

Property/Casualty Insurance Update

2006 — A Profitability Peak for the Industry?

Dr L James Valverde, Jr
Vice President, Economics & Risk Management
Insurance Information Institute
110 William Street
New York, NY 10038
Tel: (212) 346-5520
Fax: (212) 732-1916
jamesv@iii.org www.iii.org

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New York City**

January 9, 2007



Presentation Outline

- **P/C Insurance Financial Overview**
 - Profitability
 - Wall Street Perspective
 - Underwriting Performance
 - Investment Performance
- **Catastrophe Review & Outlook**



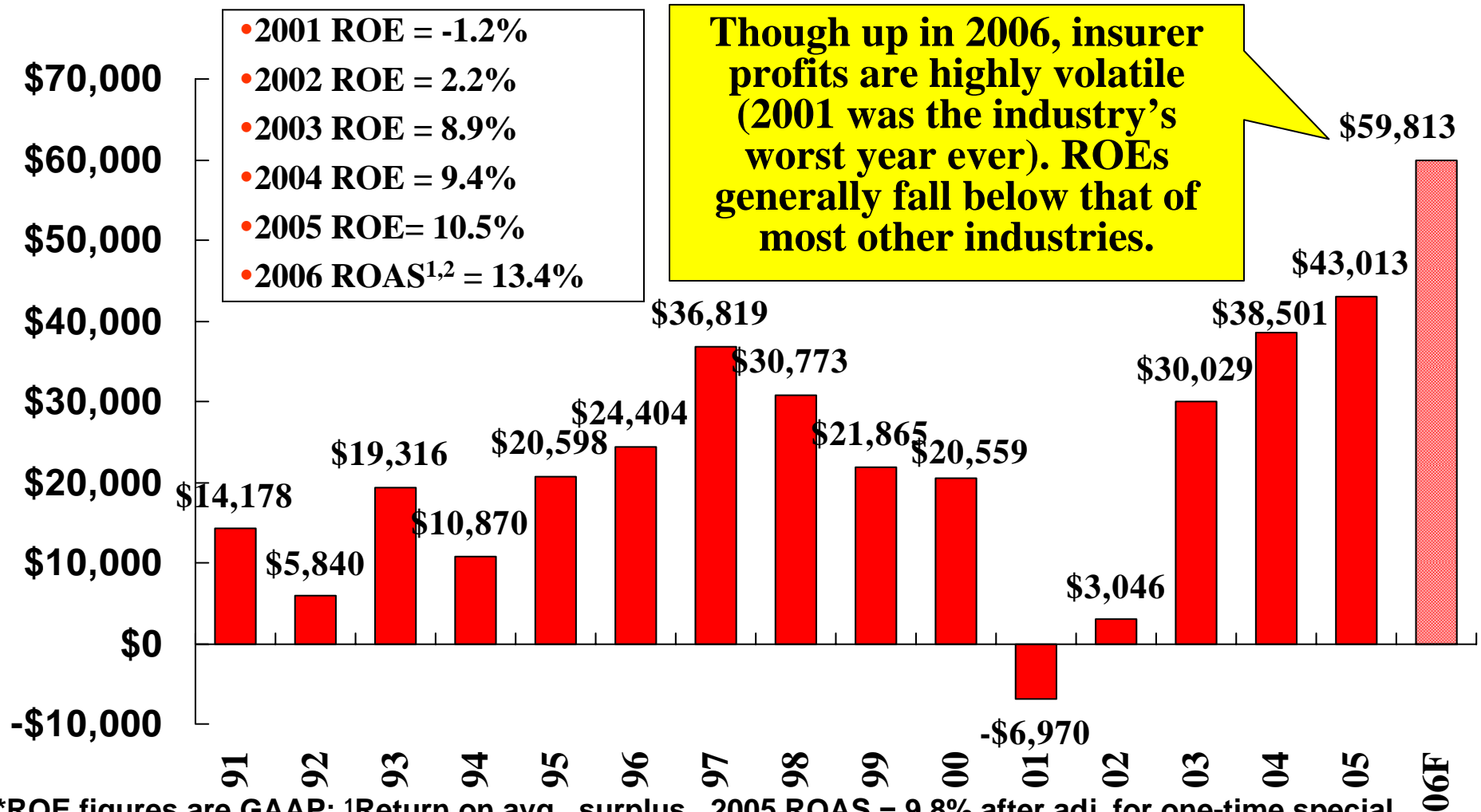
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2006 P/C FINANCIAL OVERVIEW

Profitability: Peak Performance



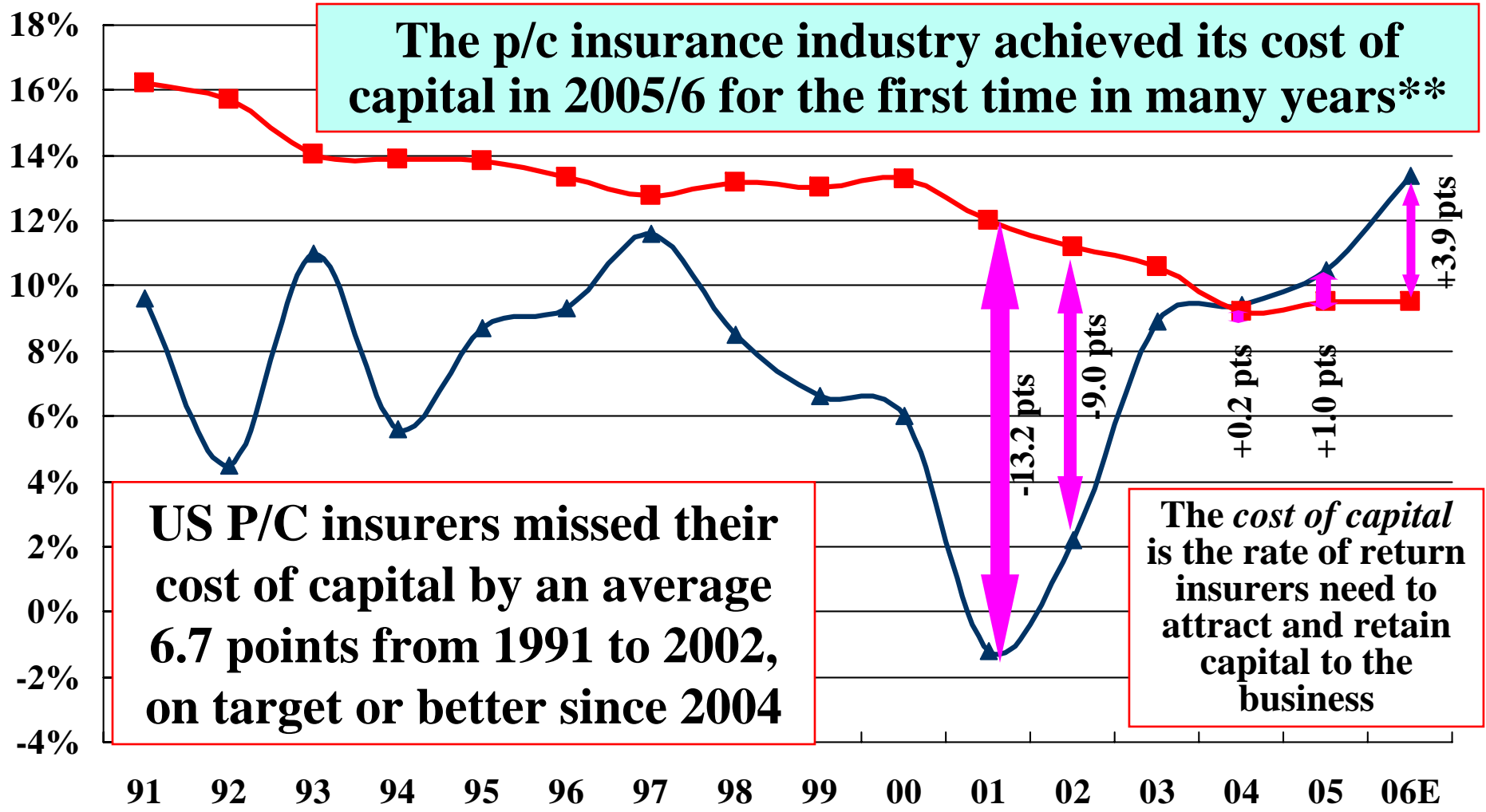
P/C Net Income After Taxes: 1991-2006E (\$ Millions)*



*ROE figures are GAAP; ¹Return on avg. surplus. 2005 ROAS = 9.8% after adj. for one-time special dividend paid by the investment subsidiary of one company. ²Based on 9-month results; Sources: A.M. Best, ISO, Insurance Information Inst.



