

Reinsurance Market Trends and Perspectives Reinsurance in the Age of

Black Swans

Reinsurance Association of America **Underwriting Seminar**

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Presentation Outline



- Review of Recent Events
 - What in the World is Going On?
- Summary of P/C Financial Performance
- Catastrophe Loss Developments & Trends
 - Global
 - US
- Will the Market Turn? Four Necessary Criteria:
 - Underwriting Loss Trends
 - Capital/Capacity
 - Reinsurance Markets
 - Pricing Discipline
- The Unfortunate Nexus of Opportunity, Risk & Uncertainty
 - Global Growth Patterns in the Decades Ahead
- Other Contributing Factors to the Underwriting Cycle
 - Investment Environment
 - Tort/Casualty Environment
 - Inflation
 - Economic Growth



What in the World Is Going On?

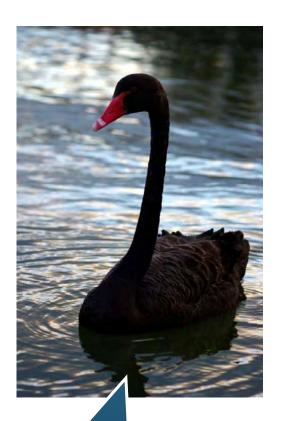
Is the World Becoming a Riskier Place?

What Are the Implications for Insurance and Risk Management?

Uncertainty, Risk and Fear Abound



- Japan, New Zealand, Haiti, Chile Earthquakes
- Nuclear Fears
- Record Tornado, Flooding in the US, TX Wildfires
- Cyber Attacks
- Resurgent Terrorism Risk (e.g., Bin Laden Killing)
- Political Upheaval in the Middle East
- Echoes of the Financial Crisis
- Housing Crisis
- Persistently High Unemployment
- US Debt and Budget Crisis
- Sovereign Debt & Currency Crises
- Inflation/Deflation
- Runaway Energy & Commodity Prices
- Era of Fiscal Austerity
- Reshuffling the Global Economic Deck
- China Becomes #2 Economy in the World
- Manmade Disasters (e.g., Deepwater Horizon)



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

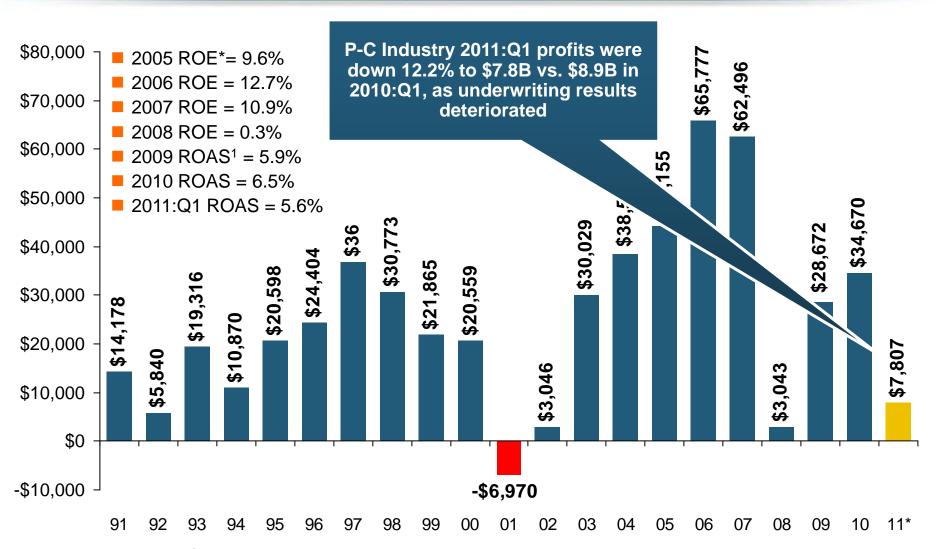


P/C Insurance Industry Financial Overview

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

P/C Net Income After Taxes 1991–2011:Q1 (\$ Millions)



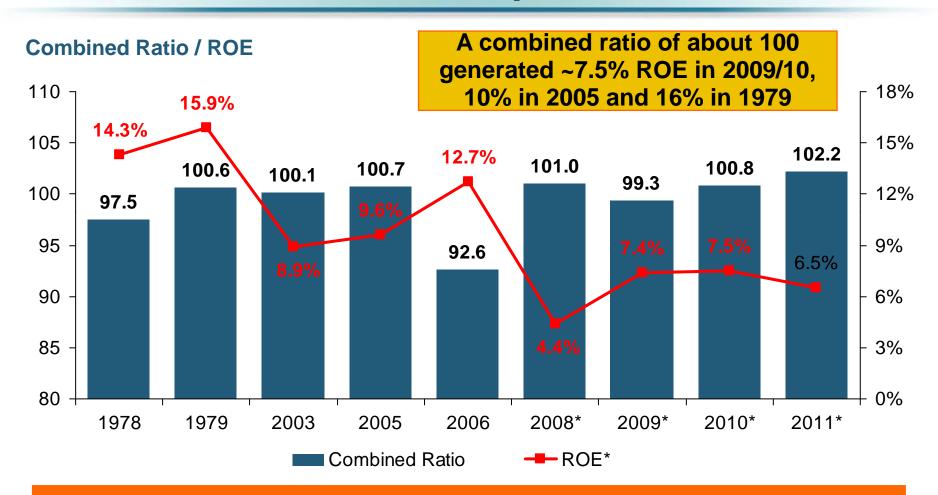


^{*} ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 6.5% ROAS for 2011:Q1, 7.5% for 2010 and 7.4% for 2009.

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

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





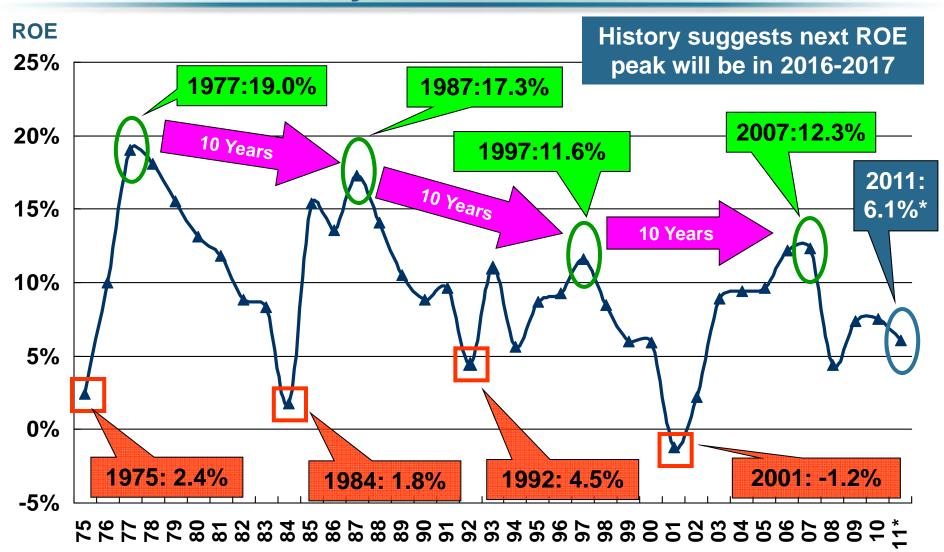
Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

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

^{* 2009} and 2010 figures are return on average statutory surplus. 2008 -2011 figures exclude mortgage and financial guaranty insurers

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





*Profitability = P/C insurer ROEs are I.I.I. estimates. 2011 figure is an estimate based on annualized ROAS for Q1 data. Note: Data for 2008-2011 exclude mortgage and financial guaranty insurers.

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



Catastrophe Loss Developments and Trends

2011 and 2010 Are Rewriting
Catastrophe Loss and
Insurance History, Pressuring
Reinsurance Markets

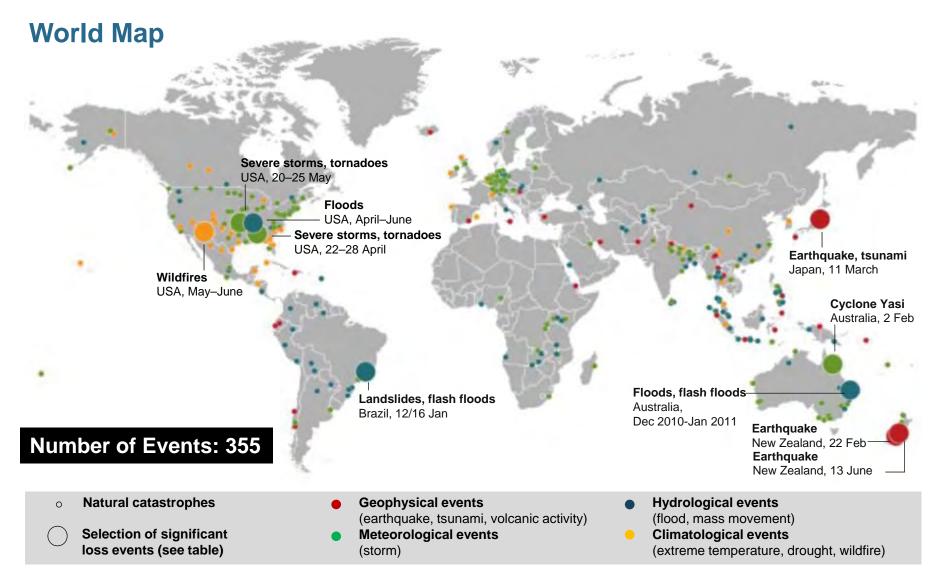
Global Catastrophe Loss Summary: First Half 2011



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

Natural Loss Events, January – June 2011





Source: MR NatCatSERVICE 11

Worldwide Natural Disasters 2011

Significant Natural Disasters (January – June only)



Deadliest Disasters					
Date	Event	Area	Deaths		
11.3.2011	Earthquake, tsunami	Japan	15,500 (still missing: 7,297)		
12/16.1.2011	Landslides, flash floods	Brazil	1,350		
22-28.4.2011	Severe storm, tornadoes	USA	350		
Costliest Disasters (Insured Losses)					
Date	Event	Area	Insured losses in US\$m		
11.3.2011	Earthquake, tsunami	Japan	~30.000		
22.2.2011	Earthquake	New Zealand	>10,000		
22-28.4.2011	Severe storm, tornadoes	USA	5,050		

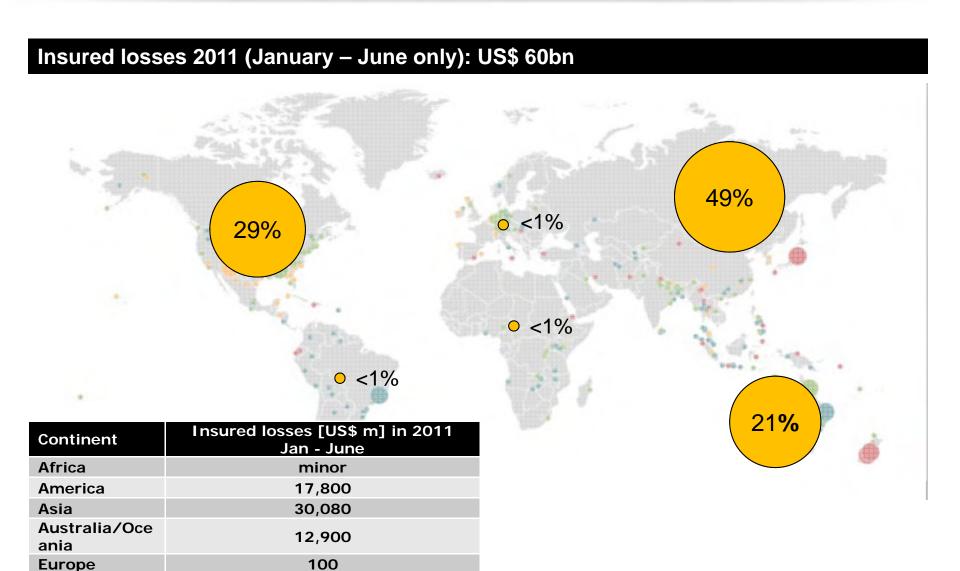
Costliest Disasters (Overall Losses)						
Date	Event	Area	Overall losses in US\$m			
11.3.2011	Earthquake, tsunami	Japan	210,000			
22.2.2011	Earthquake	New Zealand	20,000			
22-28.4.2011	Severe storm, tornadoes	USA	7,500			

Source: MR NatCatSERVICE 12

Worldwide Natural Disasters 2011



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

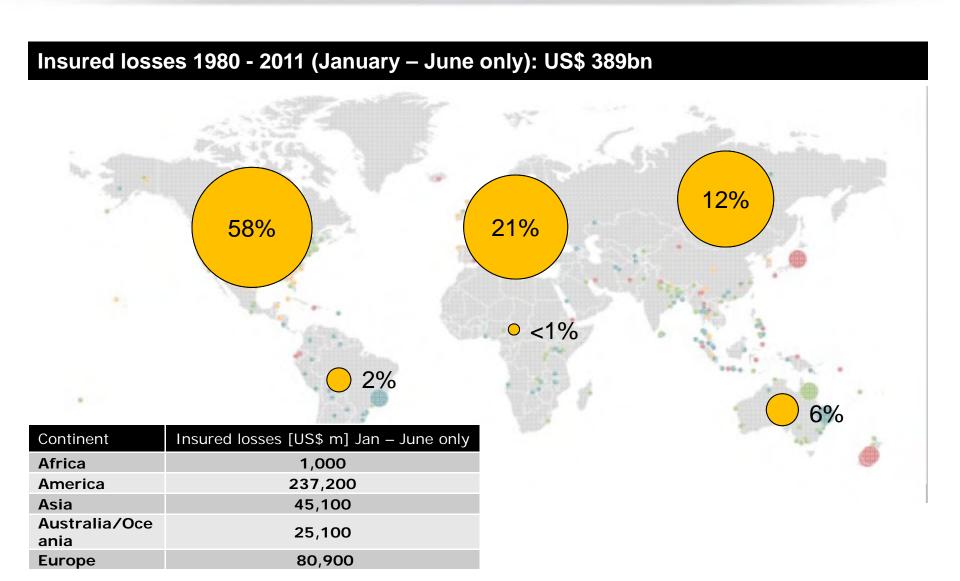


Source: MR NatCatSERVICE 13

Worldwide Natural Disasters, 1980-2011



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



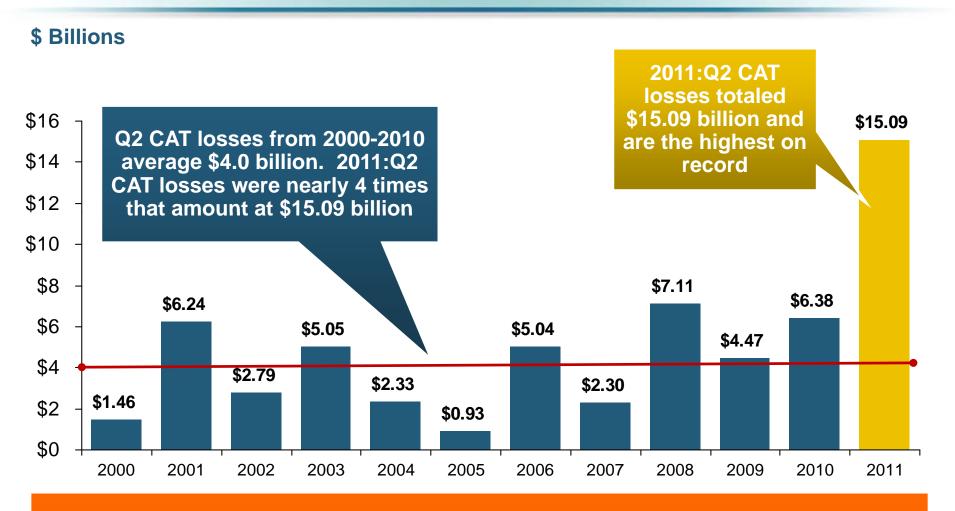
Insured Loss Estimates for Selected Major Catastrophes in 2011



	Japan Earthquake	April Tornadoes	May (Joplin) Tornadoes
Eqecat	\$22 to \$39 billion	\$5 billion to \$7 billion	\$1 billion to \$3 billion
RMS	\$21 to 34 billion	\$3.5 to \$6 billion	\$2 to \$6 billion
AIR	\$20 billion to \$30 billion	\$5 billion to \$7 billion	\$2 to \$6 billion

US Second Quarter Insured Catastrophe Losses, 2000–2011



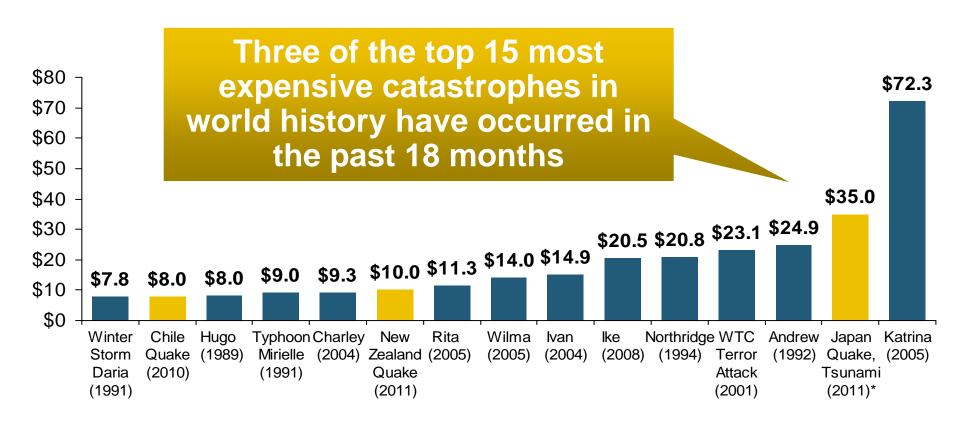


Record Q2 (and First Half) CAT Losses Will Adversely Impact Insurer Results in 2011

