Global Economic Turmoil, Catastrophic Loss and Insurance: Implications for Risk Management in the Post-Crisis World

American Institute of Marine Underwriters
Insurance Issues Seminar
New York, NY

Download at www.iii.org/presentations

Robert P. Hartwig, Ph.D., CPCU, President & Economist
Insurance Information Institute ♦ 110 William Street ♦ New York, NY 10038

Tel: 212.346.5520 ♦ Cell: 917.453.1885 ♦ bobh@iii.org ♦ www.iii.org
Presentation Outline

- Is the World Becoming a Riskier Place?
  - Recent Events and Implications for the Global P/C (Re)Insurance Industry
- The Global Financial Crisis, Risk and the New World Order
- Global Economic and Trade Outlook
- The Unfortunate Nexus: Opportunity, Risk & Instability
  - Future growth is necessarily fraught with greater risk
  - Types, magnitude of risk inherent in future growth opportunities
- Reshuffling the Global Economic Deck
  - The Ascendancy of China
  - Foreign Direct Investment (FDI) and insurance exposure/demand
- P/C Insurance Financial Overview & Outlook
- Q&A
What in the World Is Going On?

Is the World Becoming a Riskier Place?

Are We Really Crawling Out of the Abyss or Falling Into a New One?
Uncertainty, Risk and Fear Abound

- Resurgent Terrorism Risk (e.g., Bin Laden Killing)
- Record Tornado Activity & Flooding in the US
- Japan, New Zealand, Haiti, Chile Earthquakes
- Political Upheaval in the Middle East
- Echoes of the Financial Crisis
- Housing Crisis
- US Debt and Budget Crisis
- Sovereign Debt & 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
- Manmade Disasters (e.g., Deepwater Horizon)

Are “Black Swans” everywhere or does it just seem that way?
Mississippi River Floods: A Threat to Navigation

Memphis (May 5, 2011)—with the swollen Mississippi flooding fields in Arkansas across the river. The river is normally ½ mile across but is now 3 miles wide in places.

Mississippi River just south of Memphis (May 5, 2011). TN is to the right, AR to the left. The was expected to crest on May at 48 ft., 14 ft. above flood stage and near the record of 47.8 ft. set in 1937

Sources: Photos by Robert Hartwig, Insurance Information Institute, May 5, 2011.
Terrorism, Insurance and the Killing of Osama bin Laden

Is the World Less Risky and Do We Still Need the Terrorism Risk Insurance Program?
Bin Laden is Dead and Justice Is Served, But What Are the Implications for the P/C Insurance Industry?

Sources: Insurance Information Institute.
9/11 losses totaled $40.0 billion in 2010 dollars ($32.5 billion in 2001 dollars)

(1) Loss total does not include NYC March 2010 settlement of up to $657.5 million to compensate about 10,000 Ground Zero workers.
(2) Sum of segment totals may not equal overall total due to rounding. Adjusted to 2010 dollars using the Bureau of Labor Statistics (BLS) Inflation Calculator.

Sources: Insurance Information Institute research.
Thwarted and Failed Terrorism Attempts Against the US in 2009 and 2010

<table>
<thead>
<tr>
<th>Date</th>
<th>Location</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>December 8, 2010</td>
<td>Baltimore, MD</td>
<td>Attempted bombing of Armed Forces recruiting center by U.S. citizen Antonio Martinez, aka Muhammad Hussain</td>
</tr>
<tr>
<td>November 26, 2010</td>
<td>Portland, OR</td>
<td>Attempted bombing at Christmas tree lighting ceremony in downtown Portland by naturalized U.S. citizen Mohamed Osman Mohamud</td>
</tr>
<tr>
<td>October, 2010</td>
<td>Washington D.C.</td>
<td>Attempted plot to bomb D.C.-area metro stations</td>
</tr>
<tr>
<td>May 1, 2010</td>
<td>New York City, NY</td>
<td>Attempted SUV bombing in Times Square, New York City, by naturalized U.S. citizen Faisal Shahzad</td>
</tr>
<tr>
<td>December 25, 2009</td>
<td>Over Detroit, MI</td>
<td>Attempted bombing of Northwest Airlines passenger jet over Detroit by underwear bomber Umar Farouk Abdulmutallab</td>
</tr>
<tr>
<td>September, 2009</td>
<td>New York City, NY</td>
<td>U.S. resident Najibullah Zazi and others charged with conspiracy to use weapons of mass destruction in New York City</td>
</tr>
<tr>
<td>September, 2009</td>
<td>Springfield, IL</td>
<td>Attempted plot to detonate a vehicle bomb at the federal building in Springfield, IL</td>
</tr>
<tr>
<td>September, 2009</td>
<td>Dallas, TX</td>
<td>Attempted bombing of skyscraper in Dallas, TX</td>
</tr>
<tr>
<td>May, 2009</td>
<td>New York City, NY</td>
<td>Foiled plot to bomb Jewish synagogue and shoot down military planes in New York City</td>
</tr>
<tr>
<td>May, 2009</td>
<td>Various U.S. targets</td>
<td>Conviction of Liberty City six for conspiring to plan attacks on U.S. targets, including Sears Tower, Chicago</td>
</tr>
</tbody>
</table>

