

# The Financial Crisis & the P/C Insurance Industry *Challenges Amid the Economic Storm*

**Casualty Actuaries of New England  
Southbridge, MA  
September 26, 2008**



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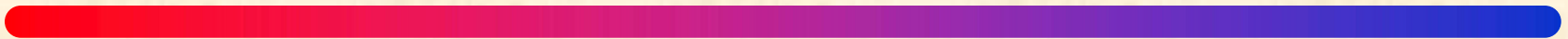
# *Presentation Outline*

- **Federal Government Economic Bailout: *Plan Summary, Insurer Implications***
- **AIG's Loan from the Fed: *Structure of Agreement***
- **Regulatory Aftershock: The Coming Regulatory Tsunami in Financial Services**
- **Weakening Economy: *Insurance Impacts & Implications***
  - **Exposure Impacts: Commercial Insurance**
  - **Inflation Threat Looming for Insurers?**
- **Treasury "Blueprint" for Insurance Regulatory Modernization**
- **Profitability**
- **Underwriting Trends**
- **Excess & Surplus Market Trends**
- **Premium Growth**
- **Capacity/Capital**
- **Investment Overview**
- **Catastrophic Loss**
- **Shifting Legal Liability, Tort & Political Environment**

**Q&A**

# **Troubled Asset Relief Program** **(a.k.a. “The Bailout”)**

**Plan Details &  
Insurer Implications**





# *Federal Government Financial Services Rescue Package*

## **THE SOLUTION: A 5-POINT PLAN**

- 1. Mortgage Debt Purchases: Up to \$700 billion in Mortgage Debt to be Purchased by Feds**
  - **\$250B Available Immediately; Congress Approves Remainder in \$100B Increments as Needed**
    - **Eliminates “blank check” criticism of Treasury Plan**
    - **Limits on CEO Compensation in Participating Firms**
    - **Pricing: Debt Sold to Feds via Reverse Auction**
      - **Reverse auction is one in which sellers bid lowest price it will accept from the government (i.e., rather a traditional auction in which the highest bid from buyer wins). Helps ensure that the Feds (taxpayer) does not overpay for questionable debt**
      - **Will be sold in \$10 billion increments**
      - **Amassed portfolios will be run by outside asset managers in amounts ranging up to \$50 billion**
- 2. Fannie/Freddie Will Increase Mortgage Buying**
  - **Feds step-up buying MBS in open market**

# *Federal Government Financial Services Rescue Package (cont'd)*

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## **3. Money Market Fund Stabilization: Commercial Paper Market Froze After Mass Redemptions and Lending Fears (“Breaking the Buck”)**

- Treasury will establish a 1-year temp. guaranty program for the money-fund industry for deposits held as of Sept. 19
- Will insure retail and institutional funds (but not those investing exclusively in municipal and government debt)
- Funds must pay a fee to participate in the program
- Program financed with as much as \$50 billion from the Treasury's Exchange Stabilization Fund, which was created in 1934 for exchange rate stabilization
- The Federal Reserve will also essentially lend as much as \$230 billion to the industry, via banks, to be used against their illiquid asset-backed holdings

## **4. 10-Day Ban on Short-Selling 829 Financial Stocks**

- Most major public insurers on list

Source: Insurance Info. Inst. research.





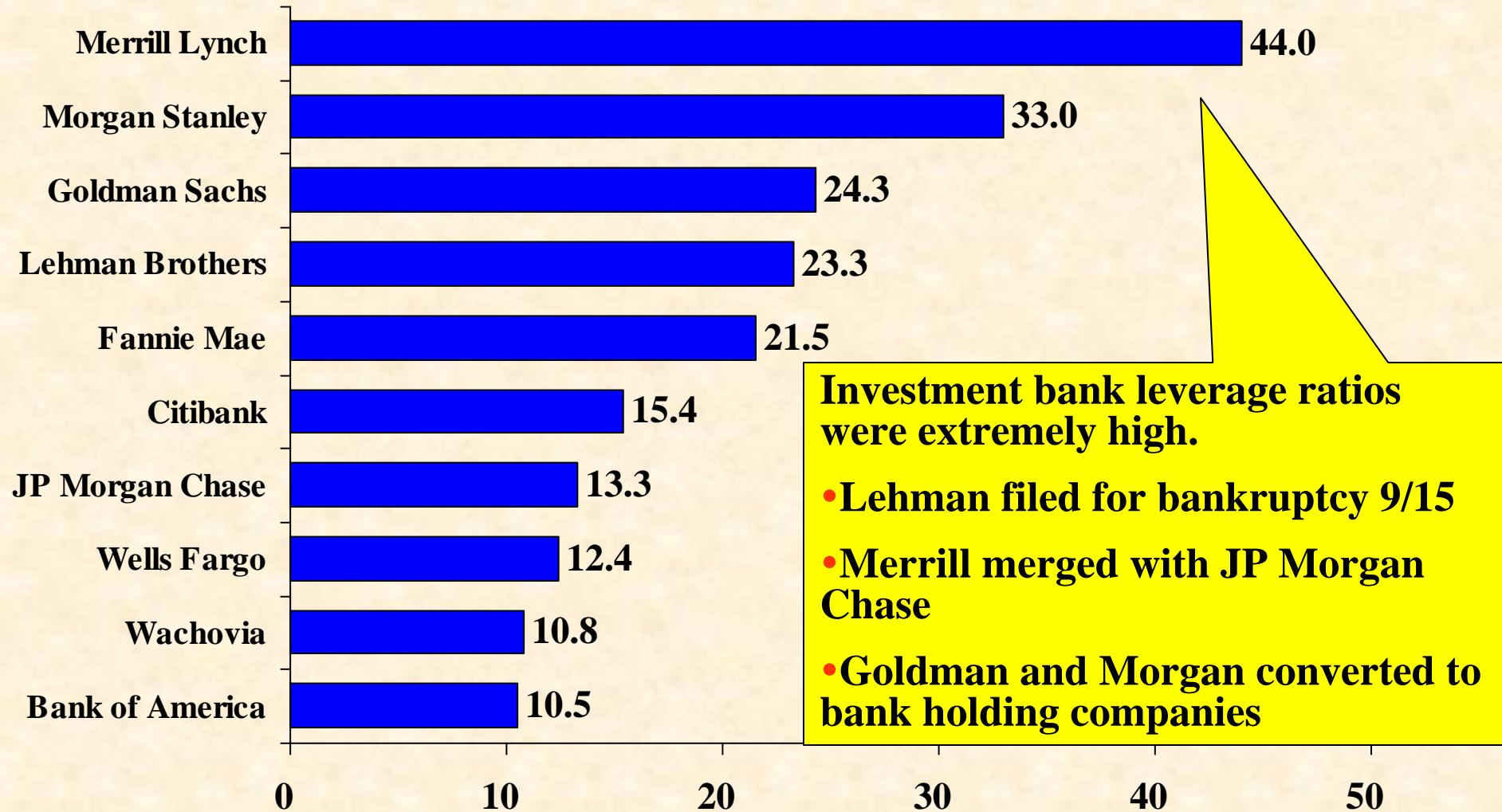
# *Federal Government Financial Services Rescue Package (cont'd)*

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- 5. Conversion of Last 2 Remaining Investment Banks (Goldman Sachs and Morgan Stanley) to Bank Holding Companies**
- **Recognition that Wall Street as we have known it for decades is dead**
  - **High leverage investment bank model no longer viable in current market environment**
  - **New entities will be subject to stringent federal regulation in exchange for more access to federal dollars/liquidity facilities**
  - **Capital and liquidity requirements will be greatly enhanced**
  - **Reduced leverage means new entities will be less profitable**



# *Leverage Ratios for Investment Banks and Traditional Banks\**



\*Based on data for last quarter reported (May or June 2008).

Source: "The Perils of Leverage," North Coast Investment Research, Sept. 15, 2008



# How Does Leverage Work?

- **Example of Non-Leverage Transaction**

- Buy 1 share of stock for \$100
- Price of share rises to \$110
- RETURN = \$10 or 10%

- **Leveraged Transaction**

- Invest \$10 and borrow \$90
- Stock rises to \$110
- RETURN = \$10 *or 100%* (less borrowing costs)

Investment banks and others juiced their returns by making big, bad bets with (mostly) borrowed money on mortgage securities

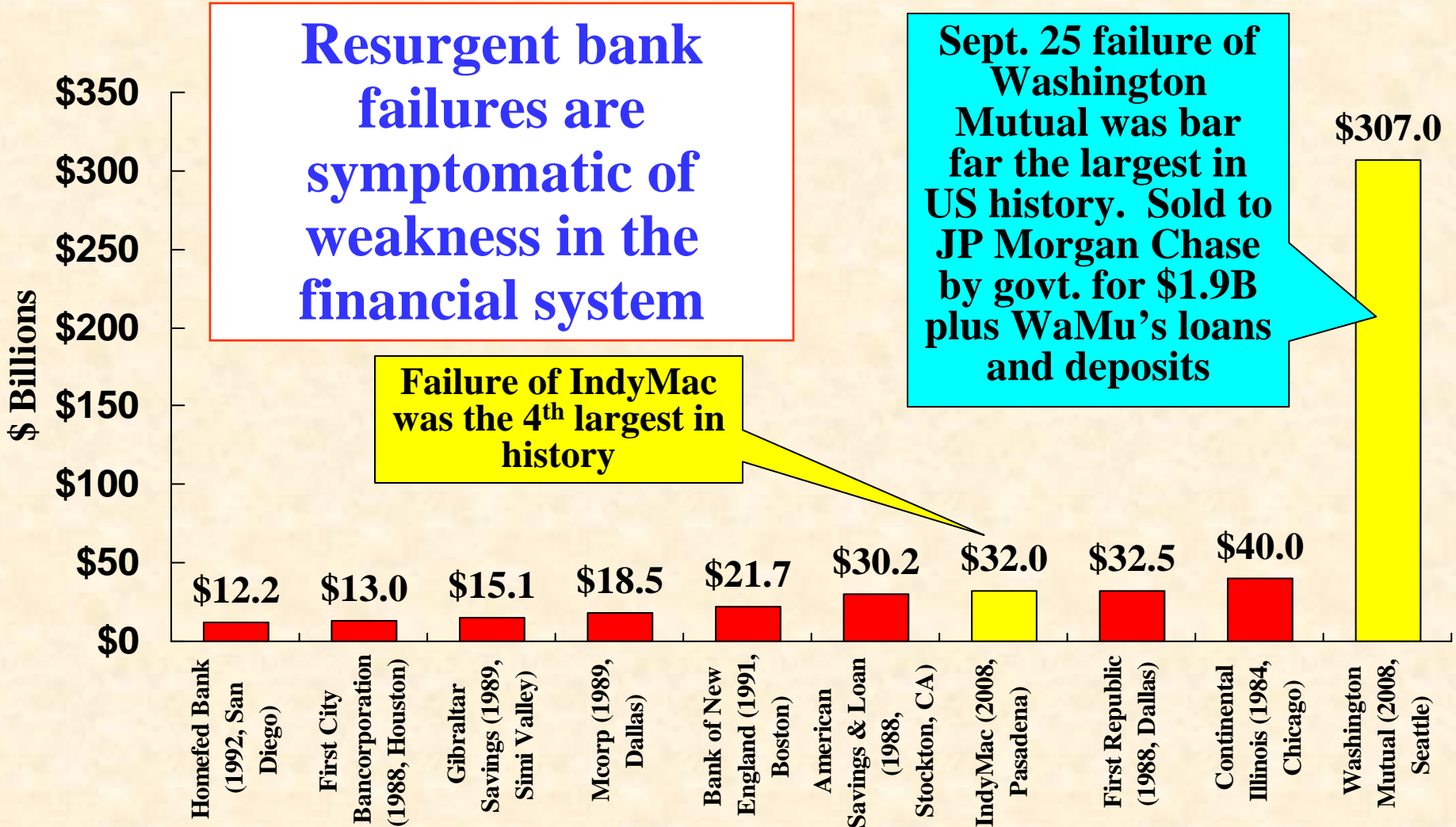
- **This Pleasant Arithmetic Works Equally Unpleasantly in the Opposite Direction**

- **Declining asset values, seizing of credit markets made such borrowing impossible and the operating model of investment banks nonviable**





# Top 10 Largest Bank Failures



# Government Rescue Package of AIG

## Motivation & Structural Details





# *AIG Rescue Package by the Fed*

- **AIG suffered a liquidity crisis due to large positions, mostly associated with Credit Default Swaps, related to mortgage debt through its AIG Financial Products division**
- **The losses at AIGFP brought AIG's holding company to the brink of bankruptcy by Sept. 16 (AIG has 245 divisions, 71 are US domiciled insurer)**
  - **Efforts to create large credit pool via private banks failed**
- **AIG's separately regulated insurance subsidiaries were solvent at all times and met local capital requirements in all jurisdictions\***
- **Federal Reserve Agreed to Lend AIG \$85 Billion to Prevent Bankruptcy, of Which about \$30B has been borrowed (as of 9/22)**
  - **2-year term @ 850 bps over LIBOR (about 11 to 11.5%); 8% unborrowed**
  - **Fed gets 79.9% stake in AIG (temporary nationalization)**
  - **CEO Robert Willumstad replaced by former Allstate CEO Edward Liddy**
- **Proceeds from sale of non-core assets will be used to repay loan**
- **New CEO says most insurance divisions are "core"**



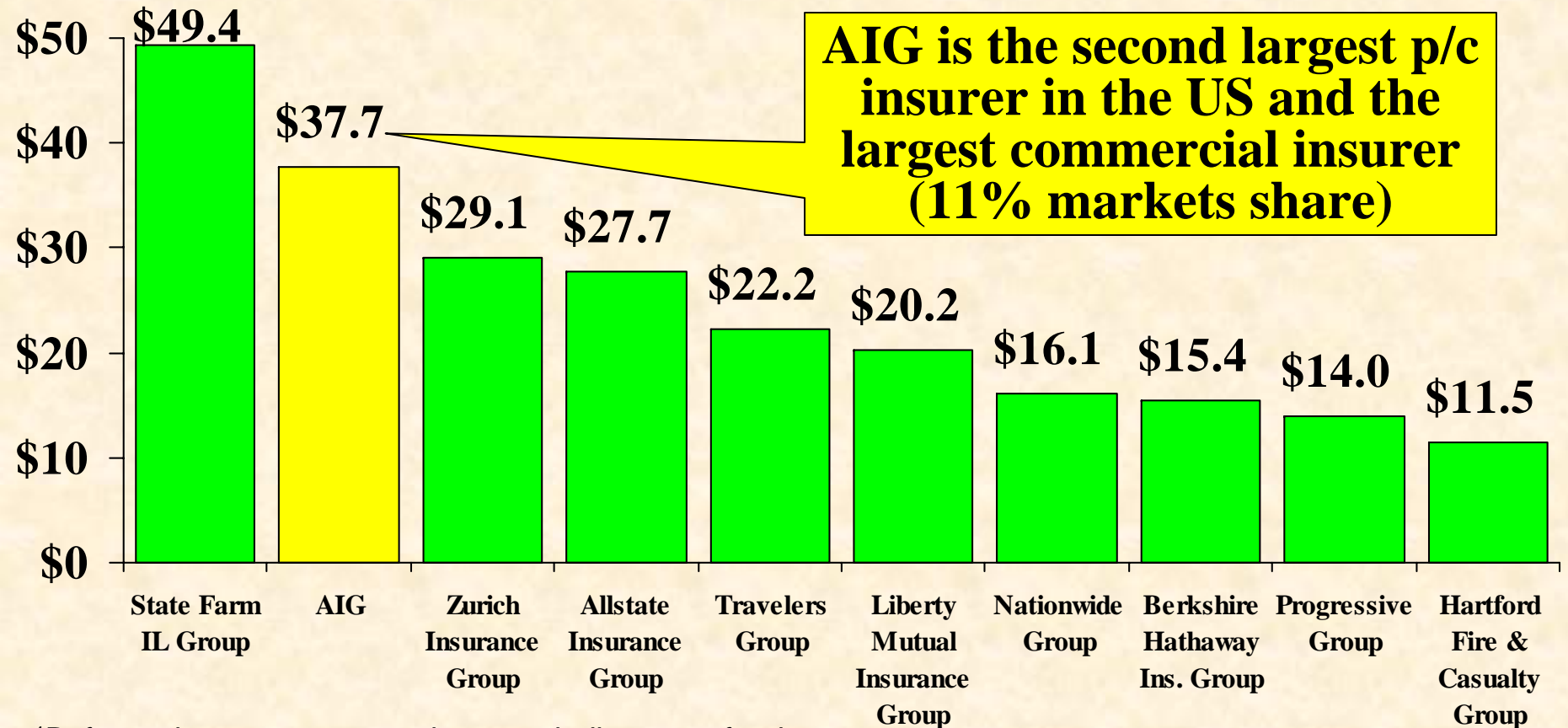
# *Rational for Federal Reserve's Rescue Package of AIG*

- **“Too Big to Fail” Doctrine Applied to Insurance for First Time**
- **AIG is the Largest Insurer in the US and One of the Top 5 Globally: Internationally Disruptive**
  - **Disorderly unwinding of CDS positions (which guarantee large amounts of debt) would have had large negative consequences on already fragile credit markets**
- **Fear Was that Generally Healthy Insurance Operations Affecting Millions of People and Businesses Would Have to Be Sold at Fire Sale Prices**
- **Loan Allowed Time for an Orderly Sale of Assets and a Minimal Disruption on Credit Markets while also Protecting Policyholders**
- **New CEO says most insurance divisions are “core”**



# Leading U.S. Writers of P/C Insurance By DWP, 2007 (\$ Billions)<sup>1</sup>

Direct Written Premiums (DWP) \$ Billions



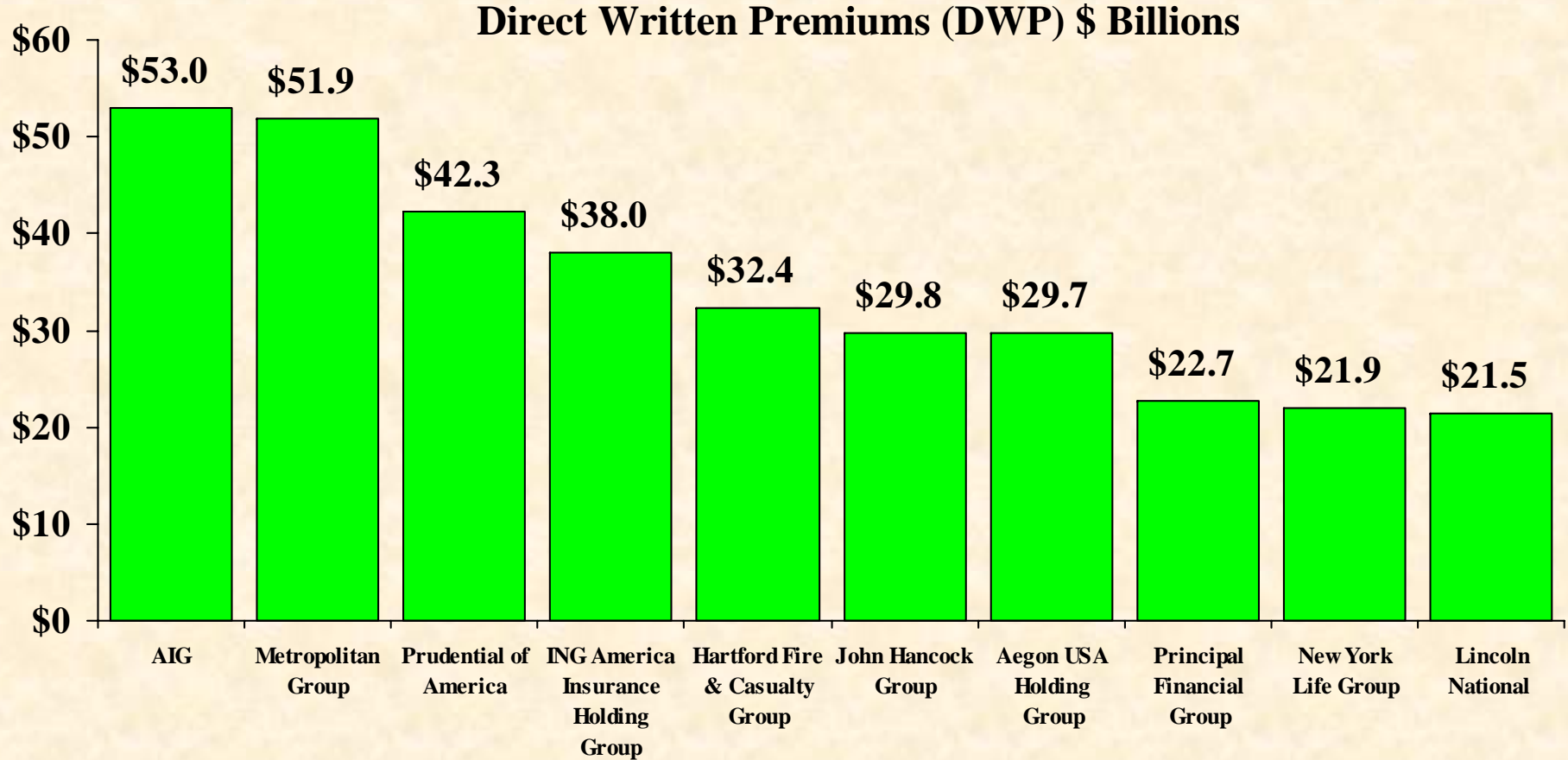
<sup>1</sup>Before reinsurance transactions, excluding state funds.

Source: National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data LLC.





# Leading U.S. Writers of Life Insurance By DWP, 2007 (\$ Billions)<sup>1</sup>

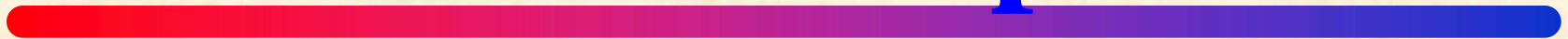


<sup>1</sup>Premium and annuity totals, before reinsurance transactions, excluding state funds.

Source: National Association of Insurance Commissioners (NAIC) Annual Statement Database, via Highline Data LLC.

# **AFTERSHOCK: Regulatory Response Could Be Harsh**

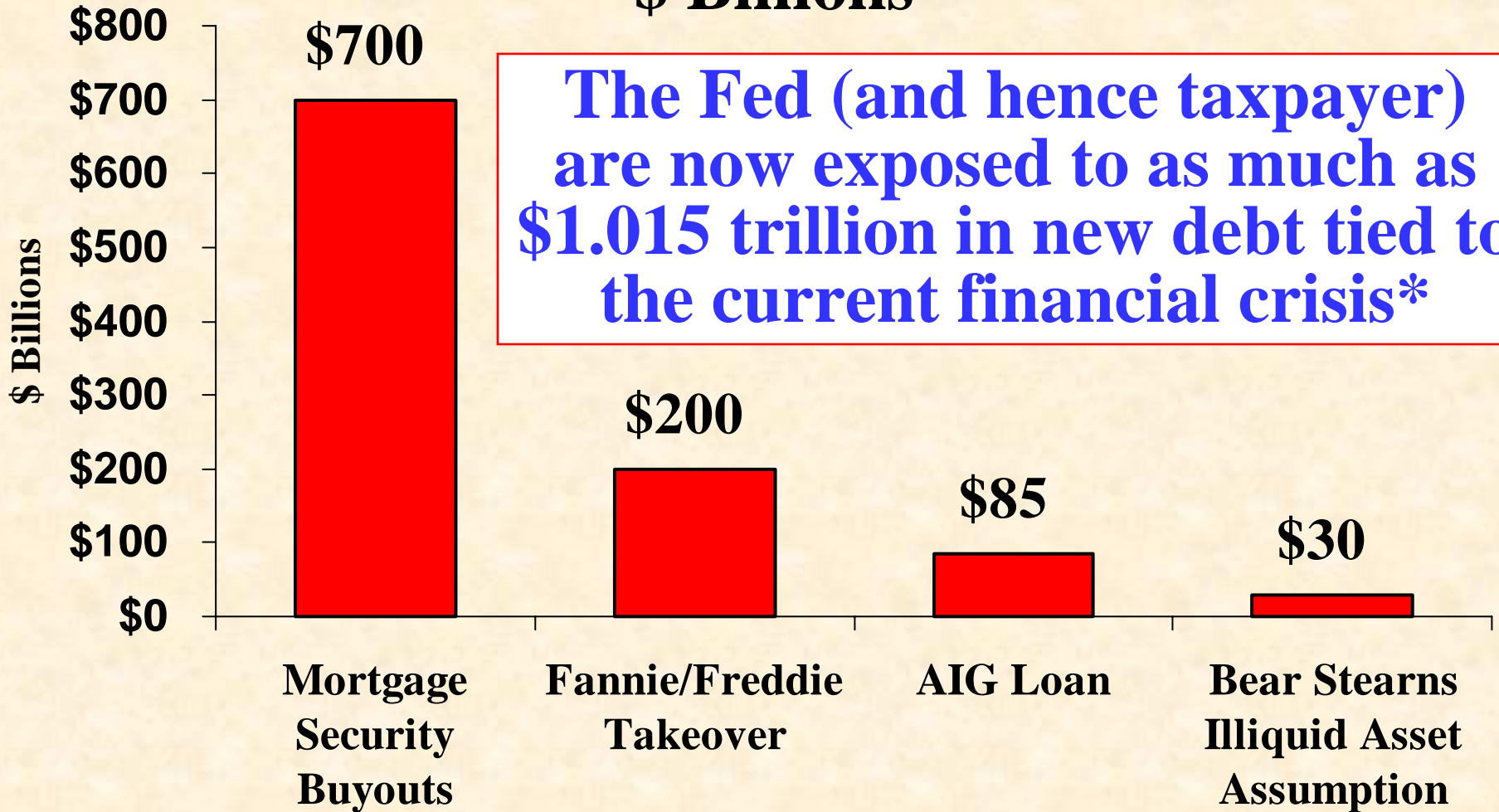
**All Financial Segments  
Including Insurers  
Will Be Impacted**





# *Incurring Liabilities of the Federal Government Due to Financial Crisis*

**\$ Billions**



\*As of September 22, 2008. Amounts reflect maximum losses under terms at time of announcement. Source: Wall Street Journal, 9/22/08, p. A8; Insurance Information Institute research.

# *Liquidity Enhancements*



## *Implemented by Fed Due to Crisis*

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- **Lowered Interest Rates for Direct Loans to Banks**
  - **Federal funds rate cut from 5.5% in mid-2007 to 2.0% now**
- **Injected Funds Into Money Markets**
- **Coordinated Exchange Transactions w/Foreign Central Banks**
- **Created New Auction and Other Lending Programs for Banks**
- **Started Direct Lending to Investment Banks for the First Time Ever**
- **Authorized Short-Term Lending to Fannie/Freddie, Backstopping a Treasury Credit Line**



# *From Hubris to the Humbling of American Capitalism?*

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*“Government is not the  
solution to our problem,  
government is the problem.”*

**--Ronald Reagan, from his first  
inaugural address, January 20, 1981**





# *From Hubris to the Humbling of American Capitalism?*

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*“Given the precarious state of today’s financial markets, and their vital importance to the daily lives of the American people, Government intervention is not Only warranted, it is essential.”*

**--President George W. Bush, Sept. 19, 2008, on the \$700 billion financial institution bailout**



# *Post-Crunch: Fundamental*

## *Issues To Be Examined Globally*


- **Failure of Risk Management, Control & Supervision at Financial Institutions Worldwide: Global Impact**
  - Colossal failure of risk management (and regulation)
  - Implications for Enterprise Risk Management (ERM)?
  - Misalignment of management financial incentives
- **Focus Will Be on Risk Controls: Implies More Stringent Capital & Liquidity Requirements**
  - Data reporting requirements also likely to be expanded
  - Non-Depository Financial Institutions in for major regulation
  - Changes likely under US and European regulatory regimes
  - Will new regulations be globally consistent?
  - Can overreactions be avoided?
- **Accounting Rules**
  - Problems arose under FAS, IAS
  - Asset Valuation, including Mark-to-Market
  - Structured Finance & Complex Derivatives
- **Ratings on Financial Instruments**
  - New approaches to reflect type of asset, nature of risk



# *Post-Crunch: Fundamental Regulatory Issues & Insurance*

- **Federal Encroachment on Regulation of Insurance**
  - \$85 billion AIG loan makes increased federal involvement in insurance regulation a certainty
  - States will lose some of their regulatory authority
  - What Feds get/what states lose is unclear
- **Removing the “O” from “OFC”?**
  - Treasury in March proposed moving solvency and consumer protection authority to a federal “Office of National Insurance”
  - Moving toward more universal approach for regulation of financial services, perhaps under Fed/Treasury
  - Is European (e.g., FSA) approach in store?
  - Treasury proposed assuming solvency and consumer protection roles while also eliminating rate regulation
  - Expect battle over federal regulatory role to continue to be a divisive issue within the industry
  - States will fight to maximize influence, arguing that segments of the financial services industry under their control had the least problems

# Summary of Treasury “Blueprint” for Financial Services Modernization

 **Impacts on Insurers**

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# *Treasury Regulatory*

## *Recommendations Affecting Insurers*

- **Establishment of an Optional Federal Charter (OFC)**
  - Would provide system for federal chartering, licensing, regulation and supervision of insurers, reinsurer and producers (agents & brokers)
- **OFC Would Incorporate Several Regulatory Concepts**
  - Ensure safety and soundness
  - Enhance competition in national and international markets
  - Increase efficiency through elimination of price controls, promote more rapid technological change, encourage product innovation, reduce regulatory costs and provide consumer protection
- **Establishment of Office of National Insurance (ONI)**
  - Department within Treasury to regulate insurance pursuant to OFC
  - Headed by Commissioner of National Insurance
  - Commissioner has regulatory, supervisory, enforcement and rehabilitative powers to oversee organization, incorporation, operation, regulation of national insurers and national agencies
- **UPDATE: HR 5840 Introduced April 17 Would Establish Office of Insurance Information (OII)**
  - Would create industry “voice” within Treasury



# Government Takeover of Fannie Mae & Freddie Mac

**Beneficial for Insurers**





# *Treasury's Fannie/Freddie Rescue Package Should Help Residential Property Insurers*

## **THE PROBLEM**

- **Fannie Mae/ Freddie Mac borrow huge sums to buy mortgages from mortgage lenders and do so with an implicit government guarantee that should these mortgage sour the government will come to the rescue**
- **Together the entities own or guarantee \$5.4 trillion in mortgages (about 50% of US total)**
- **Collectively Fan/Fred have lost about \$14 billion over the past 4 quarters and their capital is nearly depleted**
- ***Loss of confidence in Fannie/Freddie is primary reason why Fed's slashing of rates since has not lowered interest rates (esp. on mortgages)***



# *Treasury's Fannie/Freddie Rescue Package Should Help Residential Property Insurers*

## **THE SOLUTION: A 4-POINT PLAN**

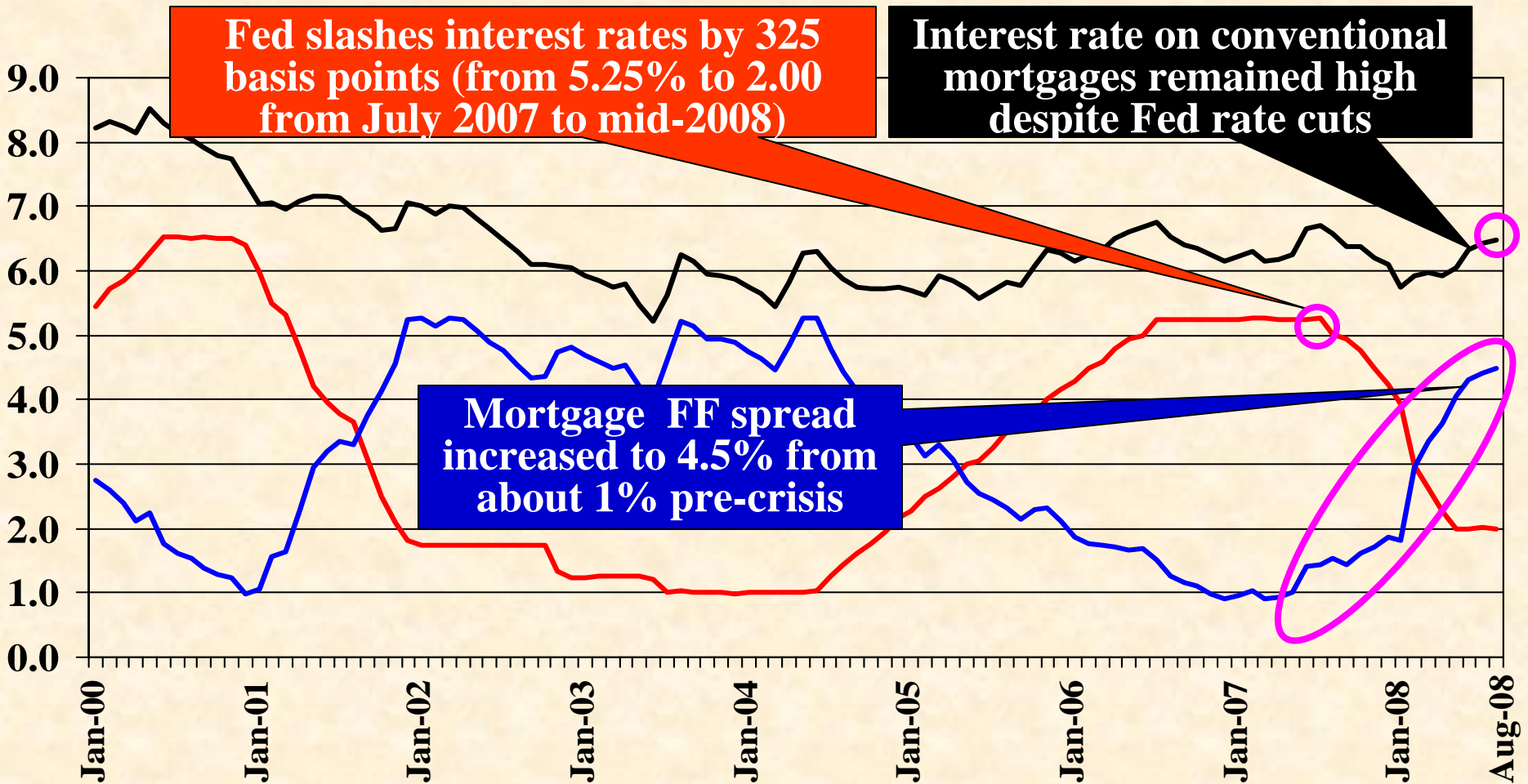
- 1. Government seizes Fannie Mae/ Freddie Mac and places them in “conservatorship” under their regulator the Federal Housing Finance Agency (FHFA)**
  - **Current CEOs ousted. Fannie will be run by Herb Allison (CEO TIAA-CREF) and Freddie by David Moffet (CEO US Bancorp)**
- 2. Treasury purchases senior preferred stock; Govt. gains 79.9% ownership. Could buy up to \$100 billion per firm.**
- 3. Treasury will buy mortgage backed securities (MBS) in the open market issued by Fan/Fred in attempt to lower borrowing costs (\$ unspecified)**
- 4. Treasury establishing new lending facilities for Fan/Fred**

***Total federal involvement could amount to \$200 billion***



# Credit Crisis: Fed Interest Rate Cuts Failed to Reduce Mortgage Rates

January 2000 through August 2008





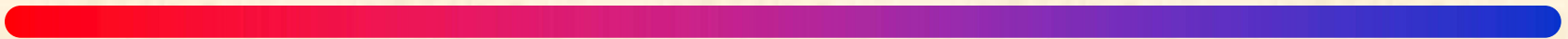
# *Why Treasury's Fannie/Freddie Rescue Package Should Help Residential Property Insurers*

- **Crash in housing market is already costing home insurers alone about \$1 billion annually in lost premium growth based on 50%+ decline in new home construction (about 1 million fewer homes per year)**
  - **Plan should lower interest rates, accelerate clearing away existing inventory and stimulate new construction (don't expect big gains until 2010 at earliest)**
  - ***Mortgage rates fell 1/2 point day after announcement***
- **Home in or headed for foreclosure are likely to suffer worse than average loss experience (neglect, abuse, abandonment, vandalism, theft...). Plan may bring interest rate relief to people who's mortgages will reset over the next several years, averting some foreclosures.**
- **Insurers hold tens of billion in Fan/Fred MBS debt as well as shares in both companies. Both survive.**



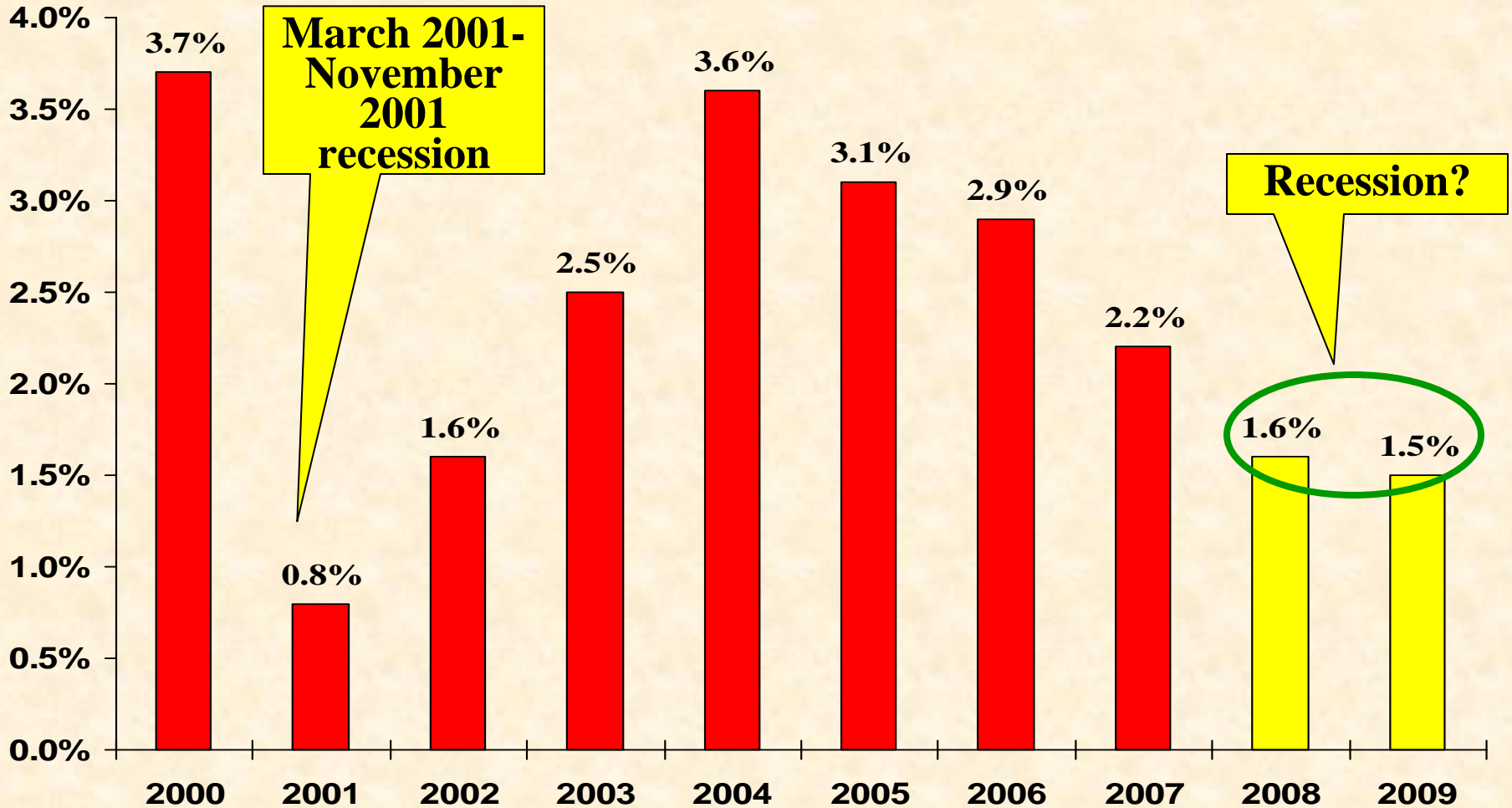
# THE ECONOMIC STORM

*What a Weakening Economy &  
The Threat of Inflation Mean  
for the Insurance Industry*





# Real Annual GDP Growth, 2000-2009F

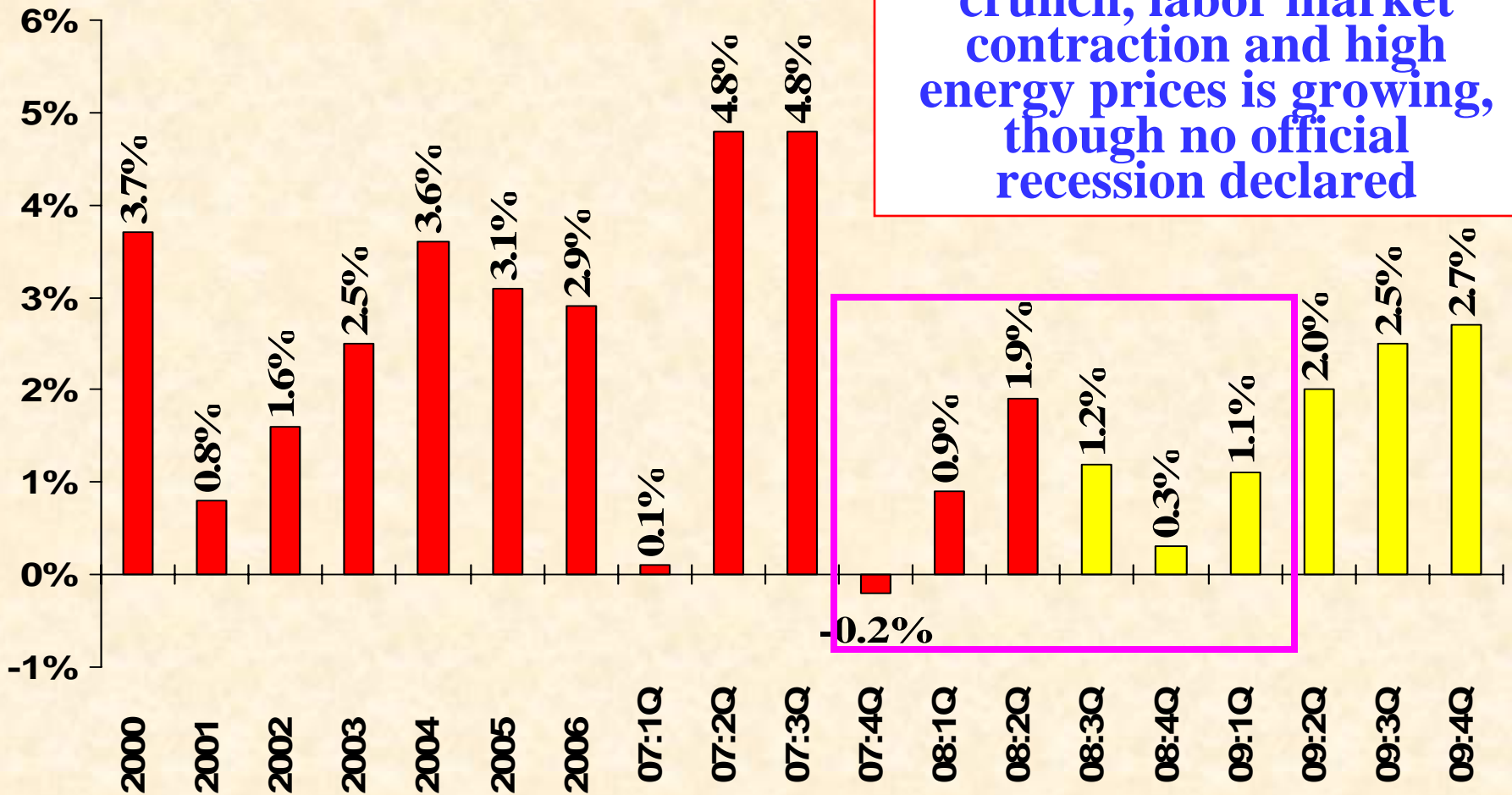


\* Red bars are actual; Yellow bars are forecasts

Sources: US Department of Commerce (actual), Blue Economic Indicators 8/08 (forecasts).



