



Overview of the Economy and P/C Insurance: Globally and in Canada

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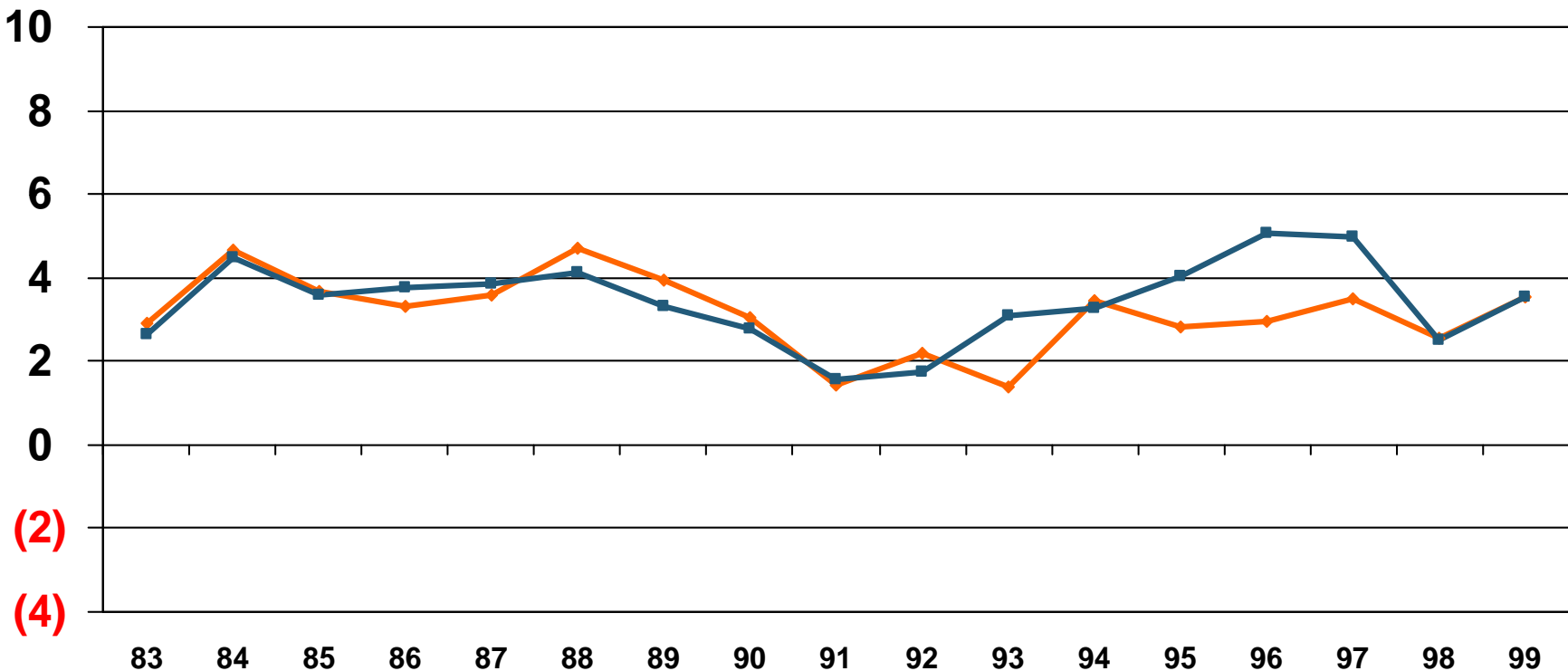
The Global Economic Outlook

**A Two-Speed Recovery:
Emerging Economies in Second or Third
Gear, Advanced Economies in First**

World GDP Growth, Advanced vs. Emerging Economies, 1983-1999

GDP
Growth
(%)

— Advanced economies — Emerging and developing economies

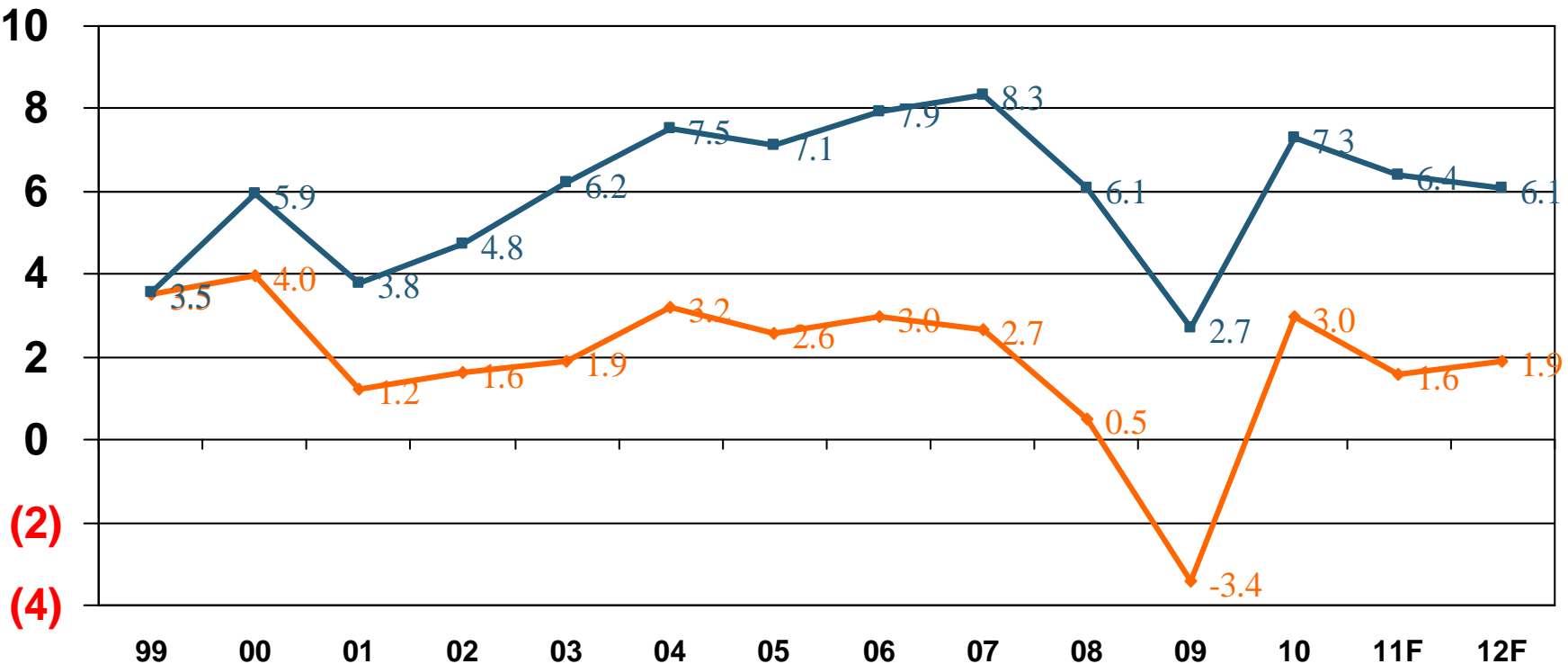


During the 1980s and 1990s, emerging/developing economies grew at roughly the same rate as advanced/developed economies.

World GDP Growth, Advanced vs. Emerging Economies, 1999-2012F

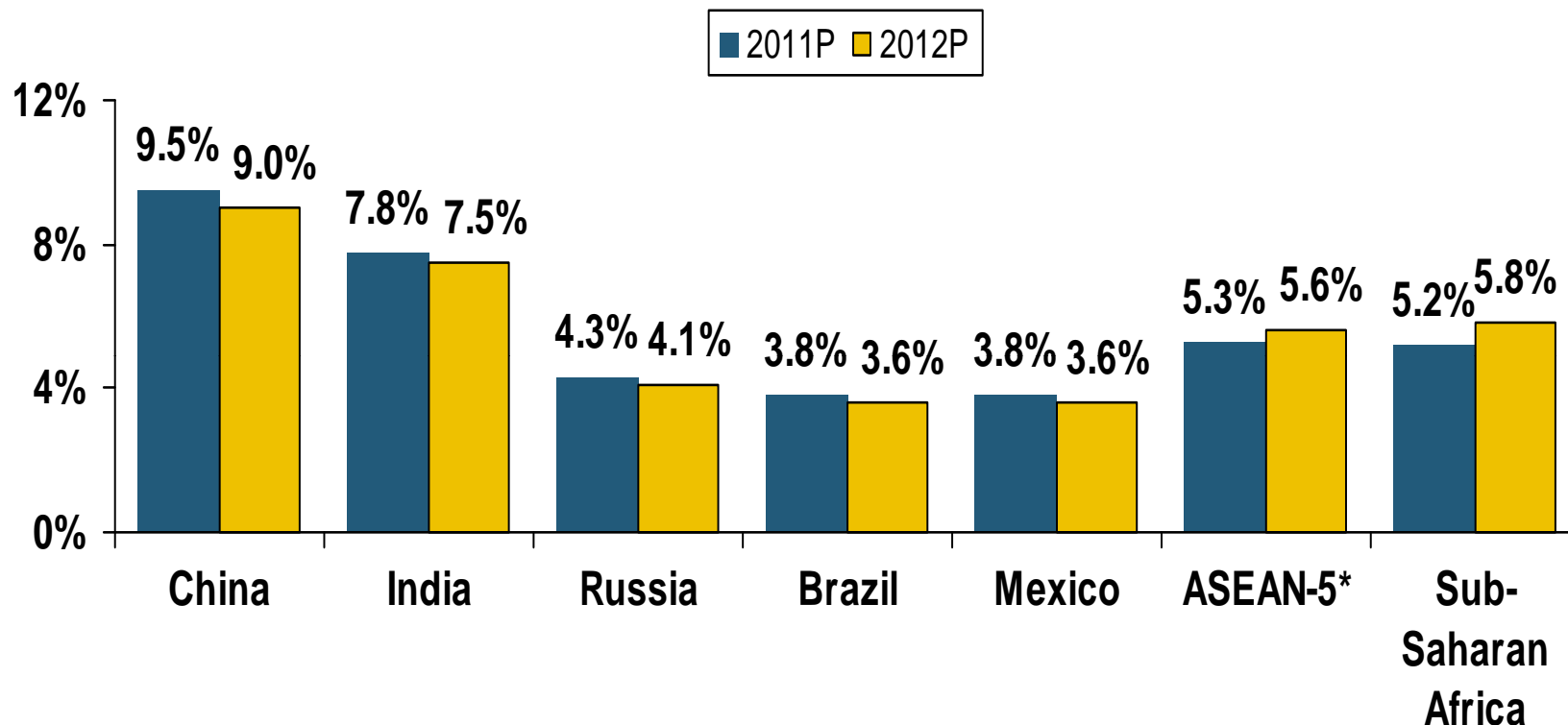
GDP
Growth
(%)

— Advanced economies — Emerging and developing economies



Since 1999, emerging/developing economies have grown roughly two-to-three times as fast as advanced/developed economies.

