



# **Insurance, Economic Turmoil and Political Upheaval: *The Future of Risk Management in the Post-Crisis World***

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- **The Global Financial Crisis and the New World Order**
- **Reshuffling the Global Economic Deck**
  - ◆ Finding a path to long-term growth
  - ◆ Foreign Direct Investment (FDI) and insurance exposure/demand
- **Insurance in the Age of Austerity**
  - ◆ Fiscal discipline, end of stimulus: Insurance consequences
- **Economic Threats to the Global (Re)Insurance Industry**
  - ◆ Debt crises
  - ◆ Inflation/deflation
  - ◆ Trade/Currency wars
  - ◆ Low interest rate yields
  - ◆ Catastrophe losses
- **The Unfortunate Nexus: Opportunity, Risk & Instability**
  - ◆ Future growth is necessarily fraught with greater risk
  - ◆ Types, magnitude of risk inherent in future growth opportunities
- **Q&A**

# **The Global Financial Crisis, Risk and the New World Economic Order**

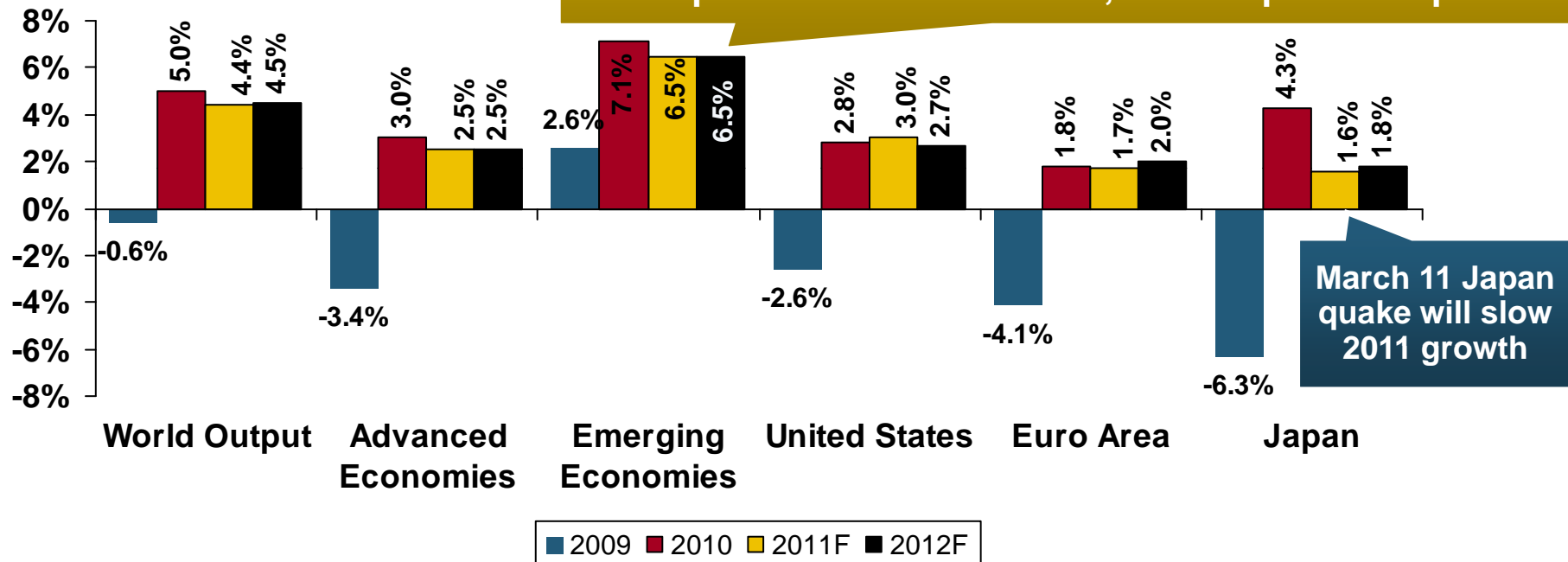
**The Crisis Made Corporations' Path  
to Growth More Challenging/Risky,  
Increasing Their Insurance  
Challenges Too**

# The New World Order: A New Level of Risk for Business

- **Best Growth Opportunities are No Longer in Low-Risk Markets (W. Europe, US/Canada, Japan)**
- **Growth Rates are 2-3 Times Higher in Developing World**
  - ◆ Business investment will remain high, much of it in need of insurance
  - ◆ Investment conditions will remain challenging for decades
- **Unemployment Rates Are Much Lower in Emerging Economies**
  - ◆ Establishment of a middle class and a wealthy upper class
- **Incomes Are Rising Faster in Emerging Economies**
  - ◆ Fueling demand for goods and services
  - ◆ Foreign Direct Investment (FDI) and insurance exposure/demand
- **Immature Institutions Raise Risk/Possible Systemic Risks**
  - ◆ Legal system, financial markets, regulation, infrastructure issues
- **Instability in Emerging Nations Will Remain High**
  - ◆ Political instability; Corruption in some countries
  - ◆ Economic vulnerability (trade, xrt risk, credit risk, commodities, energy)
- **Natural Hazard Risks Are Often Elevated w/Minimal Mitigation**

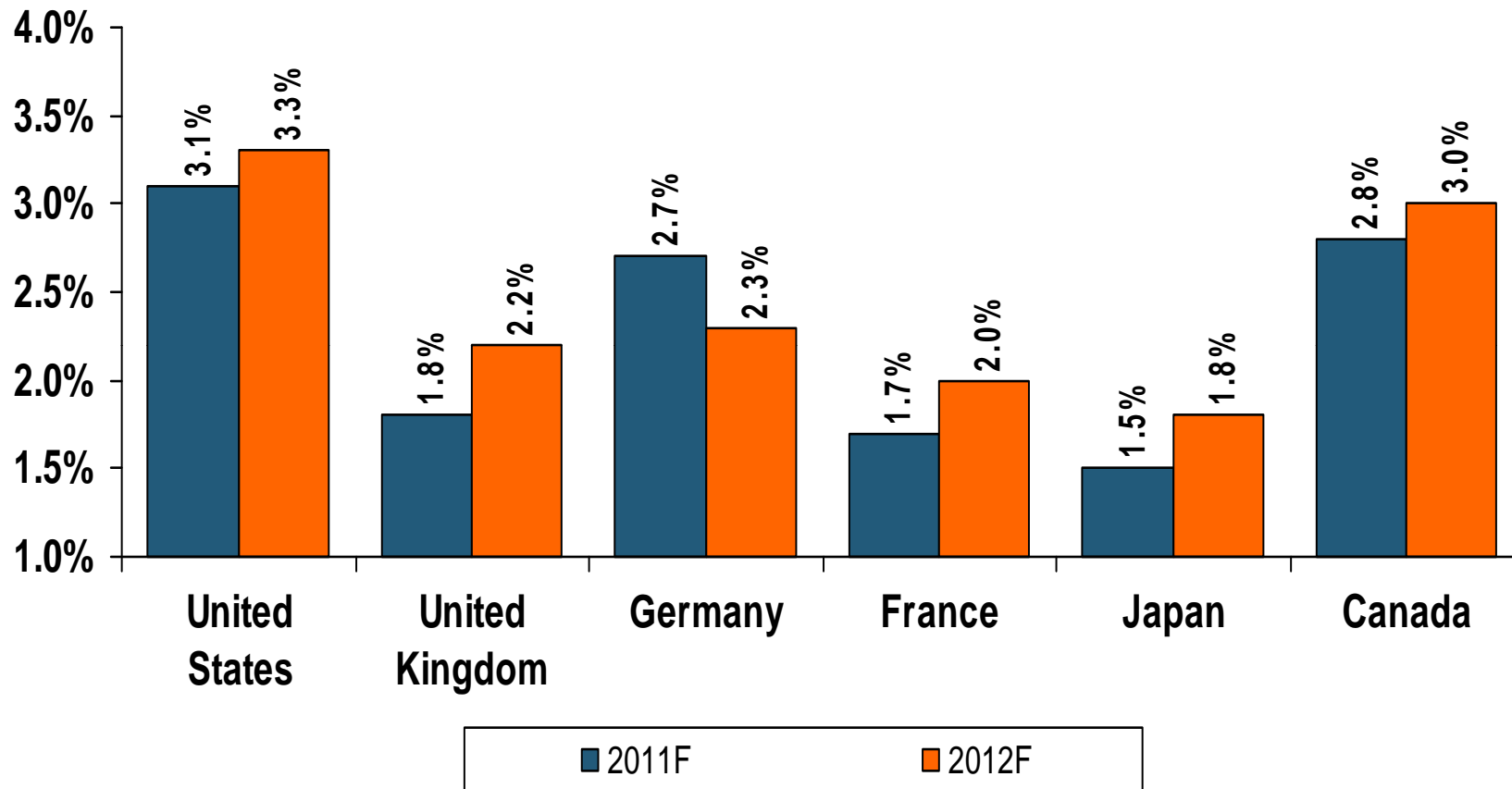
# World Economic Outlook: 2009-2012F

IMF says growth in emerging and developing economies will outpace advanced ones in 2011/12. The impact will be to accelerate the relative growth of insurance exposures outside the US, W. Europe and Japan.



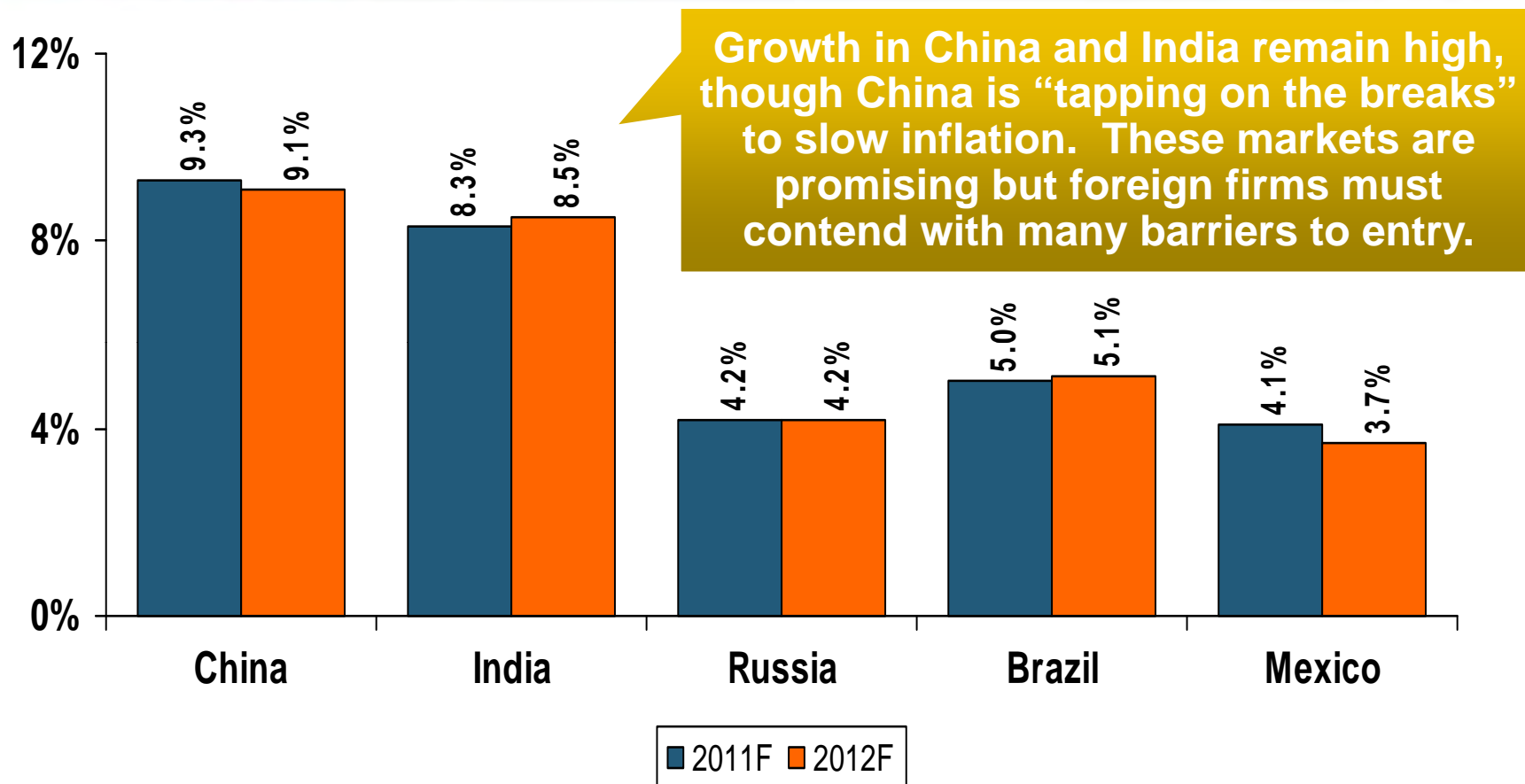
**Outlook uncertain:** The world economy continues to recover from the global economics, but activity is reviving at different speeds in different parts of the world, according to the IMF. A clear set of “winners” has emerged with direct implications for all industries and their insurers.

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



**Growth projections could slow for 2011 if supplies of middle-eastern oil (political disruption), developments involving sovereign debt (the PIGS or other countries) or Japanese exports (earthquake/tsunami effects) are worse than expected.**

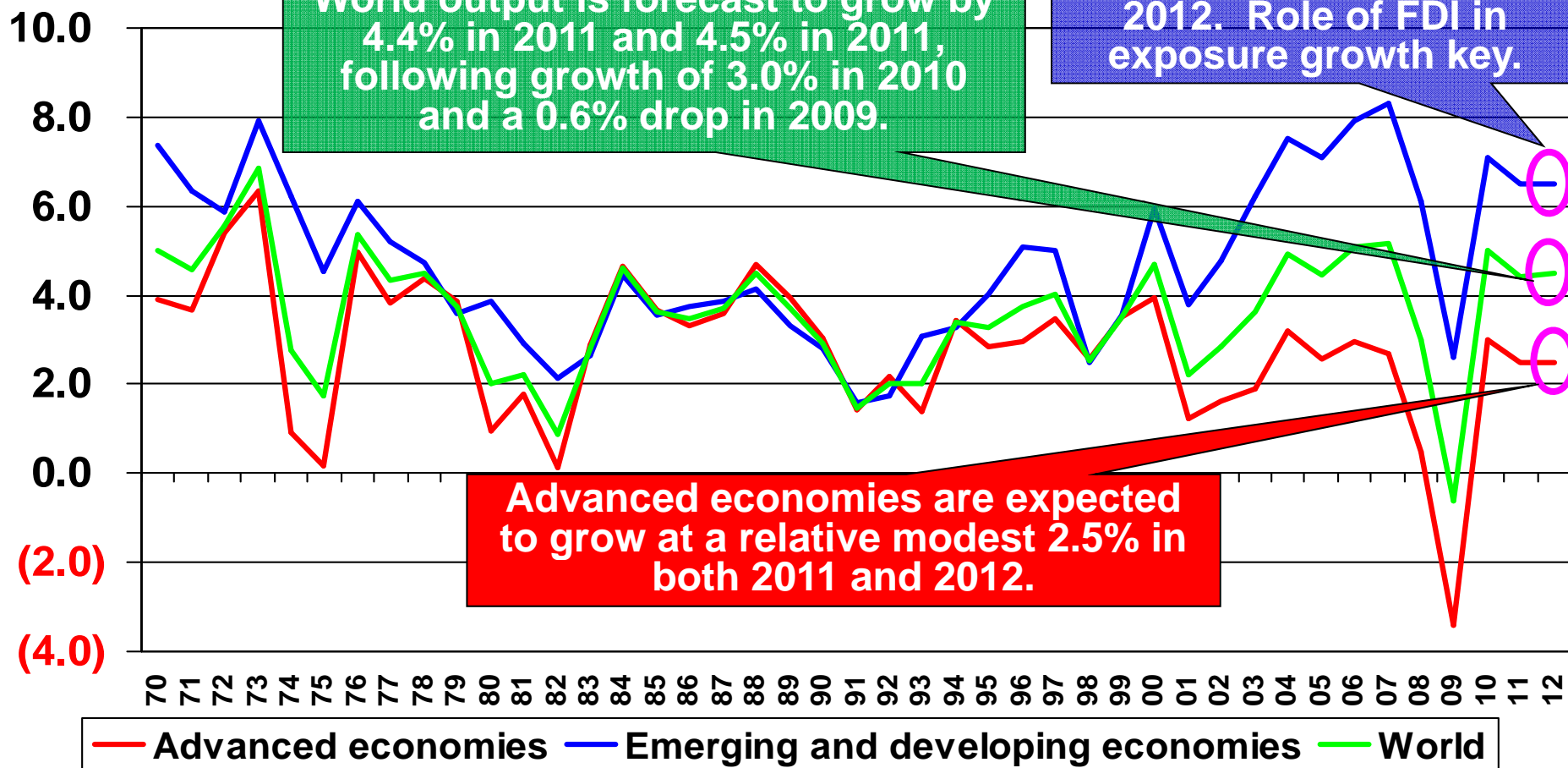
# Real GDP Growth Forecasts for Key Developing Economies: 2011 - 2012



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

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

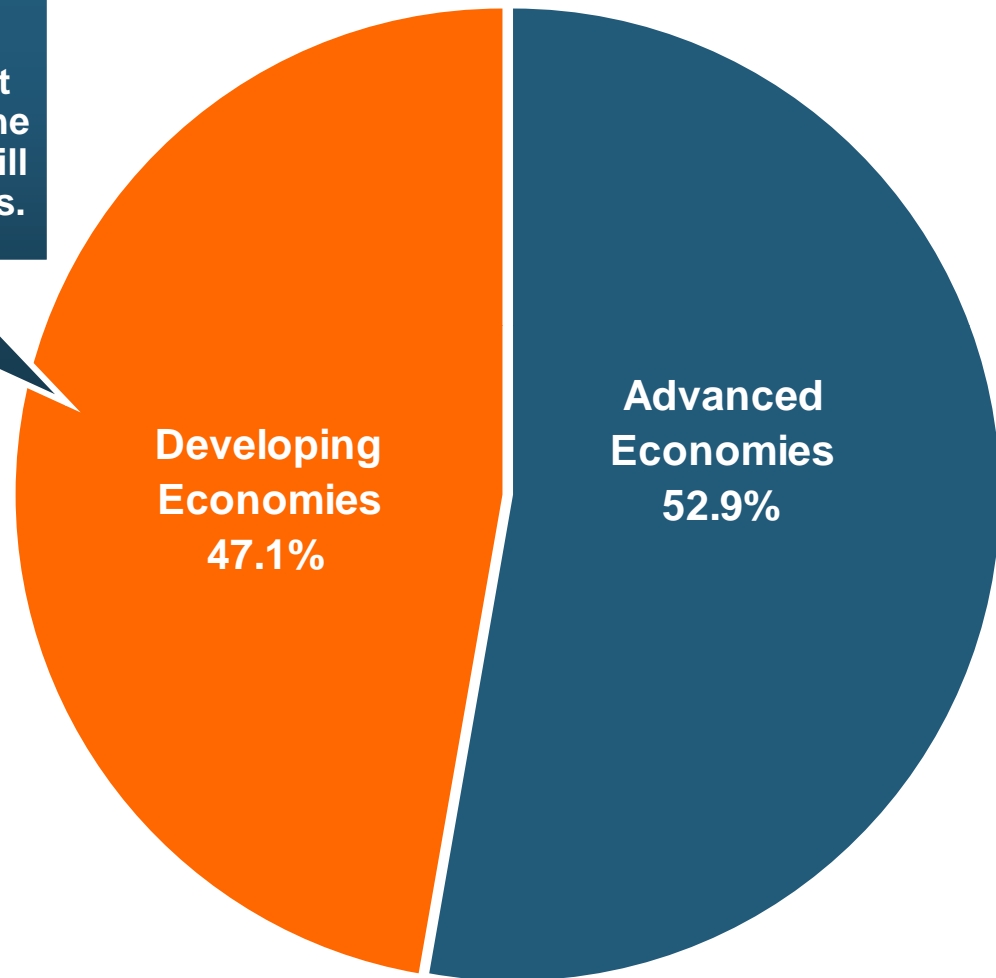
## GDP Growth (%)





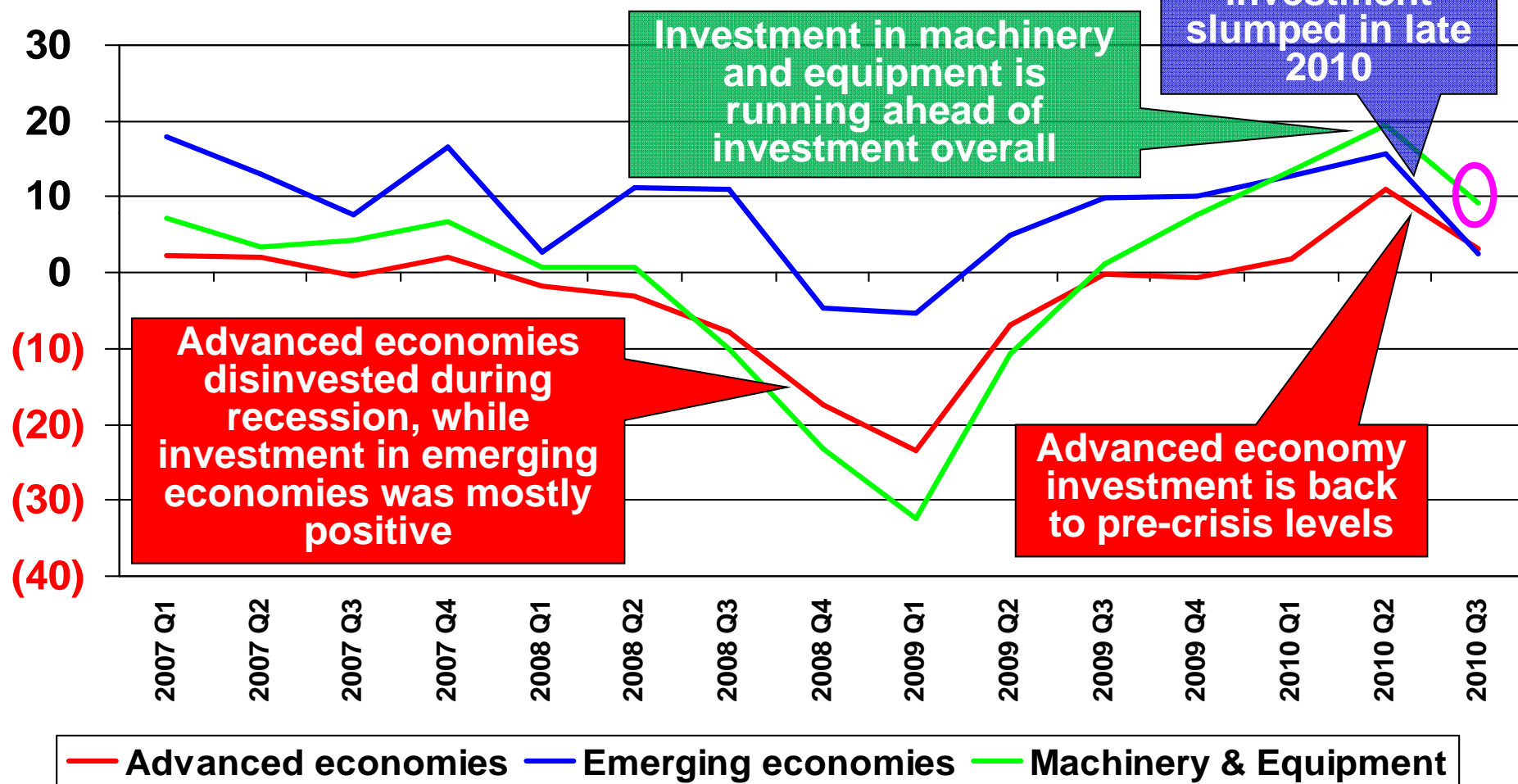
# Relative Shares of Global Output, Advanced vs. Developing Economies, 2009

