After the Crisis: The Global Economics of the P/C Insurance Industry

Energy Markets Trends and Challenges

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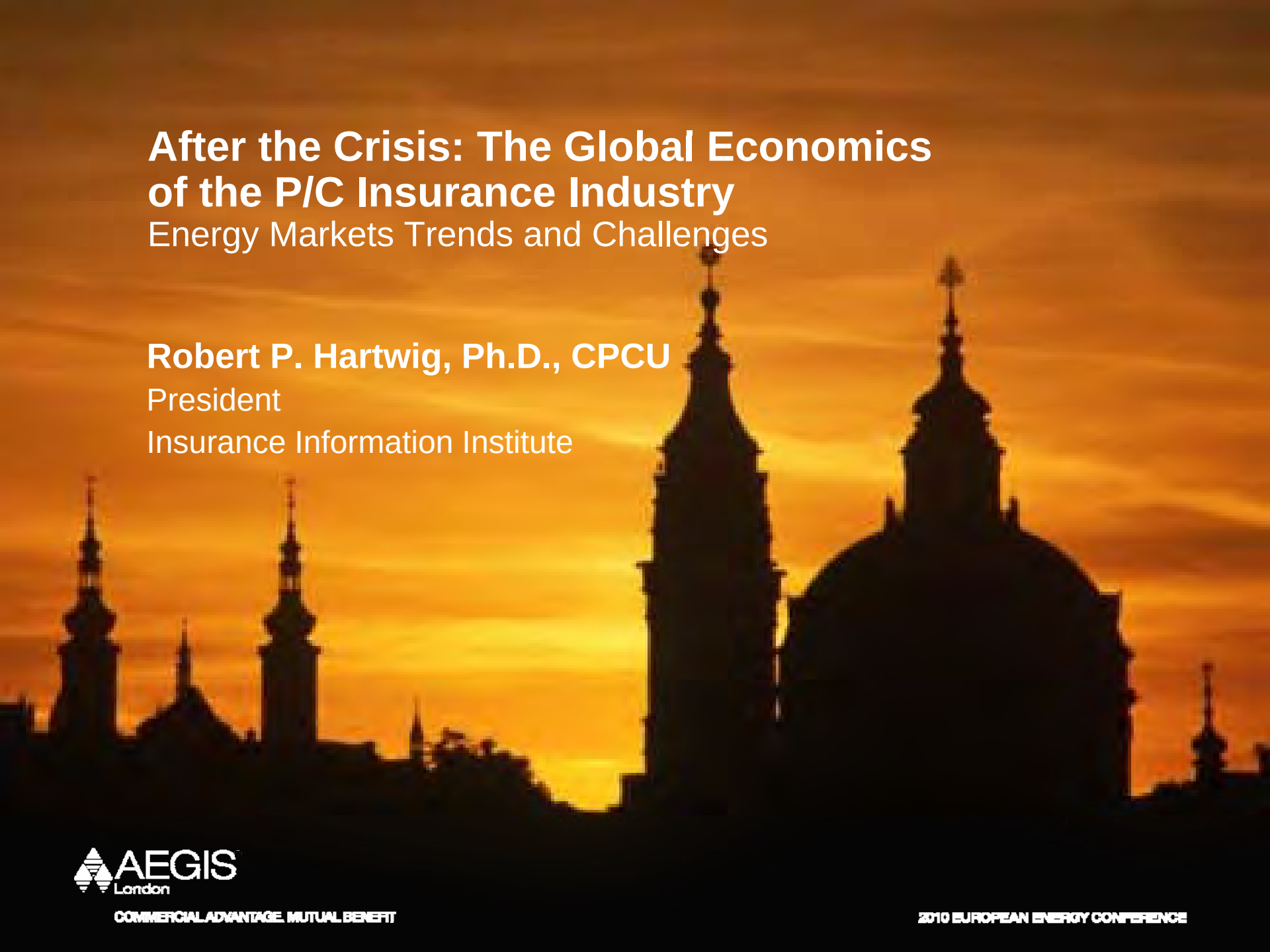
President
Insurance Information Institute



Presentation Outline

- After the Crisis: Europe's Weak Economic Recovery
  - Exposure Impacts on the Insurance Industry and Energy Concerns
- Post-Crisis: Trends in Energy Consumption, Generation and Carbon Emissions
  - Changes in global and regional demand, supply for energy and insurance
  - Focus on Europe
- Impact of the Global Financial Crisis on the Energy Business
- Insurer Financial Strength & Ratings
  - (Re) Insurers Weathered the Storm Well

Presentation Outline (cont.)

- P/C Insurance Industry Financial Performance
  - Profitability, Capital & Capacity
- Energy Insurance Market Review
  - Capacity, Rating, Exposure, Profitability, Reinsurance, ART
  - The Financial Crisis: Global Energy Supply, Demand and Investment
- Catastrophe Losses
  - 2010 Already Producing Large Losses in Energy Sector
- Post-Crisis Changes to the Insurance Regulatory Environment
  - Systemic Risk Regulation

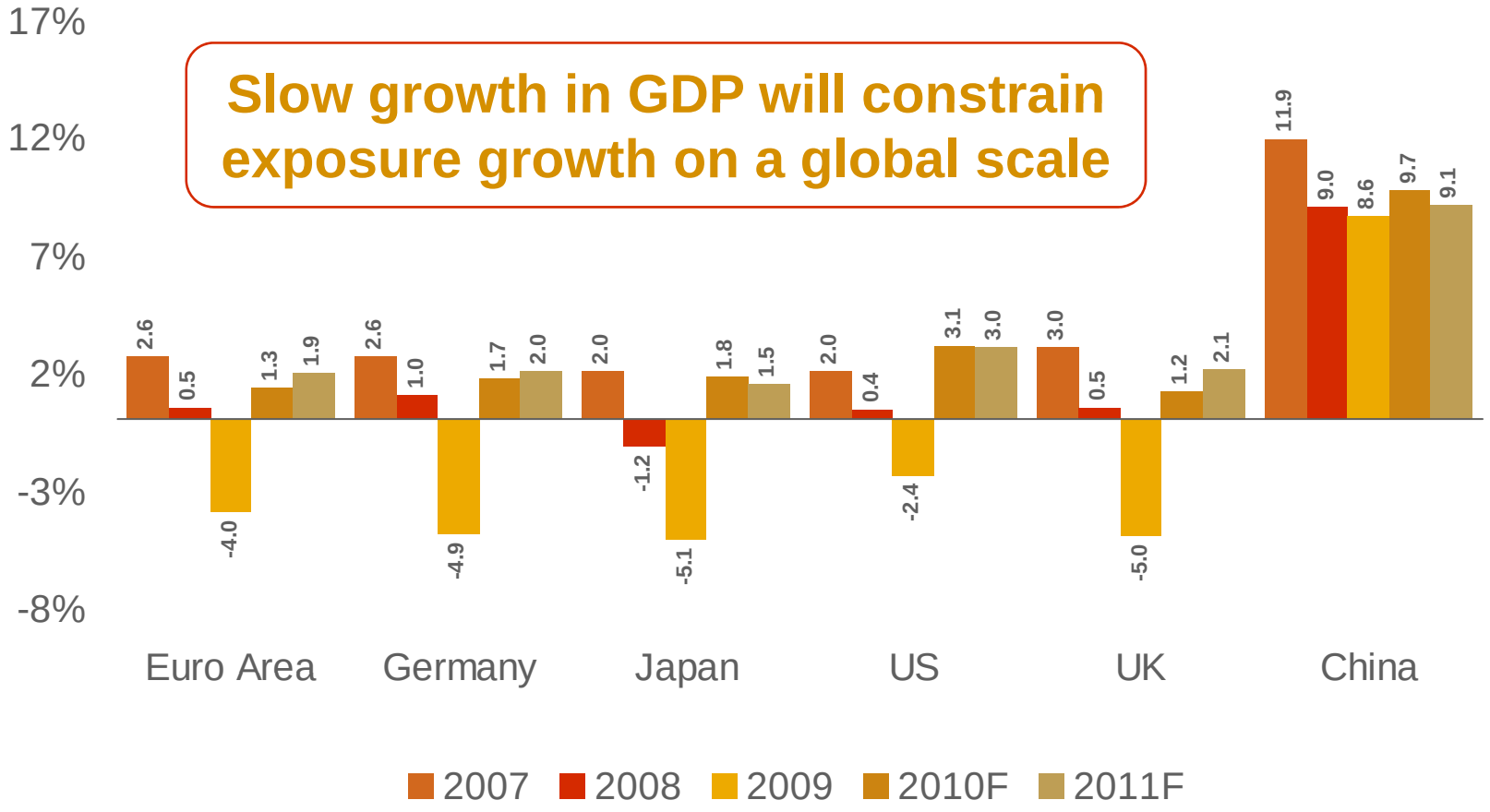
After the Crisis

Europe's Weak Recovery and Exposure Impacts on the Insurance Industry and Energy Concerns

AEGIS London

Real GDP by Market 2007-2011F

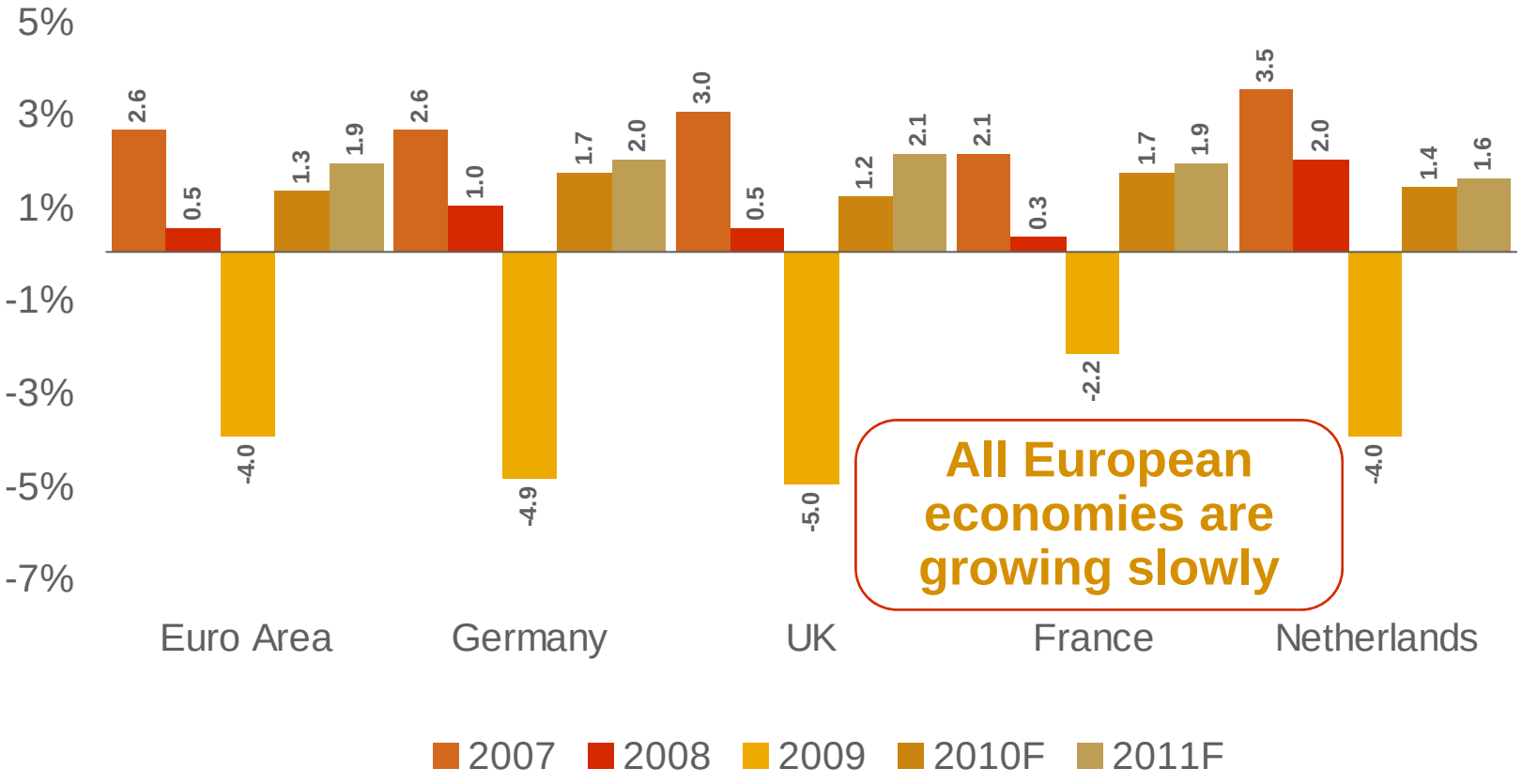
(% change from previous year)



Source: Blue Chip Economic Indicators, 3/10/10 edition.

Real GDP for Largest European Economies and Euro Area, 2007-2011F

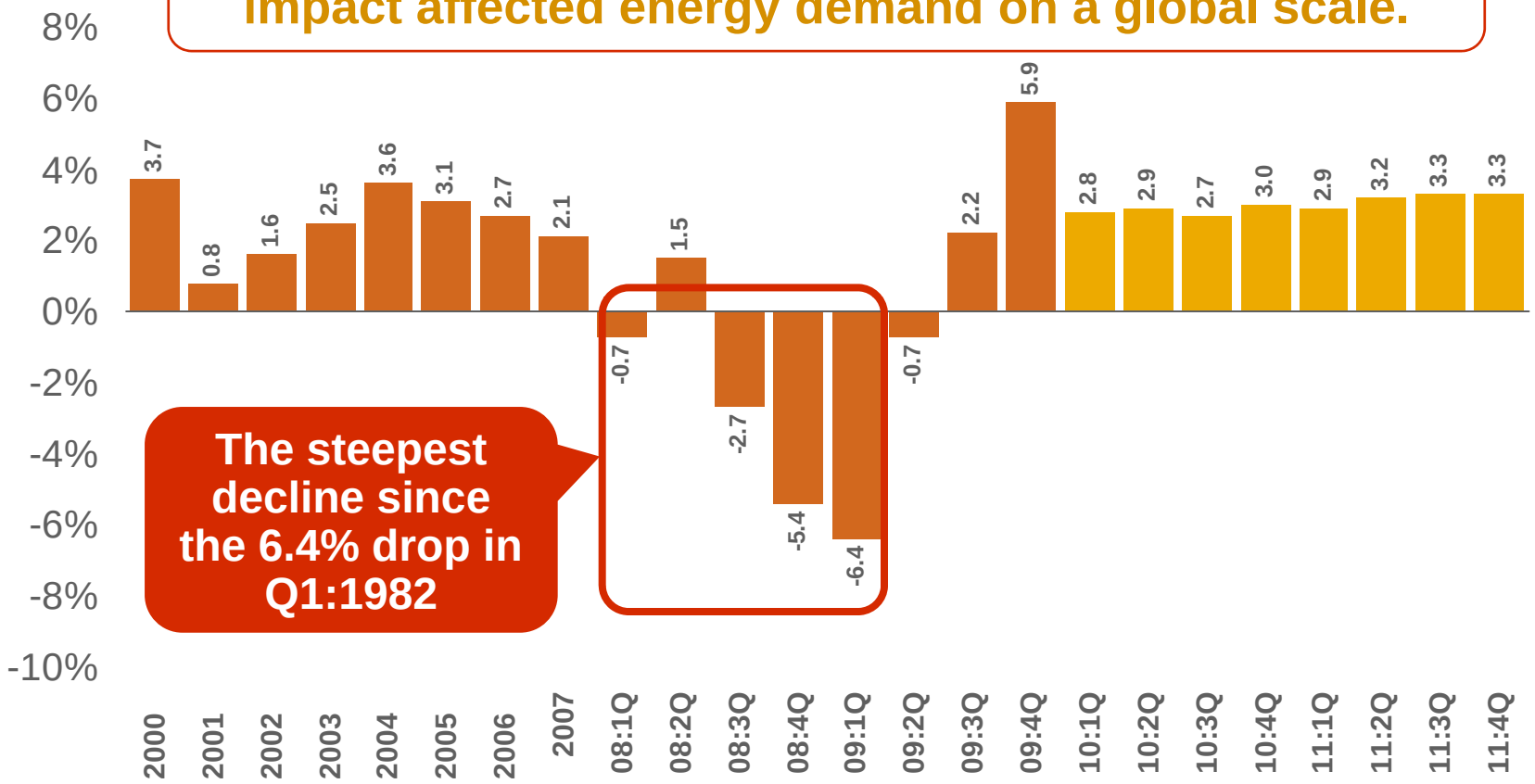
(% change from prior year)



Source: Blue Chip Economic Indicators, 3/10/10 edition.

US Real GDP Growth*

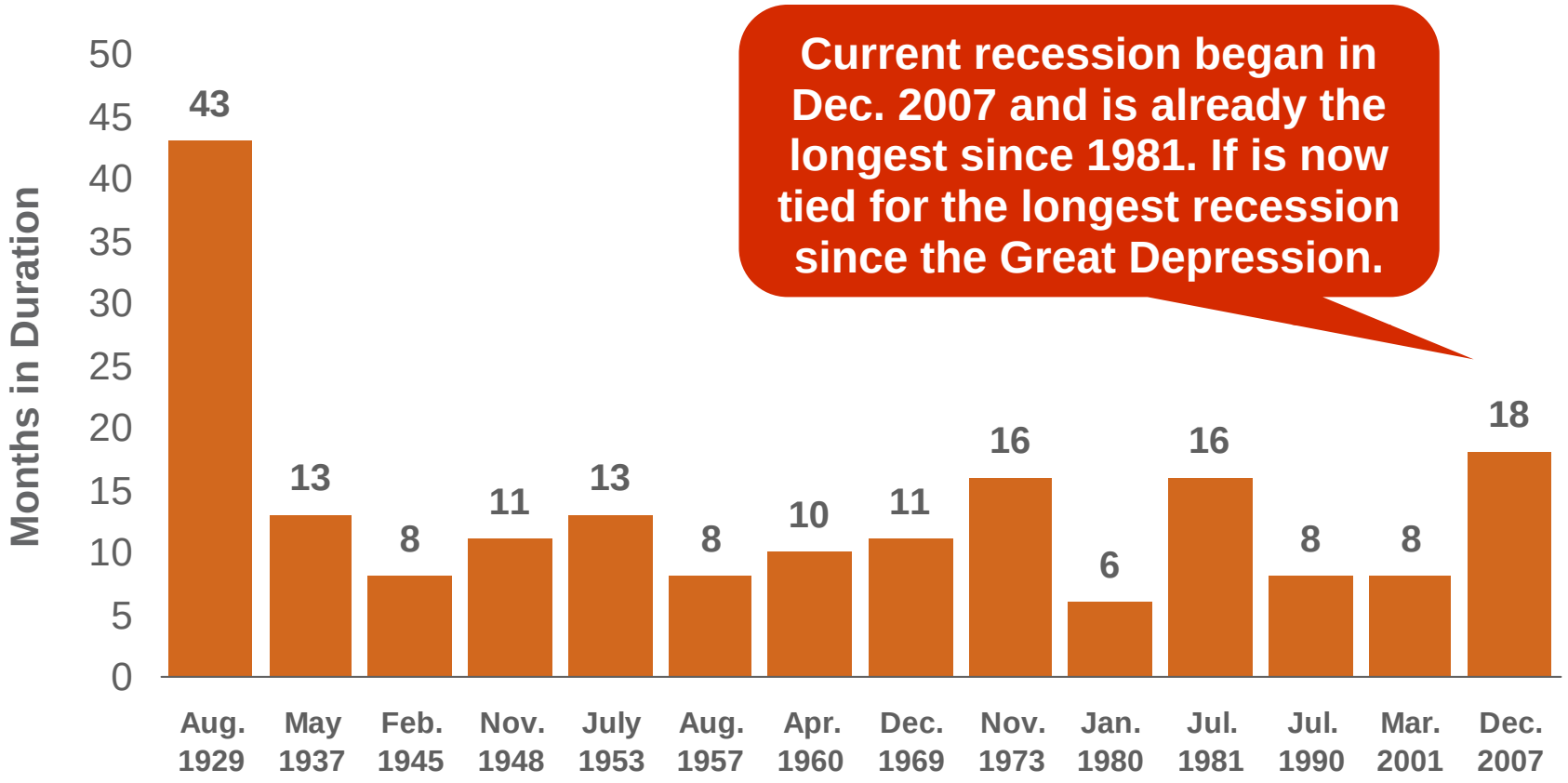
Recession began in December 2007. The economic impact affected energy demand on a global scale.



*Gold bars are Estimates/Forecasts from Blue Chip Economic Indicators.
Source: US Department of Commerce, Blue Economic Indicators 3/10; Insurance Information Institute.

Length of US Recessions

1929-Present*

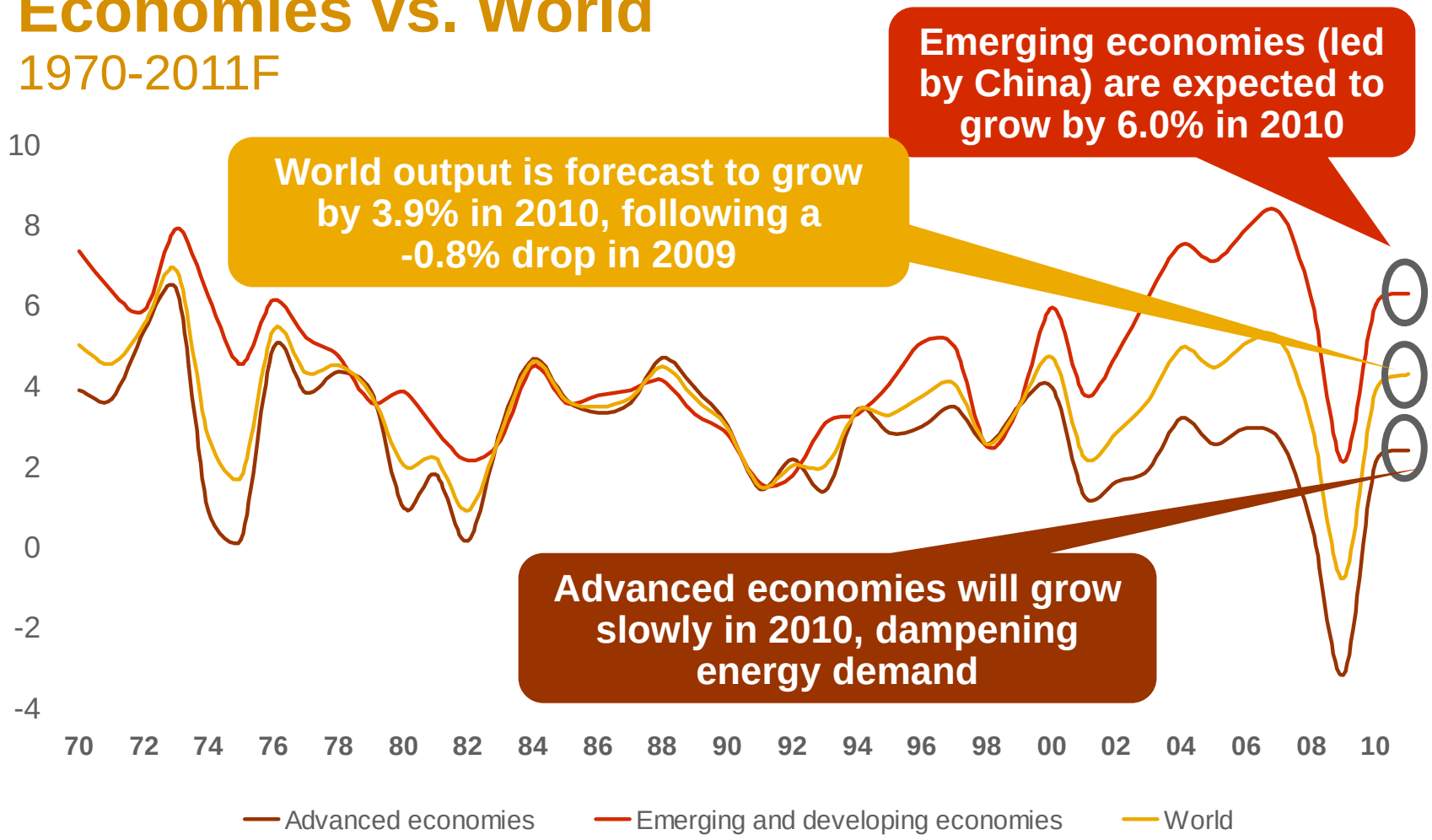


* Estimated end date of recession was June 2009.

Sources: National Bureau of Economic Research; Insurance Information Institute.

GDP Growth: Advanced and Emerging Economies vs. World

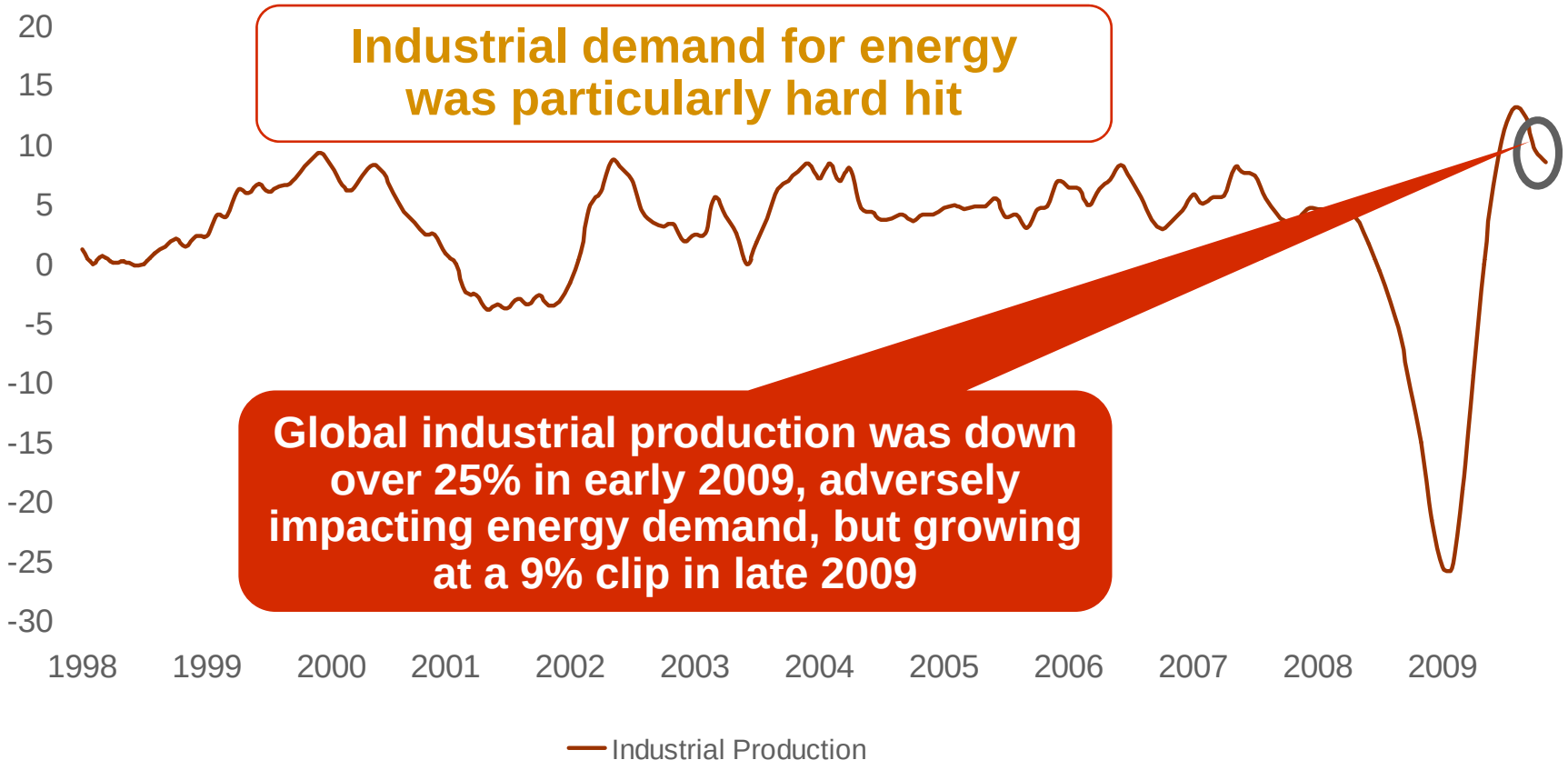
1970-2011F



Source: International Monetary Fund, *World Economic Outlook Update*, Jan. 26, 2010; Insurance Information Institute.

Global Industrial Production Rebounds from a Tailspin, Raising Energy Demand

Annualized 3-Month Percent Change

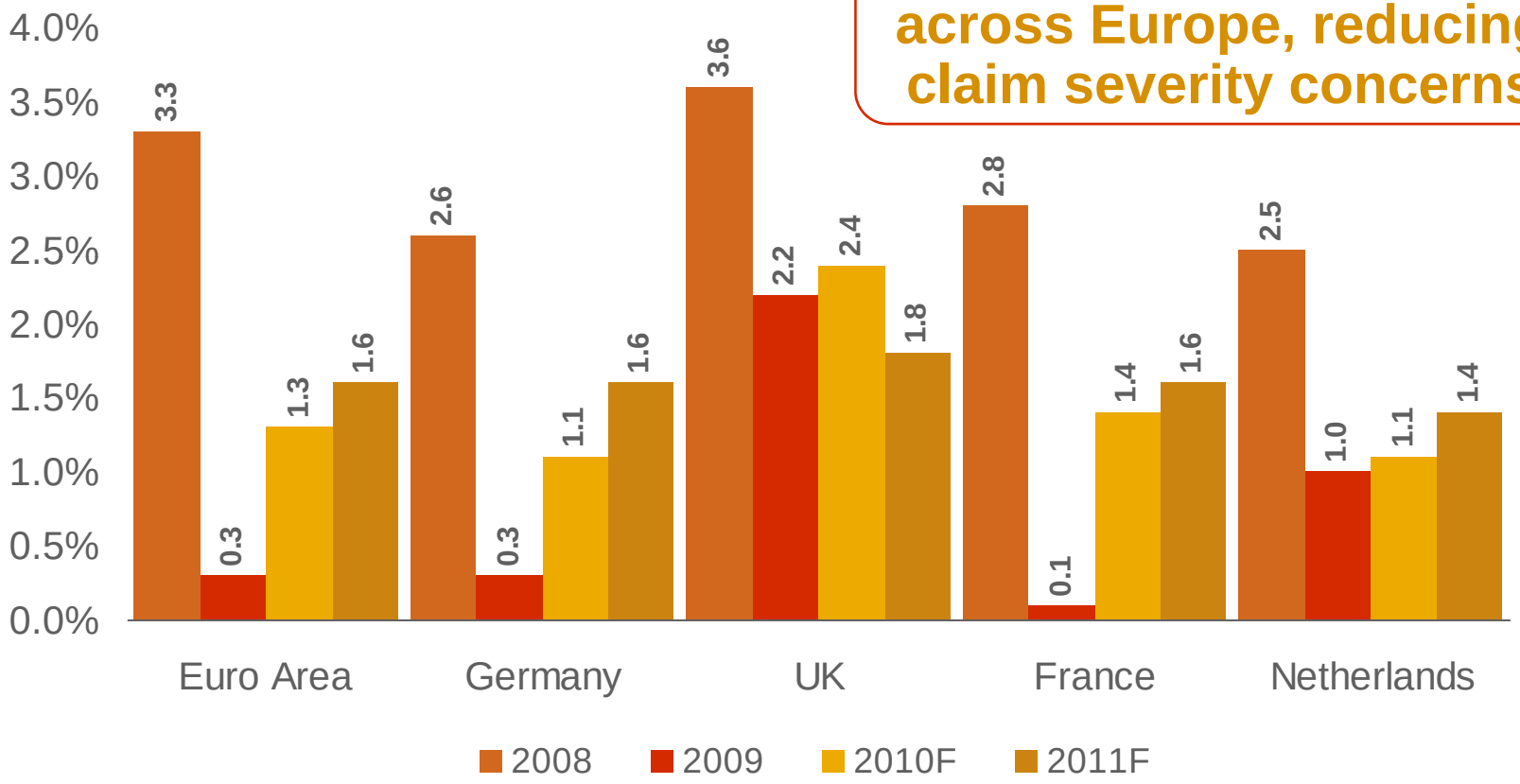


Source: International Monetary Fund, *World Economic Outlook Update*, Jan. 26, 2010; Insurance Information Institute.

