



The P/C Insurance Industry at the Crossroads: *Where We Are & Where We're Headed*

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

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

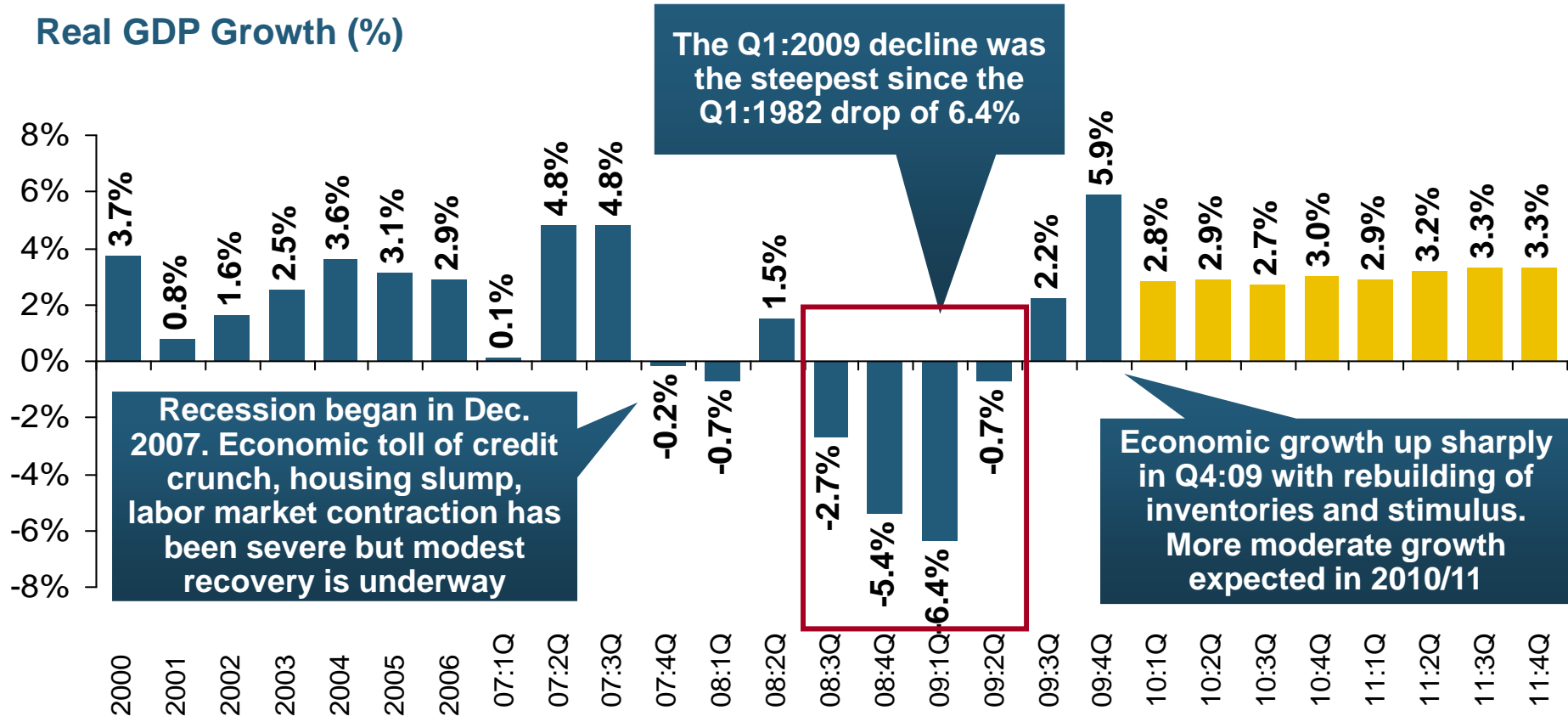
Tel: 212.346.5520 ♦ Cell: 917.453.1885 ♦ bobh@iii.org ♦ www.iii.org

- **The Economic Storm: Financial Crisis & Recession**
 - ◆ Exposure, Growth & Profitability
- **Crisis-Driven Exposure Issues: Personal & Commercial Lines**
 - ◆ Impacts on Claiming Behavior
- **Threats and Issues Facing P/C Insurers Through 2015**
- **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
- **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*



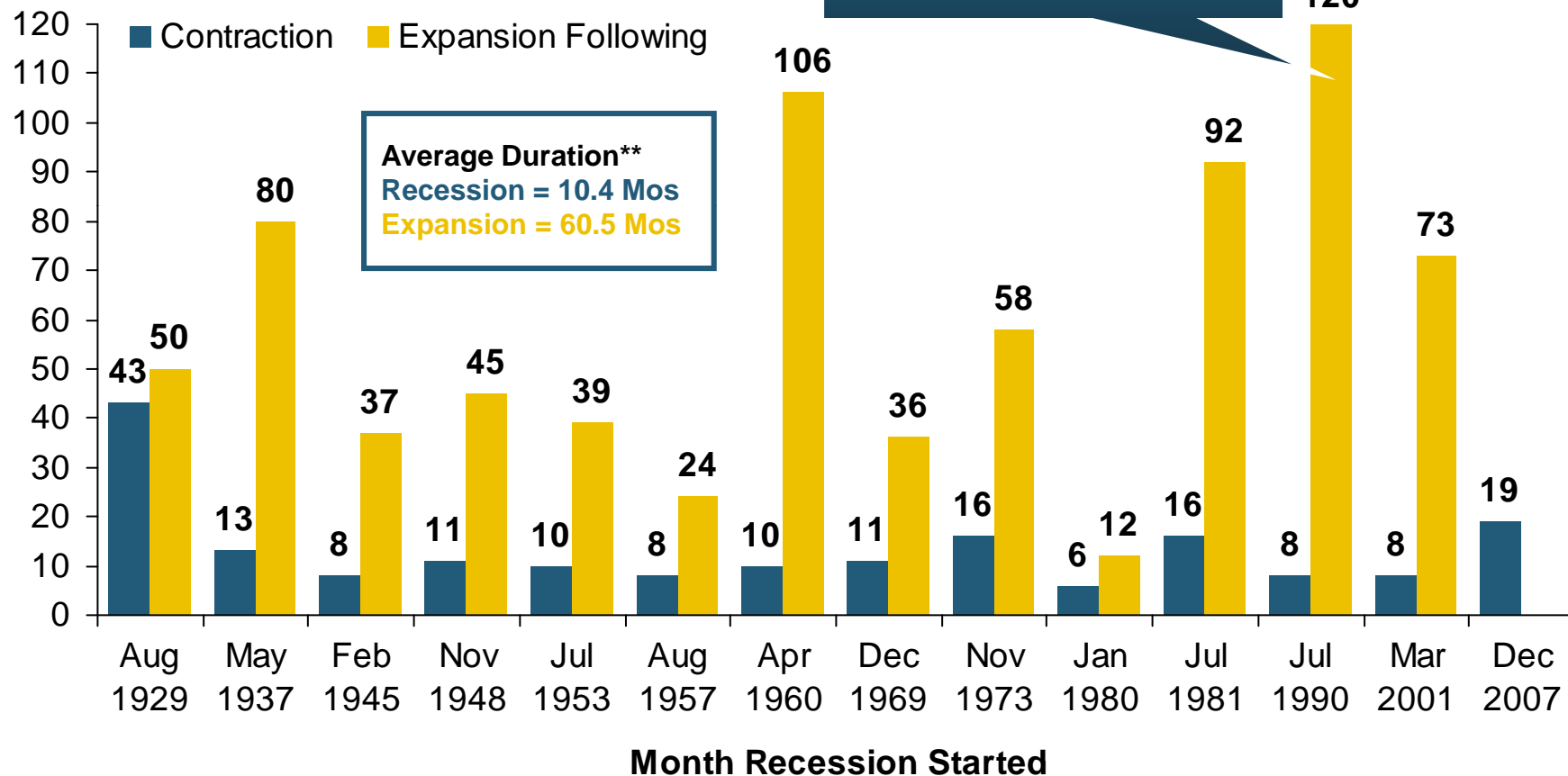
Personal and Commercial Lines Exposure Base Have Been Hit Hard and Will Be Slow to Come Back

* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 3/10; Insurance Information Institute.

Length of US Business Cycles, 1929–Present*

Duration (Months)

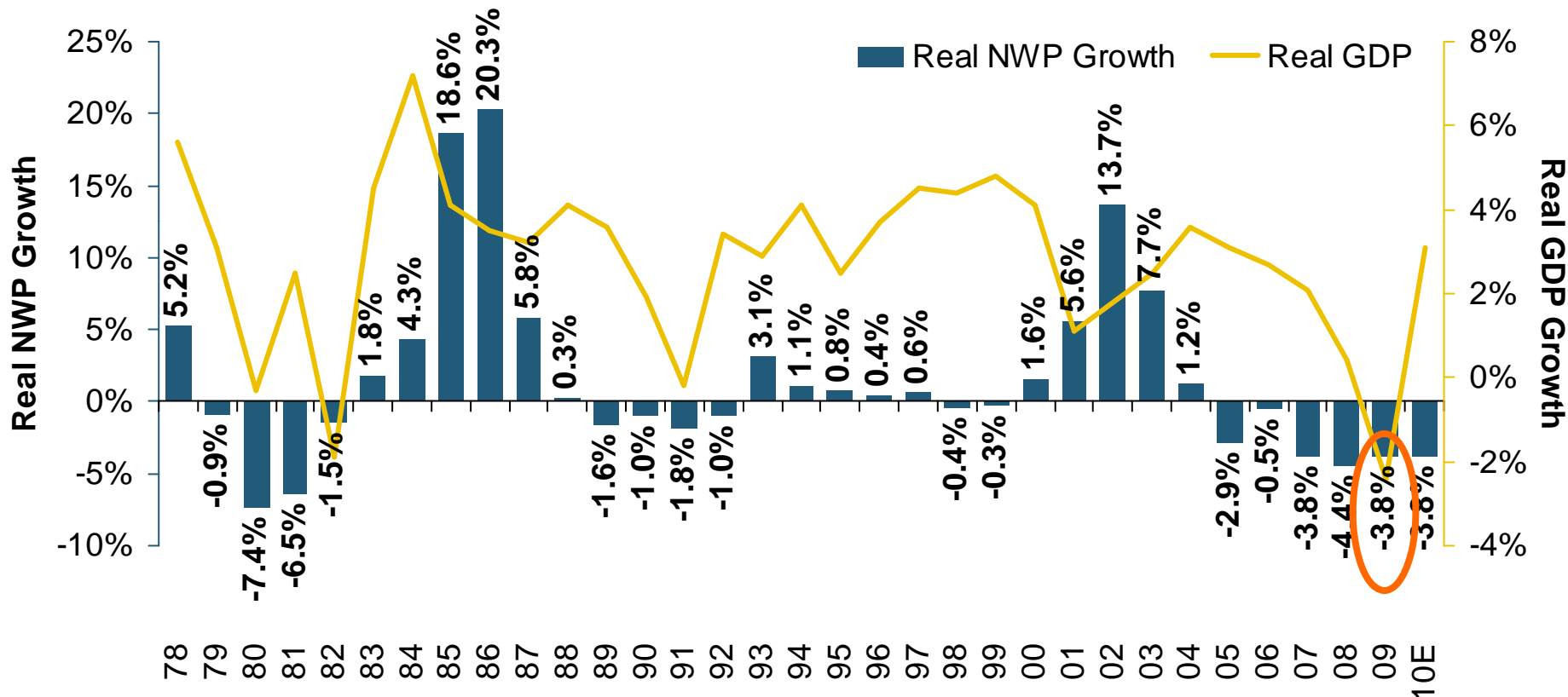


* Through June 2009 (likely the “official end” of recession) ** Post-WW II period through end of most recent expansion.

Sources: National Bureau of Economic Research; Insurance Information Institute.

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

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



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



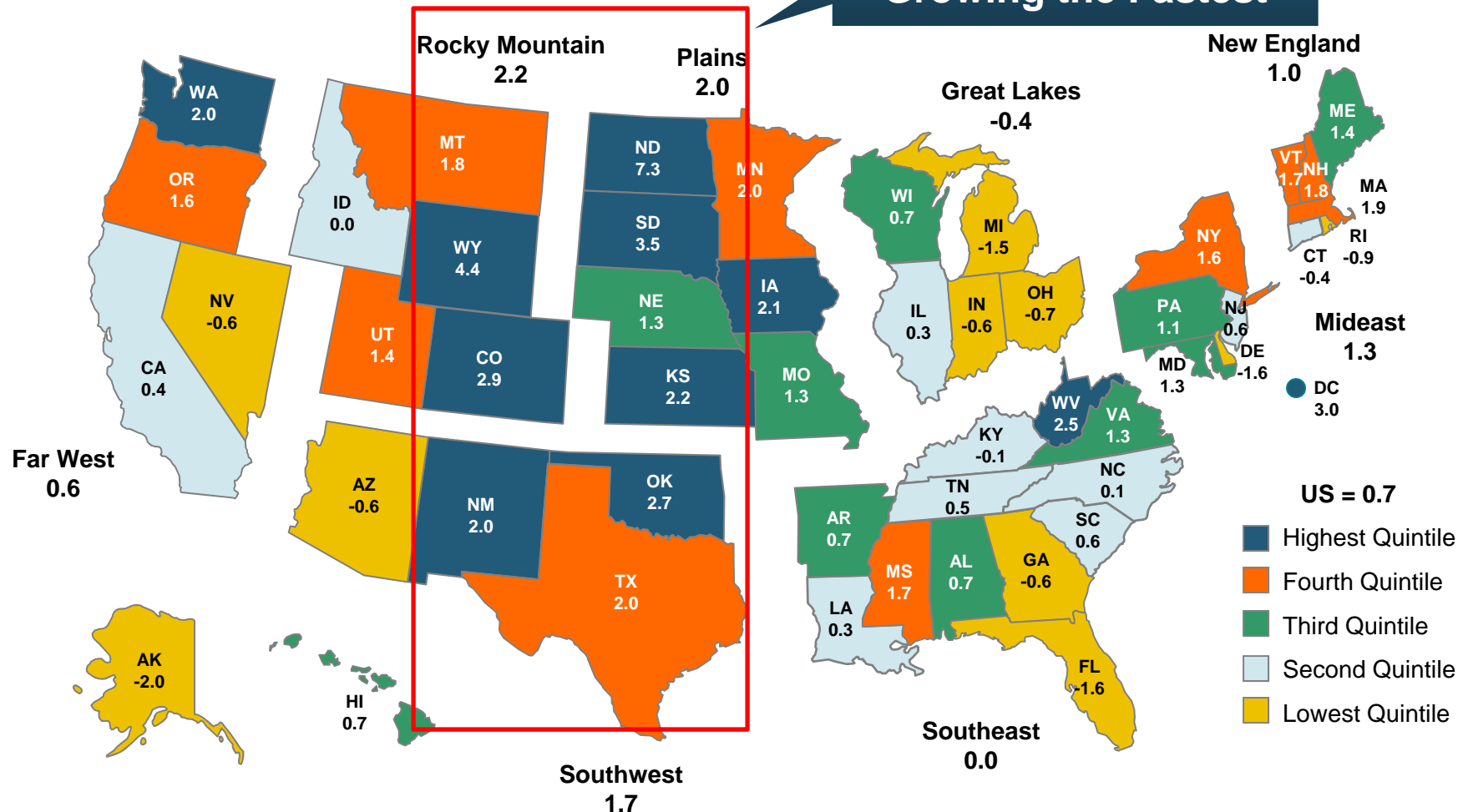
Regional Differences Will Significantly Impact P/C Markets

**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

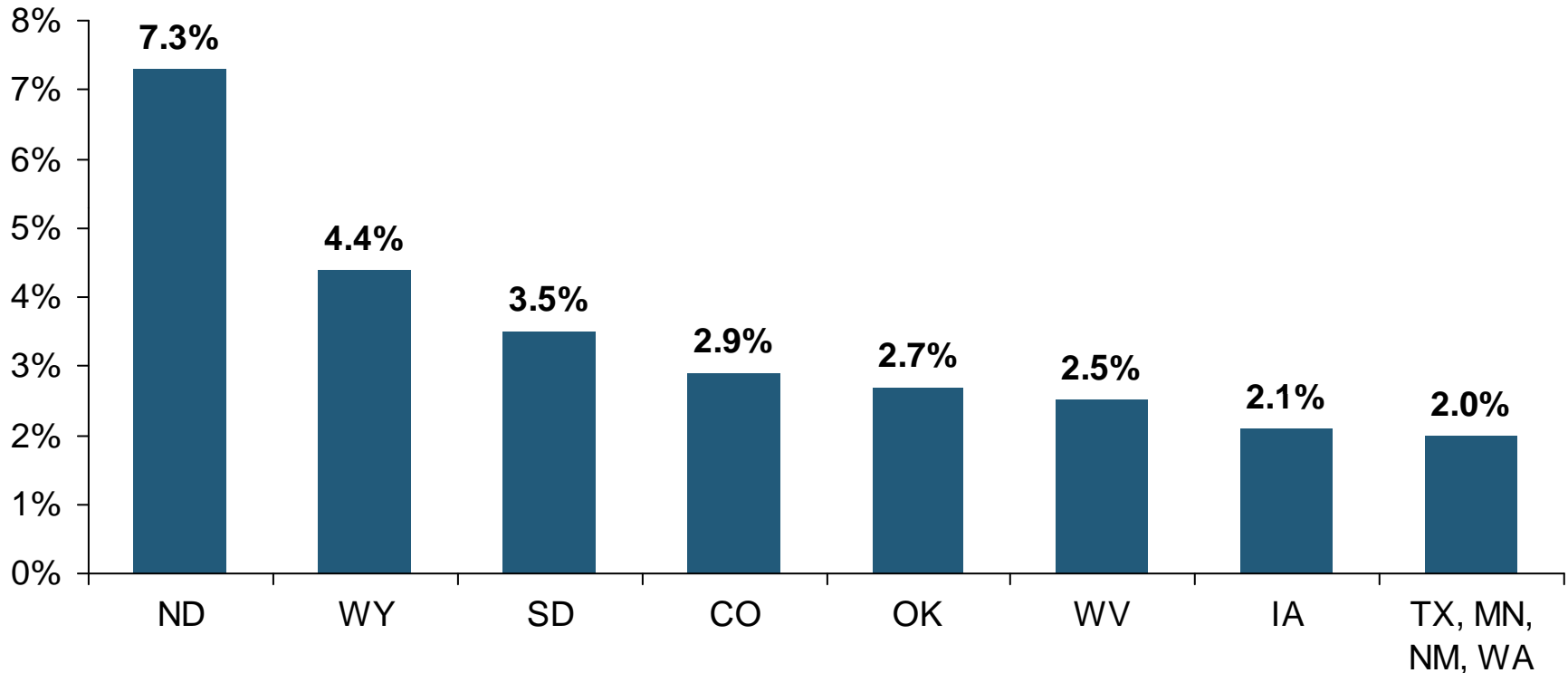
Percent Change in Real GDP by State, 2007–2008

**Mountain, Plains States
Growing the Fastest**



Fastest Growing States in 2008: Plains, Mountain States Lead

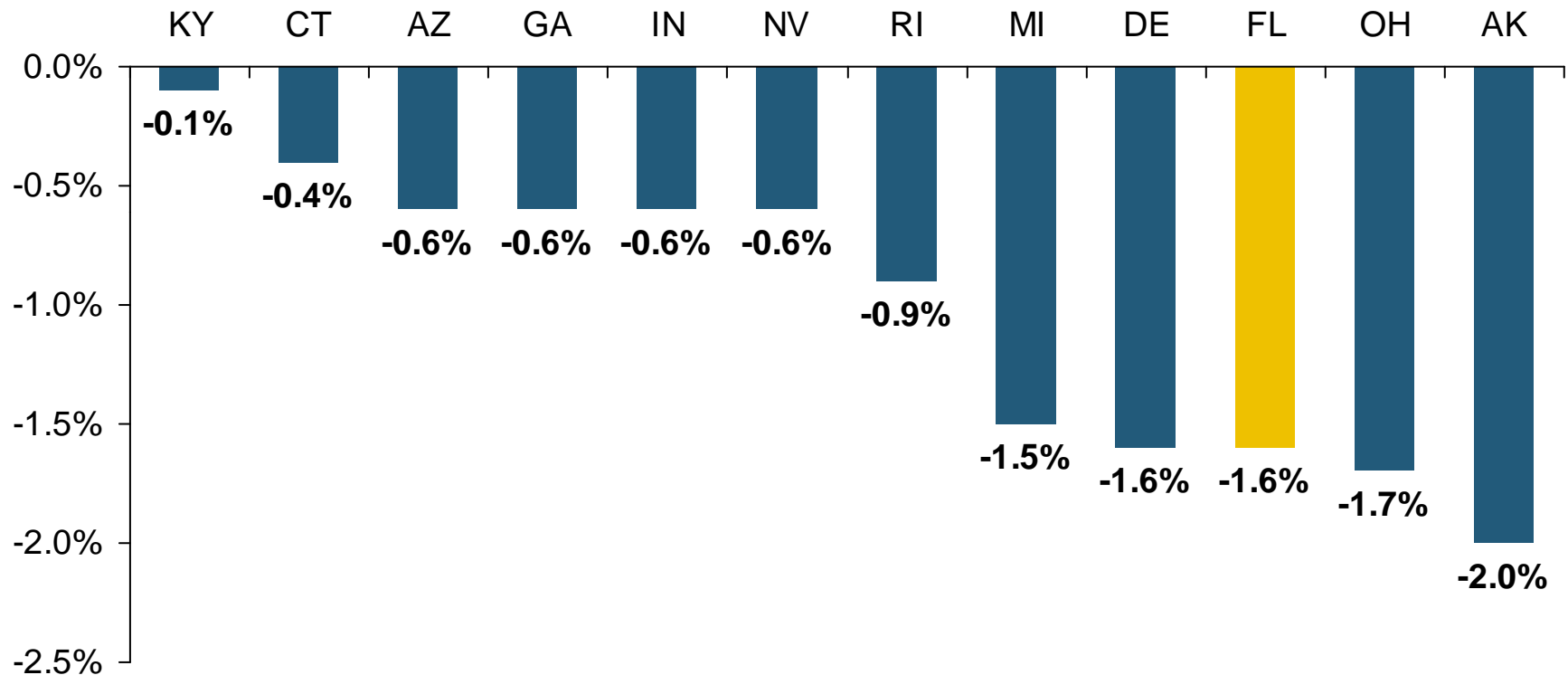
Real State GDP Growth (%)



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 (%)



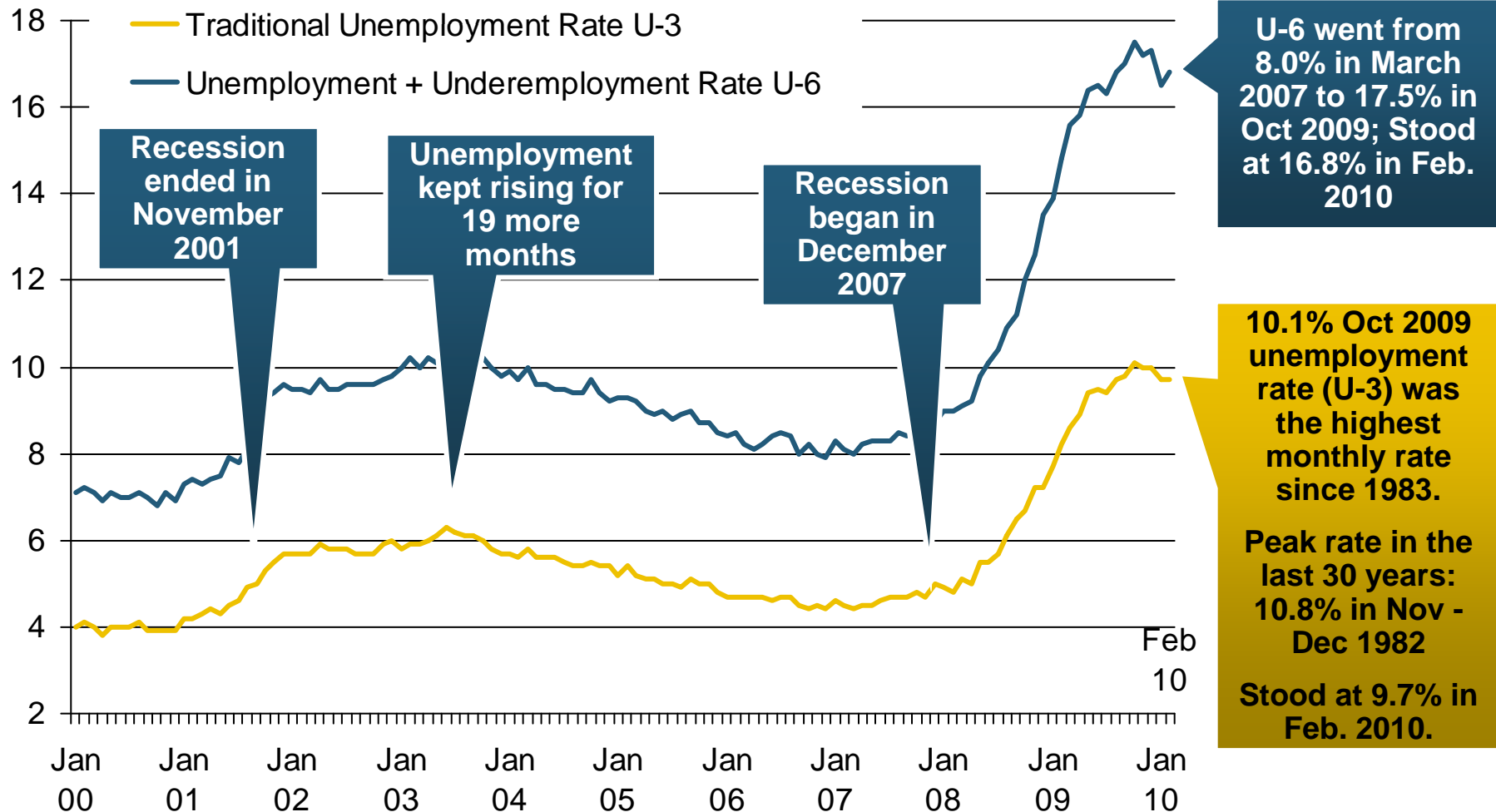
**States in the North, South, East and West All Represented Among
Hardest Hit, But for Differing Reasons**

Labor Market Trends

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

Unemployment and Underemployment Rates: Rocketing Up in 2008-09

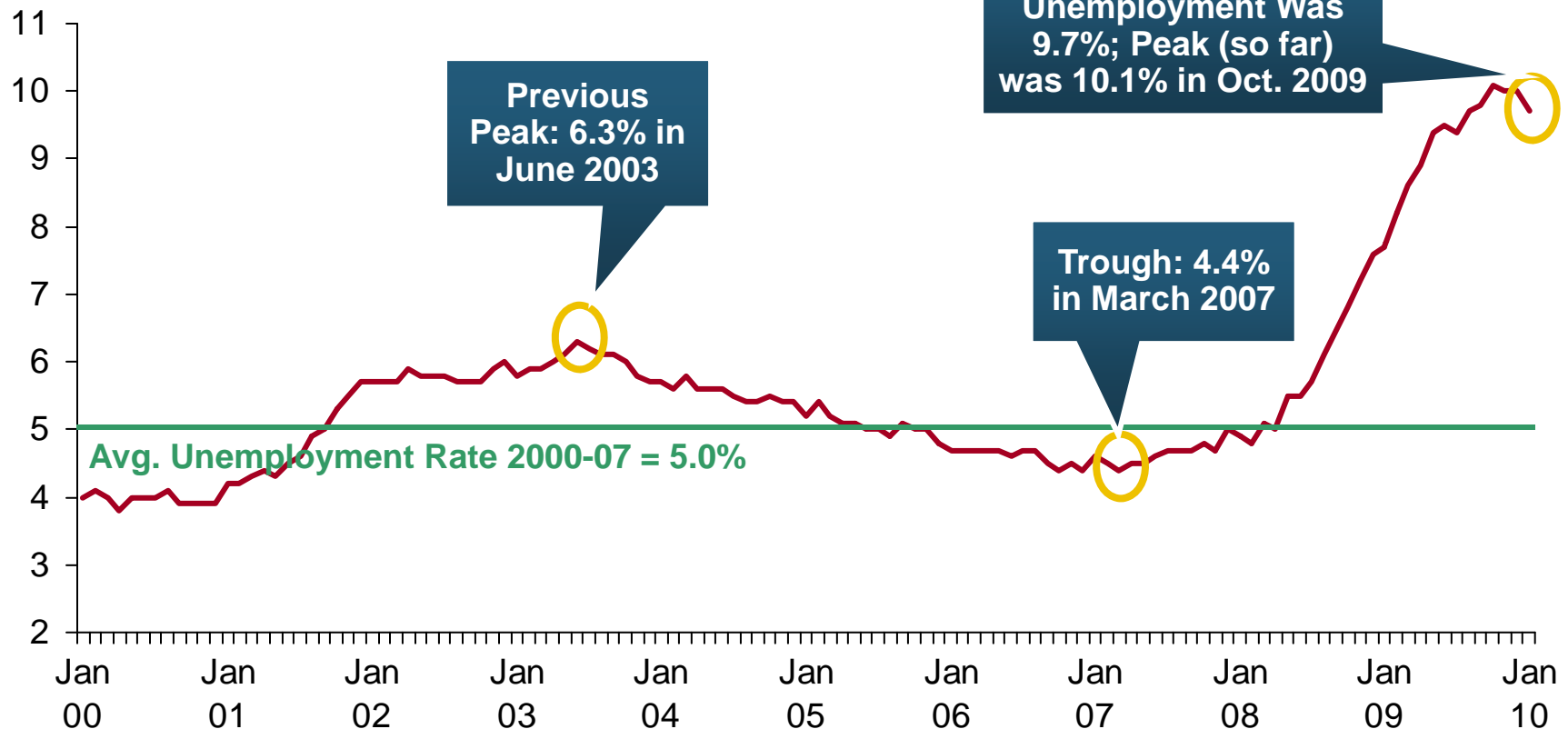
January 2000 through February 2010, Seasonally Adjusted (%)



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

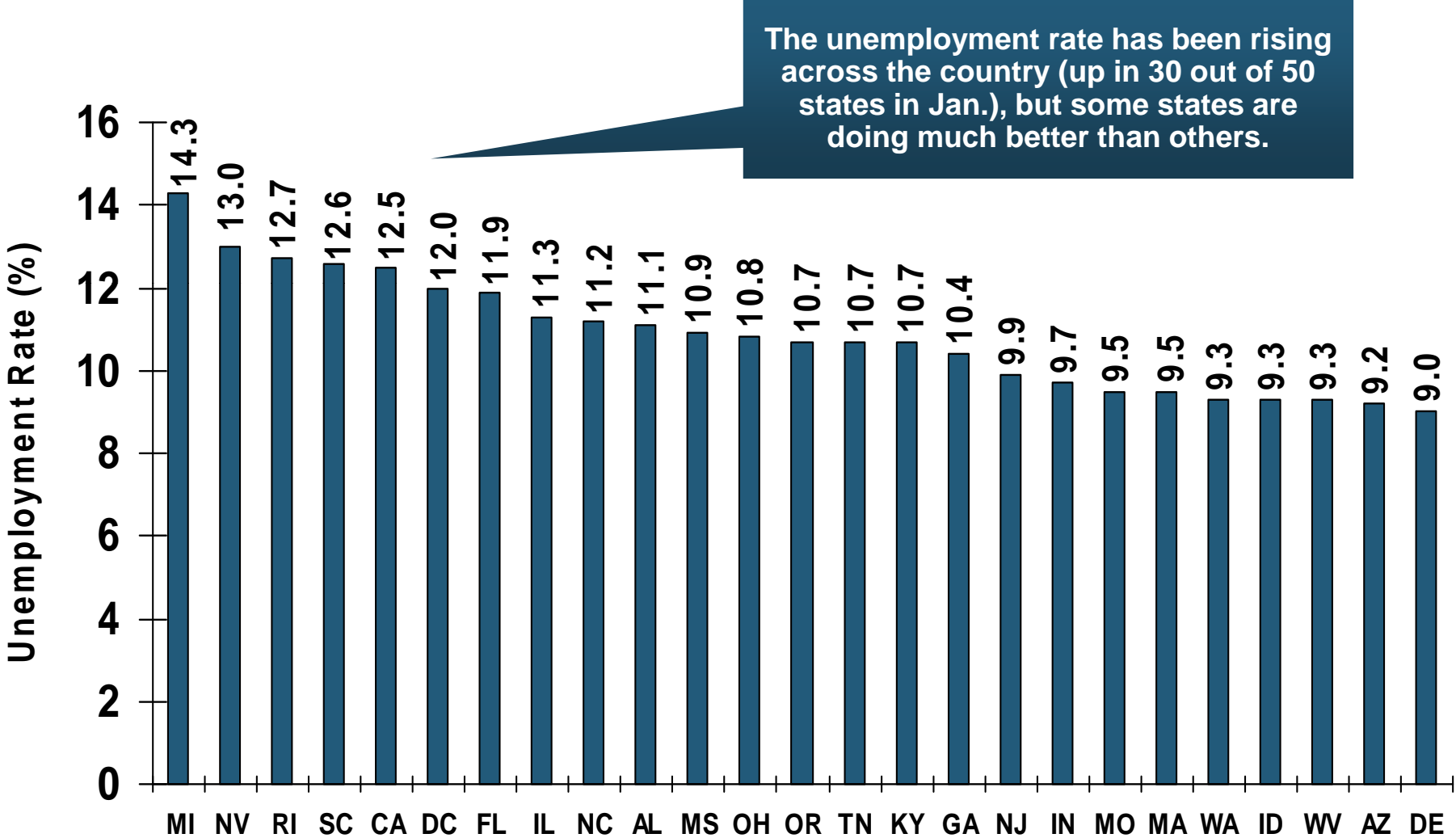
Unemployment Rate: Has it Peaked?

January 2000 through January 2010* (%)



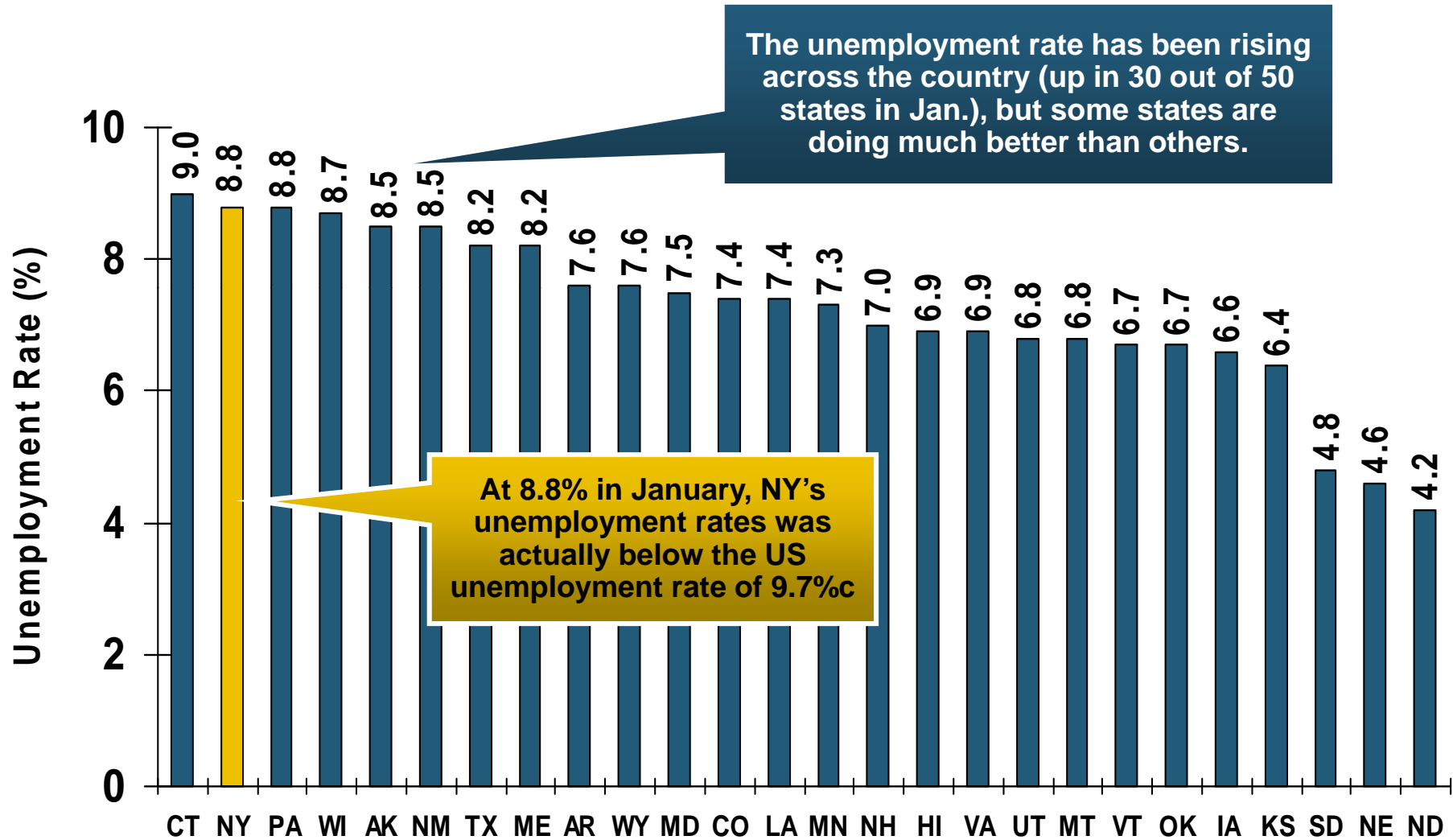
Unemployment Will Likely Rise Again During This Cycle, Impacting Payroll Sensitive P/C and L/H Exposures

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



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

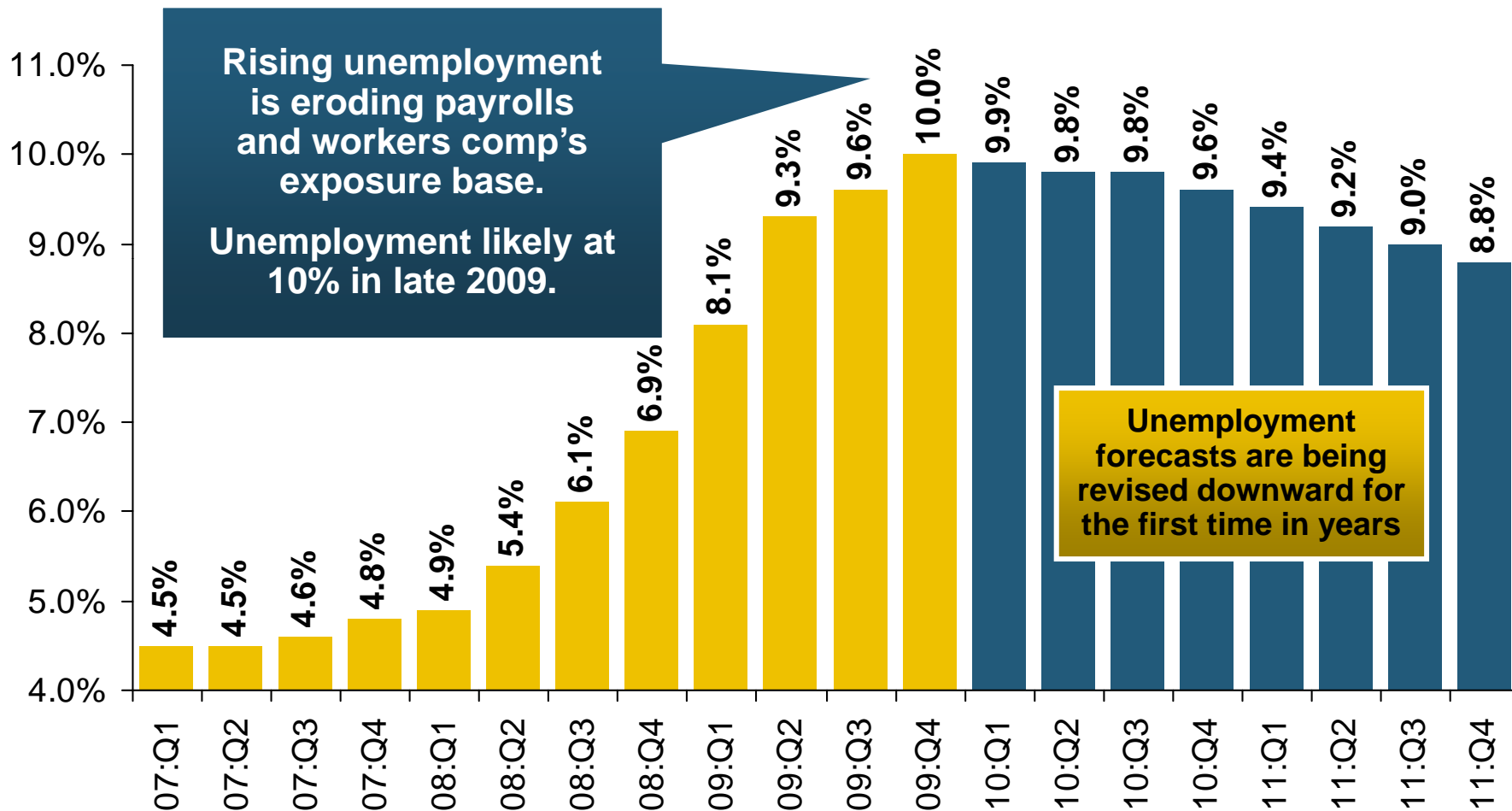
Unemployment Rates By State, January 2010: Lowest 25 States*



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

US Unemployment Rate

2007:Q1 to 2011:Q4F*

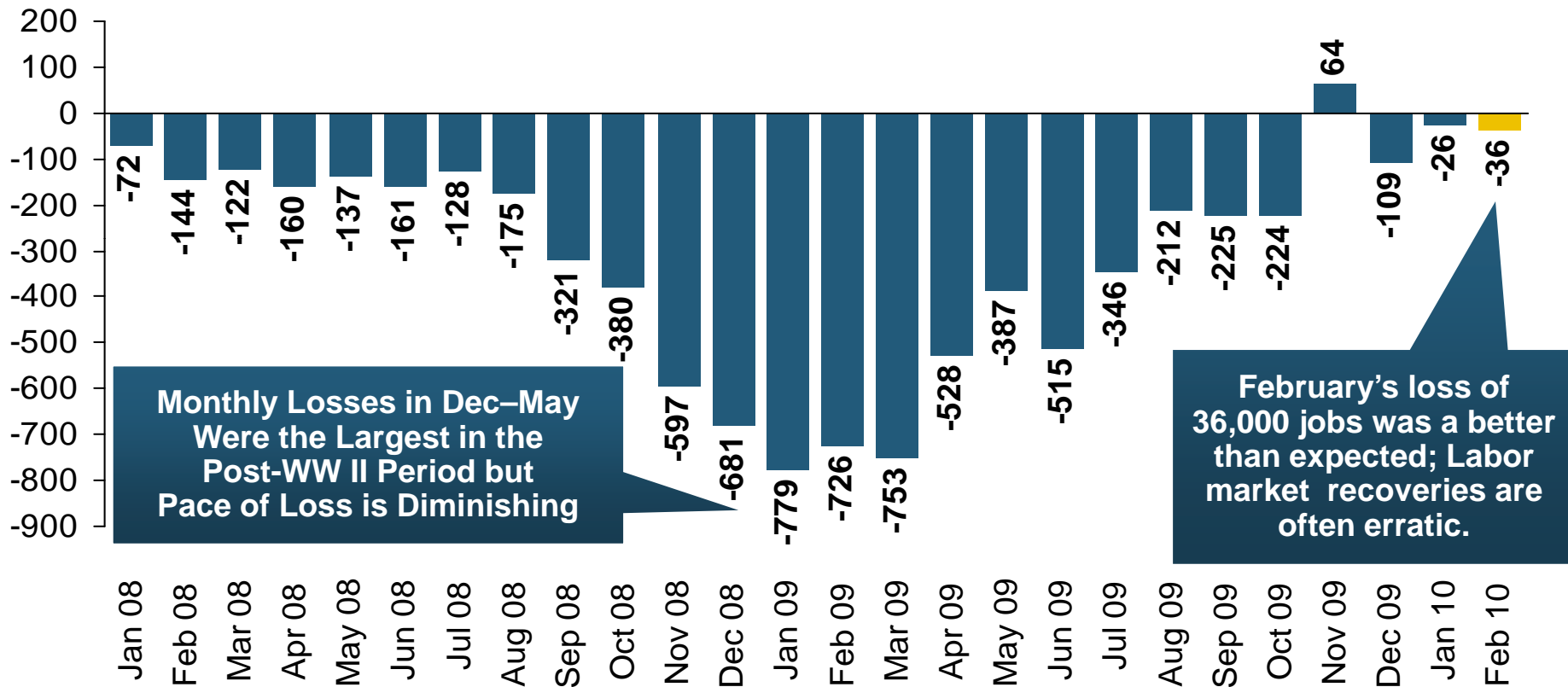


* Yellow = actual; Blue = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (3/10); Insurance Information Institute

Monthly Change Employment*

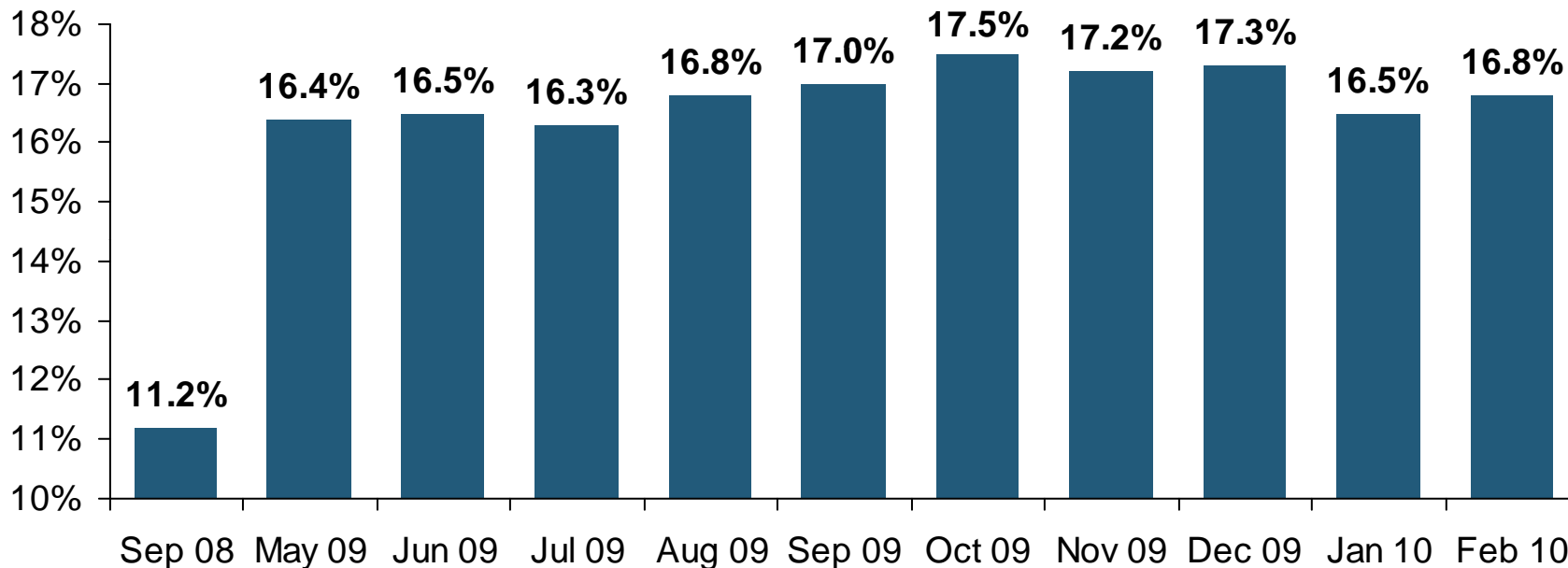
January 2008 through February 2010 (Thousands)



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

Labor Underutilization: Broader than Just Unemployment

% of Labor Force



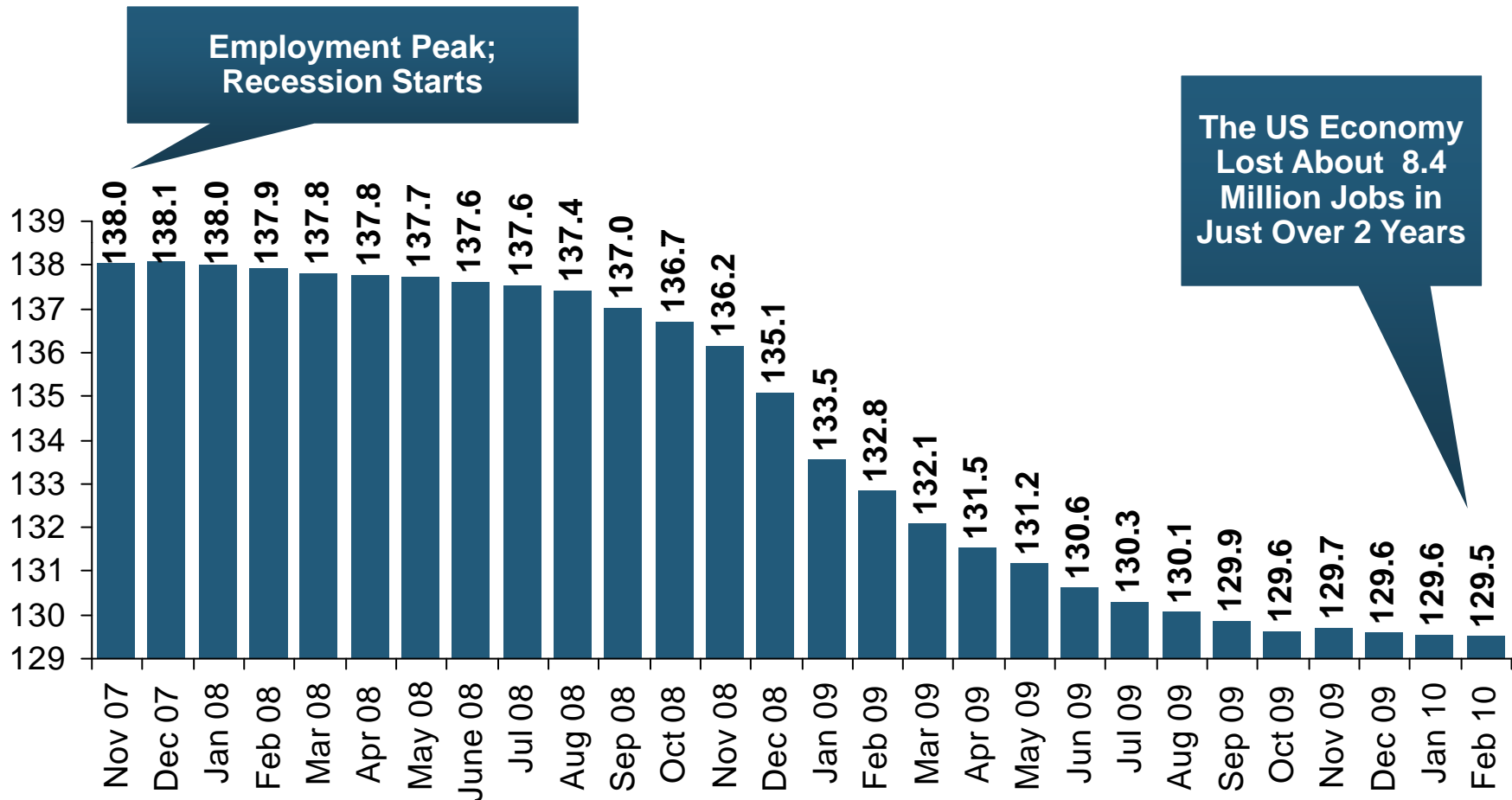
Marginally Attached and Unemployed Persons Account for 16.8% of the Labor Force in Feb. 2010 (1 Out 6 People). Unemployment Rate Alone was 9.7%. Underutilization Shows a Broader Impact on WC and Other Commercial Exposures

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

Monthly, Nov 2007 – Feb 2010 (Millions)

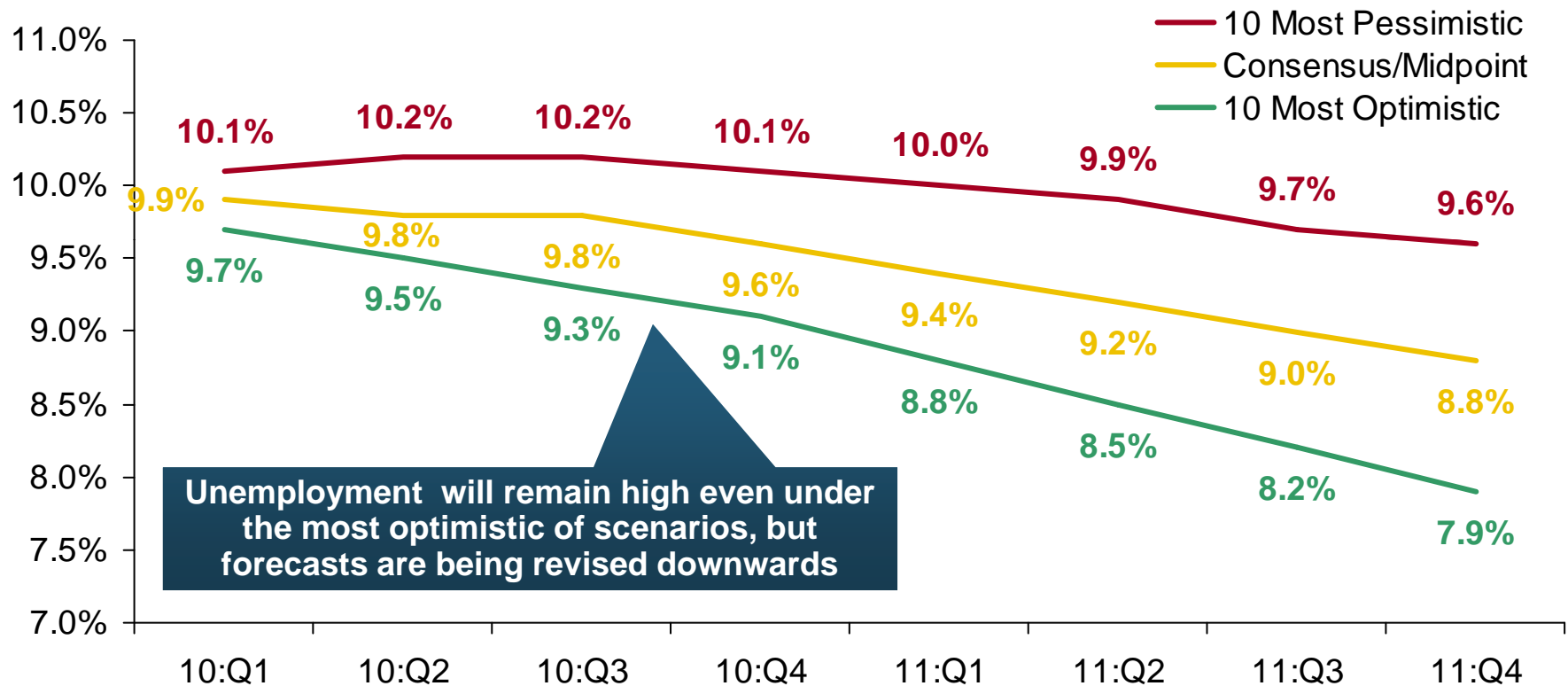


Seasonally adjusted.

