Beyond the Crisis: The P/C Insurance in the Aftermath of the “Great Recession”

Insurance Information Institute
June 10, 2010

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Presentation Outline

- Reasons for Optimism, Causes for Concern
- The Economic Storm: Financial Crisis & Recession
  - Exposure, Growth & Profitability
- Crisis-Driven Exposure Issues: Personal & Commercial Lines
  - When and Where Will Growth Return?
- Threats and Issues Facing P/C Insurers Through 2015
- Financial Strength & Ratings
  - Key Differences Between Insurer and Bank Performance During Crisis
- Insurance Industry Financial Overview & Outlook
  - Profitability
  - Premium Growth
  - Underwriting Performance: Commercial & Personal Lines
  - Financial Market Impacts
- Capital & Capacity
- Catastrophe Loss Trends
- Q&A
Reasons for Optimism, Causes for Concern in the P/C Insurance Industry

- Economic Recovery in US is Self-Sustaining: No Double Dip Recession
- European Debt Crisis Will Pass; Concerns are Overblown
  - Volatility will remain a reality, however
- Era of Mass Commercial Insurance Exposure Destruction Has Ended
  - But restoration of destroyed exposure will take 3+ years in US
- No Secondary Spike in Unemployment or Swoon in Payrolls/WC Exposure
  - But wage growth remains sluggish
- Exposure Growth Will Begin in Earnest in 2\textsuperscript{nd} Half 2010, Accelerate in 2011
- Increase in Demand for Commercial Insurance is in its Earliest Stages and Will Accelerate in 2011
  - Includes workers comp, commercial auto, marine, many liability coverages, D&O
  - Laggards: Property, inland marine, aviation
  - Personal Lines: Auto leads, homeowners lags
- P/C Insurance Industry Will See Growth in 2011 for the First Time Since 2006
- Investment Environment Is/Remains Much More Favorable
  - Volatility, however, will persist and yields remain low
  - Both are critical issues in long-tailed commercial lines like WC, Med Mal, D&O

Source: Insurance Information Institute.
Reasons for Optimism, Causes for Concern in the P/C Insurance Industry

- P/C Insurance Industry Capacity as of 3/31/10 is at Record Levels and Has Recovered 100%+ of the Capital Lost During the Financial Crisis
  - As of 12/31/09 capacity was within 2% of pre-crisis high
- Record Capacity, Depressed Exposures Mean that Generally Soft Market Conditions Will Persist through 2010 and Potentially into 2011
- There is No Catalyst for a Robust Hard Market at the Current Time
- High First Half 2010 CAT Losses Insufficient to Trigger Hard Market
  - Localized insurance and reinsurance impacts are occurring, especially earthquake coverage in Latin/South America, Offshore Energy Markets, European Wind Cover
- Inflation Outlook for US and Major European Economies and Japan is Tame
  - Will temper claims inflation
- Financial Strength & Ratings of Global (Re)Insurance Industries Remained Strong Throughout the Financial Crisis in Sharp Contrast With Banks
- Insurers Have Avoided (So Far) the Most Draconian Outcomes in Financial Services Reform Legislation
- Tort Environment in US is Beginning to Deteriorate; No Tort Reform in US
- Major Transformation of US Economy Underway with Major Opportunities for Insurers through 2020 in Health, Tech, Natural Resources, Energy

Source: Insurance Information Institute.
The Economic Storm

What the Financial Crisis and Recession Mean for the Industry’s Exposure Base, Growth and Profitability
Real GDP Growth*

The Q1:2009 decline was the steepest since the Q1:1982 drop of 6.4%

Recession began in Dec. 2007. Economic toll of credit crunch, housing slump, labor market contraction has been severe but modest recovery is underway

Economic growth up sharply in Q4:09 with rebuilding of inventories and stimulus. More moderate growth expected in 2010/11

Personal and Commercial Lines Exposure Base Have Been Hit Hard and Will Be Slow to Come Back

* Estimates/Forecasts from Blue Chip Economic Indicators.
Source: US Department of Commerce, Blue Economic Indicators 5/10; Insurance Information Institute.
Length of US Business Cycles, 1929–Present*

Duration (Months)

Length of Expansions Greatly Exceeds Contractions

Average Duration**
Recession = 10.4 Mos
Expansion = 60.5 Mos

* Through June 2010. Assumes “official” end of recession was June 2009. ** Post-WW II period through end of most recent expansion.
Sources: National Bureau of Economic Research; Insurance Information Institute.
Real GDP Growth vs. Real P/C
Premium Growth: Modest Association

Real GDP Growth vs. Real P/C (%)

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, 5/10; Insurance Information Institute
Regional Differences Will Significantly Impact P/C Markets

Recovery in Some Areas Will Begin Years Ahead of Others and Speed of Recovery Will Differ by Orders of Magnitude
State Economic Growth Varied Tremendously in 2008

Percent Change in Real GDP by State, 2007–2008

Mountain, Plains States Growing the Fastest

Rocky Mountain 2.2
Plains 2.0
Southwest 1.7
Southeast 0.0

Great Lakes -0.4
New England 1.0
Mideast 1.3
US = 0.7

Highest Quintile
Fourth Quintile
Third Quintile
Second Quintile
Lowest Quintile

US Bureau of Economic Analysis
Fastest Growing States in 2008: Plains, Mountain States Lead

**Real State GDP Growth (%)**

<table>
<thead>
<tr>
<th>State</th>
<th>Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ND</td>
<td>7.3%</td>
</tr>
<tr>
<td>WY</td>
<td>4.4%</td>
</tr>
<tr>
<td>SD</td>
<td>3.5%</td>
</tr>
<tr>
<td>CO</td>
<td>2.9%</td>
</tr>
<tr>
<td>OK</td>
<td>2.7%</td>
</tr>
<tr>
<td>WV</td>
<td>2.5%</td>
</tr>
<tr>
<td>IA</td>
<td>2.1%</td>
</tr>
<tr>
<td>TX, MN, NM, WA</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

Natural Resource and Agricultural States Have Done Better Than Most Others Recently, Helping Insurance Exposure in Those Areas

Slowest Growing States in 2008: Diversity of States Suffering

Real State GDP Growth (%)

States in the North, South, East and West All Represented Among Hardest Hit, But for Differing Reasons

Labor Market Trends

*Fast & Furious*: Massive Job Losses Sap the Economy and Commercial/Personal Lines Exposure
Unemployment and Underemployment Rates: Rocketed Up in 2008-09; Stabilizing in 2010?

