2011 NATURAL CATASTROPHE YEAR IN REVIEW

January 4, 2012
## Agenda

<table>
<thead>
<tr>
<th>Topic</th>
<th>Presenter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Welcome/Introduction</td>
<td>Terese Rosenthal</td>
</tr>
<tr>
<td>U.S. Natural Catastrophe Update</td>
<td>Carl Hedde</td>
</tr>
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<td>Global Natural Catastrophe Update</td>
<td>Ernst Rauch</td>
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<tr>
<td>Economic Implications of Natural Catastrophe Losses</td>
<td>Dr. Robert Hartwig</td>
</tr>
<tr>
<td>Questions and Answers</td>
<td></td>
</tr>
</tbody>
</table>
Webinar Interactivity

Questions and Answers

You will have an opportunity to ask questions at the conclusion of the presentation.

To ask a question, please dial 1 4 on your phone.

An operator will facilitate your participation.

Live Tweeting

@MunichRe_US   @iiiorg   #NATCAT2011
One of the world’s largest databases on natural catastrophes

The Database Today

- From 1980 until today all loss events; for USA and selected countries in Europe all loss events since 1970.
- Retrospectively, all great disasters since 1950.
- In addition, all major historical events starting from 79 AD – eruption of Mt. Vesuvio (3,000 historical data sets).
- Currently more than 30,000 events
Insured losses in the United States in 2011 totaled $35.9 billion – above the 2000 to 2010 average loss of $23.8 billion (in 2011 Dollars).

Very active thunderstorm (tornado-hail) season with insured losses exceeding $25 billion, more than double the previous record. It was also the deadliest thunderstorm season in over 75 years.

Hurricane Irene and Tropical Storm Lee cause minor wind damage, major flooding in northeastern U.S.

Severe spring flooding events in the Midwest and Great Plains.

Moderate earthquake in Virginia felt across eastern seaboard.

Most damaging wildfire in Texas history.
### U.S. Natural Catastrophe Update

#### Natural Disaster Losses in the United States 2011

<table>
<thead>
<tr>
<th>Event Type</th>
<th>Number of Events</th>
<th>Fatalities</th>
<th>Estimated Overall Losses (US $m)</th>
<th>Estimated Insured Losses (US $m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Severe Thunderstorm</td>
<td>69</td>
<td>617</td>
<td>46,548</td>
<td>25,813</td>
</tr>
<tr>
<td>Winter Storm</td>
<td>9</td>
<td>67</td>
<td>2,708</td>
<td>2,017</td>
</tr>
<tr>
<td>Flood</td>
<td>14</td>
<td>20</td>
<td>2,705</td>
<td>535</td>
</tr>
<tr>
<td>Earthquake</td>
<td>5</td>
<td>1</td>
<td>257</td>
<td>50</td>
</tr>
<tr>
<td>Tropical Cyclone</td>
<td>3</td>
<td>0</td>
<td>10,700</td>
<td>5,510</td>
</tr>
<tr>
<td>Wildfire</td>
<td>58</td>
<td>15</td>
<td>1,922</td>
<td>855</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>33</td>
<td>8,000</td>
<td>1,000</td>
</tr>
</tbody>
</table>

Source: MR NatCatSERVICE
U.S. Natural Catastrophe Update

Natural Disasters in the United States, 1980 – 2011
Number of Events, Annual Totals

2011 Total
171 Events

Source: MR NatCatSERVICE © 2011 Munich Re
Insured losses due in the U.S. in 2011 were the 5th highest on record, exceeding $35 billion.
## U.S. Natural Catastrophe Update

