



# Is the World Becoming a Riskier Place?

*Overview & Outlook for the P/C Insurance Industry: 2012 & Beyond*

PLUS Conference 2011

San Diego, CA

November 2, 2011

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- **Review of Recent Events**
  - ◆ What in the World is Going On?
- **Summary of P/C Financial Performance**
- **Catastrophe Loss Developments & Trends**
  - ◆ Global
  - ◆ US
- **Will the Market Turn? Four Necessary Criteria:**
  - ◆ Underwriting Loss Trends
  - ◆ Capital/Capacity
  - ◆ Reinsurance Markets
  - ◆ Pricing Discipline
- **Other Contributing Factors to the Underwriting Cycle**
  - ◆ Investment Environment
  - ◆ Tort/Casualty Environment
  - ◆ Inflation
  - ◆ Economic Environment

# What in the World Is Going On?

**Is the World Becoming a  
Riskier Place?**

***What Are the Implications for  
Insurance and Risk Management?***

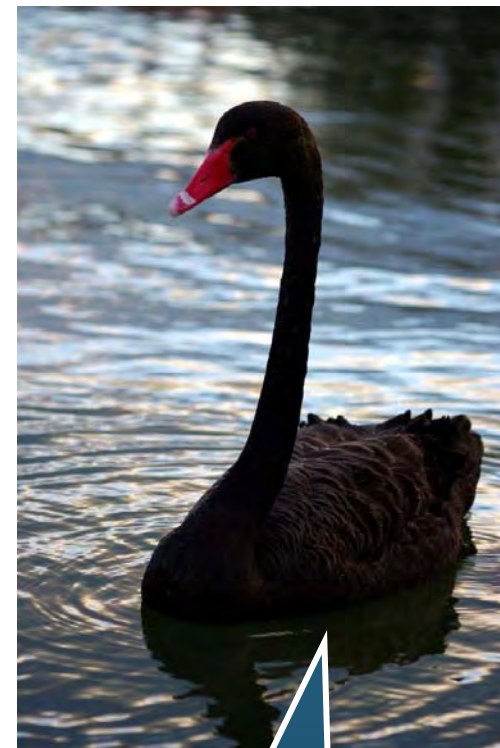
# Uncertainty, Risk and Fear Abound

## ECONOMIC & POLITICAL CONCERNS

- Global Economic Slowdown
- Echoes of the Financial Crisis
- European Sovereign Debt, Bank & Currency Crises
- Collapse of Major Financial Institutions
- US Debt and Budget Crisis, S&P Downgrade & Austerity
- Housing Crisis
- Persistently High Unemployment
- Inflation/Deflation
- Runaway Energy & Commodity Prices
- Political Upheaval in the Middle East
- Regulation
- China→Now the #2 Economy in the World
- 2012 Elections

## CATASTROPHIC LOSS

- Japan, New Zealand, Turkey, Haiti, Chile Earthquakes
- Nuclear Fears
- US: Tornadoes, Flooding, Wildfires, Hurricanes, Winter Storms
- Manmade Disasters (e.g., Deepwater Horizon)
- Cyber Attacks
- Resurgent Terrorism Risk (e.g., Bin Laden, Gadhafi Killings)



Are “Black Swans” everywhere or does it just seem that way?

# What is Going On in the US and Global Financial Markets?

1. **Need for a Binding, Comprehensive Solution to Europe's Debt Problems**
  - ◆ *Big Fat Greek Haircut*: Agreement developed for Greek debt lasted just 5 days
  - ◆ Financial "Firewall" around Italy, Spain, Ireland, Portugal may be too small
  - ◆ Difficulties in managing multinational institutions and economic policies
  - ◆ ECB and individual member EU countries not all on same page
  - ◆ Solution: Unified strategy similar to TARP; Monetary easing
  - ◆ **OUTCOME**: Europeans will eventually stumble into a resolution
2. **Realization that US Economic Growth Will Remain Lackluster**
  - ◆ Q1 GDP just 0.4%; Q2 only 1.3%; Q3 still a subpar 2.5%; Acceleration unlikely
  - ◆ Job growth has been anemic for months and unemployment remains high at 9.1%
  - ◆ Markets remain extremely volatile and jittery; Housing/Debt hangover
  - ◆ **OUTCOME**: Tepid growth in the 2% - 2.5% range in 2012; Unemployment 8.5% - 9%
3. **View that Washington is Dysfunctional and "Rudderless"**
  - ◆ Lack of coherent, consistent medium and long term plan to deal with basic structural issues in the US economy (debt, taxes, employment, regulation, etc.)
  - ◆ No confidence that 2012 political cycle will resolve these problems
4. **Economic Slowdown in Emerging Markets**
  - ◆ China, other economies less able to stimulate global economy than in 2008

# Déjà Vu? Lehman II?

## Is This 2008 All Over Again?

### Why Today is Not 2008 All Over Again

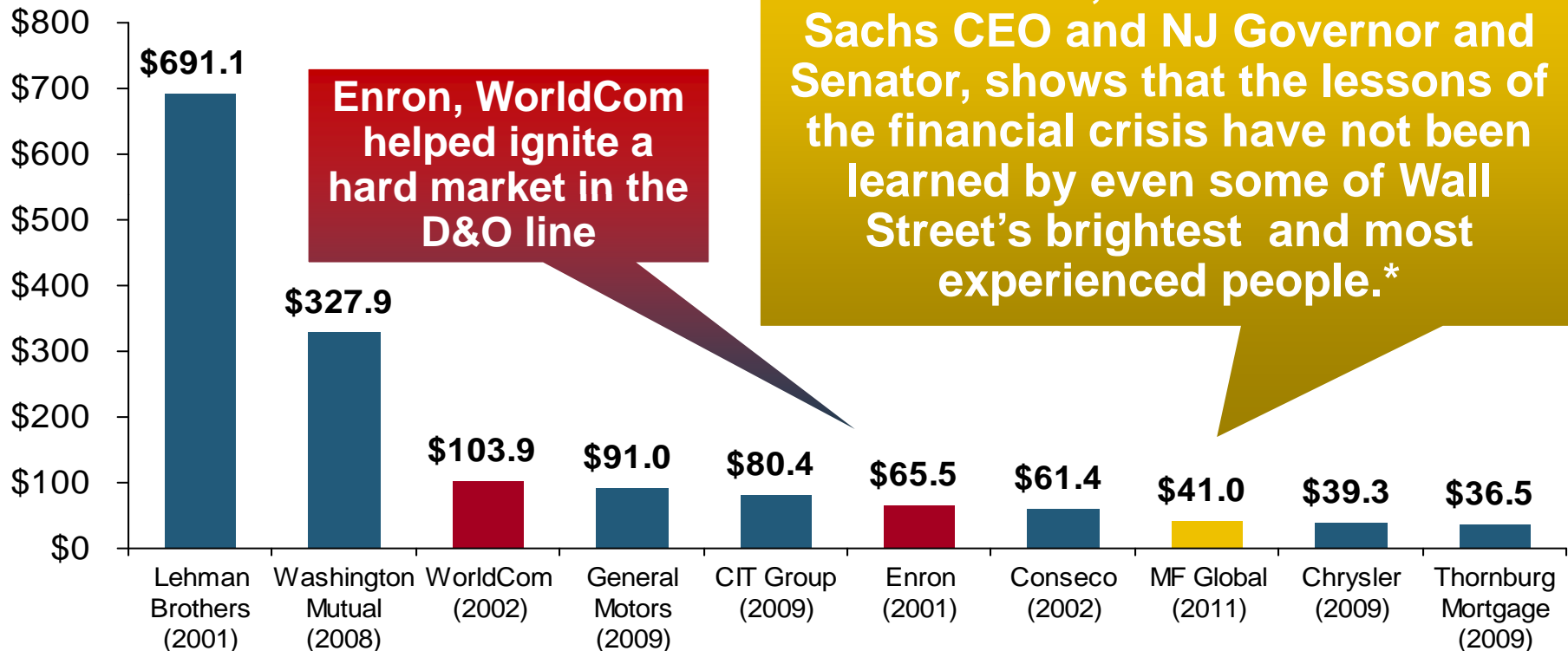
- The Situation Today is Very, Very Different from 2008
- Credit Markets Are Not Seizing; Some Contraction in Europe
- Bank Balance Sheets Are in Much Stronger Shape
  - ◆ Capital up, charge offs falling
- We Will Not Experience the Mega-Collapses/Near Collapses Like in 2008
  - ◆ No repeat of Lehman, AIG, Washington Mutual, Wachovia...
  - ◆ MF Global is not a “Systemically Important Financial Institution”
- Some Additional Regulatory Controls Are Now Place

### What Would Be Helpful Now?

- Solution to European Bank/Sovereign Debt Problem (Thought We Had One!)
- Long-Term Fiscal and Monetary Policy Direction
- Fed on Aug. 9 stated rates would remain low “*at least through mid-2013*”
  - ◆ This is not only a signal that borrowing costs will remain low over an extended period of time and that inflation will remain muted; Also tells investors that they’ll need to take on risk in order to earn returns in the market.
  - ◆ Congress and the Administration need to remove regulatory and tax uncertainty ASAP and drive a pro-growth agenda

# Top 10 US Corporate Bankruptcies, by Asset Size

Billions (\$)



**All 10 of the Biggest Bankruptcies in US History Occurred Within the Past 10 Years With Varied Effects on D&O Market. MF Global Was the 8<sup>th</sup> Largest Bankruptcy in US History**

\*MF Global filed for bankruptcy on October 31, 2011.

Source: Council of Insurance Agents and Brokers; Insurance Information Institute.



# Why Didn't Sarbanes-Oxley Prevent the 2008 Financial Crisis? It Couldn't...

## **2001: Outright Fraud, Poor Governance & Greed**

- Enron, WorldCom “Cooked the Books”
- Crimes Were Committed
- People Went to Jail
- Enron’s Crimes Were Not New, Just Different
- Sarbanes-Oxley’s Intent Was to Make Fraud More Difficult Utilizing a Variety of Tools, One of Which Was Enhancing Corporate Governance
  - ◆ Major and long-lasting impacts for D&O
- Sarb-Ox Was *Never* Intended to Prevent the Collapse in Risk Management at the Core of the Financial System that Occurred During the Financial Crisis

## **2008 to Today: Stupidity, Poor Risk Management & Greed**

- Stupidity, Poor Risk Management & Greed Are Not Illegal
- This Is Why Nobody Associated with the Spectacular Collapses of 2008 Are in Jail Today
- The Accounting-Centric Focus of Sarb-Ox Was Not Designed to Contain or Control Reckless/Absent/Ineffectual Risk Management
- 2010 Dodd-Frank Act Attempts to Rein-In Reckless Risk Taking
  - ◆ Focus Is on Systemically Important Financial Institutions (SIFIs)
  - ◆ Fewer implications for D&O

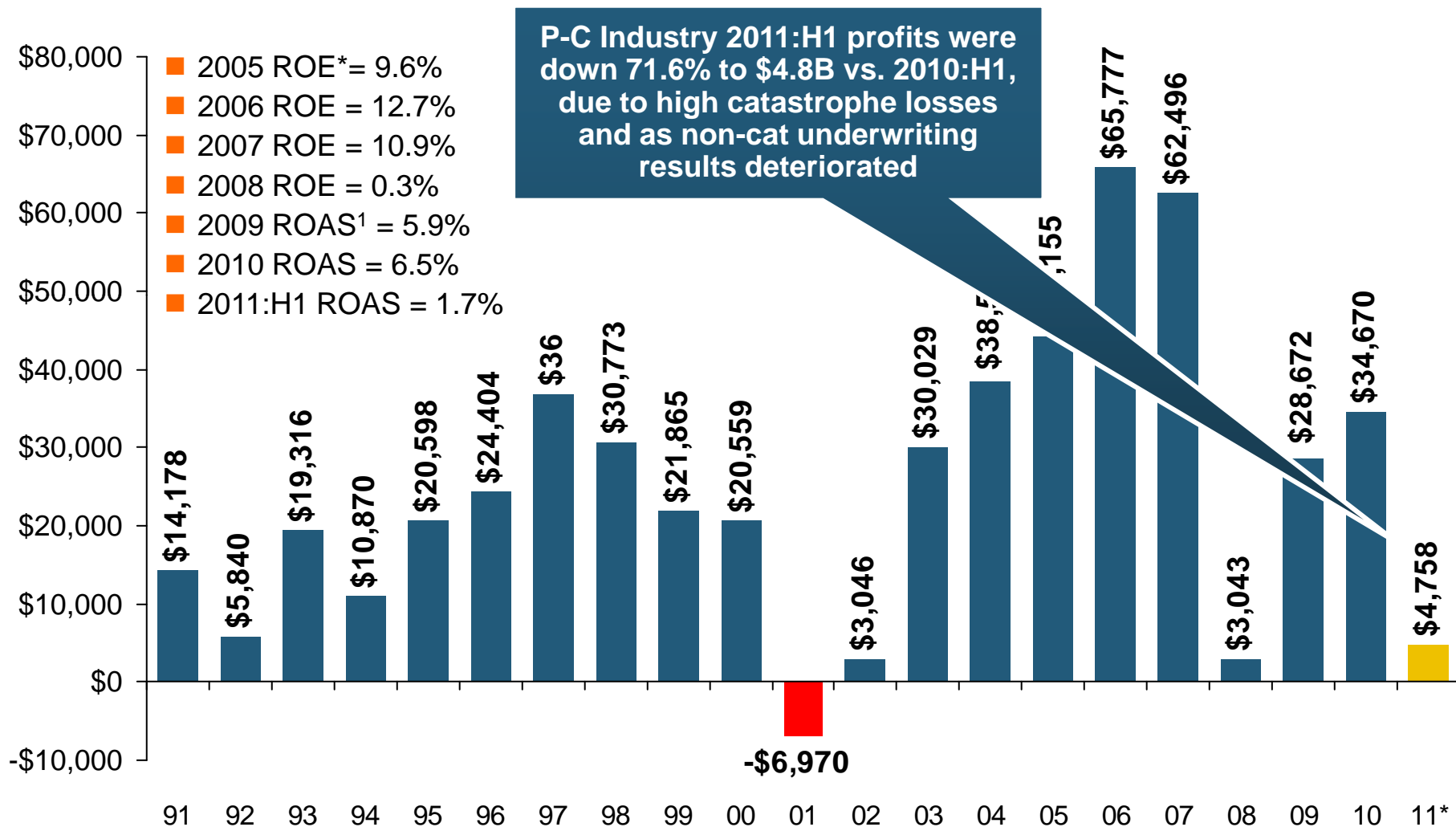




# P/C Insurance Industry Financial Overview

**Profit Recovery Will Be Set  
Back by High CATs, Low  
Interest Rates, Diminishing  
Reserve Releases**

# P/C Net Income After Taxes 1991–2011:H1 (\$ Millions)



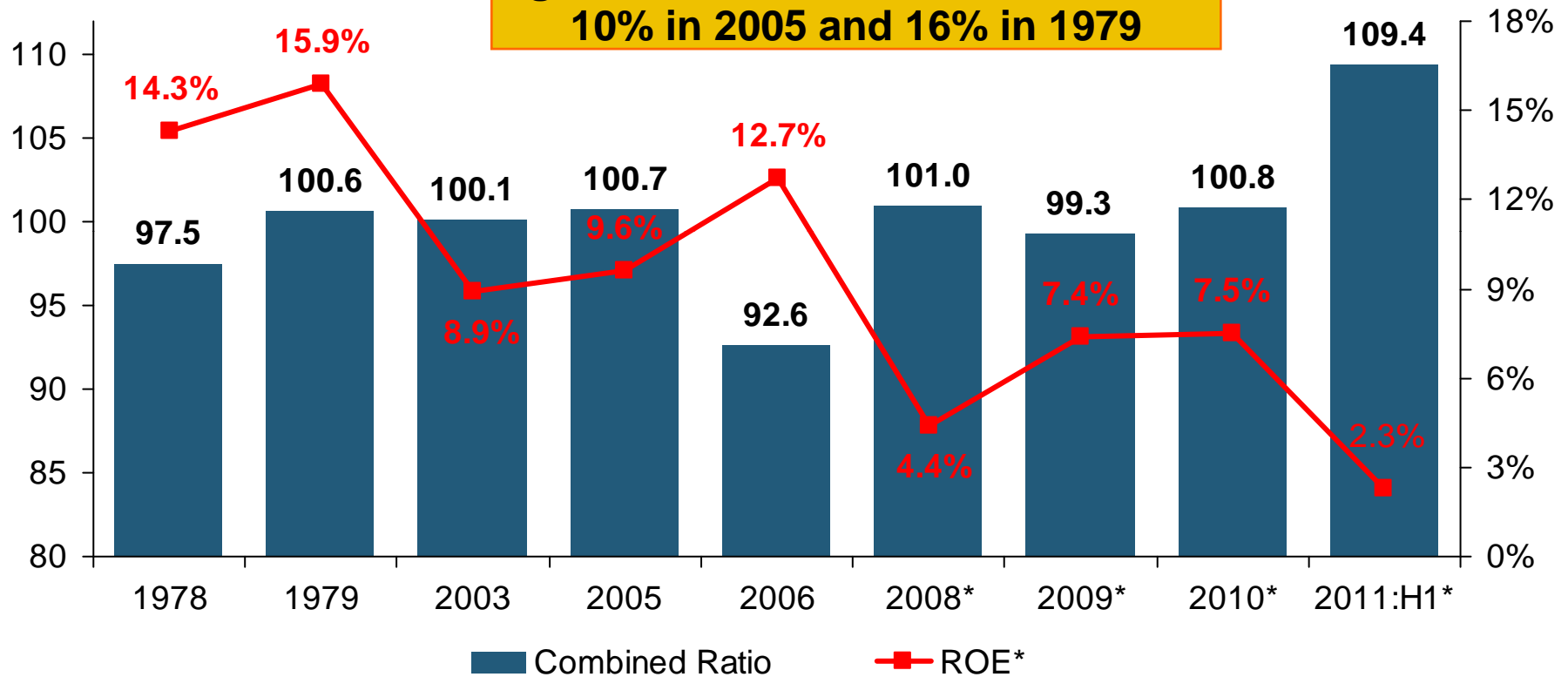
\* ROE figures are GAAP; <sup>1</sup>Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 2.3% ROAS for 2011:H1, 7.5% for 2010 and 7.4% for 2009.

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

# A 100 Combined Ratio Isn't What It Once Was: Investment Impact on ROEs

## Combined Ratio / ROE

A combined ratio of about 100 generated ~7.5% ROE in 2009/10, 10% in 2005 and 16% in 1979

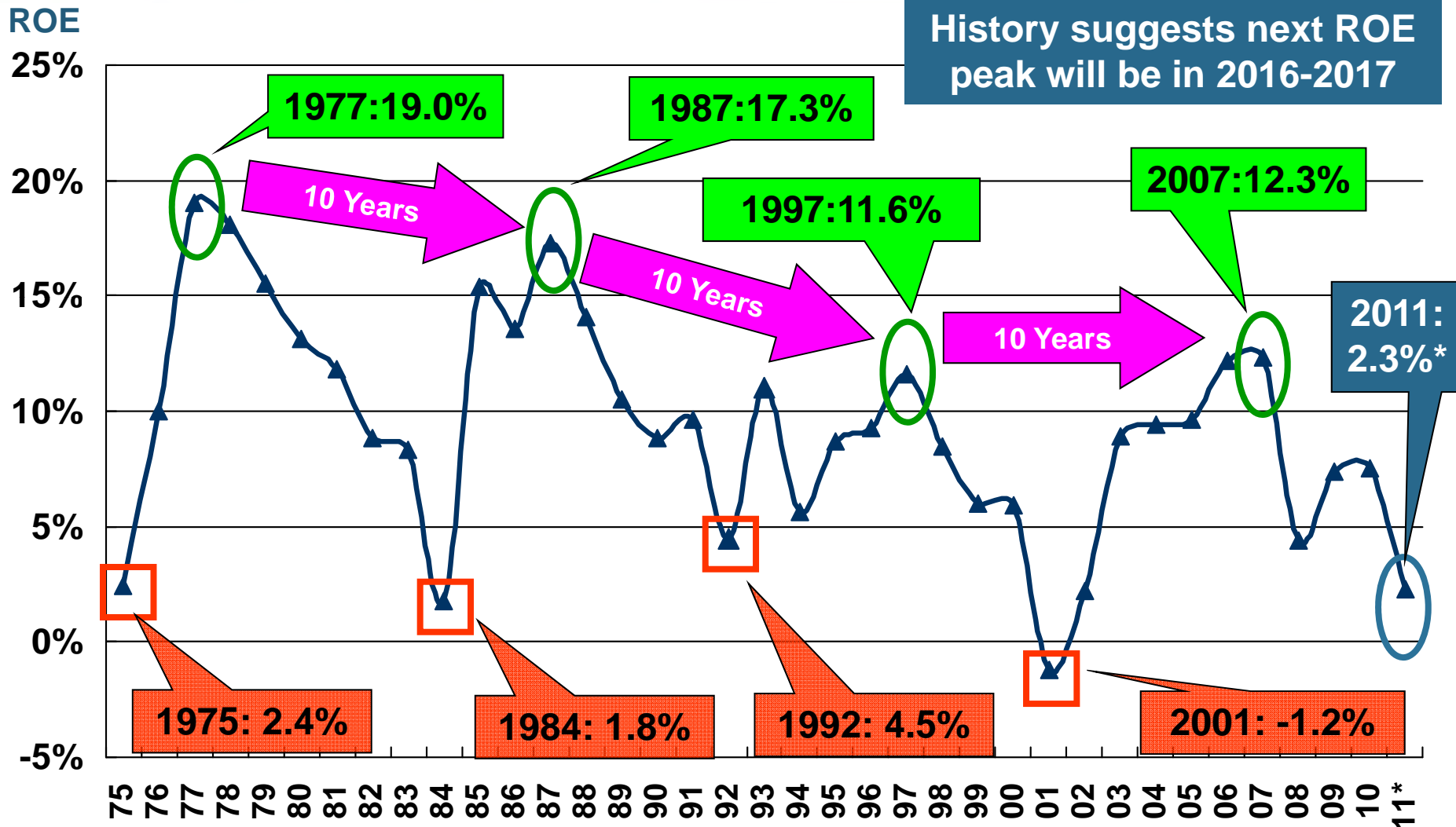


**Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs**

\* 2009 and 2010 figures are return on average statutory surplus. 2008 -2011 figures exclude mortgage and financial guaranty insurers. 2011H1 combined ratio including M&FG insurers is 110.5 , ROAS = 2.3%.

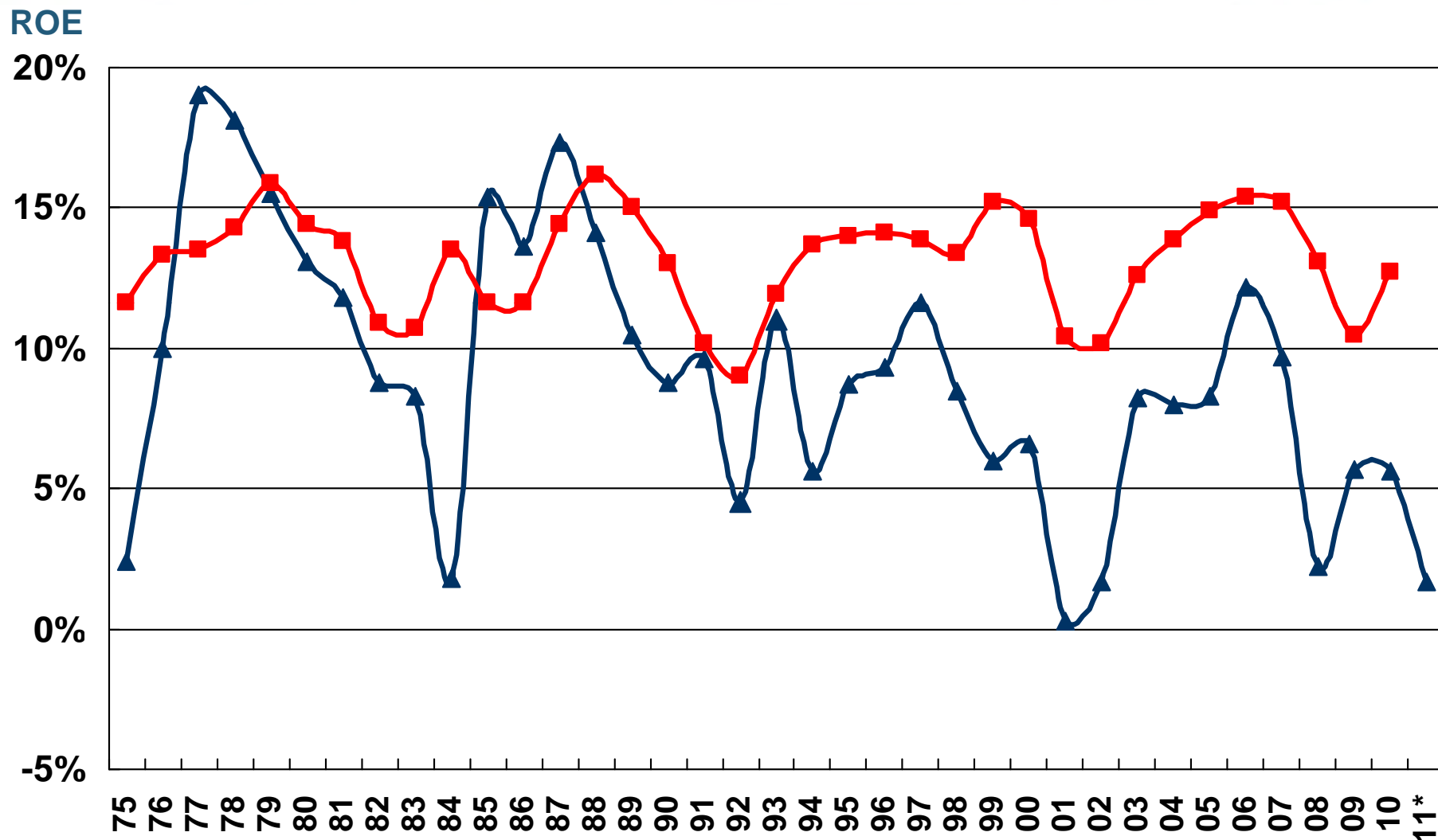
Source: Insurance Information Institute from A.M. Best and ISO data.

# Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2011\*



\*Profitability = P/C insurer ROEs are I.I.I. estimates. 2011 figure is an estimate based on annualized ROAS for H1 data.  
 Note: Data for 2008-2011 exclude mortgage and financial guaranty insurers. For 2011:H1 ROAS = 1.7% including M&FG.  
 Source: Insurance Information Institute; NAIC, ISO, A.M. Best.

# P/C Insurance Industry ROE vs. Fortune 500, 1975 – 2011\*



For 2011:H1 ROAS.

Source: Insurance Information Institute; NAIC, ISO.

# Global Catastrophe Loss Developments and Trends

**2011 Will Rewrite Catastrophe Loss  
and Insurance History**

***But Will Losses Turn the Market?***

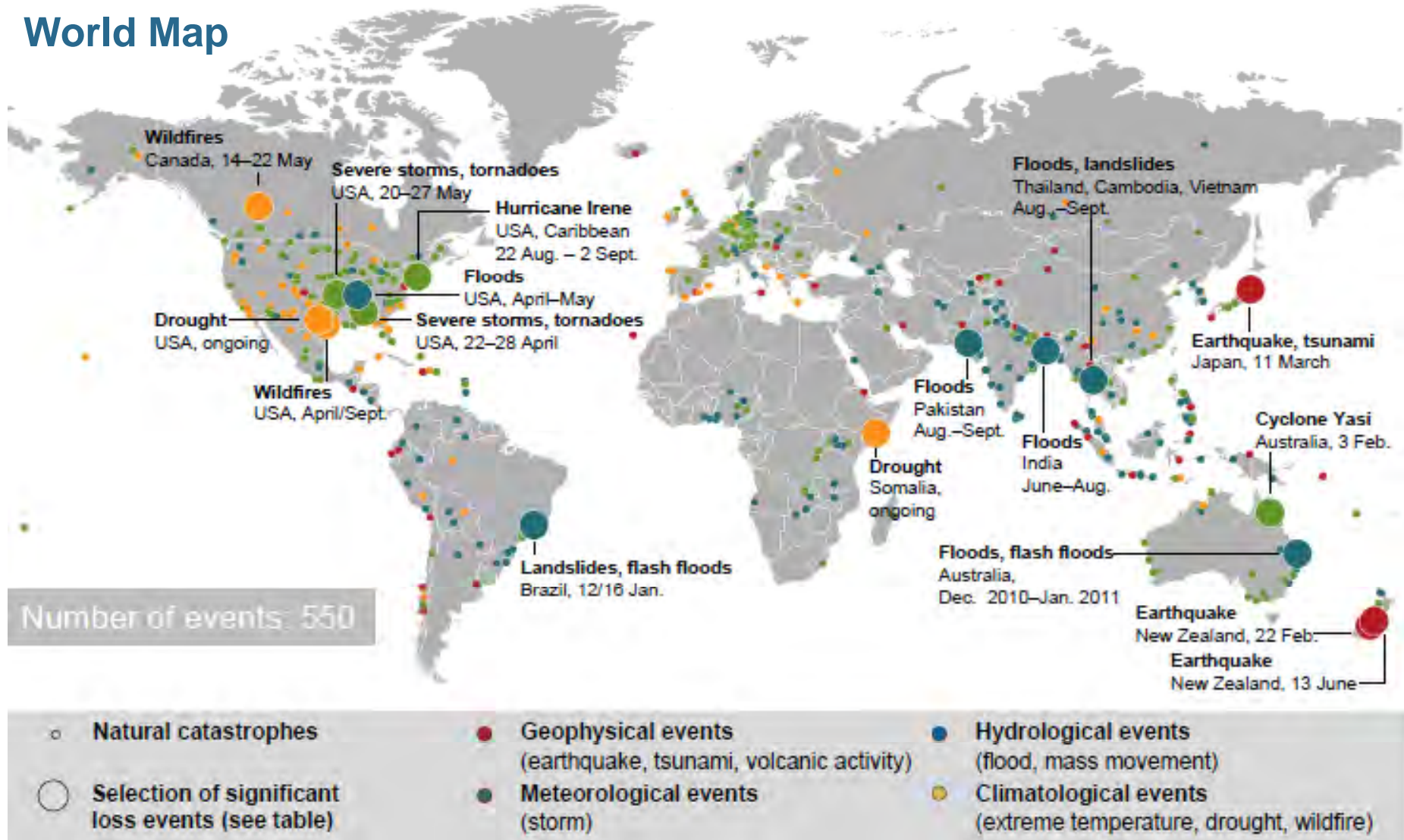
# Global Catastrophe Loss Summary: First Half 2011

- **2011 Is Already (as of June 30) the *Highest* Loss Year on Record Globally**
  - ◆ Extraordinary accumulation of severe natural catastrophe: Earthquakes, tsunami, floods and tornadoes are the primary causes of loss
- **\$260 Billion in *Economic* Losses Globally**
  - ◆ New record for the first six months, exceeding the previous record of \$220B in 2005
  - ◆ Economy is more resilient than most pundits presume
- **\$55 Billion in *Insured* Losses Globally**
  - ◆ More than double the first half 2010 amount
  - ◆ Over 4 times the 10-year average
- **\$27 Billion in *Economic* Losses in the US**
  - ◆ Represents a 129% increase over the \$11.8 billion amount through the first half of 2010
- **\$17.3 Billion in *Insured* Losses in the US Arising from 100 CAT Events**
  - ◆ Represents a 162% increase over the \$6.6 billion amount through the first half of 2010



# Natural Loss Events, January – September 2011

## World Map



# Worldwide Natural Disasters 2011

## Significant Natural Disasters (January – September only)

Period	Loss event	Affected area	Overall losses*	Insured losses*	Fatalities*
			US\$m, original values		
Dec 2010–Jan 2011	Floods, flash floods	Australia (Queensland)	7,300	2,550	29
12/16 Jan.	Landslides, flash floods	Brazil (State of Rio de Janeiro)	**	**	1,350
3 Feb.	Cyclone Yasi	Australia (Queensland)	2,000	1,000	1
22 Feb.	Earthquake	New Zealand (Christchurch)	25,000	13,000	181
11 March	Earthquake, tsunami	Japan (esp. northeastern Honshu)	210,000	~30,000	15,800 (3,800 missing)
22–28 April	Severe storms, tornadoes	USA (esp. AL, Tuscaloosa)	12,000	7,300	350
April–May	Floods	USA (esp. Ohio River, Mississippi River, Missouri River)	2,600	**	9
April/Sept.	Wildfires	USA (TX)	1,500	680	4
14–22 May	Wildfires	Canada (Alberta, Slave Lake)	>1,500	720	1
20–27 May	Severe storms, tornadoes	USA (esp. MO, Joplin)	9,000	5,900	176
13 June	Earthquake	New Zealand (Christchurch)	**	**	1
Aug.–Sept.	Floods, landslides	Thailand, Cambodia, Vietnam	**	**	370
Aug.–Sept.	Floods	Pakistan	**	**	445
22 Aug.–2 Sept.	Hurricane Irene	USA, Caribbean	15,000	7,000	54

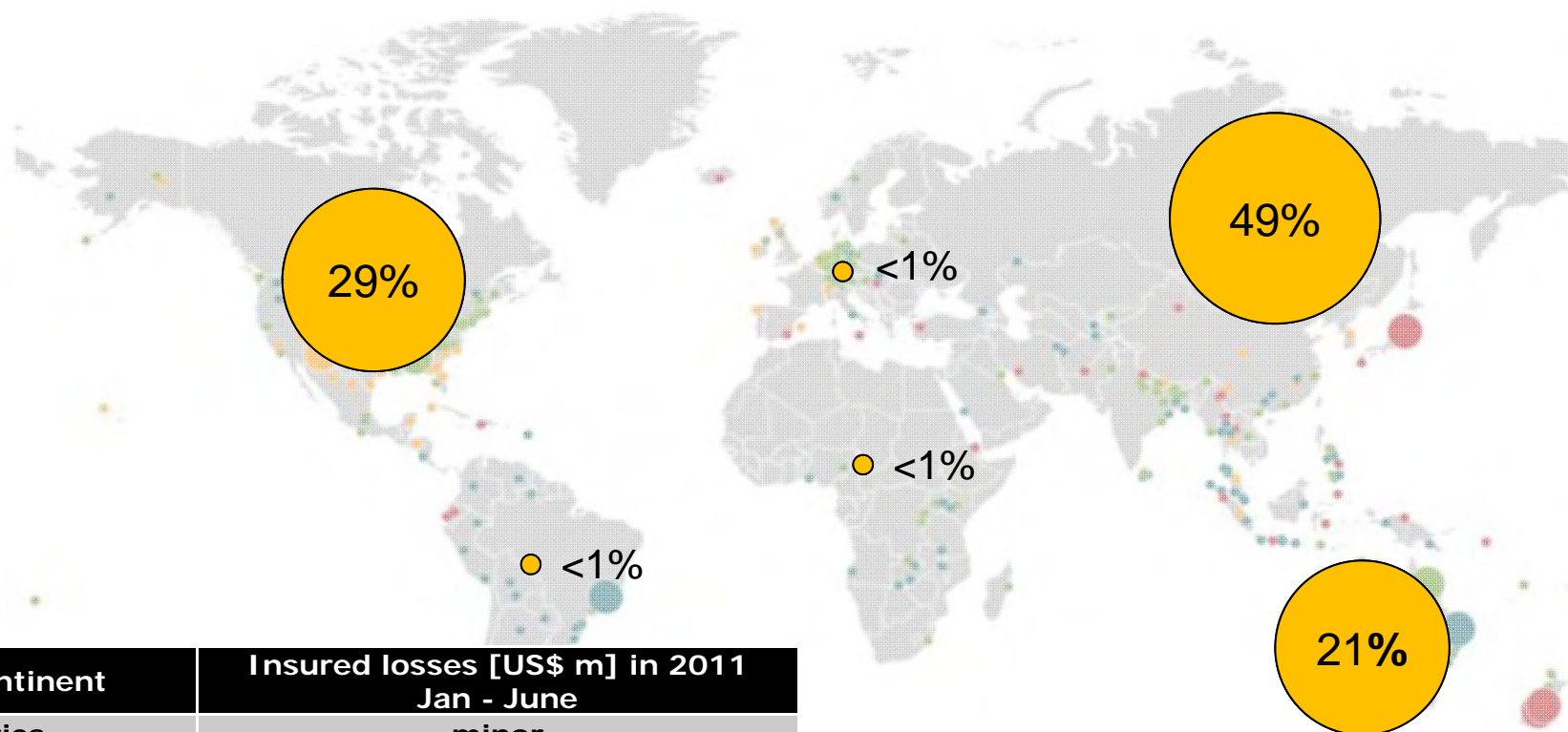
\*As at October 2011

\*\*Loss assessment still in progress

# Worldwide Natural Disasters 2011

% Distribution of Insured Losses Per Continent (January – June only)

**Insured losses 2011 (January – June only): US\$ 60bn**



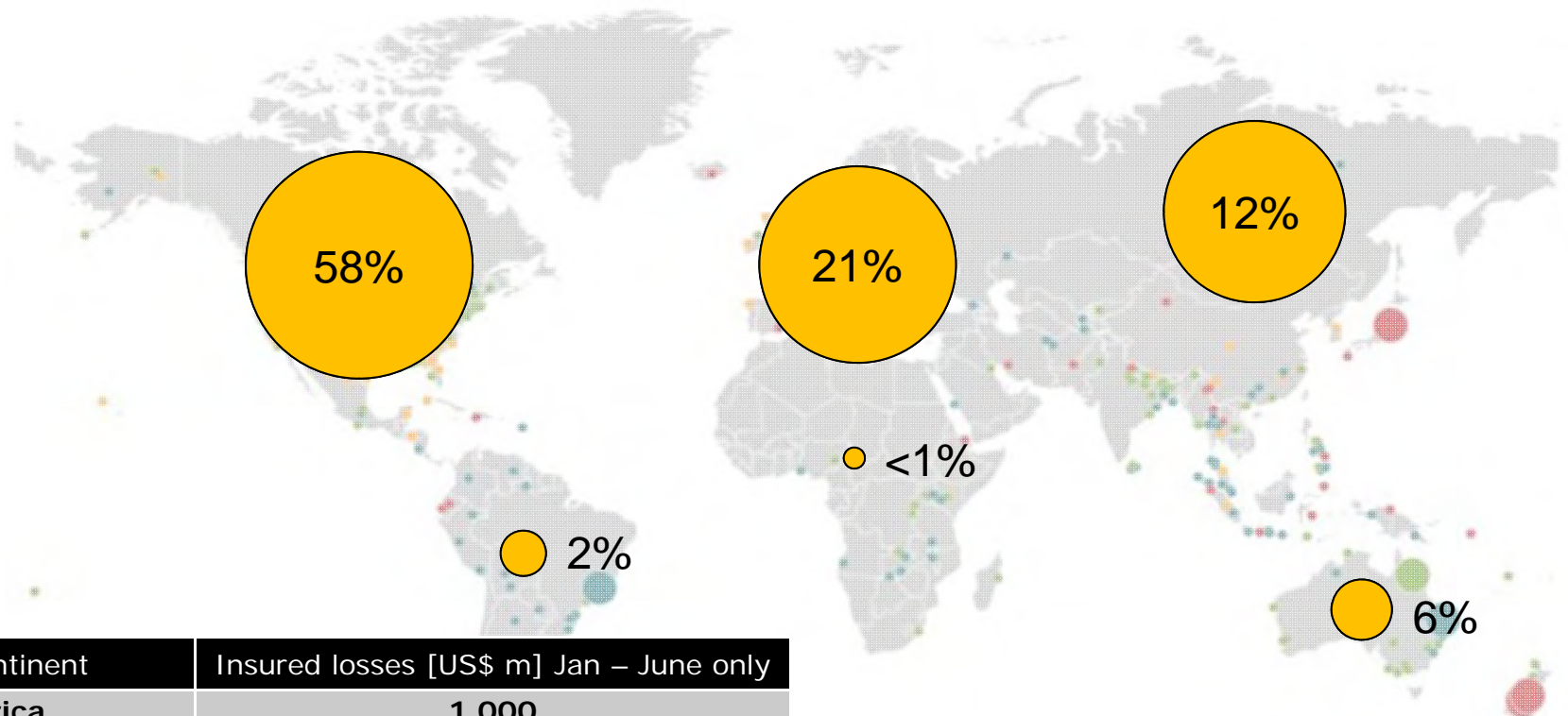
Continent	Insured losses [US\$ m] in 2011 Jan - June
Africa	minor
America	17,800
Asia	30,080
Australia/Oceania	12,900
Europe	100



# Worldwide Natural Disasters, 1980-2011

% Distribution of Insured Losses Per Continent (January – June only)

**Insured losses 1980 - 2011 (January – June only): US\$ 389bn**



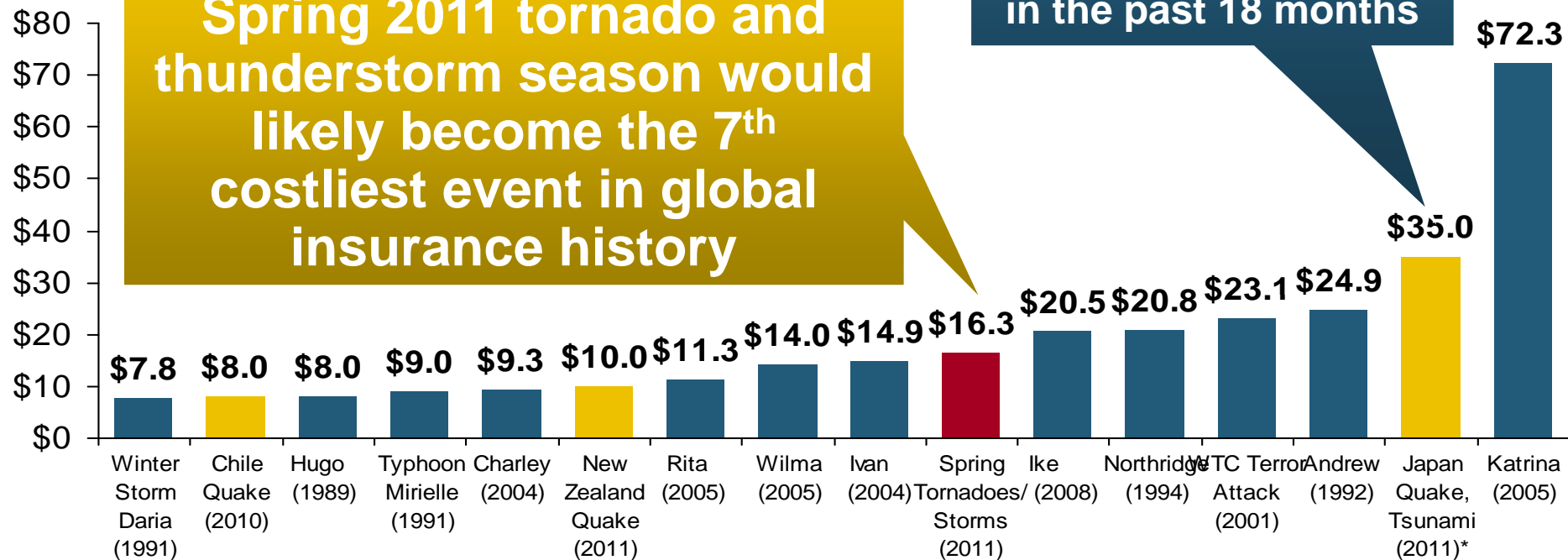
Continent	Insured losses [US\$ m] Jan – June only
Africa	1,000
America	237,200
Asia	45,100
Australia/Oceania	25,100
Europe	80,900

# Top 16 Most Costly World Insurance Losses, 1970-2011\*

(Insured Losses, 2010 Dollars, \$ Billions)

Taken as a single event, the Spring 2011 tornado and thunderstorm season would likely become the 7<sup>th</sup> costliest event in global insurance history

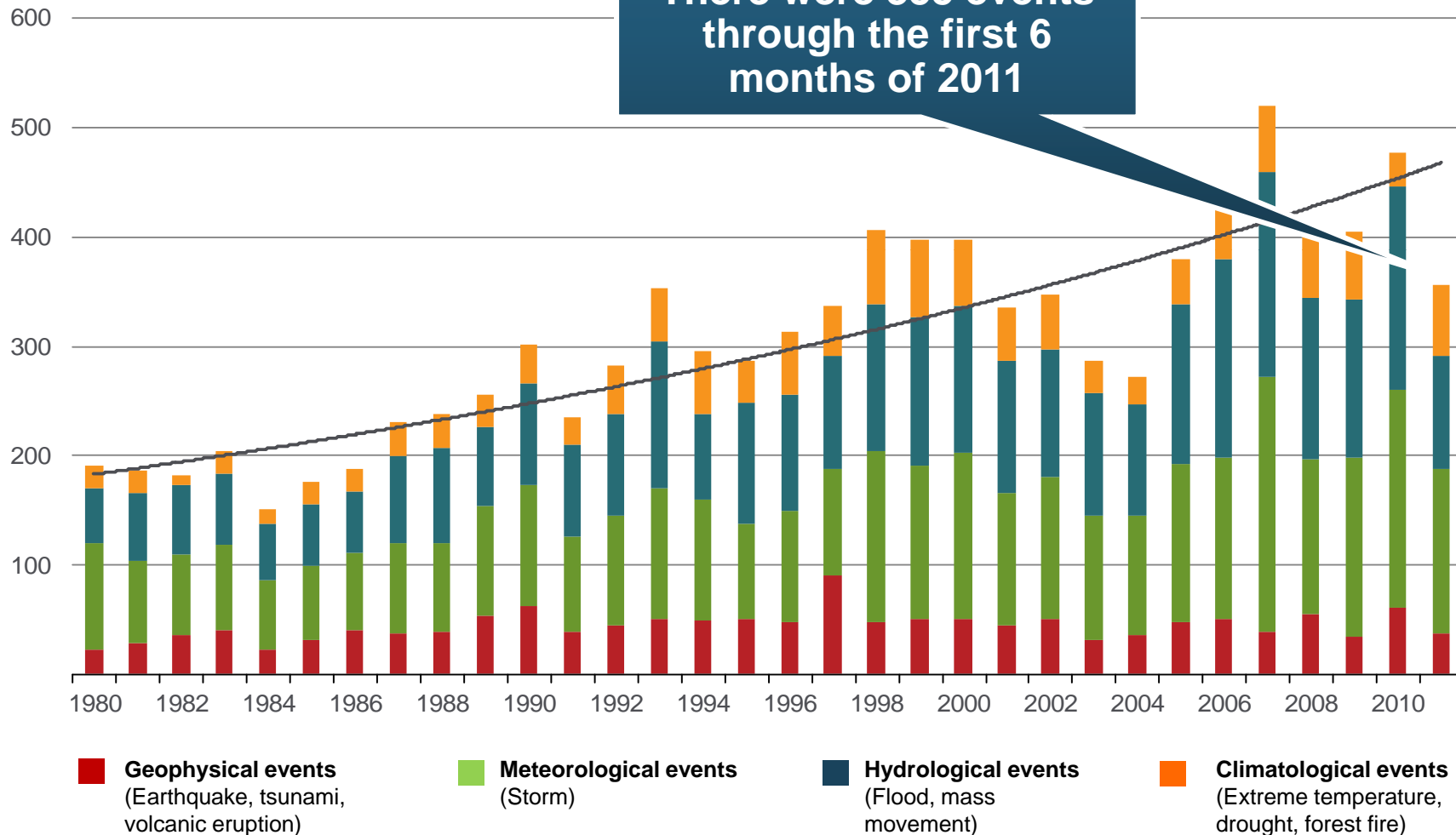
3 of the top 15 most expensive catastrophes in world history have occurred in the past 18 months



\*Through June 20, 2011. 2011 disaster figures are estimates; Figures include federally insured flood losses, where applicable. Sources: Swiss Re *sigma* 1/2011; AIR Worldwide, RMS, Eqecat; Insurance Information Institute.

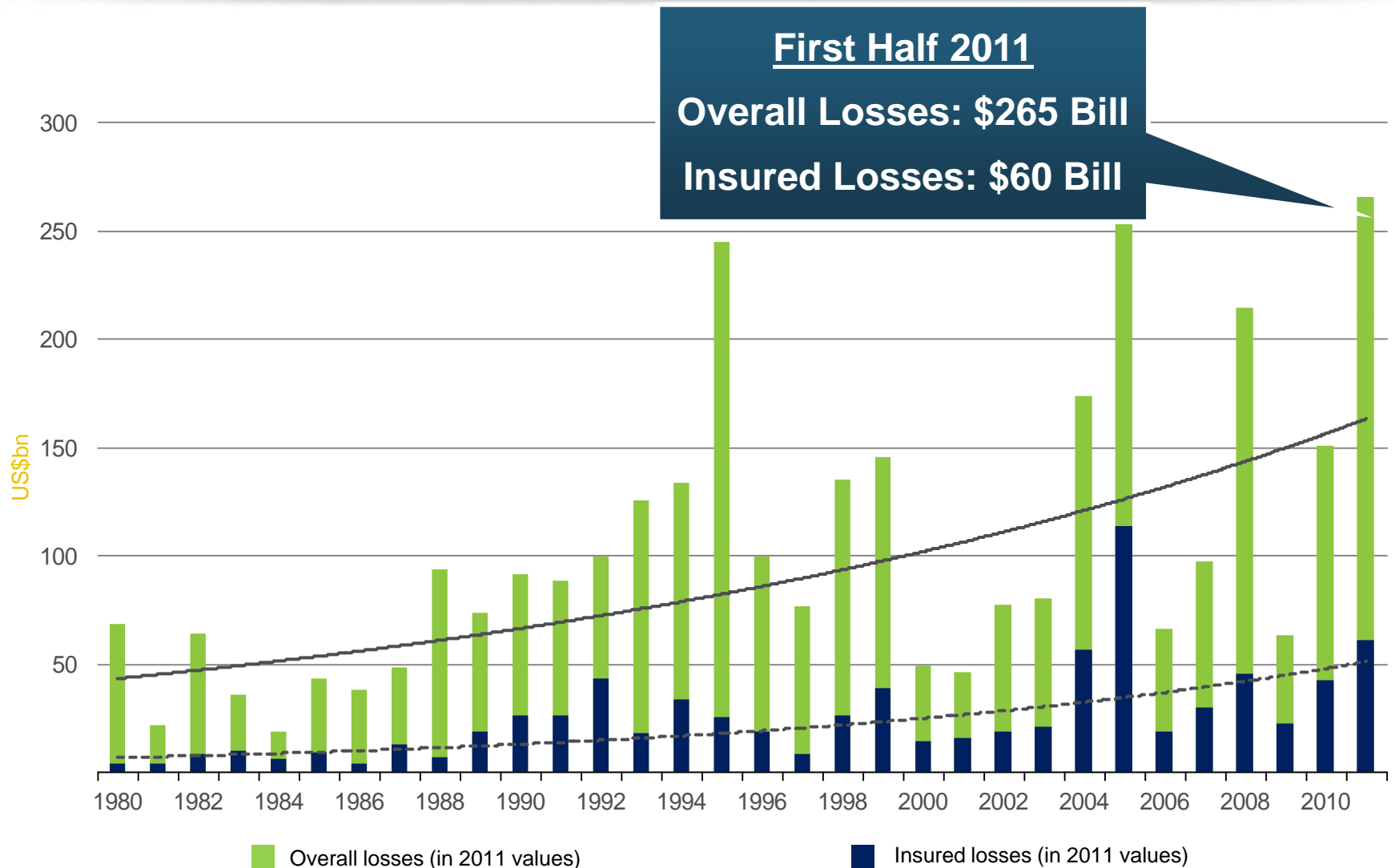
# Worldwide Natural Disasters, 1980 – 2011\*

## Number of Events



\*2011 figure is through June 30.  
Source: MR NatCatSERVICE

# Worldwide Natural Disasters 1980–2011, Overall and Insured Losses\*



\*2011 figure is through June 30.