# Real GDP Growth\*



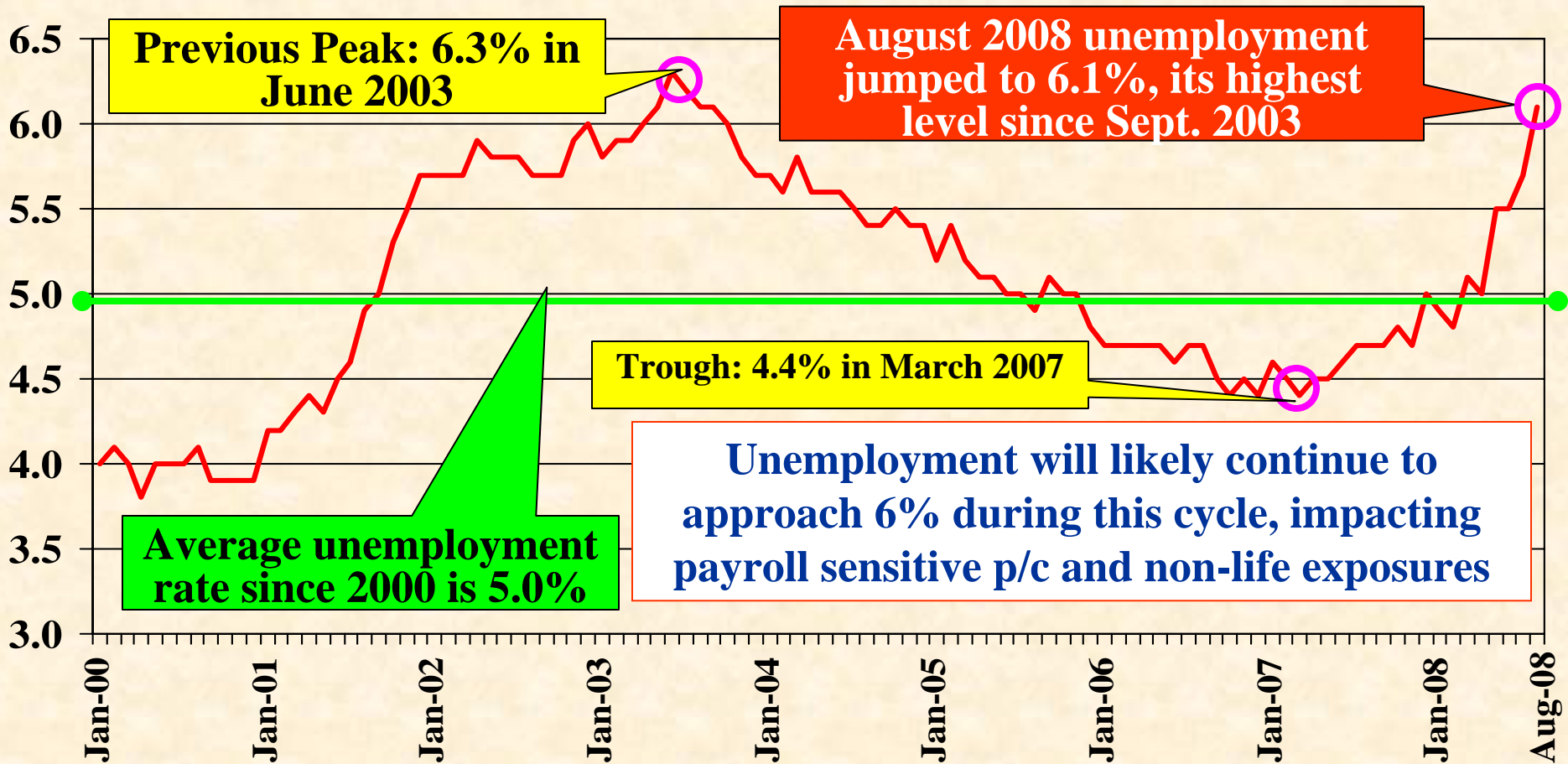
\*Yellow bars are Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 8/08; Insurance Information Institute.



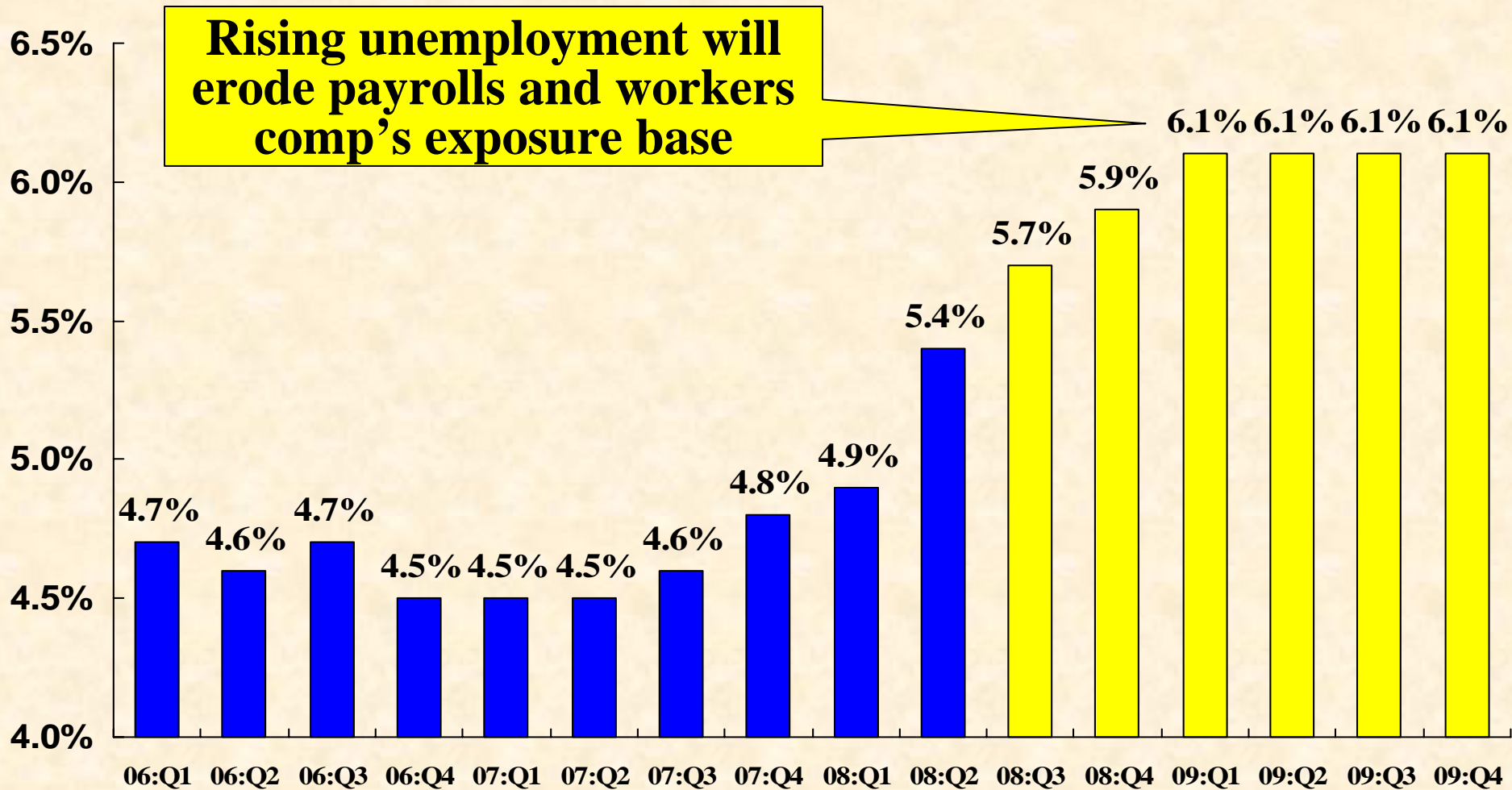
# Unemployment Rate: On the Rise

January 2000 through August 2008





# U.S. Unemployment Rate, (2007:Q1 to 2009:Q4F)\*



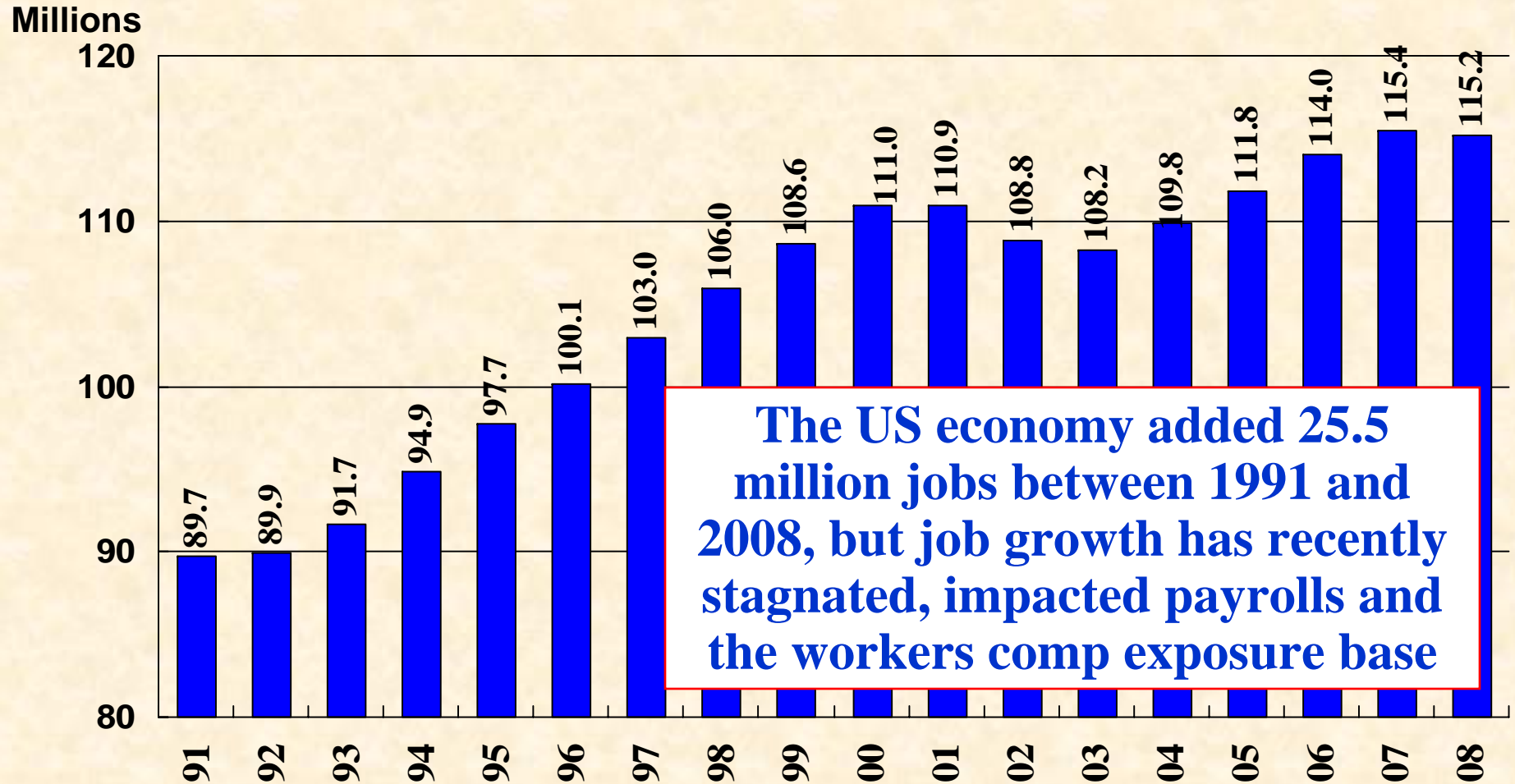
\* Blue bars are actual; Yellow bars are forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (8/08); Insurance Info. Inst.





# Total Private Employment\* Grew by 25½ Million Workers from 1991 to 2008



\*seasonally adjusted at mid-year

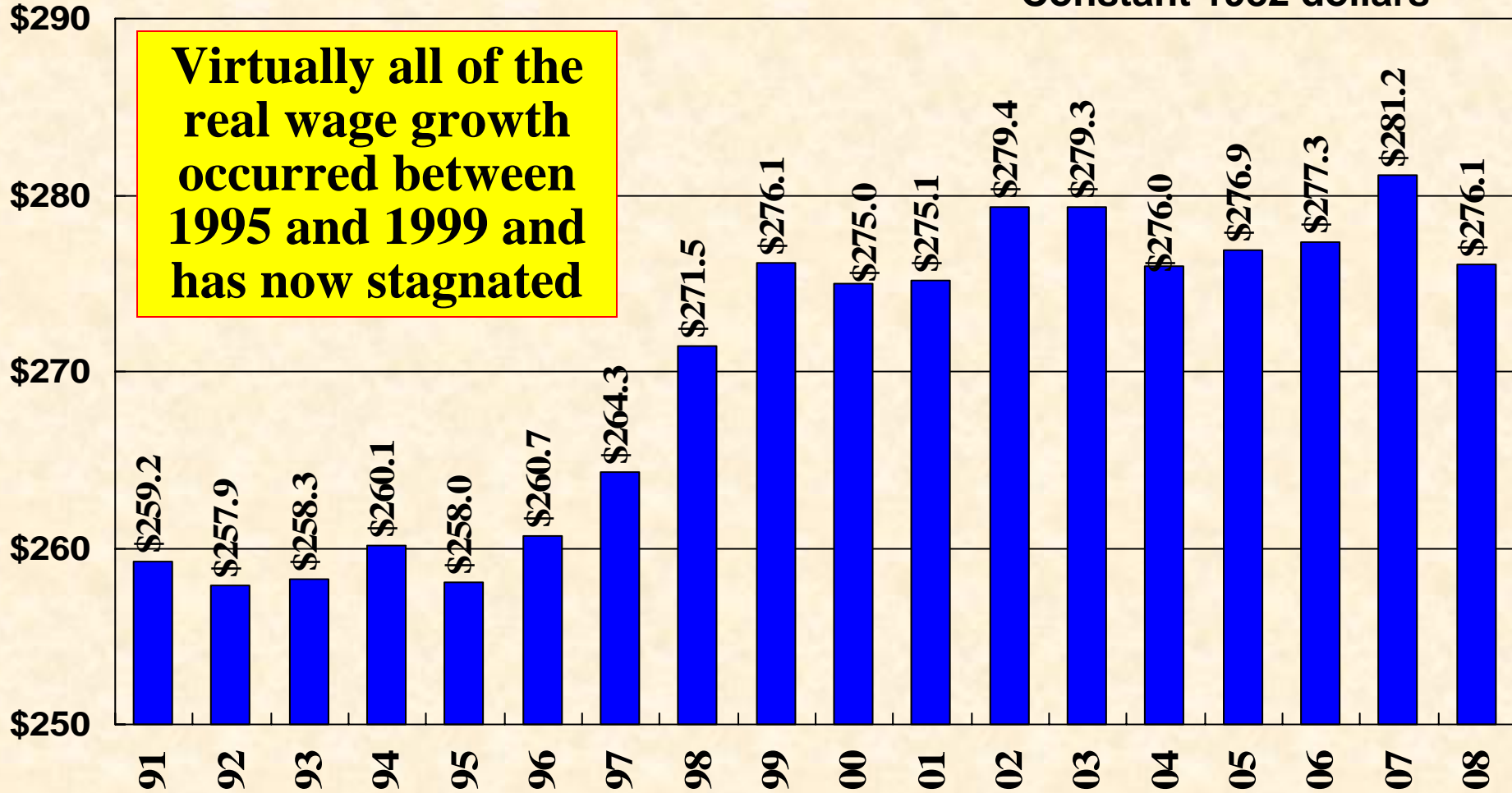
Source: U.S. Bureau of Labor Statistics, at <http://data.bls.gov/cgi-bin/surveymost>



# Average Weekly Real Earnings in Private Employment Were Flat from 1999 to 2008

(at mid-year)

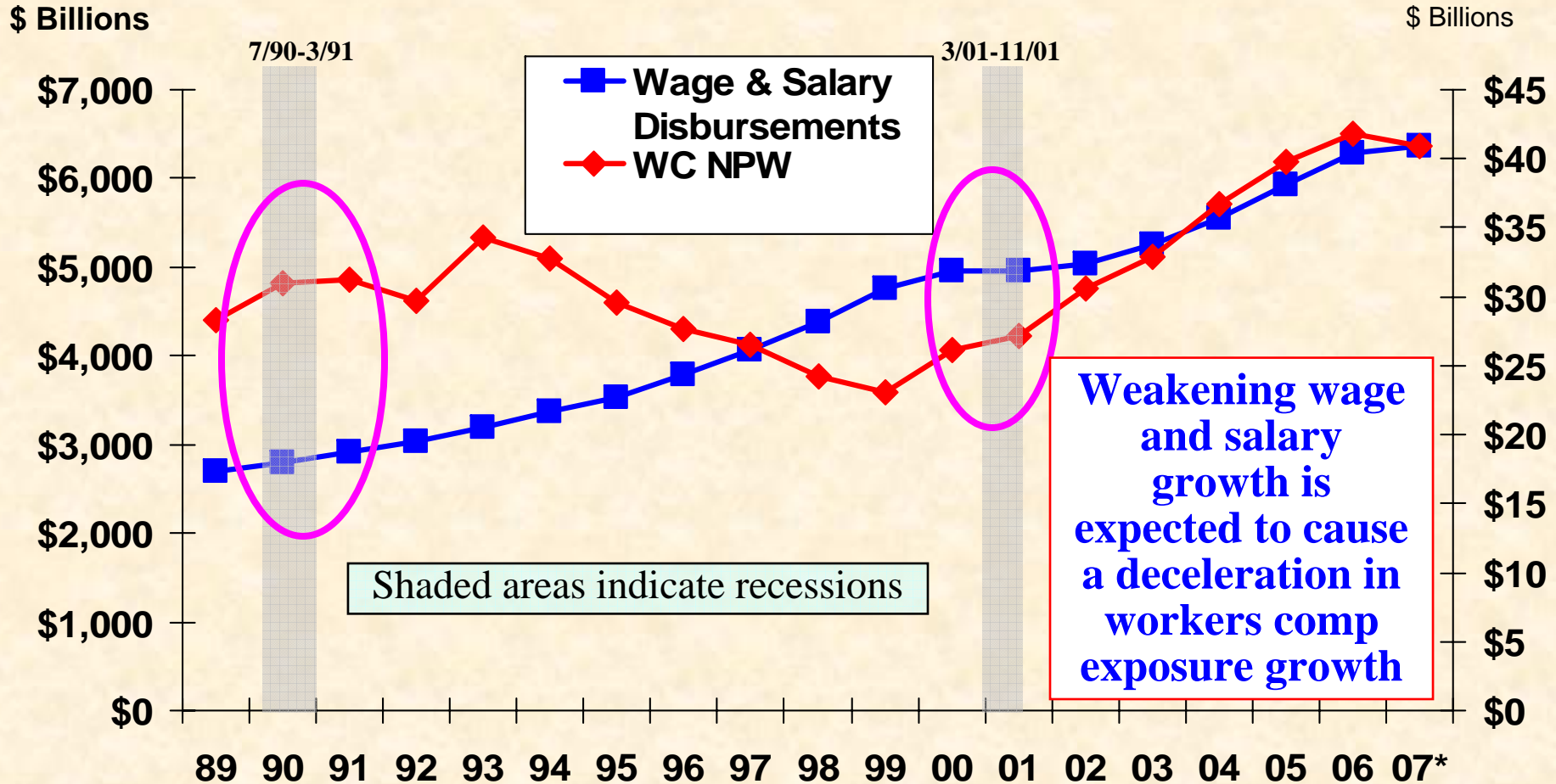
Constant 1982 dollars





# Wage & Salary Disbursements (Payroll Base) vs. Workers Comp Net Written Premiums

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



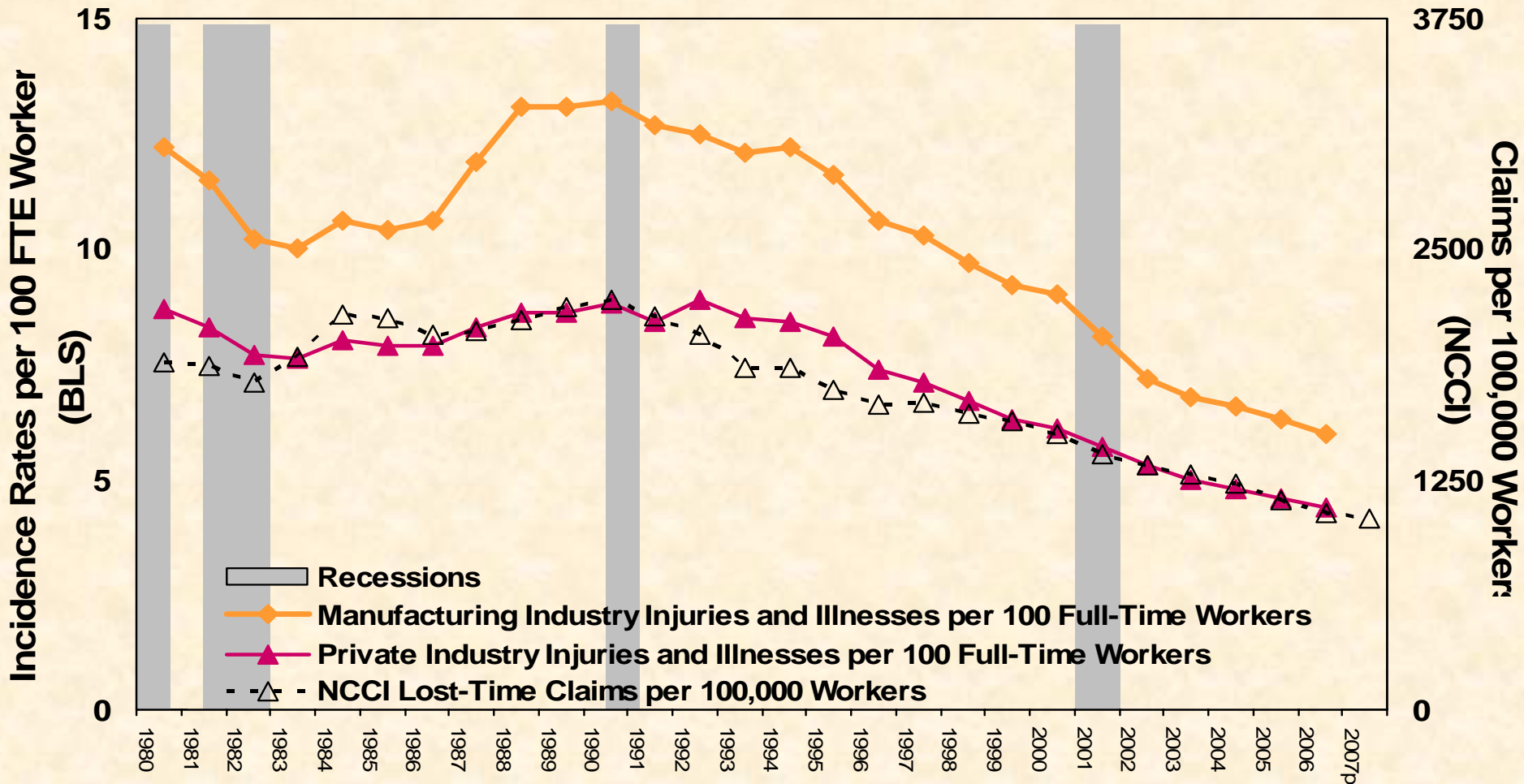
\*Average of quarterly figures.

Source: US Bureau of Economic Analysis; Federal Reserve Bank of St. Louis at

<http://research.stlouisfed.org/fred2/series/WASCUR>; I.I.I. Fact Books



# Workplace Injury Incidence Rates Declined in Last 4 Economic Downturns



p Preliminary

Source: US Department of Labor, Bureau of Labor Statistics (BLS), National Bureau of Economic Research; NCCI Frequency and Severity Analysis

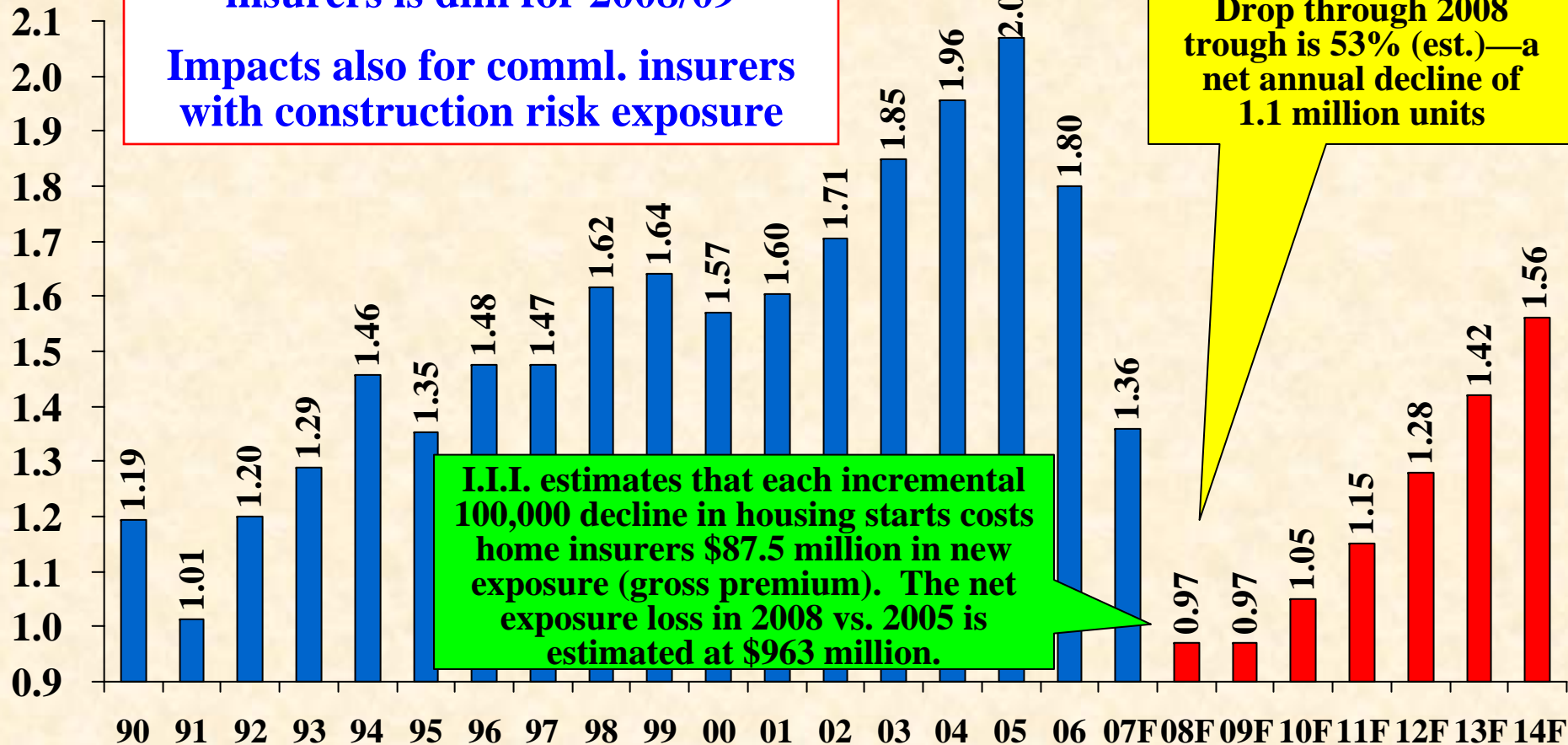


# New Private Housing Starts, 1990-2014F (Millions of Units)

Exposure growth forecast for HO  
insurers is dim for 2008/09

Impacts also for comml. insurers  
with construction risk exposure

New home starts plunged  
34% from 2005-2007;  
Drop through 2008  
trough is 53% (est.)—a  
net annual decline of  
1.1 million units



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 2008 vs. 2005 is  
estimated at \$963 million.

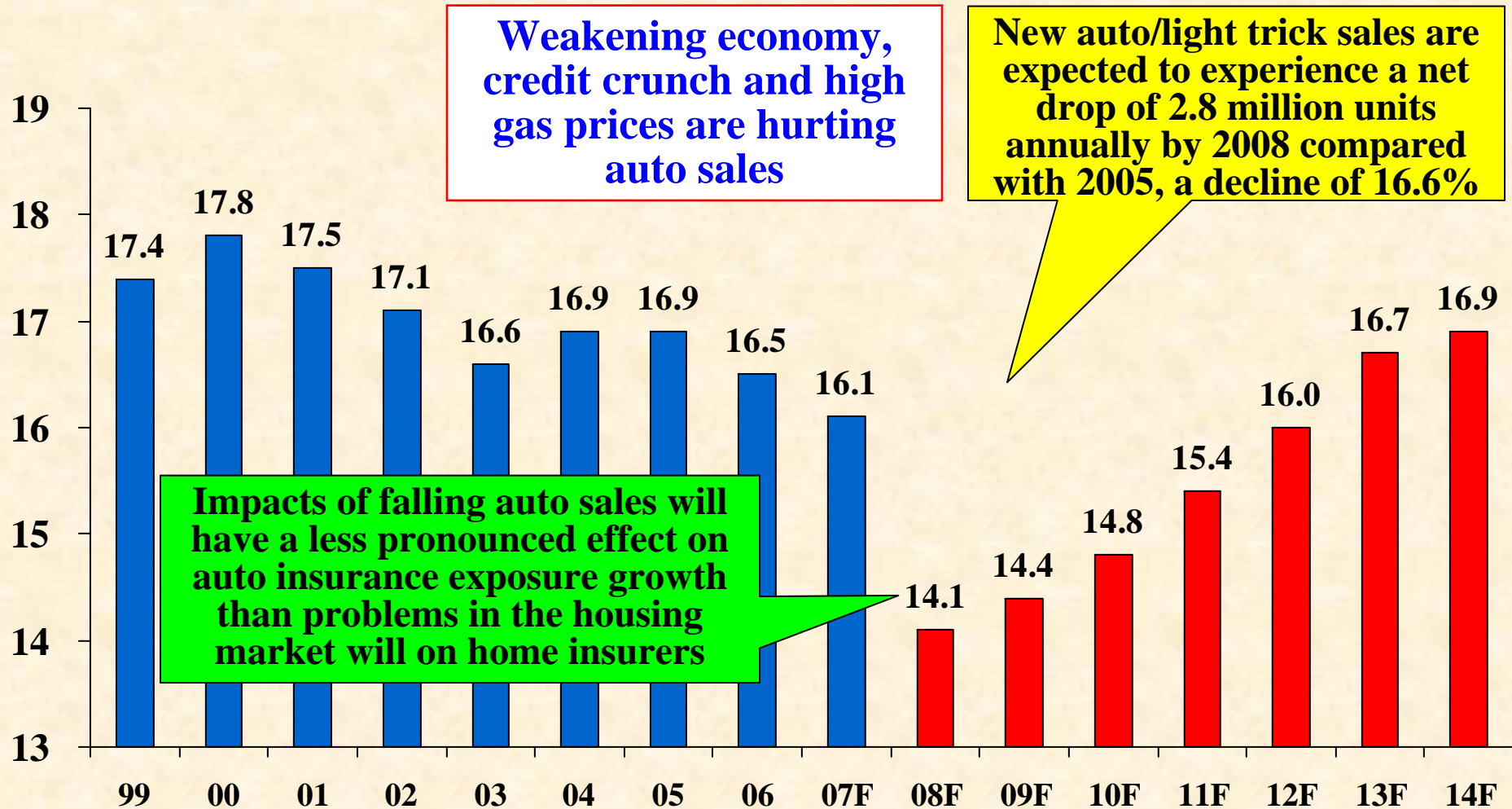
Source: US Department of Commerce; Blue Chip Economic Indicators for 2008/09, Aug. 2008.

Insurance Information Institute for years 2010-2014.





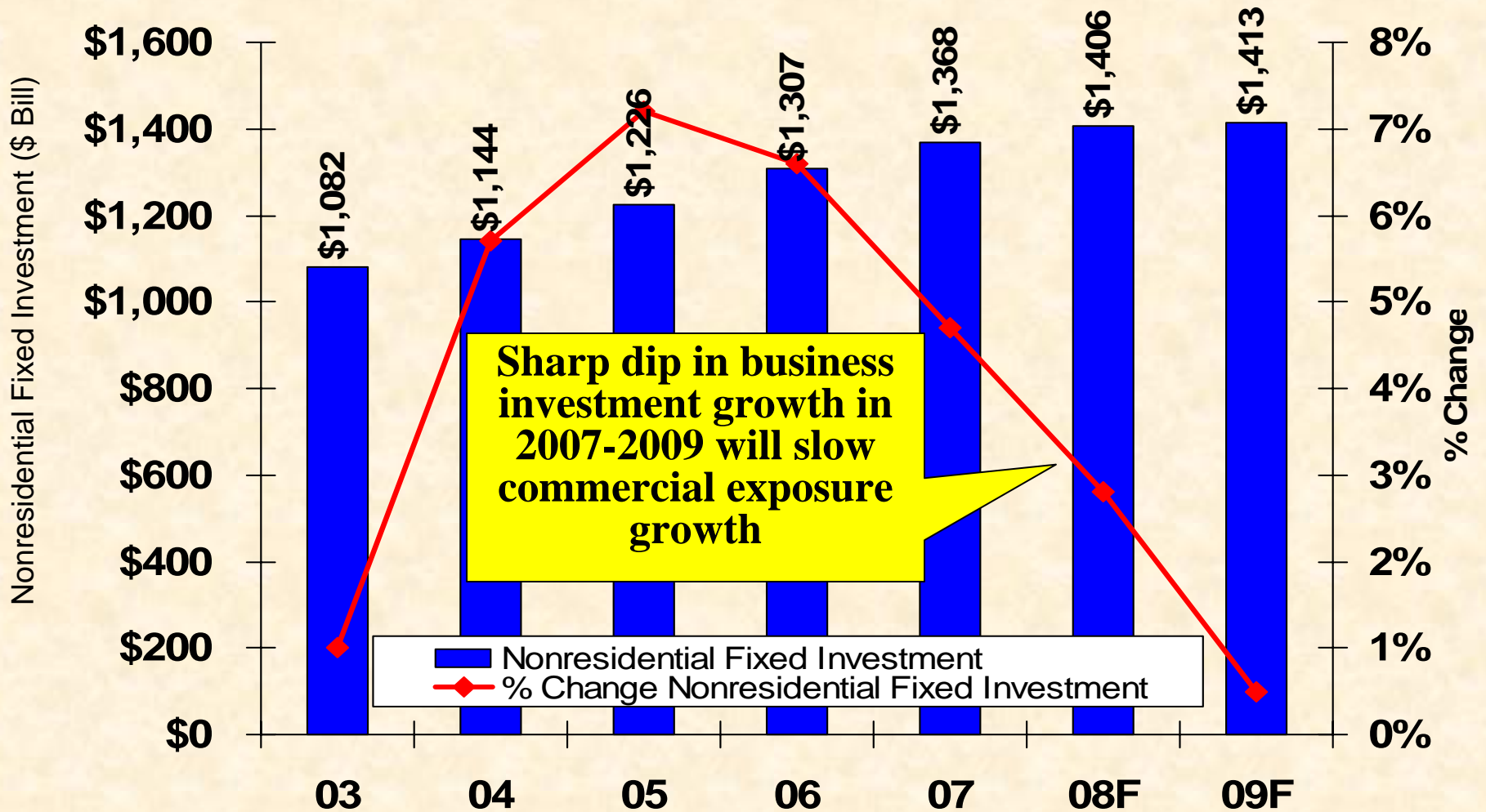
# *Auto/Light Truck Sales, 1999-2014F (Millions of Units)*



Source: US Department of Commerce; Blue Chip Economic Indicators for 2008/09, Aug. 2008.  
Insurance Information Institute for years 2010-2014.