Top 15 Most Costly World Insurance Losses, 1970-2011*



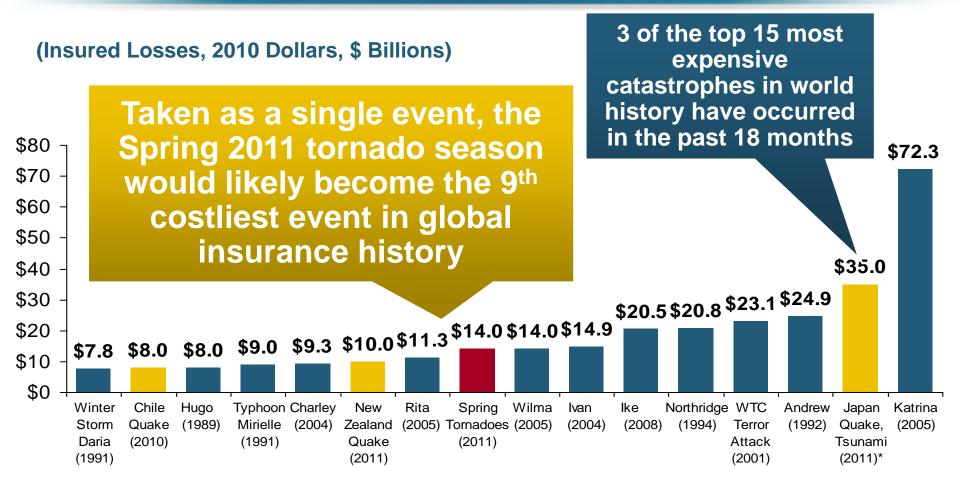
(Insured Losses, 2010 Dollars, \$ Billions)



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

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

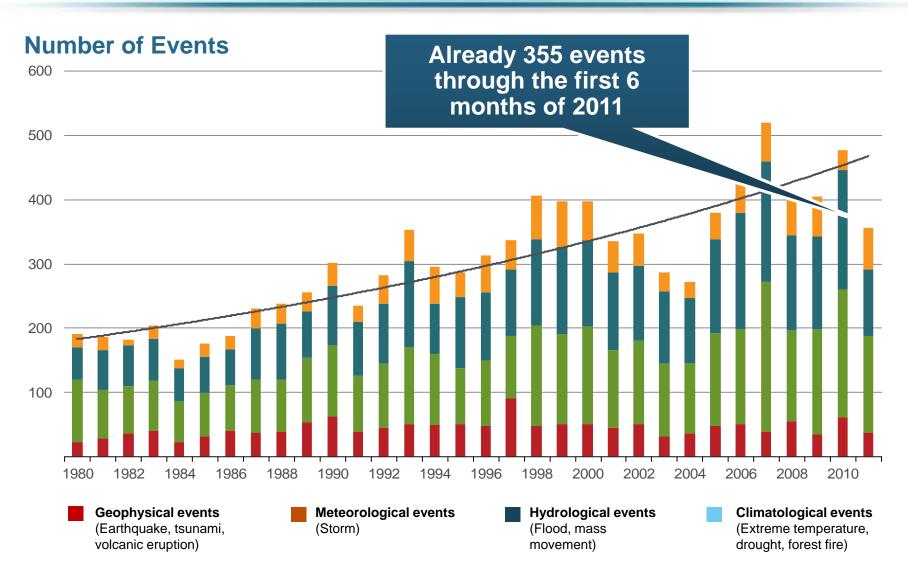




^{*}Through June 20, 2011. 2011 disaster figures are estimates; Figures include federally insured flood losses, where applicable. Sources: Swiss Re *sigma 1/2011*; AIR Worldwide, RMS, Eqecat; Insurance Information Institute.

Worldwide Natural Disasters, 1980 – 2011*

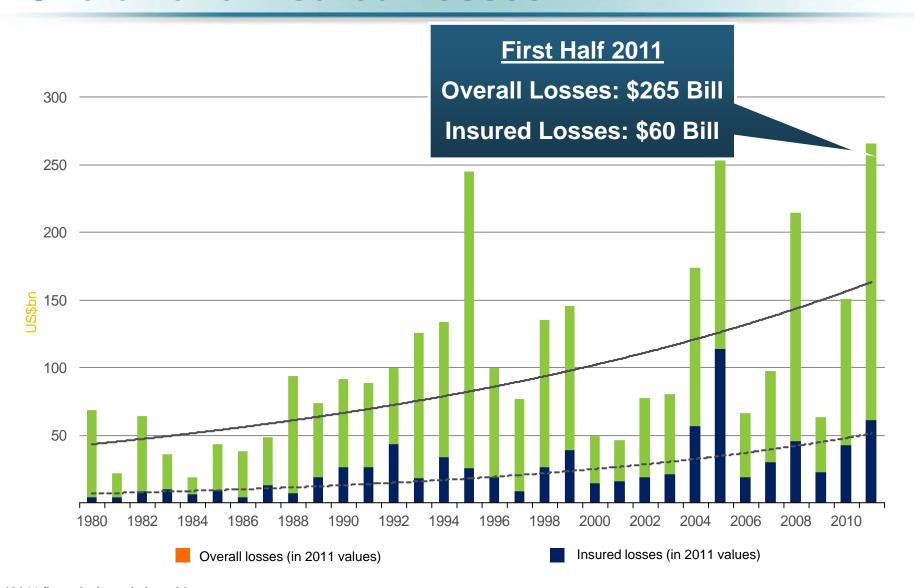




*2011 figure is through June 30. Source: MR NatCatSERVICE

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







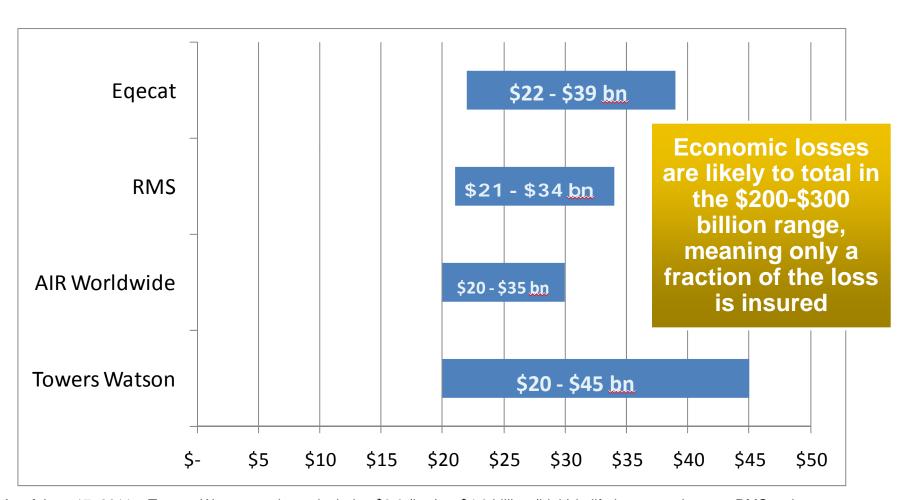
JAPAN EARTHQUAKE/TSUNAMI & NUCLEAR DISASTER

March 11 Quake/Tsunami Is Just the Most Recent of Several Large Global Catastrophe Losses

Insured Japan Earthquake Loss Estimates*



(Insured Losses, \$ Billions)



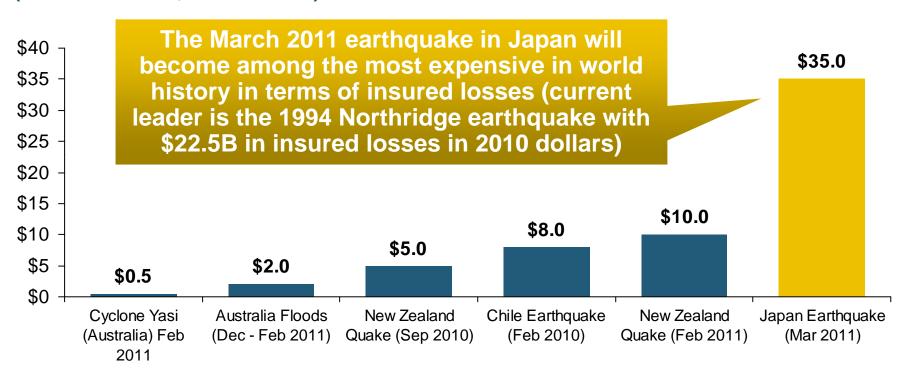
^{*}As of June 17, 2011. Towers Watson estimate includes \$3.0 (low) to \$4.9 billion (high) in life insurance losses. RMS estimate includes insured life/health losses of \$3 to \$8 billion.

Sources: AIR Worldwide, Eqecat, RMS, Towers Perrin; Insurance Information Institute.

Recent Major Non-US Catastrophe Losses



(Insured Losses, \$US Billions)



Insured Losses from Recent Major Catastrophe Events Exceed \$60 Billion, an Estimated \$53 Billion of that from Earthquakes

Nonlife (P/C) Insurance Market Impacts of Japan Earthquake



- No Direct Impact for US Domestic Primary Insurers
- BUT: \$2 \$5 Billion in Assumed Loss from Foreign Catastrophes Will Wind Up on the Books of US Insurers, Most with No Direct Exposure to Japan/Australia/NZ
 - US reinsurers
 - Retrocessional market
 - Blanket property insurance covers
- Primary Insurance: Domestic Japanese Insurers Take Big Losses
- Few US/Foreign Insurers Had Direct Exposure to Japanese P/C Market
 - Low single-digit market share for a small number of companies
- Significant Absorption of Loss by Japanese Government
 - Residential earthquake damage
 - Nuclear-related property and liability damage
- Significant Impacts for Global Reinsurers
 - Property-Catastrophe covers on Commercial Lines
 - Business Interruption/Contingent Business Interruption
- Supply Chain Disruption Concern (Now Waning)
- Currently an Earnings Event for Global Reinsurers
 - Not a capital event: Global reinsurance markets entered 2011 with record capital
- Cost of Property/Cat Reinsurance Rising in Japan, New Zealand, Australia
 - Up for all; Magnitude of increase is sensitive to size of loss
- Impact on Cost of US Property-Cat Reinsurance is Possible/Likely
 - Market remains well capitalized and competitive



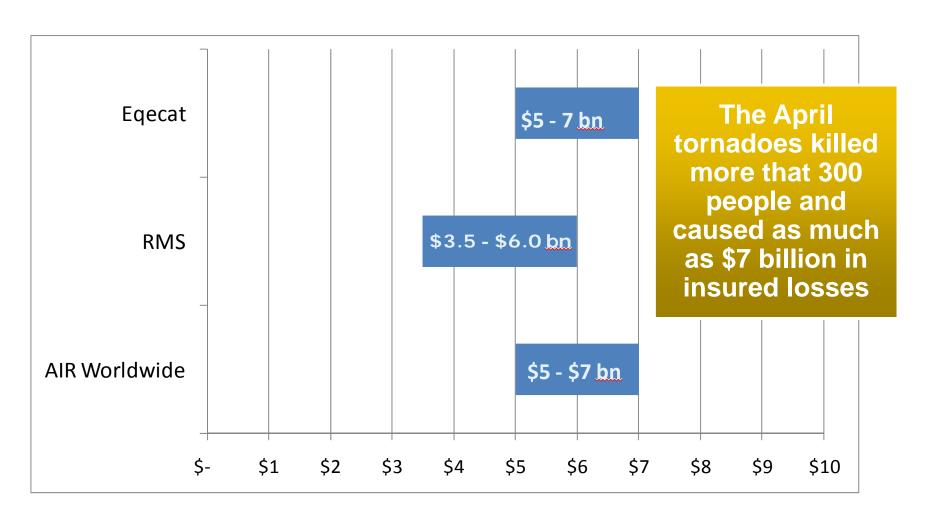
SPRING 2011 TORNADO OUTBREAK

2011 Will Be Among the Most Deadly and Expensive for Tornadoes In History

Insured Loss Estimates from April 2011 Tornadoes*



(Insured Losses, \$ Billions)



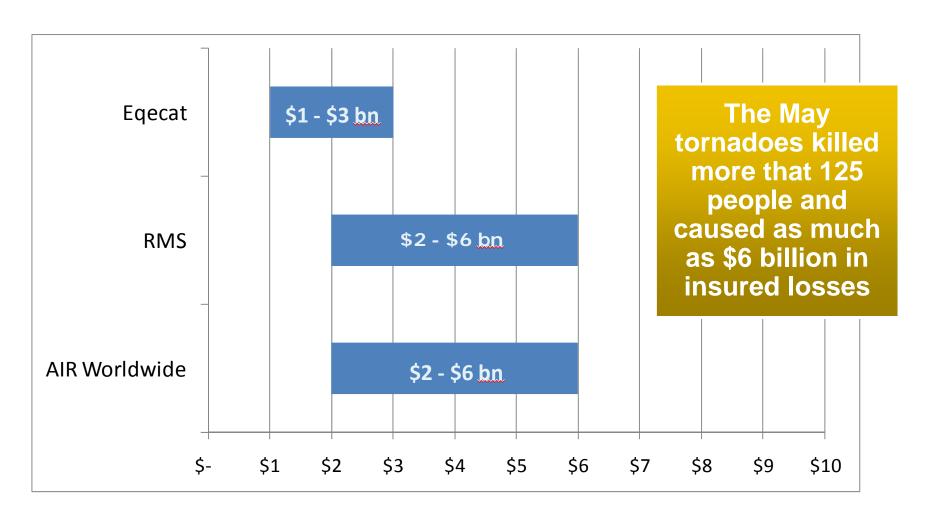
^{*}As of June 17, 2011.

Sources: AIR Worldwide, Egecat, RMS; Insurance Information Institute research.

Insured Loss Estimates from May 2011 (Joplin) Tornadoes*



(Insured Losses, \$ Billions)



^{*}As of June 17, 2011.

Sources: AIR Worldwide, Egecat, RMS; Insurance Information Institute research.

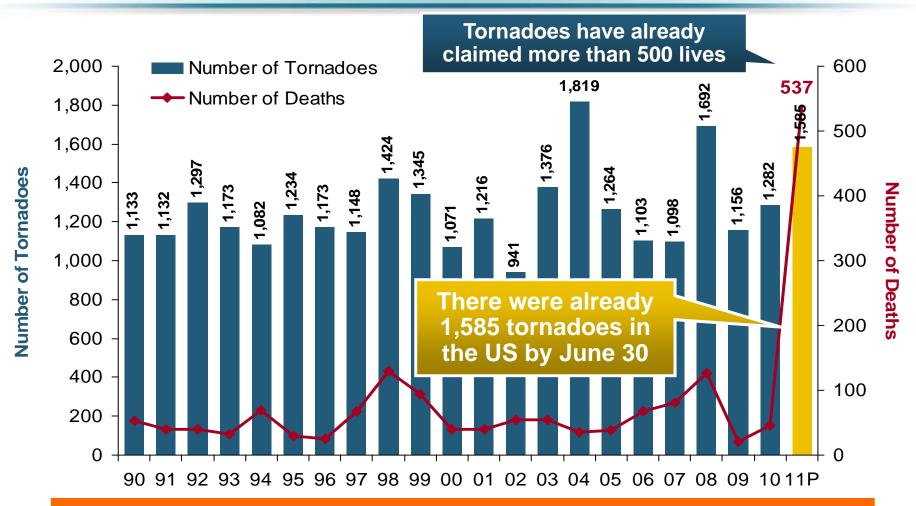
Summary of Recent Tornado Activity



- There Have Been 1,585 Tornadoes Through June 30 in the US
- 537 People Have Been Killed
- The April 27 Tornado Outbreak Killed at Least 342 People
 - Now the 2nd deadliest outbreak in US history (747 killed in march 1925 event)
 - States impacted: AR, TN, LA, MS, GA and especially AL
 - Insured Losses Estimated at \$3.5B to \$7B
- Economic Losses Likely in the \$7 Bill to \$14 Bill Range
- The May 22 Tornado in Joplin, MO, Killed at Least 130 People
 - Largest number of deaths from a single tornado
 - Insured Losses Estimated at \$1B to \$6B
- P/C Insurance Industry is Very Strong and Will Encounter No Difficulties in Paying these Claims

Number of Tornadoes and Related Deaths, 1990 – 2011*





Insurers Expect to Pay \$2 Billion on 165,000 Claims Arising from the April 2011 Tornadoes in the Birmingham and Tuscaloosa Areas

^{*2011} is preliminary data through June 30.

Insurers Making a Difference in Impacted Communities





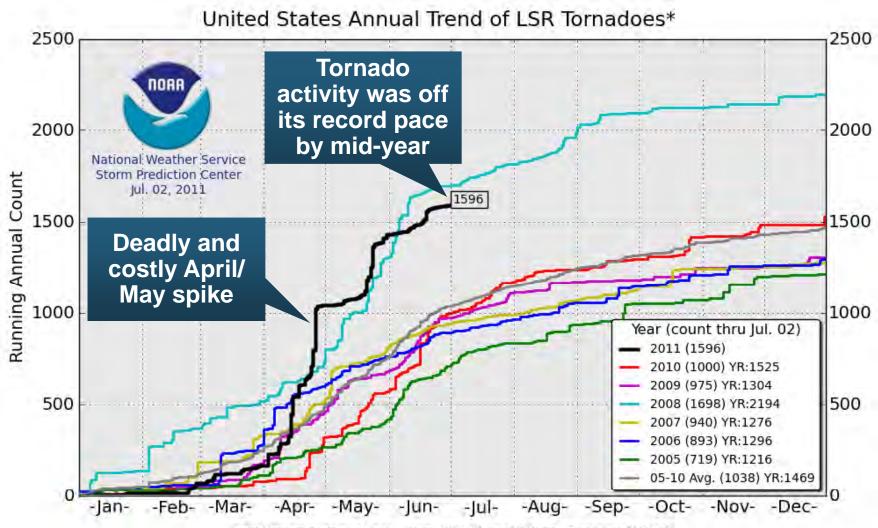
Destroyed home in Tuscaloosa. Insurers will pay some 165,000 claims totaling \$2 billion in the Tuscaloosa/Birmingham areas alone.