Traditional Unemployment Rate U-3

Unemployment + Underemployment Rate U-6

Recession ended in November 2001

Unemployment kept rising for 19 more months

Recession began in December 2007

U-6 went from 8.0% in March 2007 to 17.5% in Oct 2009; Stood at 16.6% in May 2010

Unemployment rate was 9.7% in May

Unemployment peaked at 10.1% in Oct. 2009, highest monthly rate since 1983.

Peak rate in the last 30 years: 10.8% in Nov - Dec 1982

The unemployment rate has been rising across the country, but in April just 6 out of 50 states recorded increases, compared to 24 in March.

*Provisional figures for April 2010, seasonally adjusted.
The unemployment rate has been rising across the country, but in April just 6 out of 50 states recorded increases, compared to 24 in March.

*Provisional figures for April 2010, seasonally adjusted.
US Unemployment Rate

2007:Q1 to 2011:Q4F*

Rising unemployment eroded payrolls and workers comp’s exposure base.

Unemployment likely peaked at 10% in late 2009.

Unemployment forecasts are being revised downward for the first time in years

* = actual; = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (5/10); Insurance Information Institute
Monthly Change Employment*

January 2008 through April 2010* (Thousands)

Job Losses Since the Recession Began in Dec. 2007 Total 8.4 Million Through Mar. 2010; 15.0 Million People are Now Defined as Unemployed

*Estimate based on Reuters poll of economists.

Marginally Attached and Unemployed Persons Account for 16.6% of the Labor Force in May 2010 (1 Out 6 People). Unemployment Rate Alone was 9.7%. Underutilization Shows a Broader Impact on WC and Other Commercial Exposures

NOTE: Marginally attached workers are persons who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the recent past. Discouraged workers, a subset of the marginally attached, have given a job-market related reason for not looking currently for a job. Persons employed part time for economic reasons are those who want and are available for full-time work but have had to settle for a part-time schedule.


The US Economy Lost About 8.4 Million Jobs in the 2 Years from Dec. 07 – Dec. 09.

As employment expands, workers comp insurers will be among the first beneficiaries.

Seasonally adjusted.
US Unemployment Rate Forecasts

Quarterly, 2010:Q1 to 2011:Q4

Unemployment will remain high even under the most optimistic of scenarios, but forecasts are being revised downwards.

Stubbornly High Unemployment Will Slow the Recovery of the Workers Comp Exposure Base

Sources: Blue Chip Economic Indicators (5/10); Insurance Information Institute
Wage & Salary Disbursements (Payroll Base) vs. Workers Comp Net Written Premiums

Wage & Salary Disbursement (Private Employment) vs. WC NWP ($ Billions)

7/90-3/91 3/01-11/01 12/07-?

$6,000 $7,000 $35 $40 $45

$3,000 $4,000 $20 $25 $30

$0 $1,000 $10 $15 $15

Wage & Salary Disbursements
WC NPW

Weakening Payrolls Have Eroded $2B+ in Workers Comp Premiums

* Average Wage and Salary data as of 10/1/2009. Shaded areas indicate recessions
Estimated Effect of Recessions* on Payroll (Workers Comp Exposure)

Recessions in the 1970s and 1980s saw smaller exposure impacts because of continued wage inflation, a factor not present during the 2007-2009 recession.

The Dec. 2007 to mid-2009 recession caused the largest impact on WC exposure in 60 years.

Recession Dates (Beginning/Ending Years)

*Data represent maximum recorded decline over 12-month period using annualized quarterly wage and salary accrual data.
Source: Insurance Information Institute research; Federal Reserve Bank of St. Louis (wage and salary data); National Bureau of Economic Research (recession dates).
Frequency: 1926–2008
A Long-Term Drift Downward

Manufacturing – Total Recordable Cases
Rate of Injury and Illness Cases per 100 Full-Time Workers

Note: Recessions indicated by gray bars.
Sources: NCCI from US Bureau of Labor Statistics; National Bureau of Economic Research
Insurance Industry Employment Trends

Soft Market, Difficult Economy, Outsourcing Have Contributed to Industry’s Job Losses
As of Apr. 2010, P/C insurance industry employment was down by 27,700 or 5.6% to 463,400 since the recession began in Dec. 2007 (compared to overall US employment decline of 7.2%).

*As of April 2010; Not seasonally adjusted; Does not including agents & brokers

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.
U.S. Employment in the Direct Life Insurance Industry: 1990–2010*

As of Apr. 2010, Life insurance industry employment was down by 10,400 or 2.9% to 343,900 since the recession began in Dec. 2007 (compared to overall US employment decline of 7.2%).

*As of April 2010; Not seasonally adjusted; Does not including agents & brokers

Note: Recessions indicated by gray shaded columns.
Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.
U.S. Employment in the Direct Health-Medical Insurance Industry: 1990–2010*

As of Apr. 2010, Health-Medical insurance industry employment was down by 4,400 or 1.0% to 437,500 since the recession began in Dec. 2007 (compared to overall US employment decline of 7.2%).

*As of April 2010; Not seasonally adjusted; Does not including agents & brokers
Note: Recessions indicated by gray shaded columns.
Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.
As of Apr. 2010, US employment in the reinsurance industry was down by 1,800 or 6.7% to 25,100 since the recession began in Dec. 2007 (compared to overall US employment decline of 7.2%).

*As of April 2010; Not seasonally adjusted; Does not including agents & brokers

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.
As of Apr. 2010, employment at insurance agencies and brokerages was down by 49,600 or 7.3% to 630,000 since the recession began in Dec. 2007 (compared to overall US employment decline of 7.2%).

*As of April 2010; Not seasonally adjusted. Includes all types of insurance.

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.
U.S. Employment in Insurance Claims Adjusting: 1990–2010*

As of Apr. 2010, claims adjusting employment was down by 8,500 or 16.3% to 43,500 since the recession began in Dec. 2007 (compared to overall US employment decline of 7.2%)

*As of April 2010; Not seasonally adjusted.
Note: Recessions indicated by gray shaded columns.
Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.
U.S. Employment in Third-Party Administration of Insurance Funds: 1990–2010*

*As of April 2010; Not seasonally adjusted. Includes all types of insurance.

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.
Crisis-Driven Exposure Drivers

Economic Obstacles to Growth in P/C Insurance
Auto/Light Truck Sales, 1999-2011F

New auto/light truck sales fell to the lowest level since the late 1960s. Forecast for 2010-11 is still far below 1999-2007 average of 17 million units.

“Cash for Clunkers” generated about $300M in net new personal auto premiums.

Sharply lower auto sales will have a smaller effect on auto insurance exposure level than problems in the housing market will on home insurers.