# Nonresidential Fixed Investment,\* 2003 – 2009F (Billions of 2000 \$)



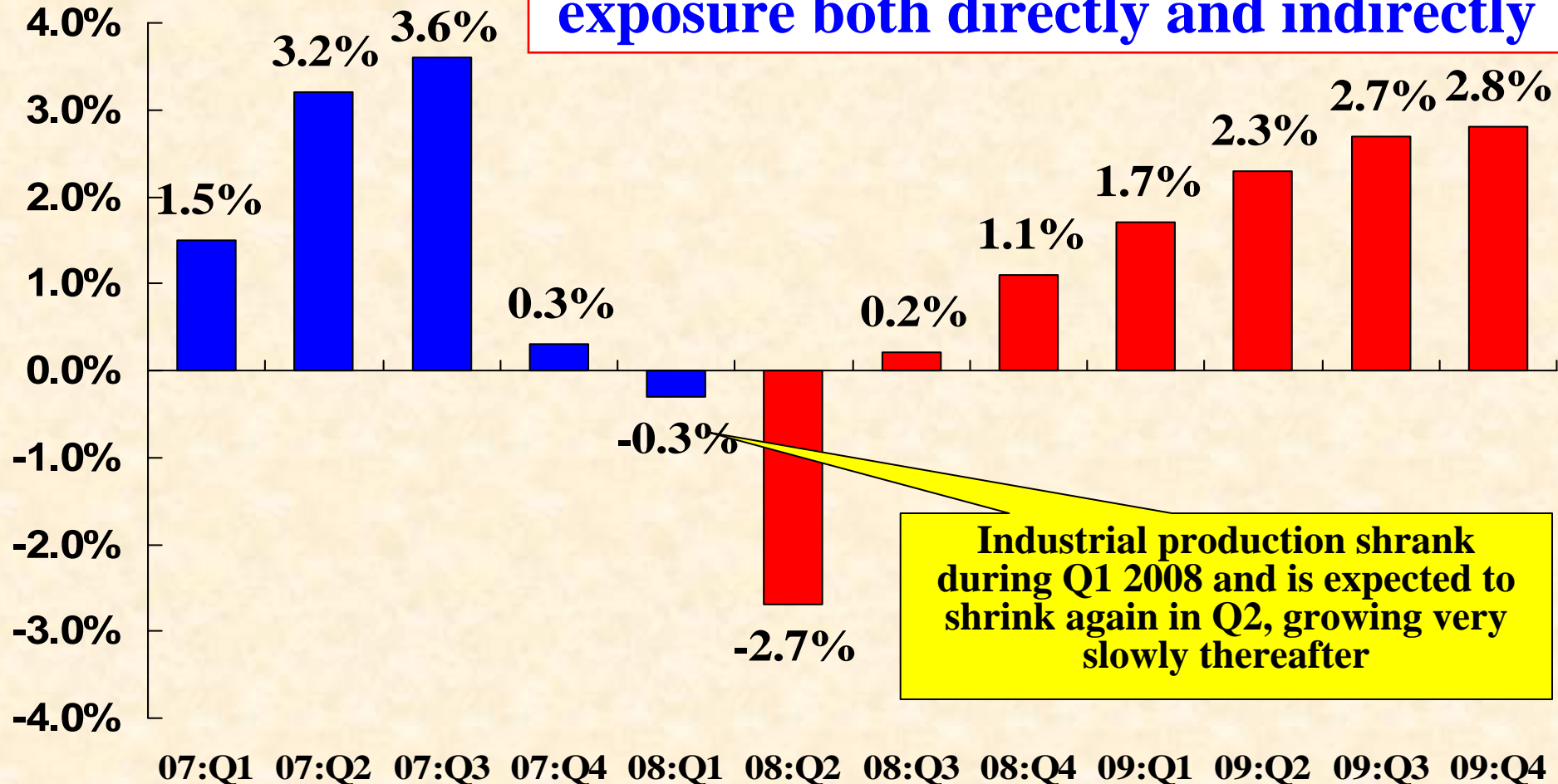
\*Nonresidential fixed investment consists of structures, equipment and software.

Sources: US Bureau of Economic Analysis (Historical), *Blue Chip Economic Indicators* (7/08) for forecasts.



# Total Industrial Production, (2007:Q1 to 2009:Q4F)

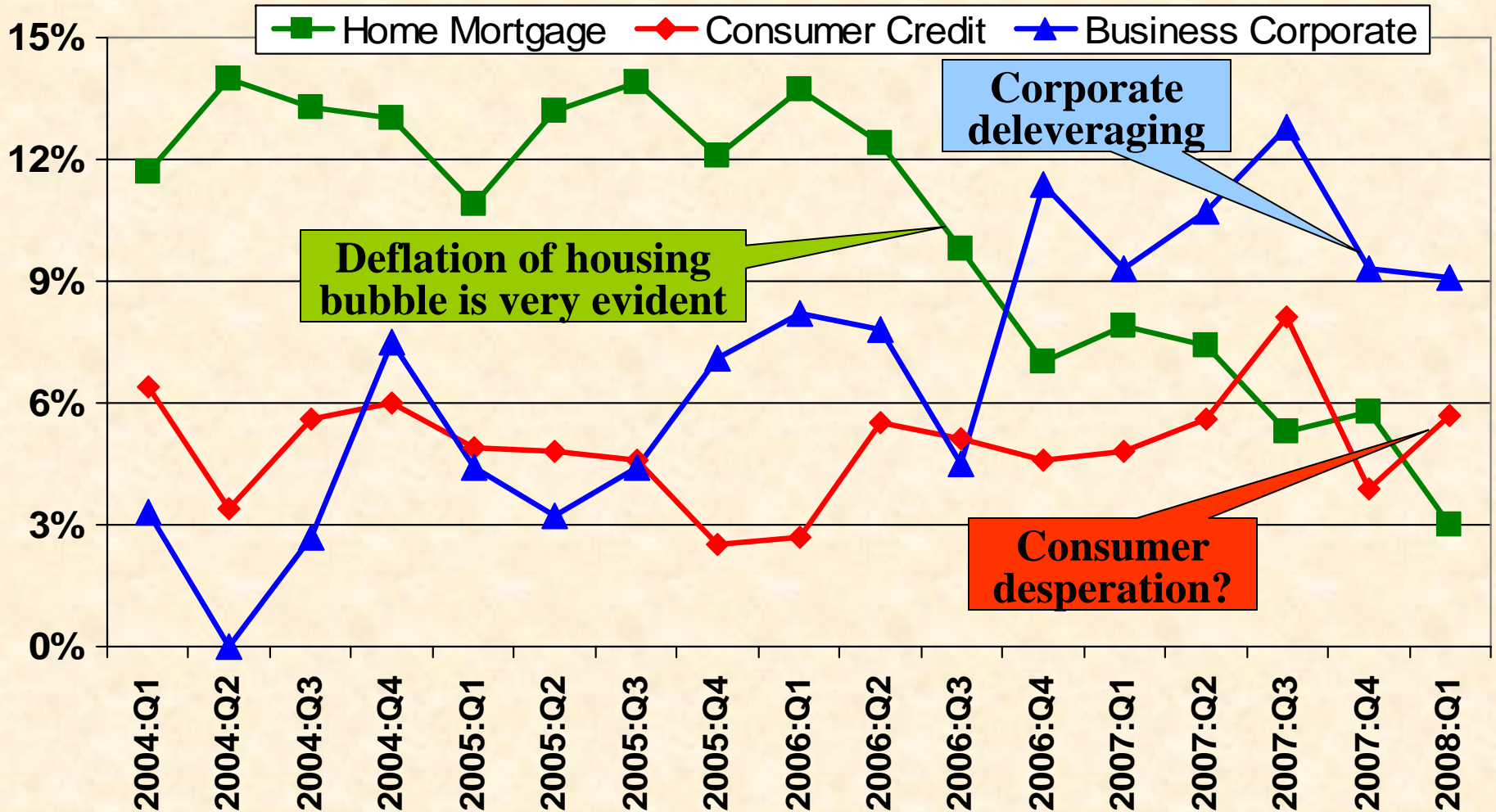
**Industrial production affects exposure both directly and indirectly**



**Industrial production shrank during Q1 2008 and is expected to shrink again in Q2, growing very slowly thereafter**



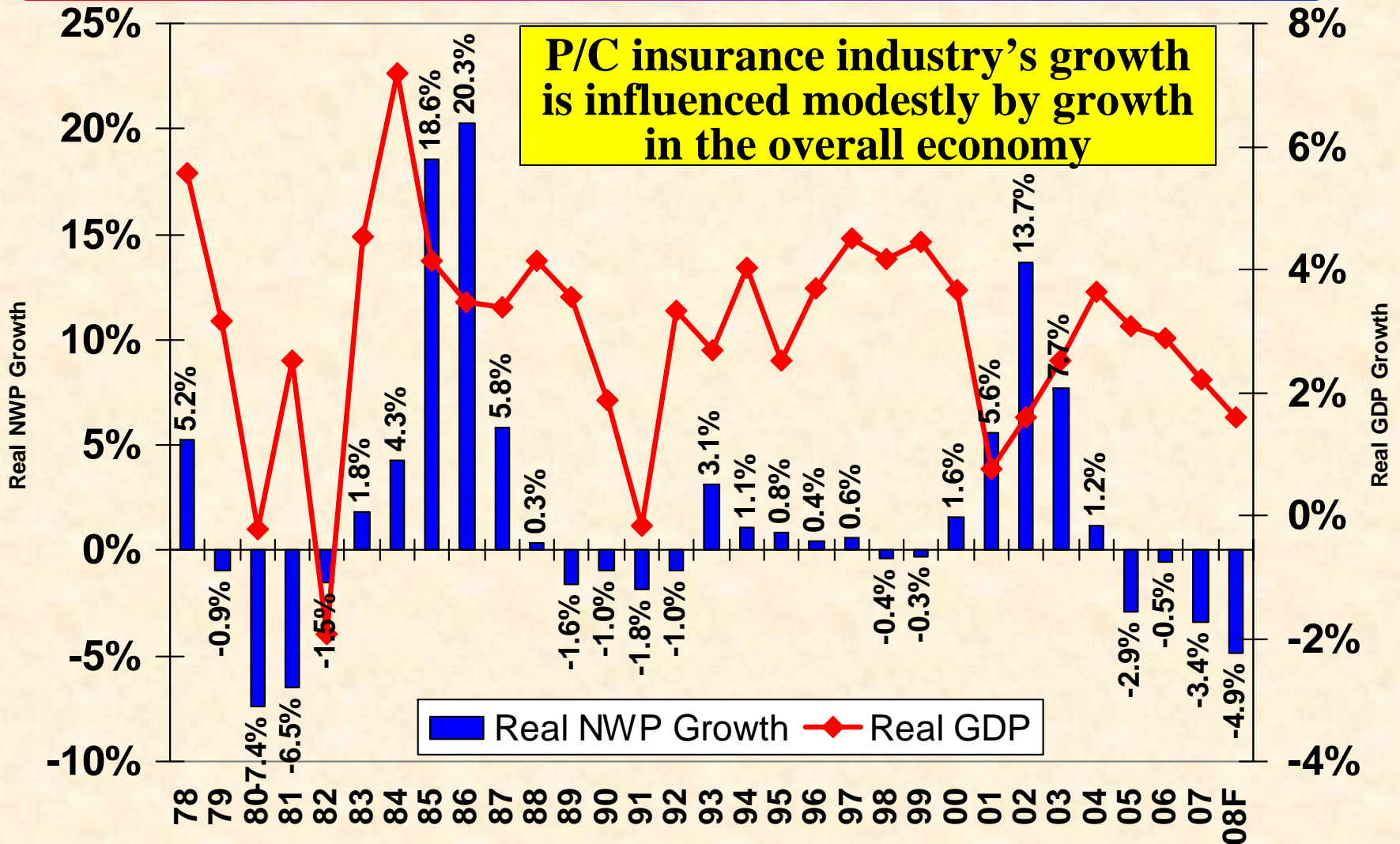
# Percent Change in Debt Growth (Quarterly since 2004:Q1, at Annualized Rate)





# Real GDP Growth vs. Real P/C

## Premium Growth: Modest Association







# *Favored Industry Groups for Insurer Exposure Growth*

Industry	Rationale
Health Care	<ul style="list-style-type: none"><li>• Economic Necessity → Recession Resistant</li><li>• Demographics: aging/immigration → Growth</li></ul>
Energy (incl. Alt.)	<ul style="list-style-type: none"><li>• Fossil, Solar, Wind, Bio-Fuels, Hydro &amp; Other</li></ul>
Agriculture & Food Processing & Manufacturing	<ul style="list-style-type: none"><li>• Consumer Staple → Recession Resistant</li><li>• Grain and land prices high due to global demand, weak dollar (exports)</li><li>• Acreage Growing → Farm Equipment, Transport</li><li>• Benefits many other industries</li></ul>
Export Driven	<ul style="list-style-type: none"><li>• Weak dollar, globalization persist</li></ul>
Natural Resources & Commodities	<ul style="list-style-type: none"><li>• Strong global demand,</li><li>• Supplies remain tight... <i>but beware of bubbles</i></li><li>• Significant investments in R&amp;D, plant &amp; equip required</li></ul>



# Summary of Economic Risks and Implications for (Re) Insurers

Economic Concern	Risks to Insurers
<b>Subprime Meltdown/ Credit Crunch</b>	<ul style="list-style-type: none"><li>• <i>Some</i> insurers have <i>some</i> asset risk</li><li>• D&amp;O/E&amp;O exposure for <i>some</i> insurers</li><li>• Client asset management liability for <i>some</i></li><li>• Bond insurer problems; Muni credit quality</li><li>• Mortgage insurers face losses; Also tightening standards and slowing real estate market</li><li>• Banks less able to lend, slowing construction</li></ul>
<b>Lower Interest Rates</b>	<ul style="list-style-type: none"><li>• Lower investment income</li></ul>
<b>Stock Market Slump</b>	<ul style="list-style-type: none"><li>• Decreased capital gains (which are usually relied upon more heavily as a source of earnings as underwriting results deteriorate)</li></ul>
<b>General Economic Slowdown/Recession</b>	<ul style="list-style-type: none"><li>• Reduced commercial lines exposure growth</li><li>• Surety slump</li><li>• Decreased workers comp frequency due to drop in high hazard class employment</li></ul>

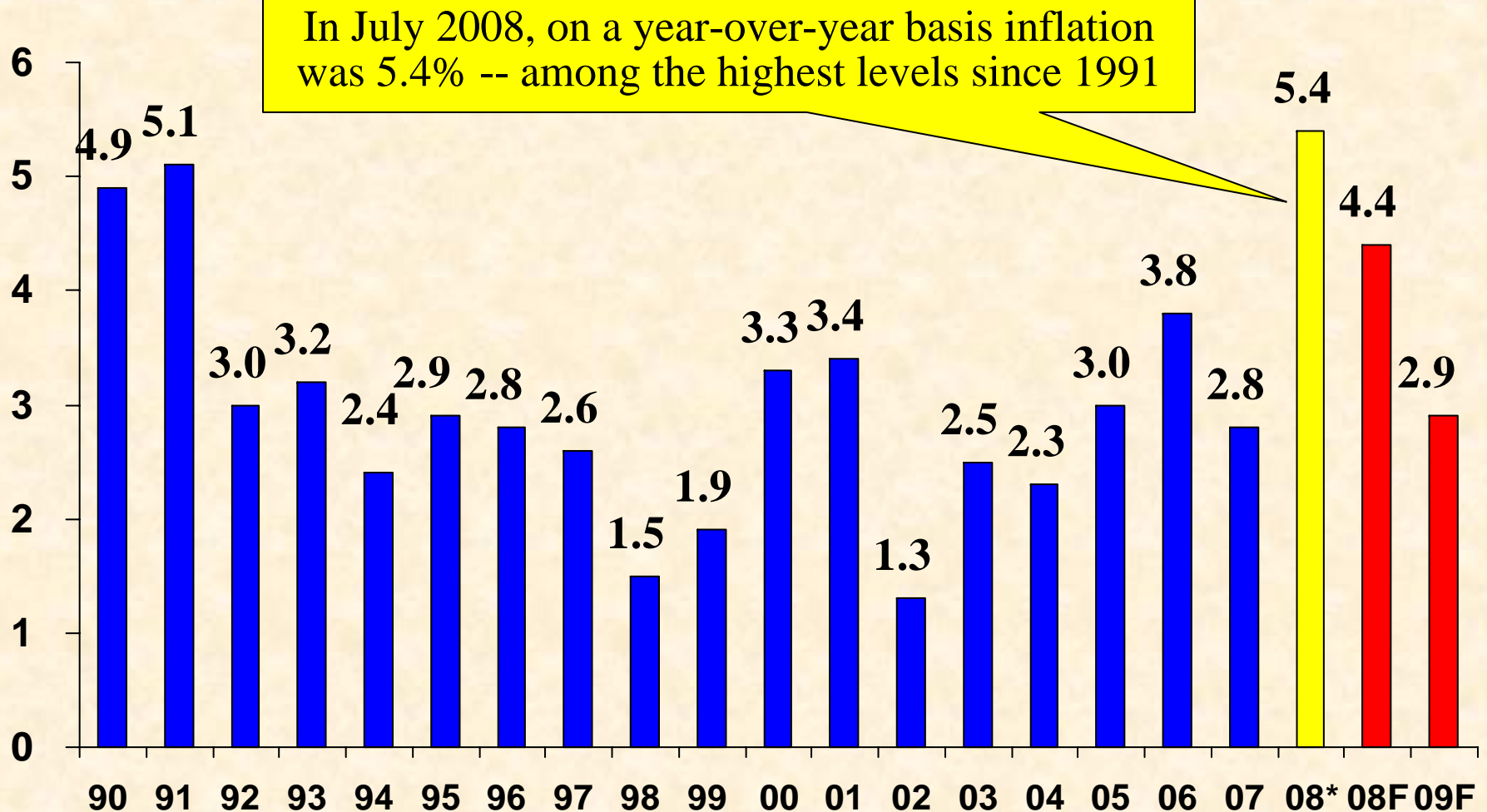
# **Inflation Overview**

**Pressures Claim Costs,  
Expands Probable &  
Possible Max Losses**

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# Annual Inflation Rates (CPI-U, %), 1990-2009F



\*12-month change August 2008 vs. August 2007

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators, September 10, 2008. (forecasts)



# *Inflation: Important Economic Risks and Implications for Insurers*

<b>Effects of Inflation</b>	<b>Risks to Insurers &amp; Buyers</b>
<b>Claim Severity Increase</b>	<ul style="list-style-type: none"><li>• Claims (property and liability) costs may rise as the price of goods and services increase</li><li>• PMLs could be (much) higher</li></ul>
<b>Rate Inadequacy</b>	<ul style="list-style-type: none"><li>• Accelerating inflation historically contributed to rate inadequacy because ratemaking is largely a retrospective process</li><li>• Many types of loss trends are sensitive to the pace of inflation: medical cost, tort, etc.</li><li>• Historical loss cost trends could be biased predictors of future loss if inflation accelerates</li></ul>



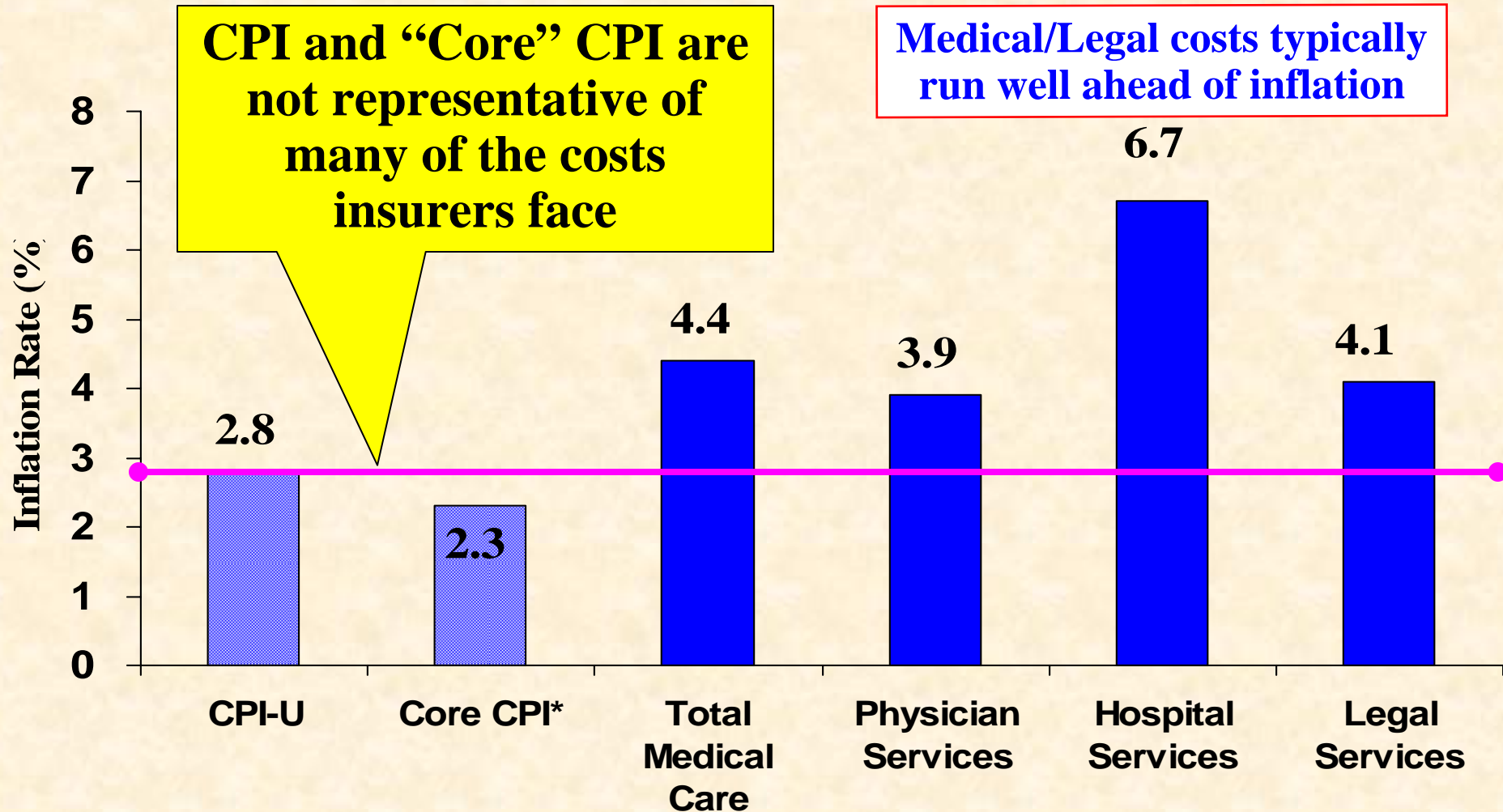


# *Inflation: Important Economic Risks and Implications for Insurers (cont'd)*

<b>Effects of Inflation</b>	<b>Risks to Insurers</b>
<b>Reserve Deficiency</b>	<ul style="list-style-type: none"><li>• Reserves are established using certain assumptions about future development and discounting factors</li><li>• If inflation accelerates, development could be more rapid and/or be more substantial (in dollar terms) than assumed and discount factors may be too low</li></ul>
<b>Inadequate Insurance Limits</b>	<ul style="list-style-type: none"><li>• Policyholders could find themselves inadequately insured as claims costs escalate</li></ul>
<b>Inadequate Reinsurance</b>	<ul style="list-style-type: none"><li>• Inflation can lead to a more rapid and unexpected exhaustion of reinsurance because losses are higher than expected</li></ul>



# Comparative 2007 Inflation Statistics Important to Insurers (%)



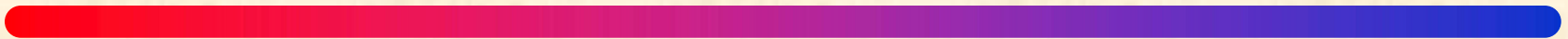
**CPI and “Core” CPI are not representative of many of the costs insurers face**

**Medical/Legal costs typically run well ahead of inflation**

\*Core CPI is the Consumer Price Index for all Urban Consumers (CPI-U) less food and energy costs.  
Source: US Bureau of Labor Statistics; Insurance Information Institute.

# Medical & Tort Cost Inflation

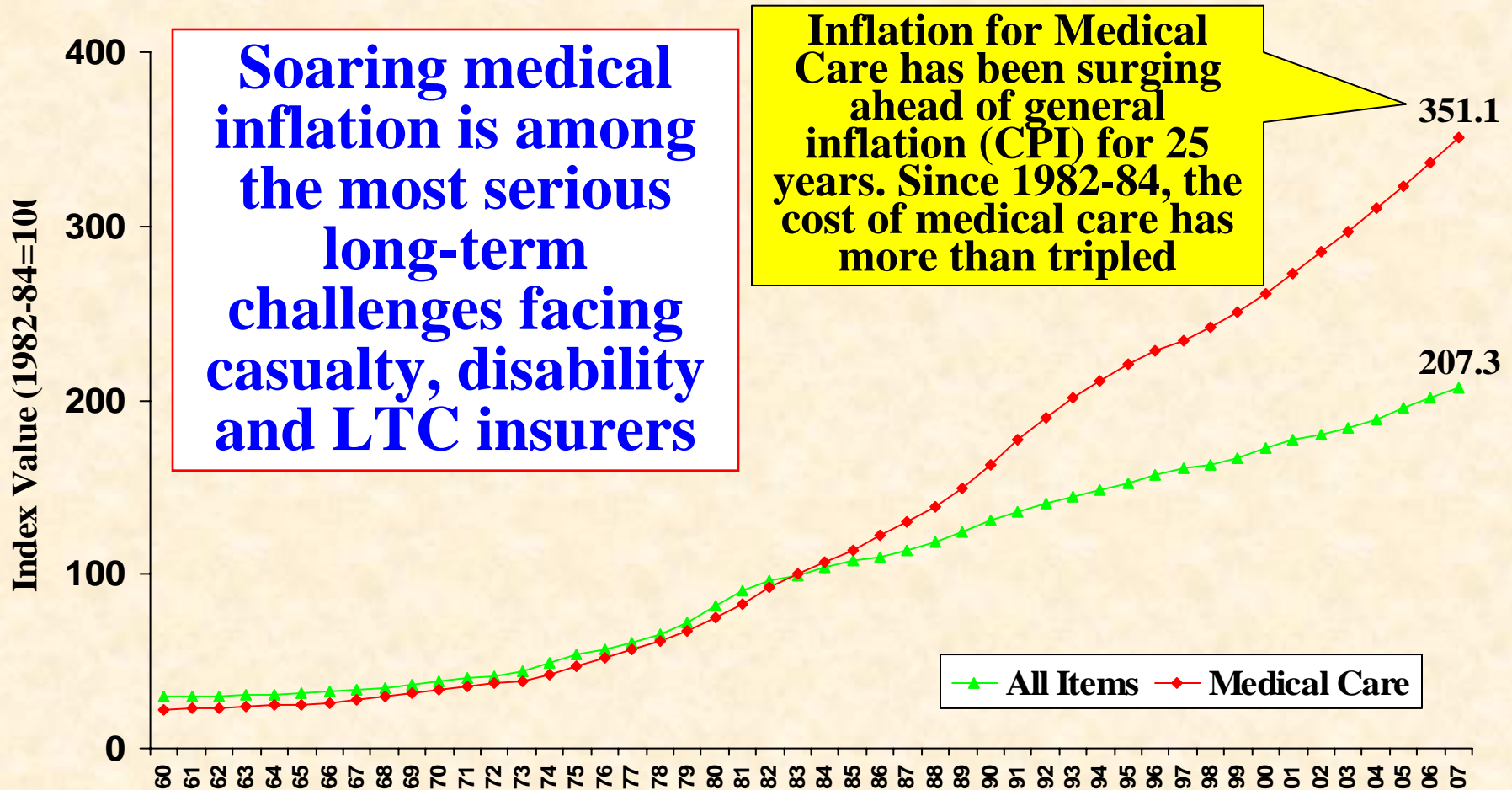
**Amplifiers of Inflation, Major  
Insurance Cost Driver**



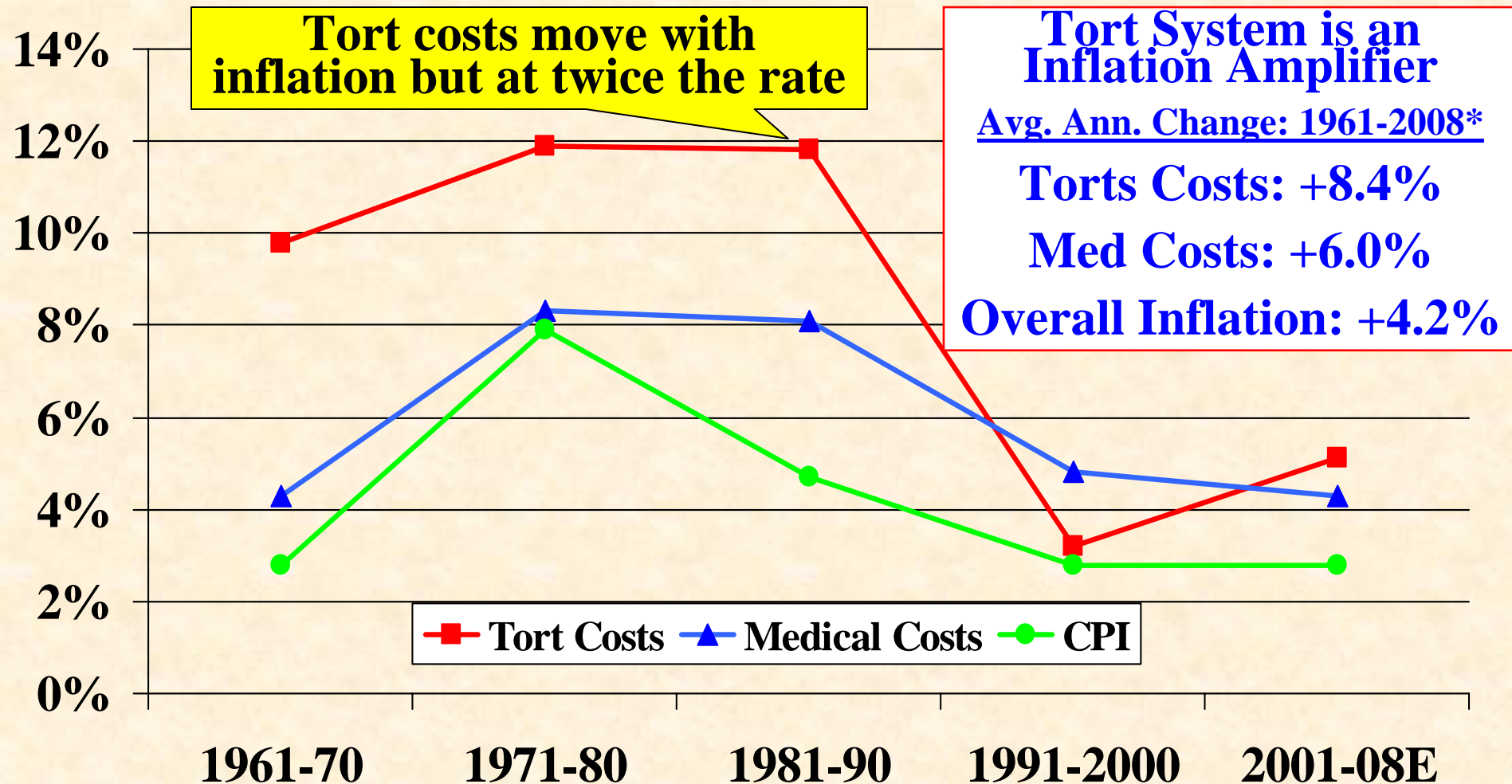


# Consumer Price Index for Medical Care vs. All Items, 1960-2007

(Base: 1982-84=100)



# Tort Cost Growth & Medical Cost Inflation vs. Overall Inflation (CPI-U), 1961-2008\*



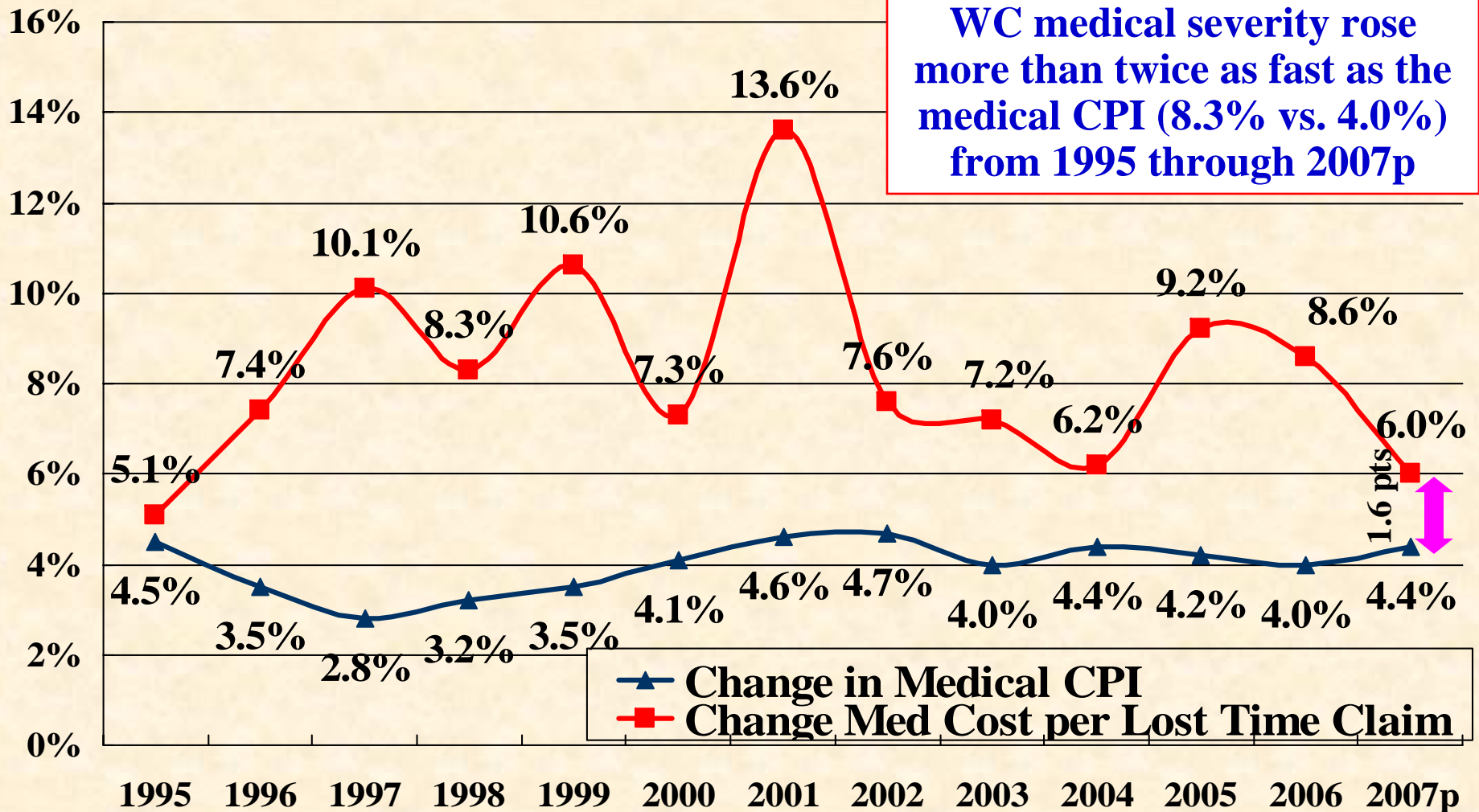
\*Medical cost and CPI-U through April 2008 from BLS. Tort figure is for full-year 2008 from Tillinghast.

Sources: US Bureau of Labor Statistics, Tillinghast-Towers Perrin, 2007 Update on U.S. Tort Costs; Insurance Info. Inst.





# WC Medical Severity Rising Far Faster than Medical CPI

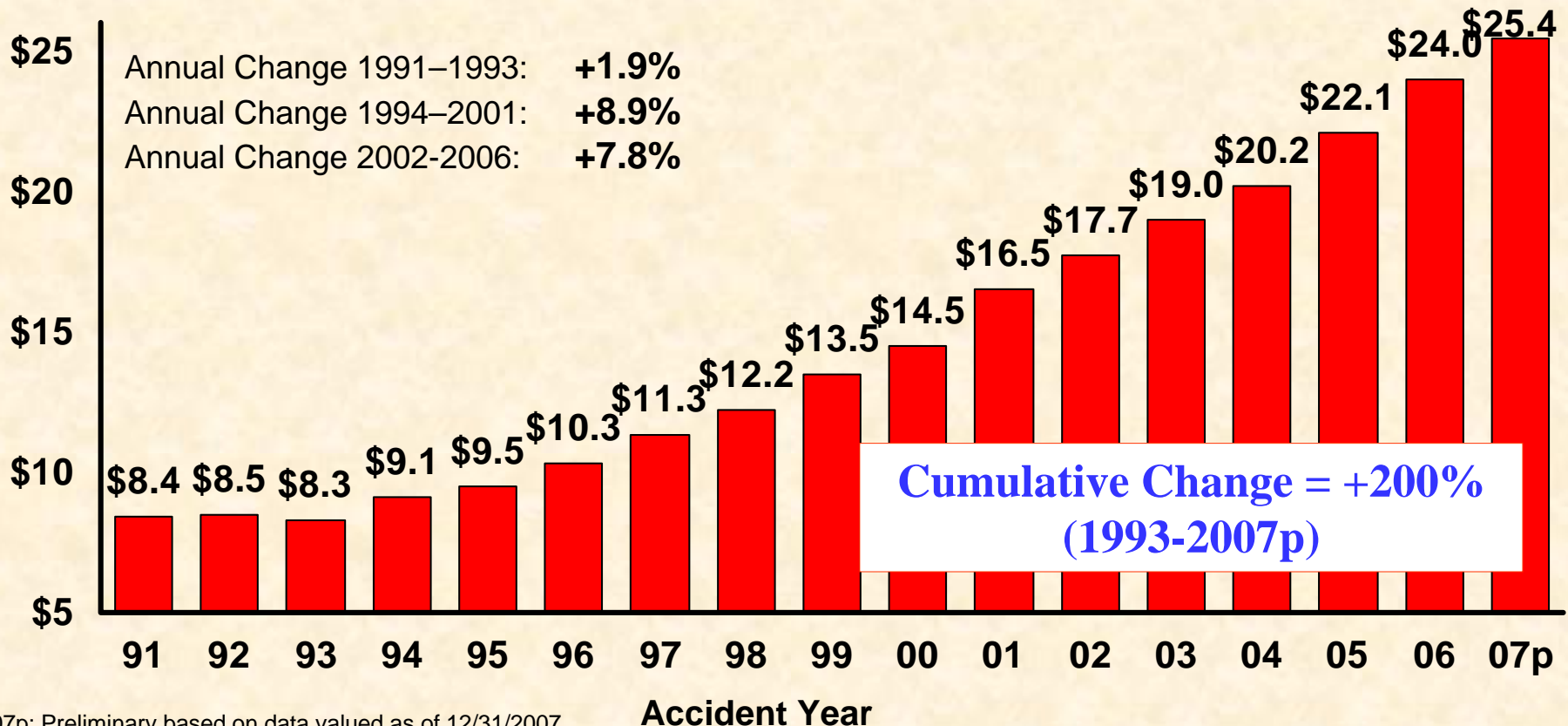


Sources: NCCI; Med CPI from Economy.com; WC med severity from NCCI based on NCCI states.