Source: US Bureau of Labor Statistics

US Unemployment Rate Forecasts

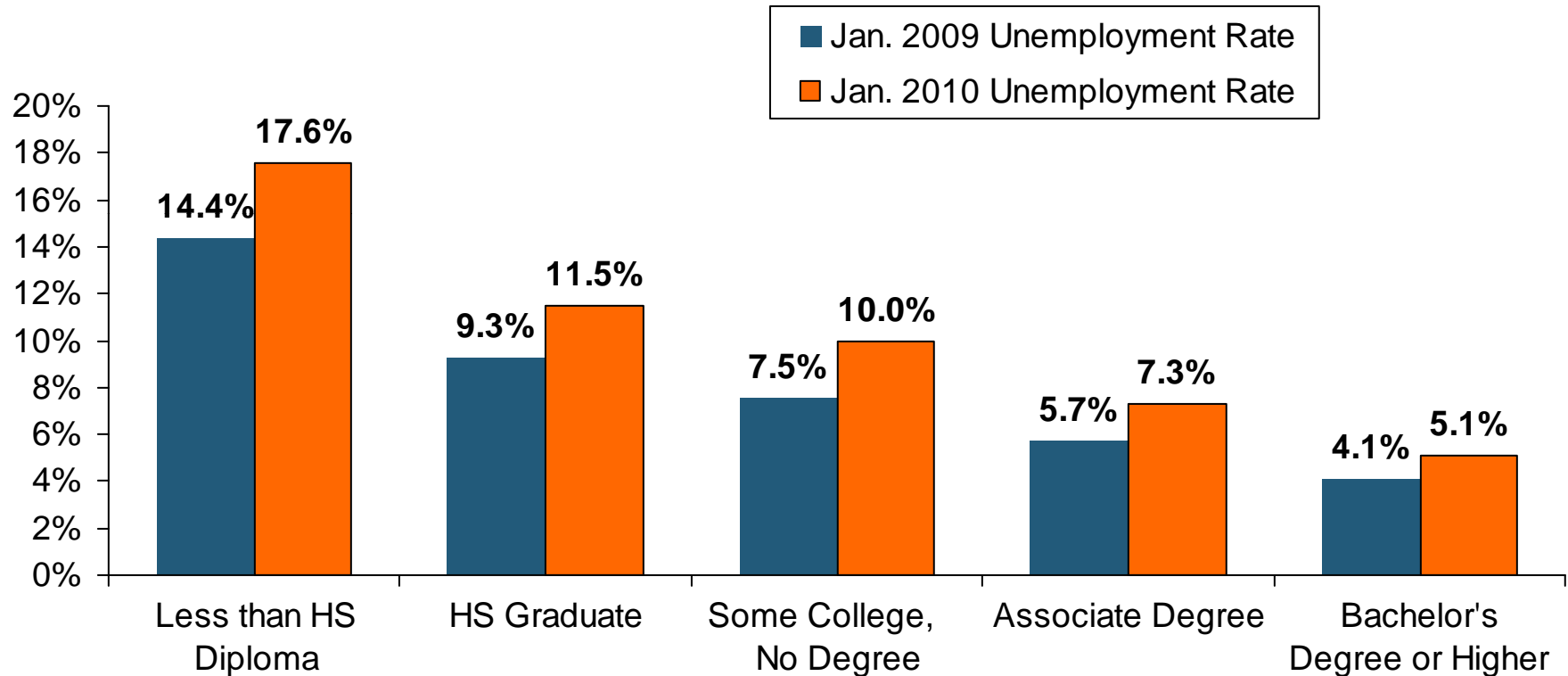
Quarterly, 2010:Q1 to 2011:Q4



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

Unemployment and Educational Attainment: More Education = Less Unemployment

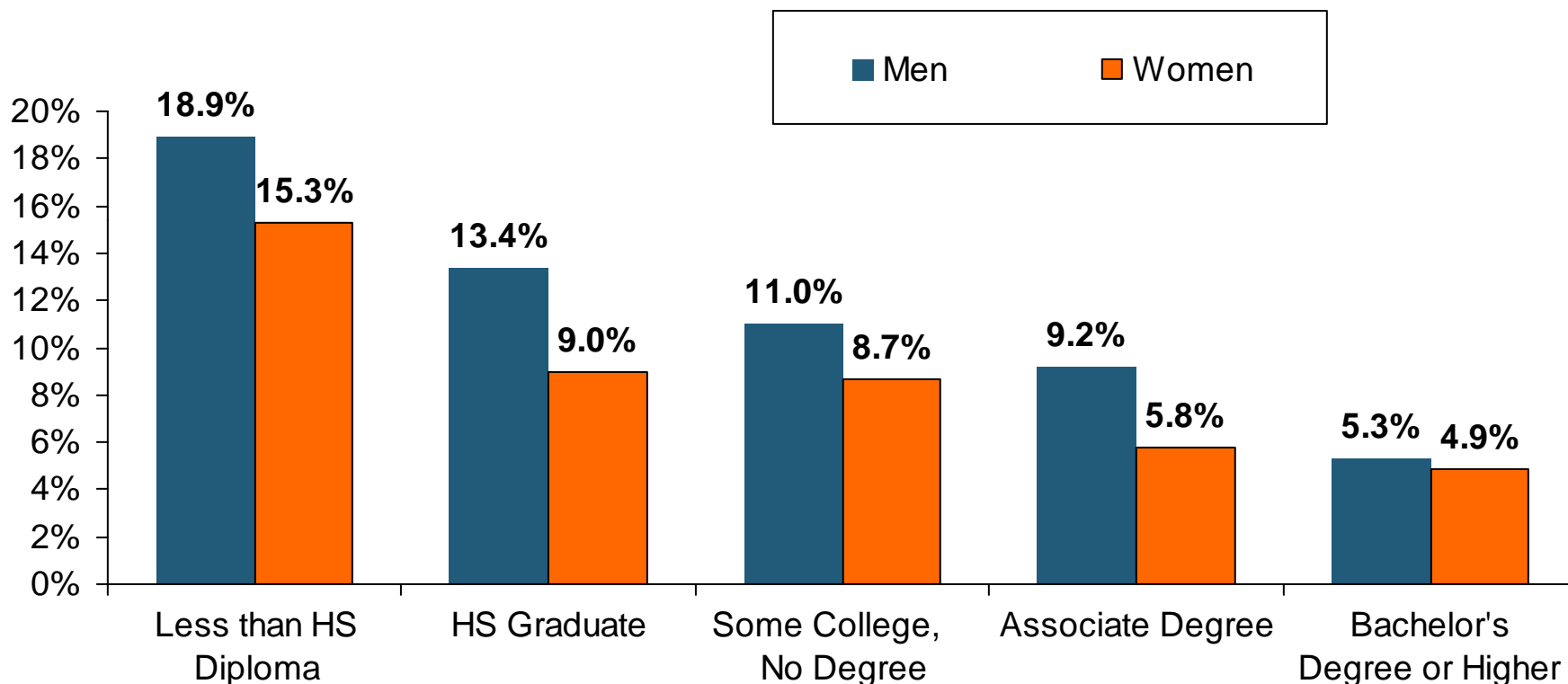
Unemployment Rate (%), January 2009 vs. January 2010



**Personal Lines Exposures Should Remain More Stable in
Populations with Higher Educational Attainment**

Unemployment Rate by Gender: The “Mancession” Can Impact Exposure Too

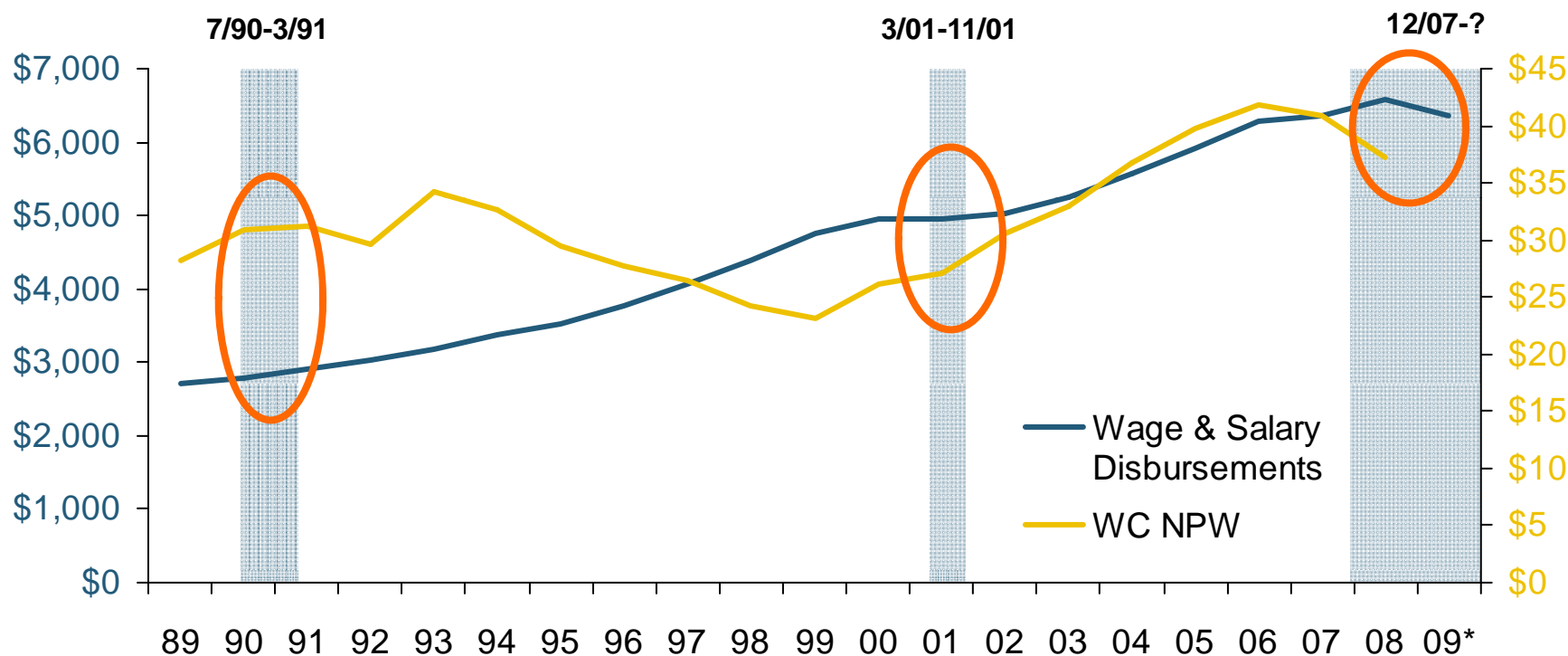
Unemployment Rate (%), January 2010



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

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

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

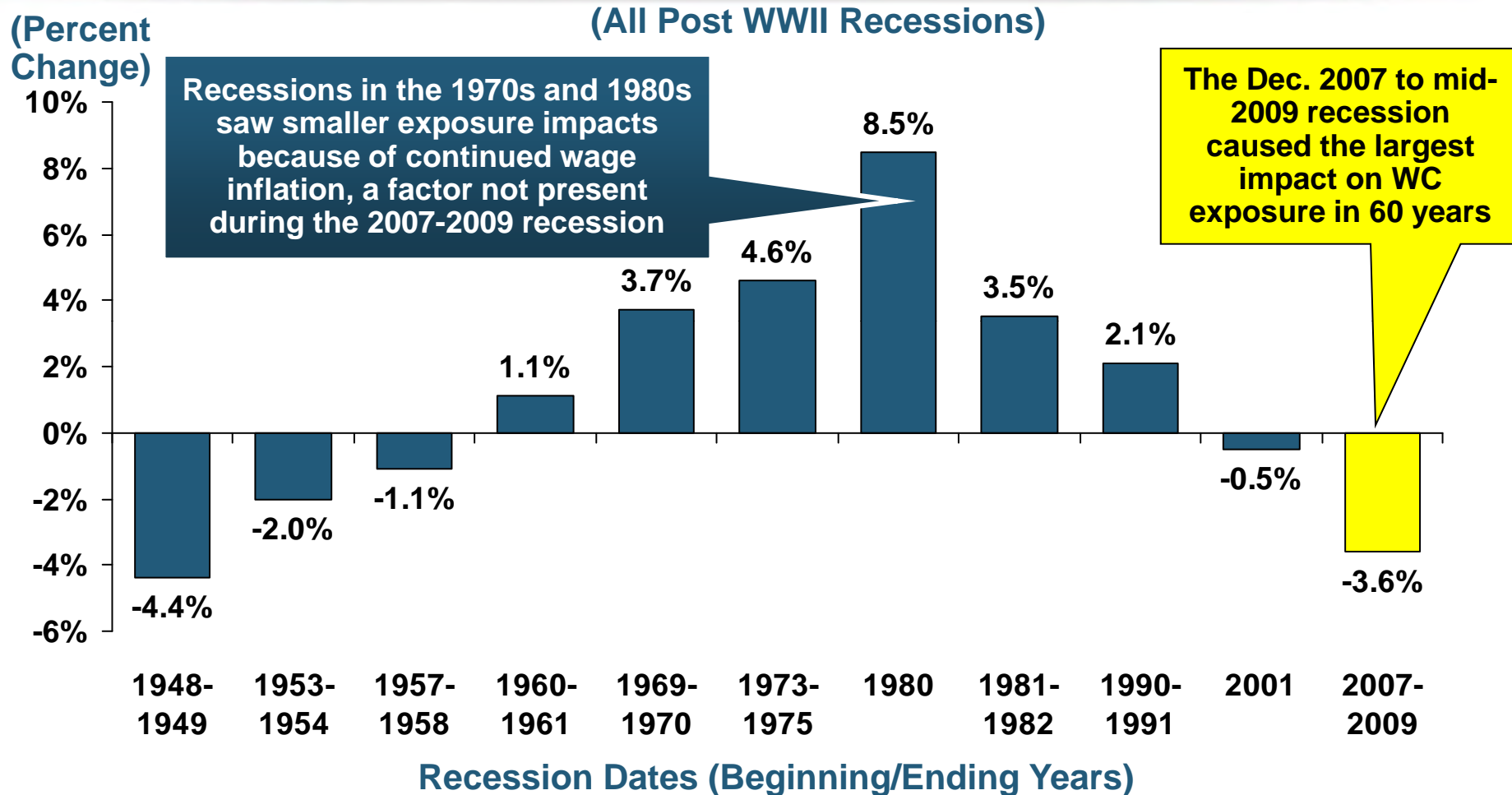


Weakening Payrolls Have Eroded \$2B+ in Workers Comp Premiums

* 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)

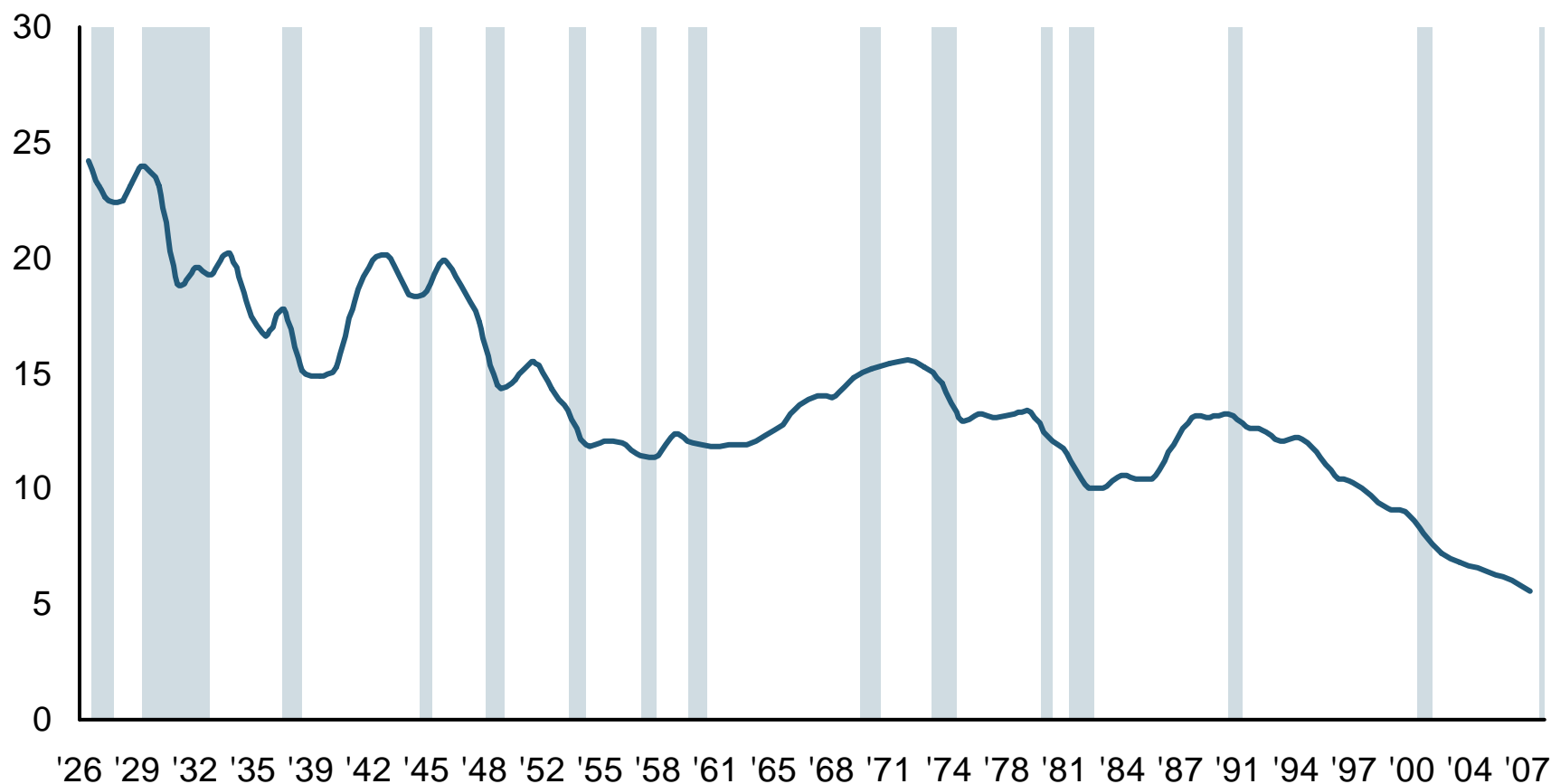


*Data represent maximum recorded decline over 12-month period using annualized quarterly wage and salary accrual data
Source: Insurance Information Institute research; Federal Reserve Bank of St. Louis (wage and salary data); National Bureau of Economic Research (recession dates).

Frequency: 1926–2008

A Long-Term Drift Downward

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



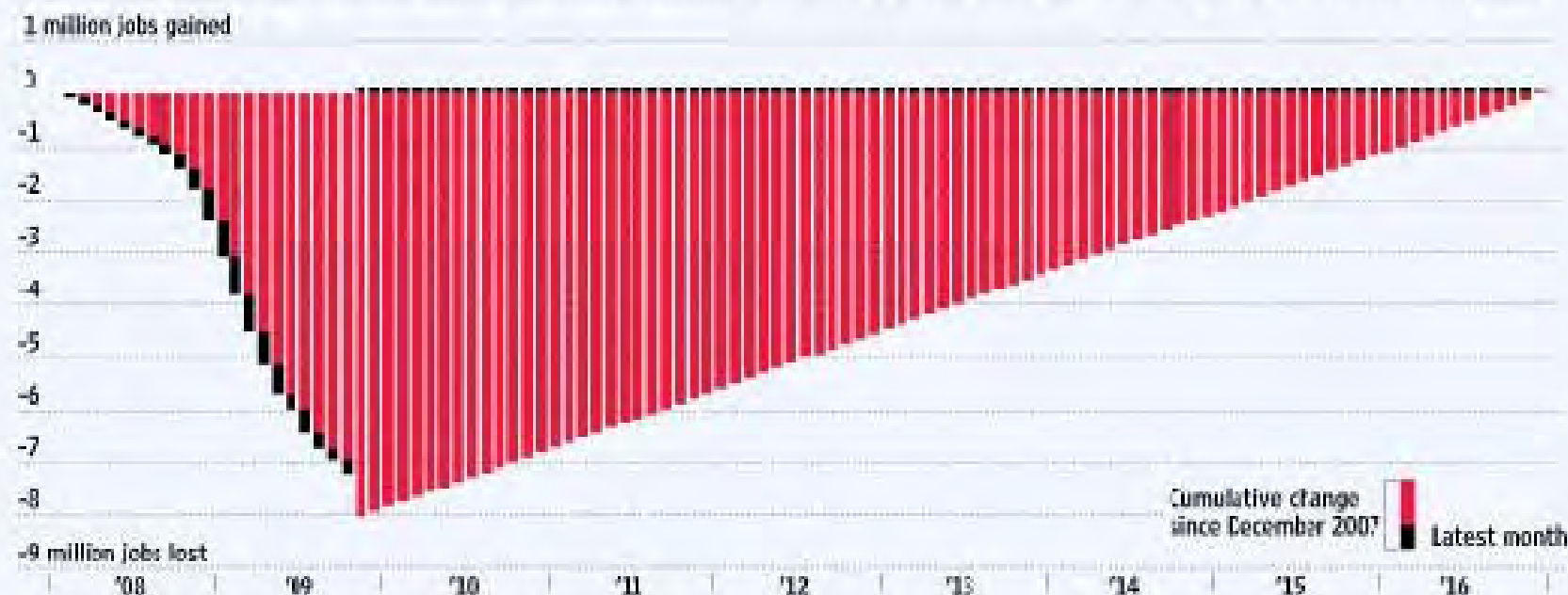
Note: Recessions indicated by gray bars.

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

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

Long Road Back | How long it would take to regain the job level at the start of this recession?

Assuming the average monthly pace of the most recent expansion, it would take 86 months, or not until December 2016



Note: The starting point for adding jobs back includes 824,000 jobs lost between March 2008 and March 2009 announced Friday by the Labor Department.
Source: Labor Department (payroll figures)

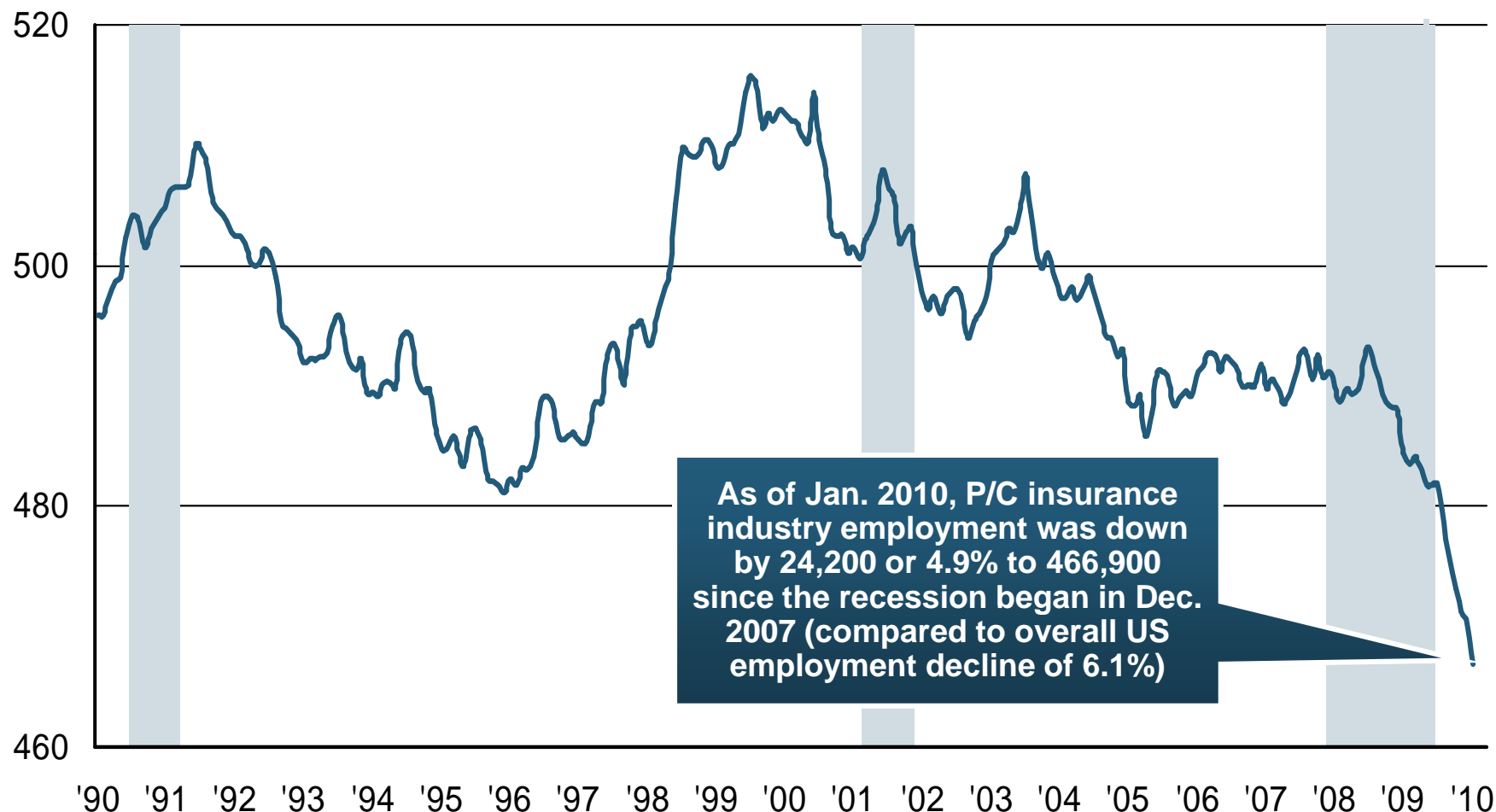
Source: *Wall Street Journal*, October 9, 2009, p. A3

Insurance Industry Employment Trends

**Soft Market, Difficult Economy,
Outsourcing Have Contributed to
Industry's Job Losses**

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

Thousands



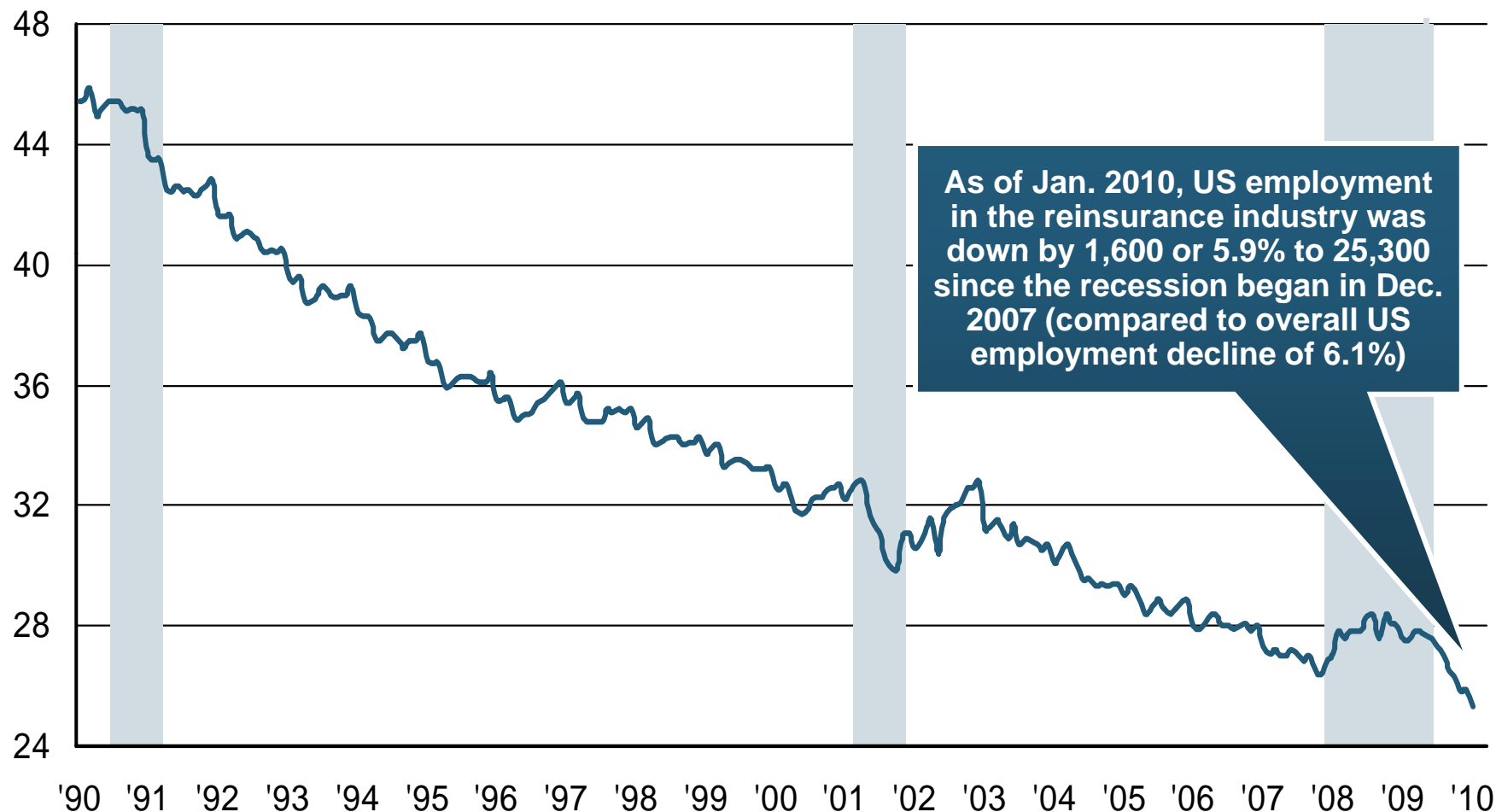
*As of January 2010; Not seasonally adjusted; Does not including agents & brokers

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



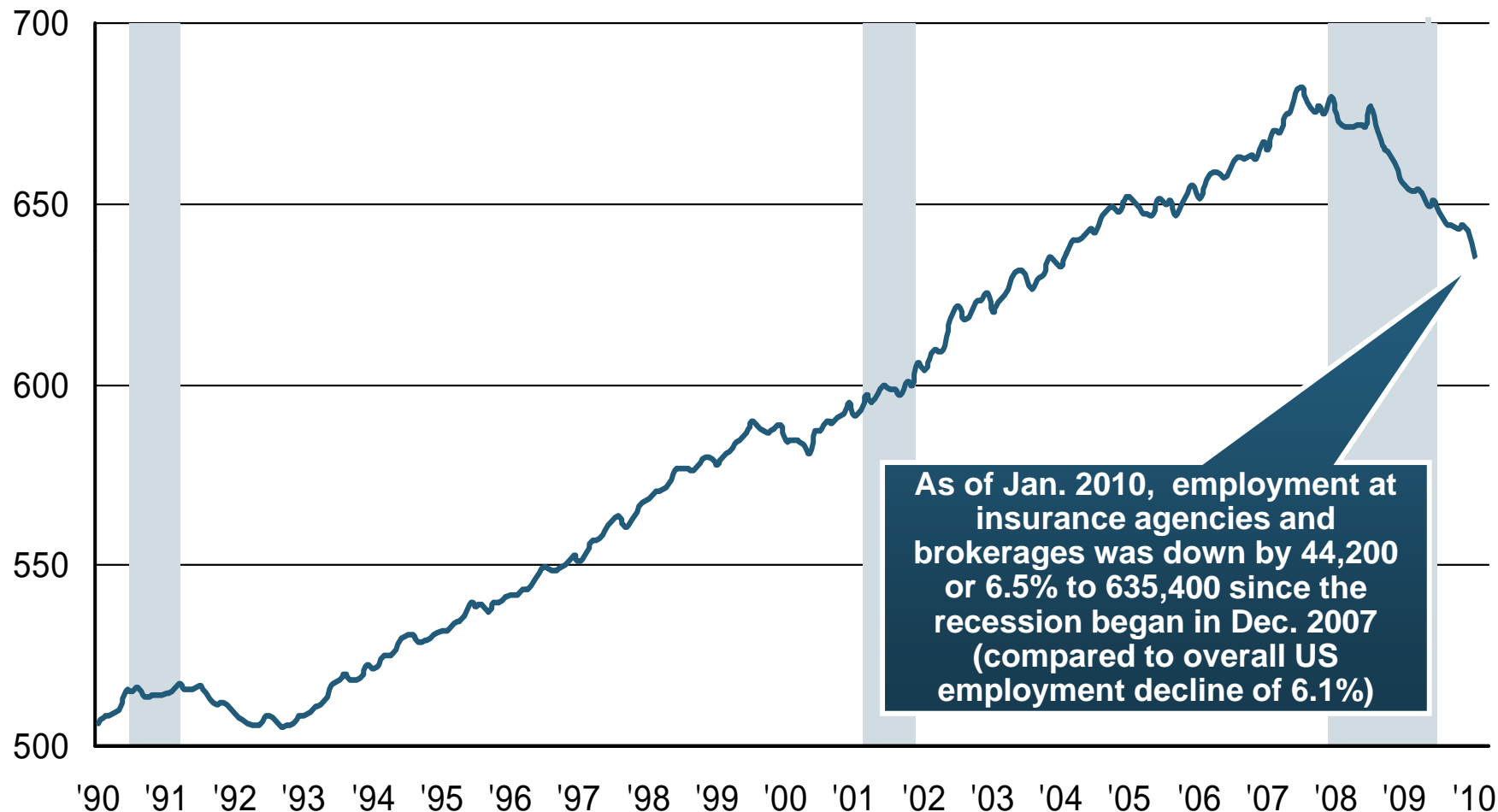
*As of January 2010; Not seasonally adjusted; Does not including agents & brokers

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



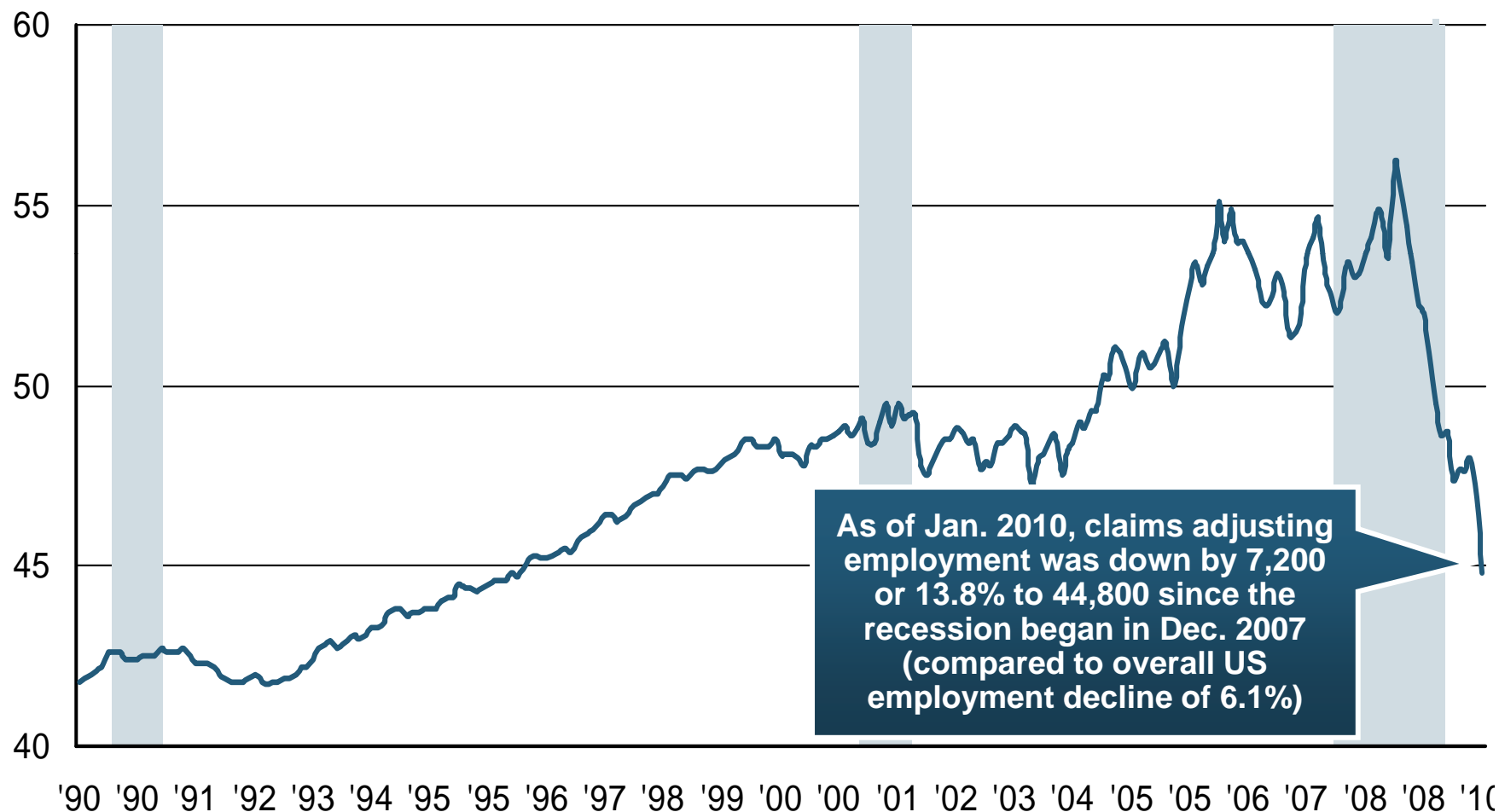
*As of January 2010; Not seasonally adjusted. Includes all types of insurance.

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 January 2010; Not seasonally adjusted.

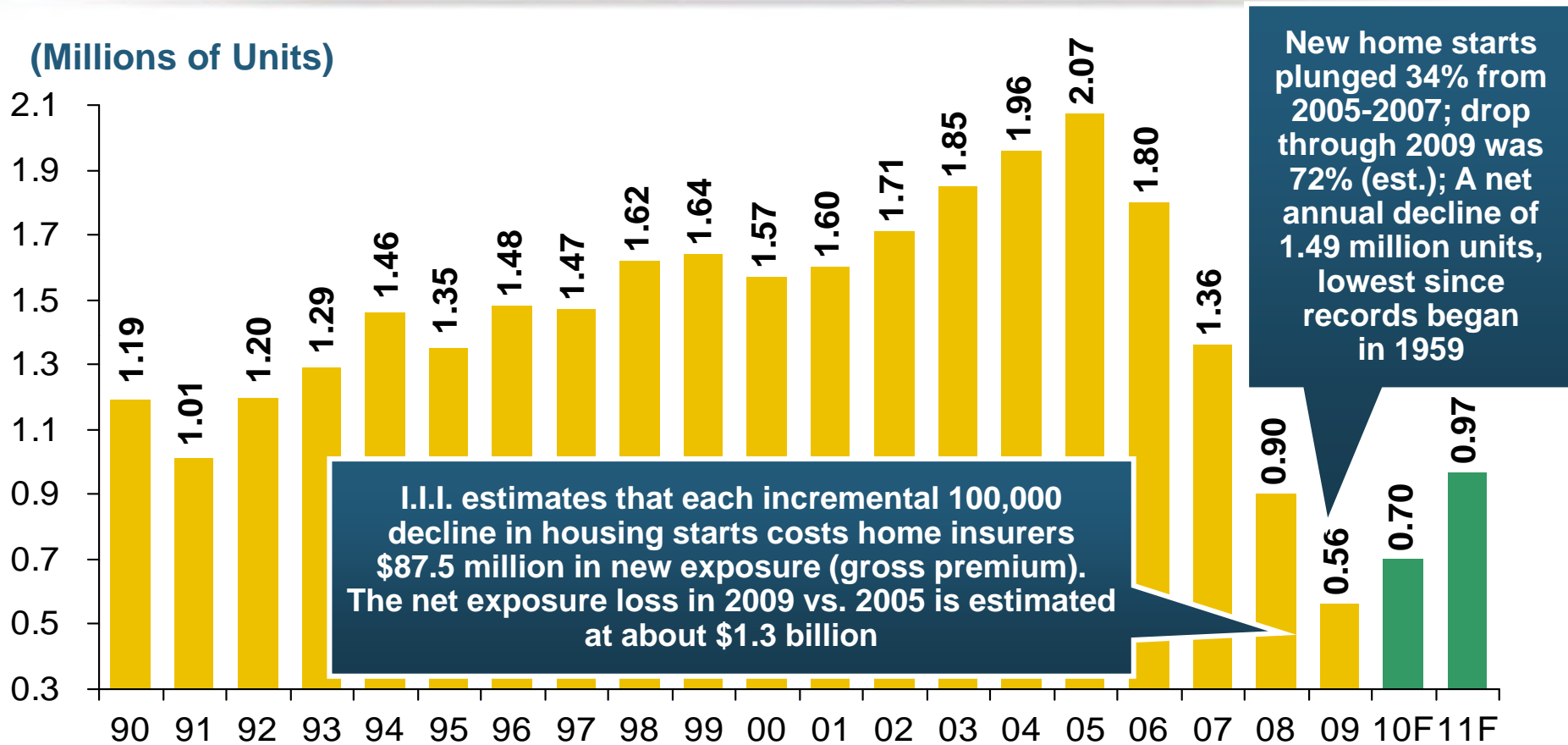
Note: Recessions indicated by gray shaded columns.