Car/Light Truck Sales Will Recover from the 2009 Low Point, but High Unemployment, Tight Credit Are Still Restraining Sales; Gas Prices Could Once Again Become a Factor, Too

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (5/10); Insurance Information Institute.
New Private Housing Starts, 1990-2011F

New home starts plunged 34% from 2005-2007; drop through 2009 was 72% (est.); A net annual decline of 1.49 million units, lowest since records began in 1959.

I.I.I. estimates that each incremental 100,000 decline in housing starts costs home insurers $87.5 million in new exposure (gross premium). The net exposure loss in 2009 vs. 2005 is estimated at about $1.3 billion.

Little Exposure Growth Likely for Homeowners Insurers Due to Weak Home Construction Forecast for 2010-2011. Also Affects Commercial Insurers with Construction Risk Exposure, Surety

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (5/10); Insurance Information Institute.
Average Square Footage of Completed New Homes in U.S., 1973-2010:Q1

Average size of completed new homes often falls in recessions (yellow bars), but historically bounces back in expansions.

The trend to building larger homes reversed in 2009, affecting exposure growth beyond the decline in number of units built.

Auto/Light Truck Sales, 1999-2011F

(Millions of Units)

- 2010 forecast revised upwards to 11.8 million units
- “Cash for Clunkers” generated about $300M in net new personal auto premiums in 2009
- New auto/light truck sales fell by nearly 6 million units in 2009 vs. 2007, to the lowest level since the late 1960s.

Car & Truck Sales Are Beginning to Recover but Weak Economy, Credit Woes Are Still Restraining Sales; Gas Prices Could Once Again Become a Factor Too, But Overall Exposure Trend is Becoming More Favorable

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (5/10); Insurance Information Institute.
The unemployment rate appears to be closely correlated with the uninsured motorist percentage. In 2010 roughly 18% of motorists are expected to be driving without insurance as high unemployment prompts some people to drop coverage.

Source: *Uninsured Motorists, 2008 Edition*, Insurance Research Council; Blue Chip Economic Indicators (Unemployment data, including forecasts); Insurance Information Institute.
New Boat Sales Symptomatic of Decline in Insured Exposure Growth for Luxury/Discretionary Items

There were 60,837 business bankruptcies in 2009, up 40% from 2008 and the most since 1993. 2010:Q1 bankruptcies totaled 14,607, up 18% from Q1:2009.

% Change Surrounding Recessions

- 1980-82: 58.6%
- 1980-87: 88.7%
- 1990-91: 10.3%
- 2000-01: 13.0%
- 2006-09: 208.9%*

Source: American Bankruptcy Institute; Insurance Information Institute
Private Sector Business Starts, 1993:Q2 – 2009:Q3*

169,000 businesses started in 2009:Q3, actually declining during form the prior quarter. The figure is the lowest level since 1993.

Business Starts Are Down Nearly 20% in the Current Downturn, Holding Back Most Types of Commercial Insurance Exposure

*Latest available as of June 7, 2010, seasonally adjusted
Net New Business Formations*
1999:Q1-2008:Q4*

In 2008, over 110,000 more businesses disappeared than started.


April 2010: Many banks are maintaining tight loan standards; some are tightening further; virtually no one loosening; Hurts business formation/expansion and commercial exposure

FDIC-Insured Institutions Had $541.1B (-13.1%) Less in Outstanding Loans in These Three Categories at Year-end 2009 vs. 2008, and Even Less at End of 2010:Q1

<table>
<thead>
<tr>
<th>Loan Category</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction and Development Secured by Real Estate</td>
<td>$590.9</td>
<td>$451.5</td>
<td>$417.97</td>
</tr>
<tr>
<td>Commercial and Industrial</td>
<td>$1,494.0</td>
<td>$1,220.8</td>
<td>$1,187.61</td>
</tr>
<tr>
<td>1-4 Family Residential Mortgages</td>
<td>$2,045.2</td>
<td>$1,916.7</td>
<td>$1,887.37</td>
</tr>
</tbody>
</table>

Source: FDIC Quarterly Banking Profile, First Quarter 2010, Table II-A
Investment in Structures is forecast to be down in 2010 and low in 2011. This will hold exposure in many commercial lines down.

Investment in Equipment & Software is forecast to be positive in both 2010 and 2011.

Source: Wells Fargo Securities Economics Group, Monthly Outlook, April 7, 2010
Total Industrial Production

2007:Q1 to 2011:Q4F (%)

Industrial Production is Aided by a Rebuild of Inventories, Gradual Economic Recovery and Stimulus Program (Q2:09 through 2010)

End of Recession in mid-2009, Stimulus Program Are Benefiting Industrial Production and Therefore Insurance Exposure Both Directly and Indirectly, Albeit Very Modestly

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (4/10); Insurance Information Institute
State & Local Government Finances in Dire Straits

Large, Long-Term Cuts Necessary to Align Spending with Shrinking Tax Revenues
Nationwide, state-tax collections for fiscal year 2009 declined by a record $63 billion, or 8.2 percent from the previous year. That loss is roughly twice the amount states gained in fiscal relief from the federal stimulus package.

States Revenues Were Down 4.4% in Q4 2009, the 5th Consecutive Quarter of Revenue Decline. This Will Impact Public Infrastructure Spending Significantly and Related Insurance Exposures and Demand.

Inflation Trends: Concerns Over Stimulus Spending and Monetary Policy

Mounting Pressure on Claim Cost Severities?
Annual Inflation Rates (CPI-U, %), 1990–2011F

Inflation peaked at 5.6% in August 2008 on high energy and commodity crisis. The recession and the collapse of the commodity bubble have reduced inflationary pressures.

**Annual Inflation Rates (%)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>90</td>
<td>4.9</td>
</tr>
<tr>
<td>91</td>
<td>5.1</td>
</tr>
<tr>
<td>92</td>
<td>3.0</td>
</tr>
<tr>
<td>93</td>
<td>3.2</td>
</tr>
<tr>
<td>94</td>
<td>2.4</td>
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<td>95</td>
<td>2.9</td>
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<td>96</td>
<td>2.8</td>
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<td>97</td>
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<td>08</td>
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<tr>
<td>09</td>
<td>2.0</td>
</tr>
<tr>
<td>10F</td>
<td>1.9</td>
</tr>
<tr>
<td>11F</td>
<td>-0.4</td>
</tr>
</tbody>
</table>

There is So Much Slack in the US Economy That Inflation Should Not Be a Concern Through 2010/11, but Depreciation of Dollar is Concern Longer Run.