There Have Been Numerous Unsuccessful Attempts by Terrorists to Attack the US Over the Past 2 Years

The March 11 Quake & Other Major CATs Are Big Events, But Will They, Can They Impact US P/C Markets?
March 11 Earthquake Facts as of 4/21/2011

- Magnitude 9.0 earthquake struck Japan at 2:46PM local time (2:46AM Eastern) off northeast coast of Honshu, 80 miles east 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.
- 12,000+ fatalities.
- Economic loss: $100 - $300 bn.
- Insured losses up to $45 bn.
- Fukushima Nuclear Plant threat level raised to Category 7 on April 11 (highest, same as Chernobyl).
- 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.

Source: US Geological Service; Insurance Information Institute.
*As of April 21, 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 Catastrophe Losses

(Insured Losses, $US Billions)

The March 2011 earthquake in Japan will become among the most expensive in world history in terms of insured losses (current leader is the 1994 Northridge earthquake with $22.5B in insured losses in 2010 dollars)

Insured Losses from Recent Major Catastrophe Events Exceed $55 Billion, an Estimated $53 Billion of that from Earthquakes

Sources: Insurance Council of Australia, Munich Re, AIR Worldwide; Insurance Information Institute.
Reinsurers’ share of major market losses was exceptionally high in 2010 and early 2011.

Source: Holborn; RAA.

* 2011 events are as of March 31 and are preliminary and may change as loss estimates are refined further.
Change in Reinsurer Capital, 2007-2010:Q3

Change in Reinsurer Capital

- 2007: $411B
- 2008: $342B (-17%)
- 2009: $402B (18%)
- Q3 2010: $470B (17%)

Source: Aon Benfield Analytics
Potential Impacts of Japan Quake & Other Major CATs on P/C (Re)Insurance Markets

Impacts Could Be Felt Well Beyond Japan
Nonlife (P/C) Insurance Market Impacts of Japan Earthquake

- Little/No Direct Impact for US Primary Insurance Markets
- 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
  - Not a capital event for any non-Japanese primary insurer
- 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
- 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
- Reinsurance Coverage Remains Available in Affected Regions
- Marginal 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
Summary of April 2011 Tornado Outbreak

2011 Will Be Among the Most Deadly and Expensive for Tornadoes in History
Summary of Recent Tornado Activity

- There Have Been 1,042 Tornadoes Through May 6 in the US
- At least 361 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 $2B to $5B (Eqecat); $3.7B - $5.5B (AIR)
- Economic Losses Likely in the $4 Bill to $10 Bill Range
- P/C Insurers (and their Reinsurers) Will Settle Tens of Thousands of Home, Business and Auto Claims
- There is Damage to Inland Port Facilities
- P/C Insurance Industry is Very Strong and Will Encounter No Difficulties in Paying these Claims
**Number of Tornadoes and Related Deaths, 1990 – 2011**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Tornadoes</th>
<th>Number of Deaths</th>
</tr>
</thead>
<tbody>
<tr>
<td>90</td>
<td>1,133</td>
<td>0</td>
</tr>
<tr>
<td>91</td>
<td>1,132</td>
<td>0</td>
</tr>
<tr>
<td>92</td>
<td>1,297</td>
<td>0</td>
</tr>
<tr>
<td>93</td>
<td>1,173</td>
<td>0</td>
</tr>
<tr>
<td>94</td>
<td>1,082</td>
<td>0</td>
</tr>
<tr>
<td>95</td>
<td>1,234</td>
<td>0</td>
</tr>
<tr>
<td>96</td>
<td>1,173</td>
<td>0</td>
</tr>
<tr>
<td>97</td>
<td>1,148</td>
<td>0</td>
</tr>
<tr>
<td>98</td>
<td>1,424</td>
<td>0</td>
</tr>
<tr>
<td>99</td>
<td>1,345</td>
<td>0</td>
</tr>
<tr>
<td>00</td>
<td>1,071</td>
<td>0</td>
</tr>
<tr>
<td>01</td>
<td>1,216</td>
<td>0</td>
</tr>
<tr>
<td>02</td>
<td>941</td>
<td>0</td>
</tr>
<tr>
<td>03</td>
<td>1,376</td>
<td>361</td>
</tr>
<tr>
<td>04</td>
<td>1,819</td>
<td></td>
</tr>
<tr>
<td>05</td>
<td>1,264</td>
<td></td>
</tr>
<tr>
<td>06</td>
<td>1,103</td>
<td></td>
</tr>
<tr>
<td>07</td>
<td>1,098</td>
<td></td>
</tr>
<tr>
<td>08</td>
<td>1,156</td>
<td></td>
</tr>
<tr>
<td>09</td>
<td>1,282</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>1,042</td>
<td></td>
</tr>
<tr>
<td>11P</td>
<td>361</td>
<td></td>
</tr>
</tbody>
</table>

