

Personal Lines P-C Insurance Markets: Challenges & Opportunities for 2011 & Beyond

November 11, 2010

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Presentation Outline



Mid-Term Election: Impacts on P/C Insurers

Personal Lines Growth Overview

- Auto, Home: US and by State
- Average Premium/Expenditures

Personal Lines Growth Drivers

- Exposure, Pricing Factors
- Personal Lines Profitability Analysis

Cyclical Drivers in Personal Lines

- Loss as a Cyclical Driver
- Reserving

Private Passenger Auto Performance

- Distribution Trends
- P/C Financial Overview & Outlook: The Role of Cyclicality
 - Profitability
 - Premium Growth
 - Capital, Capacity and Financial Strength
 - Underwriting Performance
 - Investment Performance
- Financial Crisis, Recession & Recovery: P/C Insurer Impacts

Catastrophe Losses

Q&A



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

Significant Impacts Are Guaranteed

The 2010 Midterm Elections: What do the results mean for insurers?



State Regulation

> 1/3 to 1/2 of state insurance commissioners will be new in 2011

Catastrophe Financing

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

Health Care Reform (Obamacare)

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

The 2010 Midterm Elections: What do the results mean for insurers?



Dodd-Frank Wall Street Reform Act

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

Tort Reform

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

Taxes/Fiscal Policy

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

Regulatory/Business Policy

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

Source: Insurance Information Institute research.

2010 Property and Casualty Insurance Report Card





Source: Heartland Institute, May 2010

Insurance Scoring: A Perennial Problem for Insurers







Personal Lines Growth Analysis

Growth Trajectories Differ Substantially by Line, by State and Over Time

Distribution of Direct Premiums Written by Segment/Line, 2009



Distribution Facts

- Personal/Commercial lines split has been about 50/50 for many years; Personal Lines likely overtook Commercial Lines in 2010
- Pvt. Passenger Auto is by far the largest line of insurance and is currently the most important source of industry profits
 - Billions of additional dollars in homeowners insurance premiums are written by staterun residual market plans



Sources: A.M. Best; Insurance Information Institute research.

Auto & Home vs. All Lines, Net Written Premium Growth, 2000–2009



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Private Passenger Auto Insurance Net Written Premium, 2000–2009



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Commercial Auto Insurance Net Written Premium, 2000–2009



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Percent Change in NPW: Pvt. Pass. Auto by State, 2004-2009



Top 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

Percent Change in NPW: Pvt. Pass. Auto by State, 2004-2009







Sources: SNL Financial LC.; Insurance Information Institute.

Homeowners Insurance Net Written Premium, 2000–2009



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Average Premiums For Home Insurance By State, 2007 (1)



(1) Based on the HO-3 homeowner package policy for owner-occupied dwellings, 1 to 4 family units. Provides "all risks" coverage (except those specifically excluded in the policy) on buildings and broad named-peril coverage on personal property, and is the most common package written. (2) Florida data exclude policies written by Citizens Property Insurance Corporation, the state's insurer of last resort, and therefore are not directly of incomparable with other states. (3) The Texas Department of Insurance developed home insurance policy forms that are similar but not identical to the standard forms. (4) California data were provided by the California Department of Insurance.

Note: Average premium=Premiums/exposure per house years. A house year is equal to 365 days insured coverage for a single dwelling.

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Average Premiums For Home Insurance By State, 2007 (1) (con't)



(1) Based on the HO-3 homeowner package policy for owner-occupied dwellings, 1 to 4 family units. Provides "all risks" coverage (except those specifically excluded in the policy) on buildings and broad named-peril coverage on personal property, and is the most common package written.

Note: Average premium=Premiums/exposure per house years. A house year is equal to 365 days insured coverage for a single dwelling.

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Personal Lines Growth Drivers

Rate is Presently a Bigger Driver than Exposure

Monthly Change in Auto Insurance Prices, 2005-2010*





*Through September 2010. Data are percentage change from same month in prior year, seasonally adjusted. Sources: US Bureau of Labor Statistics; Insurance Information Institute

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



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

Note: Recessions indicated by gray shaded columns.