Inflation Rates for Largest European Economies and Euro Area, 2008-2011F

(% change from prior year)

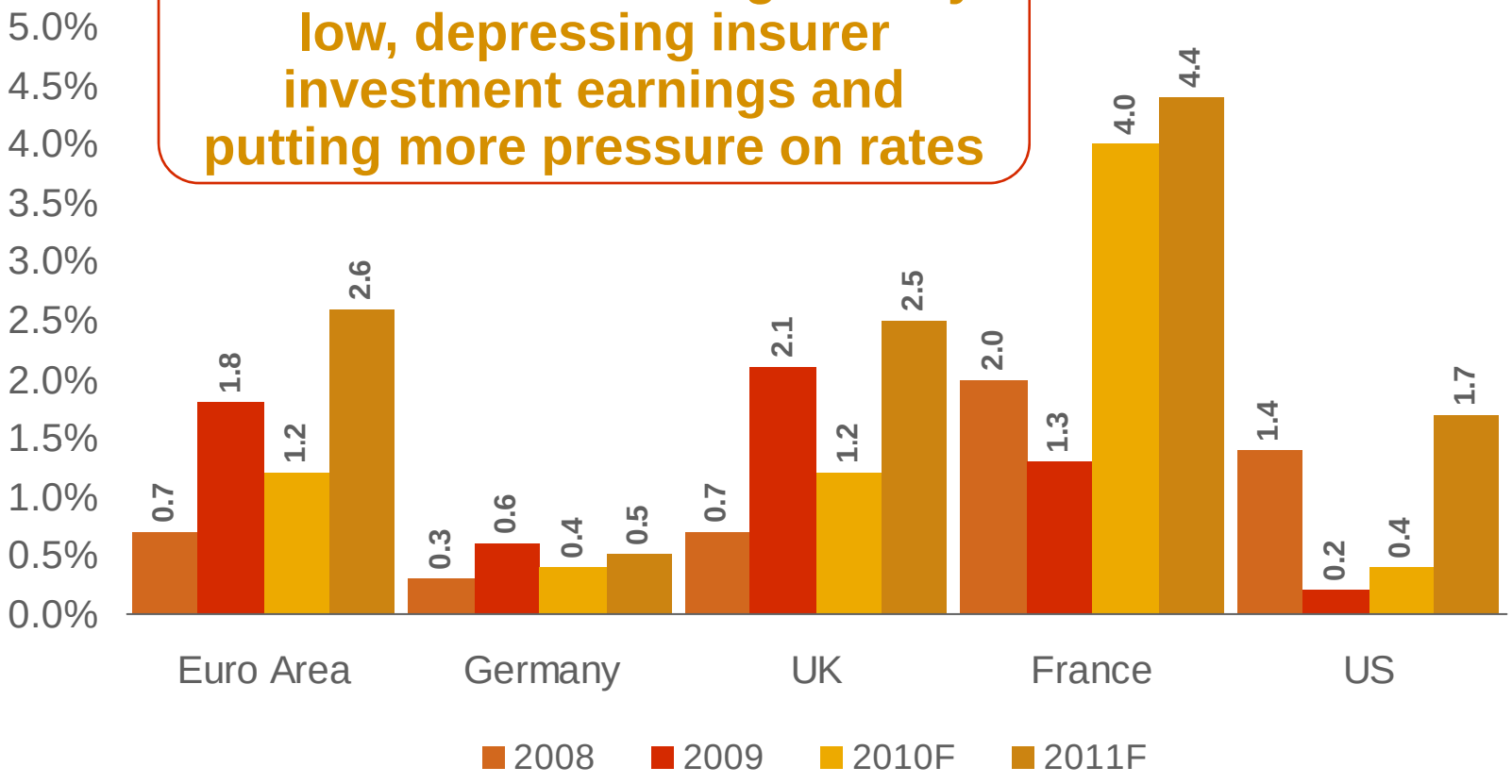
Inflation is below 1.5% across Europe, reducing claim severity concerns



Source: Blue Chip Economic Indicators, 3/10/10 edition.

3-Month Interest Rates for Major Global Economies, 2008-2011F

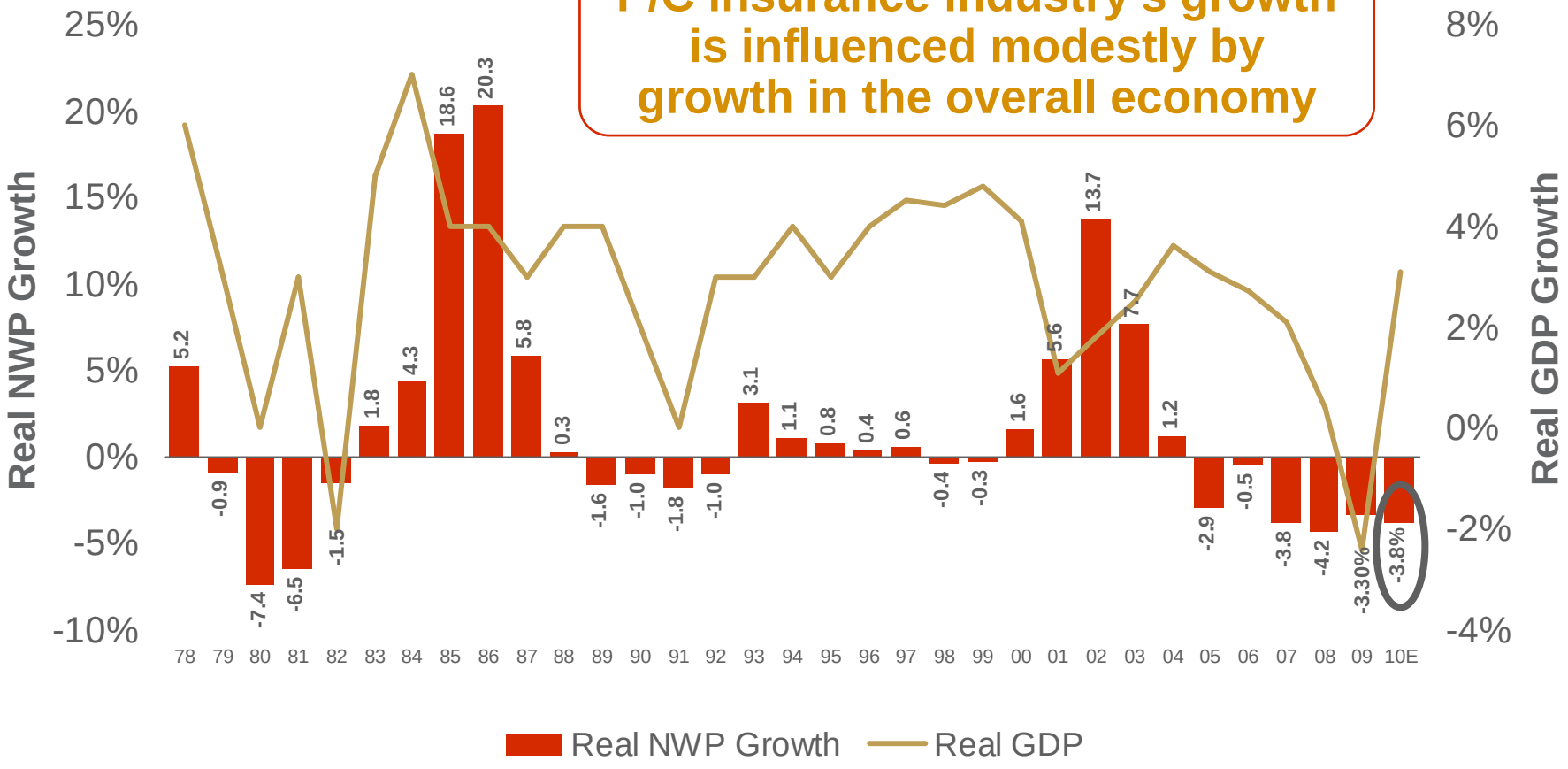
Interest rates remain generally low, depressing insurer investment earnings and putting more pressure on rates



Source: Blue Chip Economic Indicators, 3/10/10 edition.

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

P/C insurance industry's growth is influenced modestly by growth in the overall economy

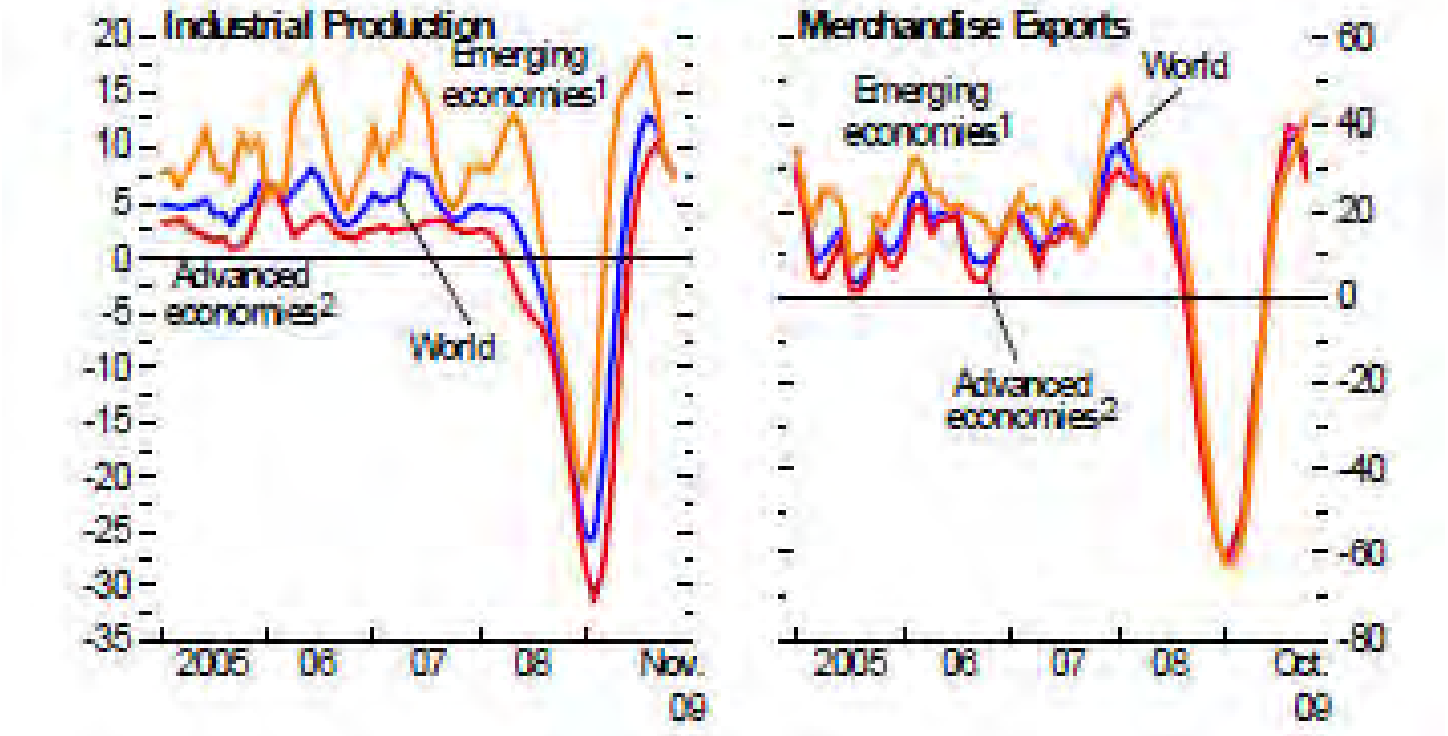


Sources: A.M. Best, US Bureau of Economic Analysis, Blue Chip Economic Indicators, 3/10; Insurance Information Institute.

Global Industrial Production and Exports: 2005 to 2009

Annual Percentage Change of 3-Month Moving Average

Industrial production and global trade crashed extraordinarily during the financial crisis



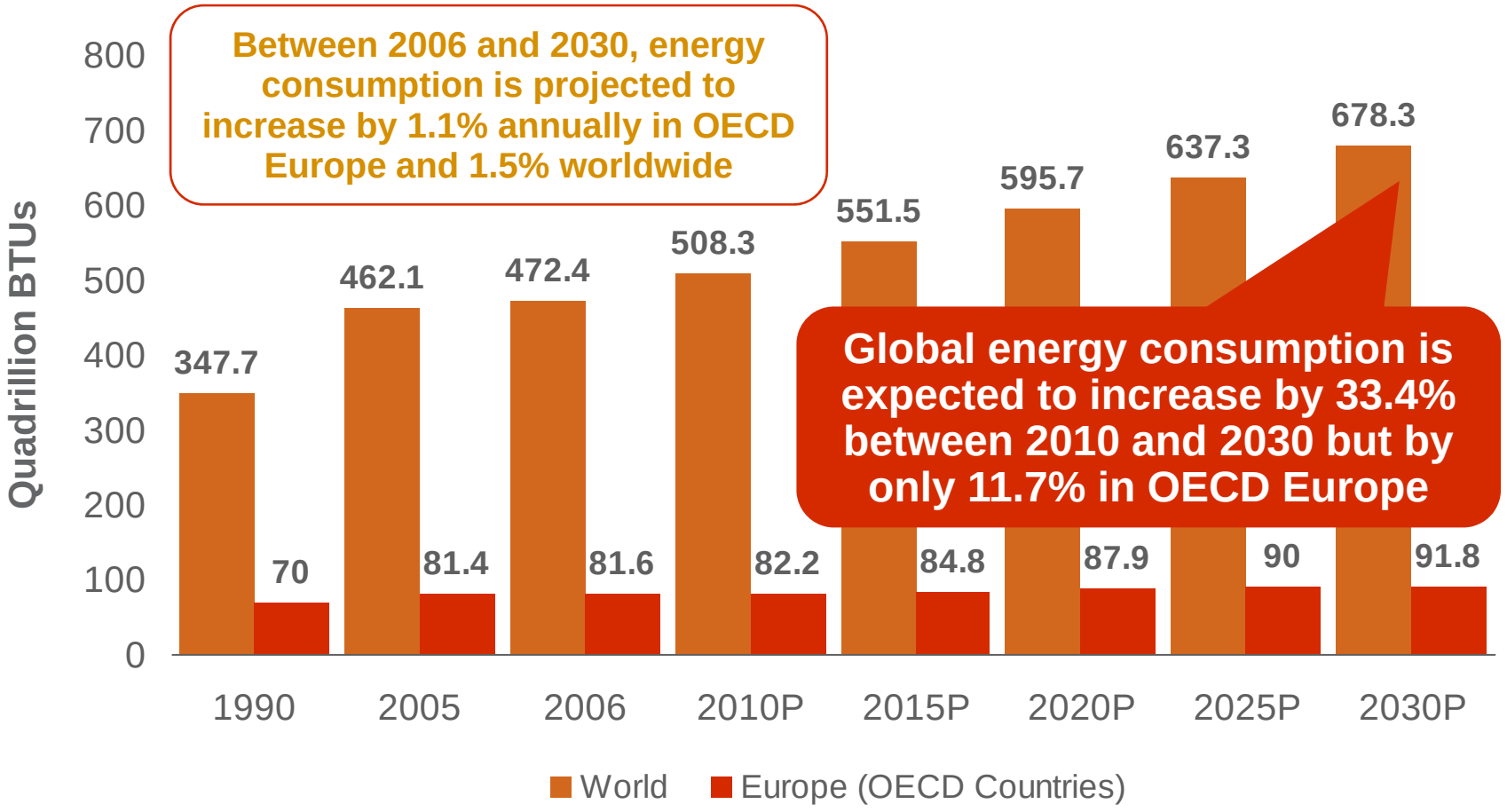
Source: International Monetary Fund, January 2010; Insurance Information Institute.

Post-Crisis

Trends in Energy Consumption, Generation and Carbon Emissions

AEGIS London

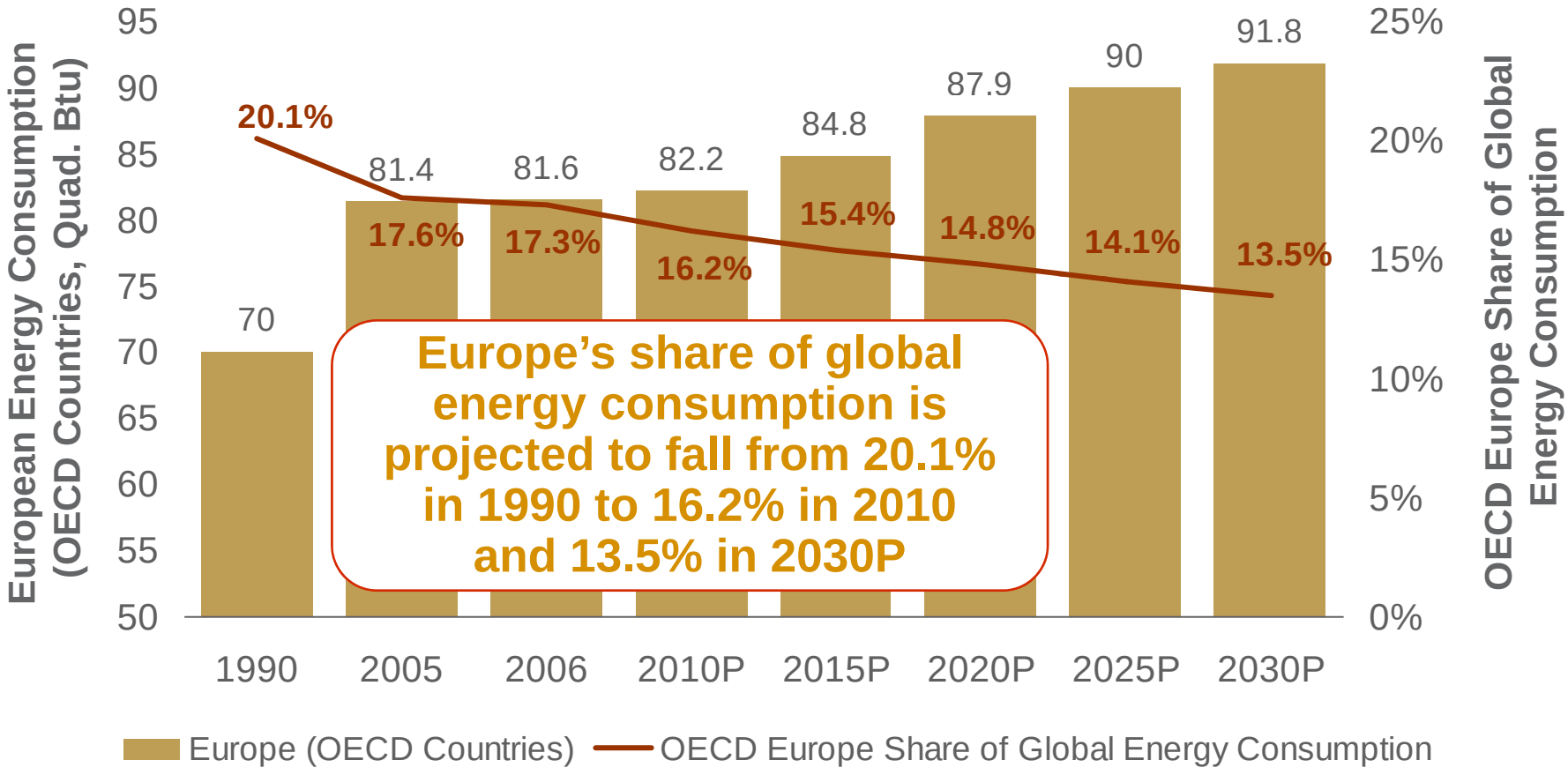
World & European Primary Energy Consumption
1990-2030P



Source: Energy Information Administration, *2009 International Energy Outlook*, Insurance Information Institute.

European Energy Consumption As a Share of Global Consumption

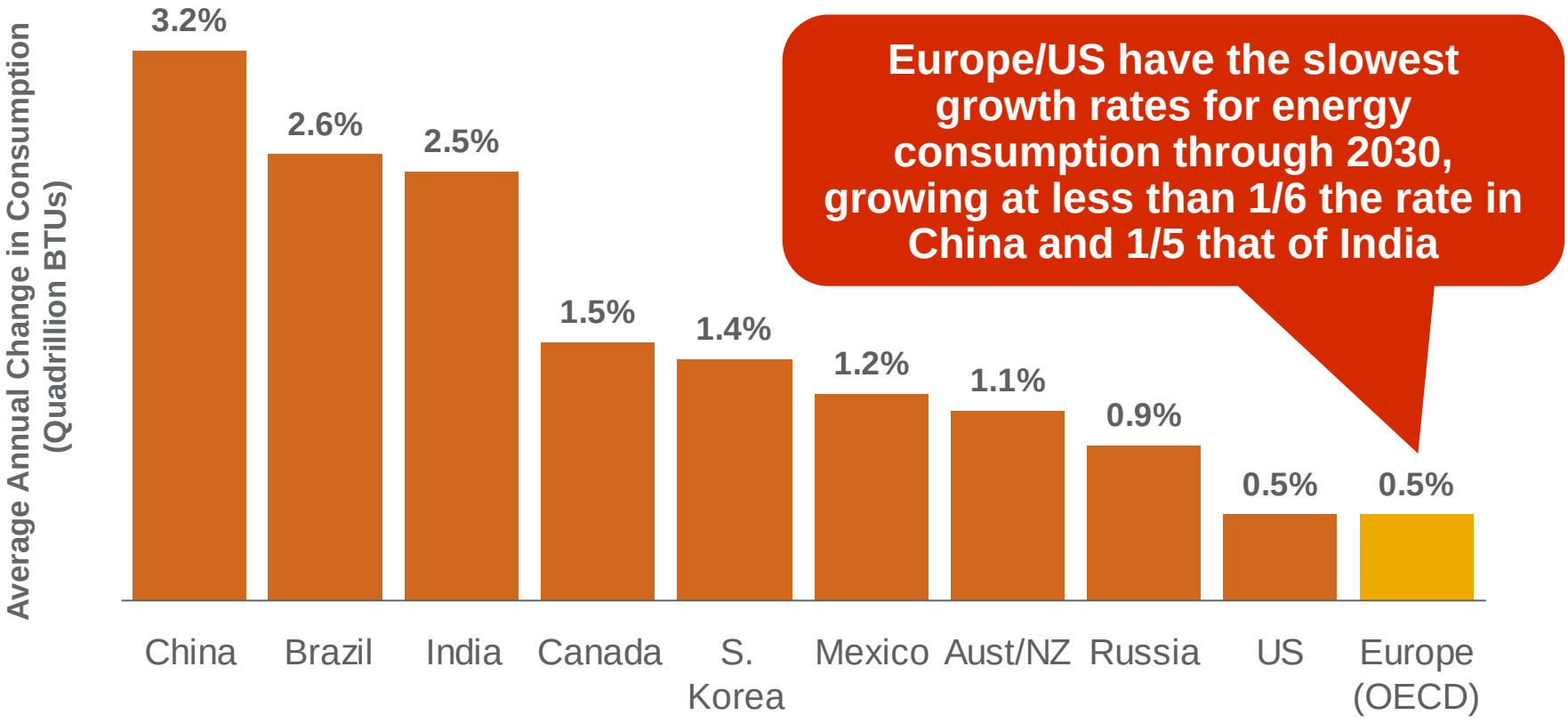
1990-2030P



Source: Energy Information Administration, *2009 International Energy Outlook*, Insurance Information Institute calculations.

Average Annual Change in Total Energy Consumption by Country/Region

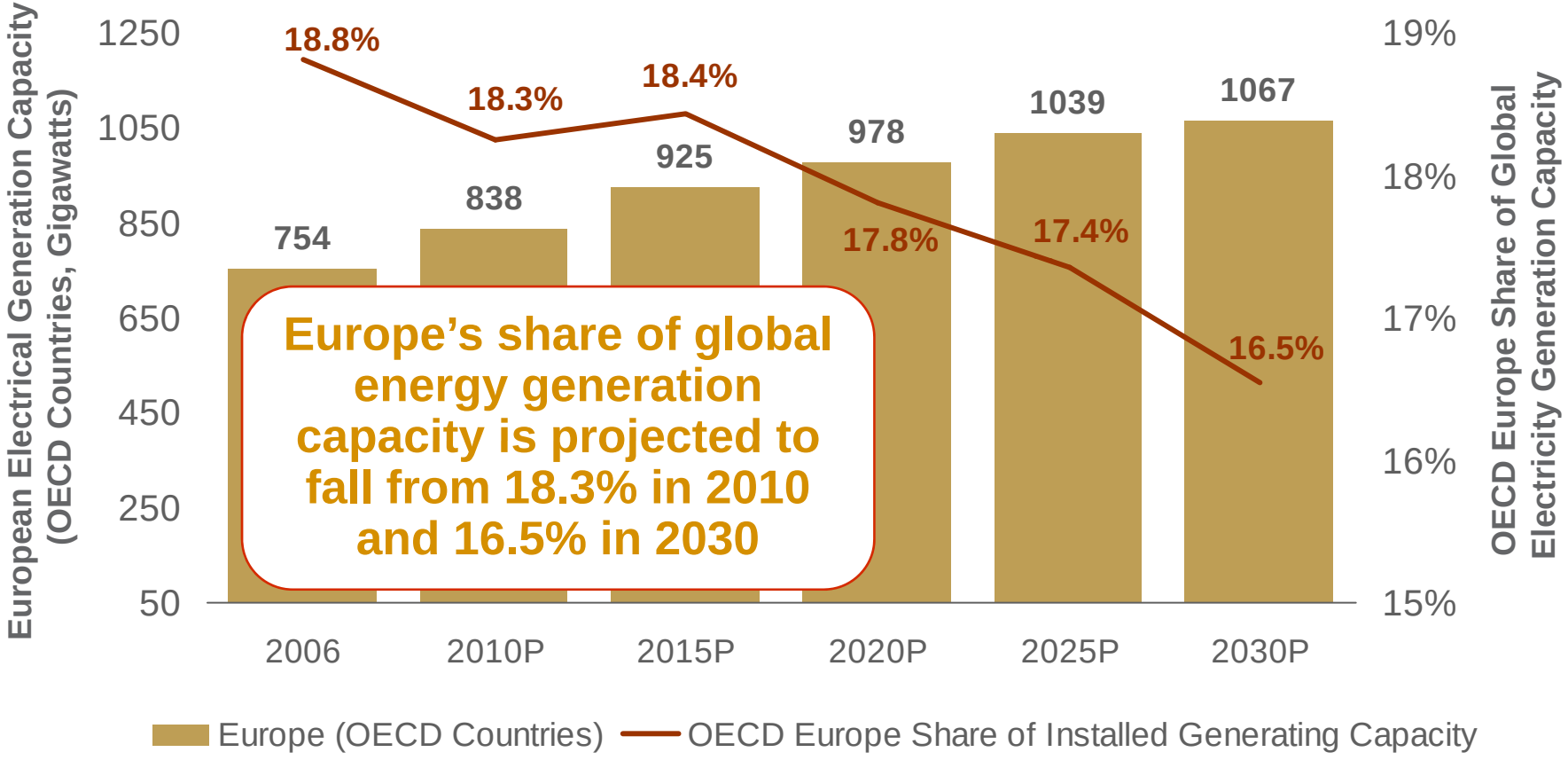
2006-2030P



Source: Energy Information Administration, *2009 International Energy Outlook*, Insurance Information Institute.

European Share of Global Electricity Generation Capacity As a Share of Global Capacity

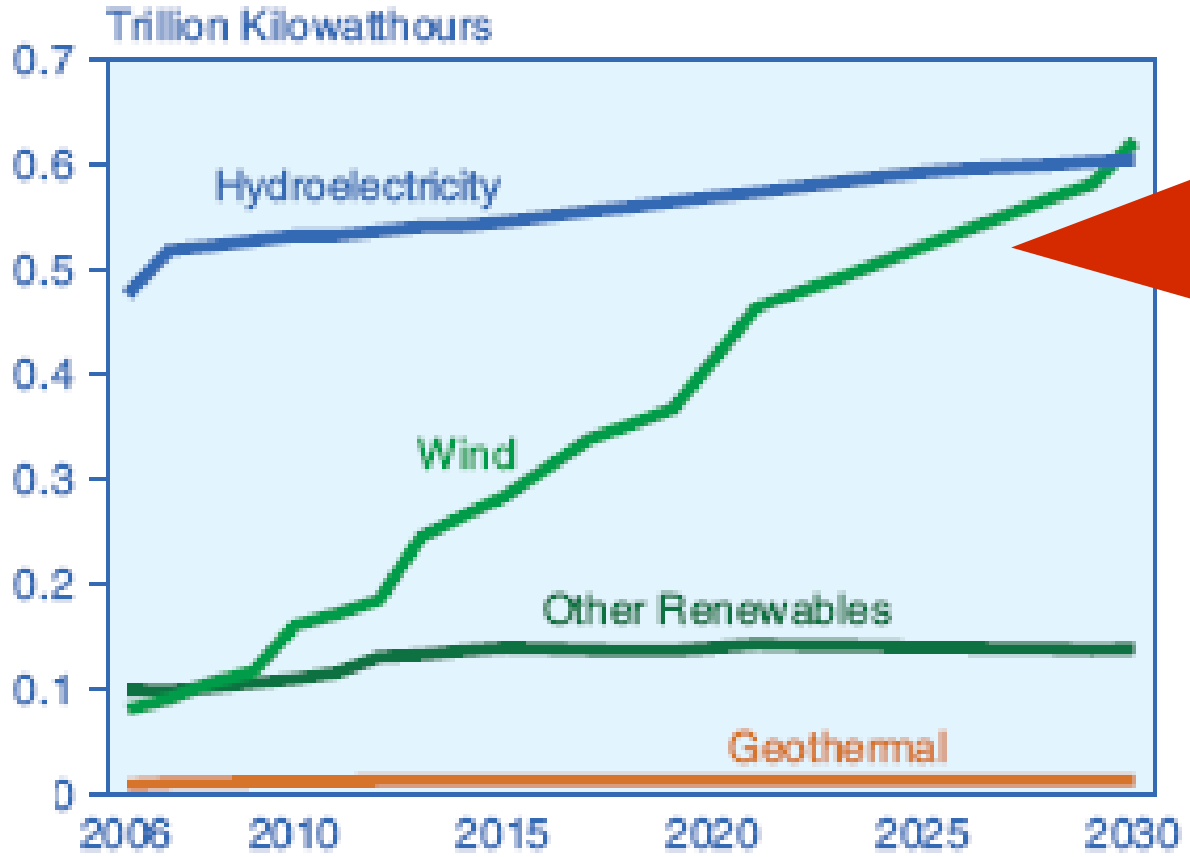
1990-2030P



Source: Energy Information Administration, *2009 International Energy Outlook*, Insurance Information Institute calculations.

