



Global Economic Turmoil, Catastrophic Loss and Insurance: *Implications for Risk Management & Marine Insurance Markets*

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- **Is the World Becoming a Riskier Place?**
 - ◆ Recent Events and Implications for the Global P/C (Re)Insurance Industry
- **Global Insurance Overview**
- **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 Ascendency of China
 - ◆ Foreign Direct Investment (FDI) and insurance exposure/demand
- **P/C Insurance Financial Overview & Outlook**

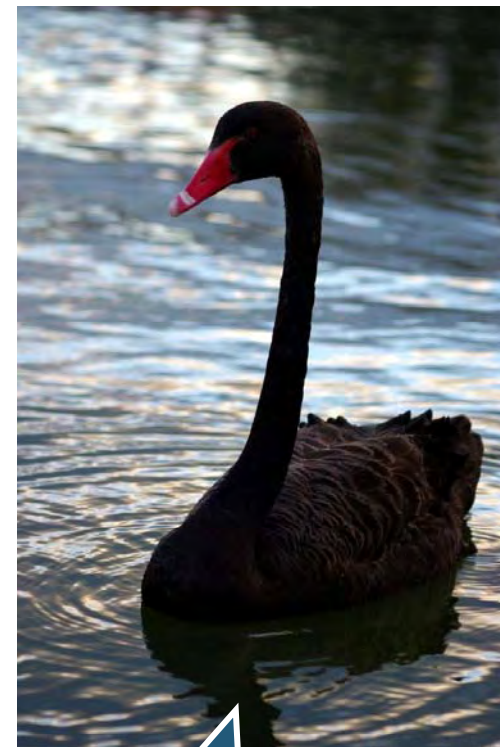
What in the World Is Going On?

**Is the World Becoming a
Riskier Place?**

***What Are the Implications for
Insurance and Risk Management?***

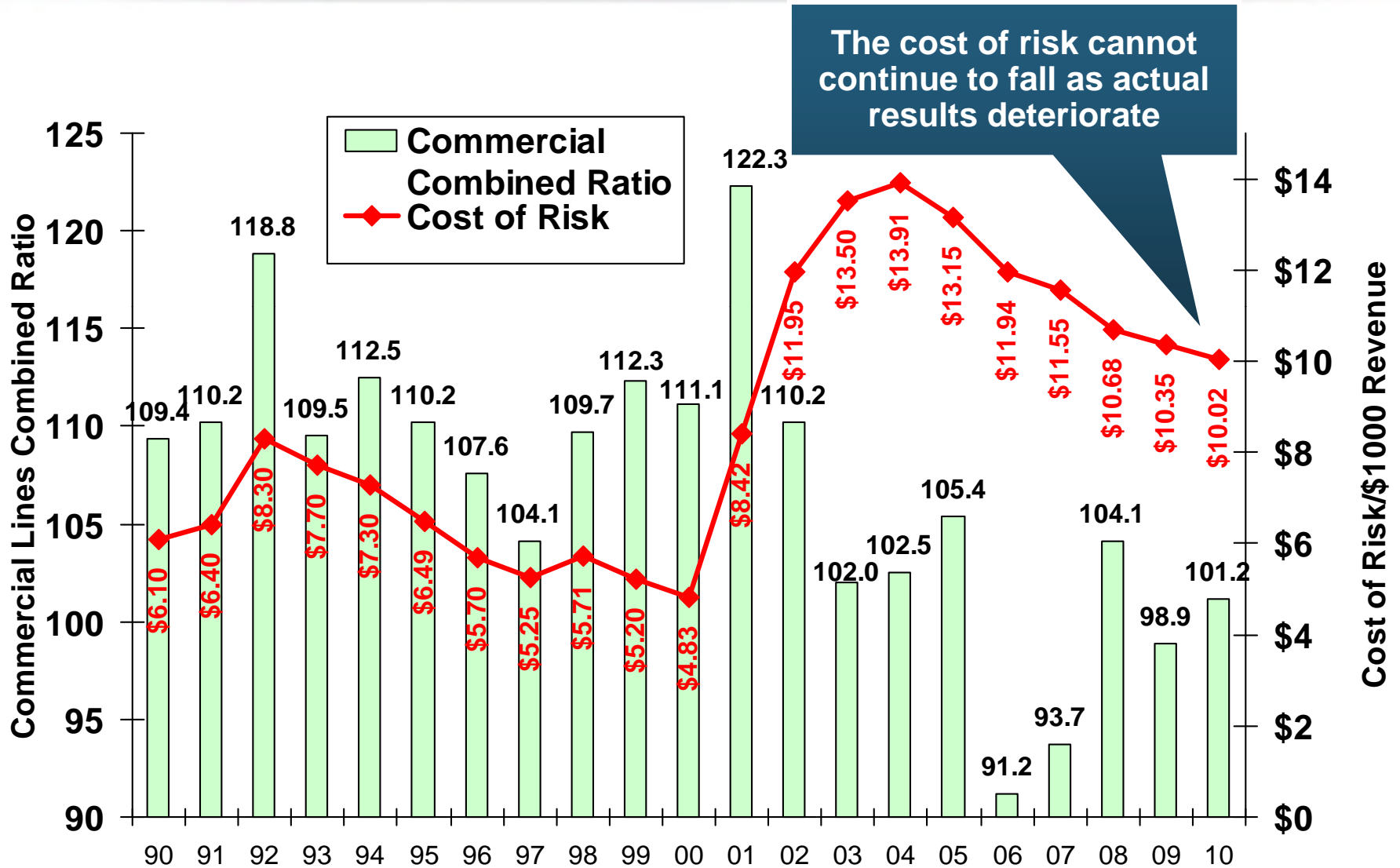
Uncertainty, Risk and Fear Abound

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



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

Cost of Risk vs. Commercial Lines Combined Ratio



Impacts on P/C Insurers of S&P's Downgrade of US Sovereign Debt

- **S&P Downgrade of US Debt Will Have Little Practical Impact**
 - ◆ Solvency, liquidity, claims paying capacity all unaffected
 - ◆ US sovereign debt accounts for 6% (\$80B out of \$1.3 trillion) in invested assets
- **Investors Will Continue to View US Treasury Securities as the Safest Investment in the World**
 - ◆ Other bond raters (Moody's, Fitch) affirmed top credit ratings for US
 - ◆ US bond yields *fell* in the days after S&P issued its initial warning
 - ◆ Evidence suggests that investors' asset of choice during "flight to safety" remains US debt
- **Risk Charge/Weights for US Debt Held by Finl. Firms Won't Change**
 - ◆ Federal bank regulators have already stated risk weights won't change
 - ◆ Extremely unlikely state insurance regulators would do anything different
 - ◆ NAIC (Aug. 7) "*There is no impact on insurer investments in U.S. government and government-related securities from the actions recently taken by the rating agencies. Risk-based capital and asset valuation reserves are unaffected.*"
- **Interest Rates on US Debt Unlikely to Rise Due to Downgrade**
 - ◆ Insurers should see little or no need to mark down value of bonds
- **Market for US Debt Will Remain Largest & Most Liquid in the World**
 - ◆ Downgrade poses no liquidity or solvency issues

What is Going On in the US and Global Financial Markets?

- **S&P Downgrade Poured Gasoline on a Fire that Was Already Burning**
 - ◆ Downgrade didn't tell us anything we didn't already know about US finances
- 1. **Realization that US Economy is Slowing**
 - ◆ Q1 GDP growth revised downward to 0.4%; Q2 growth was just 1.0%
 - ◆ Job growth has been anemic for several months and unemployment remains high at 9.1% in August
 - ◆ Stock market sell-off was driven by fear and technical factors (e.g., margin calls, hedge fund mass selling)
- 2. **Need for a More Comprehensive Solution to Europe's Debt Problems**
 - ◆ Solution developed for Greece, Italy, Spain, Ireland may be too small
 - ◆ Difficulties in managing multinational institutions and economic policies
 - ◆ ECB and individual member EU countries not all on same page
 - ◆ Solution: Unified strategy similar to TARP; Monetary easing
- 3. **View that Washington is Dysfunctional and "Rudderless"**
 - ◆ Lack of coherent, consistent medium and long term plan to deal with basic structural issues in the US economy (debt, taxes, employment, regulation, etc.)
- 4. **Economic Slowdown in Emerging Markets**
 - ◆ China, other economies less able to stimulate global economy than in 2008

Déjà Vu? Lehman II?

Is This 2008 All Over Again?

Why Today is Not 2008 All Over Again

- The Situation Today is Very, Very Different from 2008
- Credit Markets Are Not Seizing; Some Contraction in Europe
- Bank Balance Sheets Are in Much Stronger Shape
 - ◆ Capital up, charge offs falling
- We Will Not Experience the Collapses/Near Collapses Like in 2008
 - ◆ No repeat of Lehman, AIG, Washington Mutual, Wachovia, Countrywide Financial
- Some Additional Regulatory Controls Are Now Place

What Would Be Helpful Now?

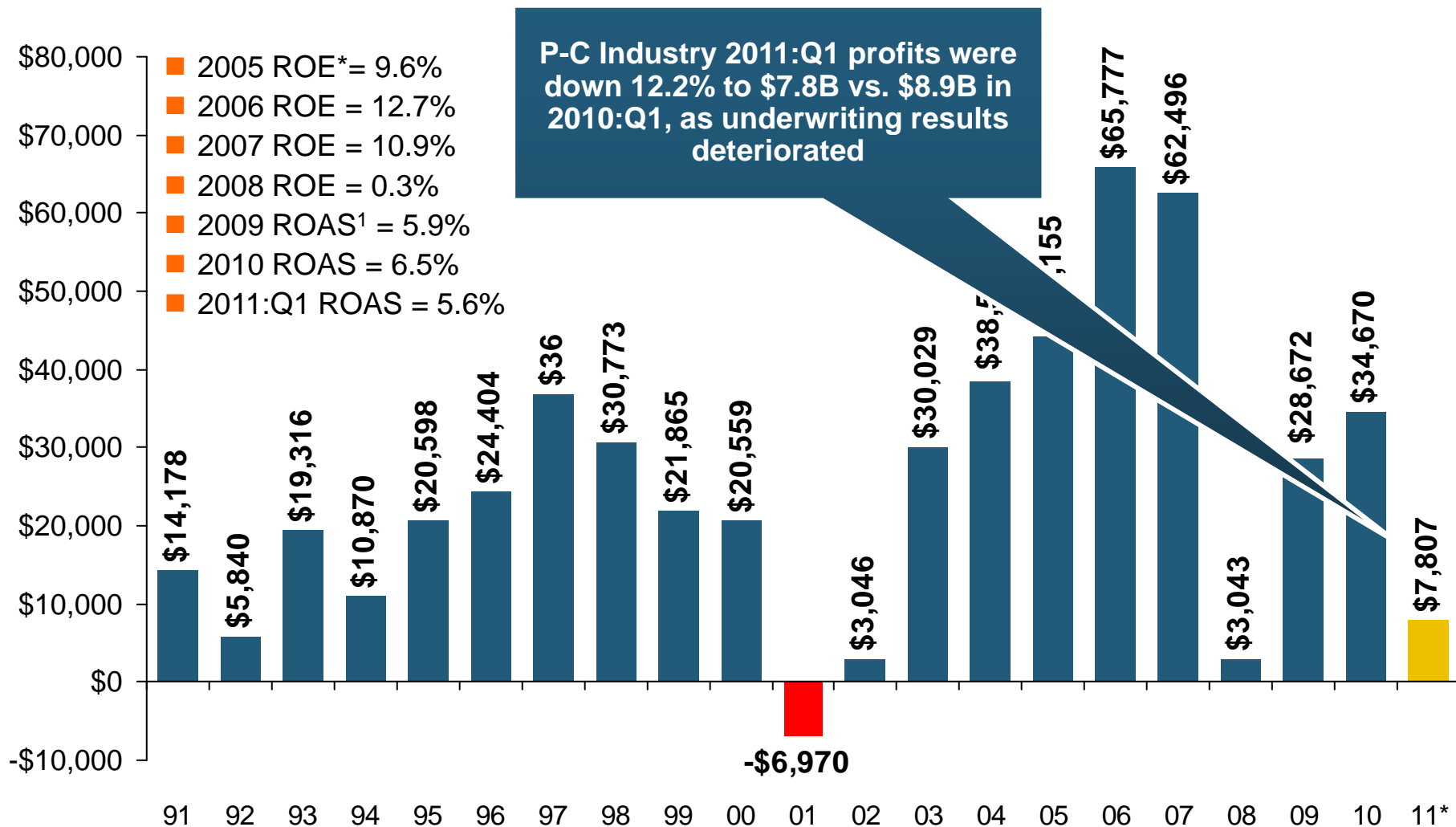
- Long-Term Fiscal and Monetary Policy Direction
- Fed on Aug. 9 stated rates would remain low “*at least through mid-2013*”
 - ◆ This is not only a signal that borrowing costs will remain low over an extended period of time and that inflation will remain muted; Also tells investors that they’ll need to take on risk in order to earn returns in the market. Should be bullish for stocks.
 - ◆ Congress and the Administration need to remove regulatory and tax uncertainty ASAP and drive a pro-growth agenda



P/C Insurance Industry Financial Overview

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

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



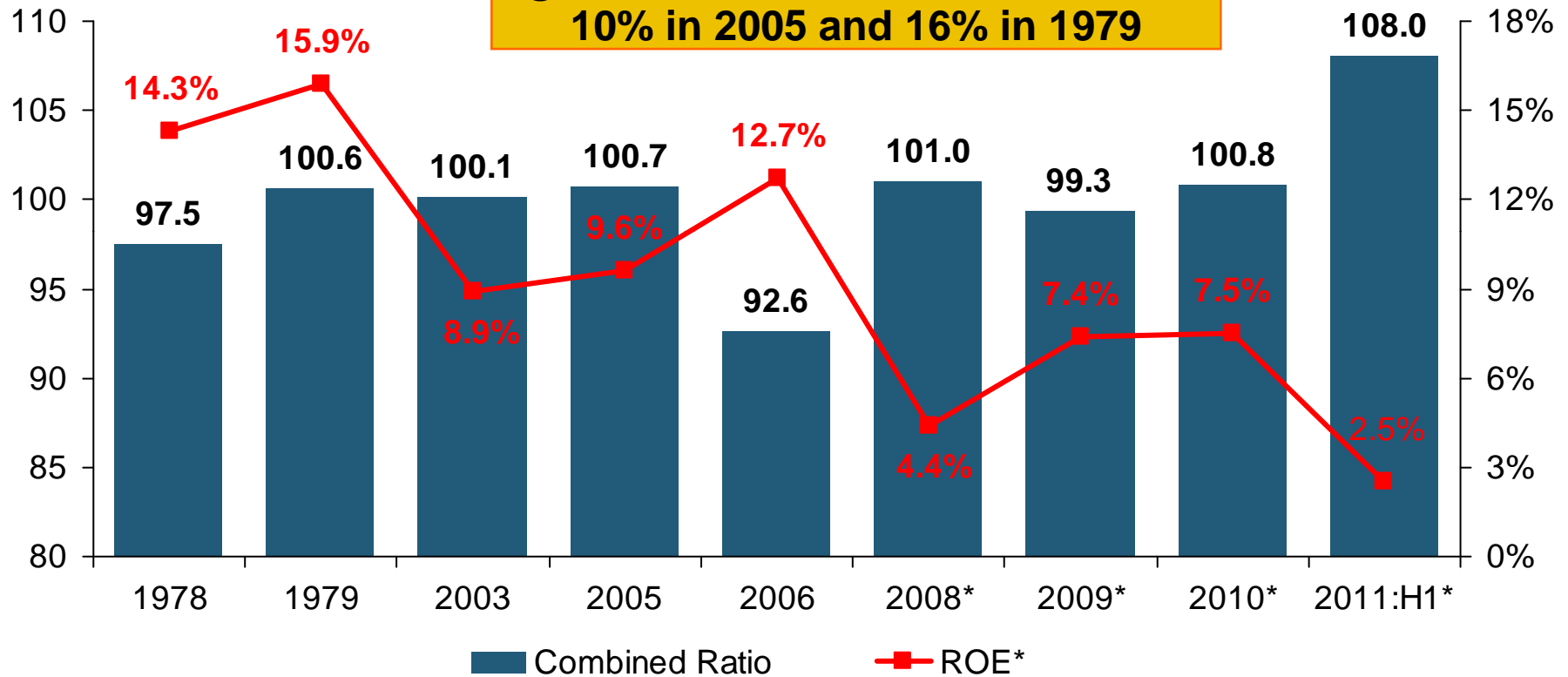
* ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 6.5% ROAS for 2011:Q1, 7.5% for 2010 and 7.4% for 2009.

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

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

Combined Ratio / ROE

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

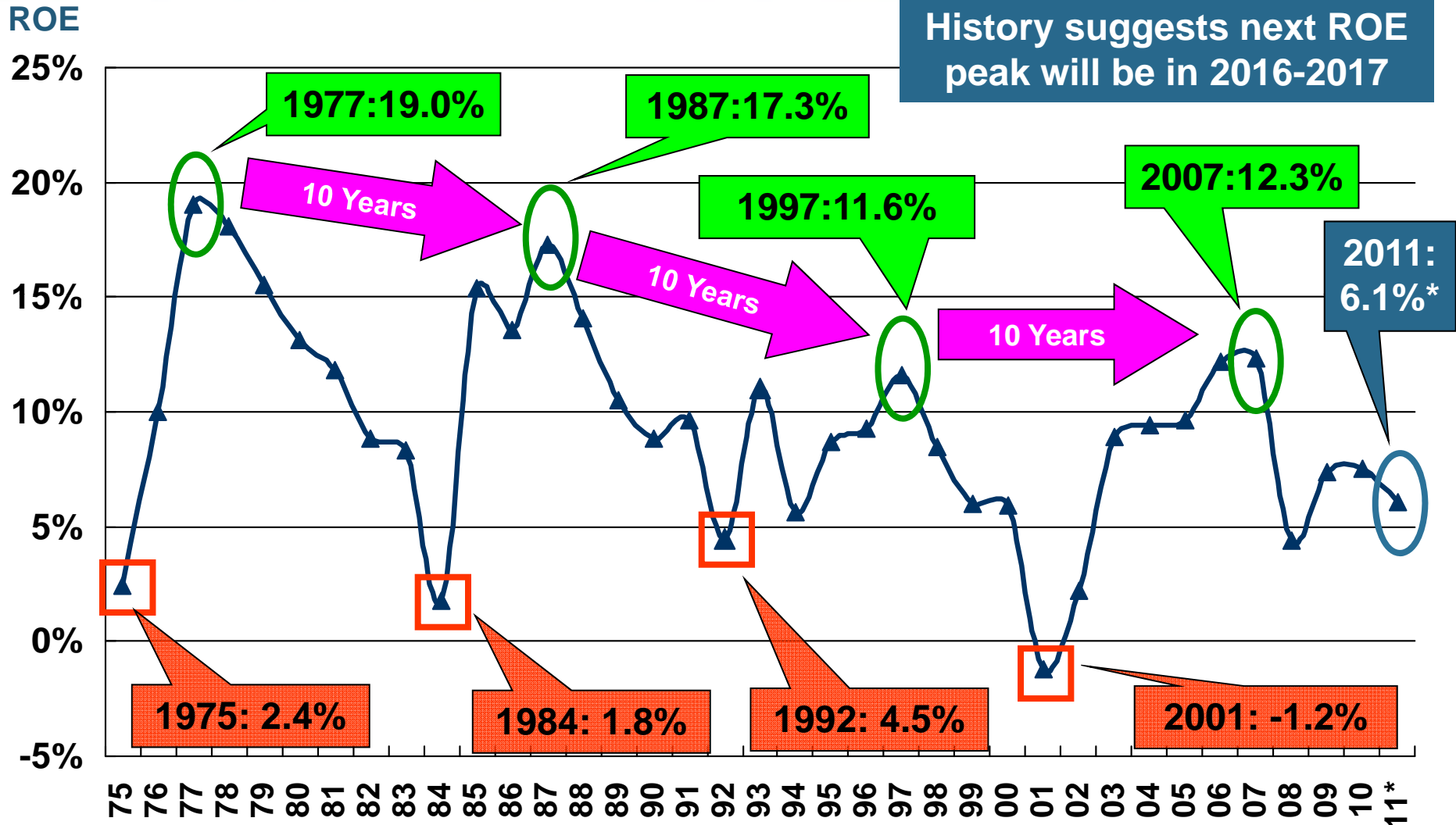


Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2009 and 2010 figures are return on average statutory surplus. 2008 -2011 figures exclude mortgage and financial guaranty insurers. 2011 figure is estimate through first half.

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

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



*Profitability = P/C insurer ROEs are I.I.I. estimates. 2011 figure is an estimate based on annualized ROAS for Q1 data.

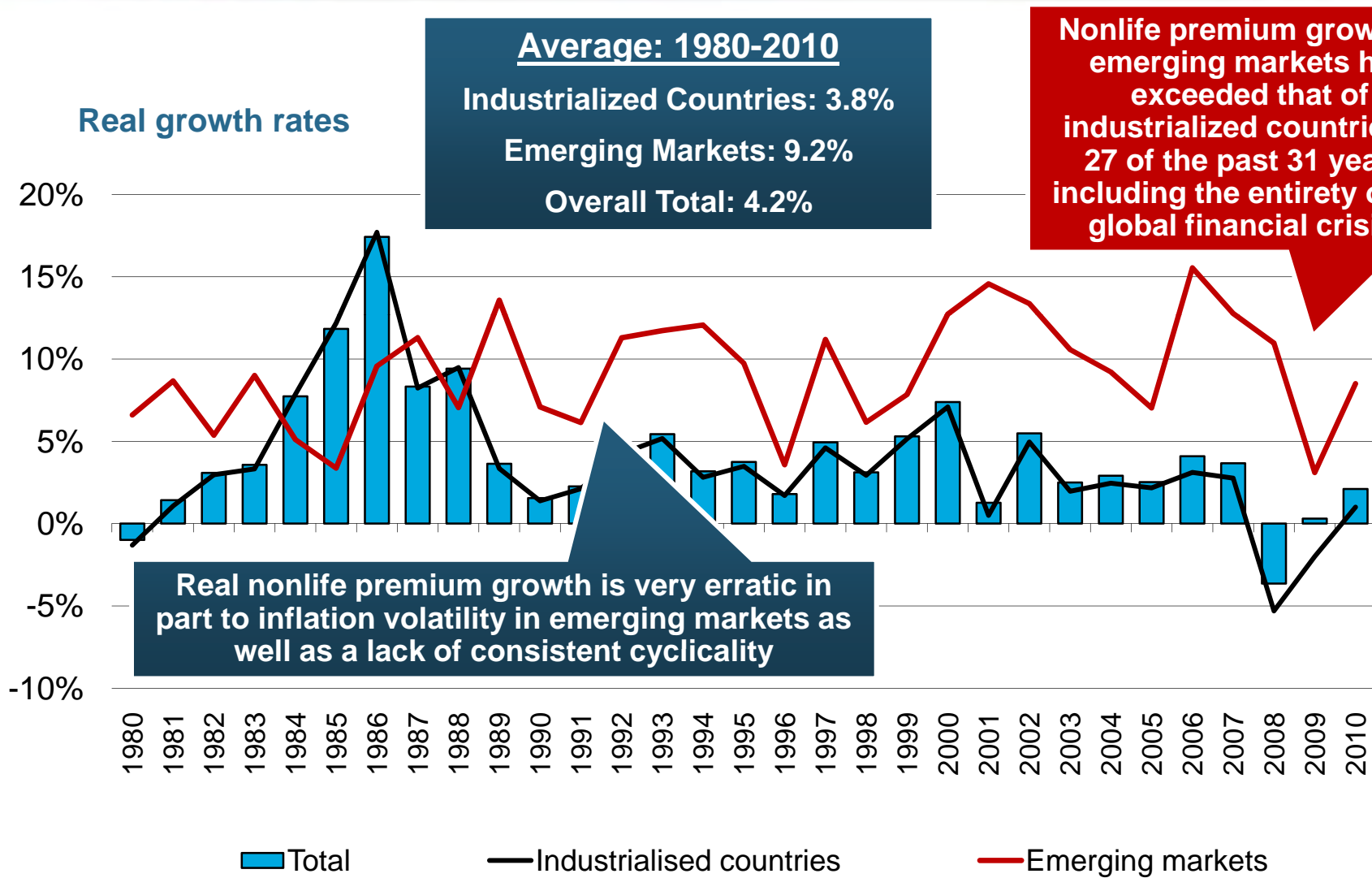
Note: Data for 2008-2011 exclude mortgage and financial guaranty insurers.

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

Global P/C Insurance Industry Overview

**Profit Recovery Will Be Set
Back by High CATs, Low
Interest Rates, Diminishing
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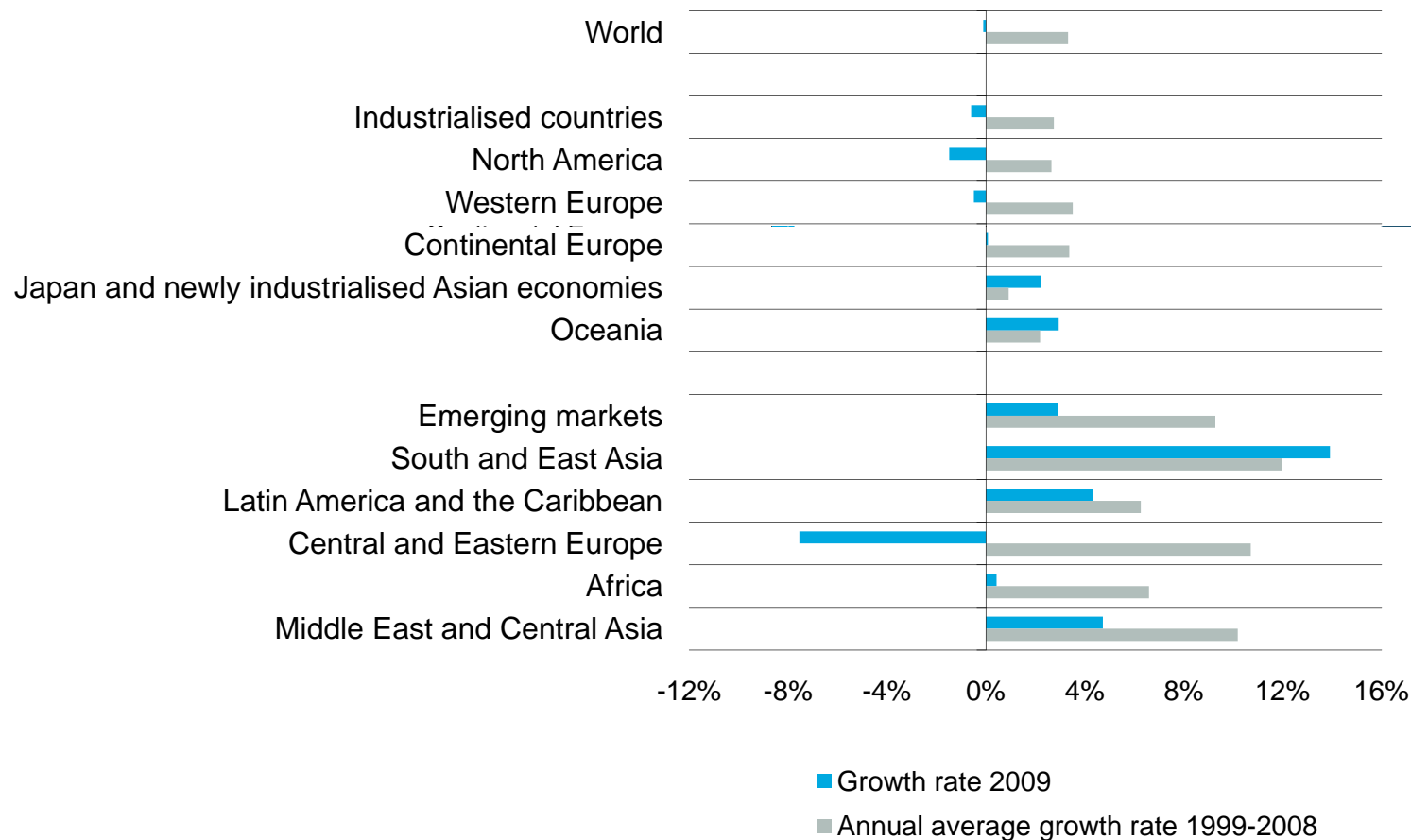
Global Real (Inflation Adjusted) Nonlife Premium Growth: 1980-2010



