



# Through the Economic Crisis & Beyond:

*How the P&C Insurance Industry Is Likely to Recover from Recent Economic & Financial Turmoil*

**Philadelphia I-Day**

**Philadelphia, PA**

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***Download at: [www.iii.org/presentations](http://www.iii.org/presentations)***

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- **Reasons for Optimism, Causes for Concern in the P/C Insurance Industry**
- **P/C Profitability Overview & Outlook**
- **The Elusive Market Turn: When, Why, How and *IF***
  - ◆ Pricing: Up, Down or Sideways?
  - ◆ Underwriting Trends: Drivers of Future Market Firming?
  - ◆ Investments: New Investment Reality Not Reflected in Pricing
  - ◆ Expenses: Cyclical Increase
  - ◆ Leverage/Capital Management: Excess Capacity and Squeezing it Out
- **M&A Activity in the P/C Insurance Industry**
- **External Factors Influencing Profitability**
  - ◆ Tort System Review: Overview and Causes for Concern
  - ◆ Inflation
- **Growth in the Aftermath of the Great Recession**
  - ◆ Crisis-Driven Exposure Issues: Commercial Lines
- **Global Issues Impacting P/C Insurance**
- **Catastrophe Loss Review**
- **Social Media Strategy**
- **Q&A**



## Part 1

# The “Great Recession,” Economic Recovery and the P/C Insurance Industry

**The Outlook for the Economy  
Has Brightened, But the Outlook  
for P/C Insurance Is Mixed**



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

**The Outlook for the Economy Has Brightened, But the Outlook for P/C Insurance Is Mixed**

# Uncertainty, Risk and Fear Abound: Invasion of the Black Swans?

- Japan, New Zealand, Haiti, Chile Earthquakes
- Political Upheaval in the Middle East
- Echoes of the Financial Crisis
- Housing Crisis
- Sovereign Debt Crises
- Currency Crises
- Inflation
- Runaway Energy & Commodity Prices
- Era of Fiscal Austerity
- Reshuffling the Global Economic Deck
- China Becomes #2 Economy in the World
- Nuclear Fears
- Resurgent Terrorism Risk
- Manmade Disaster (e.g., Deepwater Horizon)
- *Apocalypse 2012: End of the Mayan Calendar on Dec. 21 (11:11PM)*



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

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

- **Economic Recovery in US is Self-Sustaining and Strengthening**
  - ◆ No Double Dip or Second Recession
  - ◆ Economy is more resilient than most pundits presume
- **Consumer Confidence is Gradually Improving**
- **Consumer Spending is Recovering Gradually**
- **Consumer and Business Lending Are Expanding**
- **Housing Market Remains Weak; Some Improvement Expected in Late 2011**
- **Inflation Rate Will Rise Will but Will Remain Contained**
  - ◆ Runaway inflation is highly unlikely; Fed has things under control
  - ◆ Deflation—threat has disappeared
- **Private Sector Hiring is Consistently Positive for 15 Months**
  - ◆ Acceleration in hiring later in 2011 compared to 2010
  - ◆ No significant secondary spike in unemployment
- **Japan Threat to Global Economy Overstated**
- **Sovereign Debt, Muni Bond “Crises” Overblown**
- **Current Middle East Turmoil Poses Only Moderate Risk to US Economy**
- **Interest Rates Are Rising but Remain Low by Historical Standards**
- **Stock and Bond Markets More Stable, Less Volatile**
- **Political Environment Is More Hospitable to Business Interests**

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

- **Era of Mass P/C Insurance Exposure Destruction Has Ended**
  - ◆ Personal and commercial exposure growth is virtually certain in 2011
  - ◆ But restoration of destroyed exposure will take 3-5 years in US
- **Exposure Growth Returned in 2<sup>nd</sup> Half 2010, Will Accelerate in 2011**
- **P/C Industry Saw Growth in 2010 (+0.8%) for the First Time Since 2006**
- **Increasing Private Sector Hiring Will Drive Payrolls/WC Exposures**
  - ◆ Wage growth is also positive and could modestly accelerate
- **Increase in Demand for Commercial Insurance Is in its Earliest Stages and Will Accelerate in 2011**
  - ◆ Includes workers comp, commercial auto, marine, many liability coverages, D&O
  - ◆ Laggards: Property, inland marine, aviation
  - ◆ Personal Lines: Auto leads, homeowners lags
- **Agent Commissions Should Begin to Rise in 2011**
- **Demand, Capital Management Strategies Will Temper Overcapitalization**

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

- **Economic Recovery Is Not as Broad Based as Past Recoveries**
  - ◆ Housing, Construction remain weak
- **Recovery Is Uneven**
  - ◆ Certain states remain in recession and recoveries will lag: CA, FL, MI, NV
- **Credit Markets Are Not Completely Yet Healed**
  - ◆ While the financial sector has strengthened, hundreds more banks failures are possible
- **Consumers/Businesses Will Remain Cautious in their Borrowing/Spending**
- **Energy and Commodity Price Volatility Are Serious Economic Risks**
  - ◆ Effects can be disruptive to a fragile recovery even without igniting overall inflation
  - ◆ Concern over serial bubbles in various economic sectors on a global scale
- **Financial Markets, While Calm Now, Remain Jittery**
  - ◆ Markets buy into “crisis du jour” mindset quickly; Another “Flash Crash” possibility
  - ◆ Currency risk is elevated
- **Minor Muni Bond Default(s) Could Result in Irrational Market Response**
- **Potential for Botched Implementation of Dodd-Frank**
  - ◆ Systemic risk definition may be too broad
  - ◆ Banks will eventually find a way to screw up the economy—again
- **Strength of Admin/Congress Commitment to Pro-Business Policies Unclear**



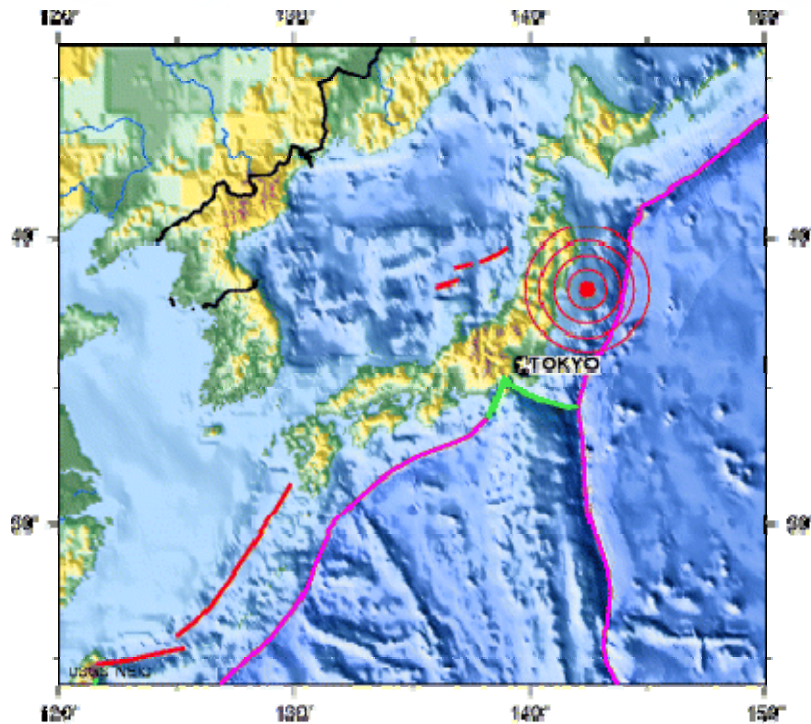
# Reasons for Optimism, Causes for Concern in the P/C Insurance Industry

- **Exposure Loss Was Extraordinary, Concentrated in Commercial Lines**
  - ◆ Will take years to restore lost capacity
  - ◆ Capacity will not be restored in the same industrial or geographic sectors
  - ◆ Public sector pain has a long way to go
- **Consumers Emerged from the Crisis Much More Cost Conscious**
  - ◆ Quicker to shop/switch; Price elasticity of demand is higher
  - ◆ Heightens retention challenge
- **Commercial Customers Remain Comfortable/Able Retaining More Risk**
  - ◆ “Leakage” remains a problem (ART, captives, self insurance, large ded. progs.)
- **Strength of Recovery Insufficient to Absorb Excess Capital or Firm Pricing**
- **P/C Insurance Industry Capacity as of 12/31/10 Is at Record Levels and Has Recovered 100%+ of the Capital Lost During the Financial Crisis**
  - ◆ The industry is overcapitalized by approximately \$100 billion
  - ◆ Record capacity, depressed exposures (S>D) mean that generally soft market conditions will persist through 2011
- **There is No Catalyst for a Robust Hard Market at the Current Time**
- **Pricing Today Does Not Reflect New Investment Realities or Underlying Deterioration in Underwriting Performance Masked by Release of Prior-Year Reserves**

# Summary of Japan Earthquake

**The March 11 Quake is Just the  
Most Recent of Several Large  
Catastrophe Losses**

# Location of March 11, 2011 Earthquake Near Sendai, Honshu, Japan



NEAR EAST COAST OF HONSHU, JAPAN

2011 03 11 05:49:23 UTC 38.92N 142.27E Depth: 24.4 km

Earthquake Location

## March 11 Earthquake Facts as of 3/24/2011

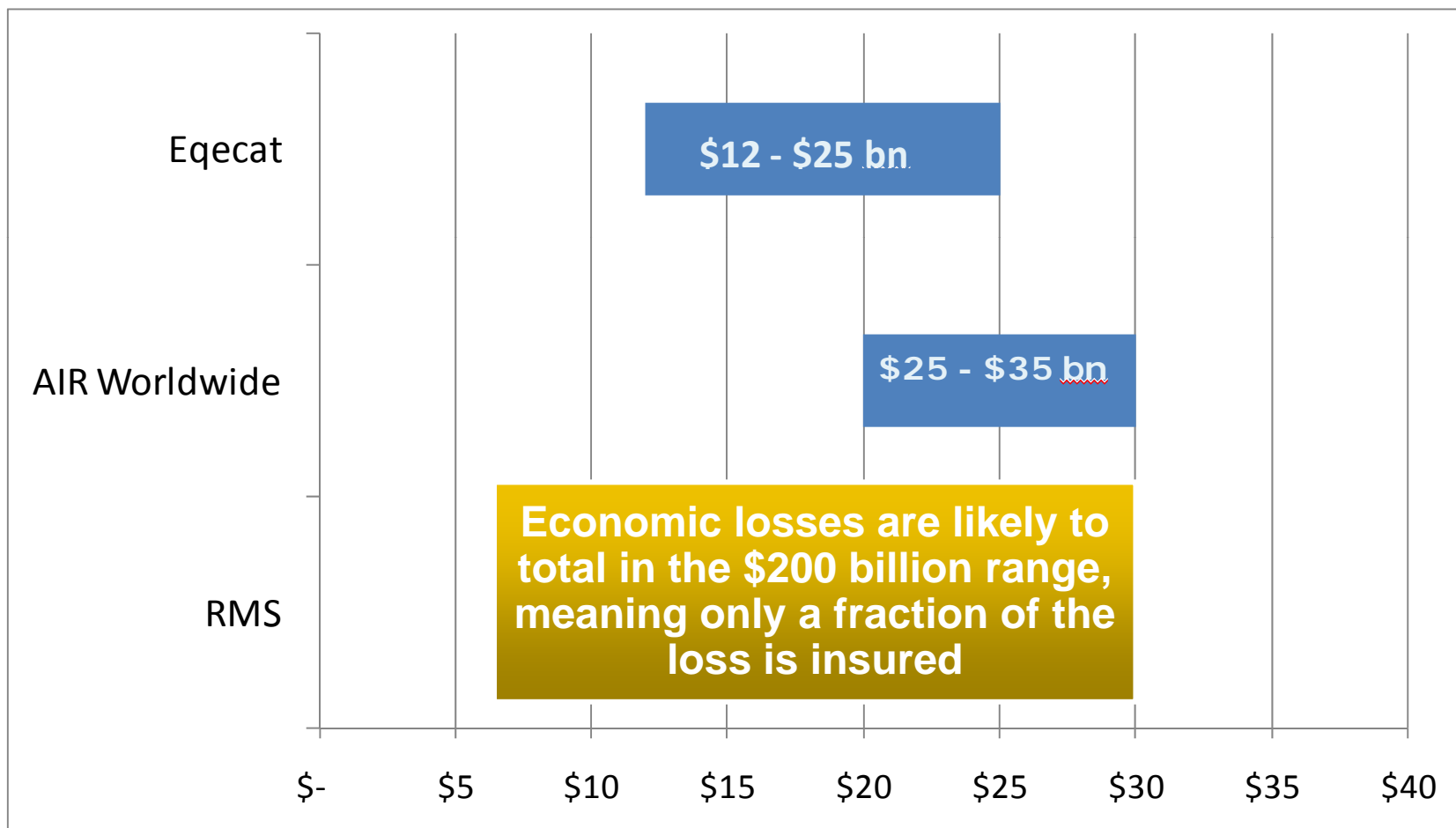
- Magnitude 9.0 earthquake struck Japan at 2:46PM local time (2:46AM Eastern) off the northeast coast of Honshu, 80 miles east of the city of Sendai
- Quake is among the 5 strongest in recorded history and the strongest in the 140 years for which records have been kept in Japan
- 11,000+ fatalities
- Economic loss: \$100 - \$300 bn
- Insured losses up to \$35 bn
- Significant tsunami damage was recorded in Japan; relatively minor damage on the U.S. West Coast

### LOCATION

- 130 km (80 miles) E of **Sendai, Honshu, Japan**
- 178 km (110 miles) E of **Yamagata, Honshu, Japan**
- 178 km (110 miles) ENE of **Fukushima, Honshu, Japan**
- 373 km (231 miles) NE of **TOKYO, Japan**

# Insured Japan Earthquake Loss Estimates\*

(Insured Losses, \$ Billions)



\*As of March 29, 2011. Figures do not include insured tsunami losses.

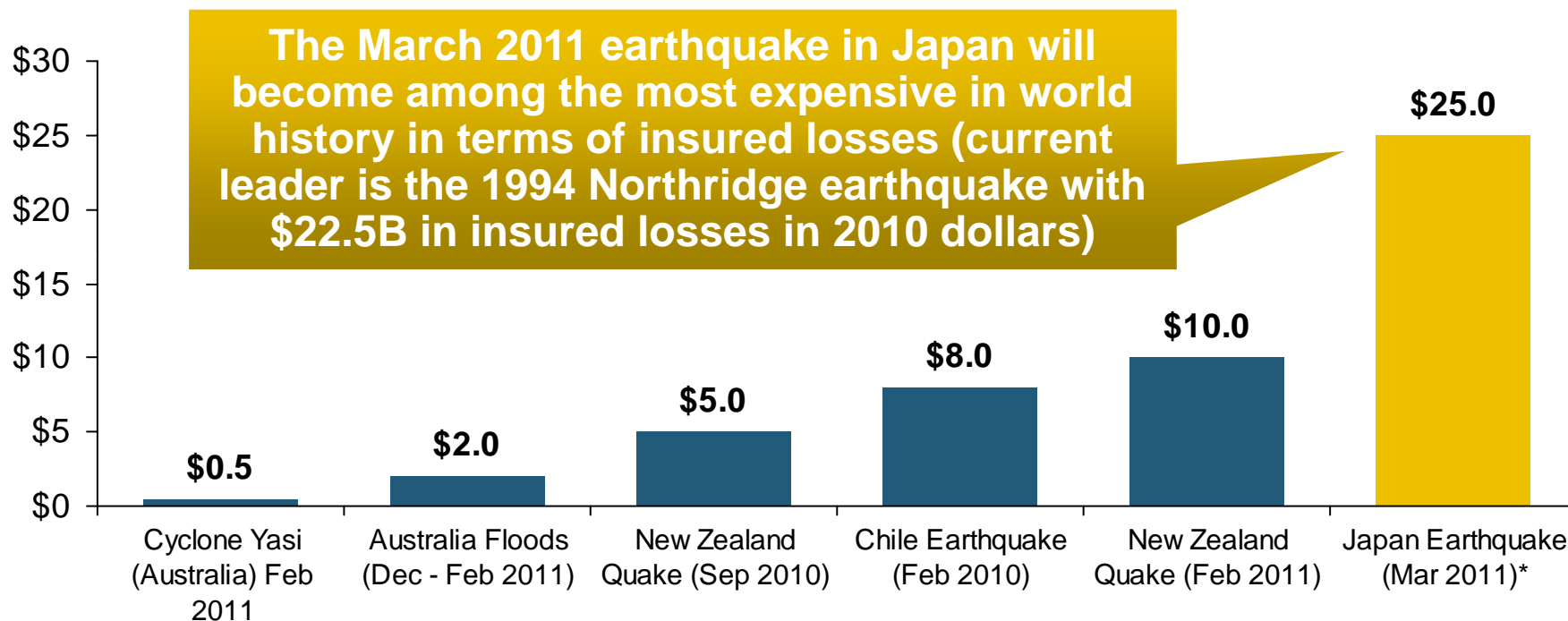
Sources: AIR Worldwide, Eqecat; Insurance Information Institute.

# Top 20 Nonlife Insurance Companies in Japan by DPW, 2008

Rank	Companies	Direct premiums written, 2008		Market share	Cumulative Market Share
		JPY (millions)	U.S. (\$ millions)		
1	Tokio & Marine Nichido	\$2,032,131.2	\$19,660.9	24.0%	24.0%
2	Sompo Japan	1,504,262.7	14,553.8	17.8	41.8%
3	Mitsui Sumitomo	1,455,161.8	14,078.7	17.2	59.0%
4	Aioi	897,182.6	8,680.3	10.6	69.6%
5	Nipponkoa	728,262.9	7,046.0	8.6	78.2%
6	Nisay Dowa	361,530.7	3,497.8	4.3	82.5%
7	Fuji	329,345.7	3,186.4	3.9	86.4%
8	AIU	253,522.8	2,452.8	3.0	89.4%
9	Kyoei	199,393.1	1,929.1	2.4	91.8%
10	Nisshin	149,735.8	1,448.7	1.8	93.6%
11	American Home	82,889.8	802.0	1.0	94.6%
12	Asahi	73,600.1	712.1	0.9	95.5%
13	Sony	60,868.3	588.9	0.7	96.2%
14	ACE	54,876.2	530.9	0.7	96.9%
15	Zurich	45,471.3	439.9	0.5	97.4%
16	SECOM	44,245.0	428.1	0.5	97.9%
17	Sumi Sei	33,594.0	325.0	0.4	98.3%
18	AXA	30,418.9	294.3	0.4	98.7%
19	Mitsui Direct	29,471.9	285.1	0.4	99.1%
20	Daido	15,690.4	151.8	0.2	99.3%

# Recent Major Catastrophe Losses

(Insured Losses, \$US Billions)



**Insured Losses from Recent Major Catastrophe Events Exceed \$50 Billion, an Estimated \$48 Billion of that from Earthquakes**

\*Midpoint of AIR Worldwide estimated insured loss range of \$15 billion to \$35 billion as of March 13, 2011. Does not include tsunami losses.

Sources: Insurance Council of Australia, Munich Re, AIR Worldwide; Insurance Information Institute.

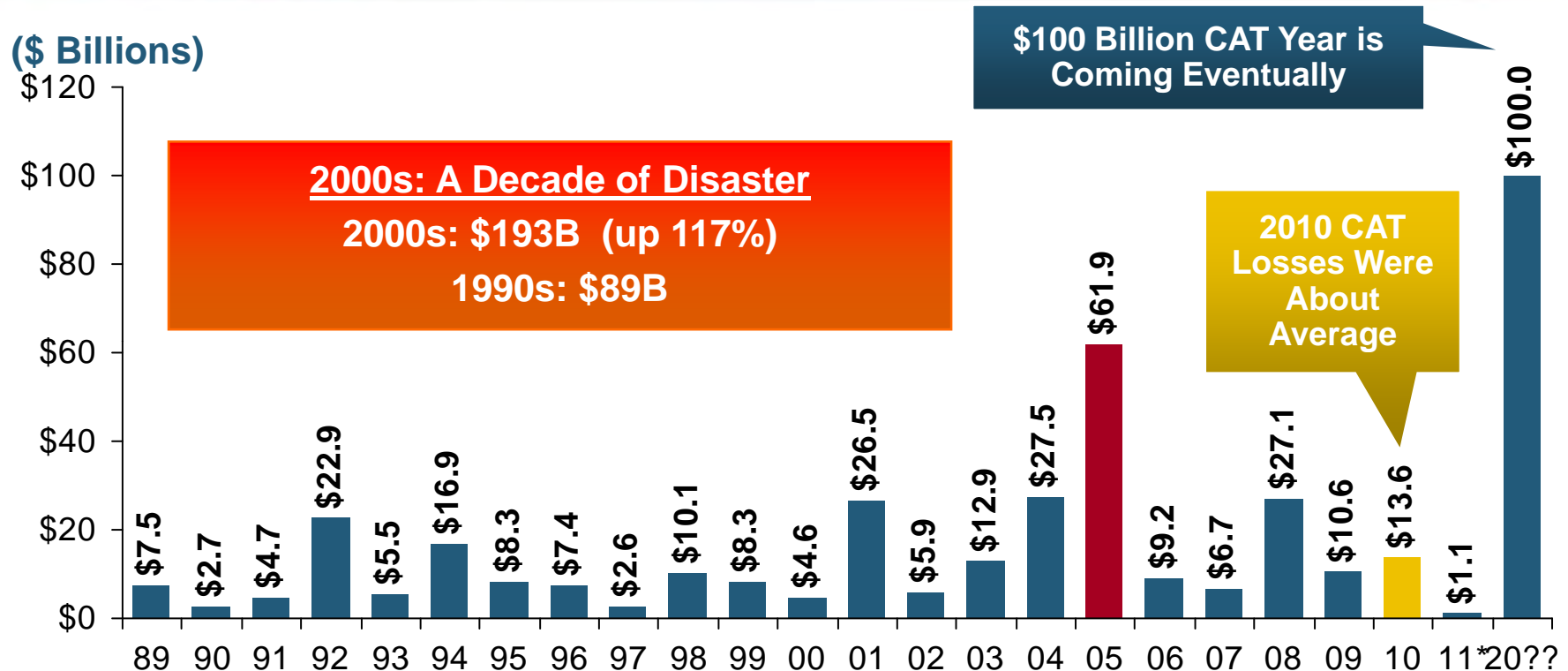
# Nonlife Insurance Market Impacts of Japan Earthquake

- **Primary Insurance: Downgrades of Some Domestic Japanese Insurers**
- **Significant Absorption of Loss by Japanese Government**
  - ◆ Residential earthquake damage
  - ◆ Nuclear-related property and liability damage
- **Market Share of Foreign Primary Insurers in Japan is Small**
  - ◆ Not a capital event for any non-Japanese primary insurer
- **Significant Impacts for Global Reinsurers**
  - ◆ Property-Catastrophe covers on Commercial Lines
  - ◆ Business Interruption
  - ◆ Contingent Business Interruption
- **Currently an Earnings Event for Global Reinsurers**
  - ◆ Not a capital event: Global reinsurance markets entered 2011 with record capital
- **Cost of Property/Catastrophe Reinsurance Rising in Japan, New Zealand, Australia**
  - ◆ Up for all; Magnitude of increase is sensitive to size of loss
- **Reinsurance Coverage Remains Available in Affected Regions**
- **Little (If Any) Impact of Cost of US Property-Cat Reinsurance**
  - ◆ Market remains well capitalized and competitive
  - ◆ Elevated global cat activity could halt price declines for property/cat reinsurance

**Catastrophic Loss –  
Catastrophe Losses Trends Are  
Trending Adversely**



# US Insured Catastrophe Losses



**2010 CAT Losses Were Close to “Average”**  
 Figures Do Not Include an Estimate of Deepwater Horizon Loss

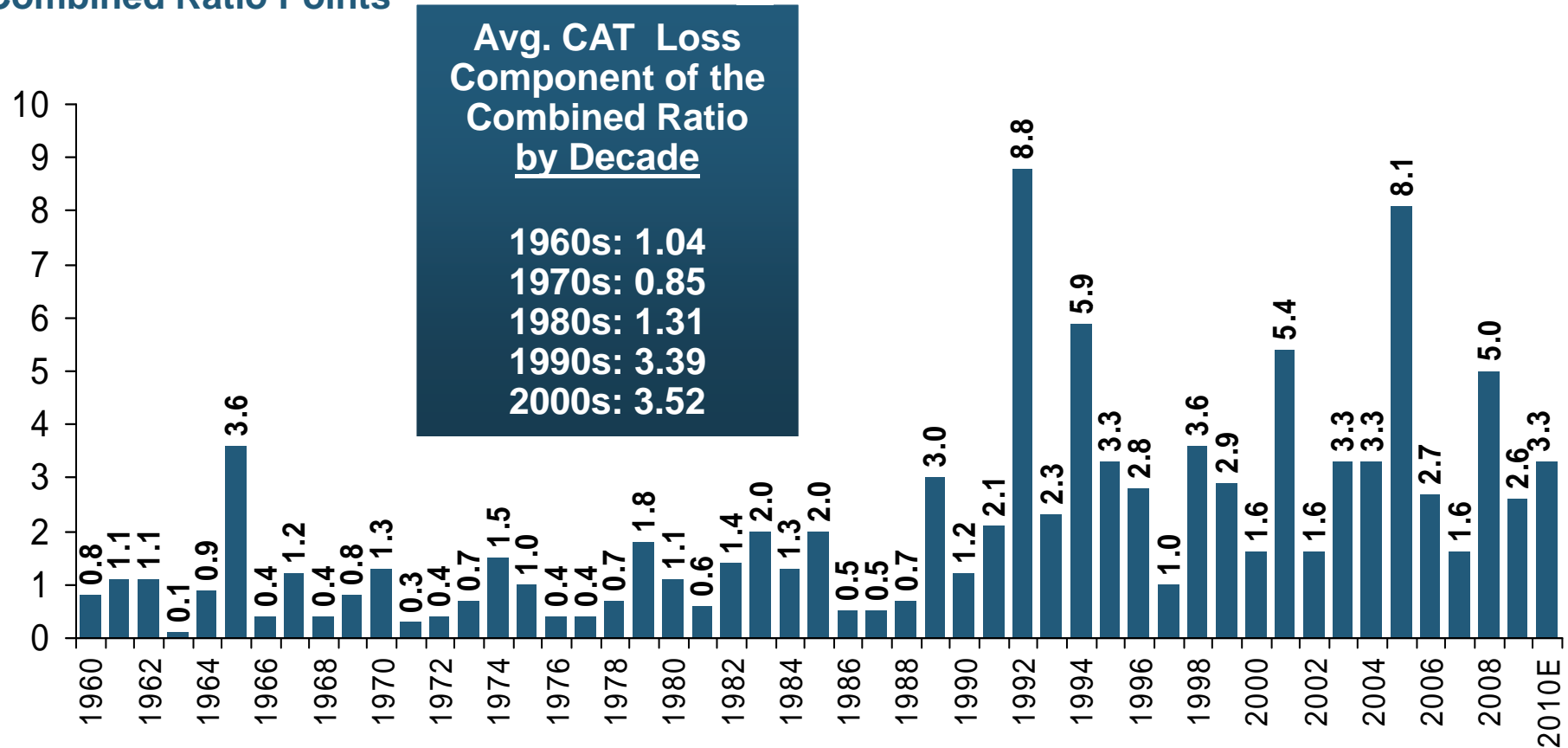
\*First quarter 2011.

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; Munich Re; Insurance Information Institute.

# Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2010E

## Combined Ratio Points



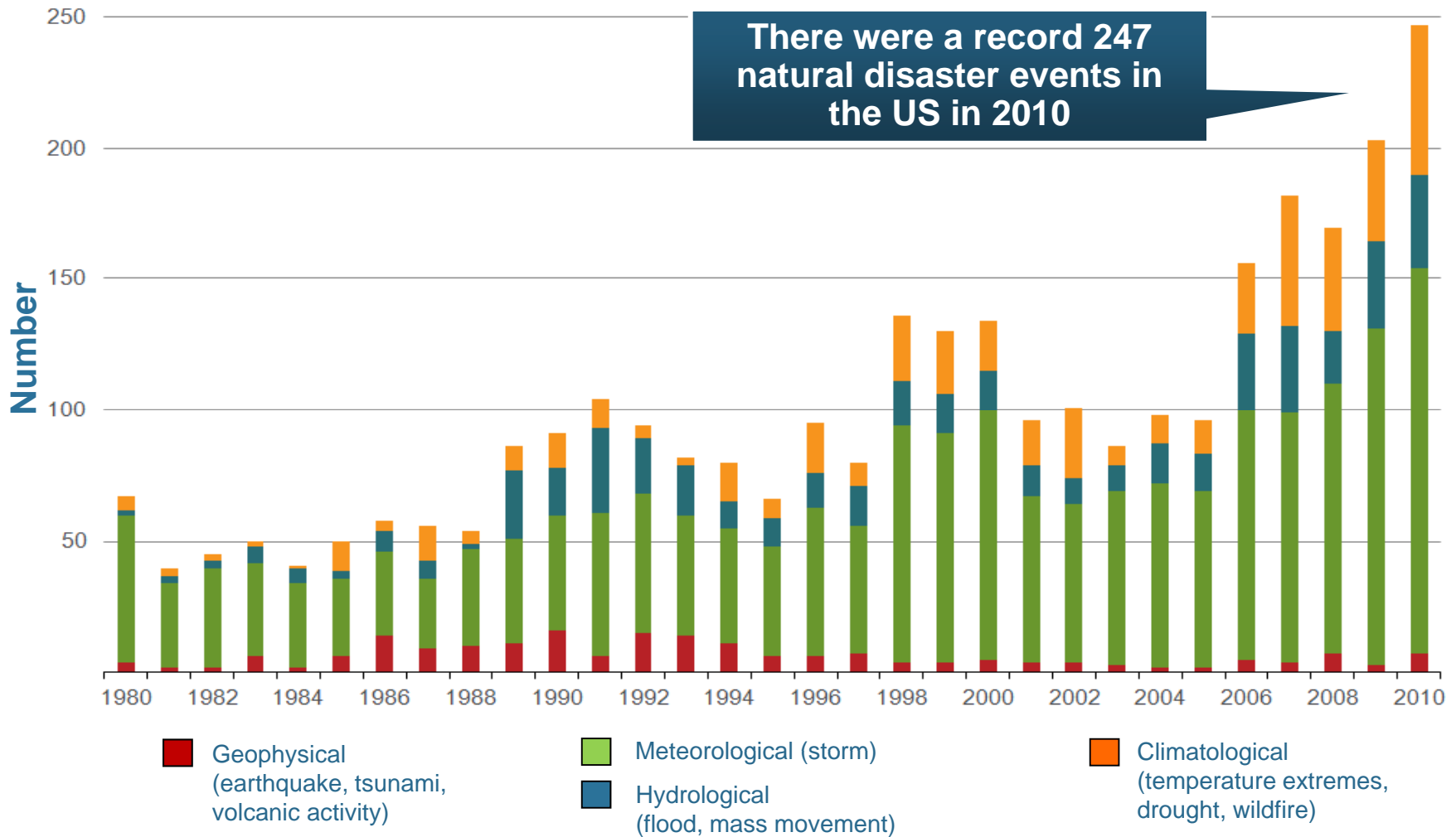
**The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades**

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.

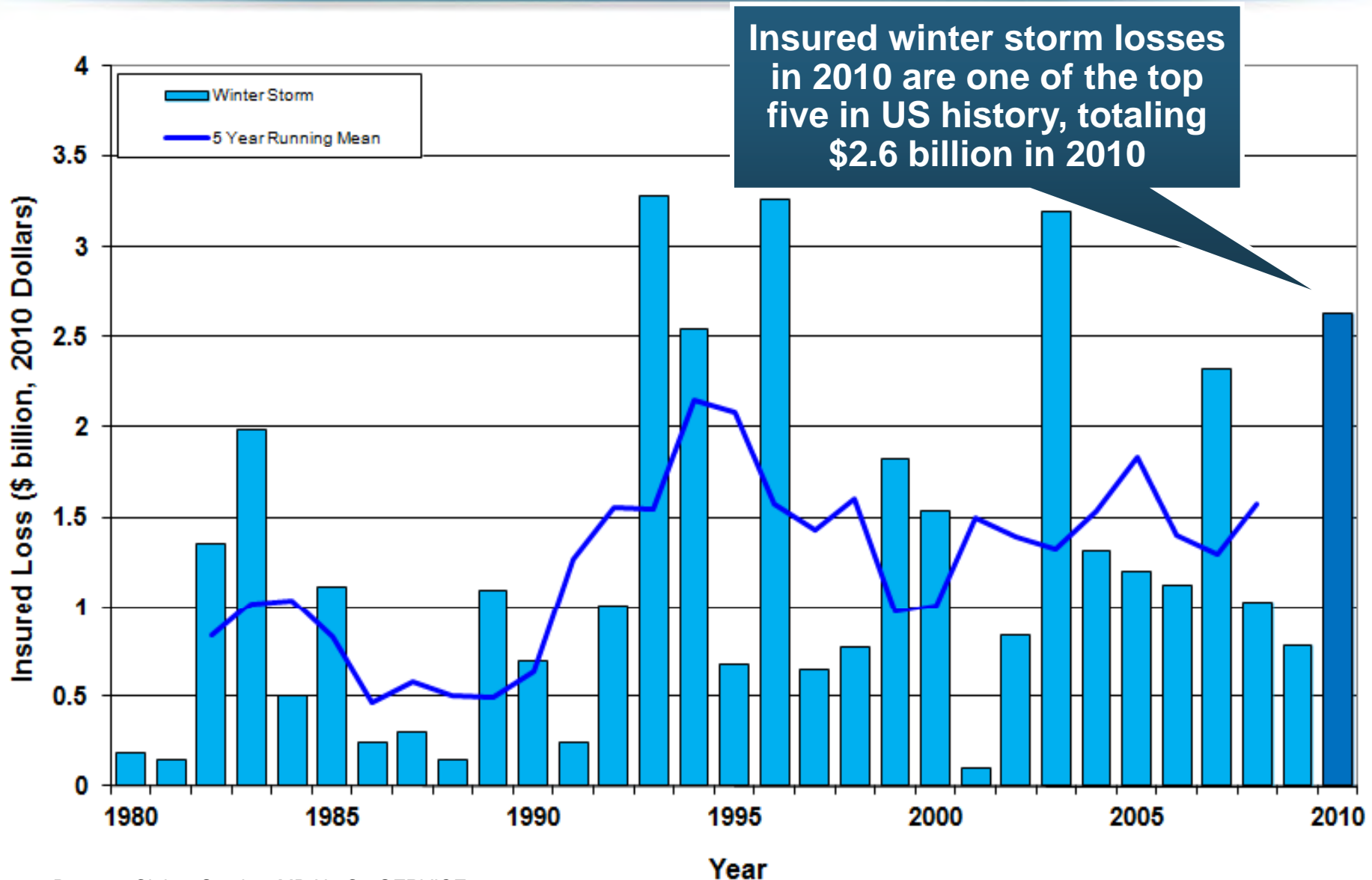
Source: ISO; Insurance Information Institute estimate for 2010.

# Natural Disasters in the United States, 1980 – 2010

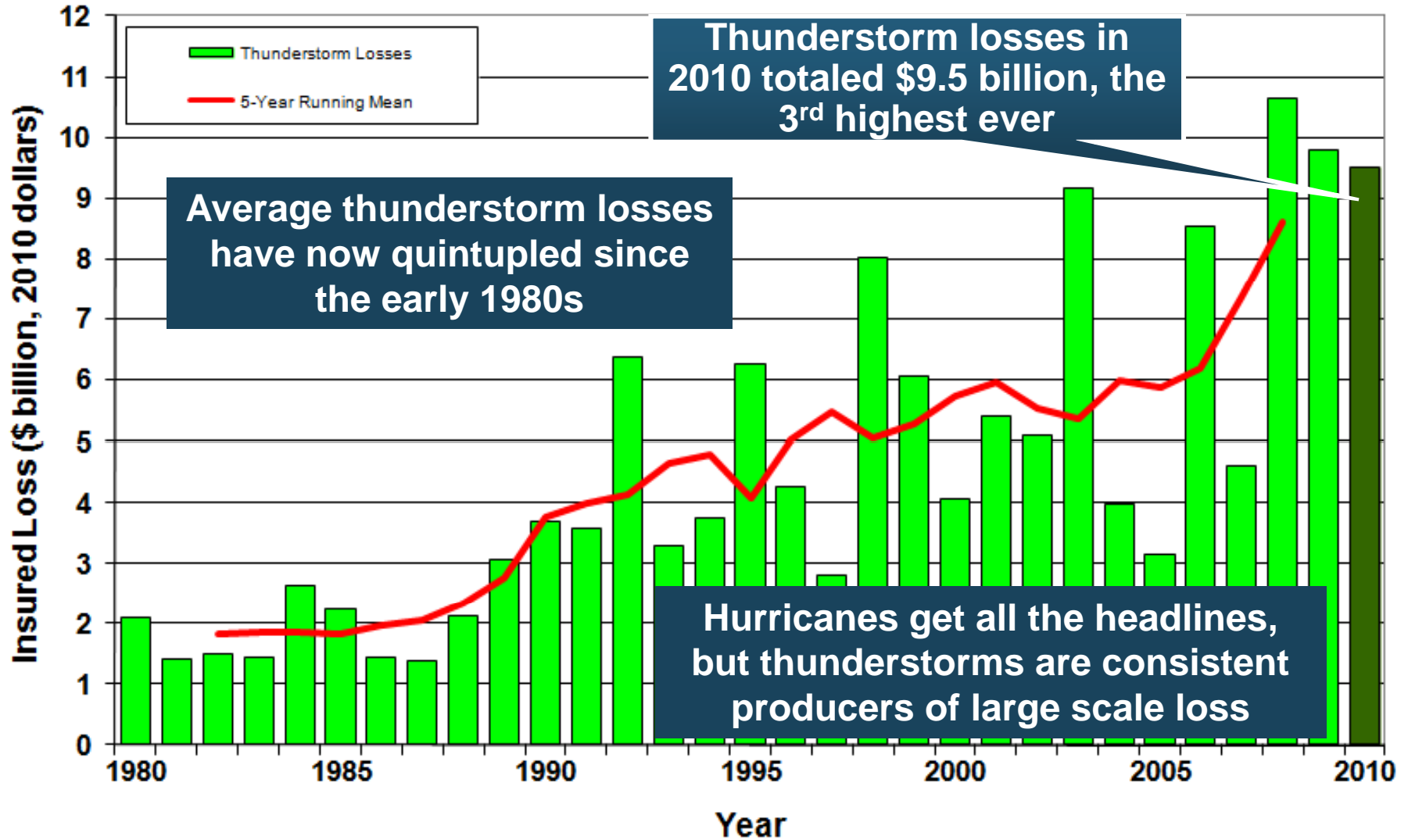
Number of Events (Annual Totals 1980 – 2010)



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

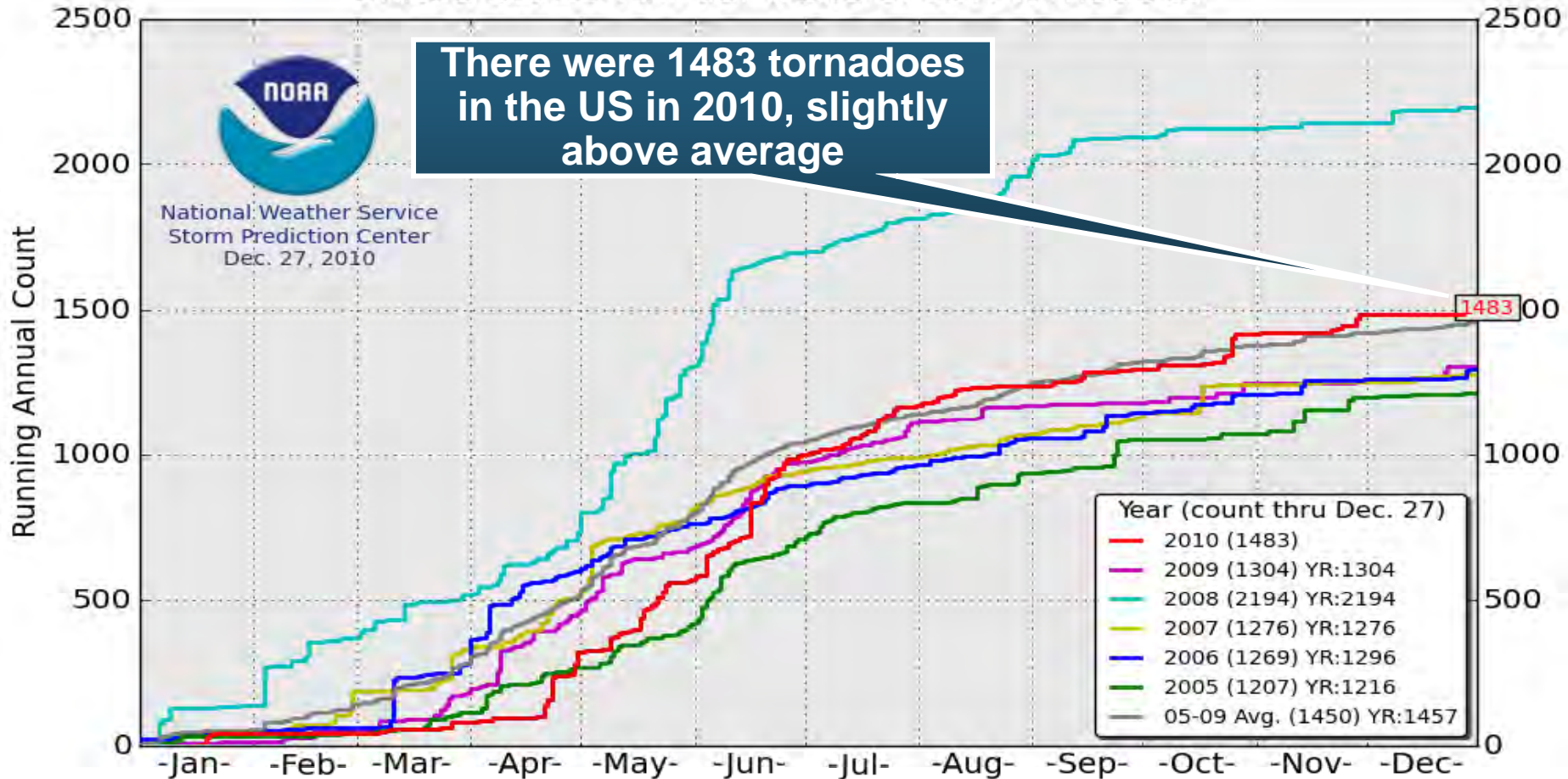


# U.S. Thunderstorm Loss Trends, 1980 – 2010 (Annual Totals)



# U.S. Tornado Count, 2010

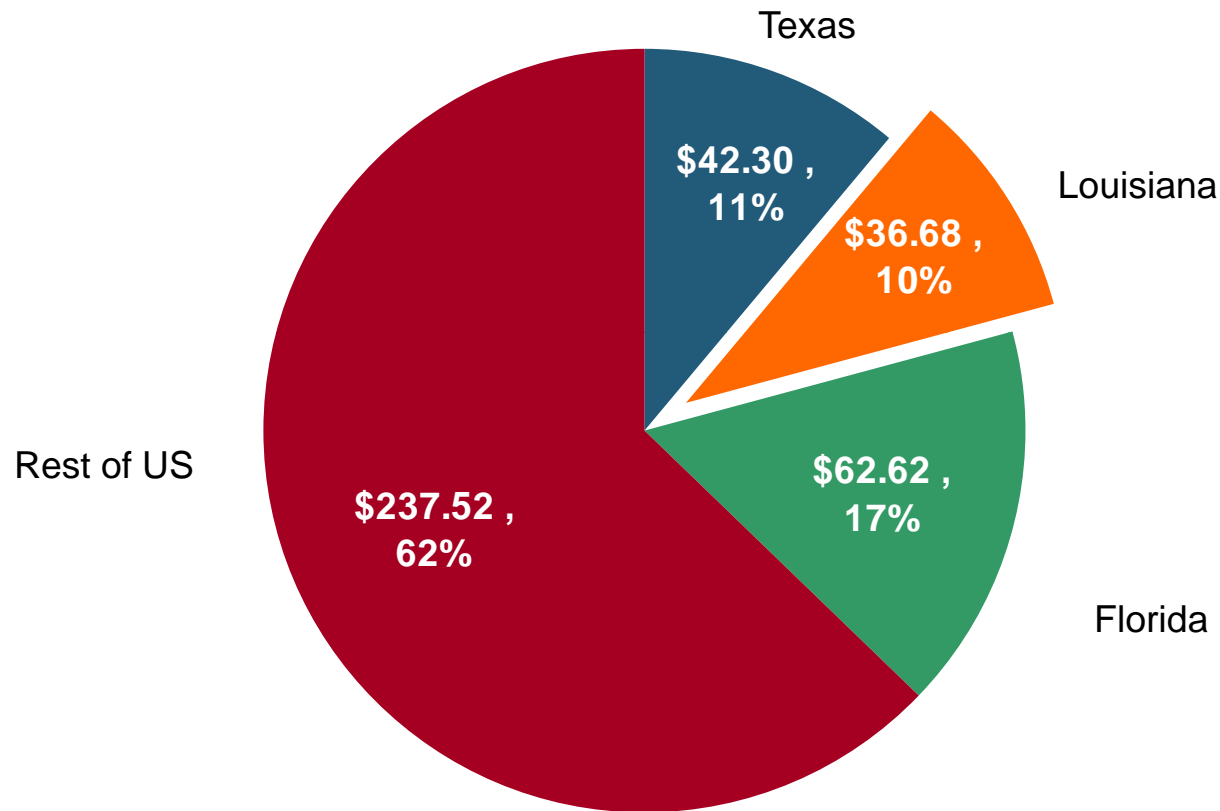
United States Annual Trend of LSR Tornadoes\*



\*Preliminary tornadoes from NWS Local Storm Reports (LSRs)  
Annual average is based on preliminary LSRs, 2005-2009

# Distribution of US Insured CAT Losses: TX, FL, LA vs. US, 1980-2010\*

(\$ Billions)



**Louisiana Accounted for 10% of All US Insured CAT Losses  
from 1980-2010: \$36.7B out of \$237.5B**

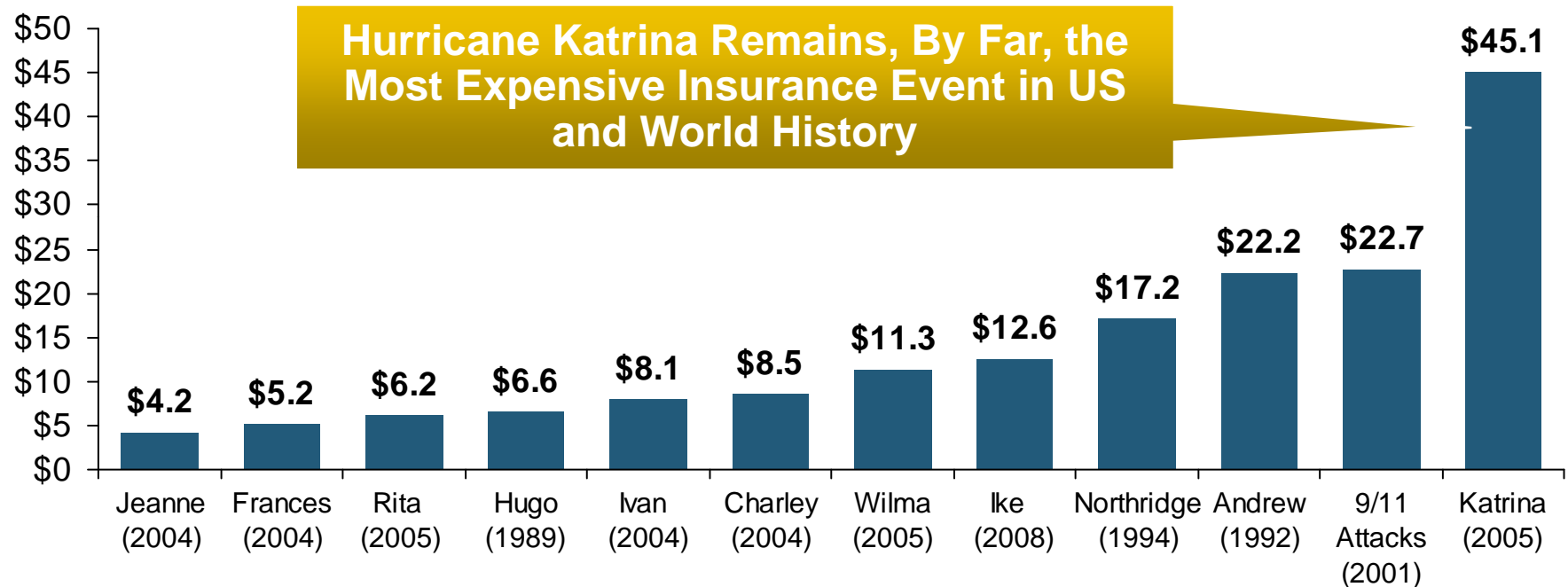
\* Adjusted to 2010 dollars.