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

Crisis-Driven Exposure Drivers

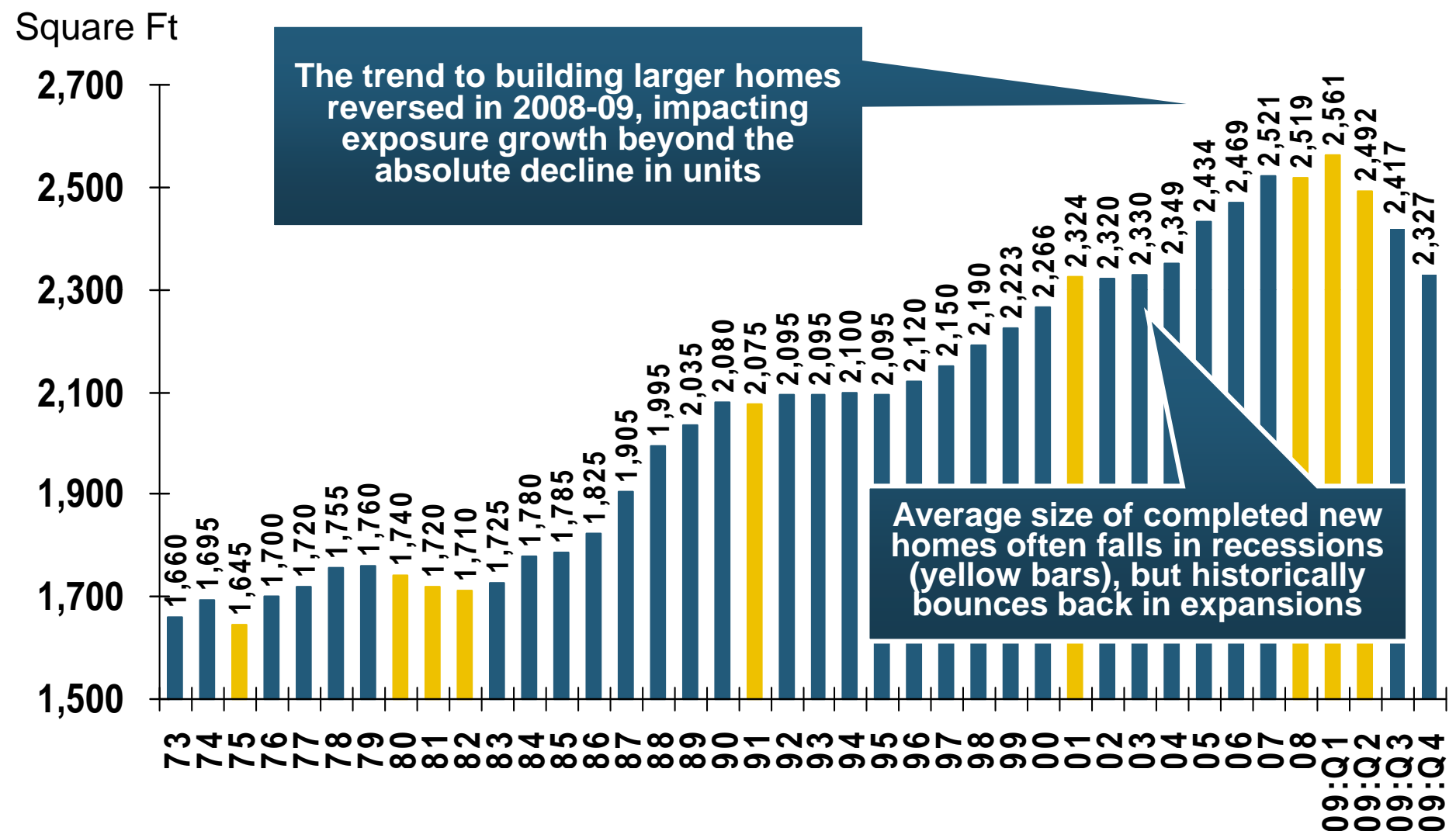
**Economic Obstacles
to Growth in P/C Insurance**

New Private Housing Starts, 1990-2011F

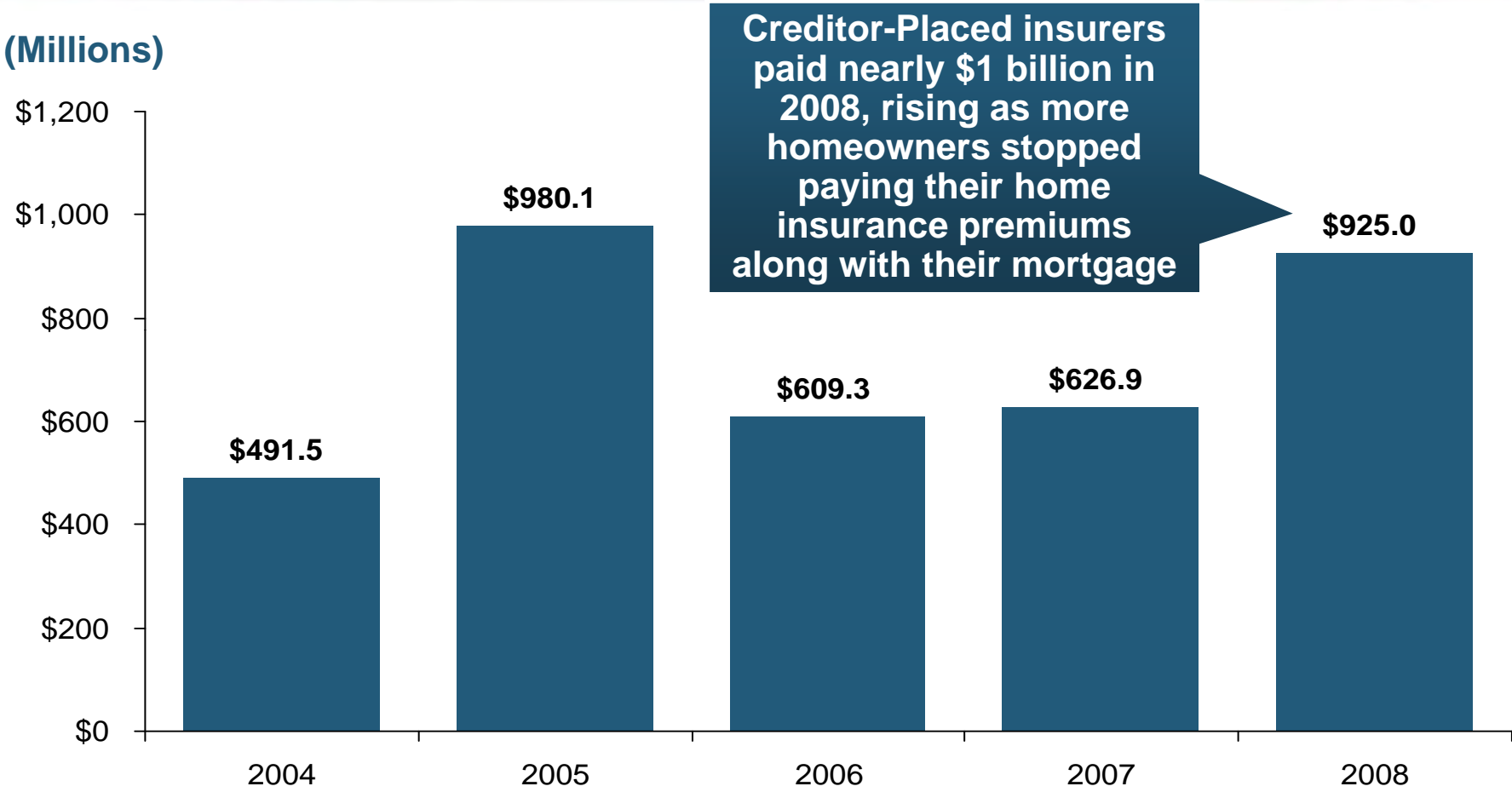


**Little Exposure Growth Likely for Homeowners Insurers
Due to Weak Home Construction Forecast for 2010-2011.
Also Affects Commercial Insurers with Construction Risk Exposure, Surety**

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



Value of Claims Paid to Policyholders with Creditor-Placed Homeowners Insurance, 2004-2008

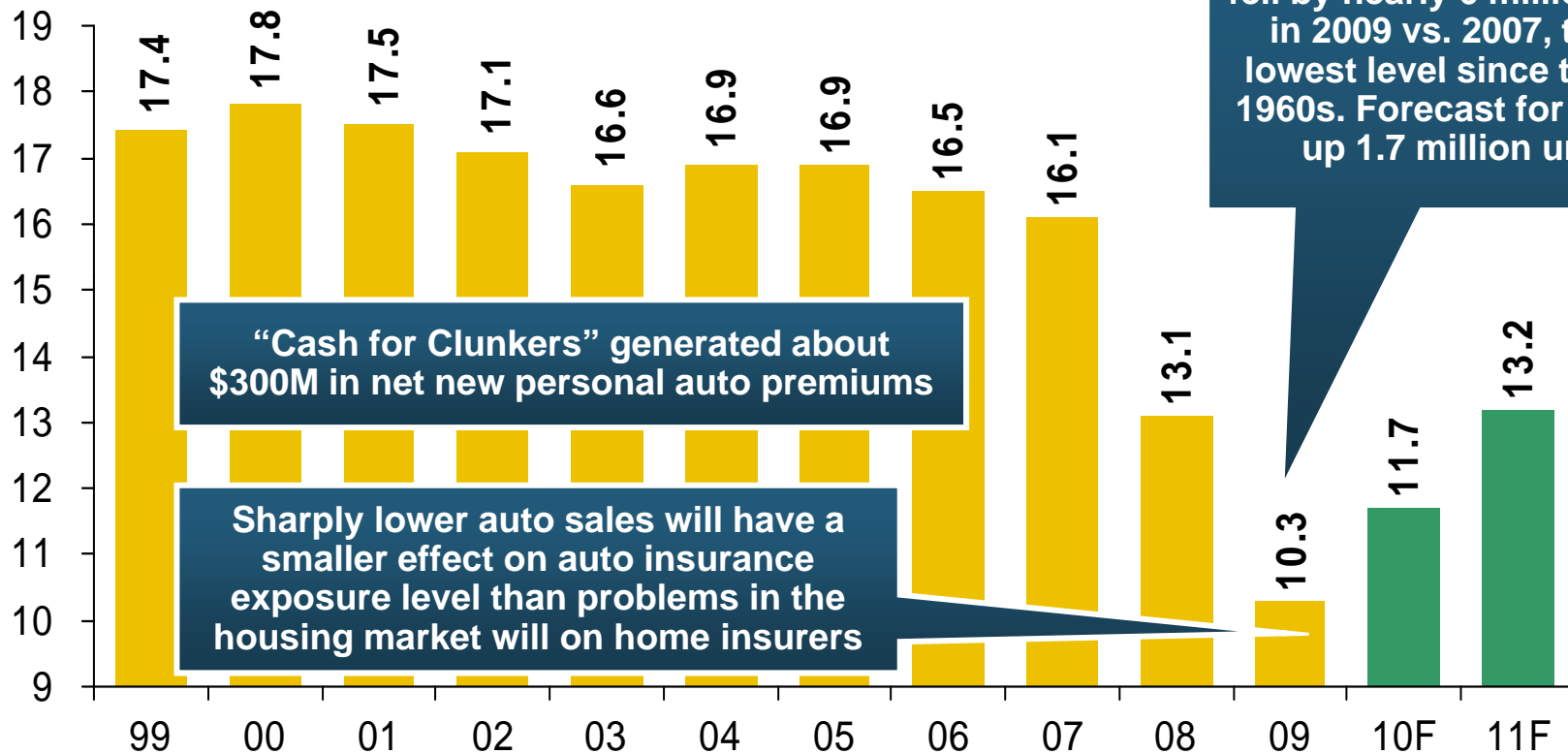


Creditor-Placed Home Insurers paid \$3.6 billion in claims on behalf of policyholders from 2004-2008. If lenders had not purchased this coverage on behalf of homeowners, tens of thousands of families would have had no source of recovery and would still be responsible for mortgage payments.

Source: Insurance Information Institute calculations based on data from NAIC Credit Insurance Experience Exhibit.

Auto/Light Truck Sales, 1999-2011F

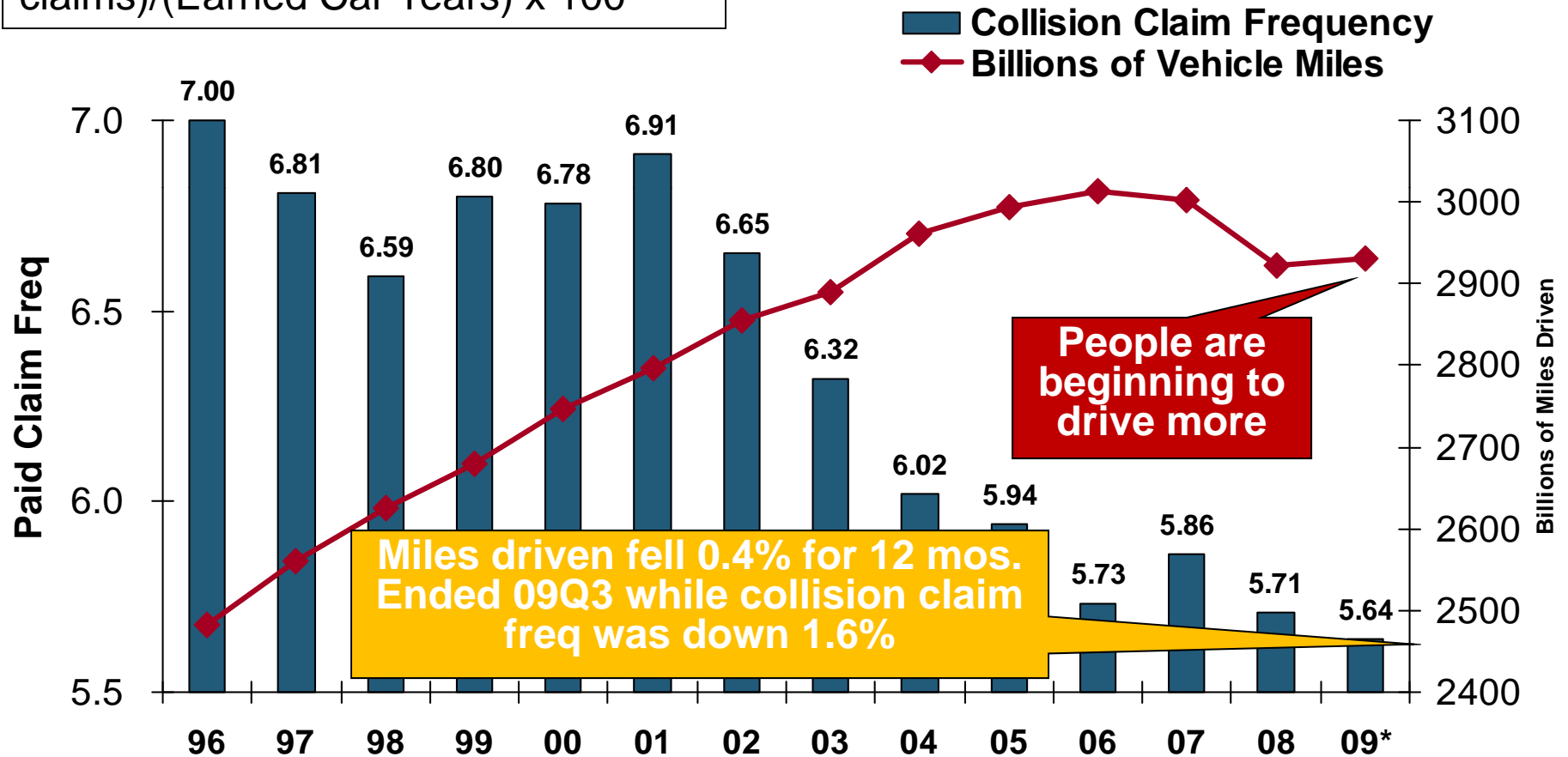
(Millions of Units)



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

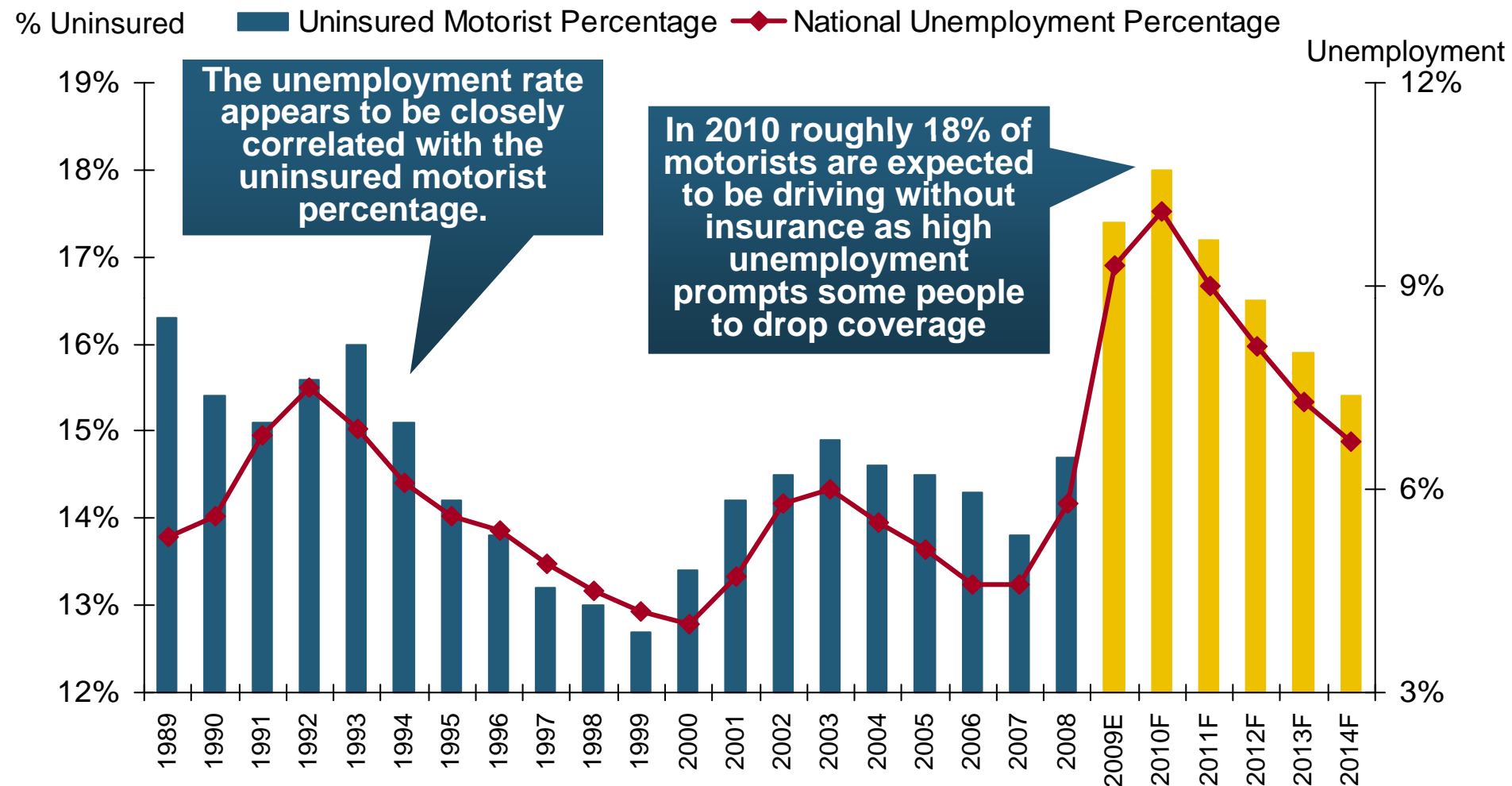
Do Changes in Miles Driven Affect Auto Collision Claim Frequency?

Paid Claim Frequency = (No. of paid claims)/(Earned Car Years) x 100



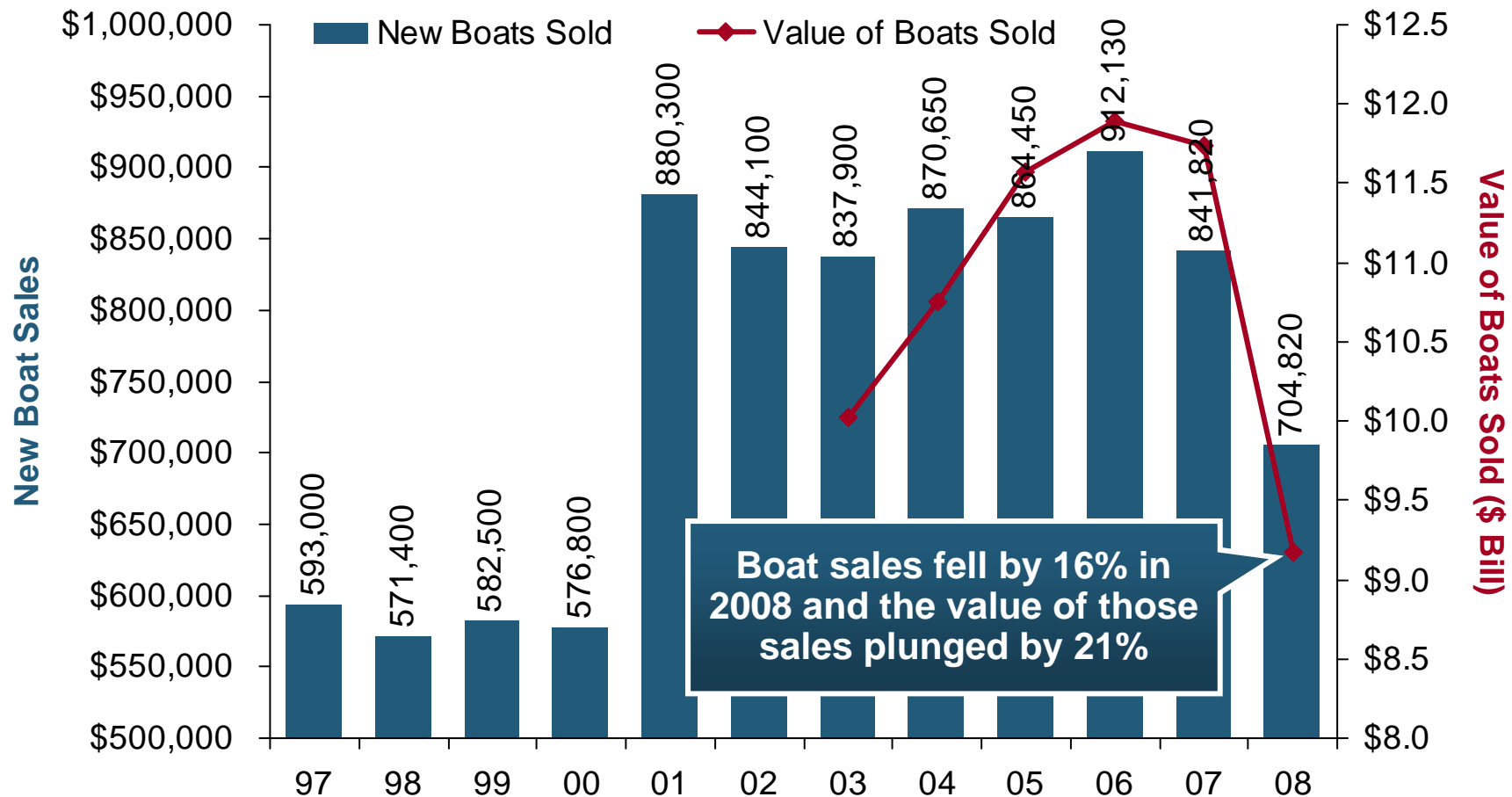
Sources: Federal Highway Administration (<http://www.fhwa.dot.gov/ohim/tvtw/09dectvt/page2.cfm>); ISO Fast Track Monitoring System, *Private Passenger Automobile Fast Track Data*: 3rd Qtr. 2009, published Dec. 31, 2009 and earlier reports. *2009 ISO/FHWA figure is for 12 months ending 9/30/2009.

Unemployment's Effect on Percent of Uninsured Motorists, 1989-2014F

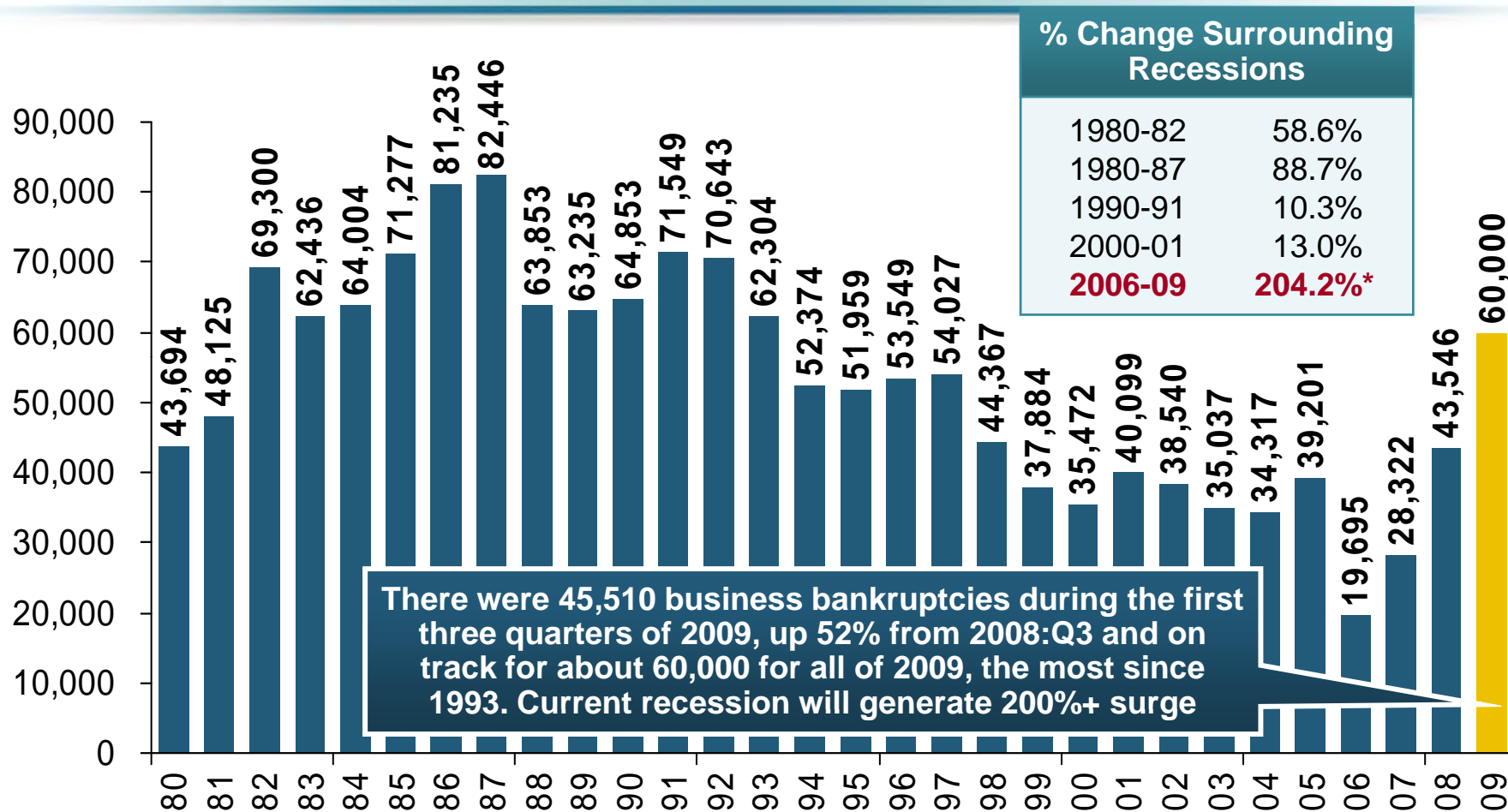


Source: *Uninsured Motorists*, 2008 Edition, Insurance Research Council; Blue Chip Economic Indicators (Unemployment data, including forecasts); Insurance Information Institute.

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



Business Bankruptcy Filings, 1980-2009*



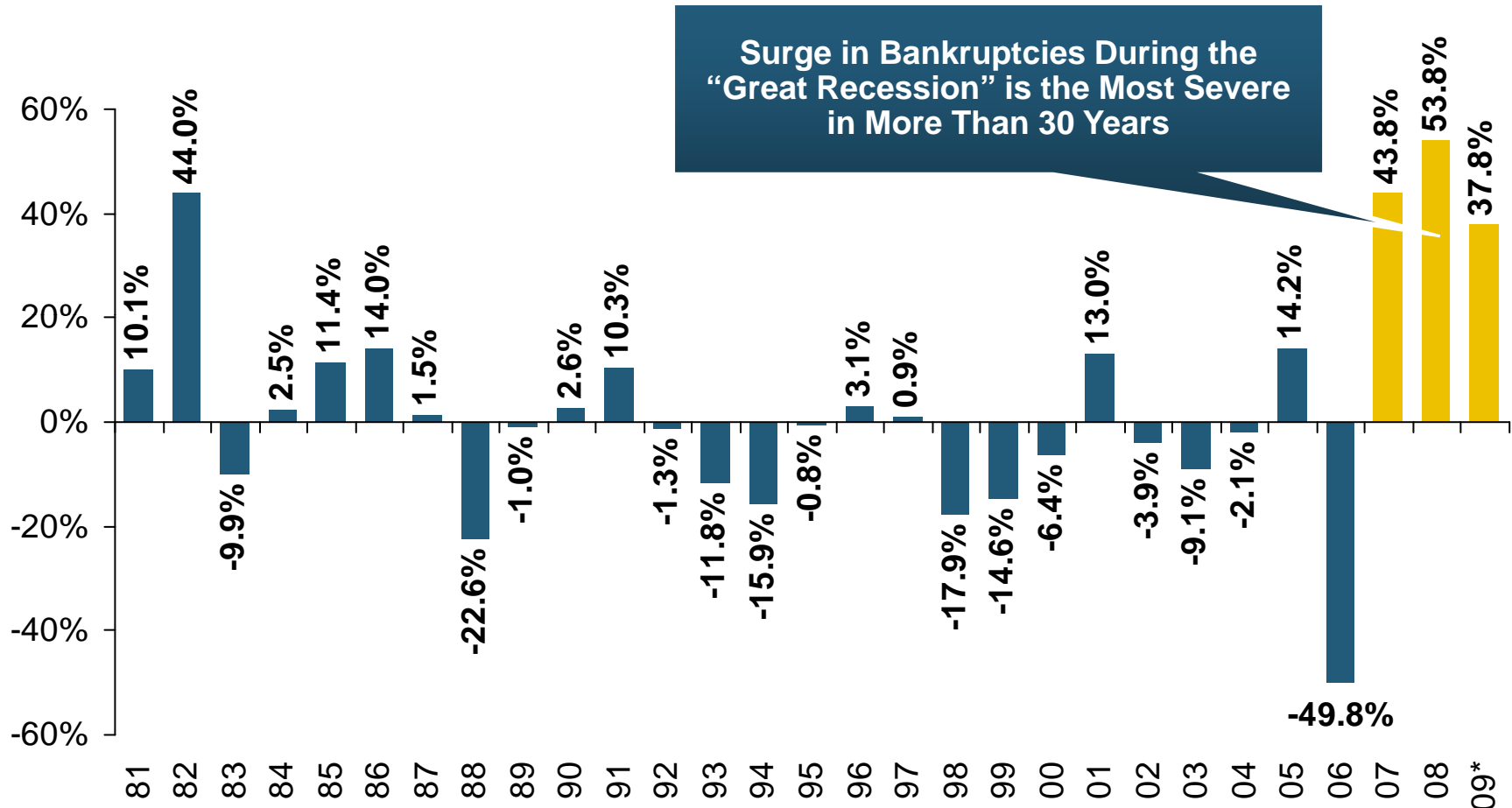
Significant Implications for all Commercial Lines

*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*



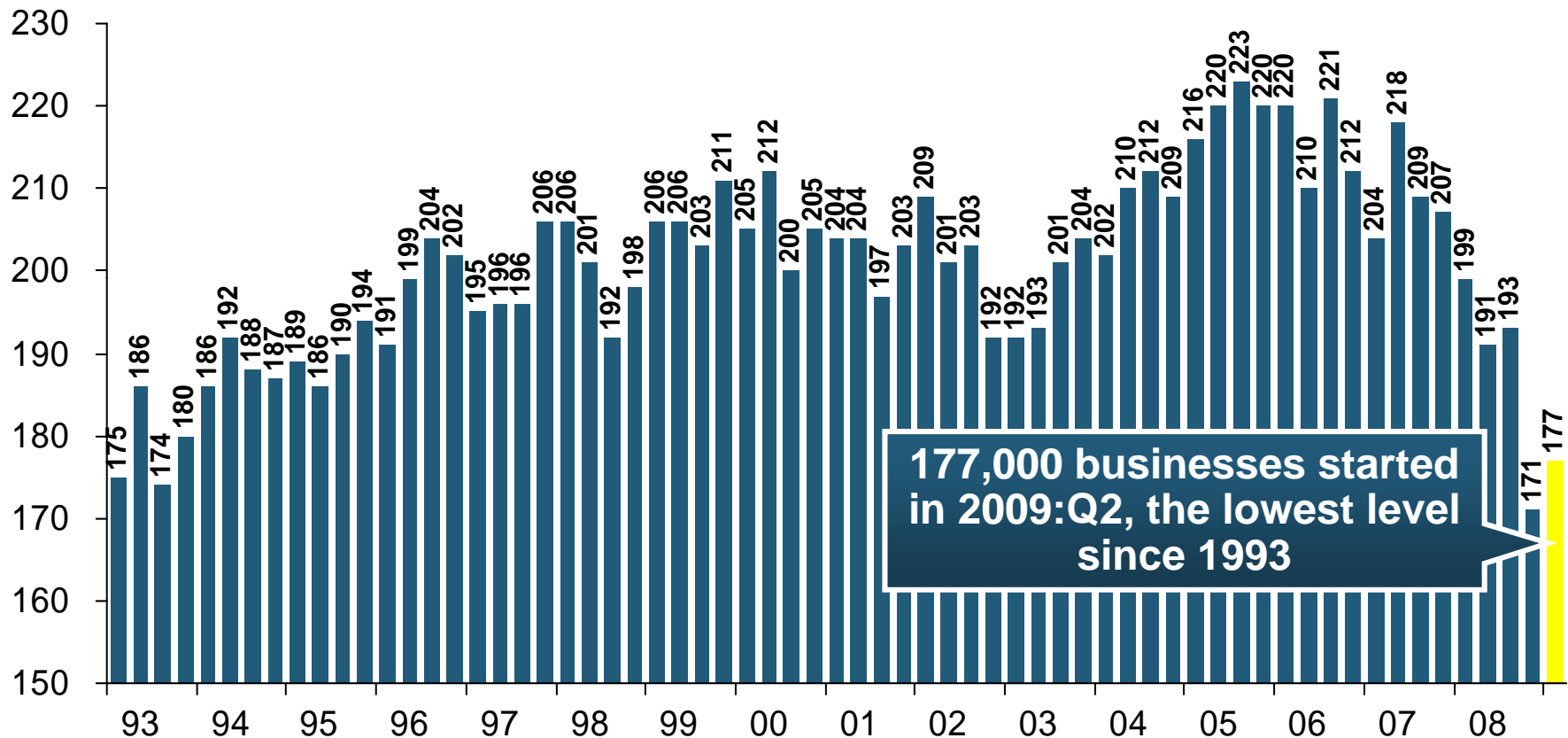
Significant Implications for All Commercial Lines

* 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:Q2*

(Thousands)



177,000 businesses started in 2009:Q2, the lowest level since 1993

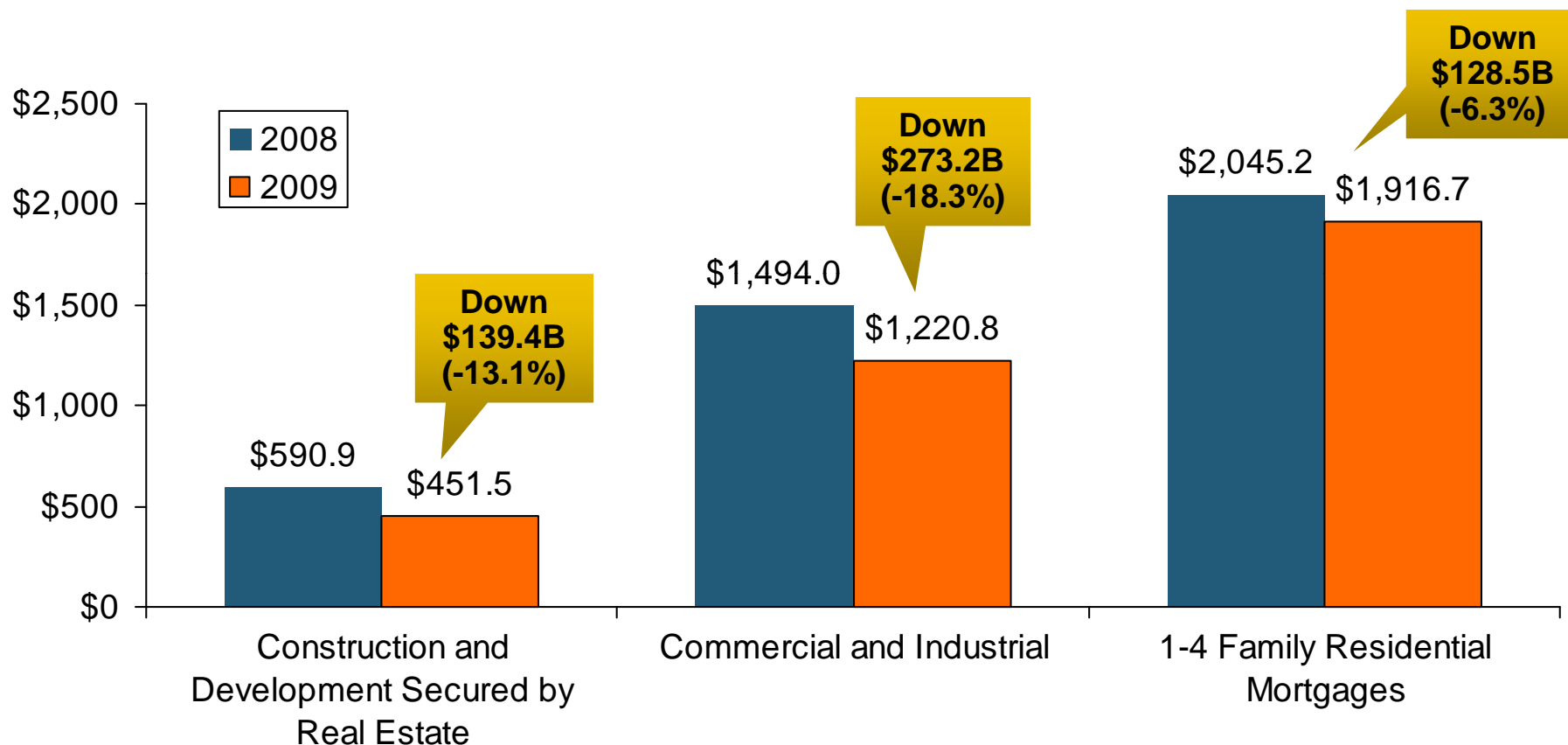
Business Starts Are Down Nearly 20% in the Current Downturn, Holding Back Most Types of Commercial Insurance Exposure

*Latest available as of March 2010, seasonally adjusted

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

Amount of Outstanding Loans by FDIC-Insured Institutions, 2009 vs. 2008

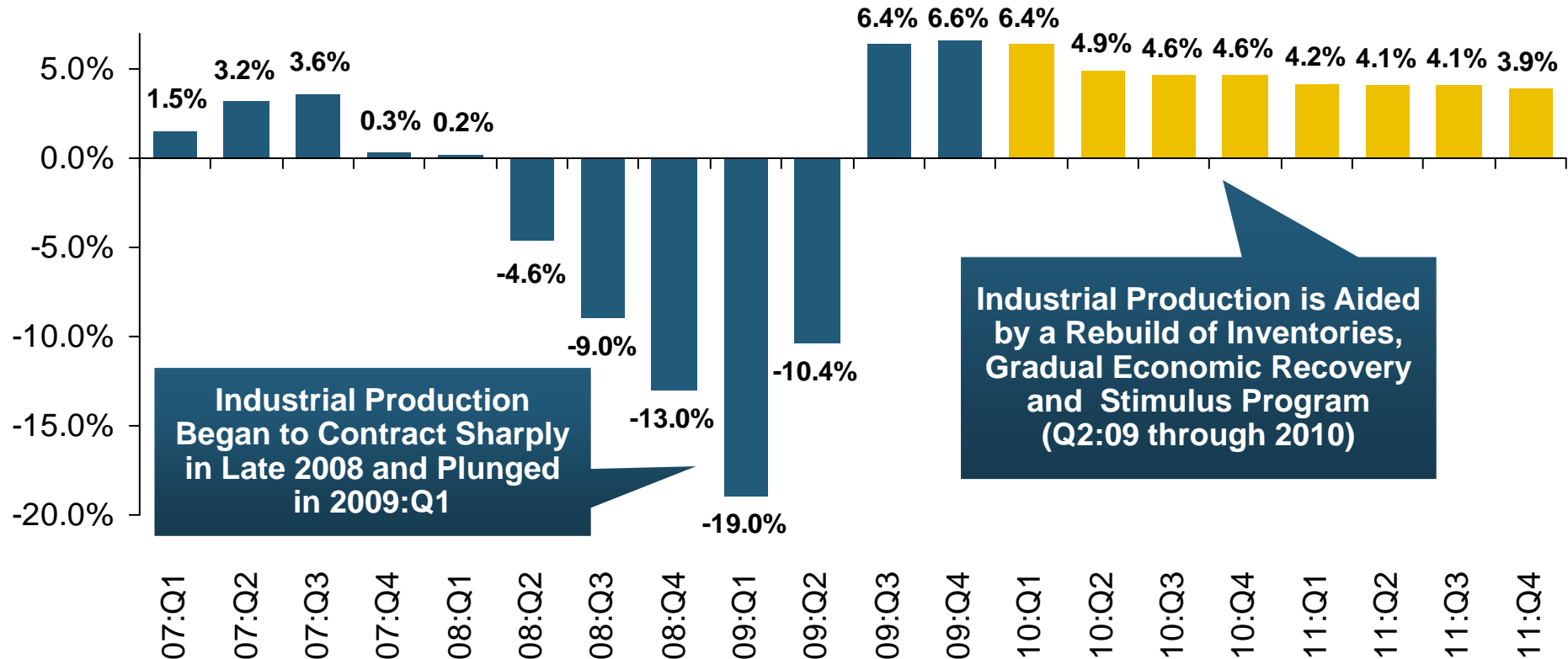
\$Billions



FDIC-Insured Institutions Had \$541.1B (-13.1%) Less in Outstanding Loans in These Three Categories at Year-end 2009 vs. 2008

Total Industrial Production

2007:Q1 to 2011:Q4F (%)

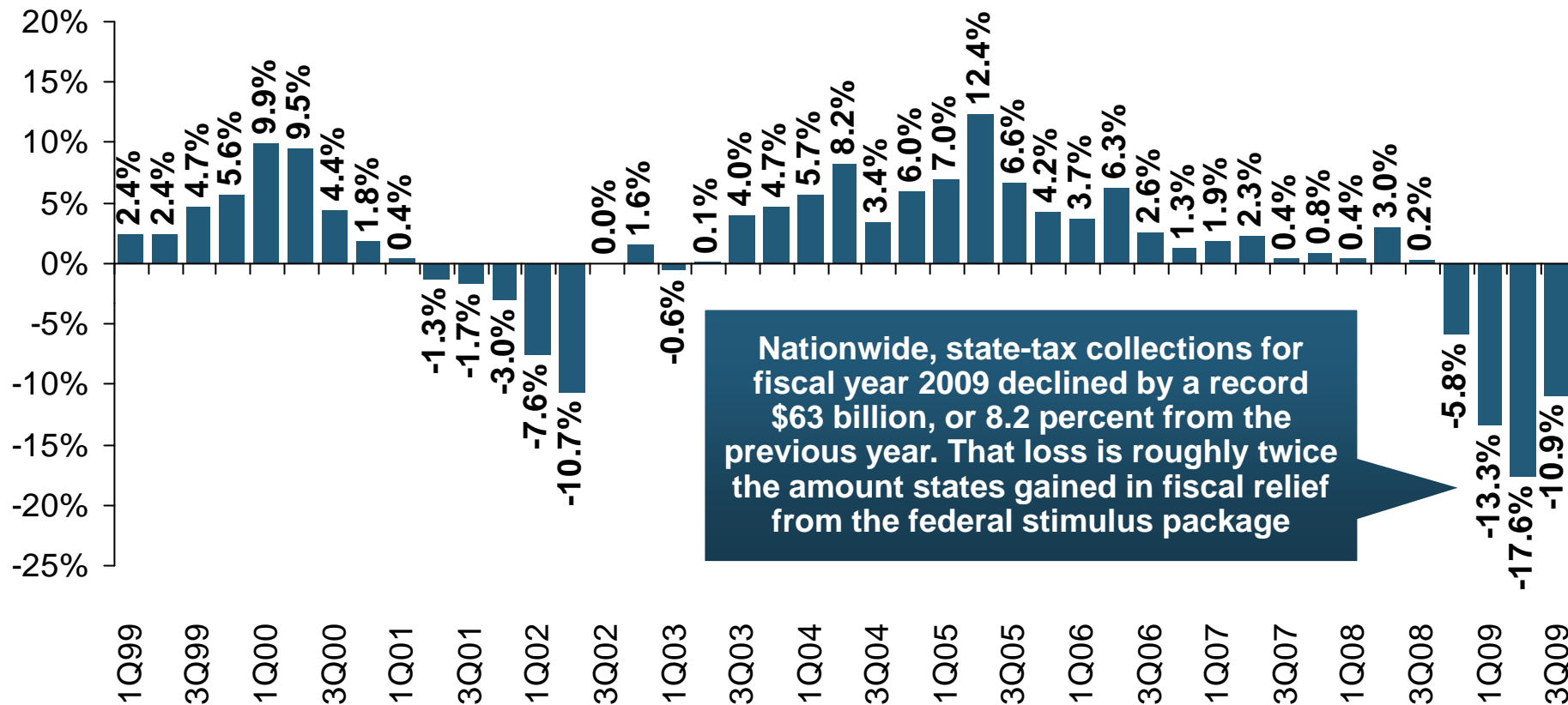


End of Recession in mid-2009, Stimulus Program Are Benefiting Industrial Production and Therefore Insurance Exposure Both Directly and Indirectly, Albeit Very Modestly

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



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

Green Shoots

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

Hopeful Signs That the Economic Recovery is Underway

- **Recession appears to have ended, freefall of 2008/09 is over**
 - ◆ 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**

10 Industries for the Next 10 Years: Insurance Solutions Needed

Government

Health Care

Energy (Traditional)

Alternative Energy

Agriculture

Natural Resources

Environmental

Technology

Light Manufacturing

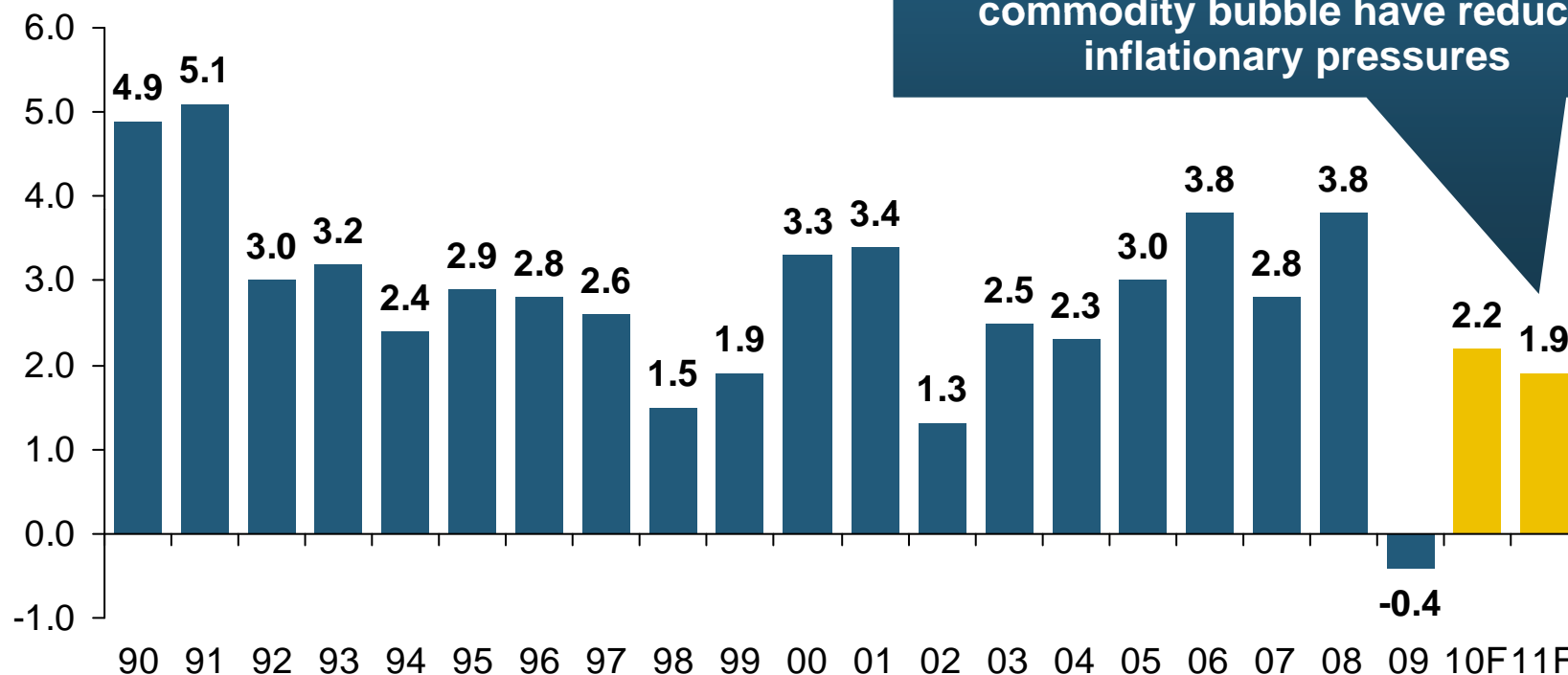
Export-Oriented Industries

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

**Mounting Pressure on Claim
Cost Severities?**

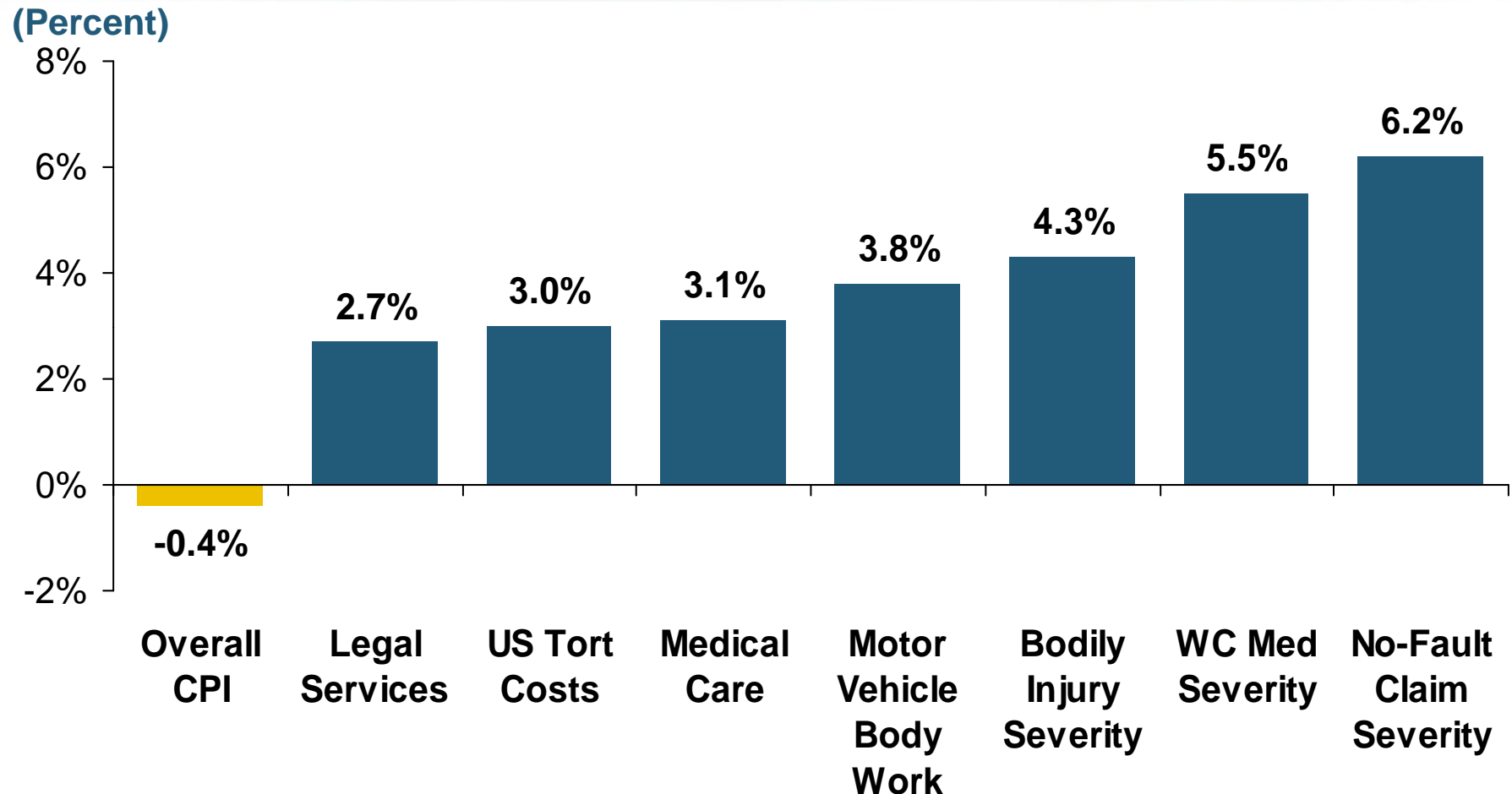
Annual Inflation Rates (CPI-U, %), 1990–2011F

Annual Inflation Rates (%)



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

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



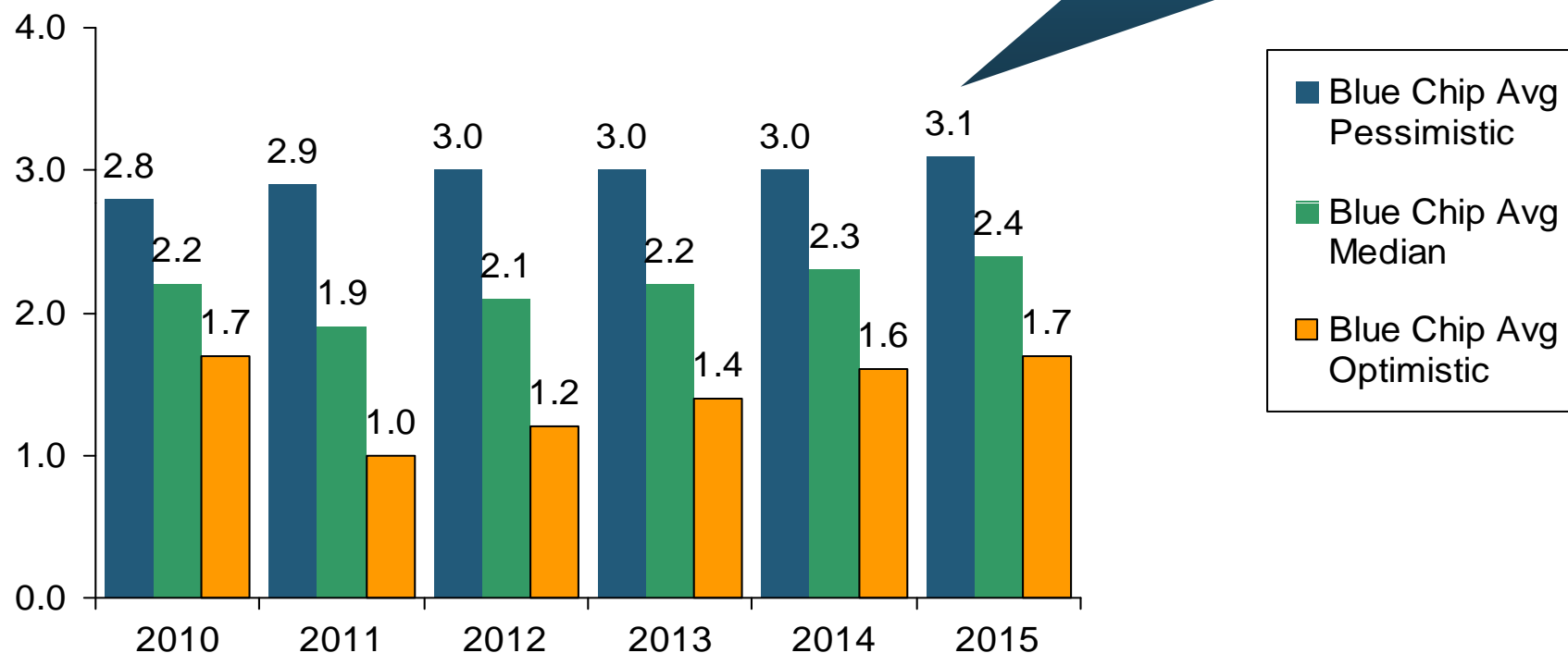
Healthcare and Legal/Tort Costs Are a Major P/C Insurance Cost Driver. These Are Expected to Increase Above the Overall Inflation Rate (CPI) Indefinitely

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.

