

Catastrophe Funds & Catastrophic Risk in New York State

*Public/Private Partnerships
in the Era of Mega-Disasters*

**New York Insurance Association
Lake Placid, NY**



June 1, 2006

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Presentation Outline

- **P/C Profit Overview**
- **Catastrophe Loss Management**
- **Catastrophic Loss and Insurer Impairment**
- **Overview of National Catastrophe Plan Proposals**
 - **State CAT Funds: Florida Hurricane Catastrophe Funds**
- **2006 Hurricane Season Forecast**
- **Hurricane Risk in New York State: A Serious Threat?**
- **Pricing Trends**
- **Capacity Trends**
- **National Flood Insurance Program (NFIP)**
- **TRIA: A Federal CAT Program That Works**
- **Summary**
- **Q & A**

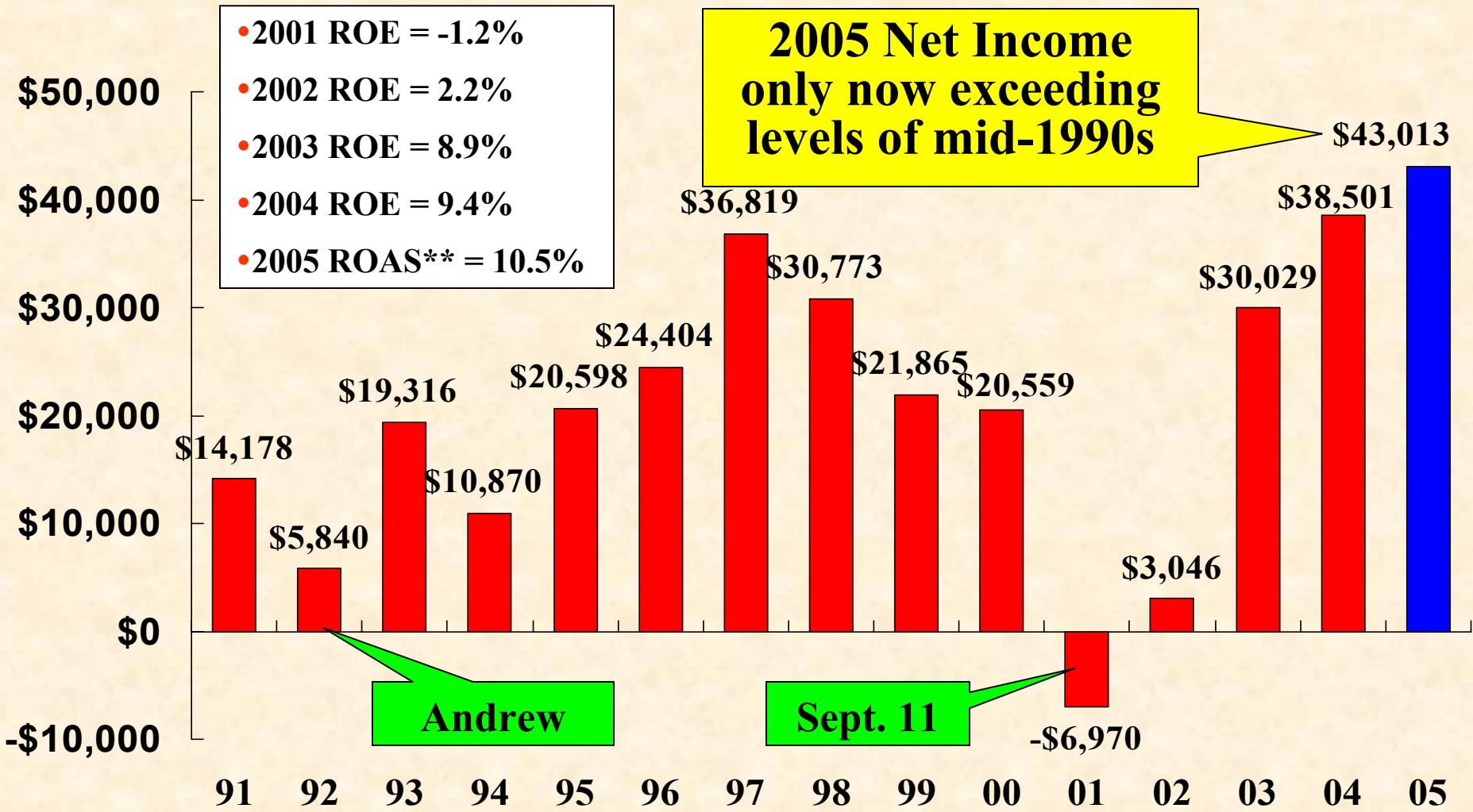
P/C FINANCIAL OVERVIEW

*Do Insurers Need a
iii Shock Absorber?*



P/C Net Income After Taxes

1991-2005 (\$ Millions)

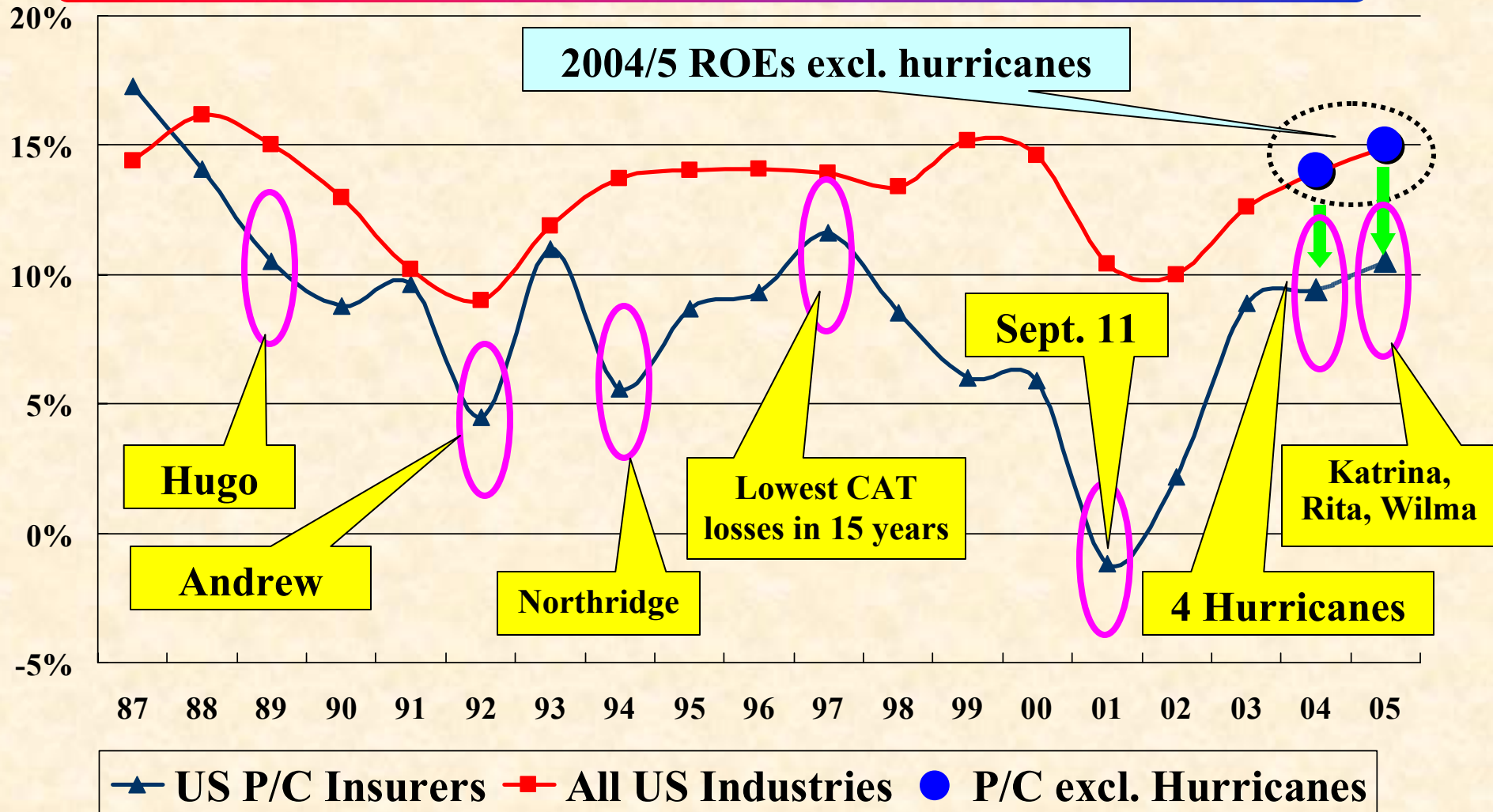


*ROE figures are GAAP; **Return on avg. surplus. ROAS = 9.8% after adj. for one-time special dividend paid by the investment subsidiary of one company. Sources: A.M. Best, ISO, Insurance Information Inst.



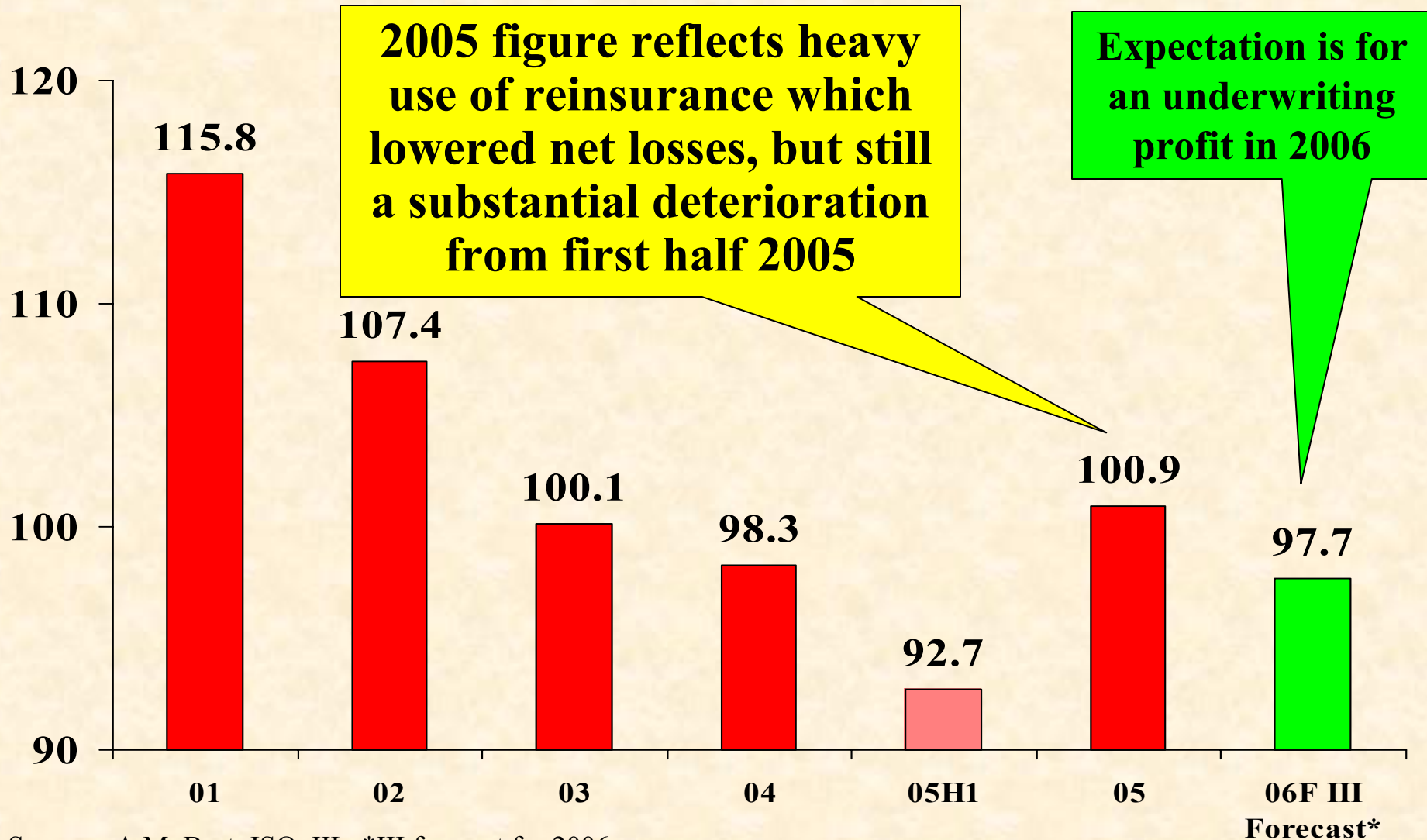
ROE: P/C vs. All Industries

1987–2005





P/C Industry Combined Ratio

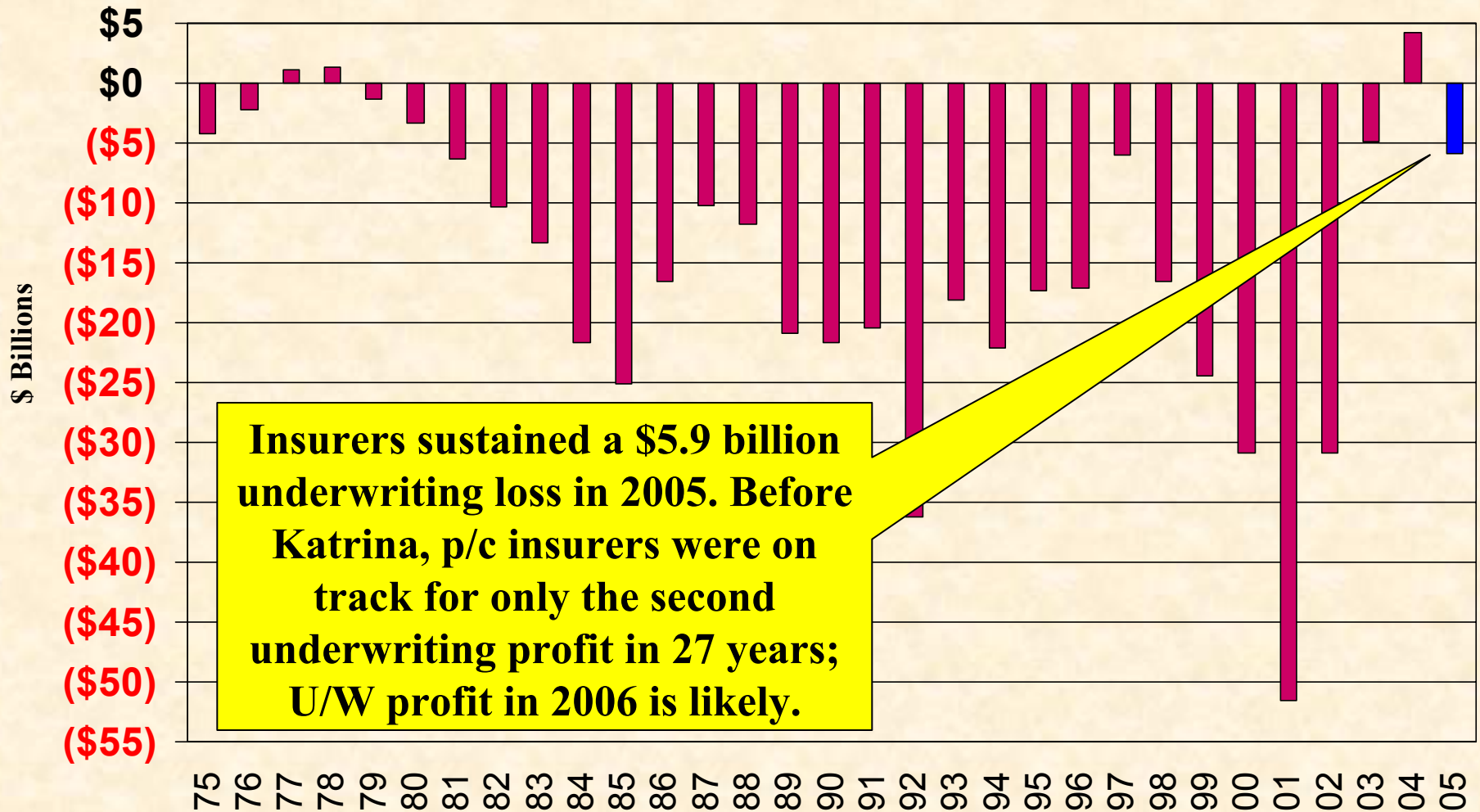


Sources: A.M. Best; ISO, III. *III forecast for 2006



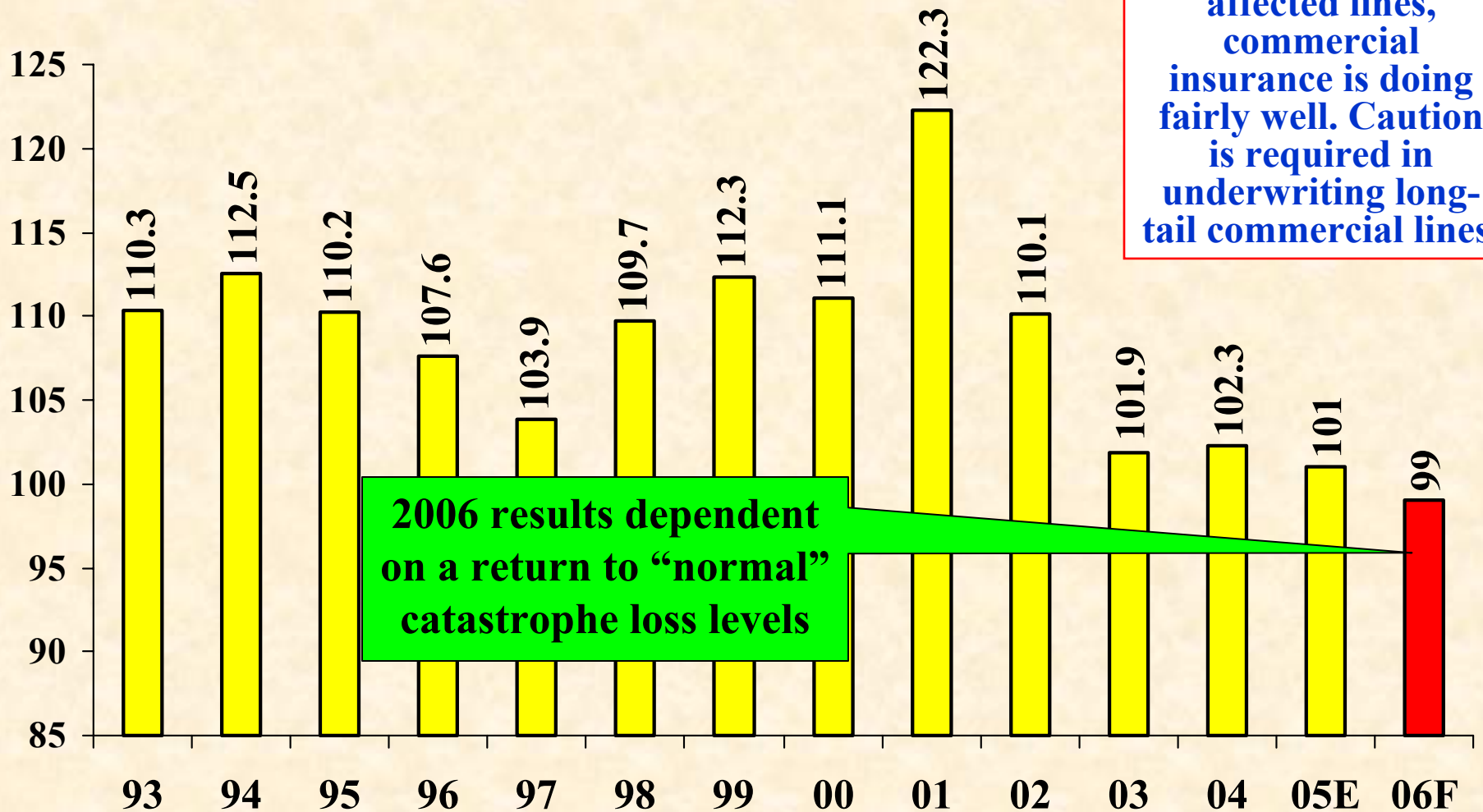
Underwriting Gain (Loss)

1975-2005





Commercial Lines Combined Ratio, 1993-2006E*



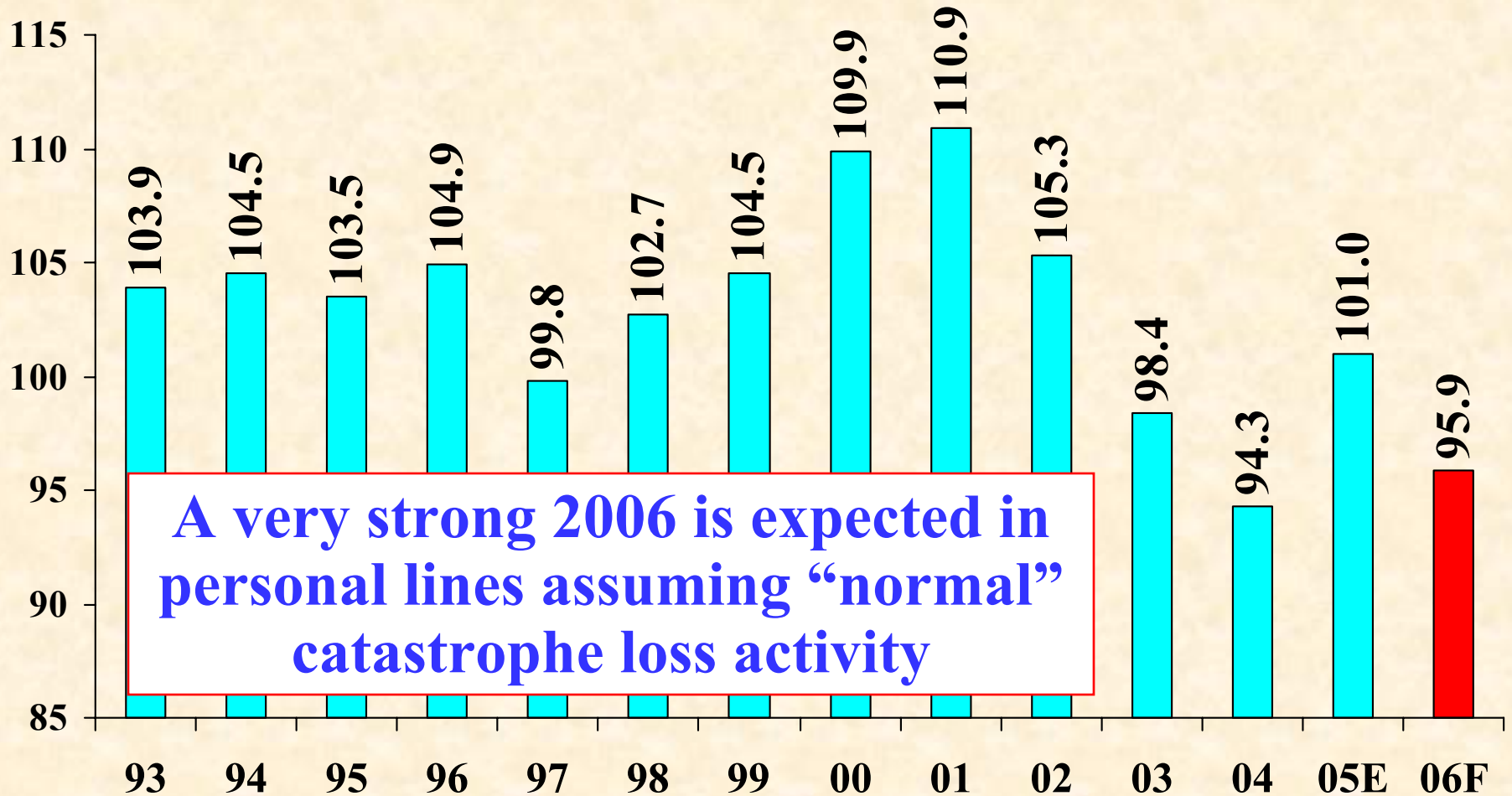
Source: A.M. Best; Insurance Information Institute

*Fitch estimate for 2005. Actual 1H05 combined ratio all lines was 92.7.



Personal Lines

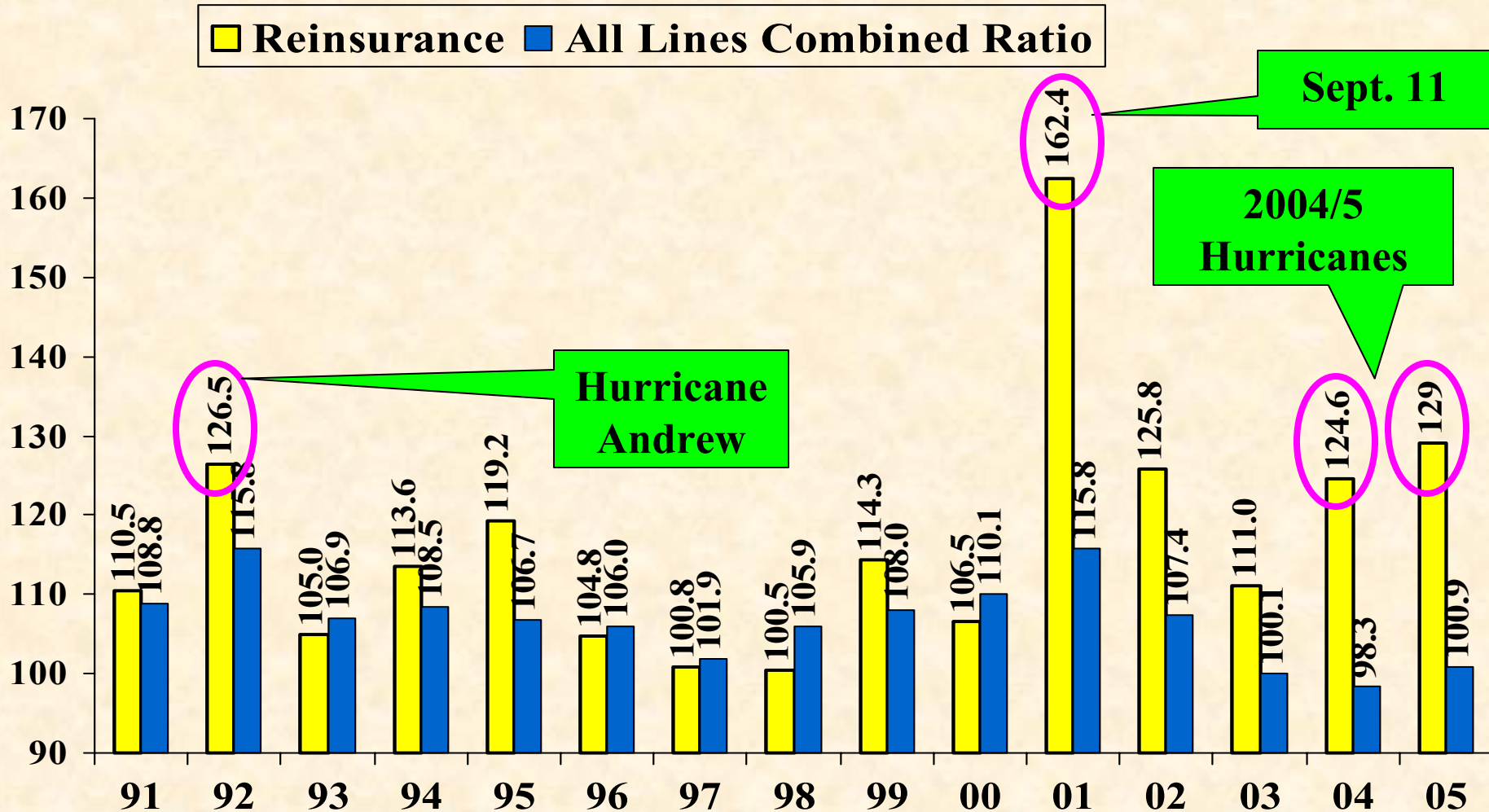
Combined Ratio, 1993-2006E





Combined Ratio:

Reinsurance vs. P/C Industry



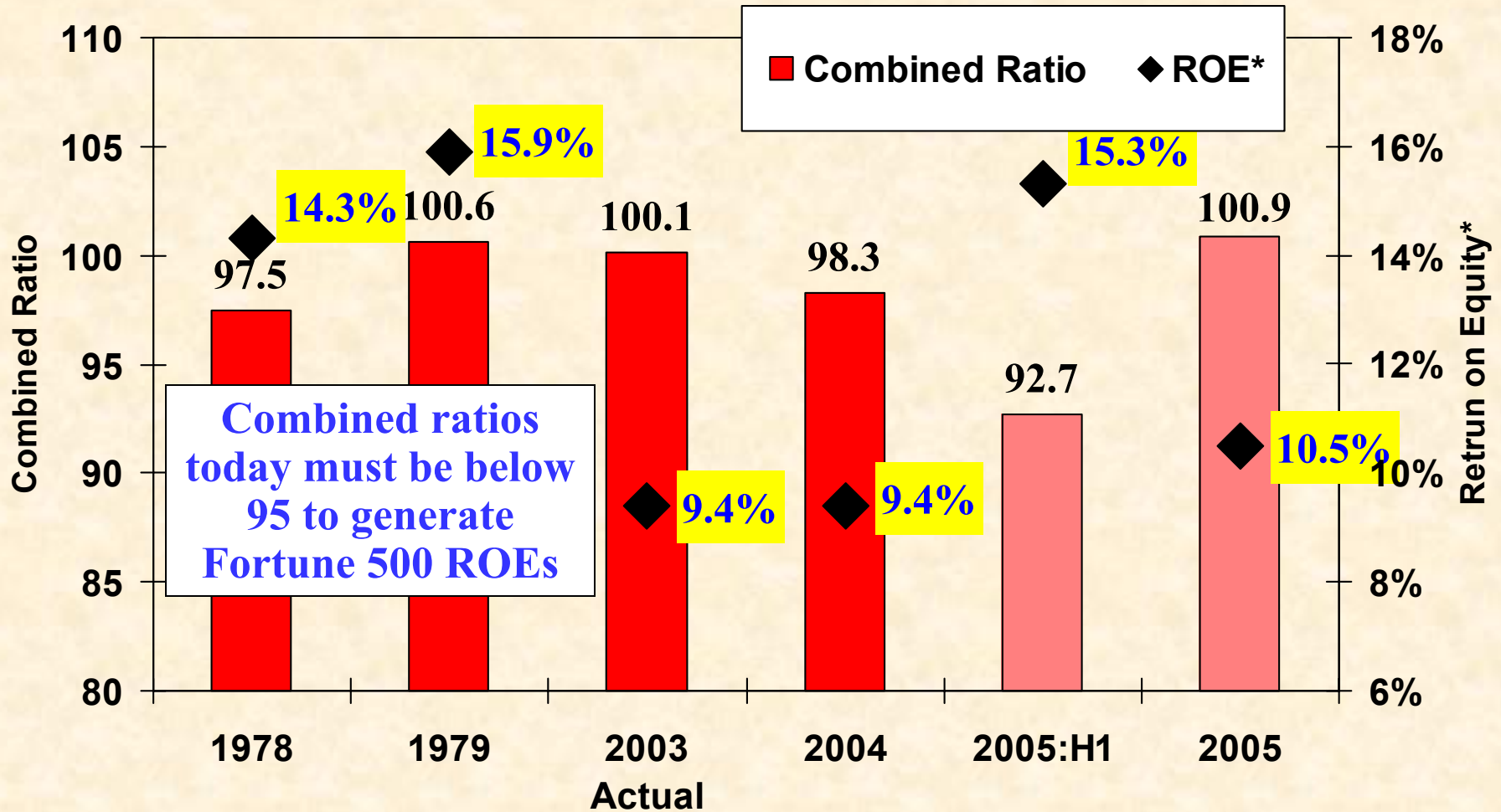


Distribution of Katrina Losses by Market (\$Billions)

Market	Percentage	Amount
Insurers	47% - 53%	\$18.8 - \$28.9
Reinsurers	52% - 44%	\$20.7 - \$24.0
Capital Markets	1% - 3%	\$0.4 - \$1.6
TOTAL	100%	\$39.9 - \$54.6



A 100 Combined Ratio Isn't What it Used to Be: 95 is Where It's At

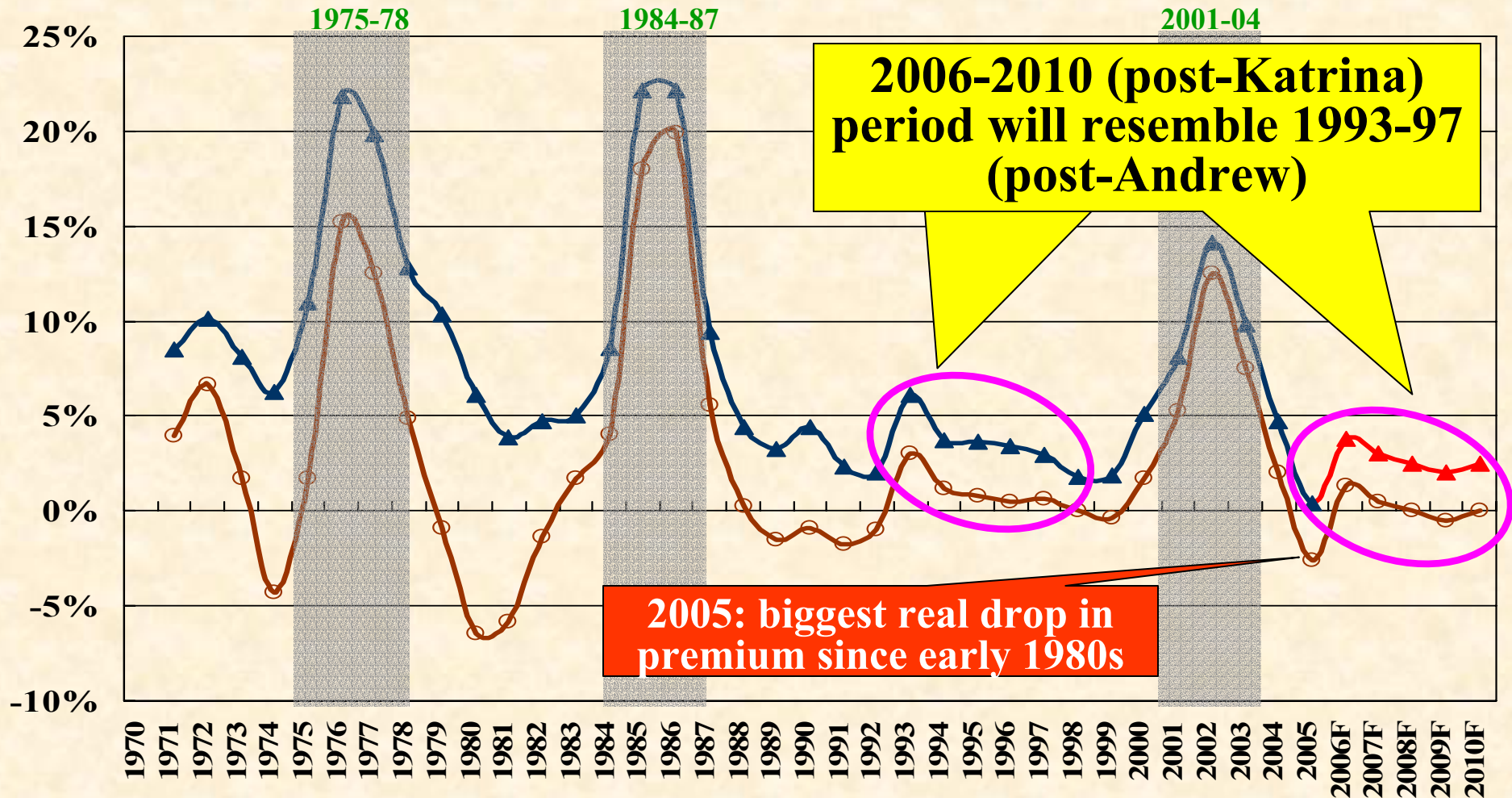


* 2005 figure is return on average statutory surplus.