Source: MR NatCatSERVICE



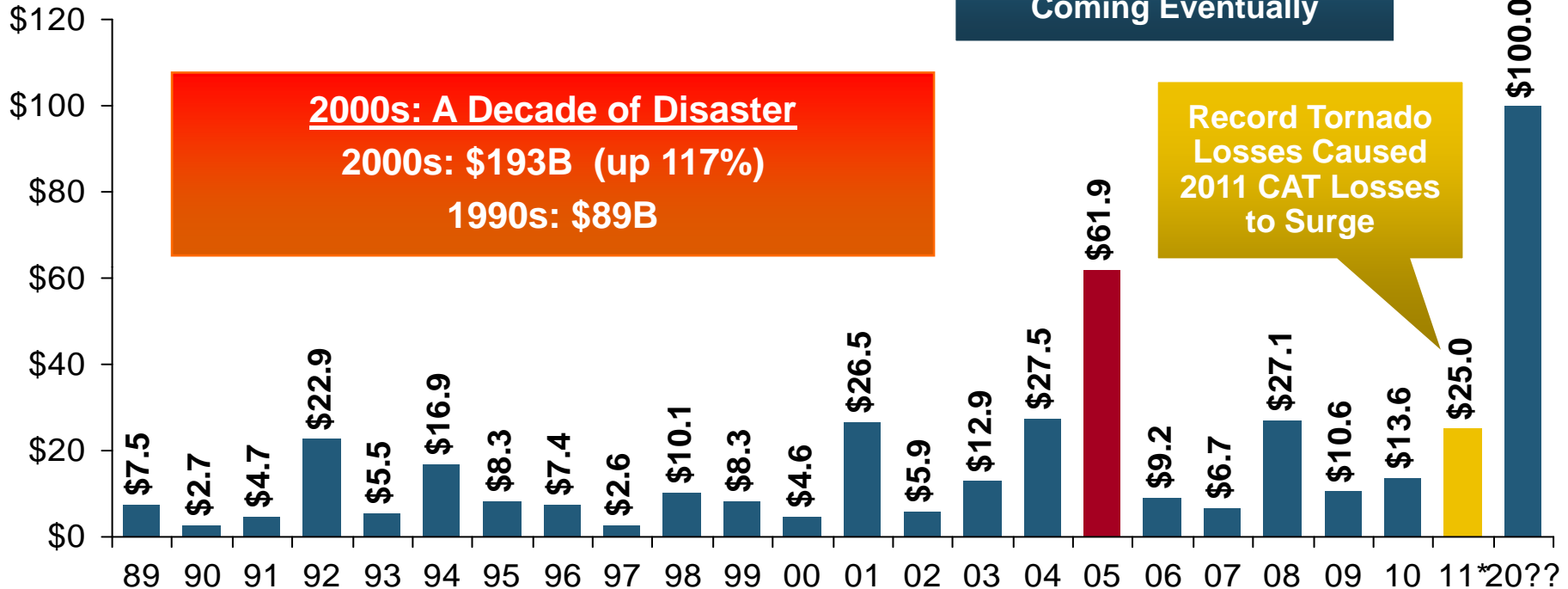


# U.S. Insured Catastrophe Loss Update

**2011 CAT Losses Already Greatly  
Exceed All of 2010 and Will Become One  
of the Most Expensive Years on Record**

# US Insured Catastrophe Losses

(\$ Billions)



**2000s: A Decade of Disaster**  
 2000s: \$193B (up 117%)  
 1990s: \$89B

\$100 Billion CAT Year is Coming Eventually

Record Tornado Losses Caused 2011 CAT Losses to Surge

**2011 Will Become the 5<sup>th</sup> or 6<sup>th</sup> Most Expensive Year in History for Insured Catastrophe Losses in the US**

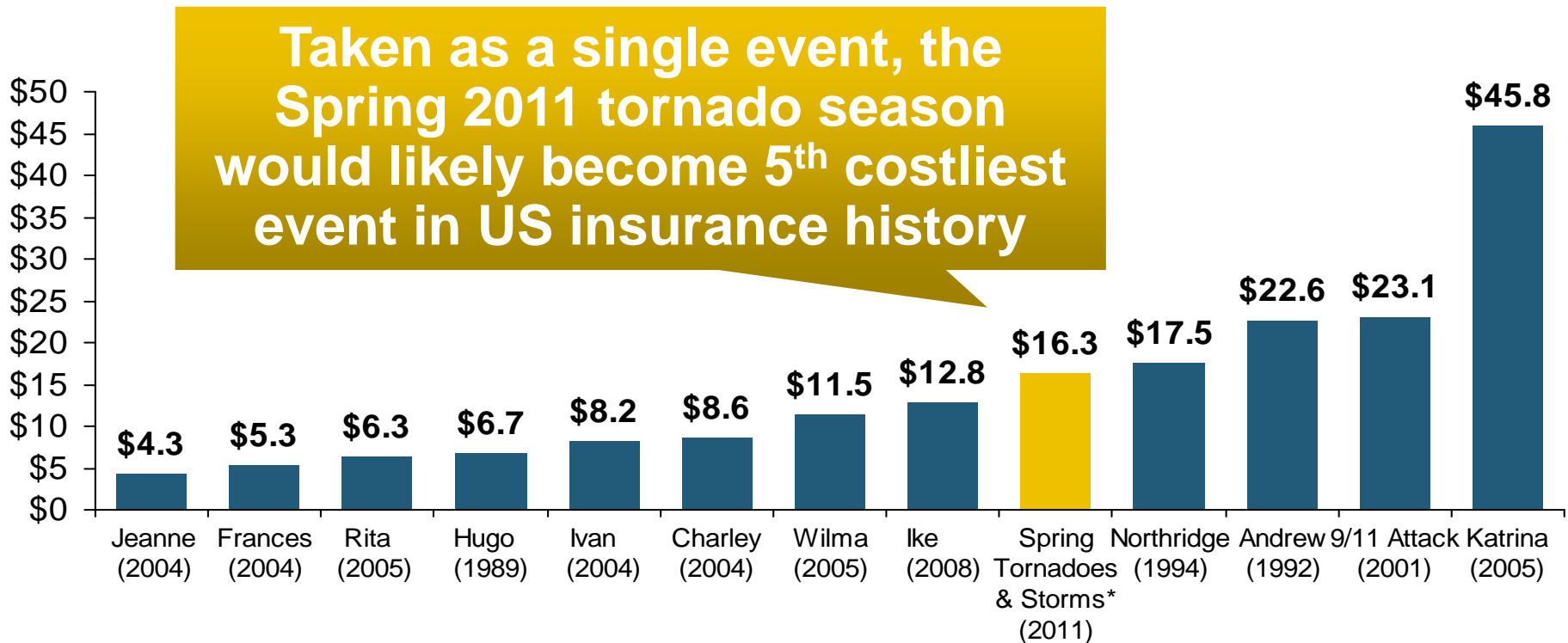
\*Estimate through Oct. 31, 2011.

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.

# Top 12 (13?) Most Costly Disasters in U.S. History

(Insured Losses, 2010 Dollars, \$ Billions)



\*IncludLosses will actually be broken down into several "events" as determined by PCS.

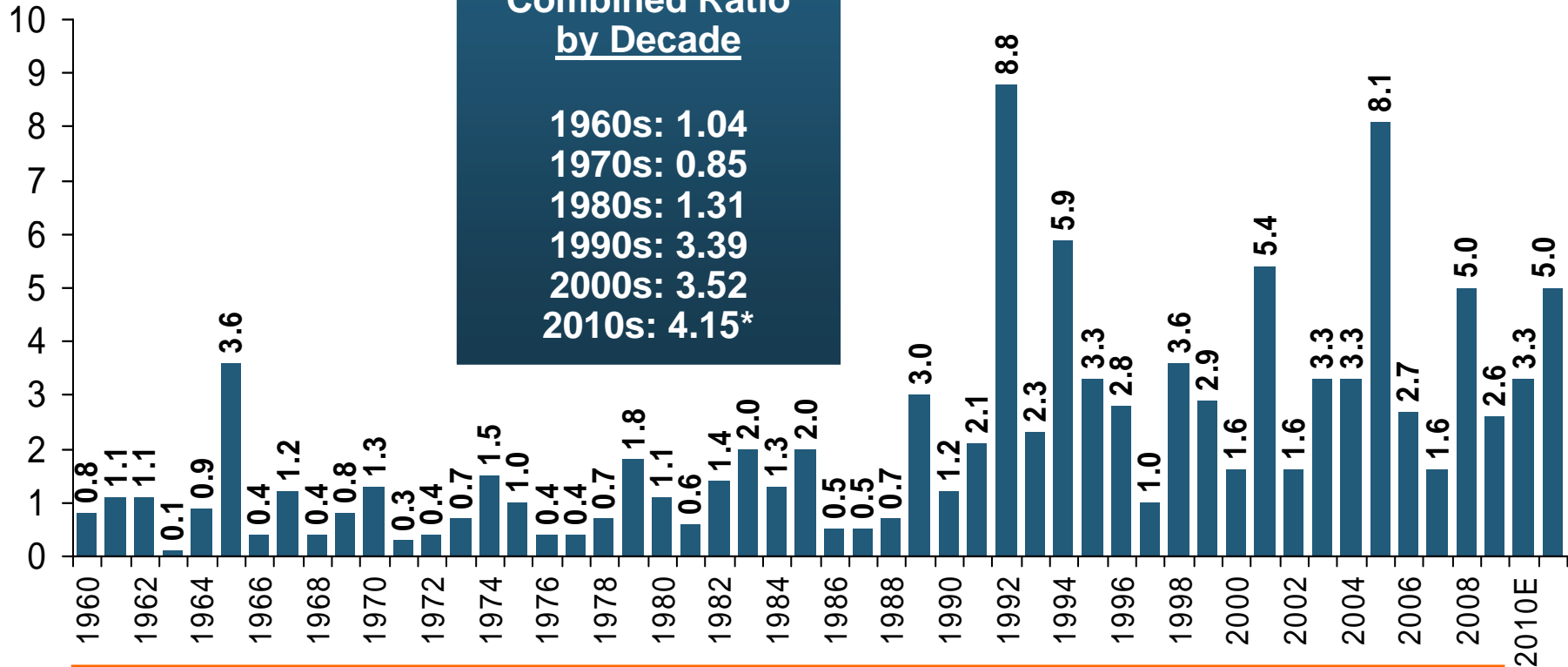
Sources: PCS; Insurance Information Institute inflation adjustments.

# Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2011:H1\*

## Combined Ratio Points

**Avg. CAT Loss Component of the Combined Ratio by Decade**

1960s: 1.04  
 1970s: 0.85  
 1980s: 1.31  
 1990s: 3.39  
 2000s: 3.52  
 2010s: 4.15\*



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

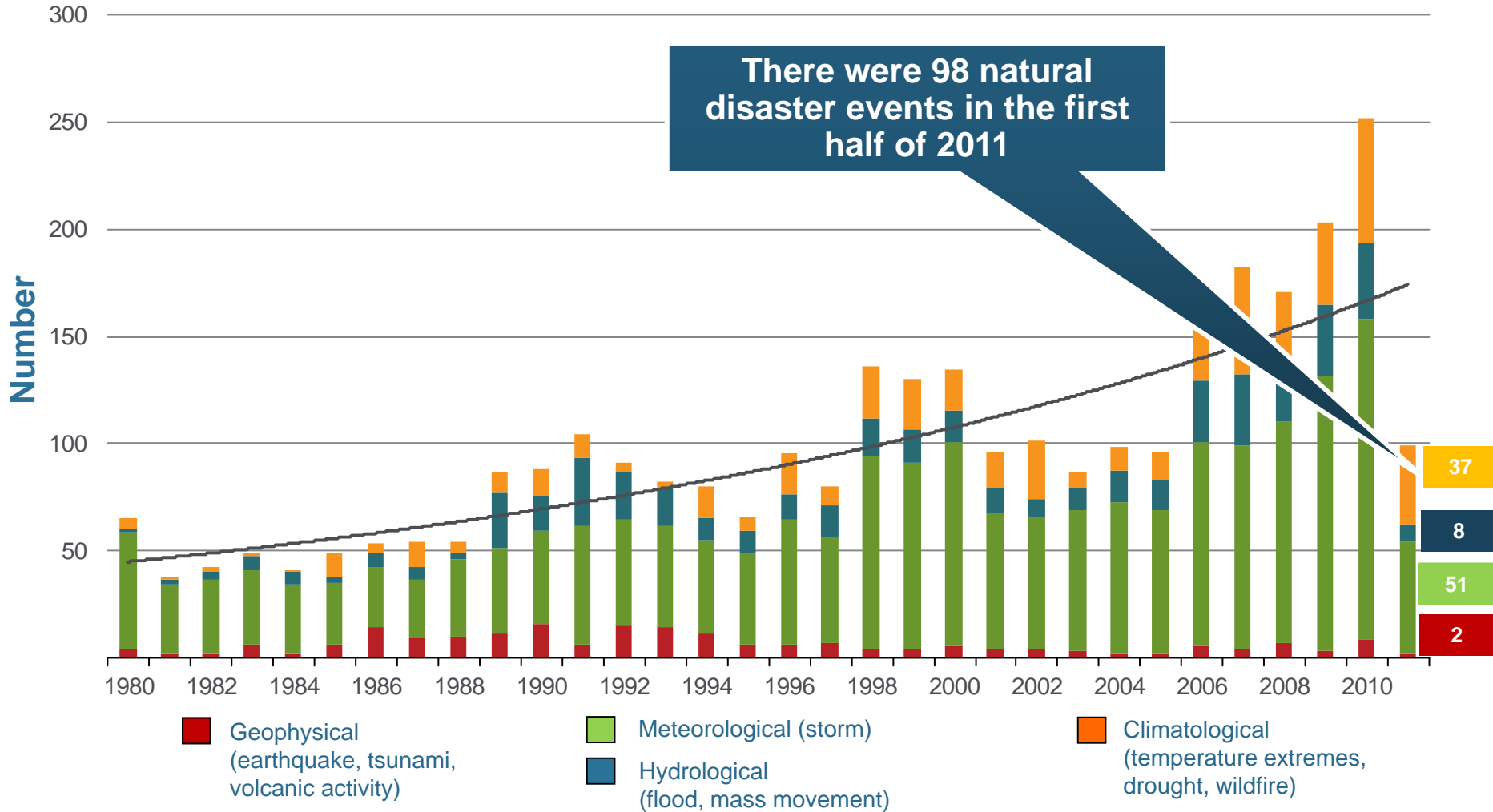
\*Insurance Information Institute estimates for 2010 and 2011:H1

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

Source: ISO; Insurance Information Institute.

# Natural Disasters in the United States, 1980 – 2011\*

Number of Events (Annual Totals 1980 – 2010 and First Half 2011)

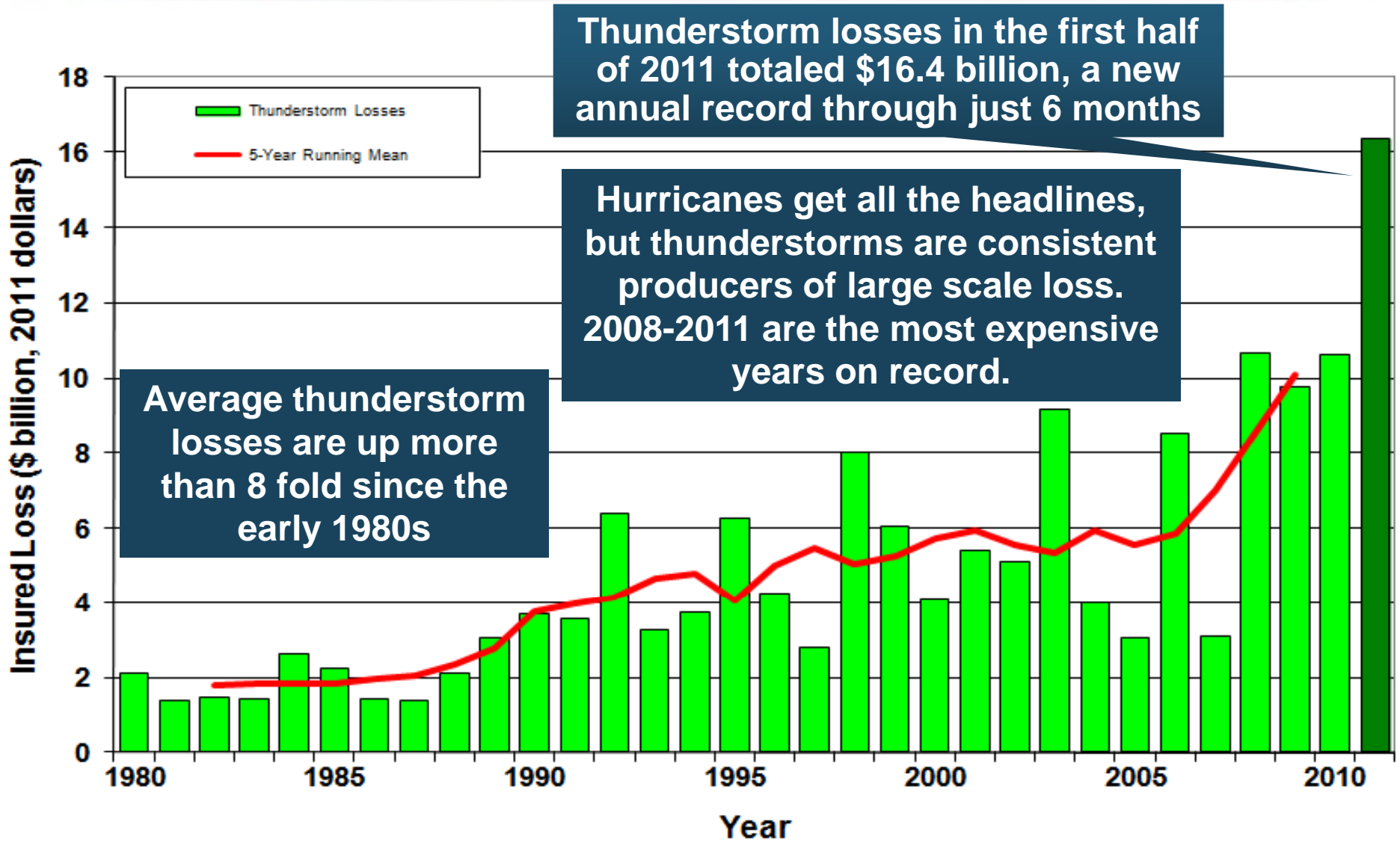


There were 98 natural disaster events in the first half of 2011

37  
8  
51  
2

\*Through June 30.  
Source: MR NatCatSERVICE

# U.S. Thunderstorm Loss Trends, 1980 – 2011\*



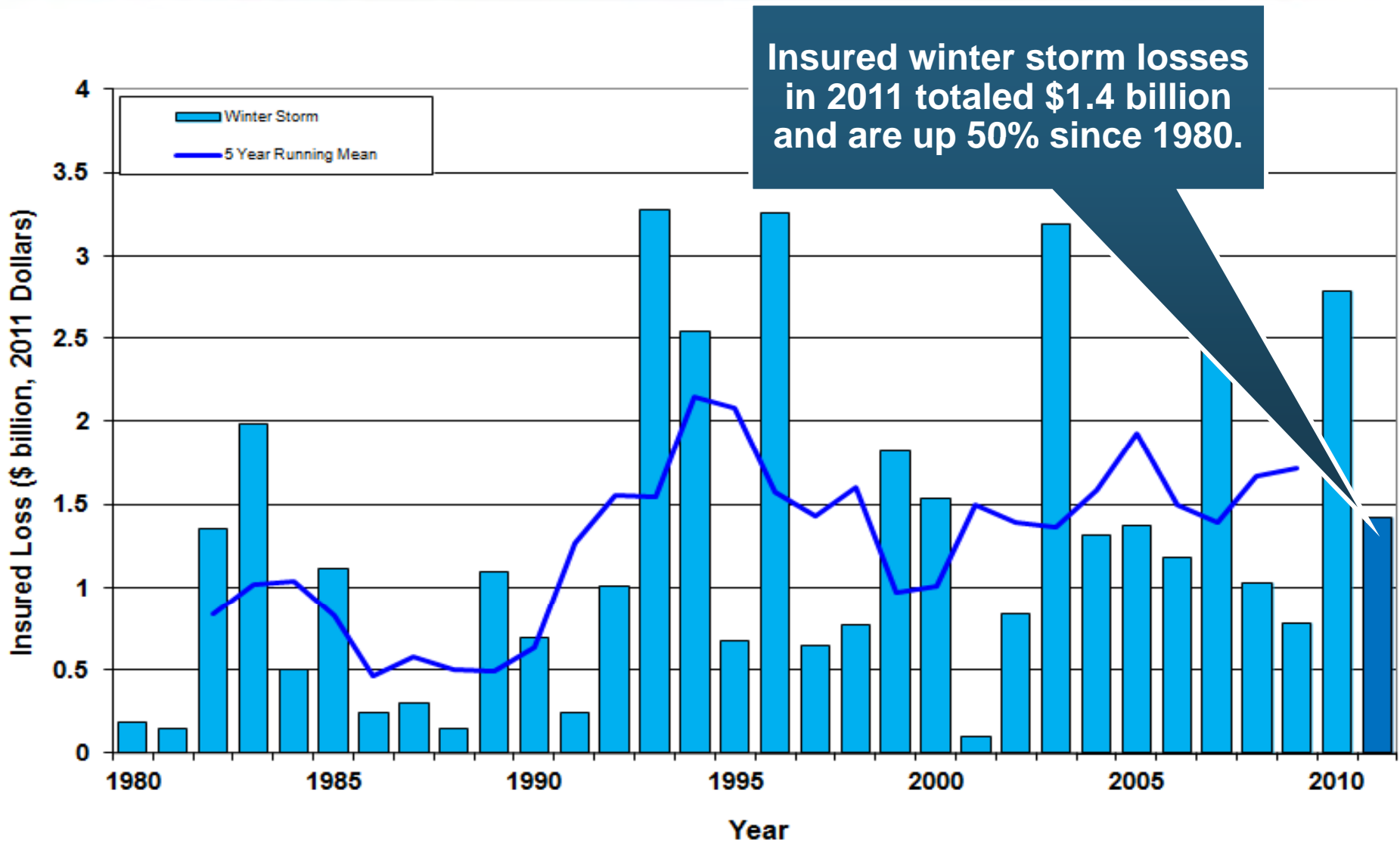
Thunderstorm losses in the first half of 2011 totaled \$16.4 billion, a new annual record through just 6 months

Hurricanes get all the headlines, but thunderstorms are consistent producers of large scale loss. 2008-2011 are the most expensive years on record.

Average thunderstorm losses are up more than 8 fold since the early 1980s

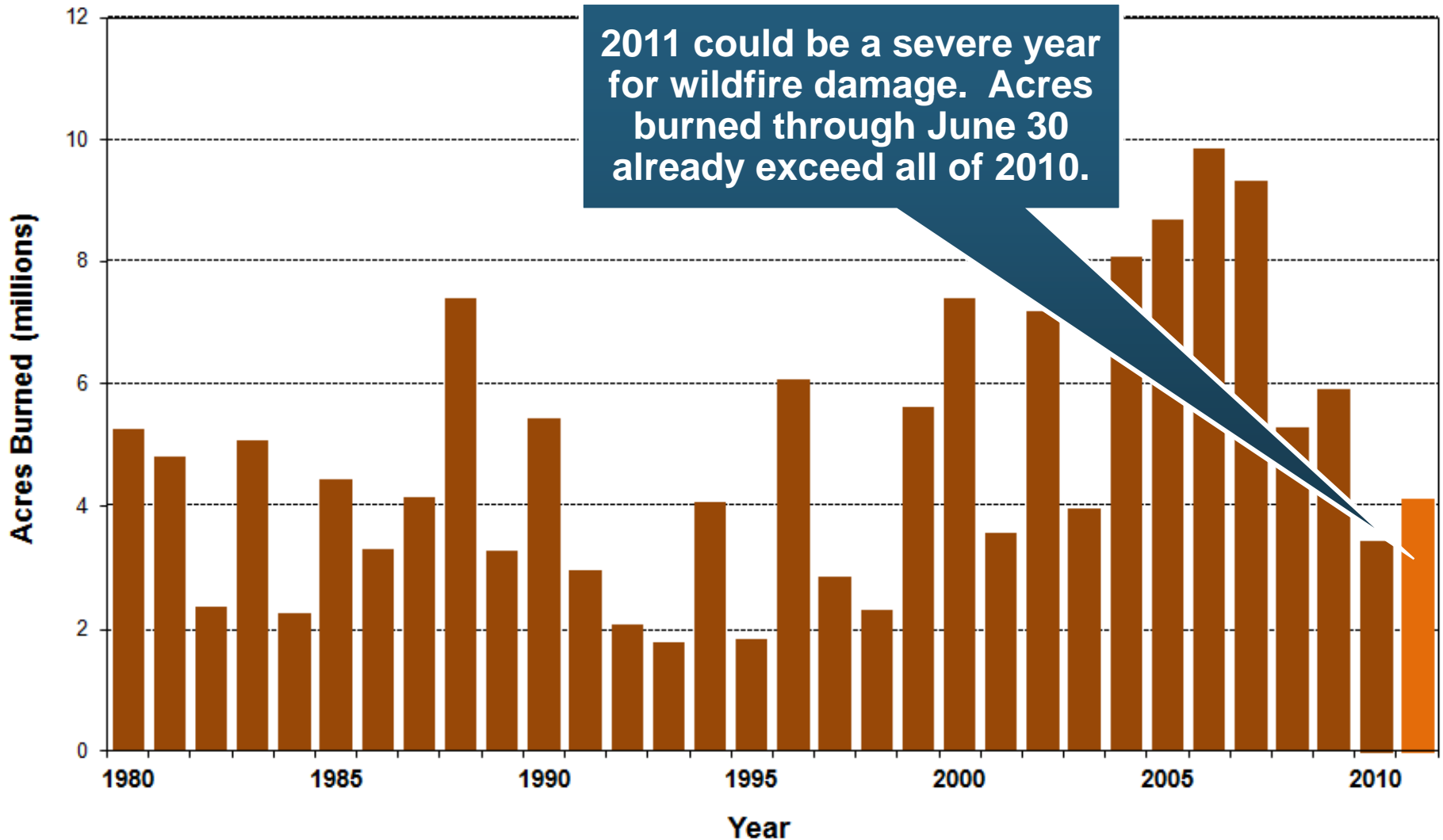
\*Through June 30, 2011.  
Source: Property Claims Service, MR NatCatSERVICE

# U.S. Winter Storm Loss Trends, 1980 – 2010 (Annual Totals) vs. First Half 2011

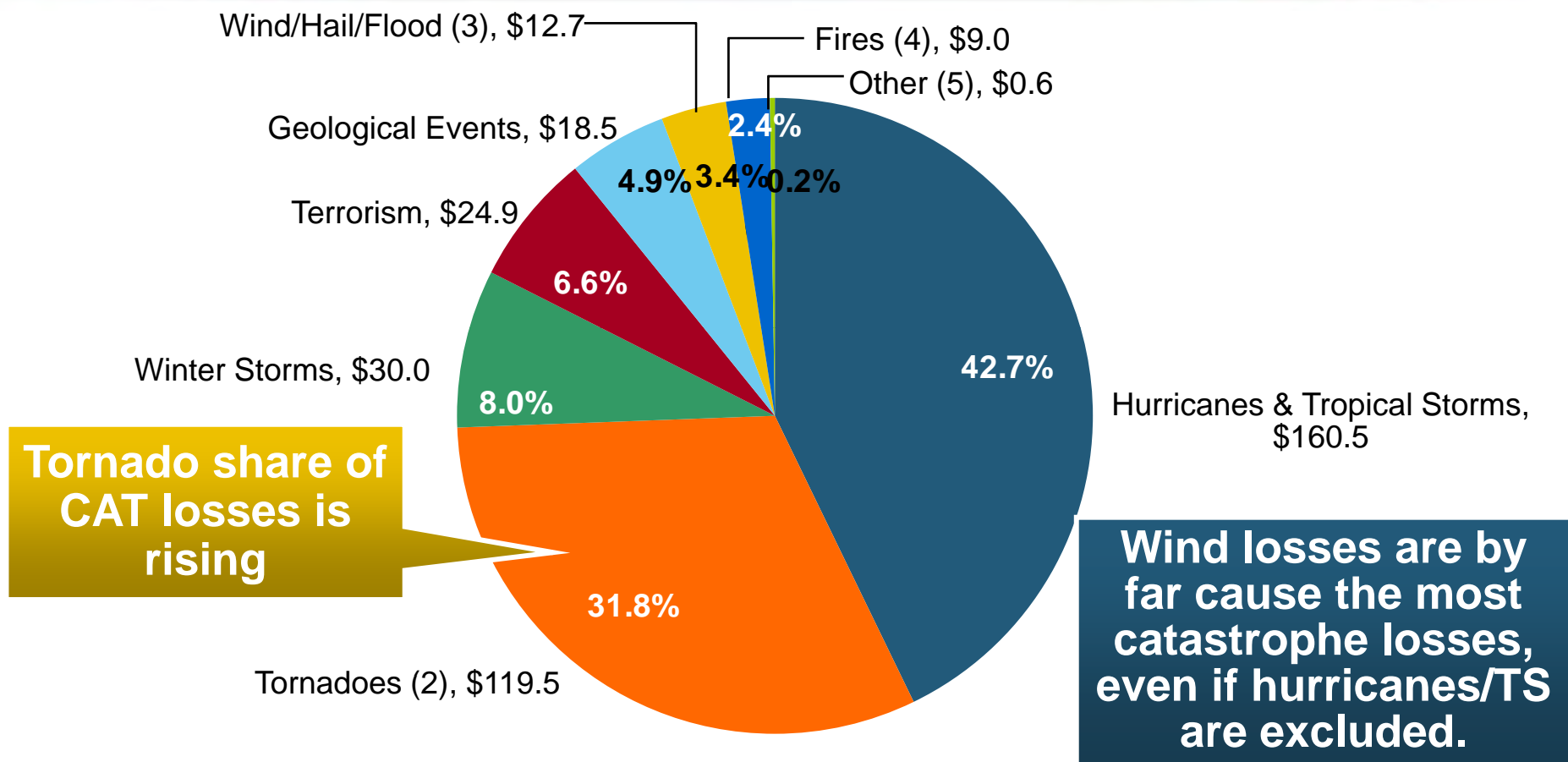




# U.S. Acreage Burned by Wildfires, 1980 – 2010 (Annual Totals) vs. First Half 2011



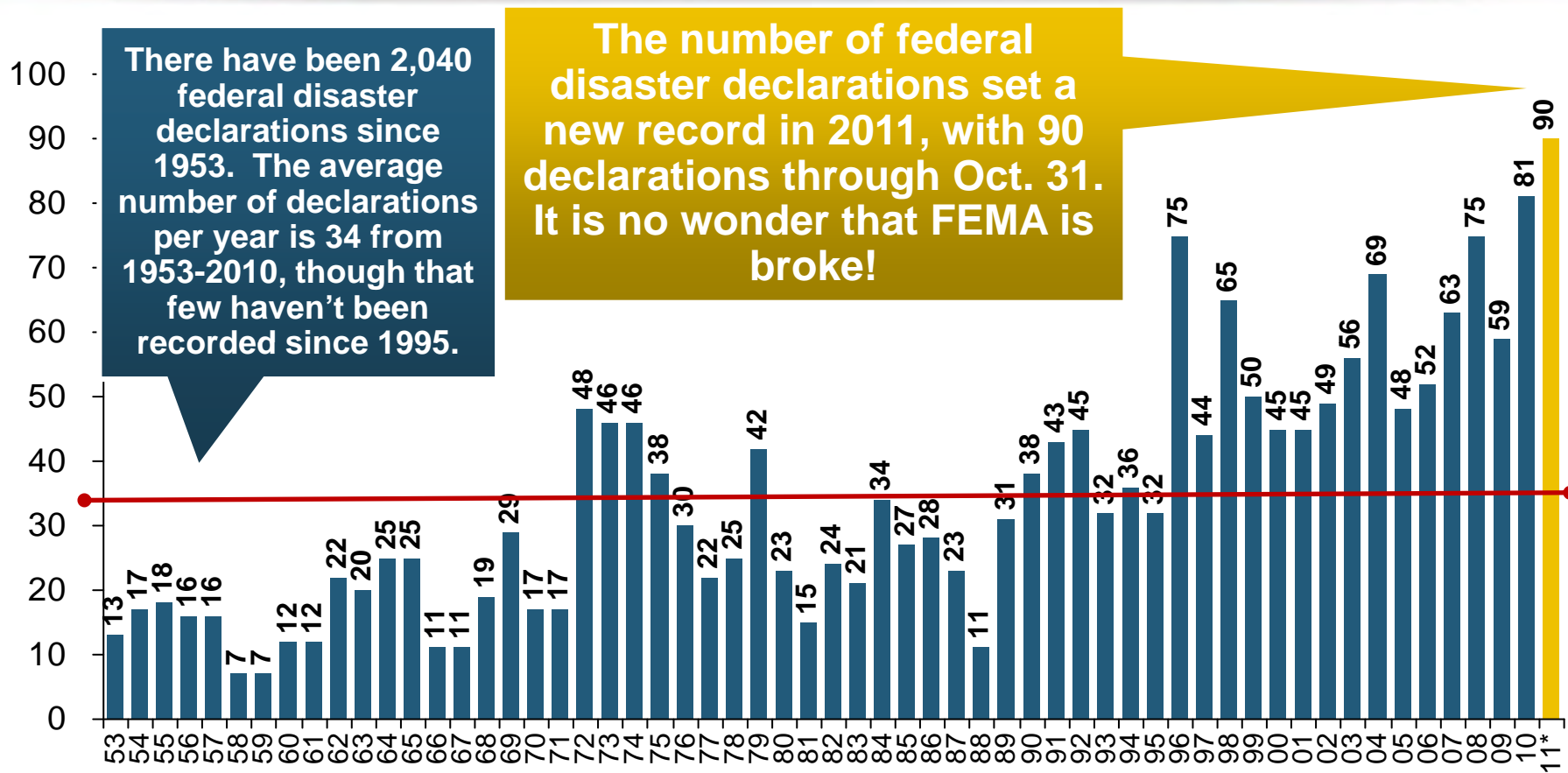
# Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1990–2011:H1<sup>1</sup>



1. Catastrophes are defined as events causing direct insured losses to property of \$25 million or more in 2009 dollars.
2. Excludes snow.
3. Does not include NFIP flood losses
4. Includes wildland fires
5. Includes civil disorders, water damage, utility disruptions and non-property losses such as those covered by workers compensation.

Source: ISO's Property Claim Services Unit.

# Number of Federal Disaster Declarations, 1953-2011\*

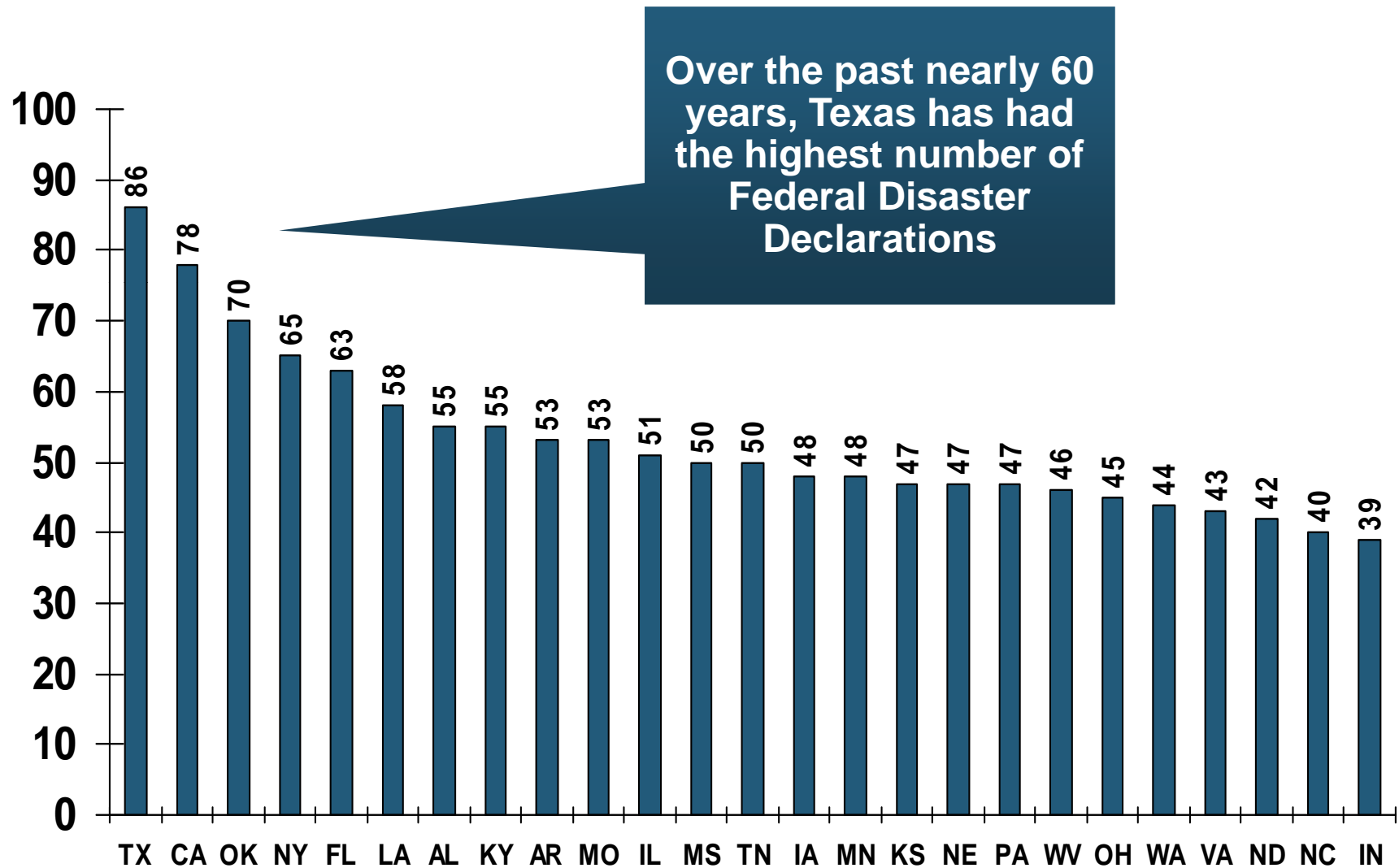


**The Number of Federal Disaster Declarations Is Rising and Set a New Record in 2011**

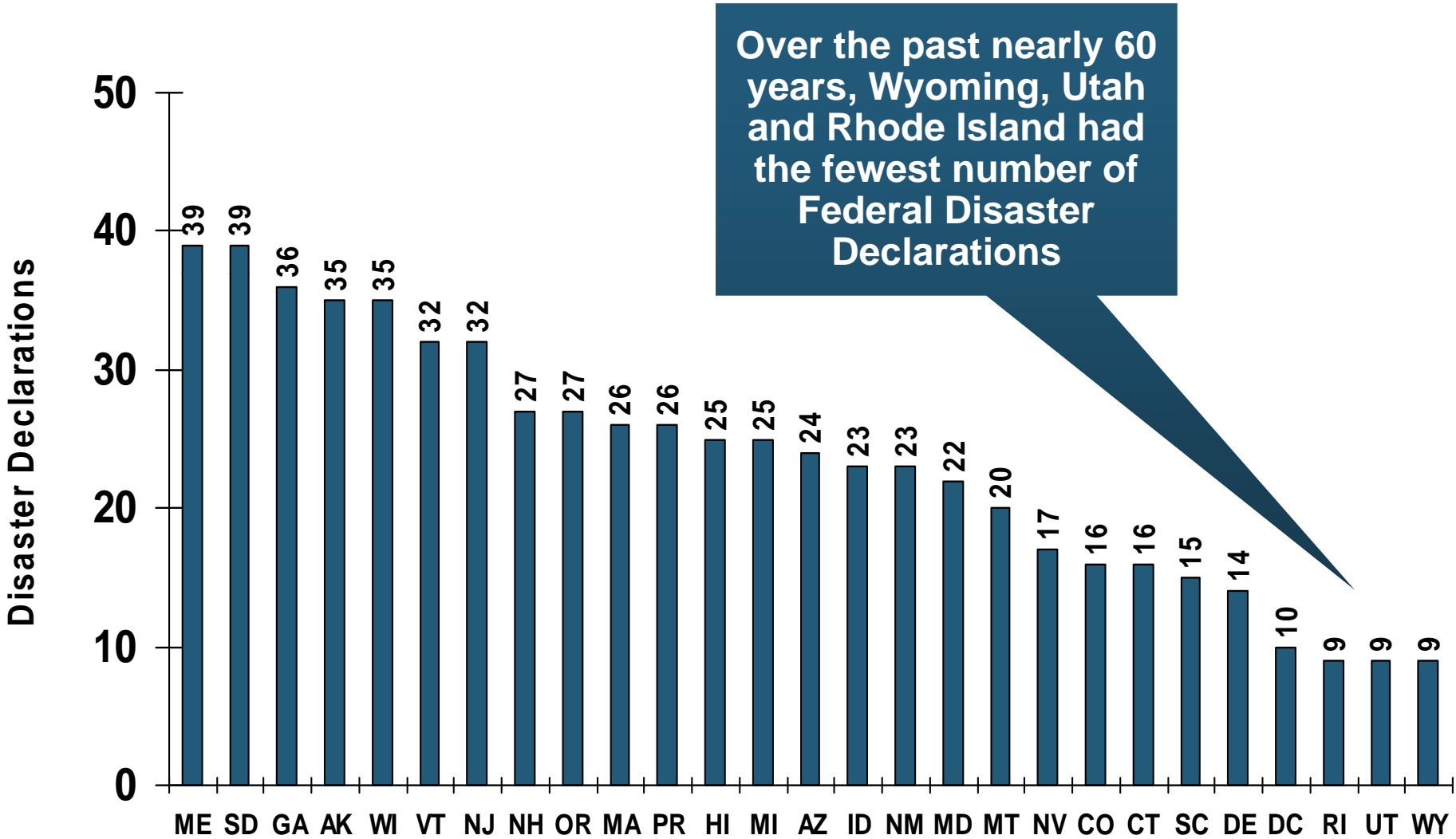
\*Through October 31, 2011.

Source: Federal Emergency Management Administration: [http://www.fema.gov/news/disaster\\_totals\\_annual.fema](http://www.fema.gov/news/disaster_totals_annual.fema) ; Insurance Information Institute.

# Federal Disasters Declarations by State, 1953 – Oct. 31, 2011: Highest 25 States



# Federal Disasters Declarations by State, 1953 – Oct. 31, 2011: Lowest 25 States\*



\*Includes Puerto Rico and the District of Columbia.

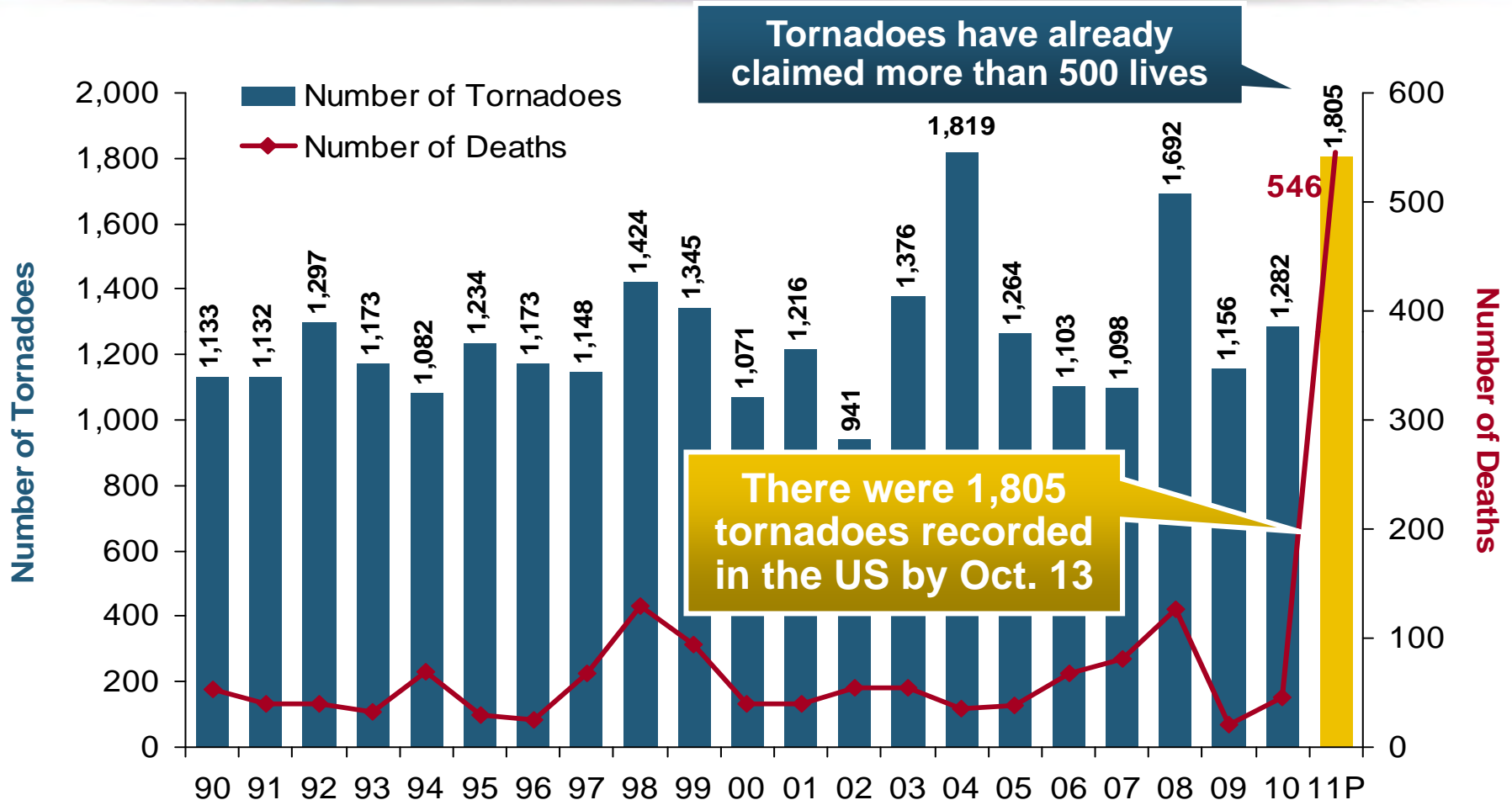
Source: FEMA: [http://www.fema.gov/news/disaster\\_totals\\_annual.fema](http://www.fema.gov/news/disaster_totals_annual.fema); Insurance Information Institute.



## **SPRING 2011 TORNADO & SEVERE STORM OUTBREAK**

**2011 Losses Are Putting Pressure on  
US P/C Insurance Markets**

# Number of Tornadoes and Related Deaths, 1990 – 2011\*



**Insurers Expect to Pay at Least \$2 Billion Each for the April 2011 Tornadoes in Alabama and a Similar Amount for the May Storms in Joplin**

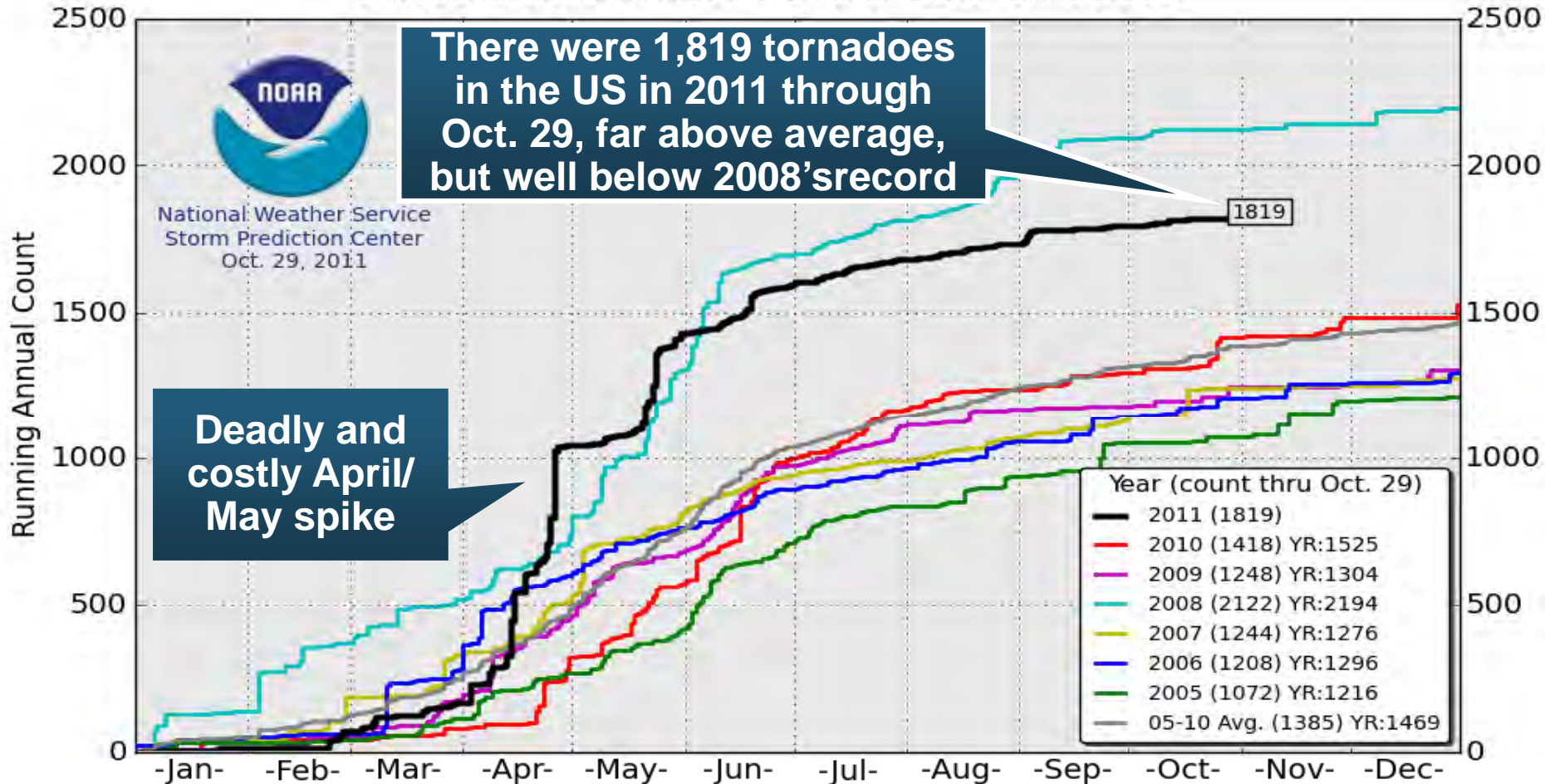
\*2011 is preliminary data through October 13.

Source: U.S. Department of Commerce, Storm Prediction Center, National Weather Service.



