After the Crisis: Overview and Outlook for the P/C Insurance Industry

Insurance Information Institute
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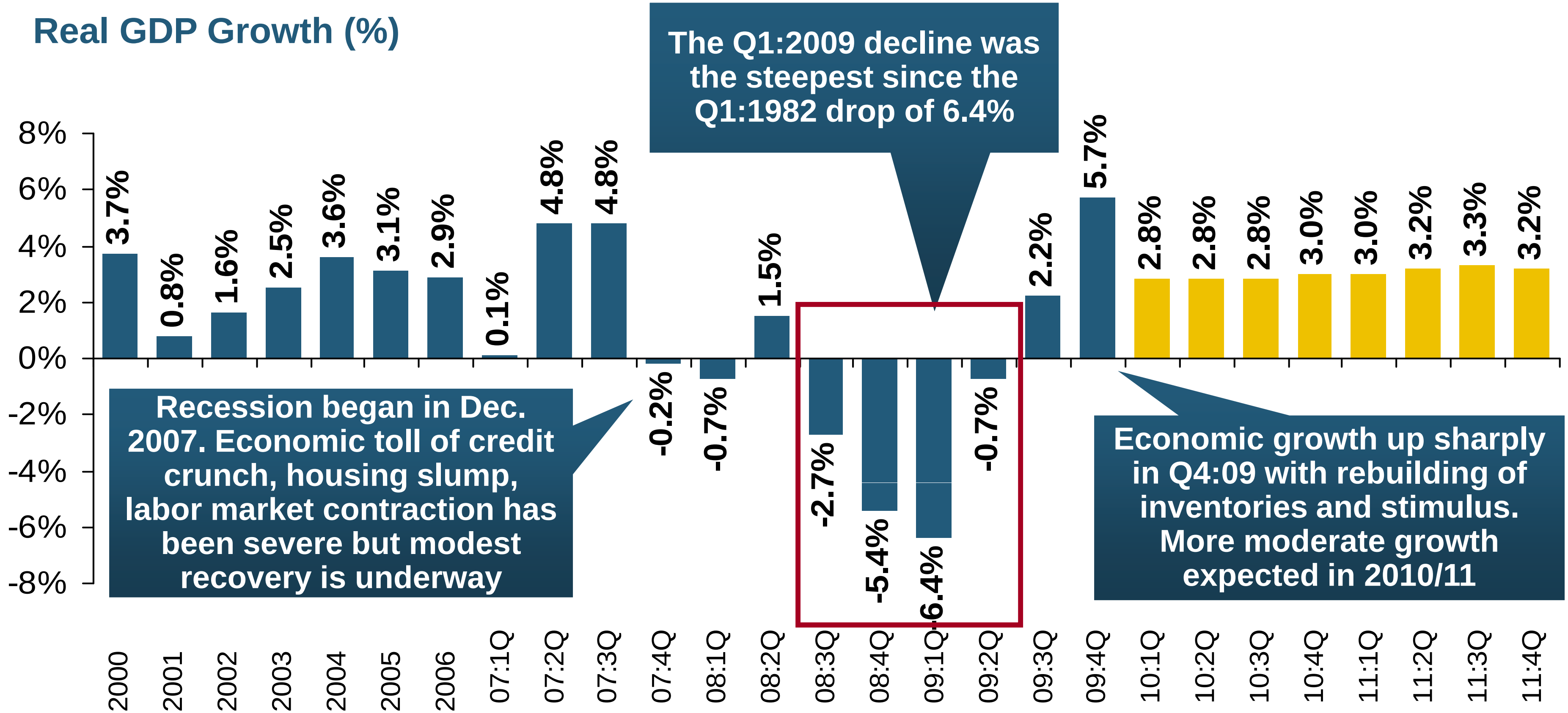
Presentation Outline

- **The Economic Storm: Financial Crisis & Recession**
  - Exposure, Growth & Profitability
- **Key Threats and Issues Facing P/C Insurers Through 2015**
- **Regulatory Reform**
- **Financial Strength & Ratings**
  - Key Differences Between Insurer and Bank Performance During Crisis
- **Insurance Industry Financial Overview & Outlook**
  - Profitability
  - Premium Growth
  - Underwriting Performance: Commercial & Personal Lines
  - Financial Market Impacts
  - Merger & Acquisition Activity
- **Capital & Capacity**
- **Catastrophe Loss Trends**
- **Q&A**

The Economic Storm

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

Real GDP Growth*

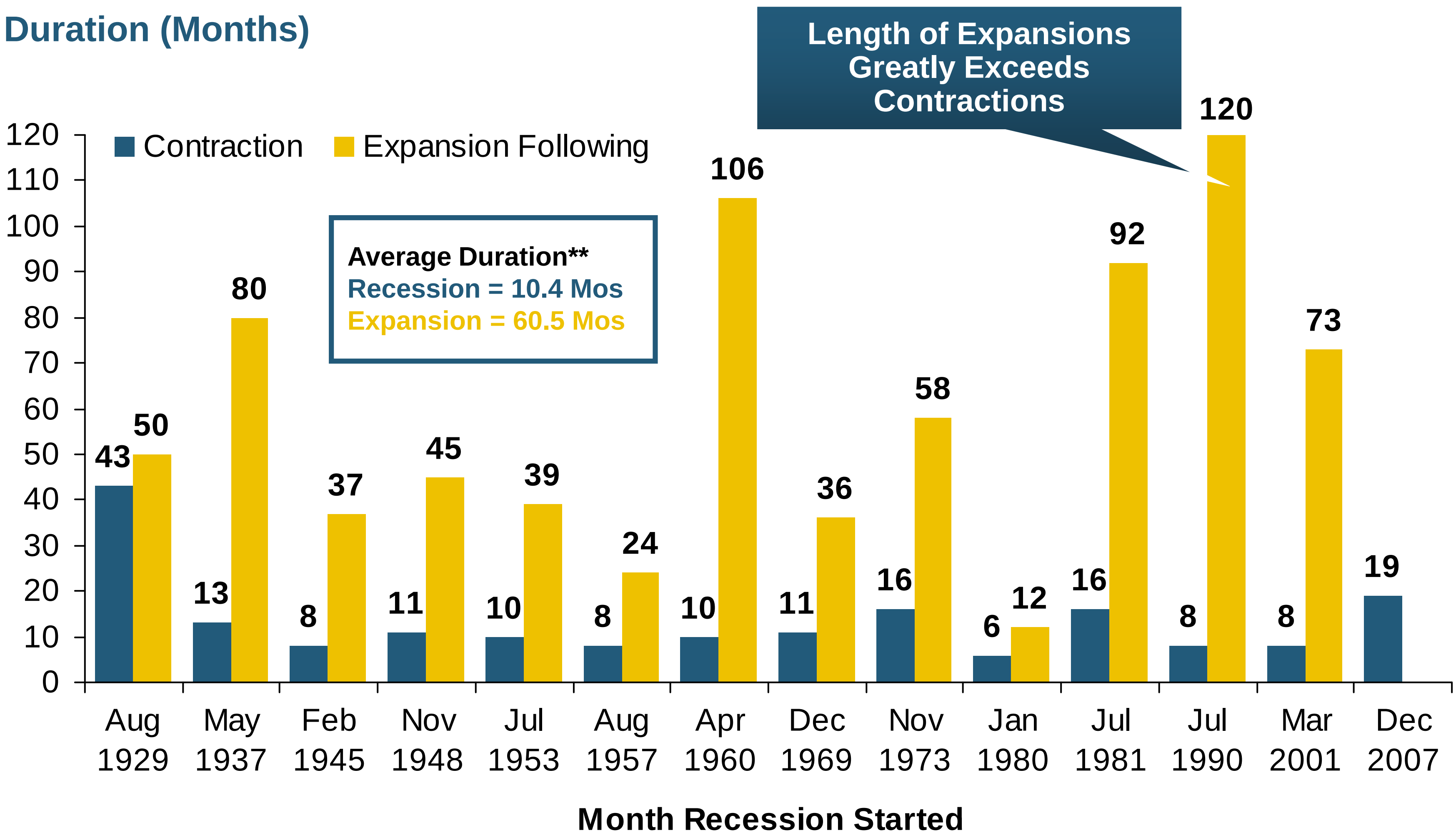


Personal and Commercial Lines Exposure Base Have Been Hit Hard and Will Be Slow to Come Back

* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 2/10; Insurance Information Institute.

Length of US Business Cycles, 1929–Present*



* Through June 2009 (likely the "official end" of recession) ** Post-WW II period through end of most recent expansion.
Sources: National Bureau of Economic Research; Insurance Information Institute.

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

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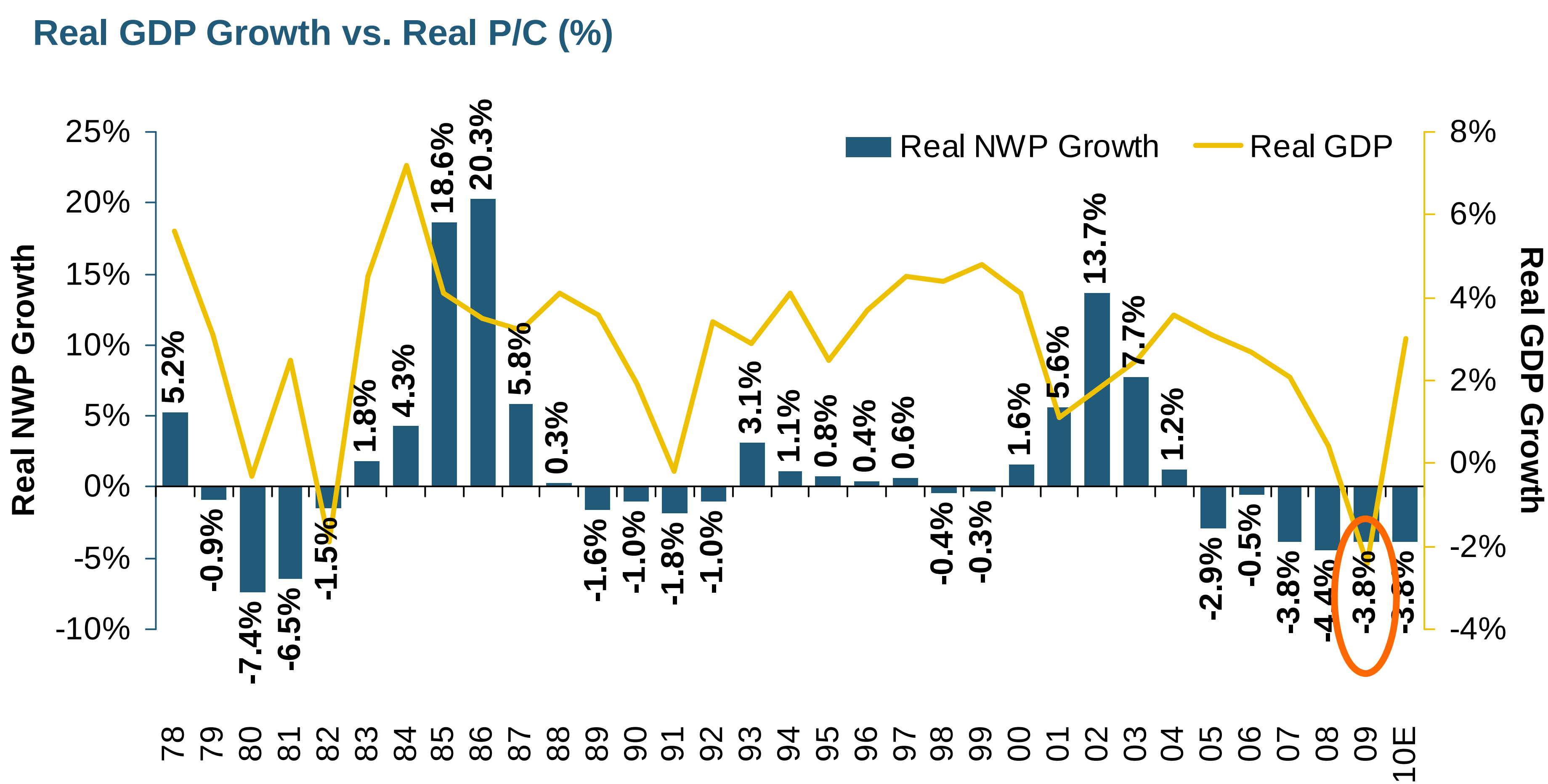


P/C Insurance Industry's Growth is Influenced Modestly by Growth in the Overall Economy

Sources: A.M. Best, US Bureau of Economic Analysis, Blue Chip Economic Indicators, 2/10; Insurance Information Institute

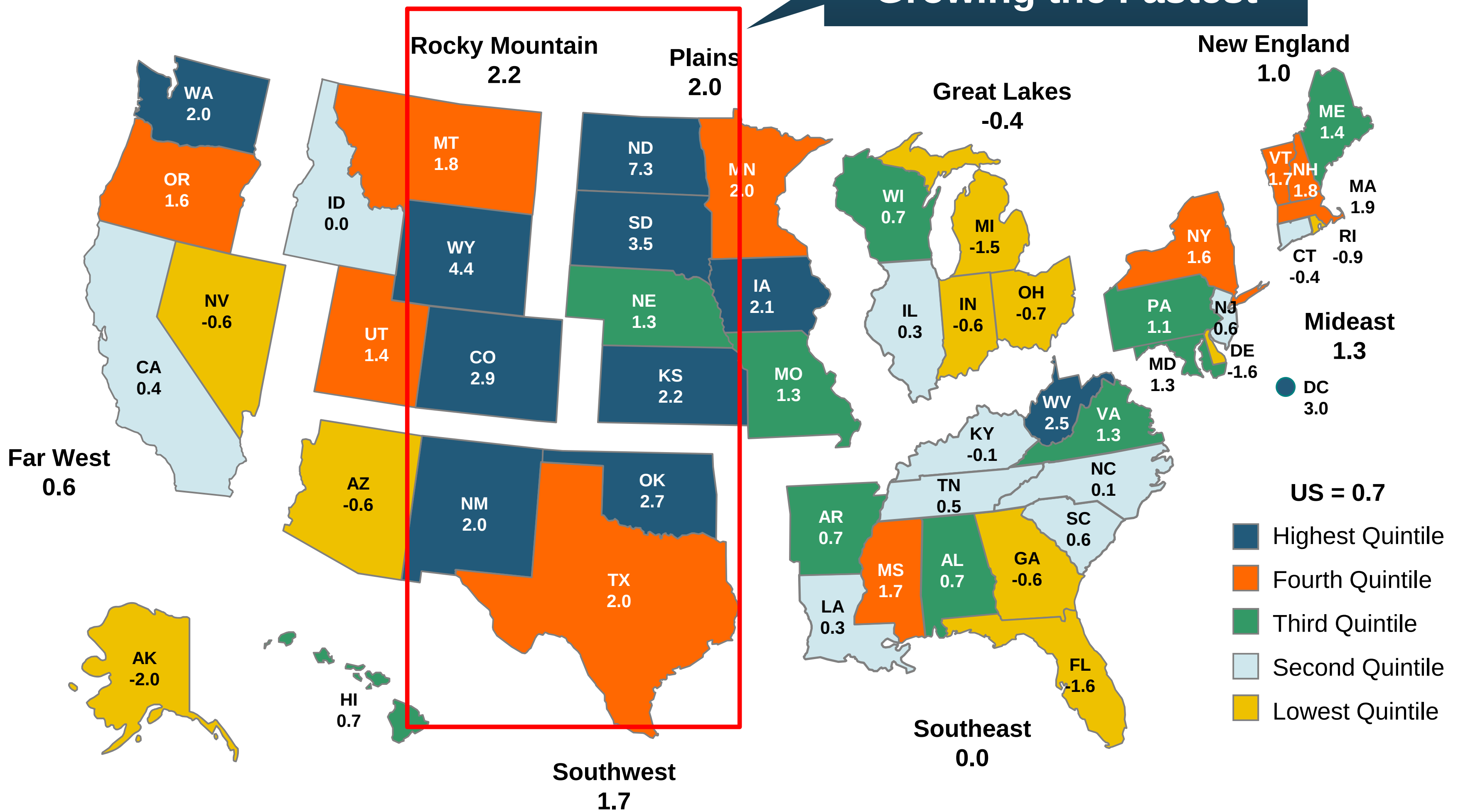
Regional Differences Will Significantly Impact P/C Markets

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



US Bureau of Economic Analysis

Slowest Growing States in 2008: Diversity of States Suffering

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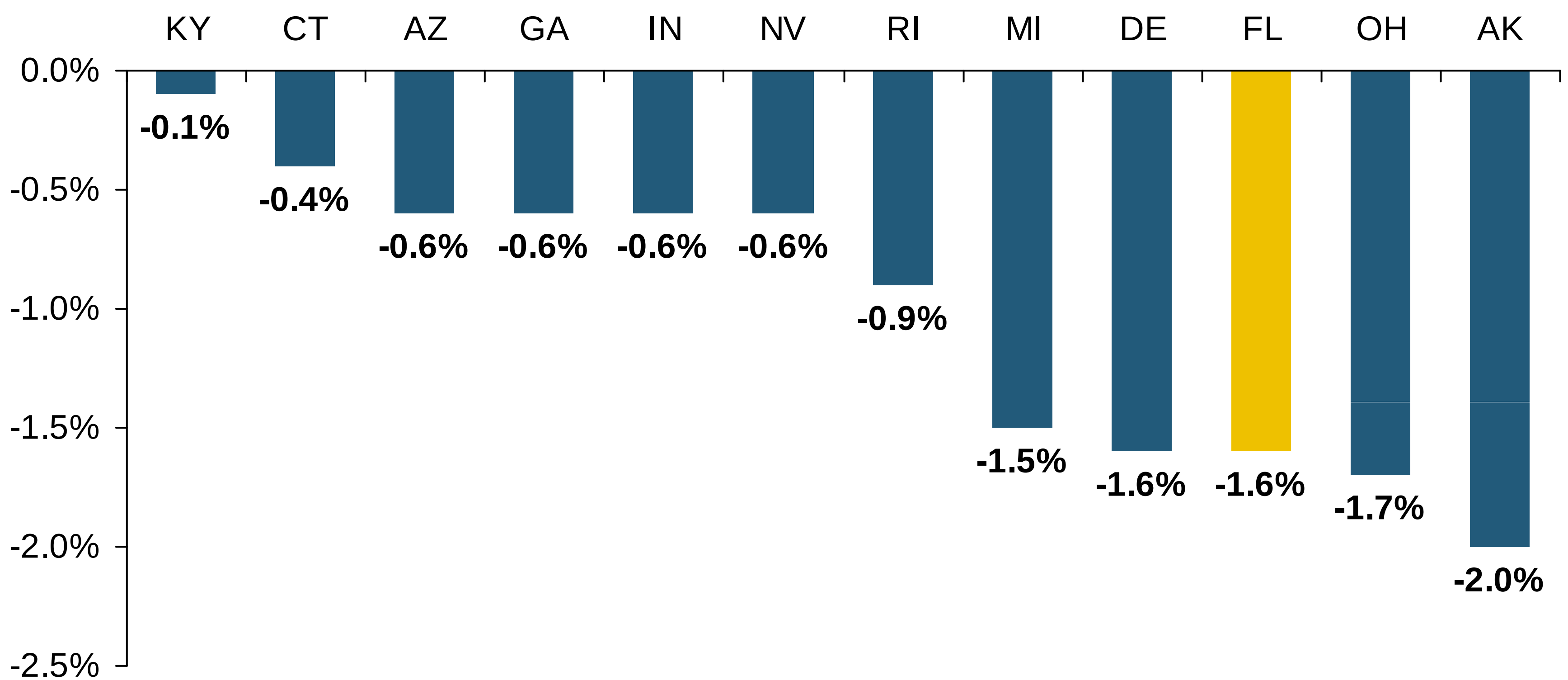
Real State GDP Growth (%)



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

Source: US Bureau of Economic Analysis; Insurance Information Institute.

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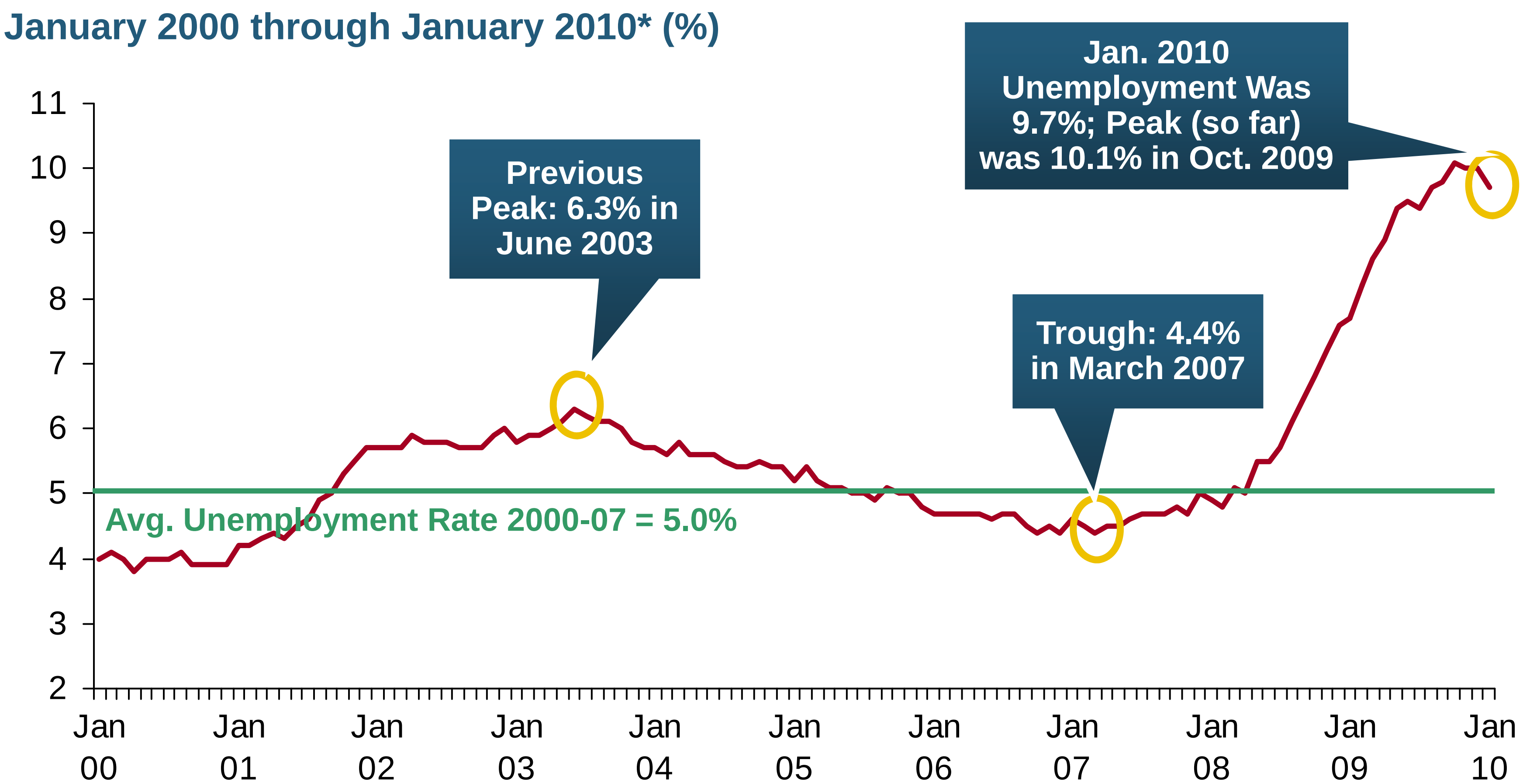
Labor Market Trends

Fast & Furious:
Massive Job Losses Sap the Economy and Commercial/Personal Lines Exposure

Unemployment Rate: Has it Peaked?

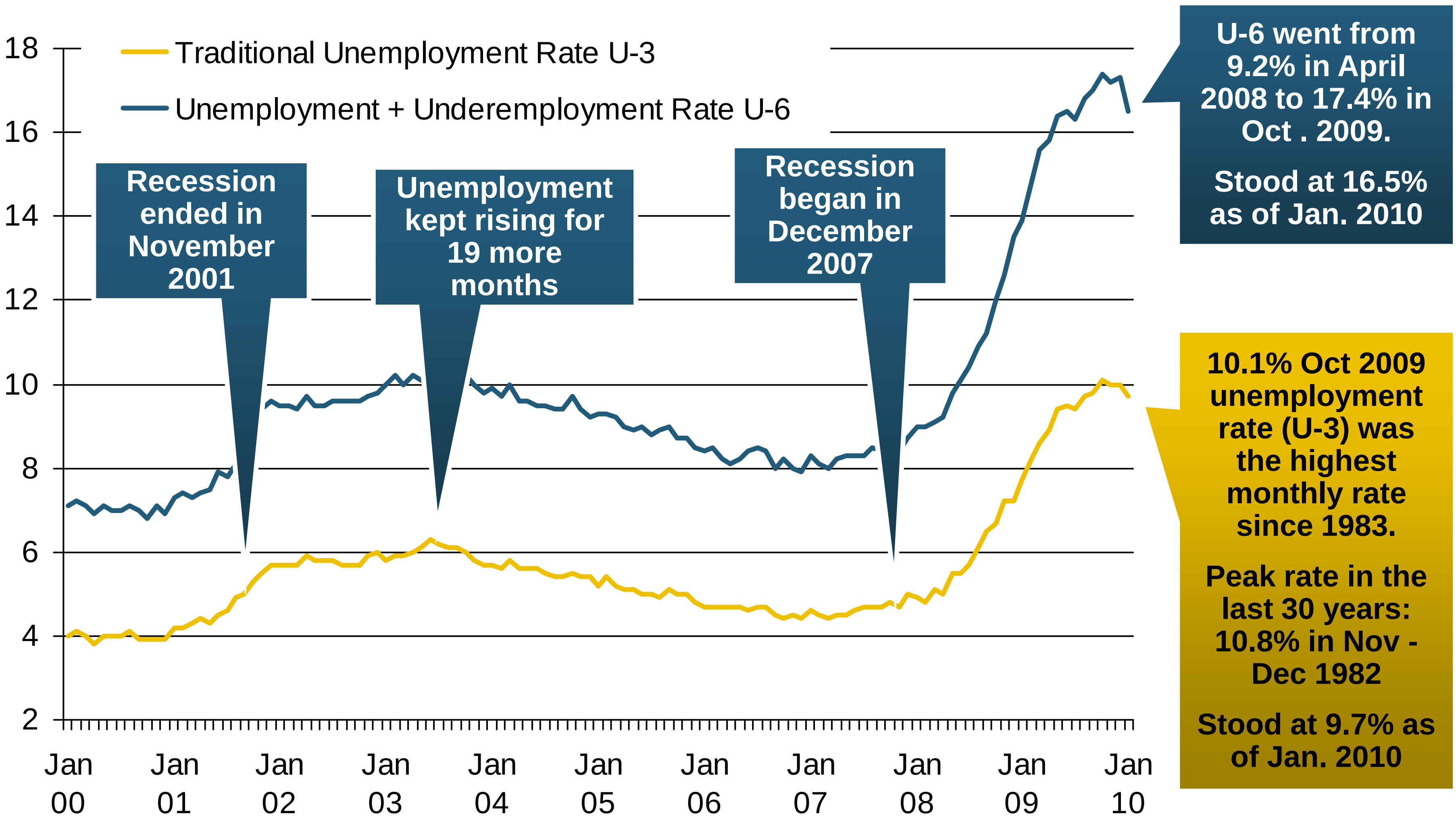


Unemployment Will Likely Rise Again During This Cycle, Impacting Payroll Sensitive P/C and L/H Exposures

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

Unemployment and Underemployment Rates: Rocketing Up in 2008-09

January 2000 through January 2010, Seasonally Adjusted (%)



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

Length of Unemployment, Quarterly, 2006:Q3-2009:Q4*

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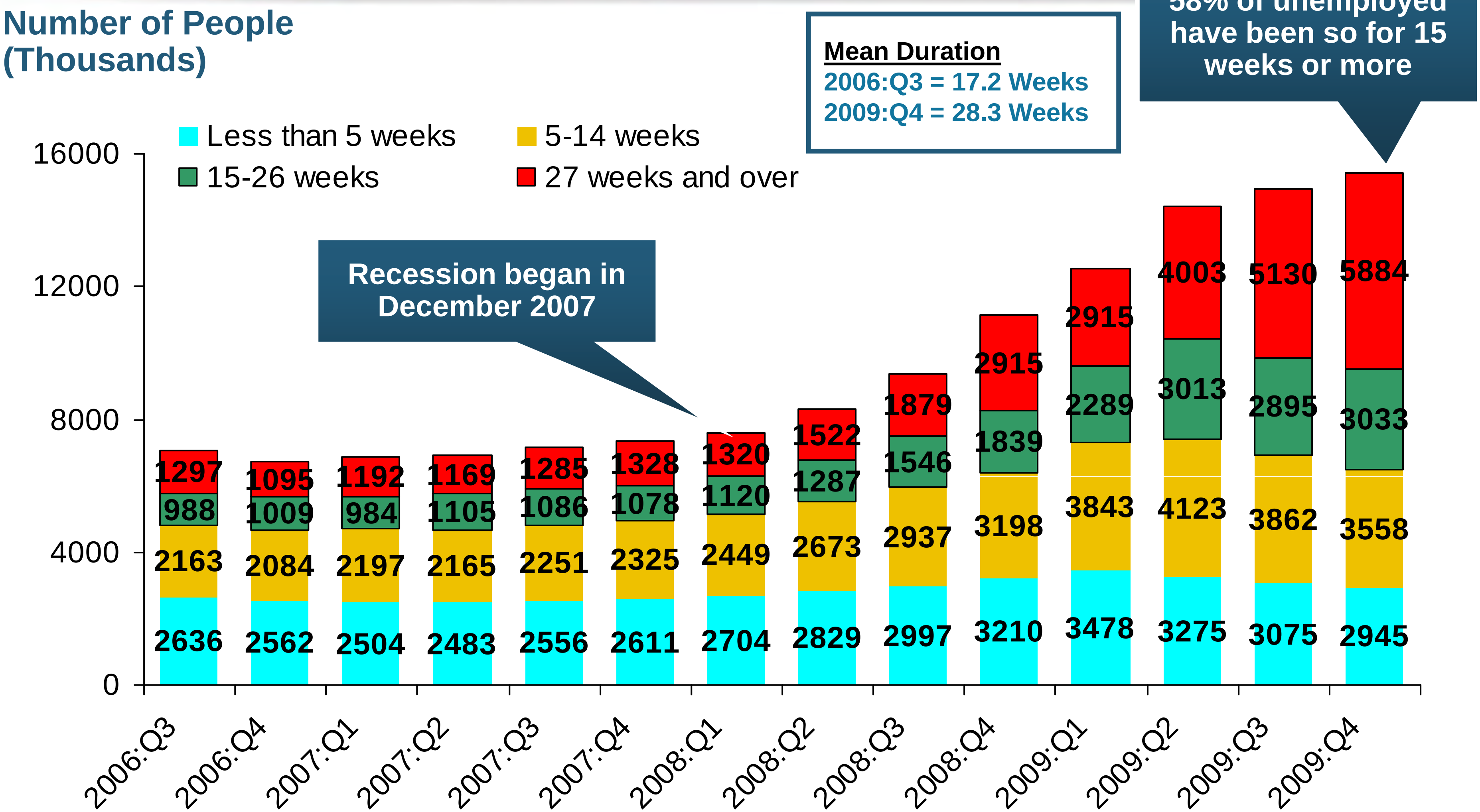

*Seasonally adjusted

Sources: Bureau of Labor Statistics; Insurance Information Institute.

Length of Unemployment, Monthly, Nov 2008–Present*

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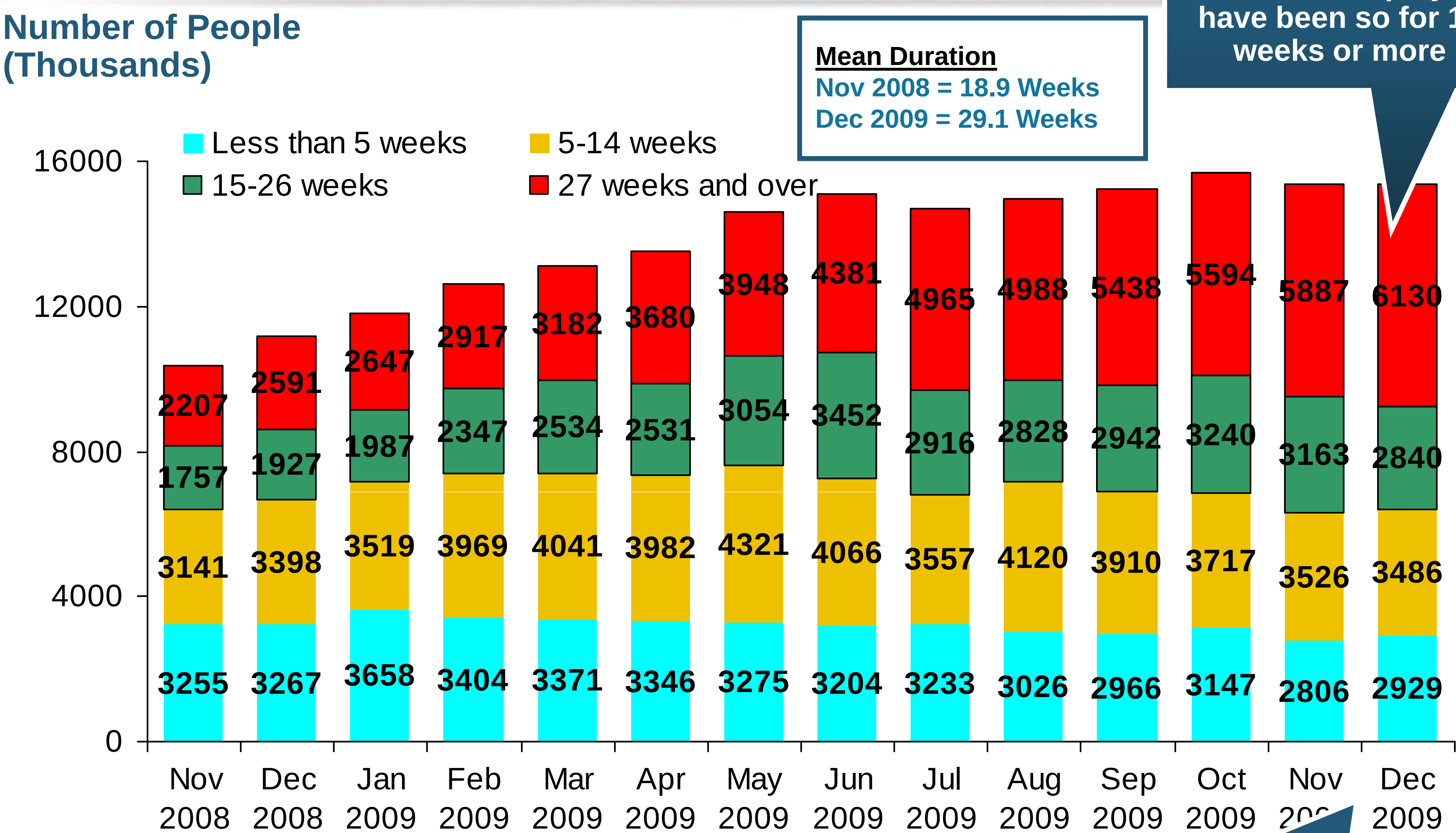
59% of unemployed have been so for 15 weeks or more

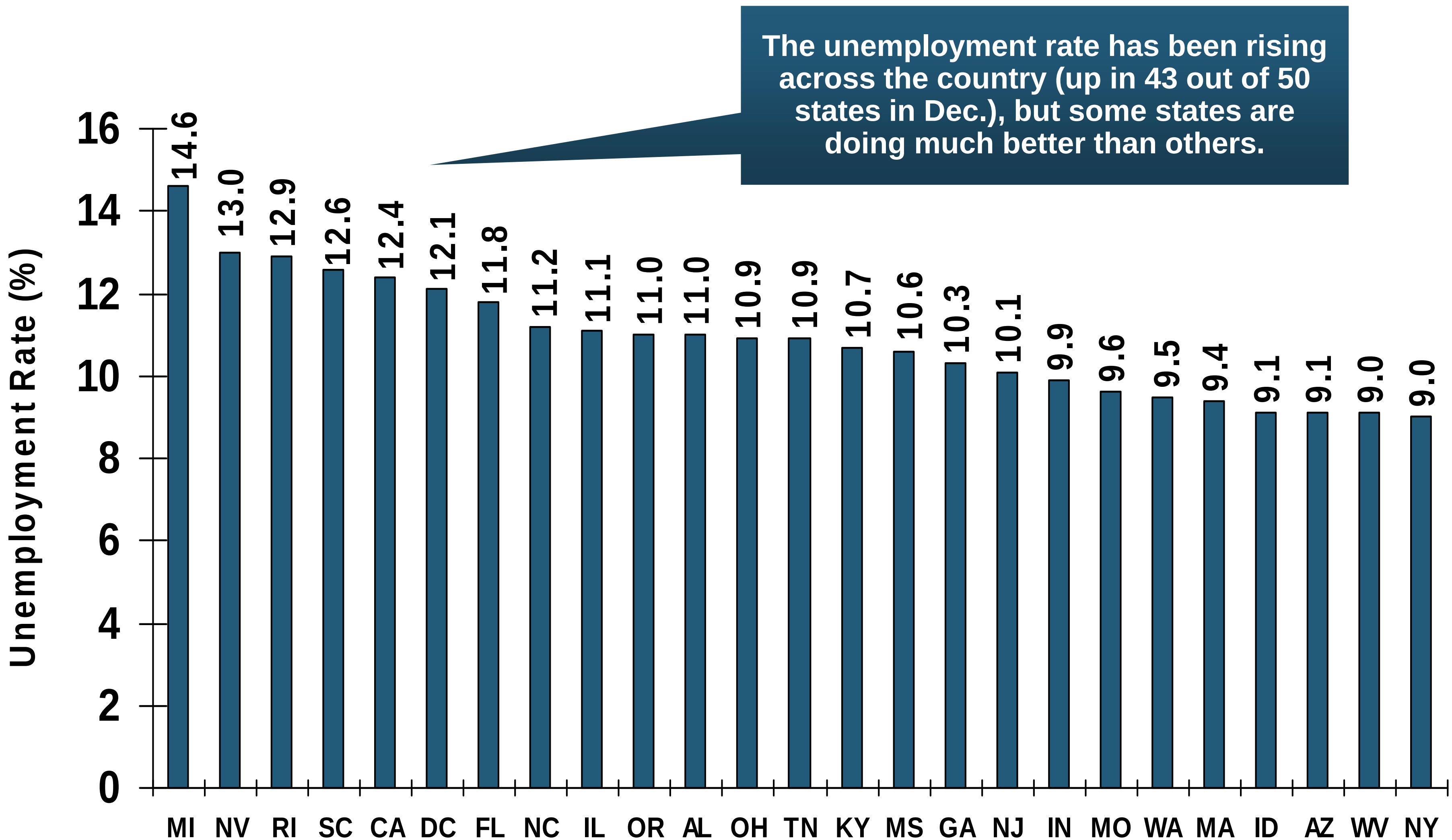
Mean Duration
Nov 2008 = 18.9 Weeks
Dec 2009 = 29.1 Weeks



Number of long-term (27+) unemployed grew by 250,000 in December 2009

*Through Dec. 2009; Seasonally adjusted
Sources: Bureau of Labor Statistics; Insurance Information Institute.

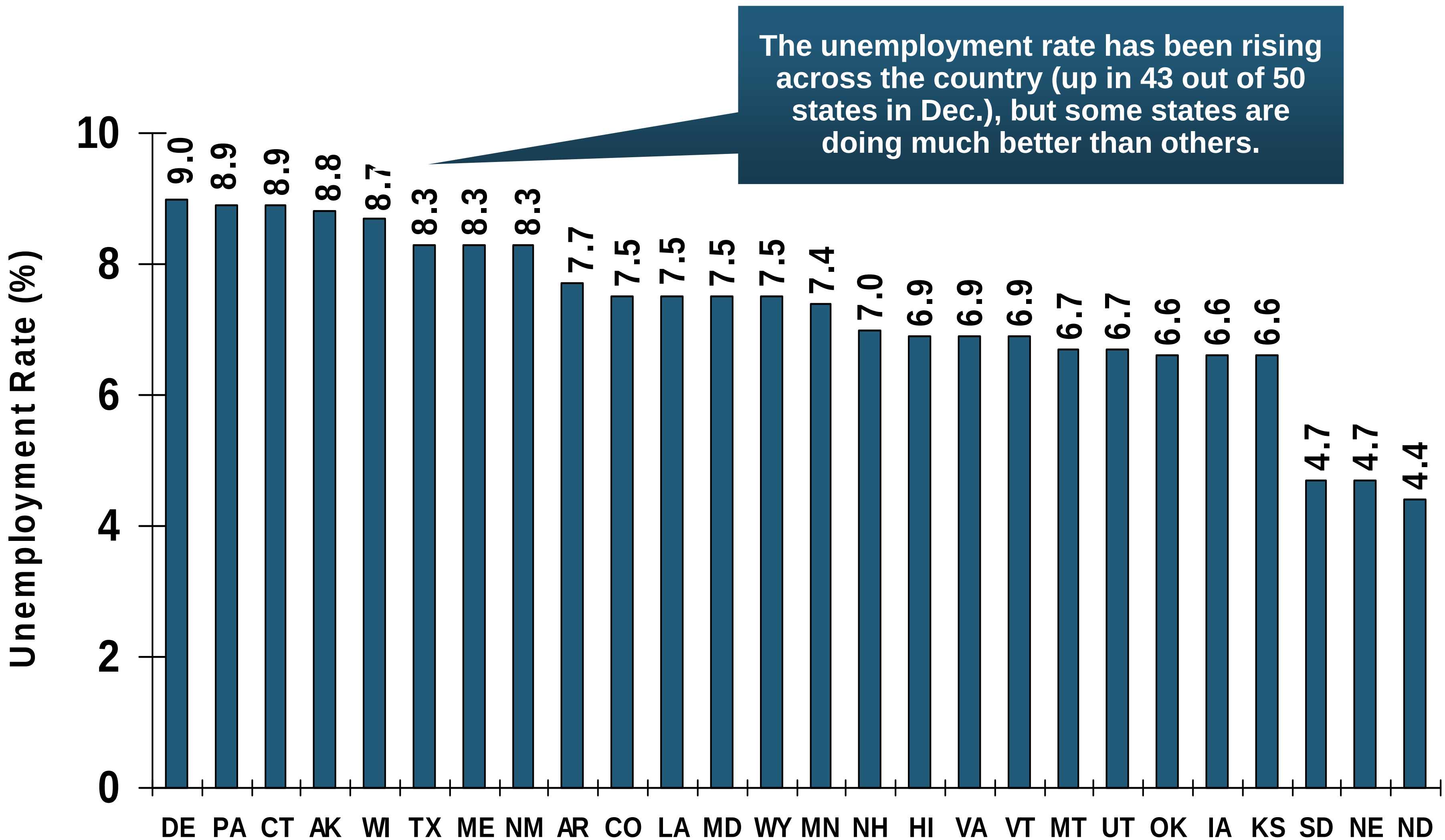
Unemployment Rates by State, December 2009: Highest 25 States*



*Provisional figures for December 2009, seasonally adjusted.