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



Strength of Recent Hard Markets by NWP Growth*



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

*2006-10 figures are ILL 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.

CATASTROPHE LOSS MANAGEMENT

*Can Insurers Manage this
Catastrophe & Meet Demand?*



Most of US Population & Property Has Major CAT Exposure





U.S. Insured Catastrophe Losses (\$ Billions)*



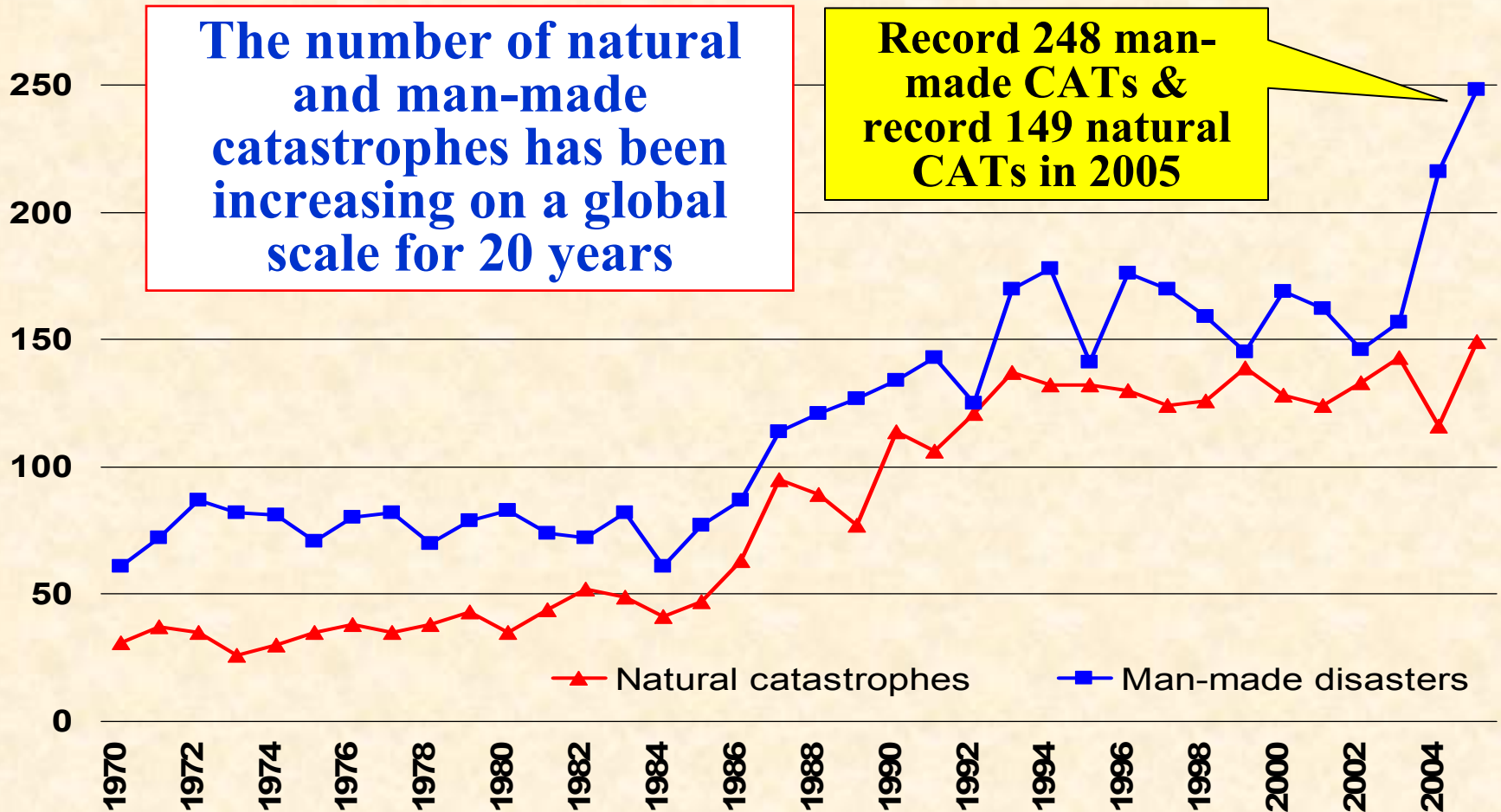
*Excludes \$4B-\$6b offshore energy losses from Hurricanes Katrina & Rita.

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

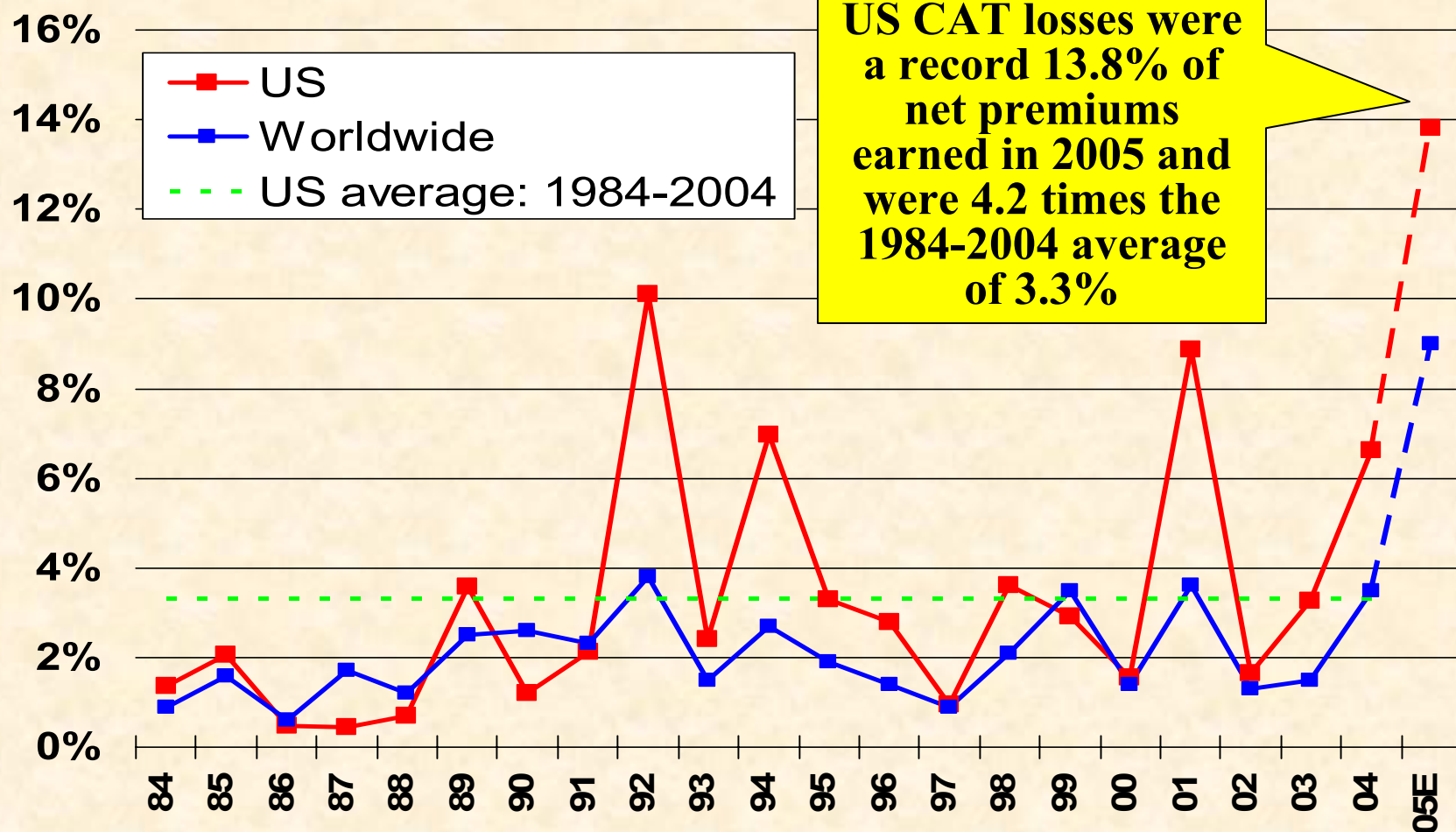


Global Number of Catastrophic Events, 1970–2005





Insured Property Catastrophe Losses as % Net Premiums Earned, 1983-2005E



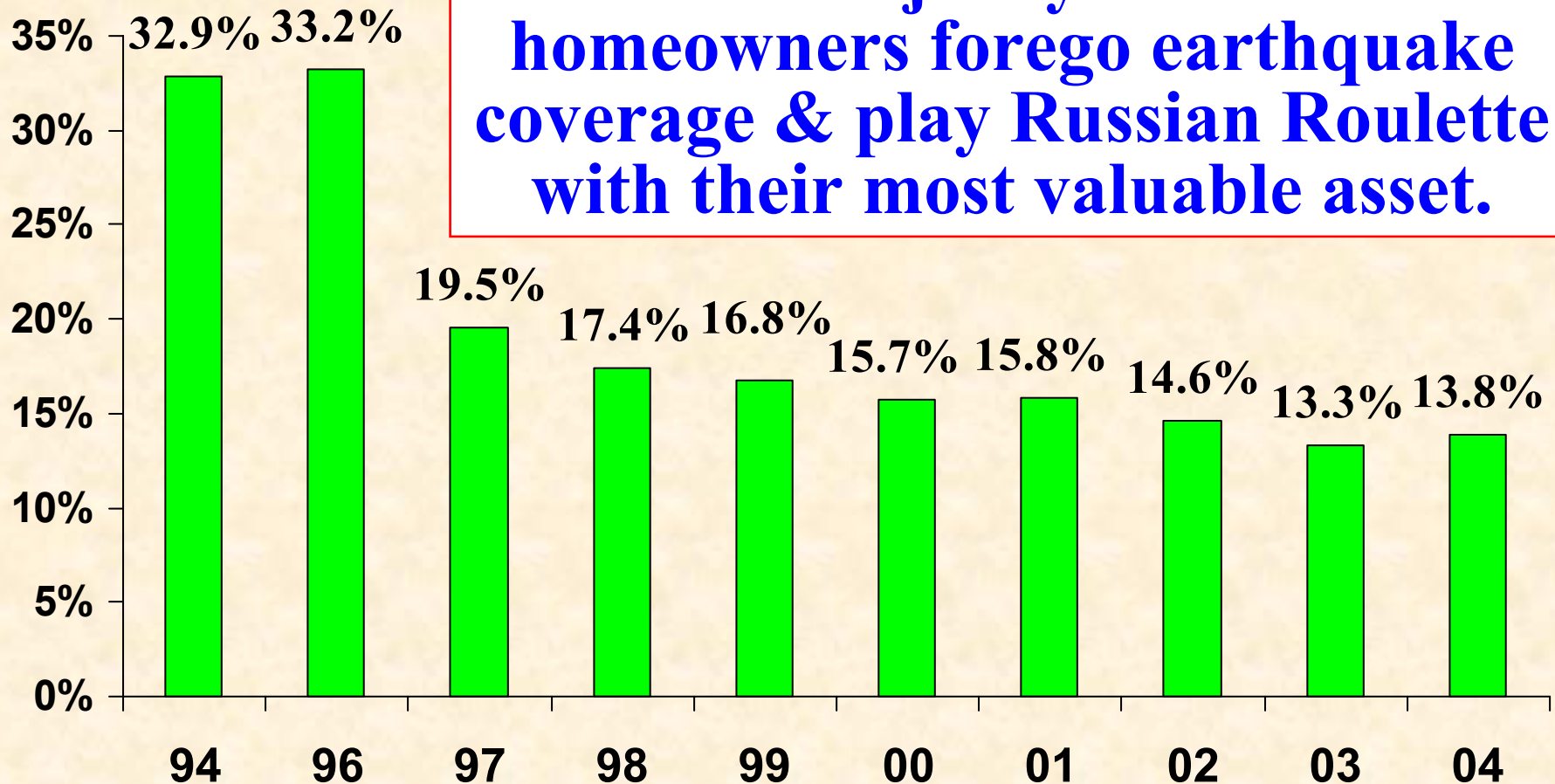
*Insurance Information Institute figure of 13.8% for 2005 based estimated 2005 DPE of \$417.7B and insured CAT losses of \$57.7B.

Sources: ISO, A.M. Best, Swiss Re Economic Research & Consulting; Insurance Information Institute.



*Percentage of California Homeowners with Earthquake Insurance, 1994-2004**

The vast majority of California homeowners forego earthquake coverage & play Russian Roulette with their most valuable asset.

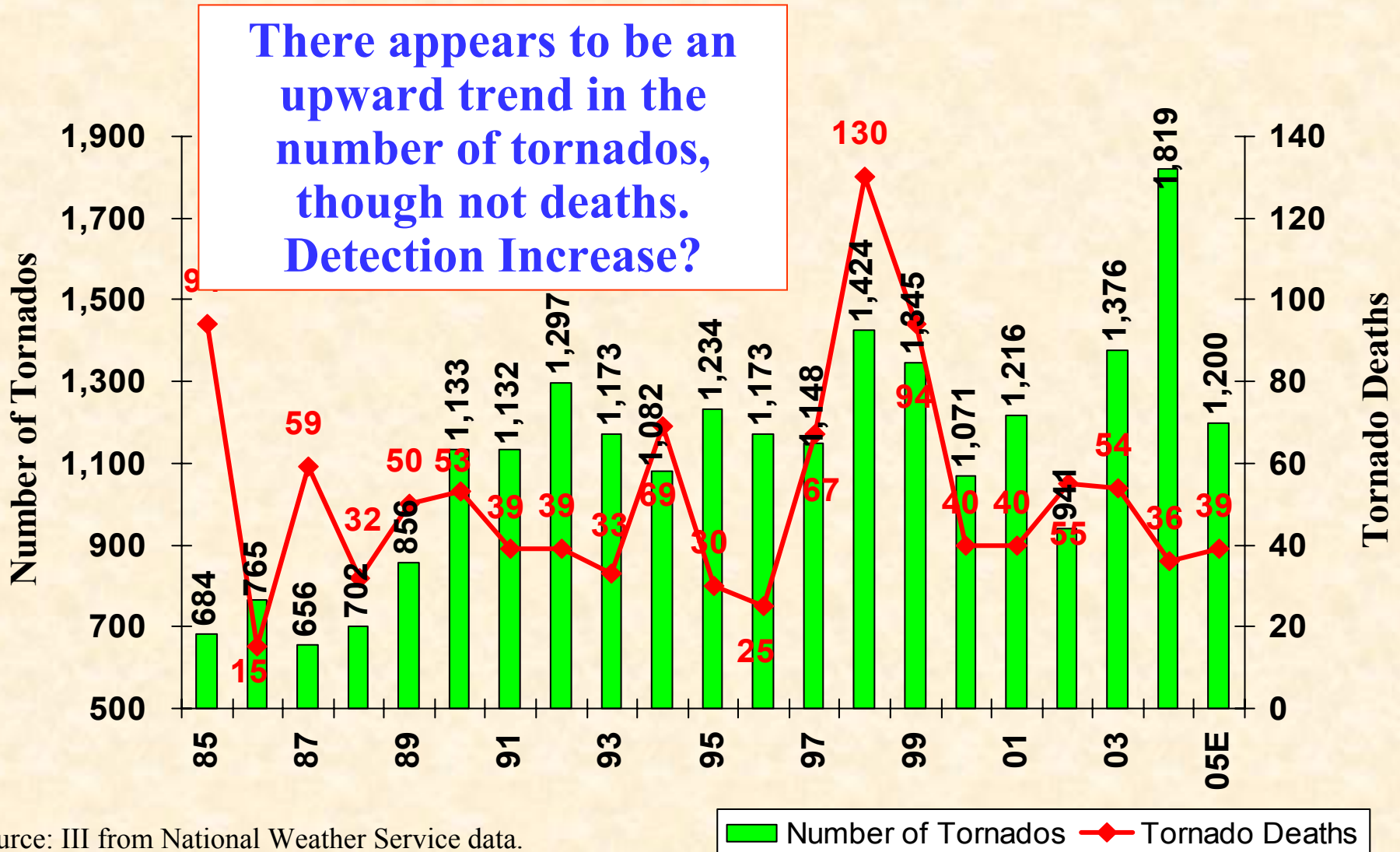


*Includes CEA policies beginning in 1996.

Source: California Department of Insurance; Insurance Information Institute.



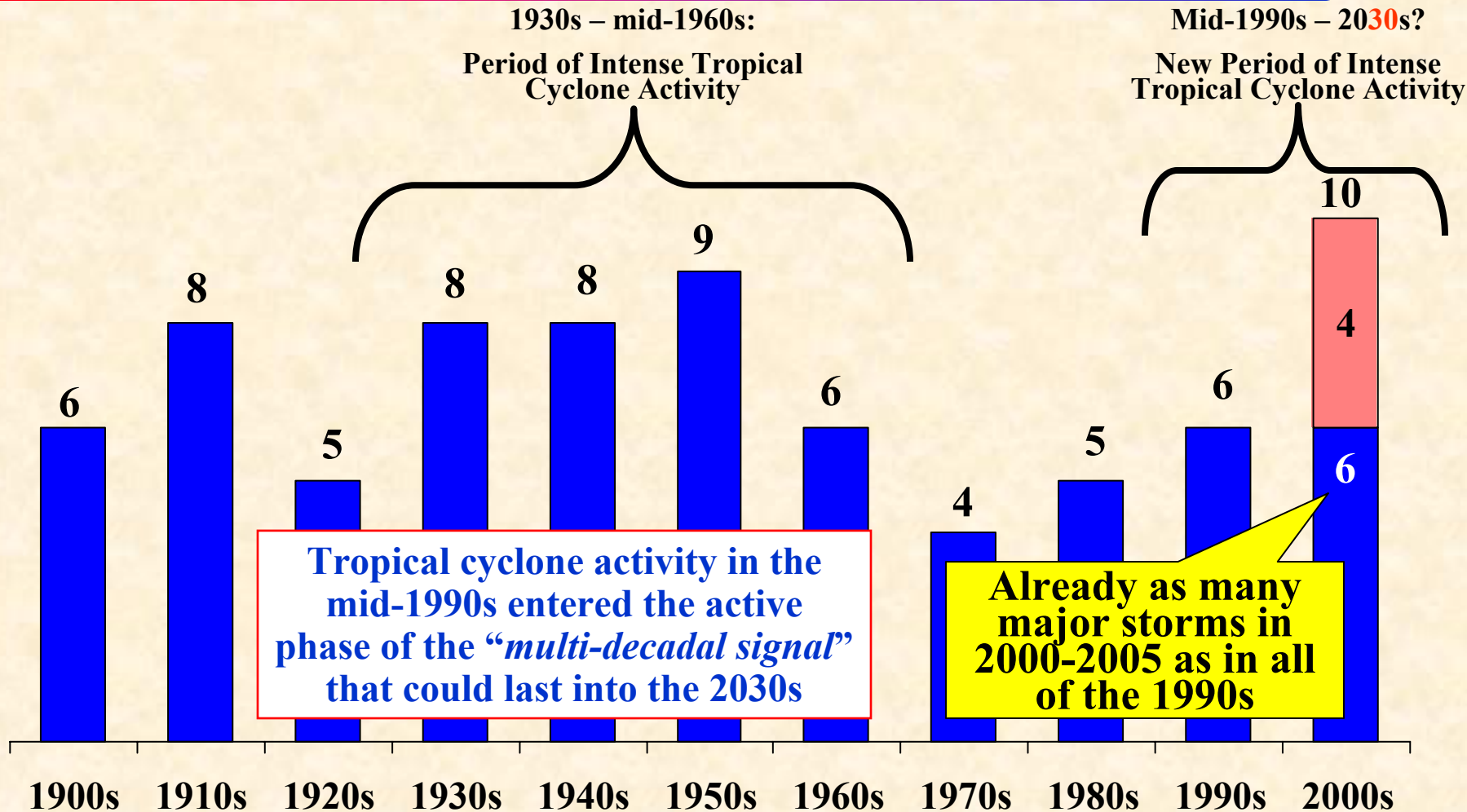
Number of Tornadoes & Associated Deaths, 1985-2005p



Source: III from National Weather Service data.



Number of Major (Category 3, 4, 5) Hurricanes Striking the US by Decade

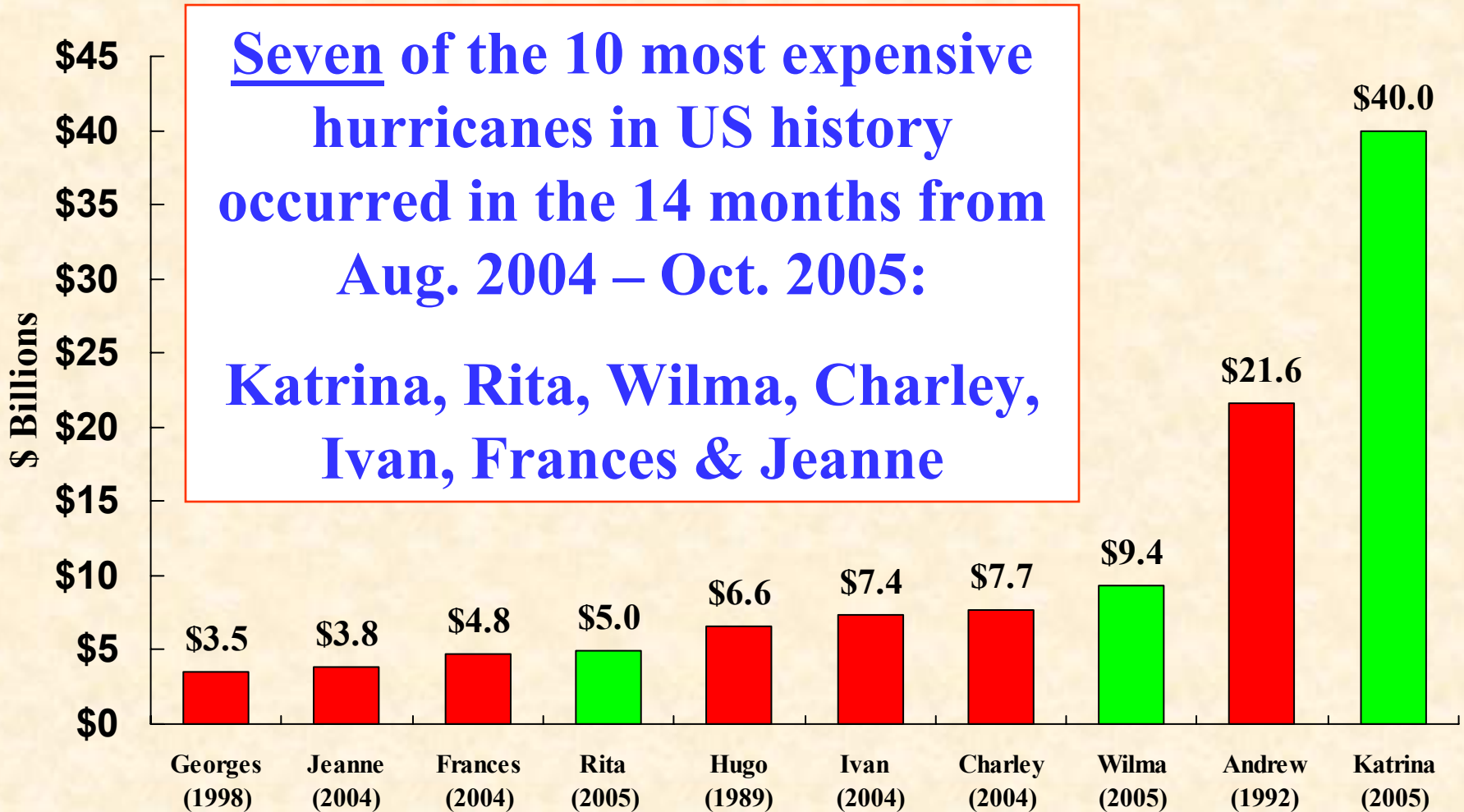


*Figure for 2000s is extrapolated based on data for 2000-2005 (6 major storms: Charley, Ivan, Jeanne (2004) & Katrina, Rita, Wilma (2005)).

Source: Tillinghast from National Hurricane Center: <http://www.nhc.noaa.gov/pastint.shtm>.



Top 10 Most Costly Hurricanes in US History, (Insured Losses, \$2005)





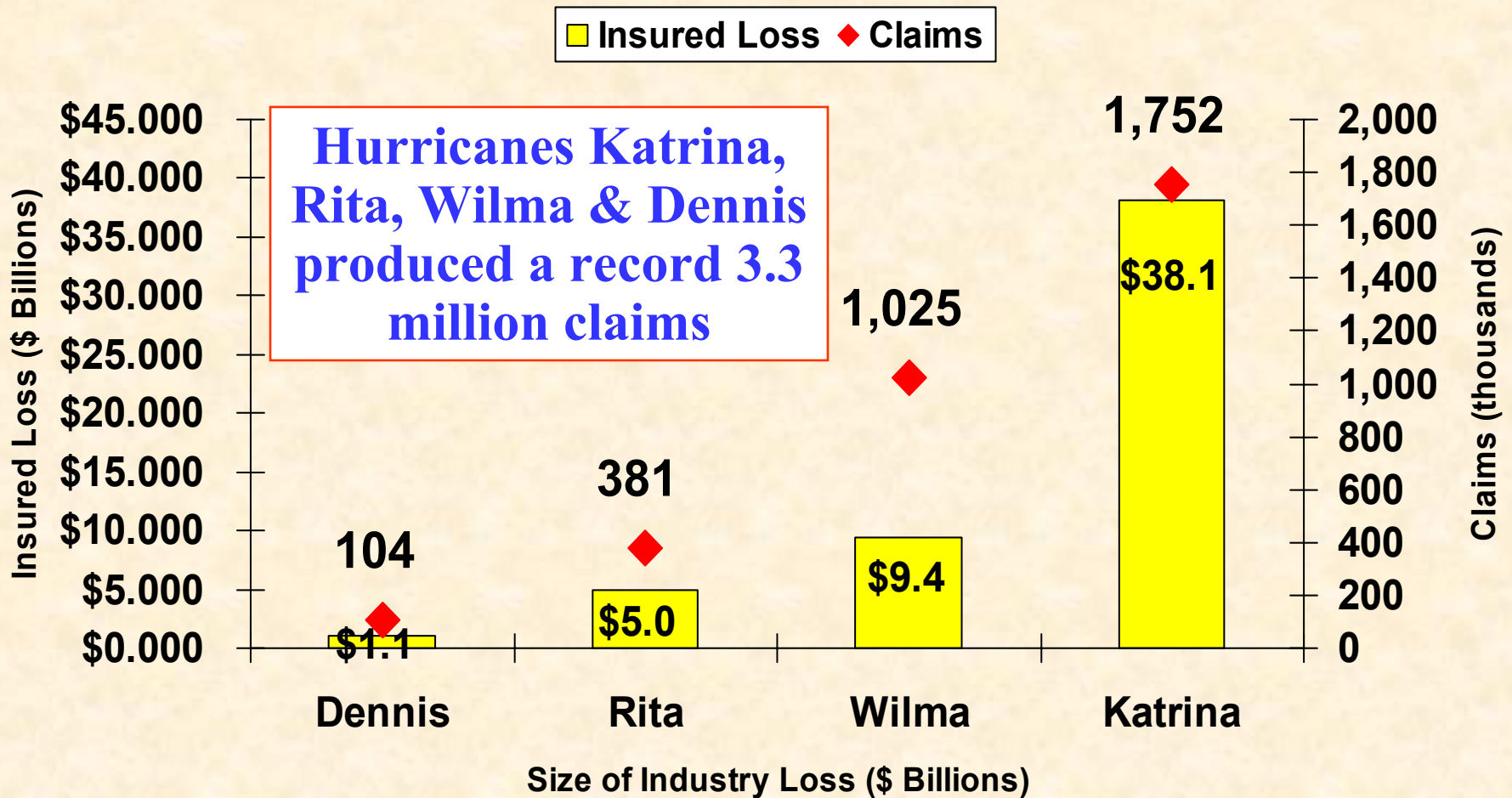
Top 11 Insured Property Losses in US (\$2005)



Note: 9/11 loss figure is for property claims only. Total insured losses (\$2004) are approximately \$34B.
Sources: ISO/PCS; Insurance Information Institute.



*Insured Loss & Claim Count for Major Storms of 2005**

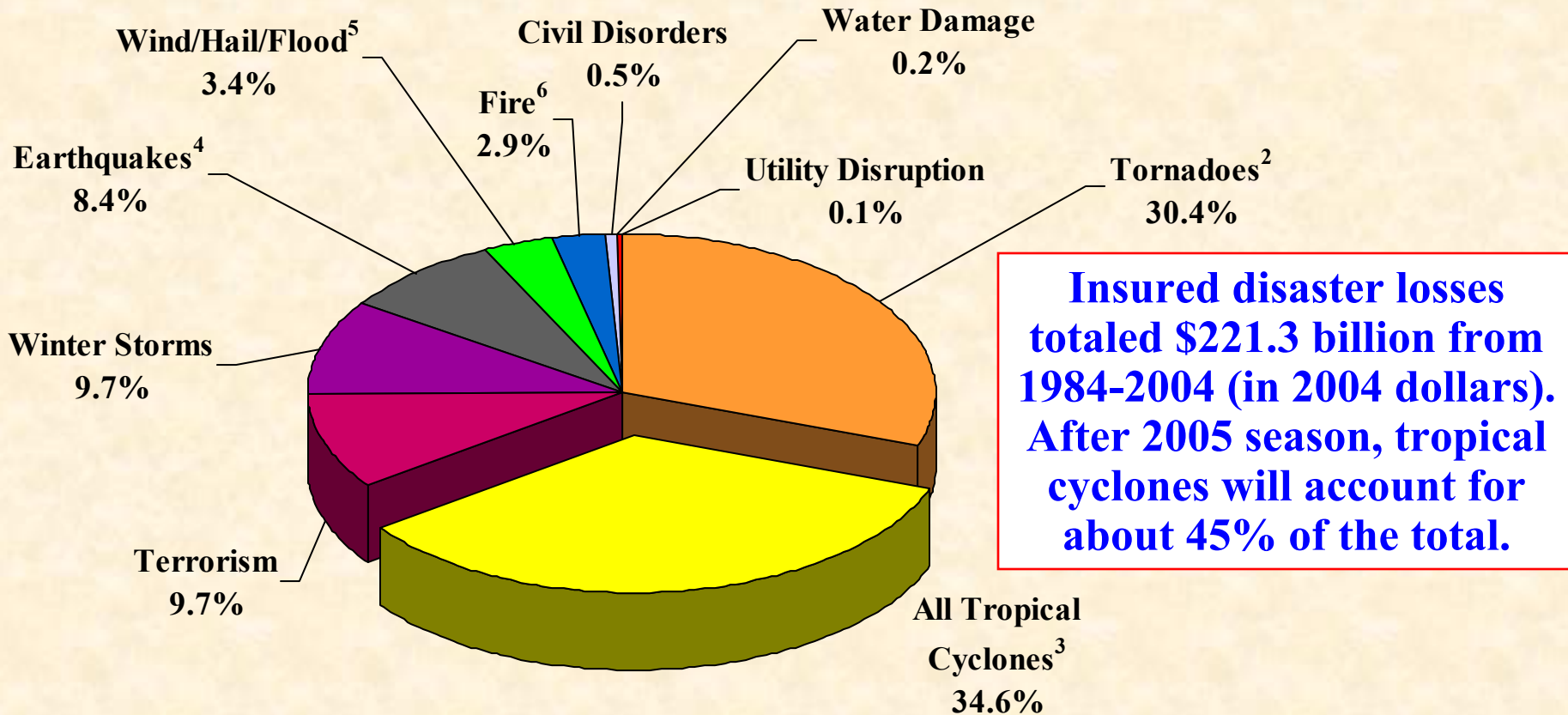


*Property and business interruption losses only. Excludes offshore energy & marine losses.