Source: PCS division of ISO; Insurance Information Institute.



# Top 12 Most Costly Disasters in US History

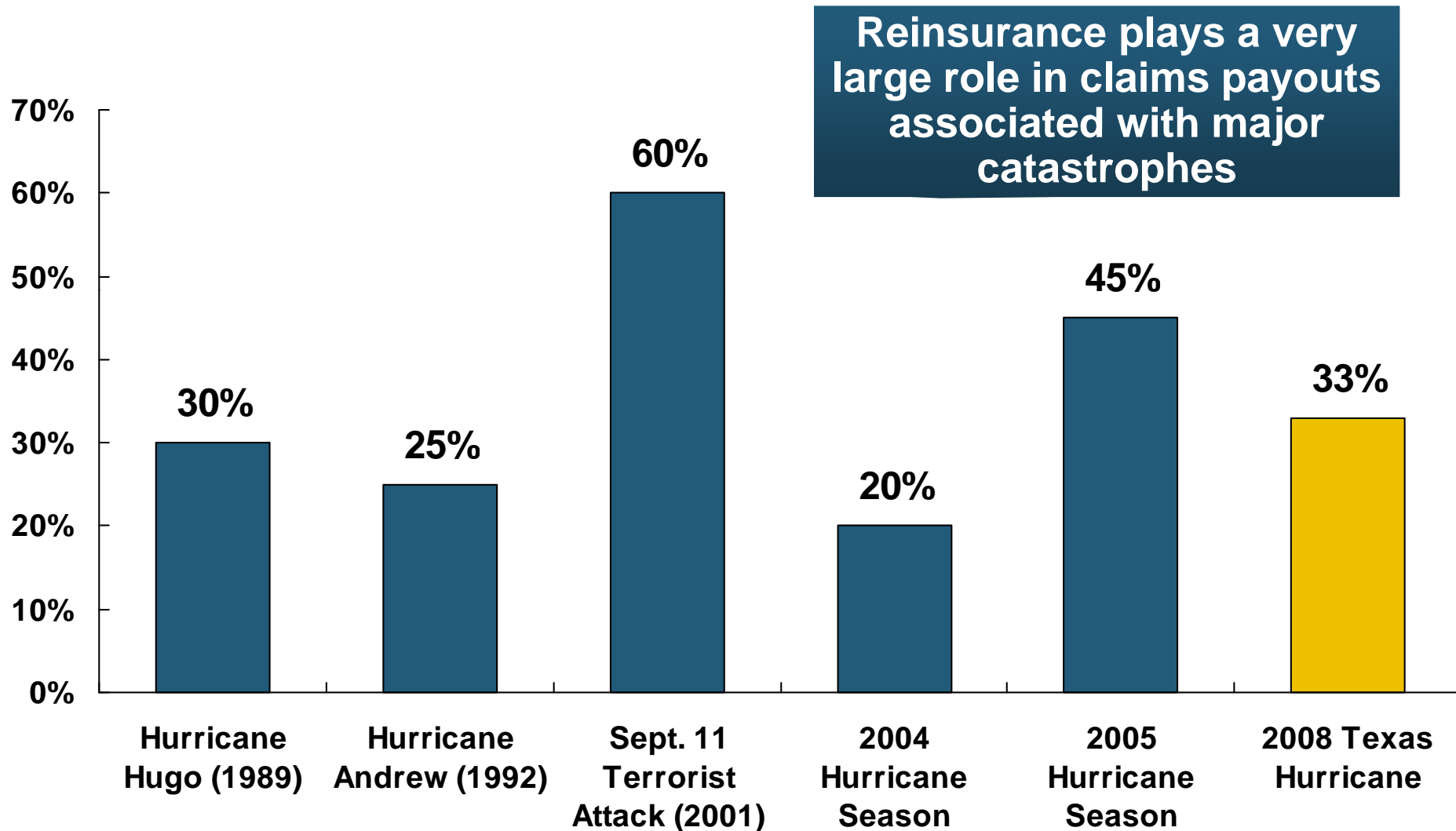
(Insured Losses, 2009, \$ Billions)



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

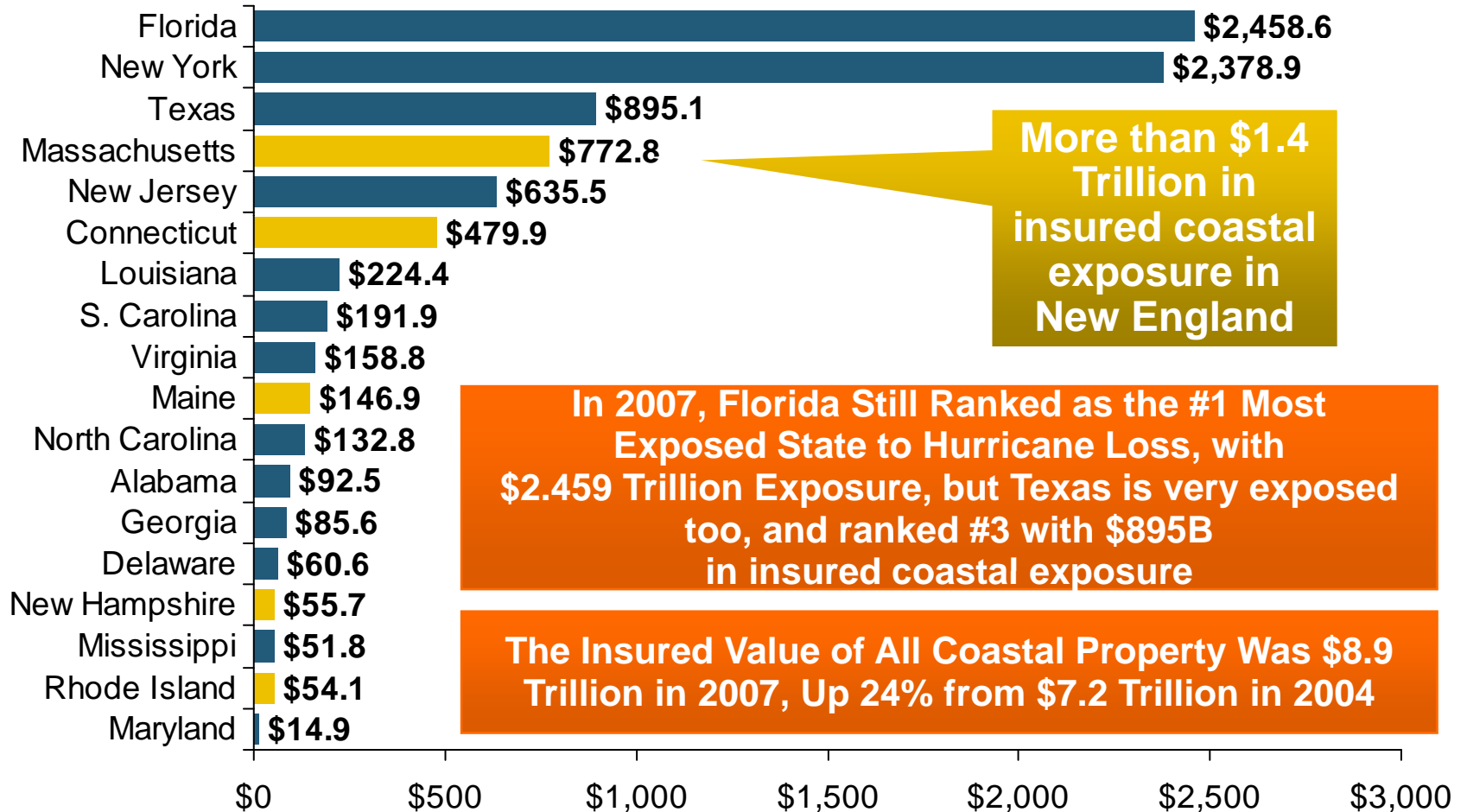


# Share of Losses Paid by Reinsurers for Major Catastrophic Events



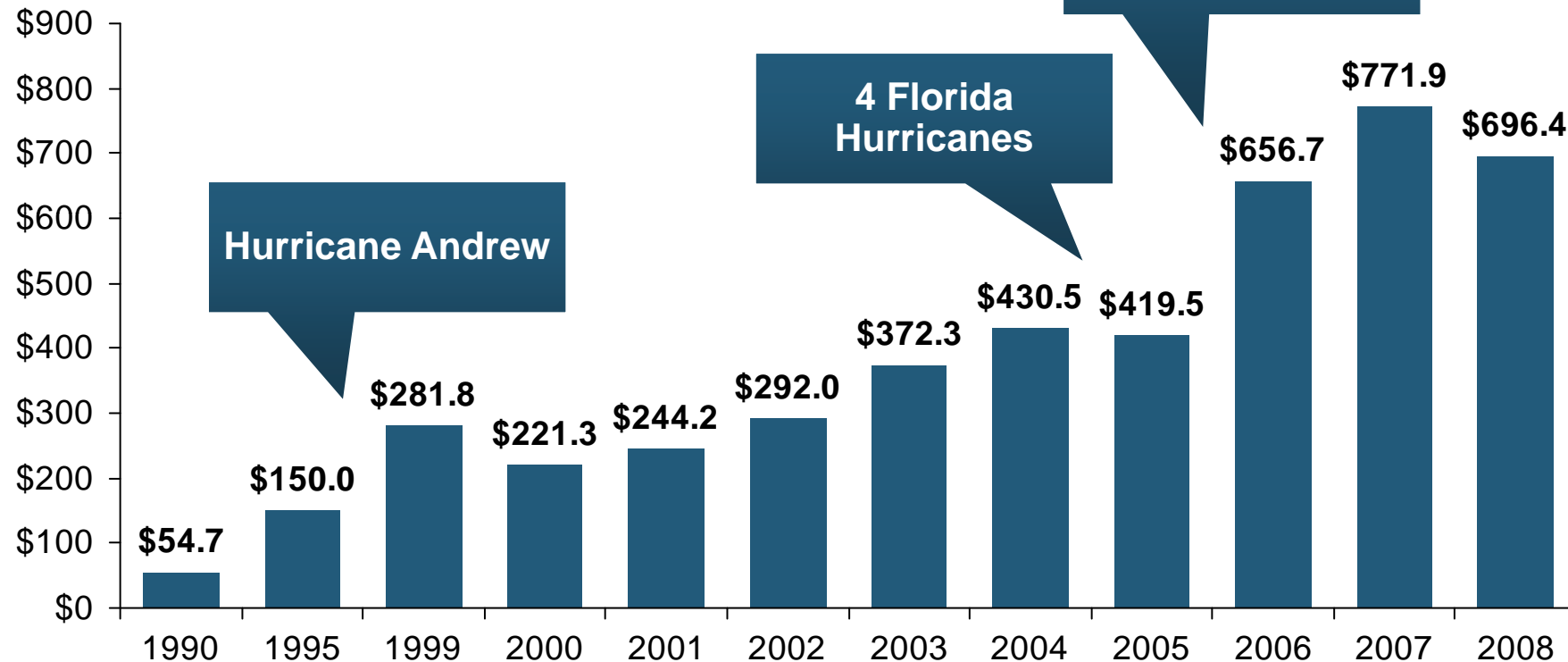
# Total Value of Insured Coastal Exposure

(2007, \$ Billions)



# US Residual Market Exposure to Loss

(\$ Billions)



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



# P/C Insurance Industry Financial Overview

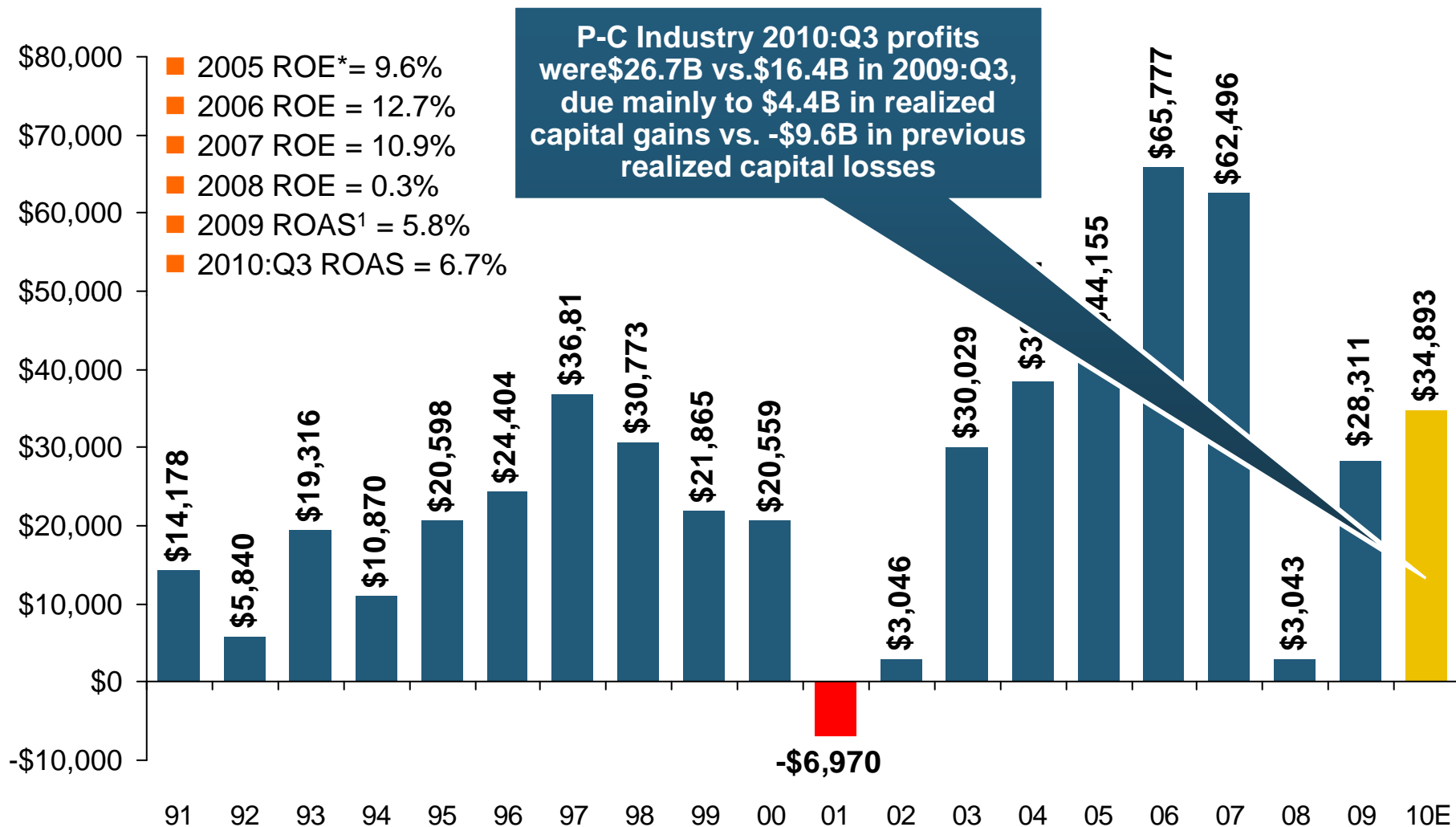
## From Crisis to Recovery



# P/C Insurance Industry Financial Overview

**Profit Recovery Continues  
Early Stage Growth Begins**

# P/C Net Income After Taxes 1991–2010E (\$ Millions)

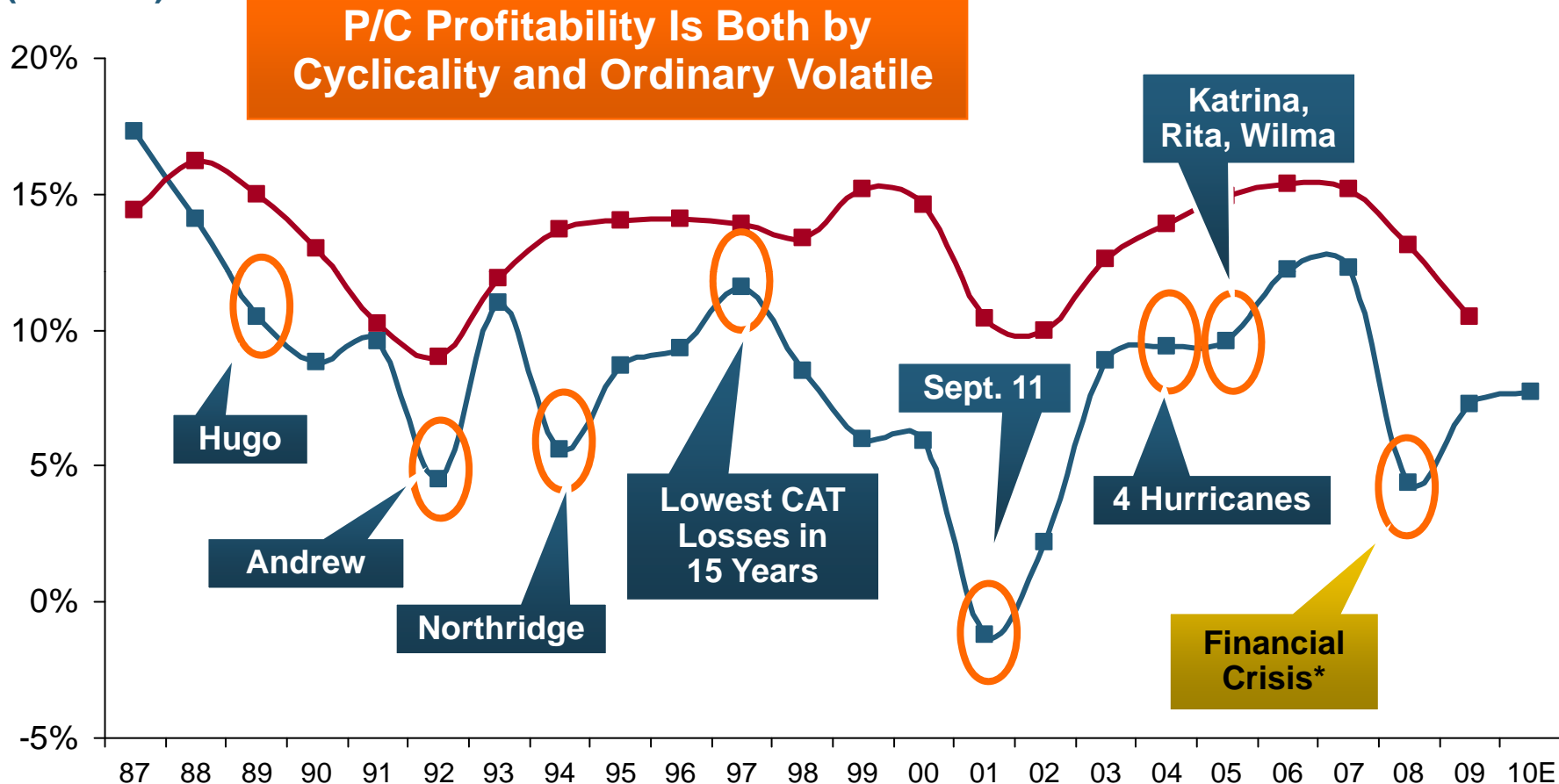


\* ROE figures are GAAP; <sup>1</sup>Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 7.7% ROAS for 2010:Q3 and 4.6% for 2009. 2009:Q3 net income was \$29.8 billion excluding M&FG.

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

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

(Percent)

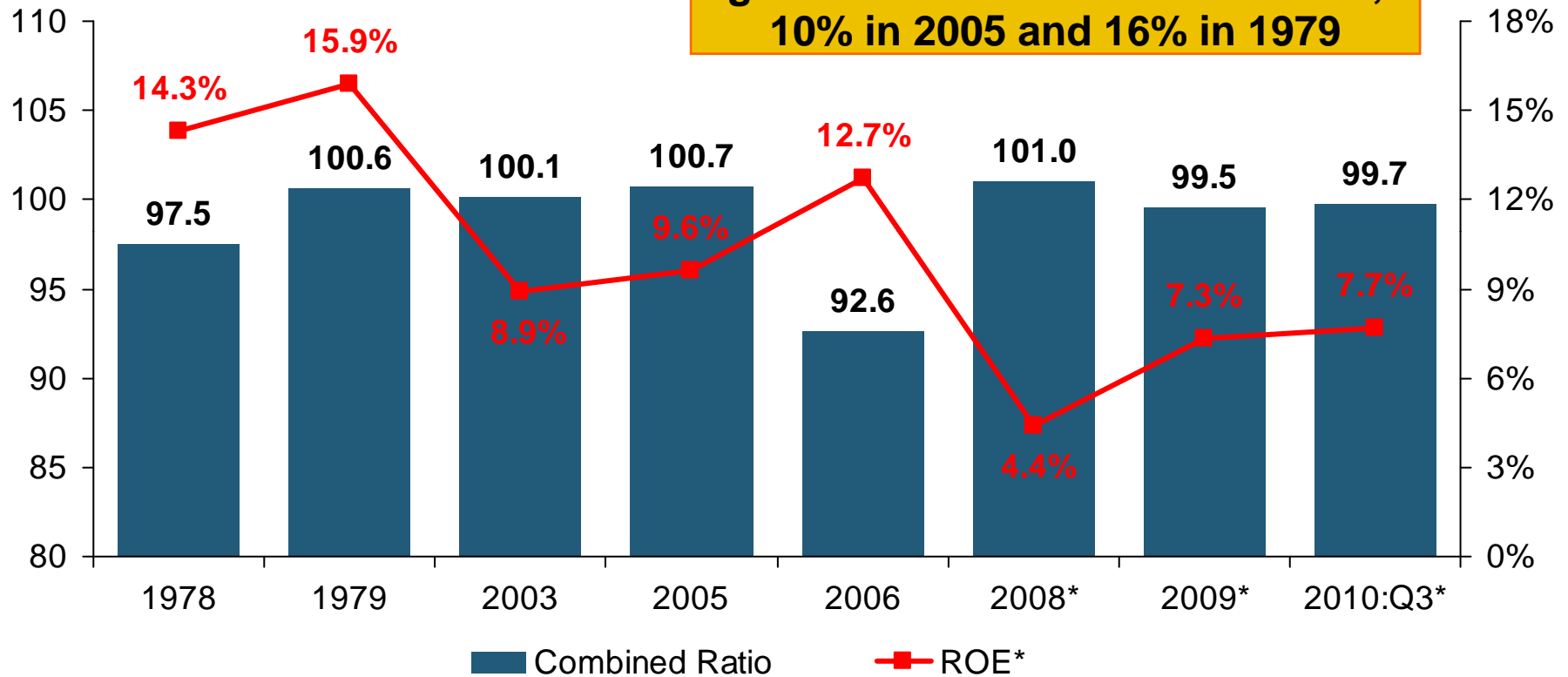


\* Excludes Mortgage & Financial Guarantee in 2008 - 2010.

Sources: ISO, *Fortune*; Insurance Information Institute figure for 2010 is actual through 2010:Q3.

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

Combined Ratio / ROE



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

\* 2009 and 2010:Q3 figures are return on average statutory surplus. 2008, 2009 and 2010:H1 figures exclude mortgage and financial guaranty insurers

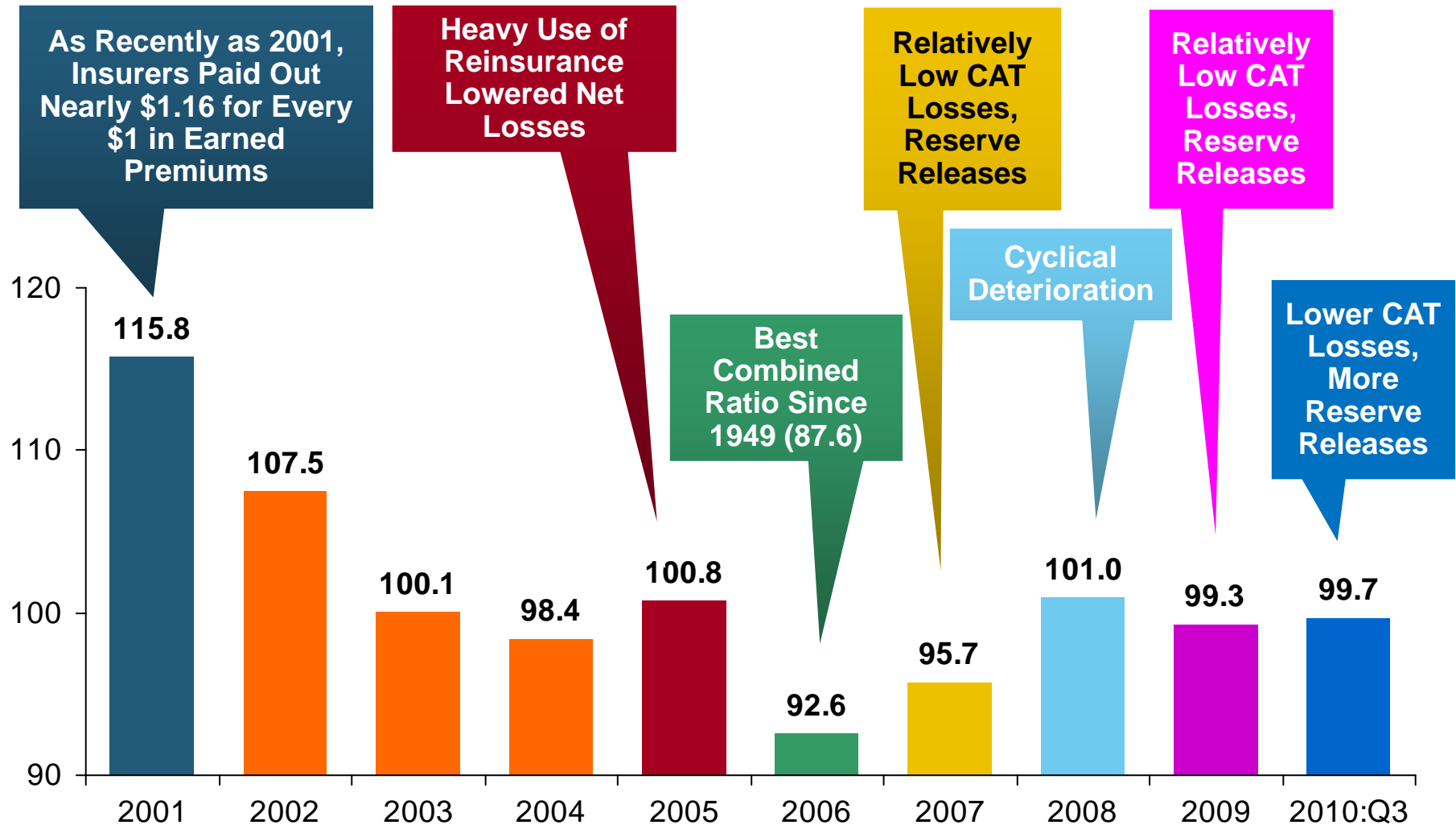
Source: Insurance Information Institute from A.M. Best and ISO data.



# UNDERWRITING

**Cyclicalities are Driven Primarily  
by the Industry's Underwriting  
Cycle, Not the Economy**

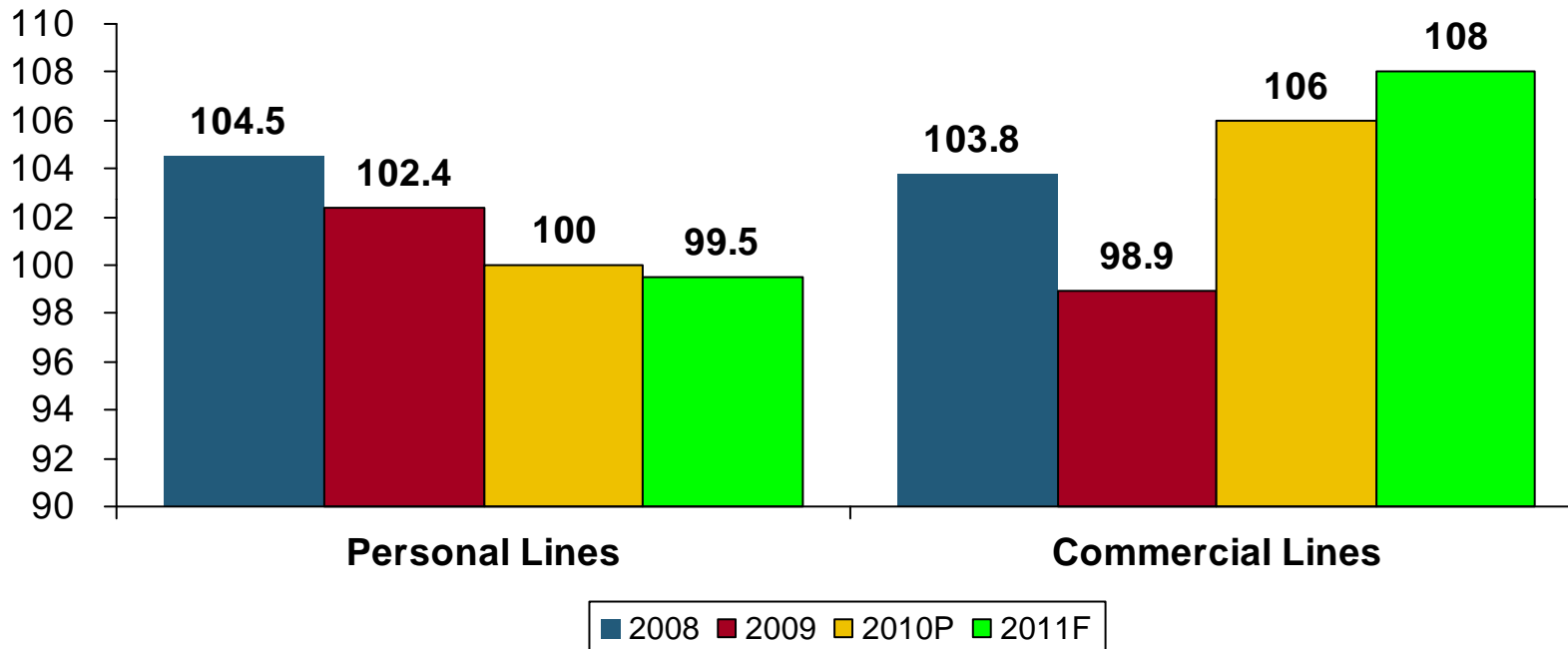
# P/C Insurance Industry Combined Ratio, 2001–2010:Q3\*



\* Excludes Mortgage & Financial Guaranty insurers in 2008, 2009 and 2010. Including M&FG, 2008=105.1, 2009=100.7, 2010:Q3=101.2  
Sources: A.M. Best, ISO.

# Calendar Year Combined Ratios by Segment: 2008-2011F

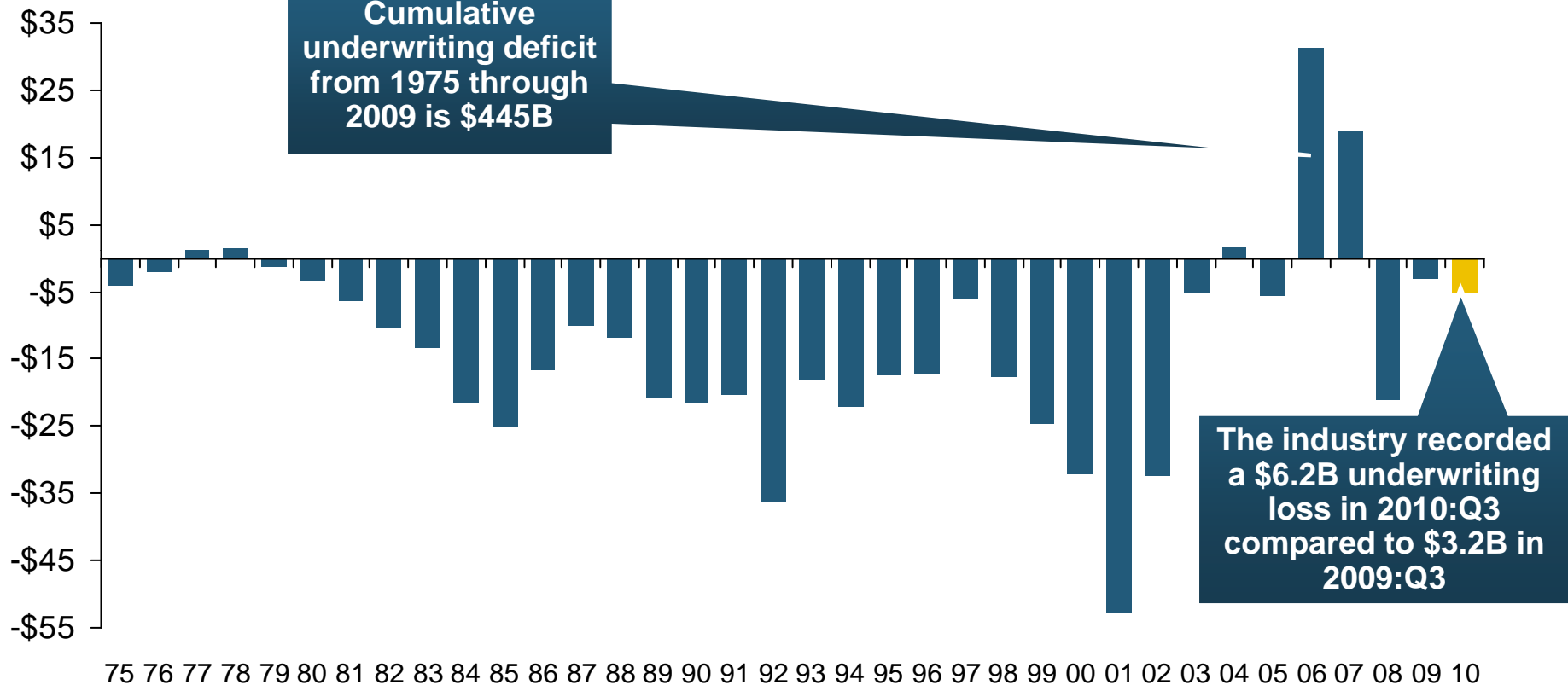
Personal lines combined ratio is expected to remain stable in 2010 while commercial lines and reinsurance deteriorate



Overall deterioration in 2011 underwriting performance is due to expected return to normal catastrophe activity along with deteriorating underwriting performance related to the prolonged commercial soft market

# Underwriting Gain (Loss) 1975–2010:Q3\*

(\$ Billions)

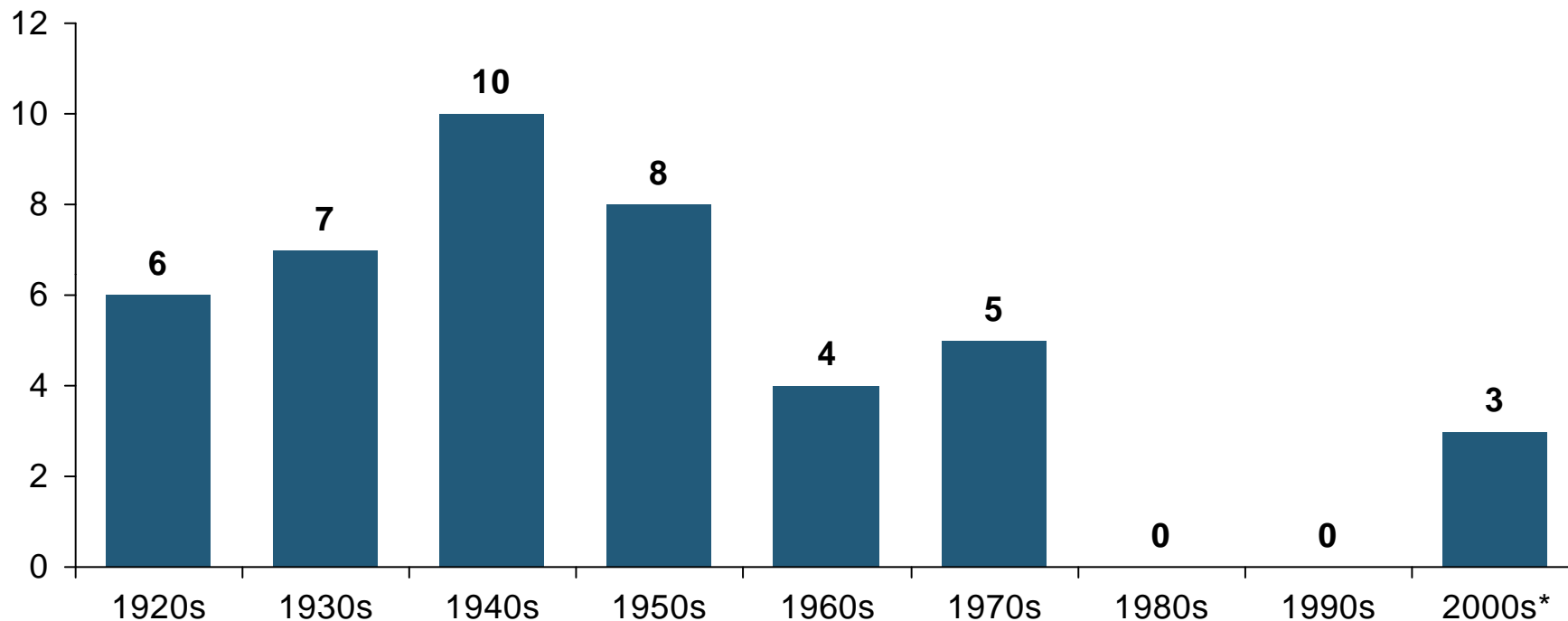


**Large Underwriting Losses Are *NOT* Sustainable  
in Current Investment Environment**

\* Includes mortgage and financial guaranty insurers.  
Sources: A.M. Best, ISO; Insurance Information Institute.

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

## Number of Years with Underwriting Profits



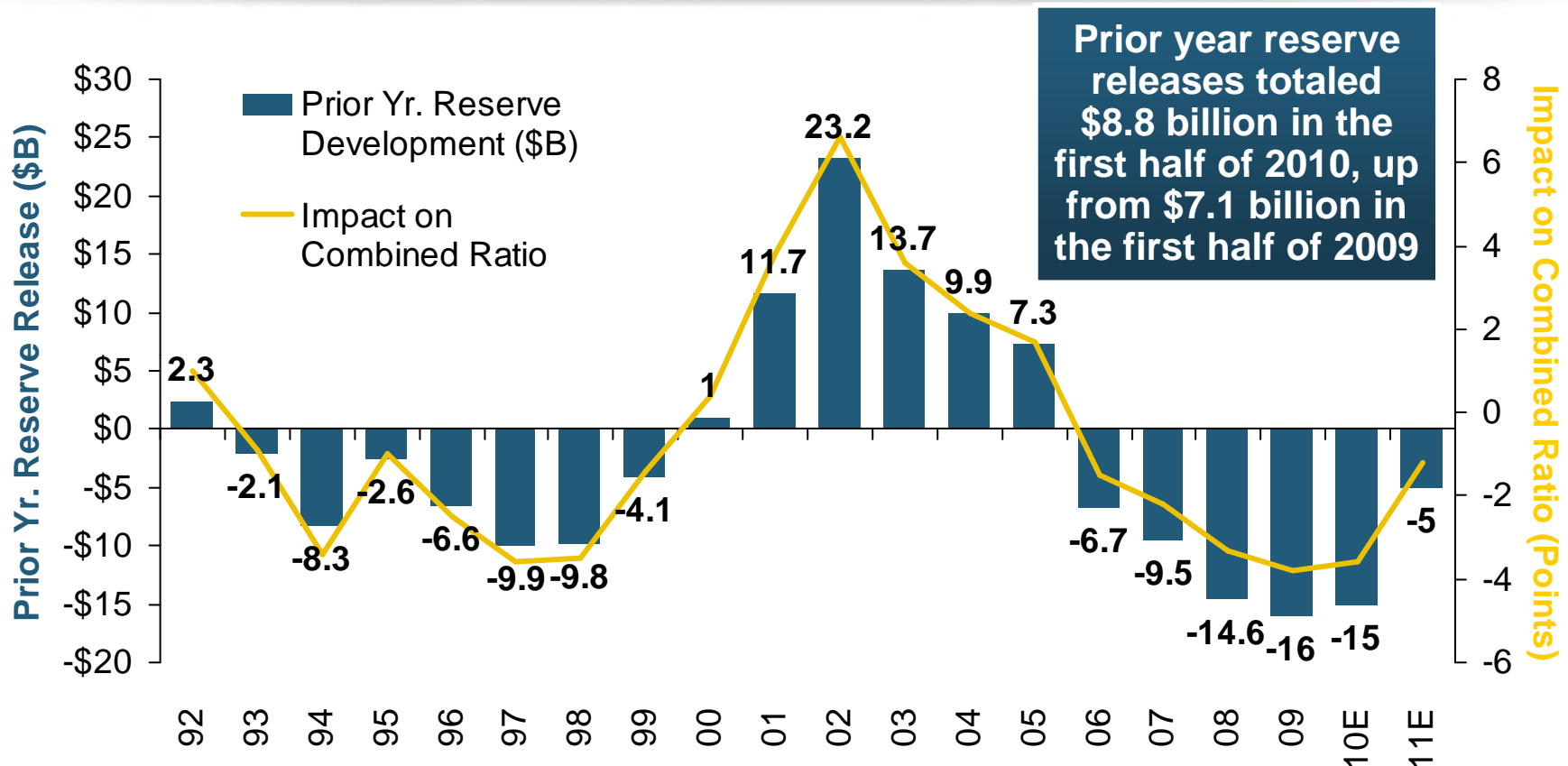
**Underwriting Profits Were Common Before the 1980s (40 of the 60 Years Before 1980 Had Combined Ratios Below 100) – But Then They Vanished. Not a Single Underwriting Profit Was Recorded in the 25 Years from 1979 Through 2003**

\* 2000 through 2009. 2009 combined ratio 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.

# P/C Reserve Development, 1992–2011E



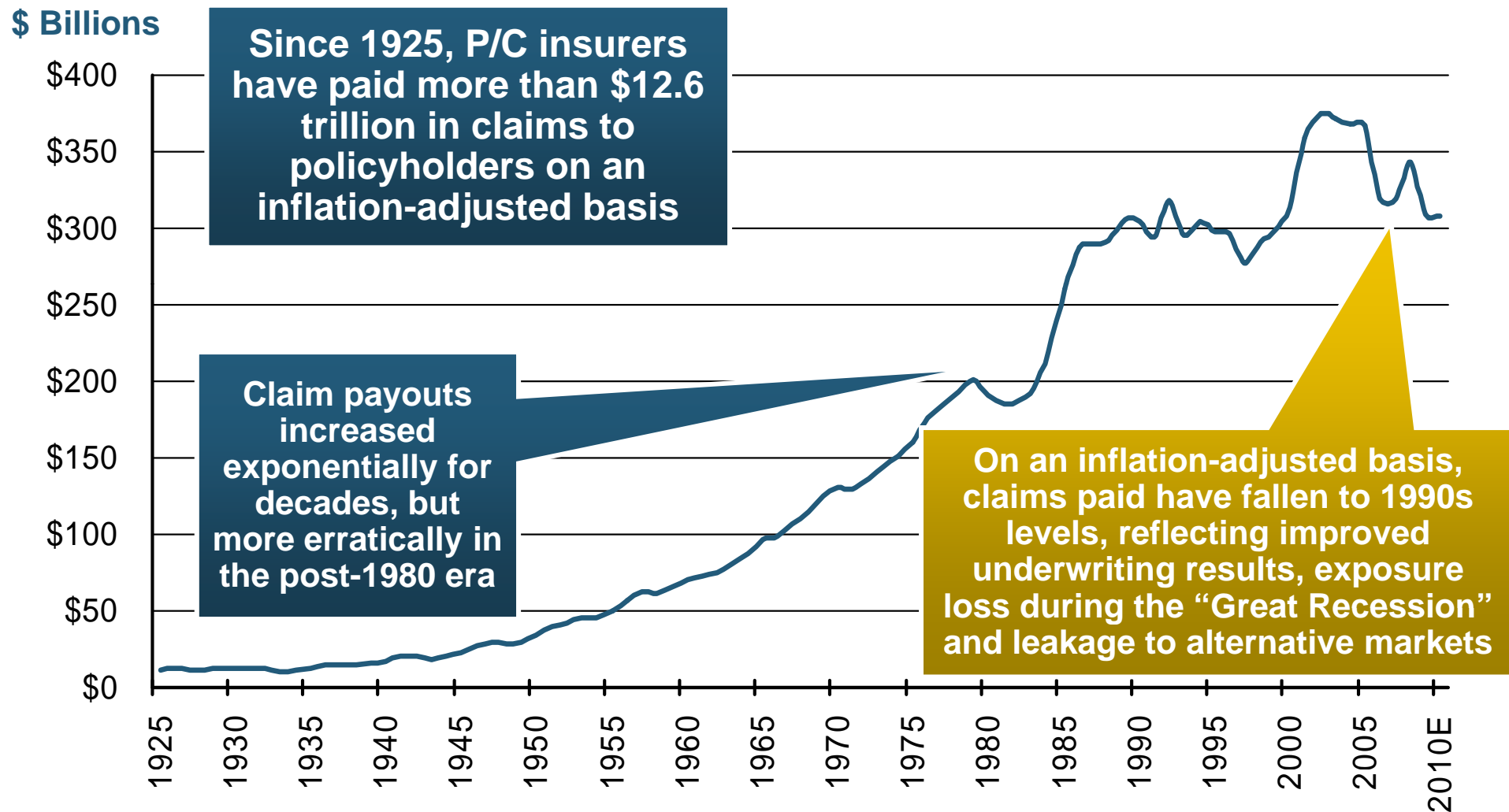
Prior year reserve releases totaled \$8.8 billion in the first half of 2010, up from \$7.1 billion in the first half of 2009

**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.

# Inflation-Adjusted Dollar Value of Claims Paid by P/C Insurers, 1925–2010E\*

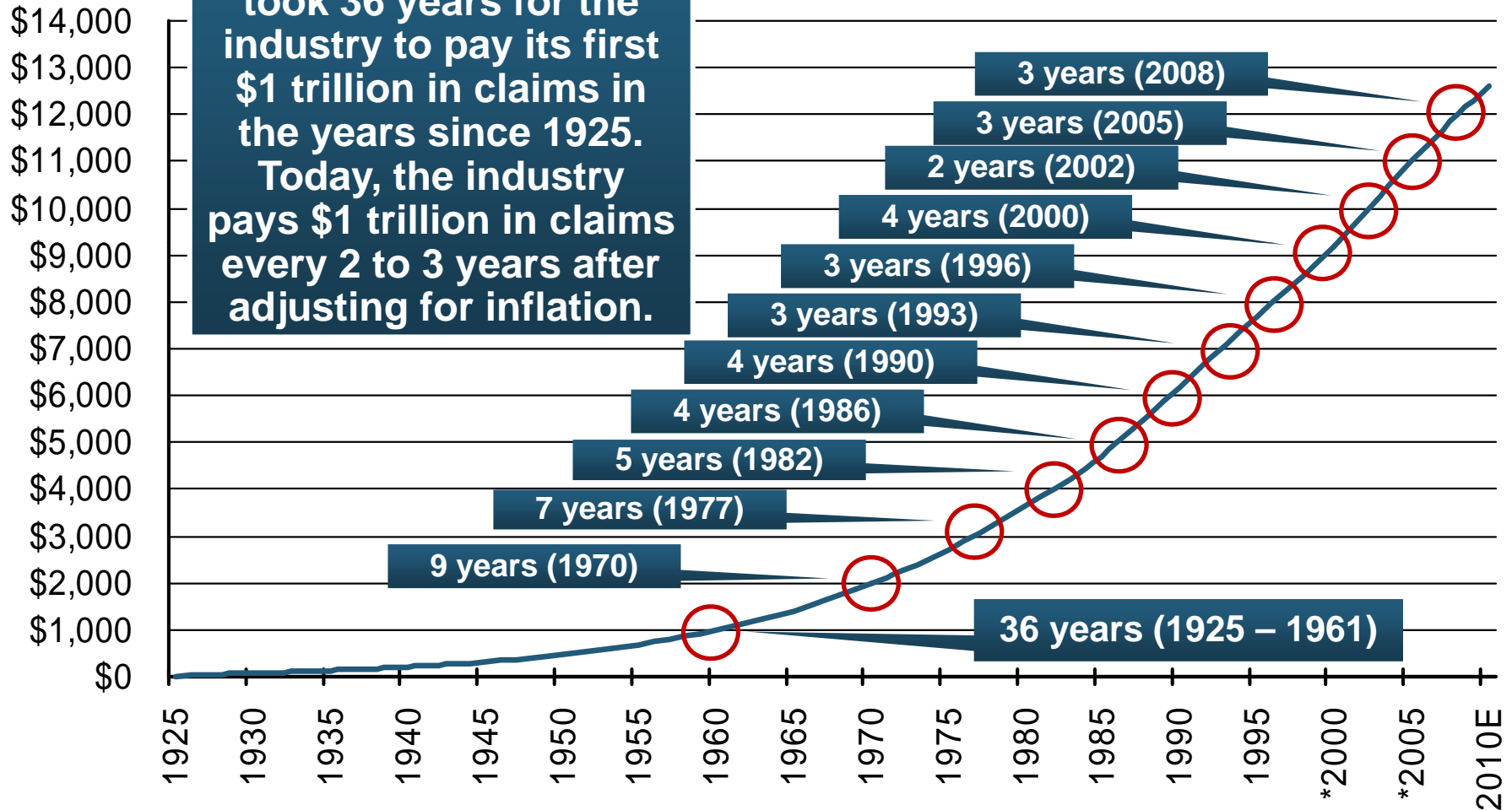


\*1925 – 1934 stock companies only. Includes workers compensation state funds 1998-2006.