### Significant Natural Catastrophes, 2011

$1$ billion economic loss and/or $50$ fatalities

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Estimated Economic Losses (US $m)</th>
<th>Estimated Insured Losses (US $m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>Texas Drought</td>
<td>8,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Jan. 31 – Feb. 3</td>
<td>Winter Storm</td>
<td>1,300</td>
<td>975†</td>
</tr>
<tr>
<td>April 3 - 5</td>
<td>Thunderstorms</td>
<td>3,500</td>
<td>2,000†</td>
</tr>
<tr>
<td>April 8 - 11</td>
<td>Thunderstorms</td>
<td>2,500</td>
<td>1,510†</td>
</tr>
<tr>
<td>April 14 - 16</td>
<td>Thunderstorms</td>
<td>2,100</td>
<td>1,400†</td>
</tr>
<tr>
<td>April 19 - 20</td>
<td>Thunderstorms</td>
<td>1,200</td>
<td>830†</td>
</tr>
<tr>
<td>April 22 – 28</td>
<td>Thunderstorms</td>
<td>15,000</td>
<td>7,300†</td>
</tr>
<tr>
<td>April</td>
<td>Flooding</td>
<td>2,600</td>
<td>500</td>
</tr>
<tr>
<td>May 20 – 27</td>
<td>Thunderstorms</td>
<td>14,000</td>
<td>6,900†</td>
</tr>
<tr>
<td>June 16 – 22</td>
<td>Thunderstorms</td>
<td>1,600</td>
<td>1,200†</td>
</tr>
<tr>
<td>July 10 – 14</td>
<td>Thunderstorms</td>
<td>1,300</td>
<td>980†</td>
</tr>
<tr>
<td>August 18 – 19</td>
<td>Thunderstorms</td>
<td>1,200</td>
<td>840†</td>
</tr>
<tr>
<td>August 26 - 28</td>
<td>Hurricane Irene</td>
<td>10,000</td>
<td>5,000</td>
</tr>
<tr>
<td>September 4 – 19</td>
<td>Wildfire</td>
<td>1,000</td>
<td>530†</td>
</tr>
</tbody>
</table>

Sources: (unmarked) - MR NatCatSERVICE, † - Property Claims Services (PCS) © 2011 Munich Re
2011 U.S. THUNDERSTORM SEASON
U.S. Natural Catastrophe Update

2011 U.S. Tornado Count

United States Annual Trend of LSR Tornadoes*

Year (count thru Dec. 27)
- 2011 (1893)
- 2010 (1483) YR:1525
- 2009 (1304) YR:1304
- 2008 (2194) YR:2194
- 2007 (1276) YR:1276
- 2006 (1269) YR:1296
- 2005 (1207) YR:1216
- 05-10 Avg. (1456) YR:1469

*Preliminary tornadoes from NWS Local Storm Reports (LSRs)
Annual average is based on preliminary LSRs, 2005-2010

Sources: NOAA
2011: Year of the Tornado

- Deadliest tornado year since 1925: **552 direct fatalities**
- Deadliest single tornado since 1947: **Joplin, Missouri, 158 fatalities**
- Most observed tornadoes in a month: **748, April**
- Largest number of tornadoes in a day: **226, April 27**
- Most EF5 Tornados in a year: **6** (tied for first with 1974)
- Aggregate Insured Thunderstorm Losses: **$25.8 billion**
- Billion-dollar insured loss outbreaks: **6**

Late April (Alabama) and May (Joplin) outbreaks each caused insured losses in excess of $6 billion, and are among top 10 largest natural catastrophe losses in U.S. history, based on original dollars.
Average thunderstorm losses have increased fivefold since 1980.

2011 Total
$25.8 bn

Source: Property Claims Service
MR NatCatSERVICE
© 2011 Munich Re
U.S. TROPICAL CYCLONES 2011
Tropical Cyclone Impacting the United States in 2011

Source: NOAA  © 2011 Munich Re
Hurricane Irene

- Landfalls on August 27 over the NC Outer Banks as a Category 1 hurricane and on August 28 over Brigantine, NJ, and Coney Island, NY, as a tropical storm.
- Minor to moderate wind damage in North Carolina and Virginia, heavy indirect wind damage due to tree fall further north.
- Record flooding across northeast, particularly New Jersey, New York, and Vermont.
- Economic Losses in U.S. of $10 billion, insured losses of $5 billion.
**Other U.S. Tropical Cyclones in 2011**

**Tropical Storm Don**
- Landfall near Baffin Bay, Texas, on July 30
- Sustained winds at landfall of 50 mph, no significant damage