# Workers Comp Medical Claims Costs Continue to Climb

Medical  
Claim Cost (\$000s)



2007p: Preliminary based on data valued as of 12/31/2007

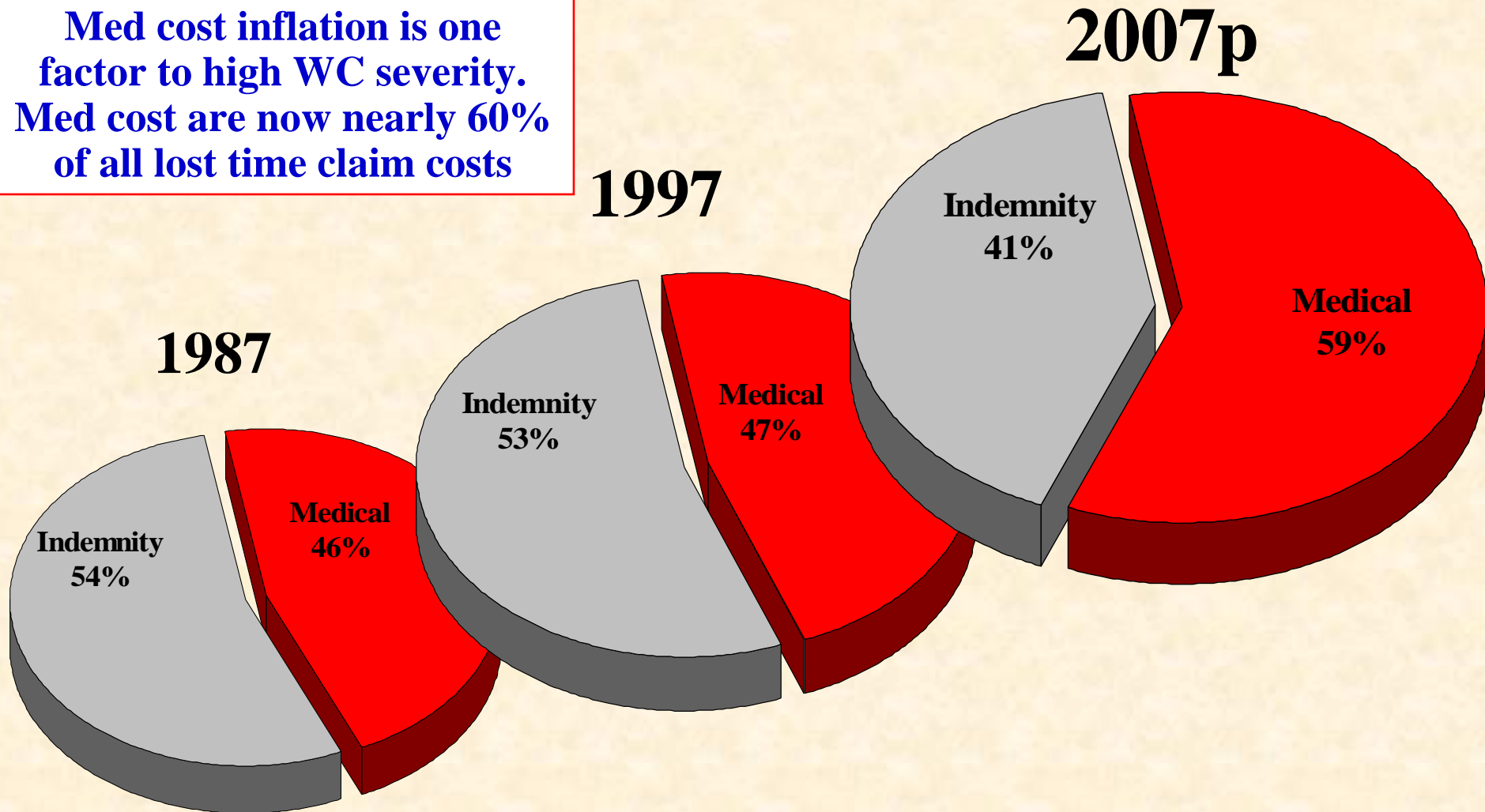
1991-2006: Based on data through 12/31/2006, developed to ultimate

Based on the states where NCCI provides ratemaking services; Excludes the effects of deductible policies



# *Med Costs Share of Total Costs is Increasing Steadily*

**Med cost inflation is one factor to high WC severity. Med cost are now nearly 60% of all lost time claim costs**

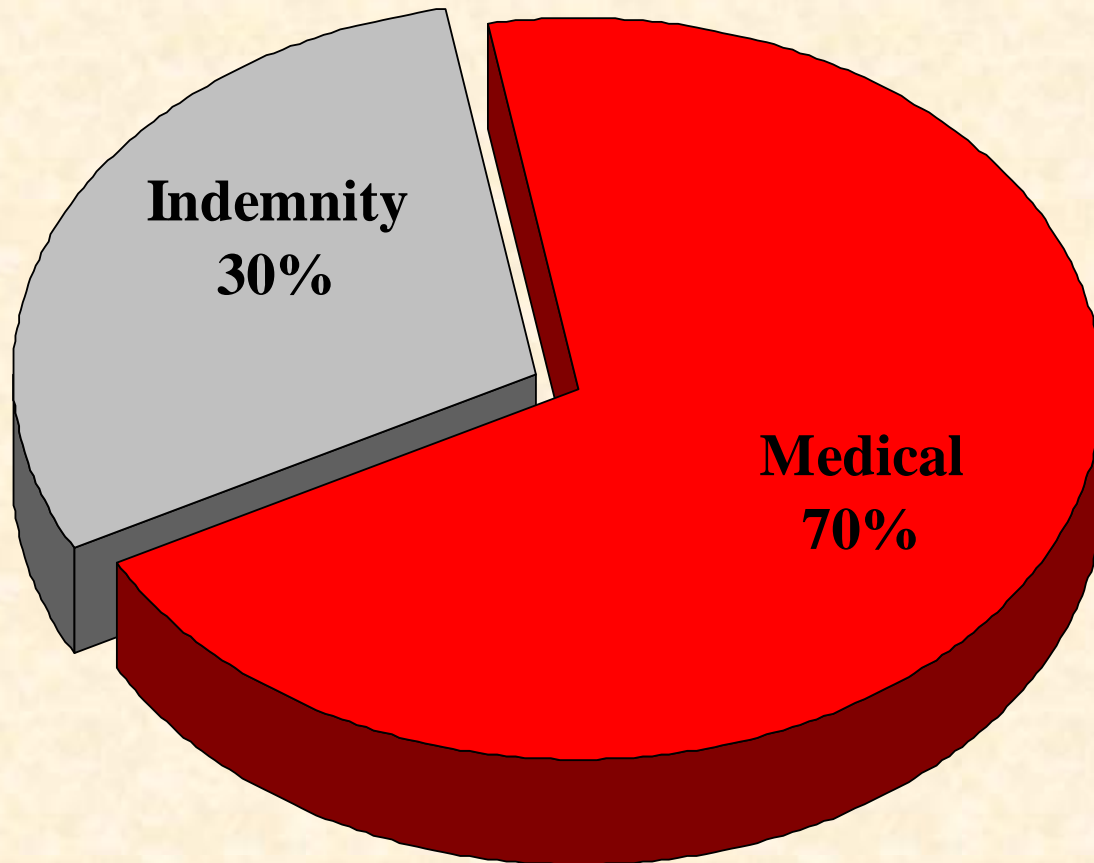


Source: NCCI (based on states where NCCI provides ratemaking services).



# *WC Med Cost Will Equal 70% of Total by 2017 if Trends Hold*

## **2017 Estimate**

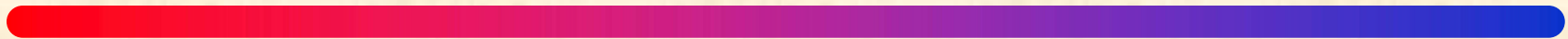


**This trend will likely be supported by the increased labor force participation of workers age 55 and older.**

# PROFITABILITY

**Profits in 2006/07 Reached  
Their Cyclical Peak;**

**By No Reasonable Standard Can  
Profits Be Deemed Excessive**

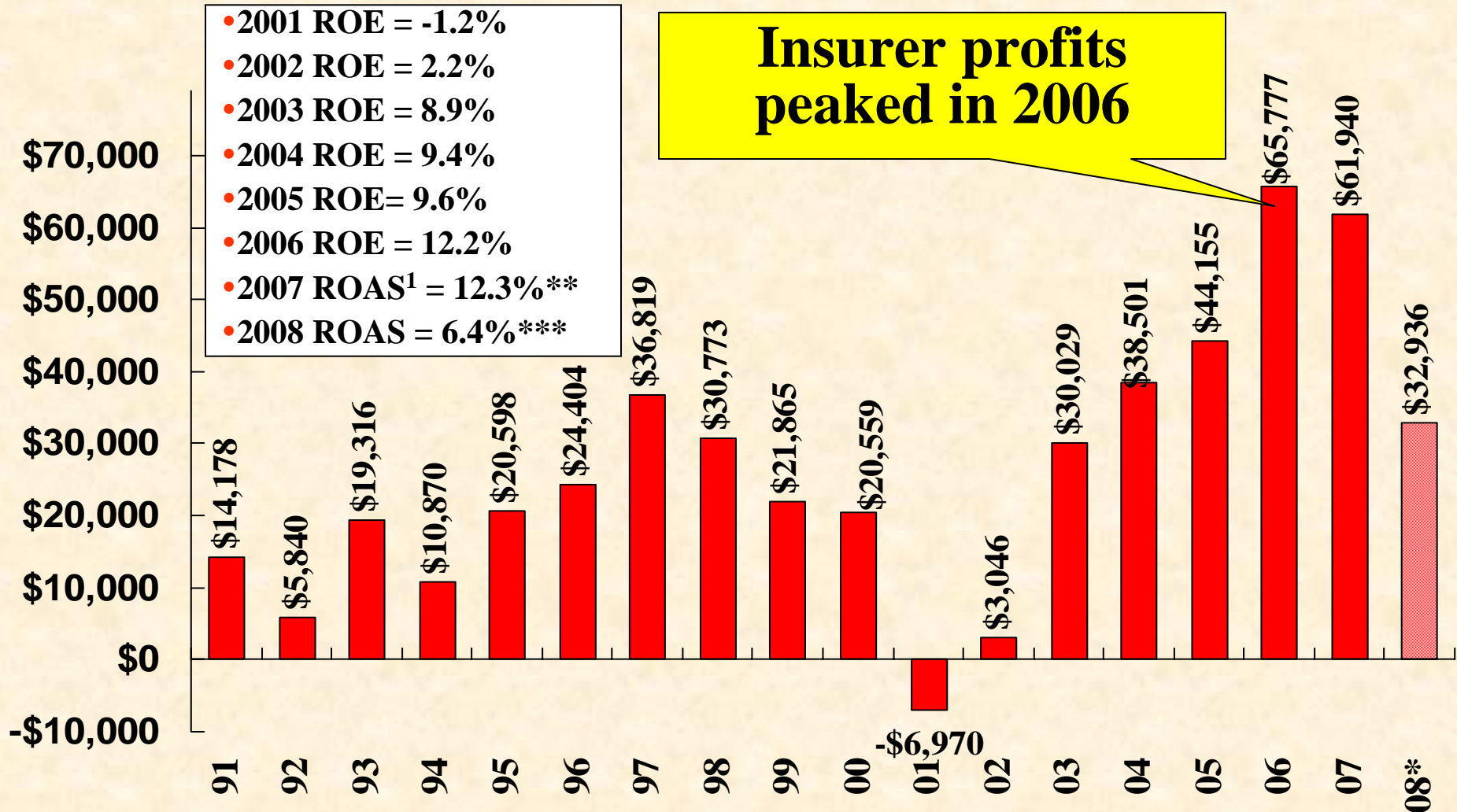






# *P/C Net Income After Taxes*

## *1991-2008 (\$ Millions)\**

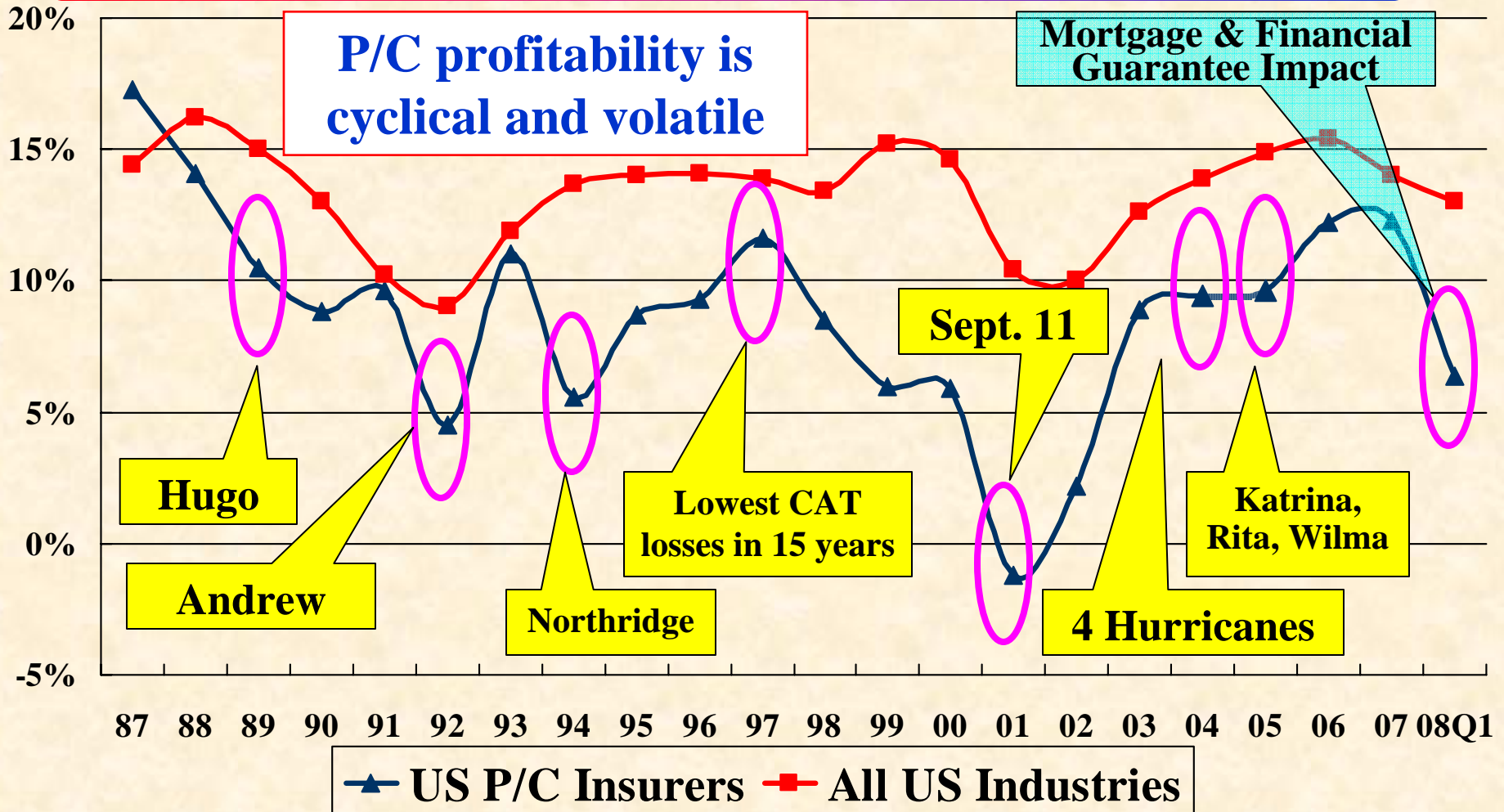


\*ROE figures are GAAP; 2008 figure is annualized Q1 net income of \$8.234B; <sup>1</sup>Return on avg. surplus.  
Sources: A.M. Best, ISO, Insurance Information Inst. \*\*\*9.5% excl. mortgage and finl. guarantee insurers.



# ROE: P/C vs. All Industries

## 1987-2008:Q1

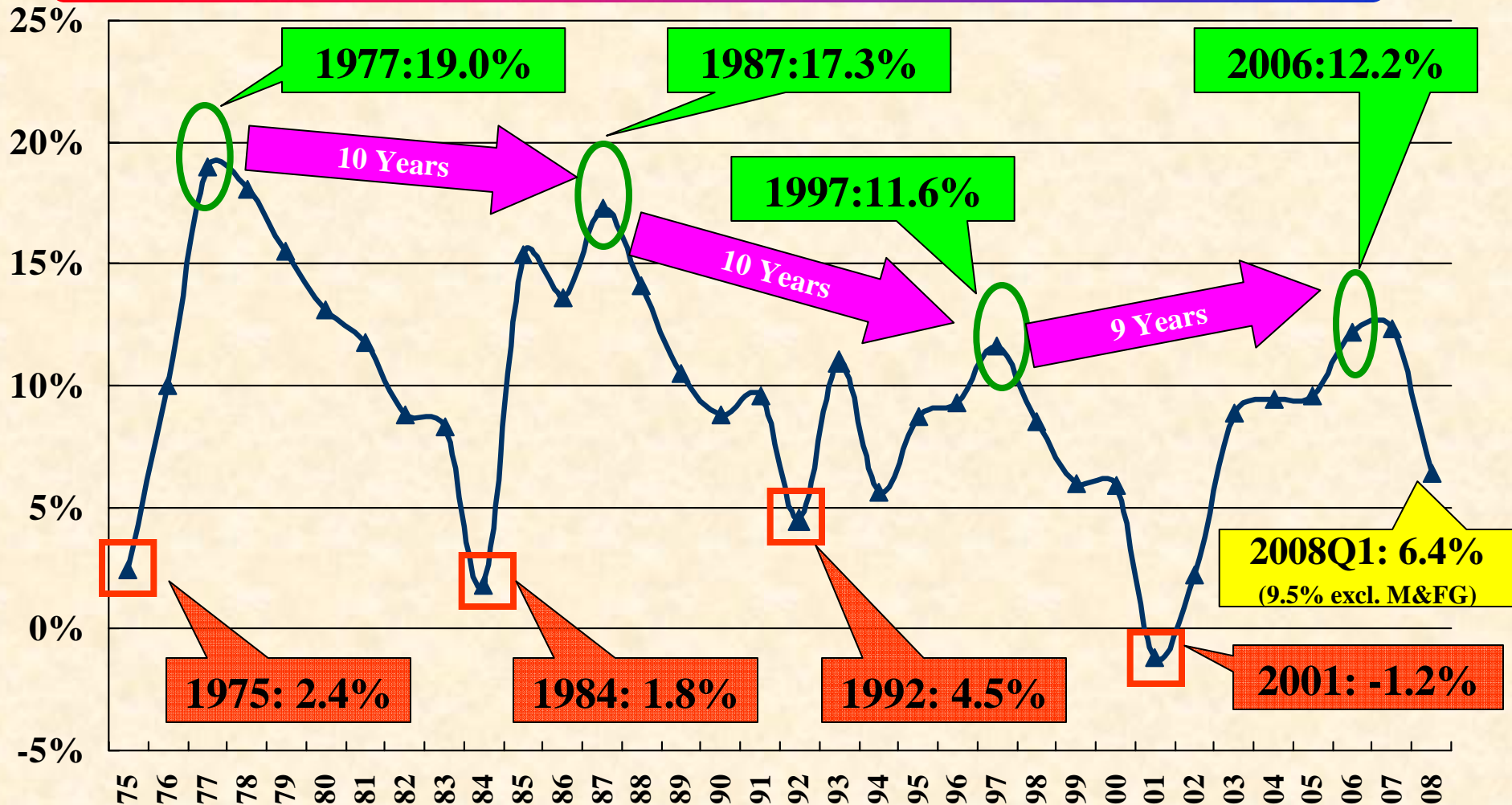


2008 P/C insurer figure is annualized Q1 return on average surplus. Excluding mortgage and financial guarantee insurers = 9.5%.

Source: ISO, *Fortune*; Insurance Information Institute.



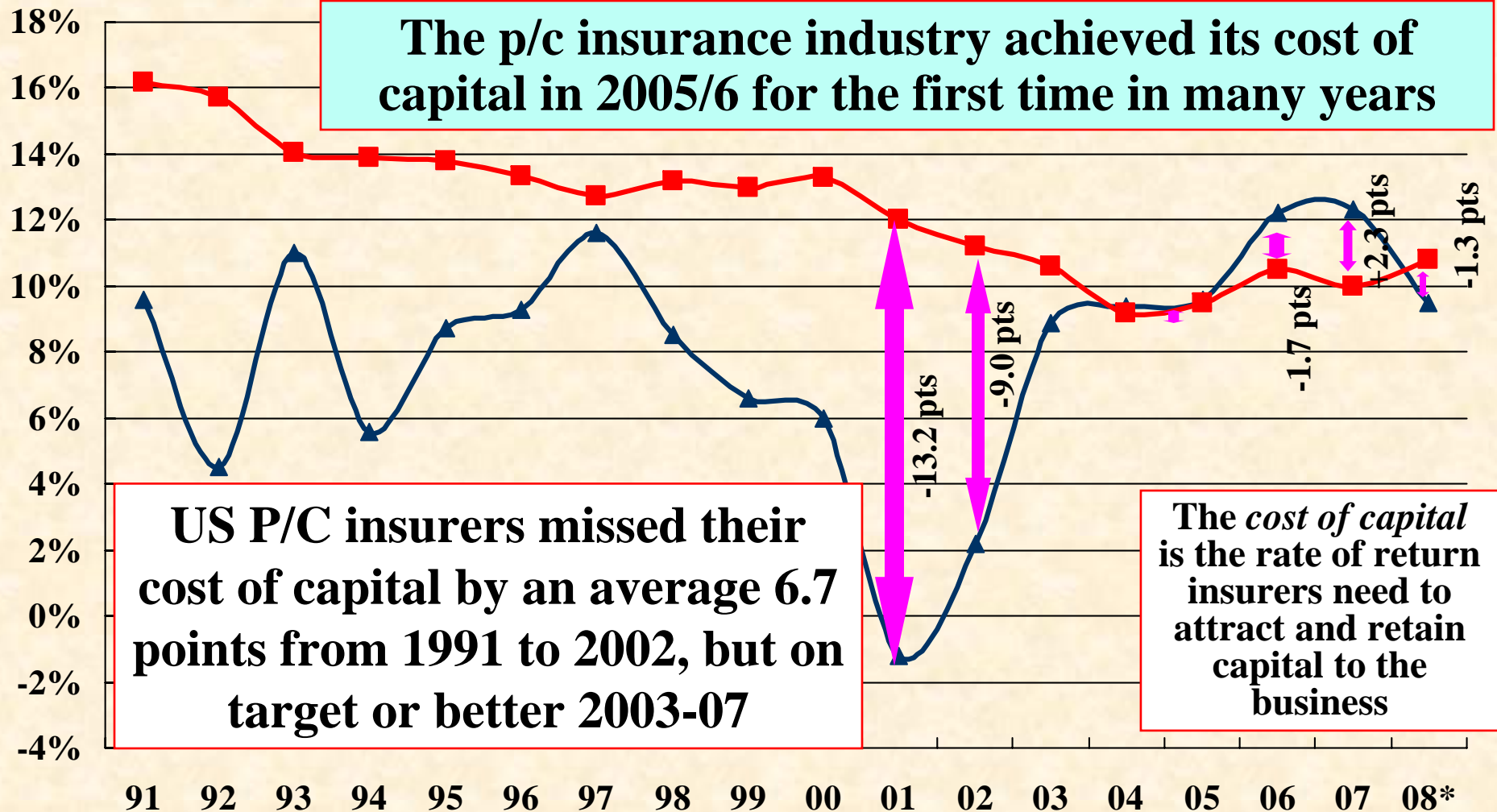
# Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2008:Q1



\*GAAP ROE for all years except 2007 which is ROAS of 12.3%. All figures include mortgage and financial guarantee insurers. Excluding M&FG insurers 2008:Q1 ROAS is 9.5%..

Source: Insurance Information Institute, ISO; Fortune

# ROE vs. Equity Cost of Capital: US P/C Insurance: 1991-2008:Q1



\*Excludes mortgage and financial guarantee insurers.  
Source: The Geneva Association, Ins. Information Inst.

—▲— ROE —■— Cost of Capital





# *Factors that Will Influence the Length and Depth of the Cycle*

- **Capacity**: Rapid surplus growth in recent years has left the industry with between \$85 billion and \$100 billion in excess capital, according to analysts, at end of 2007
  - All else equal, rising capital leads to greater price competition and a liberalization of terms and conditions
- **Reserves**: Reserves are in the best shape (in terms of adequacy) in decades, which could extend the depth and length of the cycle
- **Investment Gains**: With sharp declines in stock prices and falling interest rates, portfolio yields are certain to fall → Contributes to discipline and shallower cycle
- **Sarbanes-Oxley**: Presumably SOX will lead to better and more conservative management of company finances, including rapid recognition of deficient or redundant reserves
  - With more “eyes” on the industry, the theory is that cyclical swings should shrink
- **Ratings Agencies**: Focus on Cycle Management; Quicker to downgrade
- **Information Systems**: Management has more and better tools that allow faster adjustments to price, underwriting and changing market conditions than it had during previous soft markets
- **Analysts/Investors**: Less fixated on growth, more on ROE through soft mkt.
  - Management has backing of investors of Wall Street to remain disciplined
- **M&A Activity**: More consolidation would imply greater discipline



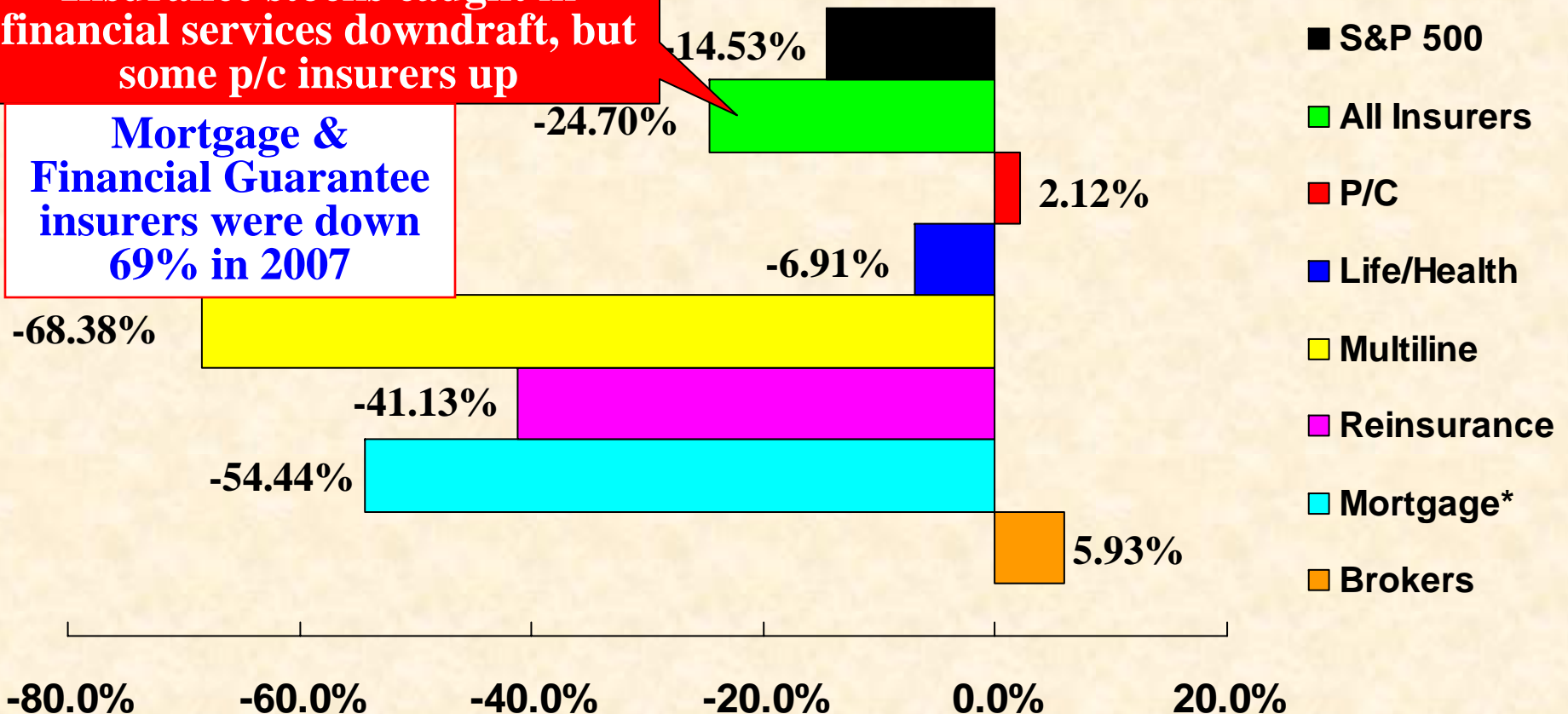


# *P/C Stocks: Mirroring the S&P 500 Index in 2008*

**Total YTD Returns Through September 19, 2008**

**Insurance stocks caught in financial services downdraft, but some p/c insurers up**

**Mortgage & Financial Guarantee insurers were down 69% in 2007**

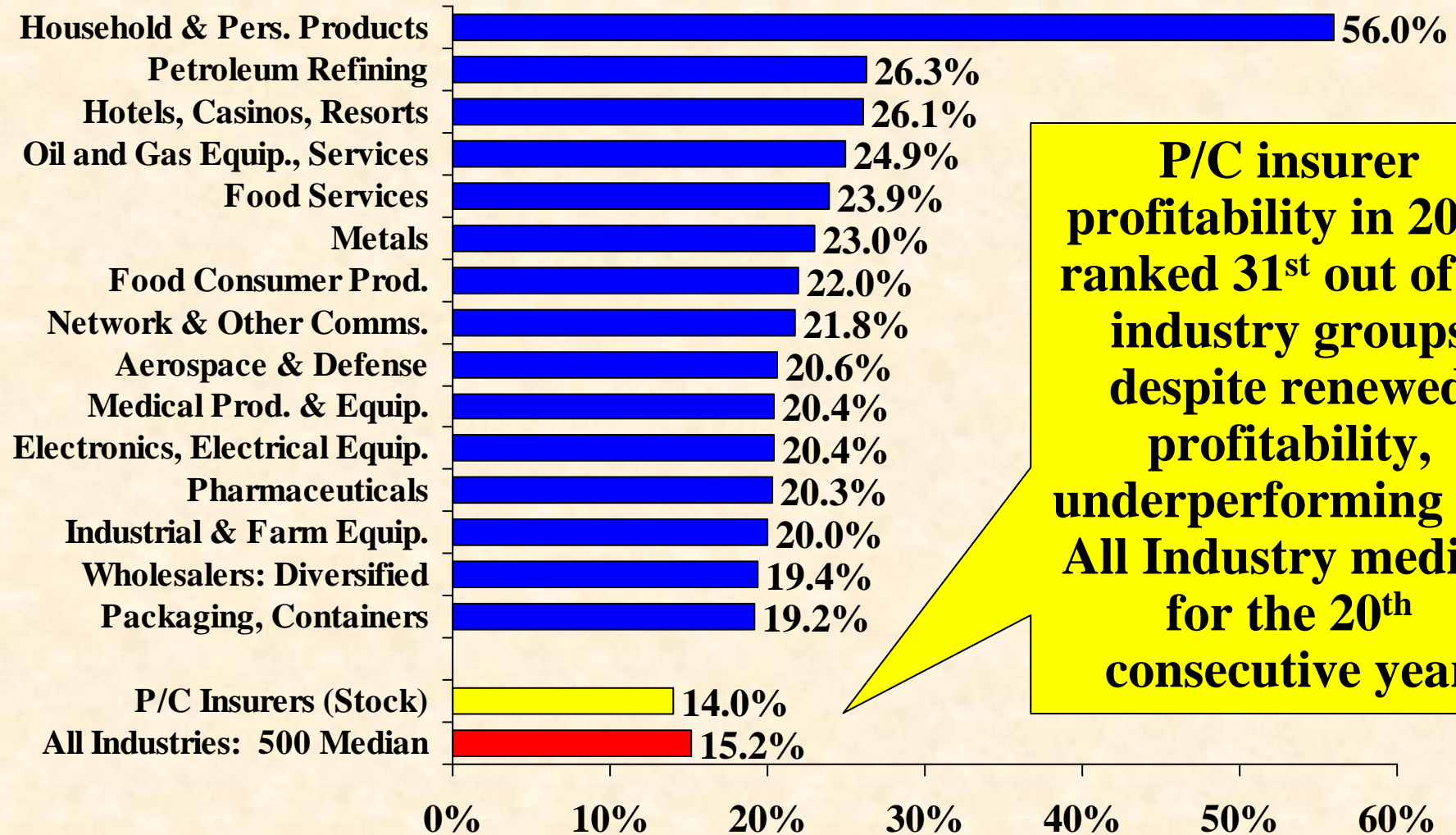


\*Includes Financial Guarantee.

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



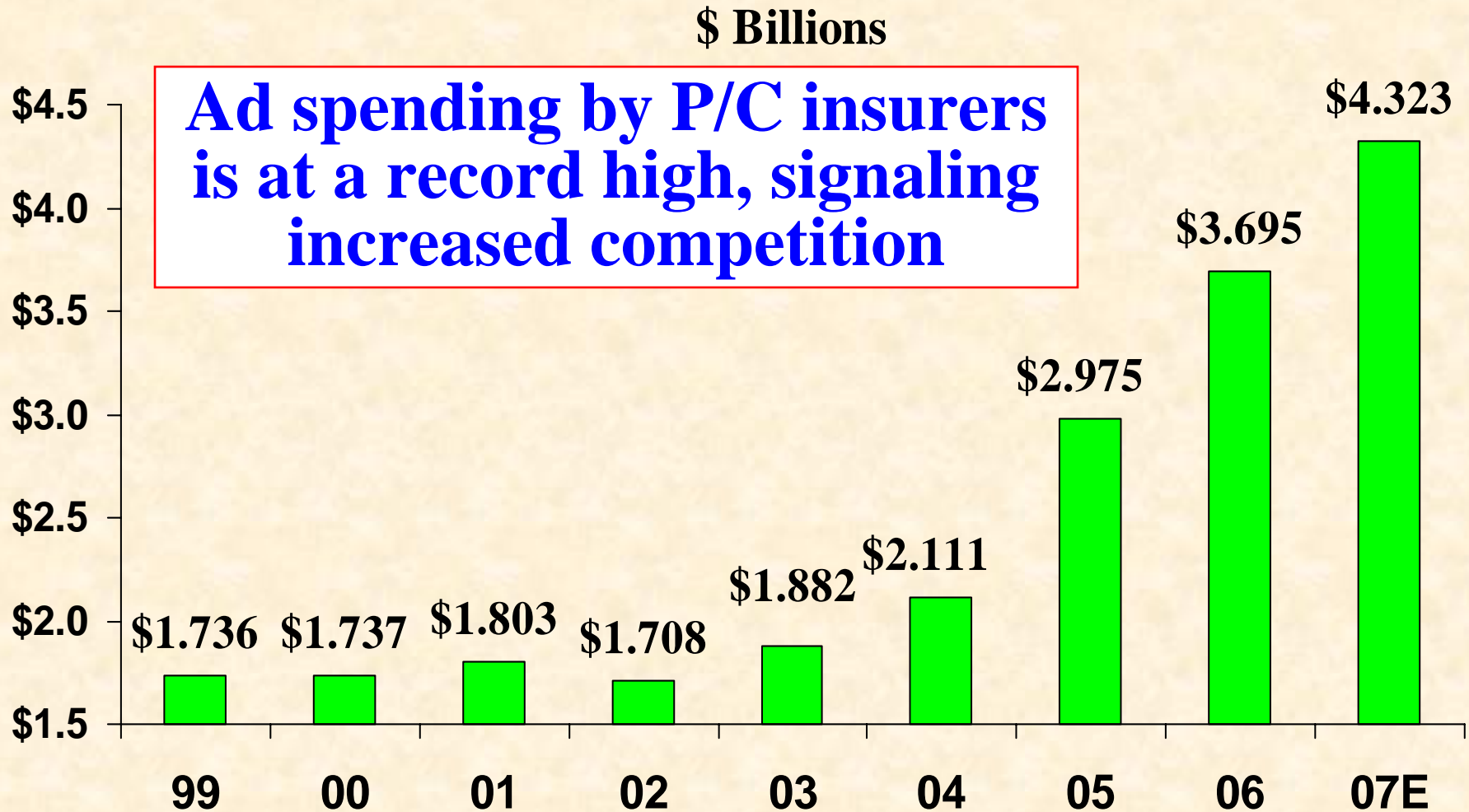
# *Top Industries by ROE: P/C Insurers Still Underperformed in 2007\**



**P/C insurer  
profitability in 2007  
ranked 31<sup>st</sup> out of 51  
industry groups  
despite renewed  
profitability,  
underperforming the  
All Industry median  
for the 20<sup>th</sup>  
consecutive year**



# Advertising Expenditures by P/C Insurance Industry, 1999-2007E



Source: Insurance Information Institute from consolidated P/C Annual Statement data.