Presentation of a check to Tuscaloosa Mayor Walt Maddox to the Tuscaloosa Storm Recovery Fund



U.S. Tornado Count, 2005-2011*

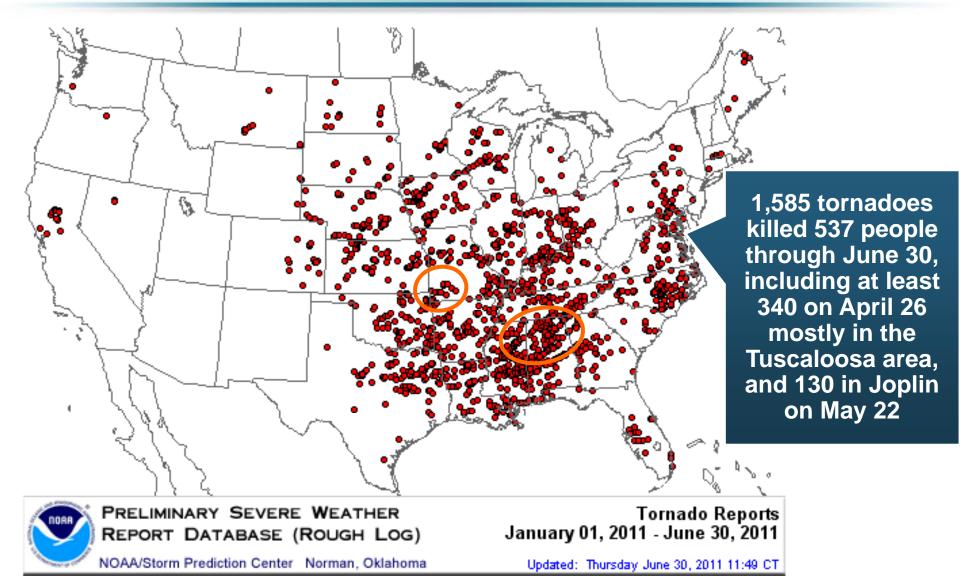




*Preliminary tornadoes from NWS Local Storm Reports (LSRs)
Annual average is based on preliminary LSRs, 2005-2010

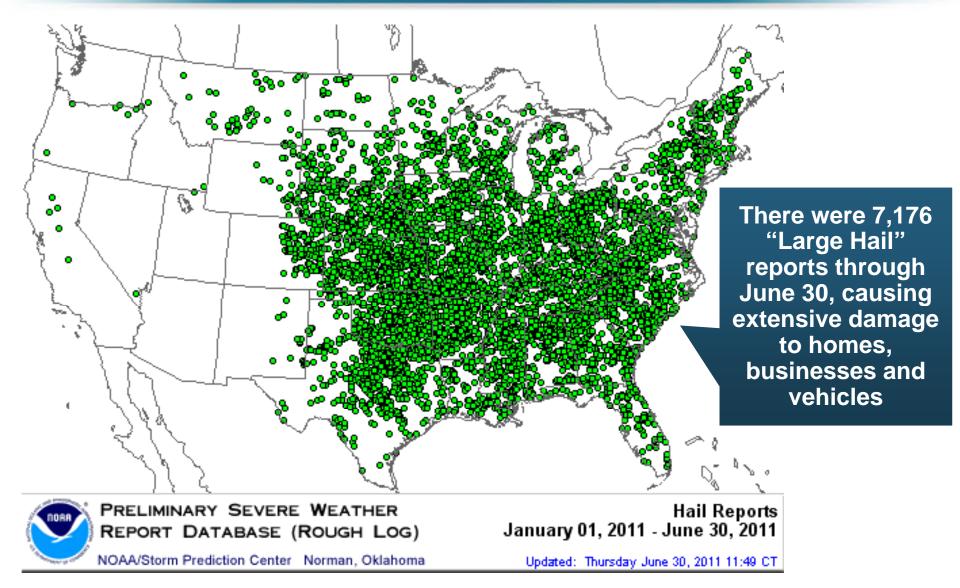
Location of Tornadoes in the US, January 1—June 30, 2011





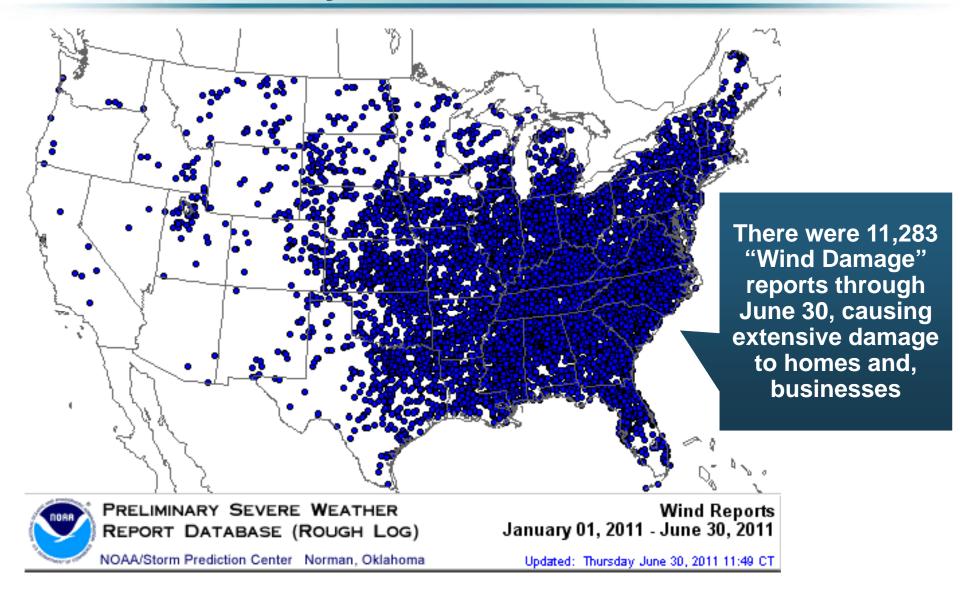
Location of Large Hail Reports in the US, January 1—June 30, 2011





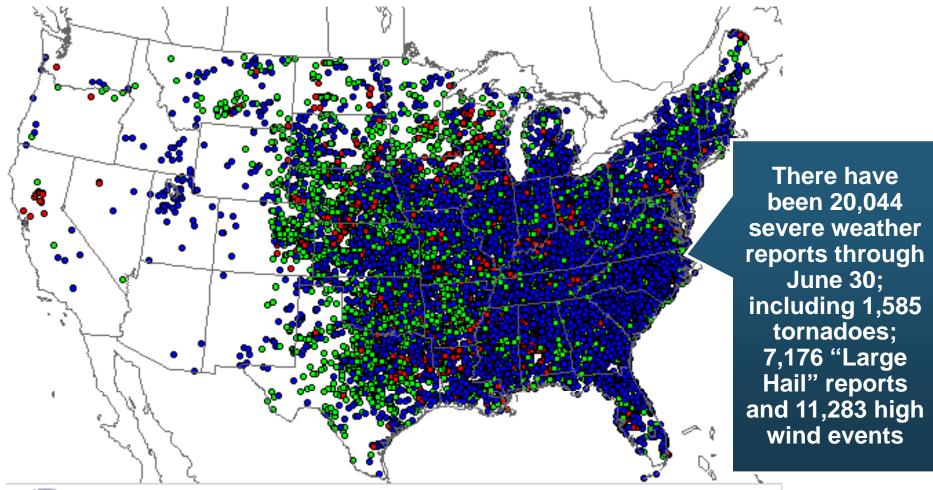
Location of Wind Damage Reports in the US, January 1—June 30, 2011





Severe Weather Reports, January 1—June 30, 2011





PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

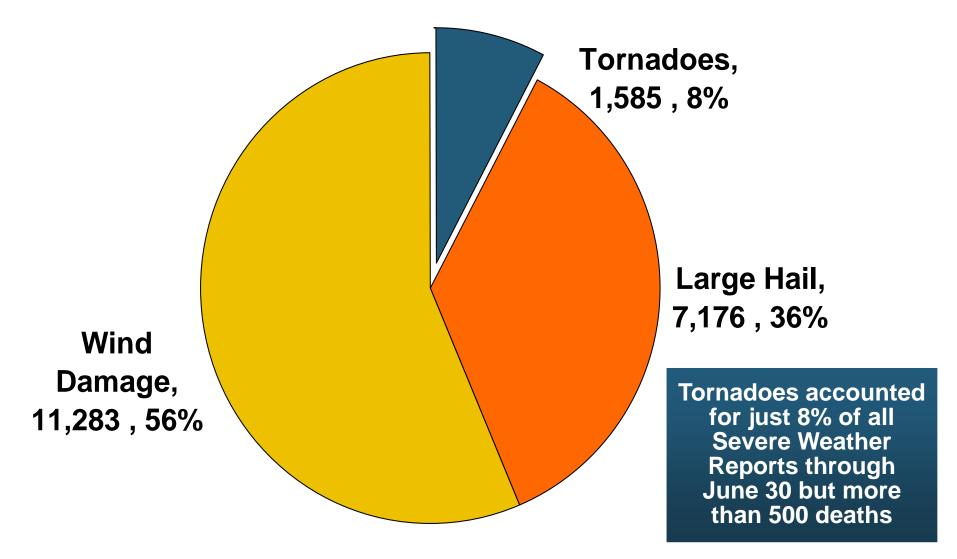
Severe Weather Reports January 01, 2011 - June 30, 2011

NOAA/Storm Prediction Center Norman, Oklahoma

Updated: Thursday June 30, 2011 11:49 CT

Number of Severe Weather Reports in US, by Type: January 1—June 30, 2011







US CATASTROPHE INSURED LOSS UPDATE

First Half 2011 CAT Losses Already Exceed All of 2010 and Could Become One of the Most Expensive Years on Record

Natural Disaster Losses in the United States: First 6 Months 2011

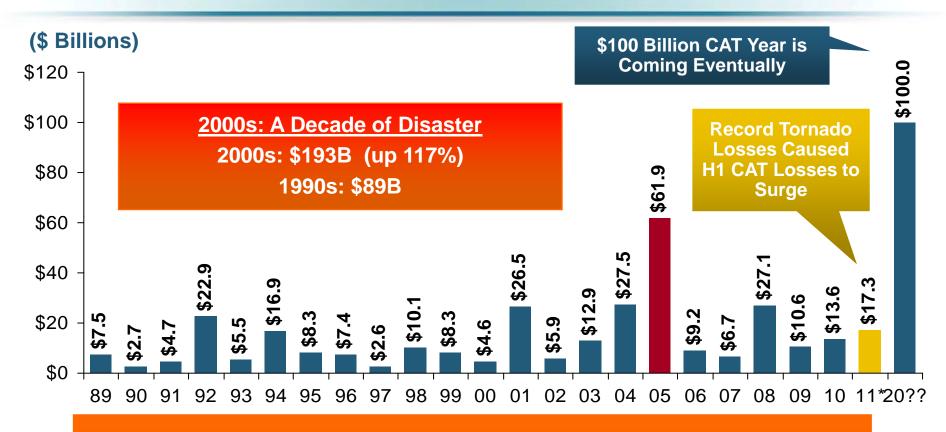


As of July 6, 2011	Number of Events	Fatalities	Estimated Overall Losses (US \$m)	Estimated Insured Losses (US \$m)
Severe Thunderstorm	43	593	23,573	16,350
Winter Storm	8	15	1,900	1,425
Flood	8	15	2,100	in progress
Earthquake	2	1	105	in progress
Tropical Cyclone	0	0	0	0
Wildfire	37	7	125	50

Source: MR NatCatSERVICE 38

US Insured Catastrophe Losses





First Half 2011 US CAT Losses Already Exceed Losses from All of 2010. Even Modest Hurricane Losses Will Make 2011 Among the Most Expensive Ever for CATs

Note: 2001 figure includes \$20.3B for 9/11 losses reported through 12/31/01. Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = \$12.2B.

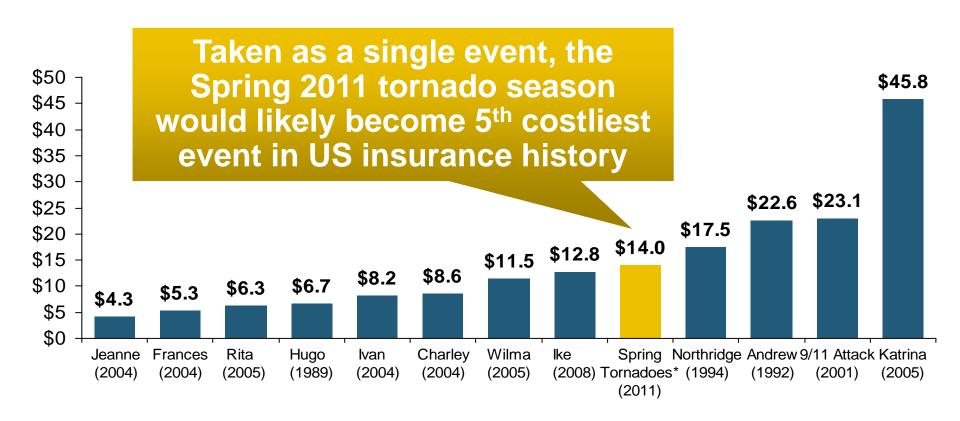
Sources: Property Claims Service/ISO; Insurance Information Institute.

^{*}First half 2011.

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



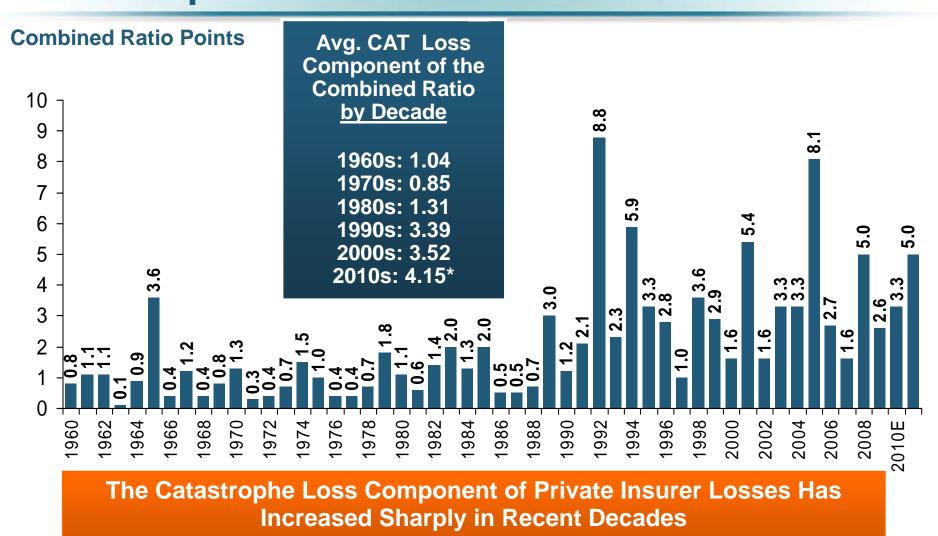
(Insured Losses, 2010 Dollars, \$ Billions)



^{*}Losses will actually be broken down into several "events" as determined by PCS. Sources: PCS; Insurance Information Institute inflation adjustments.

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





^{*}Insurance Information Institute estimates for 2010 and 2011:H1

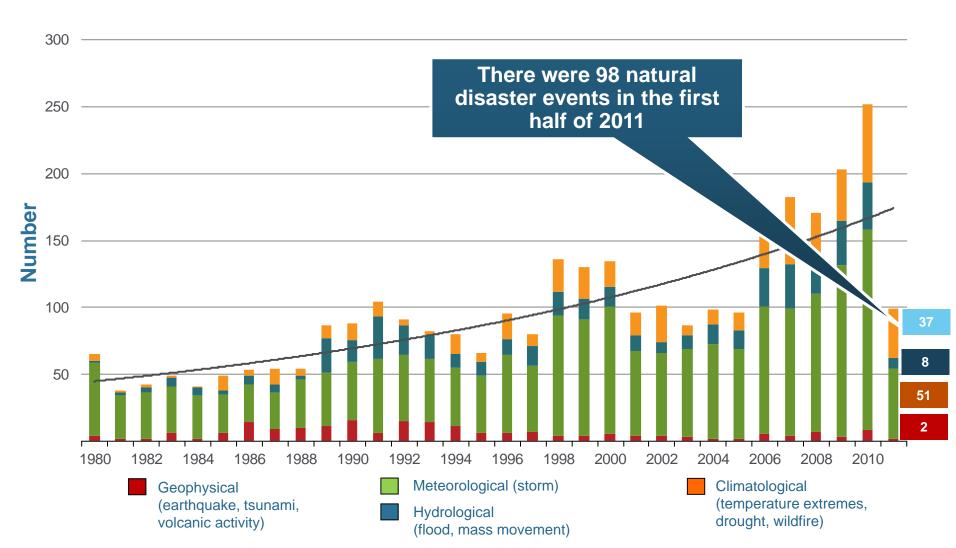
Notes: Private carrier losses only. Excludes loss adjustment expenses and reinsurance reinstatement premiums. Figures are adjusted for losses ultimately paid by foreign insurers and reinsurers.

Source: ISO; Insurance Information Institute.

Natural Disasters in the United States, 1980 – 2011*



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

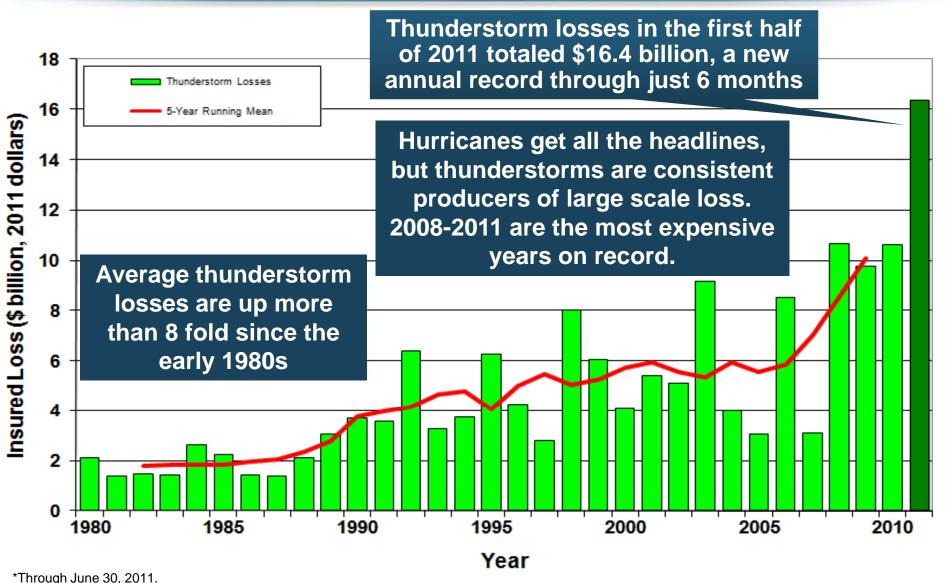


*Through June 30.