Source: ISO/PCS as of February 8, 2006 for Dennis, Rita, Katrina and March 27, 2006 for Wilma; Insurance Information



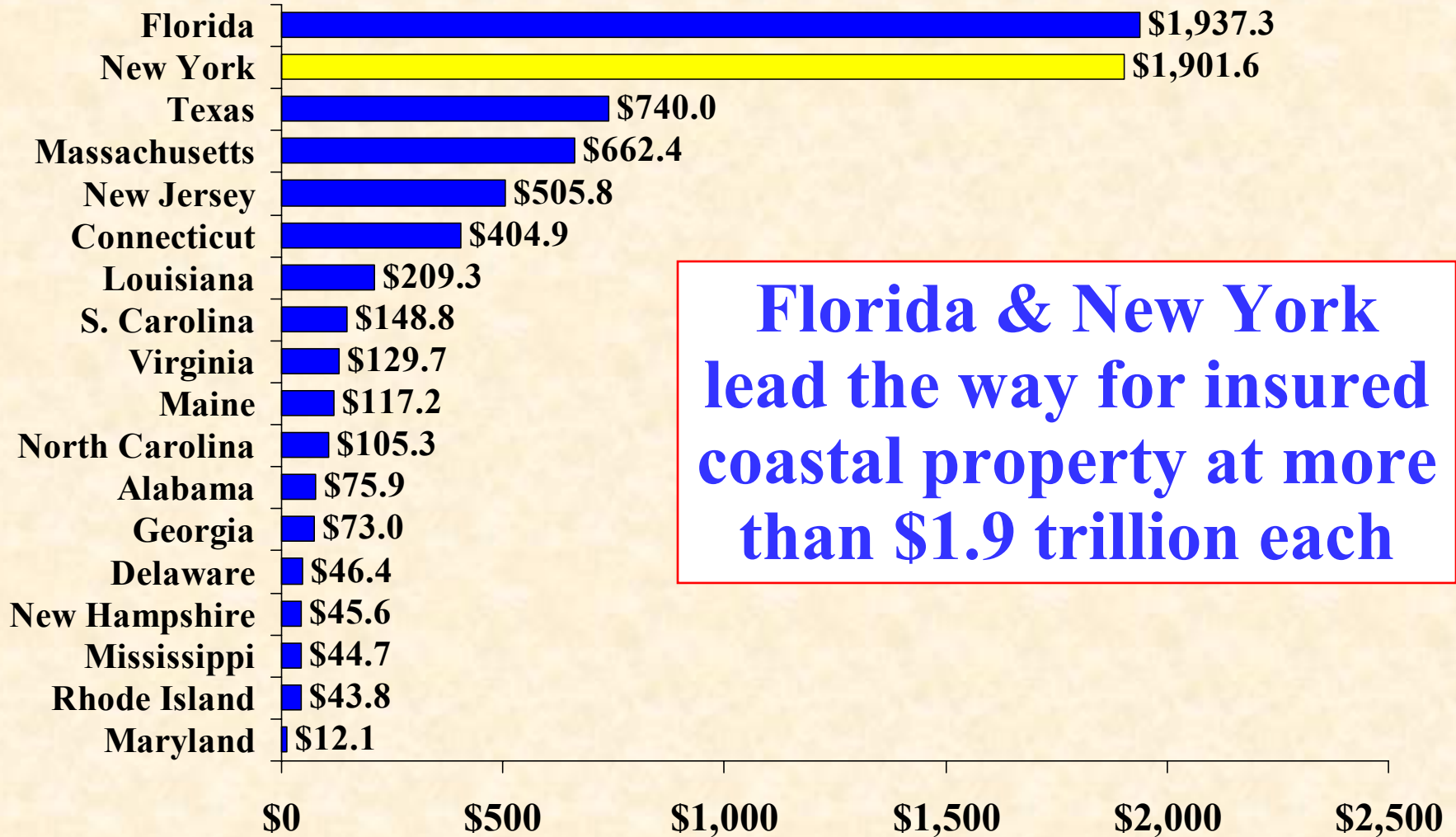
Inflation-Adjusted U.S. Insured Catastrophe Losses By Cause of Loss, 1985-2004¹



¹ Catastrophes are all events causing direct insured losses to property of \$25 million or more in 2004 dollars. Catastrophe threshold changed from \$5 million to \$25 million beginning in 1997. Adjusted for inflation by the III.
² Excludes snow. ³ Includes hurricanes and tropical storms. ⁴ Includes other geologic events such as volcanic eruptions and other earth movement. ⁵ Does not include flood damage covered by the federally administered National Flood Insurance Program. ⁶ Includes wildland fires.

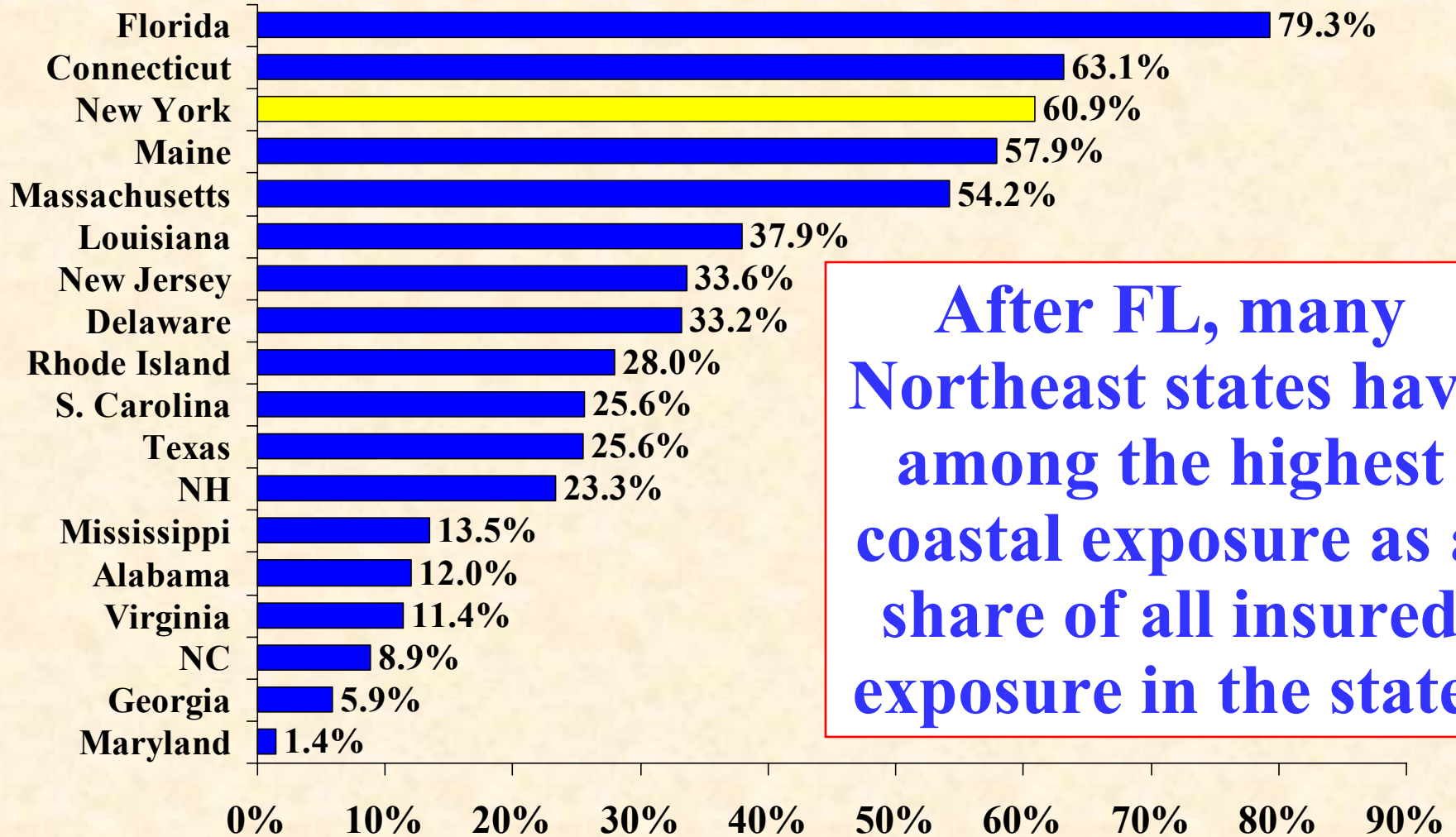


Total Value of Insured Coastal Exposure (2004, \$ Billions)





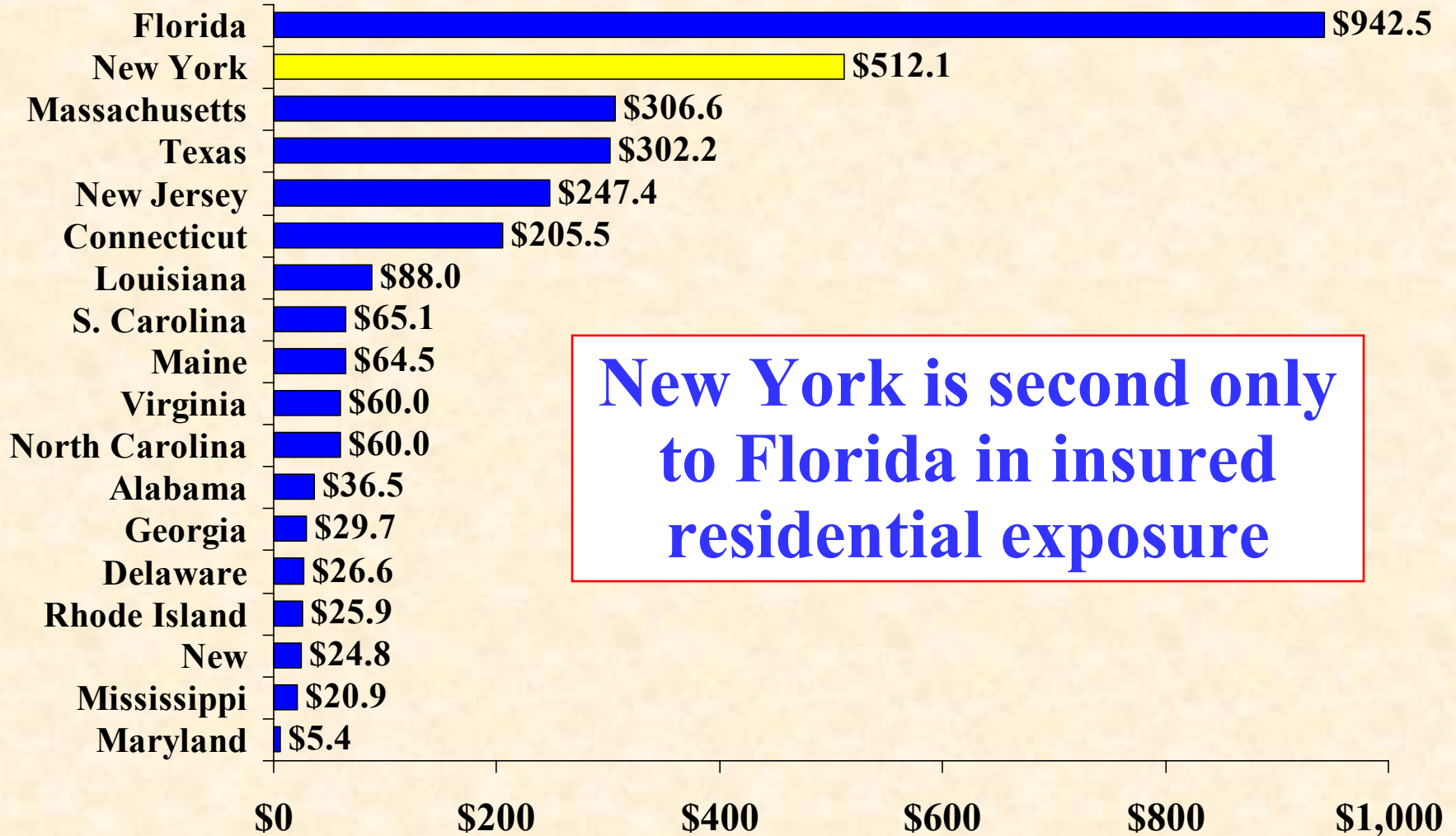
Insured Coastal Exposure as a % of Statewide Insured Exposure (2004, \$ Billions)



After FL, many Northeast states have among the highest coastal exposure as a share of all insured exposure in the state.



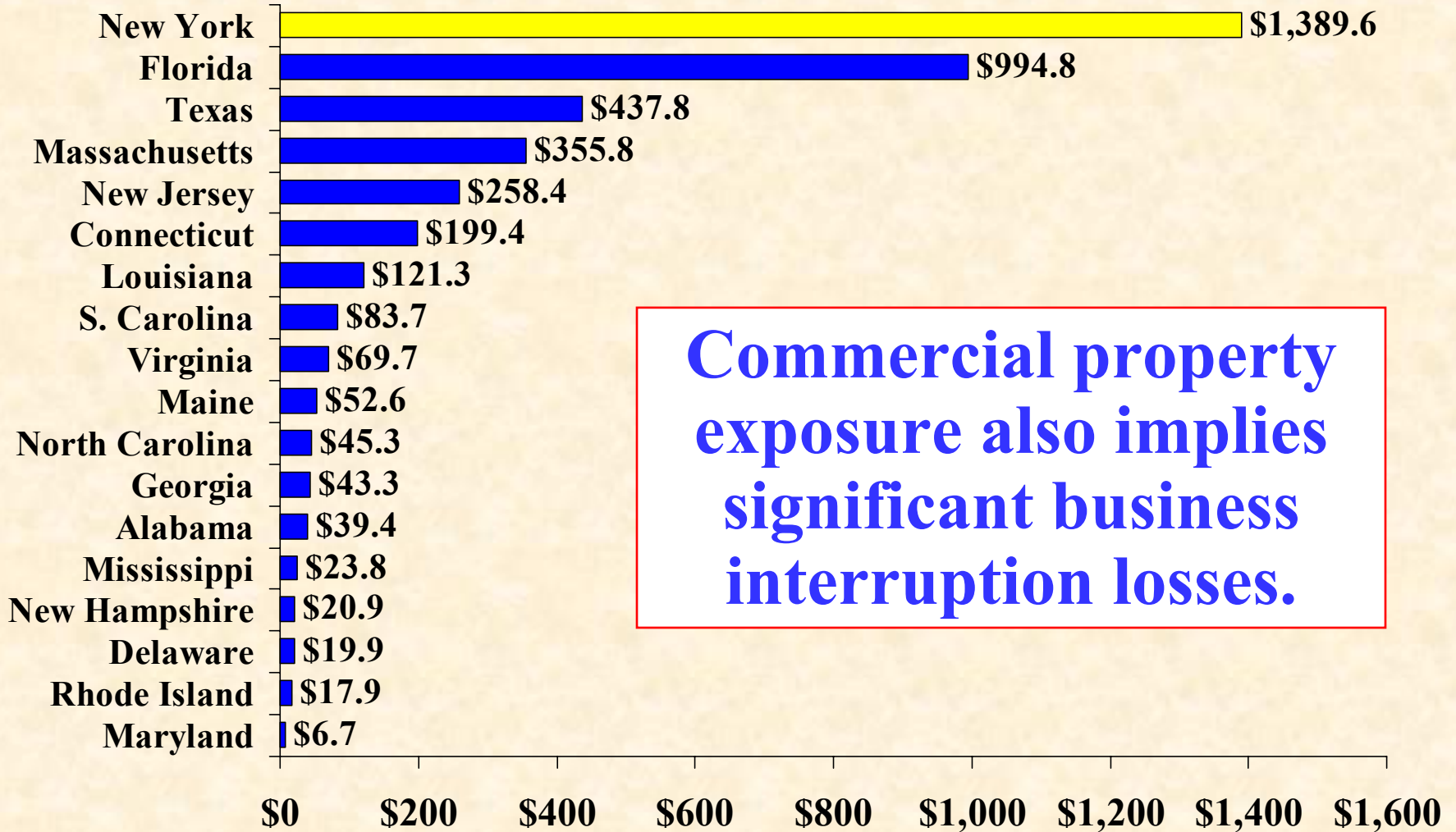
Value of Insured Residential Coastal Exposure (2004, \$ Billions)



New York is second only to Florida in insured residential exposure



Value of Insured Commercial Coastal Exposure (2004, \$ Billions)



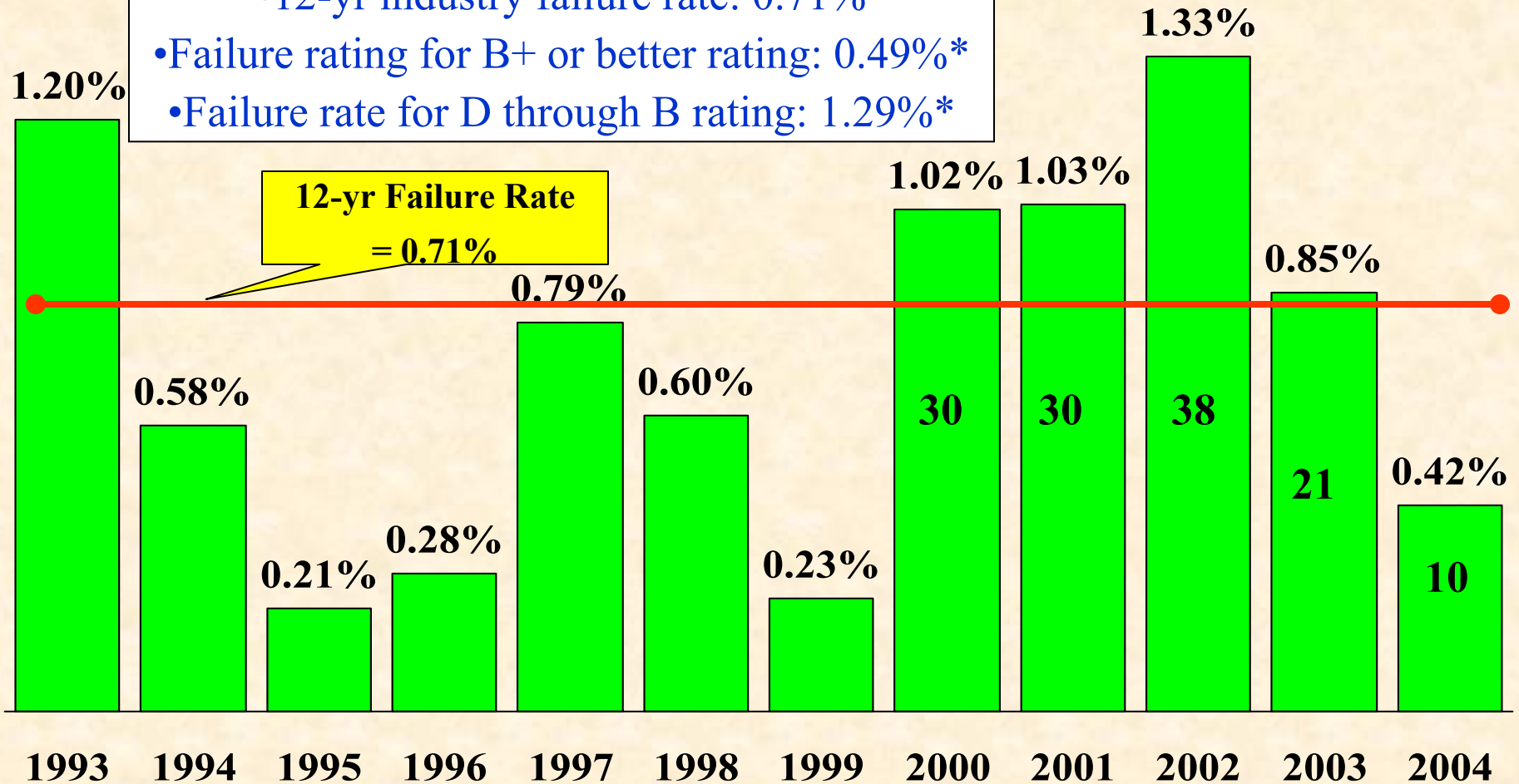
CATASTROPHIC LOSS & INSURER IMPAIRMENT

*Is a Fund Needed to Keep
iii Insurers Solvent?*



P/C Company Insolvency Rates, 1993 to 2004

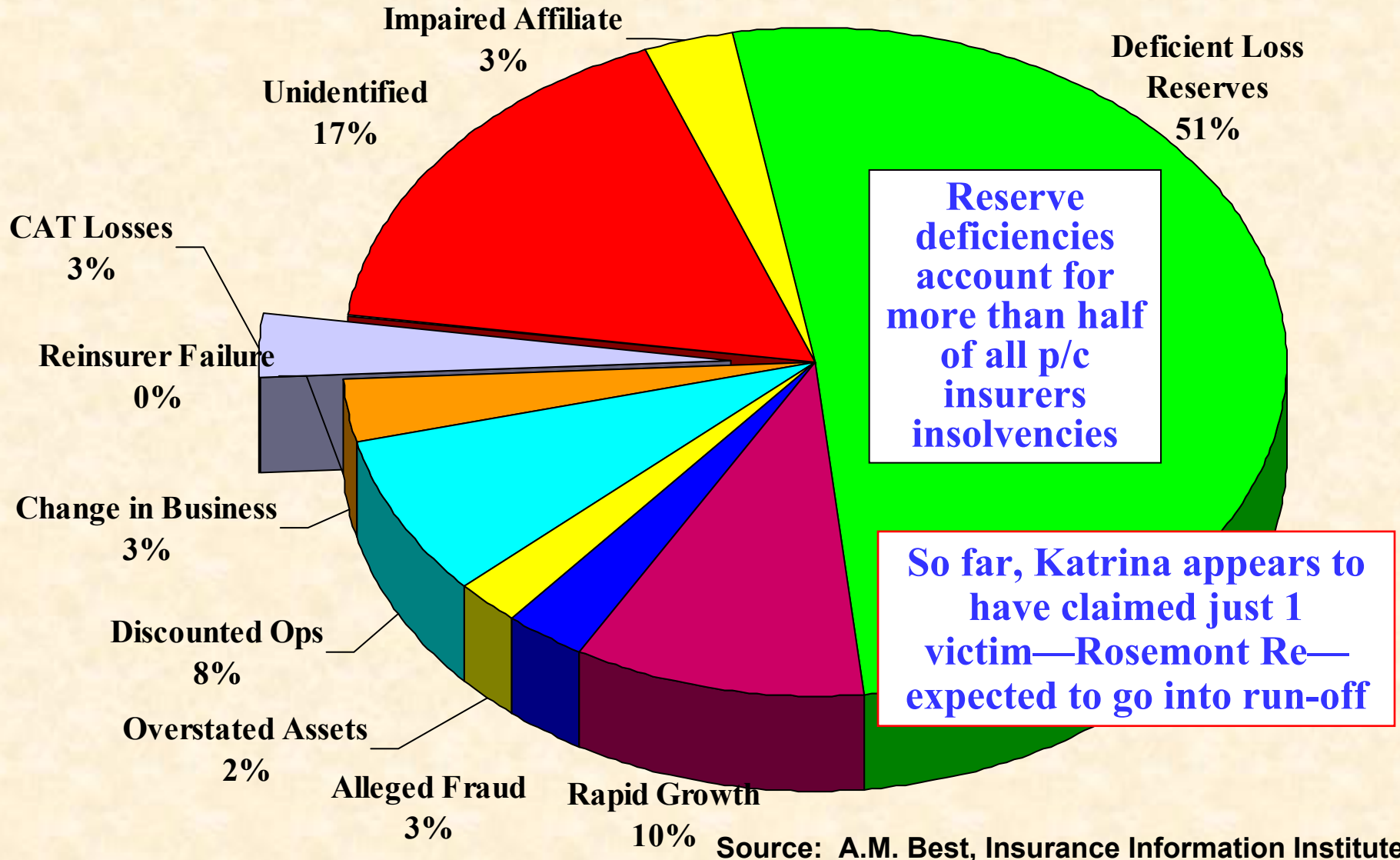
- Insurer insolvencies are decreasing
- 12-yr industry failure rate: 0.71%
- Failure rating for B+ or better rating: 0.49%*
- Failure rate for D through B rating: 1.29%*





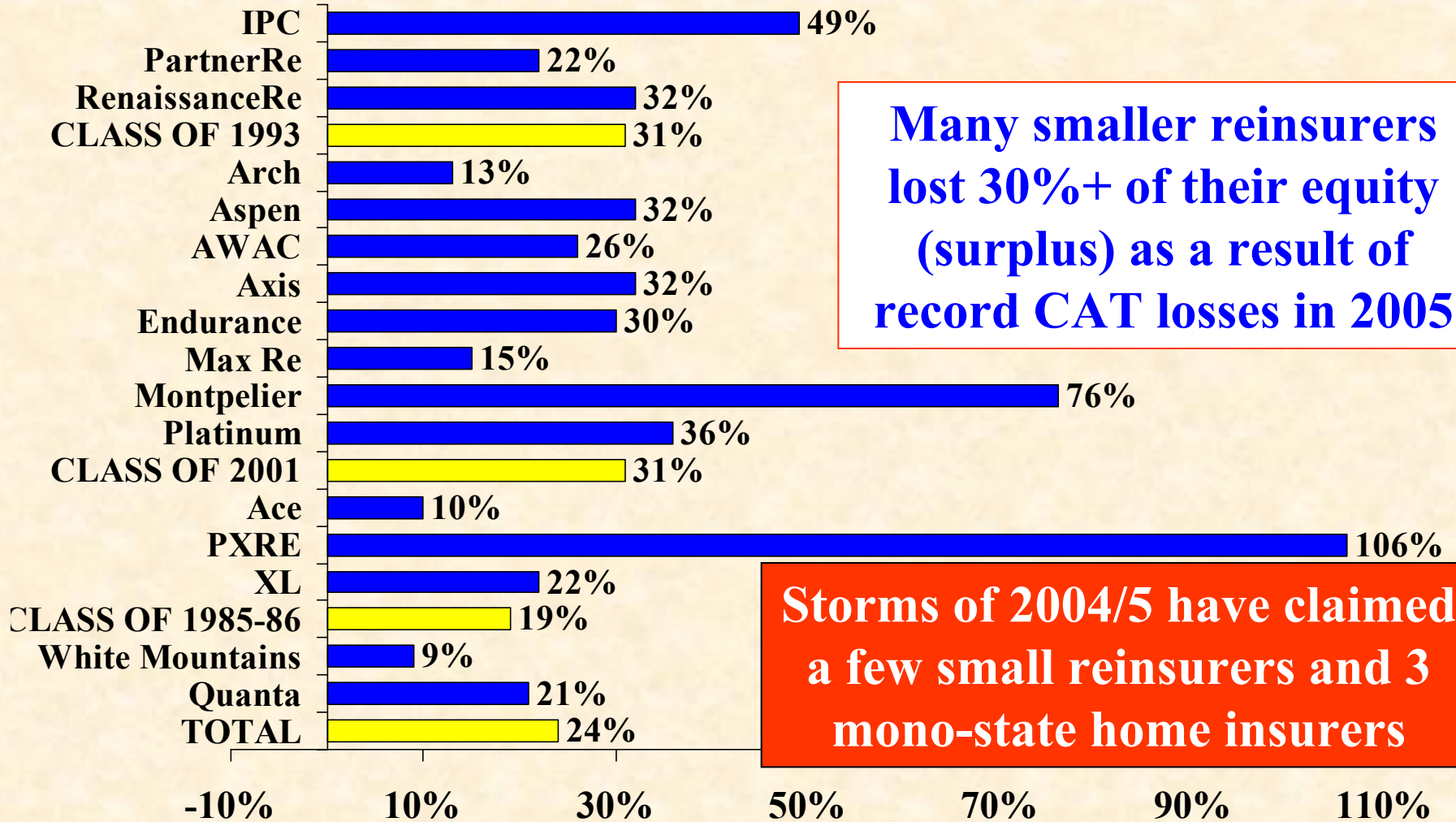
Reason for P/C Insolvencies

(218 Insolvencies, 1993-2002)





*FY2005 Loss as a Percentage of First Half 2005 Shareholder Equity**

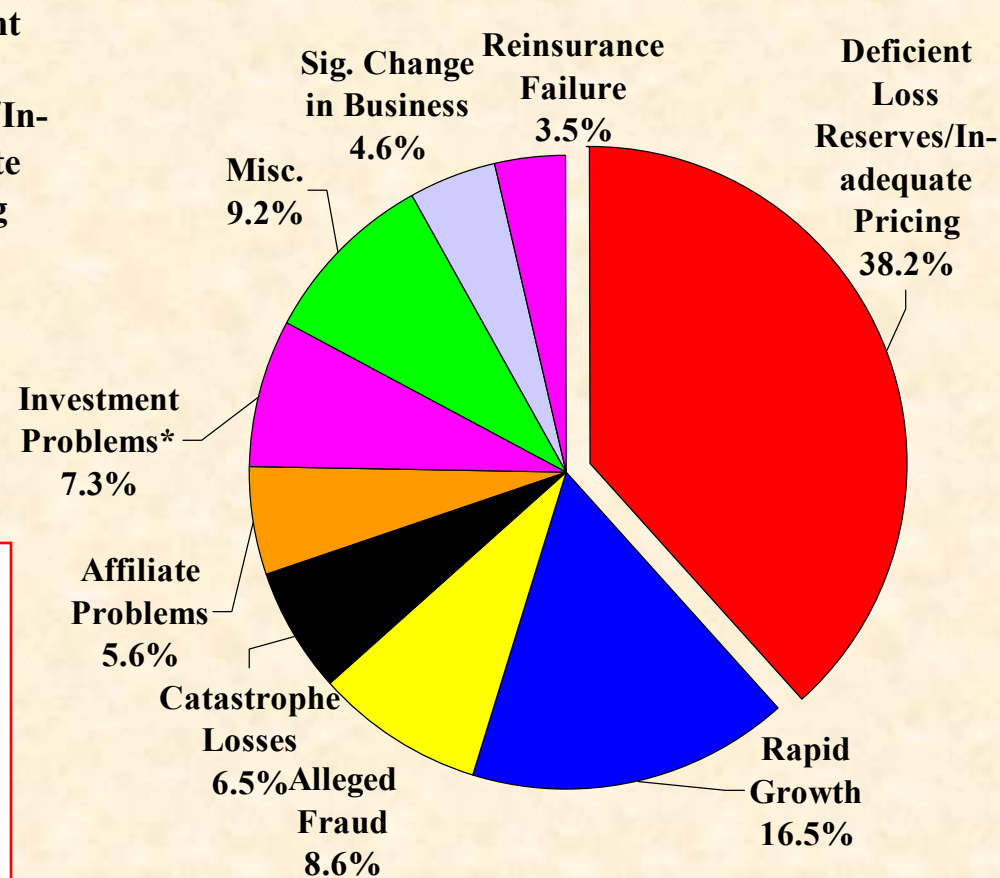
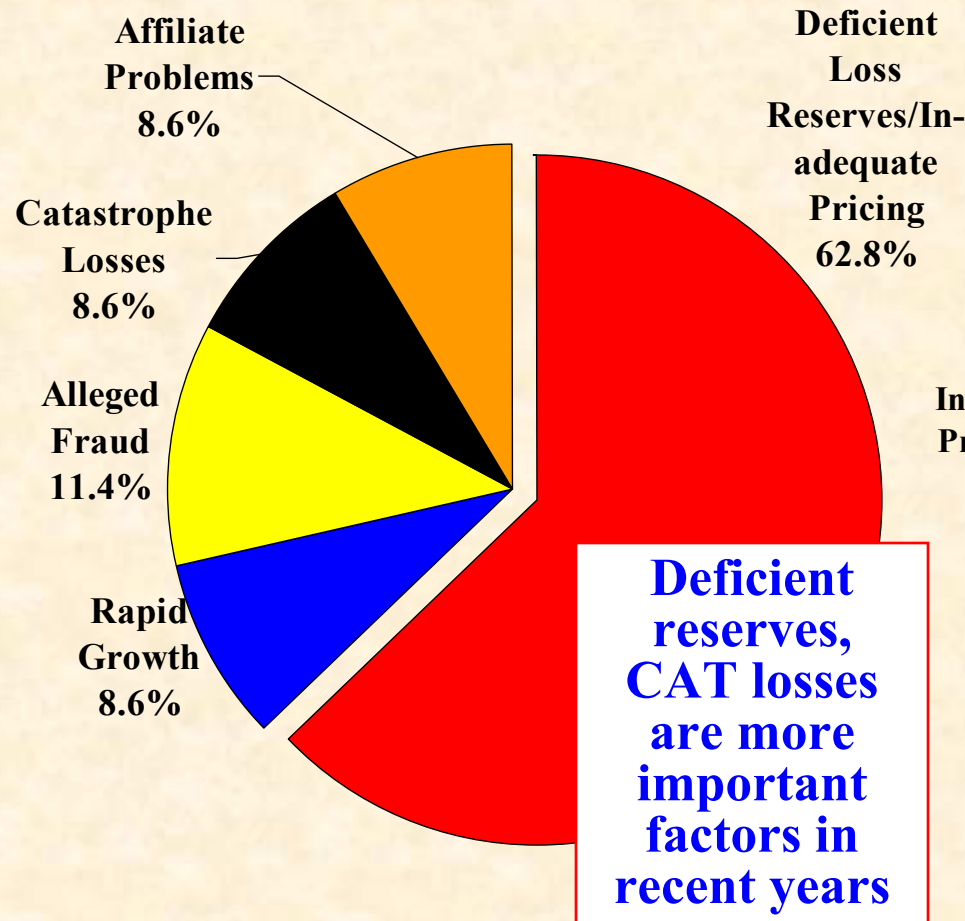




Reasons for US P/C Insurer Impairments, 1969-2005

2003-2005

1969-2005



*Includes overstatement of assets.