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

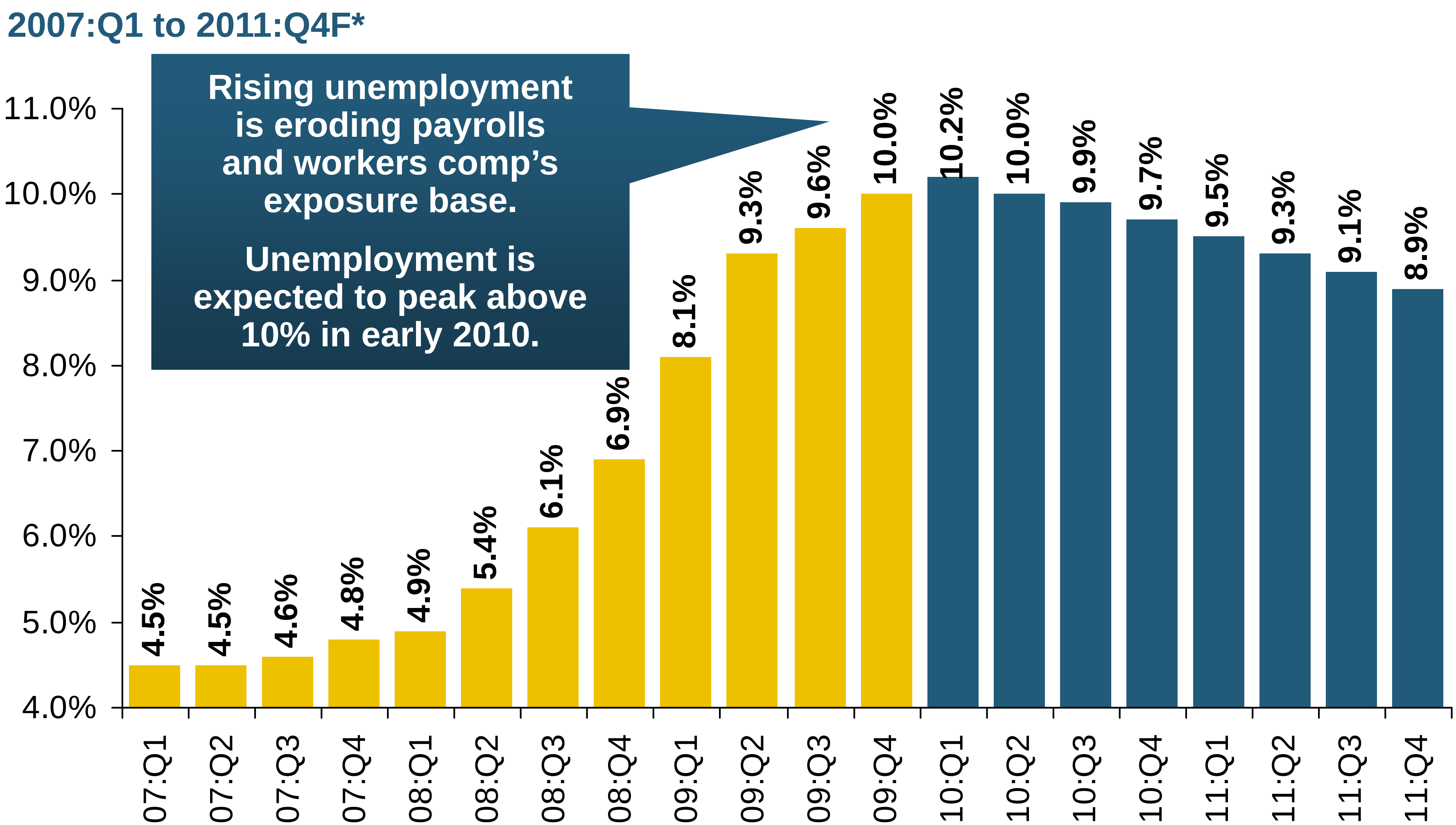
Unemployment Rates By State, December 2009: Lowest 25 States*



*Provisional figures for December 2009, seasonally adjusted.

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

US Unemployment Rate



* = actual; = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (2/10); Insurance Information Institute

Monthly Change Employment*

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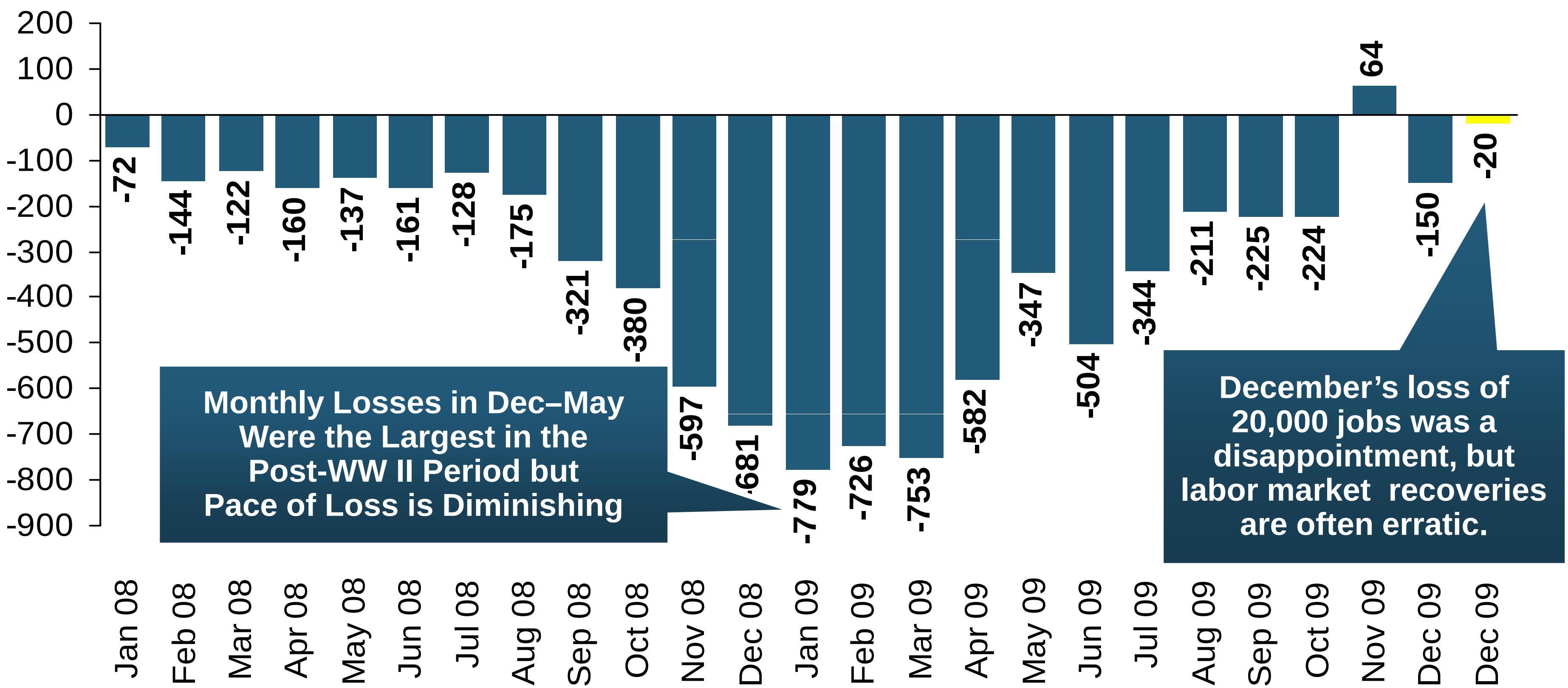
January 2008 through January 2010 (Thousands)



Job Losses Since the Recession Began in Dec. 2007 Total 8.4 Million; 14.8 Million People are Now Defined as Unemployed

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

Labor Underutilization: Broader than Just Unemployment

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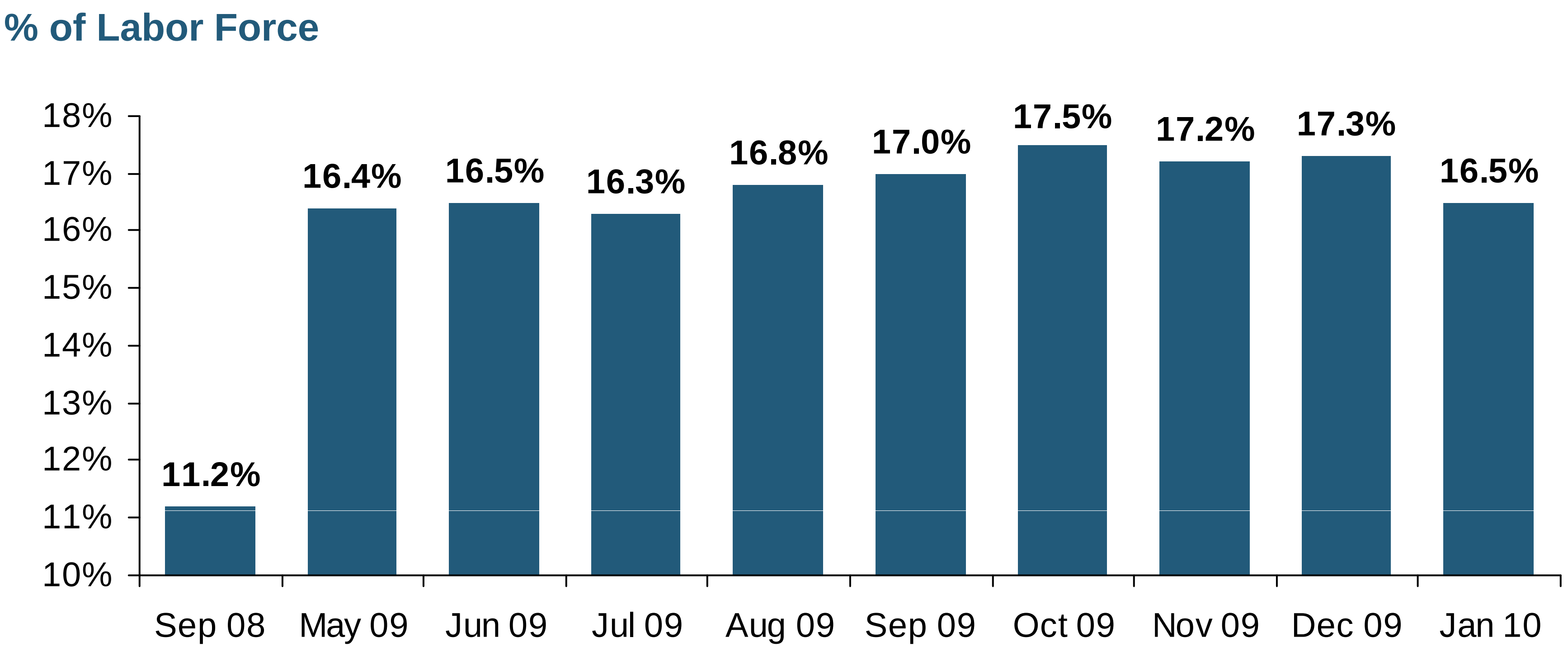

Marginally Attached and Unemployed Persons Account for 16.5% of the Labor Force in Jan. 2010 (1 Out 6 People). Unemployment Rate Alone was 9.7%. Underutilization Shows a Broader Impact on WC and Other Commercial Exposures

NOTE: Marginally attached workers are persons who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the recent past. Discouraged workers, a subset of the marginally attached, have given a job-market related reason for not looking currently for a job. Persons employed part time for economic reasons are those who want and are available for full-time work but have had to settle for a part-time schedule.

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

US Nonfarm Private Employment

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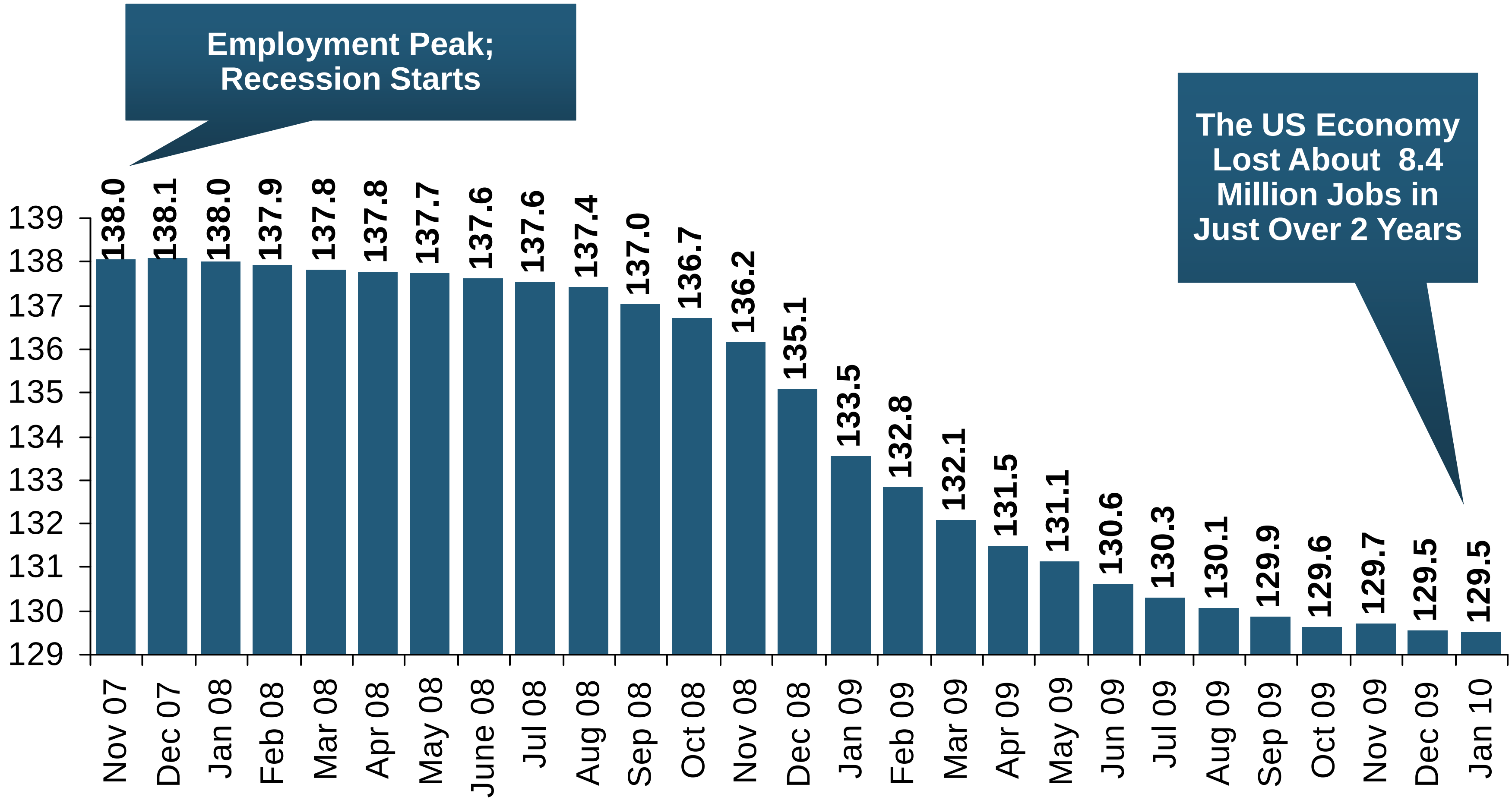
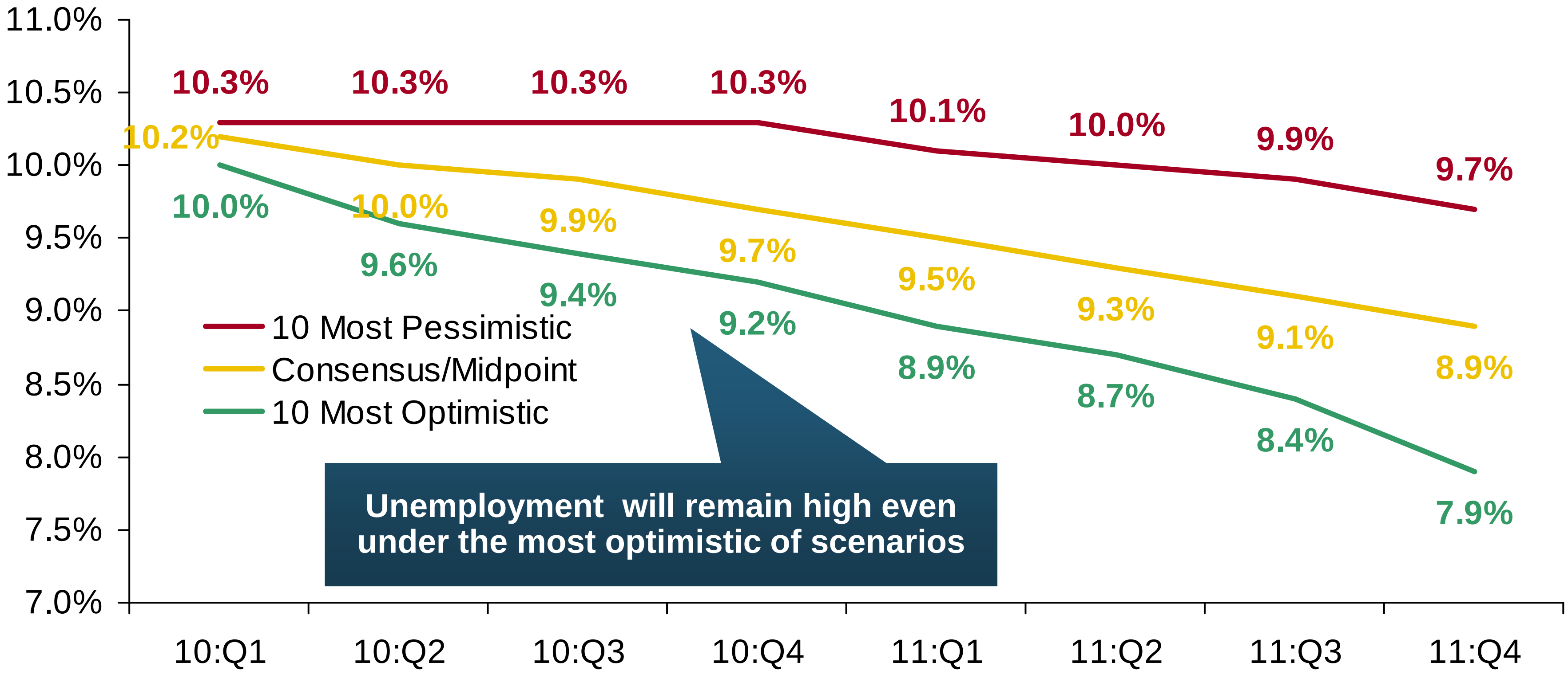
Monthly, Nov 07 – Jan 10 (Millions)



Seasonally adjusted.
Source: US Bureau of Labor Statistics

US Unemployment Rate Forecasts

Quarterly, 2010:Q1 to 2011:Q4

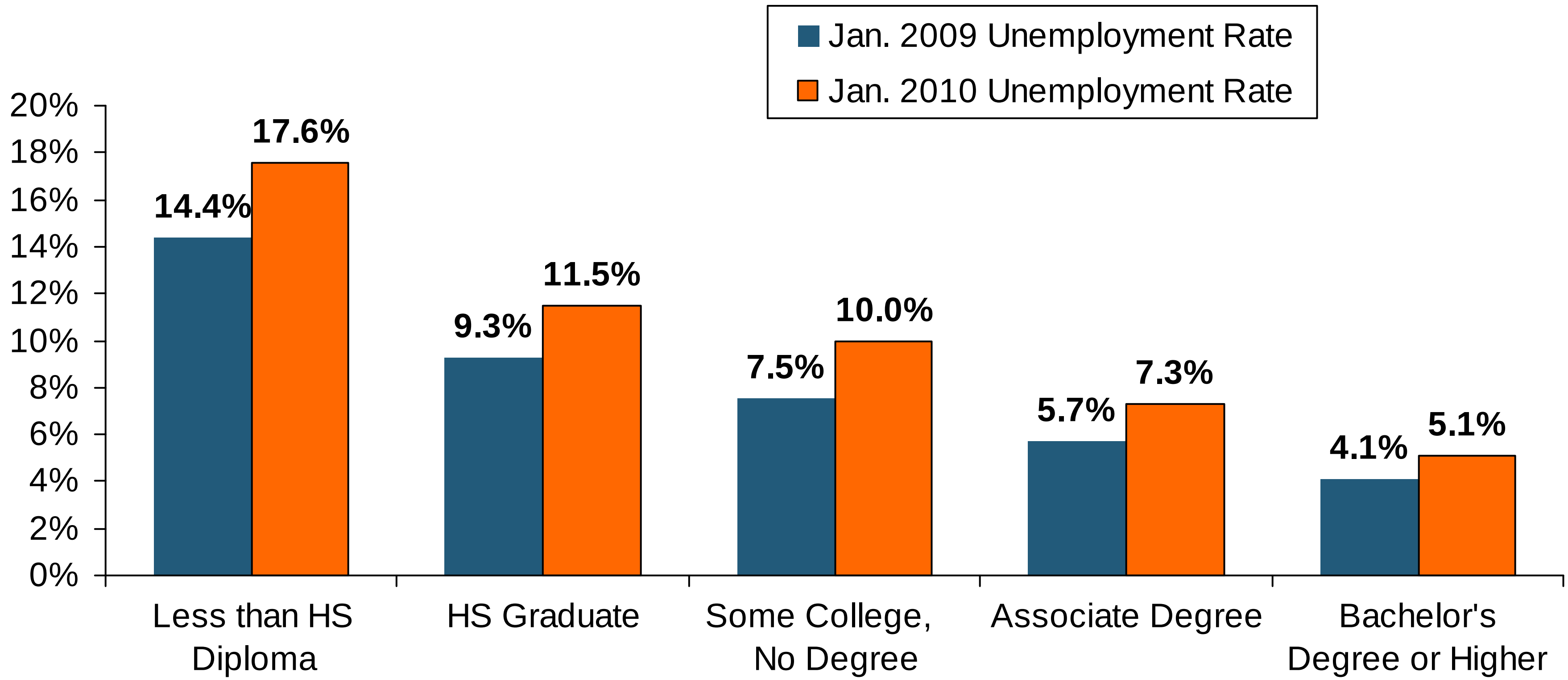


Stubbornly High Unemployment Will Hurt the Workers Comp's Exposure Base

Sources: Blue Chip Economic Indicators (2/10); Insurance Information Institute

Unemployment and Educational Attainment: More Education = Less Unemployment

Unemployment Rate (%), January 2009 vs. January 2010



Personal Lines Exposures Should Remain More Stable in Populations with Lower Unemployment

Source: US Bureau of Labor Statistics accessed at ftp://ftp.bls.gov/pub/suppl/empsit.cpseea17.txt .

Unemployment Rate by Gender: The "Mancession" Can Impact Exposure Too

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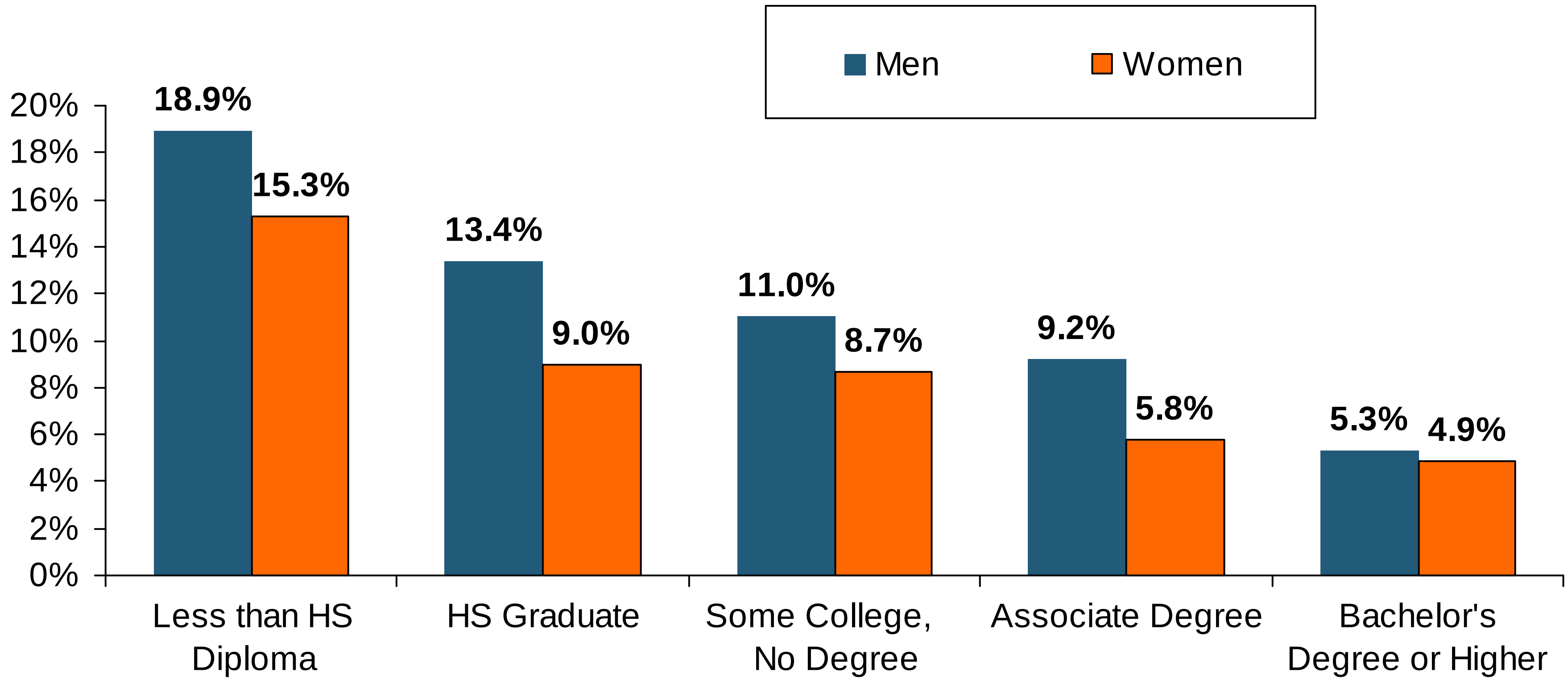
Unemployment Rate (%), January 2010



Higher Male Unemployment Rate Has Had a Significant Impact on Specialty Personal Lines (e.g., watercraft, RVs, campers, motorcycles, snowmobiles, etc.)

Source: US Bureau of Labor Statistics accessed at ftp://ftp.bls.gov/pub/suppl/empsit.cpseea17.txt .

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

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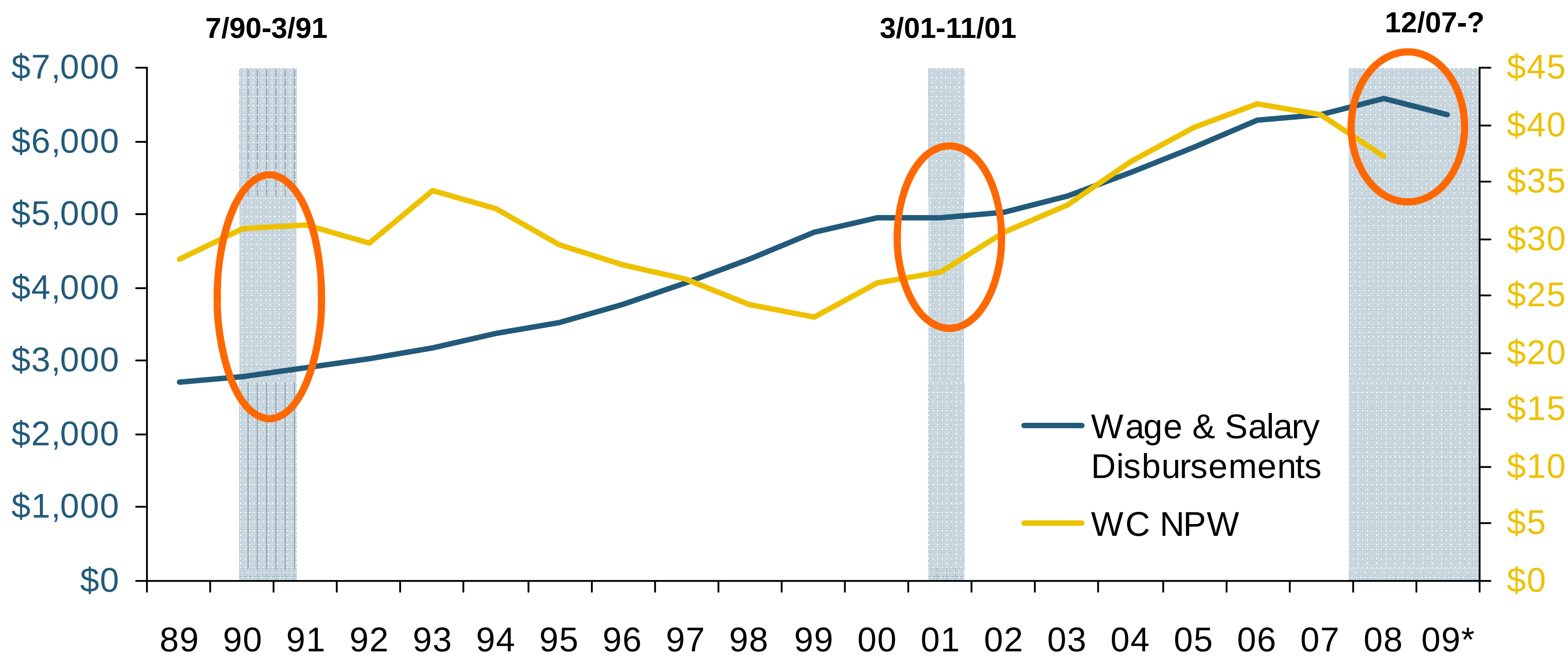
Wage & Salary Disbursement (Private Employment) vs. WC NWP ($ Billions)

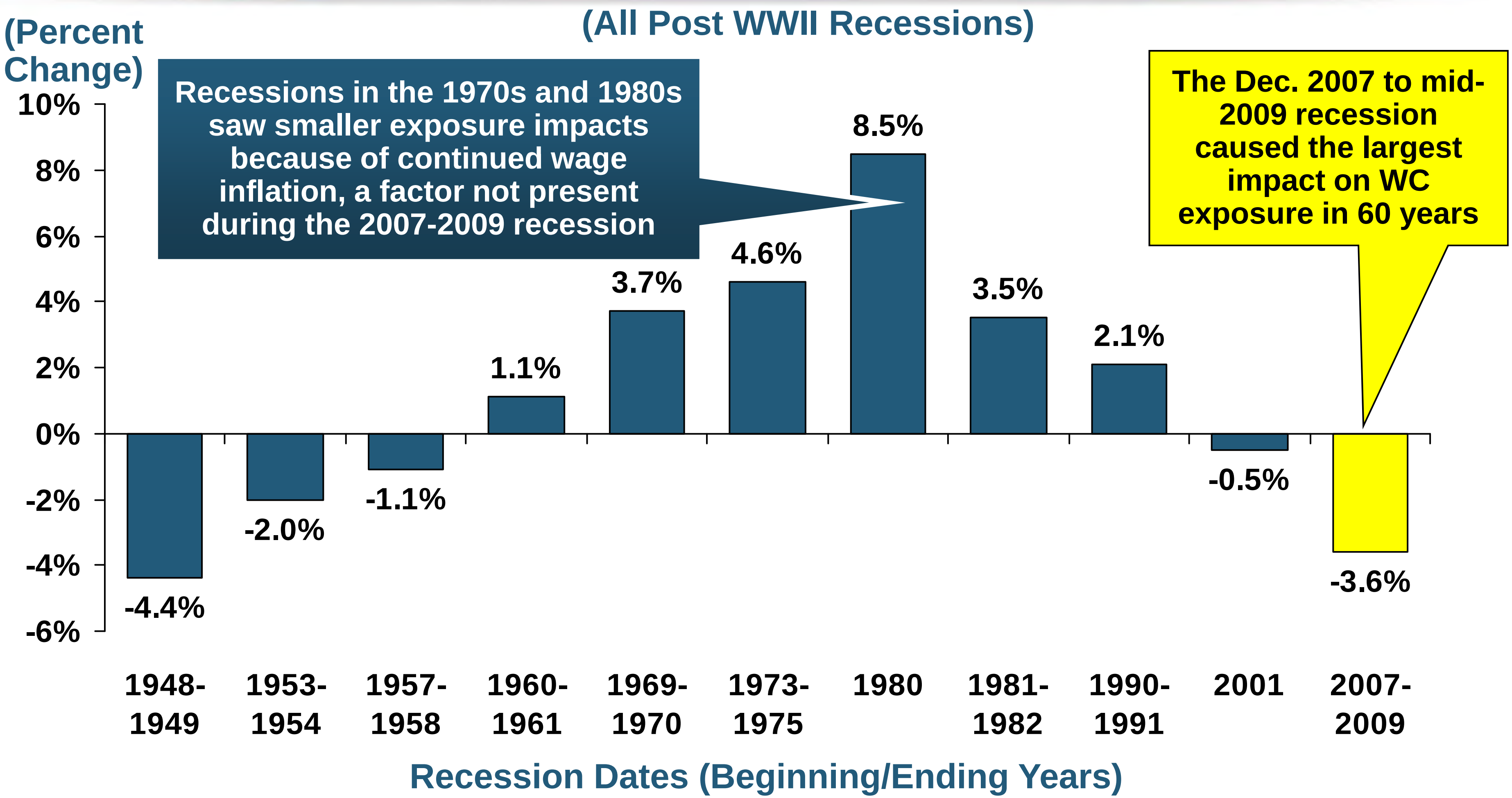


Weakening Payrolls Have Eroded $2B+ in Workers Comp Premiums

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

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)

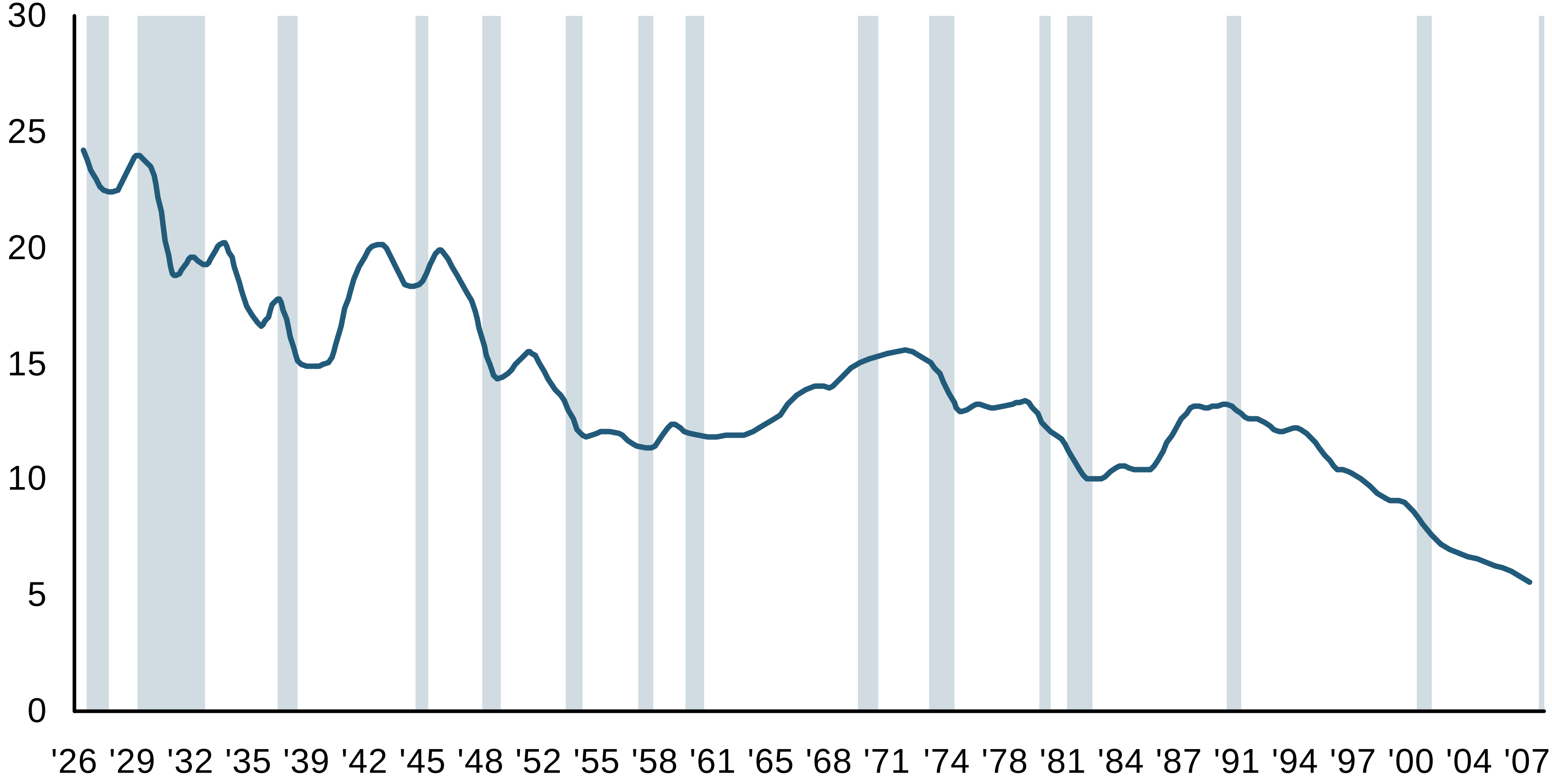


*Data represent maximum recorded decline over 12-month period using annualized quarterly wage and salary accrual data

Source: Insurance Information Institute research; Federal Reserve Bank of St. Louis (wage and salary data); National Bureau of Economic Research (recession dates).

Frequency: 1926–2008
A Long-Term Drift Downward

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



Note: Recessions indicated by gray bars.

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

Job Growth Needed to Return to "Pre-Recession" Employment Level*

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- Since the start of the recession in December 2007, more than 8 million jobs have been lost.
- To keep up with population growth, the economy needs to add roughly 130,000 jobs every month.
  - This translates into roughly 3 million jobs over the 24 months since the start of the recession.
- This means the labor market is currently 11 million jobs below the level needed to restore the pre-recession employment rate.

*as of December 1, 2009
Source: Heidi Shierholz, "Signs of Healing in the Labor Market, Though Unemployment Remains in Double Digits," Economic Policy Institute, December 4, 2009, at http://www.epi.org/analysis_and_opinion/entry/signs_of_healing_in_the_labor_market_though_unemployment_remains_in_double_/

Job Growth Needed (cont'd)

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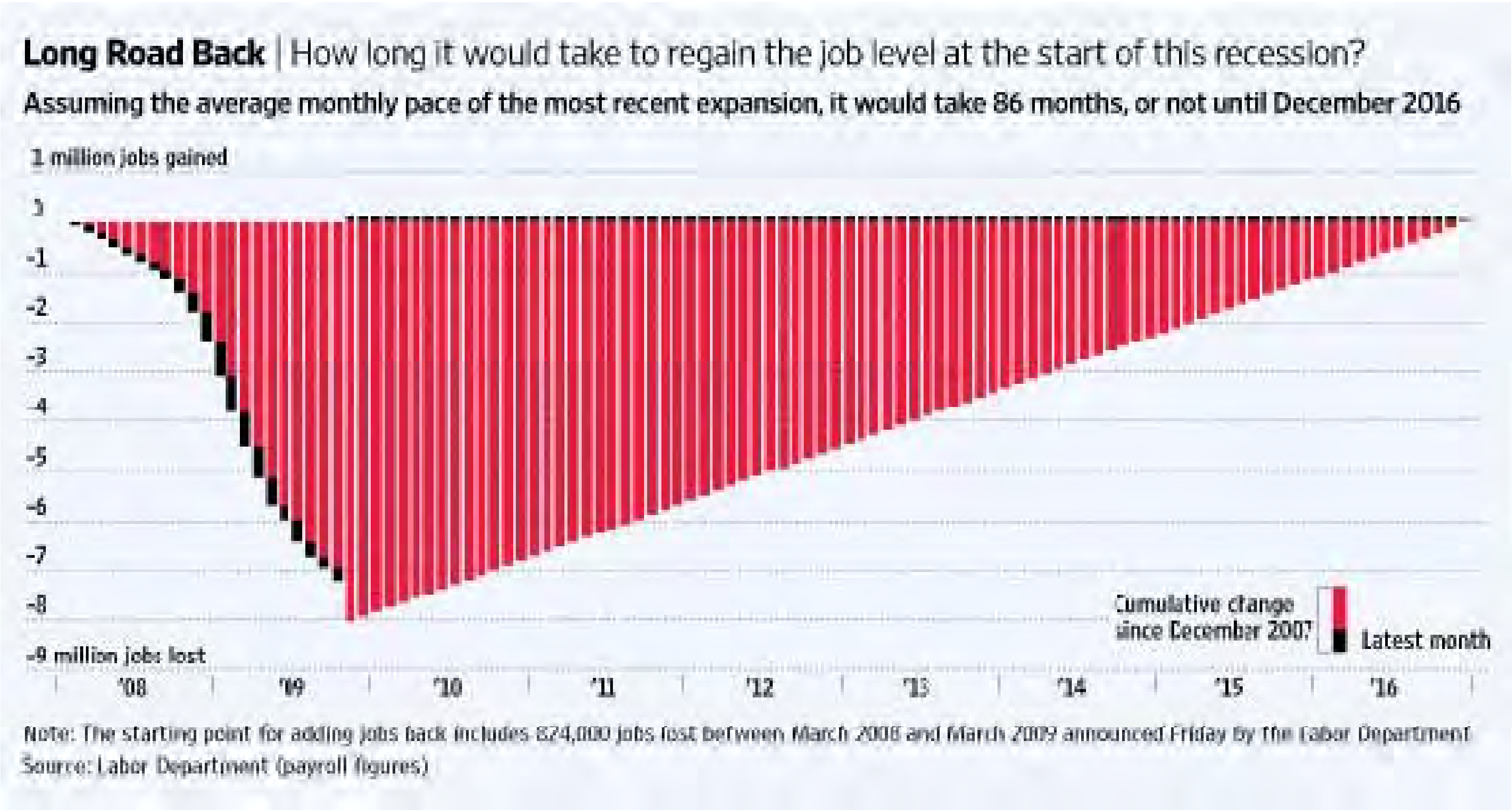
- Even if no more jobs are lost, if we are to return to pre-recession employment levels in 5 years' time—by the start of 2015—we would have to average adding 300,000 jobs per month every month until then.
  - This is equivalent to adding 18 million jobs to current employment levels.
  - This *might* be do-able. We added more than 20 million jobs over the 8 years Bill Clinton was president.

Source: Paul Krugman at http://krugman.blogs.nytimes.com/2009/12/10/the-jobs-deficit/

When Might All of the Lost Jobs Be Regained? 2016?