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

# Cumulative Value of Inflation-Adjusted Claims Paid by P/C Insurers, 1925–2010E\*

\$ Billions



\*1925 – 1934 stock companies only. Includes workers compensation state funds 1998-2006.

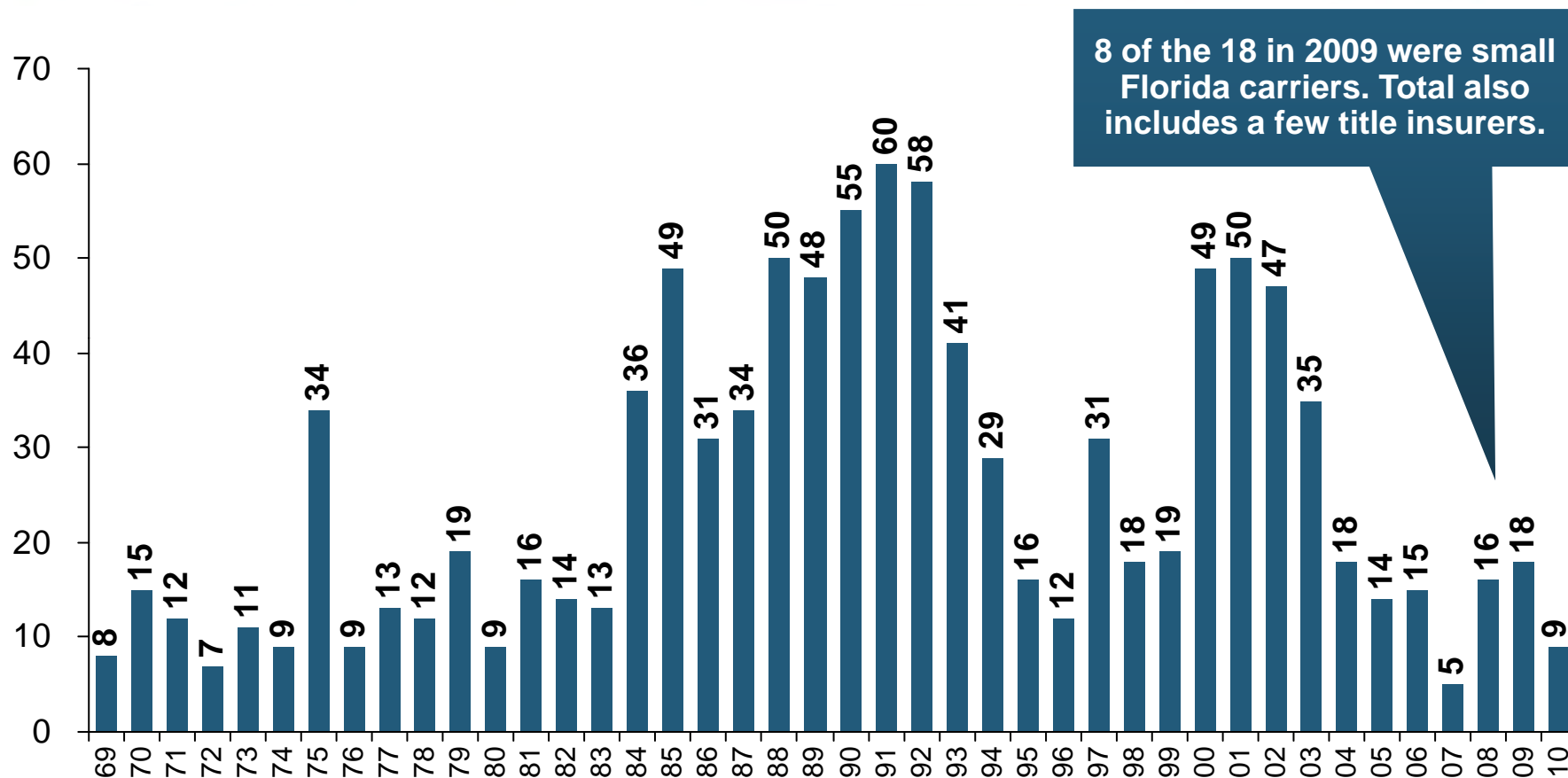
Sources: Insurance Information Institute research and calculations from A.M. Best data.



# **Financial Strength & Underwriting**

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

# P/C Insurer Impairments, 1969–2010E\*

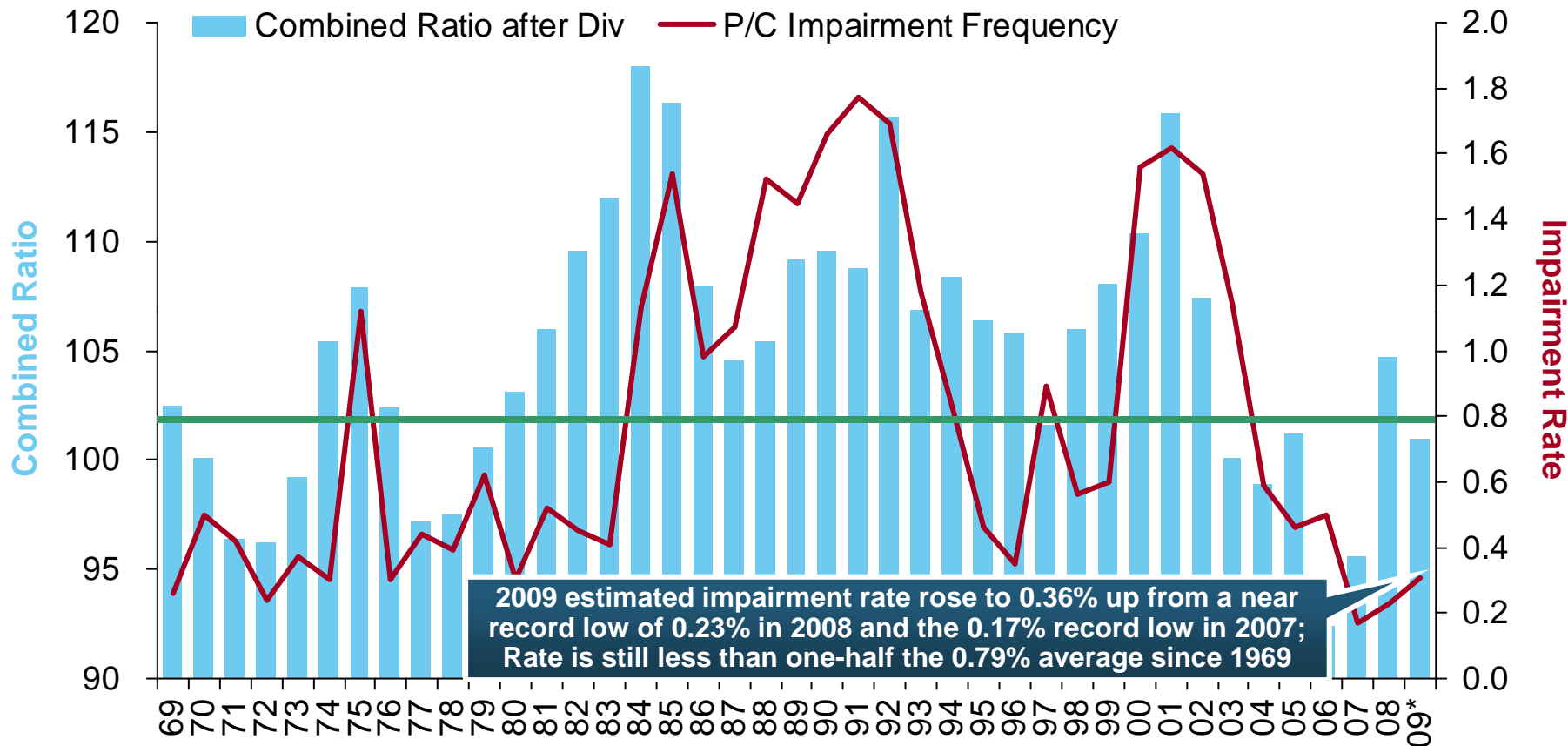


**The Number of Impairments Varies Significantly Over the P/C Insurance Cycle, With Peaks Occurring Well into Hard Markets**

\*2010 estimate.

Source: A.M. Best Special Report "1969-2009 Impairment Review," June 21, 2010; Insurance Information Institute.

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

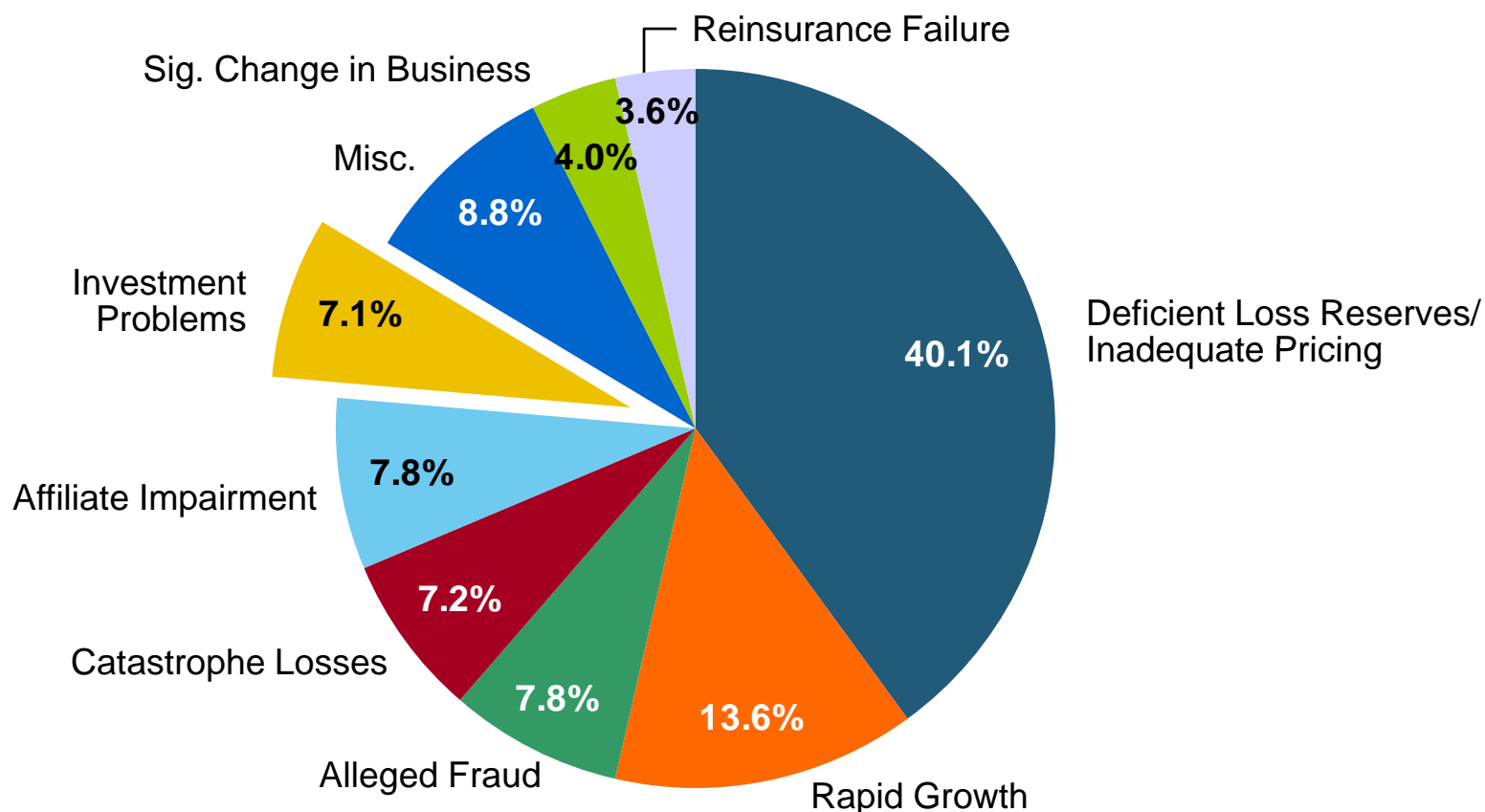


2009 estimated impairment rate rose to 0.36% up from a near record low of 0.23% in 2008 and the 0.17% record low in 2007; Rate is still less than one-half the 0.79% average since 1969

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

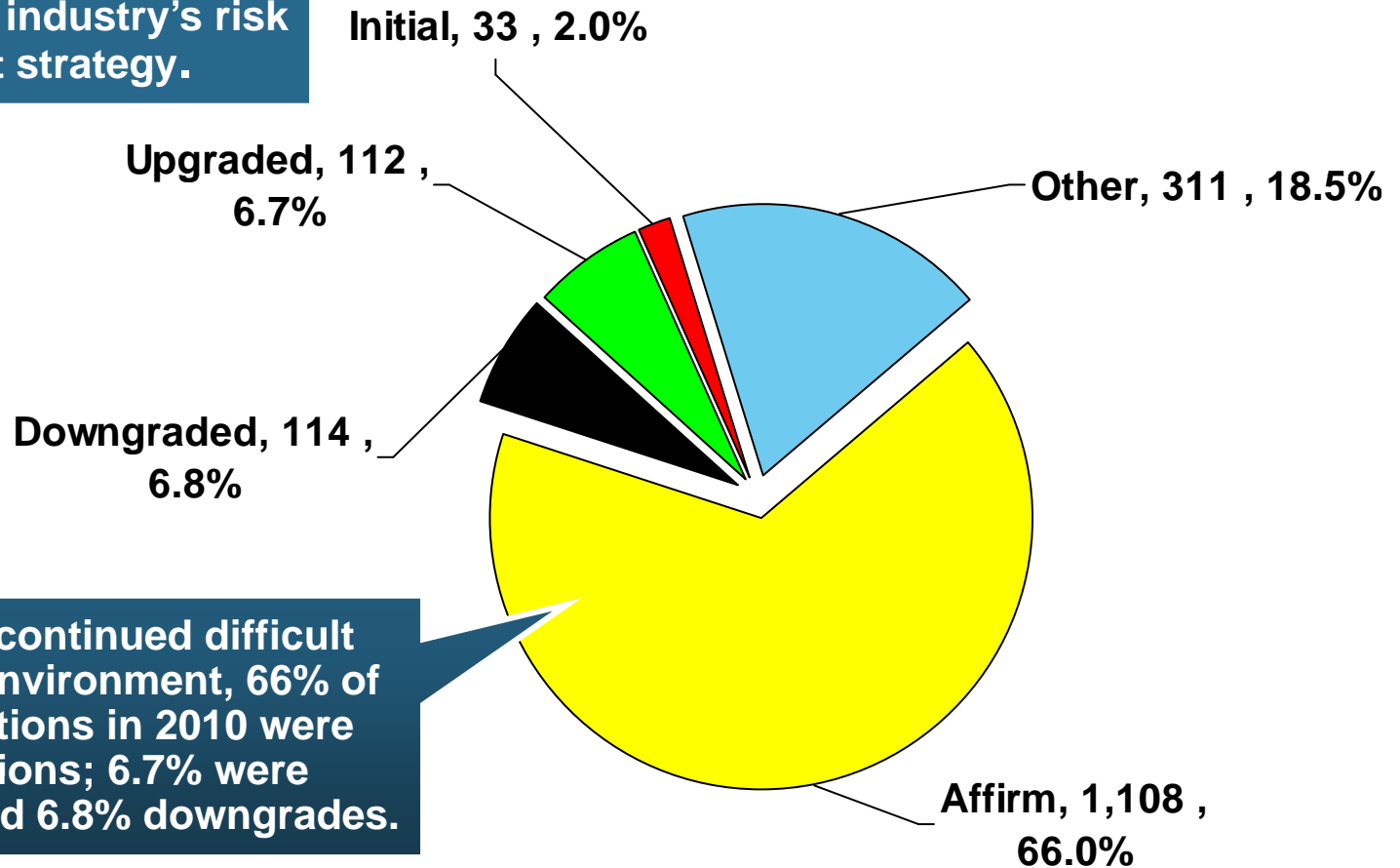
# Reasons for US P/C Insurer Impairments, 1969–2009

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



# Summary of A.M. Best's P/C Insurer Ratings Actions in 2010

P/C insurance is by design a resilient in business. The dual threat of financial disasters and catastrophic losses are anticipated in the industry's risk management strategy.

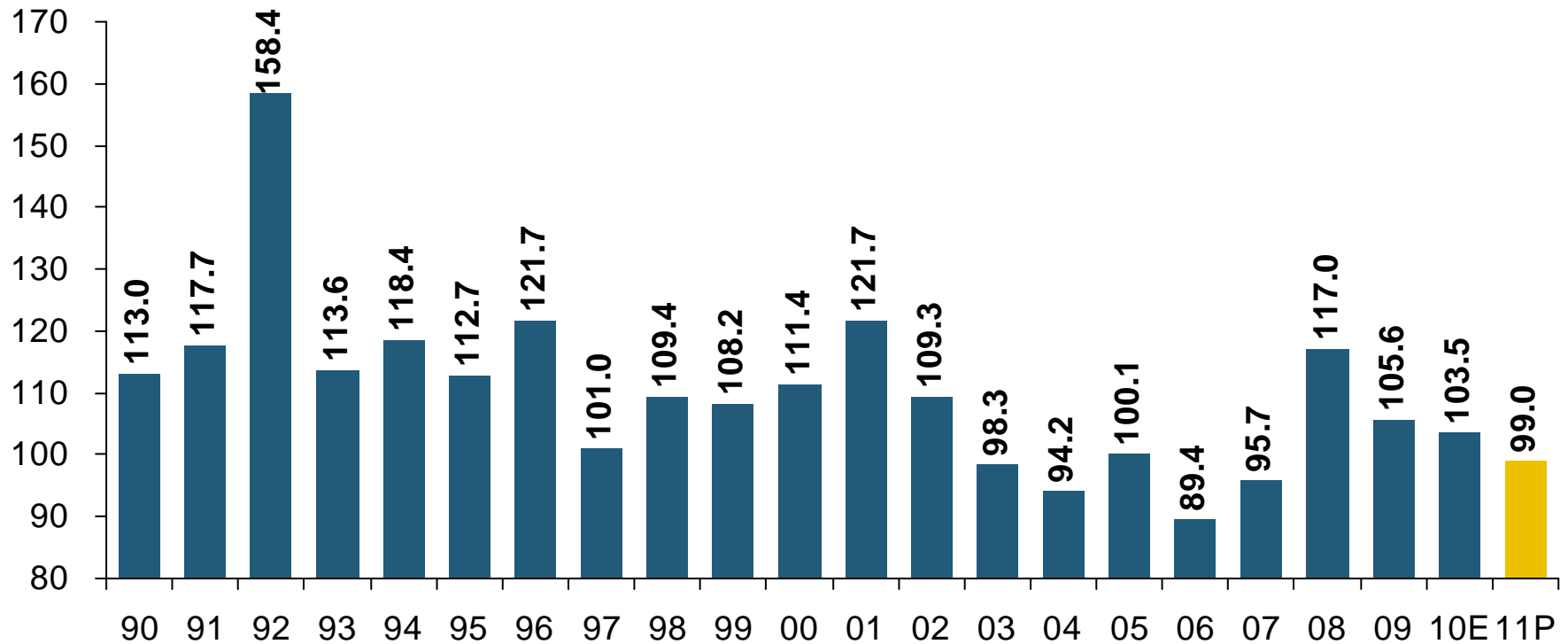


Despite a continued difficult operating environment, 66% of ratings actions in 2010 were affirmations; 6.7% were upgrades and 6.8% downgrades.



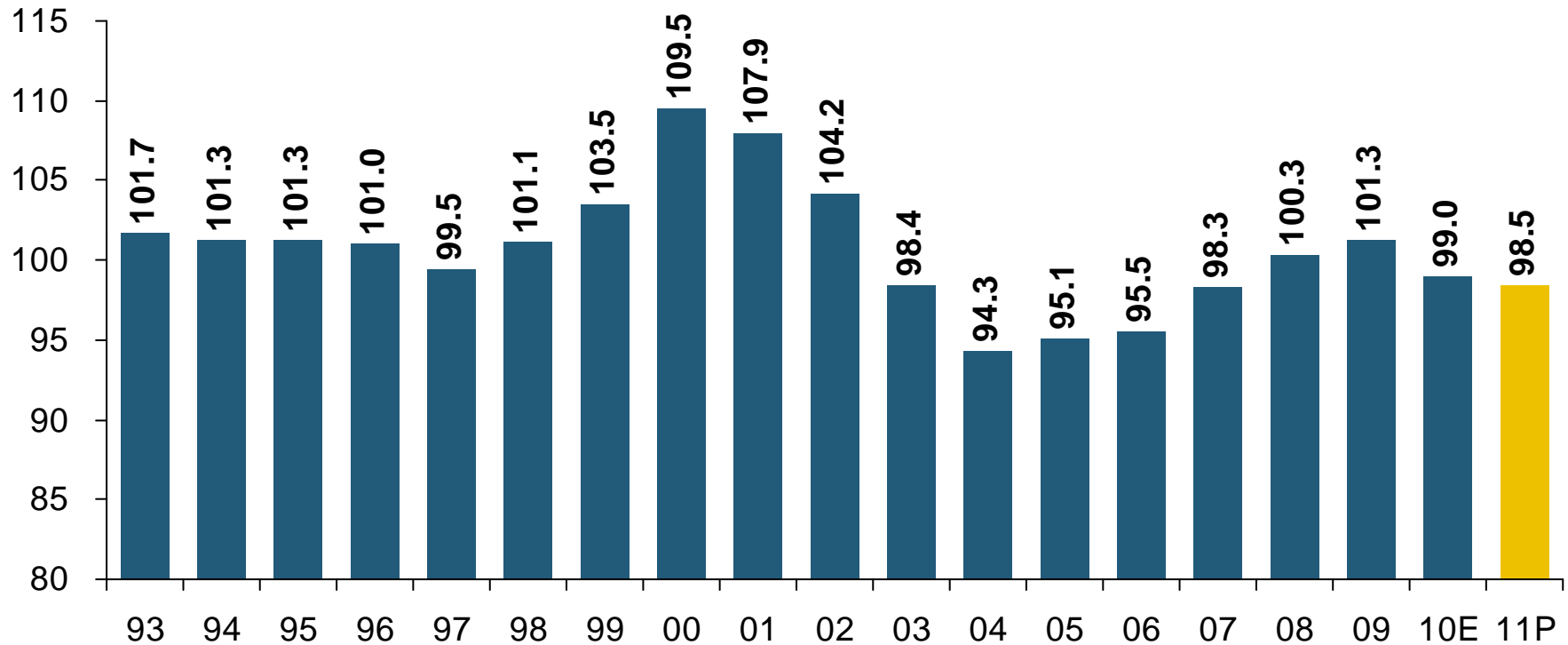
# Performance by Segment: Commercial/Personal Lines & Reinsurance

# Homeowners Insurance Combined Ratio: 1990–2011P



**Homeowners Line Is Expected to Improve in 2011. Extreme Regional Variation Can Be Expected Due to Local Catastrophe Loss Activity**

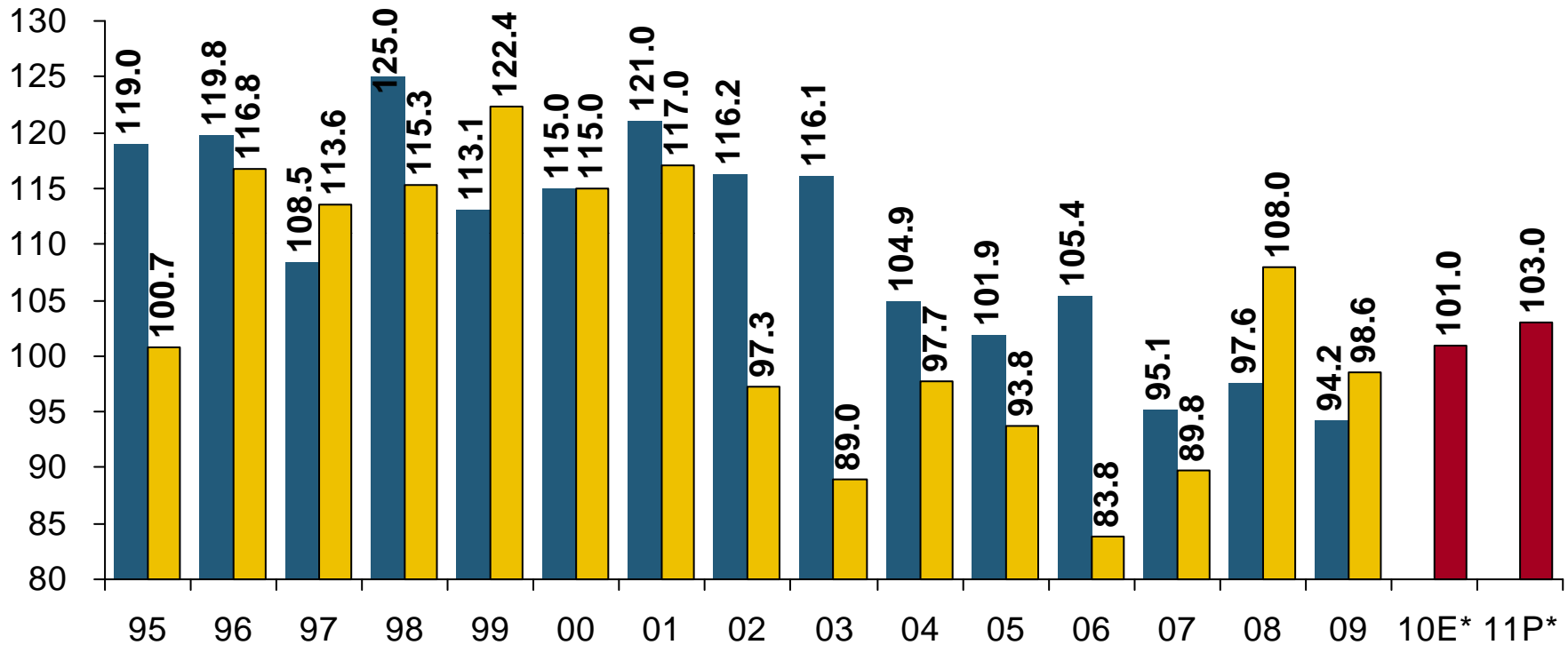
# Private Passenger Auto Combined Ratio: 1993–2011P



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



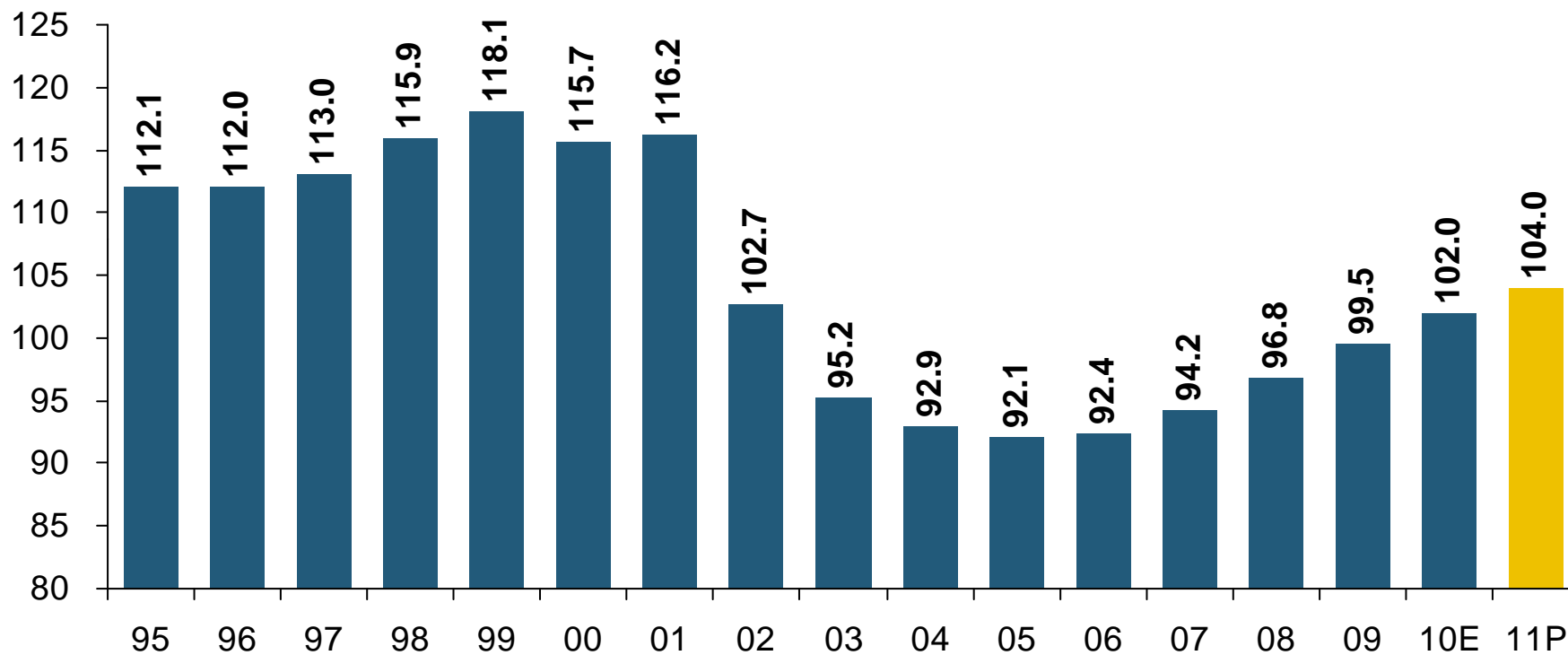
# Commercial Multi-Peril Combined Ratio: 1995–2011P



**Commercial Multi-Peril Underwriting Performance  
is Expected to Deteriorate Modestly**

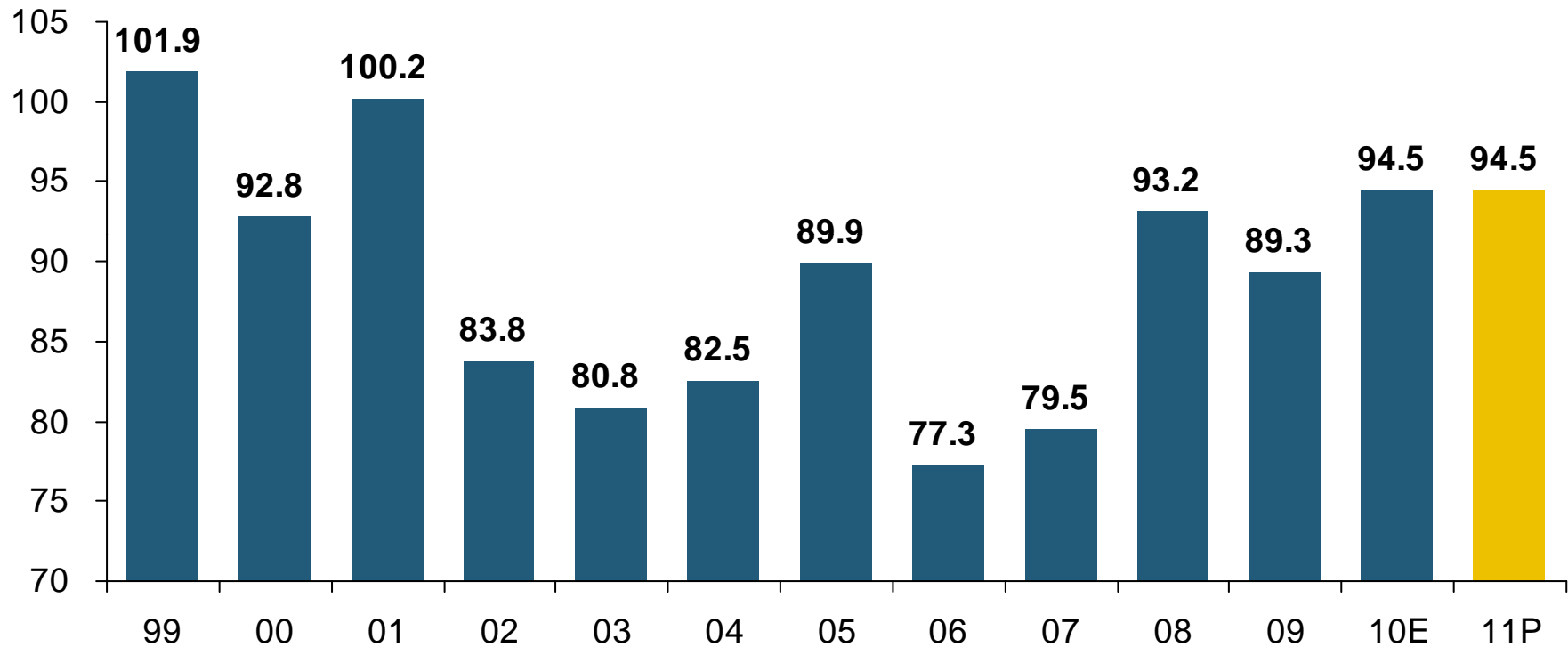
\*2010E and 2011P figures are for the combined liability and non-liability components.  
Sources: A.M. Best; Insurance Information Institute.

# Commercial Auto Combined Ratio: 1993–2011P



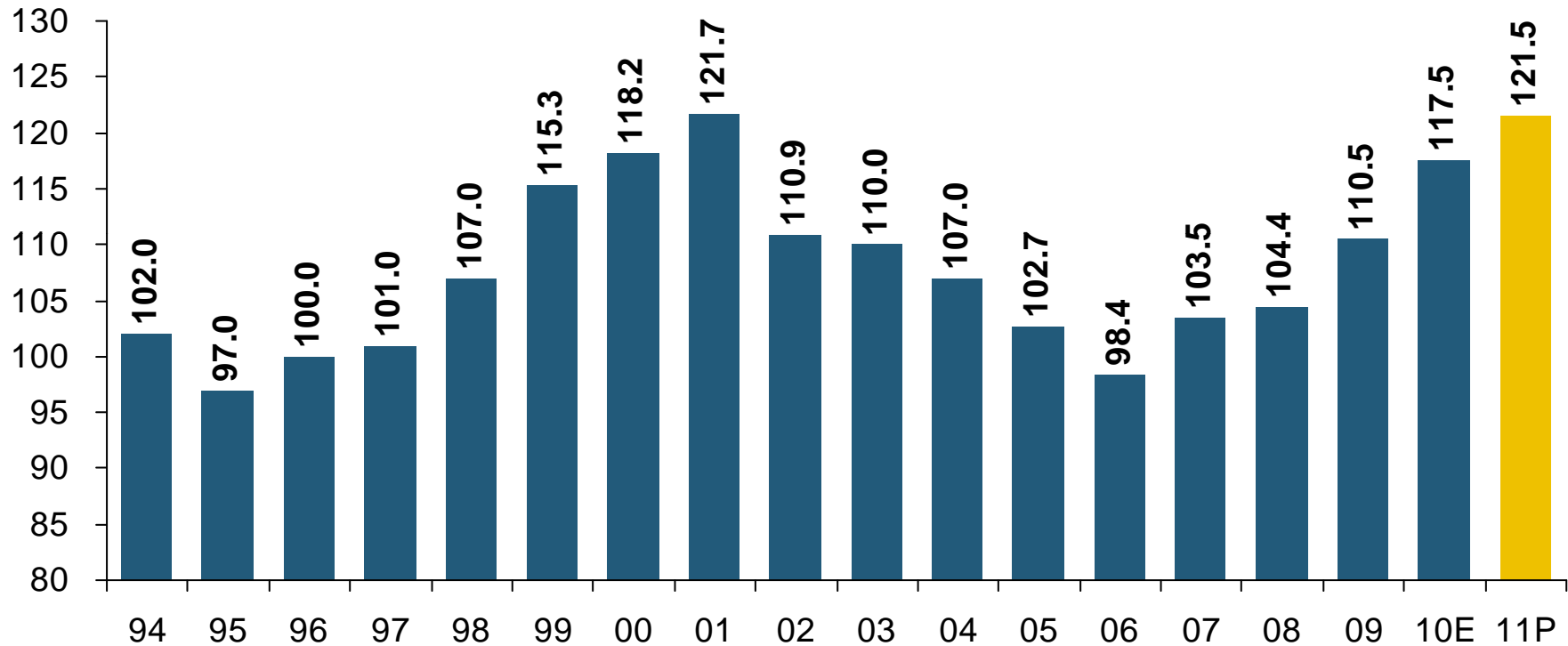
**Commercial Auto Underwriting Performance is  
Expected to Deteriorate Modestly**

# Inland Marine Combined Ratio: 1999–2011P



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

# Workers Compensation Combined Ratio: 1994–2011P



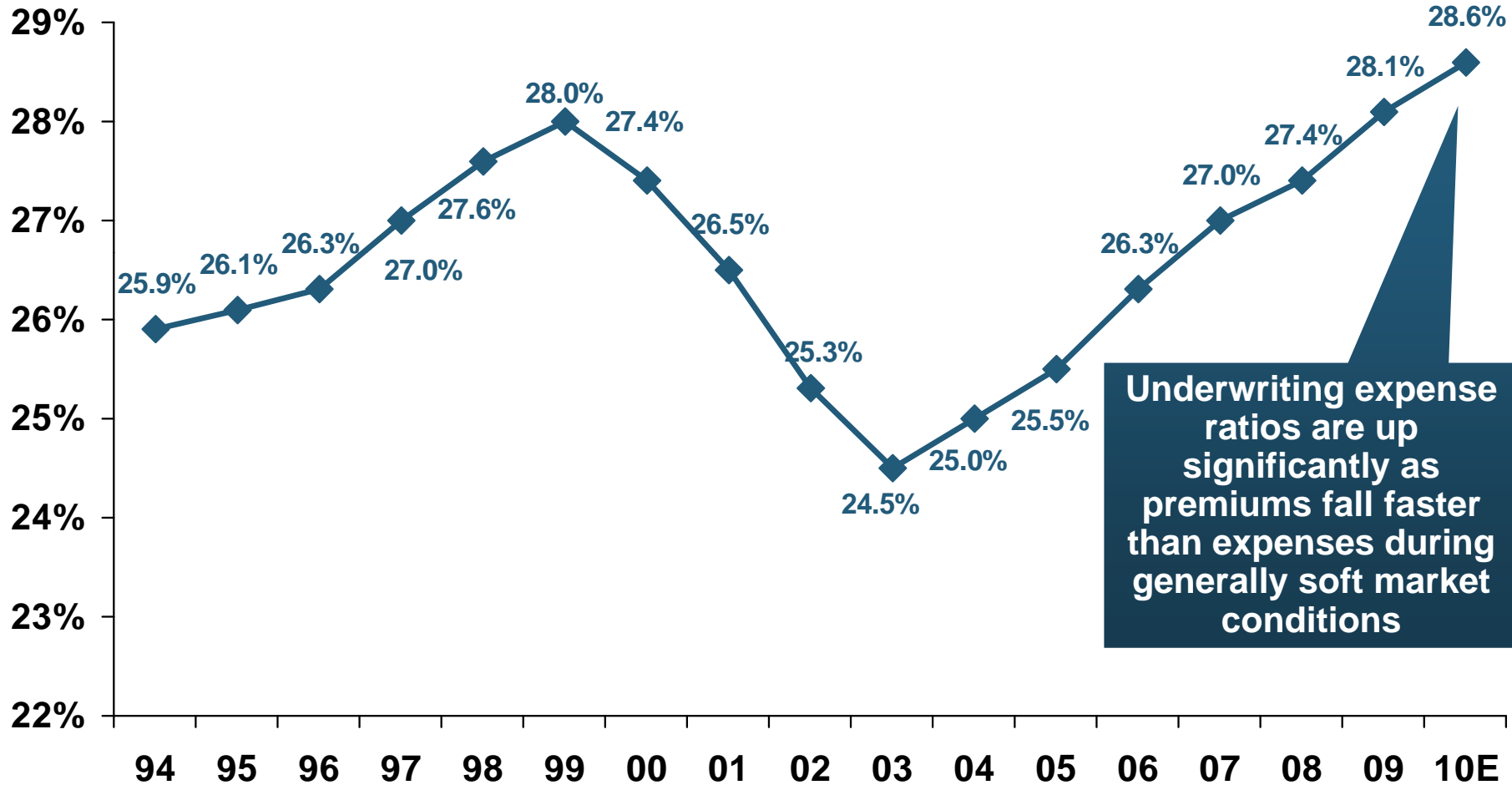
**Workers Comp Underwriting Results Are Deteriorating Markedly and the Worst They Have Been in a Decade**

# EXPENSES

**Expense Ratios Are Highly Cyclical  
and Contribute Deteriorating  
Underwriting Performance**

# Underwriting Expense Ratio\*

## All P/C Lines, 1994-2010E\*\*



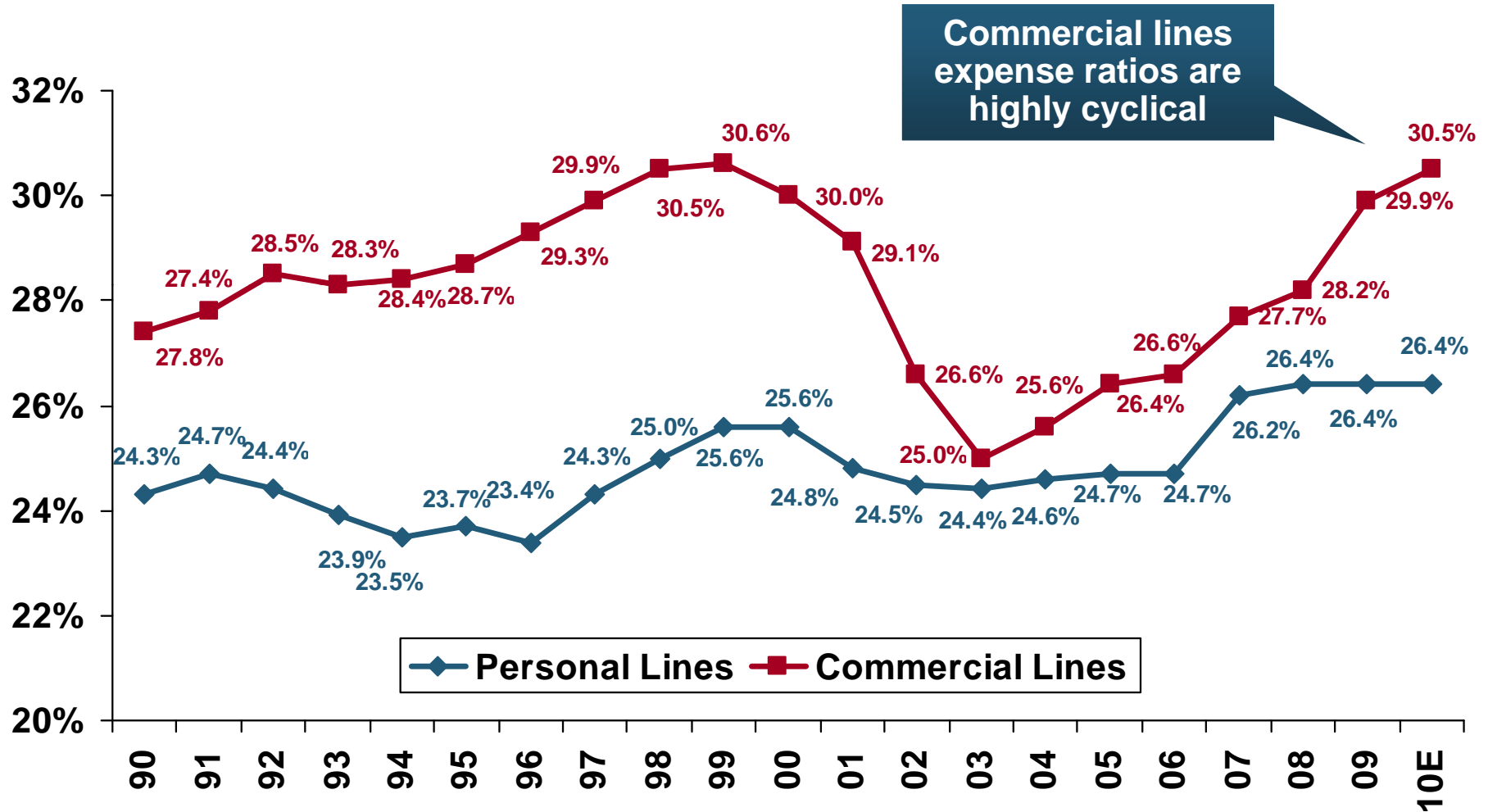
\*Ratio of expenses incurred to net premiums written.

\*\*2010 figure based on data through 2010:Q3.

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

# Underwriting Expense Ratio\*:

## Personal vs. Commercial Lines, 1990-2010E\*\*

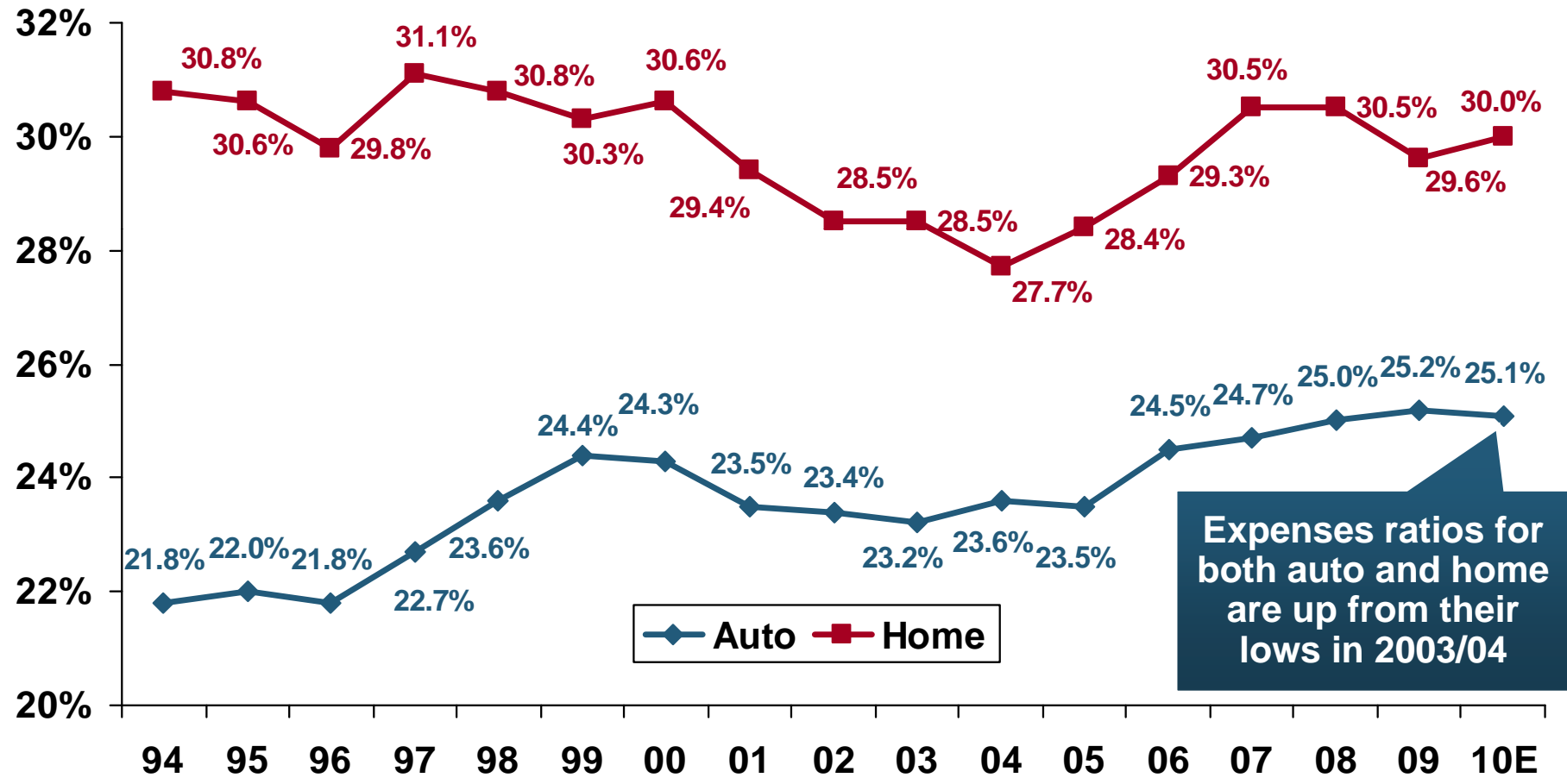


\*Ratio of expenses incurred to net premiums written.