# FINANCIAL STRENGTH & RATINGS

**Industry Has Weathered  
the Storms Well, But Cycle**



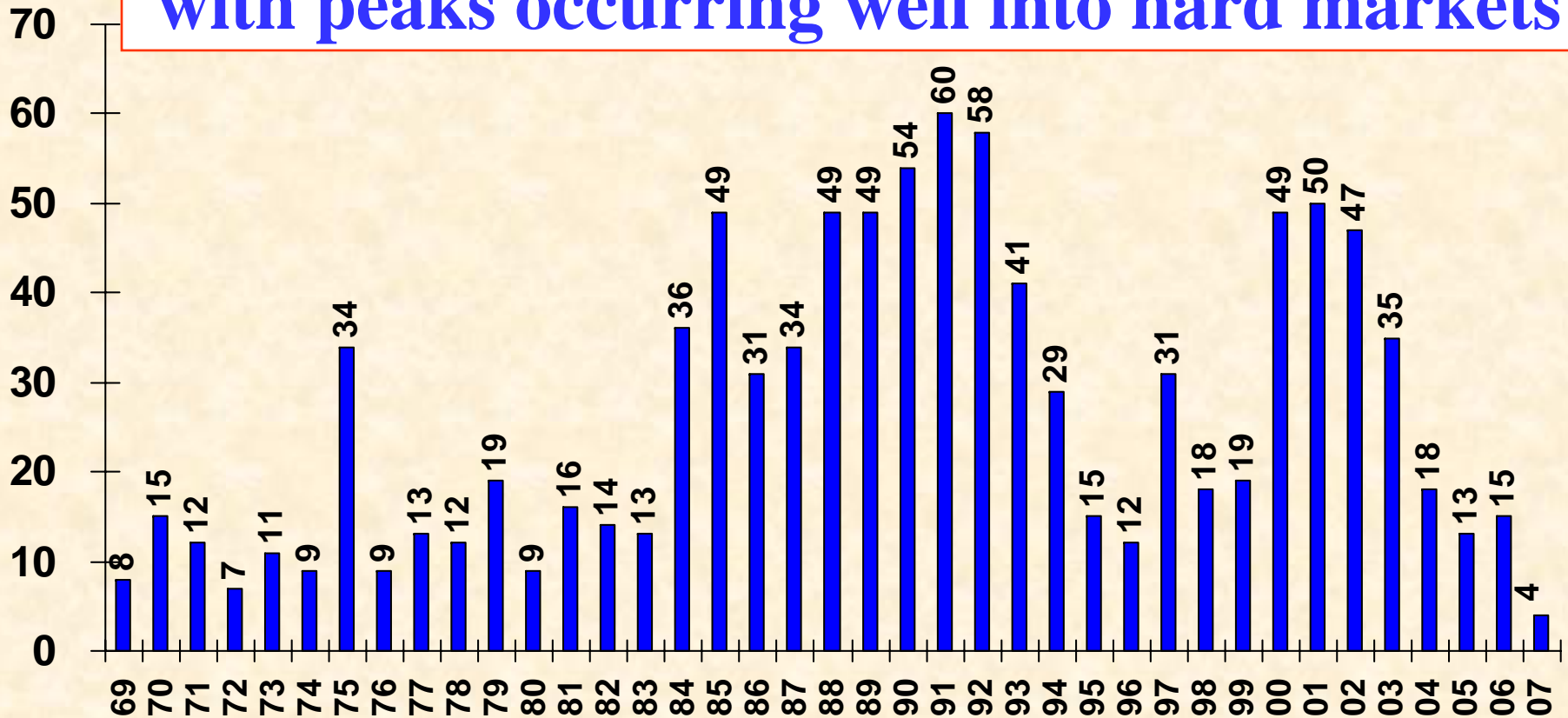
**May Takes Its Toll**





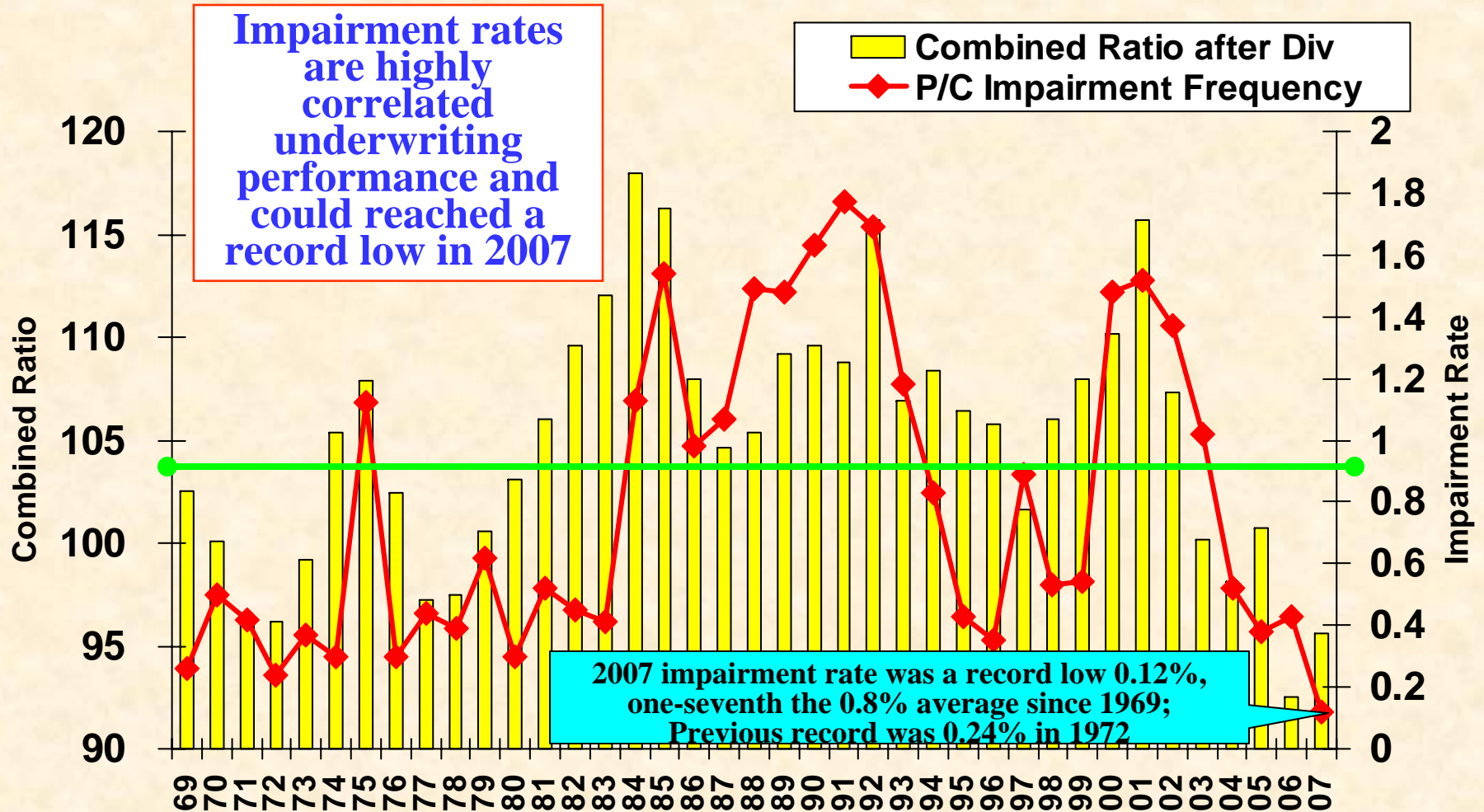
# *P/C Insurer Impairments, 1969-2007*

**The number of impairments varies significantly over the p/c insurance cycle, with peaks occurring well into hard markets**





# *P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2007E*

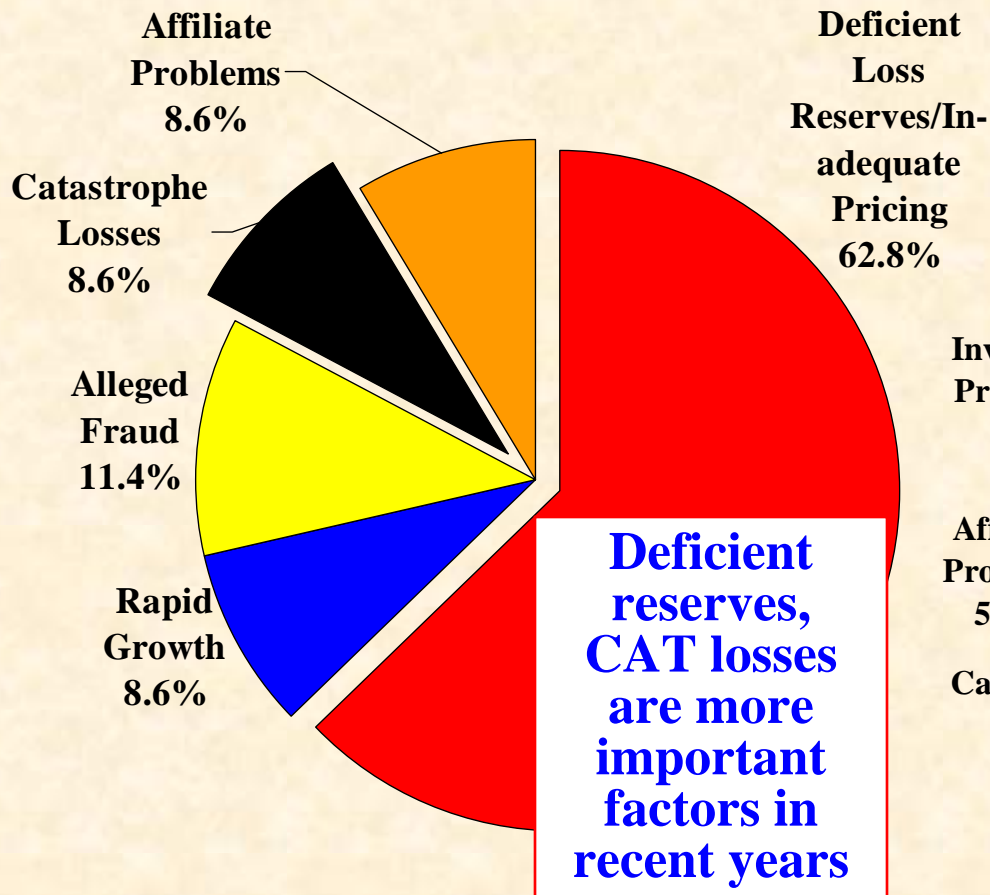




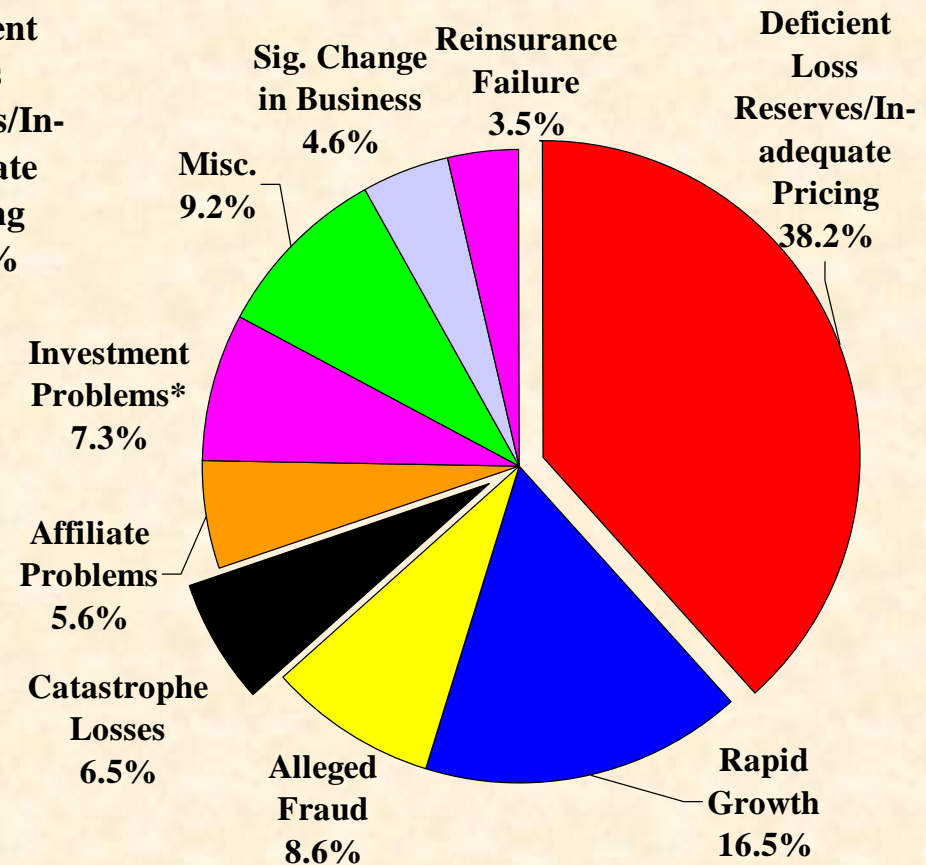


# Reasons for US P/C Insurer Impairments, 1969-2005

**2003-2005**



**1969-2005**

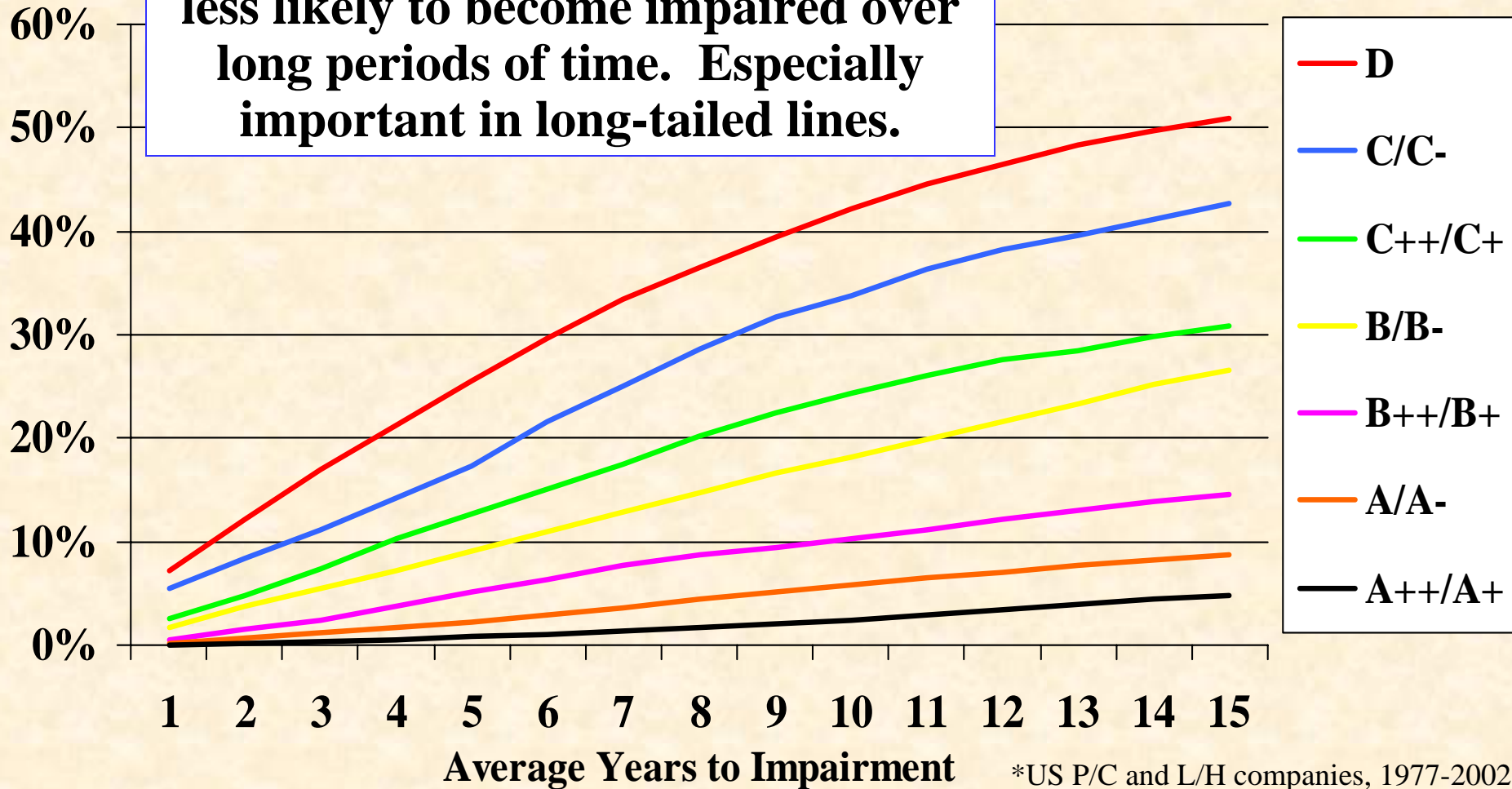


\*Includes overstatement of assets.



# Cumulative Average Impairment Rates by Best Financial Strength Rating\*

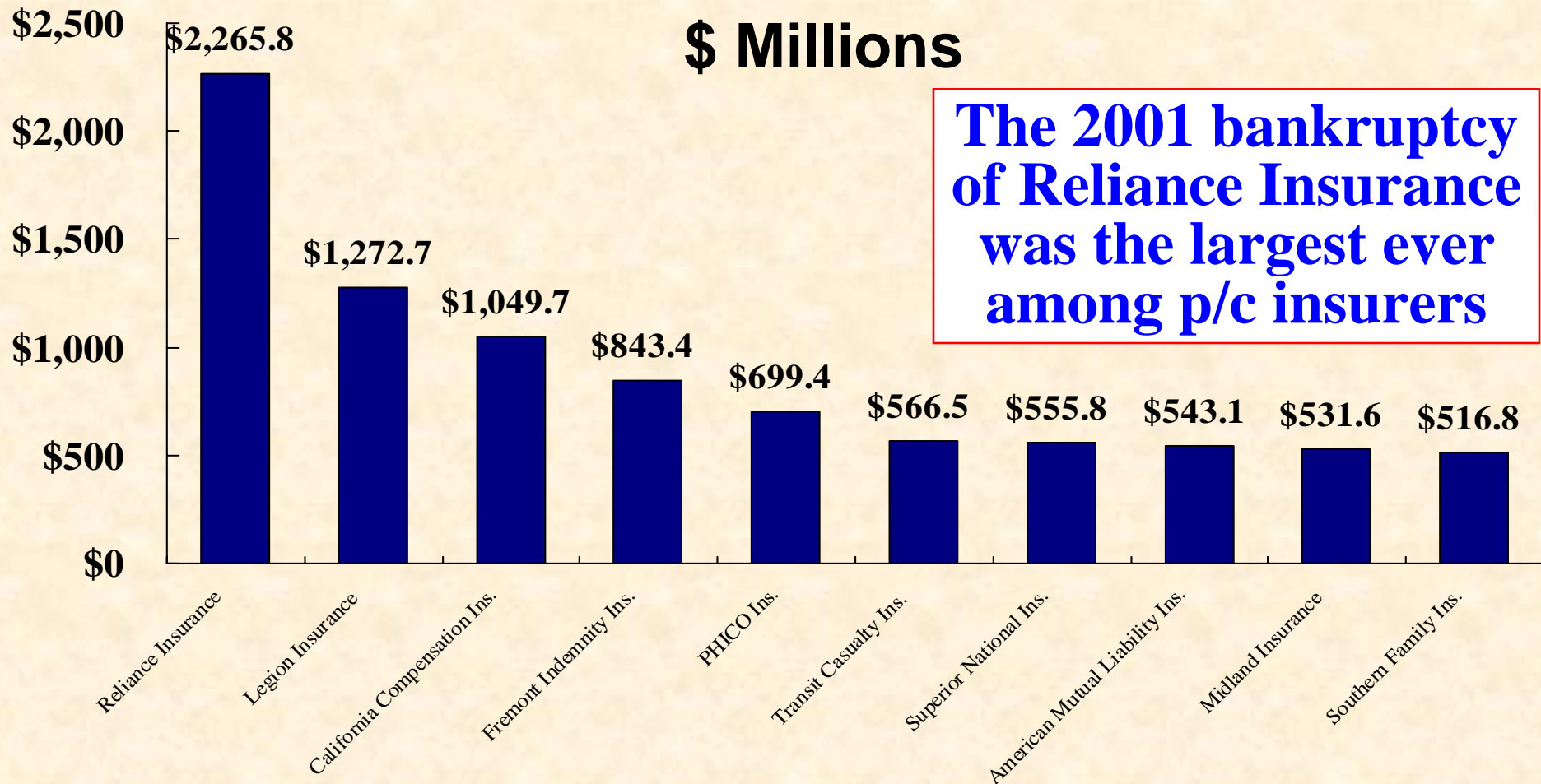
**Insurers with strong ratings are far less likely to become impaired over long periods of time. Especially important in long-tailed lines.**



\*US P/C and L/H companies, 1977-2002

Sources: A.M. Best: *Best's Impairment Rate and Rating Transition Study—1977-2002*, March 1, 2004.

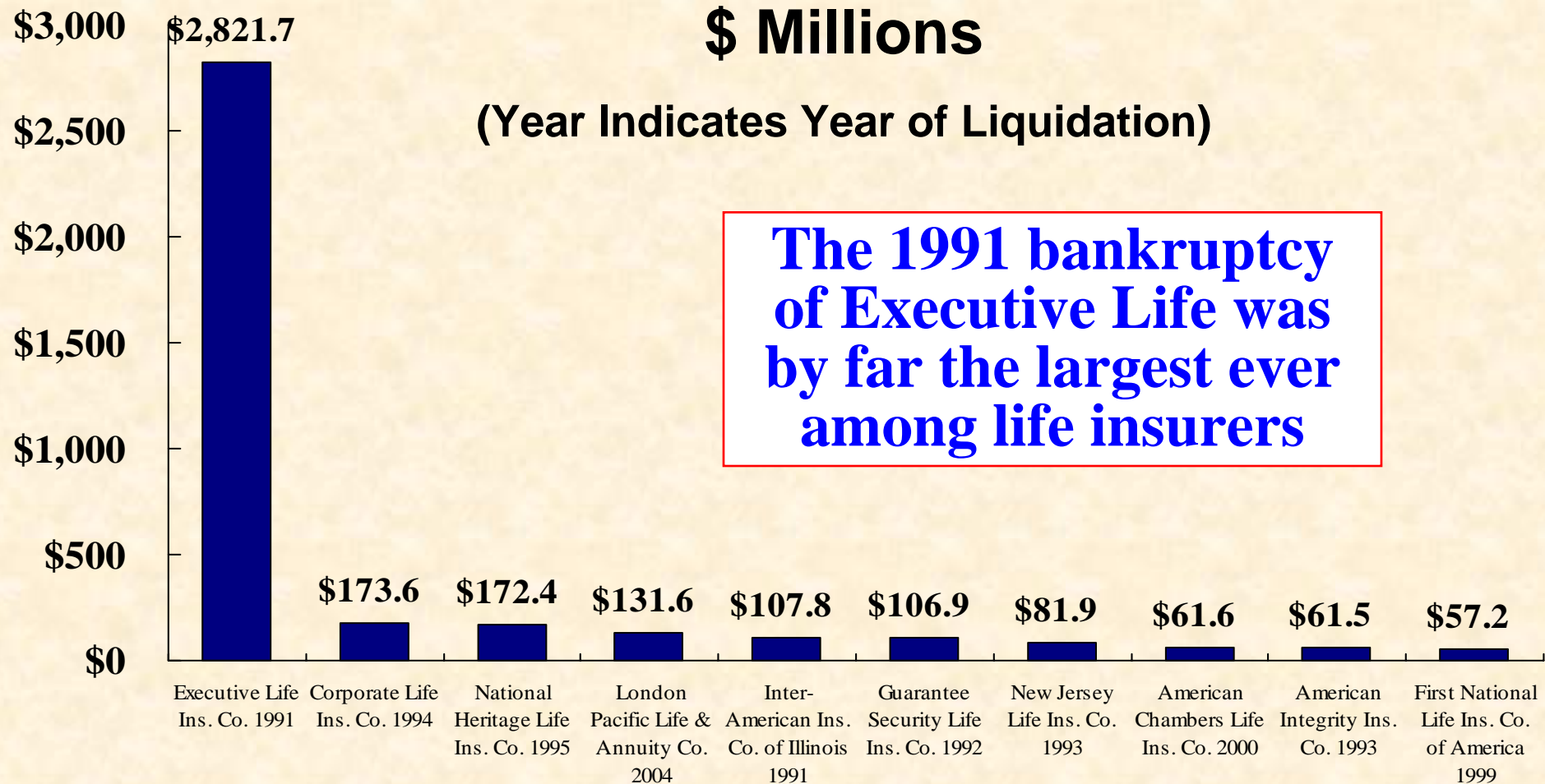
# Top 10 P/C Insolvencies, Based Upon Guaranty Fund Payments\*



\* Disclaimer: This is not a complete picture. If anything the numbers are understated as some states have not reported in certain years.

Source: National Conference of Insurance Guaranty Funds, as of September 17, 2008.

# Top 10 Life Insolvencies, Based On Guaranty Fund Payments and Net Estimated Costs\*

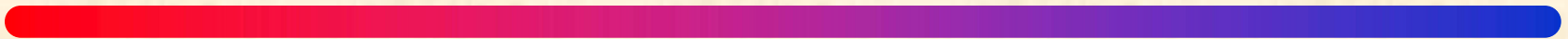


\*As of 2007.

Source: National Organization of Life and Health Guaranty Funds

# UNDERWRITING TRENDS

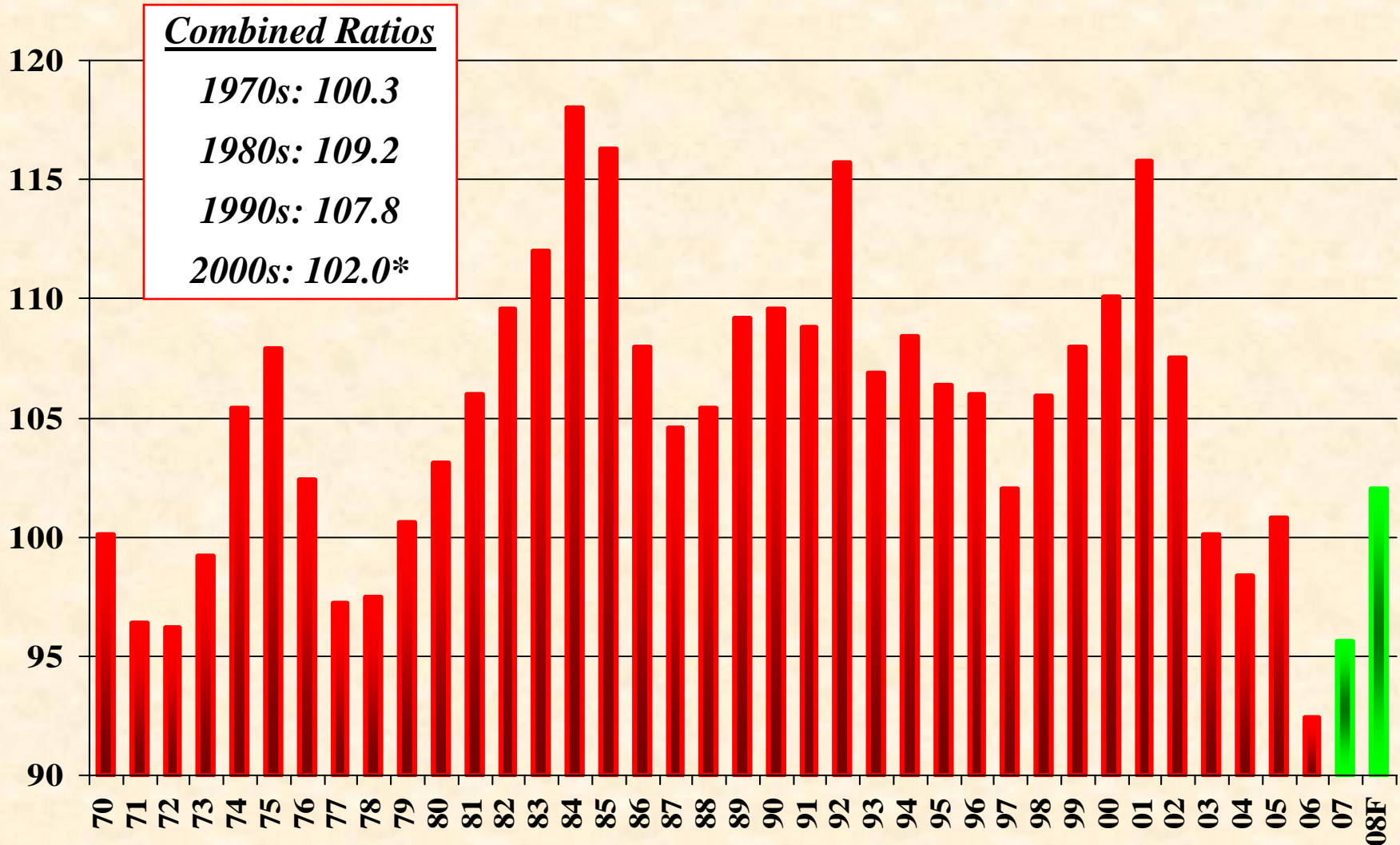
**Extremely Strong 2006/07;  
Relying on Momentum &  
Discipline for 2008**







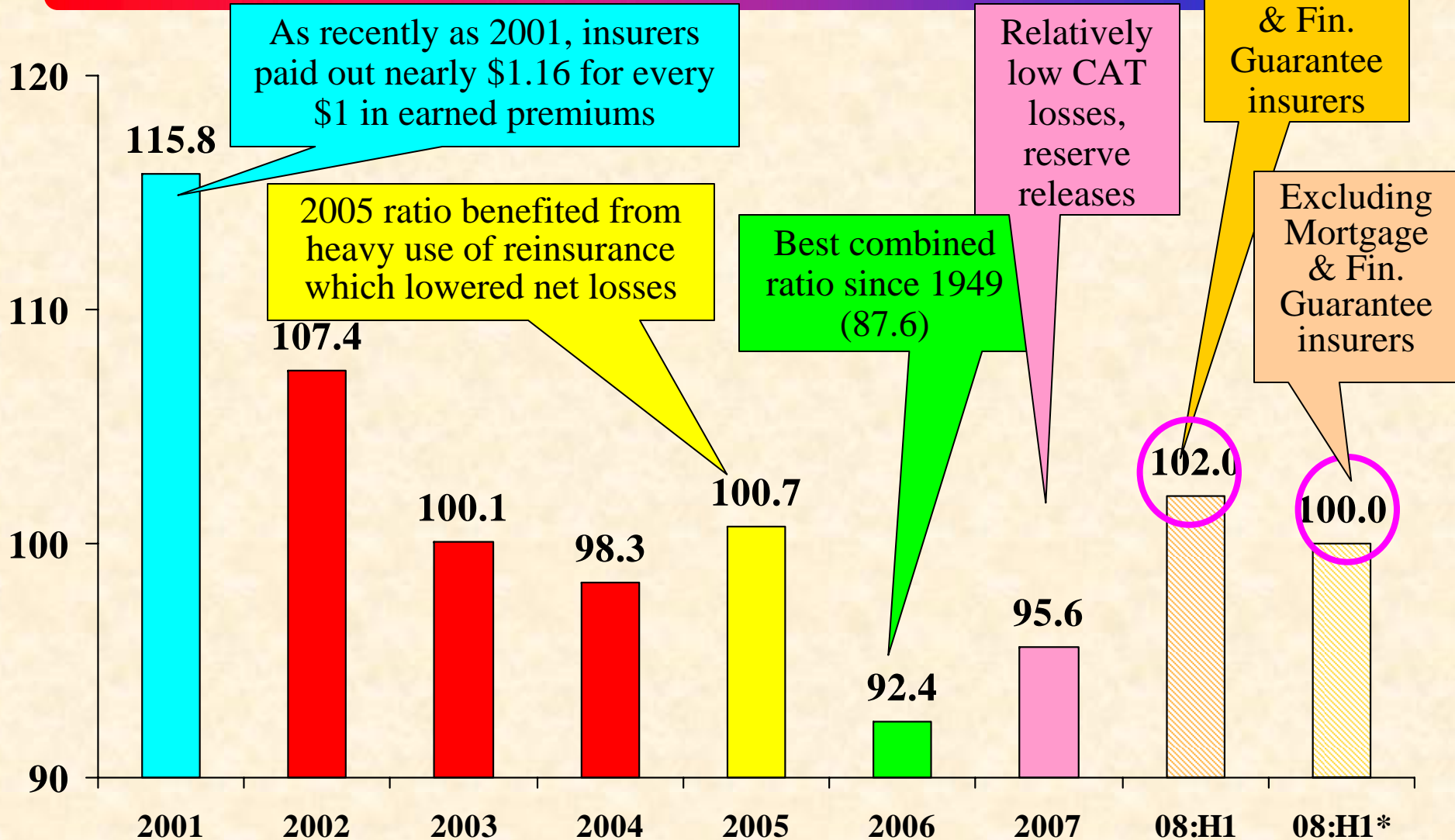
# *P/C Insurance Combined Ratio, 1970-2008F\**



Sources: A.M. Best; ISO, III \*Full year 2008 estimates from III.



# *P/C Insurance Industry Combined Ratio, 2001-2008:H1*



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

Including Mortgage & Fin. Guarantee insurers

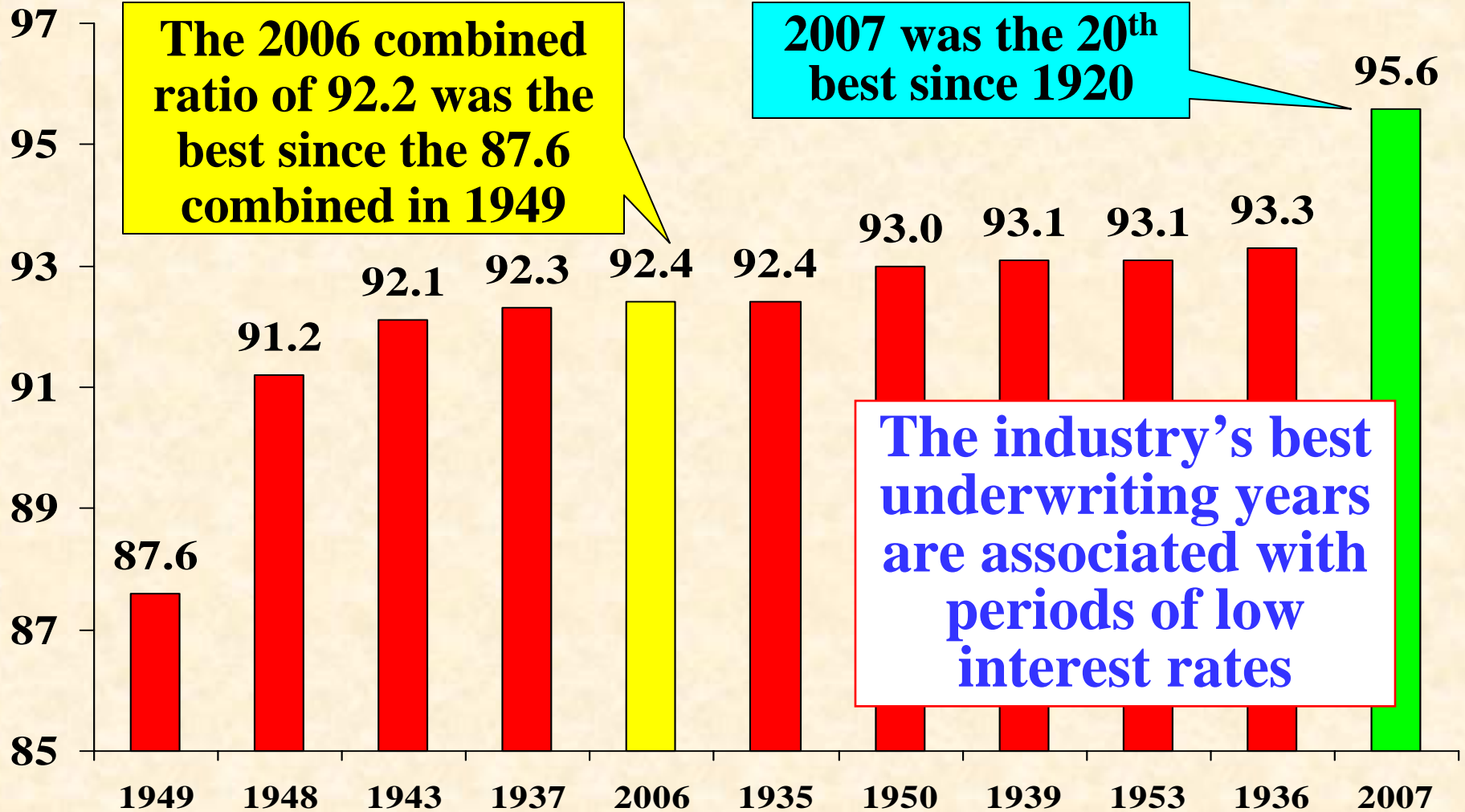
Excluding Mortgage & Fin. Guarantee insurers

\*Excluding Mortgage & Financial Guarantee insurers.

Sources: A.M. Best, ISO; III.