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

Nonlife Real Premium Growth Rates by Region: 2000-2009 and 2010

Real Premium Growth Rates



Every emerging market region except Central and Eastern Europe experienced growth during the financial crisis and into 2010

benefit from foreign direct investment

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

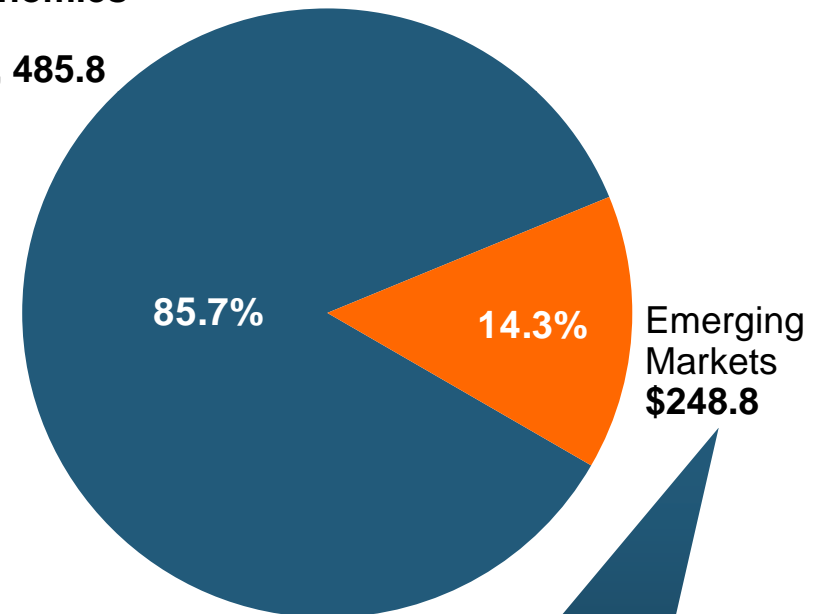
Premium Growth Facts

- 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

2009, \$Billions

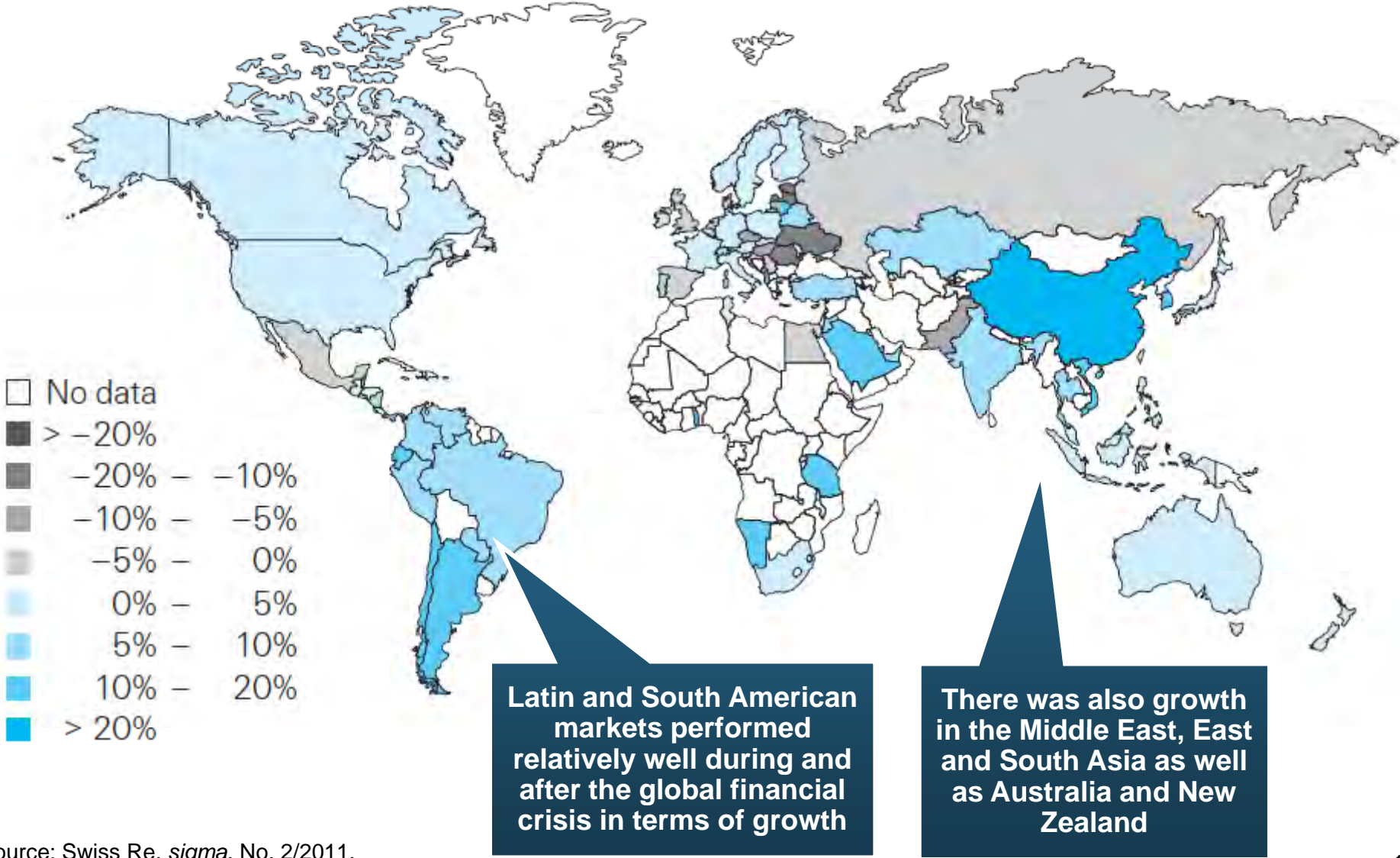
Industrialized
Economies

\$1, 485.8



Developing markets now account for 47% of global GDP but just 14% of nonlife premiums

Nonlife Real Premium Growth in 2010



Source: Swiss Re, *sigma*, No. 2/2011.



Global Catastrophe Loss Developments and Trends

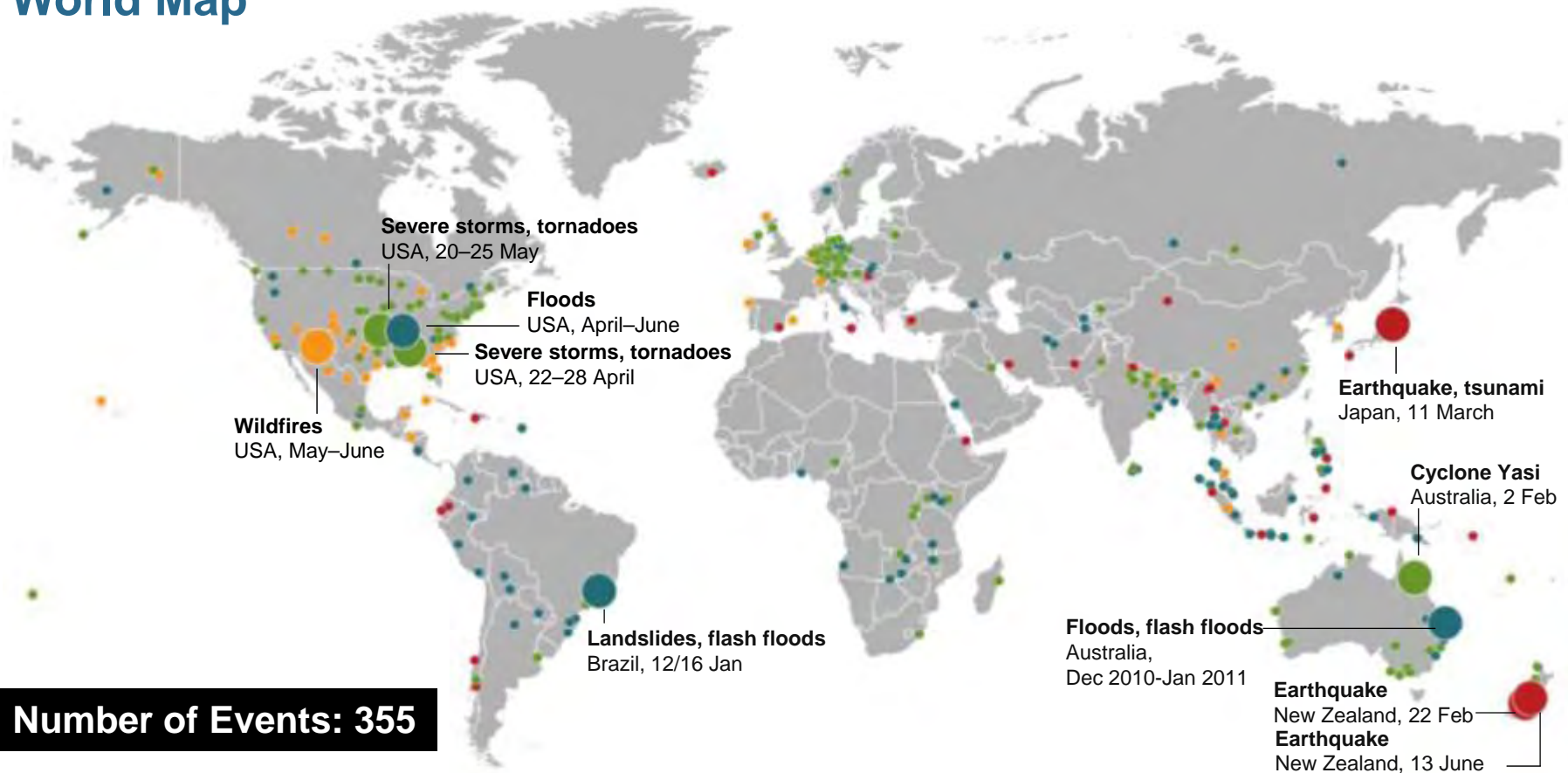
**2011 and 2010 Are Rewriting
Catastrophe Loss and
Insurance History**

Global Catastrophe Loss Summary: First Half 2011

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

Natural Loss Events, January – June 2011

World Map



Number of Events: 355

- 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)

Worldwide Natural Disasters 2011

Significant Natural Disasters (January – June only)

Deadliest Disasters

Date	Event	Area	Deaths
11.3.2011	Earthquake, tsunami	Japan	15,500 (still missing: 7,297)
12/16.1.2011	Landslides, flash floods	Brazil	1,350
22-28.4.2011	Severe storm, tornadoes	USA	350

Costliest Disasters (Insured Losses)

Date	Event	Area	Insured losses in US\$m
11.3.2011	Earthquake, tsunami	Japan	~30,000
22.2.2011	Earthquake	New Zealand	>10,000
22-28.4.2011	Severe storm, tornadoes	USA	5,050

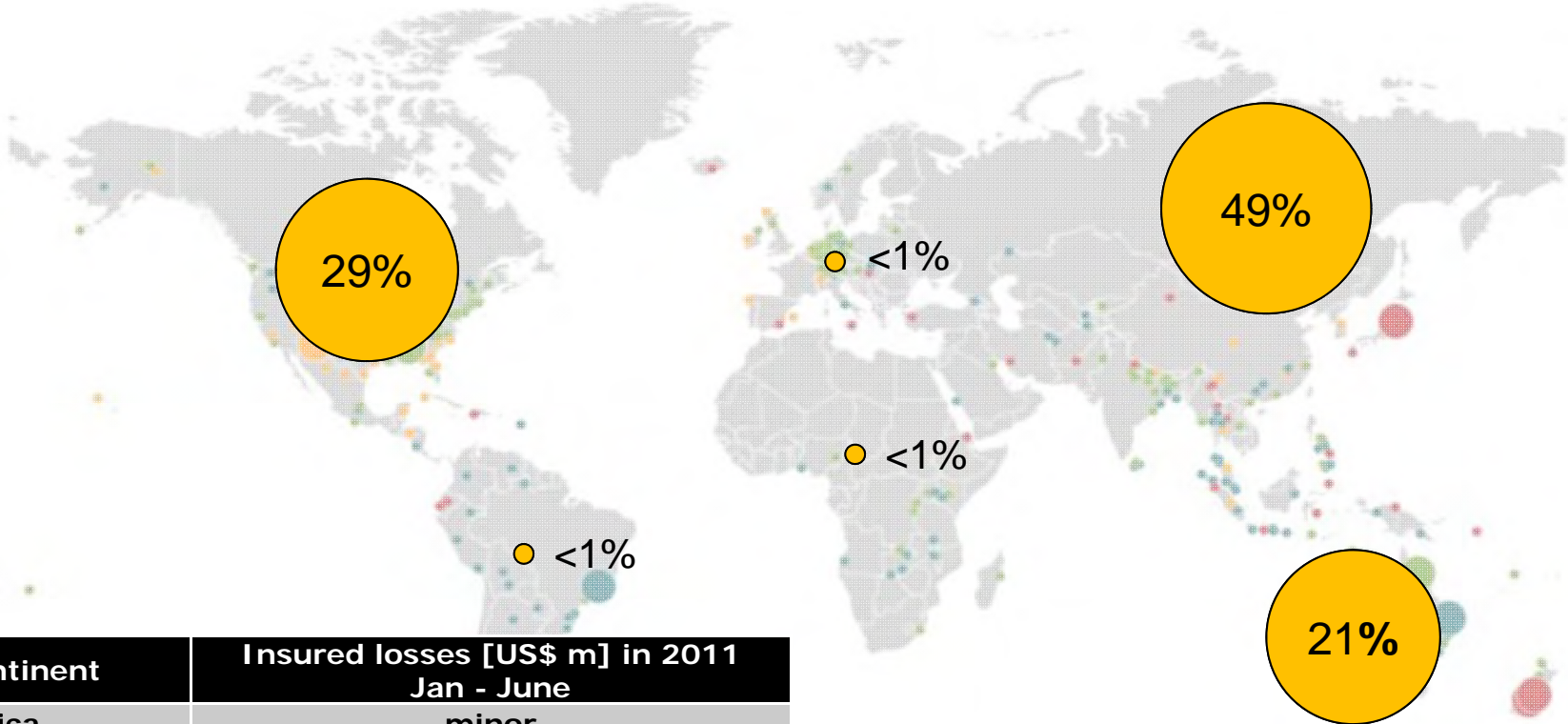
Costliest Disasters (Overall Losses)

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

Worldwide Natural Disasters 2011

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

Insured losses 2011 (January – June only): US\$ 60bn



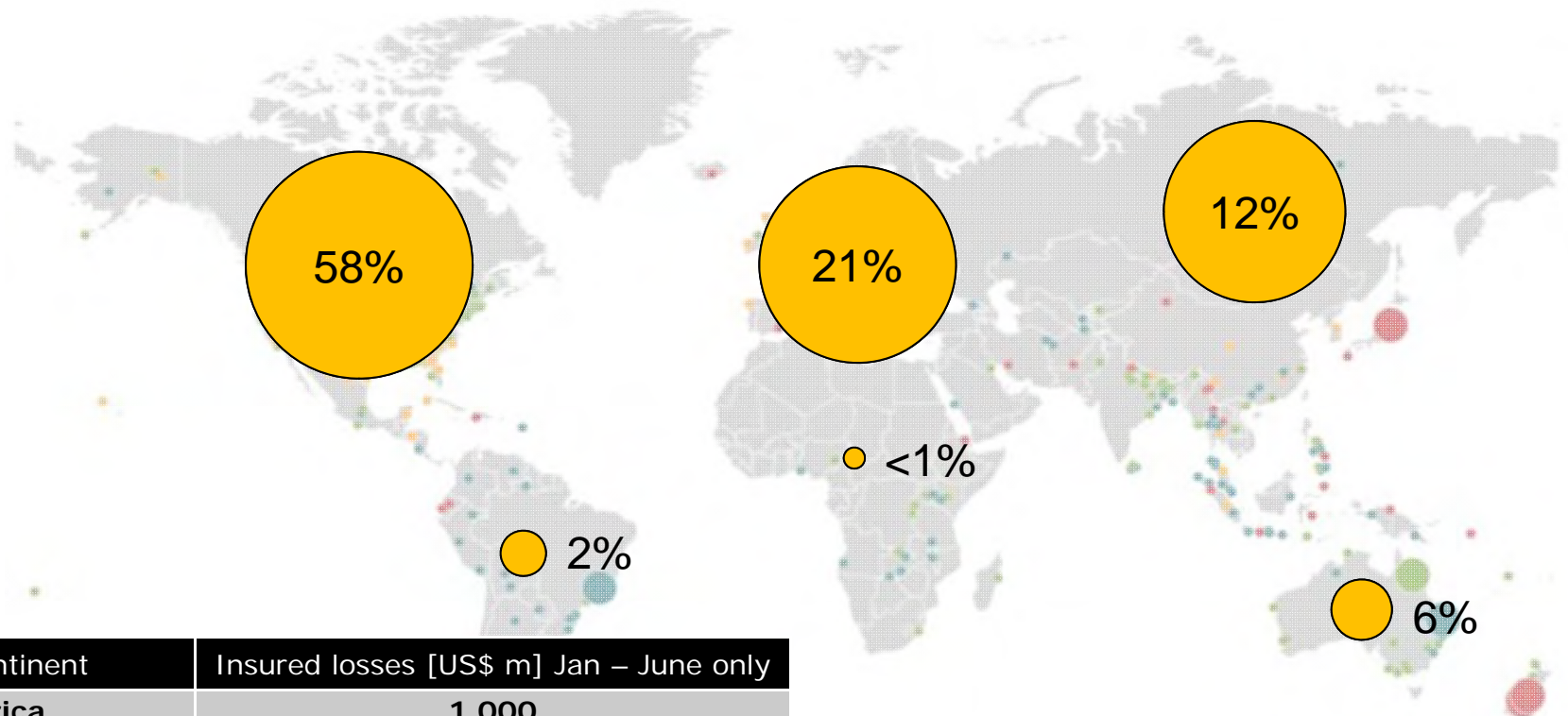
Continent	Insured losses [US\$ m] in 2011 Jan - June
Africa	minor
America	17,800
Asia	30,080
Australia/Oceania	12,900
Europe	100

Source: MR NatCatSERVICE

Worldwide Natural Disasters, 1980-2011

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

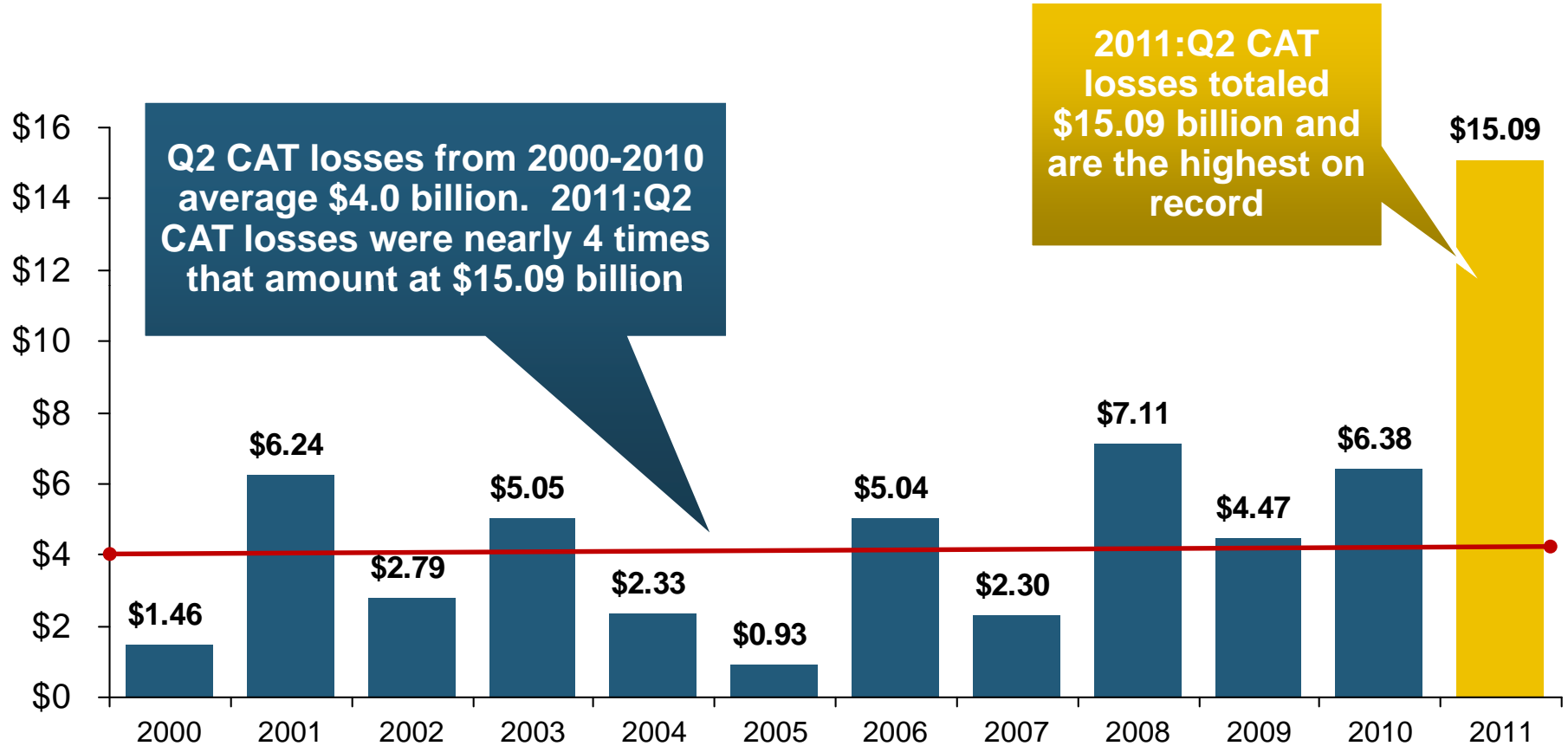
Insured losses 1980 - 2011 (January – June only): US\$ 389bn



Continent	Insured losses [US\$ m] Jan – June only
Africa	1,000
America	237,200
Asia	45,100
Australia/Oceania	25,100
Europe	80,900

US Second Quarter Insured Catastrophe Losses, 2000–2011

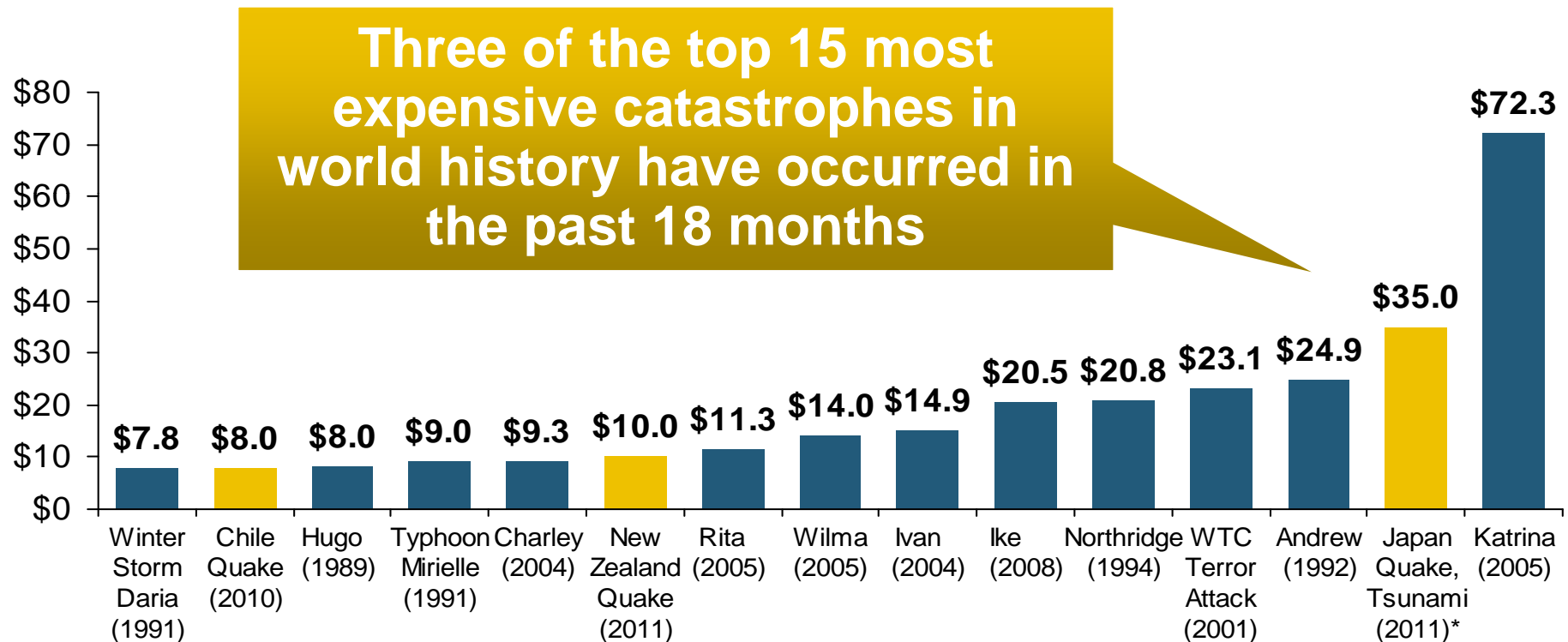
\$ Billions



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

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

(Insured Losses, 2010 Dollars, \$ Billions)



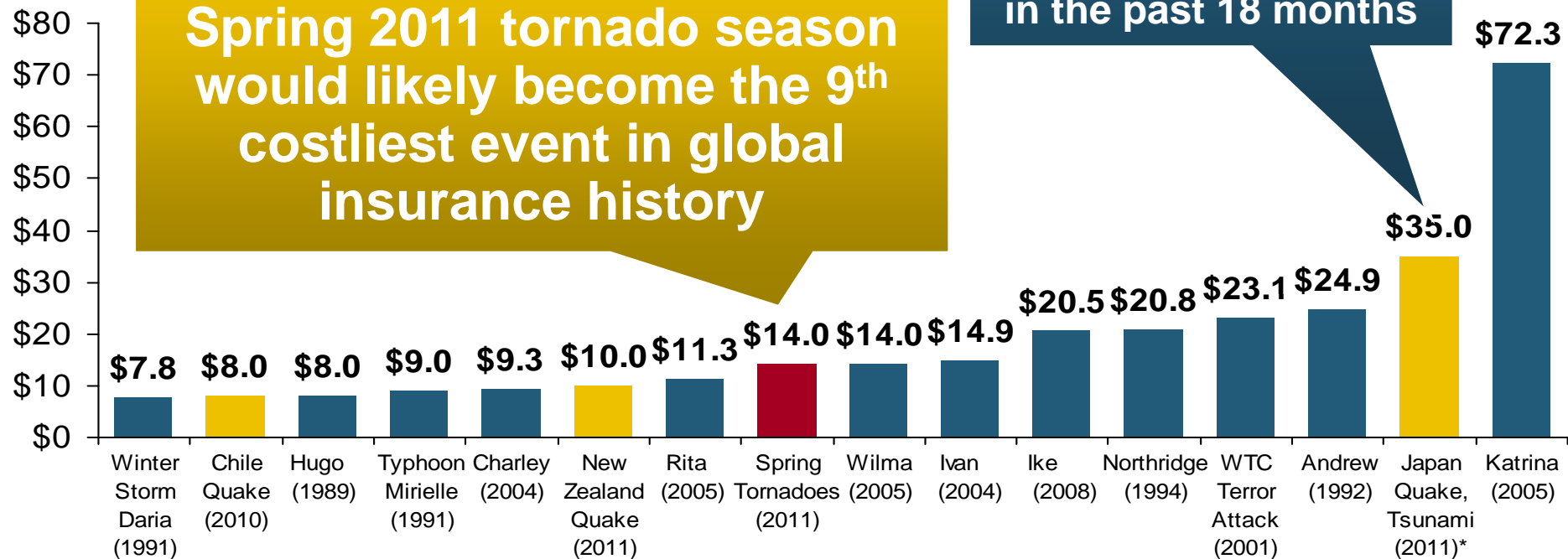
*Through June 20, 2011. 2011 disaster figures are estimates; Figures include federally insured flood losses, where applicable.
Sources: Swiss Re *sigma* 1/2011; AIR Worldwide, RMS, Eqecat; Insurance Information Institute.

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

(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

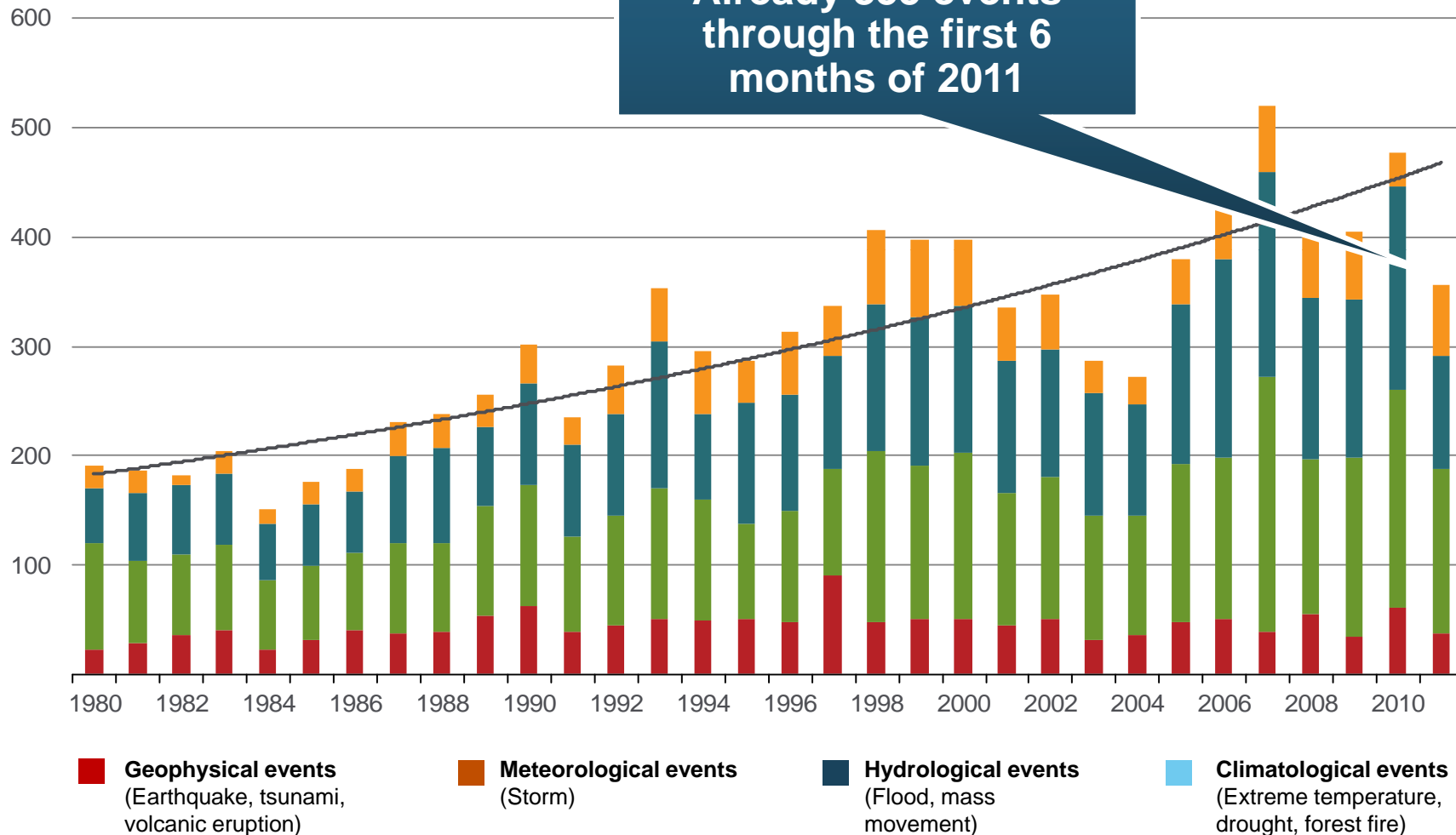
3 of the top 15 most expensive catastrophes in world history have occurred in the past 18 months



*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.