Source: MR NatCatSERVICE

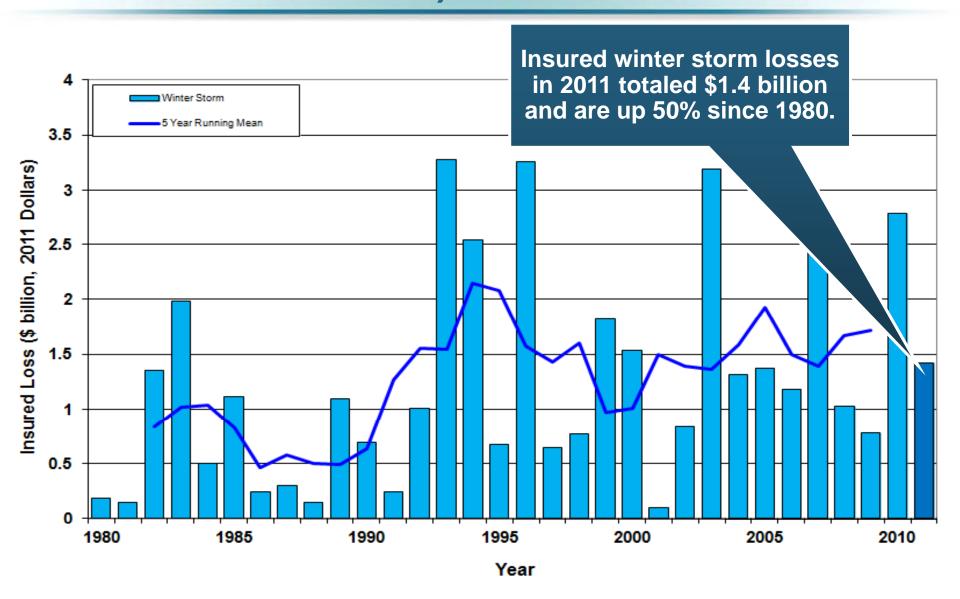
U.S. Thunderstorm Loss Trends, 1980 – 2011*





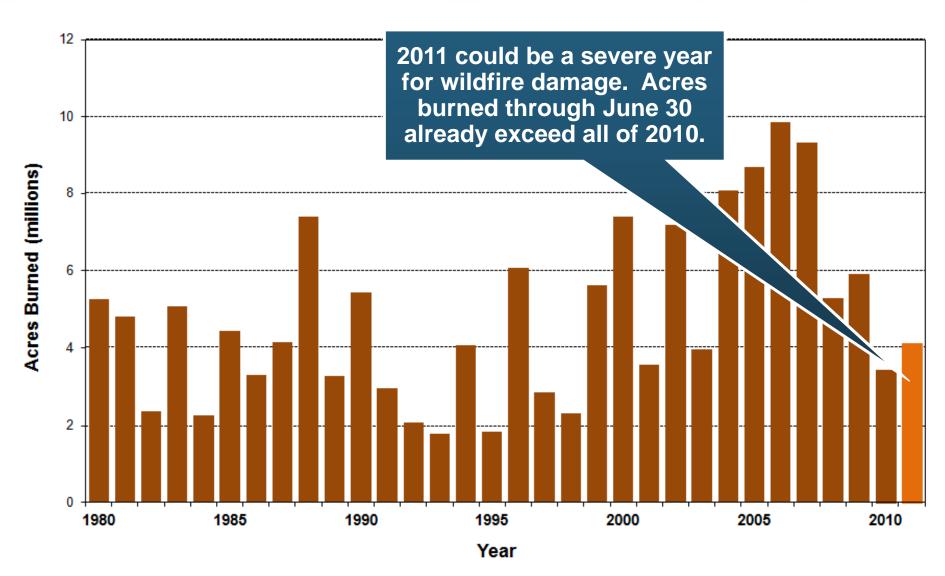
U.S. Winter Storm Loss Trends, 1980 – 2010 (Annual Totals) vs. First Half 2011





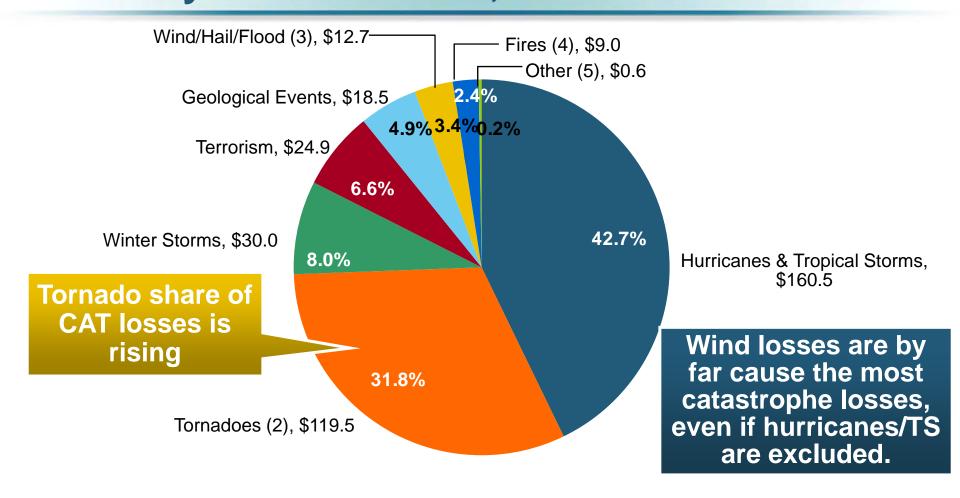
U.S. Acreage Burned by Wildfires, 1980 – 2010 (Annual Totals) vs. First Half 2011





Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1990–2011:H1¹

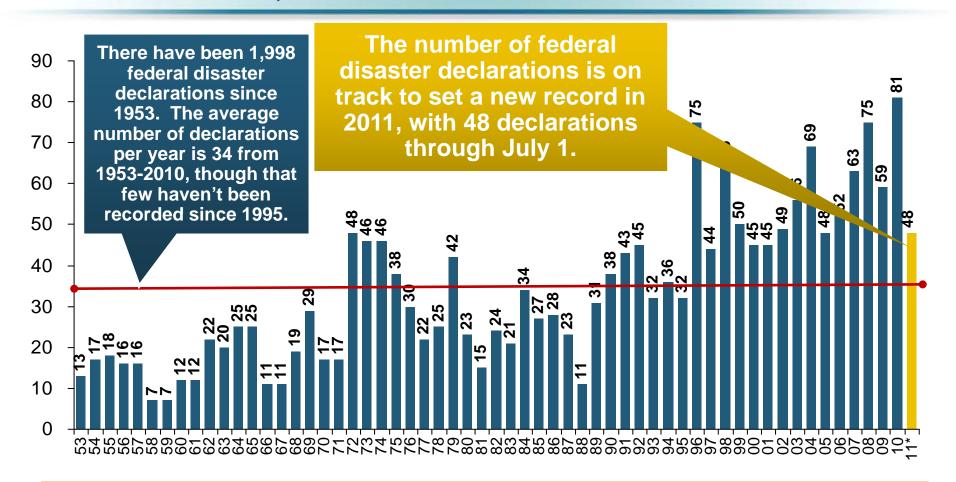




- 1. Catastrophes are defined as events causing direct insured losses to property of \$25 million or more in 2009 dollars.
- 2. Excludes snow.
- 3. Does not include NFIP flood losses
- Includes wildland fires
- 5. Includes civil disorders, water damage, utility disruptions and non-property losses such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

Number of Federal Disaster Declarations, 1953-2011*





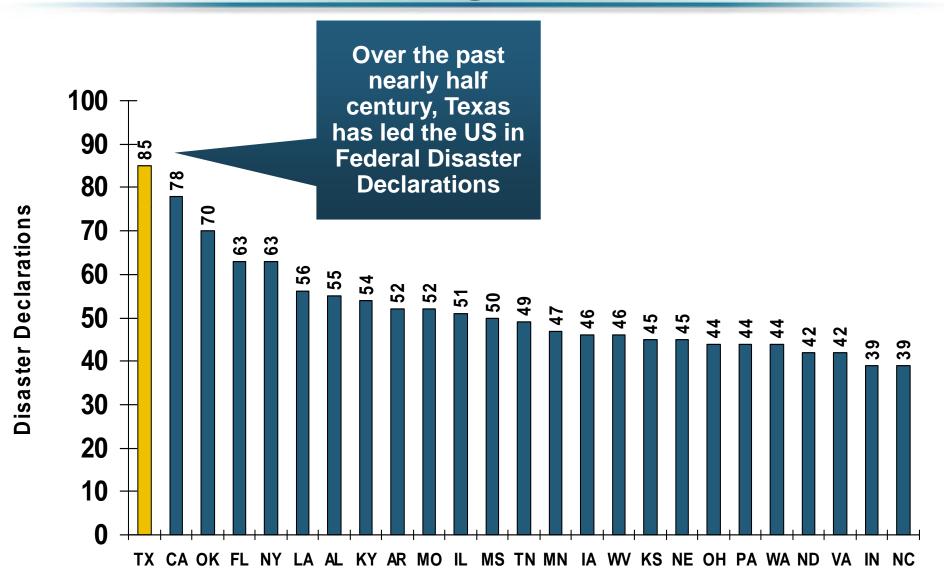
The Number of Federal Disaster Declarations Is Rising

Source: Federal Emergency Management Administration: http://www.fema.gov/news/disaster-totals-annual.fema; Insurance Information Institute.

^{*}Through July 1, 2011.

Federal Disasters Declarations by State, 1953 – June 30, 2011: Highest 25 States

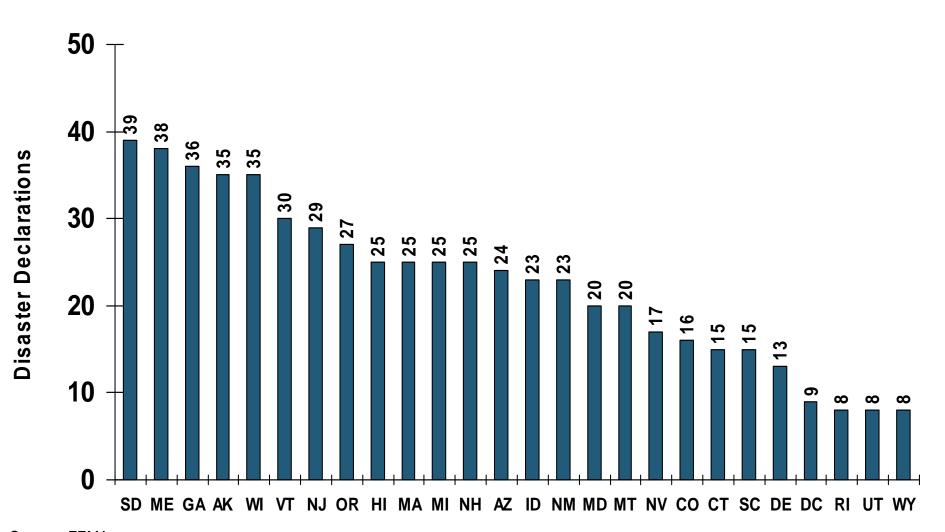




Source: FEMA.

Federal Disasters Declarations by State, 1953 – June 30, 2011: Lowest 25 States





Source: FEMA.



The BIG Question: When Will the Market Turn?

Insurance Cycle Dynamics

Criteria Necessary for a "Market Turn": All Four Criteria Must Be Met



	Criteria	Status	Comments
	Sustained Period of Large Underwriting Losses	Not Yet Happened	 Apart from Q2:2011, overall p/c underwriting losses remain modest Combined ratios (ex-Q2 CATs) still in low 100s (vs. 110+ at onset of last hard market) Prior-year reserve releases continue reduce u/w losses, boost ROEs
	Material Decline in Surplus/ Capacity		 Surplus hit a record \$565B as of 3/31/11 Analysts est. excess surplus of \$75-\$100B Some excess capacity may still remain in reinsurance markets Weak growth in demand for insurance is insufficient to absorb much excess capacity
	Tight Reinsurance Market	Somewhat in Place	•Higher prices in Asia/Pacific •Modestly improved pricing for US risks
	Renewed Underwriting & Pricing Discipline	Not Broadly Evident	 Commercial lines pricing trends remain negative Competition remains intense as many seek to maintain market share Terms & conditions—no broad tightening

Sources: Barclays Capital; Insurance Information Institute.

Do the Property Catastrophe Events of 2011 Impact Casualty Markets?



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

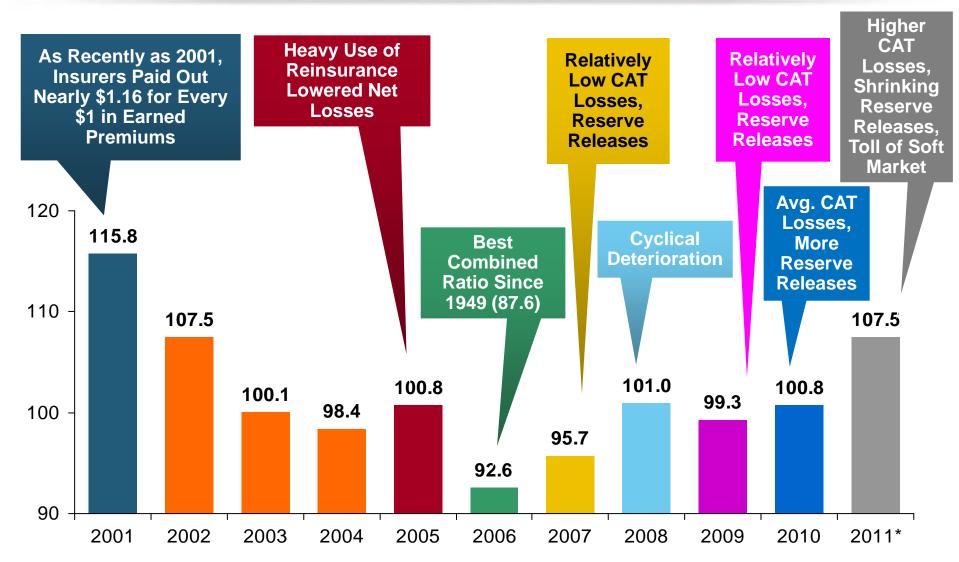


1. UNDERWRITING

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

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

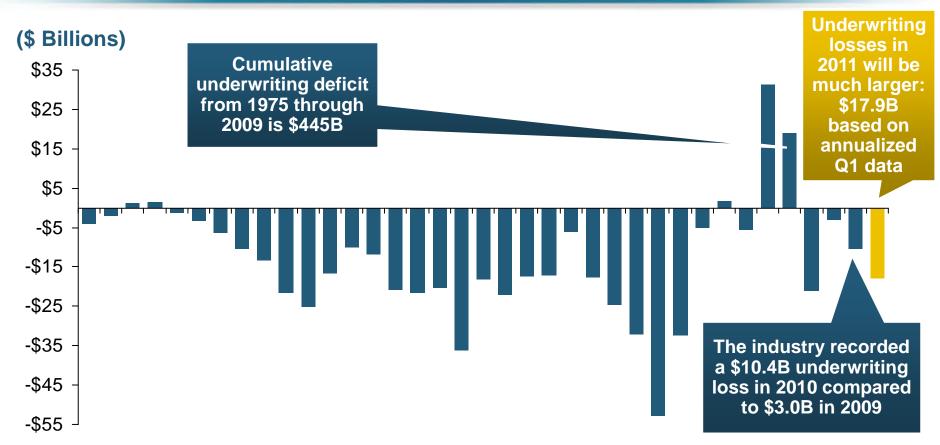




^{*} Excludes Mortgage & Financial Guaranty insurers 2008--2011. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=109.1 Sources: A.M. Best, ISO.; III Estimated for 2011:H1 (Q1 actual ex-M&FG was 102.2).

Underwriting Gain (Loss) 1975–2011*





75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 1011*

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

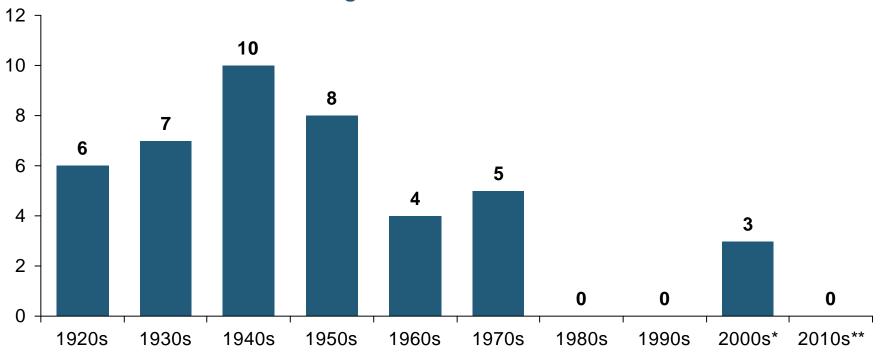
Sources: A.M. Best, ISO; Insurance Information Institute.

^{*} Includes mortgage and financial guaranty insurers in all years. 2011 figure is annualized based on actual Q1 underwriting losses of \$4.463 billion.

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



Number of Years with Underwriting Profits



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

total to 4 years with an underwriting profit.

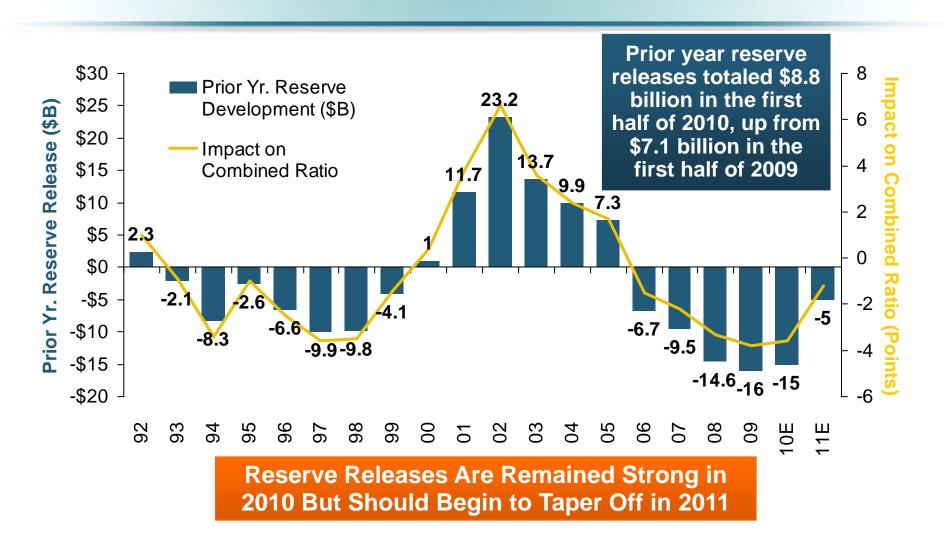
Note: Data for 1920–1934 based on stock companies only.

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

^{**}Data for the 2010s includes 2010 and 2011.

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.