Source: *Wall Street Journal*, October 9, 2009, p. A3

Crisis-Driven Exposure Drivers

Economic Obstacles to Growth in P/C Insurance

New Private Housing Starts, 1990-2011F

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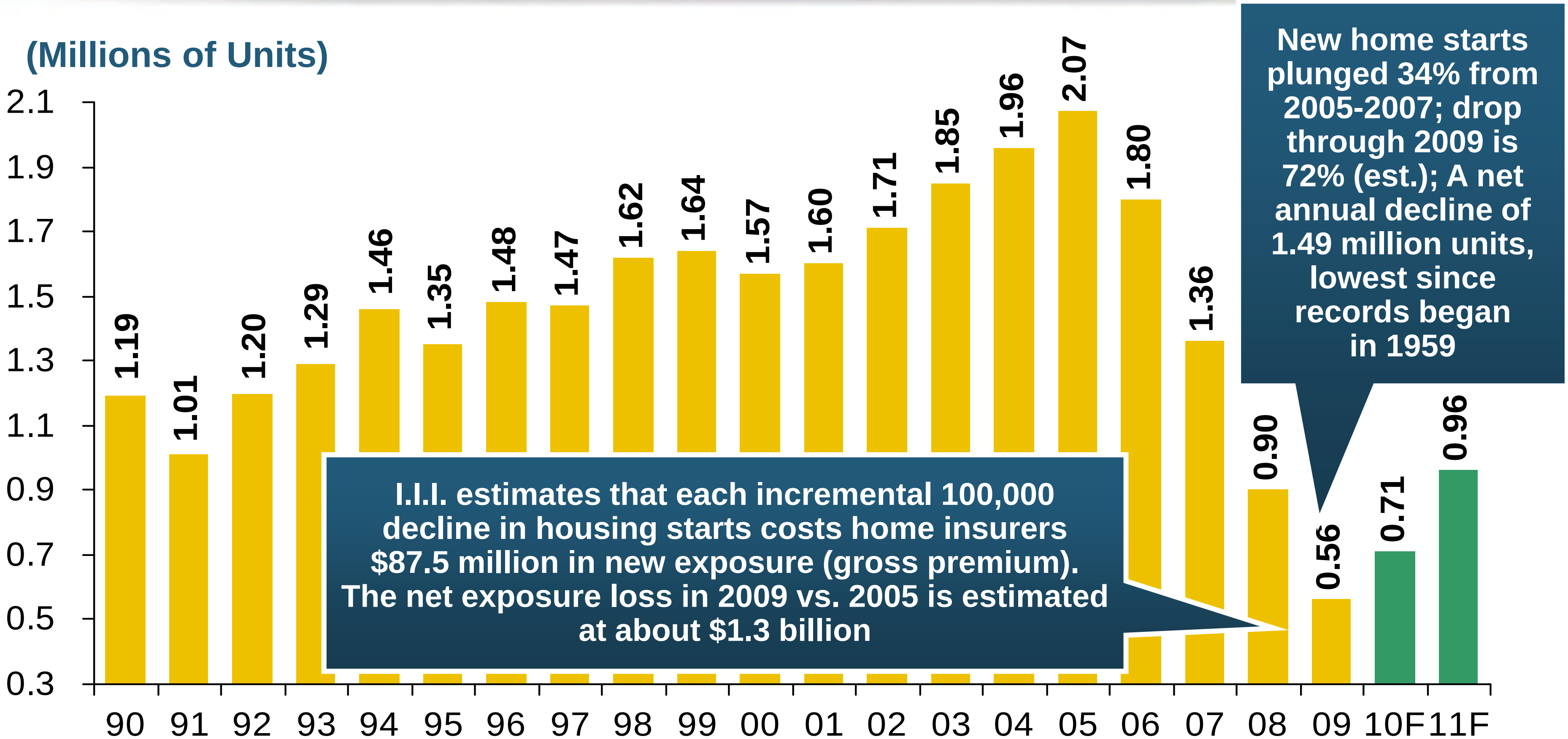
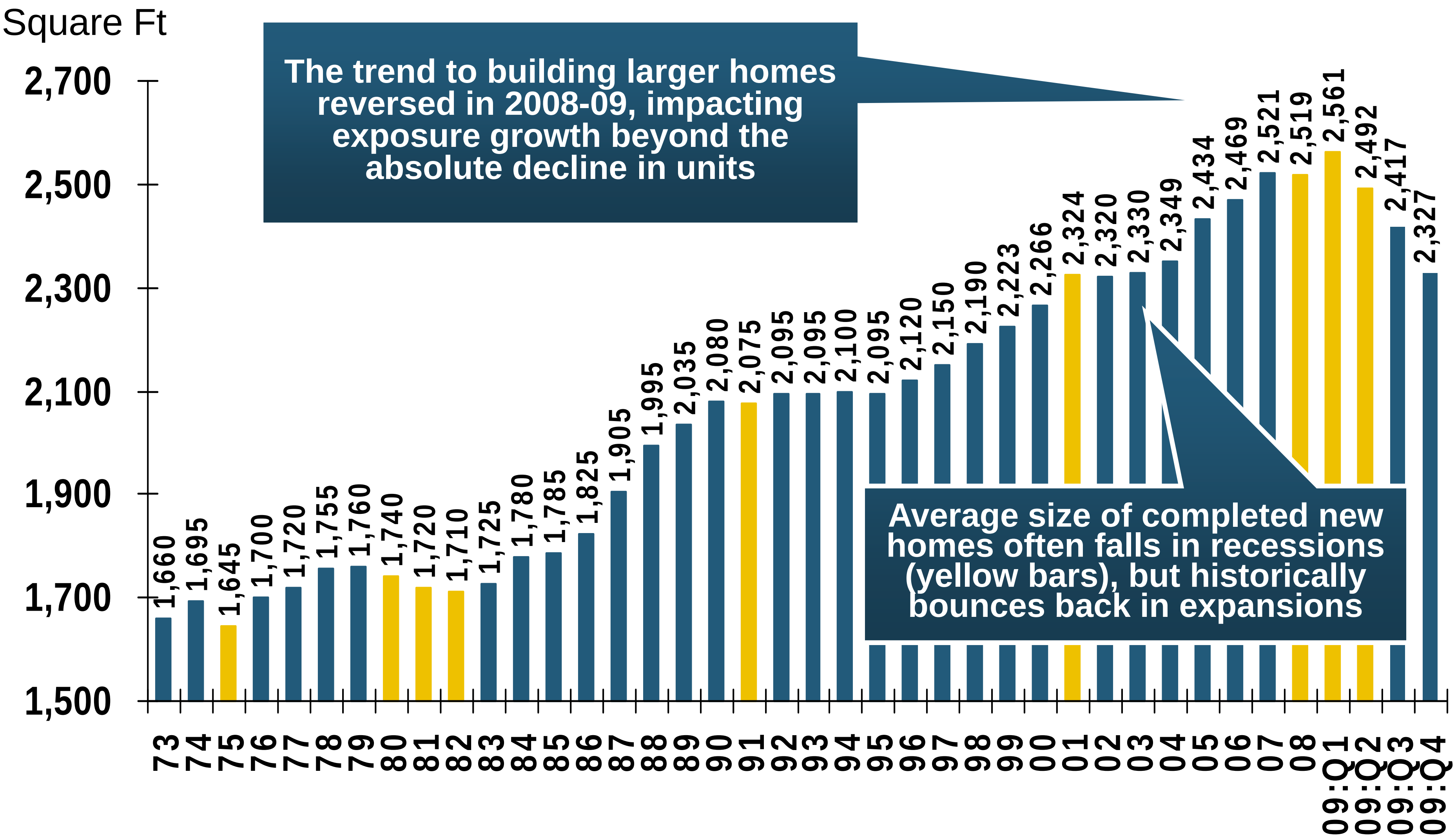


Little Exposure Growth Likely for Homeowners Insurers Due to Weak Home Construction Forecast for 2010-2011. Also Affects Commercial Insurers with Construction Risk Exposure, Surety

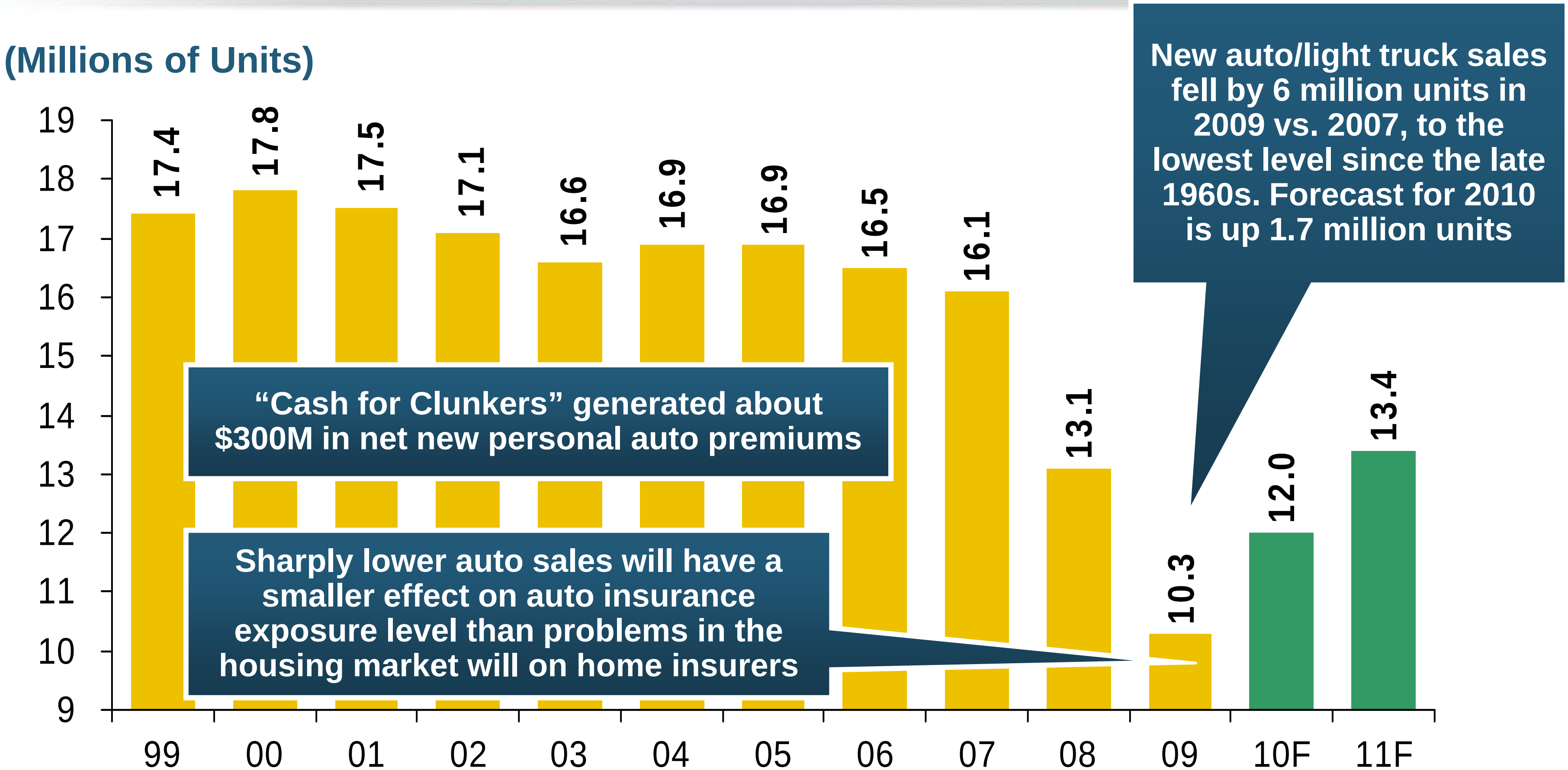
Source: U.S. Department of Commerce; Blue Chip Economic Indicators (2/10); Insurance Information Institute.

Average Square Footage of Completed New Homes in U.S., 1973-2010:Q4



Source: U.S. Census Bureau: http://www.census.gov/const/www/quarterly_starts_completions.pdf; Insurance Information Institute.

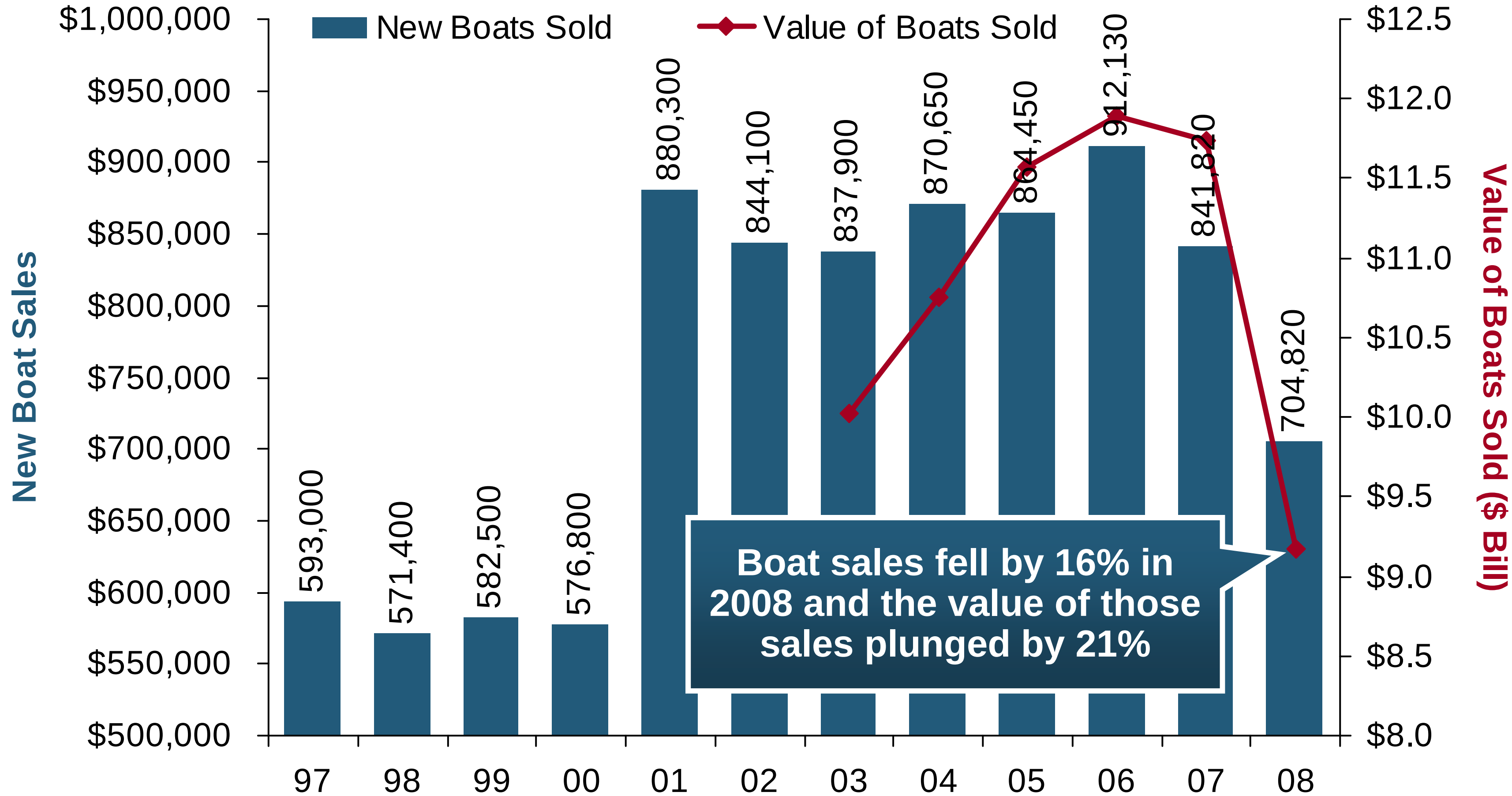
Auto/Light Truck Sales, 1999-2011F



Car & Truck Sales Will Begin to Recover but Weak Economy, Credit Woes Are Still Restraining Sales; Gas Prices Could Remain a Factor Too

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (2/10); Insurance Information Institute.

New Boat Sales Symptomatic of Decline in Insured Exposure Growth for Luxury/Discretionary Items



Sources: National Marine Manufacturers Association, 2008 Abstract (latest available as of Feb. 2010); Insurance Information Institute.

Business Bankruptcy Filings, 1980-2009*

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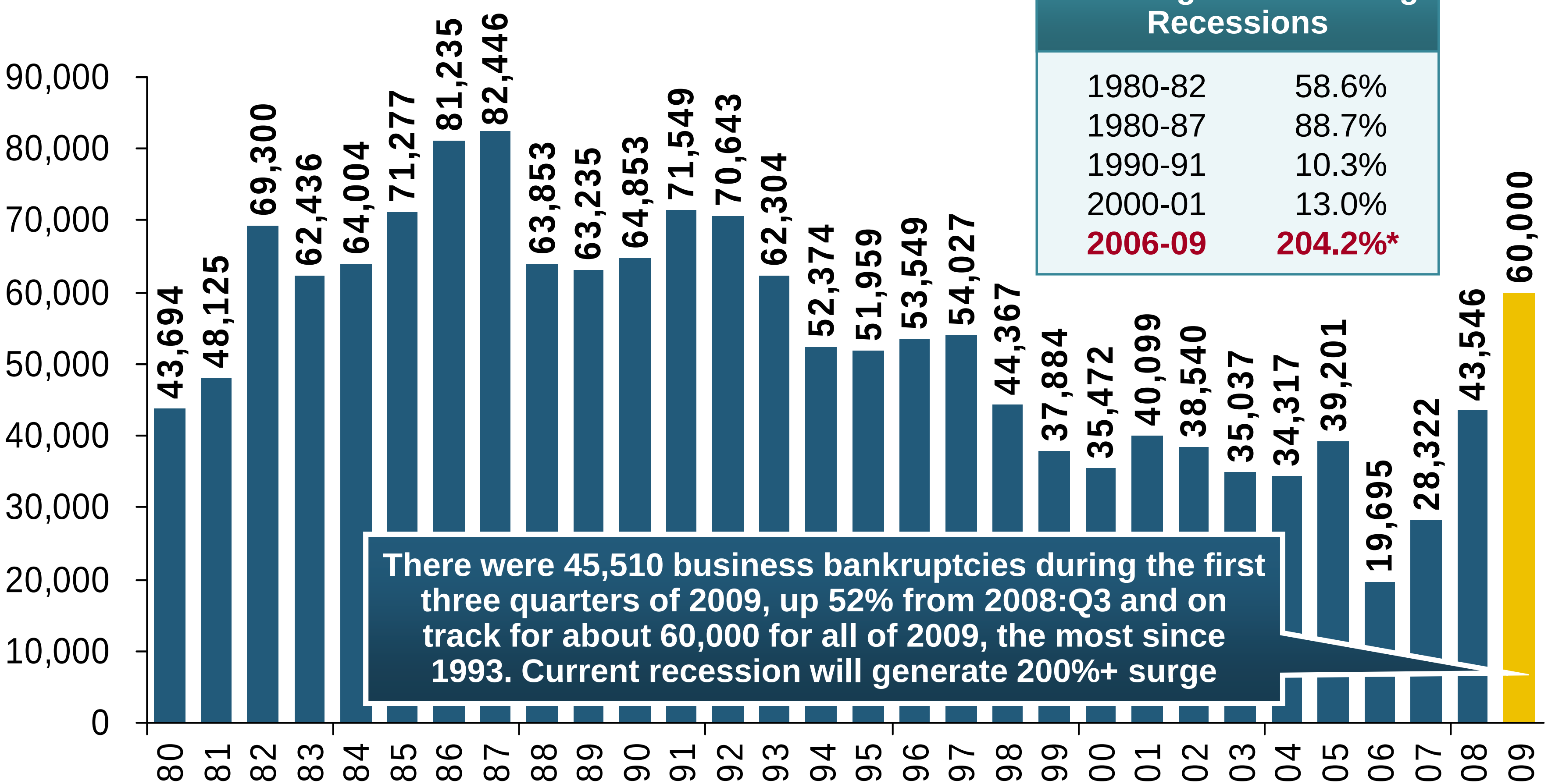

% Change Surrounding Recessions	
1980-82	58.6%
1980-87	88.7%
1990-91	10.3%
2000-01	13.0%
2006-09	**204.2%***

Significant Implications for all Commercial Lines

*2009 is annualized estimate based on actual business bankruptcies in first three quarters of 2009

Source: American Bankruptcy Institute, http://www.abiworld.org/AM/Template.cfm?Section=Business_Bankruptcy_Filings1&Template=/TaggedPage/TaggedPageDisplay.cfm&TPLID=59&ContentID=36301.

Percent Change in Business Bankruptcy Filings, 1980–2009*

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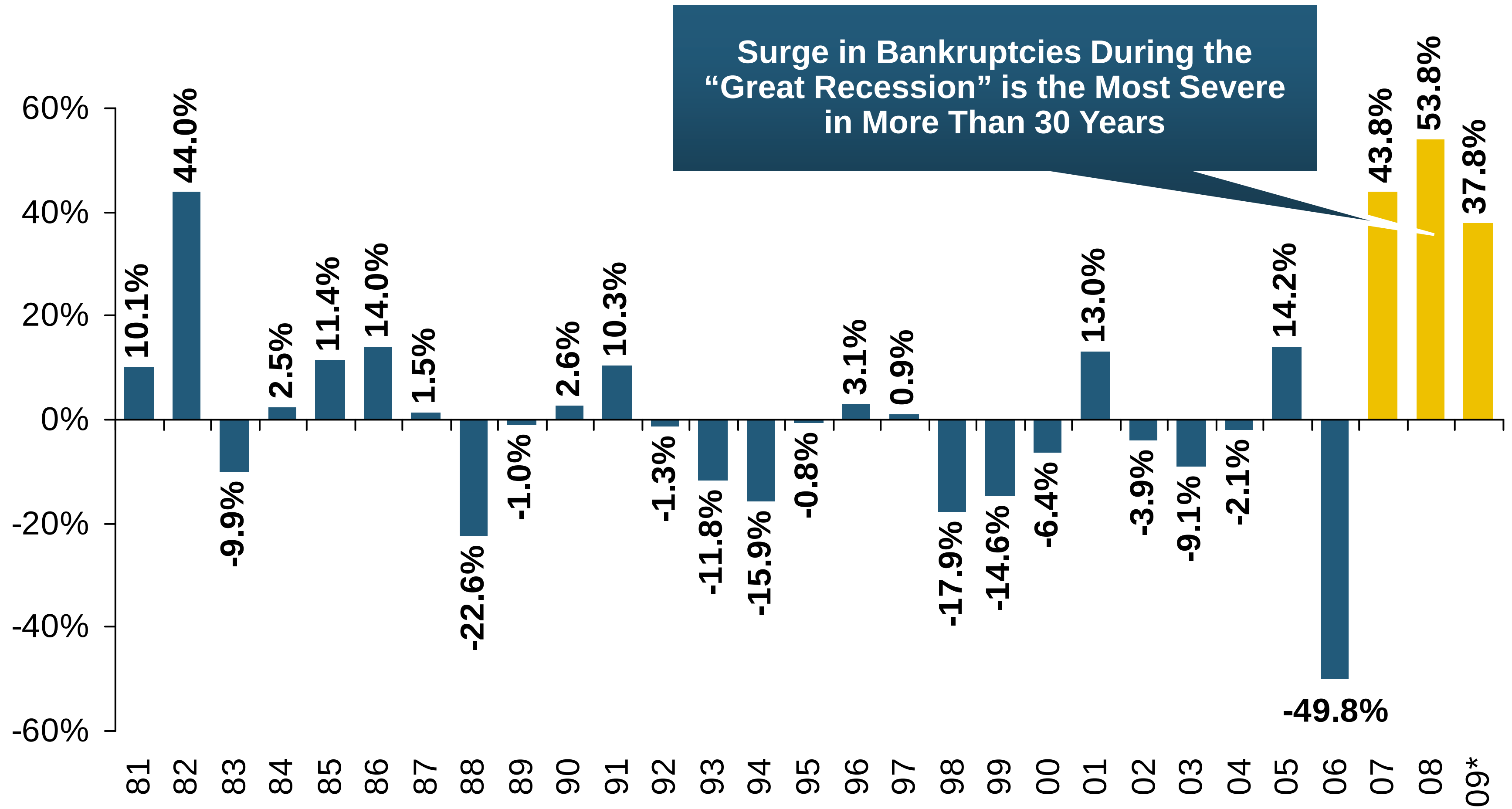
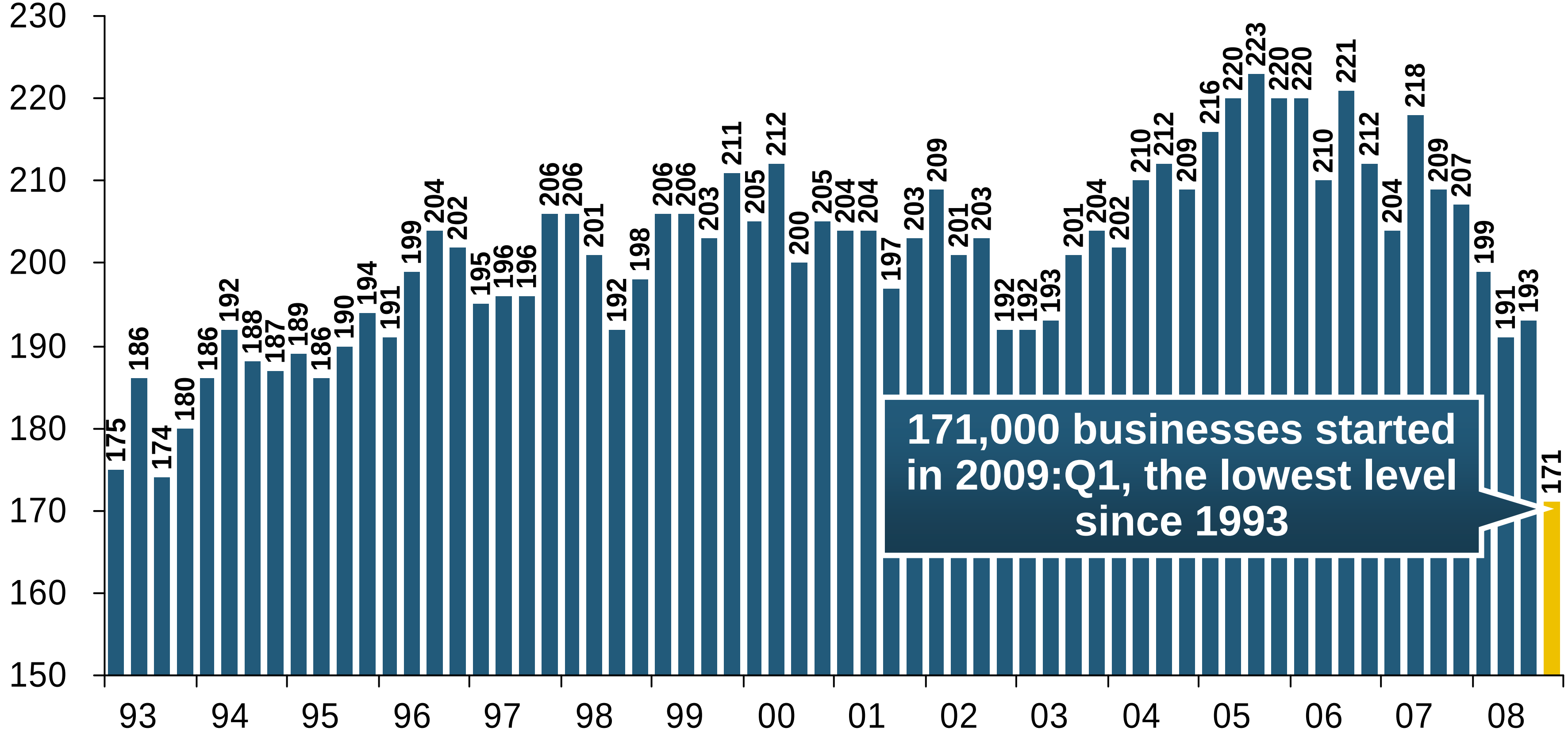


Significant Implications for All Commercial Lines

* Based estimate of 60,000 business bankruptcies in 2009. All figures are percent change from previous year.
Source: Insurance Information Institute from American Bankruptcy Institute data.

Private Sector Business Starts, 1993:Q2 – 2009:Q1*

(Thousands)



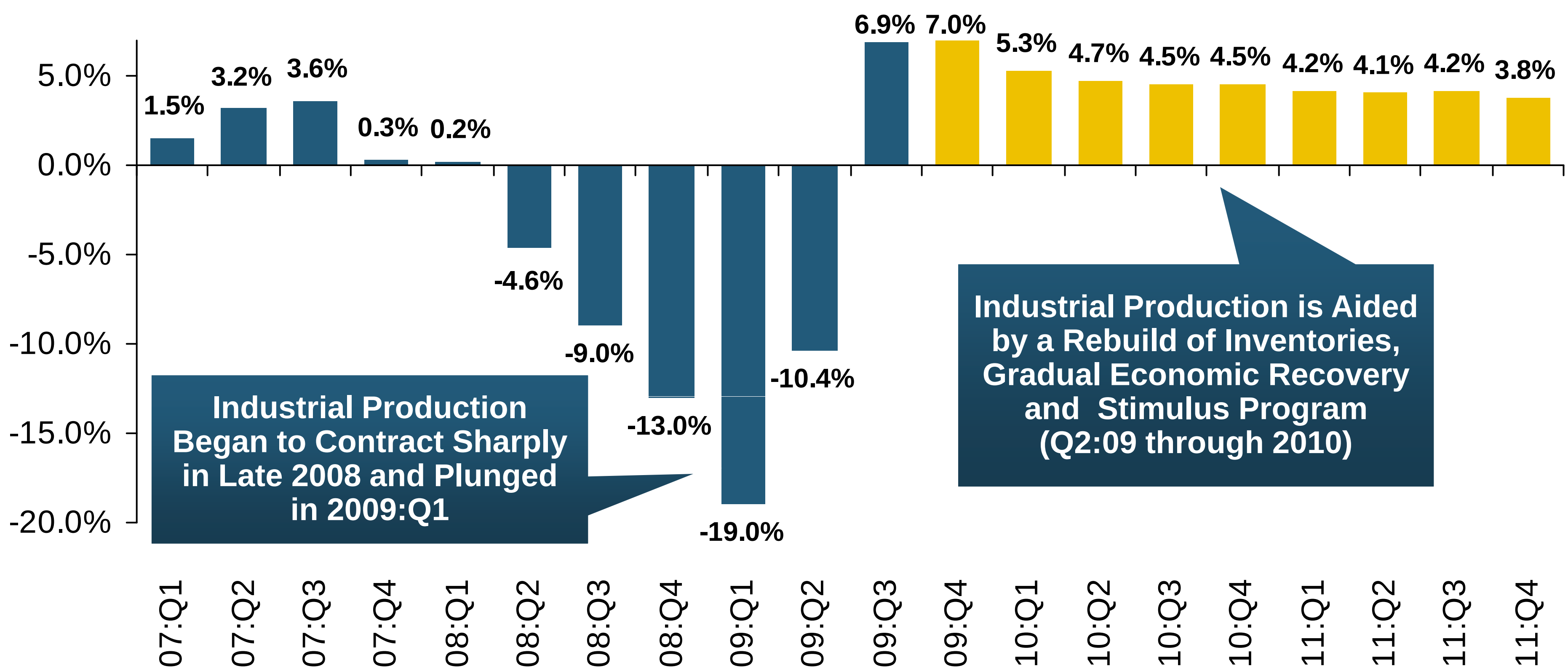
Business Starts Are Down 18% in the Current Downturn, Holding Back Most Types of Commercial Insurance Exposure

*Latest available as of Jan. 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 Are Benefiting Industrial Production and Therefore Insurance Exposure Both Directly and Indirectly, Albeit Very Modestly

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (2/10); Insurance Information Institute

State & Local Government Finances in Dire Straits

Large, Long-Term Cuts Necessary to Align Spending with Shrinking Tax Revenues

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

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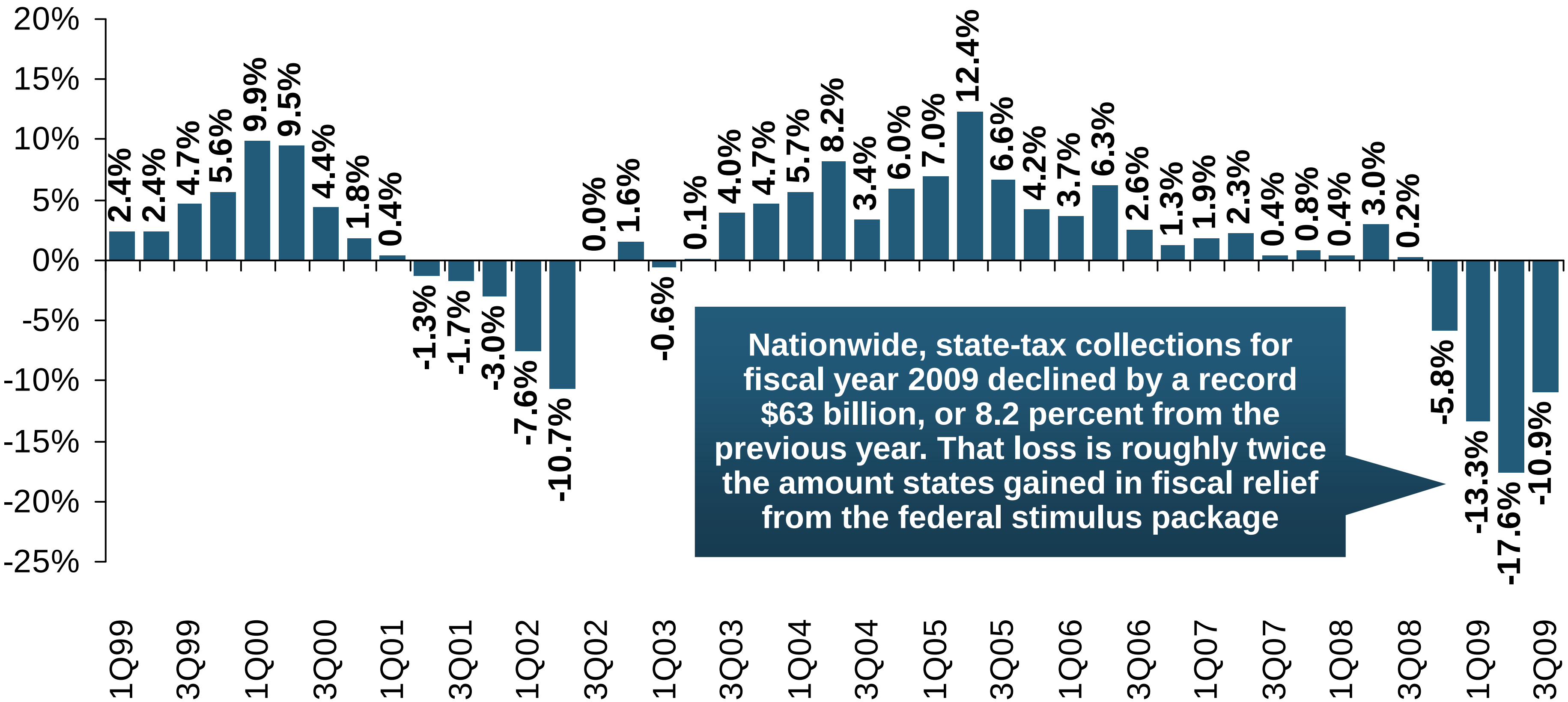

States Revenues Were Down 10.9% in Q3 2009, the Second Consecutive Quarter of Record Revenue Decline. This Will Impact Public Infrastructure Spending Significantly.

Source: US Census Bureau; Nelson A. Rockefeller Institute of Government: http://www.rockinst.org/pdf/government_finance/state_revenue_report/2010-01-07-SRR_78.pdf

Year-Over-Year Change in Quarterly State and Local Tax Revenues (Inflation Adjusted)

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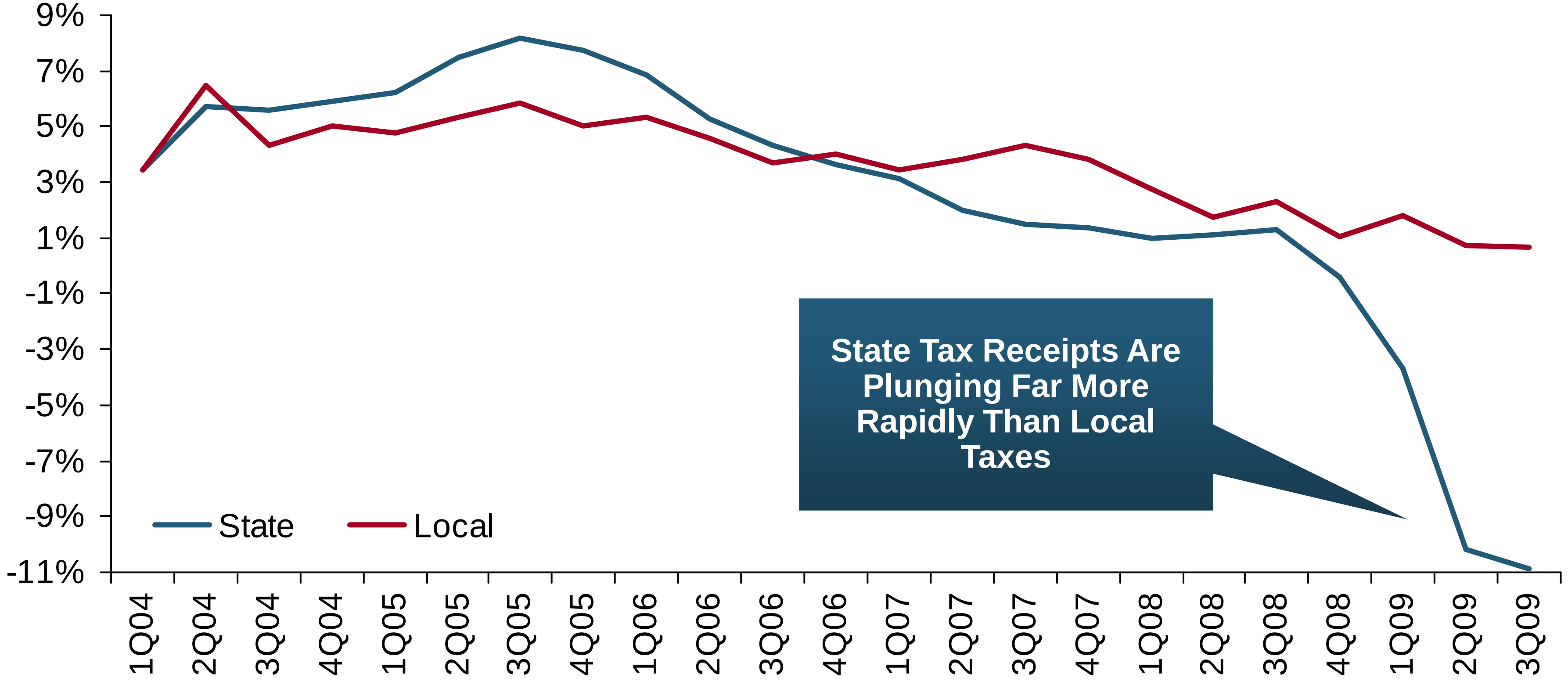
State Taxes Are Faring Worse Than Local Taxes

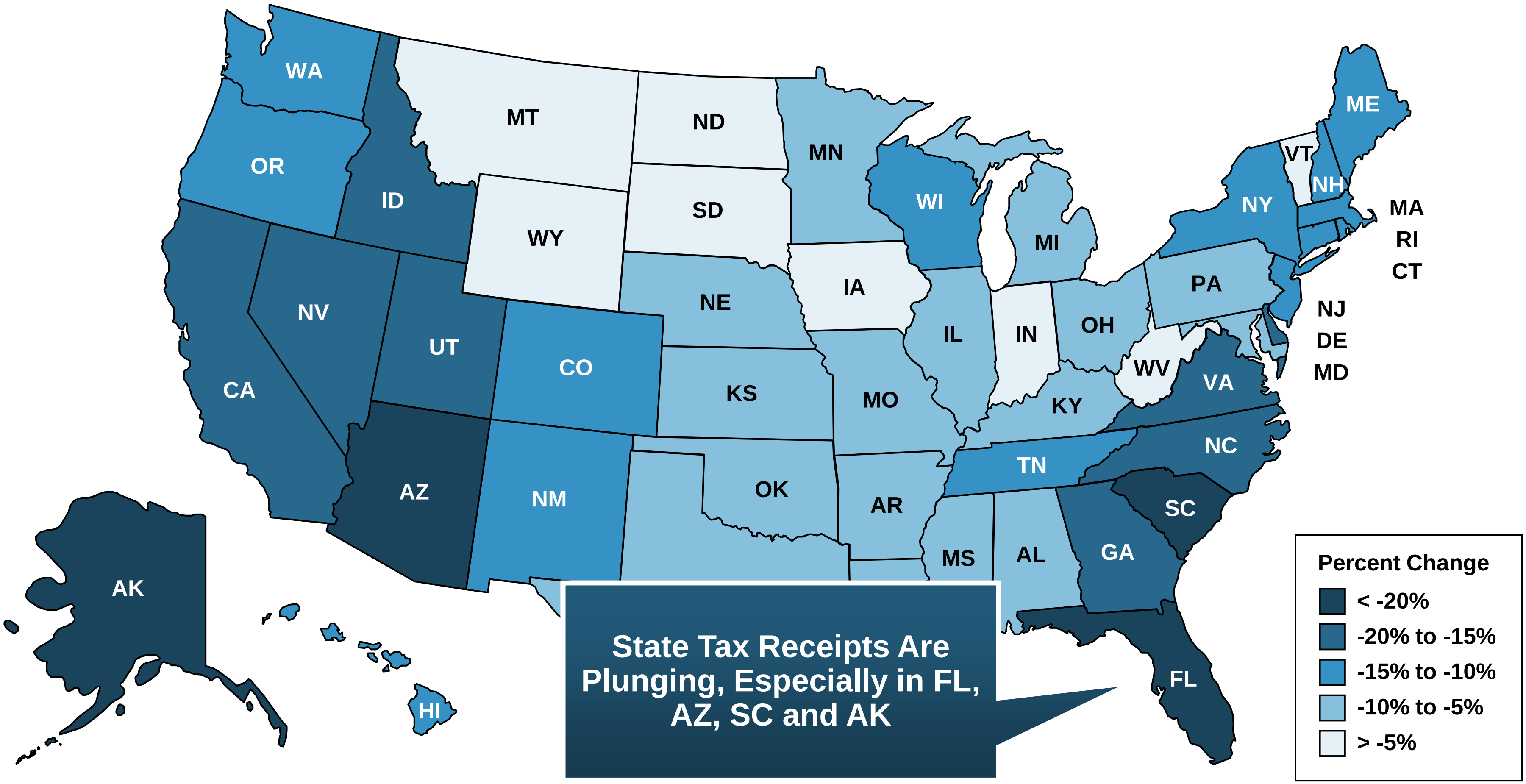


States Spending on Infrastructure Will Have to Decline Even More, Especially When Stimulus Funds Dry Up After 2010

Source: US Census Bureau; Nelson A. Rockefeller Institute of Government: http://www.rockinst.org/pdf/government_finance/state_revenue_report/2010-01-07-SRR_78.pdf

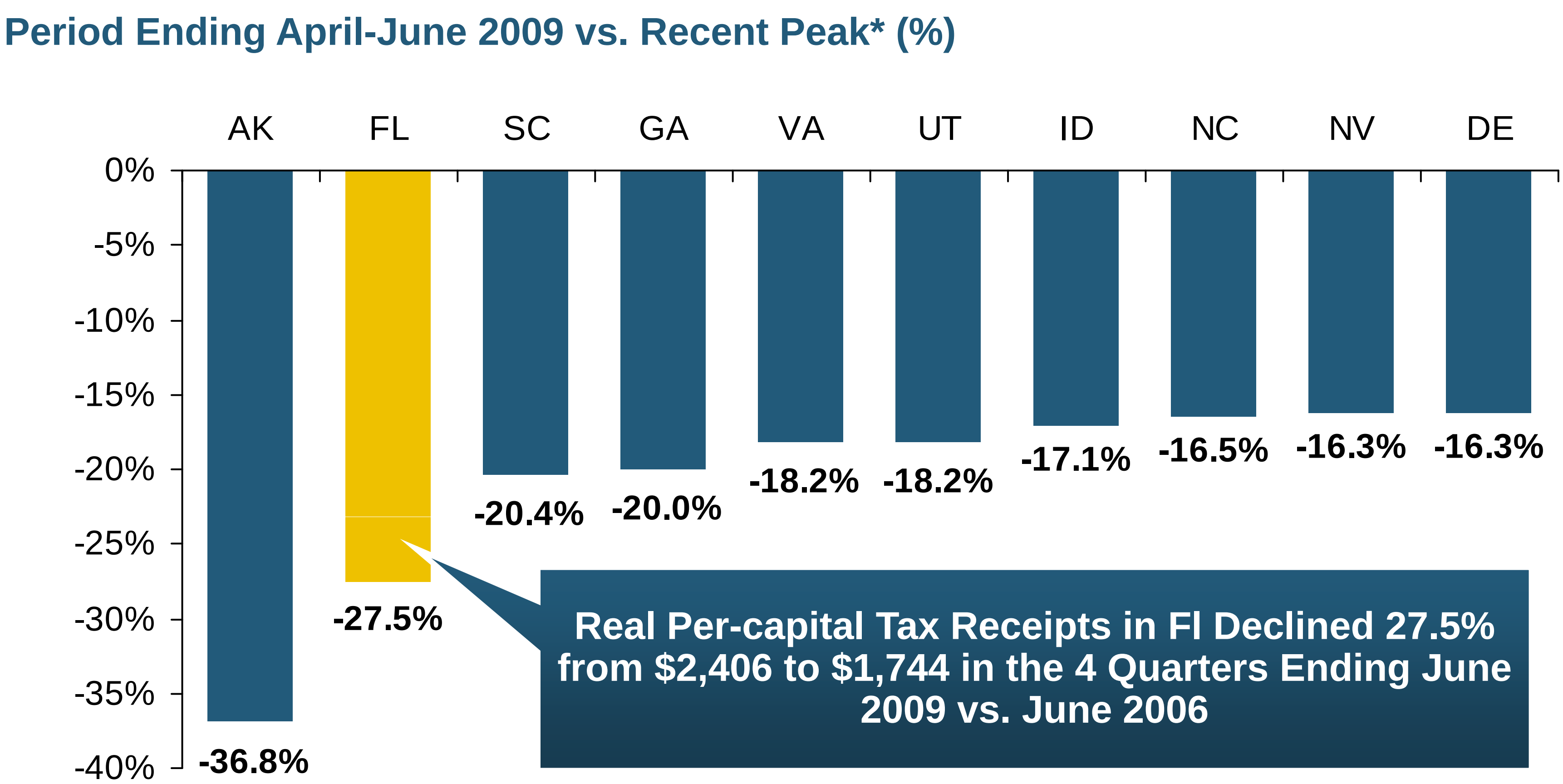
State Tax Revenue Growth Adjusted for Legislative Changes

Percent Change in Real Per-Capita State Tax Revenue from Recent Peak to Four Quarters Ending April-June 2009



Source: US Census Bureau; Nelson A. Rockefeller Institute of Government: http://www.rockinst.org/pdf/government_finance/state_revenue_report/2009-10-15-SRR_77.pdf

States with Fastest Decline in Real Per-Capita Tax Revenues



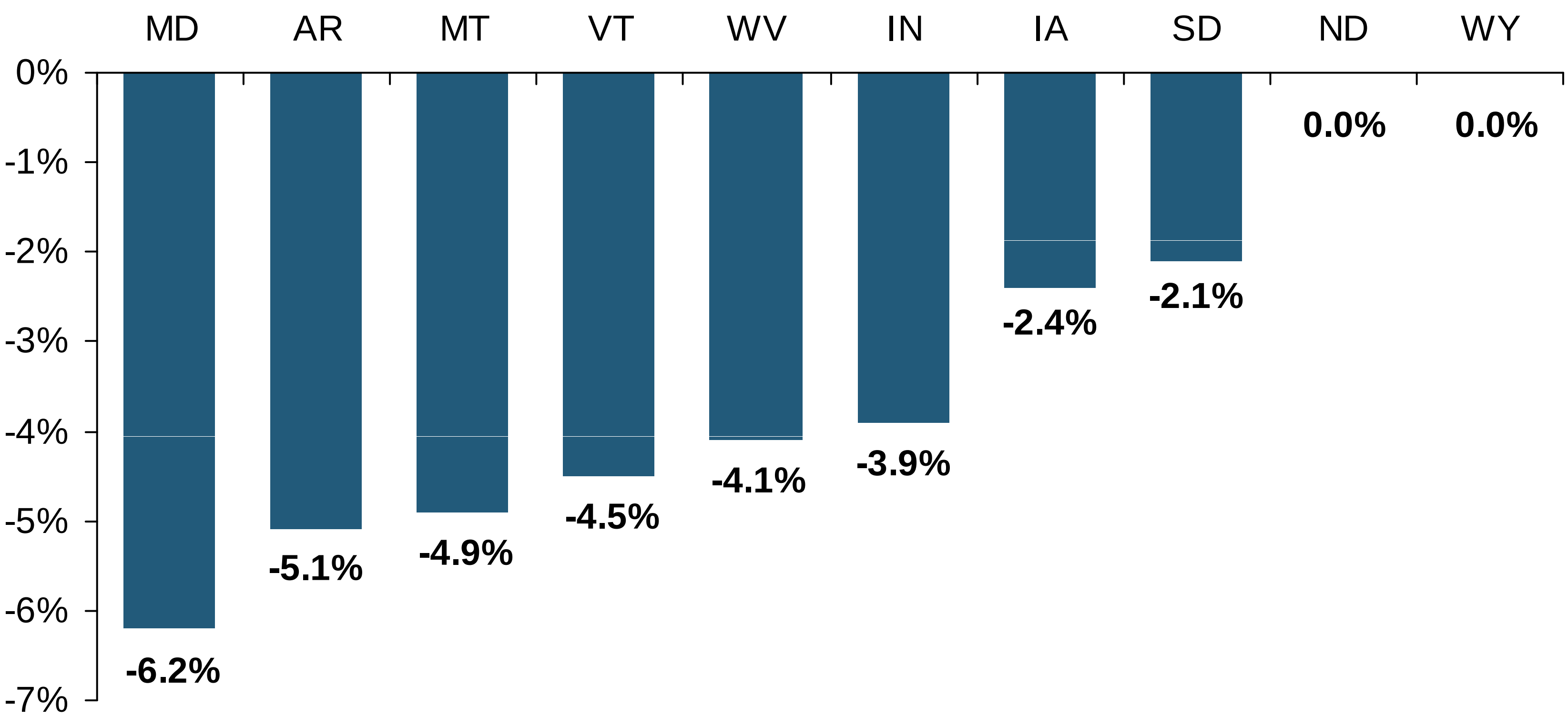
Many States' Revenues Are Down Substantially Since Their Highs Early in the Decade

* Peak defined as July-June period between 2006-2009 with highest peak per capita revenues.