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

Average Expenditures on Auto Insurance



Countrywide Auto Insurance Expenditures Increased 2.6% in 2008 and 4.5% Pace in 2009 (est.) and 5% in 2010 (est.)

* Insurance Information Institute Estimates/Forecasts

Sources: NAIC, Insurance Information Institute estimates 2008-2010 based on CPI data for Auto Insurance.

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Average Expenditures For Auto Insurance



Note: Average expenditure=Total written premium/liability car years. A car year is equal to 365 days of insured coverage for a single vehicle. Source: © 2009 National Association of Insurance Commissioners.

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



Note: Average expenditure=Total written premium/liability car years. A car year is equal to 365 days of insured coverage for a single vehicle. Source: © 2009 National Association of Insurance Commissioners.

Auto/Light Truck Sales, 1999-2016F



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

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

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



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

Sources: US Federal Highway Administration, Bureau of Transportation Statistics; Insurance Information Institute.

Do Changes in Miles Driven Affect Auto Collision Claim Frequency?



Paid Claim Frequency = (No. of paid claims)/(Earned Car Years) x 100 **Collision Claim Frequency Billions of Vehicle Miles** 7.00 7.0 3100 6.91 6.81 6.80 6.78 3000 6.65 6.59 Paid Claim Freq 2900 Billions of Miles Driven People are 6.5 beginning to 6.32 2800 drive more, but frequency 2700 is still falling 6.02 5.94 6.0 2600 5.85 Miles driven fell 0.7% for 12 5.71 5.70 mos. ended 09Q4 while 2500 5.62 5.55 collision claim freq was down 5.5 2400 96 97 98 05 06 **08** 09 10* 99 00 02 03 04 01 07

Sources: Federal Highway Administration (<u>http://www.fhwa.dot.gov/ohim/tvtw/tvtpage.cfm</u>; ISO Fast Track Monitoring System, *Private Passenger Automobile Fast Track Data*: 2rd Qtr. 2010, published Sept. 30, 2010 and earlier reports. *2010 ISO figure is for 12 months ending 6/30/2010; FHA data is for 12 months ending Aug. 2010.

New Private Housing Starts, 1990-2016F



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

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

Average Premium for Home Insurance Policies**





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

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



Top 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

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



Bottom 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

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



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

US Residual Market Exposure to Loss: Can Drain Private Insurer Premium



(\$ Billions)



In the 20-year Period From 1990 and 2009, Total Exposure to Loss in the Residual Market (FAIR & Beach/Windstorm) Plans Has Surged from \$54.7B in 1990 to \$703.0B in 2008



Personal Lines Profitability Analysis

Significant Variability Over Time and Across States

Return on Net Worth: All P-C Lines vs. Homeowners & Pvt. Pass. Auto, 1990-2008*



Pvt.Pass. Auto Has Consistently Outperformed the P-C Industry as a Whole. Homeowners Volatility is Associated Primarily With Coastal Exposure Issues

*Latest available.

**Excluding 1992, the Hurricane Andrew, produces a homeowners RNW of 3.1%. Sources: NAIC.

Return on Net Worth: All P-C Lines vs. Pvt. Pass. Auto, 1990-2008*



Pvt.Pass. Auto Profitability Has Exceeded the P-C Industry as a Whole in 13 of the 19 Years from 1990-2008 (Inclusive)

*Latest available. Sources: NAIC.

Return on Net Worth: Pvt. Pass. Auto vs. Homeowners, 1990-2008* (excl. 1992)



Pvt.Pass. Auto Profitability Has Exceeded the P-C Industry as a Whole in 13 of the 19 Years from 1990-2008 (Inclusive)

*Latest available.

