



Key Issue in the P-C Insurance Industry: Overview & Outlook

Focus on PA, VA and WV Markets

PAMIC VAMIC WVAMIC Convention

The Greenbrier

White Sulphur Springs, WV

August 10, 2010

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- **Reasons for Optimism, Causes for Concern**
- **Insurance Industry Financial Overview & Outlook**
 - ◆ Profitability
 - ◆ Premium Growth
 - ◆ Underwriting Performance: Commercial & Personal Lines
 - ◆ Financial Market Impacts
- **Profitability in PA, VA and WV P/C Insurance Markets**
- **Mutual Insurers: Secrets of the Ancients**
- **Financial Services Reform: Impacts on the Insurance Industry**
- **Capital & Capacity**
- **Tort System Review: Overview and Causes for Concern**
- **Performance by Segment/Line**
 - ◆ Focus Medical Professional Liability Insurance and Workers Comp
- **Financial Strength & Ratings**
- **The Global Economic Storm: Financial Crisis & Recession**
 - ◆ Crisis-Driven Exposure Issues: Personal & Commercial Lines
 - ◆ Exposure, Growth & Profitability
- **Catastrophe Losses**

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

- **Economic Recovery in US is Self-Sustaining: No Double Dip Recession**
- **European Debt Crisis Will Pass; Concerns are Overblown**
 - ◆ Volatility will remain a reality, however
- **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 Will Begin in Earnest in 2nd Half 2010, Accelerate in 2011**
- **Increase in Demand for Commercial Insurance is in its Earliest Stages and Will Accelerate in 2011**
 - ◆ 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

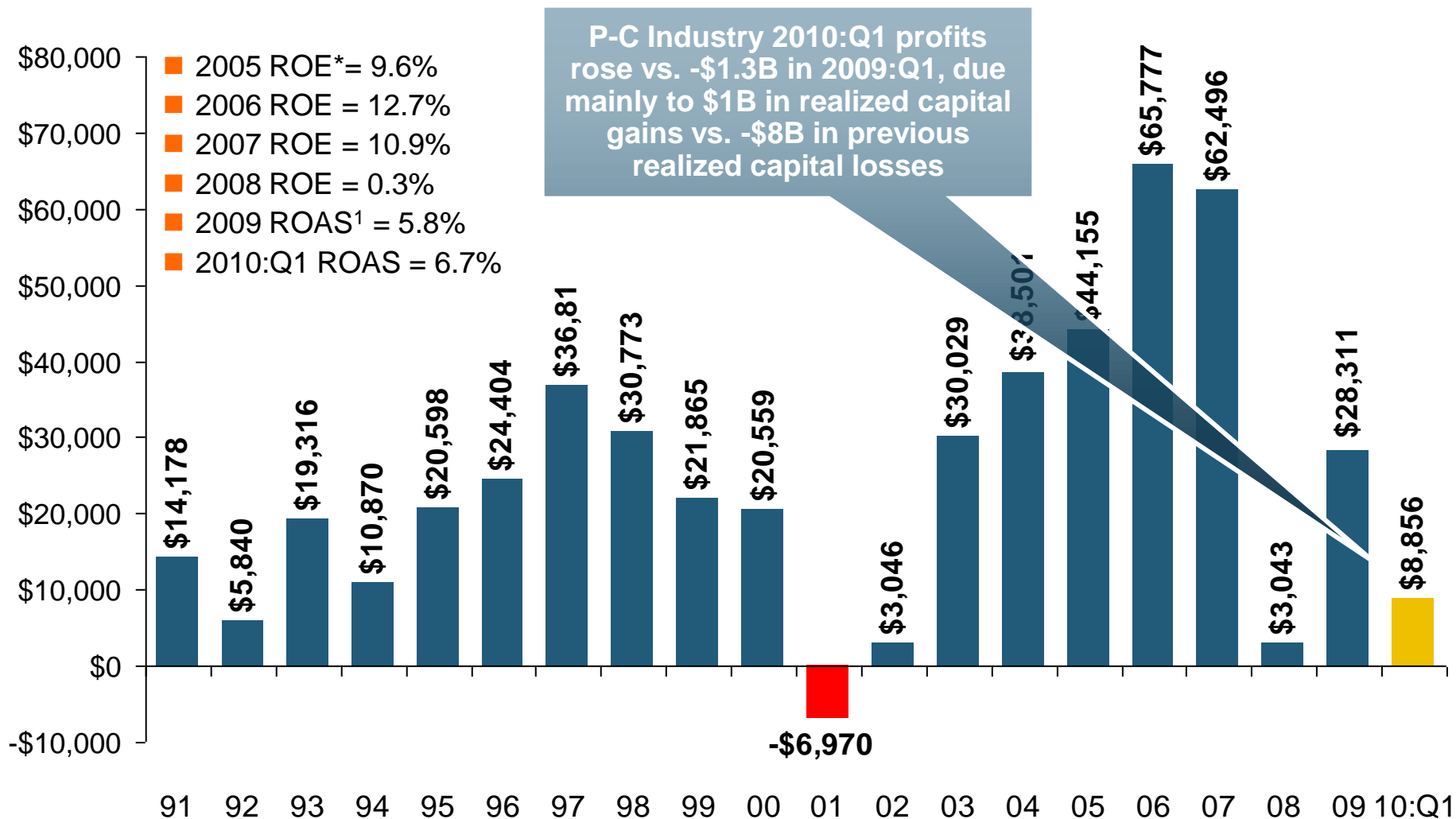
Reasons for Optimism, Causes for Concern in the P/C Insurance Industry

- **P/C Insurance Industry Capacity as of 3/31/10 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
- **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, Energy**

Profitability

Historically Volatile

P/C Net Income After Taxes 1991–2010:Q1 (\$ Millions)

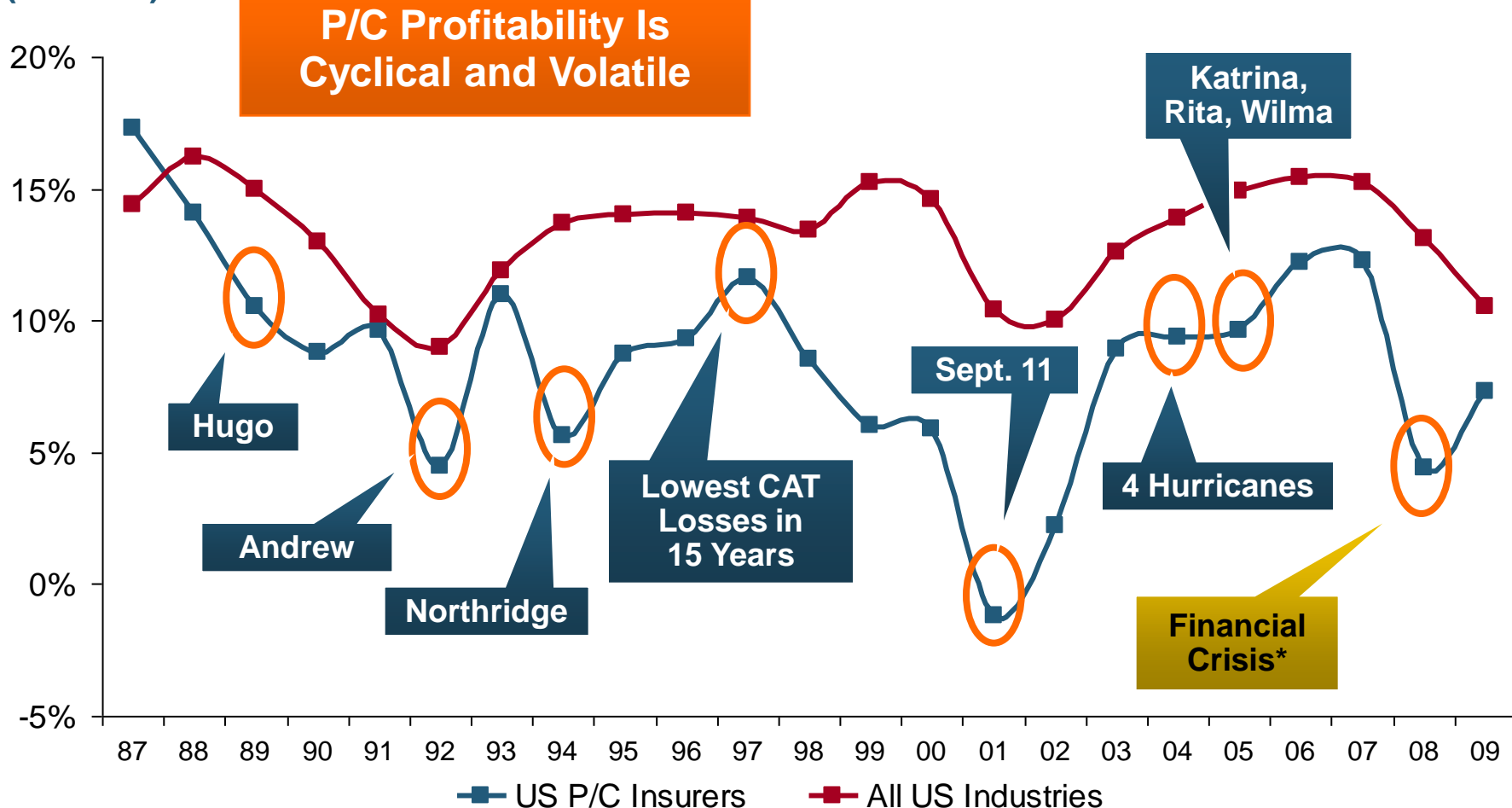


* ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields an 8.3% ROAS for 2010:Q1, 7.3% for 2009 and 4.4% for 2008. 2009 net income was \$34.5 billion and \$20.8 billion in 2008 excluding M&FG.

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

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

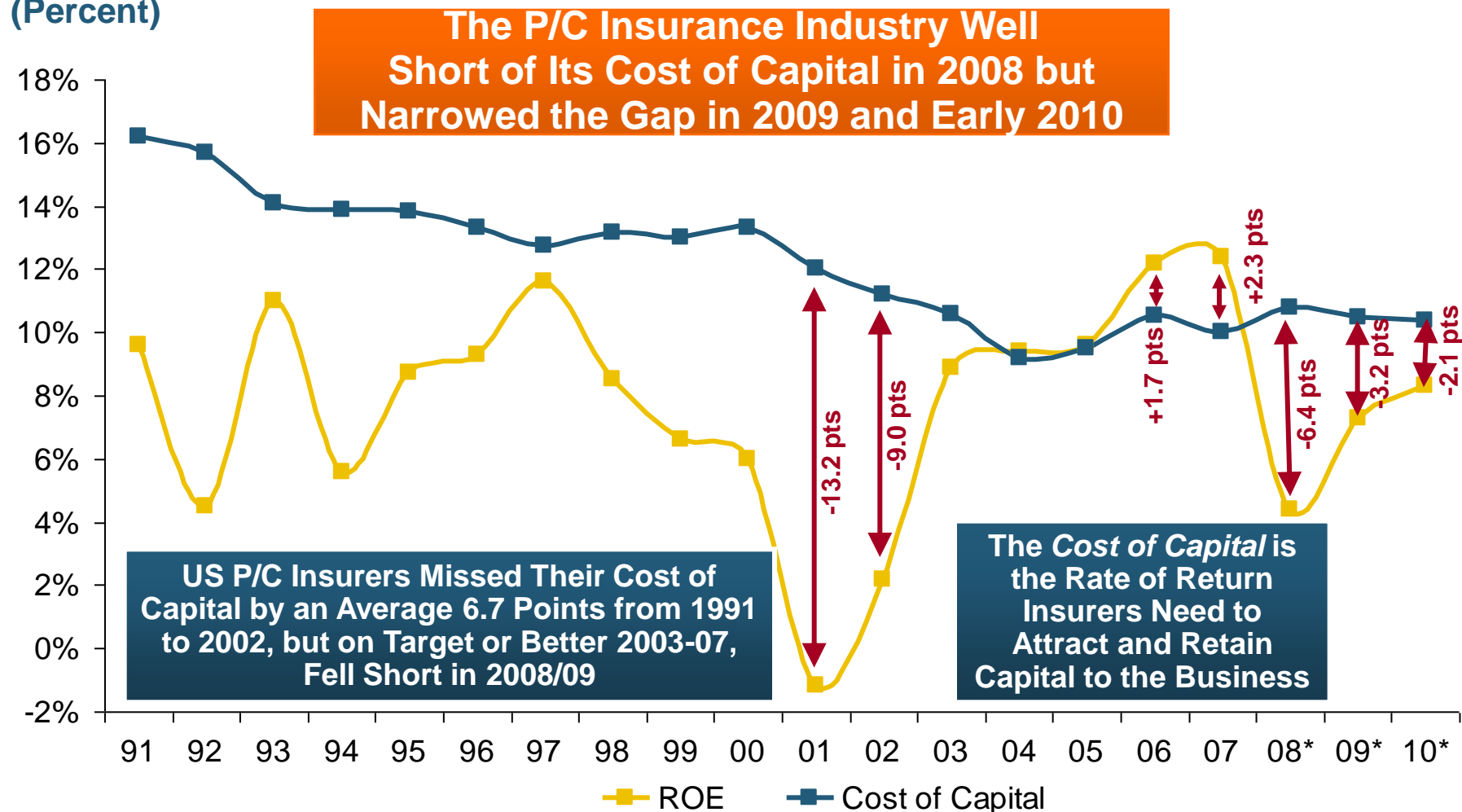
(Percent)



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

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

(Percent)

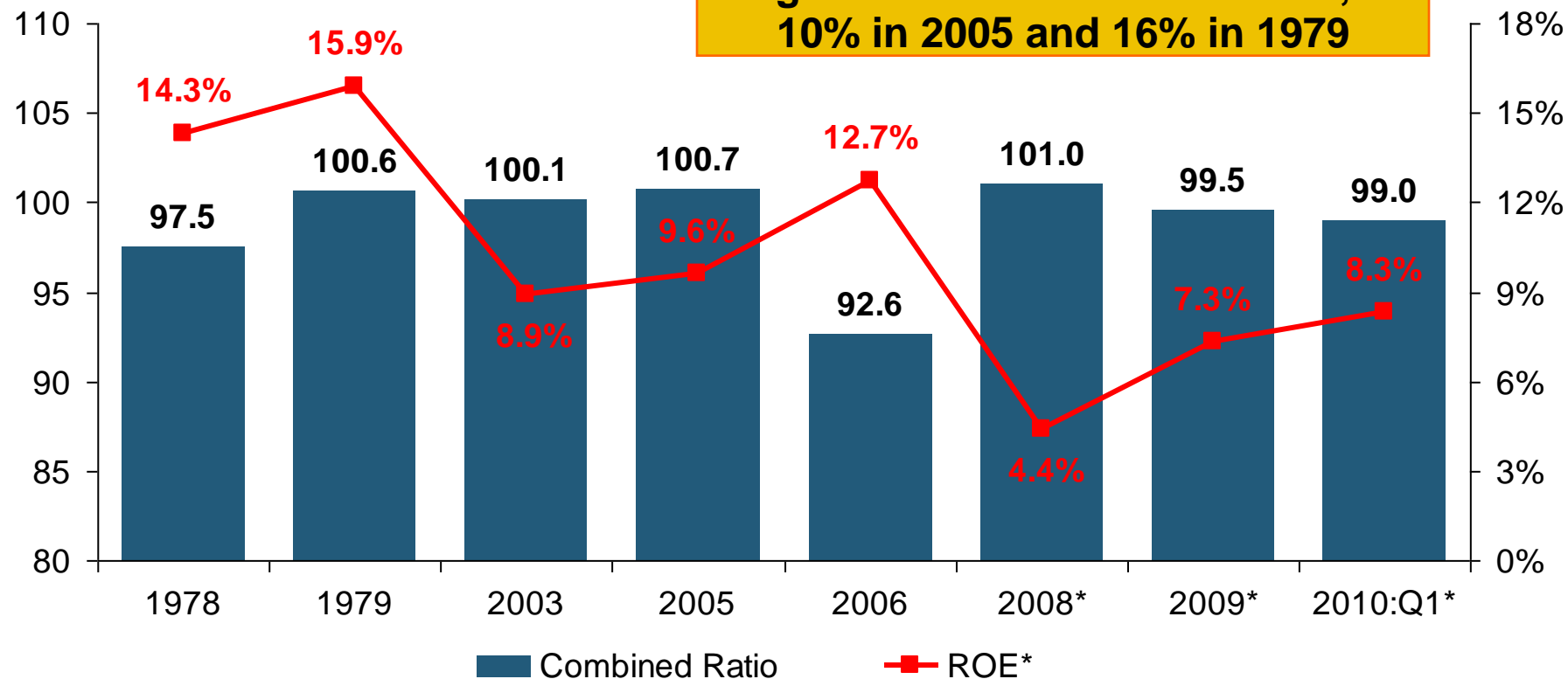


* Return on average surplus in 2008/09 excluding mortgage and financial guaranty insurers.

Source: The Geneva Association, 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:Q1 figures exclude mortgage and financial guarantee insurers

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

Profitability in PA, VA, WV P/C Insurance Markets

Analysis by Line and Nearby State Comparisons

RNW All Lines: PA, VA, WV vs. U.S., 1999-2008

(Percent)

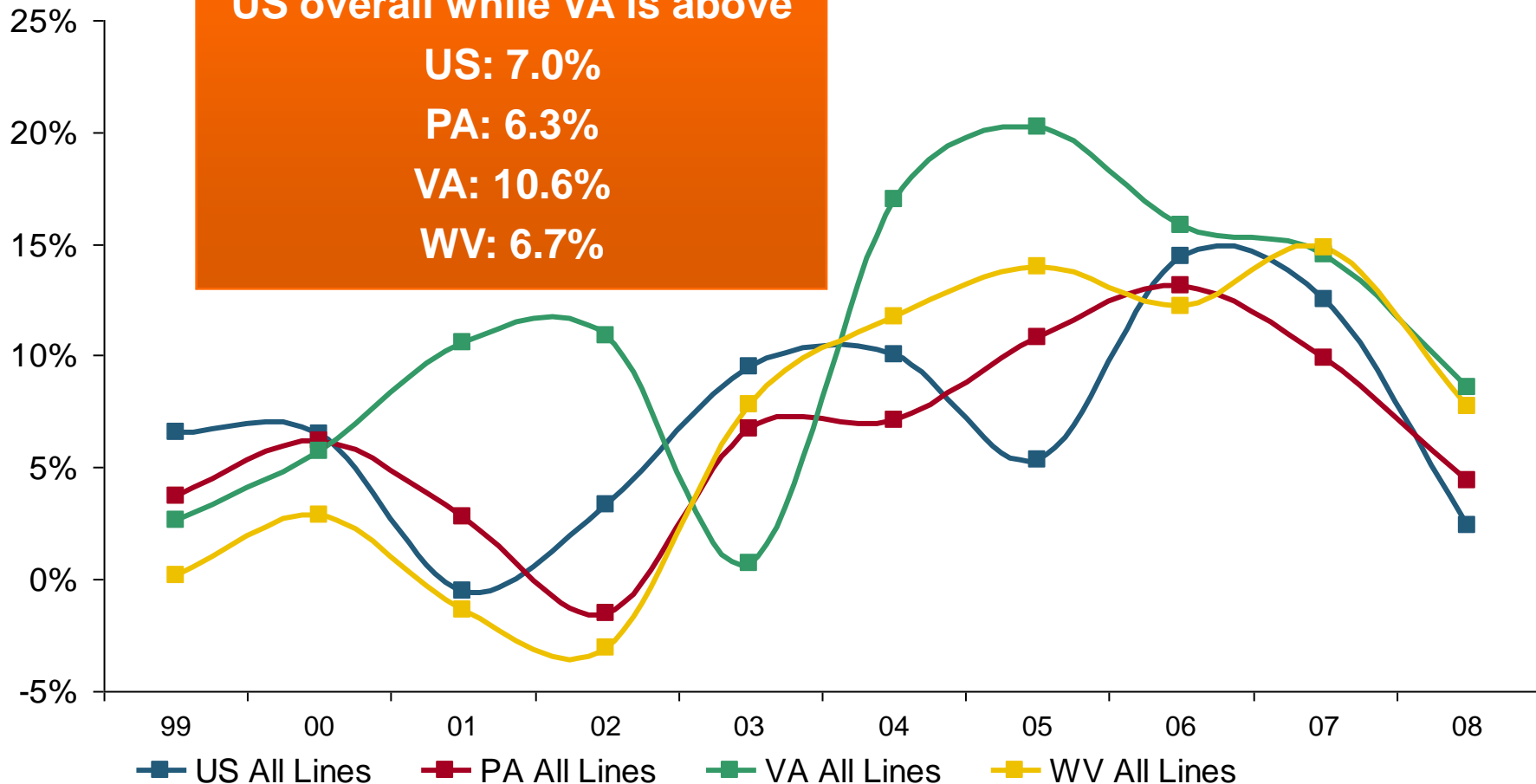
P/C insurer profitability in PA and WV is below that of the US overall while VA is above

US: 7.0%

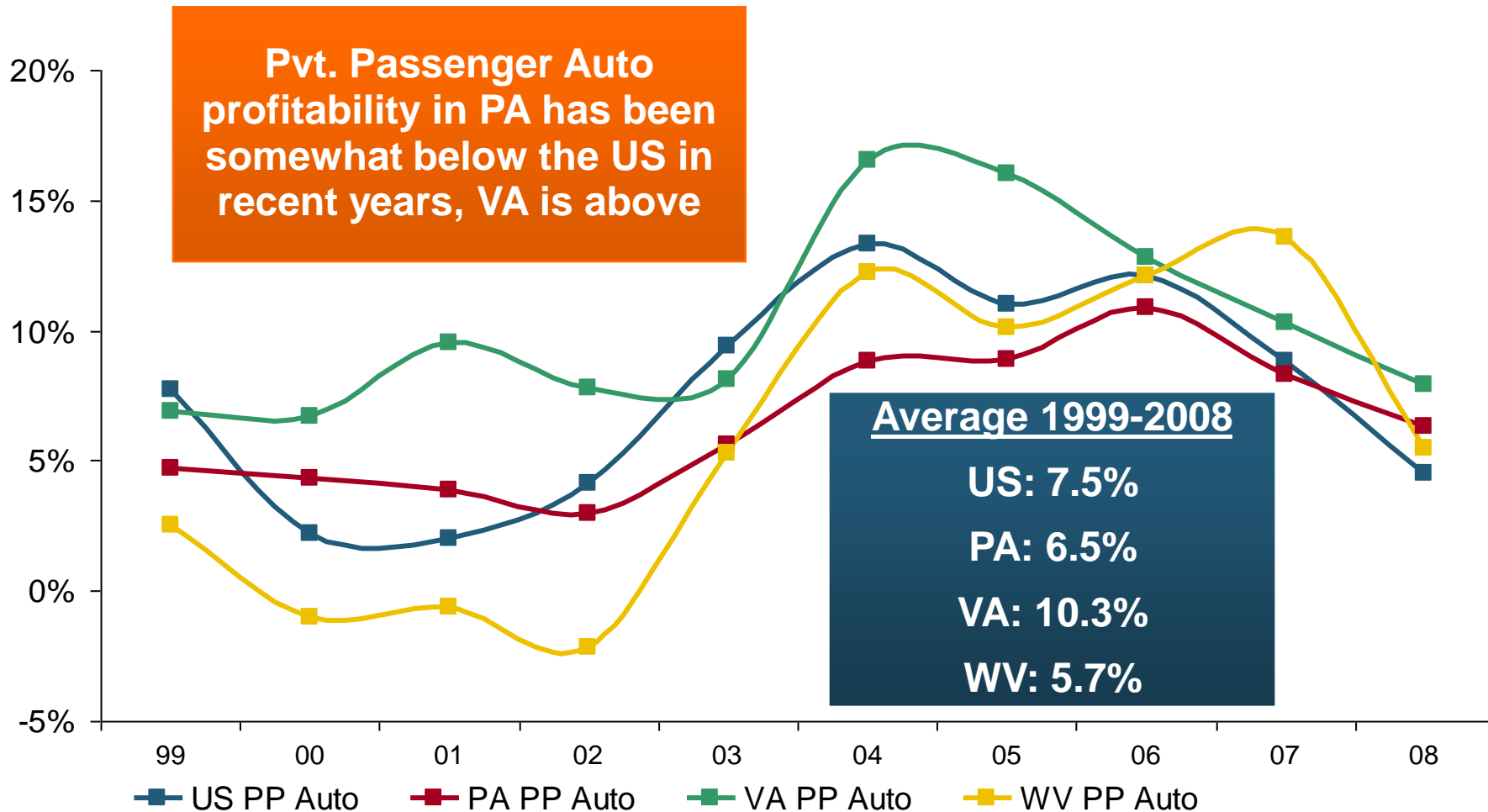
PA: 6.3%

VA: 10.6%

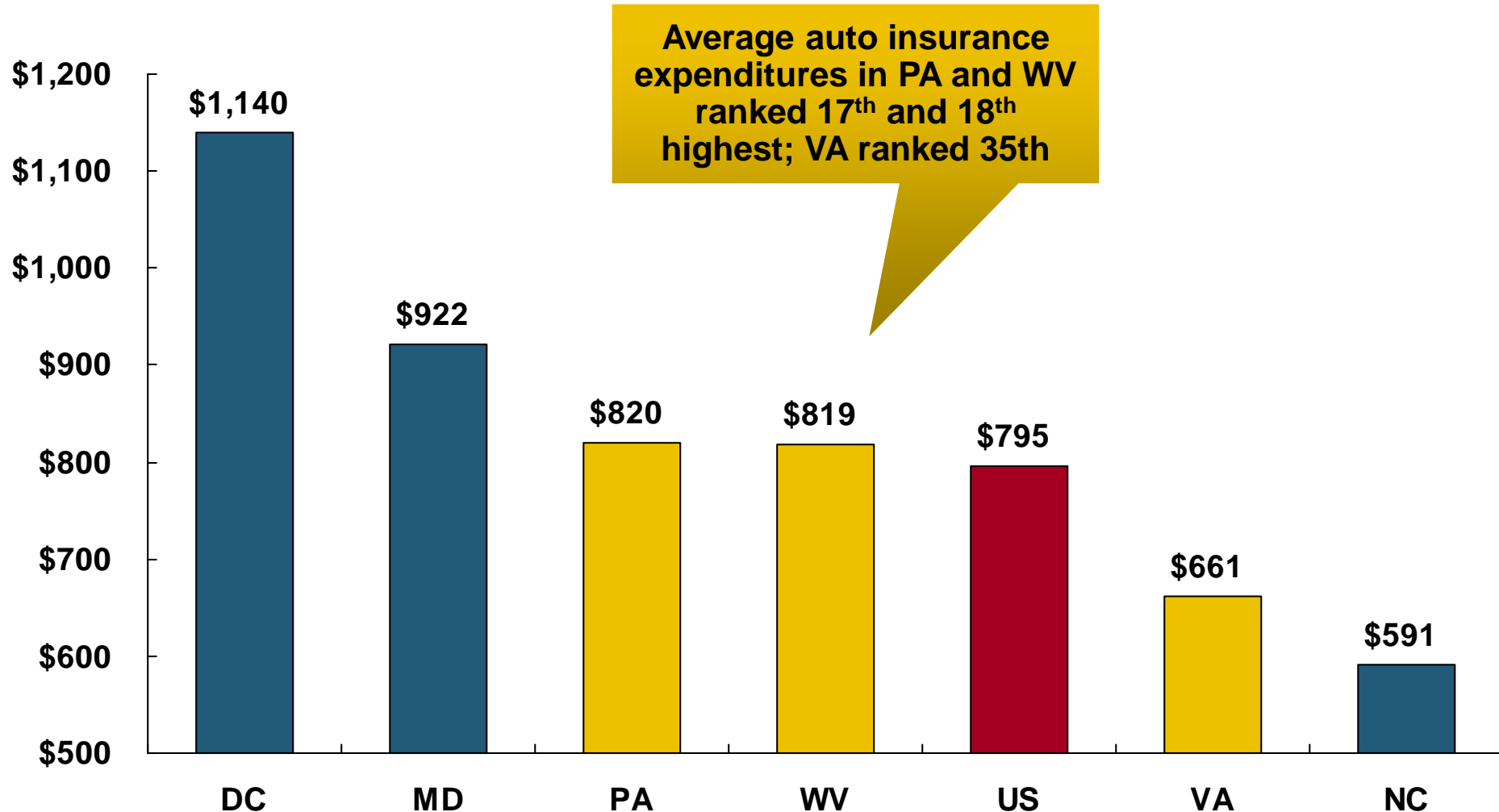
WV: 6.7%



RNW PP Auto: PA, VA, WV vs. U.S., 1999-2008



Avg. Expenditure on Private Passenger Auto Insurance, Mid-Atlantic States, 2007*

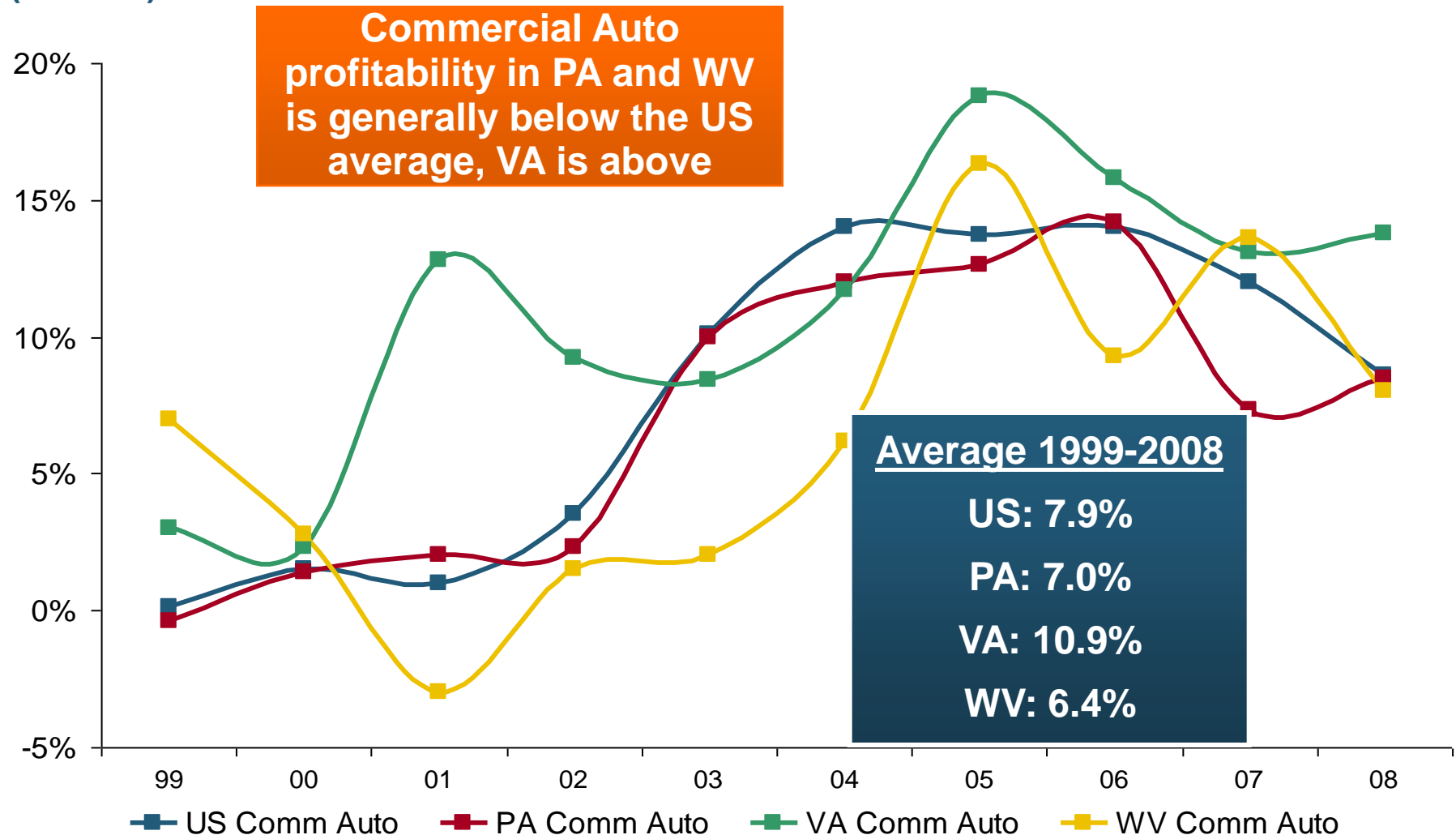


*Latest available.

Source: NAIC; Insurance Information Institute.

RNW Comm. Auto: PA, VA, WV vs. U.S., 1999-2008

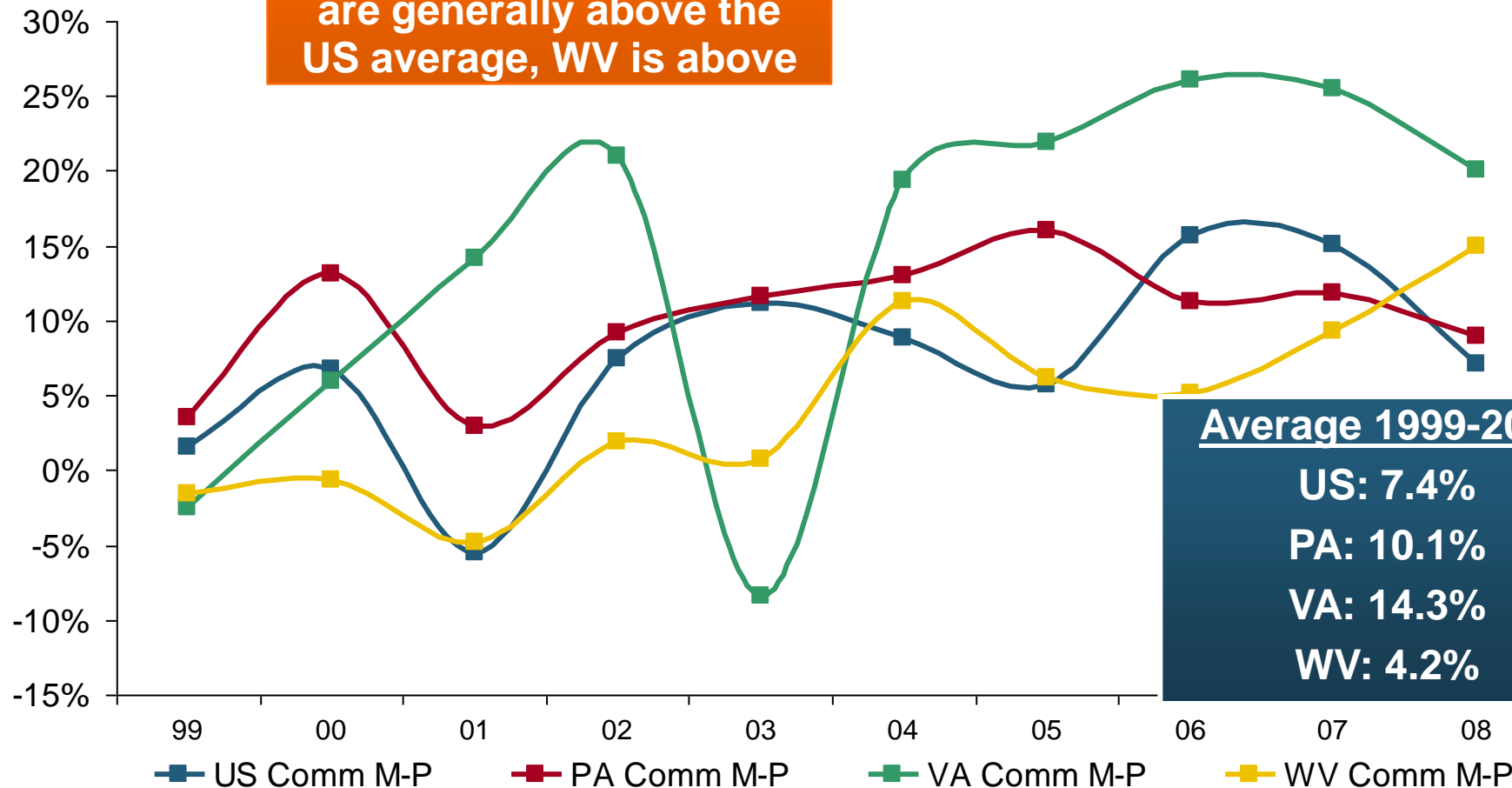
(Percent)



RNW Comm. Multi-Peril: PA, VA, WV vs. U.S., 1999-2008

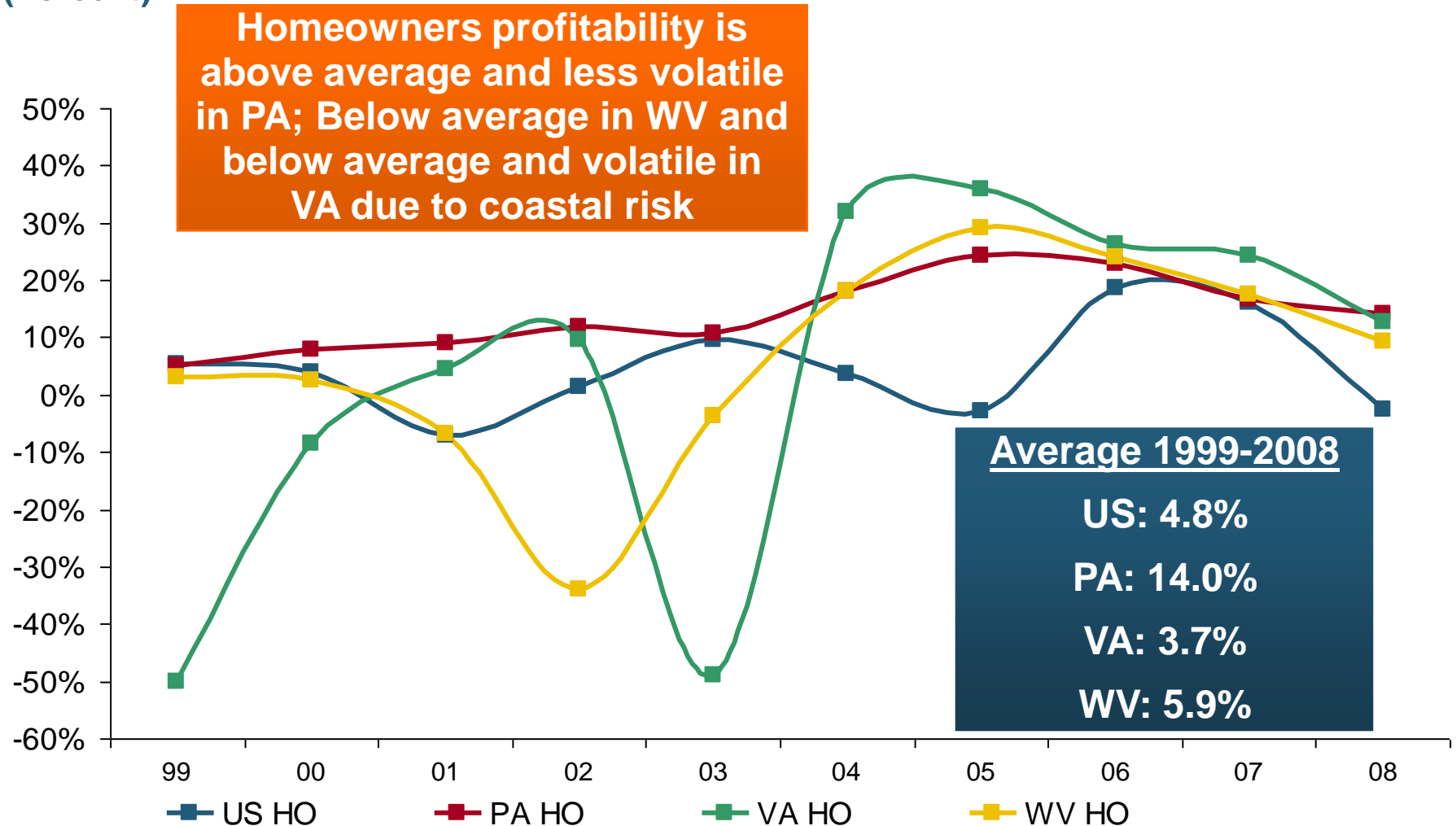
(Percent)