\*\*2010 figures are estimates.

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

# Underwriting Expense Ratio\* Personal Lines (Auto & Home), 1994-2010E\*\*



Expenses ratios for both auto and home are up from their lows in 2003/04

\*Ratio of expenses incurred to net premiums written.

\*\*2010 figures are estimates.

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



# **Drivers of P/C Premium and Exposure**

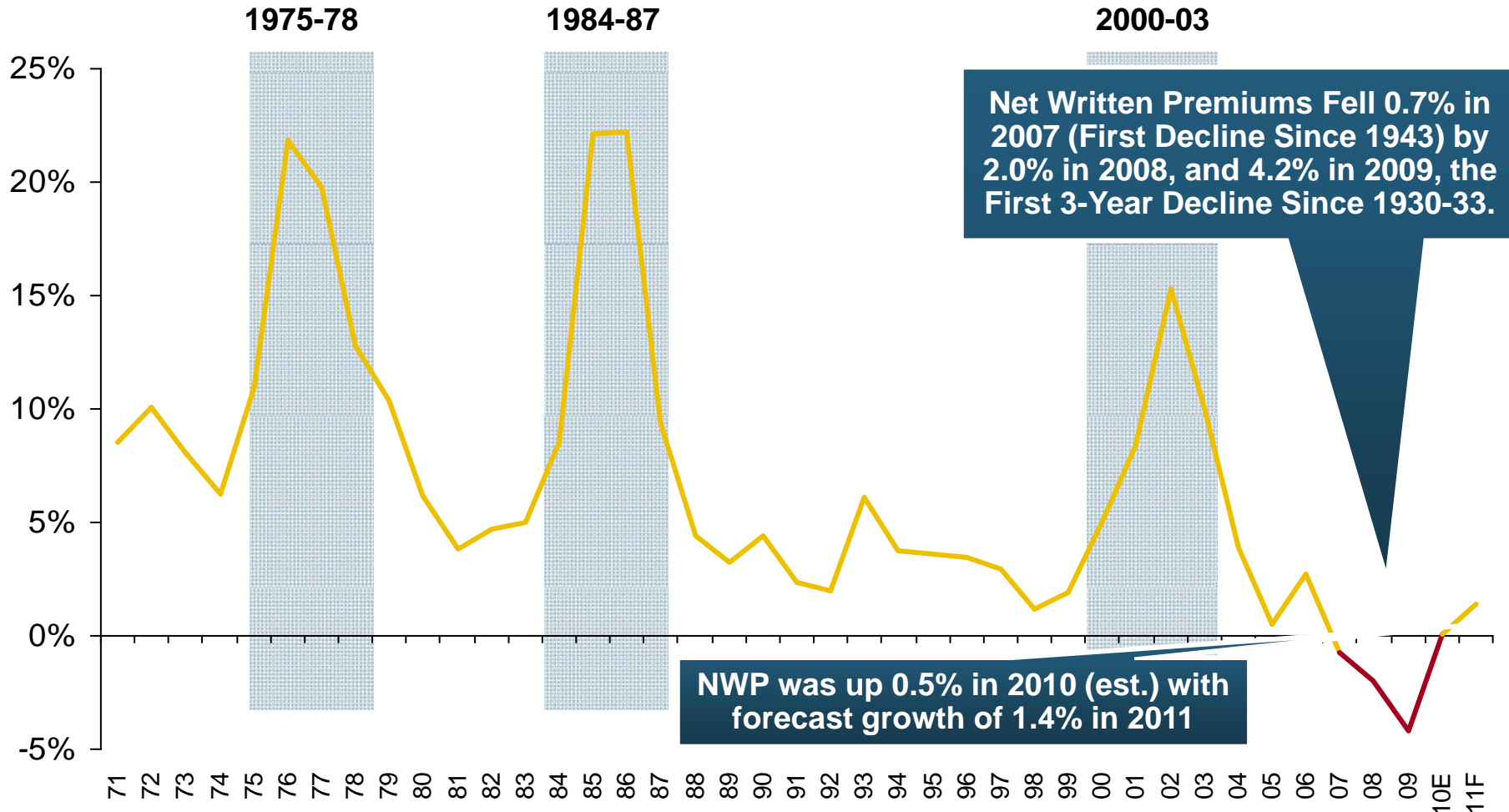
## **Factors Influencing Growth and Claim Severities (Costs)**

# PREMIUM & PRICING TRENDS

**Winds of Change or  
Moving Sideways?**

# Soft Market Persisted in 2010 but May Be Easing: Relief in 2011?

(Percent)

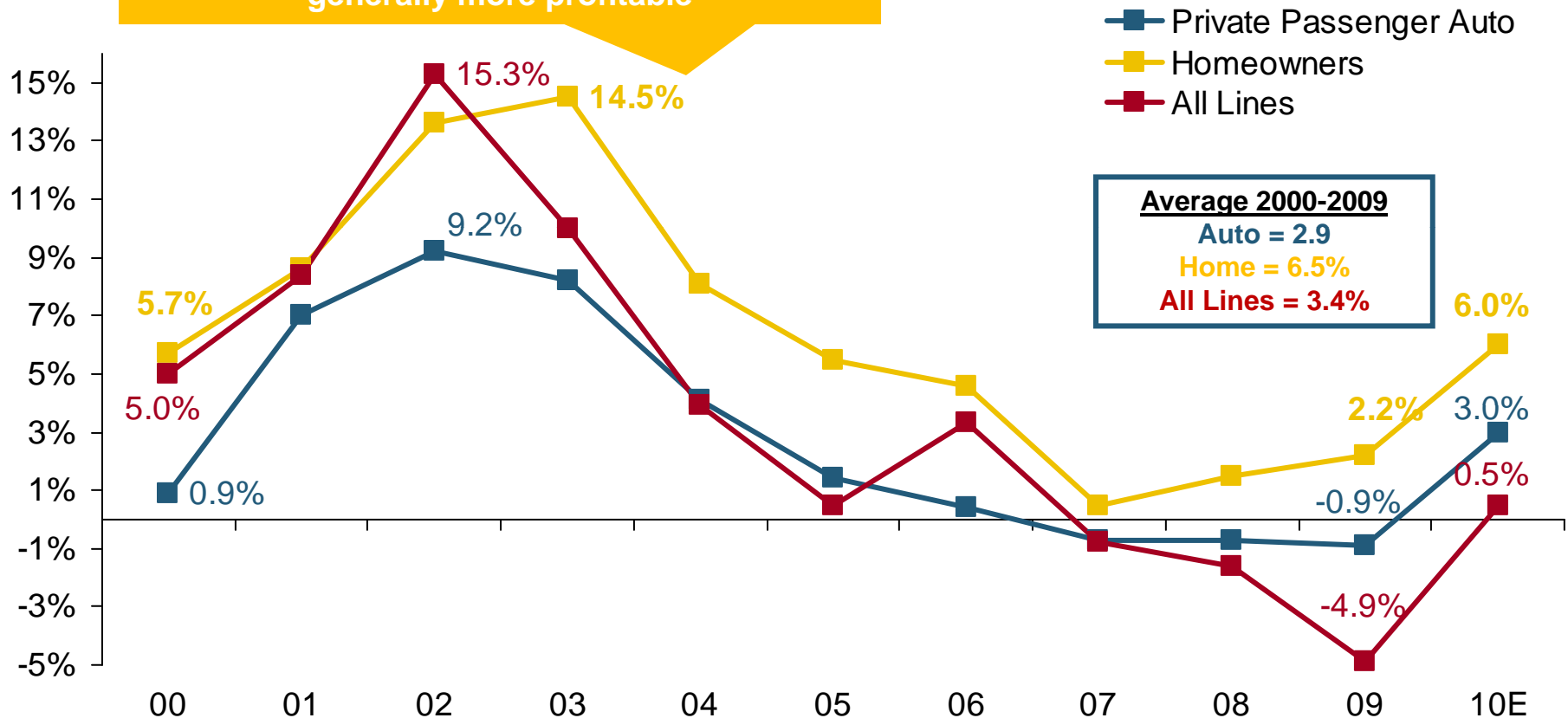


Shaded areas denote "hard market" periods

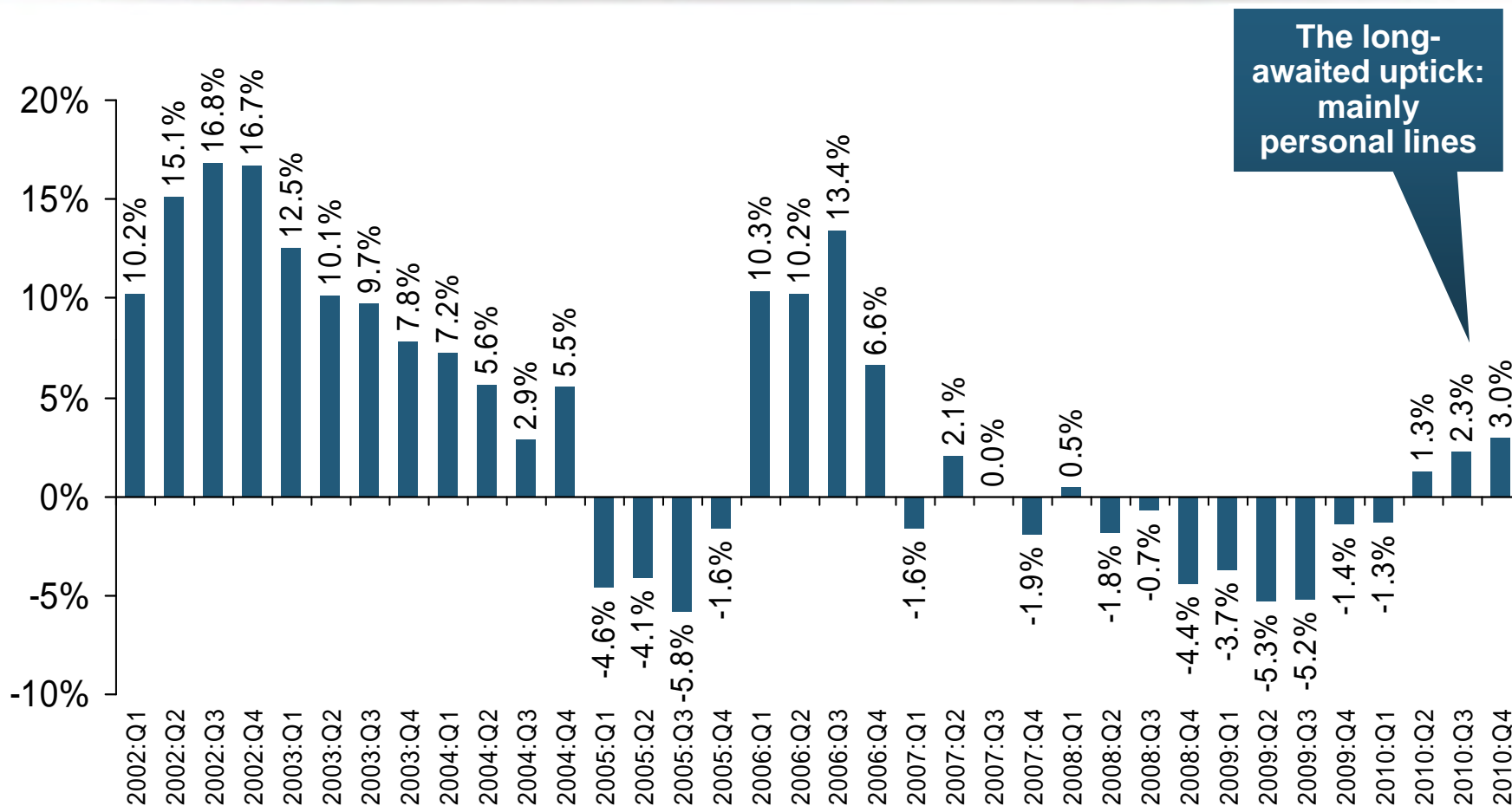
Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute.

# Auto & Home vs. All Lines, Net Written Premium Growth, 2000–2010E

While homeowners insurance has grown faster than auto over the past decade, auto is generally more profitable



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

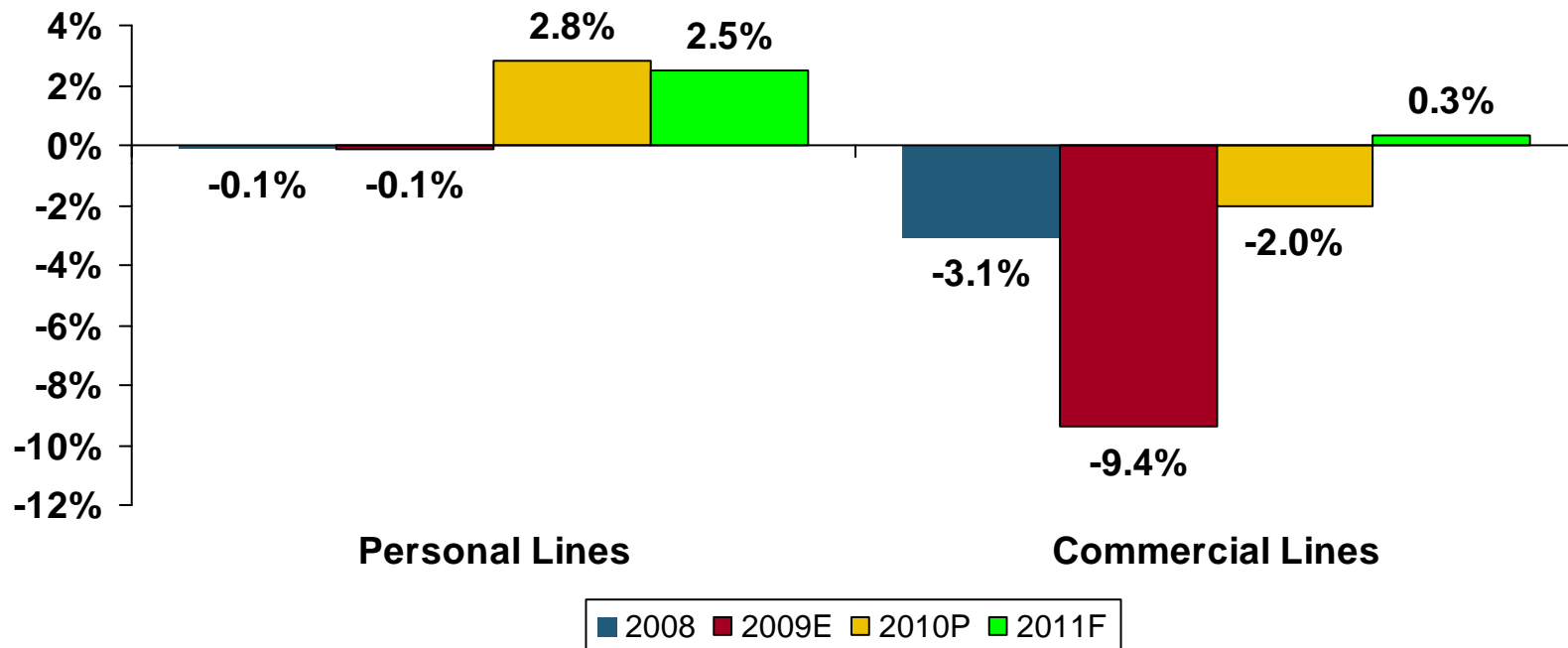


The long-awaited uptick: mainly personal lines

**Finally! Back-to-back quarters of net written premium growth (vs. the same quarter, prior year)**

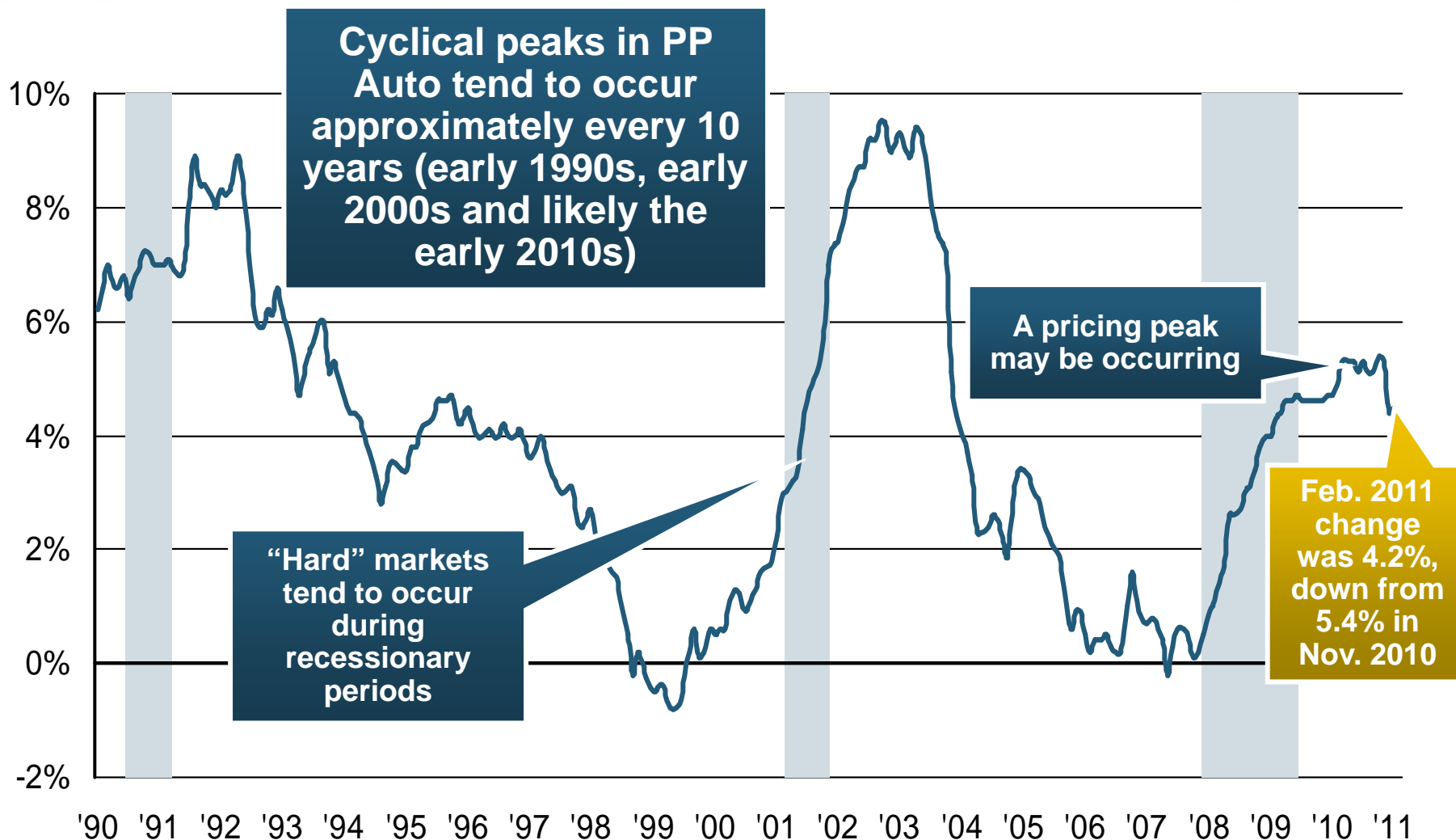
# Net Written Premium Growth by Segment: 2008-2011F

Personal lines growth resumed in 2010 and will continue in 2011, while commercial lines contracted again in 2010 and but will stabilize in 2011



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

# Monthly Change\* in Auto Insurance Prices, 1991–2011\*

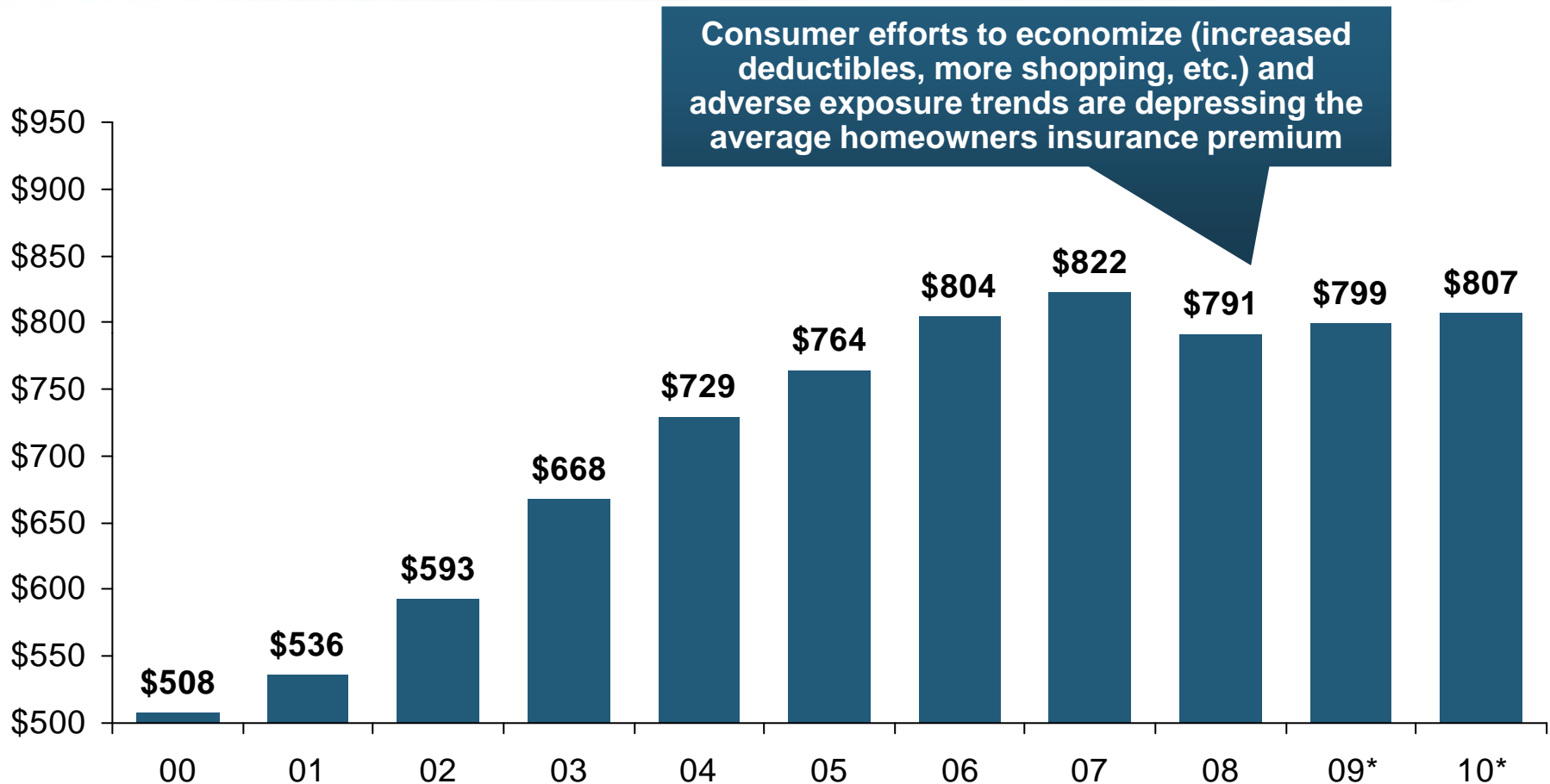


\*Percentage change from same month in prior year; through February 2011; seasonally adjusted

Note: Recessions indicated by gray shaded columns.

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

# Average Premium for Home Insurance Policies\*\*

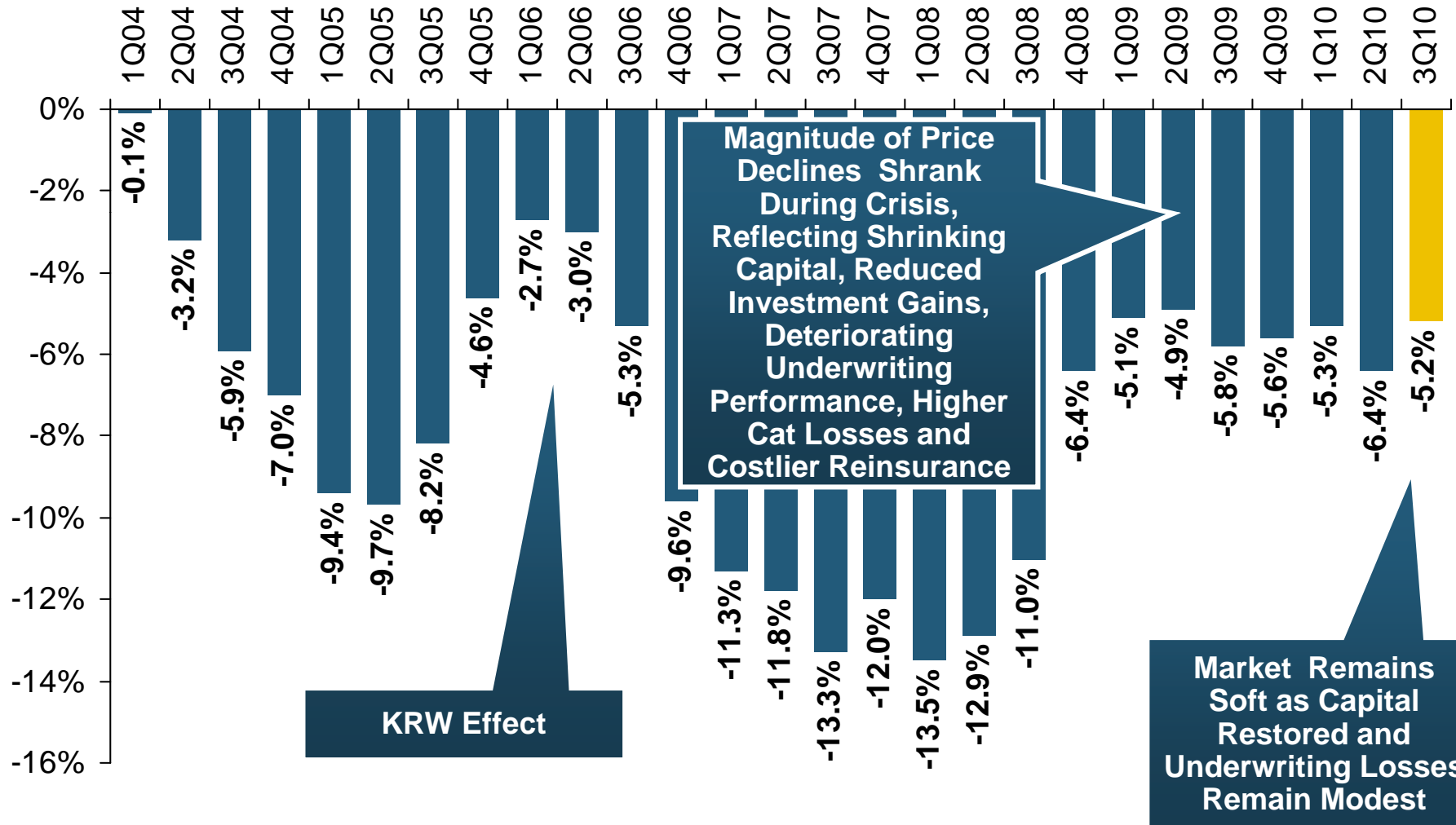


\* Insurance Information Institute Estimates/Forecasts \*\*Excludes state-run insurers.  
Source: NAIC, Insurance Information Institute estimates 2009-2010 based on CPI and other data.



# Average Commercial Rate Change, All Lines, (1Q:2004–3Q:2010)

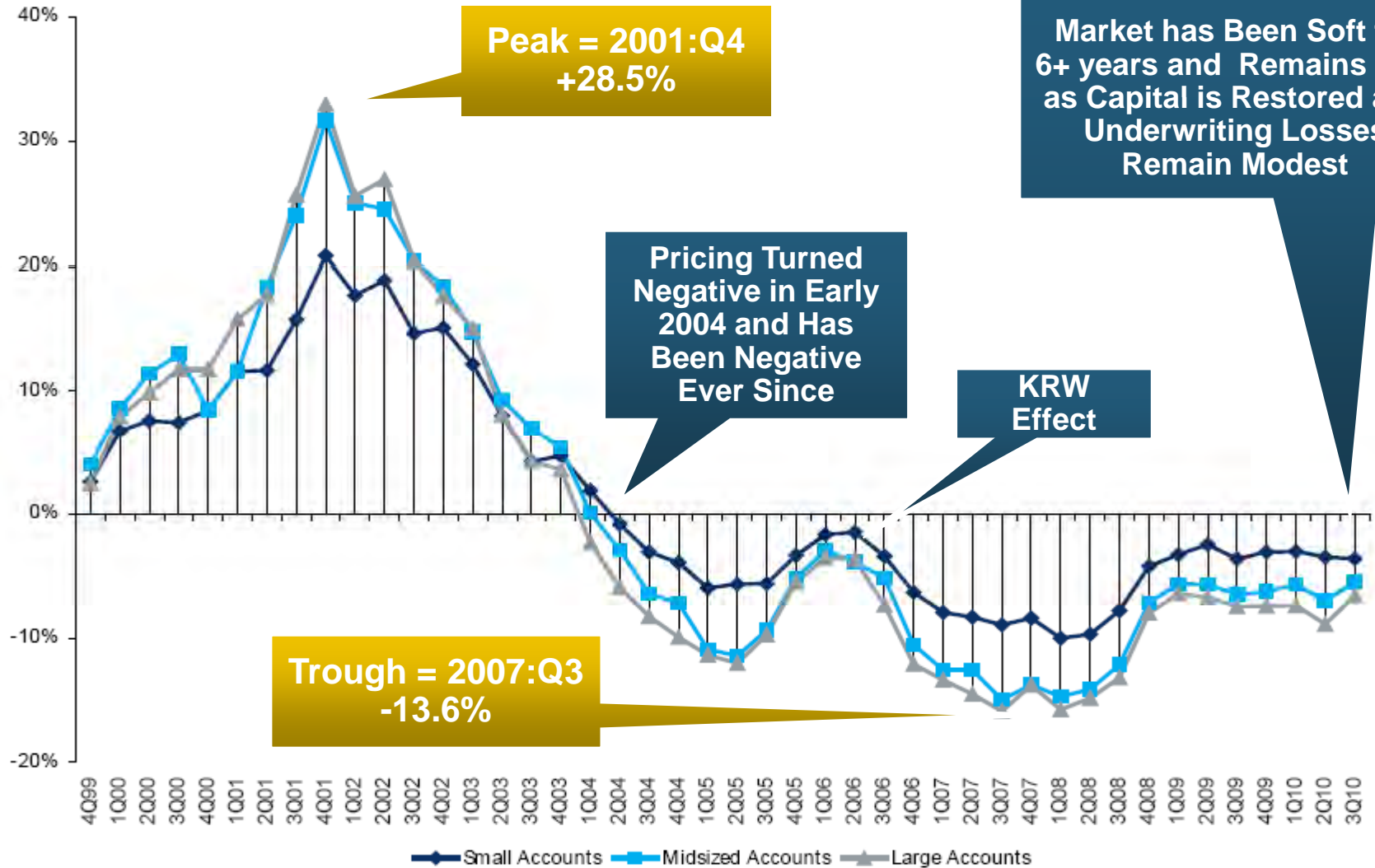
(Percent)



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

# Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2010:Q3

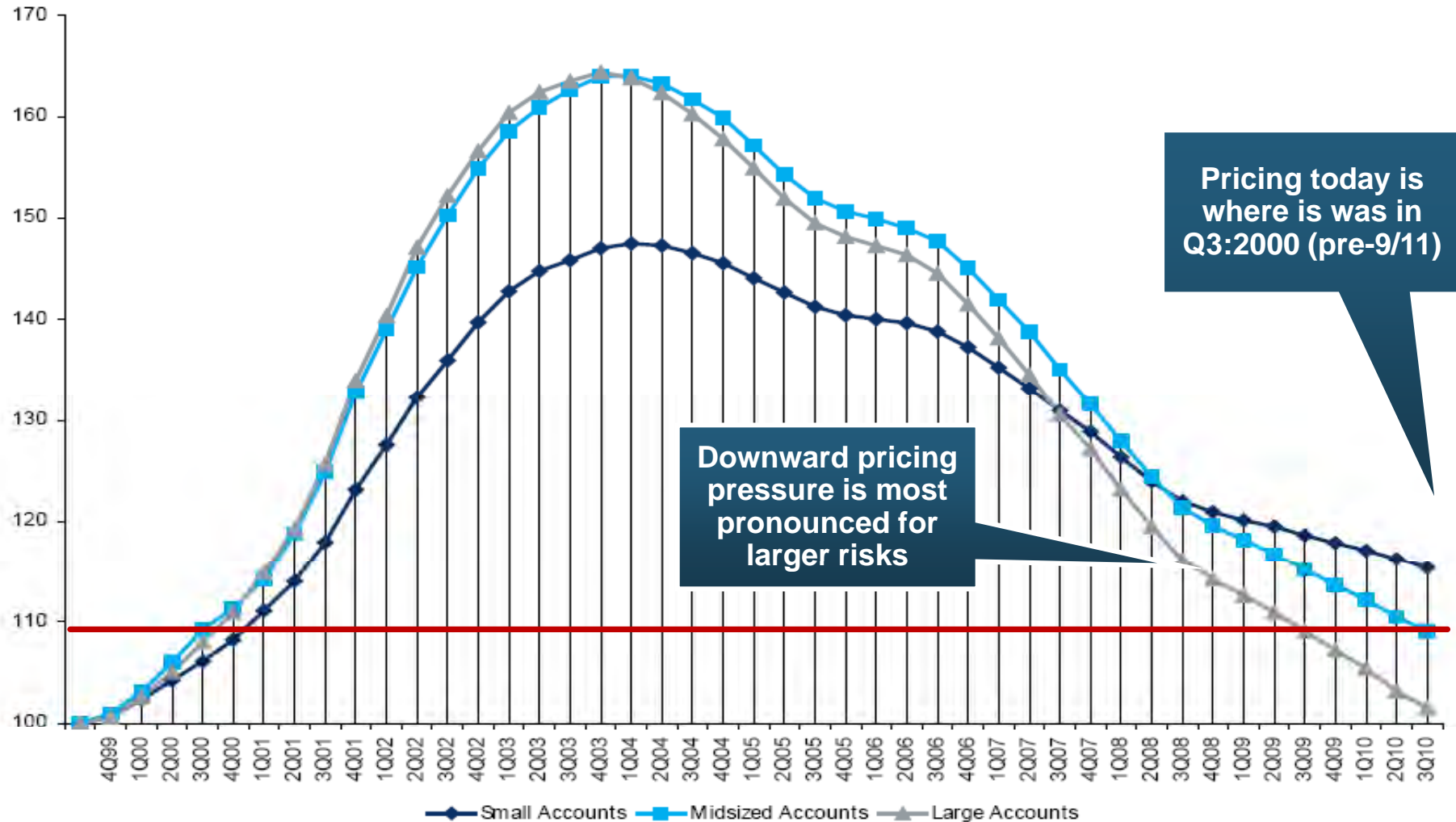
## Percentage Change (%)



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

# Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2010:Q3

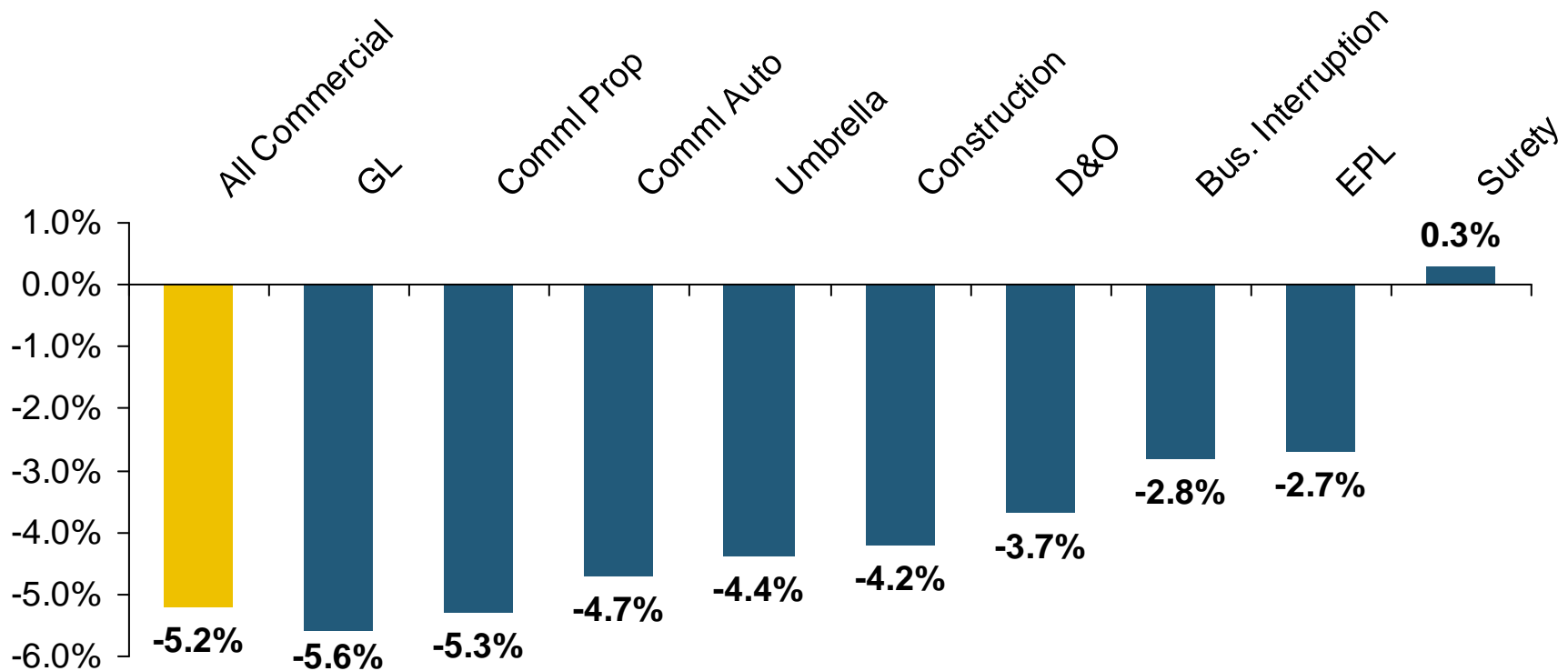
1999:Q4 = 100



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

# Change in Commercial Rate Renewals, by Line: 2010:Q3

Percentage Change (%)



**Most Major Commercial Lines Renewed Down in Q3:2010 at a Pace Similar to that of a Year Earlier**

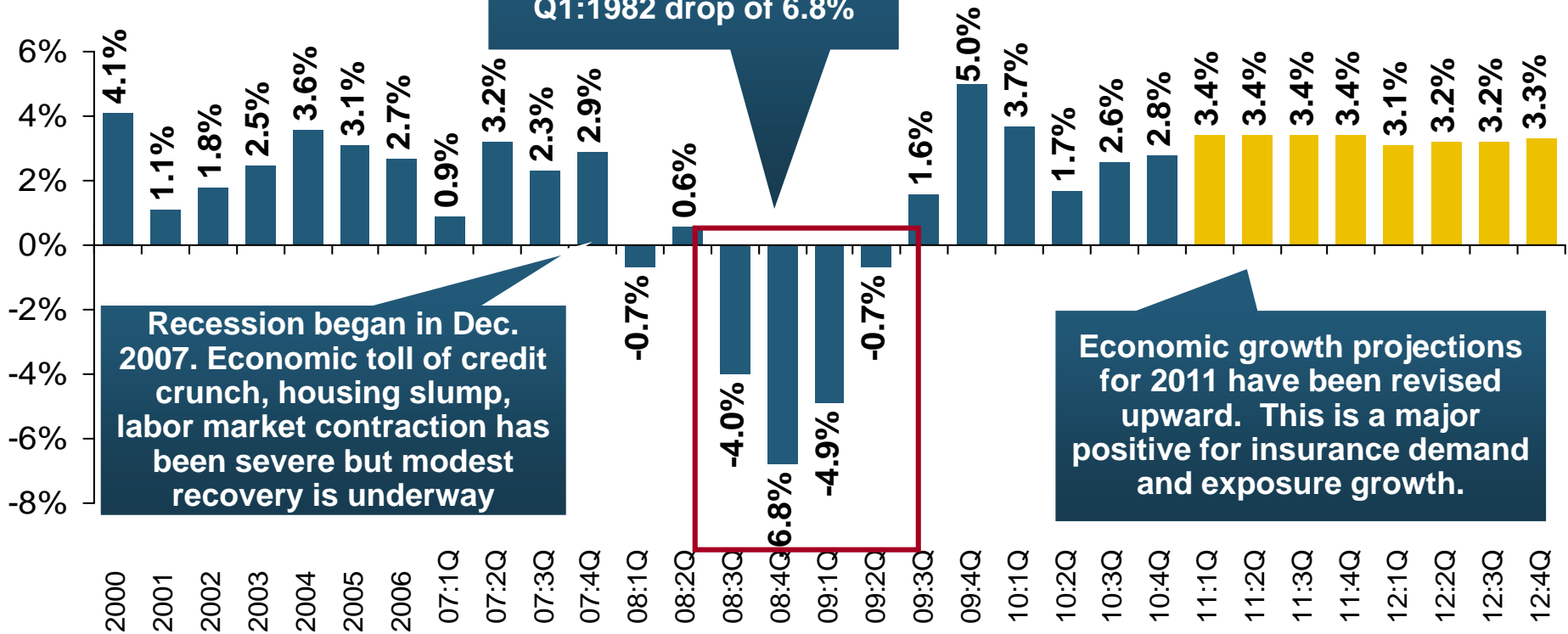


## ECONOMIC IMPACTS ON EXPOSURE GROWTH

**The Great Recession Took a  
Heavy Toll, Restoration of  
Exposure Will Take Years**

# US Real GDP Growth\*

Real GDP Growth (%)



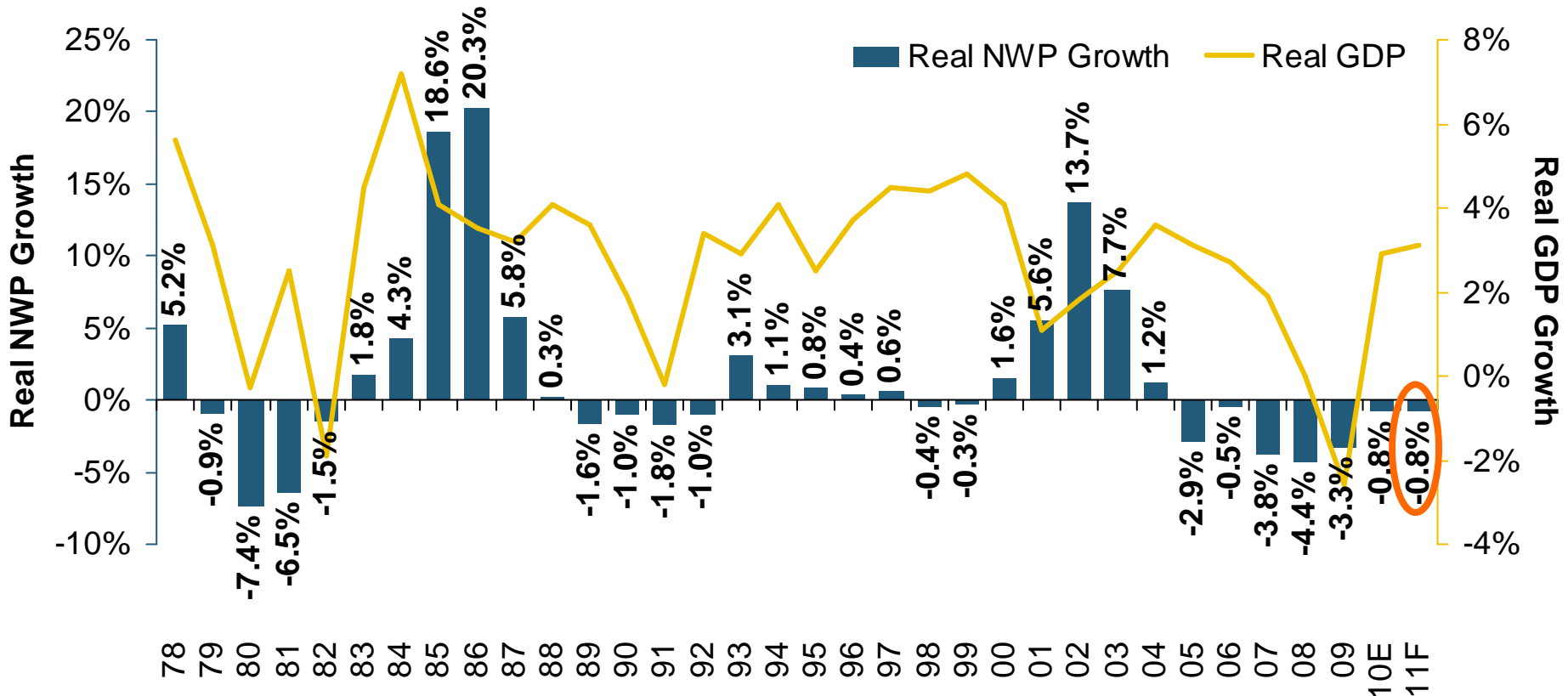
**Demand for Insurance Continues To Be Impacted by Sluggish Economic Conditions, but the Benefits of Even Slow Growth Will Compound and Gradually Benefit the Economy Broadly**

\* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 3/11; Insurance Information Institute.