*Tornadoes have already claimed nearly 400 lives.*

Tornadoes have already claimed nearly 400 lives.

There were already 1,042 tornadoes in the US by May 6.

---

*2011 is preliminary data through May 6. 
U.S. Tornado Count, 2010

There were 1483 tornadoes in the US in 2010, slightly above average.

2011 is shaping to be a deadlier version of 2008

Source: NOAA
877 tornadoes had killed more than 400 people through late April, including at least 340 on April 26, the second deadliest tornado outbreak in US history.

There have been 7,136 severe wind reports through April 29; 5,280 of those (74%) were in April; There have also been 1,992 “Large Hail” reports.

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2011_annual_summary.html#
Global Catastrophe Losses Have Interrupted Trade Flows

Ships, Ports Damaged
Increased claims paying capacity will be required on a global scale if current trends continue (as is expected).
Geophysical events (earthquake, tsunami, volcanic activity)

Meteorological events (storm)

Hydrological events (flood, mass movement)

Climatological events (extreme temperature, drought, wildfire)

Selection of significant loss events (see table)

Insurance is a global business and claims paying ability is interconnected via reinsurance markets
The Global Financial Crisis, Risk and the New World Economic Order

The Crisis Made Insurers’ Path to Growth More Challenging/Risky
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
**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.

Sources: IMF, World Economic Outlook, Apr. 2011; Insurance Information Institute.
Global trade in flows recovered sharply following the financial crisis, with both imports and exports rising sharply.
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 into 2011.

*data are through Jan. 20, 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.
The US dollar has generally depreciated against other major currencies, as US monetary policy keeps yields on US assets artificially low.

*data are through Jan. 21, 2011

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.

Sources: Blue Chip Economic Indicators (4/2011 issue); Insurance Information Institute.
Growth in China and India remain high, though China is “tapping on the breaks” to slow inflation. These markets are promising but foreign firms must contend with many barriers to entry.

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.

Sources: Blue Chip Economic Indicators (4/2011 issue); Insurance Information Institute.
Growth in industrialized Asian economies will greatly outpace much of the rest of the world in 2011/12. This will accelerate the growth of insurance exposures in emerging markets relative to the U.S., W. Europe and Japan.

Sources: Blue Chip Economic Indicators (4/2011 issue); Insurance Information Institute.

Emerging economies (led by China) are expected to grow by 6.5% in 2011 and 2012. Role of FDI in exposure growth key.

World output is forecast to grow by 4.4% in 2011 and 4.5% in 2011, following growth of 3.0% in 2010 and a 0.6% drop in 2009.

Advanced economies are expected to grow at a relative modest 2.5% in both 2011 and 2012.

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.

Developing Economies
47.1%

Advanced Economies
52.9%


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.

Sources: NAIC; Insurance Information Institute research.
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

Average: 1980-2009
Industrialized Countries: 3.9%
Emerging Markets: 9.2%
Overall Total: 4.2%

Nonlife premium growth in emerging markets has exceeded that of industrialized countries in 26 of the past 30 years, including the entirety of the global financial crisis.

Real nonlife premium growth is very erratic in part to inflation volatility in emerging markets as well as a lack of consistent cyclicality.

Source: Swiss Re, sigma, No. 2/2010.
Latin and South American markets performed relatively well during the global financial crisis in terms of growth. There was also growth in East and South Asia and well as Australia and New Zealand.

Source: Swiss Re, sigma, No. 2/2010.
Political Risk in 2010: Greatest Business Opportunities Are Often in Risky Nations

Source: Maplecroft

The fastest growing markets are generally also among the politically riskiest.

Heightened risk has insurance implications.

Source: Maplecroft
Reshuffling the Global Economic Deck Through *Foreign Direct Investment*

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

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.

FDI collapsed during the financial crisis, plunging $1.23 trillion or 52.3%.

FDI dropped by 59.6% following the tech bubble bursting in 2000.