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



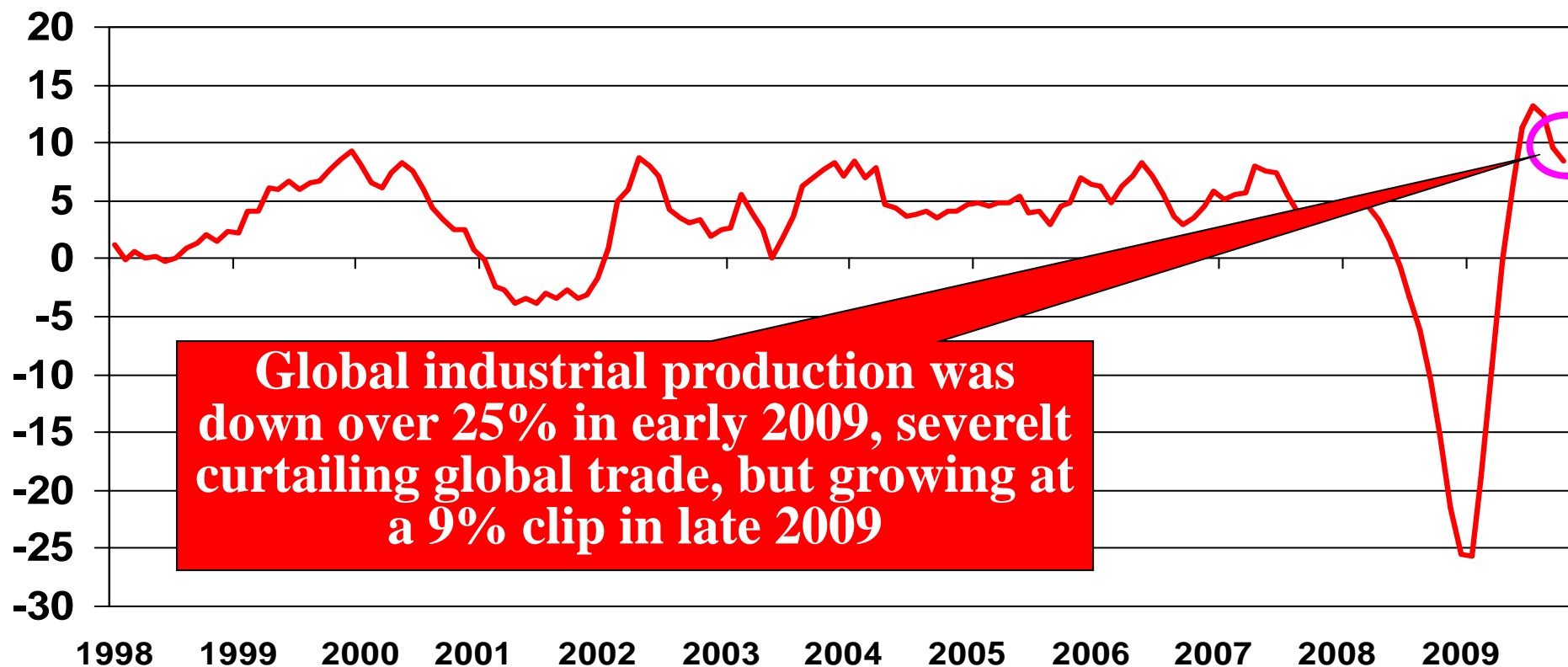
# Real Gross Fixed Investment: 2007:Q1 – 2010:Q3

Annualized % Change from Preceding Quarter



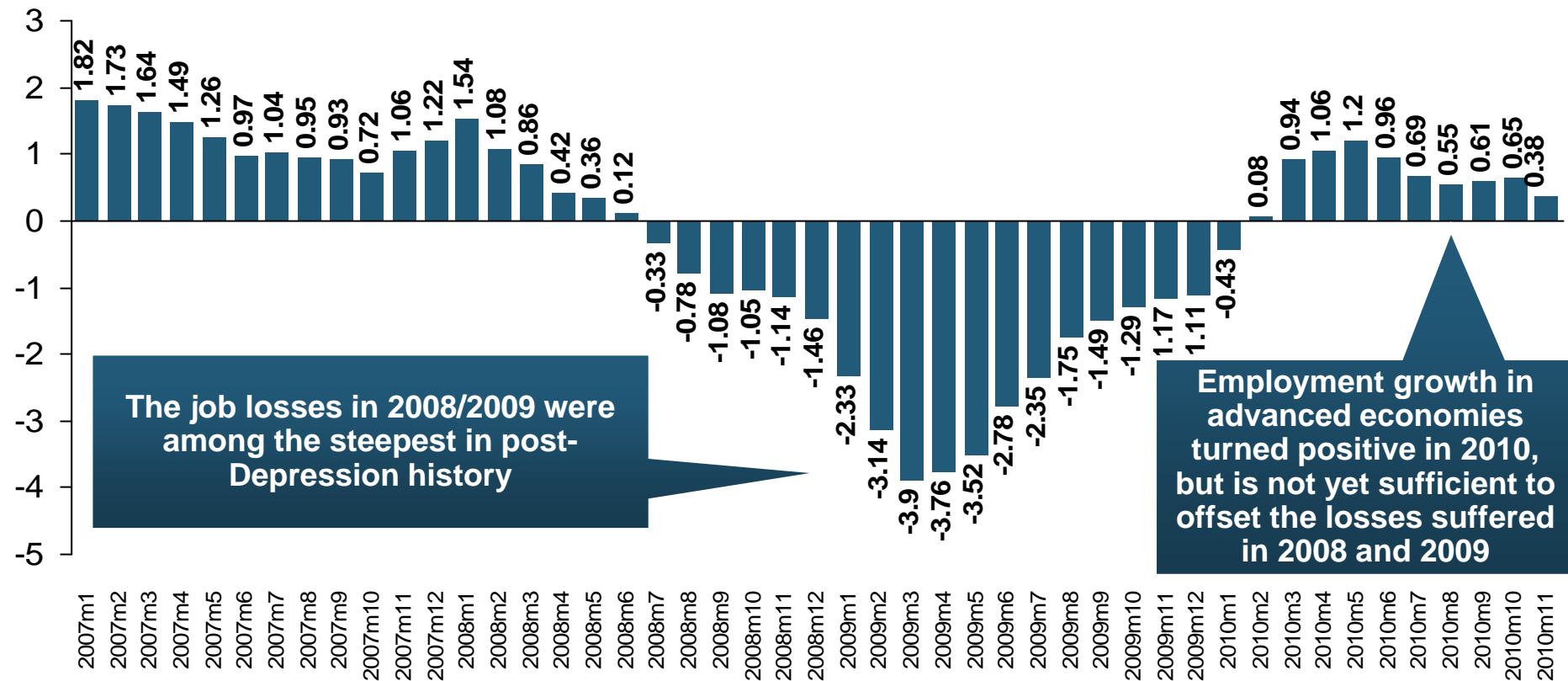
# Global Industrial Production Rebounds From a Tailspin; Global Trade Recovering

Annualized 3-Month Percent Change



# Employment Growth in Advanced Economies

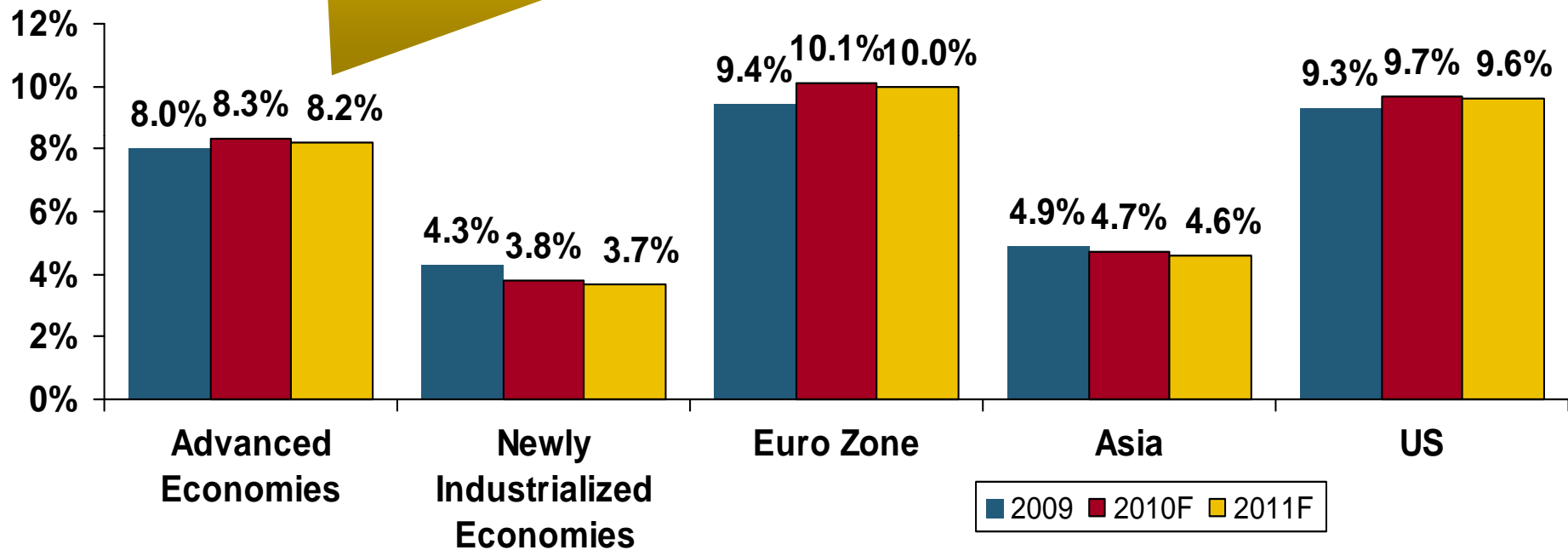
January 2007 through November 2010 (Percent Change; 3-month moving avg.)



**Unemployment Rates in Advanced Economies Remain Much Higher than Among Emerging Economies**

# Unemployment Rates for Major Global Economies, 2009-2011F

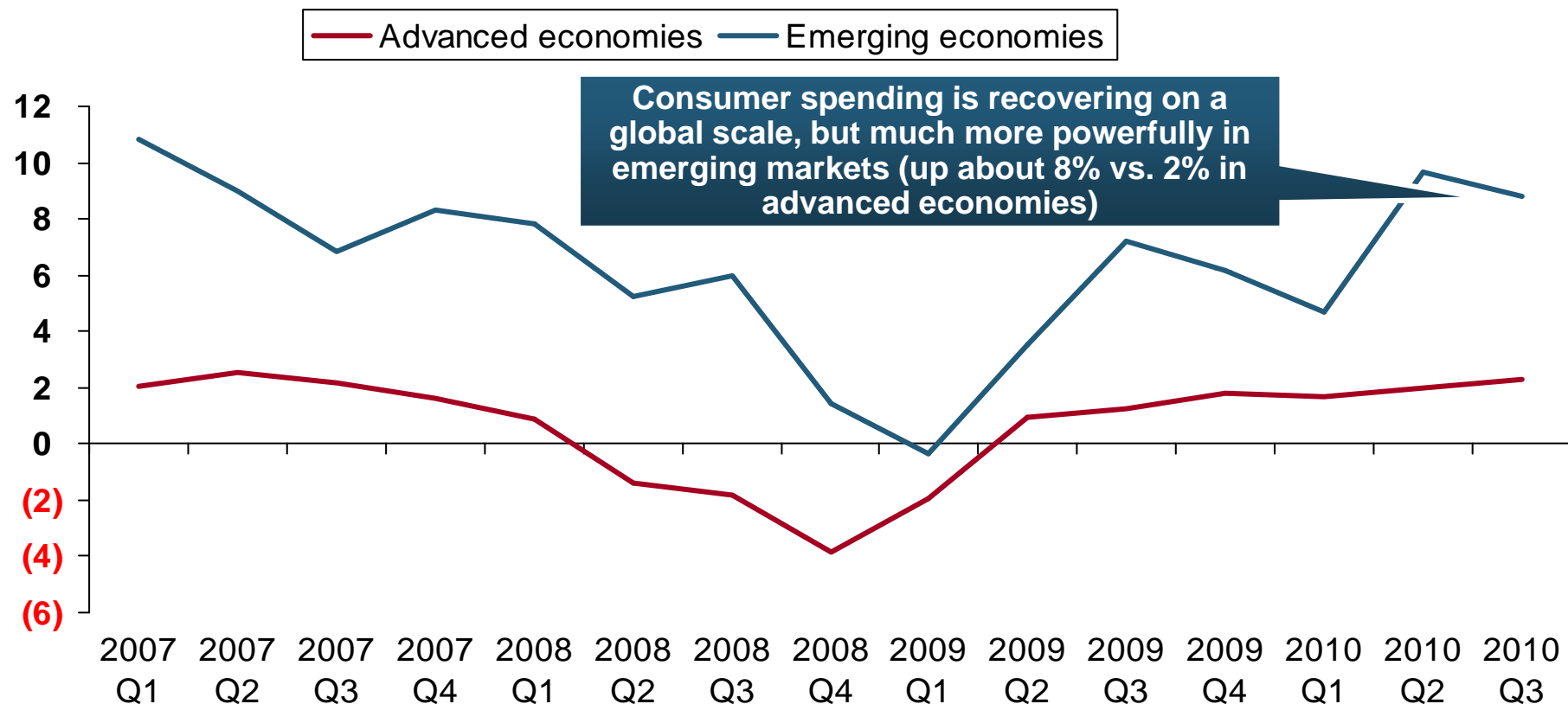
Persistently high unemployment is among the greatest obstacles to insurer exposure/demand growth (nonlife and life)



Unemployment in Advanced Economies is more than double that of Emerging Economies

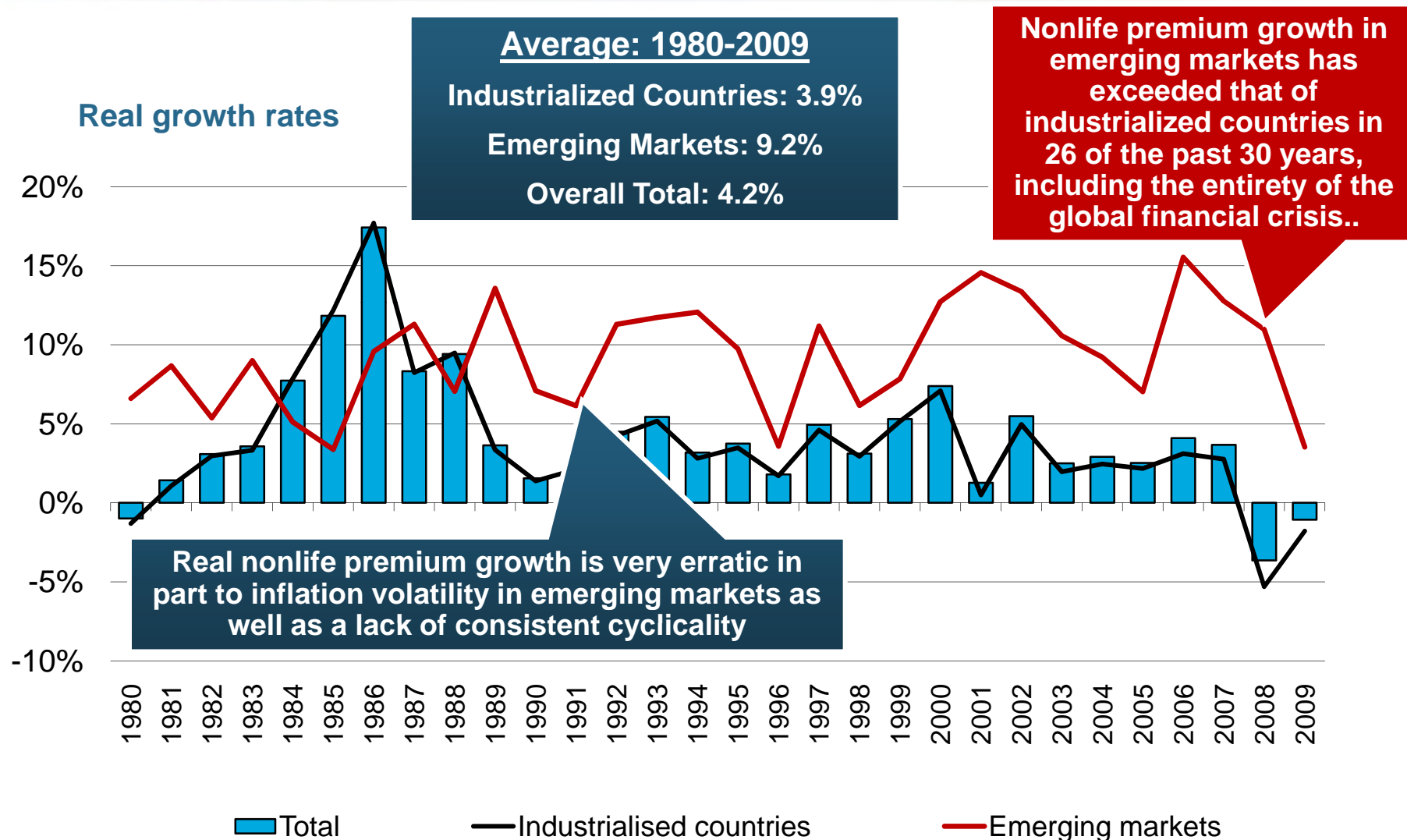
# Real Private Consumption: 2007:Q1 – 2010:Q3

## Annualized % Change from Preceding Quarter



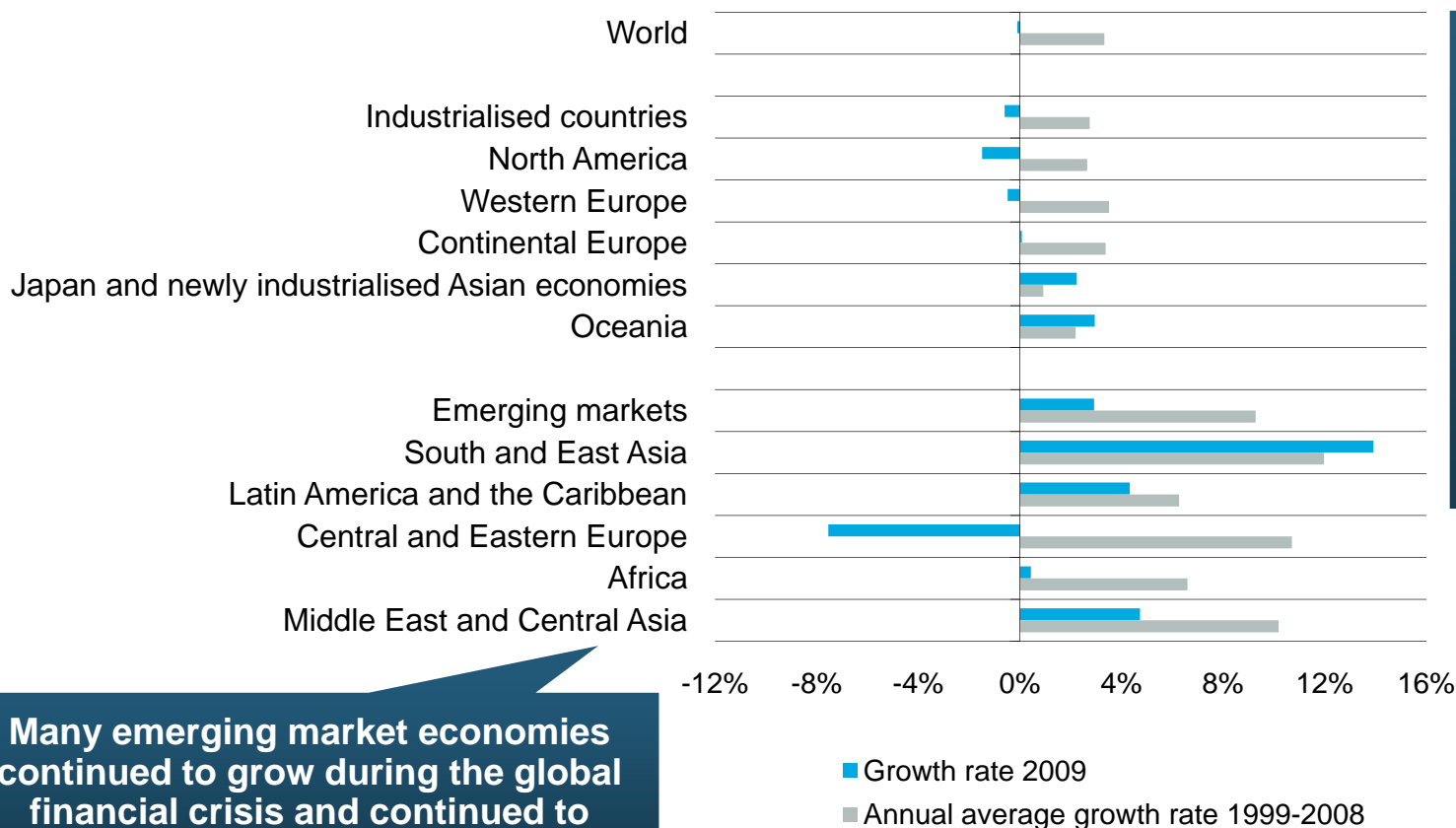
**Consumers in Emerging and Developing Markets Are Increasingly Important to the Global Economy**

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



# 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**

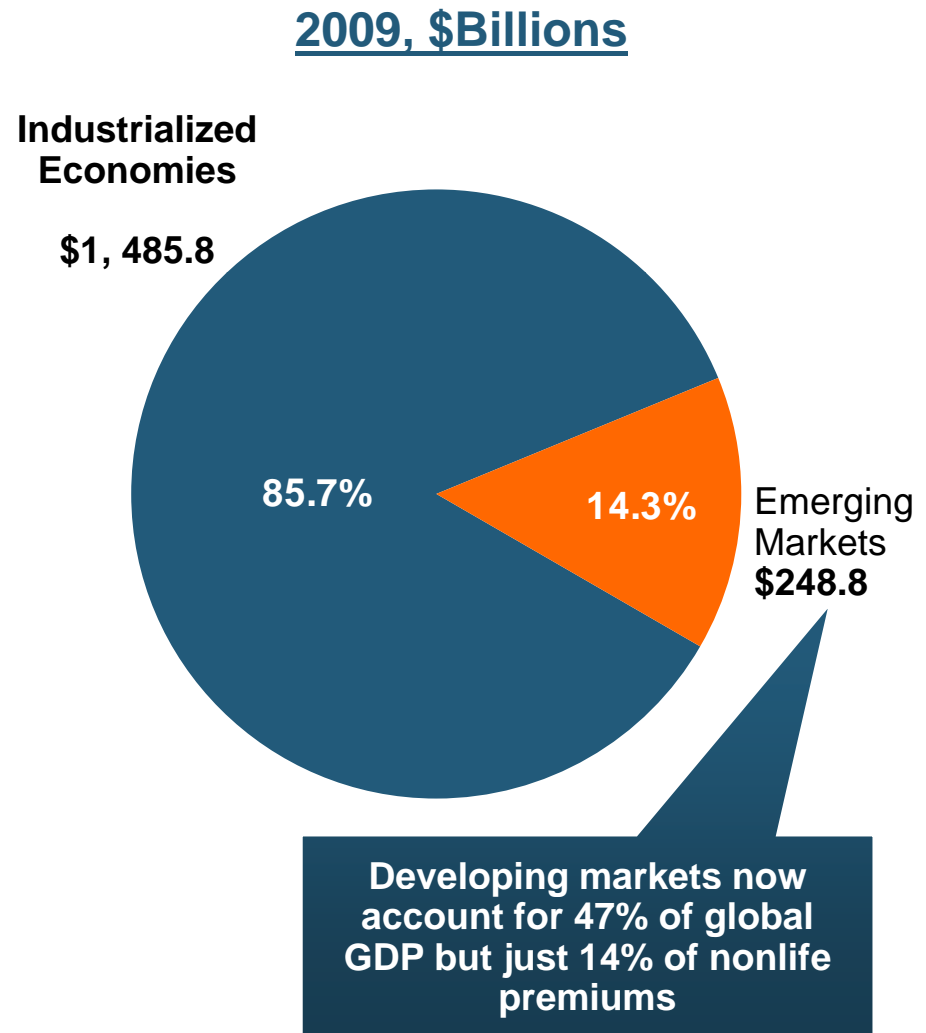
**Many emerging market economies continued to grow during the global financial crisis and continued to benefit from foreign direct investment**