ROE vs. Equity Cost of Capital: US P/C Insurance: 1991-2006E



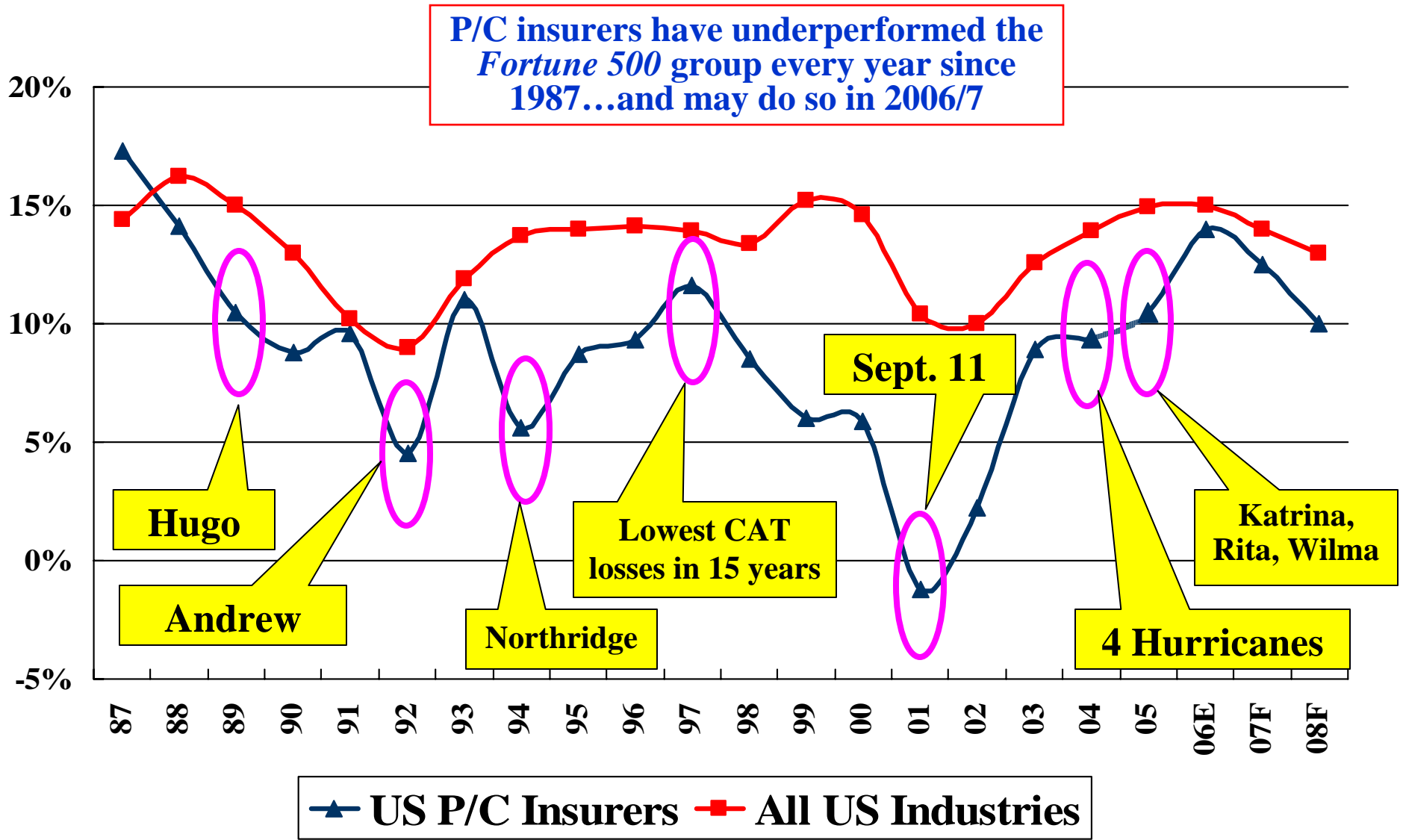
*Based on 2006:9M ROAS of 13.4%

Source: The Geneva Association, Ins. Information Inst.

—▲— ROE —■— Cost of Capital



ROE: P/C vs. All Industries 1987–2008E



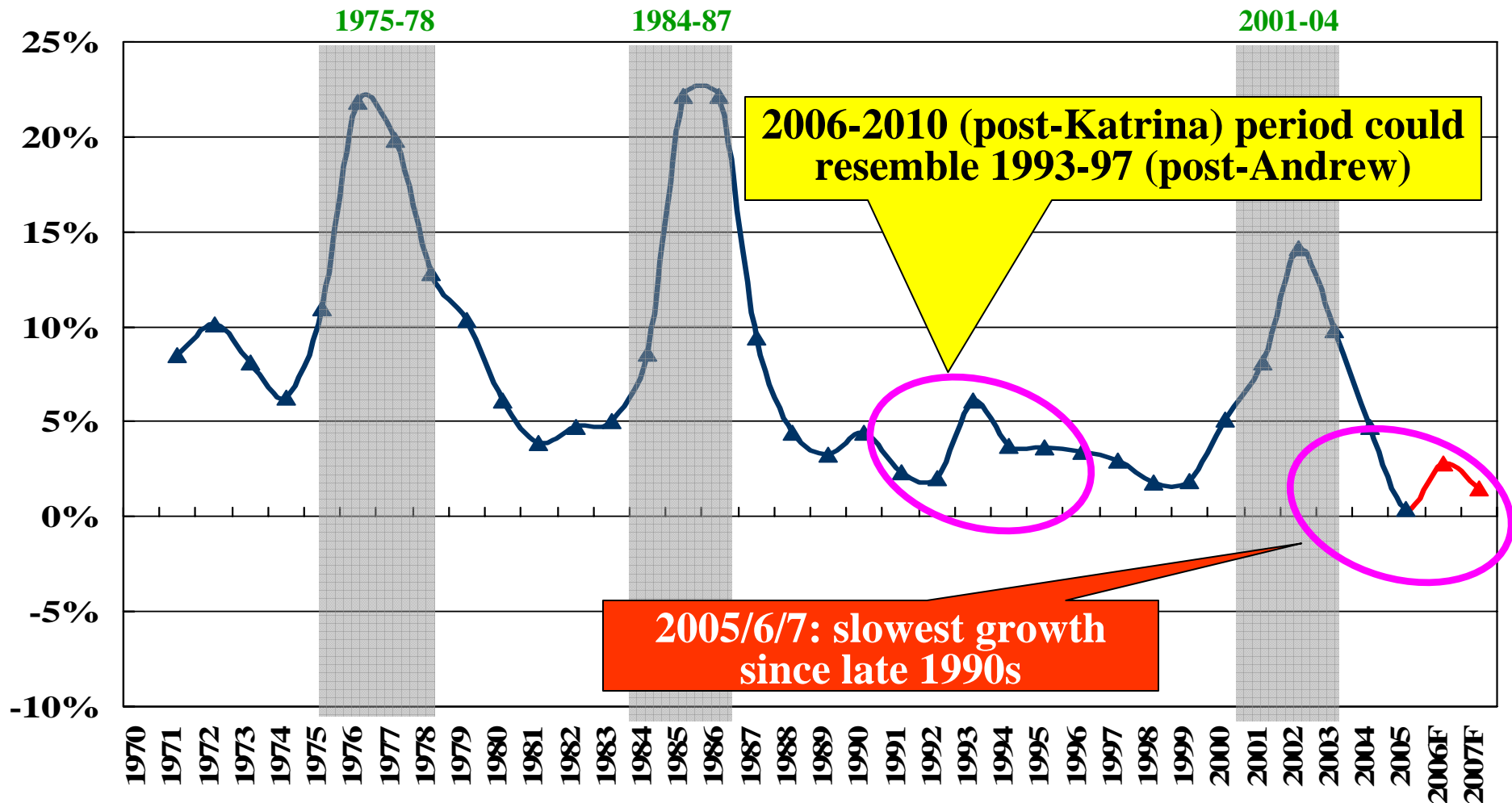
*2006-8 P/C insurer ROEs are I.I.I. estimates.

Source: Insurance Information Institute; *Fortune*



Strength of Recent Hard Markets by NWP Growth*

Growth in Net Written Premiums

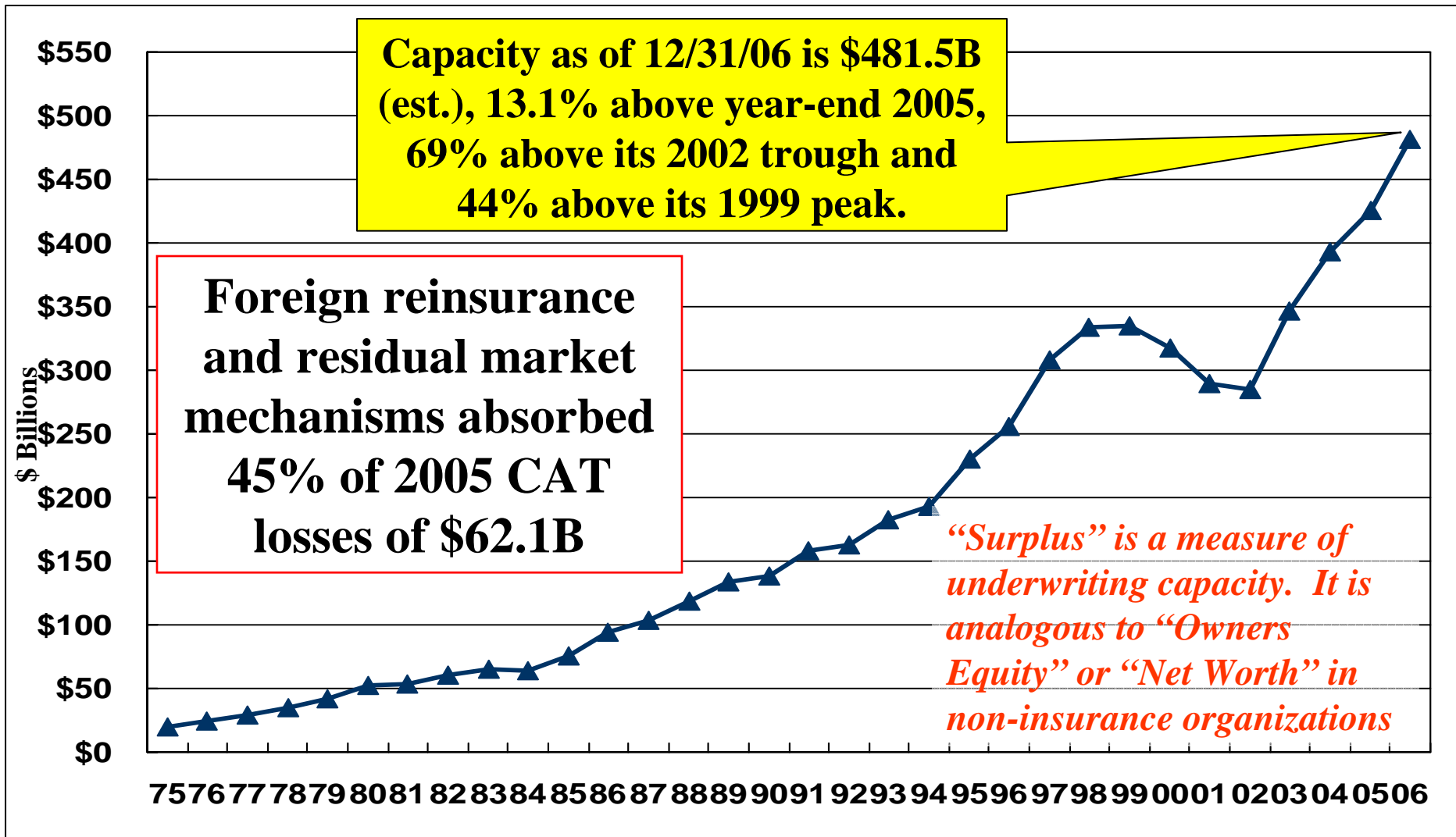


Note: Shaded areas denote hard market periods.
Source: A.M. Best, Insurance Information Institute

*2006-10 figures are III forecasts/estimates. 2005 growth of 0.4% equates to 1.8% after adjustment for a special one-time transaction between one company and its foreign parent. 2006 figure of 2.8% is based on III Early Bird Survey, Dec. 2006.