**Tropical Storm Lee**
- Landfall in Louisiana on September 4 with sustained winds of 45 mph
- Minor wind damage and flooding in Louisiana; As a remnant low, Lee aggravated existing Irene flooding and triggered new flooding in northeastern U.S., particularly in Pennsylvania.
- Estimated $510 million insured loss.
There has not been a major hurricane landfall in the U.S. since 2005.
The current 5-year average (2007-2011) insured tropical cyclone loss is $4.1 billion per year.
OTHER U.S. NATURAL CATASTROPHES IN 2011
Lower Mississippi Flood of 2011

- Heavy snowmelt, saturated soils, and over 20 inches of rain in a month lead to the worst flooding of the lower Mississippi River since 1927.
- Record river crests at Vicksburg and Natchez; Morganza Spillway opened in Louisiana to protect Baton Rouge and New Orleans from possible levee failures.
- Extensive agricultural damage, property, and inland marine losses due to flood. Estimated economic losses of $2 billion and insured losses of $500 million.

Source: NASA © 2011 Munich Re
Number of Acres Burned in Wildfires, 1980 – 2011

2011 Total
8.3 million acres

Source: National Interagency Fire Center
Notable Wildfires in 2011

- **Worst wildfire year on record in Texas due to persistent drought.**

  - **Spring:** Over 3 million acres burned in west Texas from 12 major seats of fire. Over 200 homes and businesses destroyed, $50 million insured loss.

  - **September:** Bastrop County Complex Fire near San Antonio destroys over 1,600 homes, insured loss of $530 million.

Source: FEMA
Average annual winter storm losses have almost doubled since the early 1980s.

2011 Total
$2.0 billion

Source: Property Claims Service
MR NatCatSERVICE
© 2011 Munich Re
Central Virginia Earthquake

- Magnitude 5.8 on August 23, largest ever recorded in Virginia.
- Felt as far away as Canada to the north and Savannah, GA to the South.
- Minor structural and contents damage near epicenter and to old masonry buildings, including the U.S. National Cathedral and the Washington Monument in the District of Columbia.
- Only minor economic and insured losses.

Source: USGS
Global Natural Catastrophe Update

Natural Catastrophes Worldwide 2011

Headlines

**Number of events: 820**
- The number is in line with the 10-year-average (2001-2010: 790).

**Fatalities: 27,000**
- The number is quite low in comparison with previous years (2001-2010: 106,000).
- The figures do not include the drought fatalities in East Africa, esp. Somalia.

**Overall direct losses: US$ 380bn**
- 2011 is the costliest year for overall losses due to natural catastrophes.

**Insured losses: US$ 105bn**
- The insured losses are the highest figures too, topped the 2005 losses in original values (US$ 101bn).
### Natural Catastrophes Worldwide 2011

#### Significant Events

<table>
<thead>
<tr>
<th>Event</th>
<th>Description</th>
<th>Implications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earthquake, tsunami Japan</td>
<td>Strongest earthquake in Japan, Mw 9.0, with destructive tsunami waves up to 40 meters.</td>
<td>Costliest event ever in terms of overall losses; costliest event 2011 in terms of insured losses.</td>
</tr>
<tr>
<td>New Zealand</td>
<td>Three strong earthquakes (Mw 5.9/6.3/7.0) in 10 months.</td>
<td>Second highest losses for the insurance industry in 2011.</td>
</tr>
<tr>
<td>Floods Australia and Thailand</td>
<td>The series of floods 2010/11 were the most devastating in modern Australian history.</td>
<td>Strong rainfalls from Aug.-Nov.; highest insured losses ever from nat cat events in Thailand.</td>
</tr>
<tr>
<td>Drought, famine Somalia</td>
<td>Lack of rain, two short rainy seasons since October 2010.</td>
<td>Expected deaths due to famine in the tens of thousands.</td>
</tr>
</tbody>
</table>
## Global Natural Catastrophe Update