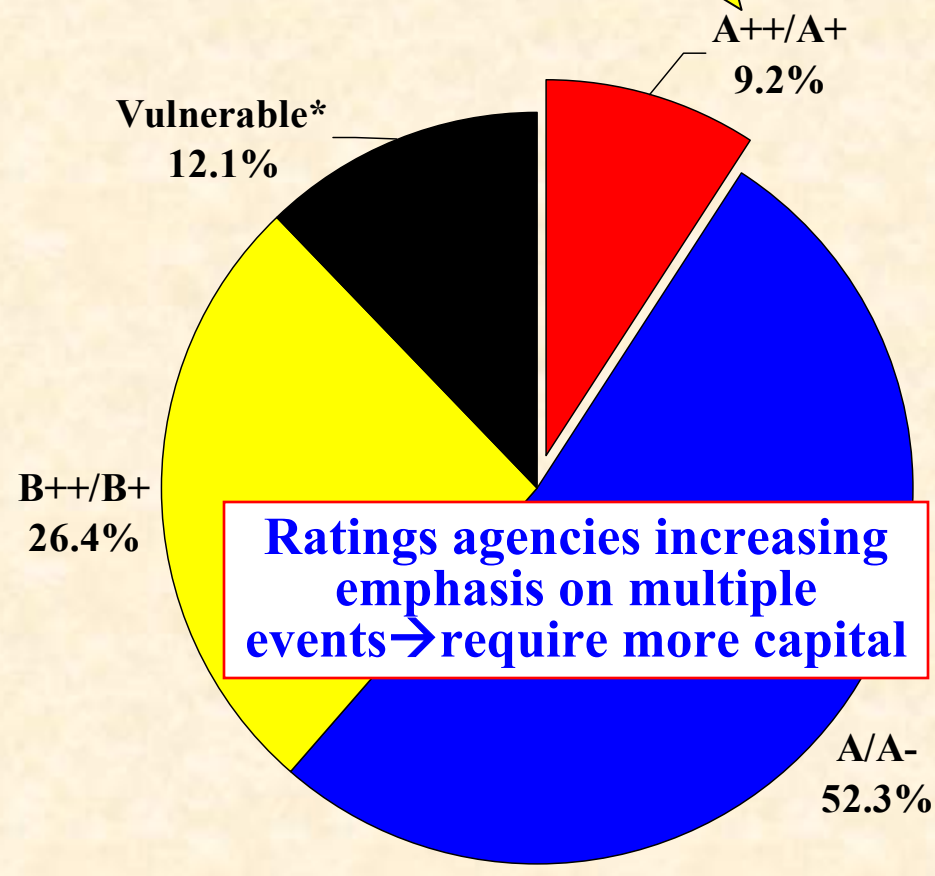
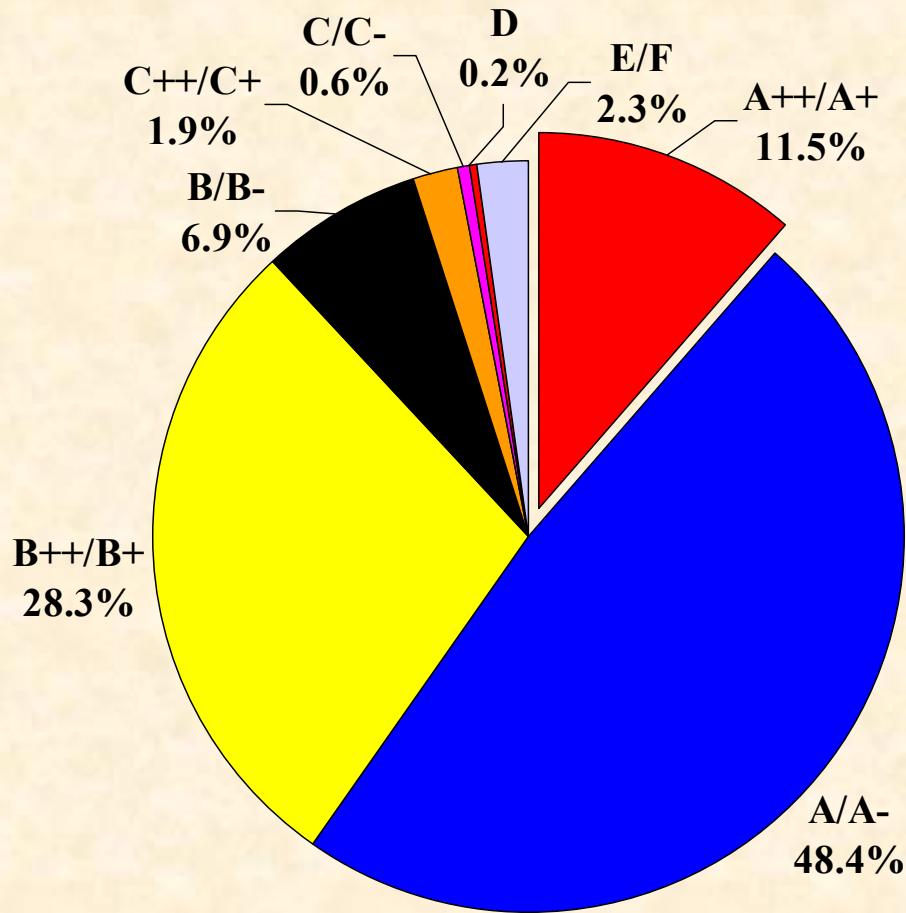


Historical Ratings Distribution, US P/C Insurers, 2000 vs. 2005

2000

2005

A++/A+ shrinkage



Source: A.M. Best: *Rating Downgrades Slowed but Outpaced Upgrades for Fourth Consecutive Year*, Special Report, November 8, 2004 for 2000; 2006 *Review & Preview* for 2005 distribution. *Ratings 'B' and lower.



Ratings Agencies Tightening Requirements for CATs

2006 SRQ CAT Model Reqs.*

- All Property Exposure
- Auto Physical Damage
- Reinsurance Assumed
- Pools & Assessments
- All Flood Exposure
- WC Losses from Quake
- Fire Following
- Storm Surge
- Demand Surge
- Secondary Uncertainty

Best currently estimates PML for 100-yr. wind & 250-yr. quake to determine capital adequacy

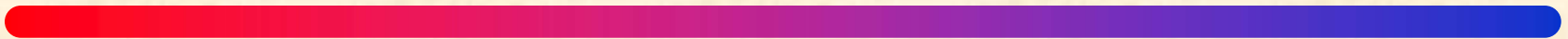
ALSO “A.M. Best will perform additional “stress-tested” risk-adjusted capital analysis for a second event in order to determine the potential financial condition of an entity post a severe event.”

IMPLICATION: Some insurers may be required to carry more capital to maintain the same rating.

*SRQ = Supplemental Rating Questionnaire

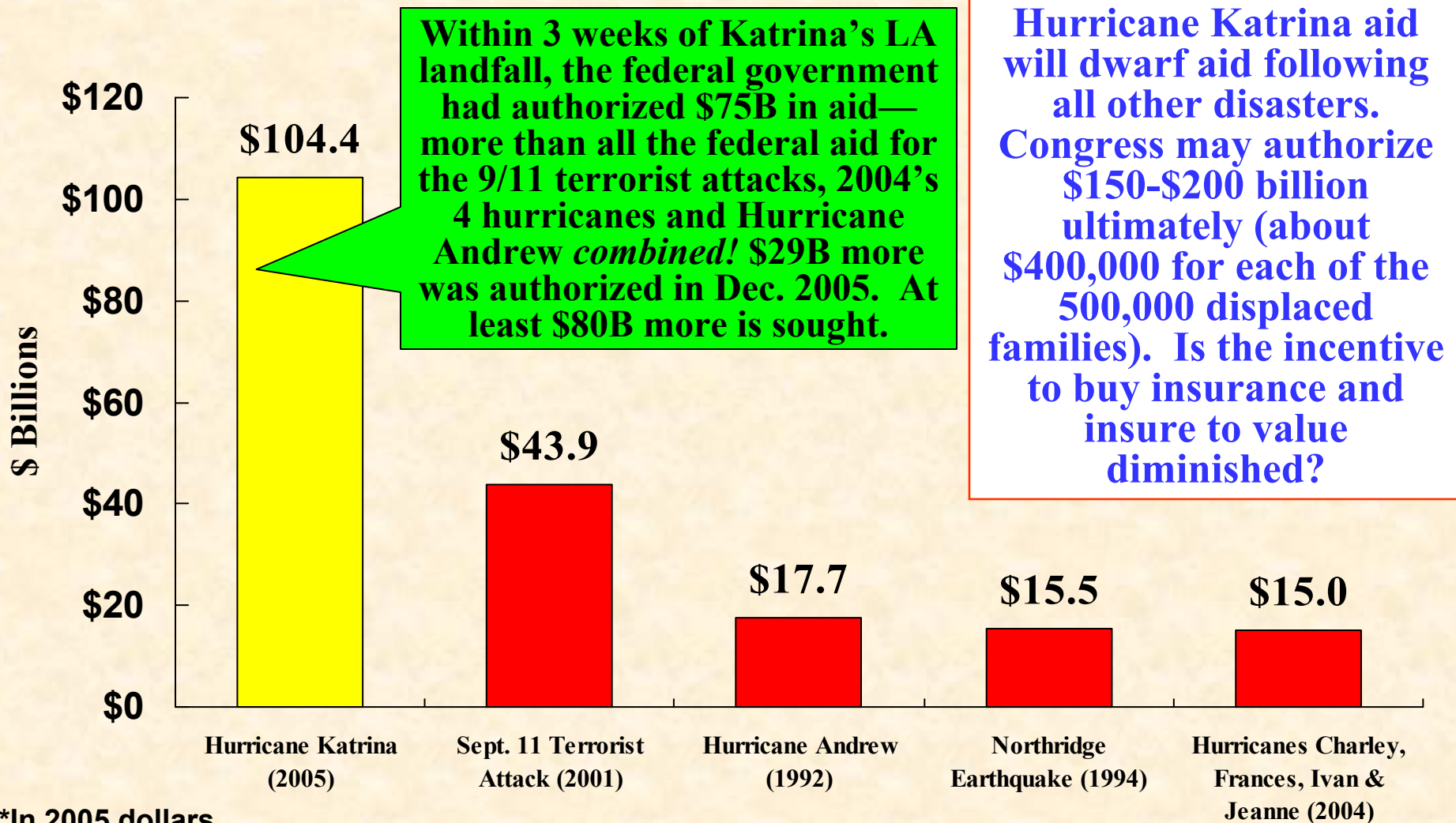
Source: A.M. Best Review & Preview, January 2006.

Overview of Plans for a National Catastrophe Insurance Plan





Government Aid After Major Disasters (Billions)*



*In 2005 dollars.

Source: United States Senate Budget Committee, Insurance Information Institute as of 12/31/05.



NAIC's Comprehensive National Catastrophe Plan

- **Proposes Layered Approach to Risk**
- **Layer 1: Maximize resources of private insurance & reinsurance industry**
 - Includes “All Perils” Residential Policy
 - Encourage Mitigation
 - Create Meaningful, Forward-Looking Reserves
- **Layer 2: Establishes system of state catastrophe funds (like FHCF)**
- **Layer 3: Federal Catastrophe Reinsurance Mechanism**



Guiding Principles of NAIC's National Catastrophe Plan

- **National program should promote personal responsibility among policyholders**
- **National program should support reasonable building codes, development plans & mitigation tools**
- **National program should maximize risk-bearing capacity of private markets, and**
- **National plan should provide quantifiable risk management to the federal government**



Comprehensive National Catastrophe Plan Schematic

1:500 Event

National Catastrophe Contract Program

1:50 Event

State Regional Catastrophe Fund

State Attachment

**Personal
Disaster
Account**

Private Insurance

Private Reinsurance



Legislation: Comprehensive National Catastrophe Plan

- **H.R. 846: Homeowners Insurance Availability Act of 2005**
 - Introduced by Representative Ginny Brown-Waite (R-FL)
 - Requires Treasury to implement a reinsurance program offering contracts sold at regional auctions
- **H.R. 4366: Homeowners Insurance Protection Act of 2005**
 - Also worked on by Rep. Brown-Waite
 - Establishes national commission on catastrophe preparation and protection
 - Authorizes sale of federally-backed reinsurance contracts to state catastrophe funds
- **H.R. 2668: Policyholder Disaster Protection Act of 2005**
 - Backed by Rep. Mark Foley (R-FL)
 - Amends IRS code to permit insurers to establish tax-deductible reserve funds for catastrophic events
 - 20-year phase-in for maximum reserve
 - Use limited to declared disasters

Legislation: Comprehensive

National Catastrophe Plan (cont'd)

- **S. 3114: Nelson-Landrieu Bill (2006)**
 - **Introduced by Senators Bill Nelson (D-FL) Mary Landrieu (D-LA)**
 - **Calls for creation of bipartisan panel of experts to examine specific proposals before Congress to create federal disaster reinsurance program & that would allow homeowners to set aside tax-exempt cash reserves to pay deductibles and other out-of-pocket disaster-related expenses**



Layer 1: *The Insurance Contract,* *Enhancing Capacity & Shaping the Risk*

- **All Perils Policy**
 - No exclusion except acts of war
 - Contains standard deductibles of \$500 - \$1000 *but requires* separate CAT deductible of 2% – 10% of insured value; Consumer could buy down the deductible to non-CAT fixed dollar amount
- **Encouraging Mitigation**
 - Policy will provide meaningful discounts for effective mitigation measures
- **Creating Meaningful, Forward-Looking Reserves**
 - Change tax law to allow insurers to set aside a share of premiums paid by policyholders as a reserve for future events
 - Amount set aside would be actuarially based
 - Phased-in to maximum reserve over 20 years
 - Use limited to declared disasters

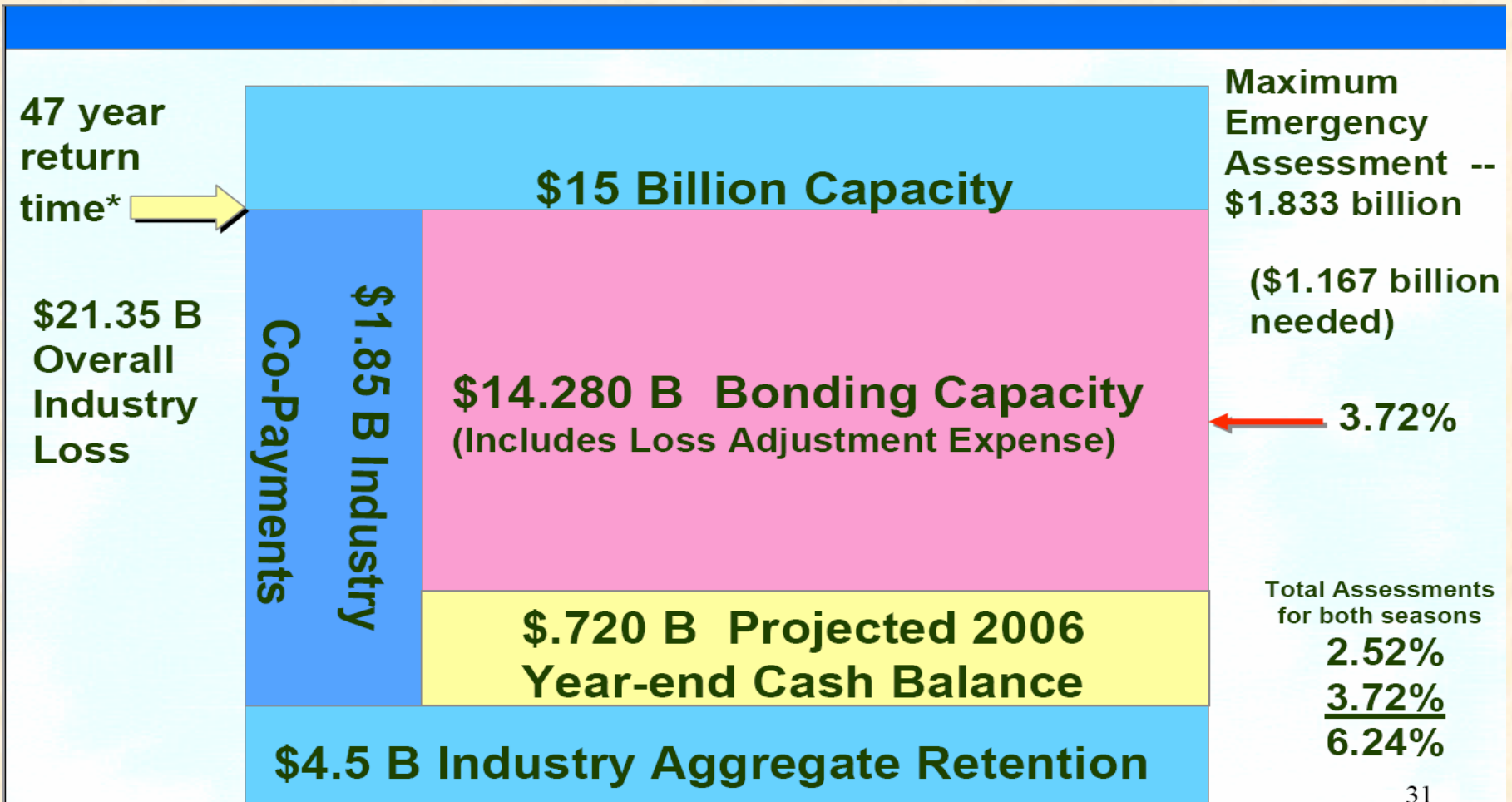


Layer 2: State Level Public/Private Partnership (State CAT Fund)

- **Requirement to Create Fund**
 - **To participate in national fund, states must establish state CAT fund or participate in regional CAT fund**
 - **Funds responsible for managing capacity of their funds up to costs expected for combined 1-in-50 year CAT loss level**
- **Operation of State/Regional CAT Funds**
 - **Operating structures left to states' discretion, including**
 - **Financing mechanism (e.g., debt, pool etc.)**
 - **Trigger point for qualifying loss (if any)**
 - **Amount of retention between private insurers & state fund**
 - **Participation by surplus lines & residual markets**
 - **Requirement that rates are actuarially sound**
 - **Requirement that fund will finance a level of mitigation education and implementation**



Schematic of Florida Hurricane Catastrophe Fund (2006)



*Return time not adjusted for premium/exposure growth.

Not Drawn to scale.



Layer 2: State Level Public/Private Partnership (State CAT Fund) [Cont'd]

- **Building Codes**
 - **Participating states expected to establish effective (enforced) building codes that properly reflect their CAT exposures as well as the latest in accepted science and engineering**
 - **States also required to develop high land use plans where appropriate**
- **Anti-Fraud Measures**
 - **State funds and DOIs maintain rigorous anti-fraud programs to ensure losses paid actually due to insured CAT loss**
- **Mitigation**
 - **DOIs required to establish & implement effective mitigation plans**
 - **Review of mitigation plans will be considered as part of an NAIC certification process**

Layer 3:



The Role of a National Mechanism

- **The National Catastrophe Plan Mechanism**
 - **Federal legislation is needed to create a National Catastrophe Insurance Commission (NCIC)**
 - **NCIC purpose is to serve as conduit between state funds and US Treasury for purpose of providing reinsurance to state funds for insured losses resulting from catastrophic events beyond the state-mandated 1-in-50 year exposure**
 - **States & NCIC will enter into National Catastrophe Financing Contracts**
 - **Reinsurance will attach at 1-in-50 year level and provide protection through the 1-in-500 year level event**

Layer 3: *[Cont'd]*

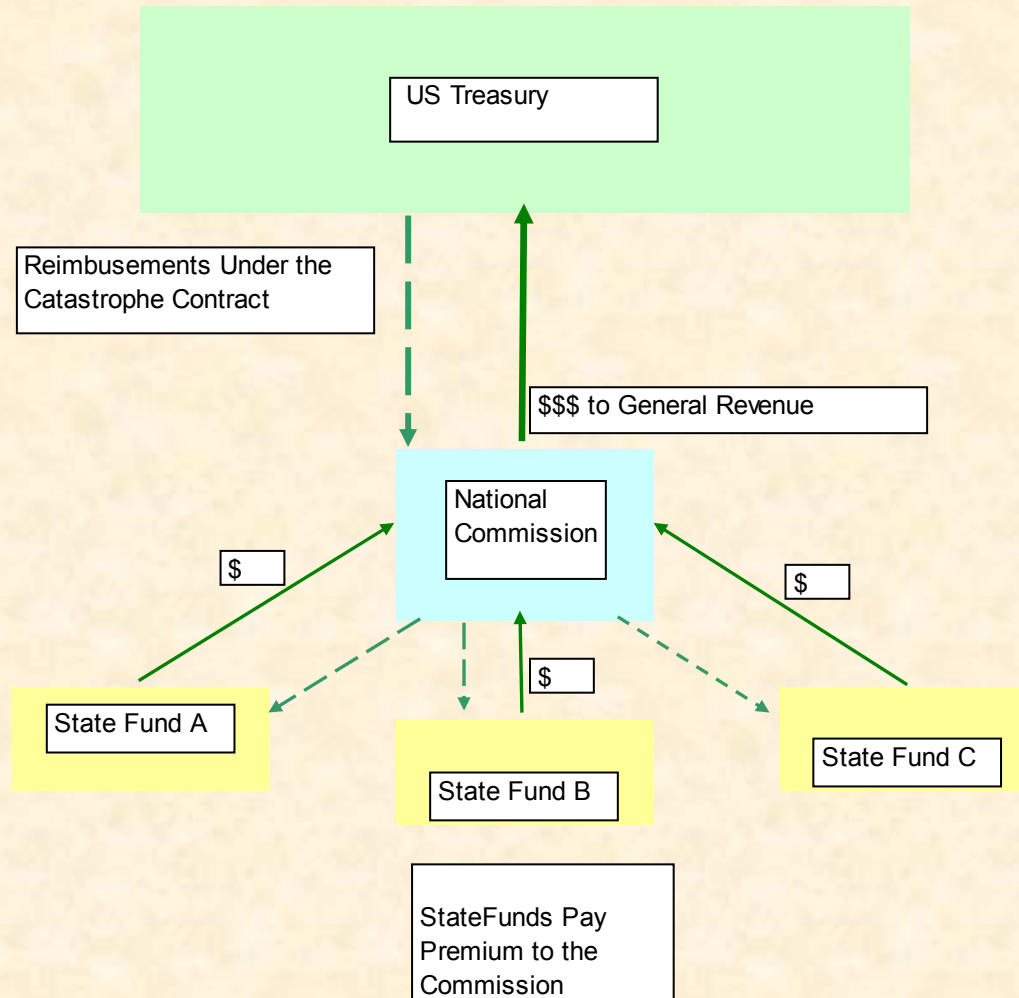


The Role of a National Mechanism

- **The National Catastrophe Insurance Commission Structure & Duties**
 - **NCIC would annually establish actuarially sound rates, with no profit factor, for each state's aggregate catastrophic exposure**
 - **State fund responsible for collecting premium and remitting to NCIC.**
 - **NCIC remits premiums to US Treasury general revenues**
 - **No separate fund is created, nor are any funds accumulated**
 - **In the event of a loss, US Treasury provides funds pursuant to catastrophe financing contract**
 - **NCIC will consist of 11 members serving 6-year terms**
 - **1 member from each of 4 NAIC zones, 1 US Treasury rep., remainder are to be experts in actuarial science, engineering, meteorological/seismic science, consumer affairs & p/c insurance**
 - **Members are selected by the President & confirmed by the Senate with chair appointed by the President**



Interaction of State Funds, National Commission & US Treasury





Pros/Cons of Federal CAT

(Re) Insurance Facility

Rationale *FOR* Federal Involvement

- Insurance was not meant to handle mega-catastrophes
- Such risks are fundamentally uninsurable
- Federal government already heavily involved in insuring against weather-related mega-catastrophes (e.g., flood, crop)
- Insurers are not allowed to charge risk appropriate rates (including rising reinsurance costs)
- Price/availability of private reinsurance is volatile

Rationale *AGAINST* Federal Involvement

- Crowds-out pvt. insurance/reinsurance markets; stifles innovation
- Relationship between price and risk assumed is diminished since fed insurance programs are seldom actuarially sound
- Increases federal involvement and regulatory authority in p/c insurance (*not a negative for some market participants*)
- Cost to US Treasury (esp. taxpayers in less disaster prone states)
- Diminishes incentives for mitigation, tougher building codes and wiser land use policies if Fed rate are politically influenced



Proponents/Opponents of National Catastrophe Plan

Proponents of a National Catastrophe Plan

- **Some major personal lines insurers: Allstate, State Farm**
- **Insurance regulators from some CAT-prone states: FL, CA as well as NY (but not TX)**
- **Some elected officials in state legislatures & Congress, esp. from disaster-prone states like FL**
- **Coalition building on-going (ProtectingAmerica.org)**

Opponents of a National Catastrophe Plan

- **Reinsurers, American Insurance Association, numerous large insurers both domestic and foreign, mutual and stock**
- **Many smaller insurers concerned about federal intrusion into the p/c regulatory arena**
- **Many insurers operating outside areas prone to major CAT risk**
- **Some/many regulators in states not prone to major catastrophic risk**
- **Likely opposition among legislators and policymakers in Washington opposed to deeper involvement of government in p/c insurance sector**



Notable & Quotable...

“People who willingly and knowingly live in catastrophe-prone areas should assume the risk, and cost, of doing so; government-subsidized insurance just loads the risk, and cost, on average taxpayers.”

➤ *Edmund F. Kelly, CEO, Liberty Mutual Insurance Company (Wall Street Journal, May 31, 2006)*



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A VULNERABLE AMERICA

HURRICANES EARTHQUAKES

WHAT ARE YOU AT RISK FOR?

OUR MISSION IS TO RAISE AWARENESS, EDUCATE THE PUBLIC AND POLICYMAKERS, AND OFFER SOLUTIONS THAT WILL BETTER PREPARE AND PROTECT AMERICA FROM MAJOR CATASTROPHE IN A SENSIBLE, COST-EFFECTIVE FASHION.

REPLAY

AMERICA NEEDS YOUR VOICE!

Our current system leaves too many people unprotected and unable to rebuild their lives following a catastrophe. We need to prepare for future catastrophes and protect ourselves.

[CONTACT YOUR ELECTED OFFICIALS >](#)

[JOIN OUR CAUSE >](#)

STATS & FIGURES:

Repeat of the 1886 Charleston, South Carolina, earthquake today would cause



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PREPARE YOURSELF:

HOW YOU CAN BETTER PREPARE
tips for average americans >

RECENT NEWS:

- Teaching Earthquake Science Made Easy: USGS Partnership Puts Curriculum into the Classroom
2.1.06
- Faculty Senate hears report on emergency-preparedness plan
2.1.06
- It's Earthquake Preparedness Week In Kentucky
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HURRICANES

WHAT ARE YOU AT RISK FOR?

OUR MISSION IS TO RAISE AWARENESS, EDUCATE THE PUBLIC AND POLICYMAKERS,
AND OFFER SOLUTIONS THAT WILL BETTER PREPARE AND PROTECT NEW YORK FROM
MAJOR CATASTROPHE IN A SENSIBLE, COST-EFFECTIVE FASHION.

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FACTS & FIGURES:

In 1938, the Long Island Express missed Manhattan by only 55 miles, a close call in



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[ProtectingNewYork.org Applauds N.Y. Congress Members Israel and McCarthy For Their Leadership to Better Prepare New York and America for Catastrophe](#)
1.20.06

[Information about the "Long Island Express"](#)
8.26.05

Regional Natural Disaster Pool(s)

KEY ELEMENTS

- Share of property premiums in certain states (homeowners, commercial property) premiums collected would be ceded to pool and used to finance mega-catastrophes in participating states
- Funds would earn investment income tax-free to speed accumulation
- Federal government would provide a backstop to the pool as:
 - Reinsurance purchased by pool from the government
 - Line of credit offset by assessing authority

KEY CHALLENGES

- Is participation by insureds mandatory or optional?
- If optional, significant adverse selection problem
- Determination of “actuarially sound” rates
- Maintaining role for private reinsurance
- Keeping rates free of political influence and manipulation
- Formula for assessing shortfalls in pool (including taxpayer share)
- Attracting support of states not prone to mega-catastrophes
- Appeasing deficit hawks, advocates of small government



Federal Reinsurance Program

KEY ELEMENTS

- **Insurers purchase CAT reinsurance from federal government**

KEY CHALLENGES

- **Determination of “actuarially sound” rates**
- **Maintaining significant role for private reinsurers**
- **Maintaining significant role for ART and risk securitization**
- **Keeping rates free of political influence and manipulation**
- **Appeasing advocates of small government**
- **Keeping natural disaster risk programs separate and distinct from terrorism risk**

Tax-Preferred Treatment of Pre-Event Catastrophe Reserving

- **KEY ELEMENTS**

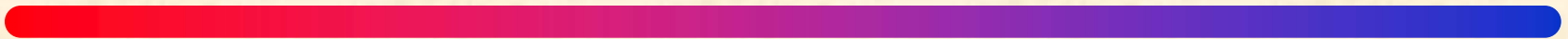
- Insurers would be allowed to deduct from their taxable income amounts set aside in reserve for natural disaster risks *in advance of the occurrence of the actual event*
- Presently, US tax law does not allow for such treatment
 - Most other countries already permit pre-event reserving

- **KEY CHALLENGES**

- Determination of appropriate reserve levels
- Overcoming criticism of impact on US Treasury receipts
 - Note that impact on Treasury is limited to time value of tax receipts

The 2006 Hurricane Season:

Preview to Disaster?





Outlook for 2006 Hurricane Season

	Average*	2005	2006F
Named Storms	9.6	26	17
Named Storm Days	49.1	115.5	85
Hurricanes	5.9	14	9
Hurricane Days	24.5	47.5	45
Intense Hurricanes	2.3	7	5
Intense Hurricane Days	13	7	13
Net Tropical Cyclone Activity	100%	275%	195%

*Average over the period 1950-2000.

Source: Dr. William Gray, Colorado State University, May 31, 2006.



Probability of Major Hurricane Landfall (CAT 3, 4, 5) in 2006

	Average*	2006F
Entire US Coast	52%	82%
US East Coast Including Florida Peninsula	31%	69%
Gulf Coast from FL Panhandle to Brownsville, TX	30%	38%
<i>ALSO...Above-Average Major Hurricane Landfall Risk in Caribbean for 2006</i>		

*Average over past century.

Source: Dr. William Gray, Colorado State University, May 31, 2006.

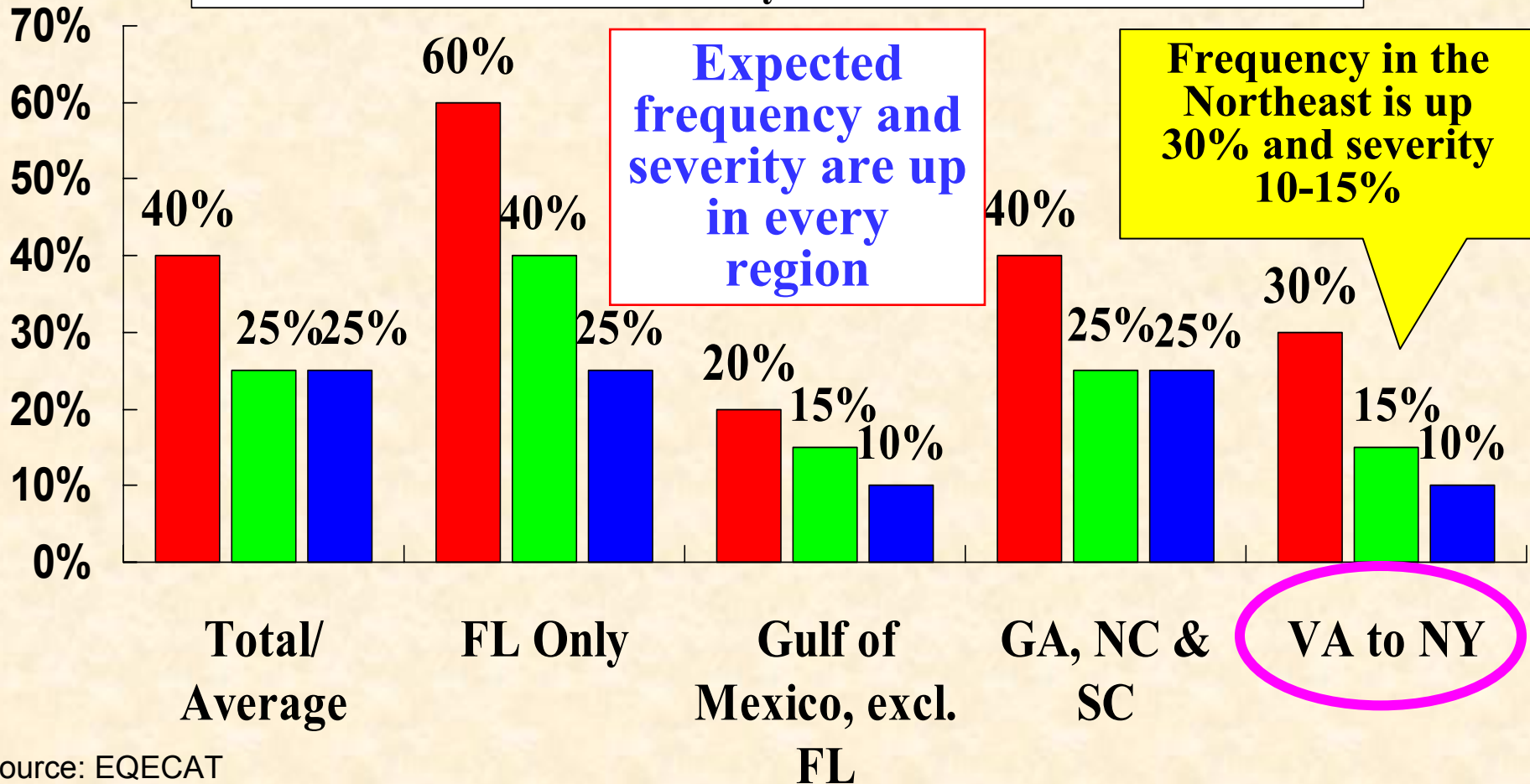


Probability of Major Hurricane Landfall (CAT 3, 4, 5) in 2006

	NOAA	CSU	2005 Actual
Number Named Storms	13-16	17	28
Number of Hurricanes	8-10	9	15
Number of Major Hurricanes (Category 3+)	4-6	5	7

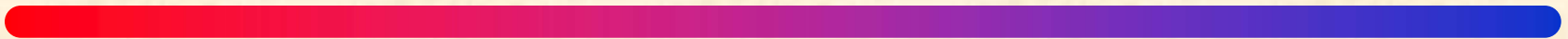
CAT Models for 2006 Show Increase in Hurricane Frequency & Severity

- Increase in Frequency
- Increase in Severity: 1-in-50 Year Event
- Increase in Severity: 1-in-100 Year Event



Hurricane Risk in New York

Is it Real?