U.S. Policyholder Surplus: 1975-2006E*



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

*III Estimate.



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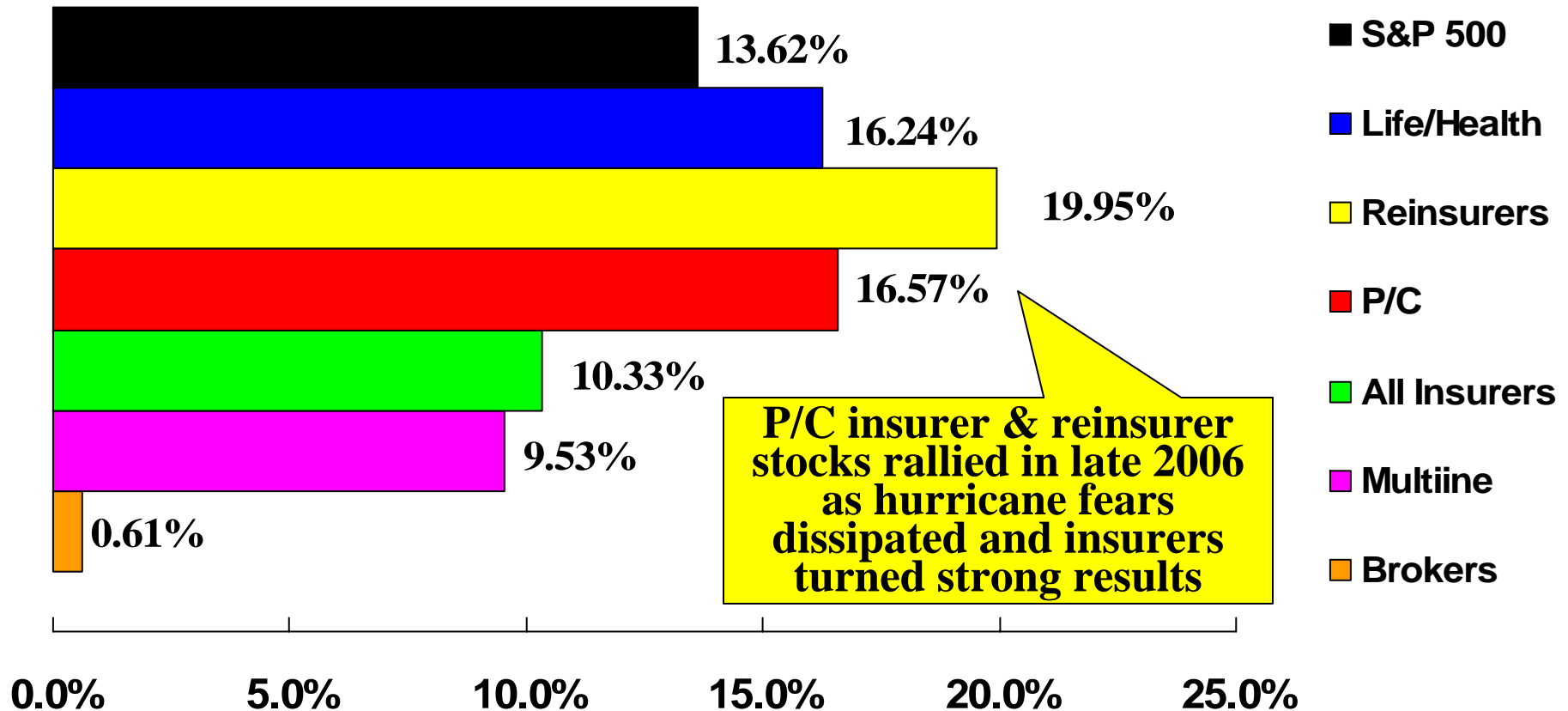
WALL STREET PERSPECTIVE

Maintaining Investor Confidence is Critical



P/C Insurance Stocks: Strong Finish in 2006

Total YTD Returns Through December 31, 2006



Source: SNL Securities, Standard & Poor's, Insurance Information Institute



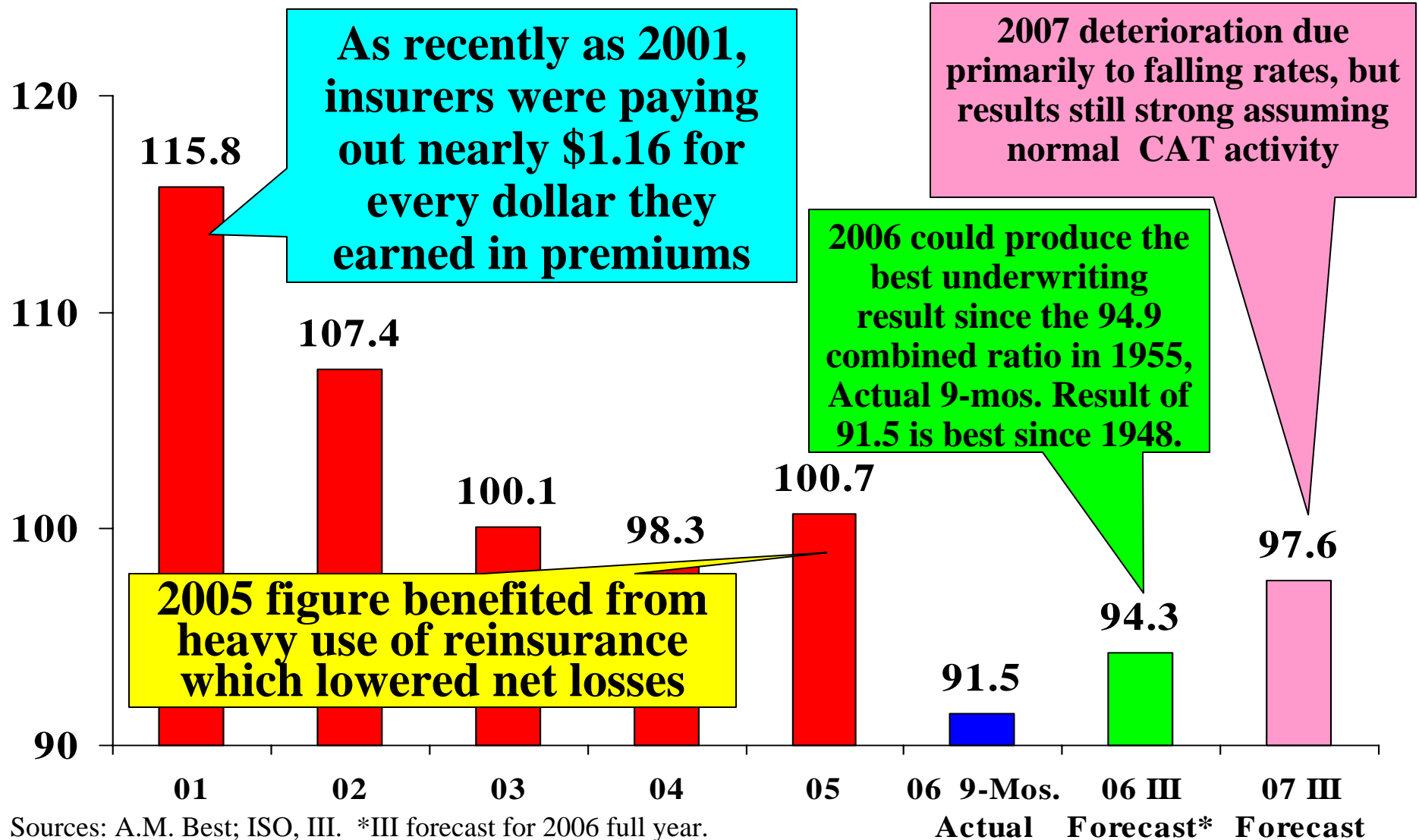
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UNDERWRITING PERFORMANCE

Best Performance in a Generation (or Two)