**Excluding 1992, the year of Hurricane Andrew. Including 1992 produces a homeowners RNW of 0.1%. Sources: NAIC.
Return on Net Worth: Pvt. Passenger Auto, 10-Year Average (1999-2008*)



8.00

Top 25 States (Percent) 20 Hawaii was the most profitable state for 00 auto insurers from 1999-2008 18 16 13.6 13.5 13.3 12.2 111.9 111.6 111.6 111.4 111.3 111.3 111.1 11.1 14 10.3 10.3 10.3 **RNW PPA** 12 9.9 9.9 9.5 9.4 9.1 8.9 8.9 8.8 10 8 6 4 2 0

DC VT ME ID NH CT SD MN NM RI OH KS OR VA IA WY ND AZ AL UT NY WI CA IN

Sources: NAIC

HI

Return on Net Worth: Pvt. Passenger Auto, 10-Year Average (1999-2008*)





*Latest avaiiable. Sources: NAIC

Return on Net Worth: Homeowners Insurance, 10-Year Average (1999-2008*)



Sources: NAIC

Return on Net Worth: Homeowners Insurance, 10-Year Average (1999-2008*)





Private Passenger Auto Competitive Analysis

All 50 States Are Competitive to Varying Degrees

In Many States, the PP Auto Market in 2009 was Highly Competitive



An HHI Under 1000 is Generally Considered a Highly Competitive Market; HHIs Between 1000 and 1800 Indicate a Moderately Competitive Market; Over 1800 Suggests a Concentrated Market

*Herfindahl-Hirschman Index, a standard measure of market concentration Sources: Insurance Information Institute research from SNL Financial. NSURANCE

PP Auto Competitive Environment Varies by State and Region*



*Data for 2009 Sources: SNL Financial; Insurance Information Institute. INSURANCE

PP Auto Competitive Environment Varies by State and Region* (cont'd)



^{*}Data for 2009 Sources: SNL Financial; Insurance Information Institute.

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Cycle Drivers

The Role of Losses and Reserves in the Underwriting Cycle

PP Auto Liability: Loss and LAE vs. Net Premiums Written, 1990-2009



While Premium Growth Decelerated, the Driver Was Primarily Lower Losses, Allowing Auto Insurers to Maintain String Margins

PP Auto Liability: % Change in NPW vs. % Change in Loss & LAE, 1990 - 2009



Losses Drive Premiums

Premiums Exhibit an Elastic Response (with a Lag) to Changes in Losses

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

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PP Auto Physical Damage: Change in NPW vs. Change in Loss & LAE, 1990 - 2009



Loss Trends Ultimately Drive Premium Trends

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

Loss Development vs. Change in NPW, 1983-2009





Reserve Releases, in Addition to Losses, Drive Pricing Cycles

P-C Industry Loss Development, 1983-2009 (\$ Millions)





Industry Loss Development as % of Net Earned Premium, 1983-2009





Claim Trends in Auto Insurance

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

Bodily Injury: Severity Trend Moderating, Frequency Decline Continues

Annual Change, 2005 through 2010*



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

*For 2010, data are for the 4 quarters ending with 2010:Q2. Source: ISO/PCI *Fast Track* data; Insurance Information Institute

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

Annual Change, 2005 through 2010*



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

*For 2010, data are for the 4 quarters ending with 2010:Q2. Source: ISO/PCI *Fast Track* data; Insurance Information Institute

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





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

*No-fault states included are: FL, HI, KS, KY, MA, MI, MN, NY, ND and UT; 2010 data are for the 4 quarters ending 2010:Q2. Source: ISO/PCI *Fast Track* data; Insurance Information Institute

Collision Coverage: Frequency and Severity Trends Have Been Favorable

Annual Change, 2005 through 2010*



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

*For 2010, data are for the 4 quarters ending with 2010:Q2. Source: ISO/PCI *Fast Track* data; Insurance Information Institute

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

Annual Change, 2005 through 2010*



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

*For 2010, data are for the 4 quarters ending with 2010:Q2. Source: ISO/PCI *Fast Track* data; Insurance Information Institute

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:Q4. **Since 2006 the increase in Florida was 17.3% (average severity that year was \$6,344). Sources: Insurance Information Institute research from ISO/PCI *Fast Track* data. NSURANCE

New York State No-Fault Claim Severity, 1997–2009:Q4



About 20% of No-Fault Claim Costs Are Attributable to Fraud and Abuse

Sources: ISO/PCI Fast Track data; Insurance Information Institute.



Distribution Trends

Distribution by Channel Type Continues to Evolve

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



Source: Insurance Information Institute; based on data from Conning and A.M. Best.

Personal Lines Distribution Channels, Direct vs. Independent Agents



Source: Insurance Information Institute; based on data from Conning and A.M. Best.