Forecasts of Annual Inflation Rates (CPI-U, %), 2010–2015F

Even the pessimistic forecasts don’t see the CPI rising much above 3% in the next five years.

Inflation Will Accelerate Modestly through 2015 but Should Is Not Expected to Become a Major Concern or Threat.

P/C Insurers Experience Inflation More Intensely than 2009 CPI Suggests

Healthcare and Legal/Tort Costs Are a Major P/C Insurance Cost Driver. These Are Expected to Increase Above the Overall Inflation Rate (CPI) Indefinitely

Source: CPI is Blue Chip Economic Indicator 2009 estimate, 12/09; Legal services, medical care and motor vehicle body work are avg. monthly year-over-year change from BLS; BI and no-fault figures from ISO Fast Track data for 4 quarters ending 09:Q3. Tort costs is 2009 Towers-Perrin estimate. WC figure is I.I.I. estimate based on historical NCCI data.
WC Insurers Experience Inflation More Intensely than 2009 CPI Suggests

(Percent increase Dec 08 to Dec 09)

Excludes Food and Energy

Inpatient Services Rose 6.7%; Outpatient Services Rose 7.4%

Average annual increase in WC medical severity from 1995 through 2008 was more than twice the medical CPI (8.1% vs. 4.0%). New healthcare reform legislation is unlikely to have any impact on the gap.
Top Concerns/Risks for Insurers if Inflation Is Reignited

<table>
<thead>
<tr>
<th>Concerns</th>
<th>The Federal Reserve Has Flooded Financial System with Cash (Turned on the Printing Presses), the Federal Gov’t Has Approved a $787B Stimulus and the Deficit is Expected to Mushroom to $1.8 Trillion. All Are Potentially Inflationary.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>What are the potential impacts for insurers?</td>
</tr>
<tr>
<td></td>
<td>What can/should insurers do to protect themselves from the risks of inflation?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key Risks</th>
<th>From Sustained/Accelerating Inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Rising Claim Severities</strong></td>
</tr>
<tr>
<td></td>
<td>♦ Cost of claims settlement rises across the board (property and liability)</td>
</tr>
<tr>
<td></td>
<td><strong>Rate Inadequacy</strong></td>
</tr>
<tr>
<td></td>
<td>♦ Rates inadequate due to low trend assumptions arising from use of historical data</td>
</tr>
<tr>
<td></td>
<td><strong>Reserve Inadequacy</strong></td>
</tr>
<tr>
<td></td>
<td>♦ Reserves may develop adversely and become inadequate (deficient)</td>
</tr>
<tr>
<td></td>
<td><strong>Burn Through on Retentions</strong></td>
</tr>
<tr>
<td></td>
<td>♦ Retentions, deductibles burned through more quickly</td>
</tr>
<tr>
<td></td>
<td><strong>Reinsurance Penetration/Exhaustion</strong></td>
</tr>
<tr>
<td></td>
<td>♦ Higher costs burn through their retentions more quickly, tapping into reinsurance more quickly and potentially exhausting their reinsurance more quickly</td>
</tr>
</tbody>
</table>
Tort costs move with inflation but at twice the rate of inflation.

Tort system is an inflation amplifier.


- Tort costs: +8.4%
- Med costs: +5.9%
- Overall inflation: +4.2%

Are there healthcare reform spillover effects?

* CPI-U and medical costs as of Sept 2009; Tort figure is for full-year 2009 from Tillinghast.

Claim Trends in Auto Insurance

Rising Costs Held in Check by Falling Frequency: Can That Pattern Be Sustained?
Bodily Injury: Severity Trends Generally Above Decline in Frequency

Annual Change, 2005 through 2009

Cost Pressures Will Increase if Current BI Frequency and Severity Trends Continue

Source: ISO/PCI Fast Track data; Insurance Information Institute
Property Damage Liability: Frequency and Severity Trends Nearly Offset in 2009

Annual Change, 2005 through 2009

Favorable Severity/Frequency Trends Keeping PD Costs in Check, But Are These Trends Sustainable?

Source: ISO/PCI Fast Track data; Insurance Information Institute
No-Fault (PIP) Liability: Frequency and Severity Trends Are Adverse*

Annual Change, 2005 through 2009

Multiple States Are Experiencing Severe Fraud and Abuse Problems in their No-Fault Systems, Especially FL, MI, NY and NJ

*No-fault states included are: FL, HI, KS, KY, MA, MI, MN, NY, ND and UT.
Source: ISO/PCI Fast Track data; Insurance Information Institute
Collision Coverage: Frequency and Severity Trends Have Been Favorable

Annual Change, 2005 through 2009

The Recession, High Fuel Prices Have Helped Push Down Frequency and Temper Severity, But this Trend Will Likely Be Reversed Based on Evidence from Past Recoveries

Source: ISO/PCI Fast Track data; Insurance Information Institute
Comprehensive Coverage: Frequency and Severity Trends Favorable in 2009

Annual Change, 2005 through 2009

Weather Creates Volatility for Comprehensive Coverage; Recession Has Helped Push Down Frequency and Temper Severity, But This Factors Will Weaken as Economy Recovers

Source: ISO/PCI Fast Track data; Insurance Information Institute
Fraud & Abuse in Private Passenger Auto Insurance

Skyrocketing No-Fault (PIP) Claim Costs Are a Major Concern in Several States
MI, NJ, NY and FL currently are the largest states that have the most severe problems in their no-fault system.

Several States Have Severe and Growing Problems With Rampant Fraud and Abuse in their No-Fault Systems. Claim Severities Are Up Sharply.

Source: ISO/PCI Fast Track data; Insurance Information Institute.
Increase in No-Fault Claim Severity: 2004-2009*

<table>
<thead>
<tr>
<th>State</th>
<th>2004</th>
<th>2009</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Michigan</td>
<td>$24,385</td>
<td>$32,778</td>
<td>+34.4%</td>
</tr>
<tr>
<td>New Jersey</td>
<td>$12,136</td>
<td>$17,198</td>
<td>+41.7%</td>
</tr>
<tr>
<td>New York</td>
<td>$5,871</td>
<td>$8,716</td>
<td>+48.5%</td>
</tr>
<tr>
<td>Florida</td>
<td>$6,674</td>
<td>$7,524</td>
<td>+18.6%*</td>
</tr>
</tbody>
</table>

8.25% annual average compound growth rate

The no-fault systems in MI, NJ, NY and FL are under stress due to rising fraud and abuse which will ultimately lead to higher premiums for drivers.