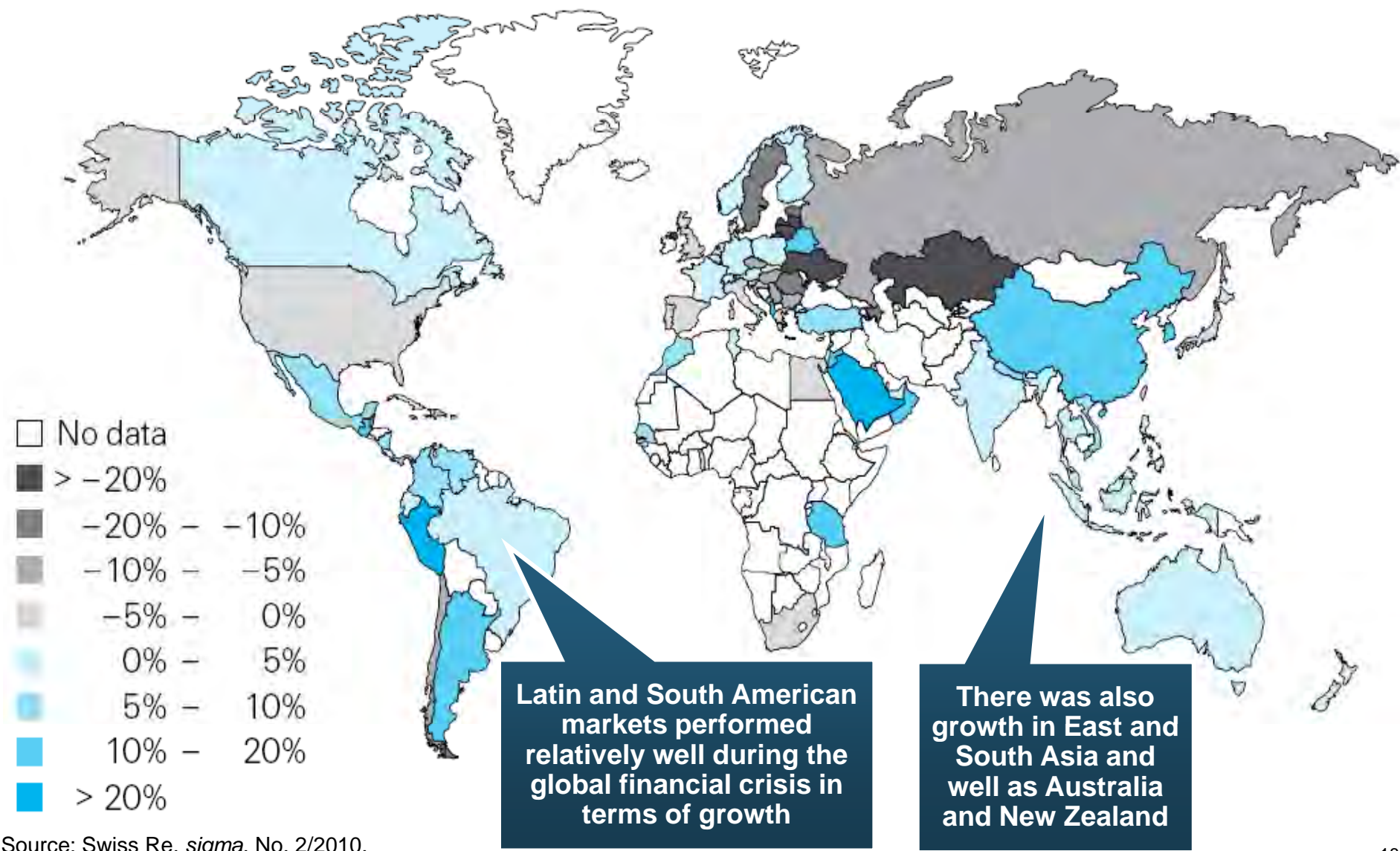
# Distribution of Nonlife Premium: Industrialized vs. Emerging Markets, 2009

## Premium Growth Facts

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



# Nonlife Real Premium Growth in 2009



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

# **Economic Threats to Global Economy & (Re)Insurance Industries**

**At Least Eight to Monitor:  
Near-Term and Longer-Term Risks**

# Near-Term Issues with Potentially Adverse Impacts to Global Growth

## ■ Japan Earthquake: Effects of the March 11 Earthquake/Tsunami/ Nuclear Reactor Accident

- ◆ Lost final production
- ◆ Disrupted supply chains
- ◆ Lost Japanese consumption
- ◆ Potential (modest) impact on GDP
- ◆ Political spillover in Europe (e.g., Germany)

## ■ Political Unrest in the Middle East

- ◆ Higher energy prices
- ◆ Military action
- ◆ Elevated political uncertainty
- ◆ Safety of property and employees abroad

# Near-Term Issues with Potentially Adverse Impacts to Global Growth

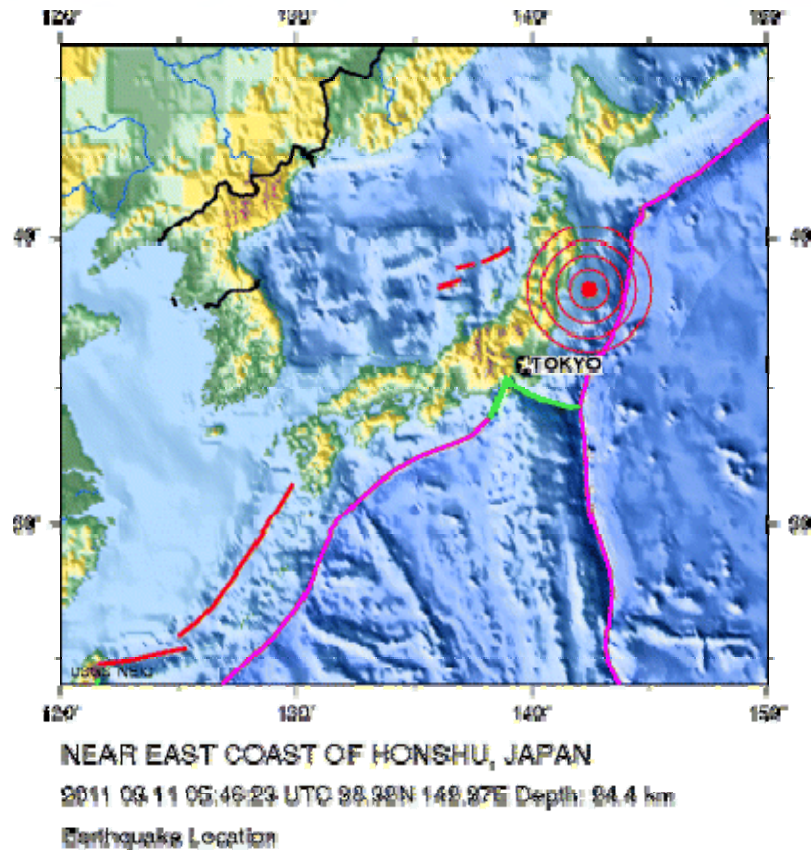
## ■ Inflation Transmitted Globally

- ◆ China, Brazil and other countries
- ◆ Soaring food, energy and other commodity prices
- ◆ Oil prices and supply reliability

## ■ Tighter Monetary/Fiscal Policy/Austerity→Slower Growth?

- ◆ Europe, US

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



## LOCATION

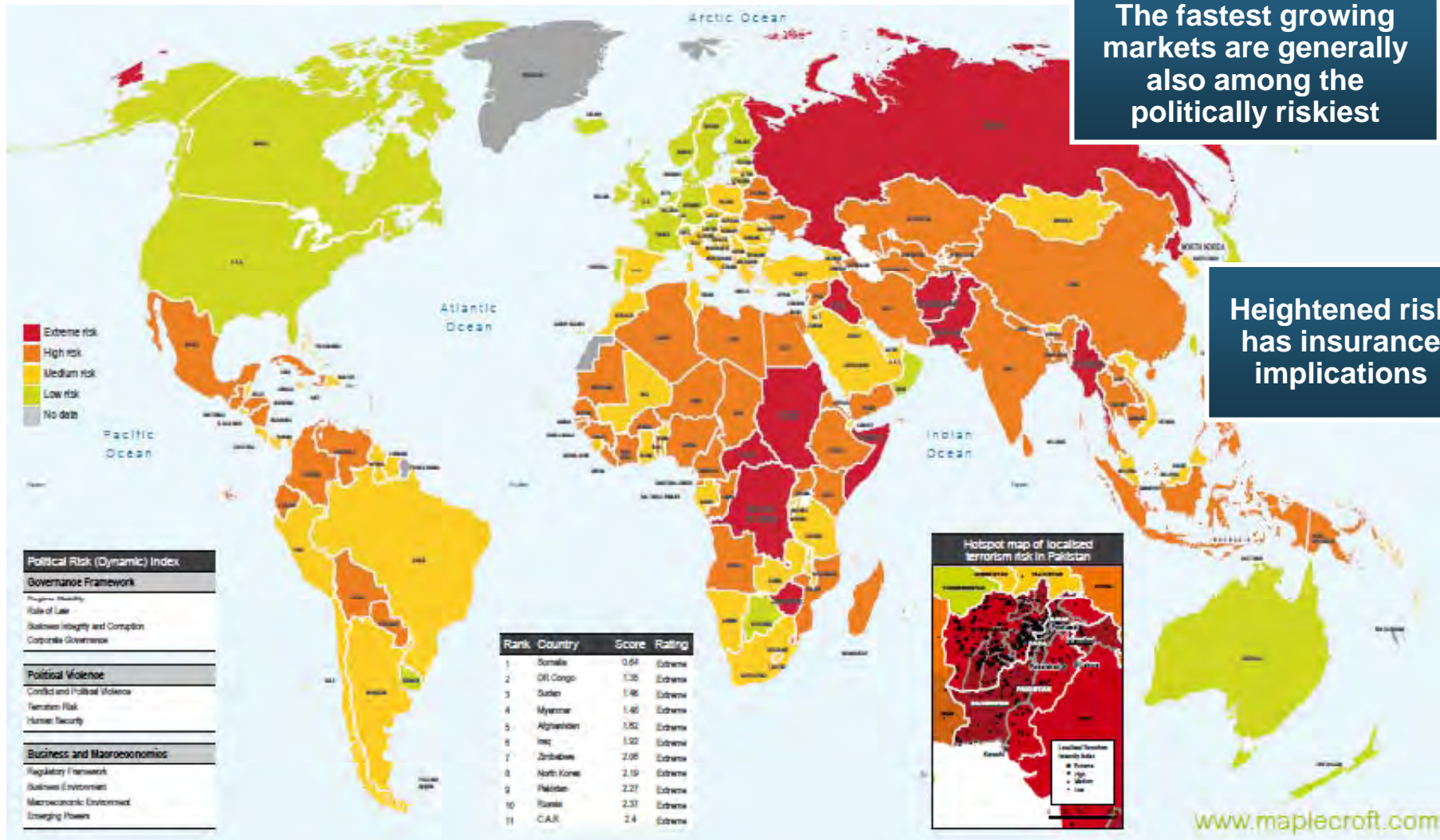
130 km (80 miles) E of **Sendai, Honshu, Japan**  
178 km (110 miles) E of **Yamagata, Honshu, Japan**  
178 km (110 miles) ENE of **Fukushima, Honshu, Japan**  
373 km (231 miles) NE of **TOKYO, Japan**

## 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
- 10,000+ 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

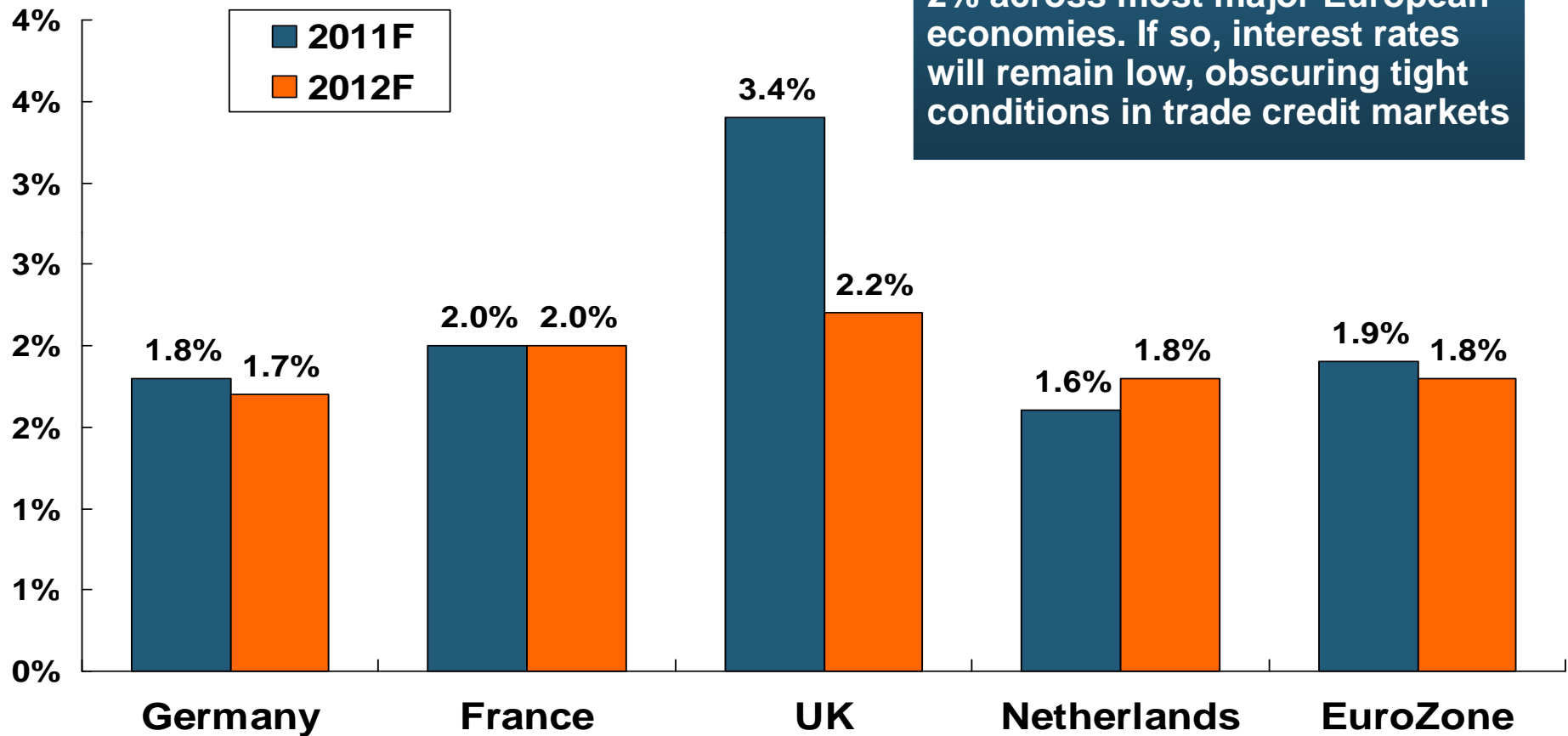


# Political Risk in 2010: Greatest Business Opportunities Are Often in Risky Nations



# Inflation Rate Forecast for Largest European Economies & Euro Area, 2011F-2012F

Change from  
Prior Year

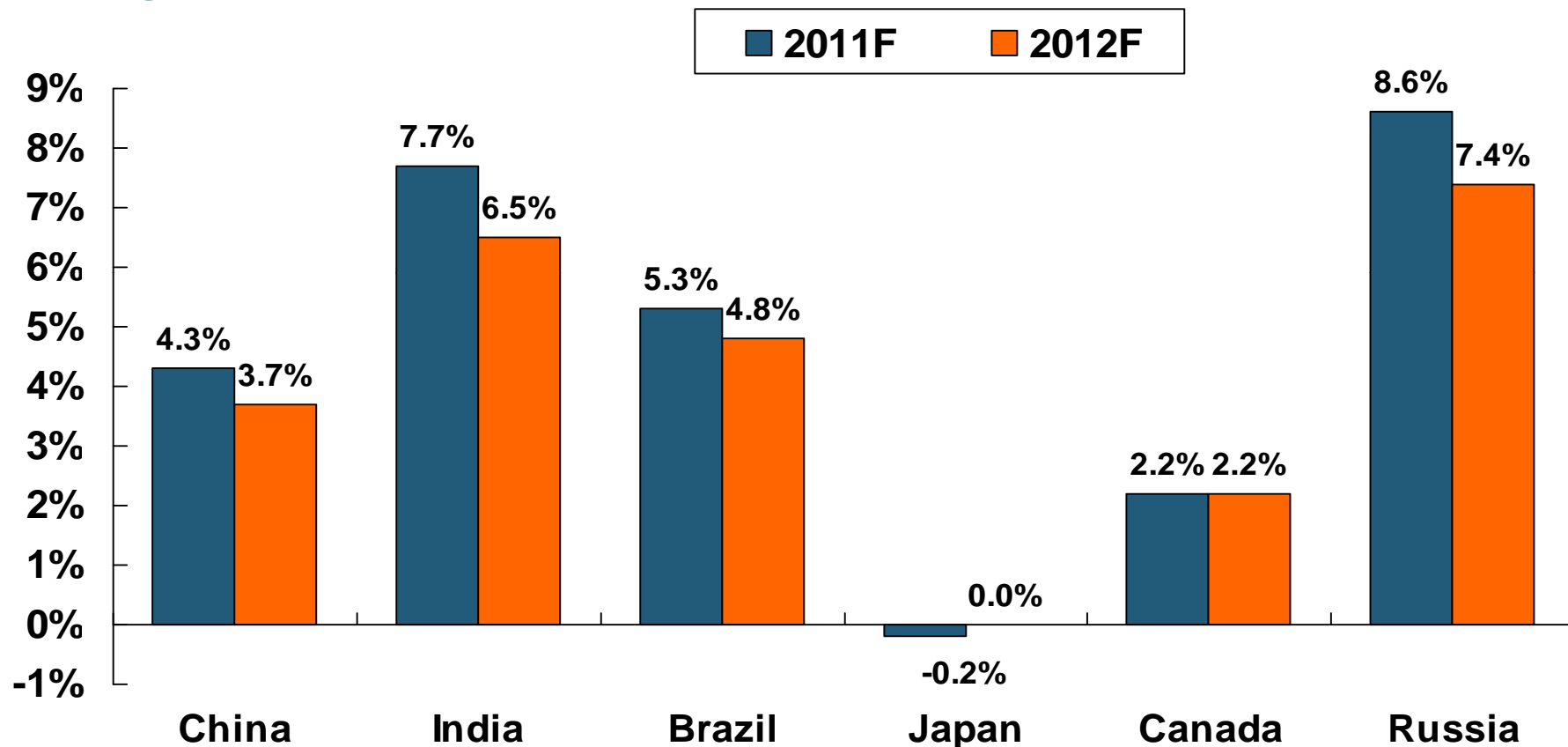


Inflation is forecast to be around 2% across most major European economies. If so, interest rates will remain low, obscuring tight conditions in trade credit markets



# Inflation Rate Forecast for Other Important Countries, 2011-12F

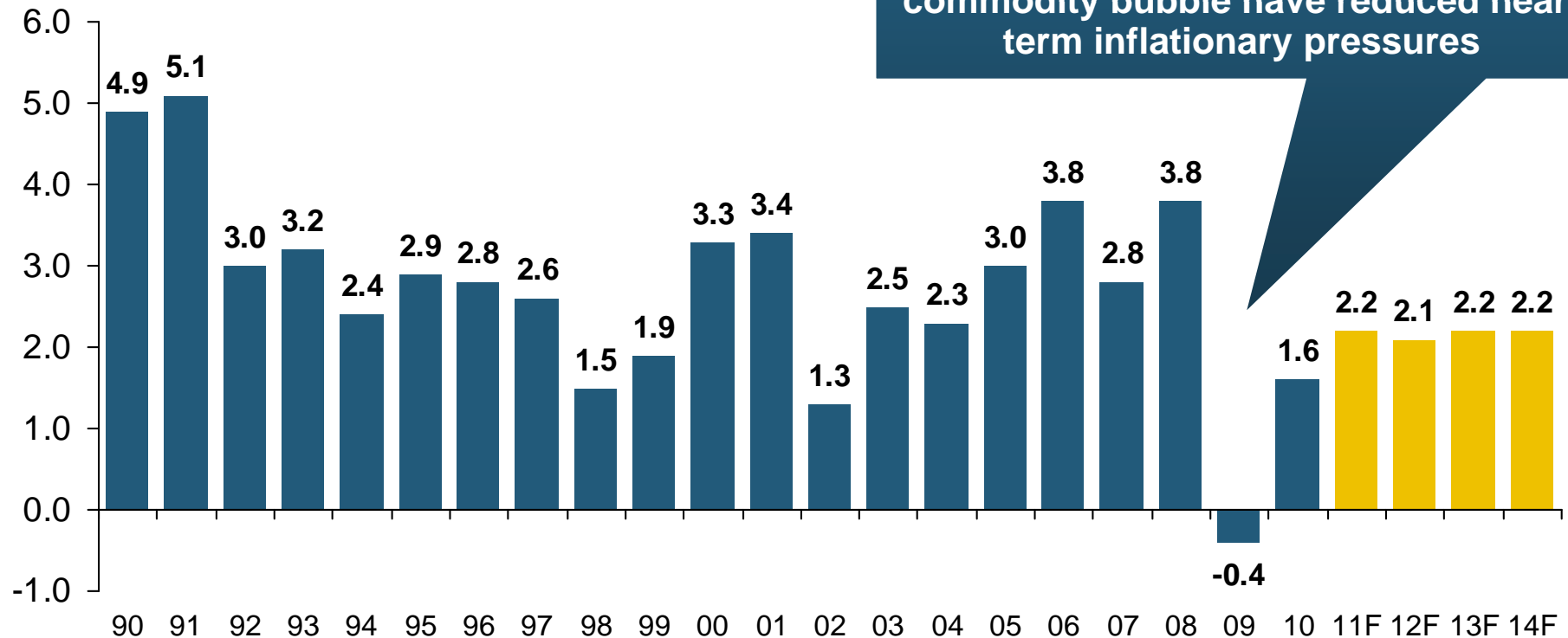
% Change from Prior Year



**Inflation is much higher in fast-growing economies such as Brazil, Russia, India, and China (the BRIC group). Inflation there can spread to advanced economies because the advanced countries import significantly from the BRICs.**

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

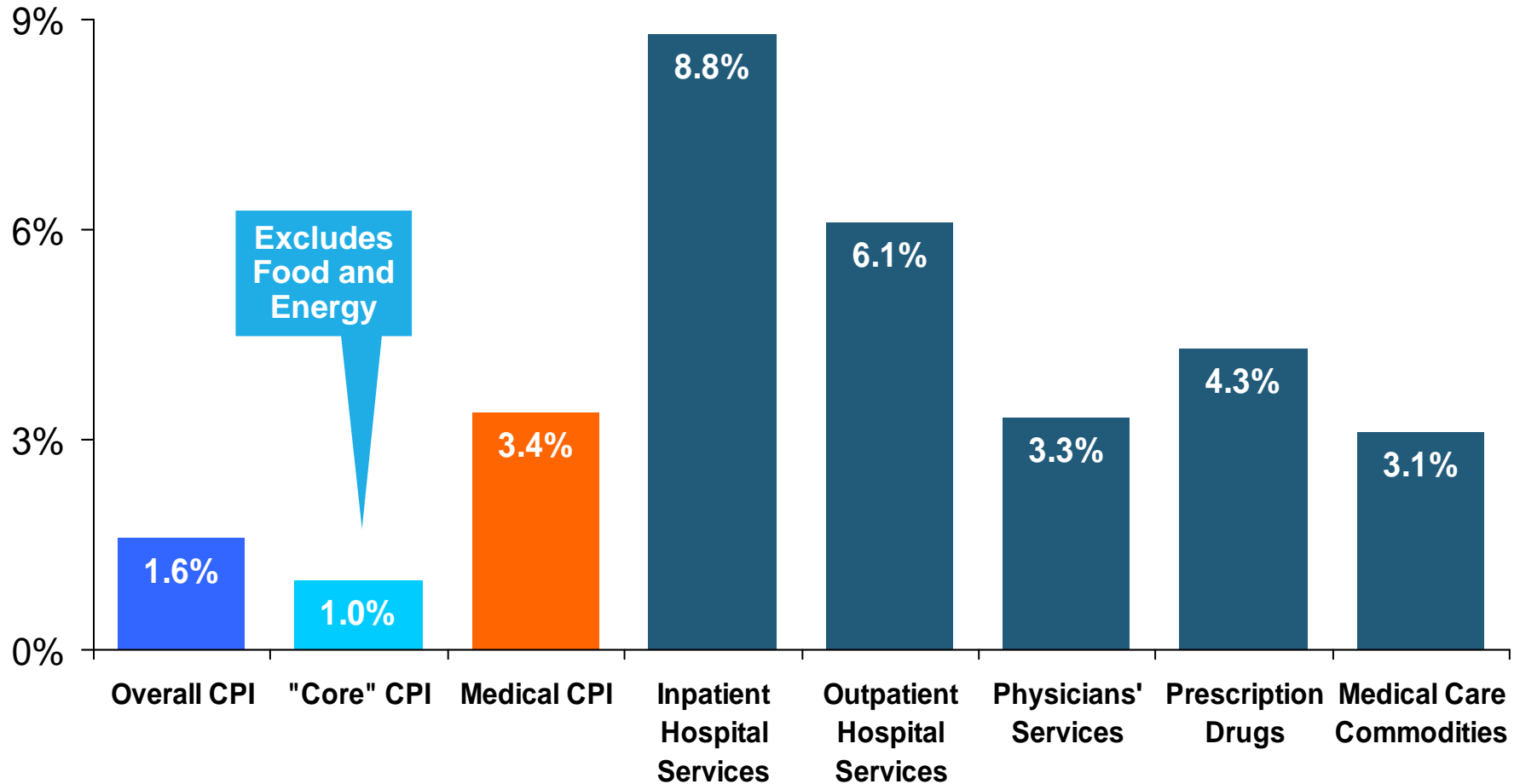
Annual  
Inflation  
Rates (%)