Source: US Bureau of Economic Analysis; Nelson A. Rockefeller Institute of Govt.; Insurance Information Institute

States with Slowest Decline in Real Per-Capita Tax Revenues

Period Ending April-June 2009 vs. Recent Peak* (%)



Some States Are Doing Much Better Than Others

* Peak defined as July-June period between 2006-2009 with highest peak per capita revenues.
Source: US Bureau of Economic Analysis; Nelson A. Rockefeller Institute of Govt.; Insurance Information Institute

Green Shoots

The Recession May Have Ended, but Is it Self-Sustaining?

Hopeful Signs That the Economic Recovery is Underway

- **Recession appears to have bottomed out, freefall has ended**
  - GDP shrinkage has ended; Economy is expanding
  - Pace of job losses is slowing, despite setbacks
  - Major stock market indices well off record lows, anticipating recovery
  - Some signs of retail sales stabilization are evident
- **Financial sector is stabilizing**
  - Banks are reporting quarterly profits
  - Many banks expanding lending to ***very*** credit worthy people and businesses
- **Housing sector seems to be bottoming out**
  - Home are much more affordable (attracting buyers)
  - Mortgage rates are still low relative to pre-crisis levels (attracting buyers)
  - Freefall in housing starts and existing home sales is ending in many areas
- **Inflation and energy prices are under control**
- **Consumer and business debt loads are shrinking**

Source: Insurance Information Institute.

11 Industries for the Next 10 Years: Insurance Solutions Needed

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- Government
- Education
- Health Care
- Energy (Traditional)
- Alternative Energy
- Agriculture
- Natural Resources
- Environmental
- Technology
- Light Manufacturing
- Export-Oriented Industries

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

Mounting Pressure on Claim Cost Severities?

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

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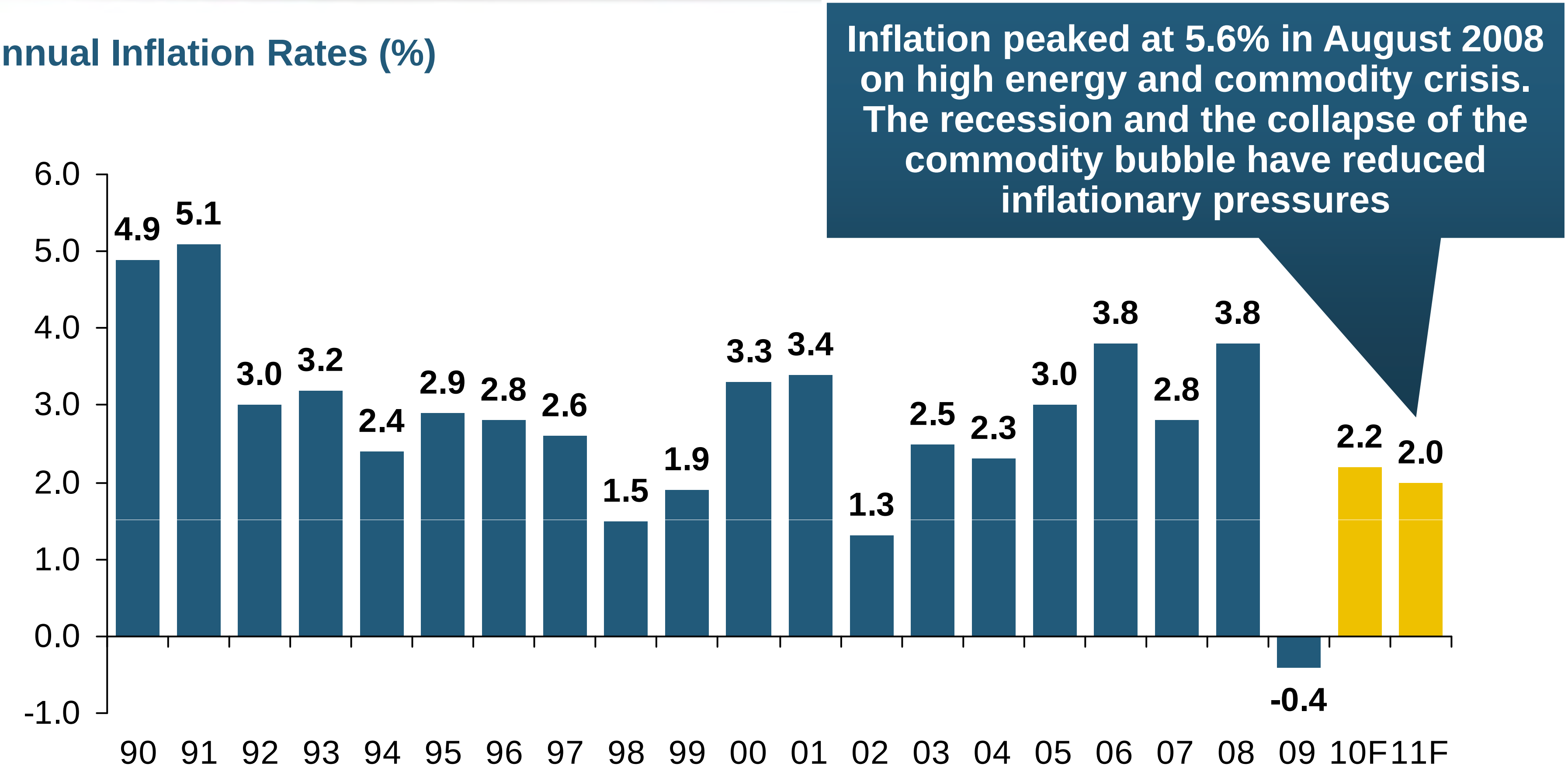

There is So Much Slack in the US Economy That Inflation Should Not Be a Concern Through 2010/11, but Depreciation of Dollar is Concern Longer Run

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators, Feb. 10, 2010 (forecasts).

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

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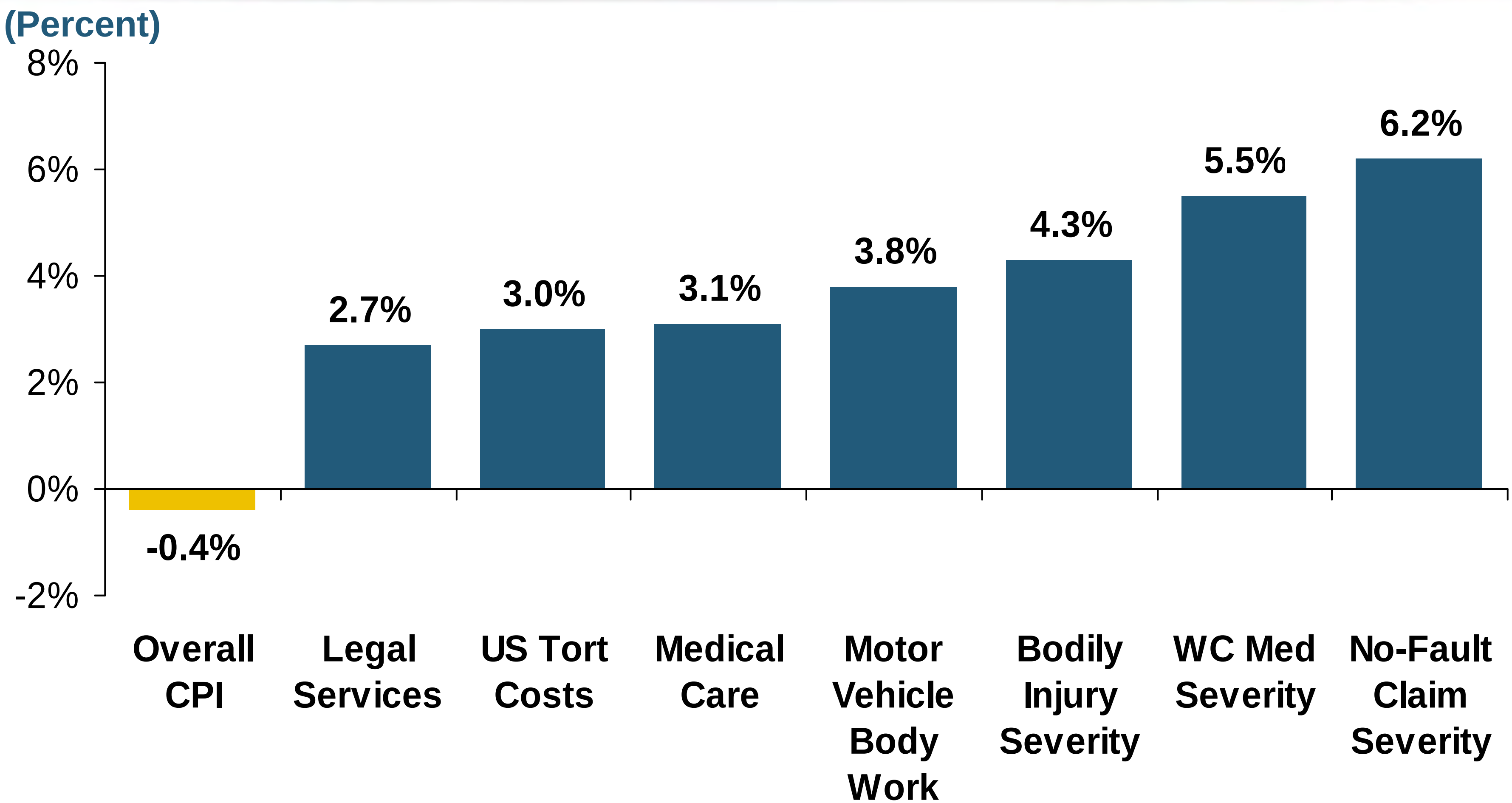

Healthcare and Legal/Tort Costs Are a Major P/C Insurance Cost Driver. These Are Expected to Increase Above the Overall Inflation Rate (CPI) Indefinitely

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.

Top Concerns/Risks for Insurers if Inflation Is Reignited

Concerns	The Federal Reserve Has Flooded Financial System with Cash (Turned on the Printing Presses), the Federal Gov't Has Approved a $787B Stimulus and the Deficit is Expected to Mushroom to $1.8 Trillion. All Are Potentially Inflationary.

- What are the potential impacts for insurers?
- What can/should insurers do to protect themselves from the risks of inflation?

Key Risks	From Sustained/Accelerating Inflation

- **Rising Claim Severities**
  - Cost of claims settlement rises across the board (property and liability)
- **Rate Inadequacy**
  - Rates inadequate due to low trend assumptions arising from use of historical data
- **Reserve Inadequacy**
  - Reserves may develop adversely and become inadequate (deficient)
- **Burn Through on Retentions**
  - Retentions, deductibles burned through more quickly
- **Reinsurance Penetration/Exhaustion**
  - Higher costs ➔ risks burn through their retentions more quickly, tapping into reinsurance more quickly and potentially exhausting their reinsurance more quickly

Source: Insurance Information Institute.

Tort Cost Growth & Medical Cost Inflation vs. Overall Inflation (CPI-U), 1961-2009E*

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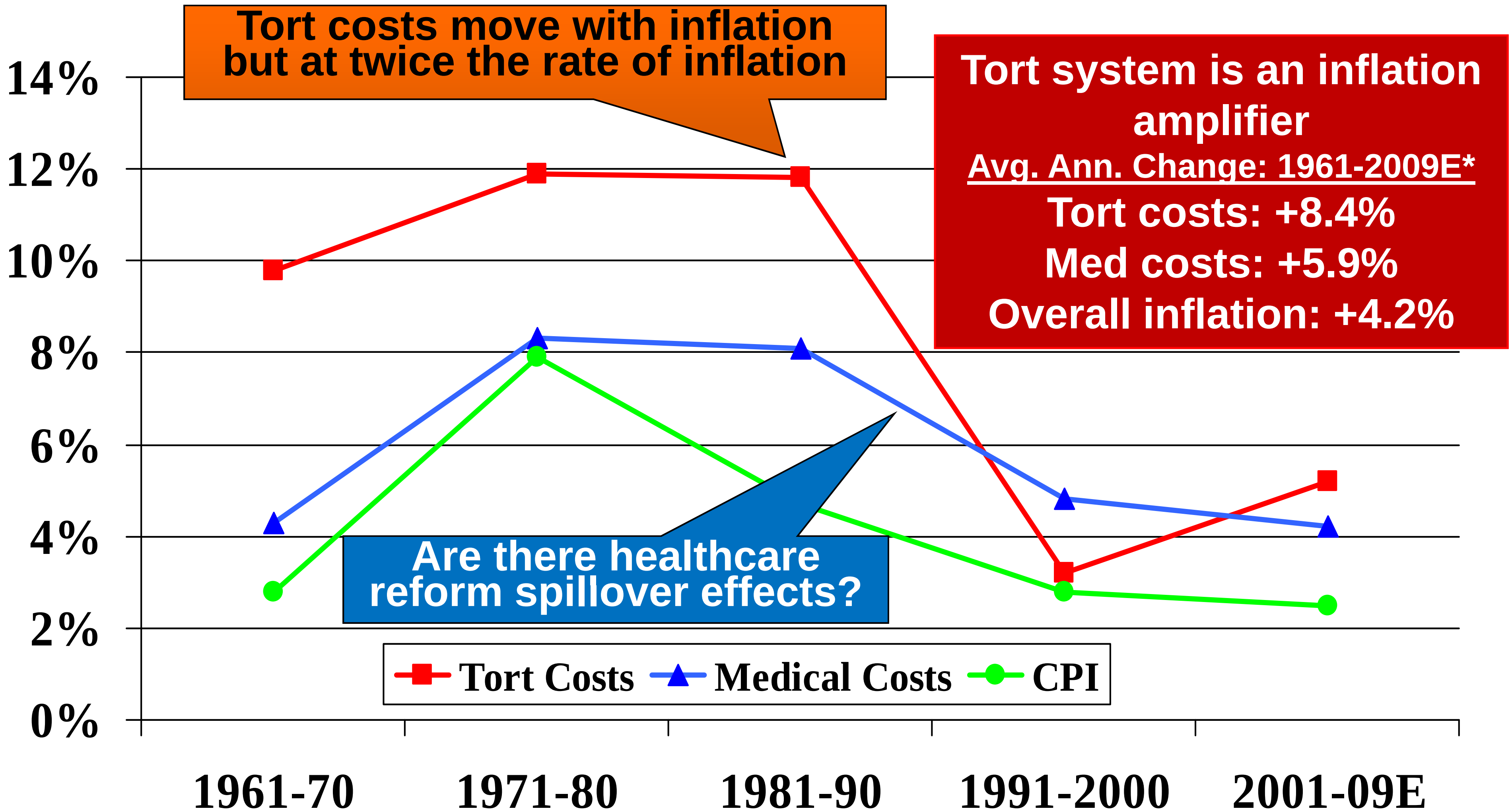
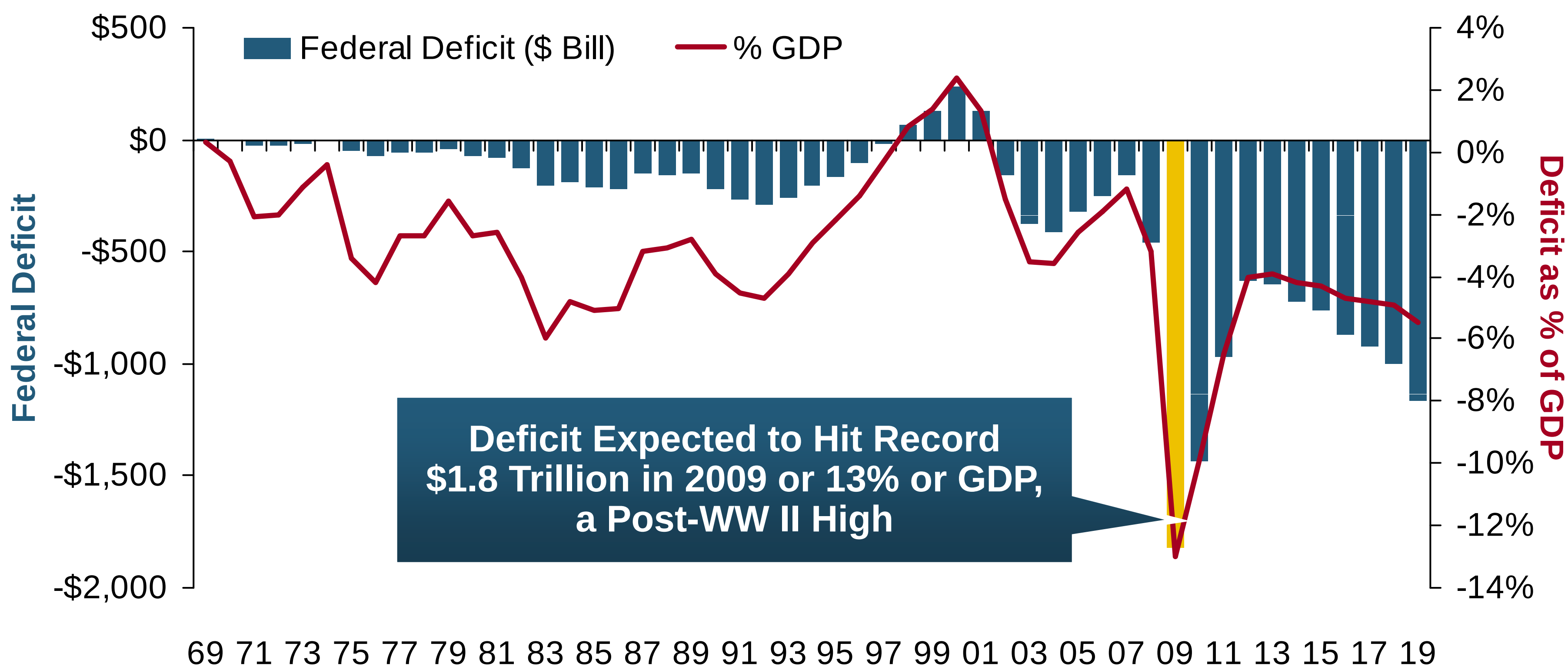


* CPI-U and medical costs as of Sept 2009; Tort figure is for full-year 2009 from Tillinghast.

Source: U.S. Bureau of Labor Statistics; Tillinghast-Towers Perrin, *2008 Update on U.S. Tort Costs;* I.I.I.

US Budget Deficit, 1969–2019F

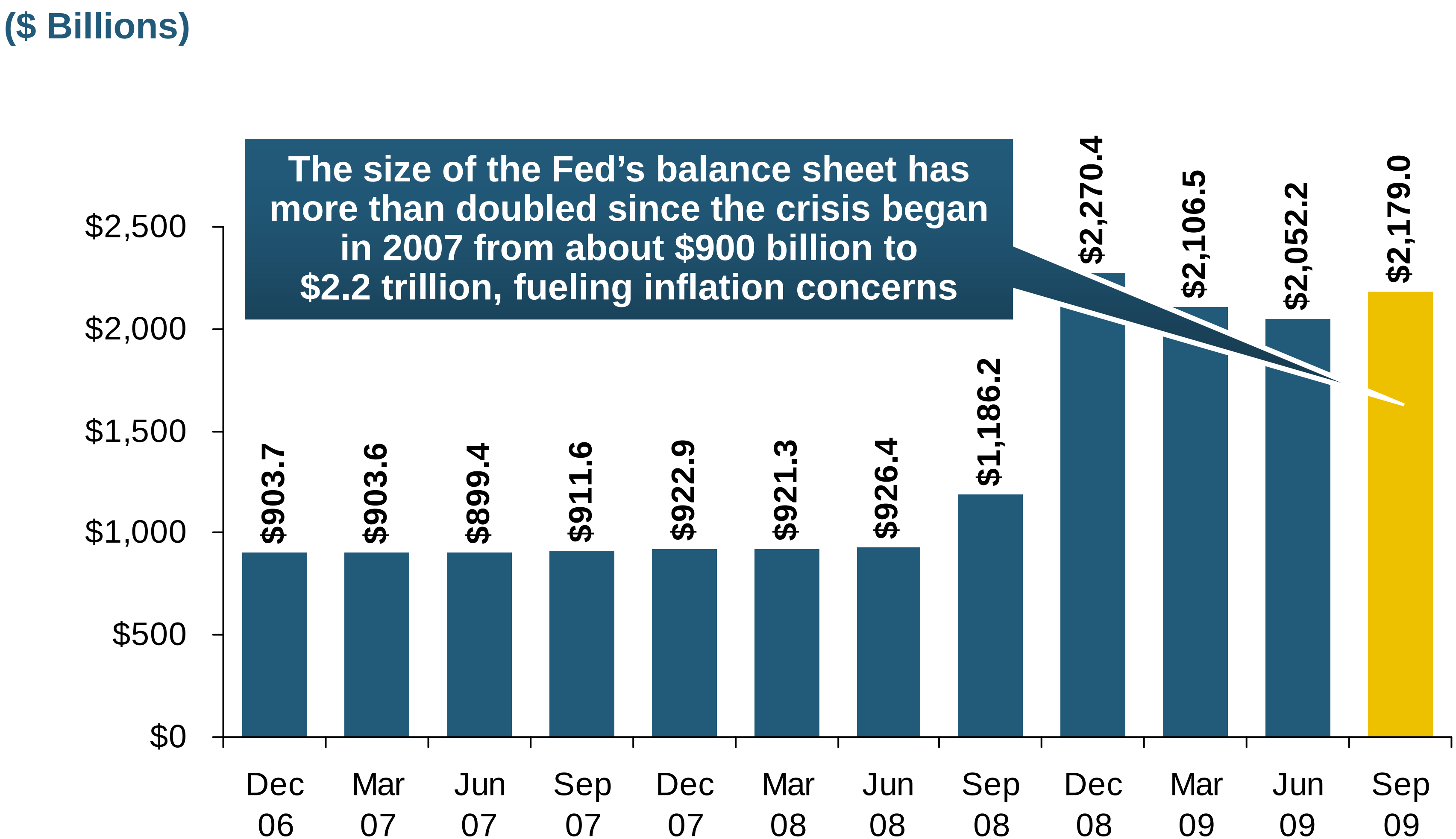
US Budget Deficit



Concerns That Deficit Spending Will Drive Up Inflation. This Would Harmful to Insurance Claim Severity

Sources: Congressional Budget Office analysis of President's budget, March 2009; Insurance Information Institute.

Balance Sheet of the Federal Reserve, Dec. 2006–Sept. 2009*



* As of final Friday in each quarter.

Source: Federal Reserve: http://www.federalreserve.gov/releases/h41/hist/h41hist1.htm.

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Key Threats Facing Insurers Amid Financial Crisis

Challenges for the Next 5-8 Years

Important Issues & Threats Facing Insurers: 2010–2015

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1 Erosion of Capital

- Losses were larger and occurred more rapidly than was commonly understood or presumed possible
- Max surplus loss at 3/31/09 was 16%=$85B from 9/30/07 peak
- P/C policyholder surplus could have been much larger
- Some insurers propped up results by reserve releases
- Decline in PHS of 1999–2002 was 15% over 3 years and was entirely made up and them some in 2003. Recent decline was ~16% in 5 quarters
- During the opening years of the Great Depression (1929–1933) PHS fell 37%, Assets fell 28% and Net Written Premiums fell by 35%. It took until 1939–40 before these key measures returned to their 1929 peaks

Bottom Line: **Capital and Assets Fall Faster and Farther Than Many Believed Possible. It Will Take Until 2010 to Return to the 2007 Peaks (Without Market Relapse)**

Source: Insurance Information Institute.

Important Issues & Threats Facing Insurers: 2010–2015

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2 Reloading Capital After "Capital Event"

- Continued asset price erosion coupled with major "capital event" would have lead to shortage of capital among *some* companies
- Possible Consequences: Insolvencies, forced mergers, calls for gov't aid, requests to relax capital requirements
- P/C insurers have come to assume that large amounts of capital can be raised quickly and cheaply after major events (post-9/11, Katrina)
  - *This assumption was incorrect during and immediately after the crisis*
- Cost of capital can rise sharply (relative "risk-free" rates), reflecting both scarcity, increasing volatility and heightened investor risk aversion

Implications: **P/C (re)insurers need to protect capital today and develop detailed contingency plans to raise fresh capital and generate internally. Was a reality for some life insurers.**

Source: Insurance Information Institute.

Important Issues & Threats Facing Insurers: 2010–2015

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3 Long-Term Reduction in Investment Earnings

- Low interest rates, risk aversion toward equities and many categories of fixed income securities lock in a multi-year trajectory toward ever lower investment gains
- Fed actions in Treasury markets keep yields low
- Many insurers have not adjusted to this new investment paradigm of a sustained period of low investment gains
- ***Regulators will not readily accept it;* many will reject it**
- ***Implication 1:*** Industry must be prepared to operate in environment with investment earnings accounting for a smaller fraction of profits
- ***Implication 2:*** Implies underwriting discipline of a magnitude not witnessed in this industry in more than 30 years. Yet to manifest itself.
- Lessons from the period 1920–1975 need to be relearned

Source: Insurance Information Institute.

Important Issues & Threats Facing Insurers: 2010–2????

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4 Regulatory Overreach

- Principle danger is that P/C insurers get swept into vast federal regulatory overhaul and subjected to inappropriate, duplicative and costly regulation (Dual Regulation)
- Systemic Risk Regulator
  - Is any insurer systemically important?
- Federal Insurance Office Creation Within Treasury?
  - Eventual "mission creep"?; Activist director?
- Consumer Financial Protection Agency
  - Will it be limited to banks/creditors
- Federal Trade Commission: All Lines Study Authority?
- McCarran-Ferguson Rollback
  - Will it be limited to Health/Med Mal lines?
- OFC/State Regulation Debate Lingers
- Taxation/Offshore Domiciles

Bottom Line: **Regulatory Outcome is Uncertain and Risk of Adverse Outcome Exists. Ultimate Regulation Structure Will Be in Place for Decades**

Source: Insurance Information Institute.

Federal Insurance Office: *What Would it Do?*

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Duties of the Federal Insurance Office

- **Establishes office within US Treasury headed by a Director appointed by Treasury Secretary, and charged with:**
  1. Monitor the insurance industry to gain expertise
  2. Identify regulatory gaps that could contribute to a systemic crisis in the insurance industry or the U.S. financial system
  3. Recommend to the federal authority having systemic risk responsibility the designation of certain insurers (and their affiliates) for heightened prudential standards (although recognition of this role of the FIO is not evident in existing systemic risk regulation proposals)
  4. Assist in the administration of the Terrorism Risk Insurance Program

Source: Federal Insurance Office Act of 2009 (HR 2609); Adapted from summary by Jason Schupp at Zurich American Insurance Company, Federal Regulation Reform Series, Dec. 6, 2009.

Federal Insurance Office:
What Would it Do?

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Duties of the Federal Insurance Office (continued)

5. Coordinate Federal efforts and establish Federal policy on prudential aspects of international insurance matters (including representation of the U.S. before the International Association of Insurance Supervisors and assisting the Secretary of Treasury in the negotiation of international agreements relating to prudential matters)
6. Consult with the States on national matters of importance to insurance and international insurance matters relating to prudential regulation
7. Determine whether state insurance matters are preempted by international insurance agreements relating to prudential matters
8. Advise the Secretary of Treasury on major domestic and prudential international matters of importance
9. Consult with state insurance commissioners, both individually and collectively, as appropriate

Source: Federal Insurance Office Act of 2009 (HR 2609); Adapted from summary by Jason Schupp at Zurich American Insurance Company, Federal Regulation Reform Series, Dec. 6, 2009.

Systemic Risk: Oversight & Resolution Authority

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Issues Related to Systemic Risk & Resolution Authority

- **Federal Authority created to oversee systemic risk of large financial holding companies (e.g., Federal Reserve or other existing/new agency) [a.k.a. TOO BIG TOO FAIL]**
  - P/C insurers are working to "carve out" and exception to systemic risk oversight (arguing they were not the source/cause of problems)
  - Without such an exception, p/c insurers could be subject to assessments for failed noninsurance financial institutions or could be forced to repay funds provided for government assistance to firms due to problems outside of their p/c insurance operations
- **European Regulators Believe Large (Re)Insurers Should Be Included Under the Definition of Systemically Important Firms**
  - ECB named 8 insurers/reinsurers as systemically important

Source: Federal Insurance Office Act of 2009 (HR 2609); Adapted from summary by Jason Schupp at Zurich American Insurance Company, Federal Regulation Reform Series, Dec. 6, 2009.

Health Insurance Reform Debate: Potential Spillover Impacts on P/C Insurers

- **24-Hour Coverage Proposal**
  - Would roll WC and med components of auto into national health care plan
- **Rollback of McCarran-Ferguson Act**
  - Would repeal or restrict for health and medical malpractice insurers
  - *Slippery slope – Med Mal is a p/c line; Congress will not hesitate to breach M-F for other p/c lines in the future to show its ire over an issue (e.g., after major cat)*
- **Exclusion of Med Mal Reform from Health Care Bill**
  - Shows powerful influence of trial bar with Congress/Administration
- **FTC granted authority to conduct studies "related to insurance" *– All Lines!***
- **Reporting of Claims**
- **Adjustments to Medicare Fee Schedules**
- **Patient "Bill of Rights" or Vague Standards of Care**
- **Cost Shifting into WC, Auto from Health System**
  - WC/Auto Medical: more lucrative from provider perspective
- **"Windfall" Profit Taxes? Additional Premium Taxes?**
- **Executive Compensation Restrictions?**
- **Public "Option" in P/C Lines – Nat Cat/Wind?**
- **Perception that Feds Regulate Insurance Industry Taking Root**

Important Issues & Threats Facing Insurers: 2010–2015

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5 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**

Source: Insurance Information Institute

Terrorism: Insurance Concerns Resurface

Reasons Why Concerns Are Mounting in 2010

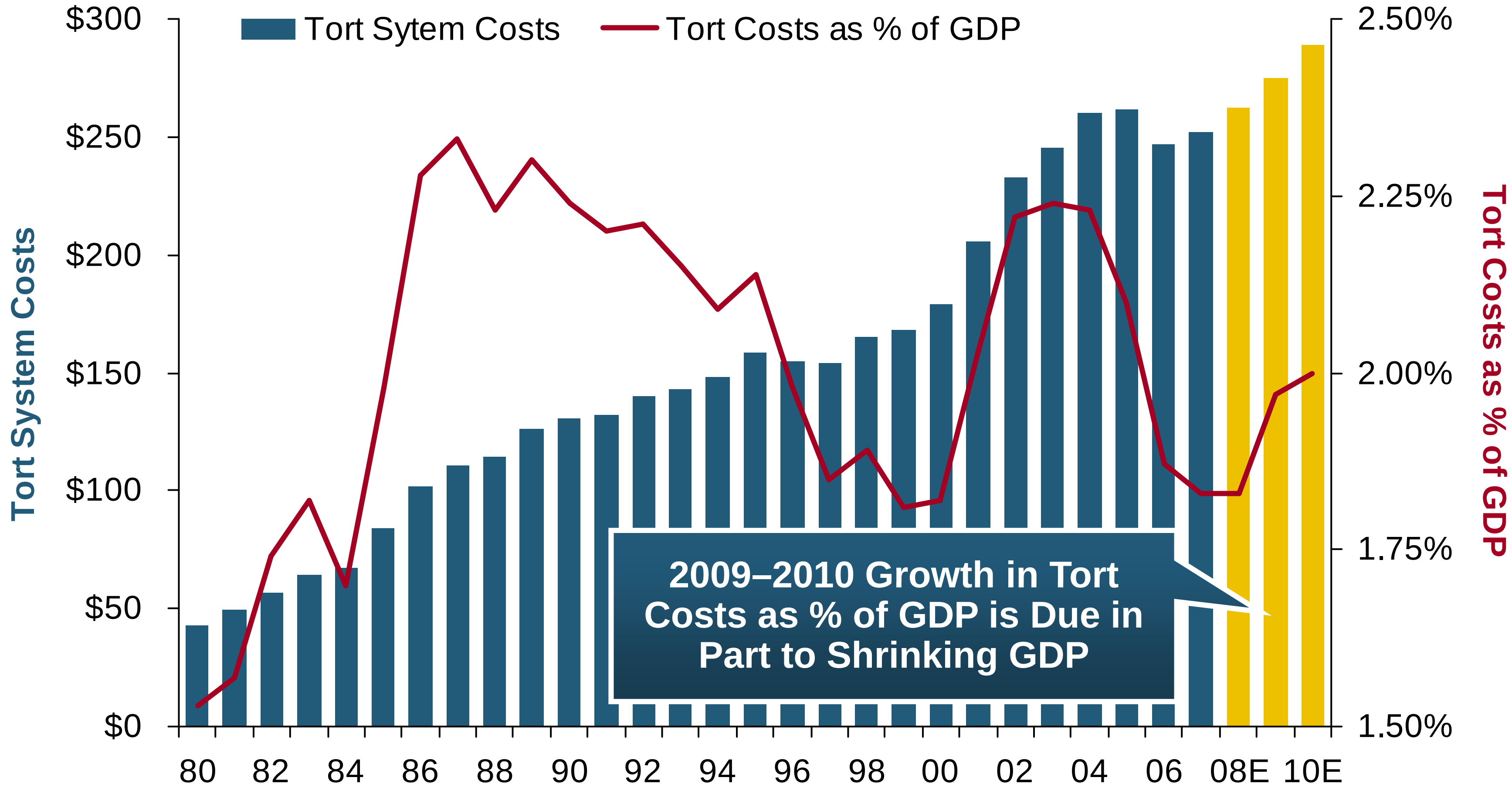
- Perception of U.S. vulnerability is rising
- Thwarted Christmas Day attack by “underwear bomber”
  - And new bin Laden tape claiming al Qaeda is responsible
- Increased anti-terror efforts, including full-body scans
- Effort by government to appear more vigilant, prepared
- Trials of Guantanamo 9/11 suspects in Manhattan Court
  - NYC says it will need $200+ million each year for security
- Obama Administrations Intent to Reduce Support for TRIA
- Rise of groups such al Qaeda in the Arabian Peninsula
- U.S. military surge in Afghanistan operations
- Most buyers, producers have not thought about coverage issues recently
- U.K. in January Raised Terror Alert Status to 2nd Highest Level

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

The Nation's Judicial Hellholes (2008/2009)

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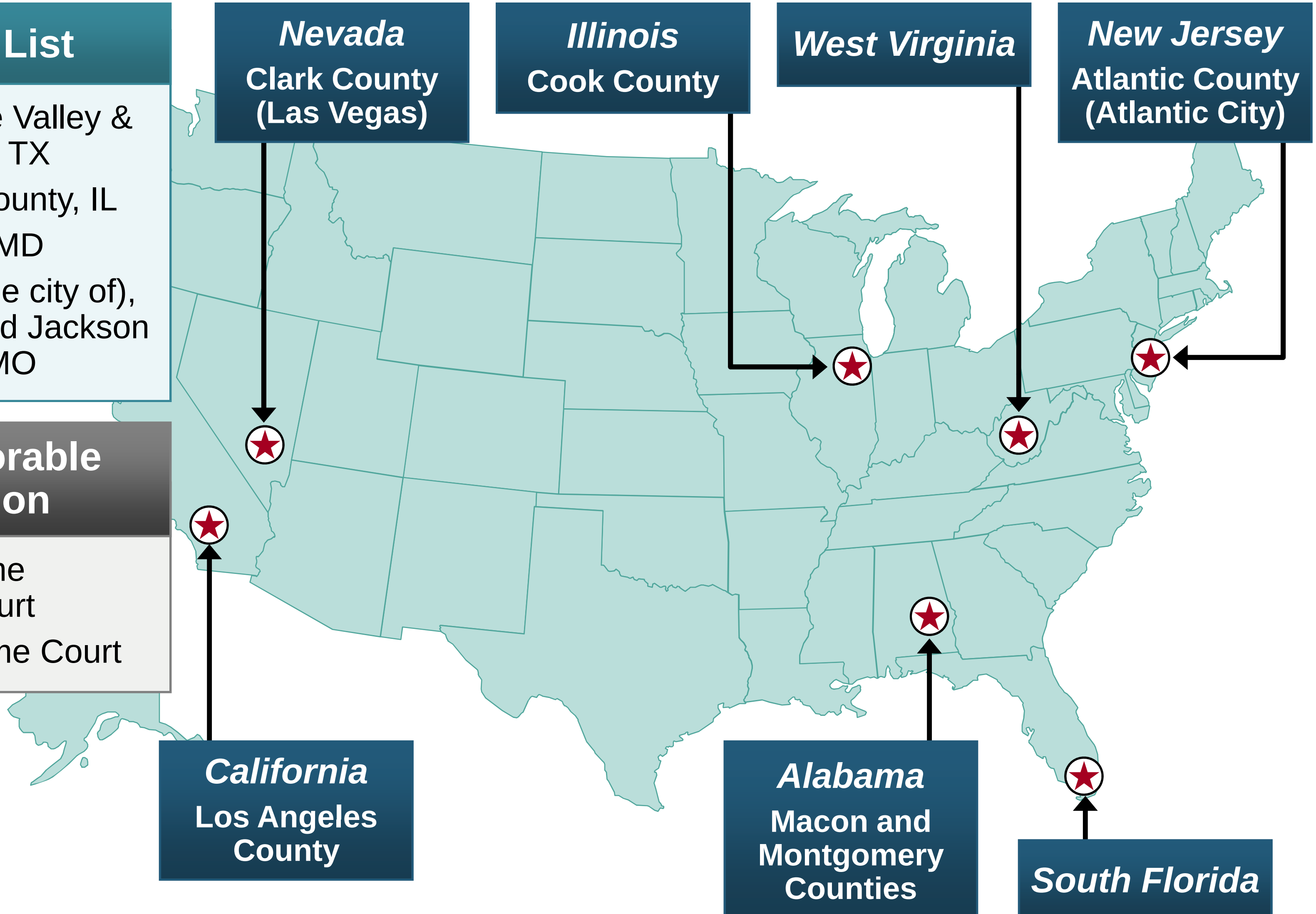
Watch List

- Rio Grande Valley & Gulf Coast, TX
- Madison County, IL
- Baltimore, MD
- St Louis (the city of), St Louis and Jackson Counties, MO