Some Measures Insurers are

Reported to be Taking in Coastal NY

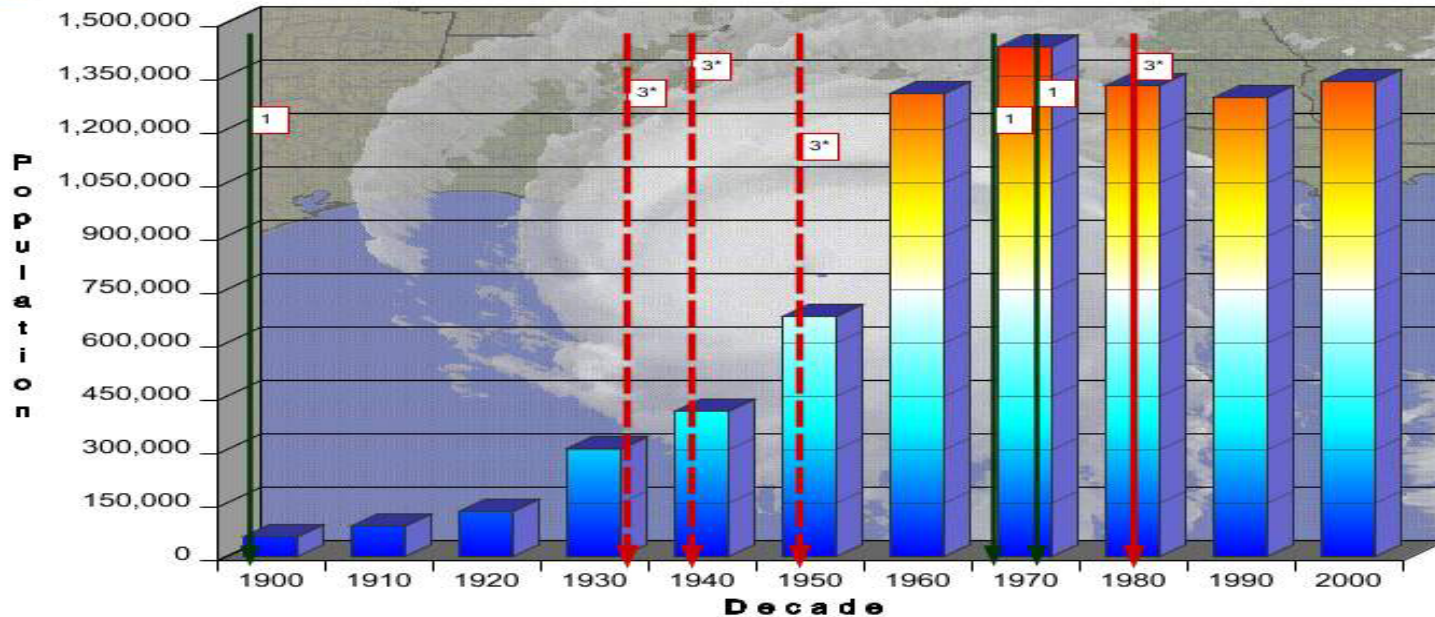
- **Rating Actions: 5% - 30% Increases Reported**
- **Non-renewals**
- **Limiting Number of New Policies Written**
- **No New Business in One or More of (or Parts of):
Long Island, Westchester & NYC**
- **Writing Only in Selected Tiers**
- **Won't Write Within 1 Mile of Shore**
- **Won't Write Within 1000 ft. of Shore**



Historical Hurricane Strikes in Nassau County, NY, 1900-2002



Nassau, NY



Legend

- Hurricane Category 1-2
- Hurricane Category 3-5
- Storm Moving at Greater Than 30 m.p.h.
- Direct Strike
- Conventional Landfall Storm (moving from water to land)
- Exiting or Inland Storm (moving from land to water)
- Indirect Strike

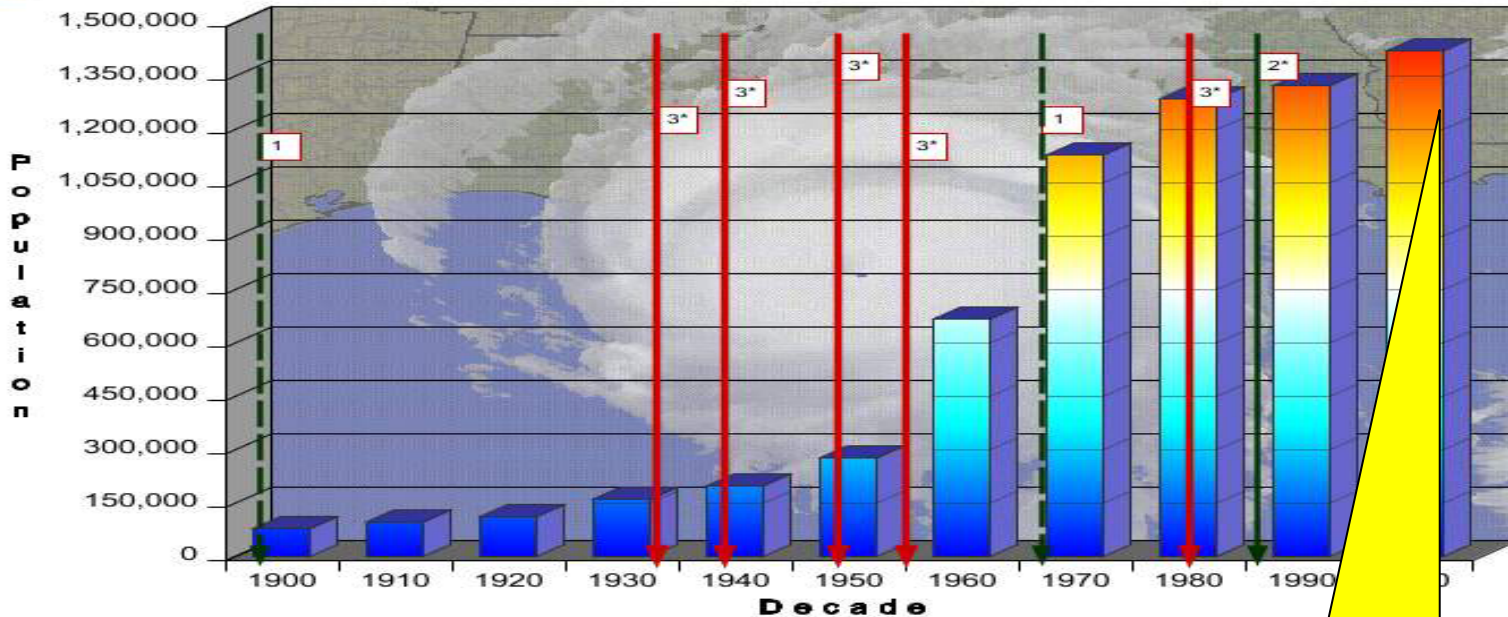
NOTE: Population values may be missing in some counties, particularly for earlier periods. This is most often attributable to the fact that the county had not yet been established.



Historical Hurricane Strikes in Suffolk County, NY, 1900-2002



Suffolk, NY



Legend

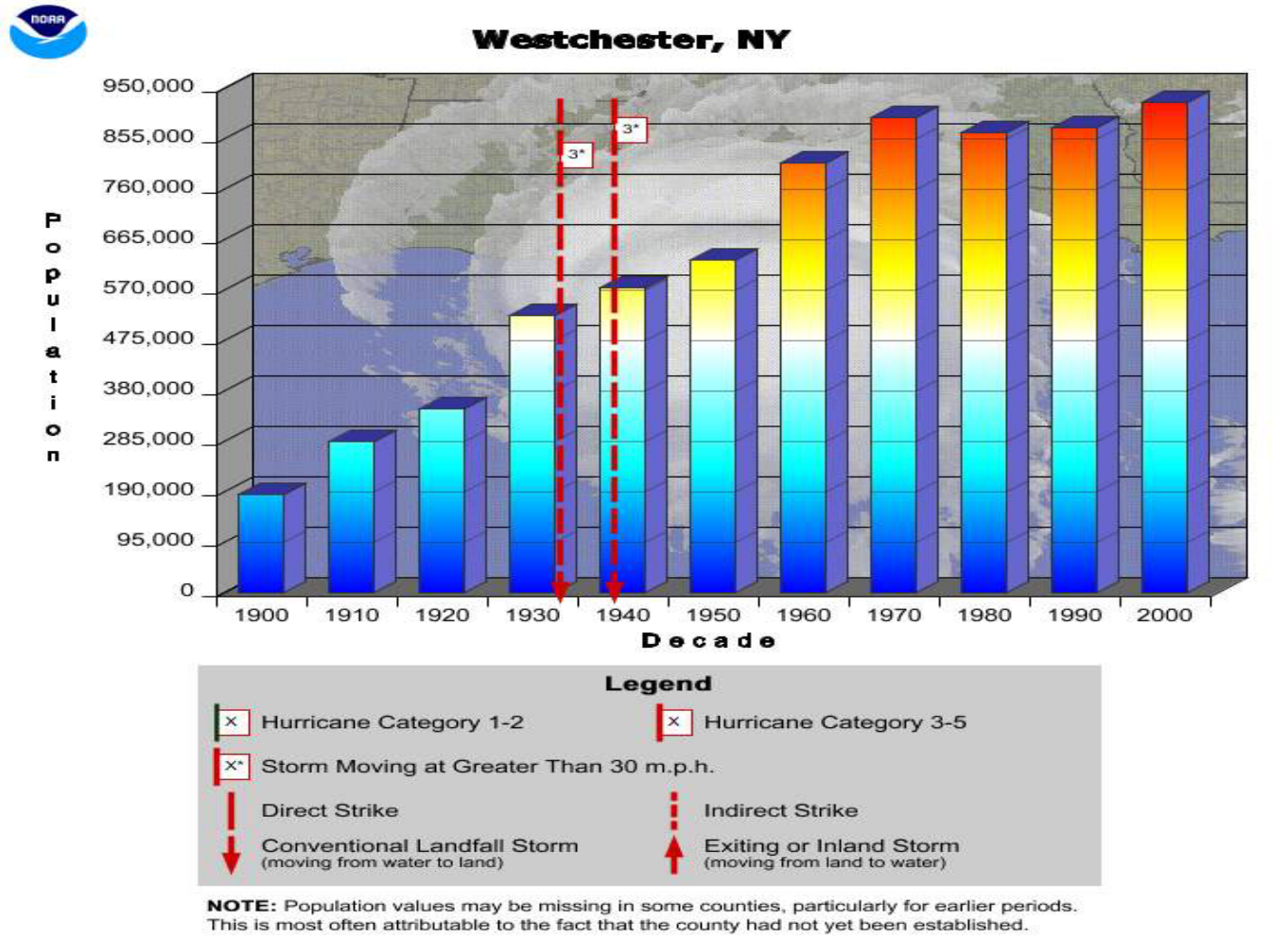
- Hurricane Category 1-2
- Storm Moving at Greater Than 30 m.p.h.
- Direct Strike
- Indirect Strike
- Conventional Landfall Storm (moving from water to land)
- Exiting or Inland Storm (moving from land to water)

NOTE: Population values may be missing in some counties, particularly for earlier periods. This is most often attributable to the fact that the county had not yet been established.

Population in Suffolk County is 4.5 times what it was in the 1940s



Historical Hurricane Strikes in Westchester County, NY, 1900-2002

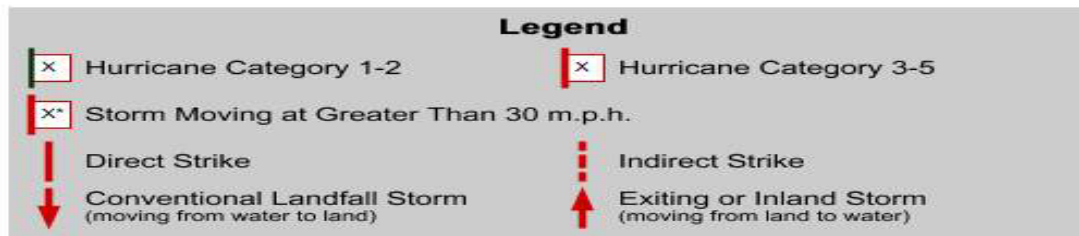
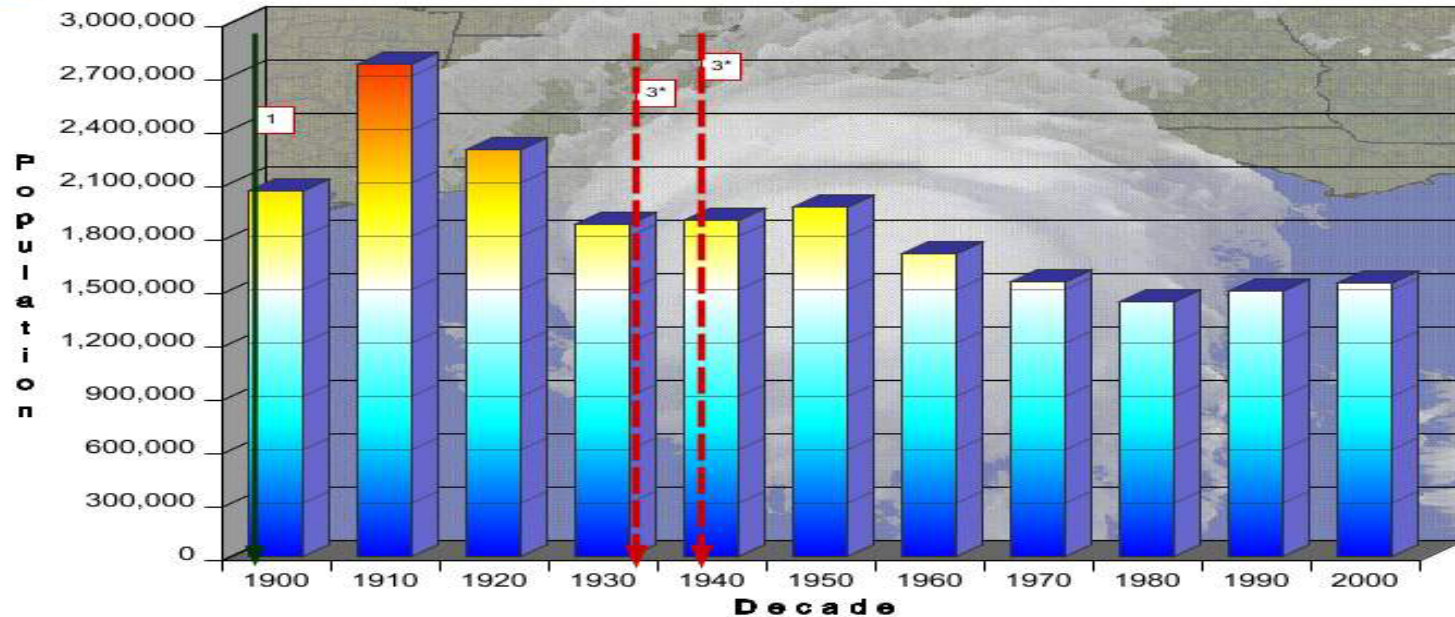




Historical Hurricane Strikes in New York County (Manhattan) 1900-2002



New York, NY

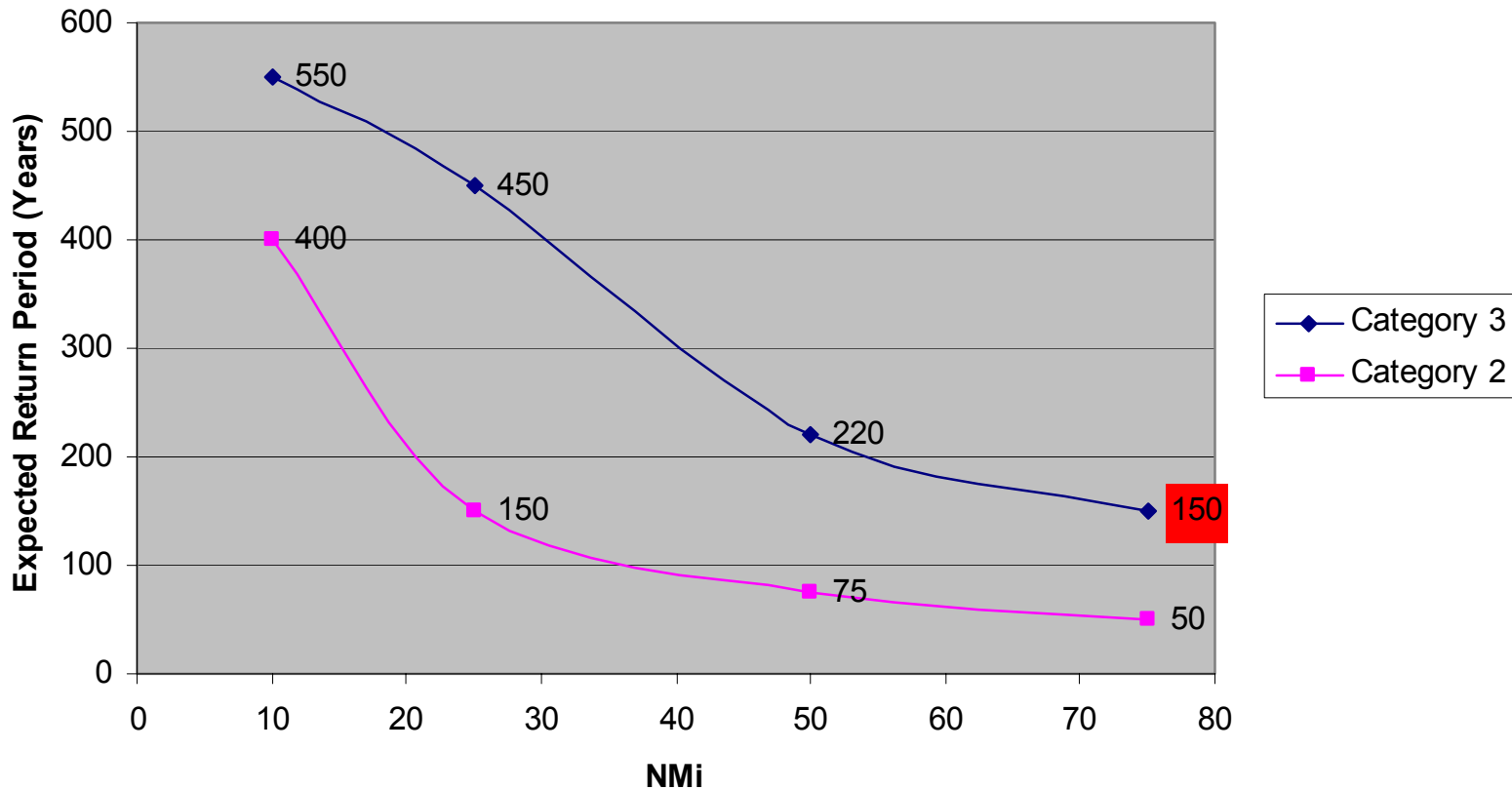


NOTE: Population values may be missing in some counties, particularly for earlier periods. This is most often attributable to the fact that the county had not yet been established.



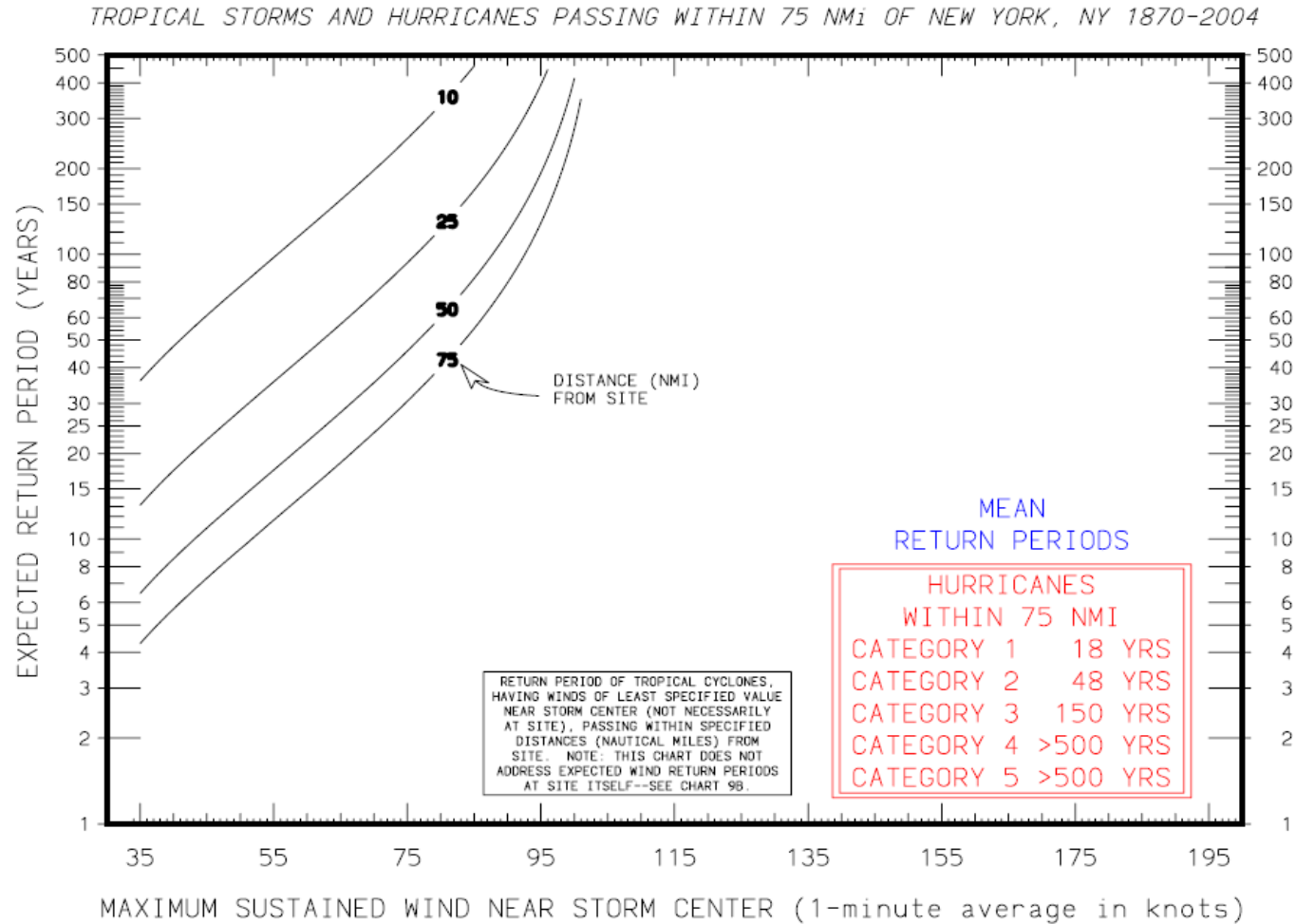
NY Hurricane Risk Data in a More Realistic Context

**Expected Return Periods for a Categories 2 & 3 Hurricanes in NY
City as a Function of Distance from Storm Center: 1870-2004**



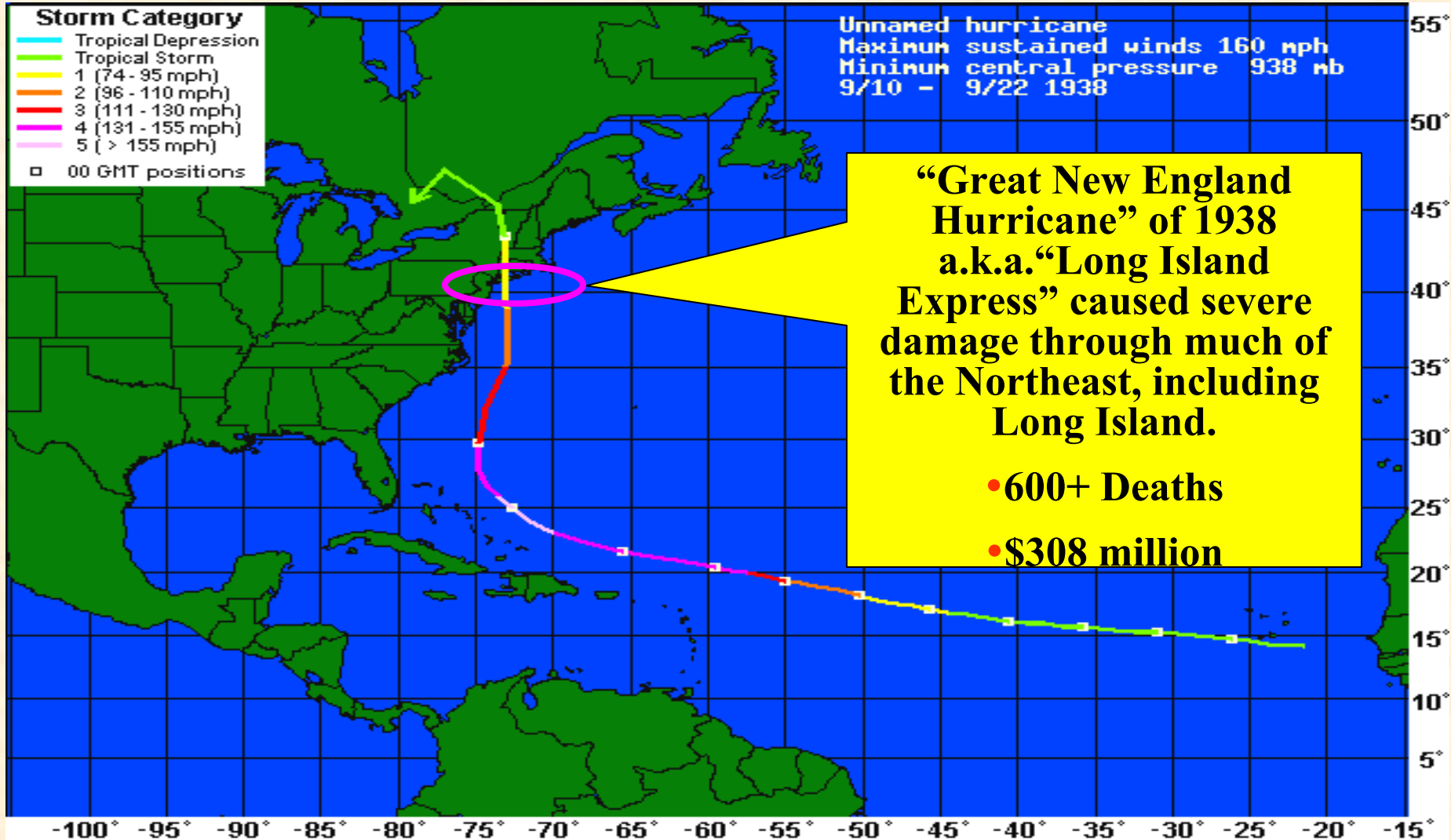


HURISK Results for Hurricanes Passing Within 75 NM of NYC: 1870 - 2004





Track of “Long Island Express” Storm of 1938



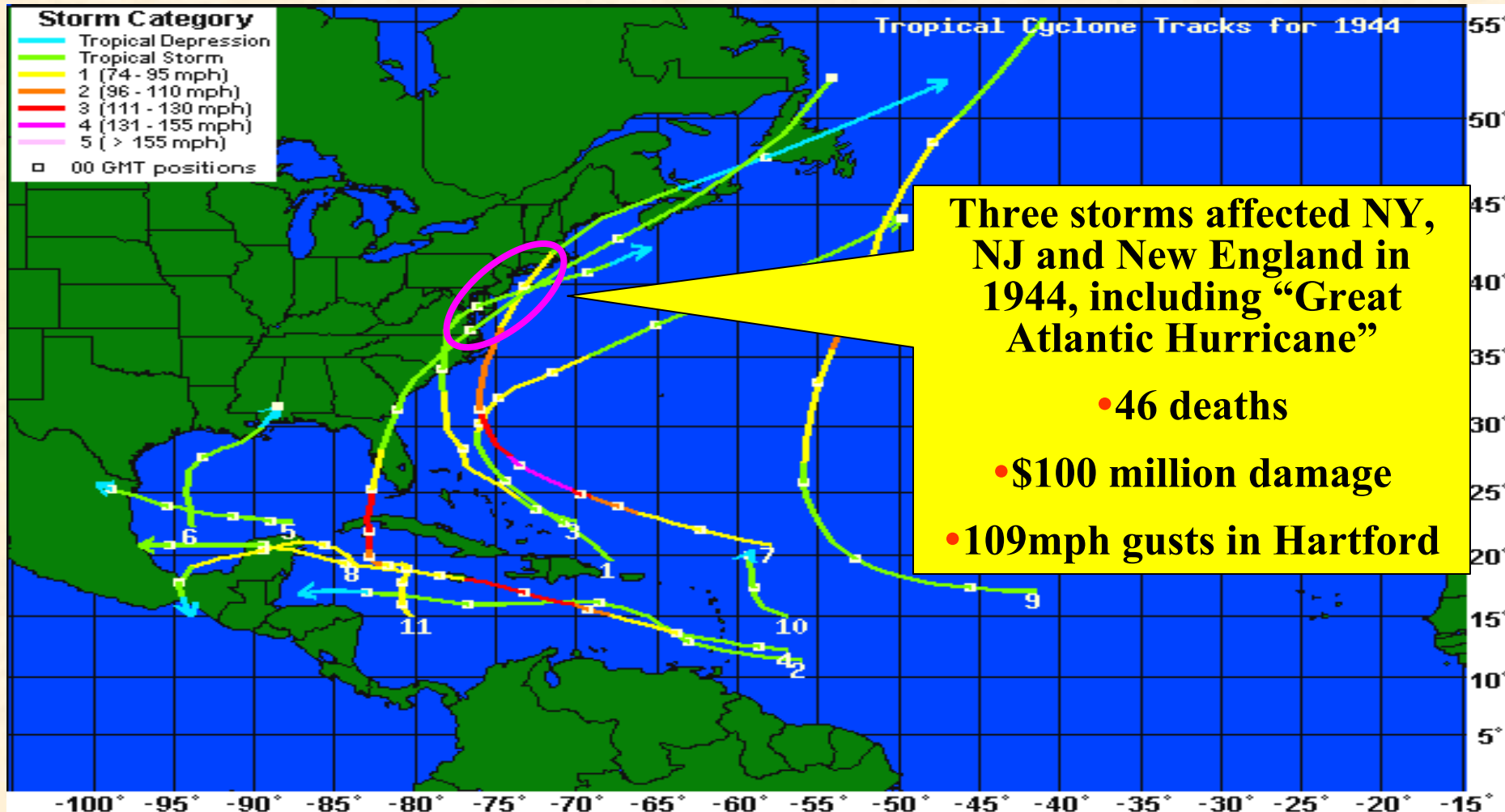


Damage Caused by “Long Island Express” Hurricane of 1938

- 700 deaths, 708 injured
- 4,500 homes, cottages, farms destroyed; 15,000 damaged
- 26,000 destroyed automobiles
- 20,000 miles of electrical power and telephone lines downed
- 1,700 livestock and up to 750,000 chickens killed
- \$2,610,000 worth of fishing boats, equipment, docks, and shore plants damaged or destroyed
- Half the entire apple crop destroyed at a cost of \$2 million

