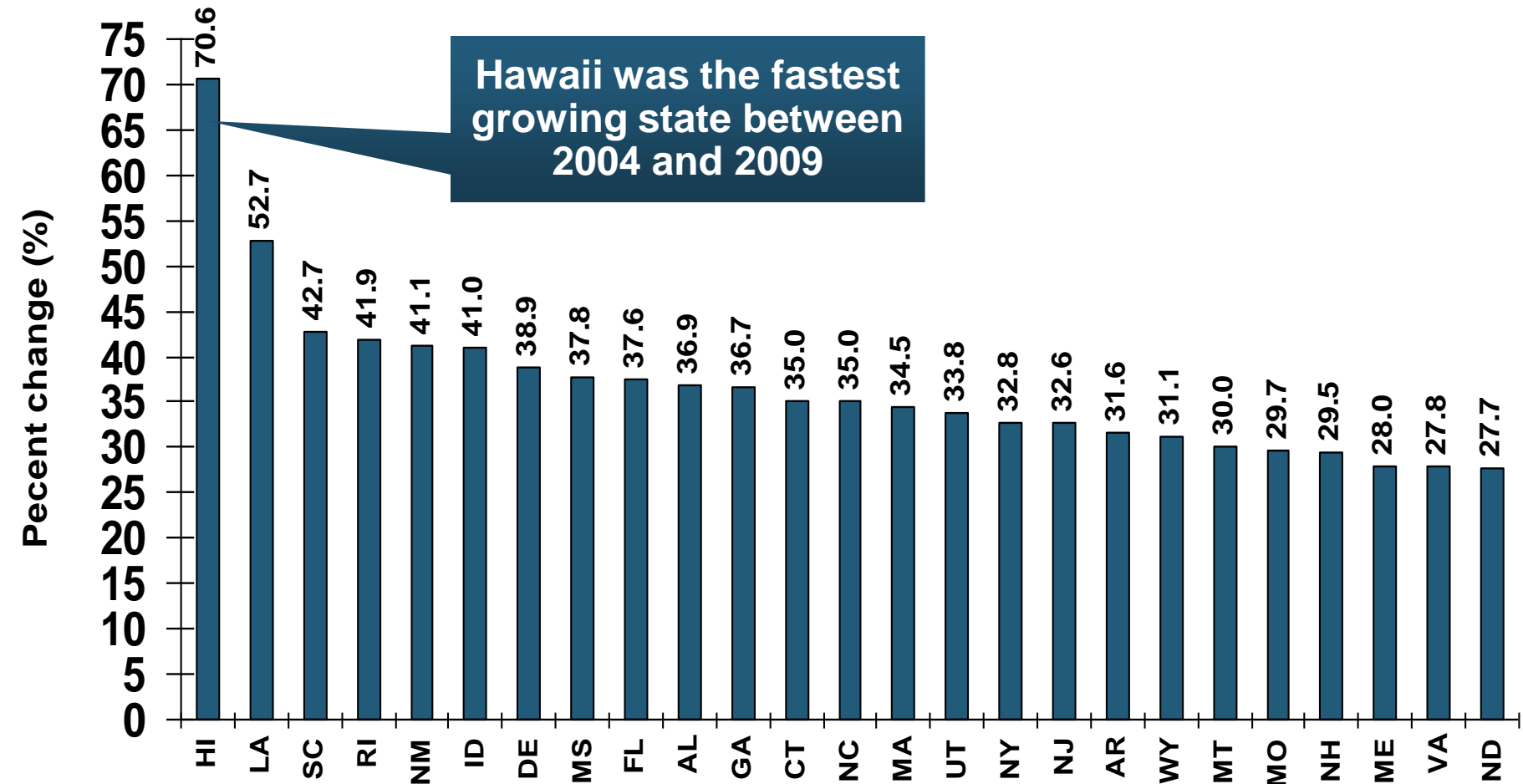
Average Premium for Home Insurance Policies**



* Insurance Information Institute Estimates/Forecasts **Excludes state-run insurers.
Source: NAIC, Insurance Information Institute estimates 2008-2010 based on CPI data.

Percent Change in NPW: Homeowners, by State, 2004-2009

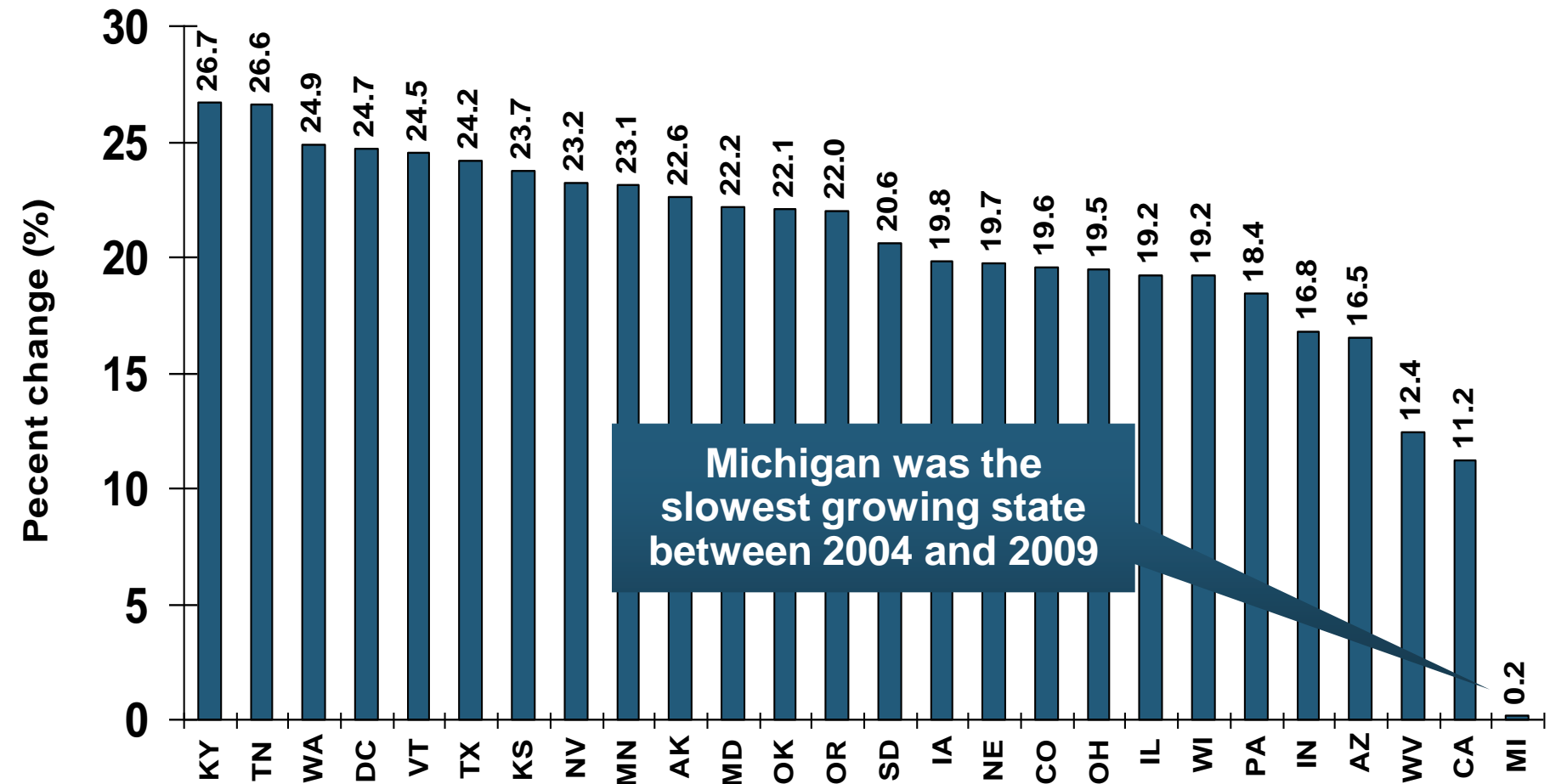
Top 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

Percent Change in NPW: Homeowners, by State, 2004-2009

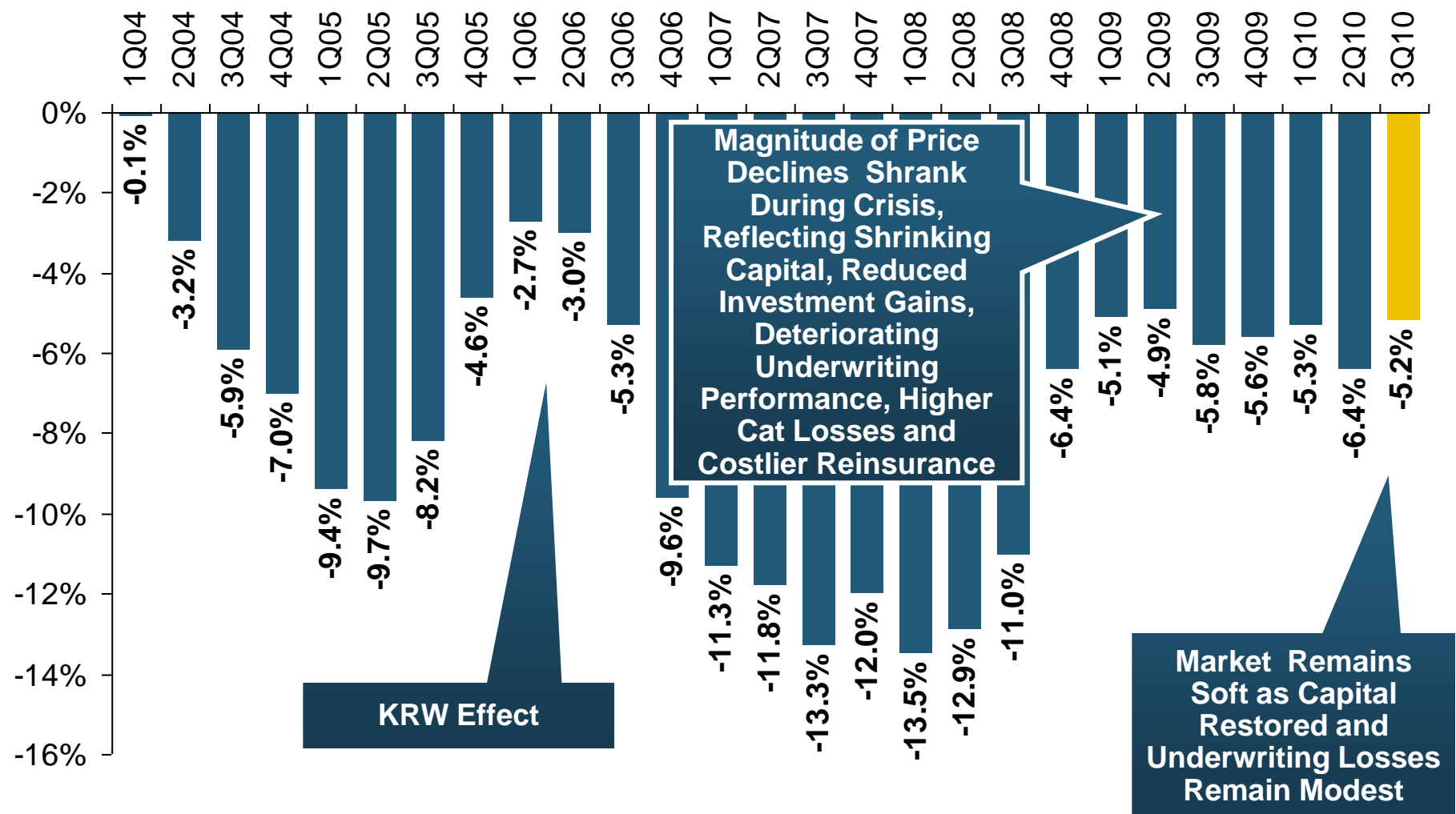
Bottom 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

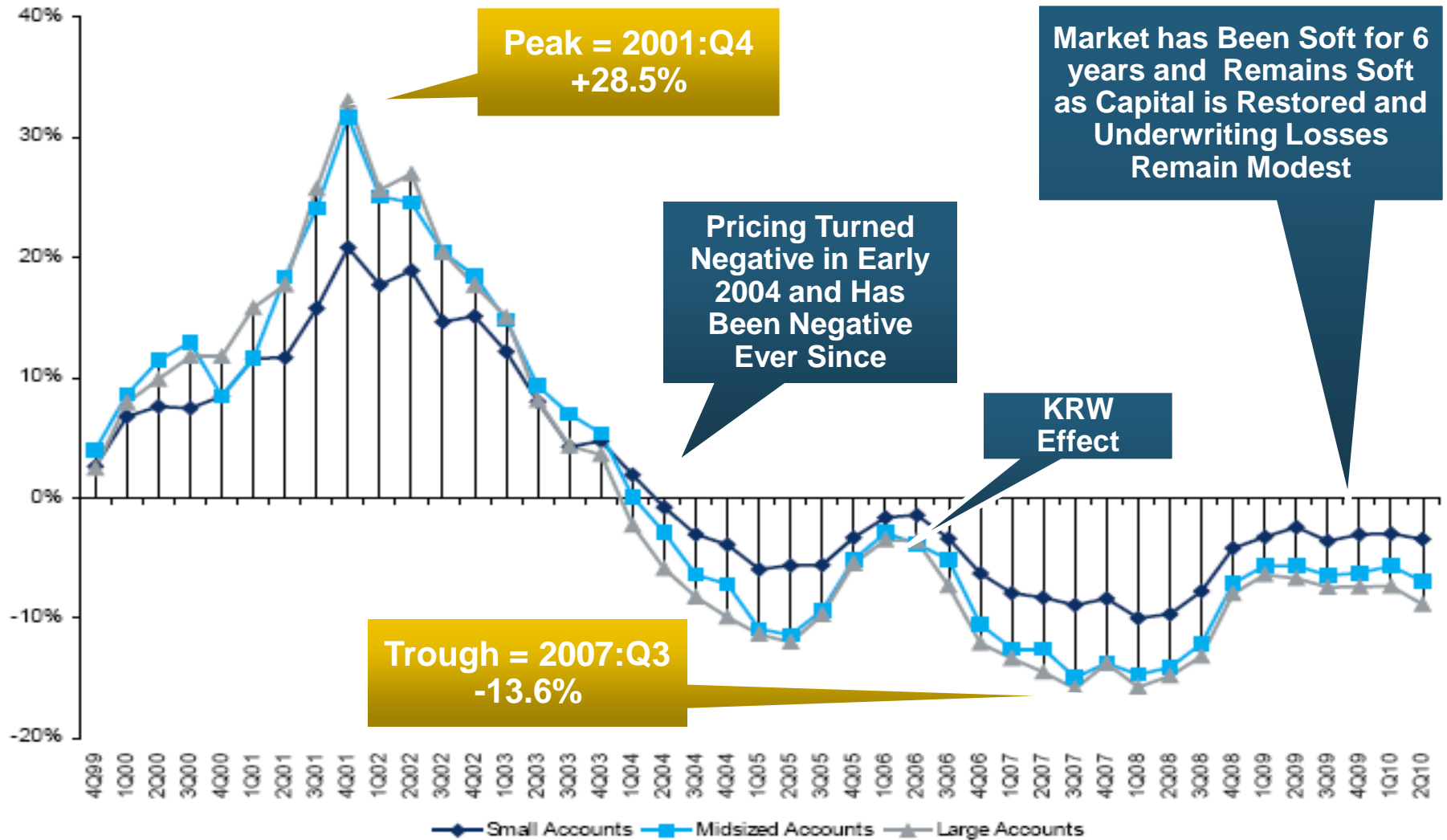
Average Commercial Rate Change, All Lines, (1Q:2004–3Q:2010)

(Percent)



Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2010:Q2

Percentage Change (%)