Commercial Multi-Peril
profitability in PA and VA
are generally above the
US average, WV is above

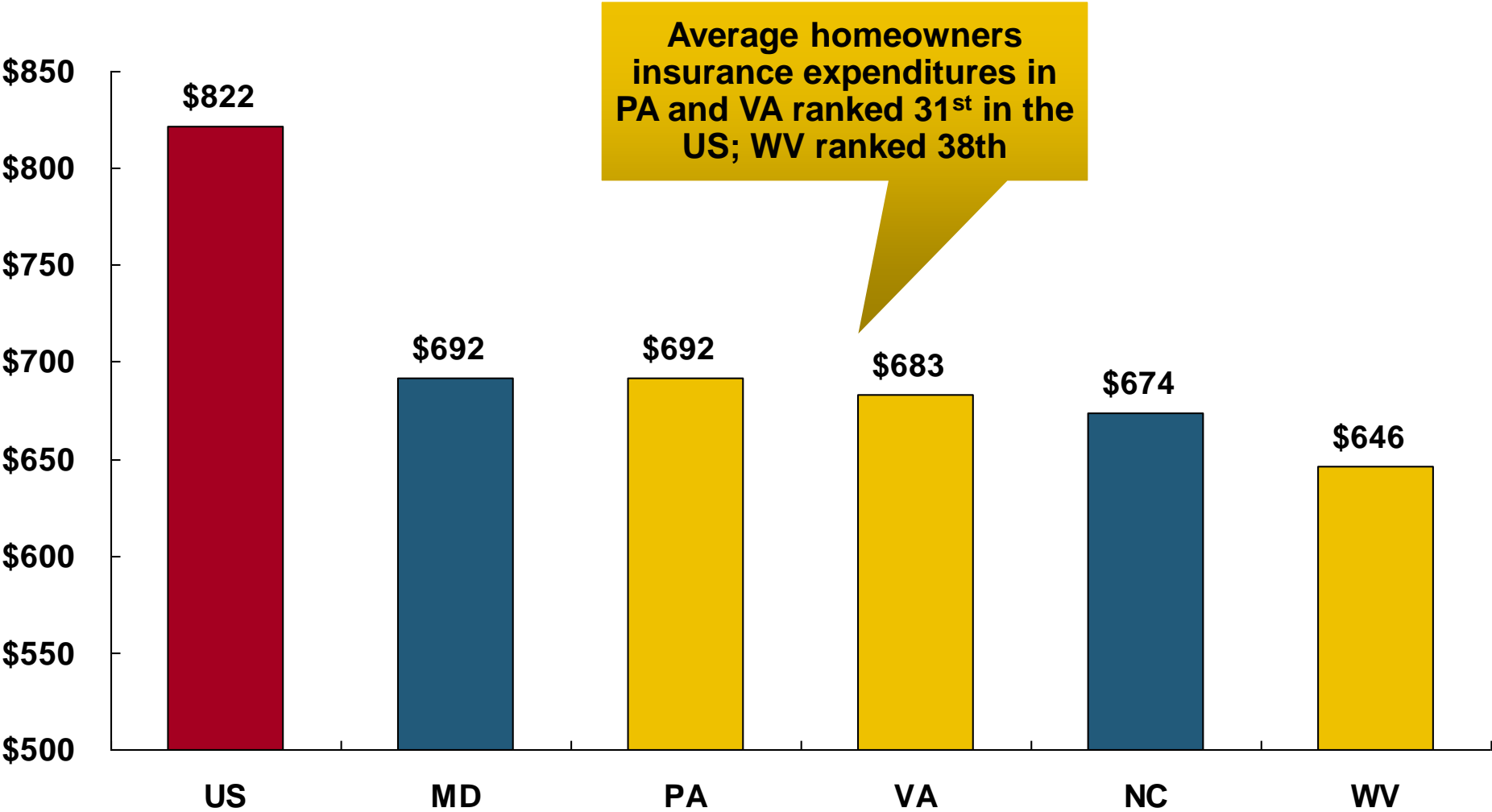


RNW Homeowners: PA, VA, WV vs. U.S., 1999-2008

(Percent)



Avg. Expenditure on Homeowners Insurance, Mid-Atlantic States, 2007*

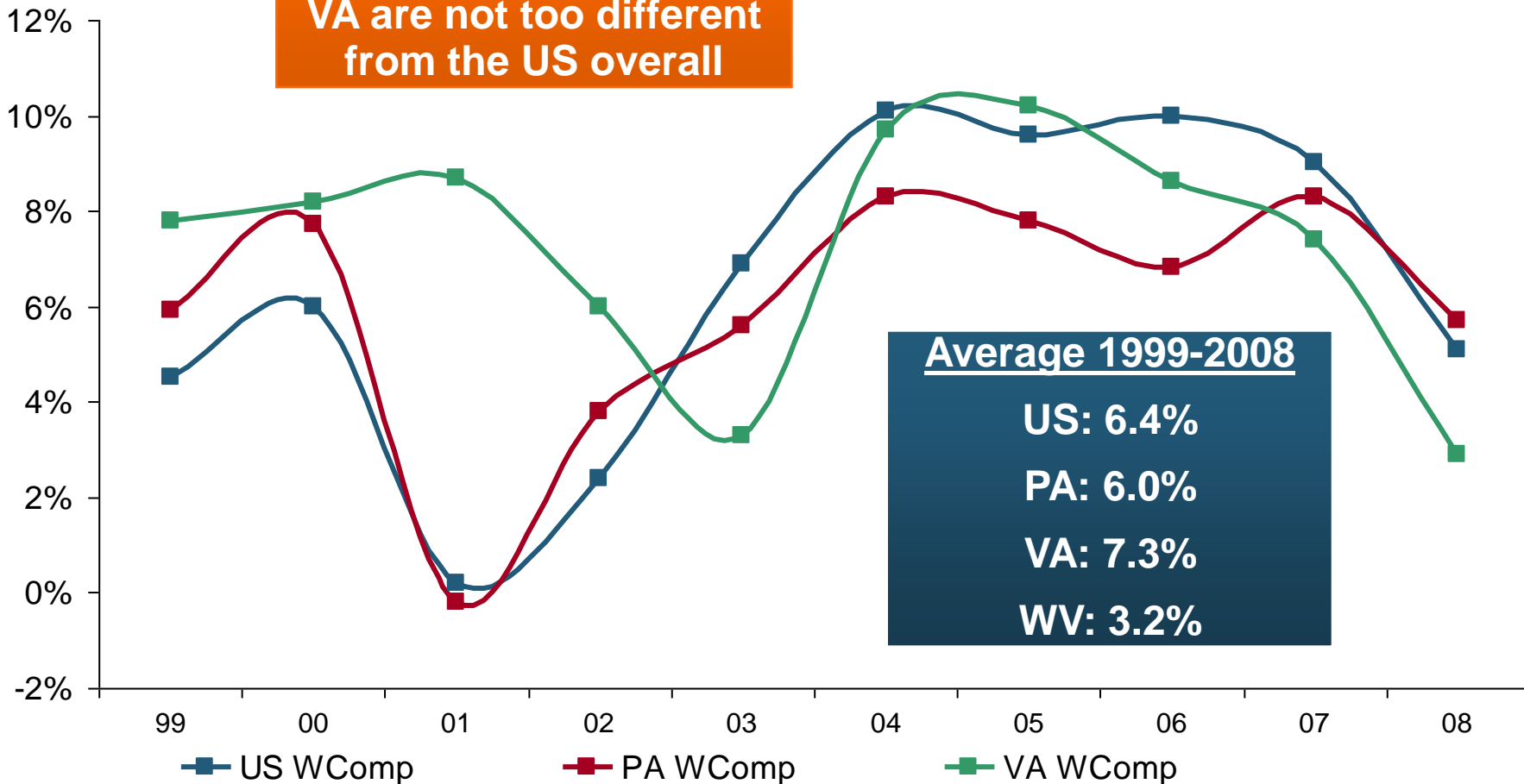


*Latest available.
Source: NAIC; Insurance Information Institute.

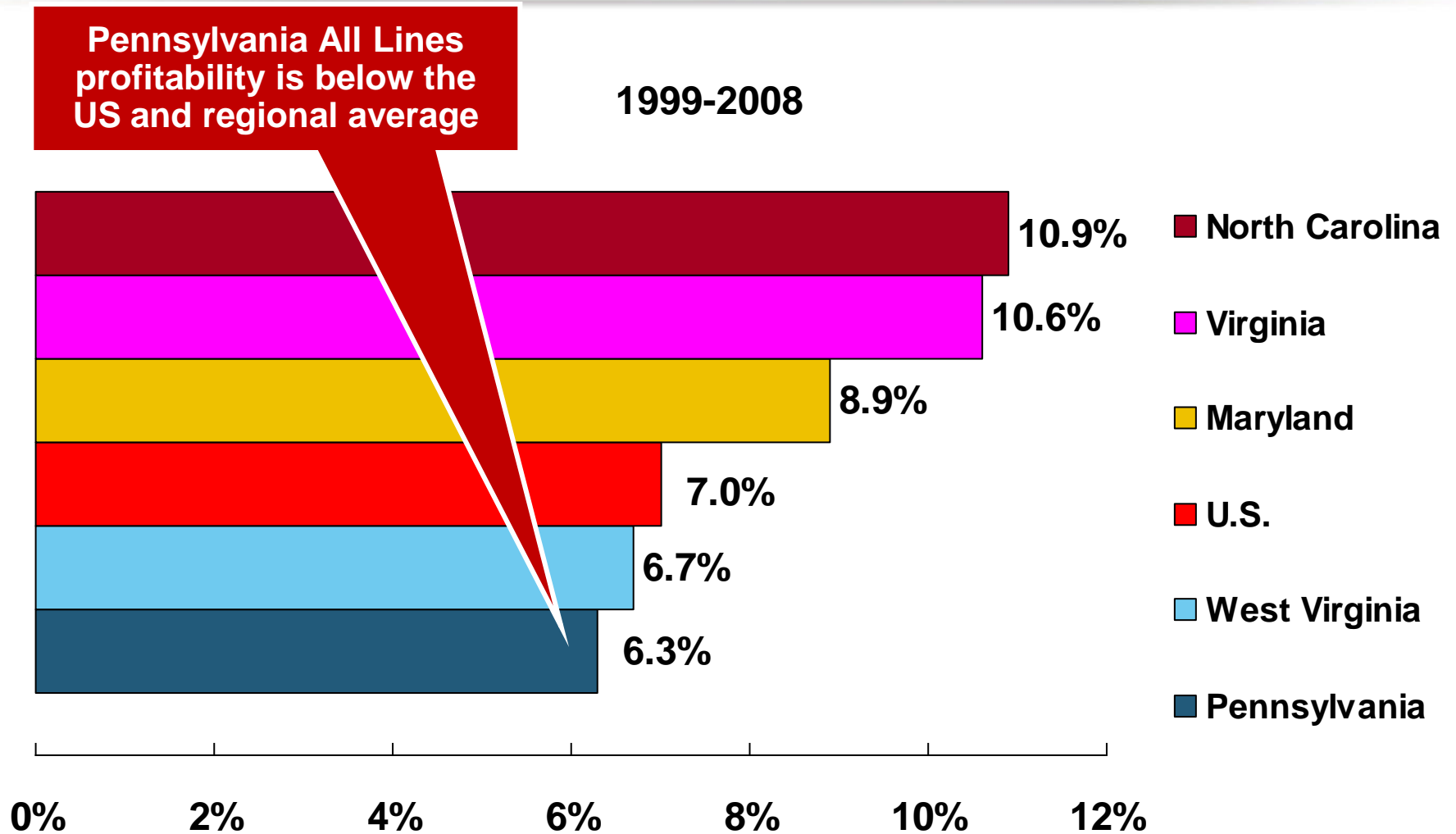
RNW Workers Comp: PA, VA vs. U.S., 1999-2008

(Percent)

Workers comp
profitability in PA and
VA are not too different
from the US overall



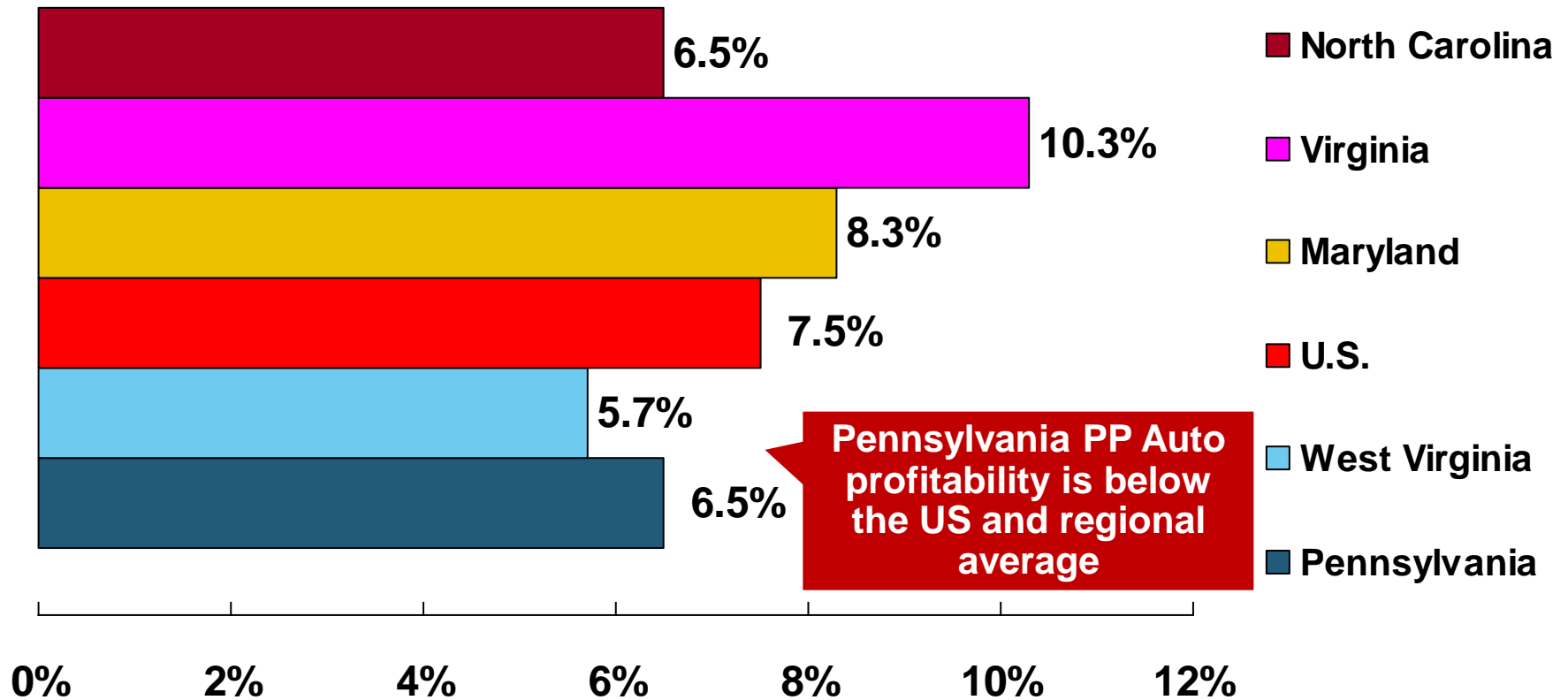
All Lines: 10-Year Average RNW PA, VA, WV & Nearby States



Source: NAIC, Insurance Information Institute

PP Auto: 10-Year Average RNW PA, VA, WV & Nearby States

1999-2008



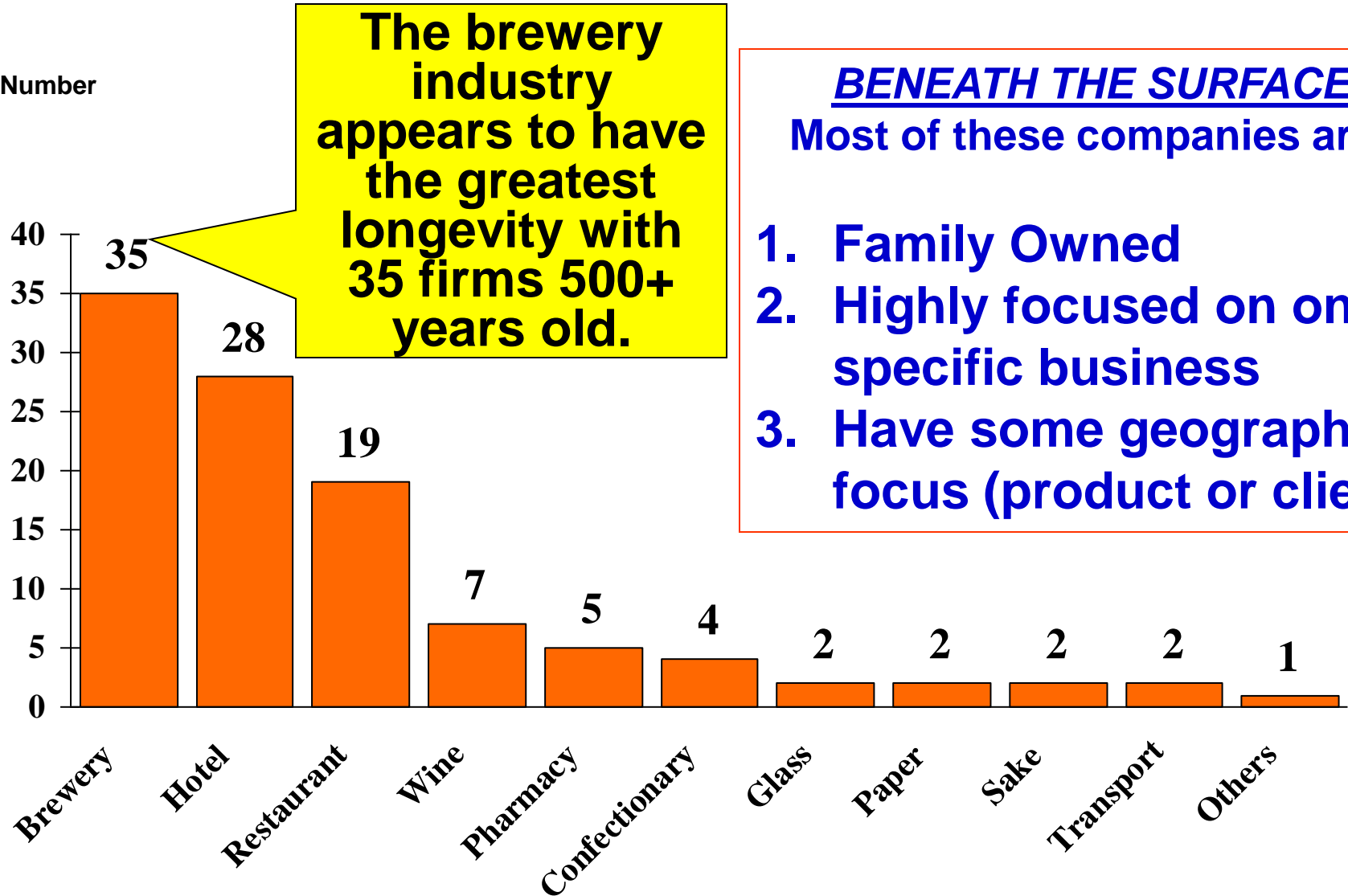
Source: NAIC, Insurance Information Institute

Lessons from History: What Types of Business Live a Very Long Time and Why?

**Longevity in the Business World
Requires Focus, Long-Term Objectives
*You Want the Same from Your Insurer***

Number of Firms More than 500 Years Old, by Industry*

Total Number



Benefits & Characteristics of Working with Firms that Stand the Test of Time

1. Business Model: Highly Focused

- ♦ Firms tend to remain true to core business
- ♦ Avoid businesses they don't understand
- ♦ Some diversification is usually good, but leads to an exponential increase in complexity and unforeseen interactions across units

2. Ownership Structure: There Exists Some Concept of Mutuality

- ♦ Some of the world's oldest firms are family owned (artisans, craftsman)
- ♦ Many of the world's oldest institutions are religious
- ♦ Others have some form of cooperative arrangement (agricultural)
- ♦ Such organizations also exhibit *altruistic* behavior, a proven survival trait
- ♦ In a mutual arrangement implies less cyclicity, volatility

3. Communal Interest: A Concern for the Greater Common Good

- ♦ Perpetuation of the species (i.e., the industry) is evident in behaviors
- ♦ Concept of mutuality extends beyond organization to communal interest
- ♦ A strong willingness to work for the common good

Benefits & Characteristics of Working with Firms that Stand the Test of Time (cont'd)

4. Growth: Tend to Grow Slowly

- ♦ As with living species, the longest lived businesses in the world tend to grow only slowly, if at all

5. Size: Tend to Be Small Relative to Competition

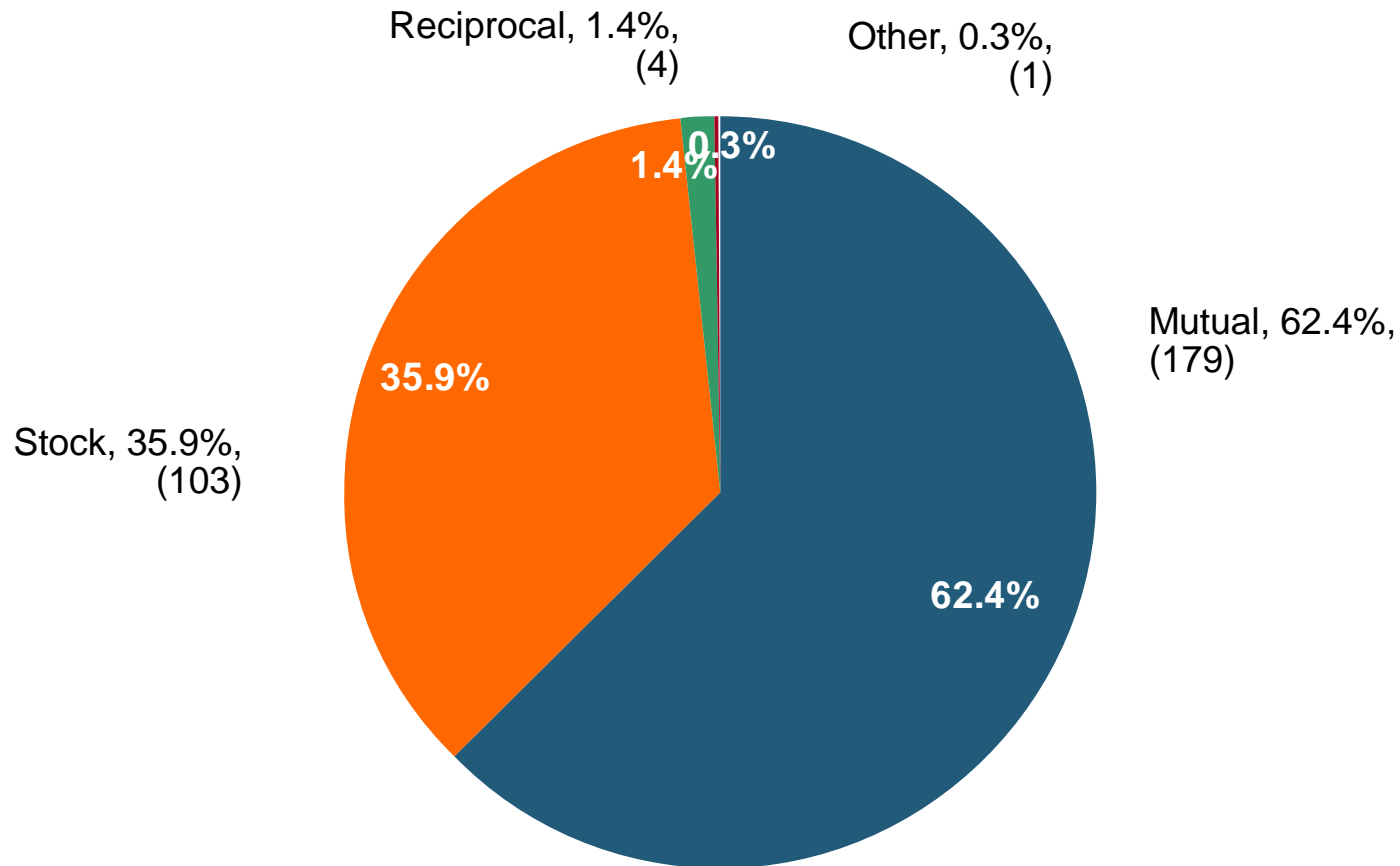
- ♦ Size seems to matter when it comes to species longevity: smaller = longer
- ♦ Also true among living species (e.g., bacteria, insects)

6. Profitability: Tend Not to Be the Most Profitable

- ♦ Object of continuous profit maximization is not consistent with longevity
- ♦ Objective of a mutual is to expand the benefit of mutuality
- ♦ A “will to survive” is still necessary

100-year-old Insurers: Mutual vs. Stock vs. Reciprocal

The vast majority (62.4%) of 100-year-old insurers are mutual insurers, while stock insurers account for 35.9% of the total.





Attributes Found in Insurance Organizations that Reach 100+ Years

Secrets of the Ancients

Attributes Inherent in Long-Lived Insurance Companies

- 1. Management Acts as a Steward of the Enterprise**
 - ♦ Objective is to pass a healthy firm safely and securely to the next generation of management and policyholders
- 2. Management Financial Incentives**
 - ♦ In line with the goal of providing the protection purchased
 - ♦ There is typically no 3rd party (shareholders) to compensate (60%+ mutuals)
 - Objective of public company is to maximize profits
 - ♦ CEO (total) comp is a smaller multiple relative to average employee
- 3. Nimble: Environment for Small Insurers Can & Does Change**
 - ♦ Not always first to change, but adaptation occurs within reasonable timeframe
- 4. Customer Focus & Relationship Driven**
 - ♦ Customer is the #1 priority

Traits to Admire in an Insurer and Its Management?

1. A Firm Whose Management's Incentives are Strictly Aligned With the Insurer's Principal Stakeholders

- ♦ Customers, employees, community
- ♦ These include financial and operational objectives

2. Management Is Knowledgeable

- ♦ Management of small, long-lived insurer is no less knowledgeable about industry trends, opportunities and threats than larger competitors

3. Intuitive and Comprehensive Understanding of Enterprise Risk Management

- ♦ Much is made of ERM today, but long-lived insurers practiced it well before it had a name

What Do I Admire in an Insurer and Its Management?

4. CEO is Willing to Seek Advice and Counsel

- ♦ No imperial CEOs; Self-aggrandizement is rare
- ♦ CEO is a listener and consensus builder

5. Commitment to Core Constituencies

- ♦ Customer is the #1 priority

6. Lack of a “Wandering Eye”

- ♦ Disciplined enough to stick with the business you know, but also adapting to changing business conditions and seizing opportunities as necessary

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

■ 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

Systemic Risk: Oversight & Resolution Authority

Issues Related to Systemic Risk & Resolution Authority

- **Financial Stability Oversight Council created to oversee systemic risk of large financial holding companies) [a.k.a. TOO BIG TOO FAIL]**
 - P/C insurers potentially could be determined to present systemic risk to the financial system and thus be supervised by the Federal Reserve.
 - Such supervision would subject such insurers to prudential standards, if the Council determines that financial distress at the company would pose a threat to the U.S. financial system.
- **Orderly Liquidation**
 - The legislation provides an “Orderly Liquidation Authority” mechanism whereby the FDIC would have enhance powers to resolve distress at financial institutions.
 - Insurance holding companies and any non-insurance subsidiaries of insurers may be subject to this authority.

Issues Related to Systemic Risk & Resolution Authority

■ Orderly Liquidation (cont.)

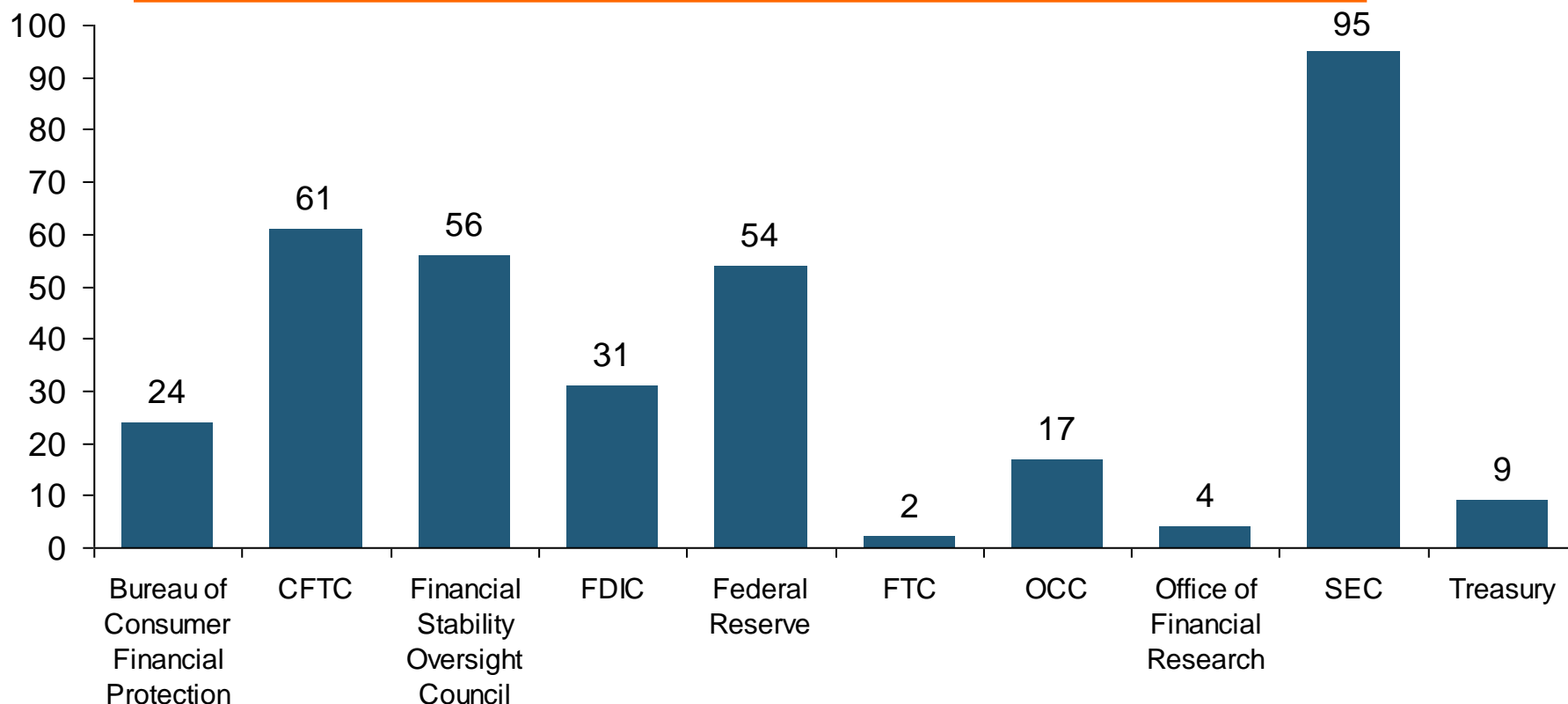
- Insurers are generally exempt from the liquidation authority, but the FDIC would have “backup authority” to place an insurer into orderly liquidation under state law if the state regulator has not done so within 60 days of a systemic risk determination.

■ Liquidation Fund Assessments

- The liquidation fund would be funded by assessments on large financial companies, potentially including insurers.
- But the insurance industry already has a funding system (state guaranty funds) to pay for the unwinding of failed companies. Therefore, contributions to these state guaranty funds must be considered.

New Rulemakings Under The Dodd Frank Wall Street Reform and Consumer Protection Act

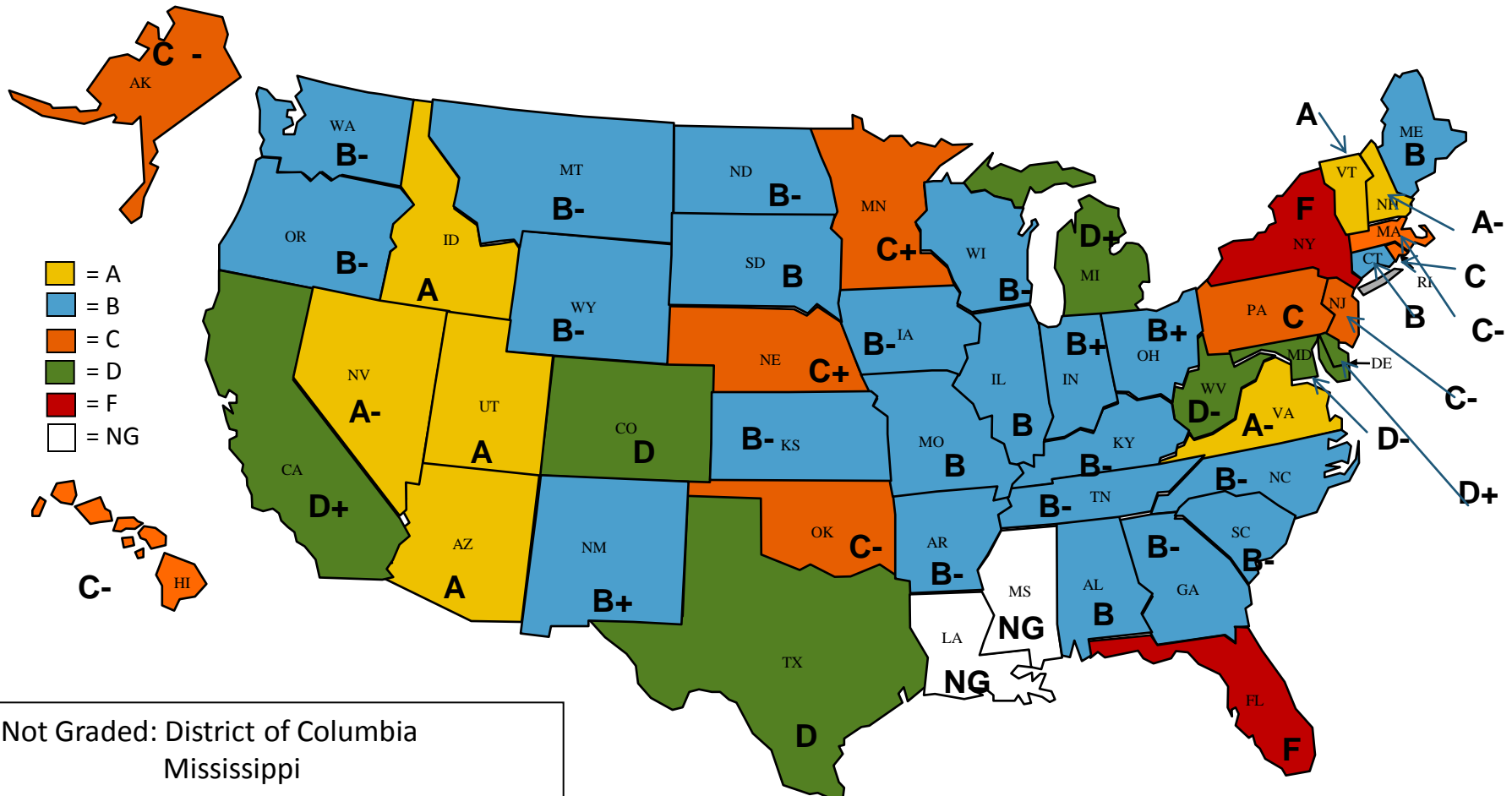
A total of at least 243 new rulemakings are expected under the Dodd-Frank financial reform by Federal Agency*



* Total eliminates double counting for joint rule-makings and this estimate only includes explicit rule-makings in the bill, and thus likely represents a significant underestimate.

Source: Wall Street Journal, July 14, 2010; Davis Polk & Wardwell.