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

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



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

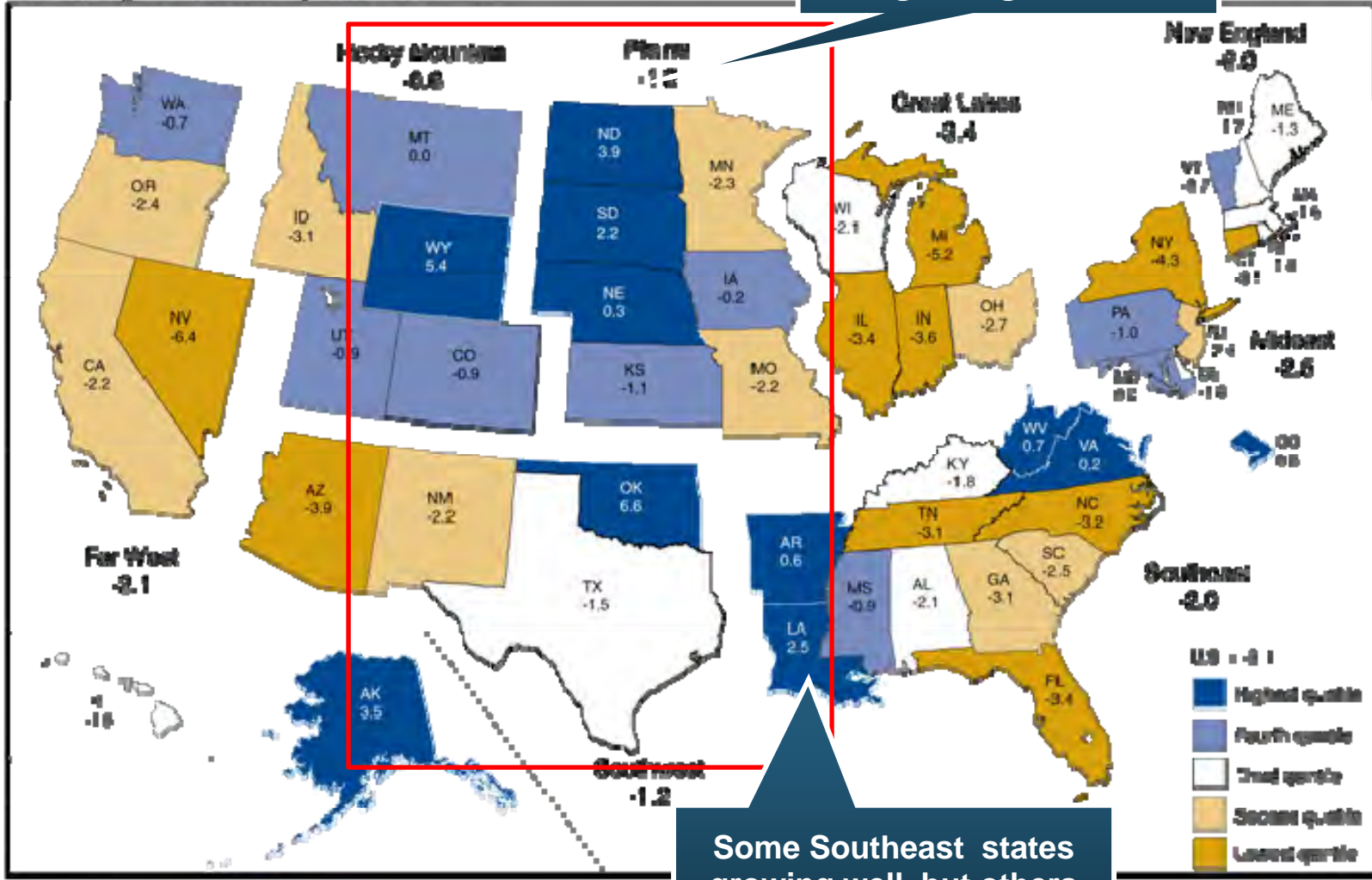


# 2011 Financial Overview

## State Economic Growth Varied in 2009

Mountain, Plains states still growing the fastest

Percent Change in Real GDP by State 2008-2009



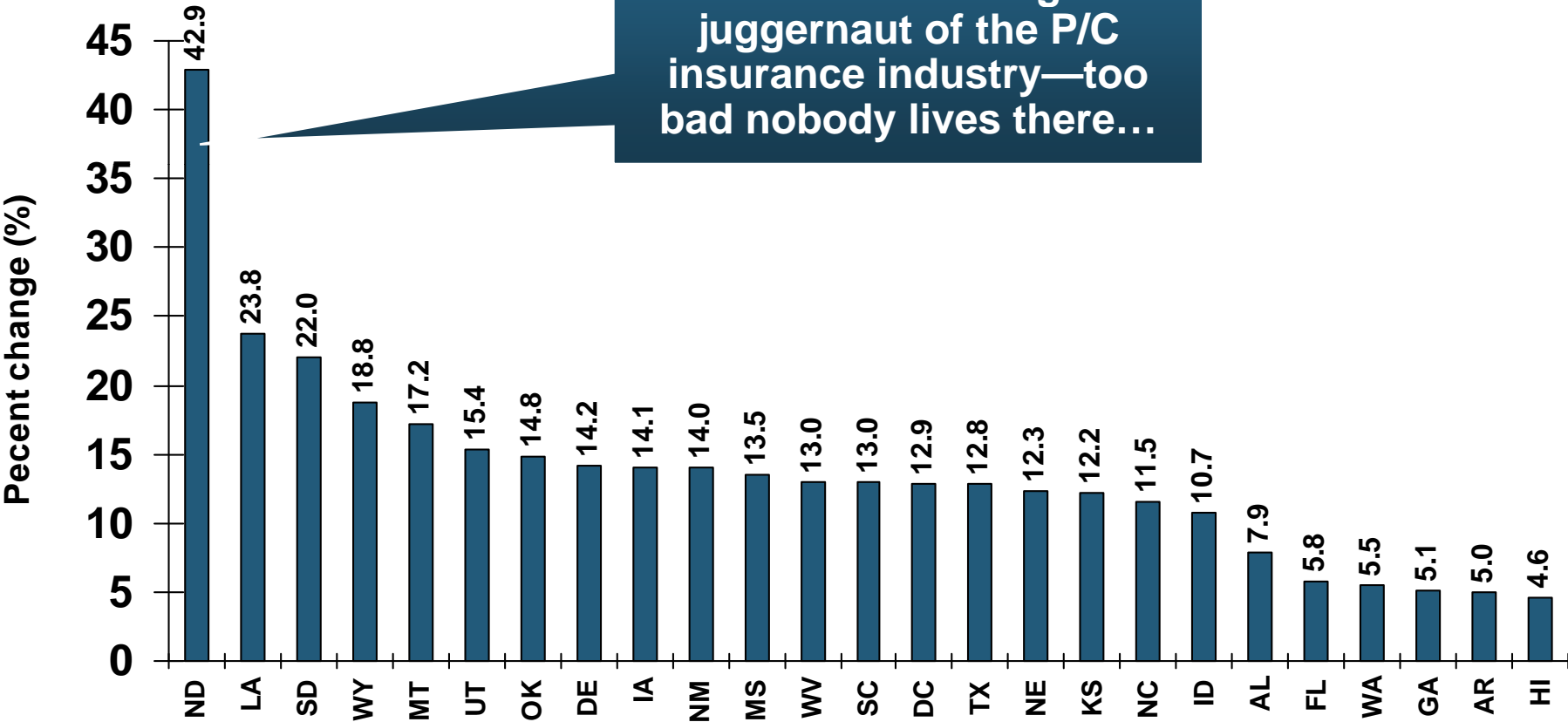
Some Southeast states growing well, but others among the weakest



# Direct Premiums Written: All Lines Percent Change by State, 2004-2009

## Top 25 States

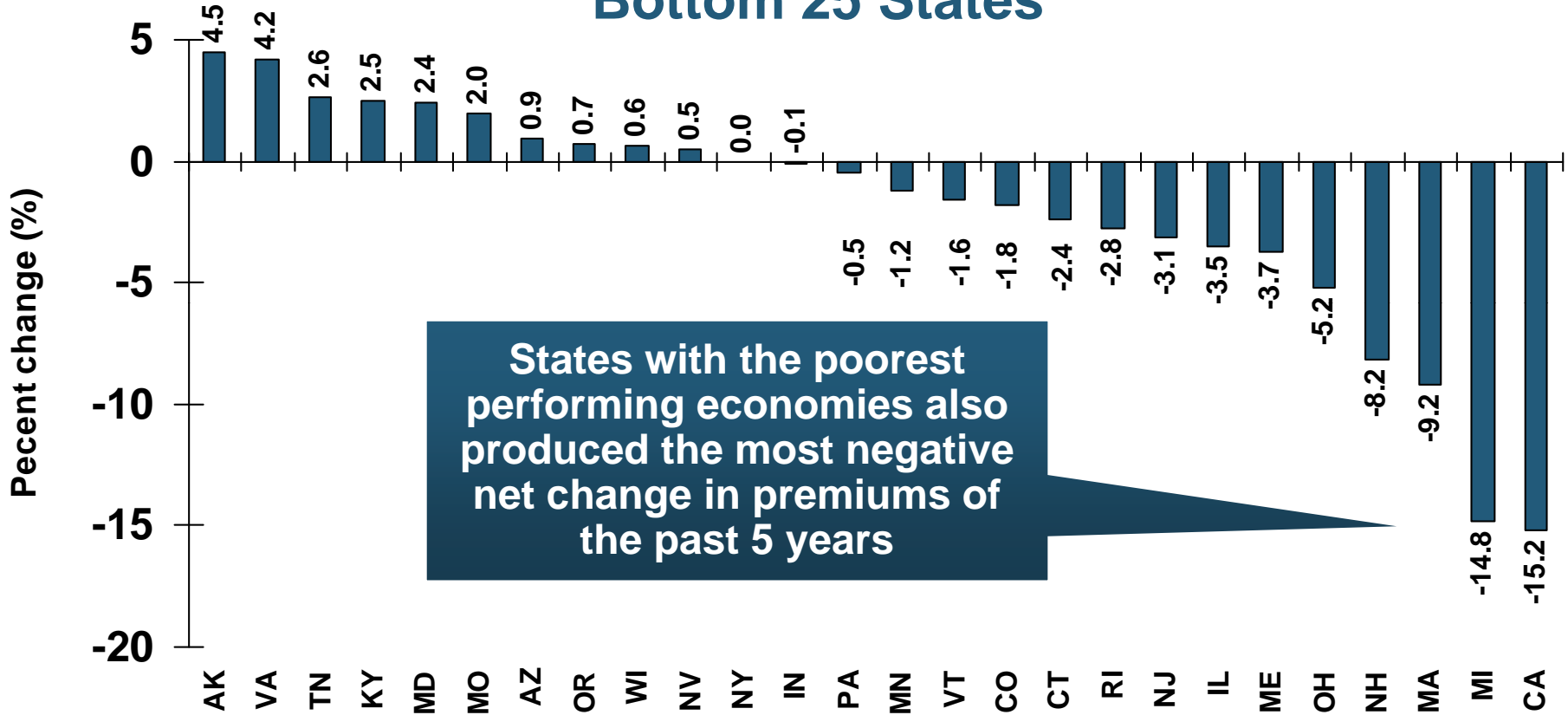
North Dakota is the growth juggernaut of the P/C insurance industry—too bad nobody lives there...



Sources: SNL Financial LC.; Insurance Information Institute.

# Direct Premiums Written: All Lines Percent Change by State, 2004-2009

## Bottom 25 States



Over the 5 years from 2004-2009, 15 states saw premiums *shrink*, one had no growth, and 4 others grew premiums by less than 1%

# 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)**

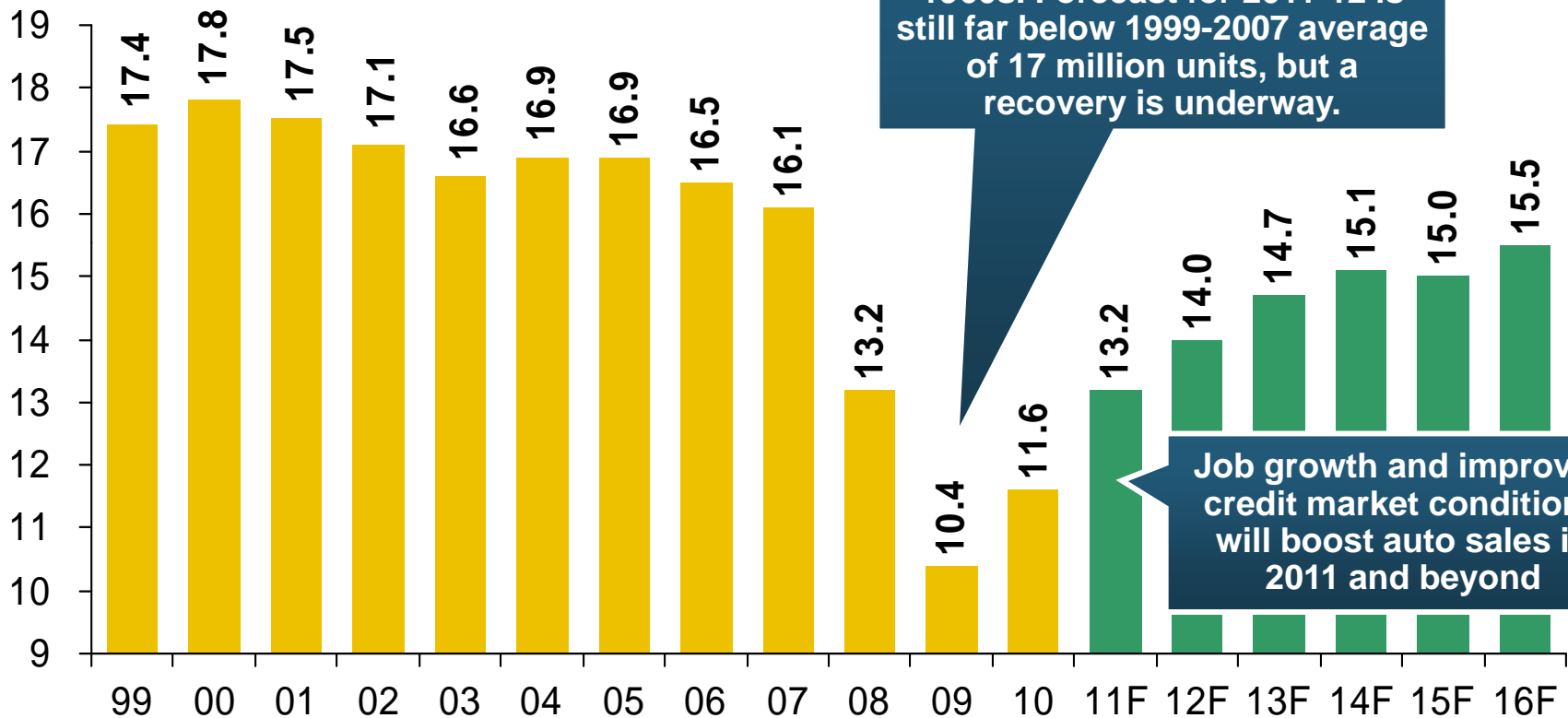
**Light Manufacturing**

**Export-Oriented Industries**

**Shipping (Rail, Marine)**

# Auto/Light Truck Sales, 1999-2016F

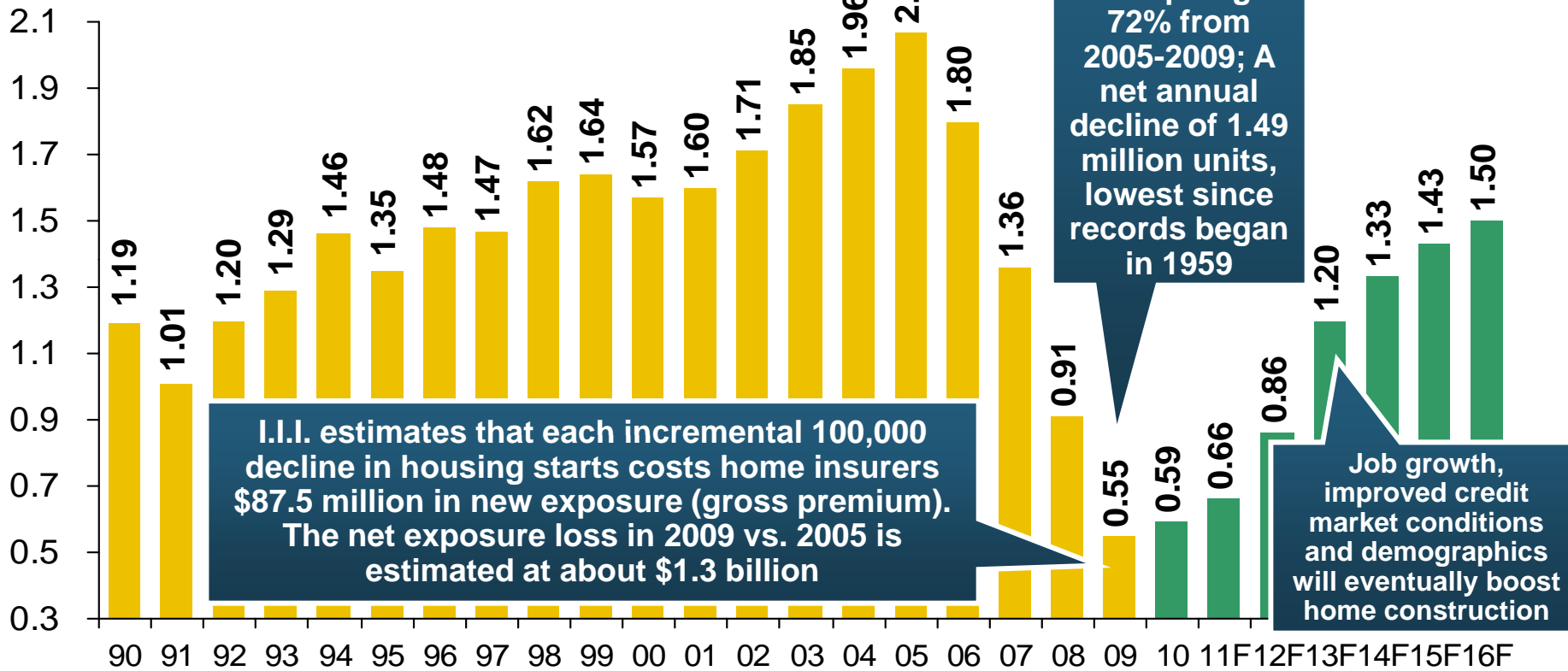
(Millions of Units)



**Car/Light Truck Sales Will Continue to Recover from the 2009 Low Point, but High Unemployment, Tight Credit Are Still Restraining Sales in 2011**

# New Private Housing Starts, 1990-2016F

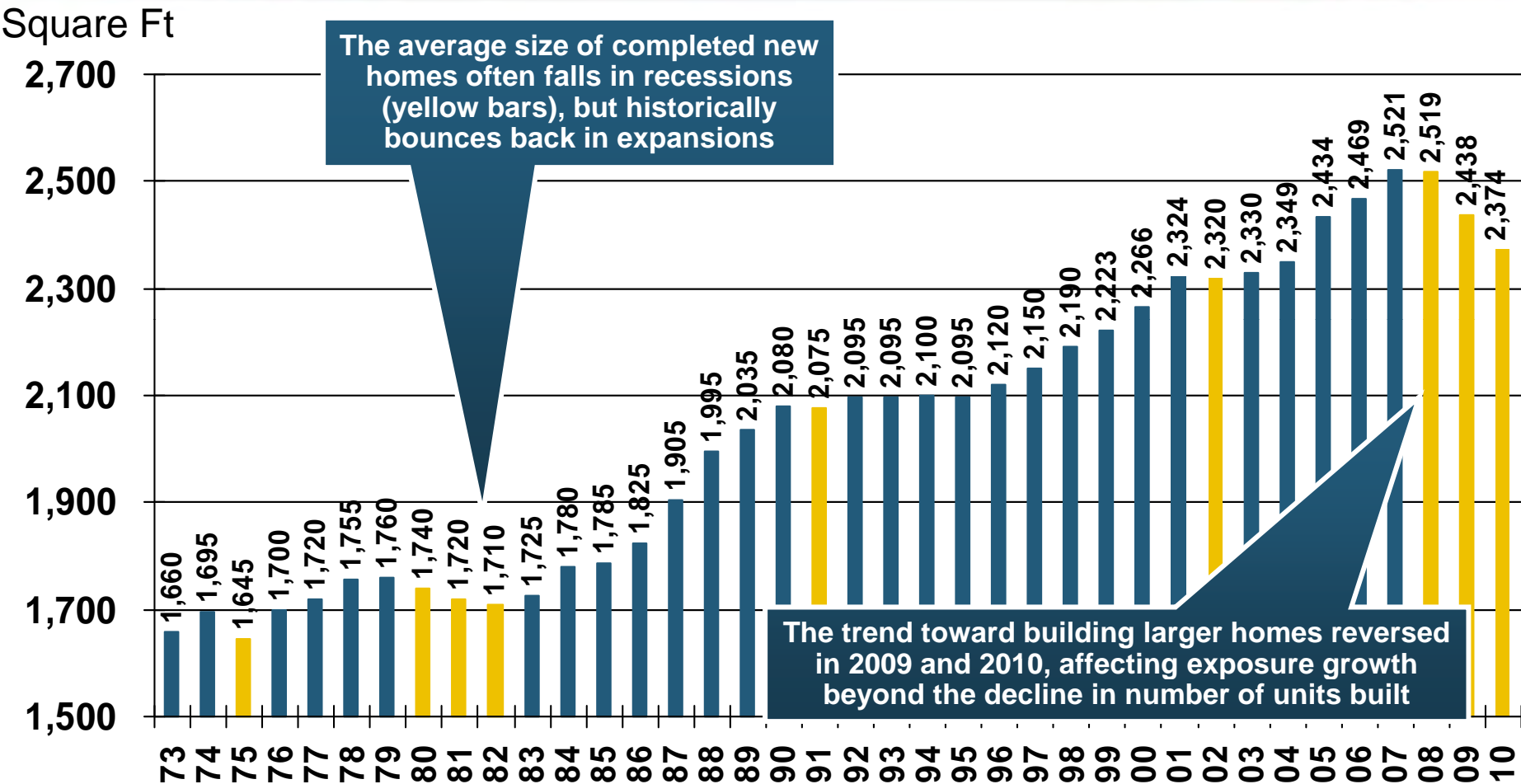
(Millions of Units)



**Little Exposure Growth Likely for Homeowners Insurers Until 2013. Also Affects Commercial Insurers with Construction Risk Exposure, Surety**

# 2011 Financial Overview

## Average Square Footage of Completed New Homes in U.S., 1973-2010\*

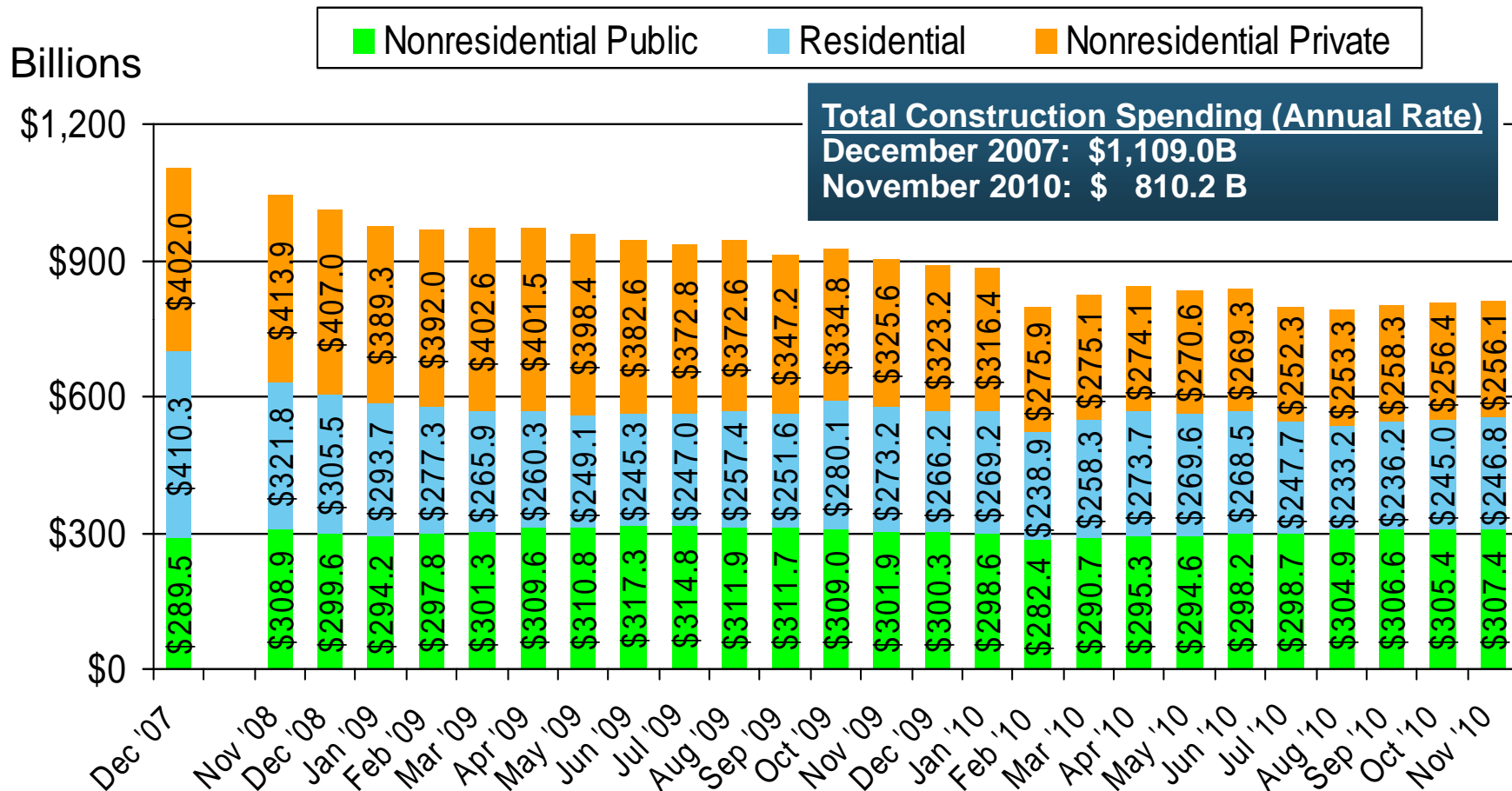


**The average size of completed new homes fell by 145 square feet (5.75%) from 2008-2010, the largest recession-based drop in nearly four decades**

\*2010 figure is weighted average square feet of completed homes in first three quarters of 2010  
 Source: U.S. Census Bureau: [http://www.census.gov/const/www/quarterly\\_starts\\_completions.pdf](http://www.census.gov/const/www/quarterly_starts_completions.pdf); Insurance Information Institute.

# 2011 Financial Overview

## Value\* of Construction Put In Place



Since the recession started, private residential and nonresidential construction together are down \$300 billion (annual rate), a drop of 38%. This affects property, surety, and other construction-related exposures

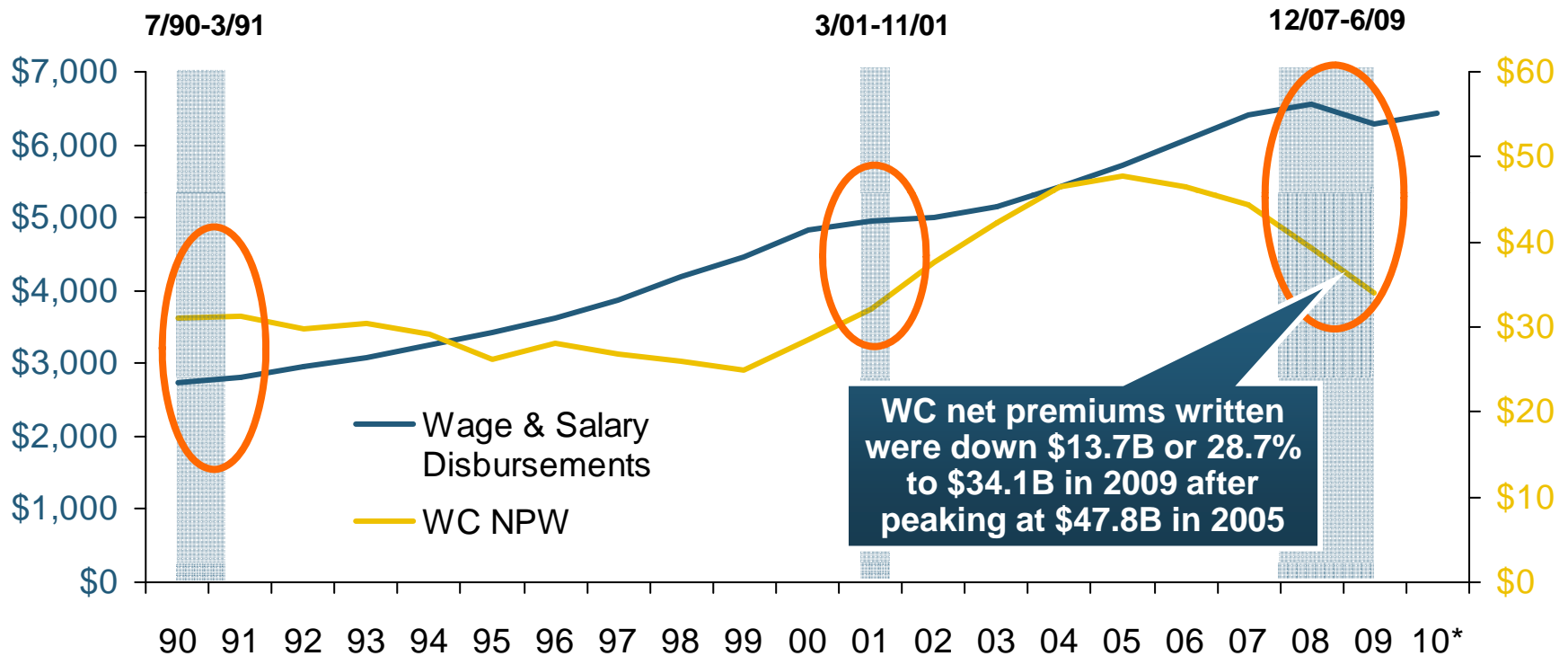
\*Seasonally adjusted annual rate

Source: <http://www.census.gov/const/C30/release.pdf>

# 2011 Financial Overview

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

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



WC net premiums written were down \$13.7B or 28.7% to \$34.1B in 2009 after peaking at \$47.8B in 2005

**Weakening payrolls have eroded \$2B+ in workers comp premiums; nearly 29% of NPW has been eroded away by the soft market and weak economy**

\* Average Wage and Salary data as of 7/1/2010. Shaded areas indicate recessions.

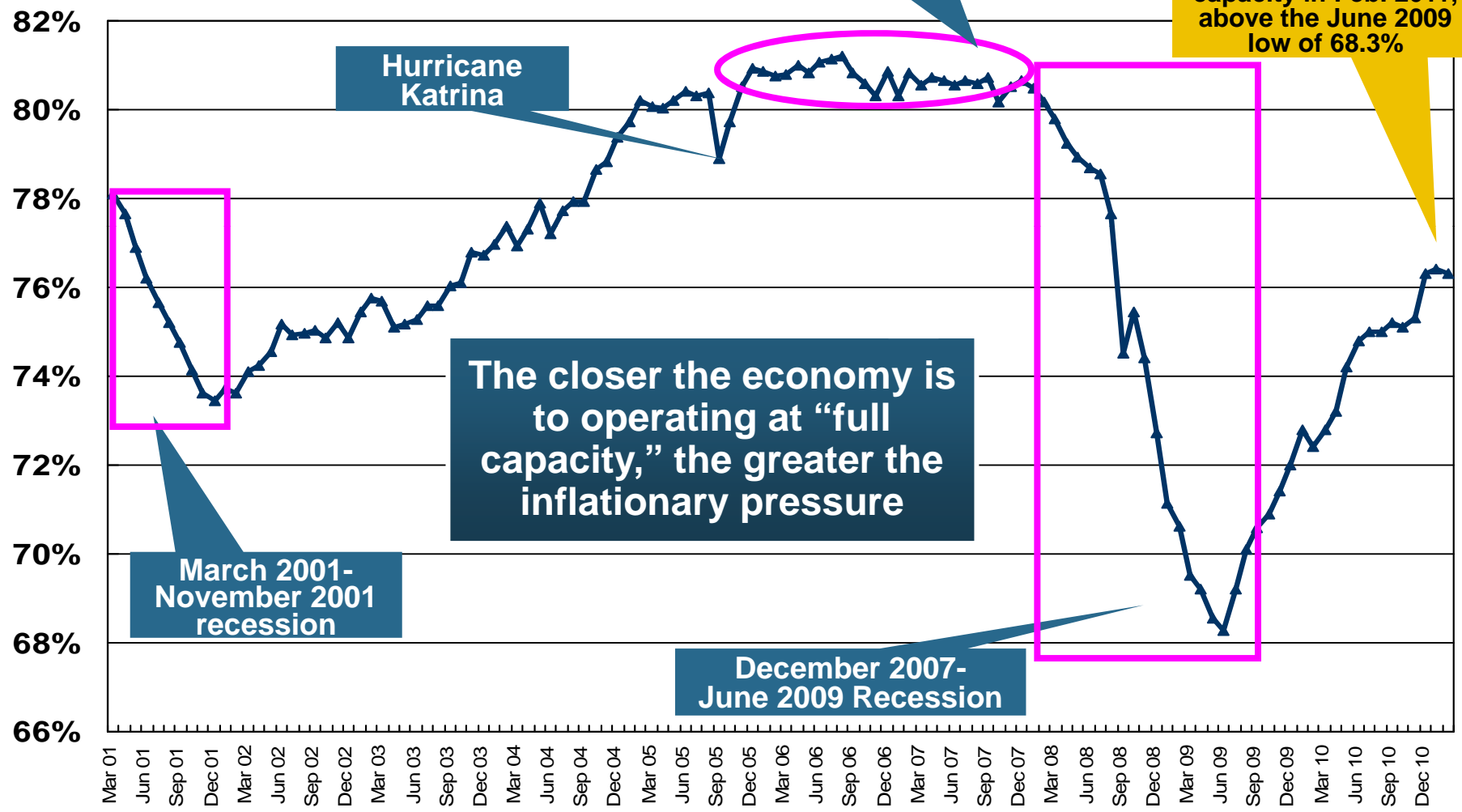
\*\*Estimated "official" end of recession June 2009.

Source: US Bureau of Economic Analysis; Federal Reserve Bank of St. Louis at <http://research.stlouisfed.org/fred2/series/WASCUR>; I.I.I. Fact Books



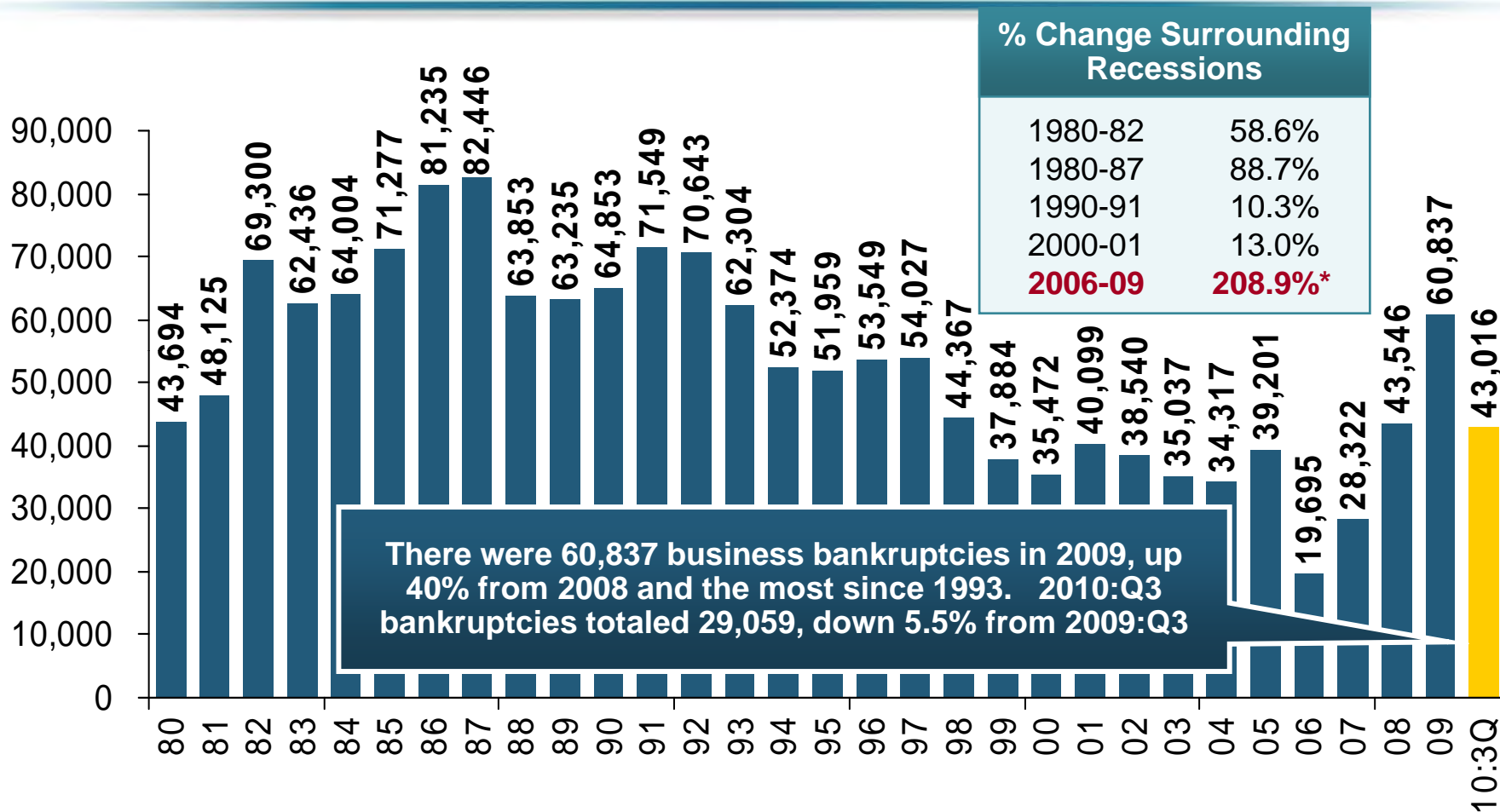
# Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures

Percent of Industrial Capacity



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

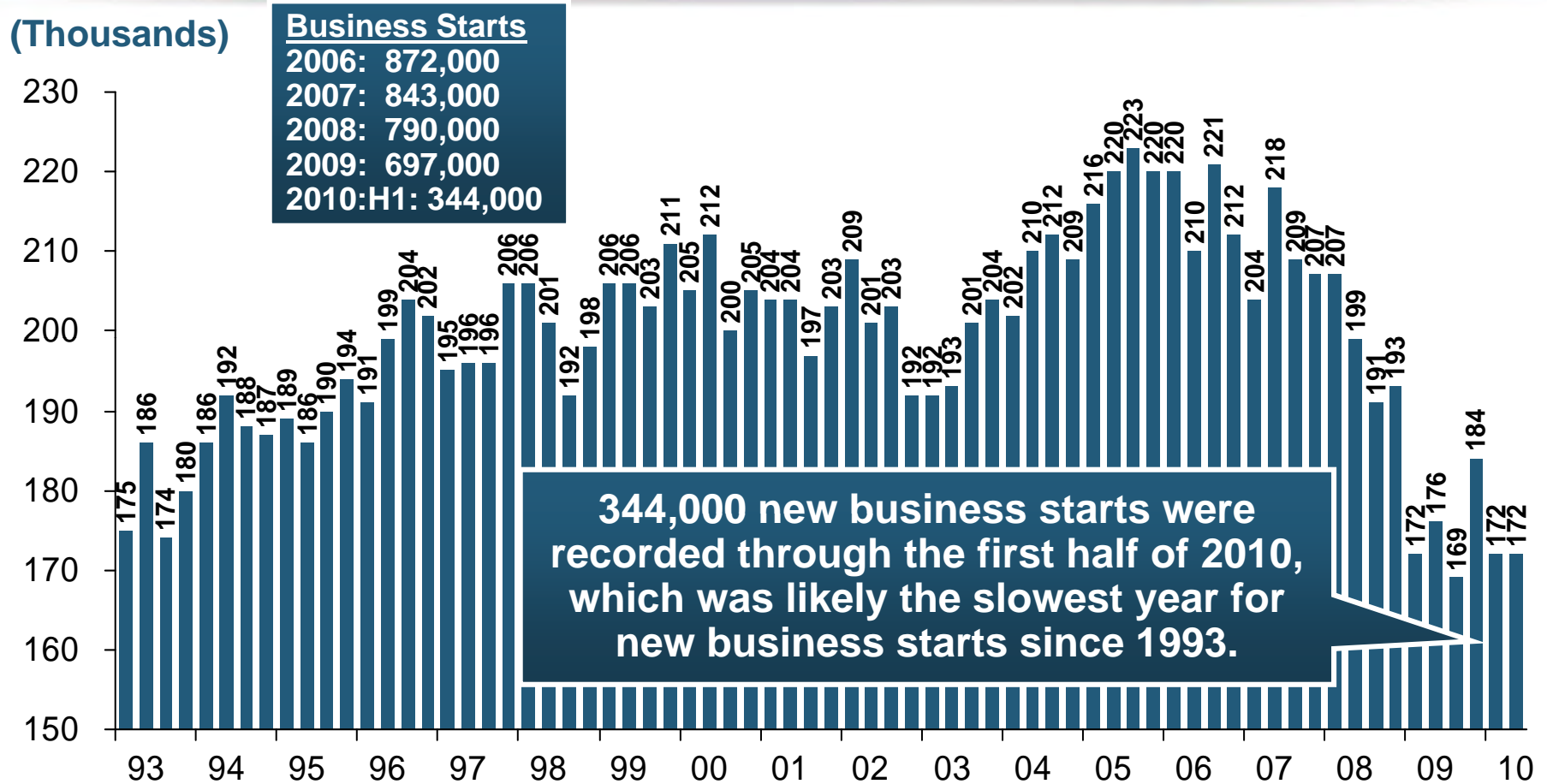
# Business Bankruptcy Filings, 1980-2010:Q3



**Significant Exposure Implications for All Commercial Lines**

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:Q2\*

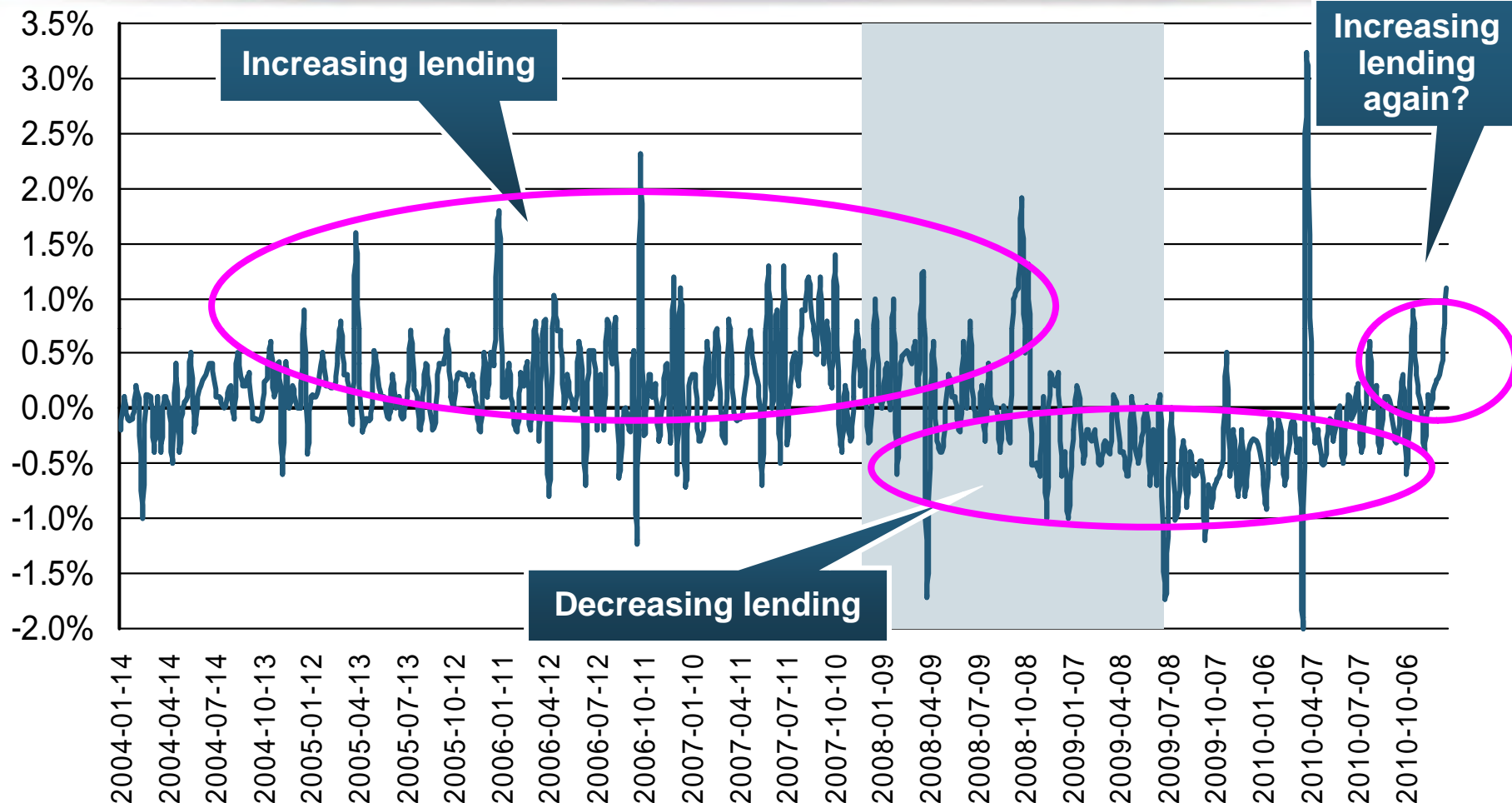


**Business Starts Were Down Nearly 20% in the Recession, Holding Back Most Types of Commercial Insurance Exposure**

\* Data through June 30, 2010 are the latest available as of March 10, 2011; Seasonally adjusted  
 Source: Bureau of Labor Statistics, <http://www.bls.gov/news.release/cewbd.t07.htm>.

# 2011 Financial Overview

## Weekly Percentage Change in Commercial and Industrial Loans by Large U.S. Banks, 2004-2010



**Lending peak: \$827.3 billion at mid-October 2008;  
Trough \$600.5 billion at mid-October 2010; Latest (12/20/2010) \$619.9 billion**

Note: Recession indicated by gray shaded column.

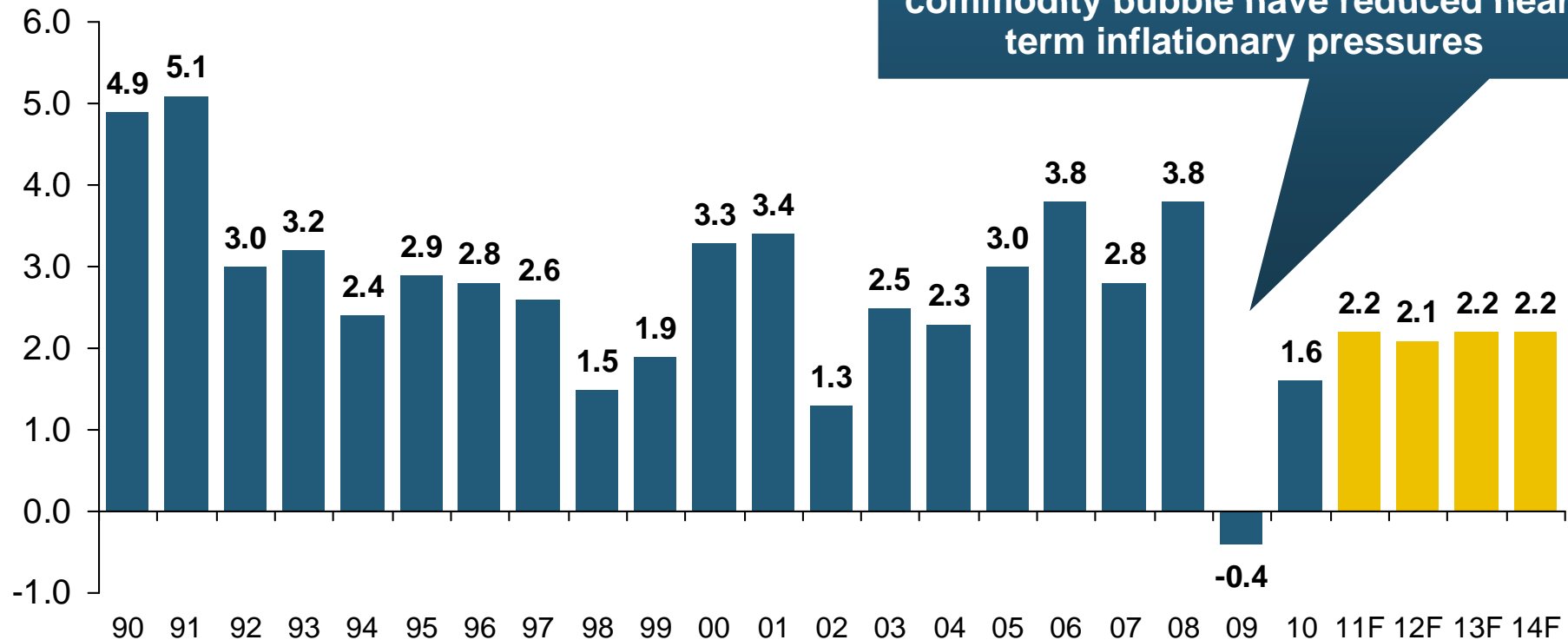
Sources <http://research.stlouisfed.org/fred2/series/CIBOARD/downloaddata?cid=100> ; National Bureau of Economic Research (recession dates); Insurance Information Institute.