Forecasts of 2011 & 2012 GDP of Developing Economies

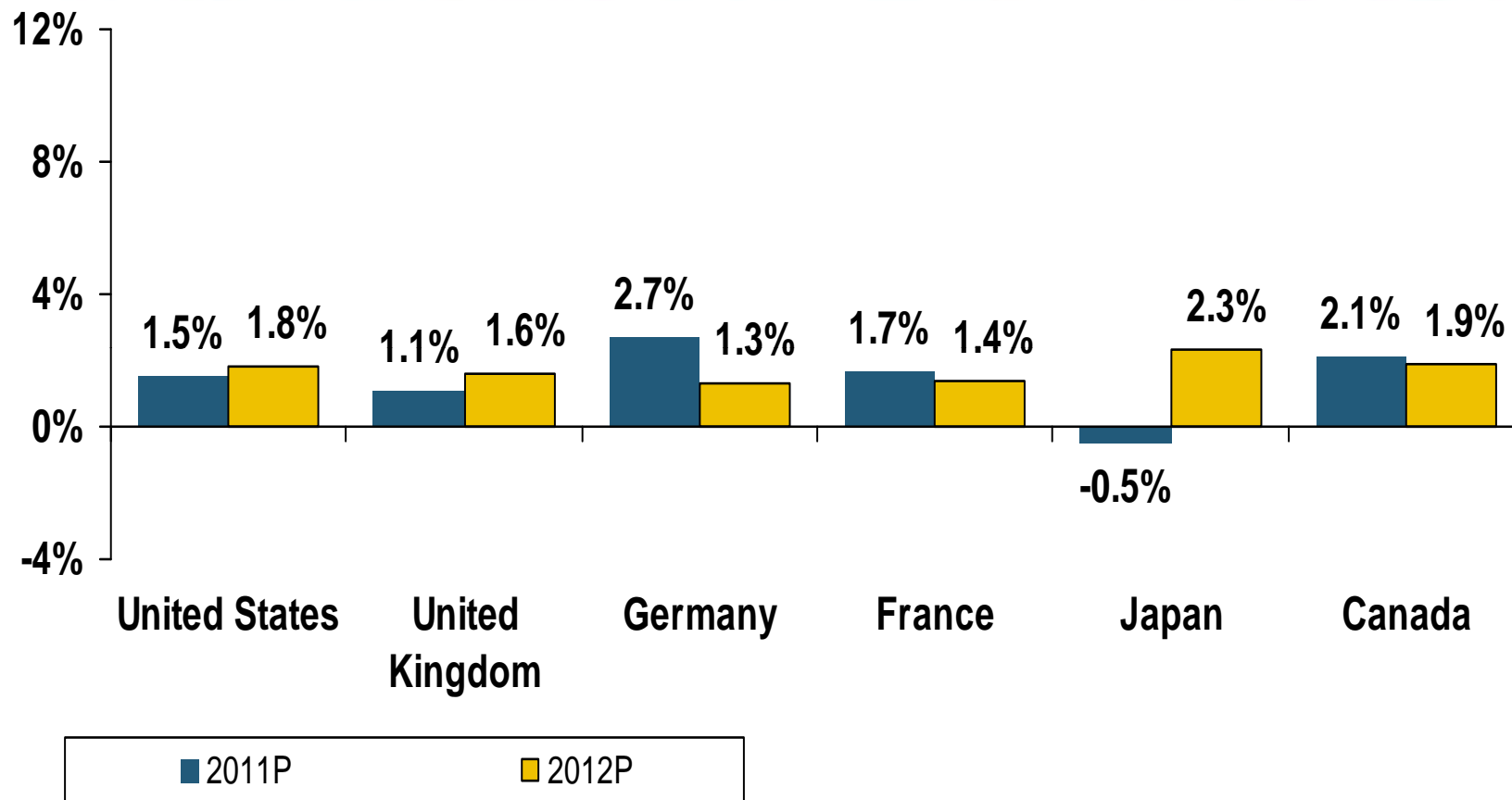


IMF says growth in emerging and developing economies will outpace advanced ones in 2011. This will accelerate the growth of insurance exposures in emerging markets relative to the U.S., W. Europe and Japan.

* Indonesia, Malaysia, Philippines, Thailand, and Vietnam

Sources: IMF, World Economic Outlook, September 2011; Insurance Information Institute.

Forecasts of 2011 & 2012 GDP of Advanced Economies



The September 2011 IMF forecasts for growth in advanced economies in 2011 is generally around 1.5% to 2%. The outcome could be worse if developments involving sovereign debt (the PIGS or other countries) are worse than expected.

Insurance “Penetration” and “Density”

**Beyond Exposure Growth,
Insurers Need
Increased Use of Insurance**

Definitions: Measures of Insurance Usage

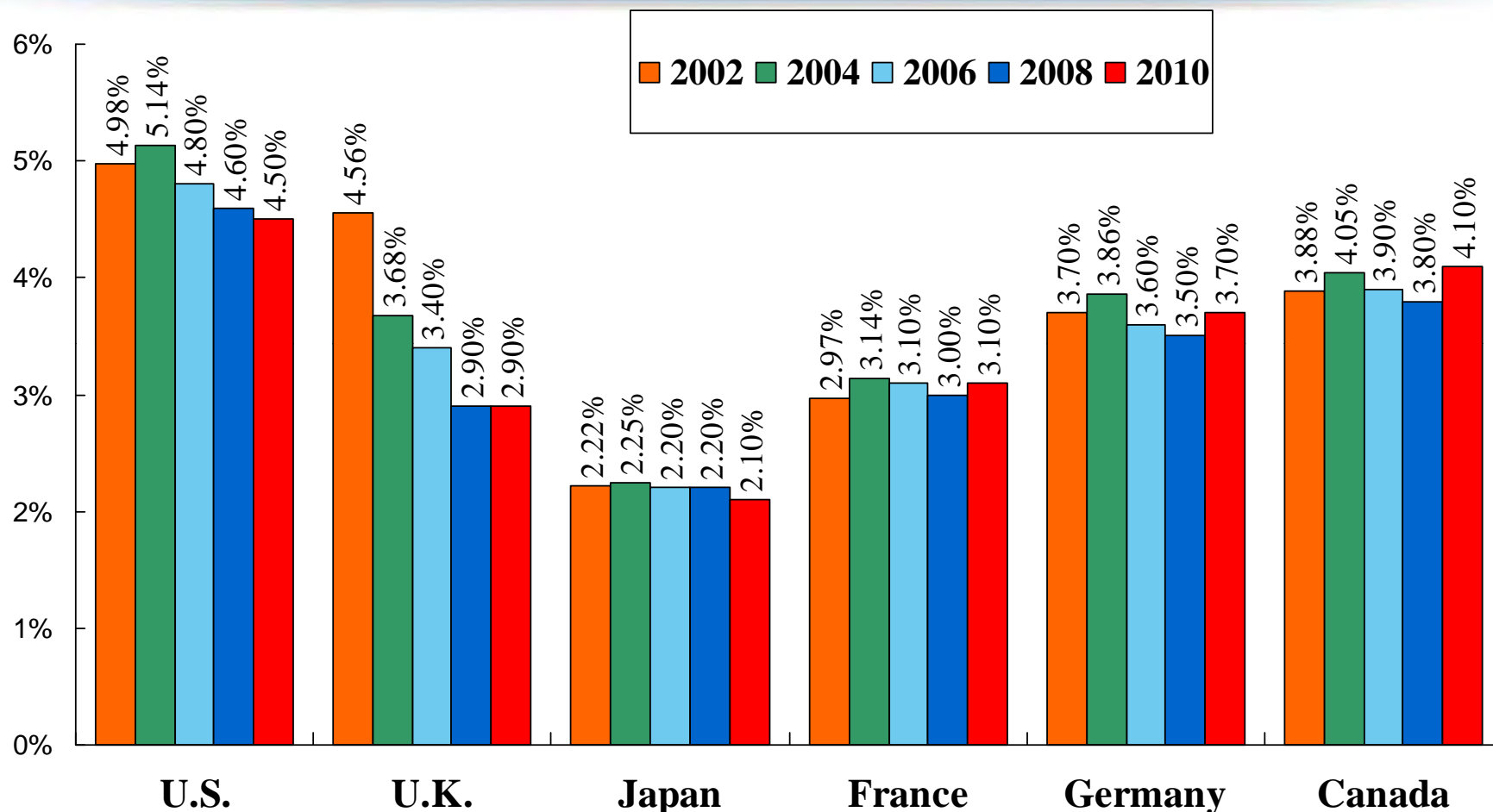
■ “Penetration”

- ◆ The ratio of premium to GDP
- ◆ Indicates the degree to which premium growth kept up with exposure growth (as proxied by GDP)

■ “Density”

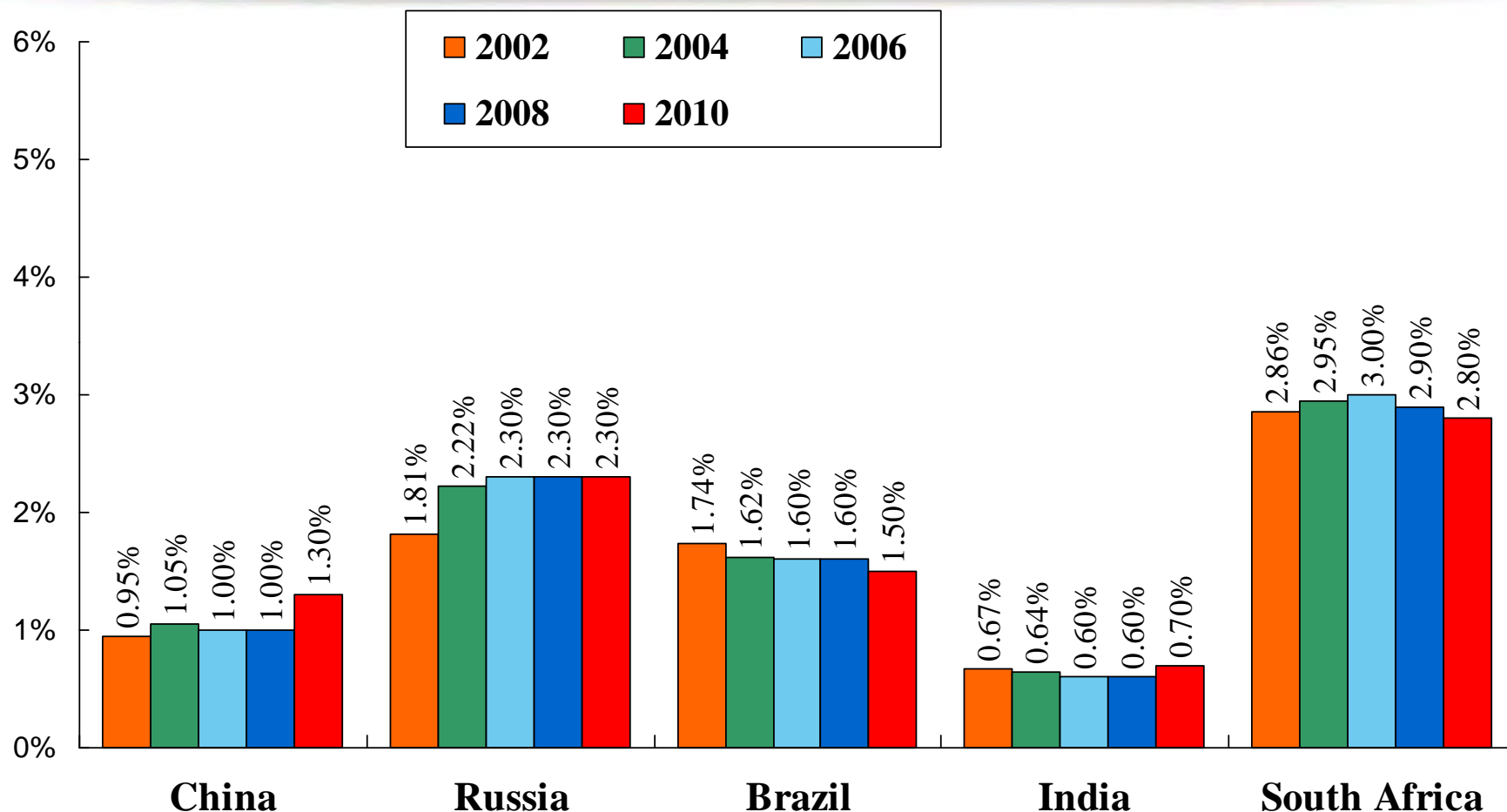
- ◆ The ratio of premium to total population
- ◆ Indicates the breadth of use of insurance

Non-life Premium/GDP* (Penetration) for Advanced Economies, 2002-2010



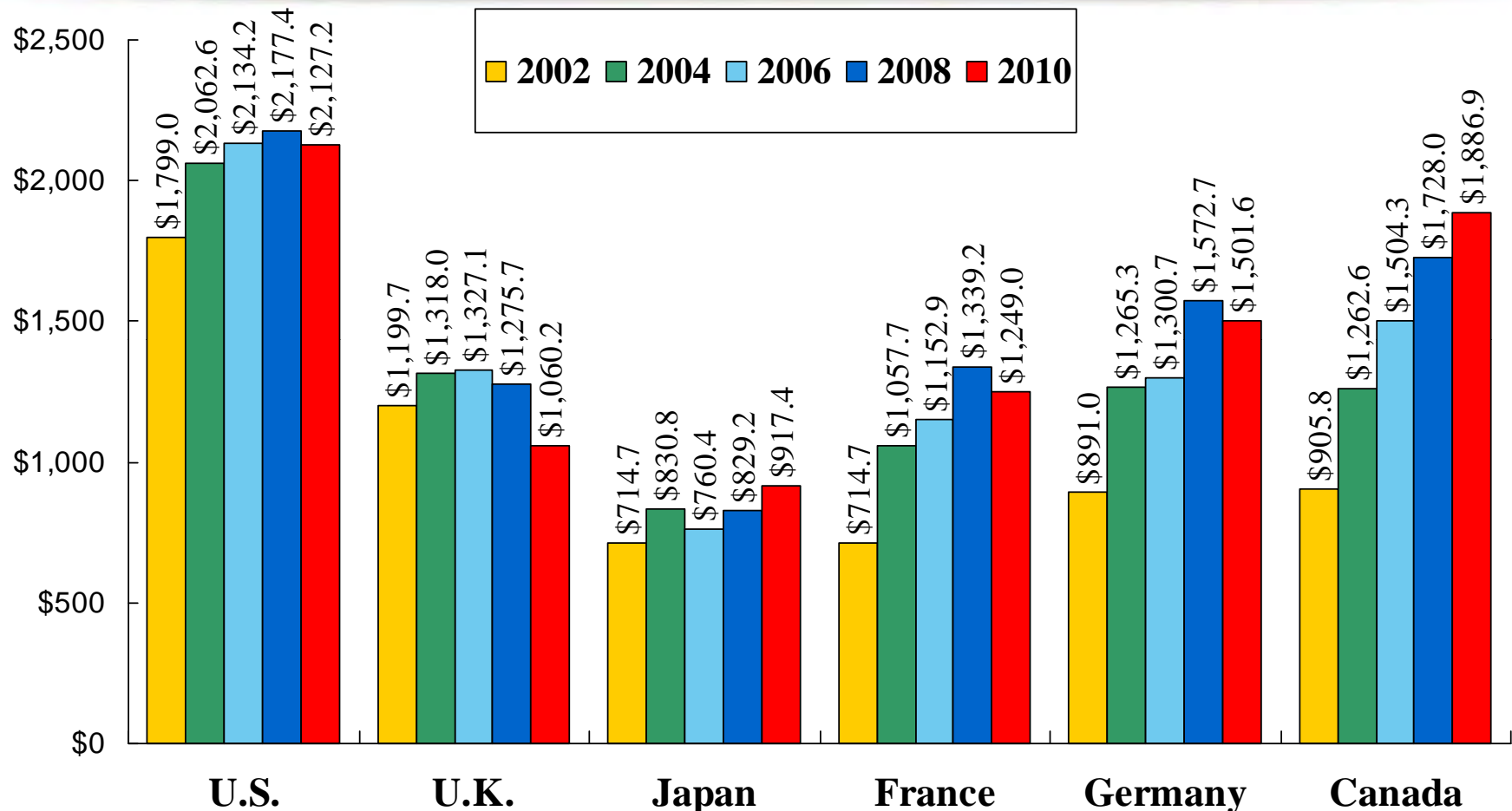
A flat pattern indicates that premiums are changing to the same extent as exposures (as proxied by GDP). A downward trend means premium volume isn't keeping up with economic growth.