Renewable Electricity Generation in OECD Europe by Fuel

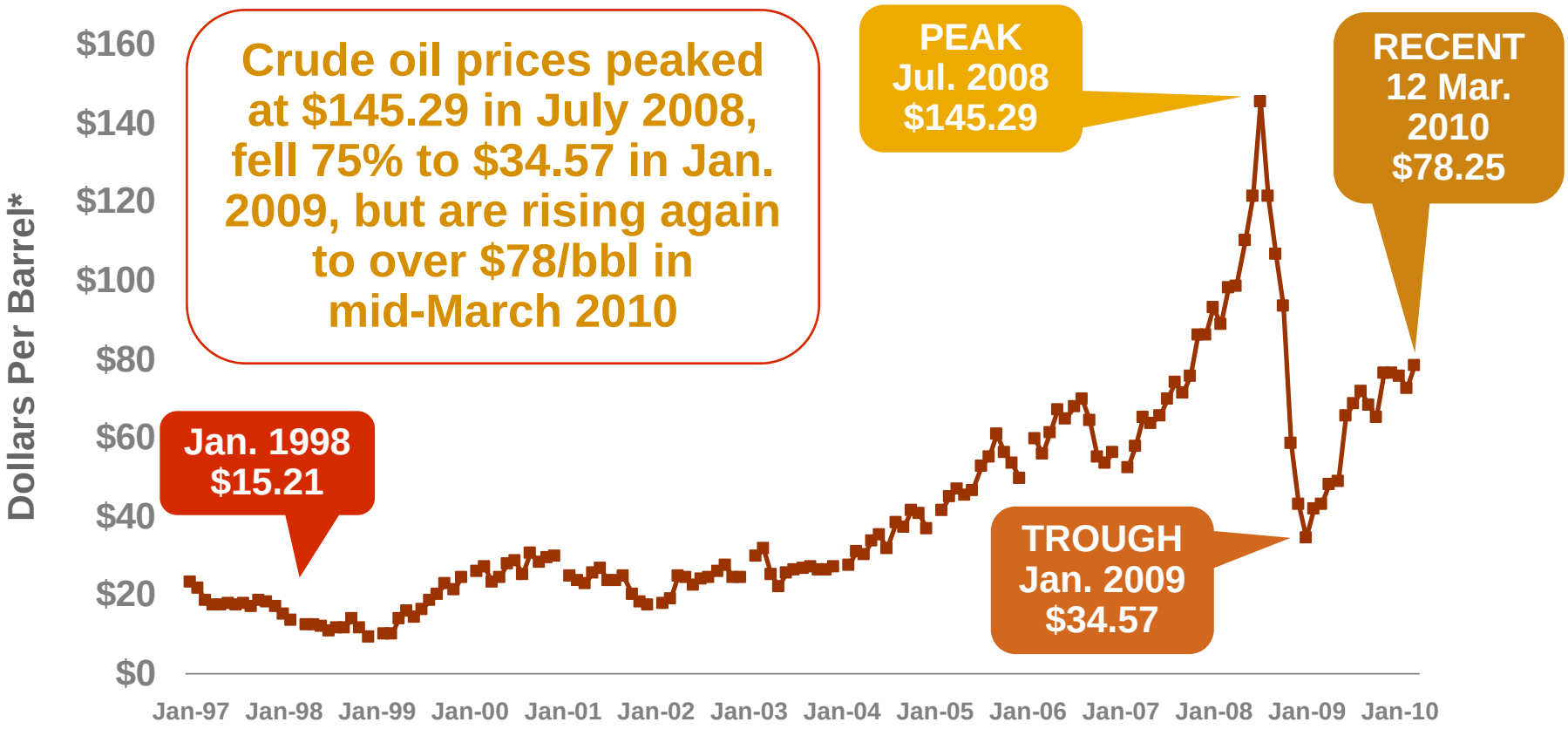
2006-2030P



Wind is by far the most important source of new generation capacity in OECD Europe (i.e., excludes Russia and Eurasian countries)

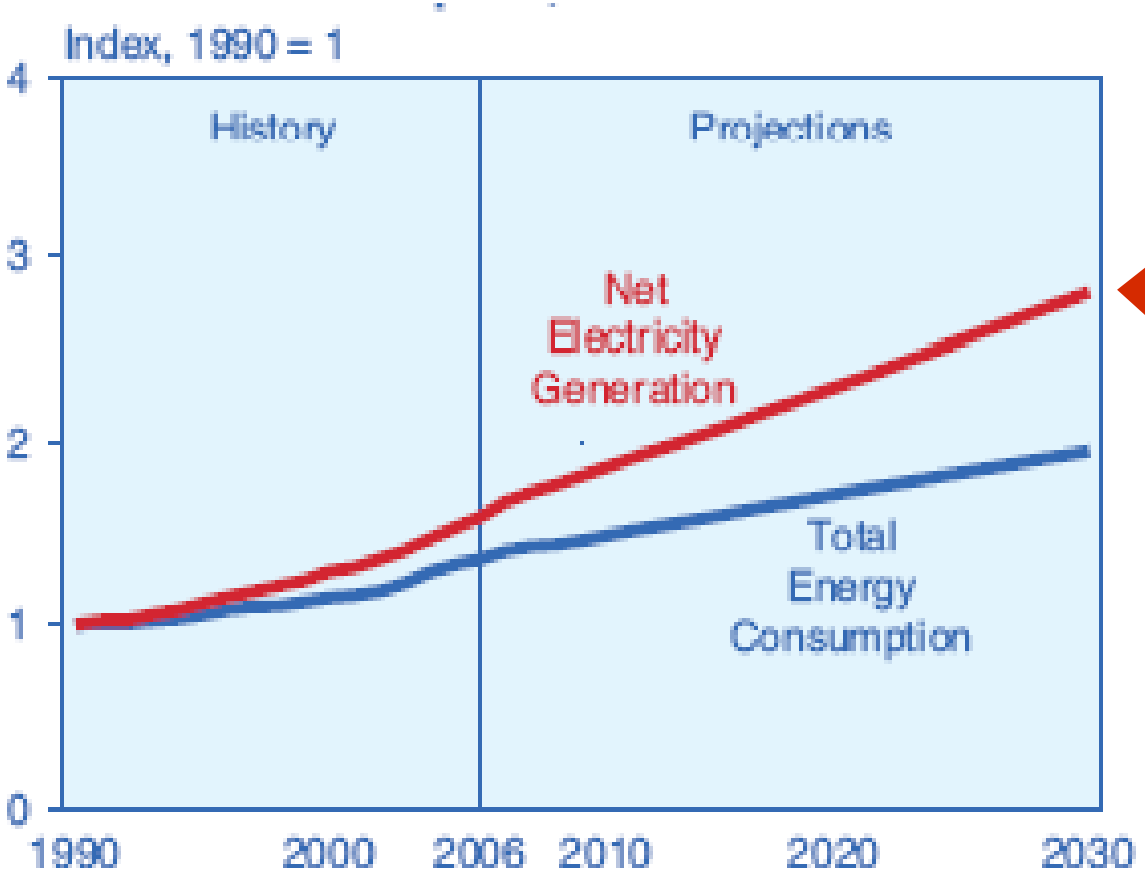
Sources: Energy Information Administration: *International Energy Outlook 2009*; Insurance Information Institute.

World Crude Oil Prices: 1997- March 2010



*All countries spot market price weighted by estimated export volume.
Source: Energy Information Administration; http://tonto.eia.doe.gov/dnav/pet/hist/wtotworldw.htm

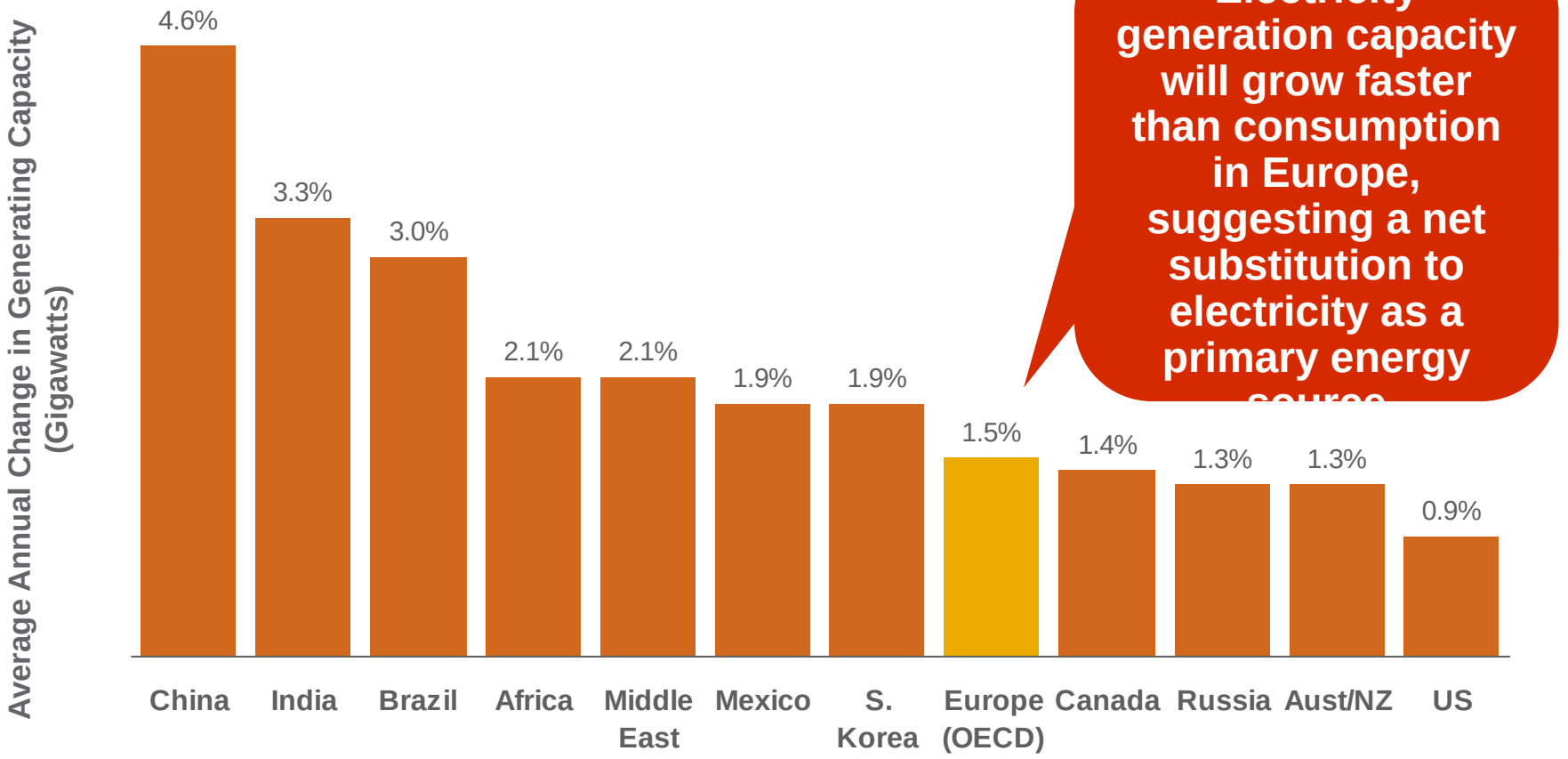
Global Net Electricity Generation is Growing Faster than Consumption



- Electricity generation is growing faster than total energy consumption
- This suggests that there is a net substitution away from other energy sources to electricity
- Implies a bright future for utilities
- Requires significant insurance capacity

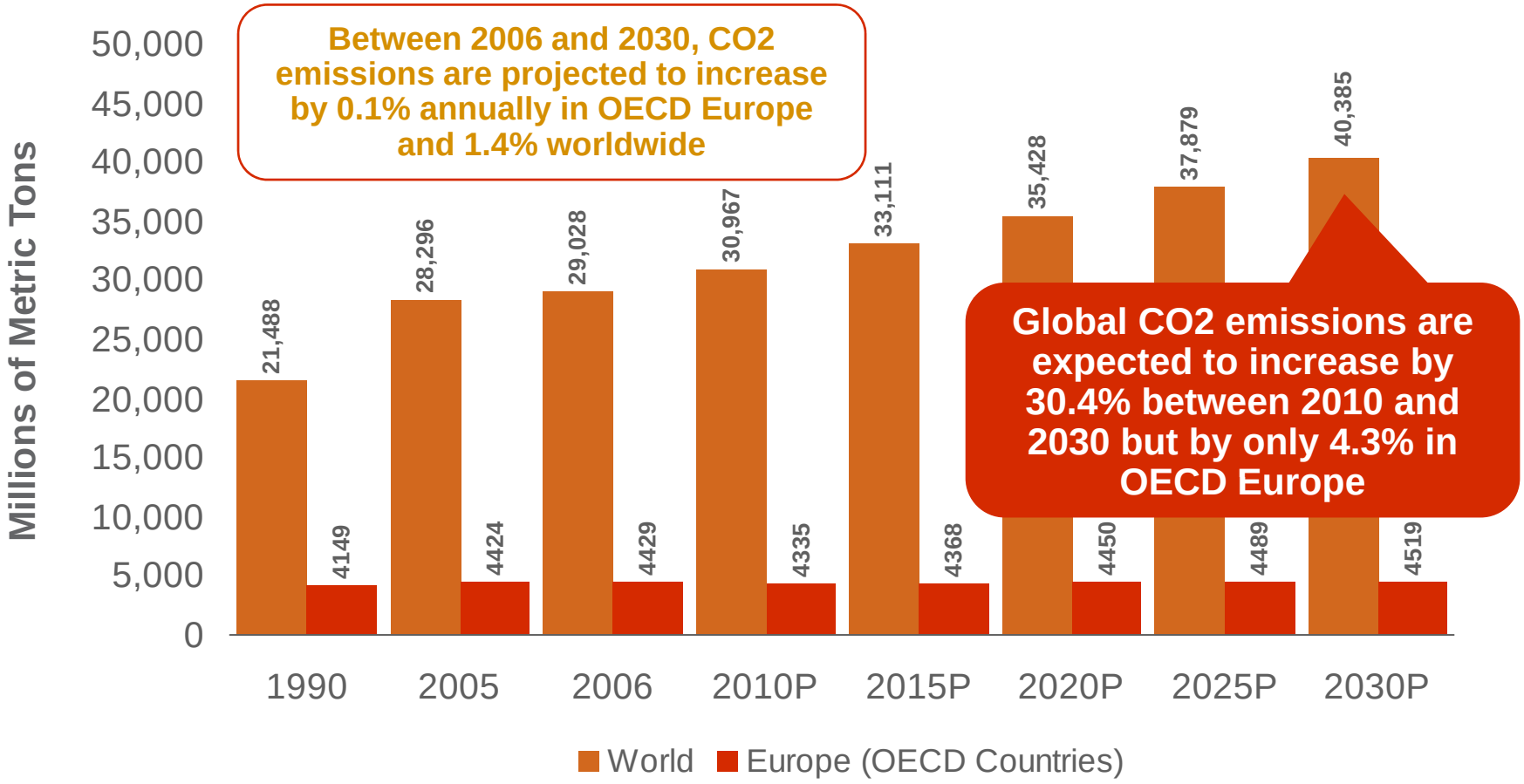
Sources: Energy Information Administration: *International Energy Outlook 2009*; Insurance Information Institute.

Average Annual Change in Electricity Generating Capacity by Country/Region
2006-2030P



Source: Energy Information Administration, *2009 International Energy Outlook*, Insurance Information Institute.

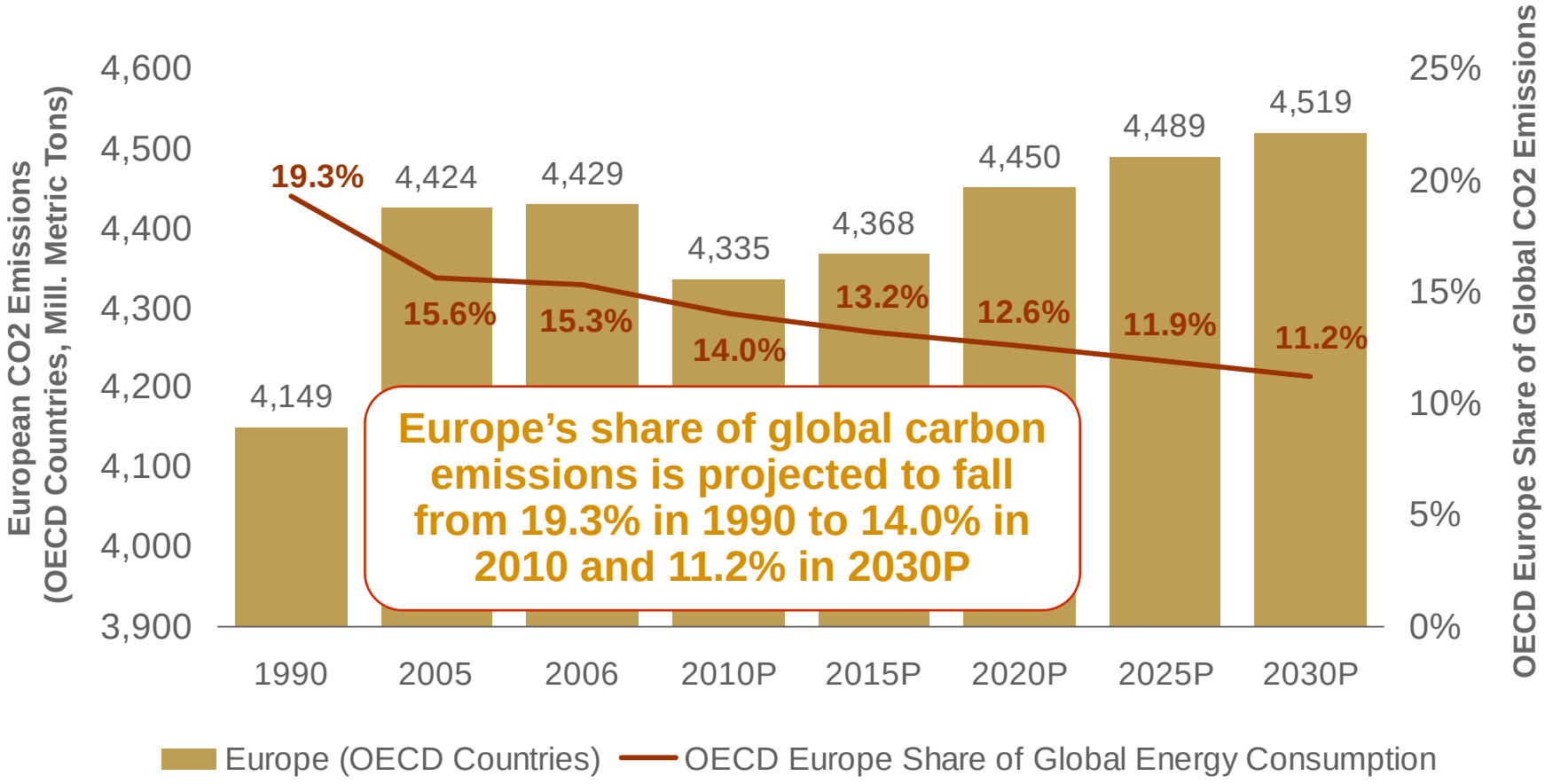
World & European Carbon Dioxide Emissions
1990-2030P



Source: Energy Information Administration, *2009 International Energy Outlook*, Insurance Information Institute.

European Carbon Dioxide Emissions As a Share of Global Emissions

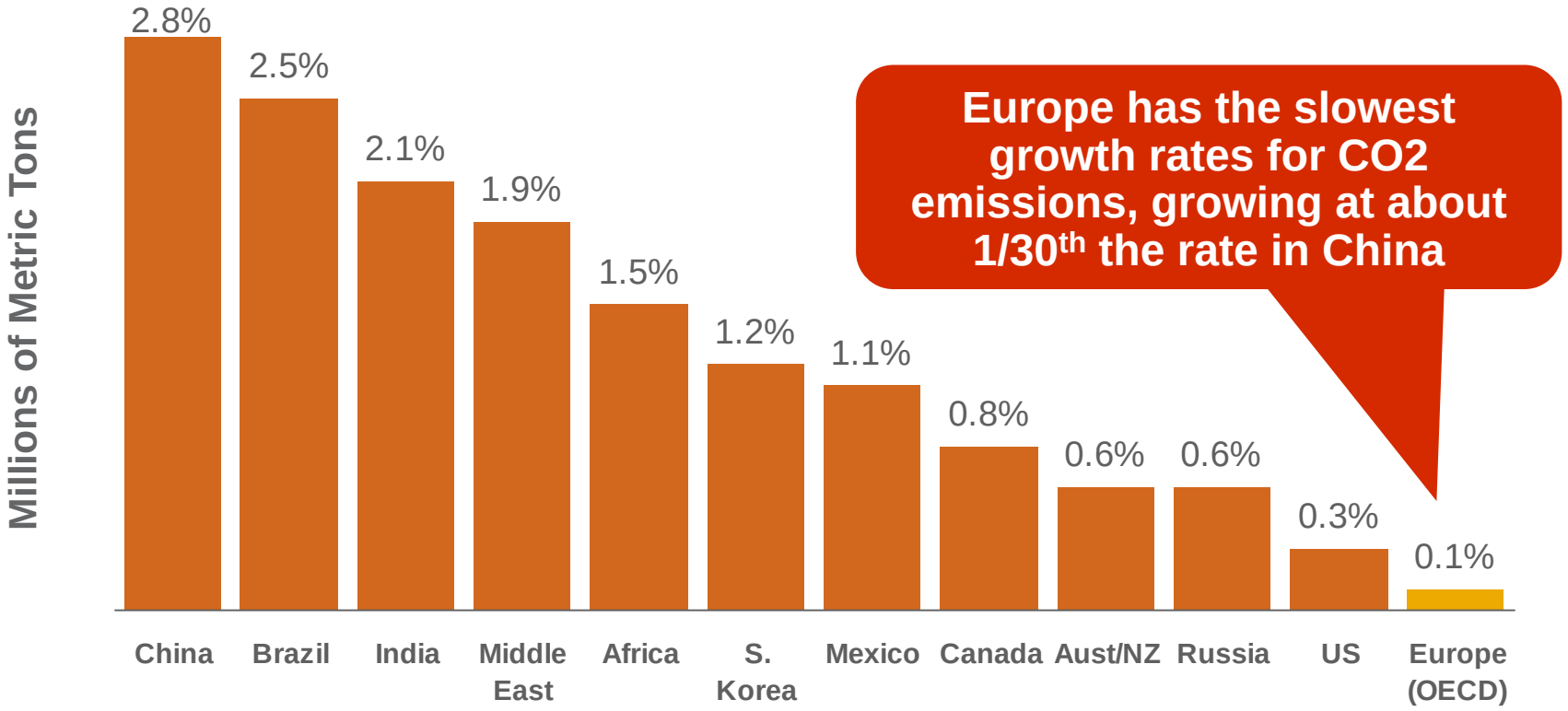
1990-2030P



Source: Energy Information Administration, *2009 International Energy Outlook*, Insurance Information Institute calculations.

Average Annual Change in Carbon Dioxide Emissions by Country/Region

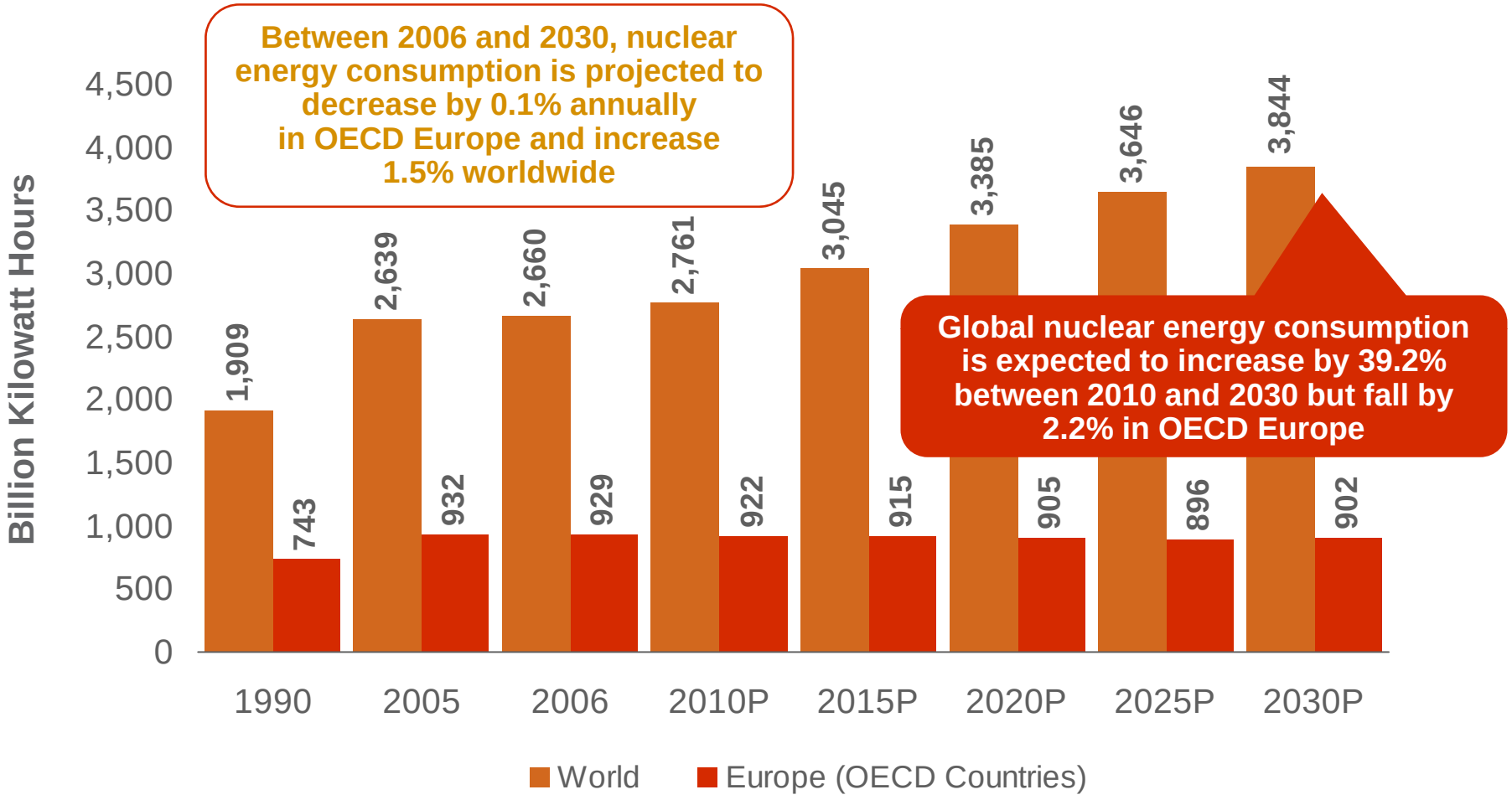
2006-2030P



Source: Energy Information Administration, *2009 International Energy Outlook*, Insurance Information Institute.

World & European Nuclear Energy Consumption

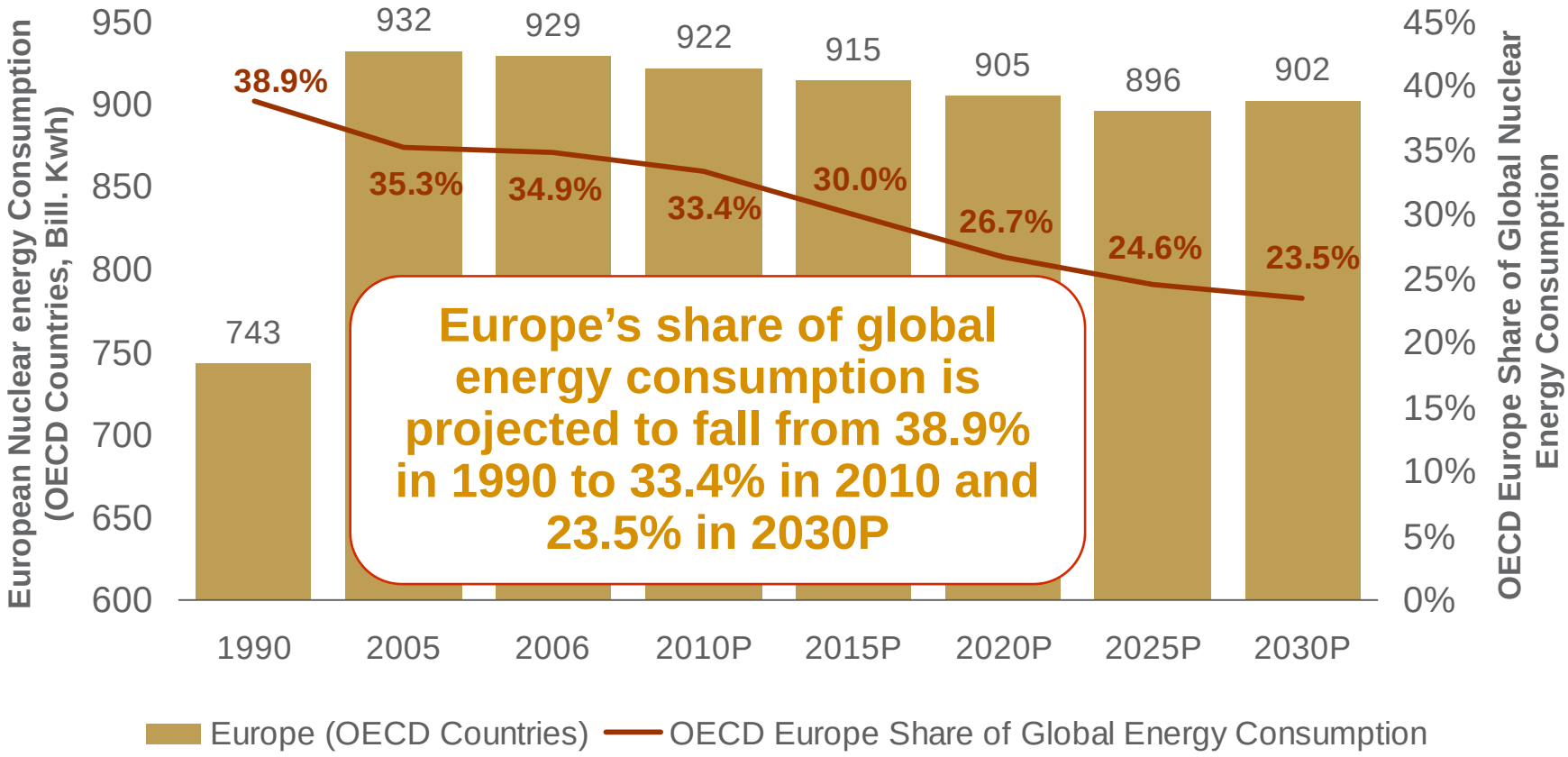
1990-2030P



Source: Energy Information Administration, *2009 International Energy Outlook*, Insurance Information Institute.

European Nuclear Energy Consumption As a Share of Global Consumption

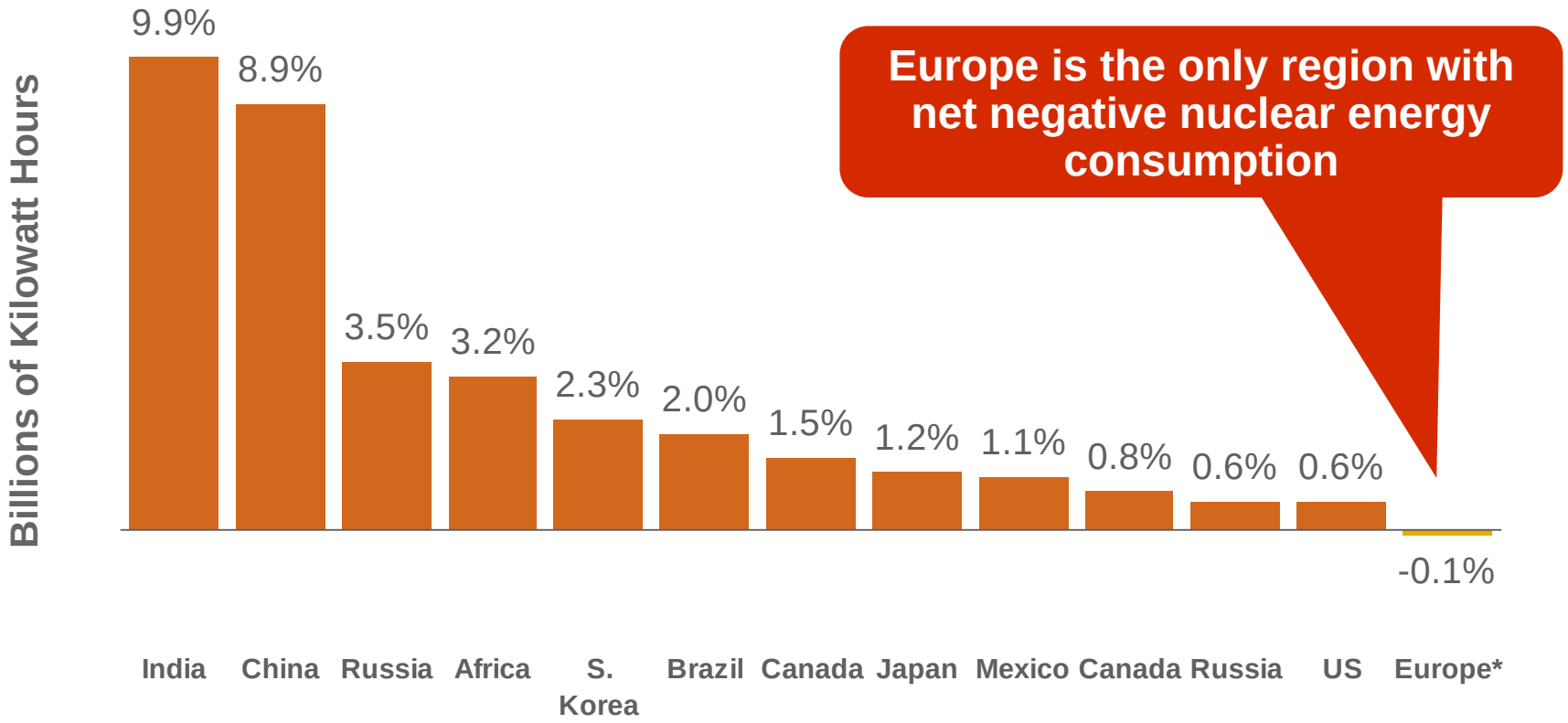
1990-2030P



Source: Energy Information Administration, *2009 International Energy Outlook*, Insurance Information Institute calculations.