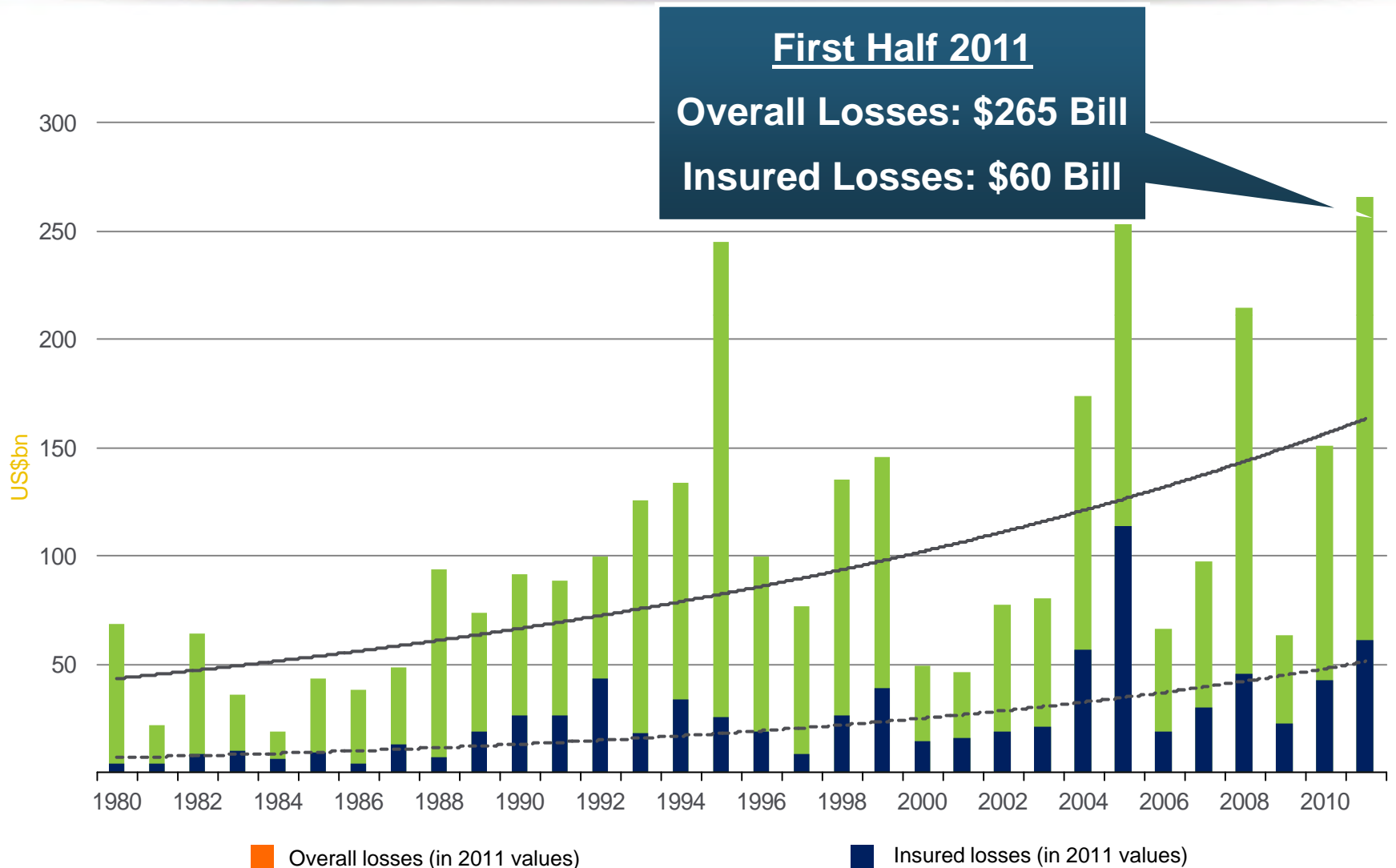
Worldwide Natural Disasters, 1980 – 2011*

Number of Events



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

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

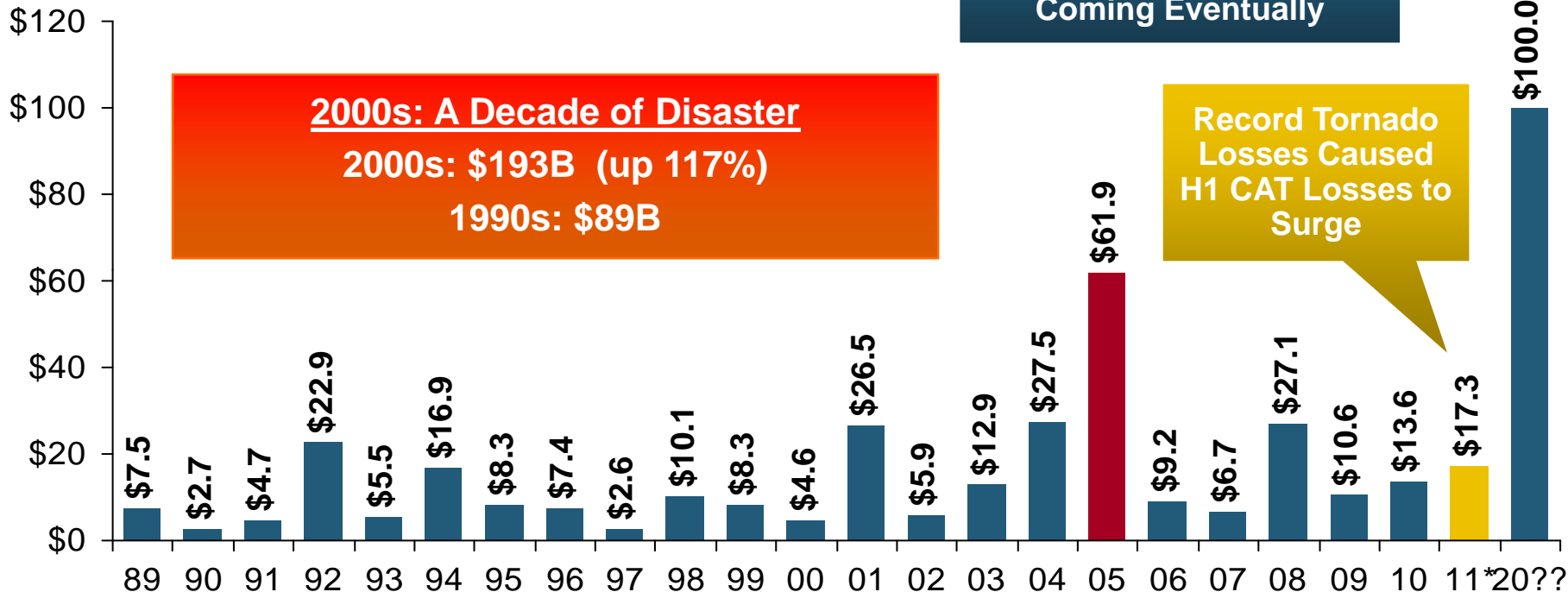


*2011 figure is through June 30.

Source: MR NatCatSERVICE

US Insured Catastrophe Losses

(\$ Billions)



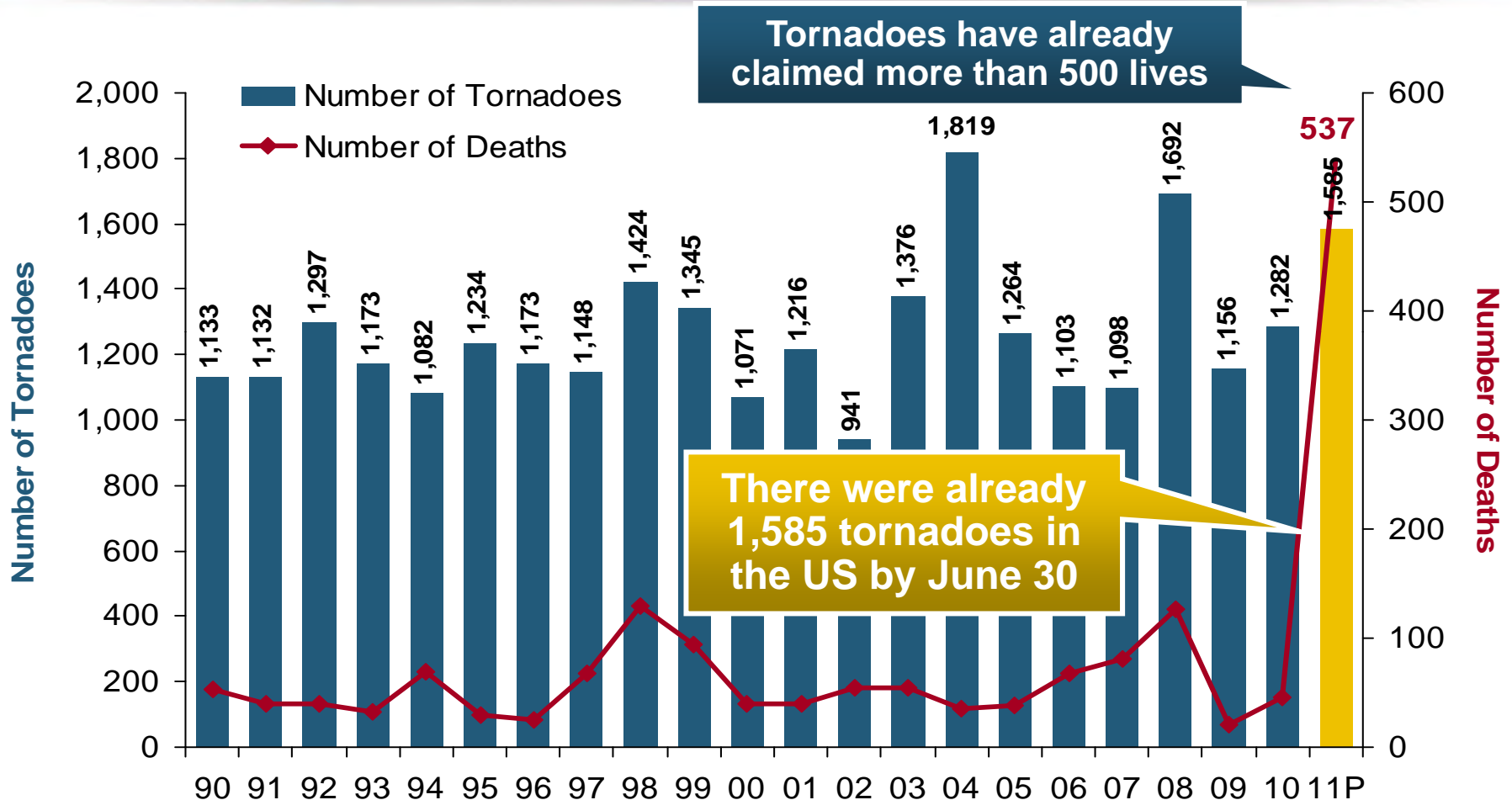
First Half 2011 US CAT Losses Already Exceed Losses from All of 2010. Even Modest Hurricane Losses Will Make 2011 Among the Most Expensive Ever for CATs

*First half 2011.

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

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

Number of Tornadoes and Related Deaths, 1990 – 2011*

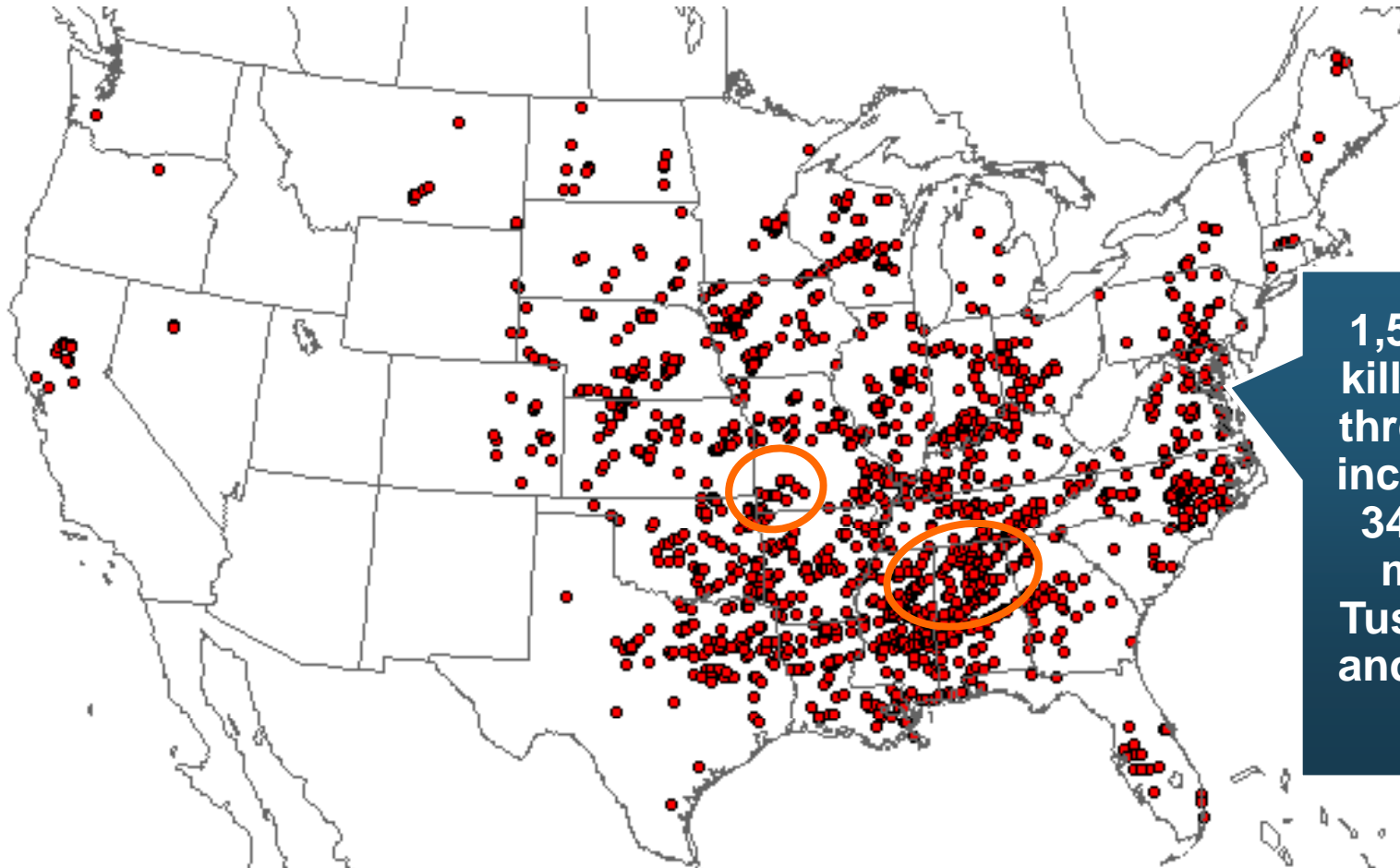


Insurers Expect to Pay \$2 Billion on 165,000 Claims Arising from the April 2011 Tornadoes in the Birmingham and Tuscaloosa Areas

*2011 is preliminary data through June 30.

Source: U.S. Department of Commerce, Storm Prediction Center, National Weather Service.

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



1,585 tornadoes
killed 537 people
through June 30,
including at least
340 on April 26
mostly in the
Tuscaloosa area,
and 130 in Joplin
on May 22



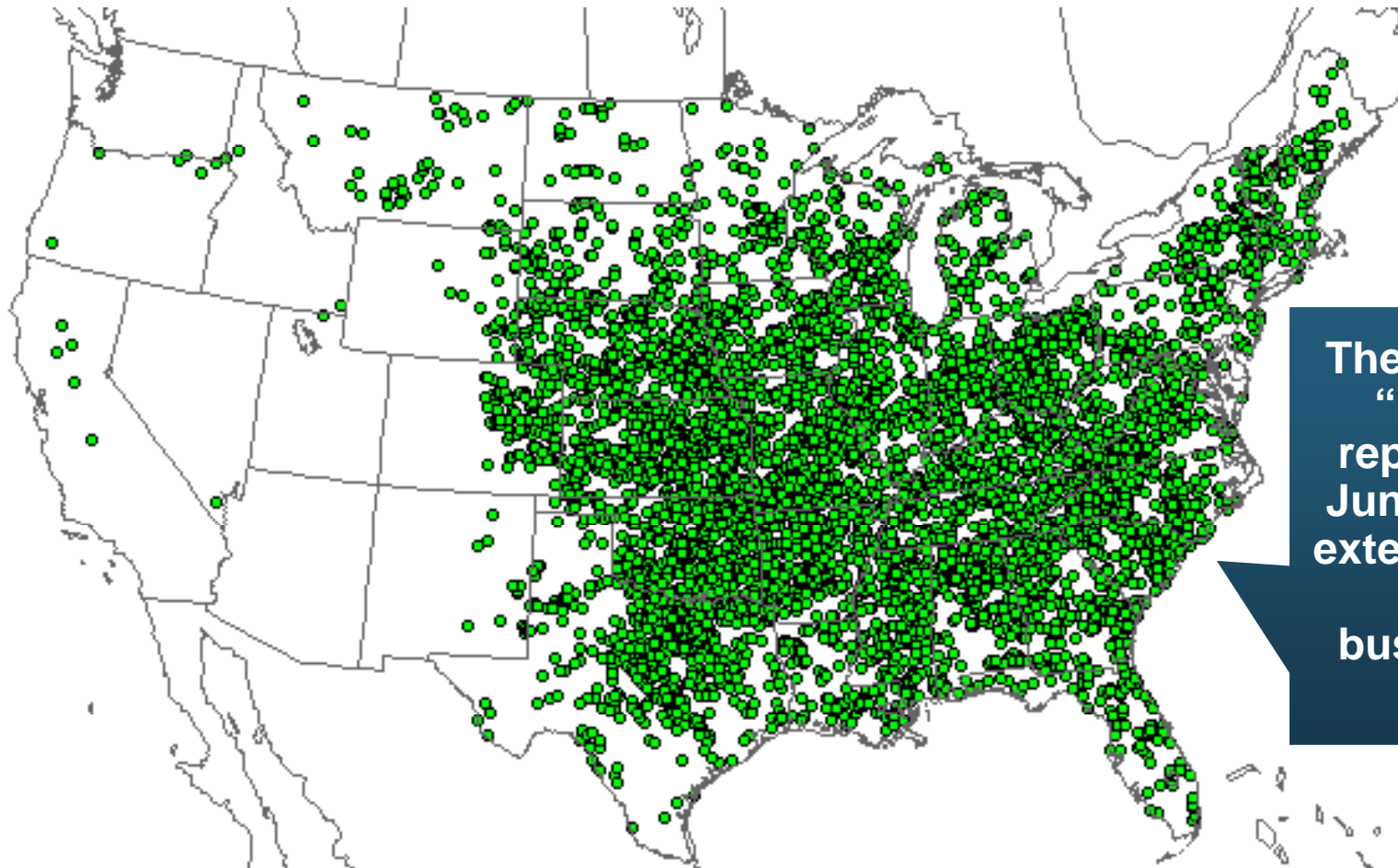
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Tornado Reports
January 01, 2011 - June 30, 2011

Updated: Thursday June 30, 2011 11:49 CT

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



There were 7,176
“Large Hail”
reports through
June 30, causing
extensive damage
to homes,
businesses and
vehicles



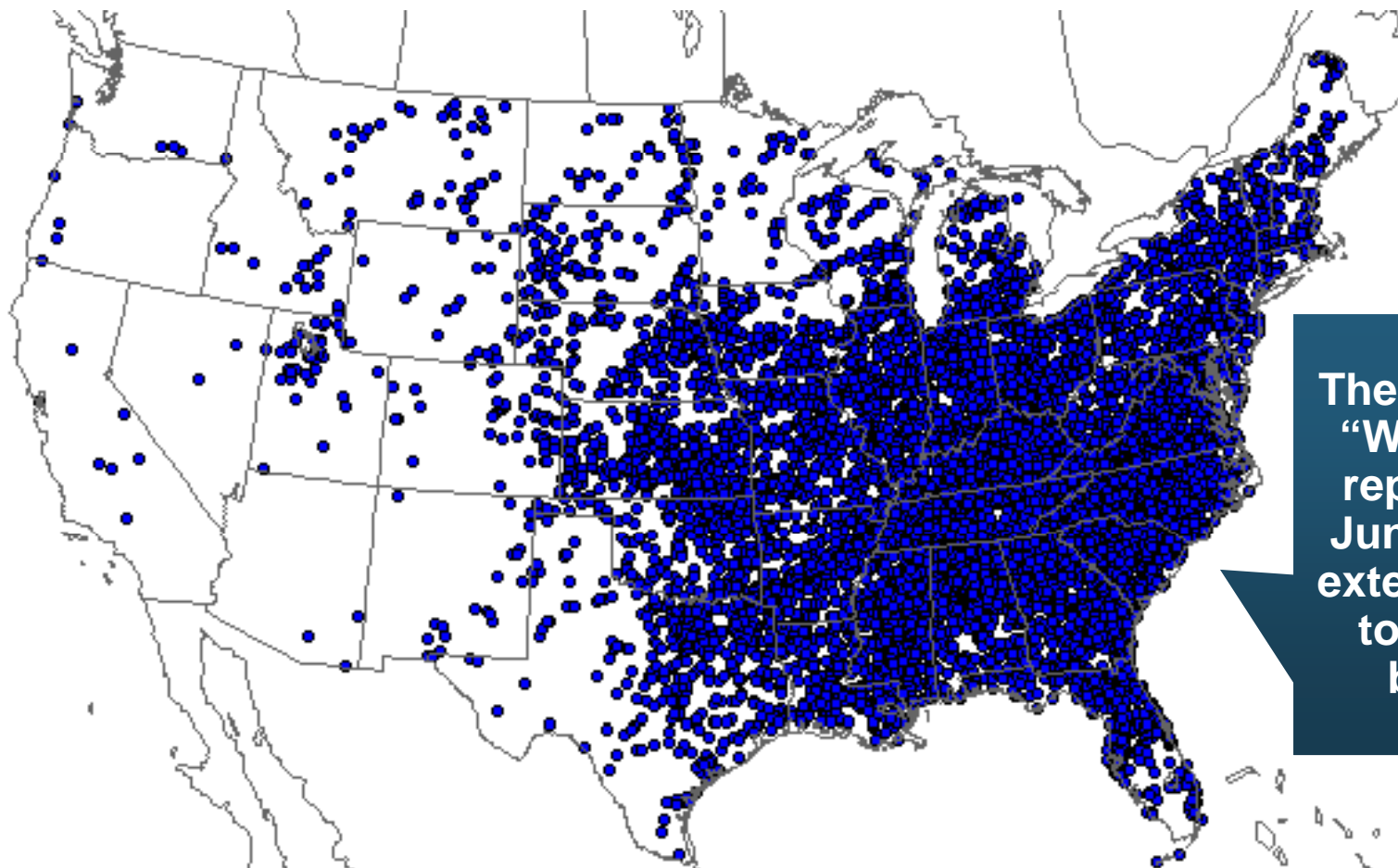
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Hail Reports
January 01, 2011 - June 30, 2011

Updated: Thursday June 30, 2011 11:49 CT

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



There were 11,283
“Wind Damage”
reports through
June 30, causing
extensive damage
to homes and,
businesses



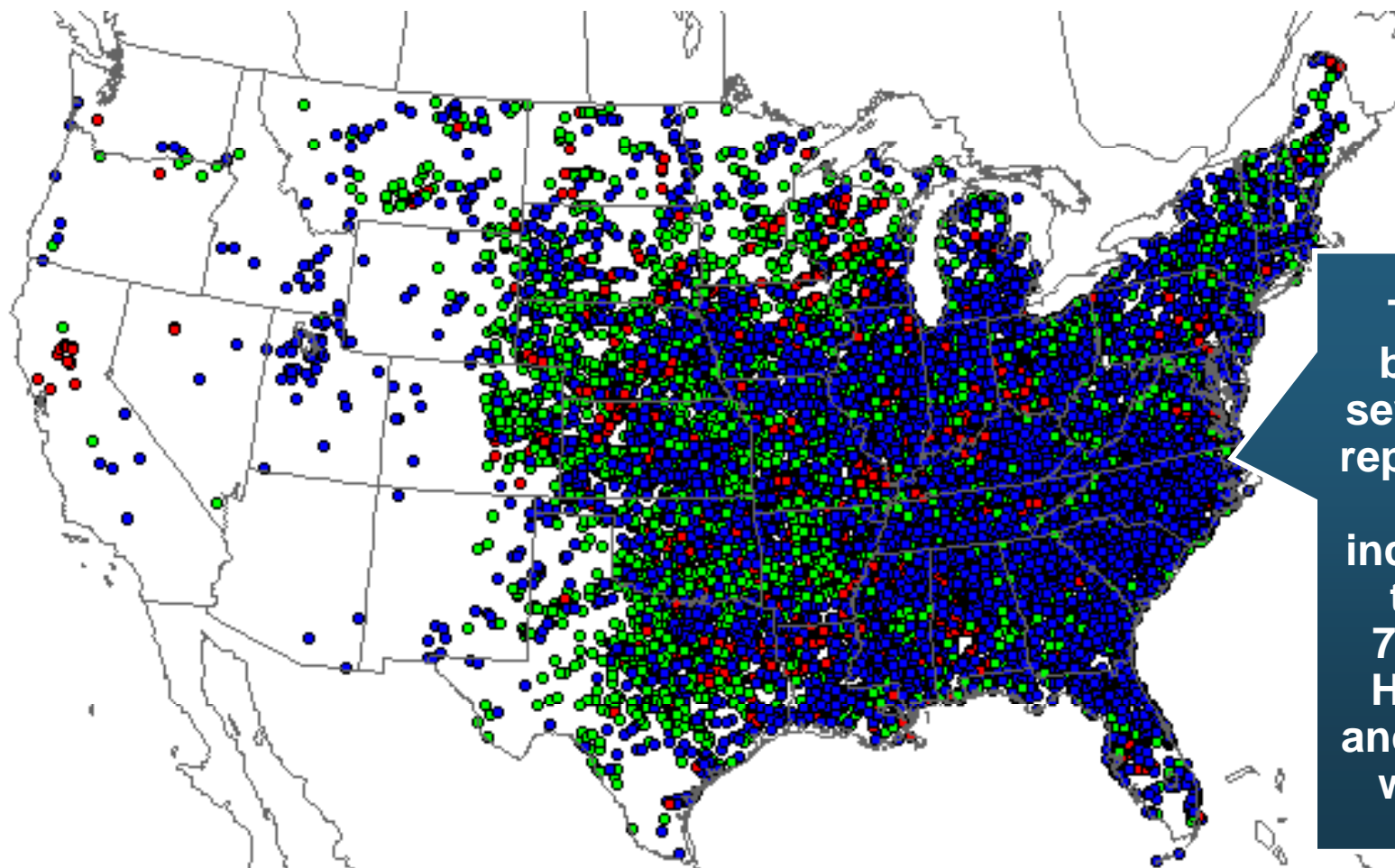
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NOAA/Storm Prediction Center Norman, Oklahoma

Wind Reports
January 01, 2011 - June 30, 2011

Updated: Thursday June 30, 2011 11:49 CT

Severe Weather Reports, January 1—June 30, 2011



There have been 20,044 severe weather reports through June 30; including 1,585 tornadoes; 7,176 “Large Hail” reports and 11,283 high wind events