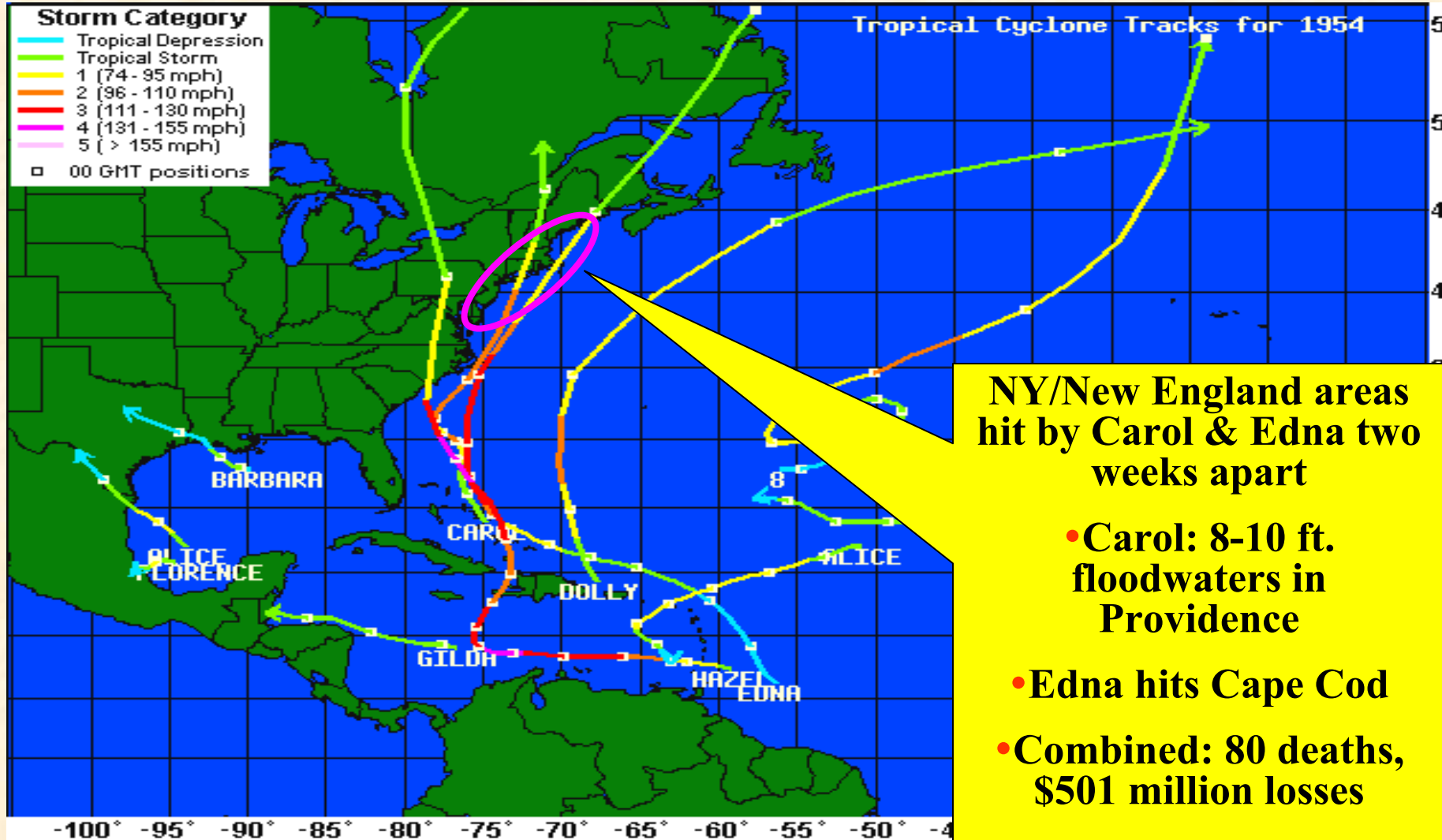


Storm Season of 1944: A Busy one for the Northeast





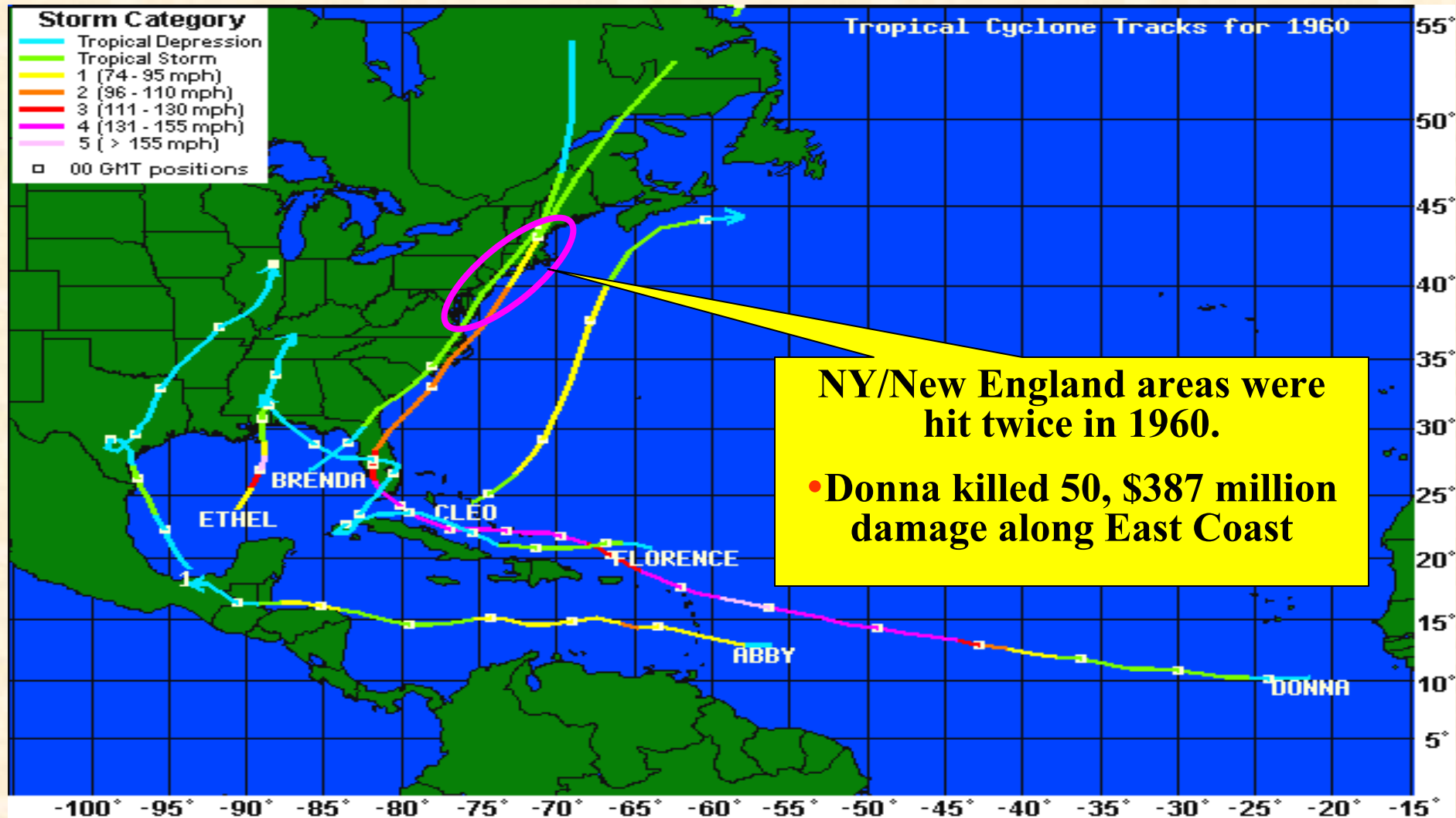
Storm Season of 1954: The Northeast Hit Again





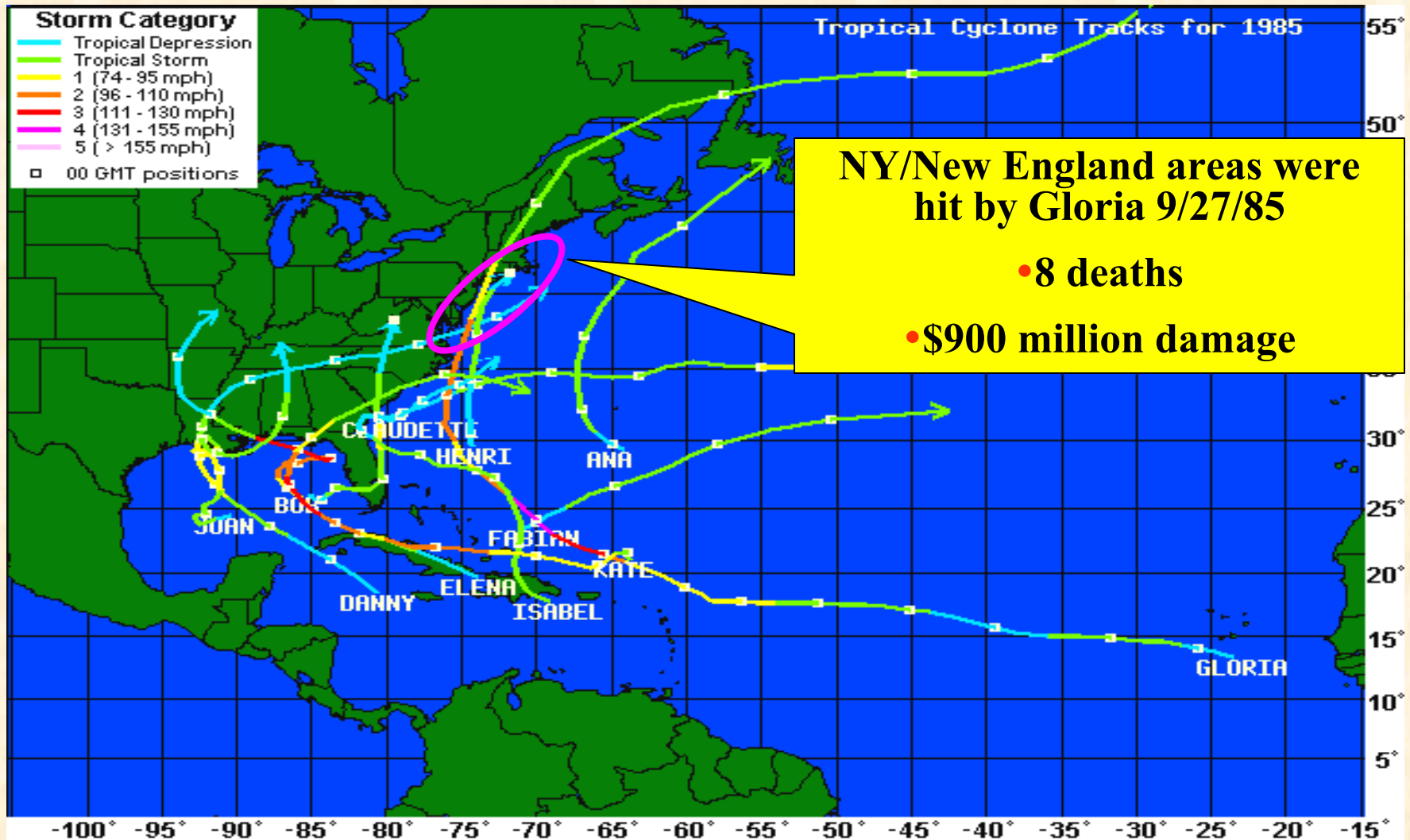
Storm Season of 1960:

Brenda & Donna Came to Visit



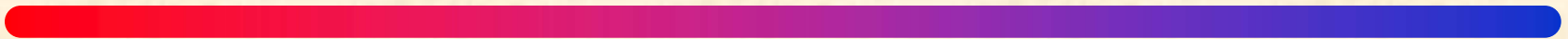


After a 25 Hiatus, Hurricane Gloria Hit in 1985



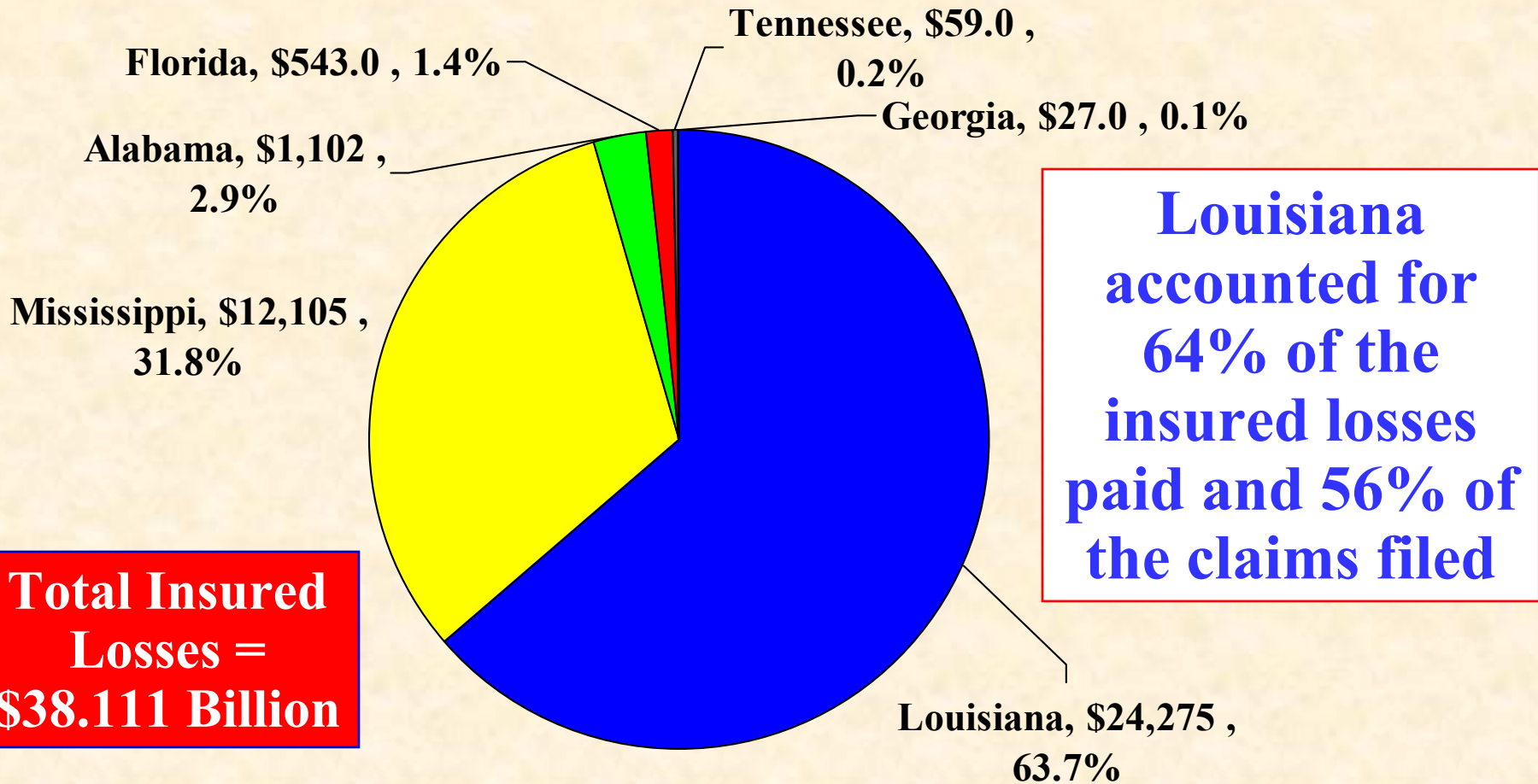
Hurricane Season of 2005

Its Place in History





*Hurricane Katrina Insured Loss Distribution by State (\$ Millions)**



*As of February 8, 2006

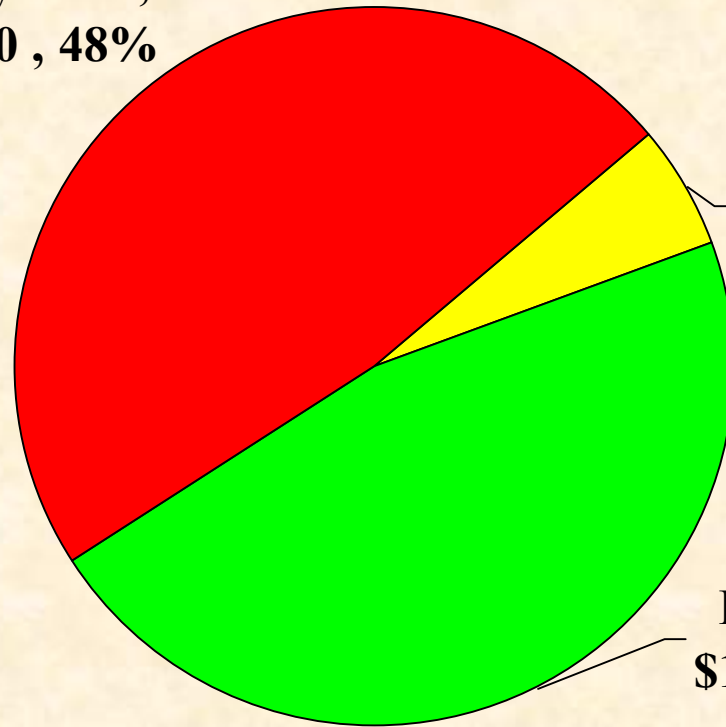
Source: PCS division of ISO.

Hurricane Katrina Loss



Distribution by Line (\$ Billions)*

**Commercial
Property & BI,
\$18,278.0 , 48%**



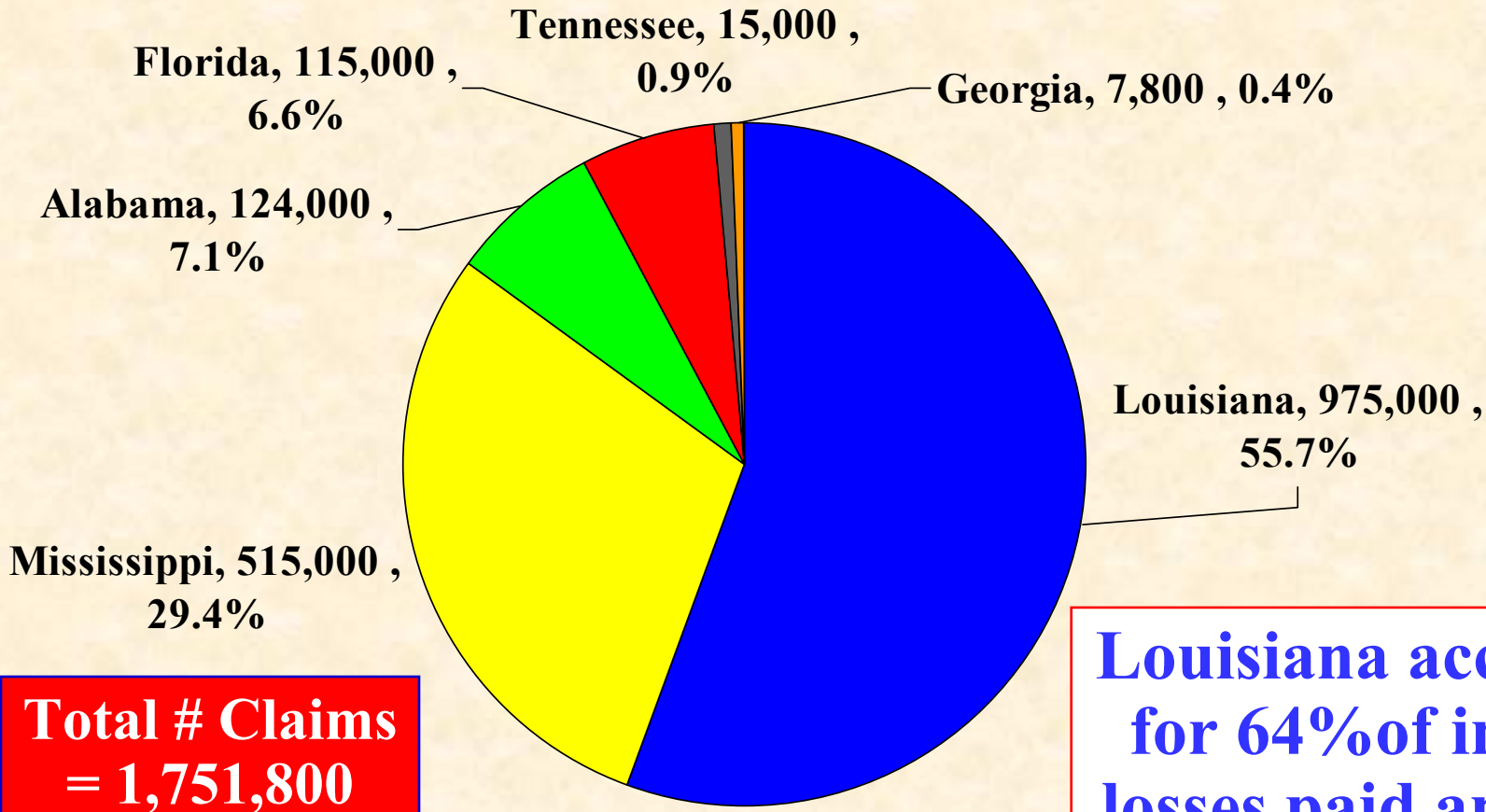
**Vehicle, \$2,139.0 ,
6%**

**Homeowners,
\$17,694.0 , 46%**

Total insured losses are estimated at \$38.1 billion from 1.7518 million claims. Excludes \$2-\$3B in offshore energy losses



Hurricane Katrina Claim Count Distribution by State*



**Total # Claims
= 1,751,800**

**Louisiana accounted
for 64% of insured
losses paid and 56%
of claims filed**

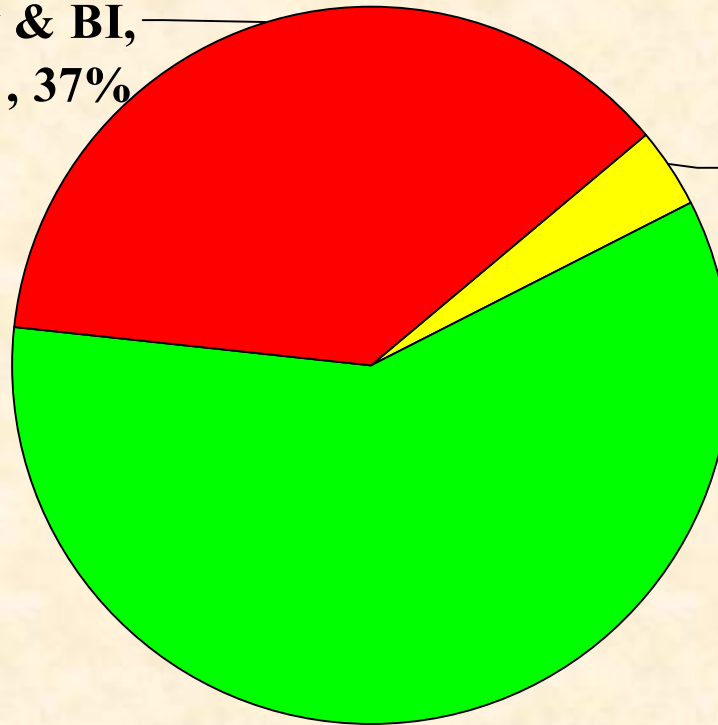
*As of February 8, 2006
Source: PCS division of ISO.



*Hurricane Rita Loss Distribution, by Line (\$ Millions)**

**Commercial
Property & BI,
\$1,846.2 , 37%**

**Vehicles, \$186.0 ,
4%**



**Homeowners,
\$2,944.0 , 59%**

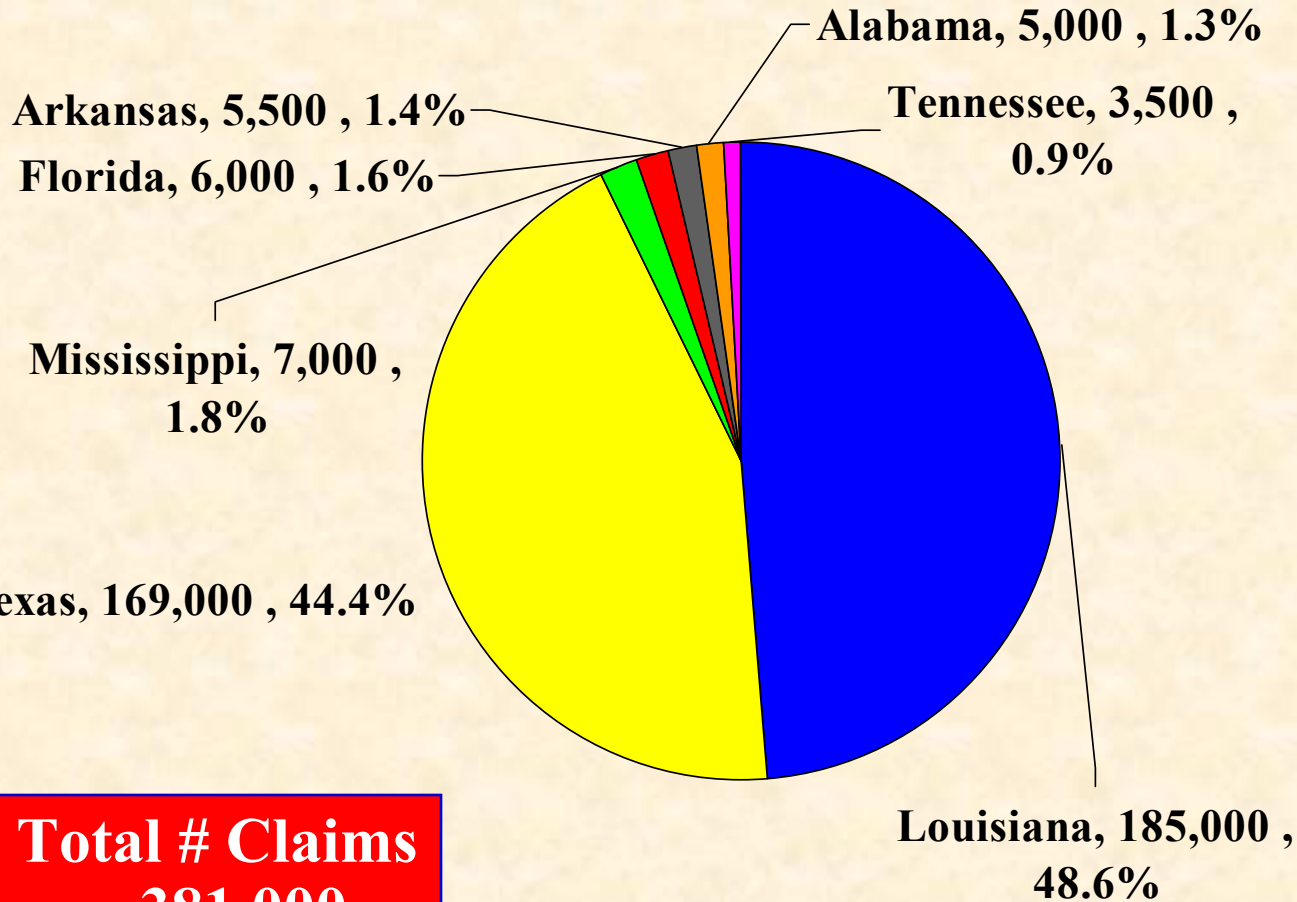
**Total insured
losses are
estimated at \$5.0
billion (excl.
offshore energy
of \$2-\$3B) from
381,000 claims.**

*As of February 8, 2006

Source: PCS division of ISO.



Hurricane Rita Claim Count Distribution by State*



**Total # Claims
= 381,000**

**Louisiana
accounted for
48.6% of the
insured losses,
Texas 44.4%.**

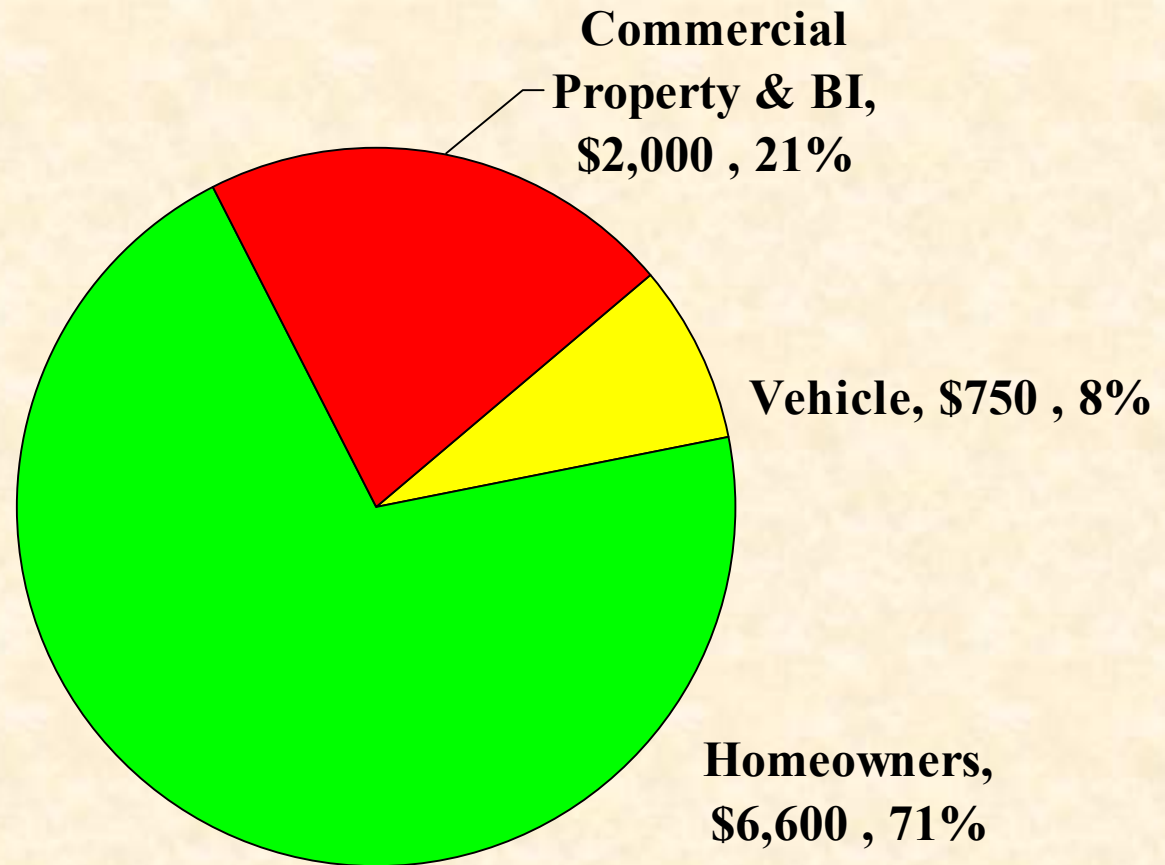
**Excludes
offshore energy
losses of \$2-3B**

*As of February 8, 2006
Source: PCS division of ISO.

Hurricane Wilma Loss



Distribution by Line (\$ Millions)*



Total insured losses are estimated at \$9.35 billion from 1.025 million claims

*As of March 27, 2006. All losses are in FL.
Source: PCS division of ISO.

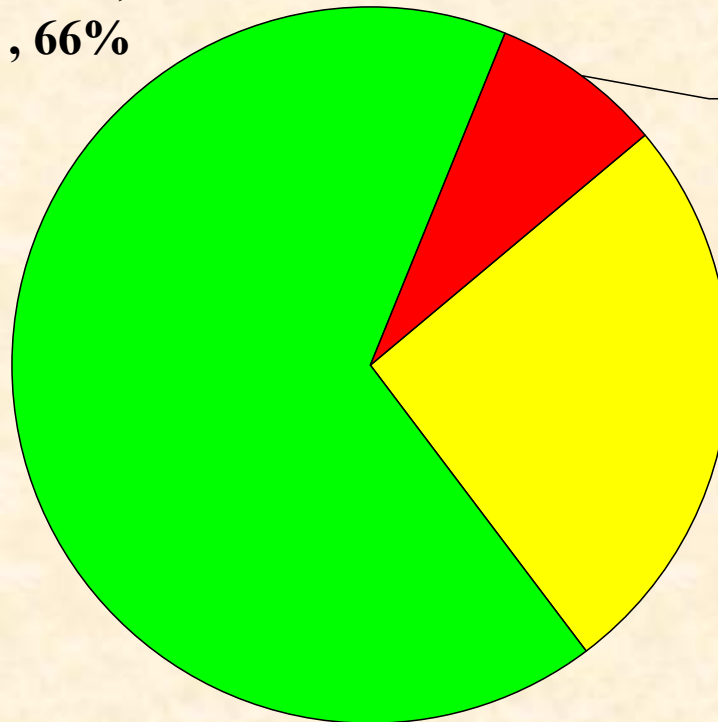


*Hurricane Wilma Claim Count Distribution by Line (\$ Millions)**

**Homeowners,
680,000 , 66%**

**Commercial
Property & BI,
80,000 , 8%**

**Vehicle, 265,000 ,
26%**

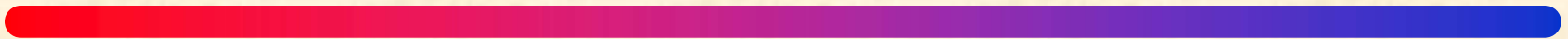


**Total insured
losses are
estimated at
\$9.35 billion
from 1.025
million claims**

***As of March 27, 2006. All losses are in FL.
Source: PCS division of ISO.**

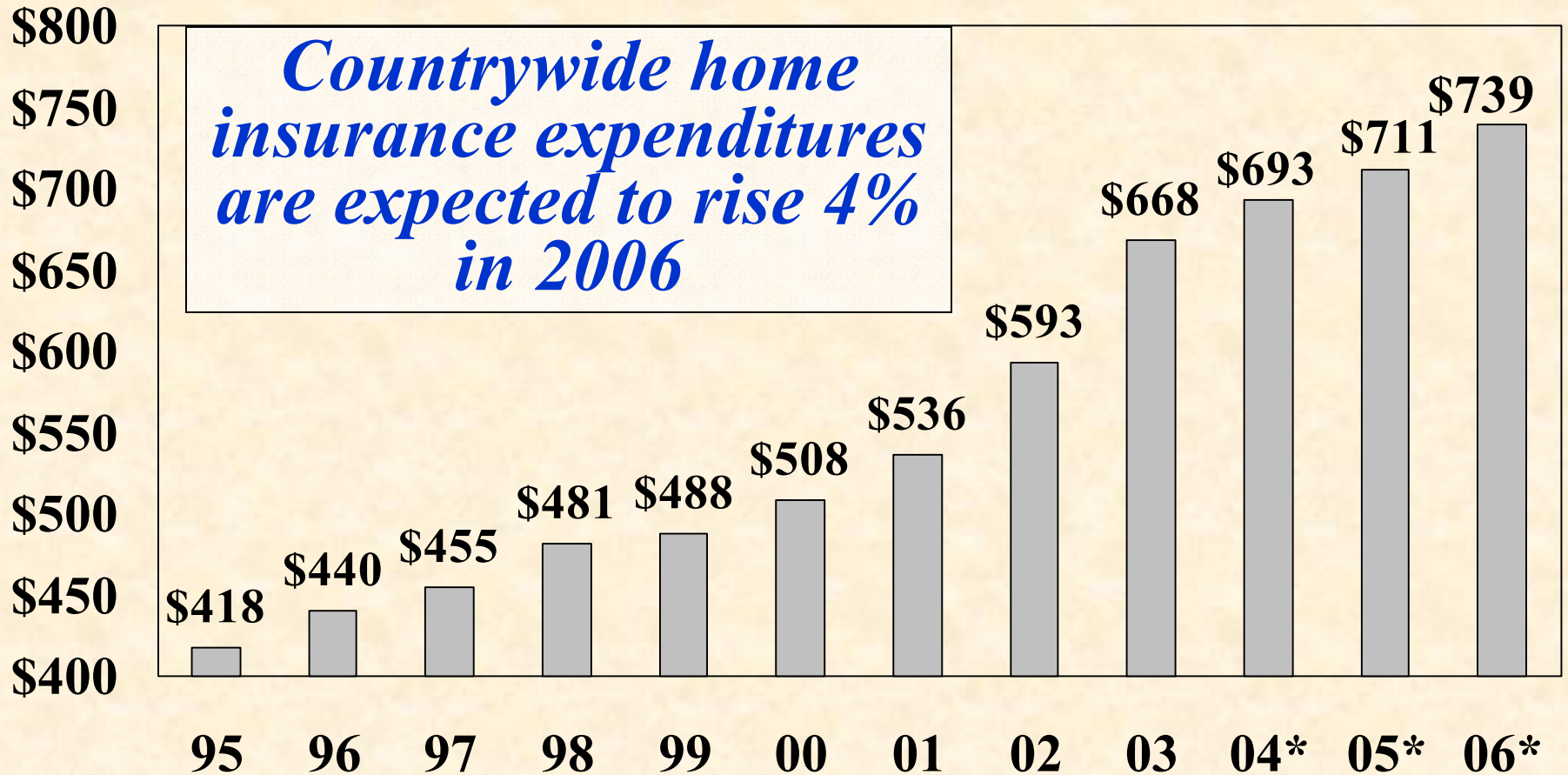
PRICING

*Can Discipline be
Maintained?*





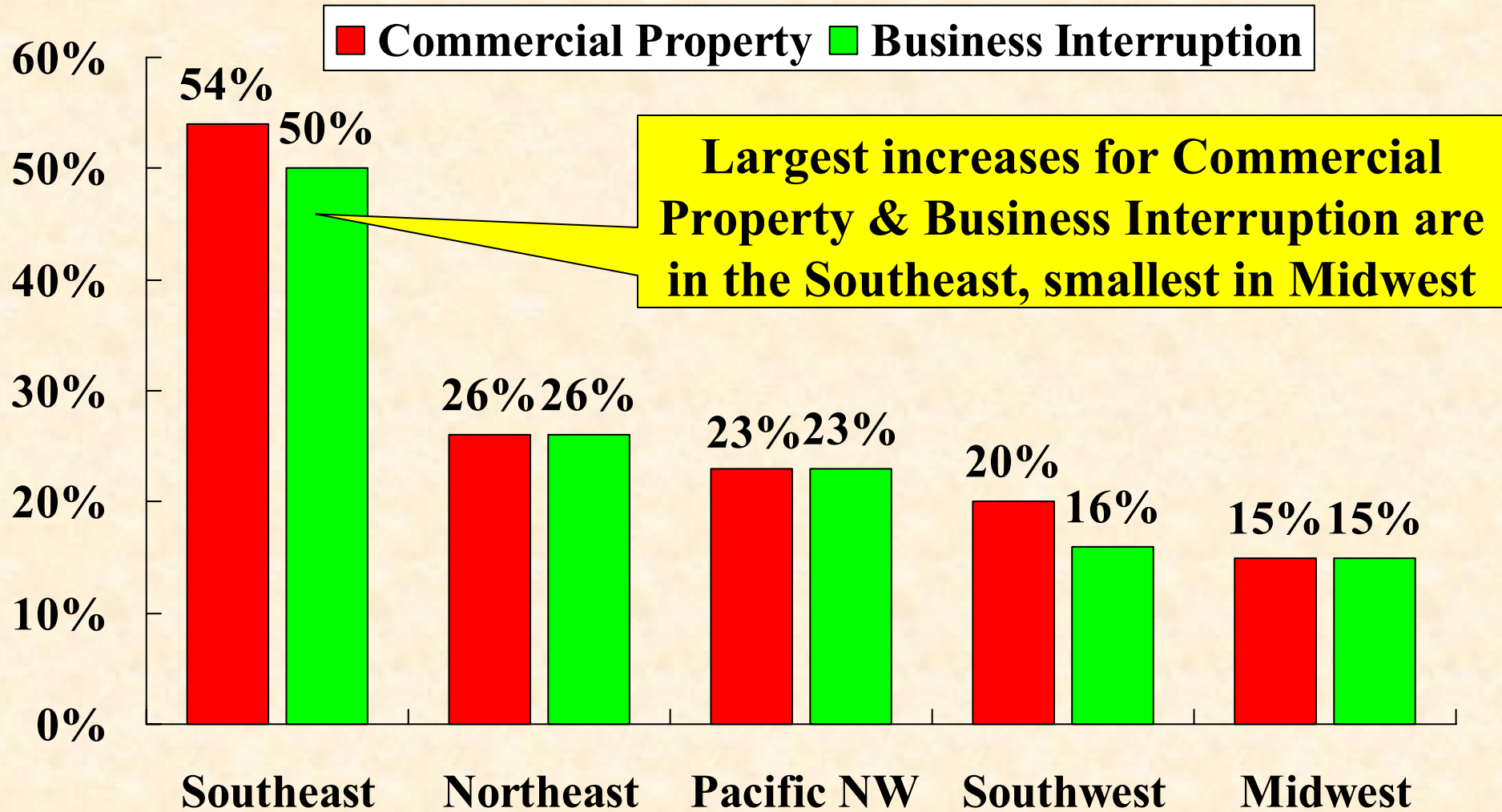
Average Expenditures on Homeowners Insurance