Average Annual Change in Nuclear Energy Consumption by Country/Region

2006-2030P

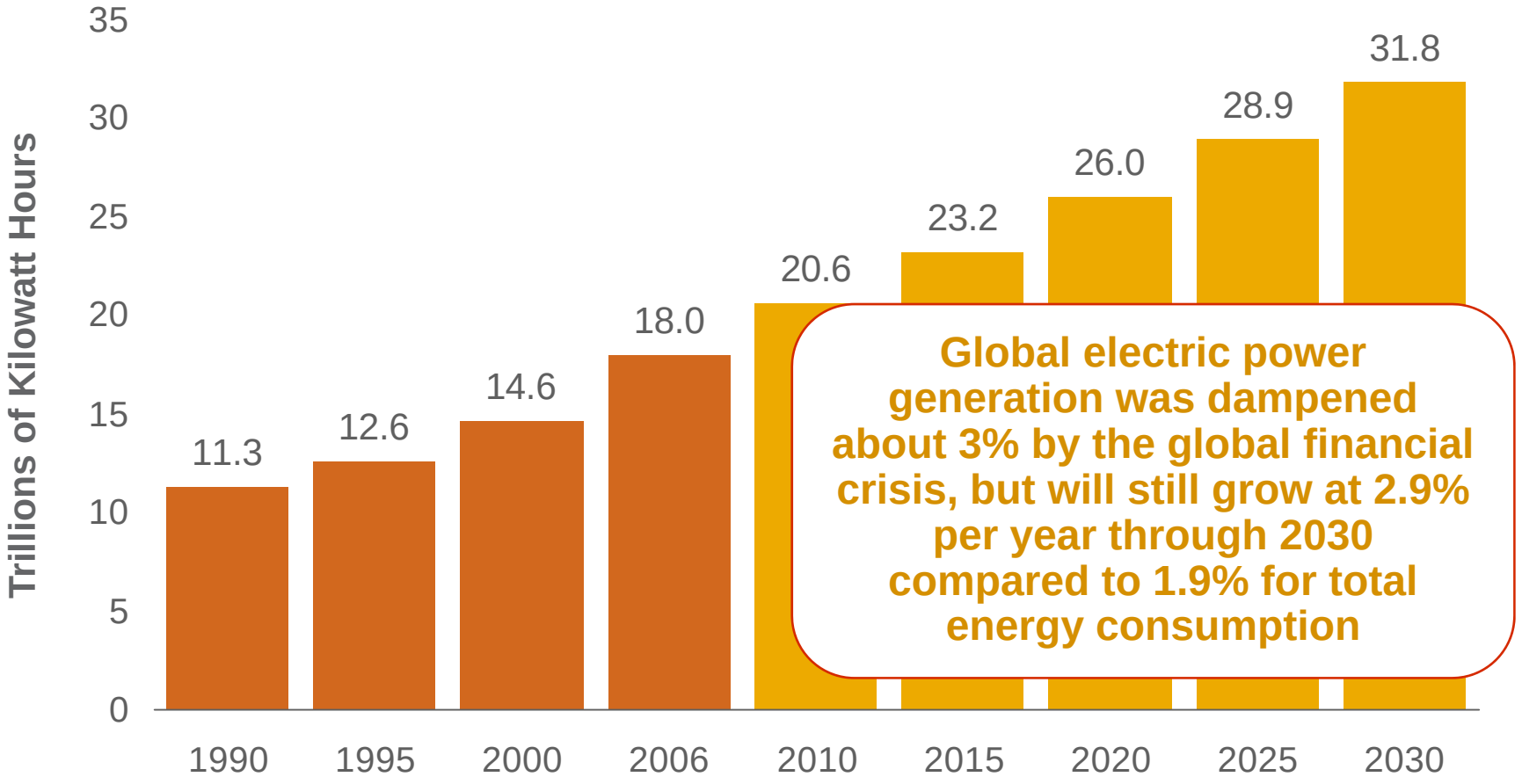


*OECD Countries.

Source: Energy Information Administration, *2009 International Energy Outlook*, Insurance Information Institute.

World Net Effective Electric Power Generation

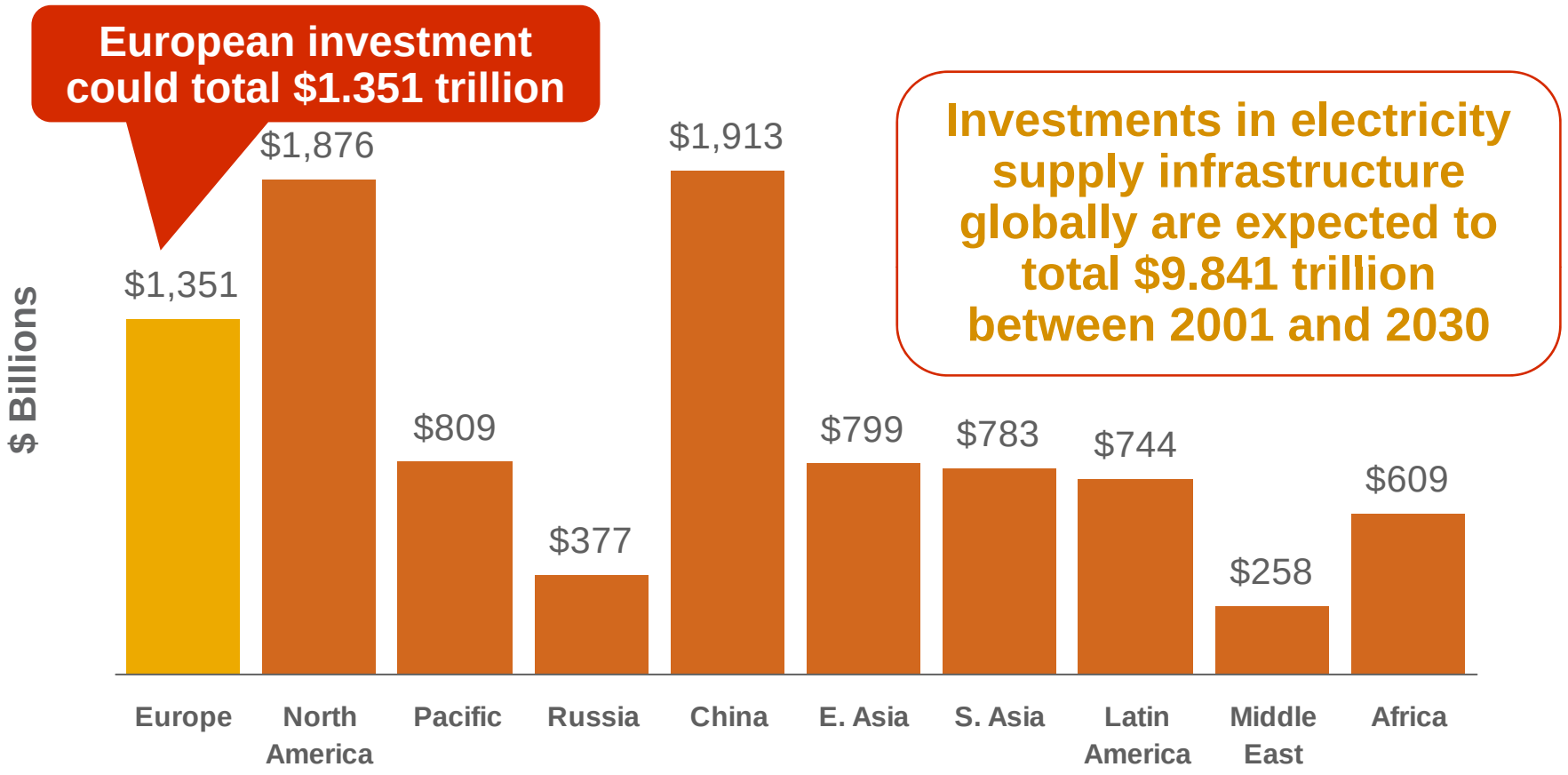
1990-2030 (est.)



Source: Energy Information Administration, *2009 International Energy Outlook*, Insurance Information Institute.

Electricity Supply Infrastructure: Despite Crisis, Huge Investments Needed along with Insurance

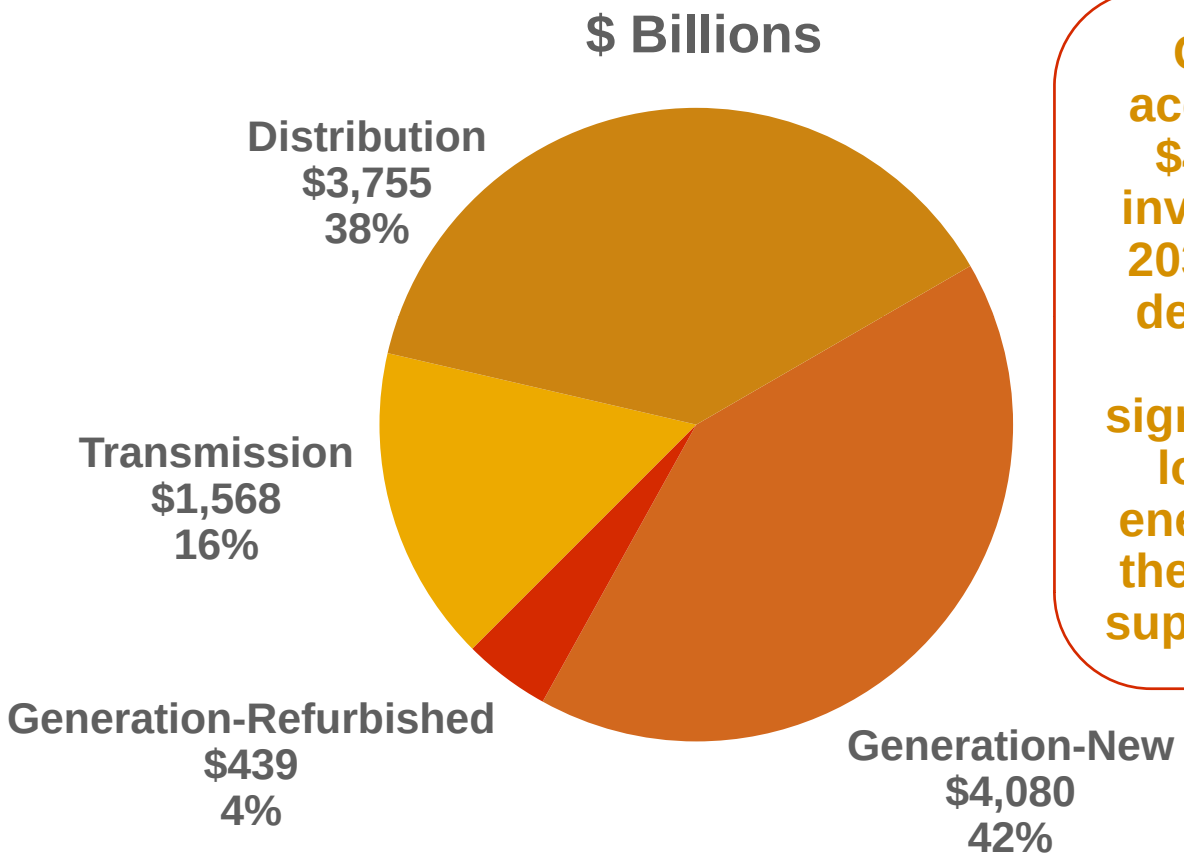
2001-2030 (est.)



Source: International Atomic Energy Agency, *World Outlook for Electricity Investment.*

World Energy Supply Infrastructure Investment by Category

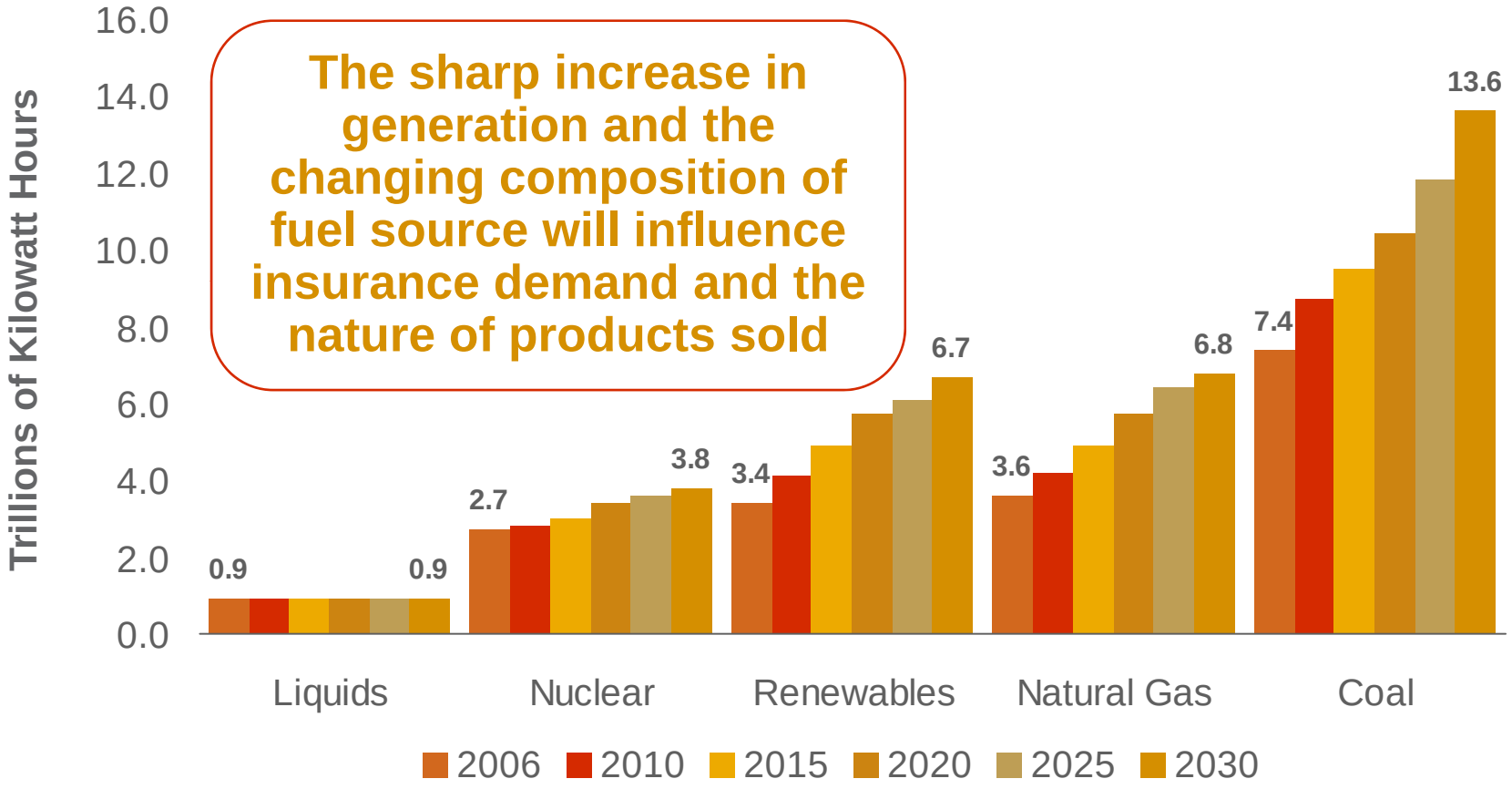
2001-2030P



Generation will account for 46% or $4.5 trillion of all investment through 2030 to meet rising demand. Financial crisis had no significant impact on long-term global energy demand and the need to develop supply infrastructure

Source: International Atomic Energy Agency, *World Outlook for Electricity Investment.*

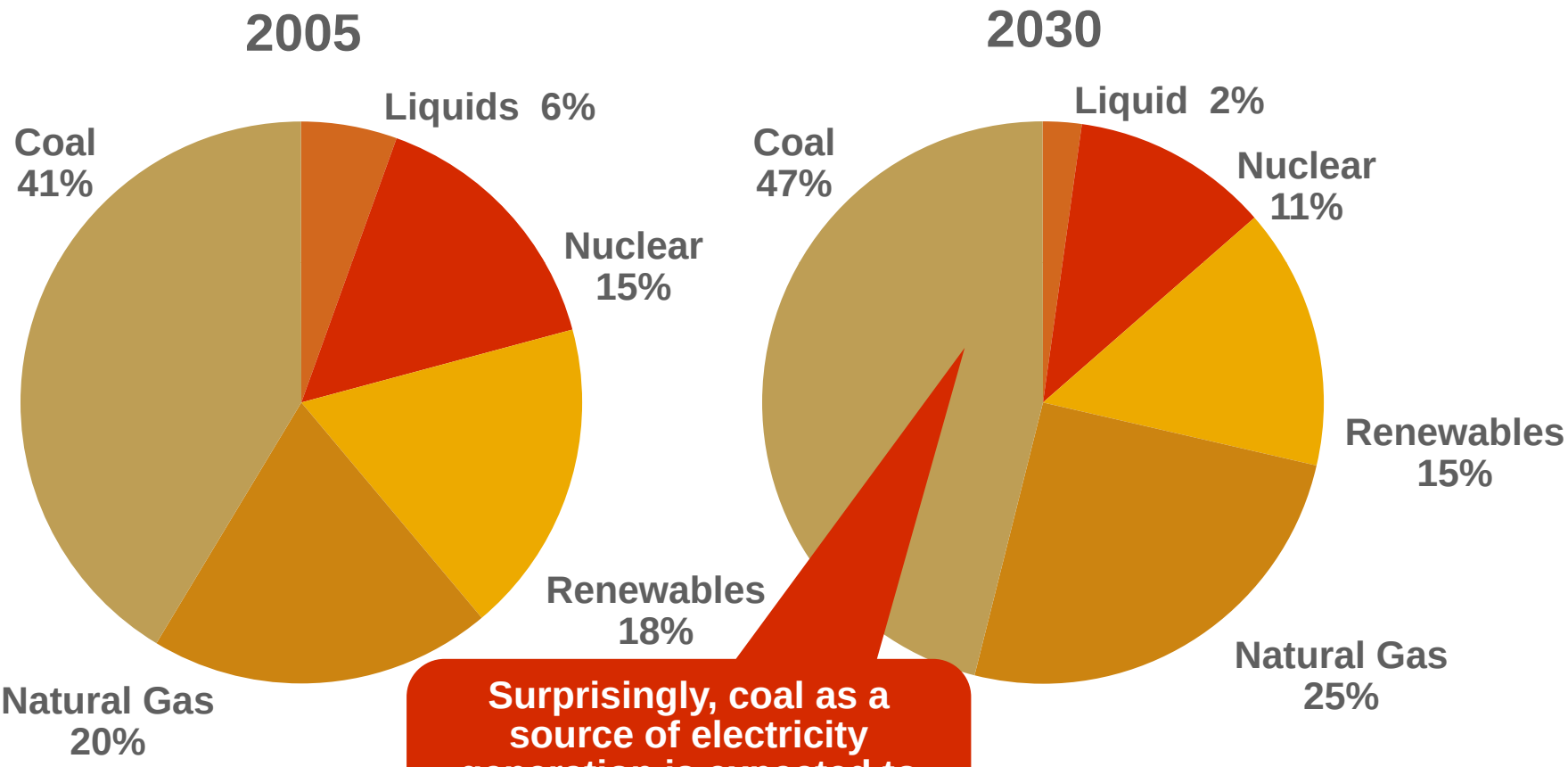
World Electricity Generation by Fuel
2006-2030F



Source: Energy Information Administration, *2009 International Energy Outlook*, Insurance Information Institute.

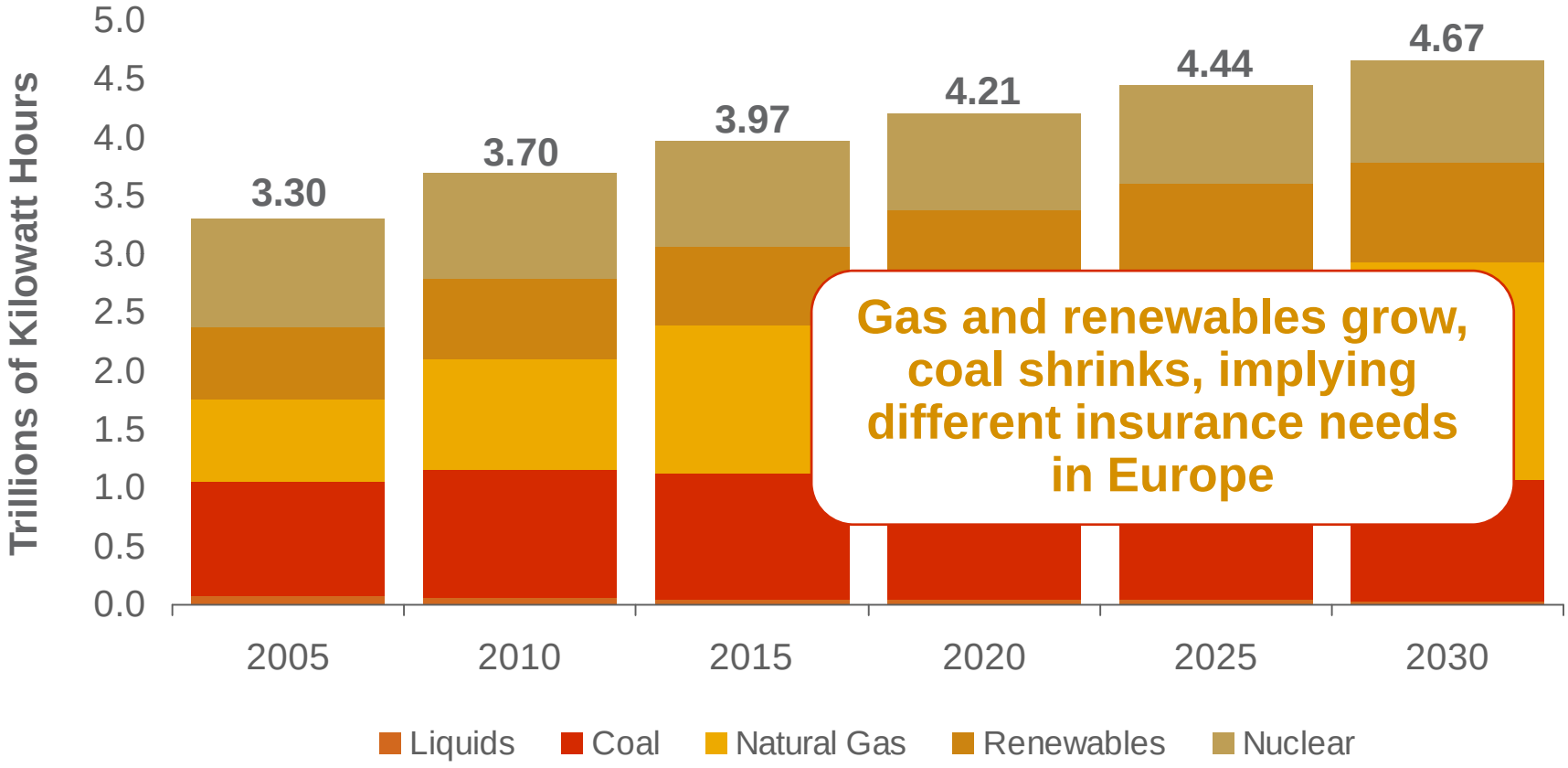
World Electricity Generation by Fuel Source Share

2005 vs. 2030F



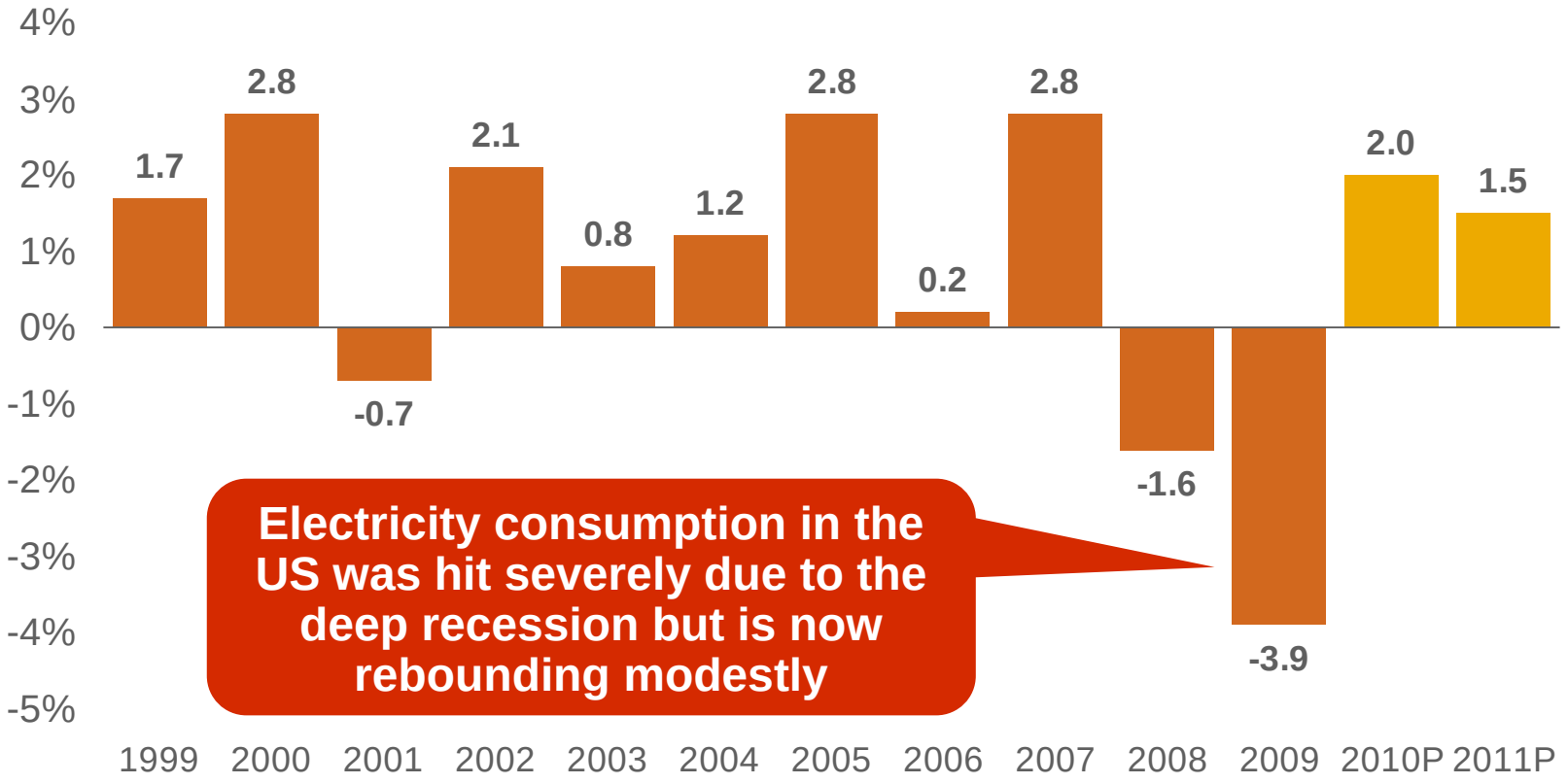
Source: Insurance Information Institute from ...OE/EIA-0484 (Sept. 2008).

European Electricity Generation, by Fuel
2005-2030F



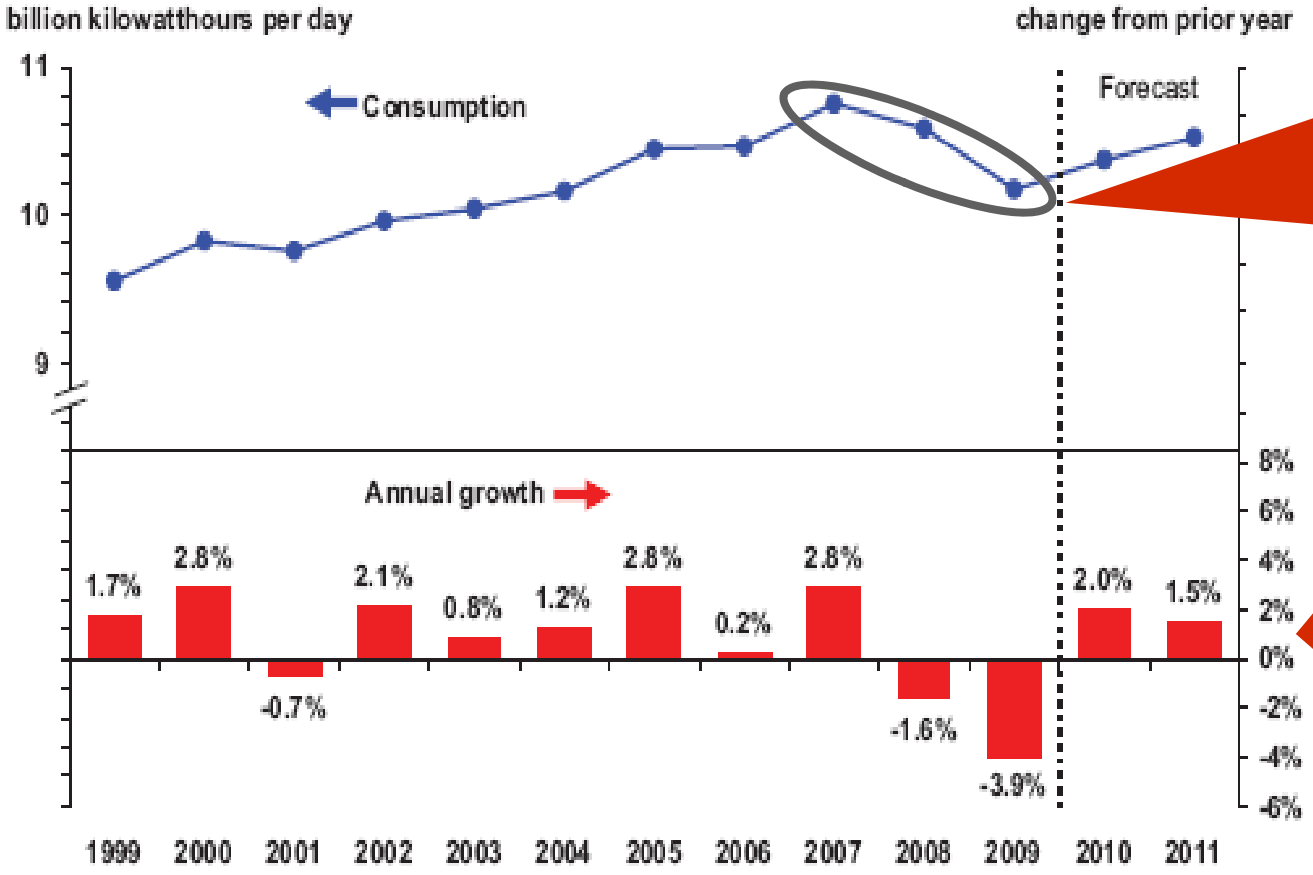
Source: US Department of Energy Report #:DOE/EIA-0484 (Sept. 2008); Insurance Information Institute.