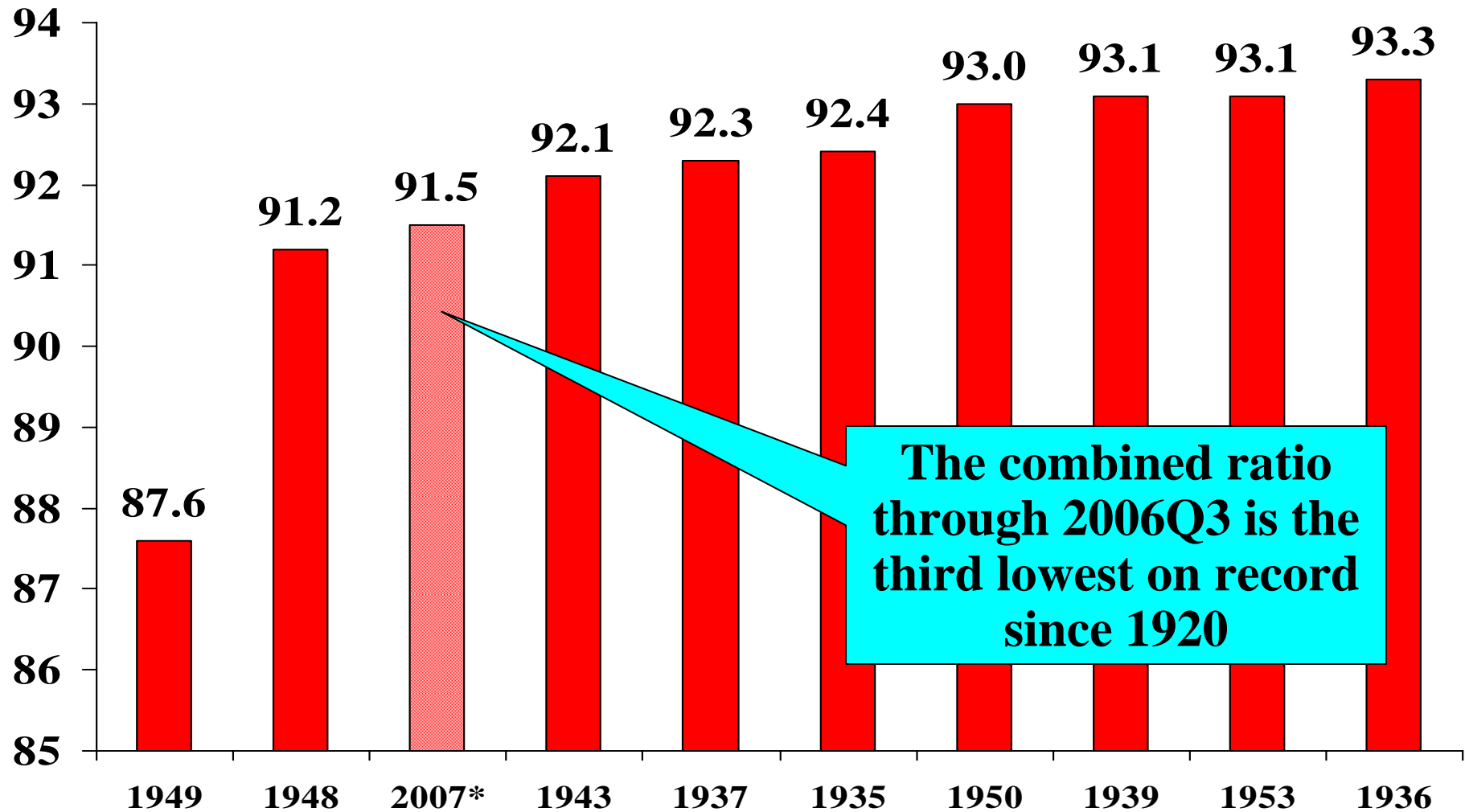


P/C Industry Combined Ratio





Ten Lowest P/C Insurance Combined Ratios Since 1920



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

*ISO figure through September 30, 2006



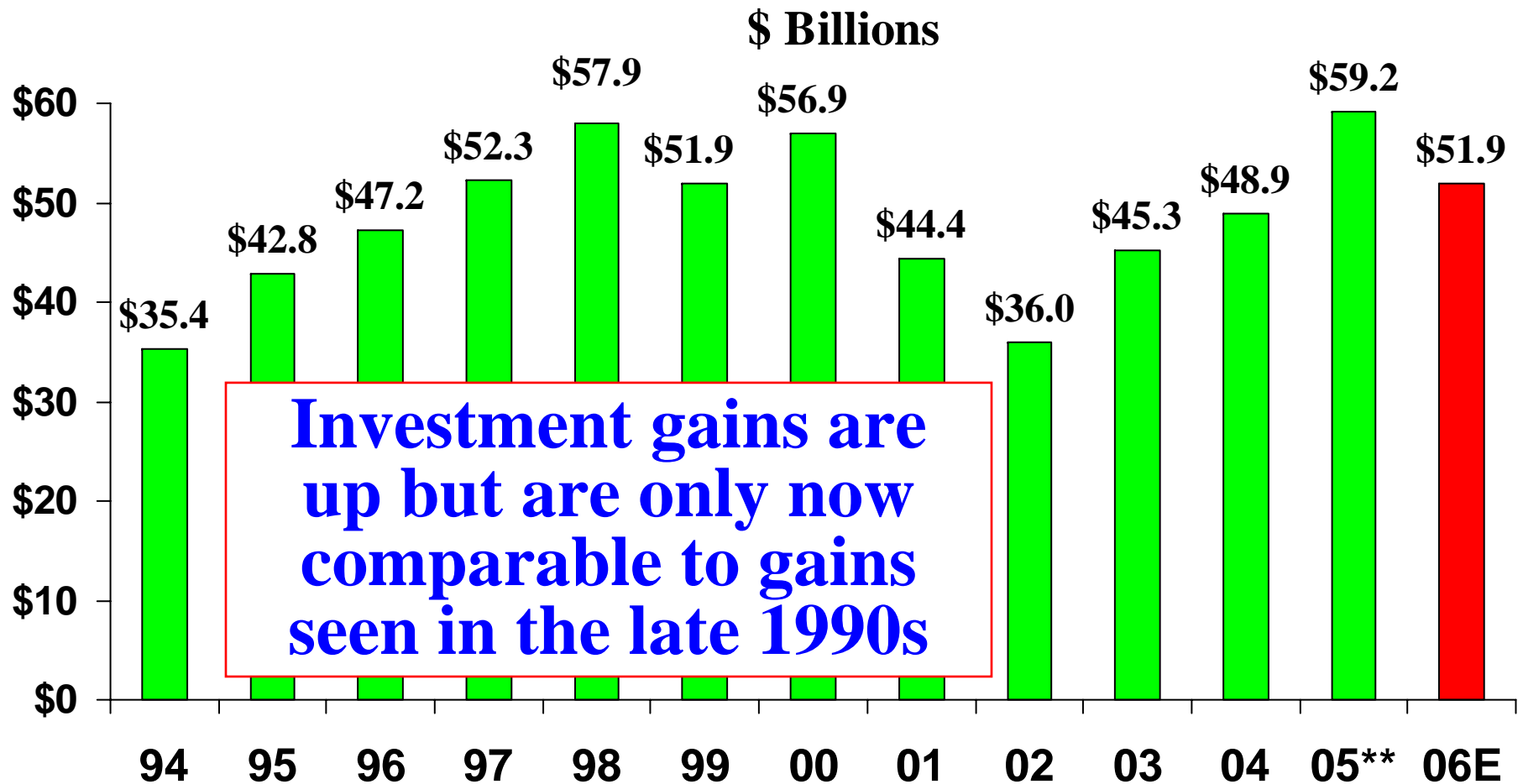
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INVESTMENT PERFORMANCE

Flat Rates, Rising Stocks



Property/Casualty Insurance Industry Investment Gain*



*Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.

2006 estimate based on actual annualized 2006:9mos result of \$38.936B.

**2005 figure includes special one-time dividend of \$3.2B. Source: ISO; Insurance Information Institute.



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CATASTROPHE REVIEW

A Welcome Respite for the Industry



U.S. Insured Catastrophe Losses*



*Excludes \$4B-\$6b offshore energy losses from Hurricanes Katrina & Rita. **Through 9/30/06.

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.

Source: Property Claims Service/ISO; Insurance Information Institute



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2007 HURRICANE SEASON

Let the Forecasts Begin...

Above Average Activity Expected



Outlook for 2007 Hurricane Season: 40% Worse Than Average

	Average*	2005	2007F
Named Storms	9.6	28	14
Named Storm Days	49.1	115.5	70
Hurricanes	5.9	14	7
Hurricane Days	24.5	47.5	35
Intense Hurricanes	2.3	7	3
Intense Hurricane Days	5	7	8
Net Tropical Cyclone Activity	100%	275%	140%

*Average over the period 1950-2000.

Source: Dr. William Gray, Colorado State University, December 8, 2006.



Probability of Major Hurricane Landfall (CAT 3, 4, 5) in 2007

	Average*	2007F
Entire US Coast	52%	64%
US East Coast Including Florida Peninsula	31%	40%
Gulf Coast from FL Panhandle to Brownsville, TX	30%	40%
<i>ALSO...Above-Average Major Hurricane Landfall Risk in Caribbean for 2007</i>		

*Average over past century.

Source: Dr. William Gray, Colorado State University, December 8, 2006.



Probability of Major Hurricane Landfall (CAT 3,4,5) in 2007

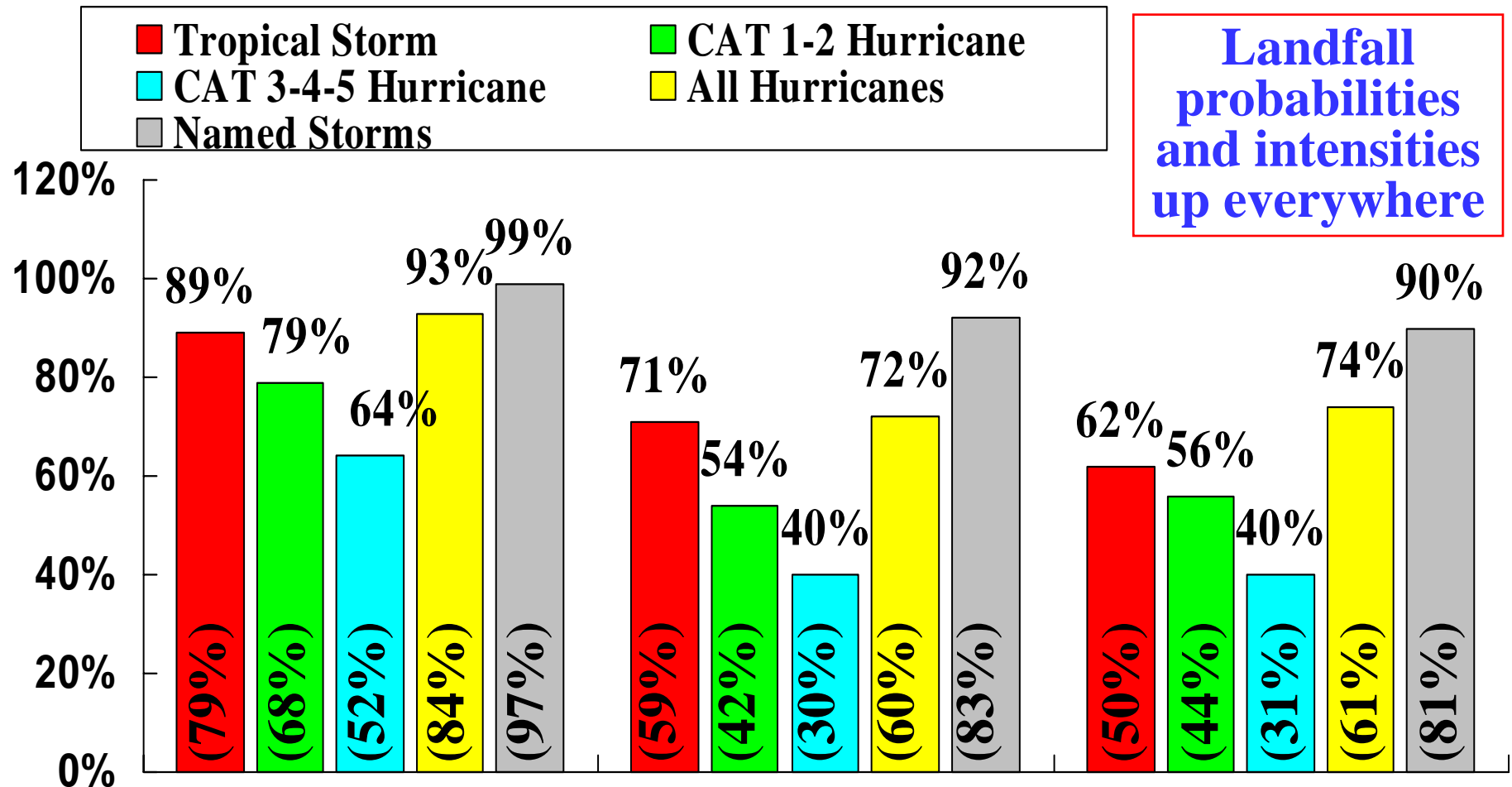
	2007F	Avg.*	10/06 F	Avg.*
Named Storms	99%	97%	22%	29%
Hurricanes	59%	48%	14%	15%
Intense Hurricanes	35%	27%	4%	6%

*Average over past 52 years.