# Inflation

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

# Annual Inflation Rates, (CPI-U, %), 1990–2014F

Annual Inflation Rates (%)



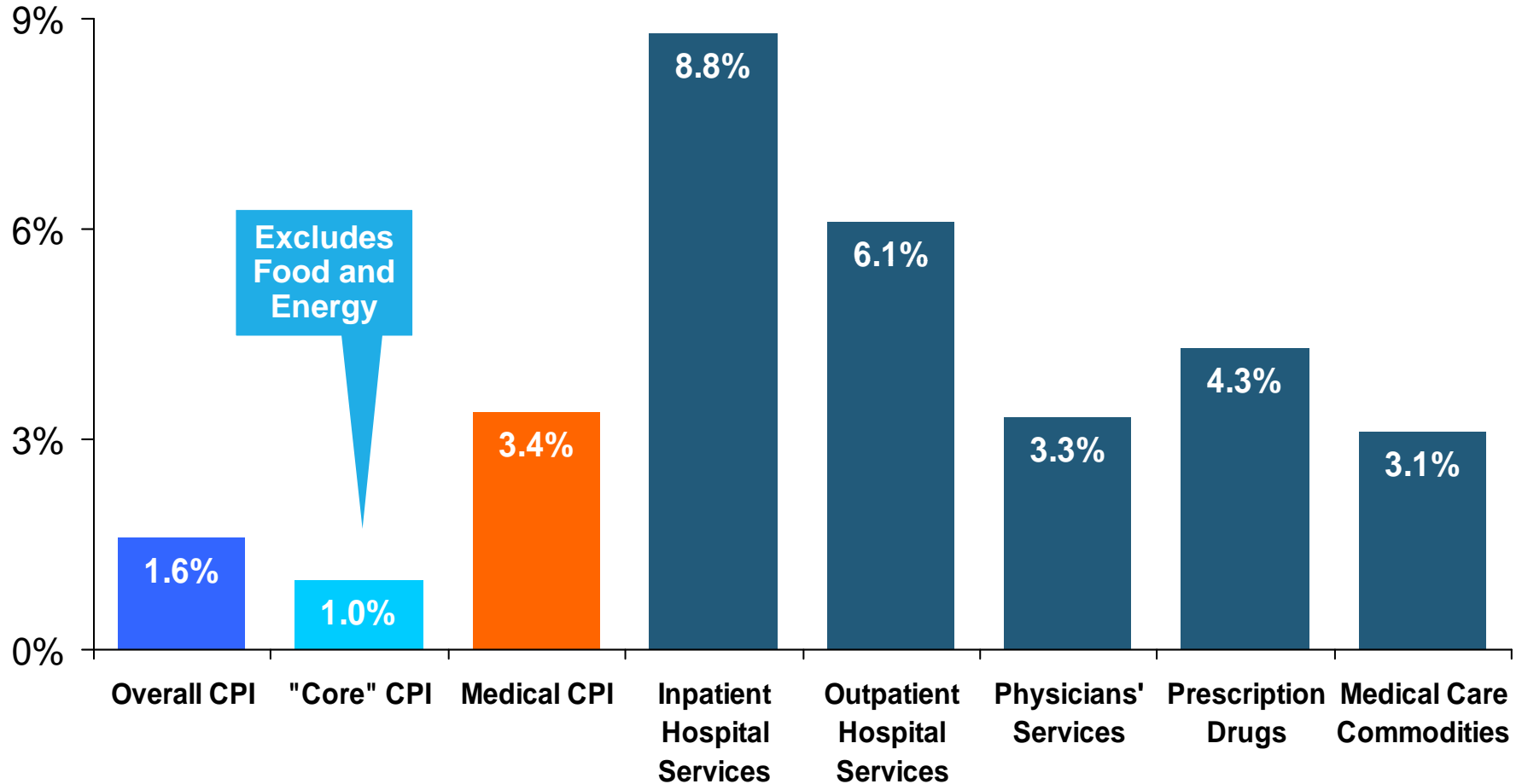
Inflation peaked at 5.6% in August 2008 on high energy and commodity crisis. The recession and the collapse of the commodity bubble have reduced near-term inflationary pressures

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, 10/10 and 3/11 (forecasts).

# P/C Insurance Claim Cost Drivers Grow Faster than even the Medical CPI Suggests

Price Changes  
in 2010



**Healthcare costs are a major liability, med pay, and PIP claim cost driver. They are likely to grow faster than the CPI for the next few years, at least**

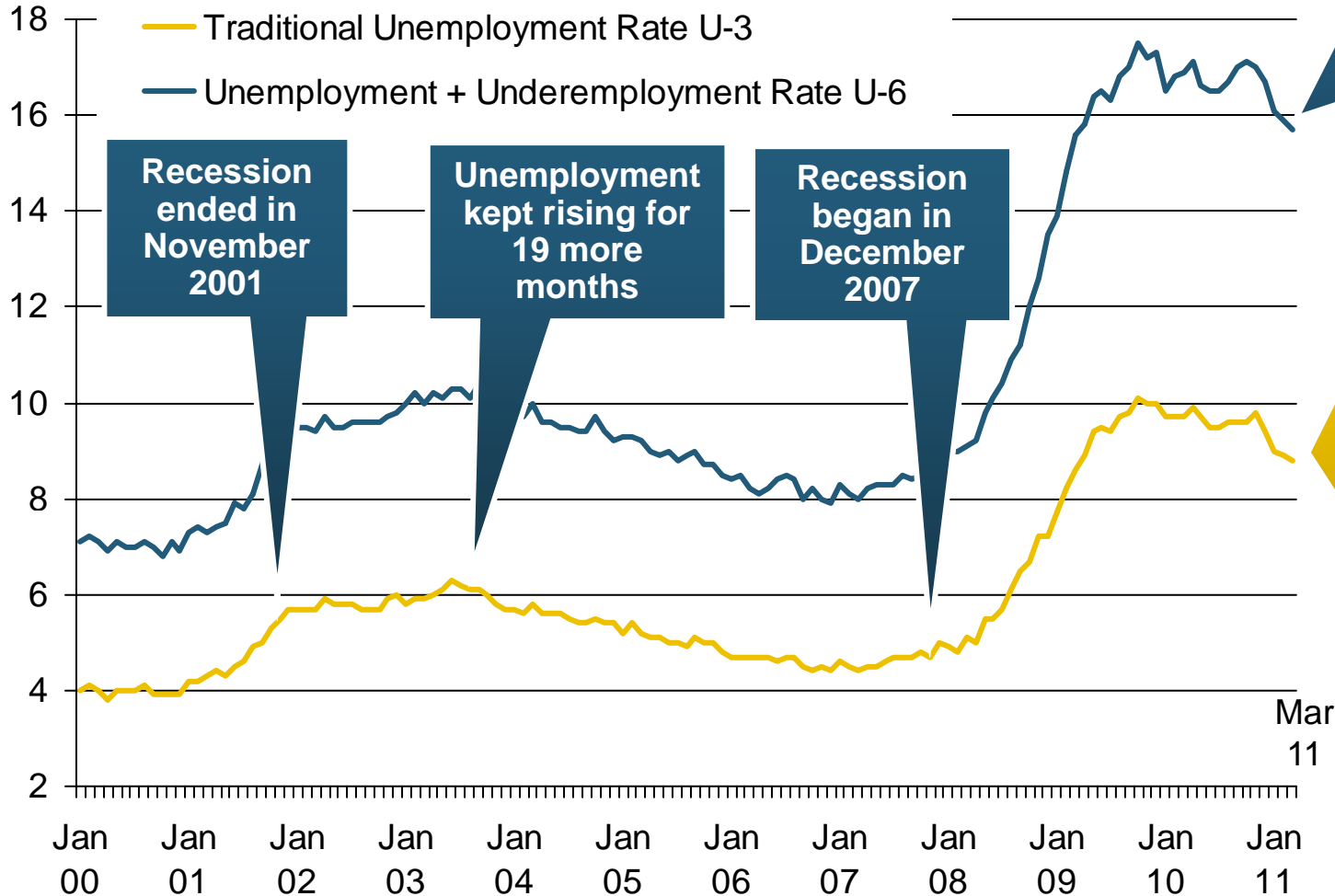
# Labor Market Trends

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



# Unemployment and Underemployment Rates: Falling Faster in 2011?

January 2000 through March 2011, Seasonally Adjusted (%)



**U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 15.7% in March 2011**

**Unemployment rate fell to 8.8% in March**

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

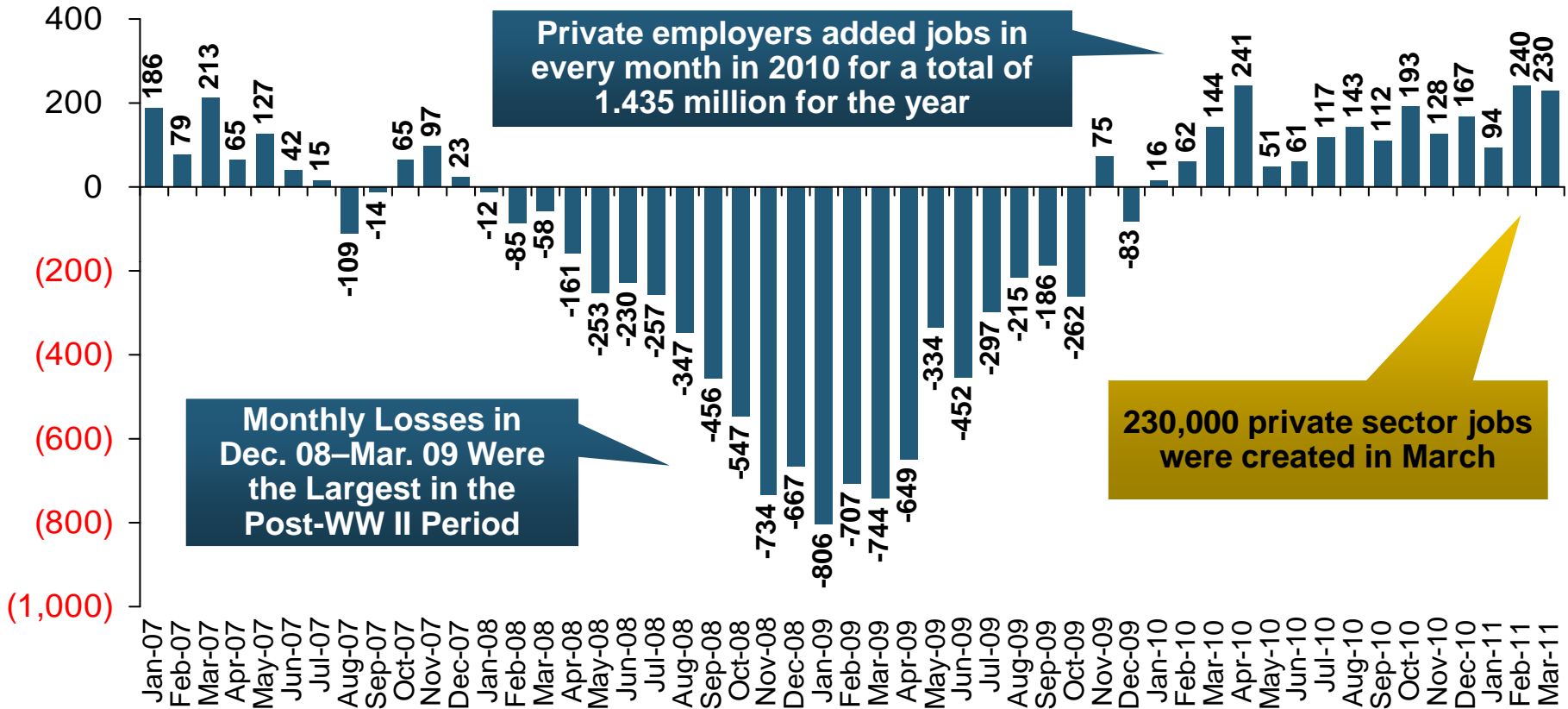
**Peak rate in the last 30 years: 10.8% in November - December 1982**

**Stubbornly high unemployment and underemployment will constrain payroll growth, which directly affects WC exposure**

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

# Monthly Change in Private Employment

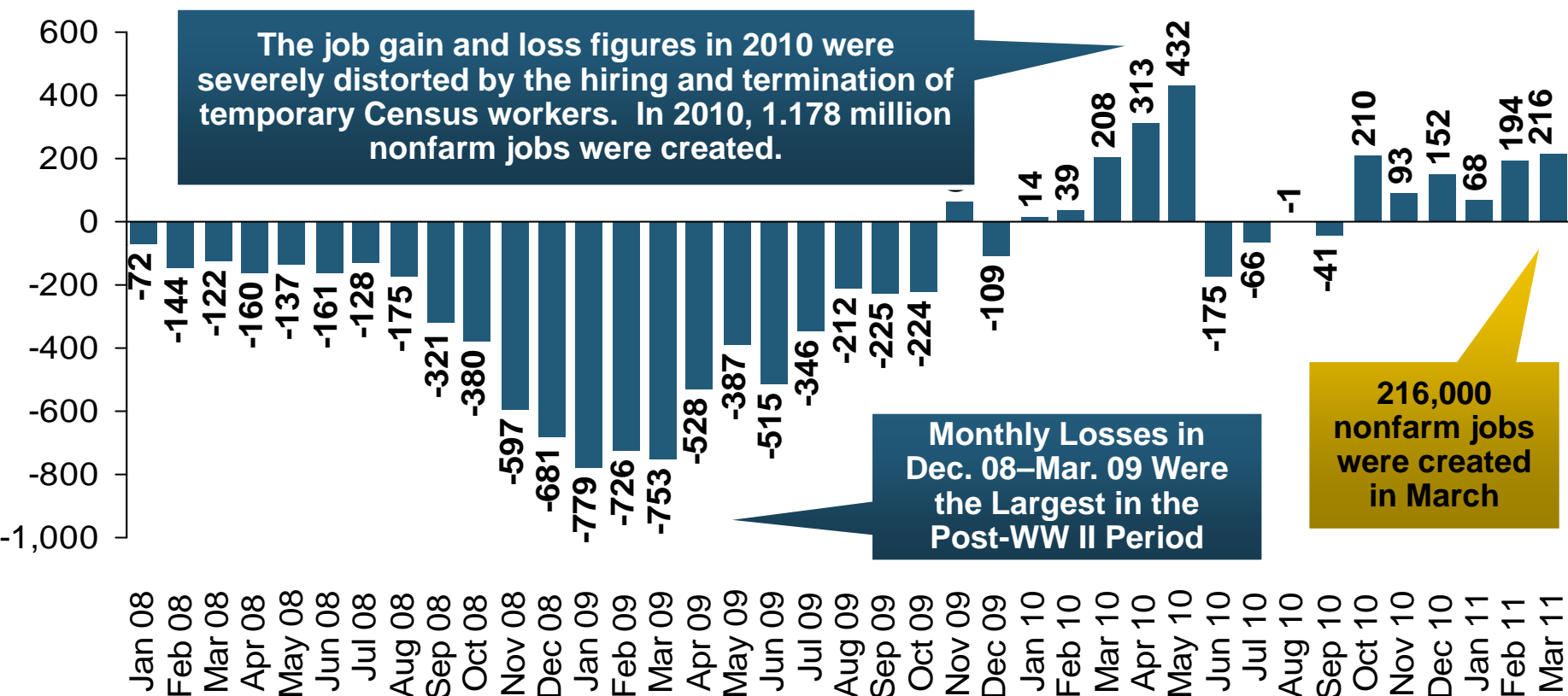
January 2008 through March 2011\* (Thousands)



**Private Employers Added 1.999 million Jobs Since Jan. 2010 After Having Shed 4.66 Million Jobs in 2009 and 3.81 Million in 2008 (Local Govt. Employment is Down 416,000 Since Sept. 2008 Peak)**

# Monthly Change Employment\*

January 2008 through March 2011\* (Thousands)



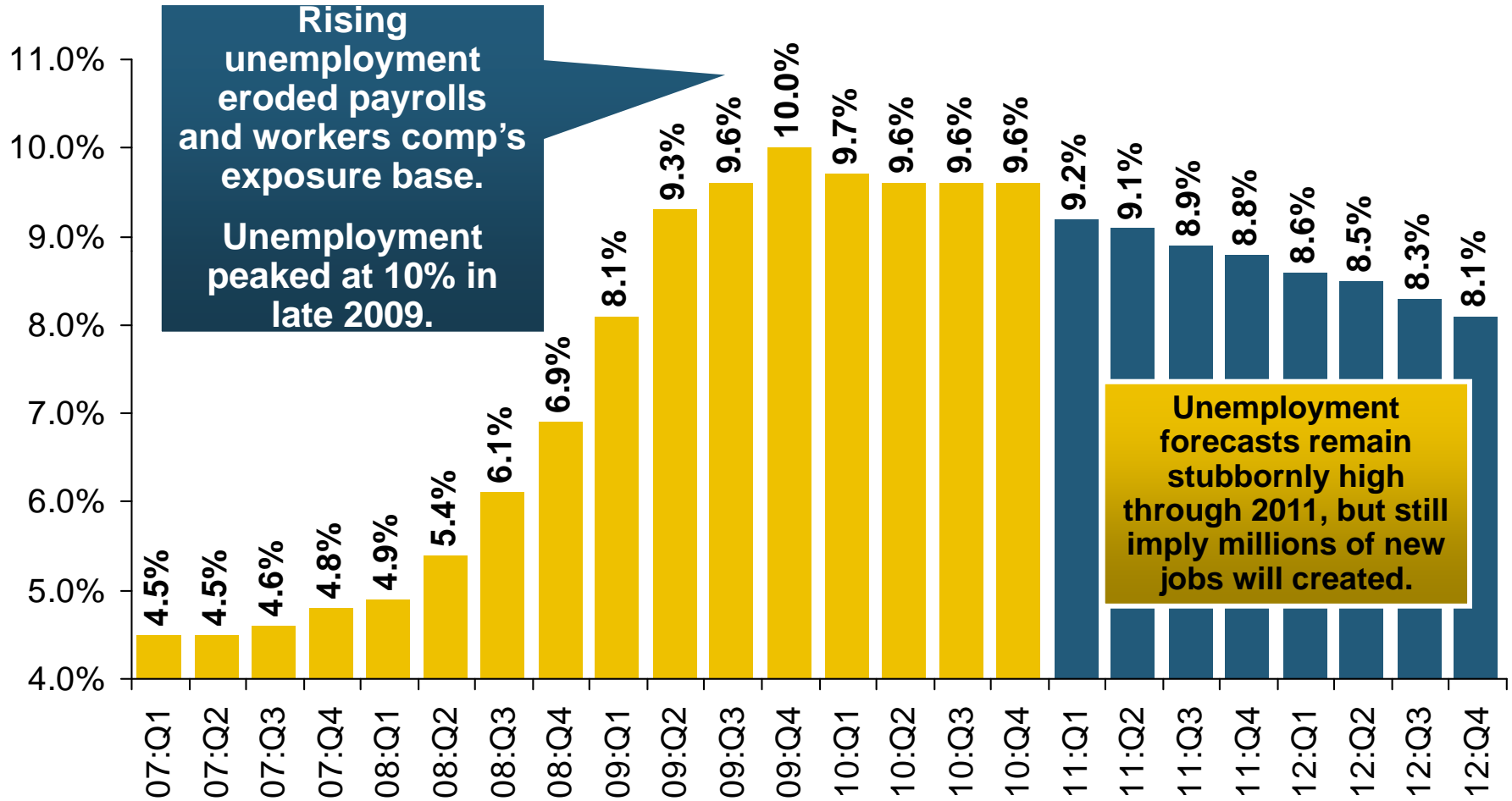
**Job Losses Since the Recession Began in Dec. 2007 Peaked at 8.4 Mill in Dec. 09; Stands at 6.2 Million Through March 2011; 13.5 Million People are Now Defined as Unemployed**

\*Estimate based on Reuters poll of economists.

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

# US Unemployment Rate

2007:Q1 to 2012:Q4F\*

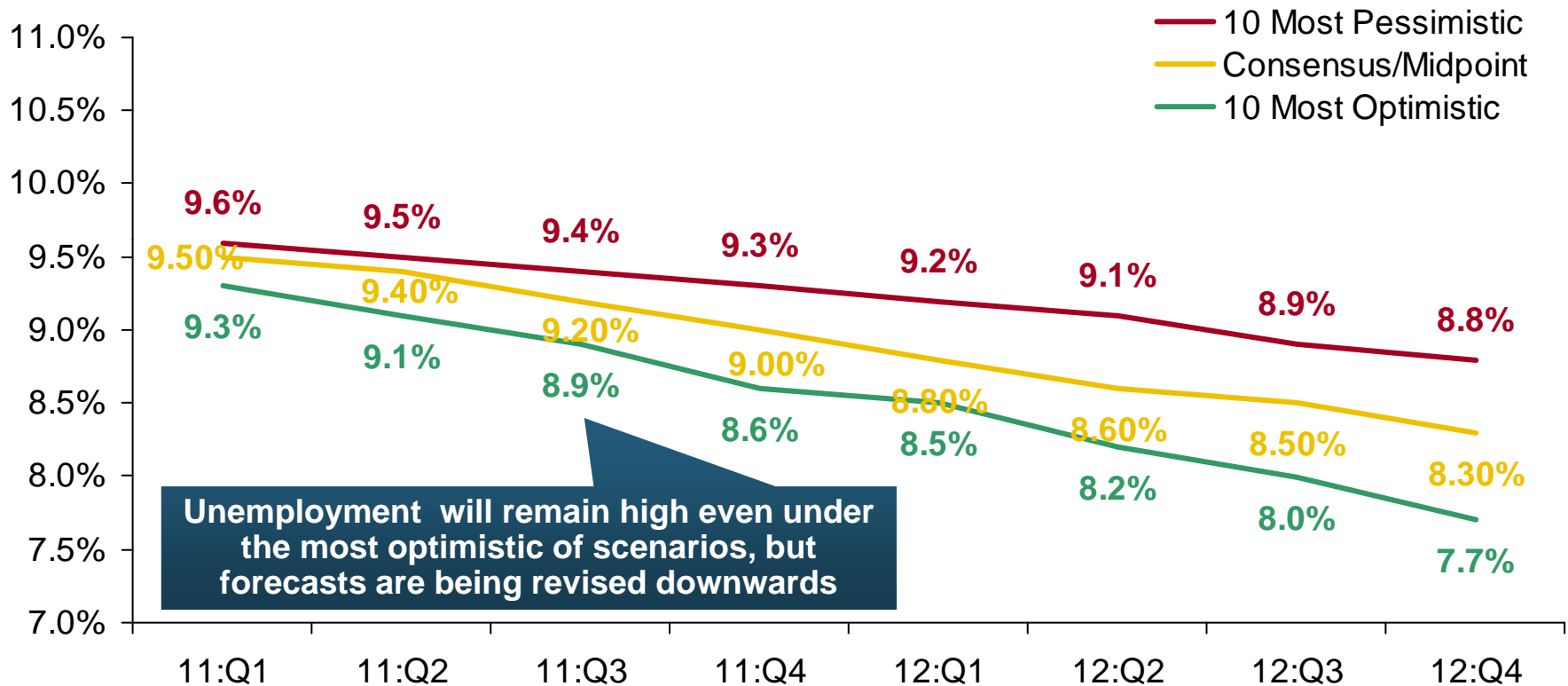


\*  = actual;  = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (3/11); Insurance Information Institute

# US Unemployment Rate Forecasts

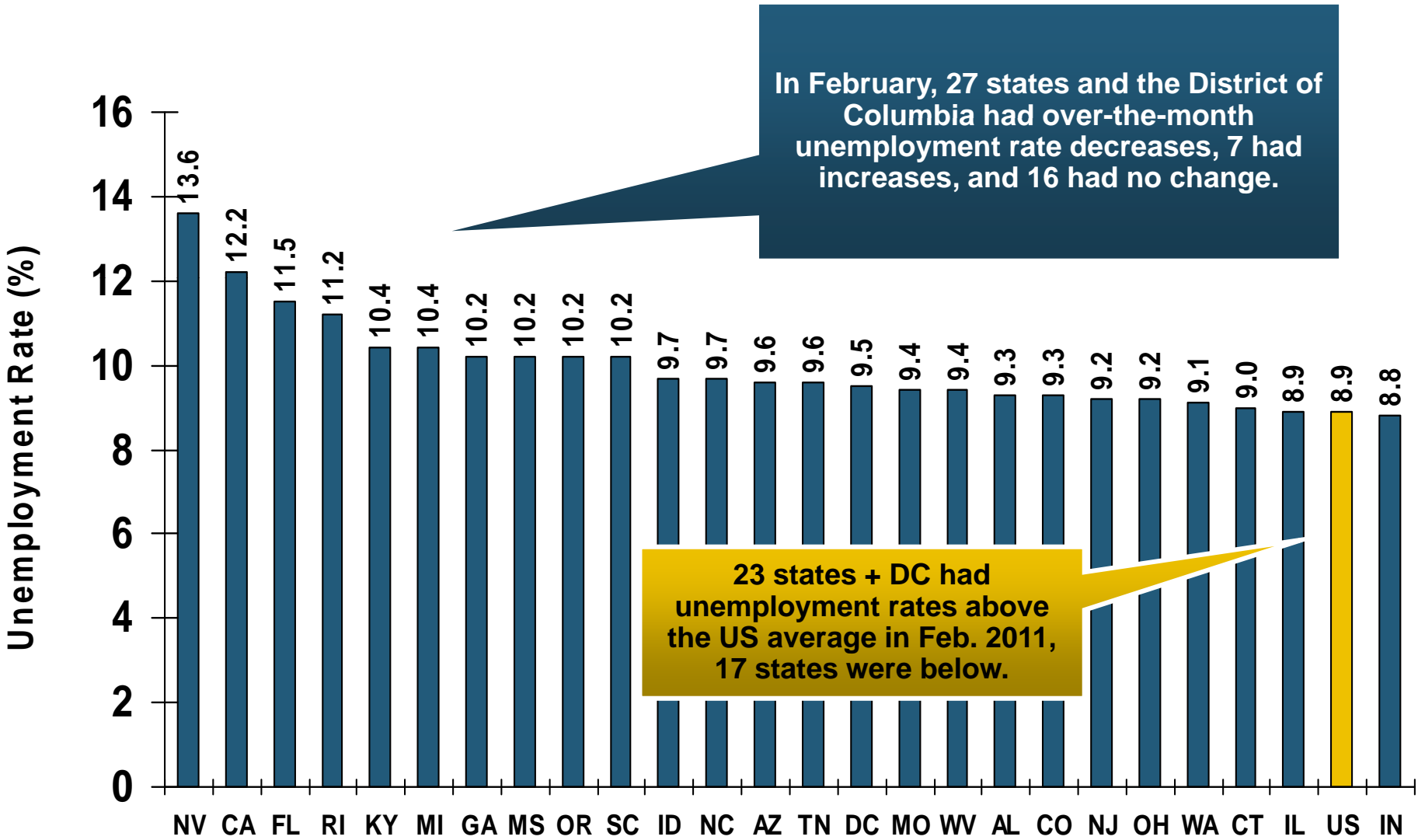
Quarterly, 2011:Q1 to 2012:Q4



Unemployment will remain high even under the most optimistic of scenarios, but forecasts are being revised downwards

**Stubbornly High Unemployment Will Slow the Recovery of the Workers Comp Exposure Base**

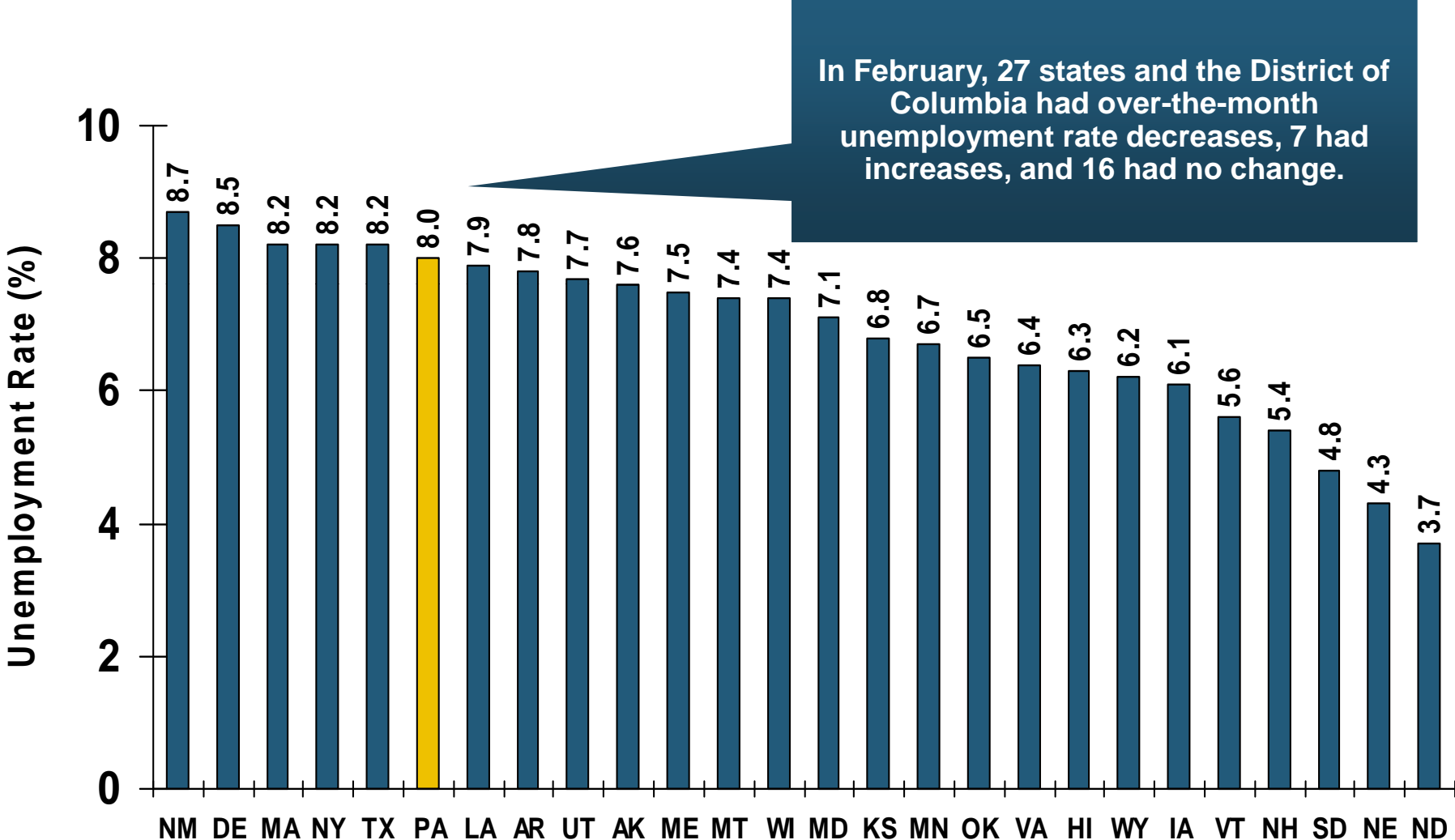
# Unemployment Rates by State, February 2011: Highest 25 States\*



\*Provisional figures for February 2011, seasonally adjusted.

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

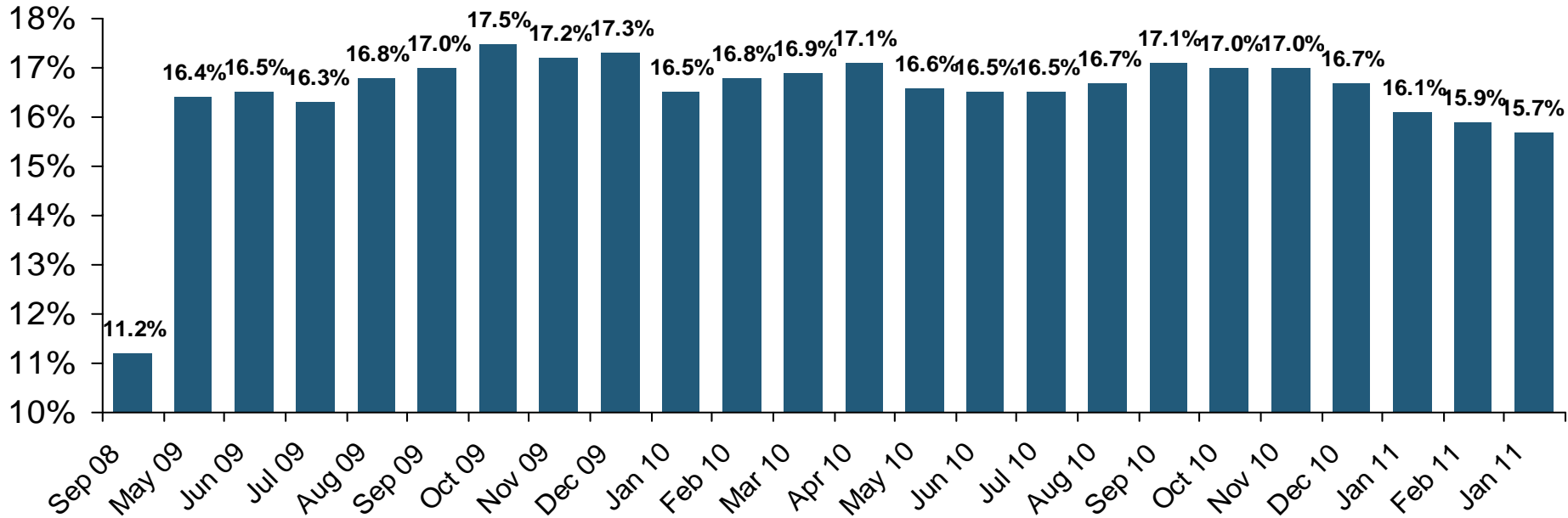
# Unemployment Rates By State, February 2011: Lowest 25 States\*



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

# Labor Underutilization: Broader than Just Unemployment

## % of Labor Force



**Marginally Attached and Unemployed Persons Account for 15.7% of the Labor Force in March 2011 (1 Out Every 6.4 People). Unemployment Rate Alone was 8.8%. Underutilization Shows a Broader Impact on WC and Other Commercial Exposures**

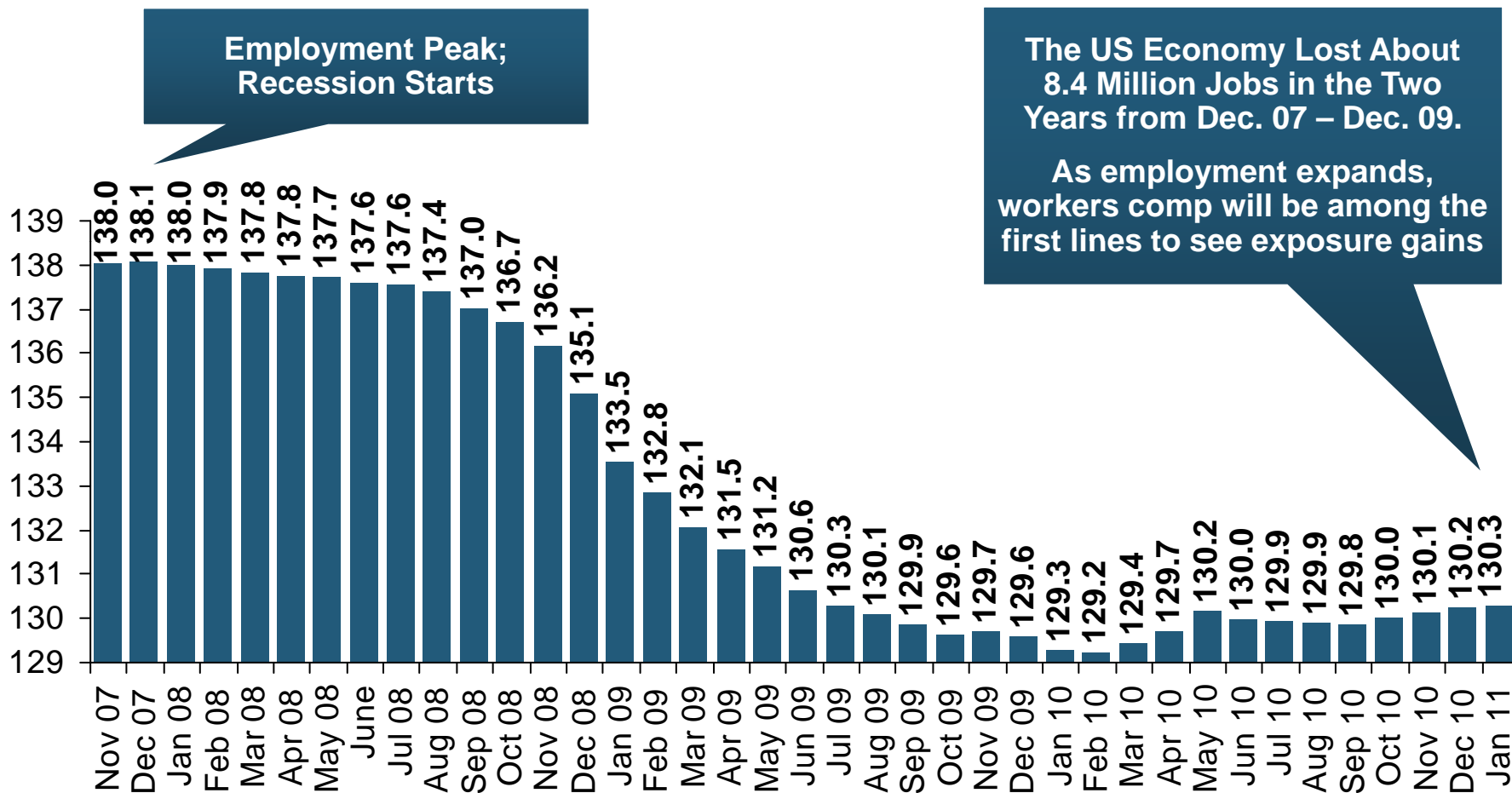
NOTE: Marginally attached workers are persons who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the recent past. Discouraged workers, a subset of the marginally attached, have given a job-market related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

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



# US Nonfarm Private Employment

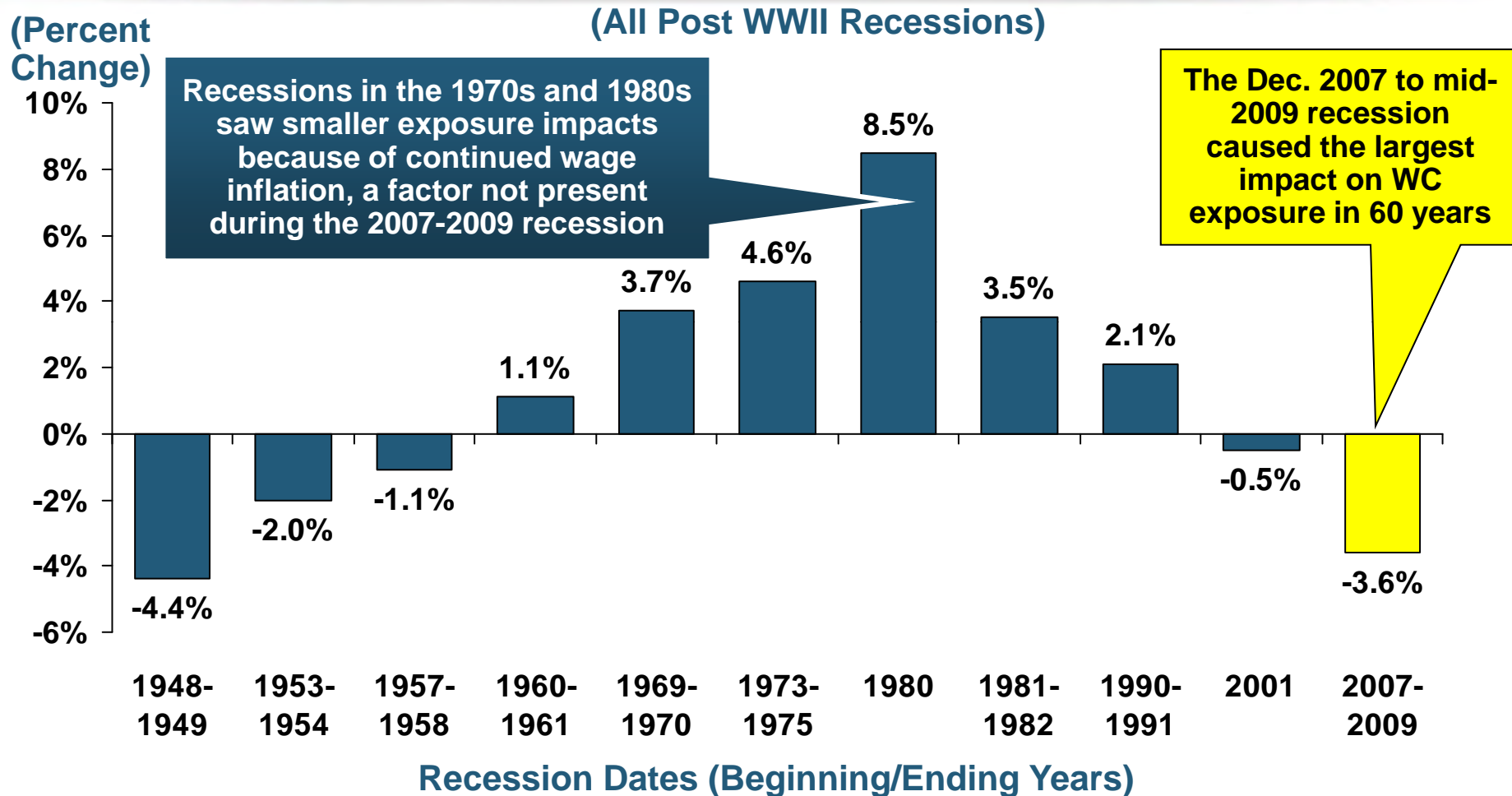
Monthly, Nov 2007 – January 2011 (Millions)



Seasonally adjusted.

Source: US Bureau of Labor Statistics

# Estimated Effect of Recessions\* on Payroll (Workers Comp Exposure)

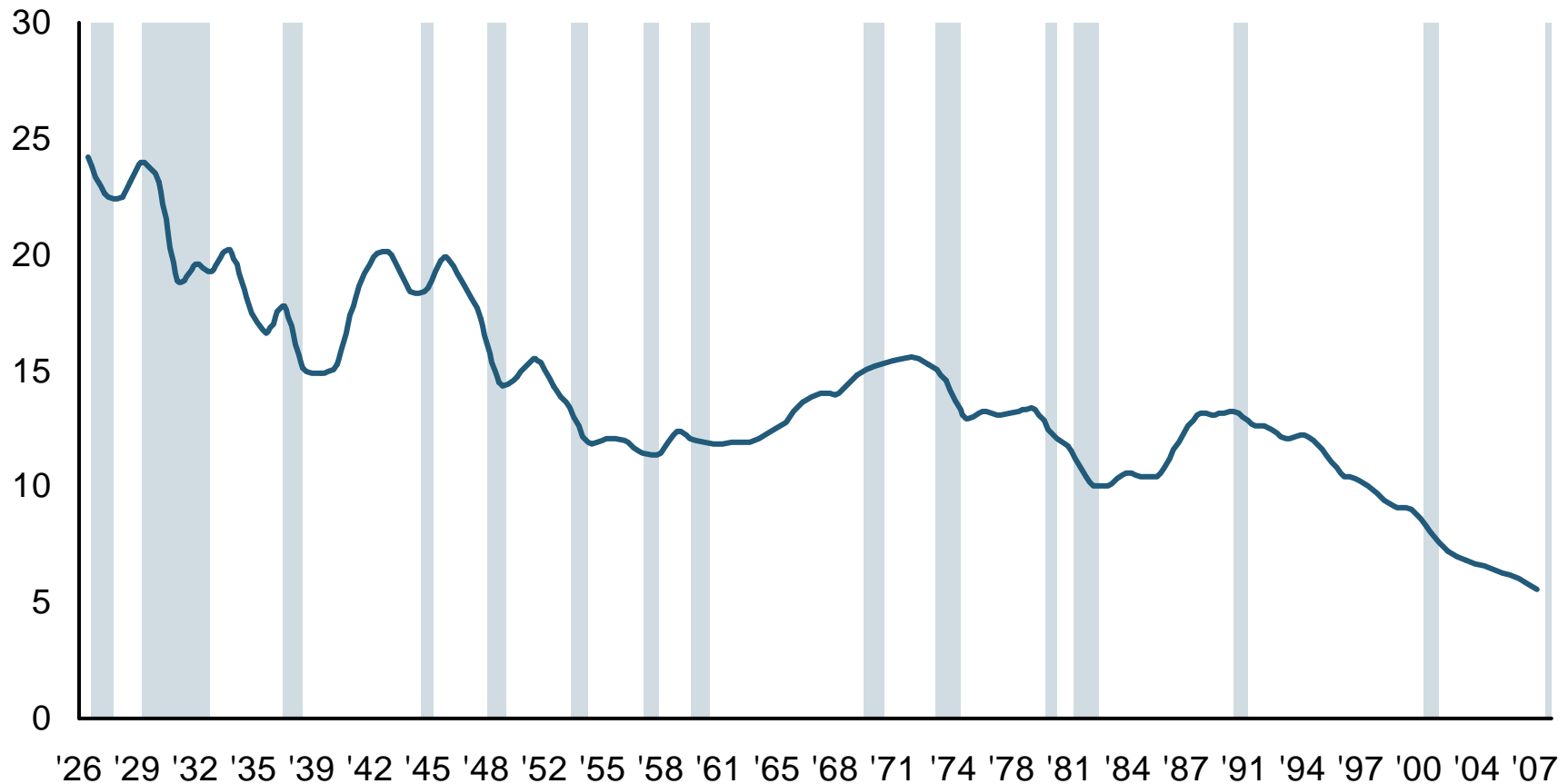


\*Data represent maximum recorded decline over 12-month period using annualized quarterly wage and salary accrual data  
 Source: Insurance Information Institute research; Federal Reserve Bank of St. Louis (wage and salary data); National Bureau of Economic Research (recession dates).

# Frequency: 1926–2008

## A Long-Term Drift Downward

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



Note: Recessions indicated by gray bars.