2010 Property and Casualty Insurance Report Card



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



AMERICAN
ASSOCIATION *for*
JUSTICE

➤ **Reverse U.S. Supreme Court decisions on pleadings**

➤ **Eliminate pre-dispute arbitration**

➤ **Erode federal preemption**

➤ **Expand securities litigation**

➤ **Pass Foreign Manufactures Legal Accountability Act**

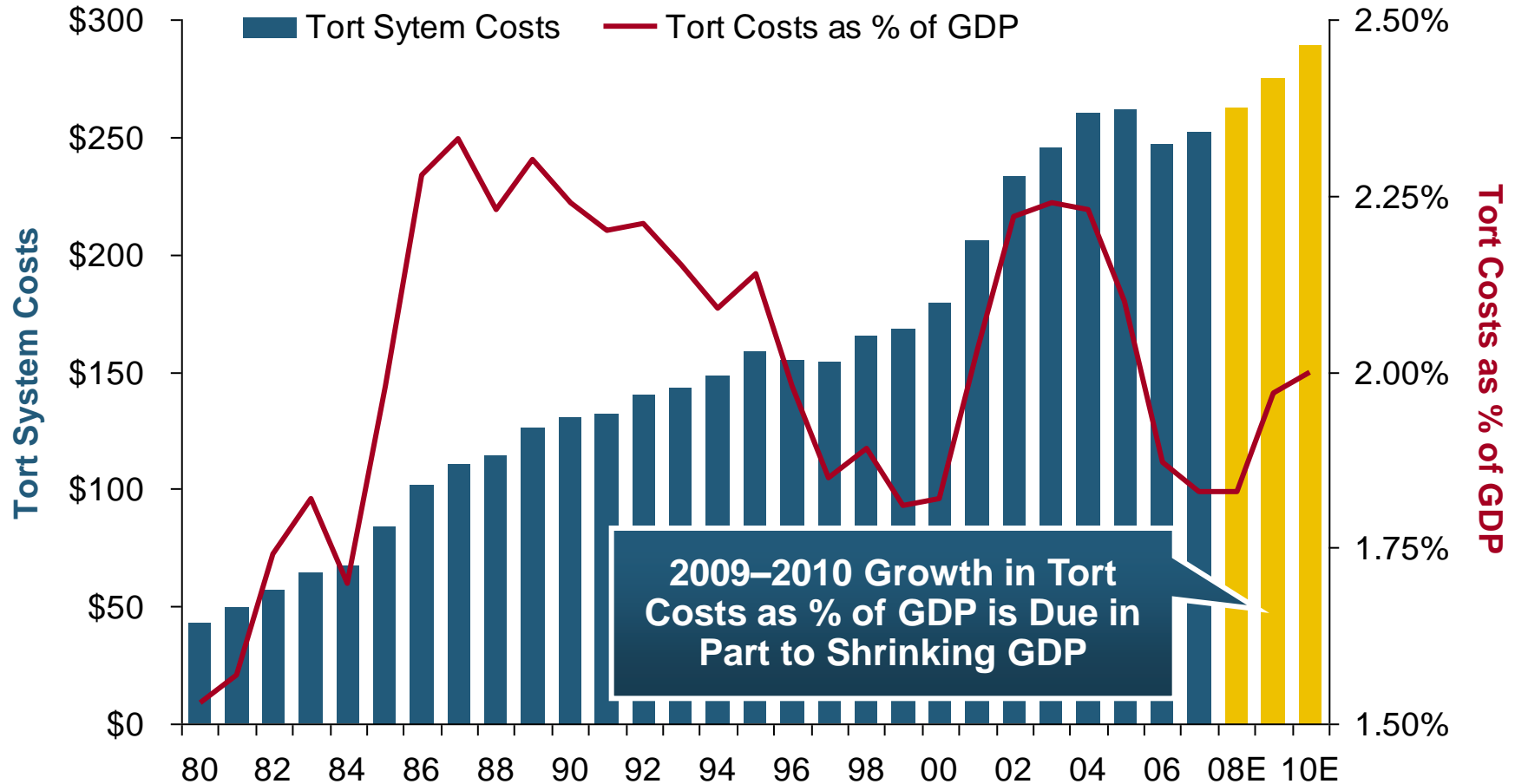
➤ **Grant enforcement authorities to state**

➤ **Confirm pro-trial lawyer judges – “Federalize Madison County”**

➤ **Roll back existing legal reforms**

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

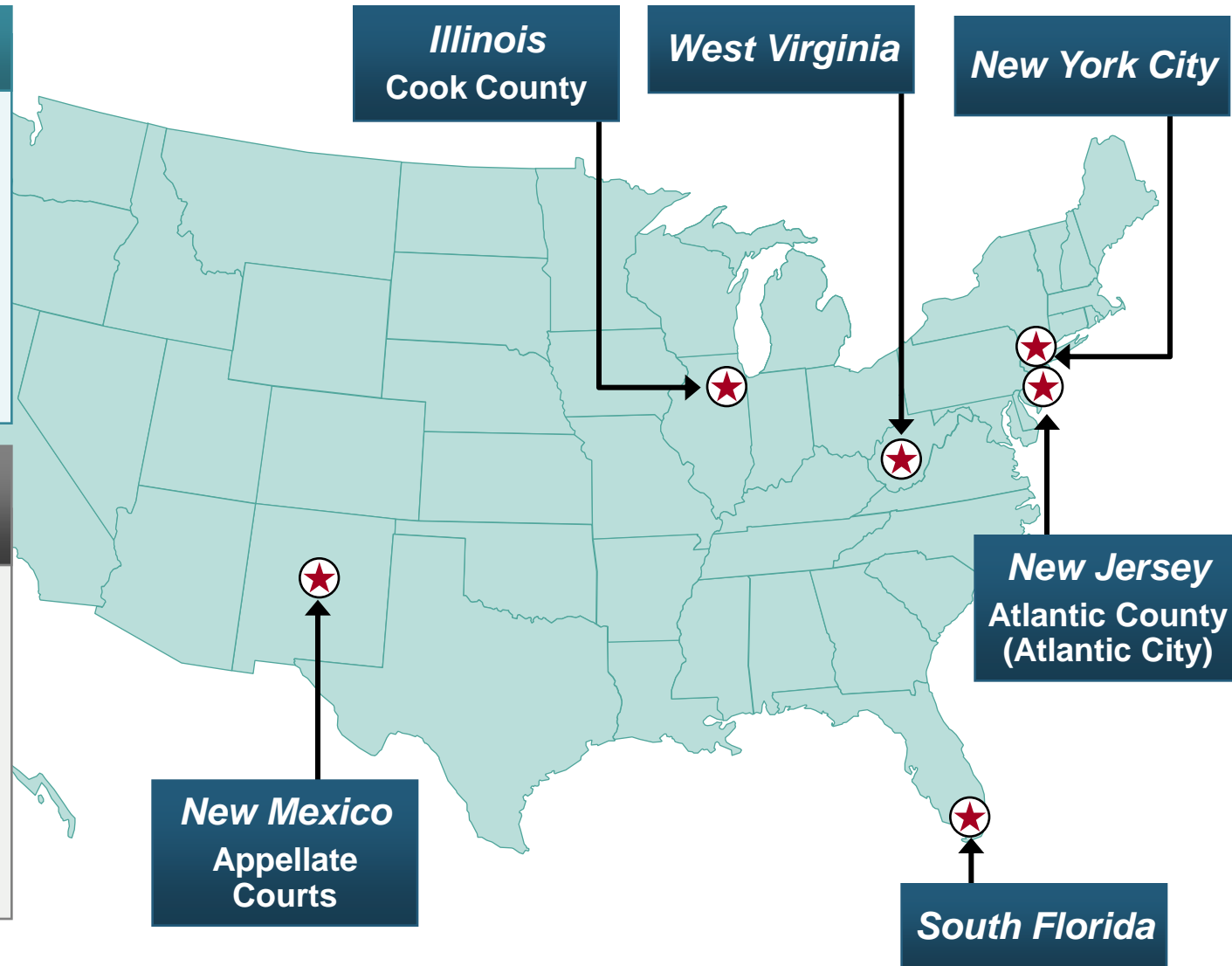
The Nation's Judicial Hellholes: 2010

Watch List

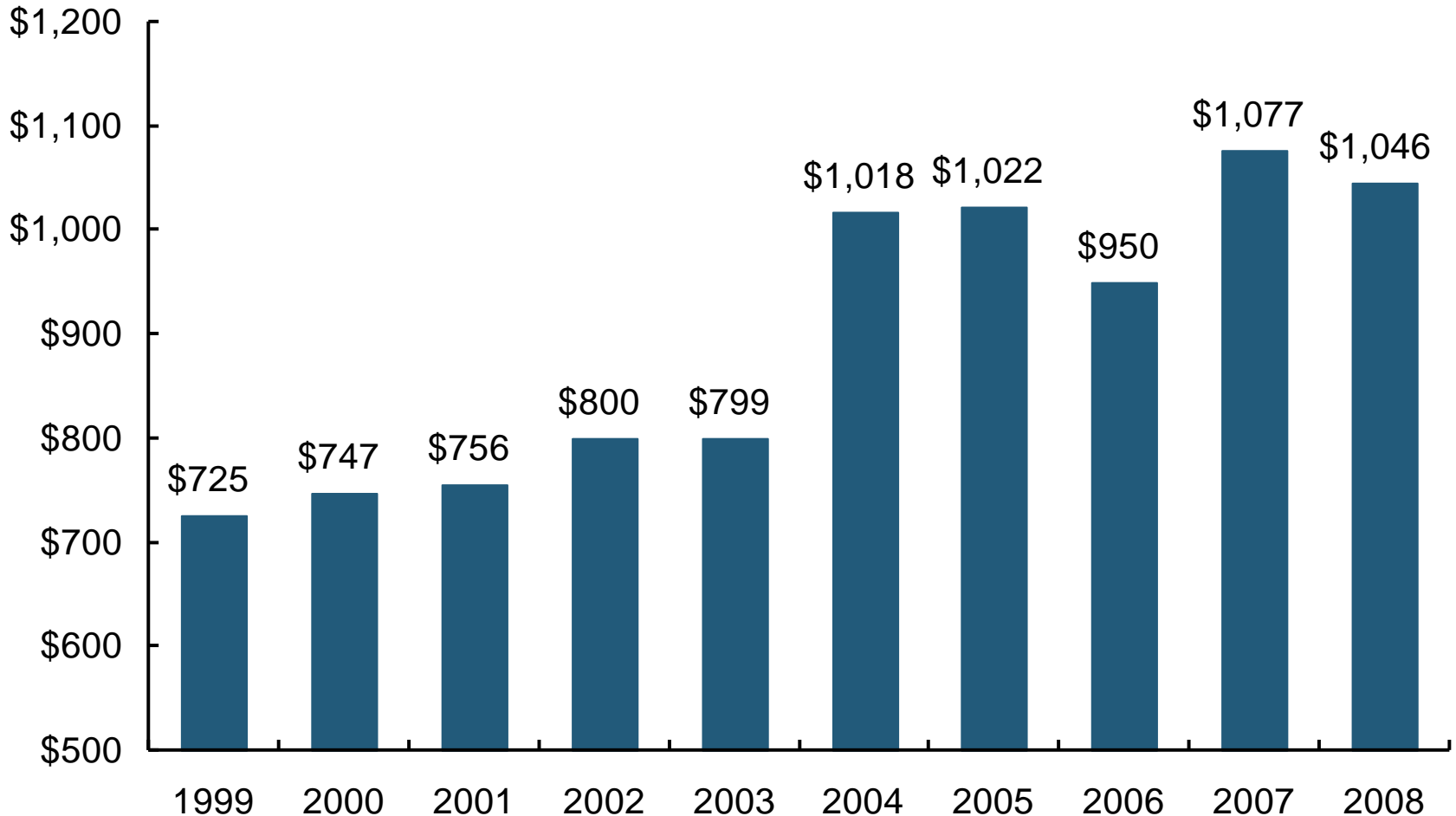
- California
- Alabama
- Madison County, IL
- Jefferson County, MS
- Texas Gulf Coast
- Rio Grande Valley, TX

Dishonorable Mention

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



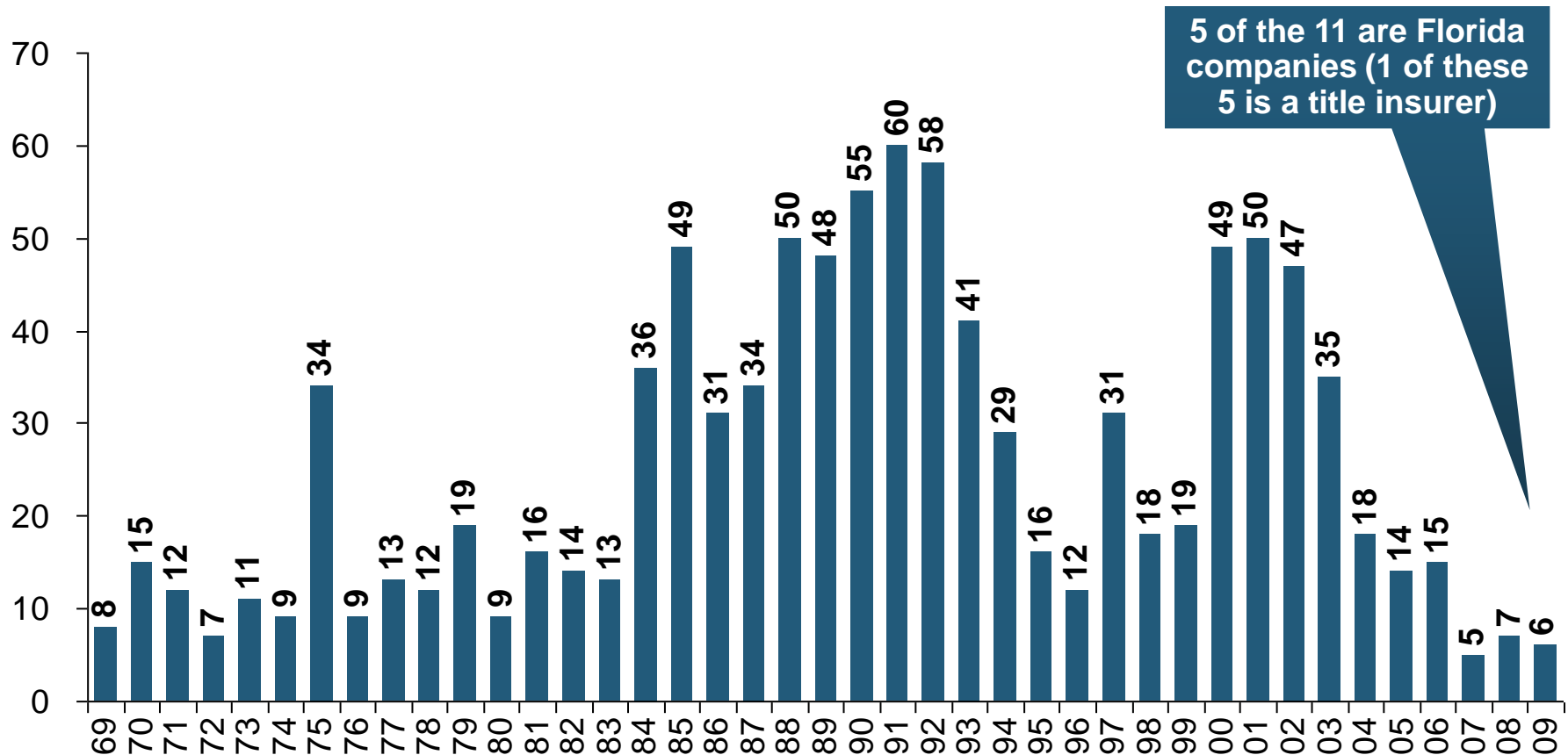
Average Jury Awards 1999 - 2008



Financial Strength & Ratings

**Industry Has Weathered
the Storms Well**

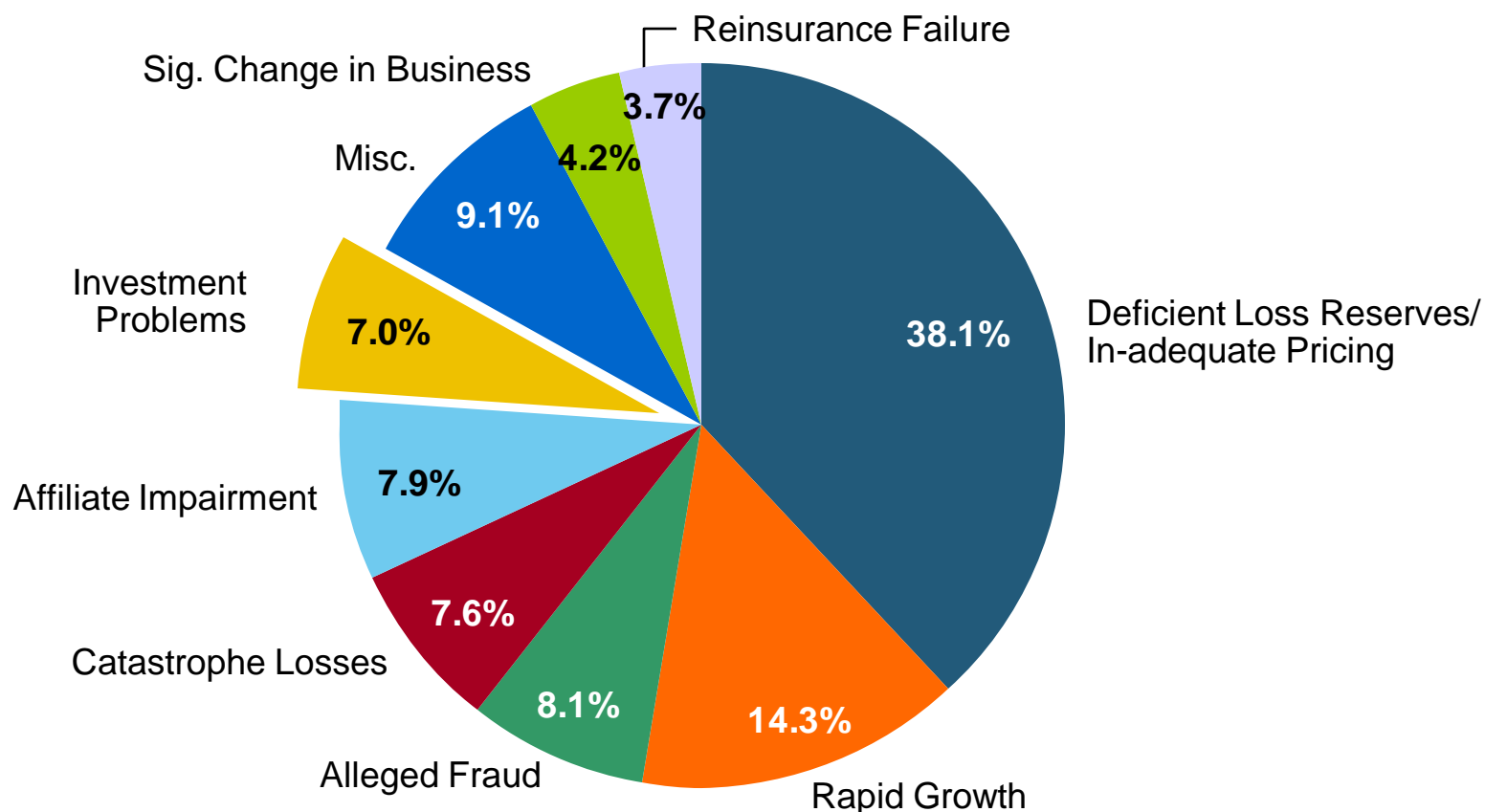
P/C Insurer Impairments, 1969–2009



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

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

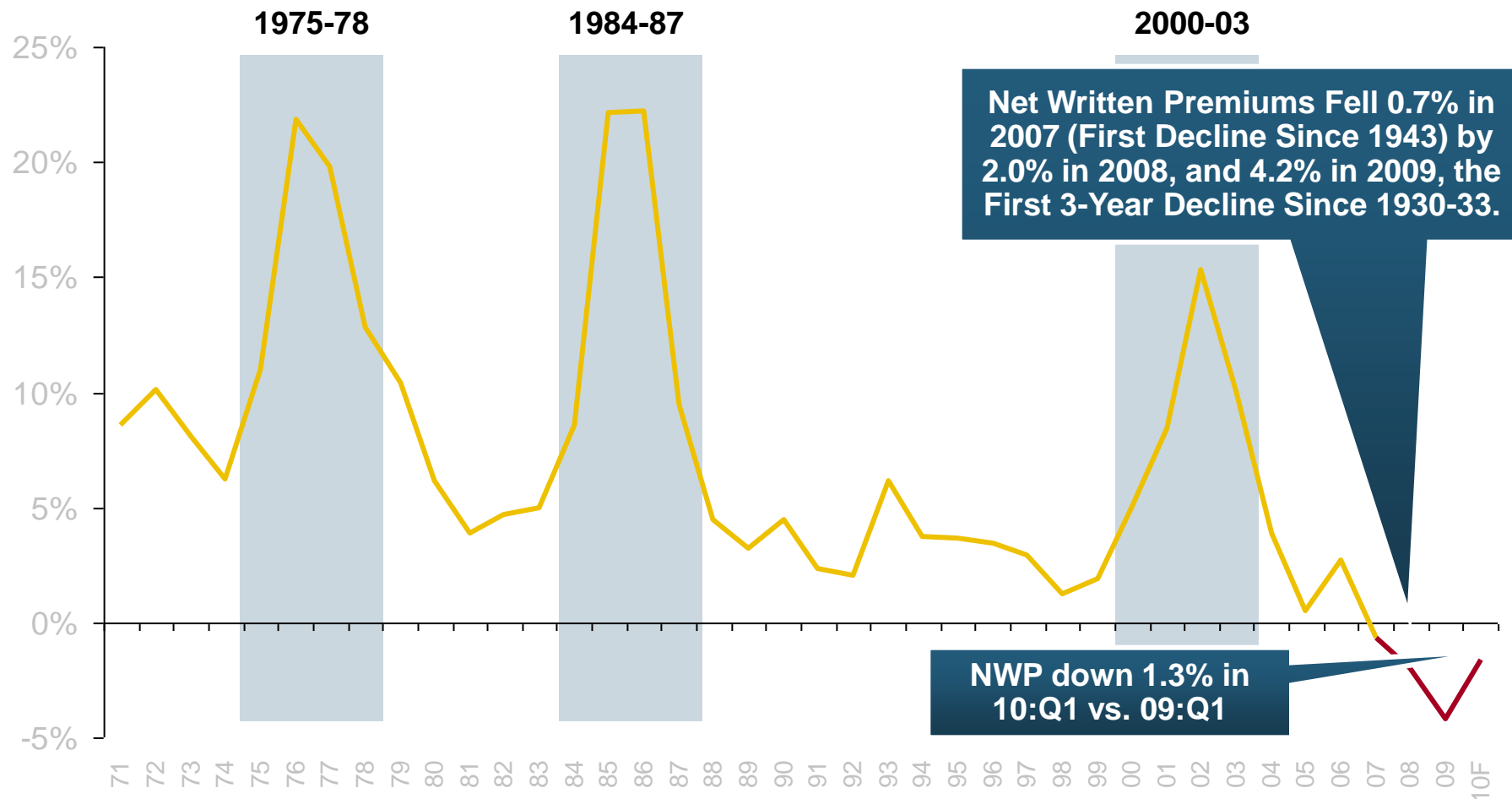
Deficient Loss Reserves and Inadequate Pricing Are the Leading Cause of Insurer Impairments, Underscoring the Importance of Discipline. Investment Catastrophe Losses Play a Much Smaller Role



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

Soft Market Appears to Persist in 2010. Relief in 2011?

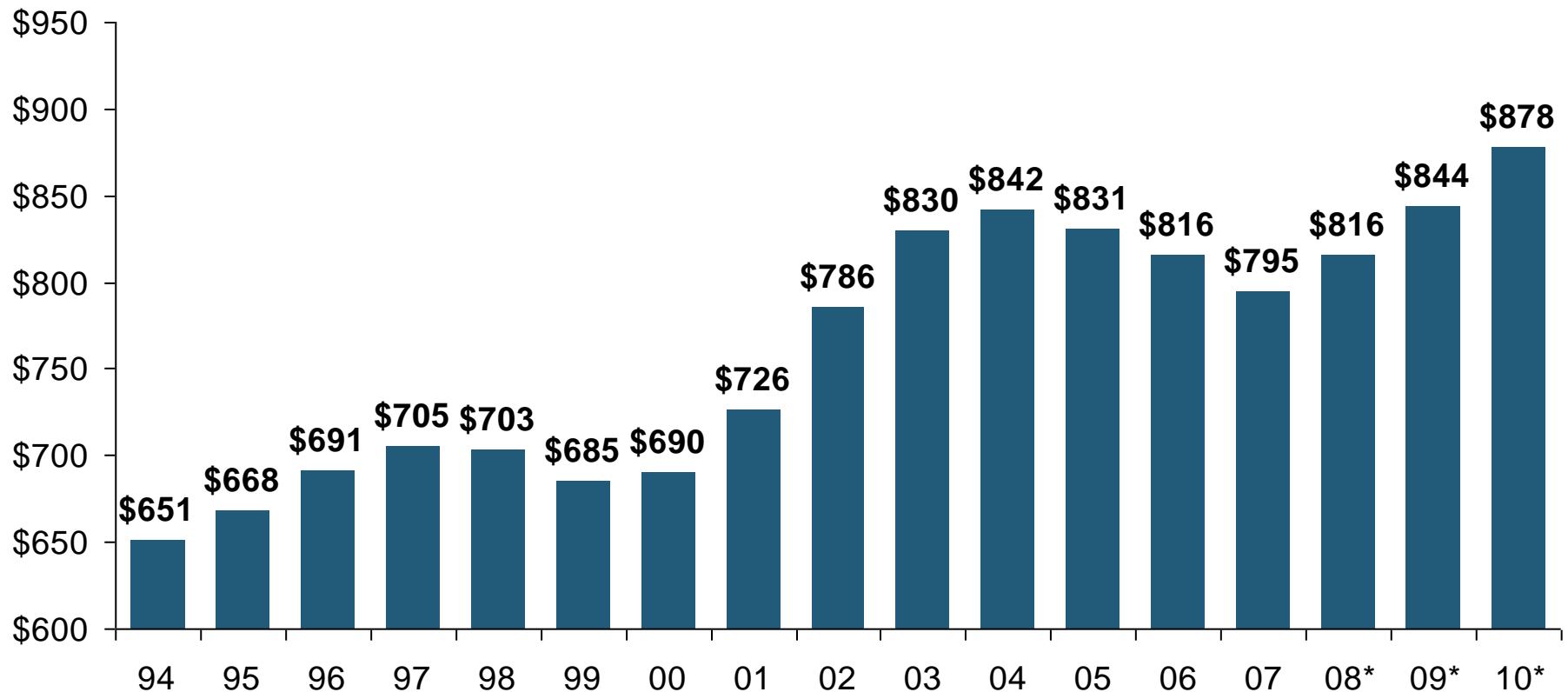
(Percent)



Shaded areas denote "hard market" periods

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

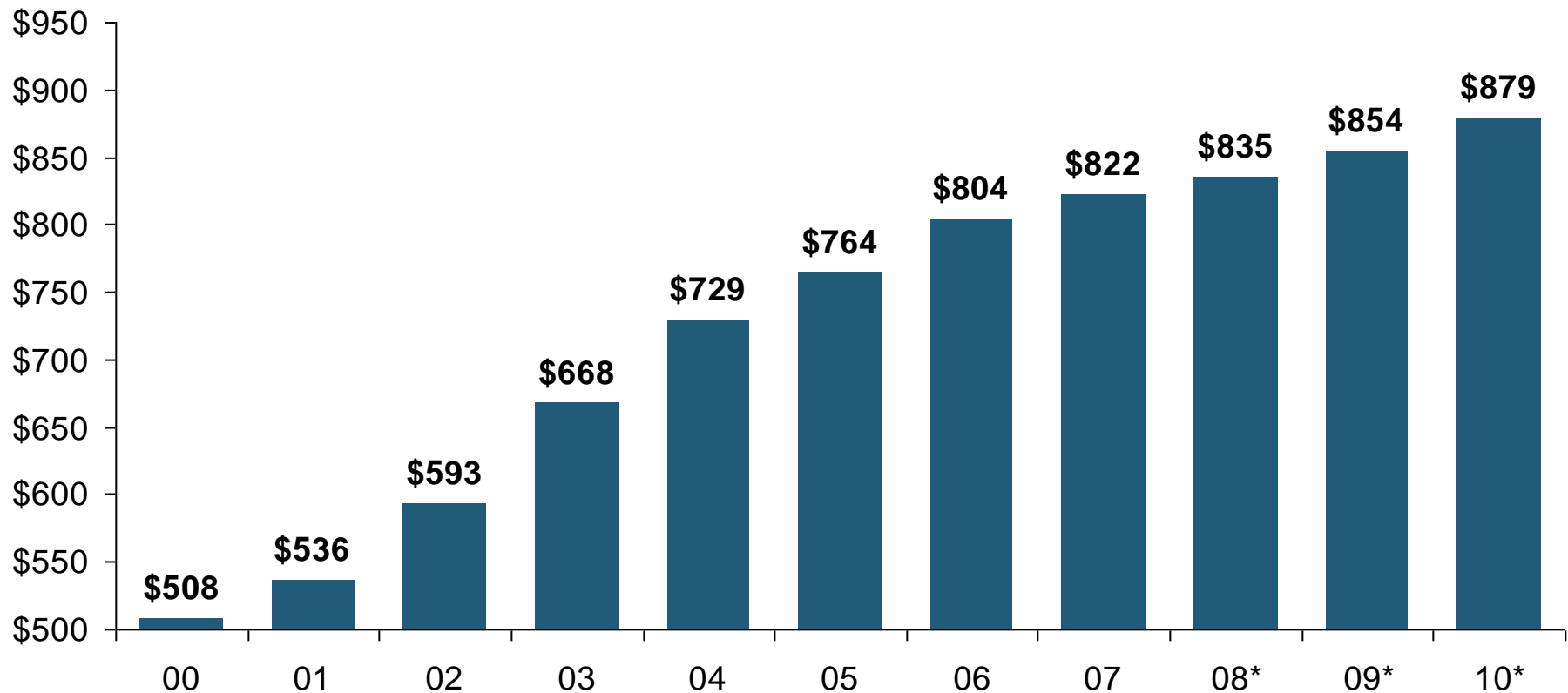
Average Expenditures on Auto Insurance



**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.

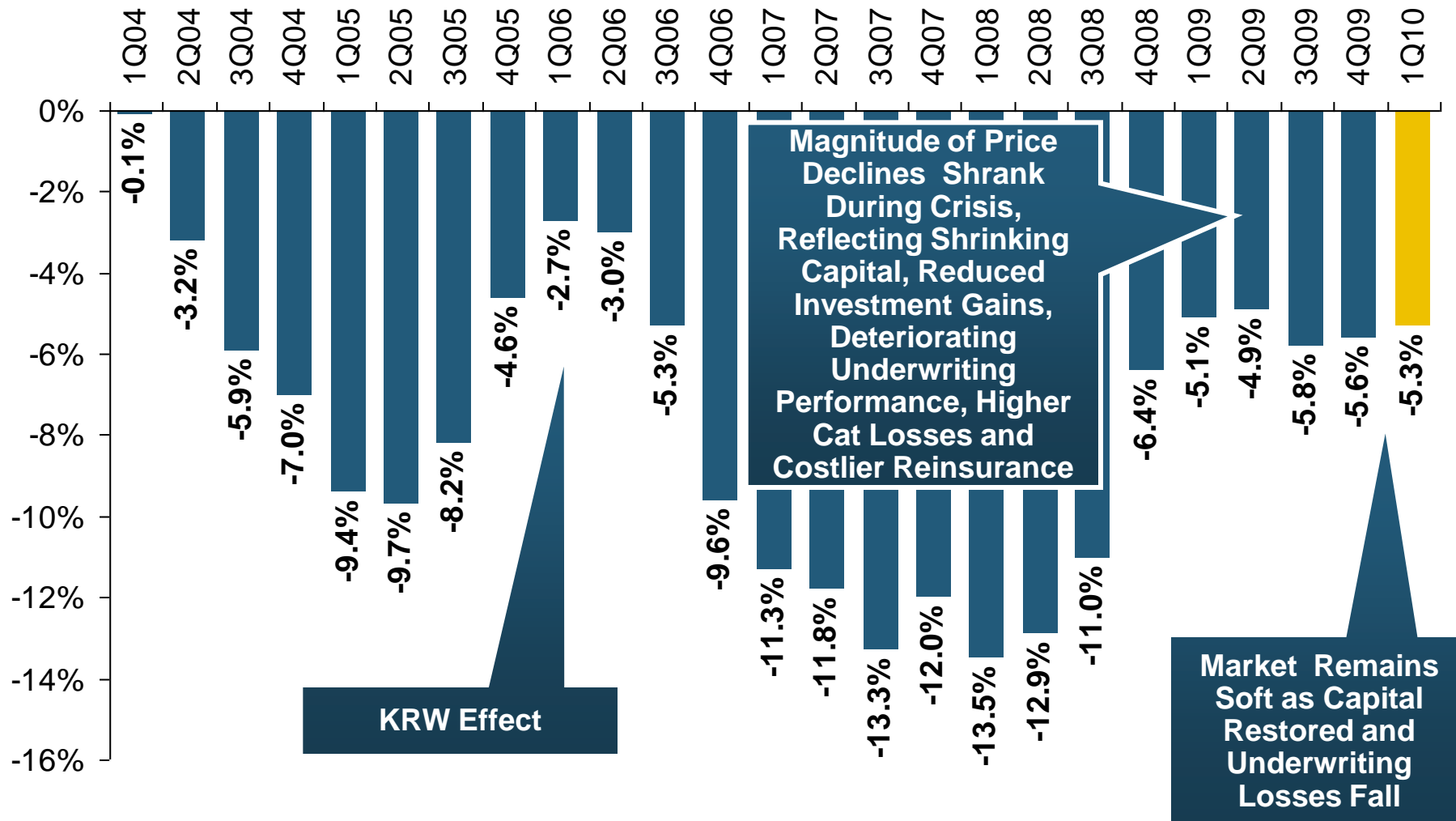
Average Premium for Home Insurance Policies**



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

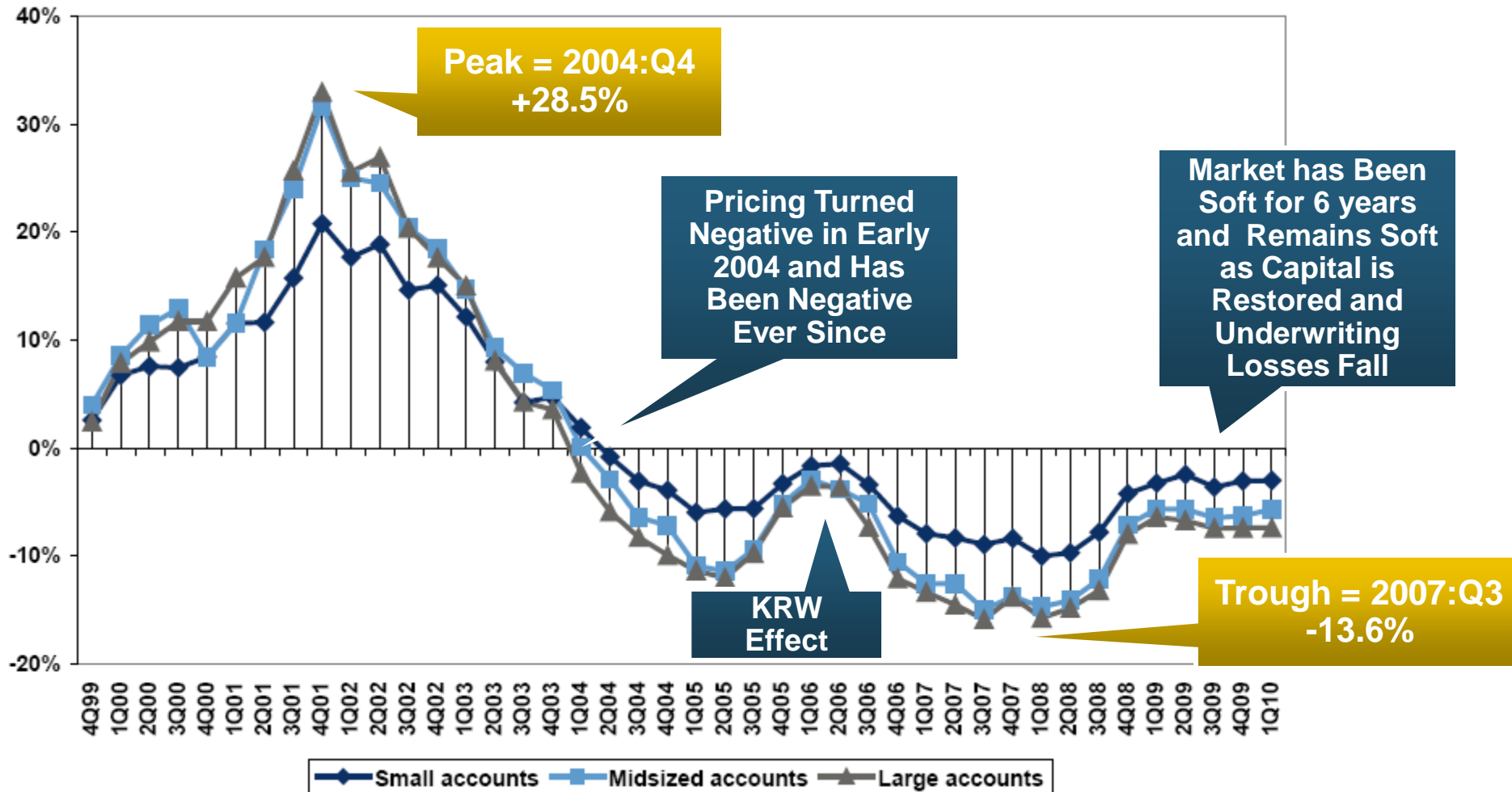
Average Commercial Rate Change, All Lines, (1Q:2004–1Q:2010)

(Percent)



Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2010:Q1

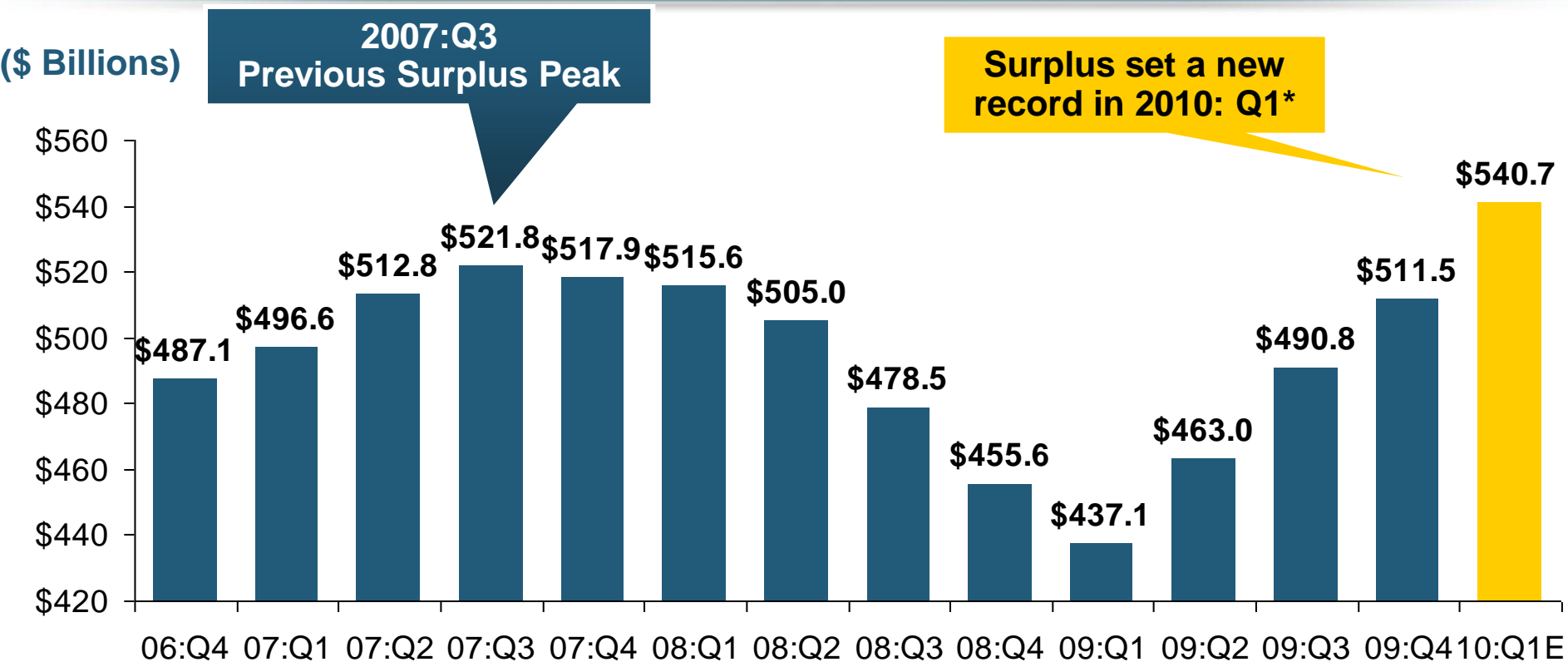
Percentage Change (%)



Capital/Policyholder Surplus (US)

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

Policyholder Surplus, 2006:Q4–2010:Q1E



Quarterly Surplus Changes Since 2007:Q3 Peak

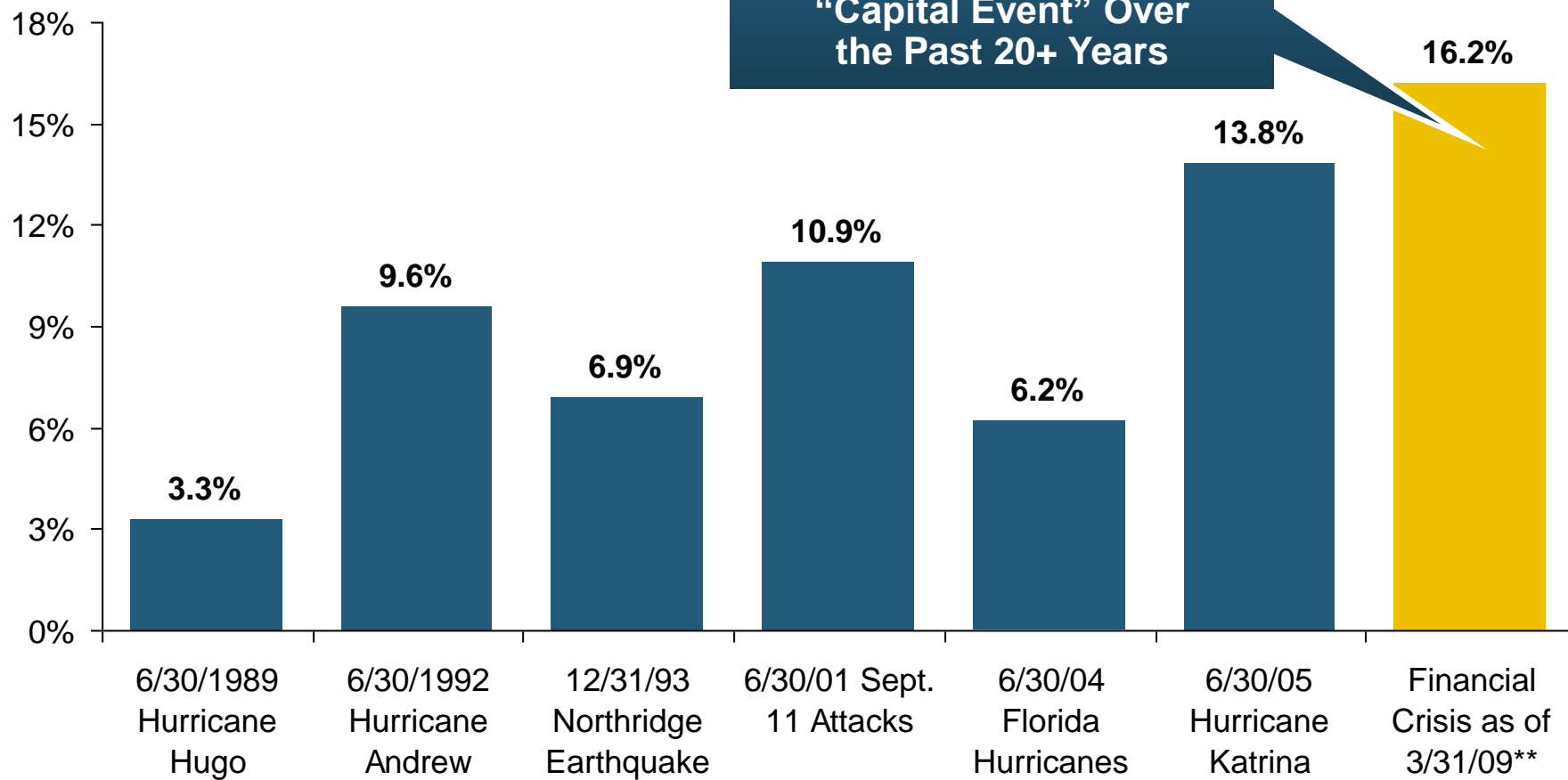
08:Q2: -\$16.6B (-3.2%)
08:Q3: -\$43.3B (-8.3%)
08:Q4: -\$66.2B (-12.9%)
09:Q1: -\$84.7B (-16.2%)

09:Q2: -\$58.8B (-11.2%)
09:Q3: -\$31.8B (-5.9%)
09:Q4: -\$10.3B (-2.0%)
10:Q1: +\$18.9B (+3.6%)

*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

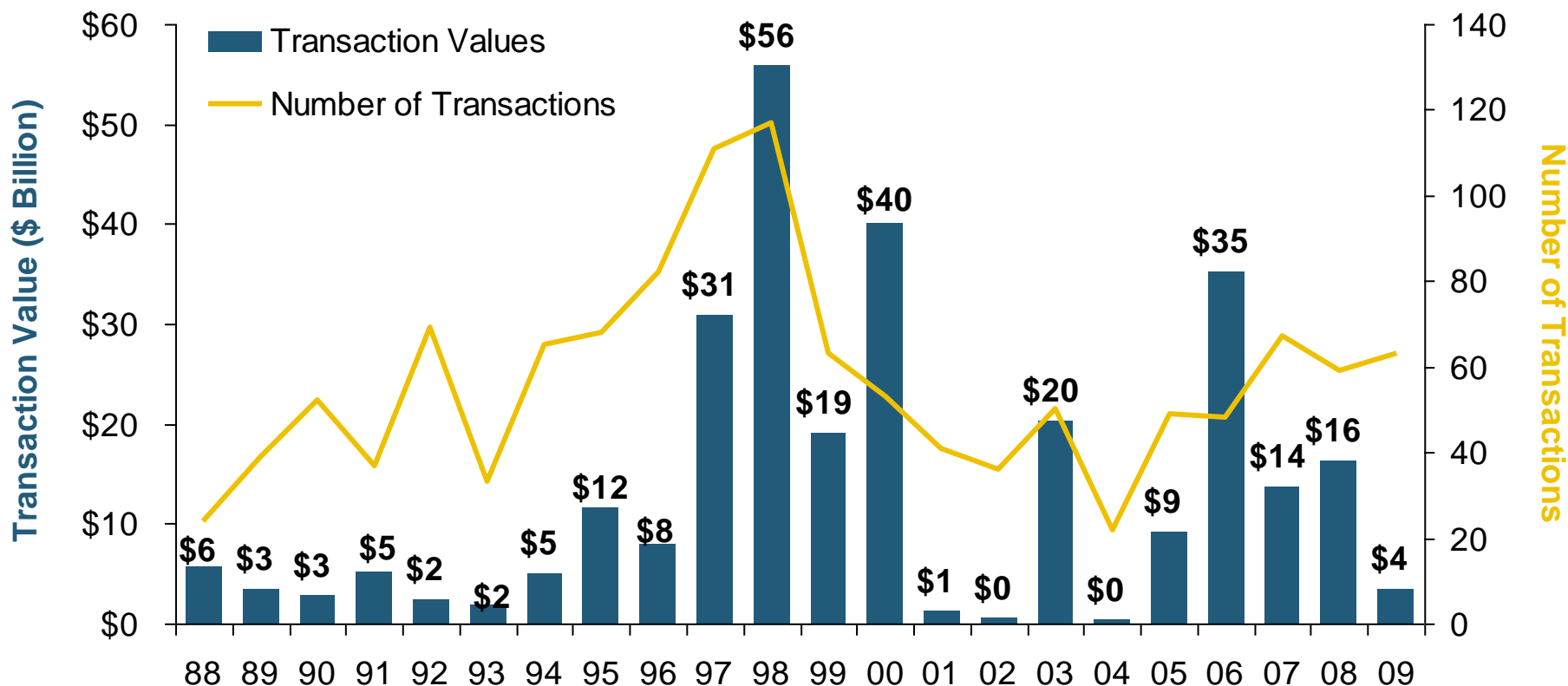
** Date of maximum capital erosion; As of 9/30/09 (latest available) ratio = 5.9%

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.

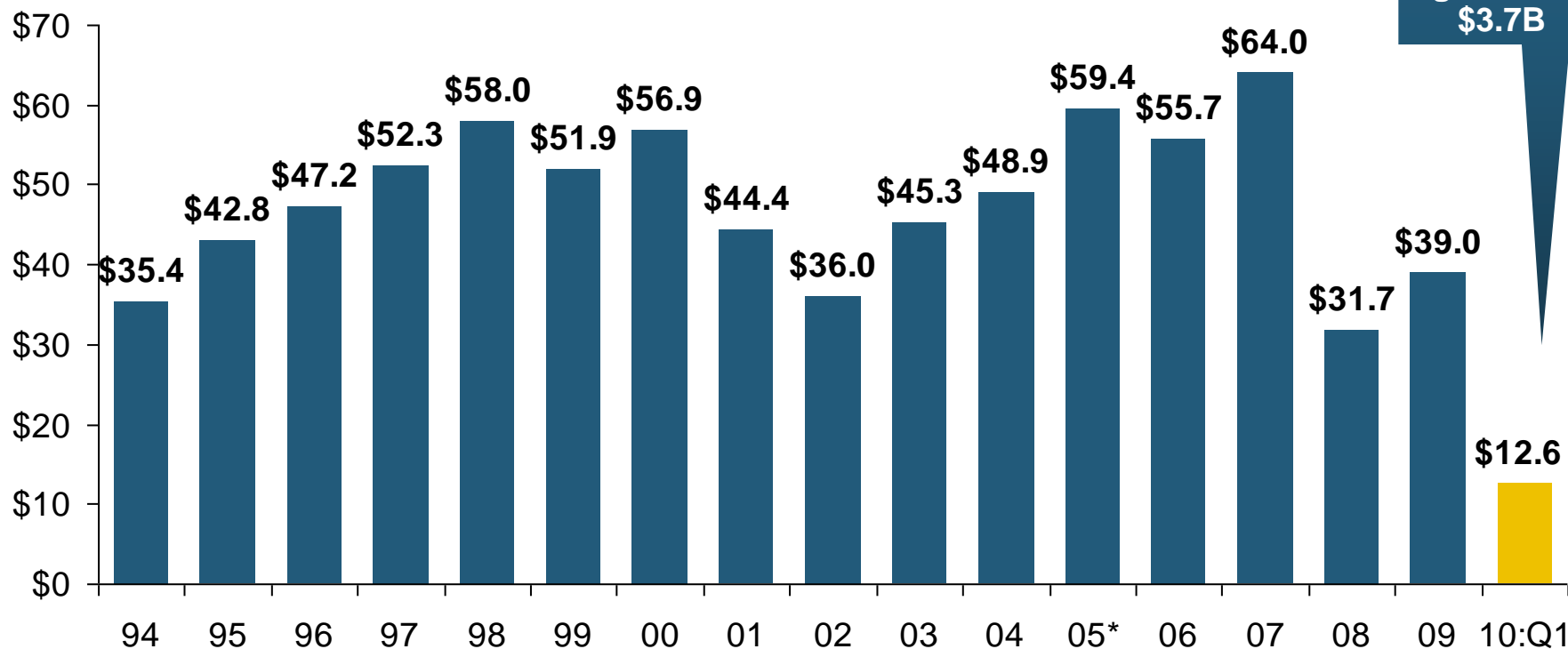
Source: Conning Research & Consulting.

Investment Performance

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

Property/Casualty Insurance Industry Investment Gain: 1994–2010:Q1¹

(\$ Billions)



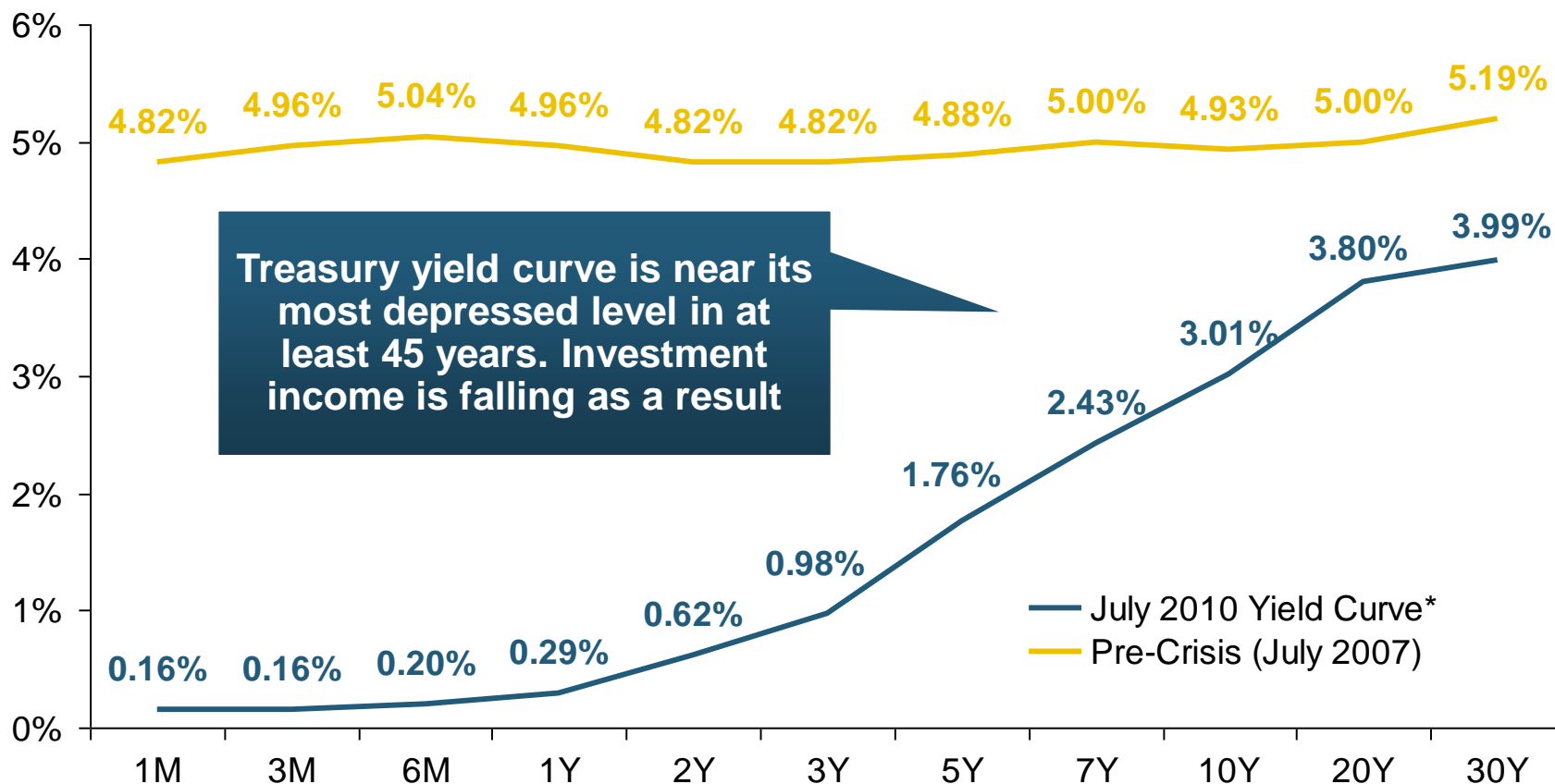
**In 2008, Investment Gains Fell by 50% Due to Lower Yields and
Nearly \$20B of Realized Capital Losses
2009 Saw Smaller Realized Capital Losses But Declining Investment Income**

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.

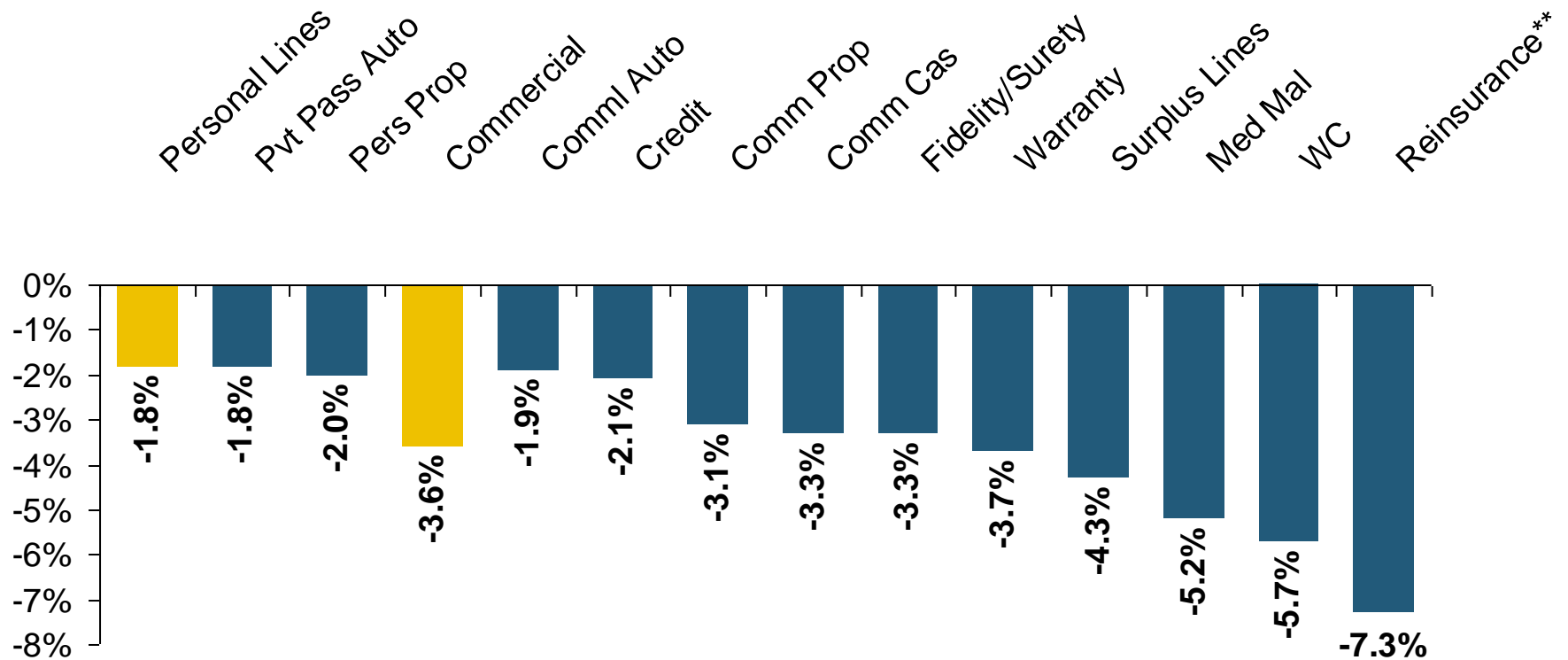
Sources: ISO; Insurance Information Institute.

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



Stock Dividend Cuts Have Further Pressured Investment Income

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

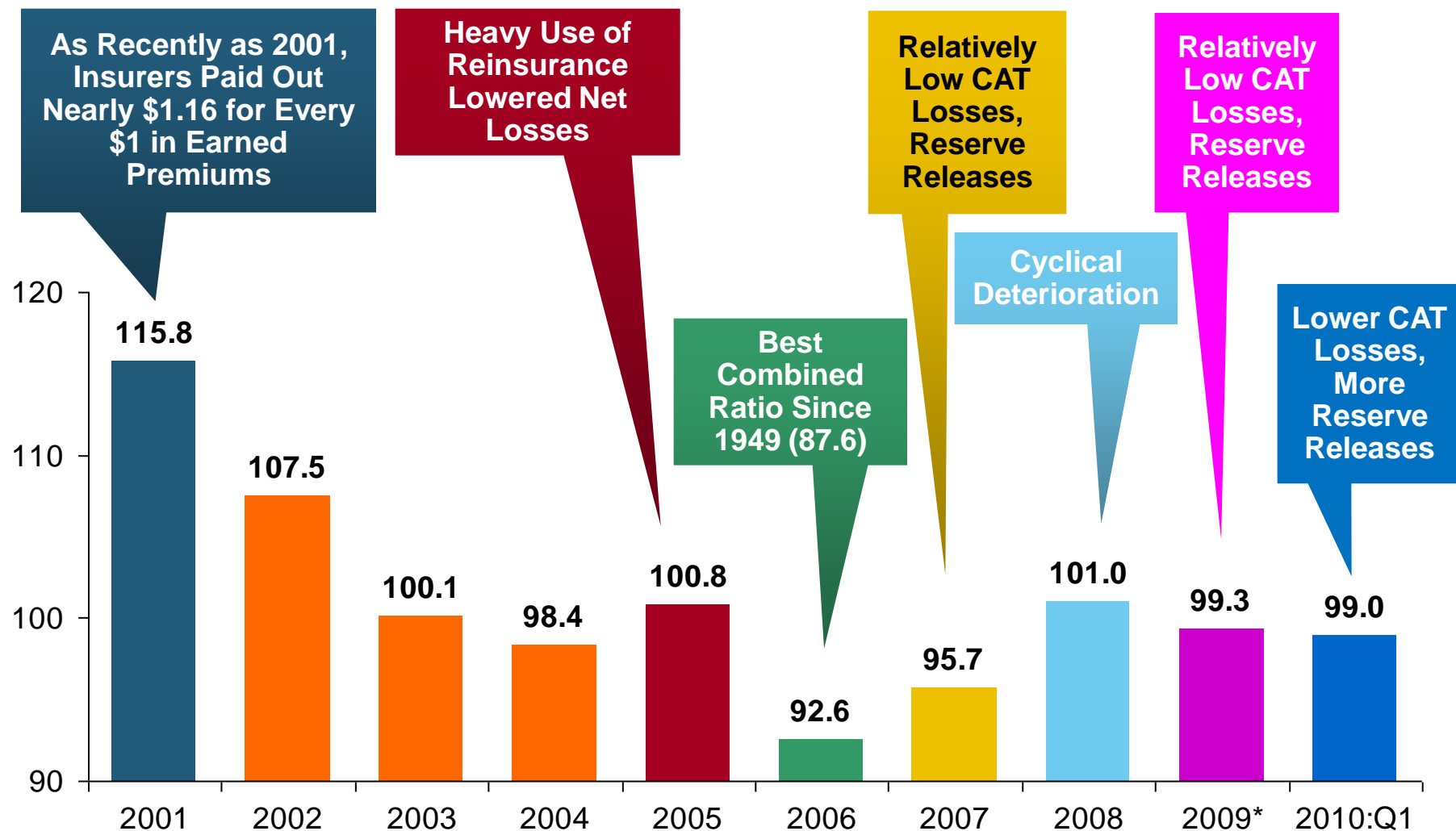
*Based on 2008 Invested Assets and Earned Premiums

**US domestic reinsurance only

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

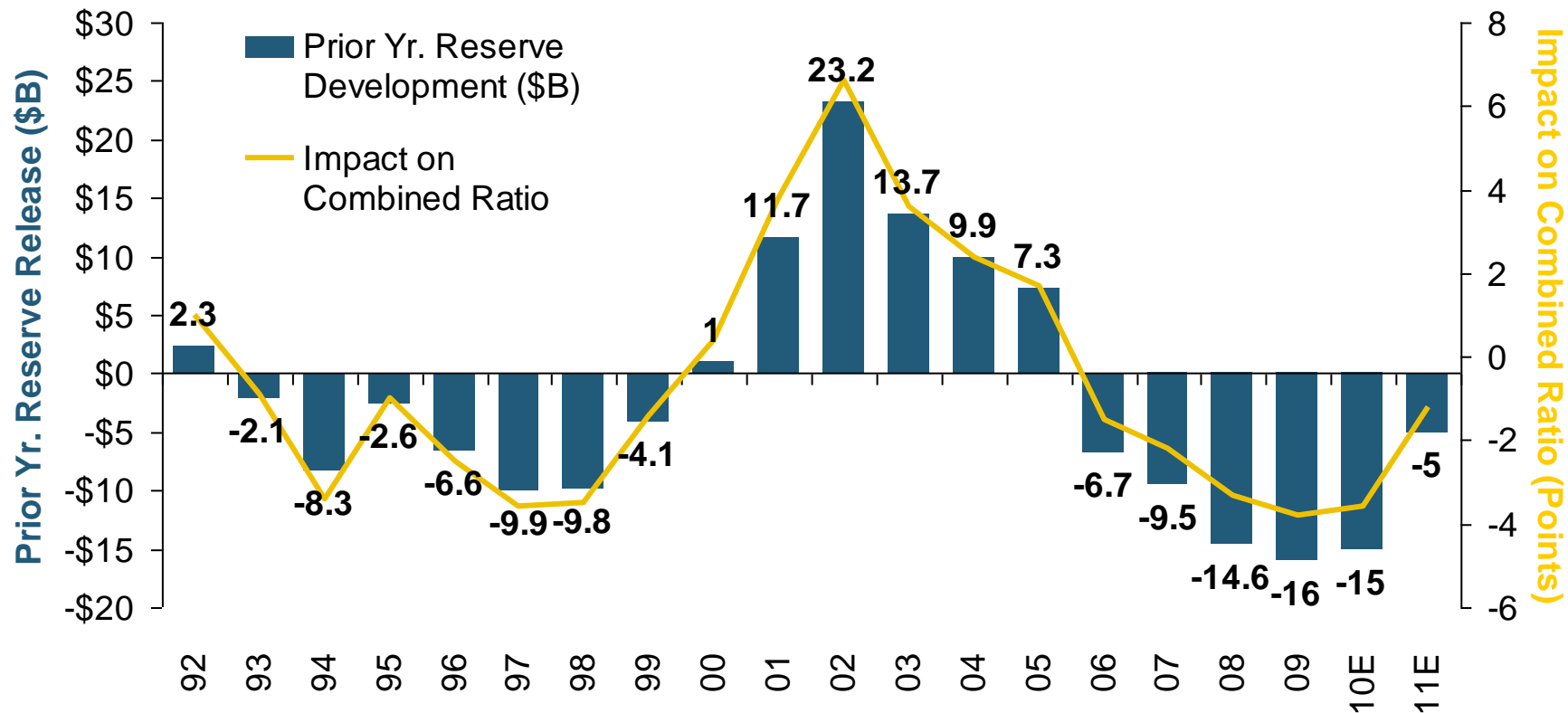
**Underwriting Trends –
Financial Crisis Does *Not*
Directly Impact Underwriting
Performance: Cycle, Catastrophes
Were 2008's Drivers**

P/C Insurance Industry Combined Ratio, 2001–2010:Q1*



* Excludes Mortgage & Financial Guaranty insurers in 2008, 2009 and 2010. Including M&FG, 2008=105.1, 2009=100.7, 2010:Q1=101.1
Sources: A.M. Best, ISO.

P/C Reserve Development, 1992–2011E

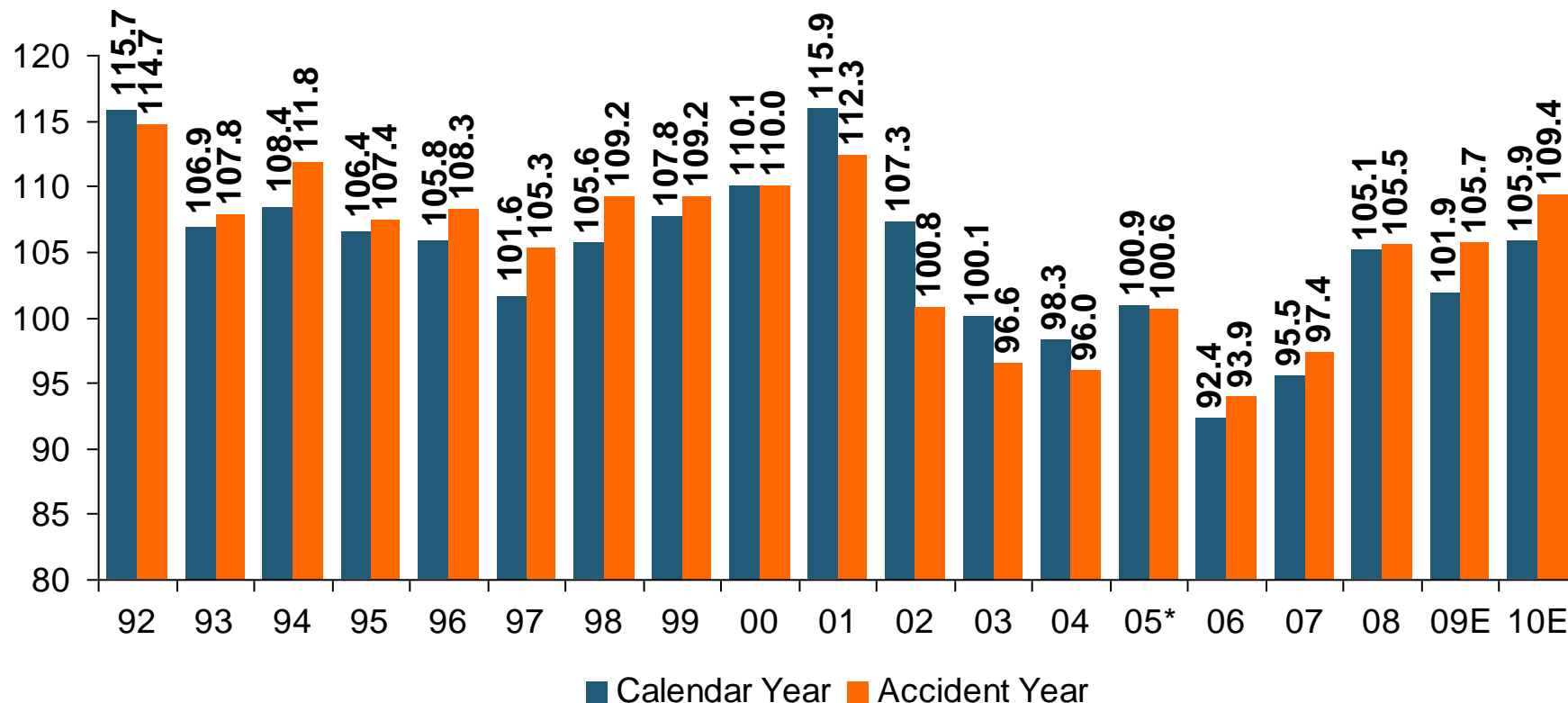


Reserve Releases Will Expected to Taper Off in 2010 and Drop Significantly in 2011

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.

Calendar Year vs. Accident Year P/C Combined Ratio: 1992–2010E¹



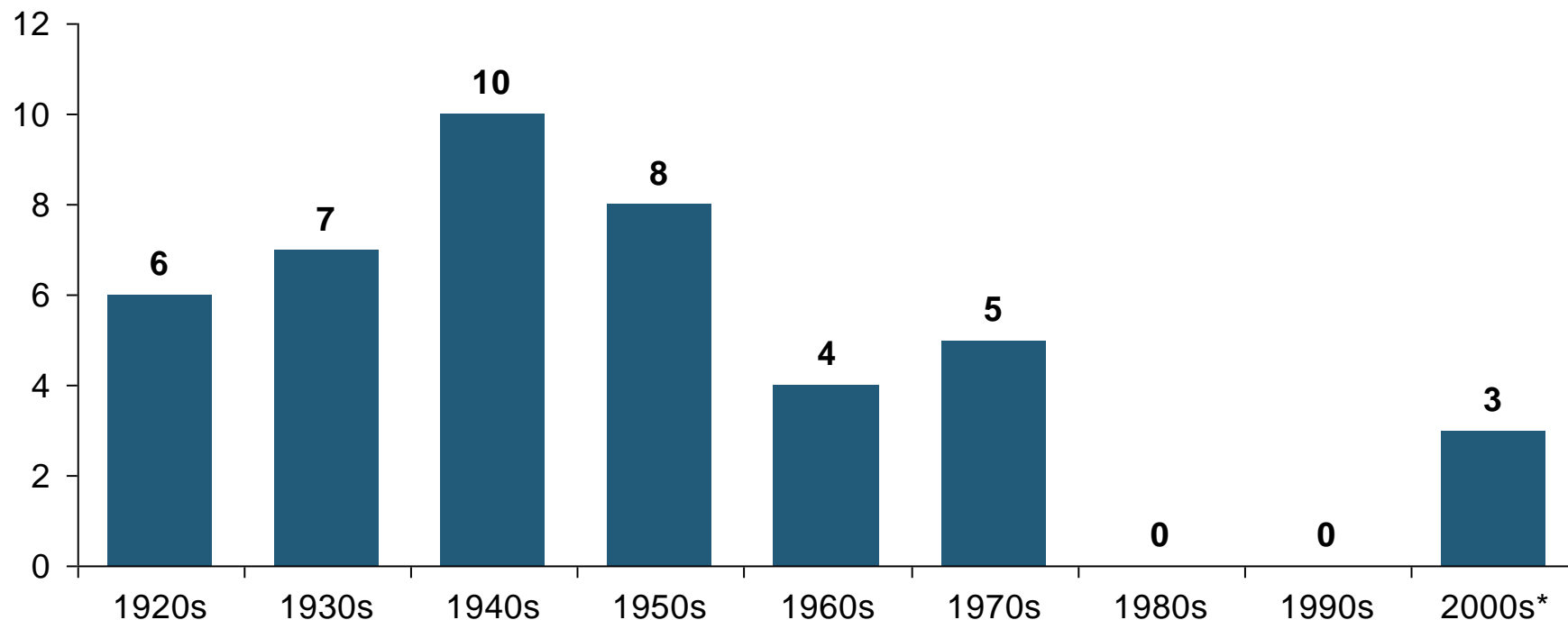
Accident Year Results Show a More Significant Deterioration in Underwriting Performance. Calendar Year Results Are Helped by Reserve Releases

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.

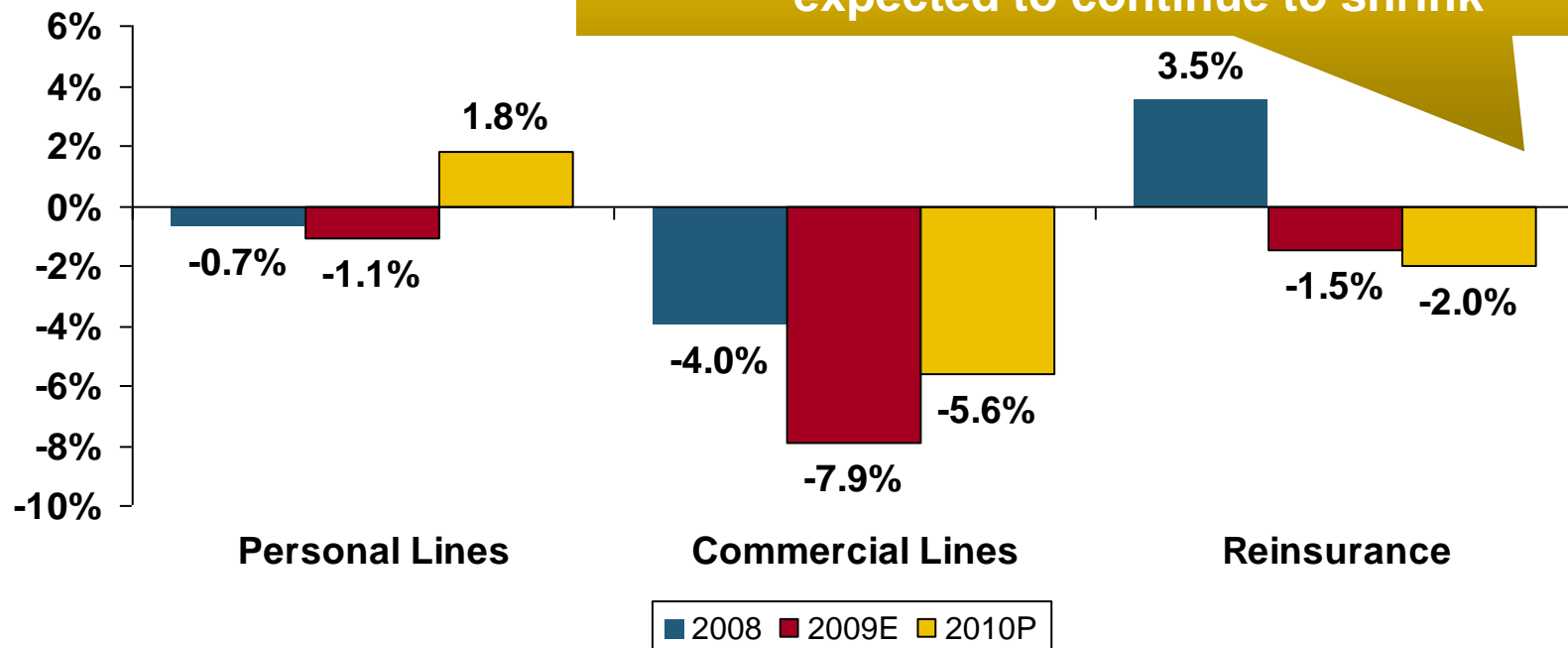
Note: Data for 1920–1934 based on stock companies only.