Source: Dr. William Gray, Colorado State University, September 1, 2006.



Landfall Probabilities by Region & Intensity, 2007*



Landfall probabilities and intensities up everywhere

Entire US

Gulf Coast

Florida plus East Coast

*Figures in parentheses represent averages over the past 100 years.
Source: Dr. William Gray, Colorado State University, December 8, 2006.



Presentation Summary

- **Strong Profits**
 - Record Profits in Dollar Terms in 2006
 - Best ROE since 1988
 - Significant Momentum into 2007
- **Policyholder Surplus Will Likely Reach \$500B by 07Q2**
- **Top Line Growth Stagnating**
- **Underwriting Remains Strong, but Some Deterioration Expected**

A Brief Overview/Outlook for the Life, Health, and Longevity Insurance Industry

Steven N. Weisbart, Ph.D., CLU

Economist

Insurance Information Institute www.iii.org

110 William Street, New York, NY 10038

Office Tel: (212) 346-5540

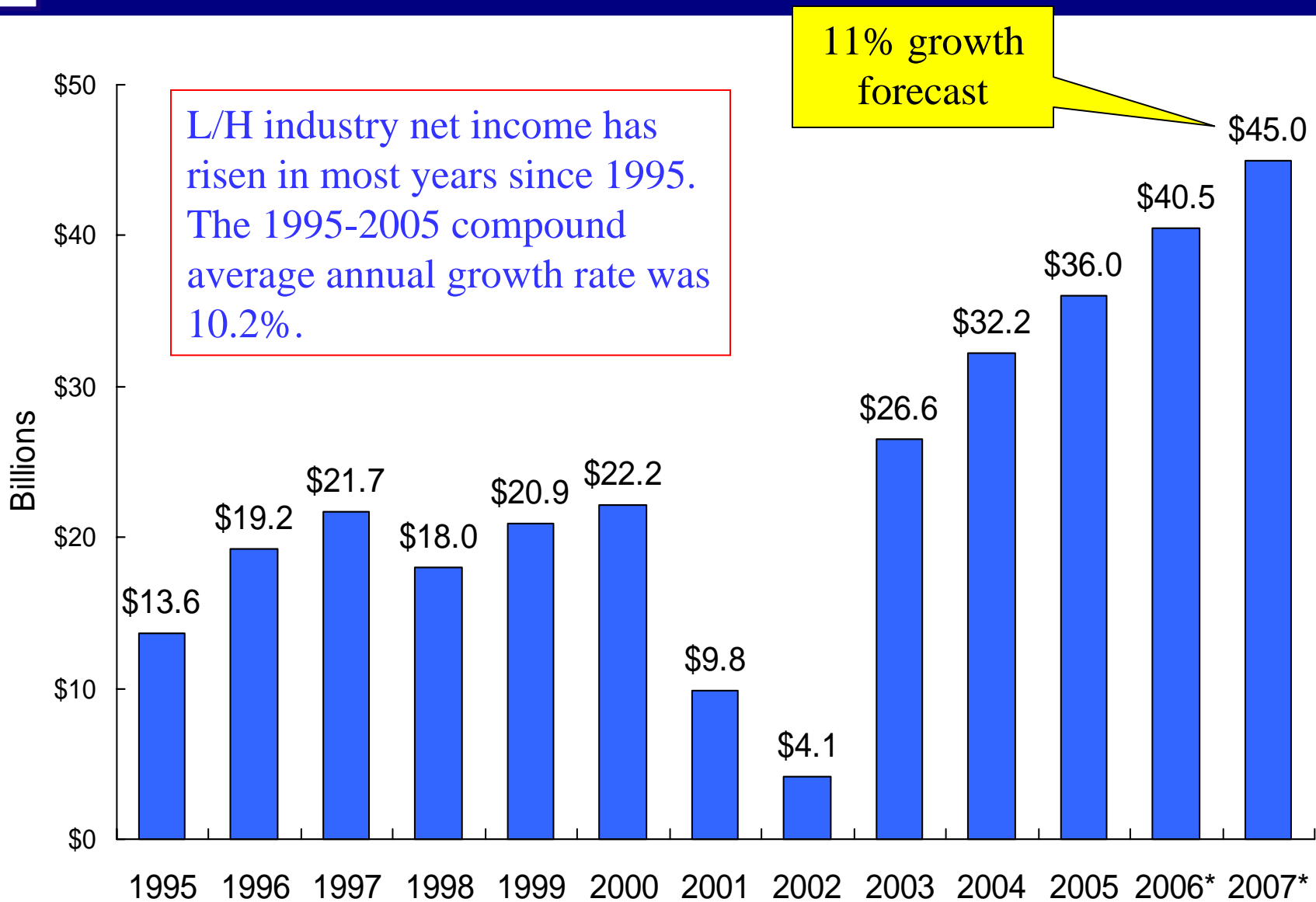
Cell phone: (917) 494-5945

email: stevenw@iii.org

January 9, 2007



L/H Industry Net Income, 1995-2007F

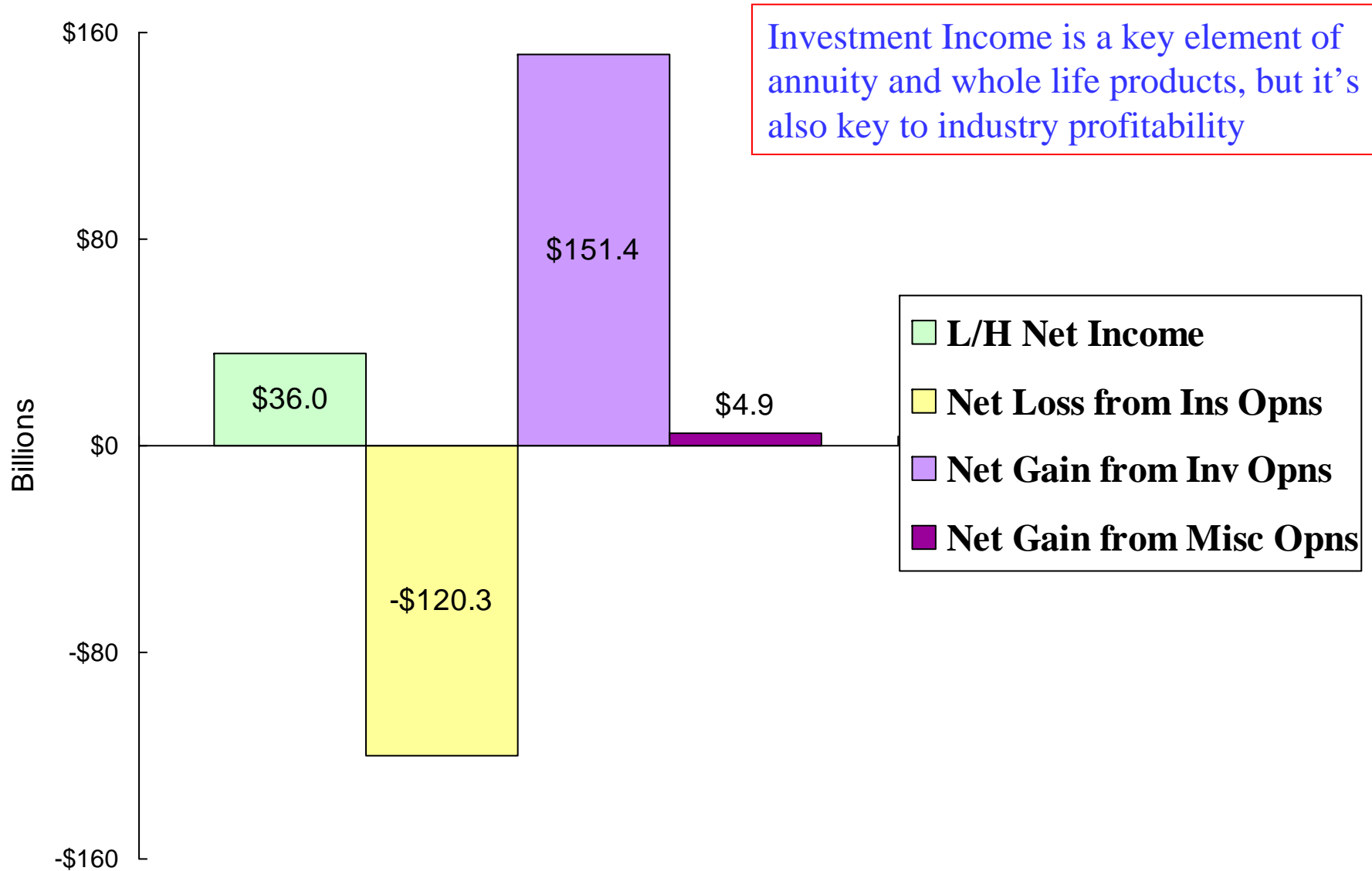