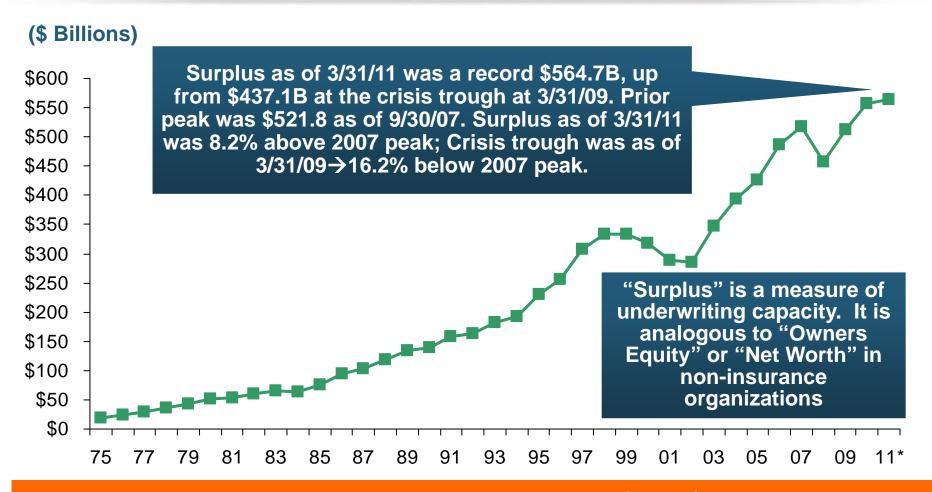


2. SURPLUS/CAPITAL/CAPACITY

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

US Policyholder Surplus: 1975–2011*





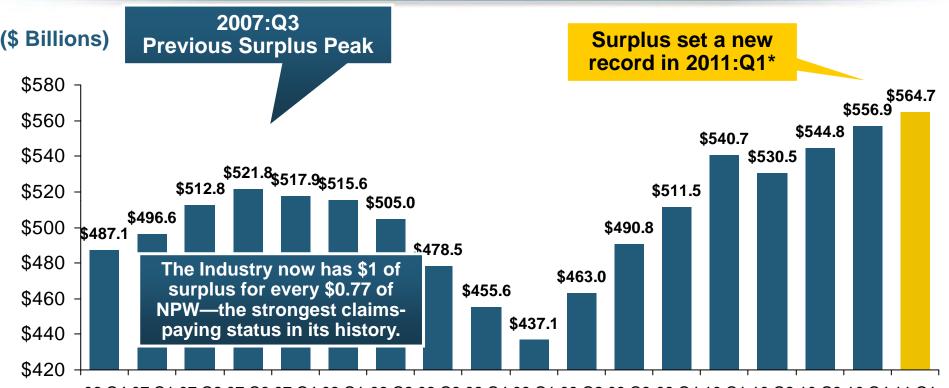
The Premium-to-Surplus Ratio Stood at \$0.77:\$1 as of 3/31/11, A Near Record Low (at Least in Recent History)**

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

^{*} As of 3/31/11.

Policyholder Surplus, 2006:Q4–2011:Q1





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 10:Q3 10:Q4 11:Q1

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

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

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

Sources: ISO, A.M .Best.

Quarterly Surplus Changes Since 2007:Q3 Peak

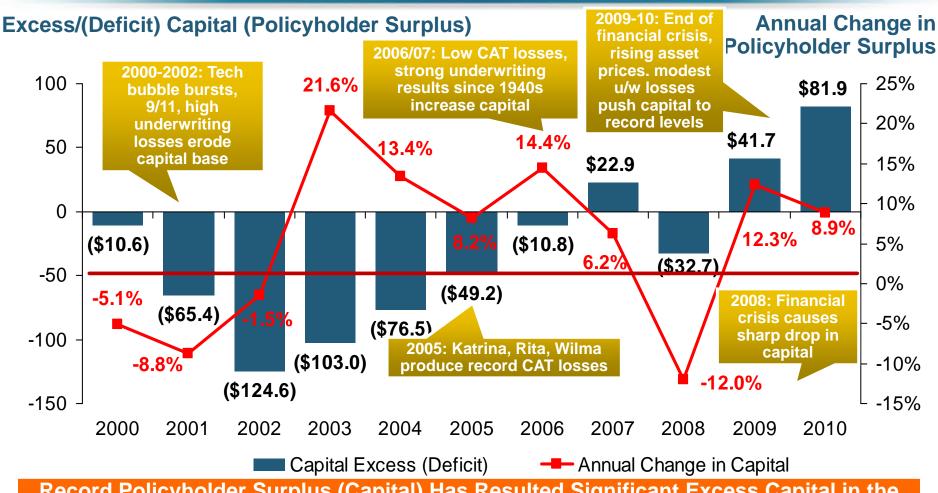
10:Q3: +\$23.0B (+4.4%)

10:Q4: +\$35.1B (+6.7%)

11:Q4: +\$42.9B (+8.2%)

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





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

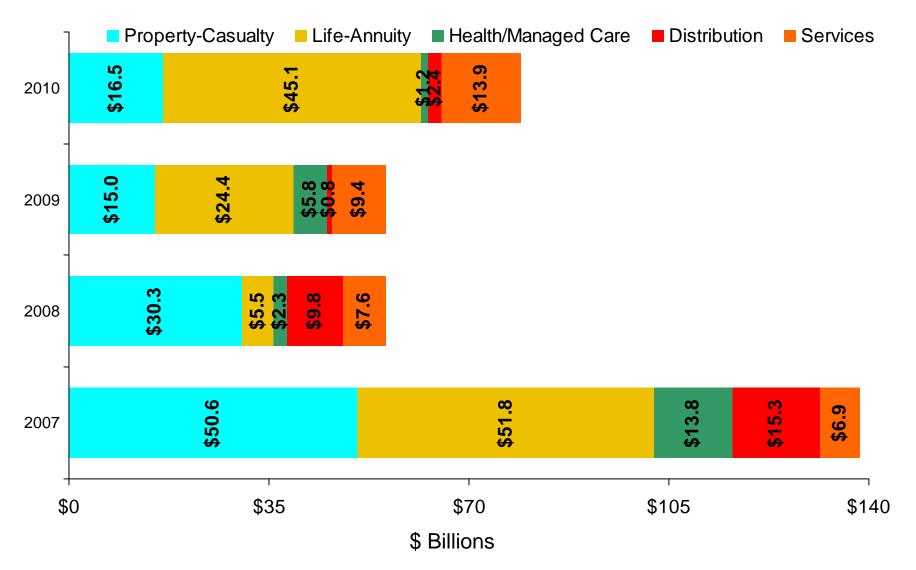
Note: The assumption of a 0.9:1 P/S ratio is derived from a Feb. 2011 announcement by Advisen, Ltd., that the US P/C insurance industry has \$74 billion in excess capital. The implied P/S ratio (calculated by III) is 0.88:1, which was rounded to 0.9:1.

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

* Net Premiums Written

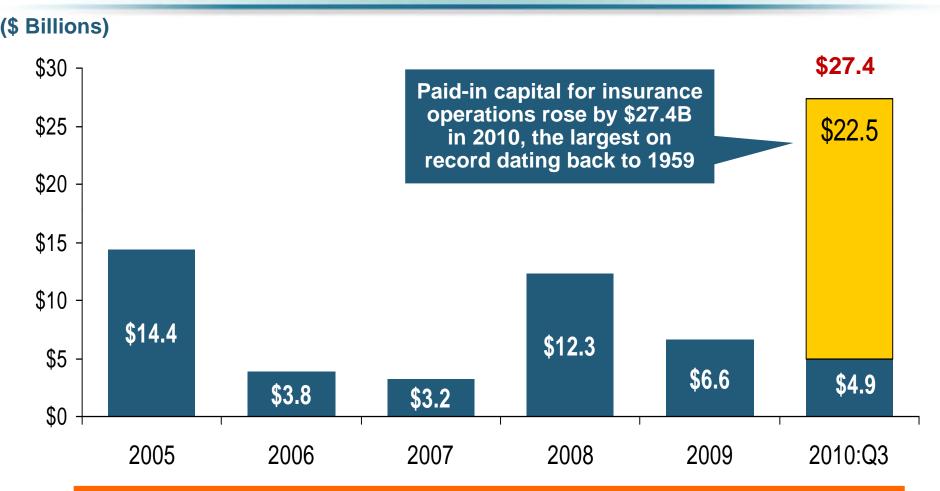
M&A Activity Globally Among P/C Insurers Remains Subdued: Little Capacity Leaving





Paid-in Capital, 2005–2010

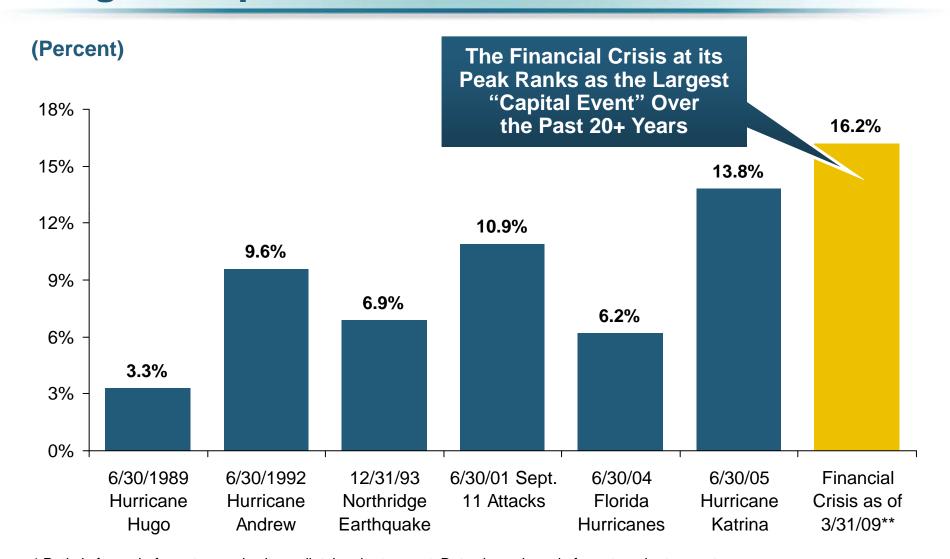




In 2010 One Insurer's Paid-in Capital Rose by \$22.5B as Part of an Investment in a Non-insurance Business

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





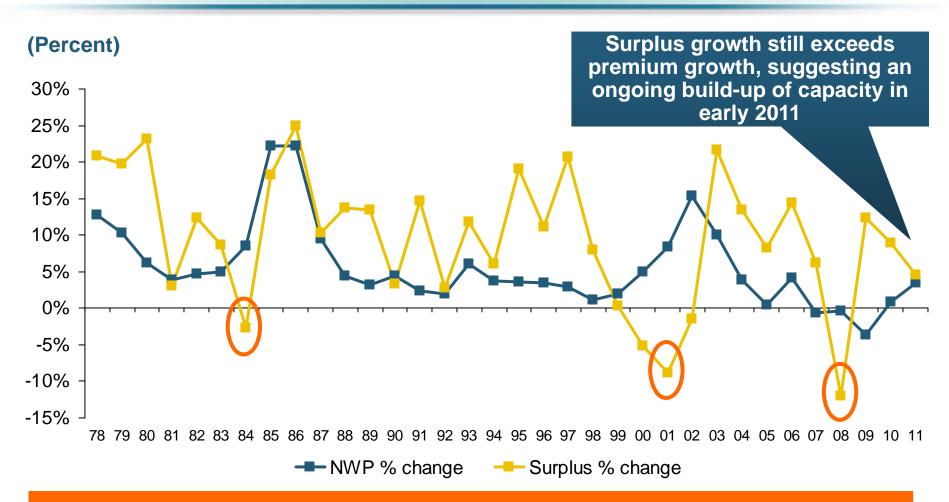
^{*} Ratio is for end-of-quarter surplus immediately prior to event. Date shown is end of quarter prior to event

Source: PCS; Insurance Information Institute

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

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



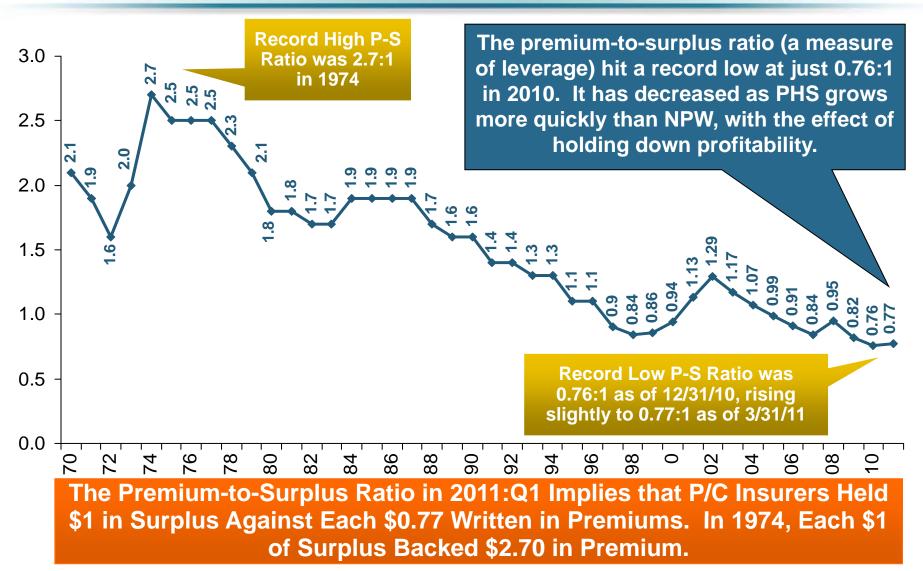


Sharp Decline in Capacity is a Necessary but Not Sufficient Condition for a True Hard Market

^{* 2011} NWP and Surplus figures are % changes as of Q1:11 vs. Q1:10. Sources: A.M. Best, ISO, Insurance Information Institute

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





^{*2011} data are as of 3/31/11.

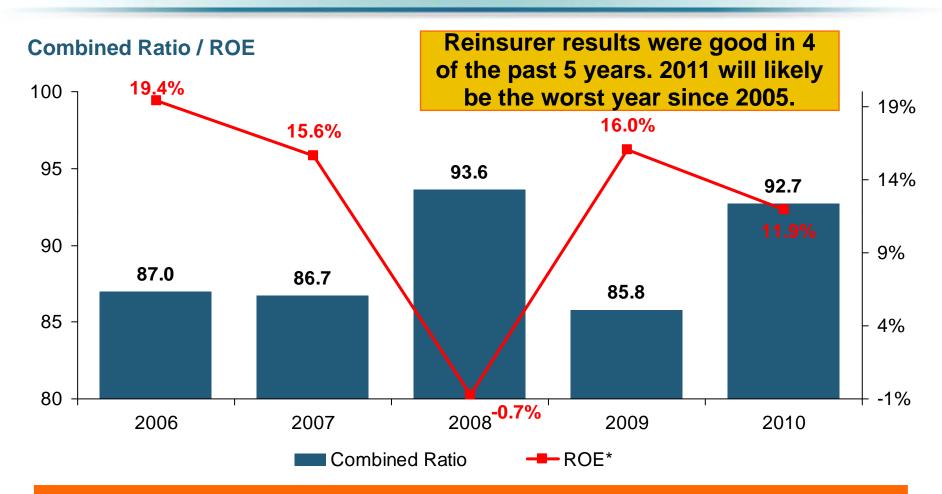


3. REINSURANCE MARKET CONDITIONS

Has Record Global Catastrophes Activity Erased Enough Capacity to Turn Markets?

US Reinsurance and Bermuda Market Combined Ratio and ROEs, 2006-2010



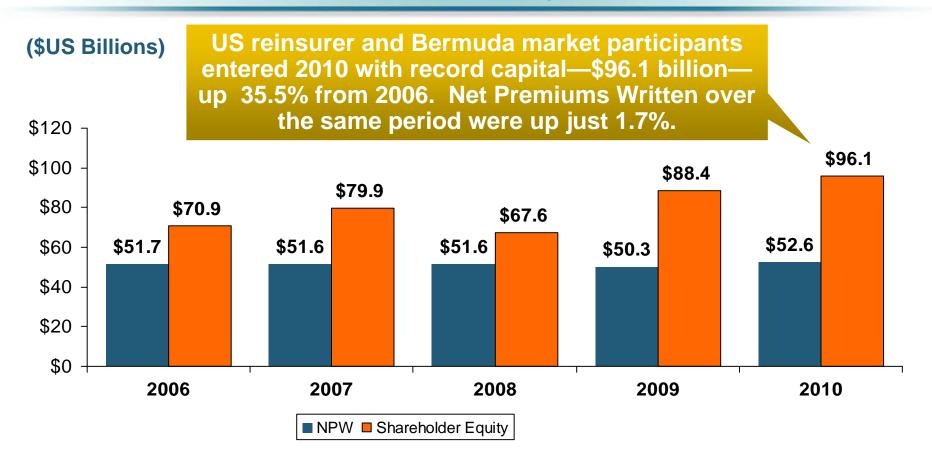


The 2011 combined ratio will spike due to very high first half catastrophe losses

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

US Reinsurance and Bermuda Market NPW and Shareholder Equity, 2006-2010

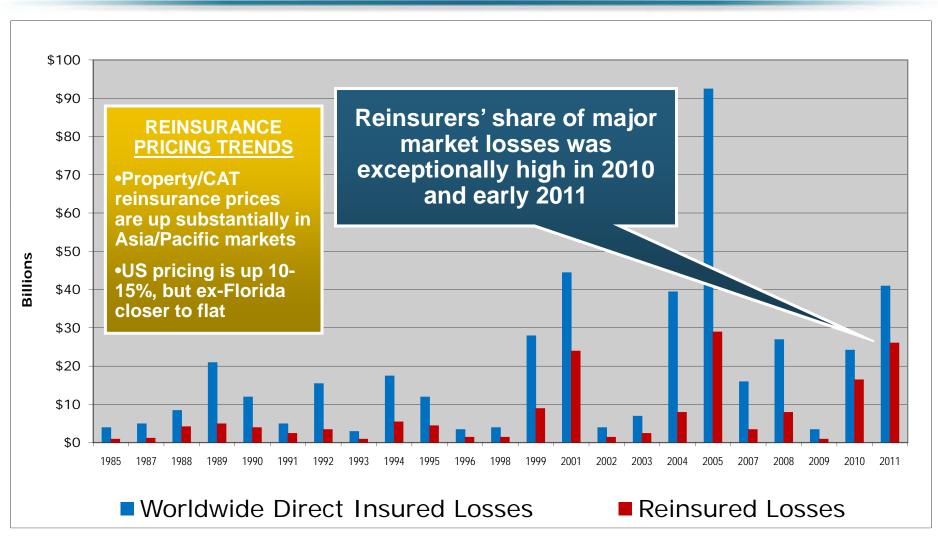




The rapid growth of surplus relative to premiums written suggests that reinsurance markets were overcapitalized entering 2011. Some, but not all, of that excess capital has been removed by the high US CAT losses in 2011

Significant Market Losses, 1985-2011*





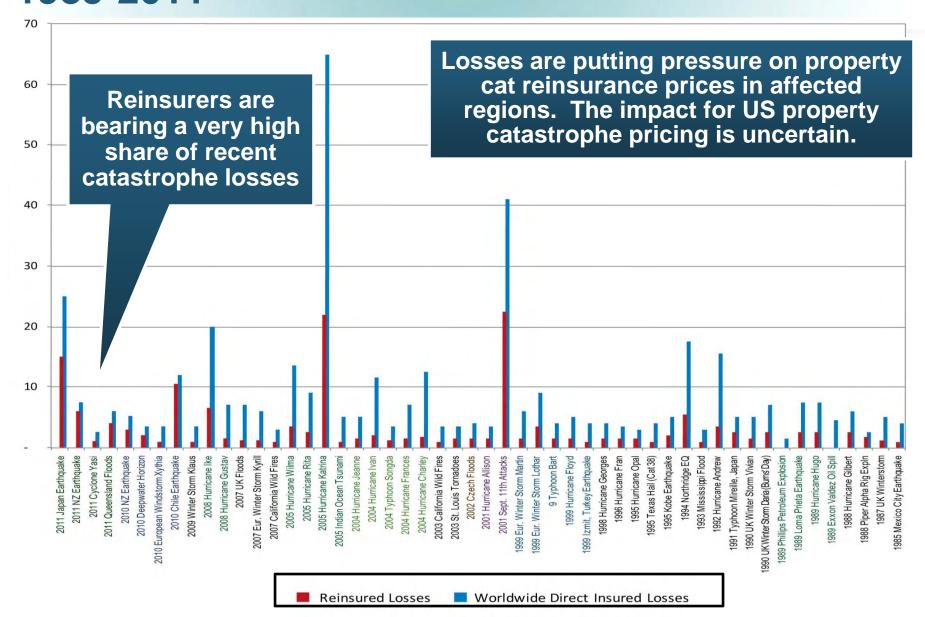
Source: Holborn; RAA.