Dishonorable Mention

- MA Supreme Judicial Court
- MO Supreme Court



Source: American Tort Reform Association; Insurance Information Institute

The Nation's Judicial Hellholes: 2010

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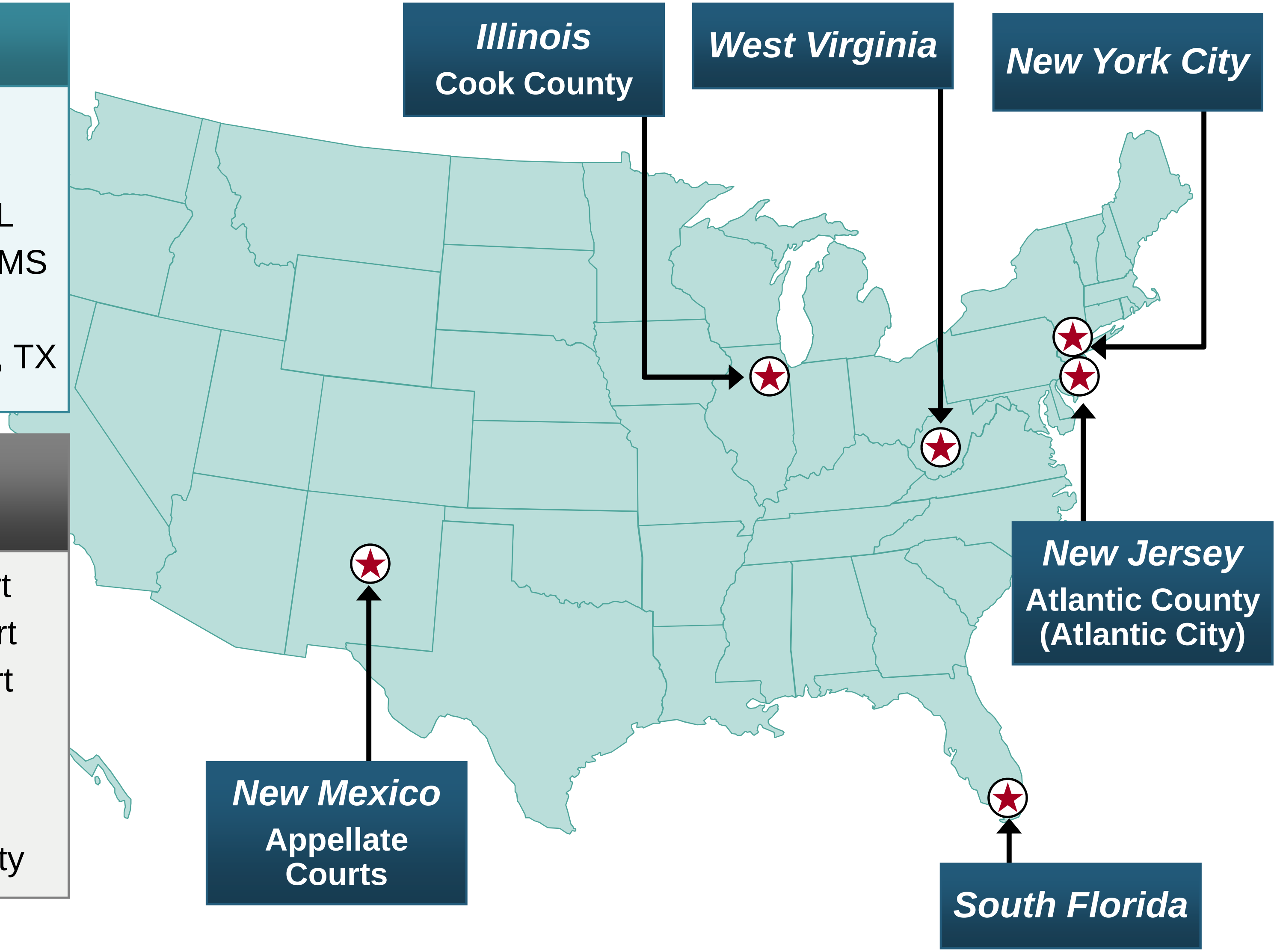
Watch List

- 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



Source: American Tort Reform Association; Insurance Information Institute

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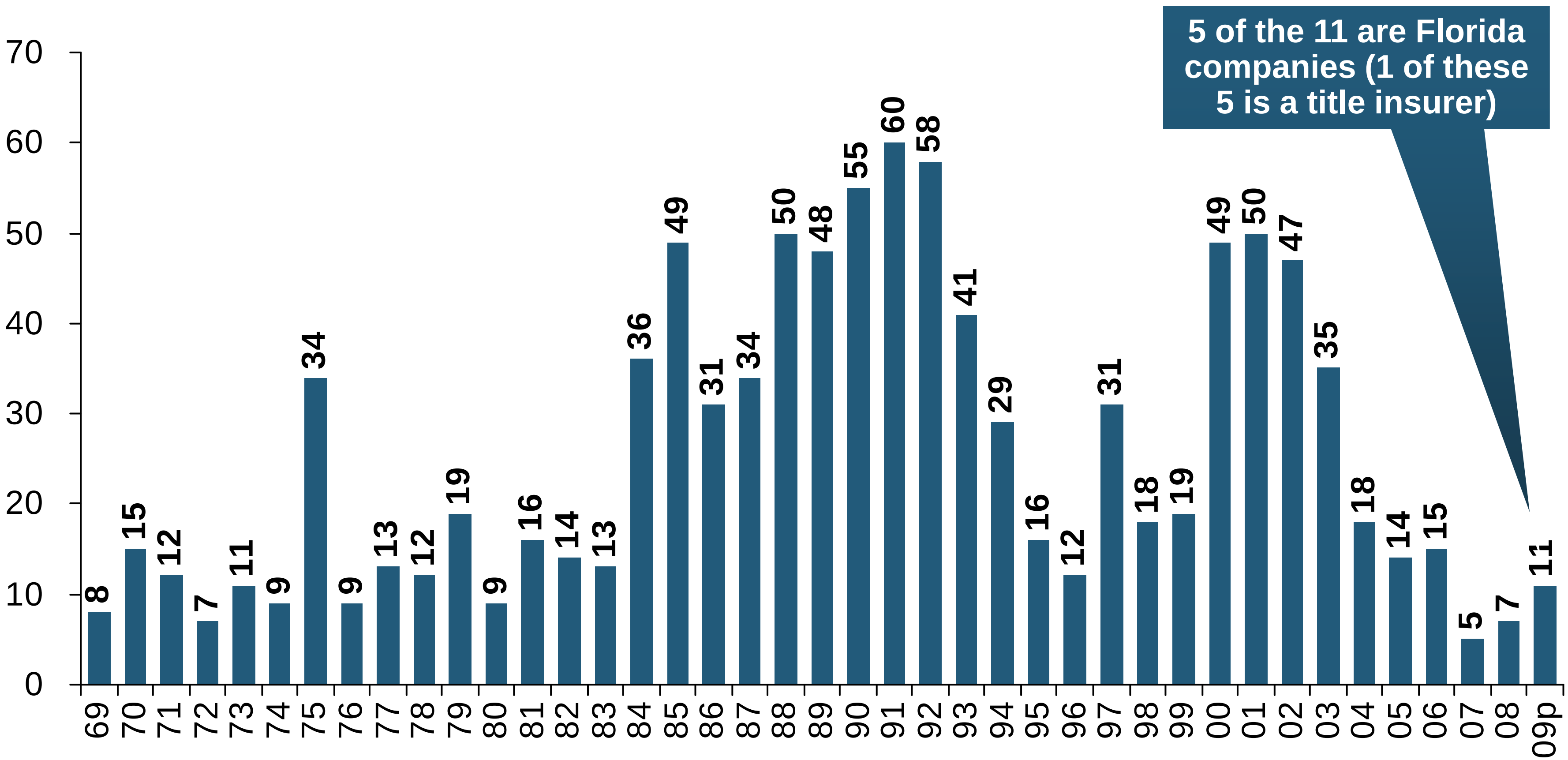
Financial Strength & Ratings

Industry Has Weathered the Storms Well

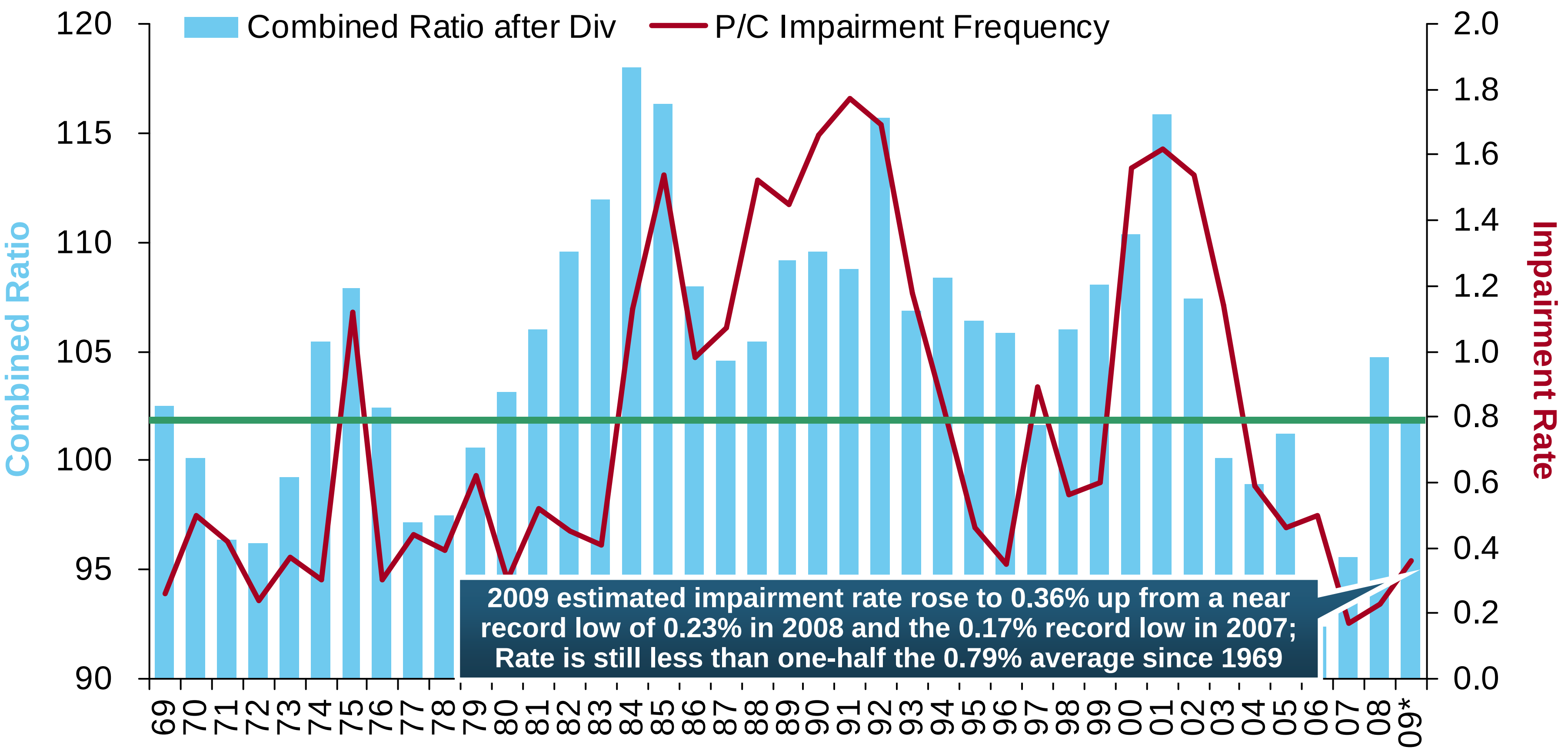
P/C Insurer Impairments, 1969–2009p



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

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

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



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

*Combined ratio of 101.7 is through Q3:09; 0.36% 2009 impairment rate is III estimate based on preliminary A.M. Best data.

Source: A.M. Best; Insurance Information Institute

Summary of A.M. Best's P/C Insurer Ratings Actions in 2009

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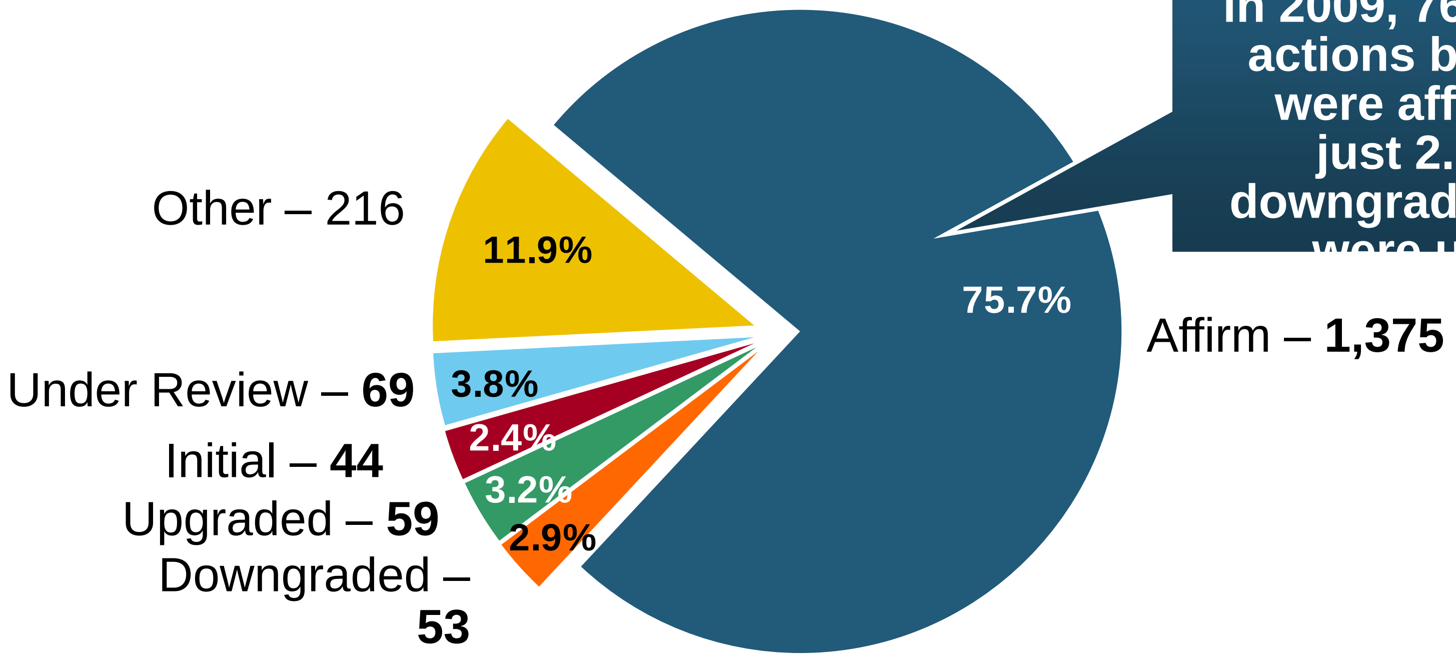
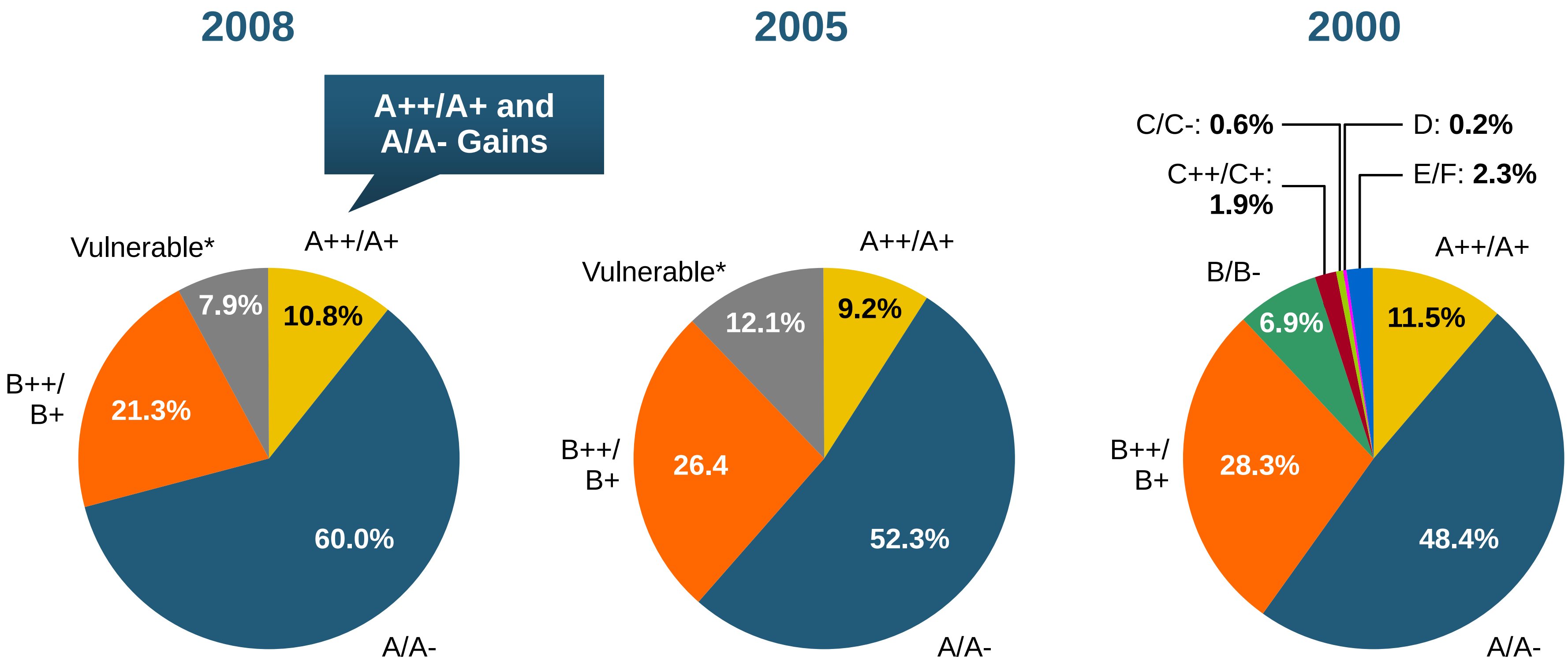


Despite financial market turmoil and a soft market in 2009, 76% of ratings actions by A.M. Best were affirmations; just 2.9% were downgrades and 3.2% were upgrades

P/C Insurance is by Design a Resilient Business.
The Dual Threat of Financial Disasters and Catastrophic Losses Are Anticipated in the Industry's Risk Management Strategy

Source: A.M. Best.

Historical Ratings Distribution, US P/C Insurers, 2008 vs. 2005 and 2000

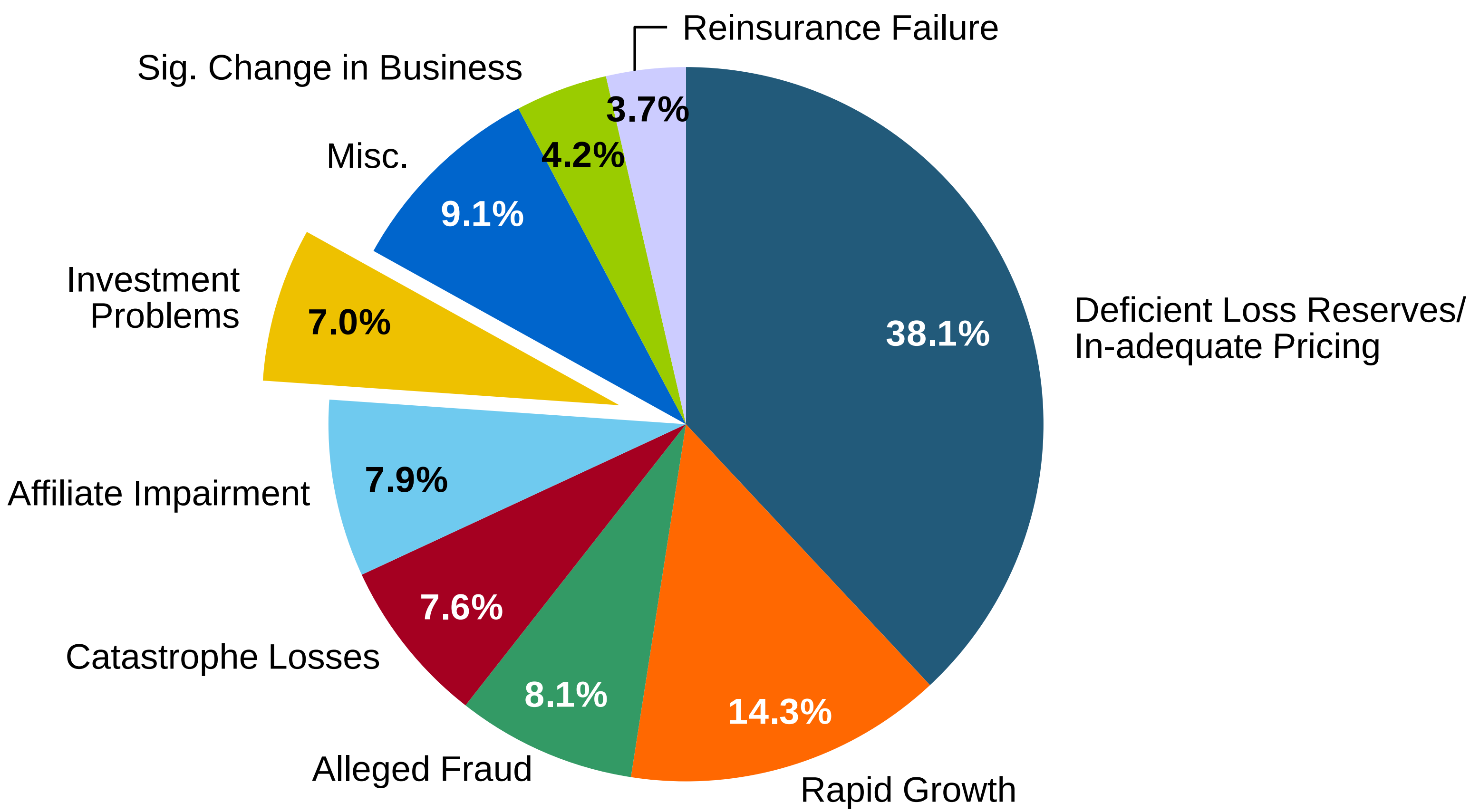


P/C Insurer Financial Strength Has Improved Since 2005 Despite Financial Crisis

Source: A.M. Best: *Rating Downgrades Slowed but Outpaced Upgrades for Fourth Consecutive Year*, Special Report, November 8, 2004 for 2000; 2006 and 2009 Review & Preview. *Ratings 'B' and lower.

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



Source: A.M. Best: *1969-2008 Impairment Review*, Special Report, Apr. 6, 2008

Critical Differences Between P/C Insurers and Banks

Superior Risk Management Model and Low Leverage Make a Big Difference

How 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 184 banks have gone under as of 2/5/10)
    - ***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)*

Source: Insurance Information Institute

Reasons Why P/C Insurers Have Fewer Problems Than Banks

A Superior Risk Management Model

- **Emphasis on Underwriting**
  - Matching of risk to price (via experience and modeling)
  - Limiting of potential loss exposure
  - ***Some banks sought to maximize volume and fees and disregarded risk***
- **Strong Relationship Between Underwriting and Risk Bearing**
  - **Insurers always maintain a stake in the business they underwrite, keeping "skin in the game" at all times**
  - ***Banks and investment banks package up and securitize, severing the link between risk underwriting and risk bearing, with (predictably) disastrous consequences – straightforward moral hazard problem from Econ 101***
- **Low Leverage**
  - Insurers do not rely on borrowed money to underwrite insurance or pay claims → ***There is no credit or liquidity crisis in the insurance industry***
- **Conservative Investment Philosophy**
  - High quality portfolio that is relatively less volatile and more liquid
- **Comprehensive Regulation of Insurance Operations**
  - The business of insurance remained comprehensively regulated whereas a separate banking system had evolved largely outside the auspices and understanding of regulators (e.g., hedge funds, private equity, complex securitized instruments, credit derivatives – CDS's)
- **Greater Transparency**
  - Insurance companies are an open book to regulators and the public

Source: Insurance Information Institute

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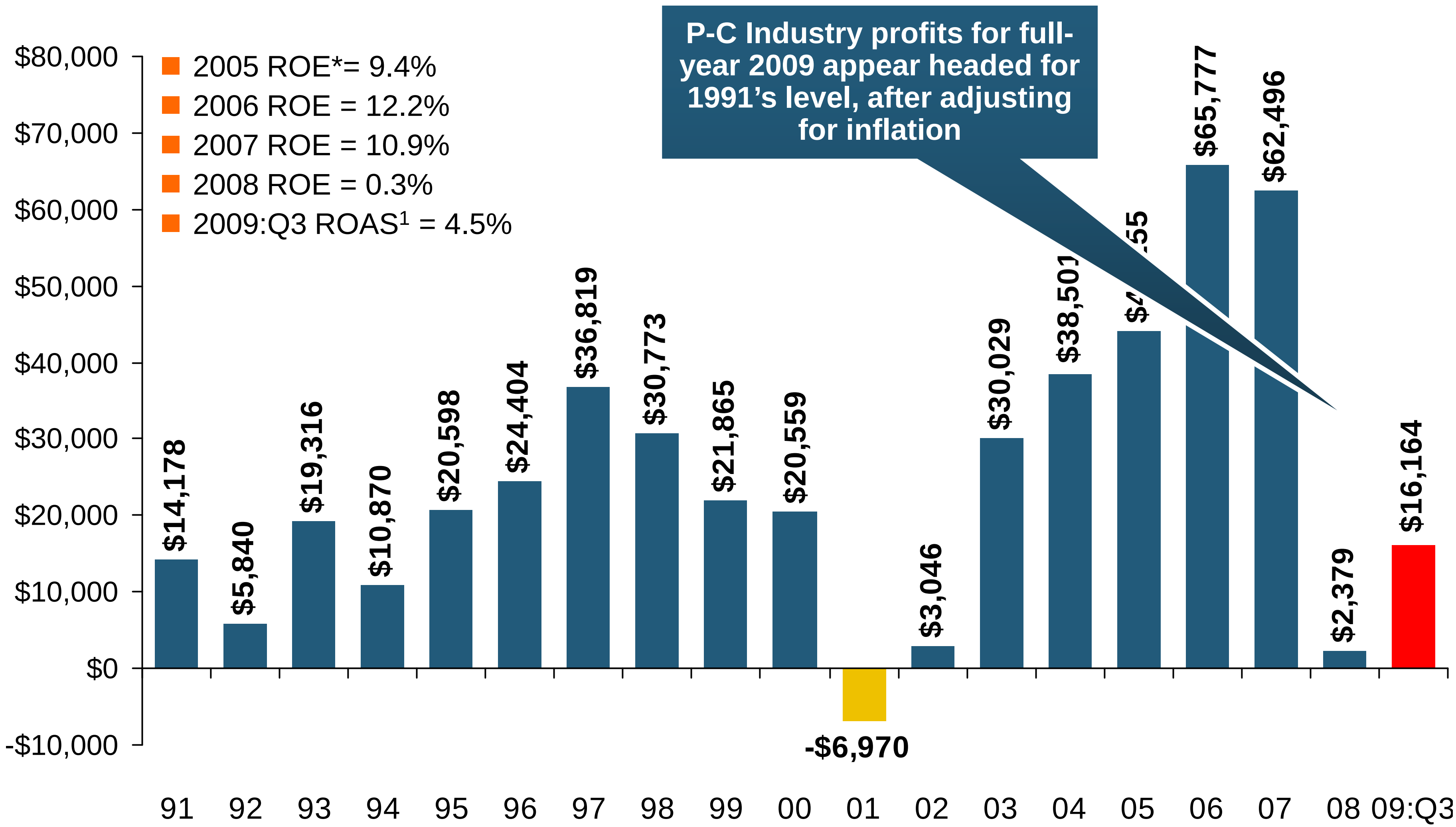
P/C Insurance Financial Performance

A Resilient Industry in Challenging Times

Profitability

Historically Volatile

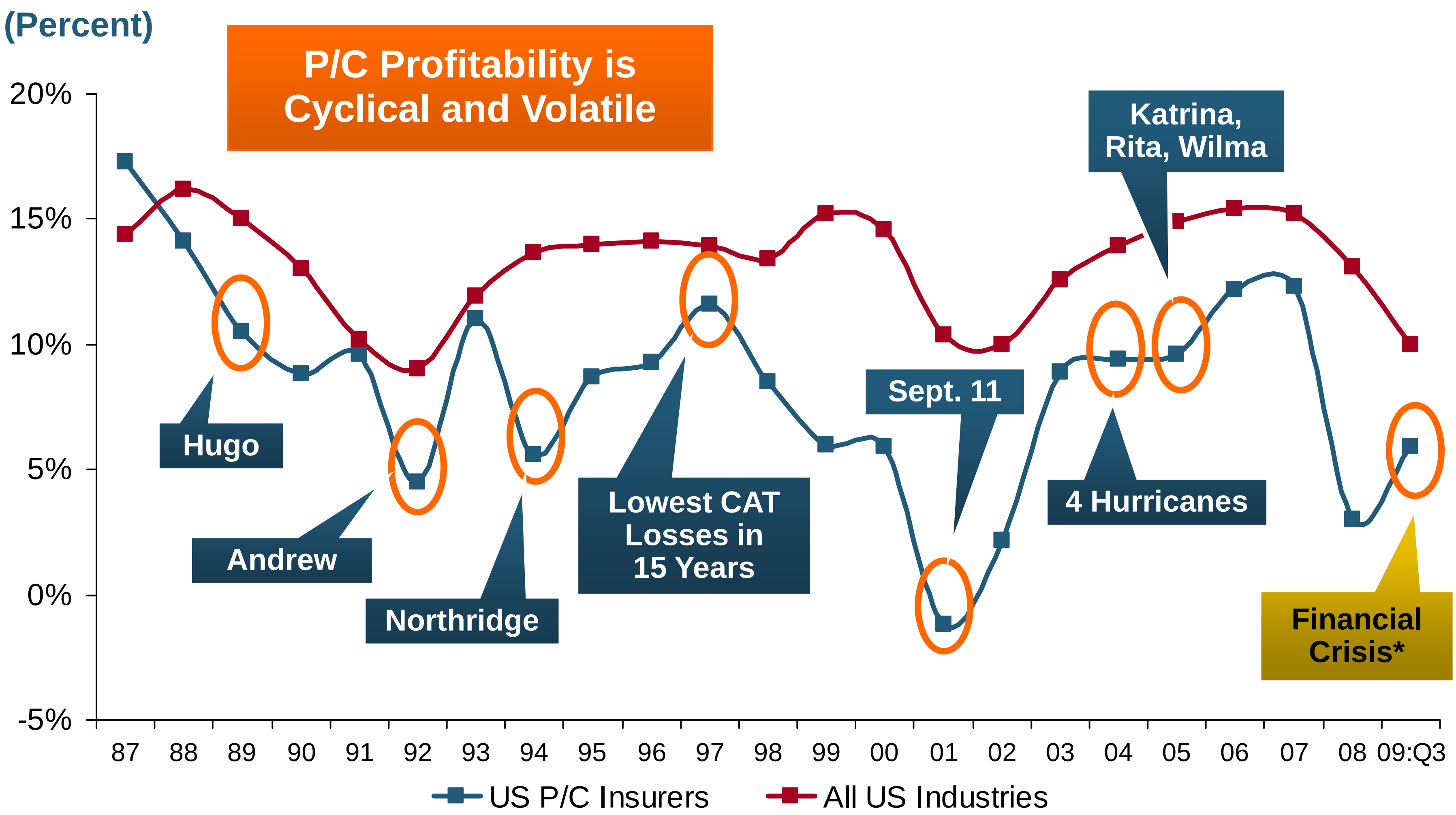
P/C Net Income After Taxes 1991–2009:Q3 ($ Millions)



* ROE figures are GAAP; [1]Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 4.5% ROAS for 2008 and 5.9% for the first 9 months of 2009. 2009:Q3 net income was $20.5 billion excluding M&FG.

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

ROE: P/C vs. All Industries1987–2009:Q3*



* Excludes Mortgage & Financial Guarantee in 2008 and 2009 through Q3.
Sources: ISO, *Fortune*; Insurance Information Institute.

ROE vs. Equity Cost of Capital: US P/C Insurance:1991-2009:Q3*

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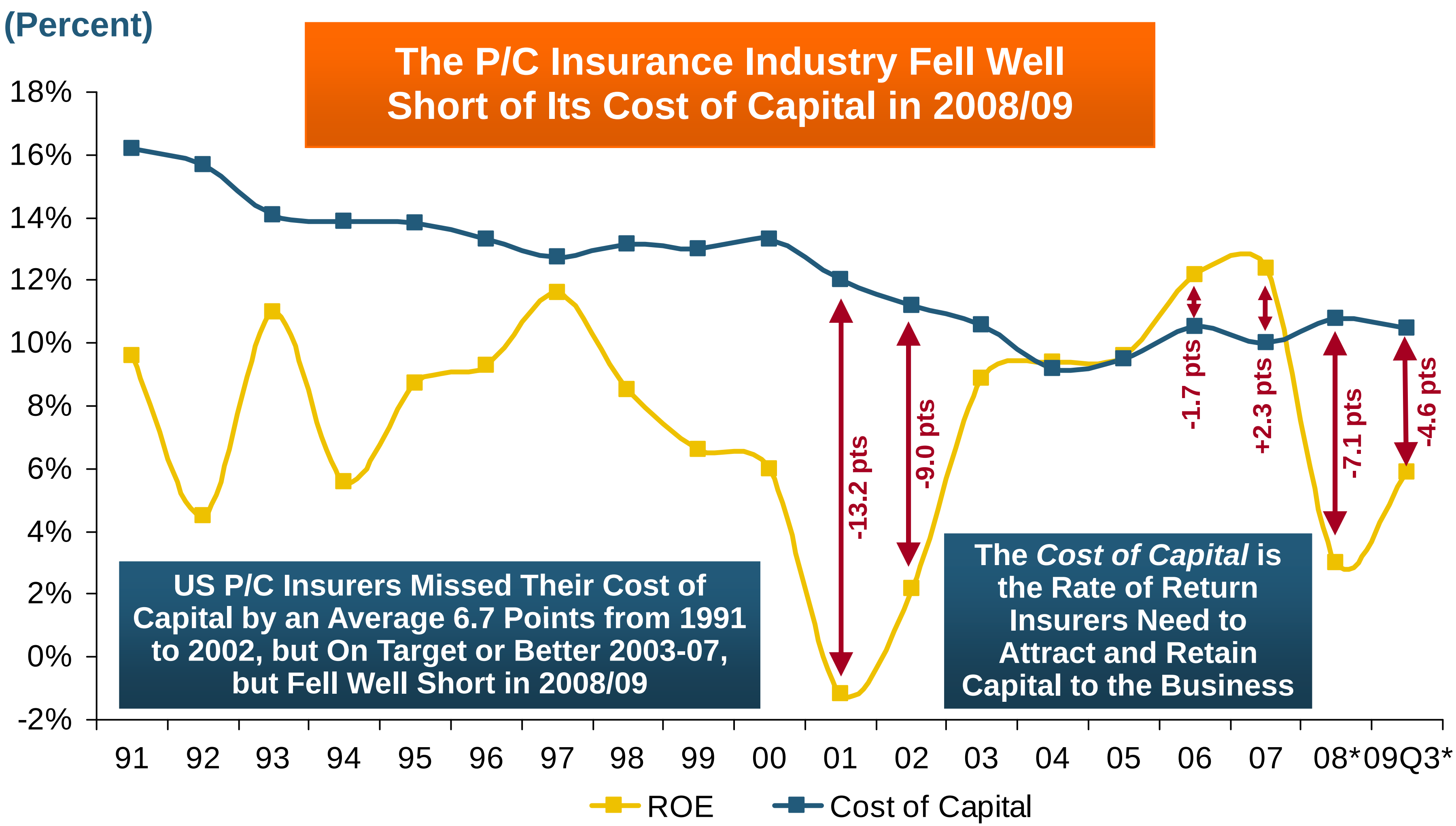

* Excludes mortgage and financial guarantee insurers
Source: The Geneva Association, Insurance Information Institute

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

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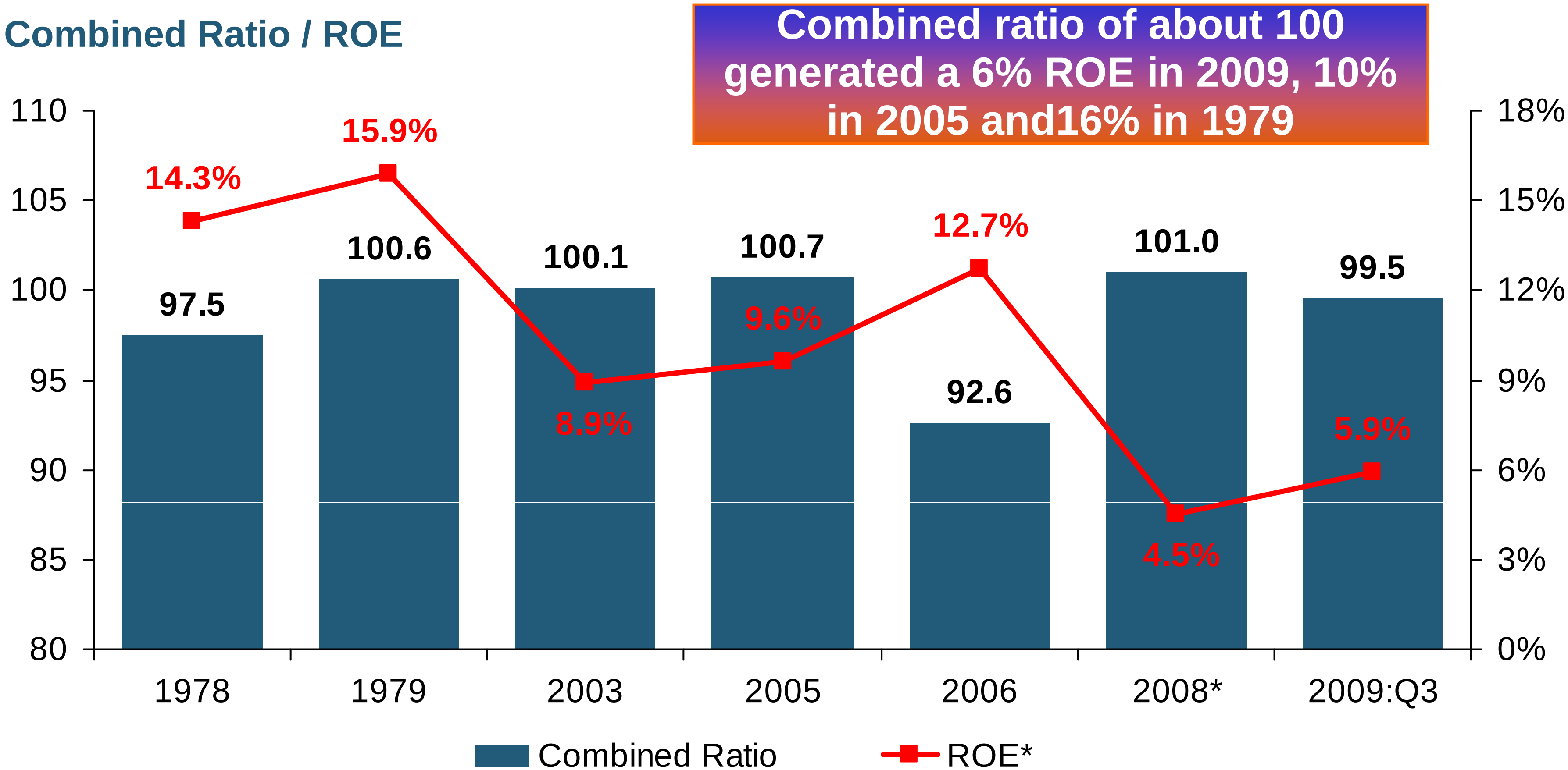
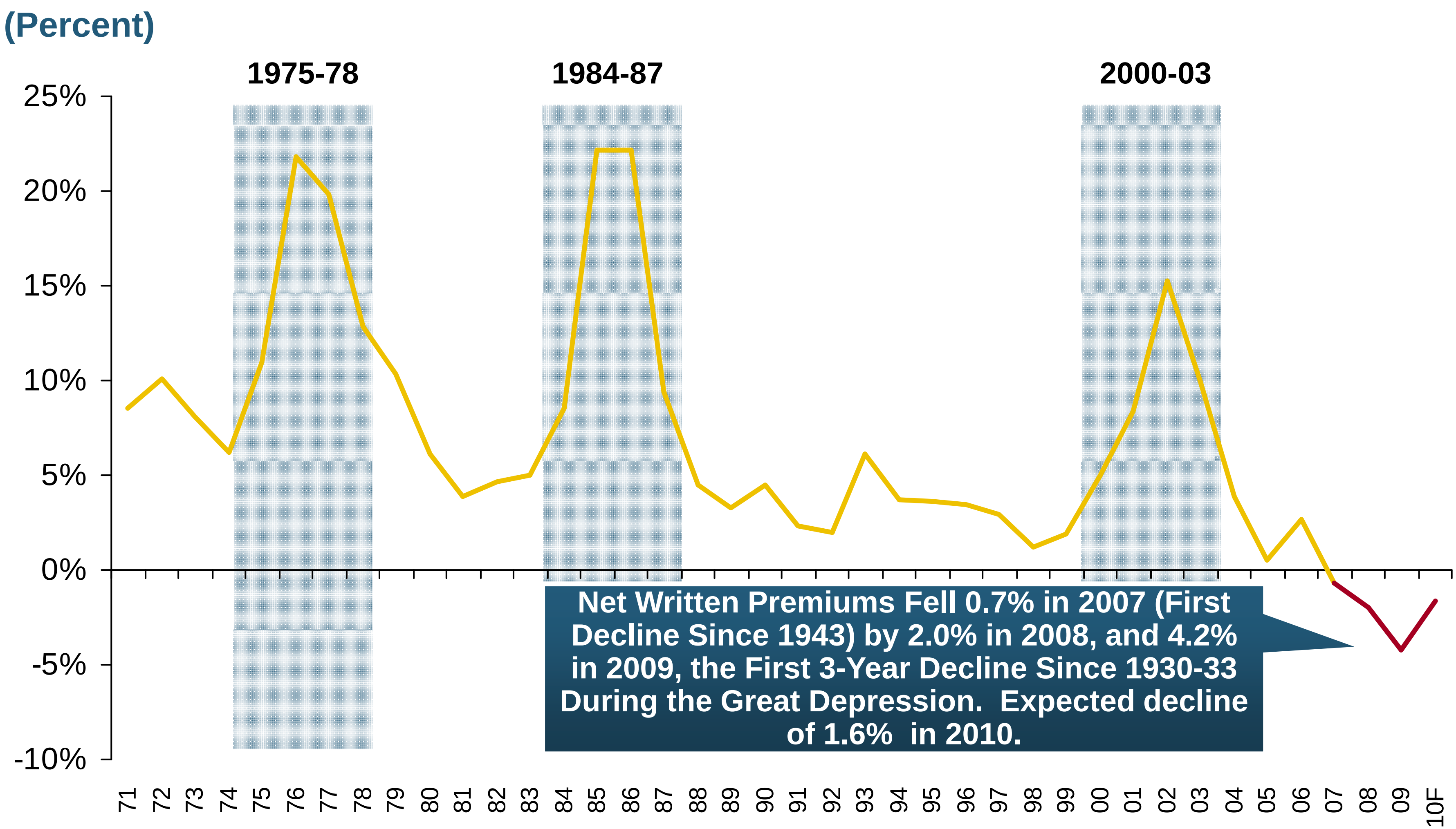


Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2009 figure is return on average statutory surplus. 2008 and 2009 figures exclude mortgage and financial guarantee insurers
Source: Insurance Information Institute from A.M. Best and ISO data

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

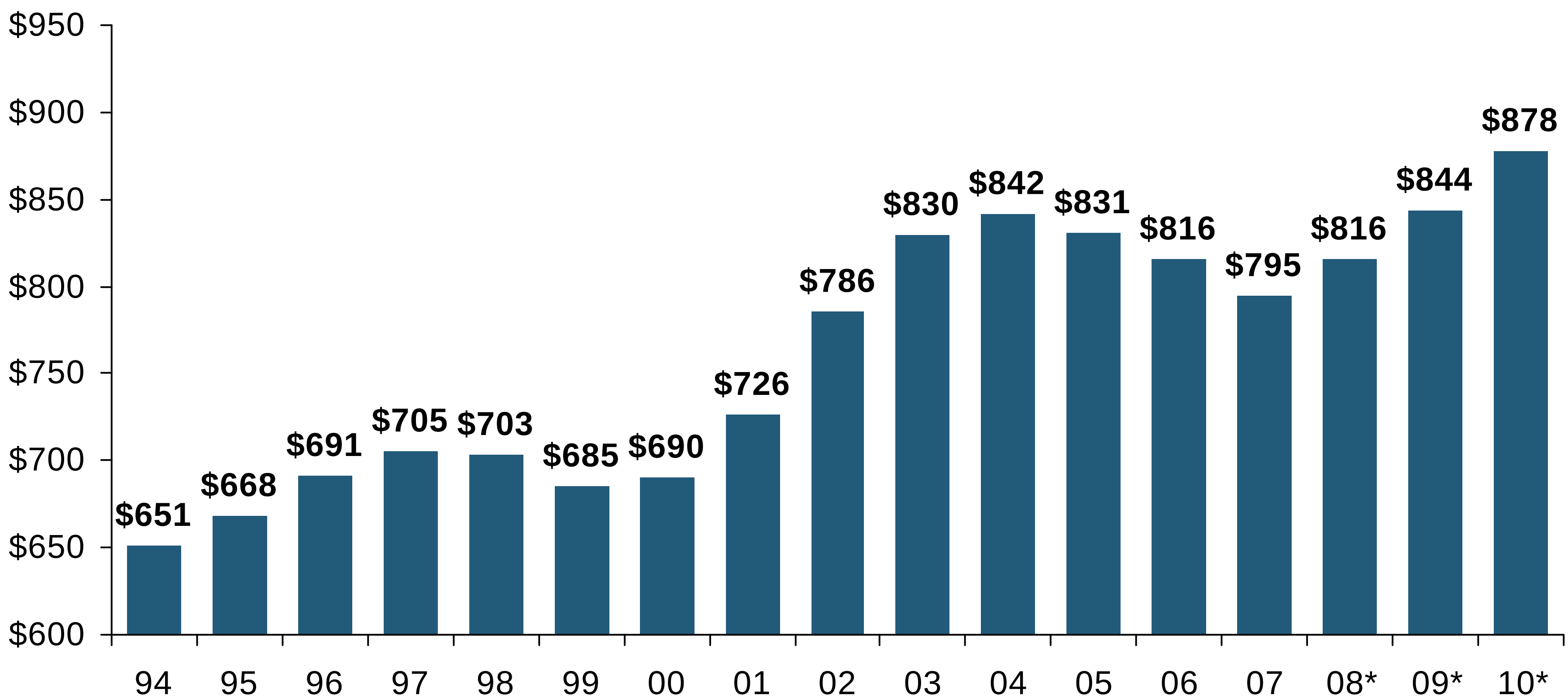
Strength of Recent Hard Markets by NWP Growth



Shaded areas denote "hard market" periods

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

Average Expenditures on Auto Insurance

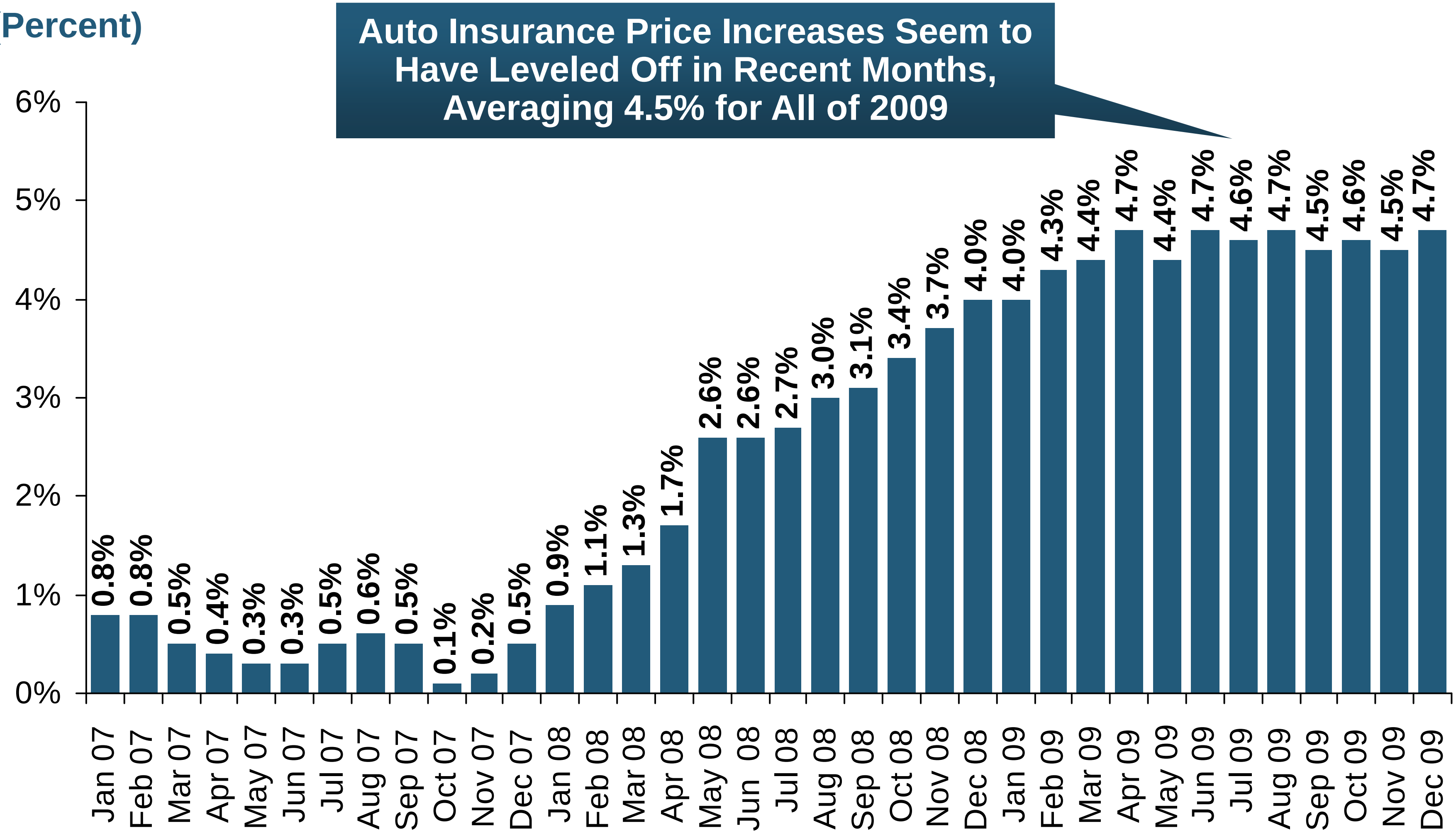


Countrywide Auto Insurance Expenditures Increased 2.6% in 2008 and 3.5% Pace in 2009 (est.) and 4% in 2010 (est.)