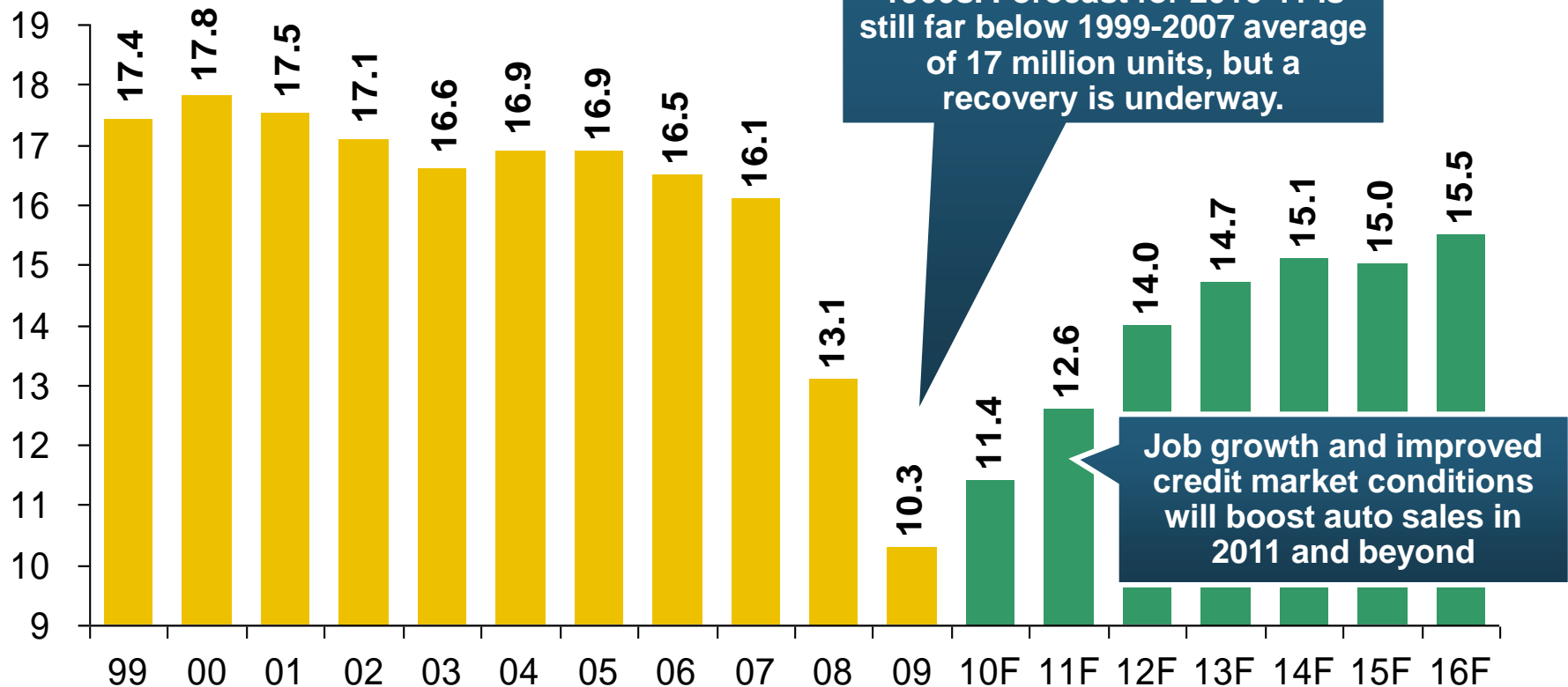


Crisis-Driven Exposure Drivers

**Economic Obstacles
to Growth in P/C Insurance Will
Slowly Be Cleared Away**

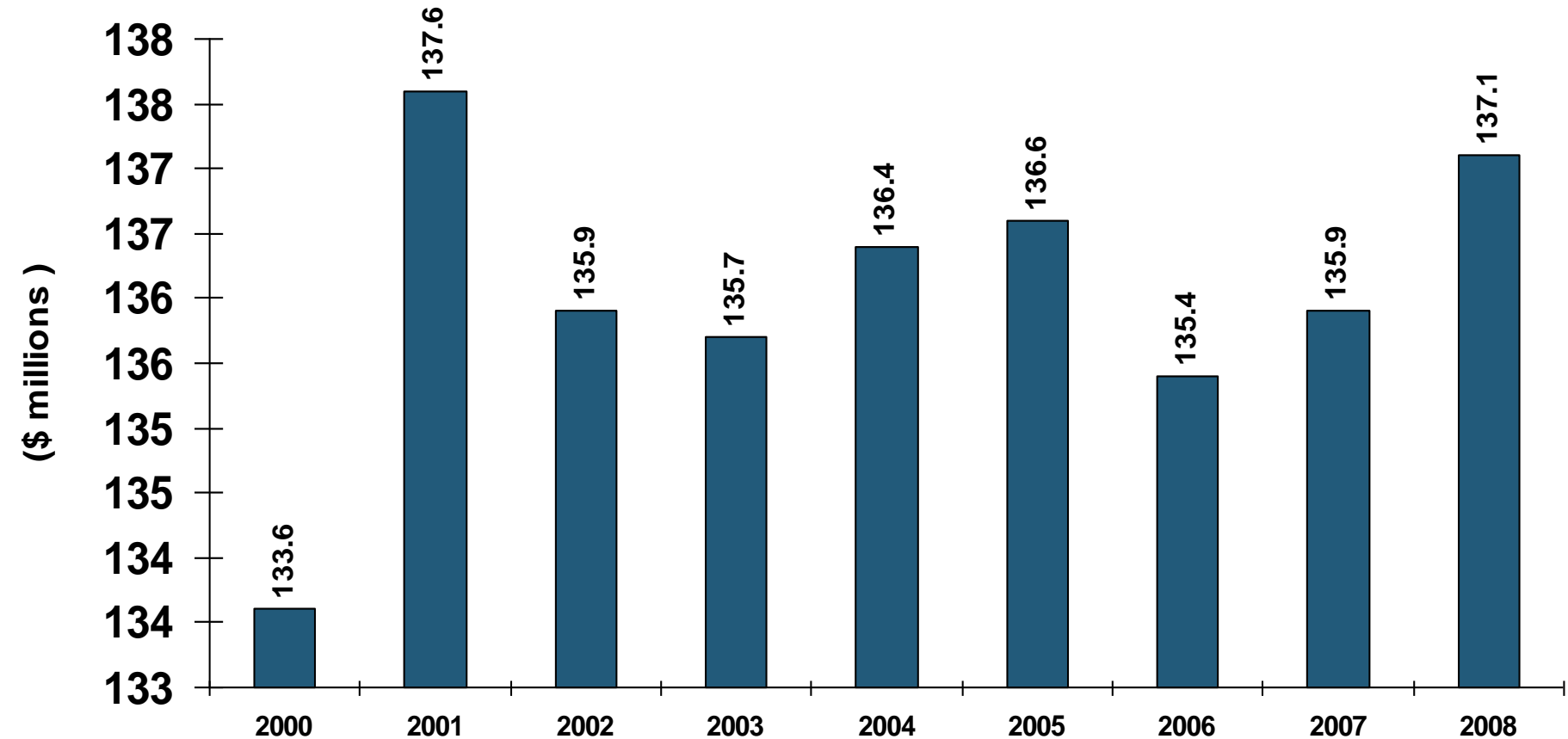
Auto/Light Truck Sales, 1999-2016F

(Millions of Units)



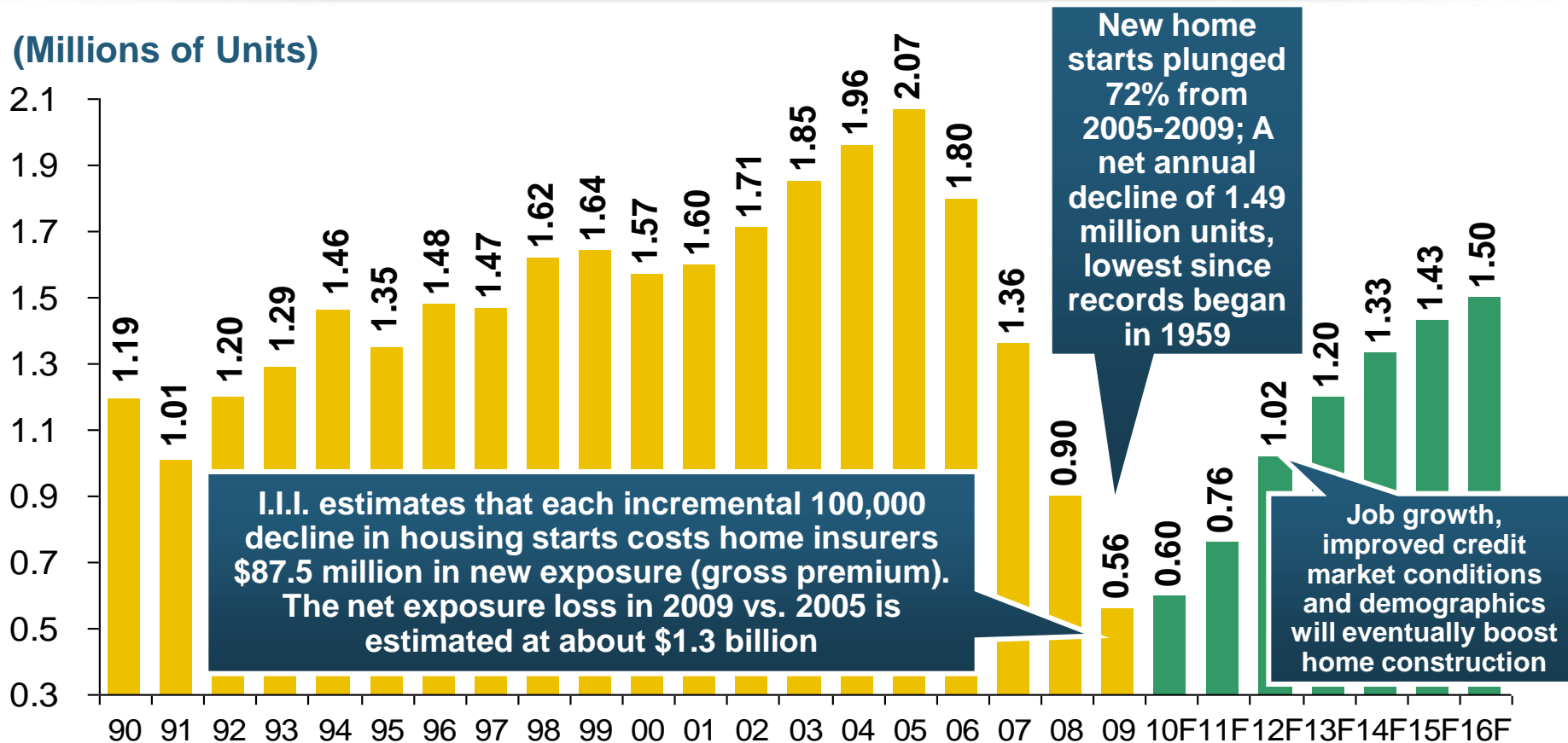
Car/Light Truck Sales Will Recover from the 2009 Low Point, but High Unemployment, Tight Credit Are Still Restraining Sales in 2010

Number of Registered Passenger Vehicles in the US, 2000-2008



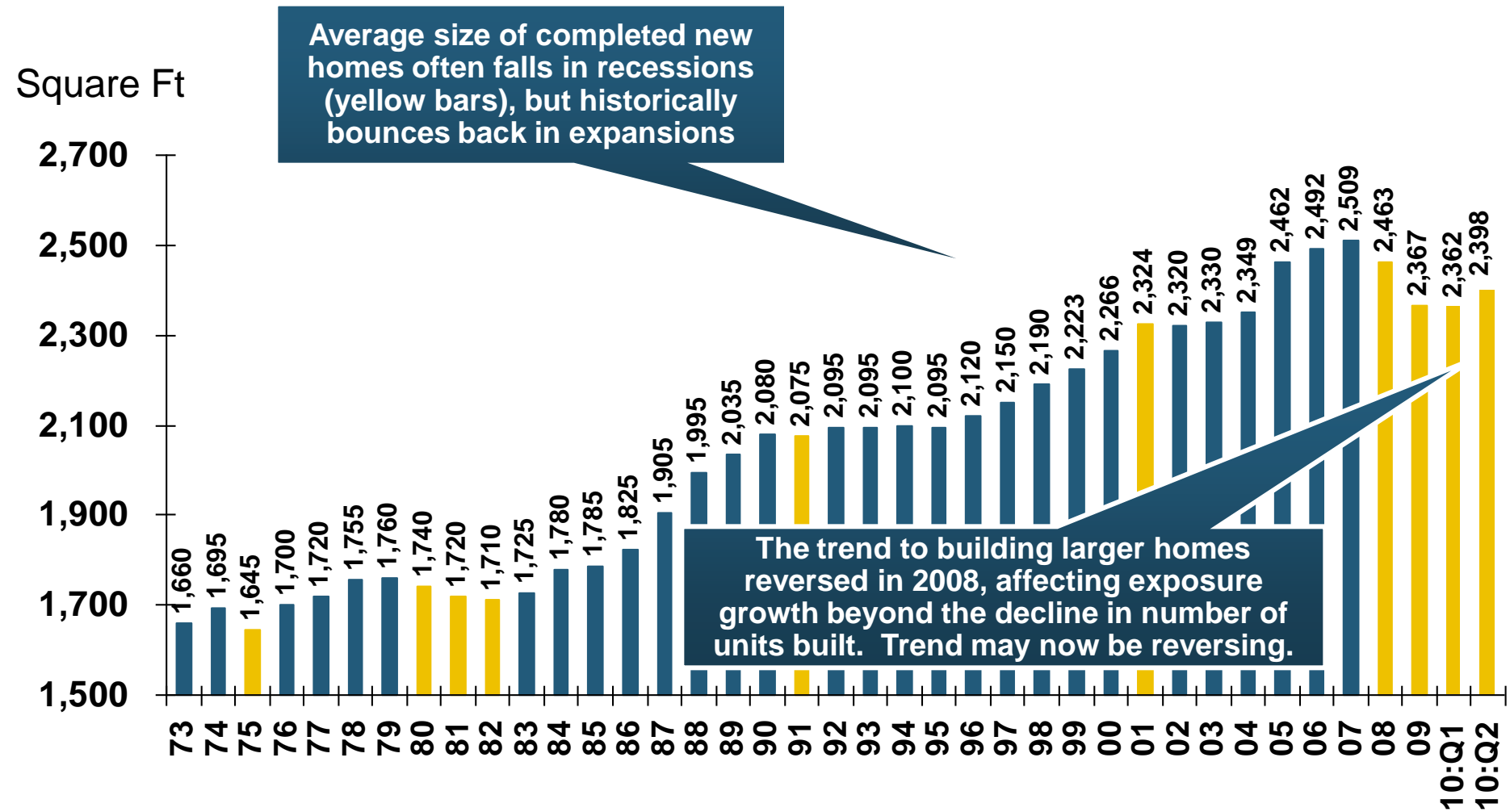
The Number of Registered Passenger Vehicles Has Remain Basically Flat Since 2001