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

Performance by Segment: Commercial/Personal Lines & Reinsurance

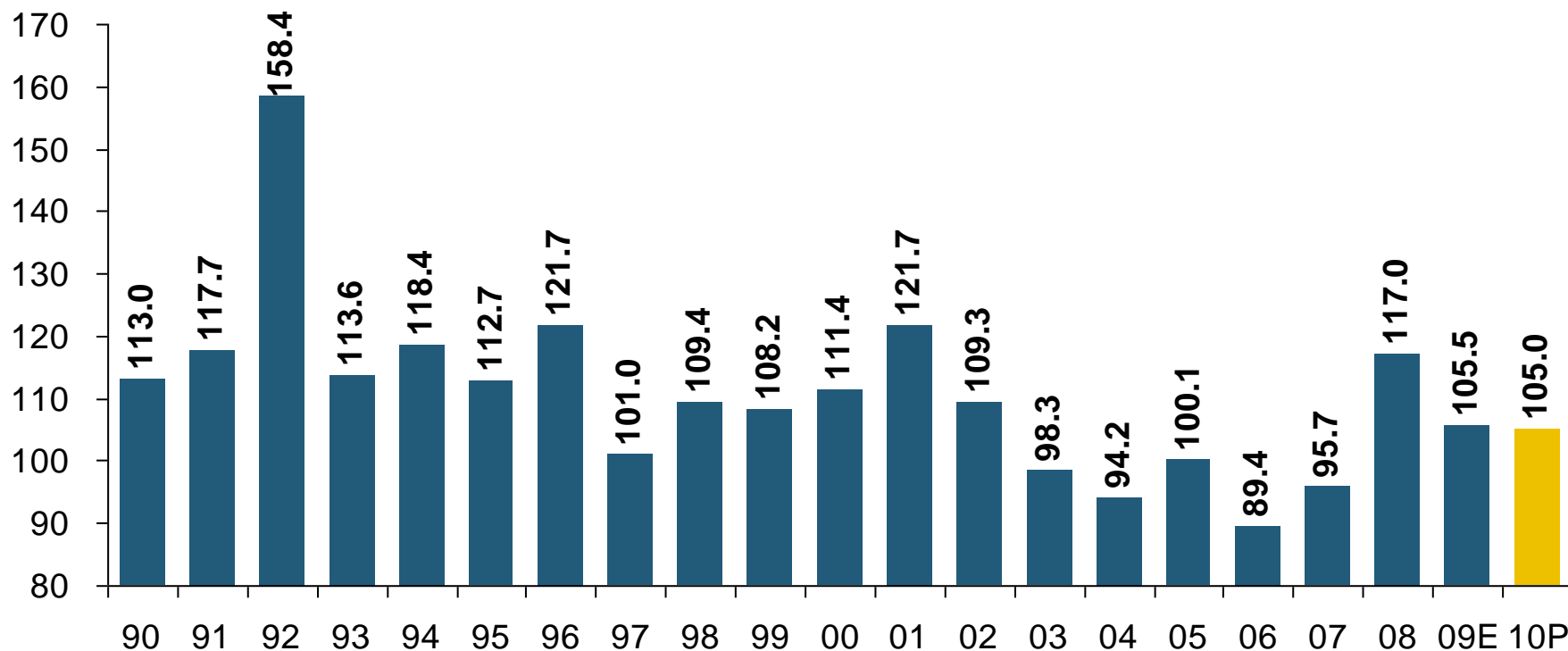
Net Written Premium Growth by Segment: 2008-2010P

Personal lines will return to growth in 2010 while commercial lines and reinsurance are expected to continue to shrink



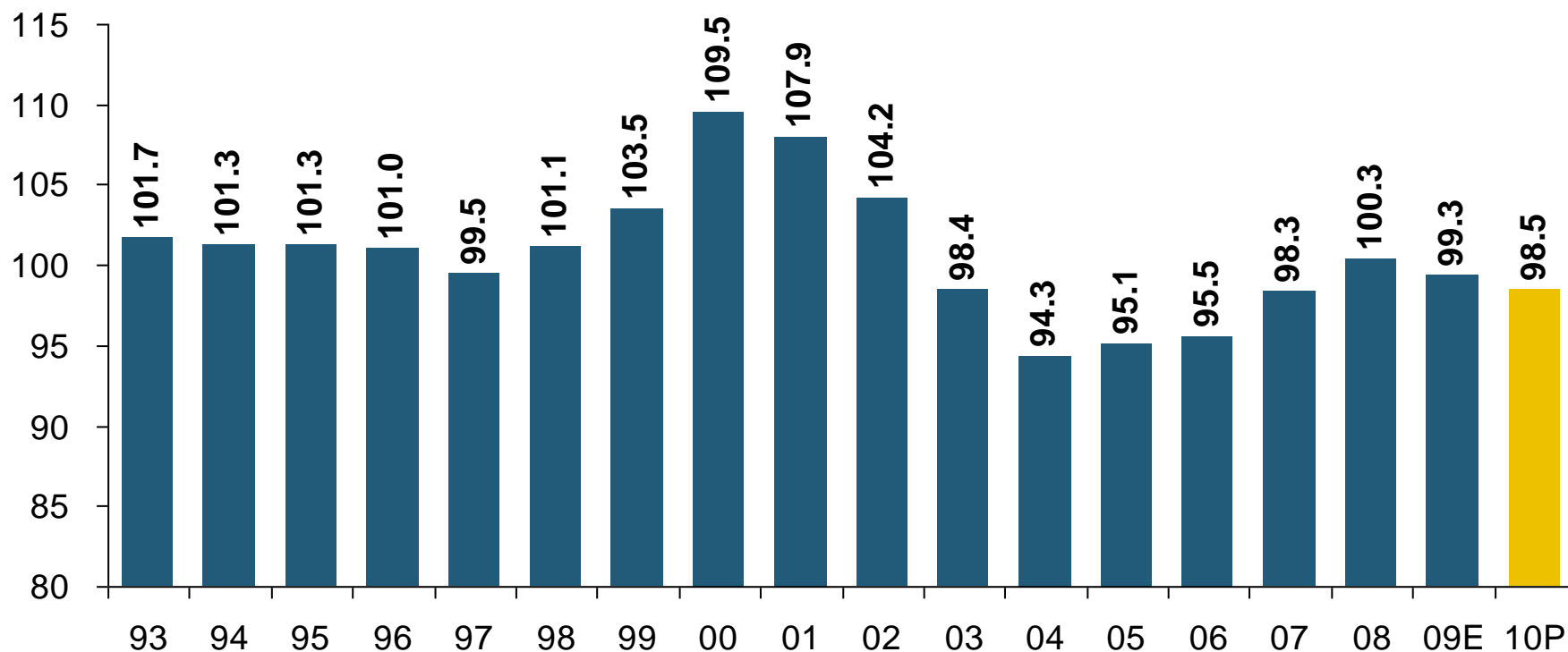
Rate and exposure are more favorable in personal lines, whereas a prolonged soft market and sluggish recovery from the recession weigh on commercial lines. Low catastrophe losses and ample capacity are holding down reinsurance prices while higher insurer retentions impact premiums

Homeowners Insurance Combined Ratio: 1990–2010P



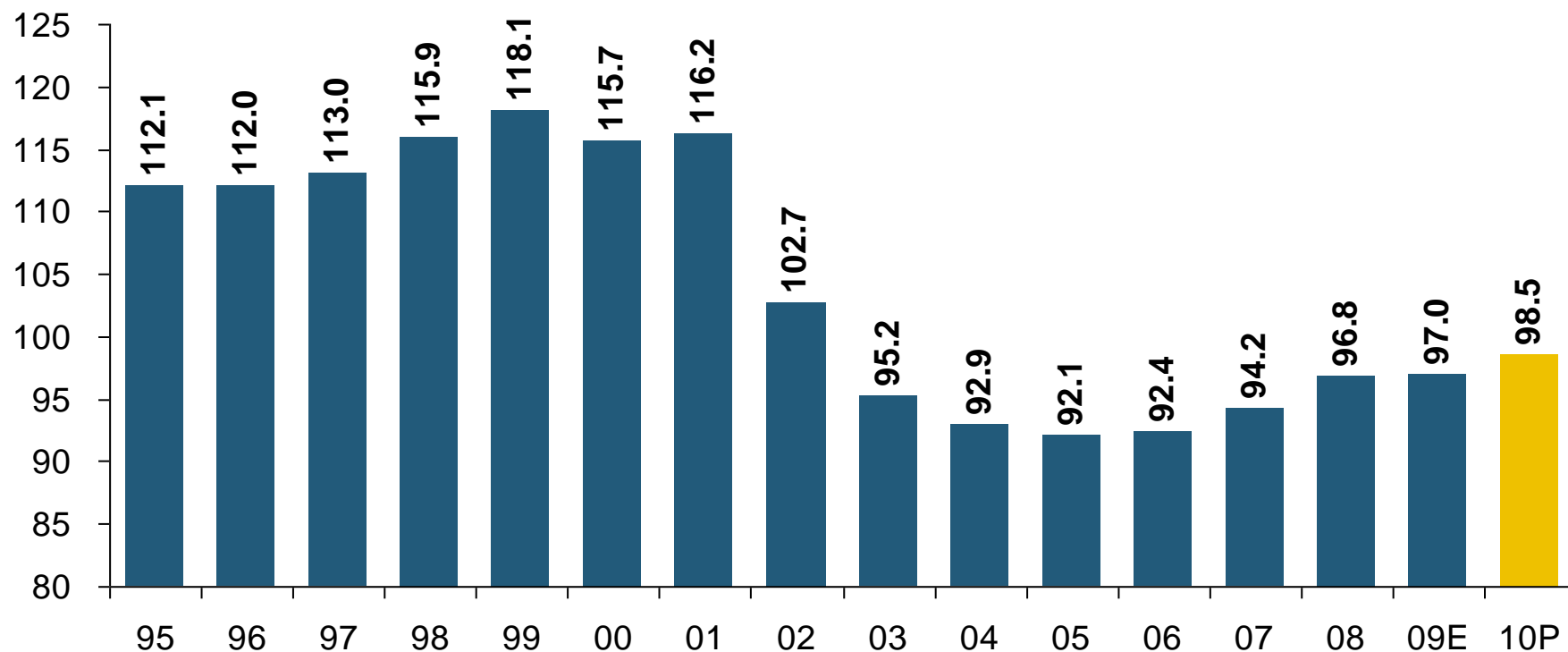
Homeowners Line Is Expected to Be Marginally Profitable Overall in 2010, but in Many States Could Be Quite Profitable. Volatility Due to Catastrophe Losses Will Persist

Private Passenger Auto Combined Ratio: 1993–2010P



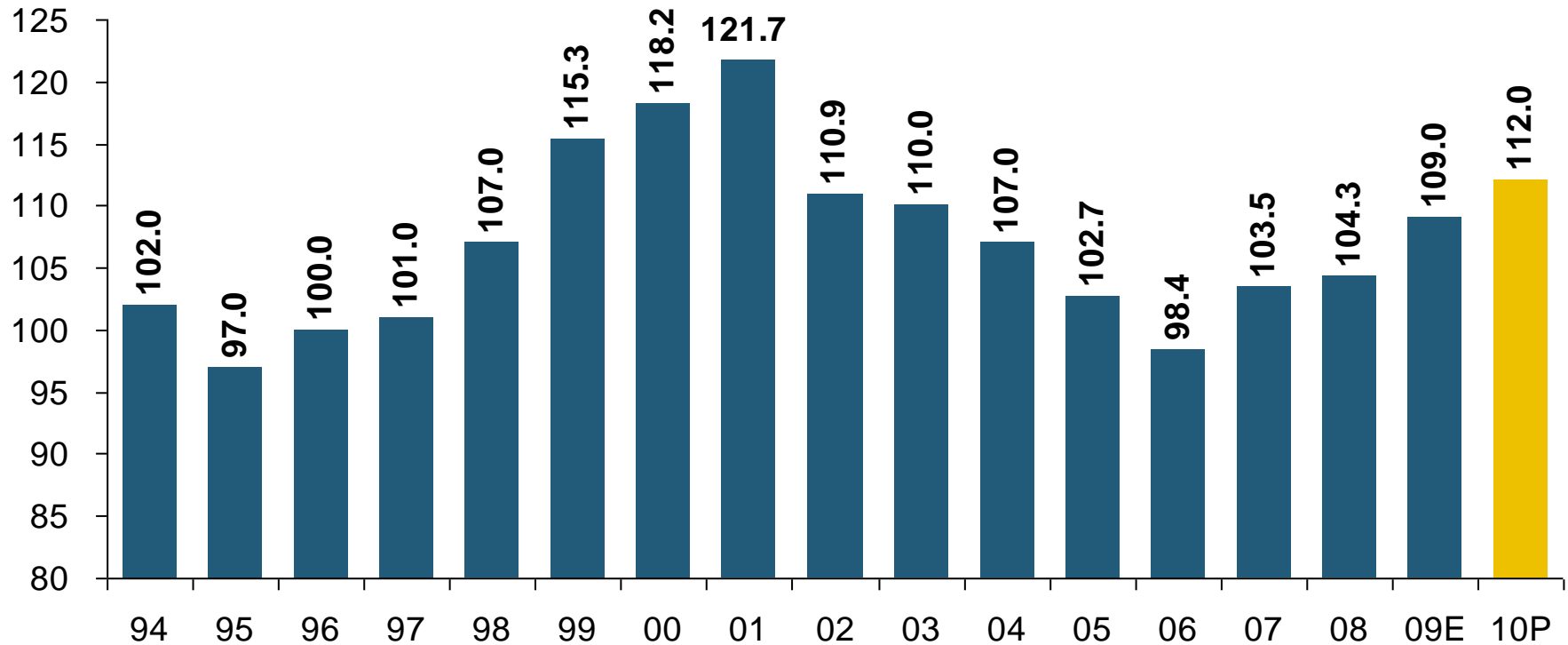
Private Passenger Auto Accounts for 34% of Industry Premiums and Remains the Profit Juggernaut of the P/C Insurance Industry

Commercial Auto Combined Ratio: 1993–2010P



Commercial Auto is Expected to Remain Reasonably Profitable in 2010

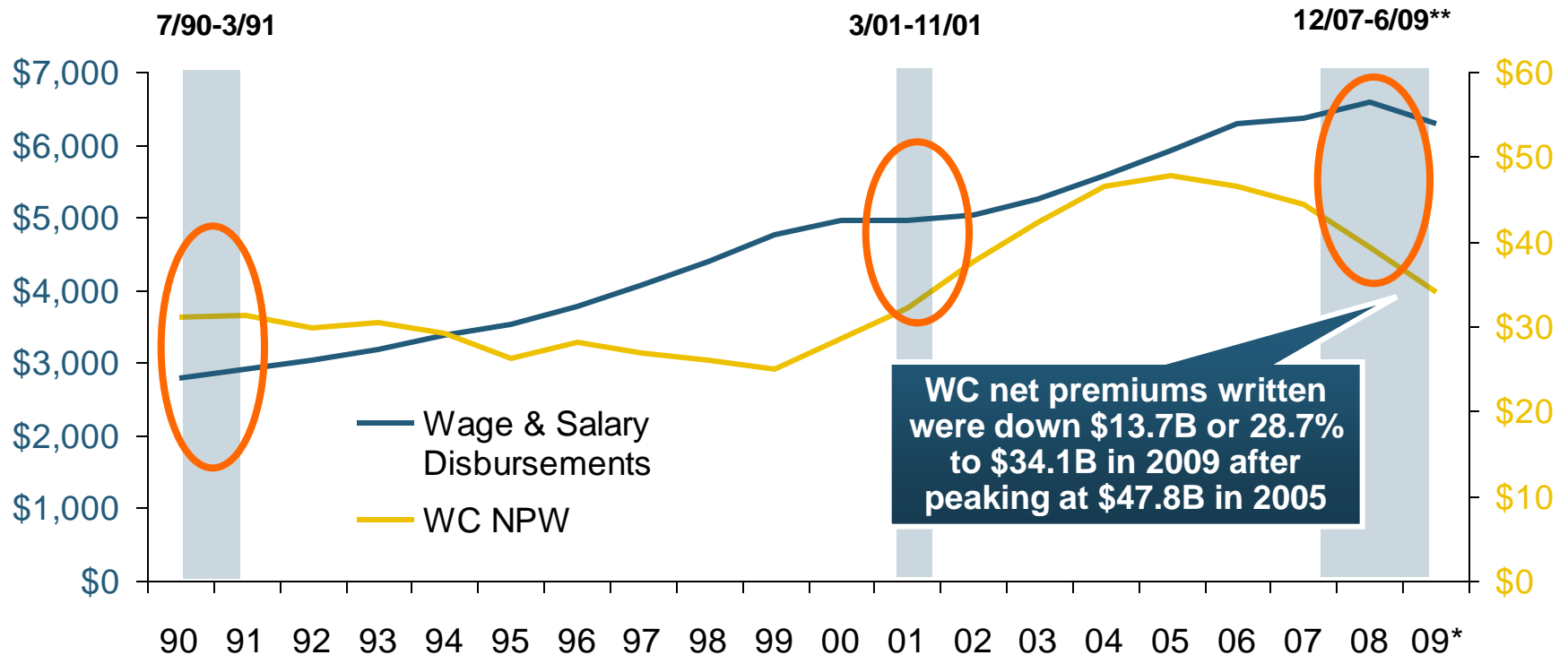
Workers Compensation Combined Ratio: 1994–2010P



Workers Comp Underwriting Results Are Deteriorating Markedly

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

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



Weakening Payrolls Have Eroded \$2B+ in Workers Comp Premiums; Nearly 29% of NPW Has Been Eroded Away by the Soft Market and Weak Economy

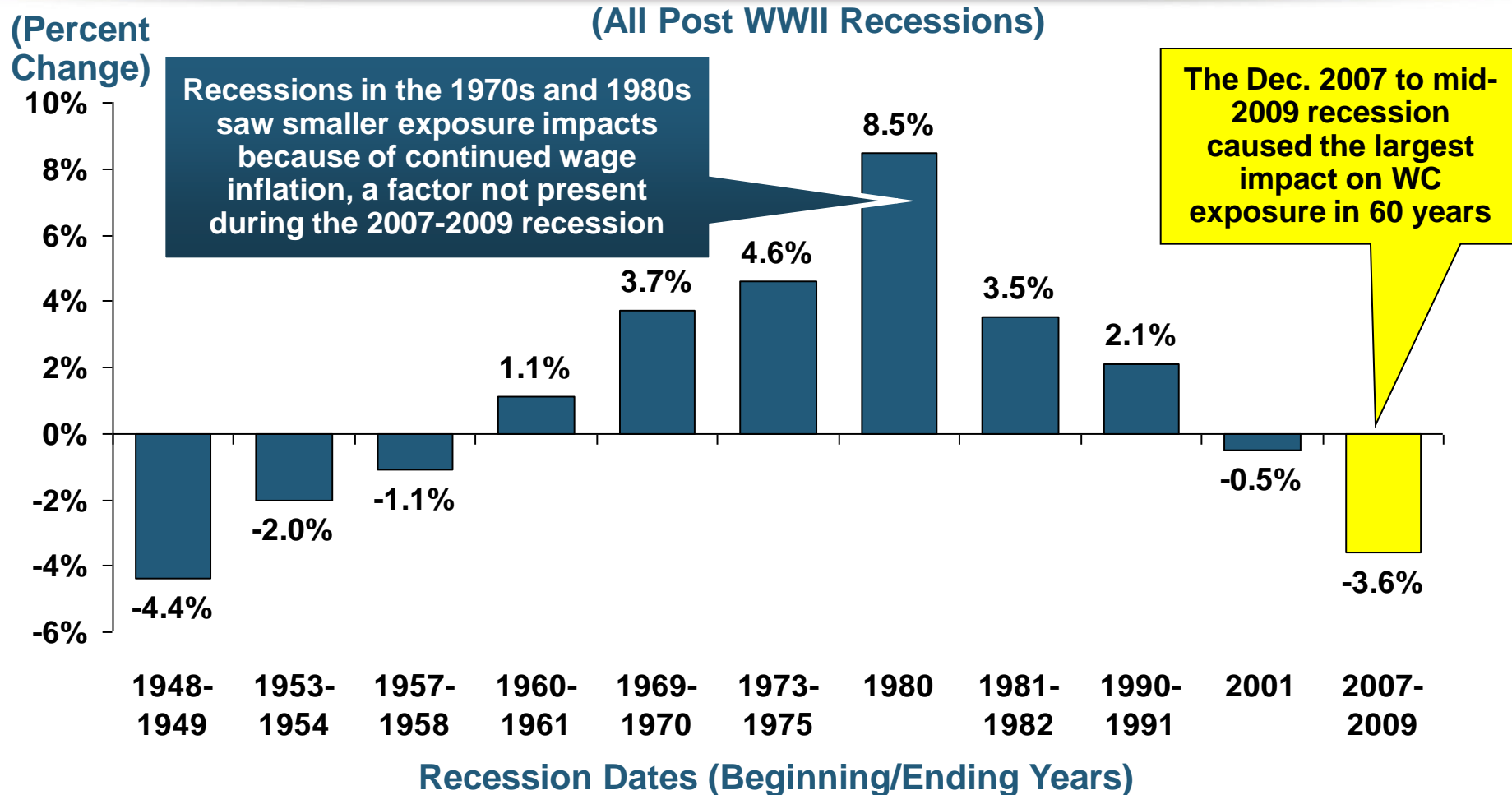
* Average Wage and Salary data as of 10/1/2009. Shaded areas indicate recessions.

**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

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).

Where Will the Growth in WC Exposure Come From?

Industry and Occupation Growth Analysis

Fastest Growing Occupations, 2008–2018:

Health/Science/Tech Dominate

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

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

SOURCE: BLS Occupational Employment Statistics and Division of Occupational Outlook

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

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

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

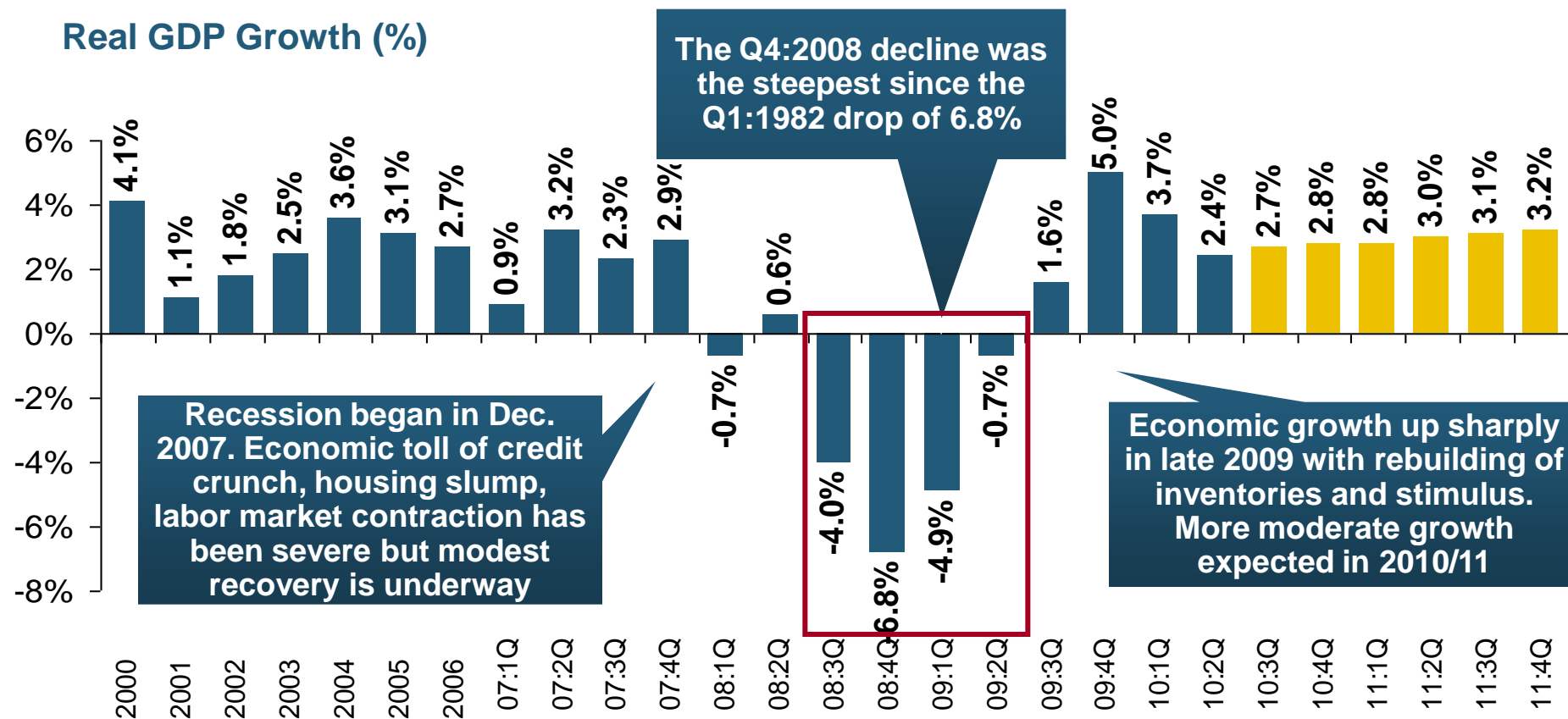
SOURCE: BLS Occupational Employment Statistics and Division of Occupational Outlook

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 (%)



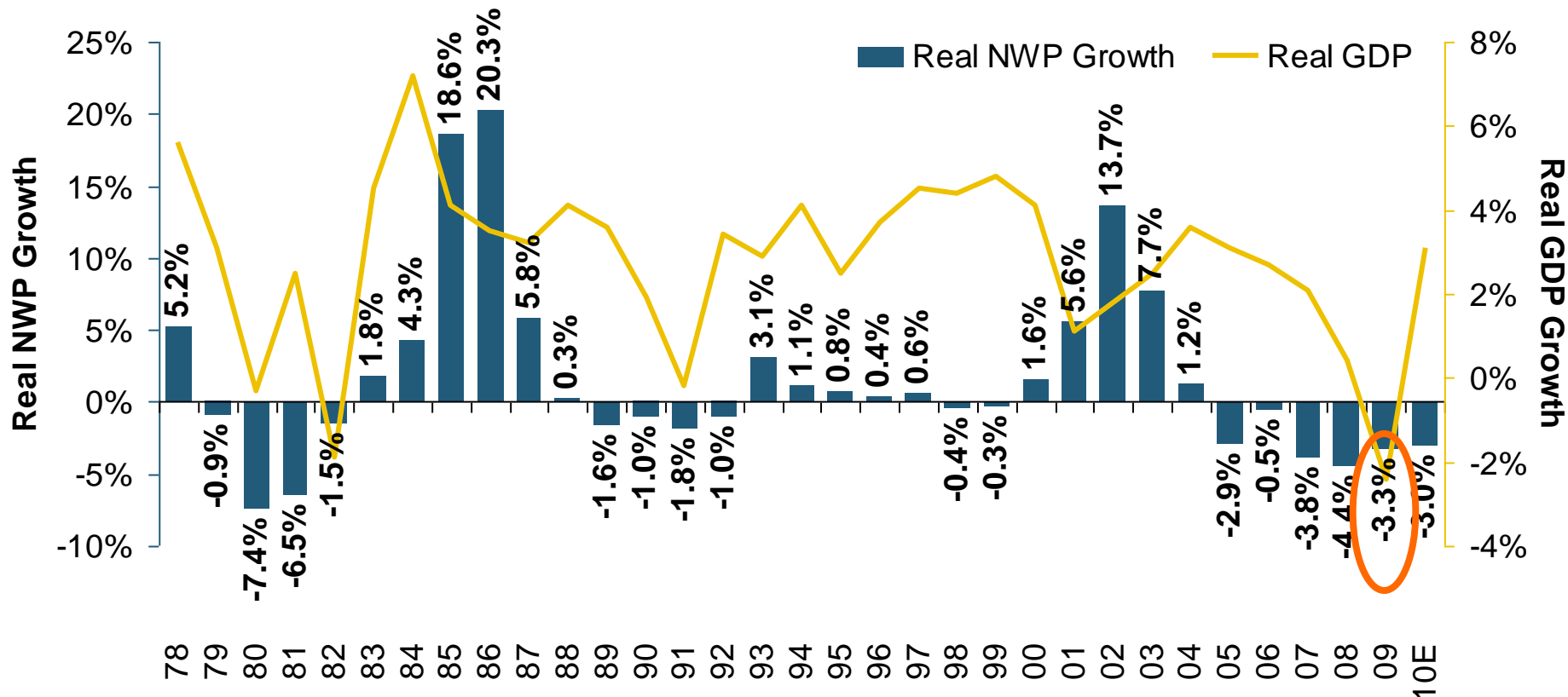
Demand for Energy and Commercial Insurance Have Been Impacted by Sluggish Economic Conditions

* ■ Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 7/10; 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**

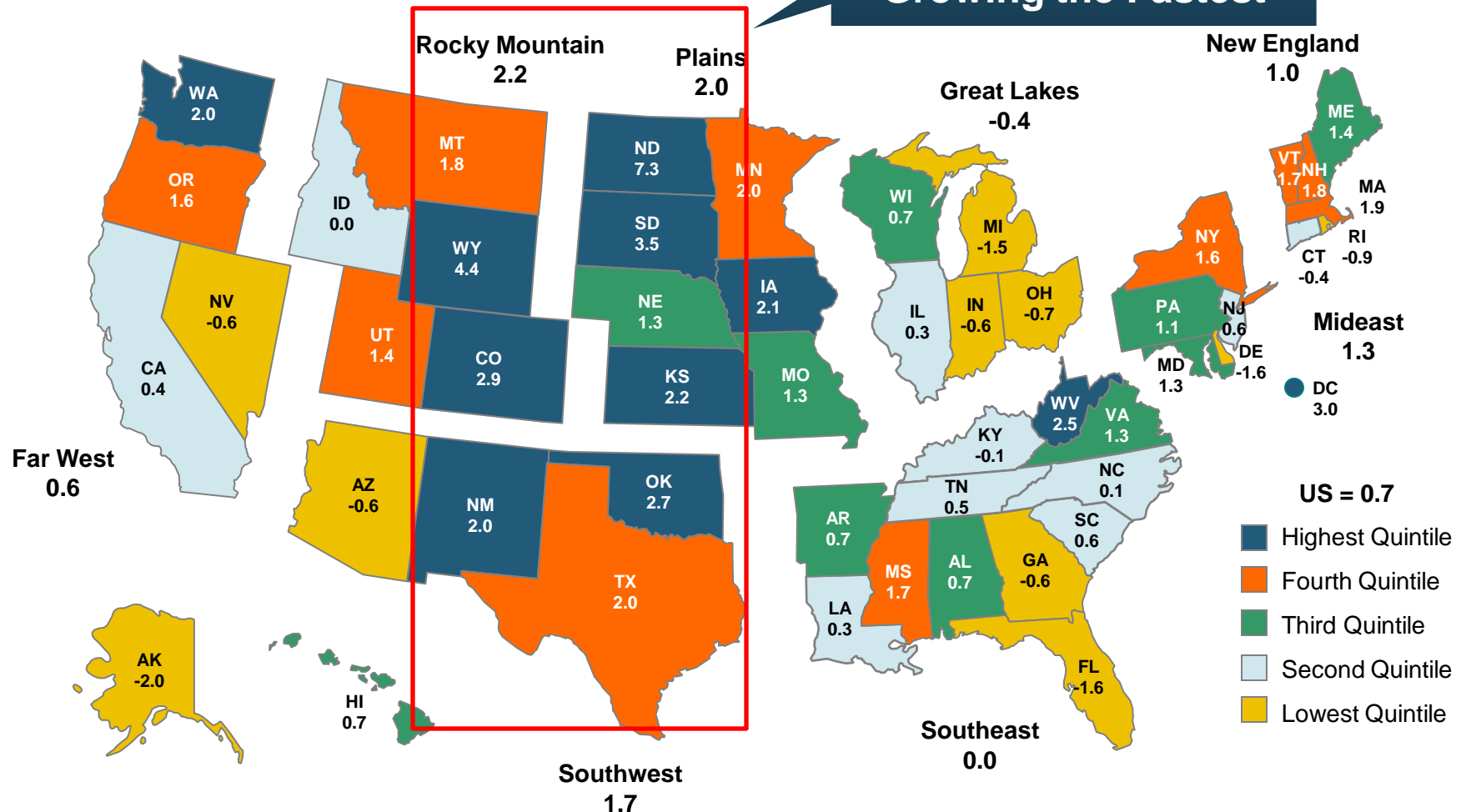
Regional Differences Will Significantly Impact P/C Markets

**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

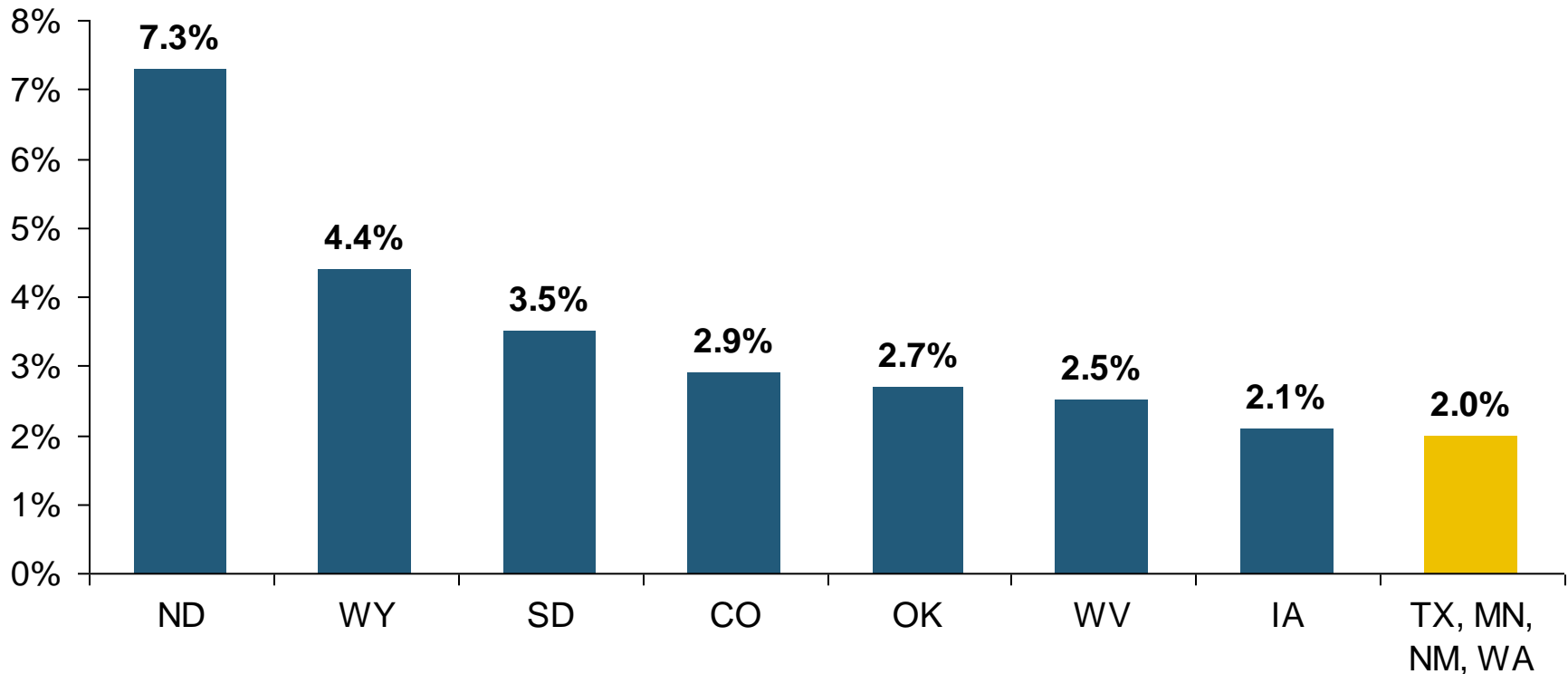
Percent Change in Real GDP by State, 2007–2008

**Mountain, Plains States
Growing the Fastest**



Fastest Growing States in 2008: Plains, Mountain States Lead

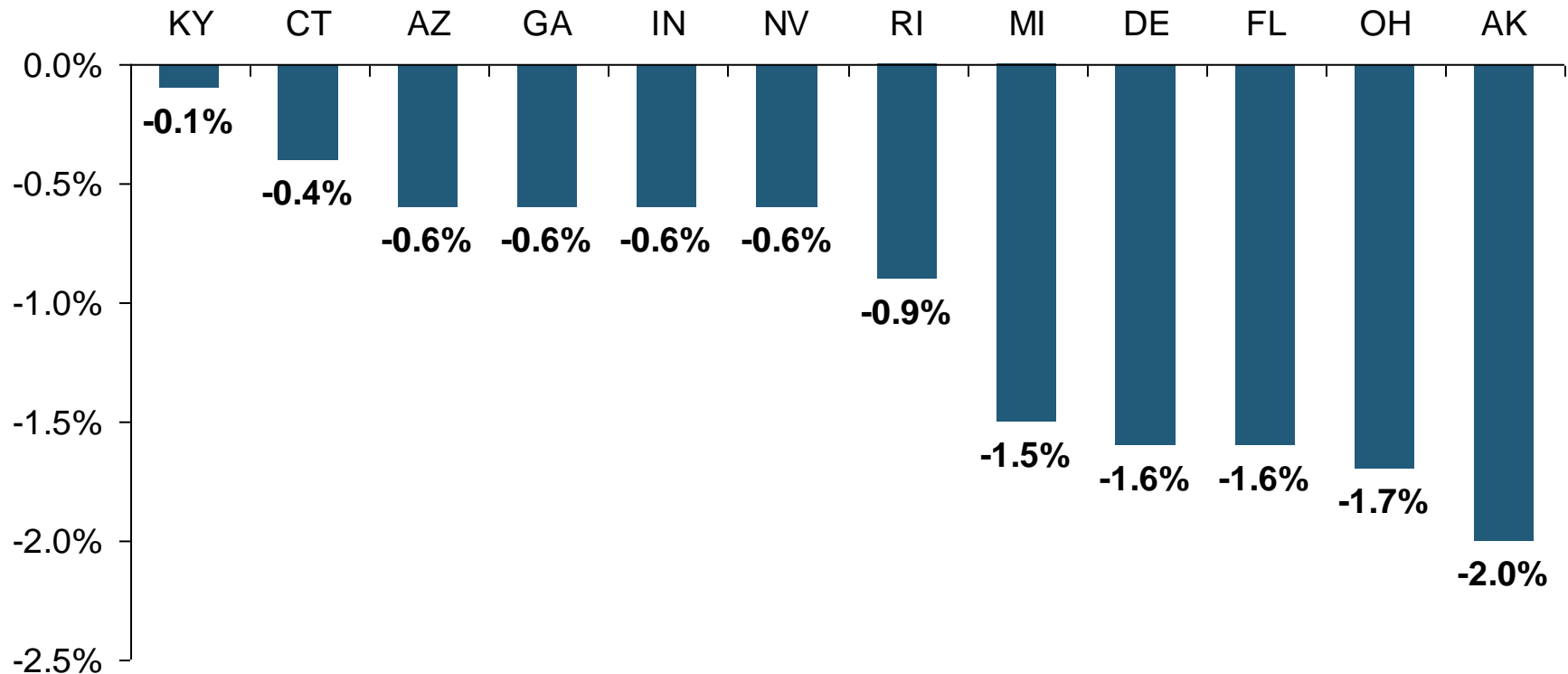
Real State GDP Growth (%)



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 (%)



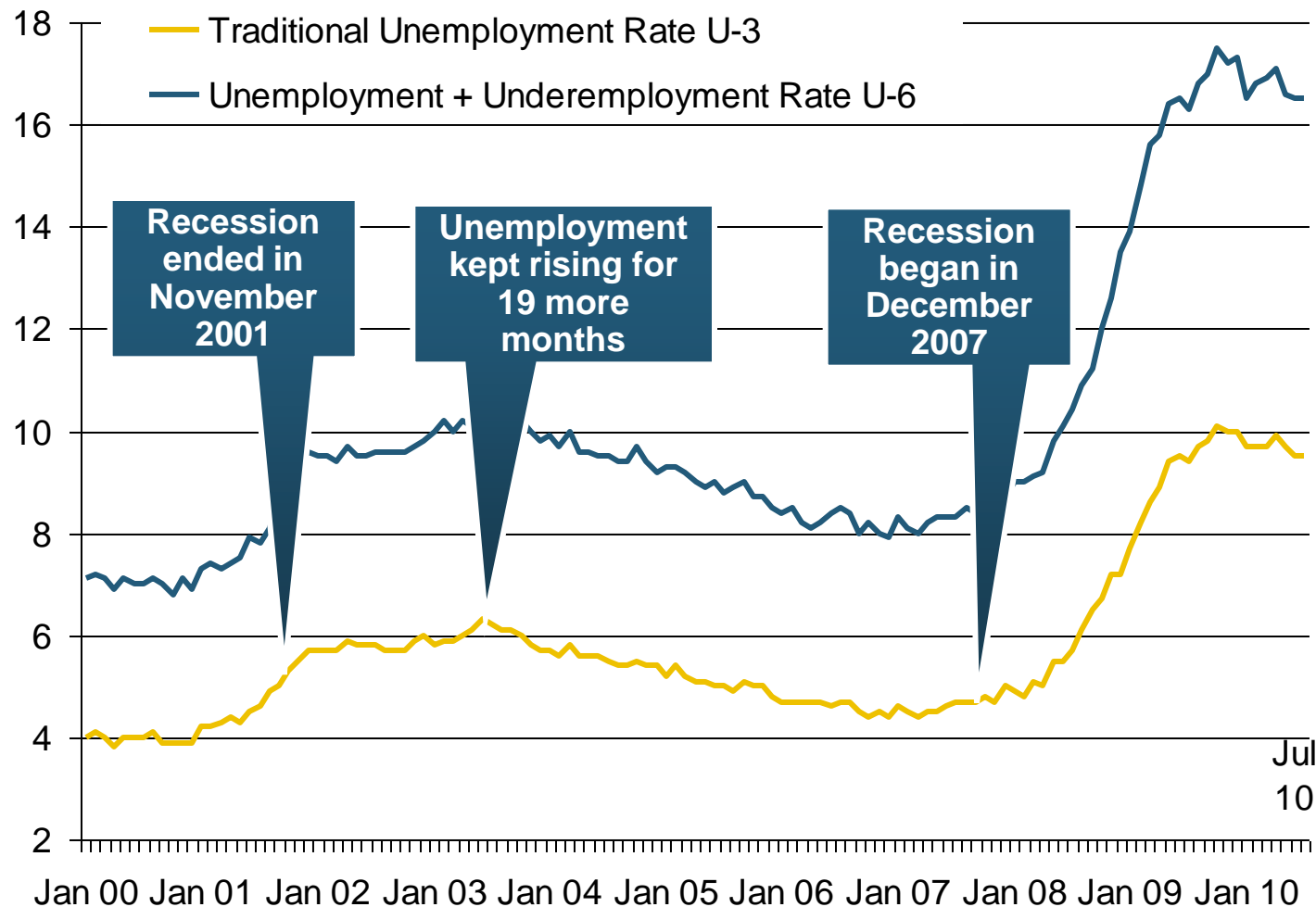
States in the North, South, East and West All Represented Among Hardest Hit, But for Differing Reasons

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; Stabilizing in 2010?