Electricity Consumption in the United States*
1999-2011P



*Change based on billions of kilowatthours used per day.
Source: Energy Information Administration, *Short-Term Energy Outlook*, March 2010, Insurance Information Institute.

US Total Electricity Consumption
1999-2011P



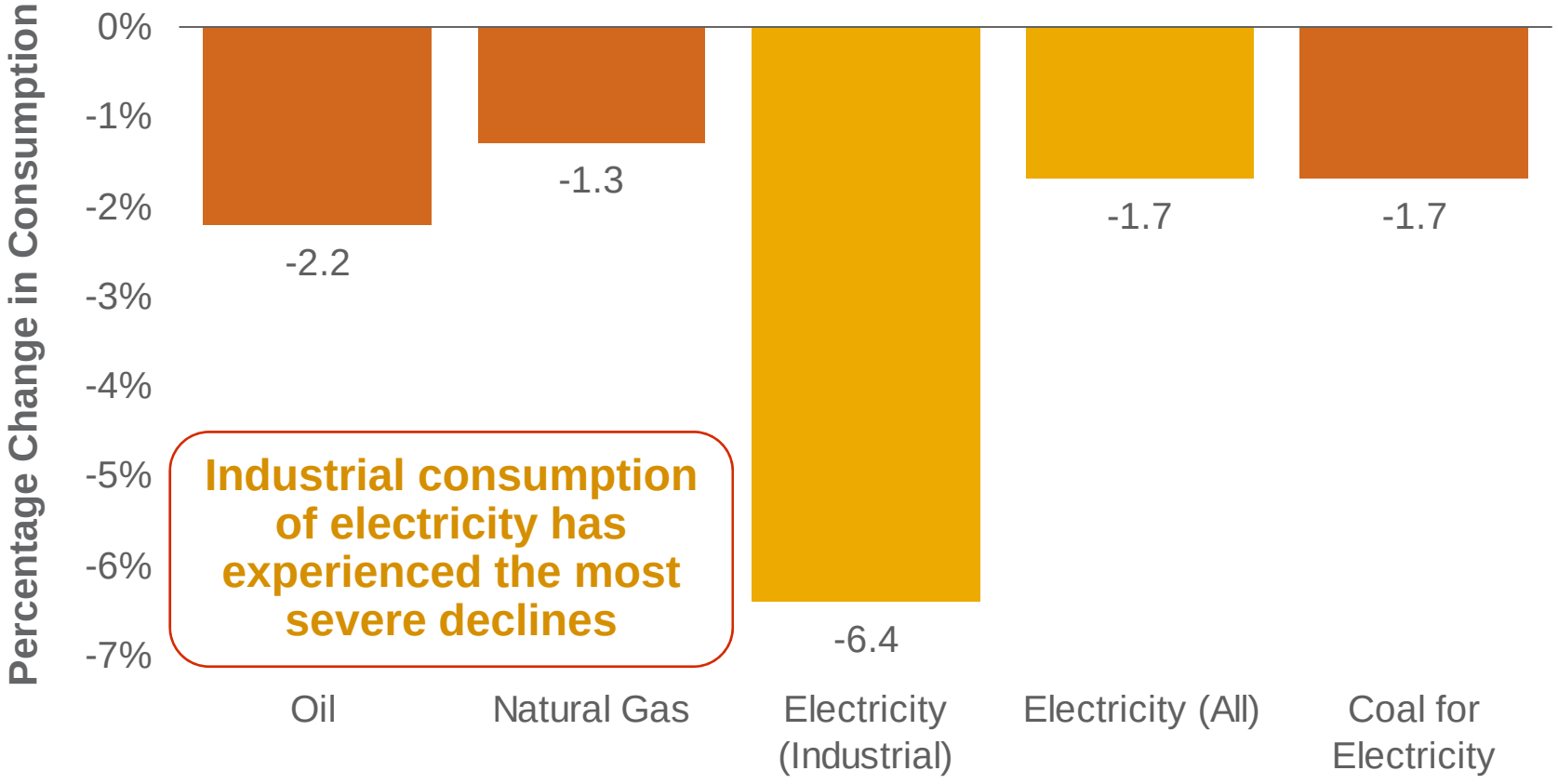
Recession had a significant but in the long-run minor impact on electricity consumption

Modest growth in consumption is projected for both 2010 and 2011

Source: Energy Information Administration, *Short-Term Energy Outlook*, March 2010, Insurance Information Institute.

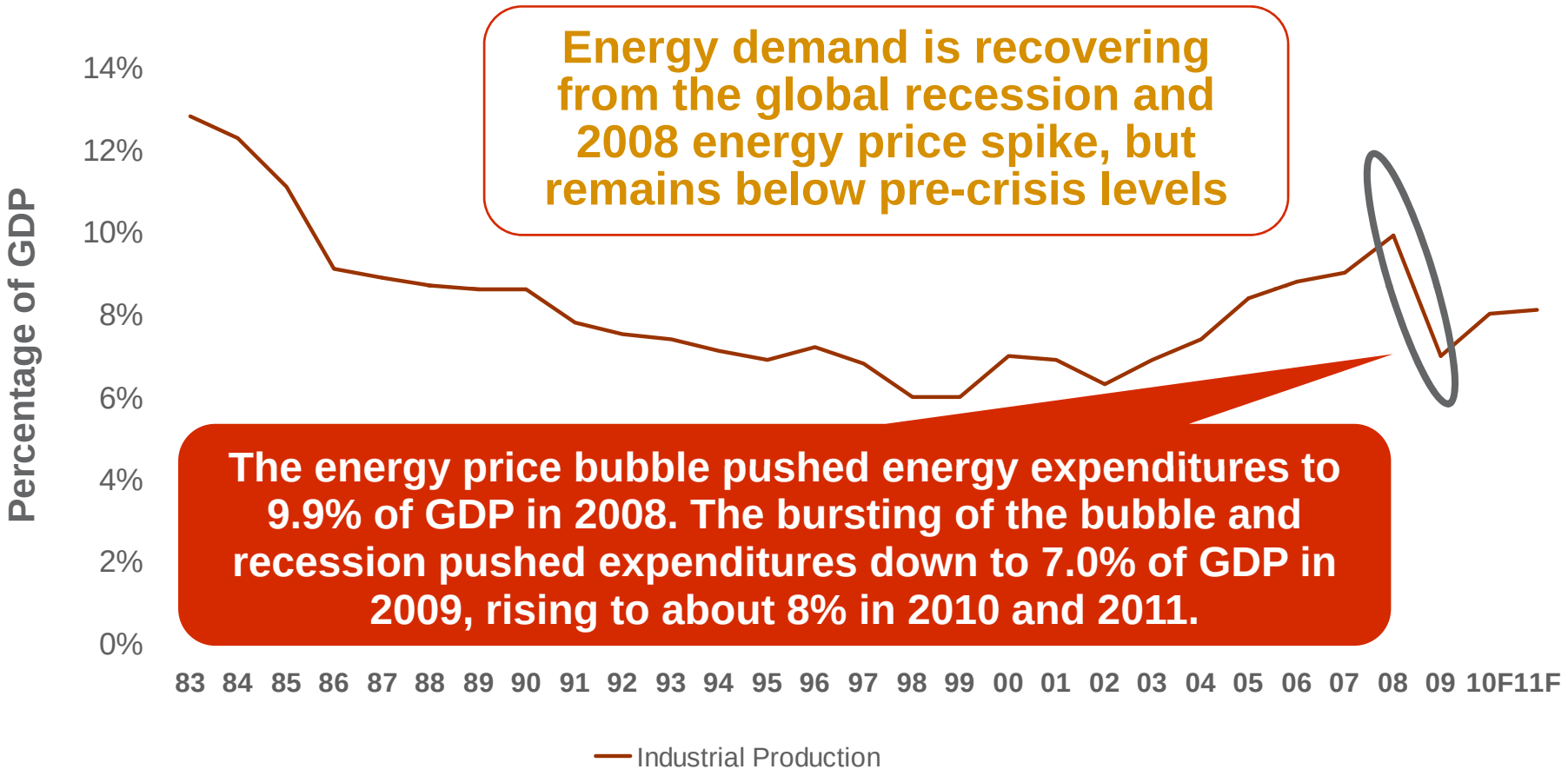
Severe Recession Depressed US Energy Demand

Change 2009 vs. 2008



Sources: Energy Information Administration based on *Short-Term Energy Outlook*, March 2009 and March 2010.

US Energy Expenditures As a % of GDP Have Been Hurt by Recession



Source: Energy Information Administration, *Short-Term Energy Outlook*, March 2010; Insurance Information Institute.

Impact of the Global Financial Crisis on Energy Business

Global Financial Crisis Will Have Little Long-Term Impact on Consumption or Generation

Financial Crisis: Energy's Lessons

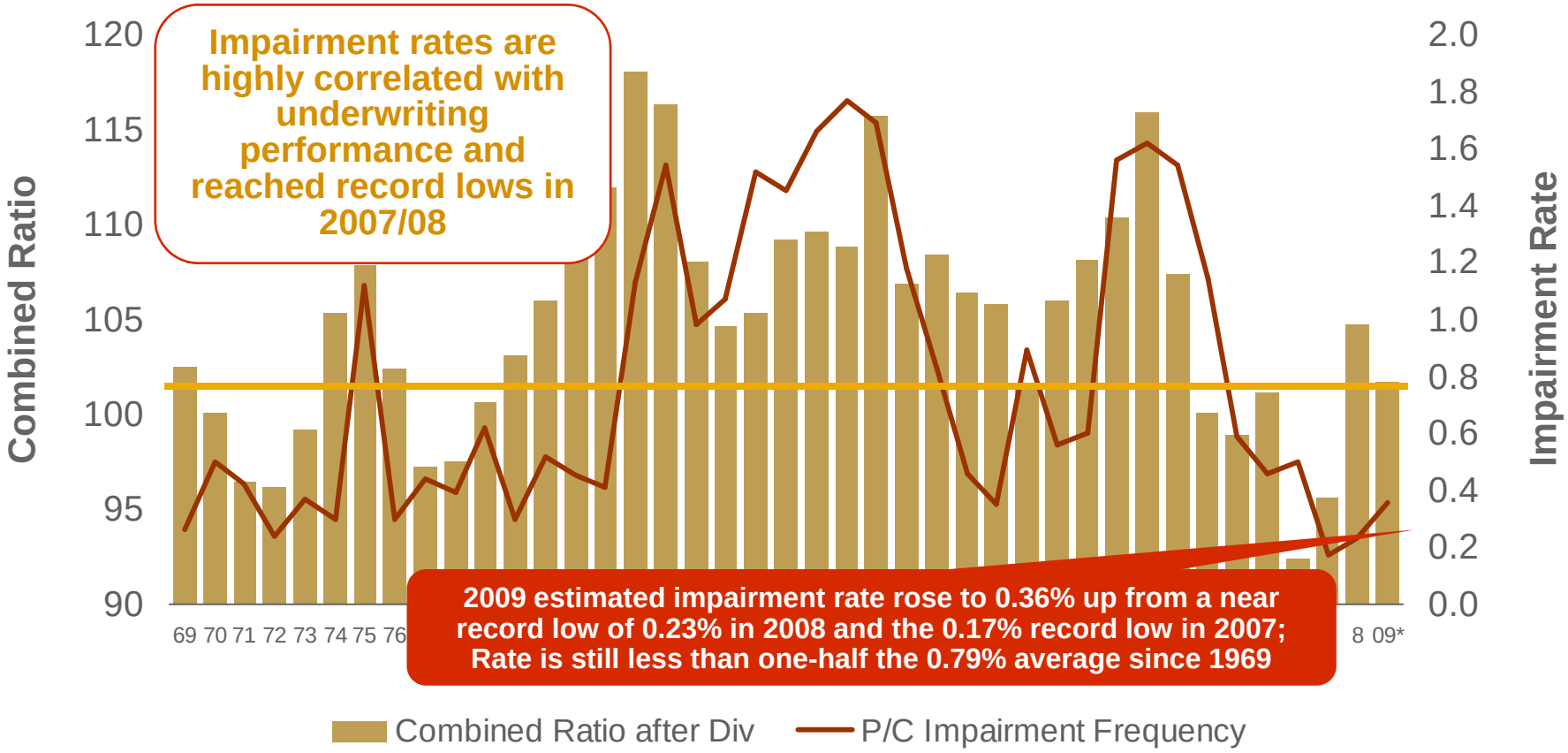
- The net impact of the financial crisis was to reduce projected 2030 global capacity and consumption by 2 to 3% from levels projected pre-crisis
- The long-term impact is therefore negligible, though there were some significant short- and intermediate term impacts, particularly for industrial energy consumption
- Fossil fuel price volatility exacerbated the crisis
- The trends toward renewable energy sources will continue with little disruption
- The crisis, along with dissatisfaction over rising tax burdens in the US, have significantly reduced the chances of a comprehensive cap and trade system in the US
- Relative weakness of US and European recoveries will accelerate shift in consumption and generation shares in Asia

Financial Strength & Ratings

The Global Insurance Industry Has Weathered the Economic Storm Well

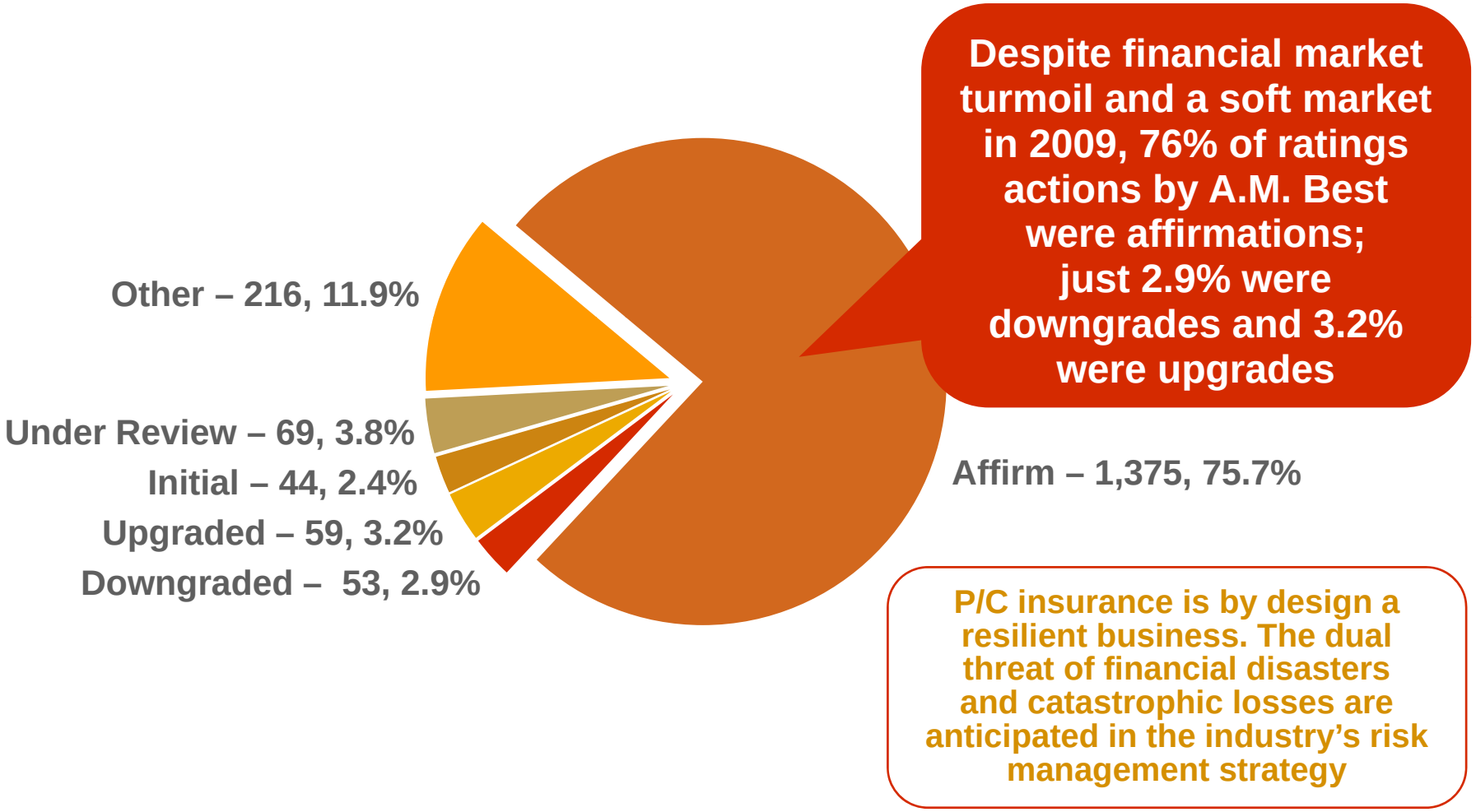
P/C Insurer Impairment Frequency vs. Combined Ratio

1969-2009P



*Combined ratio of 101.7 is through Q3:09; 0.36% 2009 impairment rate is III estimate based on preliminary A.M. Best data.
Source: A.M. Best; Insurance Information Institute.

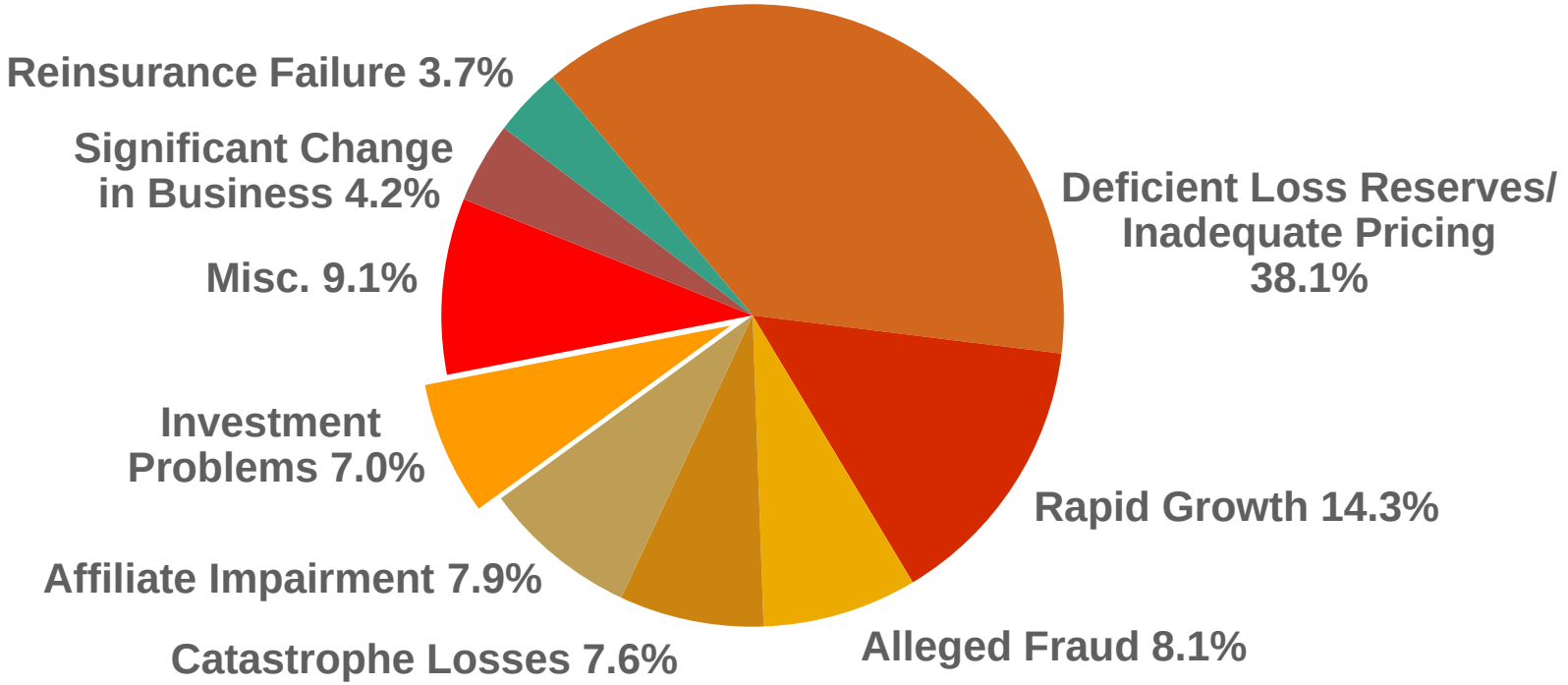
Summary of A.M. Best's P/C Insurer Ratings Actions in 2009



Source: A.M. Best.

Reasons for US P/C Insurer Impairments
1969-2008

Deficient loss reserves and inadequate pricing are the leading cause of insurer impairments, underscoring the importance of discipline. Investment catastrophe losses play a much smaller role.



Source: A.M. Best: *1969-2008 Impairment Review*, Special Report, Apr. 6, 2008.

P/C Insurance Financial Performance

A Resilient Industry in Challenging Times

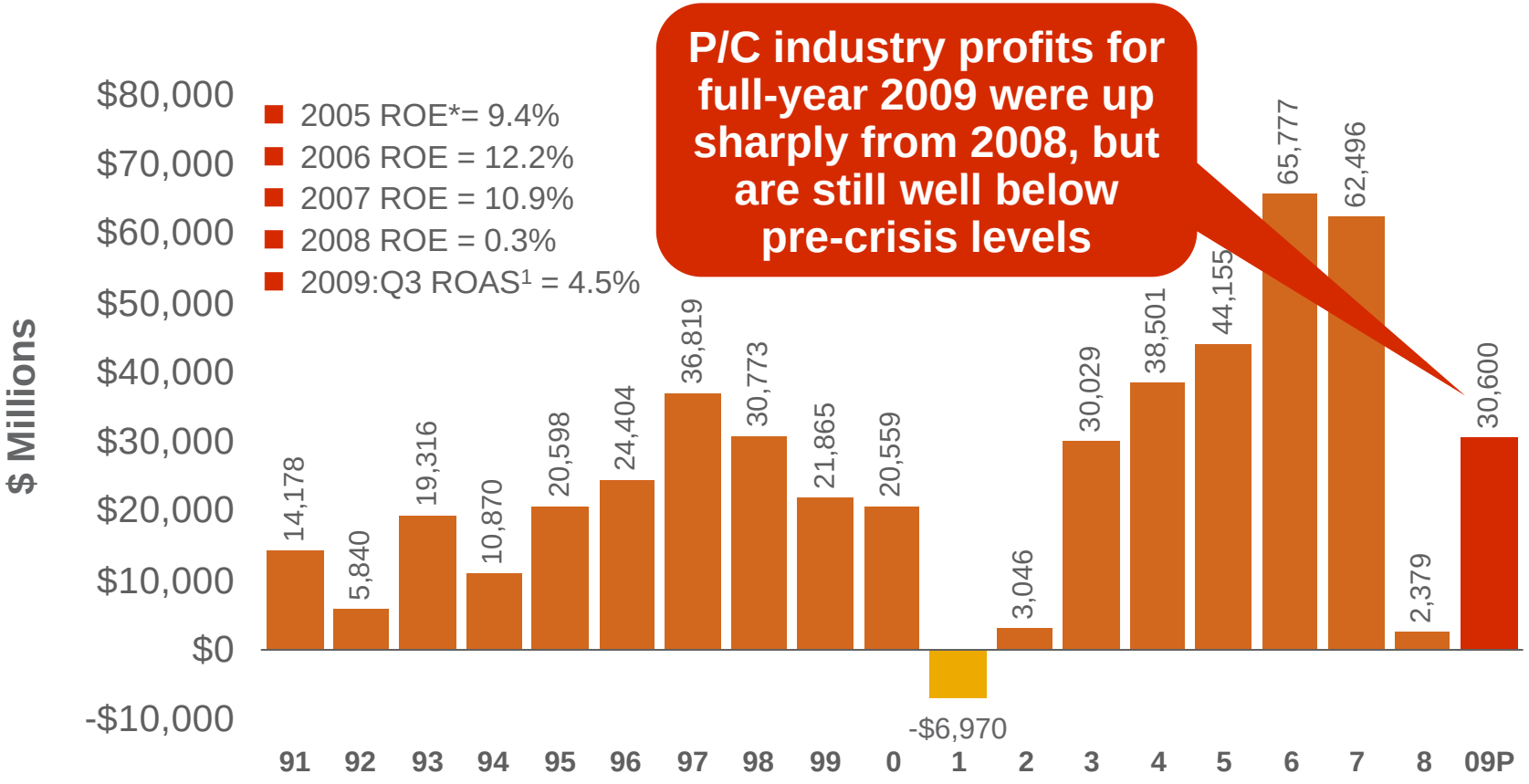
AEGIS London

Profitability

Historically Volatile

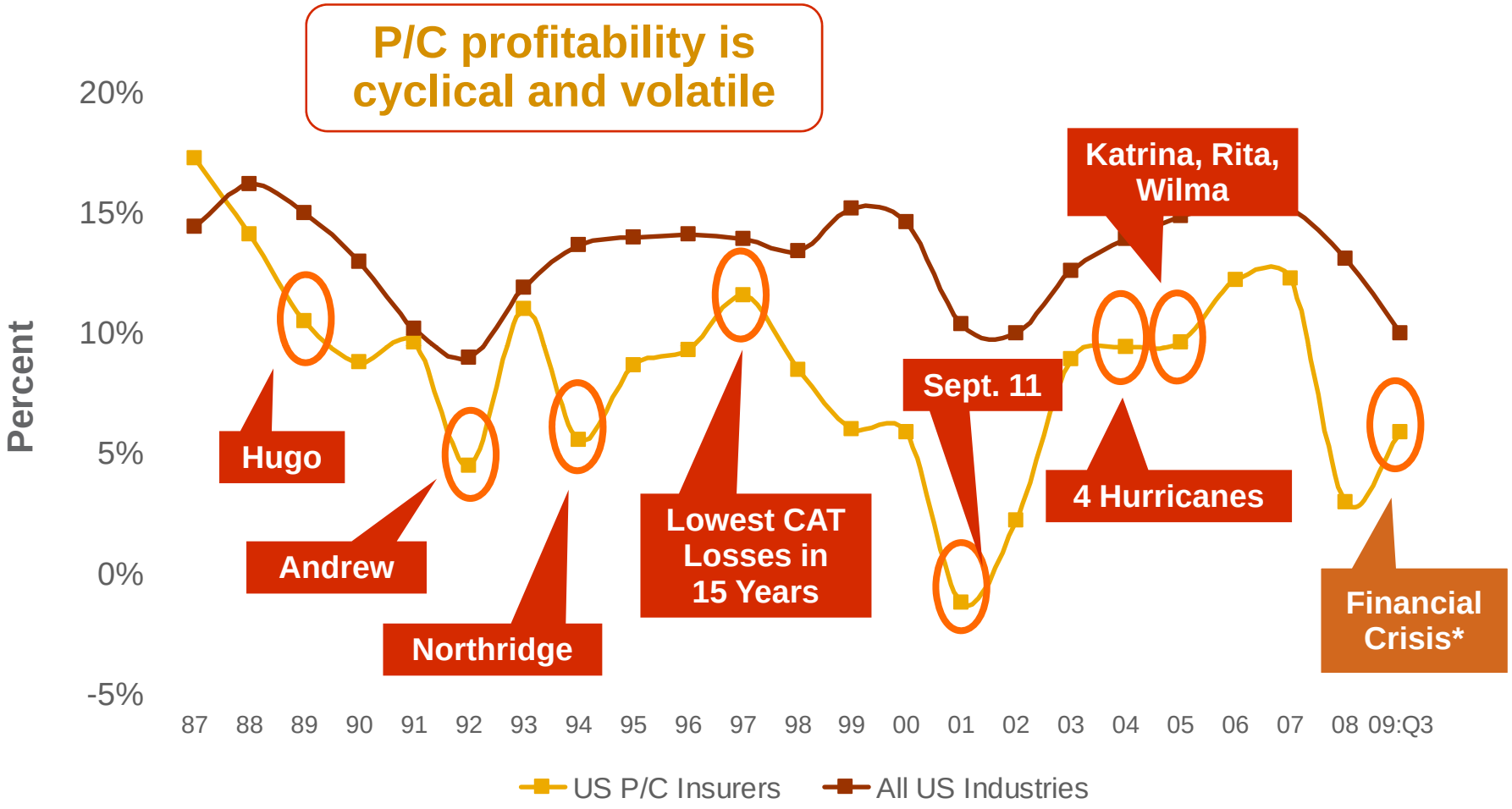
P/C Net Income after Taxes

1991-2009P



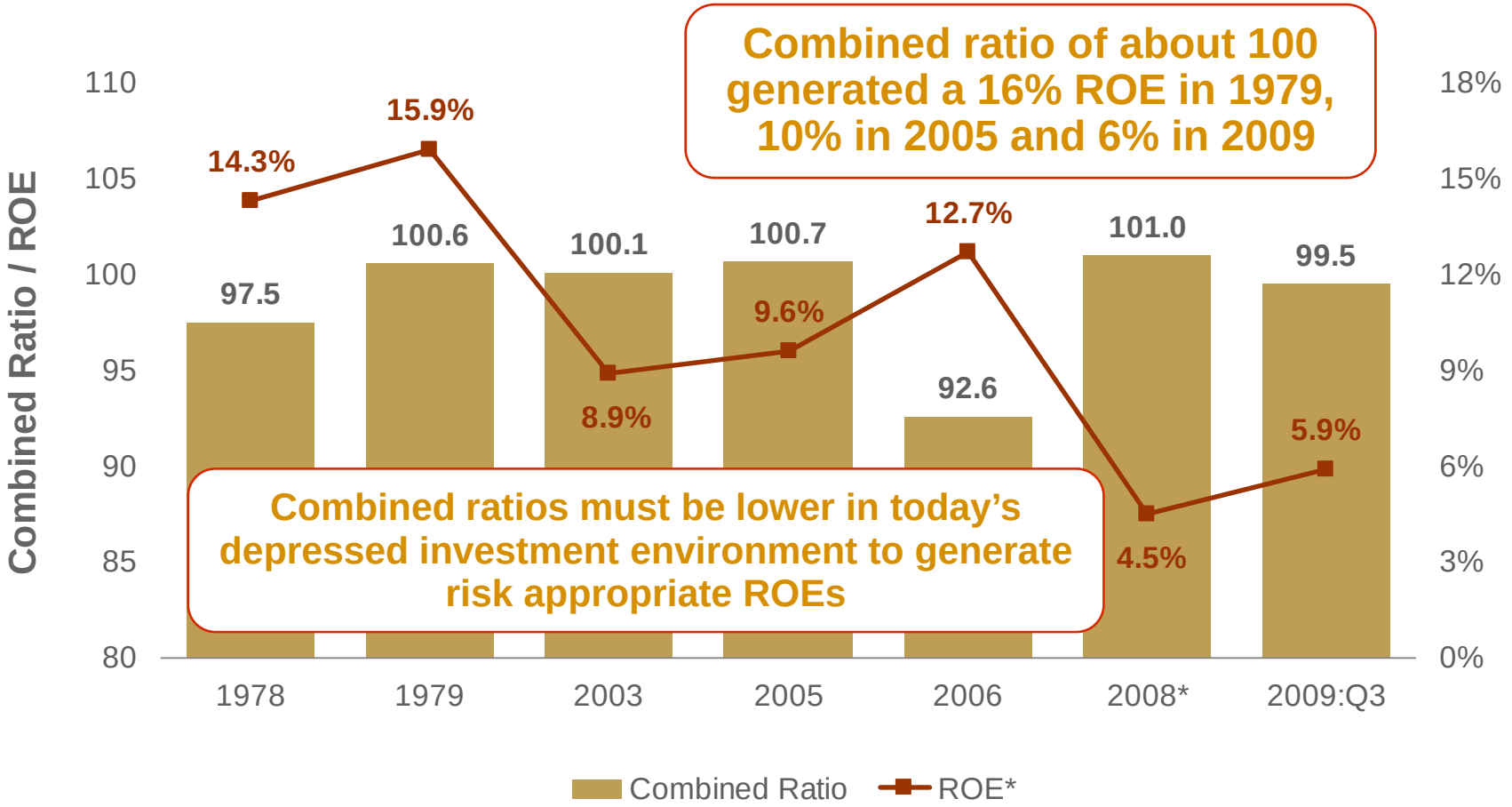
* ROE figures are GAAP; [1]Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 4.5% ROAS for 2008 and 5.9% for the first 9 months of 2009. 2009:Q3 net income was $20.5 billion excluding M&FG. Sources: A.M. Best, ISO, Insurance Information Institute.