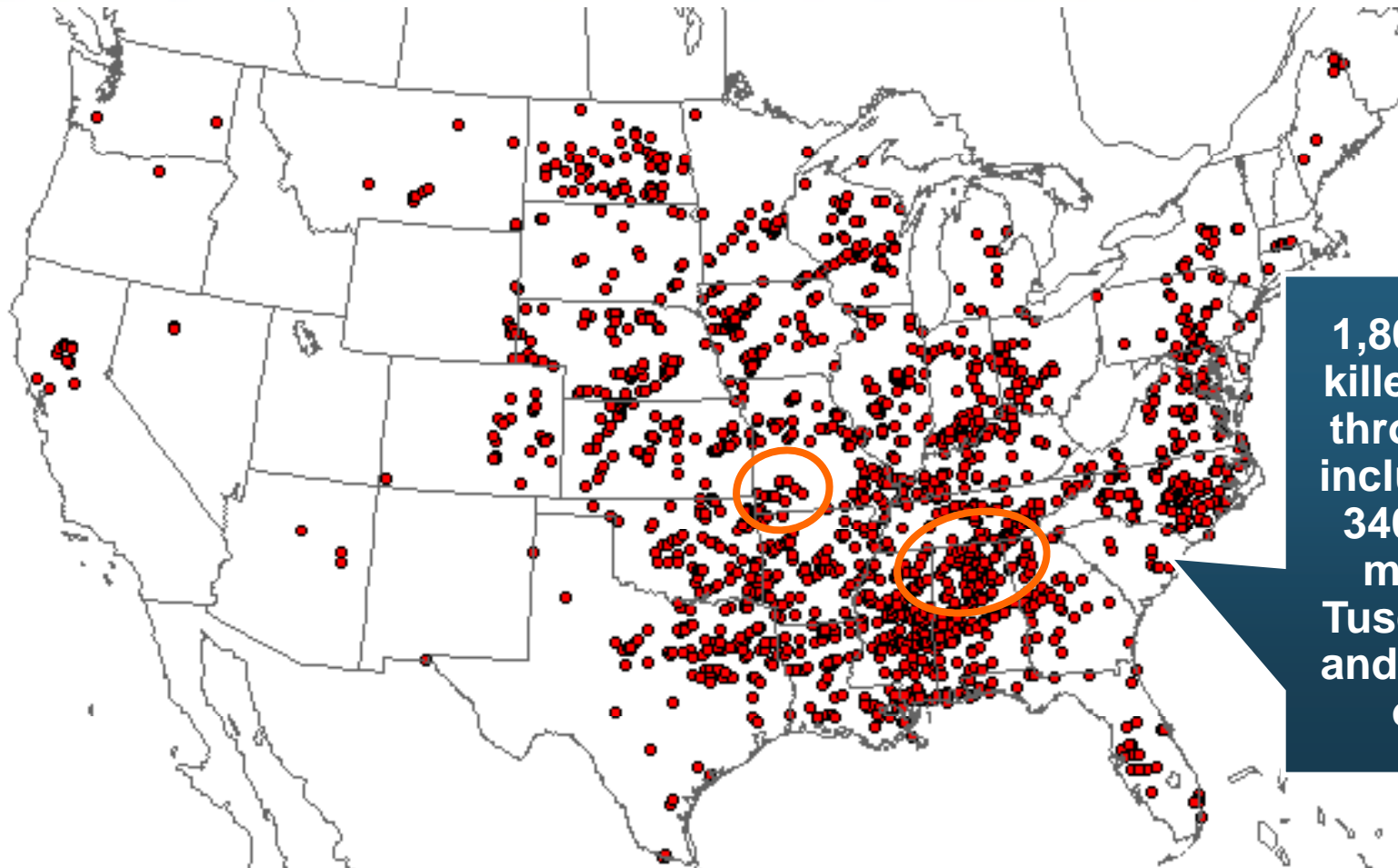
# U.S. Tornado Count, 2005-2011\*

United States Annual Trend of LSR Tornadoes\*



\*Preliminary tornadoes from NWS Local Storm Reports (LSRs)  
Annual average is based on preliminary LSRs, 2005-2010

# Location of Tornadoes in the US, January 1—October 13, 2011



1,805 tornadoes killed 546 people through Oct. 13, including at least 340 on April 26 mostly in the Tuscaloosa area, and 130 in Joplin on May 22



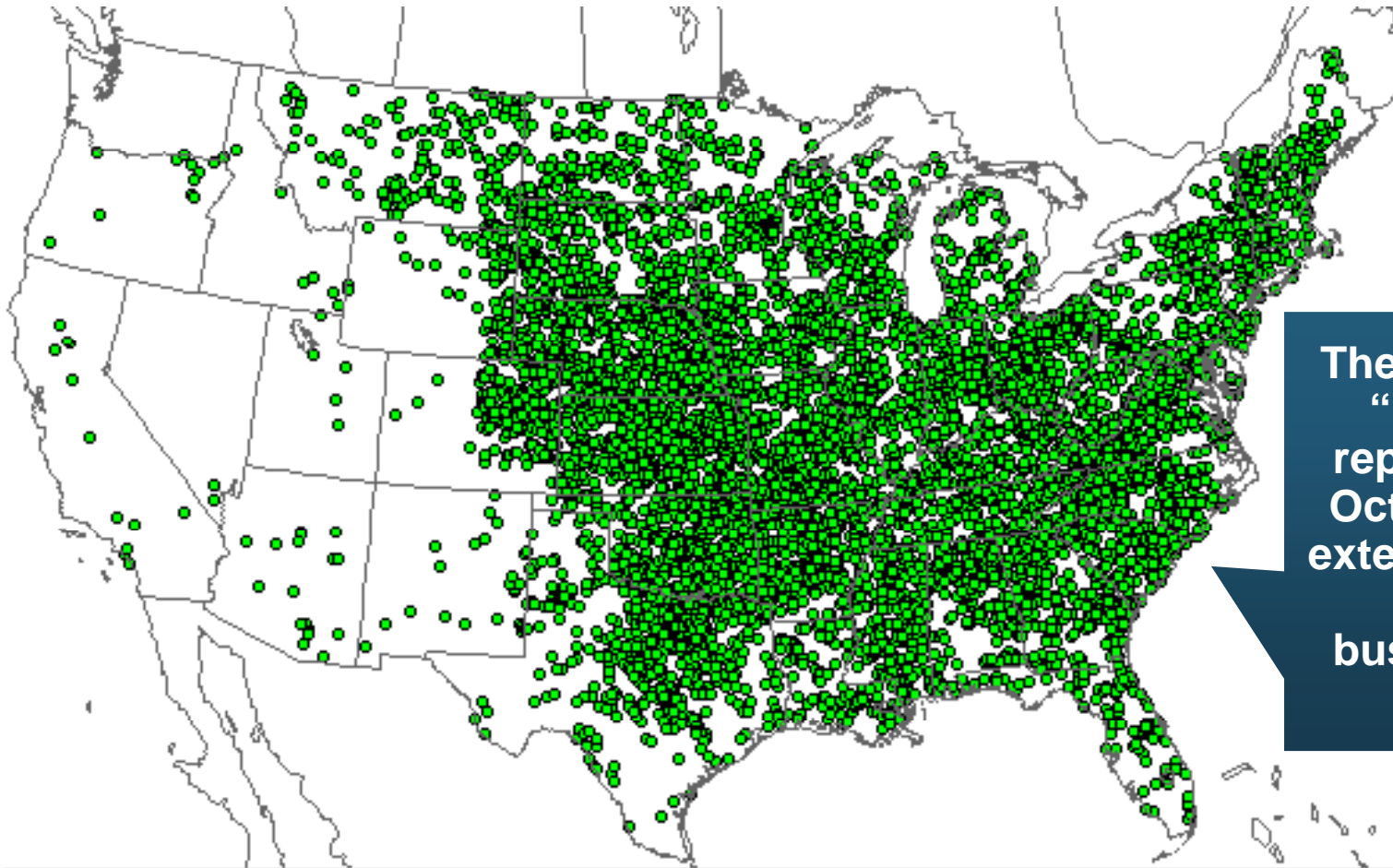
PRELIMINARY SEVERE WEATHER  
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Tornado Reports  
January 01, 2011 - October 13, 2011

Updated: Thursday October 13, 2011 12:59 CT

# Location of Large Hail Reports in the US, January 1—October 13, 2011



There were 9,287  
“Large Hail”  
reports through  
Oct. 13, causing  
extensive damage  
to homes,  
businesses and  
vehicles



PRELIMINARY SEVERE WEATHER  
REPORT DATABASE (ROUGH LOG)

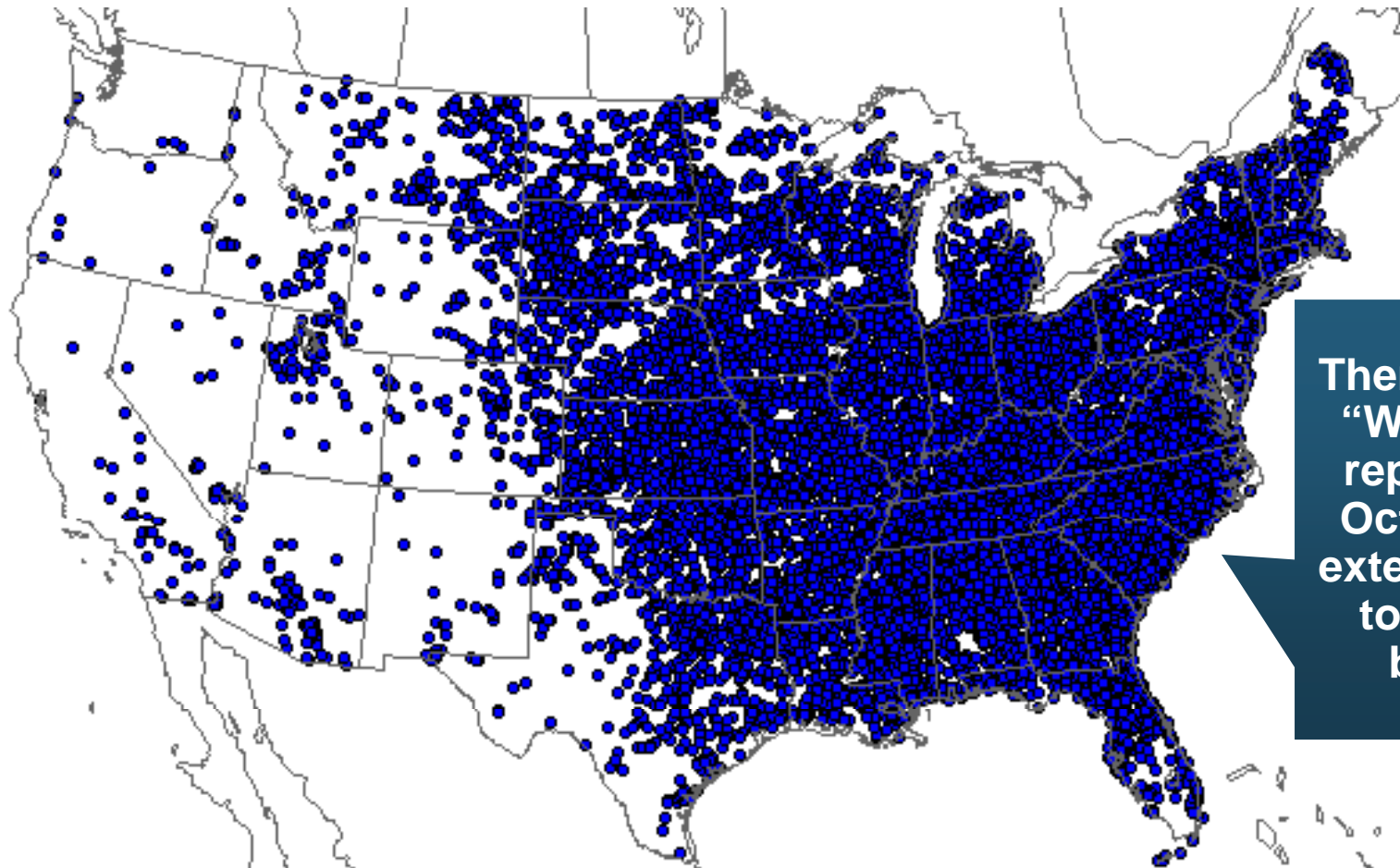
NOAA/Storm Prediction Center Norman, Oklahoma

Hail Reports  
January 01, 2011 - October 13, 2011

Updated: Thursday October 13, 2011 12:59 CT



# Location of Wind Damage Reports in the US, January 1—Oct. 13, 2011



There were 18,293  
“Wind Damage”  
reports through  
Oct. 13, causing  
extensive damage  
to homes and,  
businesses



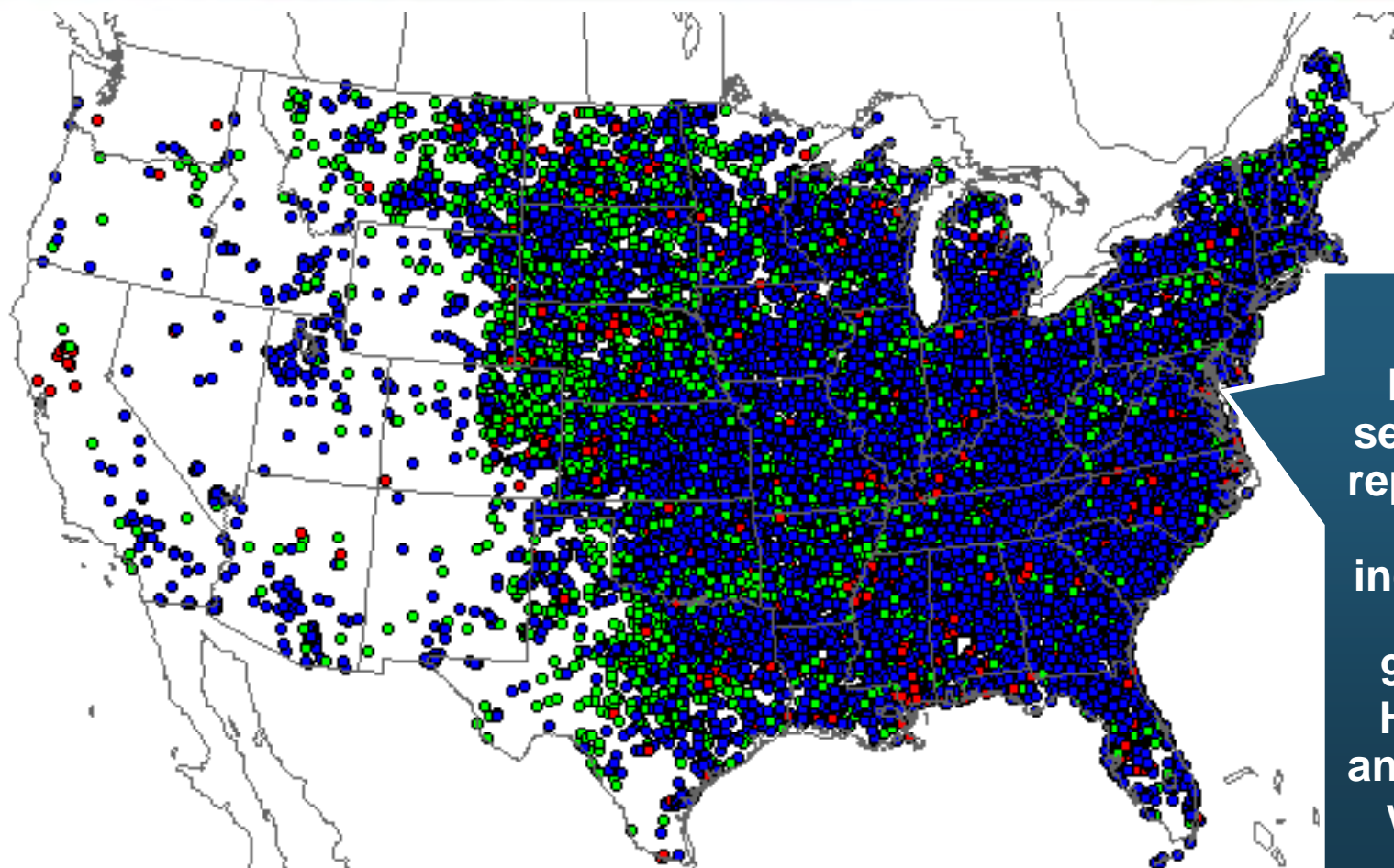
PRELIMINARY SEVERE WEATHER  
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Wind Reports  
January 01, 2011 - October 13, 2011

Updated: Thursday October 13, 2011 12:59 CT

# Severe Weather Reports, January 1—October 13, 2011



There have been 29,385 severe weather reports through Oct. 13; including 1,805 tornadoes; 9,287 “Large Hail” reports and 18,293 high wind events



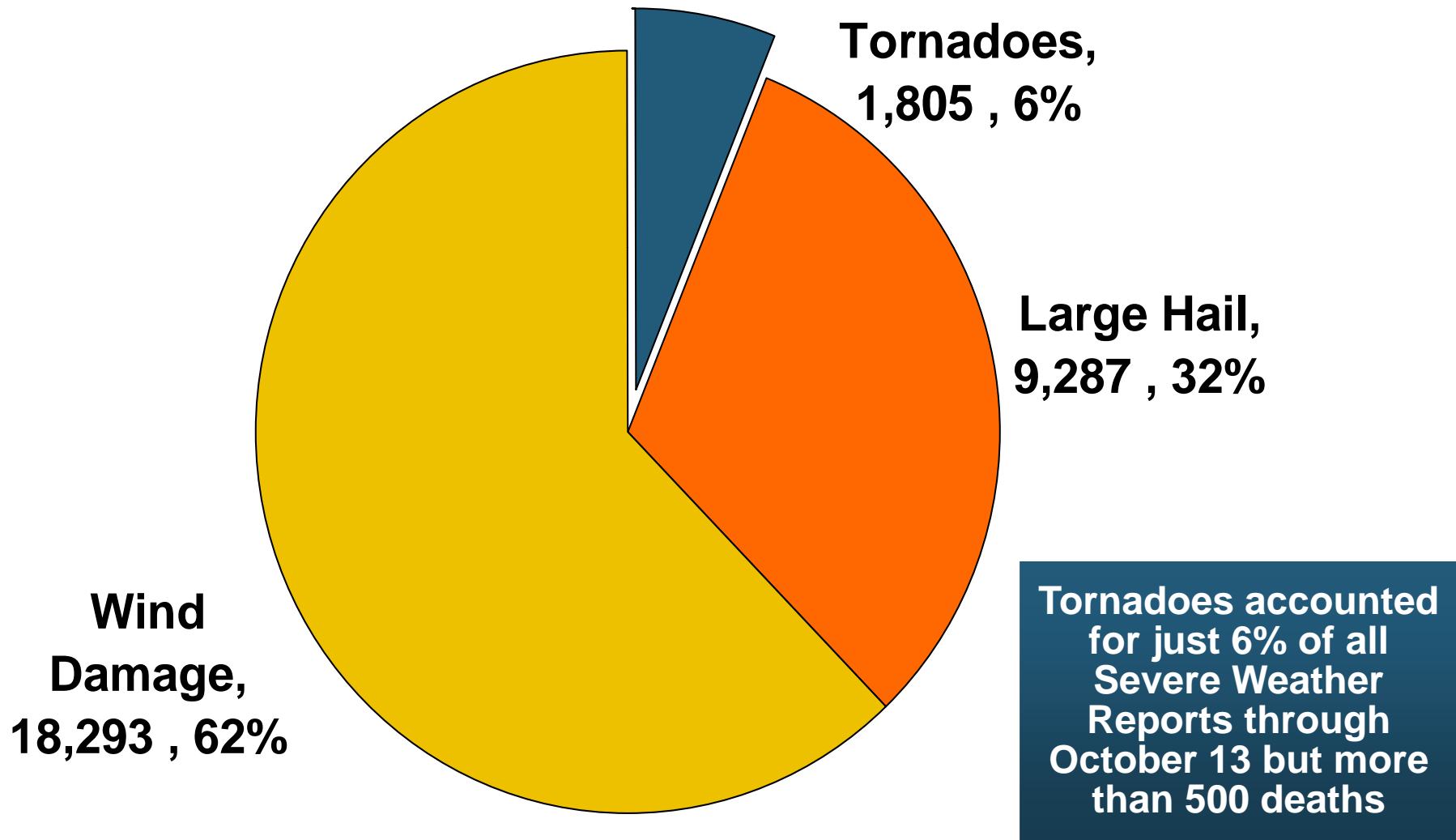
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REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Severe Weather Reports  
January 01, 2011 - October 13, 2011

Updated: Thursday October 13, 2011 12:59 CT

# Number of Severe Weather Reports in US, by Type: January 1—October 13, 2011





# The BIG Question: When Will the Market Turn?

## Are Catastrophes and Other Factors Pressuring Insurance Markets?

# Criteria Necessary for a “Market Turn”: All Four Criteria Must Be Met

Criteria	Status	Comments
<b>Sustained Period of Large Underwriting Losses</b>	<i>Early Stage, Inevitable</i>	<ul style="list-style-type: none"> <li>• Apart from Q2:2011, overall p/c underwriting losses remain modest</li> <li>• Combined ratios (ex-Q2 CATs) still in low 100s (vs. 110+ at onset of last hard market)</li> <li>• Prior-year reserve releases continue reduce u/w losses, boost ROEs</li> </ul>
<b>Material Decline in Surplus/ Capacity</b>	<i>Entered 2011 At Record High; Since Fallen</i>	<ul style="list-style-type: none"> <li>• Surplus hit a record \$565B as of 3/31/11</li> <li>• Fell by 1% in Q2 2011</li> <li>• Little excess capacity remains in reinsurance markets</li> <li>• Weak growth in demand for insurance is insufficient to absorb much excess capacity</li> </ul>
<b>Tight Reinsurance Market</b>	<i>Somewhat in Place</i>	<ul style="list-style-type: none"> <li>• Much of the global “excess capacity” was eroded by cats</li> <li>• Higher prices in Asia/Pacific</li> <li>• Modestly higher pricing for US risks</li> </ul>
<b>Renewed Underwriting &amp; Pricing Discipline</b>	<i>Some Firming in Property, WC</i>	<ul style="list-style-type: none"> <li>• Commercial lines pricing trends turning from negative to flat or up in some lines (property, WC)</li> <li>• Competition remains intense as many seek to maintain market share</li> </ul>



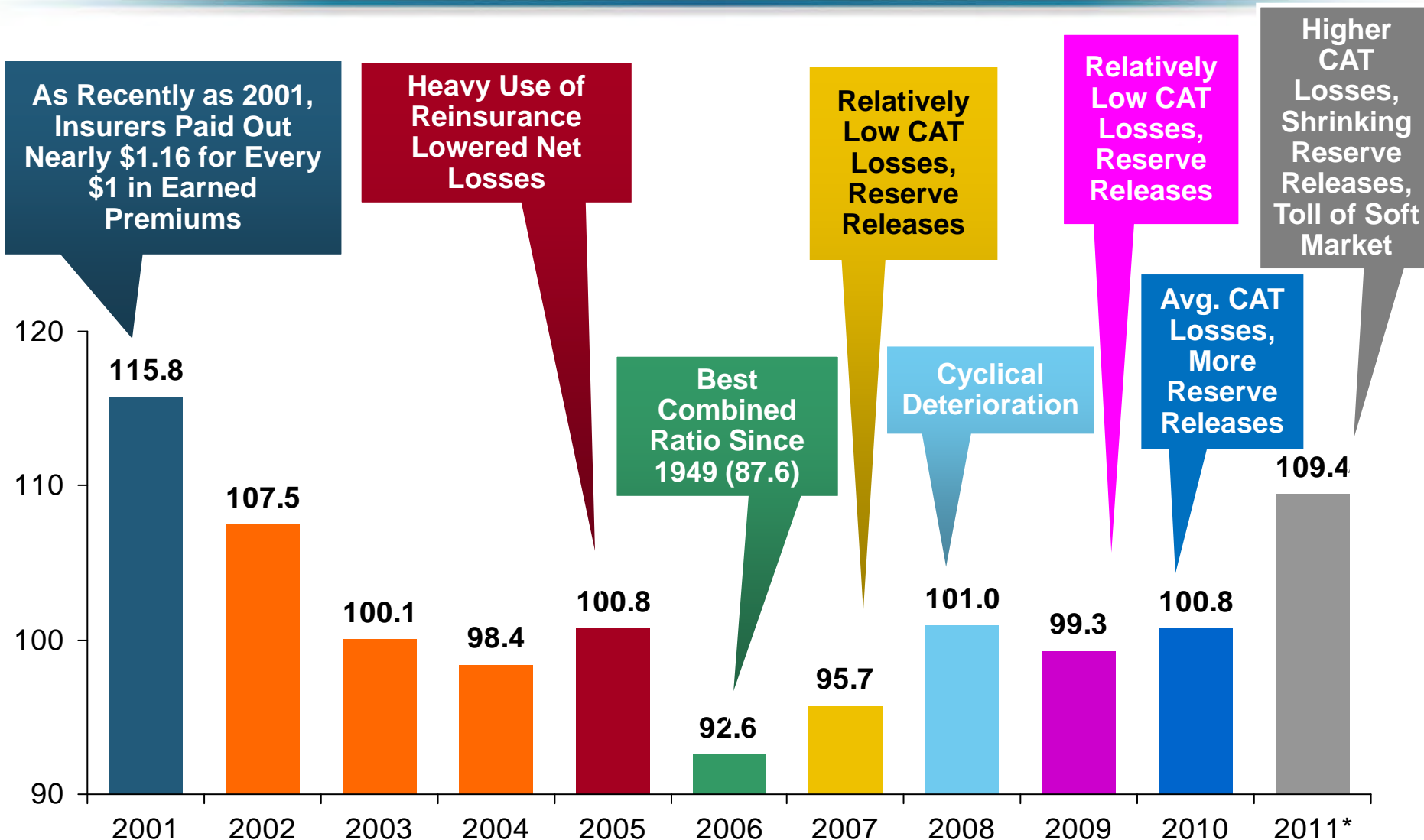
# Do the Property Catastrophe Events of 2011 Impact Casualty Markets?

- **Unlikely that Record 2011 Property CAT Loss Will Impact Casualty Markets in Any Material Way, Including Professional Liability Lines**
- **Global P/C & Reinsurance Industries Entered 2011 w/ Record Capital**
  - ◆ Events so far in 2011 are earnings events, rather than capital events
- **Natural Catastrophe and Casualty Risks Are Largely Uncorrelated**
  - ◆ Risks are different
  - ◆ Geographically, mostly distinct primary carriers: Japan-Australia-NZ-US
  - ◆ Casualty markets generally don't influence property markets
- **Property and Casualty Risks Are Largely Siloed**
- **Record Property Losses in 2004/2005 Did Not Impact Casualty Mkts.**
- **Casualty Markets Have Their Own Issues**
  - ◆ Tort environment
  - ◆ Inflation
  - ◆ Public policy

# 1. UNDERWRITING

**Have Underwriting Losses  
Been Large Enough for Long  
Enough to Turn the Market?**

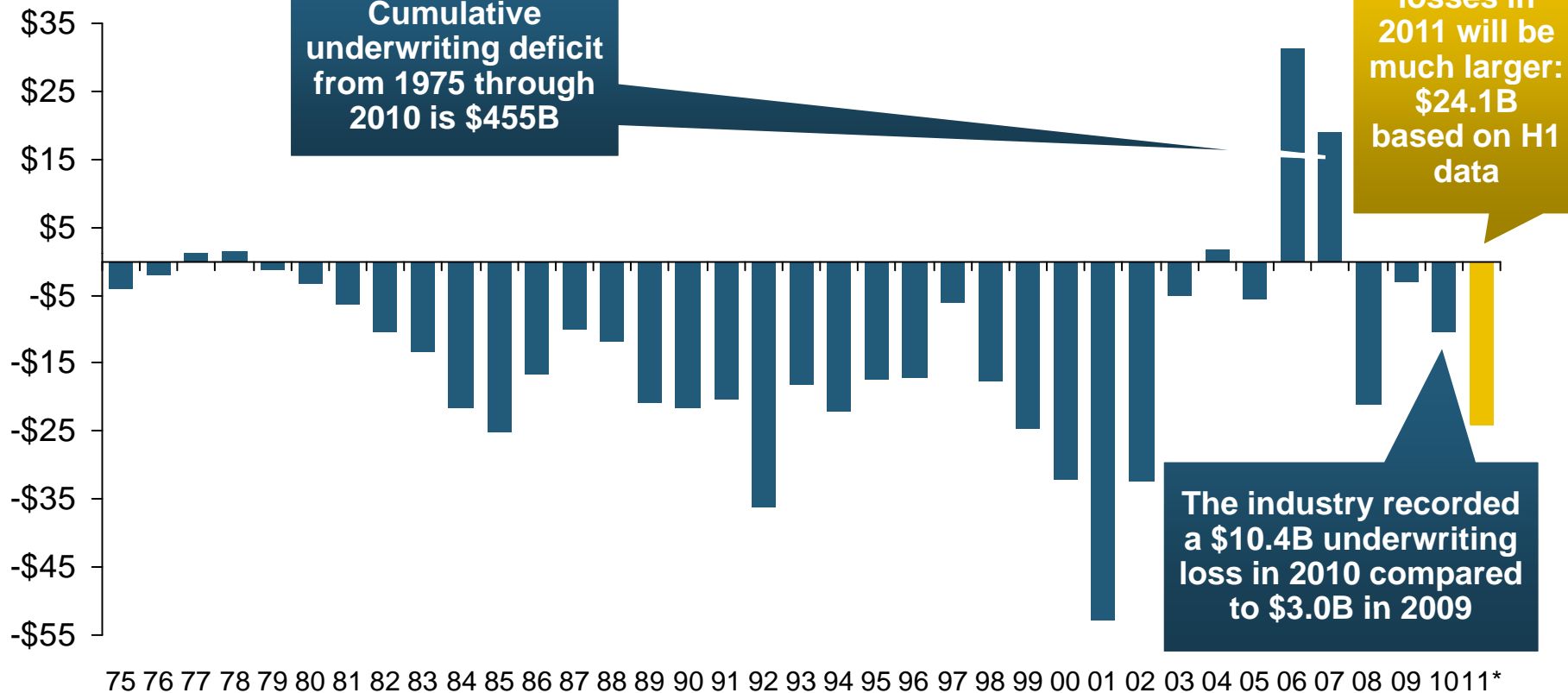
# P/C Insurance Industry Combined Ratio, 2001–2011:H1\*



\* Excludes Mortgage & Financial Guaranty insurers 2008--2011. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=110.5  
Sources: A.M. Best, ISO.; III Estimated for 2011:H1 (Q1 actual ex-M&FG was 102.2).

# Underwriting Gain (Loss) 1975–2011\*

(\$ Billions)



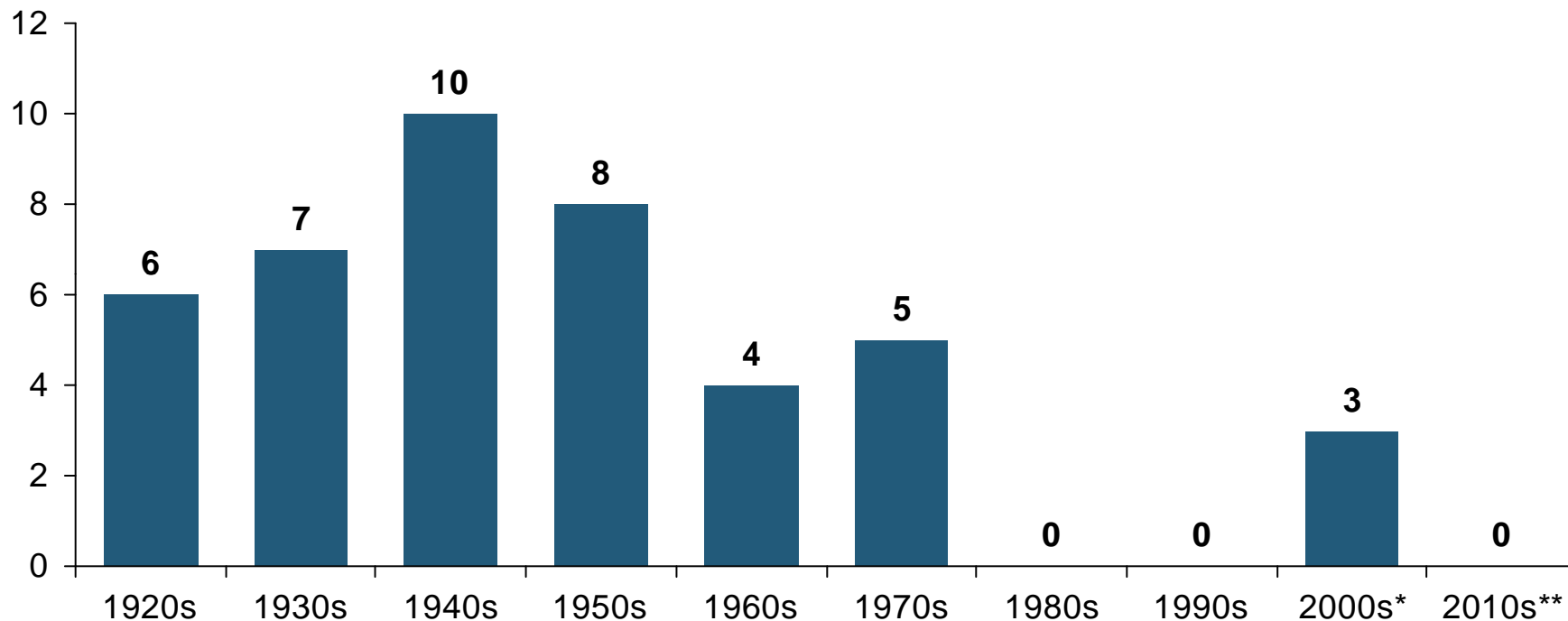
**Large Underwriting Losses Are *NOT* Sustainable  
in Current Investment Environment**

\* Includes mortgage and financial guaranty insurers in all years. 2011 figure is actual H1 underwriting losses of \$24.098 billion.

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

# Number of Years with Underwriting Profits by Decade, 1920s–2010s

## 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**

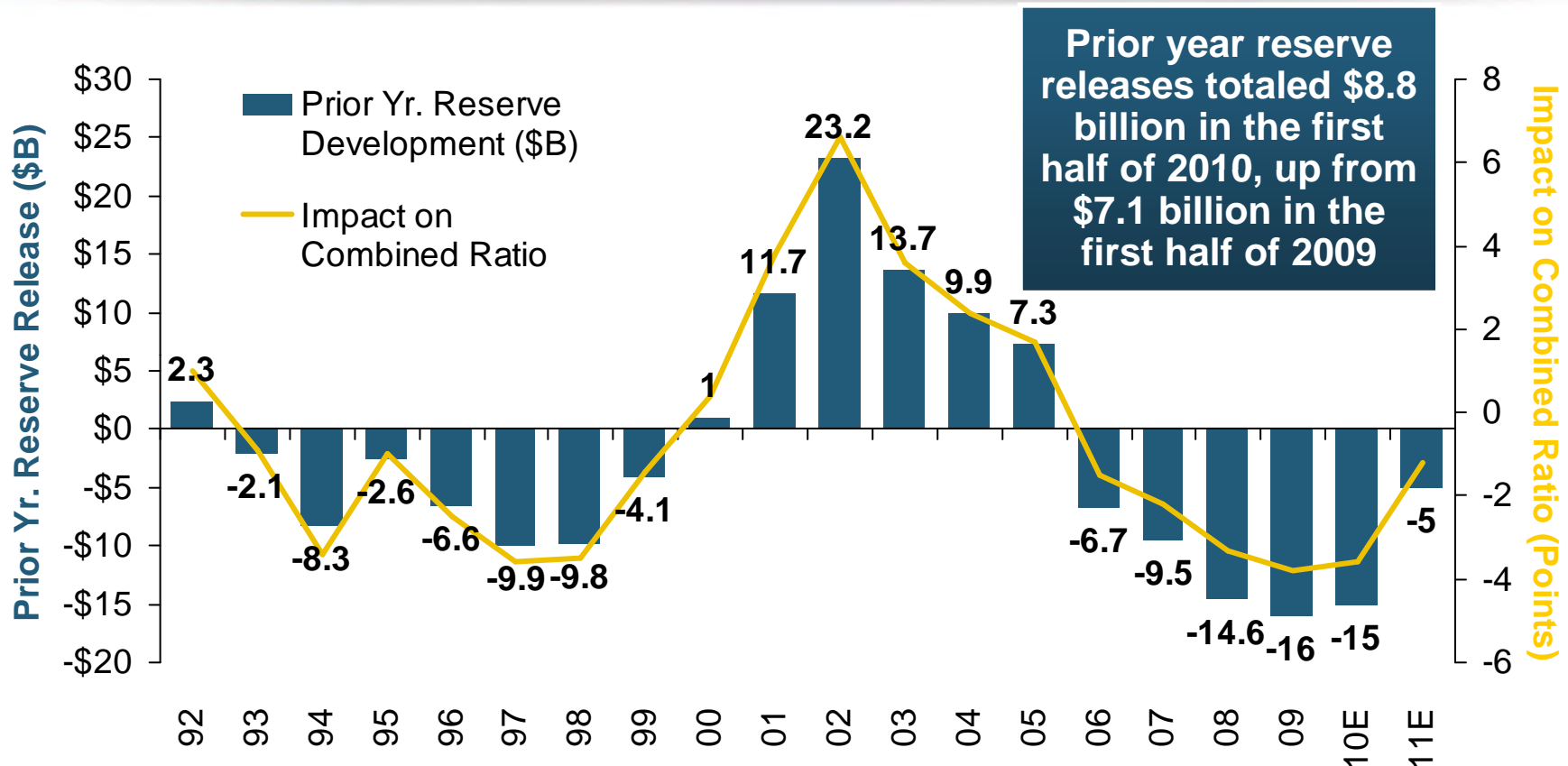
total to 4 years with an underwriting profit.

\*\*Data for the 2010s includes 2010 and 2011.

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

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

# P/C Reserve Development, 1992–2011E



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

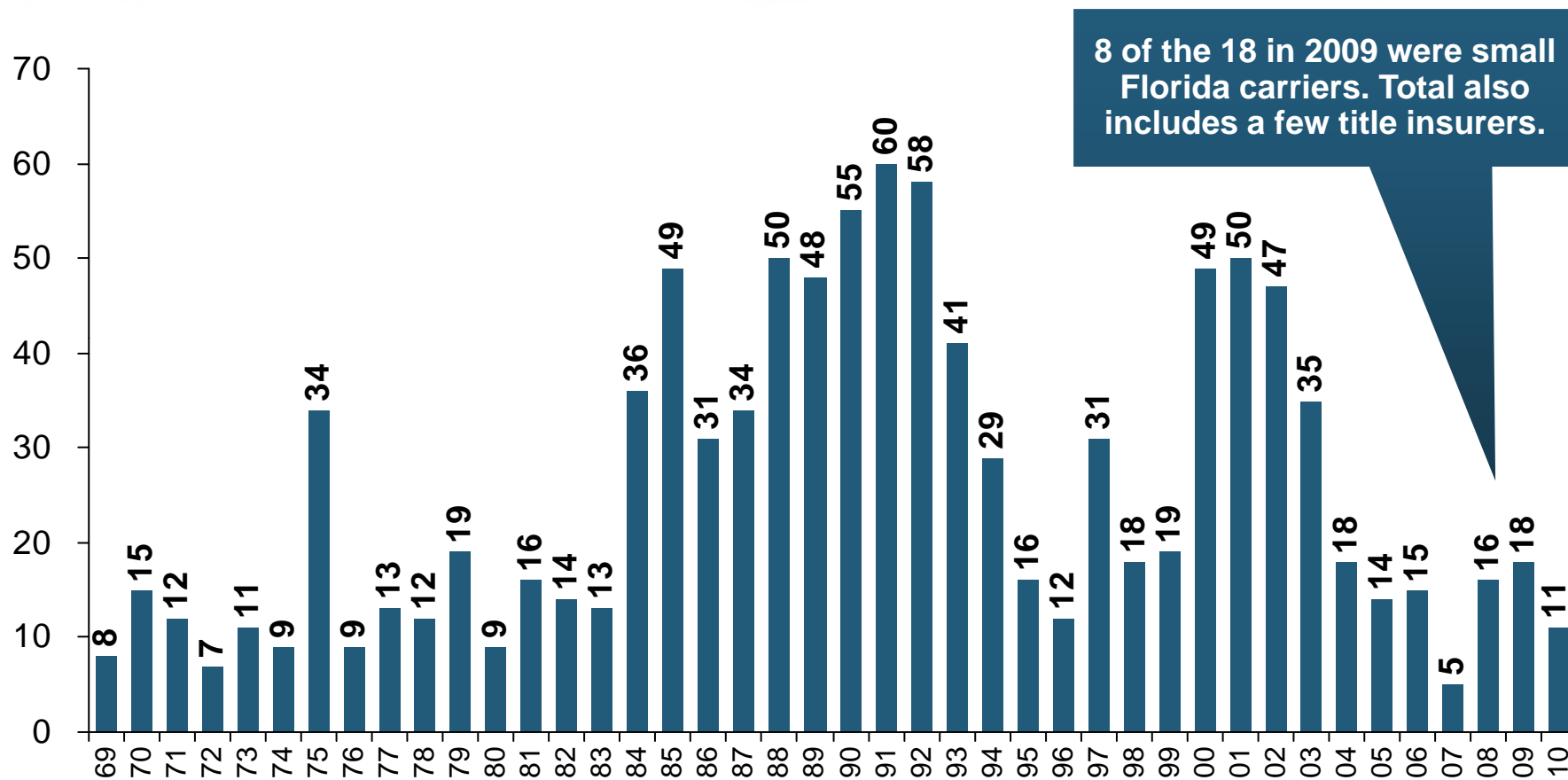
Note: 2005 reserve development excludes a \$6 billion loss portfolio transfer between American Re and Munich Re. Including this transaction, total prior year adverse development in 2005 was \$7 billion. The data from 2000 and subsequent years excludes development from financial guaranty and mortgage insurance.

Sources: Barclay's Capital; A.M. Best.

# **Financial Strength & Underwriting**

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

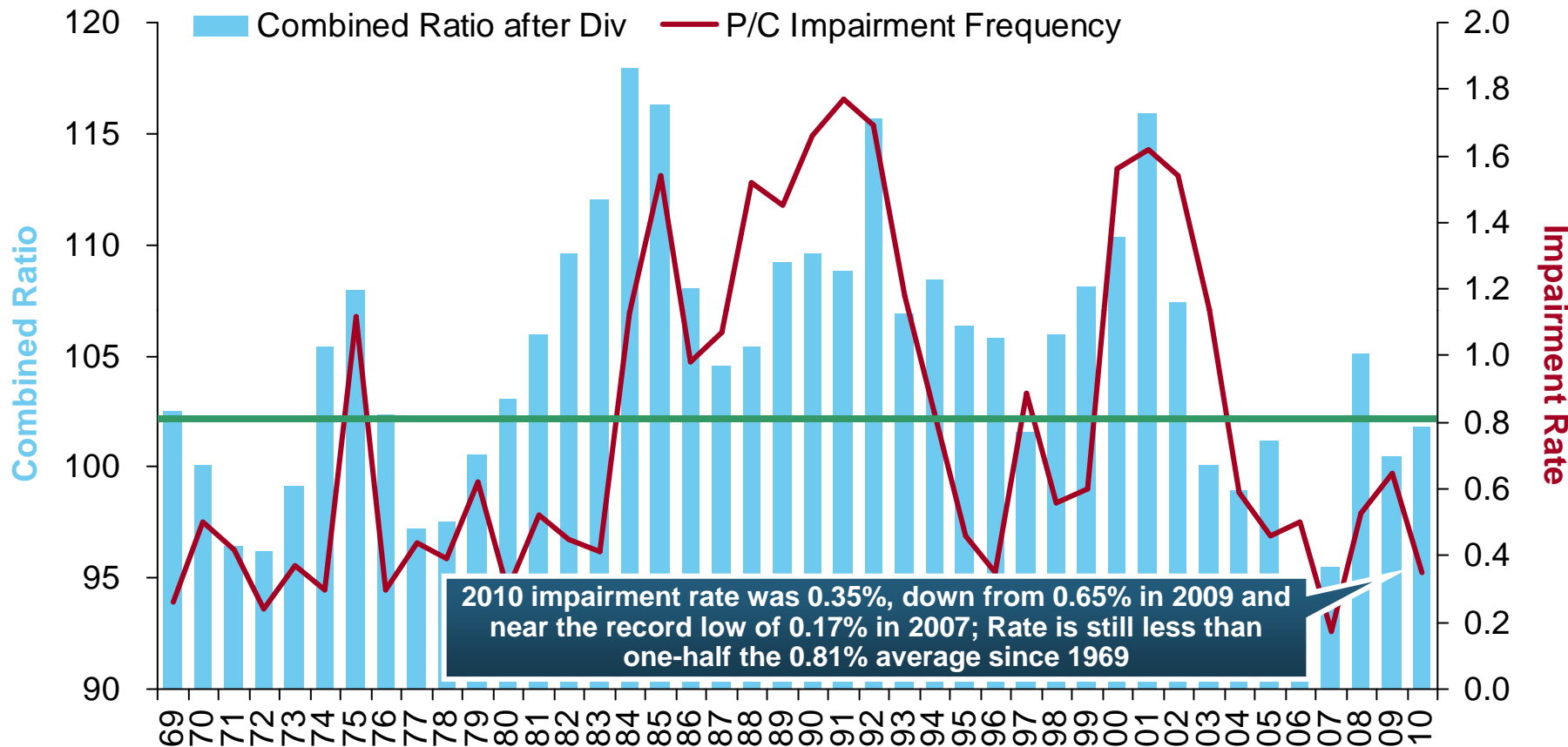
# P/C Insurer Impairments, 1969–2010



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



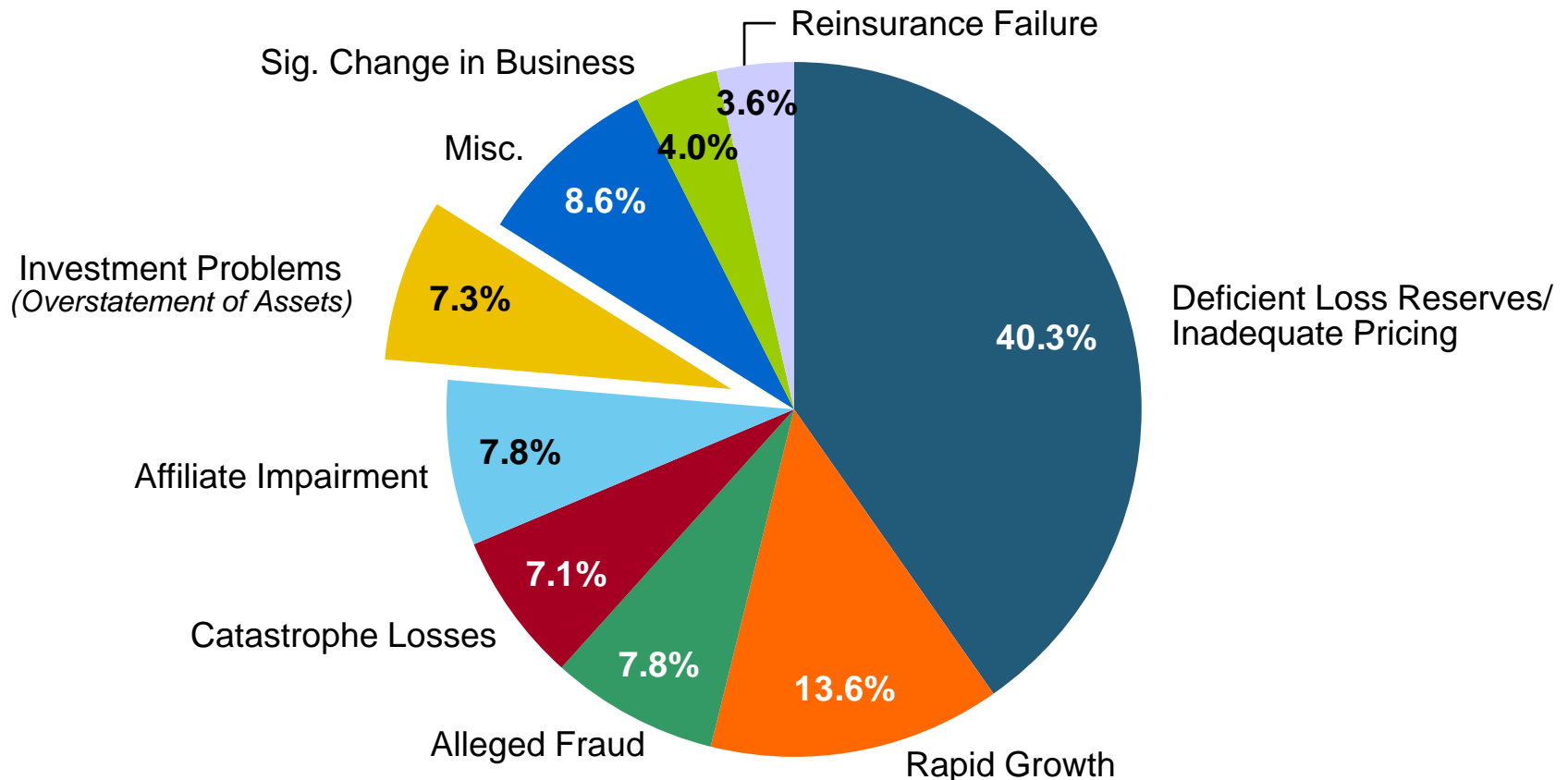
# P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2010



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

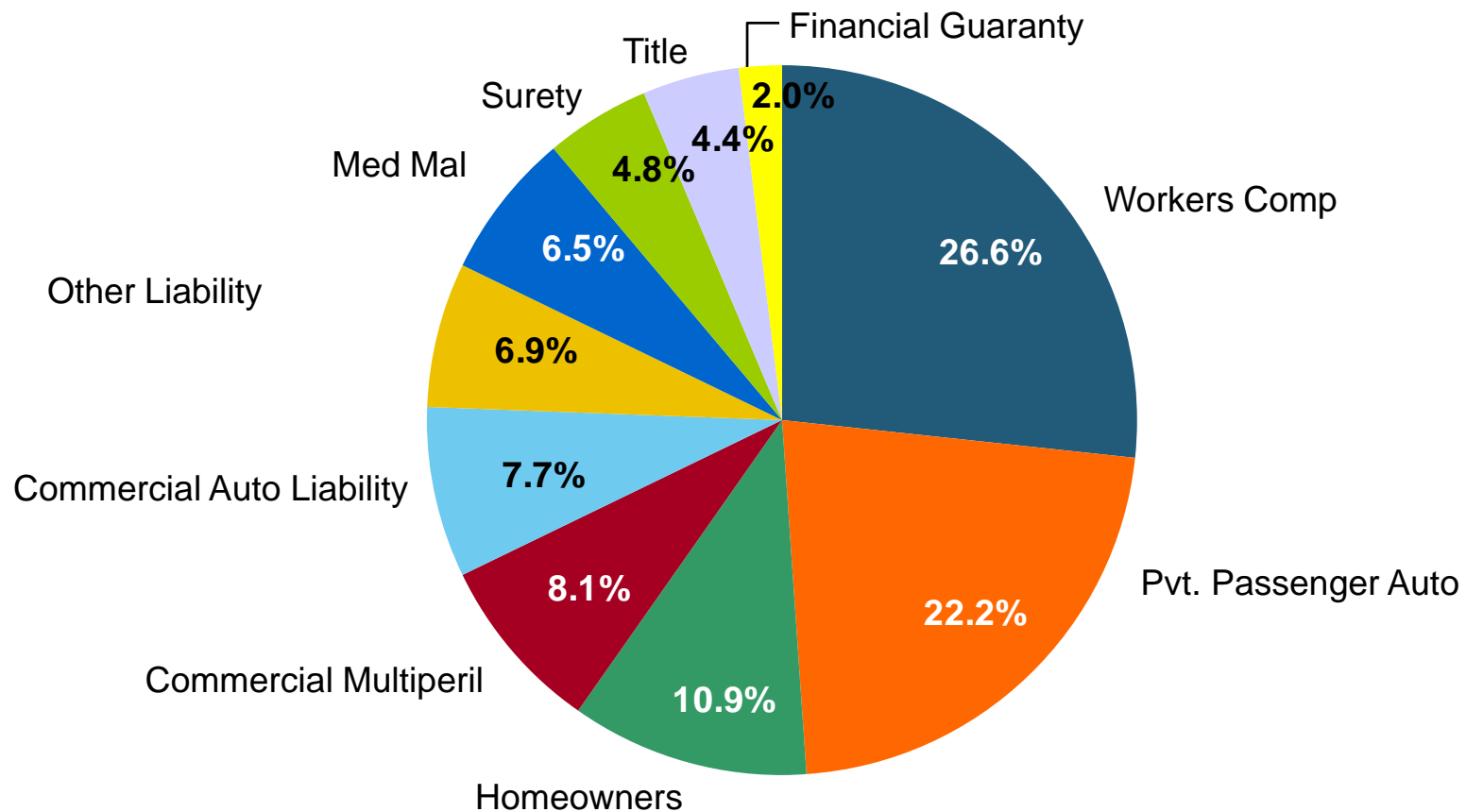
# Reasons for US P/C Insurer Impairments, 1969–2010