**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**

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

Price Changes  
in 2010

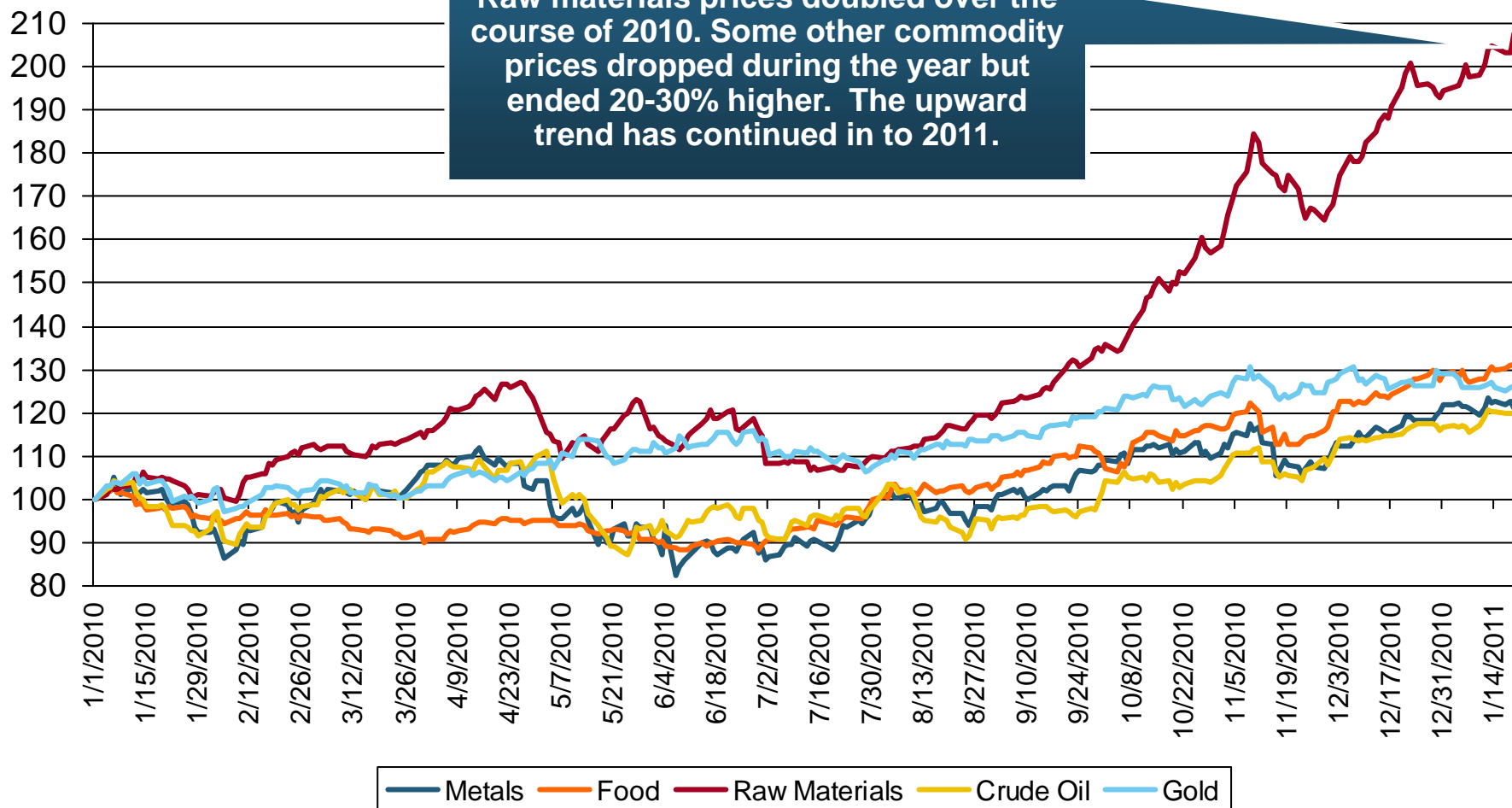


**Healthcare costs are a major liability, med pay, and PIP claim cost driver. They are likely to grow faster than the CPI for the next few years, at least**

# Commodity Price Changes in 2010-2011\*

Index (Jan 1, 2010 = 100)

Raw materials prices doubled over the course of 2010. Some other commodity prices dropped during the year but ended 20-30% higher. The upward trend has continued in to 2011.



\*data are through Jan. 20, 2011

Source: International Monetary Fund World Economic Outlook January 2011 update at  
[http://www.imf.org/external/pubs/ft/weo/2010/update/01/data/figure\\_2.csv](http://www.imf.org/external/pubs/ft/weo/2010/update/01/data/figure_2.csv)

## ■ **Persistently Low Interest Rates/Int. Rate Policy**

- ◆ Lower investment income, more pressure on u/w profit
- ◆ Policy Dilemma: Stimulus/Low UnN or Price Stability

## ■ **Currency Market Instability**

- ◆ Exchange rate volatility
- ◆ Future of the euro

## ■ **Sovereign Bond Market Concerns**

- ◆ Portugal, Greece, Ireland, Spain, etc.

## ■ **Strong Capital Flows to Emerging/Developing Economies => Asset Price Bubbles?**

## ■ **Regulatory Backlash/Developments**

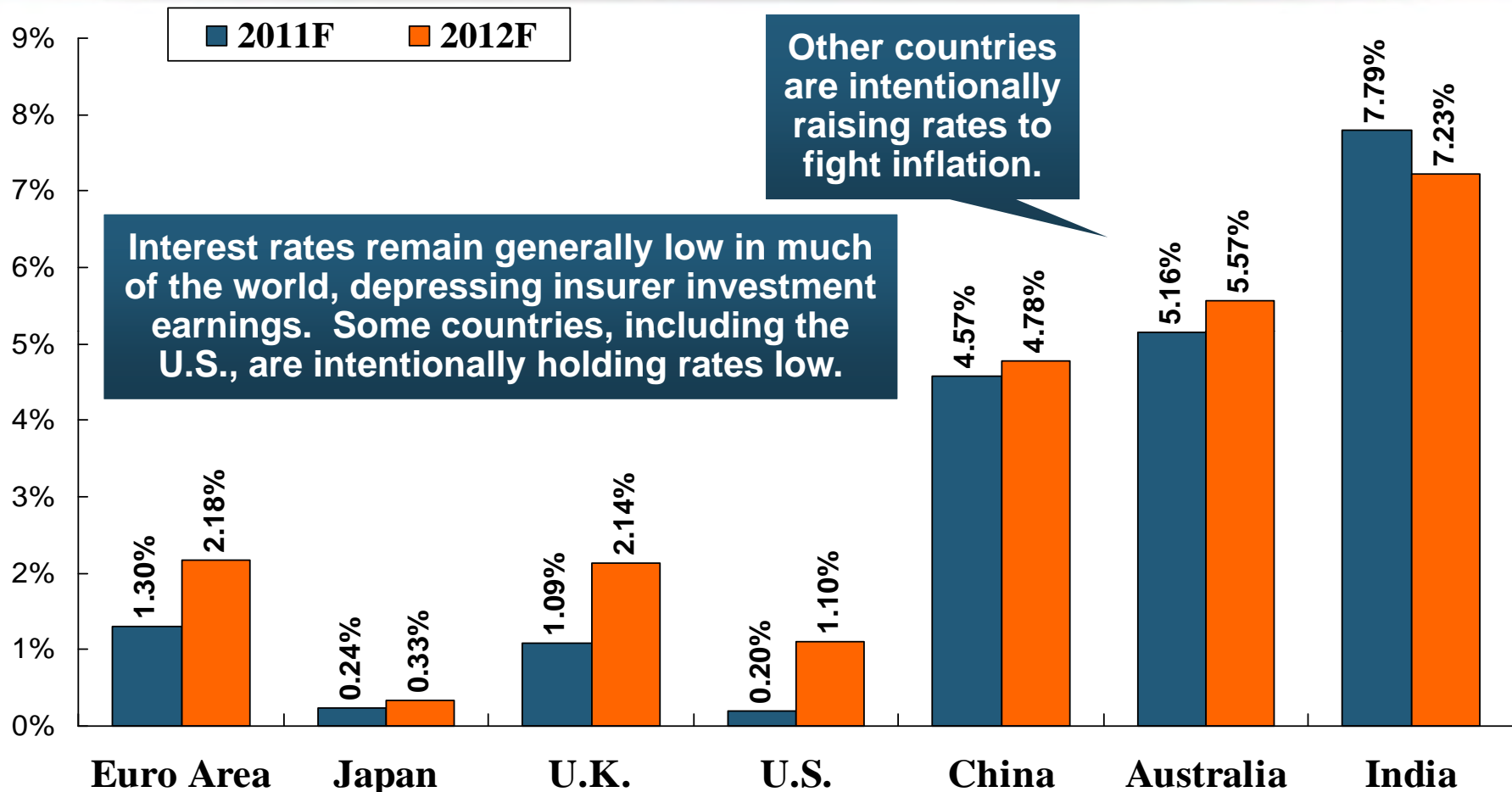
- ◆ Solvency II, Basel III

# Internationally, Most Short-Term Interest Rates Are Generally Still Quite Low

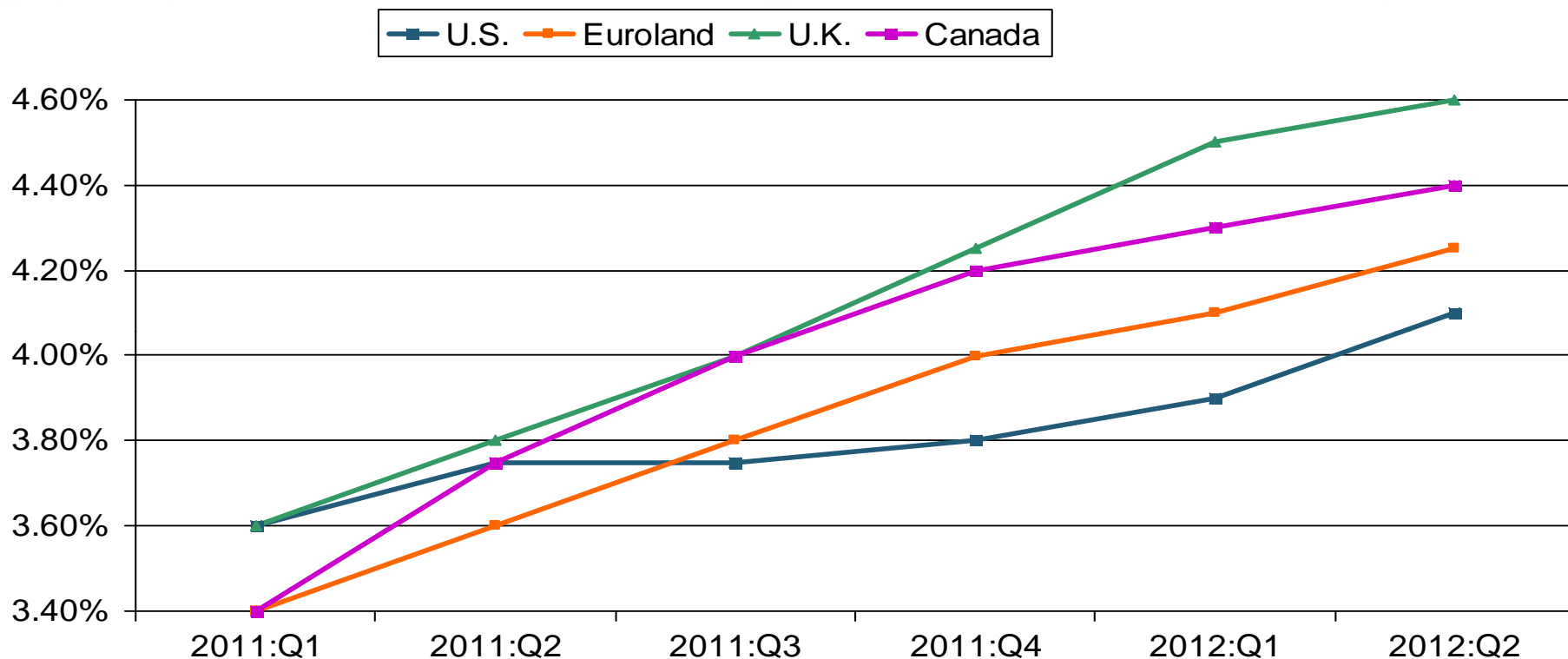
Central Bank	Current Interest Rate	Last Changed
Bank of Canada	1.00%	Sept. 8, 2010
Bank of England	0.50%	March 5, 2009
Bank of Japan	0.10%	Dec 19, 2008
European Central Bank	1.00%	May 7, 2009
U.S. Federal Reserve	0.25%	Dec 16, 2008
The Reserve Bank of Australia	4.75%	Nov. 2, 2010
China	6.06%	Feb. 8, 2011
Hong Kong SAR	0.50%	Dec 17, 2008
Korea, Republic of	3.00%	March 10, 2011
Hungary	6.00%	Jan. 24, 2011

Source: <http://www.fxstreet.com/fundamental/interest-rates-table/>

# Forecast: End-of-Year 3-Month Interest Rates for Major Global Economies, 2011-2012F



# 10-Year Bond: Yield Forecasts for 2011:Q1-2012:Q2

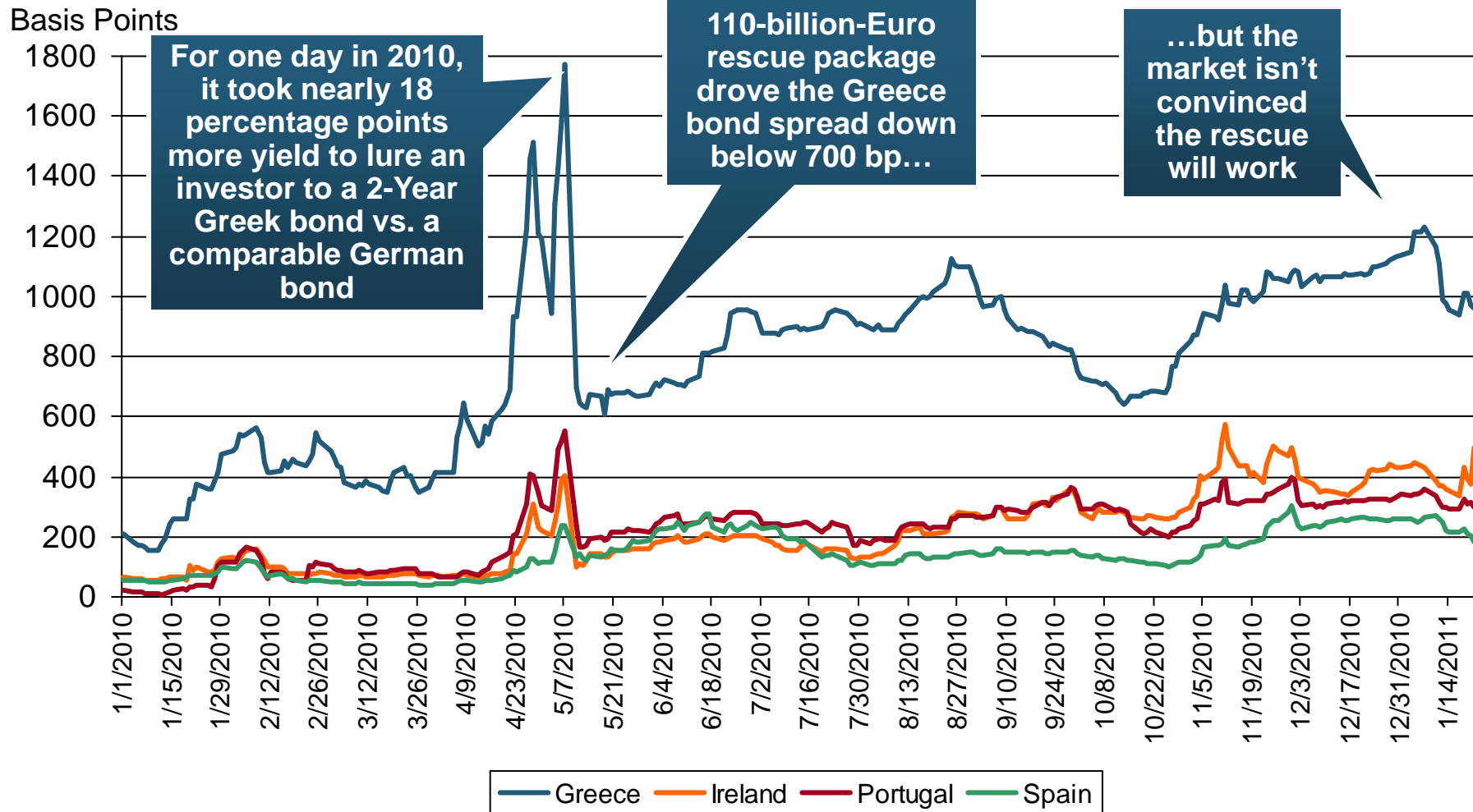


**As these nations' economies improve, and actions to keep interest rates low are ended, the yields on longer-term bonds are expected to rise. But persistent high rates of unemployment and excess capacity, plus central bank concerns about inflation, will likely keep them from rising more than one percentage point by mid-2012.**



# PIGS Government Bond Spreads

(2-Year Yield Spreads over German Bunds) in 2010-2011\*

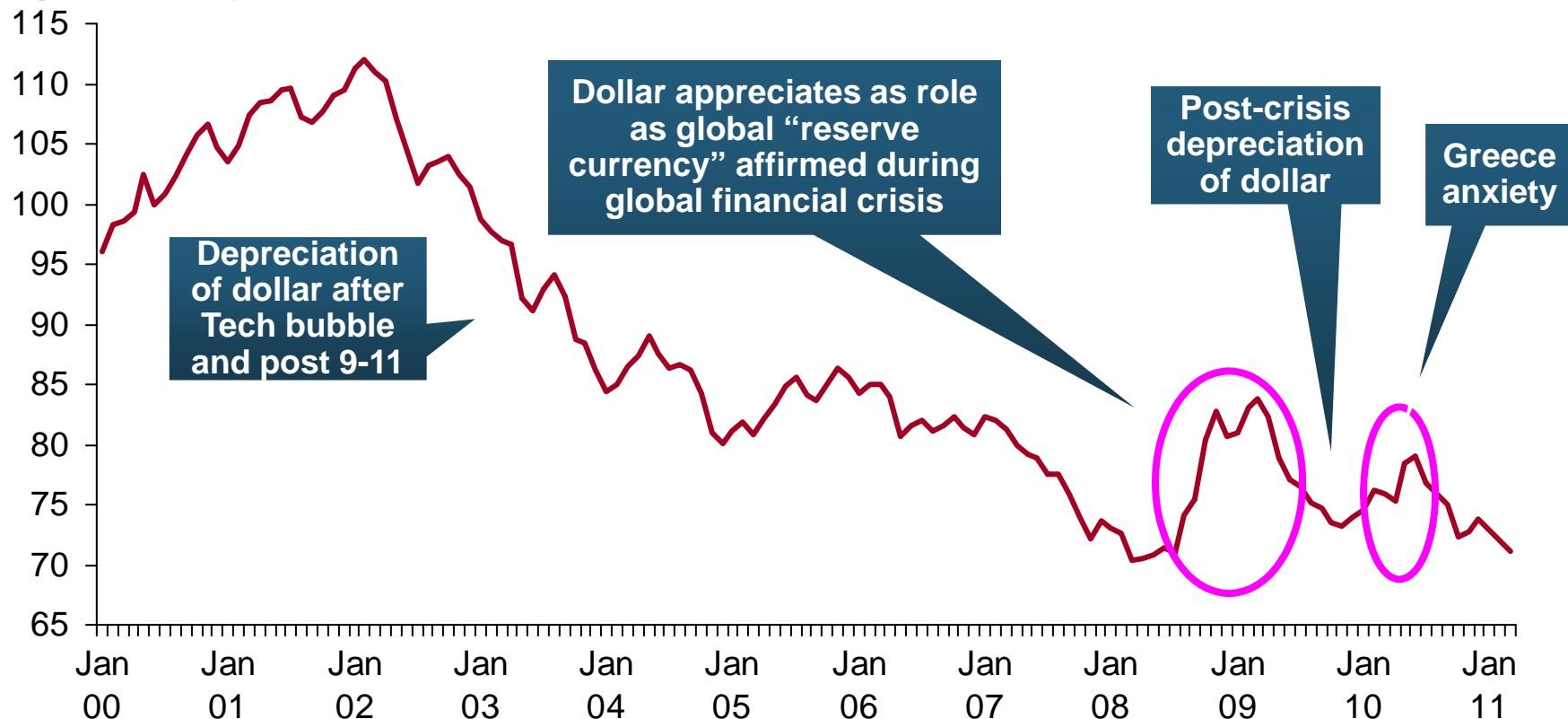


\*data are through Jan. 21, 2011

Source: International Monetary Fund World Economic Outlook January 2011 update at [http://www.imf.org/external/pubs/ft/weo/2010/update/01/data/figure\\_2.csv](http://www.imf.org/external/pubs/ft/weo/2010/update/01/data/figure_2.csv)

# Trade-Index-Weighted U.S. Dollar Exchange Rate\*

Monthly, January 2000  
through February 2011

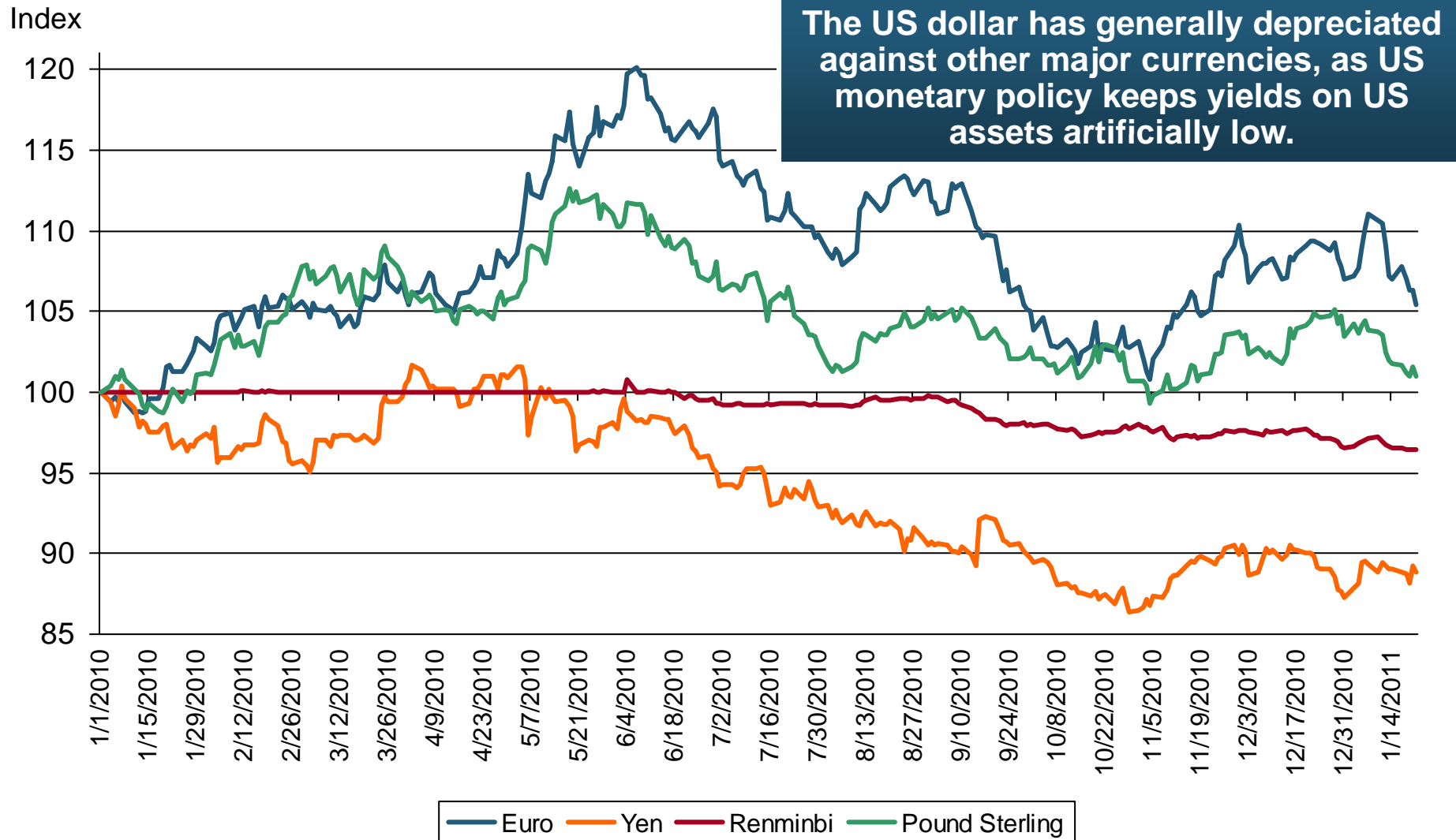


**The global financial crisis created significant exchange-rate volatility in 2008-09 and 2010—when the world needed a “safe haven” currency. As global stability returns, the dollar is depreciating again.**

\*The Major Currency index is a weighted average of the foreign exchange values of the U.S. dollar against a subset of the currencies of a large group of major U.S. trading partners. The index weights, which change over time, are derived from U.S. export shares and from U.S. and foreign import shares.  
Sources: US Federal Reserve, Board of Governors; Insurance Information Institute.