ROE: P/C vs. All Industries 1987–2009:Q3*



* Excludes Mortgage & Financial Guarantee in 2008 and 2009 through Q3. Sources: ISO, *Fortune*; Insurance Information Institute.

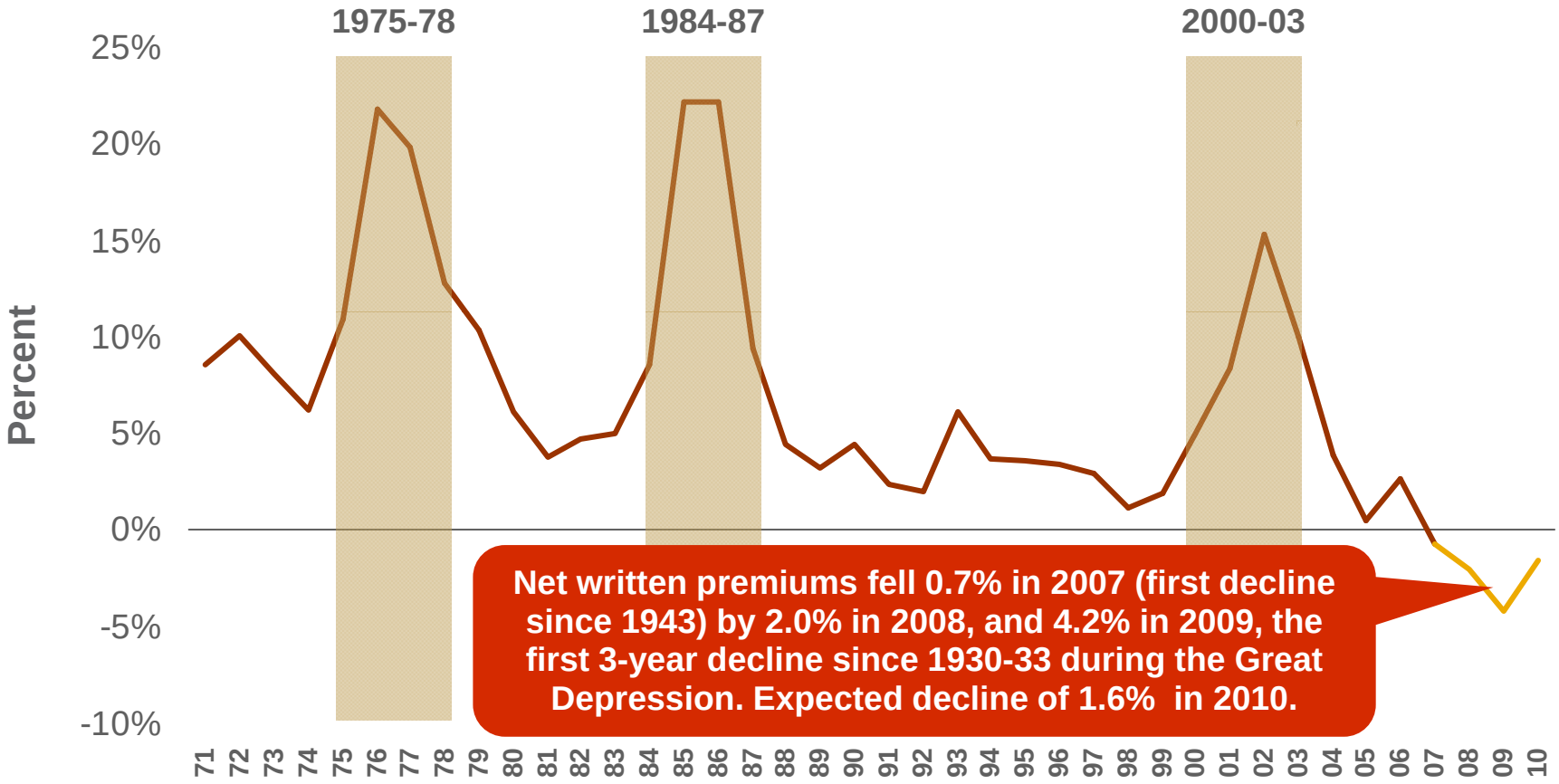
A 100 Combined Ratio Isn't What It Once Was: 90-95 Is Where It's at Now



*2009 figure is return on average statutory surplus. 2008 and 2009 figures exclude mortgage and financial guarantee insurers.
Source: Insurance Information Institute from A.M. Best and ISO data.

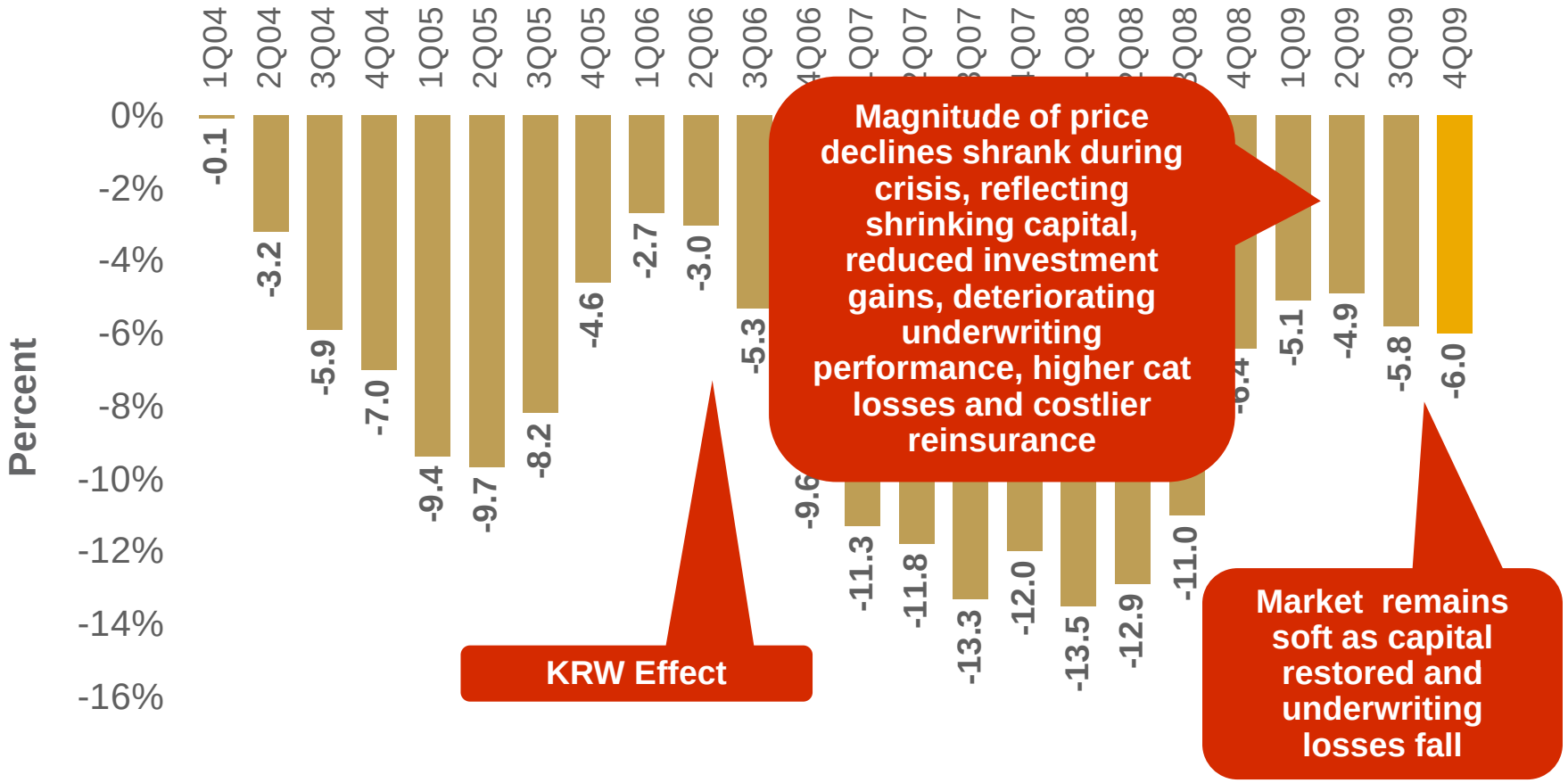
P/C Premium Growth Primarily Driven by the Industry's Underwriting Cycle, Not the Economy

Strength of Recent Hard Markets by NWP Growth



Shaded areas denote "hard market" periods. Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute.

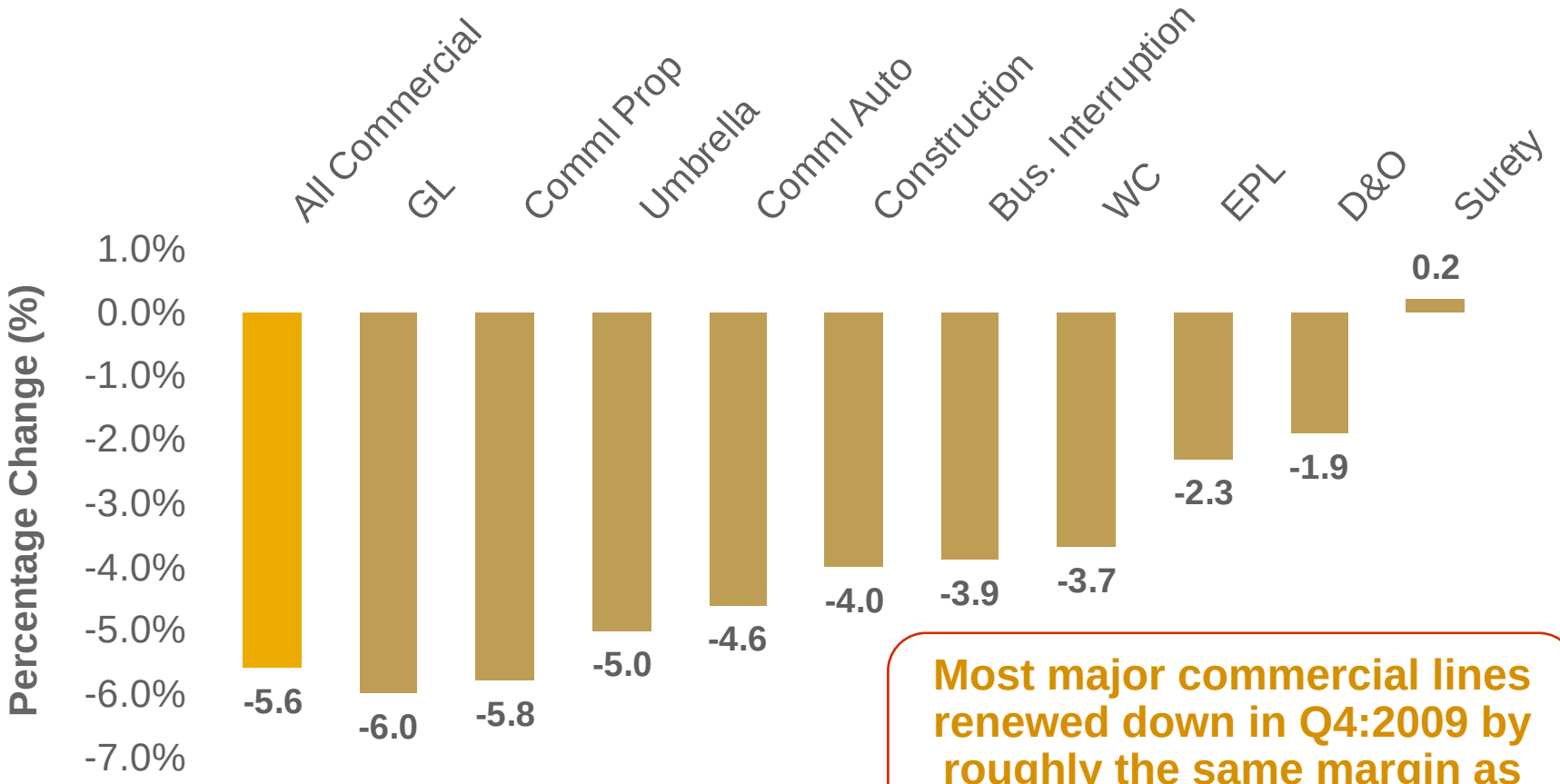
Average Commercial Rate Change, All Lines
(1Q:2004-4Q:2009)



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

Change in Commercial Rate Renewals

By Line: 2009:Q4

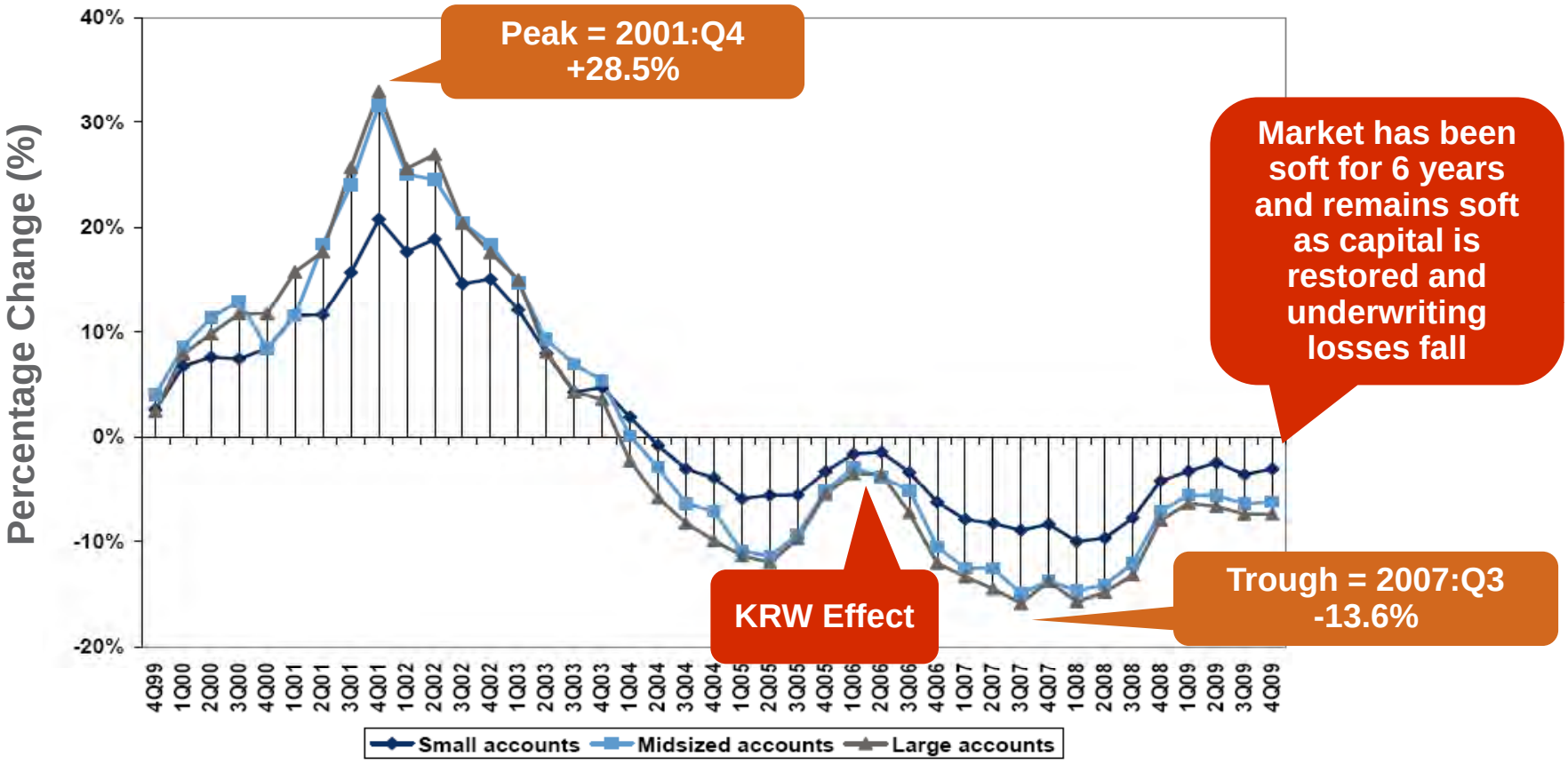


Most major commercial lines renewed down in Q4:2009 by roughly the same margin as a year earlier

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

Change in Commercial Rate Renewals

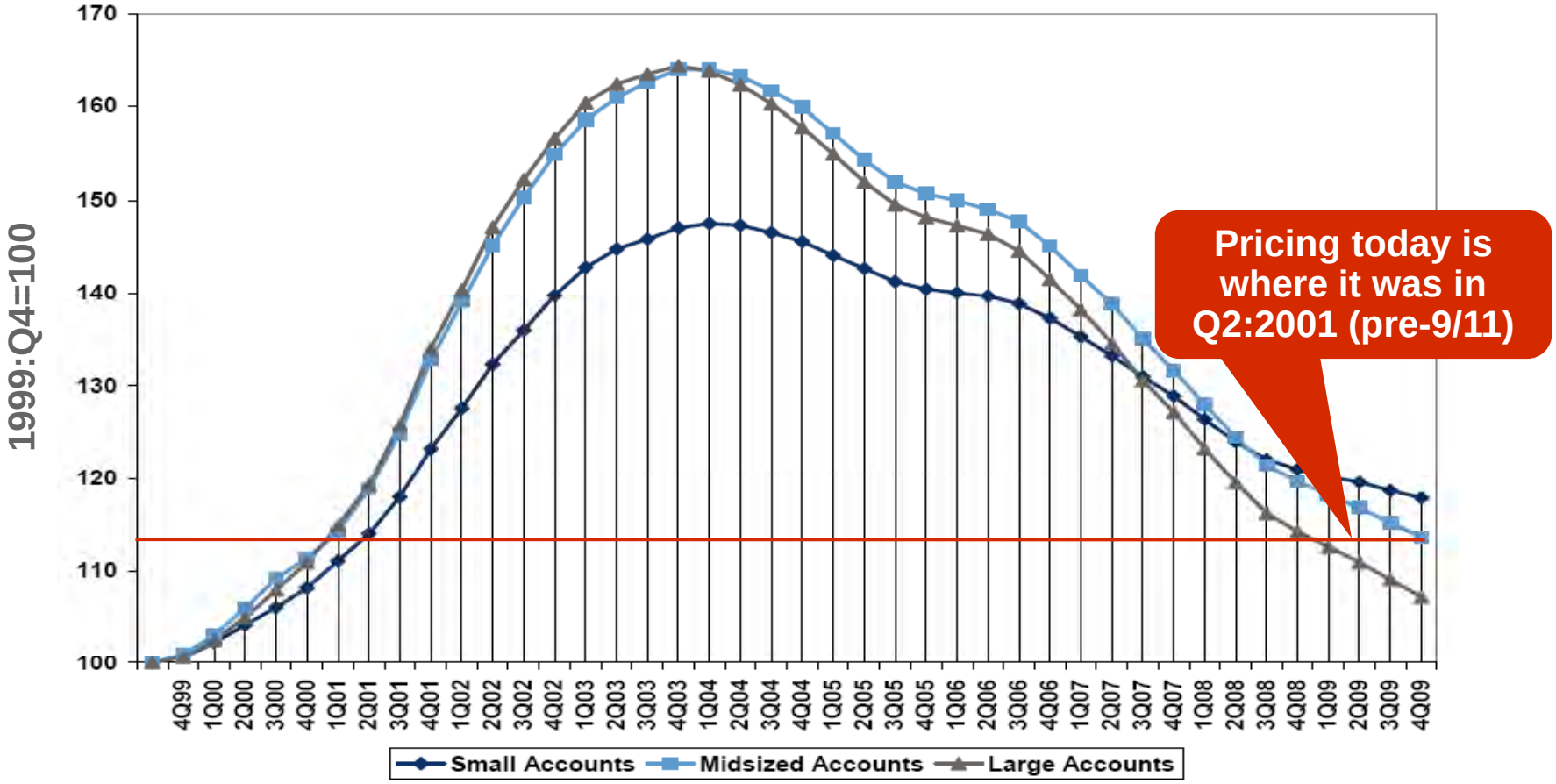
By Account Size: 1999:Q4 to 2009:Q4



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

Cumulative Quarterly Commercial Rate Changes

By Account Size: 1999:Q4 to 2009:Q4



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

Capital/Policyholder Surplus (US)

Shrinkage, but Not Enough to Trigger Hard Market

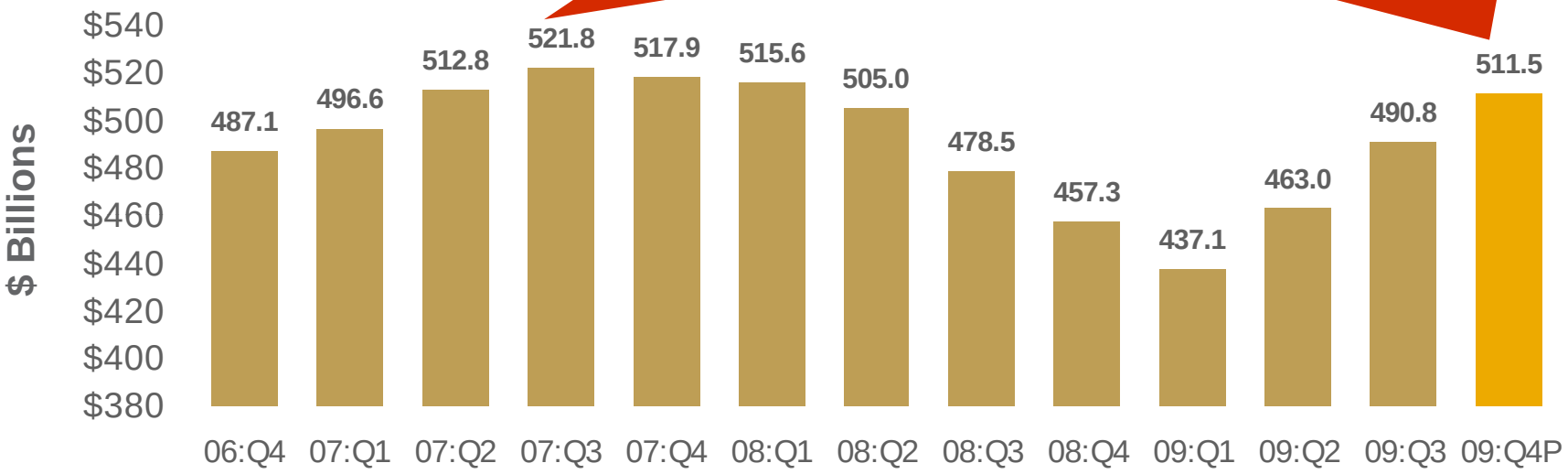
Policyholder Surplus

2006:Q4–2009:Q4P

Pre-crisis peak.
Capacity peaked at $521.8 as of 9/30/07.

Capacity as of 12/31/09 was just 0.5% below the 2007 peak and will likely set a new record in 2010.

Capacity has recovered and is now within 2% of its pre-crisis peak.

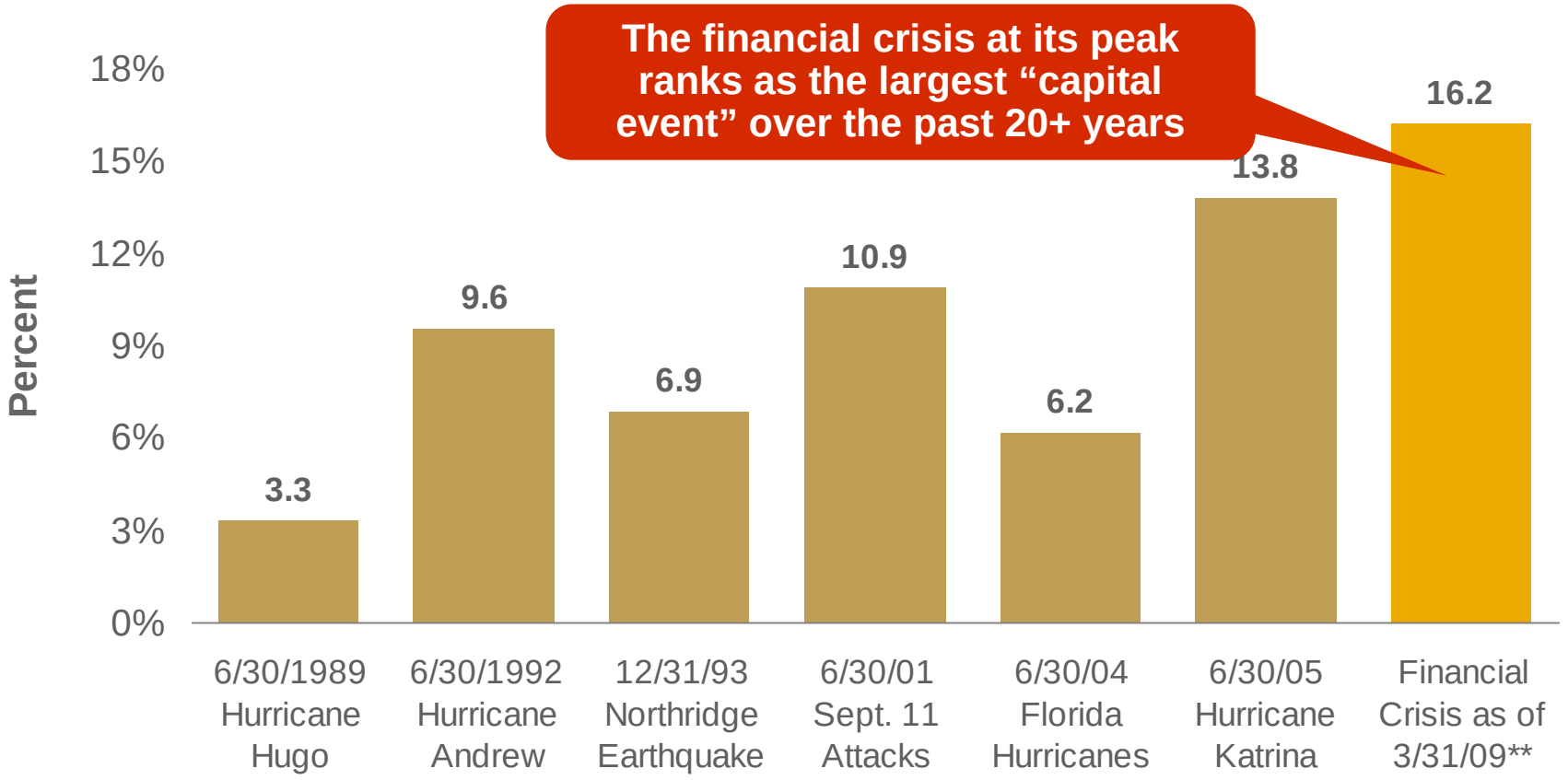


Declines Since 2007:Q3 Peak

08:Q2: -$16.6B (-3.2%)
08:Q3: -$43.3B (-8.3%)
08:Q4: -$64.5B (-12.4%)
09:Q1: -$84.7B (-16.2%)
09:Q2: -$58.8B (-11.2%)
09:Q3: -$31.8B (-5.9%)
09:Q4: -$10.3B (-1.9%)

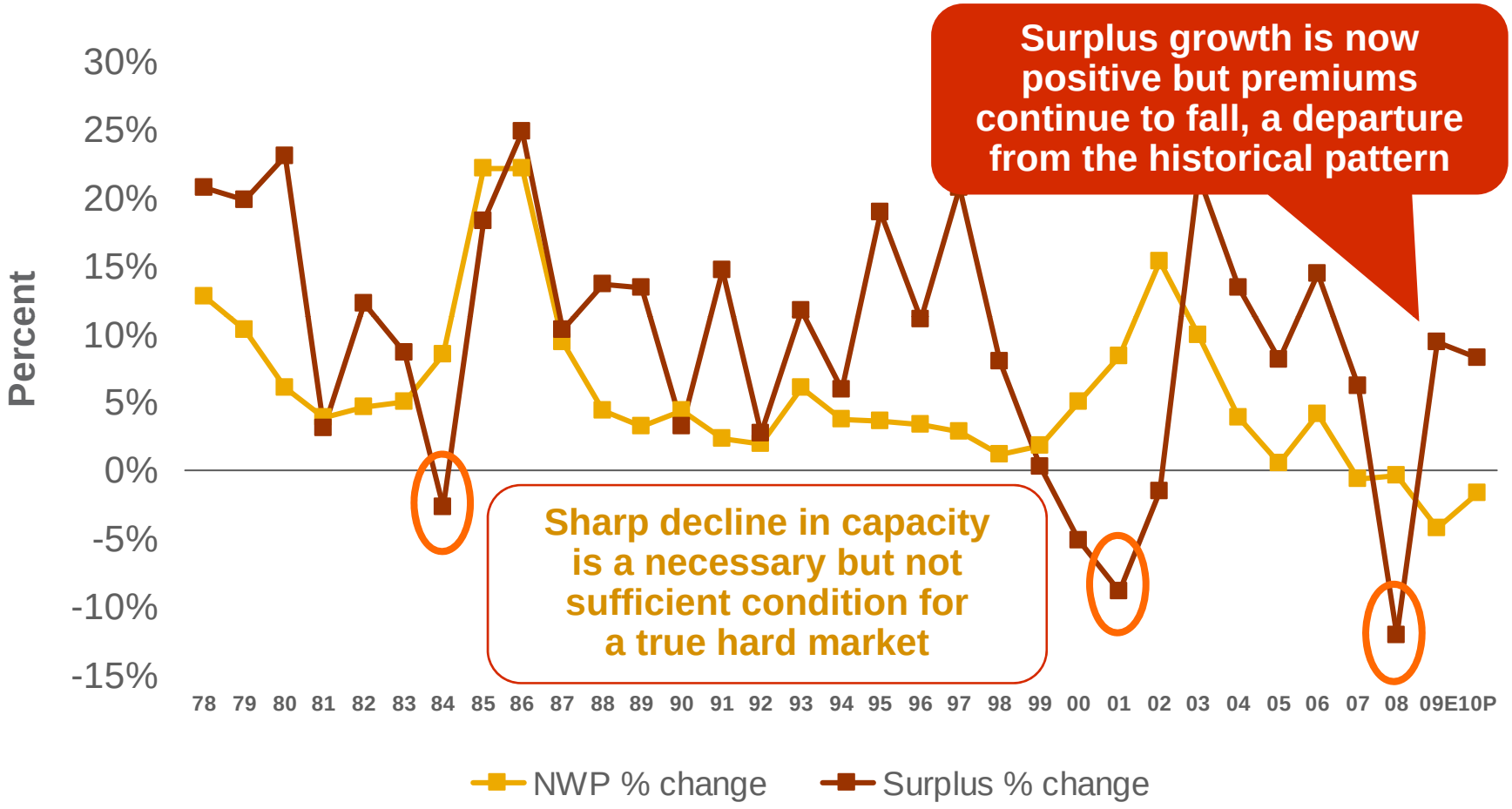
Source: ISO, AM Best.

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. ** Date of maximum capital erosion; As of 9/30/09 (latest available) ratio = 5.9%. Source: PCS; Insurance Information Institute.