*Insurance Information Institute Estimates/Forecasts

Source: NAIC, Insurance Information Institute

Percent of Commercial Accounts Renewing with/Positive Rate Changes, 1st Qtr. 2006

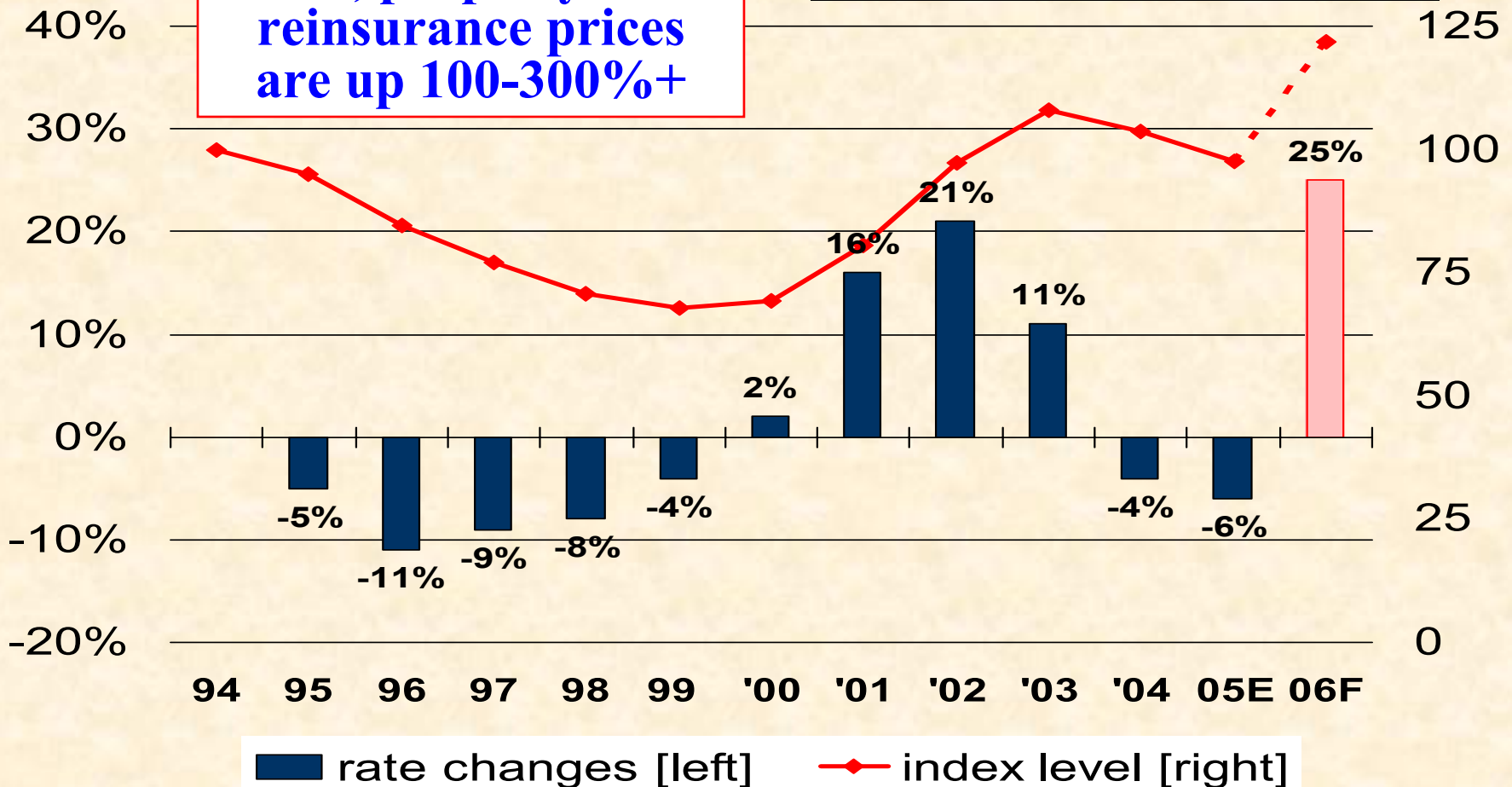




Reinsurance Prices Surged in 2006 Following Record CATs in 2005

In hurricane-prone areas, property CAT reinsurance prices are up 100-300%+

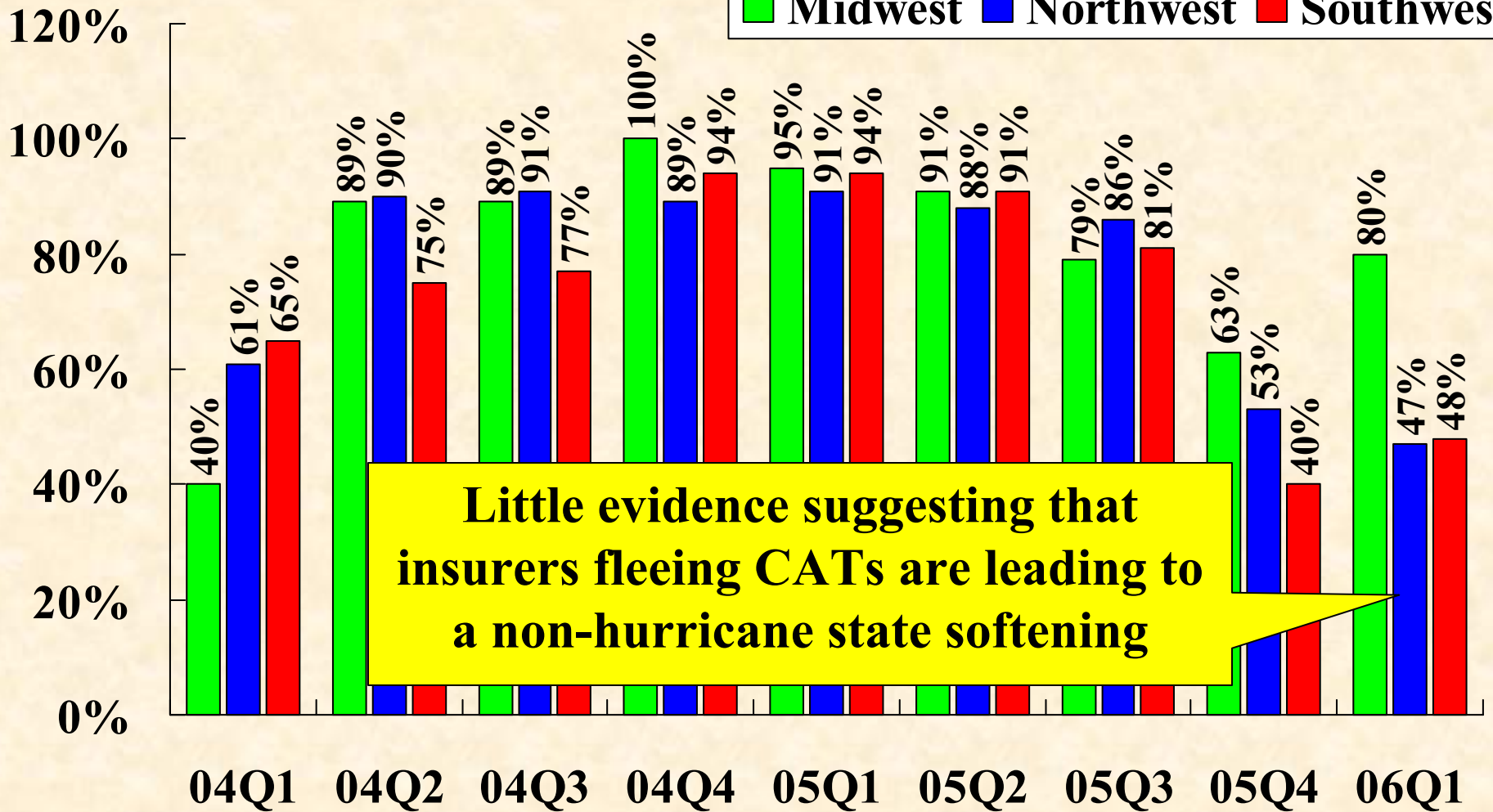
**US cat reinsurance price index:
1994 = 100**



Percent of Commercial Property Accounts Renewing Negative, 1st Qtr. 2006



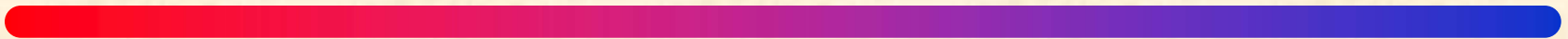
■ Midwest ■ Northwest ■ Southwest



Little evidence suggesting that insurers fleeing CATs are leading to a non-hurricane state softening

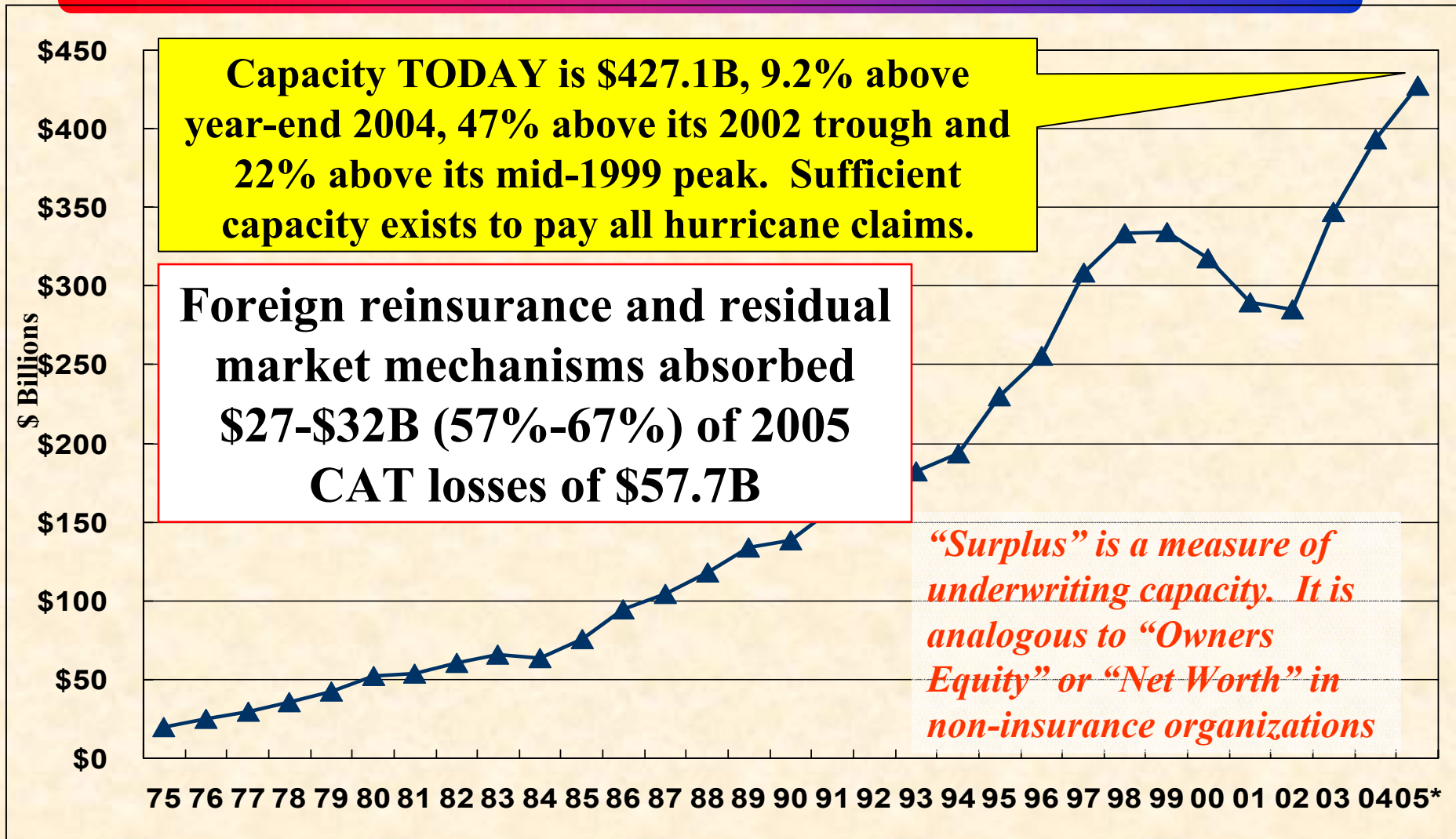
CAPACITY

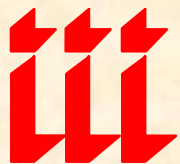
*Is There Enough Capital to
Fund Mega-Losses?*





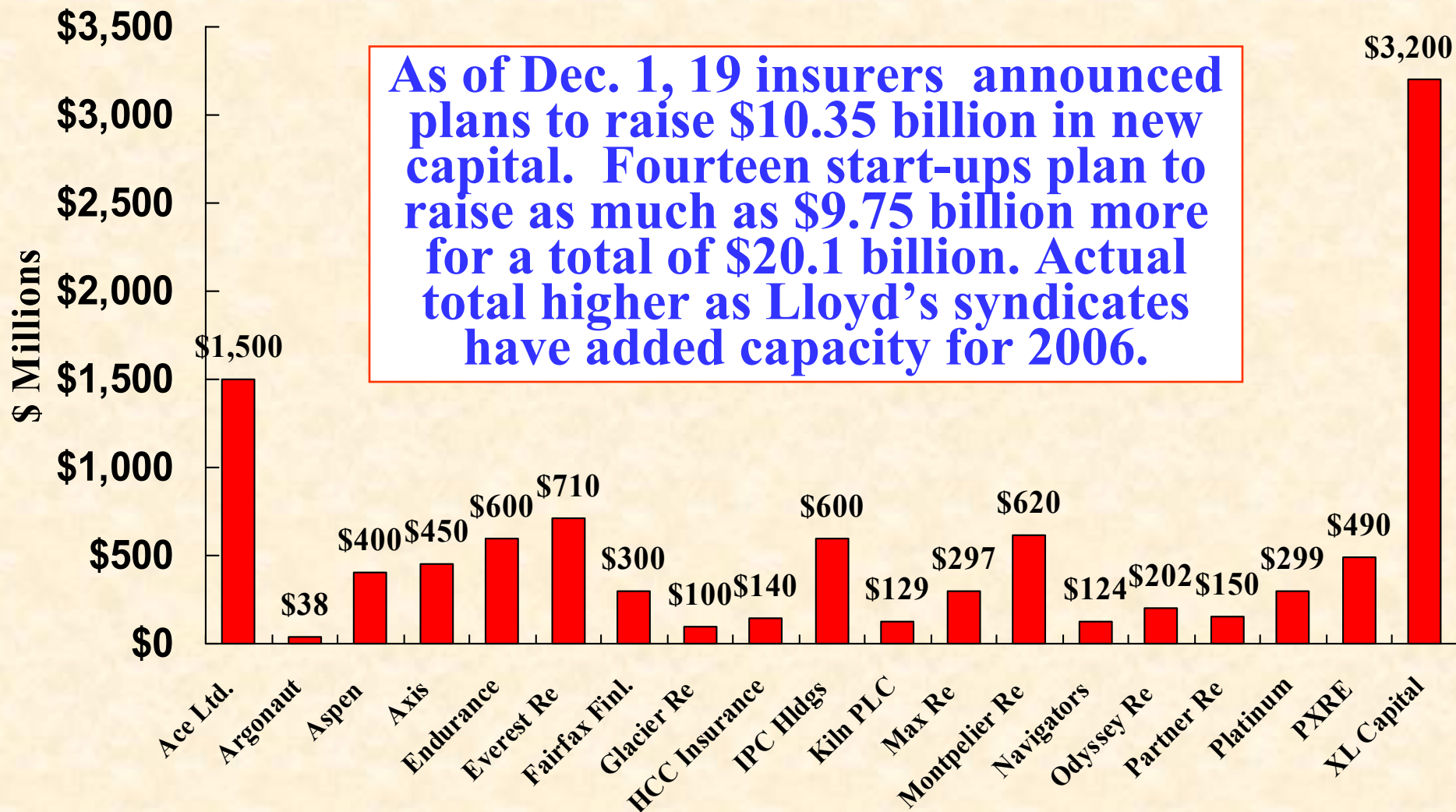
U.S. Policyholder Surplus: 1975-2005*





Announced Insurer Capital Raising*

(\$ Millions, as of December 1, 2005)



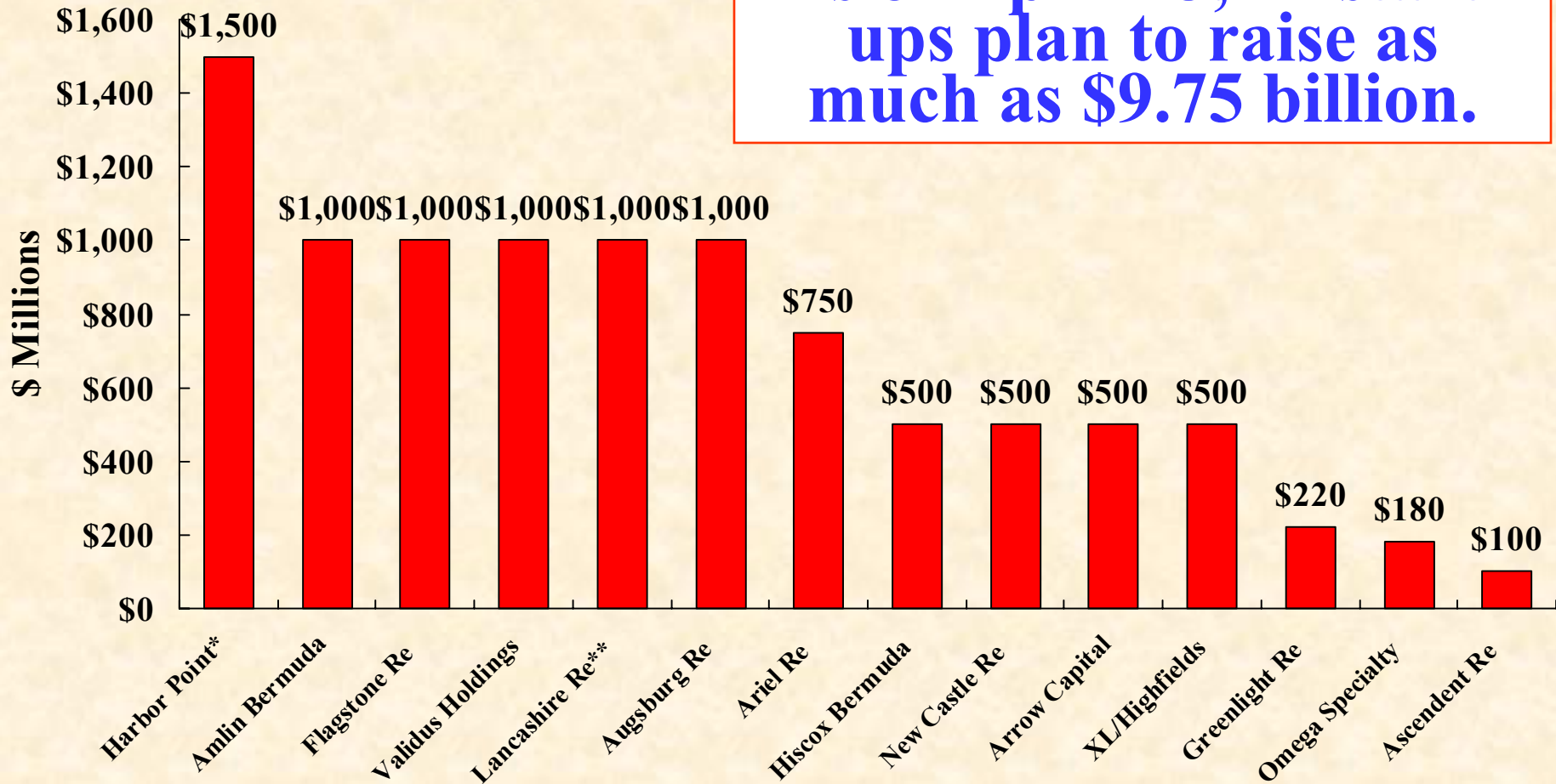
*Existing (re) insurers. Announced amounts may differ from sums actually raised.
Sources: Morgan Stanley, Lehman Brothers, Company Reports; Insurance Information Institute.



Announced Capital Raising by Insurance Start-Ups

(\$ Millions, as of April 15, 2006)

As of April 15, 14 start-ups plan to raise as much as \$9.75 billion.

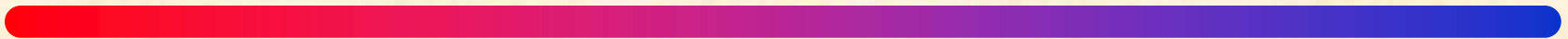


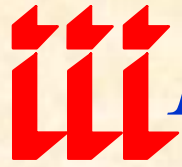
*Chubb, Trident are funding Harbor Point. Announced amounts may differ from sums actually raised. **Stated amount is \$750 million to \$1 billion. ***XL Capital/Hedge Fund venture. Arrow Capital formed by Goldman Sachs.

Sources: Morgan Stanley, Company Reports; Insurance Information Institute.

INSURANCE-TO- VALUE:

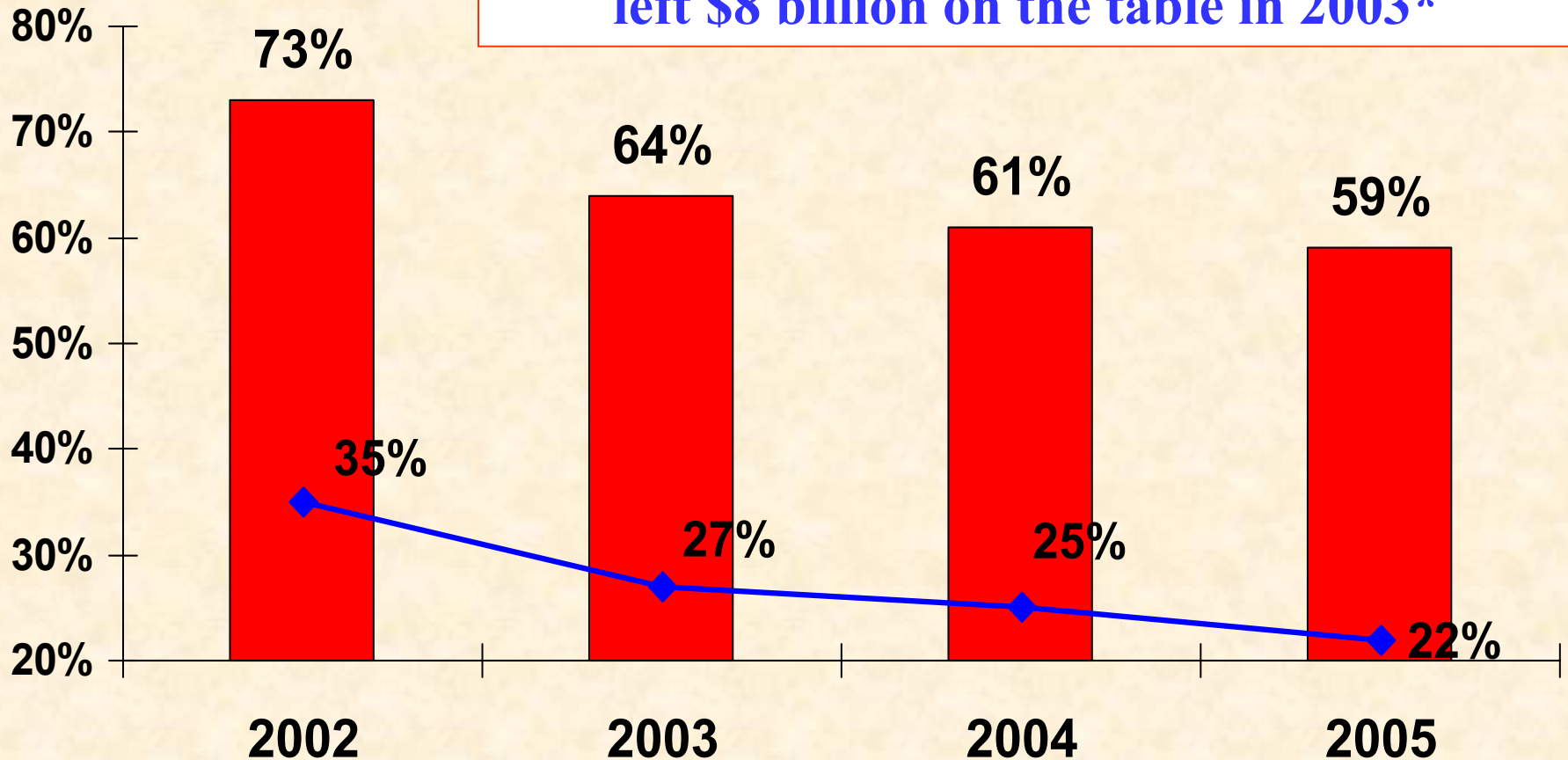
*Ending the Blame Game is a
Win-Win Situation Deal*





Insurance-to-Value in HO is a National Problem, Improved Recently

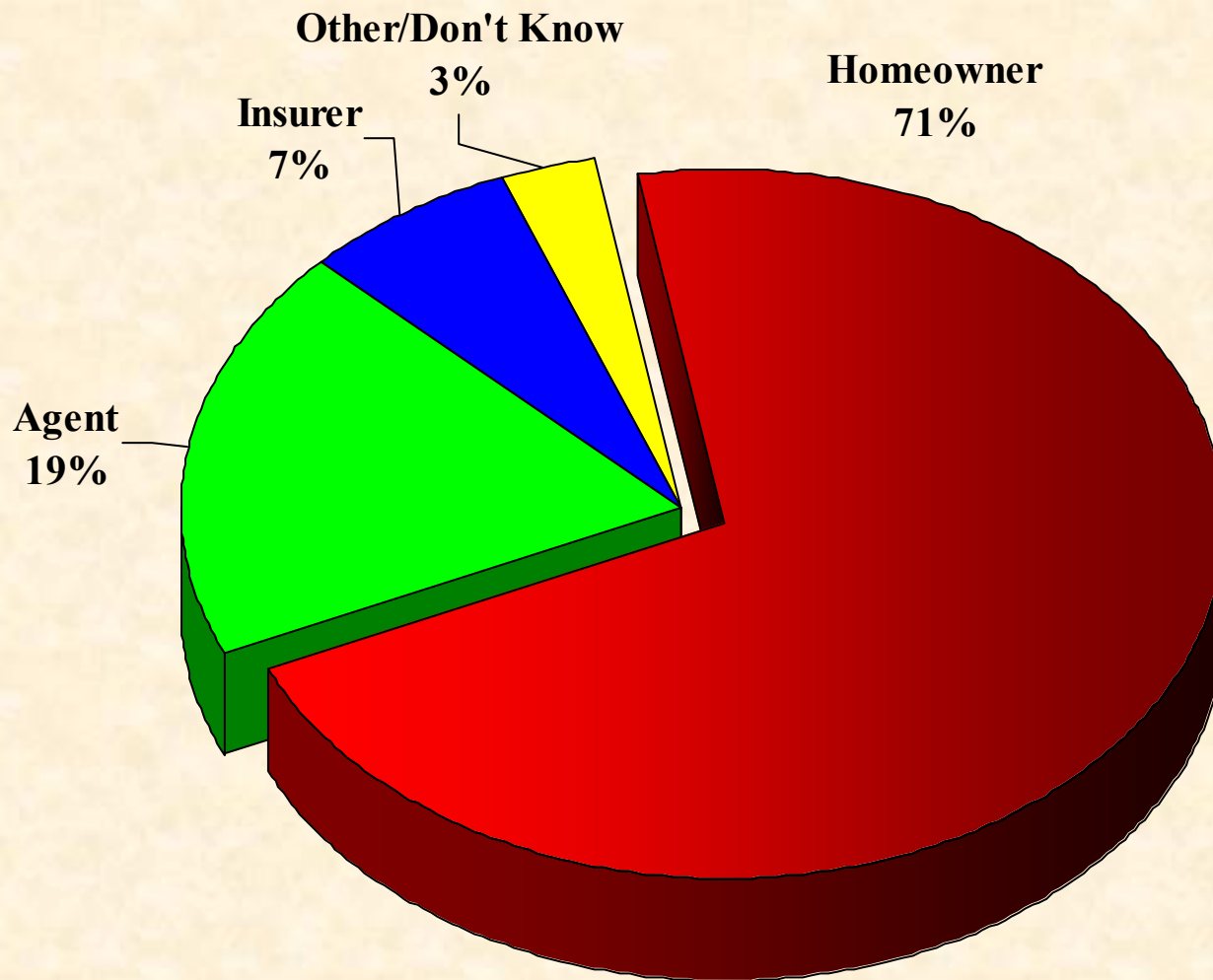
Less than ITV means homeowners insurers left \$8 billion on the table in 2003*



*According MS/B.
Source: Marshall & Swift/Boeckh

■ Proportion of Home Undervalued **◆ Average Undervaluation**

Who's Responsibility Is It to Keep Homeowners Policy Up-to-Date?