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

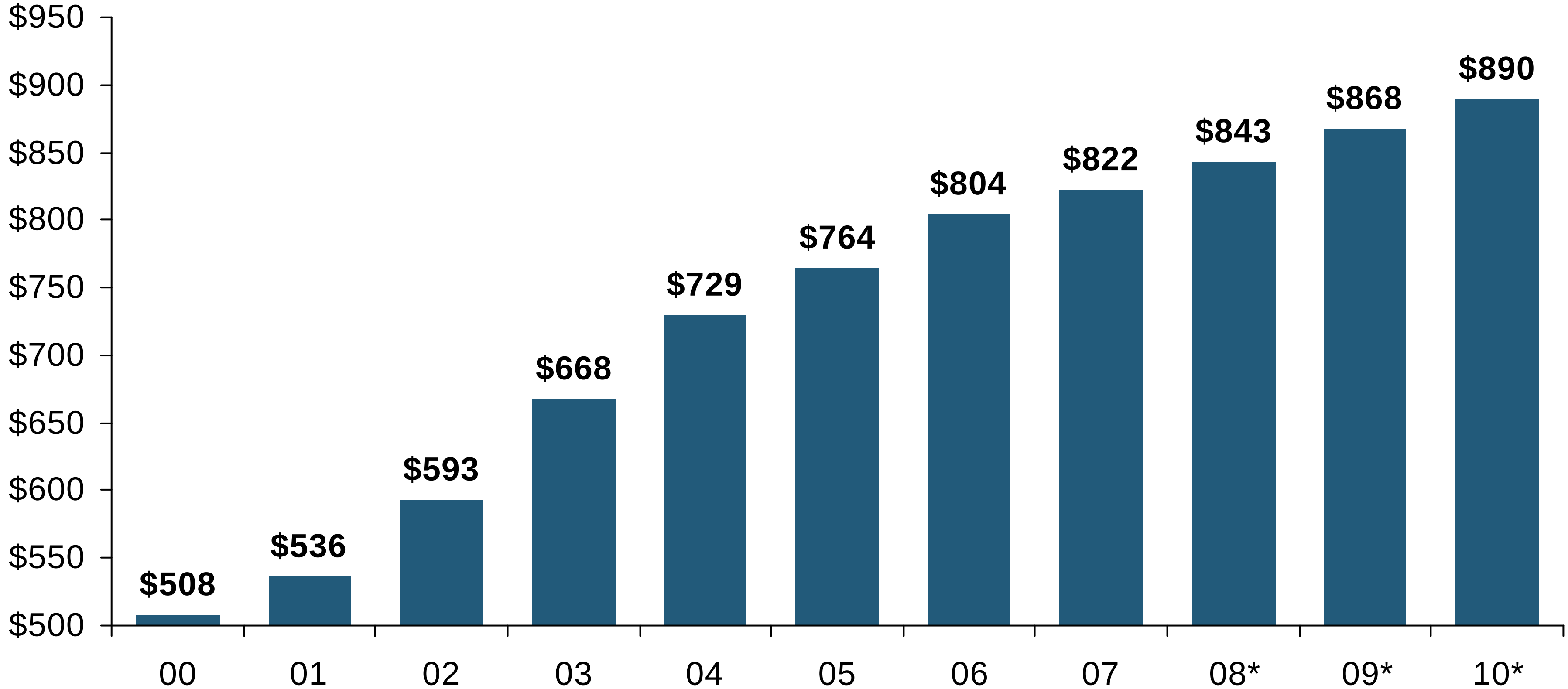
Monthly Change in Auto Insurance Prices*

(Percent)



* Percentage change from same month in prior year.
Source: US Bureau of Labor Statistics

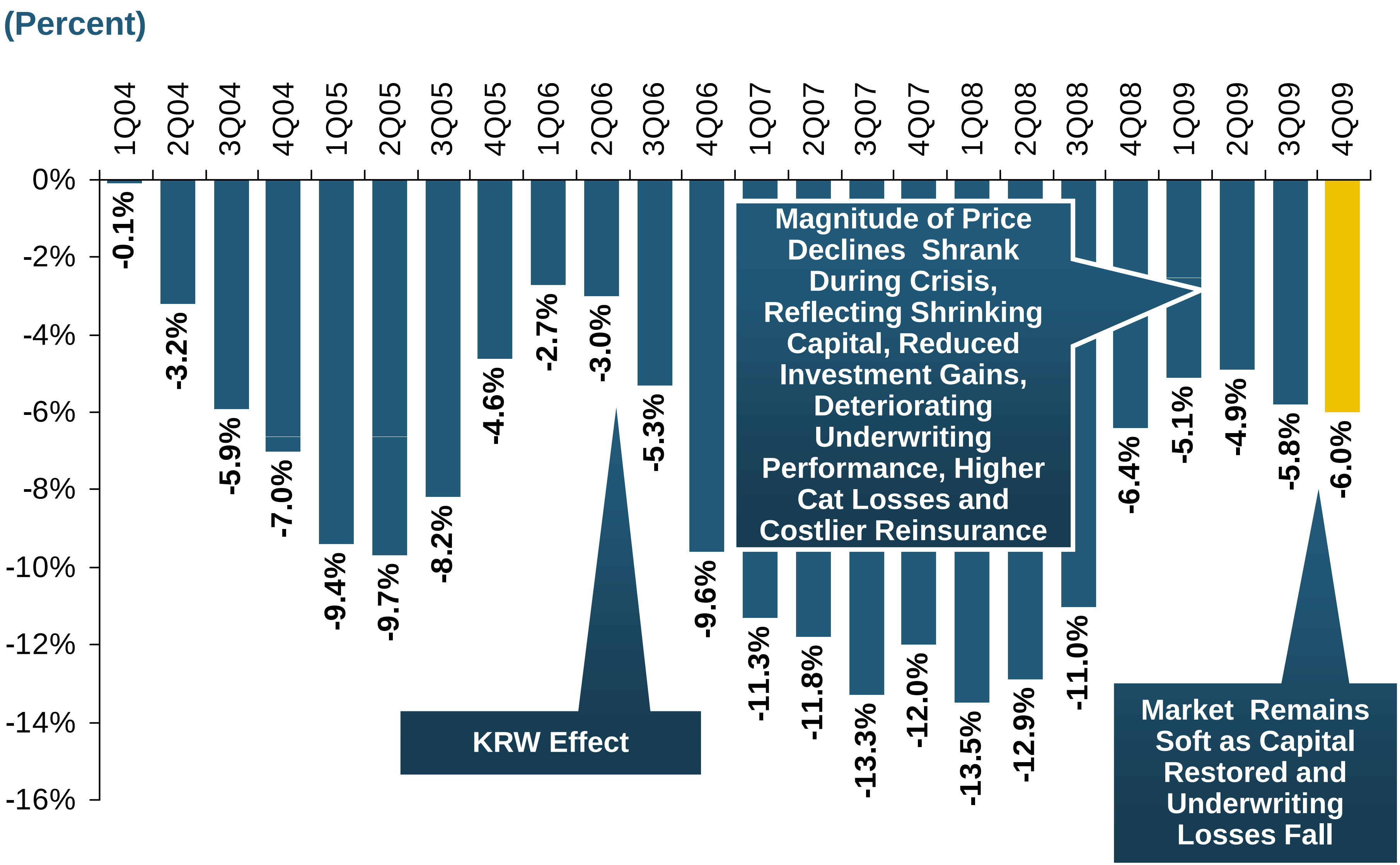
Average Premium for Home Insurance Policies**



Countrywide Home Insurance Expenditures Increased by an Estimated 2.5%in 2008, 3% in 2009 and 2010

* 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:2004–4Q:2009)

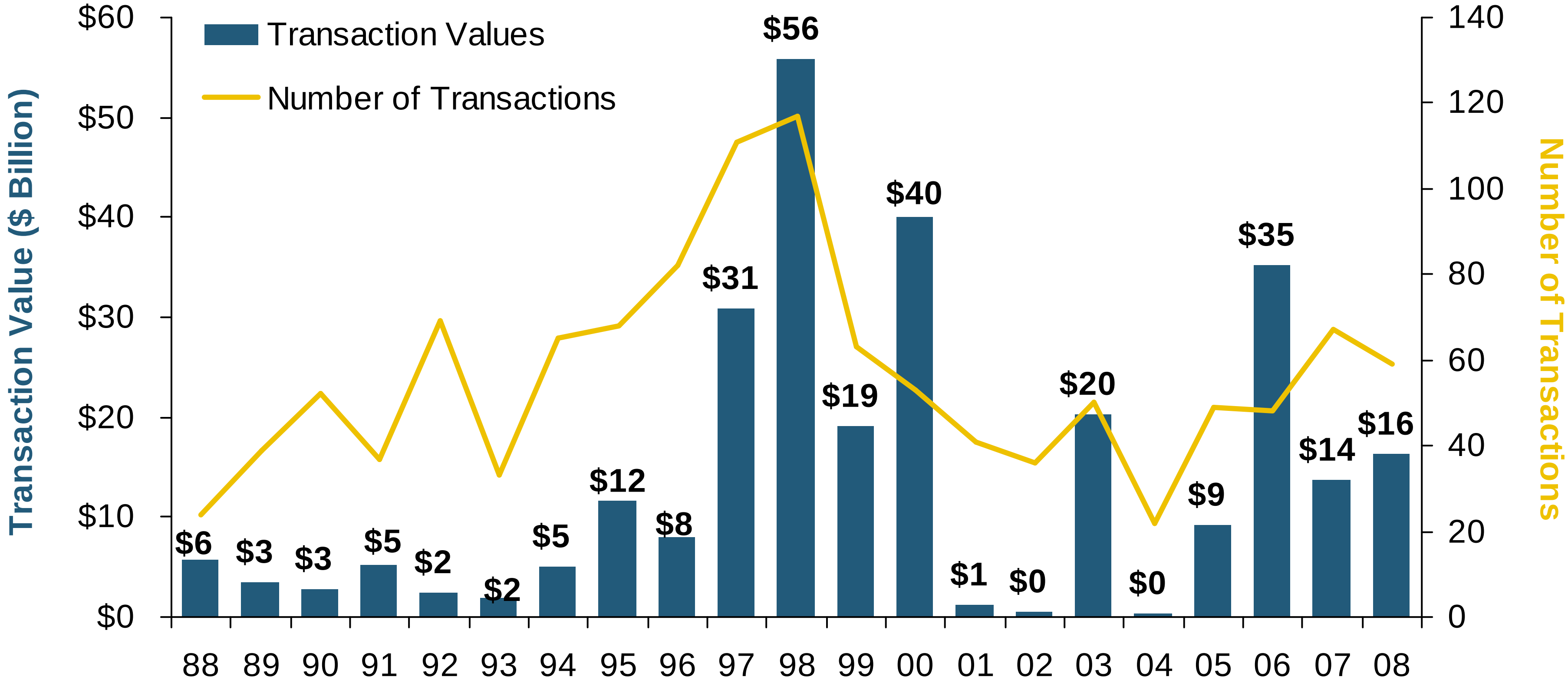


Source: Council of Insurance Agents & Brokers; Insurance Information Institute

Merger & Acquisition

Barriers to Consolidation Will Diminish in 2010

P/C Insurance-Related M&A Activity, 1988–2008



2009 Off to a Stronger Start With AIG Unit Sales and Bermuda Consolidation

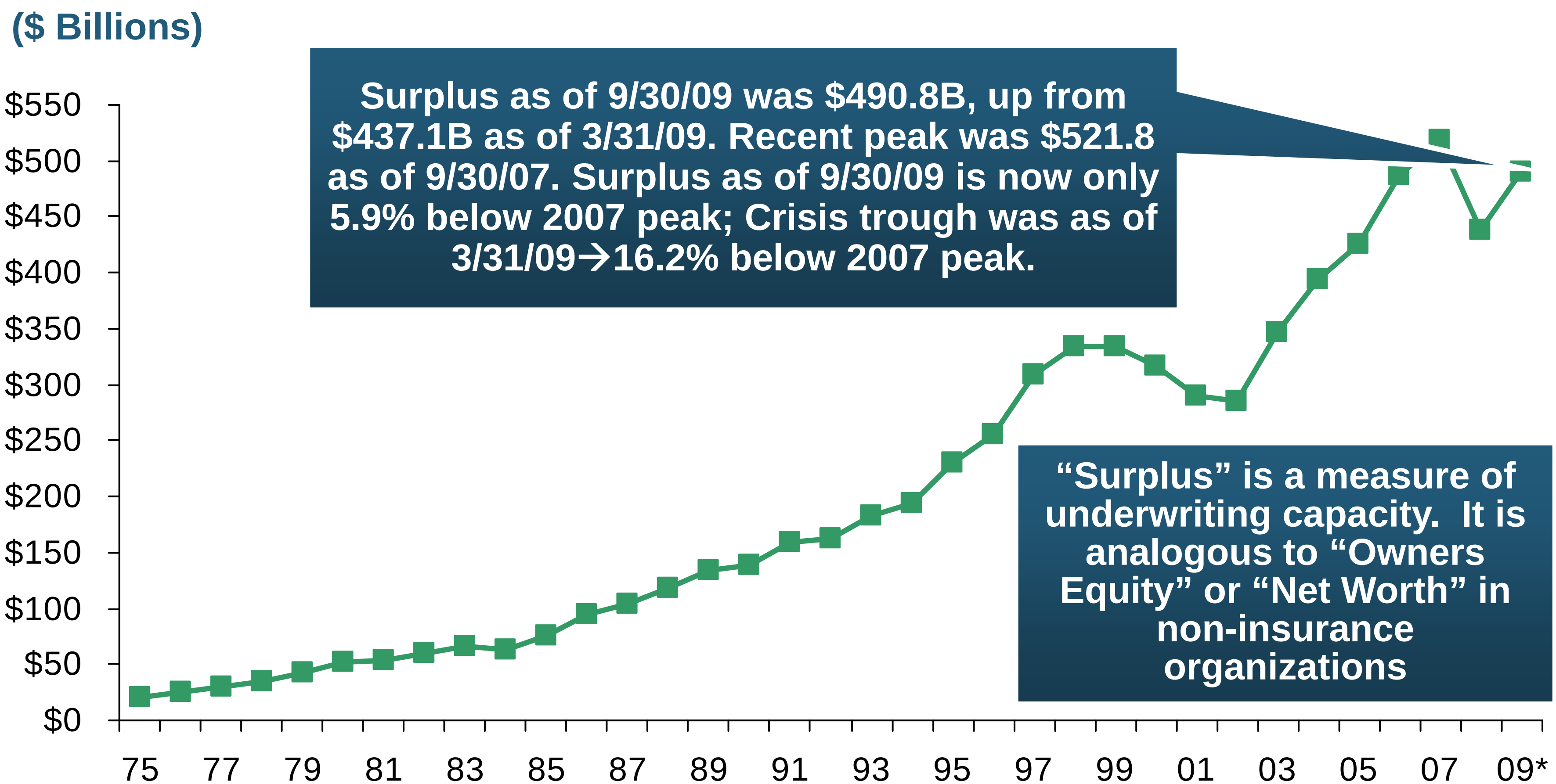
$ Value of Deal Up 20% in 2009, Volume Down 12%

Source: Conning Research & Consulting.

Capital/Policyholder Surplus (US)

Shrinkage, but Not Enough to Trigger Hard Market

US Policyholder Surplus: 1975–2009:Q3*



The Premium-to-Surplus Ratio Stood at $0.87:$1 as of 9/30/09, Up from Near Record Low of $0.85:$1 at Year-End 2007

* As of 9/30/09

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

Global Reinsurance Capacity Shrank in 2008, Mostly Due to Investments

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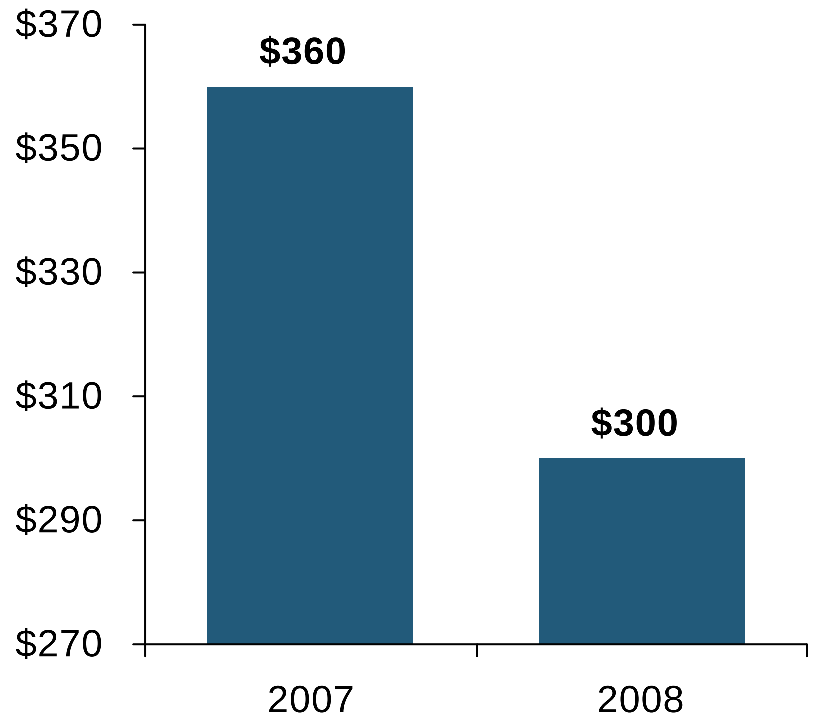
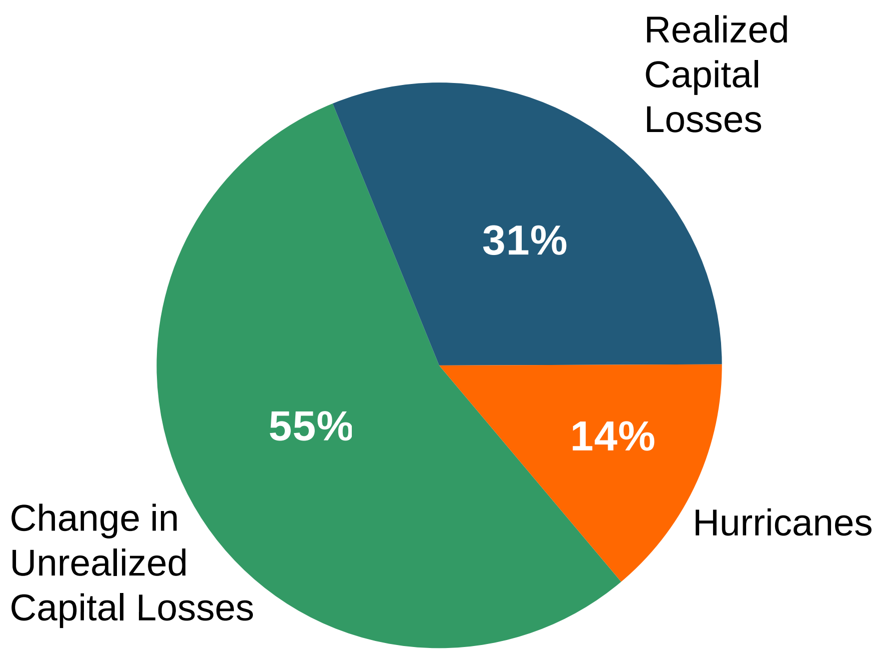
Global Reinsurance Capacity



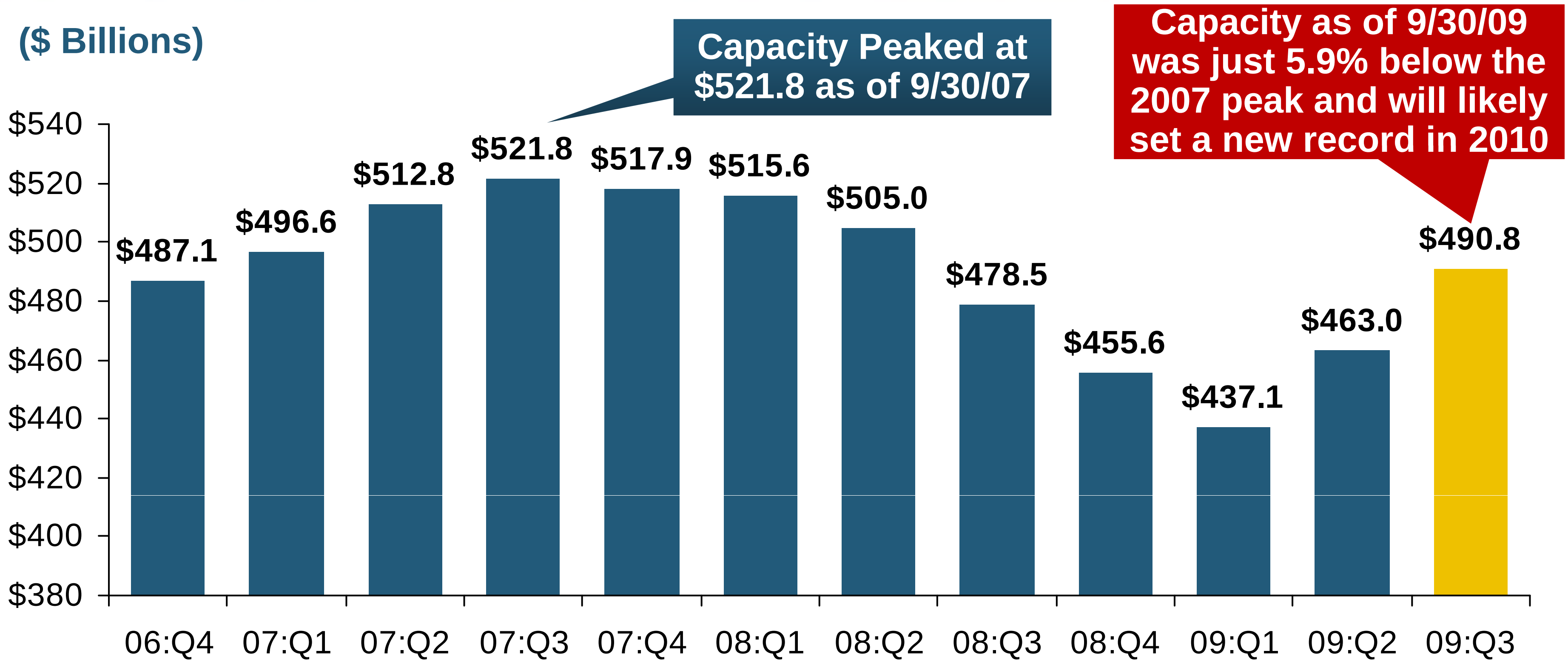
Source of Decline



Global Reinsurance Capacity Fell by an Estimated 17% in 2008

Source: AonBenfield Reinsurance Market Outlook 2009; Insurance Information Institute.

Policyholder Surplus, 2006:Q4–2009:Q3

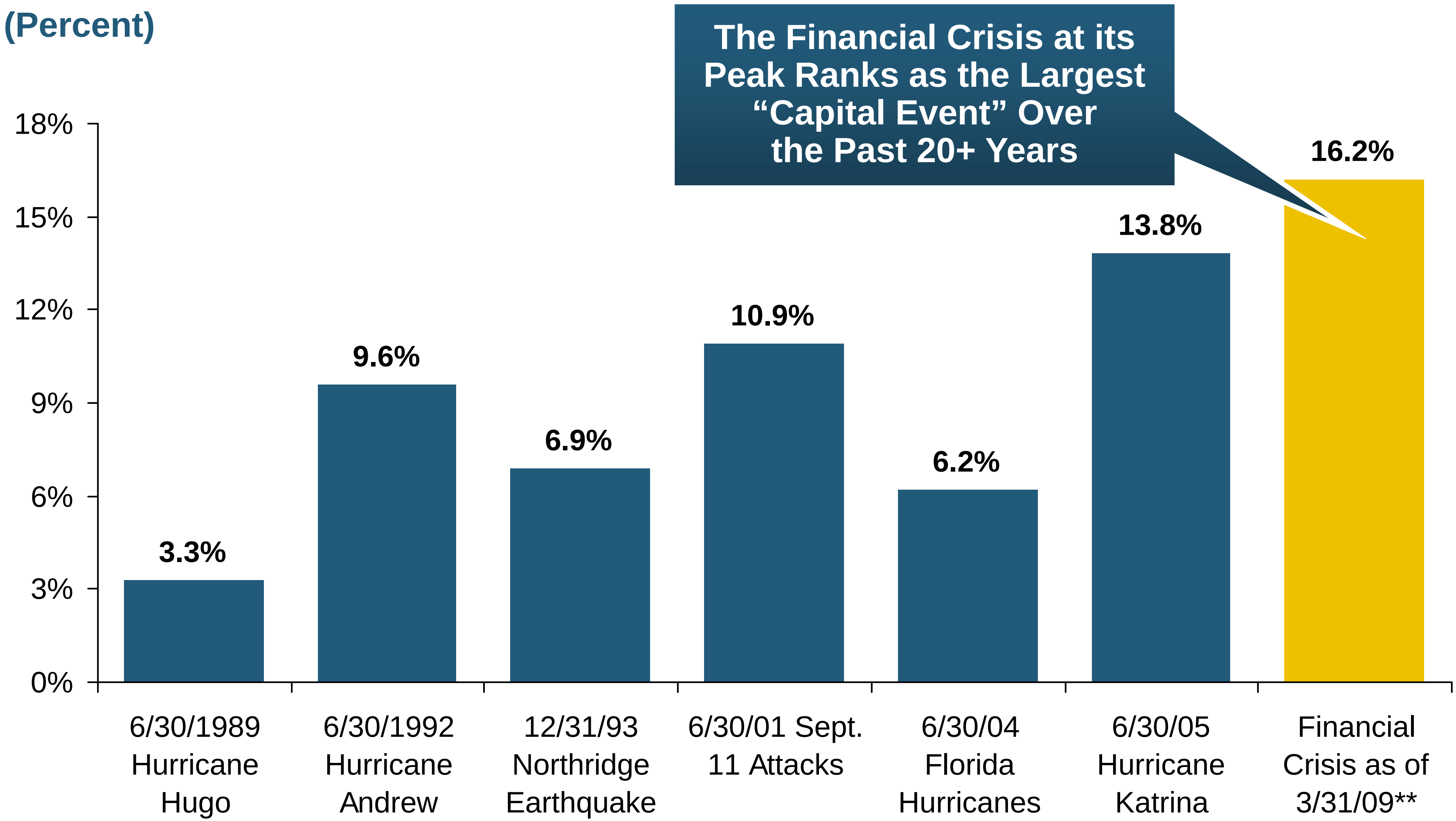


Declines Since 2007:Q3 Peak

08:Q2: -$16.6B (-3.2%)	*09:Q1: -$84.7B (-16.2%)*
08:Q3: -$43.3B (-8.3%)	09:Q2: -$58.8B (-11.2%)
08:Q4: -$66.2B (-12.9%)	09:Q3: -$31.8B (-5.9%)

Source: ISO, AM Best.

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

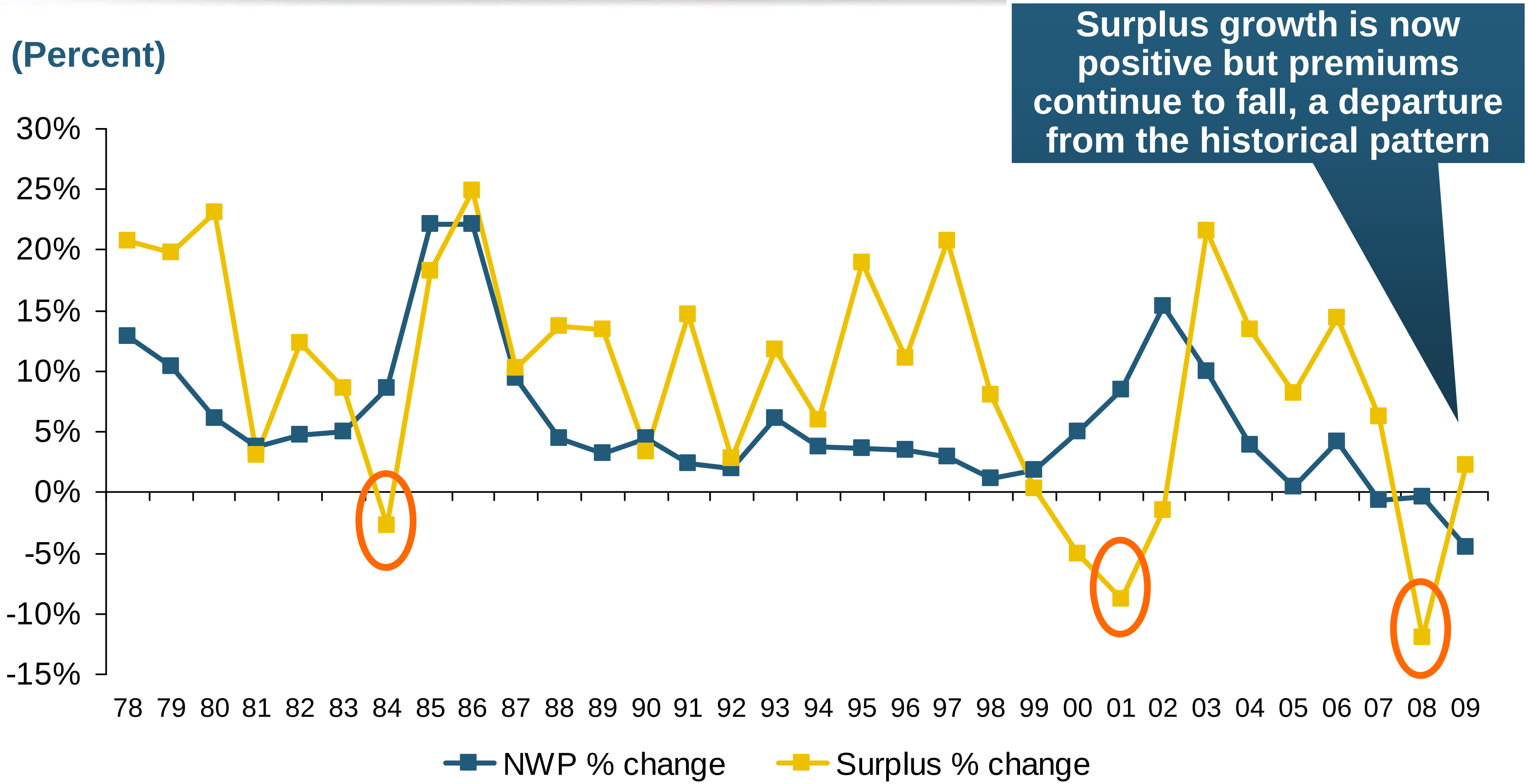


* Ratio is for end-of-quarter surplus immediately prior to event. Date shown is end of quarter prior to event

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

Source: PCS; Insurance Information Institute

Historically, Hard Markets Follow When Surplus "Growth" is Negative*



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

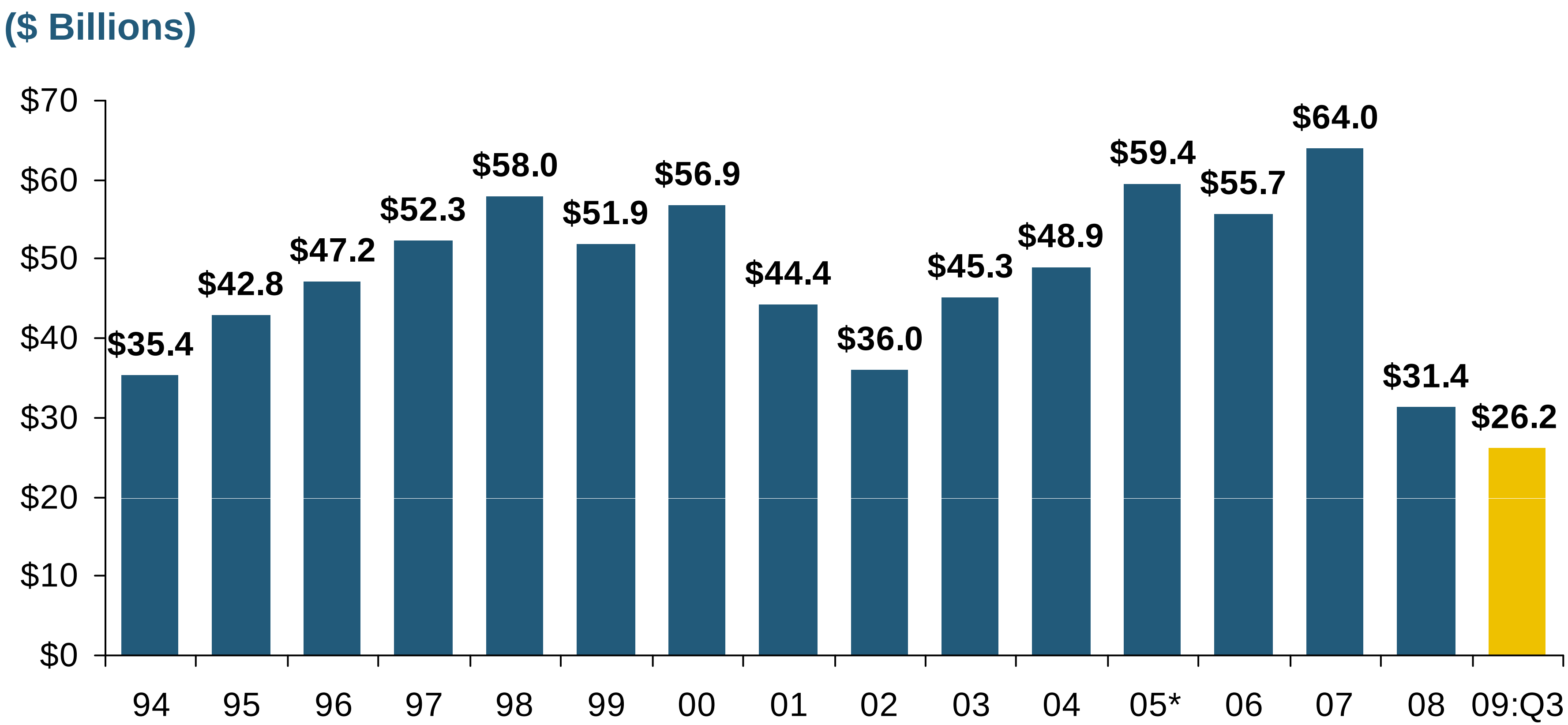
* 2009 NWP and Surplus figures are YTD % changes as of Q3:09 vs Q3:08

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

Investment Performance

Investments Are a Principle Source of Declining Profitability

Property/Casualty Insurance Industry Investment Gain: 1994–2009:Q3[1]



Investment Gains Fell by 51% In 2008 Due to Lower Yields, Poor Equity Market Conditions. Through Three Quarters in 2009, Write-downs Were Offset by Unrealized Capital Gains

[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.

P/C Insurer Net Realized Capital Gains, 1990-2009:Q3

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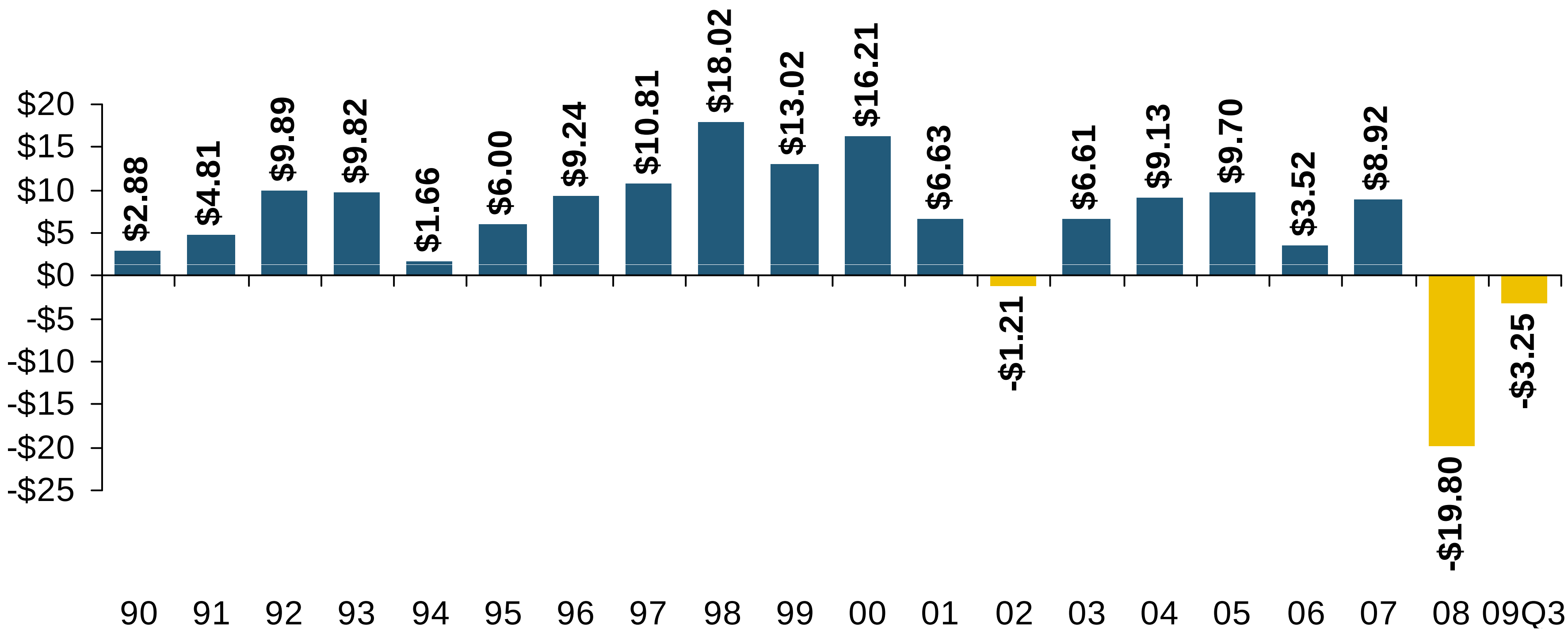
($ Billions)



Realized Capital Losses Hit a Record $19.8 Billion in 2008 Due to Financial Market Turmoil, a $27.7 Billion Swing From 2007, Followed by an $3.25B Drop through Q3 2009. This is a Primary Cause of 2008/2009's Large Drop in Profits and ROE

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

Treasury Yield Curves: Pre-Crisis (July 2007) vs. Dec. 2009

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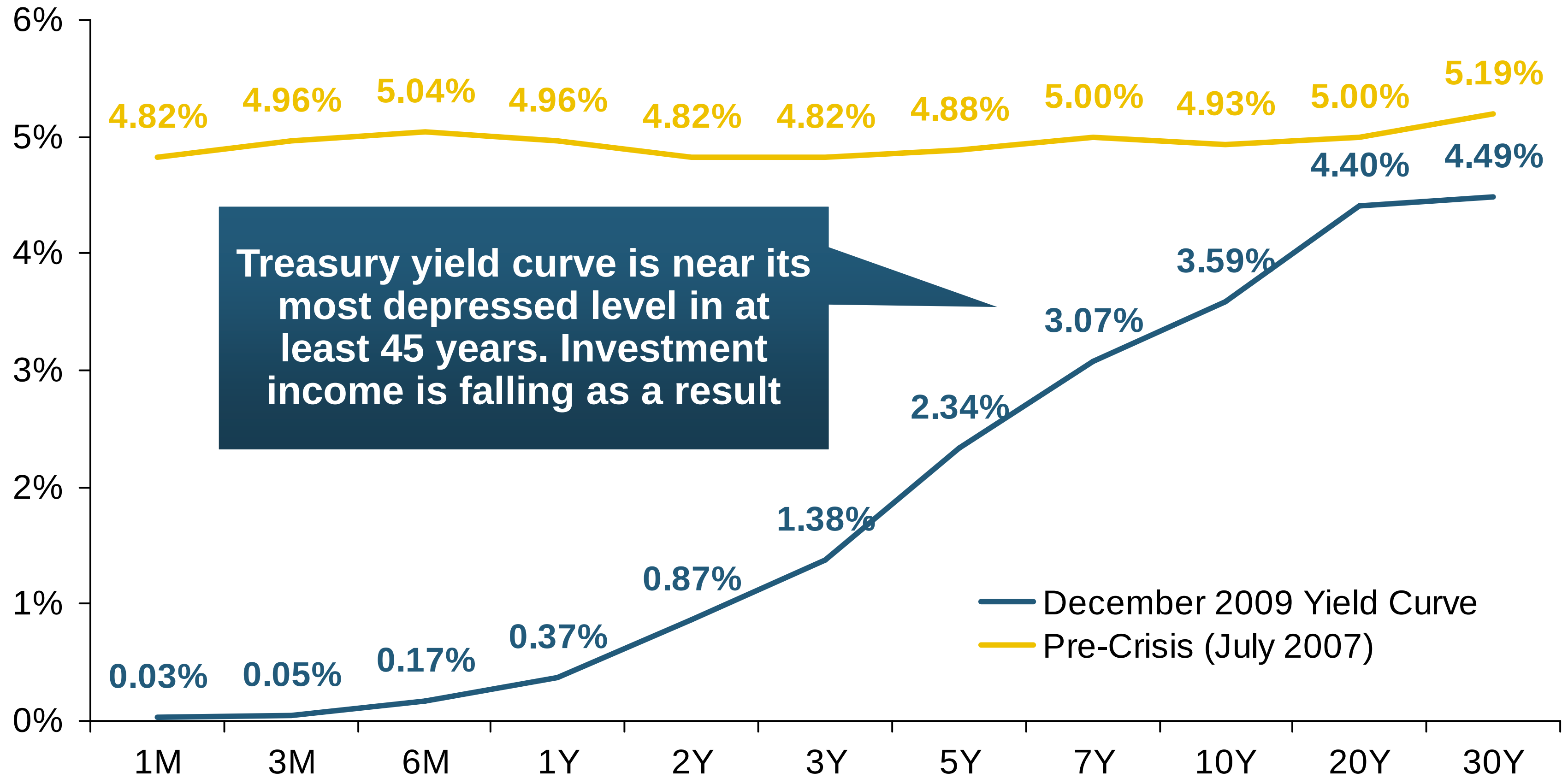

Stock Dividend Cuts Will Further Pressure Investment Income

Sources: Board of Governors of the United States Federal Reserve Bank; Insurance Information Institute.