New Private Housing Starts, 1990-2016F

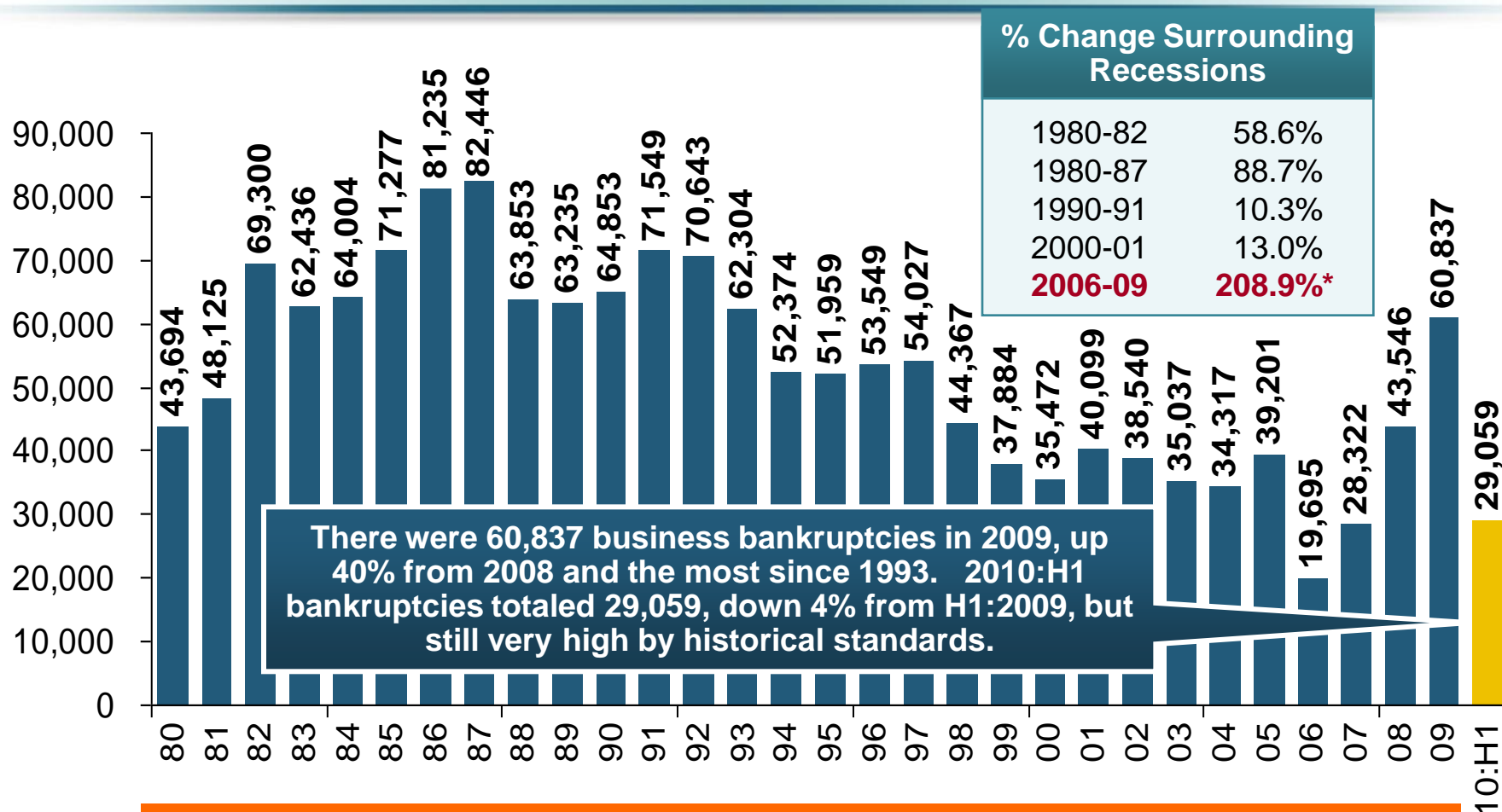


**Little Exposure Growth Likely for Homeowners Insurers Until 2012.
Also Affects Commercial Insurers with Construction Risk Exposure, Surety**

Average Square Footage of Completed New Homes in U.S., 1973-2010:Q2



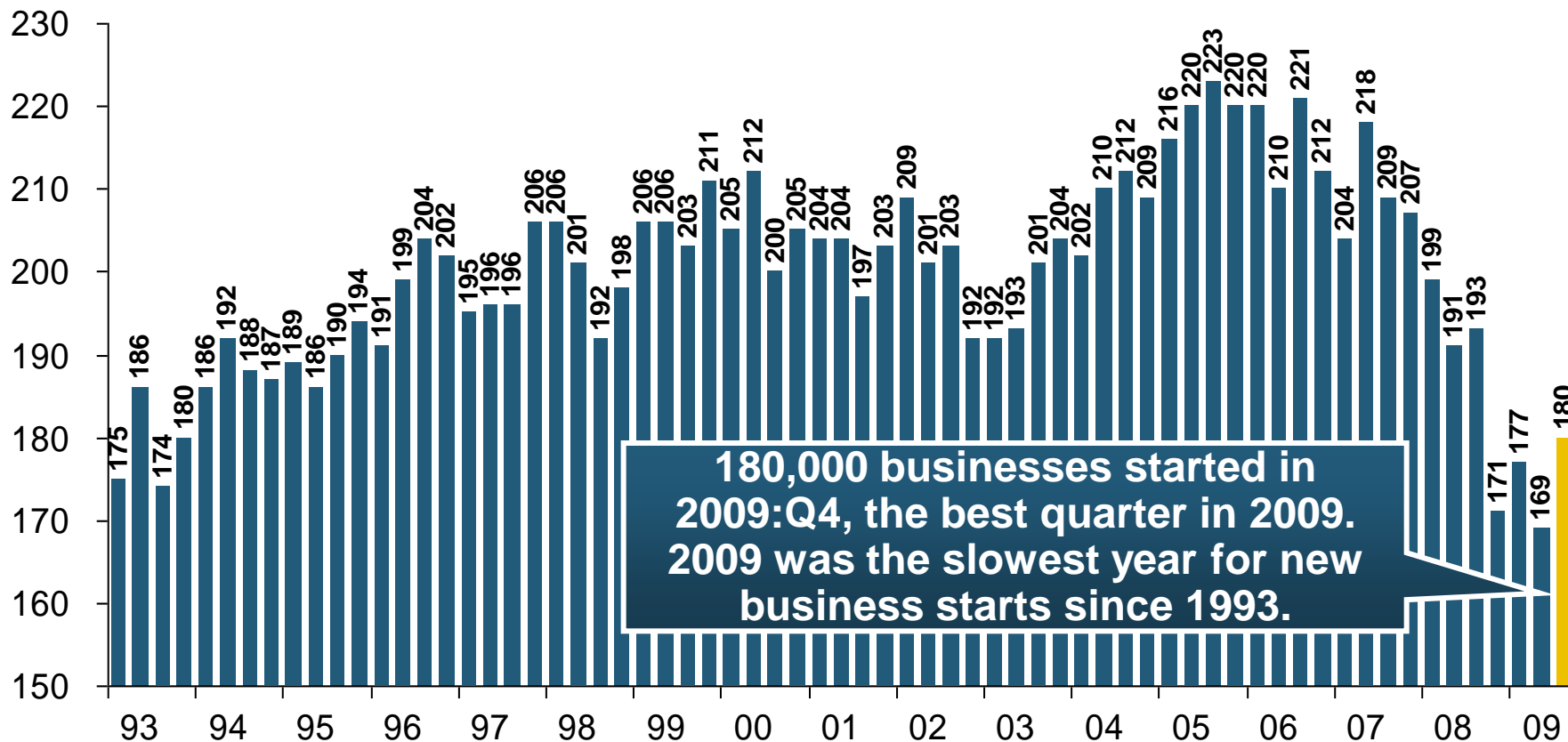
Business Bankruptcy Filings, 1980-2010:H1



**Significant Exposure Implications for All Commercial Lines.
There Are Some Preliminary Indications that Business
Bankruptcies Are Beginning to Decline.**

Private Sector Business Starts, 1993:Q2 – 2009:Q4*

(Thousands)



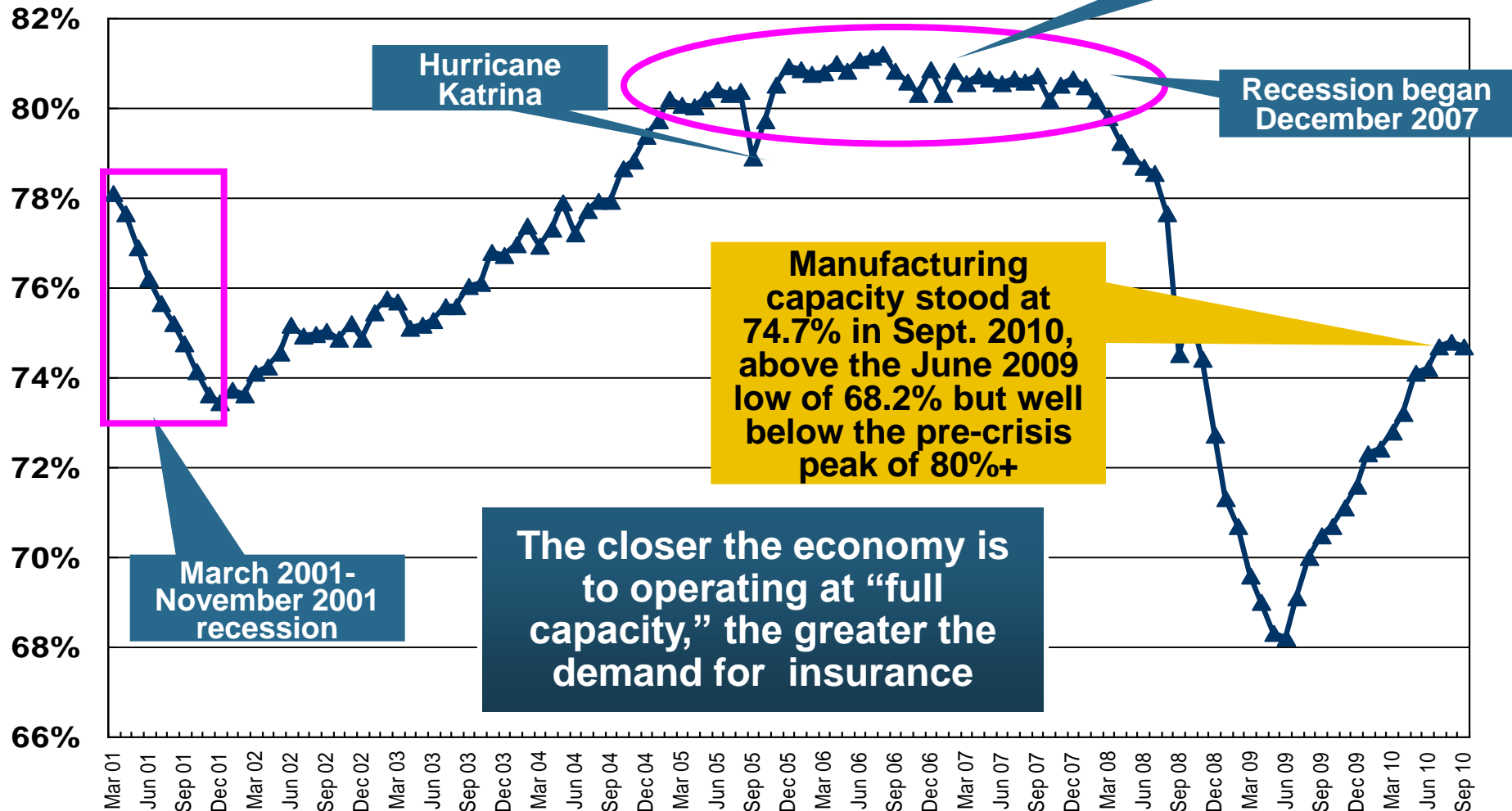
**Business Starts Are Down Nearly 20% in the Current Downturn,
Holding Back Most Types of Commercial Insurance Exposure**

*Latest available as of September 12, 2010, seasonally adjusted

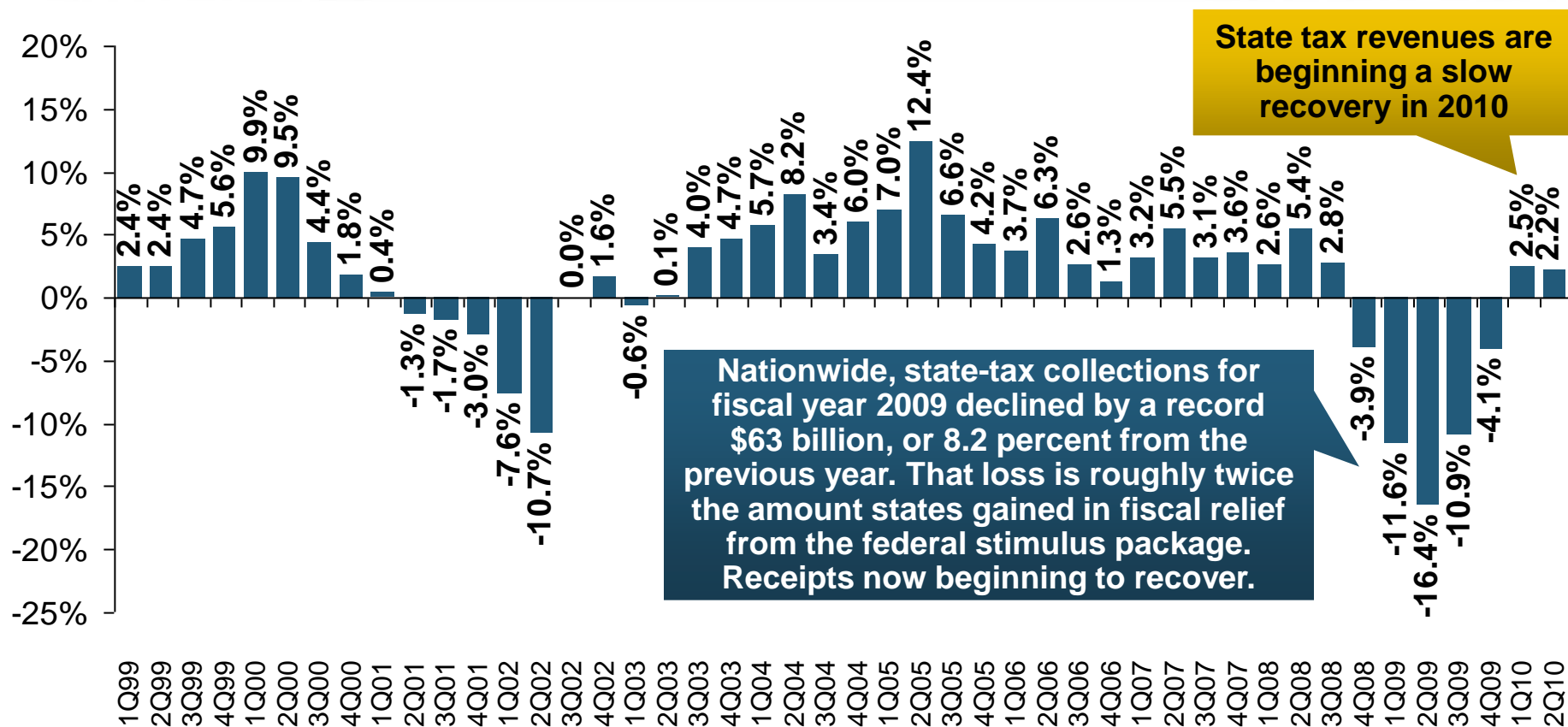
Source: Bureau of Labor Statistics, <http://www.bls.gov/news.release/cewbd.t07.htm>.