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

Significant Market Losses by Event, 1985-2011*

Losses in \$Billions

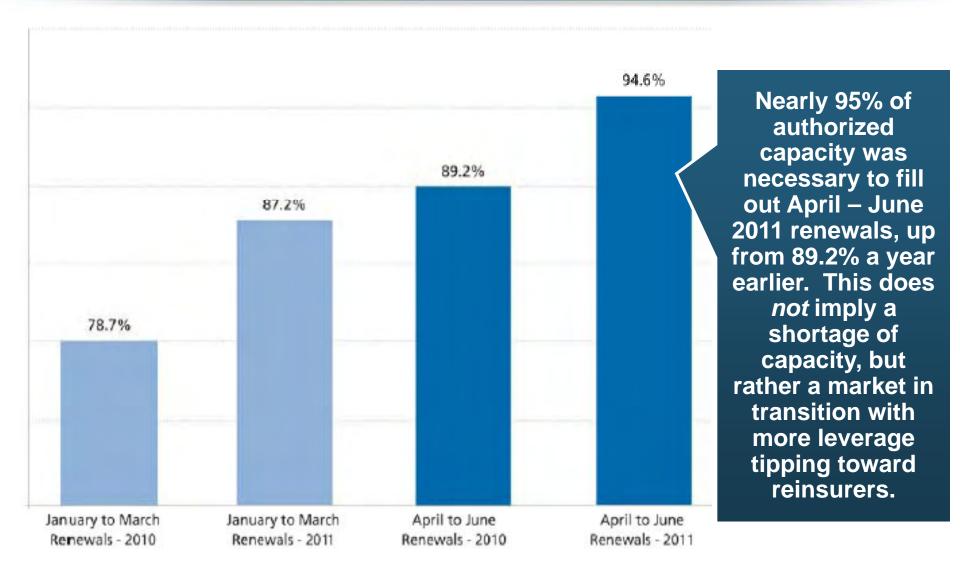




Source: Holborn, RAA. *2011 events as of March 31 are preliminary and may change as loss estimates are refined further.

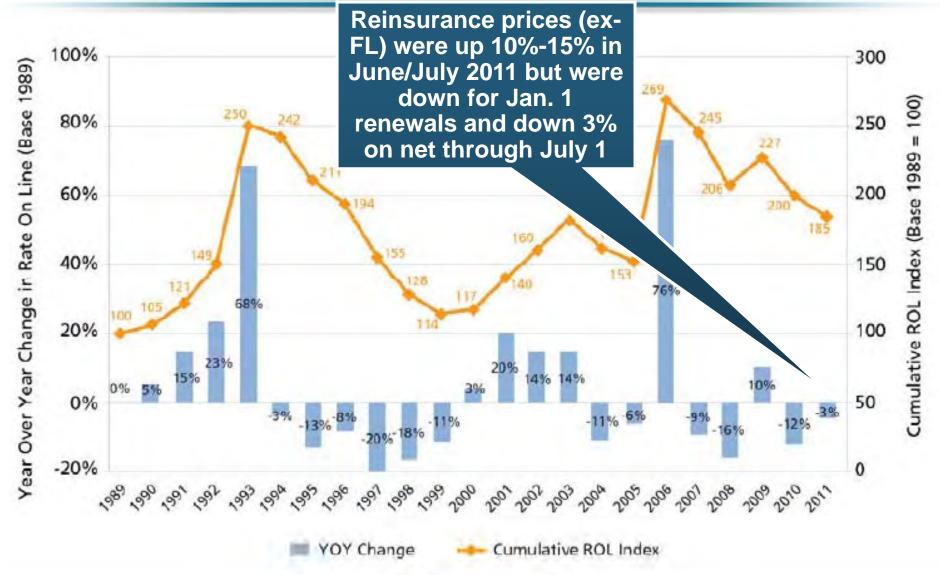
Percent of Authorized Capacity Used at Renewal





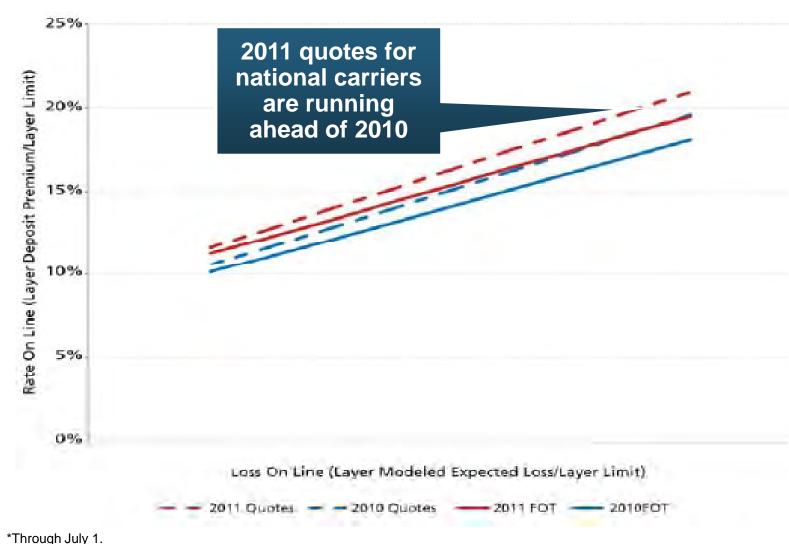
US Property Catastrophe Rate on Line, 1989 – 2011* (excludes FL)





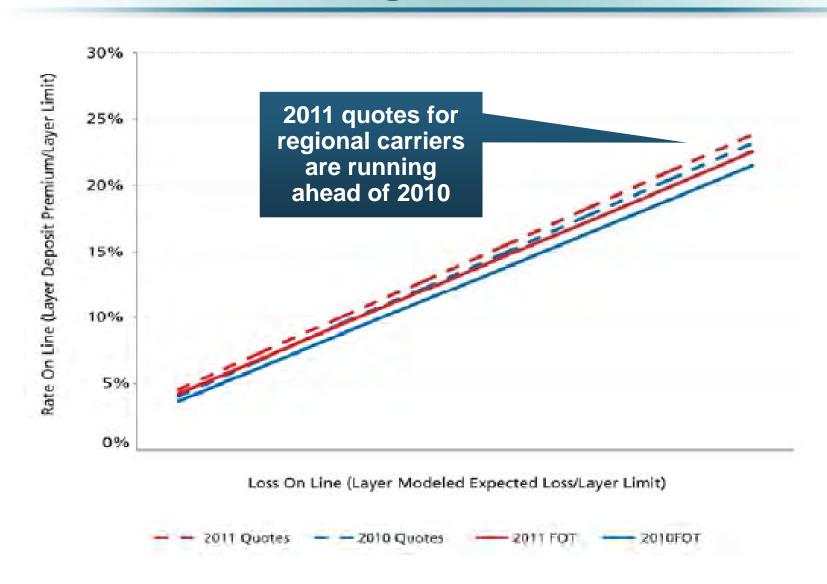
National Carrier Risk Adjusted Reinsurance Pricing (excl. FL-only renewals)





Regional Carrier Risk Adjusted Reinsurance Pricing (excl. FL-only renewals)

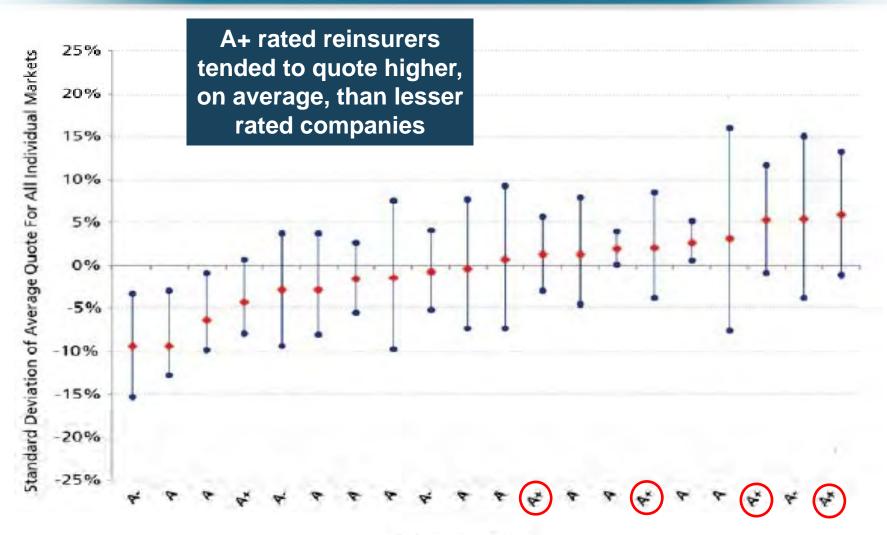




^{*}Through July 1. Source: Guy Carpenter & Co., *GC Briefing,* July 2011.

June and July 2011 Reinsurer Quoting Behavior (excludes FL)

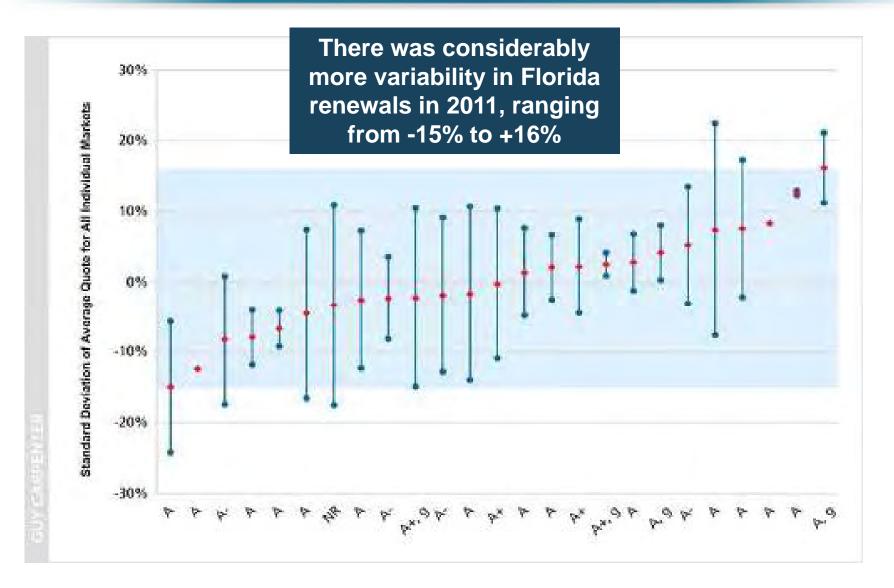




Reinsurer Rating

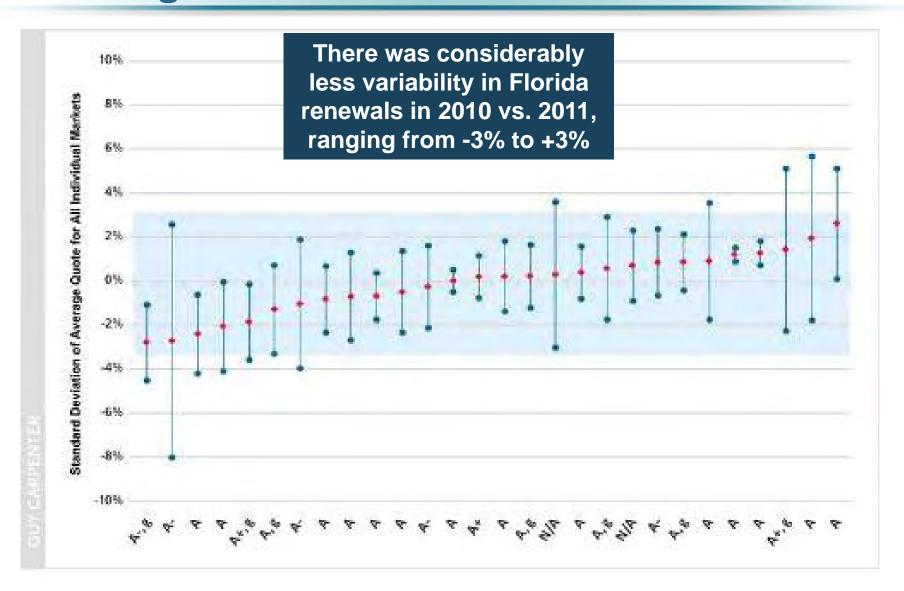
2011 Florida Renewal Reinsurer Quoting Behavior





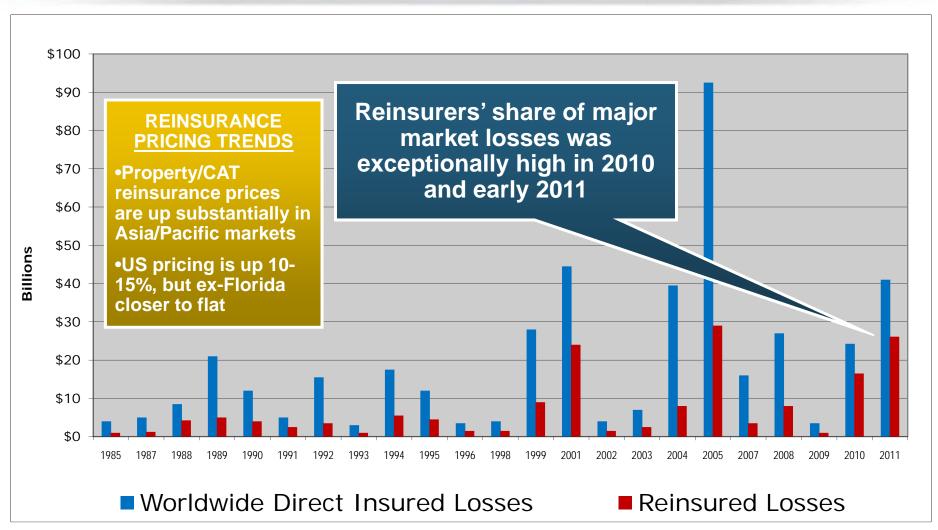
2010 Florida Renewal Reinsurer Quoting Behavior





Significant Market Losses, 1985-2011*





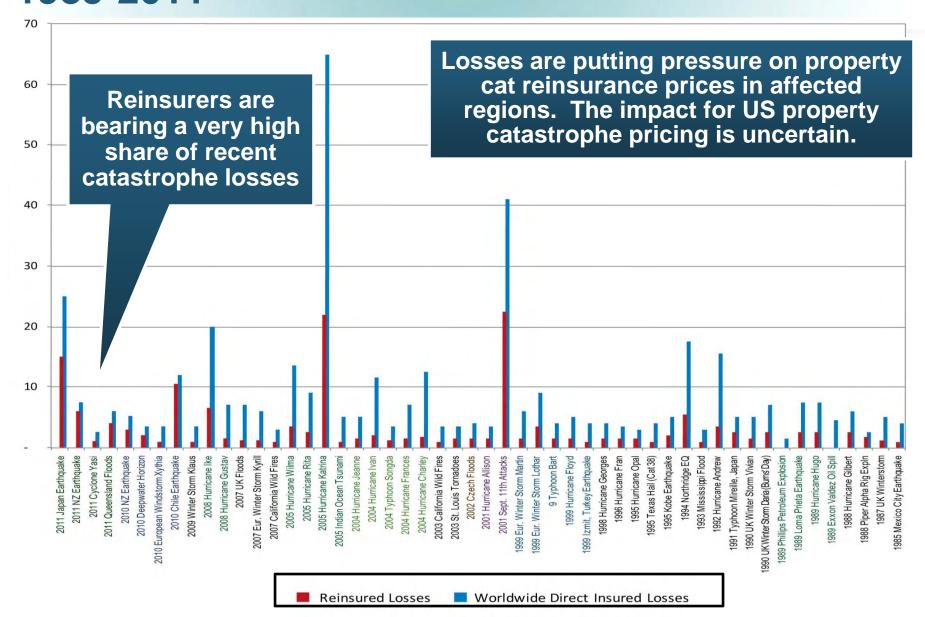
Source: Holborn; RAA.