*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.

Following the Money Trail: Foreign Direct Investment

Cuban communism: beginning of the end?
US employment goes from bad to worse
Dr Evil, the commodity speculator
Ireland under siege
Keith Richards, management guru

Buying up the world
The coming wave of Chinese takeovers

Global shoppers
Stock of outward foreign direct investment
% of world total

Sources: UNCTAD; "Multinational Enterprises and the Global Economy" by J.H. Dunning
*Including Hong Kong and Macau

Source: The Economist, Nov. 13-19, 2010
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.

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.


*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.

P/C Insurance Industry
Financial Overview

Profit Recovery Continues
Early Stage Growth Begins
P/C Net Income After Taxes
1991–2010 ($ Millions)

- $14,178
- $5,840
- $19,316
- $20,598
- $24,404
- $30,773
- $36,819
- $30,773
- $21,865
- $3,046
- $30,029
- $62,496
- $3,043
- $34,670
- $28,672
- $20,559
- $38,501
- $10,000
- $0
- $10,000
- $20,000
- $30,000
- $40,000
- $50,000
- $60,000
- $70,000
- $80,000

- $6,970

2005 ROE* = 9.6%
2006 ROE = 12.7%
2007 ROE = 10.9%
2008 ROE = 0.3%
2009 ROAS¹ = 5.9%
2010 ROAS = 6.5%

P-C Industry 2010 profits were $34.7B vs. $28.7B in 2009, due mainly to $5.7B in realized capital gains vs. -$7.9B in previous realized capital losses

* ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 7.5% ROAS for 2010 and 7.4% for 2009.

Sources: A.M. Best, ISO, Insurance Information Institute
P/C Profitability Exhibits Both Cyclicality and Ordinary Volatility

Sources: ISO, Fortune;
A 100 Combined Ratio Isn’t What It Once Was: Investment Impact on ROEs

Combined Ratio / ROE

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

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

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

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

Winds of Change or Moving Sideways?
Soft Market Persisted in 2010 but Growth Returned: More in 2011?

Net Written Premiums Fell 0.7% in 2007 (First Decline Since 1943) by 2.0% in 2008, and 4.2% in 2009, the First 3-Year Decline Since 1930-33.

NWP was up 0.9% in 2010 with forecast growth of 1.4% in 2011

Shaded areas denote “hard market” periods
Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute.
Finally! Back-to-back quarters of net written premium growth (vs. the same quarter, prior year)

Sources: ISO, Insurance Information Institute.
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.

Sources: A.M. Best; Insurance Information Institute.
Cyclicality is Driven Primarily by the Industry’s Underwriting Cycle, Not the Economy
As Recently as 2001, Insurers Paid Out Nearly $1.16 for Every $1 in Earned Premiums

Heavy Use of Reinsurance Lowered Net Losses

Relatively Low CAT Losses, Reserve Releases

Relatively Low CAT Losses, Reserve Releases

Cyclical Deterioration

Best Combined Ratio Since 1949 (87.6)

Avg. CAT Losses, More Reserve Releases


Sources: A.M. Best, ISO.
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.
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.
INVESTMENTS: THE NEW REALITY

Investment Performance is a Key Driver of Profitability

Does It Influence Underwriting or Cyclicalility?
Investment gains in 2010 were the best since 2007

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

1 Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.

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

Sources: ISO; Insurance Information Institute.
Financial Strength & Underwriting

Cyclical Pattern is P-C Impairment
History is Directly Tied to Underwriting, Reserving & Pricing
The Number of Impairments Varies Significantly Over the P/C Insurance Cycle, With Peaks Occurring Well into Hard Markets


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

Excess Capital is a Major Obstacle to a Market Turn; Capital Management Decisions Will Impact Market Direction
Policyholder Surplus, 2006:Q4–2010:Q4


($ Billions)

2007:Q3 Previous Surplus Peak

Surplus set a new record in 2010:Q4*

The Industry now has $1 of surplus for every $0.76 of NPW—the strongest claims-paying status in its history.

Quarterly Surplus Changes Since 2007:Q3 Peak

09:Q1: -$84.7B (-16.2%)  10:Q1: +$18.9B (+3.6%)
09:Q2: -$58.8B (-11.2%)  10:Q2: +$8.7B (+1.7%)
09:Q3: -$31.0B (-5.9%)  10:Q3: +$23.0B (+4.4%)
09:Q4: -$10.3B (-2.0%)  10:Q4: +$35.1B (+6.7%)

*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.
Insurance Information Institute Online:

www.iii.org

Thank you for your time and your attention!

Twitter: twitter.com/bob_hartwig

Download at www.iii.org/presentations