Recovery in Capacity Utilization is a Positive Sign for Insurance Exposure

Percent of Capacity Utilized
(Manufacturing, Mining, Utilities)



Year-Over-Year Change in Quarterly US State Tax Revenues, Inflation Adjusted



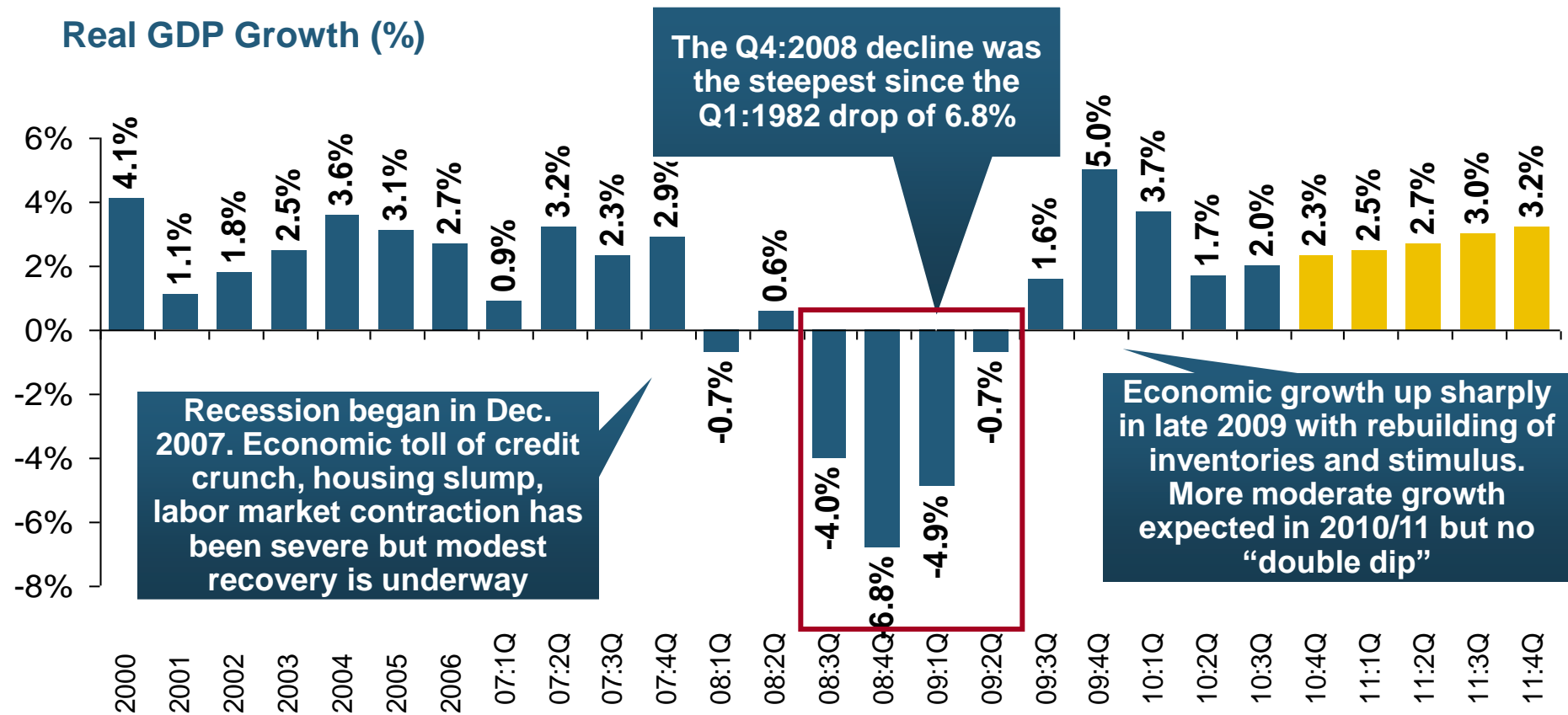
States Revenues Were Up 2.2% in Q2 2010, the 2nd Consecutive Quarter of Revenue Increase. Public Infrastructure Spending is Still Likely to Remain Depressed, Dampening Related Insurance Exposures and Demand.

The Economic Storm

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

US Real GDP Growth*

Real GDP Growth (%)



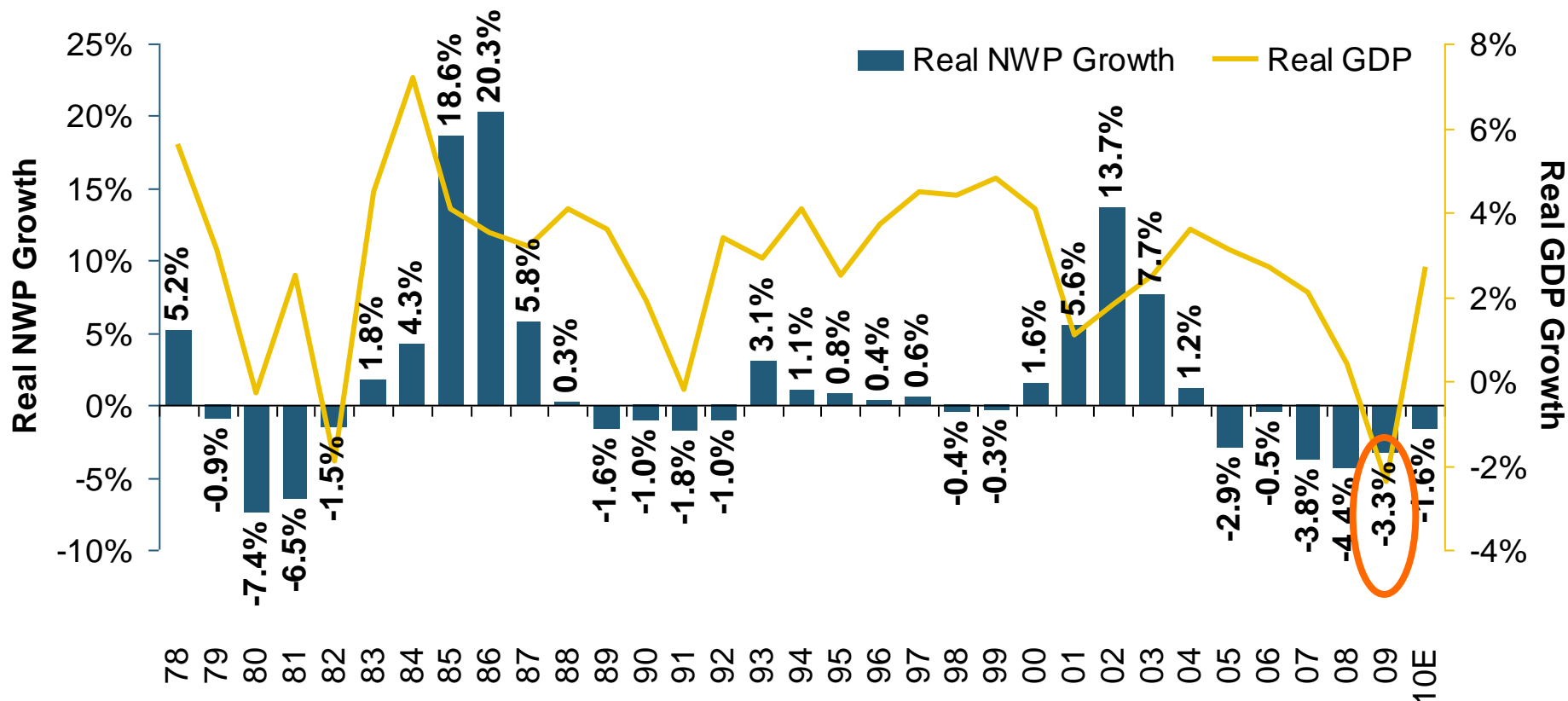
Demand Commercial Insurance Continues To Be Impacted by Sluggish Economic Conditions, but the Benefits of Even Slow Growth Will Compound and Gradually Benefit the Economy Broadly

* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 10/10; Insurance Information Institute.

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

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



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

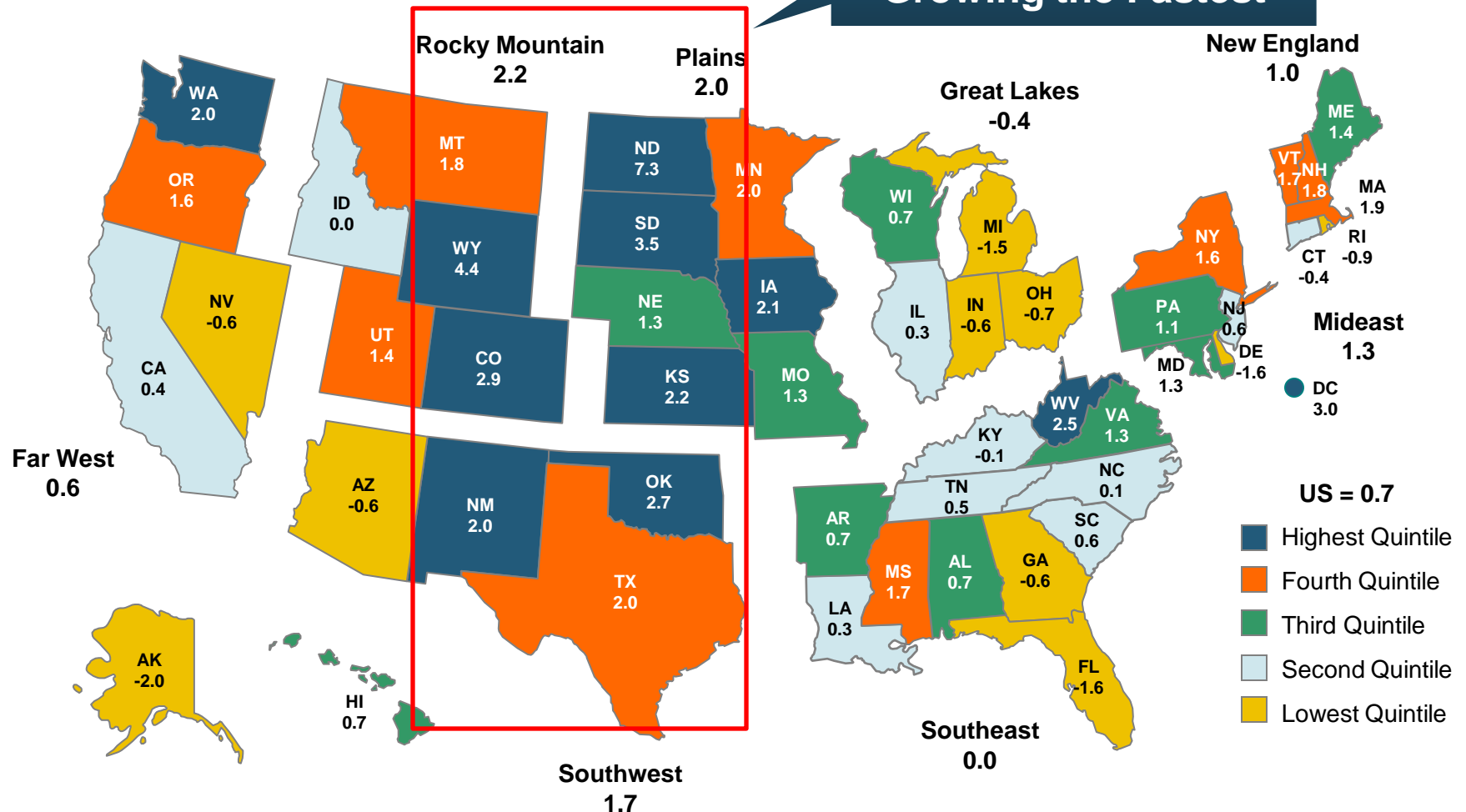
Regional Differences Will Significantly Impact P/C Markets

**Recovery in Some Areas Will
Begin Years Ahead of Others
and Speed of Recovery Will Differ
by Orders of Magnitude**

State Economic Growth Varied Tremendously in 2008

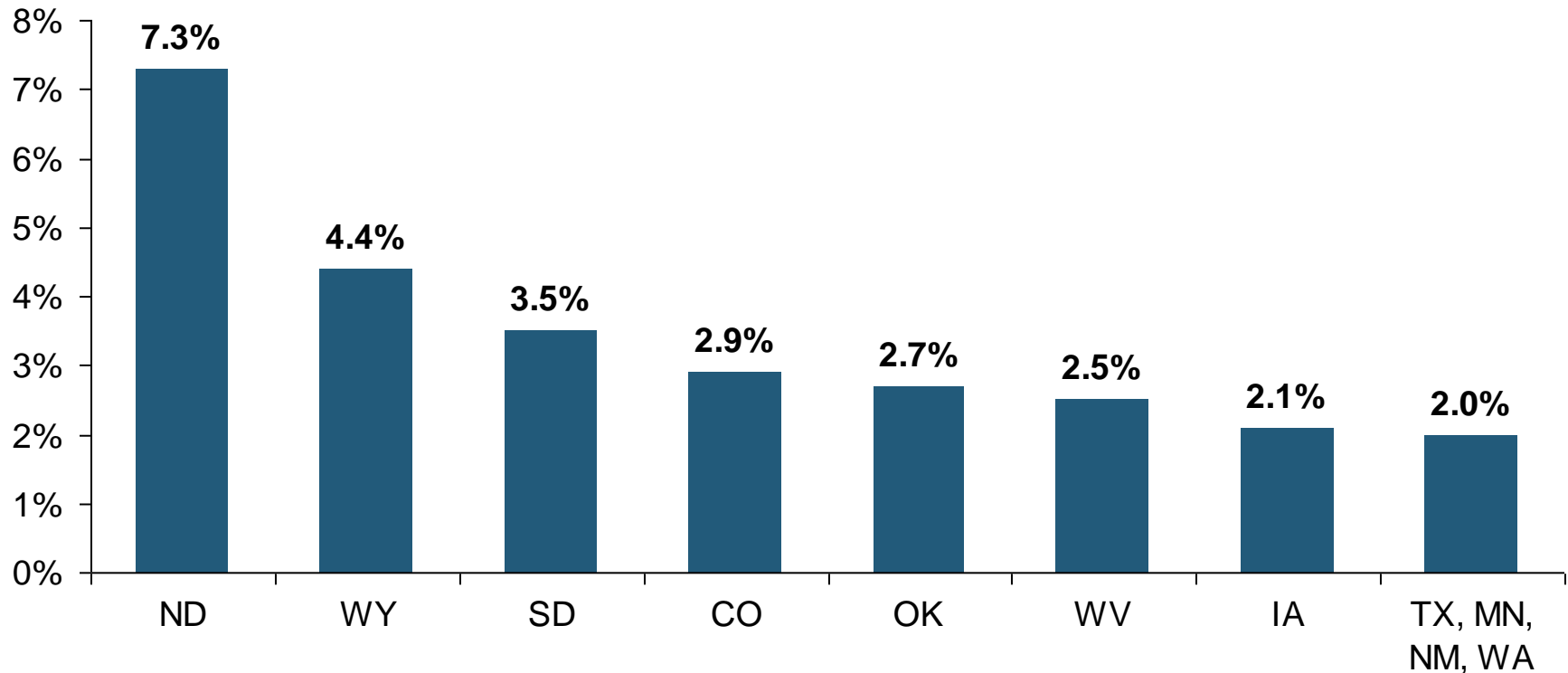
Percent Change in Real GDP by State, 2007–2008

Mountain, Plains States
Growing the Fastest



Fastest Growing States in 2008: Plains, Mountain States Lead

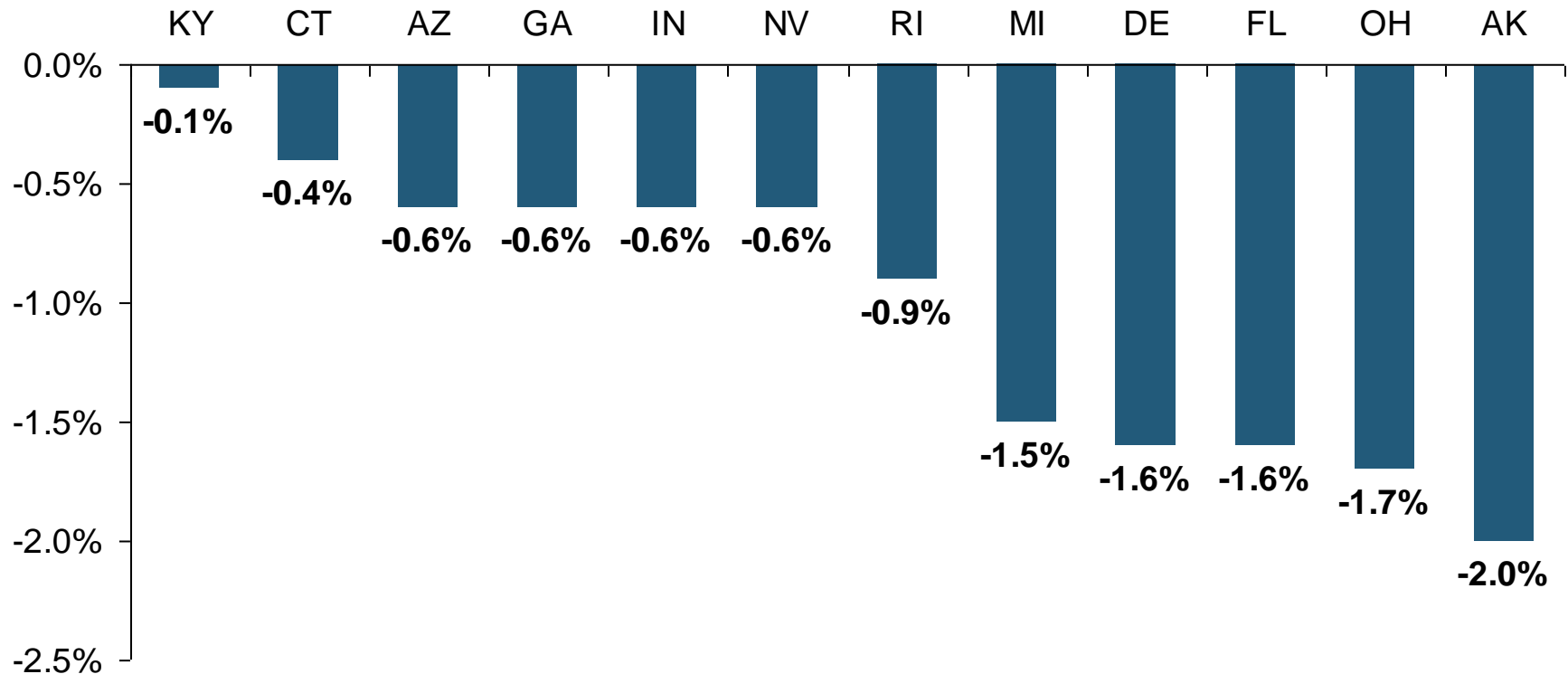
Real State GDP Growth (%)