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

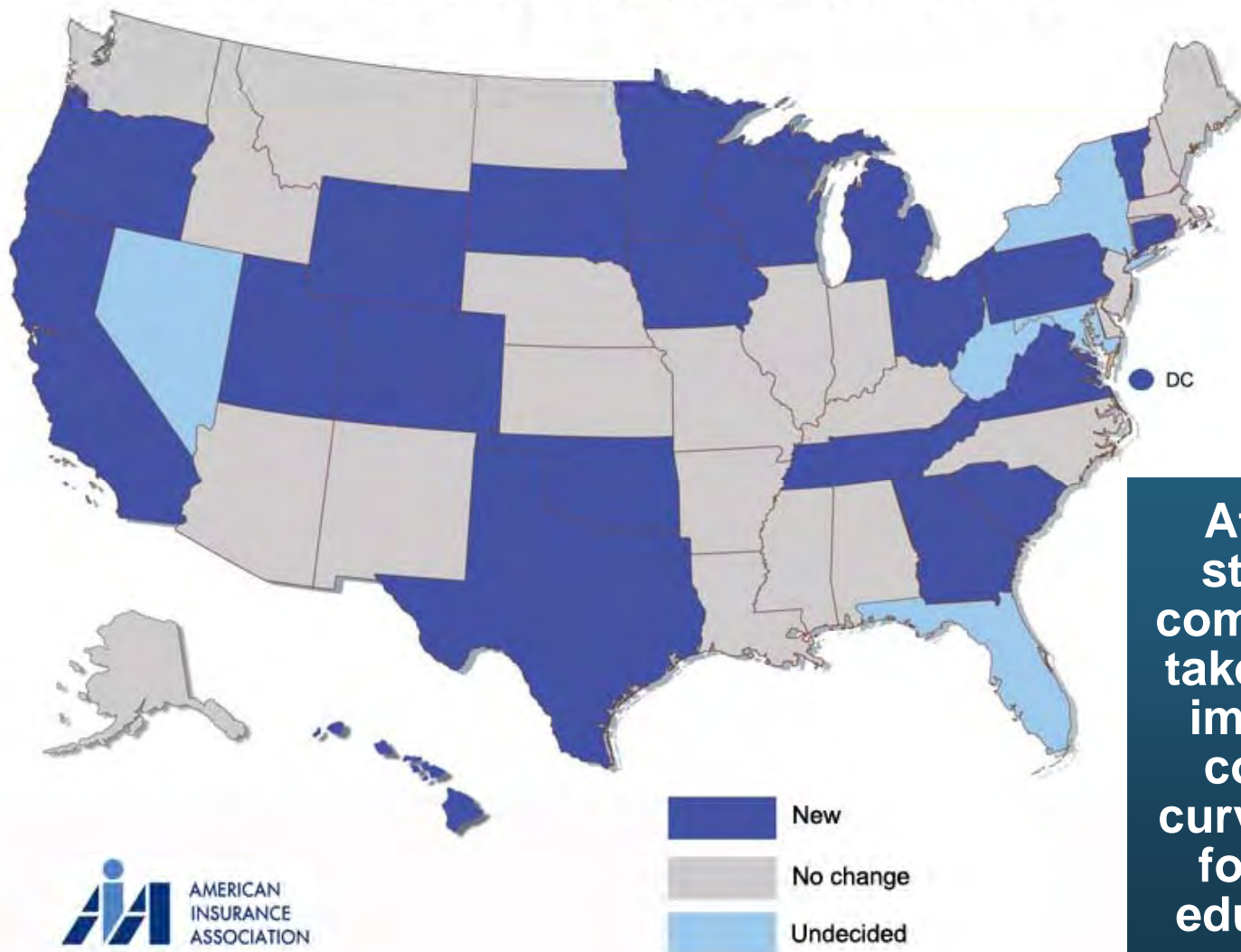
# Regulatory Concerns

**Very High State Regulator  
Turnover in 2011**

**Federal Insurance Office—  
A New Unknown**

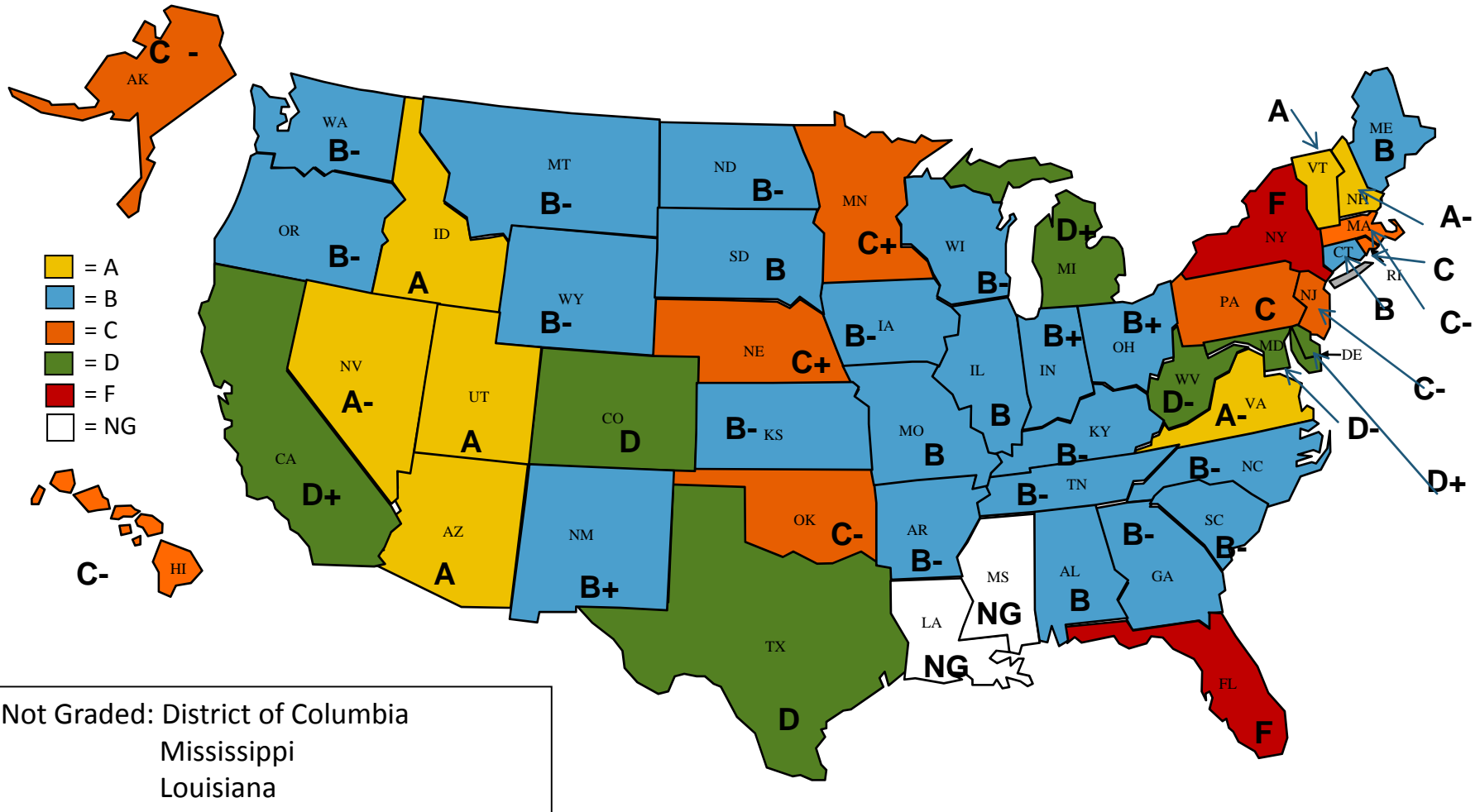
# Turnover Among Insurance Regulators is Very High in 2011

## 2011 Insurance Commissioners Chart



At least 22 new state insurance commissioners will take office in 2011, implying a steep collective learn curve and the need for a significant educational effort

# 2010 Property and Casualty Insurance Report Card



# Financial Services Reform: Impact on Insurers

- **Resolution Authority/Systemic Risk:** Regulators may seize and break-up troubled financial firms whose collapse might cause widespread damage (i.e., systemically important companies)
  - Regulator would recoup fees with more than \$50B in assets
  - Sets up liquidation procedure run by FDIC
  - Establishes 10-member oversight council to monitor and address risks to financial stability
  - Eliminates Office of Thrift Supervision
- **Volcker Rule:** Largely bars largest firms largest investment firms from trading with their own funds
  - Exempts insurers, asset managers and trust/custody banks, though Fed could impose Volcker Rule and capital standards on individual firms if warranted
- **Derivatives:** Requires routine derivatives to be traded on exchanges and routed through clearinghouses
  - Imposes capital, margin, reporting and record keeping and business conduct rules on firms that deal in derivatives
- **Consumer Financial Protection Bureau:** To be housed within Fed
  - Will it be limited to banks/creditors, but concern that it could morph
- **Federal Insurance Office:** To be established within Treasury to monitor and gather information in the insurance industry
  - IL Insurance Director Michael McGraith will be FIO's first director

Insurance Information Institute Online:

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

*Thank you for your time  
and your attention!*

*Twitter: [twitter.com/bob\\_hartwig](https://twitter.com/bob_hartwig)*

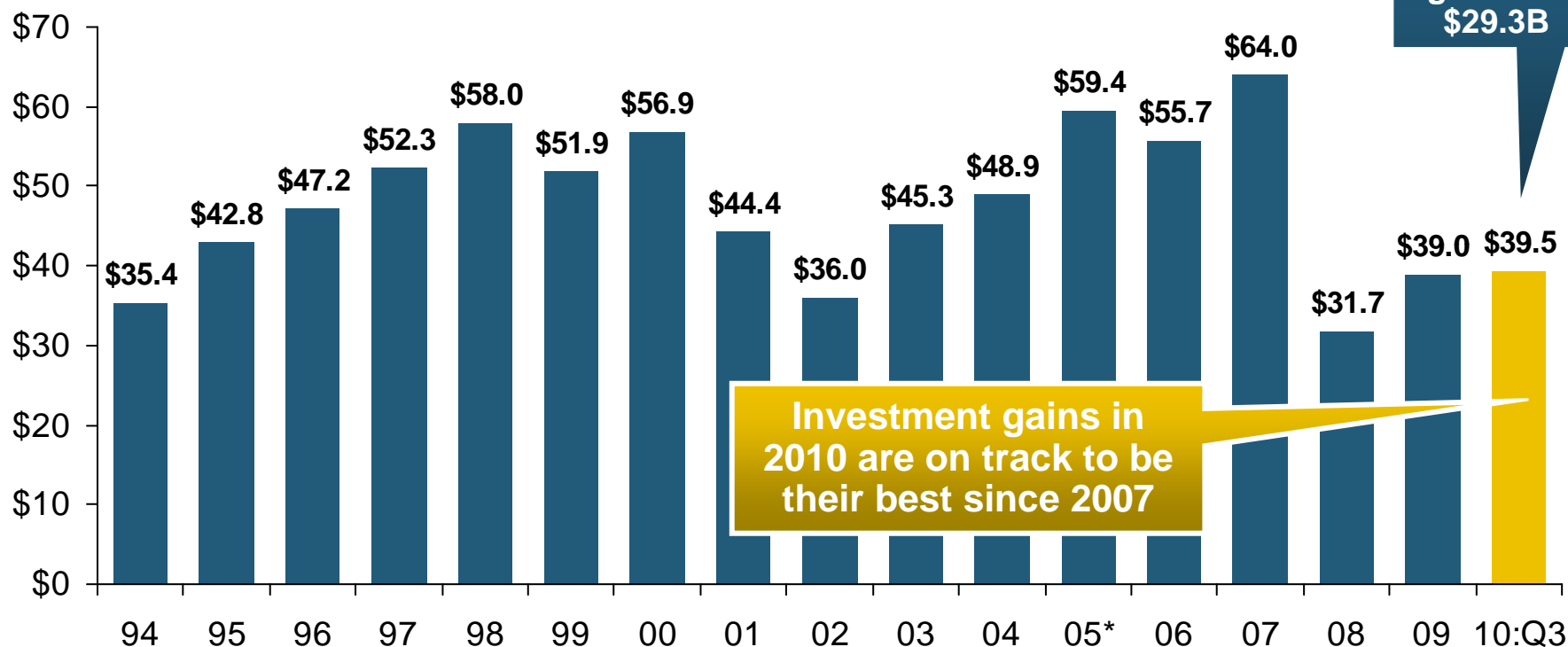


# INVESTMENTS: THE NEW REALITY

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

# Property/Casualty Insurance Industry Investment Gain: 1994–2010:Q3<sup>1</sup>

(\$ Billions)



2009:Q3  
gain was  
\$29.3B

Investment gains in  
2010 are on track to be  
their best since 2007

**In 2008, Investment Gains Fell by 50% Due to Lower Yields and Nearly \$20B of Realized Capital Losses**  
**2009 Saw Smaller Realized Capital Losses But Declining Investment Income**  
**Investment Gains Recovered Significantly in 2010**

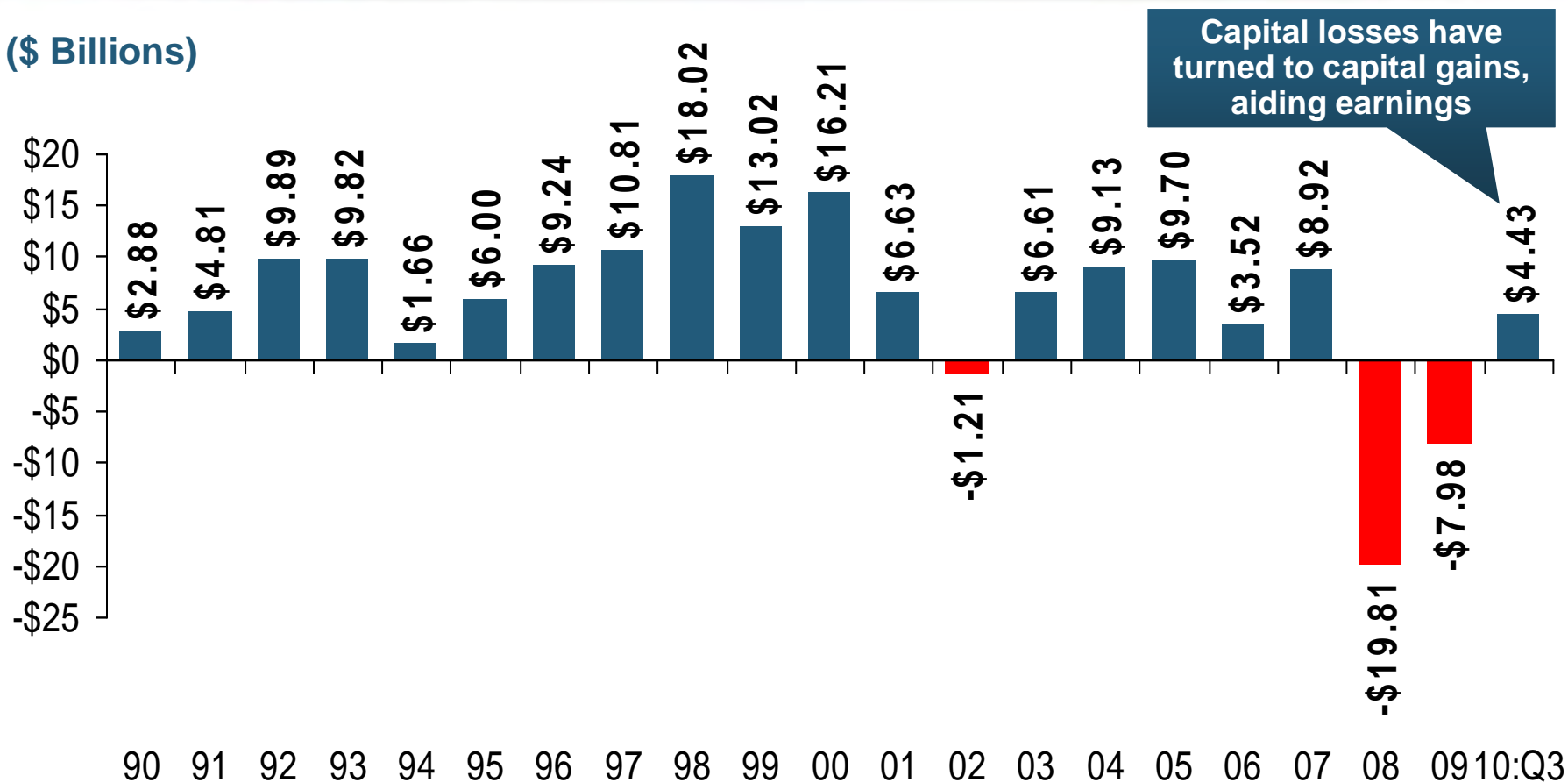
<sup>1</sup> Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.

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

Sources: ISO; Insurance Information Institute.

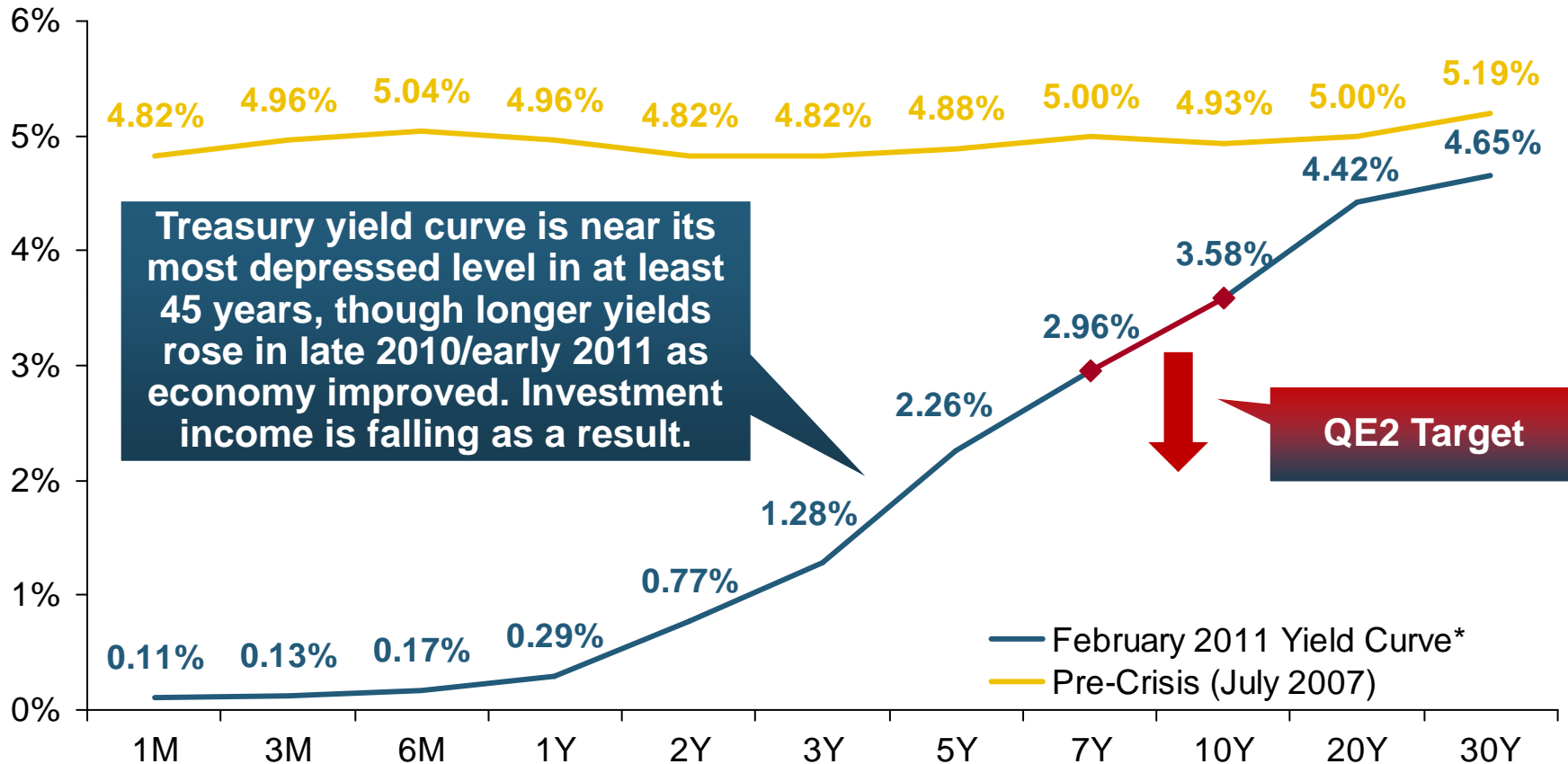
# P/C Insurer Net Realized Capital Gains, 1990-2010:Q3

(\$ Billions)



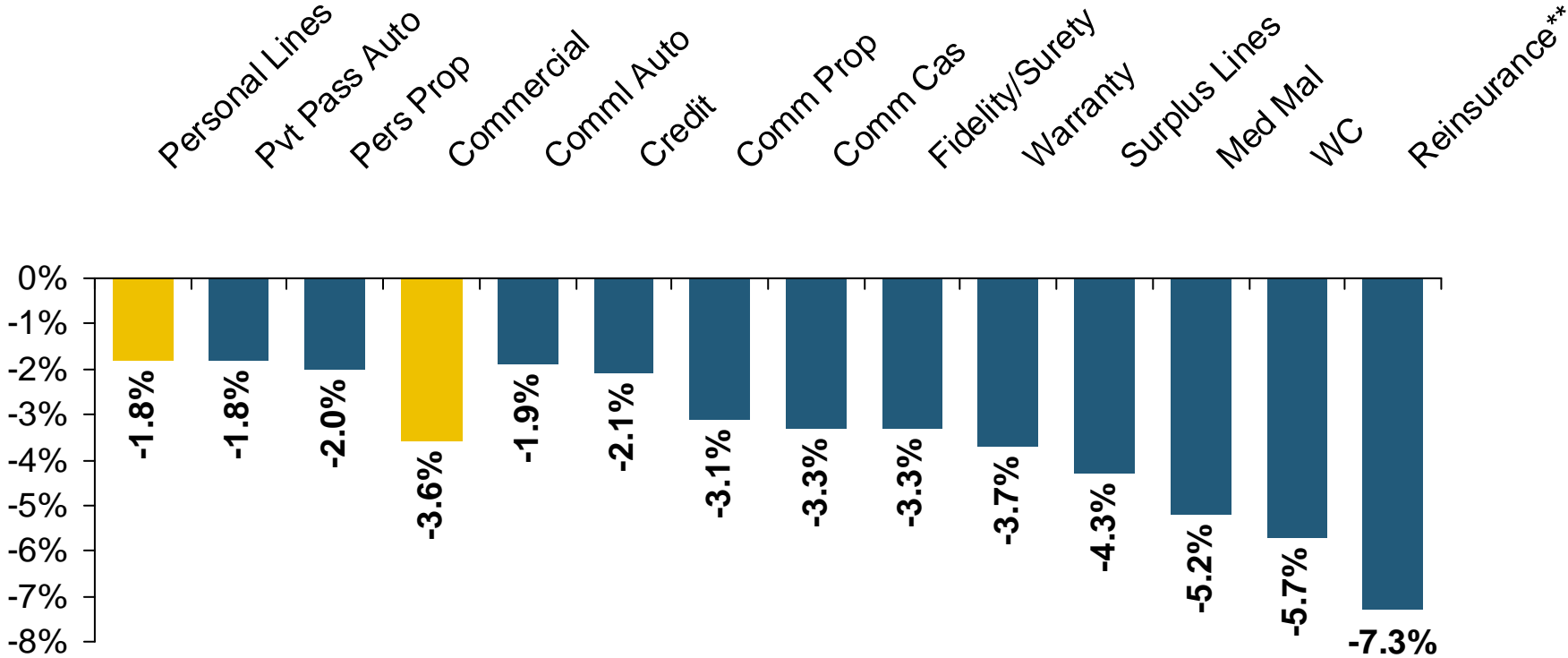
**Realized Capital Losses Were the Primary Cause of 2008/2009's Large Drop in Profits and ROE and Were a Major Driver of Its Recovery in 2010**

# Treasury Yield Curves: Pre-Crisis (July 2007) vs. February 2011



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

# Reduction in Combined Ratio Necessary to Offset 1% Decline in Investment Yield to Maintain Constant ROE, by Line\*



**Lower Investment Earnings Place a Greater Burden on Underwriting and Pricing Discipline**

\*Based on 2008 Invested Assets and Earned Premiums

\*\*US domestic reinsurance only

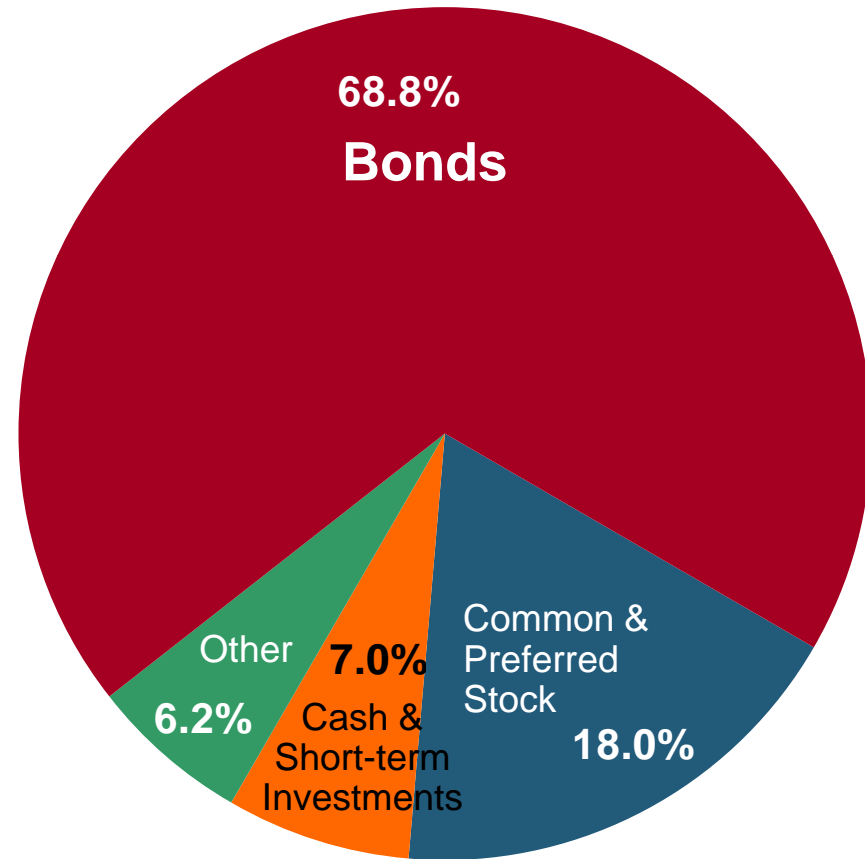
Source: A.M. Best; Insurance Information Institute.

# Distribution of P/C Insurance Industry's Investment Portfolio

## Portfolio Facts as of 12/31/2009

- Invested assets totaled \$1.26 trillion
- Generally, insurers invest conservatively, with over 2/3 of invested assets in bonds
- Only 18% of invested assets were in common or preferred stock

As of December 31, 2009



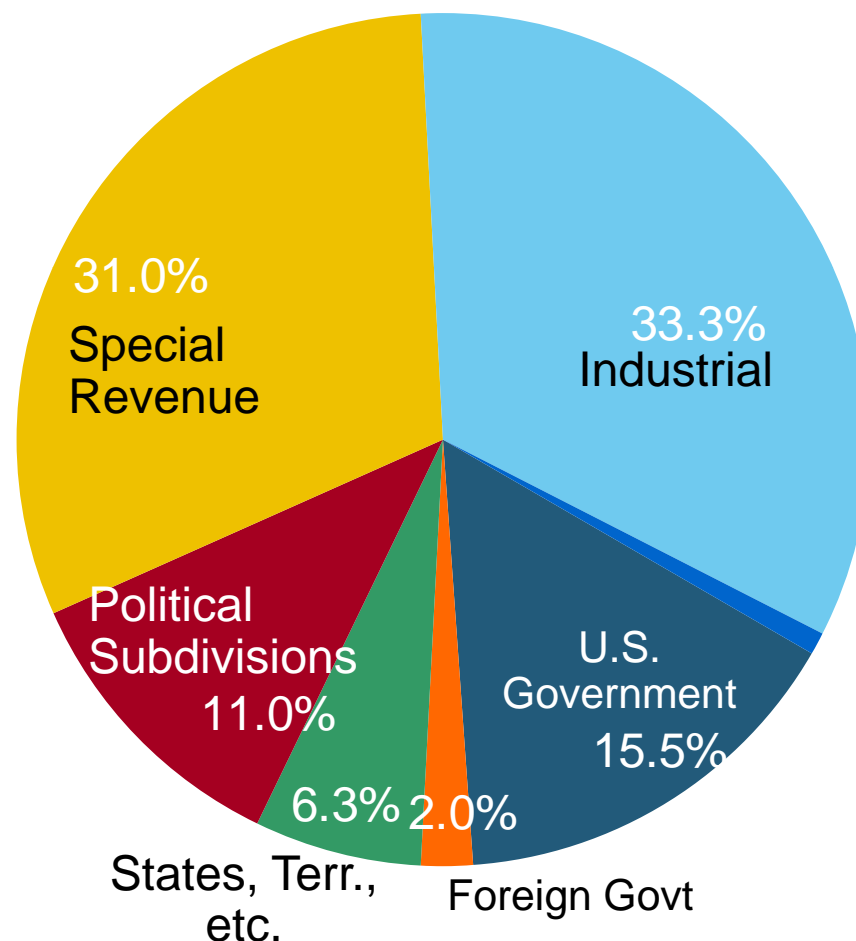
# 2011 Financial Overview

## About Half of the P/C Insurance Industry's Bond Investments Are in Municipal Bonds

### Bond Investment Facts as of 12/31/09

- Investments in "Political Subdivision [of states]" bonds were \$102.5 billion
- Investments in "States, Territories, & Possessions" bonds were \$58.9 billion
- Investments in "Special Revenue" bonds were \$288.2 billion
- All state, local, and special revenue bonds totaled 48.2% of bonds, about 35.7% of total invested assets

As of December 31, 2009

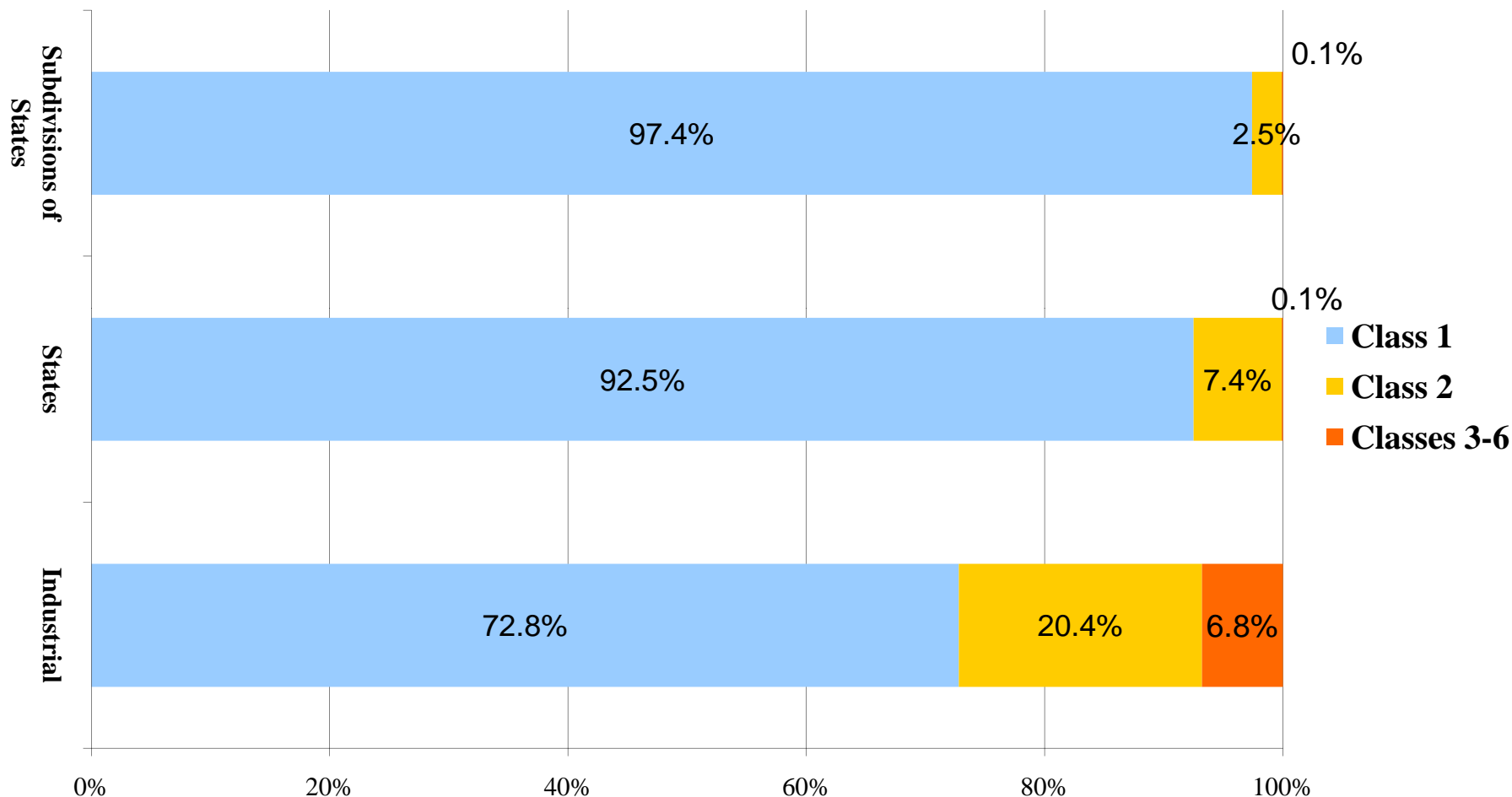


- **Most Government Entities Are Under Financial Distress**
  - ◆ Plunging tax receipts, higher outlays, pension obligations
- **Analyst Meredith Whitney in Dec. 2010 Said (on 60 Minutes) that a “Spate” of 50-100 Sizeable Defaults Totaling “Hundreds of Billions of Dollars**
  - ◆ Few other analysts believe such an outcome is likely, though most acknowledge that some are likely
- **The 3 Major Ratings Agencies Report Cumulative Muni Bond Default Rates Ranging from 0.04% to 0.29% from 2000-2009**
  - ◆ These figures indicate that muni defaults are very rare
  - ◆ Longer-term review corroborates rarity of such defaults
  - ◆ Even in the event of default municipalities often (eventually) make good on the debt
- **Municipalities Have Many Tools to Meet Obligations**
- **Revenues to State and Local Governments Are Starting to Recover**



# 2011 Financial Overview

## When P/C Insurers Invest in Higher Risk Bonds, It's Corporates, Not Munis



**The NAIC's Securities Valuation Office puts bonds into one of 6 classes: class 1 has the lowest expected impairments; successively higher numbered classes imply increasing impairment likelihood.**

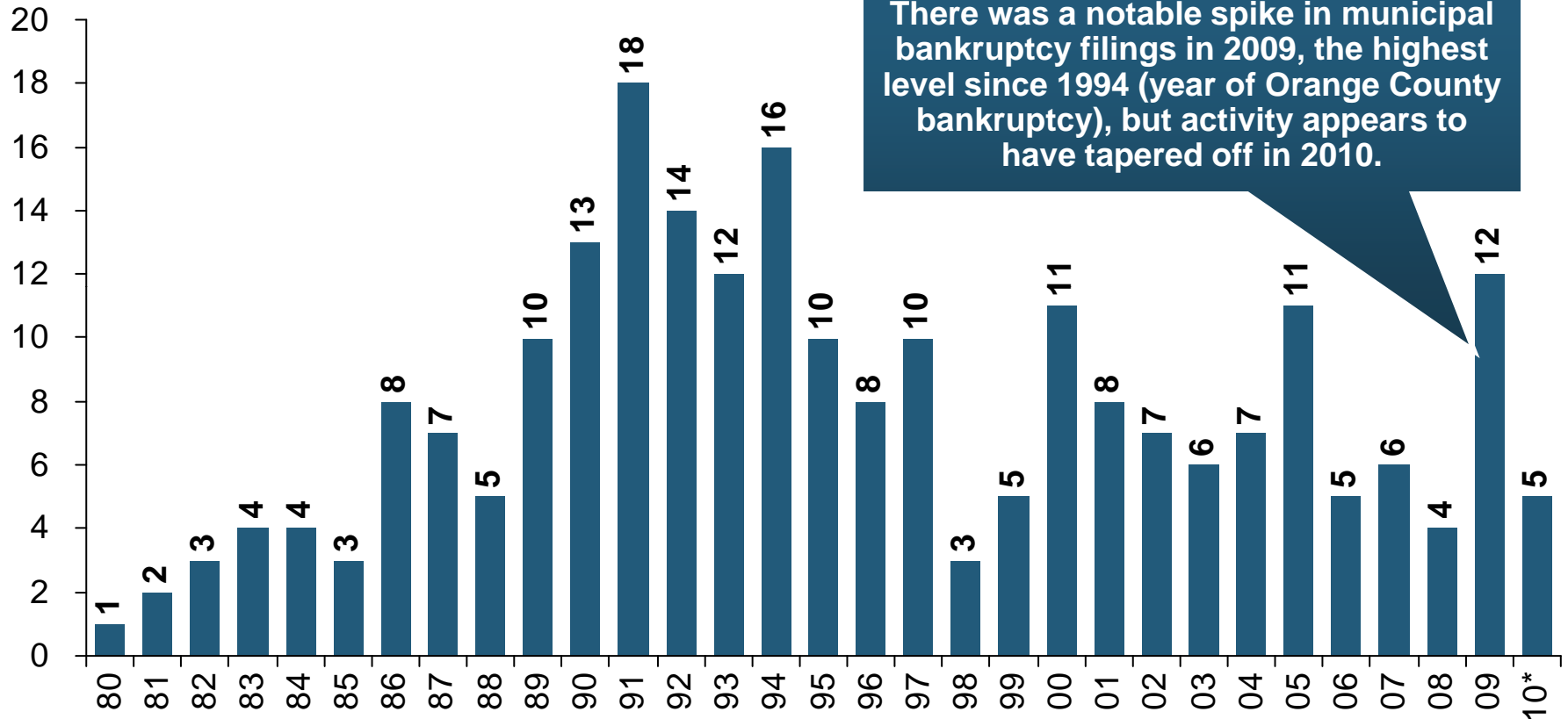
Data are as of year-end 2009.

Sources: SNL Financial; Insurance Information Institute.

# MUNICIPAL BOND CONCERNS

**Collapse of Muni Bond Market is  
Highly Unlikely**

# Chapter 9 Bankruptcy Filings: 1980-2010:Q3



**Chapter 9 bankruptcy allows for the reorganization of “municipalities,” which include cities, towns, villages, counties, taxing districts, municipal utilities and school districts.**

\*Through Q3 2010.

Note: Chapter 9 bankruptcy allows for the reorganization of

Source: American Bankruptcy Institute; Insurance Information Institute.

# Muni Bond Issuance: 2000 – 2011\*

## Borrowing Slows

Muni-issuance is on pace for lowest quarter in 11 years.

\$160 billion



Note: 2011 as of March 4

Source: Thomson Reuters

Muni issuance is was down in early 2011 after the end of a special federal program in 2010 and amid the fiscal problems of many states and municipalities

\*Through March 4, 2011

Source: Thompson Reuters; Wall Street Journal; Insurance Information Institute.

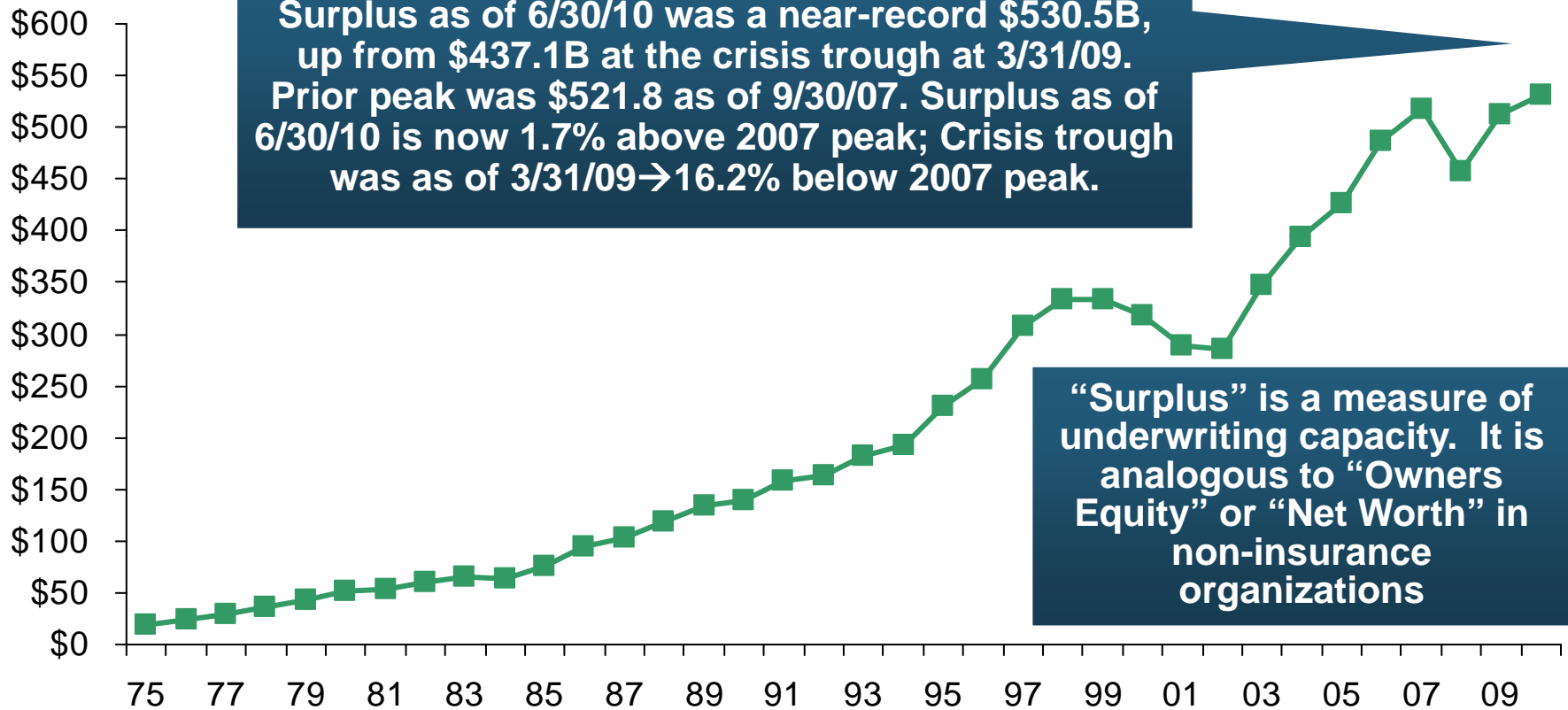
# **CAPITAL MANAGEMENT & LEVERAGE**

**Excess Capital is a Major Obstacle  
to a Market Turn;**

**Capital Management Decisions Will  
Impact Market Direction**

# US Policyholder Surplus: 1975–2010\*

(\$ Billions)

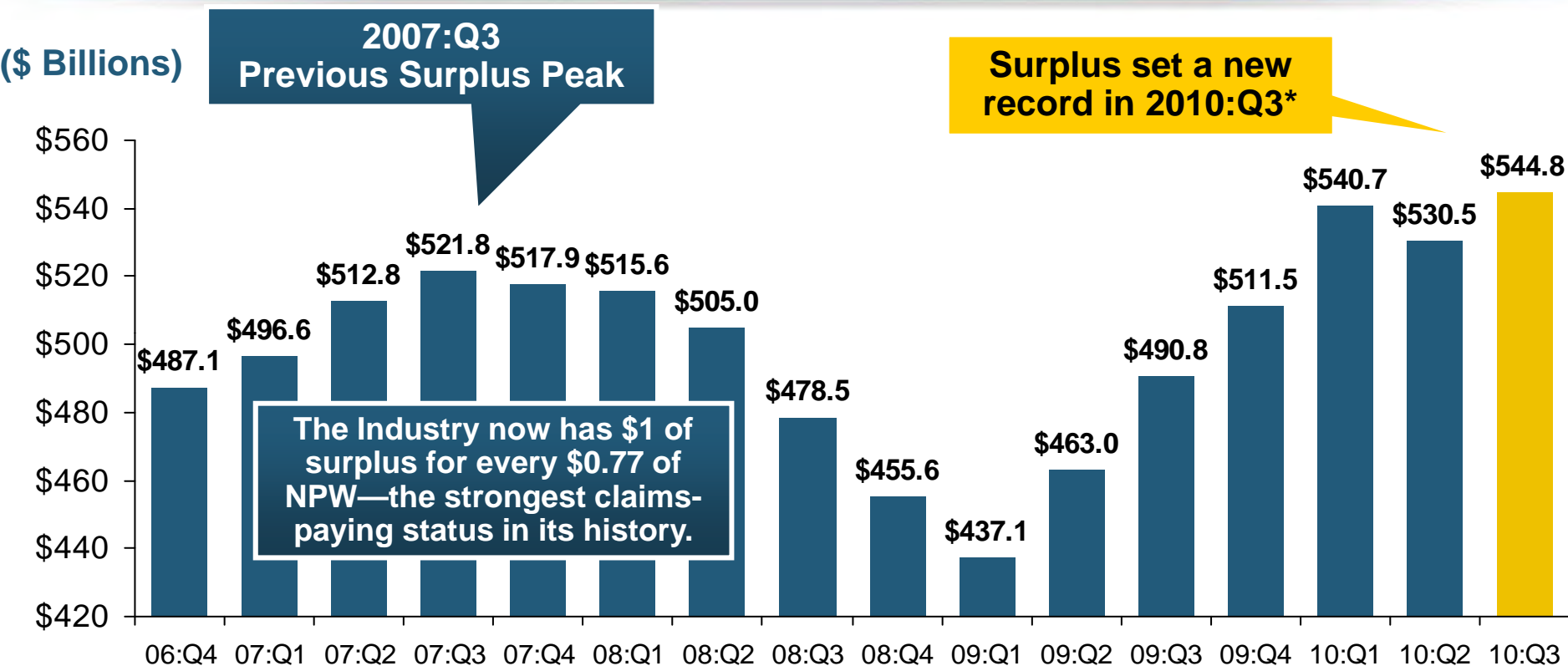


**The Premium-to-Surplus Ratio Stood at \$0.80:\$1 as of 6/30/10, A Record Low (at Least in Recent History)\*\***

\* 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:Q3



## Quarterly Surplus Changes Since 2007:Q3 Peak

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

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

**09:Q3: -\$31.0B (-5.9%)**

**09:Q4: -\$10.3B (-2.0%)**

**10:Q1: +\$18.9B (+3.6%)**

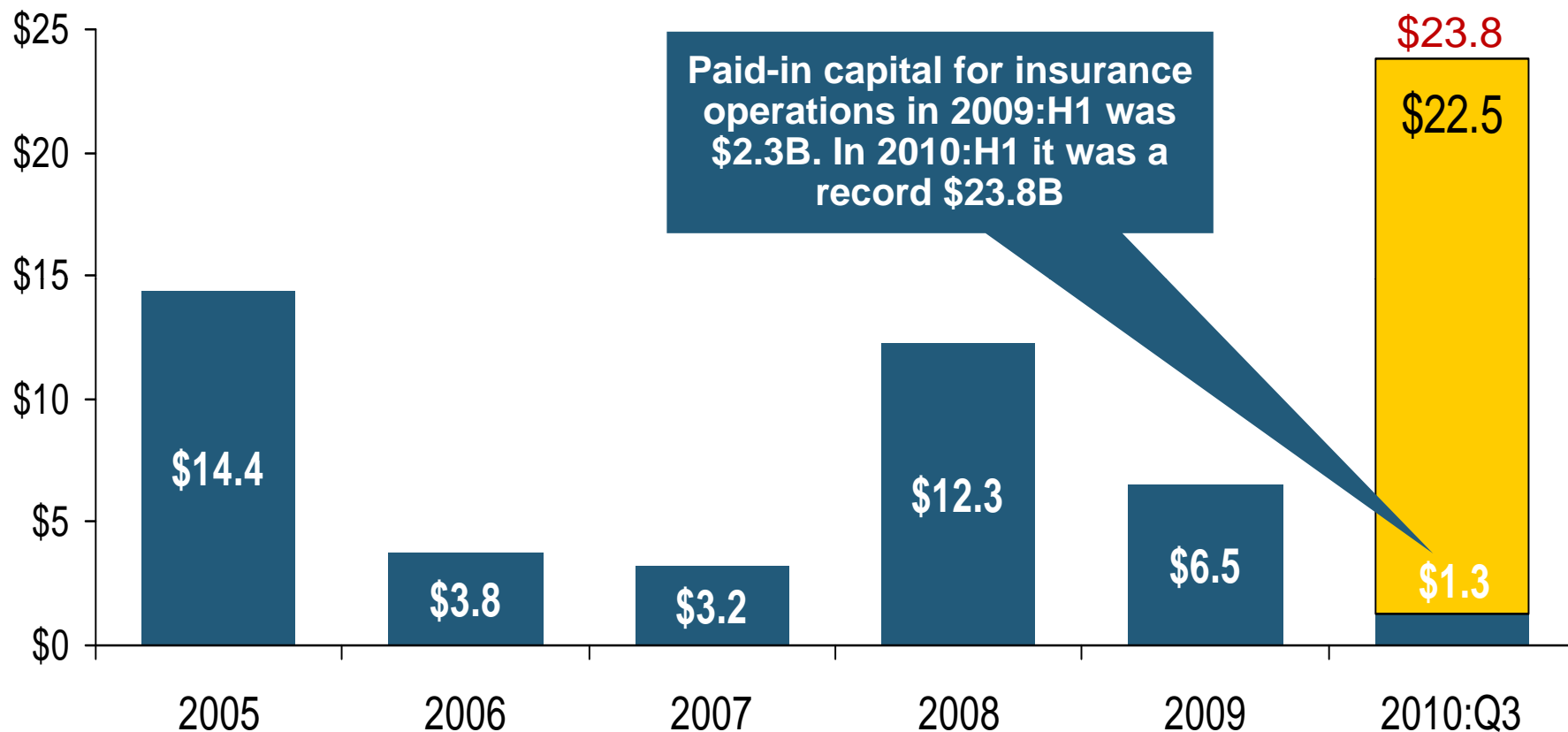
**10:Q2: +\$8.7B (+1.7%)**

**10:Q3: +\$23.0B (+4.4%)**

\*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.