Distribution of P/C Insurance Industry's Investment Portfolio

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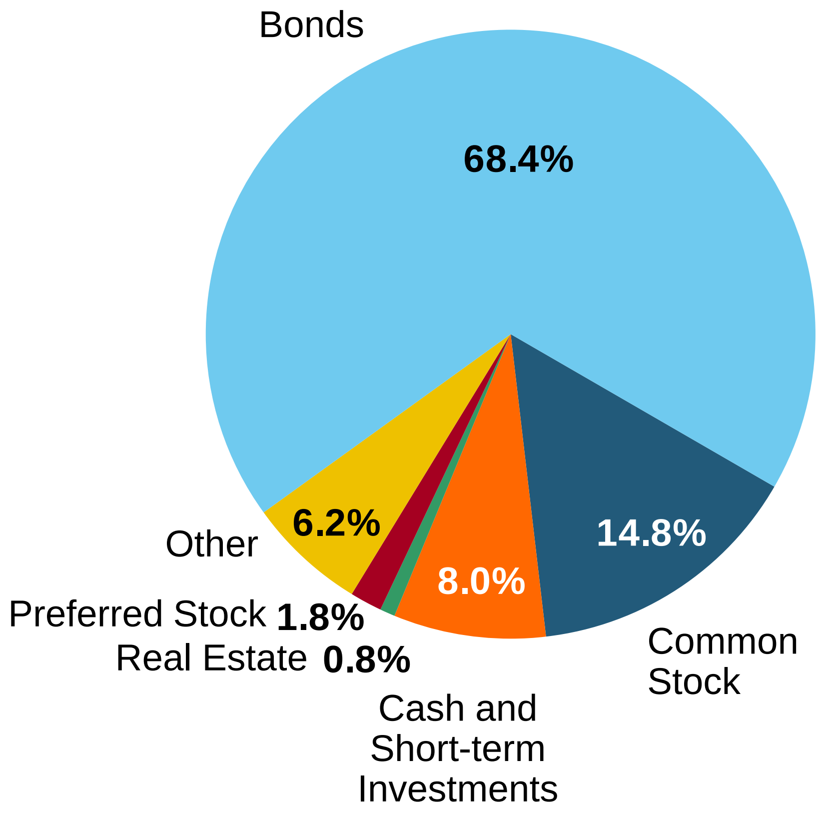
Portfolio Facts

- Invested assets totaled $1.2 trillion as of 12/31/08, down from $1.3 trillion as of 12/31/07
- Insurers are generally conservatively invested, with 2/3+ of assets invested in bonds as of 12/31/08
- Only about 15% of assets were invested in common stock as of 12/31/08, down from 18% one year earlier
- Even the most conservative of portfolios were hit hard in 2008

As of December 31, 2007



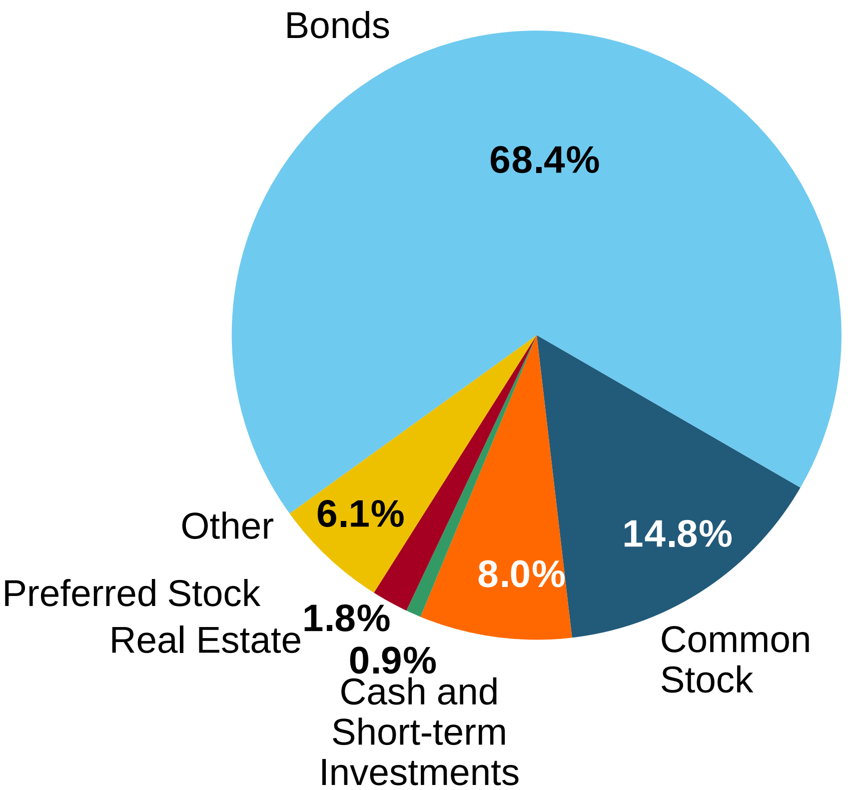
Sources: NAIC; Insurance Information Institute research.

Distribution of P/C Insurance Industry's Investment Portfolio

Portfolio Facts

- Invested assets totaled $1.214 trillion as of 12/31/08
- Insurers are generally conservatively invested, with more than 2/3 of assets invested in bonds as of 12/31/08
- Only about 15% of assets were invested in common stock as of 12/31/08
- Even the most conservative of portfolios was hit hard in 2008

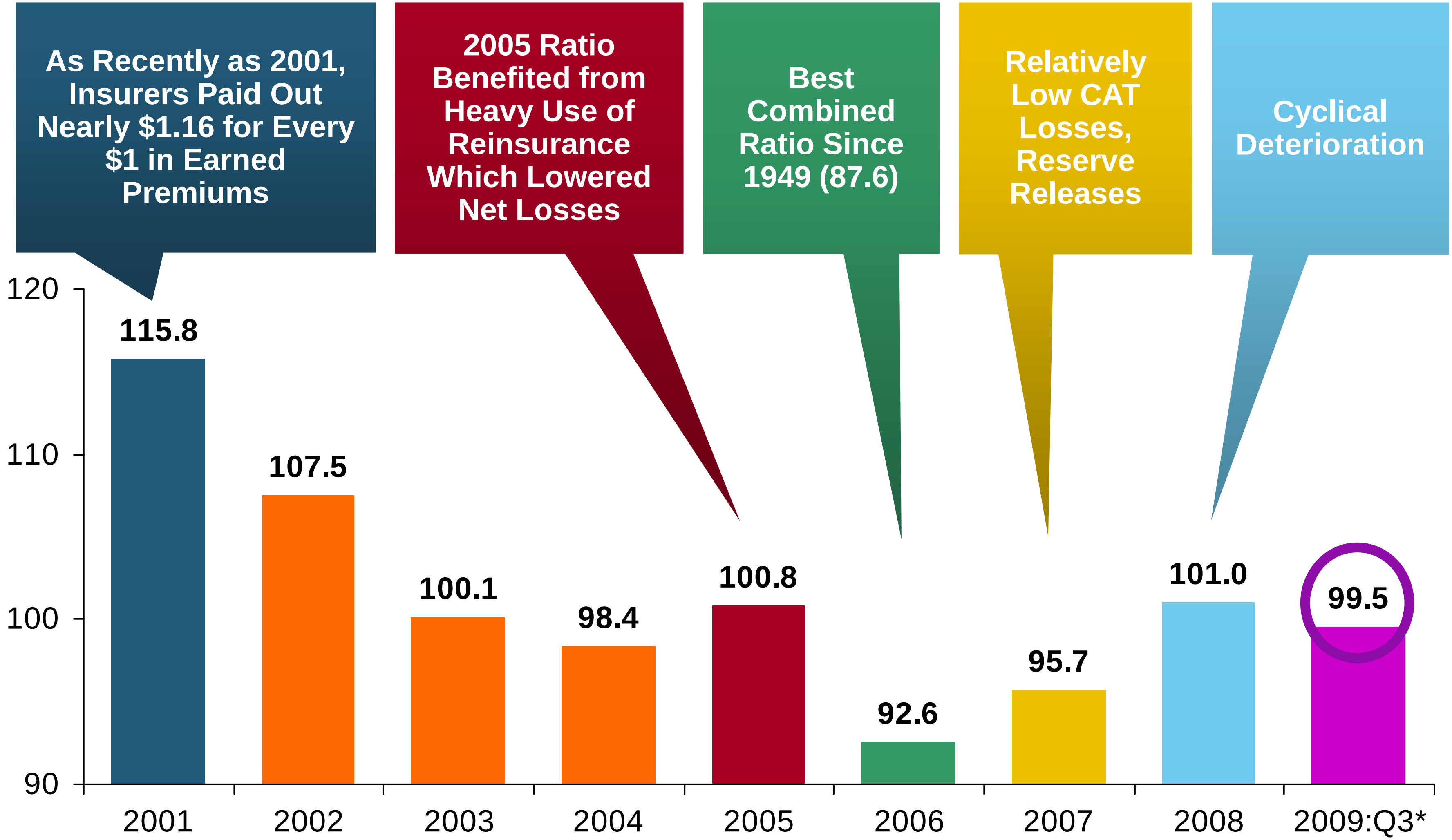
As of December 31, 2008



Sources: NAIC; Insurance Information Institute research.

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

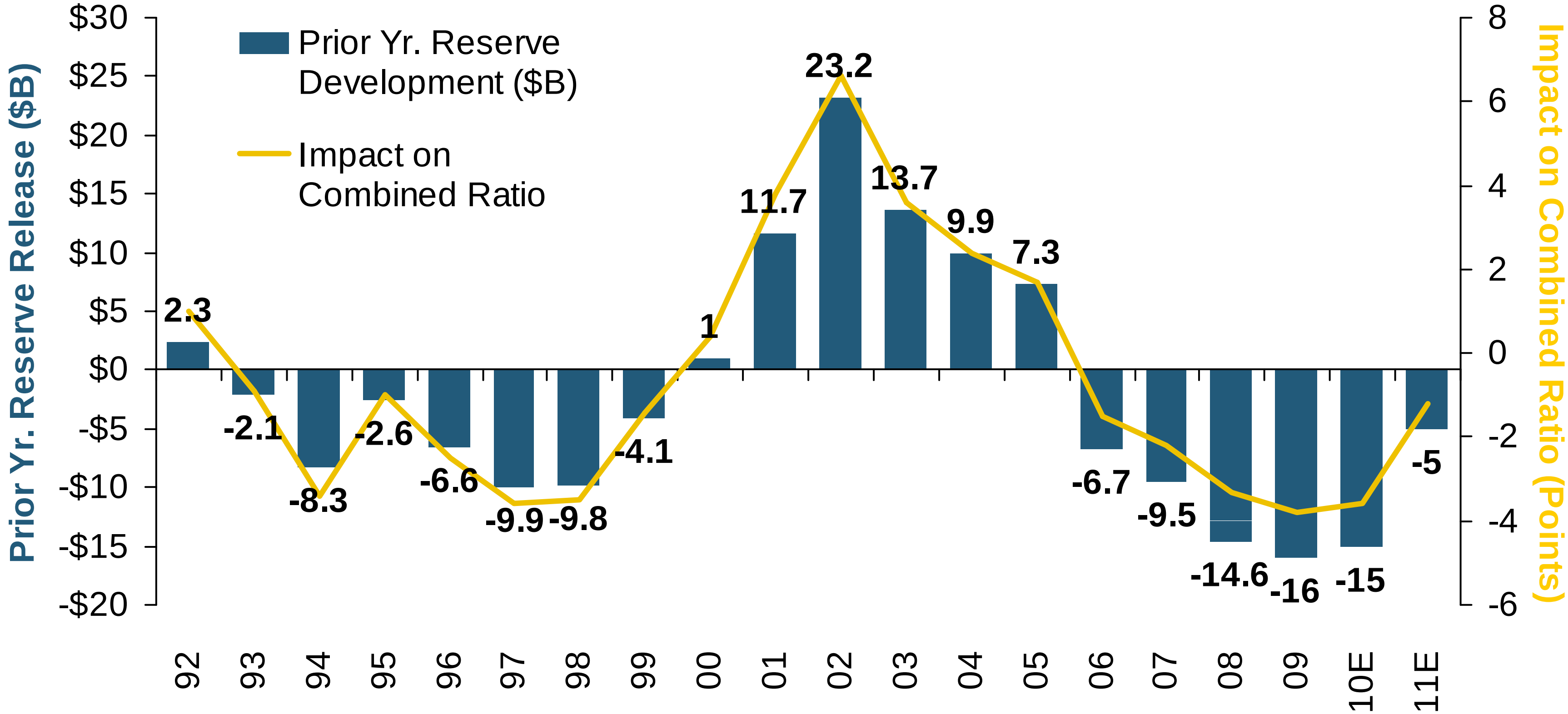
P/C Insurance Industry Combined Ratio, 2001–2009:Q3*



* Excludes Mortgage & Financial Guaranty insurers in 2008. Including M&FG, 2008=105.1, 2009=100.7

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: 1992–2010E[1]

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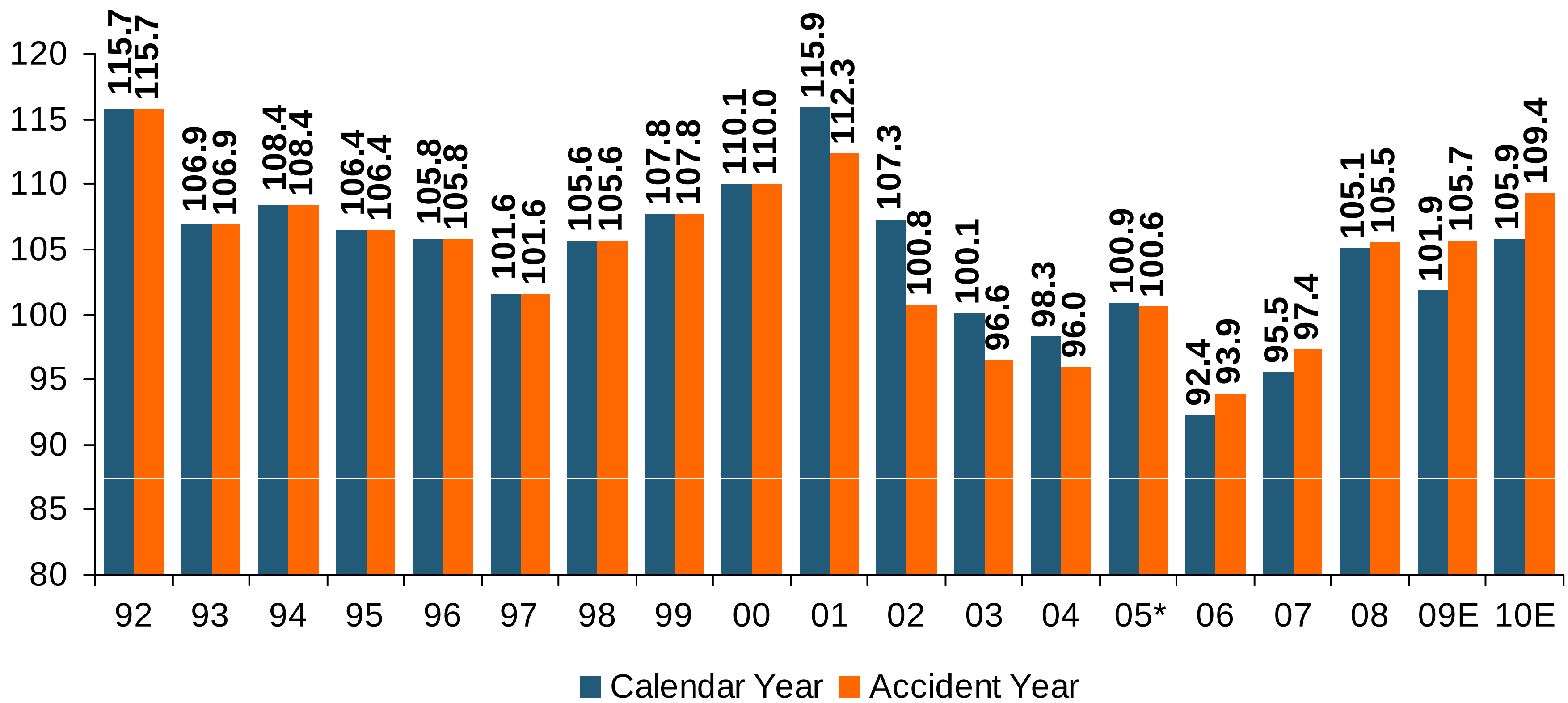
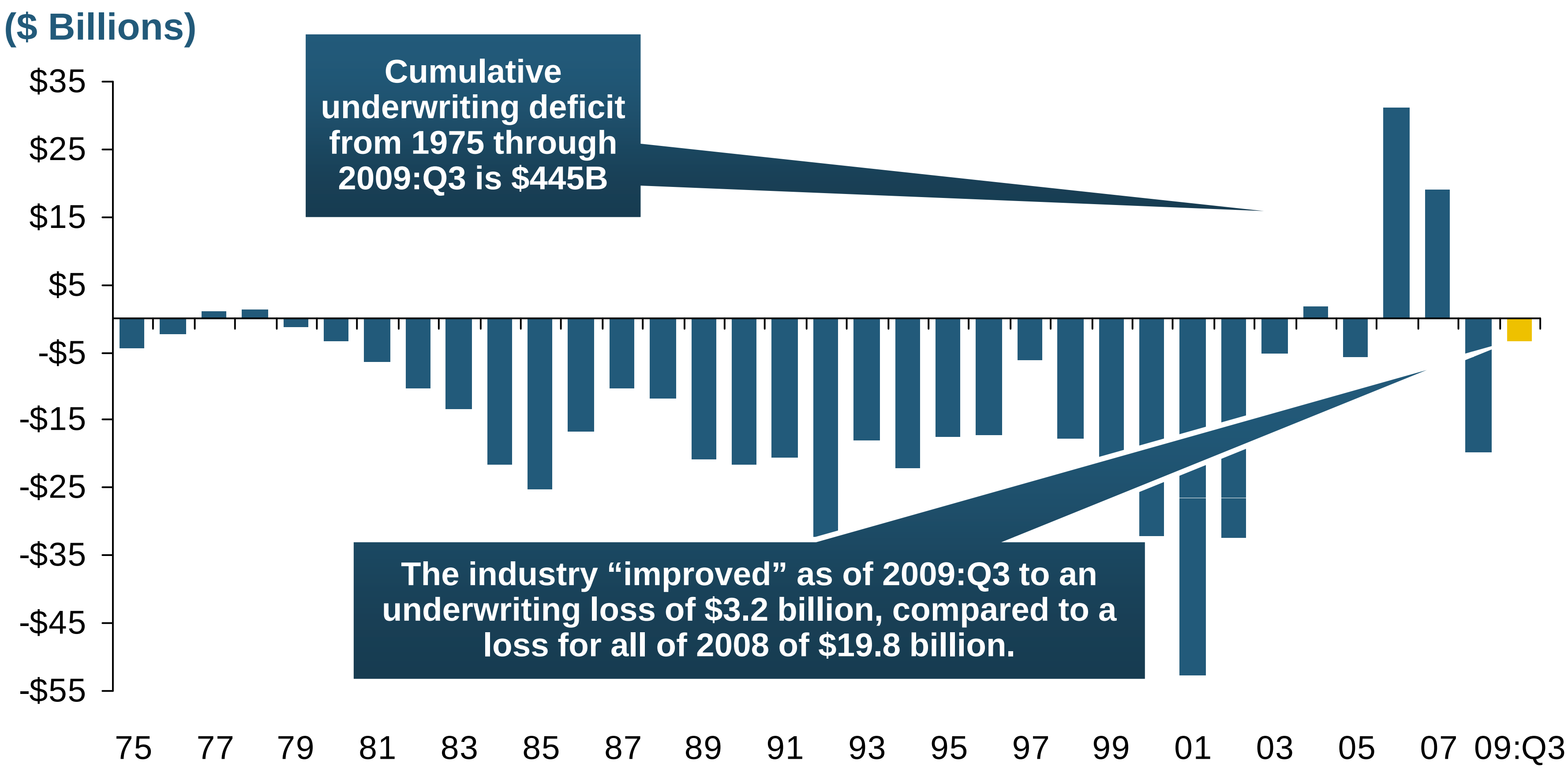


Accident Year Results Show a More Significant Deterioration in Underwriting Performance. Calendar Year Results Are Helped by Reserve Releases

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.

Underwriting Gain (Loss) 1975–2009:Q3*

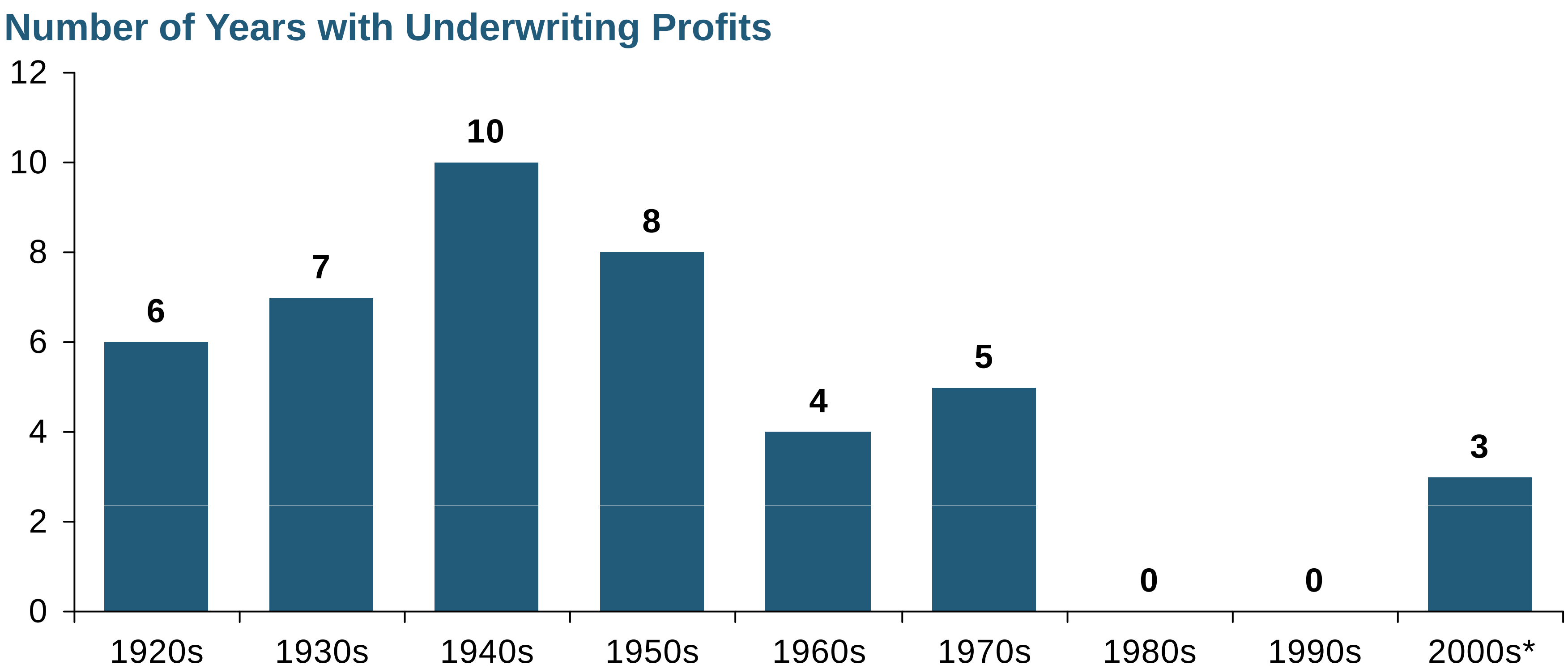


Large Underwriting Losses Are *NOT* Sustainable in Current Investment Environment

* Includes mortgage and financial guarantee insurers.

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

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



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 was 100.7 through Q3.

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

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

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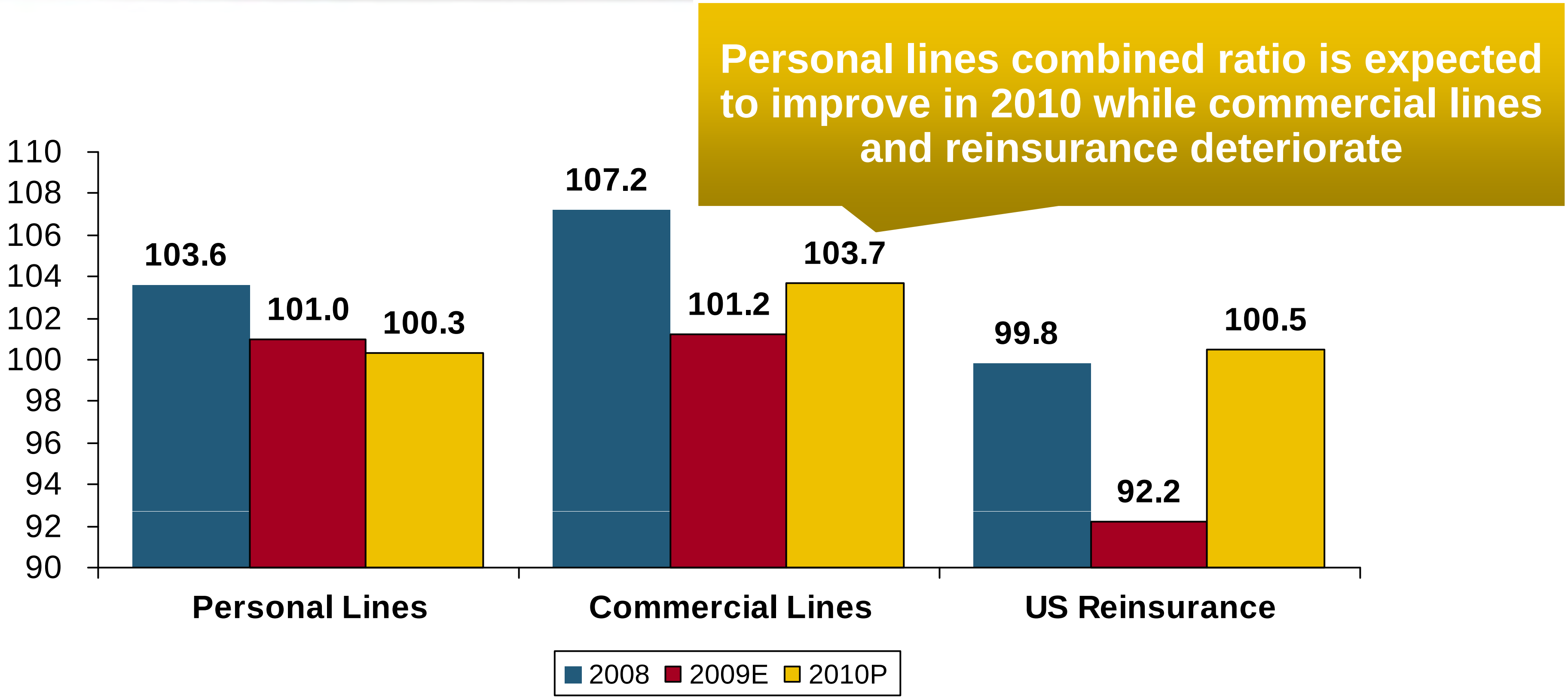
Performance by Segment: Commercial/Personal Lines & Reinsurance

Calendar Year Combined Ratios by Segment: 2008-2010P



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

Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute.

Calendar vs. Accident Year Combined Ratios by Segment: 2008-2010P*

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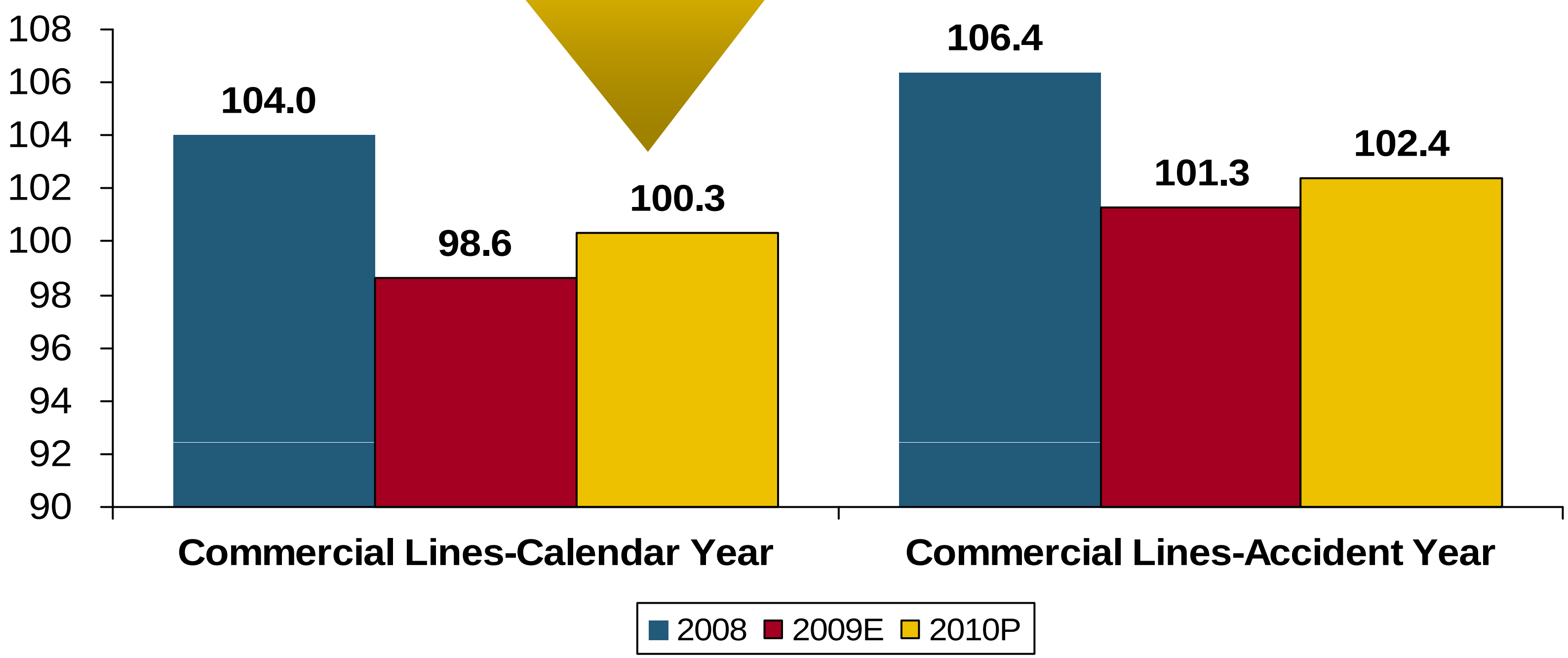
CY commercial lines combined ratios are lower than AY due to reserve releases

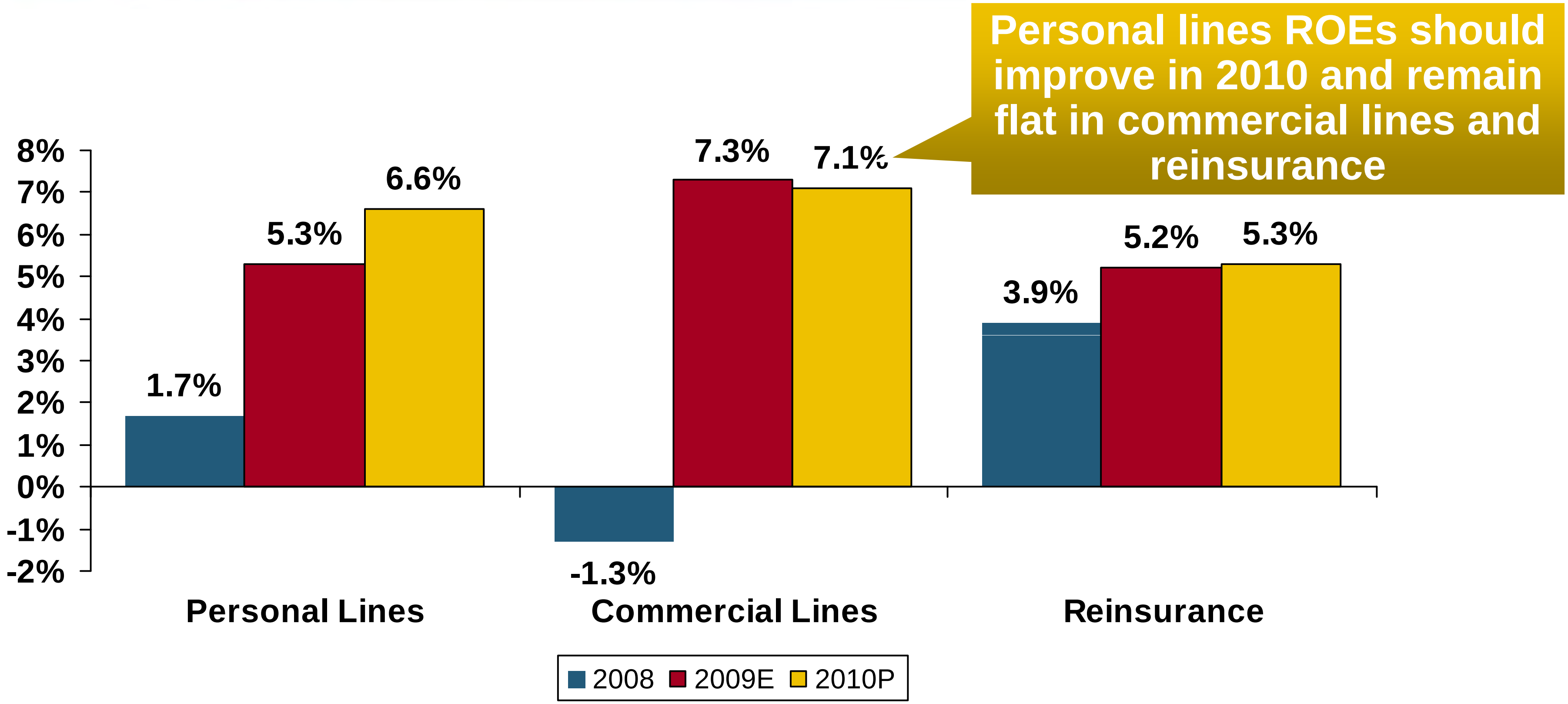


The ability of reserves releases to favorably impact calendar year results will diminish over time reserved redundancies fall

*Normalized to reflect average/typical level of catastrophe losses.

Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute.

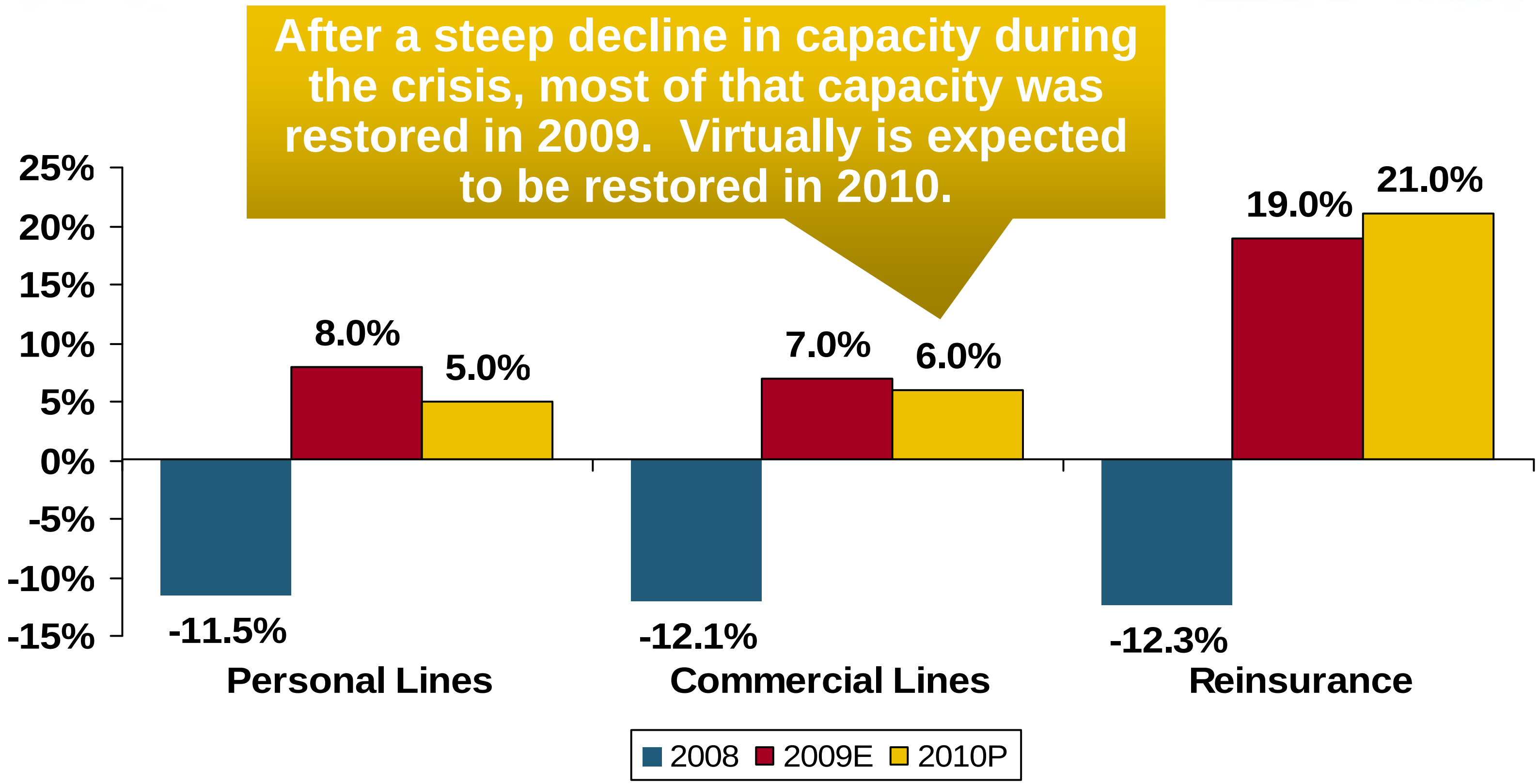
After-Tax Return on Surplus (ROE) by Segment: 2008-2010P



Profitability will rise or stabilize across most p/c lines, barring a financial crisis relapse or major catastrophic losses

Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute.

Change in Policyholder Surplus by Segment: 2008-2010P

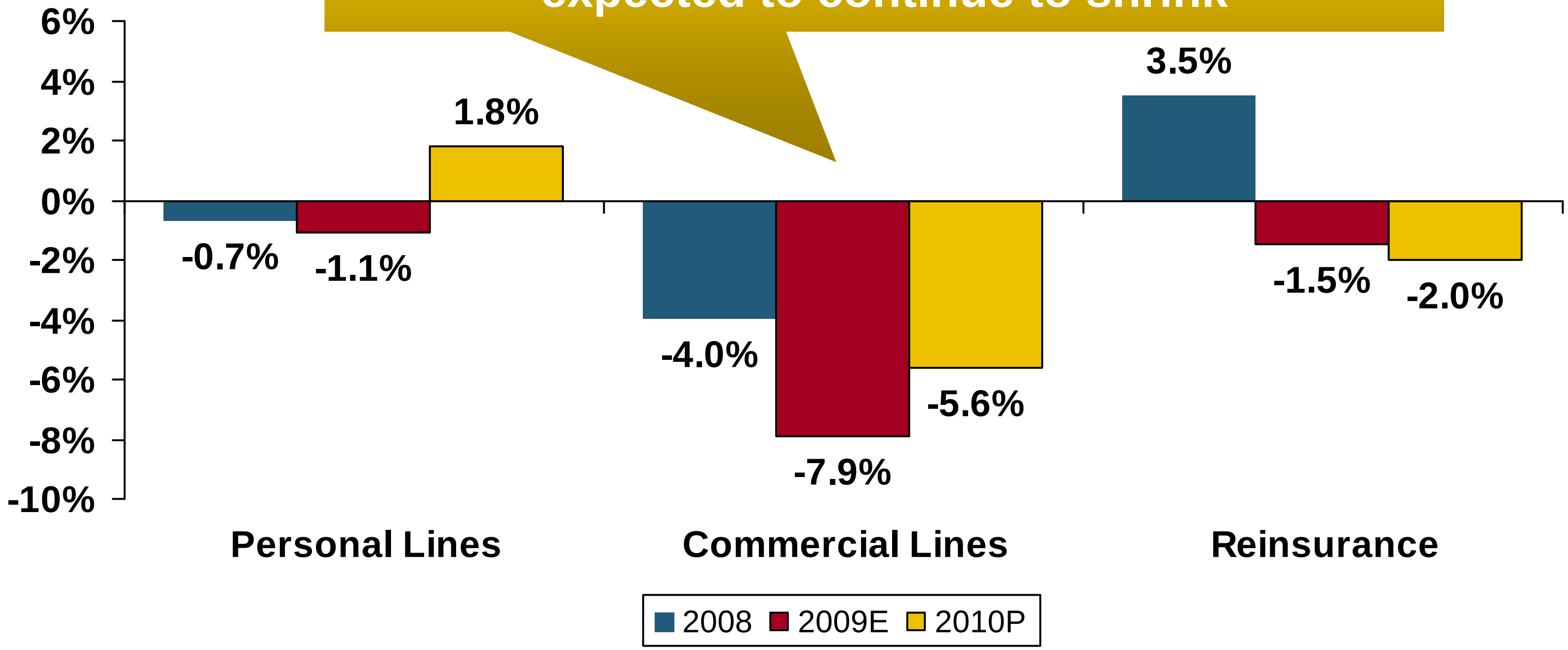


Rapid growth in policyholder surplus to pre-crisis levels combined with ongoing slow growth or declines in premiums (esp. in commercial lines) implies a build-up of excess capacity—a major factor in weak commercial lines and reinsurance pricing

Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute.