Natural Resource and Agricultural States Have Done Better Than Most Others Recently, Helping Insurance Exposure in Those Areas

Slowest Growing States in 2008: Diversity of States Suffering

Real State GDP Growth (%)



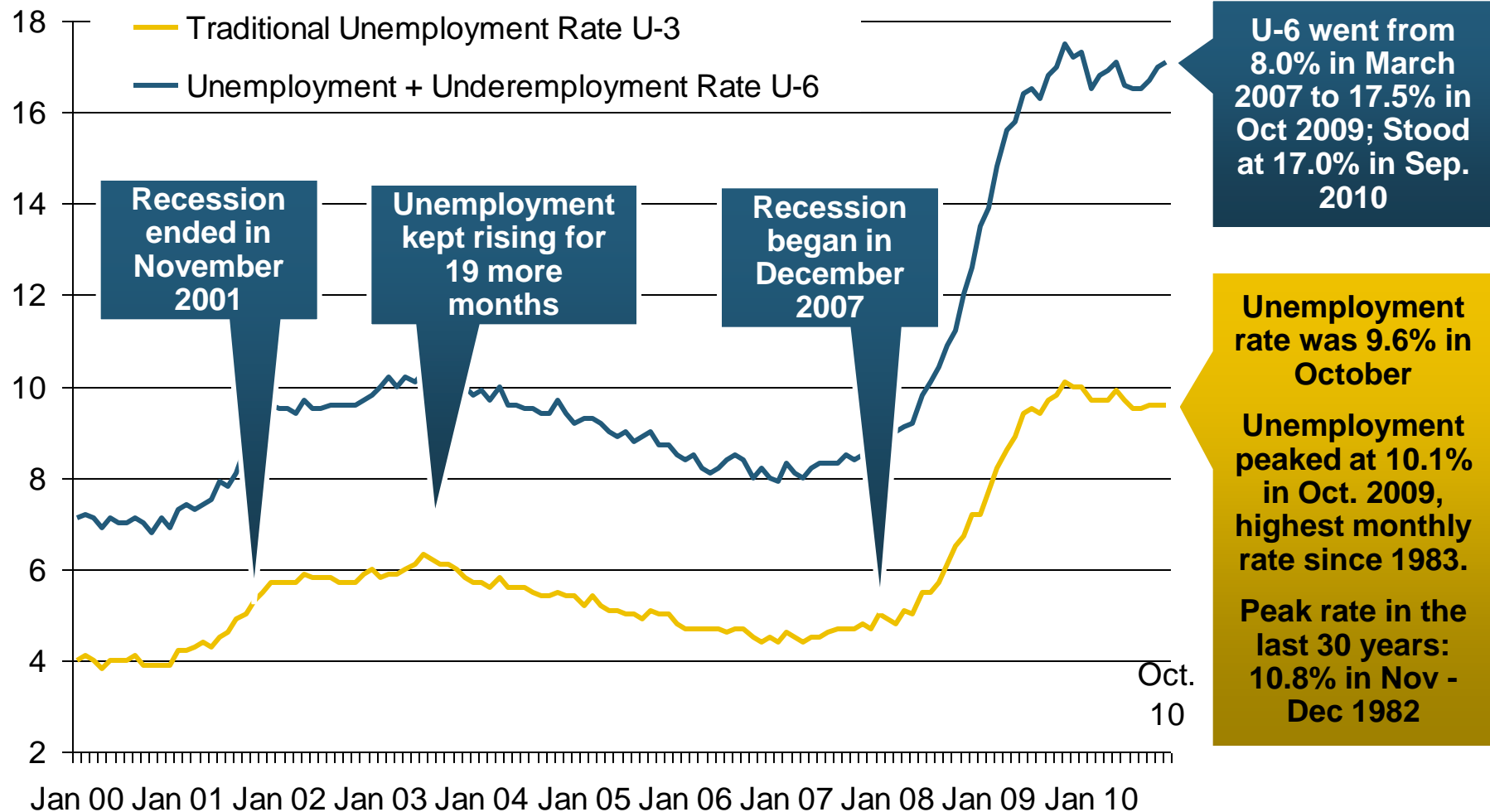
**States in the North, South, East, Midwest and West All Represented
Among Hardest Hit, But for Differing Reasons**

Labor Market Trends

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

Unemployment and Underemployment Rates: Rocketed Up in 2008-09; Stabilized in 2010

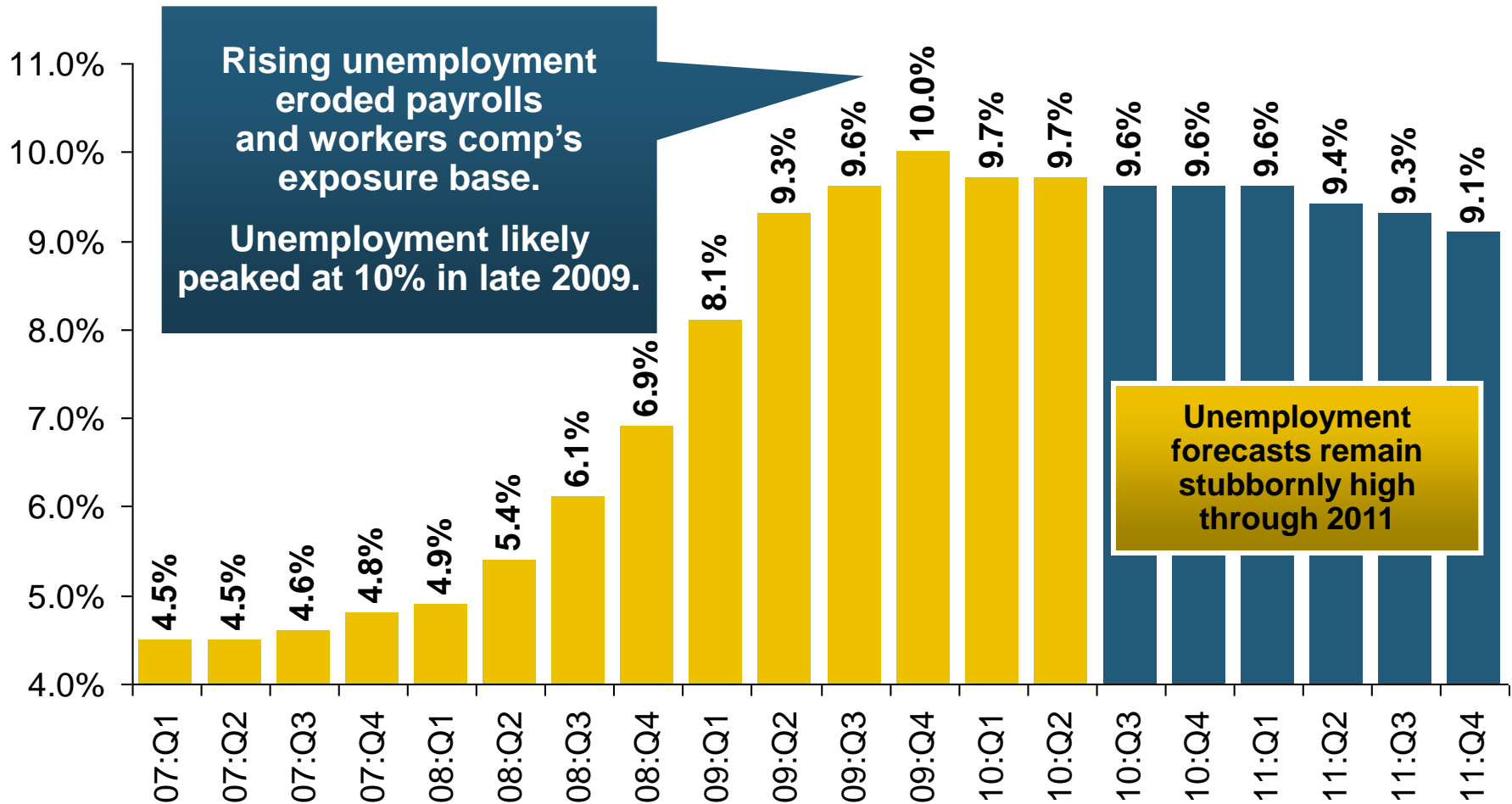
January 2000 through October 2010, Seasonally Adjusted (%)



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

US Unemployment Rate

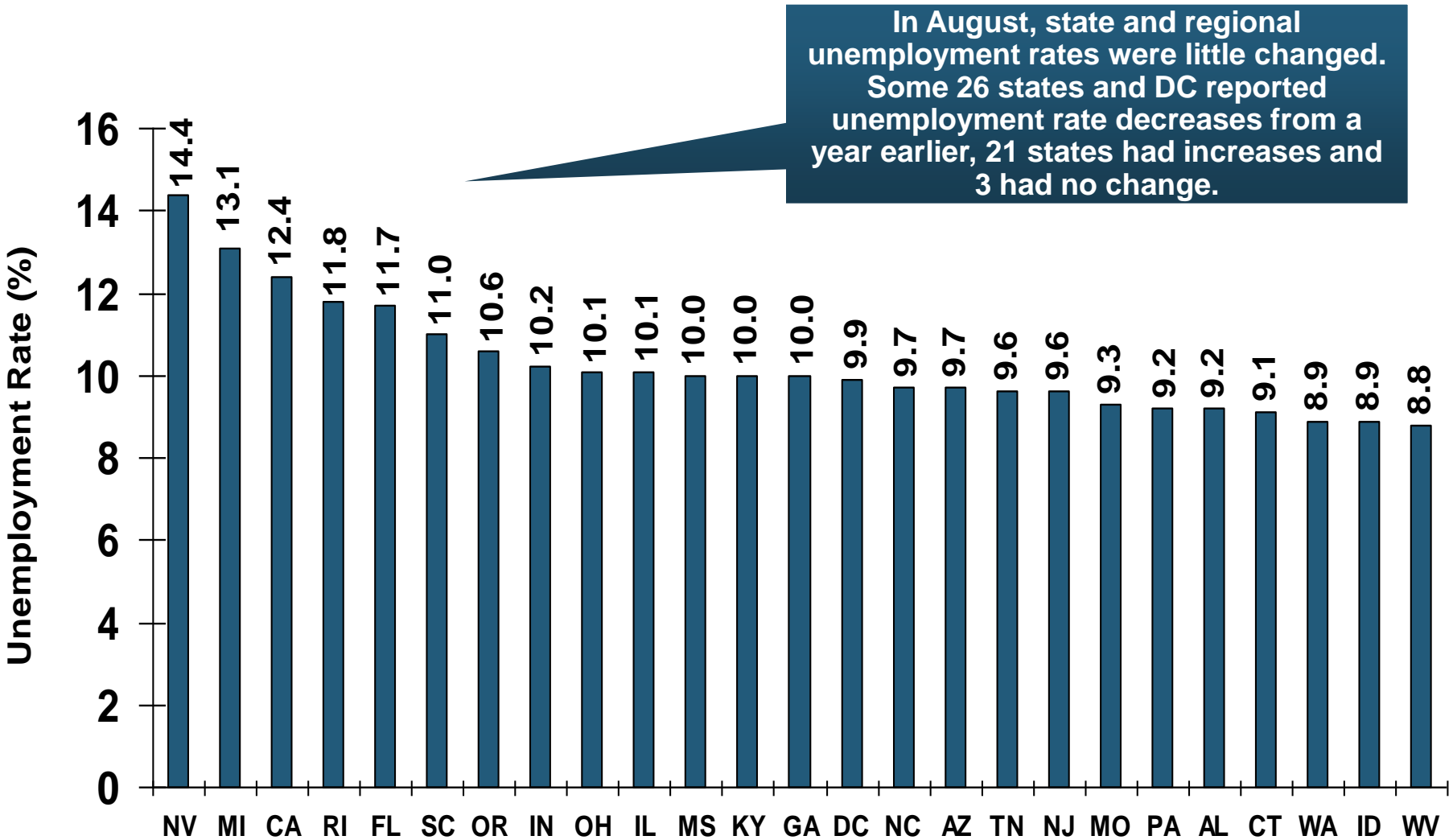
2007:Q1 to 2011:Q4F*



* ■ = actual; ■ = forecasts

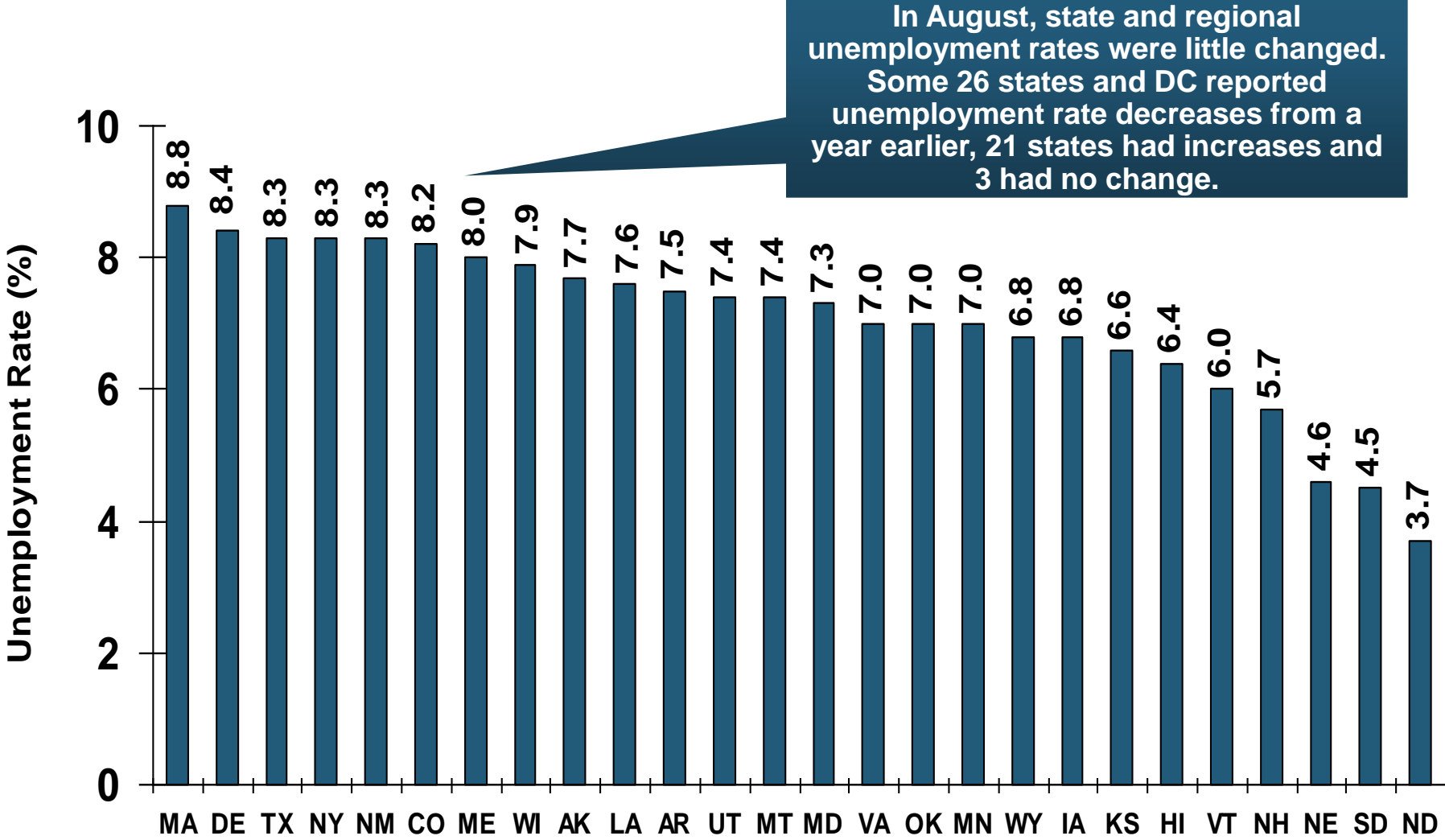
Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (10/10); Insurance Information Institute