Historically, Deficient Loss Reserves and Inadequate Pricing Are By Far the Leading Cause of P-C Insurer Impairments. Investment and Catastrophe Losses Play a Much Smaller Role



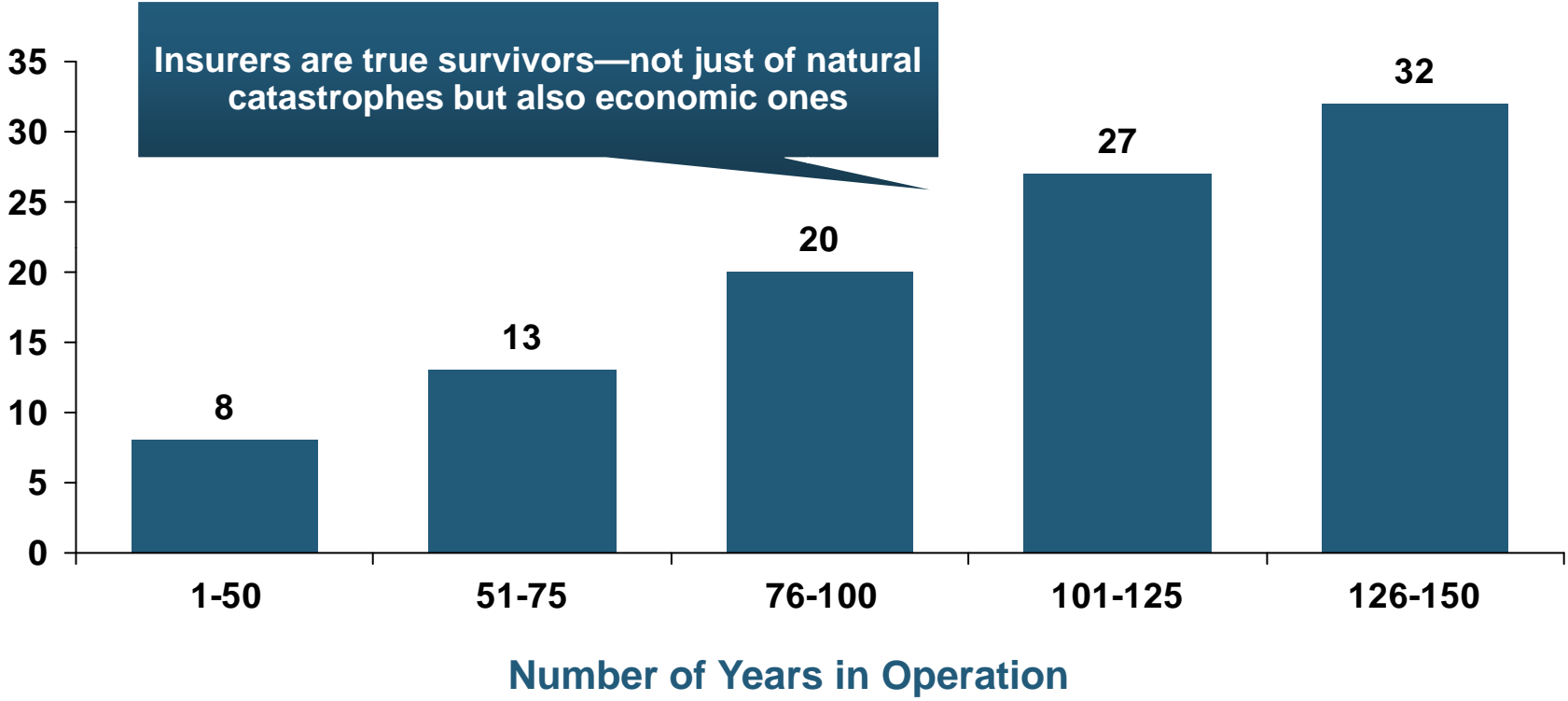
# Top 10 Lines of Business for US P/C Impaired Insurers, 2000–2010

Workers Comp and Pvt. Passenger Auto Account for Nearly Half of the Premium Volume of Impaired Insurers Over the Past Decade



# Number of Recessions Endured by P/C Insurers, by Number of Years in Operation

Number of Recessions Since 1860



Insurers are true survivors—not just of natural catastrophes but also economic ones

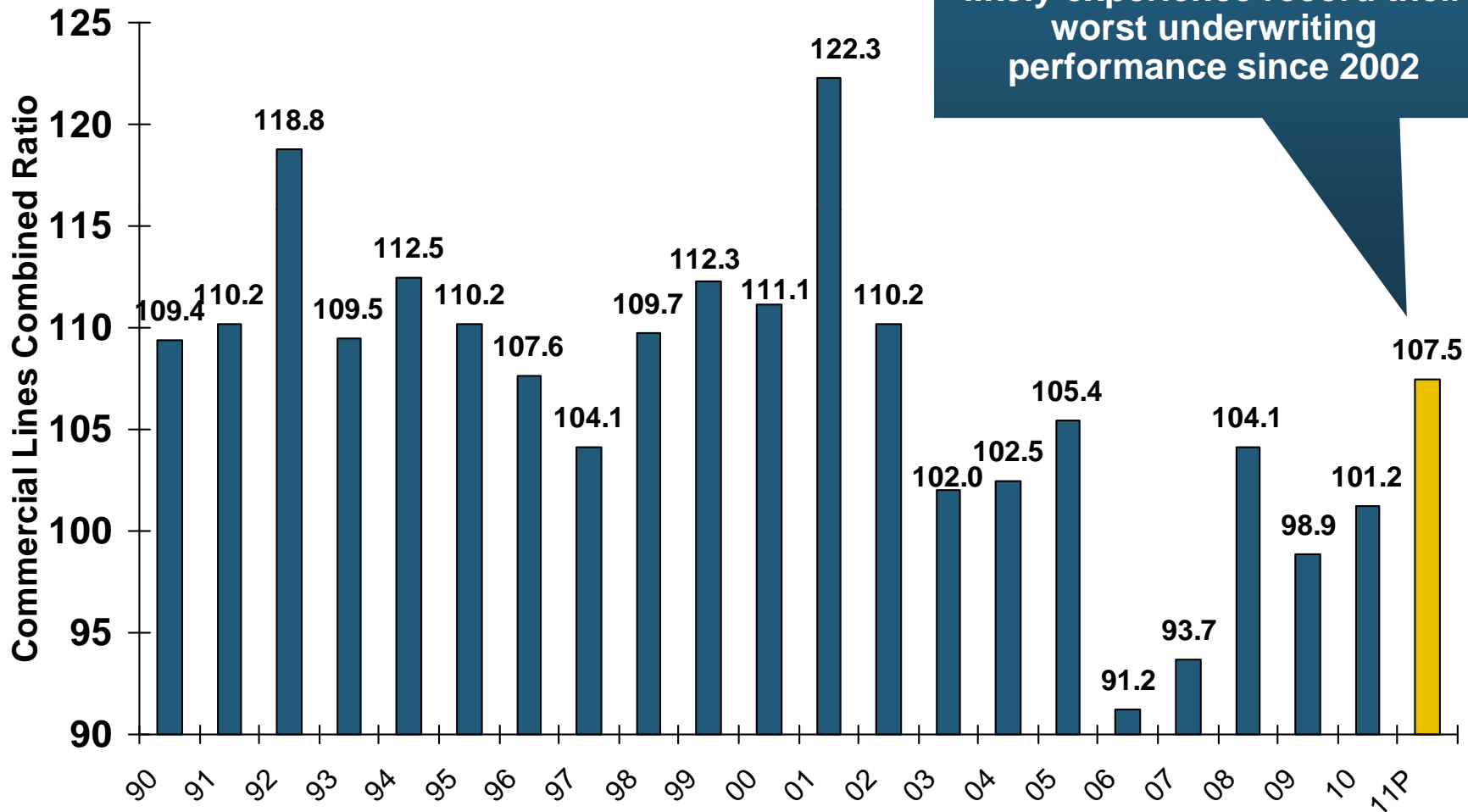
Many US Insurers Are Close to a Century Old or Older

Sources: Insurance Information Institute research from National Bureau of Economic Research data.

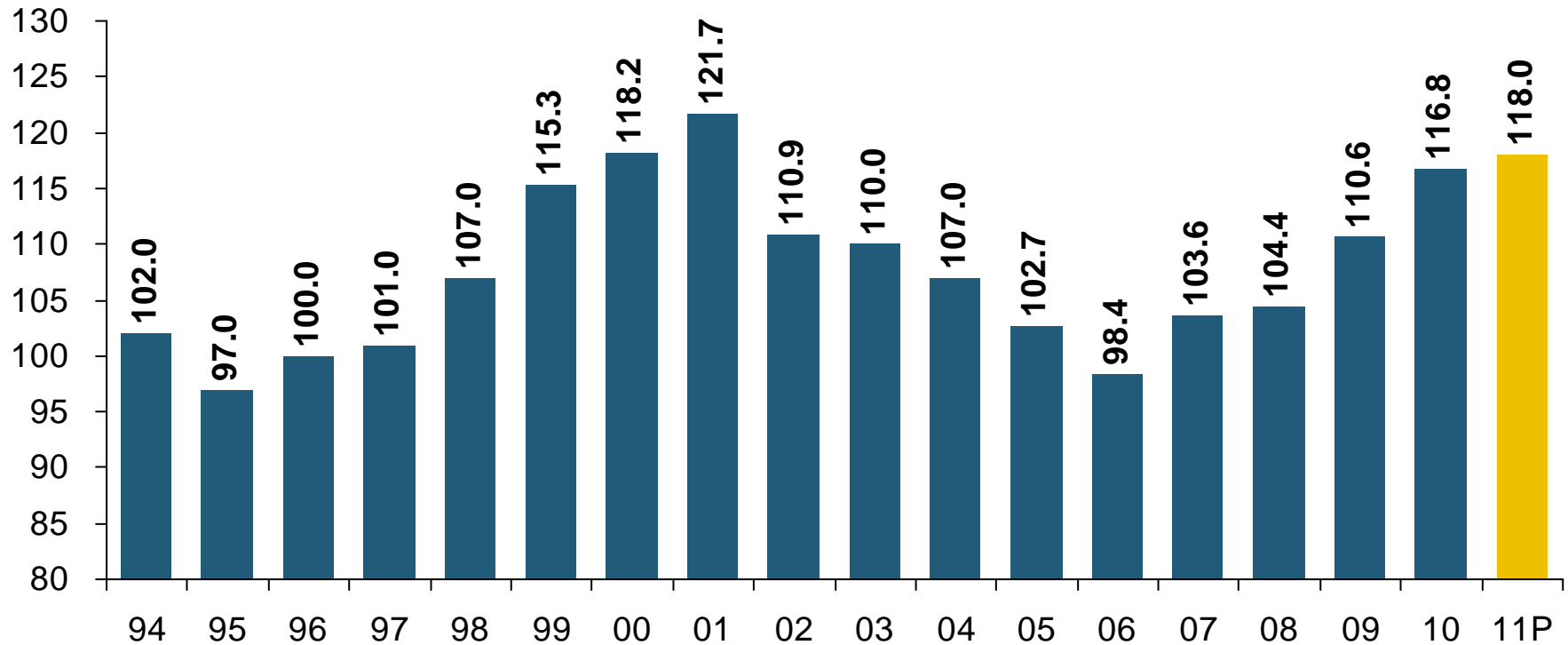


# Performance by Segment: Commercial Lines

# Commercial Lines Combined Ratio, 1990-2011P



# Workers Compensation Combined Ratio: 1994–2011P



**Workers Comp Underwriting Results Are Deteriorating Markedly and the Worst They Have Been in a Decade**

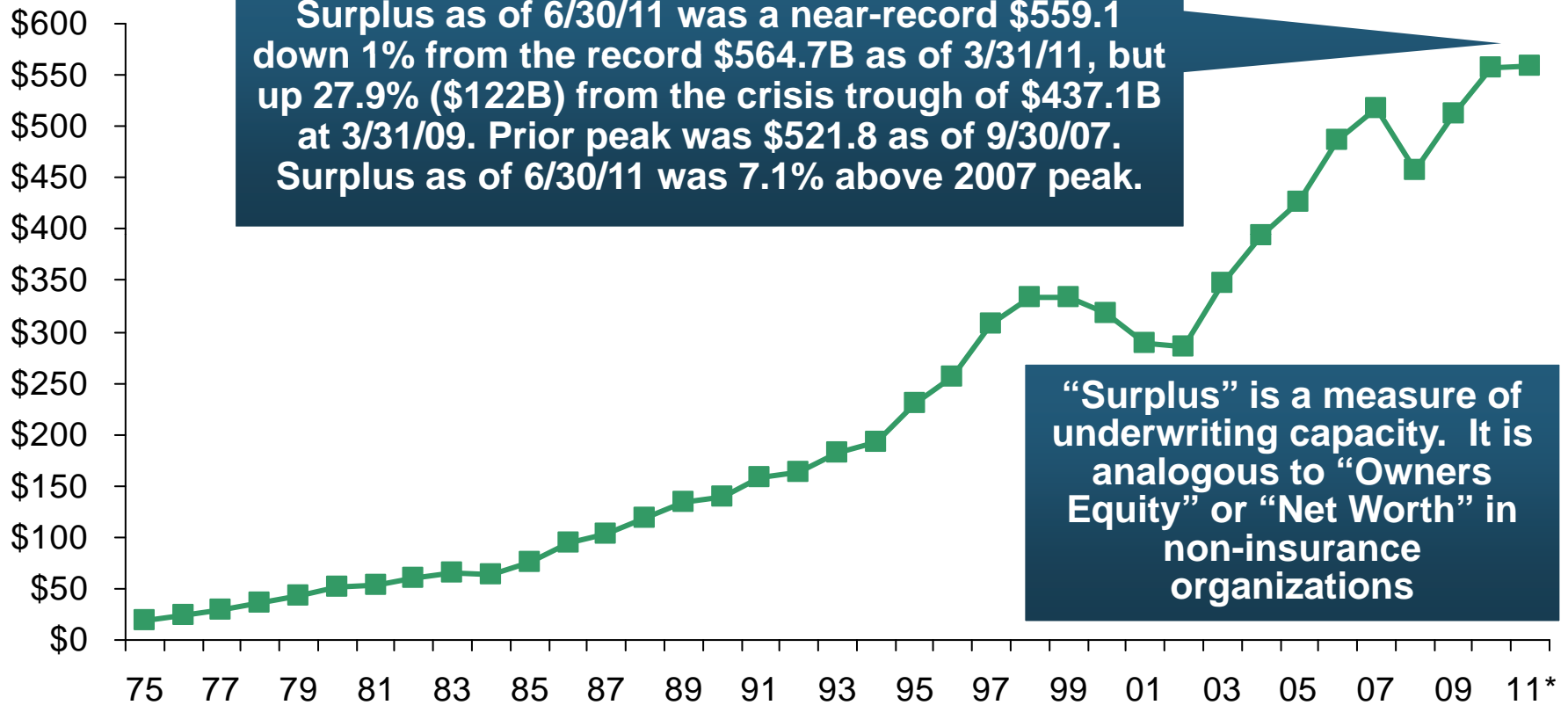
## **2. SURPLUS/CAPITAL/CAPACITY**

**Have Large Global Losses Reduced Capacity in the Industry, Setting the Stage for a Market Turn?**



# US Policyholder Surplus: 1975–2011\*

(\$ Billions)

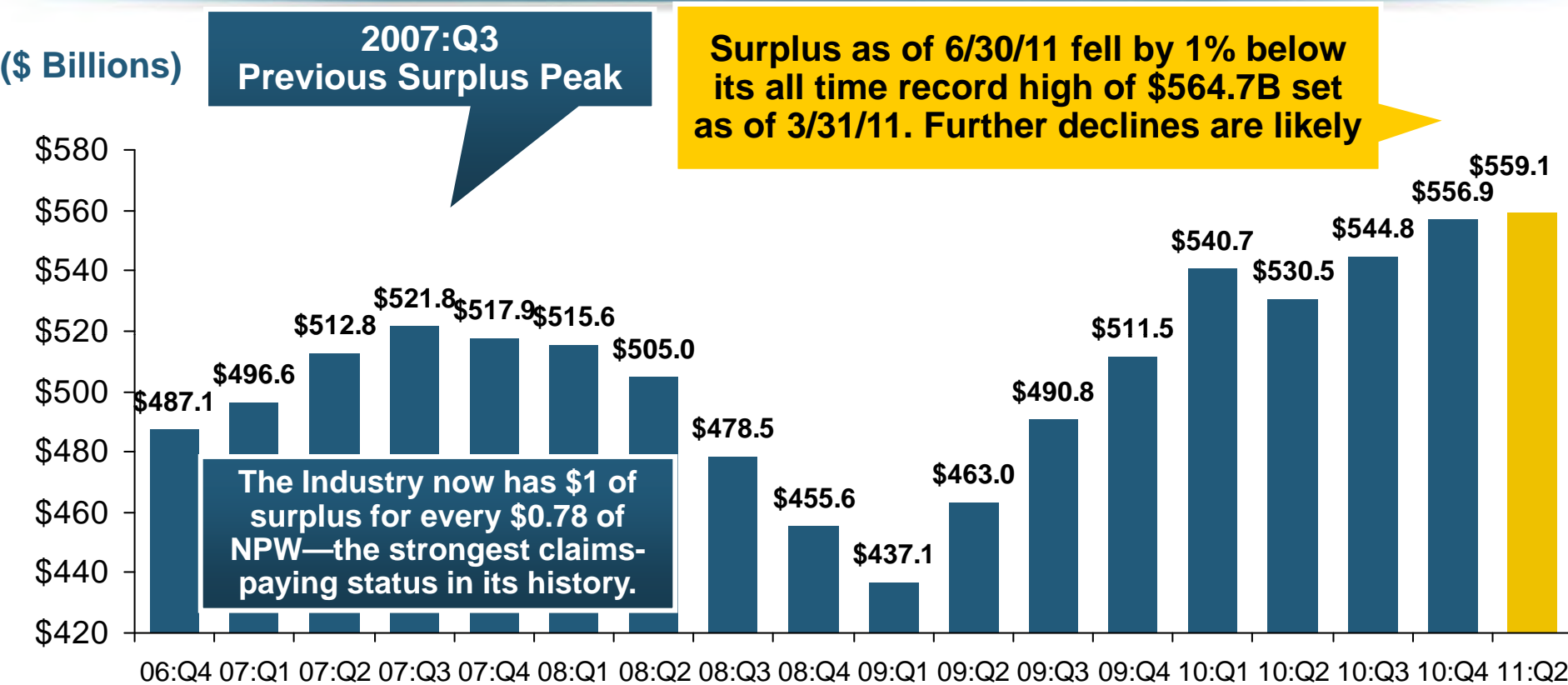


**The Premium-to-Surplus Ratio Stood at \$0.78:\$1 as of 6/30/11, A Near Record Low (at Least in Recent History)\*\***

\* As of 6/30/11.

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

# Policyholder Surplus, 2006:Q4–2011:Q2



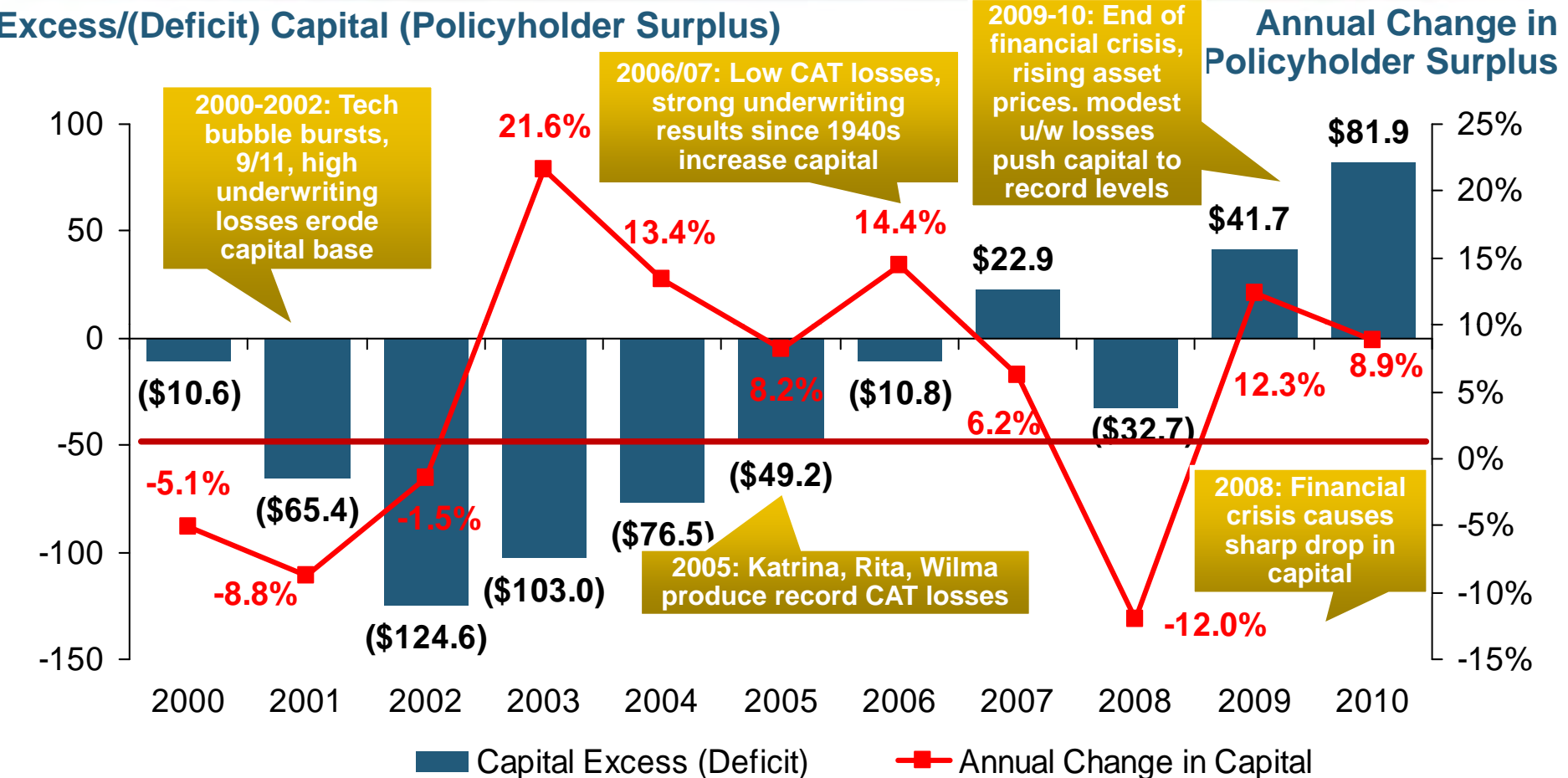
## Quarterly Surplus Changes Since 2007:Q3 Peak

<b>09:Q1: -\$84.7B (-16.2%)</b>	<b>10:Q2: +\$8.7B (+1.7%)</b>
<b>09:Q2: -\$58.8B (-11.2%)</b>	<b>10:Q3: +\$23.0B (+4.4%)</b>
<b>09:Q3: -\$31.0B (-5.9%)</b>	<b>10:Q4: +\$35.1B (+6.7%)</b>
<b>09:Q4: -\$10.3B (-2.0%)</b>	<b>11:Q1: +\$42.9B (+8.2%)</b>
<b>10:Q1: +\$18.9B (+3.6%)</b>	<b>11:Q2: +\$37.3B (+7.1%)</b>

\*Includes \$22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business in early 2010.

Sources: ISO, A.M. Best.

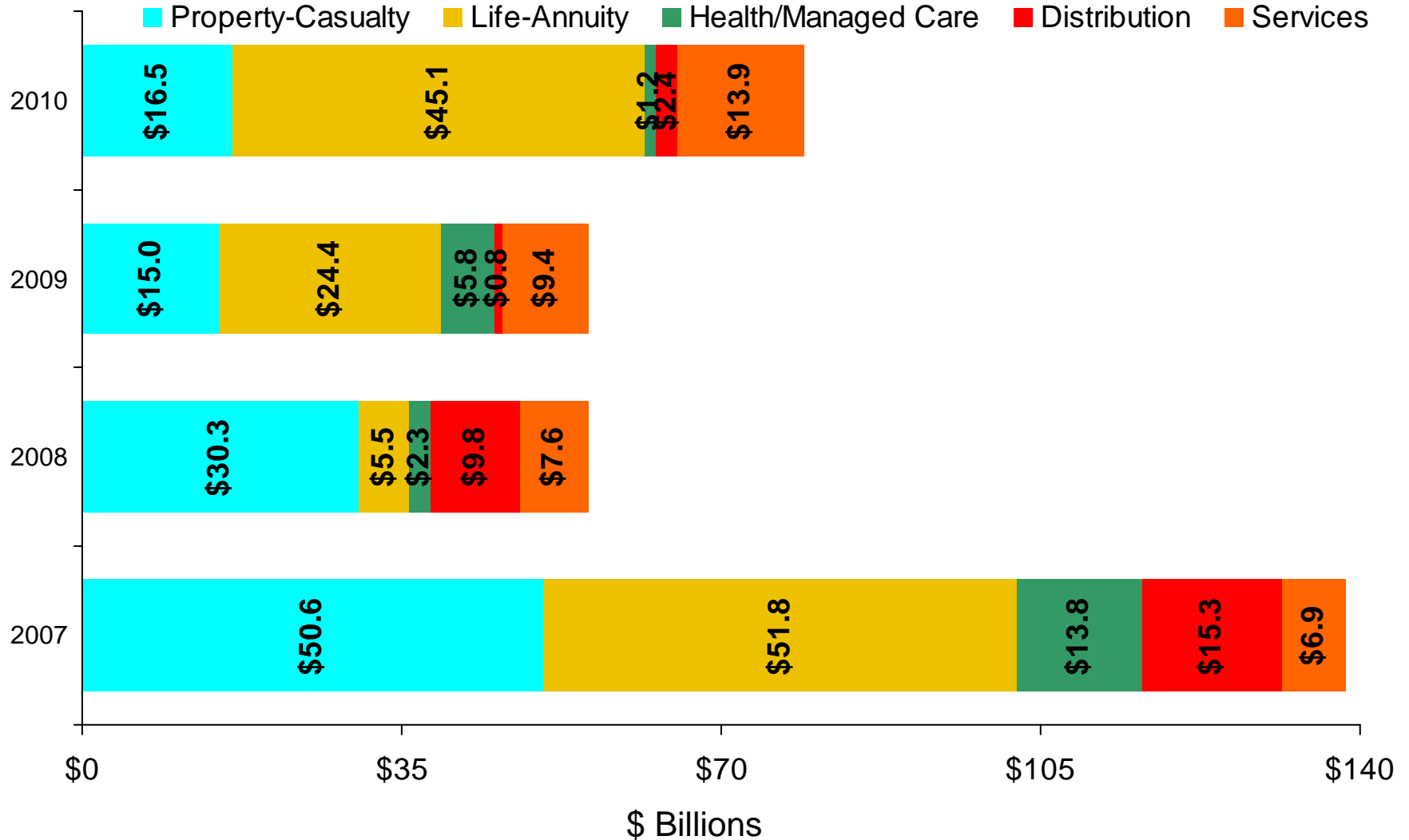
# Implied Excess (Deficit) Capital Assuming Premium/Surplus Ratio = 0.9:1



**Record Policyholder Surplus (Capital) Has Resulted Significant Excess Capital in the P/C Insurance Sector As of Year End 2010. Deteriorating Underwriting Losses, Higher CAT Activity, More Modest Market Returns Will Likely Shrink Excess Capital in 2011.**

Note: The assumption of a 0.9:1 P/S ratio is derived from a Feb. 2011 announcement by Advisen, Ltd., that the US P/C insurance industry has \$74 billion in excess capital. The implied P/S ratio (calculated by III) is 0.88:1, which was rounded to 0.9:1.  
 Source: Insurance Information Institute calculations from A.M. Best and ISO data. \* Net Premiums Written

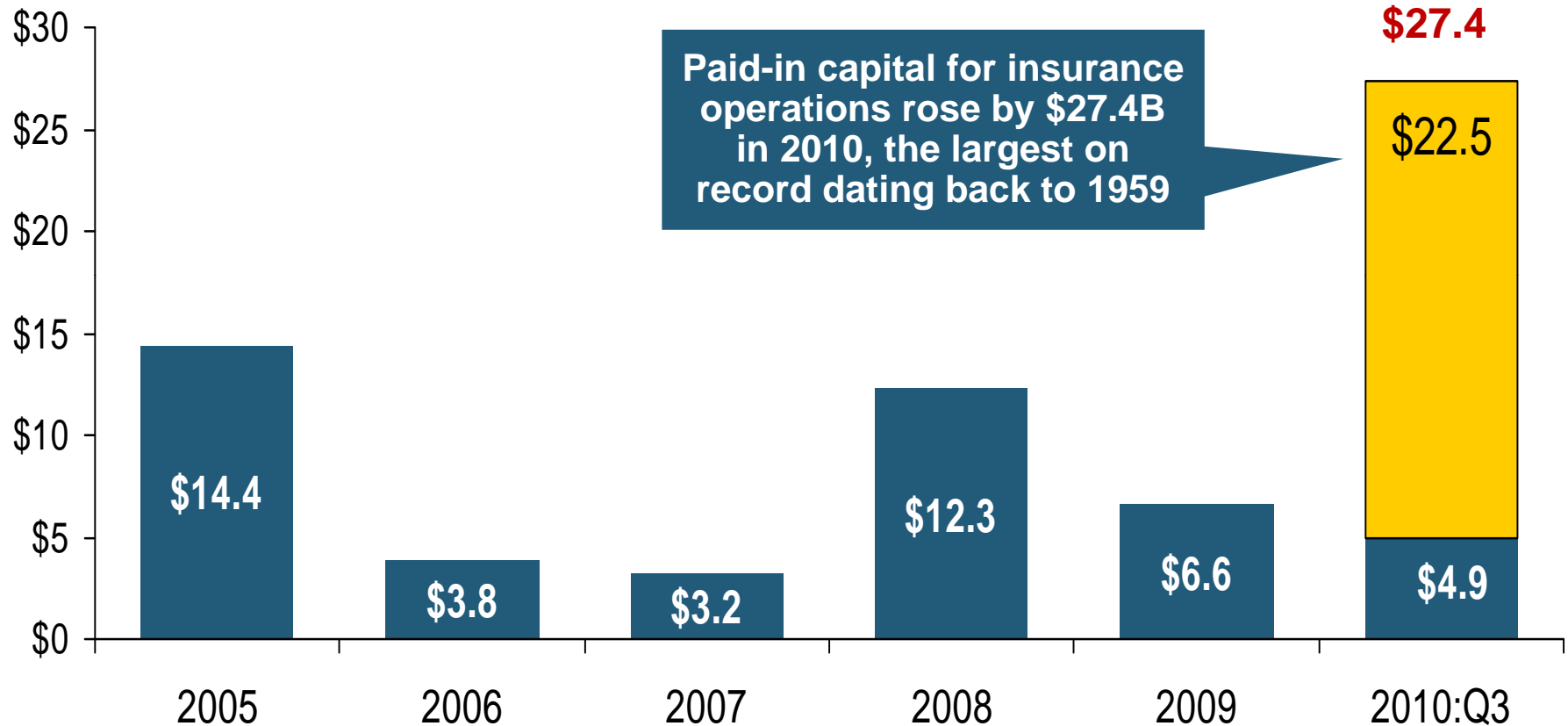
# M&A Activity Globally Among P/C Insurers Remains Subdued: Little Capacity Leaving



Sources: Conning Research; Insurance Information Institute.

# Paid-in Capital, 2005–2010

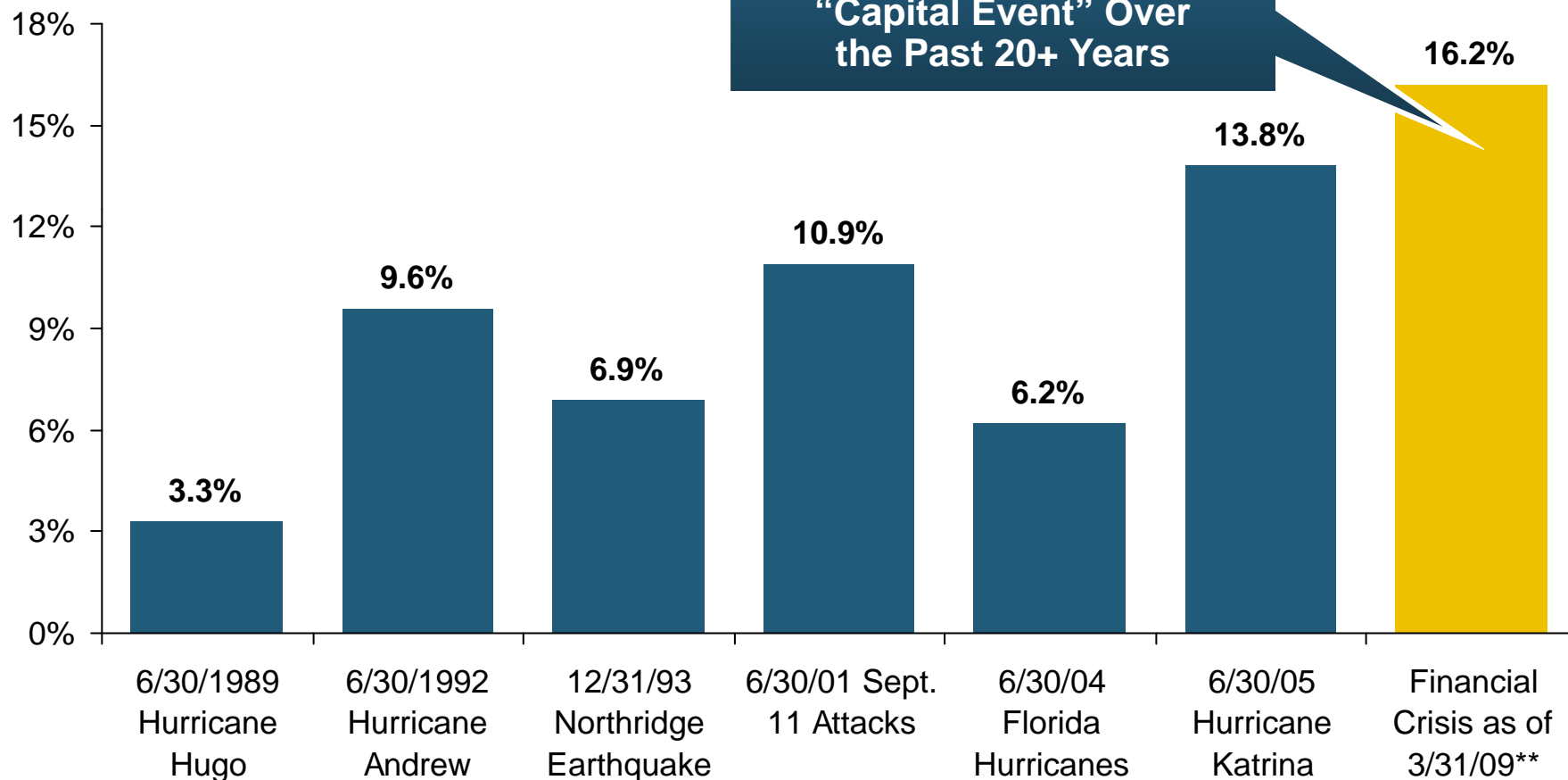
(\$ Billions)



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

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

(Percent)



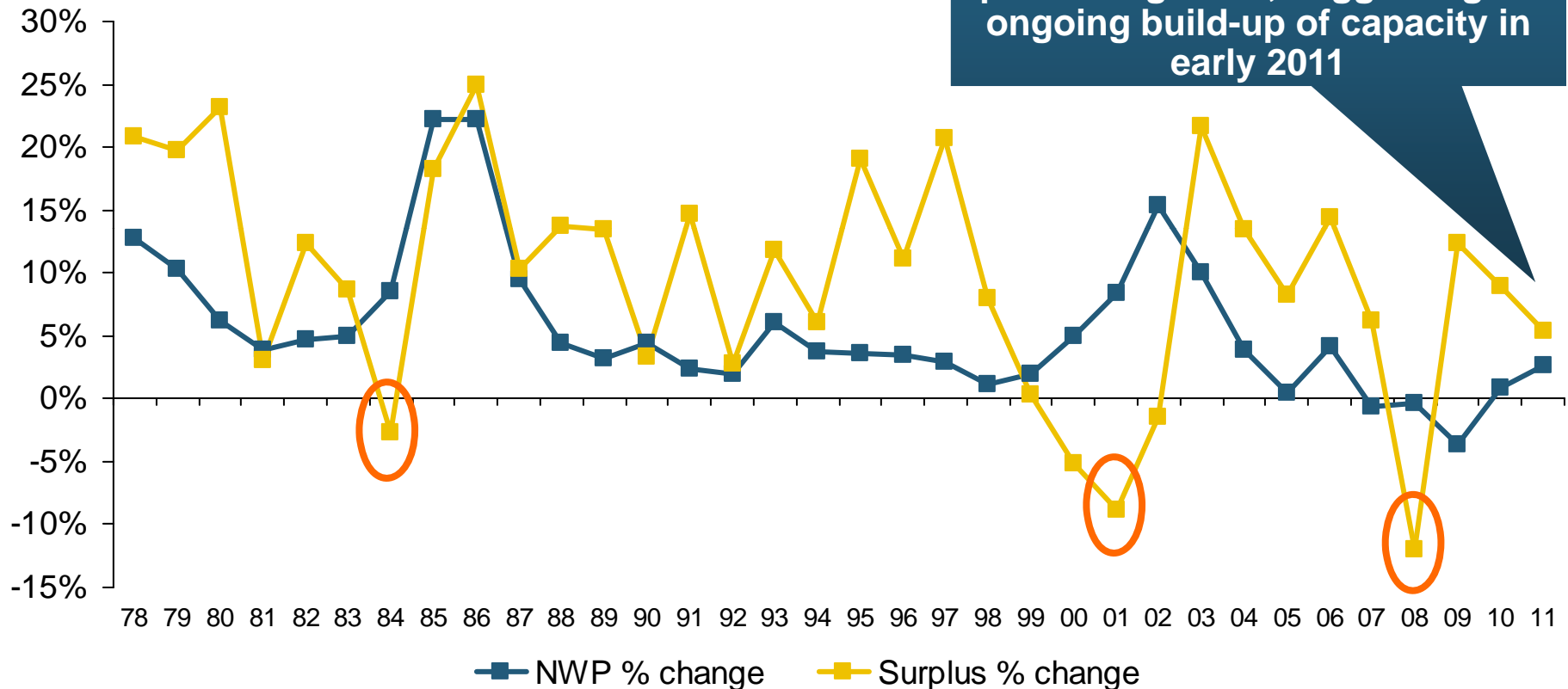
\* Ratio is for end-of-quarter surplus immediately prior to event. Date shown is end of quarter prior to event

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

Source: PCS; Insurance Information Institute

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

(Percent)



Surplus growth still exceeds premium growth, suggesting an ongoing build-up of capacity in early 2011

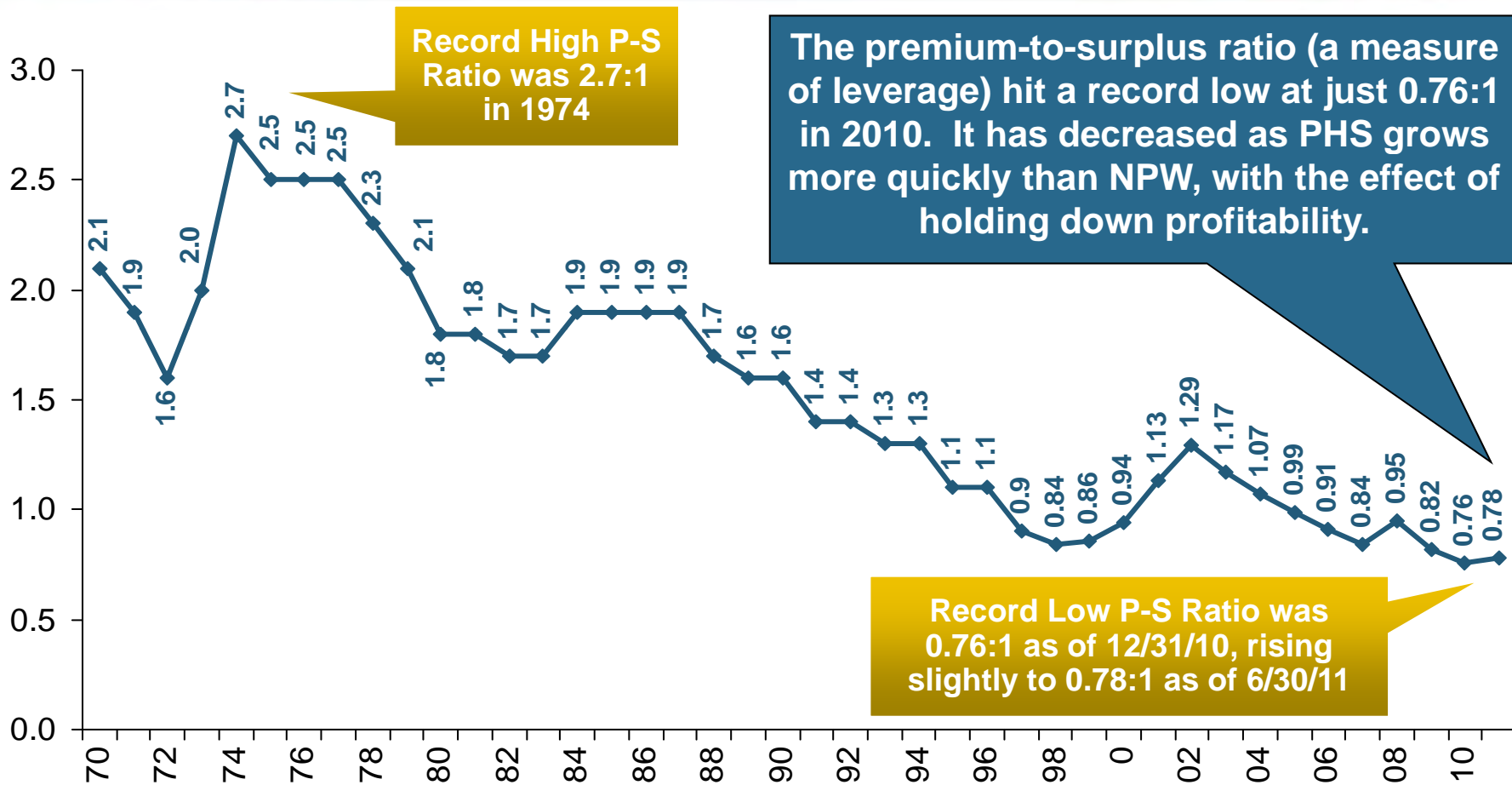
**Sharp Decline in Capacity is a Necessary but Not Sufficient Condition for a True Hard Market**

\* 2011 NWP and Surplus figures are % changes as of H1:11 vs. H1:10.

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



# Ratio of Net Premiums Written to Policyholder Surplus, 1970-2011\*



Record High P-S Ratio was 2.7:1 in 1974

The premium-to-surplus ratio (a measure of leverage) hit a record low at just 0.76:1 in 2010. It has decreased as PHS grows more quickly than NPW, with the effect of holding down profitability.

Record Low P-S Ratio was 0.76:1 as of 12/31/10, rising slightly to 0.78:1 as of 6/30/11

**The Premium-to-Surplus Ratio in 2011:H1 Implies that P/C Insurers Held \$1 in Surplus Against Each \$0.78 Written in Premiums. In 1974, Each \$1 of Surplus Backed \$2.70 in Premium.**

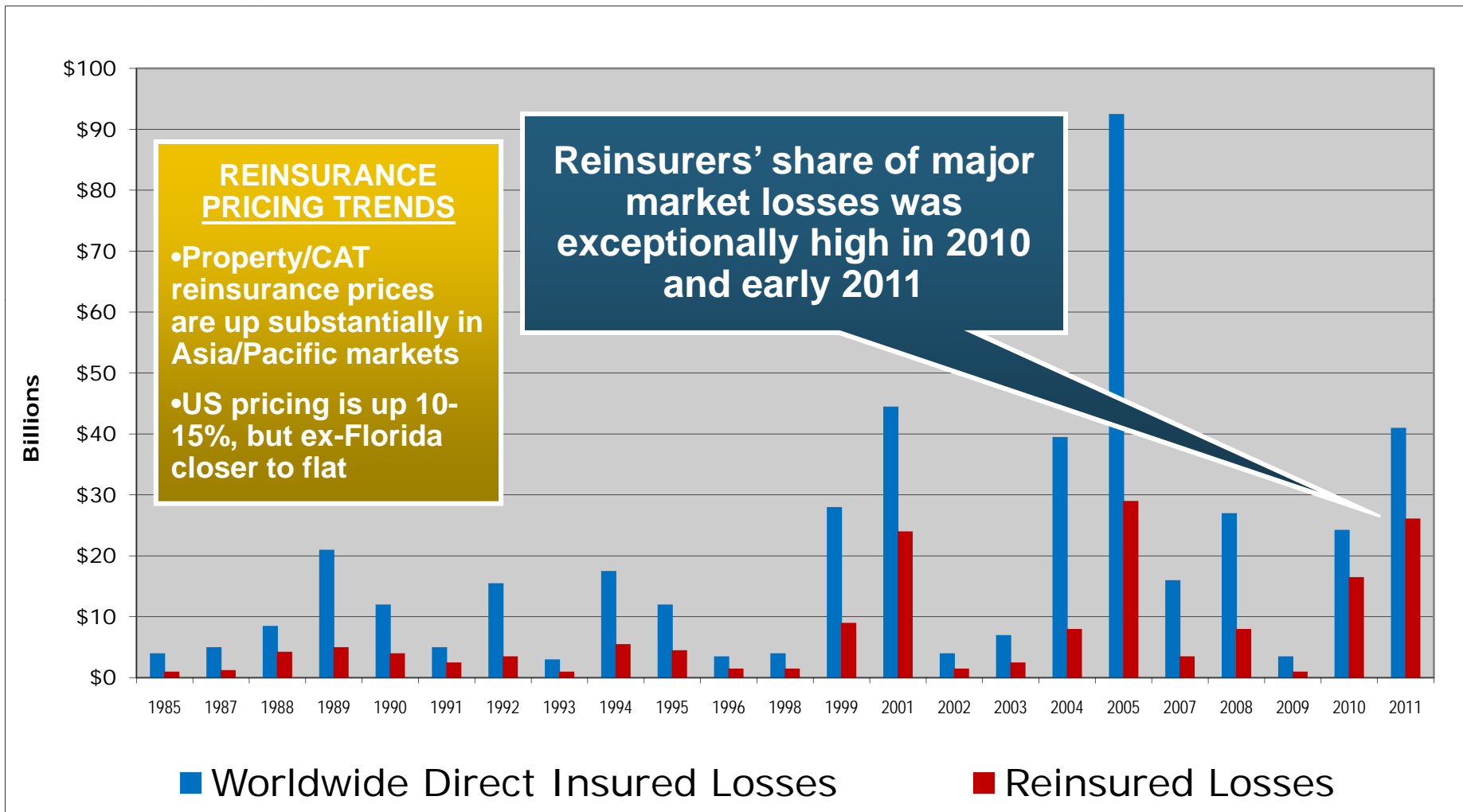
\*2011 data are as of 6/30/11.

Sources: Insurance Information Institute calculations from A.M. Best data.

## **3. REINSURANCE MARKET CONDITIONS**

**Record Global  
Catastrophes Activity is  
Pressuring Pricing**

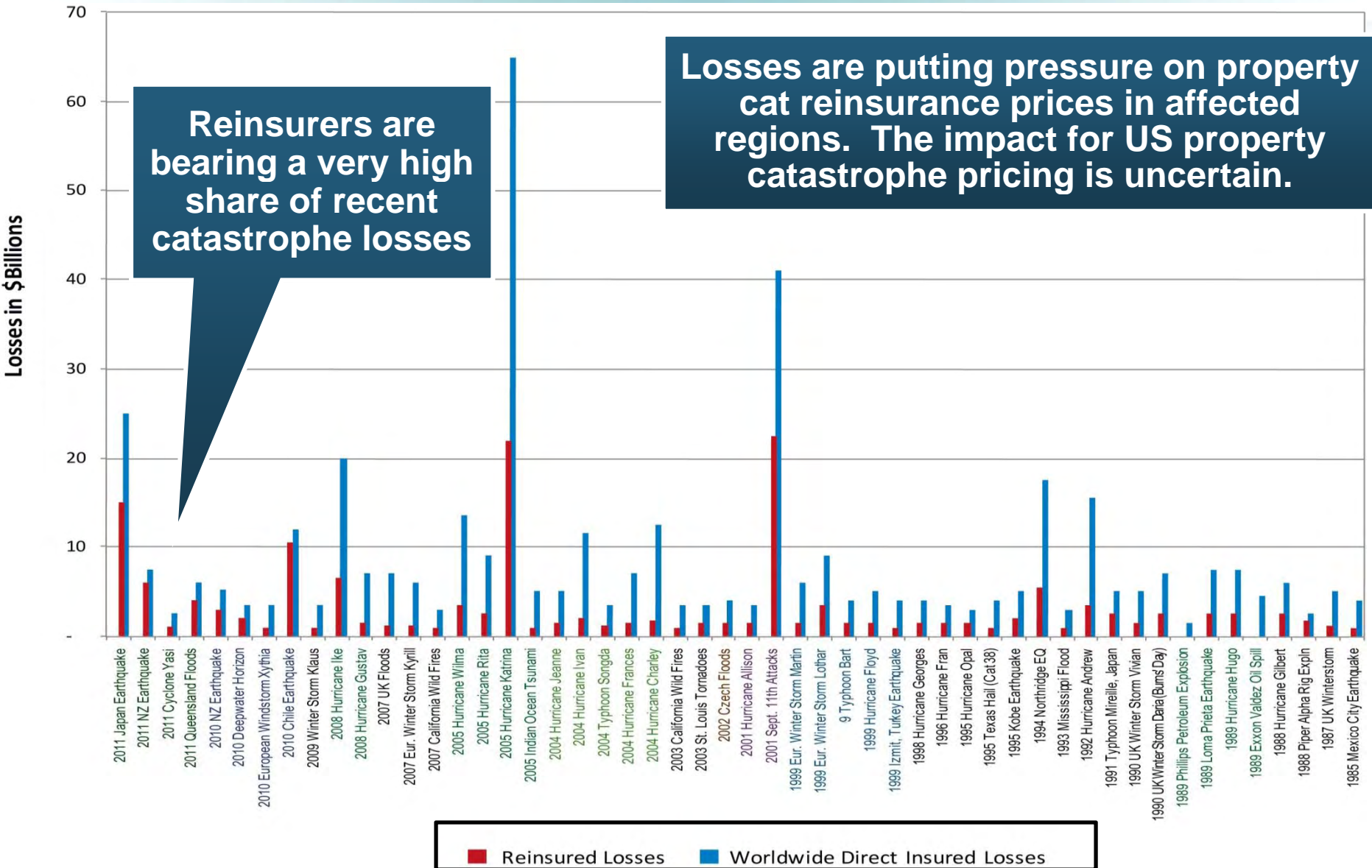
# Significant Market Losses, 1985-2011\*



Source: Holborn; RAA.