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



Source: Insurance Information Institute; based on data from Conning and A.M. Best.



Cyclicality in the P/C Insurance Industry

Cyclicality Can Be Observed in Many Ways



Profitability

Exhibits Strong Cyclicality

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





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

ROE: Property/Casualty Insurance, 1987–2010E*



* Excludes Mortgage & Financial Guarantee in 2008 - 2010. Sources: ISO, *Fortune*; Insurance Information Institute estimate for 2010. INSURANCE INFORMATION

ROE vs. Equity Cost of Capital: U.S. P/C Insurance:1991-2010:H1*



* Return on average surplus in 2008-2010 excluding mortgage and financial guaranty insurers. Source: The Geneva Association, Insurance Information Institute NSURANCE

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



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

* 2009 and 2010:Q1 figures are return on average statutory surplus. 2008, 2009 and 2010:H1figures exclude mortgage and financial guaranty insurers

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



P/C Premium Growth Cycles

Cyclicality is Driven Primarily by the Industry's Underwriting Cycle, Not the Economy

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



Shaded areas denote "hard market" periods Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute. INSURANCE



Capital/Policyholder Surplus (US)

Total Surplus Exhibits Little Cyclicality, While Surplus Leverage Ratios Influence Cycle
US Policyholder Surplus: 1975–2010*





The Premium-to-Surplus Ratio Stood at \$0.80:\$1 as of 6/30/10, A Record Low (at Least in Recent History)**

* As of 6/30/10; **Calculated using annualized net premiums written based on H1 2010 data. Source: A.M. Best, ISO, Insurance Information Institute.

Policyholder Surplus, 2006:Q4–2010:Q2





06:Q4 07:Q1 07:Q2 07:Q3 07:Q4 08:Q1 08:Q2 08:Q3 08:Q4 09:Q1 09:Q2 09:Q3 09:Q4 10:Q1 10:Q2

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

Sources: ISO, A.M .Best.

Quarterly Surplus Changes Since 2009:Q1 Trough

09:Q1: -\$84.7B (-16.2%) 09:Q2: -\$58.8B (-11.2%) 09:Q3: -\$31.8B (-5.9%) 09:Q4: -\$10.3B (-2.0%) *10:Q1:* +\$*18.9B* (+3.6%) 10:Q2: -\$10.2B (-1.9%)

Paid-in Capital, 2005–2010:H1



In 2010:H1 One Insurer's Paid-in Capital Rose by \$22.5B as Part of an Investment in a Non-insurance Business

Source: ISO.

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



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

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

Source: PCS; Insurance Information Institute

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





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

* 2010 NWP and Surplus figures are % changes as of H1:10 vs H1:09. Sources: A.M. Best, ISO, Insurance Information Institute



Merger & Acquisition

Capital Cycles Can Drive Consolidation

U.S. P/C Insurance-Related M&A Activity, 1988–2009





\$ Value of Deals Down 78% in 2009, Volume Up 7%

2010: No Mega Deals So Far, Despite Record Capital, Slow Growth and Improved Financial Market Conditions

Note: U.S. Company was the acquirer and/or target. Source: Conning Research & Consulting.



Investment Performance

Investments Cycles Also Influence P/C Insurer Profitability

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



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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, 1990-2010:H1





Realized Capital Losses Were the Primary Cause of 2008/2009's Large Drop in Profits and ROE

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

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



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

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

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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.



Financial Strength & Underwriting

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

P/C Insurer Impairments, 1969–2009



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

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

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

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

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



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



Source: A.M. Best: 1969-2008 Impairment Review, Special Report, Apr. 6, 2009



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

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



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

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Underwriting Gain (Loss) 1975–2010:H1*





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

* Includes mortgage and financial guarantee insurers.

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

P/C Reserve Development, 1992–2011E



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

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

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



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

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

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

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



Performance by Segment: Personal Lines

Calendar Year Combined Ratios by Segment: 2008-2012F



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



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

Sources: A.M. Best (historical); Insurance Information Institute forecasts for 2010 – 2012.

Direct Written Premium Growth by Segment: 2008-2012F



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



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

Sources: A.M. Best (historical); Insurance Information Institute forecasts for 2010 – 2012.