Forecasts of Annual Inflation Rates (CPI-U, %), 2010–2015F

Annual Inflation Rates (%)

Even the pessimistic forecasts don't see the CPI rising much above 3% in the next five years



Inflation Will Accelerate Modestly through 2015 but Should Is Not Expected to Become a Major Concern or Threat

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.

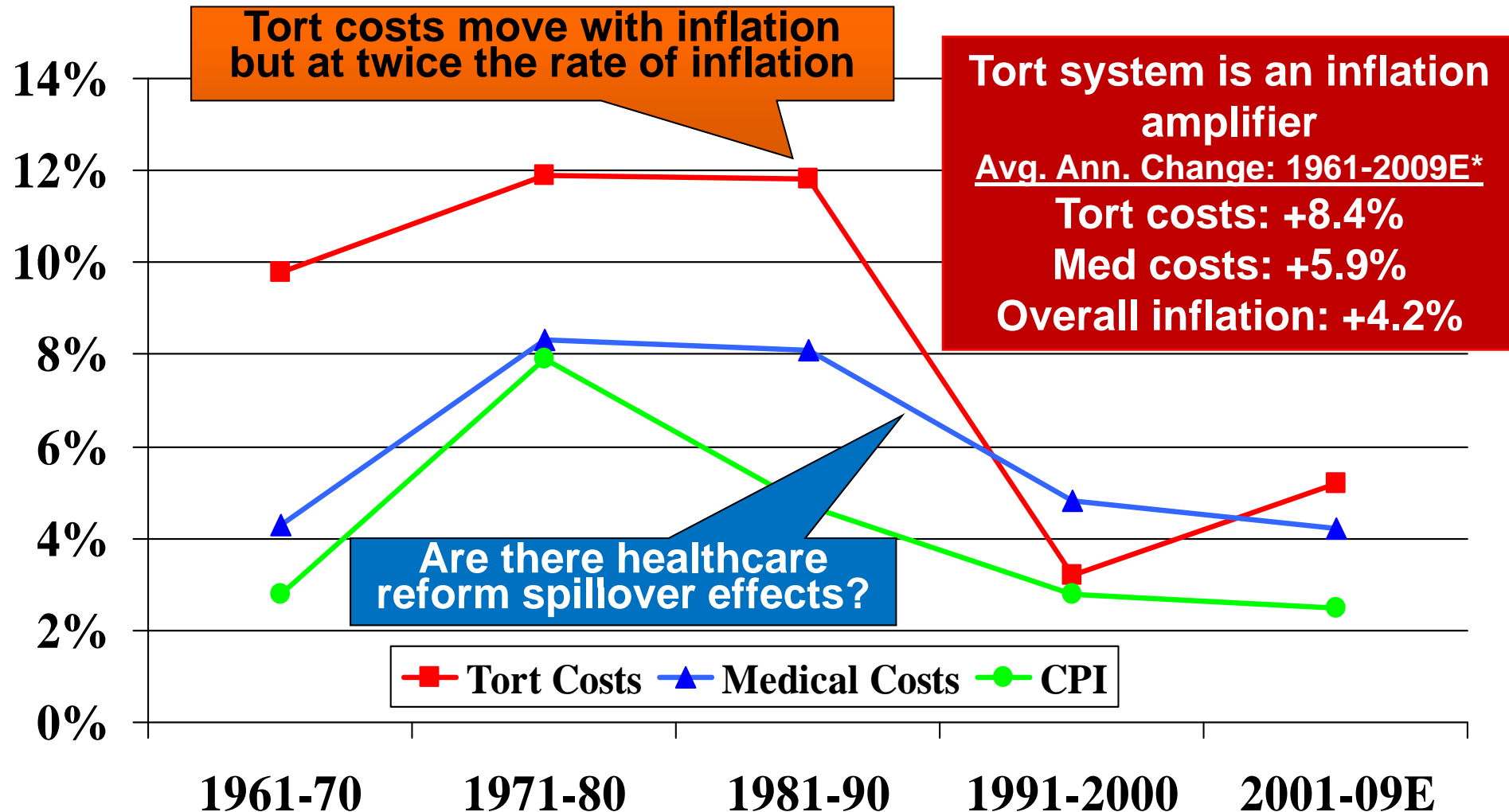
- What are the potential impacts for insurers?
- What can/should insurers do to protect themselves from the risks of inflation?

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

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



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

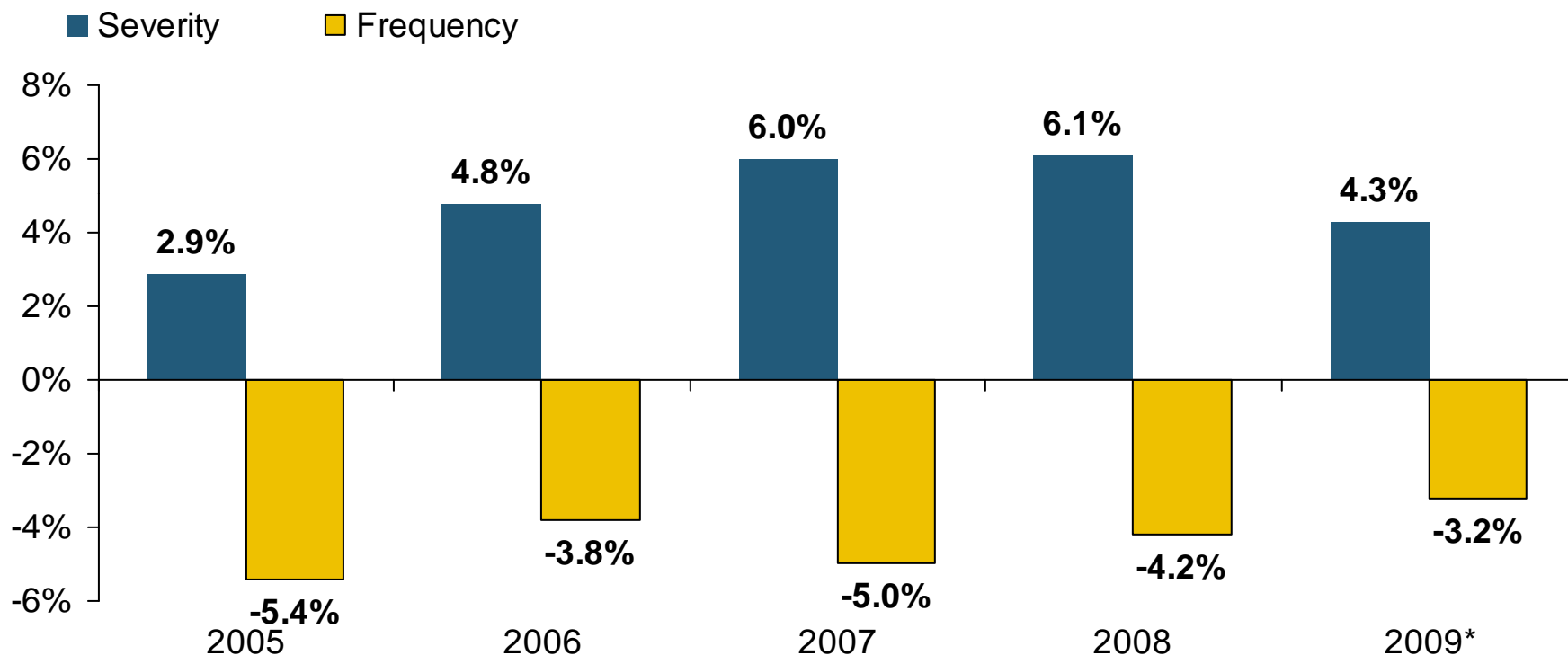
Source: U.S. Bureau of Labor Statistics; Tillinghast-Towers Perrin, *2008 Update on U.S. Tort Costs*; I.I.I.

Claim Trends in Auto Insurance

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

Bodily Injury: Severity Trends Above Decline in Frequency

Annual Change, 2005 through 2009*



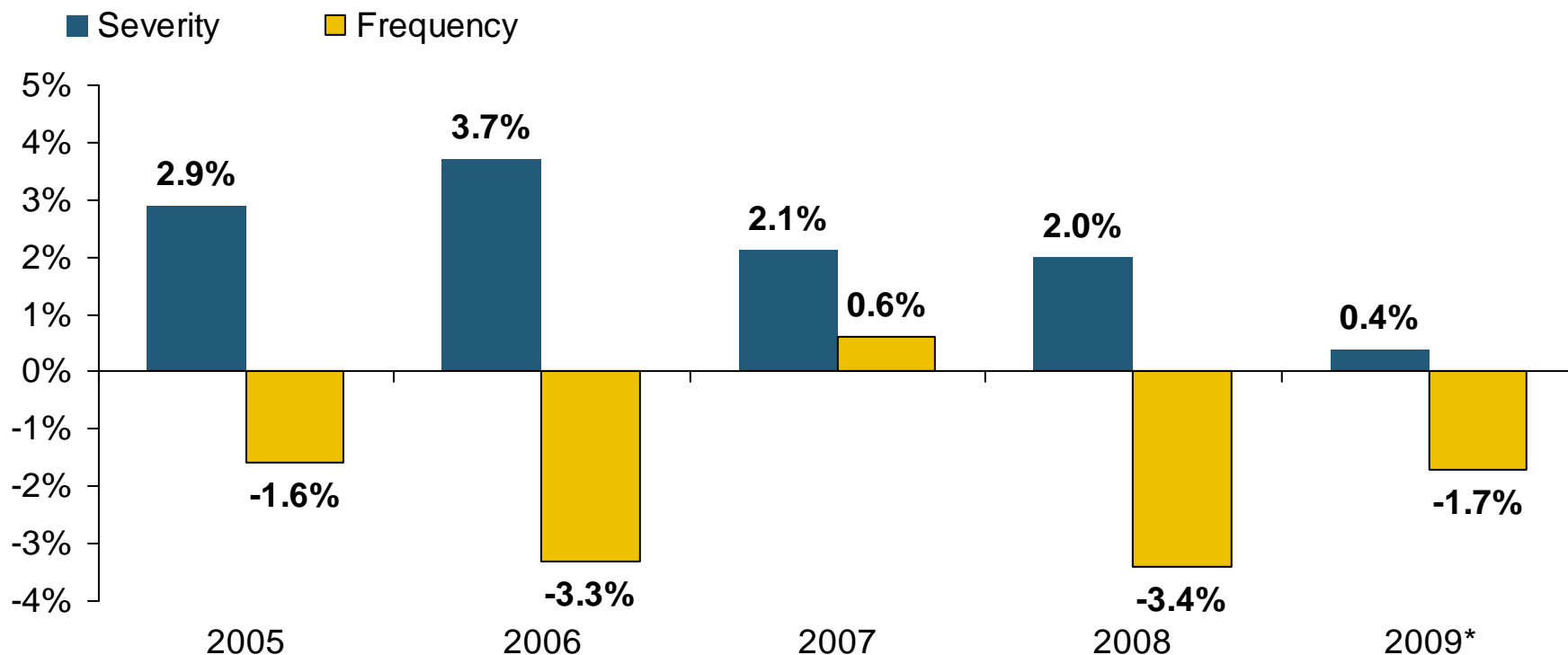
Cost Pressures Will Increase if Current BI Frequency and Severity Trends Continue

*2009 figure is for the 4 quarters ending 2009:Q3

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

Property Damage Liability: Frequency Trends Offsetting Rising Severity

Annual Change, 2005 through 2009*



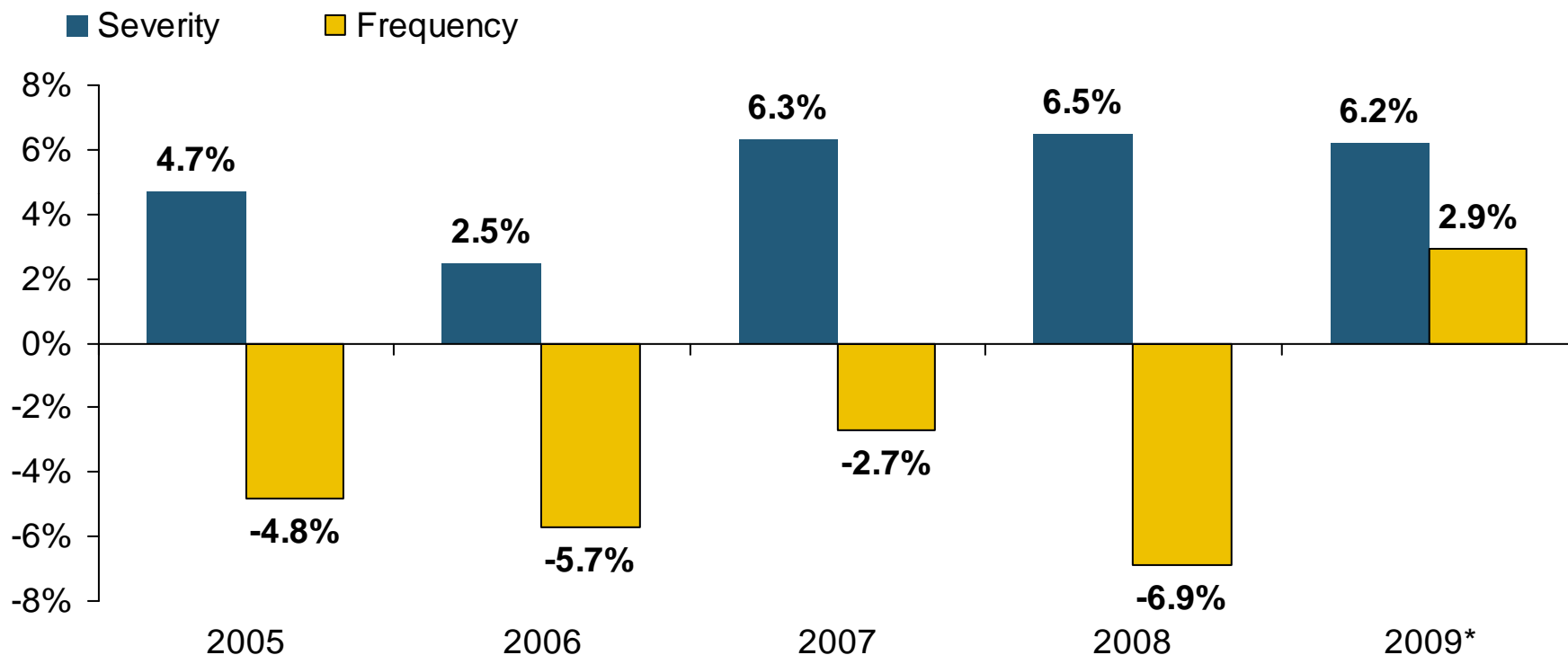
**Favorable Frequency Trend is Keeping PD Costs in Check,
But Is the Trends Sustainable?**

*2009 figure is for the 4 quarters ending 2009:Q3

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

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

Annual Change, 2005 through 2009*



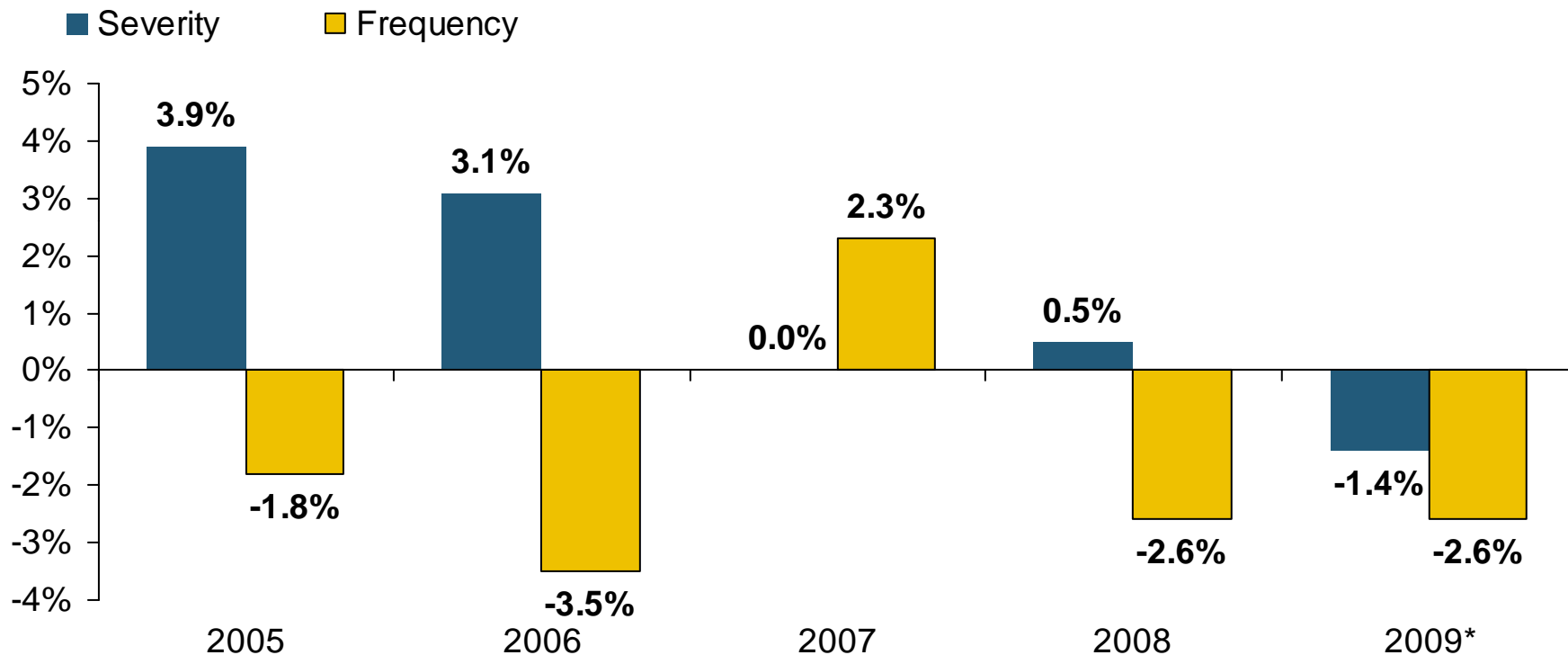
Multiple States Are Experiencing Severe Fraud and Abuse Problems in their No-Fault Systems, Especially FL, MI, NY and NJ

*2009 figure is for the 4 quarters ending 2009:Q3. No-fault states included are: FL, HI, KS, KY, MA, MI, MN, NY, ND and UT.

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

Collision Coverage: Frequency and Severity Trends Have Been Favorable*

Annual Change, 2005 through 2009*



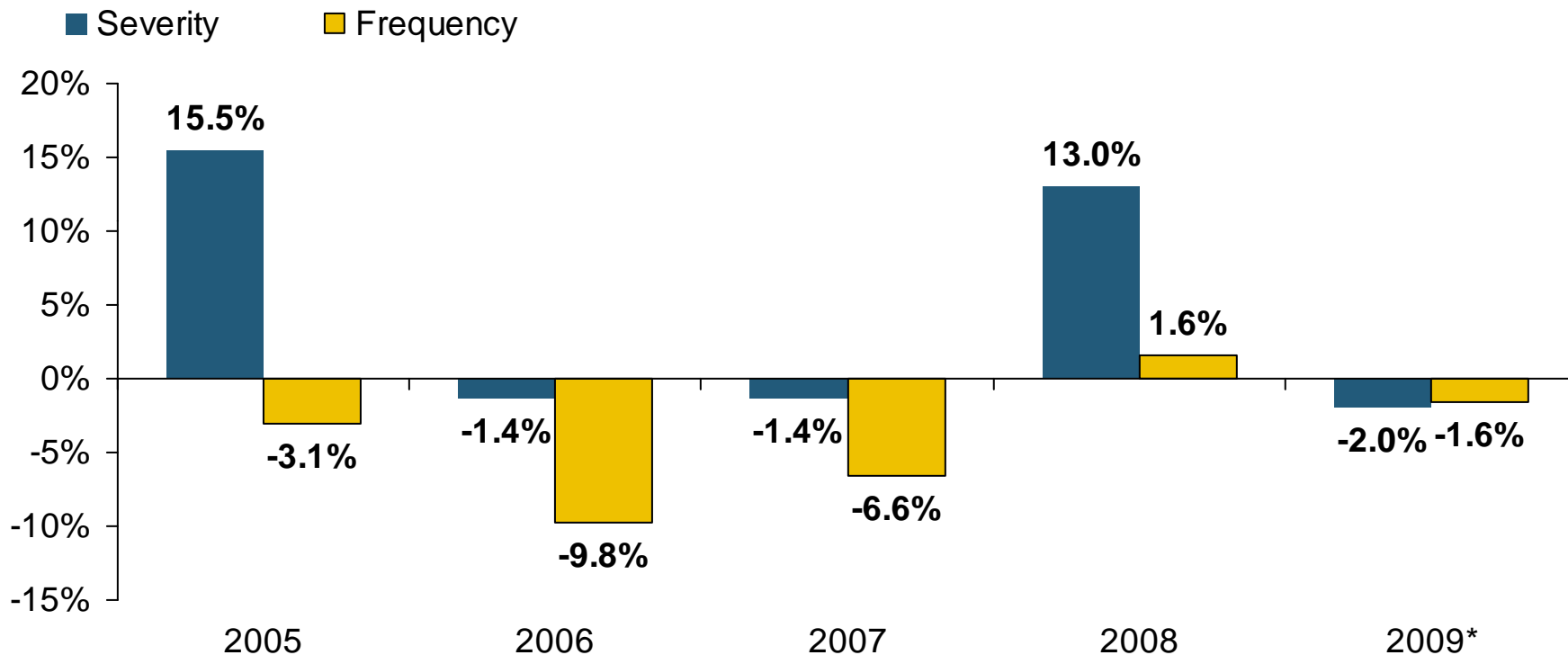
The Recession, High Fuel Prices Have Helped Push Down Frequency and Temper Severity, But this Trend Will Likely Be Reversed Based on Evidence from Past Recoveries

*2009 figure is for the 4 quarters ending 2009:Q3

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

Comprehensive Coverage: Frequency and Severity Trends Favorable in 2009*

Annual Change, 2005 through 2009*



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

*2009 figure is for the 4 quarters ending 2009:Q3

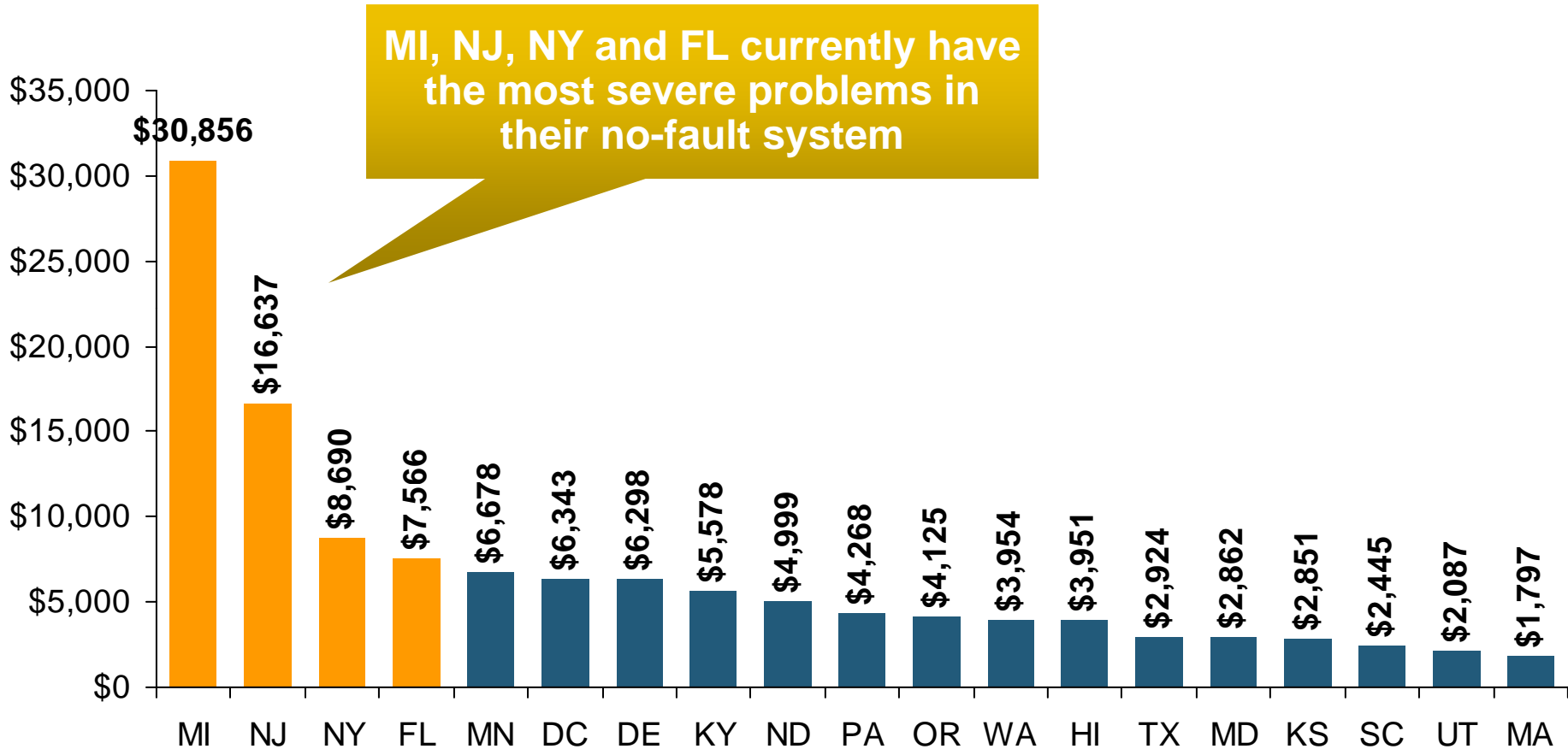
Source: ISO/PCI *Fast Track* data; Insurance Information Institute



Fraud & Abuse in Private Passenger Auto Insurance

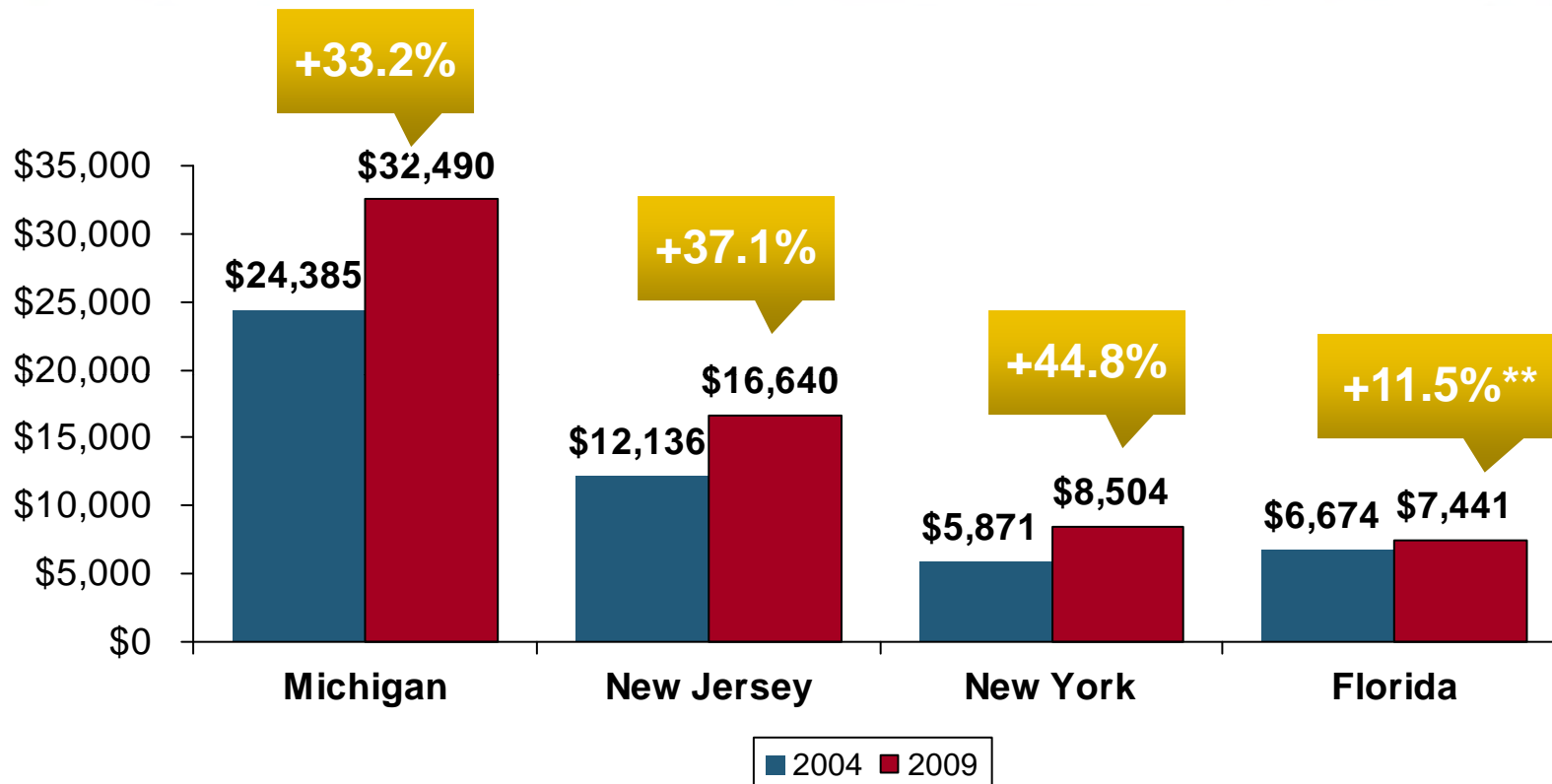
Skyrocketing No-Fault (PIP) Claim Costs Are a Major Concern in Several States

Average No-Fault Claim Severity, 2009:Q3



Several States Have Severe and Growing Problems With Rampant Fraud and Abuse in their No-Fault Systems. Claim Severities Are Up Sharply.

Increase in No-Fault Claim Severity: 2004-2009*



The no-fault systems in MI, NJ, NY and FL are under stress due to rising fraud and abuse which will ultimately lead to higher premiums for drivers

*2009 figure is for the 4 quarters ending 2009:Q3.

**Since 2006 the increase in Florida was 17.3% (average severity that year was \$6,674).

Sources: Insurance Information Institute research from ISO/PCI *Fast Track* data.

Key Threats Facing Insurers Amid Financial Crisis

Challenges for the Next 5-8 Years

Important Issues & Threats Facing Insurers: 2010–2015

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 then 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)

Important Issues & Threats Facing Insurers: 2010–2015

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.

Important Issues & Threats Facing Insurers: 2010–2015

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

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

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 (Too Big To Fail)
 - 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

Federal Insurance Office: *What Would it Do?*



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

Federal Insurance Office: *What Would it Do?*

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

Systemic Risk: Oversight & Resolution Authority

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 (e.g., *Financial Responsibility Tax*) 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

How Current Systemic Risk Proposal Could Affect Insurers

- **Bank holding companies with more than \$50 billion in assets would be subject to an assessment (Financial Responsibility Tax) in order to build a \$50 billion fund to wind down (resolve) large, insolvent financial institutions**
 - This first group could include some insurers that own banks
- **If the \$50 billion resolution fund is exhausted, then other non-bank financial institutions (including insurers, even those without banks) with more than \$50 billion in consolidated assets would be assessed to make up any shortfall**
- **Bottom Line: P/C insurers do not object to the concept of systemic risk, but feel that the focus on size alone is inappropriate given the roots of the financial crisis and the fact that p/c insurers were not the cause**

Rational for Excluding P/C Insurers from Systemic Regulation

- **The insurance business model (encompassing both insurers and reinsurers) has specific features that make it a source of stability within the financial system**
 - Up-front premiums provide strong operating cash flow
 - Insurance policies generally represent longer-term liabilities with little or no ability for the policy holder to demand immediate payments (no “run” on insurers)
 - The few insurers that experienced serious problems were impacted not by their insurance business but by quasi-banking activities. This includes AIG and “monoline” insurers provided financial guarantees and engaged in CDS writing and trading
- **Core Activities of Insurers Have No Systemic Relevance**
 - Only 2 non-core activities seem to have relevance assuming they are conducted on a huge scale using poor risk management control
 - Derivatives trading on non-insurance balance sheets
 - Mismanagement of short-term funding from commercial paper or securities lending

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 198 banks have gone under as of 3/12/10)
 - **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*)

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

Important Issues & Threats Facing Insurers: 2010–2015

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

Reasons Why Concerns Are Mounting in 2010

- Perception (Reality) that U.S. vulnerability is rising
- Thwarted Christmas Day attack by “underwear bomber”
 - And new bin Laden tape claiming al Qaeda is responsible
- Foiled NYC Subway Bomber Plot (Zazi case)
- Trials of Guantanamo 9/11 suspects in Manhattan Court (?)
- U.K. in January Raised Terror Alert Status to 2nd Highest Level
- Increased anti-terror efforts, including full-body scans
- Effort by government to appear more vigilant, prepared
- 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
- ***Obama Administration's Intent to Reduce Support for TRIA***

Obama Administration Proposal to Scale Back Terrorism Risk Insurance Program

Administration's Budget Proposal for FY 2011:

- Includes proposal to scale back federal support for terrorism risk insurance program
- Proposal projects savings of \$249 million from 2011-2020
- Administration's justification is that this would "encourage the private sector to better mitigate terrorism risk through other means, such as developing alternative reinsurance options and building safer buildings."

Key Concerns

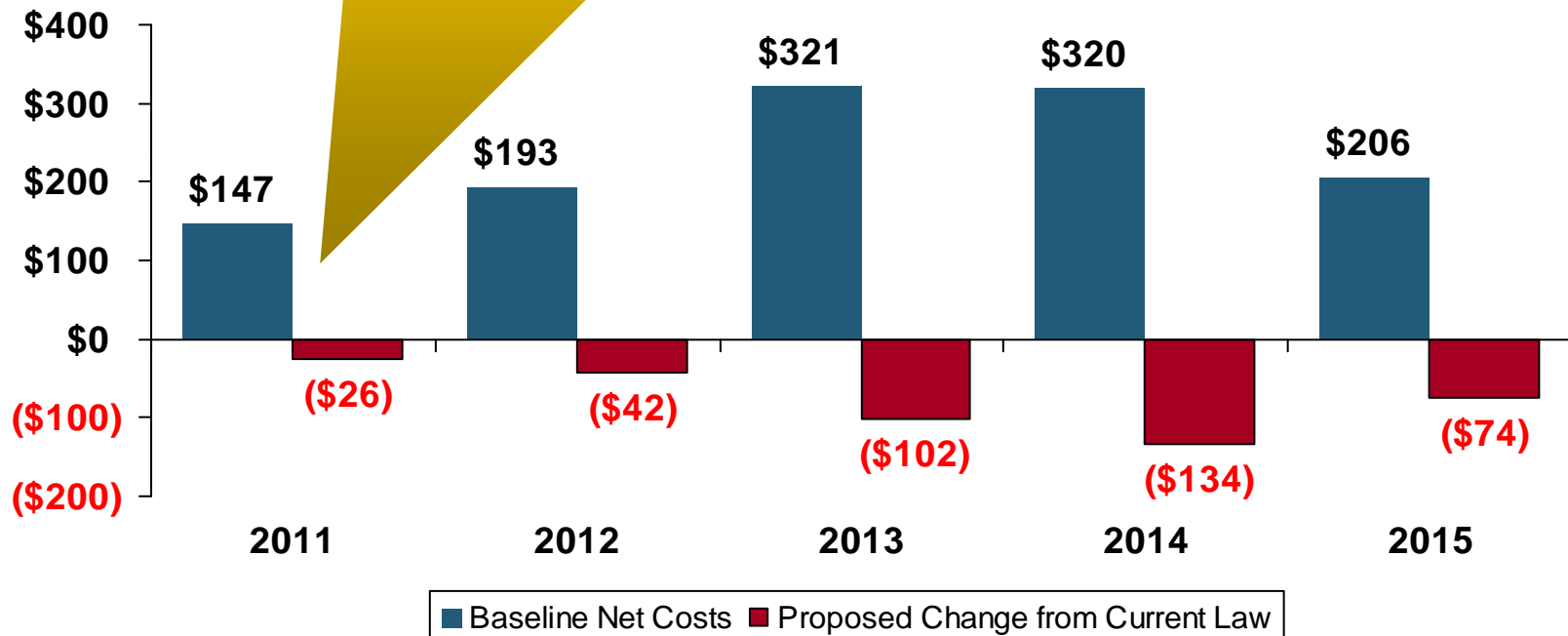
Among Industry Observers Over Proposed Reduction in Federal Support

- Suggestion of changes to law would have detrimental effect on availability and affordability of terrorism insurance
- A 2009 Aon study estimated some 70-80 percent of the commercial property insurance market would revert to absolute exclusions for terrorism, if TRIA is changed.

Terrorism Risk Insurance Program Faces Reduced Support Under 2011 Proposed Federal Budget

By shifting more costs to insurers and insureds in the event of a major terrorist attack, the Administration believes that it can save \$378 million from 2011 through 2015

\$ Millions



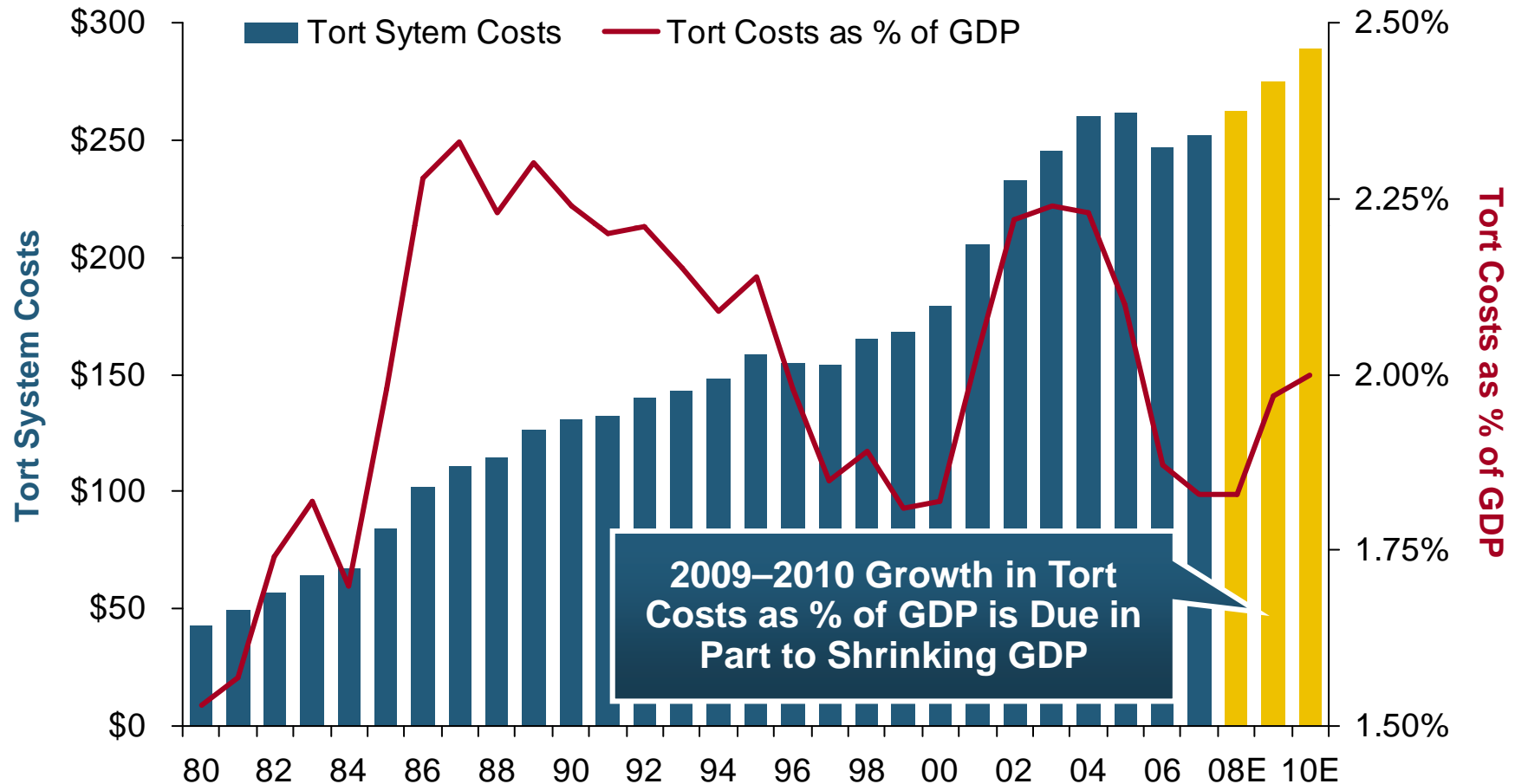
The availability of terrorism coverage is threatened by the proposal in the FY 2011 federal budget. Coverage will likely be less available and more expensive.