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

Significant Market Losses by Event, 1985-2011*

Losses in \$Billions





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



Outlook for the 2011 Atlantic Hurricane Season

If Expected Above Average Activity Produces Costly Landfalls, Reinsurance Markets Could Harden Significantly

Outlook for 2011 Hurricane Season: 75% More Active Than Average



	Average*	2005 (Katrina Year)	2011F
Named Storms	9.6	28	16
Named Storm Days	49.1	115.5	80
Hurricanes	5.9	14	9
Hurricane Days	24.5	47.5	35
Intense Hurricanes	2.3	7	5
Intense Hurricane Days	5.0	7	10
Accumulated Cyclone Energy	96.1	NA	160
Net Tropical Cyclone Activity	100%	275%	175%

Source: Dr. Philip Klotzbach and Dr. William Gray, Colorado State University, June 1, 2011.

^{*}Average over the period 1950-2000.

Probability of Major Hurricane Landfall (CAT 3, 4, 5) in 2011



	Average*	2011F
Entire US Coast	52%	72%
US East Coast Including Florida Peninsula	31%	48%
Gulf Coast from FL Panhandle to Brownsville, TX	30%	47%

ALSO...Above-Average Major Hurricane Landfall Risk in Caribbean for 2011 (61% vs. 42%)

^{*}Average over the period 1950-2000.

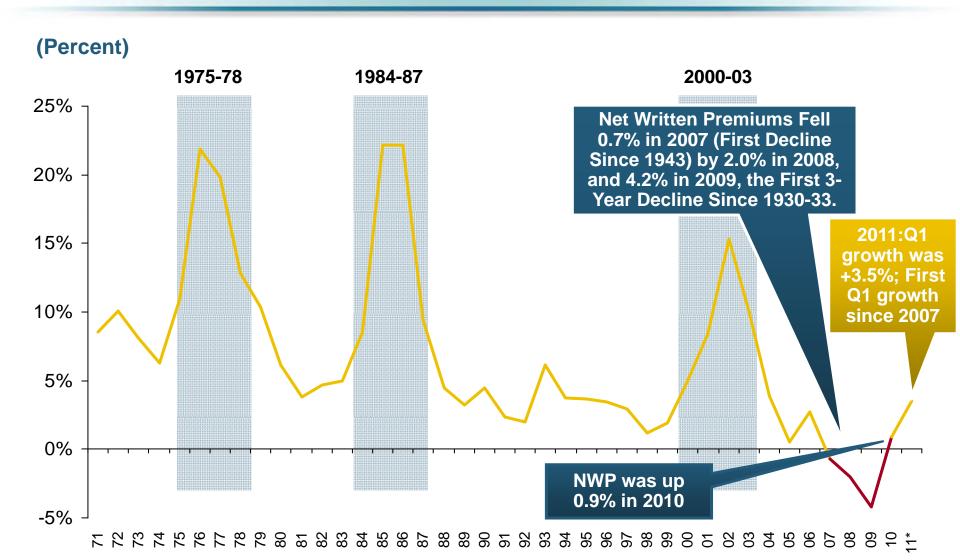


4. RENEWED PRICING DISCIPLINE

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

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





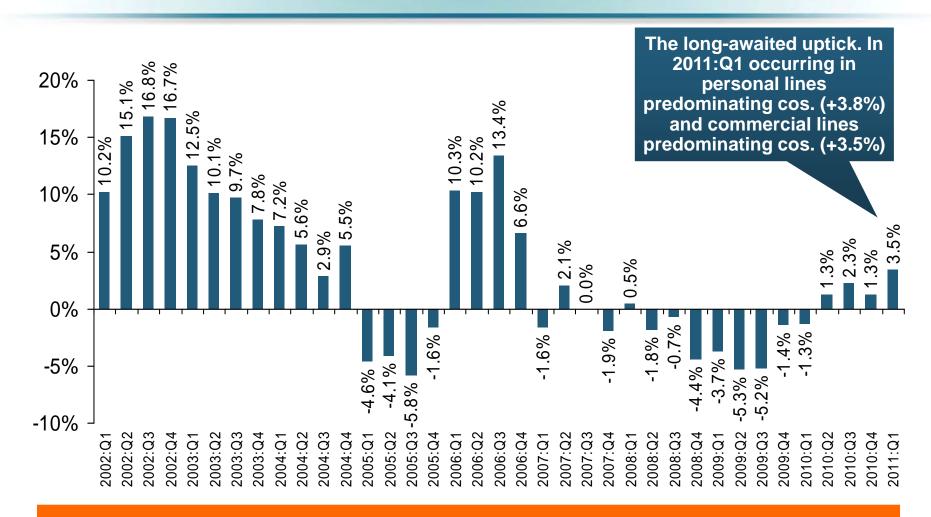
*2011 figure is an estimate based on Q1 data.

Shaded areas denote "hard market" periods

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

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



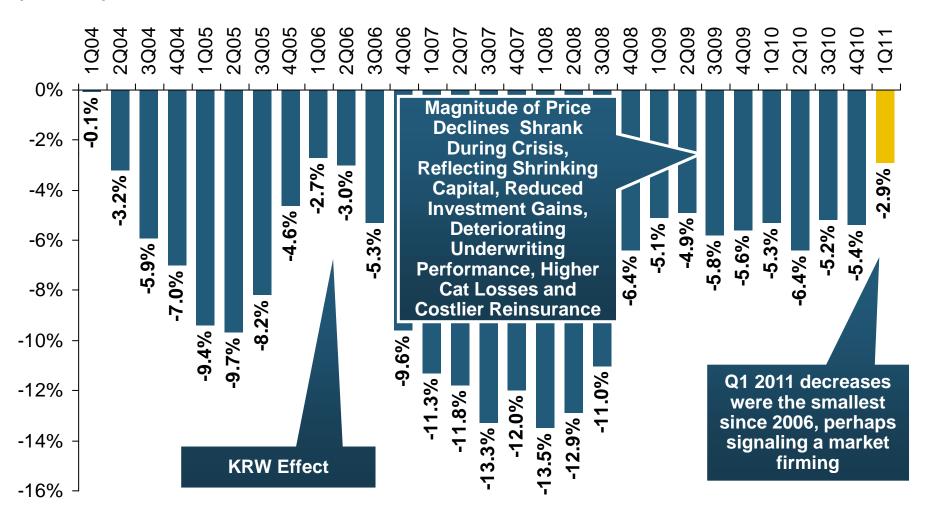


Finally! Back-to-back quarters of net written premium growth (vs. the same quarter, prior year)

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

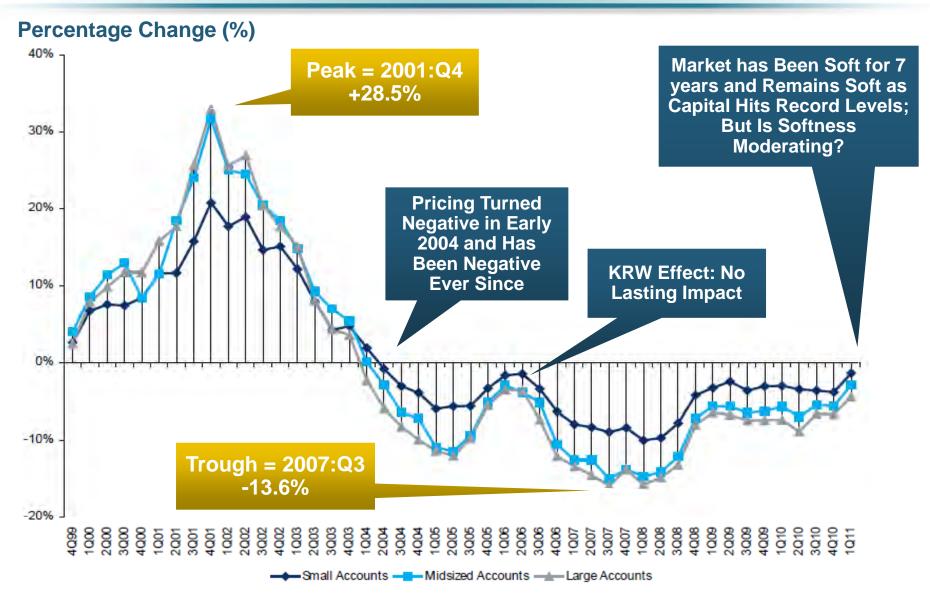


(Percent)



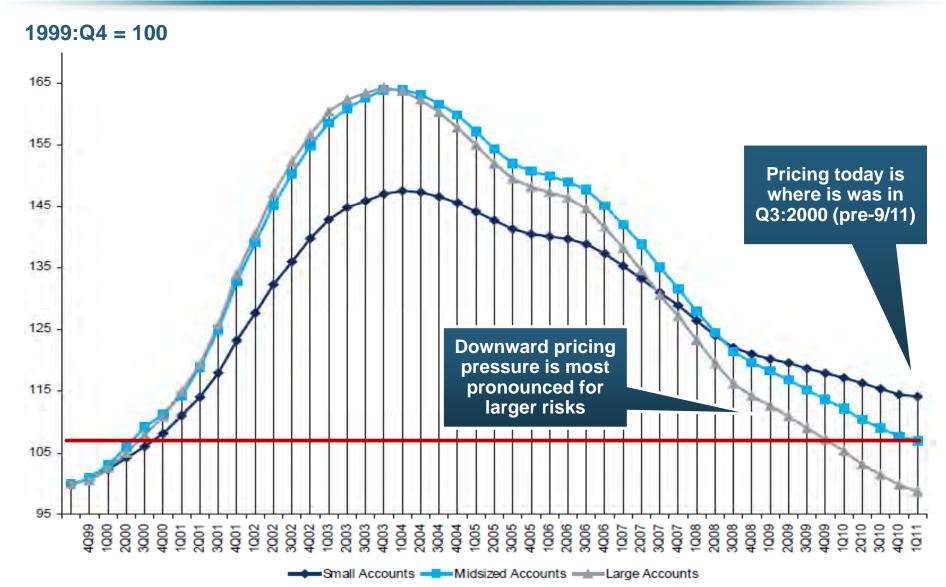
Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2011:Q1





Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2011:Q1





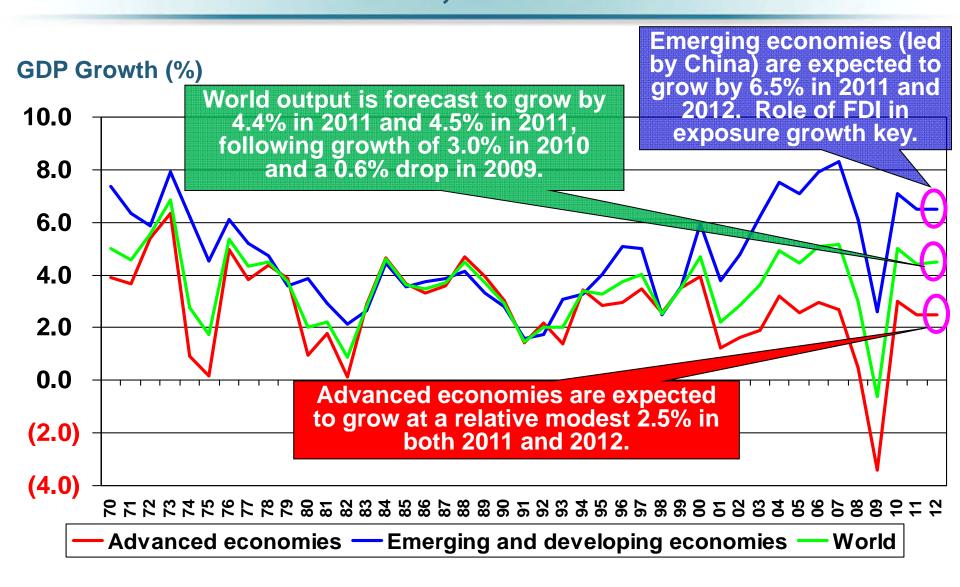


The Unfortunate Nexus: Opportunity, Risk & Instability

Most of the Global Economy's Future Gains Will be Fraught with Much Greater Risk and Uncertainty than in the Past—Reinsurance Will Insurers Manage These Risks

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

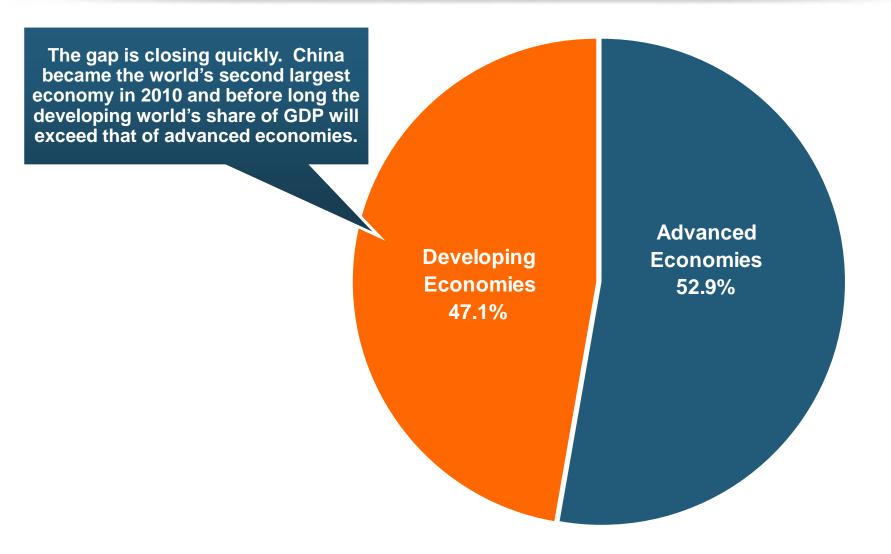




Source: International Monetary Fund, World Economic Outlook Update, January 2011; Ins. Info. Institute.

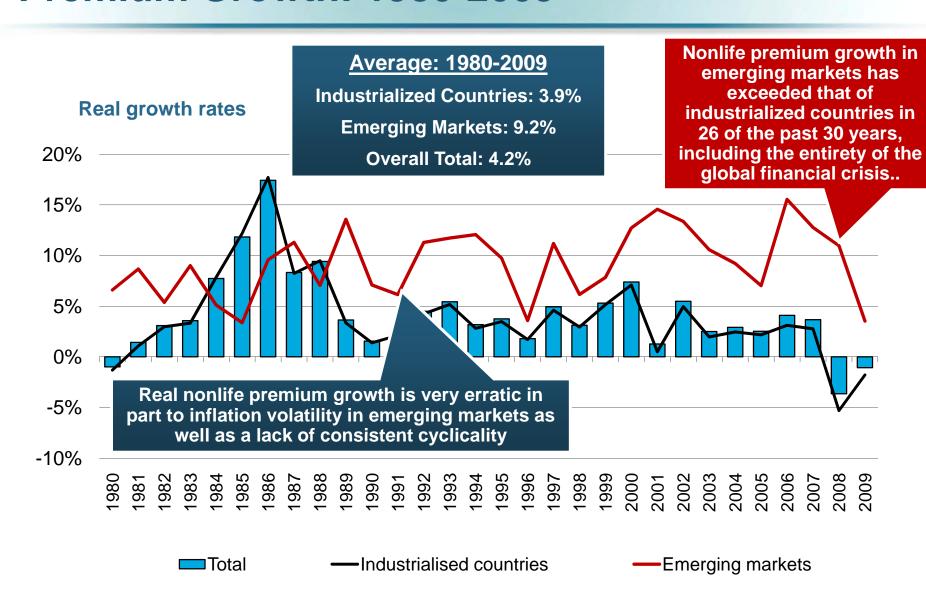
Relative Shares of Global Output, Advanced vs. Developing Economies, 2009





Global Real (Inflation Adjusted) Nonlife Premium Growth: 1980-2009



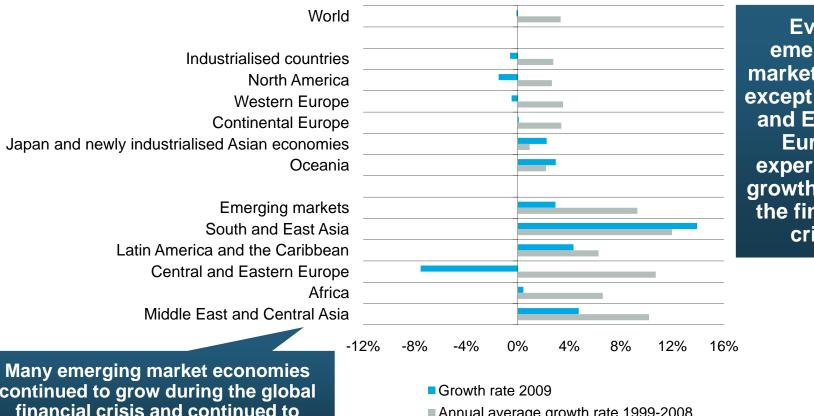


Source: Swiss Re, sigma, No. 2/2010.

Nonlife Real Premium Growth Rates by Region: 1999-2008 and 2009



Real Premium Growth Rates



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

continued to grow during the global financial crisis and continued to benefit from foreign direct investment

■ Annual average growth rate 1999-2008

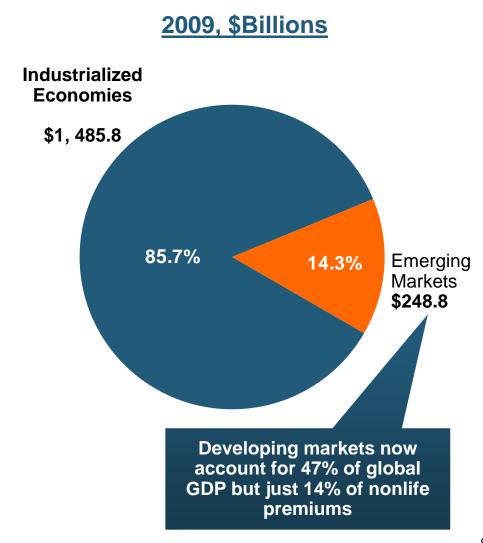
Source: Swiss Re, sigma, No. 2/2010.