Non-life Premium/GDP* (Penetration) for Emerging Economies, 2002-2010



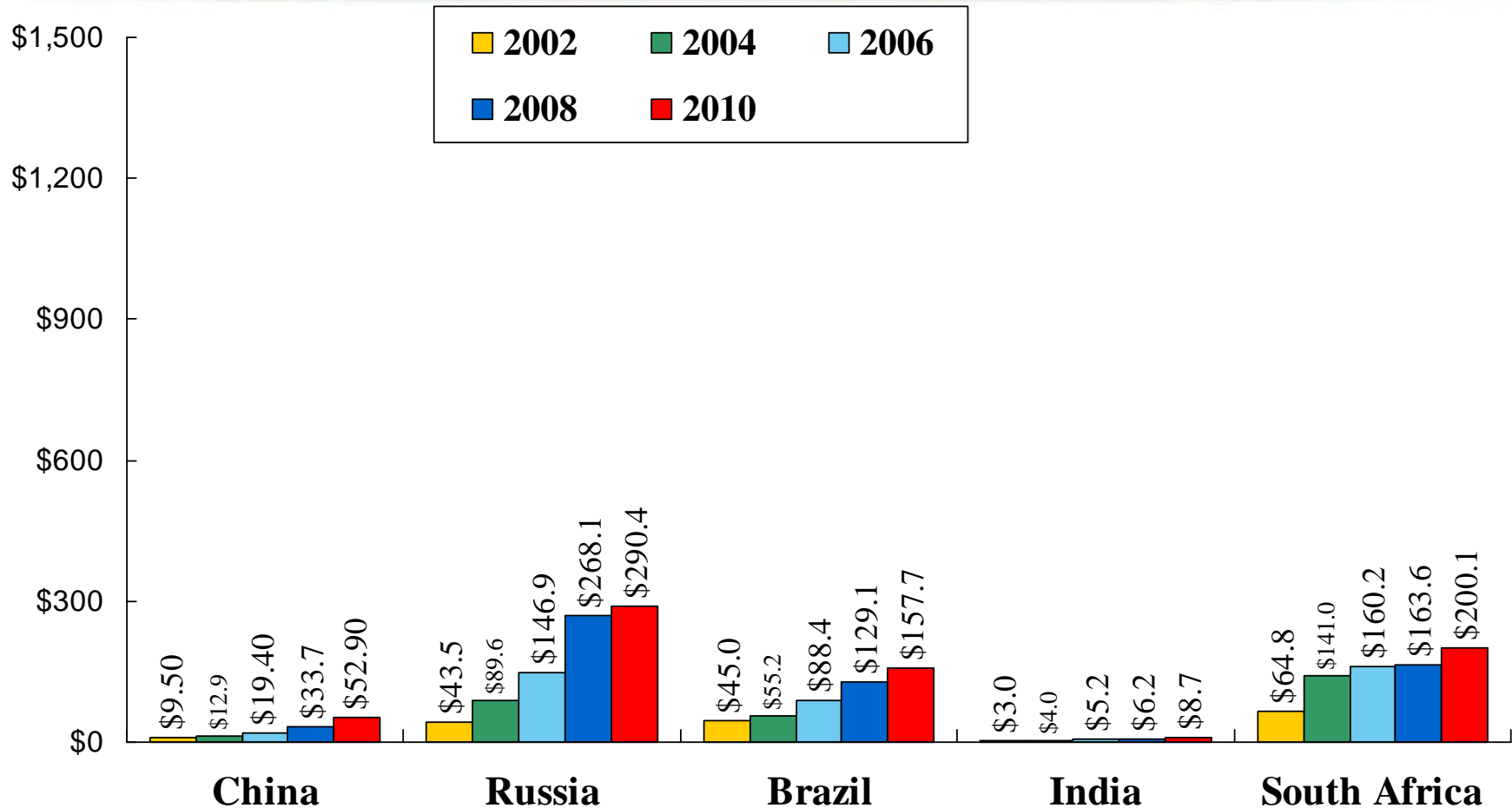
From 2001-2009, Penetration in China and Russia grew steadily—an especially strong showing in light of the rapid growth in GDP (denominator in the Penetration ratio). Similarly, although the Penetration ratios in Brazil and India were essentially flat, that means premium growth basically kept pace with exposure growth.

Non-life Premium* per capita (Density) for Advanced Economies, 2002-2010



From 2002-2010, Insurance Density grew in most advanced economies, retreating only slightly during the global recession. In Canada, premium density doubled from 2002-2010.

Non-life Premium* per capita (Density) for Emerging Economies, 2002-2010

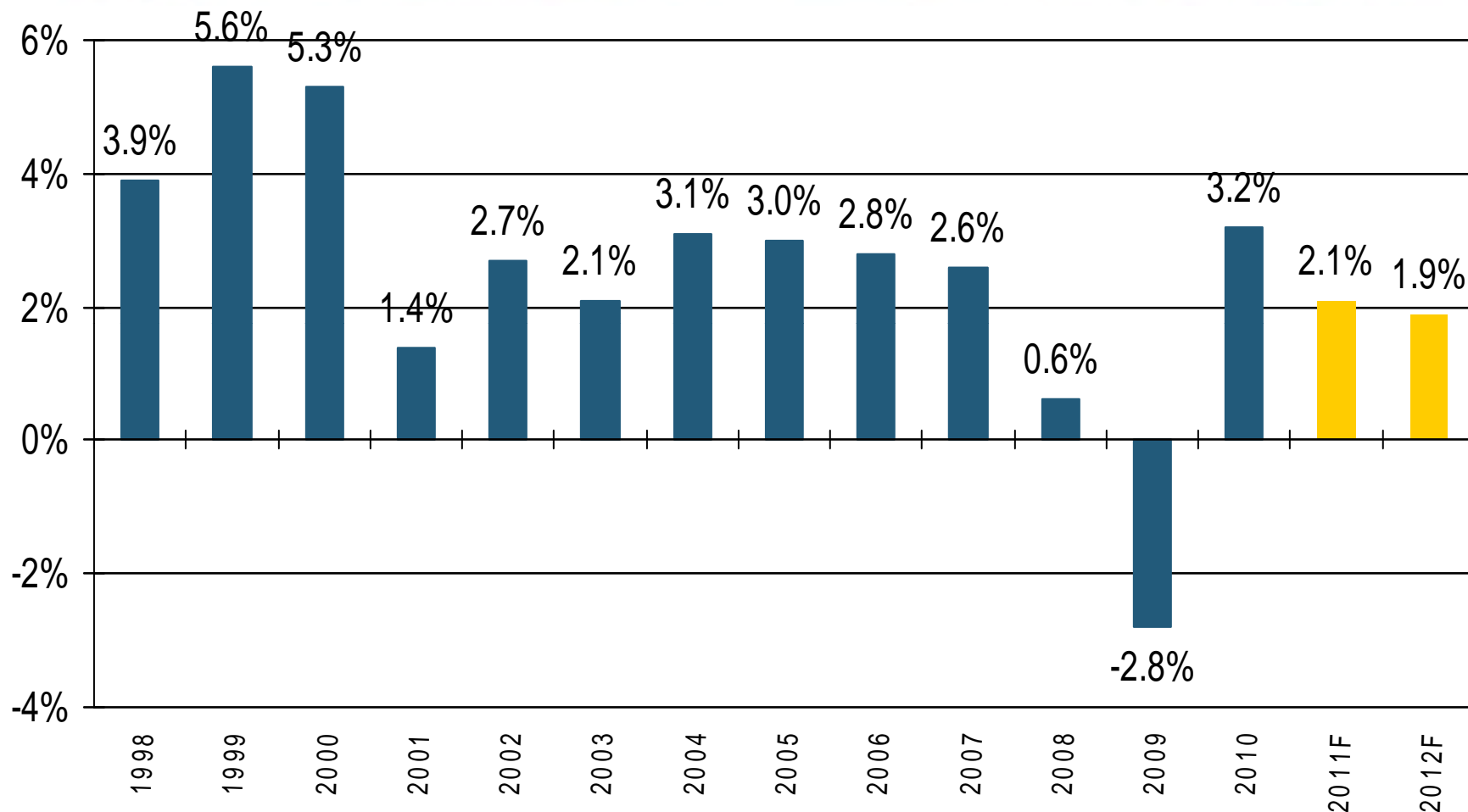


From 2002-2010, Insurance Density in India tripled, and in China it grew 5-fold. But the most spectacular Density growth in these years belongs to Russia: in 2010 Insurance Density in Russia was 7 times what it was in 2002!

The Canadian Economy

Compared to Other Advanced Economies, Steady as She Goes

Real GDP Growth in Canada, Yearly, 1998-2012F



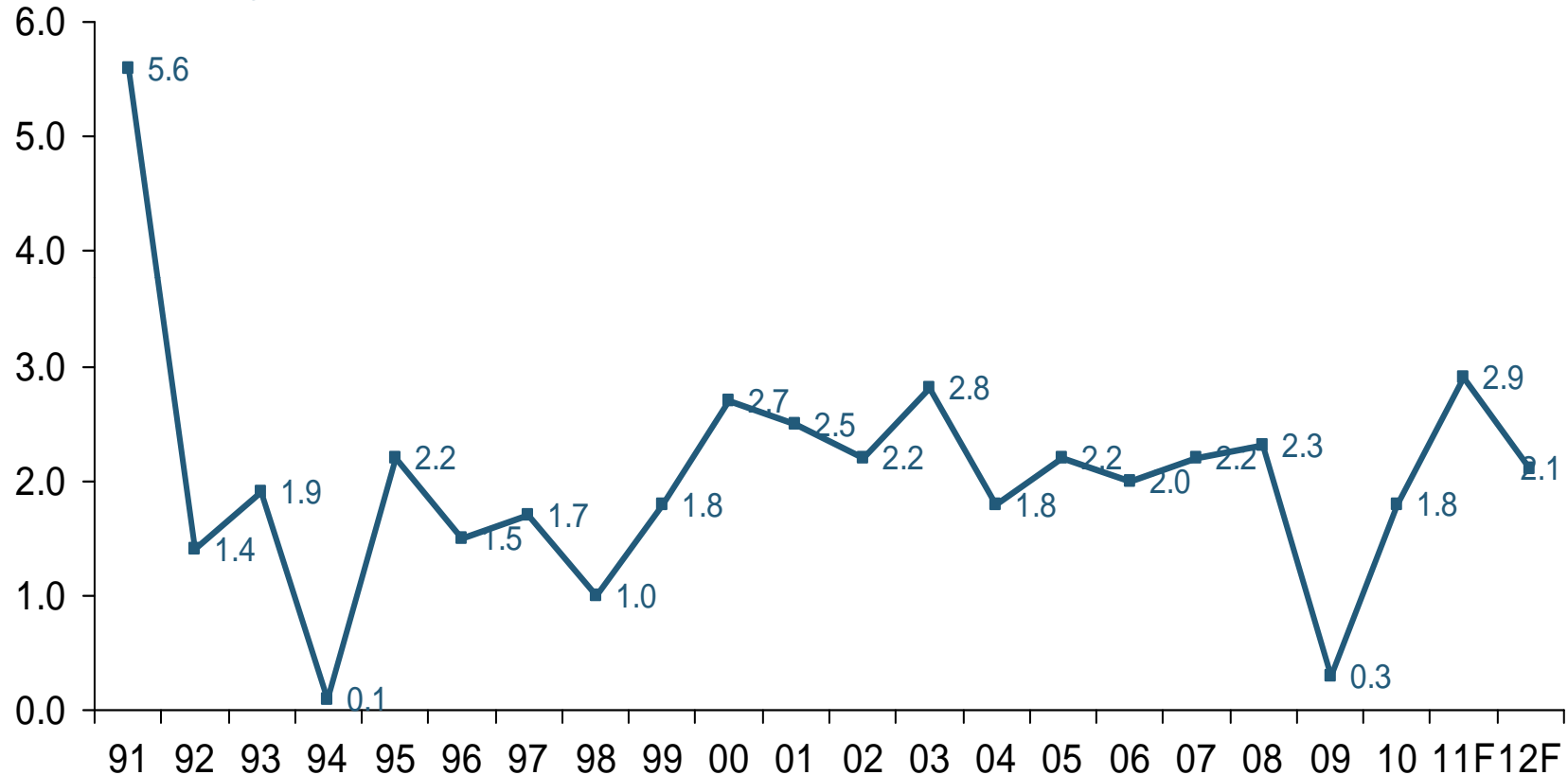
Canada's recession was as deep as in the U.S. and many other advanced economies but is recovering faster

Forecasts from IMF World Economic Outlook, September 2010.