\* 2011 events are as of March 31 and are preliminary and may change as loss estimates are refined further.

# Significant Market Losses by Event, 1985-2011\*



Source: Holborn, RAA. \*2011 events as of March 31 are preliminary and may change as loss estimates are refined further.

# Global Property Catastrophe Rate on Line Index, 1990-2011 YTD (6/1/11)

A modest increase in global property catastrophe reinsurance pricing was evident in June 1 renewals in the wake of record global catastrophe losses. Larger increase could occur for the Jan.1, 2012 renewals

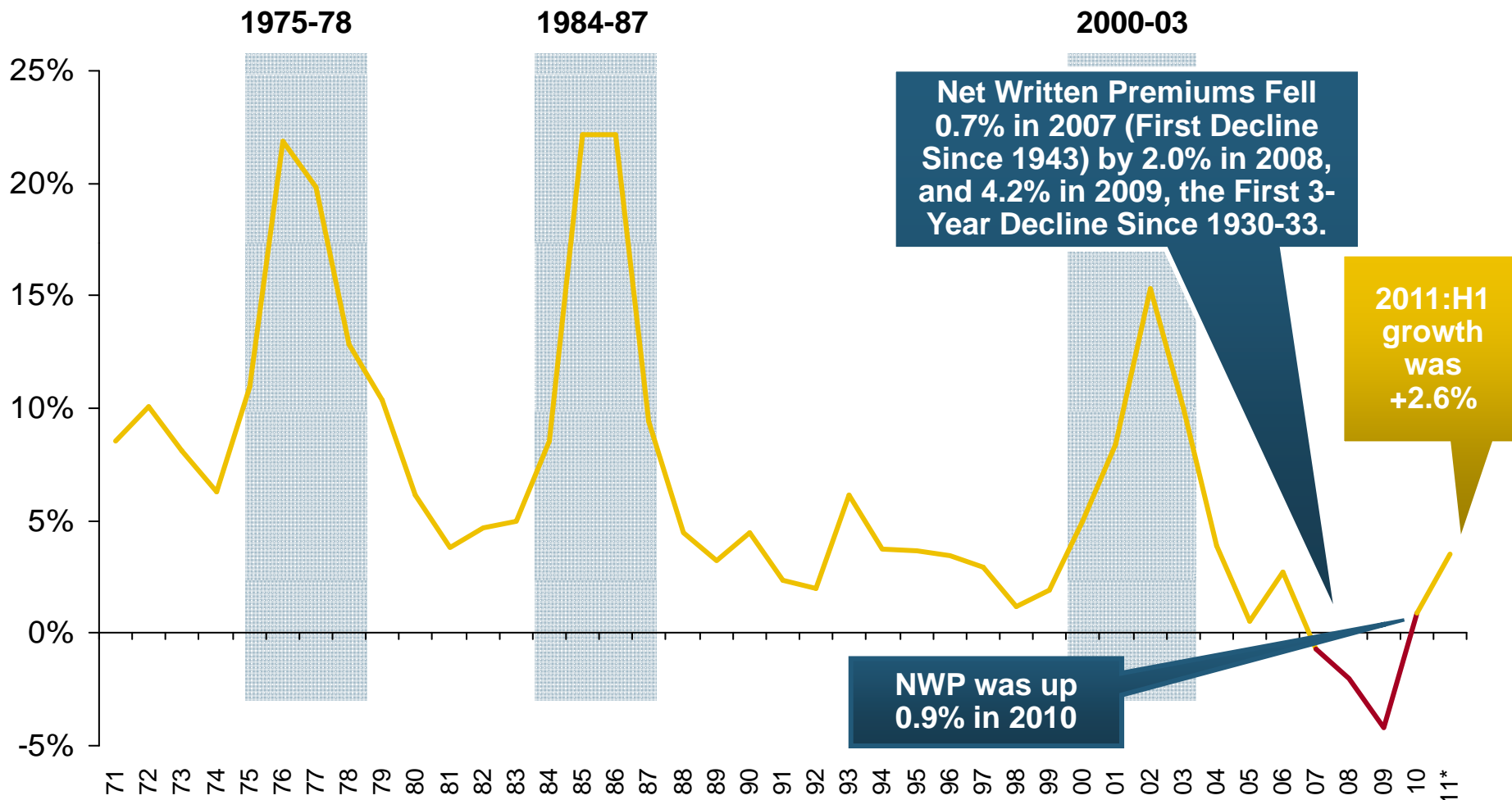


## **4. RENEWED PRICING DISCIPLINE**

**Is There Evidence of a Broad  
and Sustained Shift in Pricing?**

# Soft Market Persisted in 2010 but Growth Returned: More in 2011?

(Percent)

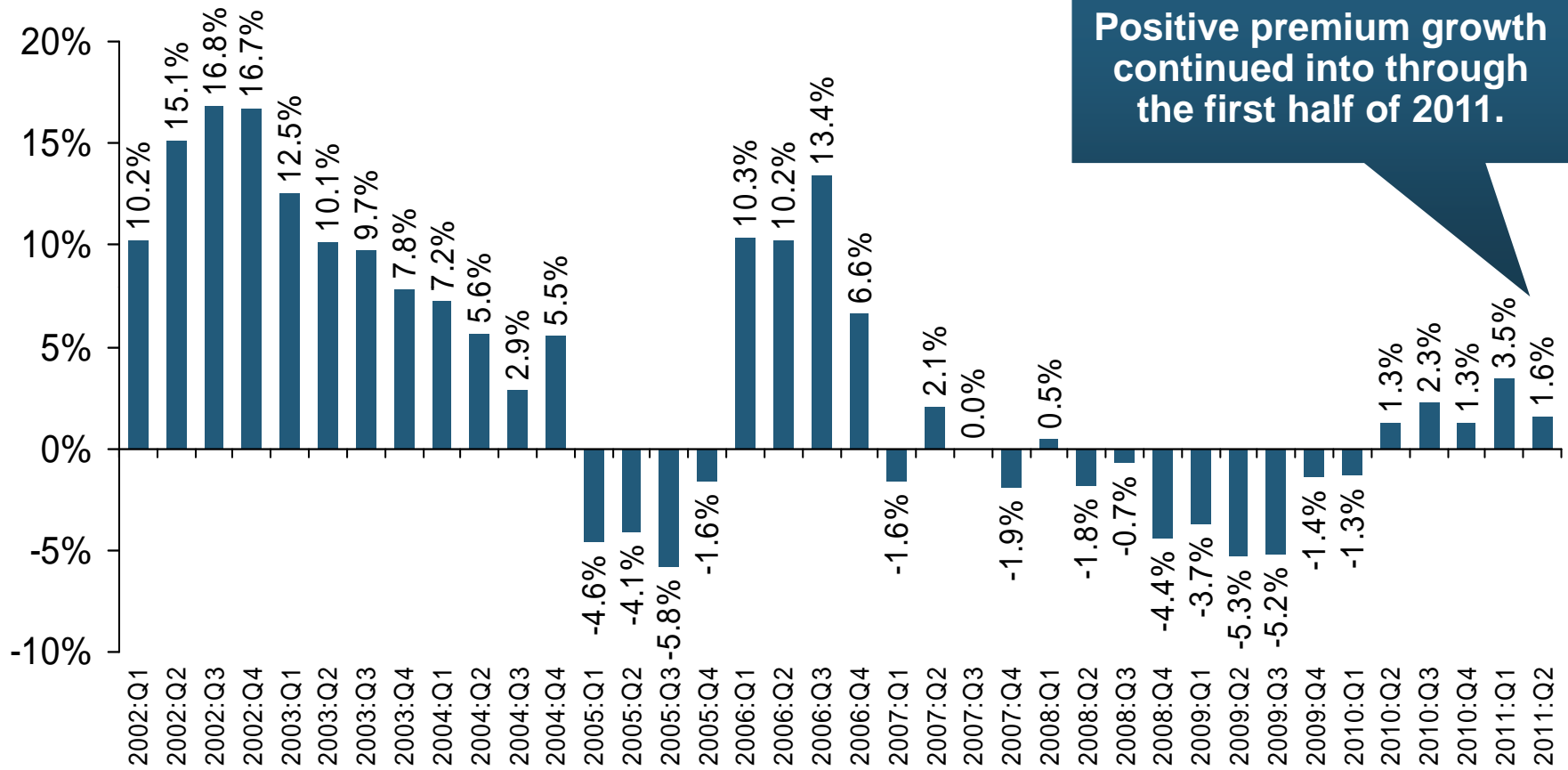


\*2011 figure is for H1 vs. 2010:H1.

Shaded areas denote "hard market" periods

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

# P/C Net Premiums Written: % Change, Quarter vs. Year-Prior Quarter



Positive premium growth continued into through the first half of 2011.

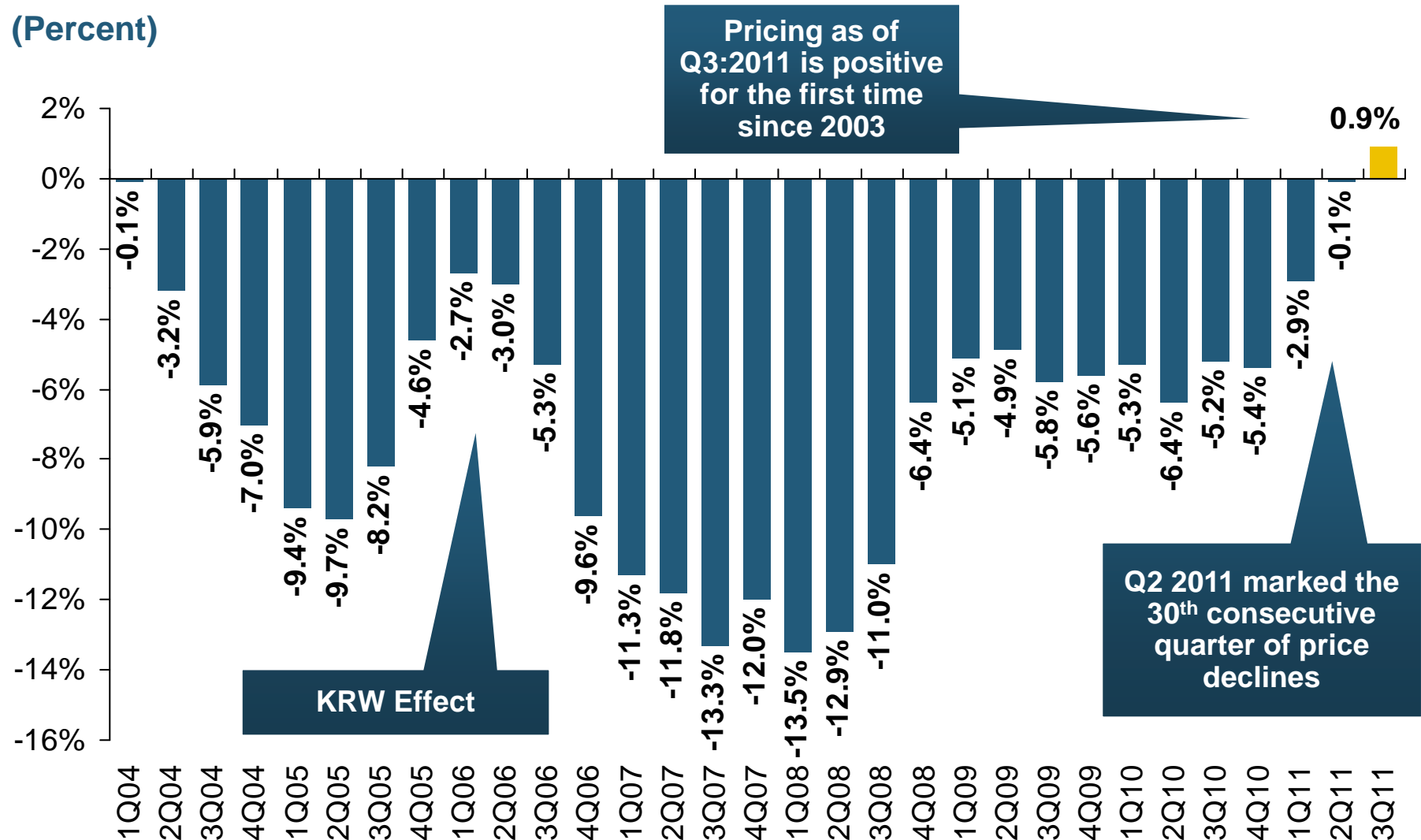
**Pricing and more stable exposure environment are contributing to consistent positive growth in recent quarters (vs. the same quarter, prior year)**

Sources: ISO, Insurance Information Institute.

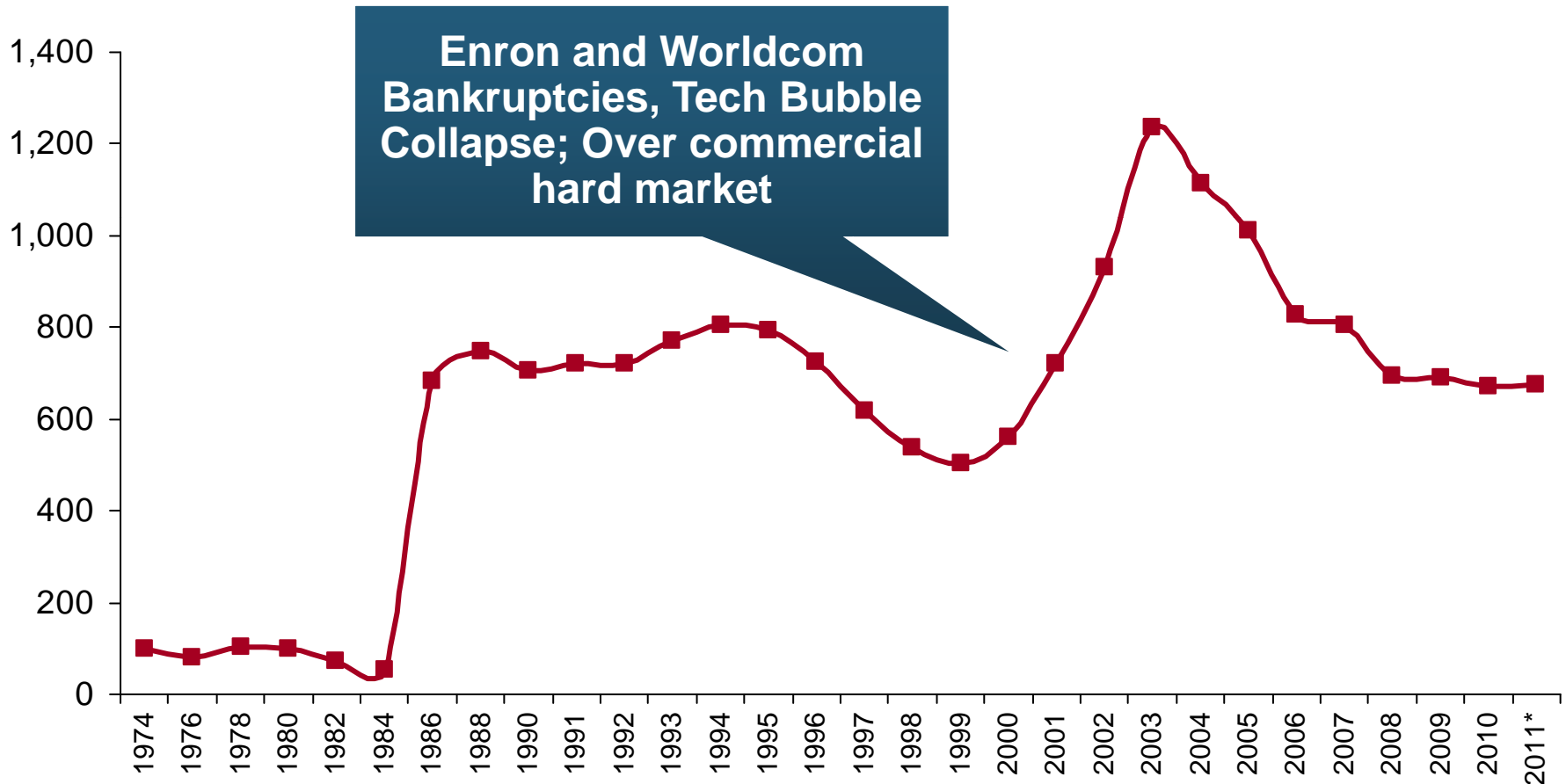


# Average Commercial Rate Change, All Lines, (1Q:2004–3Q:2011)

(Percent)

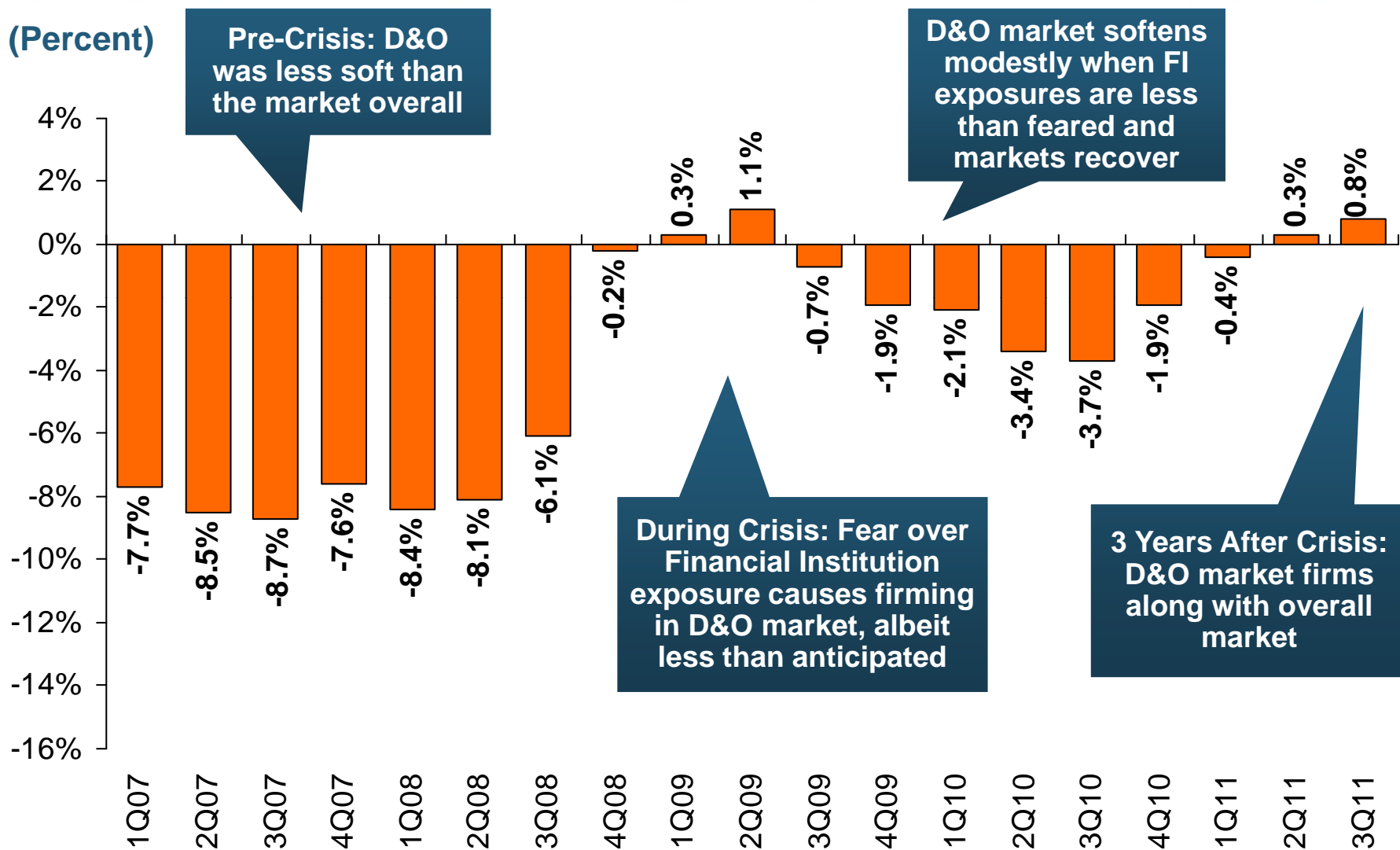


# D&O Premium Index: U.S. For-Profit Entities Only, 1974-2011:Q3

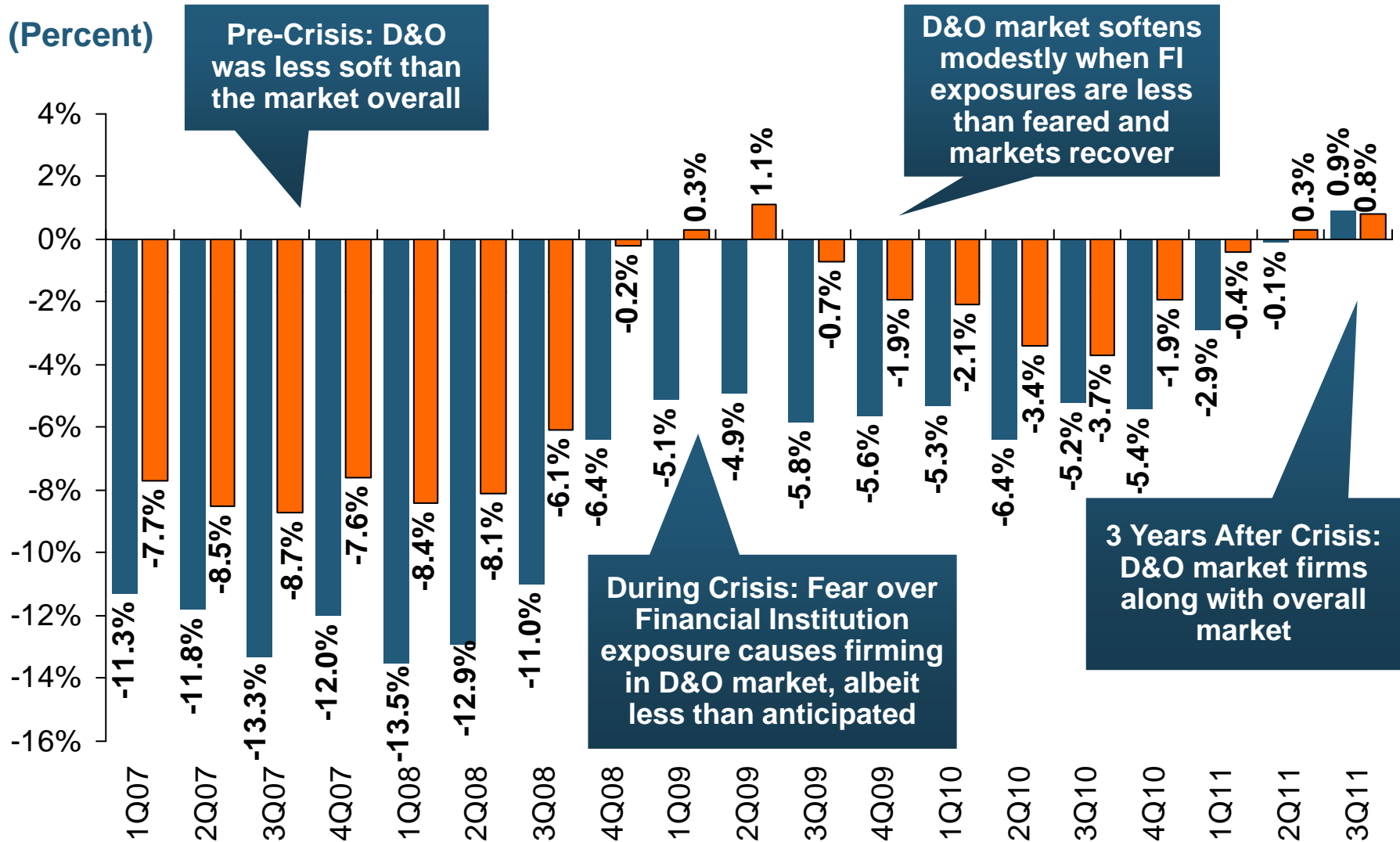


Sources: Towers Perrin, *Directors and Officers Liability*, 2008 Survey of Insurance Purchasing Trends for data through 2008. Data for 2009-2011:Q3 are Insurance Information Institute estimates derived from annual averages of quarterly data from the Council of Insurance Agents and Brokers survey. \*2011 figure calculated using the average of the first three quarters of 2011.

# D&O Average Rate Change, (1Q:2007–3Q:2011)

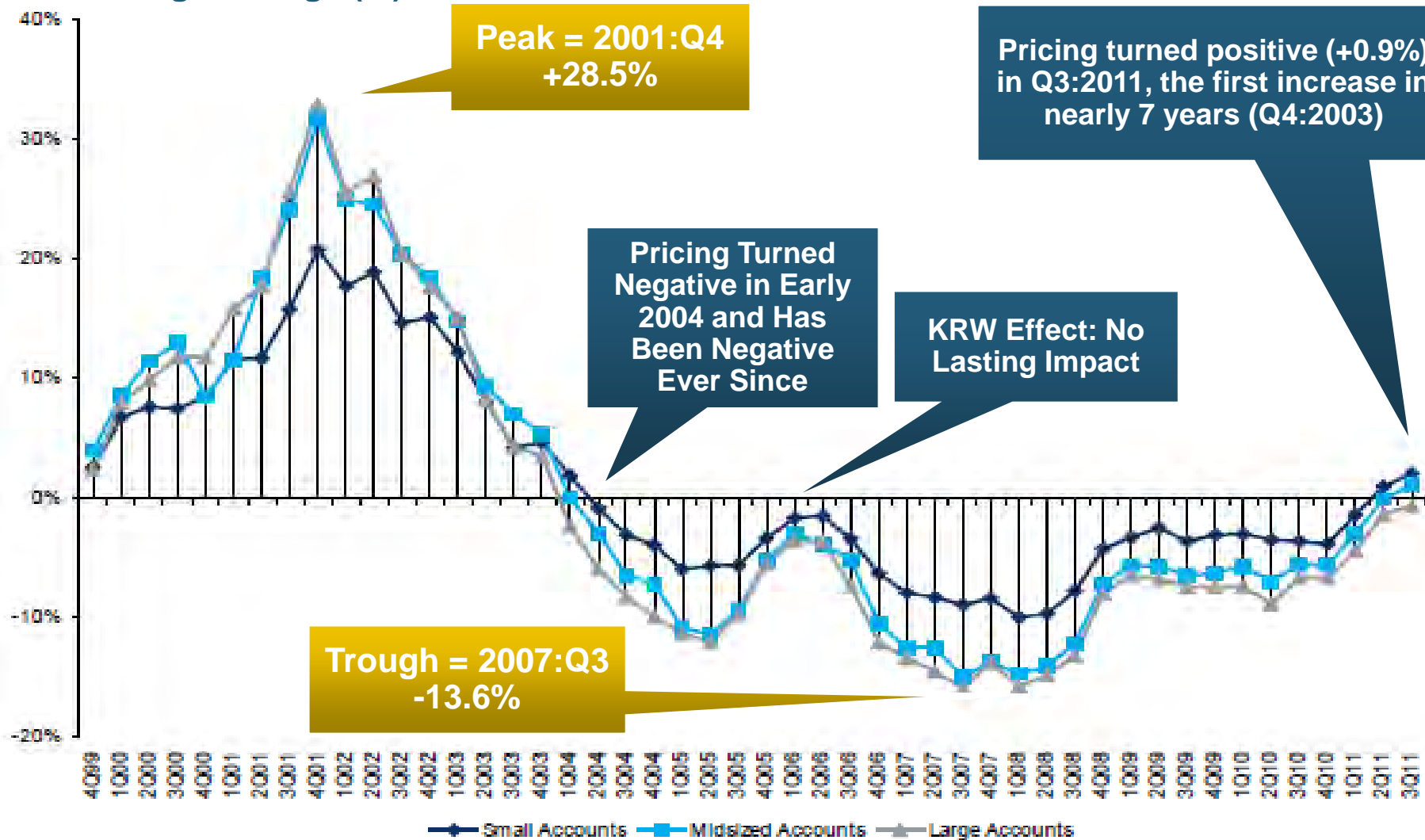


# D&O vs All Lines Average Commercial Rate Change, (1Q:2007–3Q:2011)



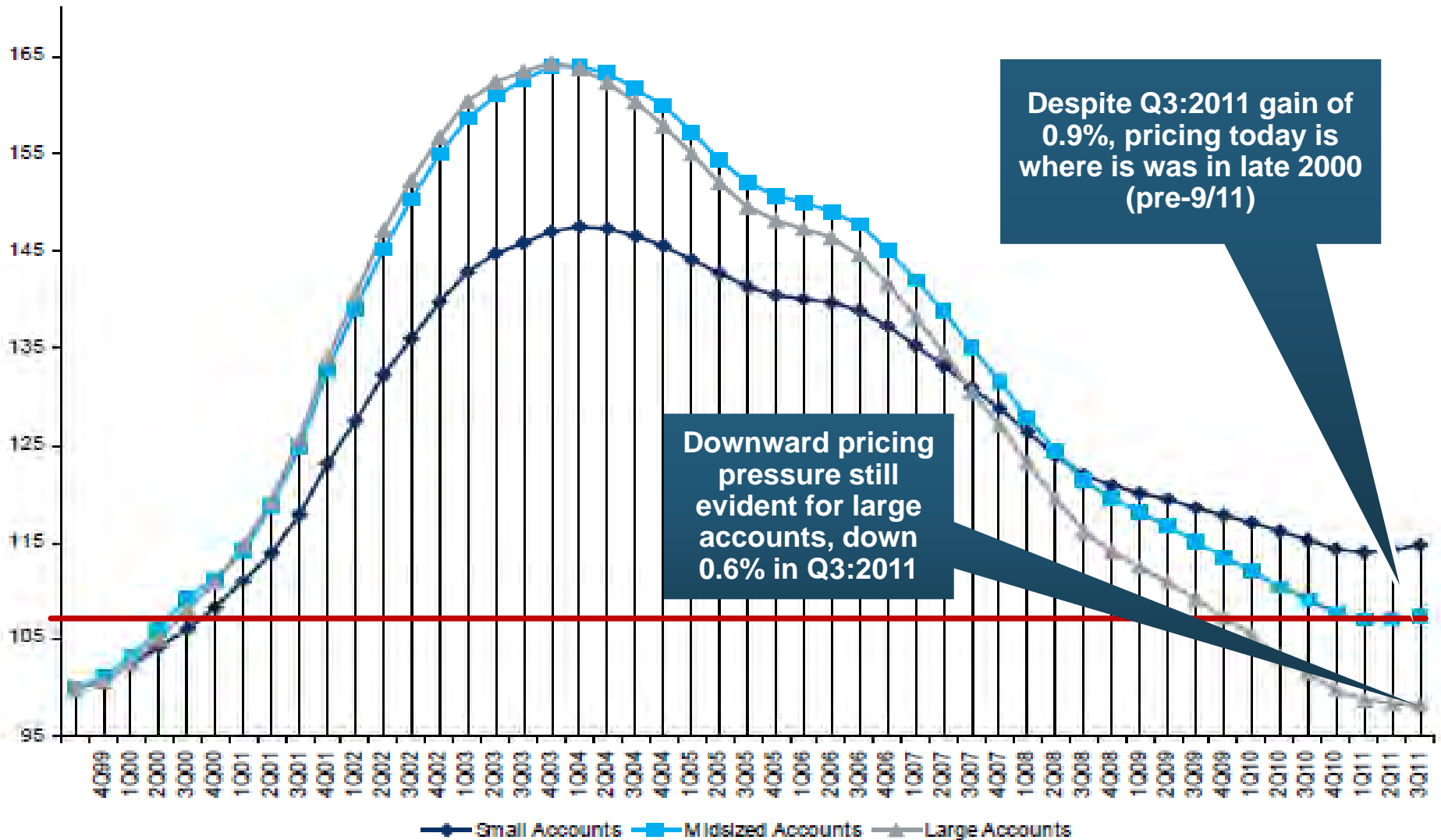
# Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2011:Q3

Percentage Change (%)



# Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2011:Q3

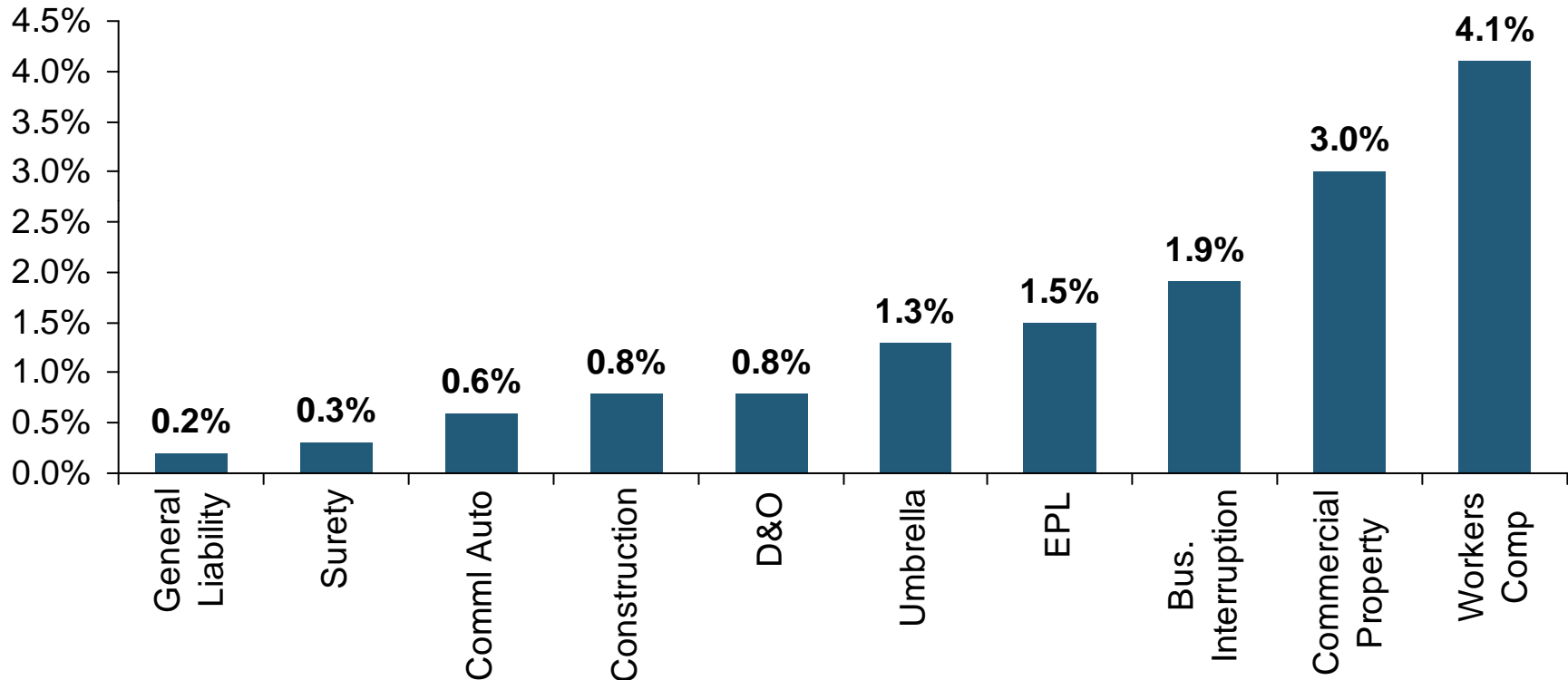
1999:Q4 = 100



Source: Council of Insurance Agents and Brokers; Insurance Information Institute.

# Change in Commercial Rate Renewals, by Line: 2011:Q3

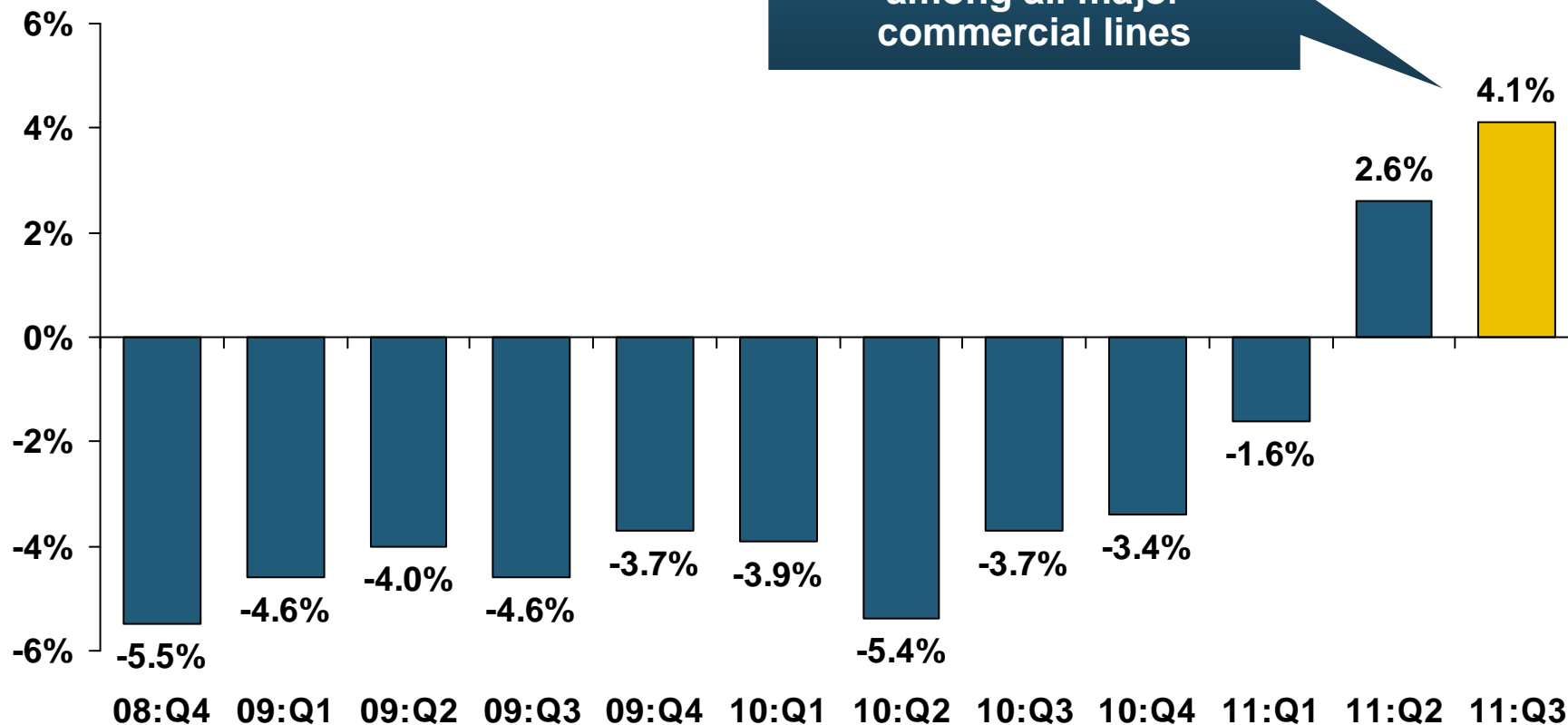
## Percentage Change (%)



**Major Commercial Lines Renewed Uniformly Upward in Q3:2011 for the First Time Since 2003, With Workers Up More than Any Other Line**

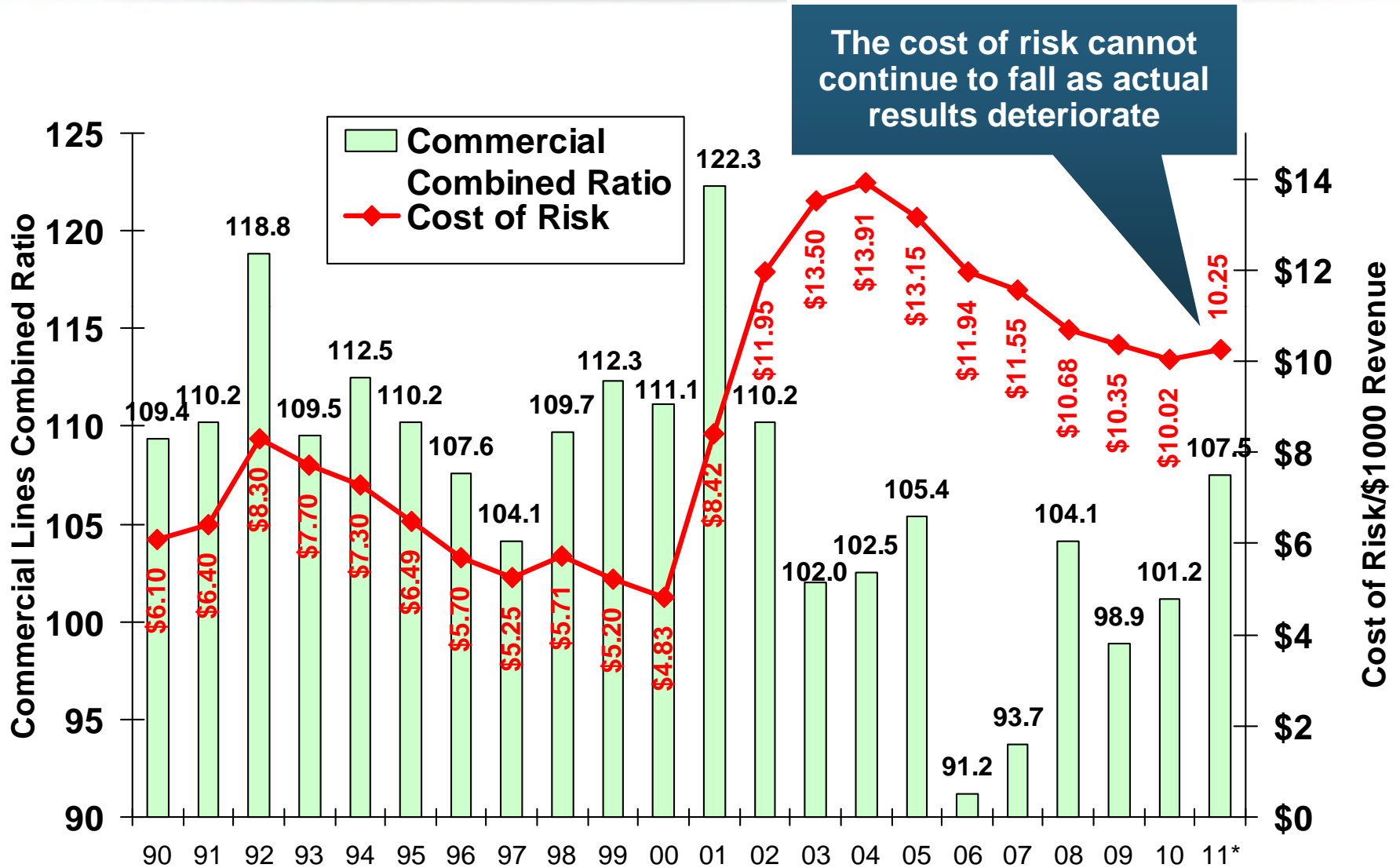
# Workers Comp Rate Changes, 2008:Q4 – 2011:Q3

(Percent  
Change)





# Cost of Risk vs. Commercial Lines Combined Ratio



\*Insurance Information Institute estimates for 2011.

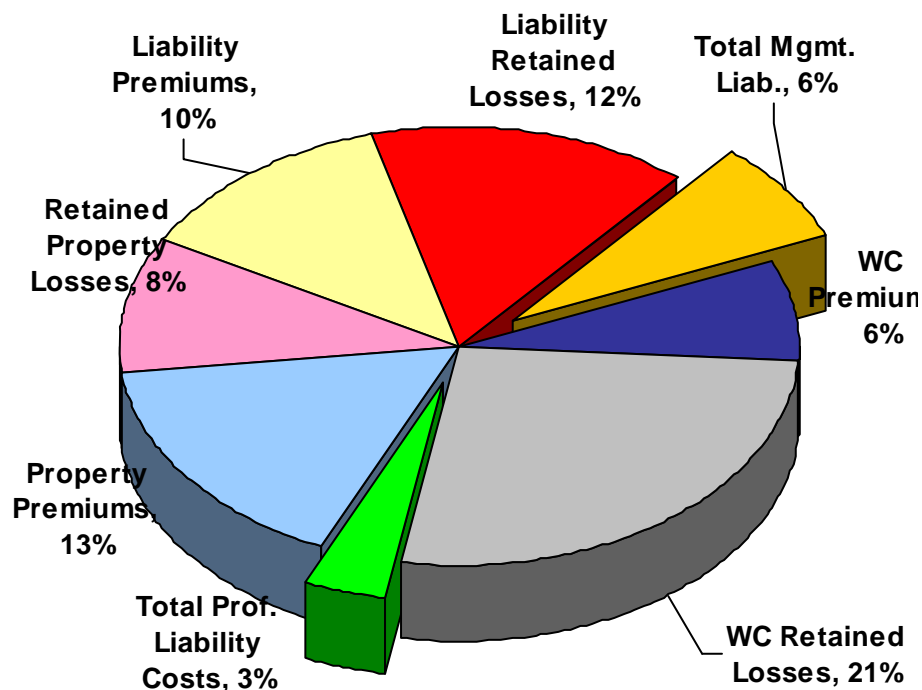
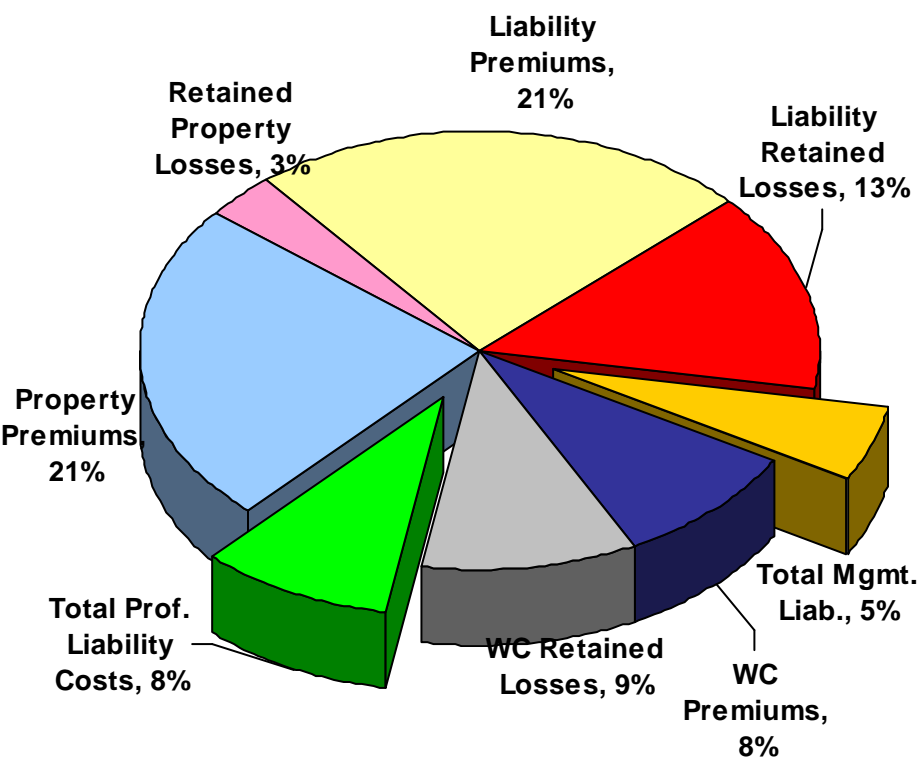
Source: 2011 RIMS Benchmark Survey; A.M. Best; Insurance Information Institute

# How the Risk Dollar is Spent (2011)

**Management & Professional Liability Costs Account for 9% - 13% of the Risk Dollar**

Firms w/Revenues < \$1 Billion

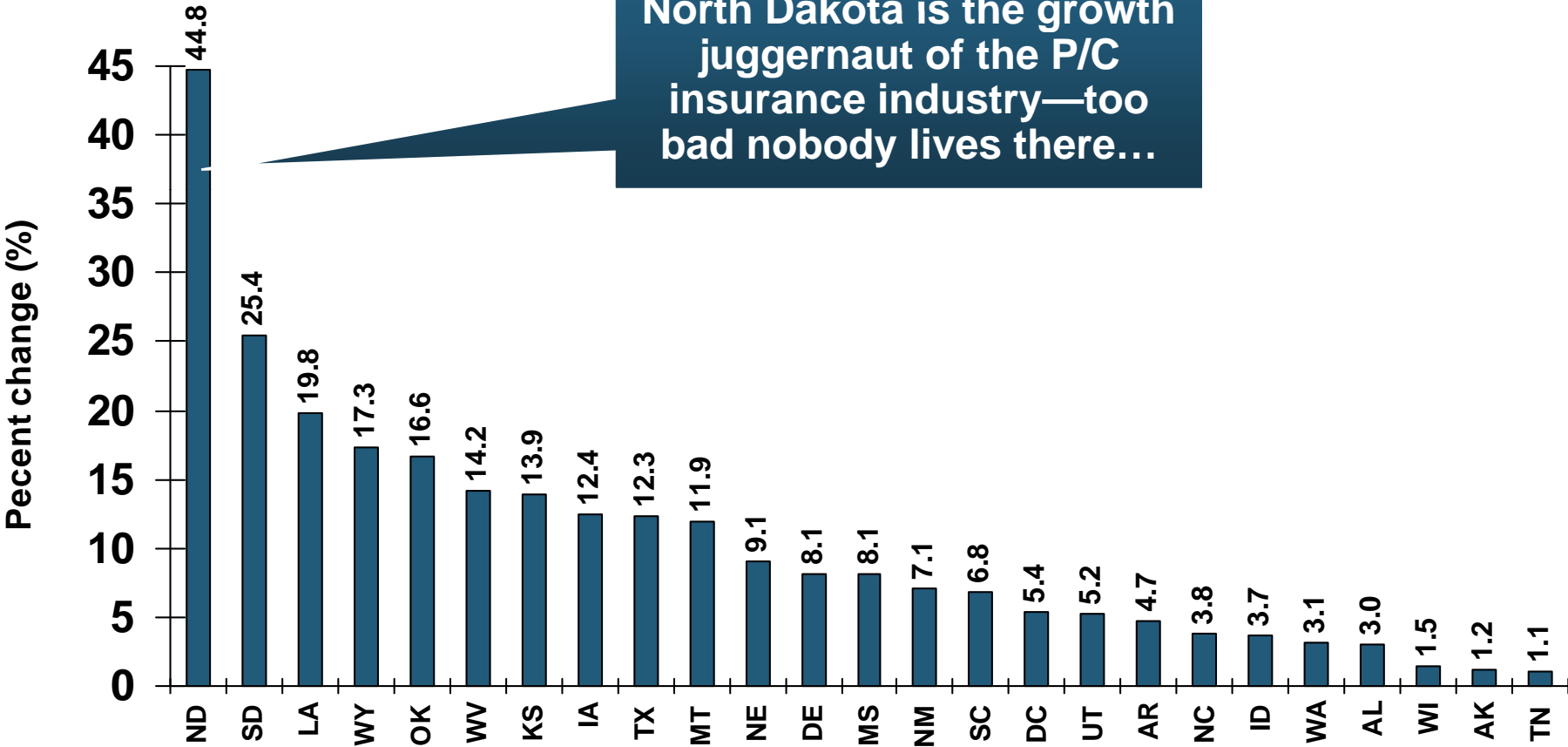
Firms w/Revenues > \$1 Billion



# Direct Premiums Written: All P/C Lines Percent Change by State, 2005-2010

## Top 25 States

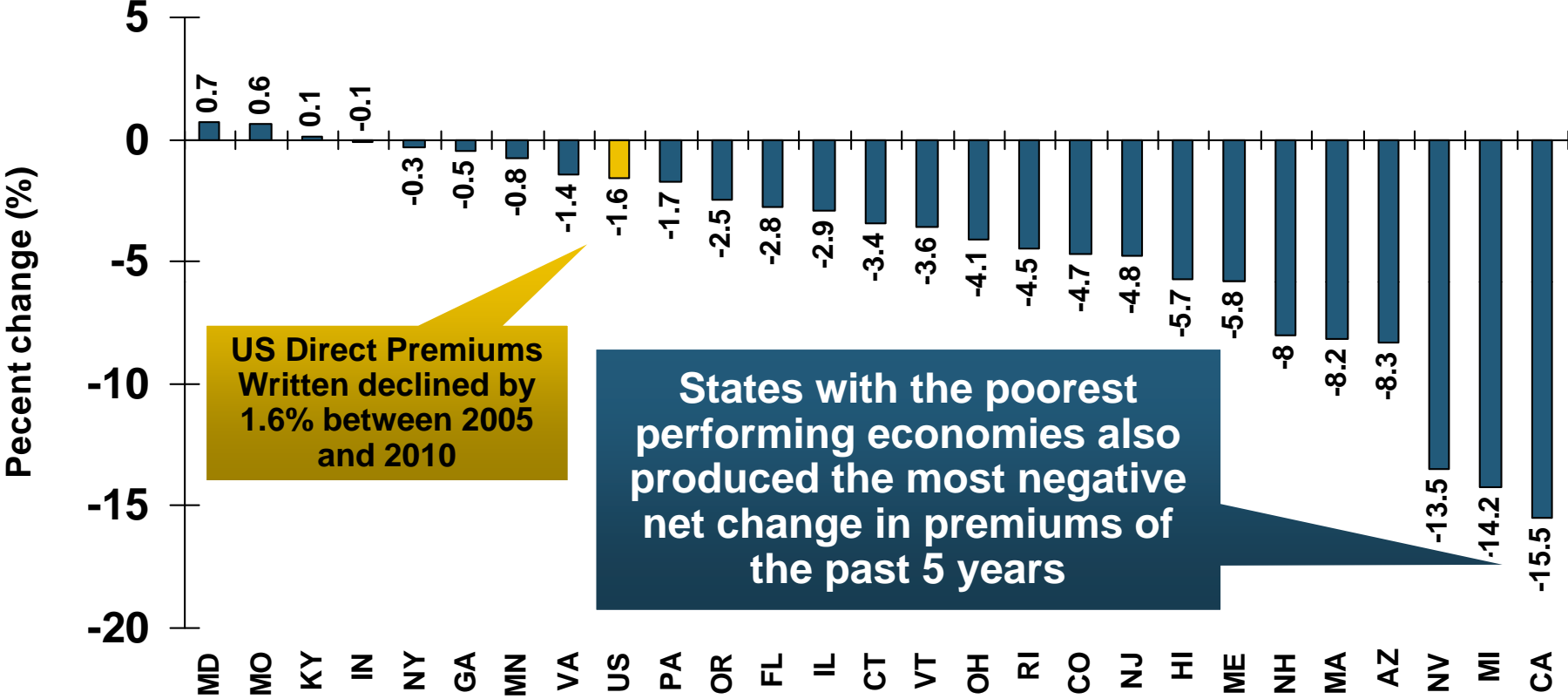
North Dakota is the growth juggernaut of the P/C insurance industry—too bad nobody lives there...