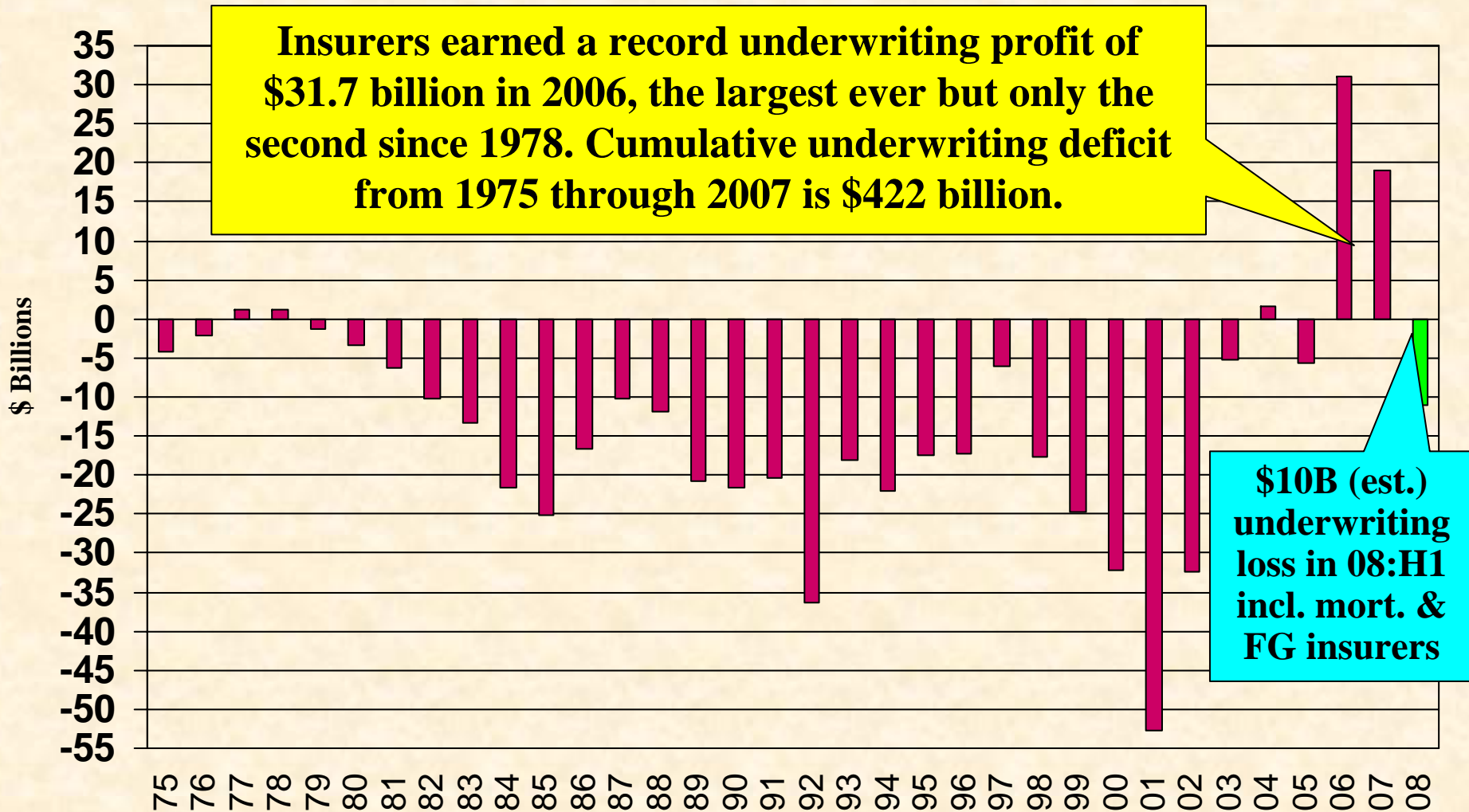
# Ten Lowest P/C Insurance Combined Ratios Since 1920 vs. 2007





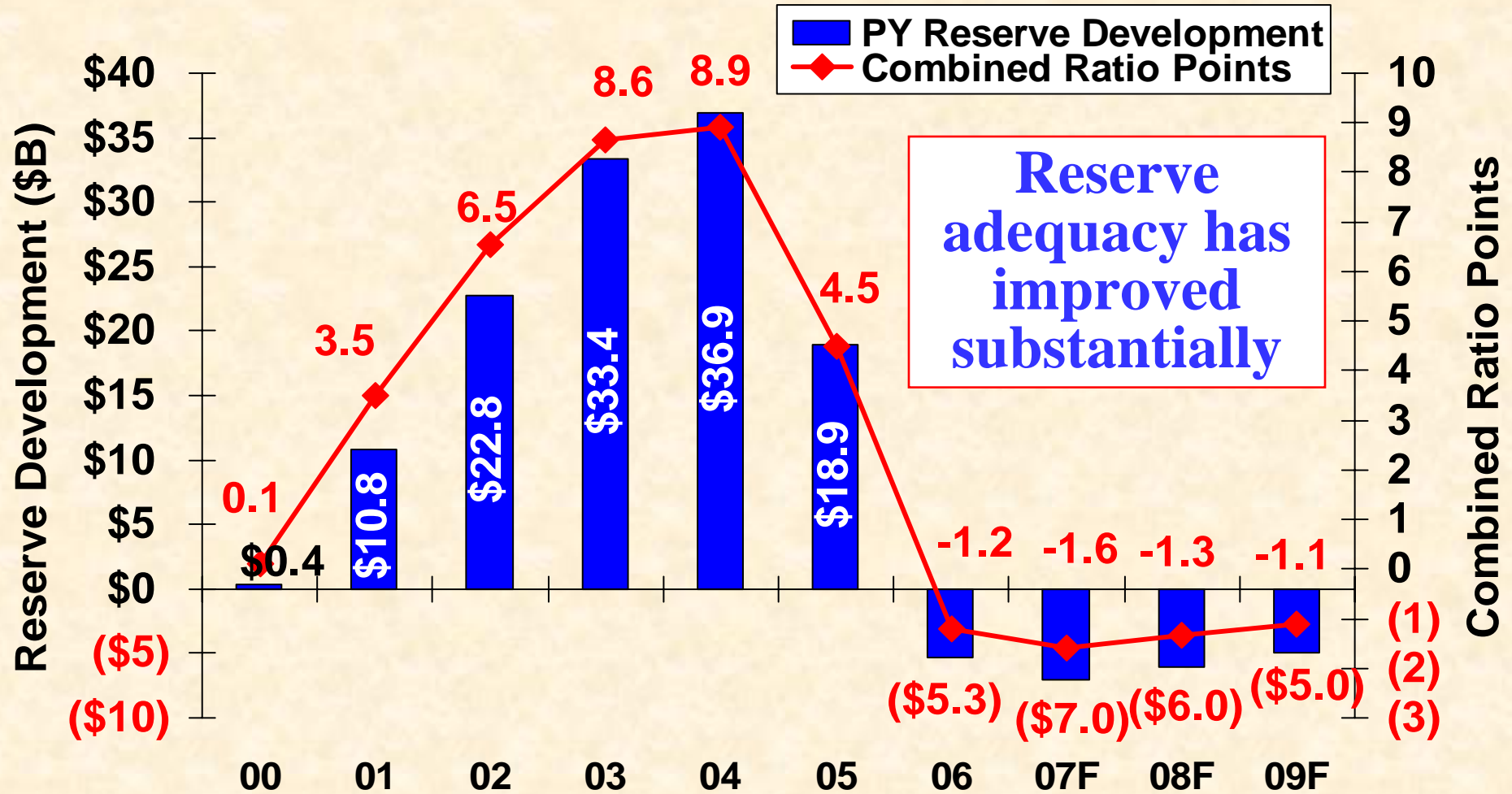
# Underwriting Gain (Loss)

## 1975-2008:H1\*





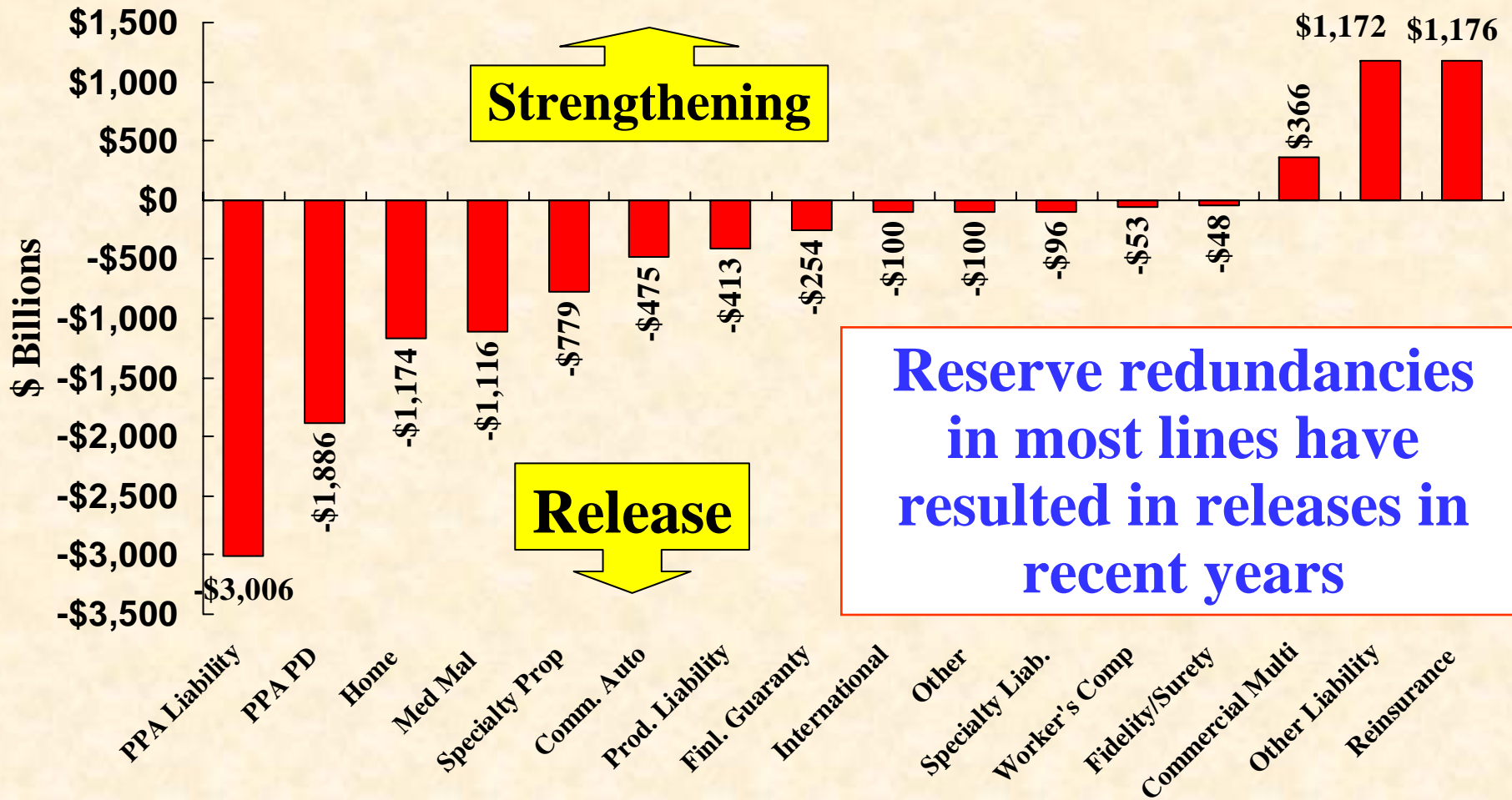
# Impact of Reserve Changes on Combined Ratio







# Cumulative Prior Year Reserve Development by Line (As of 12/31/06)



# COMMERCIAL LINES

*Commercial Auto*

*Commercial Multi-Peril*



*Workers Comp*

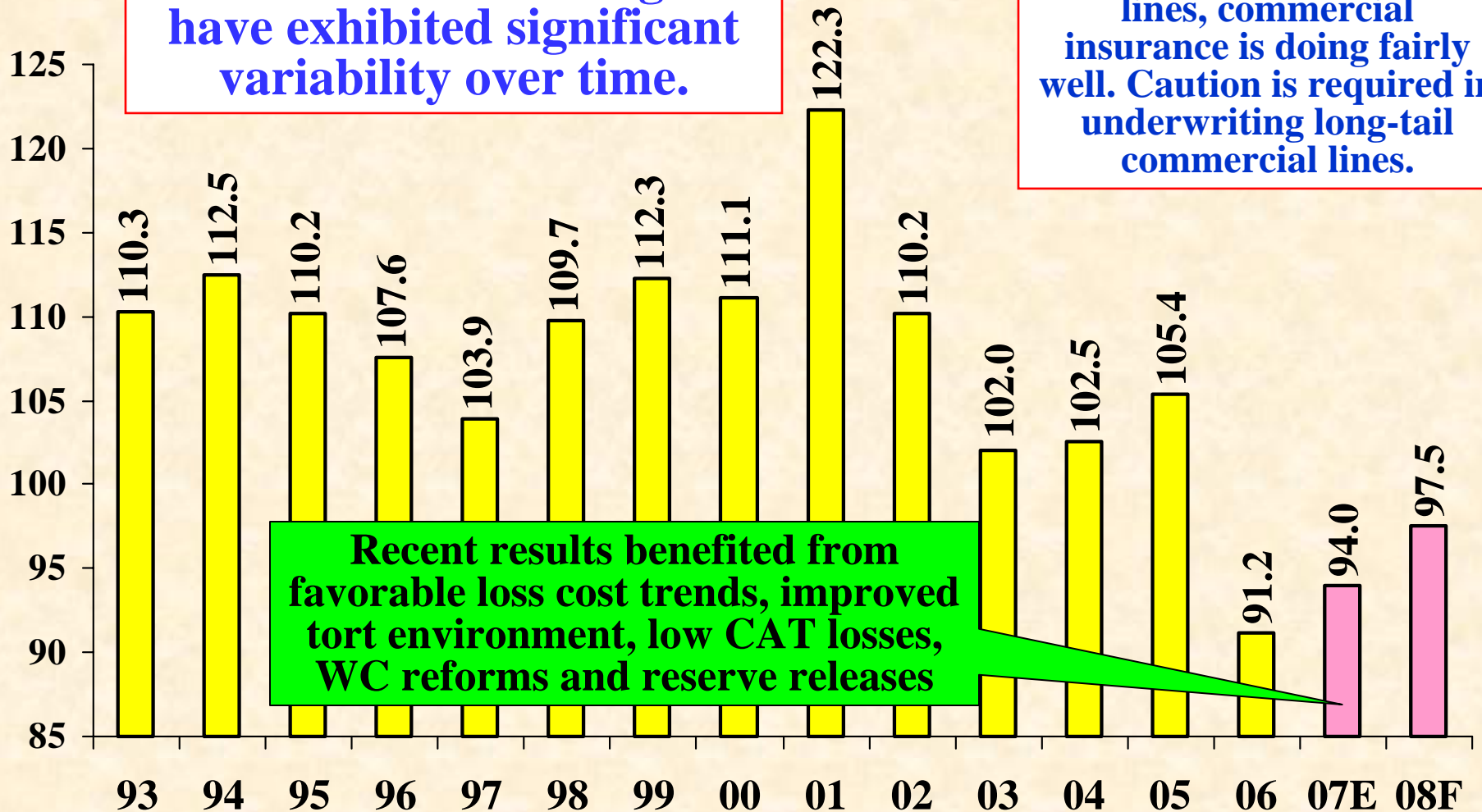




# Commercial Lines Combined Ratio, 1993-2008F

Commercial coverages have exhibited significant variability over time.

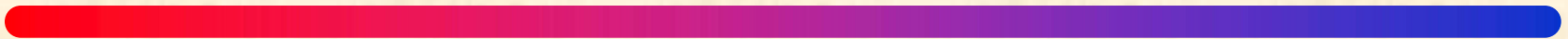
Outside CAT-affected lines, commercial insurance is doing fairly well. Caution is required in underwriting long-tail commercial lines.



Recent results benefited from favorable loss cost trends, improved tort environment, low CAT losses, WC reforms and reserve releases

# EMERGING RISKS

*Common Mistake is to  
Assume all Emerging Risks  
are About Underwriting*





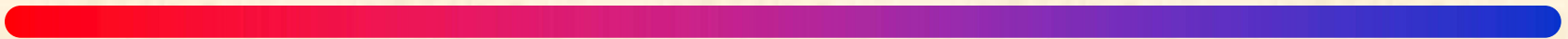
# *Emerging Risks Impacting the Global (Re)Insurance Industry*

<b>Issue</b>	<b>Issue</b>
<b>Erosion of Tort Reform</b>	<b>Inflation Risk</b>
<b>Bad Faith Litigation</b>	<b>Employment Practices Liability</b>
<b>Post-Catastrophe Litigation</b>	<b>Energy Sector</b>
<b>Climate Change (liability&gt;property)</b>	<b>Nursing Home/Asst. Living</b>
<b>Products Liability (Imports, Food)</b>	<b>Currency Risk</b>
<b>Regulatory Risk</b>	<b>Economic Shock/Contagion Effects</b>
<b>Securities Litigation</b>	<b>Terrorism</b>
<b>Asset Valuation Risk (Mark-to-Market)</b>	<b>Nanotechnology</b>
<b>Environmental Liability</b>	<b>Pharmaceuticals</b>
<b>Latent Occupational Disease</b>	<b>Disintermediation</b>
<b>Socialization of Insurance Markets</b>	<b>US Tax Policy</b>



# PREMIUM GROWTH

**At a Virtual Standstill  
in 2007/08**



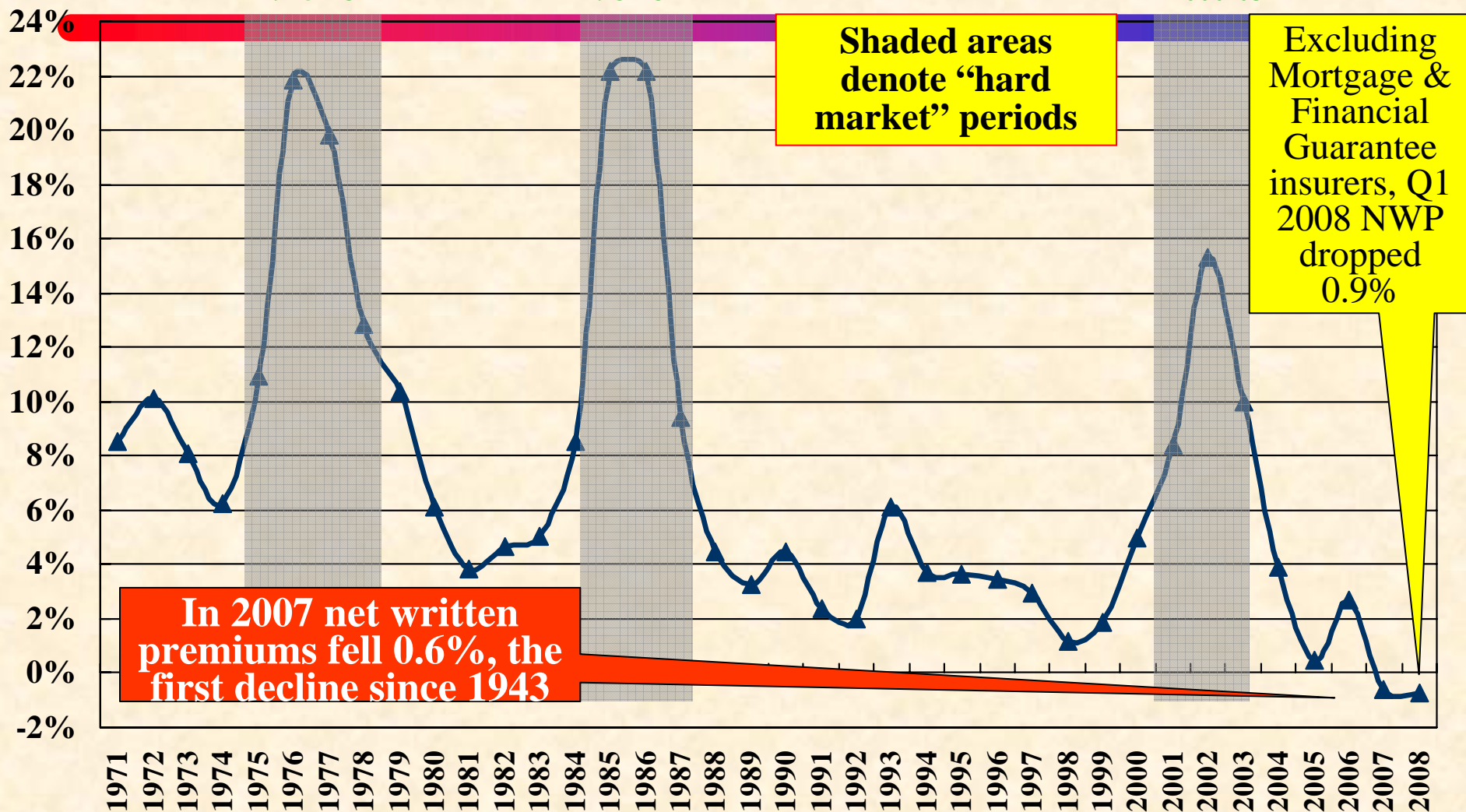
# Strength of Recent Hard Markets by NWP Growth



1975-78

1984-87

2000-03

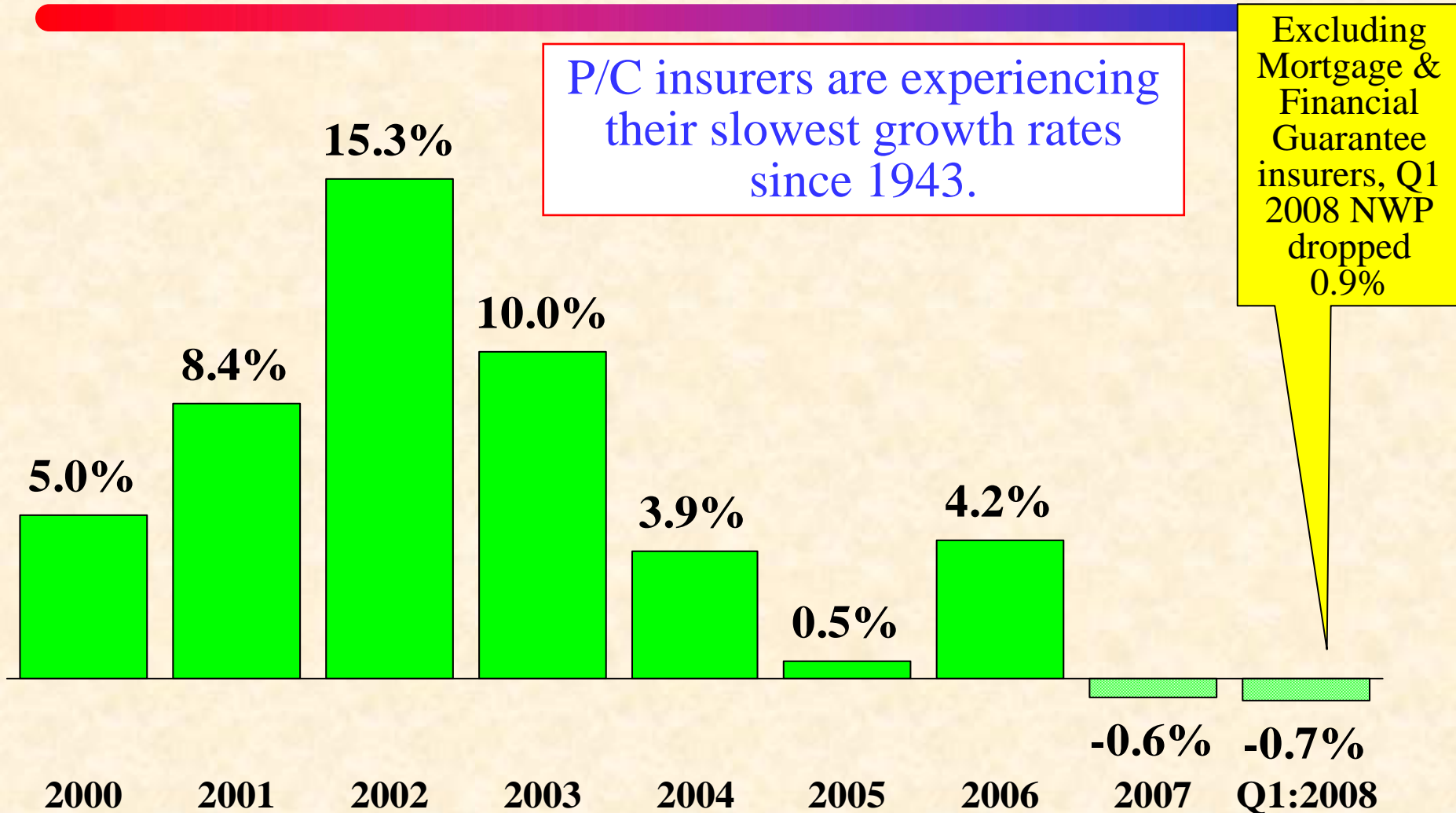


2008 is Q1 actual (-0.7%), including Mortgage & Financial Guarantee insurers

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



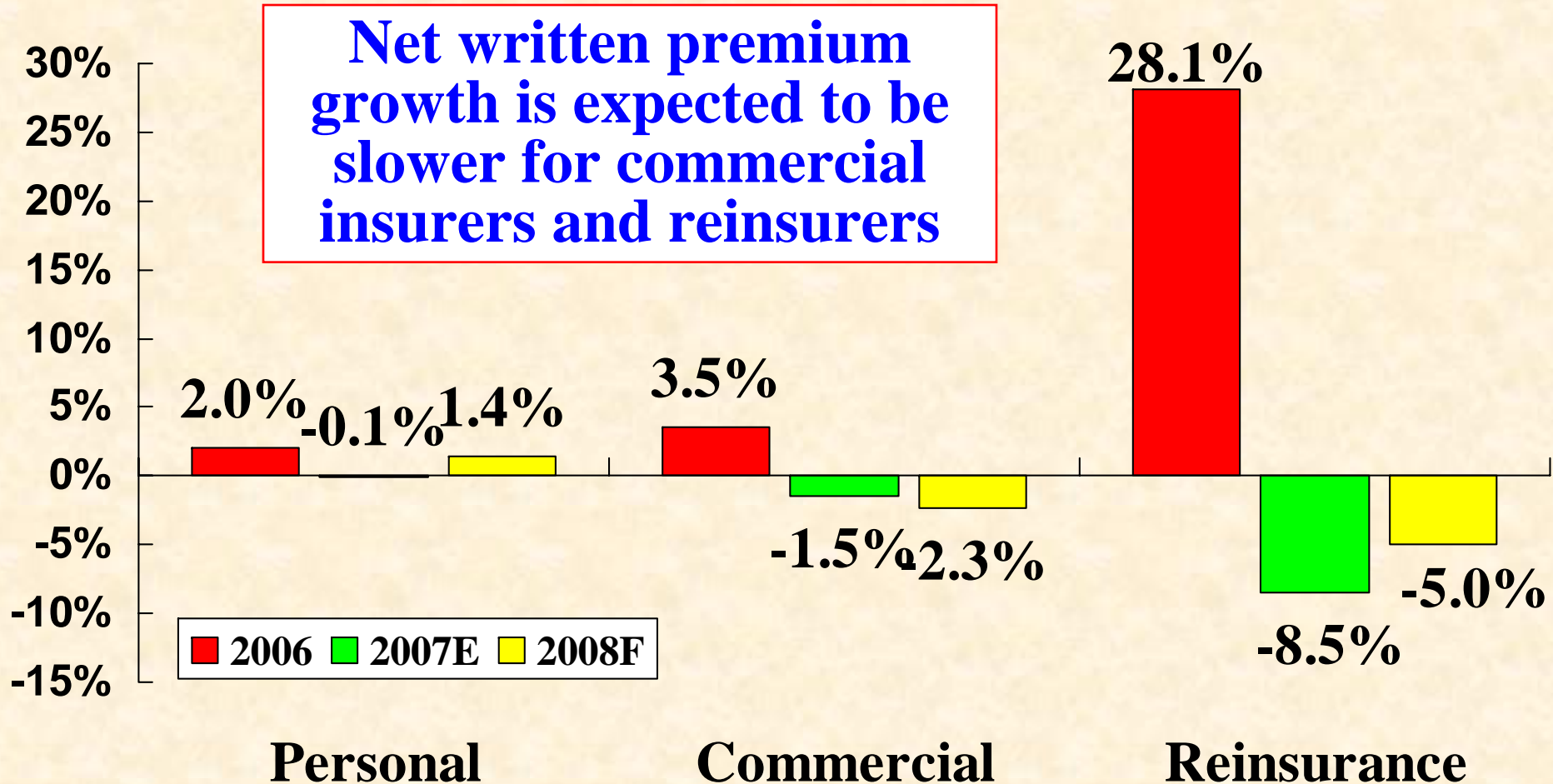
# Year-to-Year Change in Net Written Premium, 2000-Q1:2008



Source: A.M. Best; ISO.



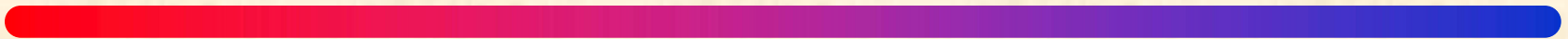
# Personal/Commercial Lines & Reinsurance NPW Growth, 2006-2008F



# PRICING TRENDS

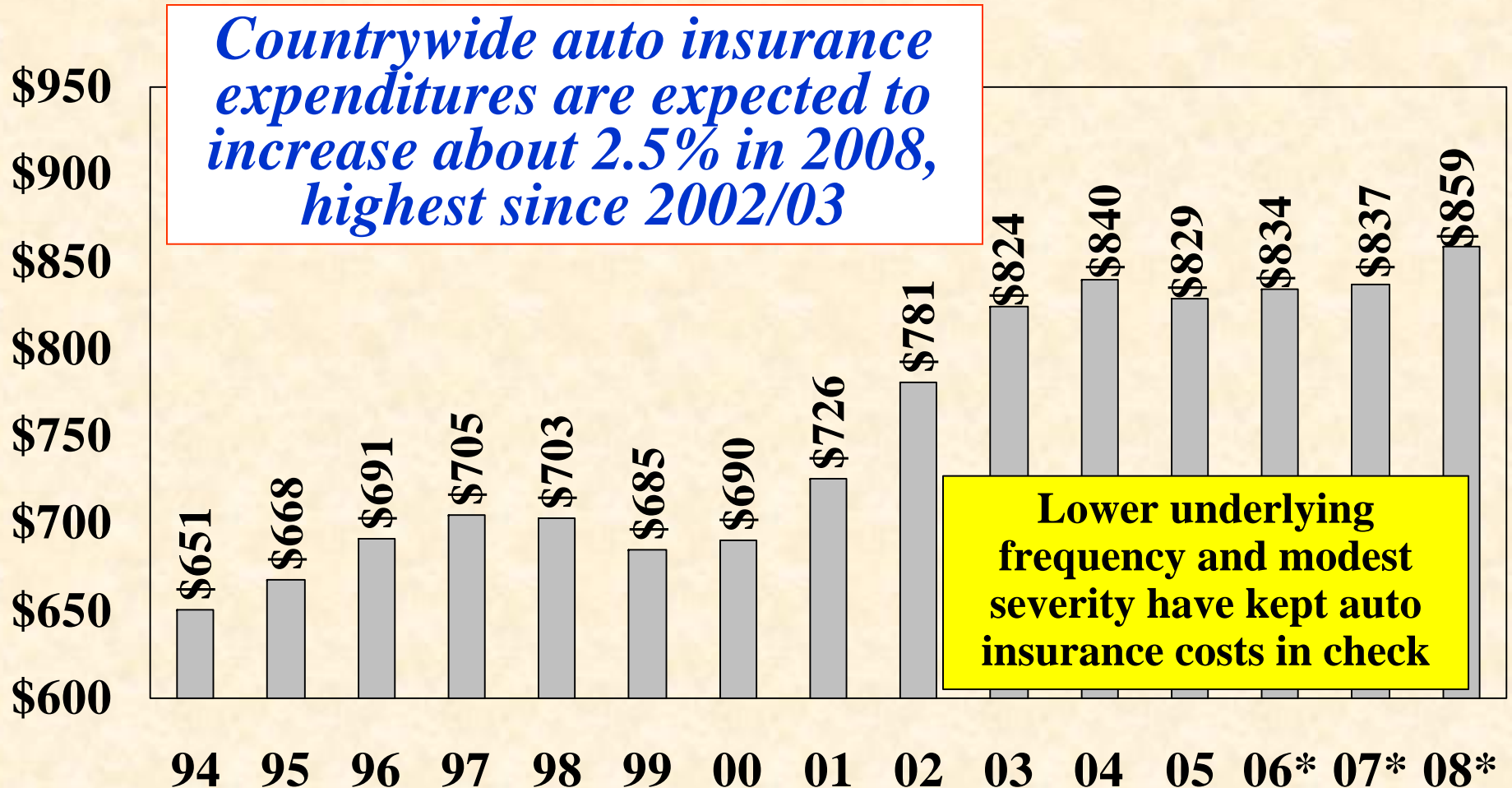


**Under Pressure**





# Average Expenditures on Auto Insurance



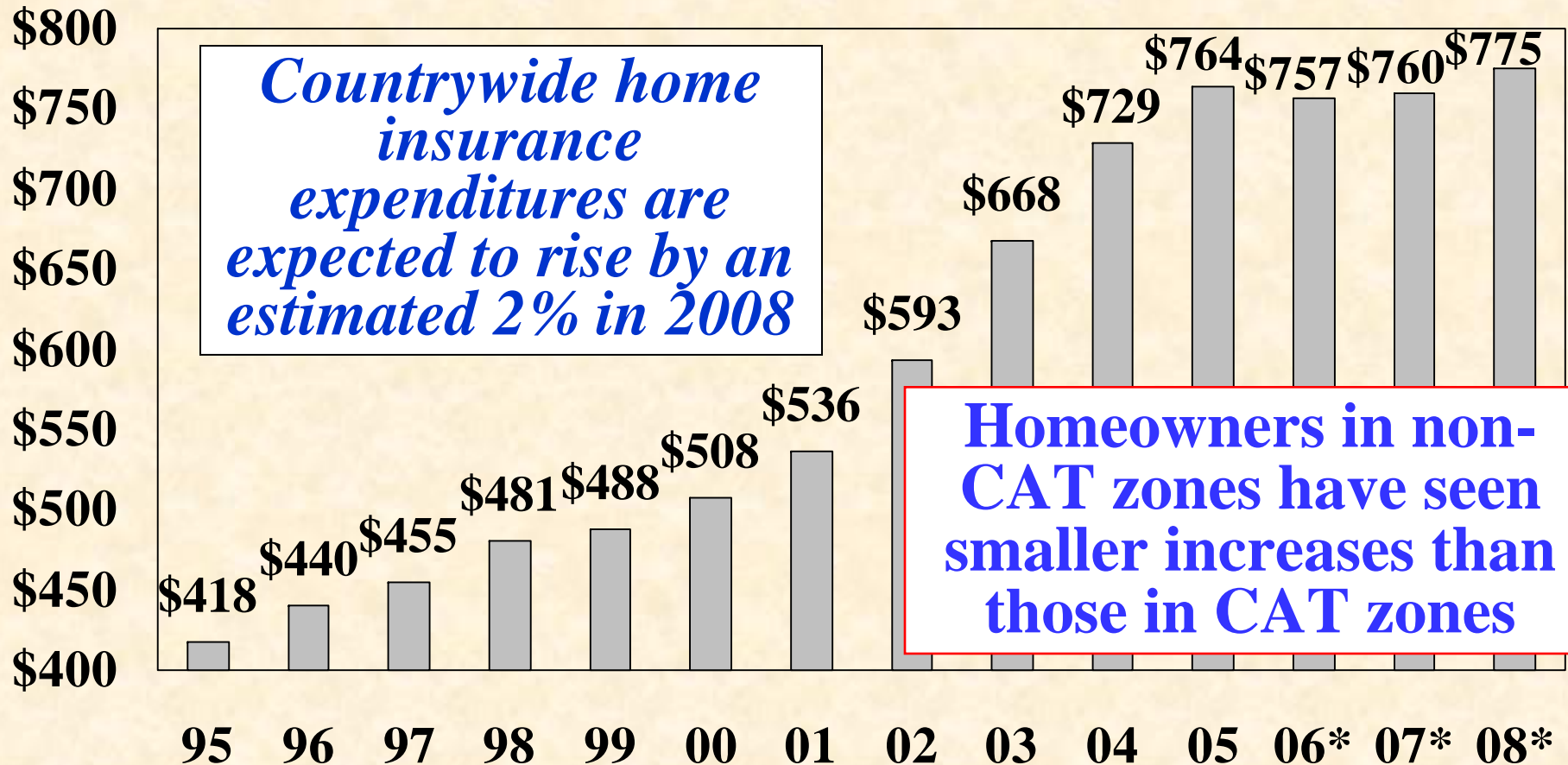
\*Insurance Information Institute Estimates/Forecasts

Source: NAIC, Insurance Information Institute estimates 2006-2008 based on CPI data.





# Average Expenditures on Homeowners Insurance\*\*



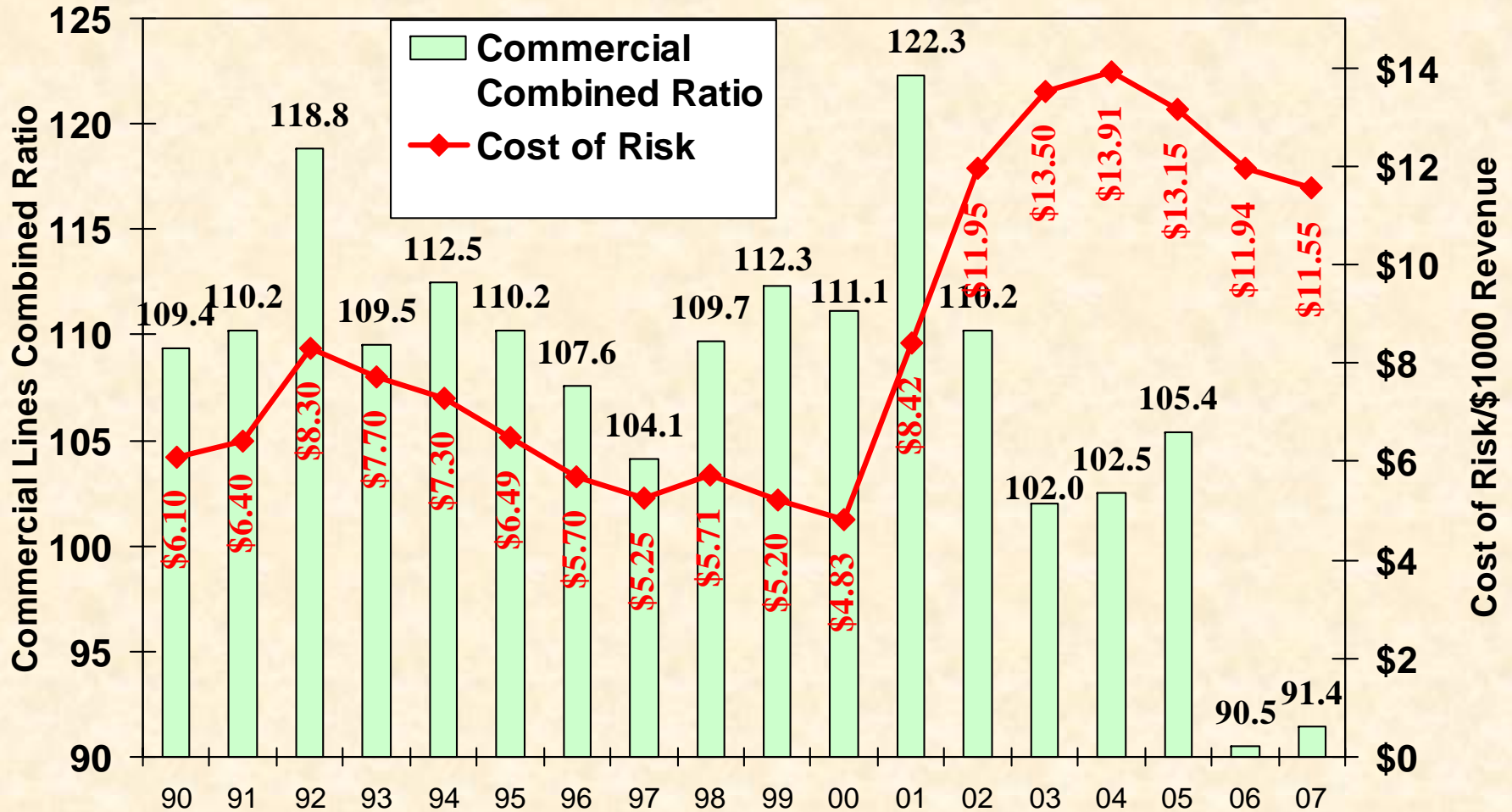
\*Insurance Information Institute Estimates/Forecasts

\*\*Excludes cost of flood and earthquake coverage.

Source: NAIC, Insurance Information Institute estimates 2006-2008 based on CPI data.