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

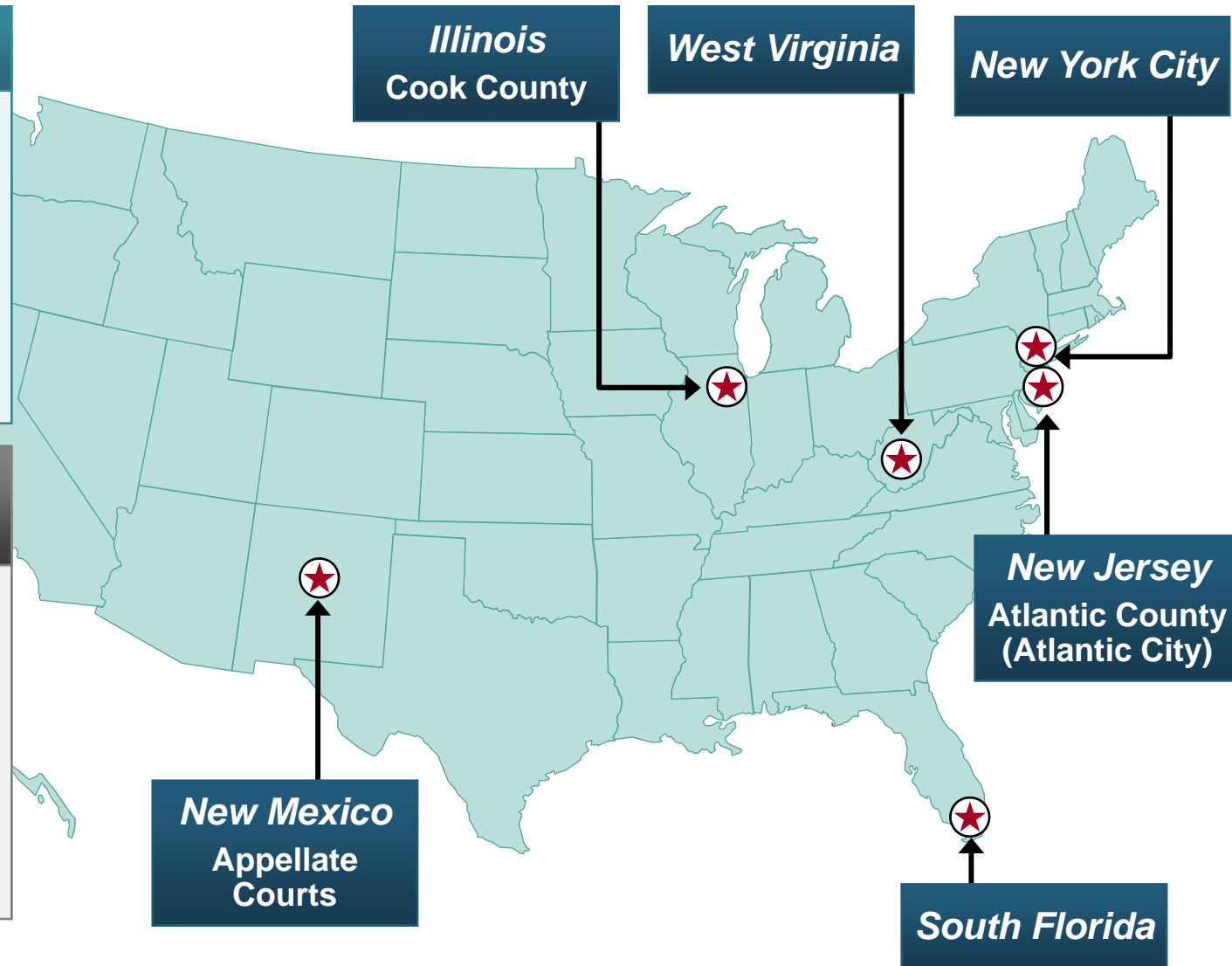
The Nation's Judicial Hellholes: 2010

Watch List

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

Dishonorable Mention

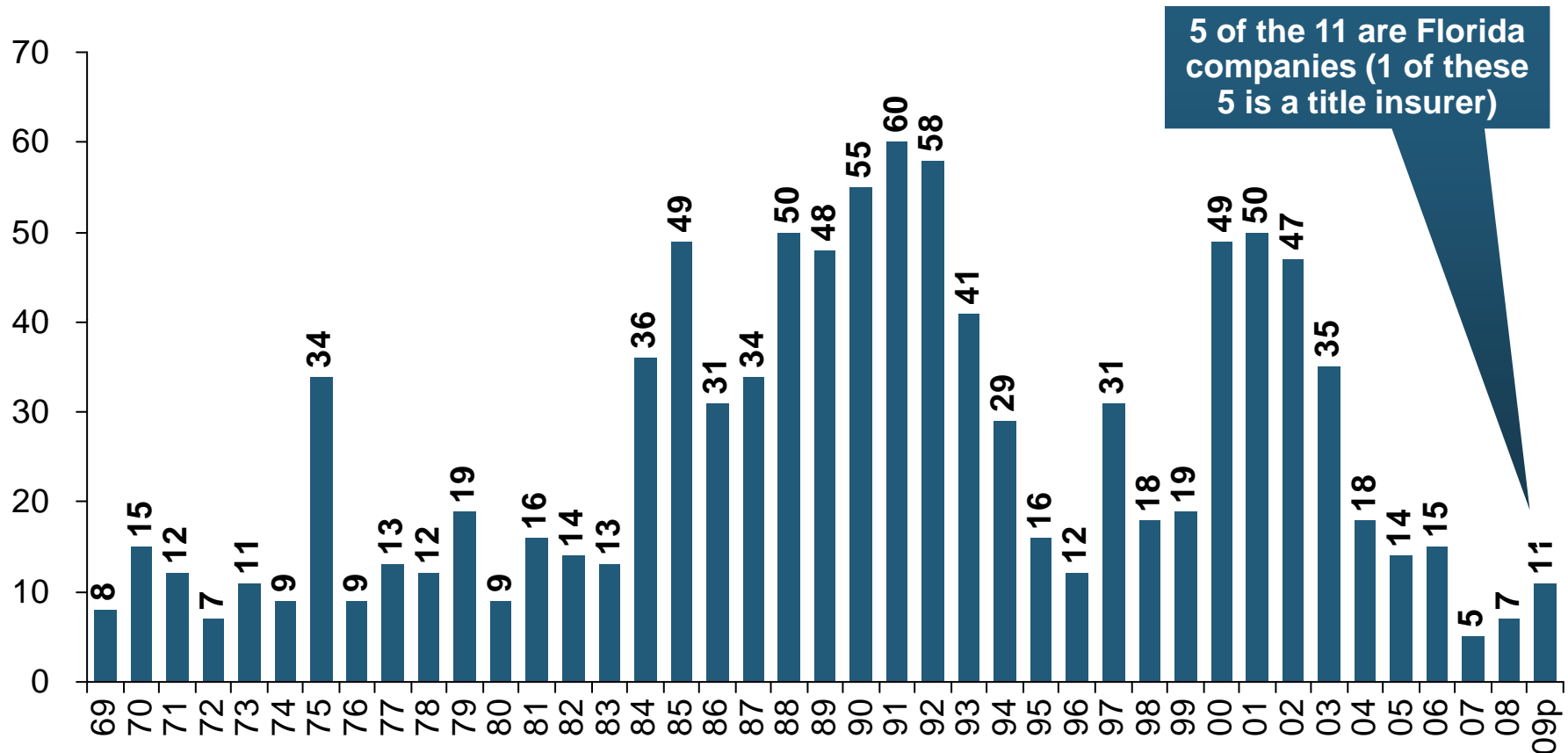
- AR Supreme Court
- MN Supreme Court
- ND Supreme Court
- PA Governor
- MA Supreme Judicial Court
- Sacramento County



Financial Strength & Ratings

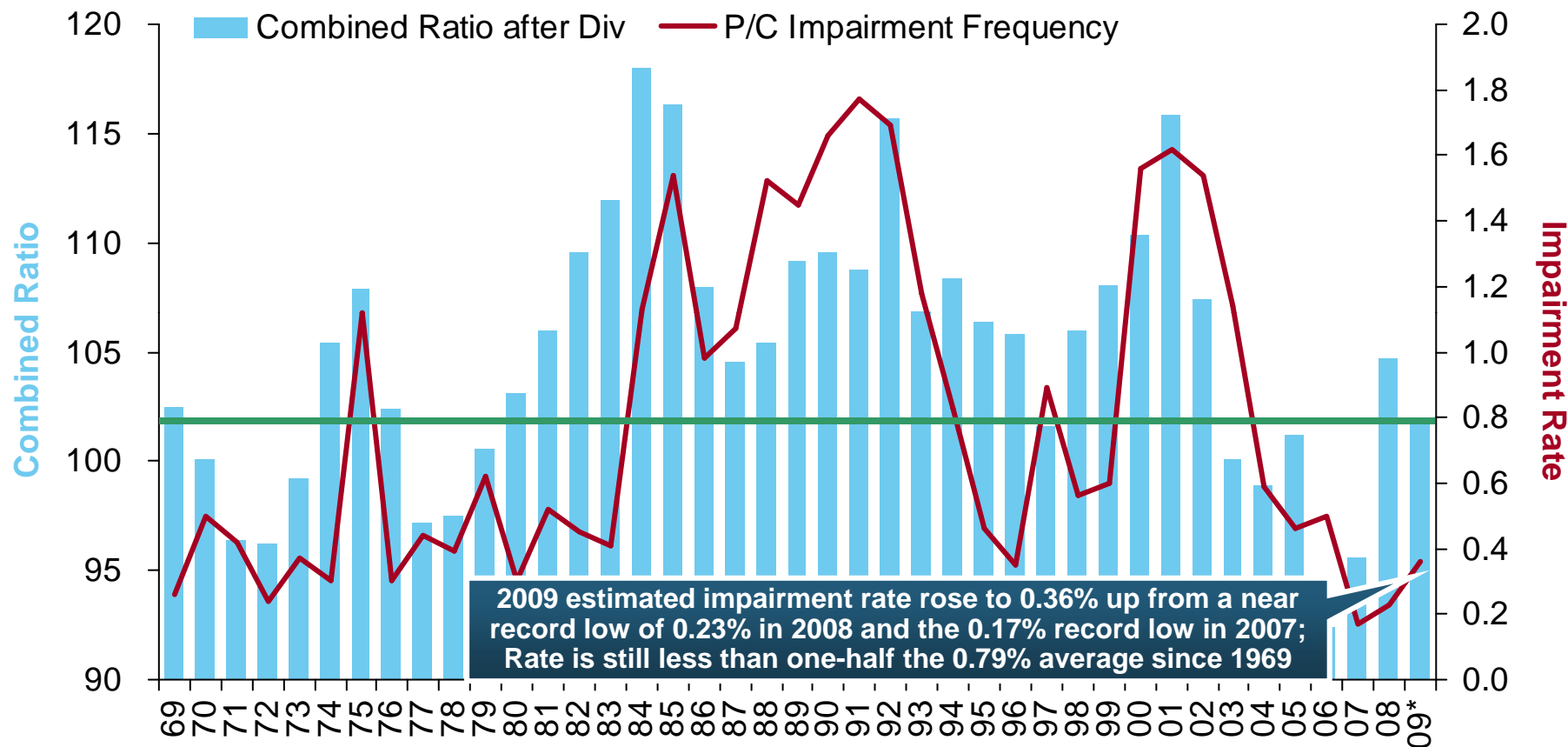
**Industry Has Weathered
the Storms Well**

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

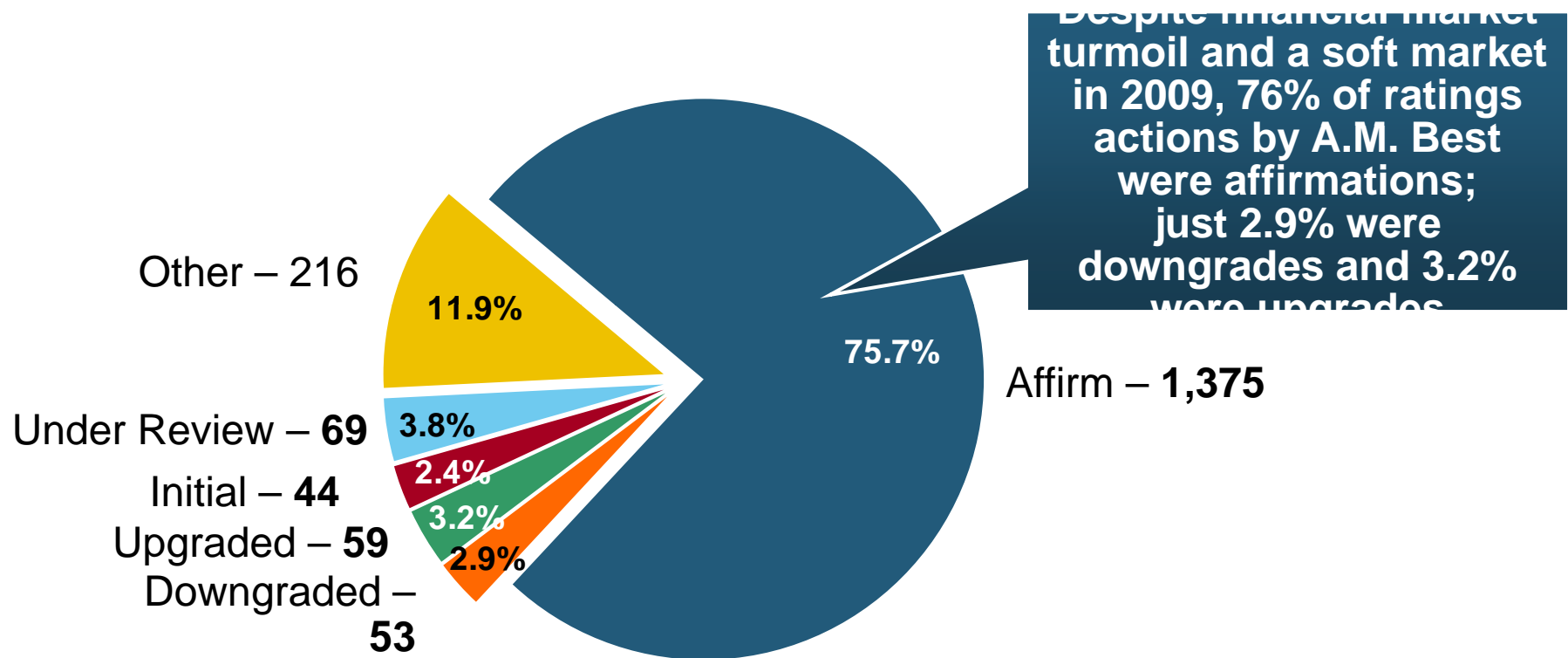
P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2009p



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

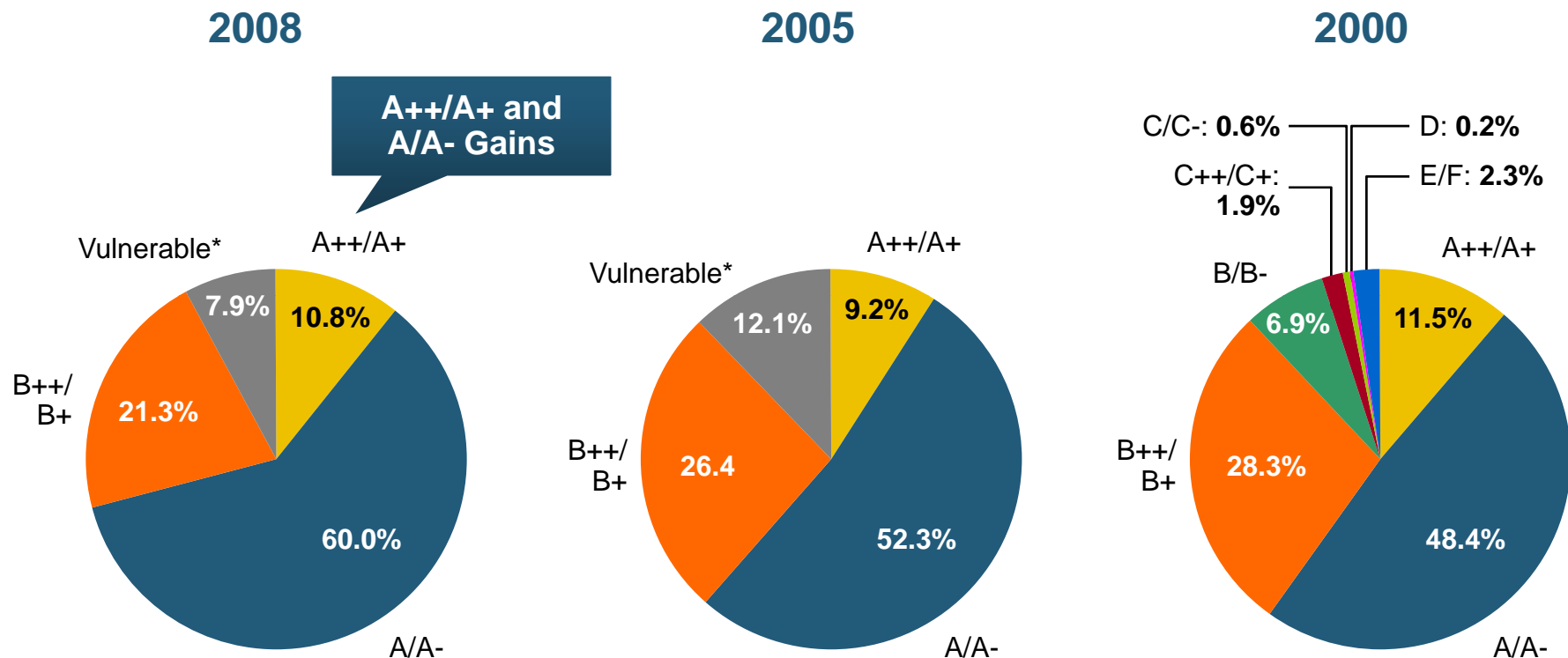
*Combined ratio of 101.7 is through Q3:09; 0.36% 2009 impairment rate is III estimate based on preliminary A.M. Best data.
Source: A.M. Best; Insurance Information Institute

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



**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**

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

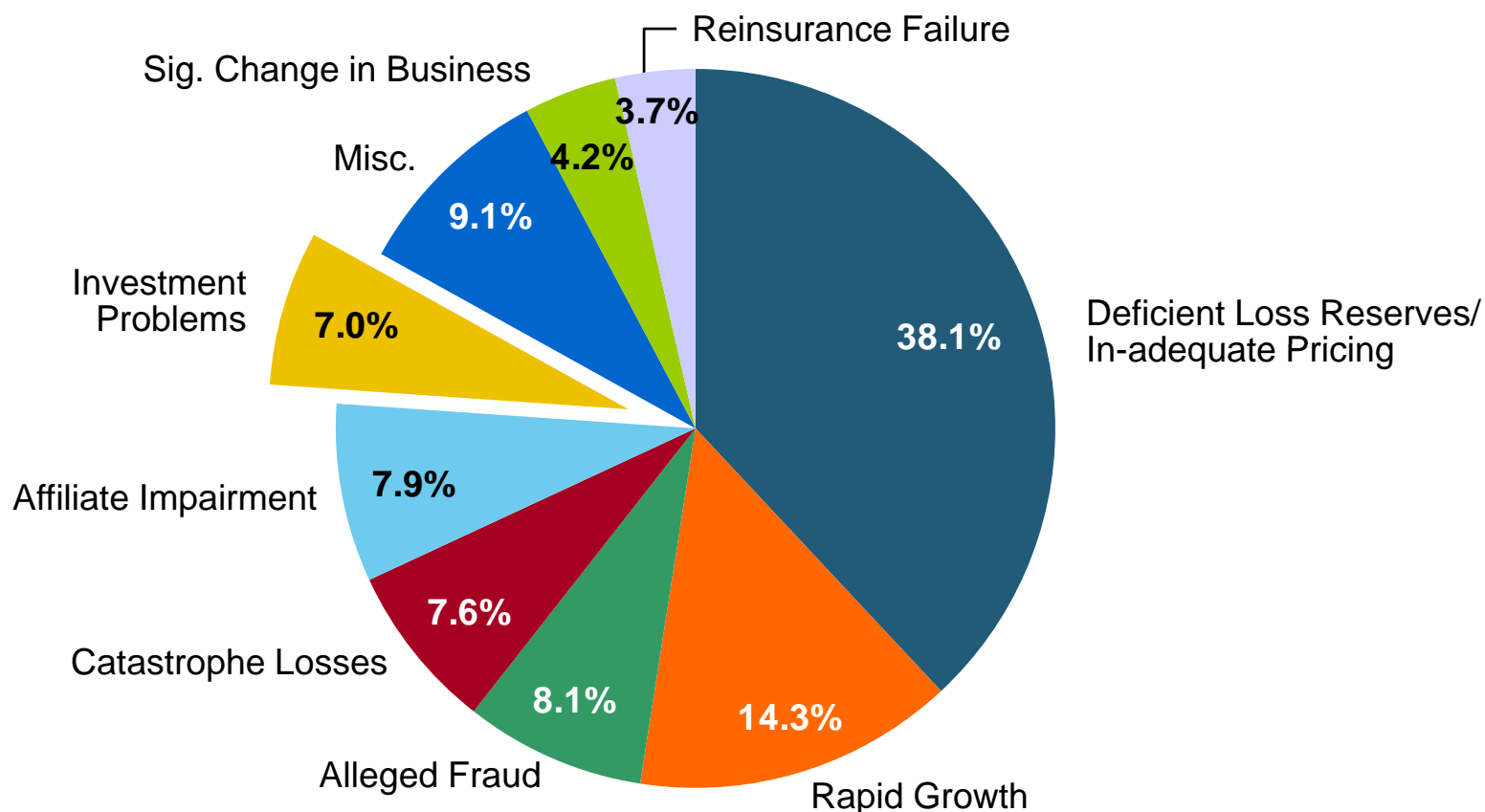


**P/C Insurer Financial Strength Has Improved Since 2005
Despite Financial Crisis**

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





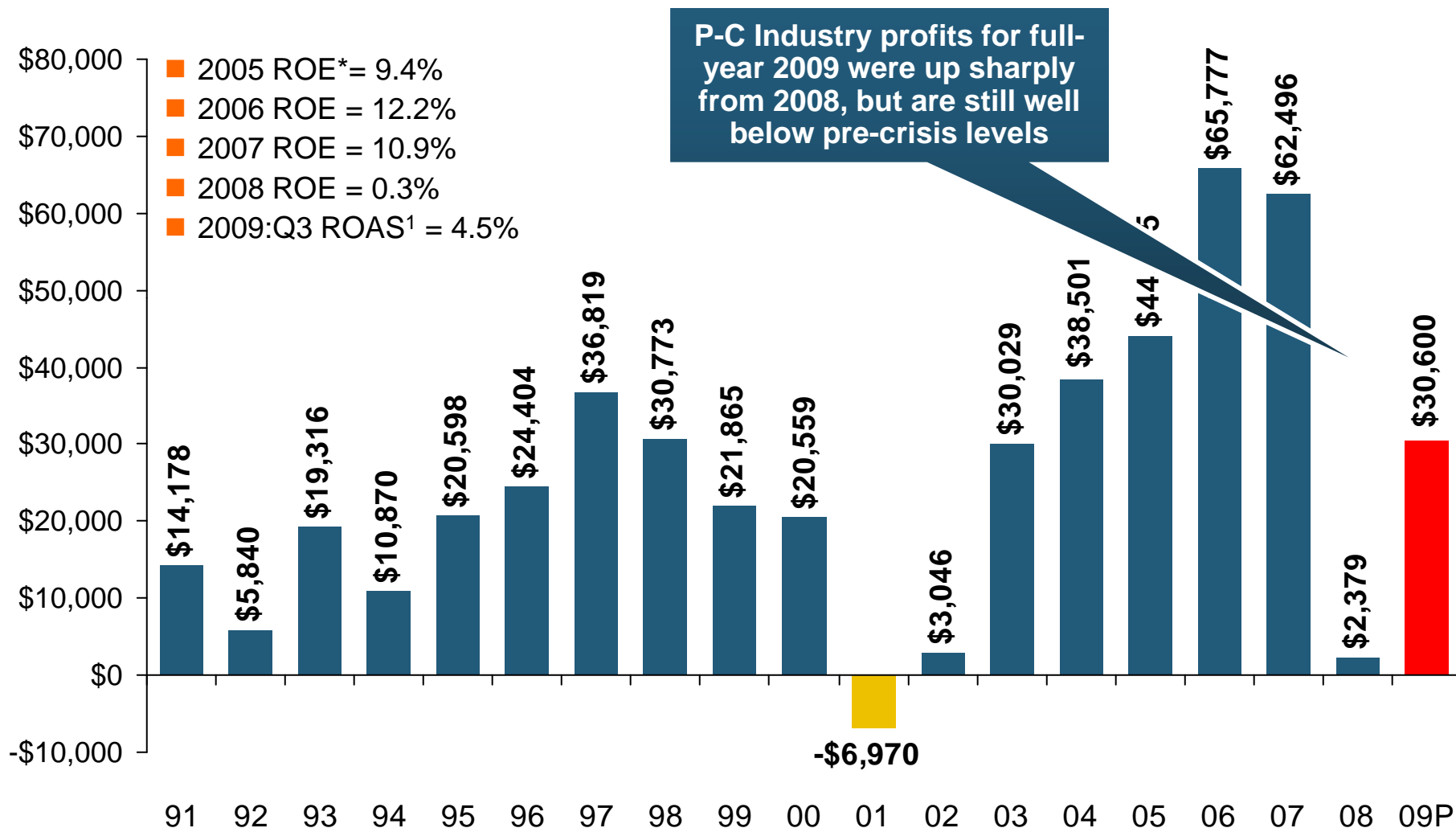
P/C Insurance Financial Performance

A Resilient Industry in Challenging Times

Profitability

Historically Volatile

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

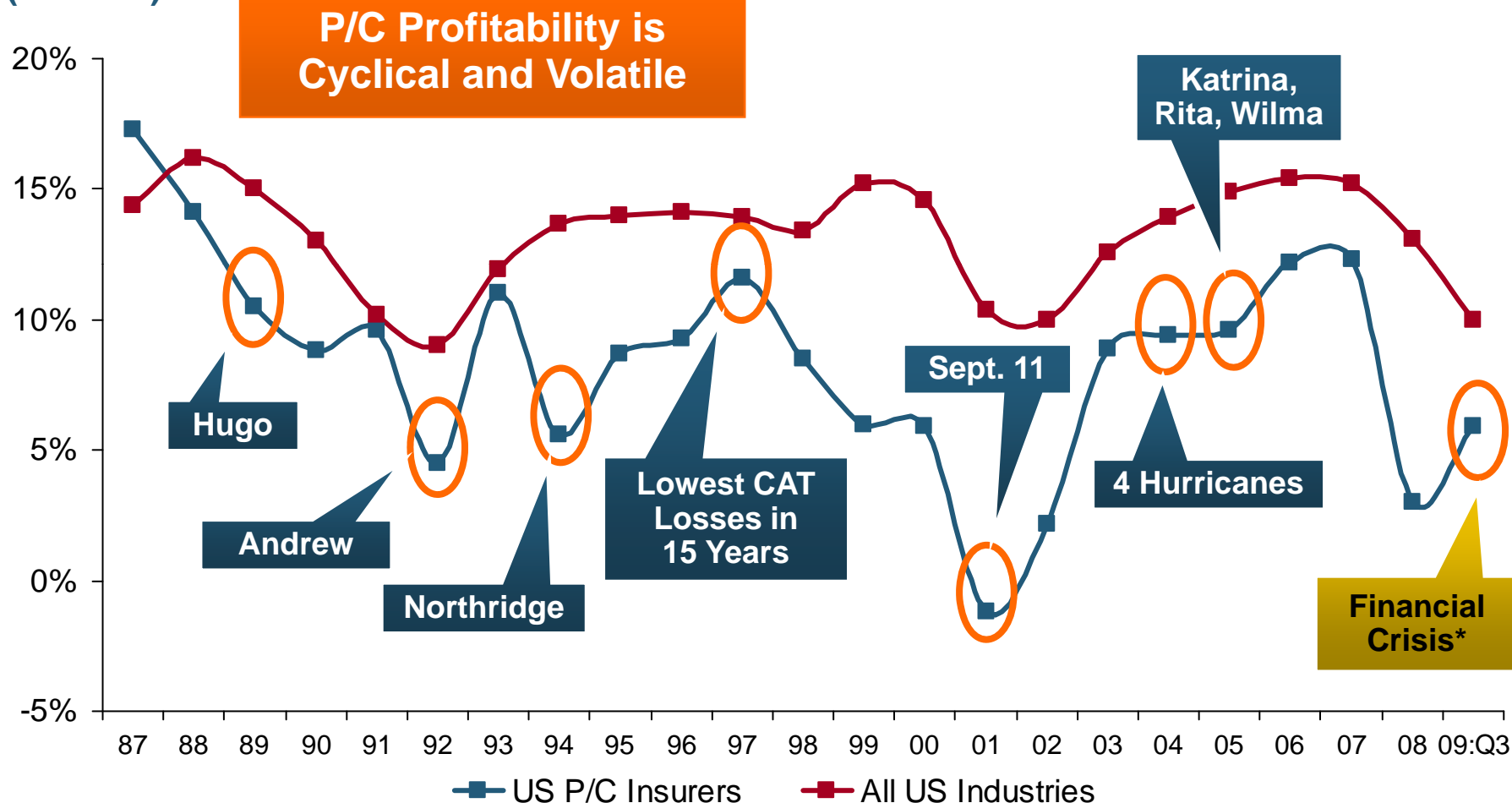


* ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 4.5% ROAS for 2008 and 5.9% for the first 9 months of 2009. 2009:Q3 net income was \$20.5 billion excluding M&FG.

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

ROE: P/C vs. All Industries 1987–2009:Q3*

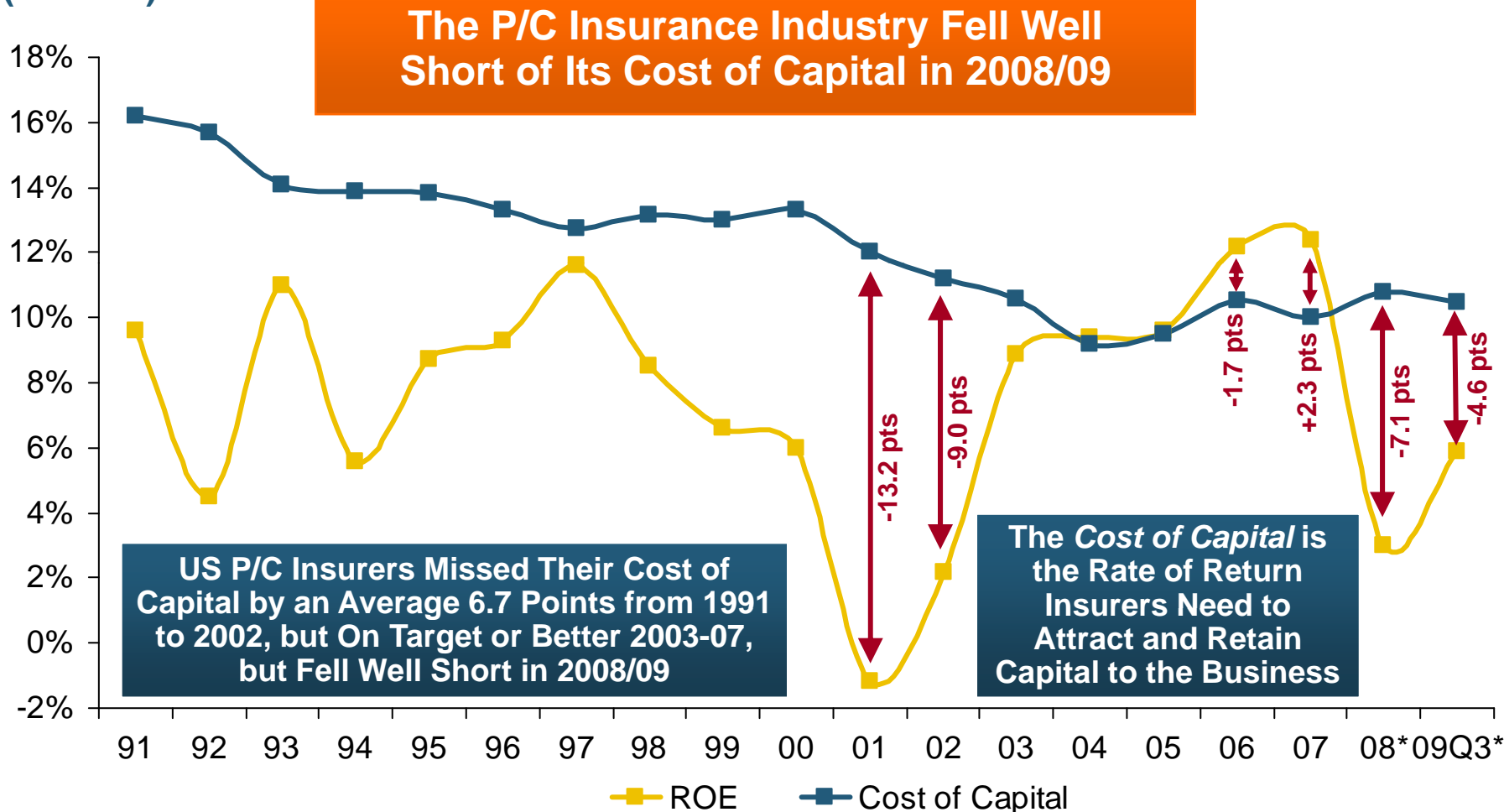
(Percent)



* 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*

(Percent)

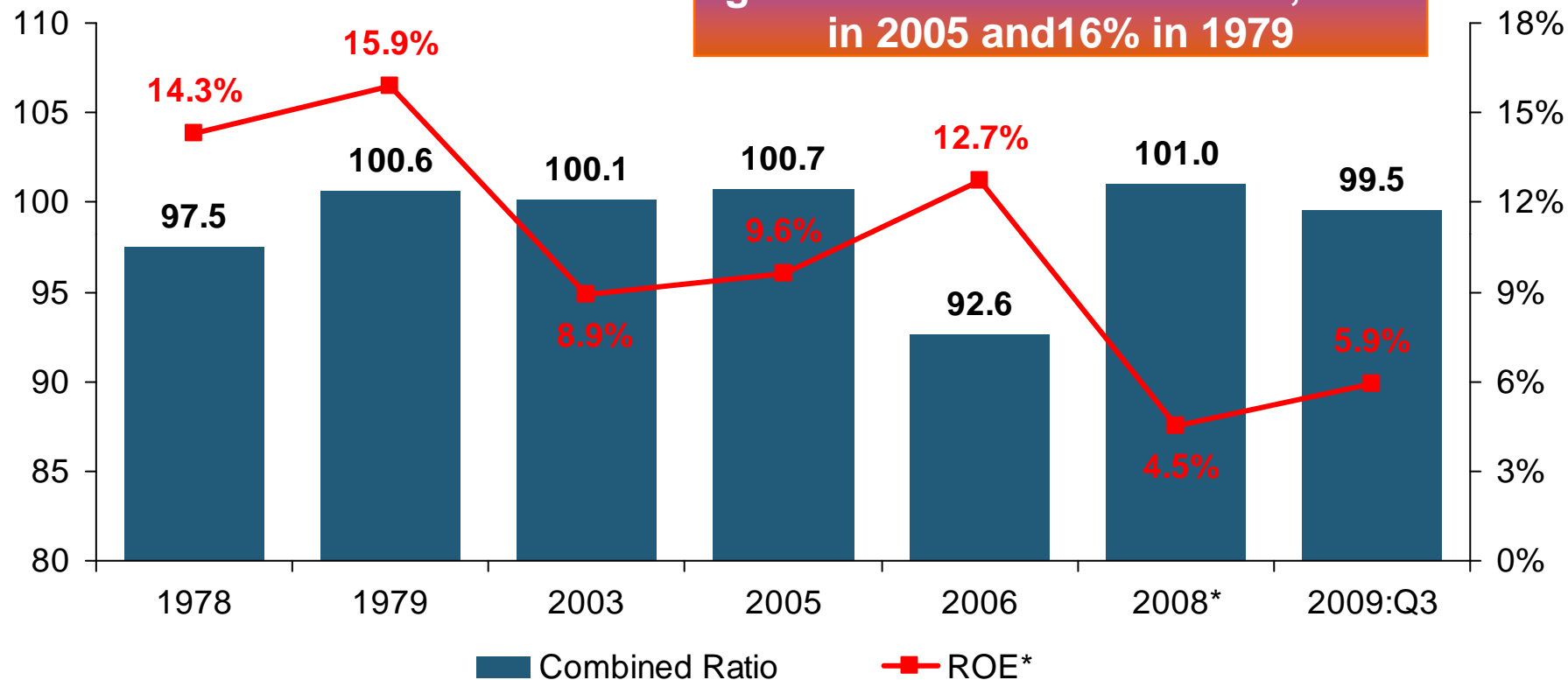


* Excludes mortgage and financial guarantee insurers

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

Combined Ratio / ROE



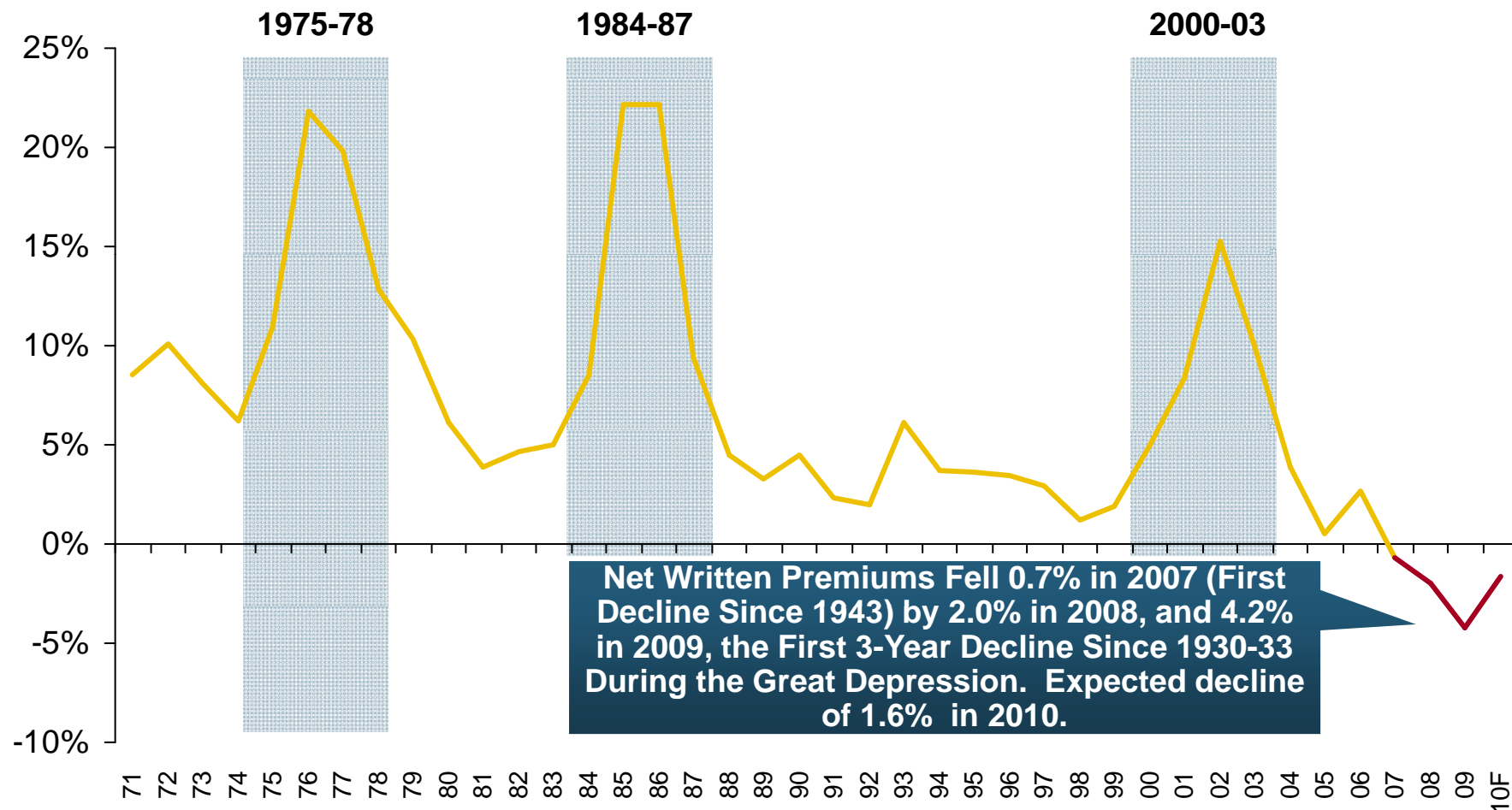
Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 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

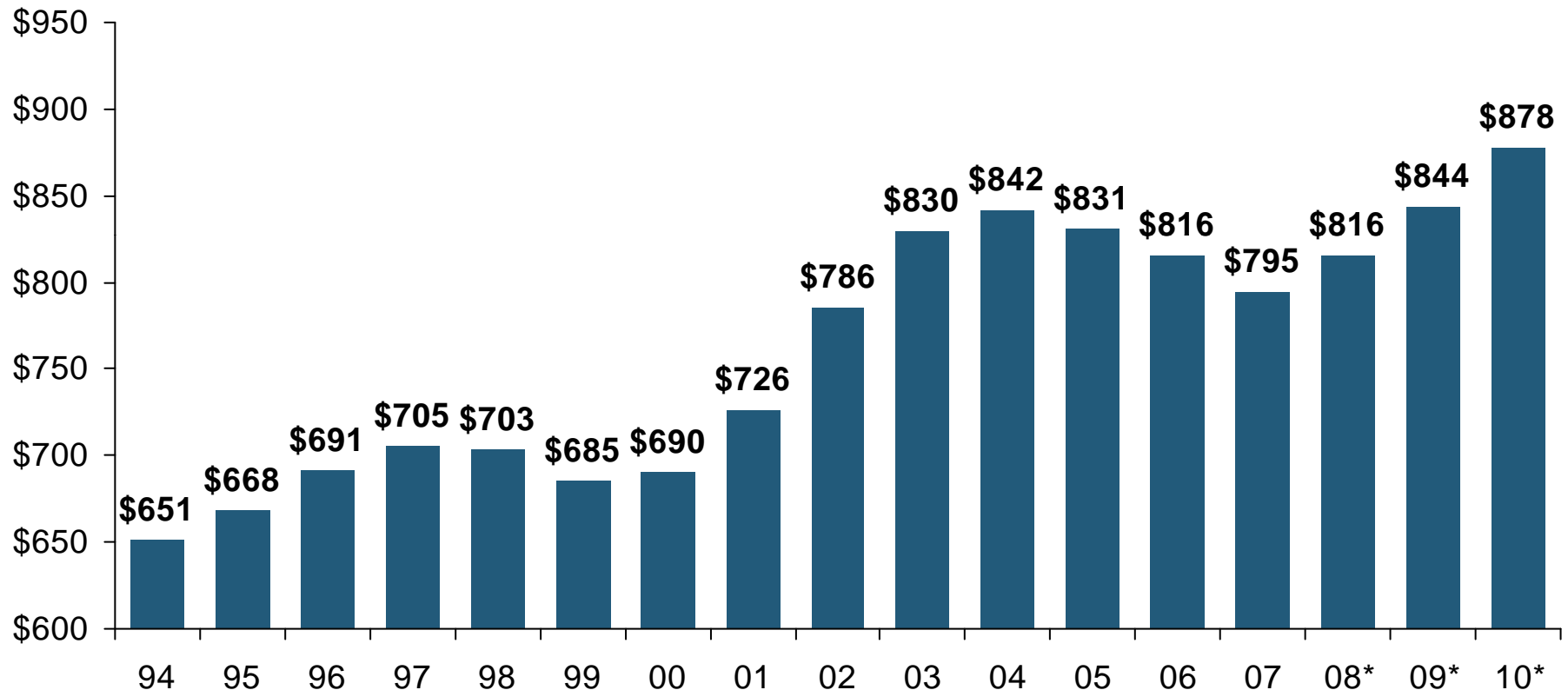
(Percent)



Shaded areas denote "hard market" periods

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

Average Expenditures on Auto Insurance



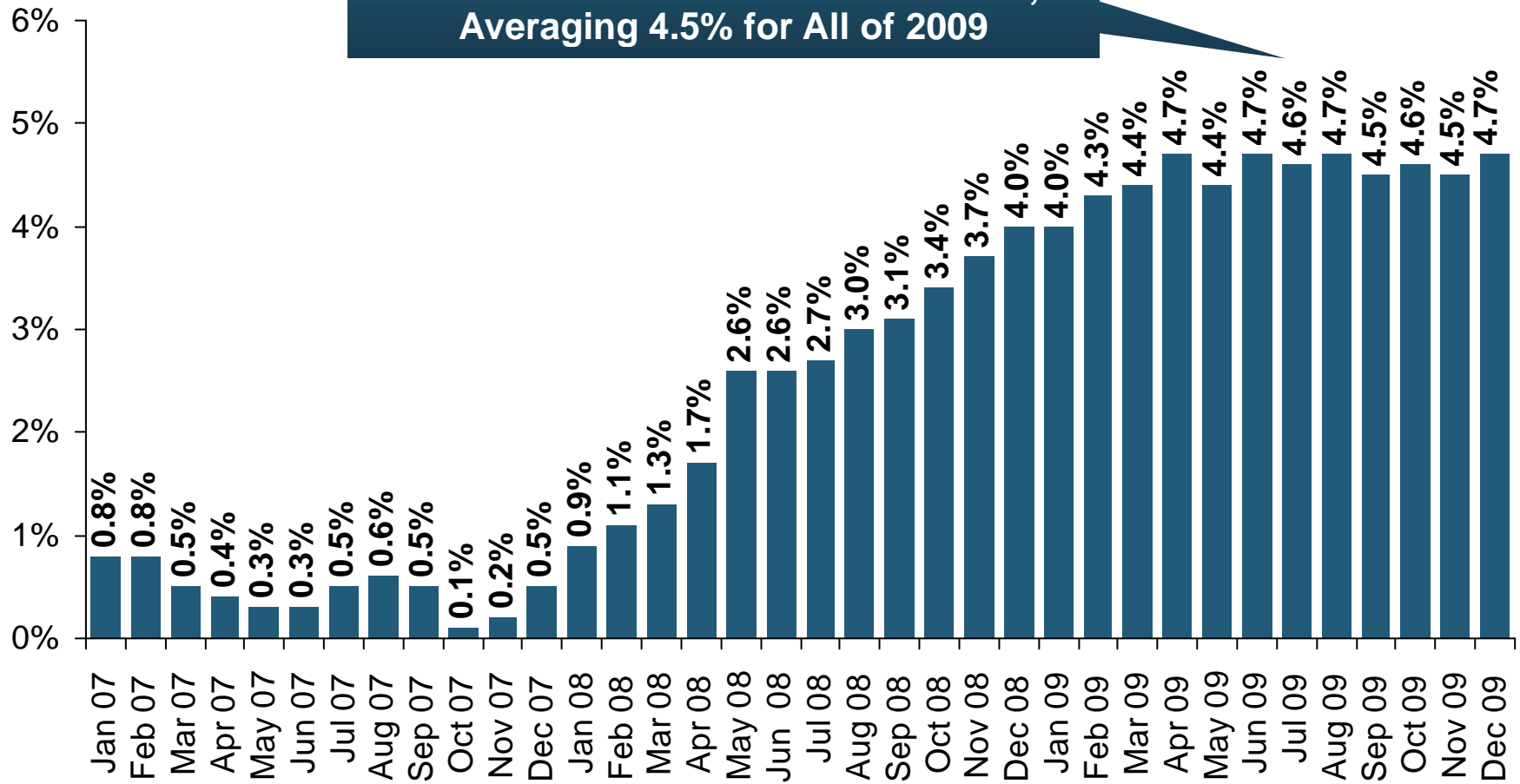
**Countrywide Auto Insurance Expenditures Increased
2.6% in 2008 and 3.5% Pace in 2009 (est.) and 4% in 2010 (est.)**

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

Monthly Change in Auto Insurance Prices*

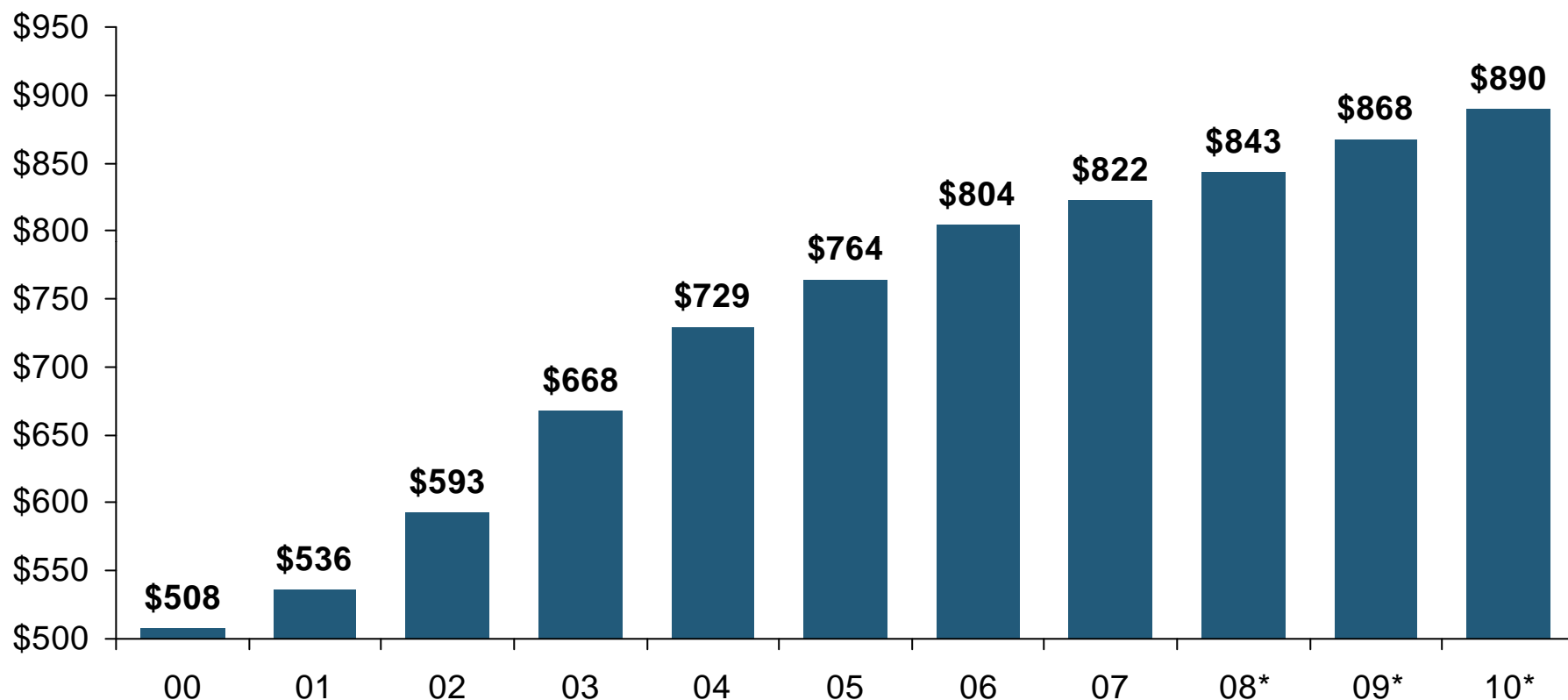
(Percent)

Auto Insurance Price Increases Seem to Have Levelled Off in Recent Months, Averaging 4.5% for All of 2009



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

Average Premium for Home Insurance Policies**

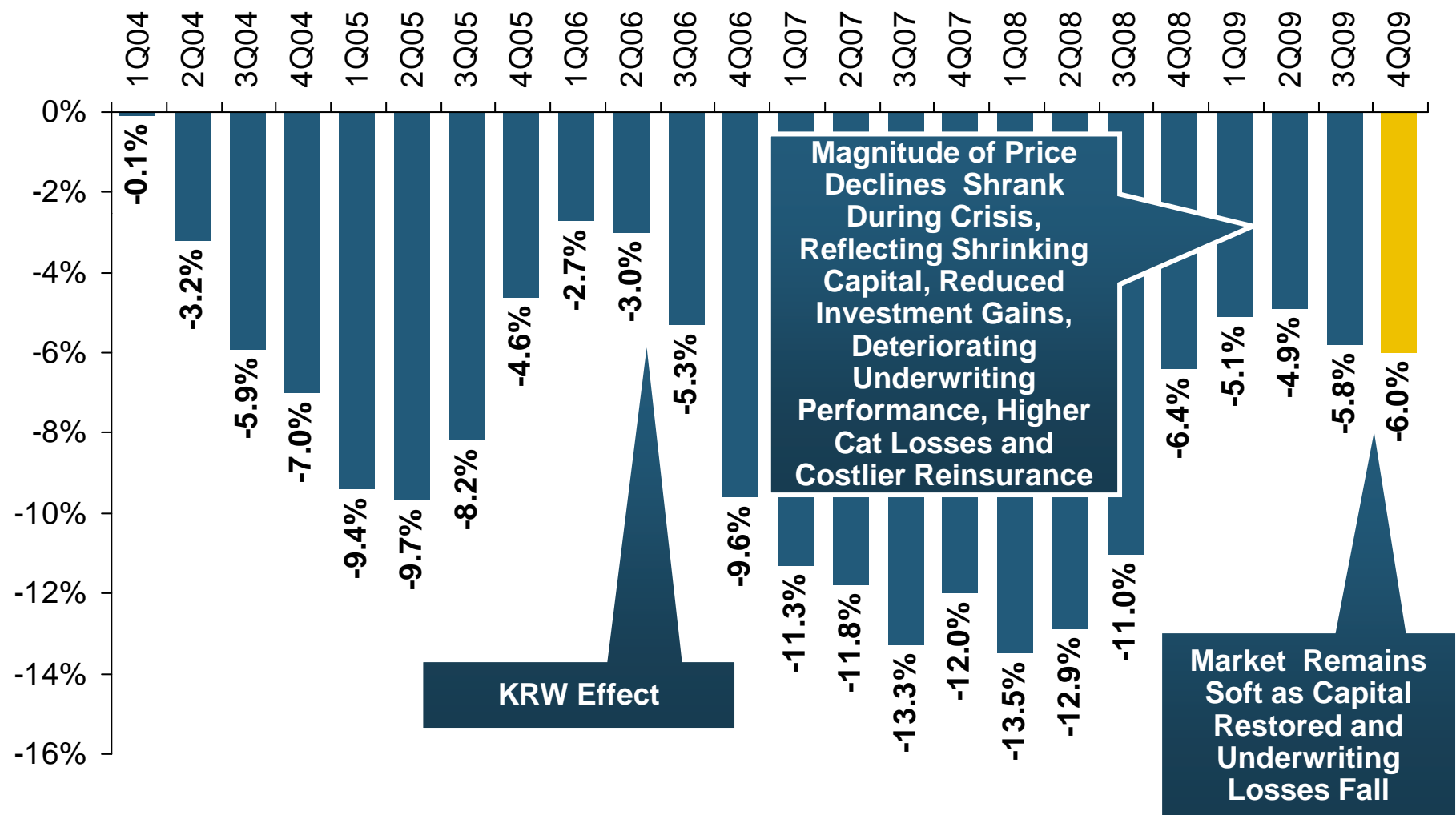


Countrywide Home Insurance Expenditures Increased by an Estimated 2.5% in 2008, 3% in 2009 and 2010