Source: NAIC, from Highline National Underwriter

*I.I.I. forecast



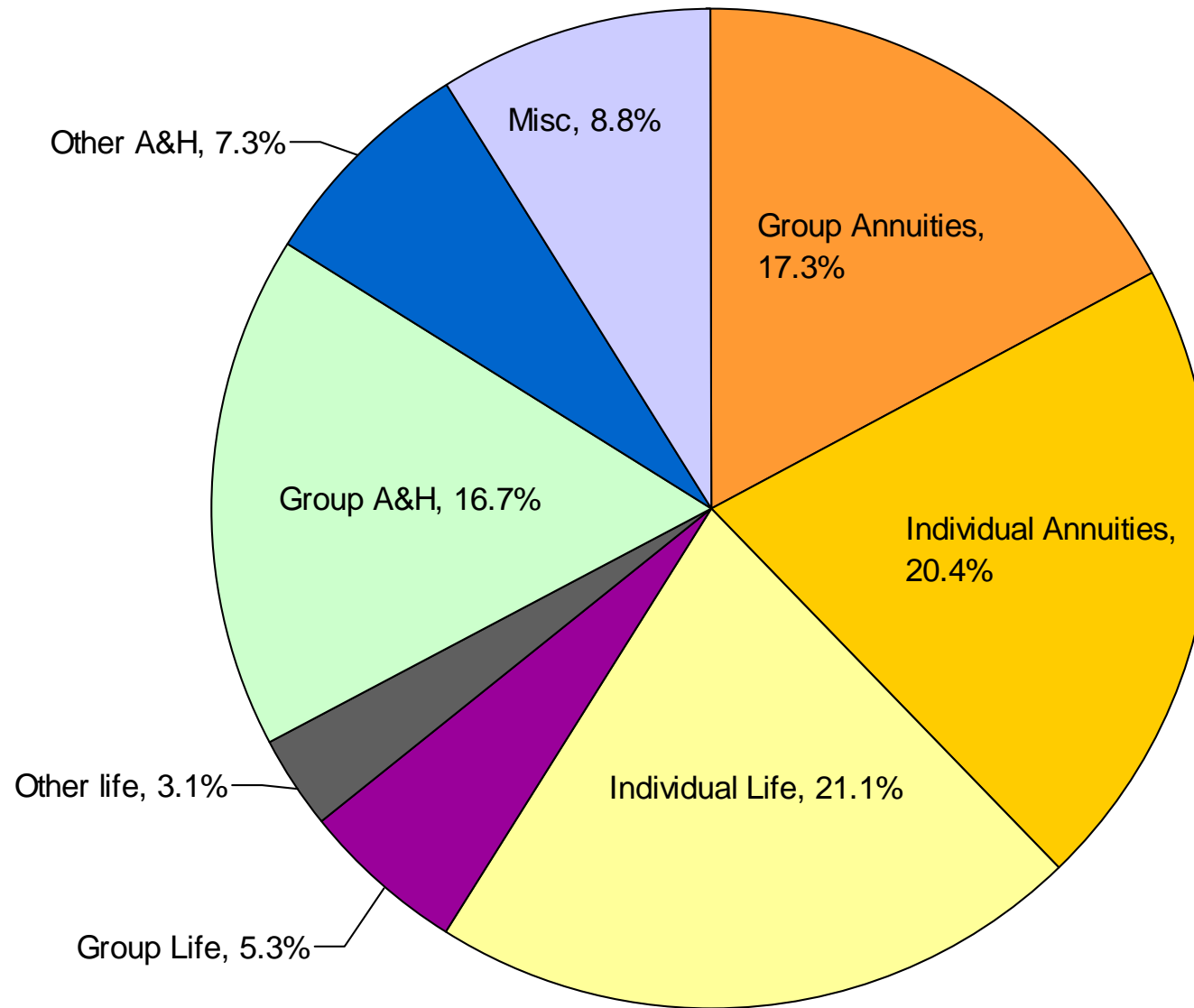
Elements of Net Income, L/H Industry, 2005



Source: NAIC, from Highline National Underwriter; I.I.I. calculations



Percent of Net Gain from Operations, by Business Line, 2005

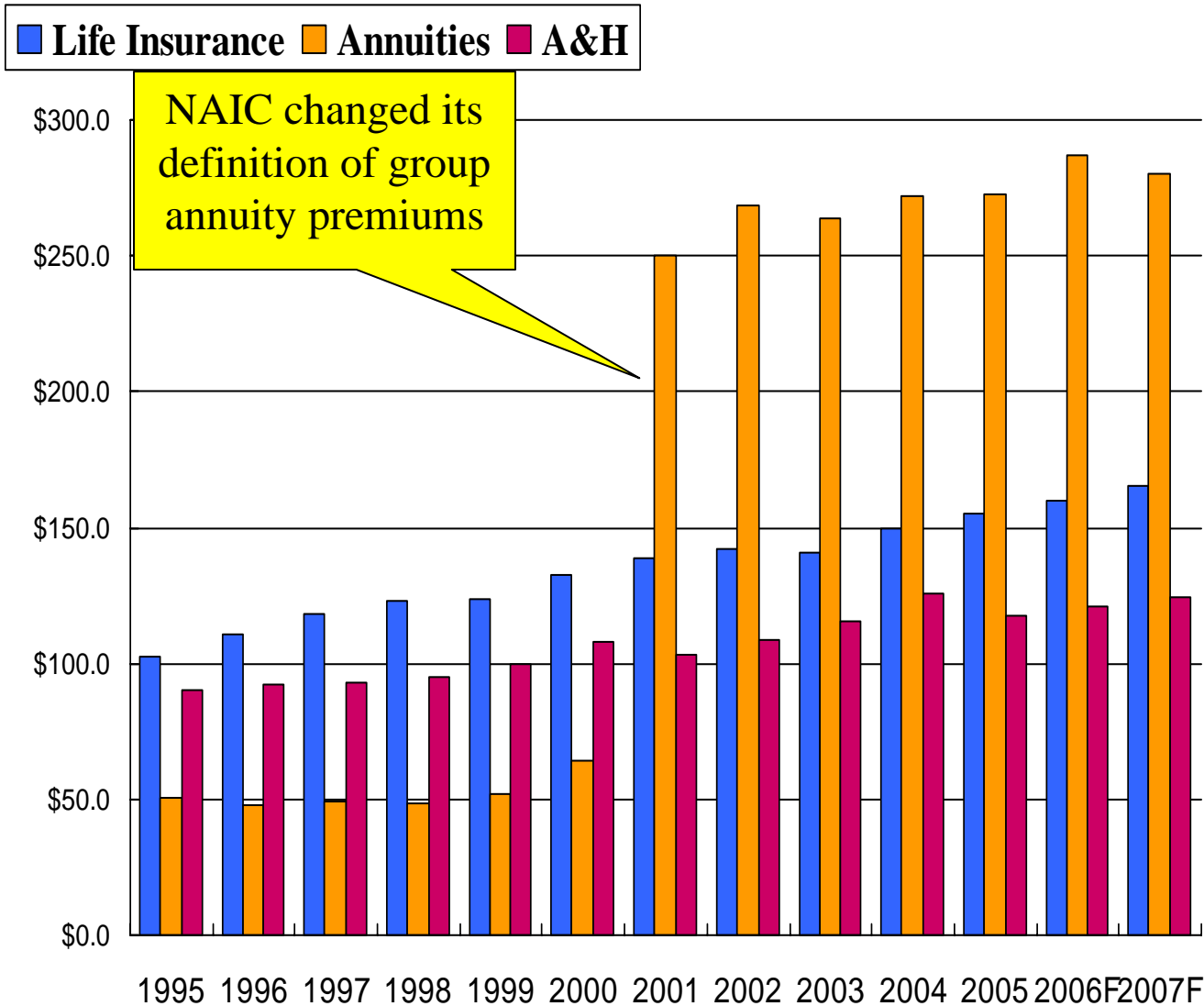


“Net Gain from Operations” here includes net investment income but not capital gains allocated to each line—the traditional life/health approach. It is net of dividends to policyowners and federal income taxes.

Source: NAIC data, from Highline National Underwriter.



Direct Premium Trends, 1995-2007F



1995-2005
Average
Annual
Growth Rates:

Life
Insurance:
3.1%

Annuities
(1995-2000):
5.1%

Annuities
(2001-2005):
2.2%

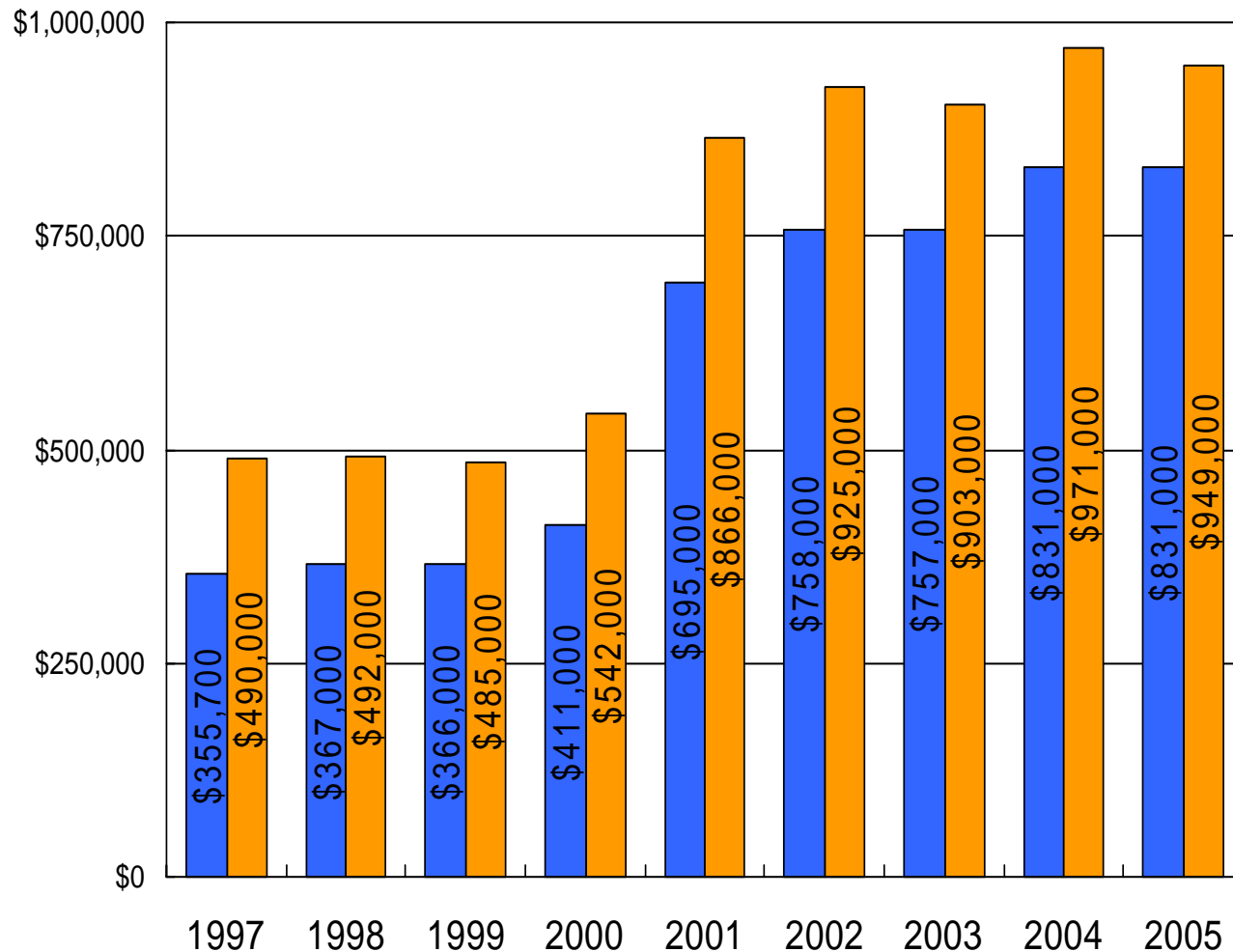
A&H: 2.7%

Source: NAIC, from Highline National Underwriter, I.I.I. forecast based on LIMRA data for 2006



L/H Industry Productivity Trends, 1997-2005

■ Home Office ■ Agents & Brokers



Productivity is defined as total premium dollars (from all lines) per employee.