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



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

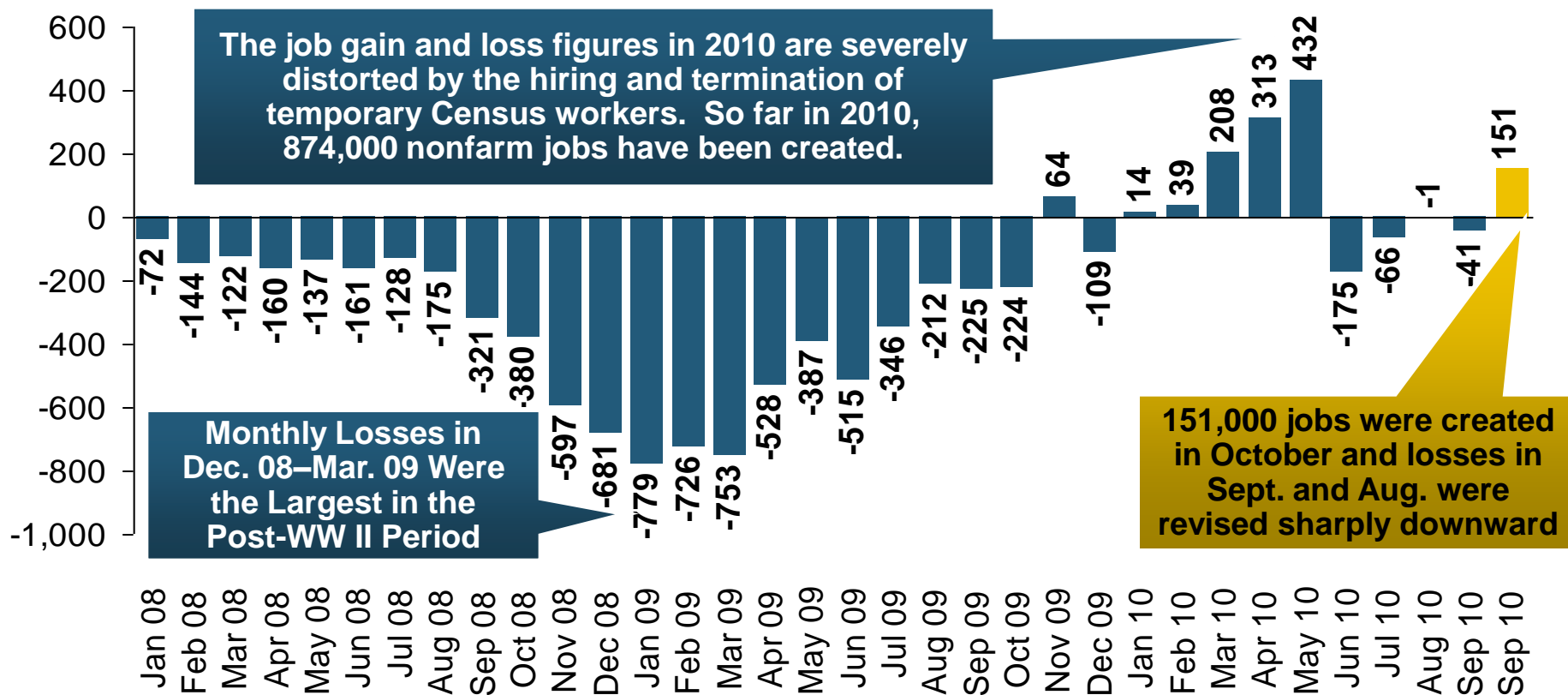
Unemployment Rates By State, August 2010: Lowest 25 States*



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

Monthly Change Employment*

January 2008 through October 2010* (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; 14.8 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

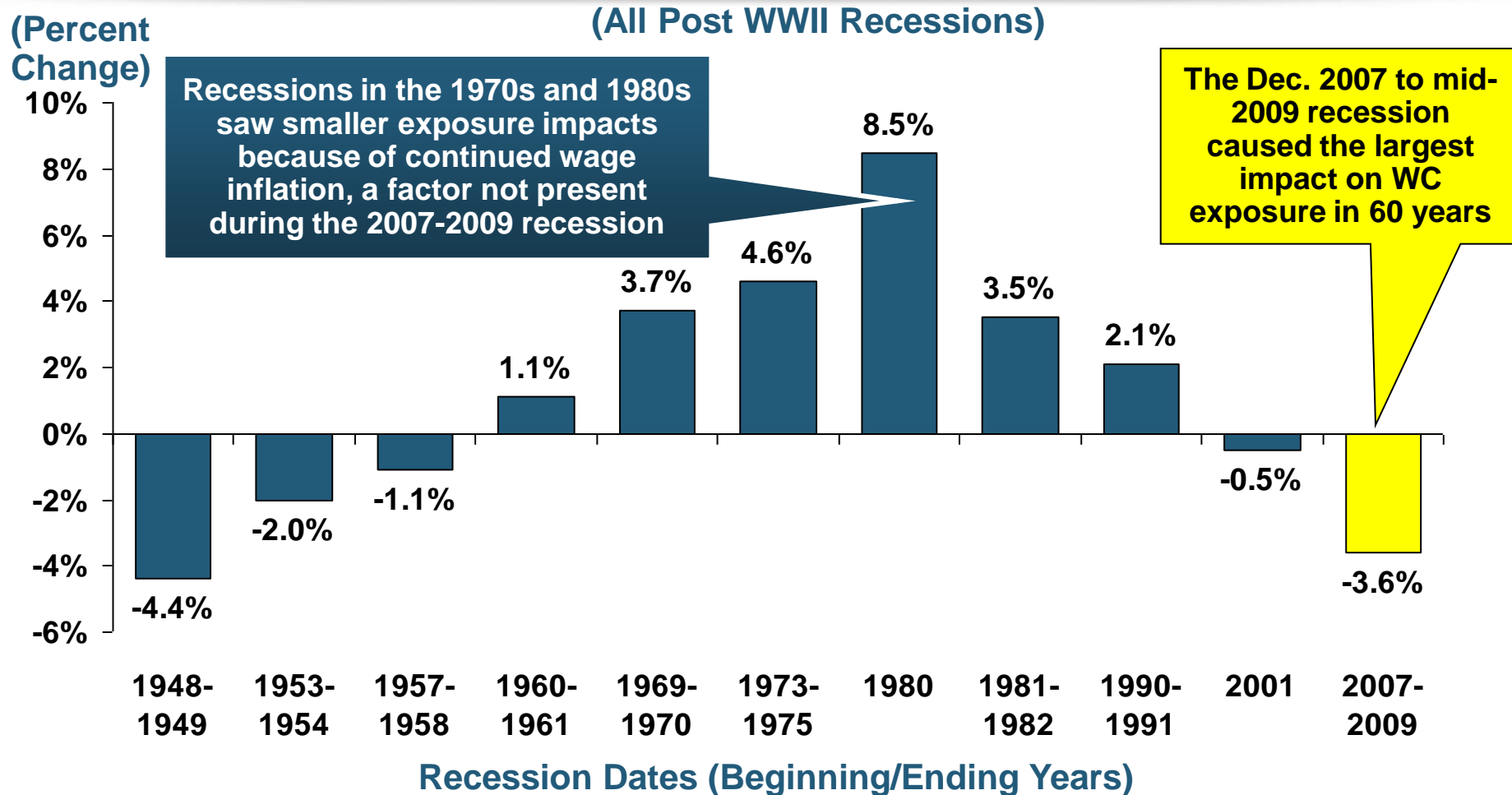
Change in Employment Level for Select Industries, Oct. 2010 vs. Sept. 2010

Change in Thousands



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

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).

III.

Regulation, Legislation and the 2010 Midterm Election Results: Impacts on P/C Insurer Profitability & Performance

Significant Impacts Are Guaranteed

The 2010 Midterm Elections:

What do the results mean for insurers?

■ Catastrophe Financing

- Supporters of Homeowners Defense Act (e.g., Rep. Neil, D-FL) defeated (HR 2555); Act proposed a larger role for the federal govt. in financing natural catastrophe losses
- Rep. Gene Taylor (D-MS) defeated: He supported the Multi-Peril Insurance Act (HR 1264) which would have added wind to the NFIP
- Unclear if flood program once again winds up in limbo

■ Health Care Reform (Obamacare)

- Promises to “repeal and replace” aren’t credible (Senate and White House still Democratically controlled); Object is to starve implementation via low/no funding
- Obamacare and Boehnercare will do little to control the trajectory of costs
- Impacts on benefits business
- Republicans need plan to deal with entitlement (Medicare) to cut budget

■ Dodd-Frank

- Likely few major provisions impact insurers the most (e.g., creation of FIO) unlikely to be affected

The 2010 Midterm Elections:

What do the results mean for insurers?

■ Tort Reform

- Tort was not a major issue in the 2010 campaign, but the new House can be expected to be receptive to the idea of federal tort reform, unlike prior Congresses since 2006
- Fewer new pieces of legislation likely to spawn tort actions (e.g., climate change)
- State legislatures and governorships more receptive to tort reforms

■ Taxes/Fiscal Policy

- Odds of an across-the-board continuation of Bush tax cuts more likely; Benefits small business and high net worth individuals and their insurers.
- Immediate expensing of new investment in 2011?? Good for p/c exposures.

■ Regulatory/Business Policy

- More pro-business stance
- Should help stimulate commercial exposures (WC payrolls, property & liability)
- Ohio monopolistic state fund → Move to competitive structure?

Financial Services Reform

**Insurers Are Impacted,
But Not Significantly**

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
- Imposes heightened federal regulation on large bank holding companies and “systemically risky” nonbank financial companies, including insurers

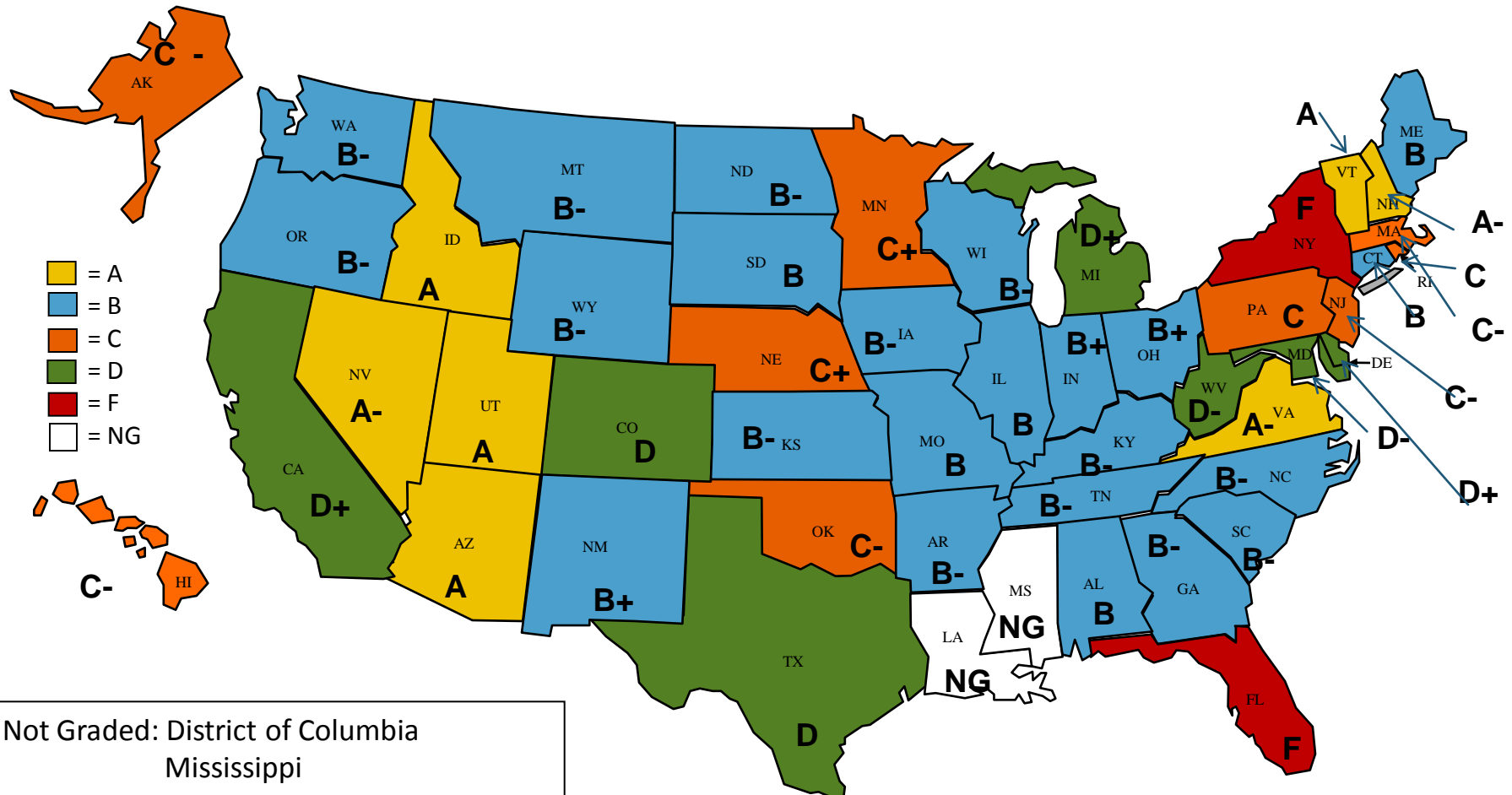
■ Federal Insurance Office (FIO)

- 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
- **CONCERN: FIO morphs into quasi/shadow or actual regulator**