*2009 figure is for the 4 quarters ending 2009:Q4.
**Since 2006 the increase in Florida was 17.3% (average severity that year was $6,344).
Sources: Insurance Information Institute research from ISO/PCI Fast Track data.
Critical Differences Between P/C Insurers and Banks

Superior Risk Management Model and Low Leverage Make a Big Difference
How P/C Insurance Industry Stability Has Benefitted Consumers

Bottom Line:

- Insurance markets – unlike banking – are operating *normally*
- The basic function of insurance – the orderly transfer of risk from client to insurer – *continues uninterrupted*
- This means that insurers continue to:
  - Pay claims (whereas 246 banks have gone under as of 5/28/10) – *The promise is being fulfilled*
  - Renew existing policies (*banks are reducing and eliminating lines of credit*)
  - Write new policies (*banks are turning away people and businesses who want or need to borrow*)
  - Develop new products (*banks are scaling back the products they offer*)
  - Compete intensively (*banks are consolidating, reducing consumer choice*)

Source: Insurance Information Institute
Reasons Why P/C Insurers Have Fewer Problems Than Banks

A Superior Risk Management Model

- **Emphasis on Underwriting**
  - Matching of risk to price (via experience and modeling)
  - Limiting of potential loss exposure
  - *Some banks sought to maximize volume and fees and disregarded risk*

- **Strong Relationship Between Underwriting and Risk Bearing**
  - Insurers always maintain a stake in the business they underwrite, keeping “skin in the game” at all times
  - *Banks and investment banks package up and securitize, severing the link between risk underwriting and risk bearing, with (predictably) disastrous consequences – straightforward moral hazard problem from Econ 101*

- **Low Leverage**
  - Insurers do not rely on borrowed money to underwrite insurance or pay claims → *There is no credit or liquidity crisis in the insurance industry*

- **Conservative Investment Philosophy**
  - High quality portfolio that is relatively less volatile and more liquid

- **Comprehensive Regulation of Insurance Operations**
  - The business of insurance remained comprehensively regulated whereas a separate banking system had evolved largely outside the auspices and understanding of regulators (e.g., hedge funds, private equity, complex securitized instruments, credit derivatives – CDS’s)

- **Greater Transparency**
  - Insurance companies are an open book to regulators and the public

Source: Insurance Information Institute
Obama Administration Proposal to Scale Back Terrorism Risk Insurance Program

5 Administration’s Budget Proposal for FY 2011:

- Includes proposal to scale back federal support for terrorism risk insurance program
- Proposal projects savings of $249 million from 2011-2020
- Administration’s justification is that this would “encourage the private sector to better mitigate terrorism risk through other means, such as developing alternative reinsurance options and building safer buildings.”

Key Concerns Among Industry Observers Over Proposed Reduction in Federal Support

- Suggestion of changes to law would have detrimental effect on availability and affordability of terrorism insurance
- A 2009 Aon study estimated some 70-80 percent of the commercial property insurance market would revert to absolute exclusions for terrorism, if TRIA is changed.

Source: Budget of the U.S. Government Fiscal Year 2011
### Reasons Why Concerns Are Mounting in 2010

- Perception (Reality) that U.S. vulnerability is rising
- Thwarted Christmas Day attack by “underwear bomber”
  - And new bin Laden tape claiming al Qaeda is responsible
- Foiled NYC Subway Bomber Plot (Zazi case)
- *Failed Times Square Car Bombing on May 1*
- Trials of Guantanamo 9/11 suspects in Manhattan Court (?)
- U.K. in January Raised Terror Alert Status to 2nd Highest Level
- Increased anti-terror efforts, including full-body scans
- Effort by government to appear more vigilant, prepared
- Rise of groups such as al Qaeda in the Arabian Peninsula
- U.S. military surge in Afghanistan operations
- Most buyers/producers haven’t thought about coverage recently
- **Obama Administration’s Intent to Reduce Support for TRIA**
2010 Property and Casualty Insurance Report Card

Source: Heartland Institute, May 2010

Not Graded: District of Columbia
Mississippi
Louisiana
Shifting Legal Liability & Tort Environment

Is the Tort Pendulum Swinging Against Insurers?
Important Issues & Threats Facing Insurers: 2010–2015

Emerging Tort Threat

- No tort reform (or protection of recent reforms) is forthcoming from the current Congress or Administration
- Erosion of recent reforms is a certainty (already happening)
- Innumerable legislative initiatives will create opportunities to undermine existing reforms and develop new theories and channels of liability
- Torts twice the overall rate of inflation
- Influence personal and commercial lines, esp. auto liability
- Historically *extremely* costly to p/c insurance industry
- Leads to reserve deficiency, rate pressure

*Bottom Line: Tort “crisis” is on the horizon and will be recognized as such by 2012–2014*

Source: Insurance Information Institute
Over the Last Three Decades, Total Tort Costs* as a % of GDP Appear Somewhat Cyclical

$300 2.50%
$250 2.25%
$200 2.00%
$150 1.75%
$100 1.50%
$50 1.25%
$0 1.00%

Tort System Costs
Tort Costs as % of GDP

2009–2010 Growth in Tort Costs as % of GDP is Due in Part to Shrinking GDP

* Excludes the tobacco settlement, medical malpractice
Sources: Tillinghast-Towers Perrin, 2008 Update on US Tort Cost Trends, Appendix 1A; I.I.I. calculations/estimates for 2009 and 2010
The Nation’s Judicial Hellholes: 2010

Watch List
- California
- Alabama
- Madison County, IL
- Jefferson County, MS
- Texas Gulf Coast
- Rio Grande Valley, TX

Dishonorable Mention
- AR Supreme Court
- MN Supreme Court
- ND Supreme Court
- PA Governor
- MA Supreme Judicial Court
- Sacramento County

Source: American Tort Reform Association; Insurance Information Institute
Average Jury Awards 1999 - 2008

Source: Jury Verdict Research; Insurance Information Institute.

*Award trends in wrongful deaths of adult males.
Source: Jury Verdict Research; Insurance Information Institute.
Sum of Top 10 Jury Awards 2004-2009

Financial Strength & Ratings

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

Source: A.M. Best; Insurance Information Institute.
2009 estimated impairment rate rose to 0.36% up from a near record low of 0.23% in 2008 and the 0.17% record low in 2007; Rate is still less than one-half the 0.79% average since 1969

*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
Despite financial market turmoil and a soft market in 2009, 76% of ratings actions by A.M. Best were affirmations; just 2.9% were downgrades and 3.2% were upgrades.

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.

P/C Insurance Financial Performance

A Resilient Industry in Challenging Times
Profitability

Historically Volatile
P/C Industry profits for full-year 2009 were up sharply from 2008, but are still well below pre-crisis levels.