### Natural Catastrophes Worldwide 2011
Overview and comparison with previous years

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
</tr>
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<tbody>
<tr>
<td>Number of events</td>
<td>820</td>
</tr>
<tr>
<td>Overall losses in US$m</td>
<td>380,000</td>
</tr>
<tr>
<td>(original values)</td>
<td></td>
</tr>
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</tr>
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<tr>
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<td>820</td>
<td>970</td>
</tr>
<tr>
<td>Overall losses in US$ m (original values)</td>
<td>380,000</td>
<td>152,000</td>
</tr>
<tr>
<td>Insured losses in US$ m (original values)</td>
<td>105,000</td>
<td>42,000</td>
</tr>
<tr>
<td>Fatalities</td>
<td>27,000</td>
<td>296,000</td>
</tr>
<tr>
<td></td>
<td>2011</td>
<td>2010</td>
</tr>
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<td>--------------------------</td>
<td>-------</td>
<td>-------</td>
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Overview and comparison with previous years

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
<th>Average of the last 10 years 2001-2010</th>
<th>Average of the last 30 years 1981-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of events</td>
<td>820</td>
<td>970</td>
<td>790</td>
<td>630</td>
</tr>
<tr>
<td>Overall losses in US$ m (original values)</td>
<td>380,000</td>
<td>152,000</td>
<td>113,000</td>
<td>75,000</td>
</tr>
<tr>
<td>Insured losses in US$ m (original values)</td>
<td>105,000</td>
<td>42,000</td>
<td>35,000</td>
<td>19,000</td>
</tr>
<tr>
<td>Fatalities</td>
<td>27,000</td>
<td>296,000</td>
<td>106,000</td>
<td>69,000</td>
</tr>
</tbody>
</table>
# Natural Catastrophes Worldwide 2011

## Overview and Comparison with Previous Years

<table>
<thead>
<tr>
<th>Category</th>
<th>2011</th>
<th>2010</th>
<th>Average of the last 10 years 2001-2010</th>
<th>Average of the last 30 years 1981-2010</th>
<th>Top Year 1981-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of events</td>
<td>820</td>
<td>970</td>
<td>790</td>
<td>630</td>
<td>2007 (1,025)</td>
</tr>
<tr>
<td>Overall losses in US$ m (original values)</td>
<td>380,000</td>
<td>152,000</td>
<td>113,000</td>
<td>75,000</td>
<td>2005 (227,000)</td>
</tr>
<tr>
<td>Insured losses in US$ m (original values)</td>
<td>105,000</td>
<td>42,000</td>
<td>35,000</td>
<td>19,000</td>
<td>2005 (101,000)</td>
</tr>
<tr>
<td>Fatalities</td>
<td>27,000</td>
<td>296,000</td>
<td>106,000</td>
<td>69,000</td>
<td>2010 (296,000)</td>
</tr>
</tbody>
</table>
### Natural Catastrophes Worldwide 2011
The five costliest natural catastrophes for the insurance industry

<table>
<thead>
<tr>
<th>Date</th>
<th>Region</th>
<th>Event</th>
<th>Fatalities</th>
<th>Overall losses US$ m</th>
<th>Insured losses US$ m</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.3.2011</td>
<td>Japan</td>
<td>Earthquake, tsunami</td>
<td>15,840</td>
<td>210,000</td>
<td>35,000-40,000</td>
</tr>
<tr>
<td>22.2.2011</td>
<td>New Zealand</td>
<td>Earthquake</td>
<td>181</td>
<td>16,000</td>
<td>13,000</td>
</tr>
<tr>
<td>1.8-15.11.2011</td>
<td>Thailand</td>
<td>Floods, landslides</td>
<td>813</td>
<td>40,000</td>
<td>10,000</td>
</tr>
<tr>
<td>22-28.4.2011</td>
<td>USA</td>
<td>Severe storms/tornadoes</td>
<td>350</td>
<td>15,000</td>
<td>7,300</td>
</tr>
<tr>
<td>22.8-2.9.2011</td>
<td>USA, Caribbean</td>
<td>Hurricane Irene</td>
<td>55</td>
<td>15,000</td>
<td>7,000</td>
</tr>
</tbody>
</table>