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

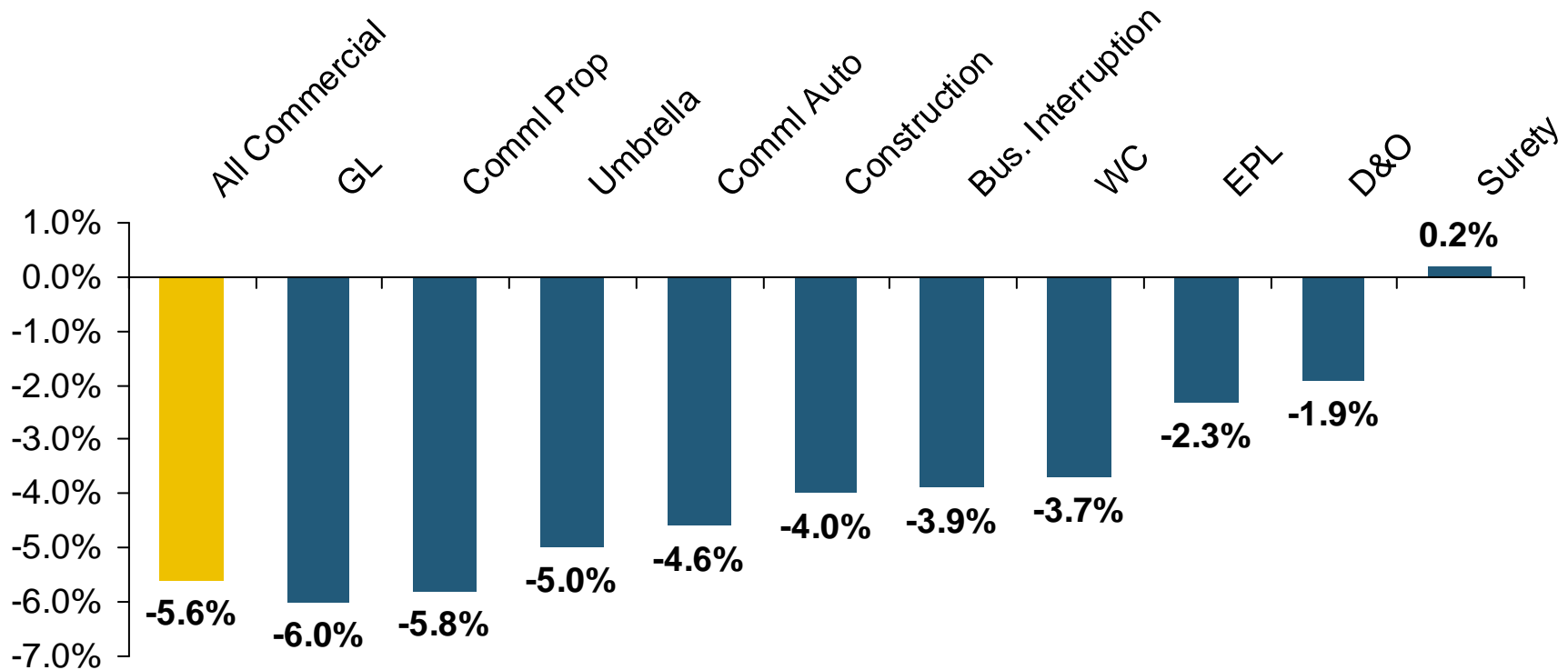
Average Commercial Rate Change, All Lines, (1Q:2004–4Q:2009)

(Percent)



Change in Commercial Rate Renewals, by Line: 2009:Q4

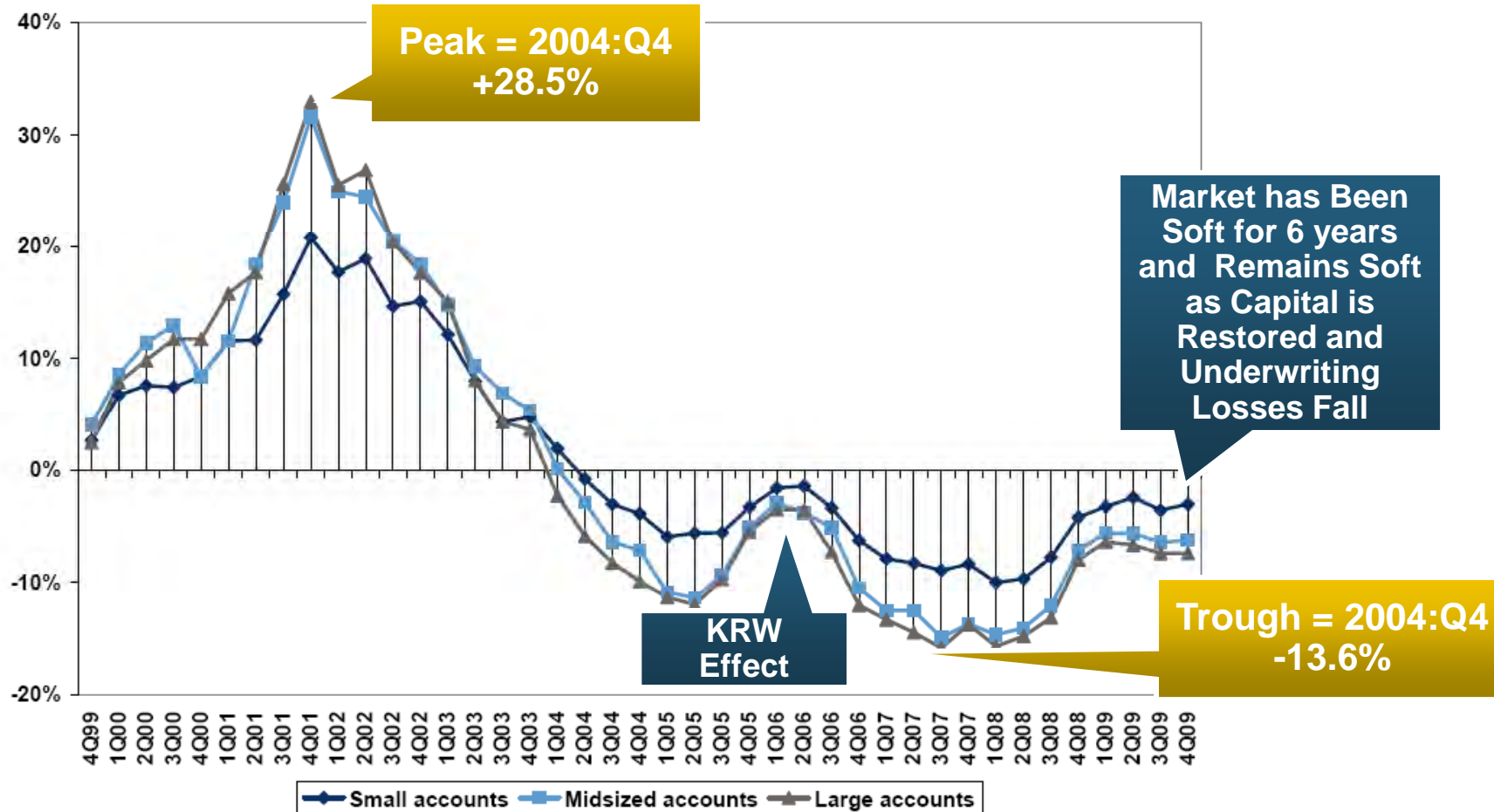
Percentage Change (%)



Most Major Commercial Lines Renewed Down in Q4:2009 by Roughly the Same Margin as a Year Earlier

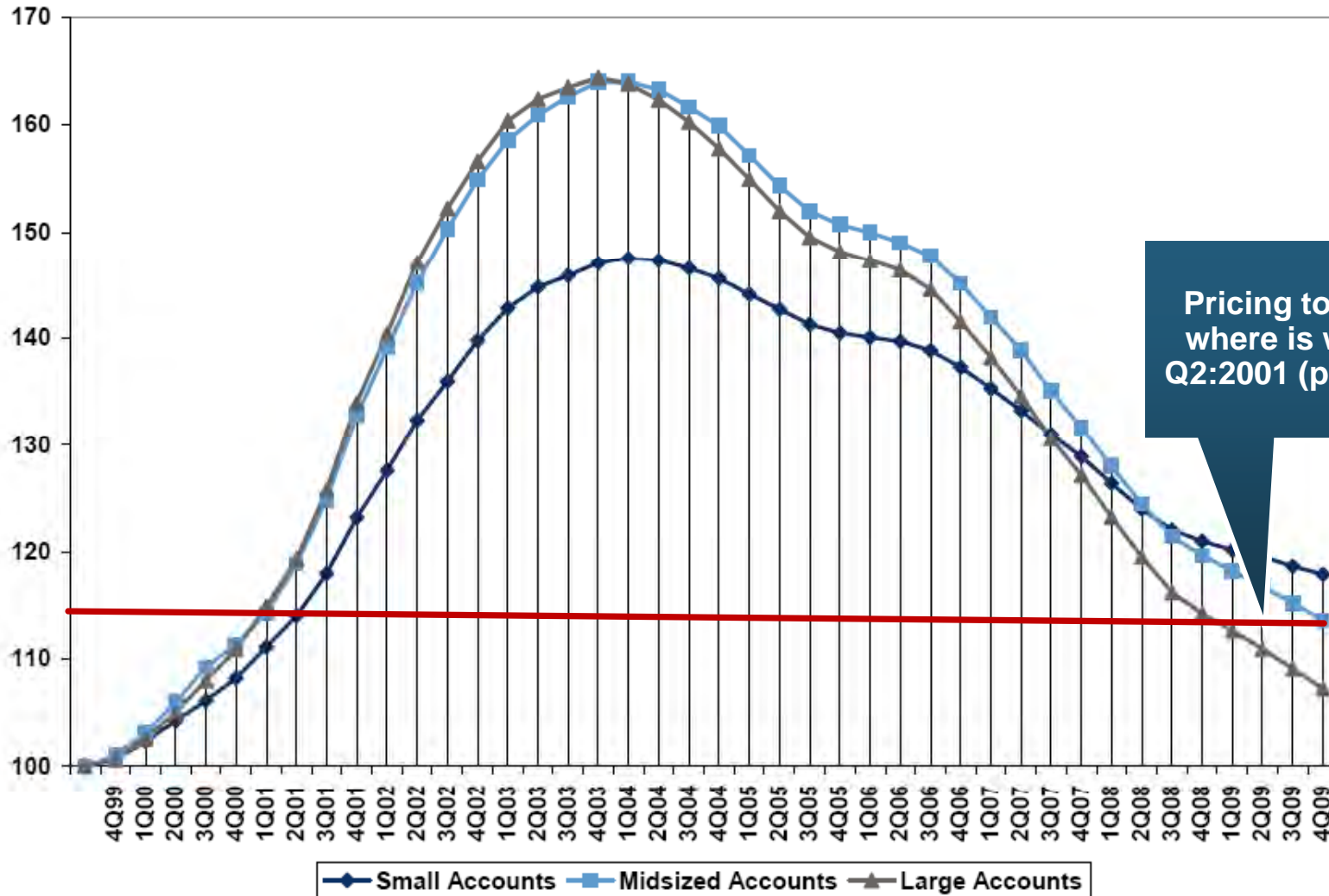
Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2009:Q4

Percentage Change (%)



Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2009:Q4

1999:Q4 = 100

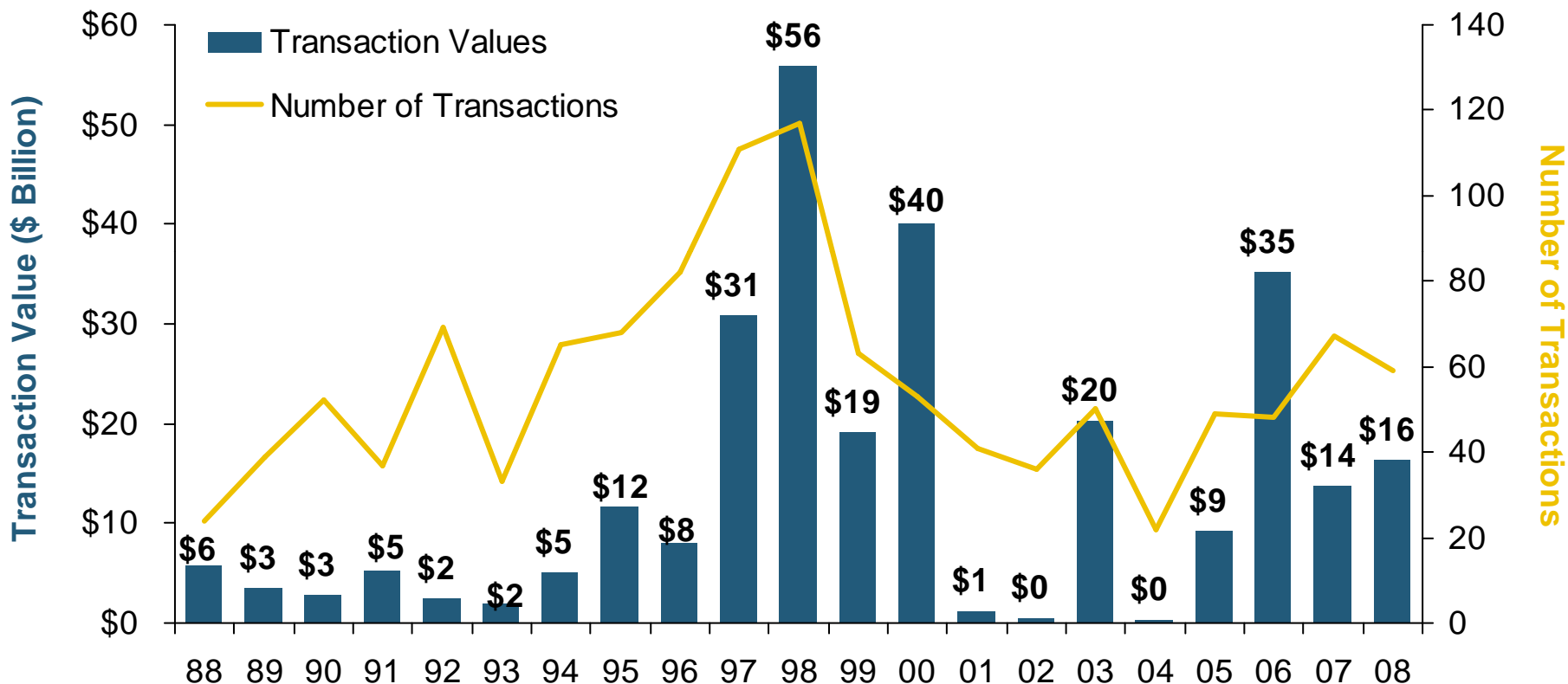


Pricing today is where it was in Q2:2001 (pre-9/11)

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

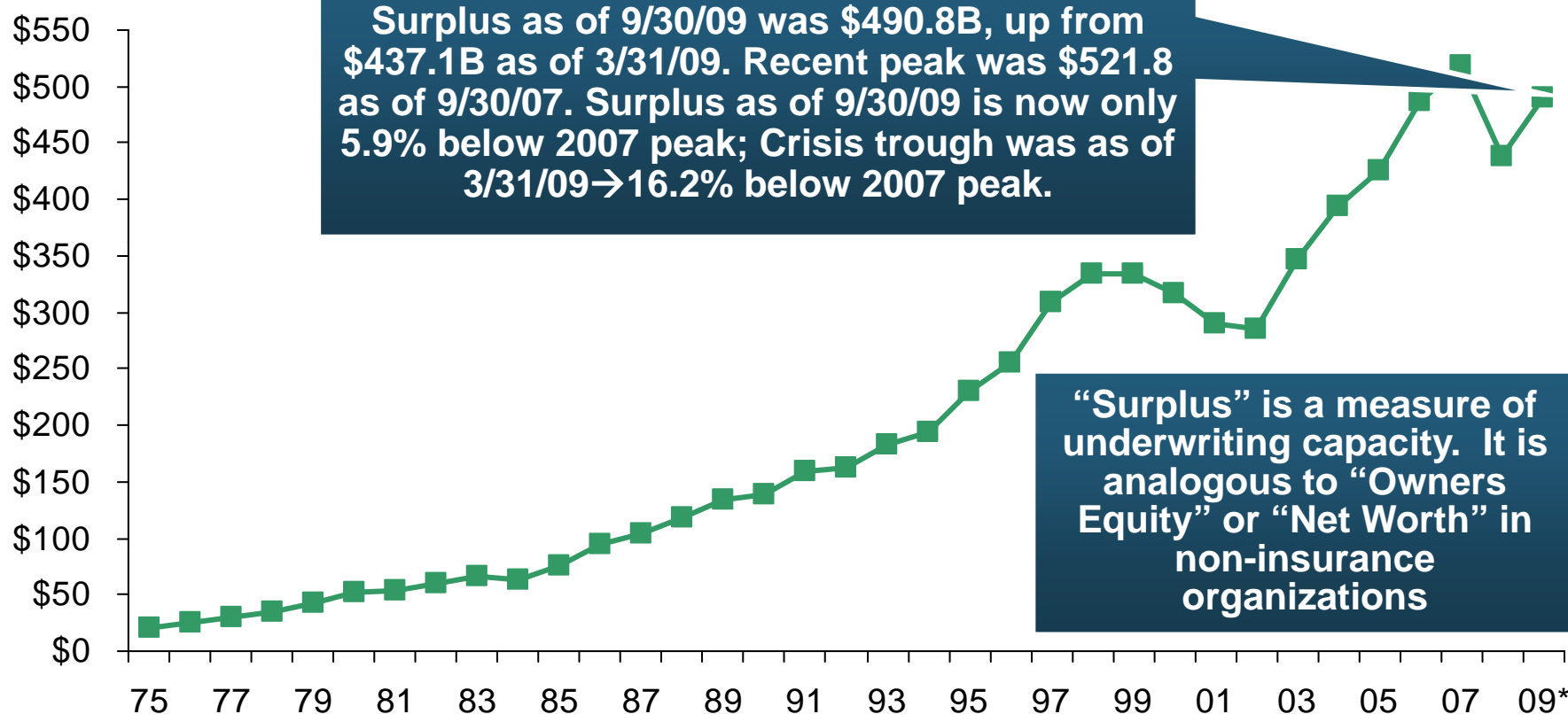
\$ Value of Deal Up 20% in 2009, Volume Down 12%

Capital/Policyholder Surplus (US)

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

US Policyholder Surplus: 1975–2009:Q3*

(\$ Billions)



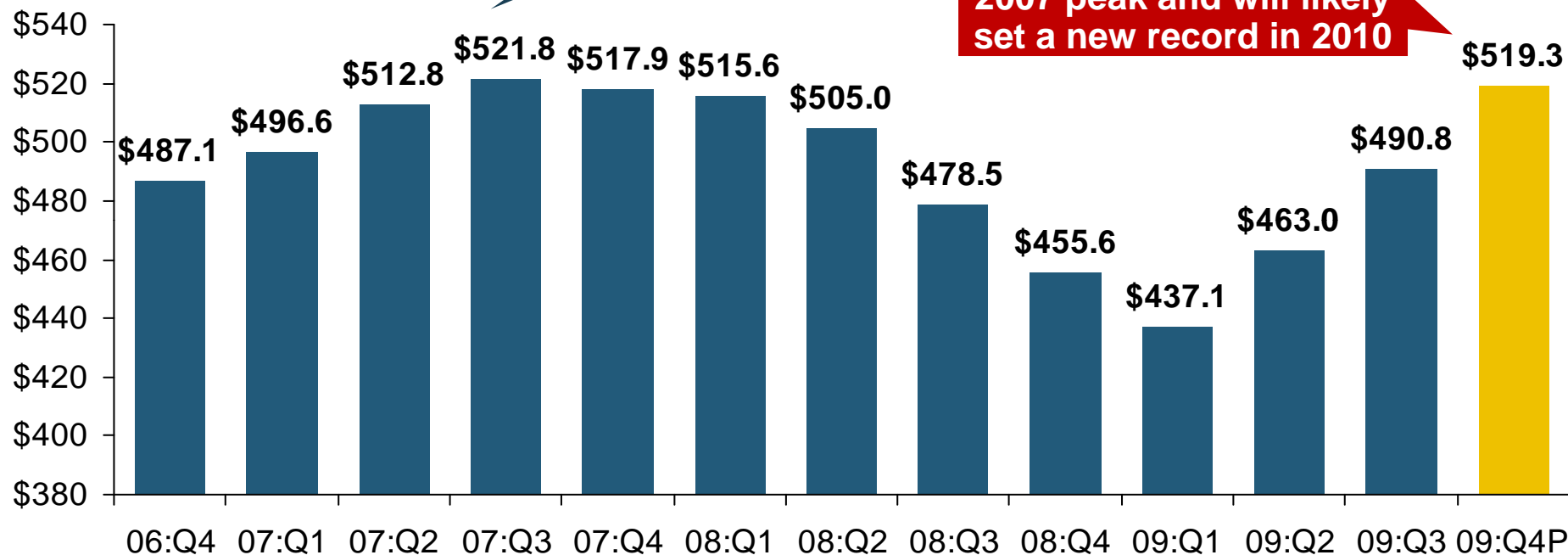
The Premium-to-Surplus Ratio Stood at \$0.87:\$1 as of 9/30/09, Up from Near Record Low of \$0.85:\$1 at Year-End 2007

* As of 9/30/09

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

Policyholder Surplus, 2006:Q4–2009:Q4P

(\$ Billions)



Declines Since 2007:Q3 Peak

08:Q2: -\$16.6B (-3.2%)

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

08:Q3: -\$43.3B (-8.3%)

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

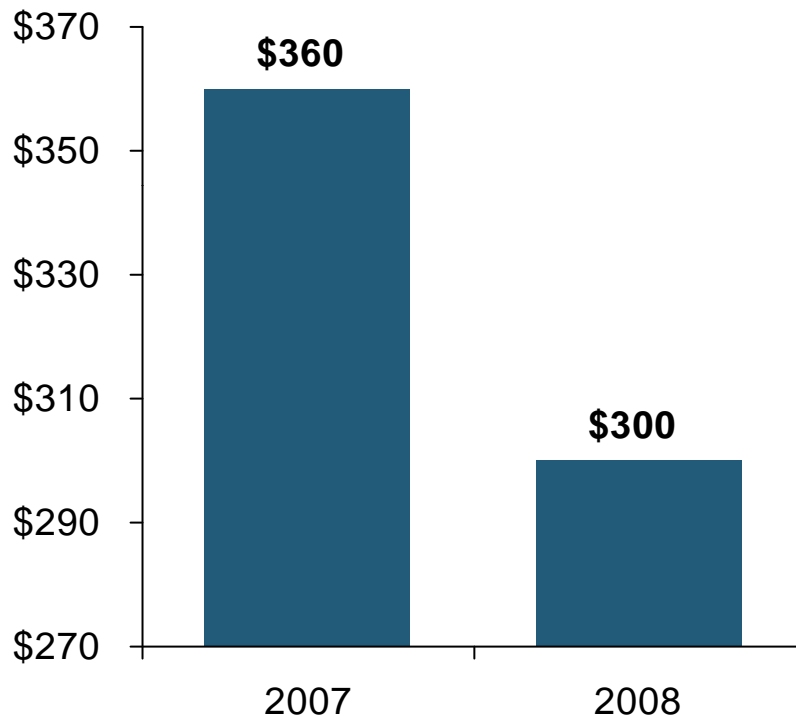
08:Q4: -\$66.2B (-12.9%)

09:Q4: -\$2.5B (-0.5%)

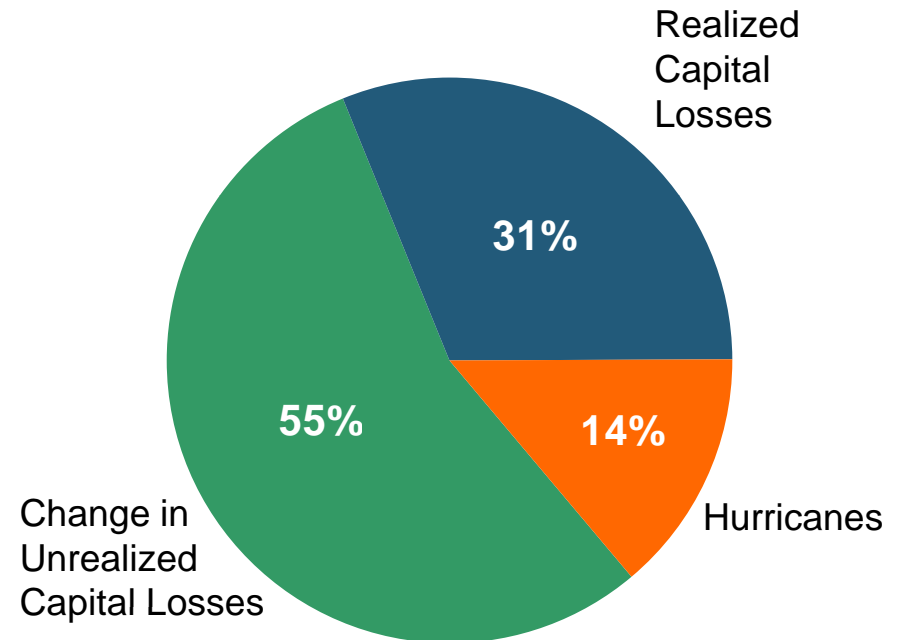
09:Q1: -\$84.7B (-16.2%)

Global Reinsurance Capacity Shrank in 2008, Mostly Due to Investments

Global Reinsurance Capacity



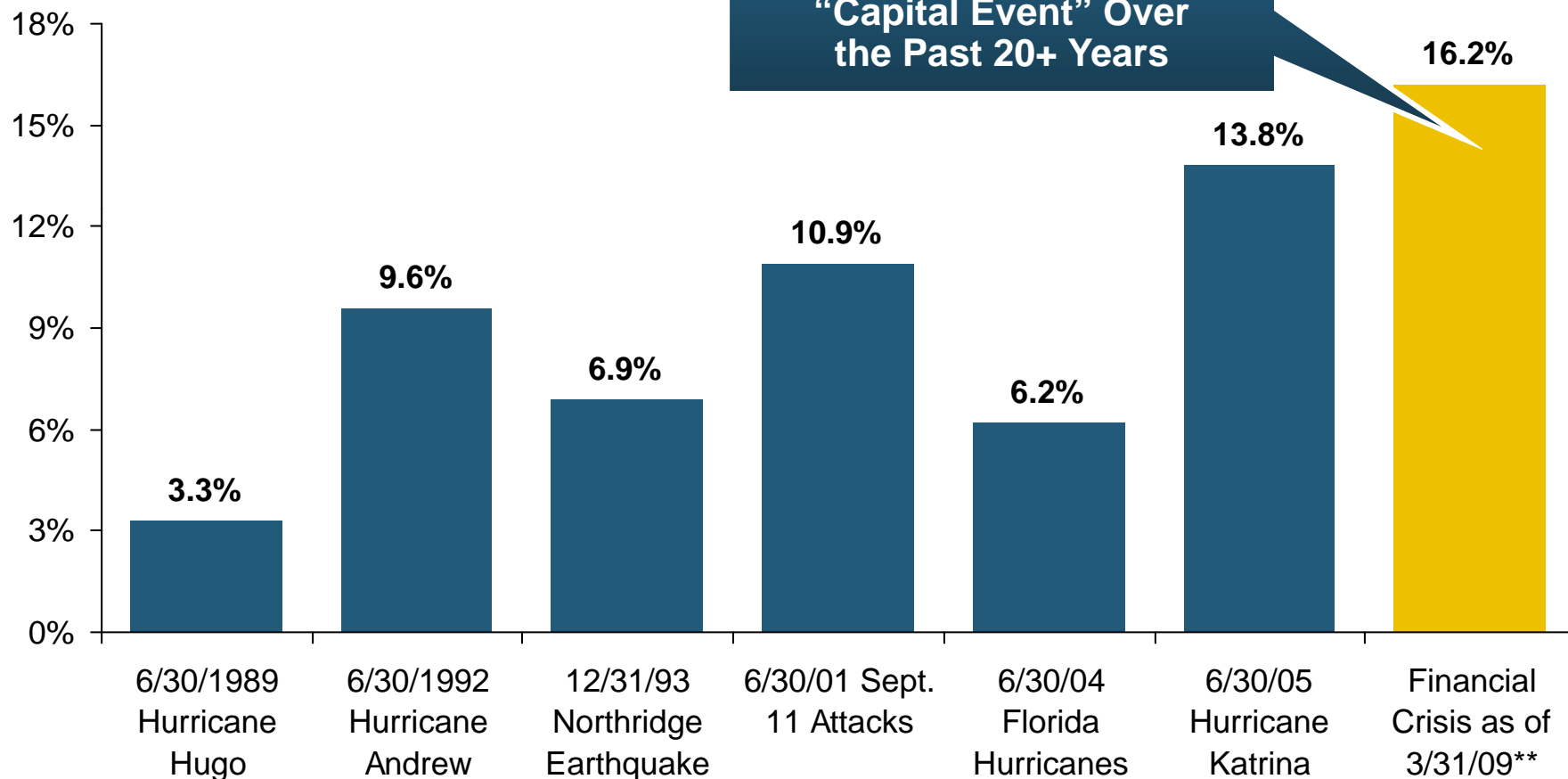
Source of Decline



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

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

(Percent)



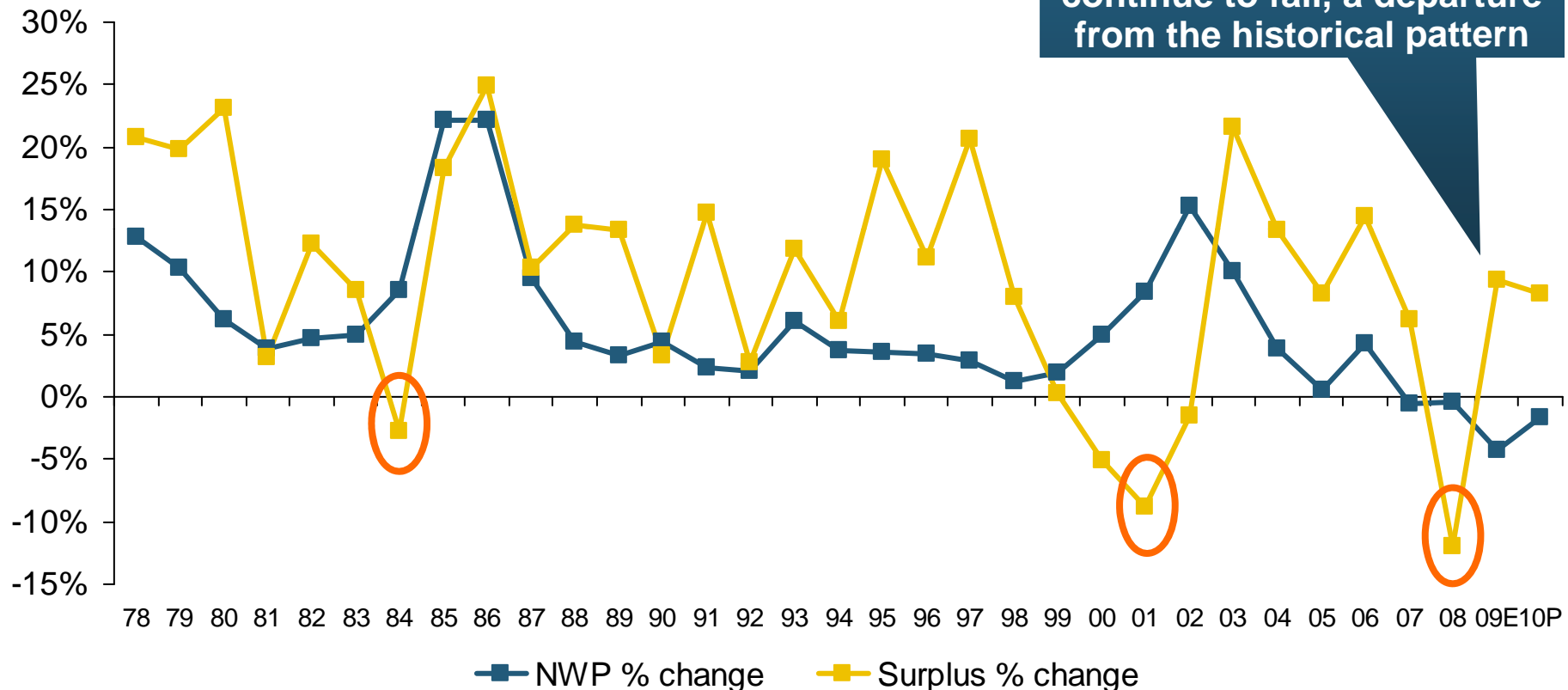
* Ratio is for end-of-quarter surplus immediately prior to event. Date shown is end of quarter prior to event

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

Source: PCS; Insurance Information Institute

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

(Percent)



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

* 2009 NWP and Surplus figures are % changes as of Q4:09P vs Q4:08

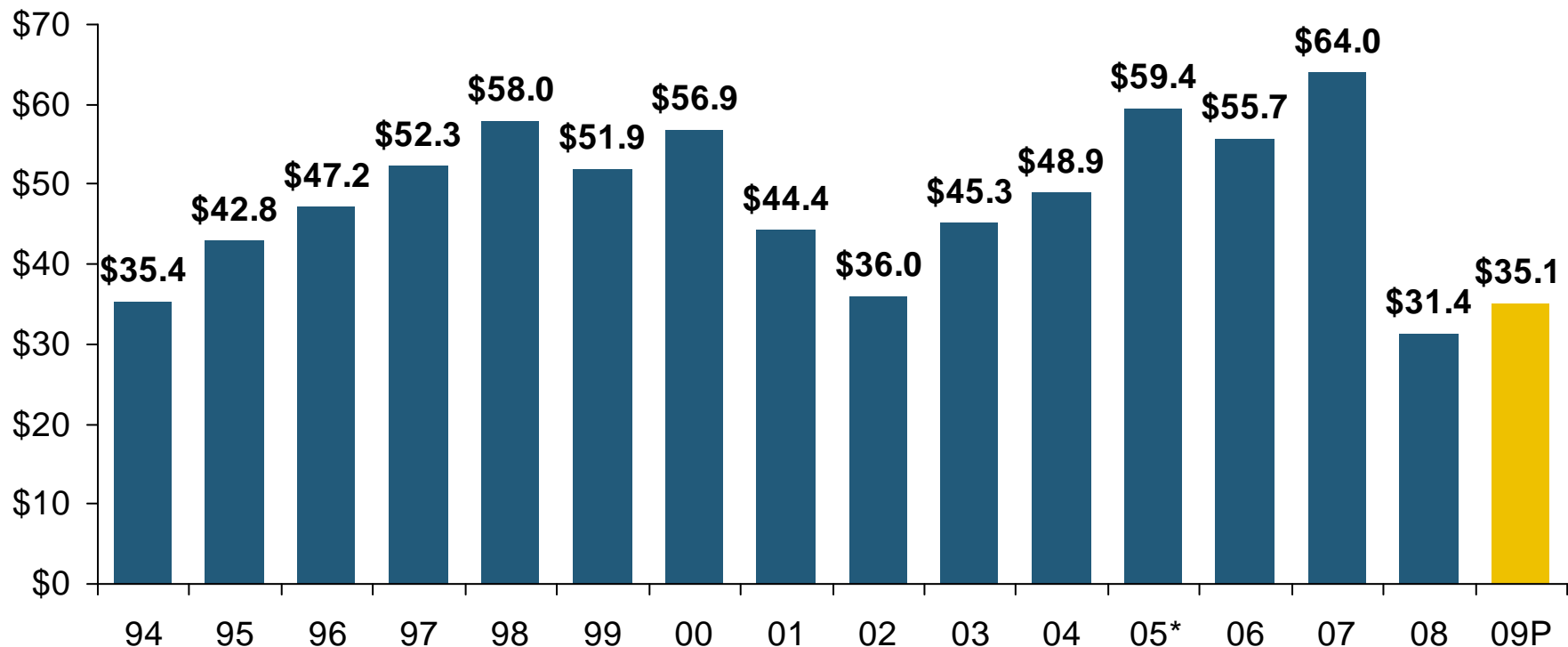
Sources: A.M. Best, ISO, Insurance Information Institute

Investment Performance

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

Property/Casualty Insurance Industry Investment Gain: 1994–2009P¹

(\$ Billions)



Investment Gains Fell by 51% In 2008 Due to Lower Yields, Poor Equity Market Conditions. In 2009, the Return of Realized Capital Losses Helped Offset Lower Investment Income

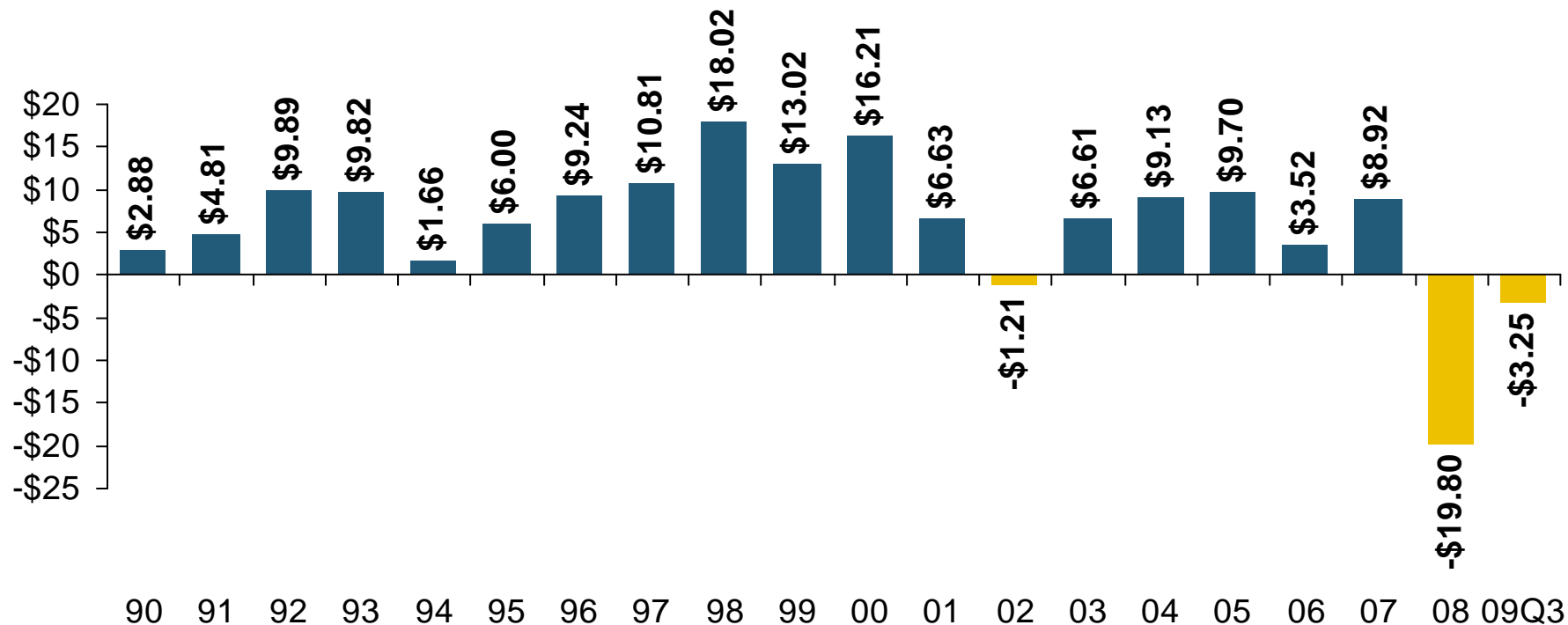
¹ Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.

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

Sources: ISO; Insurance Information Institute.

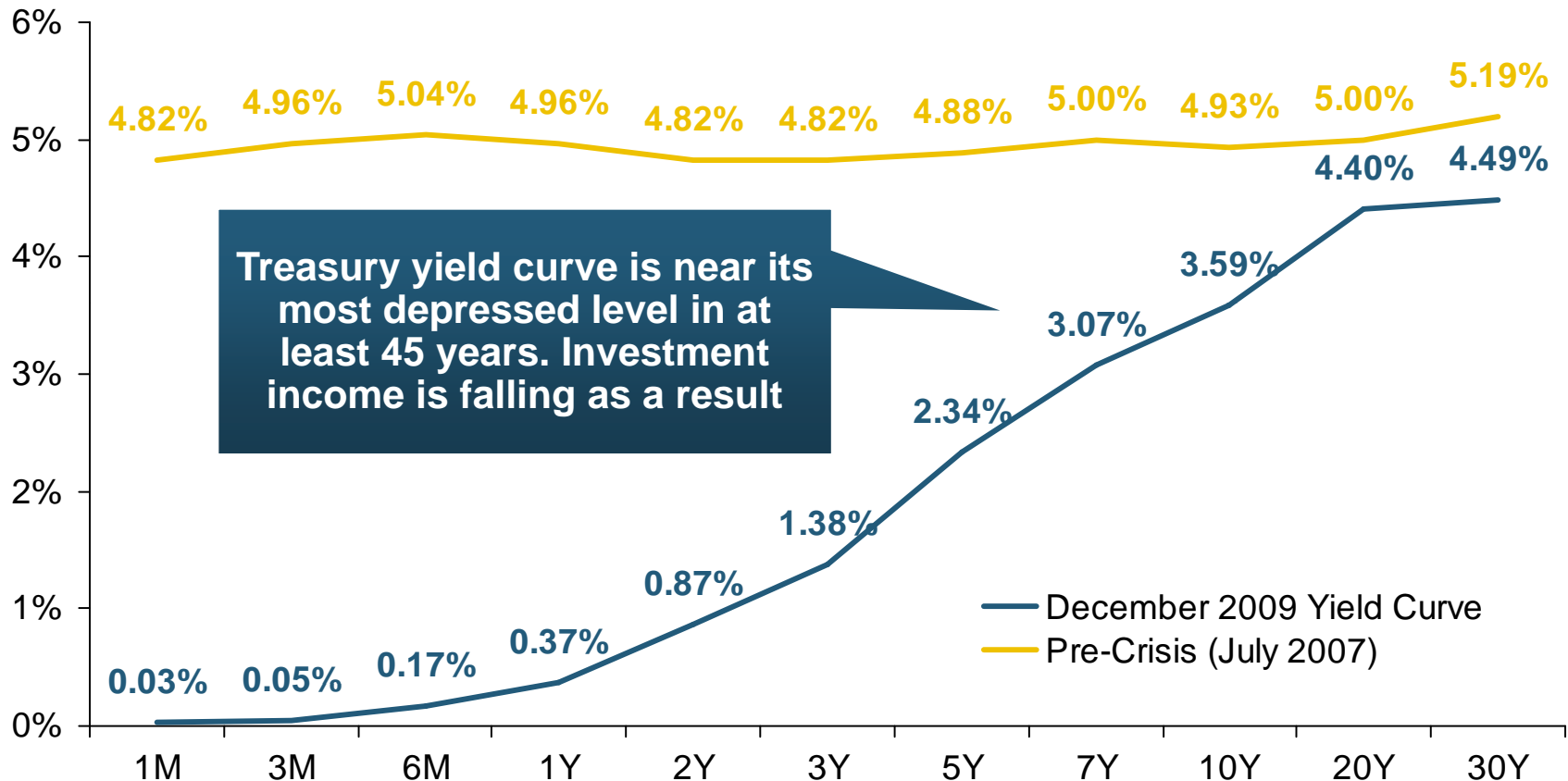
P/C Insurer Net Realized Capital Gains, 1990-2009:Q3

(\$ Billions)



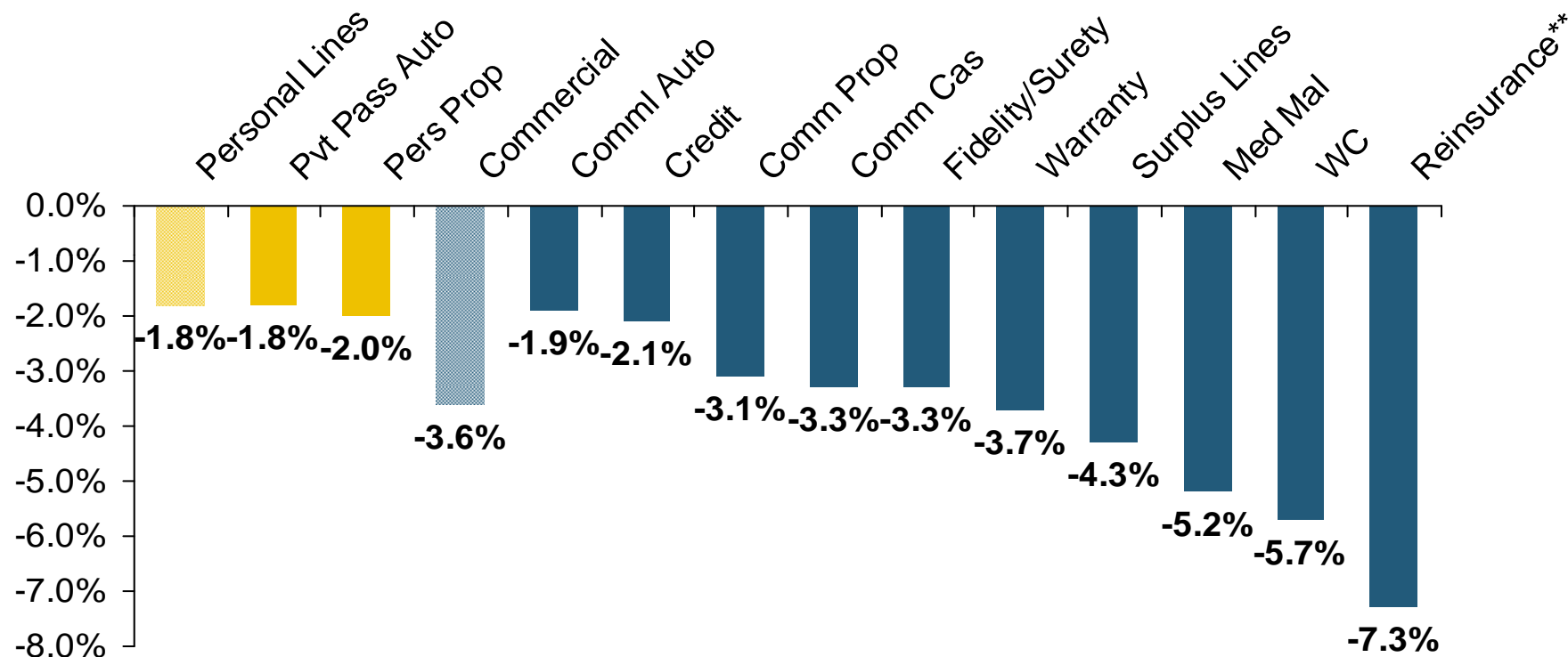
Realized Capital Losses Hit a Record \$19.8 Billion in 2008 Due to Financial Market Turmoil, a \$27.7 Billion Swing From 2007, Followed by an \$3.25B Drop through Q3 2009. This is a Primary Cause of 2008/2009's Large Drop in Profits and ROE

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



Stock Dividend Cuts Will Further Pressure 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.

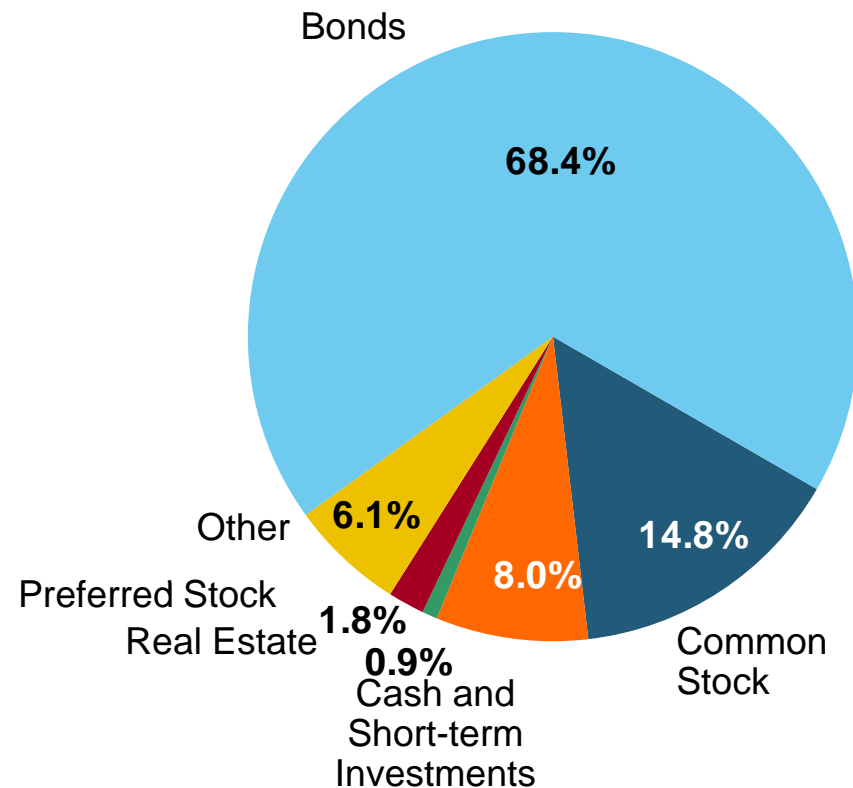
Source: A.M. Best; Insurance Information Institute.