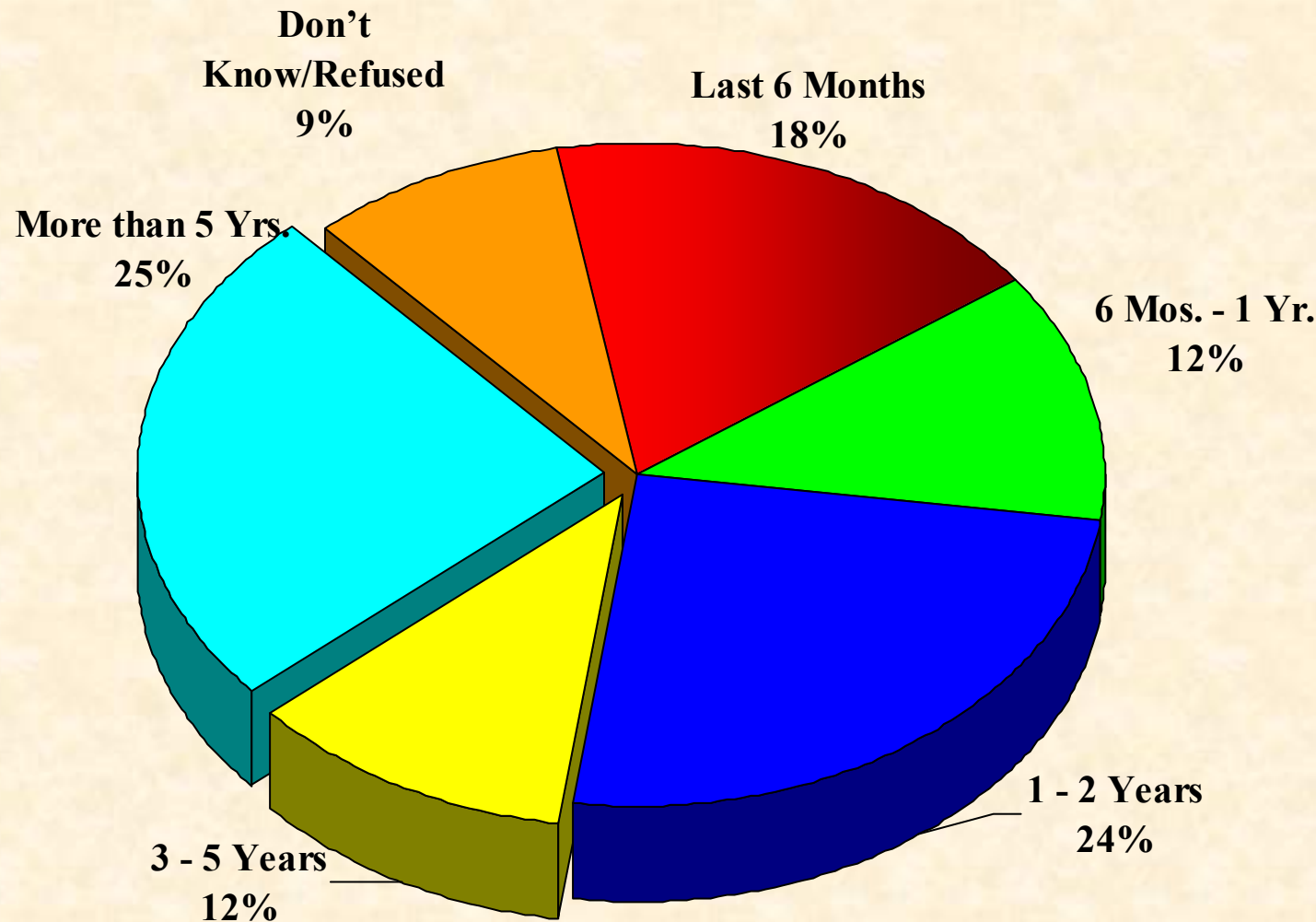


- Nearly 3 out of 4 people, even fire-weary Californians, believe it is the homeowner's responsibility to keep insurance up-to-date
- BUT 26% believe it's the agent's or insurer's responsibility
- This substantial minority is wrong, but gets heard (CA, FL) and comments reflect badly on insurers
- Media, regulators and legislators join fray

Source: September 2004 poll of 800 Californians conducted for the Insurance Information Network of California by Public Opinion Strategies. Margin of error = +/- 3.46%.



Time Since Homeowner Last Updated HO Policy



- Nearly 40% of people haven't updated their homeowner's policy within the last 3 years
- Huge potential for problems, especially in disaster-prone states
- Leads automatically to large under-insurance problems

Source: September 2004 poll of 800 Californians conducted for the Insurance Information Network of California by Public Opinion Strategies. Margin of error = +/- 3.46%.



Why People Don't Increase Homeowners Coverage



- 22% cite expense as reason they don't adjust they're HO coverage
- 25% don't realize they need to
- 30% say they're too busy (to think about protecting their most valuable asset)
- 25% say their agent said there's nothing to worry about

Source: Harris interactive poll conducted for Fireman's Fund, July 2004.

See: <http://www.firemansfund.com/dcmssites/about/pdf/firemansfundtoplinerev2.pdf>

National Flood Insurance Program

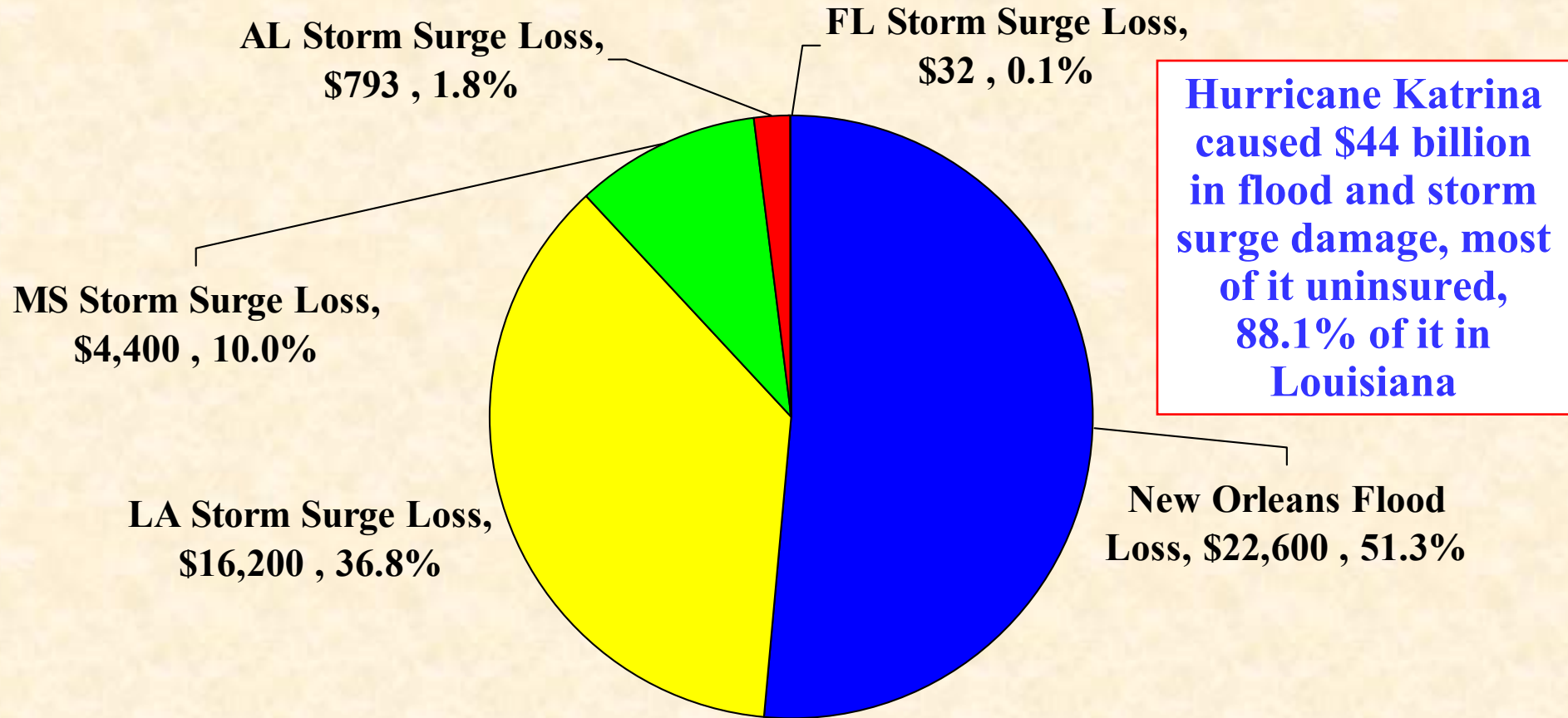
*Does the NFIP Help or Hurt
the CAT Problem?*





Property Damage from Hurricane

Katrina Flood & Storm Surge (\$ Millions)*

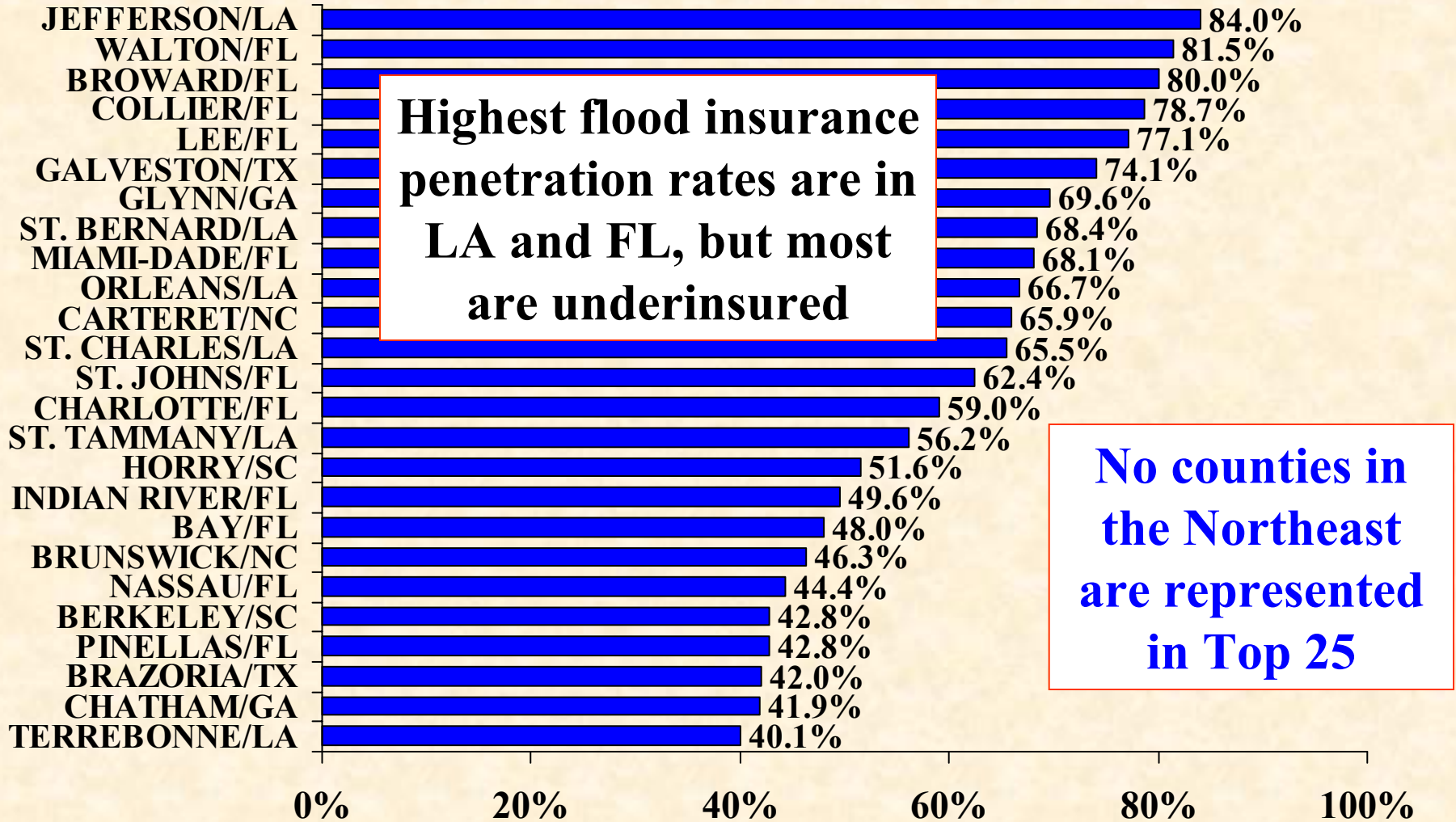


*Value of property damage by flood and storm surge *whether or not insured*.

Source: AIR Worldwide, September 29, 2005.



Flood Insurance Penetration Rates: Top 25 Counties/Parishes in US*

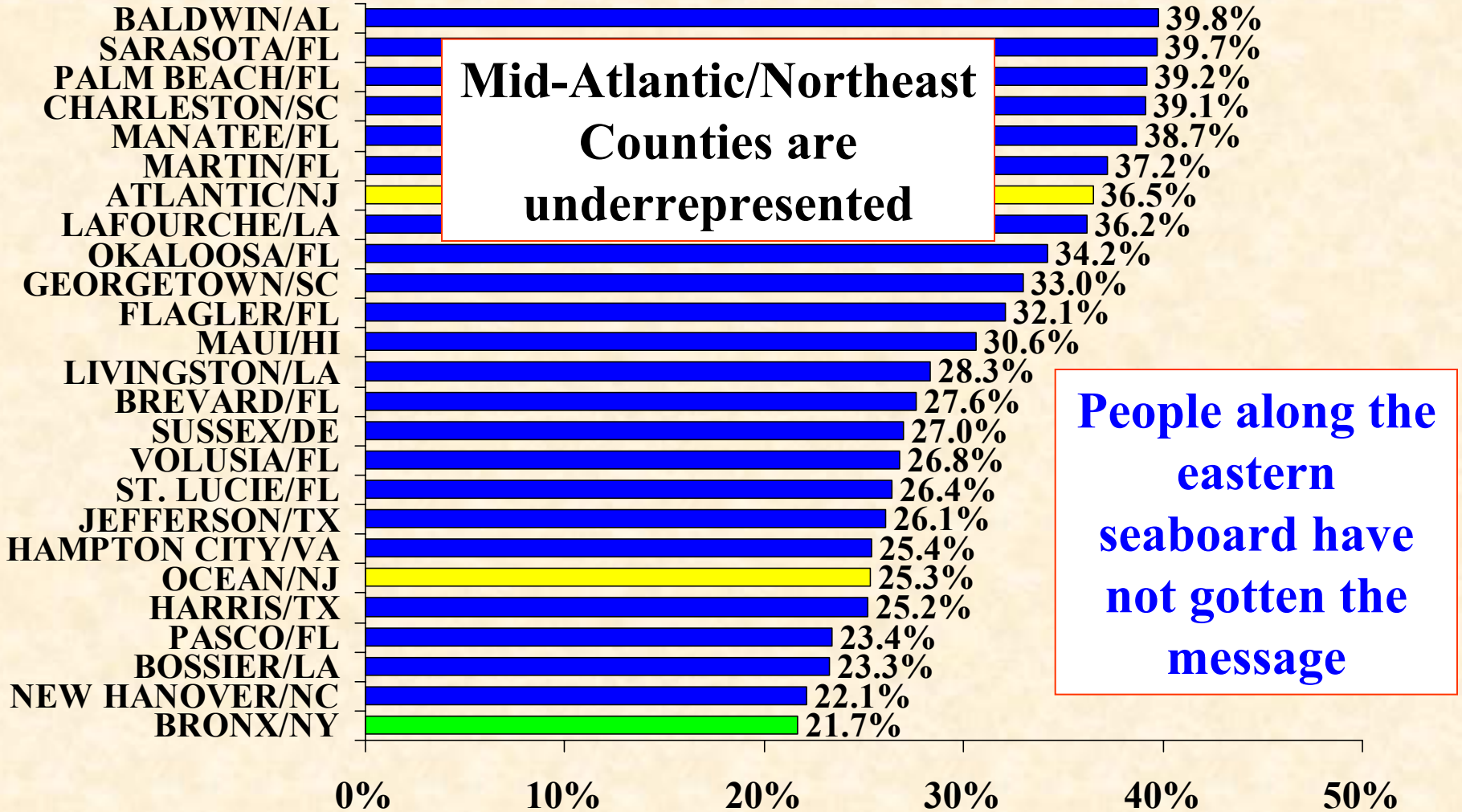


*As of 12/31/05.

Source: New Orleans Times-Picayune, 3/19/06, from NFIP and US Census Bureau data.



Flood Insurance Penetration Rates: Counties/Parishes Ranked 26-50*

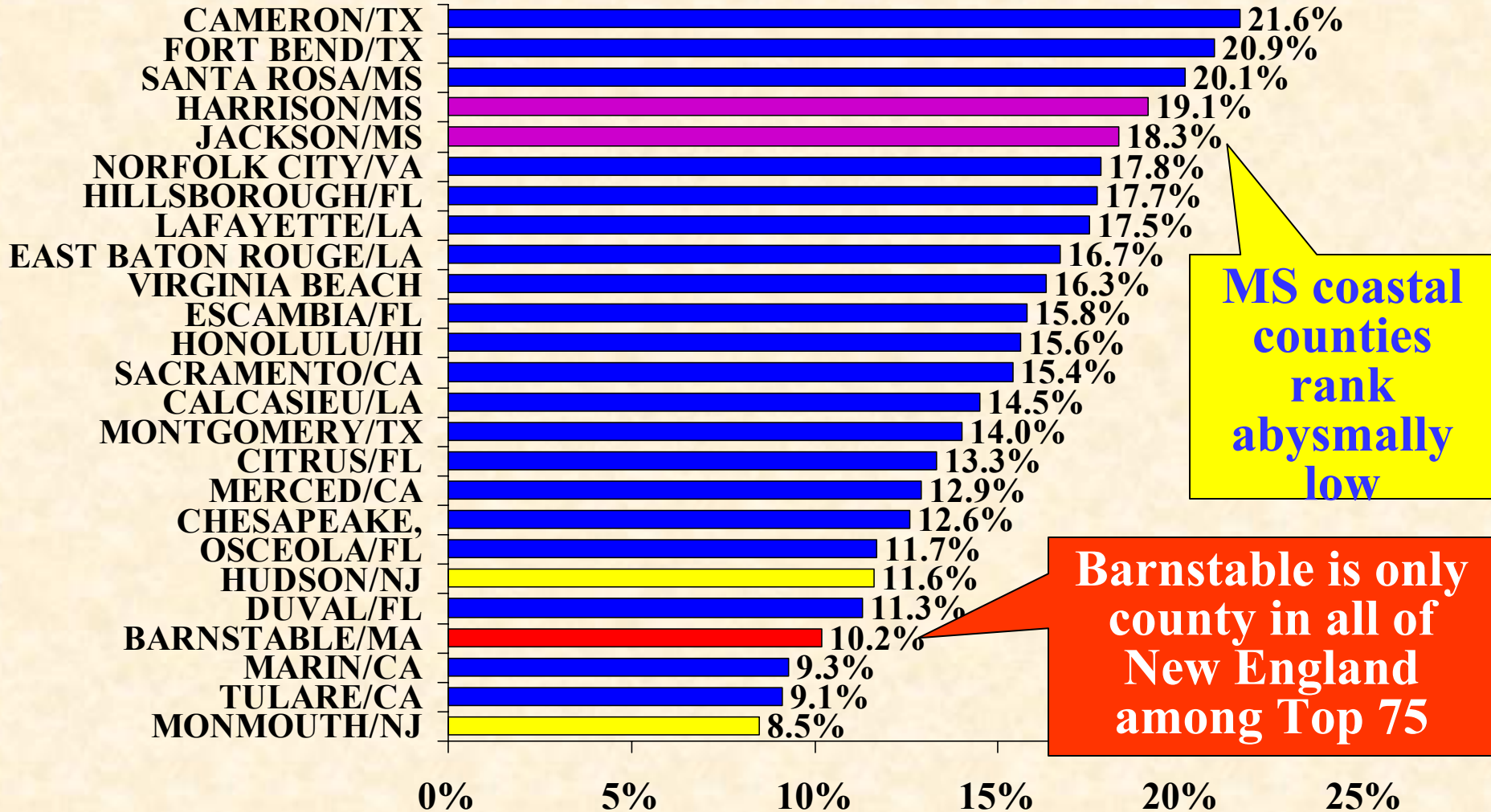


*As of 12/31/05.

Source: New Orleans Times-Picayune, 3/19/06, from NFIP and US Census Bureau data.



Flood Insurance Penetration Rates: Counties/Parishes Ranked 51-75*



*As of 12/31/05.

Source: New Orleans Times-Picayune, 3/19/06, from NFIP and US Census Bureau data.

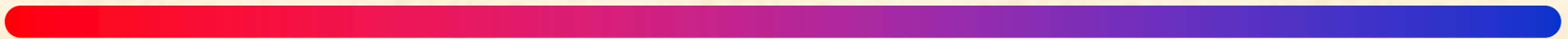


Repeat NFIP Flood Losses Cost Taxpayers Big Bucks & Enable Poor Building Decisions

	Number	Taxpayer Cost
Repetitive Loss Properties	122,000	\$7.6 billion
Repetitive Loss Properties, Louisiana	25,000	\$1.9 billion
Four or More Losses	22,500	\$1.6 billion
Payments Exceeded Property Values	4,600	\$400 million

TRIA EXTENSION

The Burden Grows





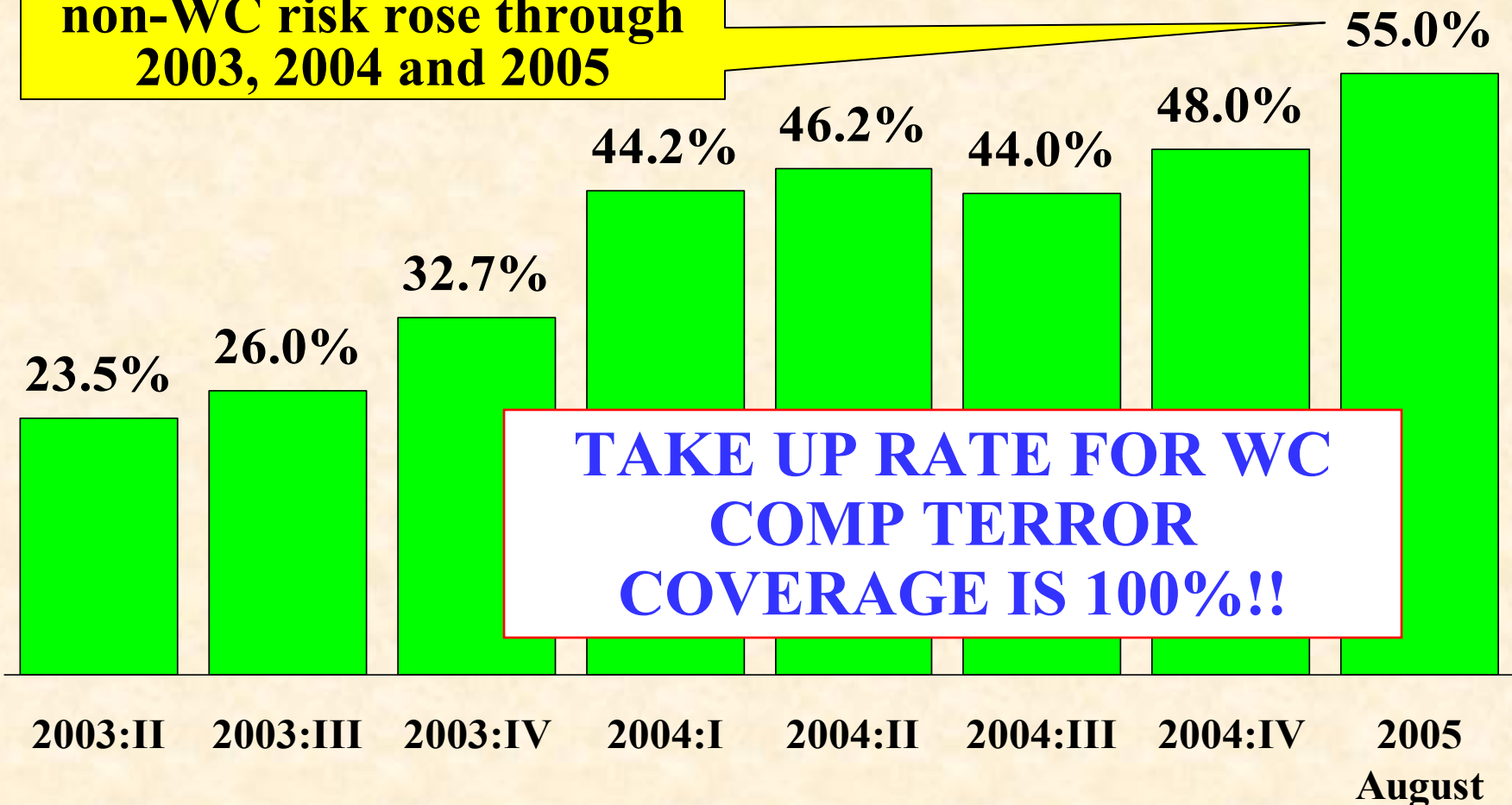
Insurance Industry Retention Under TRIA (\$ Billions)





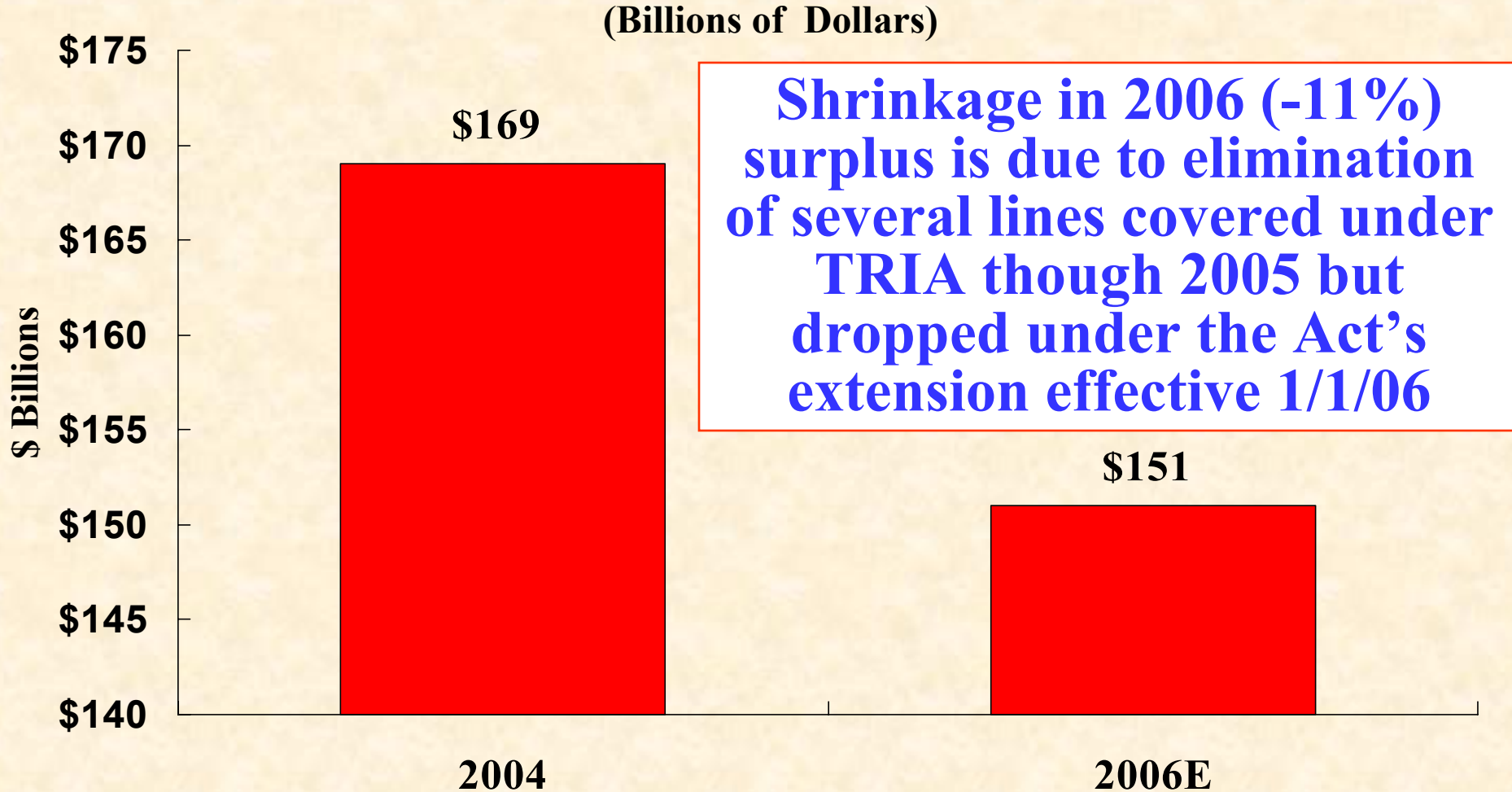
Terrorism Coverage Take-Up Rate Rising

**Terrorism take-up rate for
non-WC risk rose through
2003, 2004 and 2005**





Surplus Under TRIA/TRIEA Covered Lines



*2006 figure uses 2005 estimated year-end surplus and premiums by line as basis for calculations.

Source: Insurance Information Institute.



Insured Loss Estimates:

Large CNBR Terrorist Attack (\$ Bill)

Type of Coverage	New York	Washington	San Francisco	Des Moines
Group Life	\$82.0	\$22.5	\$21.5	\$3.4
General Liability	14.4	2.9	3.2	0.4
Workers Comp	483.7	126.7	87.5	31.4
Residential Prop.	38.7	12.7	22.6	2.6
Commercial Prop.	158.3	31.5	35.5	4.1
Auto	1.0	0.6	0.8	0.4
TOTAL	\$778.1	\$196.8	\$171.2	\$42.3

Source: American Academy of Actuaries, Response to President's Working Group, Appendix II, April 26, 2006.



Insured Loss Estimates:

Medium CNBR Terrorist Attack (\$ Bill)

Type of Coverage	New York	Washington	San Francisco	Des Moines
Group Life	\$37.7	\$22.5	\$21.5	\$3.4
General Liability	7.3	2.9	3.2	0.4
Workers Comp	313.2	126.7	87.5	31.4
Residential Prop.	10.3	12.7	22.6	2.6
Commercial Prop.	77.8	31.5	35.5	4.1
Auto	0.2	0.6	0.8	0.4
TOTAL	\$446.5	\$106.2	\$92.2	\$27.3

Source: American Academy of Actuaries, Response to President's Working Group, Appendix II, April 26, 2006.



Insured Loss Estimates: Truck Bomb Terrorist Attack (\$ Bill)

Type of Coverage	New York	Washington	San Francisco	Des Moines
Group Life	\$0.3	\$0.2	\$0.3	\$0.1
General Liability	1.2	0.4	0.7	0.2
Workers Comp	3.5	2.8	3.9	1.5
Residential Prop.	0.0	0.0	0.0	0.0
Commercial Prop.	6.8	2.1	3.9	1.2
Auto	0.0	0.0	0.0	0.0
TOTAL	\$11.8	\$5.5	\$8.8	\$3.0

Source: American Academy of Actuaries, Response to President's Working Group, Appendix II, April 26, 2006.

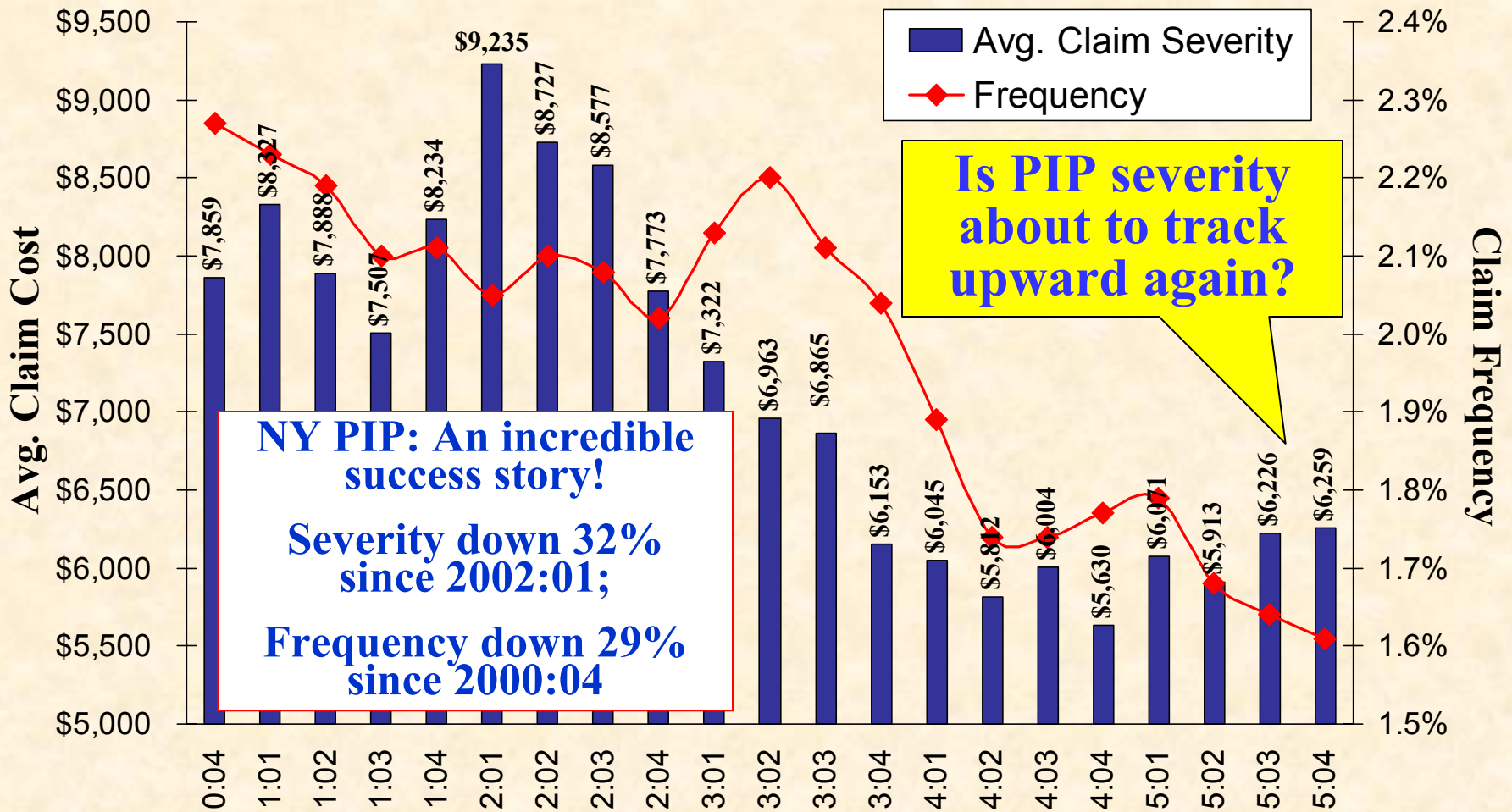
NY PIP UPDATE

Is New York's No-Fault System Truly

iii *Under Control?*



NY PIP Claim Frequency & Severity, (2000:04 – 2005:04)





Summary

- **Industry results are fundamentally strong except in property lines in CAT-prone areas**
- **Premium growth is very sluggish/negative except for CAT-exposed property lines/territories**
- **NY has 2nd largest coastal property exposure in US & largest exposure to terrorism**
- **CAT Fund argument unlikely to be resolved by the current Congress**
- **States haven't taken steps to form own CAT funds**
- **Insurers, lawmakers, regulators deeply divided**
 - **Lack of unity, current profitability & rising capacity & Administration's political philosophy hurt chances for a national fund in the near future**



Insurance Information Institute On-Line

WWW.III.ORG

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give me your business card with e-mail address*