Source: MR NatCatSERVICE

© 2011 Munich Re
Global Natural Catastrophe Update

Natural Catastrophes Worldwide 1980 – 2011

Number of events

2011 Total
820 Events

Source: MR NatCatSERVICE
Natural Catastrophes Worldwide 1980 – 2011

Overall and insured losses

Overall losses totaled $380 billion; Insured losses totaled $105 billion

Source: MR NatCatSERVICE

© 2011 Munich Re
Global Natural Catastrophe Update

Natural Catastrophes 2011

World map

Number of events: 820

- **Natural catastrophes**
- **Geophysical events** (earthquake, tsunami, volcanic activity)
- **Hydrological events** (flood, mass movement)
- **Selection of significant loss events (see table)**
- **Meteorological events** (storm)
- **Climatological events** (extreme temperature, drought, wildfire)

Source: MR NatCatSERVICE © 2011 Munich Re
Earthquake New Zealand
February 2011

<table>
<thead>
<tr>
<th>Region</th>
<th>Overall losses</th>
<th>Insured losses</th>
<th>Fatalities</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Island, Canterbury, Christchurch, Lyttelton</td>
<td>US$ 16bn*</td>
<td>US$ 13bn*</td>
<td>181</td>
</tr>
</tbody>
</table>

*Losses in original values
Global Natural Catastrophe Update

Floods Thailand
August – November 2011

<table>
<thead>
<tr>
<th>Region</th>
<th>Overall losses</th>
<th>Insured losses</th>
<th>Fatalities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phichit, Nakhon Sawan, Phra Nakhon Si Ayuttaya, Pathumthani, Nonthaburi, Bangkok</td>
<td>US$ 40bn*</td>
<td>US$ 10bn*</td>
<td>813</td>
</tr>
</tbody>
</table>

Source: MR NatCatSERVICE
*Losses in original values

Source: Reuters

© 2011 Munich Re
Global Natural Catastrophe Update

Natural Catastrophes Worldwide 2011

Insured losses US$ 105bn - Percentage distribution per continent

<table>
<thead>
<tr>
<th>Continent</th>
<th>Insured losses US$ m</th>
</tr>
</thead>
<tbody>
<tr>
<td>America (North and South America)</td>
<td>40,000</td>
</tr>
<tr>
<td>Europe</td>
<td>2,000</td>
</tr>
<tr>
<td>Africa</td>
<td>Minor damages</td>
</tr>
<tr>
<td>Asia</td>
<td>45,000</td>
</tr>
<tr>
<td>Australia/Oceania</td>
<td>18,000</td>
</tr>
</tbody>
</table>

Source: MR NatCatSERVICE
Natural Catastrophes Worldwide 1980 – 2011
Insured losses US$ 870bn - Percentage distribution per continent

<table>
<thead>
<tr>
<th>Continent</th>
<th>Insured losses US$ m</th>
</tr>
</thead>
<tbody>
<tr>
<td>America (North and South America)</td>
<td>566,000</td>
</tr>
<tr>
<td>Europe</td>
<td>146,000</td>
</tr>
<tr>
<td>Africa</td>
<td>2,000</td>
</tr>
<tr>
<td>Asia</td>
<td>115,000</td>
</tr>
<tr>
<td>Australia/Oceania</td>
<td>41,000</td>
</tr>
</tbody>
</table>

Source: MR NatCatSERVICE  © 2011 Munich Re
Global Natural Catastrophe Update

Natural Catastrophes in Asia 1980 – 2011
Overall and insured losses

Overall losses (in 2011 values)
Insured losses (in 2011 values)

Source: MR NatCatSERVICE
© 2011 Munich Re
## Summary

- **US$ 105bn insured losses - 47% of losses due to earthquakes (30-year-average = 10%)**
- **Asia (44%) and North America (37%) are mainly impacted in terms of insured losses**
- **Thailand floods – costliest flood event for overall and insured losses**
- **Japan earthquake, tsunami – 15,840 fatalities – deadliest natural disaster in 2011**
- **New Zealand earthquakes – high losses for the insurance market, minor fatalities**
- **Building codes are essential to save lives – however, insured losses are nevertheless significant**
Q AND A
Most of the Country East of the Rockies Suffered Severe Weather in 2011, Impacting Most Insurers
1,894 tornadoes killed 552 people in 2011, including at least 340 on April 26 mostly in the Tuscaloosa area, and 130 in Joplin on May 22.