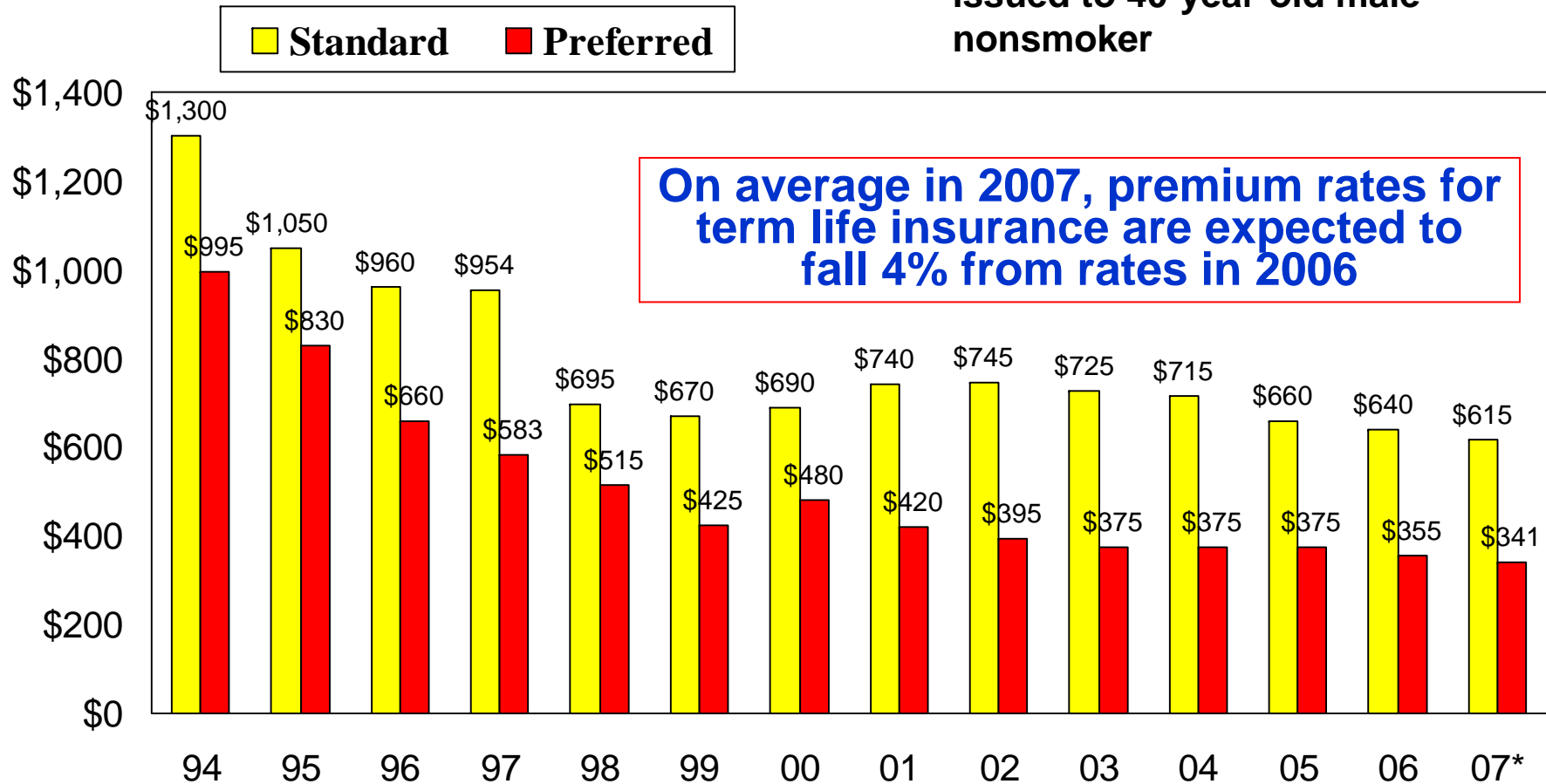
Productivity has been increasing fairly steadily for the last decade.

Source: NAIC, from Highline National Underwriter, I.I.I. calculations



Historical and Forecast Term Life Insurance Rates

**\$500,000 20-year level term
issued to 40-year-old male
nonsmoker**

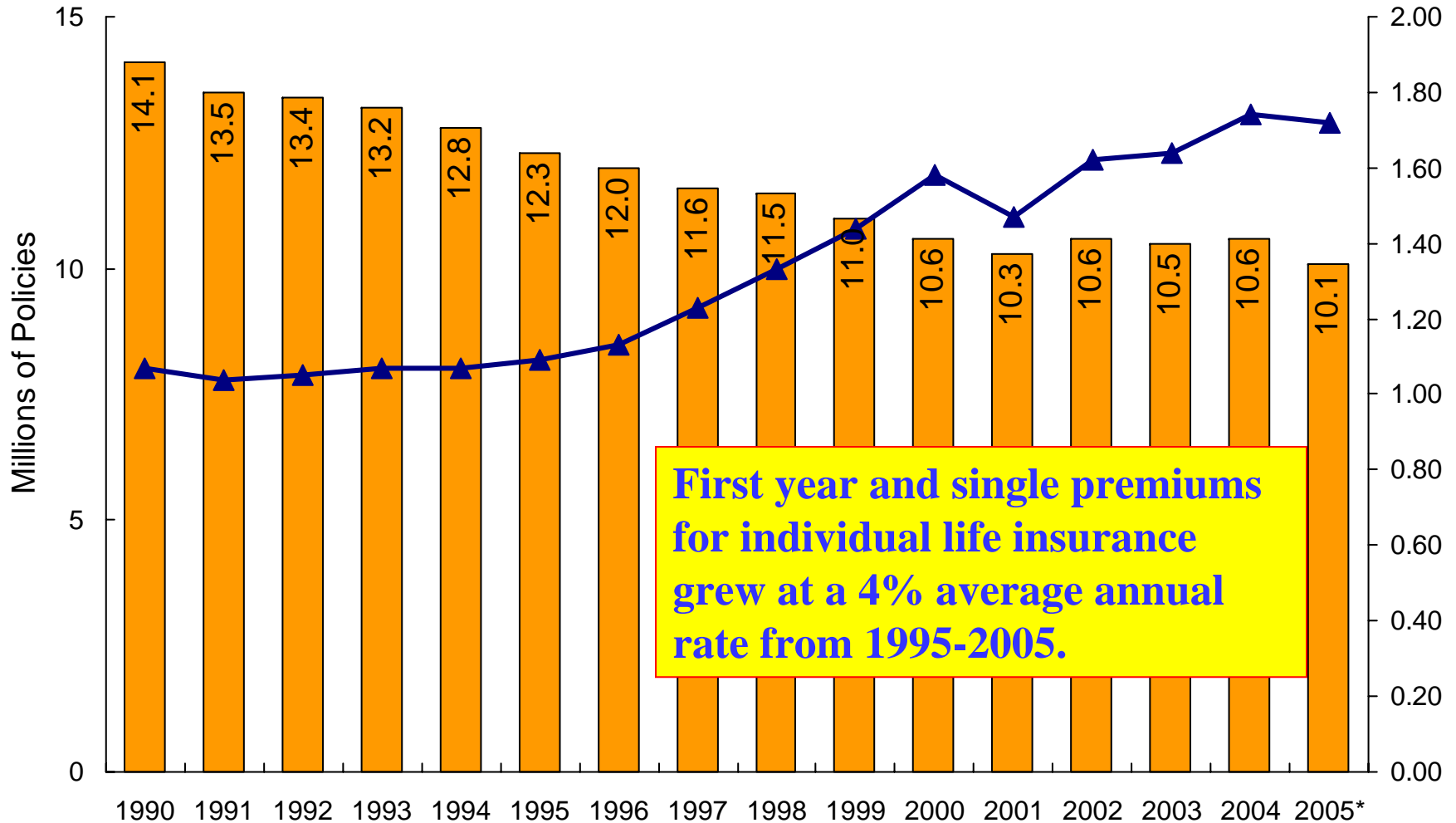


Source: Accuquote; Insurance Information Institute Forecasts for 2007.



Individual Life Insurance Sales, 1990-2005

Millions of Policies ▲ Trillions of Face Amount



Source: LIMRA International and I.I.I. calculations

*Preliminary estimates



2007 Investment Outlook

- Interest rates for 2007 are forecast to remain about where they are now (4.7% for 10-Year U.S. Treasury Notes)
 - The “spread” between short- and longer-term rates will remain small or negative
- Corporate profits are forecast to rise modestly (median Blue Chip forecast is 5.0%)



2007 Outlook for the Life/Health Industry

- If the stock market also rises modestly or is flat vs. inflation, net premiums for variable products might also struggle
- Fixed annuity premiums will post a modest increase, driven partly by
 - Transfers from variable accounts
 - New premiums from new 401(k) participation rules
- Life insurance premiums will continue their 3% annual growth