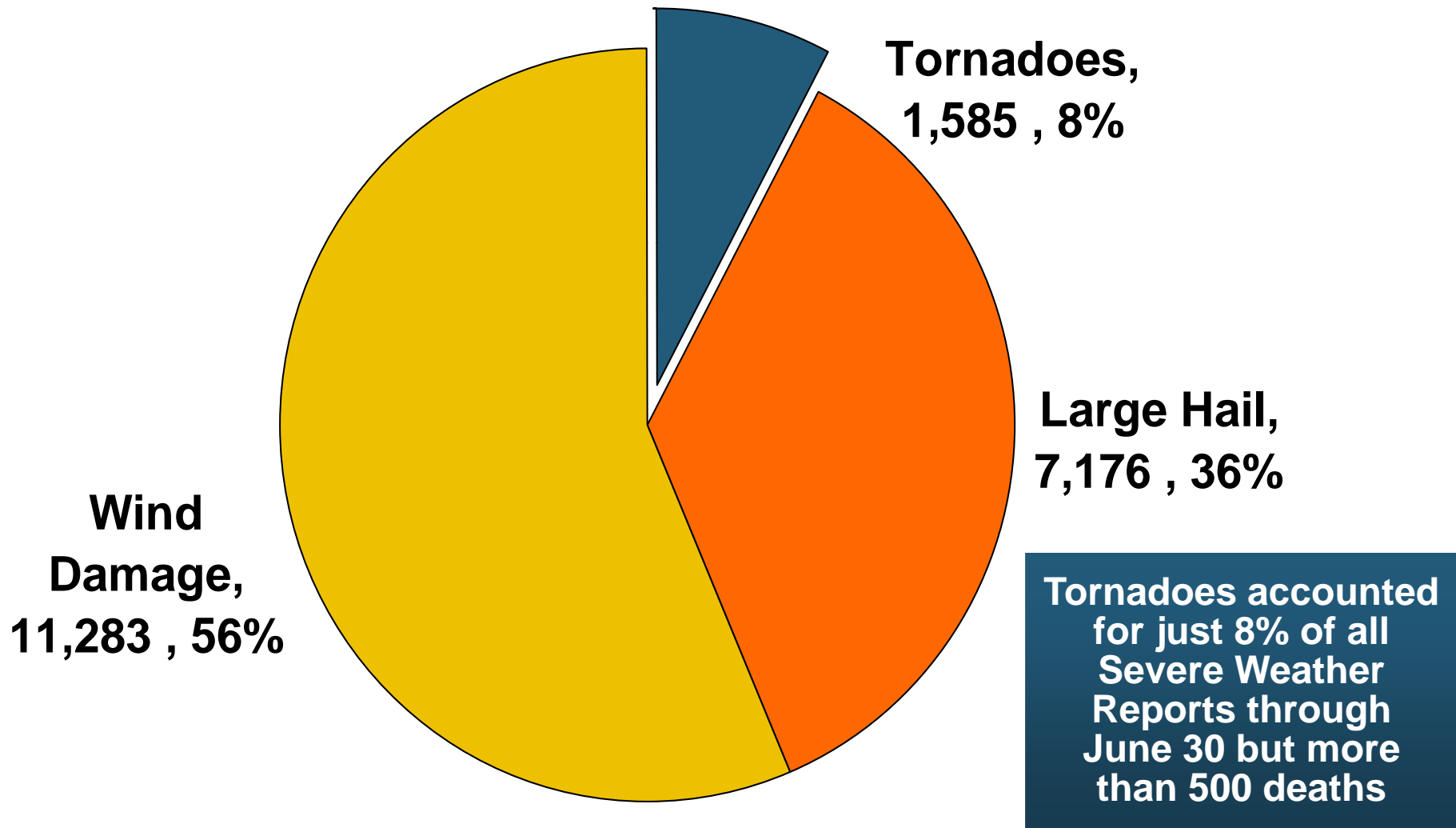
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Severe Weather Reports
January 01, 2011 - June 30, 2011

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





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

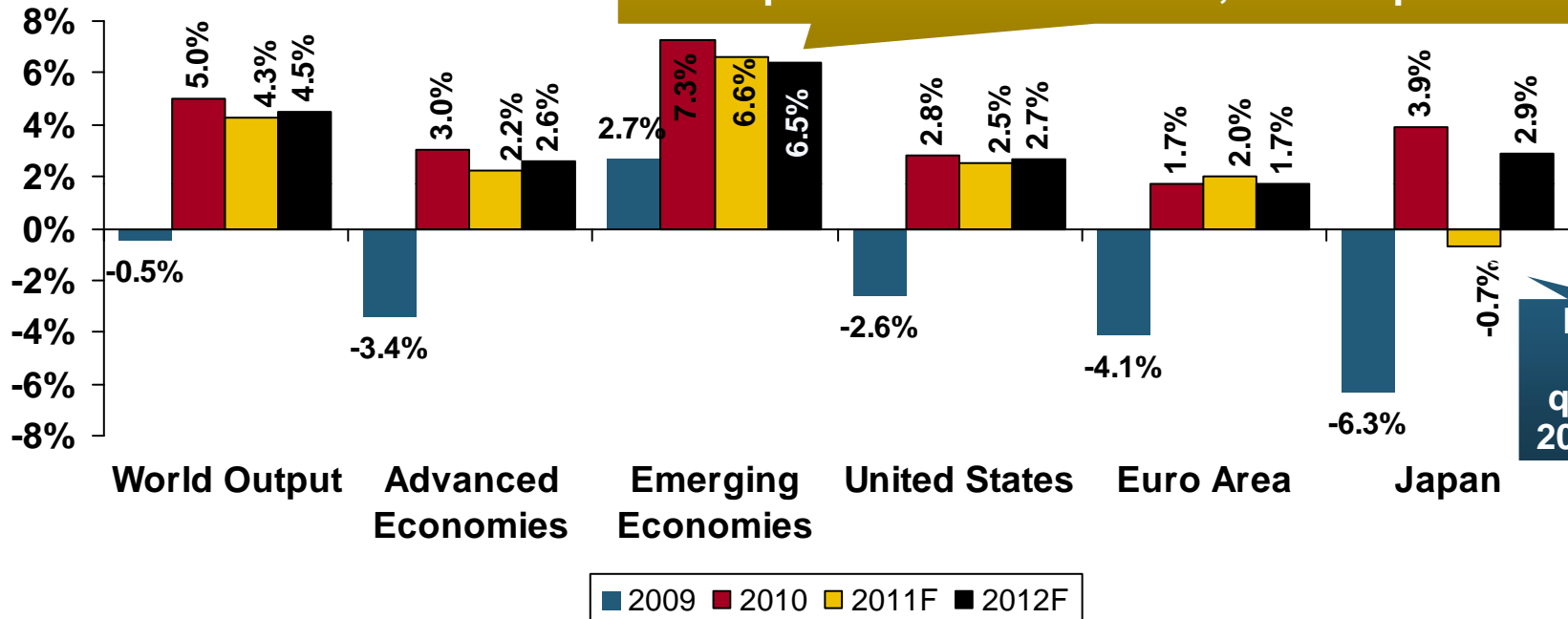
**The Crisis Made Insurers' Path to
Growth More Challenging/Risky**

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**

World Economic Outlook: 2009-2012F

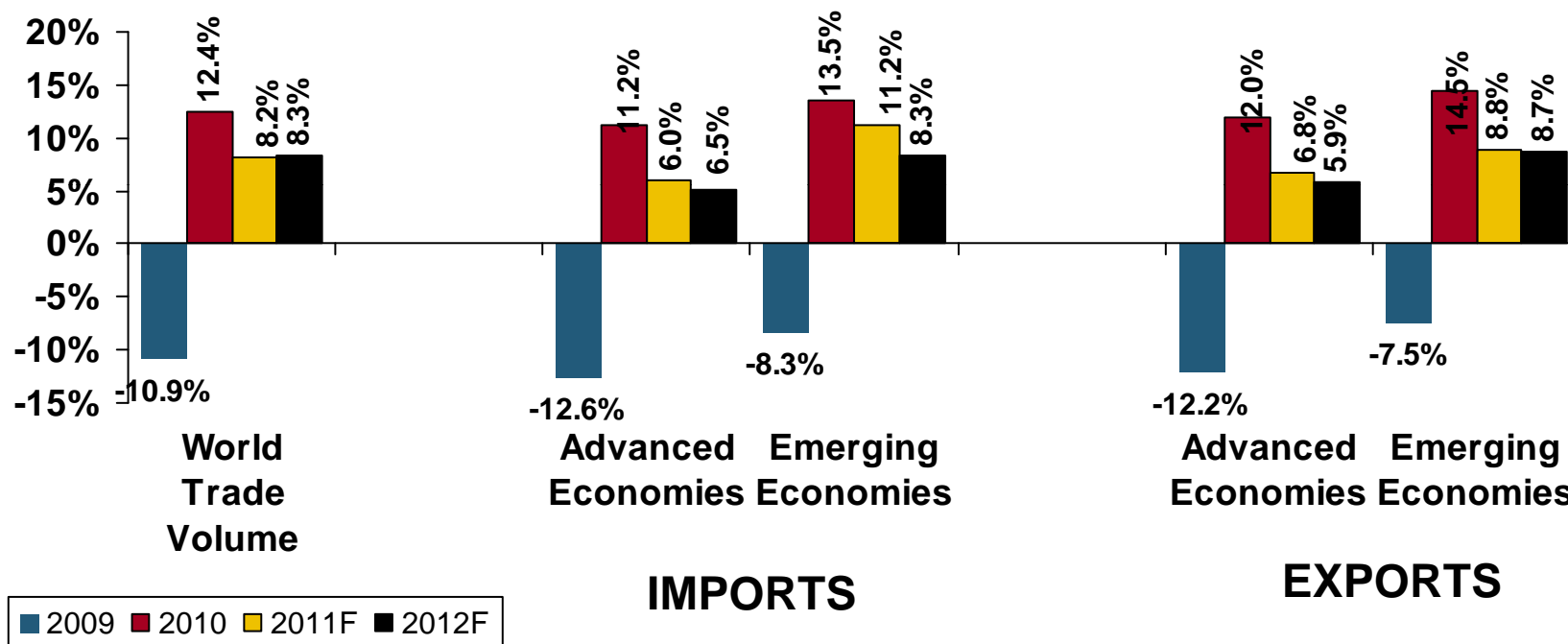
IMF says growth in emerging and developing economies will outpace advanced ones in 2011/12. The impact will be to accelerate the relative growth of insurance exposures outside the US, W. Europe and Japan.



March 11 Japan quake hurt 2011 growth

Outlook uncertain: The world economy continues to recover from the global economics, but at a weakening pace and 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.

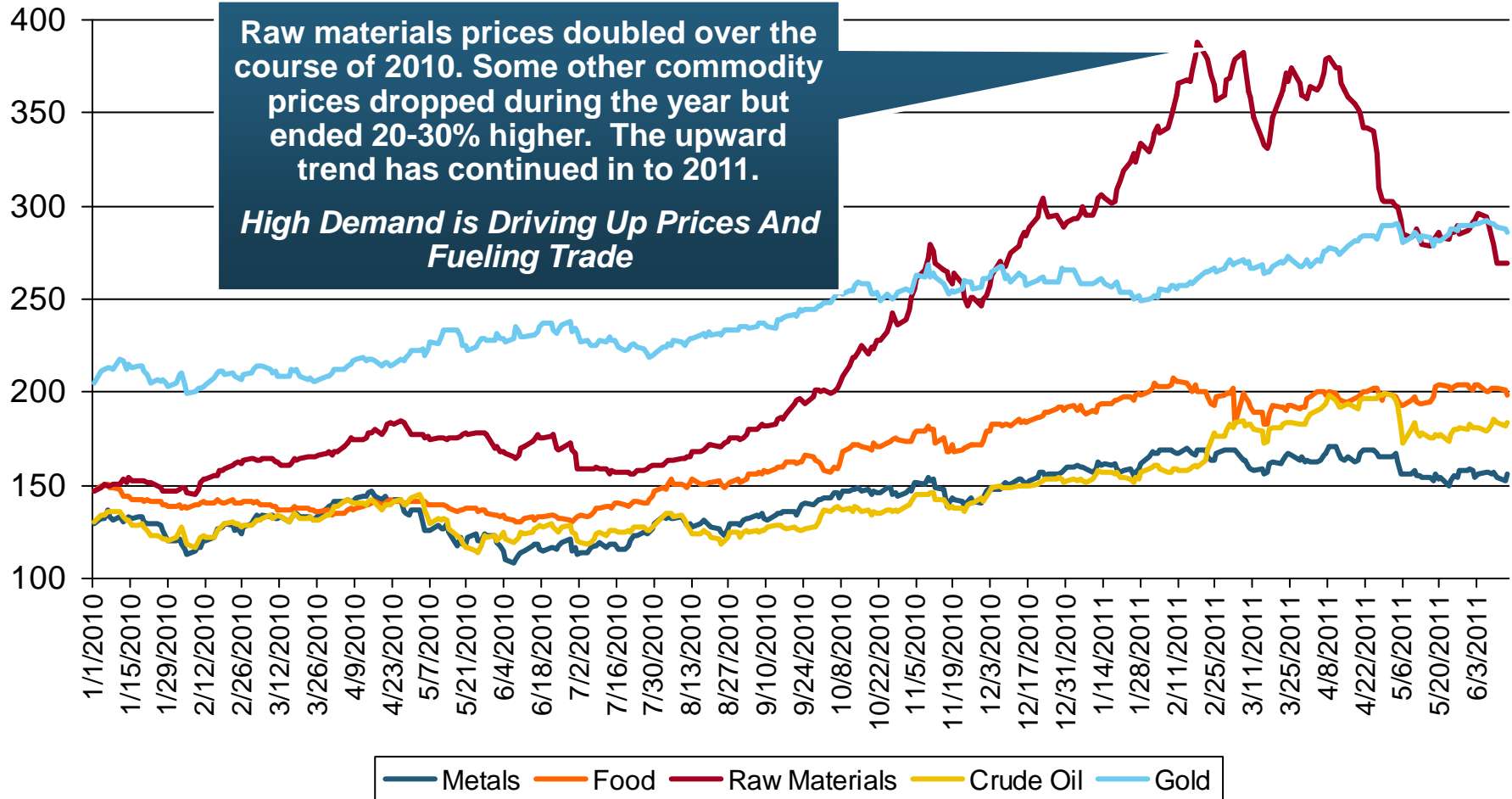
World Trade Volume Outlook (Goods and Services): 2009-2012F



Global trade in flows recovered sharply following the financial crisis, with both imports and exports rising sharply, but will be slowing in 2011 with further deceleration expected in 2012

Commodity Price Changes in 2010-2011*

Index (Jan 3, 2006 = 100)

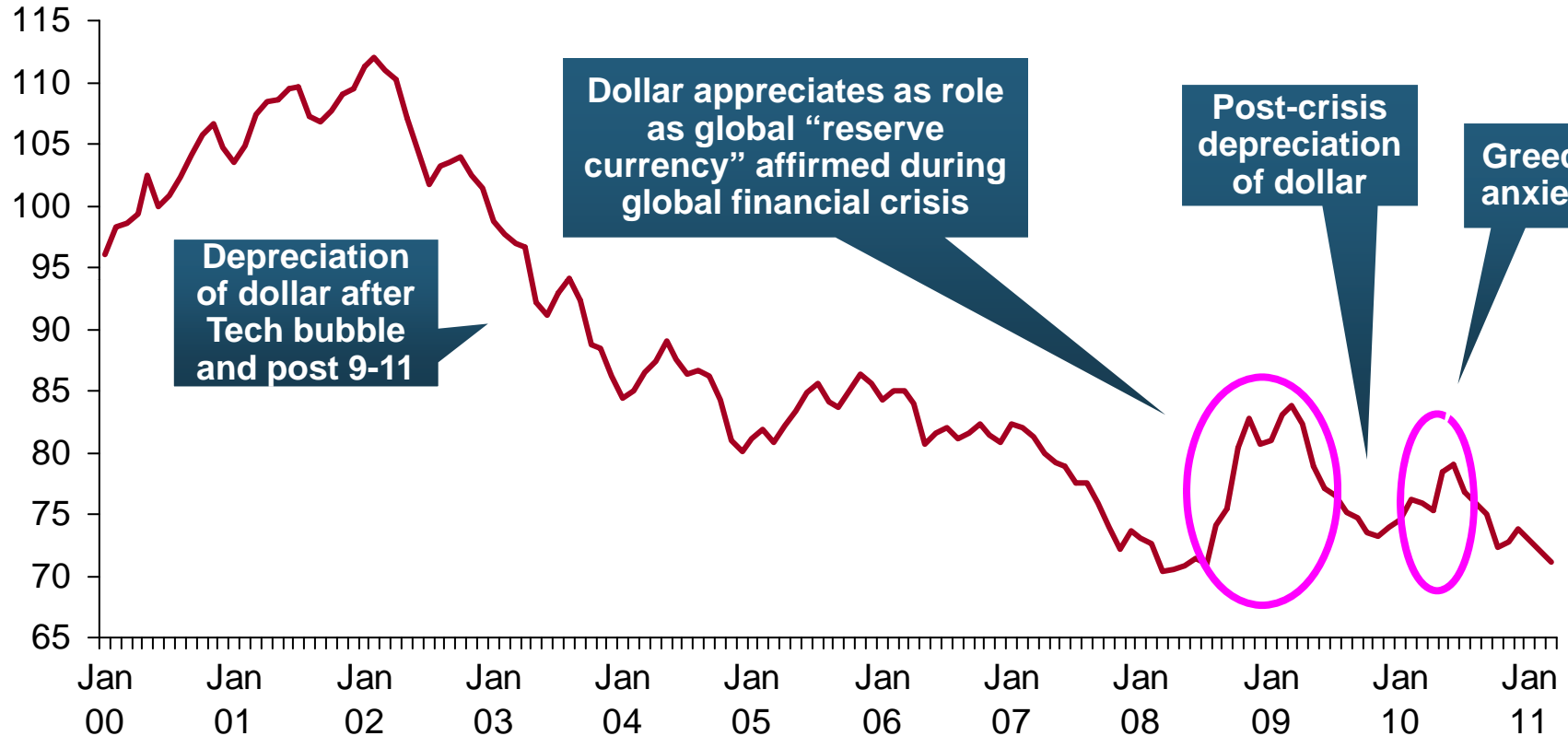


*data are through June 14, 2011

Source: International Monetary Fund World Economic Outlook June 2011 update at 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

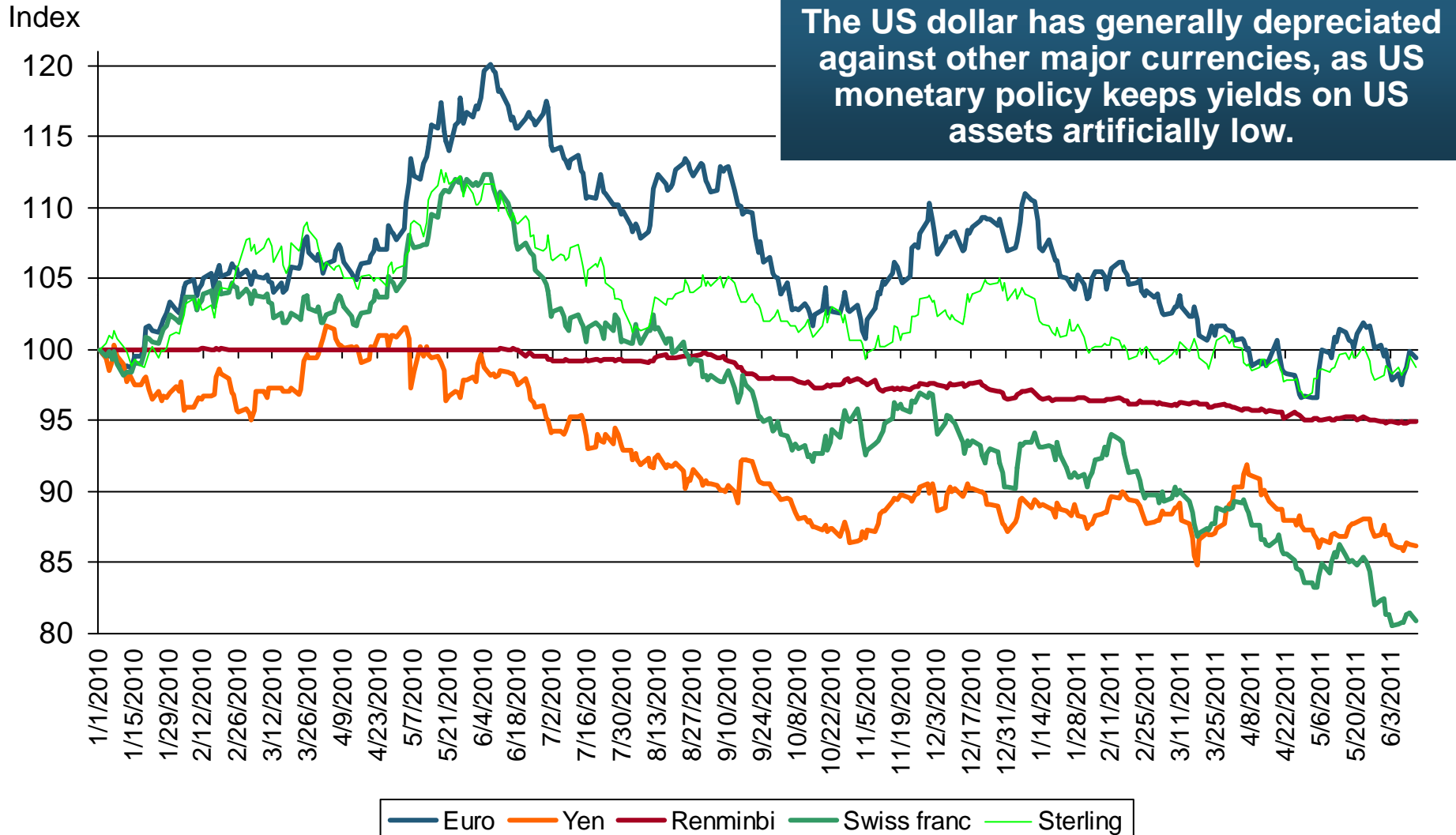


The global financial crisis created significant exchange-rate volatility in 2008-09 and 2010—when the world needed a “safe haven” currency. As global stability returns, the dollar is depreciating again.

*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*

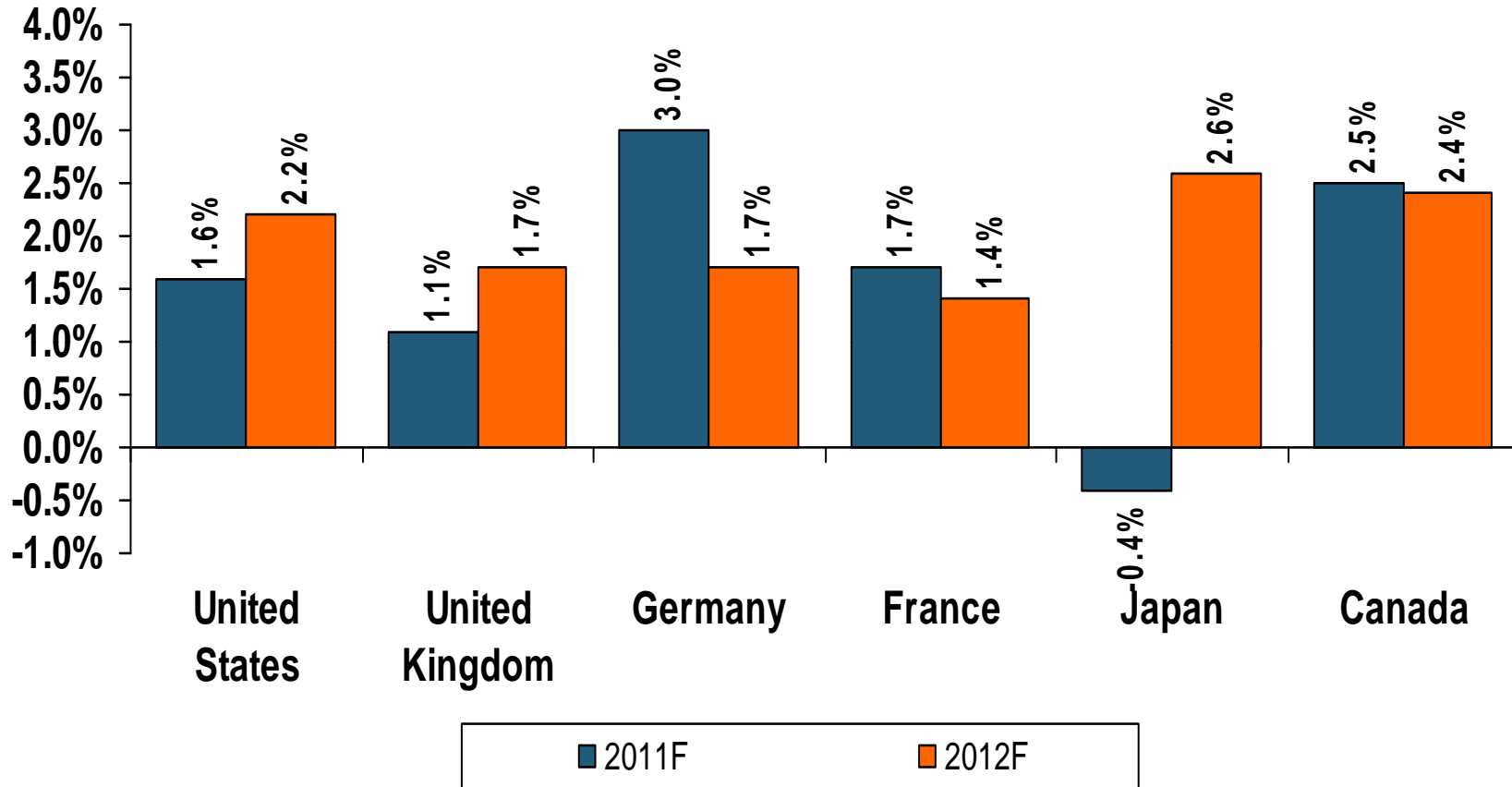
Daily (Jan 1, 2010 = 100)



*Data are through June 13, 2011

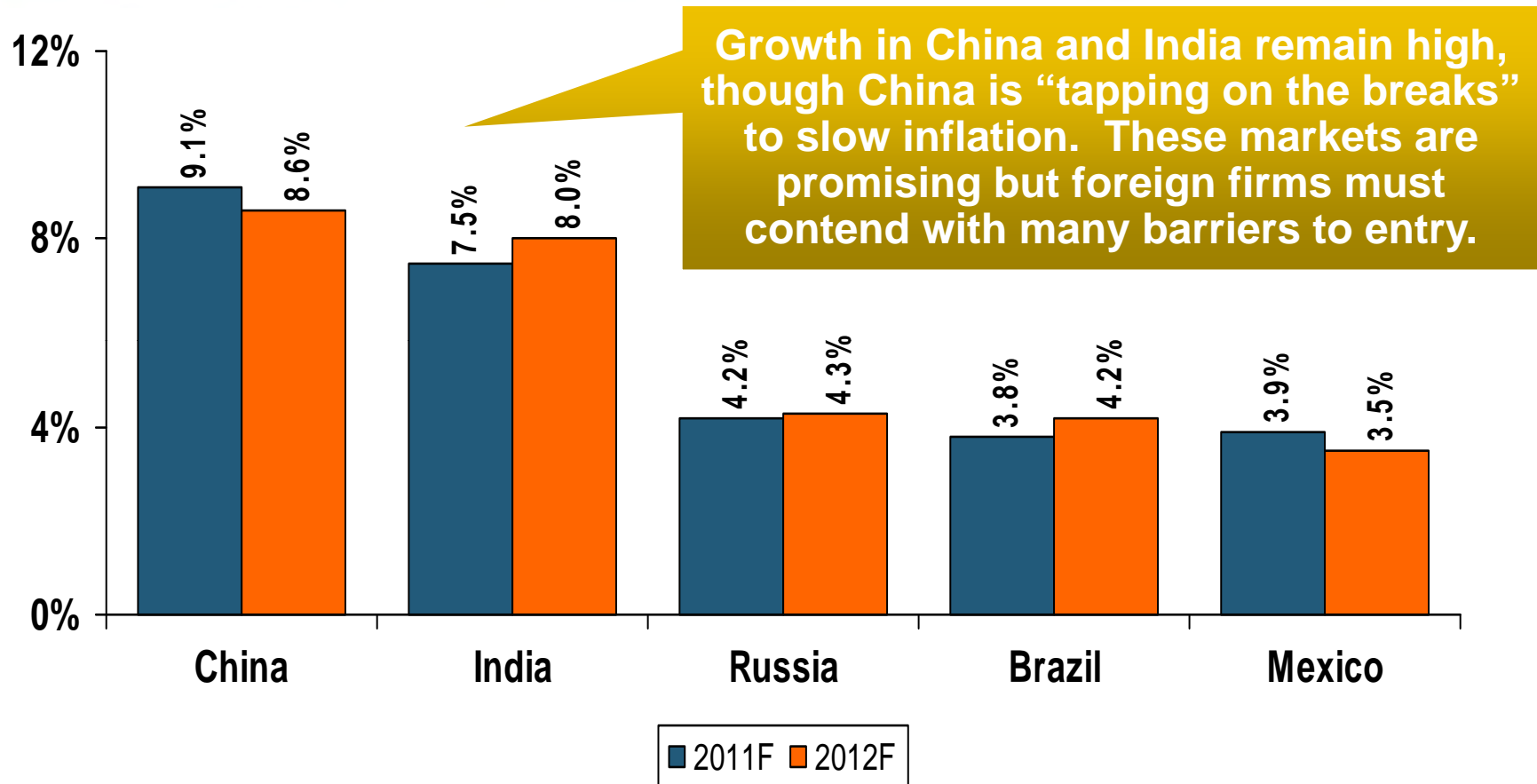
Source: International Monetary Fund World Economic Outlook June 2011 update at http://www.imf.org/external/pubs/ft/weo/2010/update/01/data/figure_2.csv