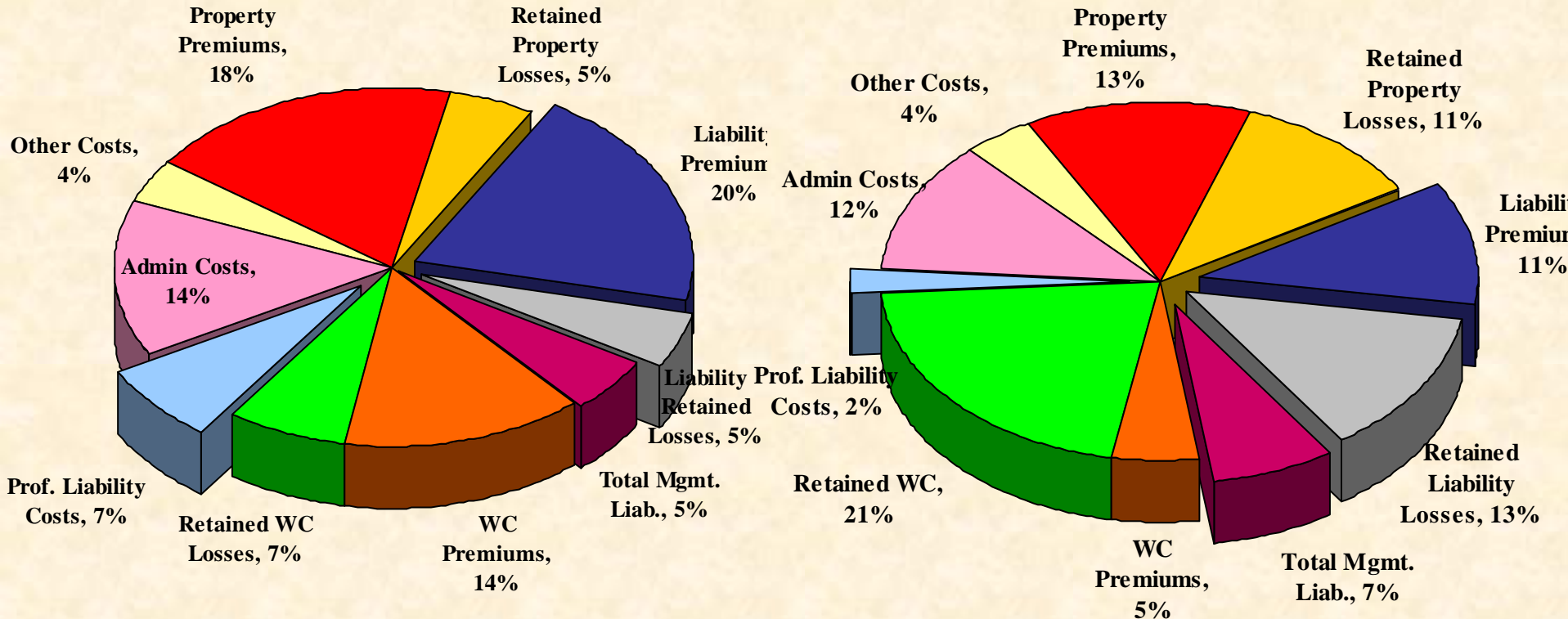
# Cost of Risk vs. Commercial Lines Combined Ratio



# How the Risk Dollar is Spent (2006)

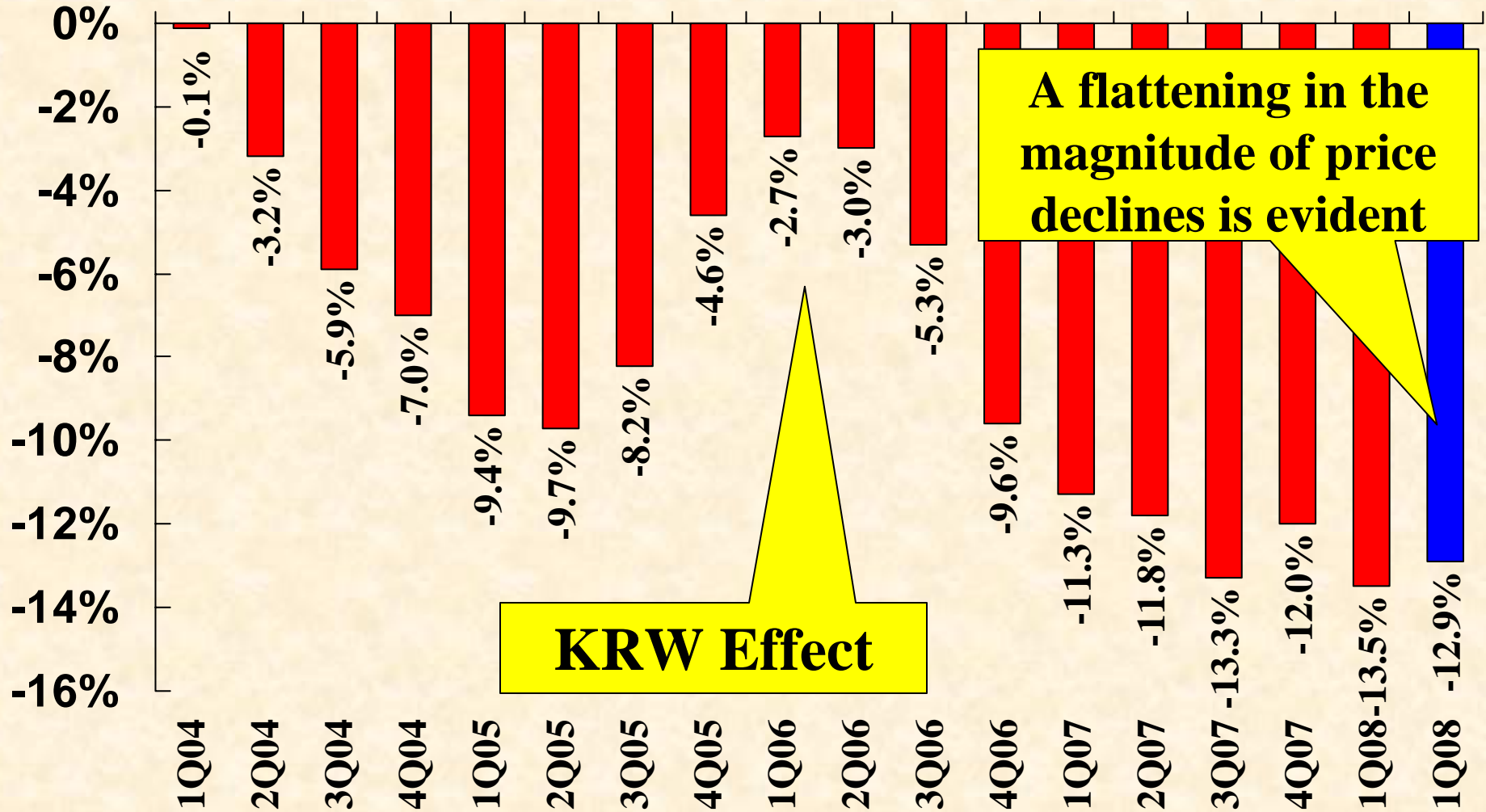
Total liability costs account for 35% - 40% of the risk dollar

Firms w/Revenues < \$1 Billion      Firms w/Revenues > \$1 Billion



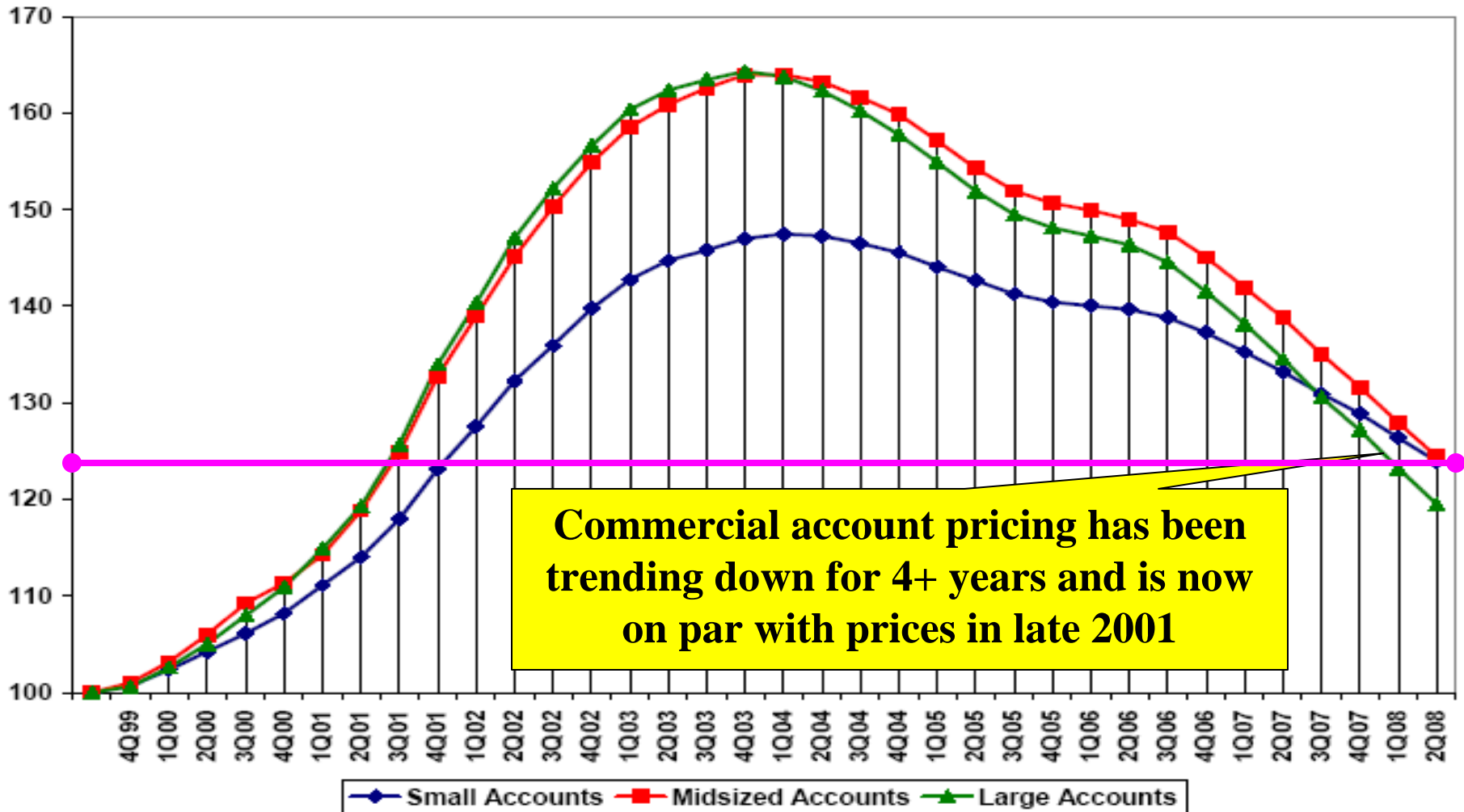


# Average Commercial Rate Change, All Lines, (1Q:2004 – 2Q:2008)



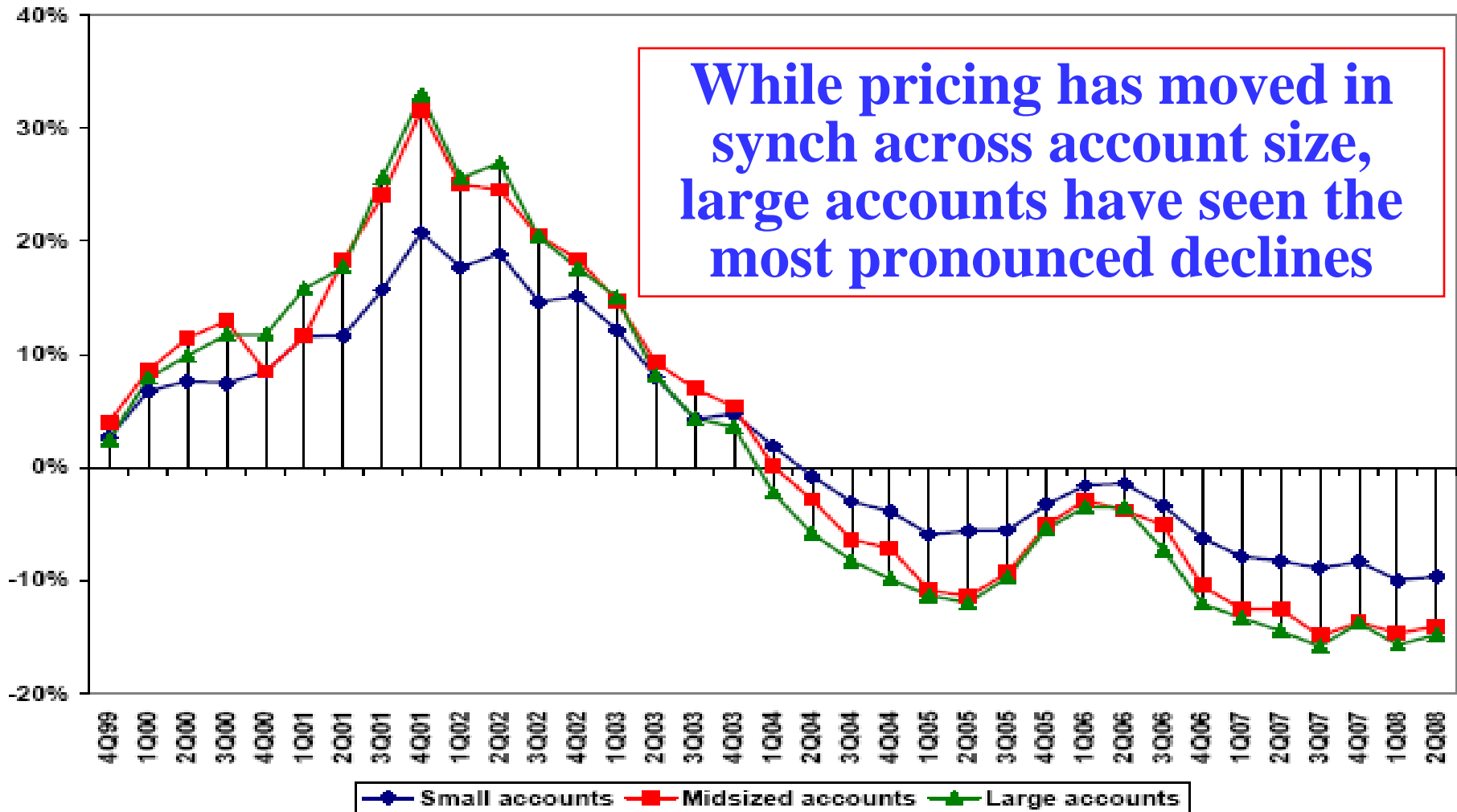


# Cumulative Commercial Rate Change by Line: 4Q99 – 2Q08





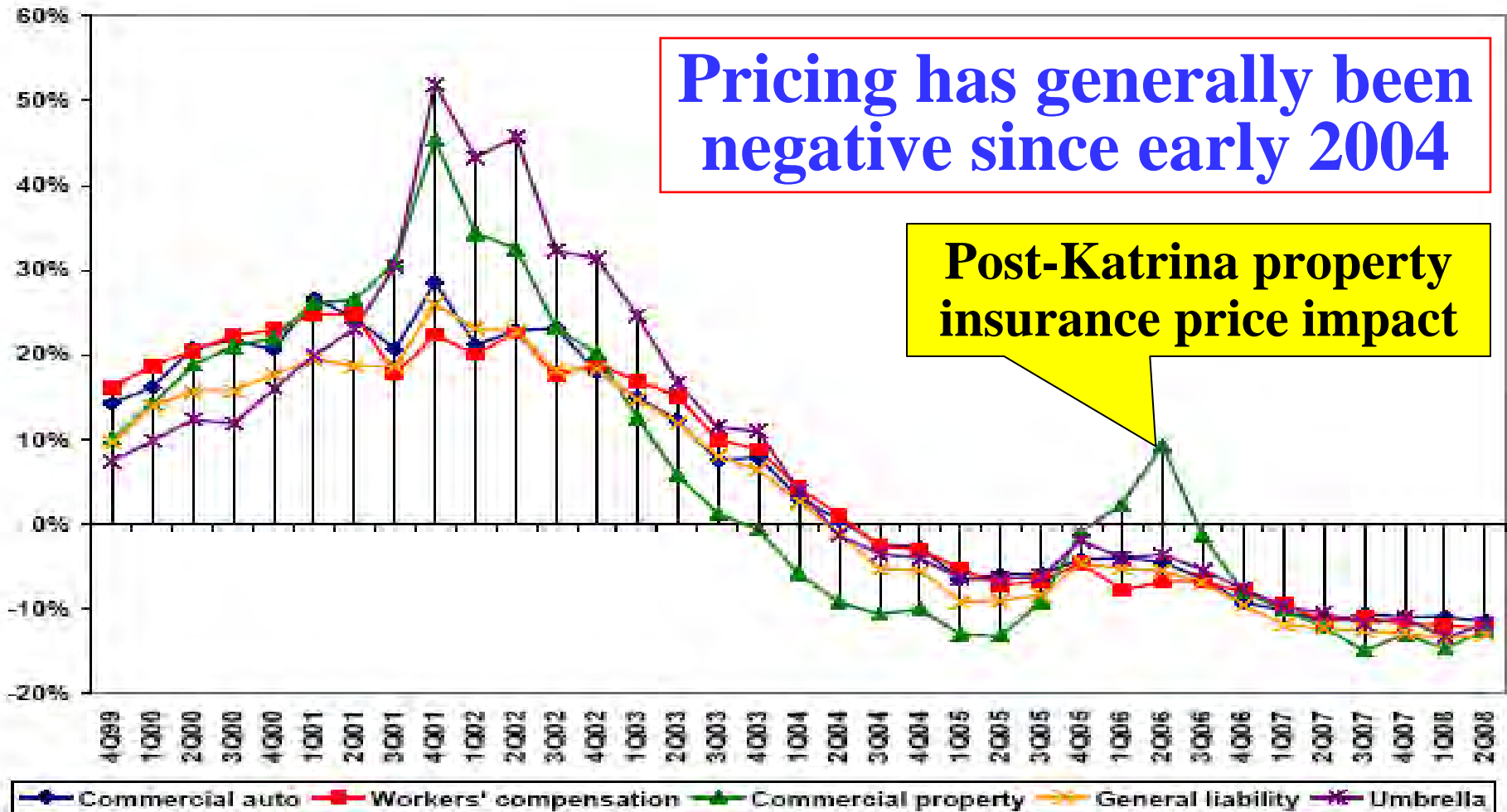
# Average Commercial Rate Change by Account Size: 4Q99 – 2Q08





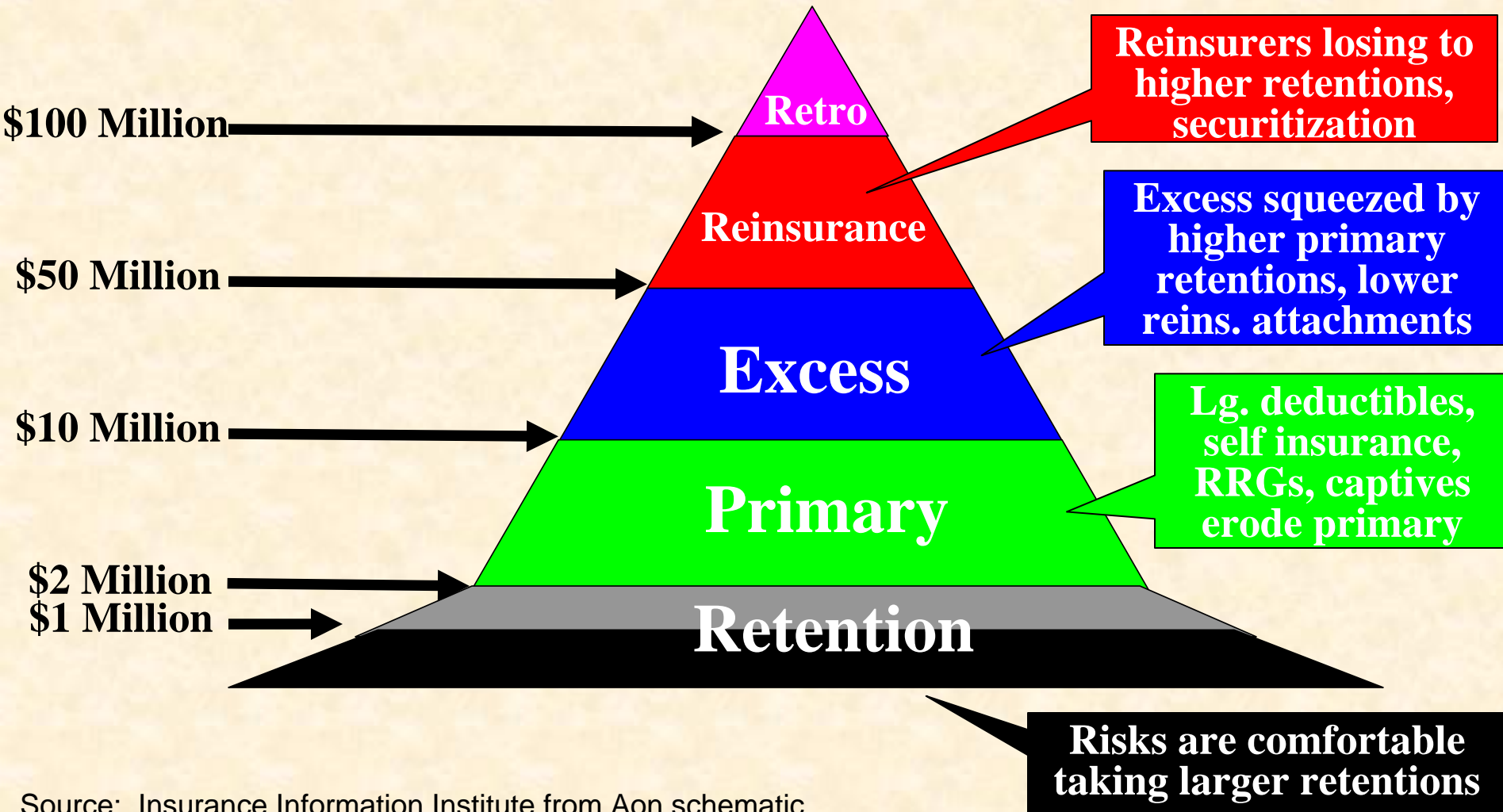


# Average Commercial Rate Change by Line: 4Q99 – 2Q08



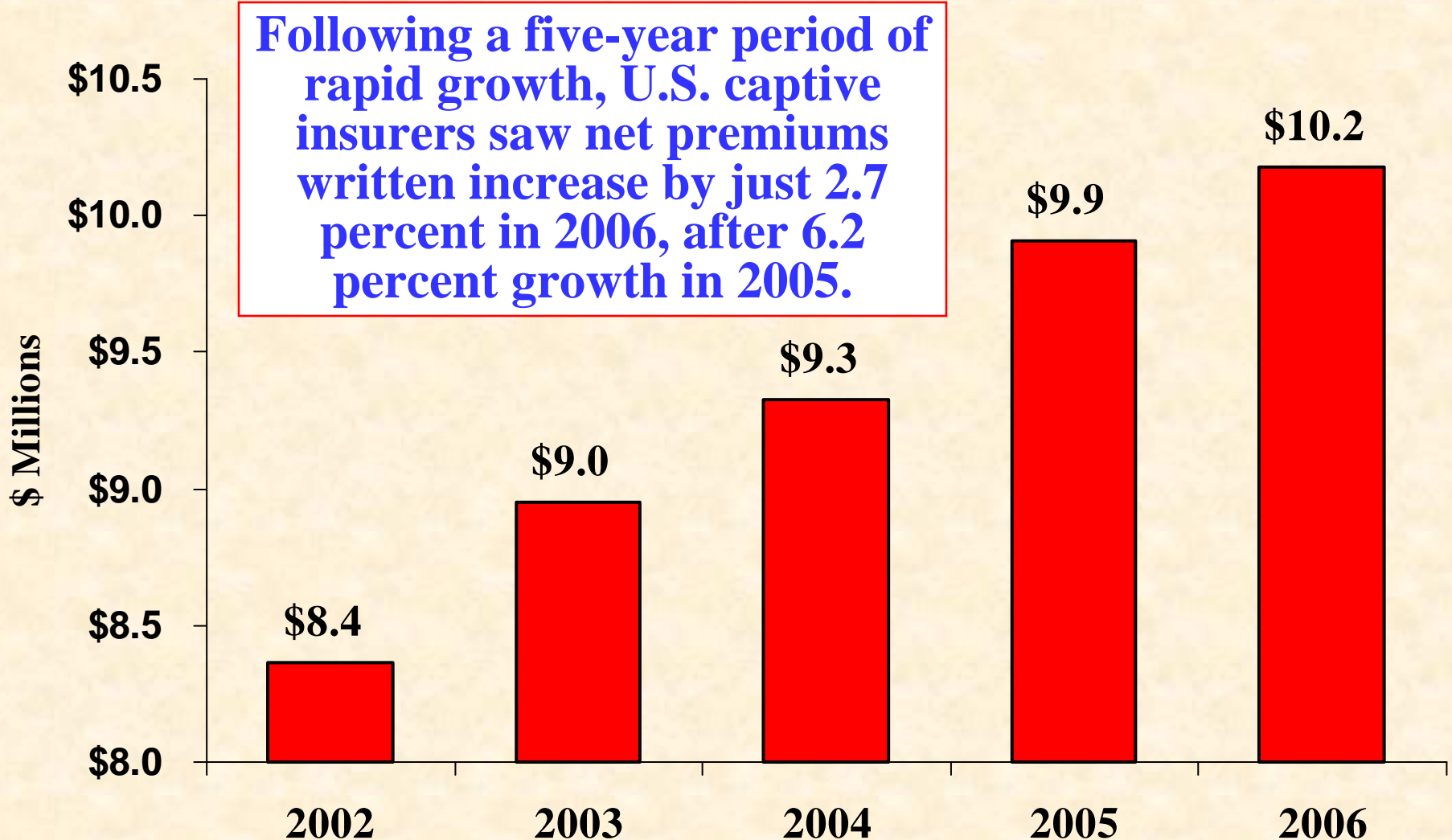


# *Most Layers of Coverage are Being Challenged/Leaking*





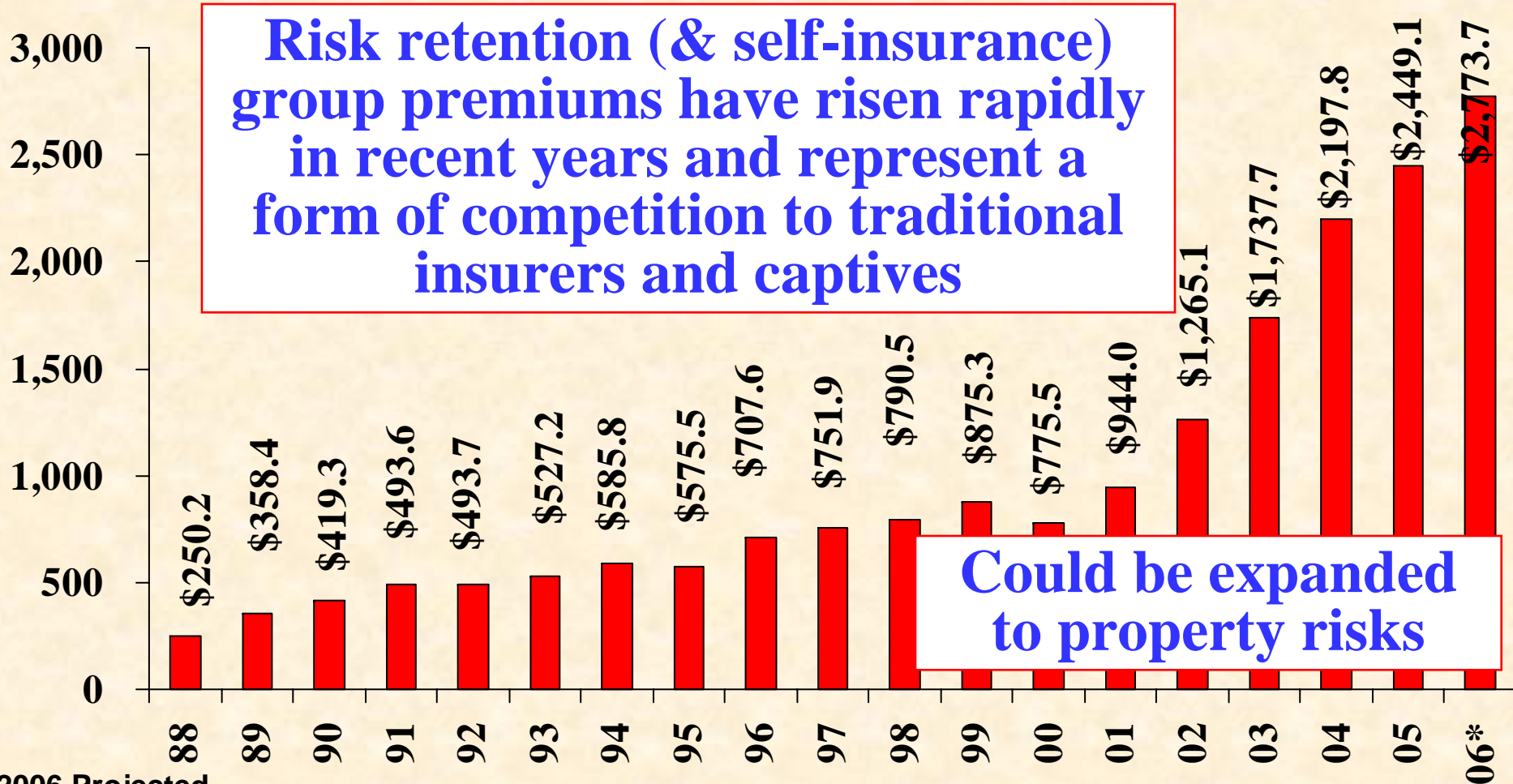
# *U.S. Domiciled Captives- Net Premiums Written (\$ Millions)*





# Risk Retention Group Premiums, 1988 – 2006\*

Millions of Dollars

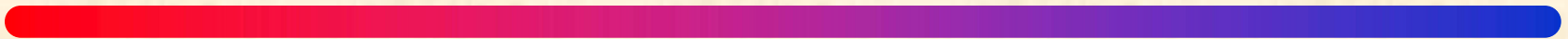


\*2006 Projected

Source: Risk Retention Reporter, Insurance Info. Institute

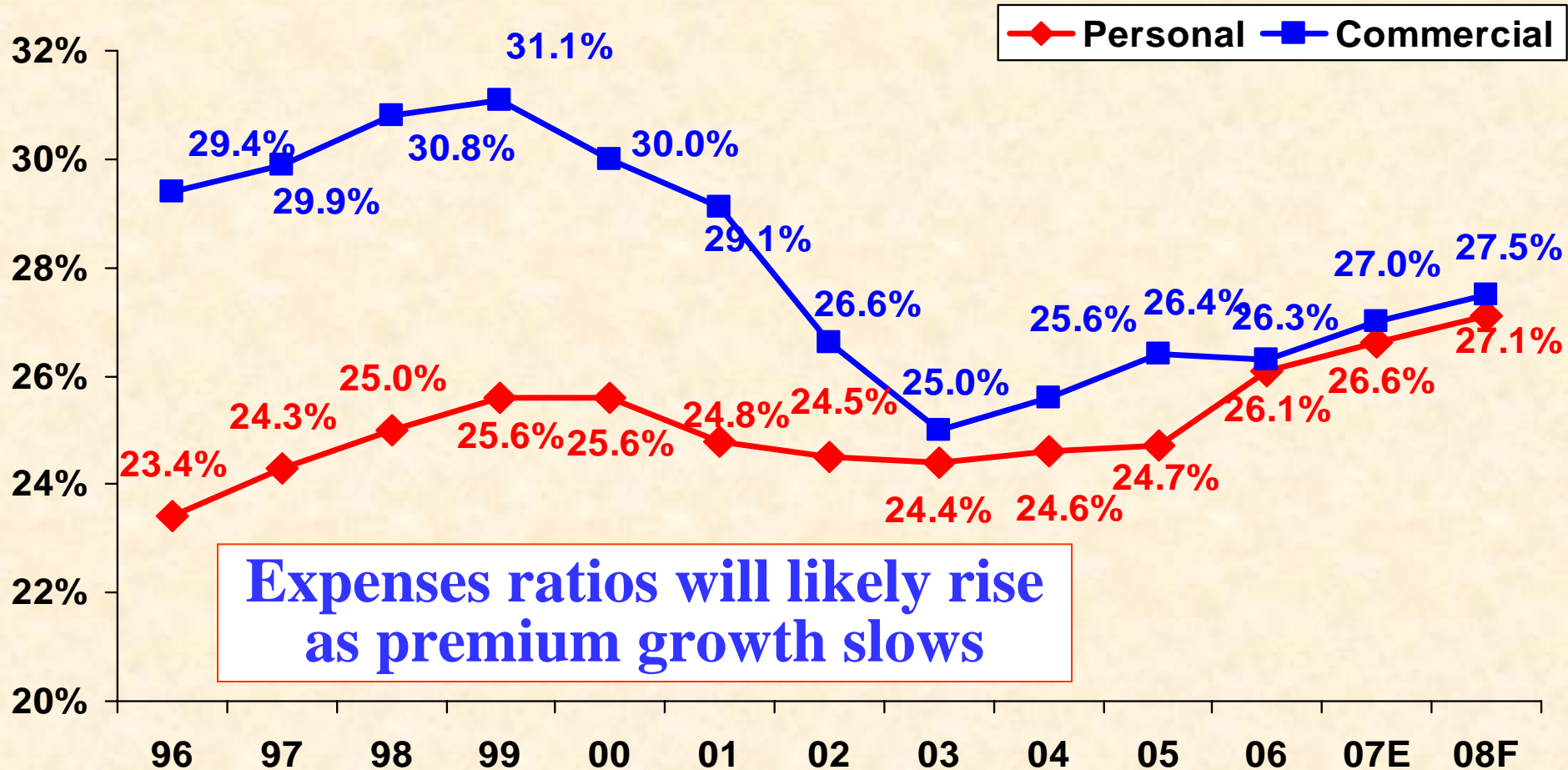
# RISING EXPENSES

*Expense Ratios Will Rise as  
Premium Growth Slows*





# Personal vs. Commercial Lines Underwriting Expense Ratio\*



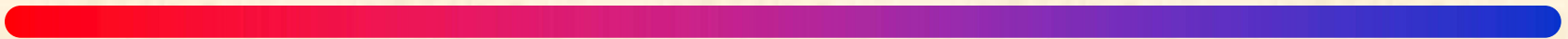
\*Ratio of expenses incurred to net premiums written.

Source: A.M. Best; Insurance Information Institute



# CAPACITY/ SURPLUS

**Accumulation of Capital/  
Surplus Depresses ROEs**





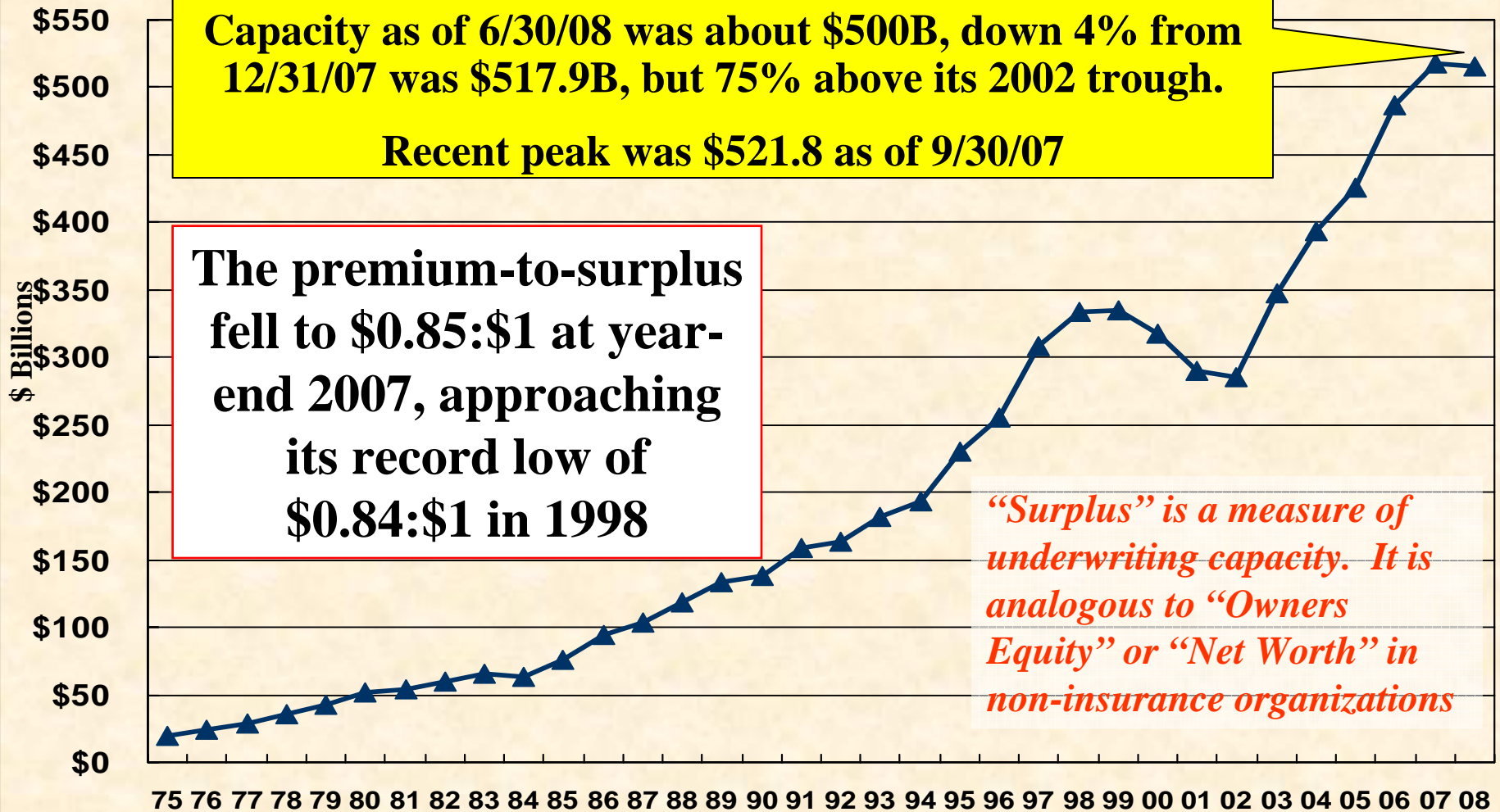
# U.S. Policyholder Surplus: 1975-2008:Q1\*

Capacity as of 6/30/08 was about \$500B, down 4% from 12/31/07 was \$517.9B, but 75% above its 2002 trough.

Recent peak was \$521.8 as of 9/30/07

The premium-to-surplus fell to \$0.85:\$1 at year-end 2007, approaching its record low of \$0.84:\$1 in 1998

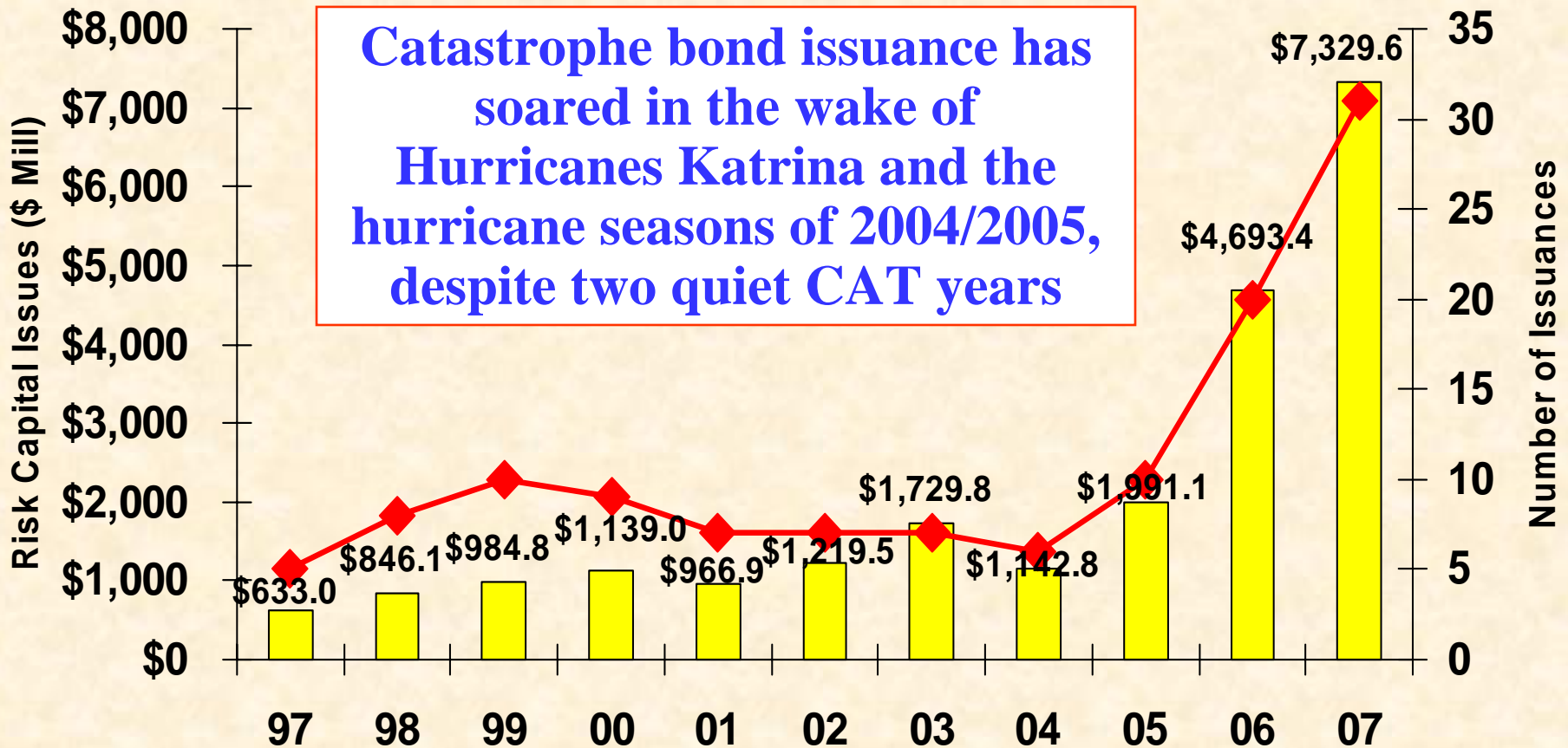
*“Surplus” is a measure of underwriting capacity. It is analogous to “Owners Equity” or “Net Worth” in non-insurance organizations*





# Annual Catastrophe Bond Transactions Volume, 1997-2007

■ Risk Capital Issued ◆ Number of Issuances





# *P/C Insurer Share Repurchases, 1987- Through Q4 2007 (\$ Millions)*

## Reasons Behind Capital Build-Up & Repurchase Surge

- Strong underwriting results
- Moderate catastrophe losses
  - Reasonable investment performance
- Lack of strategic alternatives (M&A, large-scale expansion)

**Returning capital owners (shareholders) is one of the few options available**

**2007 share buybacks shattered the 2006 record, up 214%**

**2007 repurchases to date equate to 3.9% of industry surplus, the highest in 20 years**

\$22,322.6



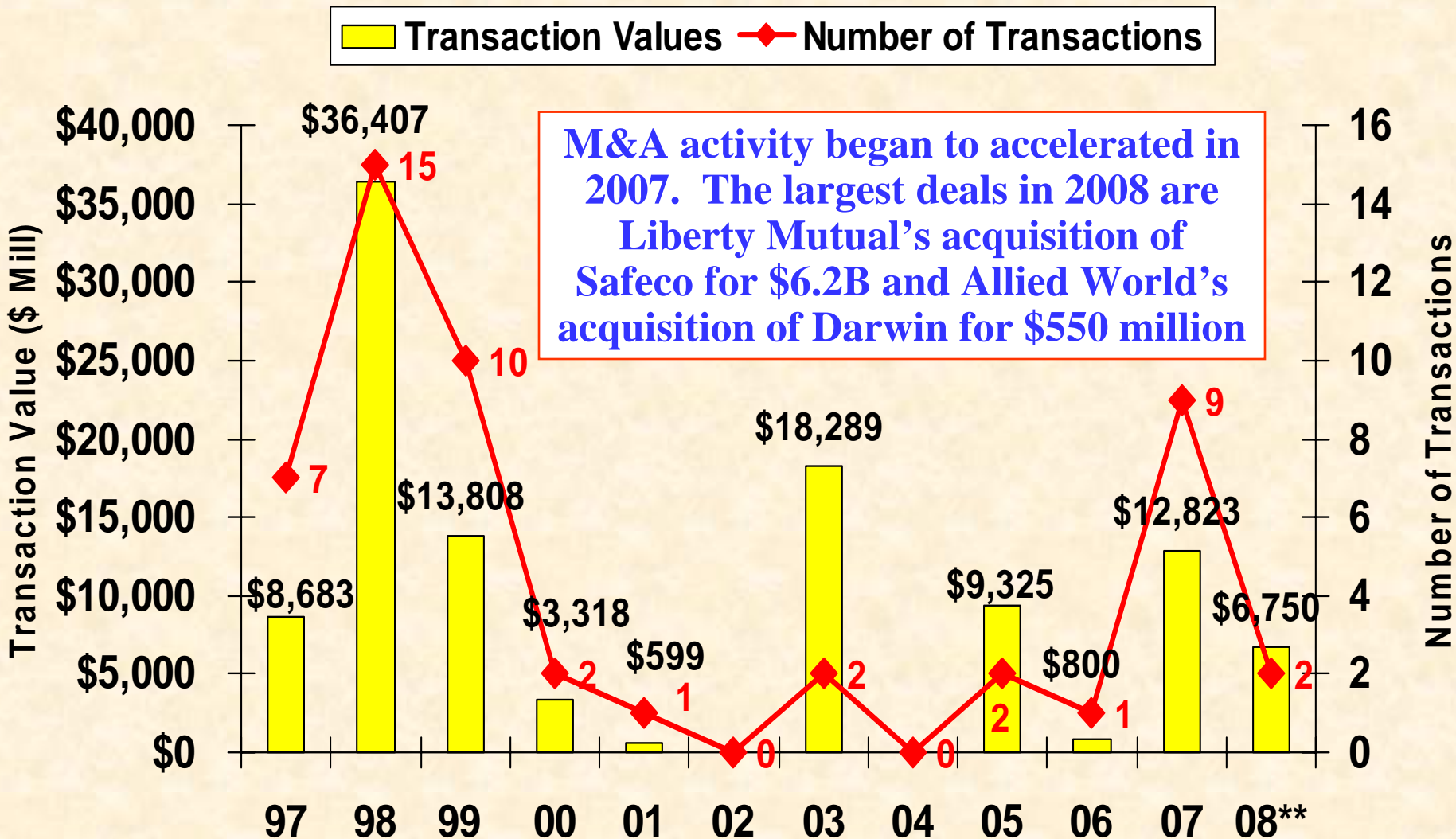
# MERGER & ACQUISITION

Are Catalysts for P/C  
Consolidation Growing  
in 2008?