Sources: <http://www.statcan.gc.ca/pub/11-402-x/2010000/chap/econo/tbl/tbl04-eng.htm> ; IMF; I.I.I. calculations

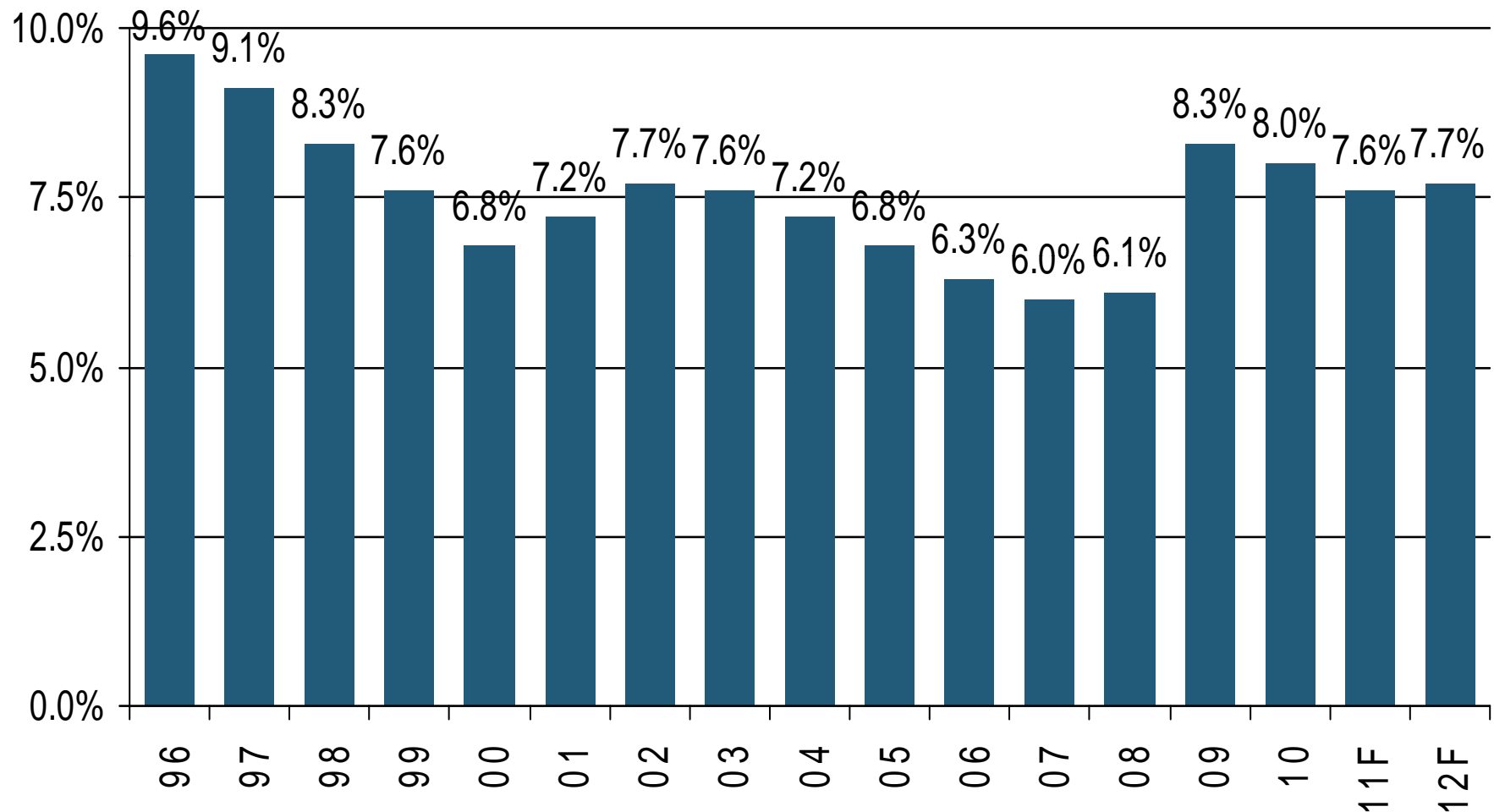
Annual Inflation Rates in Canada, 1991–2010

% change in prices
from previous year



The overall (or “headline”) CPI has been below 3% for two decades.

Unemployment Rate, Canada, 1996-2010

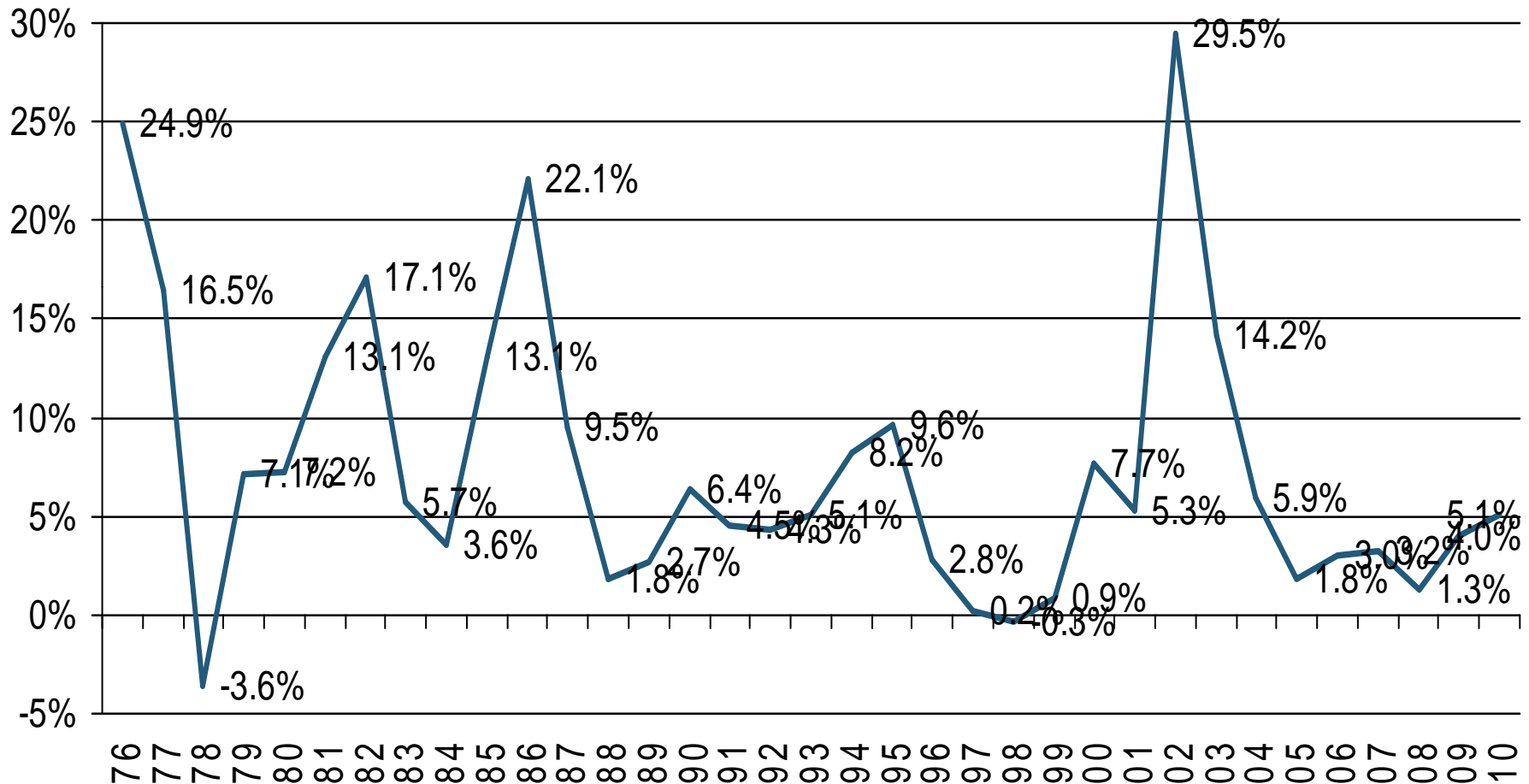


Source: <http://data.worldbank.org/indicator/SL.UEM.TOTL.ZS/countries?page=3>

The Canadian P/C Insurance Industry

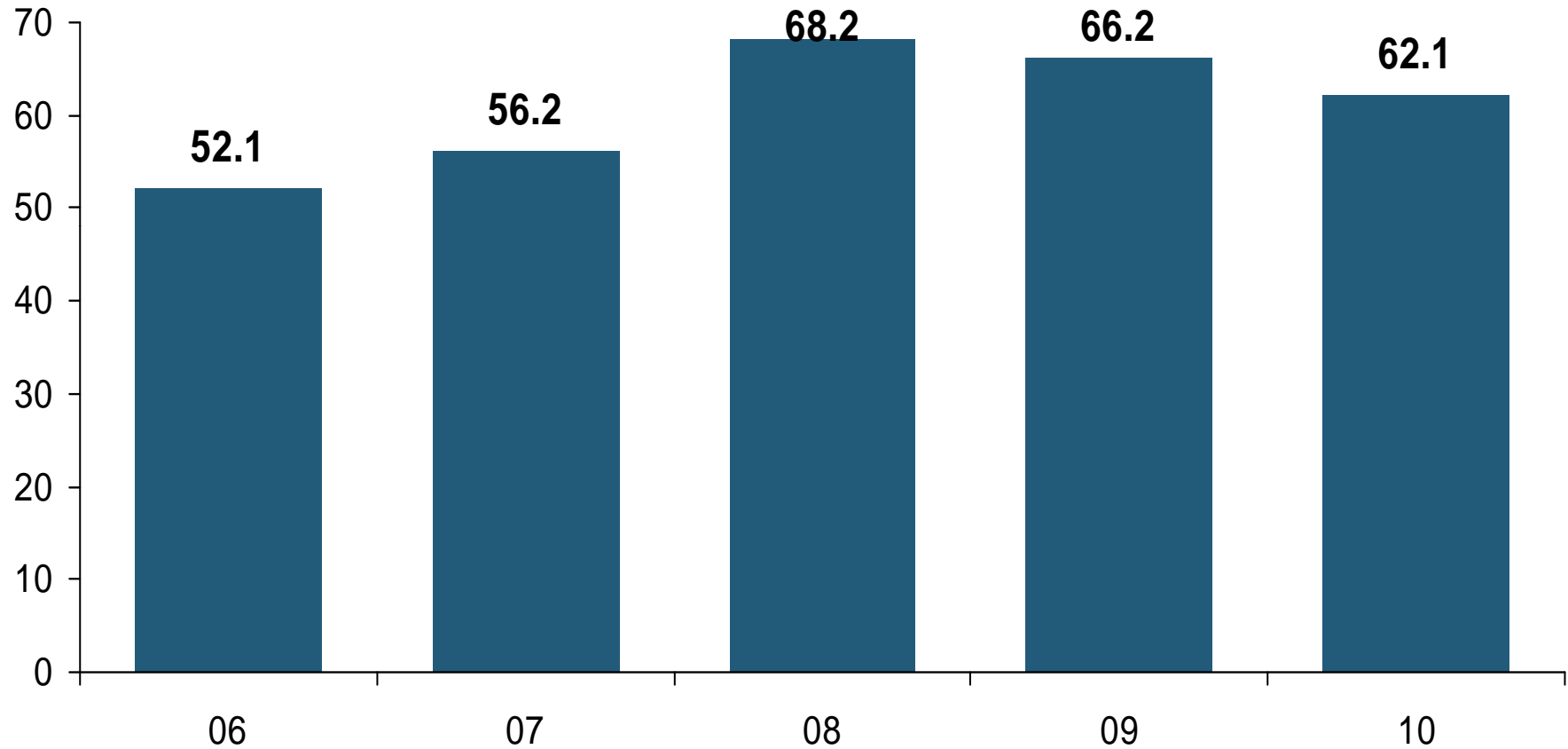
**Generally, Healthier
than the U.S. P/C Industry**