Distribution of P/C Insurance Industry's Investment Portfolio

Portfolio Facts

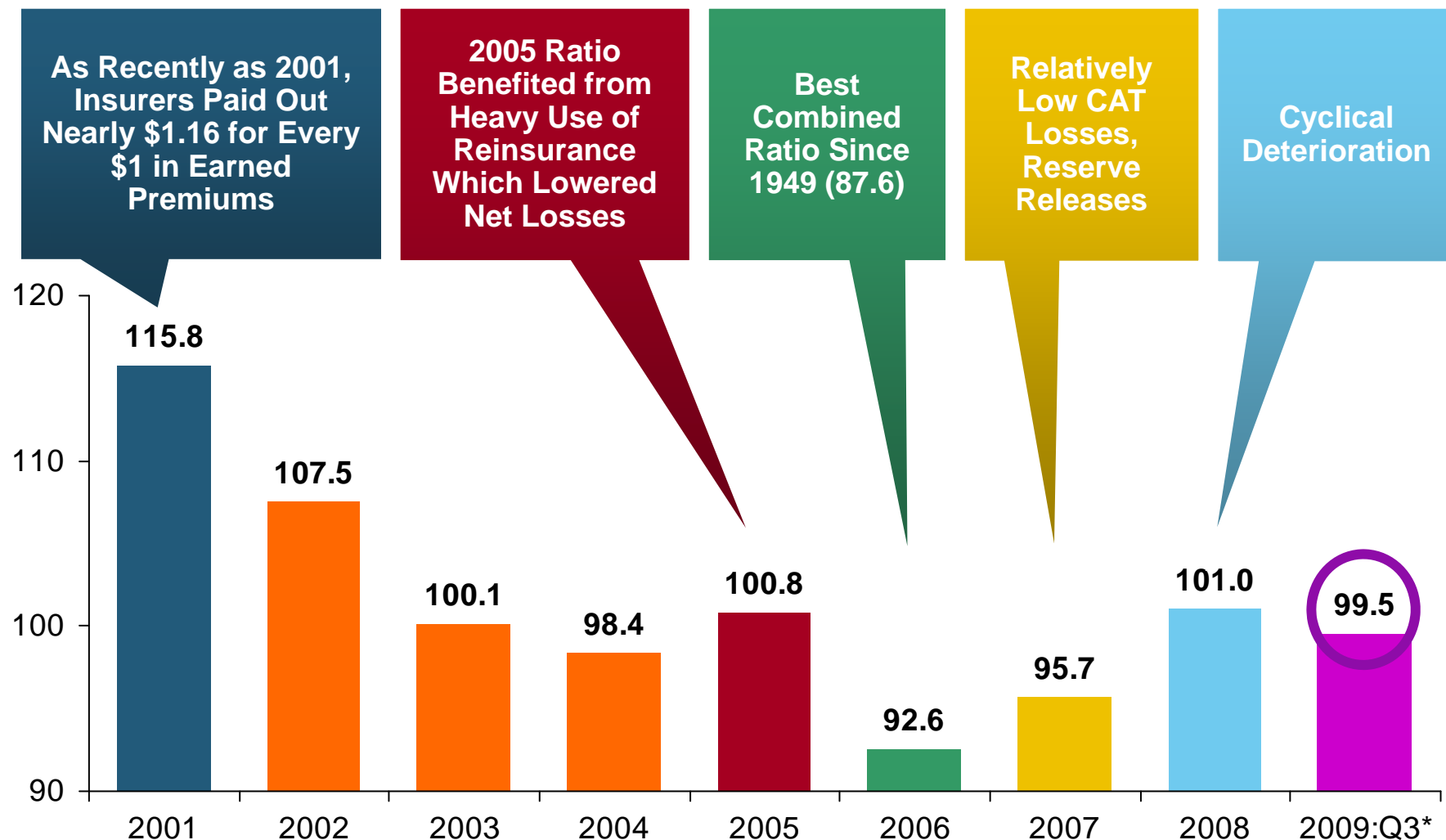
- Invested assets totaled \$1.214 trillion as of 12/31/08
- Insurers are generally conservatively invested, with more than 2/3 of assets invested in bonds as of 12/31/08
- Only about 15% of assets were invested in common stock as of 12/31/08
- Even the most conservative of portfolios was hit hard in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

As of December 31, 2008



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

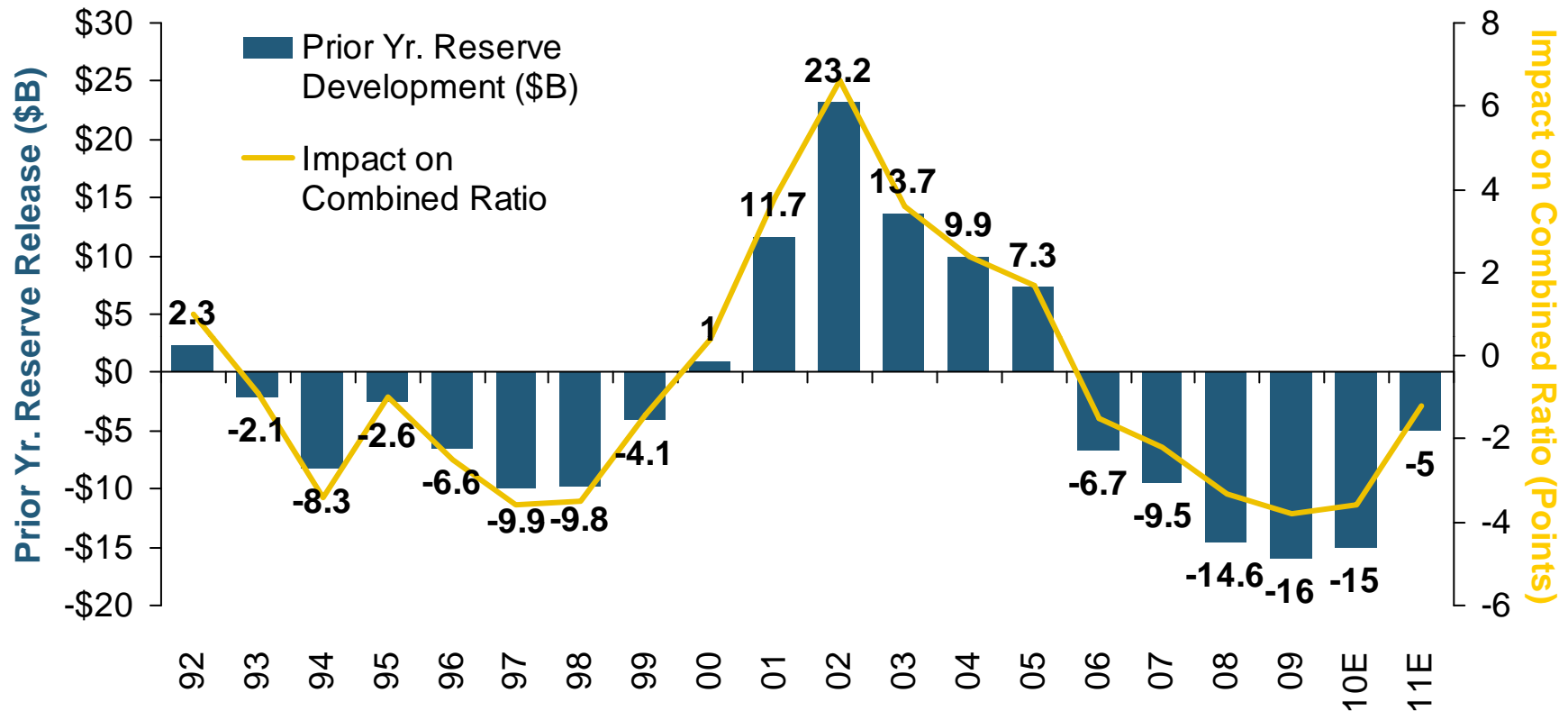
P/C Insurance Industry Combined Ratio, 2001–2009:Q3*



* 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

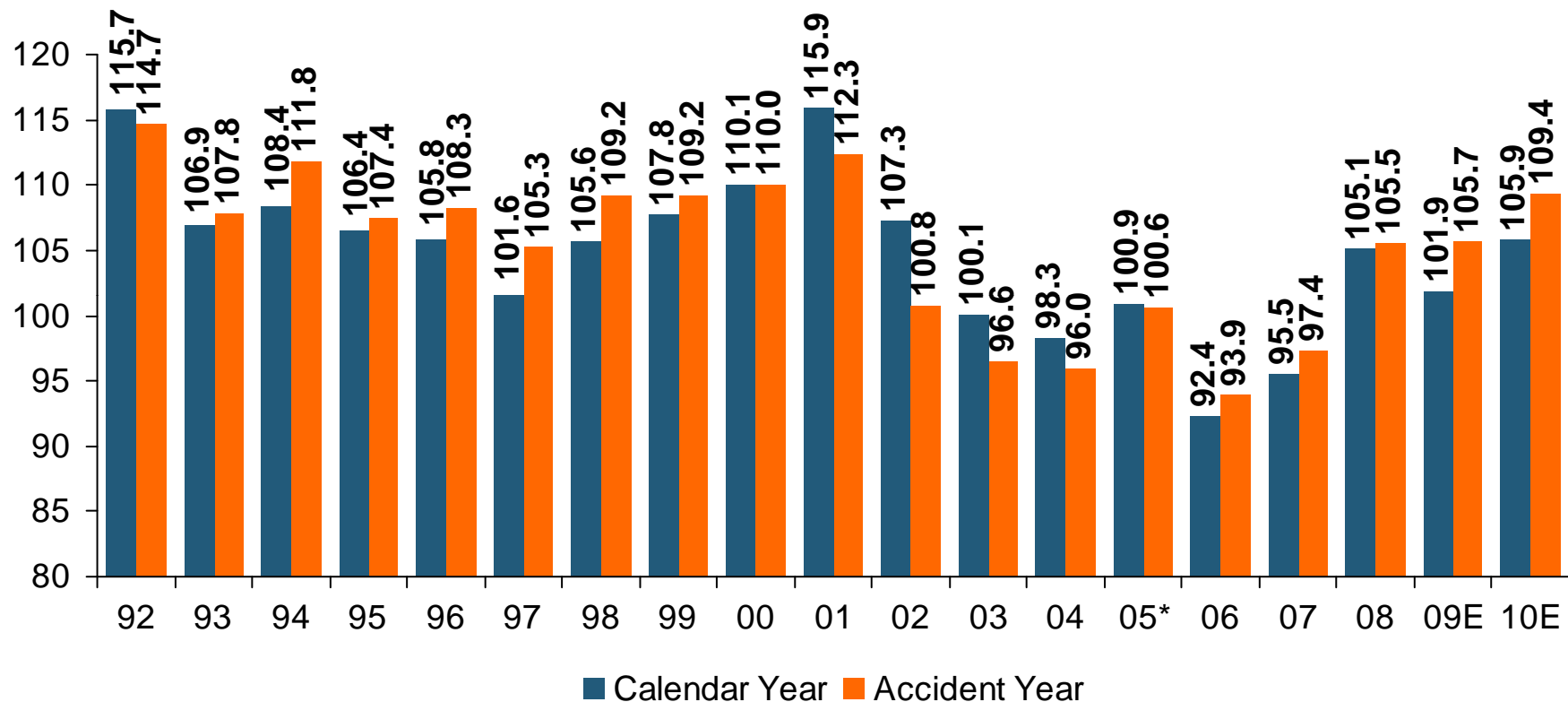


**Reserve Releases Will Expected to Taper Off
in 2010 and Drop Significantly in 2011**

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: 1992–2010E¹



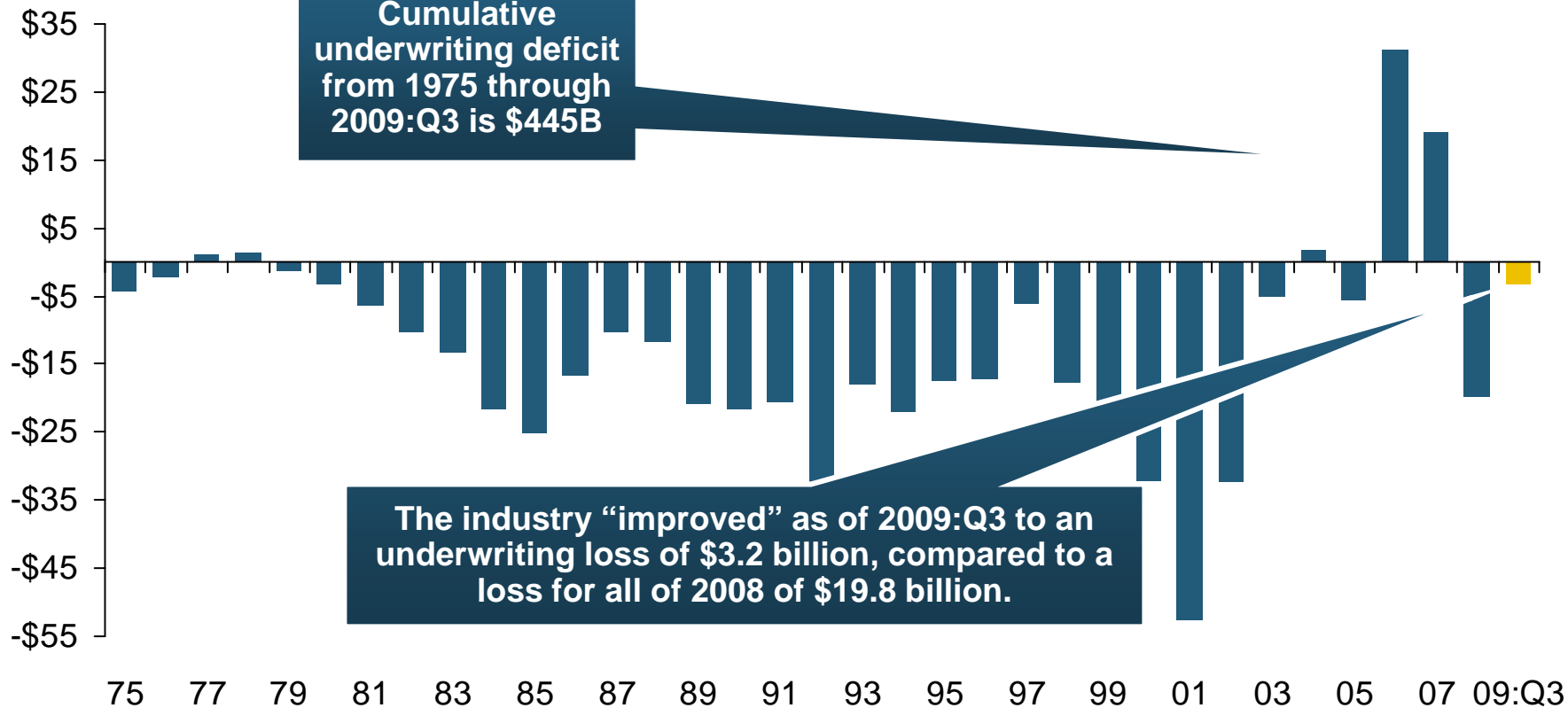
Accident Year Results Show a More Significant Deterioration in Underwriting Performance. Calendar Year Results Are Helped by Reserve Releases

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.

Underwriting Gain (Loss) 1975–2009:Q3*

(\$ Billions)



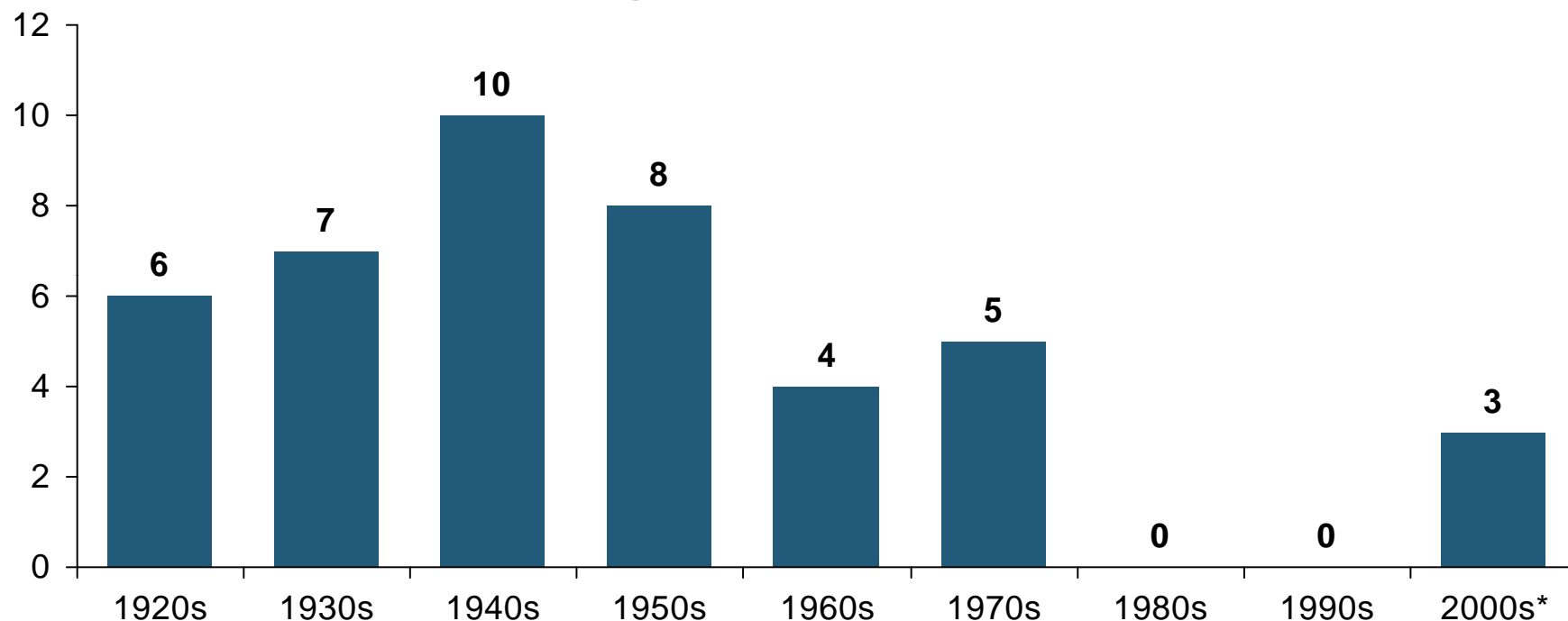
**Large Underwriting Losses Are *NOT* Sustainable
in Current Investment Environment**

* Includes mortgage and financial guarantee insurers.

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

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**

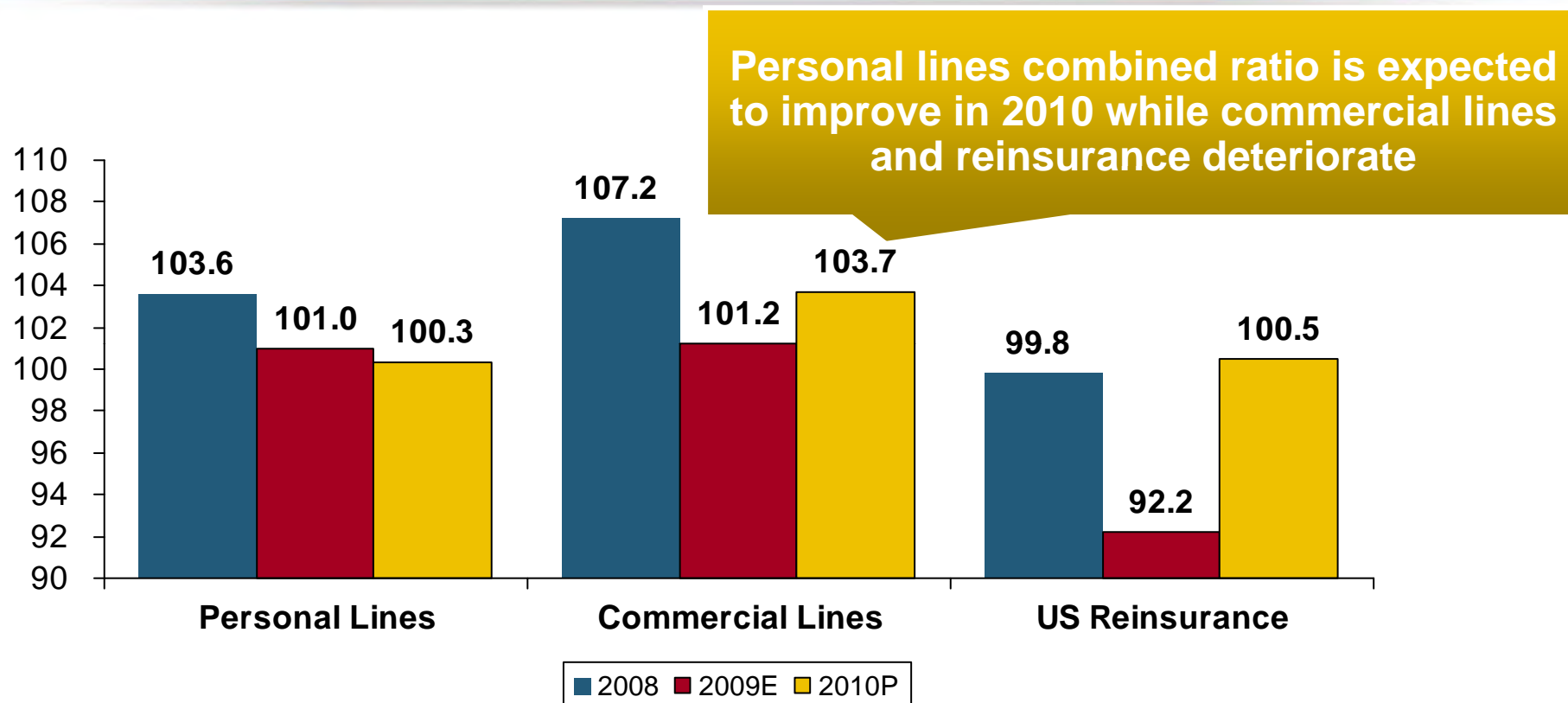
* 2000 through 2009. 2009 combined ratio was 100.7 through Q3.

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

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

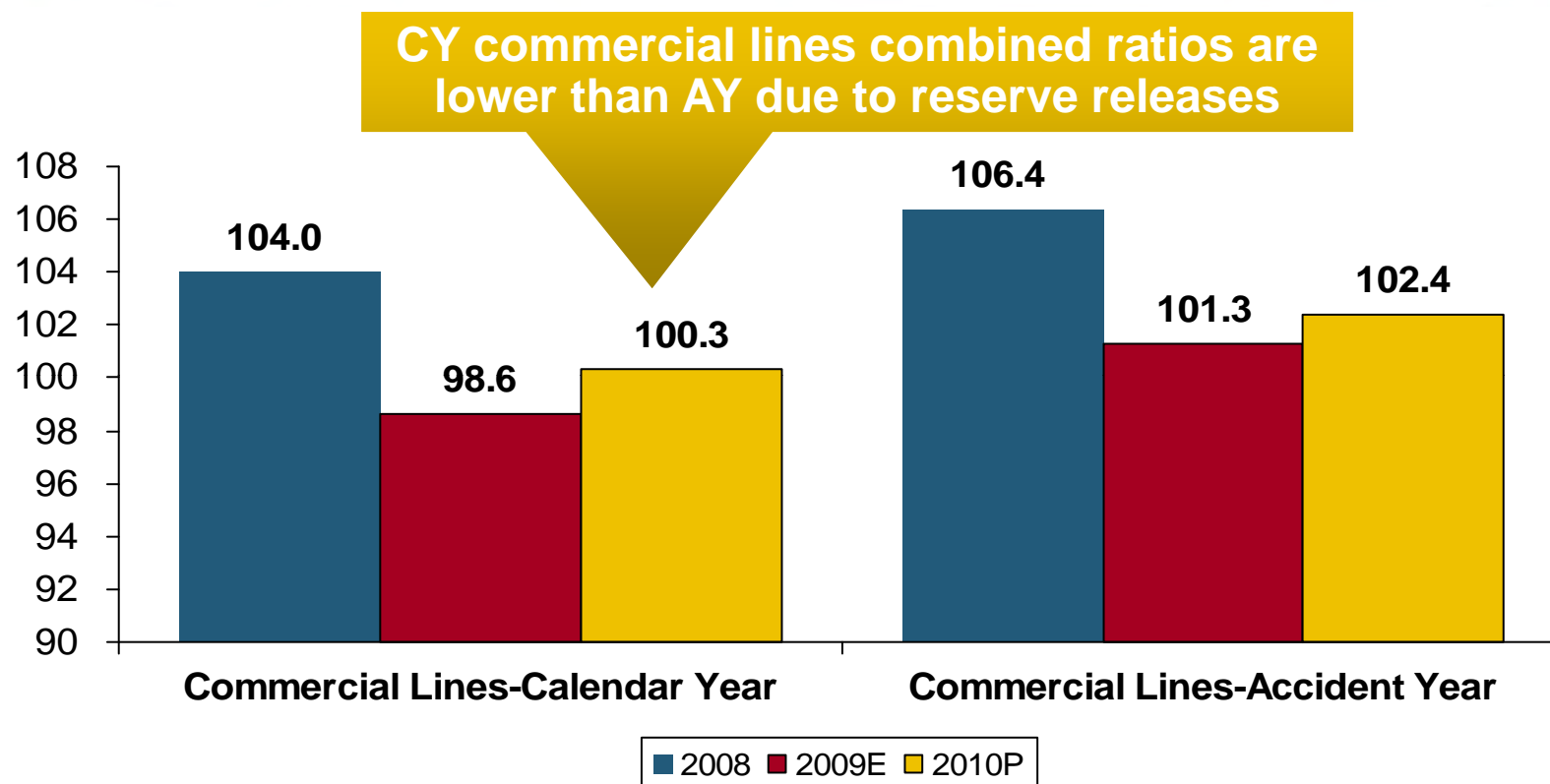
Performance by Segment: Commercial/Personal Lines & Reinsurance

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

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

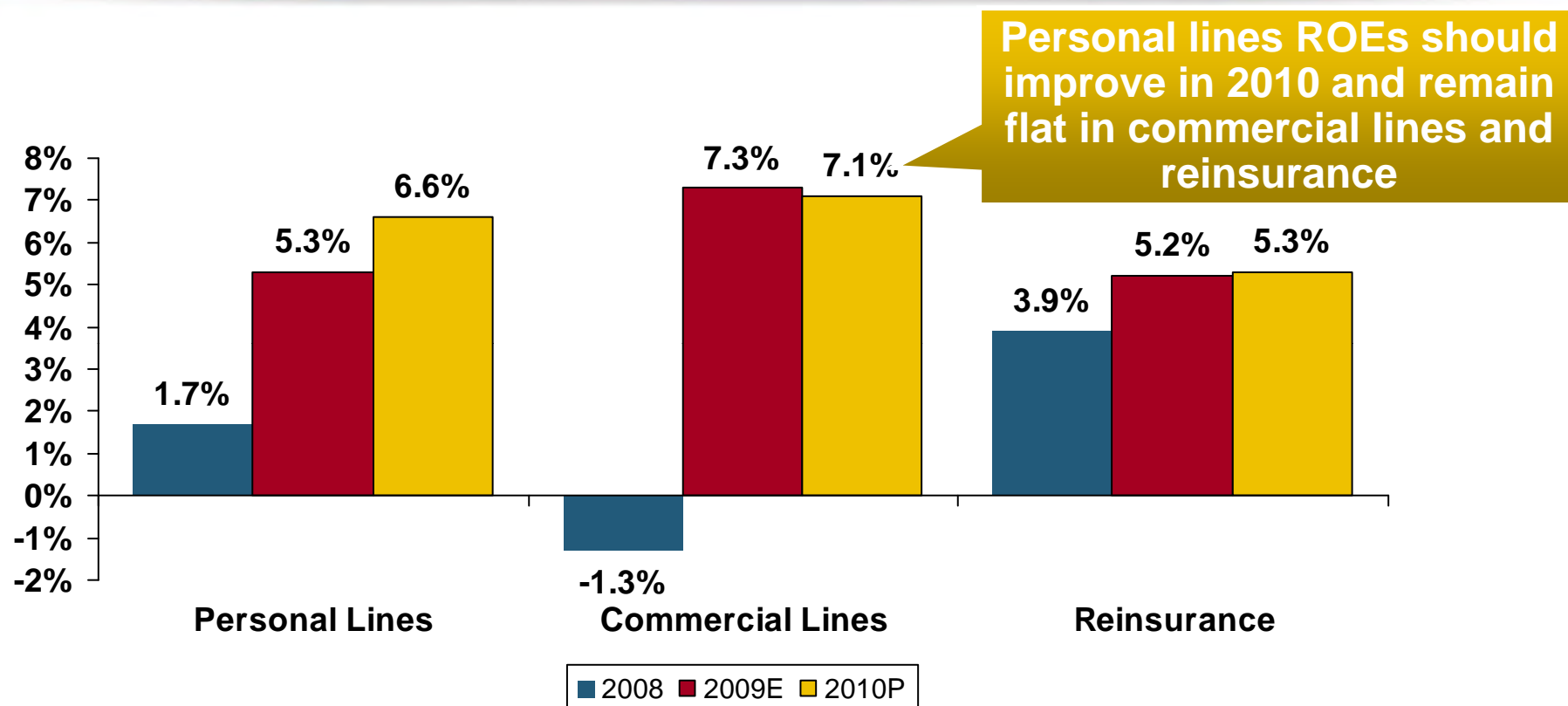


The ability of reserves releases to favorably impact calendar year results will diminish over time reserved redundancies fall

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

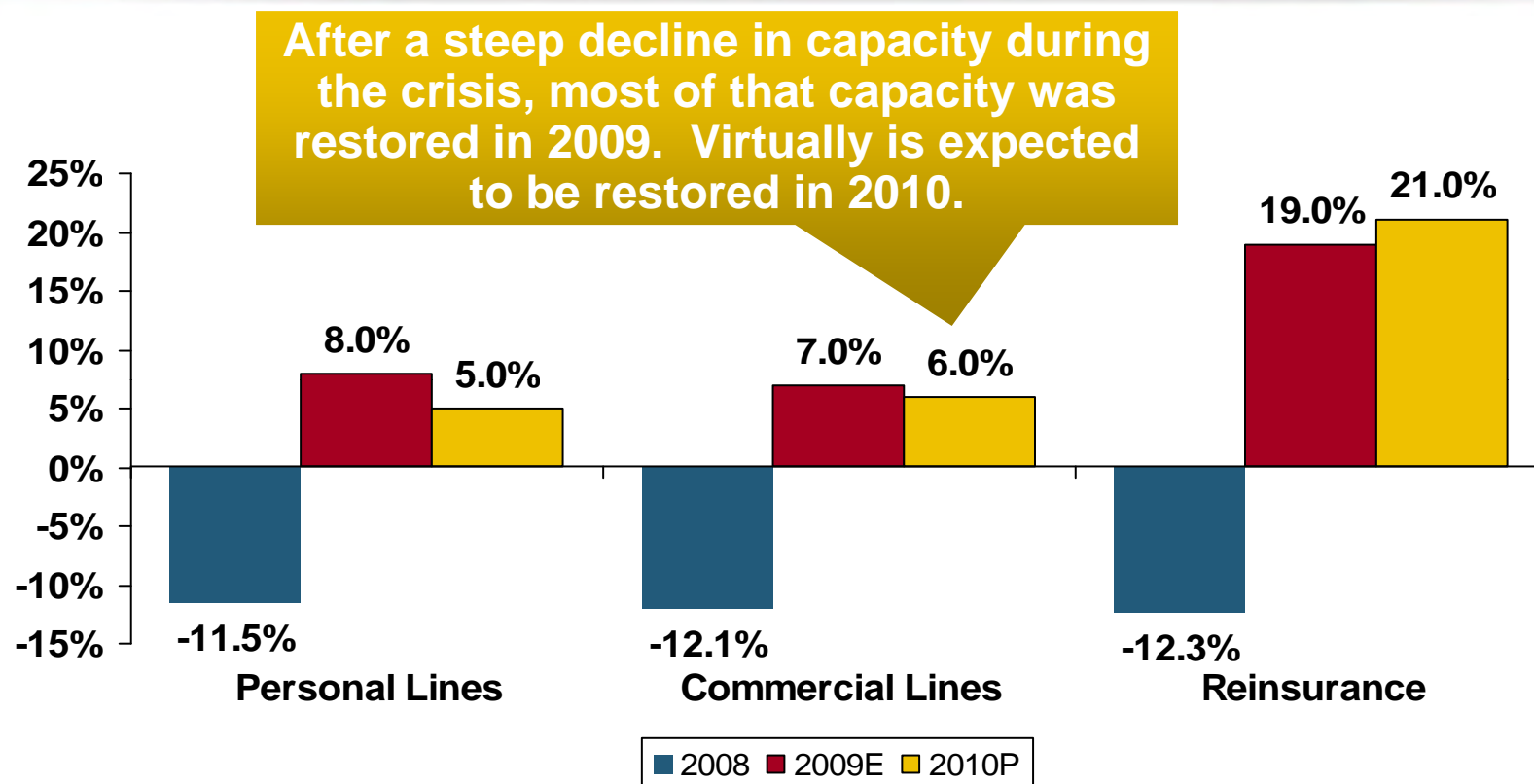
Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute.

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



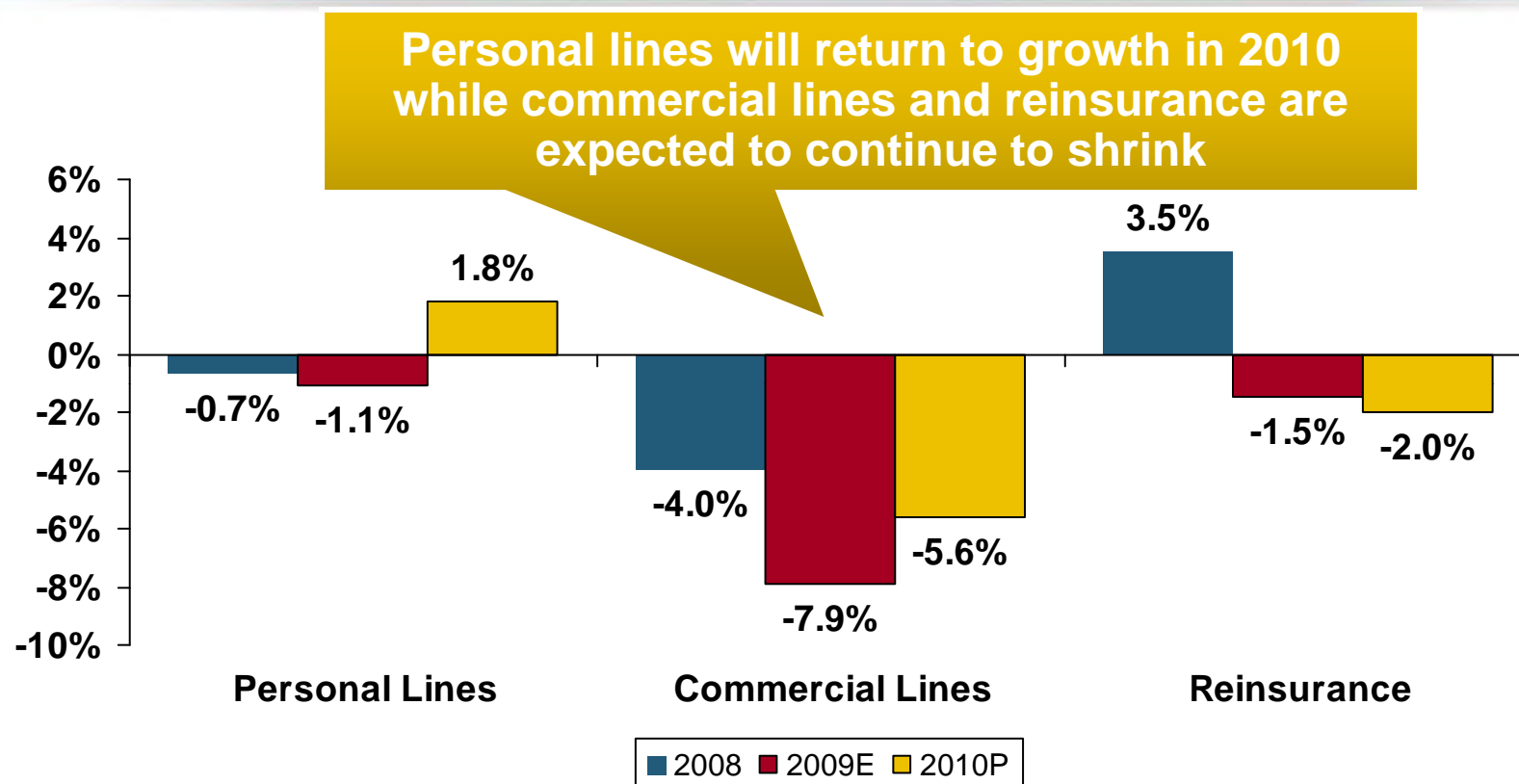
Profitability will rise or stabilize across most p/c lines, barring a financial crisis relapse or major catastrophic losses

Change in Policyholder Surplus by Segment: 2008-2010P



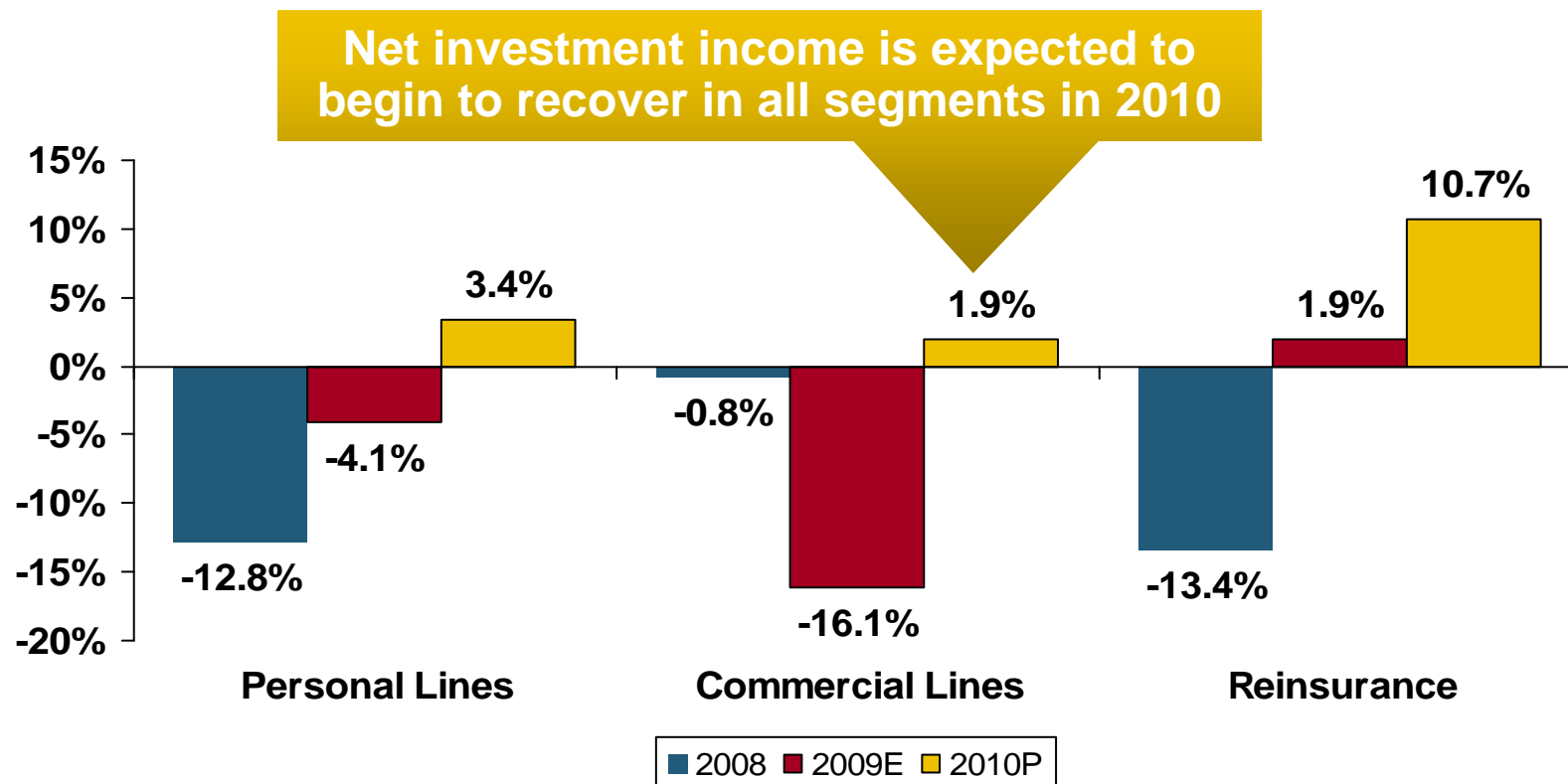
Rapid growth in policyholder surplus to pre-crisis levels combined with ongoing slow growth or declines in premiums (esp. in commercial lines) implies a build-up of excess capacity—a major factor in weak commercial lines and reinsurance pricing

Net Written Premium Growth by Segment: 2008-2010P



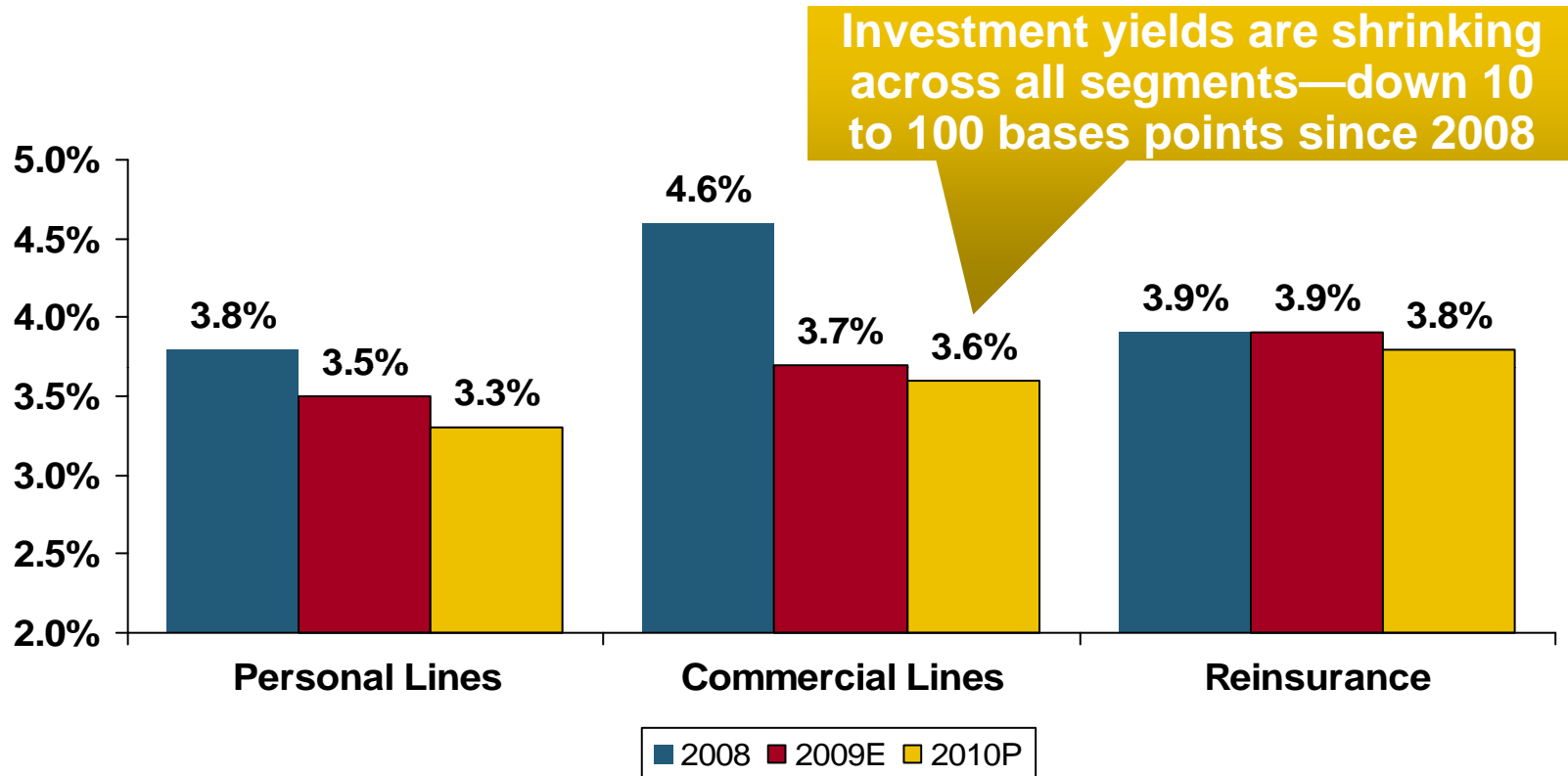
Rate and exposure are more favorable in personal lines, whereas a prolonged soft market and sluggish recovery from the recession weigh on commercial lines. Low catastrophe losses and ample capacity are holding down reinsurance prices while higher insurer retentions impact premiums

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



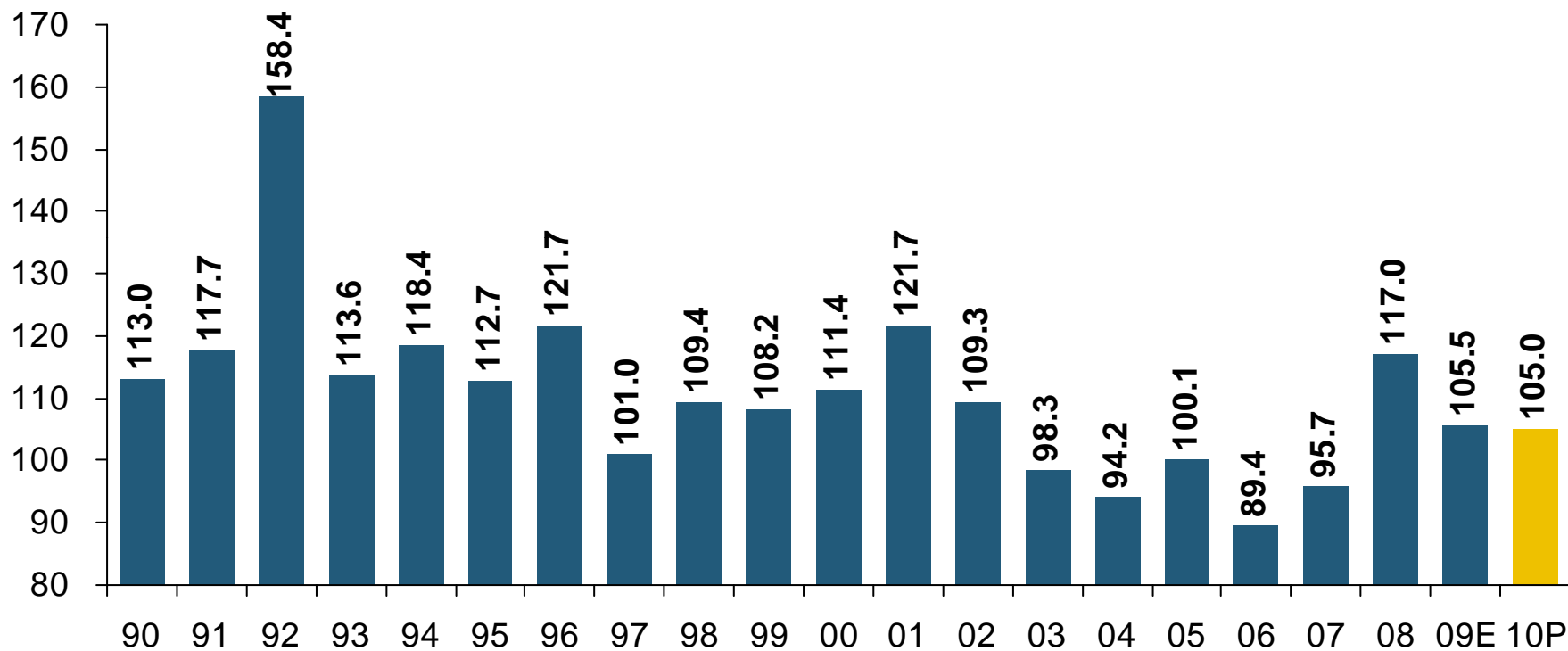
Investment income consists primarily of interest on bonds and stock dividends. Both were hit hard during the financial crisis as the Fed slashed interest rates to near zero and corporations cut dividends. A recovery in investment asset values beginning in Q2 2009—which reduced realized capital losses—has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

Investment Yield by Segment: 2008-2010P*



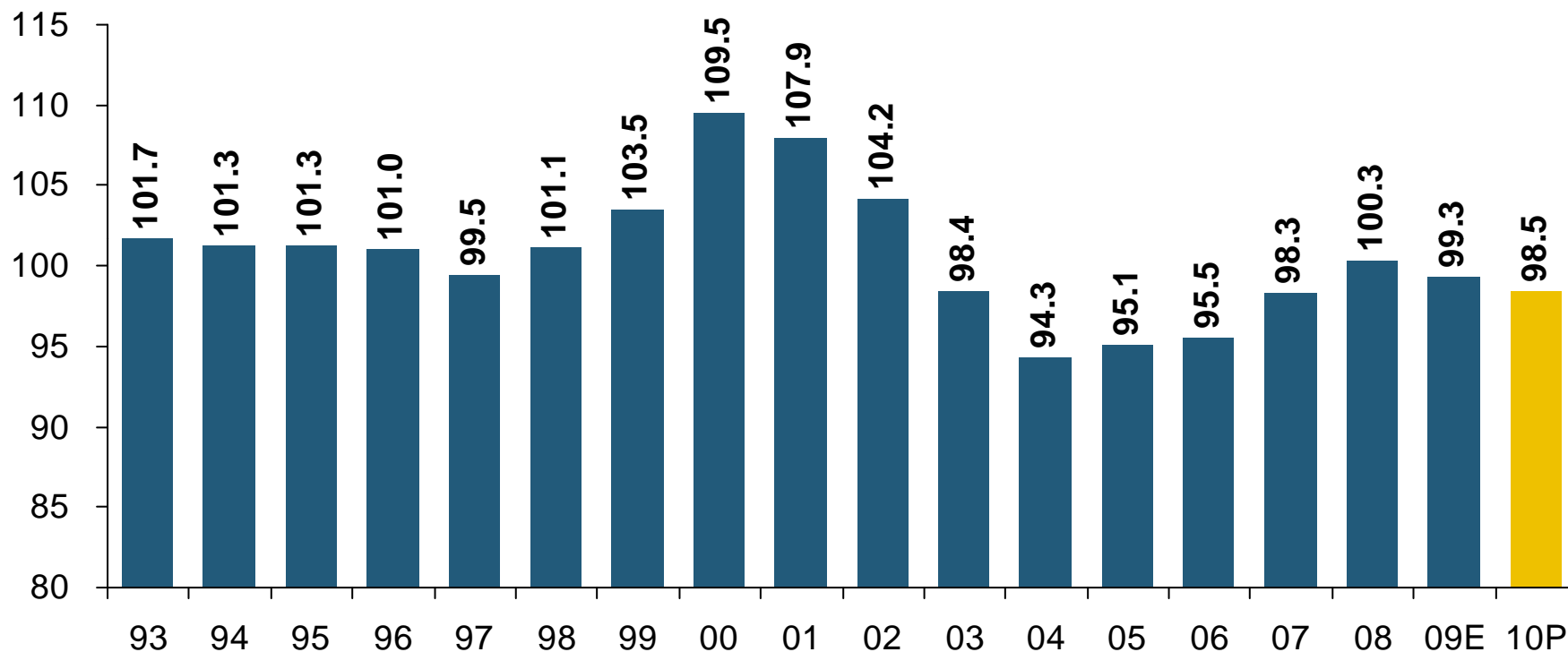
The Fed slashed interest rates in 2008 and has kept them low since, eroding the yield on all types of bonds, especially US Treasury securities. Yields will not recover until the Fed begins monetary policy tightening.