# Exchange Rate Indices\*

Daily (Jan 1, 2010 = 100)



\*data are through Jan. 21, 2011

Source: International Monetary Fund World Economic Outlook January 2011 update at  
[http://www.imf.org/external/pubs/ft/weo/2010/update/01/data/figure\\_2.csv](http://www.imf.org/external/pubs/ft/weo/2010/update/01/data/figure_2.csv)

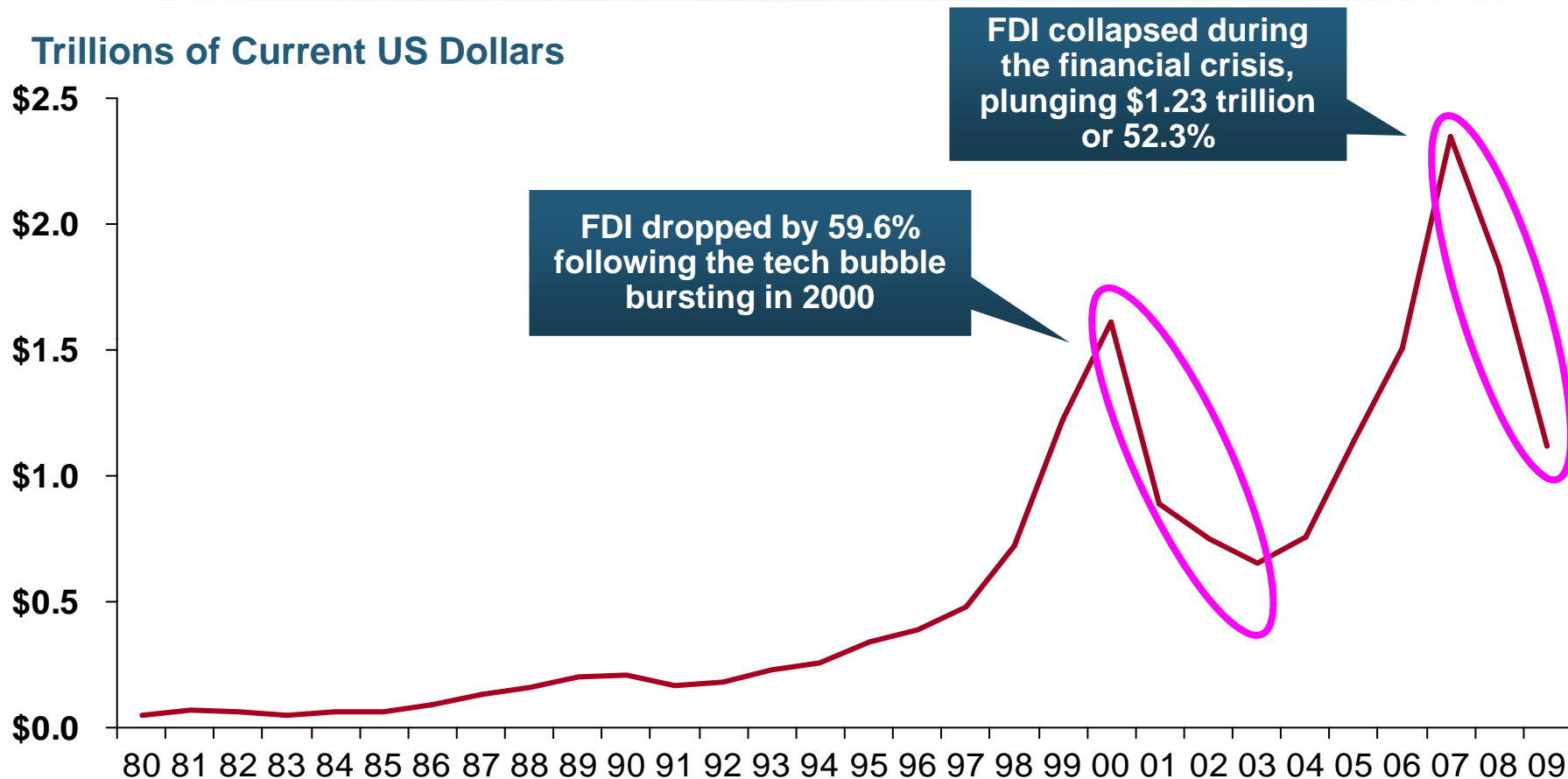
# But Exchange-Rate Changes Generally Have Little Effect on U.S. Import Prices

- In theory, a change in the value of the dollar should raise or lower the cost of foreign goods, thereby reducing or increasing U.S. demand for imports.
- However, numerous economic studies have shown that when the dollar fluctuates against foreign currencies, U.S. import prices tend to show much less change. This can crimp profits.
- Using data for 1999 to 2008, a recent paper estimates exchange rate pass-through to U.S. import prices for aggregate U.S. imports (all imports excluding oil and consumer goods), and for prices of imports from Japan, the European Union (EU), Canada, the NIEs, and Latin America.
  - ◆ The exchange rate pass-through estimates were found to be low (0.47 for all imports excluding oil and 0.26 for consumer goods) over 4 quarters.
  - ◆ Estimates of bilateral exchange- rate pass-through range from 0.59 for Latin America (largely Mexico) to 0.0 for the NIEs (Taiwan, Singapore, South Korea, and Hong Kong).

# **Reshuffling the Global Economic Deck Through *Foreign Direct Investment***

**The Global Financial Crisis  
Concentrates Growth Opportunities  
in Risky Places/Industry Groups**

# Global Foreign Direct Investment, Net Inflows: 1980-2009\*



**Most Growth Will Be in Parts of the World Where Foreign Direct Investment is High. FDI Flows Are Highly Volatile Meaning that New Income Streams for Businesses (and Insurers) Will Also Be Volatile**

\*Foreign Direct Investments are defined as the net inflows of investment to acquire a lasting management interest (at least 10% of voting stock) in an enterprise operating in an economy other than that of the investor.

Source: World Bank; Insurance Information Institute.



# Following the Money Trail: Foreign Direct Investment



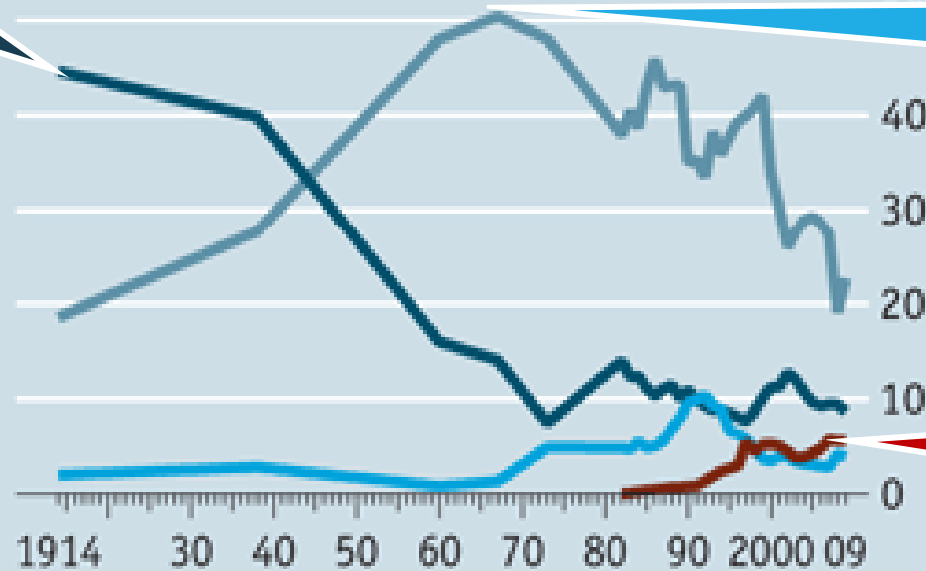
# Following the Money Trail: Outward Foreign Direct Investment

## Global shoppers

1

Stock of outward foreign direct investment  
% of world total

United States Britain China\* Japan



The UK's share of FDI peaked at 45% in 1914

The US's share of FDI peaked at 50% in 1967

China's share of FDI stood at 6% in 2009

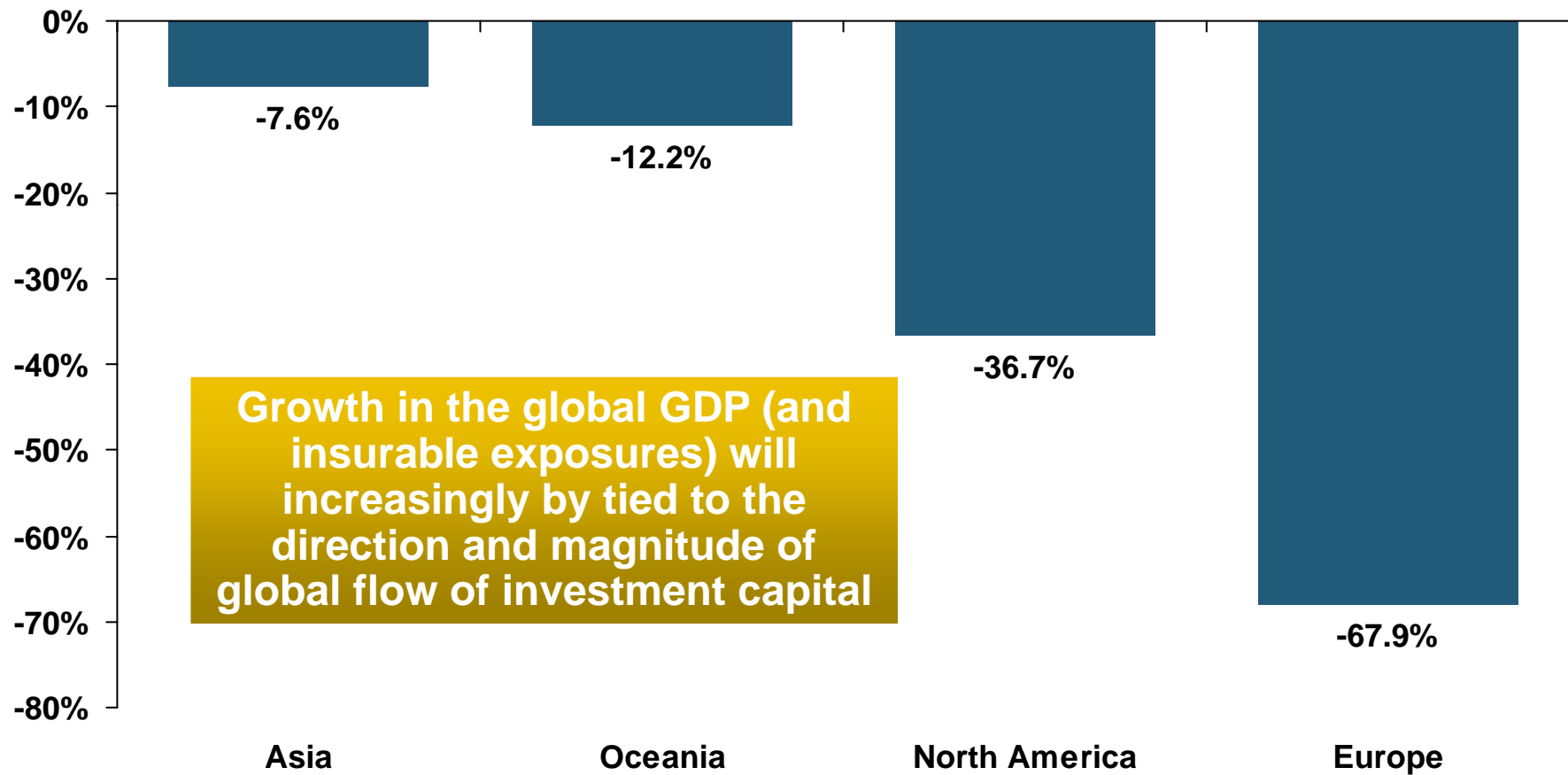
Sources: UNCTAD; "Multinational Enterprises and the Global Economy" by J.H.Dunning

\*Including Hong Kong and Macau



# Crisis Driven Change in Outward Foreign Direct Investment by Region: Who's Creating Global Insurance Exposure?

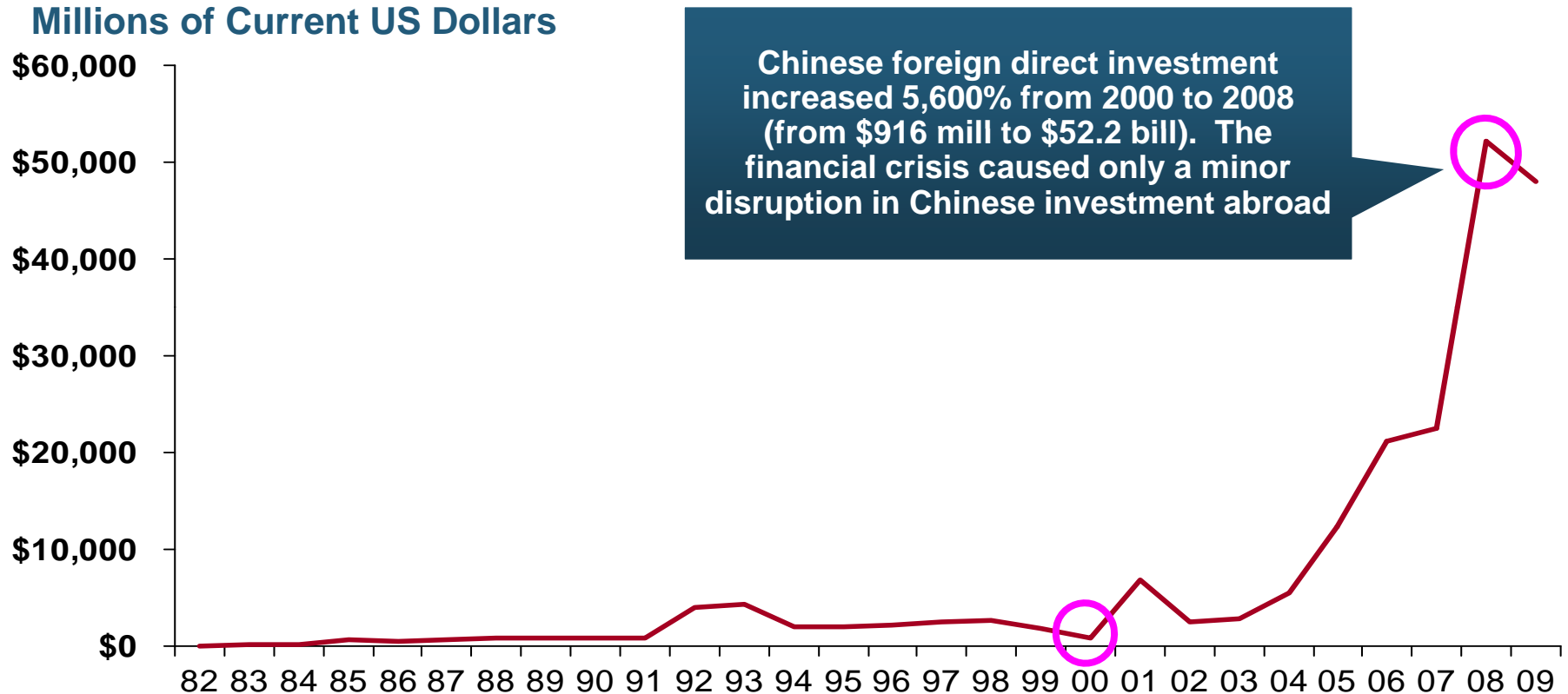
(Percent)



\*Foreign Direct Investments are defined as the net inflows of investment to acquire a lasting management interest (at least 10% of voting stock) in an enterprise operating in an economy other than that of the investor. Outward FDI represents flow from investing country to rest of the world.

Source: United Nations UNCTADSTAT; Insurance Information Institute.

# China: *Outward* Foreign Direct Investment: 1982-2009\*



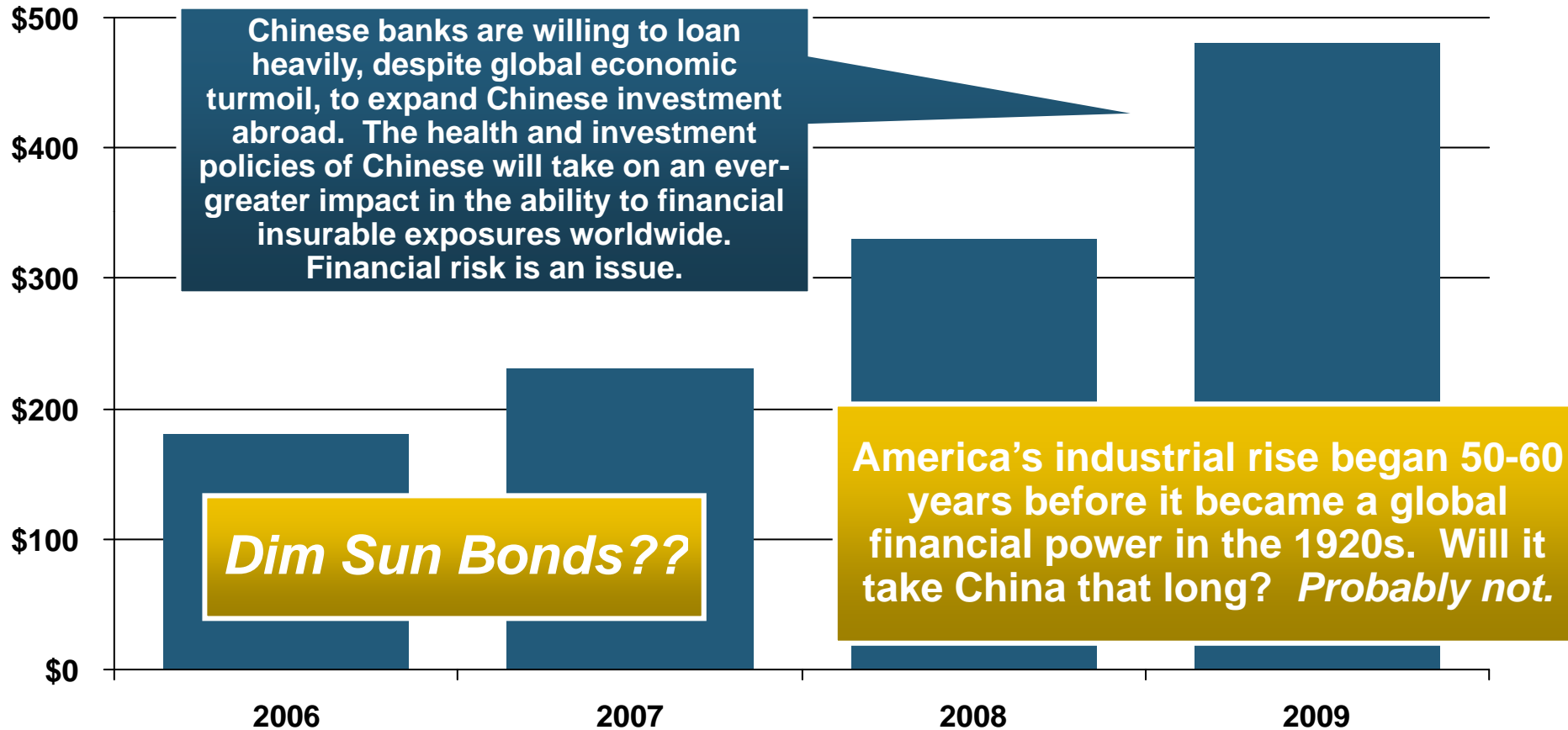
**Despite the Crash in Foreign Direct Investment During the Global Financial Crisis, Chinese Investments Abroad Remain Near Record Levels. Implication: Growth Opportunities for Business (and their Insurers) May *Not* Be in China but In Chinese Investment Target Nations/Companies/Industries.**

\*Foreign Direct Investments are defined as the net inflows of investment to acquire a lasting management interest (at least 10% of voting stock) in an enterprise operating in an economy other than that of the investor. Outward FDI represents flow from investing country to rest of the world.

Source: United Nations UNCTADSTAT; Insurance Information Institute.