■ Surplus Lines/Reinsurance

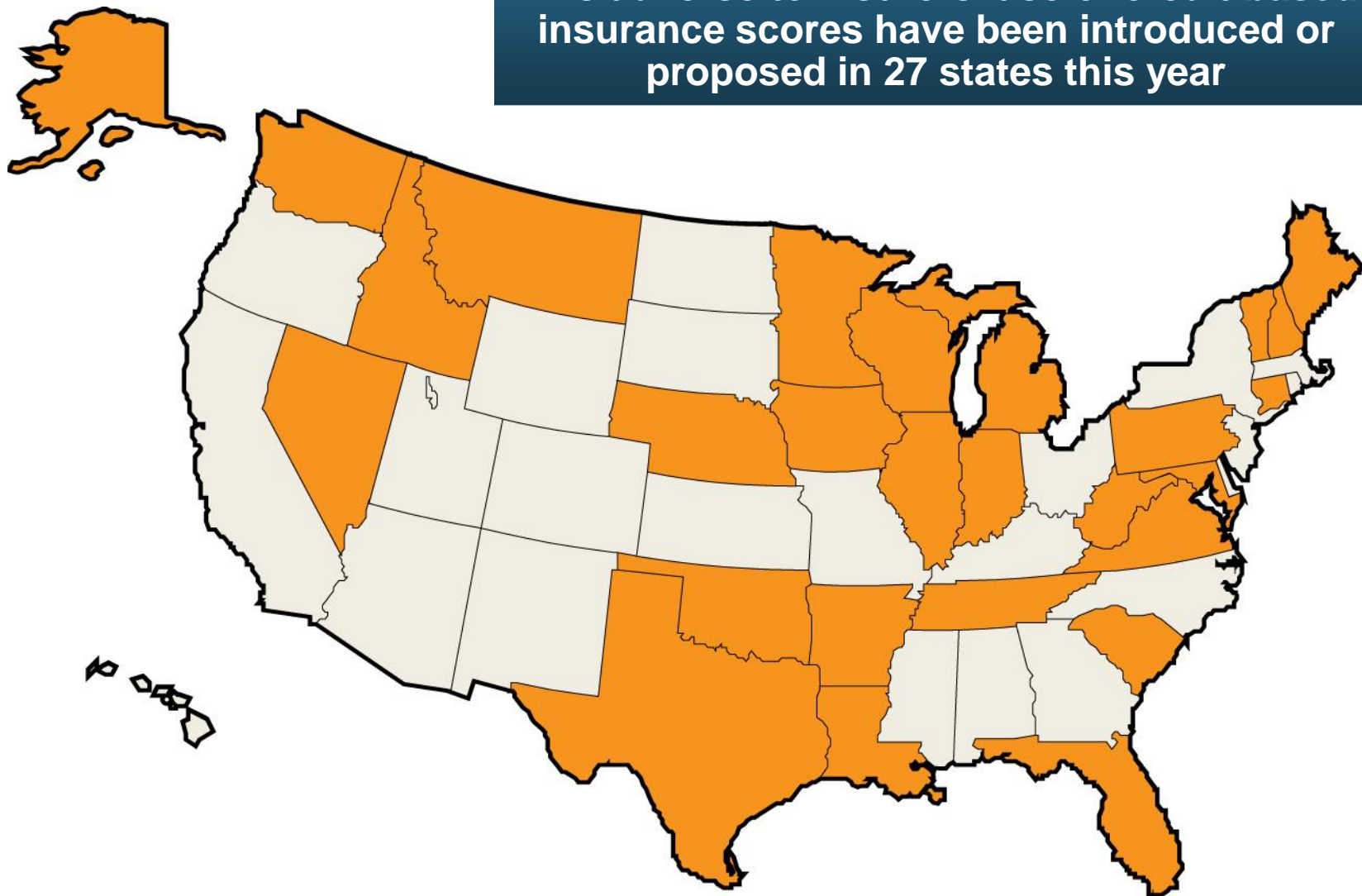
- Title V of the Dodd-Frank bill includes, as a separate subtitle, the Nonadmitted and Reinsurance Reform Act (NRRA), which eliminates regulatory inefficiencies associated with surplus lines insurance and reinsurance

2010 Property and Casualty Insurance Report Card



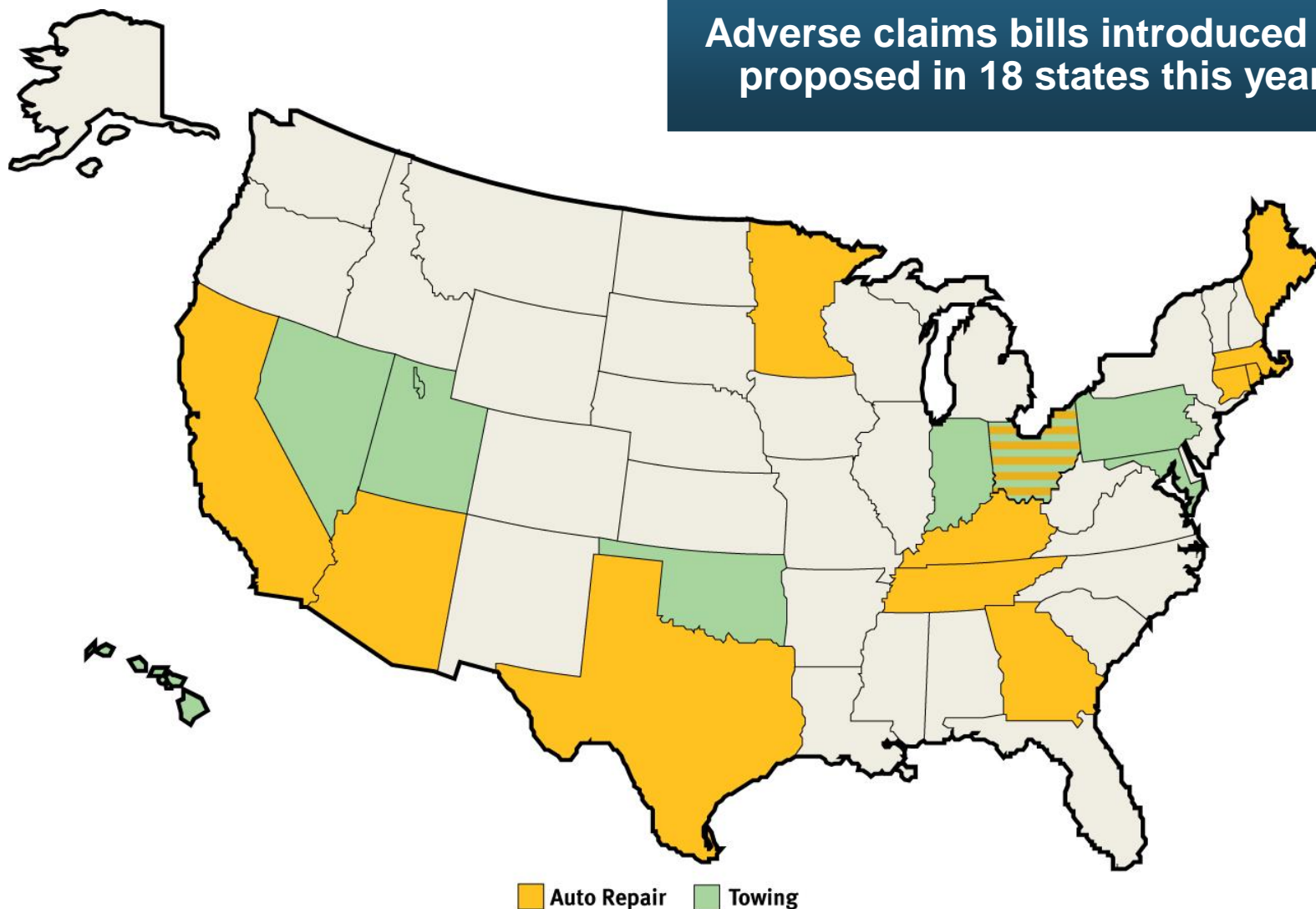
Insurance Scoring: A Perennial Problem for Insurers

Bills adverse to insurers' use of credit-based insurance scores have been introduced or proposed in 27 states this year



Auto Claims Issues: A Perennial Problem for Insurers

Adverse claims bills introduced or proposed in 18 states this year

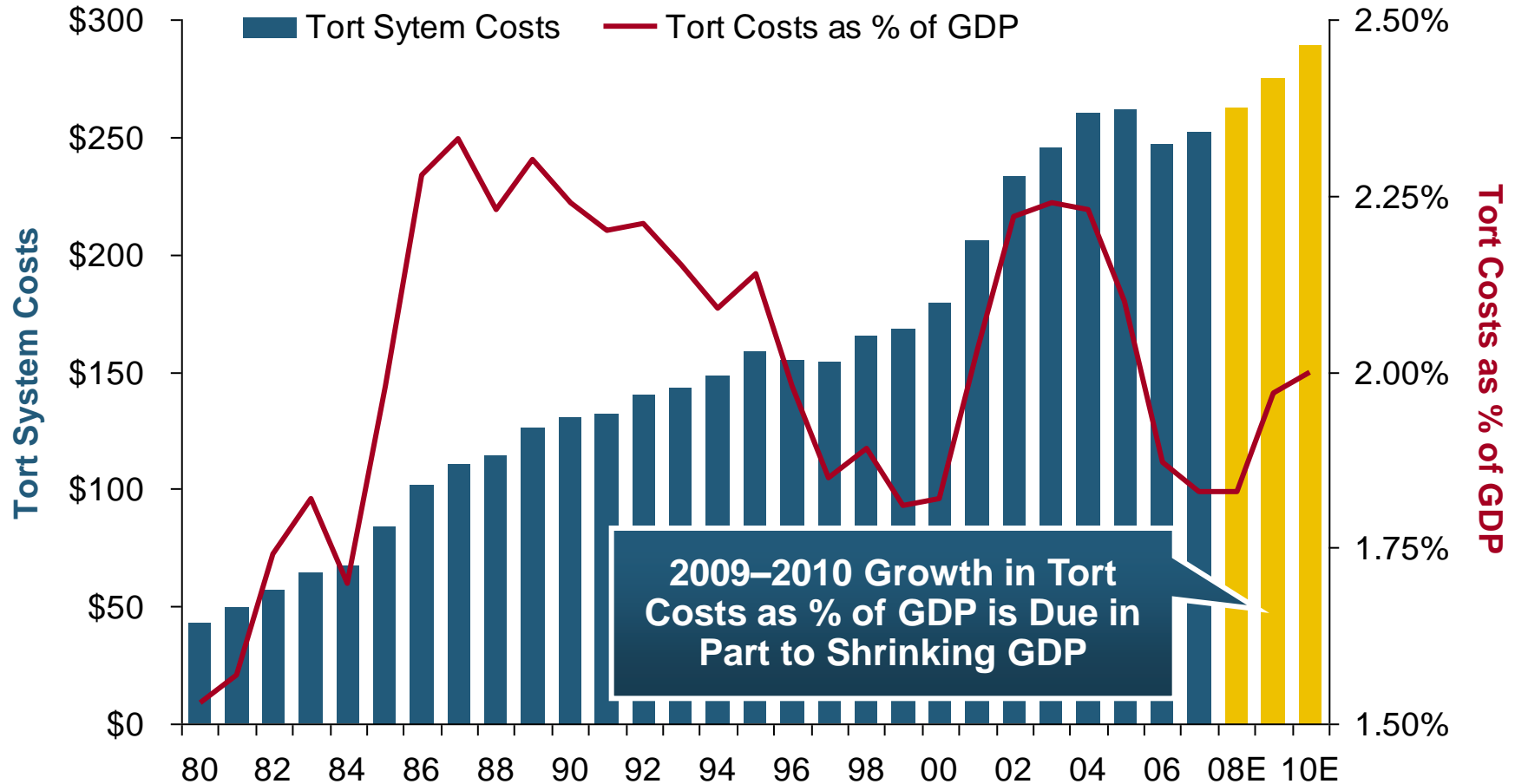


Shifting Legal Liability & Tort Environment

Is the Tort Pendulum Swinging Against Insurers?

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

(\$ Billions)



* Excludes the tobacco settlement, medical malpractice

Sources: Tillinghast-Towers Perrin, *2008 Update on US Tort Cost Trends*, Appendix 1A; I.I.I. calculations/estimates for 2009 and 2010

Business Leaders Ranking of Liability Systems in 2009*

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 2009

- 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

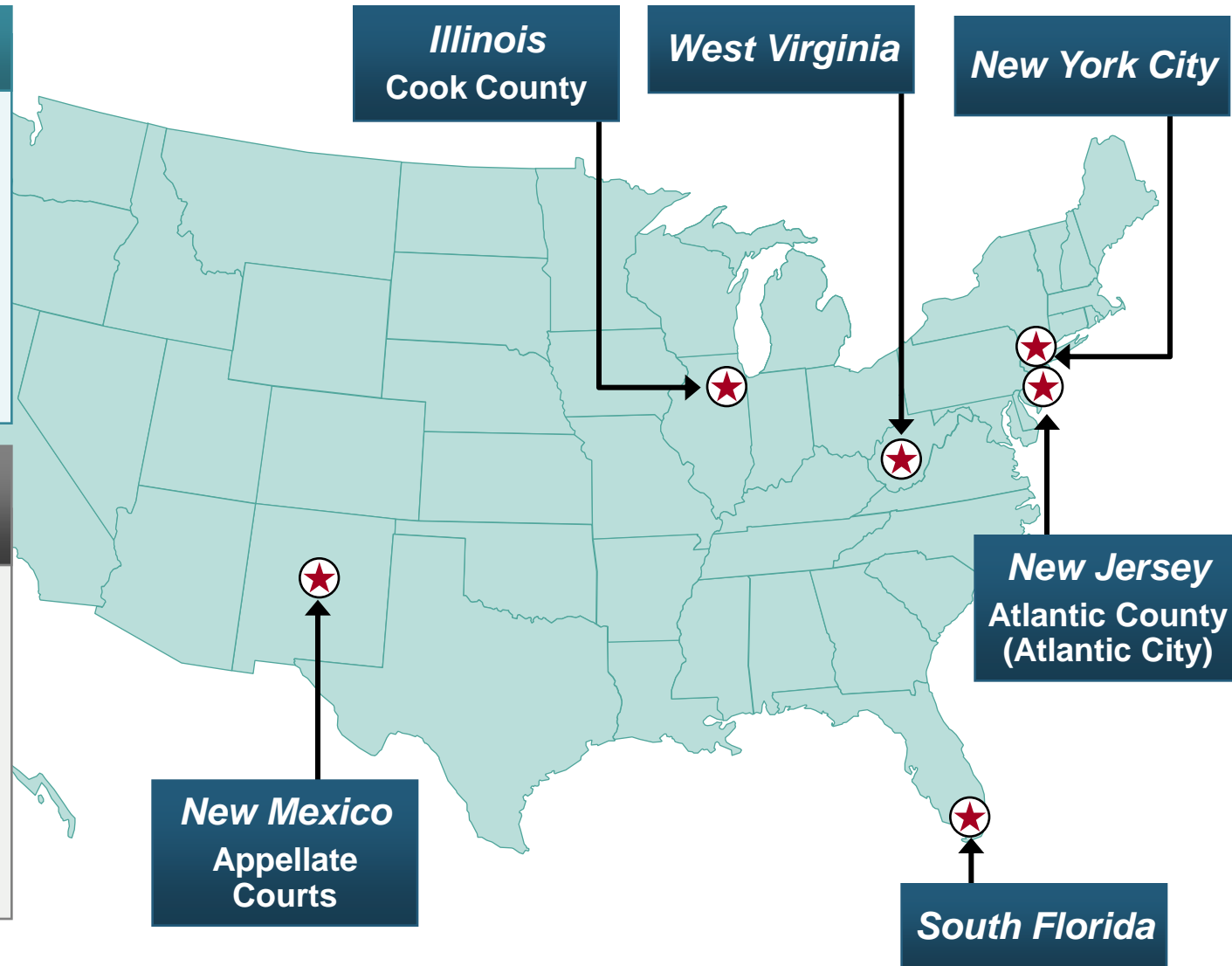
The Nation's Judicial Hellholes: 2010

Watch List

- California
- Alabama
- Madison County, IL
- Jefferson County, MS
- Texas Gulf Coast
- Rio Grande Valley, TX

Dishonorable Mention

- AR Supreme Court
- MN Supreme Court
- ND Supreme Court
- PA Governor
- MA Supreme Judicial Court
- Sacramento County



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
\$71 Million	Conversion and Breach of Fiduciary Duty	Texas
\$70 Million	Workers Comp Case	Texas
\$65 Million	Personal Injury	Florida
\$60 Million	Medical Malpractice	New York

IV.