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



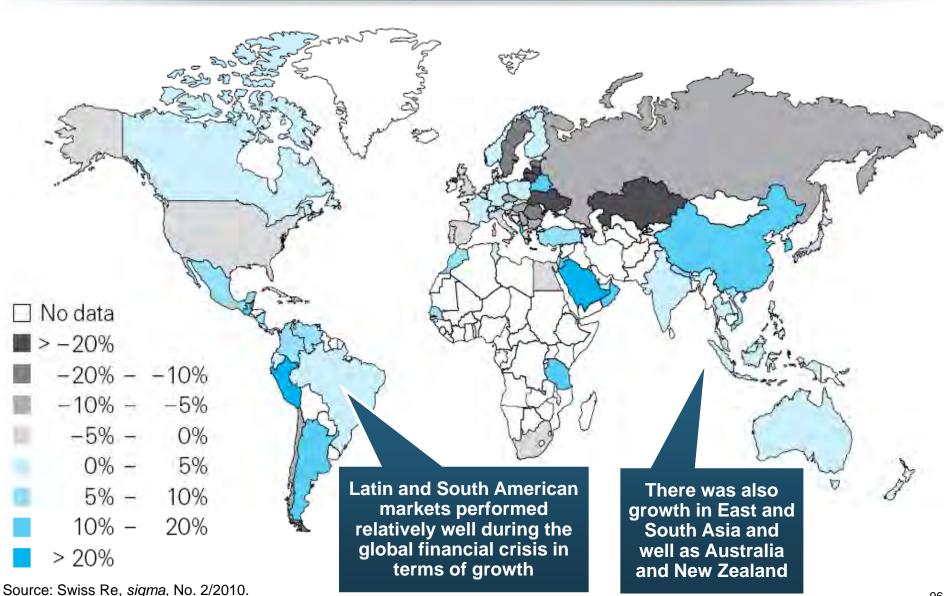
Premium Growth Facts

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



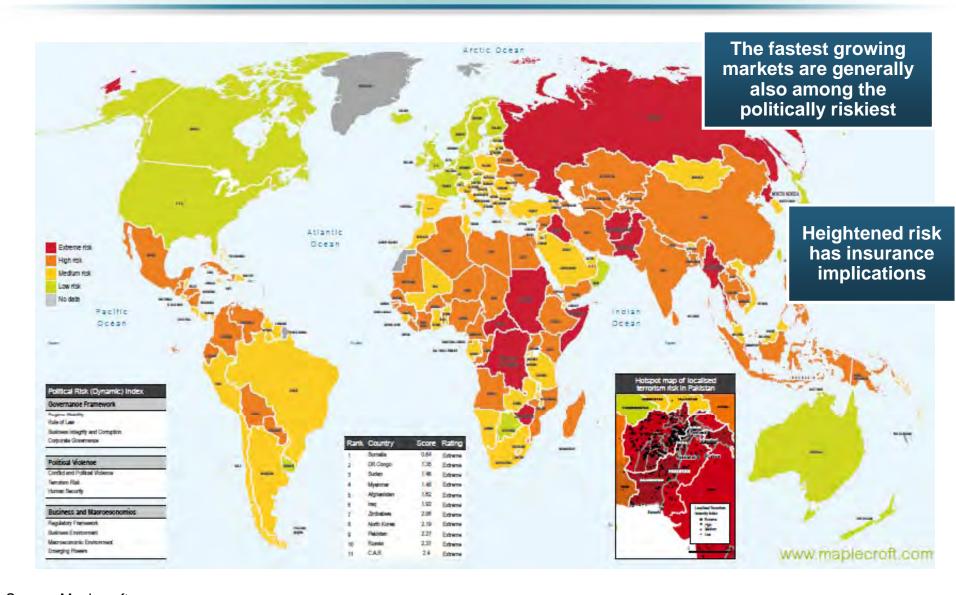
Nonlife Real Premium Growth in 2009





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





Source: Maplecroft



Other Cycle-Influencing Factors

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



INVESTMENTS: THE NEW REALITY

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

Property/Casualty Insurance Industry Investment Gain: 1994–2011:Q1¹



(\$ Billions)



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

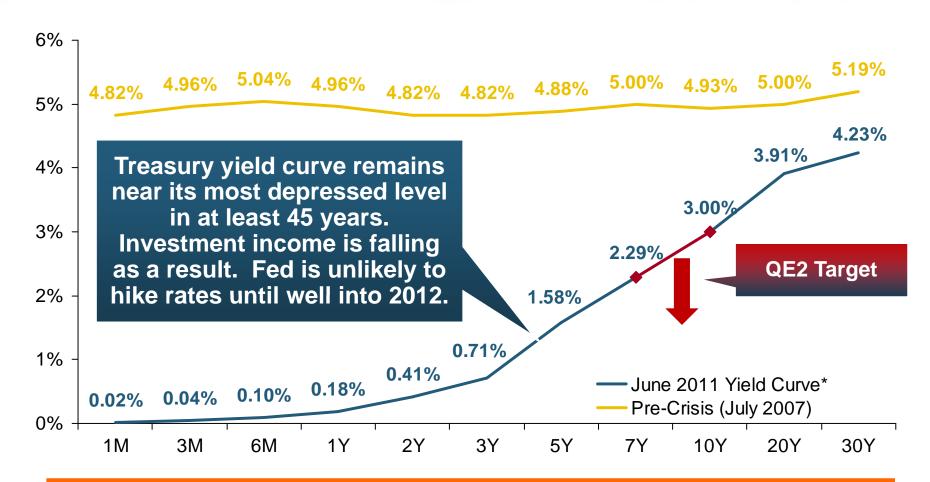
Sources: ISO: Insurance Information Institute.

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.

Treasury Yield Curves: Pre-Crisis (July 2007) vs. June 2011*





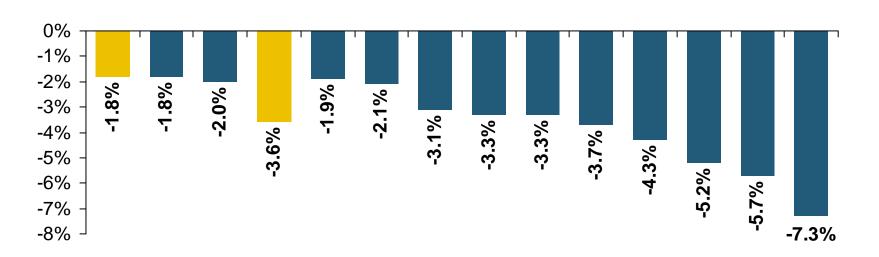
The End of the Fed's Quantitative Easing Is Unlikely to Push Interest Rates Up Substantially Given Ongoing Economic Weakness

^{*}Average of daily rates.

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

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

^{*}Based on 2008 Invested Assets and Earned Premiums

^{**}US domestic reinsurance only



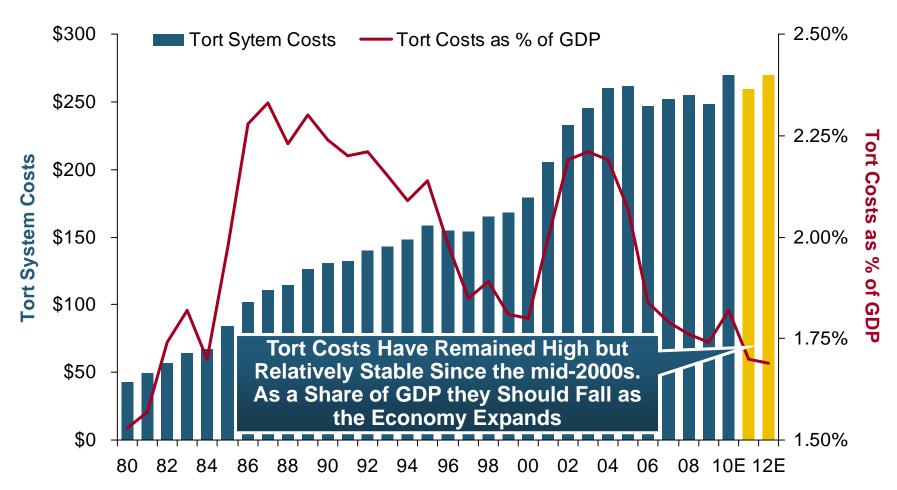
Shifting Legal Liability & Tort Environment

Is the Tort Pendulum Swinging Against Insurers?

Over the Last Three Decades, Total Tort Costs as a % of GDP Appear Somewhat Cyclical







Business Leaders Ranking of Liability Systems in 2010



Best States

- Delaware
- North Dakota
- 3. Nebraska
- 4. Indiana
- 5. lowa
- 6. Virginia
- 7. Utah
- 8. Colorado
- 9. Massachusetts

10. South Dakota

New in 2010

- North Dakota
- Massachusetts
- South Dakota

Drop-offs

- Maine
- Vermont
- Kansas

Midwest/West has mix of good and bad states.

Worst States

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

Newly Notorious

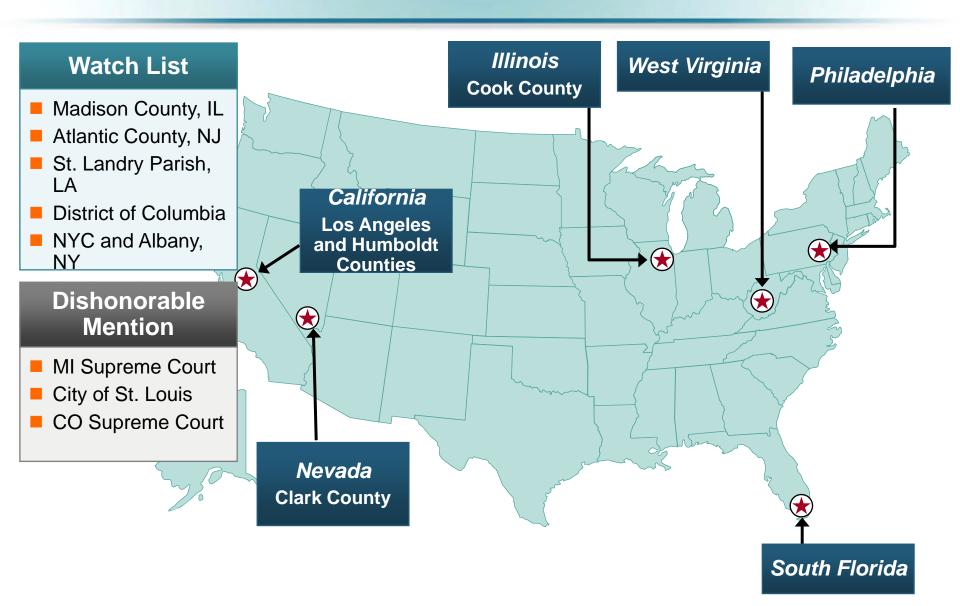
- New Mexico
- Montana
- Arkansas

Rising Above

- Texas
- South Carolina
- Hawaii

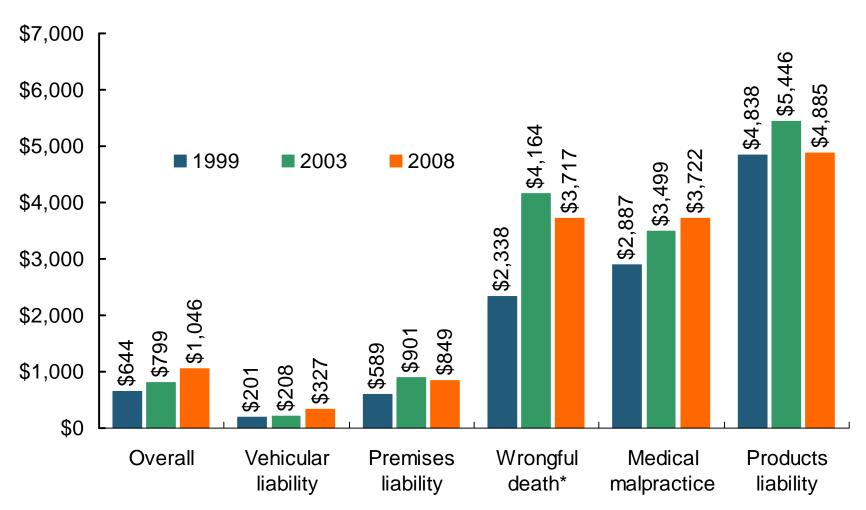
The Nation's Judicial Hellholes: 2010





Avg. Jury Awards 1999 vs. 2003 and 2008

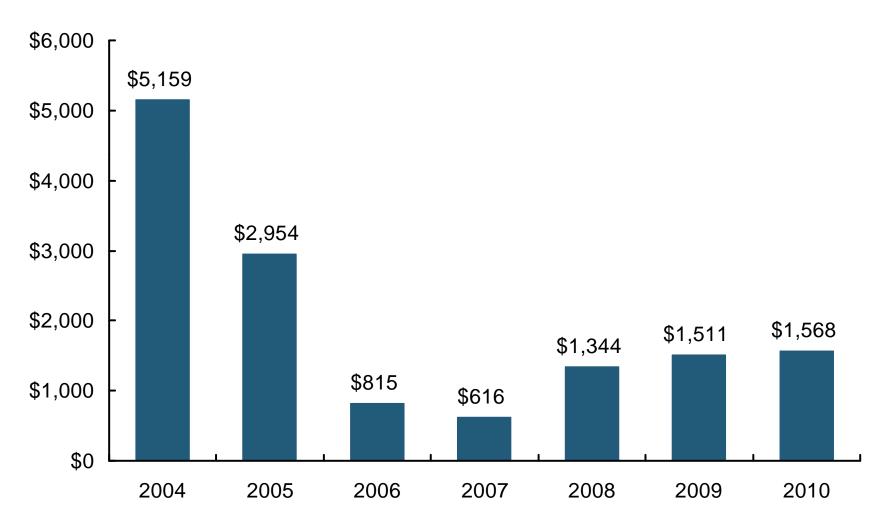




^{*}Award trends in wrongful deaths of adult males. Source: Jury Verdict Research; Insurance Information Institute.

Sum of Top 10 Jury Awards 2004-2010





Source: Insurance Information Institute from Lawyers USA, January 2005, 2006, 2007, 2008, 2009, and 2010.

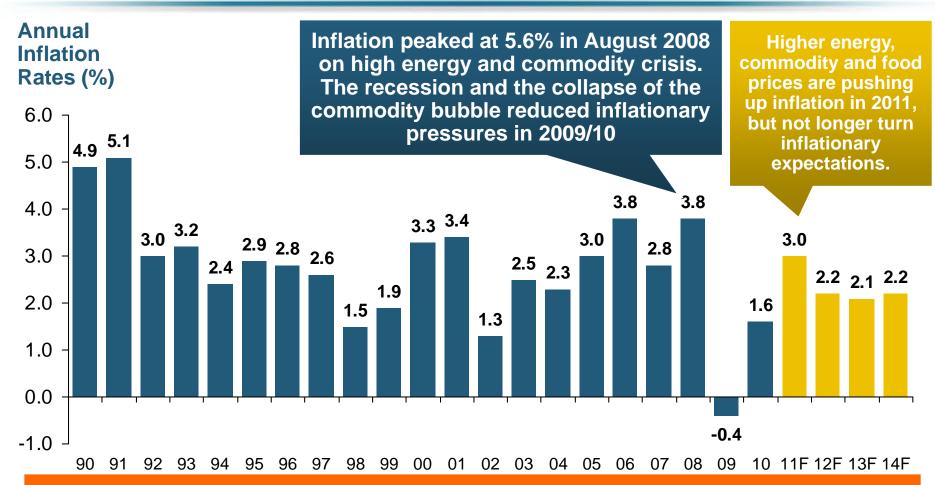


Inflation

Is it a Threat to Claim Cost Severities

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

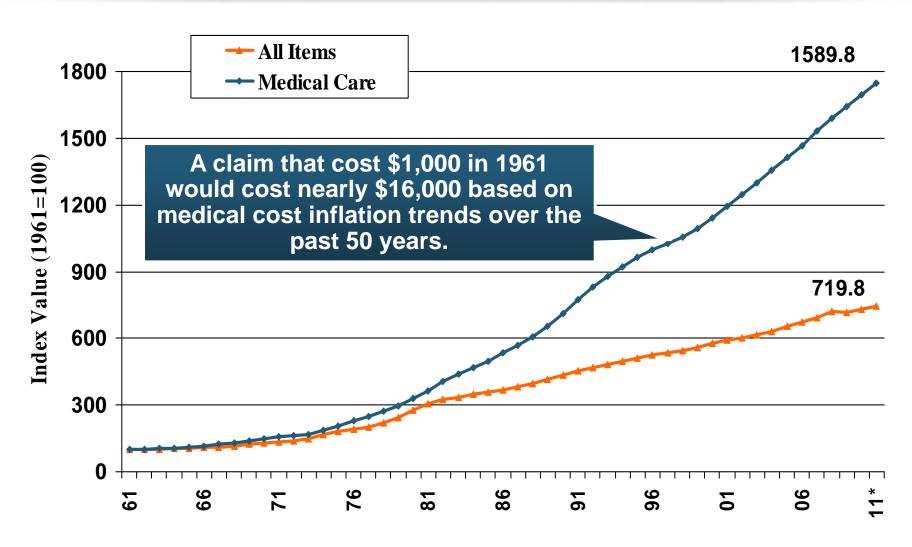




The slack in the U.S. economy suggests that inflation should not heat up before 2012, but other forces (commodity prices, inflation in countries from which we import, etc.), plus U.S. debt burden, remain longer-run concerns

Medical Cost Inflation Has Outpaced Overall Inflation Over 50 Years





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

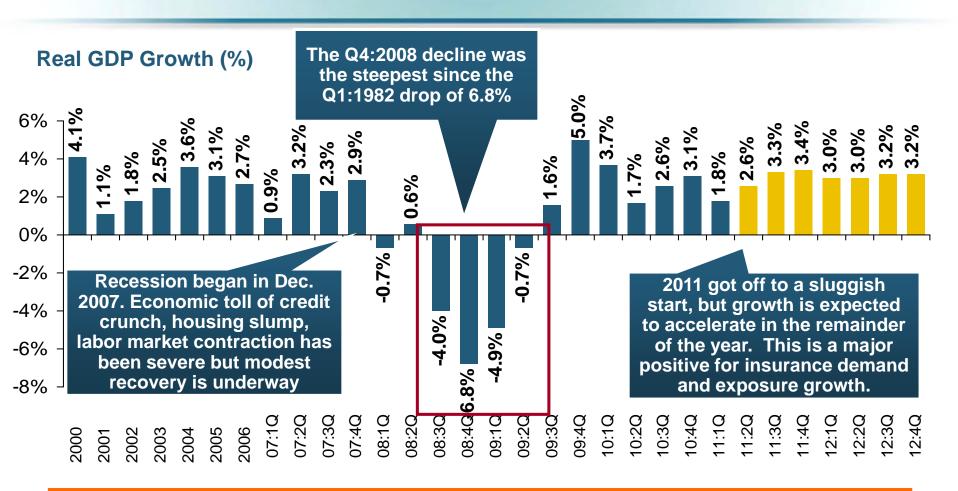


The Strength of the Economy Will Influence P/C Insurer Growth Opportunities

Growth Would Also Help Absorb Excess Capital

US 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.



Insurance Information Institute Online:

www.iii.org

Thank you for your time and your attention!

Twitter: twitter.com/bob_hartwig