Sources: SNL Financial LC.; Insurance Information Institute.

# Direct Premiums Written: All P/C Lines Percent Change by State, 2005-2010

## Bottom 25 States

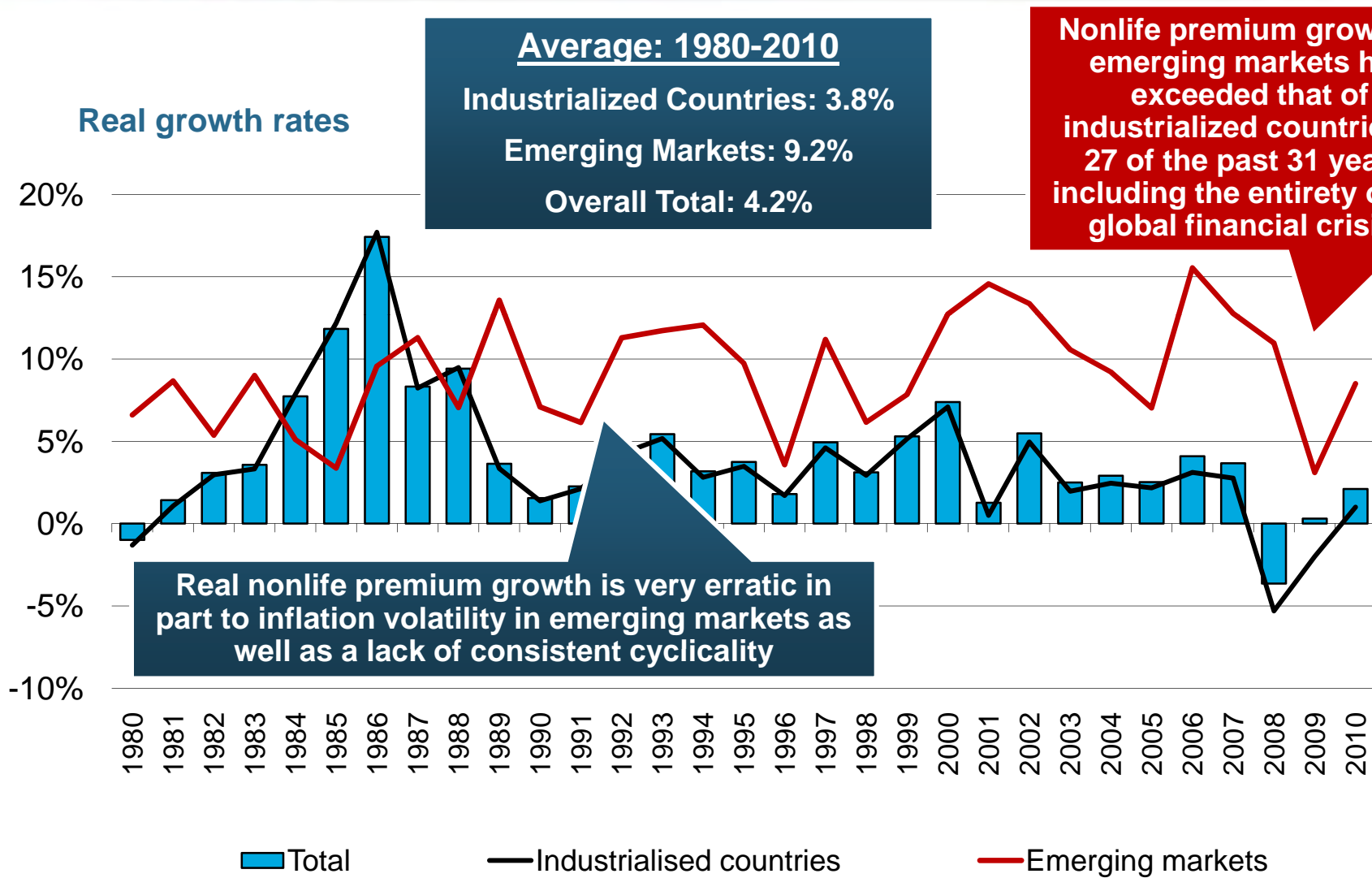


Sources: SNL Financial LC; Insurance Information Institute.

# **The Unfortunate Nexus: Opportunity, Risk & Instability**

**Most of the Global Economy's Future  
Gains Will be Fraught with Much  
Greater Risk and Uncertainty than in  
the Past**

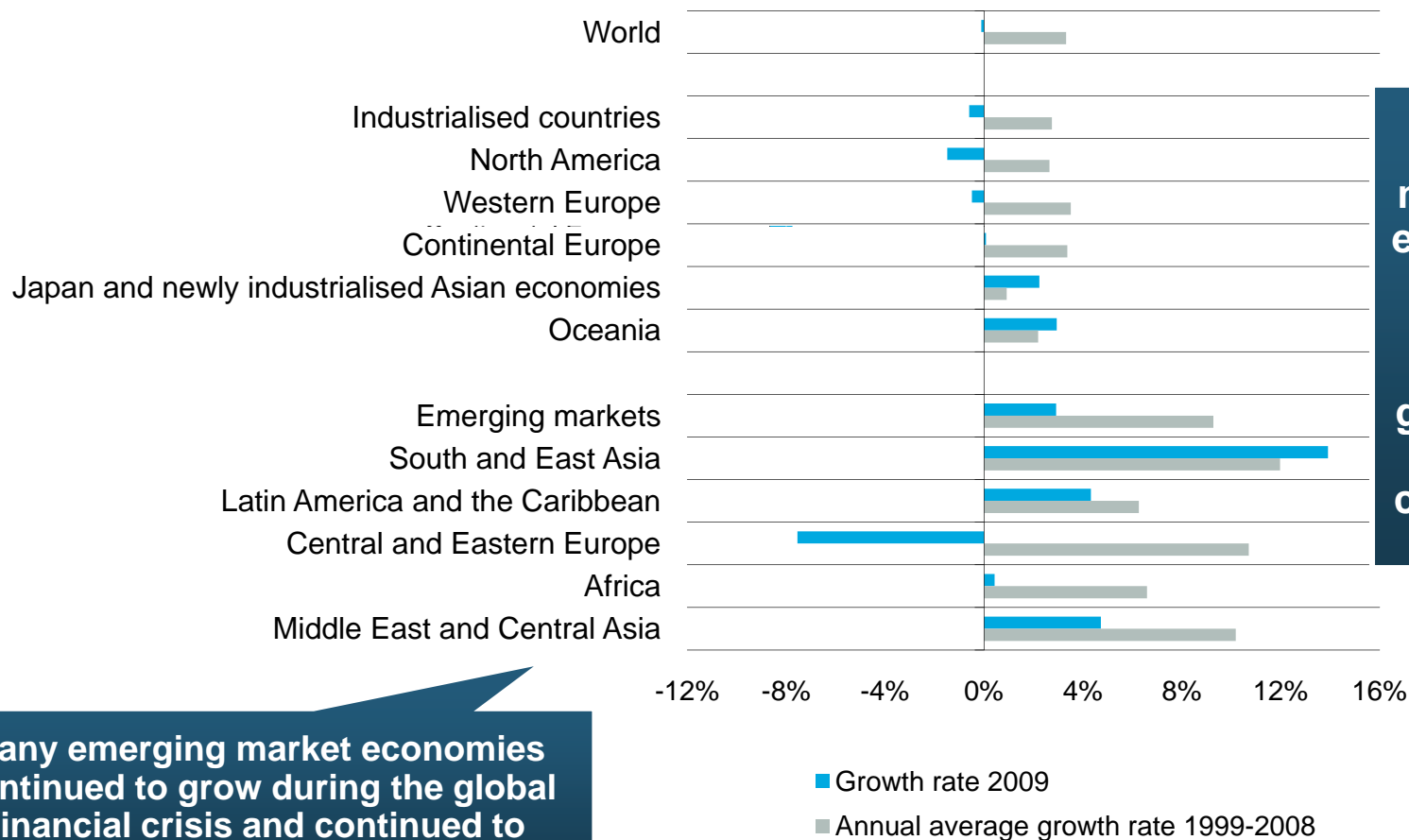
# Global Real (Inflation Adjusted) Nonlife Premium Growth: 1980-2010



Source: Swiss Re, *sigma*, No. 2/2010.

# Nonlife Real Premium Growth Rates by Region: 2000-2009 and 2010

## Real Premium Growth Rates



Every emerging market region except Central and Eastern Europe experienced growth during the financial crisis and into 2010

Many emerging market economies continued to grow during the global financial crisis and continued to benefit from foreign direct investment

# Distribution of Nonlife Premium: Industrialized vs. Emerging Markets, 2009

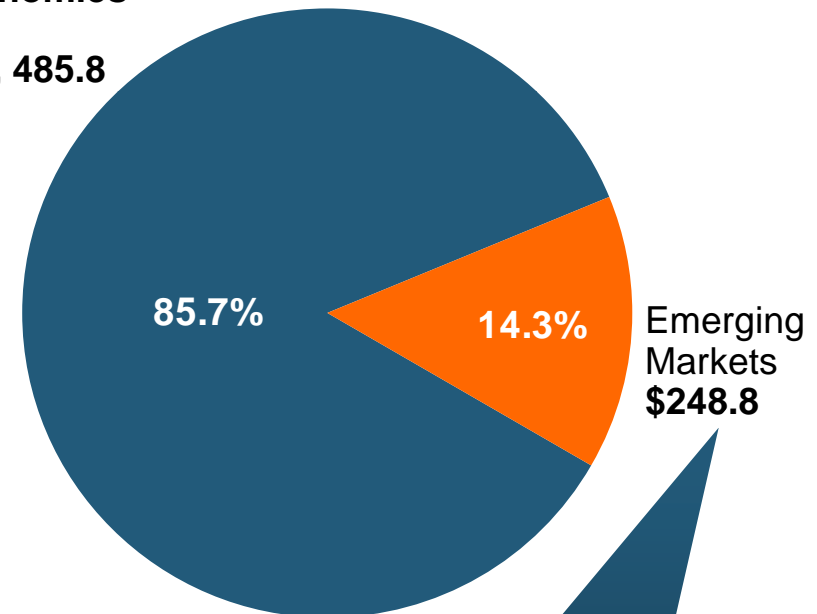
## Premium Growth Facts

- Although premium growth throughout the industrialized world was negative in 2009, its share of global nonlife premiums remained very high at nearly 86%--accounting for nearly \$1.5 trillion in premiums.
- The financial crisis and sluggish recovery in the major insurance markets will accelerate the expansion of the emerging market sector

## 2009, \$Billions

Industrialized  
Economies

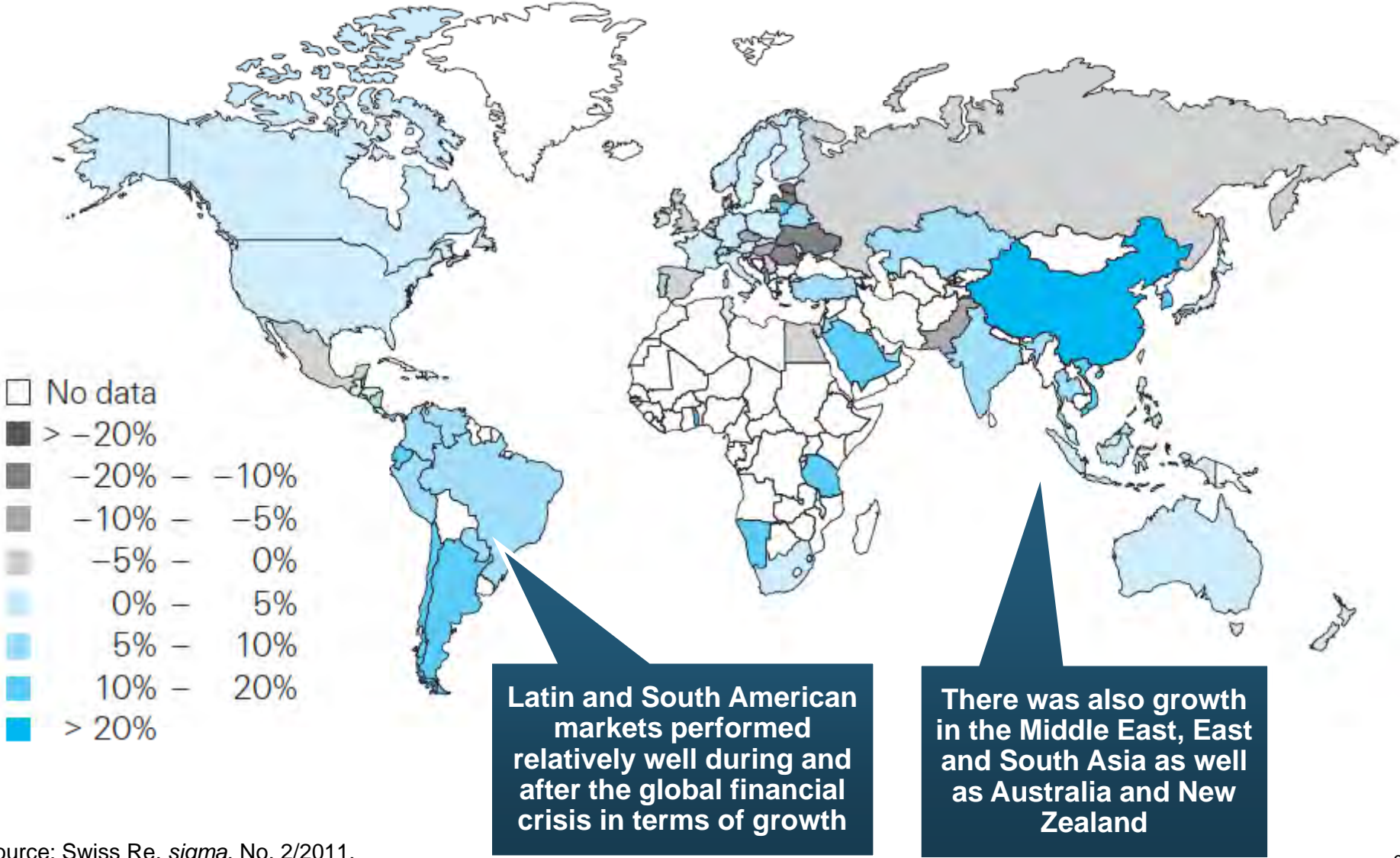
\$1, 485.8



Developing markets now account for 47% of global GDP but just 14% of nonlife premiums



# Nonlife Real Premium Growth in 2010

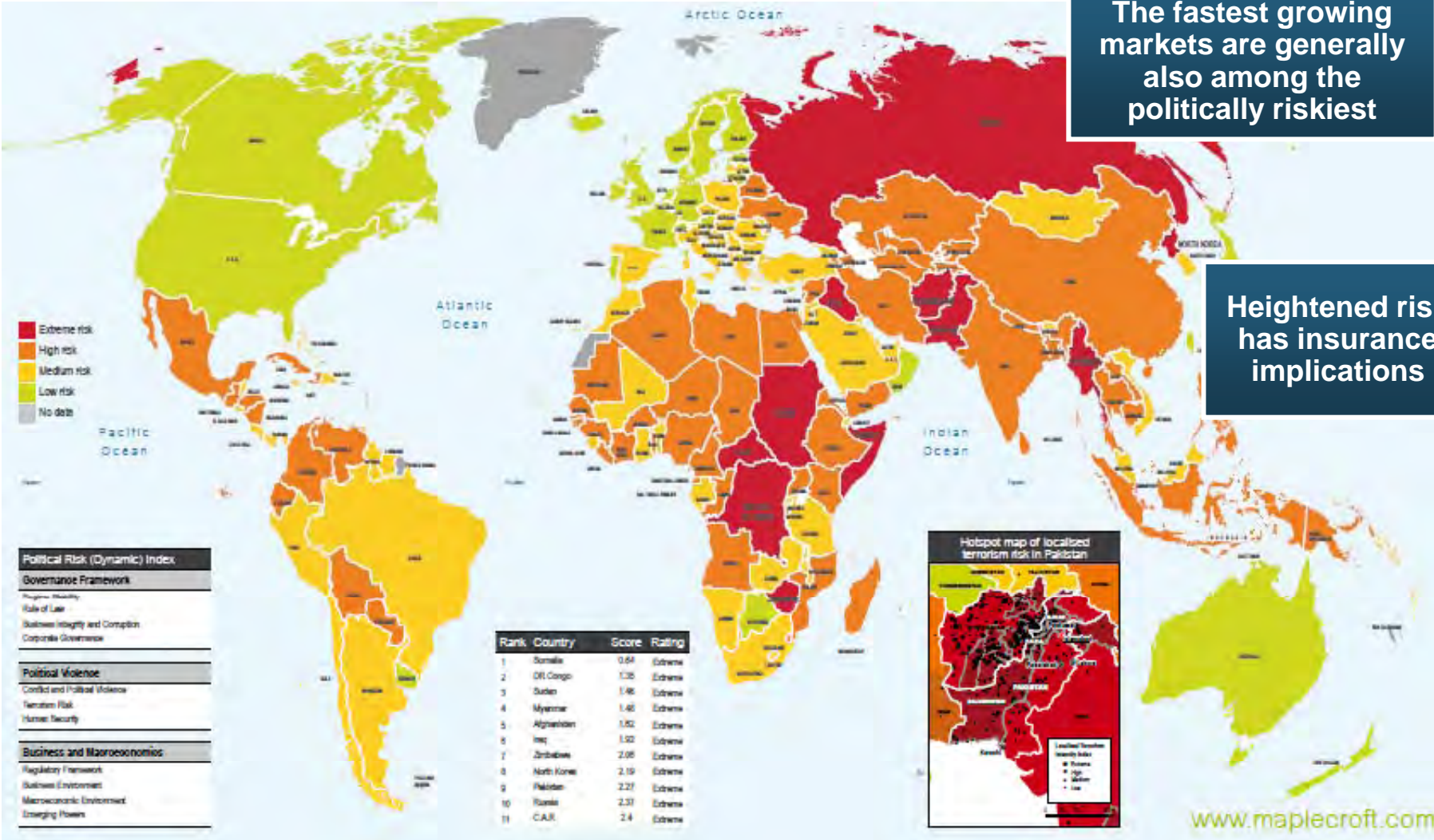


Source: Swiss Re, *sigma*, No. 2/2011.

# Political Risk in 2010: Greatest Business Opportunities Are Often in Risky Nations

The fastest growing markets are generally also among the politically riskiest

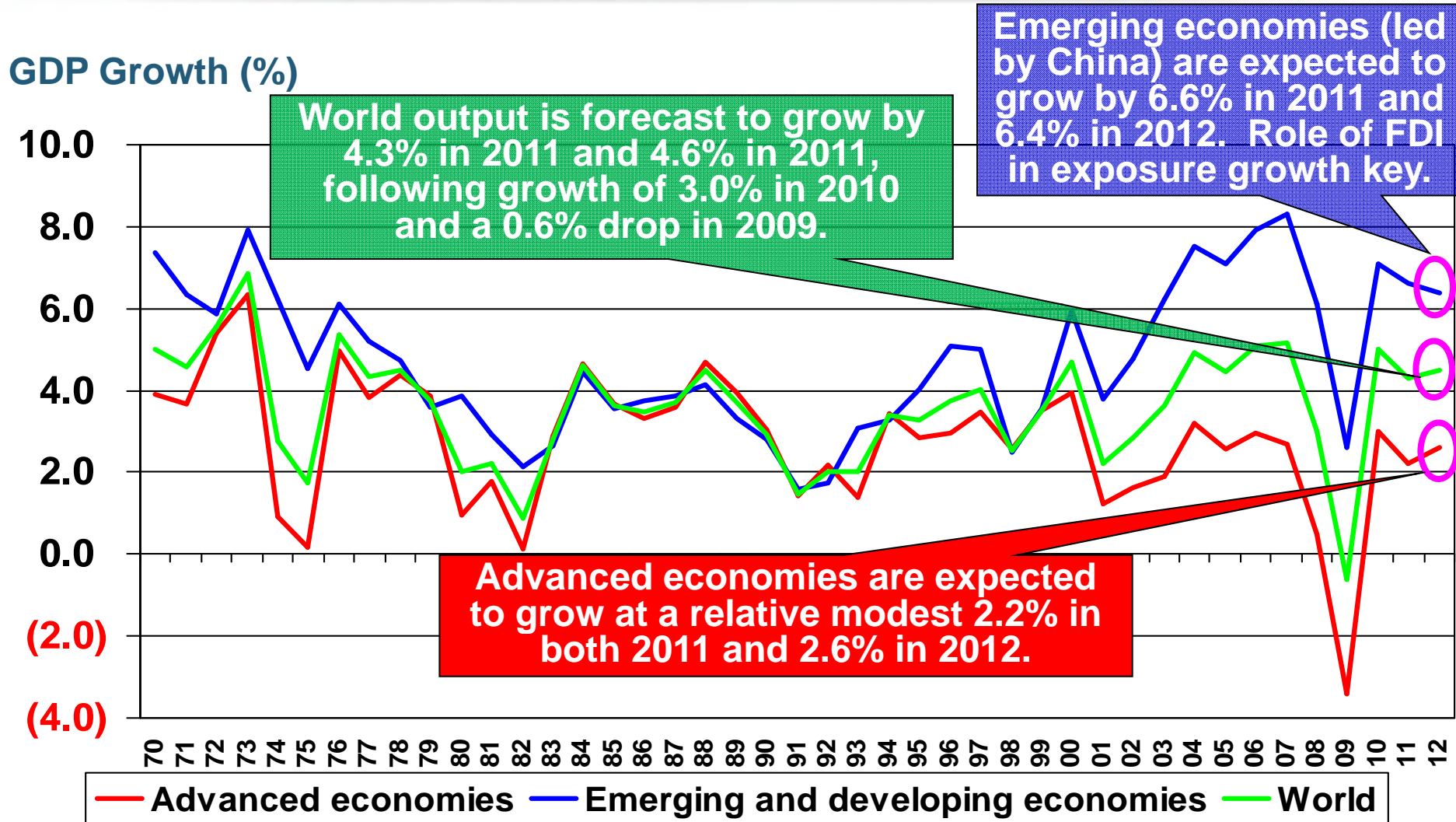
Heightened risk has insurance implications



Source: Maplecroft

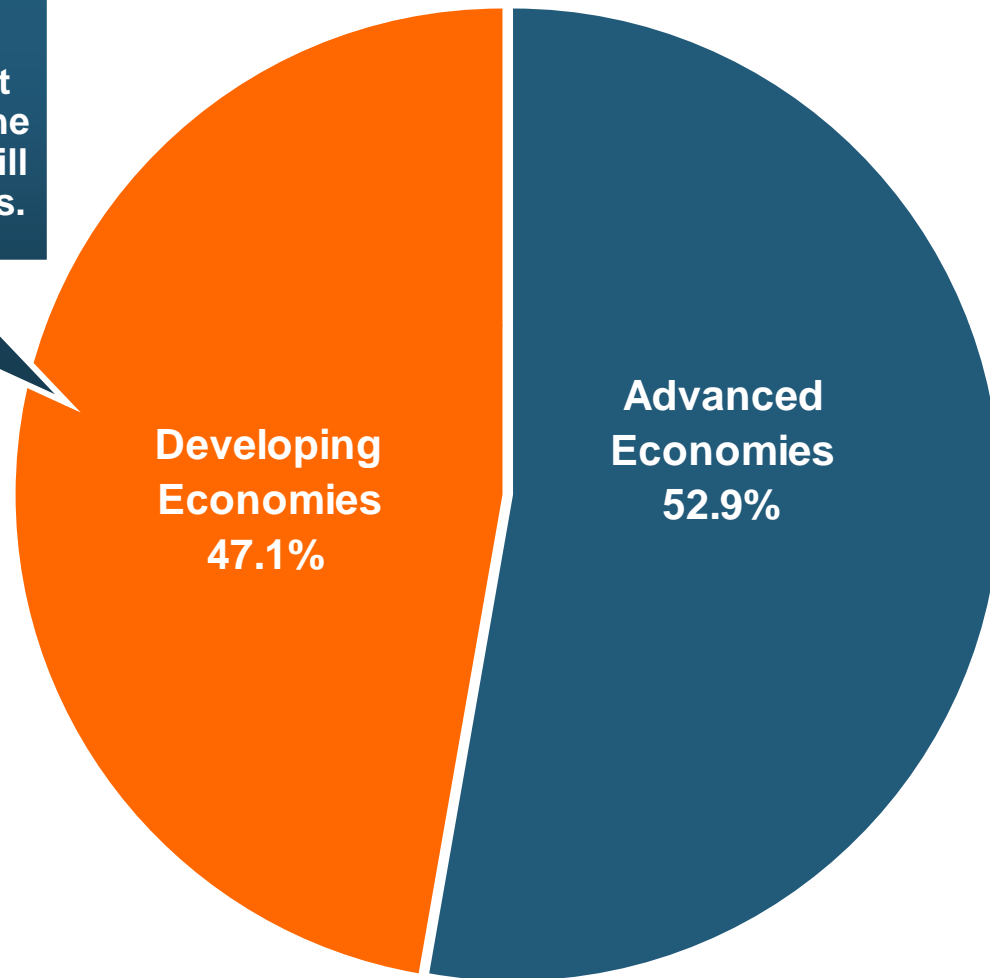


# GDP Growth: Advanced & Emerging Economies vs. World, 1970-2012F

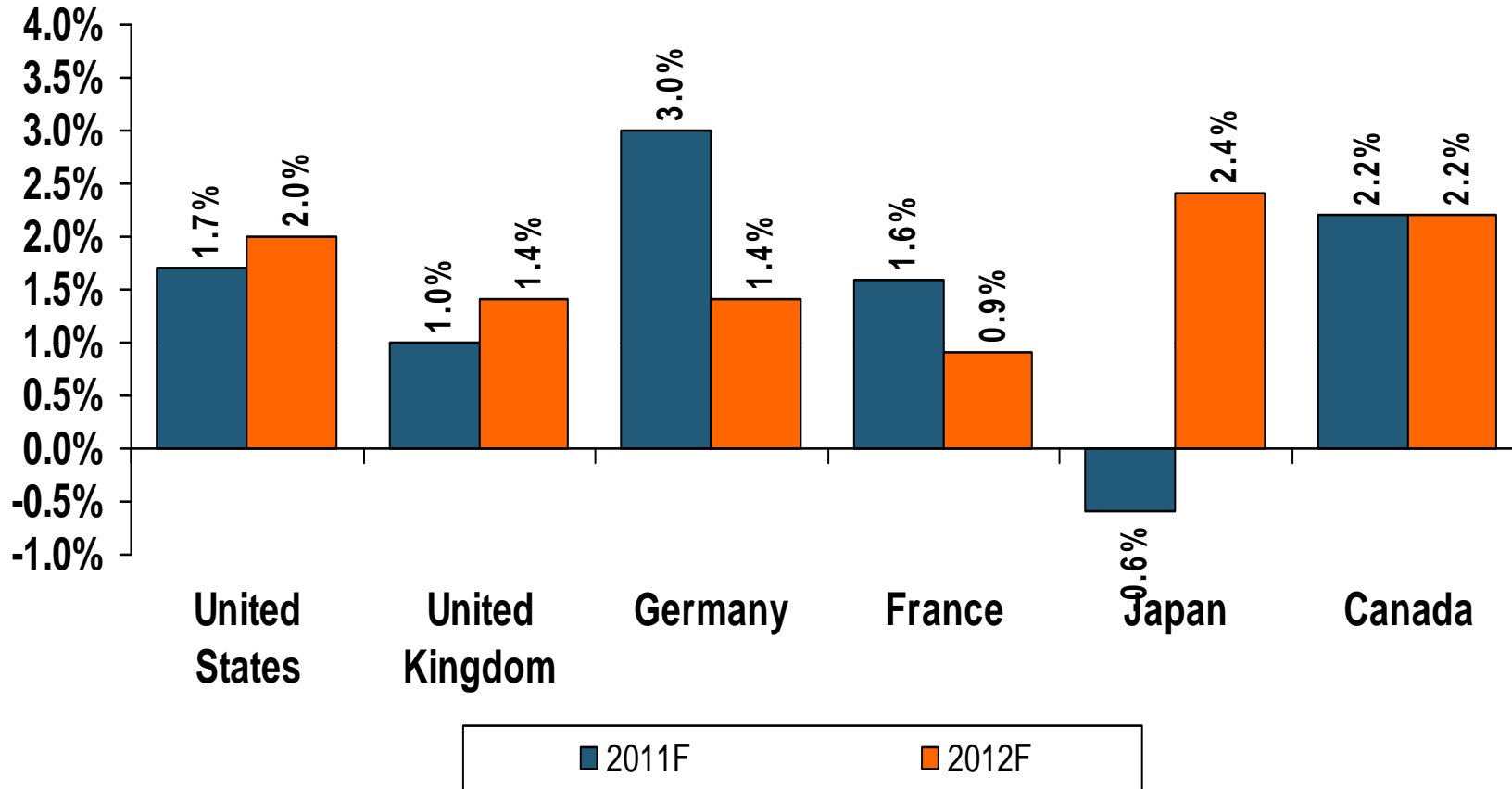


# Relative Shares of Global Output, Advanced vs. Developing Economies, 2009

The gap is closing quickly. China became the world's second largest economy in 2010 and before long the developing world's share of GDP will exceed that of advanced economies.

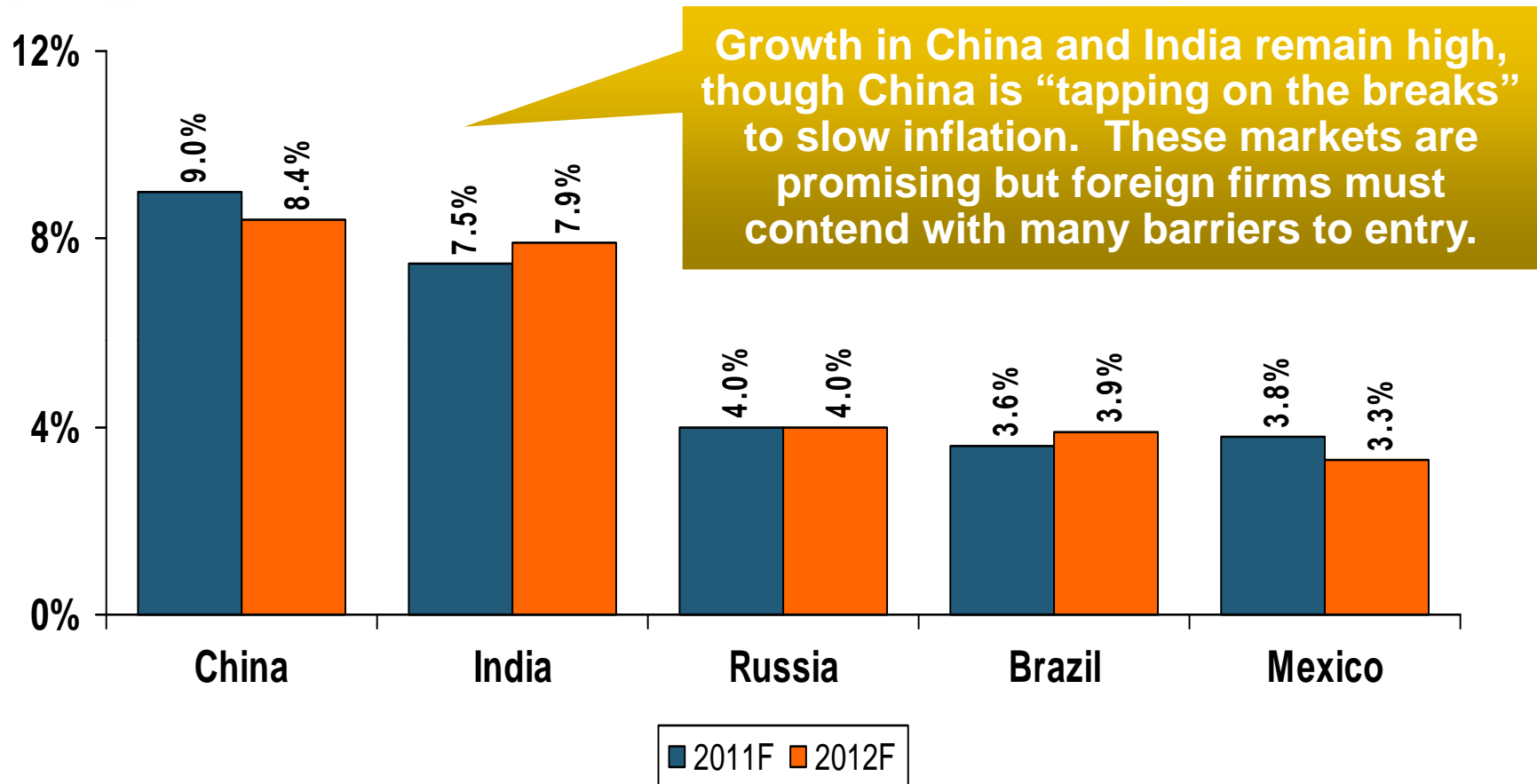


# Real GDP Growth Forecasts for Advanced Economies: 2011 - 2012



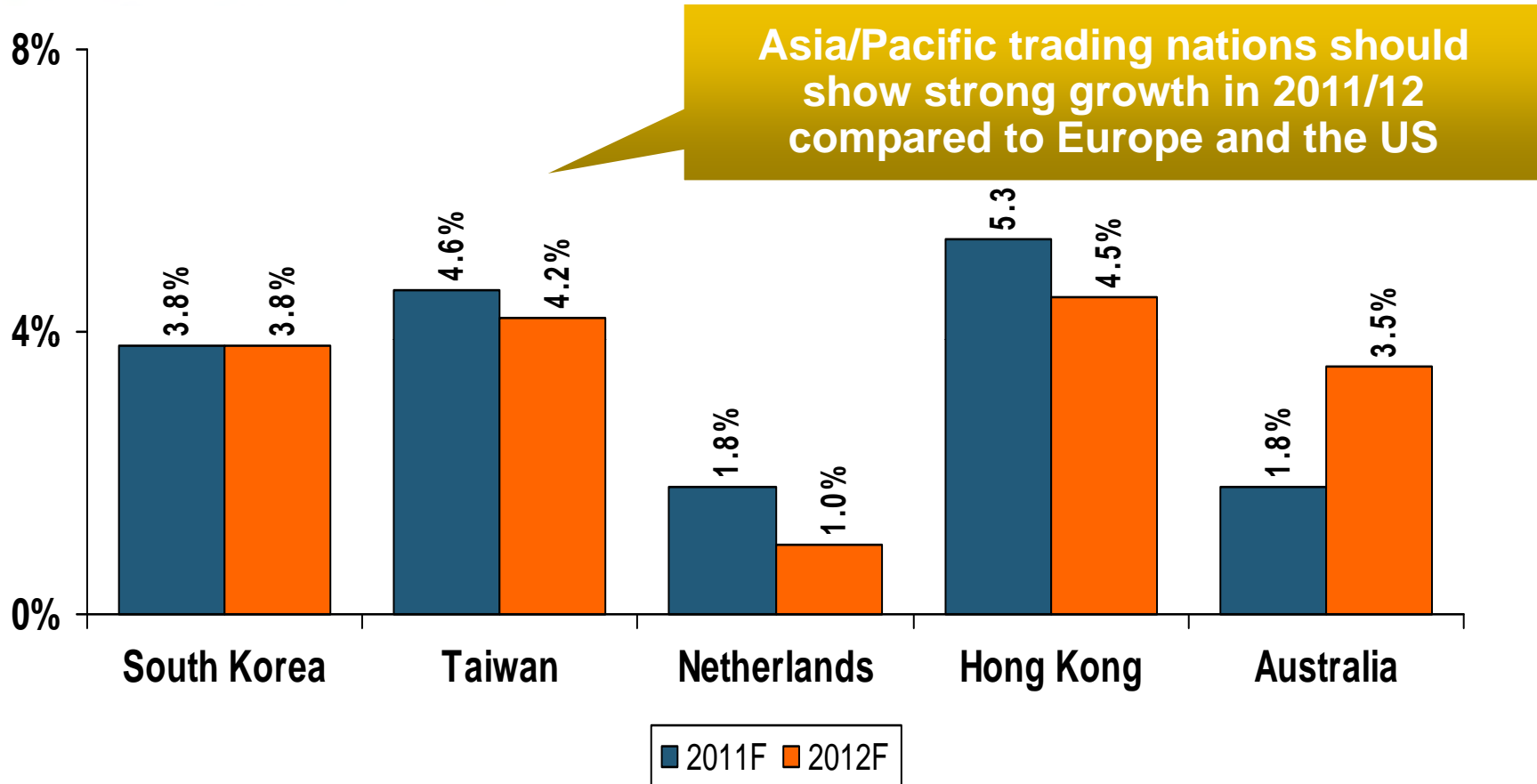
**Growth projections could slow for 2011 and 2012 have been revised downward as austerity measures take effect and concerns related to sovereign debt worsen**

# Real GDP Growth Forecasts for Key Developing Economies: 2011 - 2012



**Growth in emerging and developing economies will greatly outpace advanced country growth in 2011/12. This will accelerate the growth of insurance exposures in emerging markets relative to the U.S., W. Europe and Japan.**

# Real GDP Growth Forecasts for Other Key Trading Economies: 2011 - 2012



Growth in industrialized Asian economies will greatly outpace much of the rest of the world in 2011/12. This will accelerate the growth of insurance exposures in emerging markets relative to the U.S., W. Europe and Japan.

# Other Cycle-Influencing Factors

**Could Other Factors Act as  
a Catalyst to Turn the  
Market?**

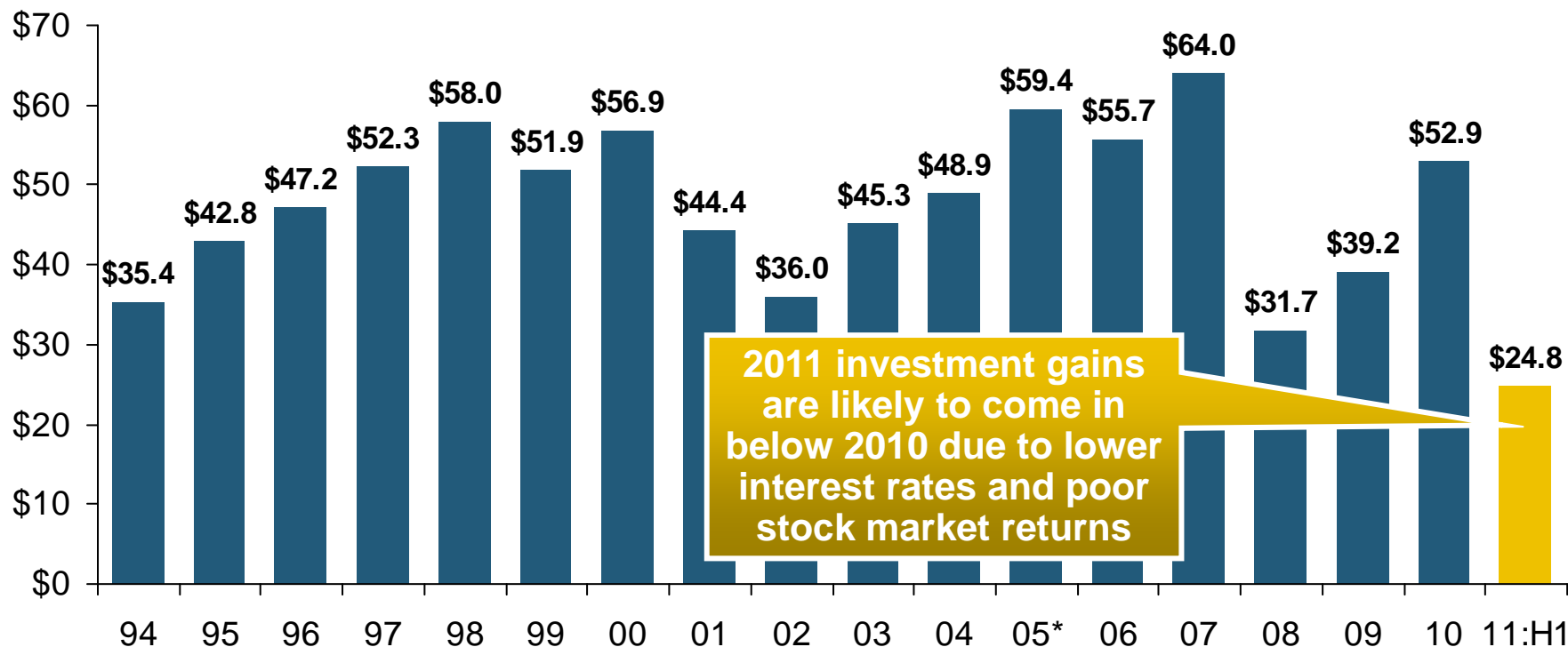


# **INVESTMENTS: THE NEW REALITY**

**Investment Performance is a  
Key Driver of Profitability  
*Does It Influence  
Underwriting or Cyclicalities?***

# Property/Casualty Insurance Industry Investment Gain: 1994–2011:H1<sup>1</sup>

(\$ Billions)



2011 investment gains are likely to come in below 2010 due to lower interest rates and poor stock market returns

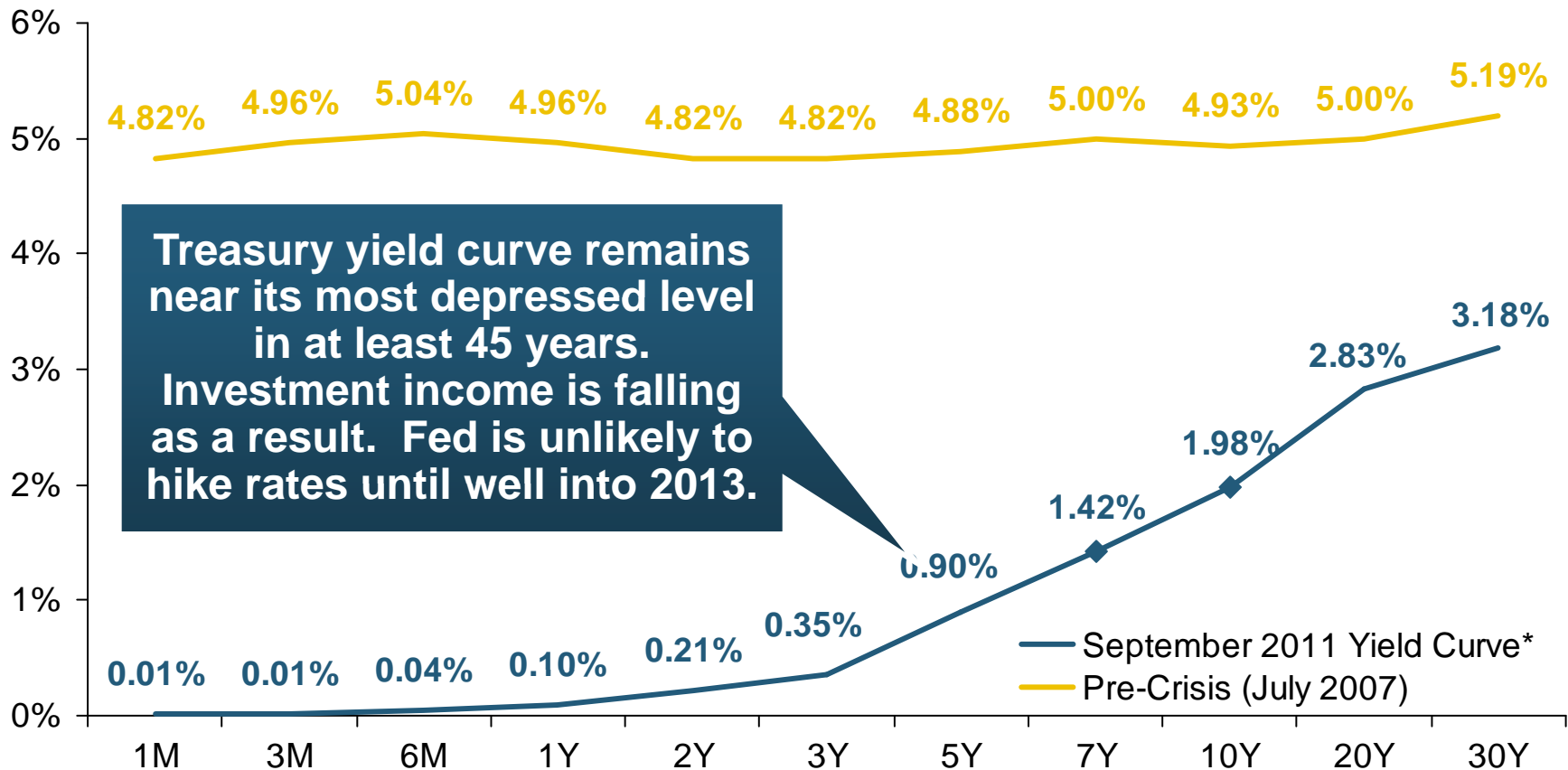
**Investment Gains Recovered Significantly in 2010 Due to Realized Investment Gains; The Financial Crisis Caused Investment Gains to Fall by 50% in 2008**

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

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

Sources: ISO; Insurance Information Institute.

# Treasury Yield Curves: Pre-Crisis (July 2007) vs. Sept. 2011\*



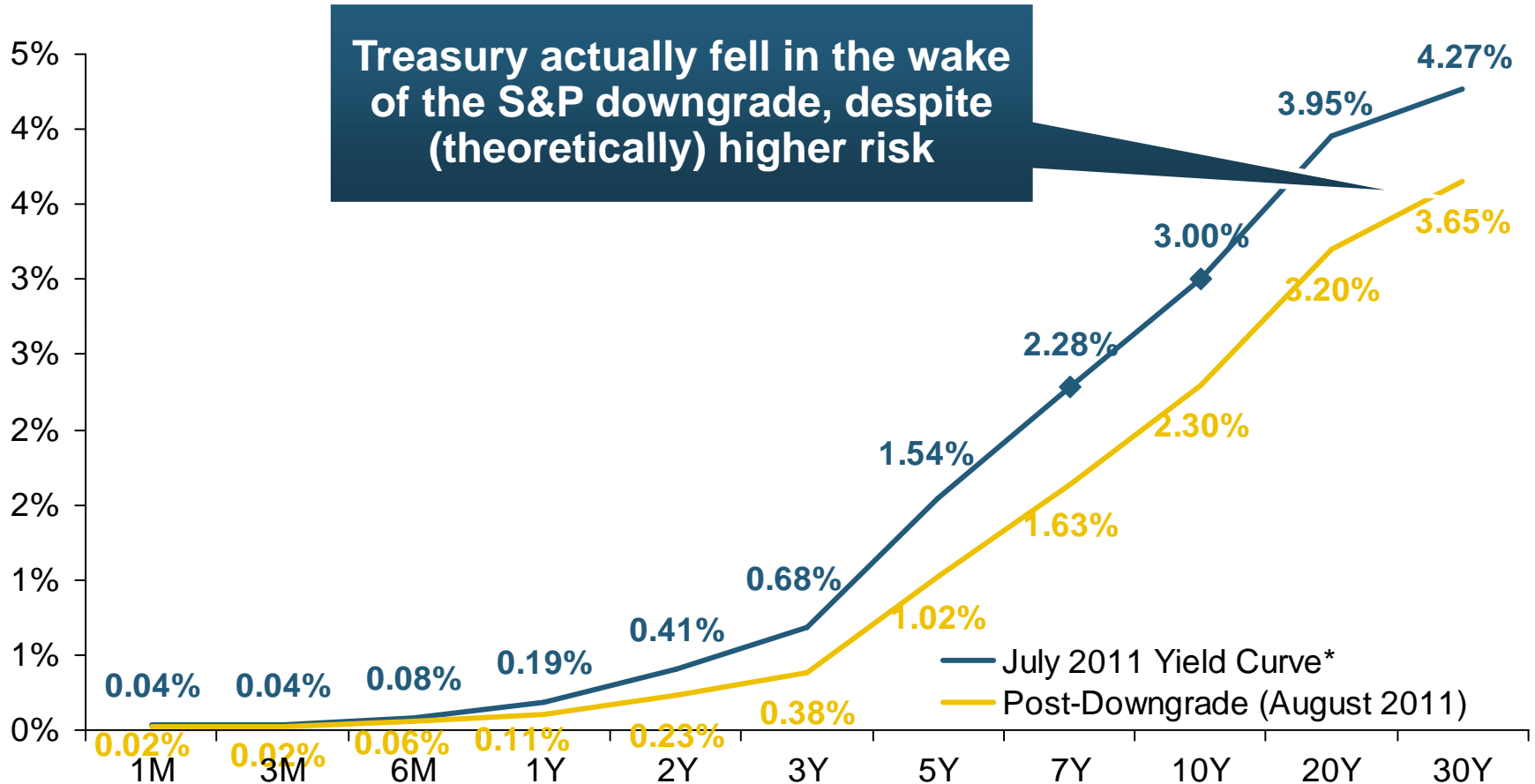
Treasury yield curve remains near its most depressed level in at least 45 years. Investment income is falling as a result. Fed is unlikely to hike rates until well into 2013.