Leading Challenges Facing the P/C Insurance Industry 2011-2015

**Surviving is Hard
*Thriving is Harder***

Important Issues & Threats Facing Insurers: 2011–2015

Operational Challenges

1. Establishing Adequate Reserves and Prices

- Failure to do so is the leading cause of death of p/c insurers

2. Rationalize Pricing with the New Investment Reality

- Insurers must generate risk-appropriate rates of return and achieve their cost of capital in order to maintain the ability to attract/retain capital

3. Structure Business to Seize Growth Opportunities in the Post-Crisis World

- Need to have products, expertise for the growing industries of the 2010s

4. Fend Off Regulatory and Legislative Attacks

- Federal fireworks may be over for now, but scores of anti-insurer bills/regulatory proposals will be considered each year across the US

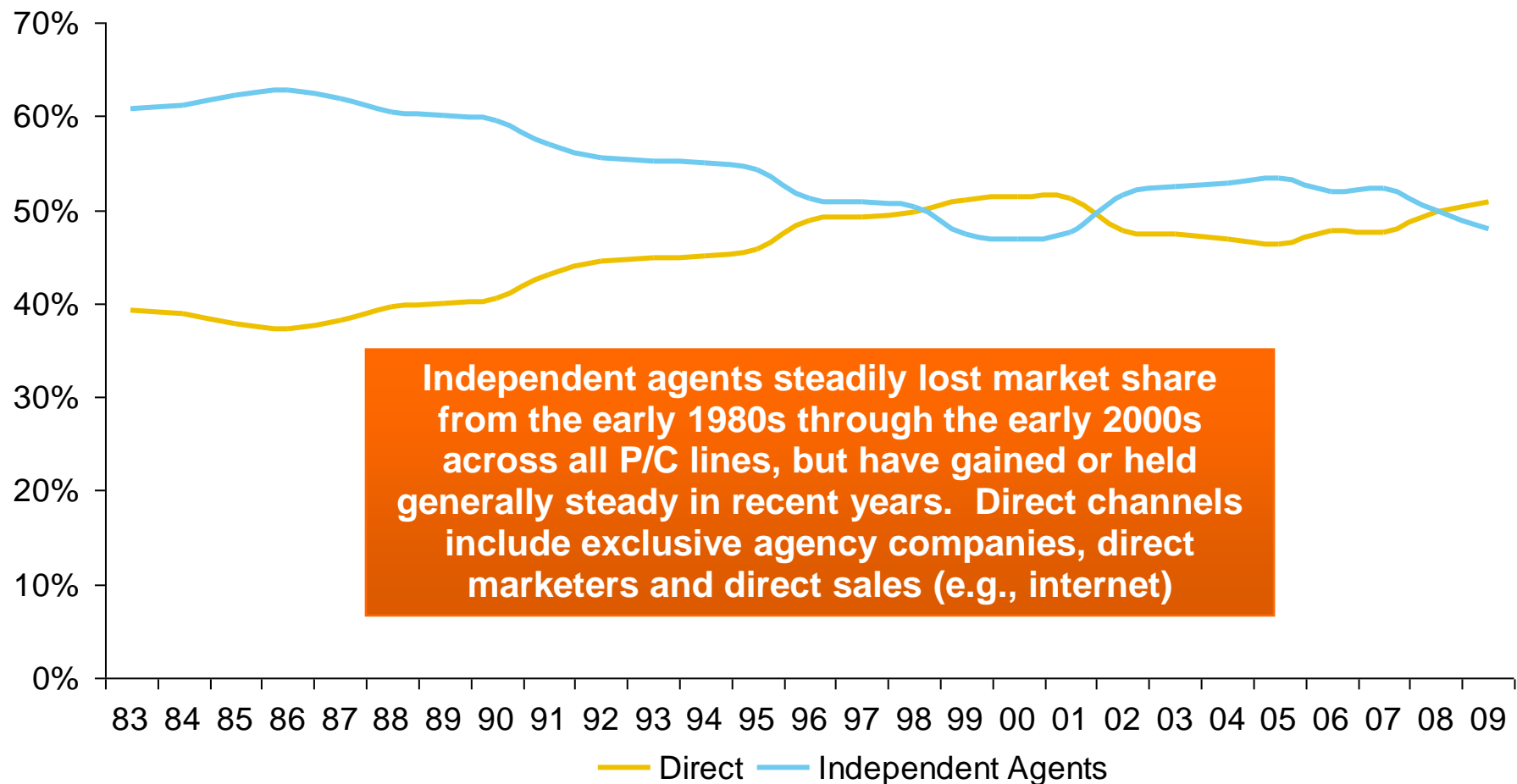
5. Adapt to Evolving Distribution Model: Channel Fusion

- Value added of the IA channel is affirmed and enhanced

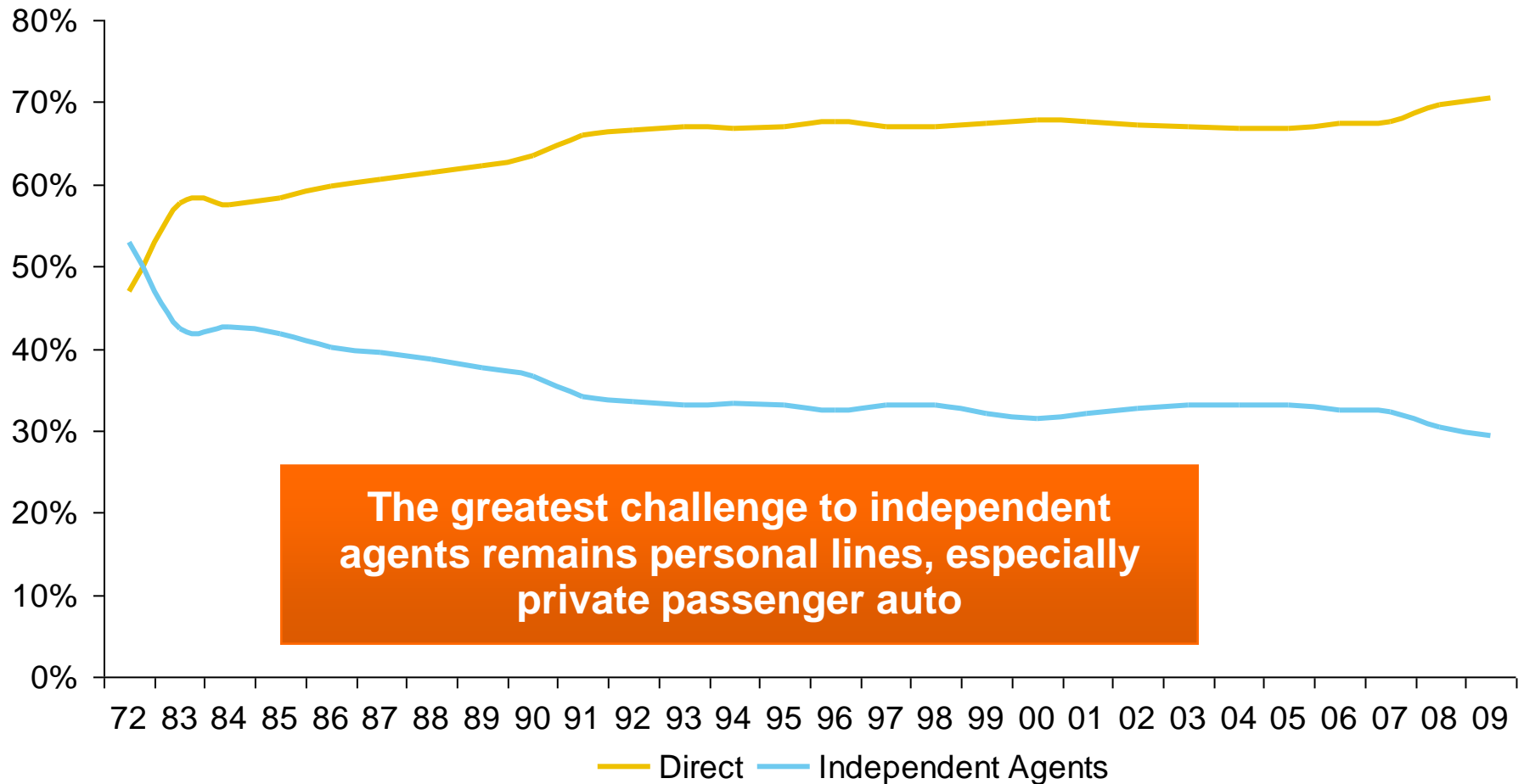
Distribution Trends

Distribution by Channel Type Continues to Evolve

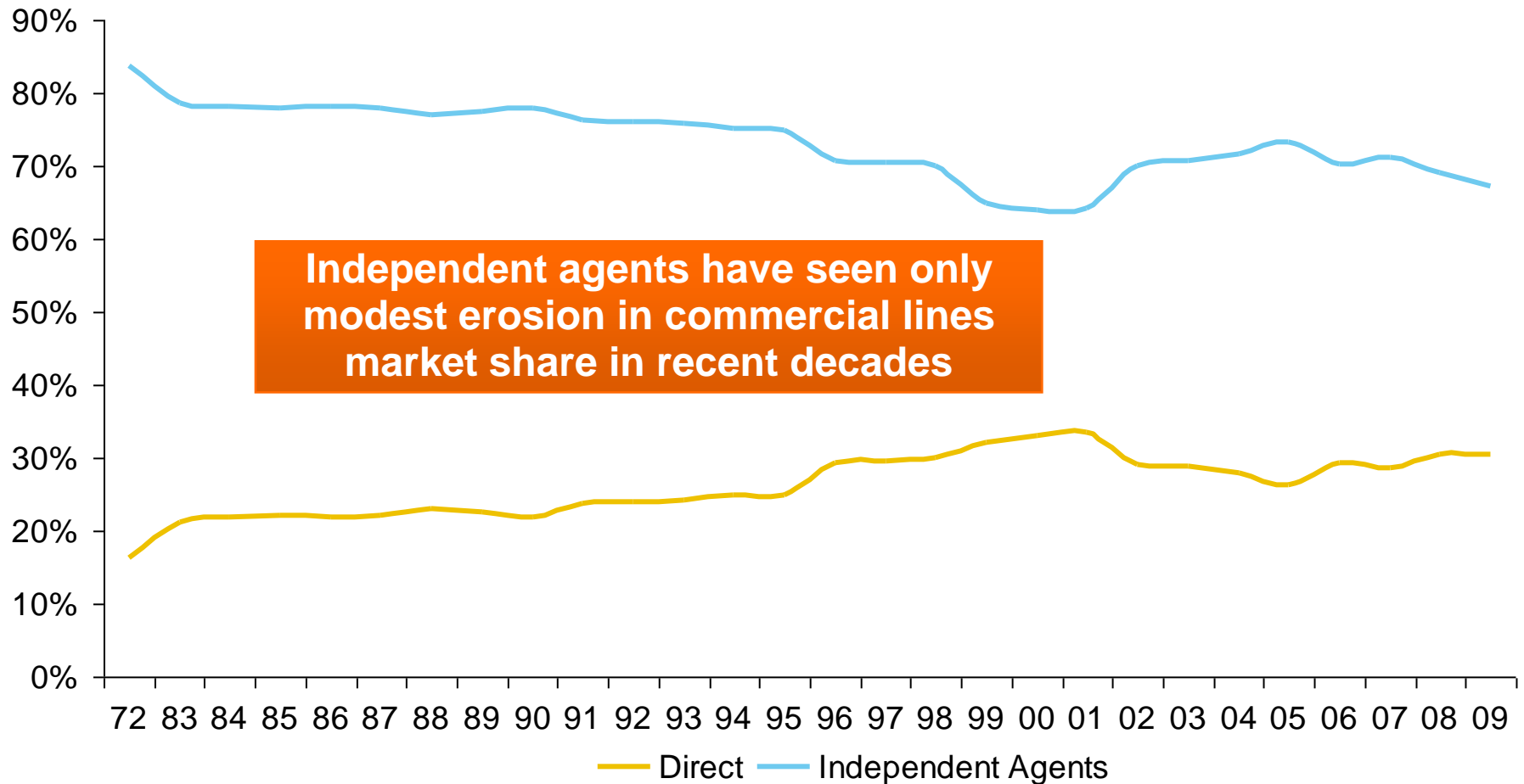
All P/C Lines Distribution Channels, Direct vs. Independent Agents



Personal Lines Distribution Channels, Direct vs. Independent Agents

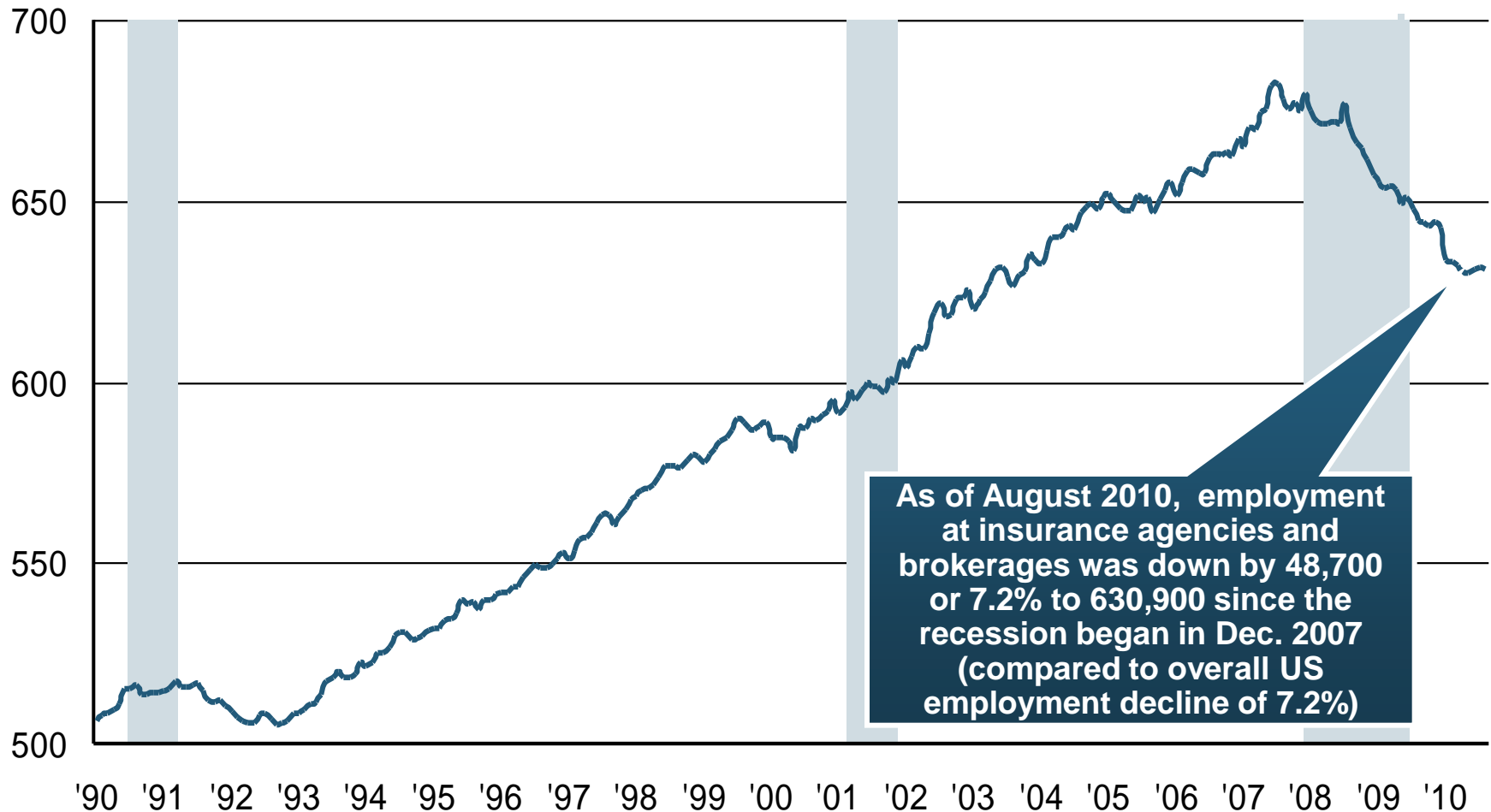


Commercial P/C Distribution Channels, Direct vs. Independent Agents



U.S. Employment in Insurance Agencies & Brokerages: 1990–2010*

Thousands



*As of August 2010; Not seasonally adjusted. Includes all types of insurance.

Note: Recessions indicated by gray shaded columns.

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

Insurance Information Institute Online:

www.iii.org

*Thank you for your time
and your attention!*

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