Annual % Change in NPW, Canada, 1976-2010



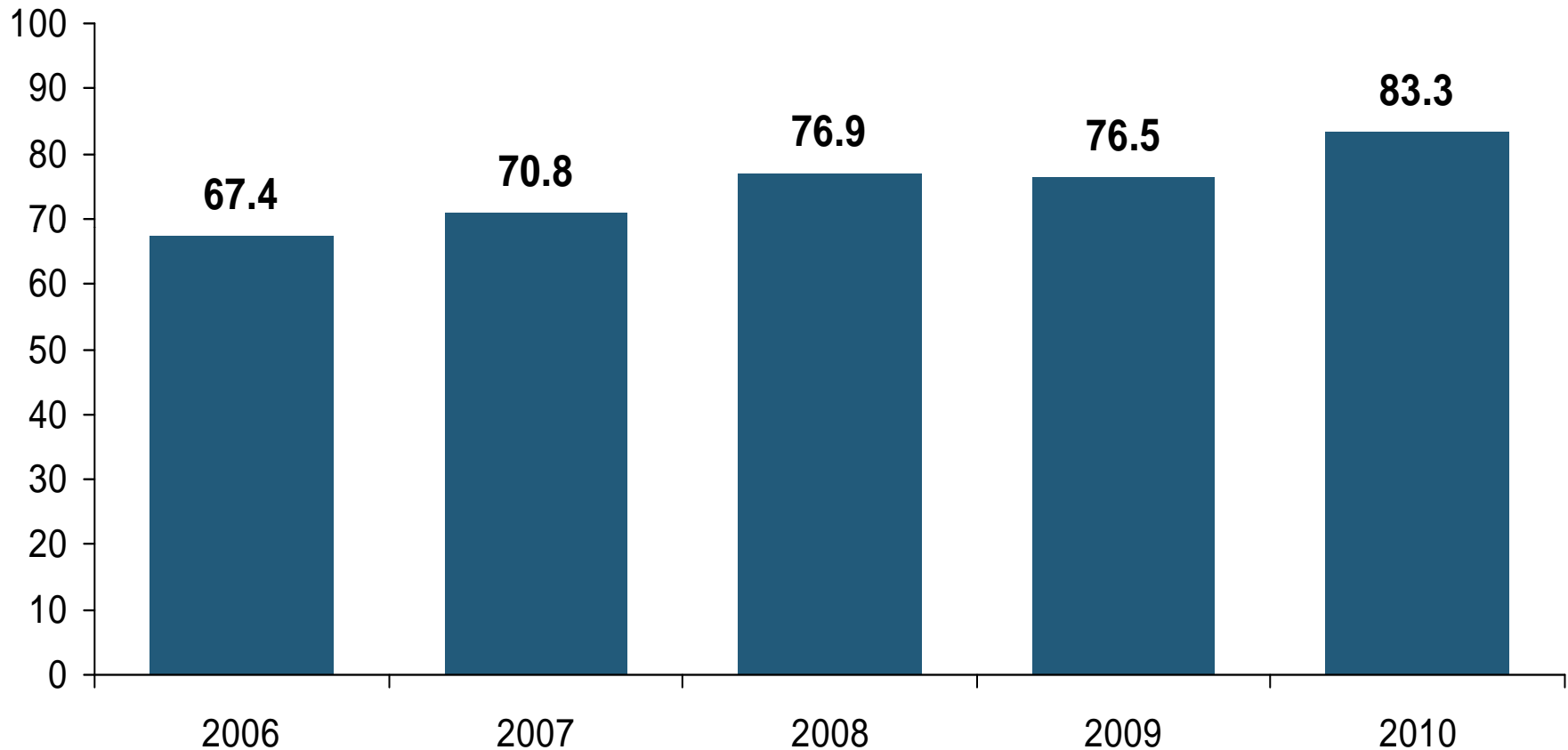
Sources: Insurance Bureau of Canada.

Commercial Property Insurance Loss Ratio, Canadian P/C Insurers, 2006-2010



Note: Excludes Lloyd's CAB and ICBC.
Source: A.M. Best Co.

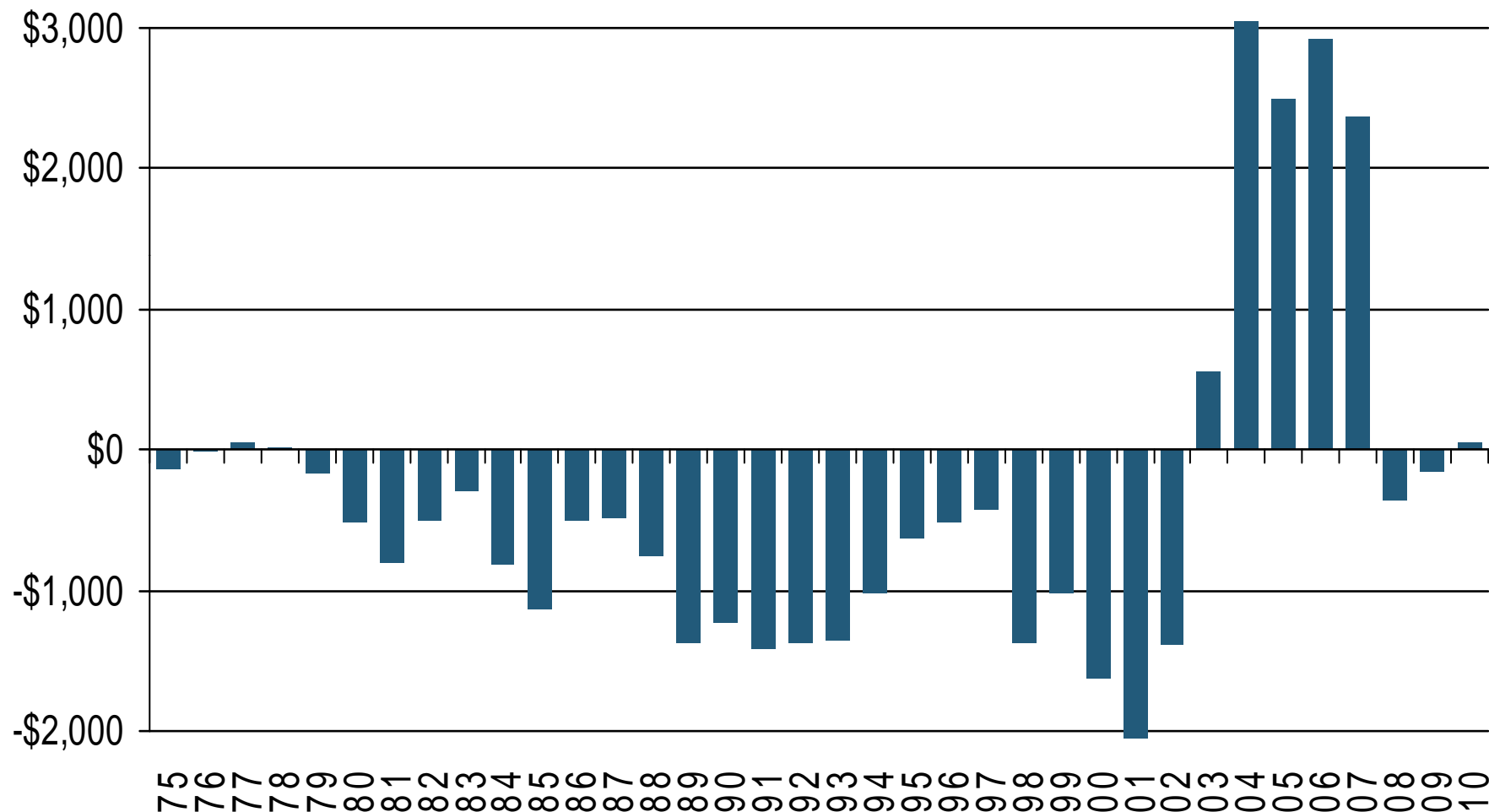
Private Auto Insurers Net Loss Ratio, Canadian P/C Insurers, 2006-2010



Note: Excludes Lloyd's CAB and ICBC.
Source: A.M. Best Co.

Underwriting Income, Canadian P/C Insurers, 1975-2010

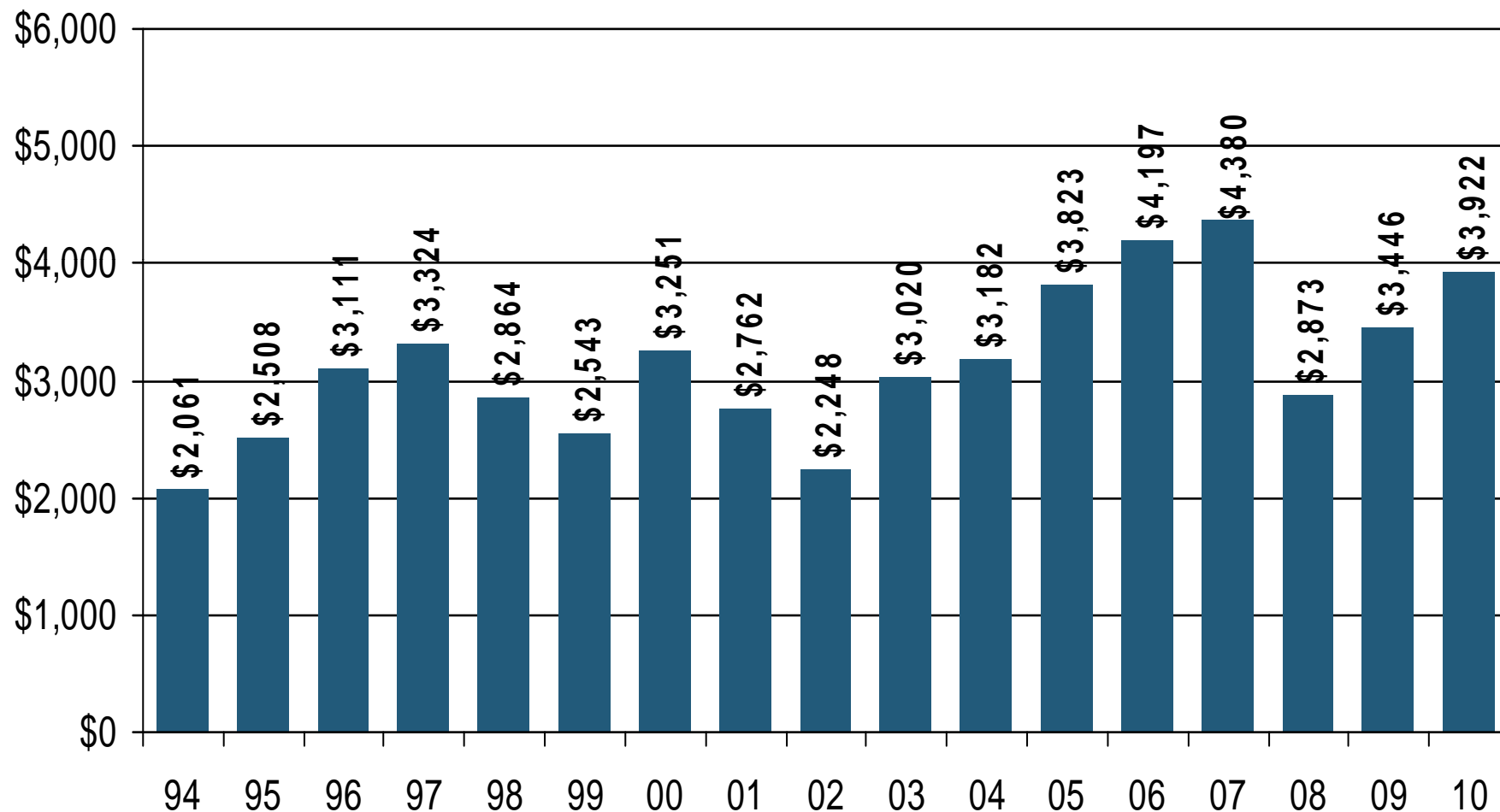
(\$ Millions)



Note: The years 2005 – 2010 is the Net Income GAAP only numbers. All amounts are in Canadian dollars.
Sources: Insurance Bureau of Canada.