Real GDP Growth Forecasts for Advanced Economies: 2011 - 2012



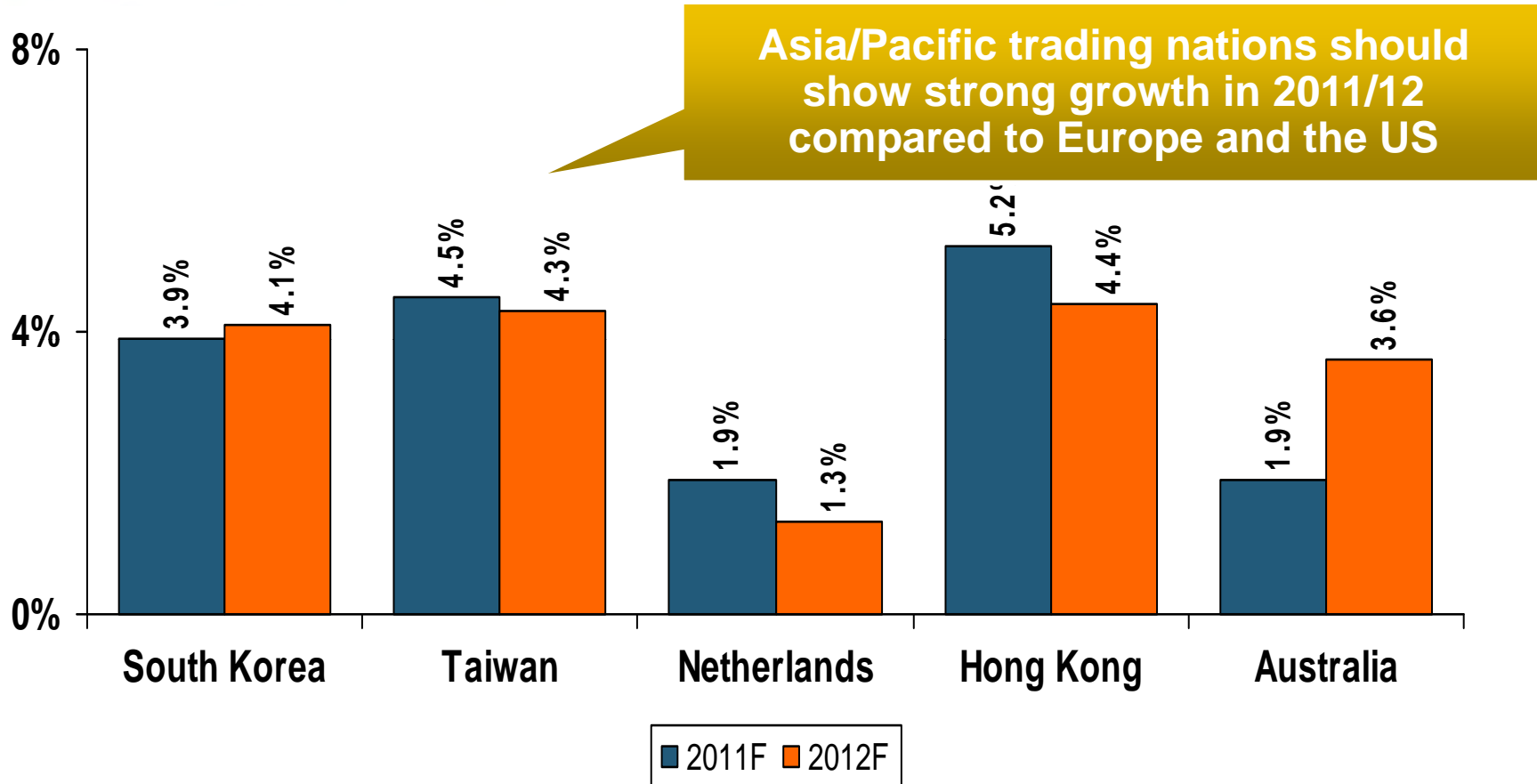
Growth projections could slow for 2011 and 2012 have been revised downward as austerity measures take effect and concerns related to sovereign debt worsen

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



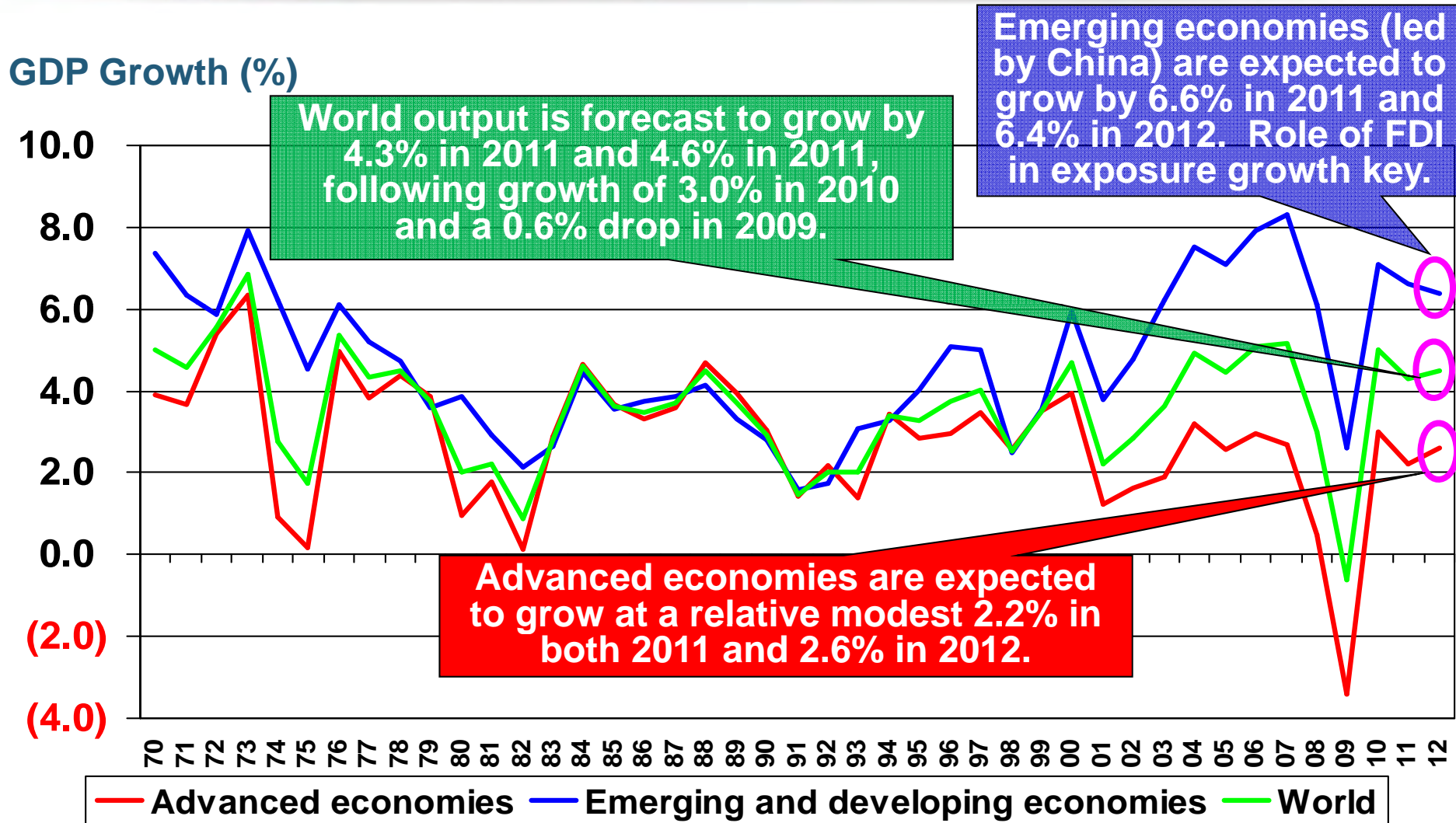
Growth in emerging and developing economies will greatly outpace advanced country growth in 2011/12. This will accelerate the growth of insurance exposures in emerging markets relative to the U.S., W. Europe and Japan.

Real GDP Growth Forecasts for Other Key Trading Economies: 2011 - 2012



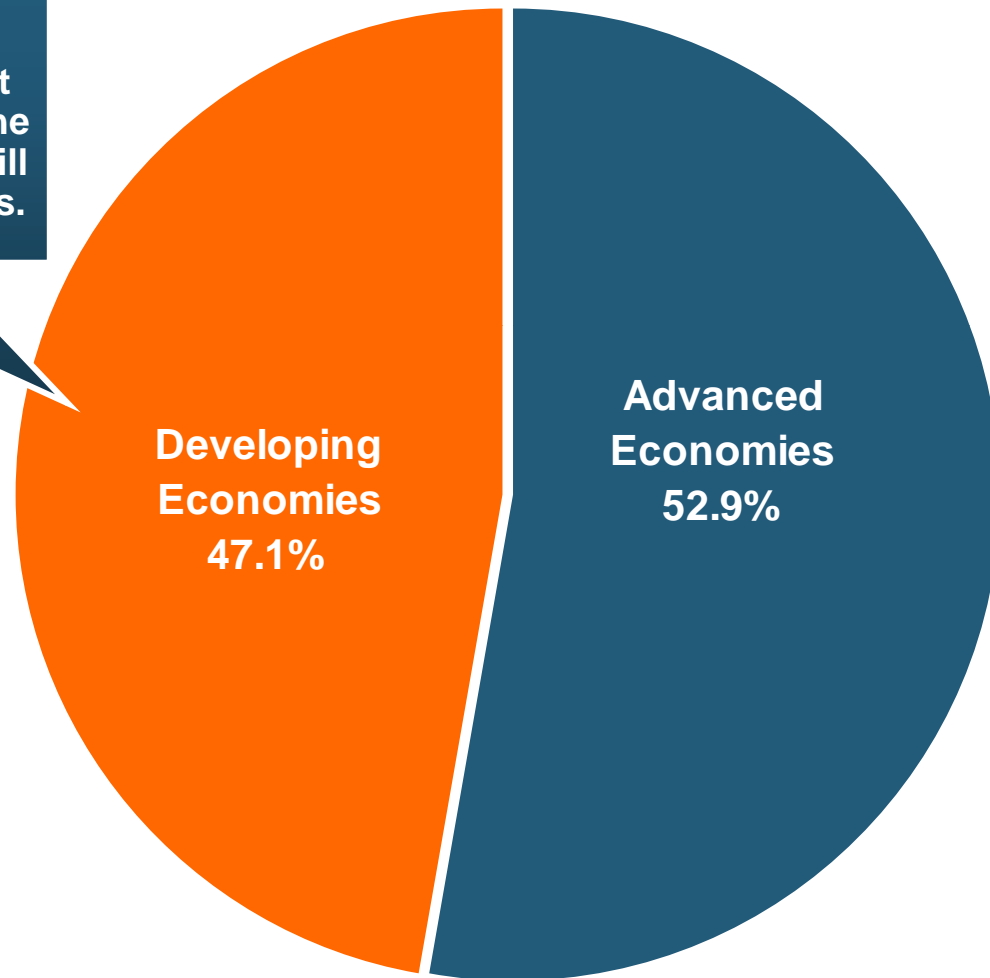
Growth in industrialized Asian economies will greatly outpace much of the rest of the world in 2011/12. This will accelerate the growth of insurance exposures in emerging markets relative to the U.S., W. Europe and Japan.

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



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.



11 Industries for the Next 10 Years: Insurance Solutions Needed

Health Care

Health Sciences

Energy (Traditional)

Alternative Energy

Agriculture

Natural Resources

Environmental

Technology (incl. Biotechnology)

Light Manufacturing

Export-Oriented Industries

Shipping (Rail, Marine, Trucking)

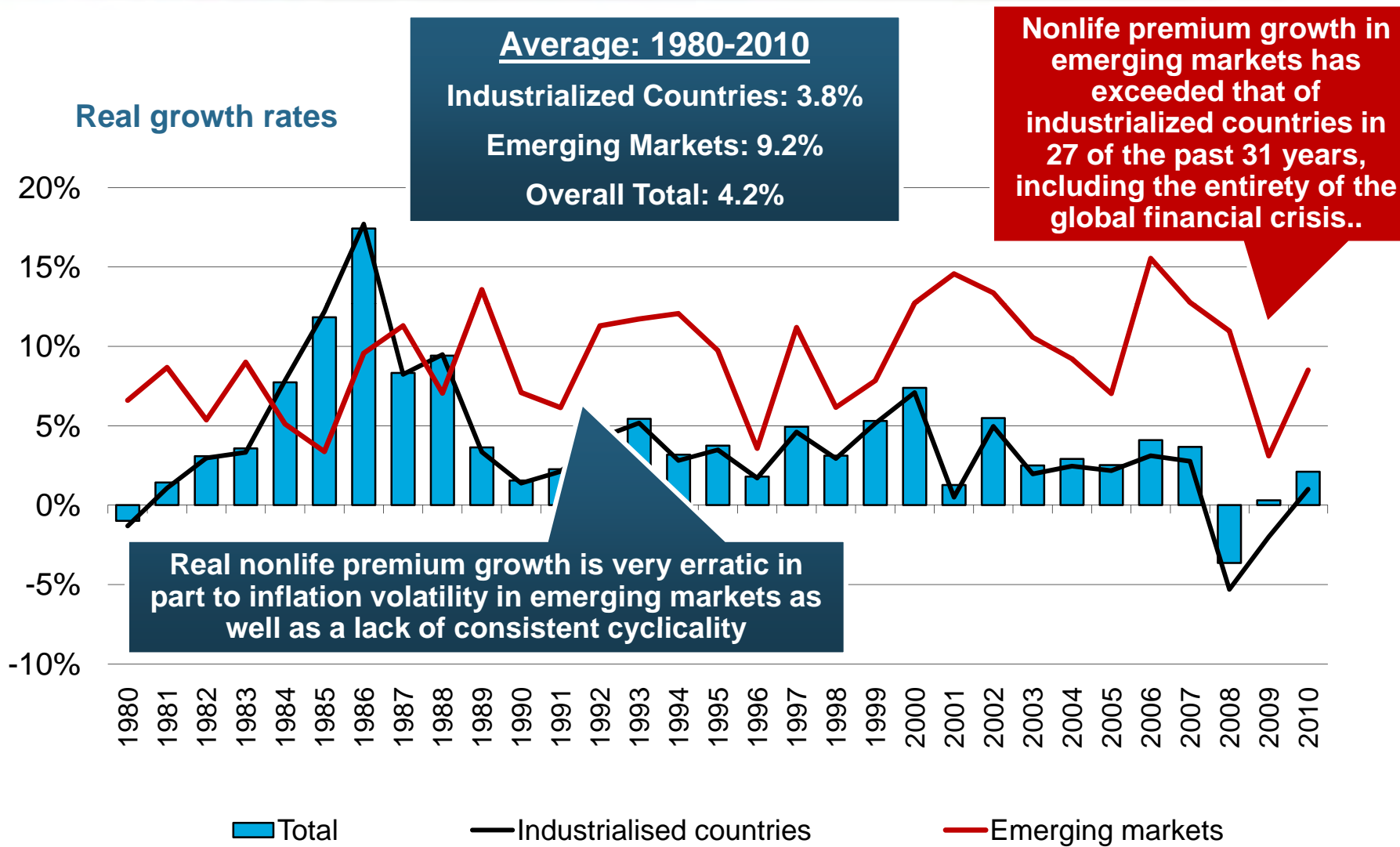


Many industries are poised for growth, but many insurers do not write in these economic segments

The Unfortunate Nexus: Opportunity, Risk & Instability

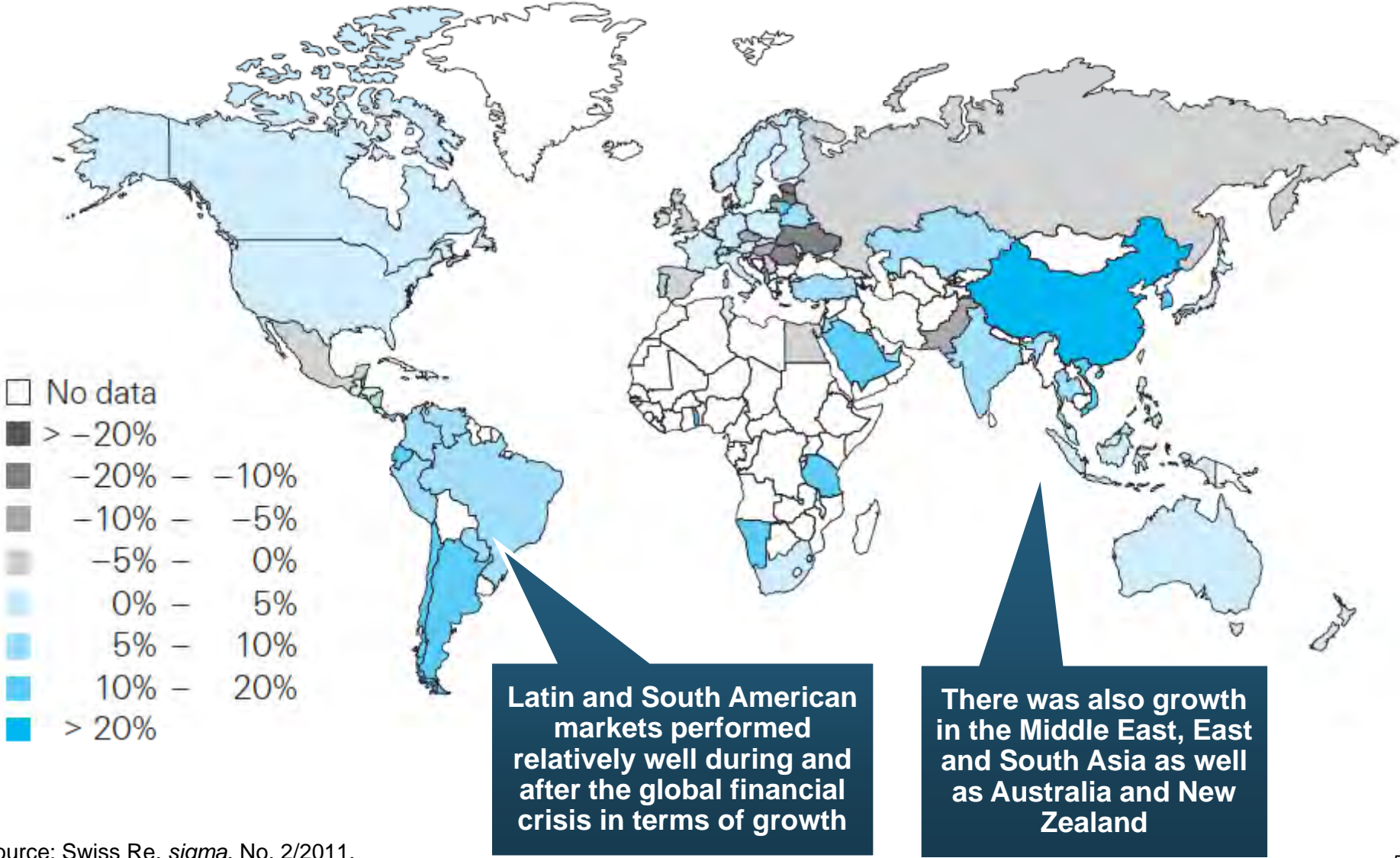
**Most of the Global Economy's Future
Gains Will be Fraught with Much
Greater Risk and Uncertainty than in
the Past**

Global Real (Inflation Adjusted) Nonlife Premium Growth: 1980-2010



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

Nonlife Real Premium Growth in 2010

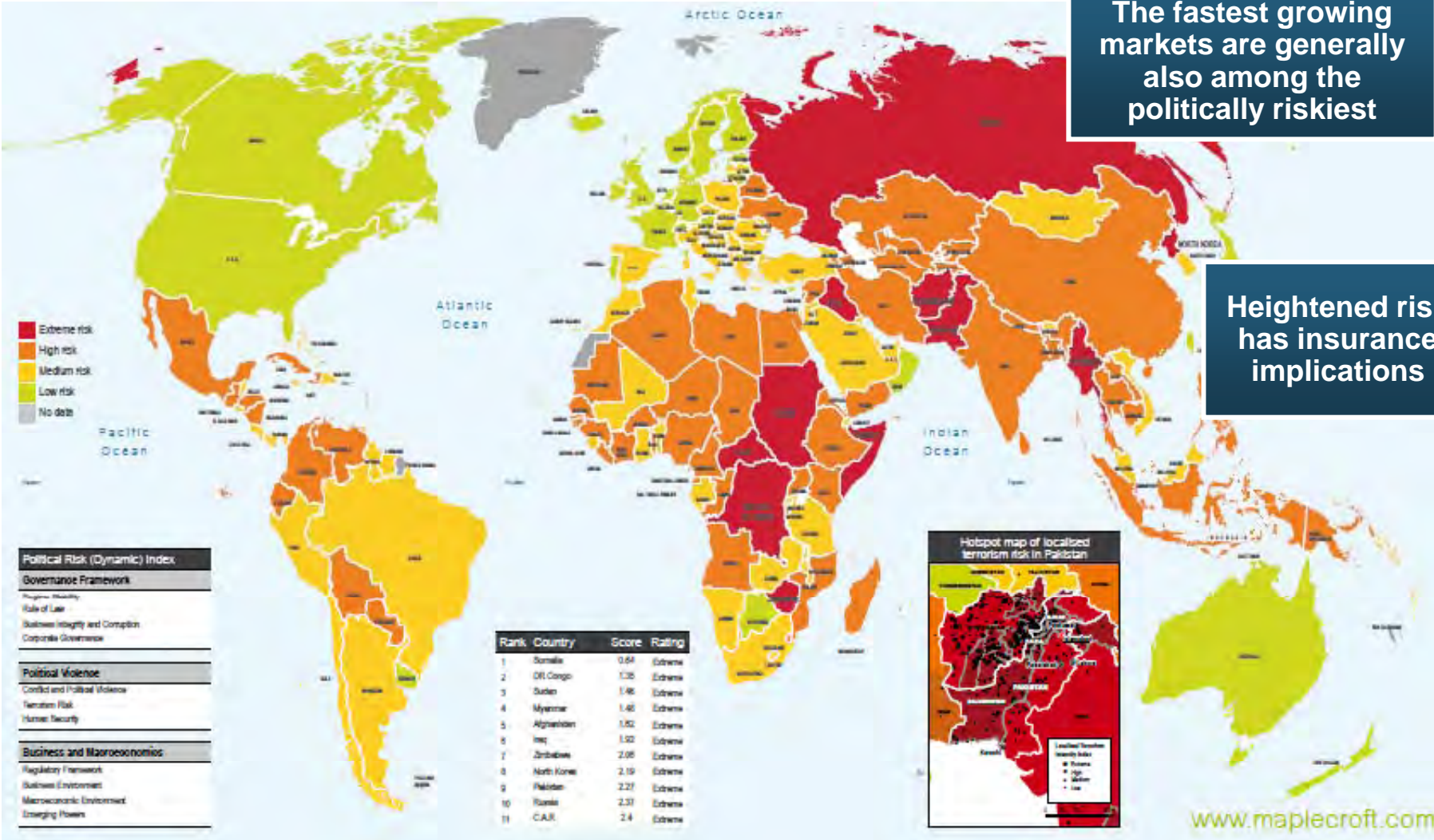


Source: Swiss Re, *sigma*, No. 2/2011.

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

The fastest growing markets are generally also among the politically riskiest

Heightened risk has insurance implications

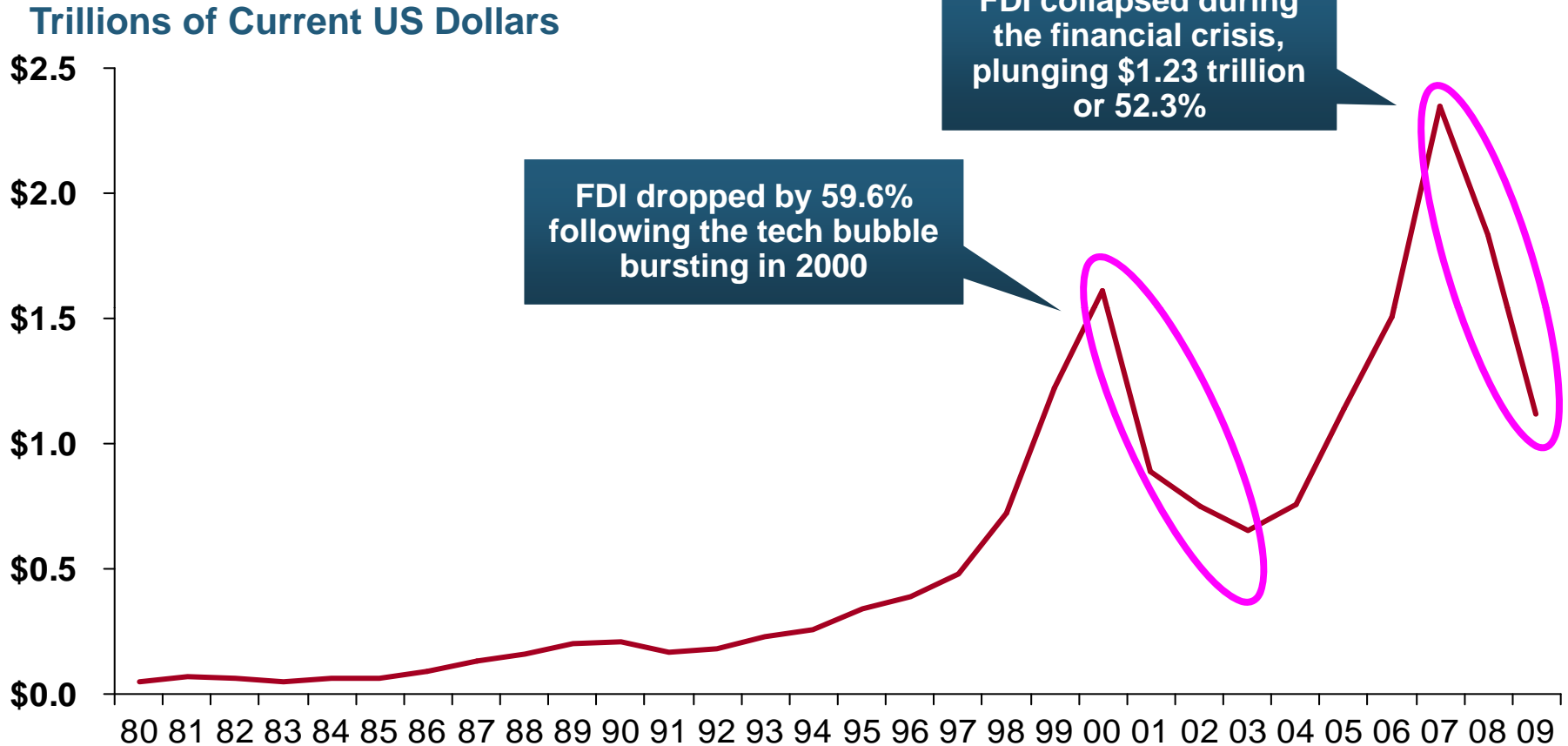


Source: Maplecroft

Reshuffling the Global Economic Deck Through *Foreign Direct Investment*

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

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



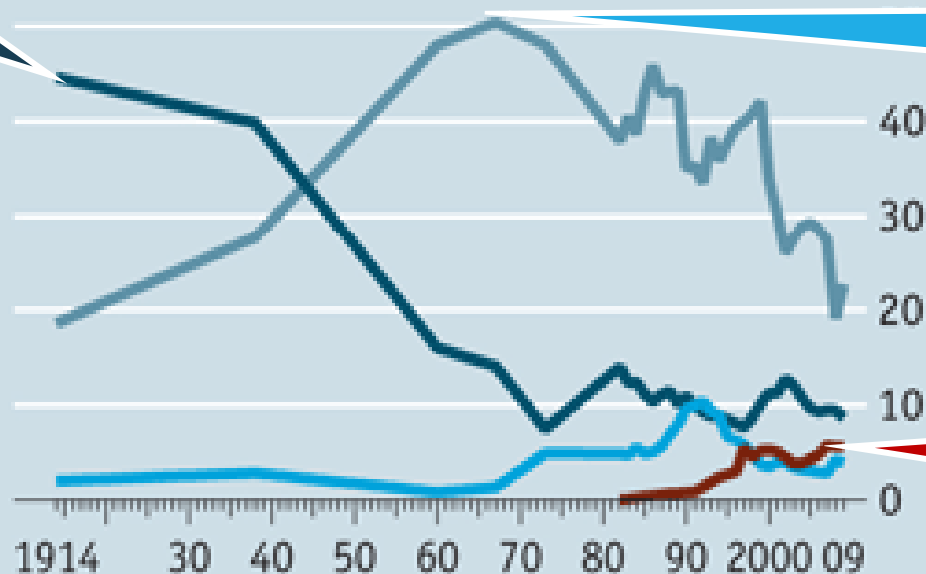
Following the Money Trail: Outward Foreign Direct Investment

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

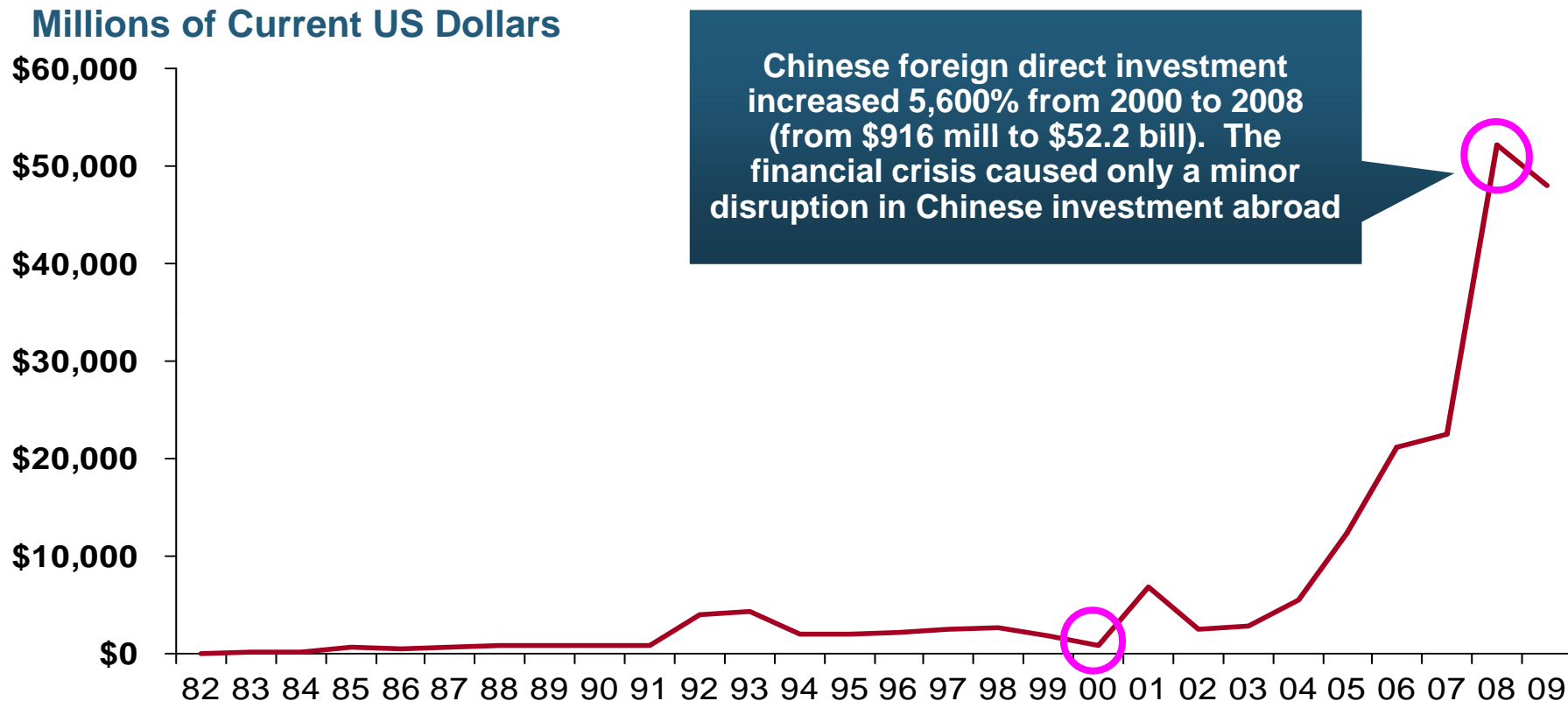
The US's share of FDI peaked at 50% in 1967