* ROE figures are GAAP; †Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 7.3% ROAS for 2009 and 4.4% for 2008. 2009 net income was $34.5 billion and $20.8 billion in 2008 excluding M&FG.

Sources: A.M. Best, ISO, Insurance Information Institute
P/C Profitability is Cyclical and Volatile

Sources: ISO, Fortune; Insurance Information Institute.

The P/C Insurance Industry Fell Well Short of Its Cost of Capital in 2008/09

US P/C Insurers Missed Their Cost of Capital by an Average 6.7 Points from 1991 to 2002, but On Target or Better 2003-07, but Fell Well Short in 2008/09

The Cost of Capital is the Rate of Return Insurers Need to Attract and Retain Capital to the Business

Median ROE for Insurers vs. Financial Firms & Other Key Industries 2009

(Profits as a % of Stockholders’ Equity)

Stock P/C insurers earned a 7% ROE in 2009, below the 10.5% earned by the Fortune 500 as a whole and well below health insurers’ 14%. P/C Mutuals’ average ROE was 3.5%.

Commercial bank ROE was 4% in 2009.

A 100 Combined Ratio Isn’t What It Once Was: 90-95 is Where It’s At Now

Combined Ratio / ROE

Combined ratio of about 100 generated a 6% ROE in 2009, 10% in 2005 and 16% in 1979

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

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

(Percent)

1975-78 1984-87 2000-03

15% 20% 10%

Good News
P/C insurance industry should see positive growth in 2011 for the first time since 2006

Net Written Premiums Fell 0.7% in 2007 (First Decline Since 1943) by 2.0% in 2008, and 3.7% in 2009, the First 3-Year Decline Since 1930-33 During the Great Depression. Expected decline of 1.6% in 2010.

Shaded areas denote “hard market” periods
Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute
Average Expenditures on Auto Insurance

Countrywide Auto Insurance Expenditures Increased 2.6% in 2008 and 3.5% Pace in 2009 (est.) and 4% in 2010 (est.)

* Insurance Information Institute Estimates_FOREcasts
Source: NAIC, Insurance Information Institute estimates 2008-2010 based on CPI data.
Auto Insurance Price Increases Seem to Have Leveled Off in Recent Months, Averaging 4.5% for All of 2009

* Percentage change from same month in prior year.

Average Premium for Home Insurance Policies**

* Insurance Information Institute Estimates/Forecasts  **Excludes state-run insurers.
Source: NAIC, Insurance Information Institute estimates 2008-2010 based on CPI data.
Average Commercial Rate Change, All Lines, (1Q:2004–1Q:2010)

(Percent)

Source: Council of Insurance Agents & Brokers; Insurance Information Institute
Change in Commercial Rate Renewals, by Line: 2010:Q1

Percentage Change (%)

Most Major Commercial Lines Renewed Down in Q1:2010 by Roughly the Same Margin as a Year Earlier

Source: Council of Insurance Agents and Brokers; Insurance Information Institute.
Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2010:Q1

Percentage Change (%)

Peak = 2004:Q4 +28.5%

Market has Been Soft for 6 years and Remains Soft as Capital is Restored and Underwriting Losses Fall

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

KRW Effect

Trough = 2007:Q3 -13.6%

Source: Council of Insurance Agents and Brokers; Insurance Information Institute.
Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2010:Q1

1999:Q4 = 100

Pricing today is where it was in Q4:2000 (pre-9/11)

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

Barriers to Consolidation Will Diminish in 2010

$ Value of Deals Down 78% in 2009, Volume Up 7%

2010: No Mega Deals So Far, Despite Record Capital, Slow Growth and Improved Financial Market Conditions

Note: U.S. Company was the acquirer and/or target.
Source: Conning Research & Consulting.
Capital/Policyholder Surplus (US)

Shrinkage, but Not Enough to Trigger Hard Market
US Policyholder Surplus: 1975–2009*

Surplus as of 12/31/09 was $511.5B, up from $437.1B as of 3/31/09. Recent peak was $521.8B as of 9/30/07. Surplus as of 12/31/09 is now only 2.0% below 2007 peak; Crisis trough was as of 3/31/09→16.2% below 2007 peak.

"Surplus" is a measure of underwriting capacity. It is analogous to "Owners Equity" or "Net Worth" in non-insurance organizations.

The Premium-to-Surplus Ratio Stood at $0.82:$1 as of 12/31/09, A Record Low (at Least in Recent History)

* As of 9/30/09

Policyholder Surplus, 2006:Q4–2009:Q4

Capacity Peaked at $521.8 as of 9/30/07

Capacity as of 12/31/09 was just 2.0% below the 2007 peak and will likely set a new record in 2010

Declines Since 2007:Q3 Peak

08:Q2: -$16.6B (-3.2%) 08:Q3: -$43.3B (-8.3%) 08:Q4: -$66.2B (-12.9%)
09:Q1: -$84.7B (-16.2%) 09:Q2: -$58.8B (-11.2%) 09:Q3: -$31.8B (-5.9%) 09:Q4: -$2.5B (-0.5%)

Source: ISO, AM Best.
Global Reinsurance Capacity Shrank in 2008, Mostly Due to Investments

Global Reinsurance Capacity

Source of Decline

- Realized Capital Losses: 31%
- Change in Unrealized Capital Losses: 55%
- Hurricanes: 14%

Global Reinsurance Capacity Fell by an Estimated 17% in 2008

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

The Financial Crisis at its Peak Ranks as the Largest “Capital Event” Over the Past 20+ Years

- 6/30/1989 Hurricane Hugo 3.3%
- 6/30/1992 Hurricane Andrew 9.6%
- 12/31/93 Northridge Earthquake 6.9%
- 6/30/01 Sept. 11 Attacks 10.9%
- 6/30/04 Florida Hurricanes 6.2%
- 6/30/05 Hurricane Katrina 13.8%
- Financial Crisis as of 3/31/09** 16.2%
Historically, Hard Markets Follow When Surplus “Growth” is Negative*

Surplus growth is now positive but premiums continue to fall, a departure from the historical pattern.