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



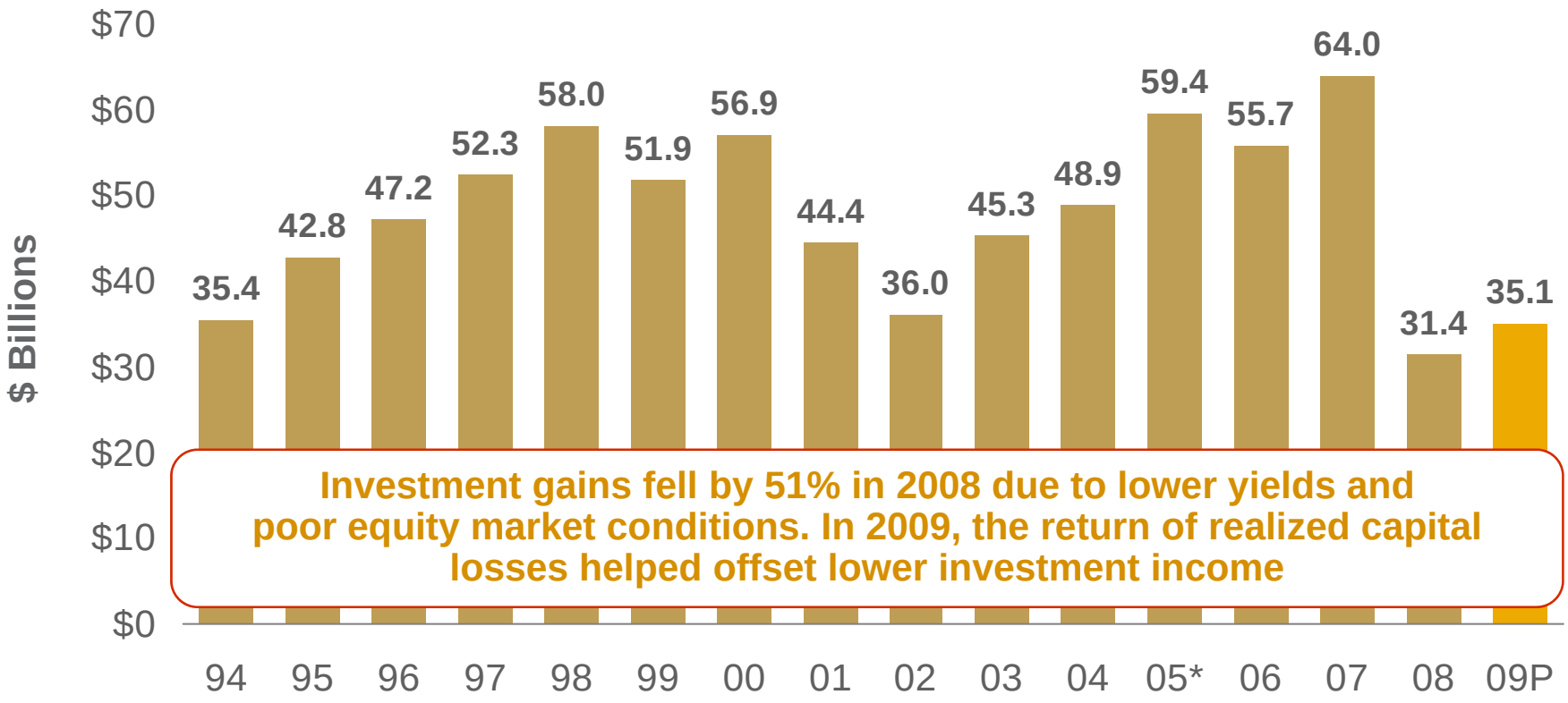
* 2009 NWP and Surplus figures are % changes as of Q4:09P vs Q4:08. Sources: A.M. Best, ISO, Insurance Information Institute.

Investment Performance

Investments Are a Principle Source of Declining Profitability

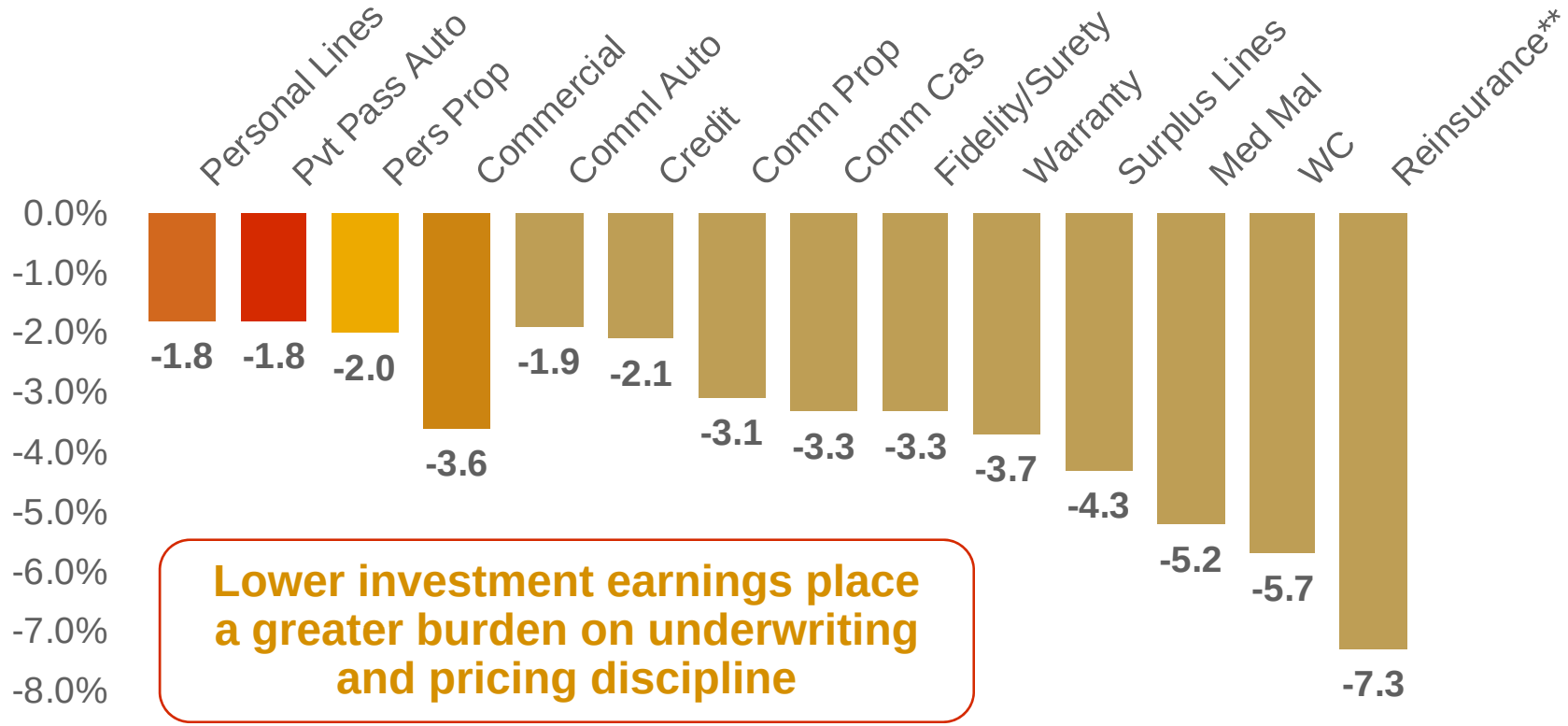
Property/Casualty Insurance Industry Investment Gain

1994–2009P[1]



[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.

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



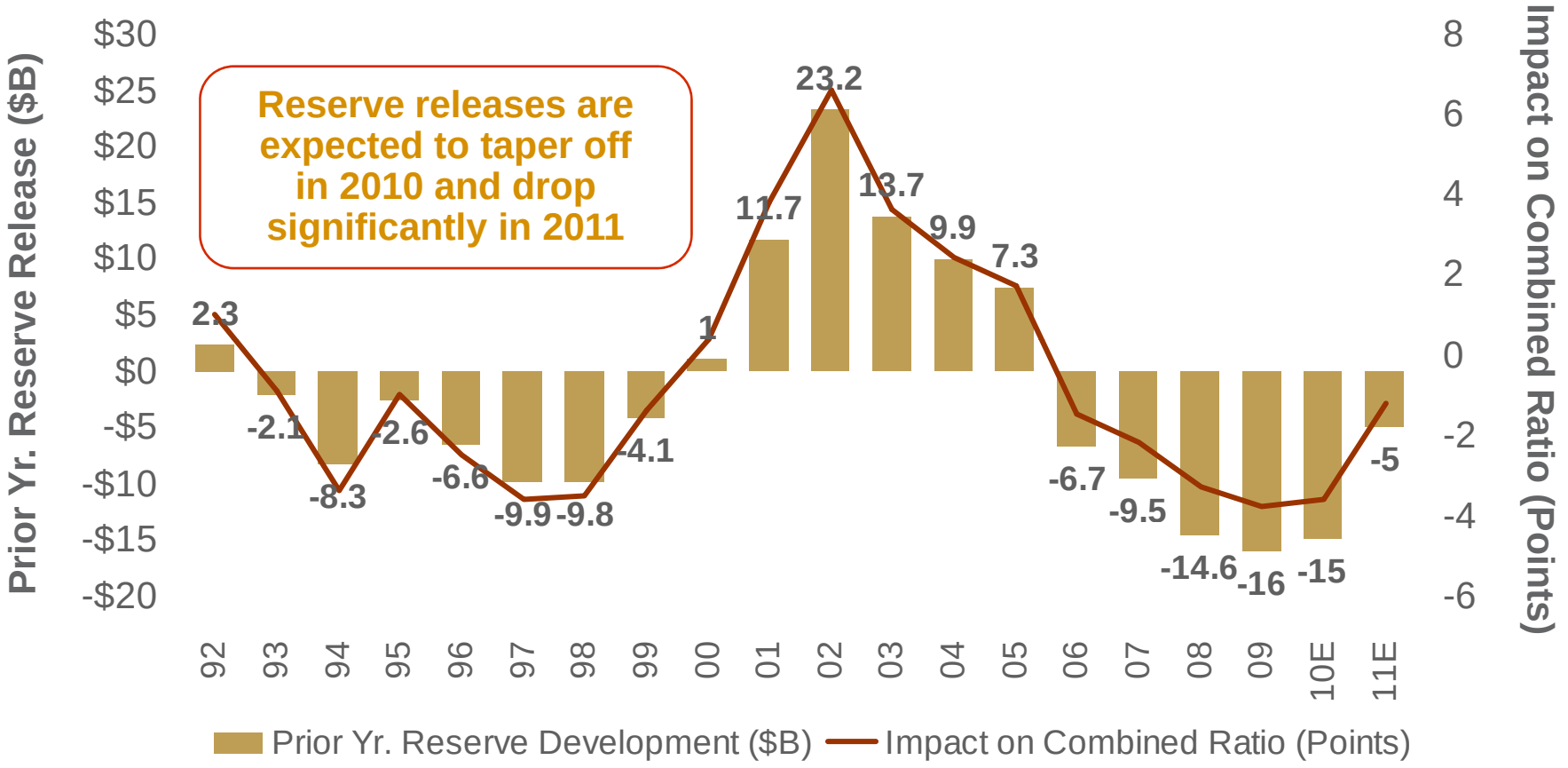
*Based on 2008 Invested Assets and Earned Premiums. **US domestic reinsurance only. Source: A.M. Best; Insurance Information Institute.

Underwriting Trends

Financial Crisis Does *Not* Directly Impact Underwriting Performance: Cycle, Catastrophes Were 2009's Drivers

P/C Reserve Development

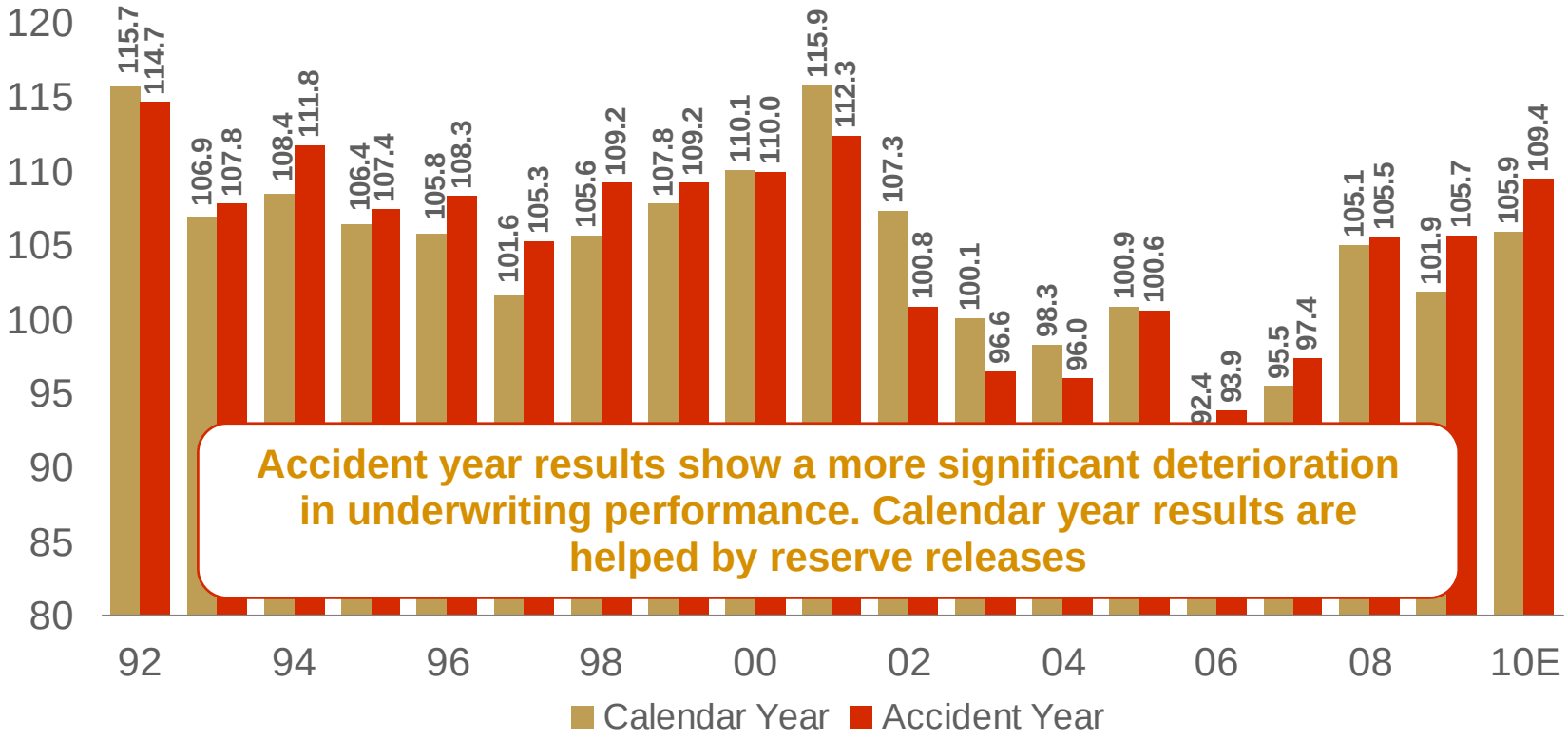
1992–2011E



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.

Calendar Year vs. Accident Year P/C Combined Ratio

1992–2010E[1]



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.

Energy Insurance Market Review

Global Energy Business Rebounding as Financial Crisis Eases; Other Factors Matter Too

AEGIS London

Key Trends

- Capacity
- Exposure
- Profitability
- Reinsurance
- Alternative Risk Transfer

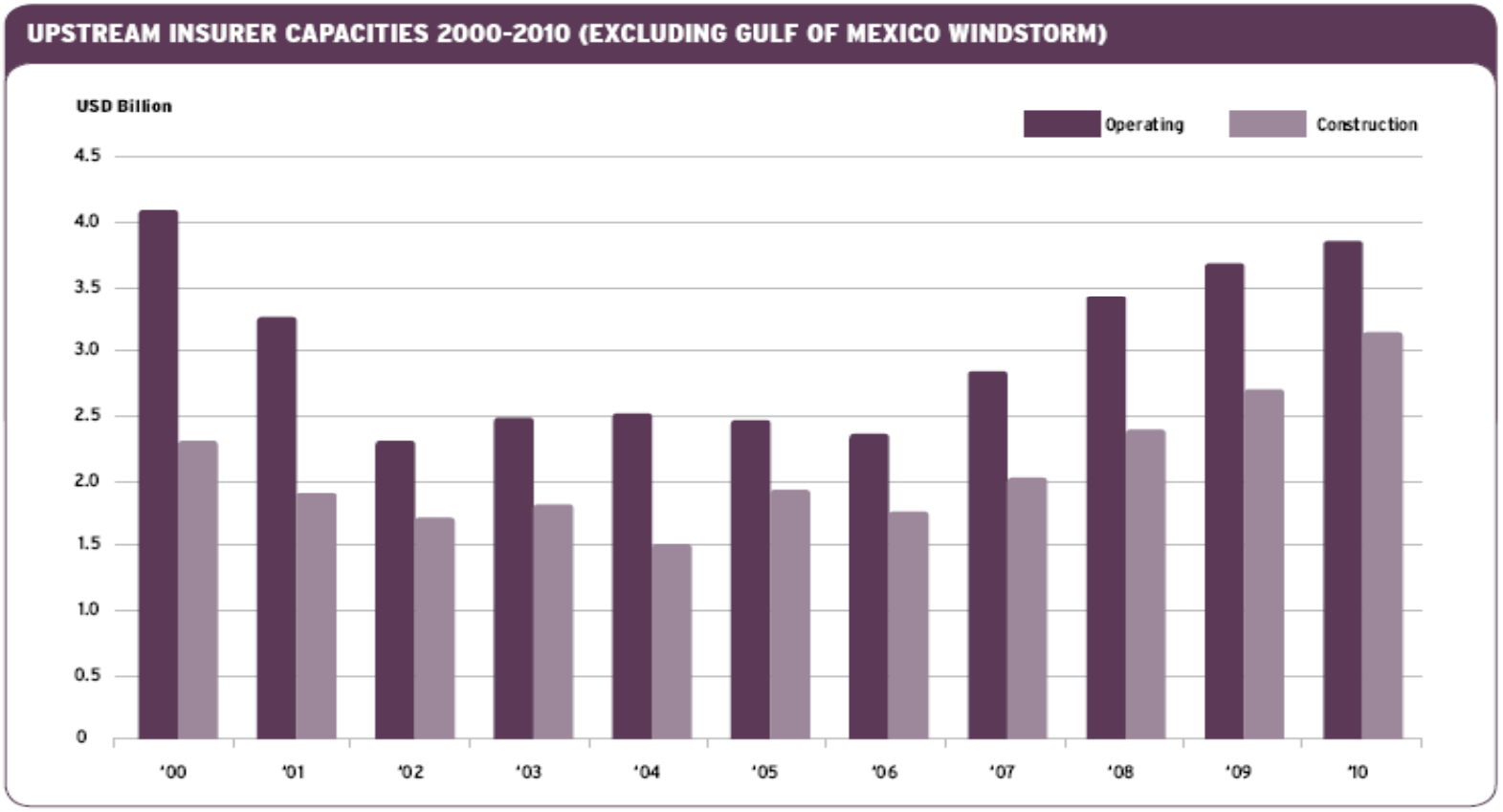
Global Energy Insurance Markets: Key Trends
Insurance Capacity

- Aggregate commercial property/casualty (nonlife) capacity is now just below its 2007 Q3 peak after falling sharply in 2008 and is expected to set a new record in 2010
- Capital providers remain attracted to the energy sector despite potential losses because of the profitable underwriting results posted by many P/C insurers in 2009
- Abundance of capital and lack of major catastrophe losses are driving down prices and increasing competition
- 2010 global capacity for upstream energy at 10-year high. Capacity for downstream risks also back up to 2000 levels

Source: Willis Energy Market Review: March 2010.

Upstream Operating Underwriting Capacities, 2000-2010 (Excl. GOM)

Capacity at Ten Year High

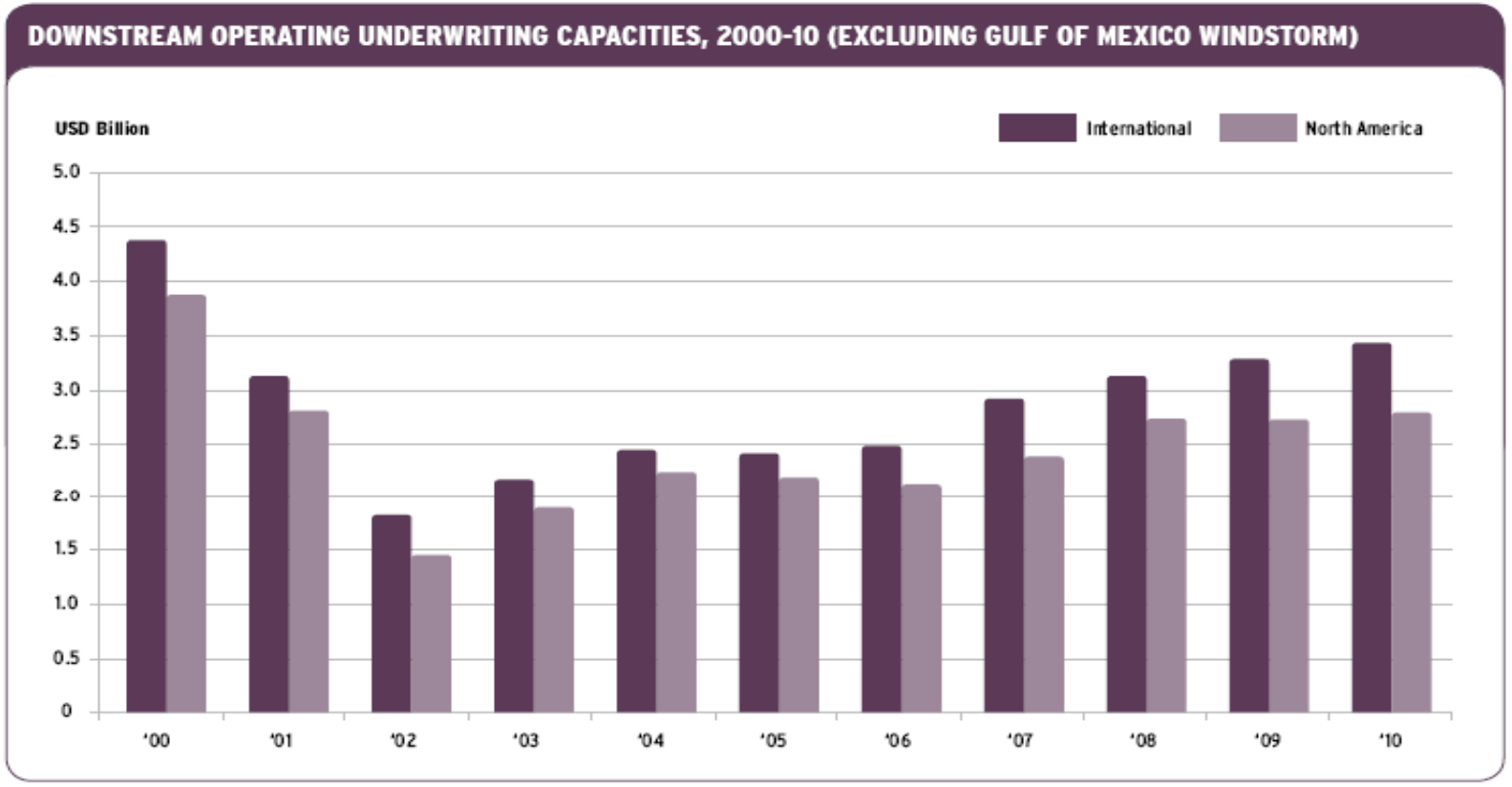


Upstream capacity levels continue to rise

Source: Willis Energy Market Review: March 2010.

Downstream Operating Underwriting Capacities, 2000-2010 (Excl. GOM)

Capacity

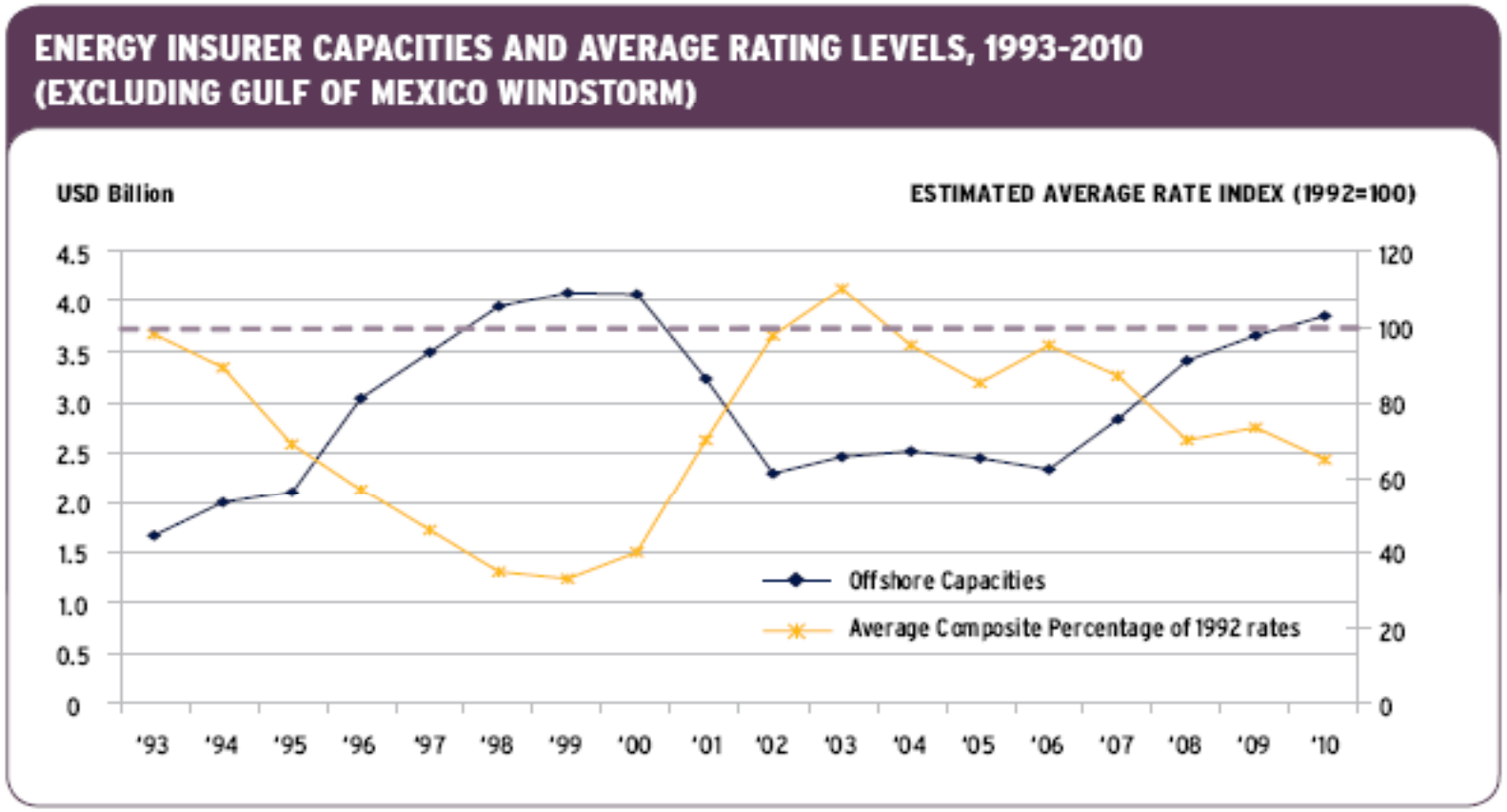


While North American Downstream market capacity remains stable, its International counterpart continues to grow - exacerbating the softening market conditions

Source: Willis Energy Market Review: March 2010.

Upstream Capacities and Average Rating Levels, 1993-2010 (Excl. GOM)

How Far are Rating Levels Set to Fall?

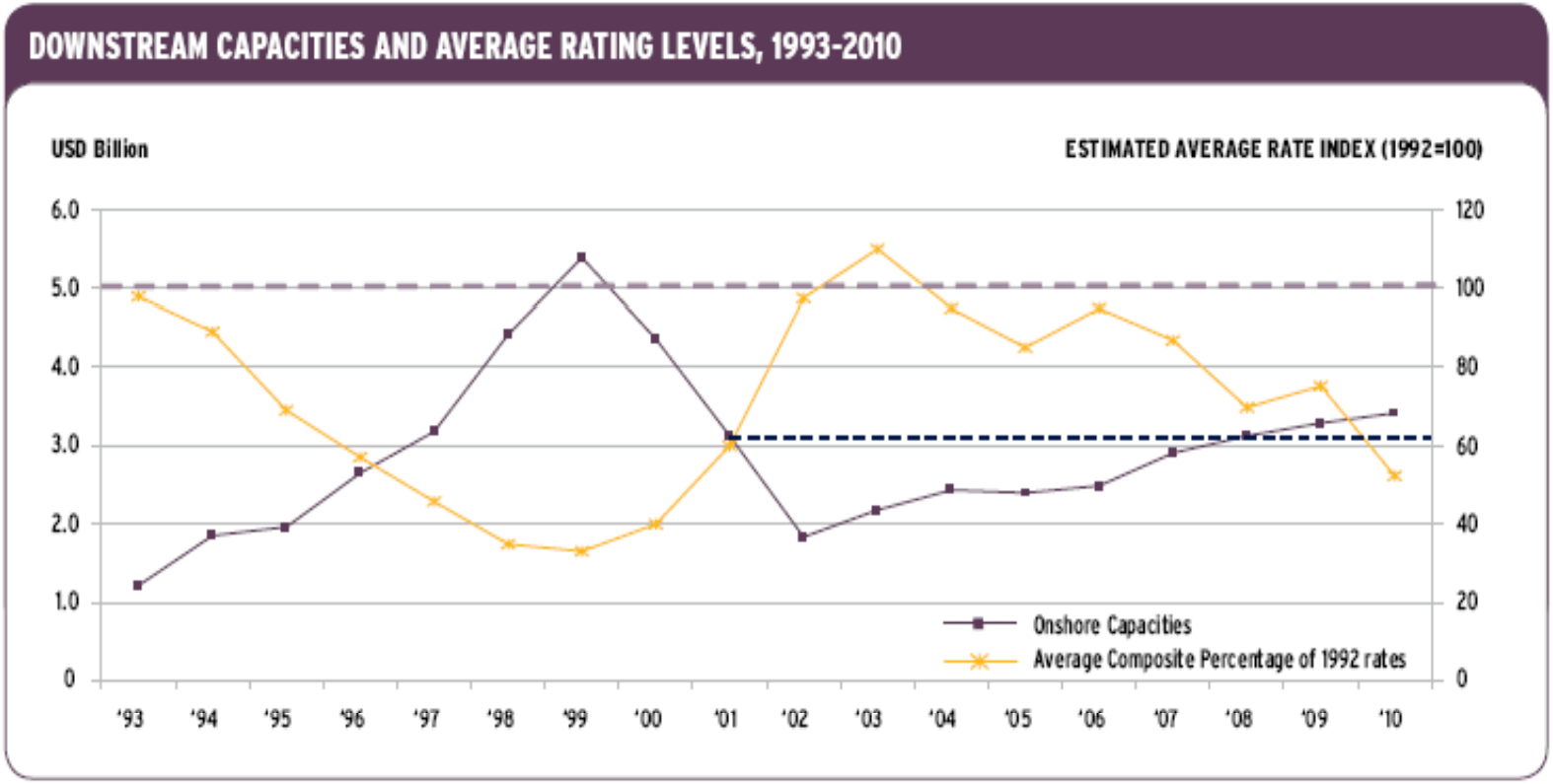


Upstream rates have some way to go before reaching truly soft market levels

Source: Willis Energy Market Review: March 2010.