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

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

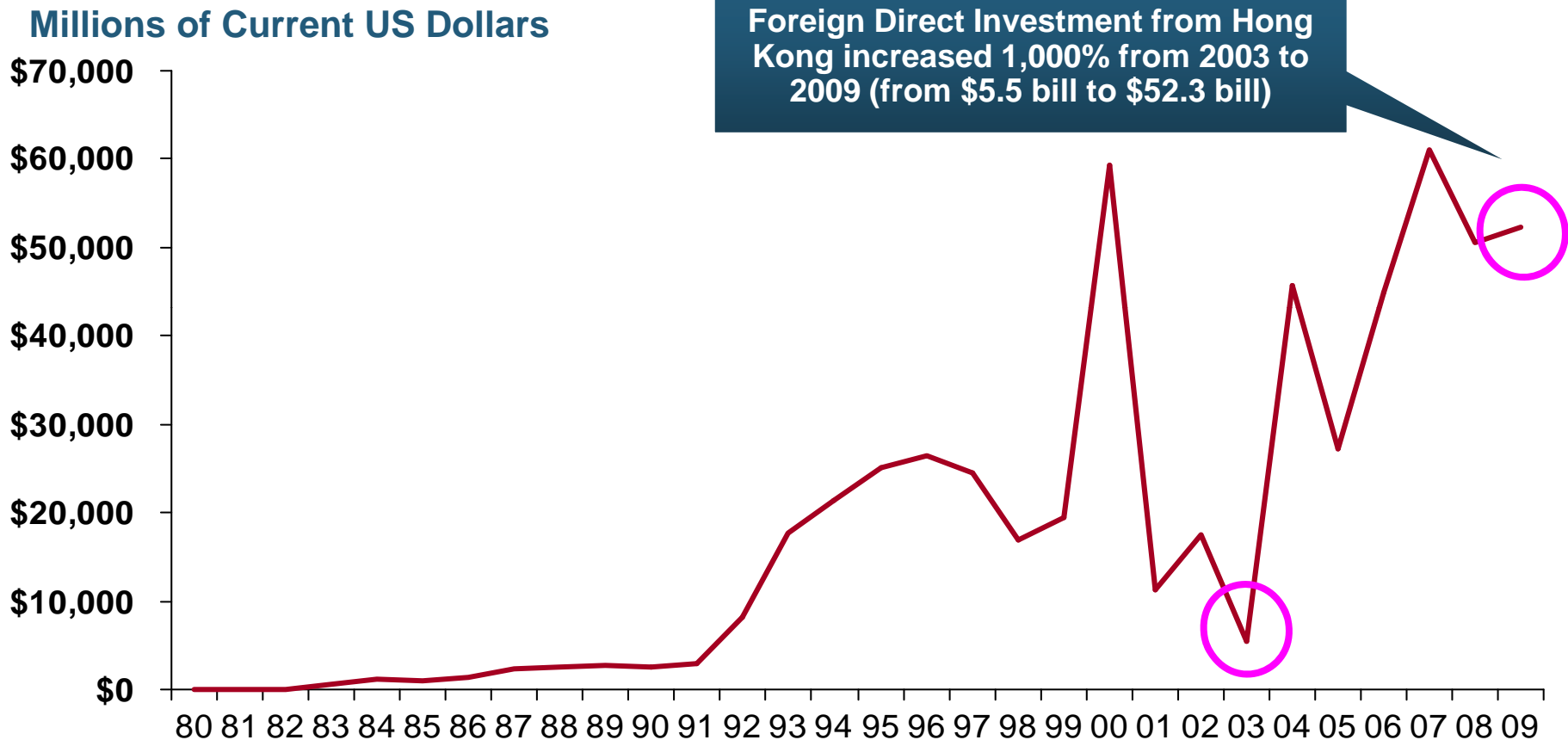


Despite the Crash in Foreign Direct Investment During the Global Financial Crisis, Chinese Investments Abroad Remain Near Record Levels. Implication: Growth Opportunities for Business (and their Insurers) May *Not* Be in China but In Chinese Investment Target Nations/Companies/Industries.

*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.

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



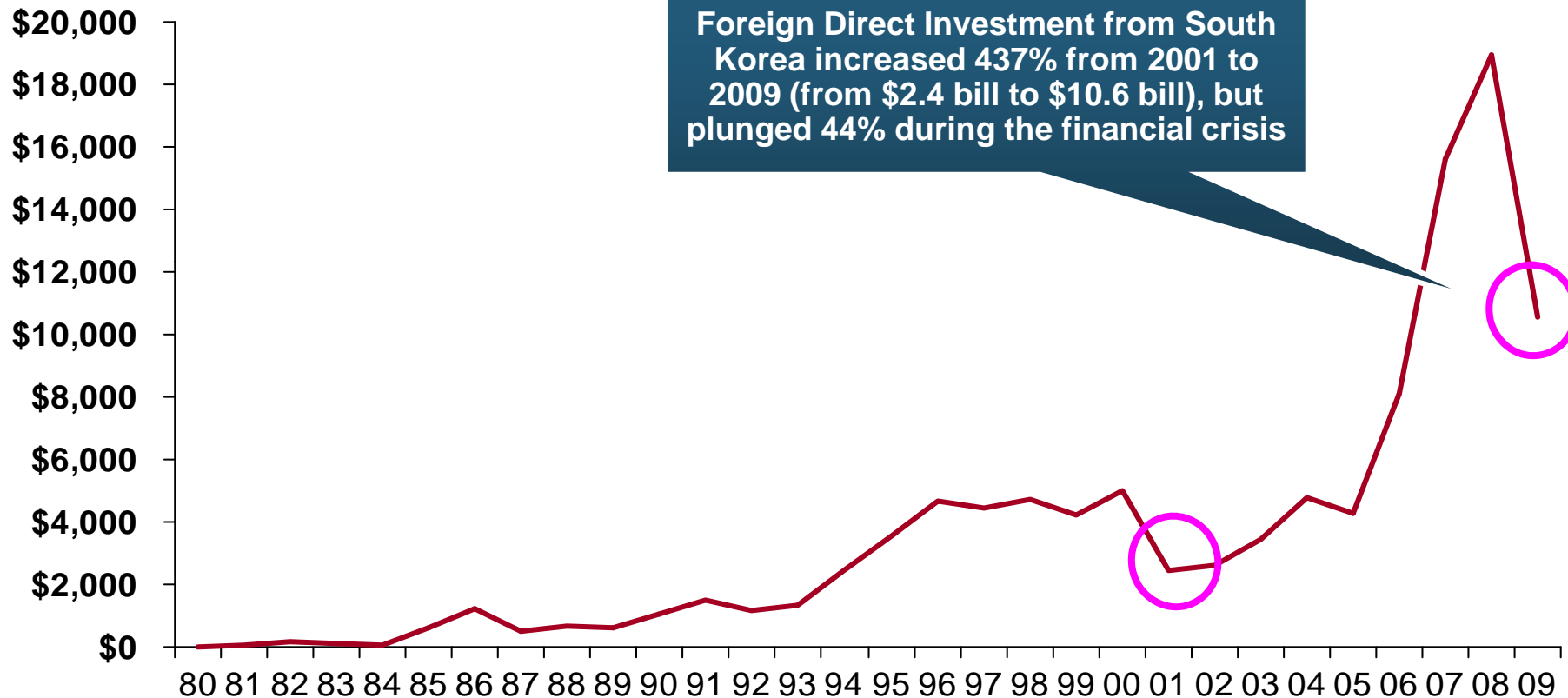
Despite the Crash in Foreign Direct Investment During the Global Financial Crisis, Investments Abroad by Hong Kong Remain Near Record Levels

*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

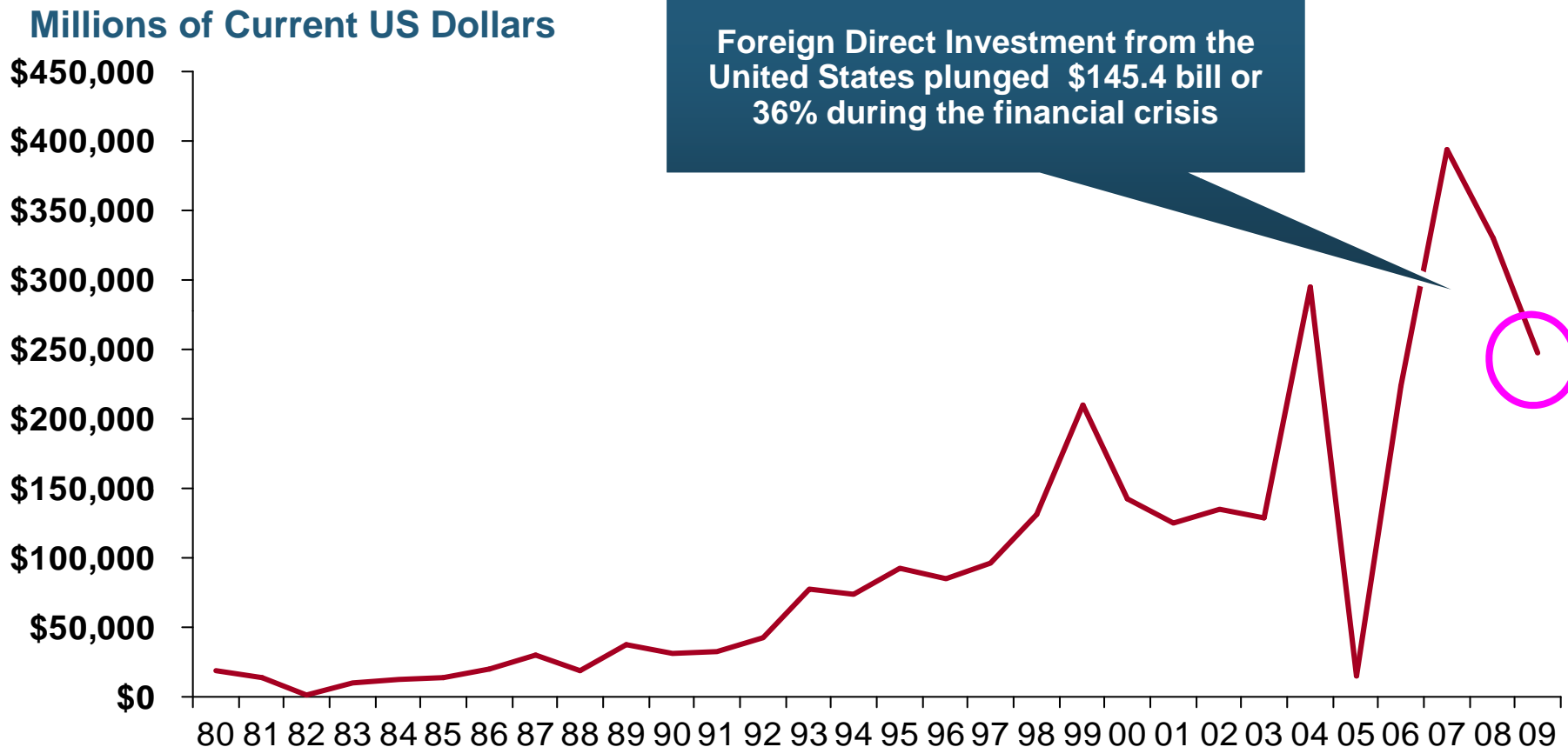


The Global Financial Crisis Hit South Korean Foreign Direct Investment Abroad Harder than Was the Case in Several of Its Neighbors

*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.



The BIG Question: When Will the Market Turn?

Insurance Cycle Dynamics

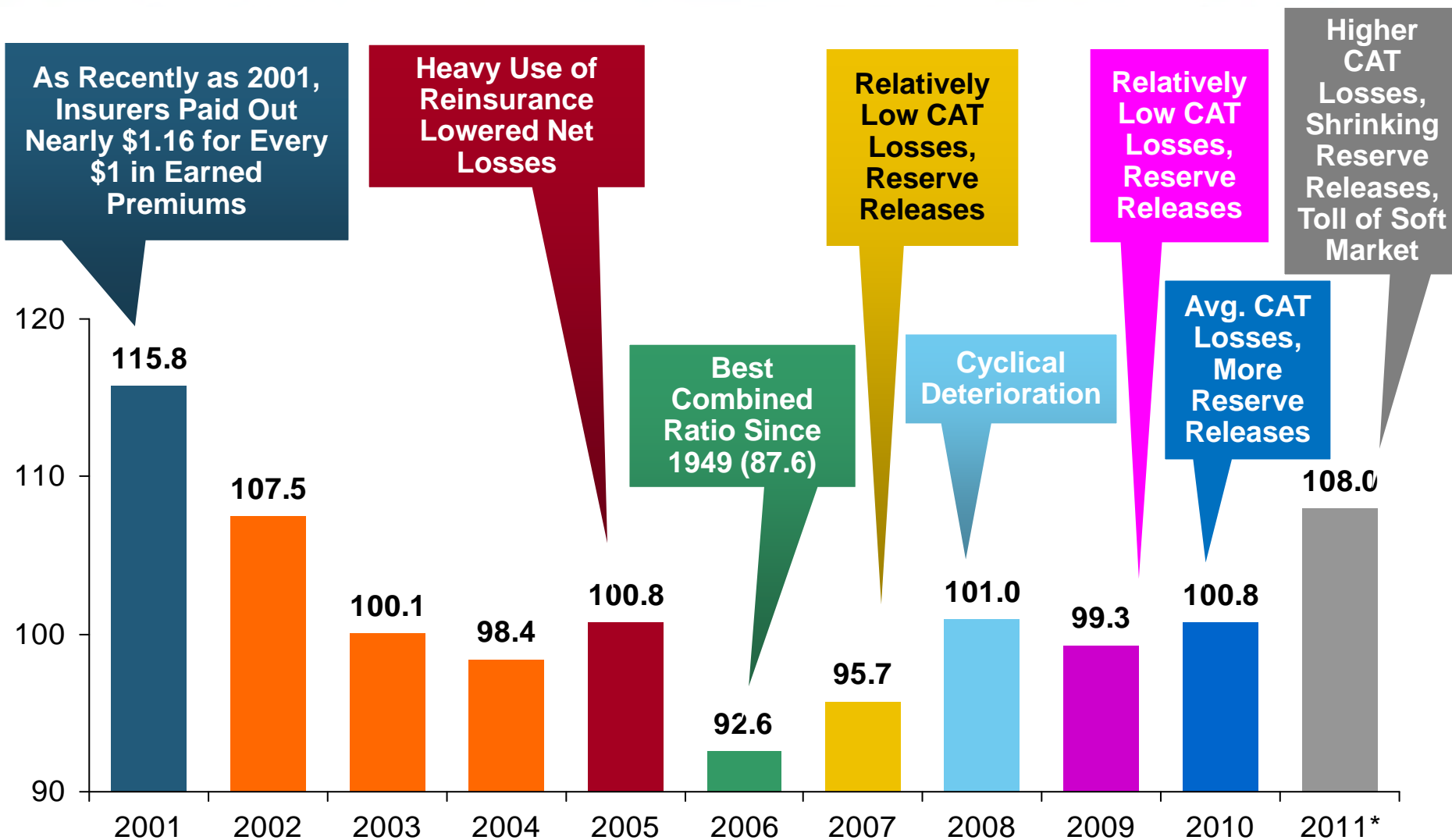
Criteria Necessary for a “Market Turn”: All Four Criteria Must Be Met

Criteria	Status	Comments
Sustained Period of Large Underwriting Losses	<i>Not Yet Happened, But Inevitable</i>	<ul style="list-style-type: none"> • Apart from Q2:2011, overall p/c underwriting losses remain modest • Combined ratios (ex-Q2 CATs) still in low 100s (vs. 110+ at onset of last hard market) • Prior-year reserve releases continue reduce u/w losses, boost ROEs
Material Decline in Surplus/ Capacity	<i>Entered 2011 At Record High; Since Fallen</i>	<ul style="list-style-type: none"> • Surplus hit a record \$565B as of 3/31/11 • Analysts est. excess surplus of \$75-\$100B • Some excess capacity may still remain in reinsurance markets • Weak growth in demand for insurance is insufficient to absorb much excess capacity
Tight Reinsurance Market	<i>Somewhat in Place</i>	<ul style="list-style-type: none"> • Higher prices in Asia/Pacific • Modestly improved pricing for US risks
Renewed Underwriting & Pricing Discipline	<i>Not Broadly Evident; Some Firming</i>	<ul style="list-style-type: none"> • Commercial lines pricing trends turning from negative to flat • Competition remains intense as many seek to maintain market share • Terms & conditions—no broad tightening

UNDERWRITING

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

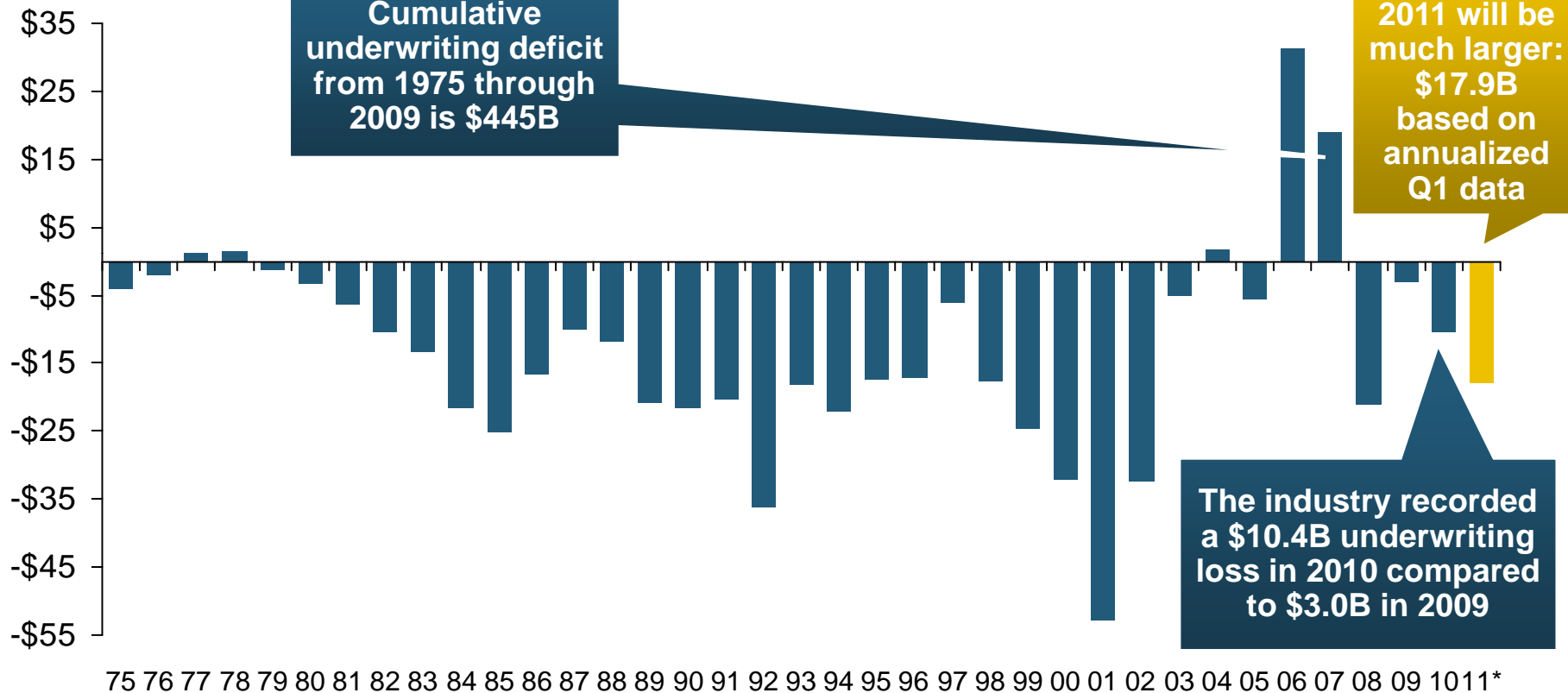
P/C Insurance Industry Combined Ratio, 2001–2011:H1*



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

Underwriting Gain (Loss) 1975–2011*

(\$ Billions)



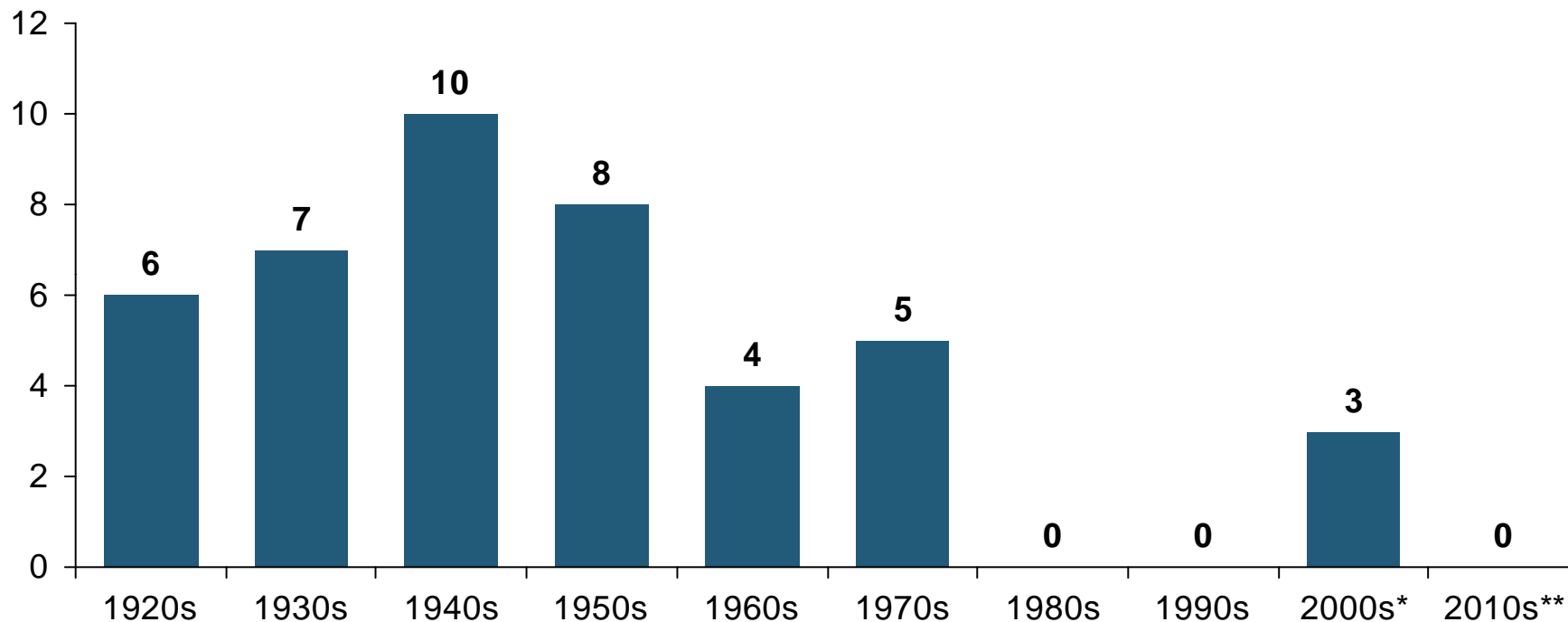
**Large Underwriting Losses Are *NOT* Sustainable
in Current Investment Environment**

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

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

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

Number of Years with Underwriting Profits



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

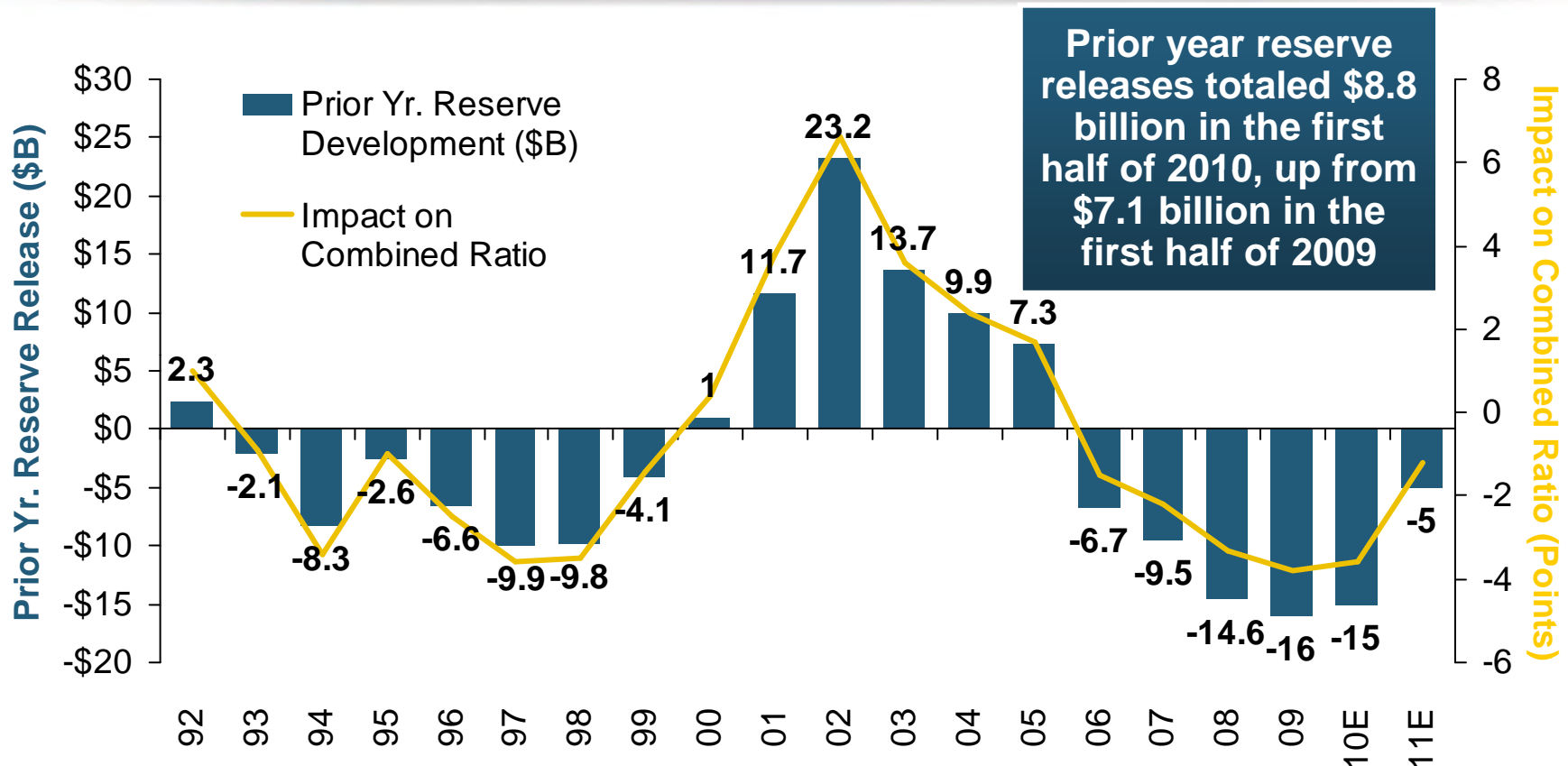
total to 4 years with an underwriting profit.

**Data for the 2010s includes 2010 and 2011.

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

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

P/C Reserve Development, 1992–2011E



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.