There were 9,417 “Large Hail” reports in 2011, causing extensive damage to homes, businesses and vehicles.
Location of Wind Damage Reports in the US, January 1—December 27, 2011

There were 18,685 “Wind Damage” reports through Dec. 27, causing extensive damage to homes and businesses.

Severe Weather Reports, January 1—December 27, 2011

There have been 29,996 severe weather reports through Dec. 5; including 1,894 tornadoes; 9,417 “Large Hail” reports and 18,685 high wind events.

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2011_annual_summary.html#
The number of federal disaster declarations set a new record in 2011, with 99, shattering 2010’s record 81 declarations.

There have been 2,049 federal disaster declarations since 1953. The average number of declarations per year is 34 from 1953-2010, though that few haven’t been recorded since 1995.

The Number of Federal Disaster Declarations Is Rising and Set a New Record in 2011

Federal Disasters Declarations by State, 1953 – 2011: Highest 25 States*

Over the past nearly 60 years, Texas has had the highest number of Federal Disaster Declarations


Federal Disasters Declarations by State, 1953 – 2011: Lowest 25 States*

Over the past nearly 60 years, Wyoming, Utah and Rhode Island had the fewest number of Federal Disaster Declarations.

Top 14 Most Costly Disasters in U.S. History

(Insured Losses, 2011 Dollars, $ Billions)

**Taken as a single event, the Spring 2011 tornado and storm season are is the 4th costliest event in US insurance history**

*Losses will actually be broken down into several “events” as determined by PCS. Includes losses for the period April 1 – June 30.

Sources: PCS; Insurance Information Institute inflation adjustments.
P/C Insurance Industry Financial Overview

Profit Recovery Was Set Back in 2011 by High Catastrophe Loss & Other Factors
P/C Net Income After Taxes
1991–2011:Q3 ($ Millions)

P-C Industry 2011:Q3 profits were down 71% to $8.0B vs. 2010:Q3, due primarily to high catastrophe losses and as non-cat underwriting results deteriorated

* ROE figures are GAAP; †Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 3.0% ROAS for 2011:Q3, 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

A combined ratio of about 100 generated ~5.5% 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

* 2011 figure is return on average statutory surplus. 2008 -2011 figures exclude mortgage and financial guaranty insurers. 2011:Q3 combined ratio including M&FG insurers is 109.9, ROAS = 1.9%.
Source: Insurance Information Institute from A.M. Best and ISO data.
Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2011*

History suggests next ROE peak will be in 2016-2017

1977: 19.0%
1987: 17.3%
1997: 11.6%
2006: 12.7%
2011: 3.0%*

1975: 2.4%
1984: 1.8%
1992: 4.5%
2001: -1.2%

*Profitability = P/C insurer ROEs are I.I.I. estimates. 2011 figure is an estimate based on annualized ROAS through Q3 data.
Note: Data for 2008-2011 exclude mortgage and financial guaranty insurers. For 2011:Q3 ROAS = 1.9% including M&FG.
Source: Insurance Information Institute; NAIC, ISO, A.M. Best.
Soft Market Persisted in 2010 but Growth Returned: More in 2011?

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

2011:Q3 growth was +3.1%

NWP was up 0.9% in 2010

*2011 figure is through first 9 months vs. same period in 2010
Shaded areas denote “hard market” periods
Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute.
Finally! Back-to-back quarters of net written premium growth (vs. the same quarter, prior year)

Through 2011:Q3, growth in personal lines predominating cos. (+3.1%) and commercial lines predominating cos. (+3.9%), diversified (+2.3%)

Sources: ISO, Insurance Information Institute.
Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2011:Q3

Peak = 2001:Q4 +28.5%

Pricing turned positive (+0.9%) in Q3:2011, the first increase in nearly 7 years (Q4:2003)

Pricing Turned Negative in Early 2004 and Has Been Negative Ever Since

Trough = 2007:Q3 -13.6%

KRW Effect: No Lasting Impact

Source: Council of Insurance Agents and Brokers; Insurance Information Institute.
Average Commercial Rate Change, All Lines, (1Q:2004–4Q:2011E*)

Pricing as of Q3:2011 is positive for the first time since 2003. Slightly stronger gains in Q4.