Onshore Capacities and Average Rating Levels, 1993-2010 (Excl. GOM)

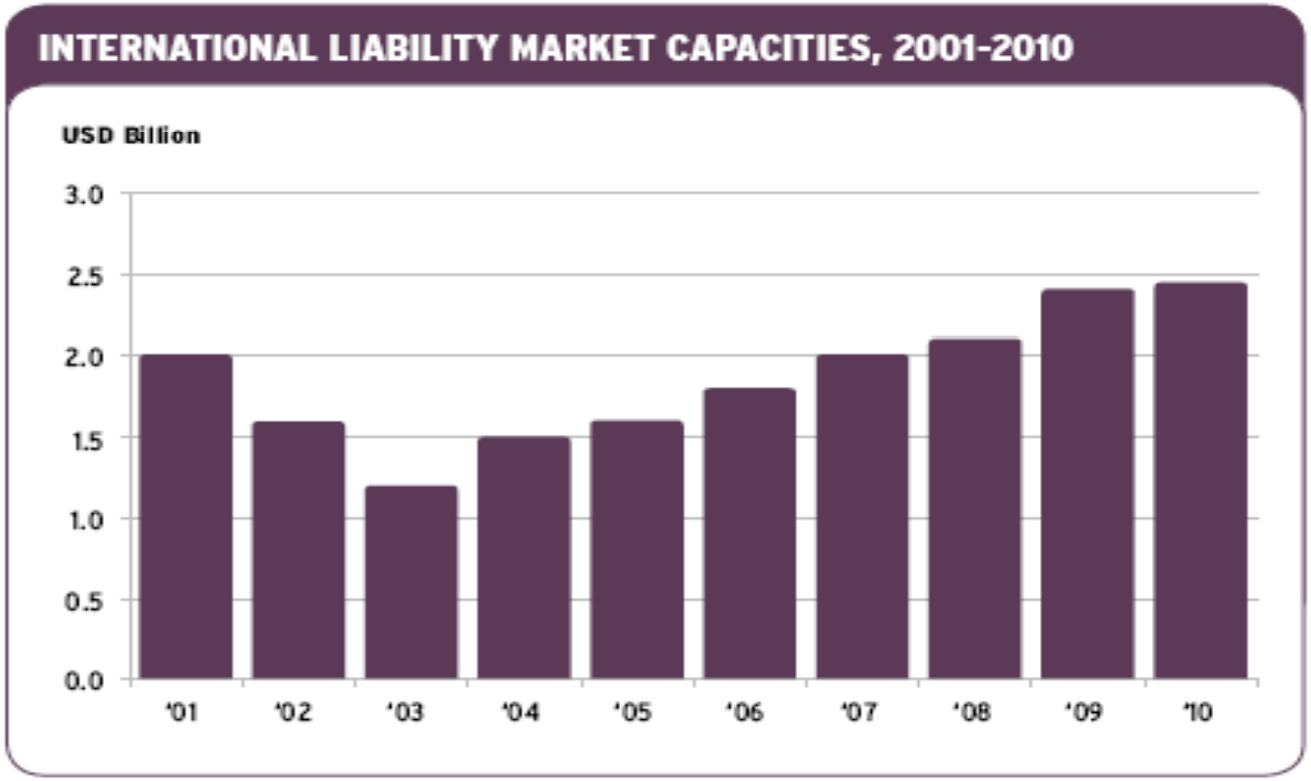
Rating Levels



Last year we pointed out that downstream market rates still remained, on average, at a higher level than before 9/11. Not any more...

Source: Willis Energy Market Review: March 2010.

International Liability Market Capacity, 2001-2010



Capacity levels in this market remain more stable than in other markets

Source: Willis Energy Market Review: March 2010.

Global Energy Insurance Markets: Key Trends
Insured Exposure

- Global energy demand rebounding as financial crisis eases. Energy insurers' exposure and therefore premium income levels can only benefit from upturn in energy industry activity and recovery of worldwide oil prices.
- BUT, capital providers' willingness to invest fresh capital in insurance industry has boosted capacity to 10-year high, creating soft market conditions
- Upswing in project activity begins to get underway following oil price recovery
- *BOTTOM LINE IN 2010:* Renewed confidence in the economic recovery boosts demand and supply for energy and energy assets
  - Global energy demand will continue to rebound
  - Rise in fuel prices signals new sources of premium income, but could also signal potential increase in frequency and severity of losses
  - Long-term partnerships and risk quality key as insurance industry continues to meet demands of buyers in increasingly competitive market

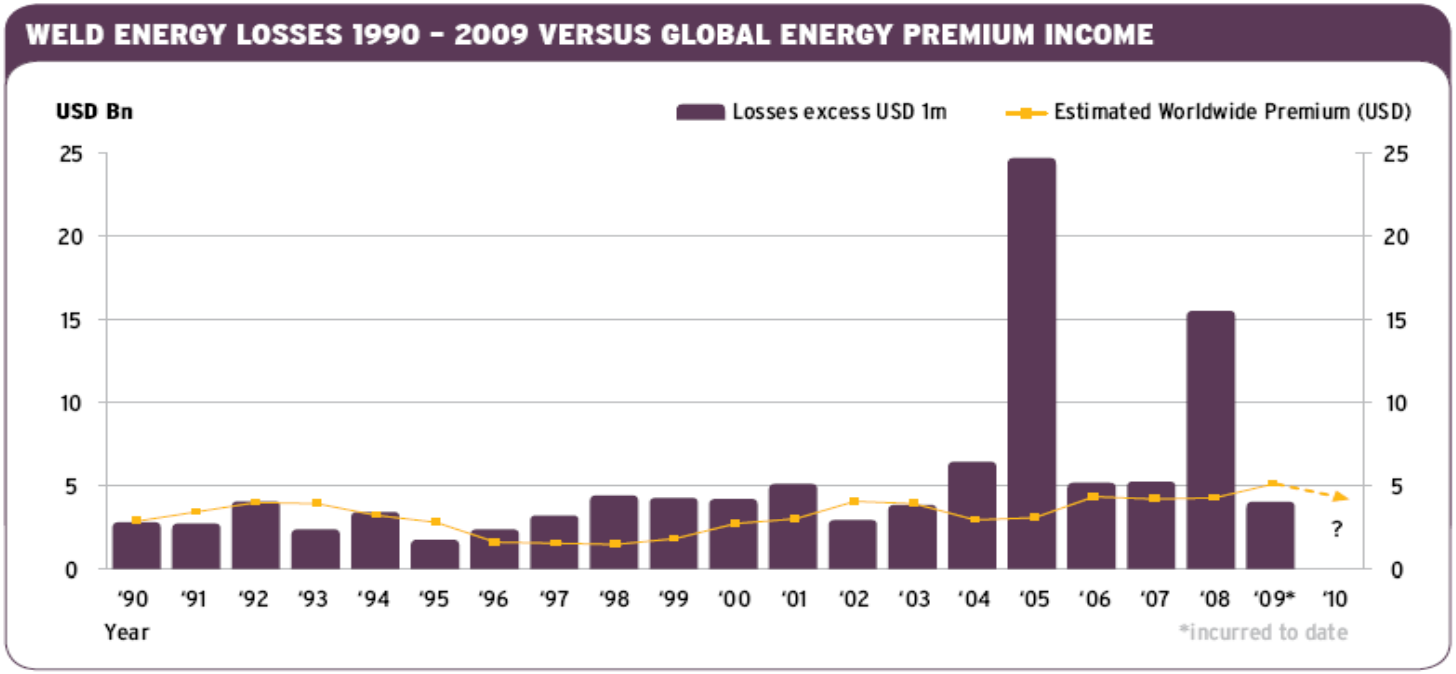
Source: Willis Energy Market Review March 2010; Insurance Information Institute.

Global Energy Insurance Markets: Key Trends
Profitability

- Loss of investment return necessarily increases pressure on (re)insurers to generate underwriting profits in soft market
- Lack of major catastrophes and relatively benign claims environment (for now) reduces insurers' reliance on decreasing investment returns for profits
- Many insurers struggling to obtain premium growth in face of global recession and softening market
- Insurers will be forced to compete more fiercely for premium income and market share in future

Source: Willis Energy Market Review March 2010; Insurance Information Institute.

Energy Losses vs. Global Energy Premium Income 1990-2009*



Following an uneventful Gulf of Mexico hurricane season, the additional premium generated to the market in the aftermath of hurricane Ike has enhanced the profitability of the energy sector. But does this apparently healthy premium base mask a market that is on the edge of an abyss?
(WELD = Willis Energy Loss Database)

Source: Willis Energy Loss Database (figures include both insured and uninsured losses
*Figures include both insured and uninsured losses
Source: Willis Energy Market Review: March 2010.

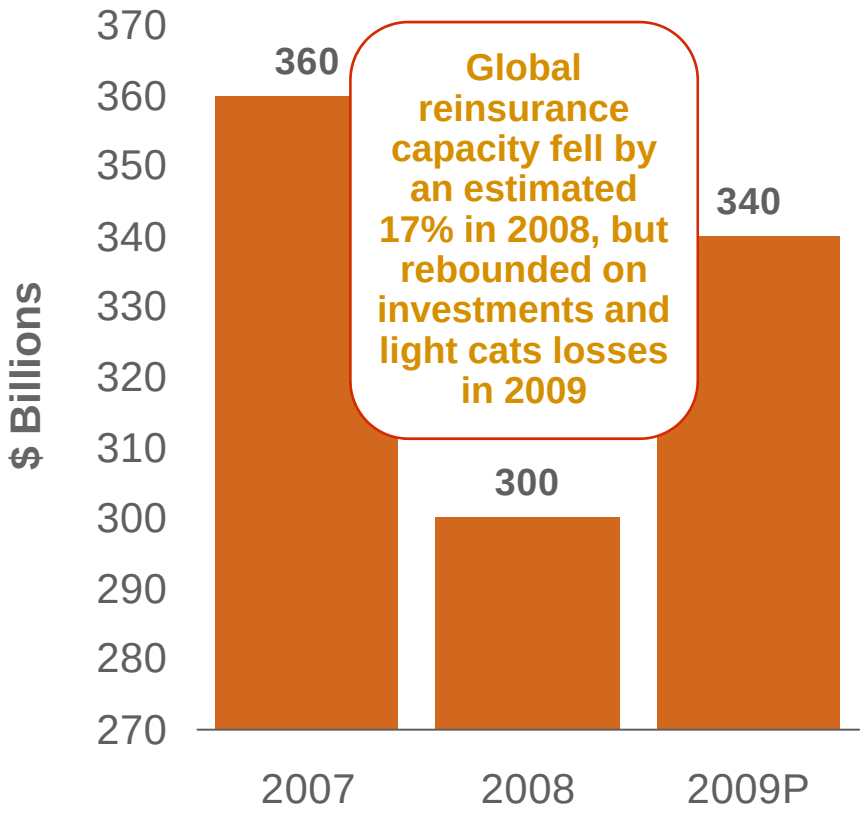
Reinsurance Market Trends

- Over the preceding 12 months when many other markets were in turmoil the global reinsurance industry continued to meet its clients requirements
- By and large reinsurers have maintained a responsible underwriting attitude over the January 1 renewal season
- January 1 renewals saw a softening in reinsurance pricing due to a profitable 2009 underwriting year and a recovery from 2008 losses following the global investment market recovery in 2009
- Primary insurers struggling to obtain premium growth put pressure on their expense ratios and reinsurance cost budgets
- Cat bond market recovering helped by convergence in pricing between traditional reinsurance and cat bonds
- Reinsurers' ability to continue to provide clients with long-term capital security

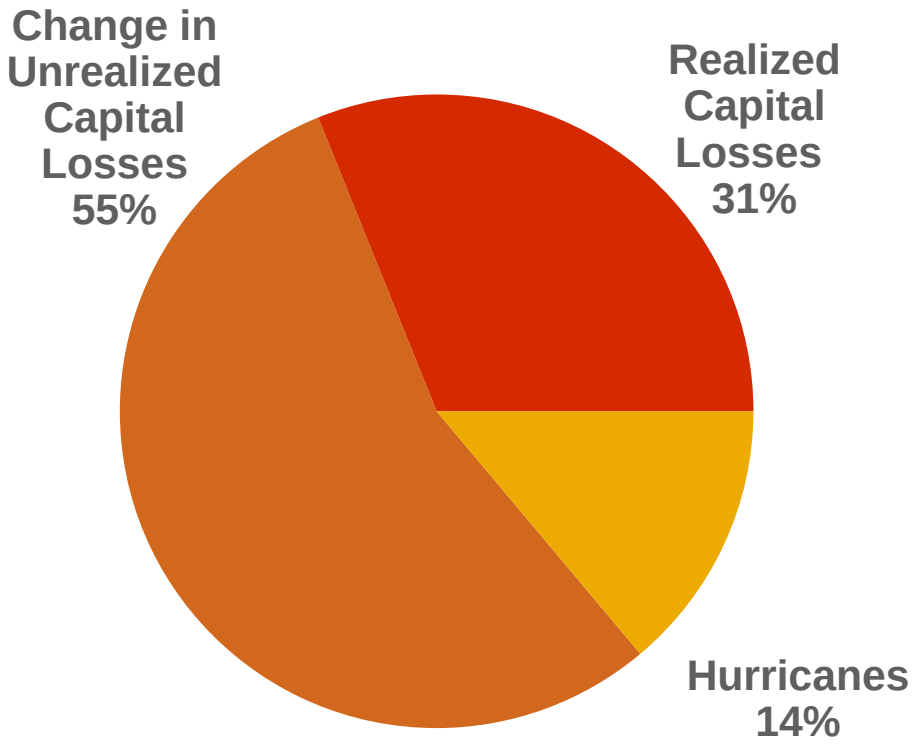
Source: Willis Energy Market Review March 2010; Insurance Information Institute.

Global Reinsurance Capacity Shrank in 2008, Mostly Recouped in 2009

Global Reinsurance Capacity



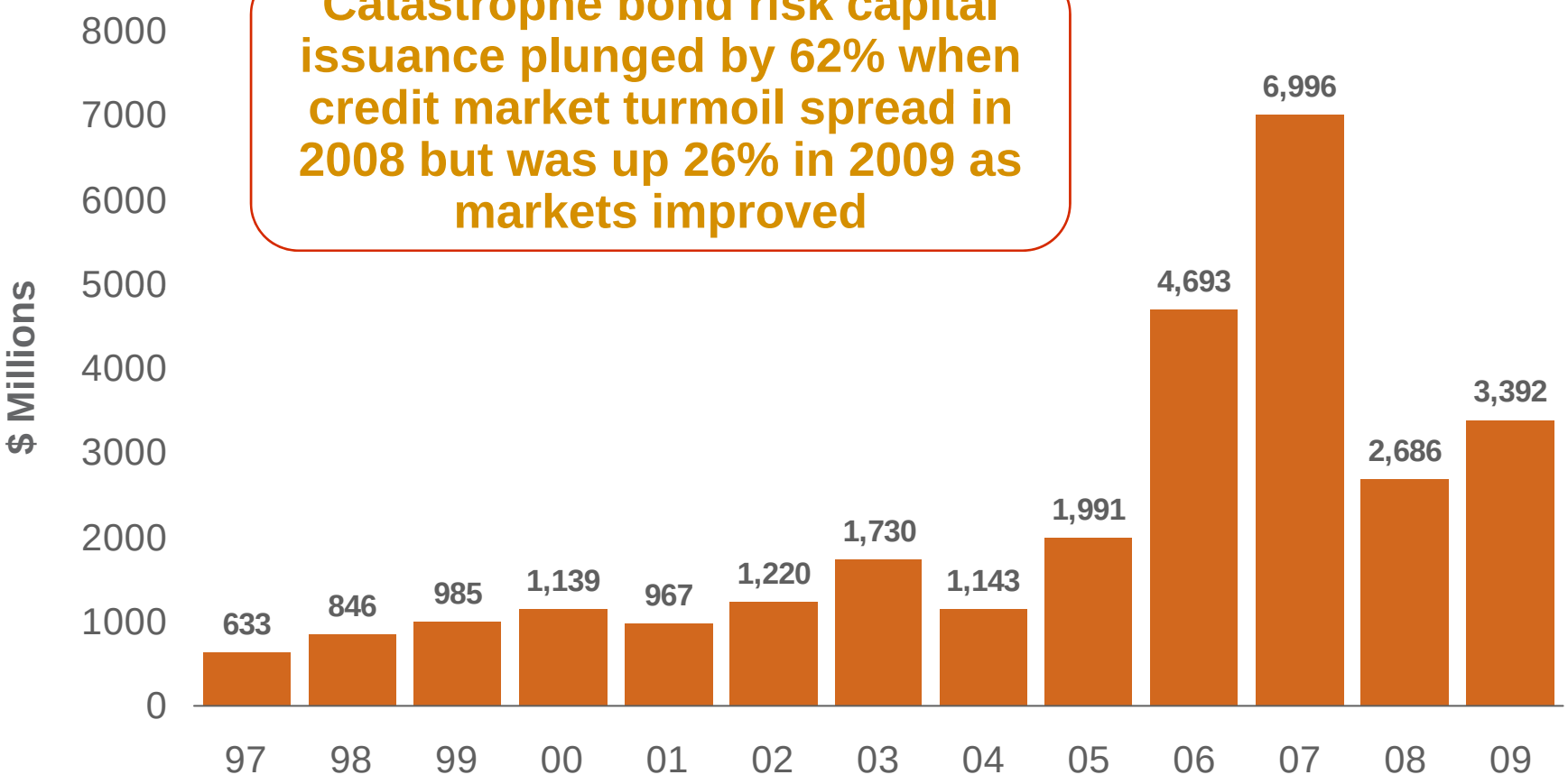
Source of Decline



Source: AonBenfield Reinsurance Market Outlook 2009; Insurance Information Institute.

Catastrophe Bonds: Risk Capital Issuance

Catastrophe bond risk capital issuance plunged by 62% when credit market turmoil spread in 2008 but was up 26% in 2009 as markets improved



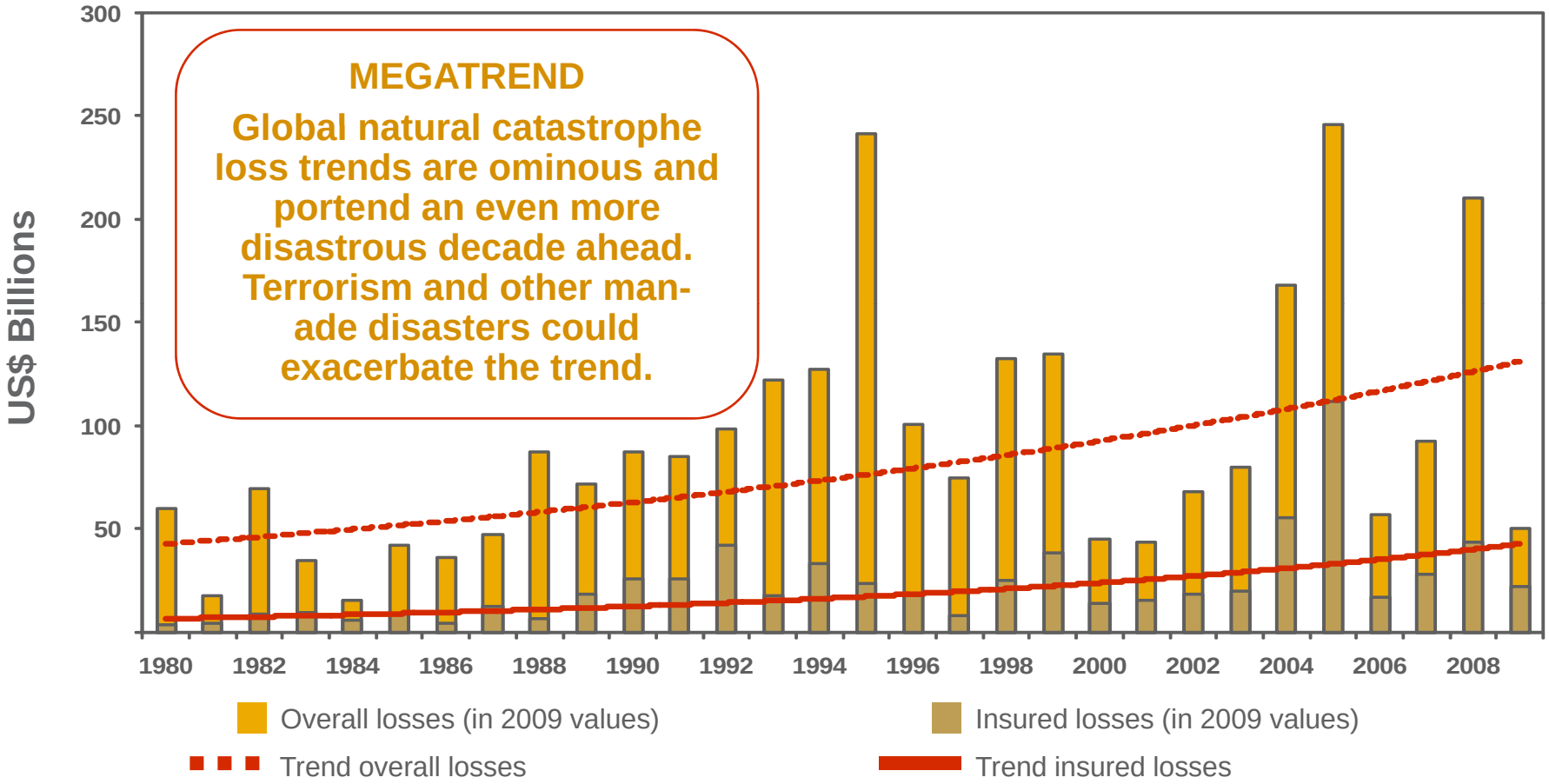
Source: Guy Carpenter; Insurance Information Institute.

Catastrophe Losses

Adverse Trends in Catastrophe Losses

Global Natural Catastrophes 1980-2009

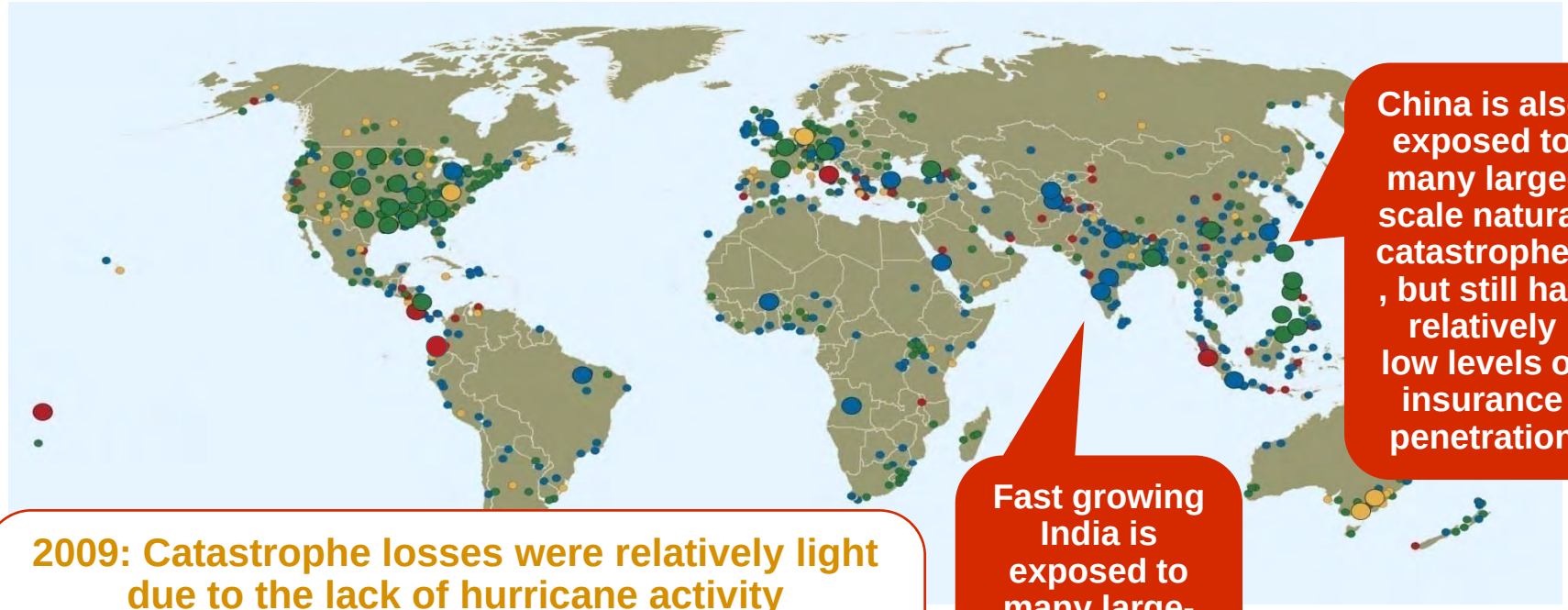
Overall and insured losses with trend



Source: Munich Re NatCat*SERVICE*; Insurance Information Institute.

Natural Catastrophes 2009-Jan 2010

Worldmap



China is also exposed to many large-scale natural catastrophes, but still has relatively low levels of insurance penetration

Fast growing India is exposed to many large-scale natural catastrophes, though still a "small" insurance market

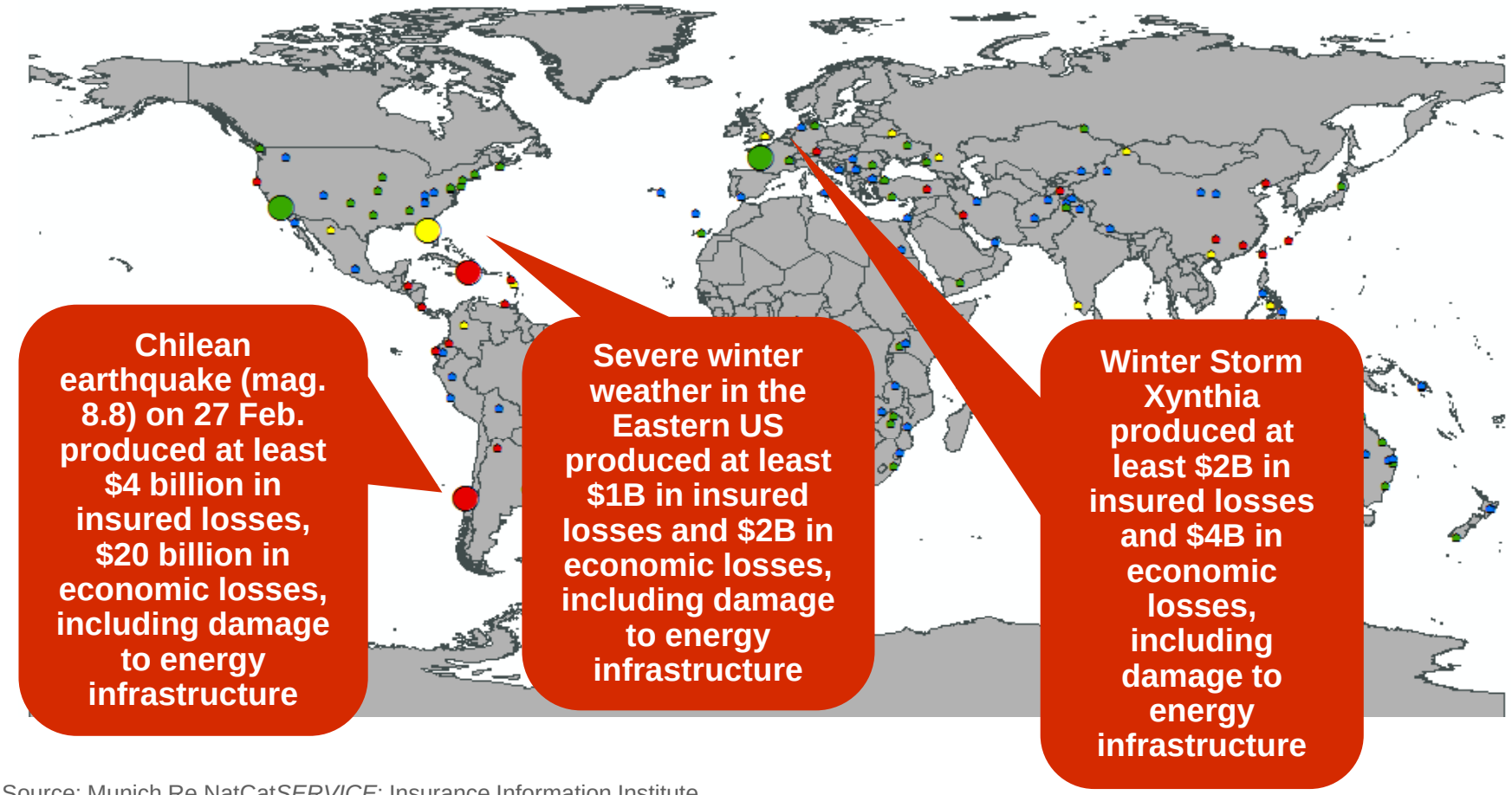
2009: Catastrophe losses were relatively light due to the lack of hurricane activity

Longer-run: An increasing share of insured catastrophe losses will come from the developing world, especially China, India

Source: Munich Re NatCat*SERVICE*; Insurance Information Institute.

Natural Catastrophes: Jan-Mar 2010

Worldmap



Source: Munich Re NatCat*SERVICE*; Insurance Information Institute.

The Costliest Catastrophes So Far in 2010 Impacted the Energy Business and Its Insurers Significantly

MR Number	Assoc.	Event	Period	Area	Area Details	Eco Loss	Ins Loss	Deaths	Description
MR201001D0	Single	Winter damage, cold wave	7.-12.1.2010	United States	Midwest (MO, IA), SE (FL, AL, GA, MS, NC, SC, TN) S, (AR, LA, OK, TX)	800.00	150.00	5	PCS Cat. No. 90. Low
MR201001B0	Single	Severe storms	18.-22.1.2010	United States	SW (CA, AZ, UT),	180.00	120.00	20	PCS Cat. No. 91. Sev
MR201002B0	Main	Winter storm, blizzards	4.-6.2.2010	United States	SE (NC, VA, WV), NE (DC, DE, MD, NJ, PA)	180.00	135.00	2	PCS Cat. No. 92. Win
MR201002B0	Region	Winter storm, blizzards, winter damage	9.-14.2.2010	NORTH AMERICA	United States, Canada	800.00	560.00	0	PCS Cat. No. 94. Win
MR201002B0	Region	Winter Storm Xynthia, storm surge	26.-28.2.2010	WESTERN EUROPE, SOUTHERN EUROPE, NORTHERN EUROPE,	France, Germany, Netherlands, Spain, Portugal, Belgium, Switzerland, United Kingdom	4,000.00	2,000.00	63	Wind speeds up to 20
MR201002A0	Single	Earthquake, tsunami	27.2.2010	Chile	C, S,	20,000.00	4,000.00	507	Mw 8.8 (USGS), epice
MR201003B0	Single	Hailstorm, severe storms	6.-7.3.2010	Australia	SE,	920.00	460.00	0	Thunderstorms ("supe

*Period from 1 January through 31 March 2010. Source: 2010 Münchener Rückversicherungs-Gesellschaft, Geo Risk Research, NatCat*SERVICE.*

Post-Crisis Changes to the Insurance Regulatory Environment

Regulators Are Threatening to Impose Regulations Appropriate for Banks on (Re)Insurers

Systemic Risk: Oversight & Resolution Authority

Issues Related to Systemic Risk & Resolution Authority

- US federal authority created to oversee systemic risk of large financial holding companies (e.g., Federal Reserve or other existing/new agency) **[a.k.a. TOO BIG TOO FAIL]**
  - P/C insurers are working to "carve out" an exception to systemic risk oversight (arguing they were not the source/cause of problems)
  - Without such an exception, P/C insurers could be subject to assessments (e.g., *Financial Responsibility Tax*) for failed non-insurance financial institutions or could be forced to repay funds provided for government assistance to firms due to problems outside of their P/C insurance operations
- European regulators seem to believe large (re)insurers should be included under the definition of systemically important firms

Source: Insurance Information Institute.

Systemic Risk: Oversight & Resolution Authority

How Current Systemic Risk Proposal Could Affect Insurers

- Bank holding companies with more than $50 billion in assets would be subject to an assessment (Financial Responsibility Tax) in order to build a $50 billion fund to wind down (resolve) large, insolvent financial institutions
  - This first group could include some insurers that own banks
- If the $50 billion resolution fund is exhausted, then other non-bank financial institutions (including insurers, even those without banks) with more that $50 billion in consolidated assets would be assessed to make up any shortfall
- Bottom Line: P/C insurers do not object to the concept of systemic risk, but feel that the focus on size alone is inappropriate given the roots of the financial crisis and the fact that P/C insurers were not the cause

Source: Insurance Information Institute.

Systemic Risk: Oversight & Resolution Authority

Rational for Excluding P/C Insurers from Systemic Regulation

- The insurance business model (encompassing both insurers and reinsurers) has specific features that make it a source of stability within the financial system
  - Up-front premiums provide strong operating cash flow
  - Insurance policies generally represent longer-term liabilities with little or no ability for the policyholder to demand immediate payments (no “run” on insurers)
  - The few insurers that experienced serious problems were impacted not by their insurance business but by quasi-banking activities. This includes AIG and “monoline” insurers that provided financial guarantees and engaged in CDS writing and trading

Source: Geneva Association, *Systemic Risk in Insurance*, March 2010.

Thank you for your time and your attention!

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