**The End of the Fed's Quantitative Easing Is Unlikely to Push Interest Rates Up Substantially Given Ongoing Economic Weakness**

\*Average of daily rates.

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

# Treasury Yield Curves Before and After S&P Downgrade

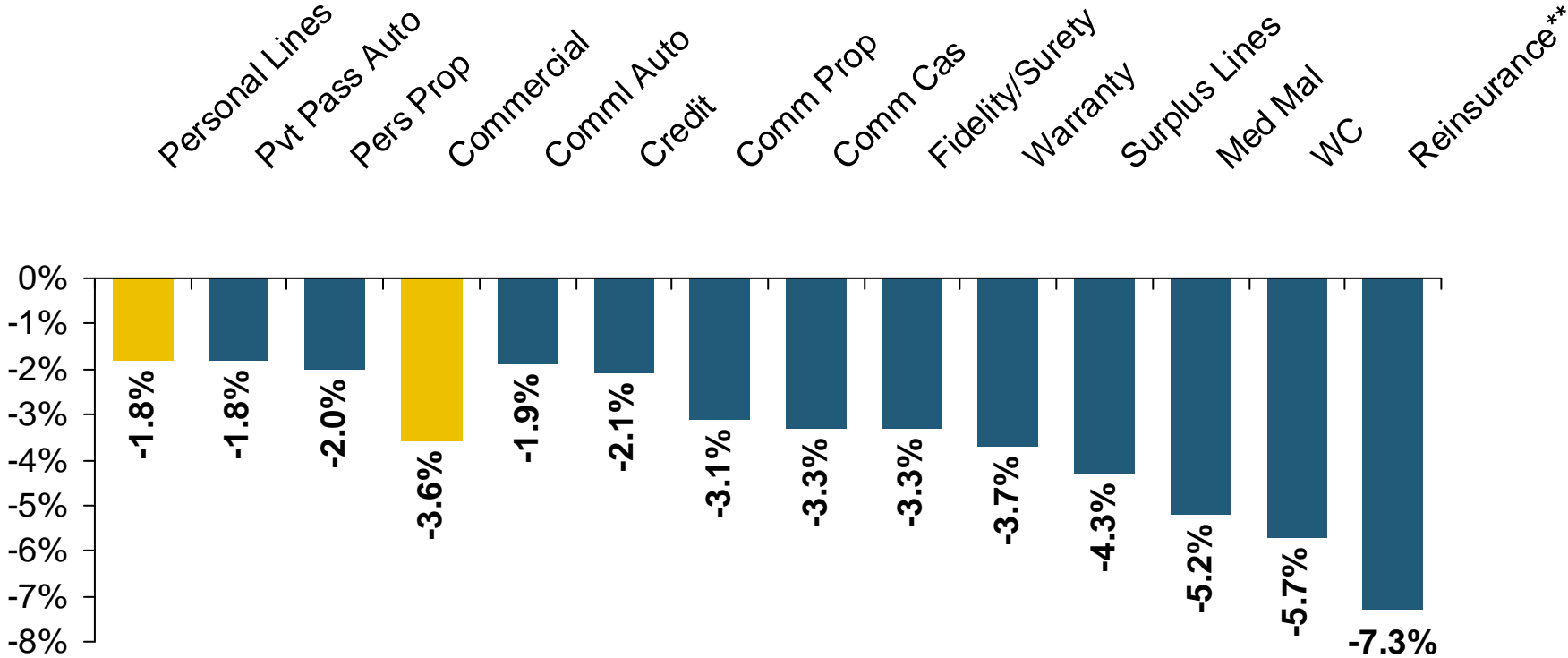


**S&P's Downgrade on August 5<sup>th</sup> Did Not Increase the Borrowing Costs of the US Government. In Fact, Treasury Yields Fell Afterwards**

\*Average of daily rates.

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

# 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

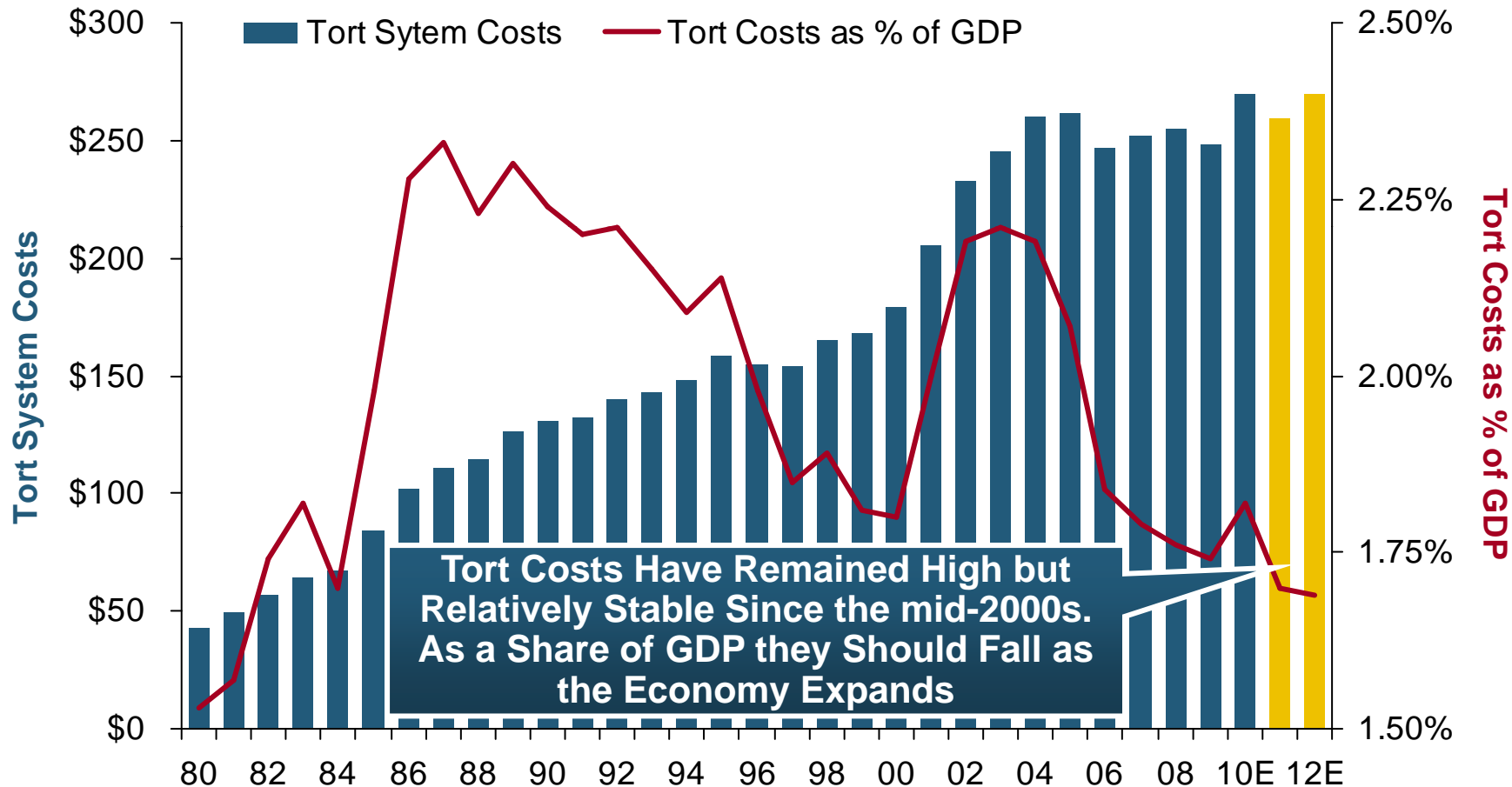
Source: A.M. Best; Insurance Information Institute.

# 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)



# Business Leaders Ranking of Liability Systems in 2010

## Best States

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

### New in 2010

- North Dakota
- Massachusetts
- South Dakota

### Drop-offs

- Maine
- Vermont
- Kansas

Midwest/West has mix of good and bad states.

## Worst States

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

### Newly Notorious

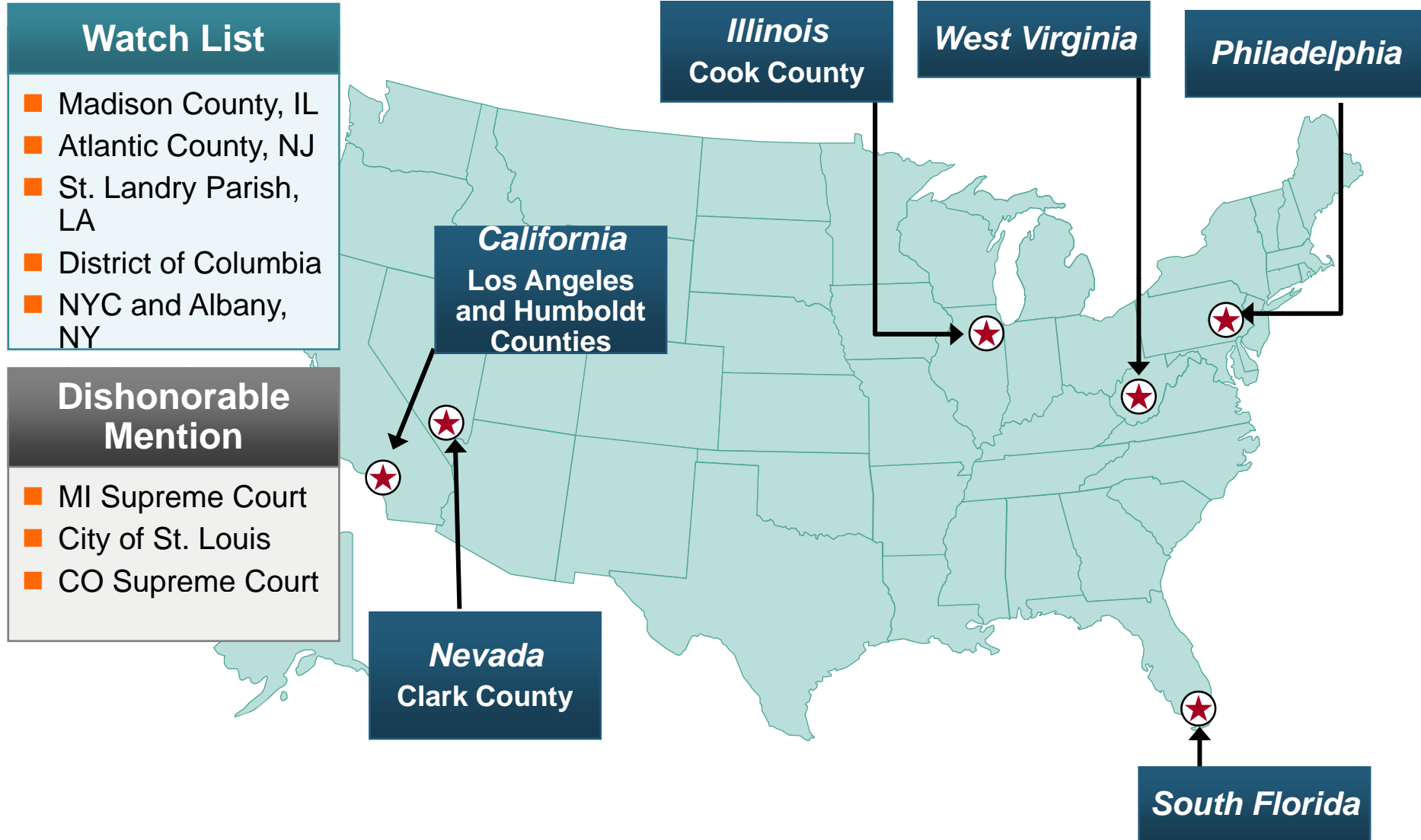
- New Mexico
- Montana
- Arkansas

### Rising Above

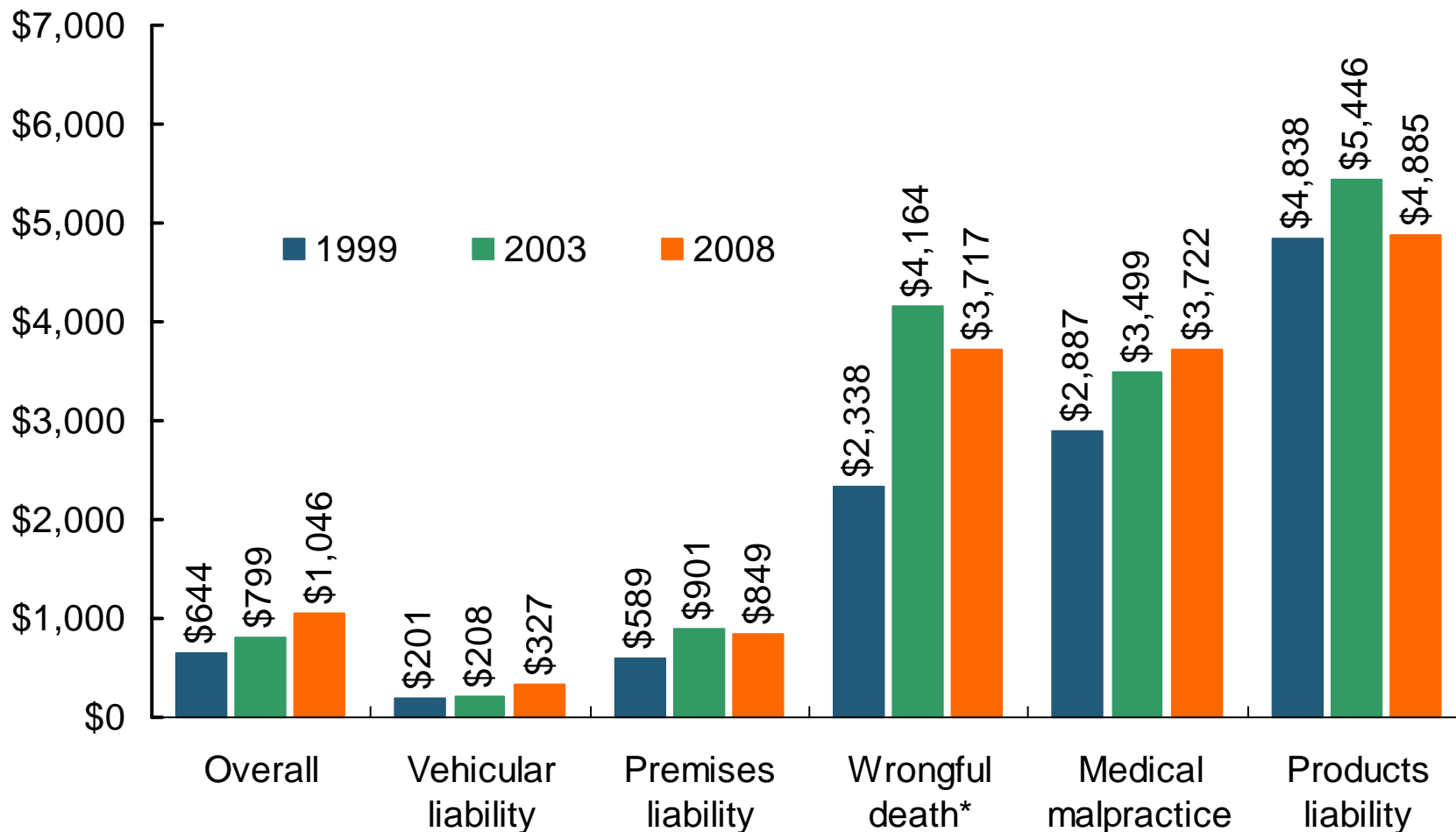
- **Texas**
- South Carolina
- Hawaii



# The Nation's Judicial Hellholes: 2010



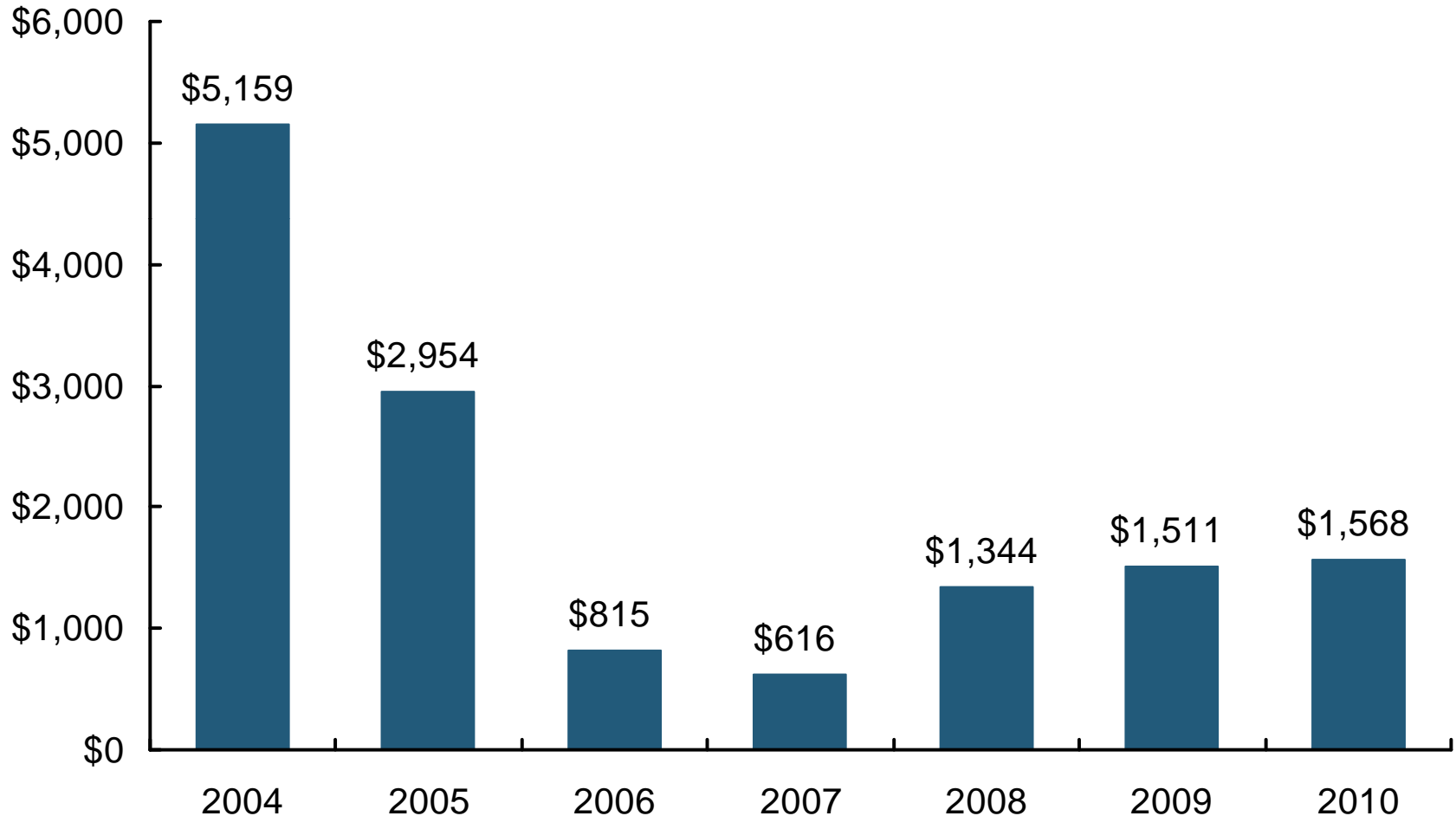
# Avg. Jury Awards 1999 vs. 2003 and 2008



\*Award trends in wrongful deaths of adult males.

Source: Jury Verdict Research; Insurance Information Institute.

# Sum of Top 10 Jury Awards 2004-2010

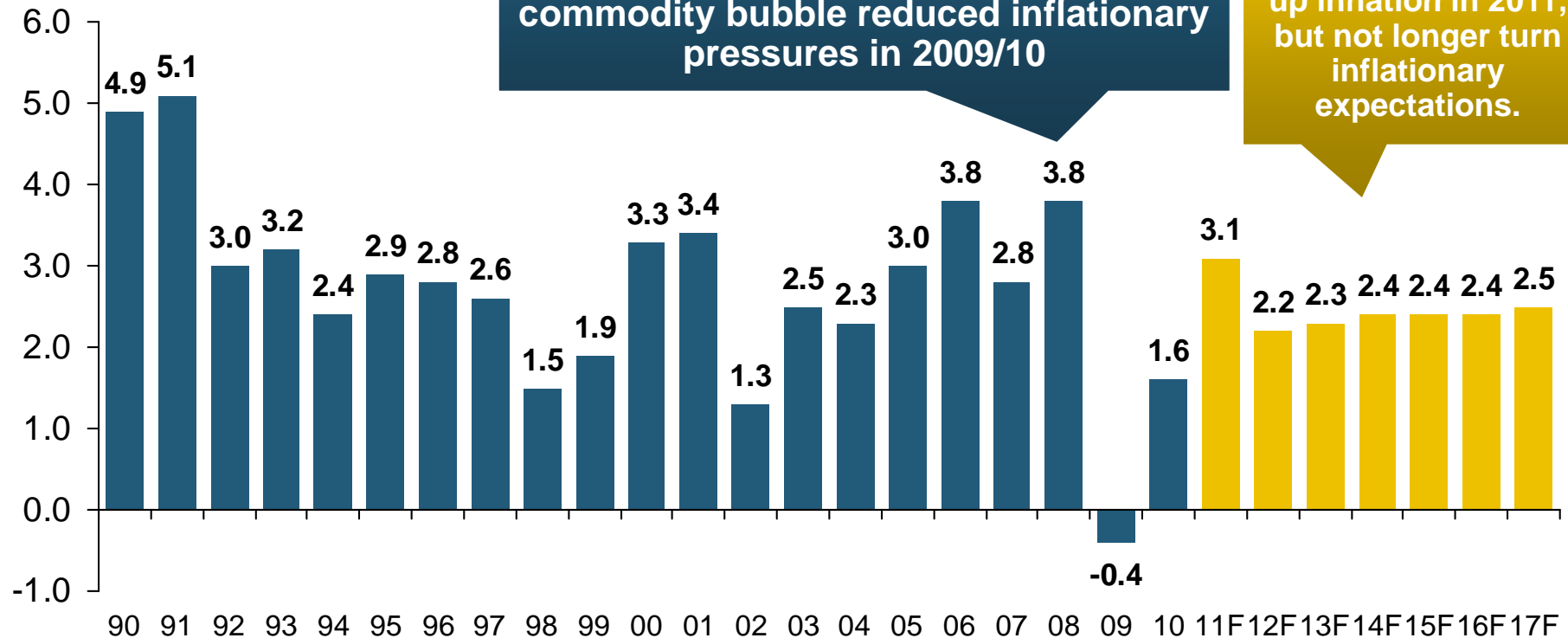


# Inflation

**Is it a Threat to Claim Cost  
Severities**

# Annual Inflation Rates, (CPI-U, %), 1990–2017F

Annual Inflation Rates (%)



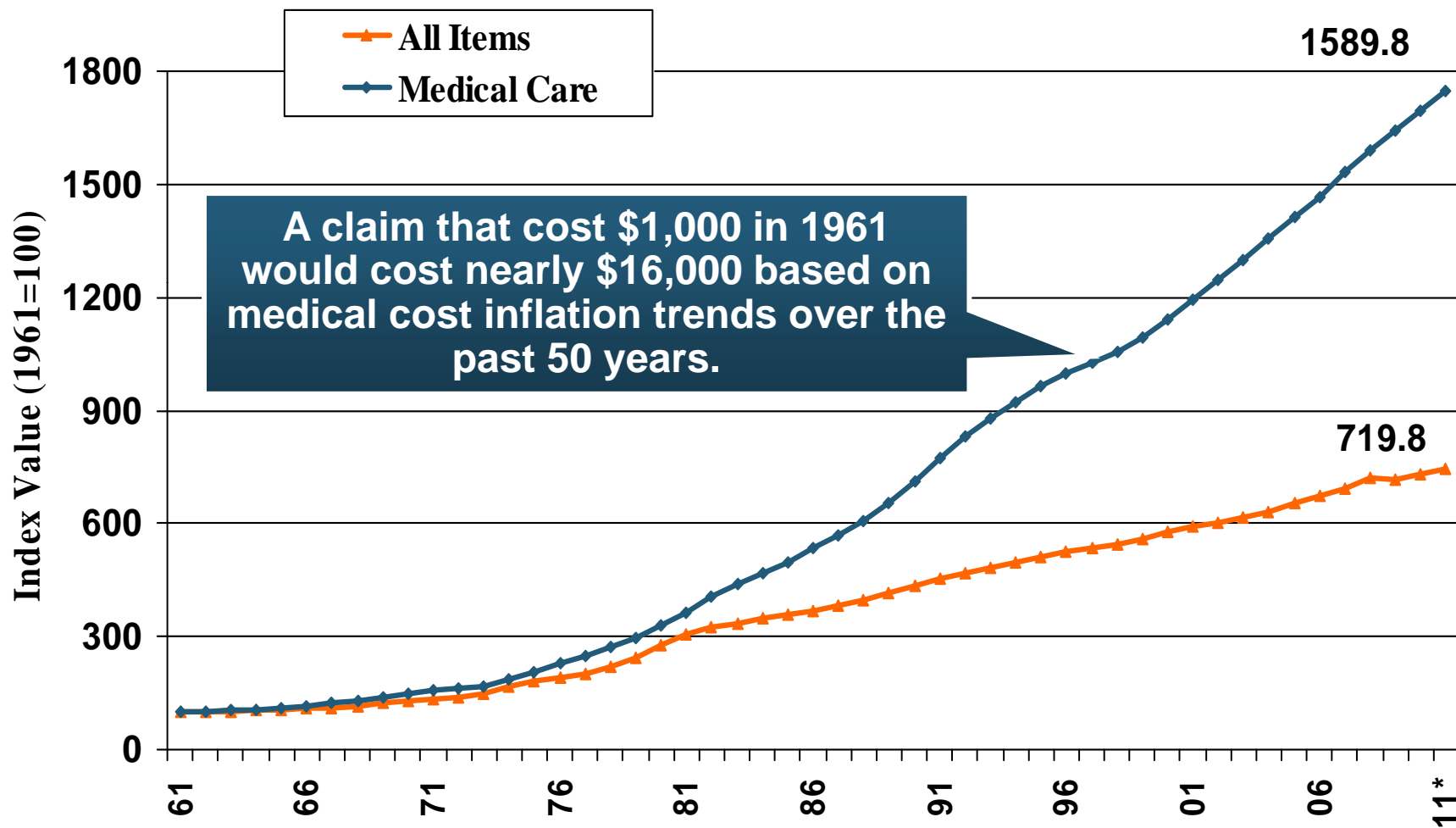
Inflation peaked at 5.6% in August 2008 on high energy and commodity crisis. The recession and the collapse of the commodity bubble reduced inflationary pressures in 2009/10

Higher energy, commodity and food prices are pushing up inflation in 2011, but not longer turn inflationary expectations.

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

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators, 10/11 (forecasts).

# Medical Cost Inflation Has Outpaced Overall Inflation Over 50 Years



\*Based on change from Feb. 2011 to Feb. 2010 (latest available)  
Source: Department of Labor (Bureau of Labor Statistics)

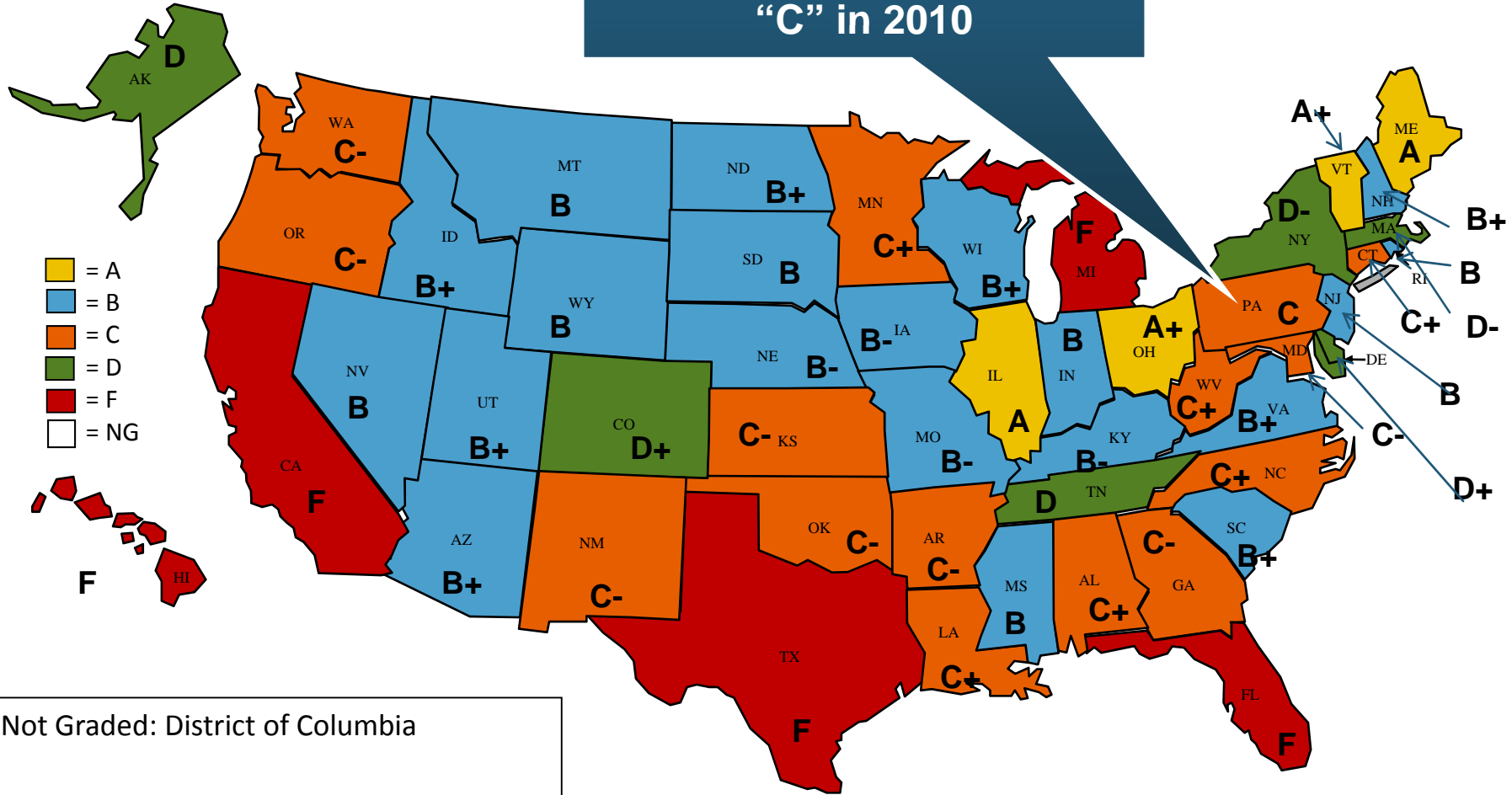


## **Regulatory Environment & Financial Services Reform**

**Insurers Not as Impacted as  
Banks, But Dodd-Frank  
Implementation Has Been a  
Concern for Insurers**

# 2010 Property and Casualty Insurance Regulatory Report Card

Pennsylvania's regulatory environment got a grade of "C" in 2010



Not Graded: District of Columbia



# **Dodd-Frank & Insurance One Year: *Status Report***

## **Expectations vs. Reality**



# Dodd-Frank Implementation

## *Status Report for Insurers: Slow Start*

### The Dodd-Frank Wall Street Reform and Consumer Protection Act

- **Financial Stability Oversight Council—*Slow to Consider Insurer Concerns***
  - FSOC deliberates largely behind closed doors
  - Criteria and process for designation of Systemically Important Financial Institutions (SIFIs) were not announced until October 12, 2011
    - ***Possible that small number of US insurers will be designated as SIFIs***
  - Operated/deliberated until late September 2011 without a voting member representing the insurance industry
    - ***Roy Woodall, approved by Senate in Sept. 27, 2011, is the sole voting representative for the entire p/c and life insurance industry (was Kentucky Ins. Comm. 1966-1967; Worked in other insurance trade posts, Treasury)***
  - Two non-voting FSOC members represent insurance interests:
    - ***FIO Director Michael McGraith (started June 1, 2011)***
    - ***Missouri Insurance Director John Huff (started in Sept. 2010)***
      - ***Not allowed to brief fellow regulators on FSOC discussions***

# Dodd-Frank Implementation: *SYSTEMIC RISK CRITERIA*

## The Dodd-Frank Act and Systemic Importance

- All Banks with Assets > \$50B Considered Systemically Important
- Non-Bank Financial Groups with Global Consolidated Assets > \$50B Will Be Examined for Systemic Riskiness, But Not Automatically Labeled as a Systemically Important Financial Institution (SIFI)
  - Foreign firms with assets in the US exceeding \$50 billion will also fall under review
- If Firm Exceeds the \$50B Threshold, a 3-Stage Test Applies
- **STAGE 1:** Non-Banks Financial Groups with \$50B+ Assets Will Be Evaluated on Five “Uniform Quantitative Thresholds,” at Least One of Which Will Have to Be Met to Trigger a Further (Stage 2) Review Potentially Leading to a SIFI Designation
  - **Leverage:** Would have to be leveraged more than 15:1 (insurers unlikely to trigger)
  - **ST Debt-to-Assets:** Would have to a ratio of ST debt (less than 12 months to maturity) to consolidate assets exceeding 10%
  - **Debt:** Have total debt exceeding \$20 billion (i.e., loans borrowed and bond issues)
  - **Derivative Liabilities:** Have derivative liabilities exceeding \$3.5 billion
  - **Credit Default Swaps:** Have more than \$30 billion CDS outstanding for which the nonbank financial firm is the reference entity (i.e., CDS written against firm’s failure)
- **Thresholds Considered to Be Guideposts**
  - Not all companies that breach a barrier will be deemed systemically important
  - Regulators retain right to include firms that do meet any of the criteria

# Dodd-Frank Implementation: *SYSTEMIC RISK CRITERIA (continued)*

## The Dodd-Frank Act and Systemic Importance

- **STAGE 2: Analysis of Firms Triggering Uniform Quantitative Thresholds**
  - Firms triggering one or more of the quantitative thresholds in Stage 1 will be analyzed using publicly available information in order to conduct a more thorough review
  - No data call will be required at this stage
  - Firms viewed as potentially systemically important (candidate SIFIs) will subject to a Stage 3 analysis
- **STAGE 3: Analysis of Candidate Systemically Important Financial Institutions**
  - Firms deemed in Stage 2 to be potentially systemically important will be subjected to more detailed analysis including data not available during the Stage 2 analysis
  - Stage 3 firms will be notified by the FSOC that they are under consideration and will have the opportunity to contest their consideration
- **SIFI DESIGNATION PROCEDURE: 2-Stage Voting Procedure by FSOC is Required Before a Final SIFI Designation is Made**
  - At the conclusion of the Stage 3, FSOC has the authority to propose a firm be designated as a SIFI
  - Requires 2/3 majority vote of FSOC members, including affirmation of the Chair (Treasury Secretary)
  - Potential SIFI firm will be given written explanation for the determination
  - Firm can request a hearing to contest the determination
  - Final determination requires another 2/3 majority of FSOC members and affirmation of the Chair

# Dodd-Frank Implementation: *FSOC MEMBERS*

## The Dodd-Frank Act and Systemic Importance

### Members of the Financial Stability Oversight Council

➤ There are 10 voting members of the FSCO

- **Treasury Secretary and FSOC Chair: Timothy Geithner**
- **Federal Reserve Chairman: Ben Bernanke**
- **Securities & Exchange Commission Chairman: Mary Shapiro**
- **Commodities Futures Trading Commission Chairman: Gary Gensler**
- **National Credit Union Administration Chairman: Debbie Matz**
- **(Acting) Comptroller of the Currency: John Walsh**
- **Federal Housing Finance Agency (Acting) Director: Edward DeMarco**
- **Consumer Financial Protection Bureau Director: *Position is Currently Vacant***
- **Independent Insurance Expert: Roy Woodall**

➤ There are 2 nonvoting members of the FSOC representing insurance interests

➤ Federal Insurance Office Director Mike McGraith

➤ John Huff, Director of the Missouri Insurance Department

# Dodd-Frank Implementation: *Federal Insurance Office: Very Quiet*

## Federal Insurance Office Update: *Activity Update*

### ■ FIO's First Director Did Not Assume Office Until June 1, 2011

- Former Illinois Insurance Director Michael McGraith
- Small staff (10-12) and modest budget
- McGraith has made few appearances or public comments



### ■ Study on State of Insurance Regulation Due Jan. 21, 2012

- Report will likely review previously identified inefficiencies and strengths of current regulatory system with an eye toward modernization.

### ■ Treasury Will Likely Exert Heavy Influence on the Report



“The states remain the functional regulators, [but] the federal government will work toward modernizing and improving our system of insurance regulation.”

*Neal Wolin, Deputy Secretary  
Treasury Department*

**Former President of P/C  
Insurance at The Hartford**



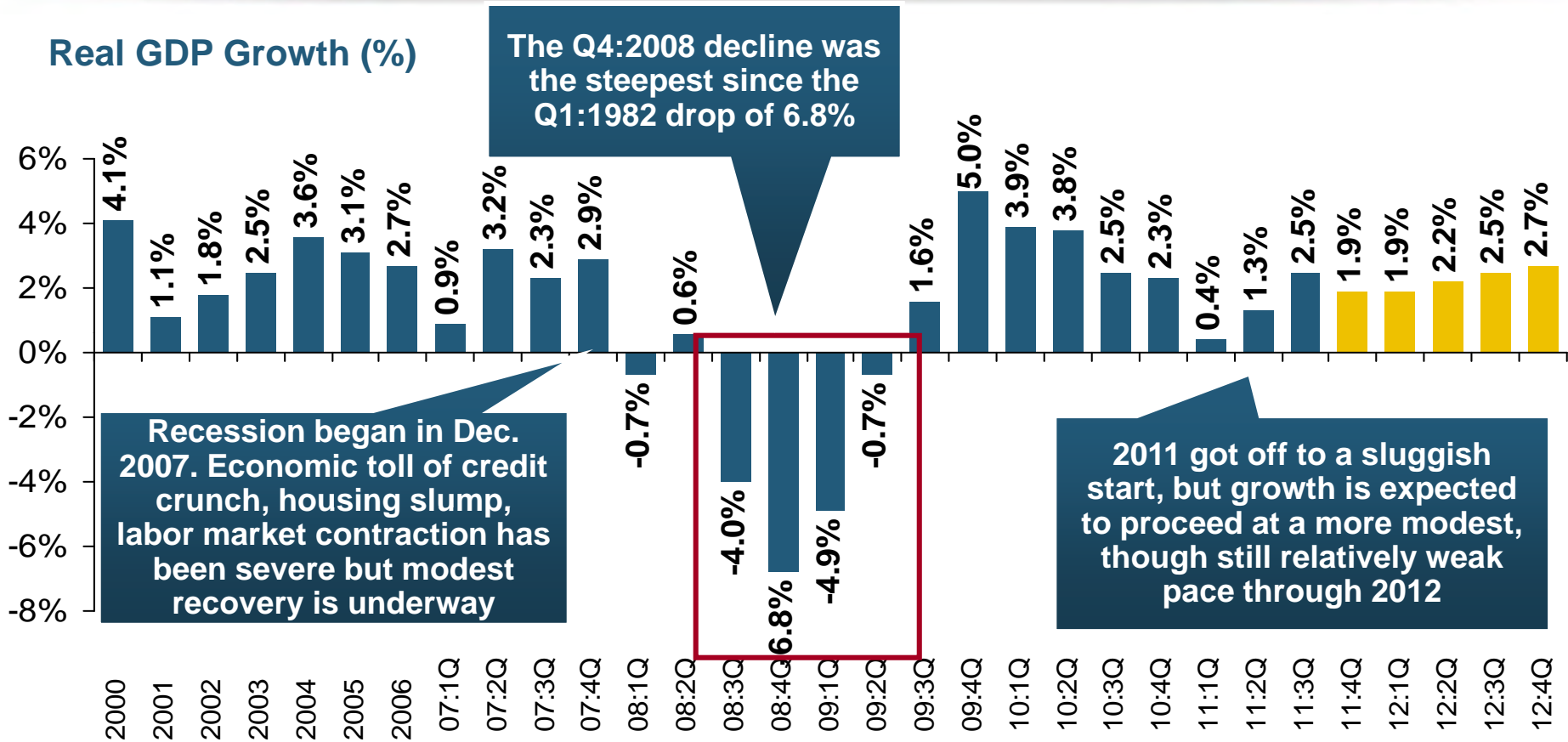
# The Strength of the Economy Will Influence P/C Insurer Growth Opportunities

**Growth Would Also Help Absorb  
Excess Capital**



# US Real GDP Growth\*

Real GDP Growth (%)



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

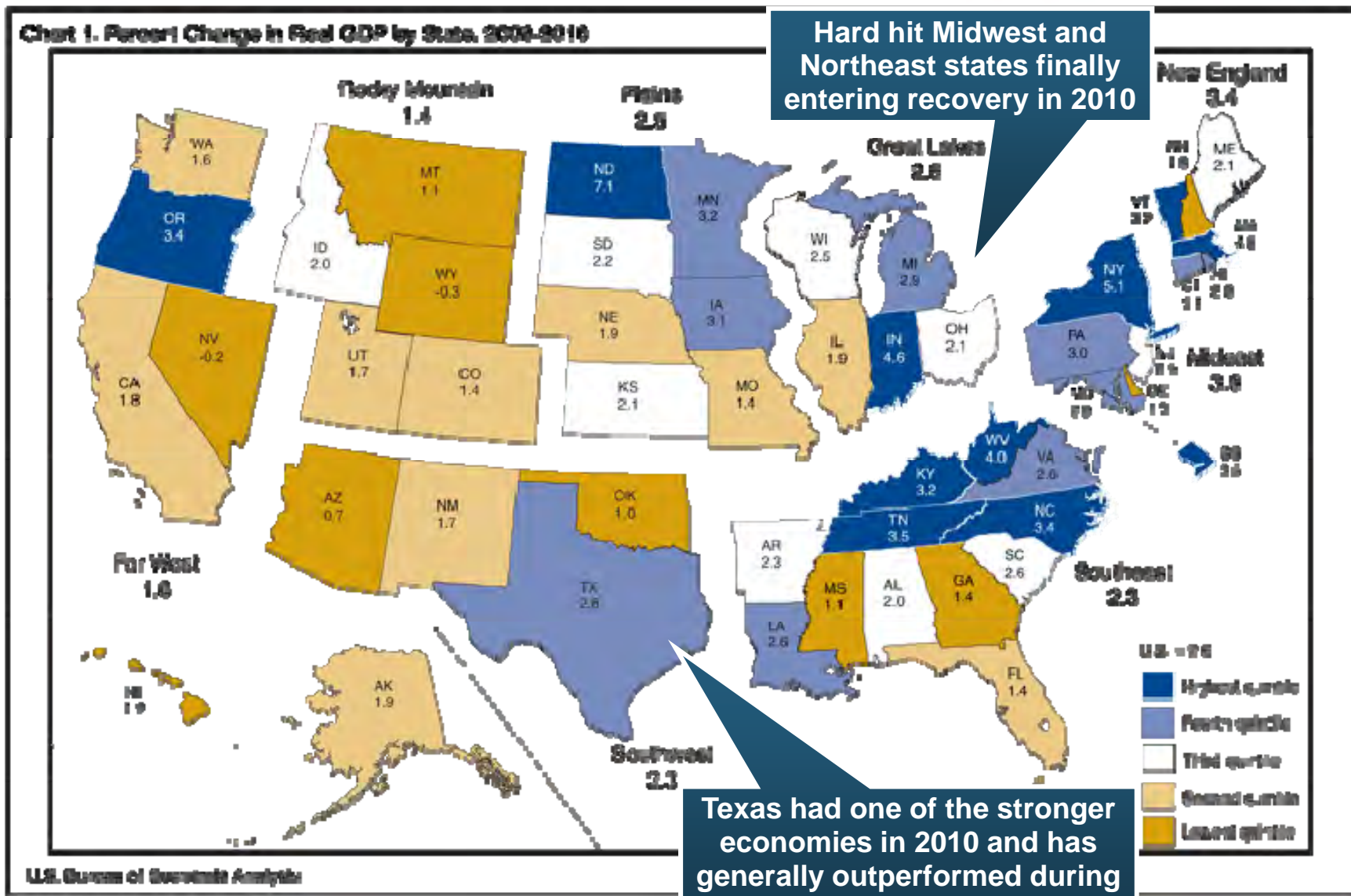
\*  Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 10/11; Insurance Information Institute.