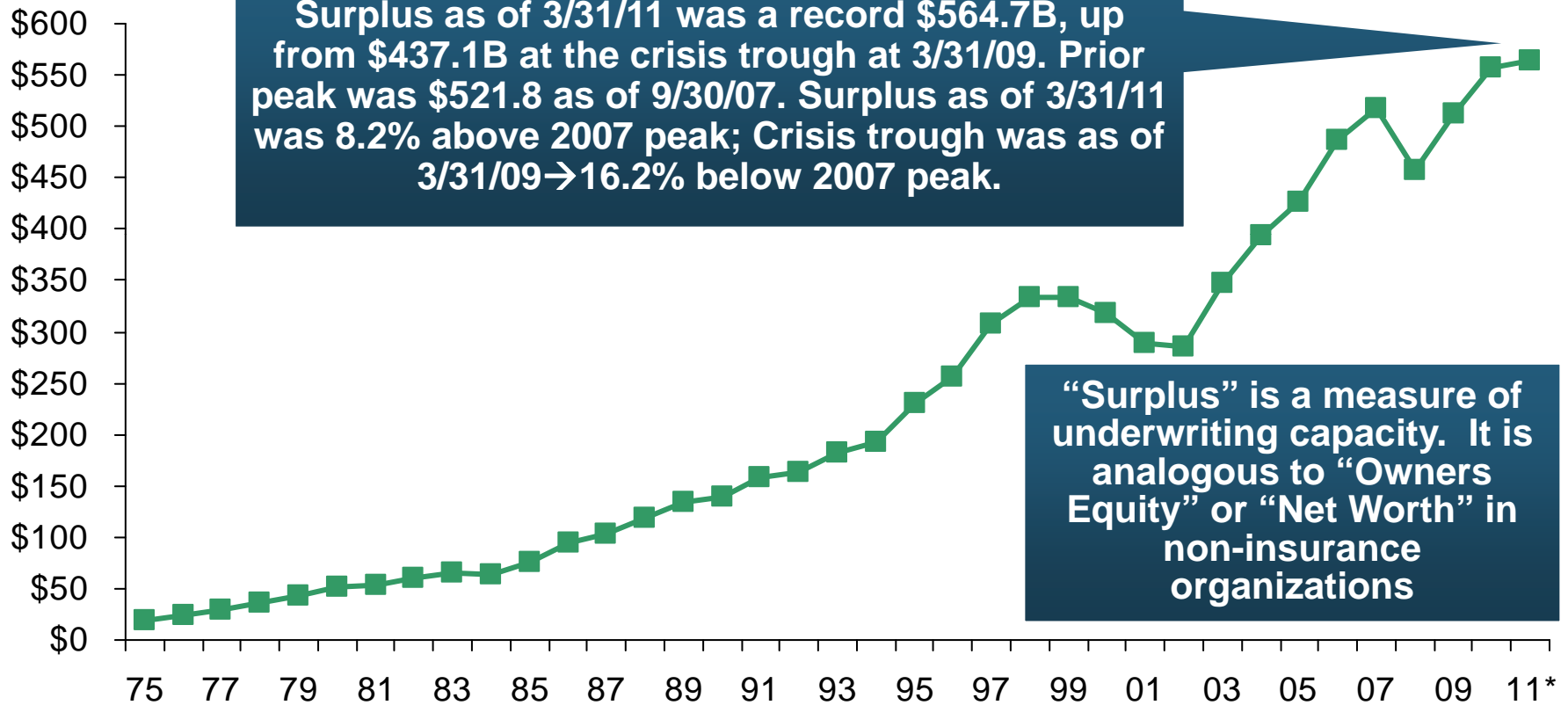
CAPITAL MANAGEMENT & LEVERAGE

**Excess Capital is a Major Obstacle
to a Market Turn;**

**Capital Management Decisions Will
Impact Market Direction**

US Policyholder Surplus: 1975–2011*

(\$ Billions)

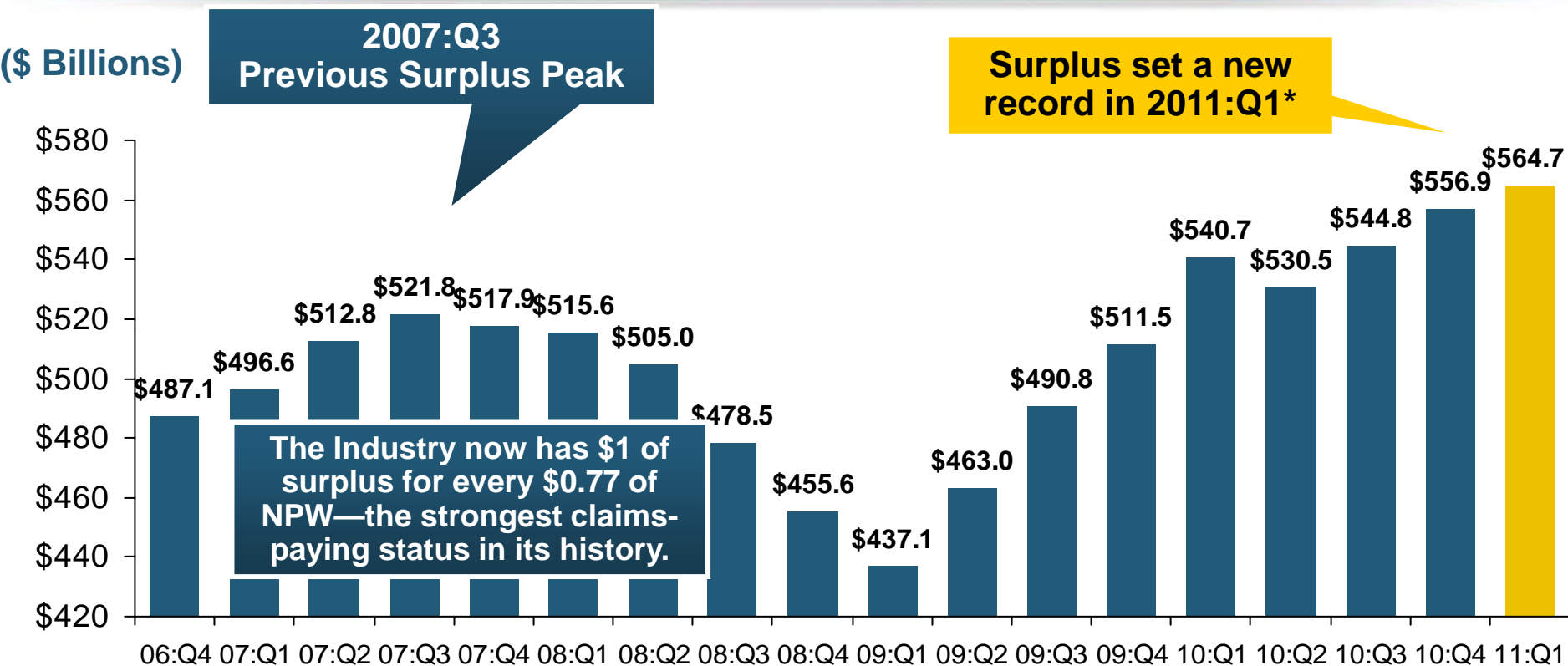


The Premium-to-Surplus Ratio Stood at \$0.77:\$1 as of 3/31/11, A Near Record Low (at Least in Recent History)**

* As of 3/31/11.

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

Policyholder Surplus, 2006:Q4–2011:Q1



Quarterly Surplus Changes Since 2007:Q3 Peak

09:Q1: -\$84.7B (-16.2%)

09:Q2: -\$58.8B (-11.2%)

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

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

10:Q1: +\$18.9B (+3.6%)

10:Q2: +\$8.7B (+1.7%)

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

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

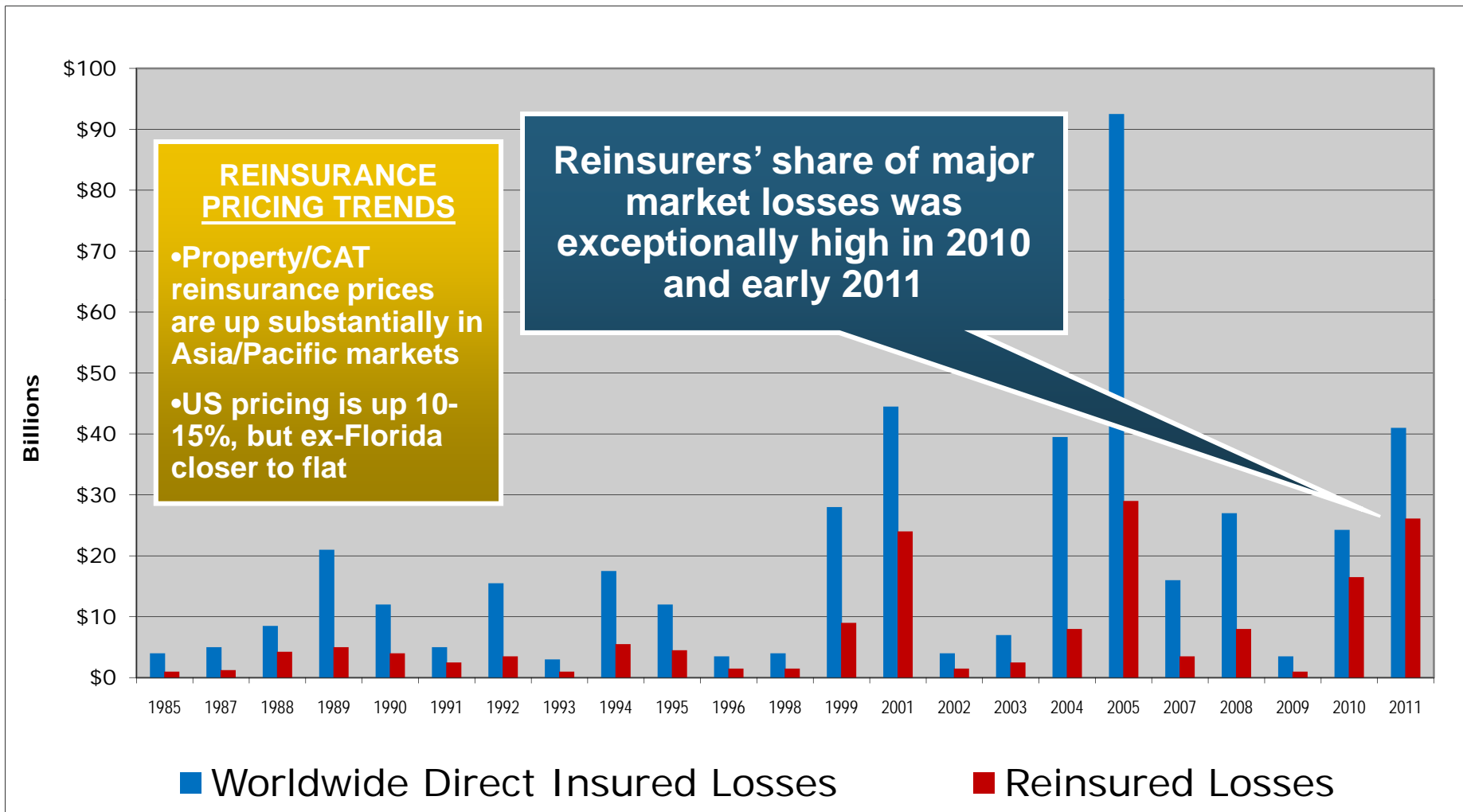
11:Q1: +\$42.9B (+8.2%)

*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.

REINSURANCE MARKET CONDITIONS

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

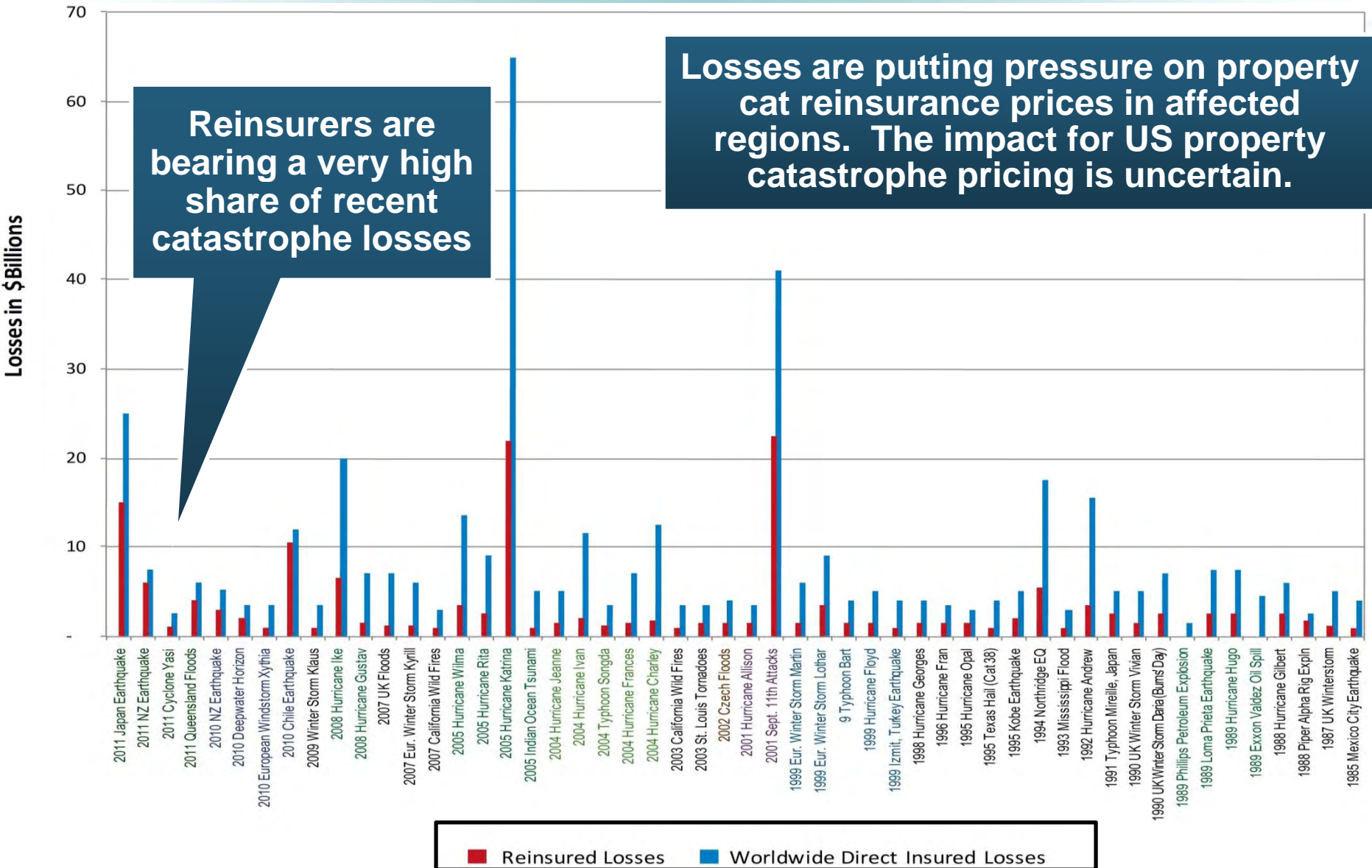
Significant Market Losses, 1985-2011*



Source: Holborn; RAA.

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

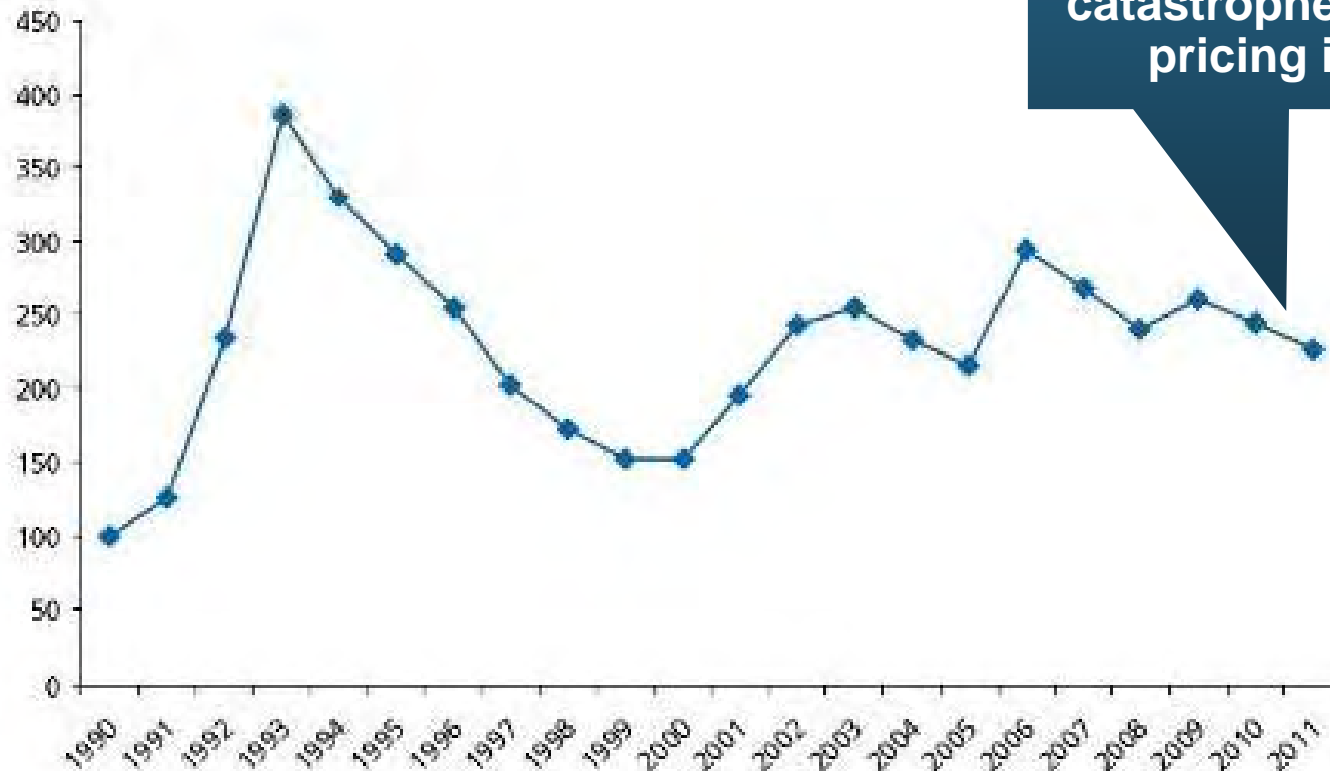
Significant Market Losses by Event, 1985-2011*



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

Global Property Catastrophe Rate on Line Index, 1990-2011 YTD

FIGURE 1: GLOBAL PROPERTY CATASTROPHE ROL INDEX



No sharp increase in global property catastrophe reinsurance pricing is evident

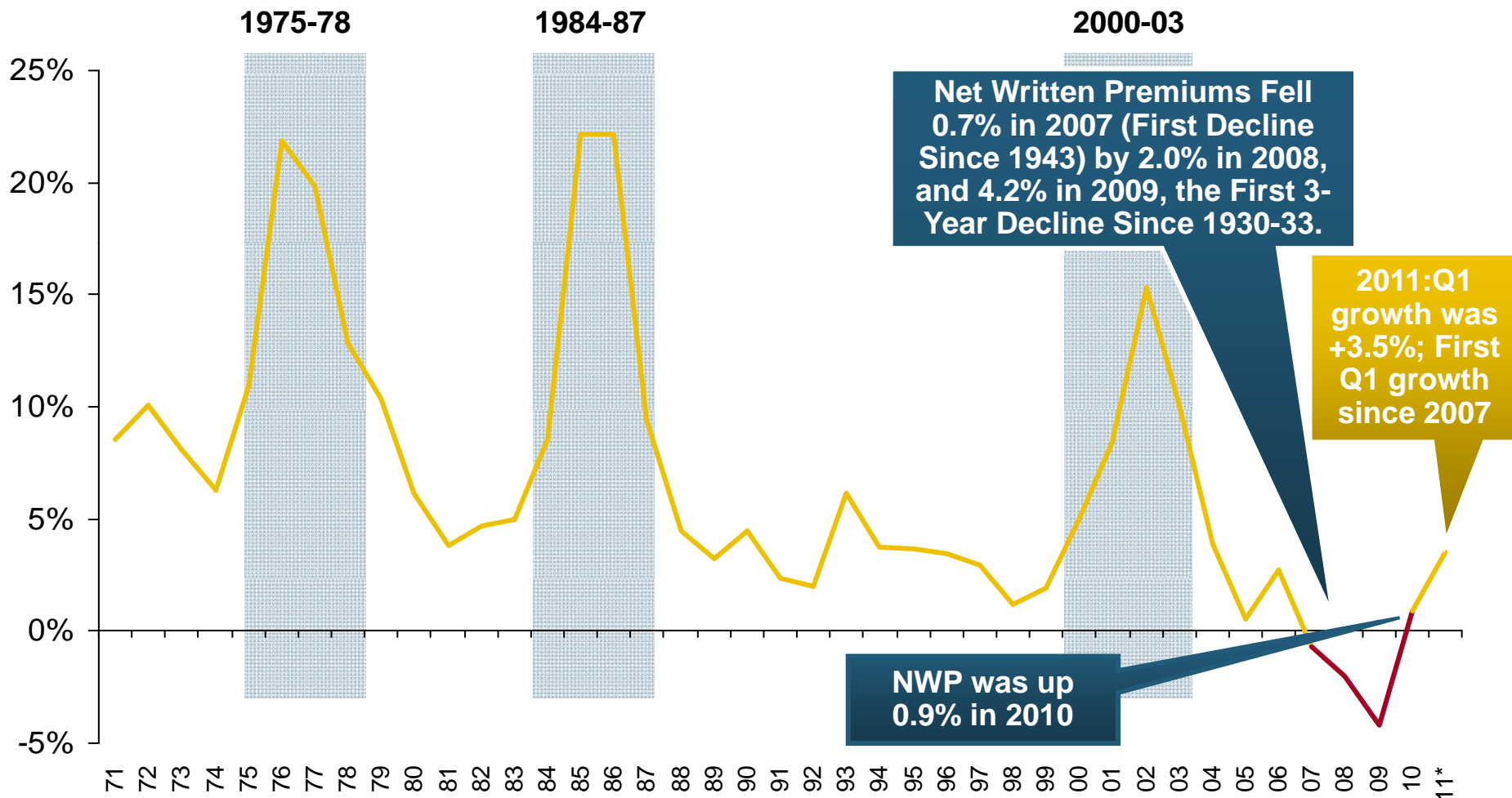
Source: Guy Carpenter & Company, LLC

RENEWED PRICING DISCIPLINE

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

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

(Percent)

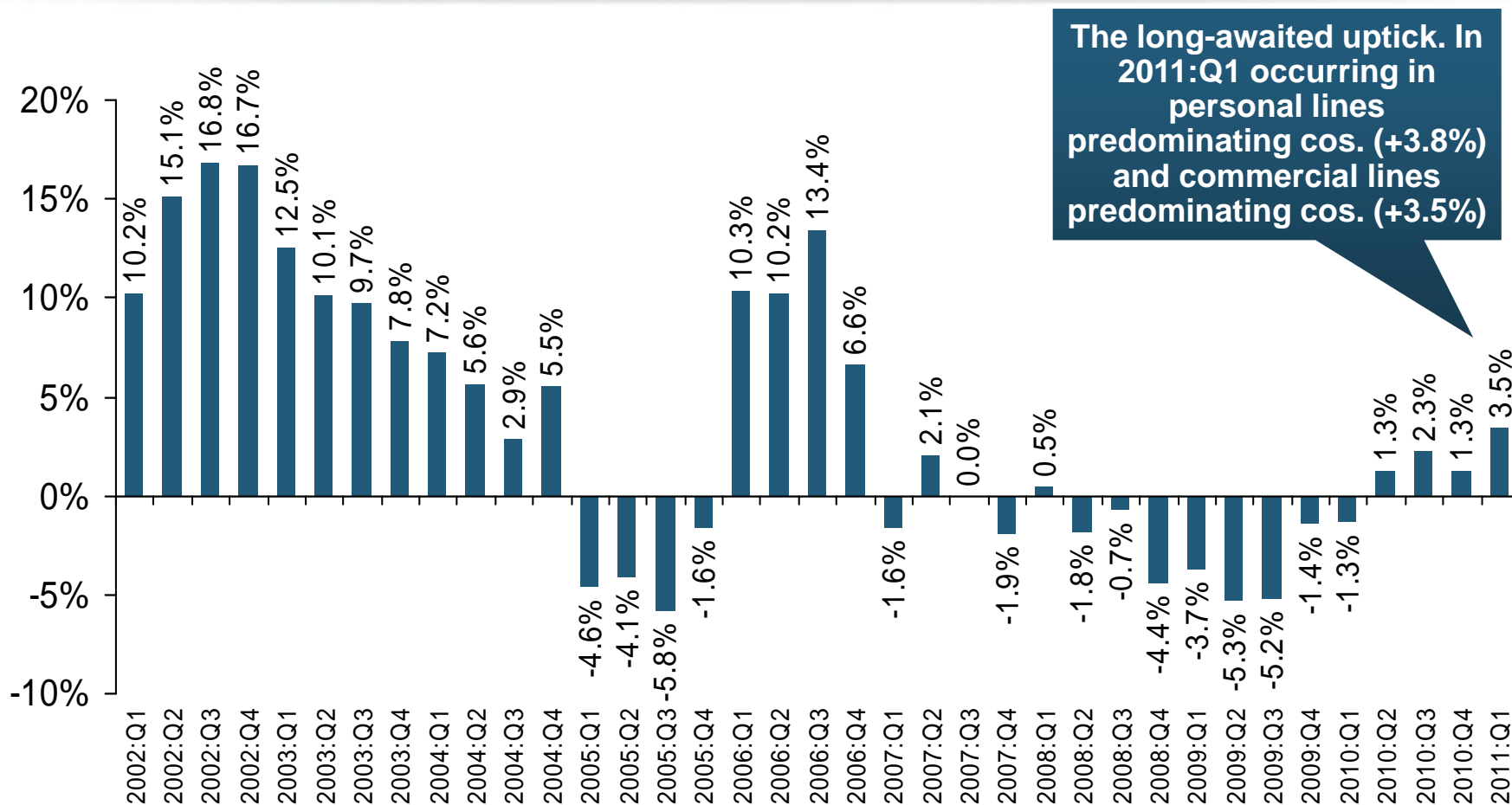


*2011 figure is an estimate based on Q1 data.