January 2000 through July 2010, Seasonally Adjusted (%)



U-6 went from 8.0% in March 2007 to 17.5% in Oct 2009; Stood at 16.5% in July 2010

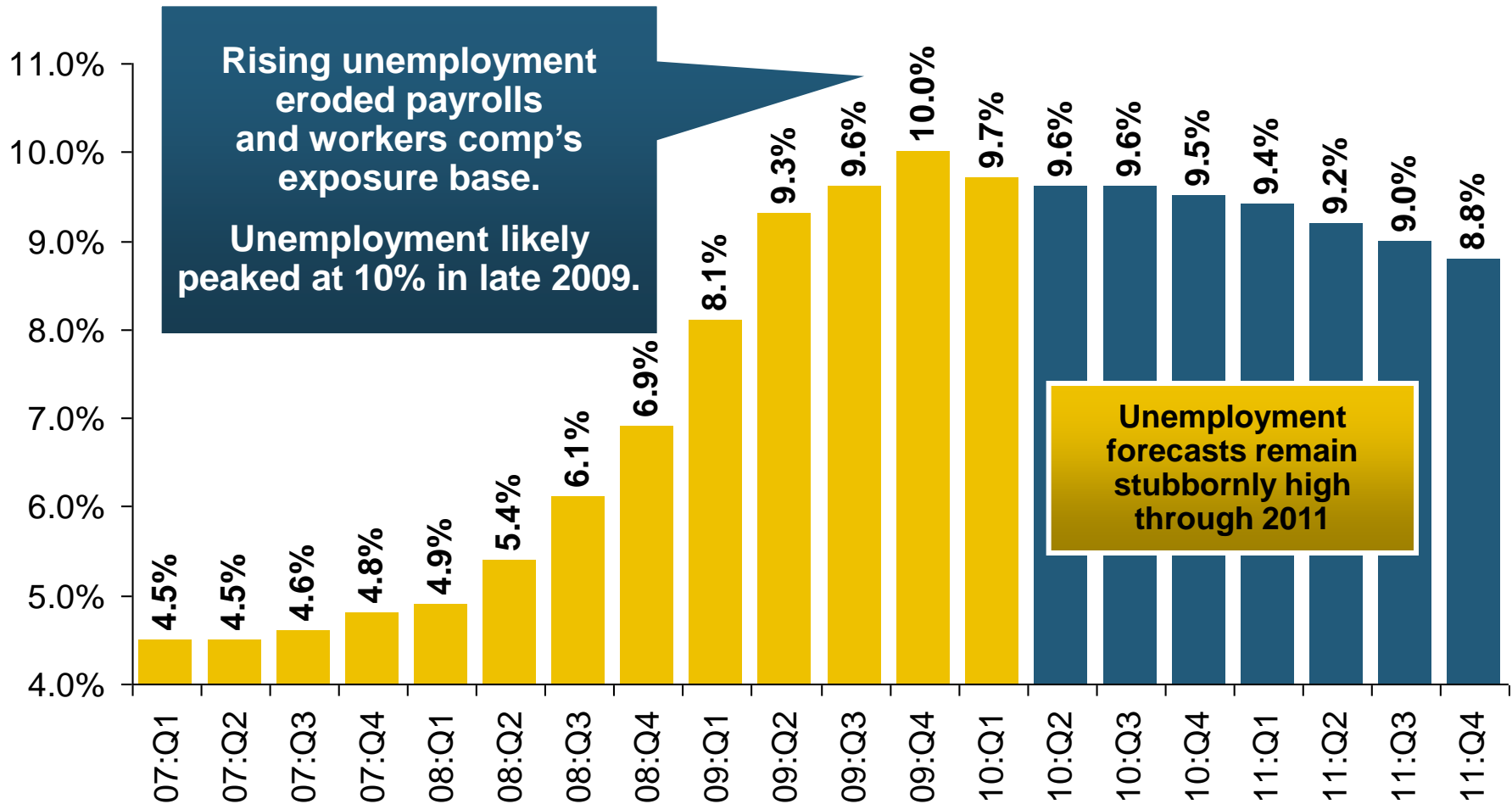
Unemployment rate was 9.5% in July

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

Peak rate in the last 30 years: 10.8% in Nov - Dec 1982

US Unemployment Rate

2007:Q1 to 2011:Q4F*

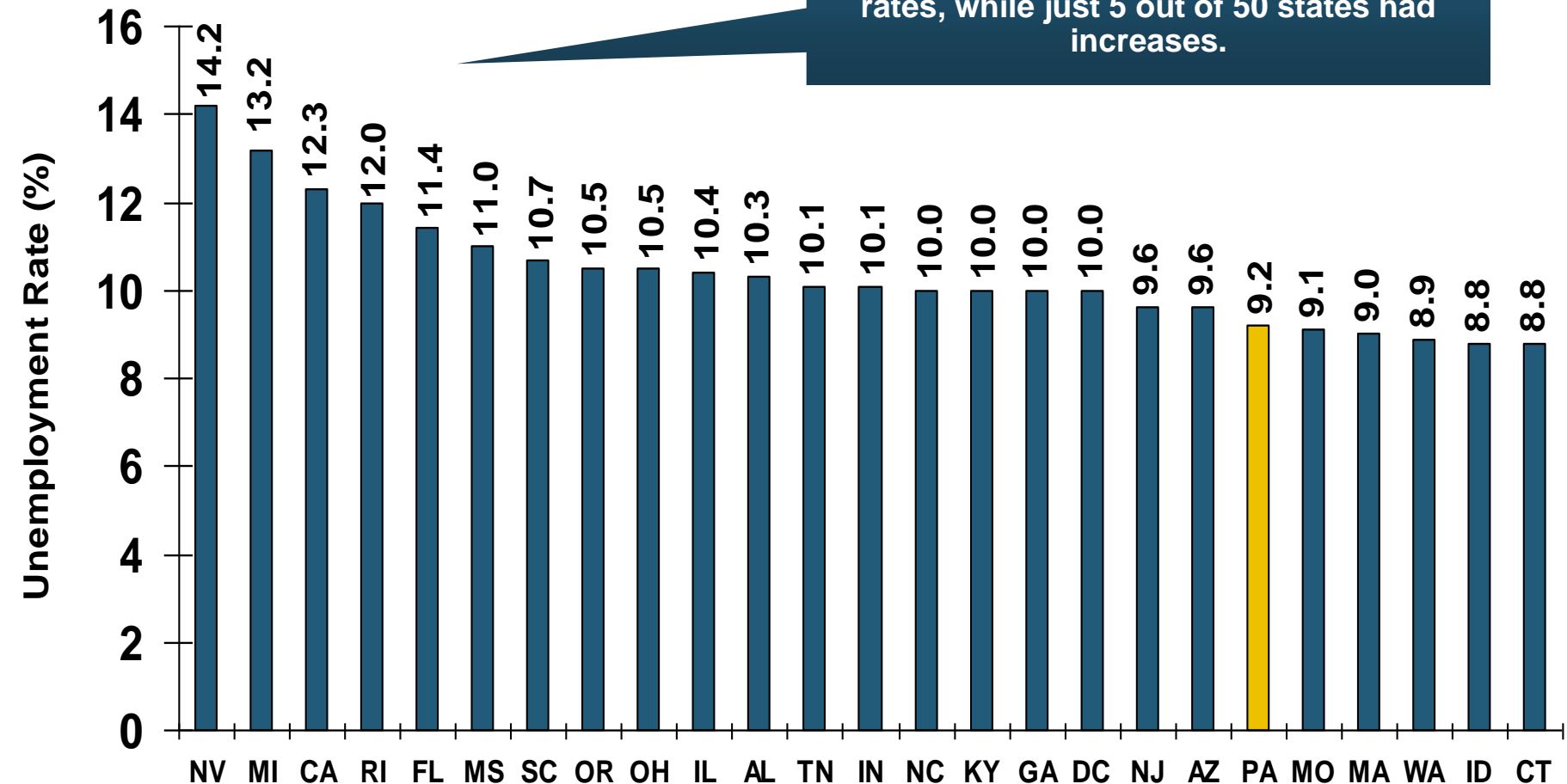


* ■ = actual; ■ = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (7/10); Insurance Information Institute

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

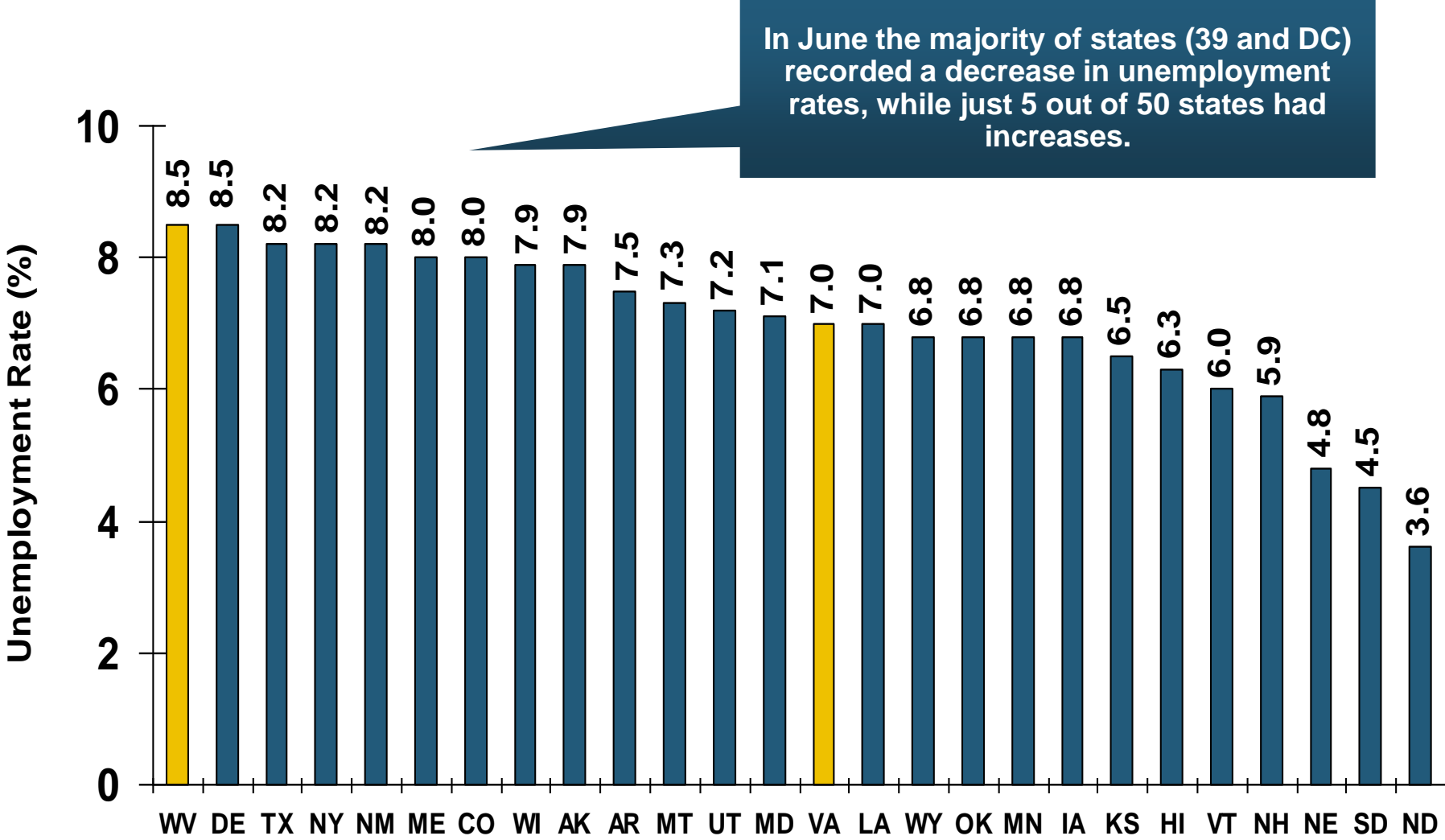
In June the majority of states (39 and DC) recorded a decrease in unemployment rates, while just 5 out of 50 states had increases.



*Provisional figures for June 2010, seasonally adjusted.

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

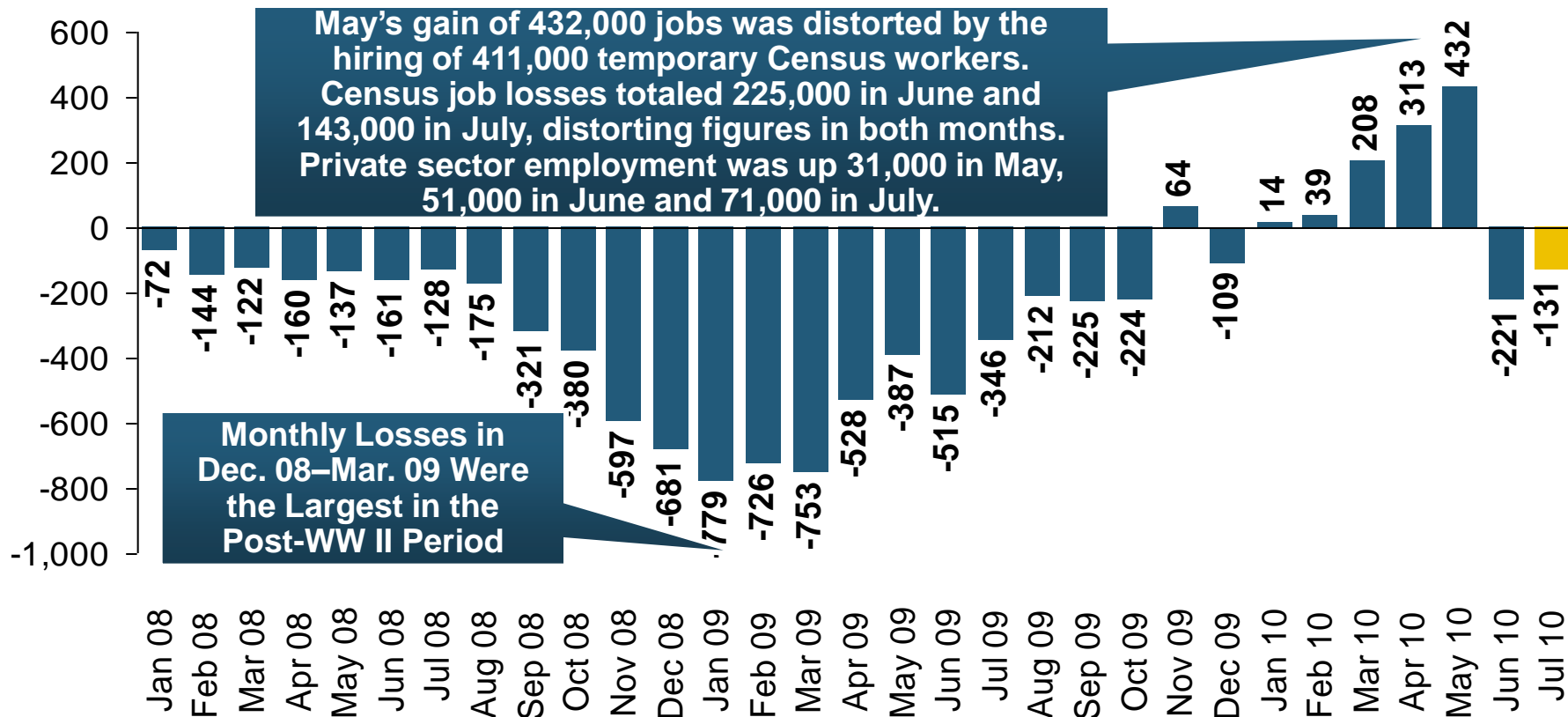
Unemployment Rates By State, June 2010: Lowest 25 States*



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

Monthly Change Employment*

January 2008 through July 2010* (Thousands)



Job Losses Since the Recession Began in Dec. 2007 Peaked at 8.4 Mill in Dec. 09; Stands at 7.7 Million Through June 2010; 14.6 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



Insurance Industry Employment Trends: 1990-2010

Robert P. Hartwig, Ph.D., CPCU, President & Economist

Insurance Information Institute ♦ 110 William Street ♦ New York, NY 10038

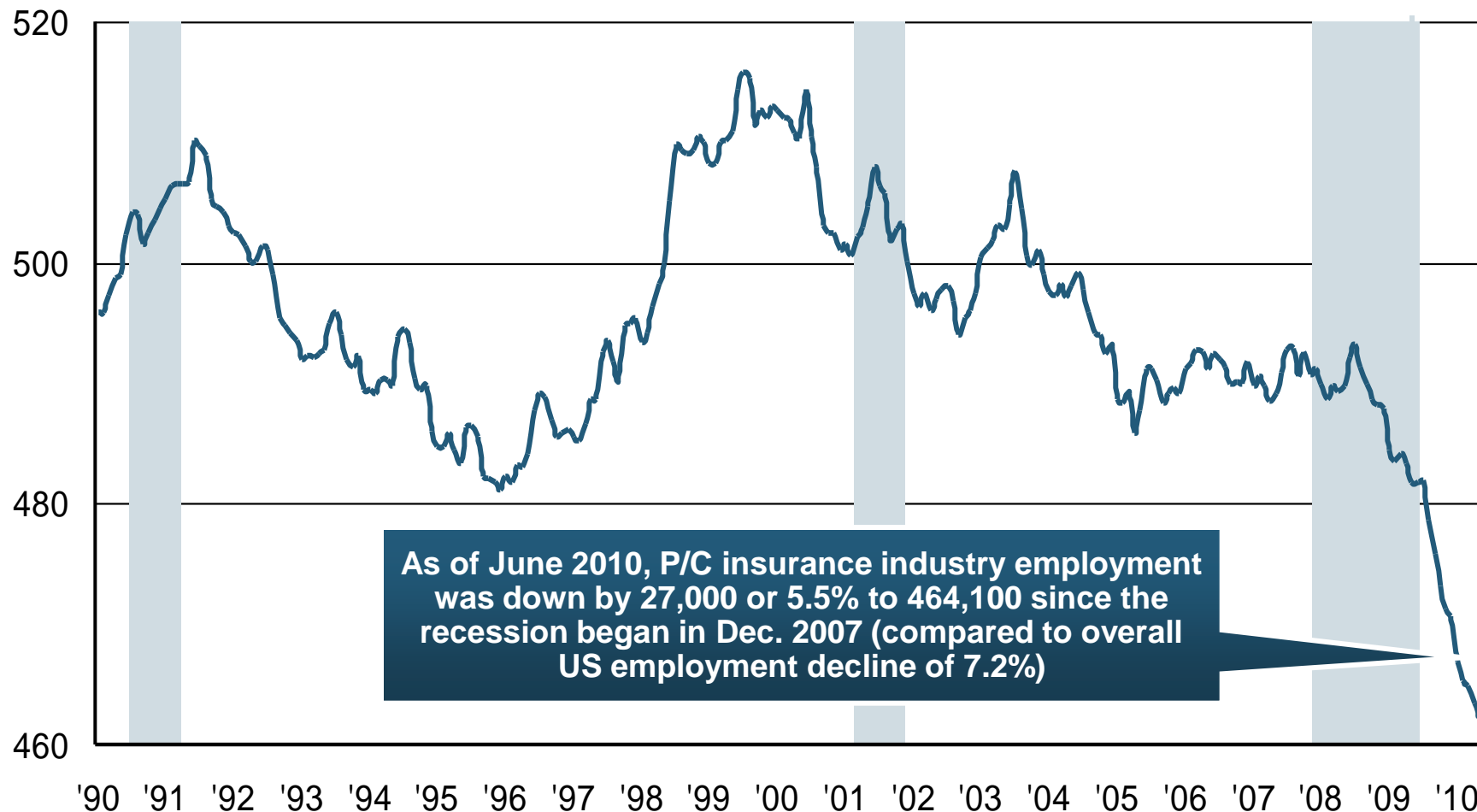
Tel: 212.346.5520 ♦ Cell: 917.453.1885 ♦ bobh@iii.org ♦ www.iii.org

Insurance Industry Employment Trends

**Soft Market, Difficult Economy,
Outsourcing, Productivity
Enhancements and
Consolidation Have Contributed
to Industry's Job Losses**

U.S. Employment in the Direct P/C Insurance Industry: 1990–2010*

Thousands



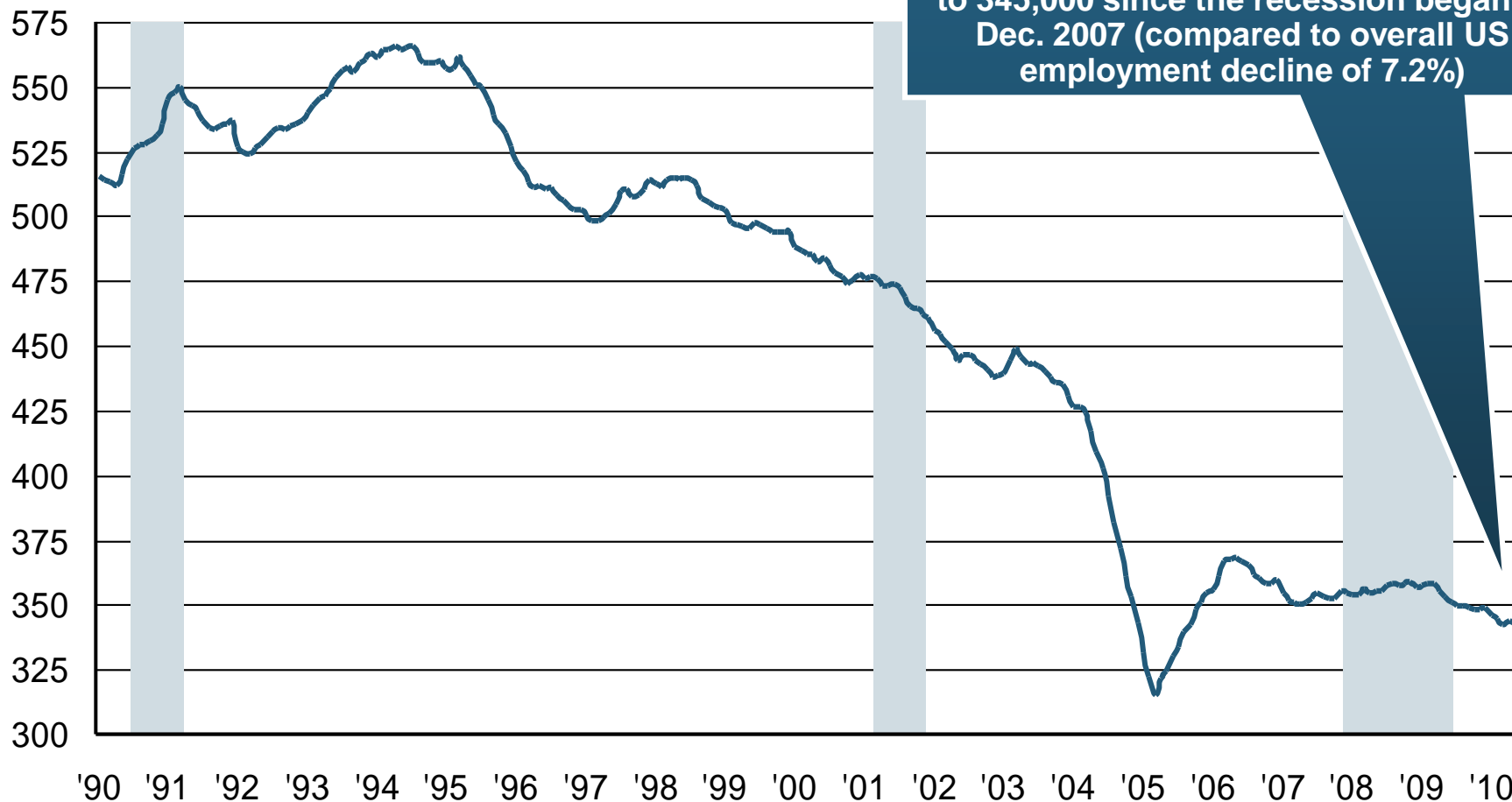
*As of June 2010; Not seasonally adjusted; Does not including agents & brokers

Note: Recessions indicated by gray shaded columns.

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

U.S. Employment in the Direct Life Insurance Industry: 1990–2010*

Thousands



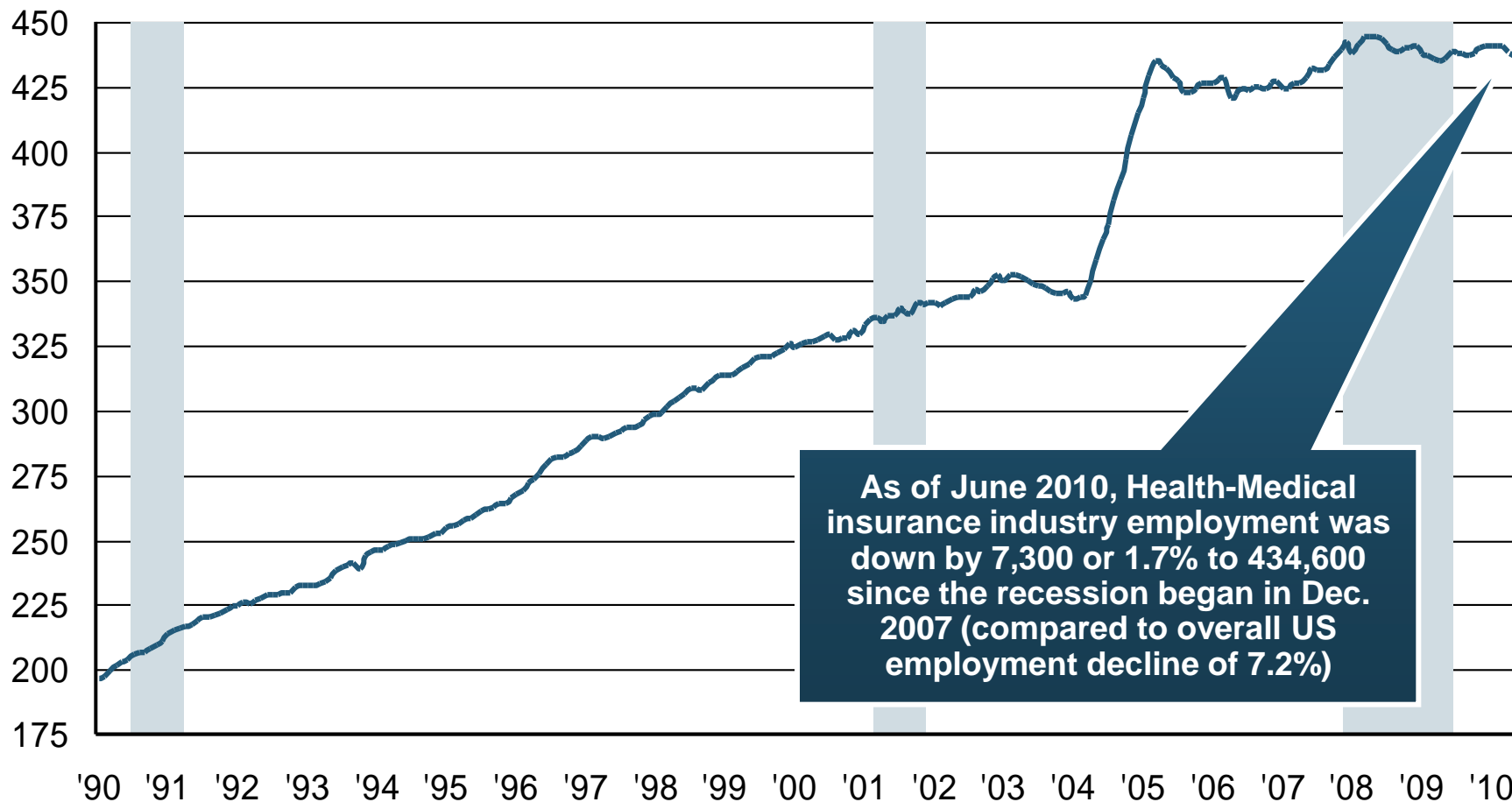
*As of June 2010; Not seasonally adjusted; Does not including agents & brokers

Note: Recessions indicated by gray shaded columns.

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

U.S. Employment in the Direct Health-Medical Insurance Industry: 1990–2010*

Thousands



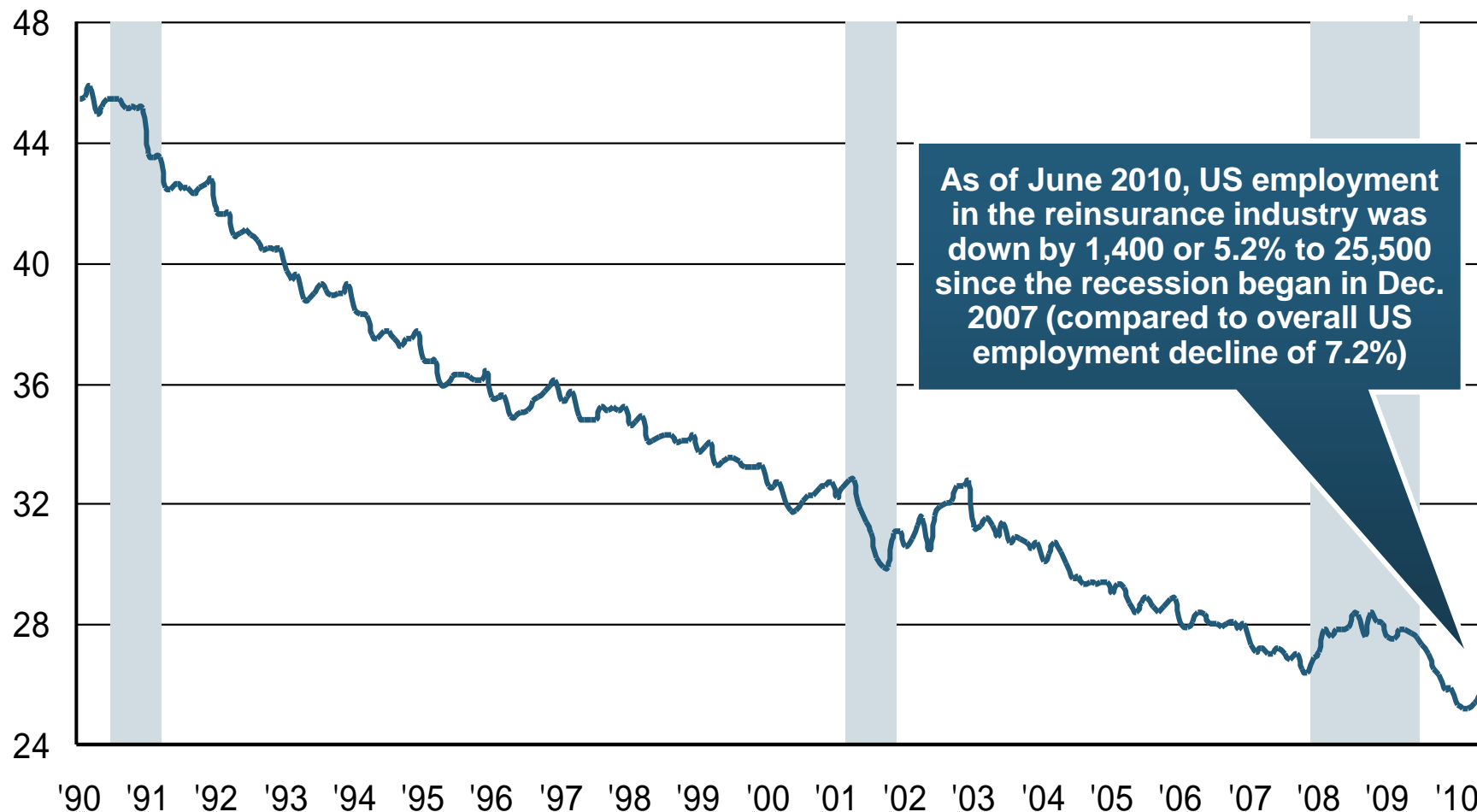
*As of June 2010; Not seasonally adjusted; Does not including agents & brokers

Note: Recessions indicated by gray shaded columns.