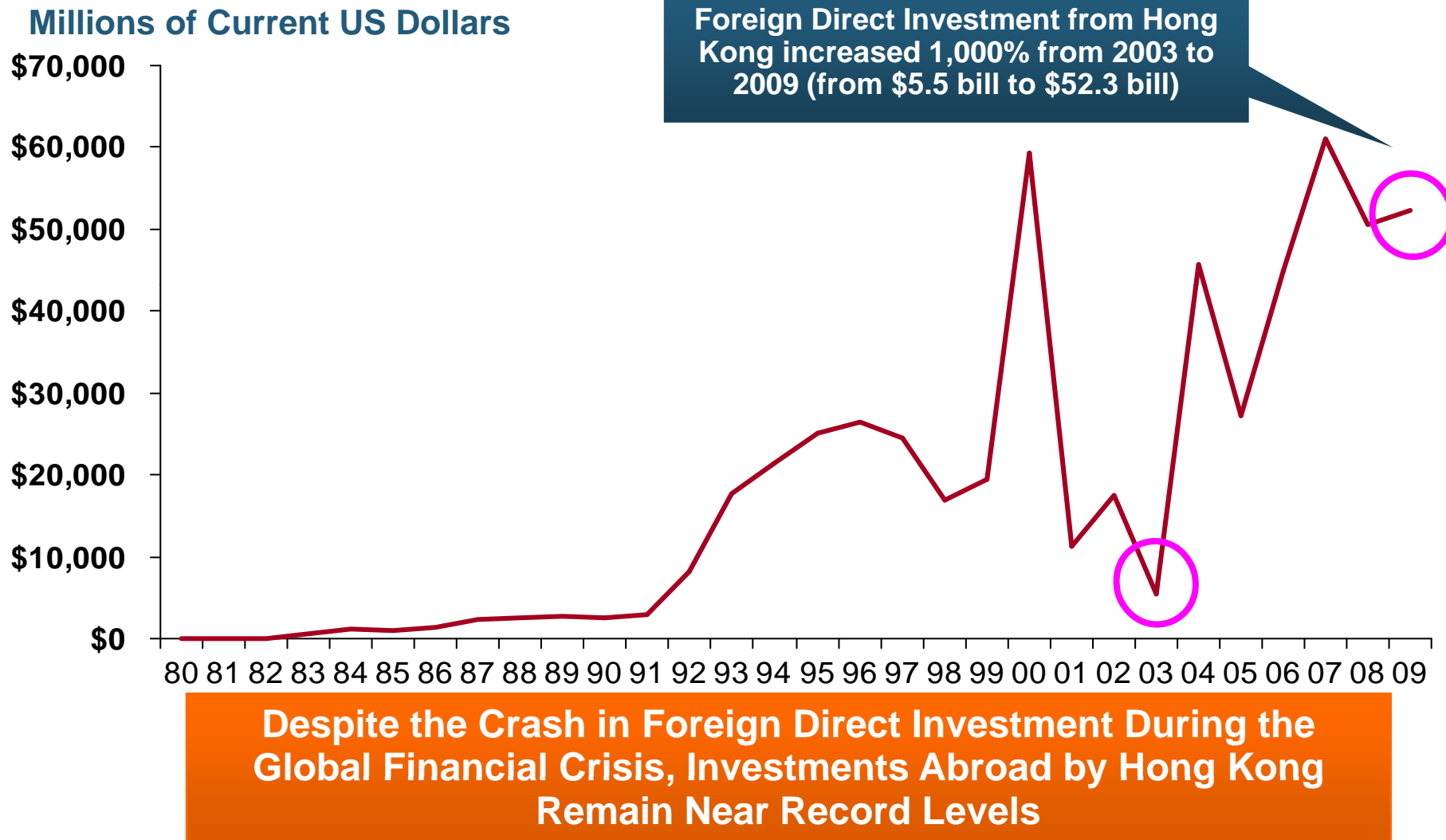
# Major Chinese Banks' Loans Abroad: 2006-2009

(Billions of US \$)



**Chinese Banks' Lending Activity Abroad Showed Little Impact from the Global Financial Crisis, but Eventually, Bank Crises Will Originate in China**

# Hong Kong: *Outward* Foreign Direct Investment: 1980-2009\*

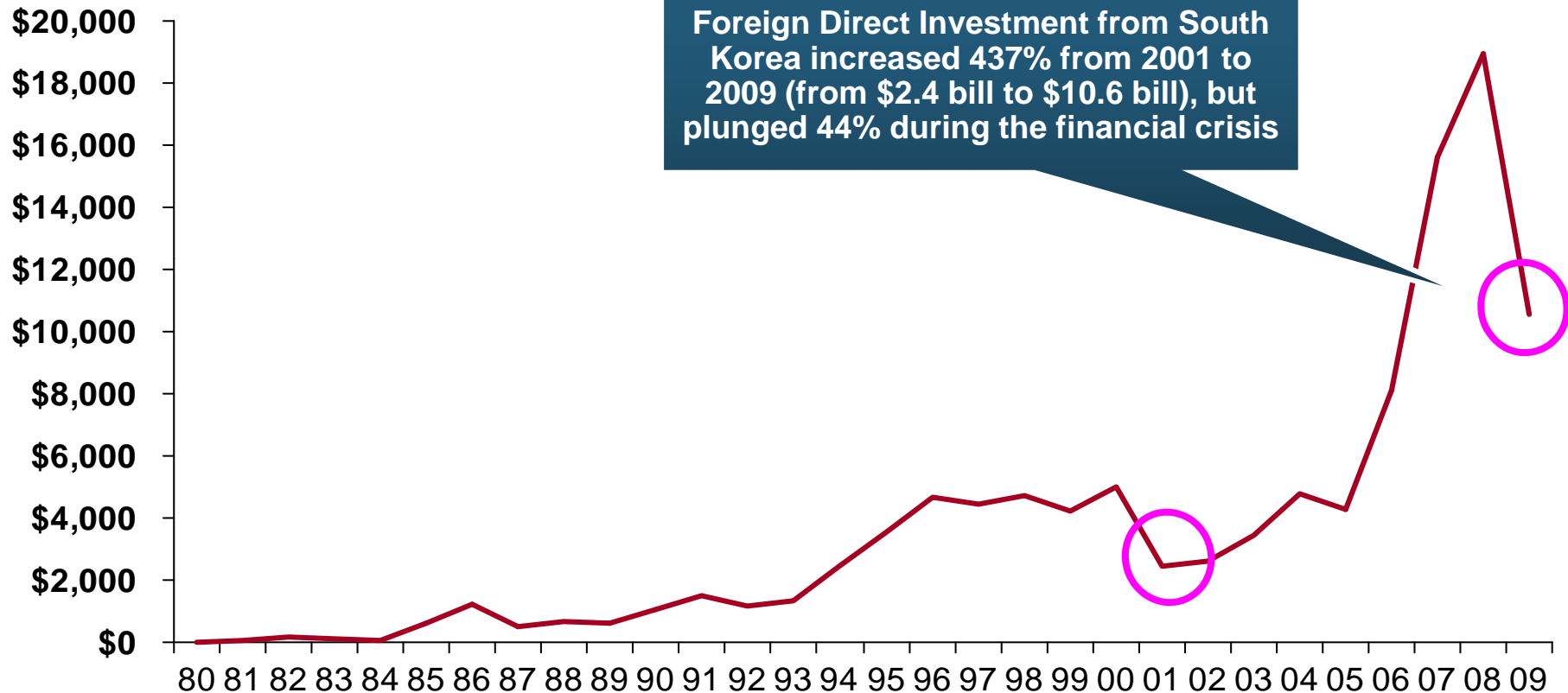


\*Foreign Direct Investments are defined as the net inflows of investment to acquire a lasting management interest (at least 10% of voting stock) in an enterprise operating in an economy other than that of the investor. Outward FDI represents flow from investing country to rest of the world.

Source: United Nations UNCTADSTAT; Insurance Information Institute.

# South Korea: *Outward* Foreign Direct Investment: 1980-2009\*

Millions of Current US Dollars

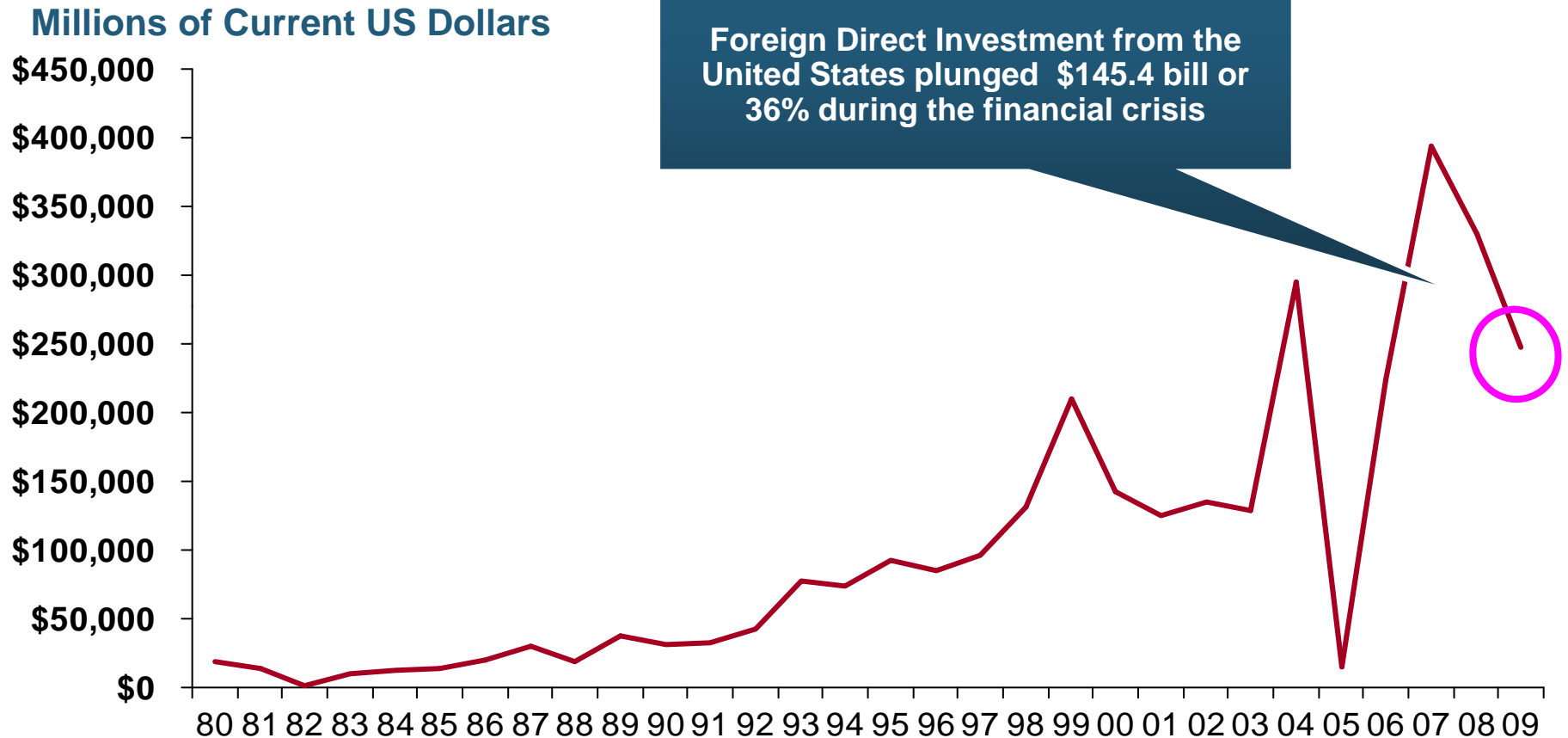


**The Global Financial Crisis Hit South Korean Foreign Direct Investment Abroad Harder than Was the Case in Several of Its Neighbors**

\*Foreign Direct Investments are defined as the net inflows of investment to acquire a lasting management interest (at least 10% of voting stock) in an enterprise operating in an economy other than that of the investor. Outward FDI represents flow from investing country to rest of the world.

Source: United Nations UNCTADSTAT; Insurance Information Institute.

# United States: *Outward* Foreign Direct Investment: 1980-2009\*



**Direct Investments Abroad by US Interests Were Hit Hard by the Global Financial Crisis**

\*Foreign Direct Investments are defined as the net inflows of investment to acquire a lasting management interest (at least 10% of voting stock) in an enterprise operating in an economy other than that of the investor. Outward FDI represents flow from investing country to rest of the world.

Source: United Nations UNCTADSTAT; Insurance Information Institute.

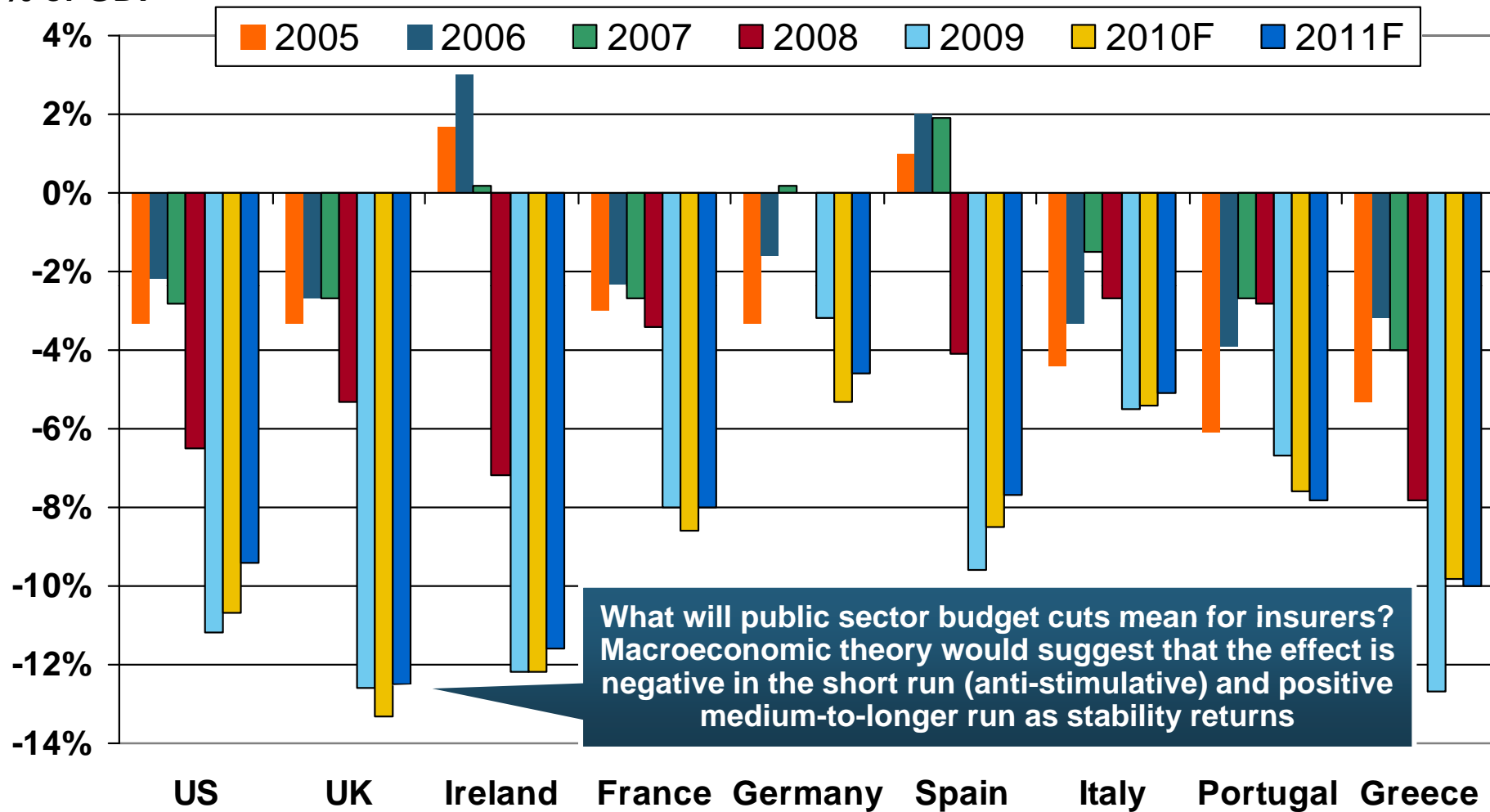
# **Doing Business in the Age of Austerity**

**Governments in Most of the World's  
Major Economies Have Embraced  
Austerity as Fiscal Risk Rises**

***Significant Impacts for Global  
Commerce and Insurance***

# Government Surplus/Deficit as a % of GDP, 2005-2011F

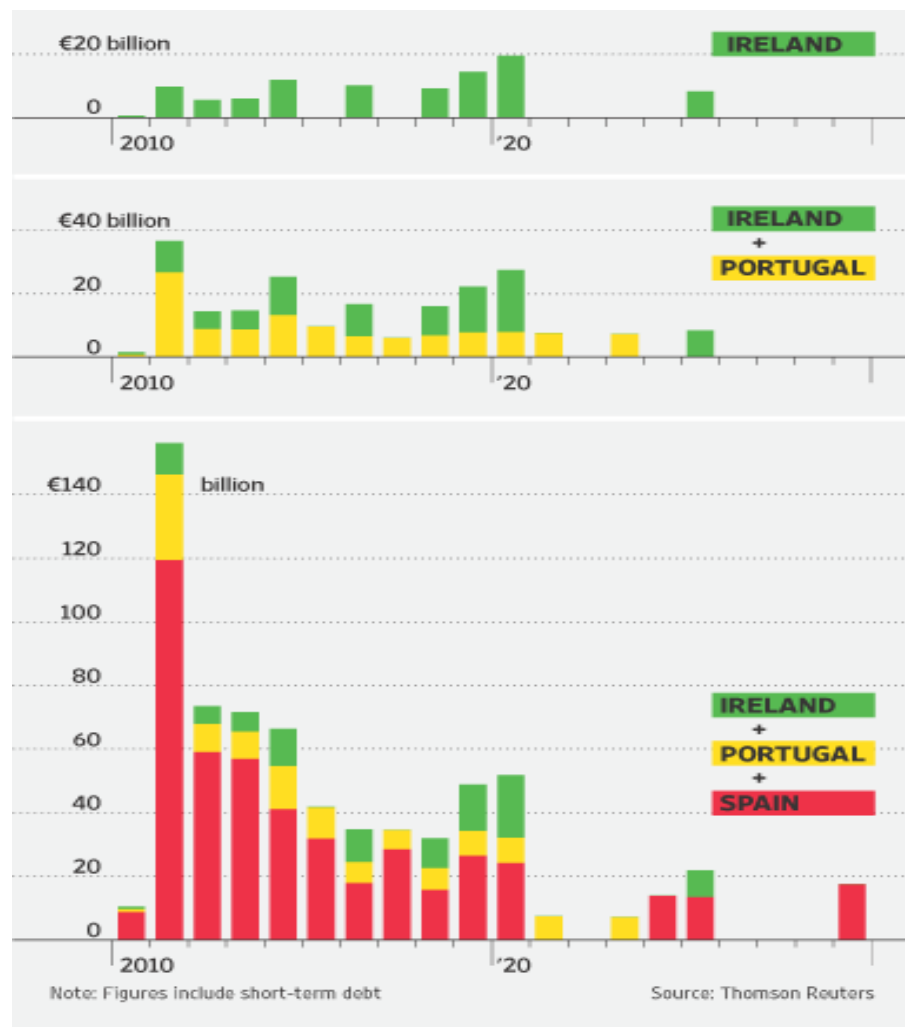
% of GDP



What will public sector budget cuts mean for insurers? Macroeconomic theory would suggest that the effect is negative in the short run (anti-stimulative) and positive medium-to-longer run as stability returns



# Debt Issued by Three Euro-Zone Countries that Must Be Refinanced Over the Next 20 Years, by Due Date



## Credit Concerns

- Spain, Portugal and Ireland alone face nearly €150 billion in debt refinancing in 2011 and hundreds of billions in the years 2012-2030.
- Ireland's EU/IMF bailout package estimated at €150 bn; Greece at €110 bn; Portugal needs €100 bn.
- Austerity measures are being implemented to manage this debt: includes budget cuts and tax increases
- While the return to sustainable fiscal policies will benefit the Euro Zone, the short term impact of austerity measures is likely to be negative for nonlife and life insurers

# Sovereign Fiscal Responsibility Index 2011

Country	Overall Rank	Country	Overall Rank
Australia	1	Mexico	18
New Zealand	2	Israel	19
Estonia	3	Slovenia	20
Sweden	4	Austria	21
China	5	Finland	22
Luxembourg	6	France	23
Chile	7	Spain	24
Denmark	8	Germany	25
United Kingdom	9	Belgium	26
Brazil	10	Italy	27
Canada	11	United States	28
India	12	Hungary	29
Poland	13	Ireland	30
Netherlands	14	Japan	31
Norway	15	Iceland	32
Slovak Republic	16	Portugal	33
Korea	17	Greece	34

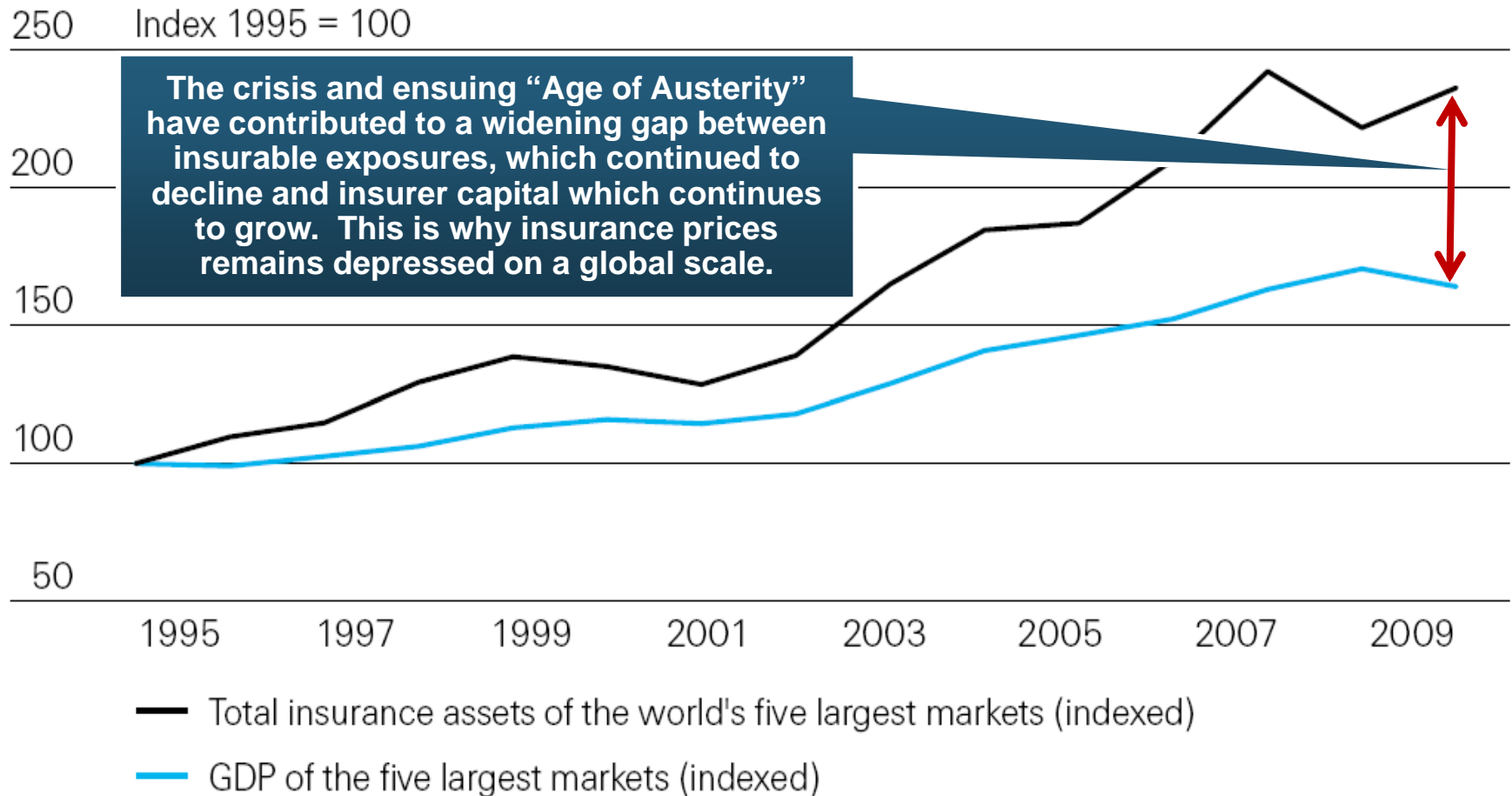
The US and much of Western Europe and Japan rank poorly in terms of fiscal responsibility

# Sovereign Fiscal Responsibility Index 2011

Country	Fiscal Space (% of GDP, 2010)	Fiscal Path (# of years)	Fiscal Governance (pts out of 100)	Overall Rank
Australia	168.2	40+	65.9	1
New Zealand	163.6	38	68.5	2
Estonia	138.1	40+	61.7	3
Sweden	153.7	40+	59.0	4
China	184.9	40+	49.4	5
Luxembourg	178.0	22	61.8	6
Chile	193.3	40+	45.9	7
Denmark	153.1	34	54.7	8
United Kingdom	90.8	27	66.4	9
Brazil	102.3	39	56.9	10
Canada	106.0	39	51.5	11
India	97.3	40+	56.3	12
Poland	94.9	31	58.0	13
Netherlands	92.7	12	72.3	14
Norway	171.6	22	47.9	15
Slovak Republic	107.7	33	50.9	16
Korea	124.9	40+	27.5	17
Mexico	112.1	30	50.7	18
Israel	113.0	40+	40.5	19
Slovenia	105.2	21	54.3	20
Austria	76.4	12	67.8	21
Finland	99.2	13	57.9	22
France	58.7	15	62.8	23
Spain	81.5	12	60.7	24
Germany	75.7	18	57.4	25
Belgium	42.3	8	61.2	26
Italy	17.8	7	59.2	27
United States	62.4	16	46.0	28
Hungary	53.2	12	46.1	29
Ireland	38.1	6	48.4	30
Japan	49.0	5	47.2	31
Iceland	17.1	20	20.2	32
Portugal	27.8	5	45.1	33
Greece	0.0	0	45.0	34

Source: Stanford University and the Comeback America Initiative (CAI).