Net Written Premium Growth by Segment: 2008-2010P

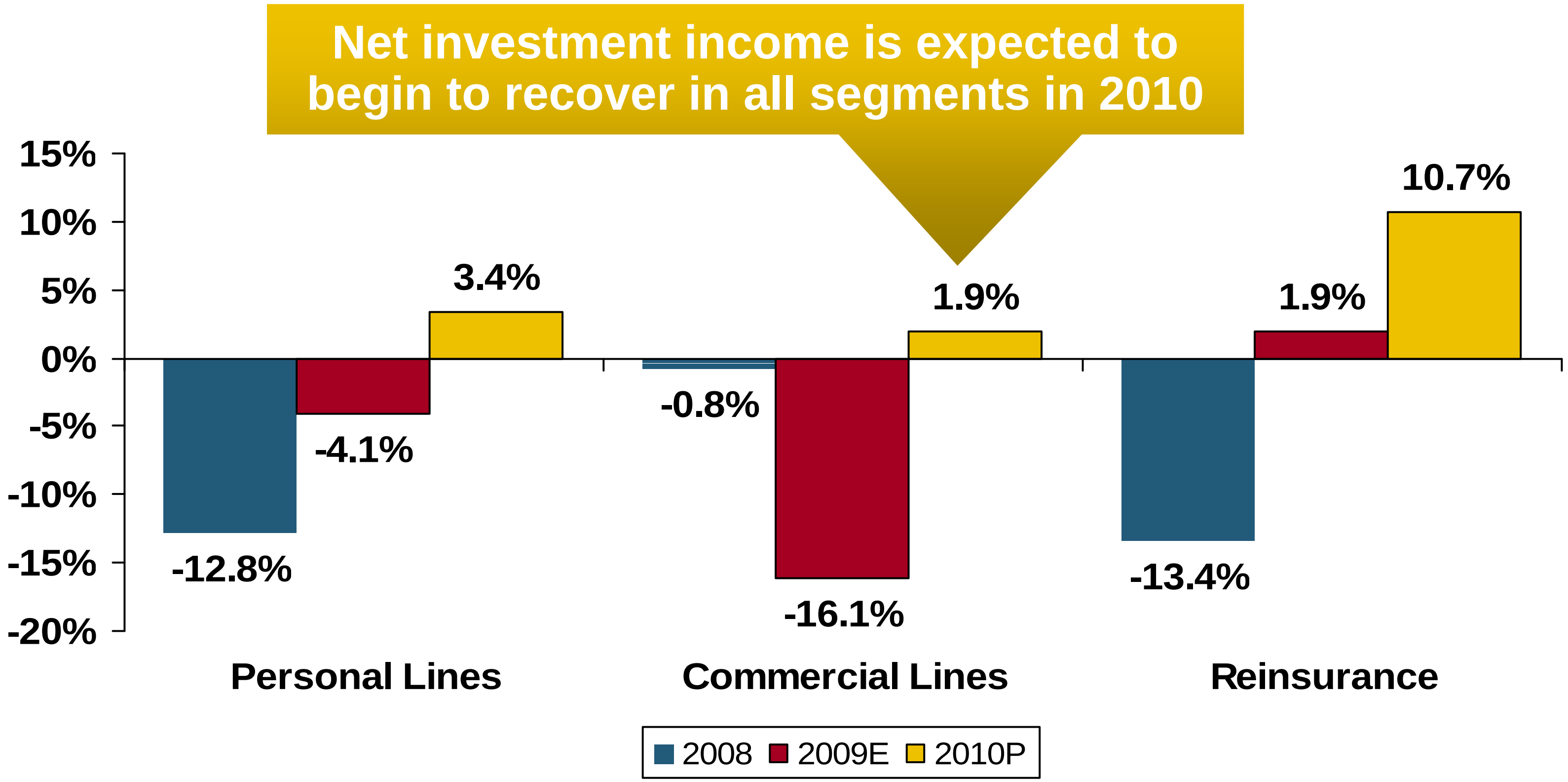
Personal lines will return to growth in 2010 while commercial lines and reinsurance are expected to continue to shrink



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

Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute.

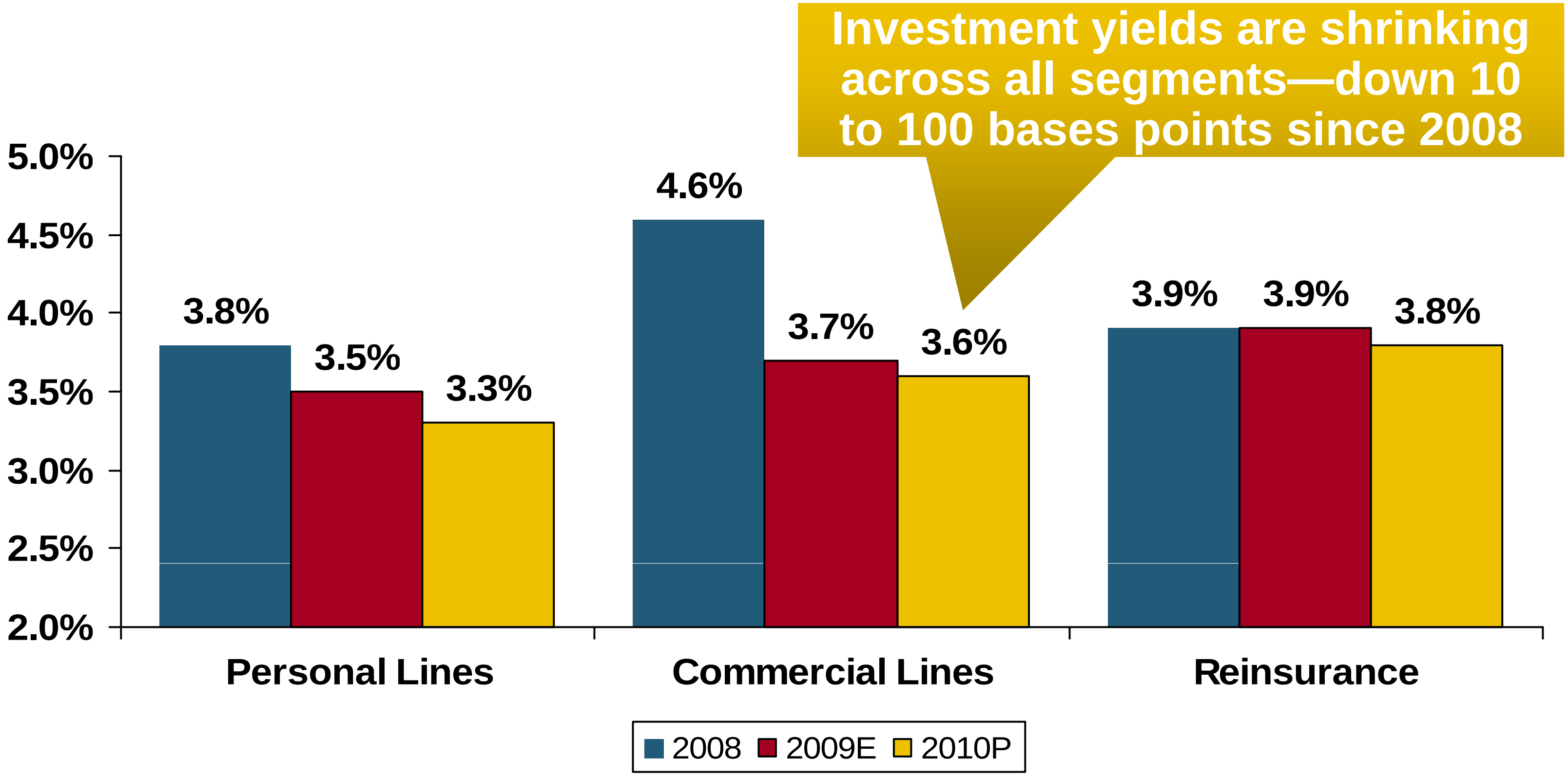
Change in Net Investment Income by Segment: 2008-2010P*



Investment income consists primarily of interest on bonds and stock dividends. Both were hit hard during the financial crisis as the Fed slashed interest rates to near zero and corporations cut dividends. A recovery in investment asset values beginning in Q2 2009—which reduced realized capital losses—has helped offset some of the decrease in investment income.

Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute.

Investment Yield by Segment: 2008-2010P*

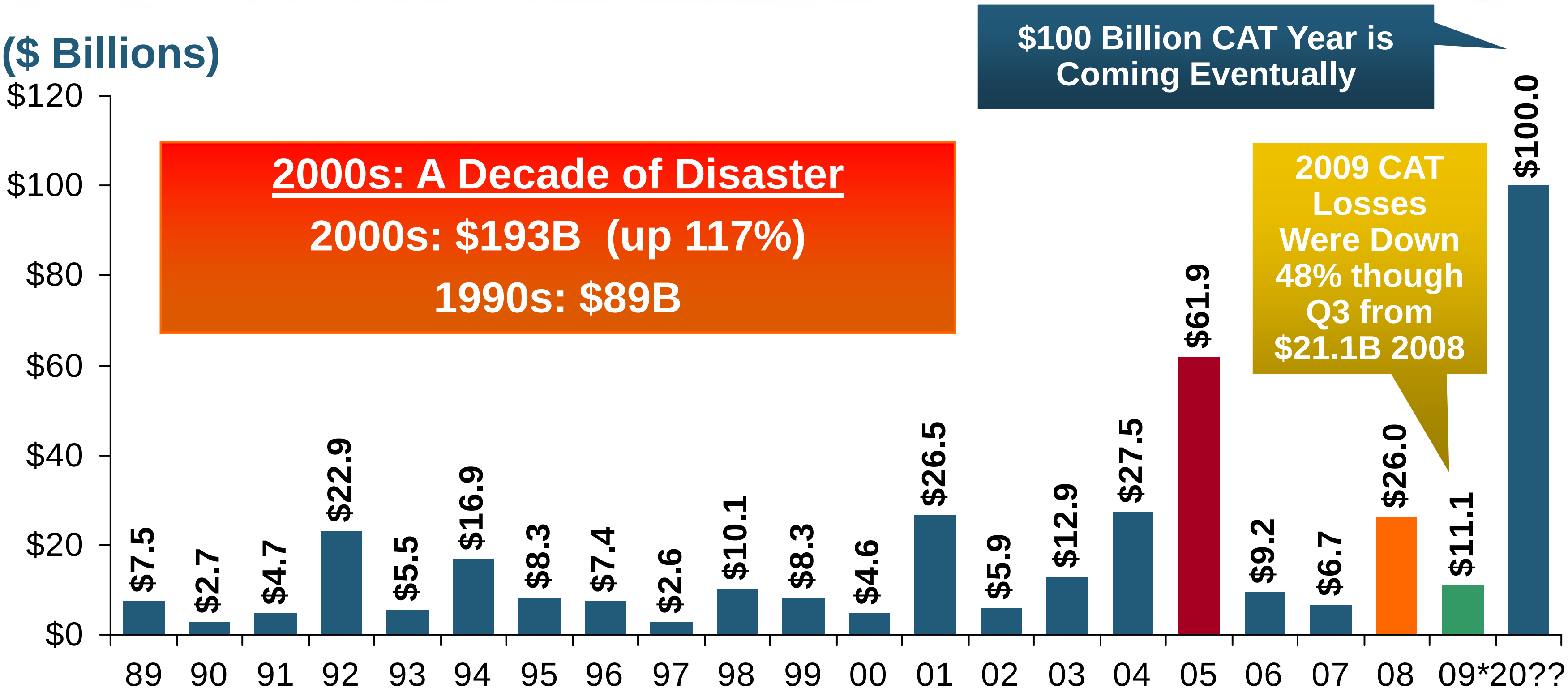


The Fed slashed interest rates in 2008 and has kept them low since, eroding the yield on all types of bonds, especially US Treasury securities. Yields will not recover until the Fed begins monetary policy tightening.

Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute.

Catastrophic Loss – Catastrophe Losses Trends Are Trending Adversely

US Insured Catastrophe Losses



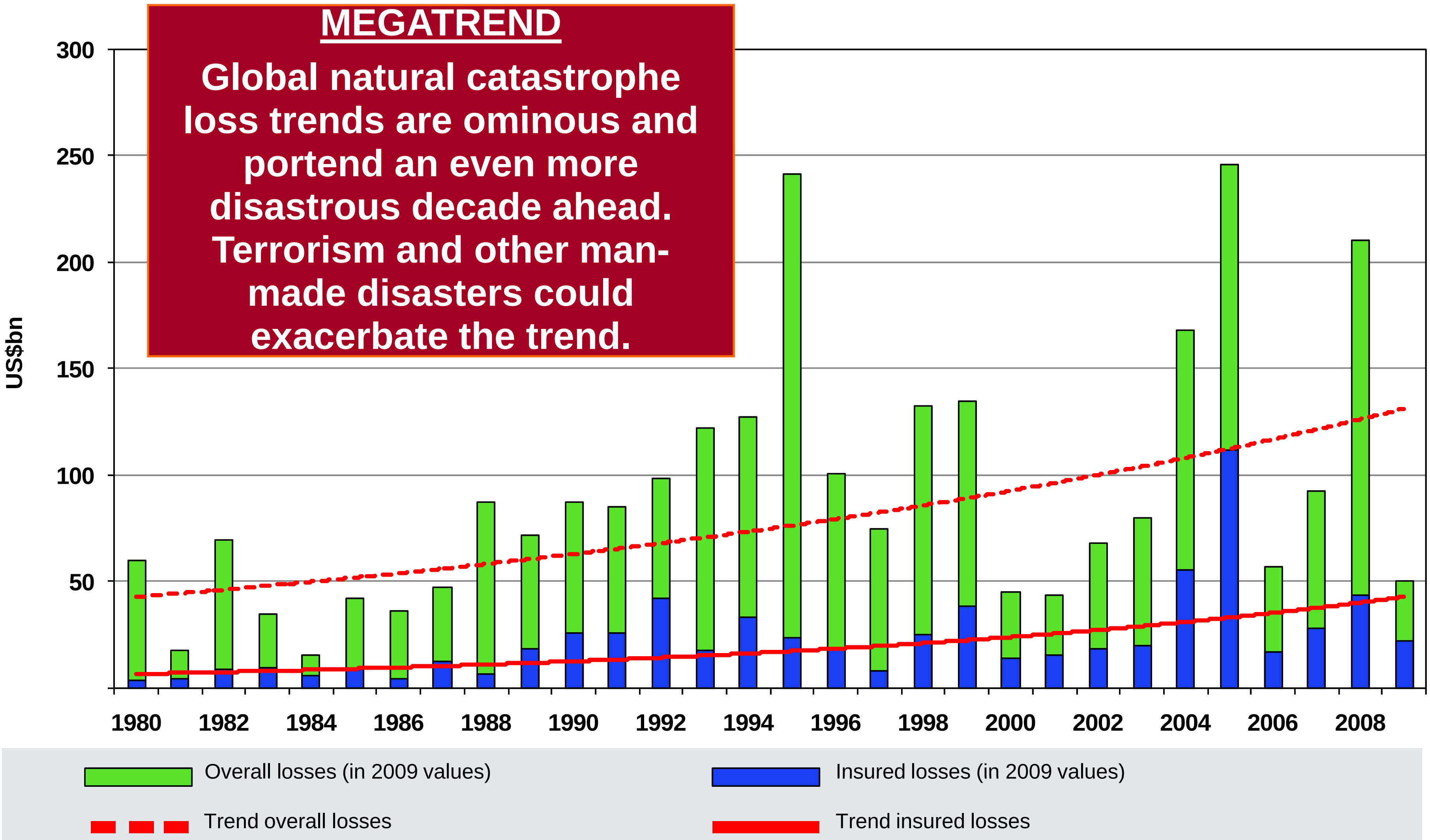
**2009 CAT Losses Were Less than Half of 2008.
2005 Was by Far the Worst Year Ever for Insured Catastrophe
Losses in the Decade of the 2000s Were More than Double the 1990s,
*But the Worst Has Yet to Come***

* 2009 figure is Munich Re estimate.

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; Insurance Information Institute.

Global Natural Catastrophes 1980–2009
Overall and insured losses with trend



Source: Munich Re NatCat*SERVICE;* Insurance Information Institute.

Natural Catastrophe Losses in the U.S. 2009

As of January 2010	Fatalities	Estimated Overall Losses (US $m)	Estimated Insured Losses (US $m)
Tropical Cyclones	8	Minor	Minor
Severe Thunderstorms	21	13,710	9,625†
Winter Storms	70	1,600	770†
Wildfires	6	280	185
Floods	22	1,600	232

2009 was a near record year for thunderstorm losses

Sources: (unmarked) - MR NatCat*SERVICE*,
† - Property Claims Services (PCS)

U.S. Significant Natural Catastrophes in 2009

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$1+ billion economic loss and/or 50+ fatalities (as of Jan. 2010)

Date	Event	Est. Economic Losses (US $m)	Estimated Insured Losses (US $m)
January 26 - 28	Winter Storm	1,100	565†
February 10 - 13	Thunderstorms	2,500	1,350†
March 25 - 26	Thunderstorms	1,500	995†
March – April	Flood	1,000	75
April 9 -11	Thunderstorms	1,700	1,150†
June 10 -18	Thunderstorms	2,000	1,100†
July 20 -21	Thunderstorms	1,000	800†

Sources: (unmarked) - MR NatCat*SERVICE*,
† - Property Claims Services (PCS)

U.S. Significant Natural Catastrophes, 1950 – 2009

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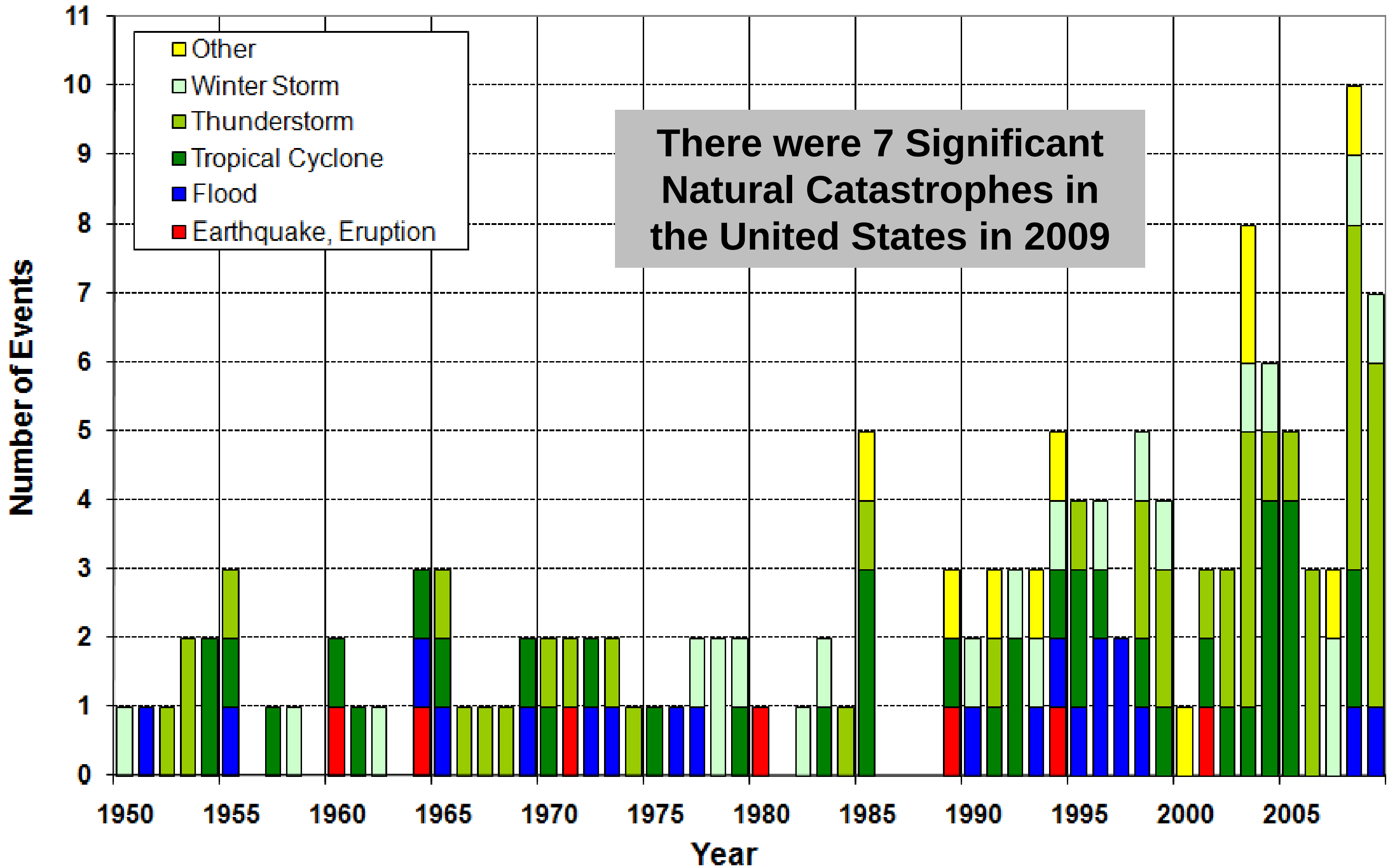
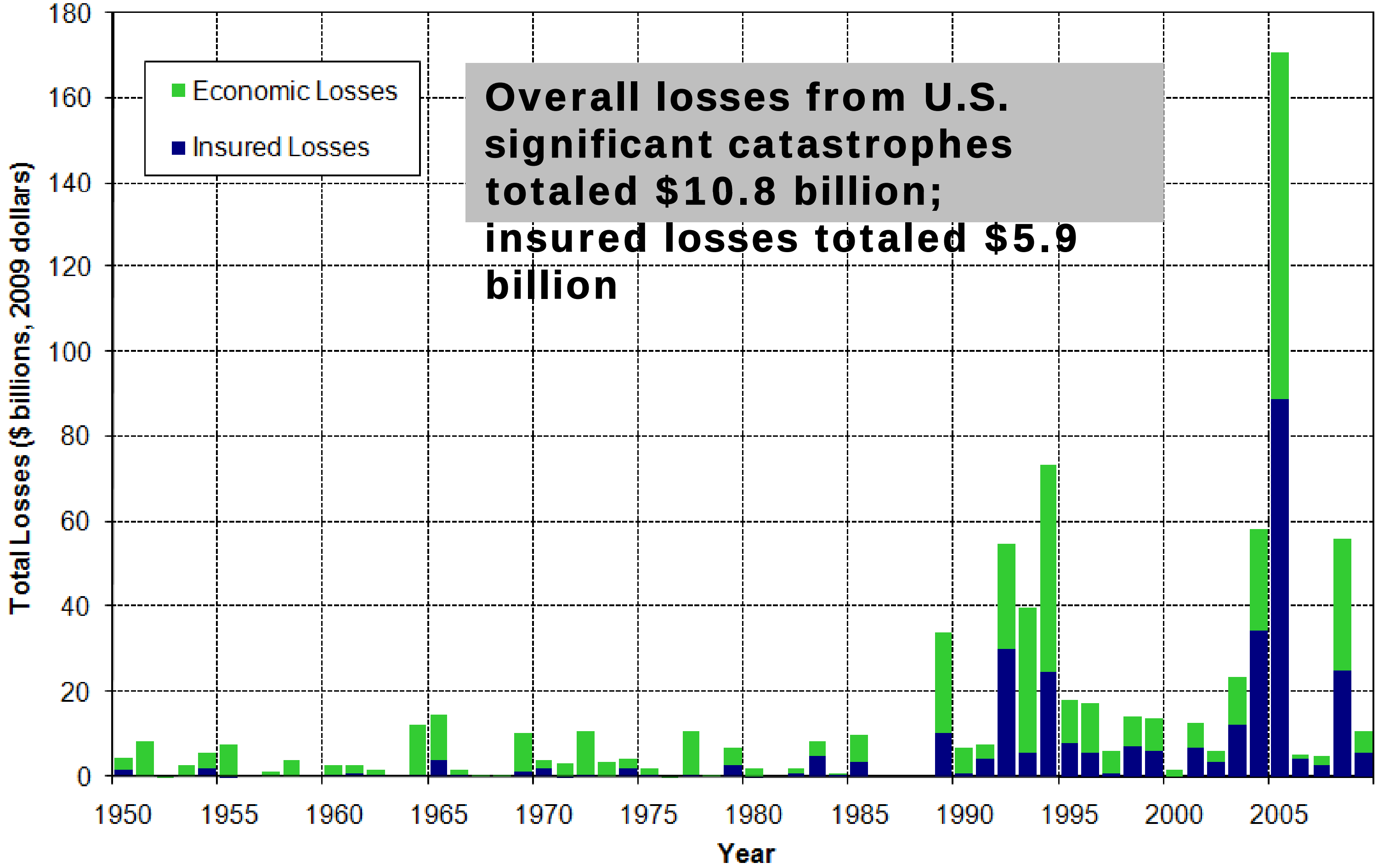
Number of Events ($1+ Bill economic loss and/or 50+ fatalities)



Sources: MR Nat*CatSERVICE*

Losses from U.S. Significant Natural Catastrophes 1950 – 2009

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



Sources: MR NatCat*SERVICE*

Insured Losses Due to Weather Perils in the U.S.: 1980 – 2009

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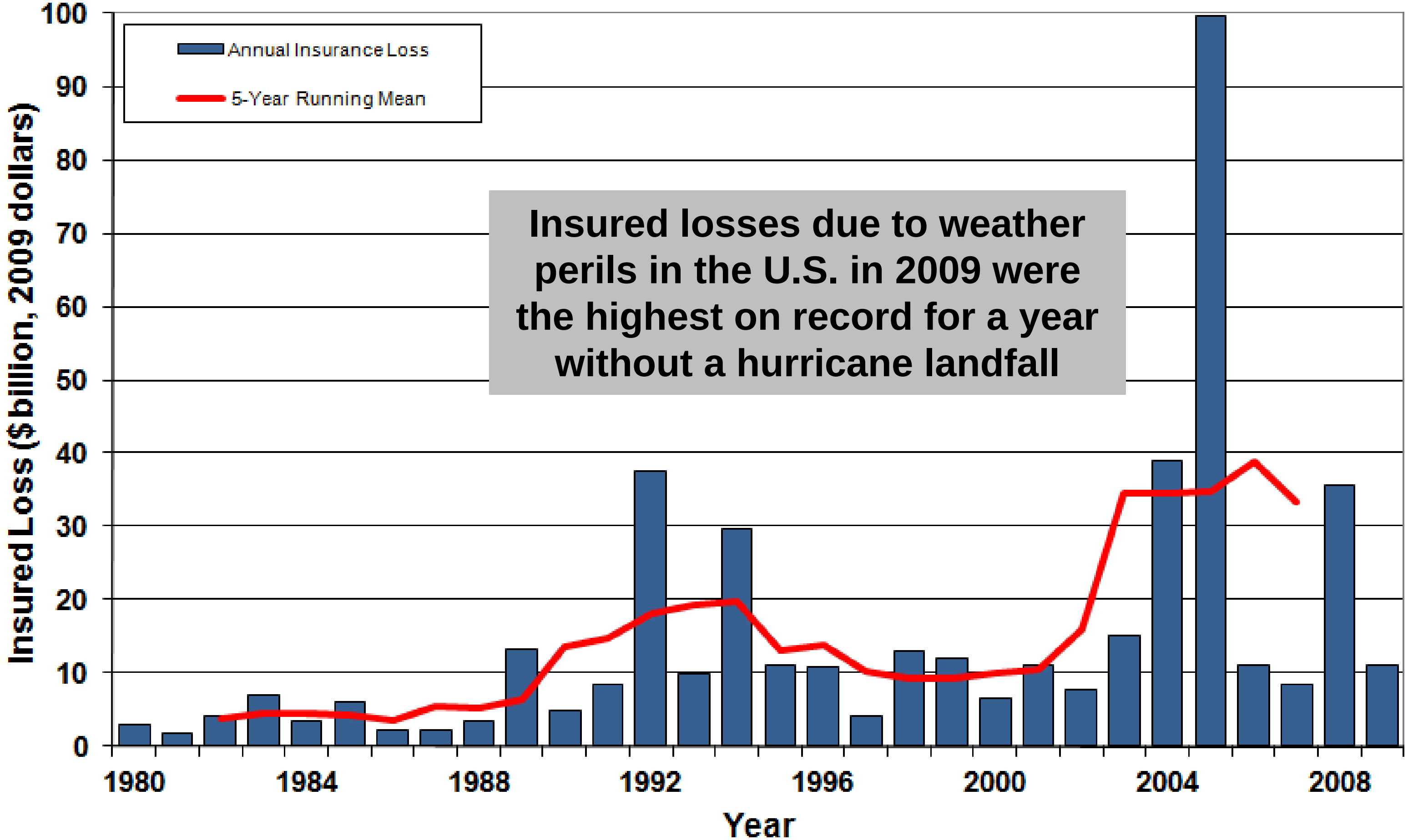
(Tropical Cyclone, Thunderstorm, and Winter Storm only)



Sources: MR NatCat*SERVICE*, Property Claims Services

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

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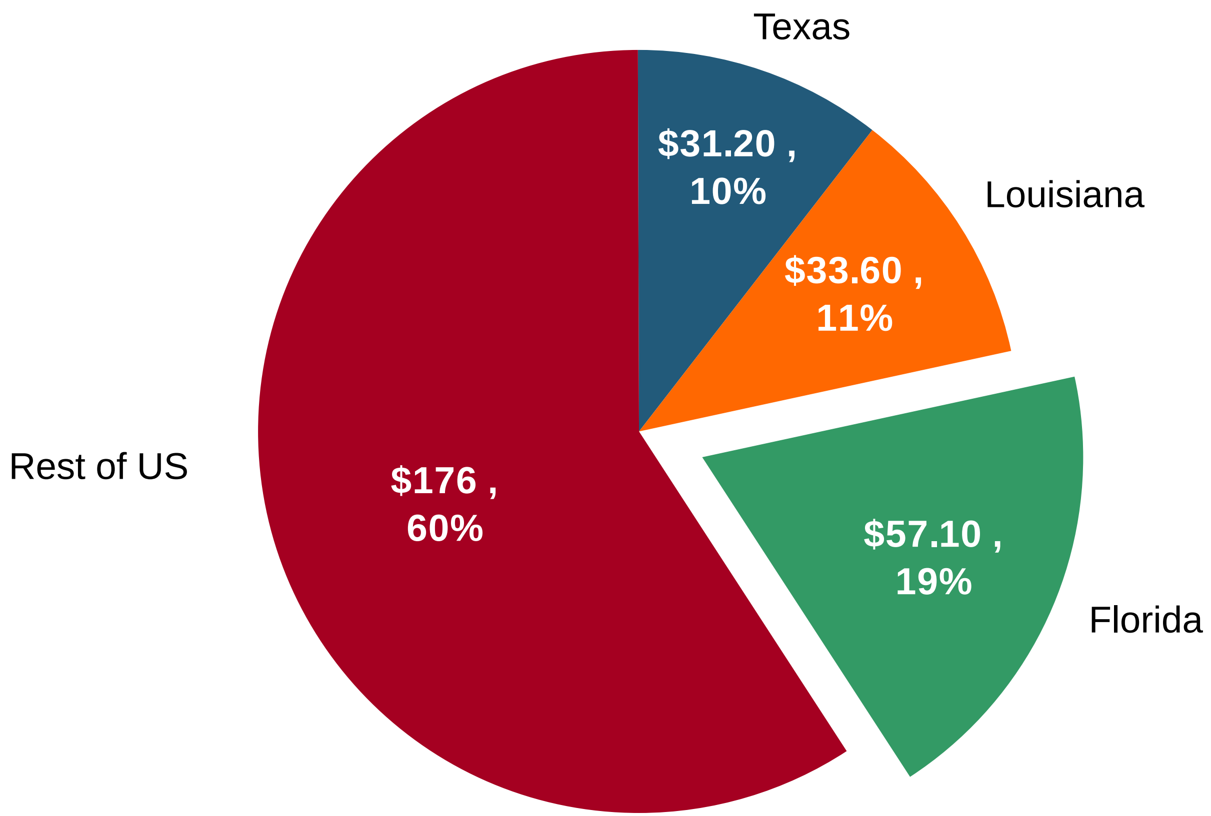
($ Billions)



Florida Accounted for 19% 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

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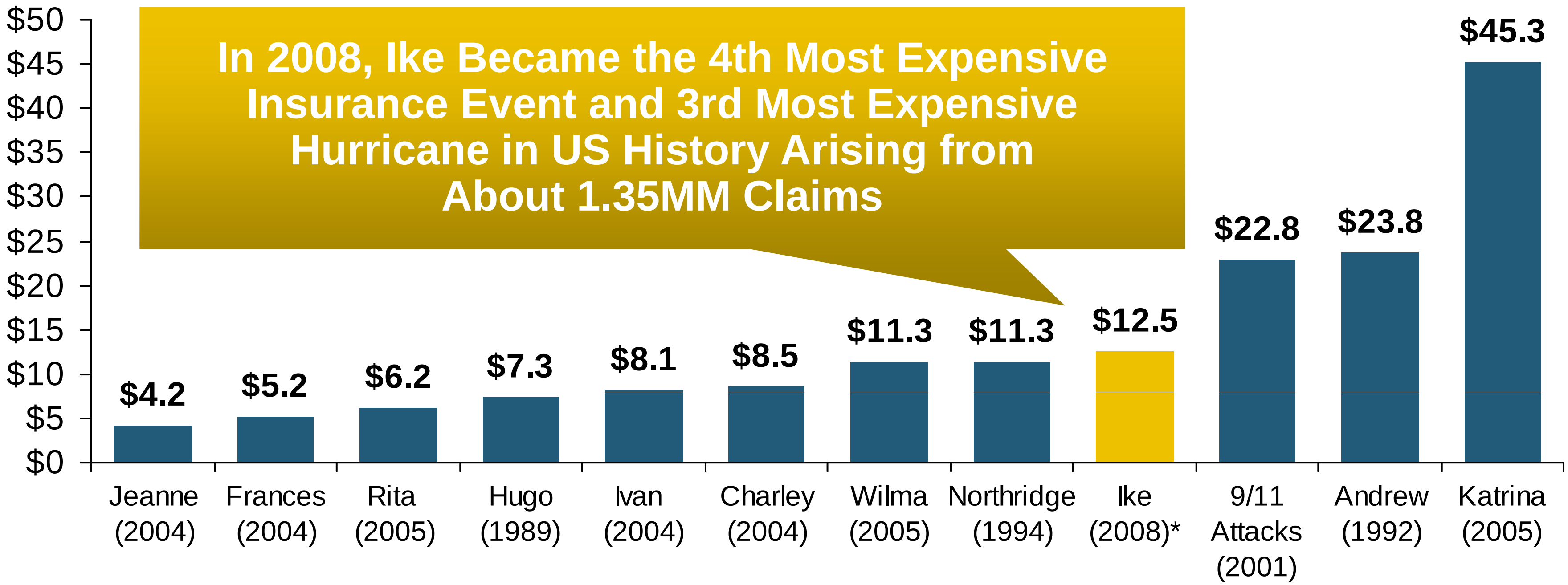
(Insured Losses, 2008, $ Billions)



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

* PCS estimate as of August 1, 2009.
Sources: PCS; Insurance Information Institute inflation adjustments.

Total Value of Insured Coastal Exposure

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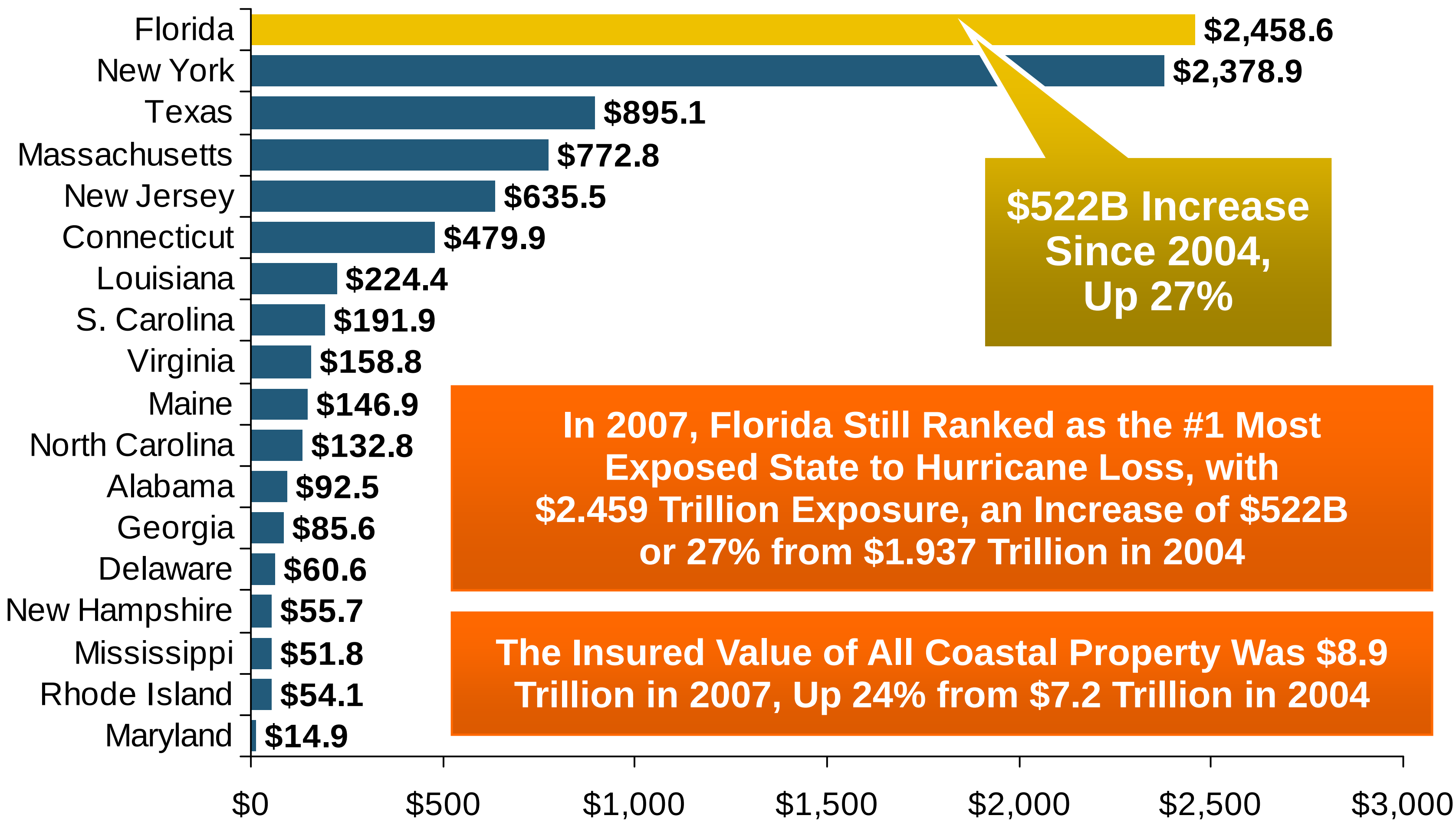
(2007, $ Billions)

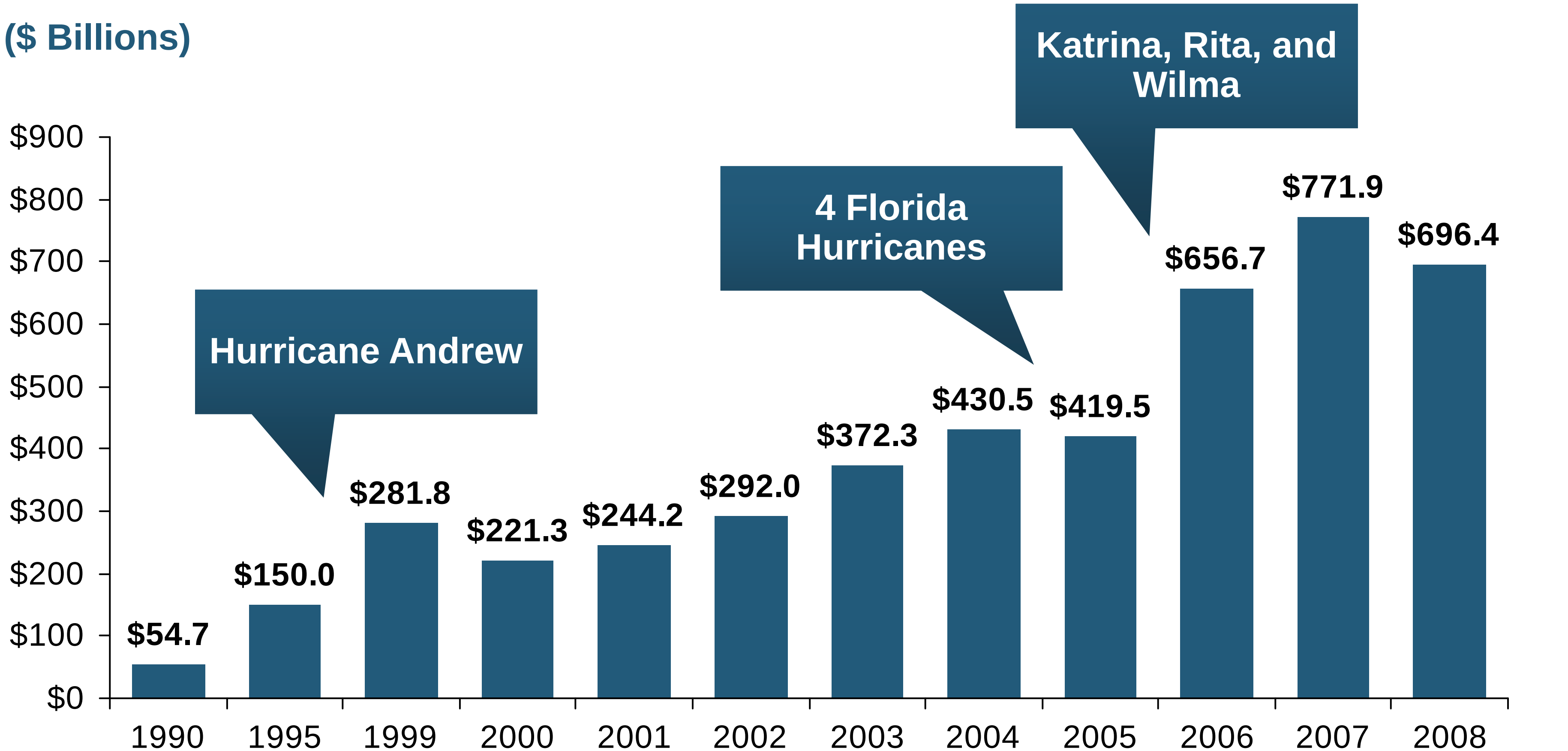


In 2007, Florida Still Ranked as the #1 Most Exposed State to Hurricane Loss, with $2.459 Trillion Exposure, an Increase of $522B or 27% from $1.937 Trillion in 2004

The Insured Value of All Coastal Property Was $8.9 Trillion in 2007, Up 24% from $7.2 Trillion in 2004

Source: AIR Worldwide

US Residual Market Exposure to Loss



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

Source: PIPSO; Insurance Information Institute

Insurance Information Institute Online:

www.iii.org

Thank you for your time and your attention!