Investment Income, Canadian P/C Insurers, 1991-2010

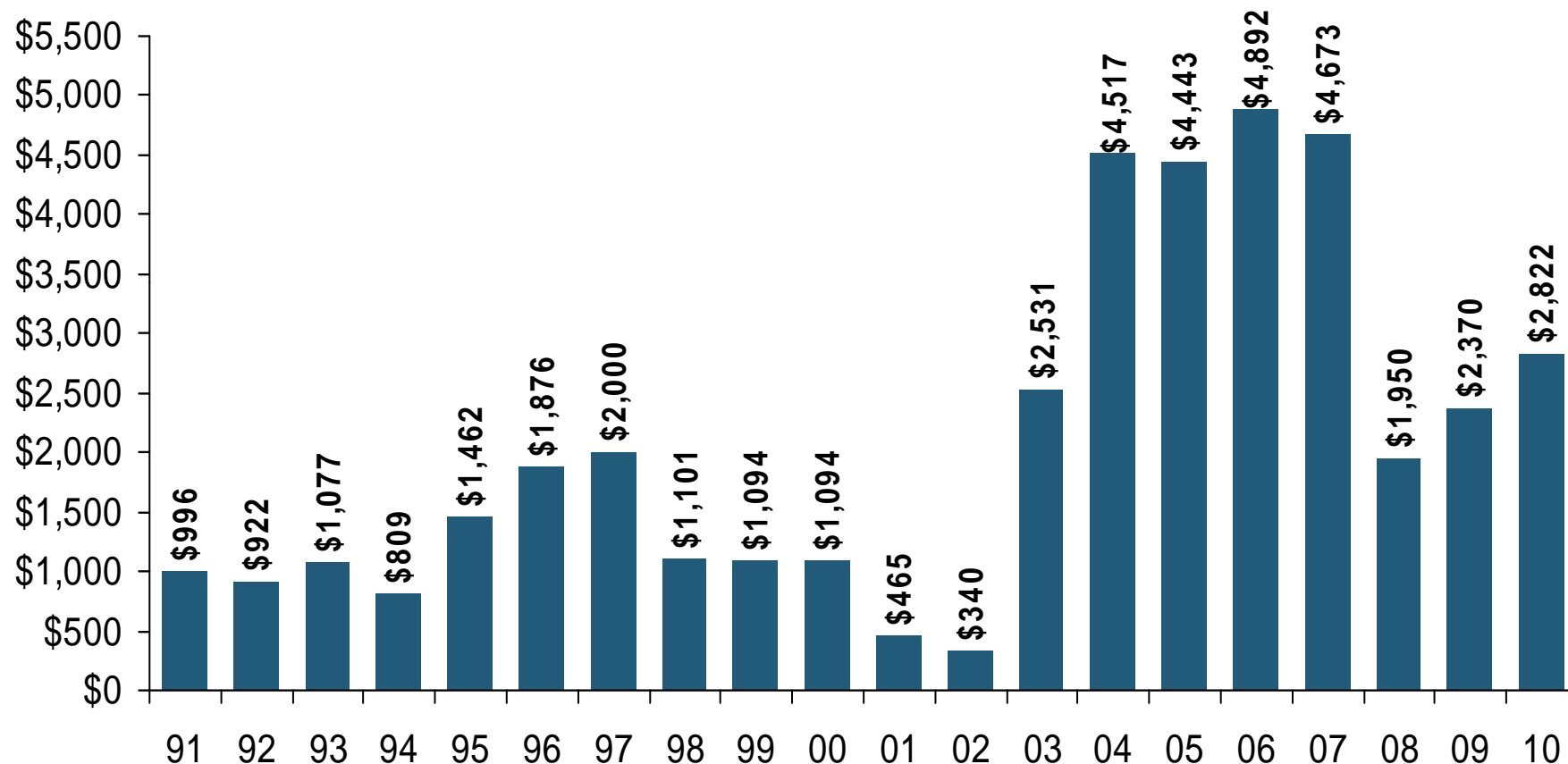
(\$ Millions)



Note: The years 2005 – 2010 is the Net Income GAAP only numbers. All amounts are in Canadian dollars.
Sources: Insurance Bureau of Canada.

P/C Industry Net Income, Canada, 1991-2010

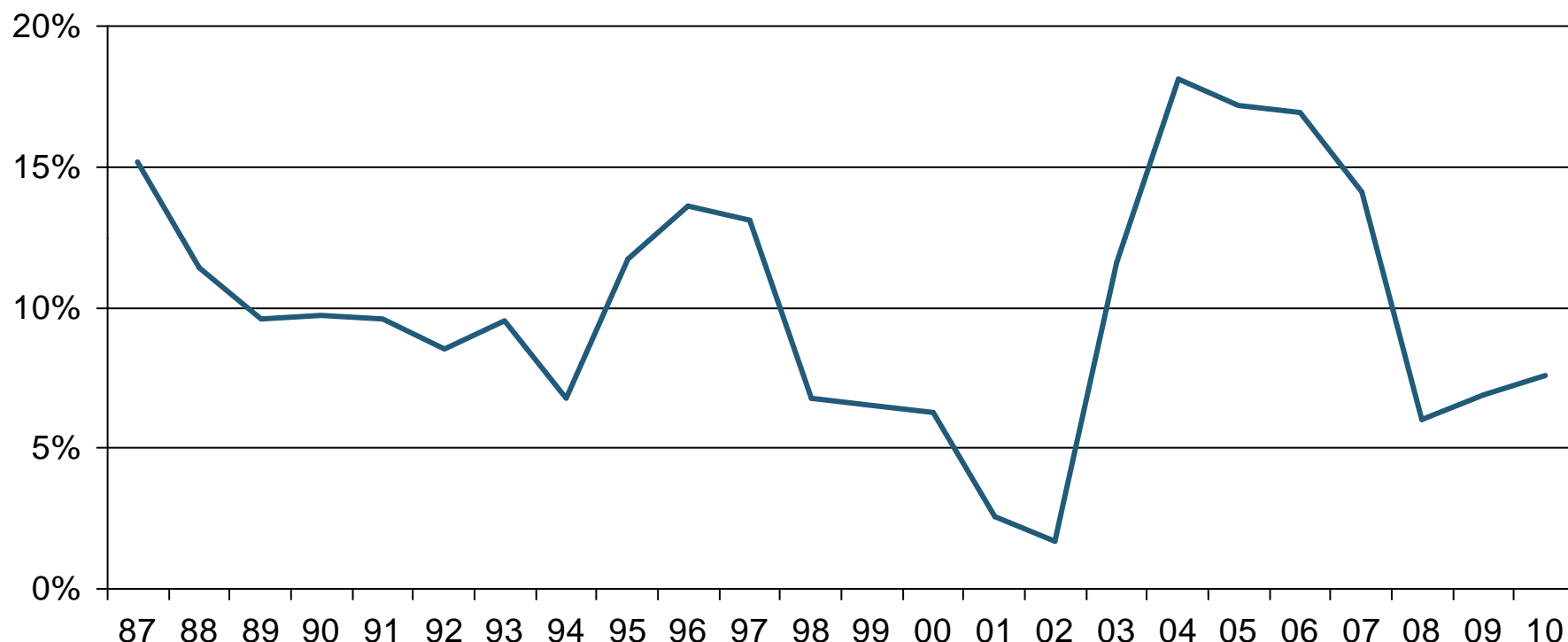
(\$ Millions)



Note: The years 2005 – 2010 is the Net Income GAAP only numbers. All amounts are in Canadian dollars.
Source: Insurance Bureau of Canada.

ROE: P/C Insurance, Canada, 1987-2010

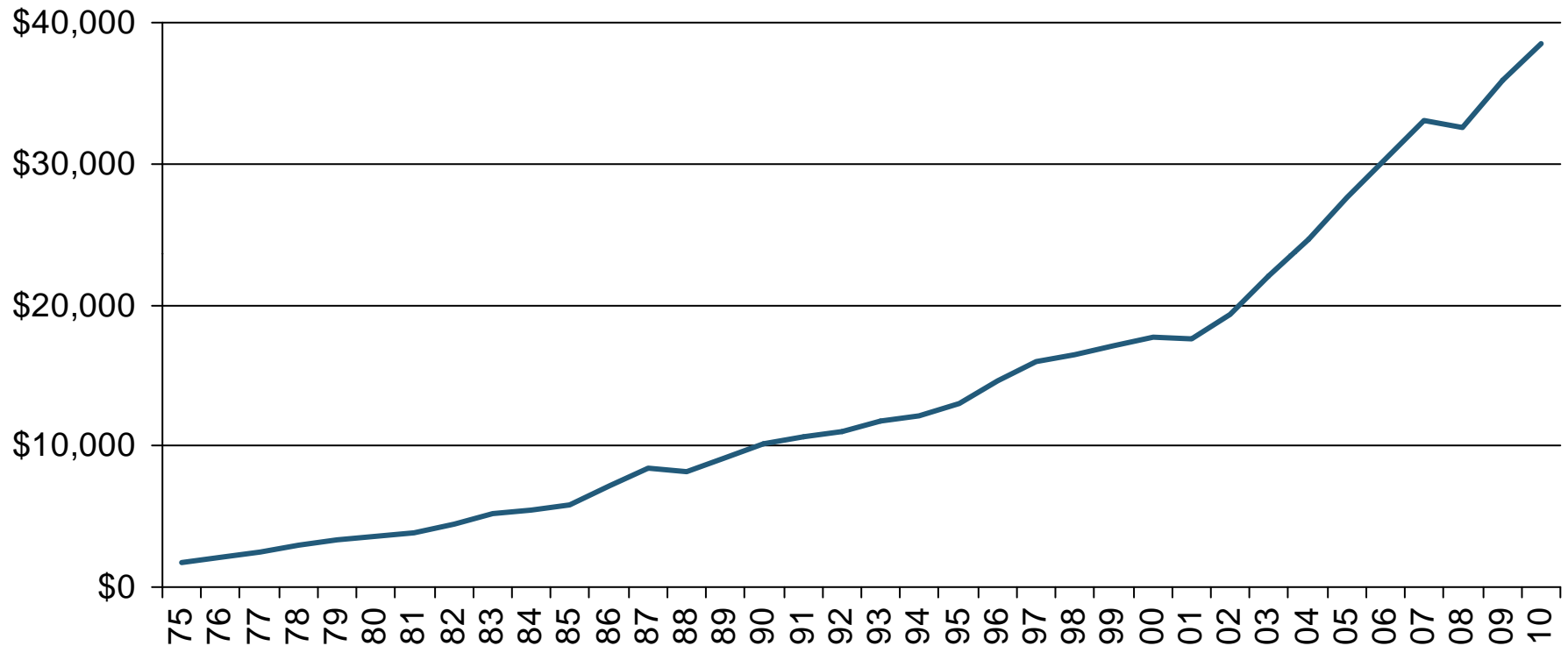
(Percent)



Note: The years 2005 – 2010 is the ROE GAAP only numbers.
Sources: Insurance Bureau of Canada.

Equity (Net Worth), Canadian P/C Insurers, 1975-2010

(\$ Millions)



Note: The years 2005 – 2010 is the Net Income GAAP only numbers. All amounts are in Canadian dollars. Quarter end.
Sources: Insurance Bureau of Canada.



Economic Threats to the Global (Re)Insurance Industry

At Least Eight to Monitor

3 Near-Term Issues

- Effects of the Record-Breaking Number and Cost of Disasters in 2011
 - ◆ Can/should reinsurers raise rates?
 - ◆ Can/should reinsurers raise capital?
 - ◆ Can/should reinsurers reassess the risk in their book of business?
- Inflation Transmitted Globally
 - ◆ China, Brazil and other countries
 - ◆ Soaring food and other commodity prices
 - ◆ Oil prices and supply reliability
- Increased political risk

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

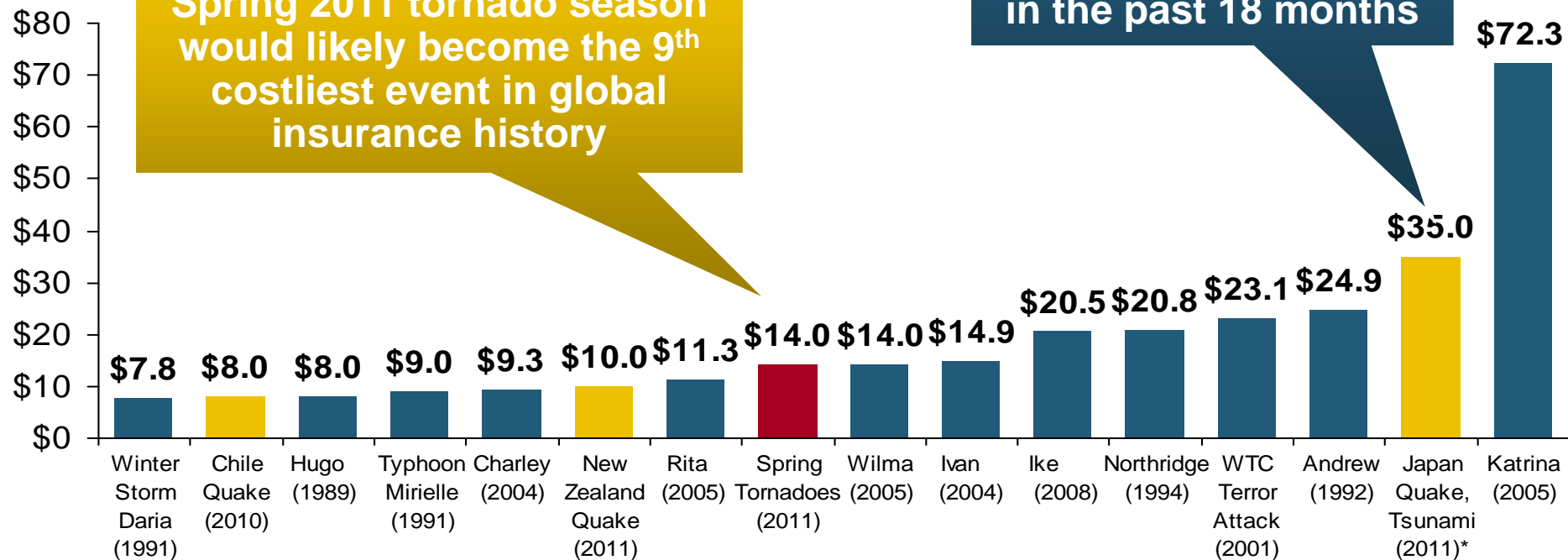
- ◆ More than double the first half 2010 amount
- ◆ Over 4 times the 10-year average