Sharp Decline in Capacity is a Necessary but Not Sufficient Condition for a True Hard Market

* 2009 NWP and Surplus figures are % changes as of Q4:09 vs Q4:08

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

Investments Are a Principle Source of Declining Profitability
Investment Gains Fell by 50% In 2008 Due to Lower Yields, Poor Equity Market Conditions. In 2009, the Lower Realized Capital Losses Helped Offset Lower Investment Income

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.
P/C Insurer Net Realized Capital Gains, 1990-2009

Realized Capital Losses Hit a Record $19.8 Billion in 2008 Due to Financial Market Turmoil, a $27.7 Billion Swing From 2007, Followed by an $8.0B Drop in 2009. This is a Primary Cause of 2008/2009’s Large Drop in Profits and ROE

Sources: A.M. Best, ISO, Insurance Information Institute.
Treasury Yield Curves: Pre-Crisis (July 2007) vs. May 2010*

Treasury yield curve is near its most depressed level in at least 45 years. Investment income is falling as a result of this. Investment income is falling as a result of this.

Stock Dividend Cuts Have Further Pressured Investment Income

*Week ending May 24, 2010.
Sources: Board of Governors of the United States Federal Reserve Bank; 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.
Distribution of P/C Insurance Industry’s Investment Portfolio

Portfolio Facts

- Invested assets totaled $1.214 trillion as of 12/31/08
- Insurers are generally conservatively invested, with more than 2/3 of assets invested in bonds as of 12/31/08
- Only about 15% of assets were invested in common stock as of 12/31/08
- Even the most conservative of portfolios was hit hard in 2008

Sources: NAIC; Insurance Information Institute research.
Underwriting Trends – Financial Crisis Does Not Directly Impact Underwriting Performance: Cycle, Catastrophes Were 2008’s Drivers
As Recently as 2001, Insurers Paid Out Nearly $1.16 for Every $1 in Earned Premiums

2005 Ratio Benefited from Heavy Use of Reinsurance Which Lowered Net Losses

Best Combined Ratio Since 1949 (87.6)

Relatively Low CAT Losses, Reserve Releases

Cyclical Deterioration

<table>
<thead>
<tr>
<th>Year</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>115.8</td>
</tr>
<tr>
<td>2002</td>
<td>107.5</td>
</tr>
<tr>
<td>2003</td>
<td>100.1</td>
</tr>
<tr>
<td>2004</td>
<td>98.4</td>
</tr>
<tr>
<td>2005</td>
<td>100.8</td>
</tr>
<tr>
<td>2006</td>
<td>92.6</td>
</tr>
<tr>
<td>2007</td>
<td>95.7</td>
</tr>
<tr>
<td>2008</td>
<td>101.0</td>
</tr>
<tr>
<td>2009</td>
<td>99.3</td>
</tr>
</tbody>
</table>


Sources: A.M. Best, ISO.
Large Underwriting Losses Are NOT Sustainable in Current Investment Environment

* Includes mortgage and financial guarantee insurers.
Sources: A.M. Best, ISO; Insurance Information Institute.
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

Accident Year Results Show a More Significant Deterioration in Underwriting Performance. Calendar Year Results Are Helped by Reserve Releases

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.
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

* 2000 through 2009. 2009 combined ratio excluding mortgage and financial guaranty insurers was 99.3, which would bring the 2000s total to 4 years with an underwriting profit.

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

Sources: Insurance Information Institute research from A.M. Best Data.
Performance by Segment: Commercial/Personal Lines & Reinsurance
Personal lines combined ratio is expected to improve in 2010 while commercial lines and reinsurance deteriorate.

Overall deterioration in 2010 underwriting performance is due to expected return to normal catastrophe activity along with deteriorating underwriting performance related to the prolonged commercial soft market.

Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute.
CY commercial lines combined ratios are lower than AY due to reserve releases.

The ability of reserves releases to favorably impact calendar year results will diminish over time reserved redundancies fall.

*Normalized to reflect average/typical level of catastrophe losses.
Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute.
After-Tax Return on Surplus (ROE) by Segment: 2008-2010P

Personal lines ROEs should improve in 2010 and remain flat in commercial lines and reinsurance.

Profitability will rise or stabilize across most p/c lines, barring a financial crisis relapse or major catastrophic losses.

Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute.
Change in Policyholder Surplus by Segment: 2008-2010P

After a steep decline in capacity during the crisis, most of that capacity was restored in 2009. Virtually is expected to be restored in 2010.

Rapid growth in policyholder surplus to pre-crisis levels combined with ongoing slow growth or declines in premiums (esp. in commercial lines) implies a build-up of excess capacity—a major factor in weak commercial lines and reinsurance pricing.

Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute.
Net Written Premium Growth by Segment: 2008-2010P

Personal lines will return to growth in 2010 while commercial lines and reinsurance are expected to continue to shrink.

Rate and exposure are more favorable in personal lines, whereas a prolonged soft market and sluggish recovery from the recession weigh on commercial lines. Low catastrophe losses and ample capacity are holding down reinsurance prices while higher insurer retentions impact premiums.

Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute.
Net investment income is expected to begin to recover in all segments in 2010.

Investment income consists primarily of interest on bonds and stock dividends. Both were hit hard during the financial crisis as the Fed slashed interest rates to near zero and corporations cut dividends. A recovery in investment asset values beginning in Q2 2009—which reduced realized capital losses—has helped offset some of the decrease in investment income.

Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute.
Investment Yield by Segment: 2008-2010P*

Investment yields are shrinking across all segments—down 10 to 100 basis points since 2008.

The Fed slashed interest rates in 2008 and has kept them low since, eroding the yield on all types of bonds, especially US Treasury securities. Yields will not recover until the Fed begins monetary policy tightening.

Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute.
Homeowners Line Is Expected to Be Marginally Profitable Overall in 2010, but in Many States Could Be Quite Profitable. Volatility Due to Catastrophe Losses Will Persist.

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

Private Passenger Auto Accounts for 34% of Industry Premiums and Remains the Profit Juggernaut of the P/C Insurance Industry

Sources: A.M. Best; Insurance Information Institute.
Commercial Multi-Peril is Expected to Continue to Perform Reasonably Well

*2009E and 2010P figures are for the combined liability and non-liability components. Sources: A.M. Best; Insurance Information Institute.
Commercial Auto is Expected to Remain Reasonably Profitable in 2010

Sources: A.M. Best; Insurance Information Institute.
Inland Marine is Expected to Remain Among the Most Profitable of All Lines

Sources: A.M. Best; Insurance Information Institute.
Workers Compensation Combined Ratio: 1994–2010P

Workers Comp Underwriting Results Are Deteriorating Markedly

Sources: A.M. Best; Insurance Information Institute.
Catastrophic Loss – Catastrophe Losses Trends Are Trending Adversely
The 12 Jan. Haiti earthquake killed 225,500 people, caused $8B+ in economic damage, but little in the way of insured losses.

Chilean earthquake (mag. 8.8) on 27 Feb. produced at least $4 billion in insured losses, $20 billion in economic losses. Most costly insurance event in 2010.