# Growth of Nominal Insurance Assets and GDP, Five Largest Insurance Markets\*



\*The five largest insurance markets are the US, Japan, UK, France and Germany. Includes life and nonlife sectors.

Source: Swiss Re, *sigma* no. 5, 2010.

# Planned/Proposed Actions to Trim Deficits as a Percent of GDP

## ■ Toronto Declaration (June 2010)

- ◆ The G-20 countries agreed to reduce their “headline deficits” in half by 2013
- ◆ But most countries plan to go beyond these targets

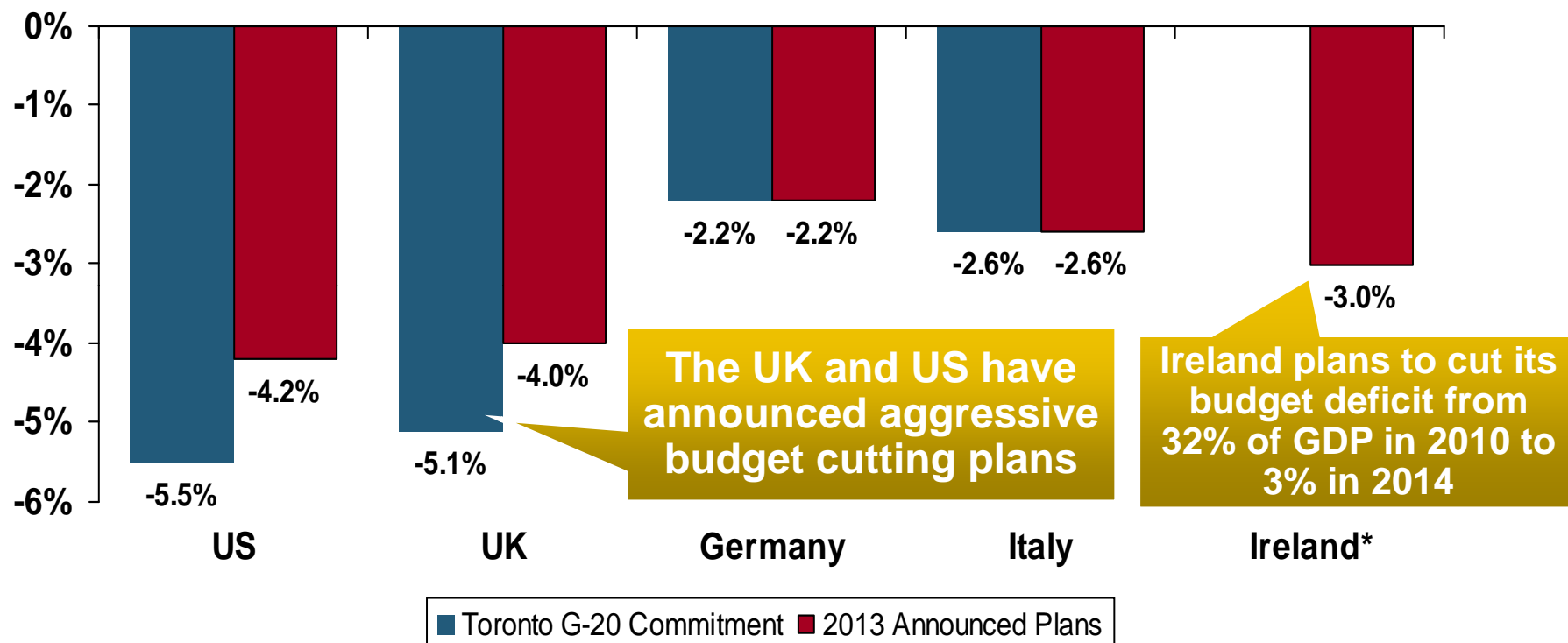
## ■ EU “Excessive Deficit Procedure

- ◆ Country-specific requirements to cut deficits to 3% of GDP per the Maastricht criteria\*
  - By 2012 (Latvia, Lithuania, Italy)
  - By 2014 (Ireland, Greece, the UK)

\* The Maastricht criteria are the criteria for member states to enter the third stage of European Economic and Monetary Union (EMU) and adopt the euro as their currency. The 4 main criteria are based on Article 121(1) of the European Community Treaty. The second criterion involves government finance. A country's ratio of the annual government deficit to gross domestic product (GDP) must not exceed 3% at the end of the preceding fiscal year. If not, it is at least required to reach a level close to 3%. Also, the ratio of gross government debt to GDP must not exceed 60% at the end of the preceding fiscal year.

Sources: International Monetary Fund, “Fiscal Exit: From Strategy to Implementation,” *Fiscal Monitor*, November 2010, Ch. 3; [http://en.wikipedia.org/wiki/Euro\\_convergence\\_criteria](http://en.wikipedia.org/wiki/Euro_convergence_criteria) (Maastricht criteria)

# Government Deficit as a % of GDP: Authorities' 2013 Plans\*



**While the unwinding of the fiscal stimulus effects is likely to be negative in the short in the world's largest economies (which account for the majority of global premium volume), the longer-term effects should be positive: increased financial market stability, positive economic growth and improved credit market conditions**

\*2014 for Ireland. 2010 deficit is 32% of GDP including bank bailouts, 11.7% excluding them.

# Planned/Proposed Actions to Trim Deficits as a Percent of GDP

- “Overall, in advanced countries, expenditure is expected to remain constant in real terms in 2010-2012
  - ◆ This reflects the “unwinding” of fiscal stimulus measures
  - ◆ Largest unresolved spending problem: health care costs
- Many countries are also hiking revenues
  - ◆ Personal income tax, corporate income tax, social security contributions, VATs, excise taxes
    - But some or all of these could dampen growth
    - IMF: fiscal consolidation of 1% of GDP tends to reduce GDP growth by 0.5% within two years



# Planned/Proposed Budget Cuts as a Percent of GDP

## ■ France

- ◆ Freeze 2011 state spending
  - Goal: to bring the deficit to 3% of GDP by 2013.
  - Assumption: 2% GDP growth in 2011
  - Forecast for 2010 and 2011: Deficit cut from 7.7% of GDP in 2010 to 6% of GDP in 2011
  - Increase retirement age from 60 to 62

## ■ UK

- ◆ Planned cutbacks and tax increases of roughly 6% of GDP
- ◆ Cut 500,000 public-sector jobs

# Planned/Proposed Budget Cuts as a Percent of GDP

## ■ Greece

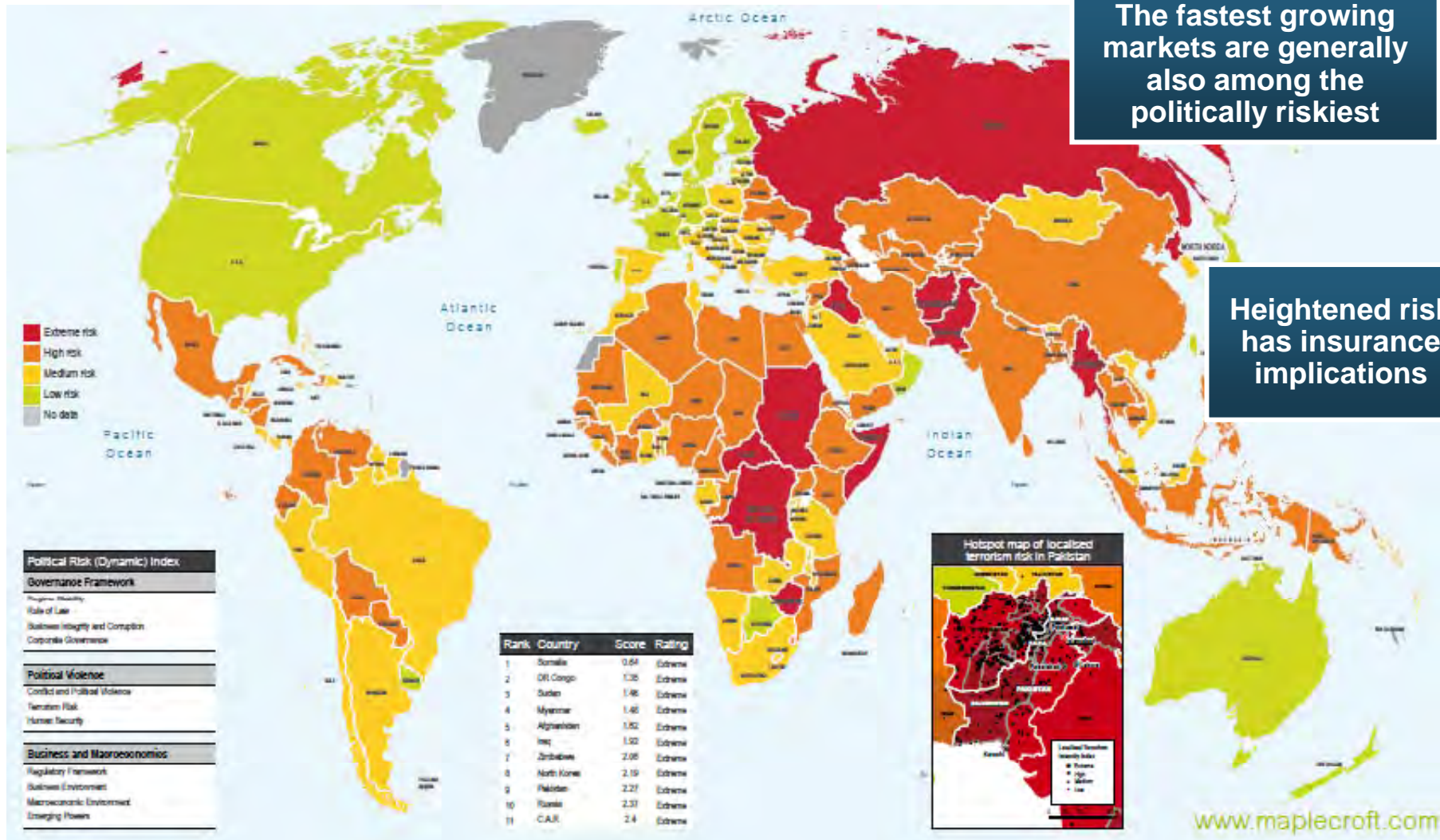
- ◆ Goal: to bring the deficit to 7.5% of GDP by year-end 2011.
  - Assumptions: 4.2% contraction in GDP in 2010 and 3% drop in 2011
- ◆ Current progress
  - Forecast 9.4% deficit in 2010, down from 15.4% in 2009
    - But the goal for 2010 deficit is 8.1% of GDP
- ◆ Main Strategy: Structural reforms
  - Privatize deficit-ridden state-owned enterprises
  - Health care
  - Greece's dysfunctional tax-collection system

Sources: Aikman Granitsas, "IMF: Greece Needs More Reforms," The Wall Street Journal Online, Nov 23, 2010; Nick Skrekas, "Greece Sticks to Deficit Target in 2011 Budget," The Wall Street Journal Online, Nov 18, 2010.

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

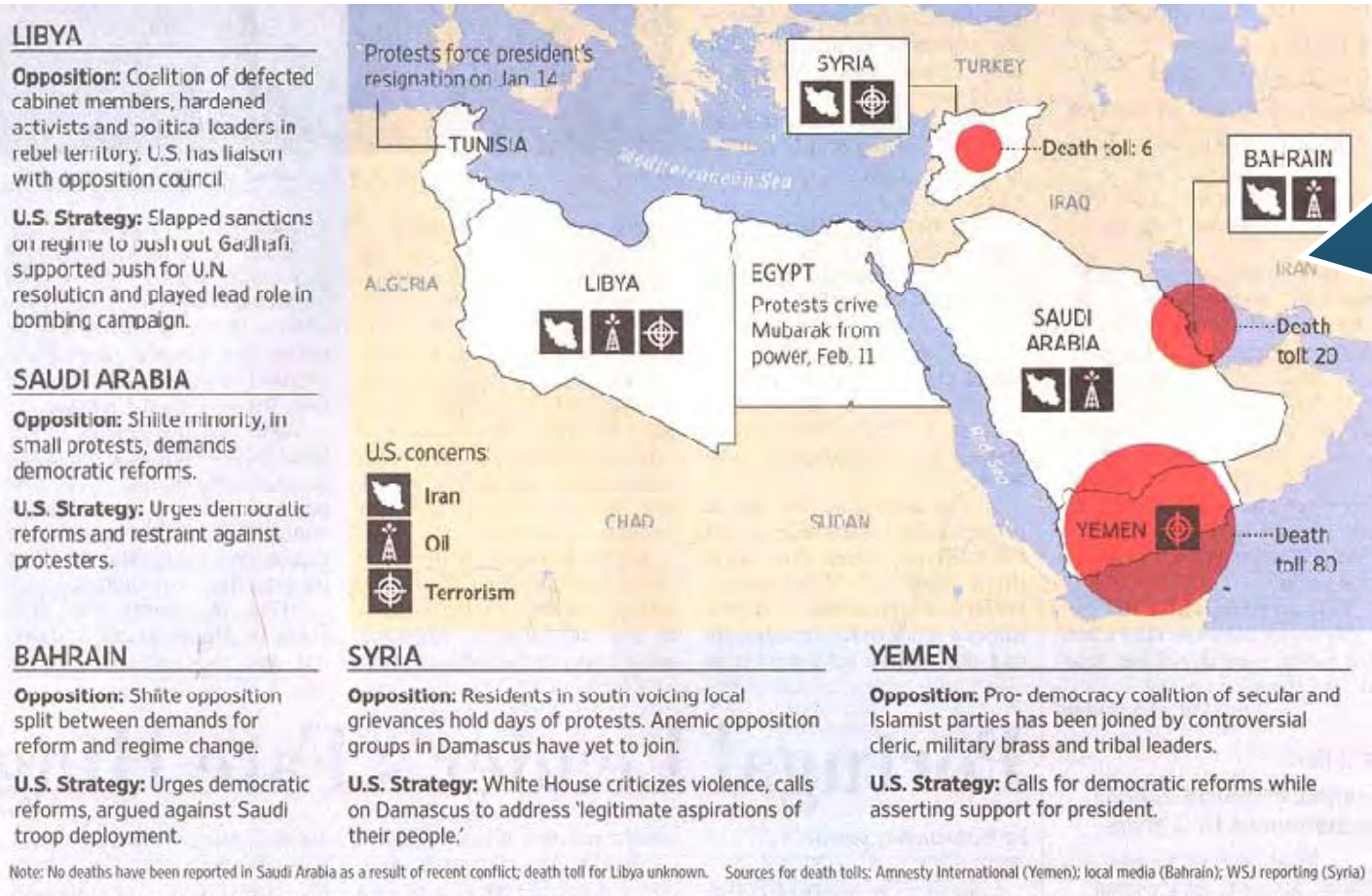
**Most of the Global Economy's Future  
Gains Will be Fraught with Much  
Greater Risk and Uncertainty than in  
the Past—Insurance Is There to Help**

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





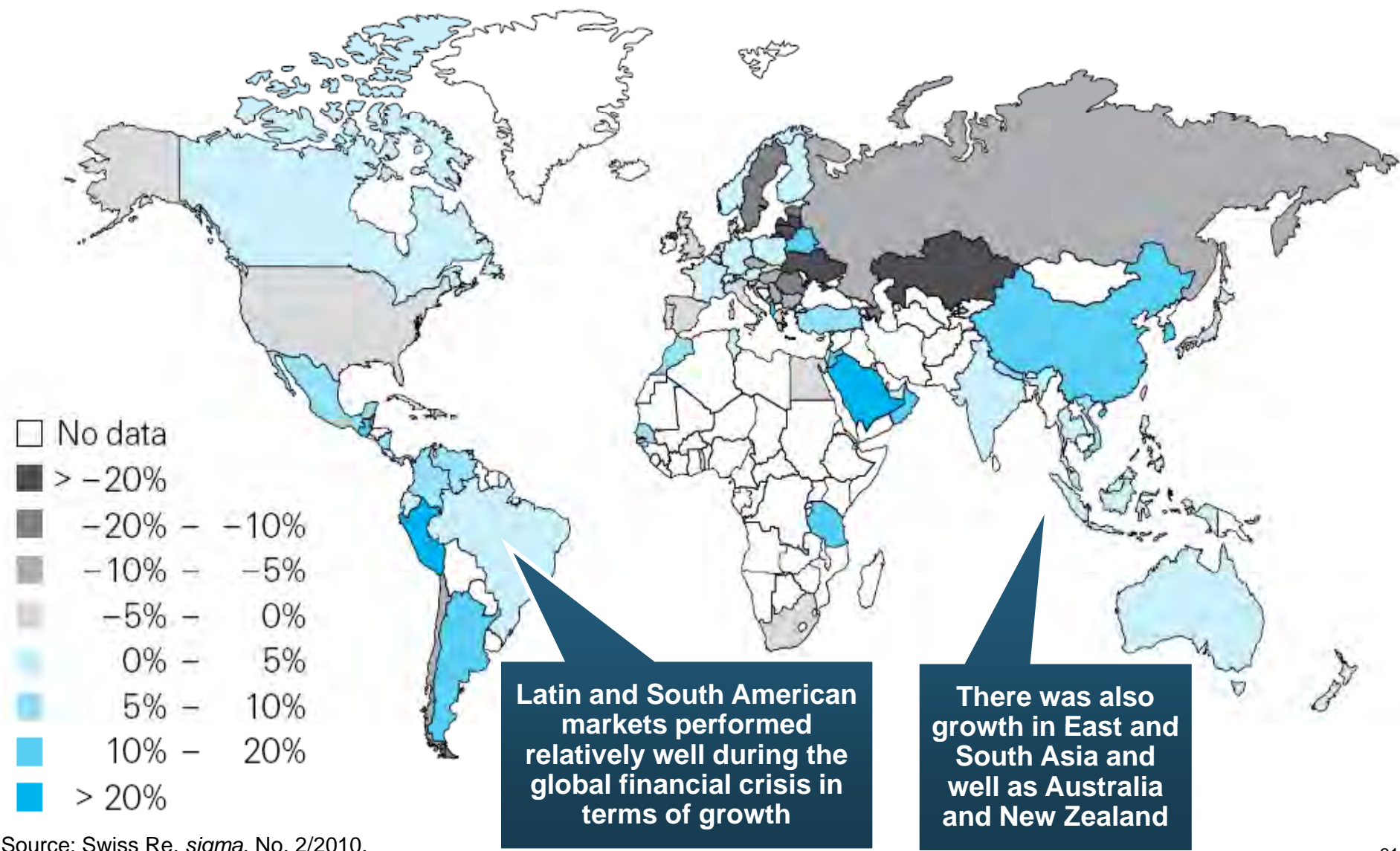
# Middle East Unrest in 2011: Unanticipated Events Creating Significant Economic & Political Risk



Most of the countries experiencing unrest are strategic allies of the US and/or major oil producers. Also, does a desperate Gaddafi raise the risk of terrorism (Libya was responsible for the bombing of Pan Am flight 103 in 1988)?

Heightened risk has insurance implications

# Nonlife Real Premium Growth in 2009



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

# 2010 Political Risk Map: Findings

## ■ Elevated Political Risk Levels to Continue in 2010

- ◆ Significant volume of credit and political risk claims in international insurance markets have drove many **country downgrades**
- ◆ A trend toward elevated political risk in 2010 is clearly continuing in 2011. For many companies and across different sectors, including credit and political risk insurance, the business environment remains uncertain when trading with or investing in politically or economically unstable countries.

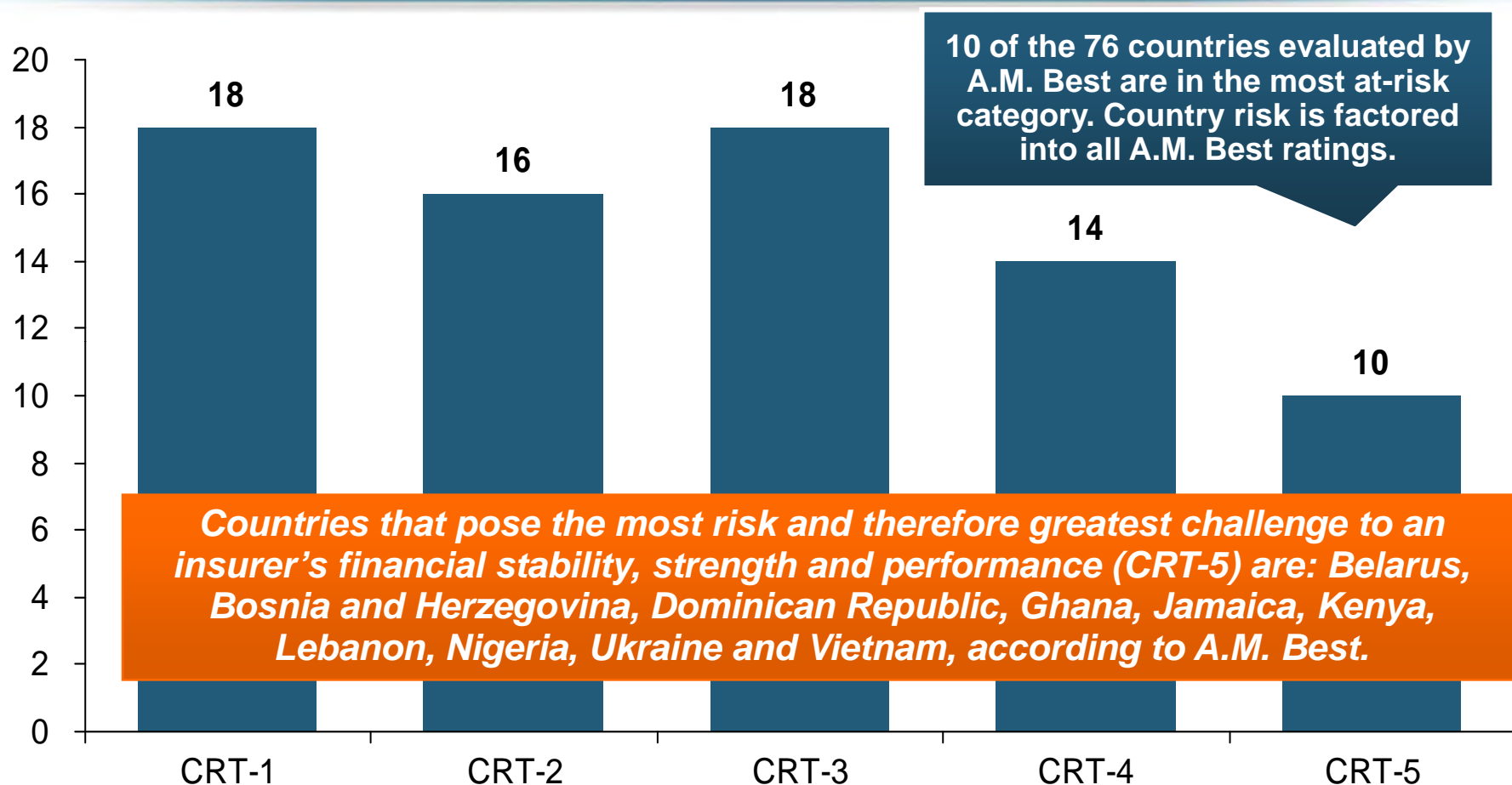
## ■ Movements on the Political Risk Map

- ◆ Some countries that saw/seeing conditions worsen:: Algeria, Argentina, Bahrain, Egypt, El Salvador, Equatorial Guinea, Ghana, Honduras, Kazakhstan, Latvia, Libya, Madagascar, Mauritania, Philippines, Puerto Rico, Saudi Arabia (?), Seychelles, Sudan, Syria, United Arab Emirates, Ukraine, Venezuela and Yemen.
- ◆ Sudan, Venezuela and Yemen have been added to the **Very High category**, joining Afghanistan, Congo DRC, Iran, Iraq, North Korea, Somalia and Zimbabwe.
- ◆ **Sever countries/territories** have been **upgraded** to a lower risk level - Albania, Myanmar/Burma, Colombia, South Africa, Sri Lanka, East Timor, Vanuatu, Vietnam and the Hong Kong Special Administrative Region of the People's Republic of China.