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

(Insured Losses, 2010 Dollars, \$ Billions)

Taken as a single event, the Spring 2011 tornado season would likely become the 9th costliest event in global insurance history

3 of the top 15 most expensive catastrophes in world history have occurred in the past 18 months

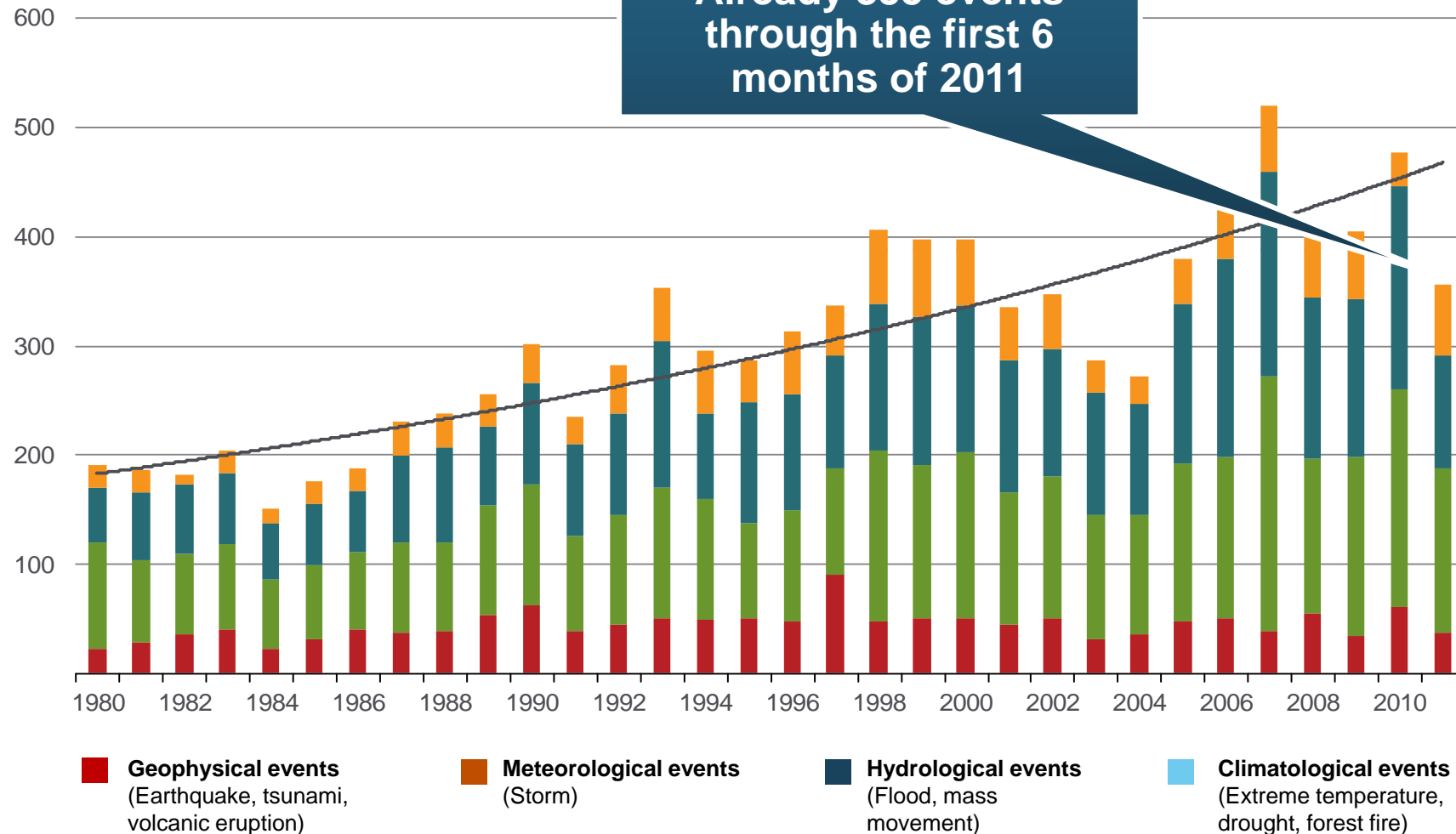


*Through June 20, 2011. 2011 disaster figures are estimates; Figures include federally insured flood losses, where applicable.

Sources: Swiss Re *sigma* 1/2011; AIR Worldwide, RMS, Eqecat; Insurance Information Institute.

Worldwide Natural Disasters, 1980 – 2011*

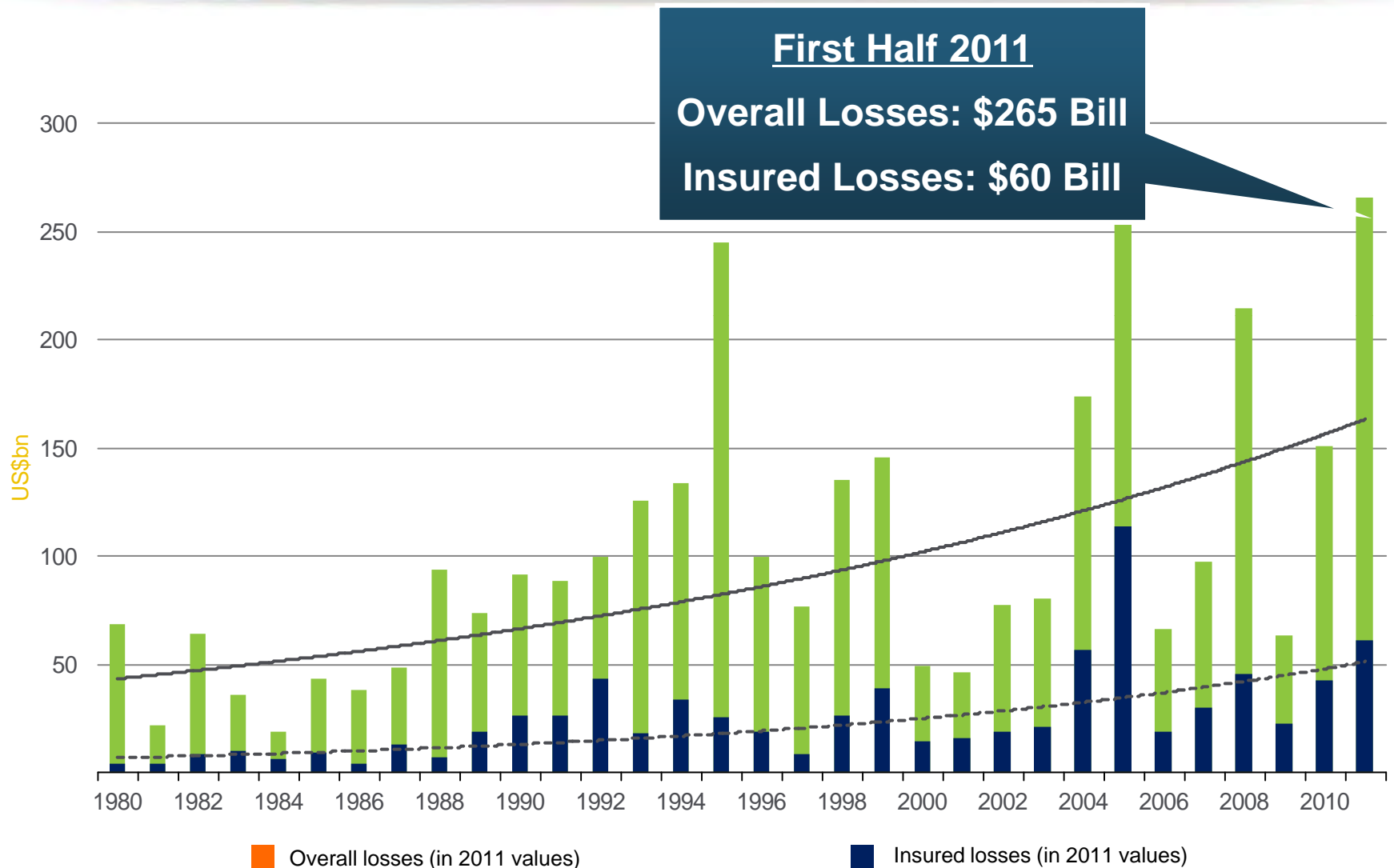
Number of Events



*2011 figure is through June 30.

Source: MR NatCatSERVICE

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

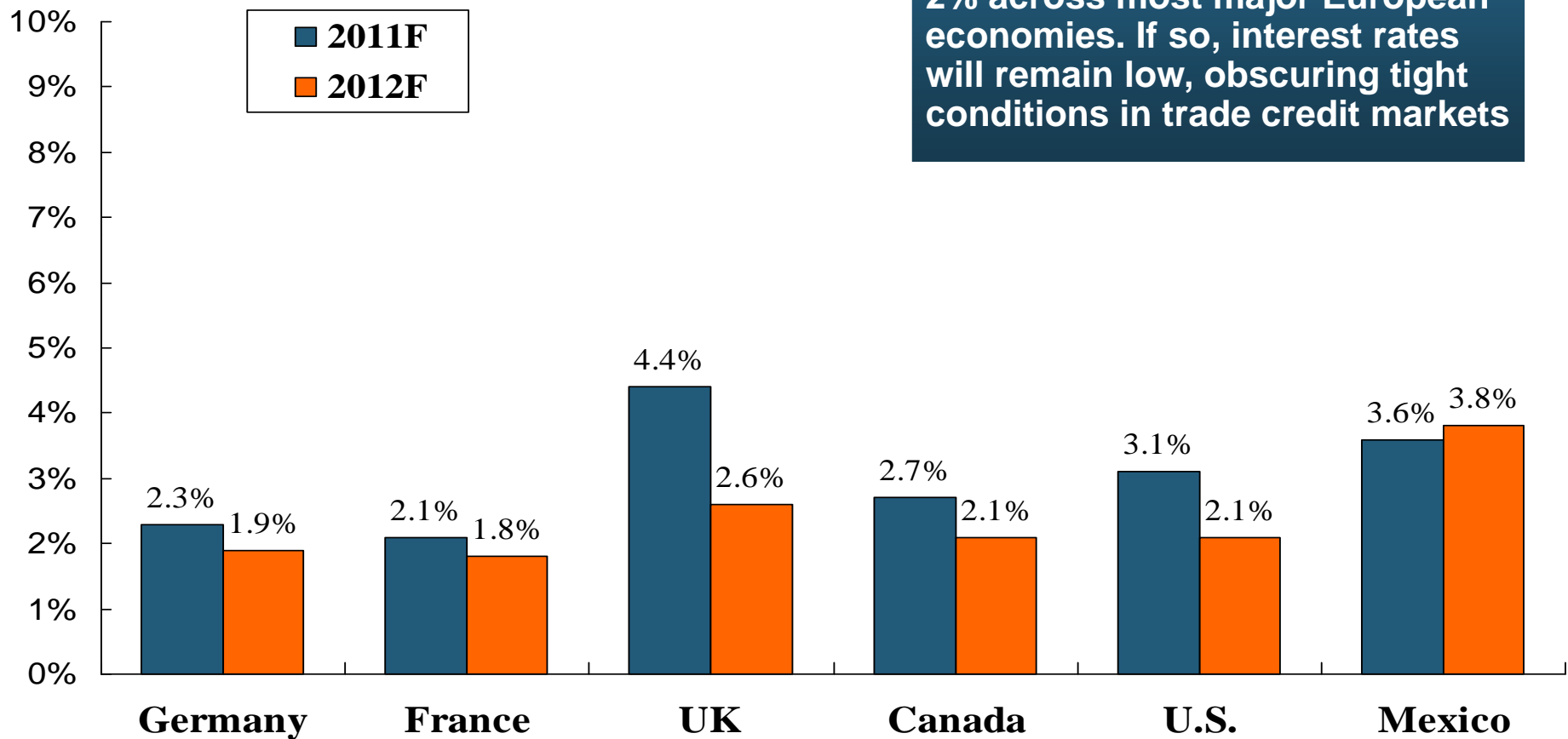


*2011 figure is through June 30.