Shaded areas denote "hard market" periods

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

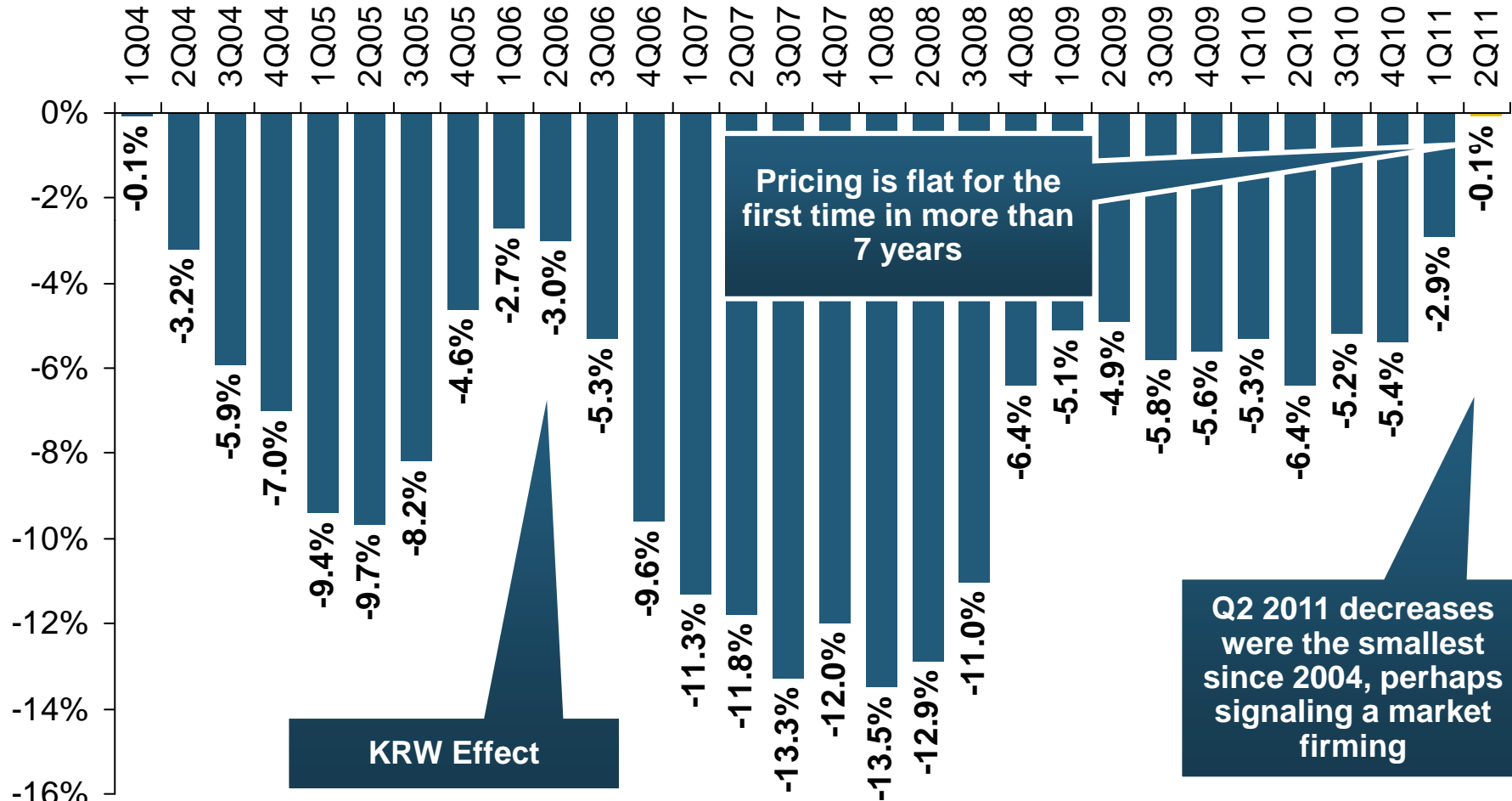
P/C Net Premiums Written: % Change, Quarter vs. Year-Prior Quarter



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

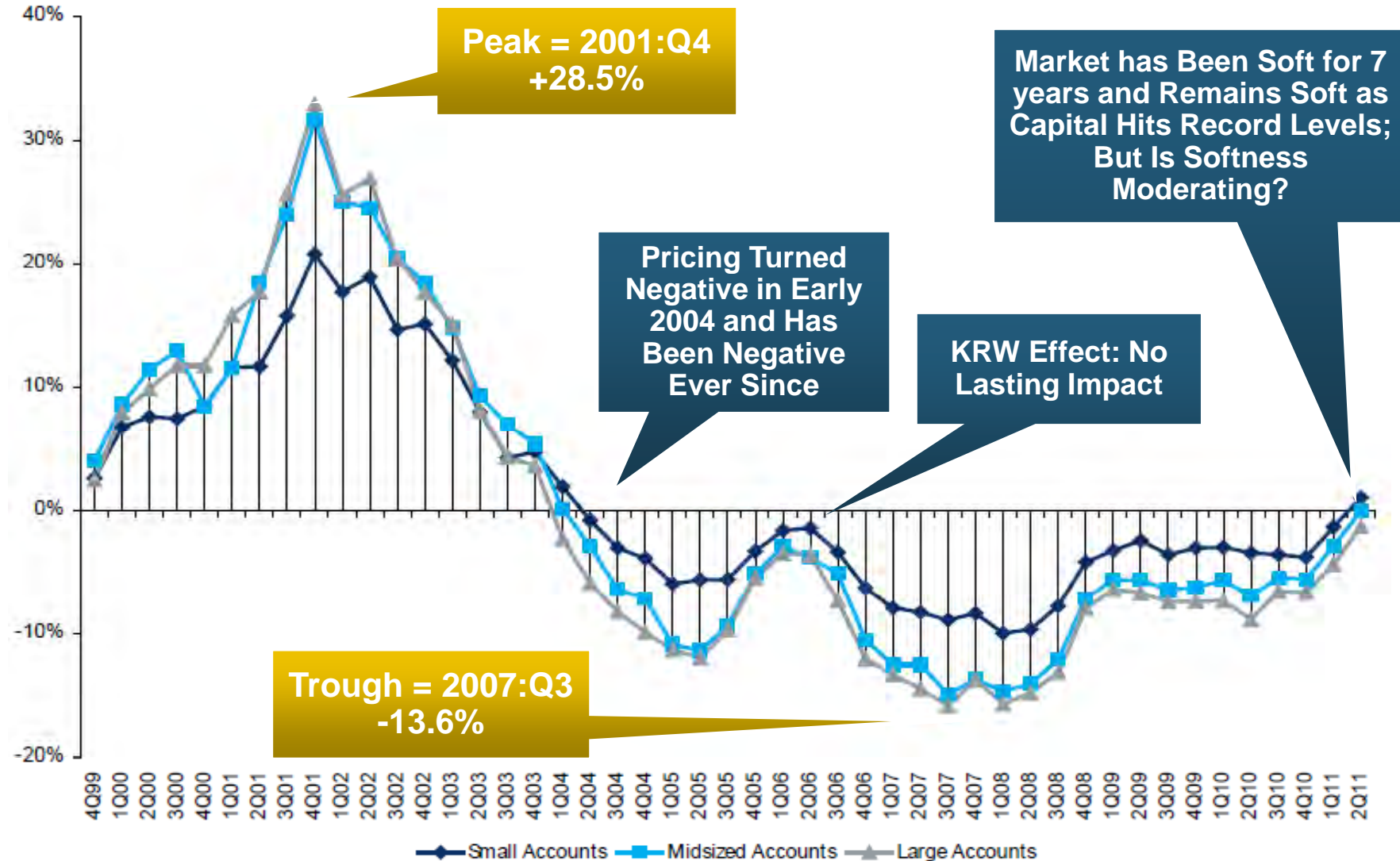
Average Commercial Rate Change, All Lines, (1Q:2004–2Q:2011)

(Percent)



Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2011:Q2

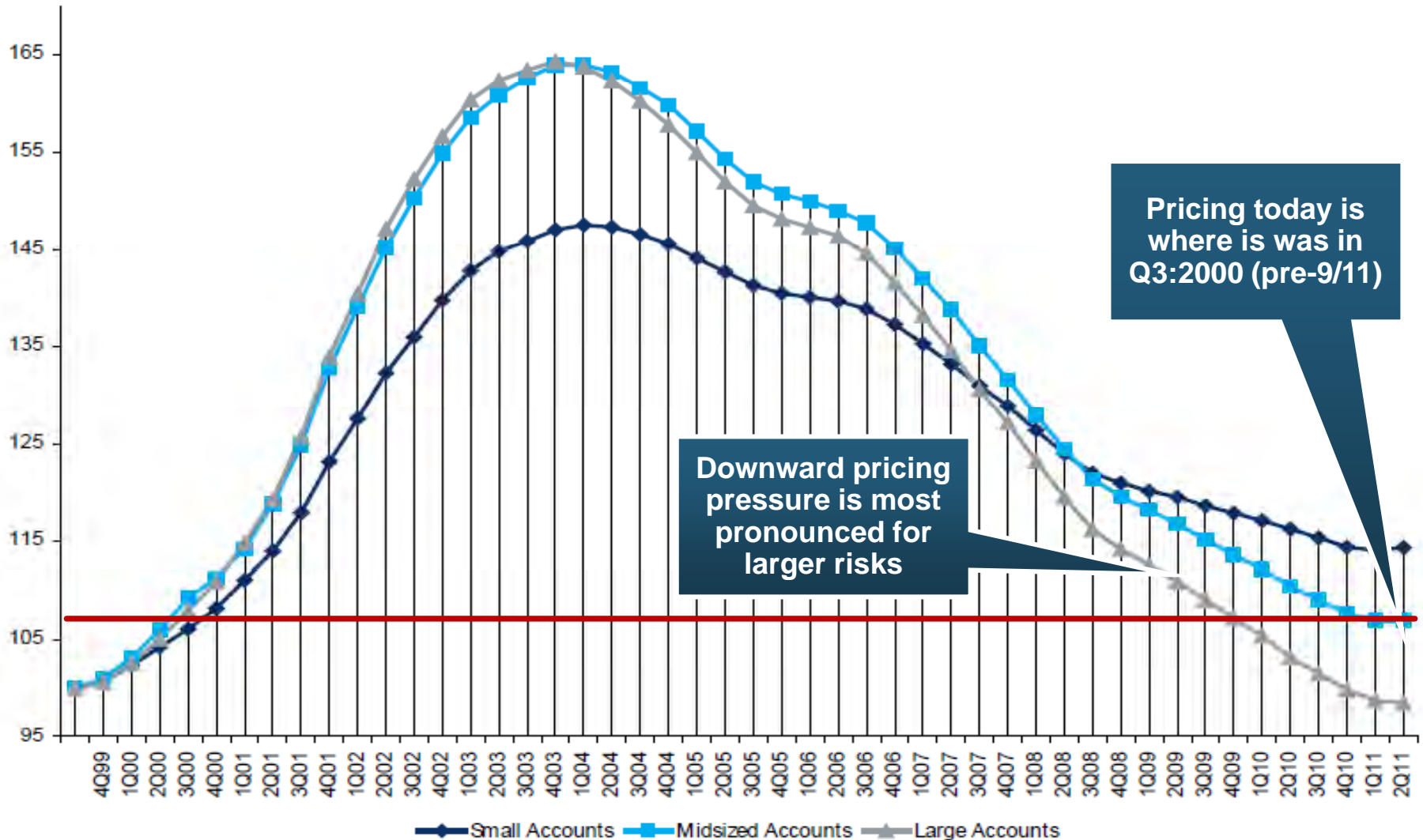
Percentage Change (%)



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

Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2011:Q2

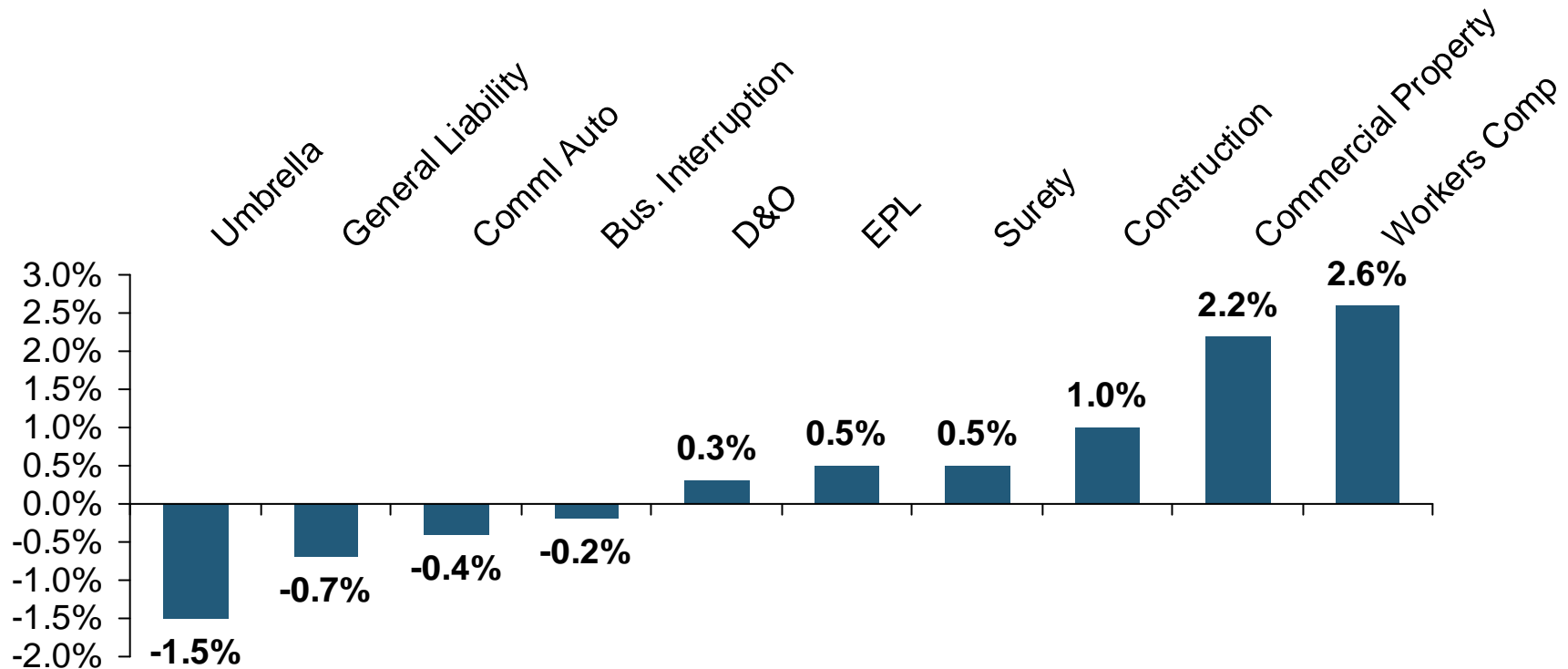
1999:Q4 = 100



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

Change in Commercial Rate Renewals, by Line: 2011:Q2

Percentage Change (%)



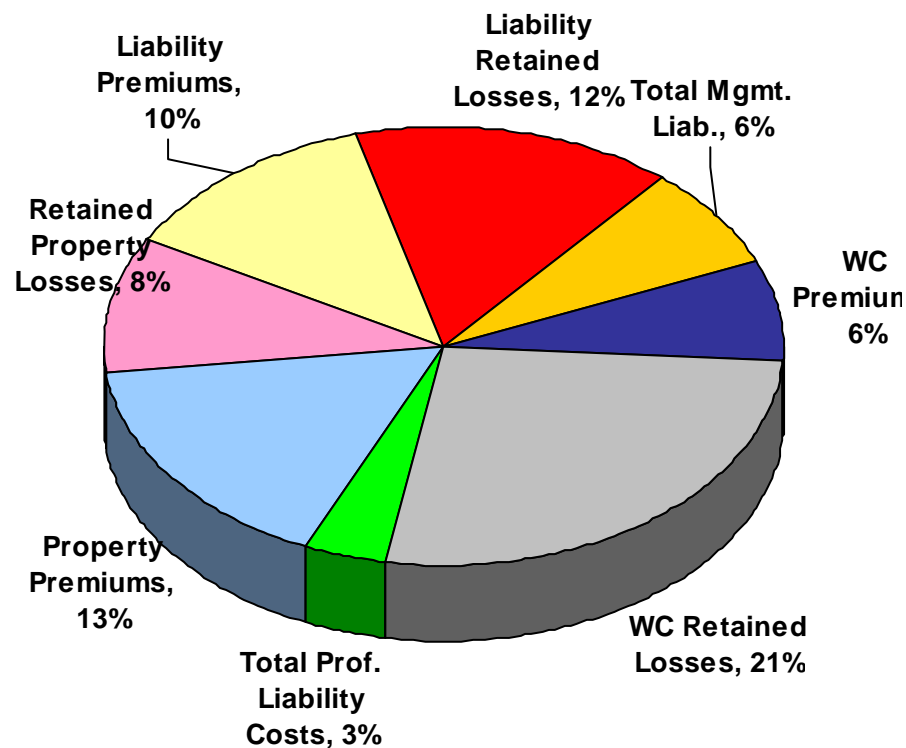
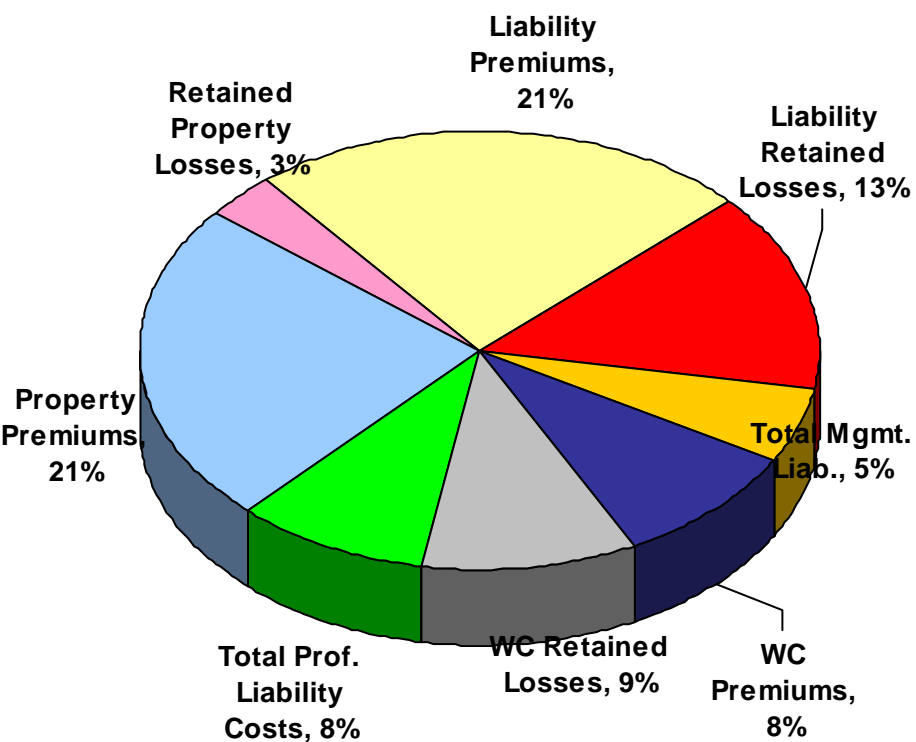
Major Commercial Lines Renewed Mixed in Q2:2011, With Workers Up More than Any Other Line

How the Risk Dollar is Spent (2011)

Total liability costs account for 35% - 40% of the risk dollar

Firms w/Revenues < \$1 Billion

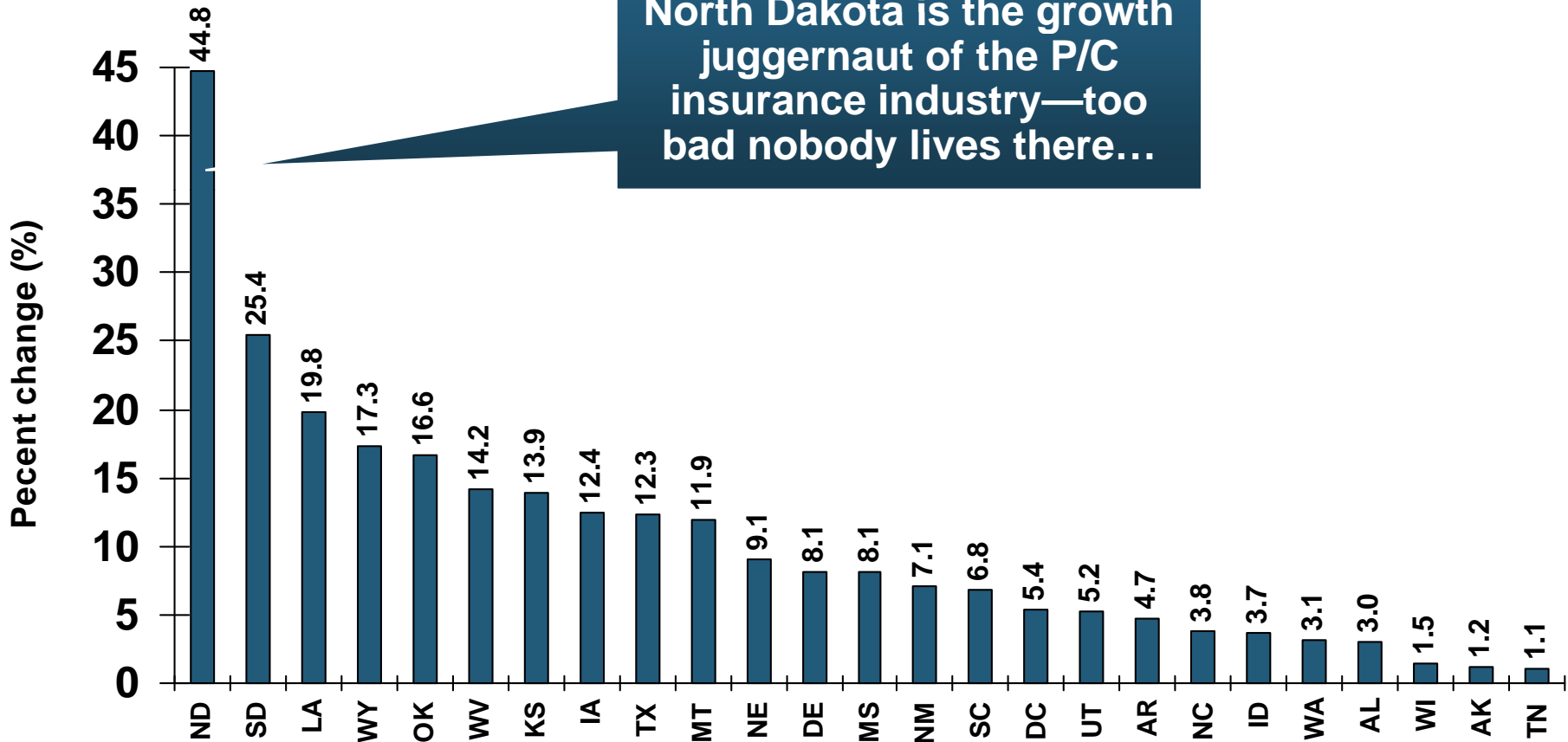
Firms w/Revenues > \$1 Billion



Direct Premiums Written: All P/C Lines Percent Change by State, 2005-2010

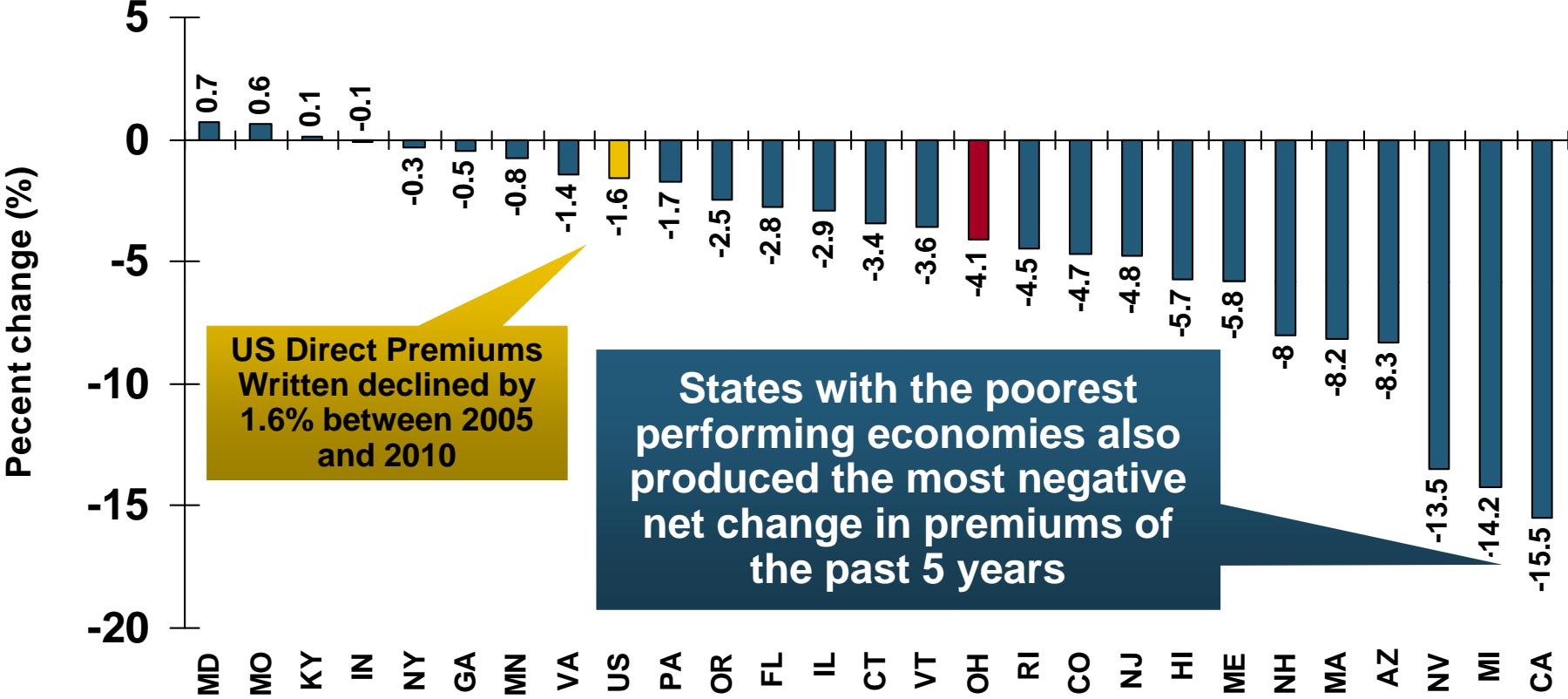
Top 25 States

North Dakota is the growth juggernaut of the P/C insurance industry—too bad nobody lives there...



Direct Premiums Written: All P/C Lines Percent Change by State, 2005-2010

Bottom 25 States



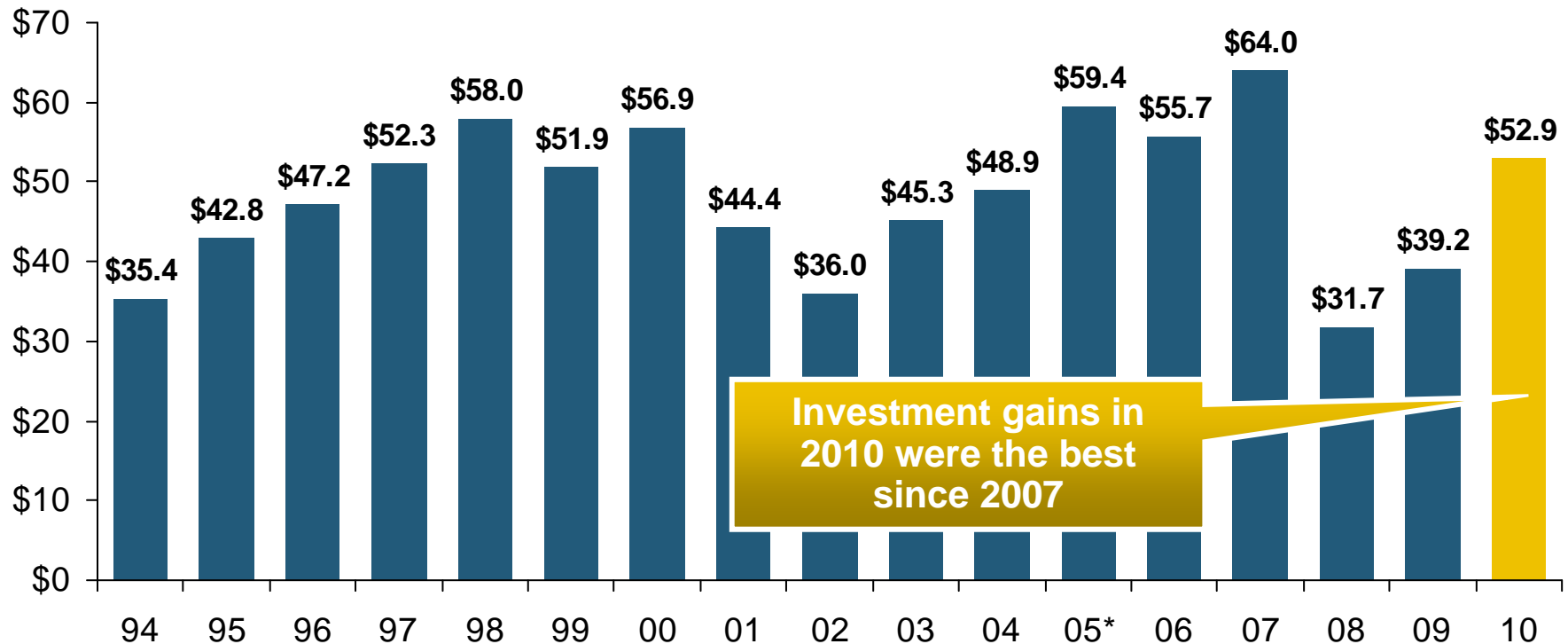
Sources: SNL Financial LC; Insurance Information Institute.

INVESTMENTS: THE NEW REALITY

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

Property/Casualty Insurance Industry Investment Gain: 1994–2010¹

(\$ Billions)



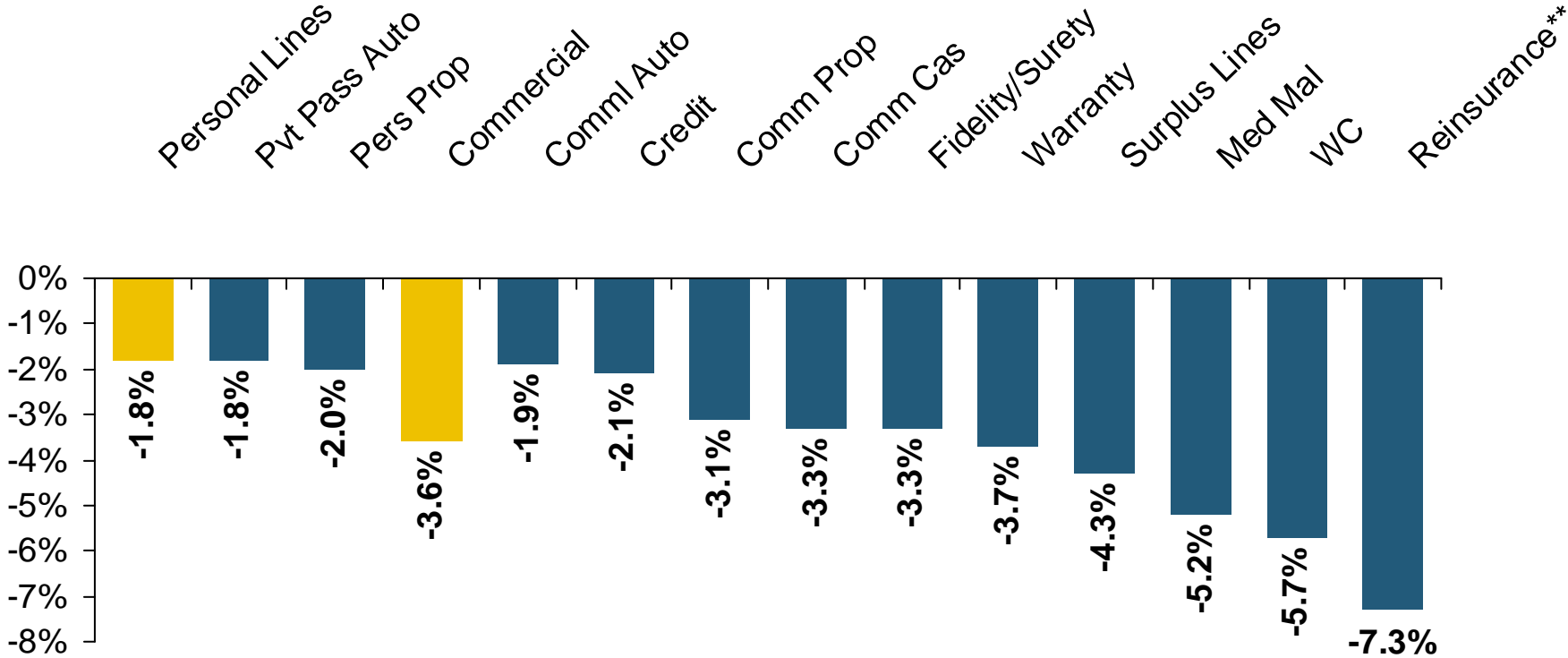
Investment Gains Recovered Significantly in 2010 Due to Realized Investment Gains; The Financial Crisis Caused Investment Gains to Fall by 50% in 2008

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.

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



Lower Investment Earnings Place a Greater Burden on Underwriting and Pricing Discipline

*Based on 2008 Invested Assets and Earned Premiums

**US domestic reinsurance only

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

Insurance Information Institute Online:

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