**Bottom Line:** Political and financial instability remain a feature of the business landscape in 2011 as a result of the recession lingering economic problems giving way to political unrest.



# A.M. Best: Country Risk Evaluation\*



\*A.M. Best defines country risk as the risk that country-specific factors could adversely affect an insurer's ability to meet its financial obligations. Countries are placed into one of five tiers, ranging from Country Risk Tier 1 (CRT-1) denoting a stable environment with the least amount of risk, to Country Risk Tier 5 (CRT-5) for countries that pose the most risk and greatest challenge to an insurer's financial stability, strength and performance

# Countries by Insurance Risk Tier Rating

<u>CRT-1</u>	<u>CRT-2</u>	<u>CRT-3</u>	<u>CRT-4</u>	<u>CRT-5</u>
Australia	Barbados*	Bahamas*	Antigua & Barbuda*	Belarus
Austria	Belgium	Bahrain		Bosnia and Herzegovina
Canada	Bermuda	<i>China</i>	Brunei Darussalam	Dominican Republic
Denmark	British Virgin Islands*	Cyprus	Egypt	Ghana
Finland		Israel	<i>India</i>	Jamaica
France	Cayman Islands*	Kuwait	Indonesia	Kenya
Germany	Hong Kong	<i>Malaysia</i>	Jordan	Lebanon
Gibraltar*	Ireland	Malta	Kazakhstan	Nigeria
Guernsey*	Italy	Mexico	Mauritius	Ukraine
Isle of Man*	Japan	Netherlands Antilles*	Morocco	<i>Vietnam</i>
Luxembourg	Liechtenstein*	Oman	Panama	
Netherlands	Macau	Poland	Philippines	
Norway	New Zealand	Qatar	<i>Russia</i>	
Singapore	Slovenia	Saudi Arabia	Tunisia	
Sweden	South Korea	South Africa	Turkey	
Switzerland	Spain	Thailand		
United Kingdom	Taiwan	Trinidad and Tobago		
United States		United Arab Emirates		

The fastest growing markets are pose a much greater risk to an insurer's stability, strength and performance

\*Denotes countries to be considered "Special Cases" by A.M. Best

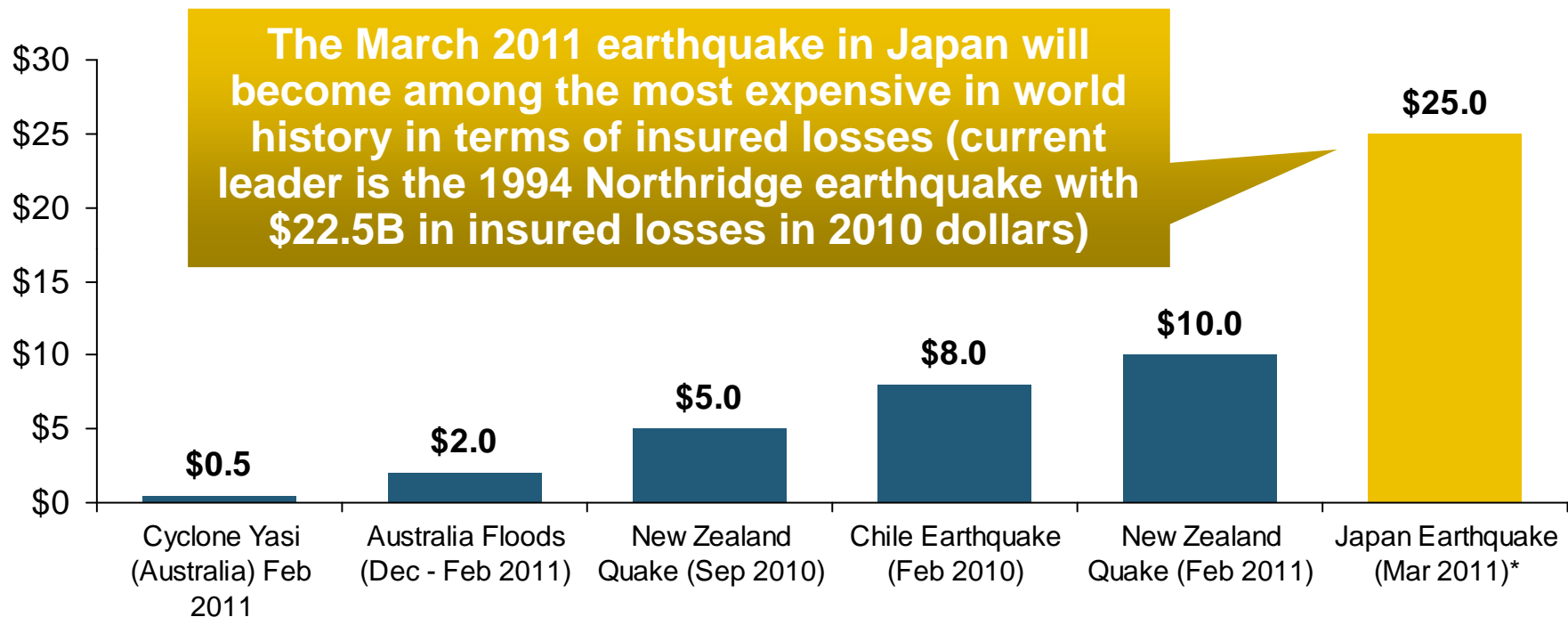
Source: A.M. Best., as of 4/13/10

# **Summary of the 11 March Japan Quake and Other Recent Major Catastrophe Loss Activity**

## **Earthquake Losses Dominate**

# Recent Major Catastrophe Losses

(Insured Losses, \$US Billions)



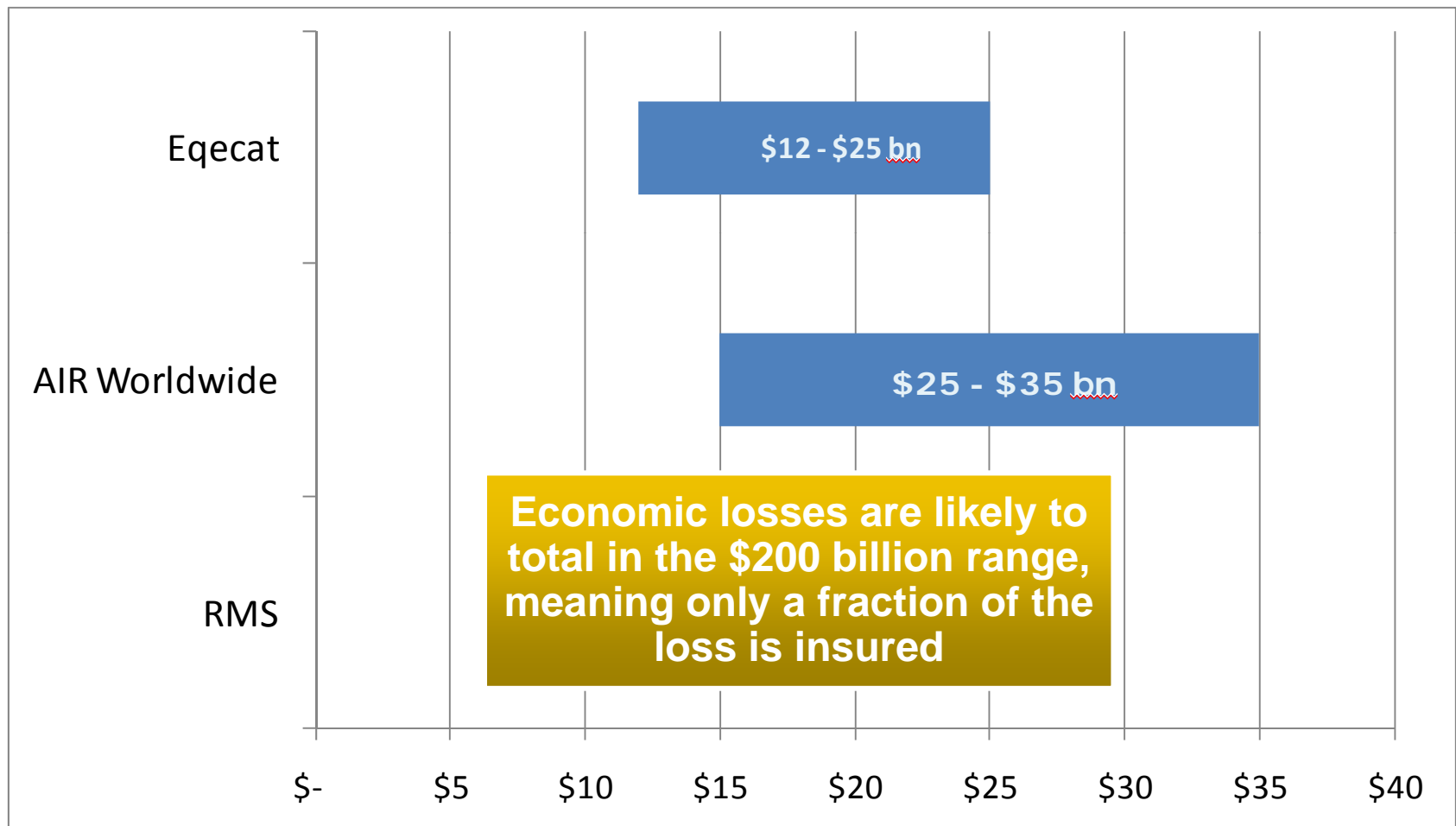
**Insured Losses from Recent Major Catastrophe Events Exceed \$50 Billion, an Estimated \$48 Billion of that from Earthquakes**

\*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.

# Insured Japan Earthquake Loss Estimates\*

(Insured Losses, \$ Billions)



\*As of March 17, 2011. Figures do not include insured tsunami losses.

Sources: AIR Worldwide, Eqecat; Insurance Information Institute.

# Significant Natural Catastrophes: 1980 – February 2011

## *10 Costliest Events Ordered by Overall Losses*

Period	Event	Affected Area	Overall losses	Insured losses	Fatalities
			US\$ m, original values		
25-30.8.2005	Hurricane Katrina	USA: LA, New Orleans, Slidell; MS, Biloxi, Pascagoula, Waveland, Gulfport	125,000	62,200	1,300
17.1.1995	Earthquake	Japan: Hyogo, Kobe, Osaka, Kyoto	100,000	3,000	6,400
12.5.2008	Earthquake	China: Sichuan, Mianyang, Beichuan, Wenchuan, Shifang, Chengdu, Guangyuan, Ngawa, Ya'an	85,000	300	84,000
17.1.1994	Earthquake	USA: Northridge, Los Angeles, San Fernando Valley, Ventura, Orange	44,000	15,300	60
6-14.9.2008	Hurricane Ike	USA. Cuba. Haiti. Dominican Republic. Turks and Caicos Islands. Bahamas	38,300	18,500	170
May-Sept. 1998	Floods	China: Jangtsekiang, Songhua Jiang	30,700	1,000	4,200
27.2.2010	Earthquake, tsunami	Chile: Bio Bio, Concepción, Talcahuano, Coronel, Dichato, Chillán; Del Maule, Talca, Curicó	30,000	8,000	520
23.10.2004	Earthquake	Japan: Honshu, Niigata, Ojiya, Tokyo, Nagaoka, Yamakoshi	28,000	760	50
23-27.8.1992	Hurricane Andrew	USA: FL, Homestead; LA. Bahamas	26,500	17,000	60
27.6-13.8.1996	Floods	China: Guizhou, esp. Guiyang; Zhejiang; Sichuan; Hunan; Anhui; Jiangxi; Hubei; Guangxi; Jiangsu	24,000	445	3,050

# Significant Natural Catastrophes: 1980 – February 2011

## *10 Costliest Events Ordered by Insured Losses*

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			US\$ m, original values		
25-30.8.2005	Hurricane Katrina	USA: LA, New Orleans, Slidell; MS, Biloxi, Pascagoula, Waveland, Gulfport	125,000	62,200	1,300
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17.1.1994	Earthquake	USA: Northridge, Los Angeles, San Fernando Valley, Ventura, Orange	44,000	15,300	60
7-21.9.2004	Hurricane Ivan	USA. Trinidad and Tobago. Venezuela. Colombia. Mexico	23,000	13,800	130
19-24.10.2005	Hurricane Wilma	USA. Bahamas. Cuba. Haiti. Jamaica. Mexico	22,000	12,500	40
20-24.9.2005	Hurricane Rita	USA: LA, Lake Charles, Holly Beach, Cameron, New Orleans; MS; TX, Houston	16,000	12,100	10
22.2.2011	Earthquake	New Zealand: Christchurch	20,000*	10,000*	>150
27.2.2010	Earthquake, tsunami	Chile: Bio Bio, Concepción, Talcahuano, Coronel, Dichato, Chillán; Del Maule, Talca, Curicó	30,000	8,000	520
11-14.8.2004	Hurricane Charley	USA. Cuba. Jamaica. Cayman Islands	18,000	8,000	40

\*loss estimation still in progress

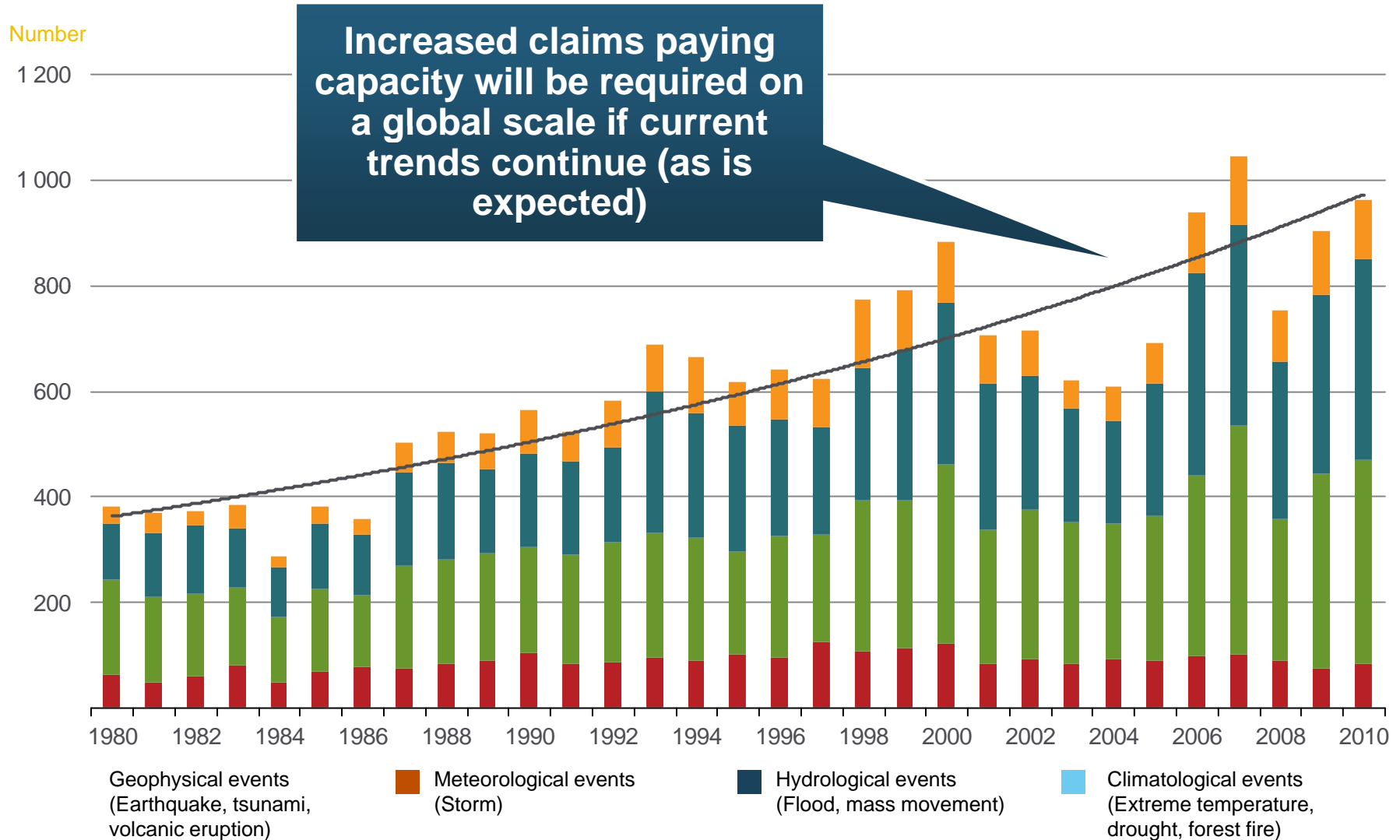


# Significant Natural Catastrophes: 1980 – February 2011

## *10 Deadliest Events Worldwide*

Period	Event	Affected Area	Overall losses	Insured losses	Fatalities
			US\$ m, original values		
12.1.2010	Earthquake	Haiti: Port-au-Prince, Petionville	8,000	200	222,570
26.12.2004	Earthquake, tsunami	Sri Lanka. Indonesia. Thailand. India. Bangladesh. Myanmar. Maldives. Malaysia	10,000	1,000	220,000
2-5.5.2008	Cyclon Nargis	Myanmar: Ayeyawaddy, Yangon, Bugalay, Irrawaddy, Bago, Karen, Mon, Laputta, Haing Kyi	4,000		140,000
29-30.4.1991	Tropical cyclon	Bangladesh: Bay of Bengal, Cox's Bazar, Chittagong, Bola, Noakhali districts, esp. Kutubdia	3,000	100	139,000
8.10.2005	Earthquake	Pakistan. India. Afghanistan	5,200	5	88,000
12.5.2008	Earthquake	China: Sichuan, Mianyang, Beichuan, Wenchuan, Shifang, Chengdu, Guangyuan, Ngawa, Ya'an	85,000	300	84,000
July-August 2003	Heatwave, drought	France. Germany. Italy. Portugal. Romania. Spain. United Kingdom	13,800	20	70,000
July-Sept. 2010	Heatwave, drought	Russia	2,000	20	56,000
21.6.1990	Earthquake	Iran: Caspian Sea, Gilan Provinz, Manjil, Rudbar, Zanjan, Safid, Qazvin	7,100	100	40,000
8-19.12.1999	Floods, flash floods	Venezuela: Vargas, La Guaira Punta de Mulatos, Miranda, Nueva Esparta, Yaracuy. Colombia	3,200	220	30,000

# Natural Catastrophes Worldwide, 1980 – 2010 (Number of events with trend)



# Natural Catastrophes, 2010

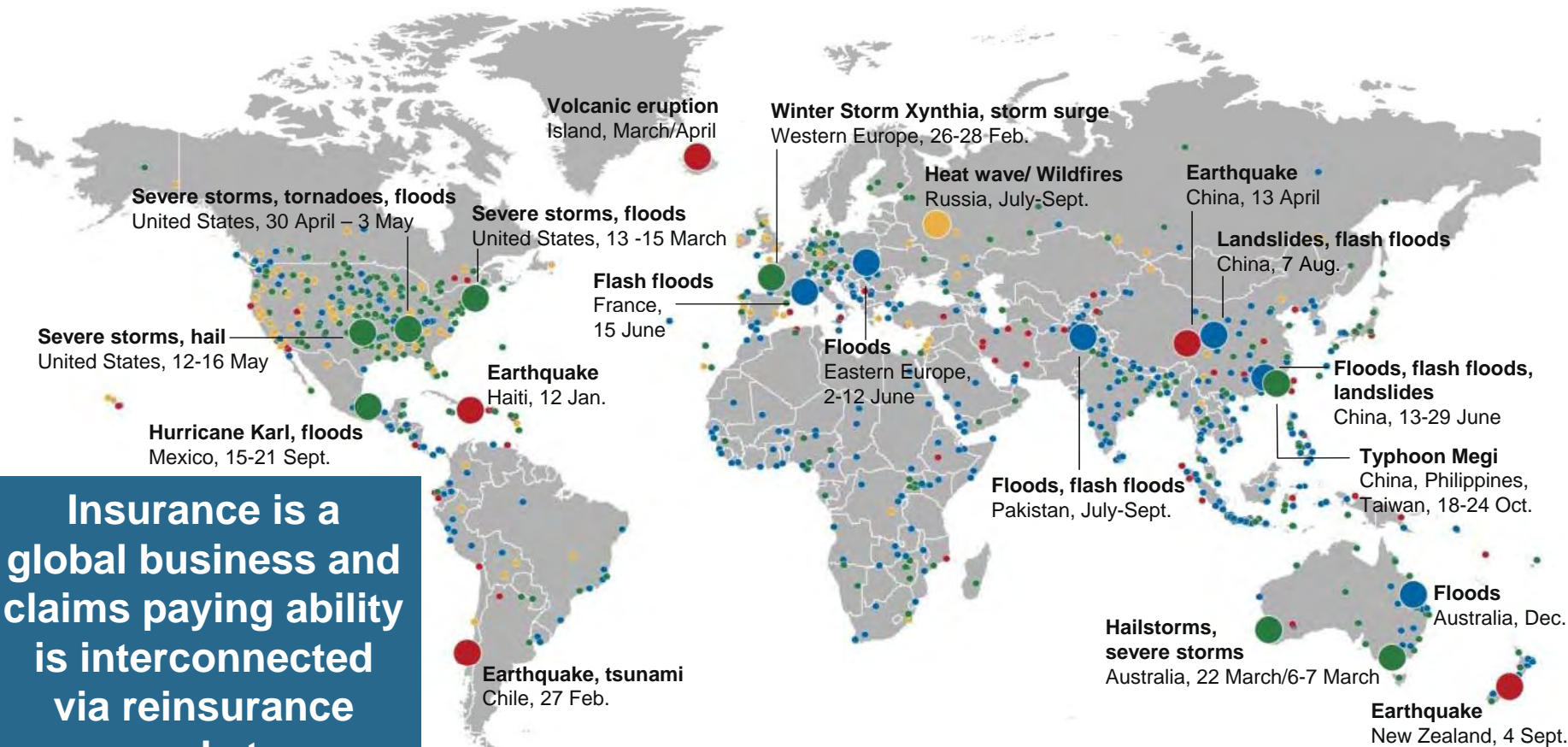
Overview and comparison with previous years

	2010	2009	Average of the last 10 years 2000-2009	Average of the last 30 years 1980-2009
Number of events	950	900	785	615
Overall losses (US\$m)	130,000	60,000	110,000	95,000
Insured losses (US\$m)	37,000	22,000	35,000	23,000
Fatalities	295,000	11,000	77,000	66,000

The number and cost of natural catastrophes on a global scale was far above average in 2010. 2011 will be much, much worse.

# Natural Catastrophes, 2010

## 950 loss events



**Insurance is a  
global business and  
claims paying ability  
is interconnected  
via reinsurance  
markets**

- Natural catastrophes
- Selection of significant loss events (see table)

- Geophysical events  
(earthquake, tsunami, volcanic activity)
- Meteorological events  
(storm)

- Hydrological events  
(flood, mass movement)
- Climatological events  
(extreme temperature, drought, wildfire)

## ■ The Global Financial Crisis Has Laid Bare the New World Economic Order

- ◆ There is no question that most of the world's largest economies (save China) suffered the most and continue to languish
- ◆ The impacts of the crisis and associated impacts on the demand for goods and service as well as insurance demand will be felt for the better part of a decade (2015-2016)

## ■ Following the Money Trail

- ◆ China and other newly industrialized nations create exposure and demand within their own borders
- ◆ Many of the best insurance opportunities are associated with Chinese with *Outward* Foreign Direct Investment (FDI)

## ■ Commerce and Insurance in the Age of Austerity

- ◆ Fiscal discipline in the largest insurance economies is a net short-term negative; Long-term positive; Process will be drawn out (e.g., Europe)

## ■ Economic Threats Remain Plentiful

- ◆ Generally manageable; Some have been exaggerated

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

- ◆ Future growth comes with greater risk than in the past

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