Homeowners Insurance Combined Ratio: 1990–2010P



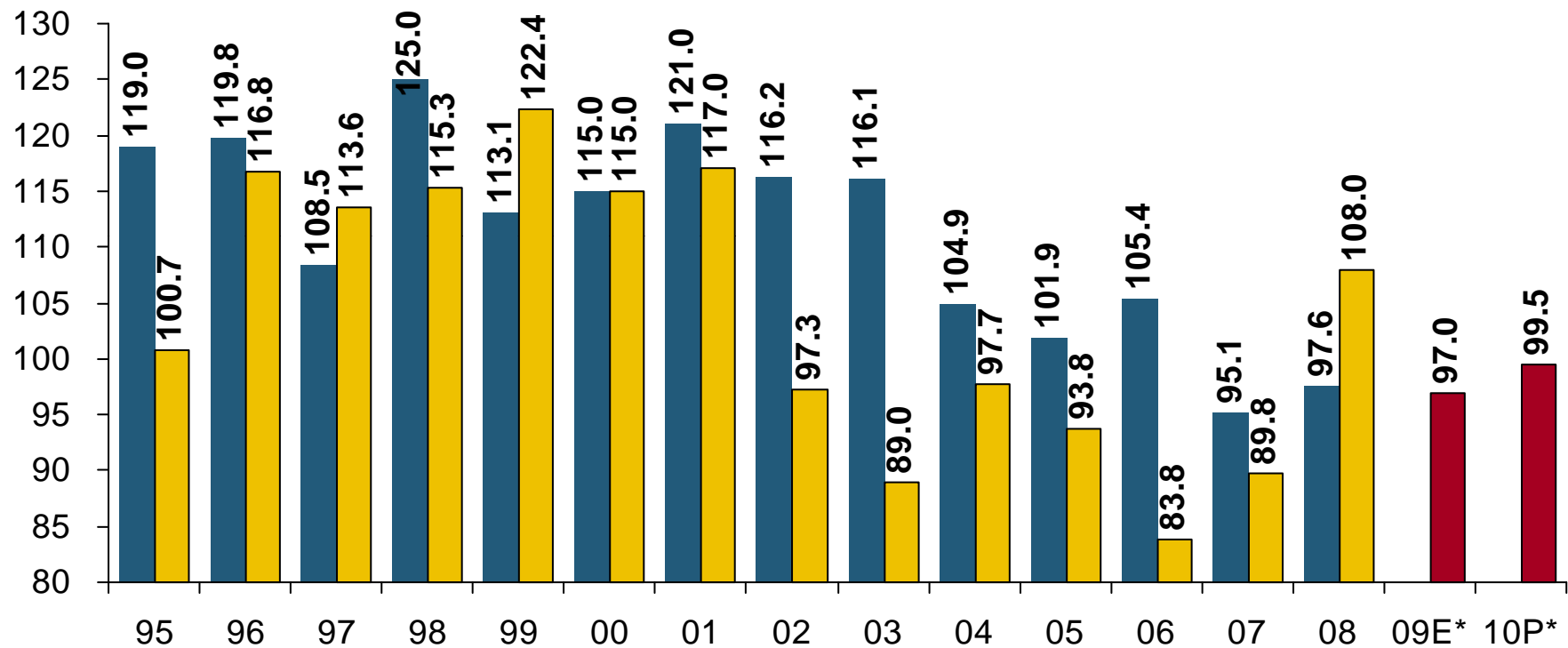
Homeowners Line Is Expected to Be Marginally Profitable Overall in 2010, but in Many States Could Be Quite Profitable. Volatility Due to Catastrophe Losses Will Persist

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

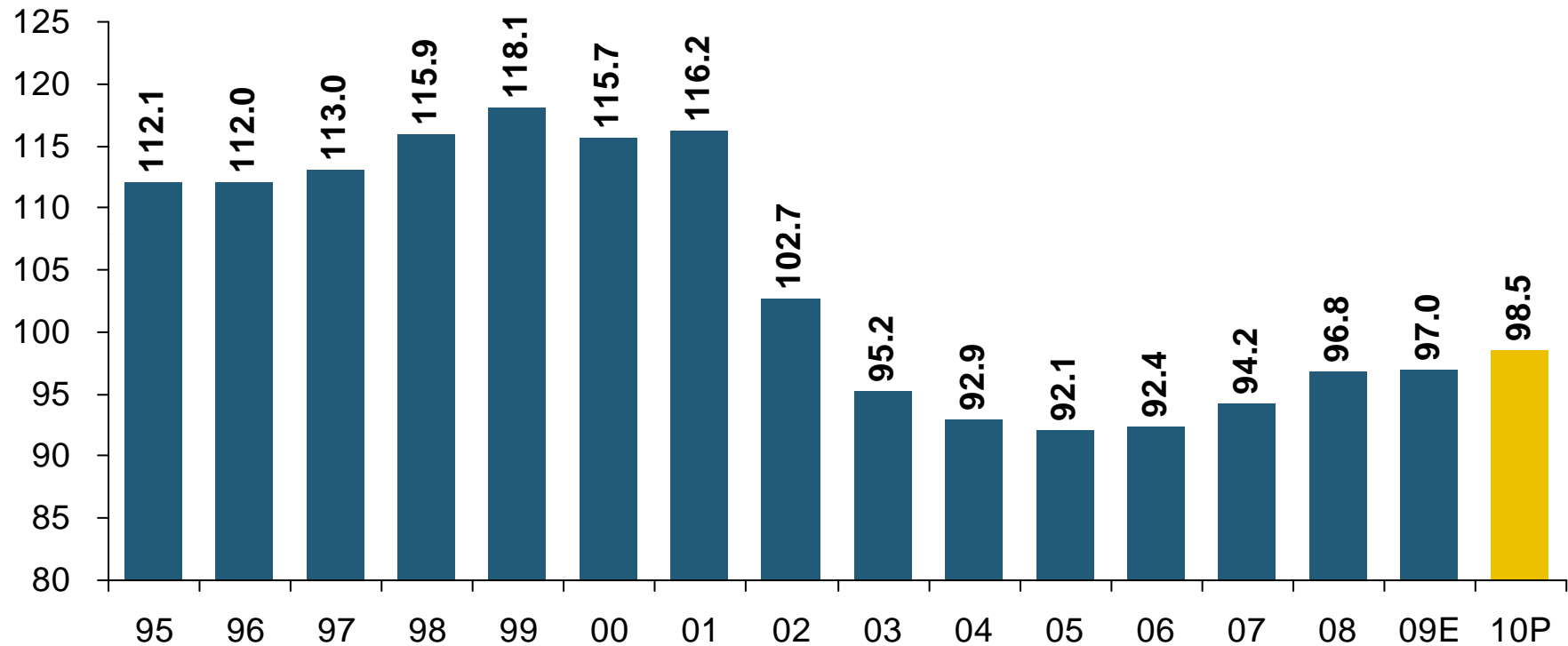
Commercial Multi-Peril Combined Ratio: 1995–2010P



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

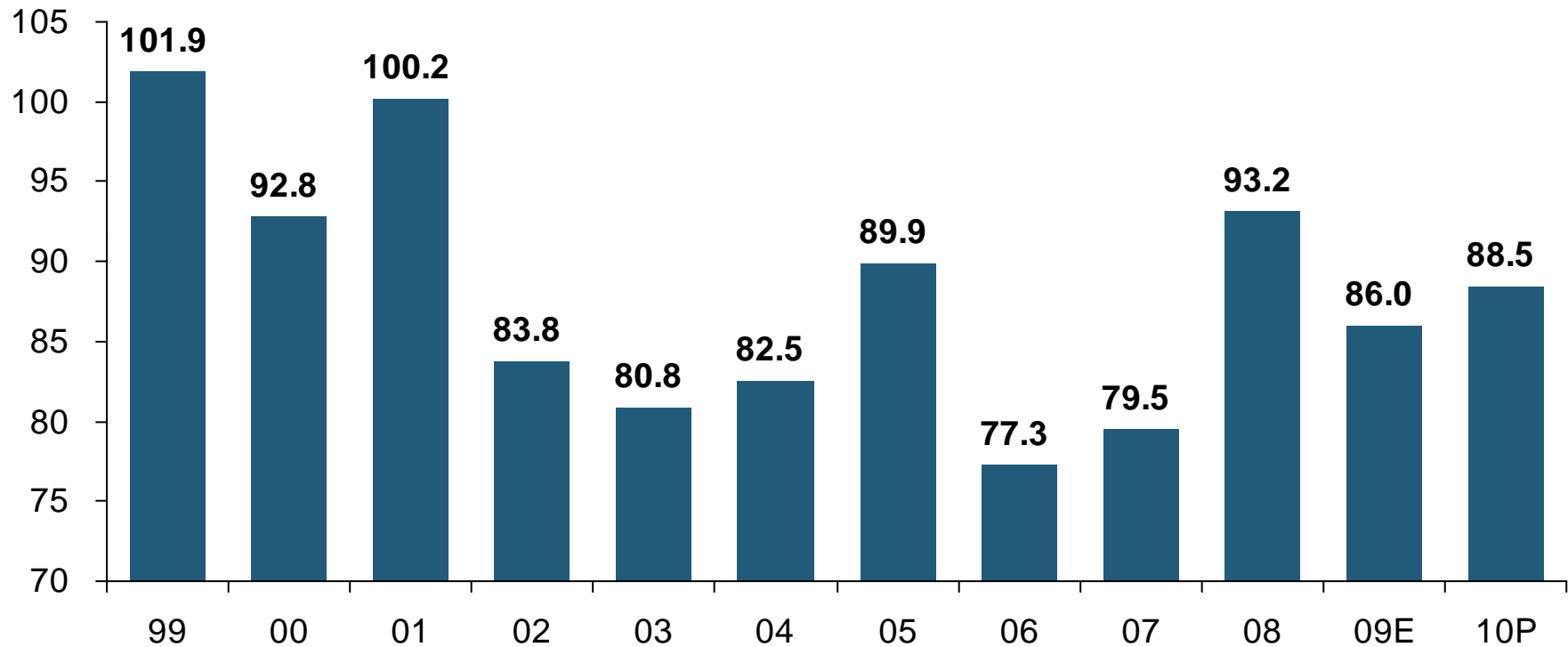
*2009E and 2010P figures are for the combined liability and non-liability components.
Sources: A.M. Best; Insurance Information Institute.

Commercial Auto Combined Ratio: 1993–2010P



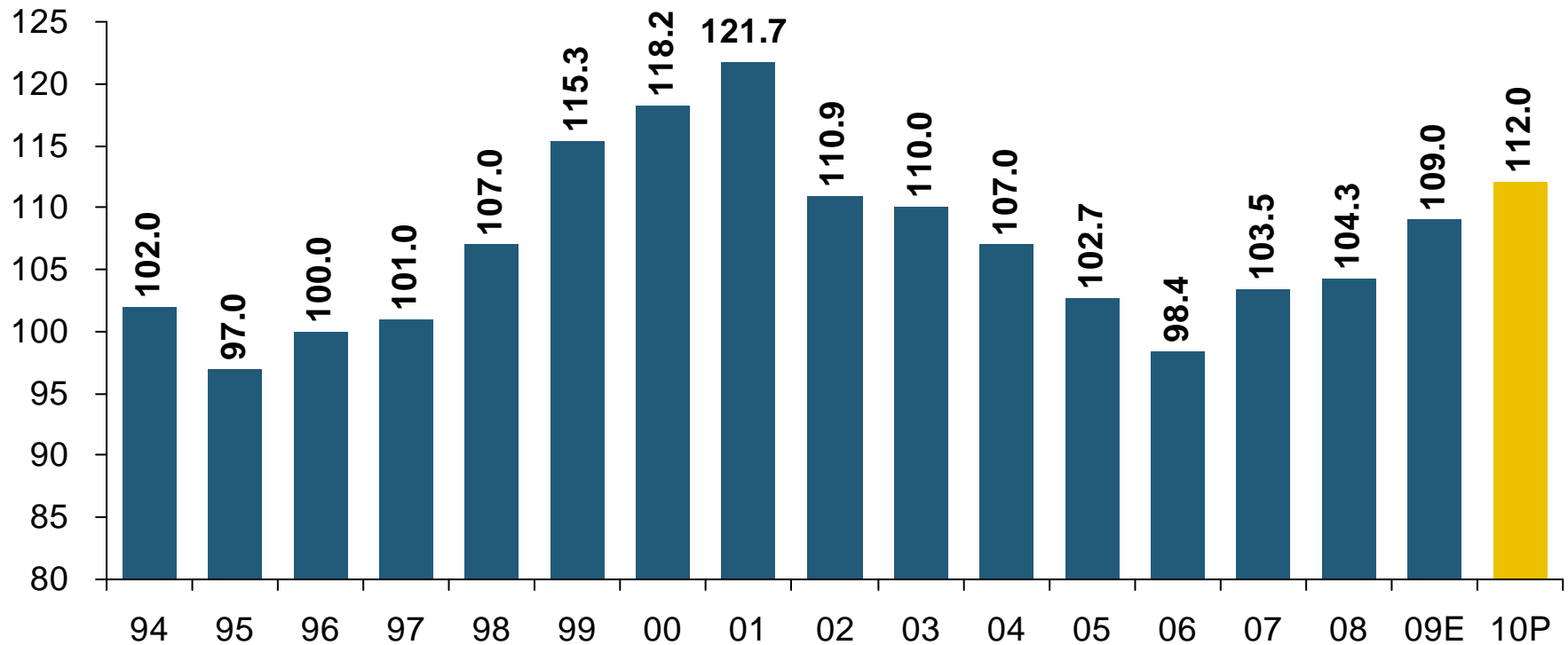
Commercial Auto is Expected to Remain Reasonably Profitable in 2010

Inland Marine Combined Ratio: 1999–2010P



Inland Marine is Expected to Remain Among the Most Profitable of All Lines

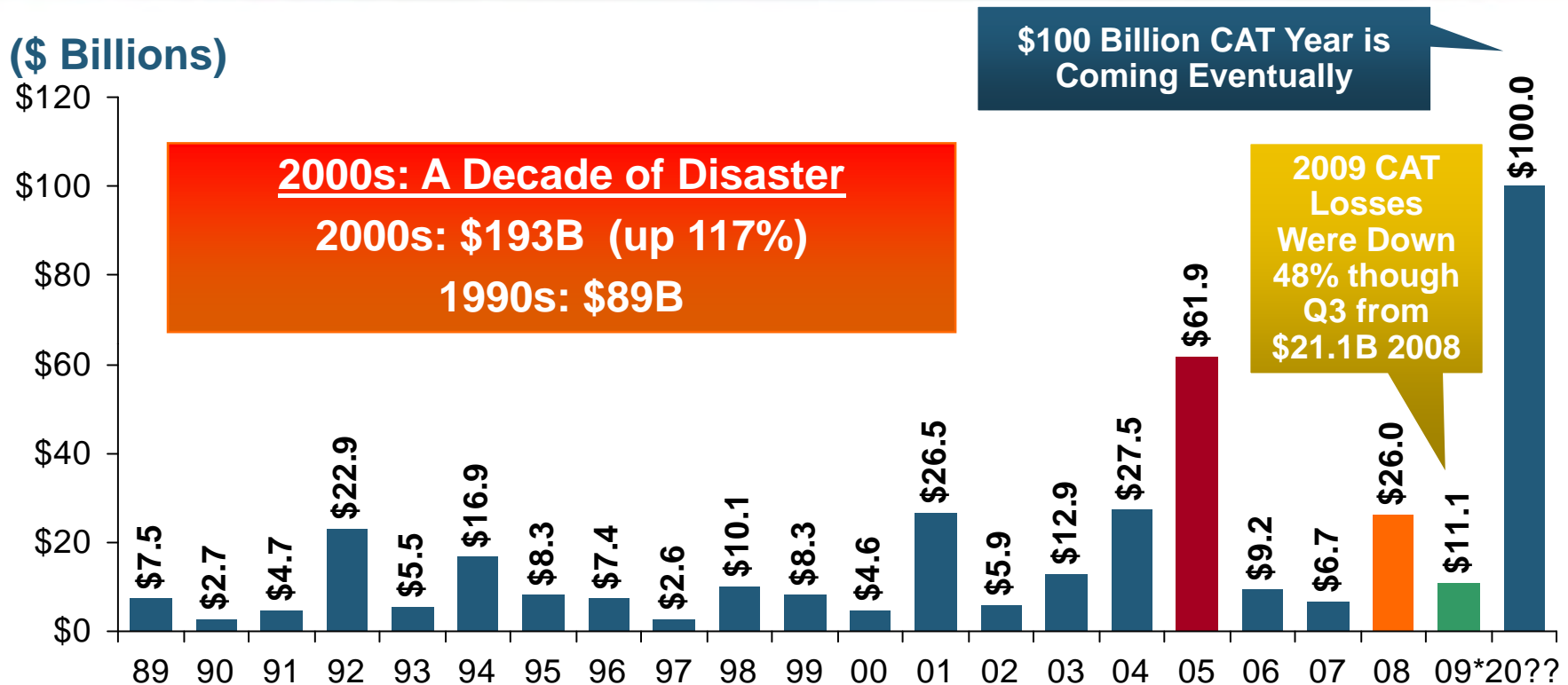
Workers Compensation Combined Ratio: 1994–2010P



Workers Comp Underwriting Results Are Deteriorating Markedly

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

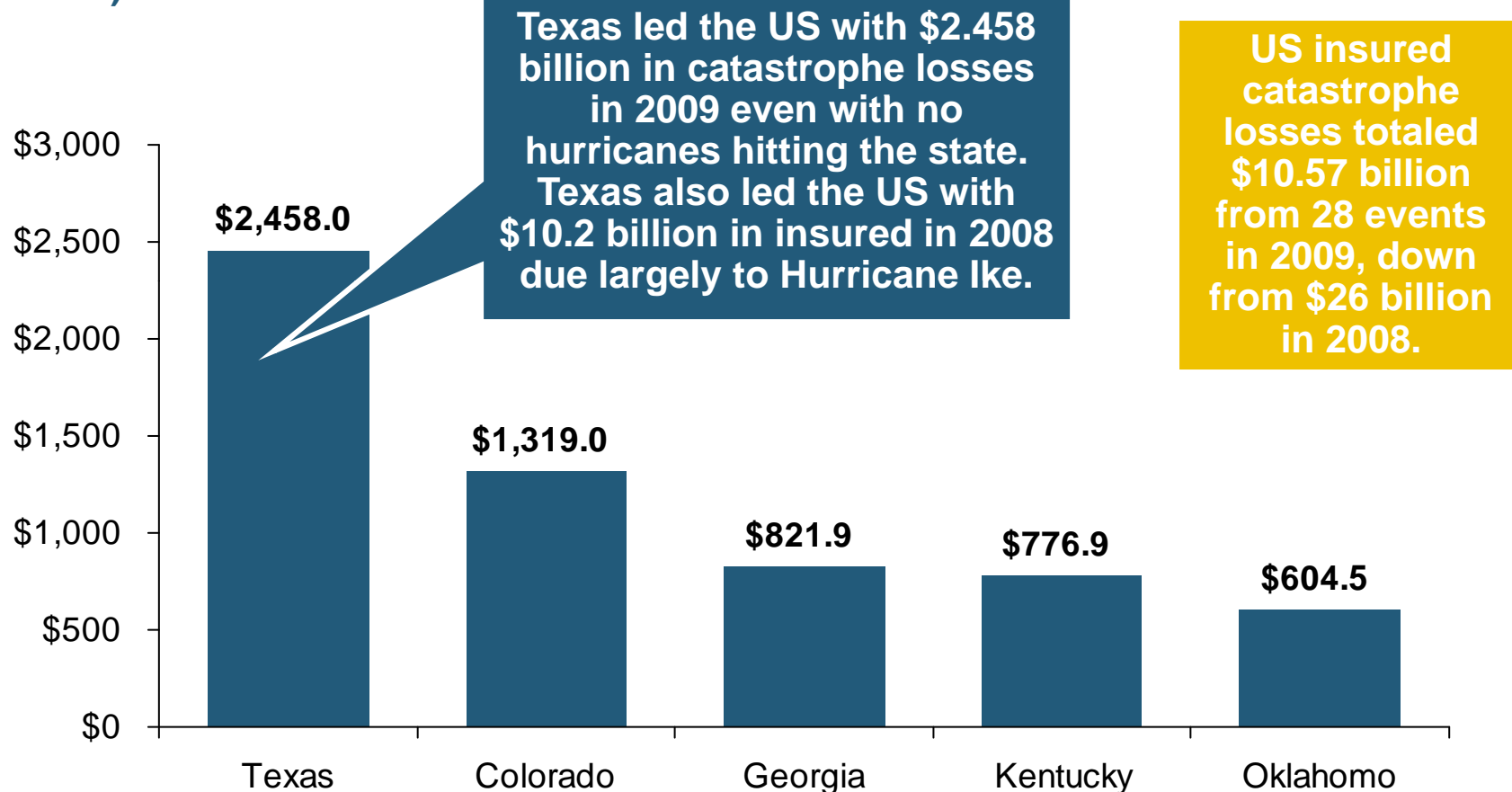
* 2009 figure is Munich Re estimate.

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.

States with Highest Insured Catastrophe Losses in 2009

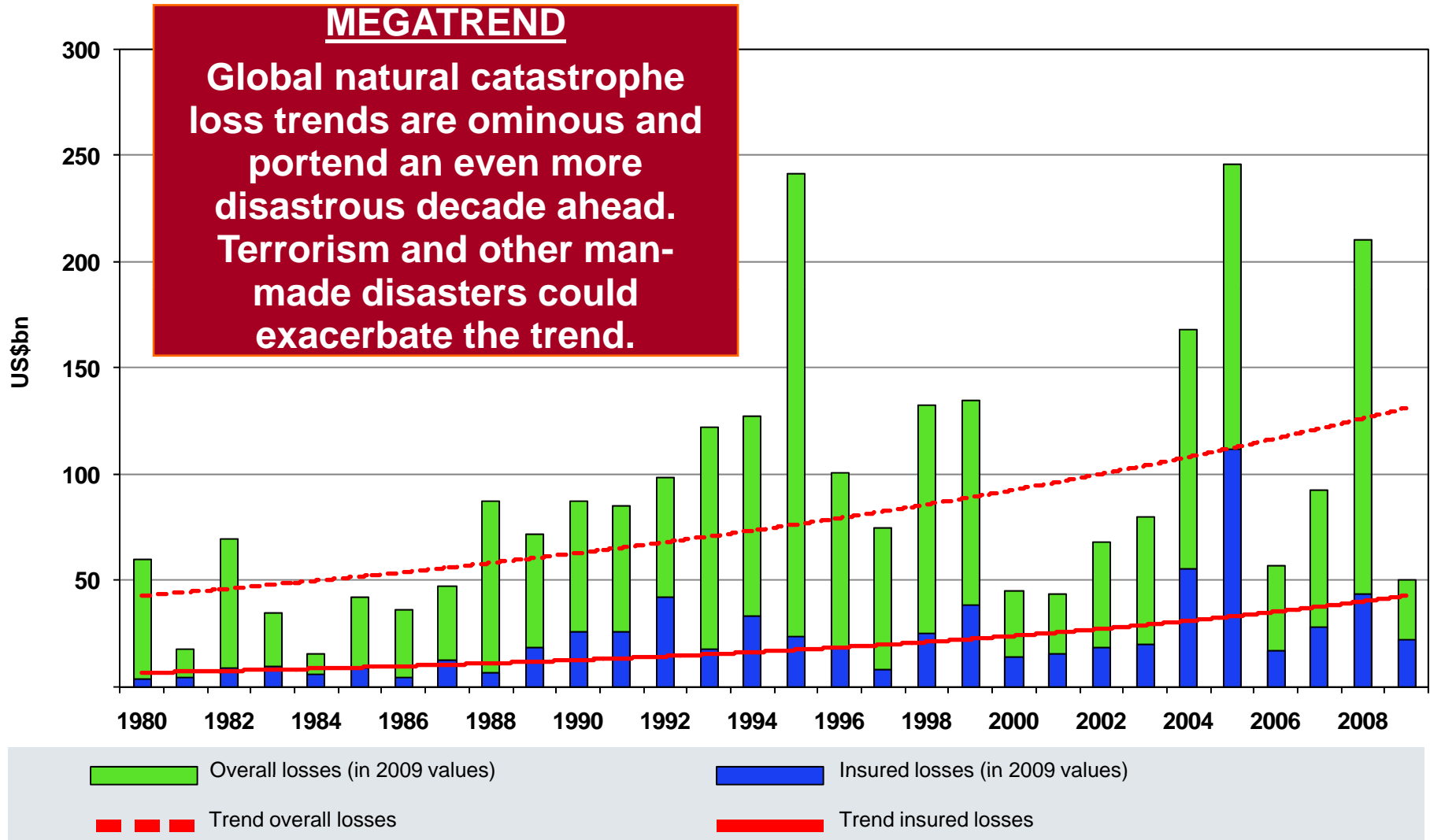
(\$ Millions)



*As of February 22, 2010.
Source: PCS/ISO

Global Natural Catastrophes 1980–2009

Overall and insured losses with trend



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

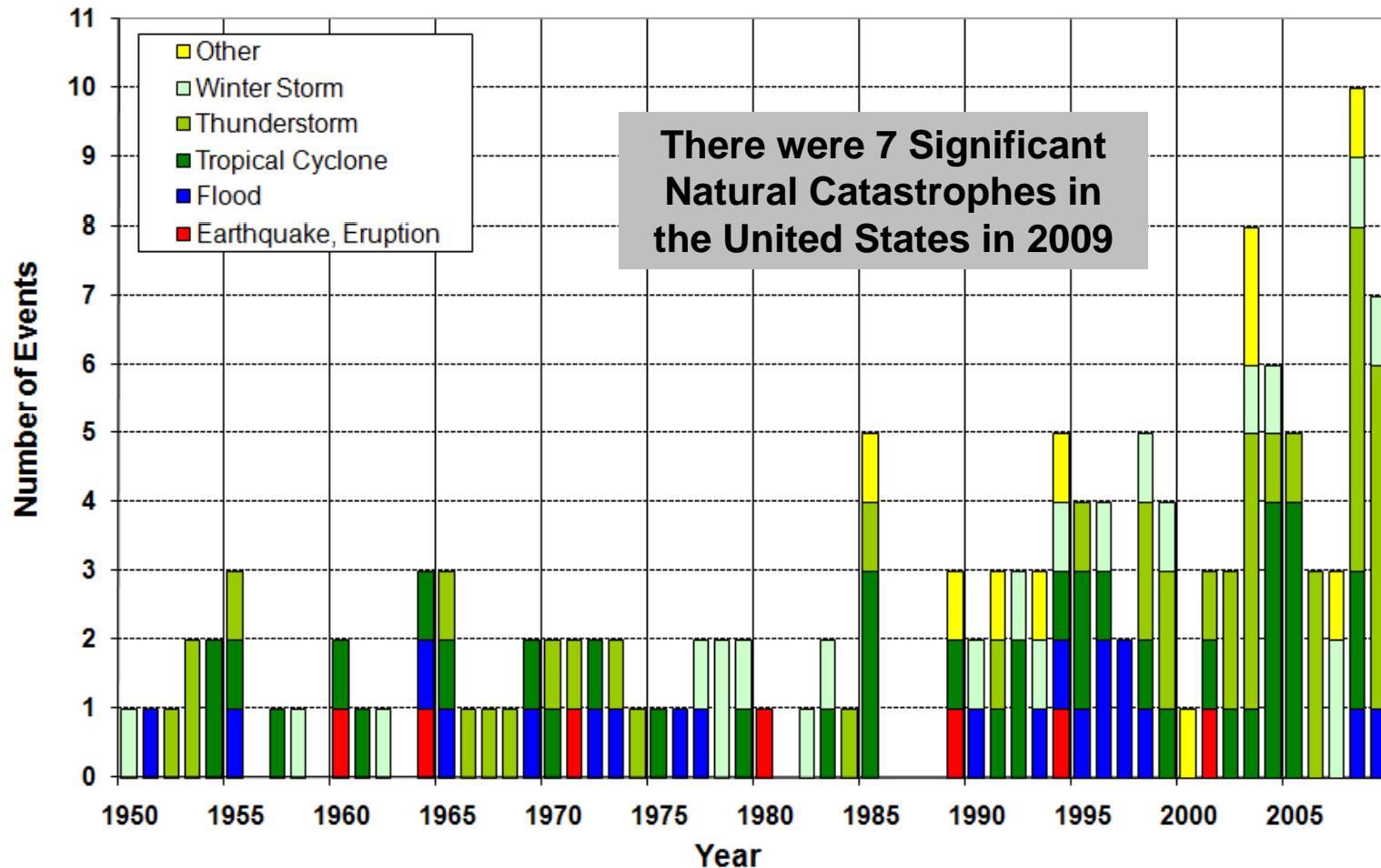
U.S. Significant Natural Catastrophes in 2009

\$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 [†] |

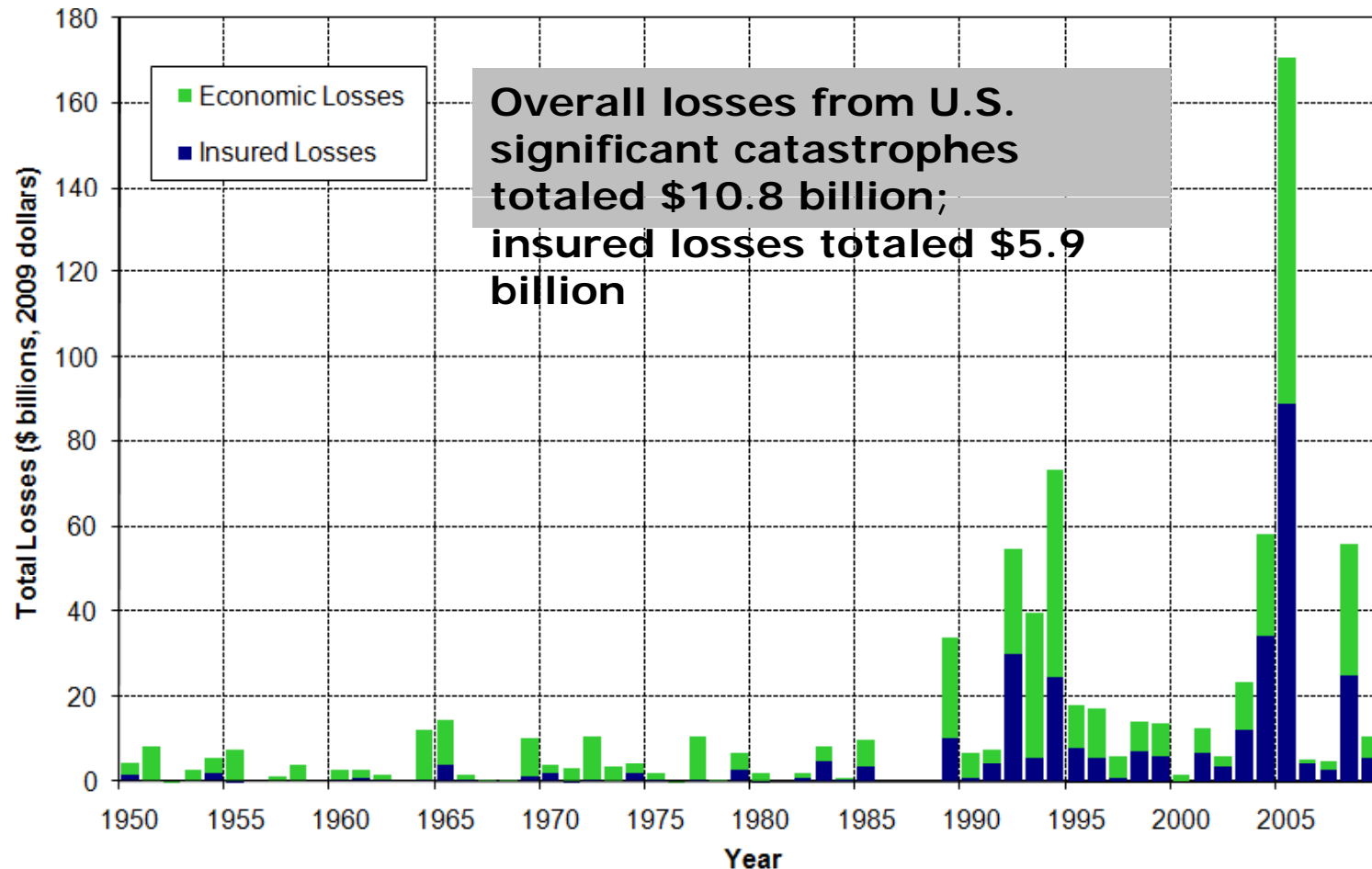
U.S. Significant Natural Catastrophes, 1950 – 2009

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



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

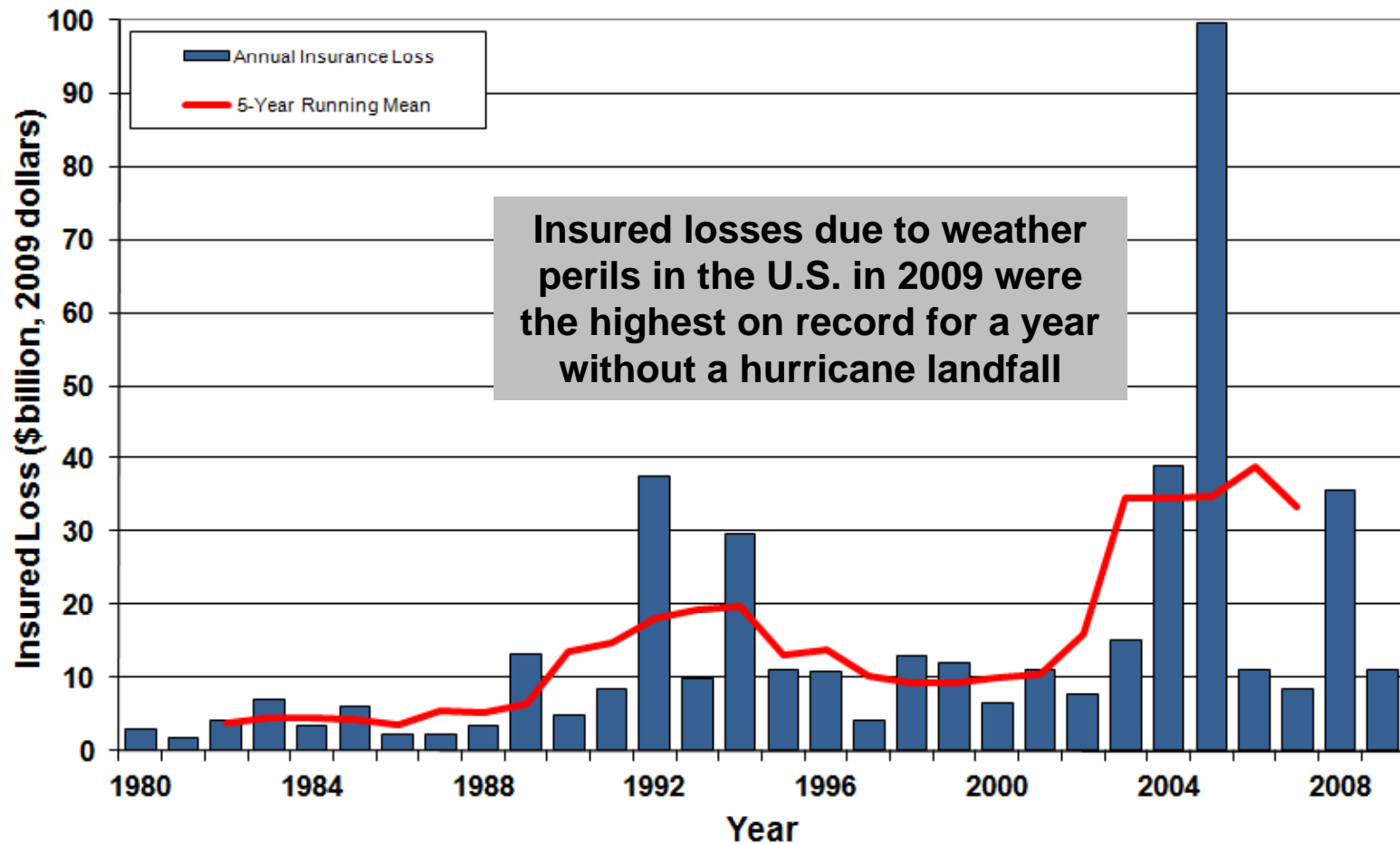
(\$1+ billion economic loss and/or 50+ fatalities)



Sources: MR NatCatSERVICE

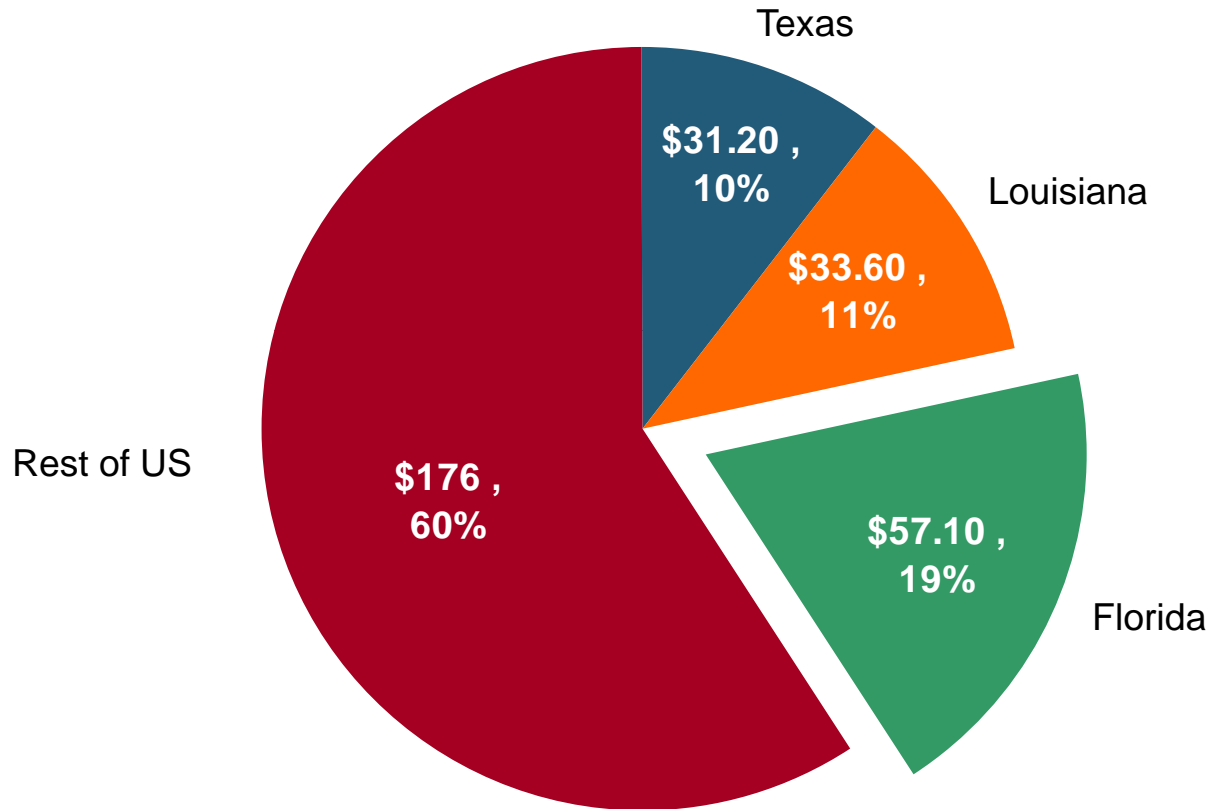
Insured Losses Due to Weather Perils in the U.S.: 1980 – 2009

(Tropical Cyclone, Thunderstorm, and Winter Storm only)



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

(\$ Billions)



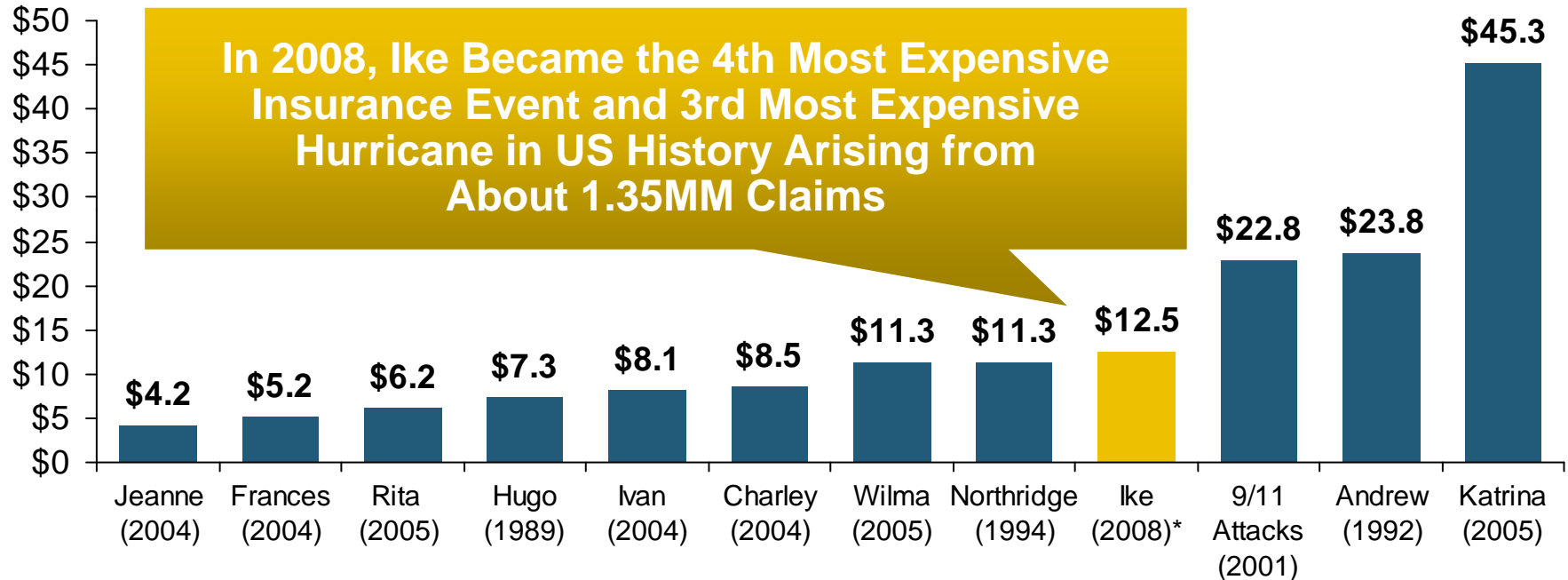
**Florida Accounted for 19% of All US Insured CAT Losses
from 1980-2008: \$57.1B out of \$297.9B**

* 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

(Insured Losses, 2008, \$ Billions)



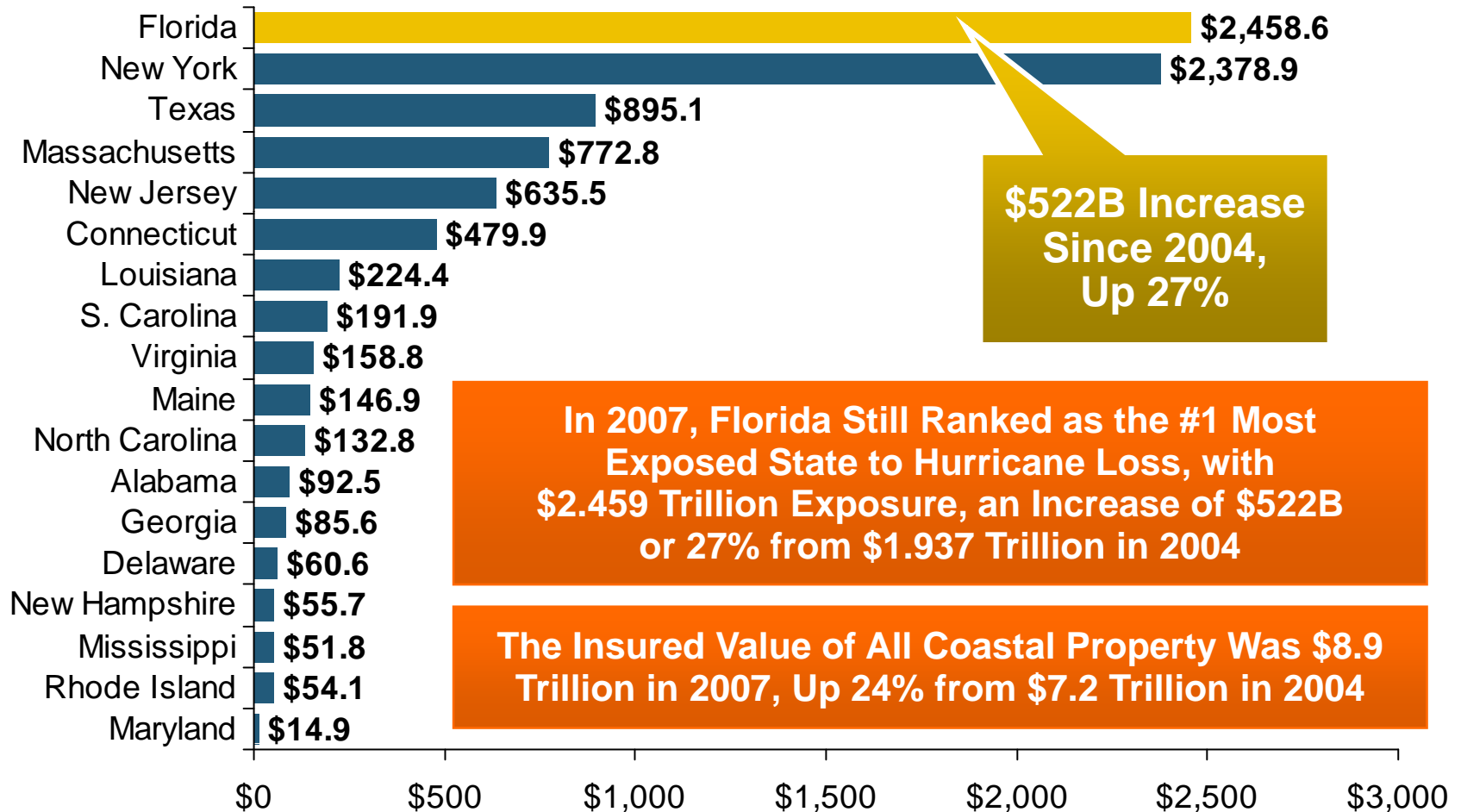
**8 of the 12 Most Expensive Disasters in US History
Have Occurred Since 2004;
*8 of the Top 12 Disasters Affected FL***

* PCS estimate as of August 1, 2009.

Sources: PCS; Insurance Information Institute inflation adjustments.

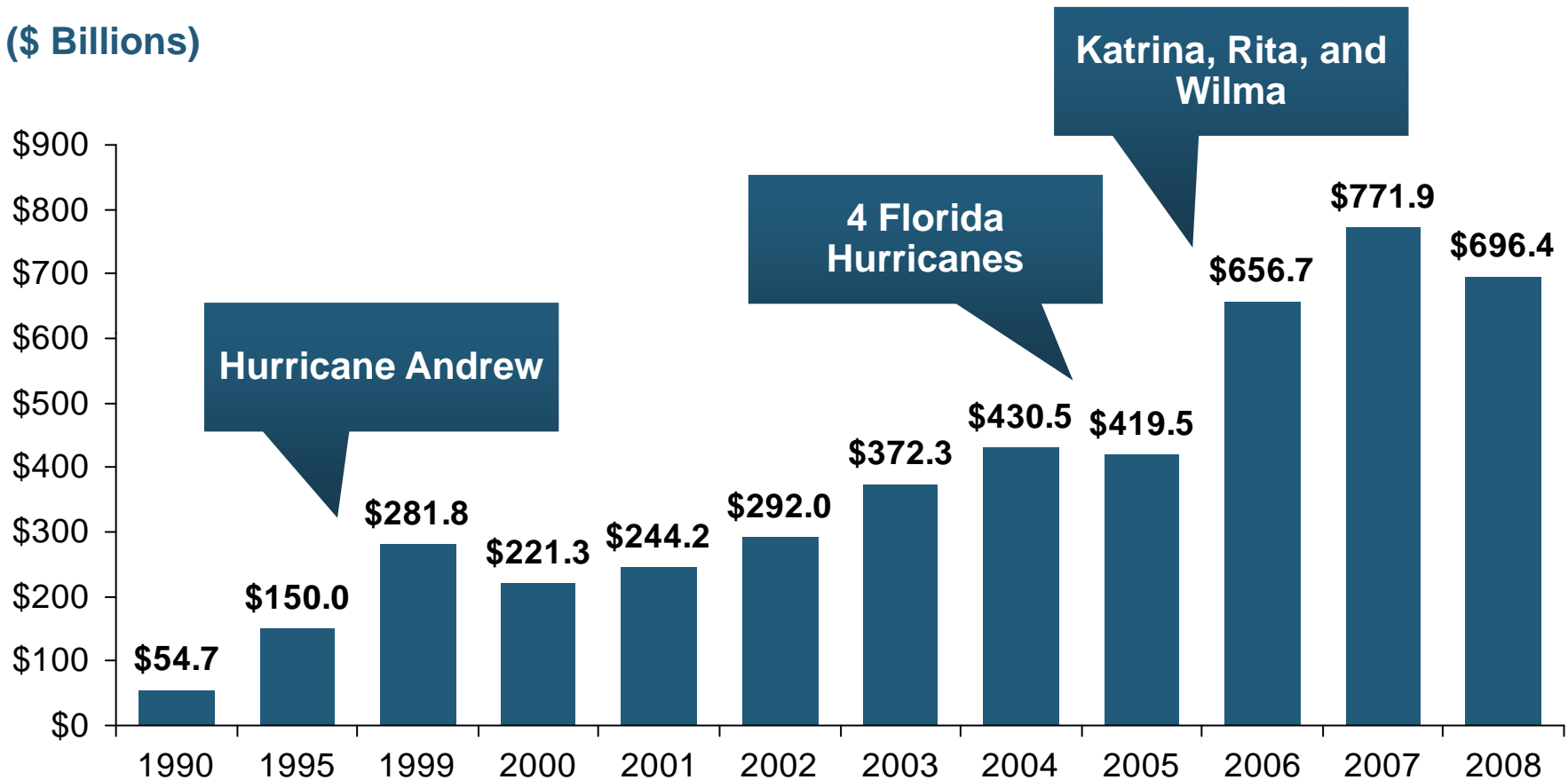
Total Value of Insured Coastal Exposure

(2007, \$ Billions)



US Residual Market Exposure to Loss

(\$ Billions)



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

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