Severe winter weather in the Eastern US produced insured losses of at least $1B in insured losses and $2B in economic losses.

Winter Storm Xynthia produced at least $2B in insured losses and $4B in economic losses.

Global natural catastrophes

Selection of significant natural catastrophes (see table)

Geophysical events (earthquake, tsunami, volcanic activity)

Meteorological events (storm)

Hydrological events (flood, mass movement)

Climatological events (extreme temperature, drought, wildfire)
## Natural Catastrophes: January – March 2010

### Selection of Significant Events

<table>
<thead>
<tr>
<th>No.</th>
<th>Period</th>
<th>Event</th>
<th>Affected Area</th>
<th>Overall losses*</th>
<th>Insured losses*</th>
<th>Fatalities*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>US$ m, original values</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>7–12 January</td>
<td>Winter damage, cold wave</td>
<td>United States: Midwest (MO, IA); South (AR, LA, OK, TX); Southeast (FL, AL, GA, MS, NC, SC, TN)</td>
<td>800</td>
<td>160</td>
<td>5</td>
</tr>
<tr>
<td>2</td>
<td>12 January</td>
<td>Earthquake</td>
<td>Haiti: South (esp. Port-au-Prince)</td>
<td>&gt;8,000</td>
<td>222,500</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>18–22 January</td>
<td>Severe storms</td>
<td>United States: Southwest (CA, AZ, UT)</td>
<td>180</td>
<td>120</td>
<td>20</td>
</tr>
<tr>
<td>4</td>
<td>4–6 February</td>
<td>Winter storm, blizzards</td>
<td>United States: Northeast (DC, DE, MD, NJ, PA); Southeast (NC, VA, WV)</td>
<td>180</td>
<td>135</td>
<td>2</td>
</tr>
<tr>
<td>5</td>
<td>9–14 February</td>
<td>Winter storm, blizzards, winter damage</td>
<td>United States: Canada</td>
<td>800</td>
<td>560</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>26–28 February</td>
<td>Winter storm Xynthia, storm surge</td>
<td>Belgium, France, Germany, Netherlands, Portugal, Spain, Switzerland, United Kingdom</td>
<td>4,500</td>
<td>&gt;2,000</td>
<td>63</td>
</tr>
<tr>
<td>7</td>
<td>27 February</td>
<td>Earthquake, tsunami</td>
<td>Chile: Central; South</td>
<td>&gt;20,000</td>
<td>&gt;4,000</td>
<td>507</td>
</tr>
<tr>
<td>8</td>
<td>6–7 March</td>
<td>Hailstorm, severe storms</td>
<td>Australia: Southeast (Victoria)</td>
<td>1,200</td>
<td>780</td>
<td></td>
</tr>
</tbody>
</table>

*Preliminary figures

---

**First Quarter 2010 Insured Major Catastrophe Losses Were Among the Highest on Record for Q1, Totaling at least $7.755 Billion. Economic Losses Total at Least $35.66. More than 223,000 People Were Killed in These Events.**

© 2010 Münchener Rückversicherungs-Gesellschaft, Geo Risks Research, NatCatSERVICE – As at 29 March 2010
On April 20, 2010, an explosion and fire occurred on the offshore drilling rig Deepwater Horizon, which had been drilling an exploratory well in approx. 5,000 ft of water in the Gulf of Mexico, 52 miles SE of Venice, Louisiana. The platform subsequently sank, with 11 crewmembers presumed dead, and the uncompleted well leaking oil.

Sources: Energy Information Administration
Announced Deepwater Horizon Insured Losses

Insured losses are well-syndicated and spread across a broad range of global insurers and reinsurers.

*Lloyd’s estimates net loss to the market of $300 million to $600 million. Includes estimate across all Lloyd’s syndicates. Those syndicates that have reported losses individually are also shown in this chart and included in the Lloyd’s total.

**Munich Re expects low triple digit million euro loss

***Hanover Re expects a Eur40 million loss ****Hiscox expects net claims of below GBP10 million ($14.8 million)

Source: Insurance Information Institute (I.I.I.); Company disclosures, SNL Financial Citi research note 05/04/10; Barclays Capital research note 05/10/10
US Insured Catastrophe Losses

2000s: A Decade of Disaster
2000s: $193B (up 117%)
1990s: $89B

2005 Was by Far the Worst Year Ever for Insured Catastrophe Losses in the Decade of the 2000s Were More than Double the 1990s,
But the Worst Has Yet to Come

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.
Global natural catastrophe loss trends are ominous and portend an even more disastrous decade ahead. Terrorism and other man-made disasters could exacerbate the trend.

Source: Munich Re NatCatSERVICE; Insurance Information Institute.
There were 7 Significant Natural Catastrophes in the United States in 2009.
Florida Accounted for 19% of All US Insured CAT Losses from 1980-2008: $57.1B out of $297.9B

* All figures (except 2006-2008 loss) have been adjusted to 2005 dollars.
Source: PCS division of ISO.
Top 12 Most Costly Disasters in US History

(Insured Losses, 2009, $ Billions)

Hurricane Katrina Remains, By Far, the Most Expensive Insurance Event in US and World History

8 of the 12 Most Expensive Disasters in US History Have Occurred Since 2004;
8 of the Top 12 Disasters Affected FL

Sources: PCS; Insurance Information Institute inflation adjustments.
Total Value of Insured Coastal Exposure

(2007, $ Billions)

- Florida: $2,458.6
- New York: $2,378.9
- Texas: $895.1
- Massachusetts: $772.8
- New Jersey: $635.5
- Connecticut: $479.9
- Louisiana: $224.4
- S. Carolina: $191.9
- Virginia: $158.8
- Maine: $146.9
- North Carolina: $132.8
- Alabama: $92.5
- Georgia: $85.6
- Delaware: $60.6
- New Hampshire: $55.7
- Mississippi: $51.8
- Rhode Island: $54.1
- Maryland: $14.9

$522B Increase Since 2004, Up 27%

In 2007, Florida Still Ranked as the #1 Most Exposed State to Hurricane Loss, with $2.459 Trillion Exposure, an Increase of $522B or 27% from $1.937 Trillion in 2004

The Insured Value of All Coastal Property Was $8.9 Trillion in 2007, Up 24% from $7.2 Trillion in 2004

Source: AIR Worldwide
In the 19-year Period Between 1990 and 2008, Total Exposure to Loss in the Residual Market (FAIR & Beach/Windstorm) Plans Has Surged from $54.7B in 1990 to $696.4B in 2008

Source: PIPSO; Insurance Information Institute
Thank you for your time and your attention!

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