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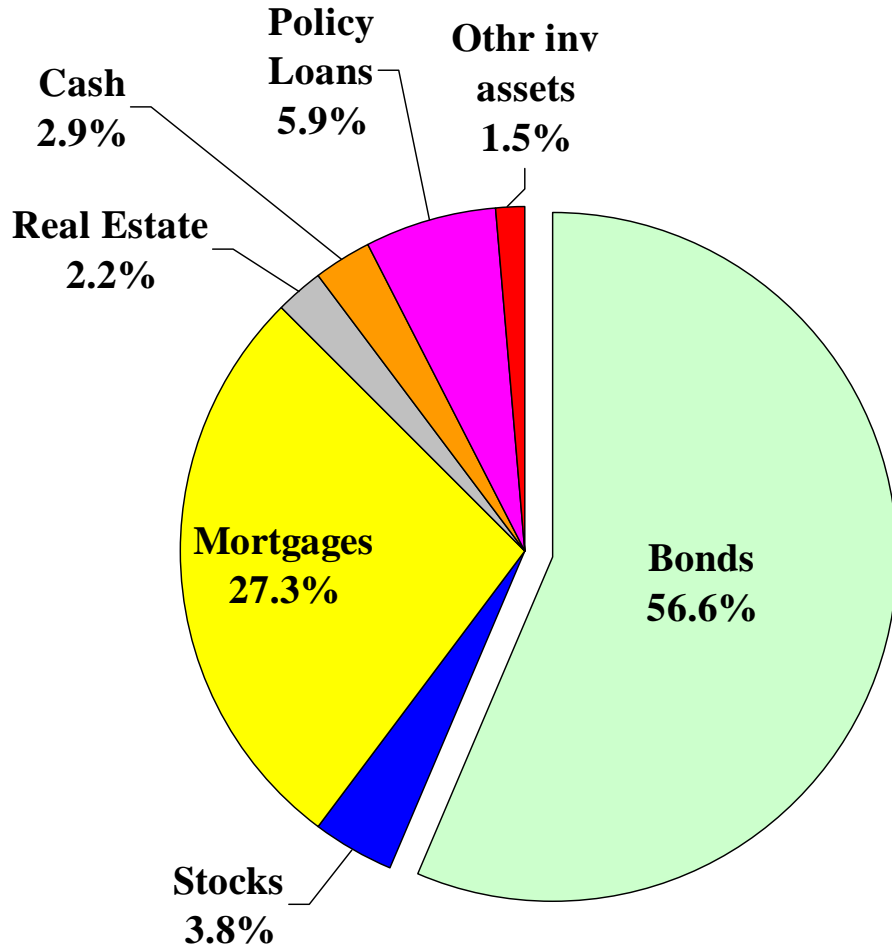
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Steven N. Weisbart, Ph.D., CLU
Economist
Insurance Information Institute
110 William Street
New York, NY 10038
Office Tel: (212) 346-5540
Cell phone: (917) 494-5945
stevenw@iii.org www.iii.org

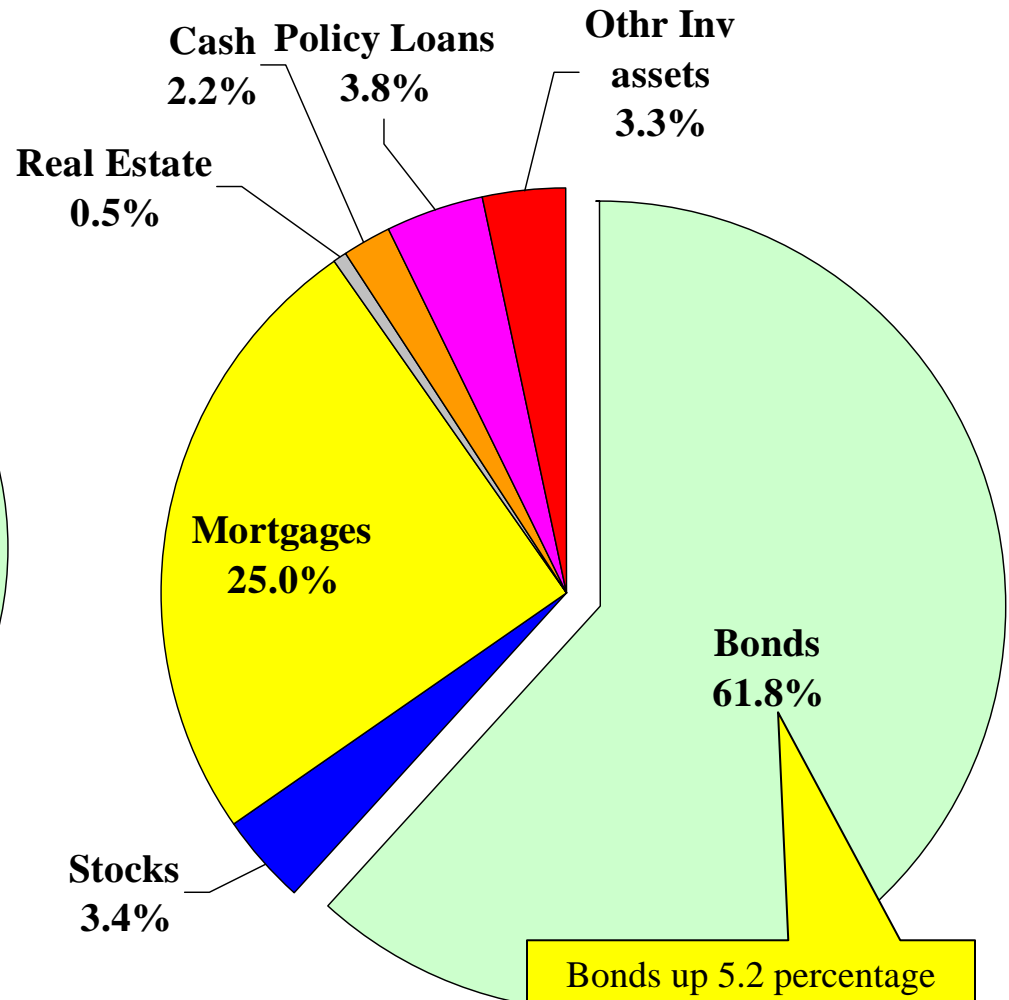


Invested Asset Distribution, US L/H Insurers, 1995 vs. 2005

1995



2005



Bonds up 5.2 percentage points; shift toward shorter maturities

Source: NAIC, via National Underwriter Highline data; I.I.I. calculations.
Multi-class mortgage-backed securities included in mortgages



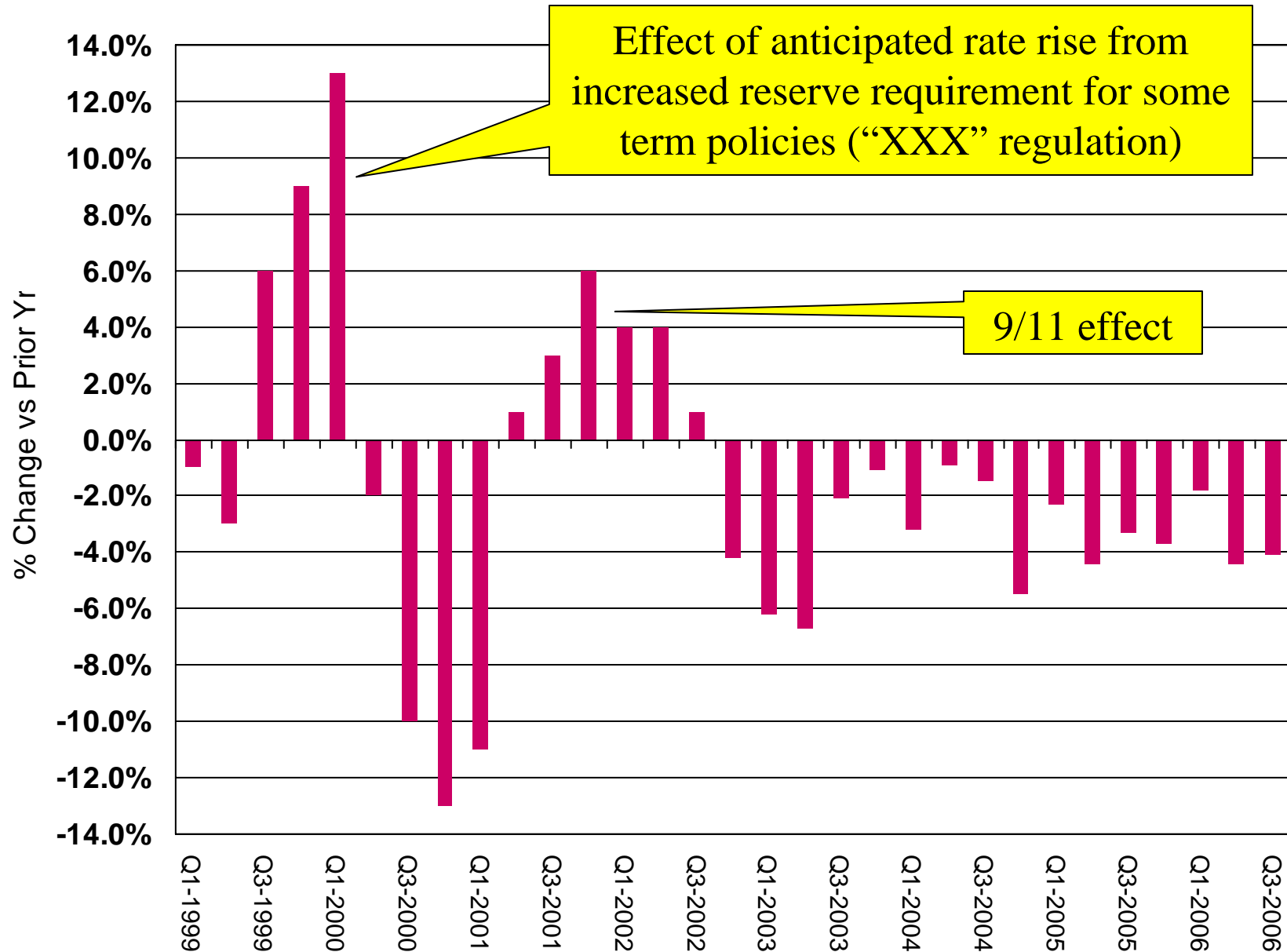
Changes in Life Insurance Distribution

- Decline in full-time affiliated agents
(LIMRA estimates)
 - In 1989: about 262,000
 - In 2001: about 178,000
 - In 2004: about 160,000
- More than $\frac{3}{4}$ of independent agents began their careers as affiliated agents
- In 2004 stockbrokers and banks wrote about 40% of new individual annuity premium but less than 10% of new individual life premium

Source: Marianne Purushotham, "The Impact of Distribution on the Individual Life and Annuity Industry," *The Actuary* newsletter, June 2006.



Quarterly Change (vs. same quarter in prior year) in Individual U.S. Life Insurance Applications, 1999-2006



Source: MIB Life Index, Annual Reports for 2001, 2002, and 2003, plus monthly releases



Challenges for 2007 and beyond

- **Productivity:** When will “straight-through processing” and other technology investments pay off?
- **Distribution:** How will increasing dependence on brokers and independent agents change market conduct management?
- **Enterprise Risk Management:** How will new reserve and compliance regulations and new perspectives on business risks change insurer behavior?
- **Consolidation and Re-alignment:** Will the need for scale and profits continue to fuel mergers and sales of business lines that “don’t fit”?