Private Passenger Auto Combined Ratio: 1993–2012F



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

Sources: A.M. Best (history); Conning (forecasts); Insurance Information Institute.

Homeowners Insurance Combined Ratio: 1990–2012F



Sources: A.M. Best (history); Conning (forecasts); Insurance Information Institute.



The Economic Storm

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

US Real GDP Growth*





Demand Commercial Insurance Continues To Be Impacted by Sluggish Economic Conditions

* Estimates/Forecasts from Blue Chip Economic Indicators.

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

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





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

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



Labor Market Trends

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

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

January 2000 through October 2010, Seasonally Adjusted (%)



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

US Unemployment Rate



2007:Q1 to 2011:Q4F*



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

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





*Provisional figures for August 2010, seasonally adjusted.

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

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





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



January 2008 through October 2010* (Thousands)



Jan 08 Mar 08 Apr 08 Jun 08 Jun 08 Jun 08 Aug 08 Aug 09 Sep 09 Nov 09 Nov 09 Nar 10 Jun 10 Jun 10 Mar 10 Mar 10 Mar 10 Mar 10 Sep 09 Sep 09 Jun 10 Sep 10 Sep 10 Sep 10 Sep 10 Sep 10 Sep 10

Job Losses Since the Recession Began in Dec. 2007 Peaked at 8.4 Mill in Dec. 09; Stands at 7.5 Million Through October 2010; 14.8 Million People are Now Defined as Unemployed

*Estimate based on Reuters poll of economists.

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

US Nonfarm Private Employment



Seasonally adjusted. Source: US Bureau of Labor Statistics NSURANCE


Inflation Trends: Benign Inflation Tempers Claim Severity

Fed Efforts to Stimulate Inflation Will Ultimately Pressure Claim Cost Severities

Annual Inflation Rates (CPI-U, %), 1990–2016F Inflation peaked at 5.6% in August 2008 Annual Inflation Rates (%) on high energy and commodity crisis. The recession and the collapse of the commodity bubble have reduced 6.0 inflationary pressures 4.9 ^{5.1} 5.0 3.8 3.8 4.03.3 3.4 3.0 ^{3.2} ^{2.9} 2.8 2.6 3.0 2.8 3.0 ^{2.5} _{2.3} 2.4 2.0 2.2 2.2 2.2 2.2 1.9 1.6 1.5 2.0 1.5 1.3

90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10F11F12F13F14F15F16F

-0.4

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

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

1.0

0.0

-1.0

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.

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Catastrophic Loss – Catastrophe Losses Trends Are Trending Adversely

US Insured Catastrophe Losses





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

*Through June 30, 2010.

Note: 2001 figure includes \$20.3B for 9/11 losses reported through 12/31/01. Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = \$12.2B. Sources: Property Claims Service/ISO; Munich Re; Insurance Information Institute.

123

Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2009

Combined Ratio Points



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

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

Source: ISO; Insurance Information Institute.

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Natural Disasters in the United States, 1980 – 2010

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

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



Source: MR NatCatSERVICE

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U.S. Thunderstorm Loss Trends Annual Totals 1980 – 2009 vs. First Half 2010



Thunderstorm losses have quadrupled since 1980.



Source: Property Claims Service, MR NatCatSERVICE

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U.S. Winter Storm Loss Trends Annual totals 1980 – 2009 vs. First Half 2010



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



Source: Property Claims Service, MR NatCatSERVICE

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





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

* All figures (except 2006-2008 loss) have been adjusted to 2005 dollars. Source: PCS division of ISO.

Top 12 Most Costly Disasters in US History

INSURANCE INFORMATION INSTITUTE

(Insured Losses, 2009, \$ Billions)



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

Sources: PCS; Insurance Information Institute inflation adjustments.

Share of Losses Paid by Reinsurers for Major Catastrophic Events





Source: Wharton Risk Center, Disaster Insurance Project, Renaissance Re, Insurance Information Institute.

Total Value of Insured Coastal Exposure

(2007, \$ Billions)



US Residual Market Exposure to Loss





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



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Thank you for your time and your attention! Twitter: twitter.com/bob_hartwig