Source: MR NatCatSERVICE

Inflation Rate Forecast for Largest European & North American Economies, 2011F-2012F

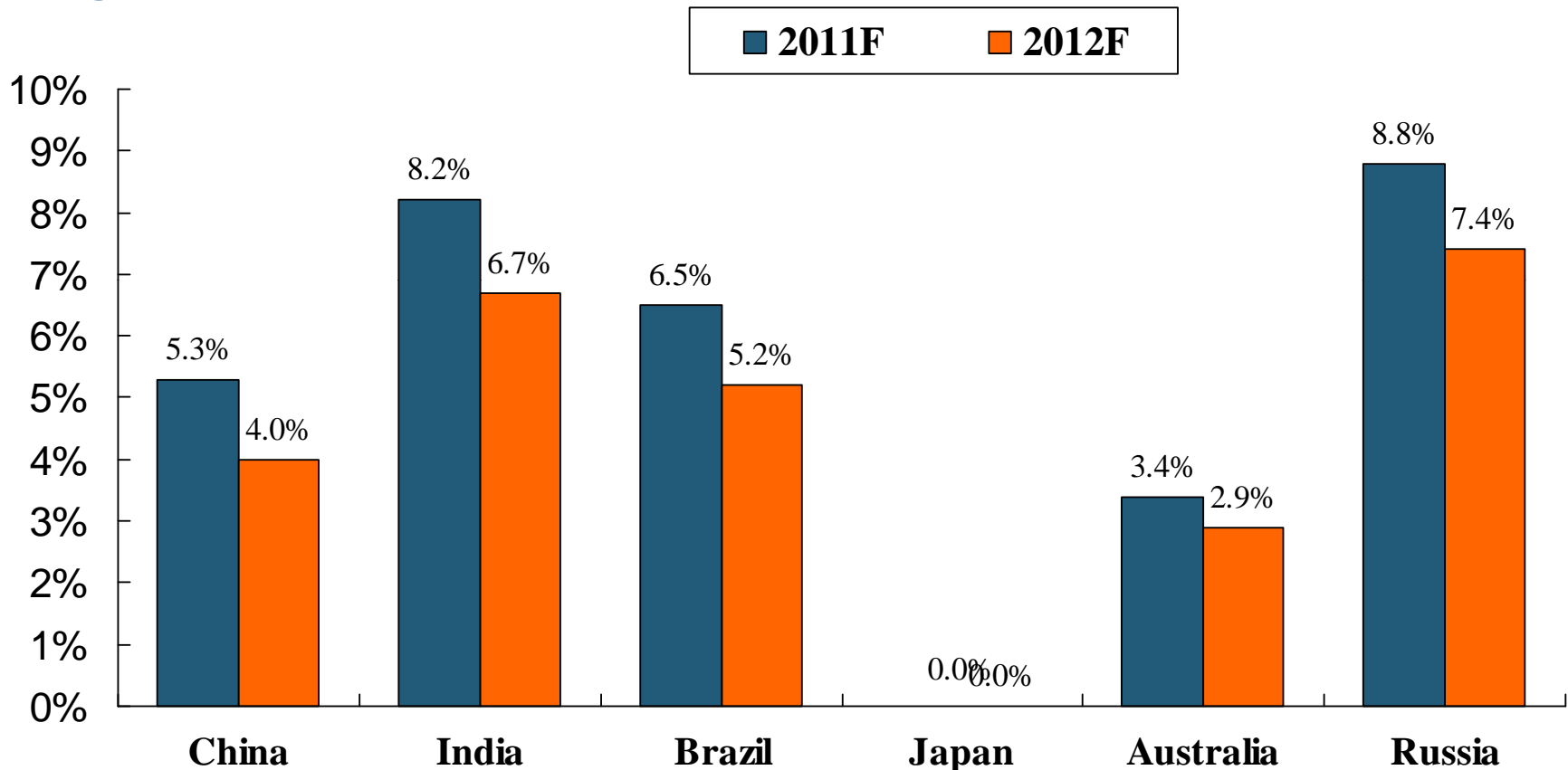
Change from
Prior Year



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

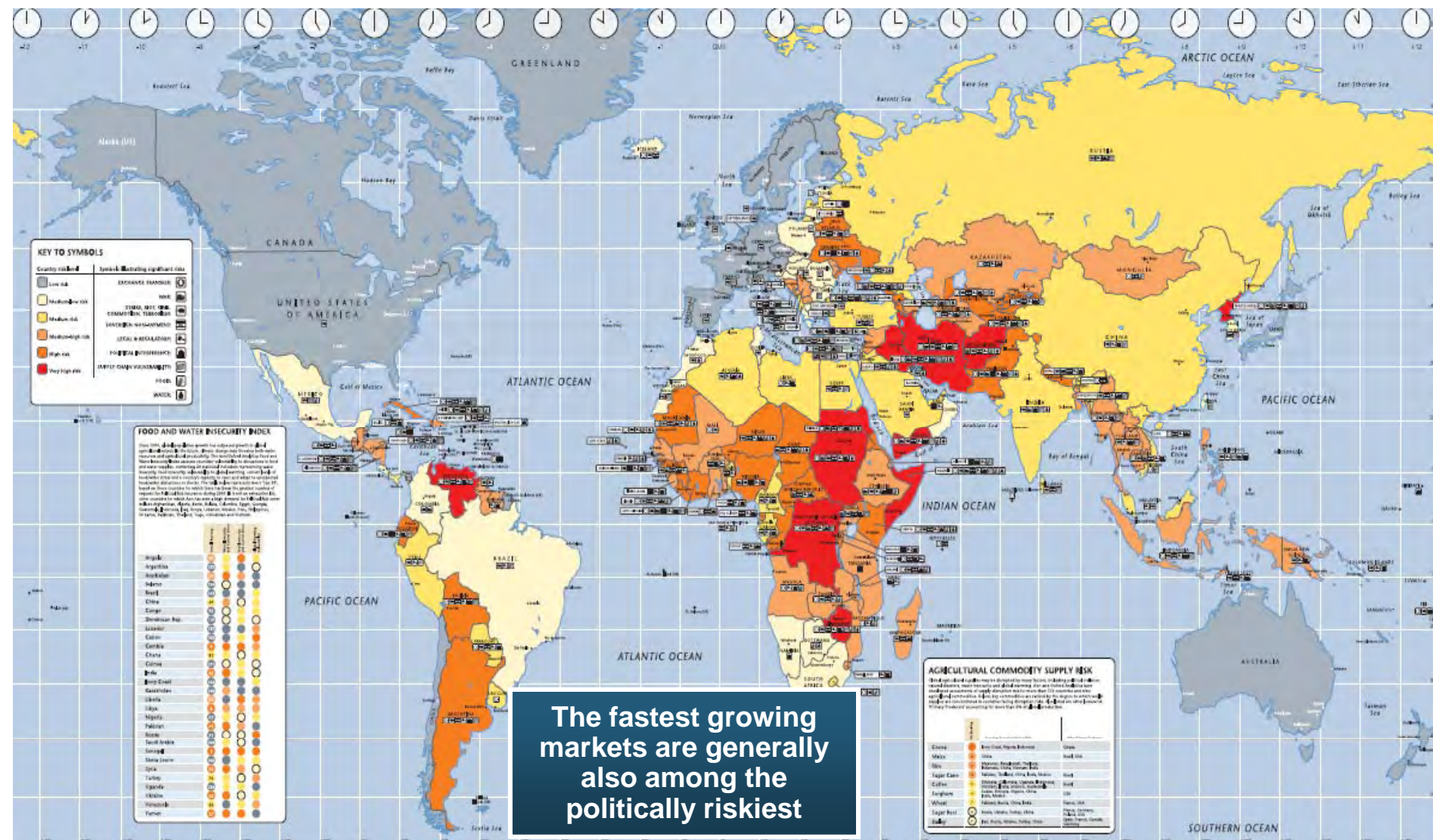
Inflation Rate Forecast for Other Important Countries, 2011-12F

% 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.

Political Risk: Insurers' Greatest Opportunities Are Often in Risky Nations



■ Elevated Political Risk Levels to Continue in 2010

- ◆ Significant volume of credit and political risk claims in international insurance markets have driven many of the **18 country downgrades** in this year's map.
- ◆ Aon believes 2010 will see elevated political risk levels continue before an overall tendency for improving global business conditions becomes established. 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.

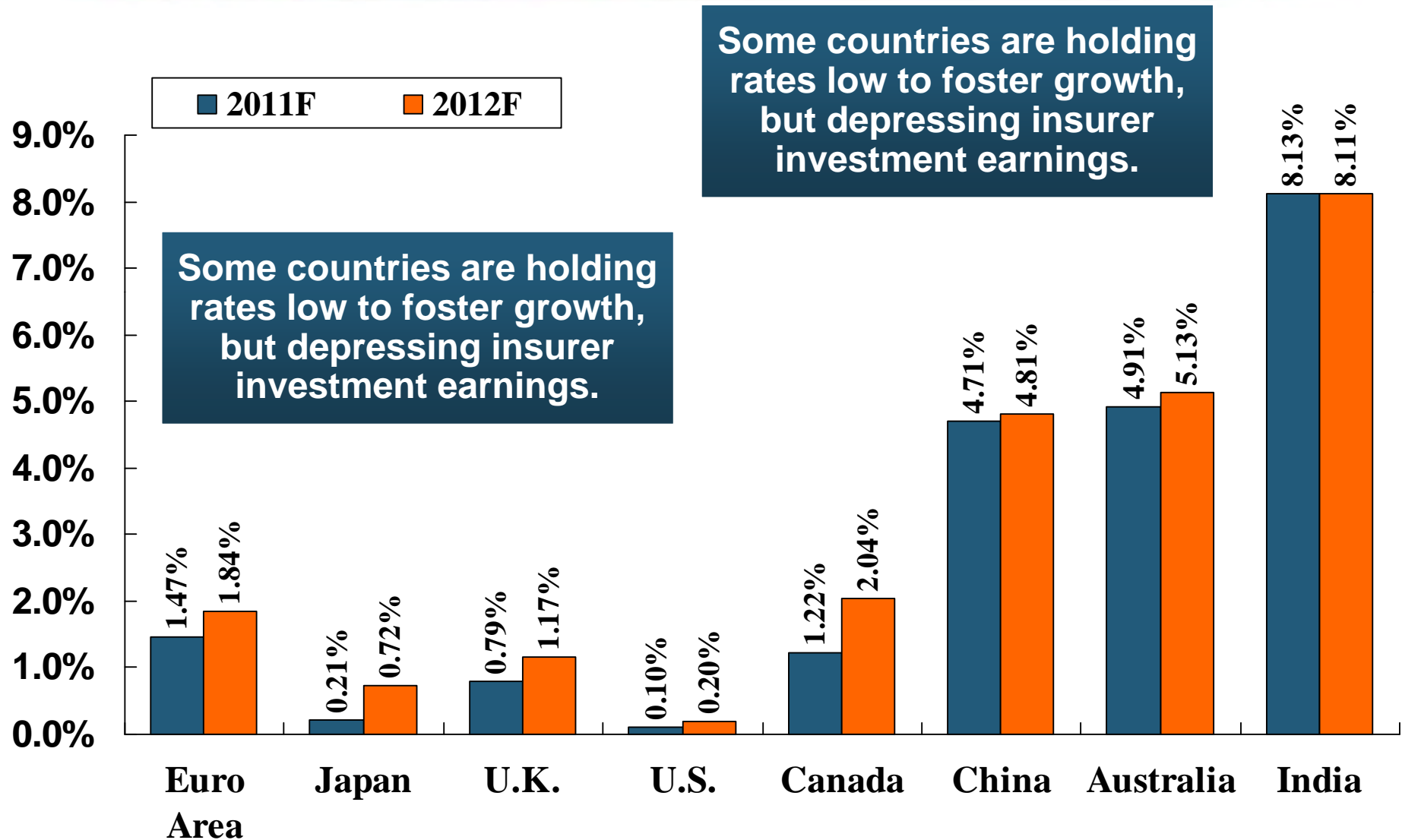
■ Movements on the 2010 Map

- ◆ A total of **18 countries** have seen conditions worsen leading to a **downgrade**: Algeria, Argentina, El Salvador, Equatorial Guinea, Ghana, Honduras, Kazakhstan, Latvia, Madagascar, Mauritania, Philippines, Puerto Rico, Seychelles, Sudan, 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.
- ◆ **Eight 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 2010 as a result of the recession.

- Persistently Low Interest Rates
 - ◆ Lower investment income, more pressure on u/w profit
- Currency Market Instability
- Sovereign Bond Market Concerns (Greece, Spain, Ireland, etc.)
- Strong Capital Flows to Emerging/Developing Economies => Asset Price Bubbles?
- Regulatory Backlash/Developments
 - ◆ Solvency II, Basel III
 - ◆ US Financial Services Reform

3-Month Interest Rates for Major Global Economies, 2011F-2012F



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***Thank you for your time
and your attention!***