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

U.S. Employment in the Reinsurance Industry: 1990–2010*

Thousands



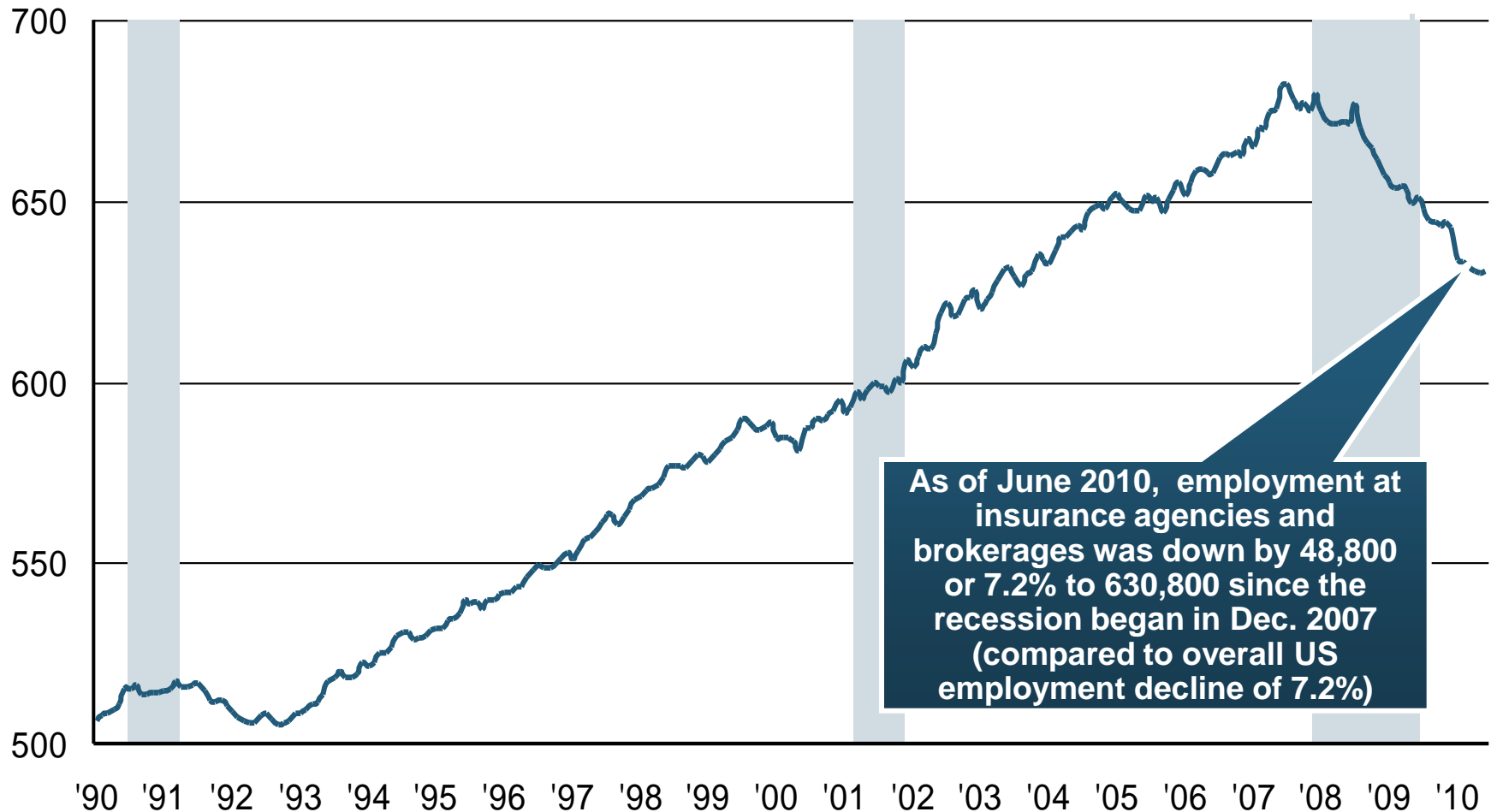
*As of June 2010; Not seasonally adjusted; Does not including agents & brokers

Note: Recessions indicated by gray shaded columns.

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

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

Thousands



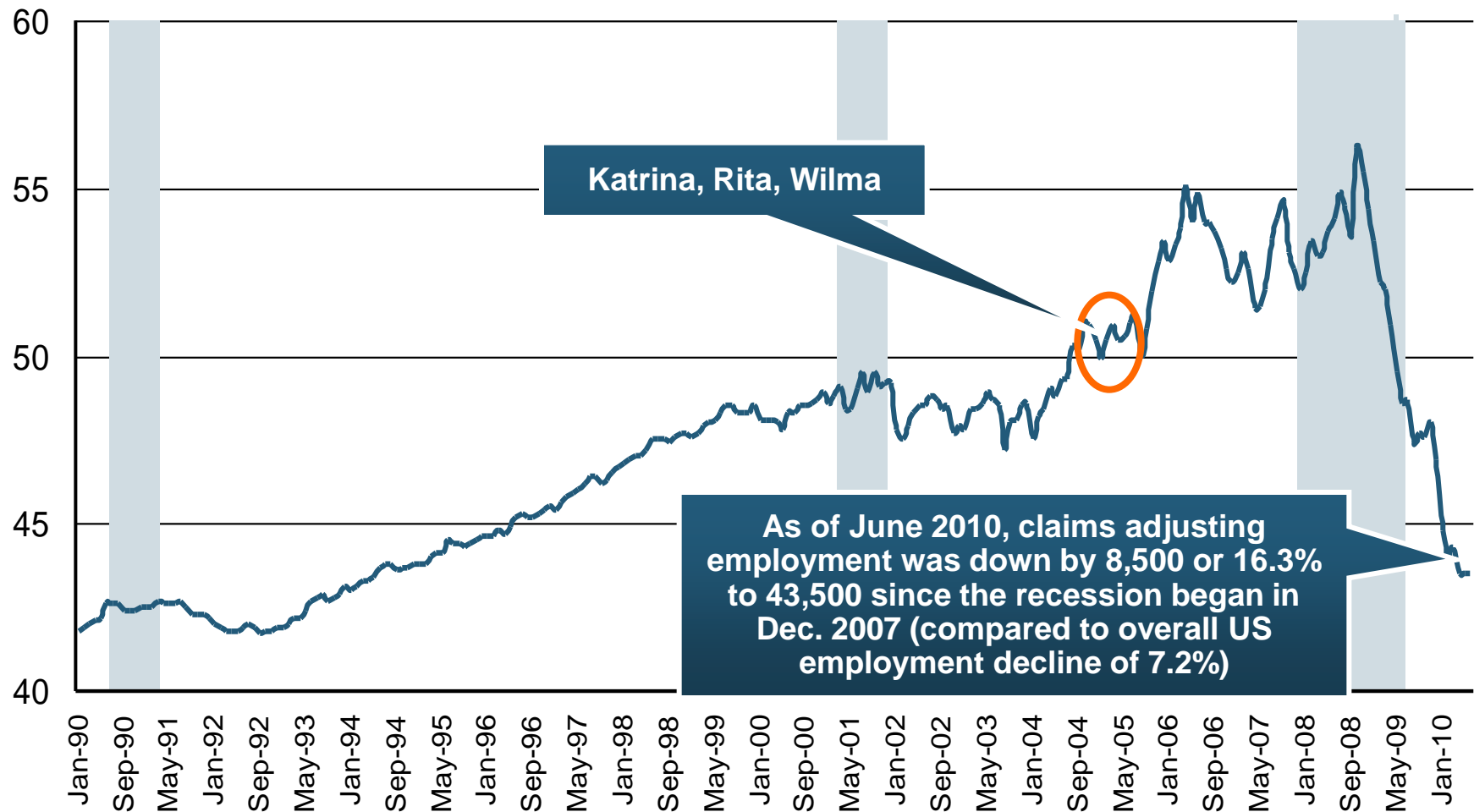
*As of June 2010; Not seasonally adjusted. Includes all types of insurance.

Note: Recessions indicated by gray shaded columns.

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

U.S. Employment in Insurance Claims Adjusting: 1990–2010*

Thousands



*As of June 2010; Not seasonally adjusted.

Note: Recessions indicated by gray shaded columns.

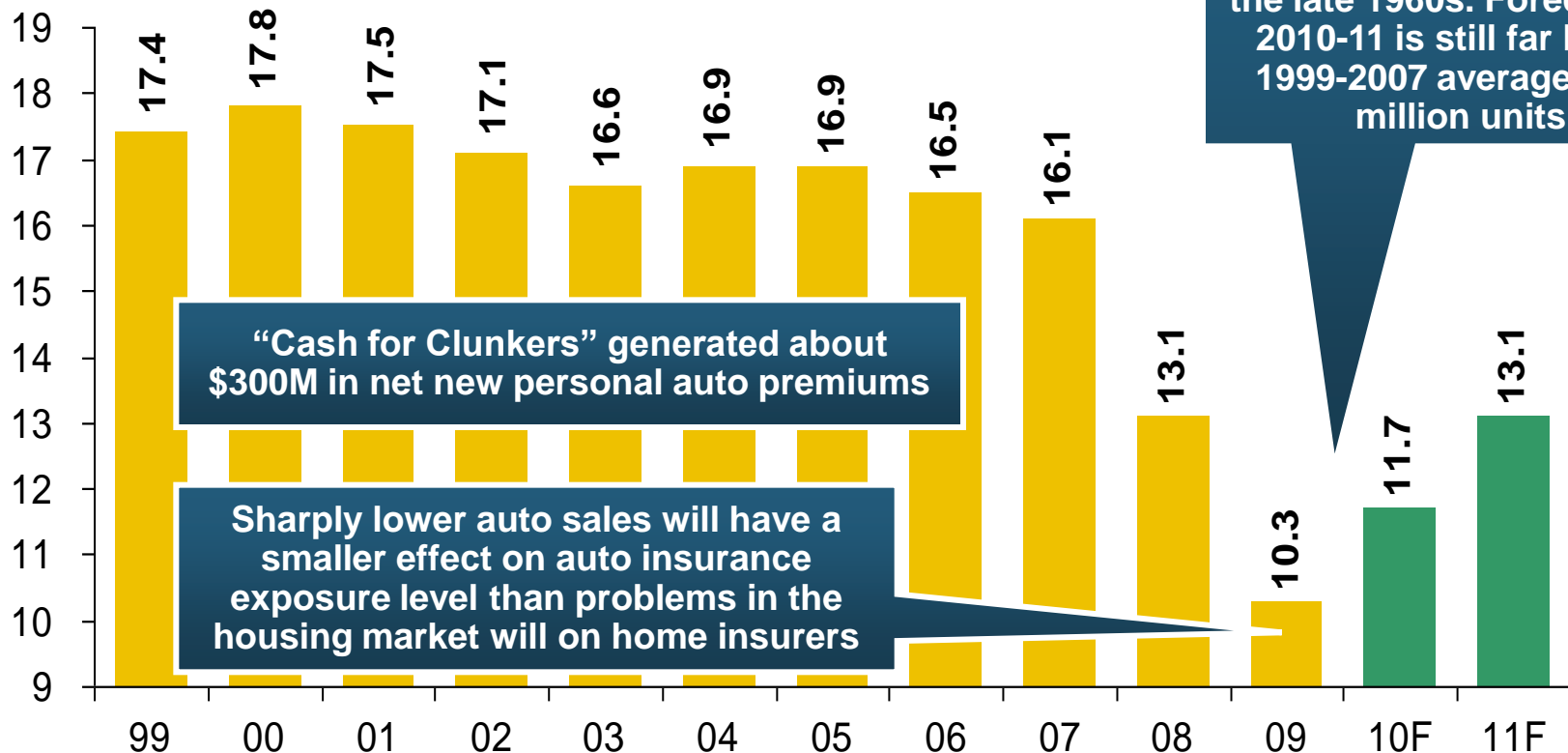
Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

Crisis-Driven Exposure Drivers

**Economic Obstacles
to Growth in P/C Insurance**

Auto/Light Truck Sales, 1999-2011F

(Millions of Units)



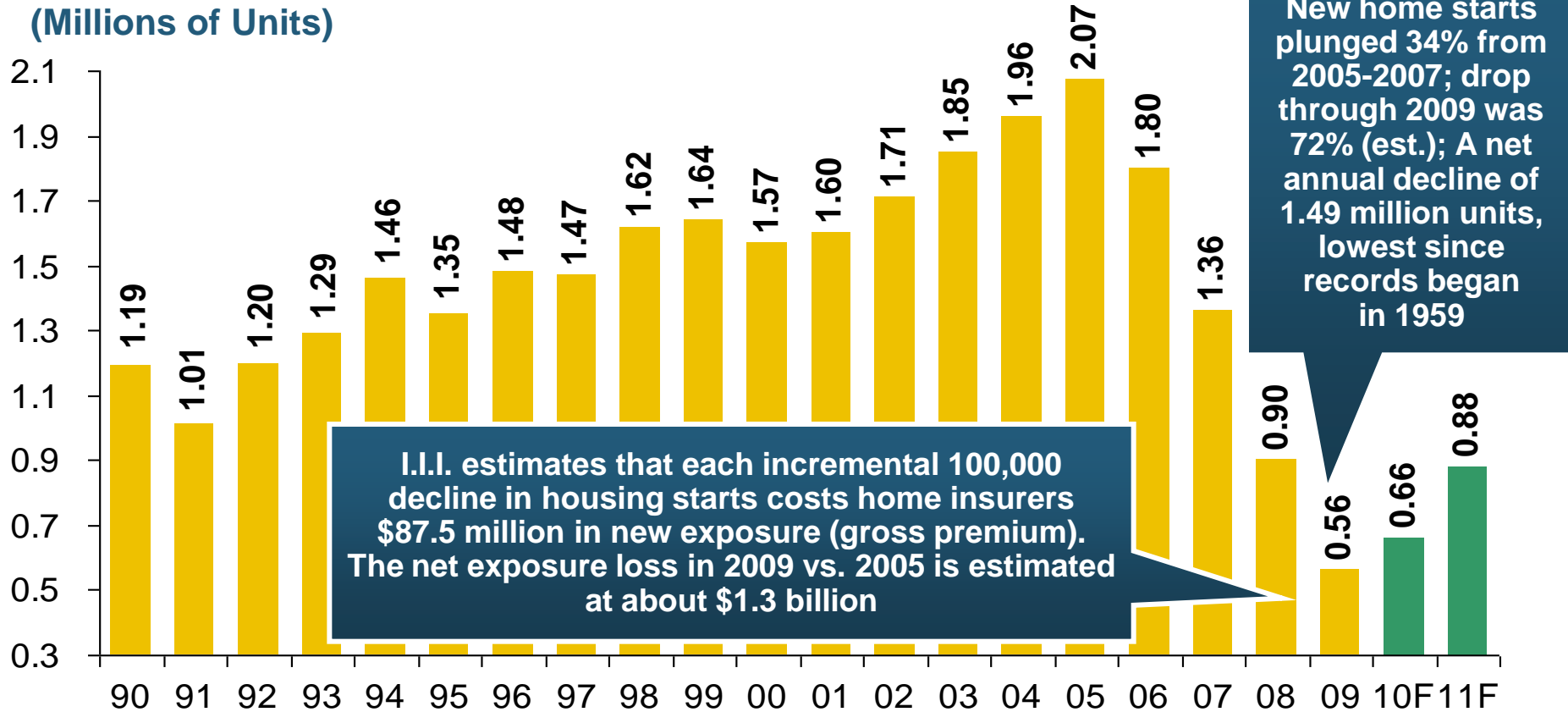
"Cash for Clunkers" generated about \$300M in net new personal auto premiums

Sharply lower auto sales will have a smaller effect on auto insurance exposure level than problems in the housing market will on home insurers

New auto/light truck sales fell to the lowest level since the late 1960s. Forecast for 2010-11 is still far below 1999-2007 average of 17 million units

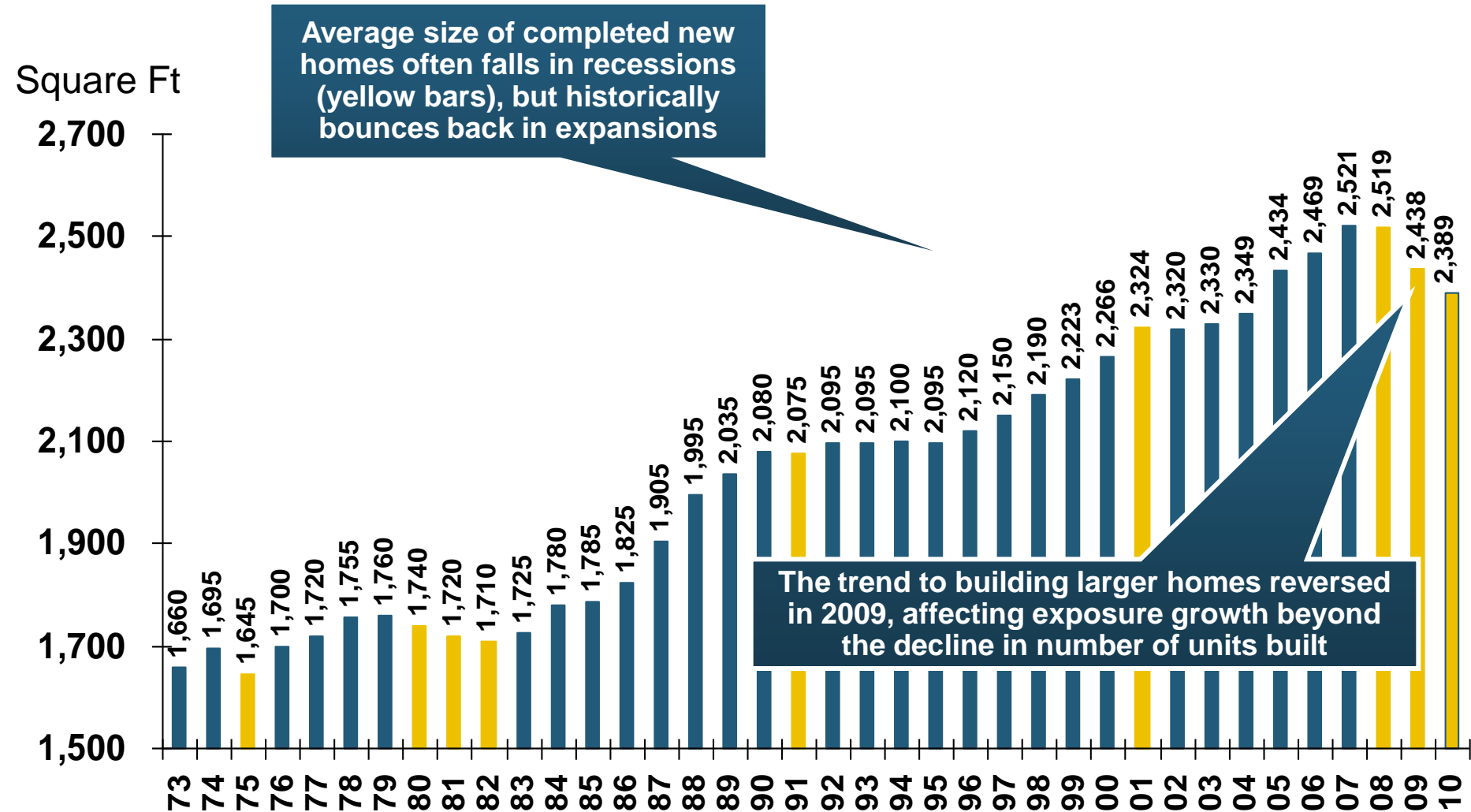
Car/Light Truck Sales Will Recover from the 2009 Low Point, but High Unemployment, Tight Credit Are Still Restraining Sales; Gas Prices Could Once Again Become a Factor, Too

New Private Housing Starts, 1990-2011F

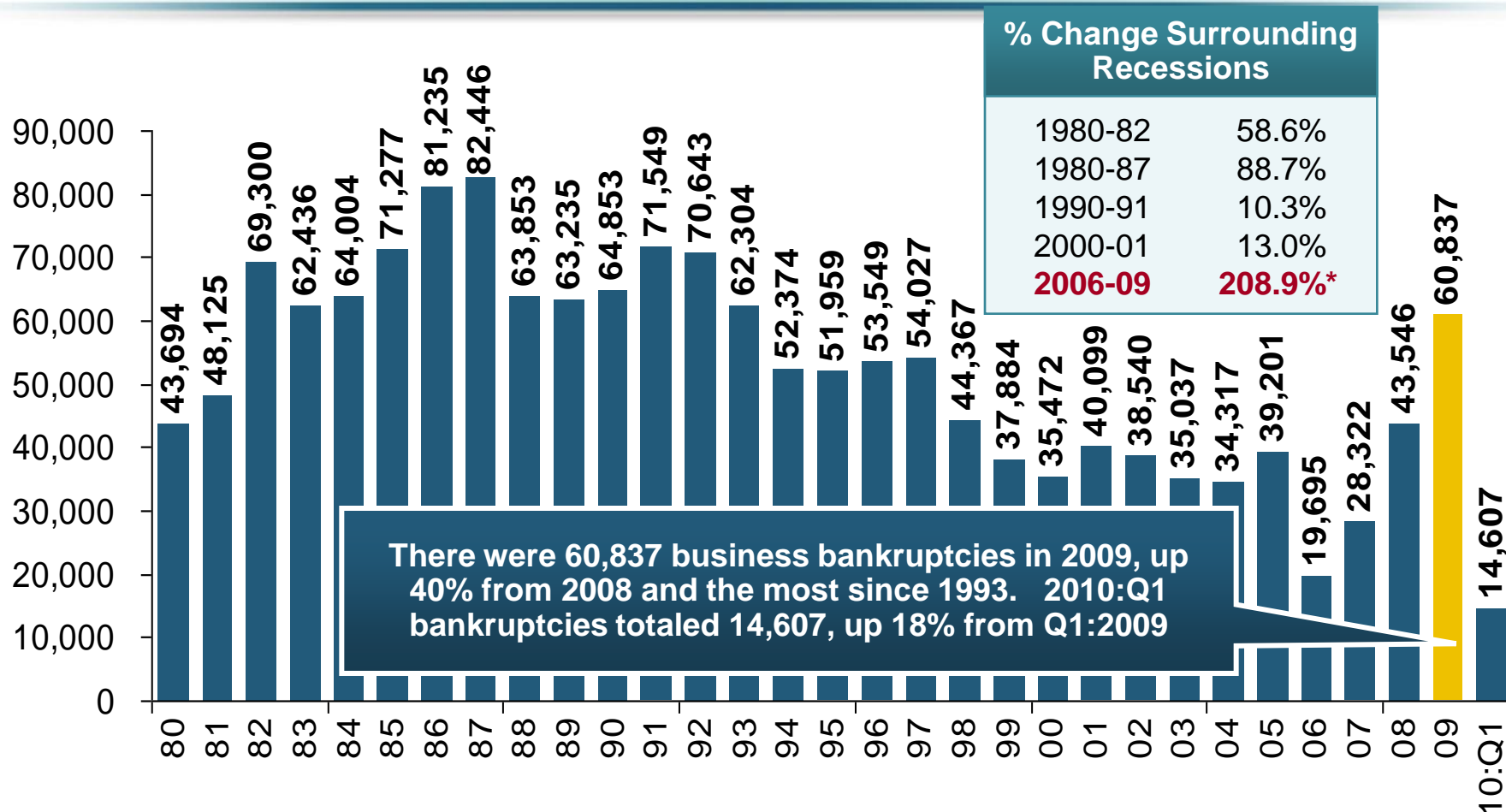


**Little Exposure Growth Likely for Homeowners Insurers
Due to Weak Home Construction Forecast for 2010-2011.
Also Affects Commercial Insurers with Construction Risk Exposure, Surety**

Average Square Footage of Completed New Homes in U.S., 1973-2010:Q1



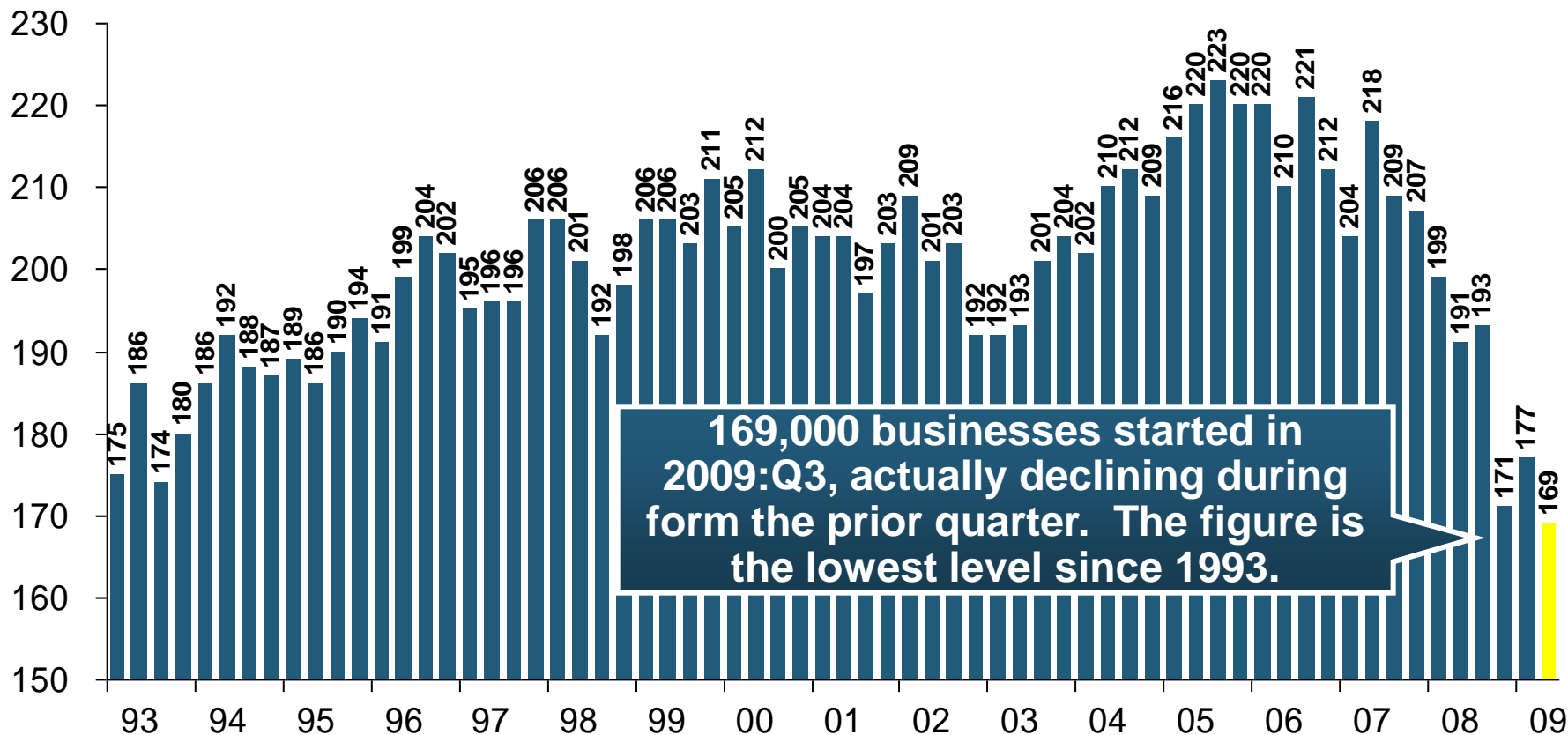
Business Bankruptcy Filings, 1980-2010:Q1



Significant Exposure Implications for All Commercial Lines

Private Sector Business Starts, 1993:Q2 – 2009:Q3*

(Thousands)



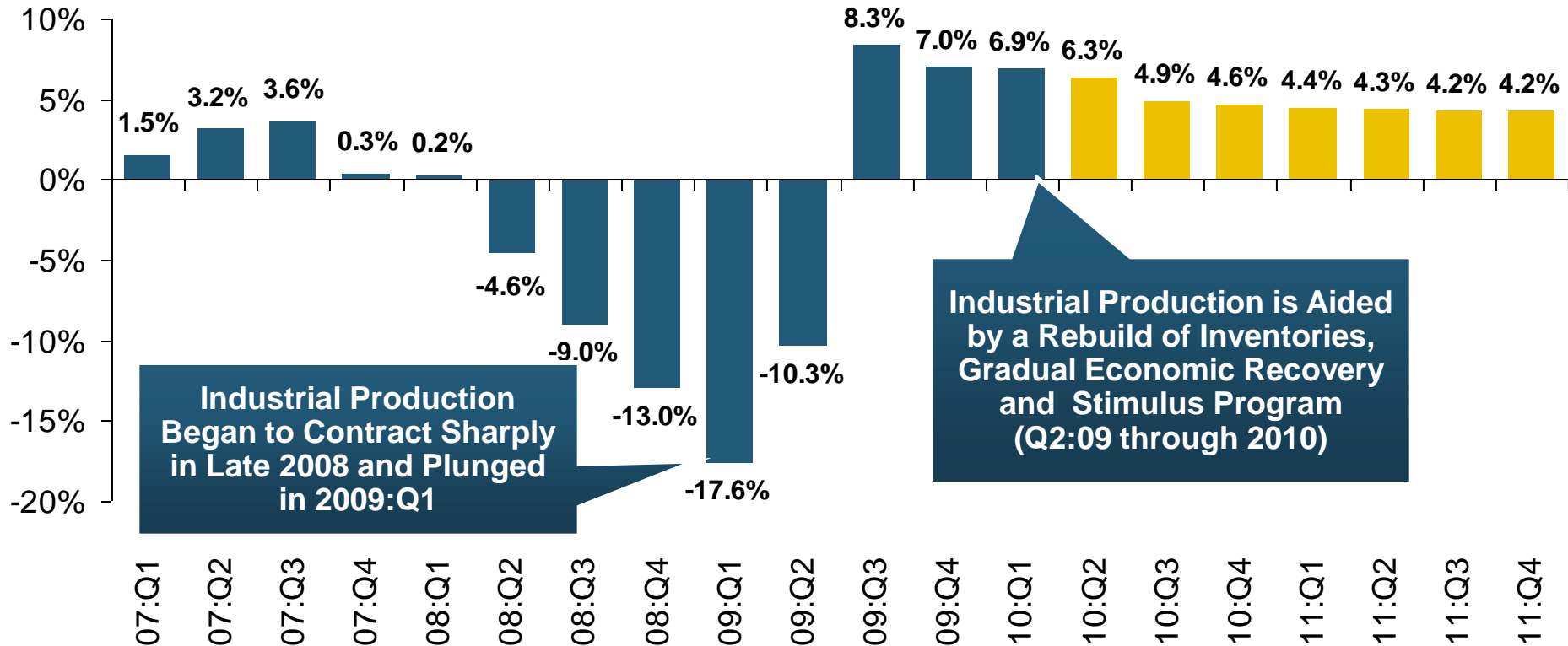
Business Starts Are Down Nearly 20% in the Current Downturn, Holding Back Most Types of Commercial Insurance Exposure

*Latest available as of June 7, 2010, seasonally adjusted

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

Total Industrial Production

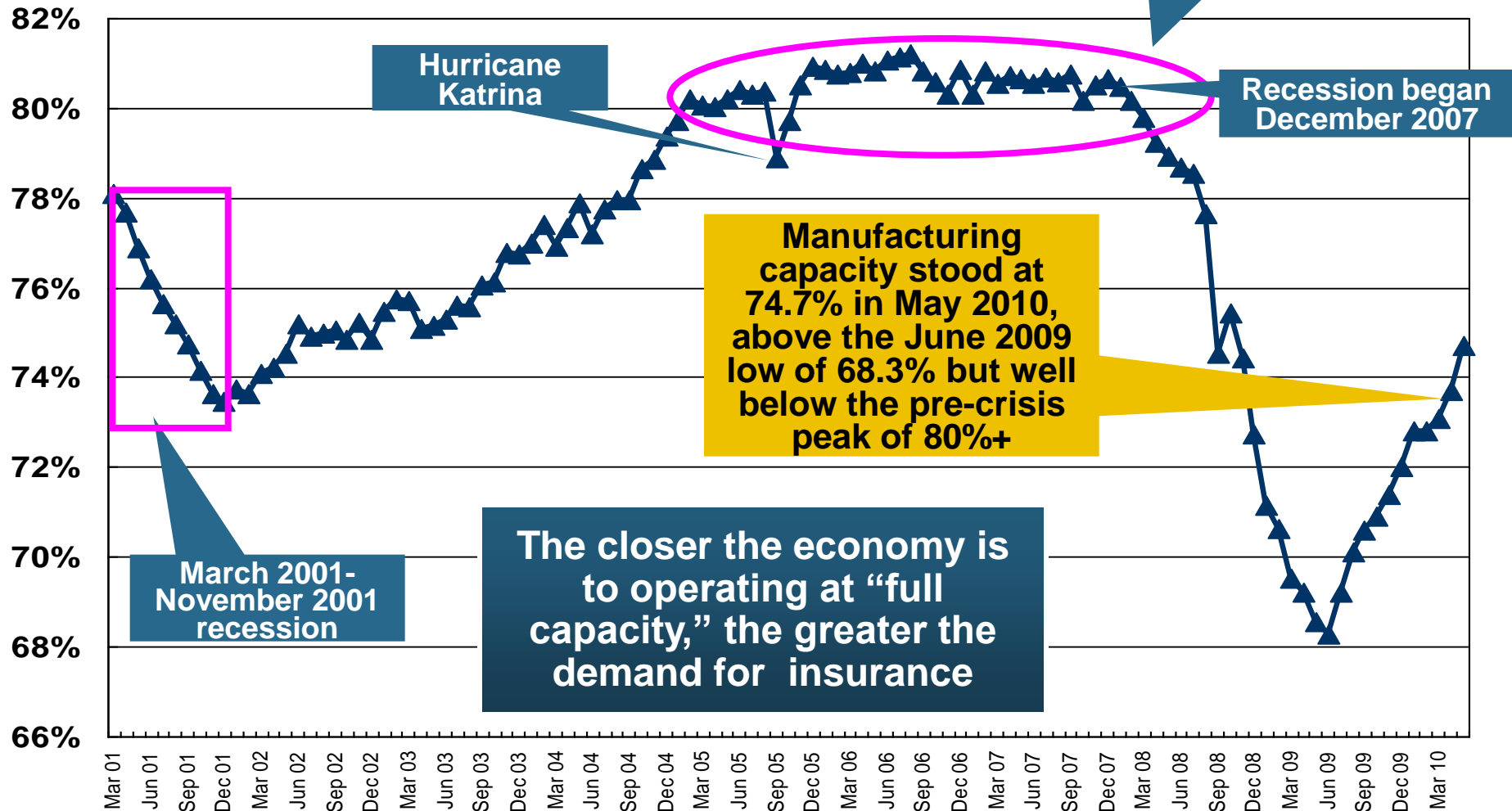
2007:Q1 to 2011:Q4F (%)



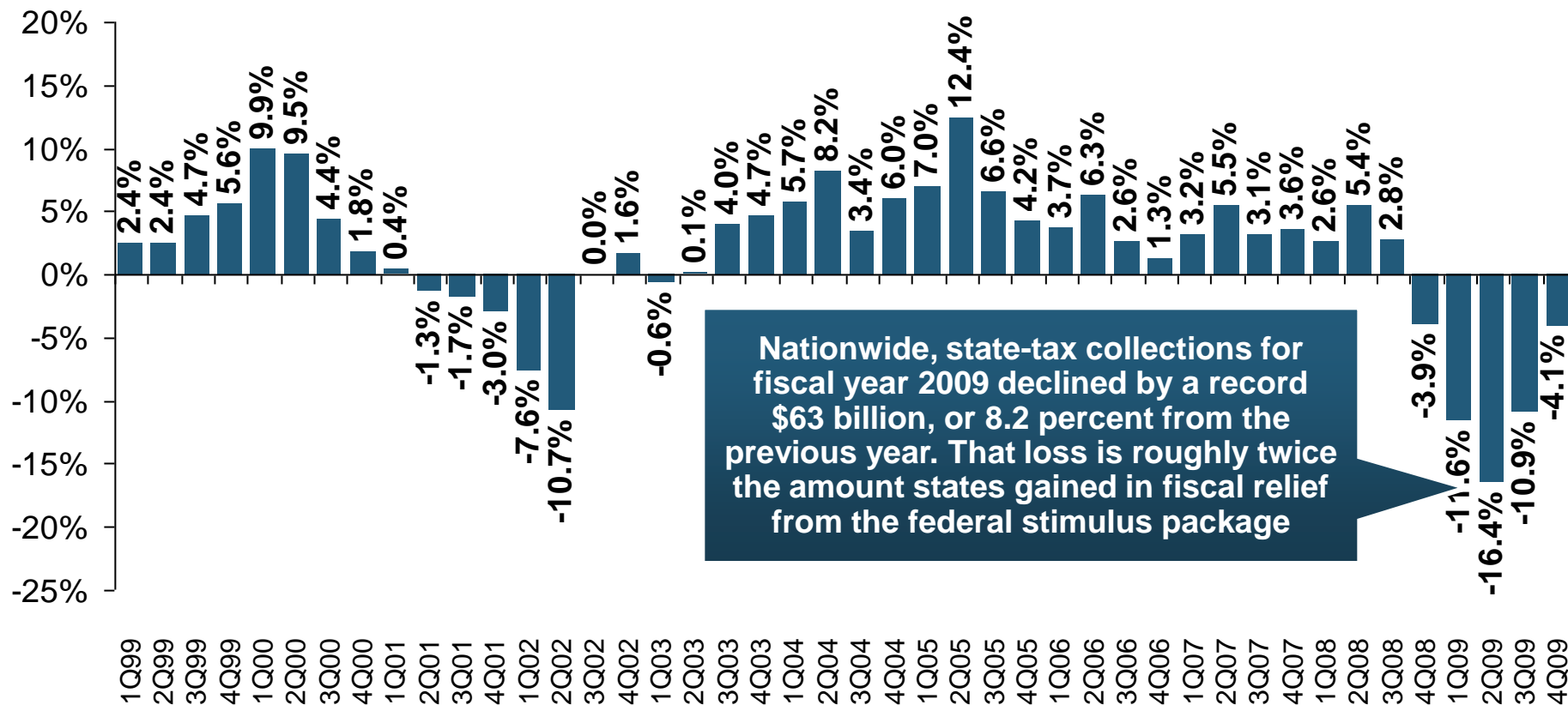
End of Recession in mid-2009, Stimulus Program Benefited Industrial Production and Insurance Exposure Both Directly and Indirectly, Albeit it Very Modestly; Stimulus Effect is Waning in 2010 and Will Be Gone in 2011.