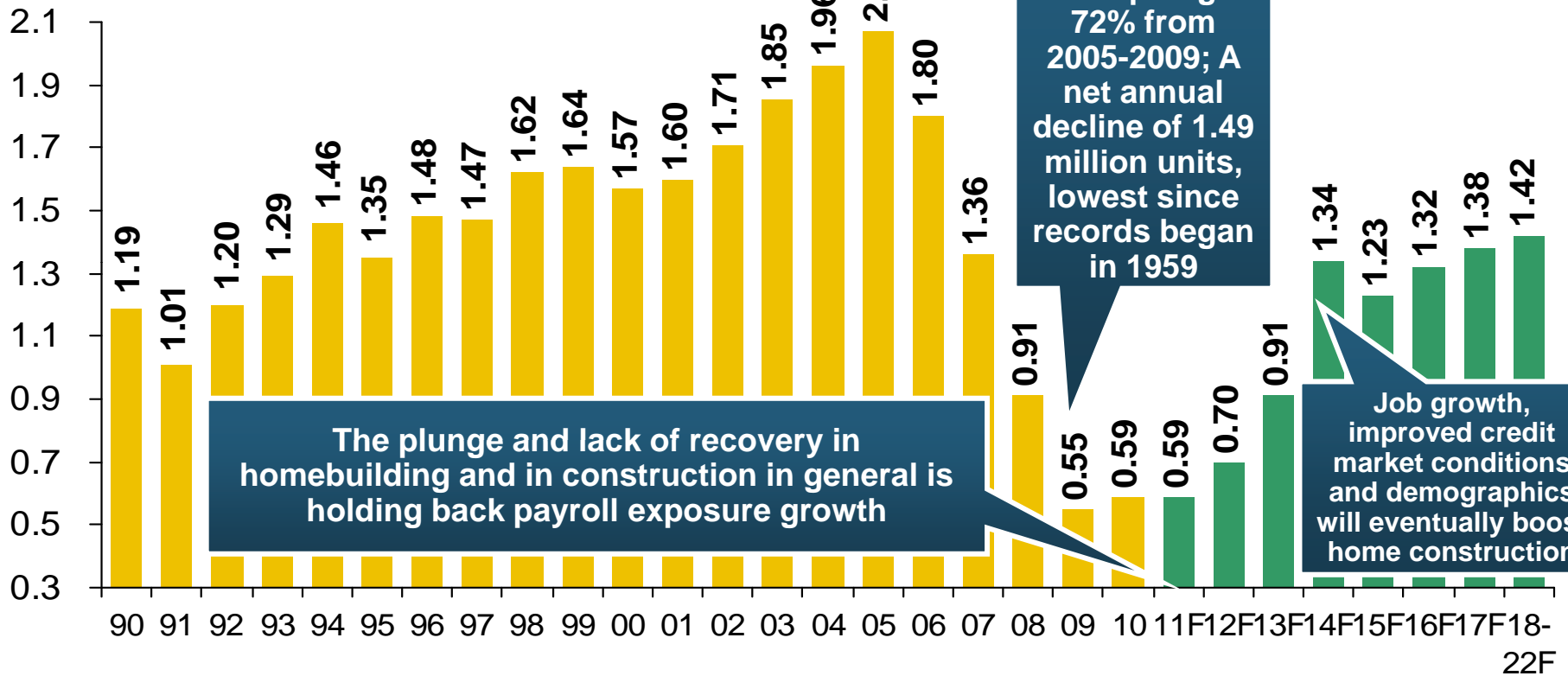
# 2011 Financial Overview

## State Economic Growth Varied in 2010



# New Private Housing Starts, 1990-2022F

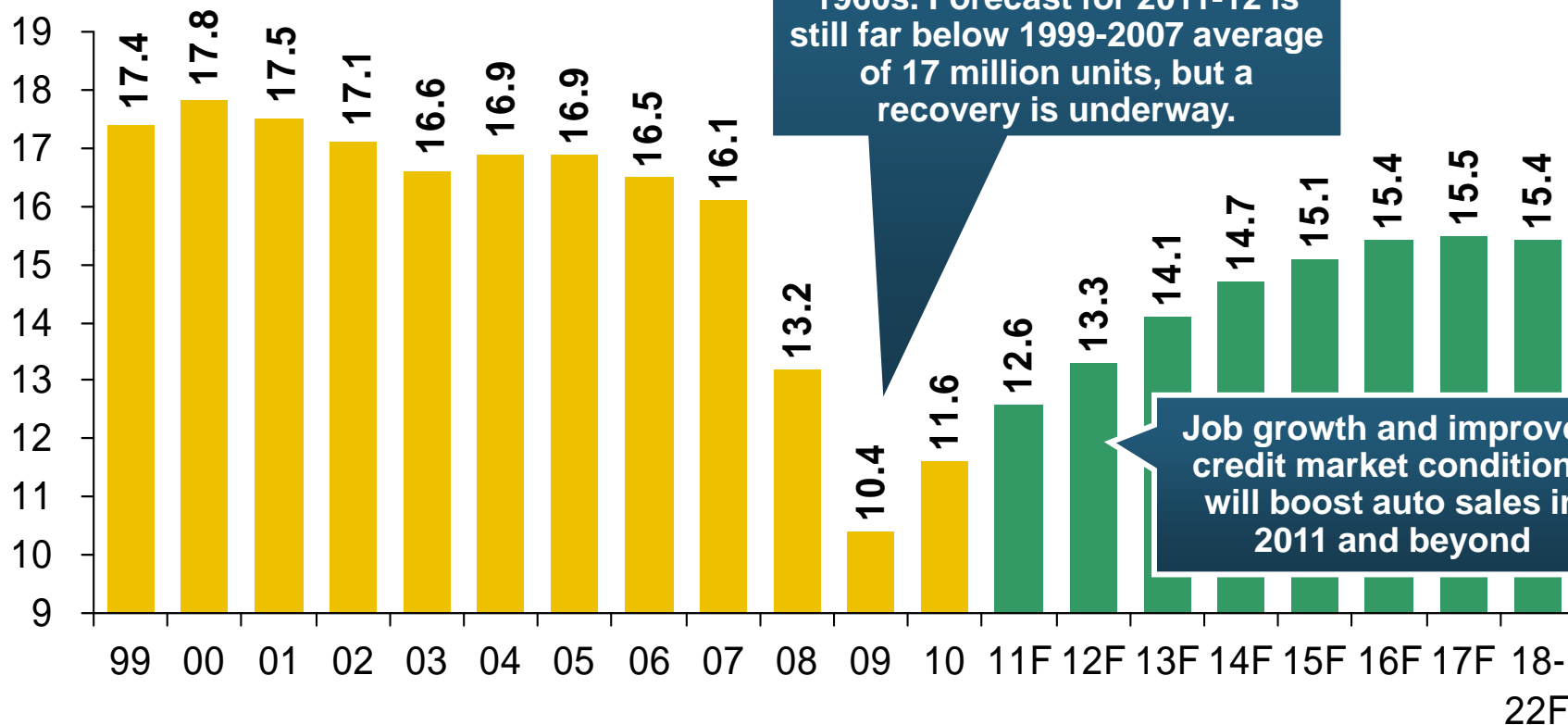
(Millions of Units)



**Little Exposure Growth Likely for Homeowners Insurers Until 2014. Also Affects Commercial Insurers with Construction Risk Exposure, Surety**

# Auto/Light Truck Sales, 1999-2022F

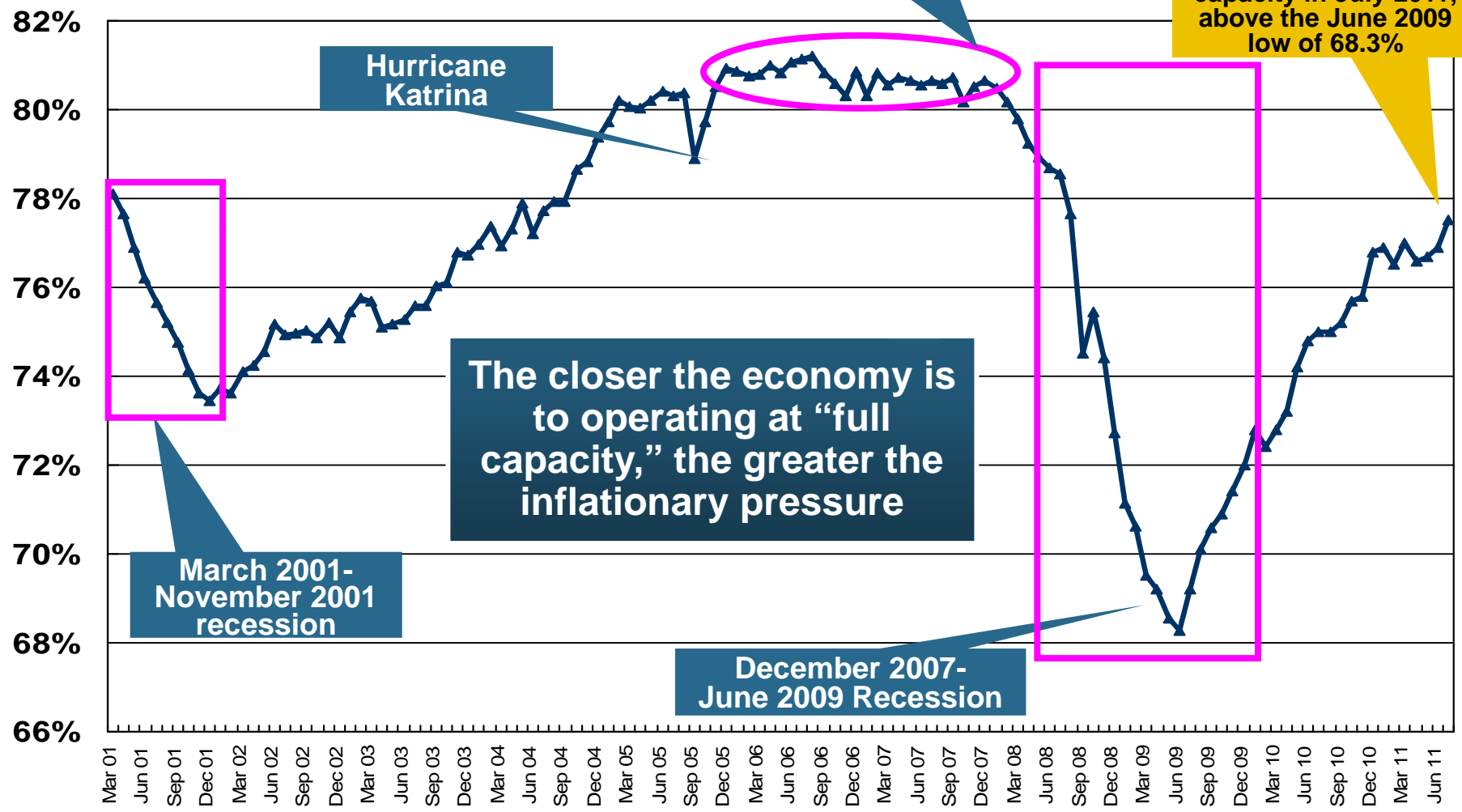
(Millions of Units)



**Car/Light Truck Sales Will Continue to Recover from the 2009 Low Point, Bolstering the Auto Insurer Growth and the Manufacturing Sector.**

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

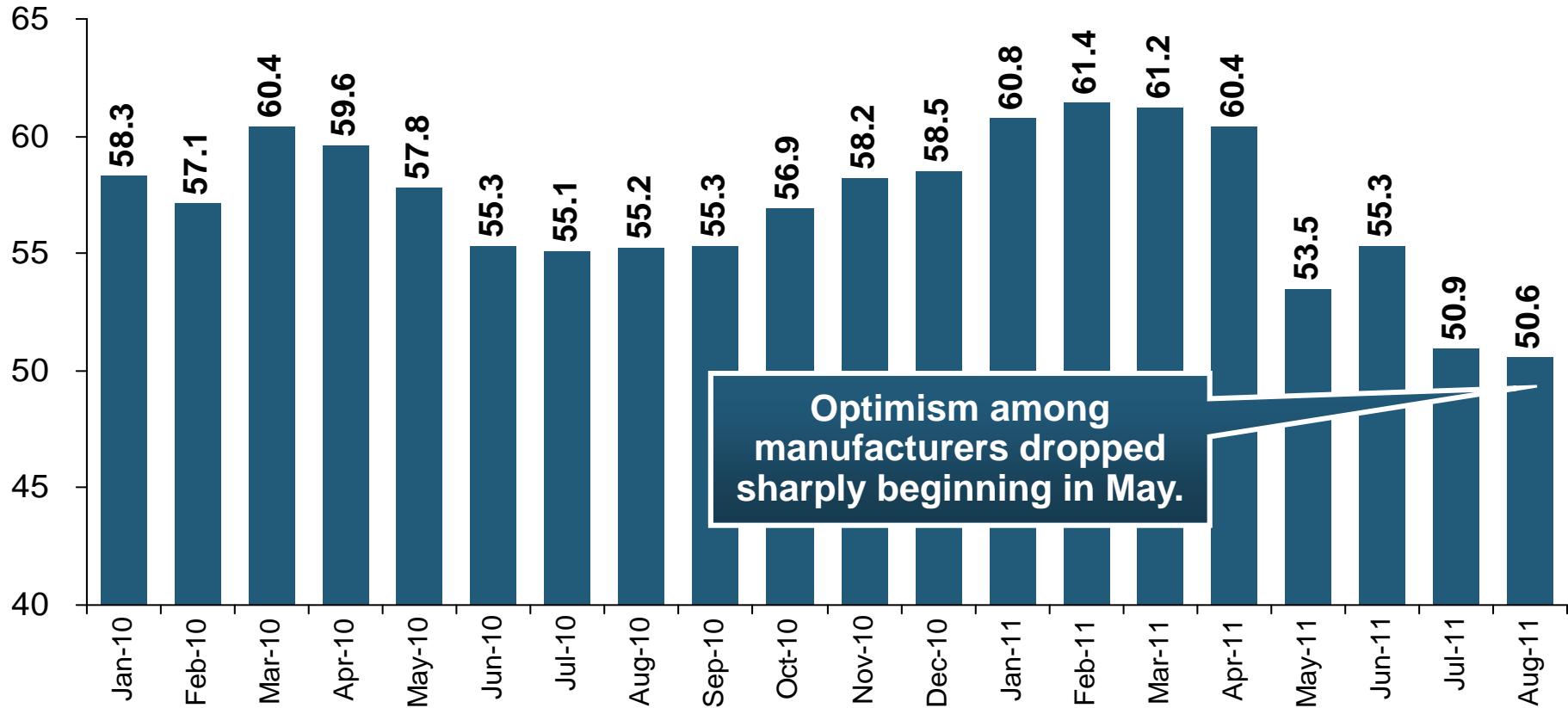
Percent of Industrial Capacity



Source: Federal Reserve Board statistical releases at <http://www.federalreserve.gov/releases/q17/Current/default.htm>.

# ISM Manufacturing Index (Values > 50 Indicate Expansion)

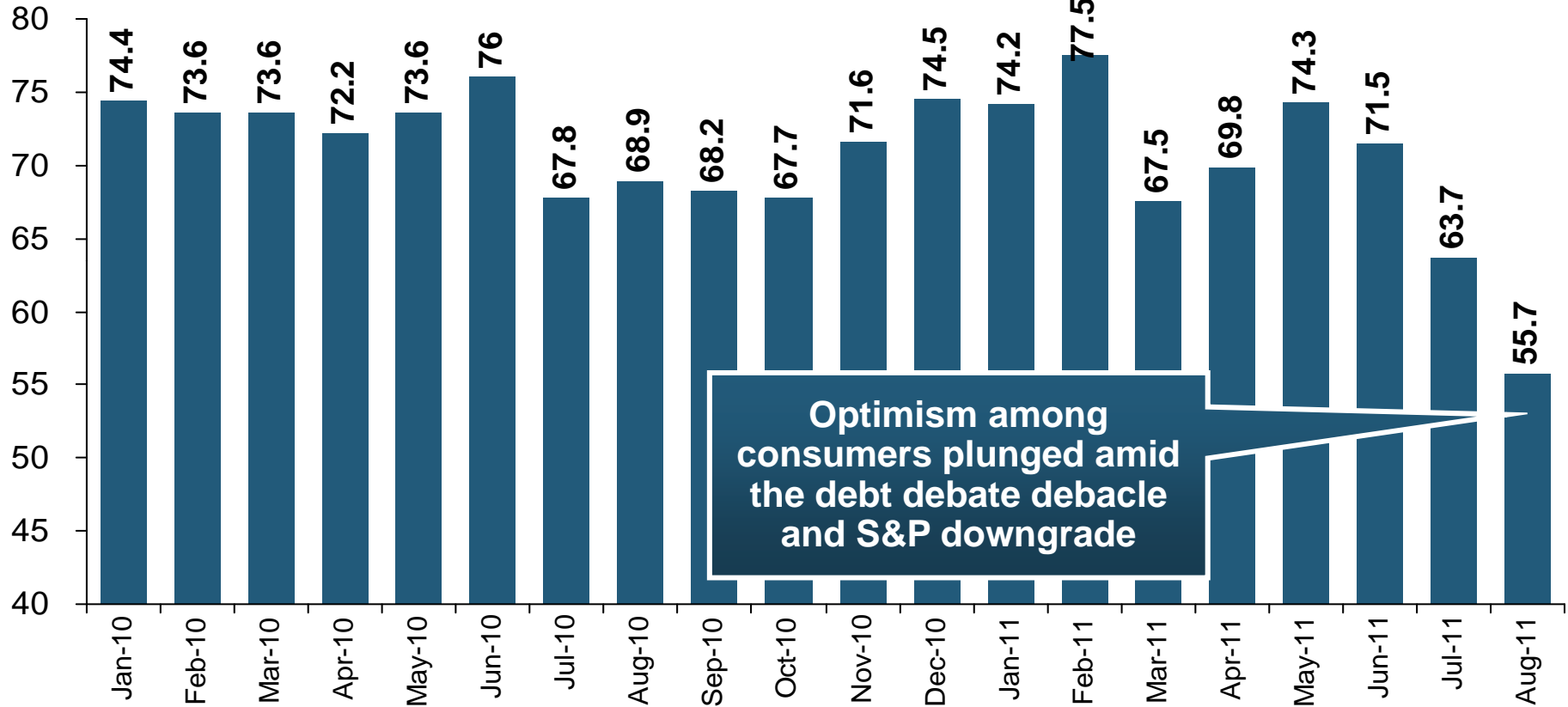
January 2010 through August 2011



**The manufacturing sector has been expanding and adding jobs.  
The question is whether this will continue.**

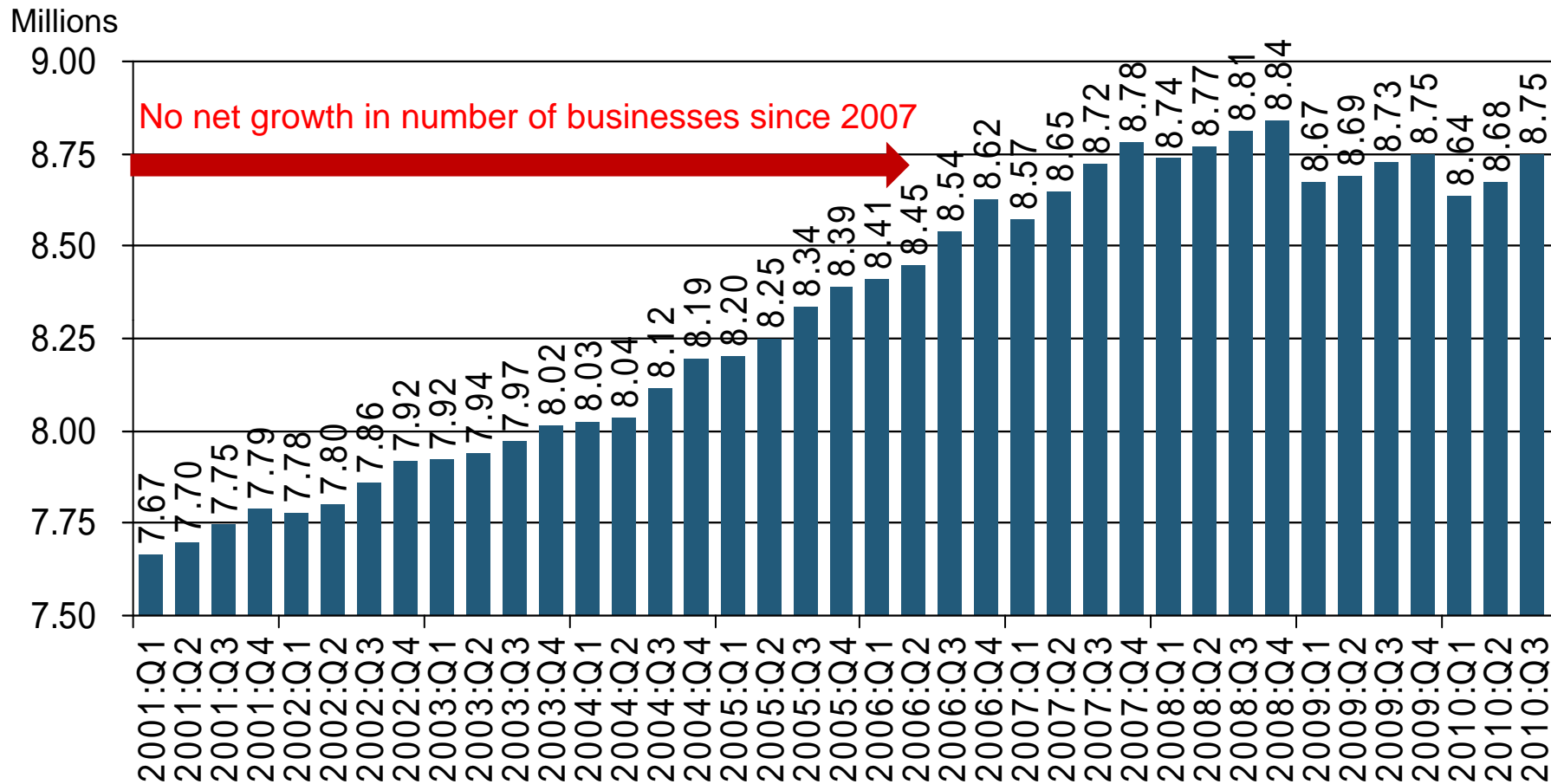
# Consumer Sentiment Survey (1966 = 100)

January 2010 through August 2011



**Consumer confidence has been low for years amid high unemployment, falling home prices and other factors adversely impact consumers.**

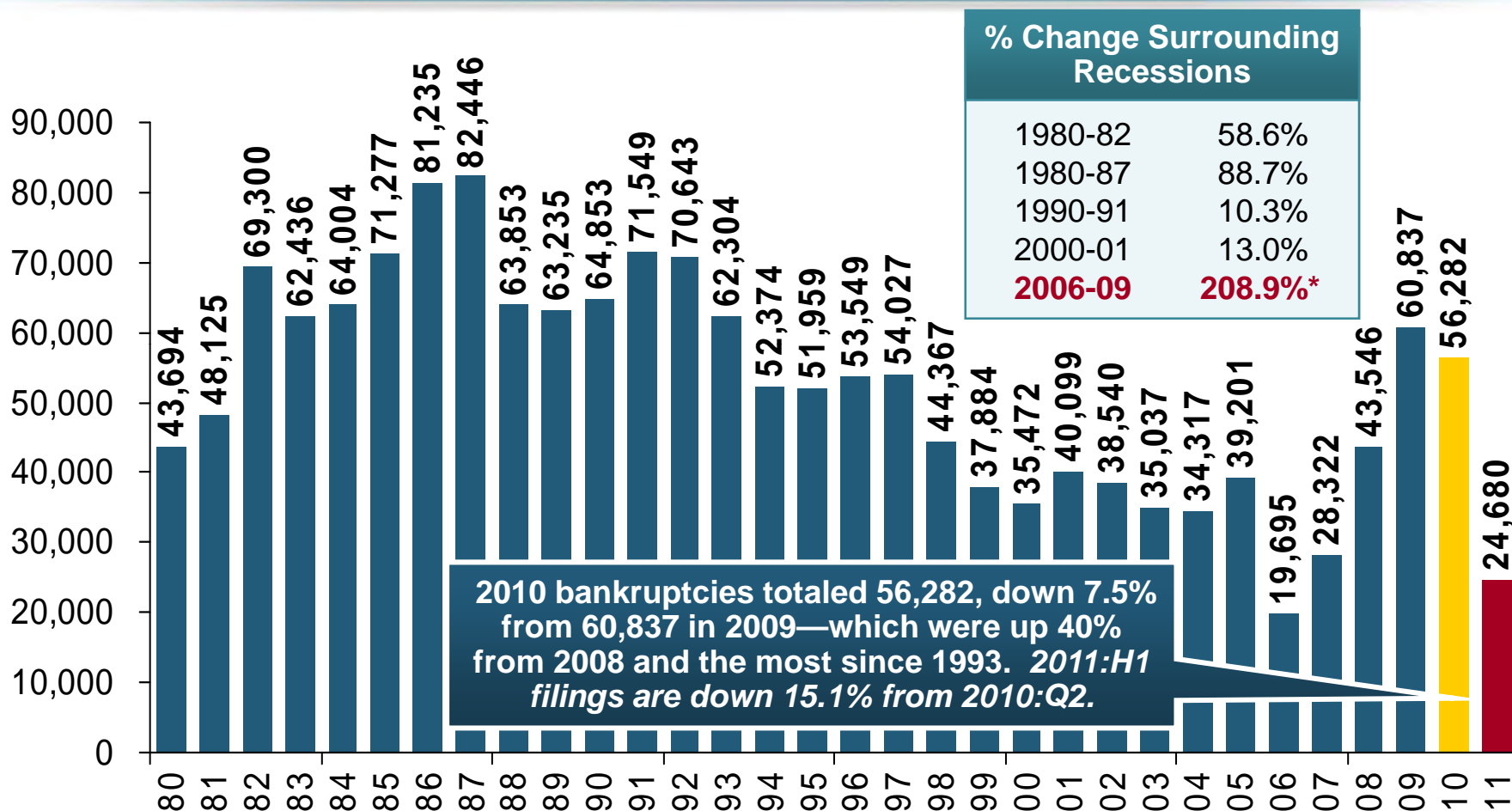
# Number of Private Business Establishments, 2001:Q1-2010:Q3



**In 2009:Q1 a net of 165,000 businesses disappeared.  
By 2010:Q3 73,000 new ones appeared,  
returning us to the level first attained three years before, in 2007:Q3.**



# Business Bankruptcy Filings, 1980-2011:H1

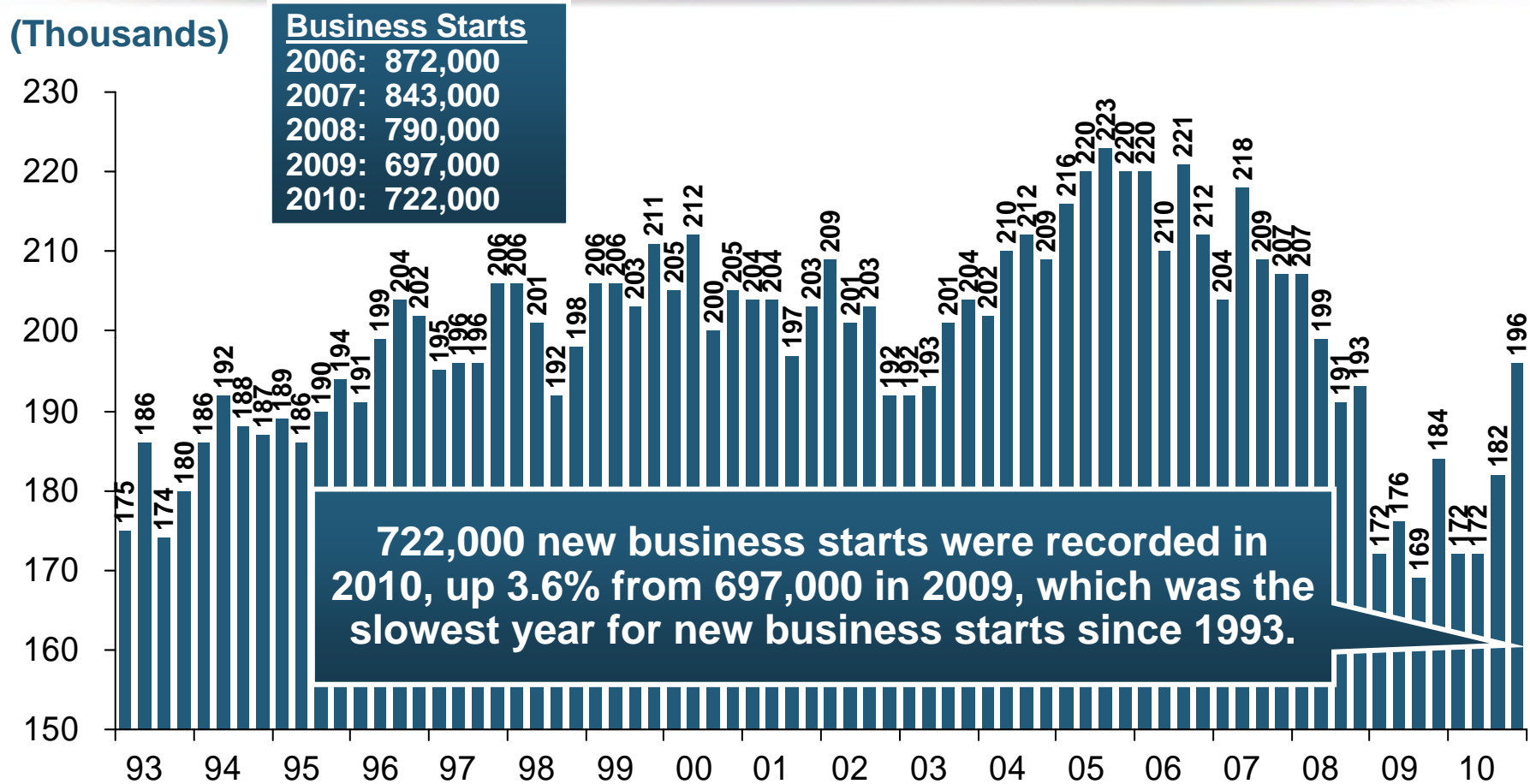


**Significant Exposure Implications for All Commercial Lines as Business Bankruptcies Begin to Decline**

Sources: American Bankruptcy Institute at <http://www.abiworld.org/AM/AMTemplate.cfm?Section=Home&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=61633> ; Insurance Information Institute



# Private Sector Business Starts, 1993:Q2 – 2010:Q4\*



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

\* Data through December 31, 2010 are the latest available as of September 8, 2011; Seasonally adjusted  
 Source: Bureau of Labor Statistics, <http://www.bls.gov/news.release/cewbd.t08.htm>.

# 11 Industries for the Next 10 Years: Insurance Solutions Needed

Health Care

Health Sciences

Energy (Traditional)

Alternative Energy

Agriculture

Natural Resources

Environmental

Technology (incl. Biotechnology)

Light Manufacturing

Export-Oriented Industries

Shipping (Rail, Marine, Trucking)



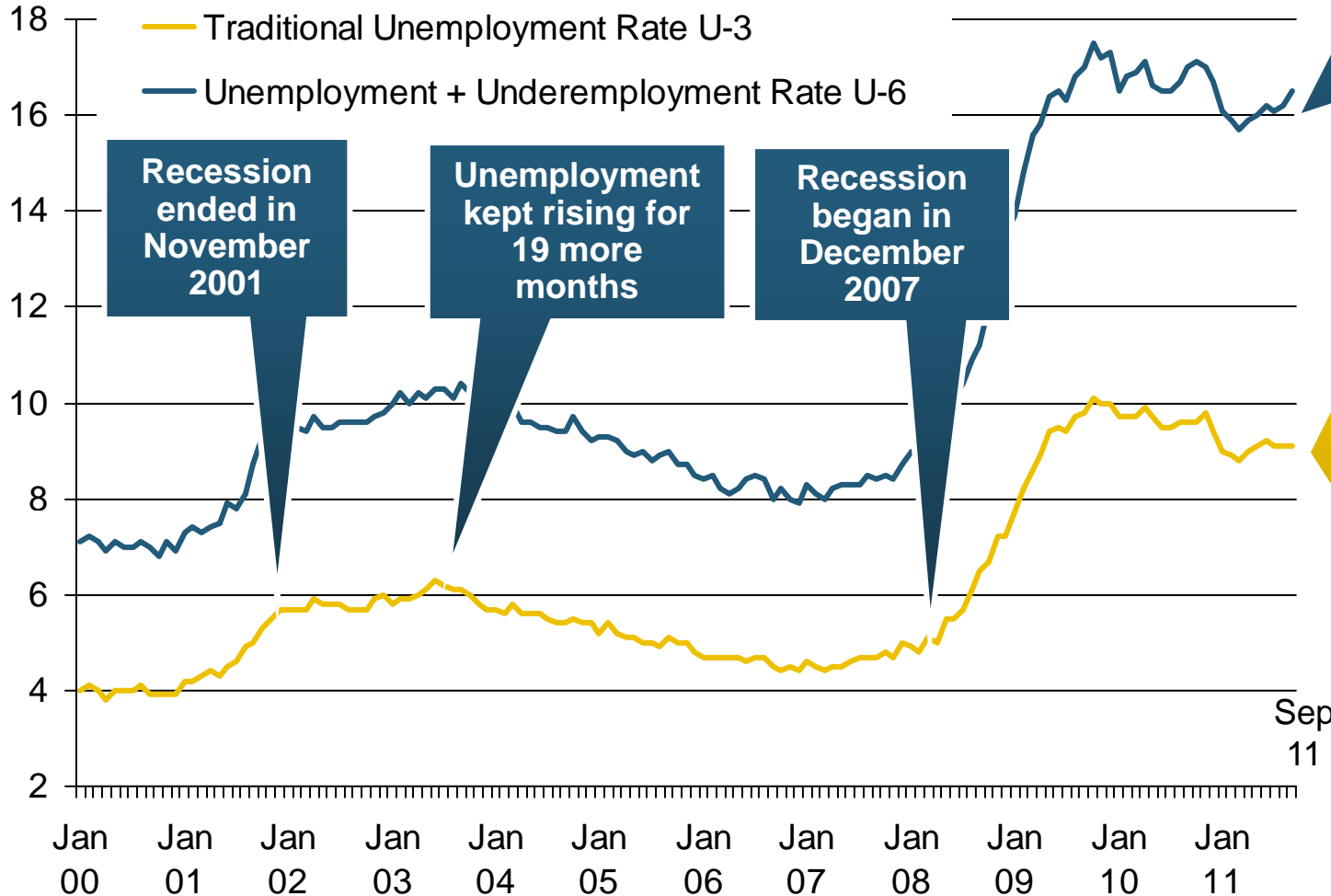
Many industries are poised for growth, but many insurers do not write in these economic segments

# Labor Market Trends

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

# Unemployment and Underemployment Rates: Stubbornly High in 2011

January 2000 through September 2011, Seasonally Adjusted (%)



U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 16.5% in Sept. 2011

Unemployment stood at 9.1% in September

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

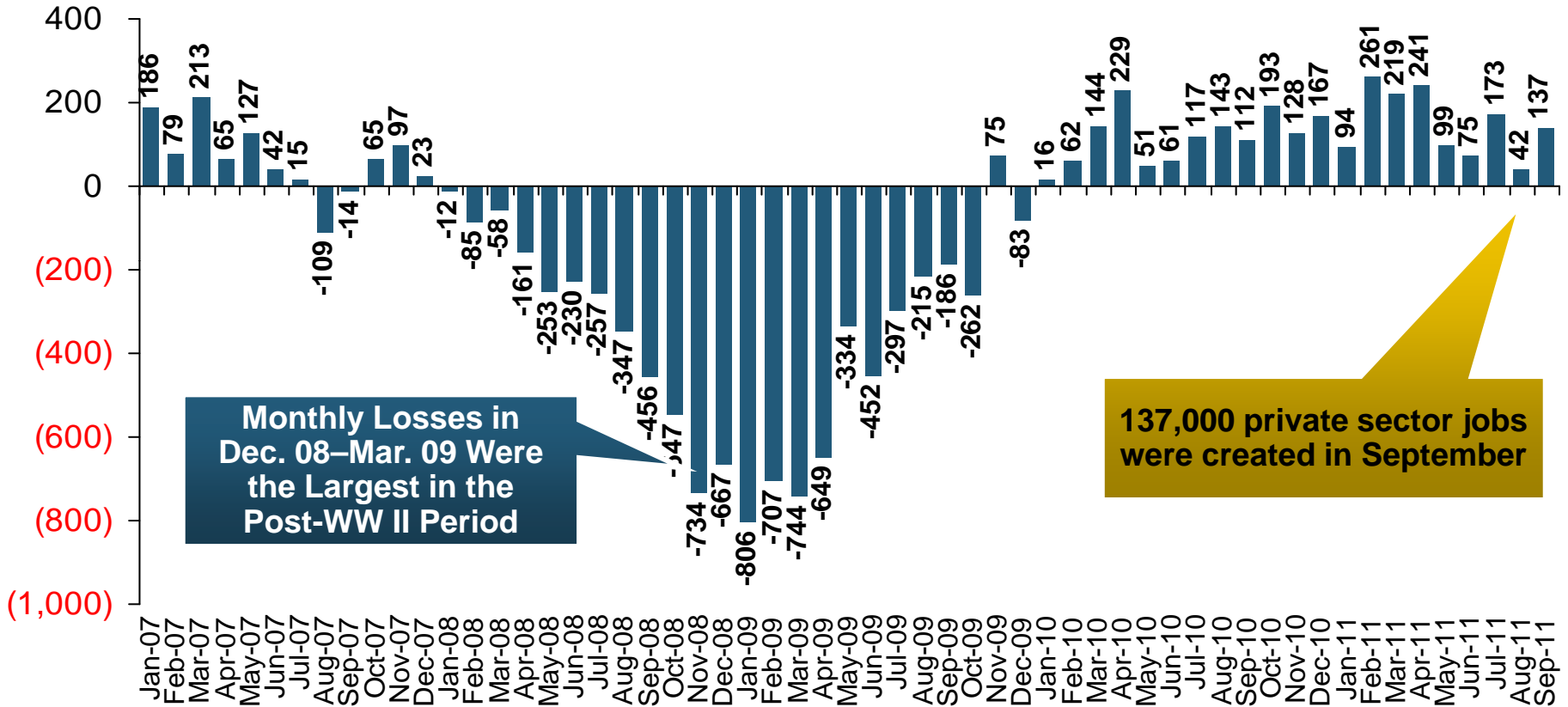
Peak rate in the last 30 years: 10.8% in November - December 1982

**Stubbornly high unemployment and underemployment will constrain overall economic growth**

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

# Monthly Change in Private Employment

January 2008 through September 2011\* (Thousands)



Monthly Losses in Dec. 08–Mar. 09 Were the Largest in the Post-WW II Period

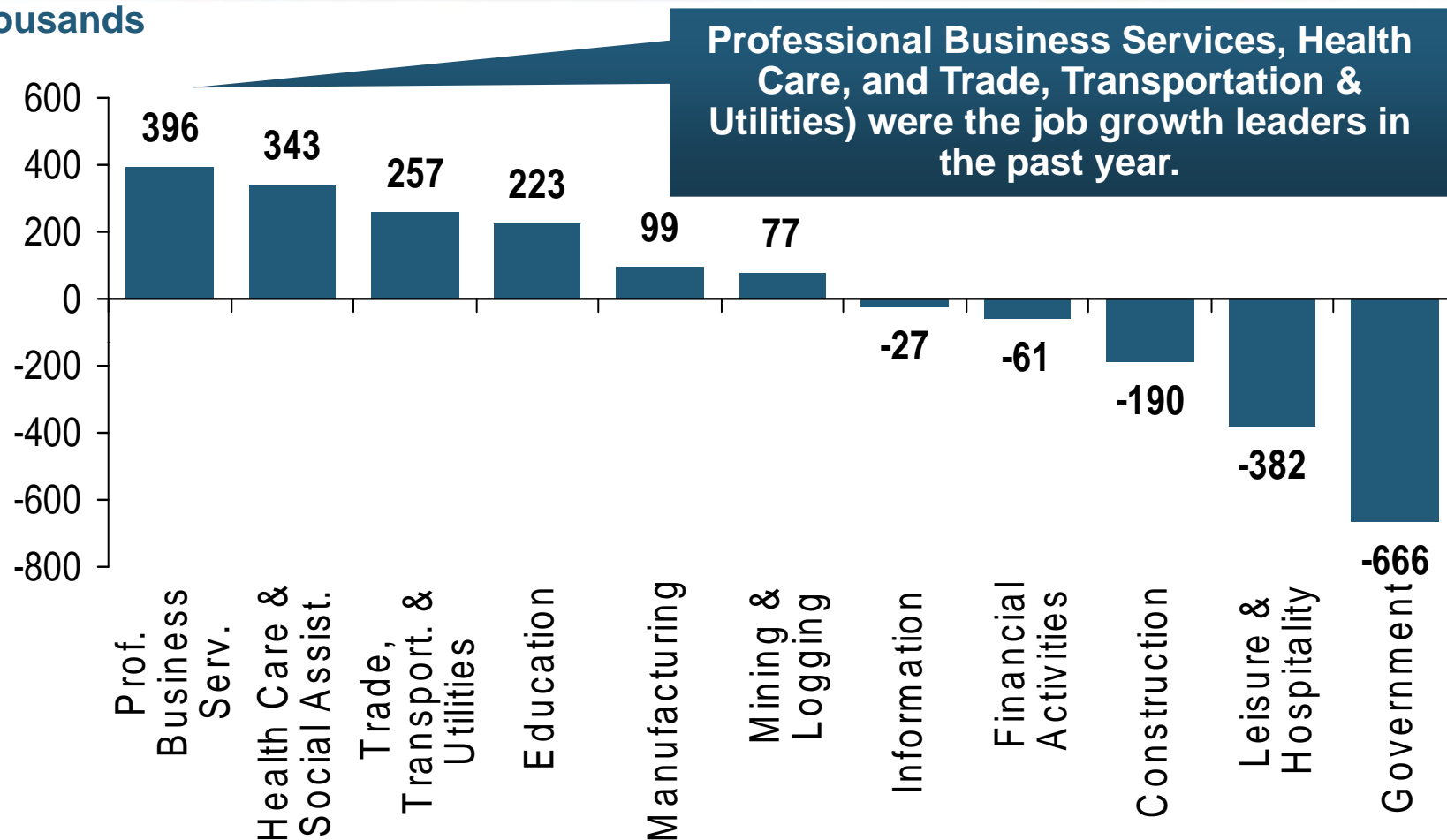
137,000 private sector jobs were created in September

**Private Employers Added 2.764 million Jobs Since Jan. 2010 After Having Shed 4.66 Million Jobs in 2009 and 3.81 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)**

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

# Change in Number Employed in Select Industries, June 2011 vs. June 2010

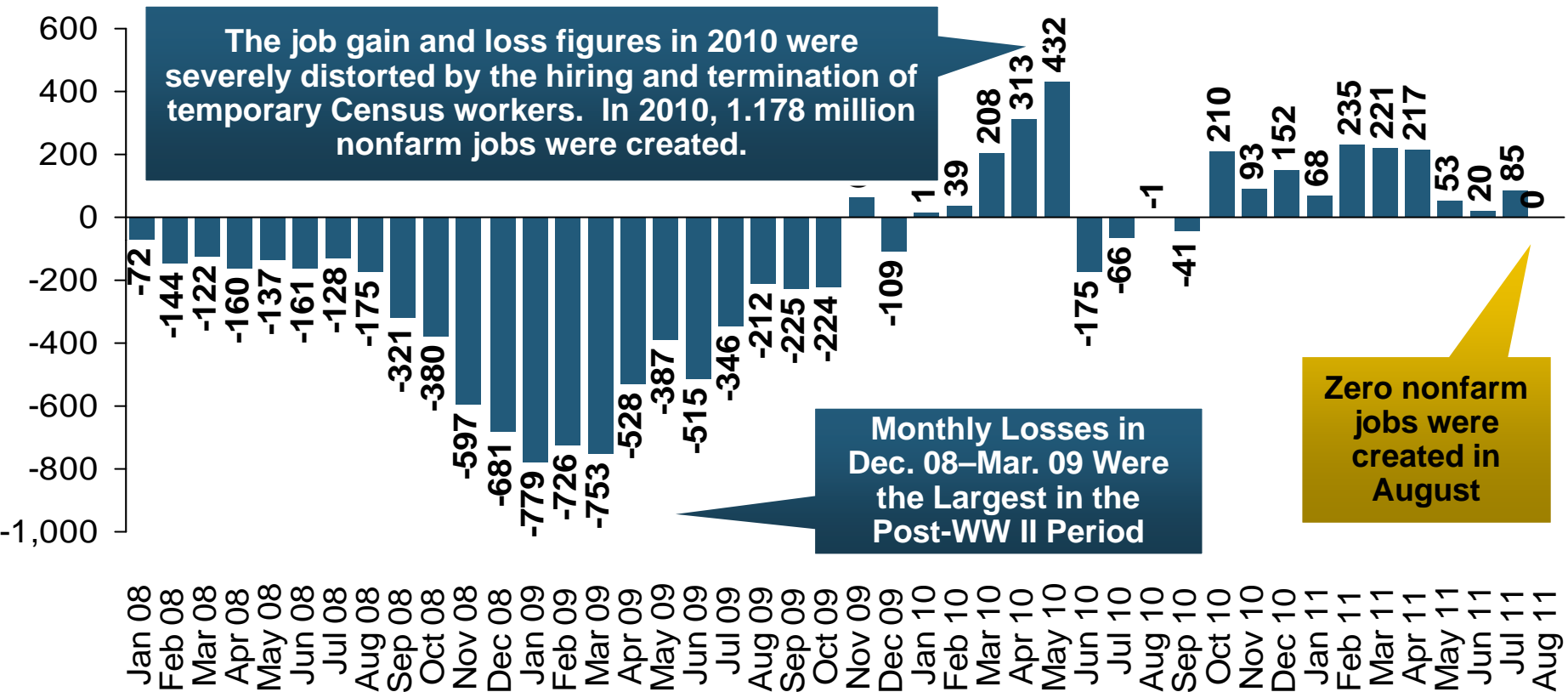
Thousands



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

# Monthly Change Employment\*

January 2008 through August 2011\* (Thousands)

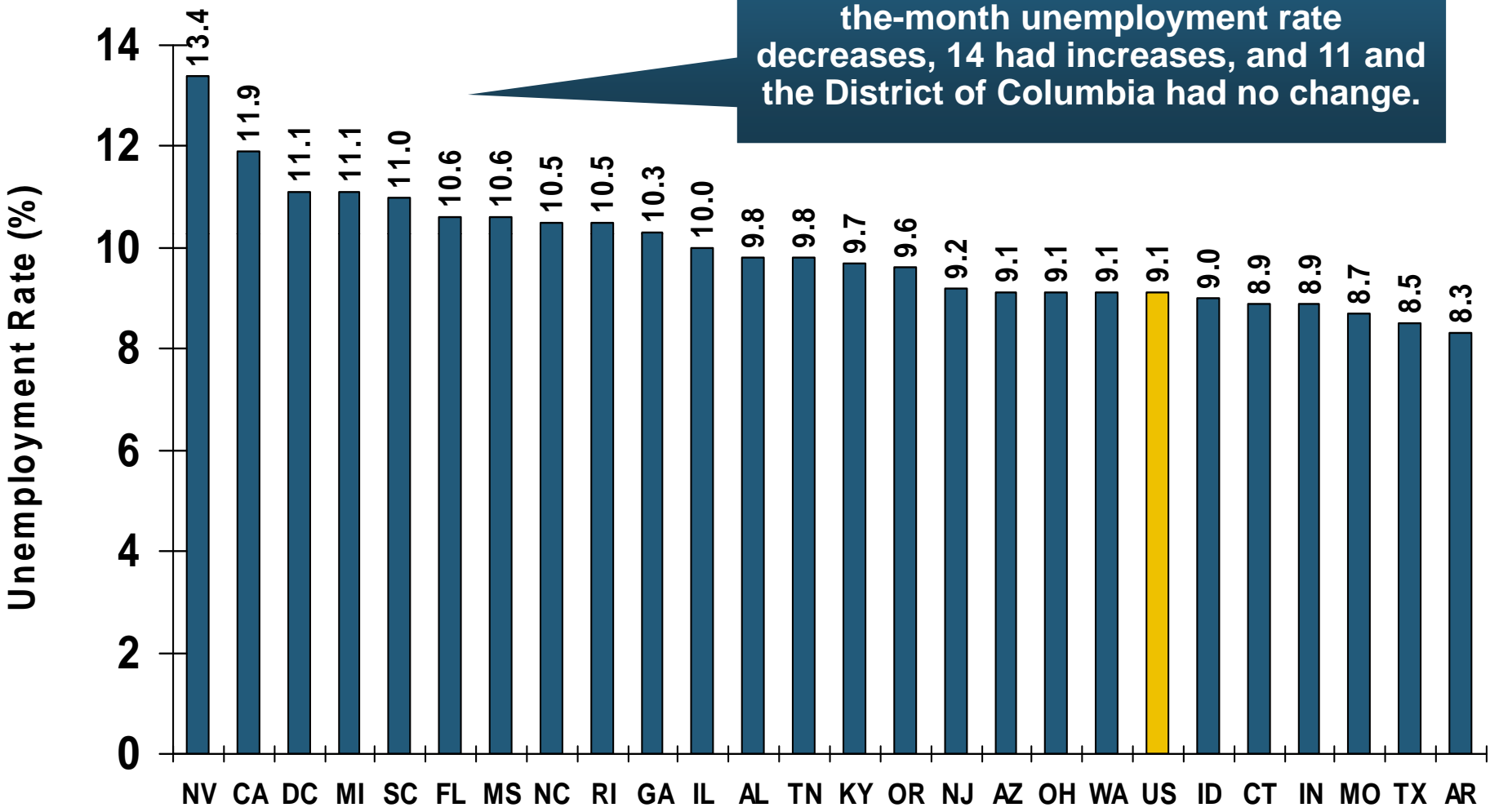


**Job Losses Since the Recession Began in Dec. 2007 Peaked at 8.4 Mill in Dec. 09; 14.0 Million People are Now Defined as Unemployed**

# Unemployment Rates by State, September 2011: Highest 25 States\*



In September, 25 states reported over-the-month unemployment rate decreases, 14 had increases, and 11 and the District of Columbia had no change.



\*Provisional figures for September 2011, seasonally adjusted.

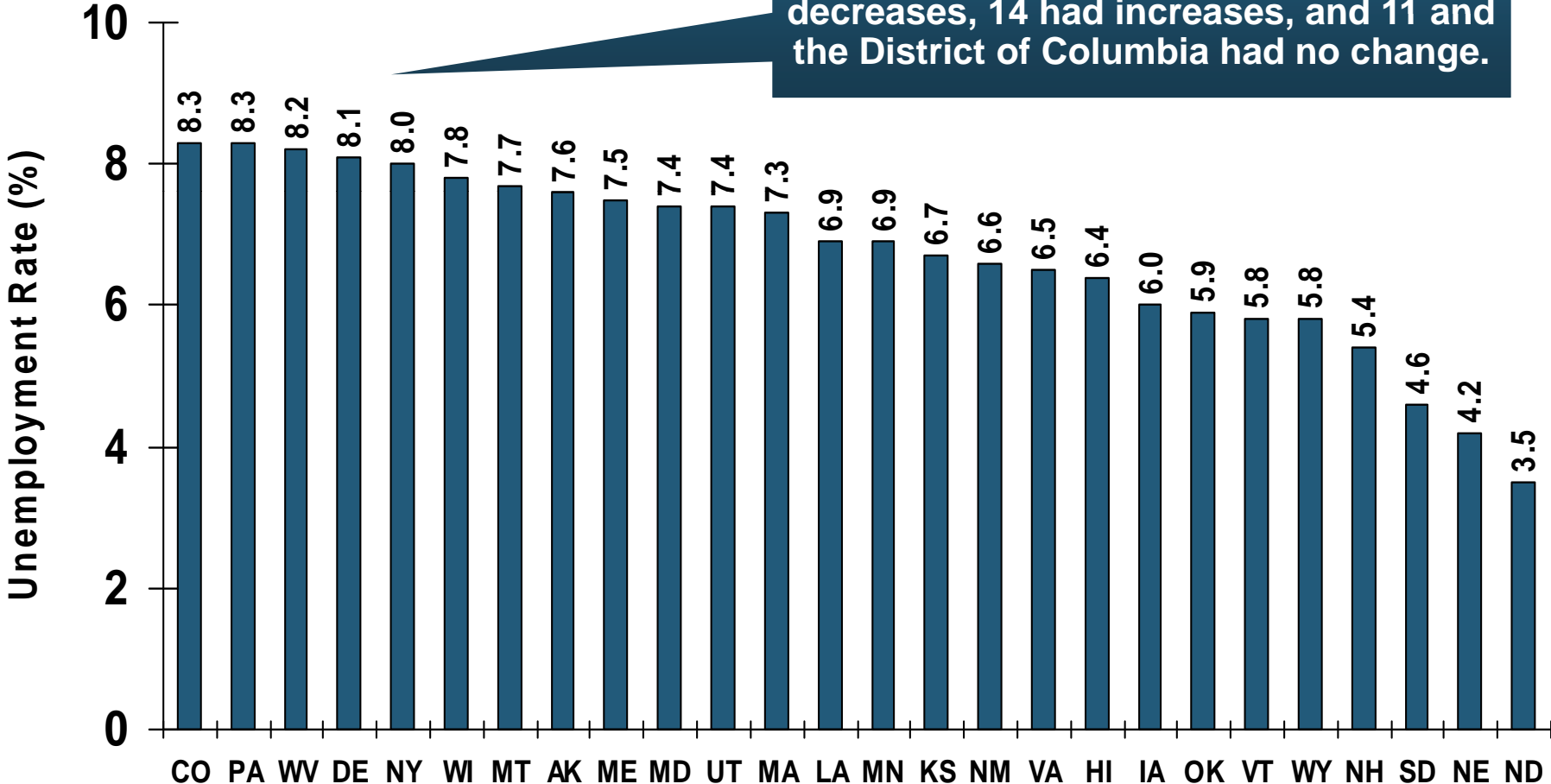
Sources: US Bureau of Labor Statistics; Insurance Information Institute.



# Unemployment Rates By State, September 2011: Lowest 25 States\*



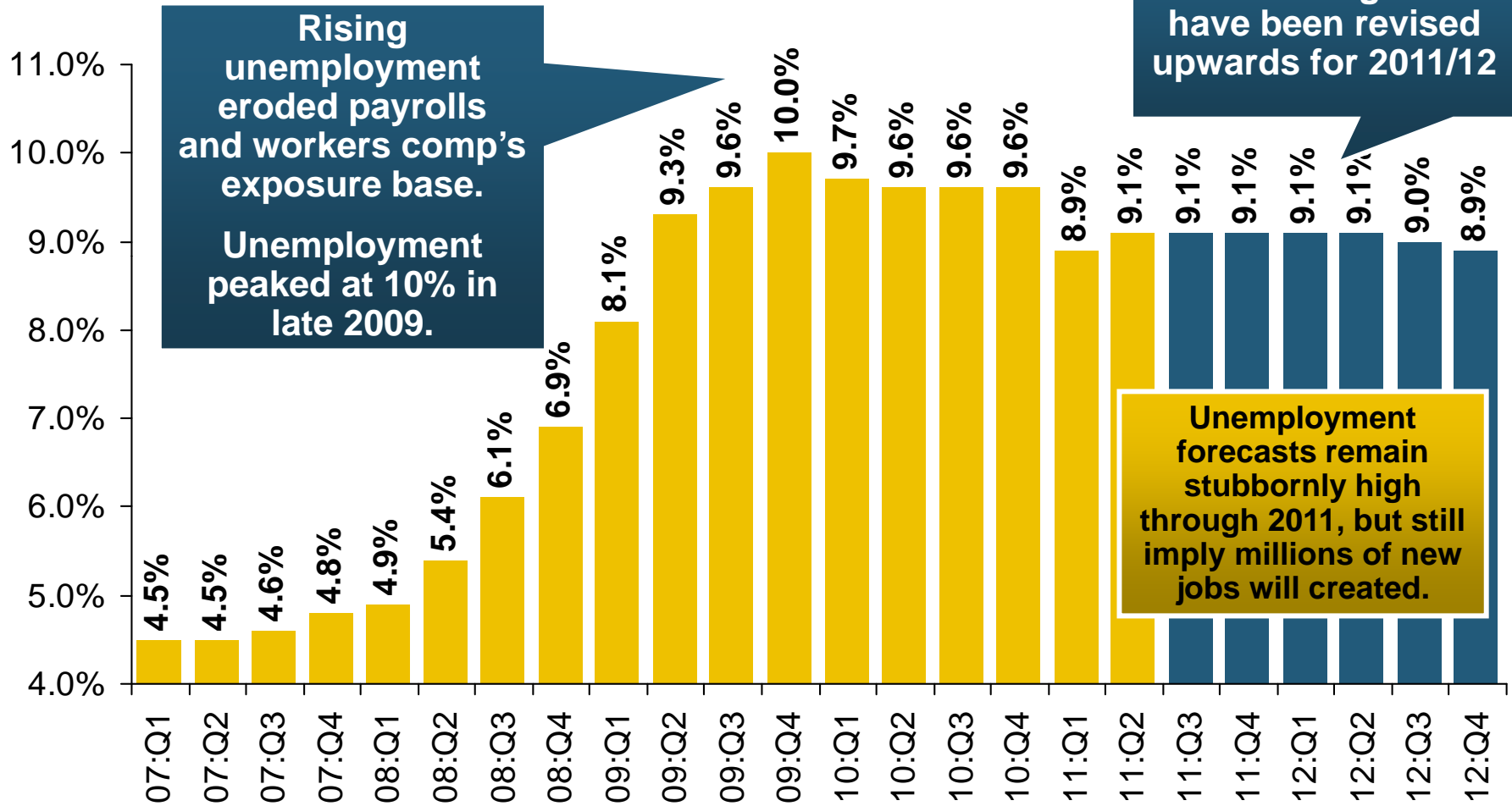
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\*Provisional figures for September 2011, seasonally adjusted.  
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

# US Unemployment Rate

2007:Q1 to 2012:Q4F\*



\* = actual; = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (10/11); Insurance Information Institute

Insurance Information Institute Online:

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

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