# Paid-in Capital, 2005–2010:Q3

(\$ Billions)

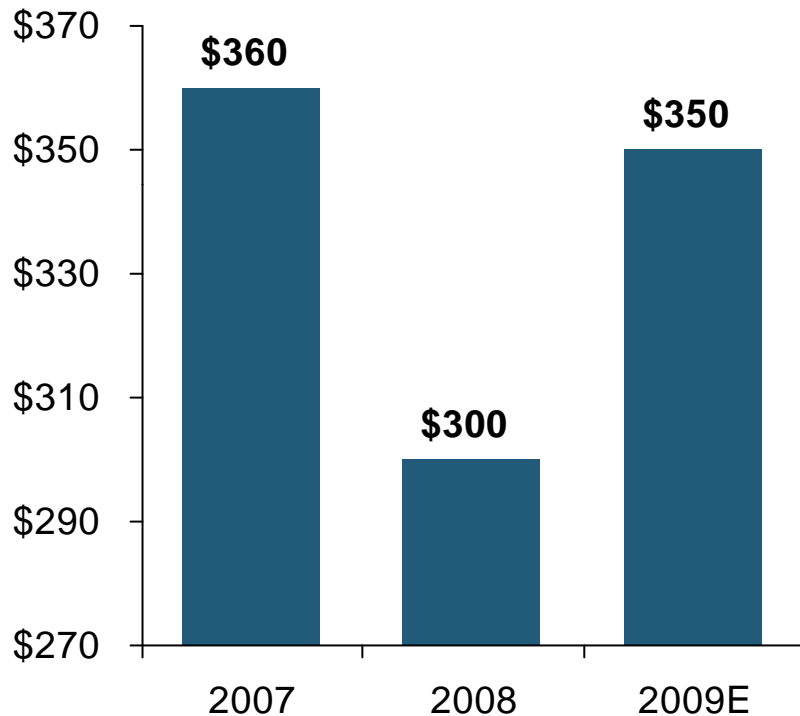


**In 2010:Q3 One Insurer's Paid-in Capital Rose by \$22.5B as Part of an Investment in a Non-insurance Business**

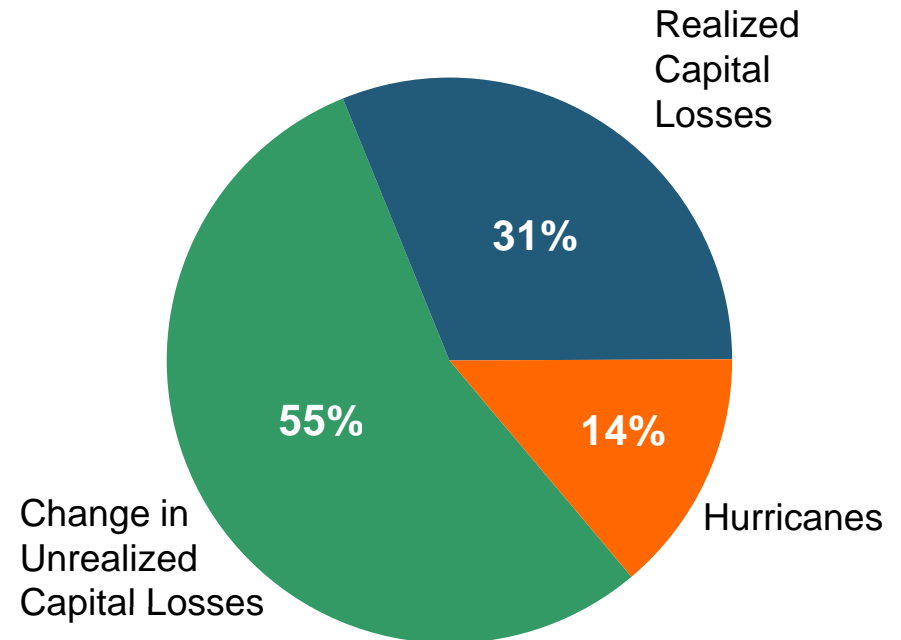


# Global Reinsurance Capacity Shrank in 2008, Mostly Due to Investments

## Global Reinsurance Capacity



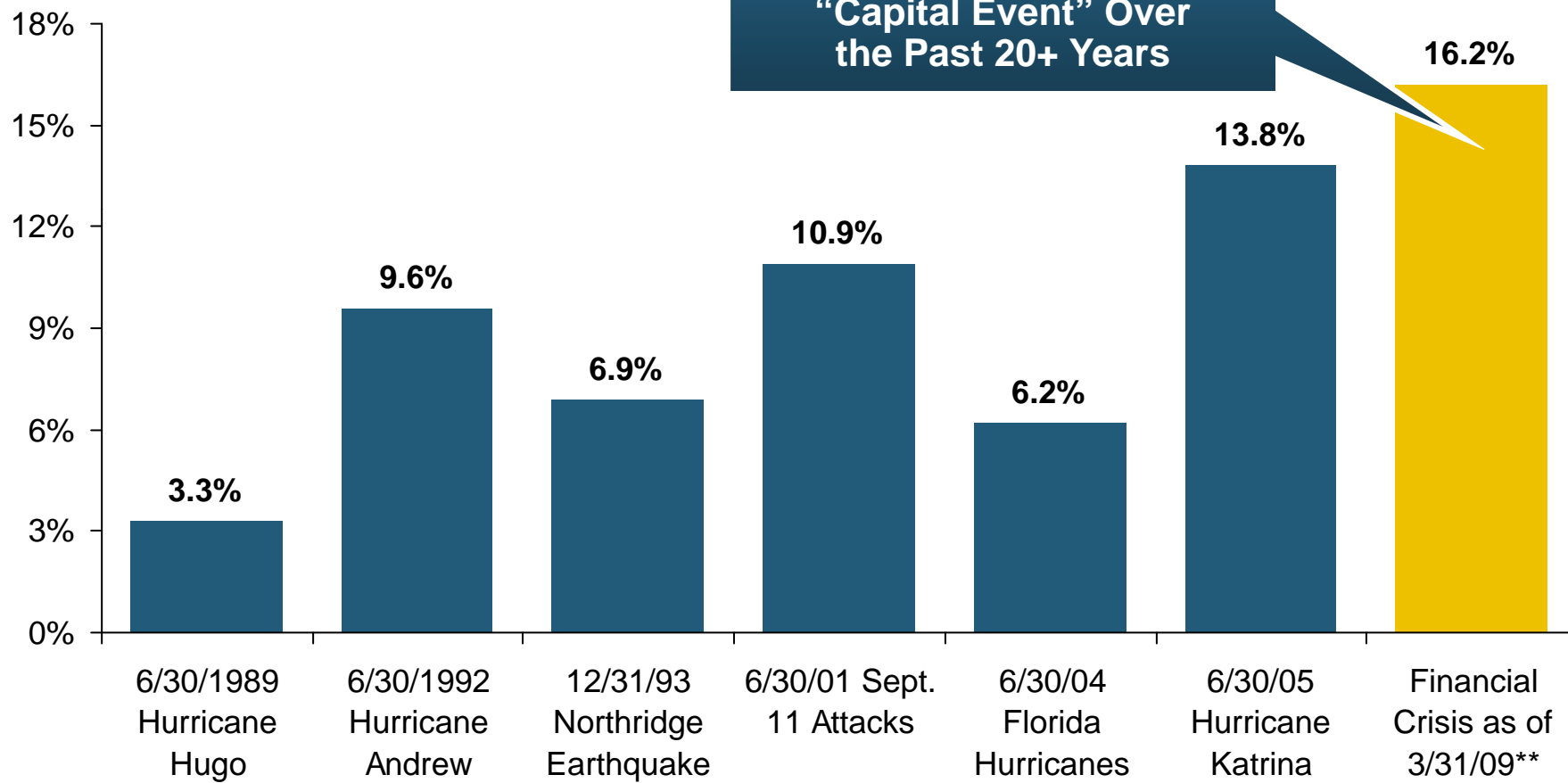
## Source of Decline in 2008



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

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

(Percent)



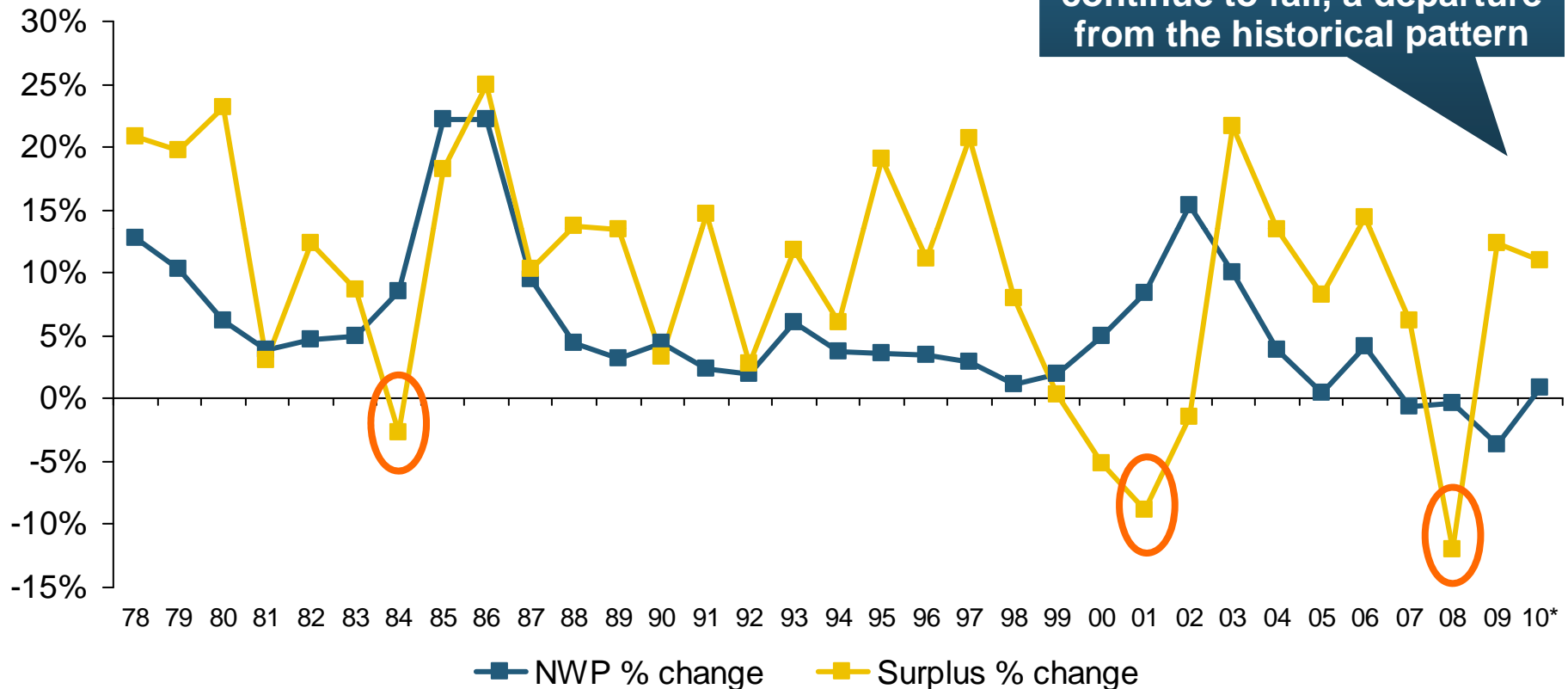
\* Ratio is for end-of-quarter surplus immediately prior to event. Date shown is end of quarter prior to event

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

Source: PCS; Insurance Information Institute

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

(Percent)



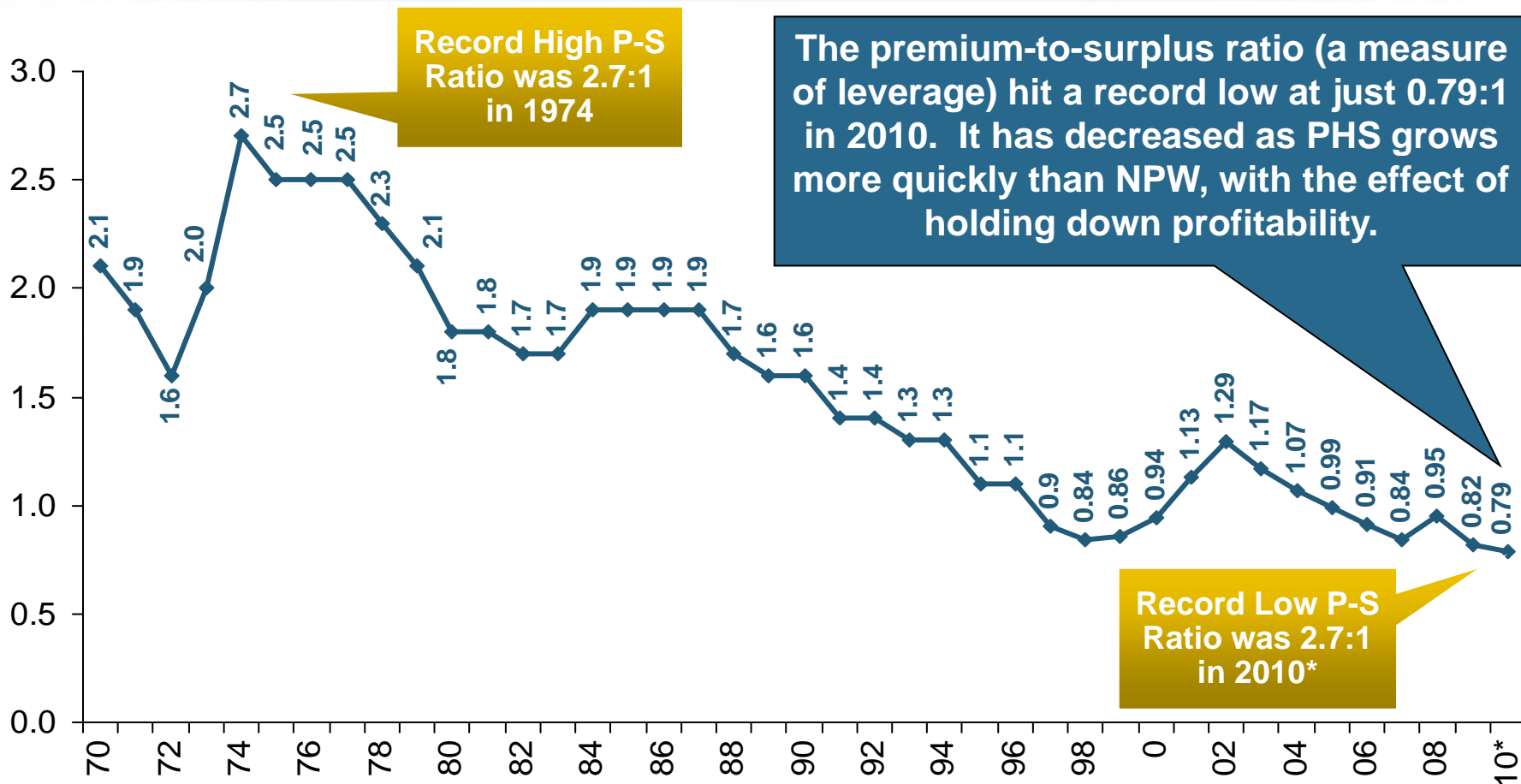
Surplus growth is now positive but premiums continue to fall, a departure from the historical pattern

**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 Q3:10 vs Q3:09.

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

# Ratio of Net Premiums Written to Policyholder Surplus, 1970-2010\*



The premium-to-surplus ratio (a measure of leverage) hit a record low at just 0.79:1 in 2010. It has decreased as PHS grows more quickly than NPW, with the effect of holding down profitability.

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

Record Low P-S Ratio was 0.79:1 in 2010\*

**The Premium-to-Surplus Ratio in 2010 Implies that P/C Insurers Held \$1 in Surplus Against Each \$0.79 Written in Premiums. In 1974, Each \$1 of Surplus Backed \$2.70 in Premium.**

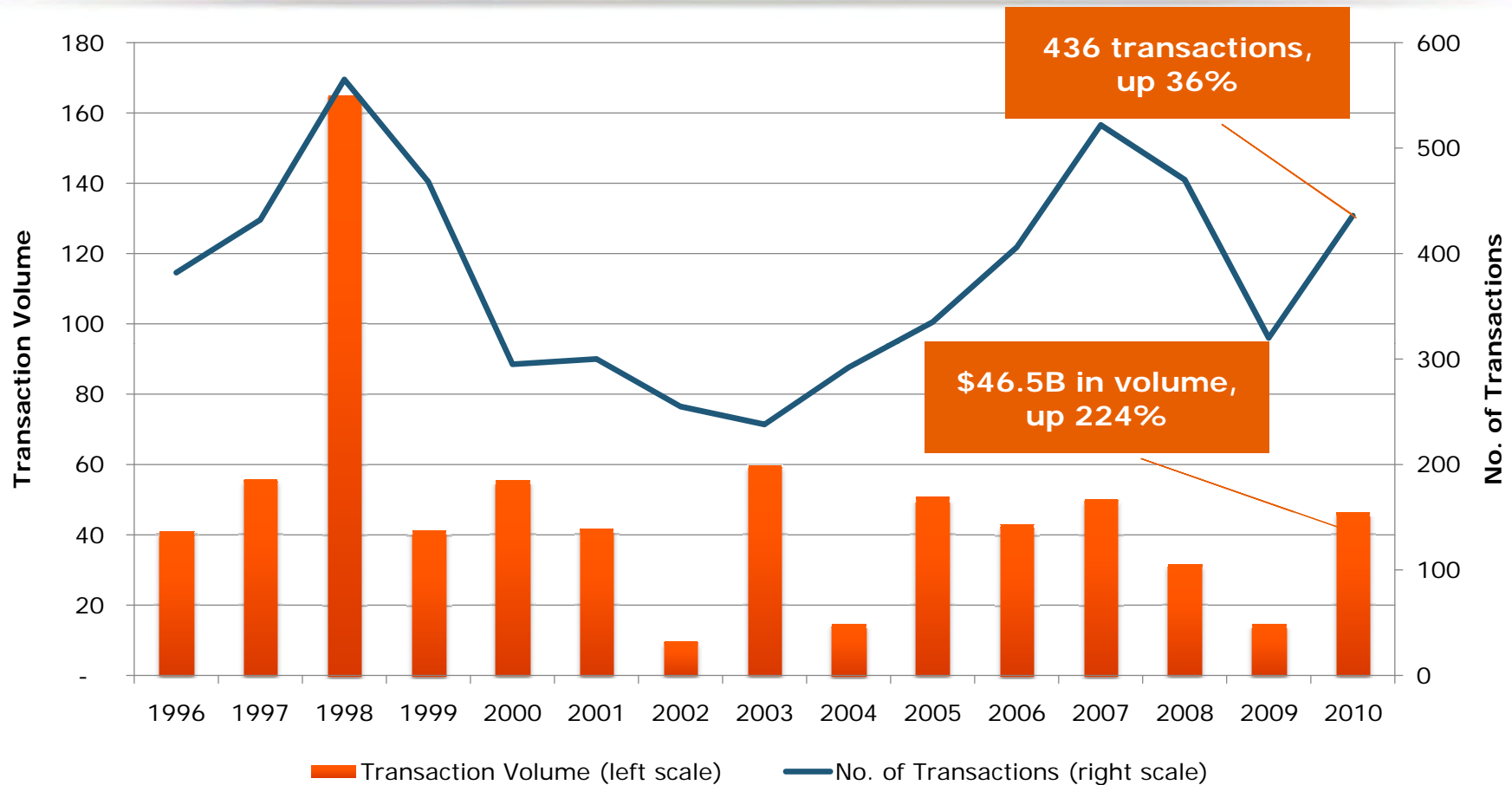
\*2010 data are estimated using annualized NWP data through 2010:Q3.

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

# Merger & Acquisition

**Capital Cycles Can  
Drive Consolidation**

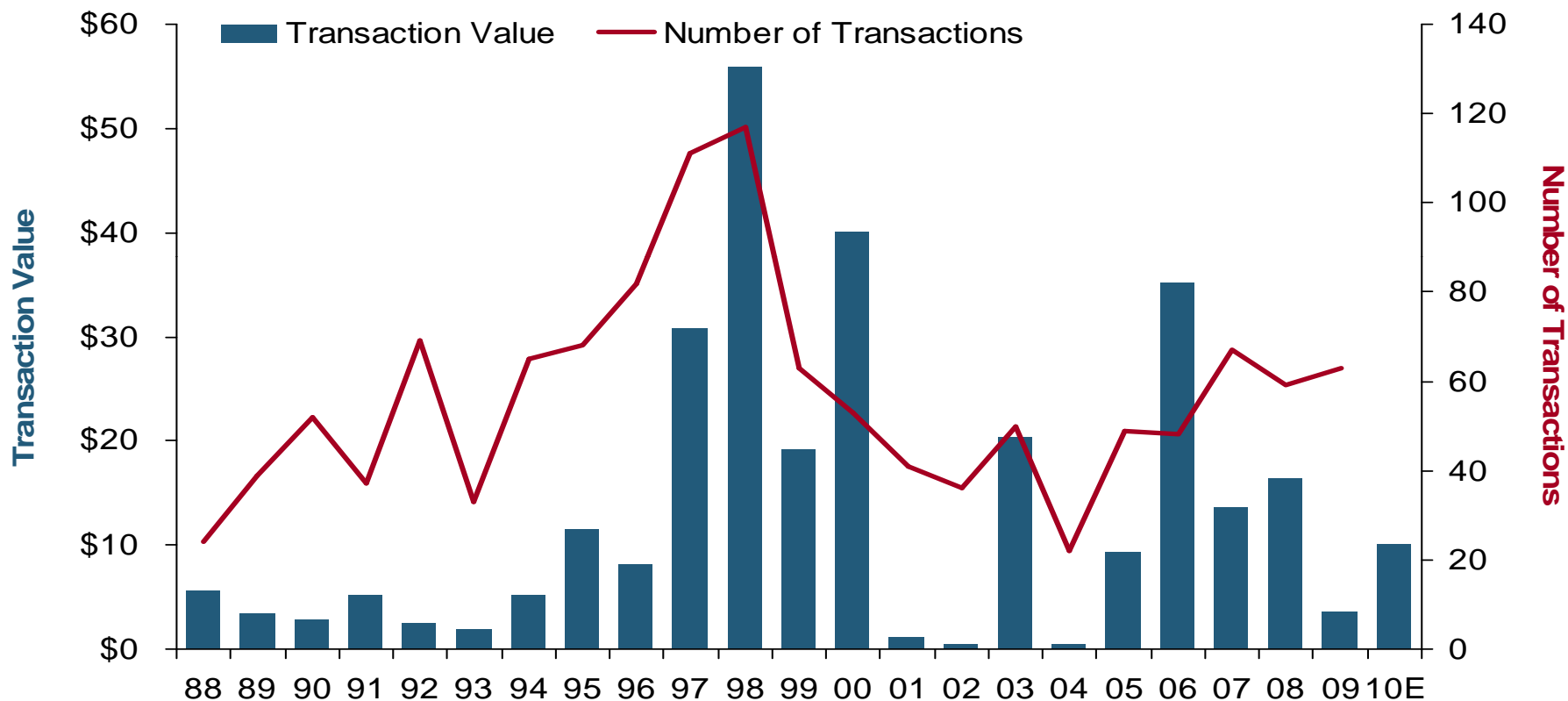
# 2010: U.S. Insurance M&A Bounces Back (All Segments)



**U.S. activity rebounded from lows recorded in 2009. M&A also made a comeback worldwide, with global activity rising 20%.**

# U.S. P/C Insurance-Related M&A Activity, 1988–2010E\*

(\$ Billions)



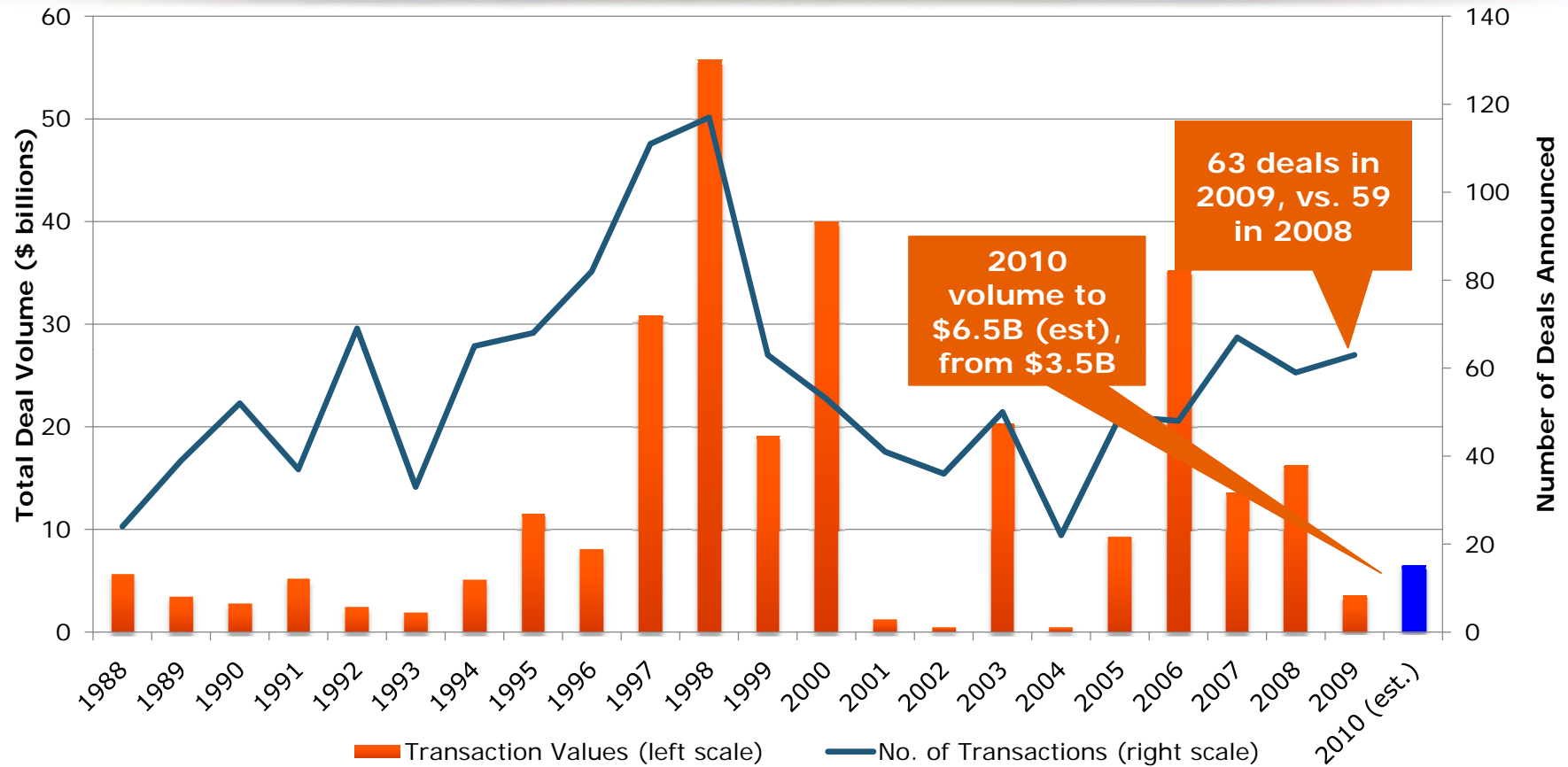
**\$ Value of Deals Down 78%  
in 2009, Volume Up 7%**

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

Note: U.S. Company was the acquirer and/or target.

Source: Conning Research & Consulting. \*2010E is derived from A.M. Best data for p/c insurers only (excludes brokers/agencies)

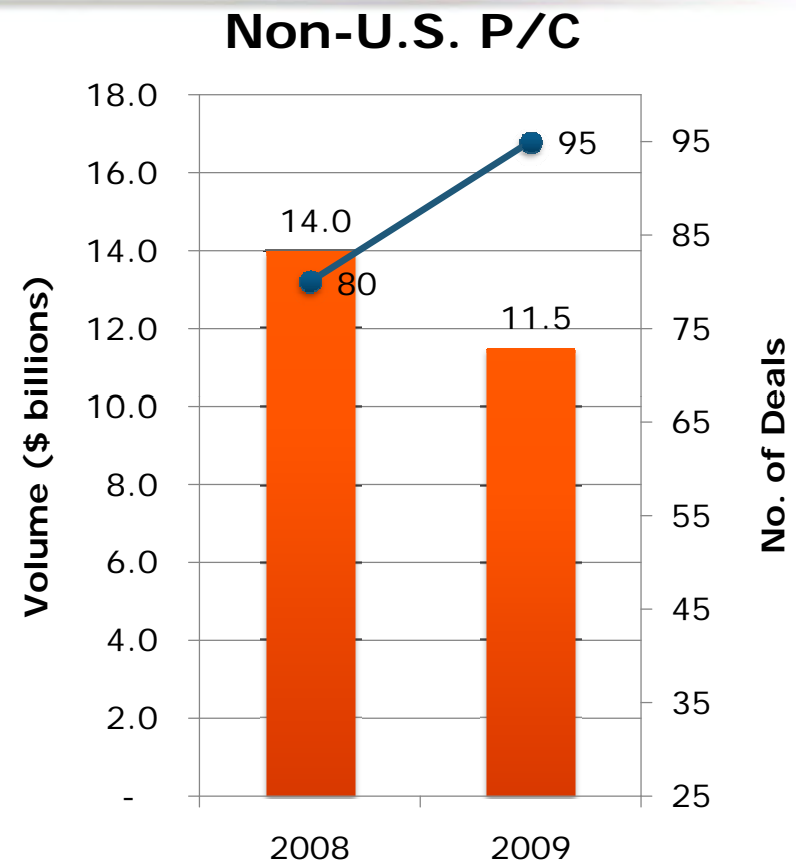
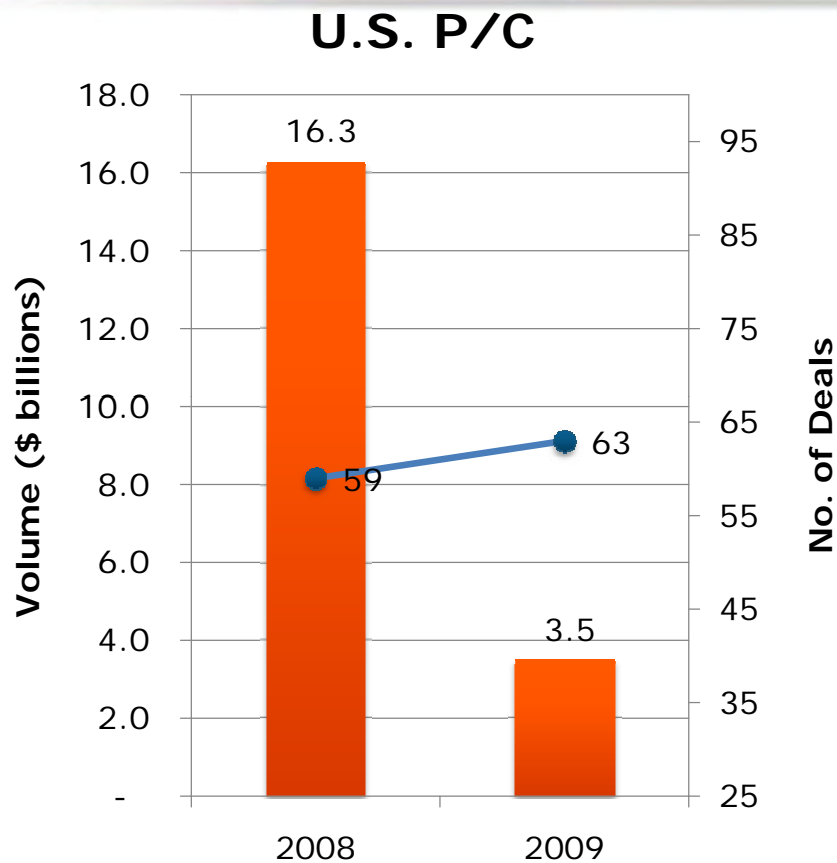
# U.S. P/C M&A Activity Rising, Volume Bouncing Back



**After a severe drop due to the capital crunch, M&A volume began to rebound in 2010. Levels remain below 1998-2000 and 2006 peaks.**



# 2009: More M&A activity outside U.S.



**Non-U.S. activity exceeded U.S. activity in number and volume. Non-U.S. volume fell, but not as sharply as in U.S.**

# 2009: Five Largest U.S. Deals

Buyer	Target	Value (millions)	Motivation
Zurich Financial Services AG	21 <sup>st</sup> Century Insurance Group	\$1.900	AIG asset sale
Fairfax Financial Holdings	Odyssey Re Holding Corp.	960	Topping off ownership
Medical Professional Mutual Insurance Co.	Fincor Holdings, Inc.	237	Consolidation
Tower Group, Inc.	Specialty Underwriters Alliance, Inc.	107	Geographic expansion/Diversification of operations
Emerging Capital Partners	Nouvelle Societe Interafricaine d'Assurance Participatiion S.A. (Cote d'Ivoire)	48	Investment in Africa's financial sector

**Only one deal exceeded \$1 Billion in 2009, vs. two in 2008 that exceeded \$4 billion apiece (Liberty buying Safeco and Tokio's acquisition of Philadelphia Insurance Cos.)**

# 2009: Five Largest Non-U.S. Deals

Buyer	Target	Value (millions)	Motivation
Banque Nationale de Paris Paribas Assurance (France)	Fortis Insurance Belgium (Belgium)	1,861	Fortis Bank forced to sell insurance assets
Partner Re Ltd. (Bermuda)	Paris Re Holdings Ltd (Switzerland)	1,716	Consolidation
Validus Holdings, Ltd. (Bermuda)	IPC Holdings Ltd. (Bermuda)	1,650	Consolidation
Polish State (Poland)	PZU S.A. (Poland)	1,200	Privatization of state assets
Porto Seguro S.A. (Brazil)	Seguros de Automovel e Residencia S.A (Brazil)	855	Consolidation and access to bank clients

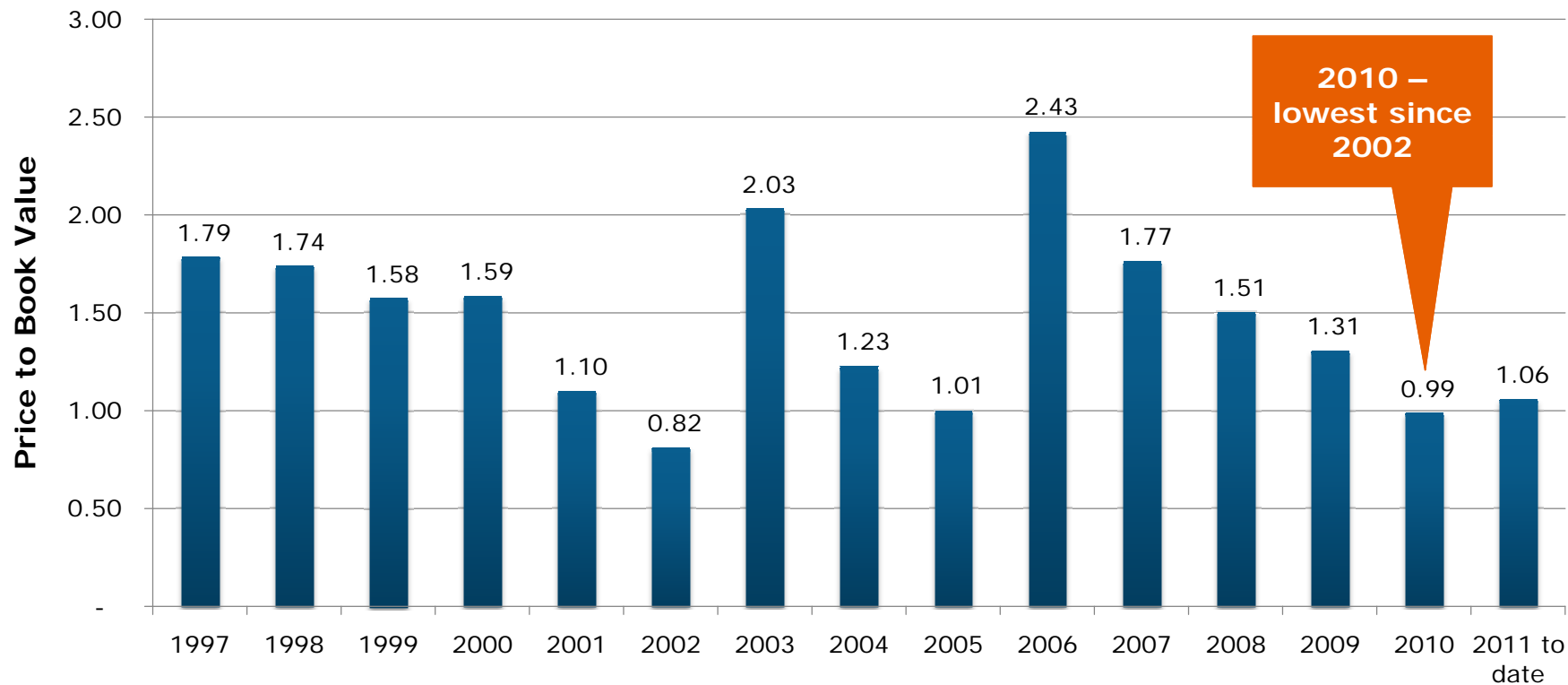
**One significant deal had no announced value – combination of Mitsui Sumitomo, Aioi Insurance and Nissay Dowa General in Japan. They merged for economies of scale in shrinking Japanese market.**

# 2010: Ten Largest U.S. Deals

Merger & Acquisition	Approximate Value (\$ millions)
Max Capital/Harbor Point	3,500
Fairfax Financial/Zenith National	1,300
Ace Ltd./Rain and Hail Insurance Services	1,100
QBE/NAU	565
Doctors Co./American Physicians Capital	386
Fairfax Financial/General Fidelity Insurance	328
Fairfax Financial/First Mercury Financial	294
QBE/RenaissanceRe U.S. operations	275
Southwest Insurance Partners/Lightyear Capital	250
ProSight Specialty Insurance/NYMAGIC	230

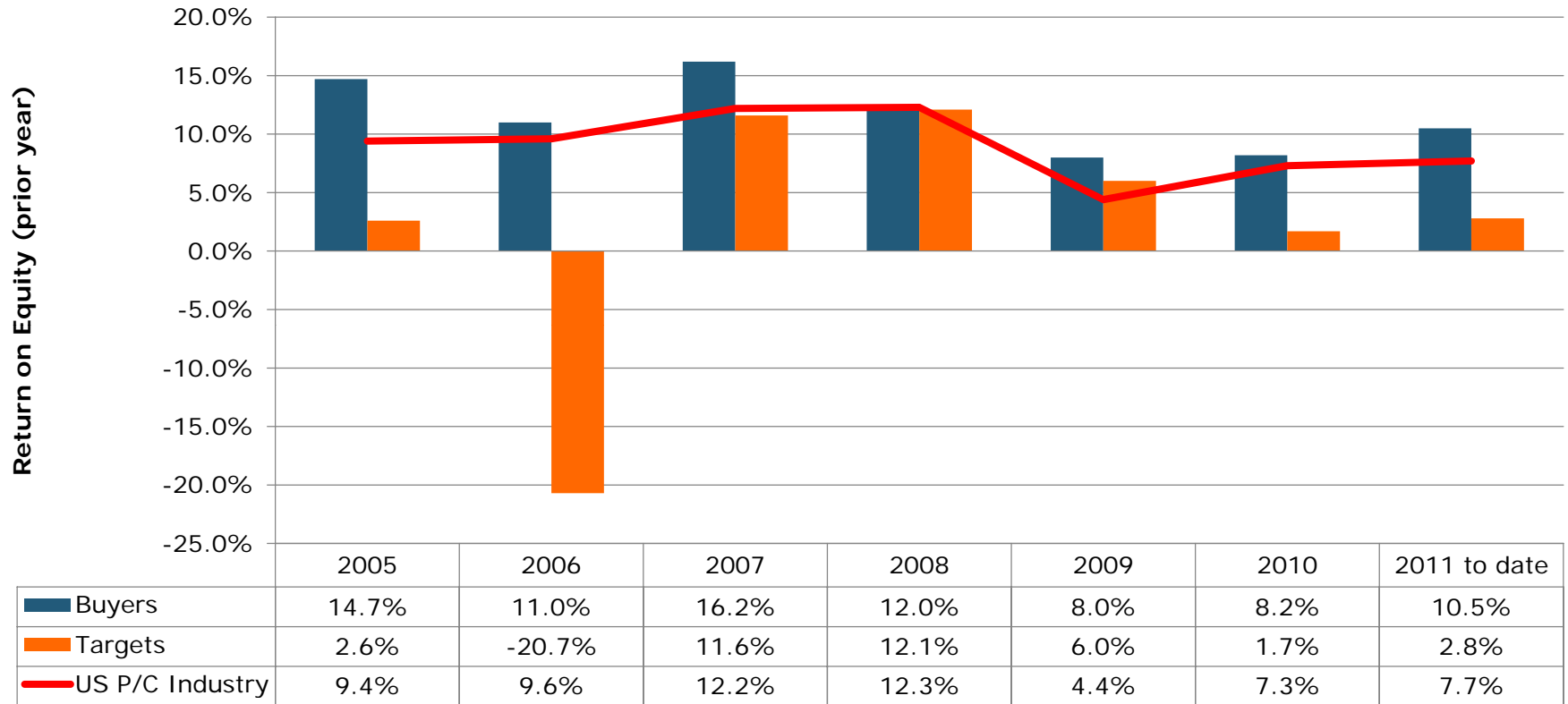
**Mergers were a way to expand in preferred markets amid the slow growth post-recession. Acquirers generally had abundant capital. Terms and conditions for financing were advantageous.**

# Valuations may have bottomed out



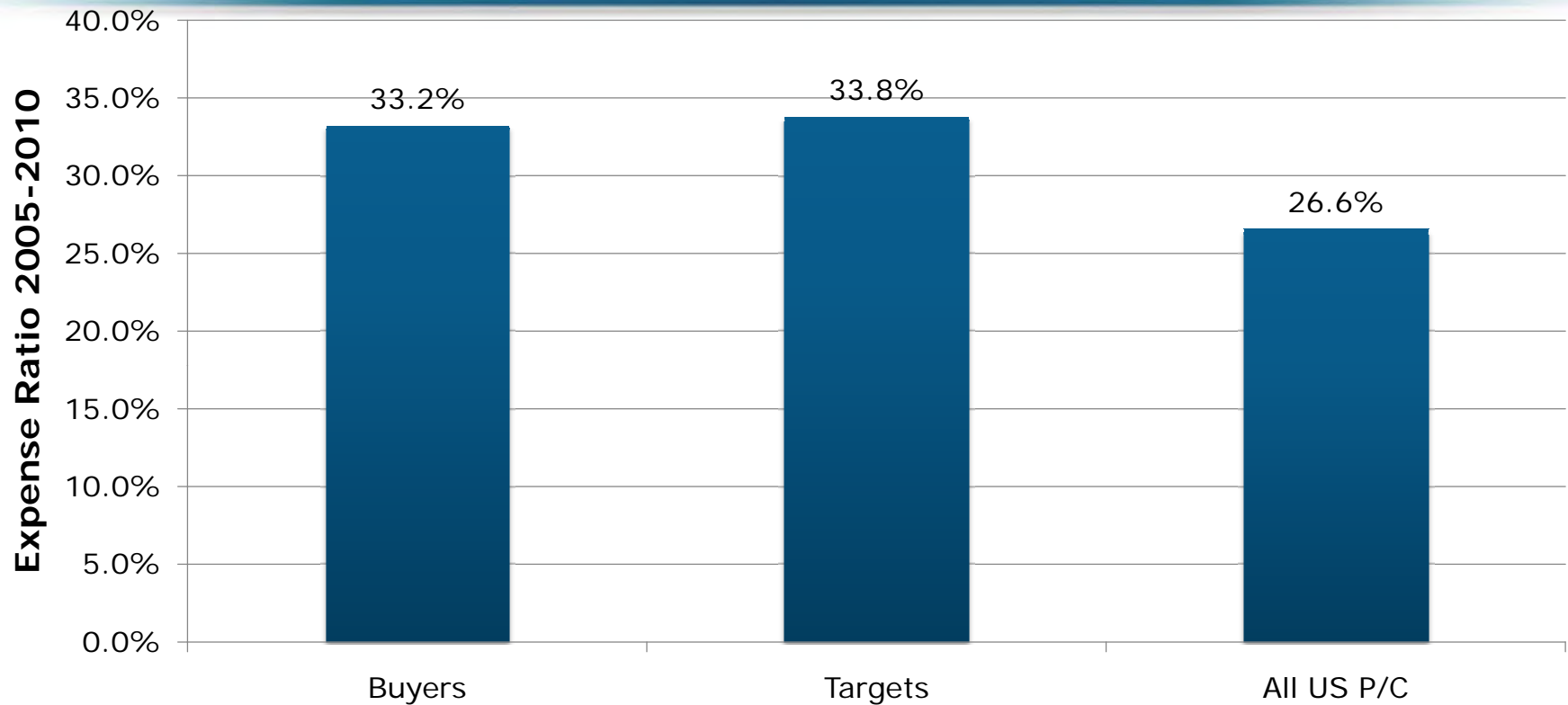
**So far this year, 10 deals have been announced, worth nearly \$2 billion.**

# Buyers are consistently more profitable than targets, rest of industry



The year before merger, eventual targets have earnings that lag industry average. Buyers' earnings are higher than the industry.

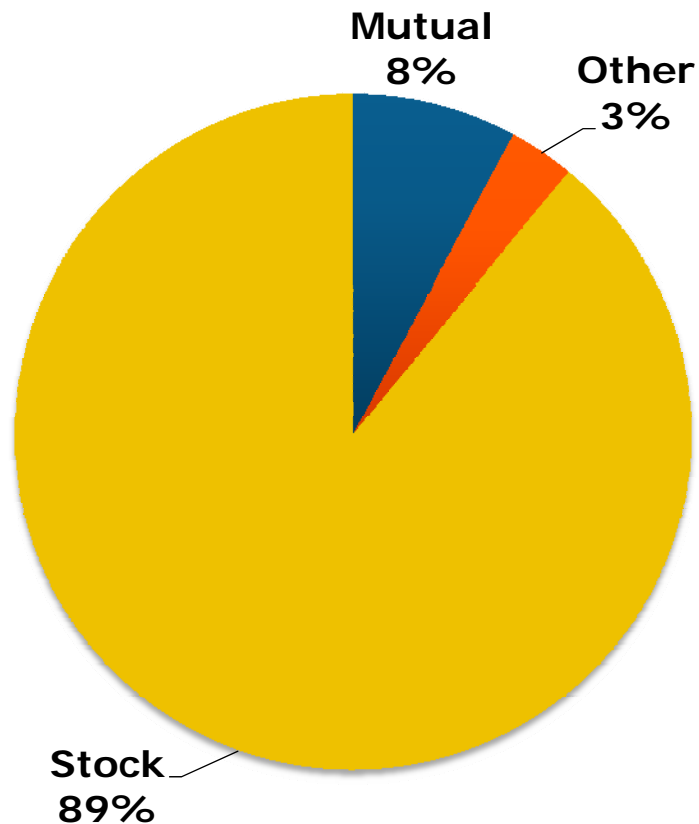
# Firms on both sides of merger have higher expense ratios than industry



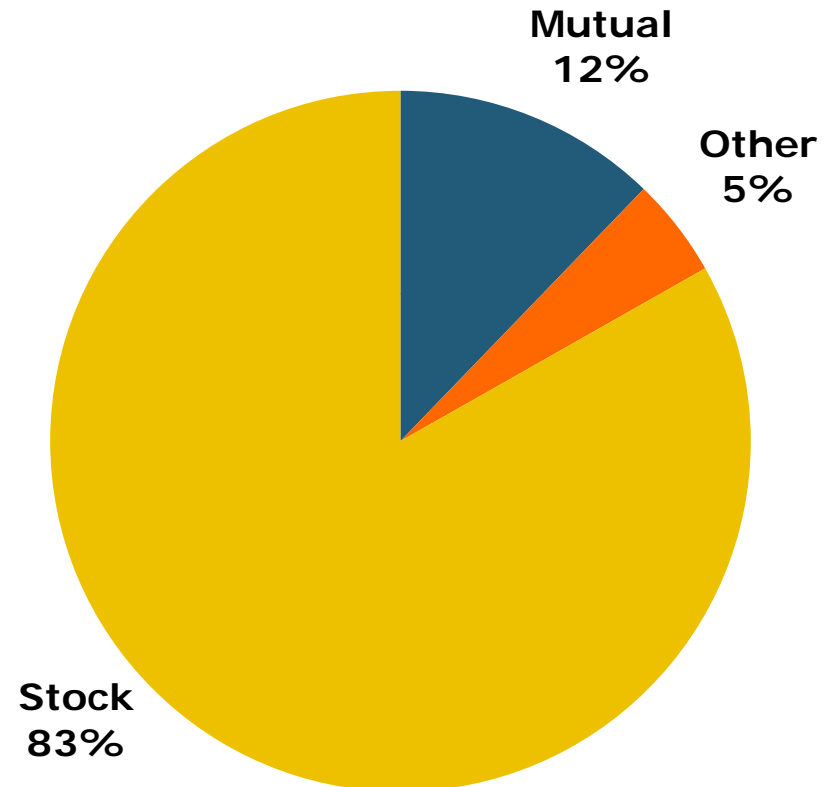
**M&A targets have slightly higher expense ratios than buyers. Both run higher expense ratios than the industry overall.**

# Type of acquisition is shifting

2005 to 2007



2008 to 2010



There were 16 mutual targets in 2008-2010, up from 10 in the three prior years.



Insurance Information Institute Online:

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