Q2 2011 marked the 30th consecutive quarter of price declines.

Source: Council of Insurance Agents & Brokers (1Q04-4Q11); Marsh (Q411E); Insurance Information Institute
Change in Commercial Rate Renewals, by Line: 2011:Q3

Percentage Change (%)

Property lines are showing larger increases than casualty lines, with the exception of workers compensation.

Major Commercial Lines Renewed Uniformly Upward in Q3:2011 for the First Time Since 2003; Property Lines & Workers Comp Leading the Way

Source: Council of Insurance Agents and Brokers; Insurance Information Institute.
Most excess reinsurance capacity was removed from the market in 2011, leaving uncertainty as to the direction of 2012 reinsurance renewals.

Catastrophes Will Lead Insurers their Largest Underwriting Loss in a Decade
As Recently as 2001, Insurers Paid Out Nearly $1.16 for Every $1 in Earned Premiums

Heavy Use of Reinsurance Lowered Net Losses

Relatively Low CAT Losses, Reserve Releases

Relatively Low CAT Losses, Reserve Releases

Higher CAT Losses, Shrinking Reserve Releases, Toll of Soft Market

Best Combined Ratio Since 1949 (87.6)

Cyclical Deterioration

Avg. CAT Losses, More Reserve Releases


Sources: A.M. Best, ISO.
Homeowners Line Could Deteriorate in 2011 Due to Large Cat Losses. Extreme Regional Variation Can Be Expected Due to Local Catastrophe Loss Activity.

Sources: A.M. Best (1990-2010); Insurance Information Institute (2011P).
Cumulative underwriting deficit from 1975 through 2010 is $455B

Large Underwriting Losses Are NOT Sustainable in Current Investment Environment

* Includes mortgage and financial guaranty insurers in all years

Sources: A.M. Best, ISO; Insurance Information Institute.
Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2011E*

The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades

*Insurance Information Institute estimates for 2010 and 2011.

Notes: Private carrier losses only. Excludes loss adjustment expenses and reinsurance reinstatement premiums. Figures are adjusted for losses ultimately paid by foreign insurers and reinsurers.

Source: ISO; Insurance Information Institute.
Cyclical Pattern in P-C Impairment History is Directly Tied to Underwriting, Reserving & Pricing
3 small insurers in Missouri did encounter problems in 2011 following the May tornado in Joplin. They were absorbed by a larger insurer and all claims were paid.

The Number of Impairments Varies Significantly Over the P/C Insurance Cycle, With Peaks Occurring Well into Hard Markets

Historically, Deficient Loss Reserves and Inadequate Pricing Are By Far the Leading Cause of P-C Insurer Impairments. Investment and Catastrophe Losses Play a Much Smaller Role.
Have Large Global Losses Reduced Capacity in the Industry, Setting the Stage for a Market Turn?

($ Billions)

2007:Q3

Previous Surplus Peak

The Industry now has $1 of surplus for every $0.83 of NPW, close to the strongest claims-paying status in its history.

Surplus as of 9/30/11 was down 4.6% below its all time record high of $564.7B set as of 3/31/11. Further declines are possible.

Quarterly Surplus Changes Since 2011:Q1 Peak

11:Q2: -$5.6B (-1.0%)  
11:Q3: -$26.1B (-4.6%)

*Includes $22.5B of paid-in capital from a holding company parent for one insurer’s investment in a non-insurance business in early 2010.

Sources: ISO, A.M. Best.
Thank you for your time and your attention!

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An operator will facilitate your participation.
More Information

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## More Information

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