Recovery in Capacity Utilization is a Positive Sign for Energy & Insurance

Percent of
Manufacturing Capacity



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



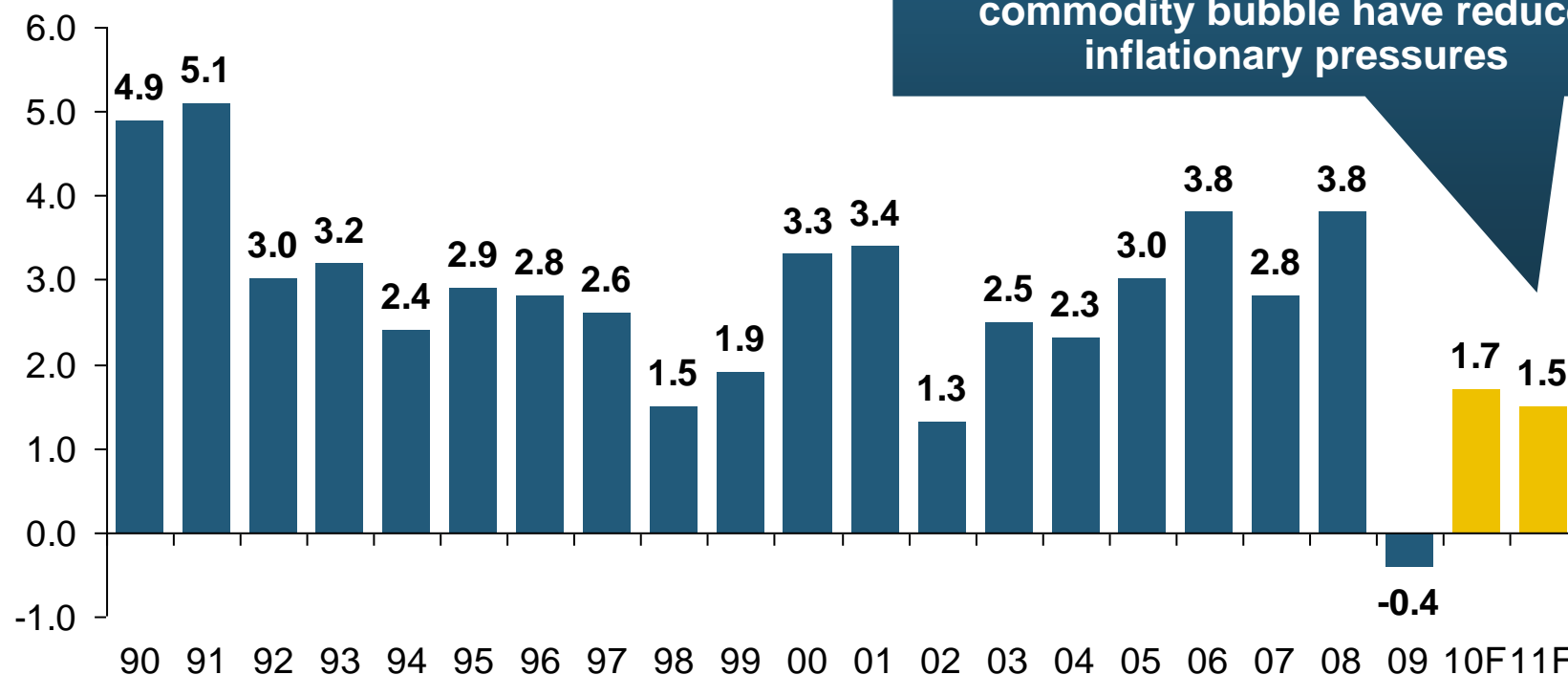
States Revenues Were Down 4.4% in Q4 2009, the 5th Consecutive Quarter of Revenue Decline. This Will Impact Public Infrastructure Spending Significantly and Related Insurance Exposures and Demand.

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

**Mounting Pressure on Claim
Cost Severities?**

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

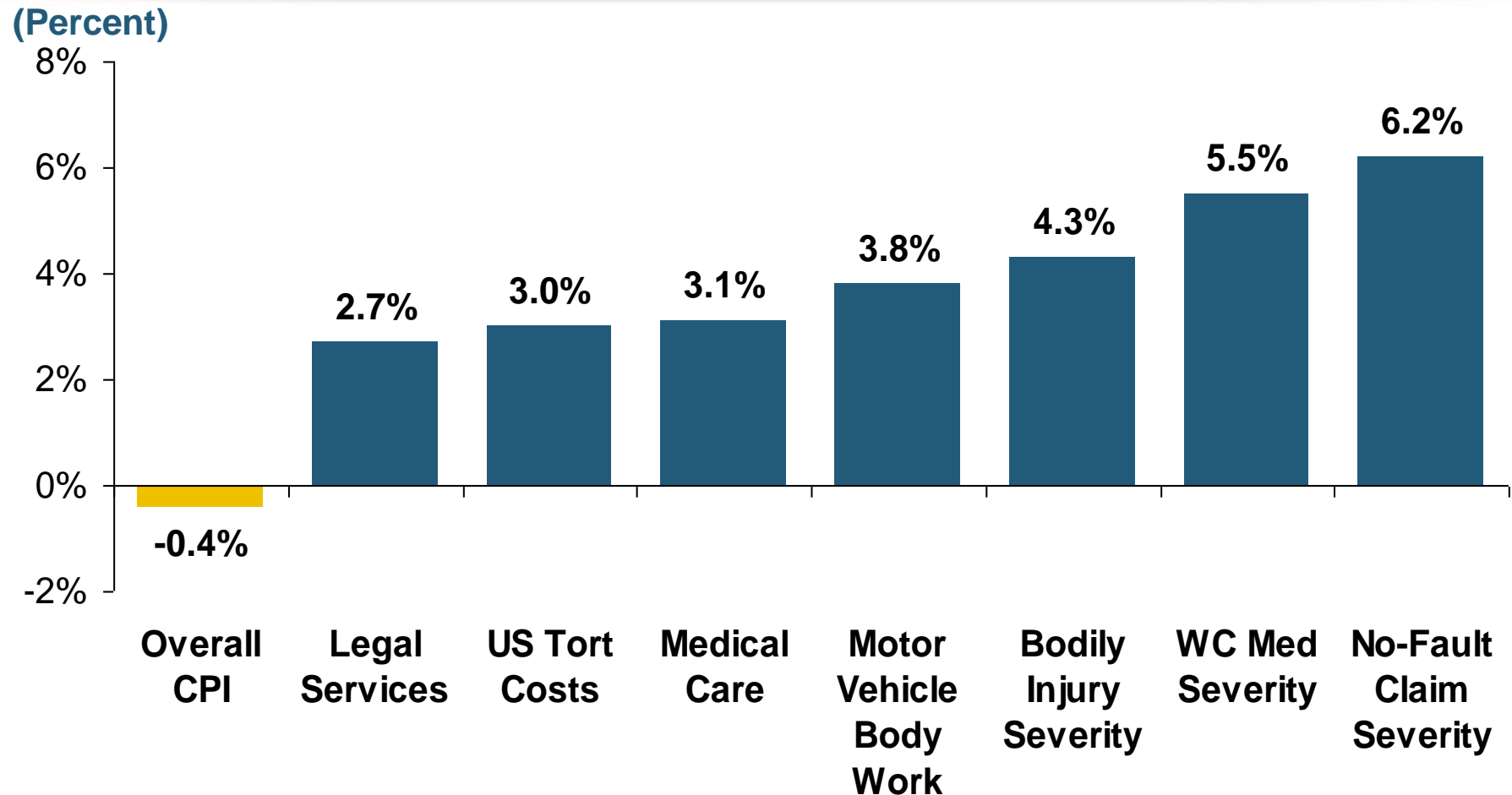
Annual Inflation Rates (%)



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

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

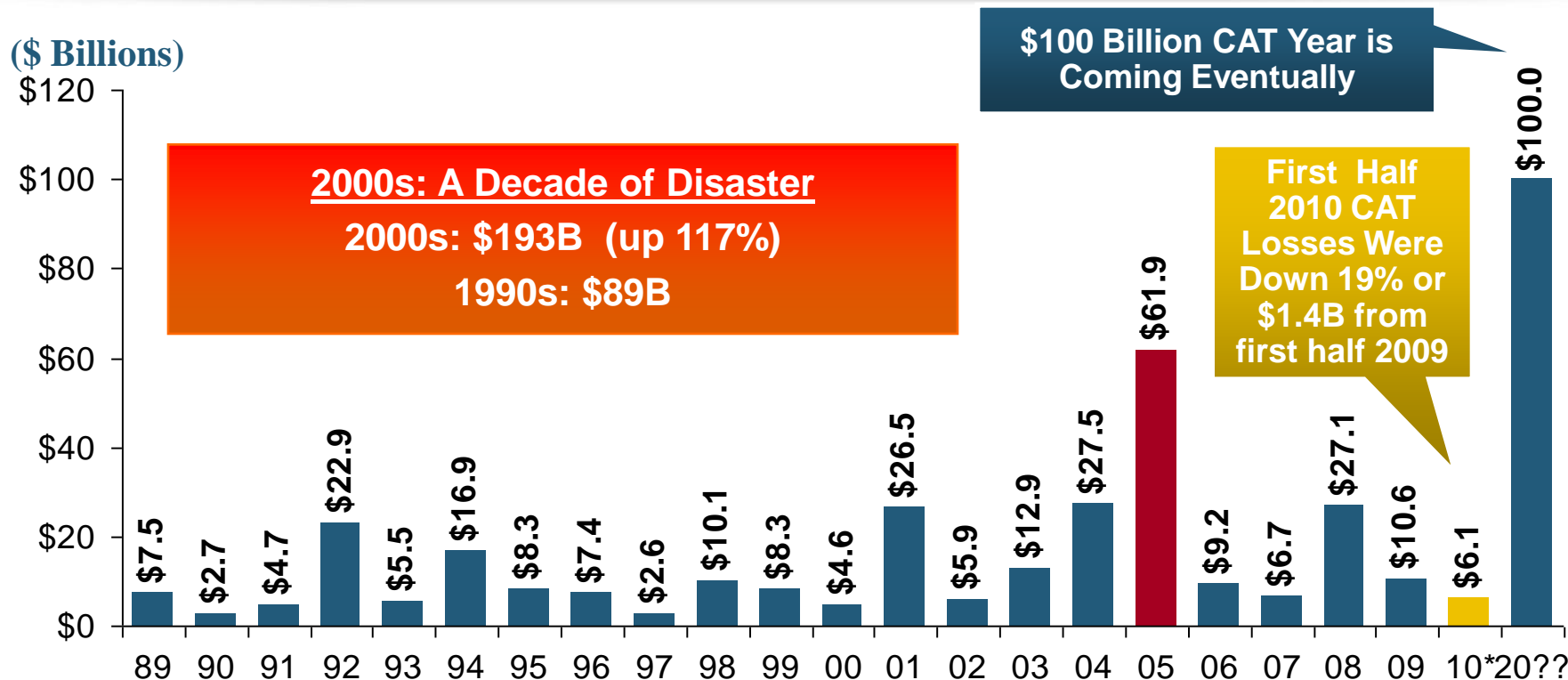


Healthcare and Legal/Tort Costs Are a Major P/C Insurance Cost Driver. These Are Expected to Increase Above the Overall Inflation Rate (CPI) Indefinitely

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.

Catastrophic Loss – Catastrophe Losses Trends Are Trending Adversely

US Insured Catastrophe Losses



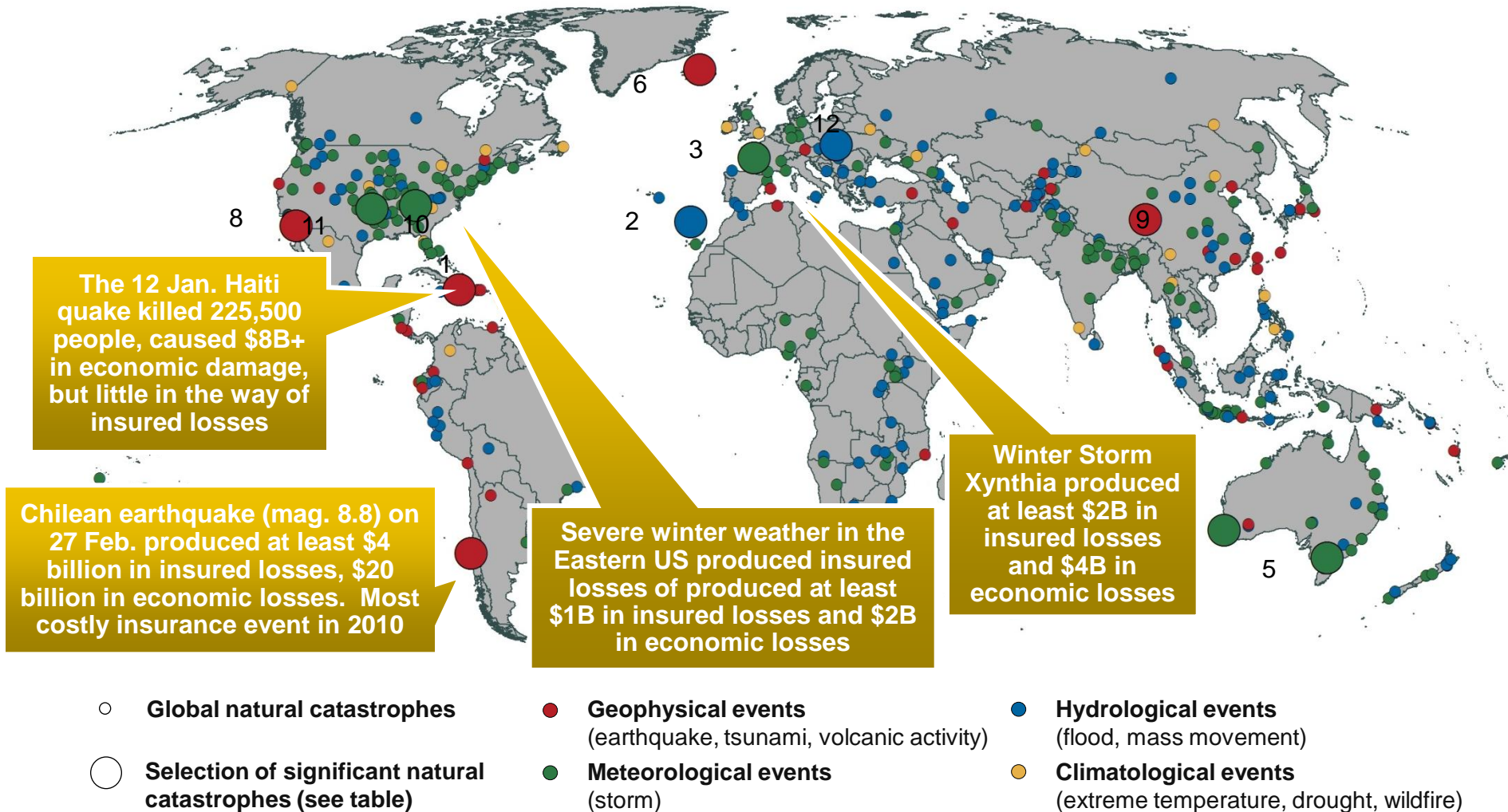
2010 CAT Losses Are Running Below 2009, So Far
Figures Do Not Include an Estimate of Deepwater Horizon Loss

*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.

Global Natural Catastrophes: January – June 2010



Largest International Oil Well Blowouts by Volume, as of July 12, 2010*

Date	Well	Location	Bbl Spilled
April 20 2010- July 12, 2010	Deepwater Horizon	Gulf of Mexico, USA	est. 4,900,000
June 1979-April 1980	Ixtoc I	Bahia del Campeche, Mexico	3,300,000
October 1986	Abkatun 91	Bahia del Campeche, Mexico	247,000
April 1977	Ekofisk Bravo	North Sea, Norway	202,381
January 1980	Funiwa 5	Forcados, Nigeria	200,000
October 1980	Hasbah 6	Gulf, Saudi Arabia	105,000
December 1971	Iran Marine International	Gulf, Iran	100,000
January 1969	Alpha Well 21 Platform A	Pacific, CA, USA	100,000
March 1970	Main Pass Block 41 Platform C	Gulf of Mexico	65,000
October 1987	Yum II/Zapoteca	Bahia del Campeche, Mexico	58,643
December 1970	South Timbalier B-26	Gulf of Mexico, USA	53,095

*Date well was capped. Federal government estimate as of August 2, 2010. Does not include offset for any amounts recovered.

Source: American Petroleum Institute (API), 09/18/2009; <http://www.api.org/ehs/water/spills/upload/356-Final.pdf> and updates from the Insurance Information Institute.

Probability of Landfall of at Least One Major Hurricane (CAT 3-4-5) in 2010*

Region	Average Over Last Century	2010 Forecast*
Entire U.S. Coastline	52%	76%
U.S. East Coast Incl. FL Peninsula	31%	51%
Gulf Coast from FL Panhandle to Brownsville, TX	30%	50%
Caribbean	42%	65%

The Probability of a Major Hurricane Making Landfall Somewhere Along the US Coast is Greatly Elevated in 2010, Including a 50% Chance Along the Oil Spill-Impacted Gulf Coast

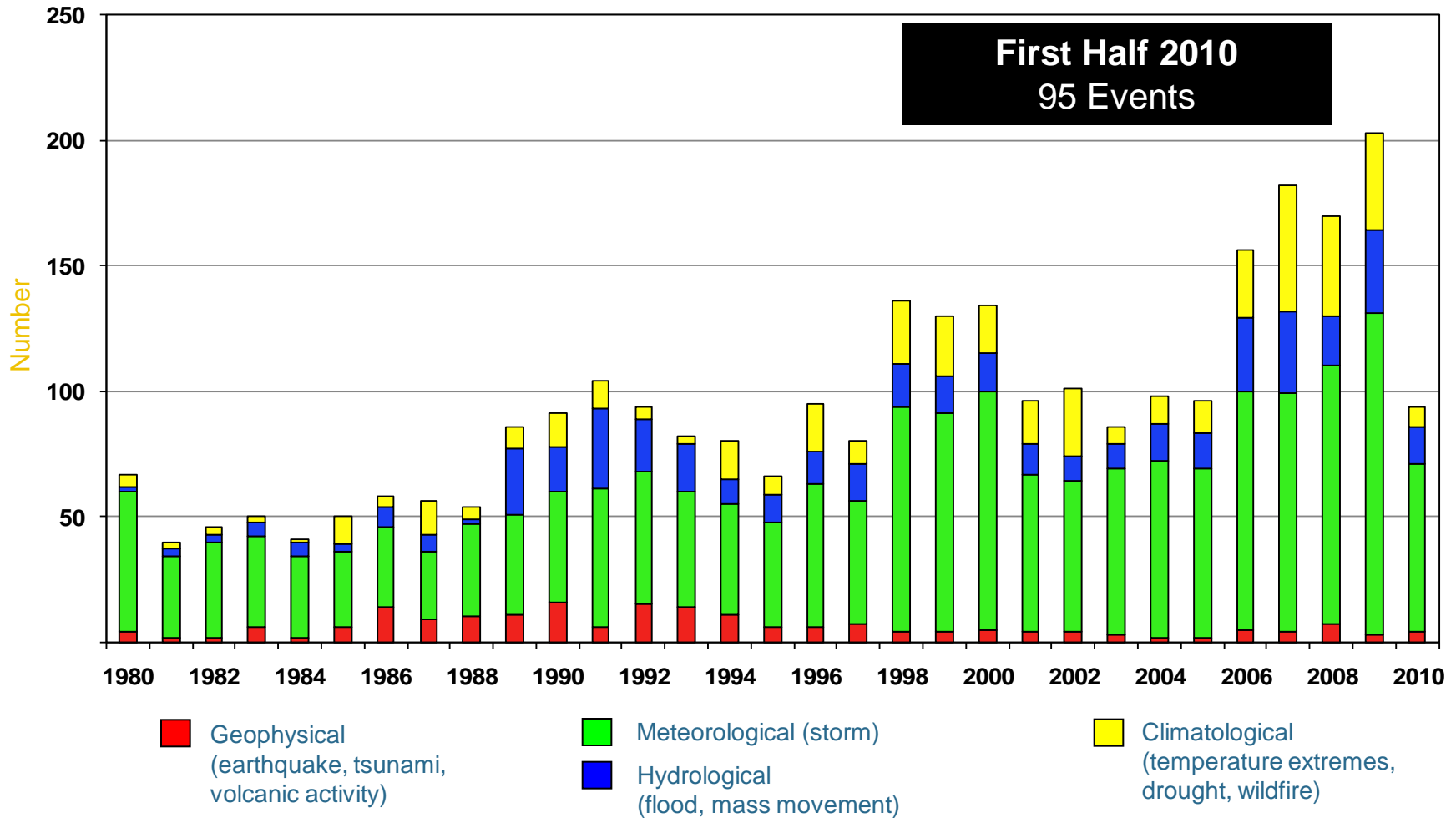
*Forecast as of June 2, 2010.

Source: Colorado State University, Department of Atmospheric Sciences; Insurance Information Institute.

Natural Disasters in the United States, 1980 – 2010

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

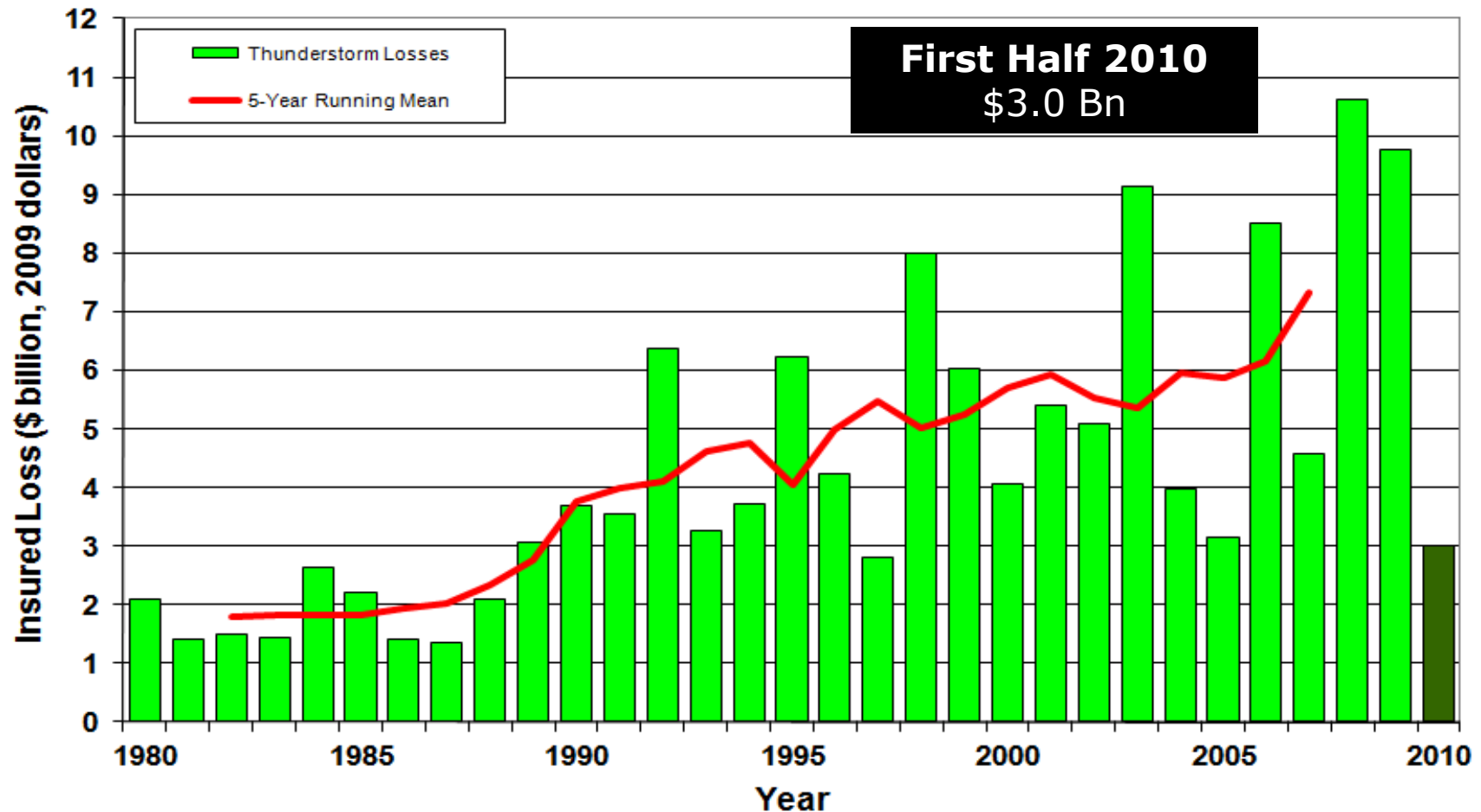
Number of events in first half of 2010 is close to the annual totals from five of past ten years.



U.S. Thunderstorm Loss Trends

Annual Totals 1980 – 2009 vs. First Half 2010

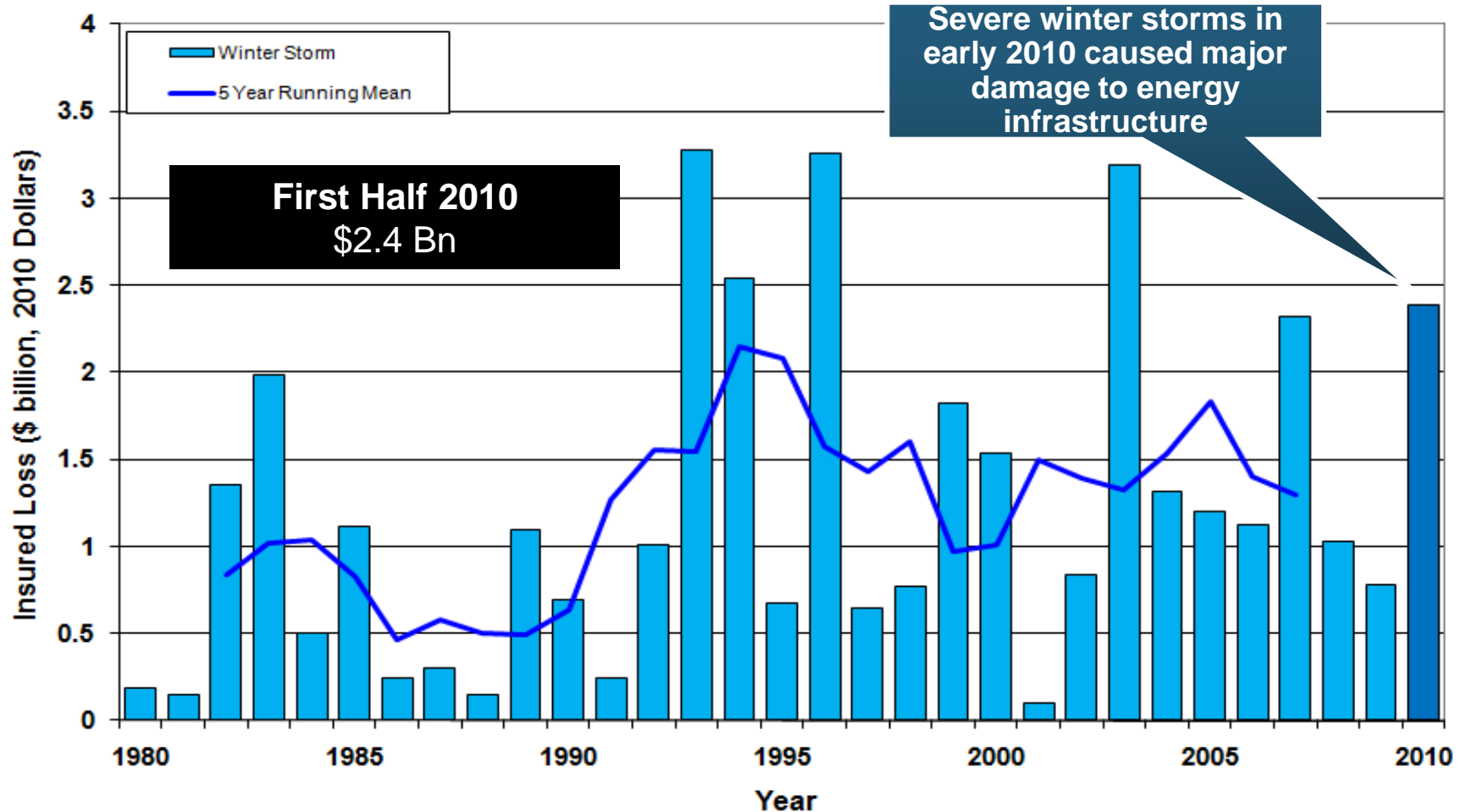
Thunderstorm losses have quadrupled since 1980.



U.S. Winter Storm Loss Trends

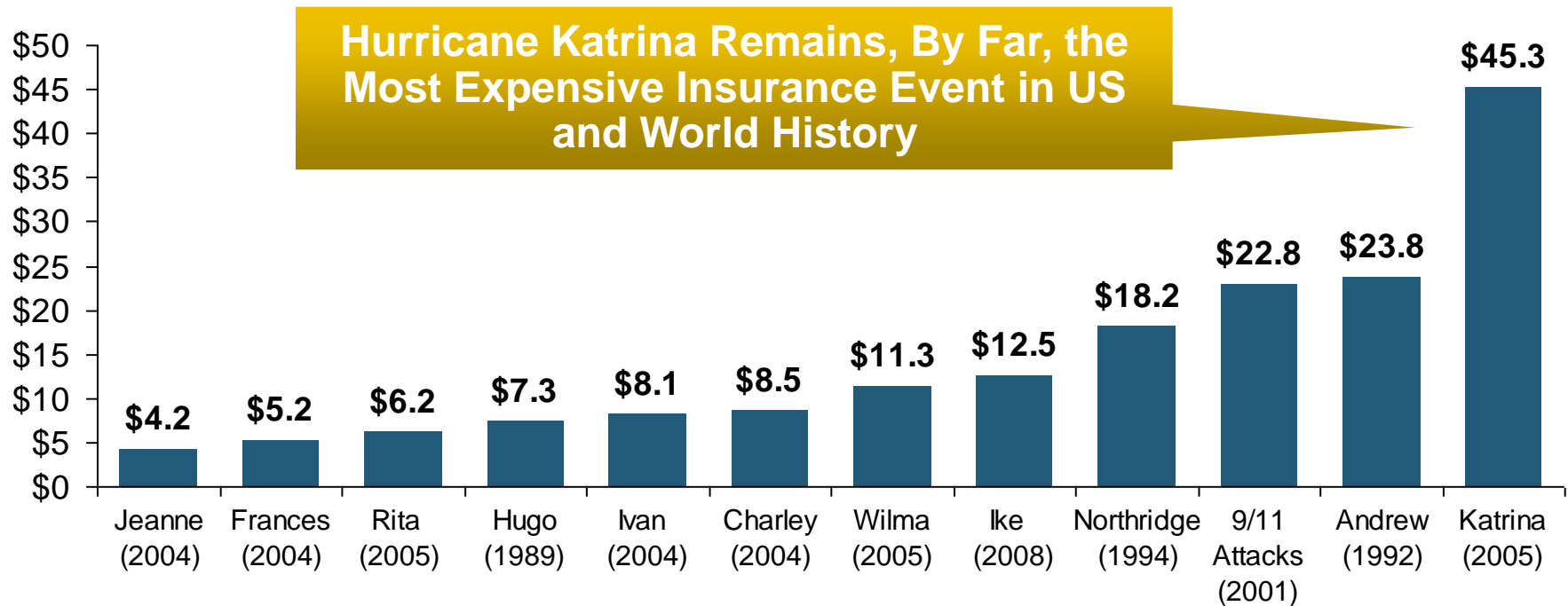
Annual totals 1980 – 2009 vs. First Half 2010

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



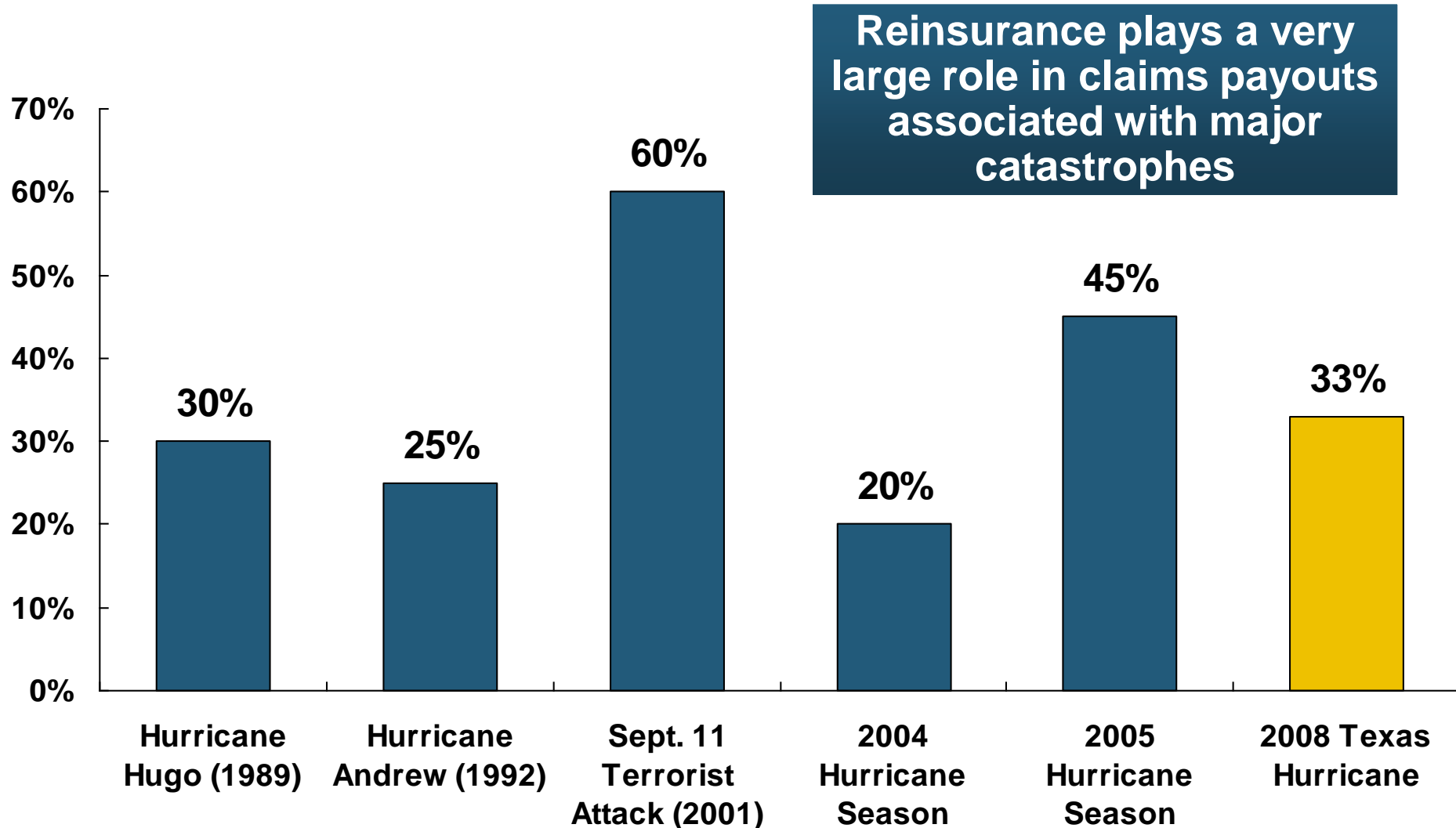
Top 12 Most Costly Disasters in US History

(Insured Losses, 2009, \$ Billions)



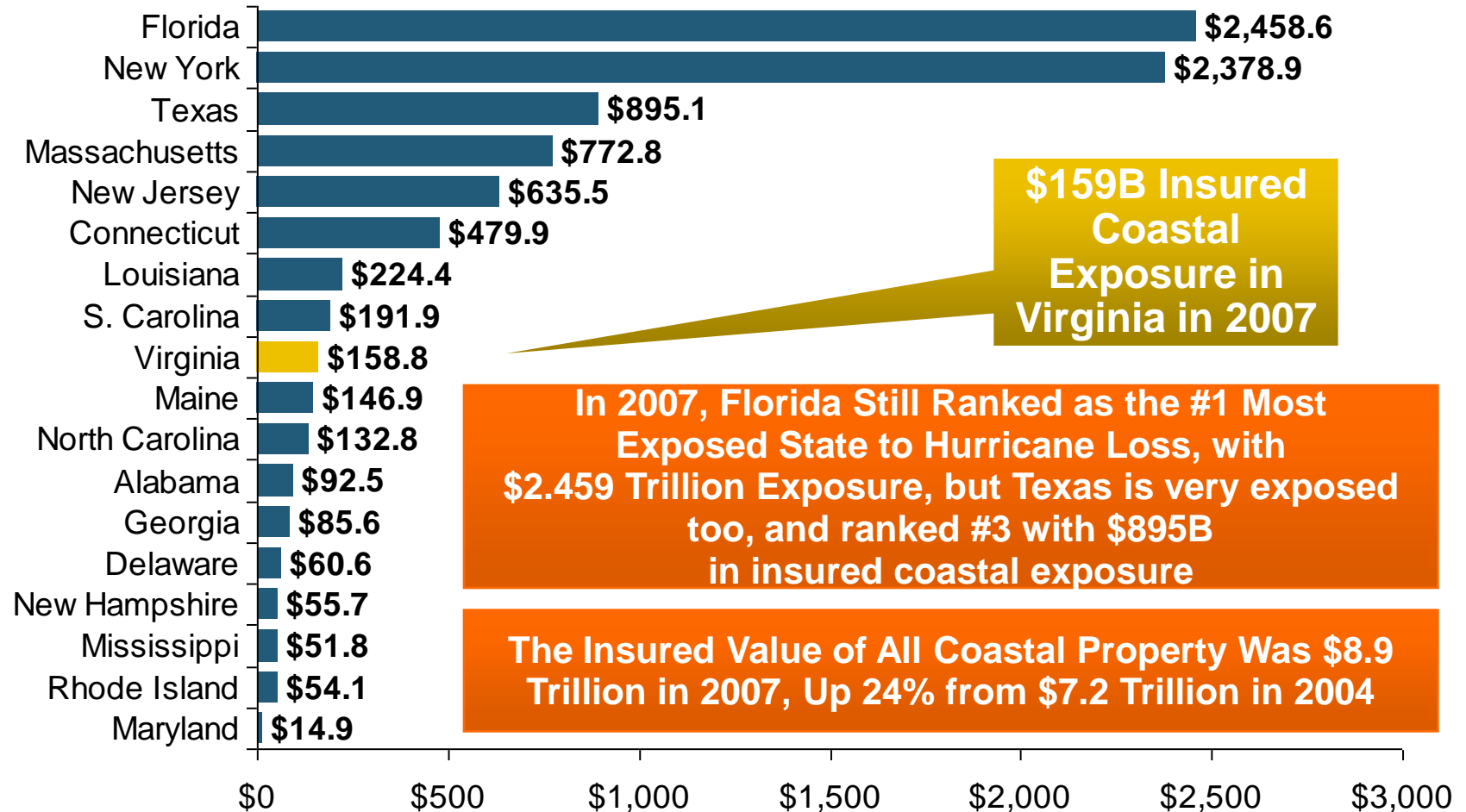
**8 of the 12 Most Expensive Disasters in US History
Have Occurred Since 2004;
*8 of the Top 12 Disasters Affected FL***

Share of Losses Paid by Reinsurers for Major Catastrophic Events



Total Value of Insured Coastal Exposure

(2007, \$ Billions)



Insurance Information Institute Online:

www.iii.org

*Thank you for your time
and your attention!*

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