# *P/C Insurer M&A Activity, \** *1997-2008\*\**







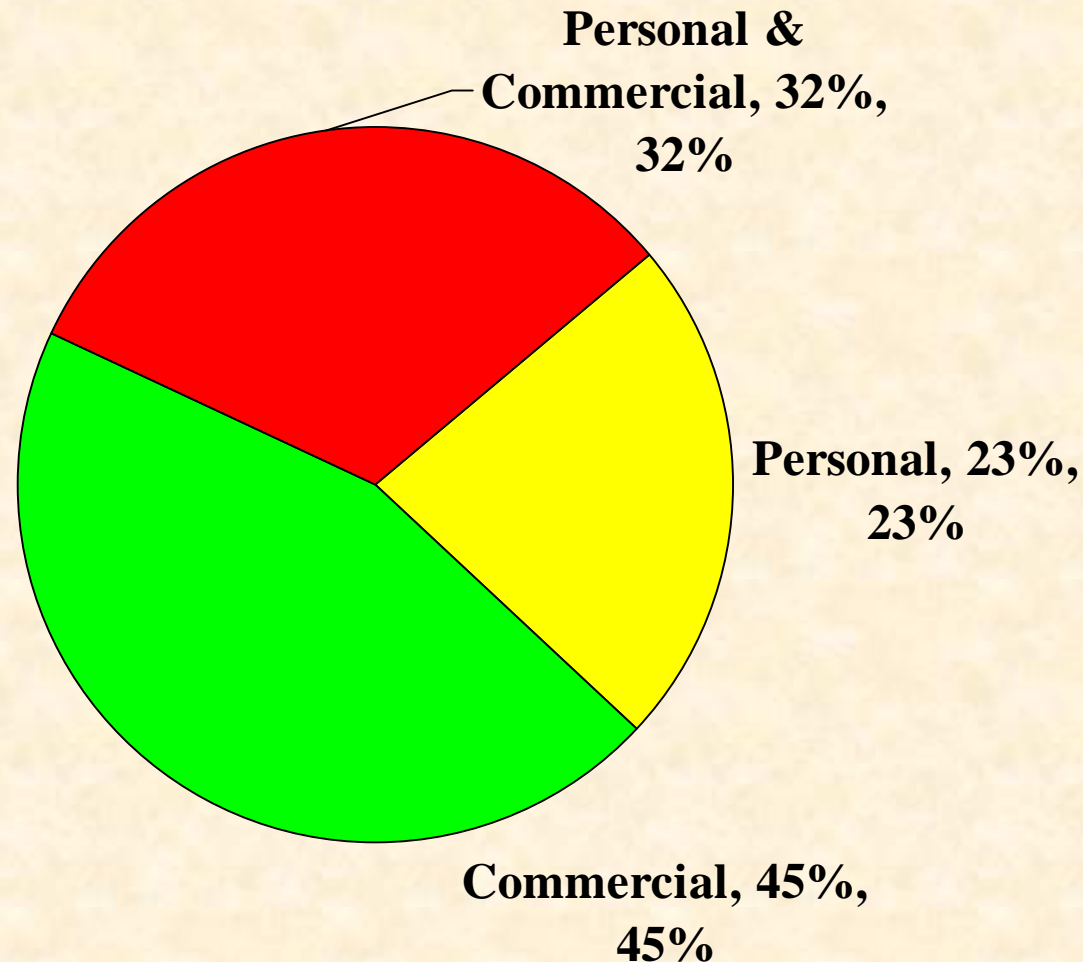
# *Distribution of P/C Insurer*

## *Acquisitions, Jan. 2007 – June 2008*

### **Deals Exceeding \$100 Million**

#### **SUMMARY STATS**

- **22 deals**
- **\$23 billion total transaction value**
- **\$475 million median deal value**
- **Acquirers mostly p/c insurers and limited number of private equity deals**





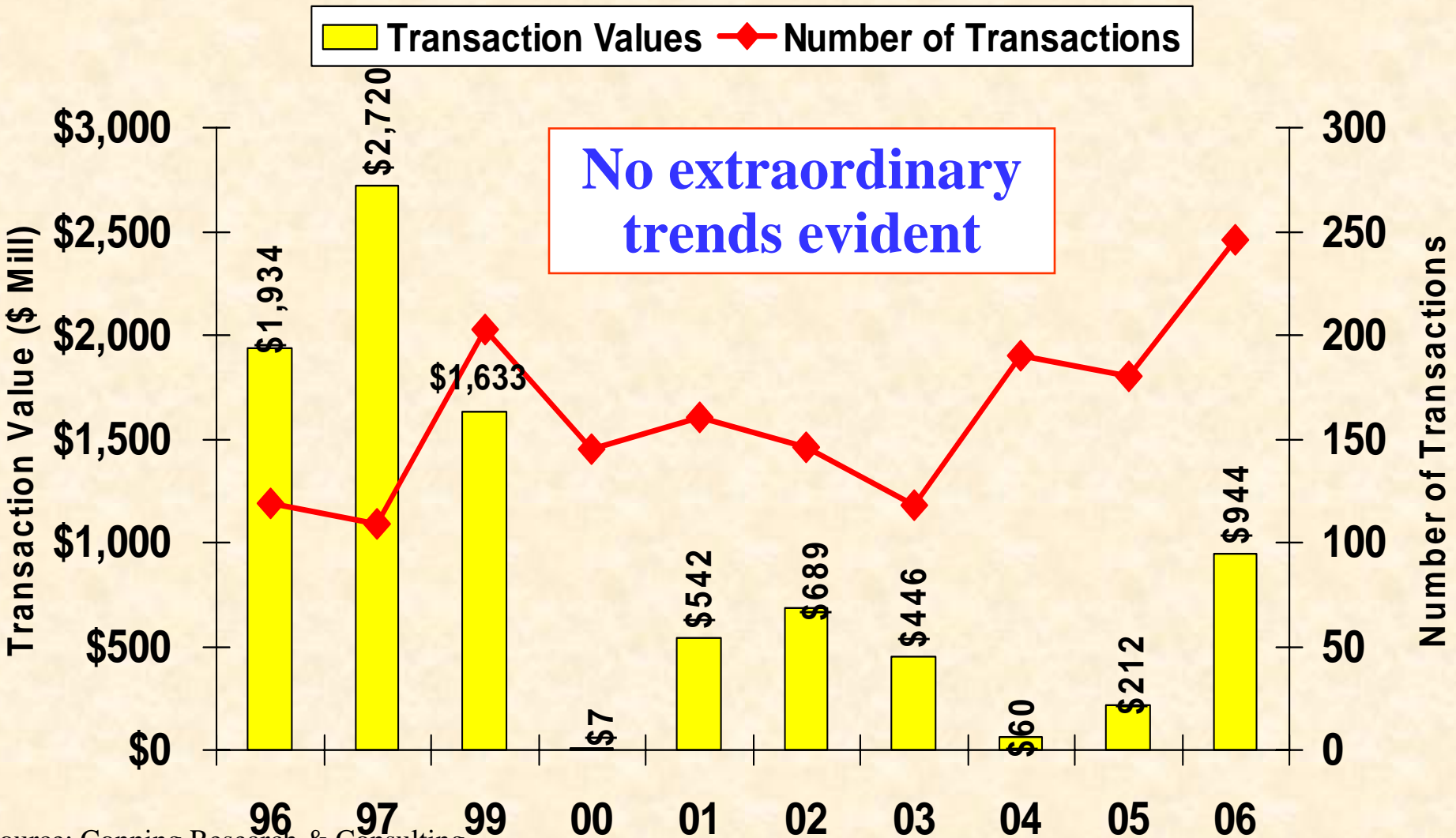
# *Motivating Factors for Increased P/C Insurer Consolidation*

## **Motivating Factors for P/C M&As**

- **Slow Growth**: Growth is at its lowest levels since the late 1990s
  - NWP growth was 0% in 2007; Appears similarly flat in 2008
  - Prices are falling or flat in most non-coastal markets
- **Accumulation of Capital**: Excess capital depresses ROEs
  - Policyholder Surplus up 6-7% in 2007 and up 80% since 2002
  - Insurers hard pressed to maintain earnings momentum
  - Options: Share Buybacks, Boost Dividends, Invest in Operation, Acquire
  - Option B: Engage in destructive price war and destroy capital
- **Reserve Adequacy**: No longer a drag on earnings
  - Favorable development in recent years offsets pre-2002 adverse develop.
- **Favorable Fundamentals/Drop-Off in CAT Activity**
  - Underlying claims inflation (frequency and severity trends) are benign
  - Lower CAT activity took some pressure of capital base



# *Distribution Sector: Insurance-Related M&A Activity, 1988-2006*



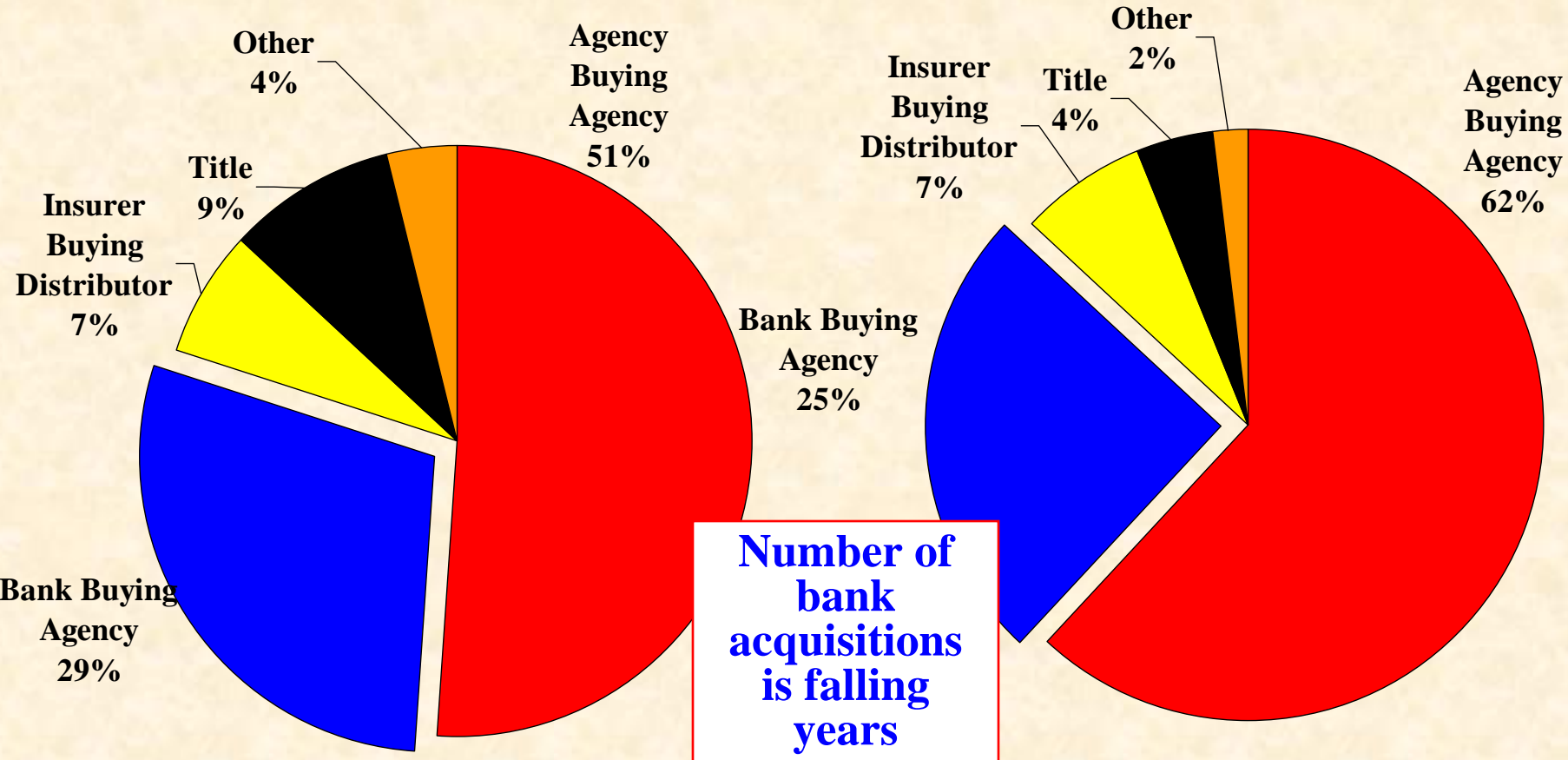


# *Distribution Sector M&A*

## *Activity, 2005 vs. 2006*

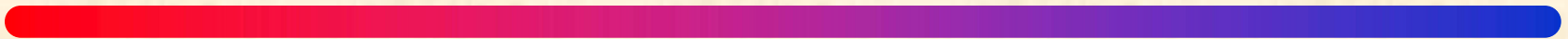
**2005**

**2006**



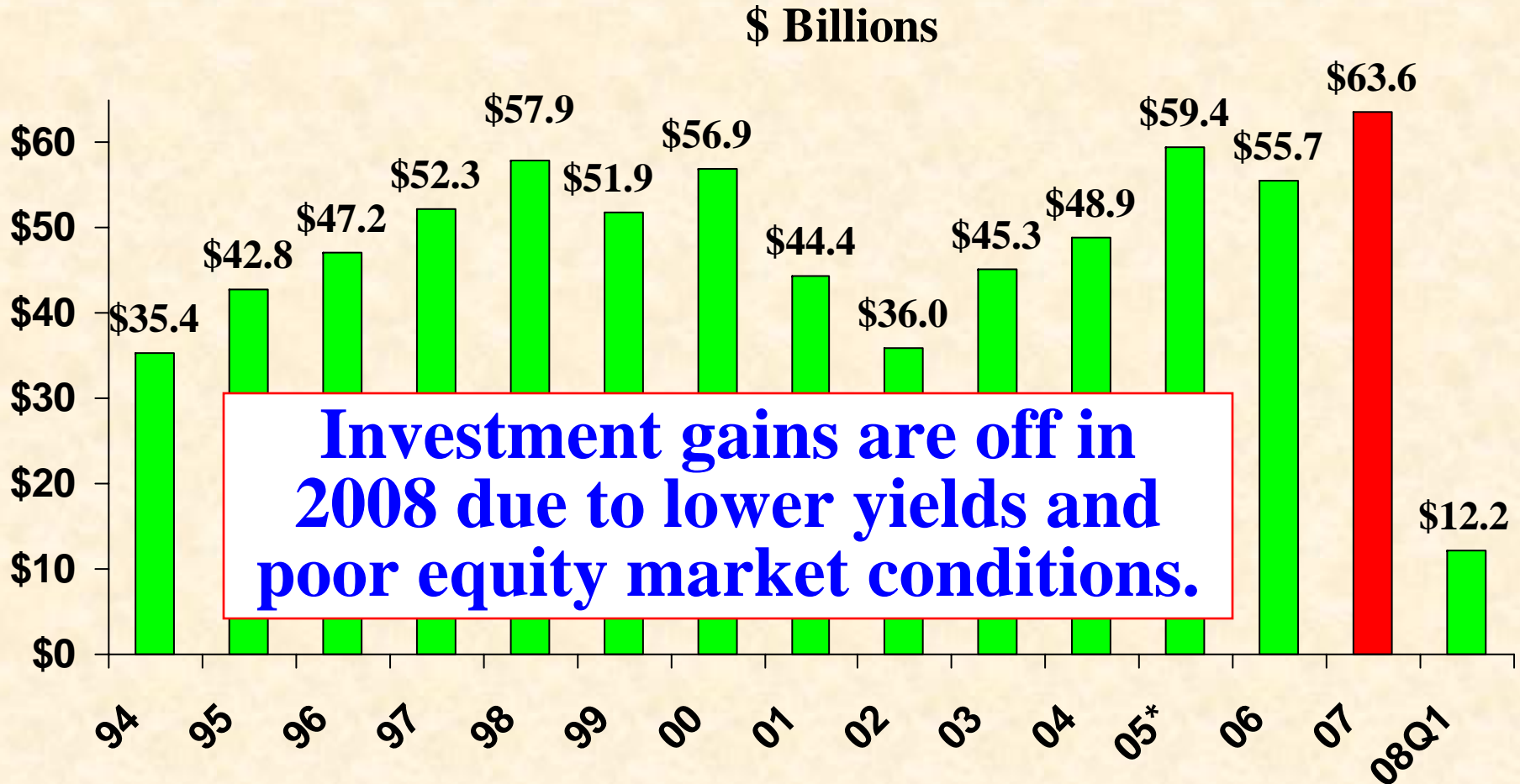
# INVESTMENT OVERVIEW

*More Pain,  
Little Gain*





# Property/Casualty Insurance Industry Investment Gain<sup>1</sup>



<sup>1</sup>Investment gains consist primarily of interest, stock dividends and realized capital gains and losses. 2006 figure consists of \$52.3B net investment income and \$3.4B realized investment gain.

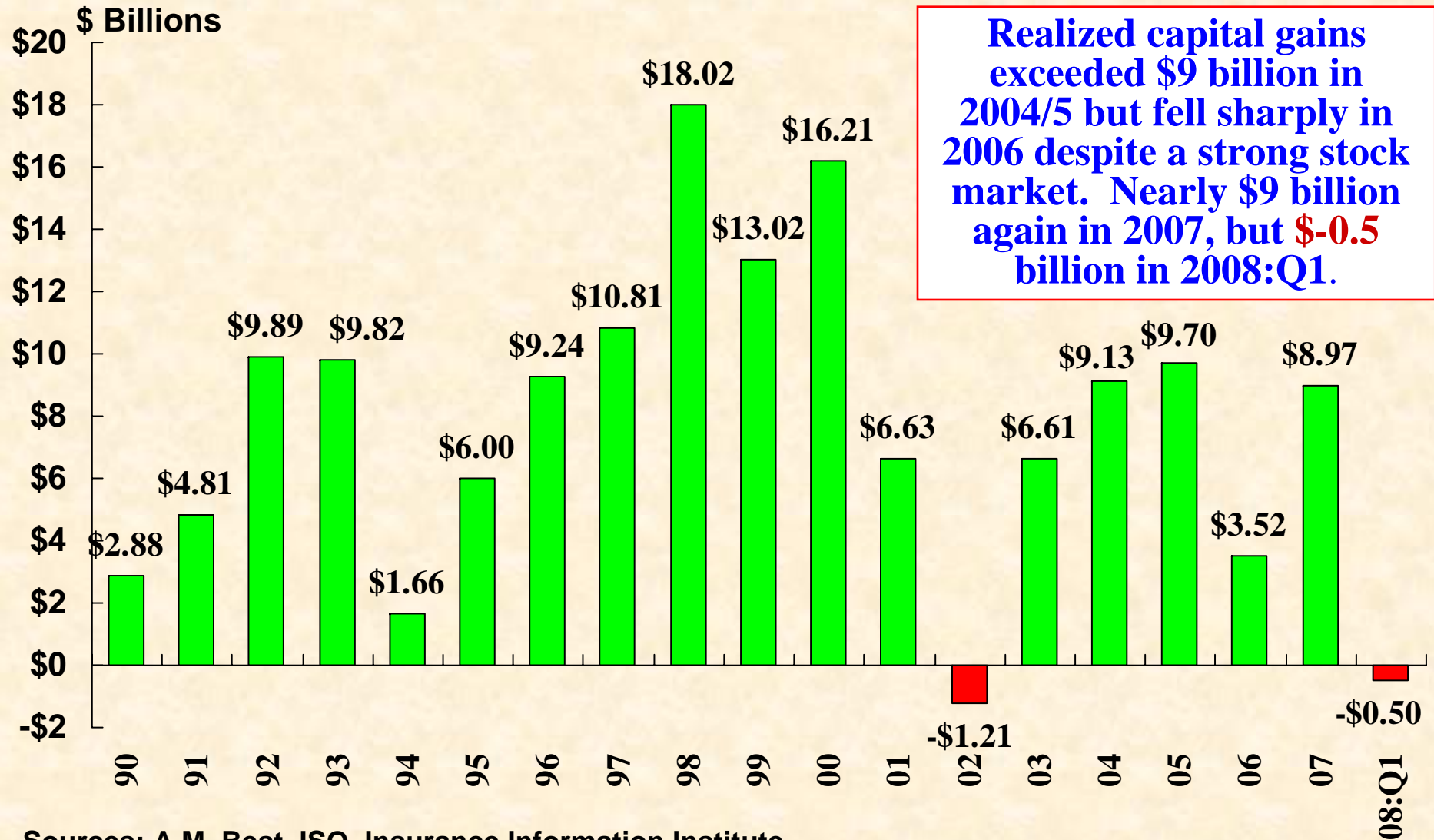
\*2005 figure includes special one-time dividend of \$3.2B.

Sources: ISO; Insurance Information Institute.





# *P/C Insurer Net Realized Capital Gains, 1990-2008:Q1*

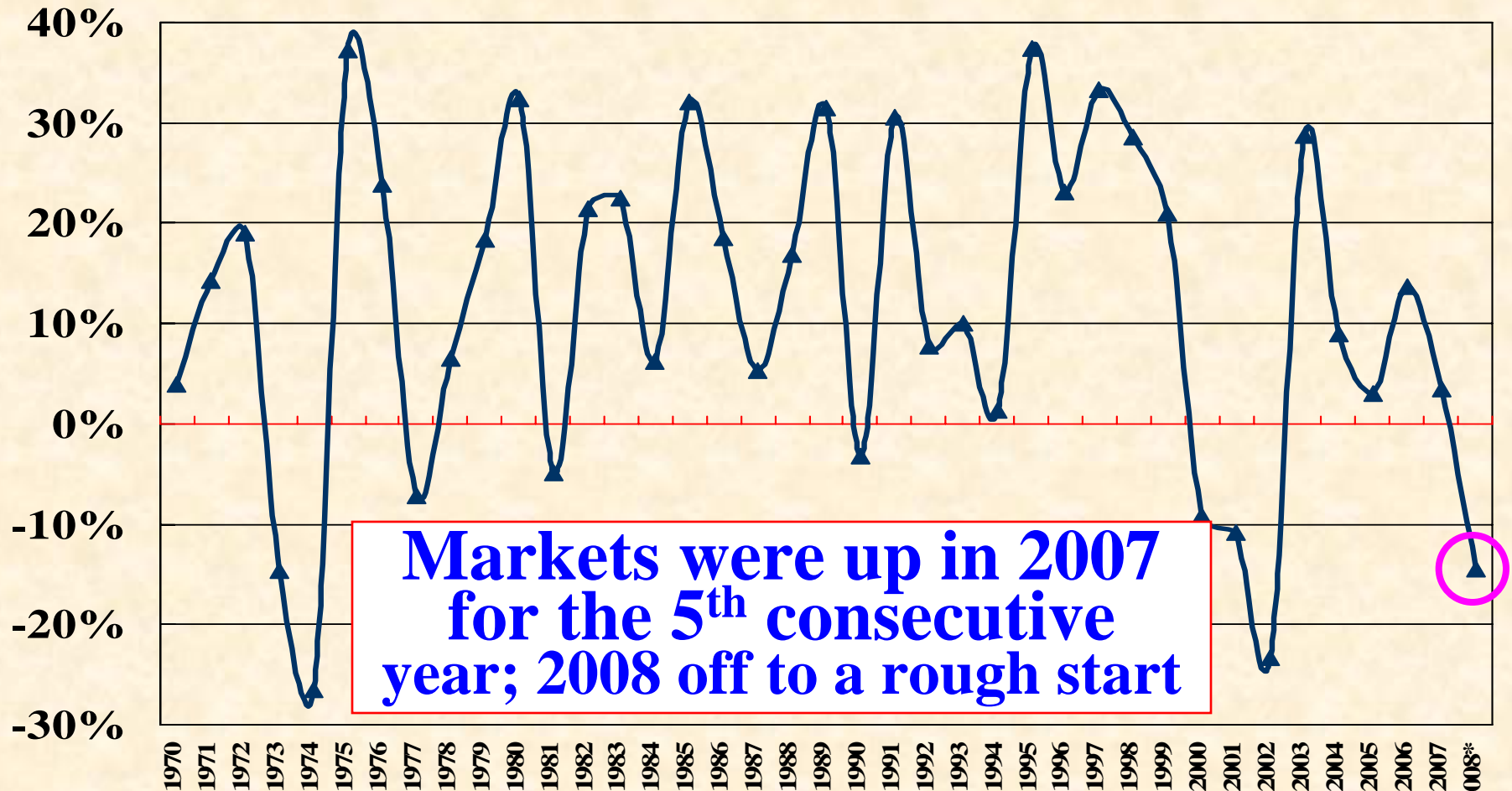


Sources: A.M. Best, ISO, Insurance Information Institute.



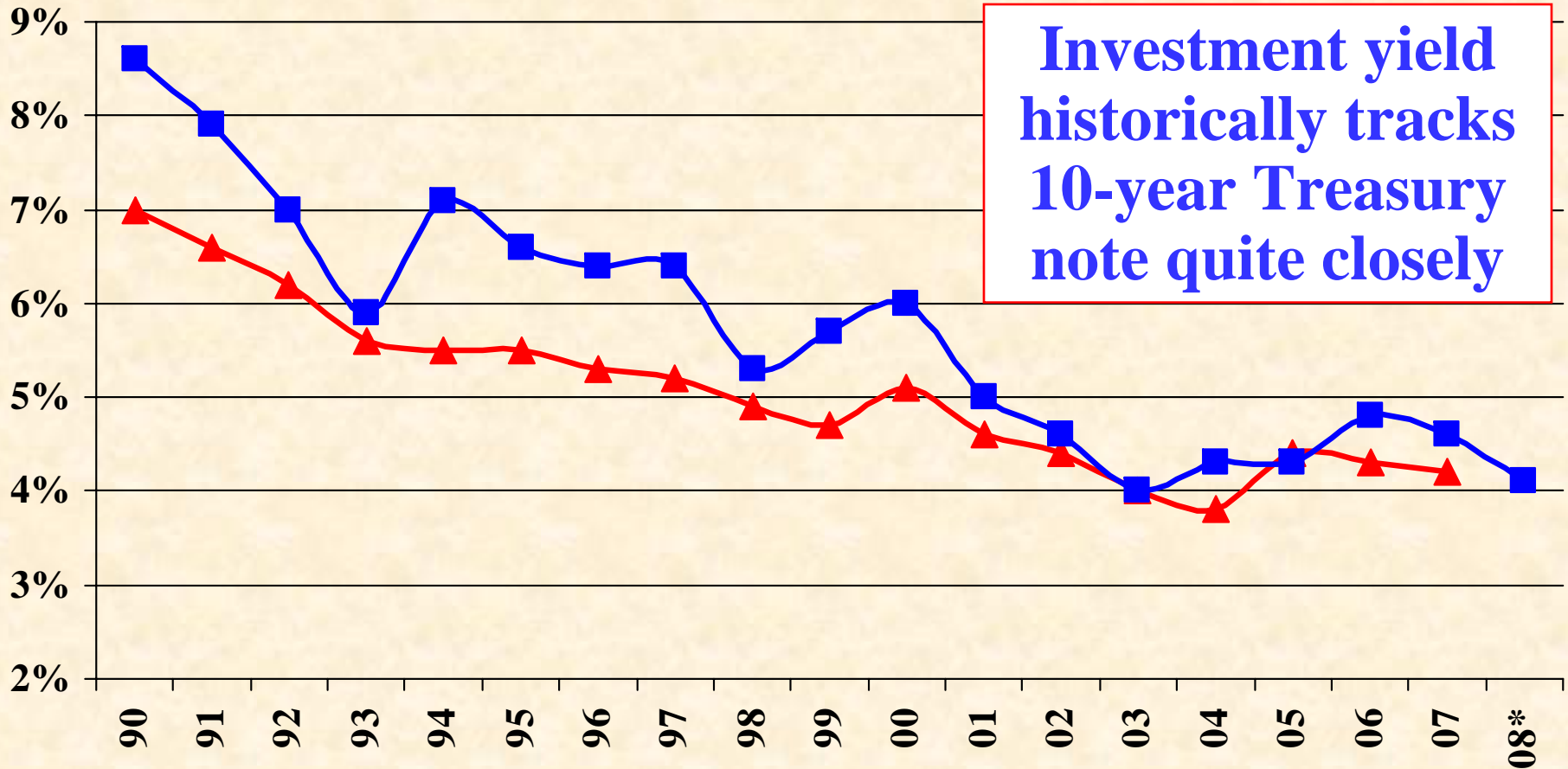
# Total Returns for Large Company Stocks: 1970-2008\*

**S&P 500 was up 3.53% in 2007, but down 14.5% so far in 2008\***



# *P/C Investment Income as a % of Invested Assets Follows 10-Year US T-Note*

▲ P-C Inv Income/Inv Assets ■ 10-Year Treasury Note



\*As of July 2008.

Sources: Board of Governors, Federal Reserve System; A.M.Best; Insurance Information Institute.

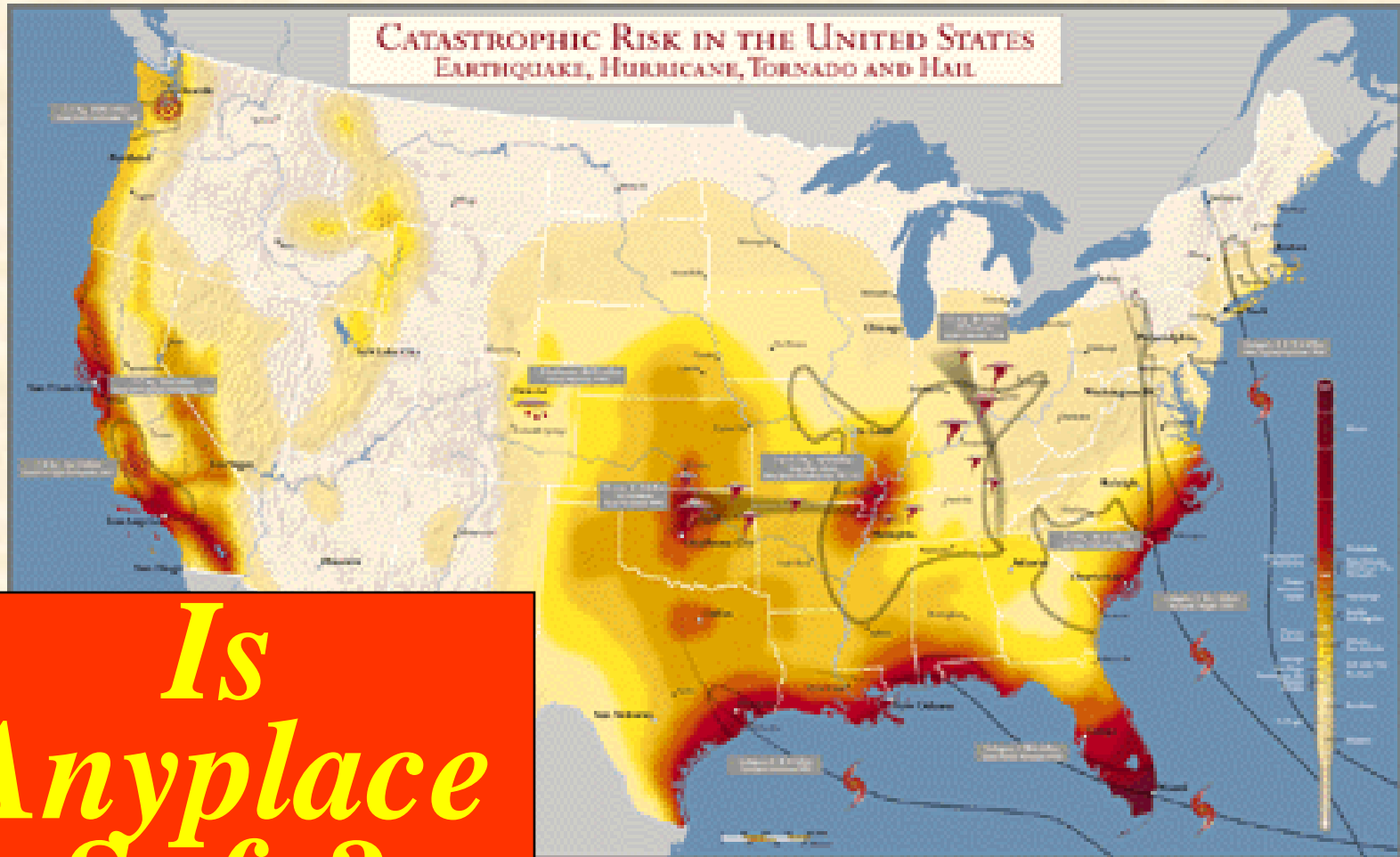
# CATASTROPHIC LOSS

**This is (One Reason)  
Why You Buy  
Reinsurance**





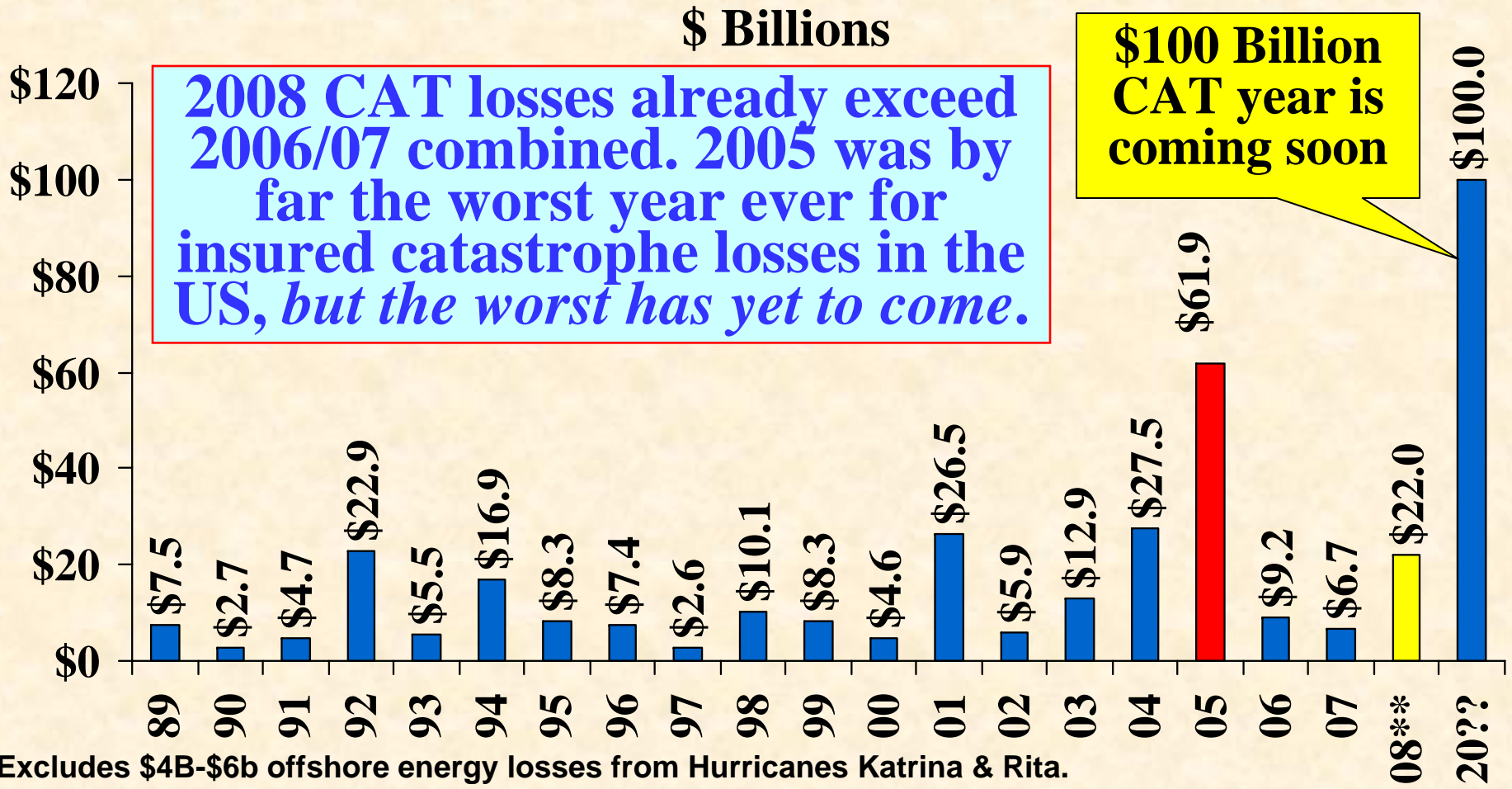
# *Most of US Population & Property Has Major CAT Exposure*



*Is  
Anyplace  
Safe?*



# U.S. Insured Catastrophe Losses\*



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

\*\*Based on preliminary PCS data through June 30. PCS \$1.8B loss of for Gustav. \$9.8B for Ike of 9/22.

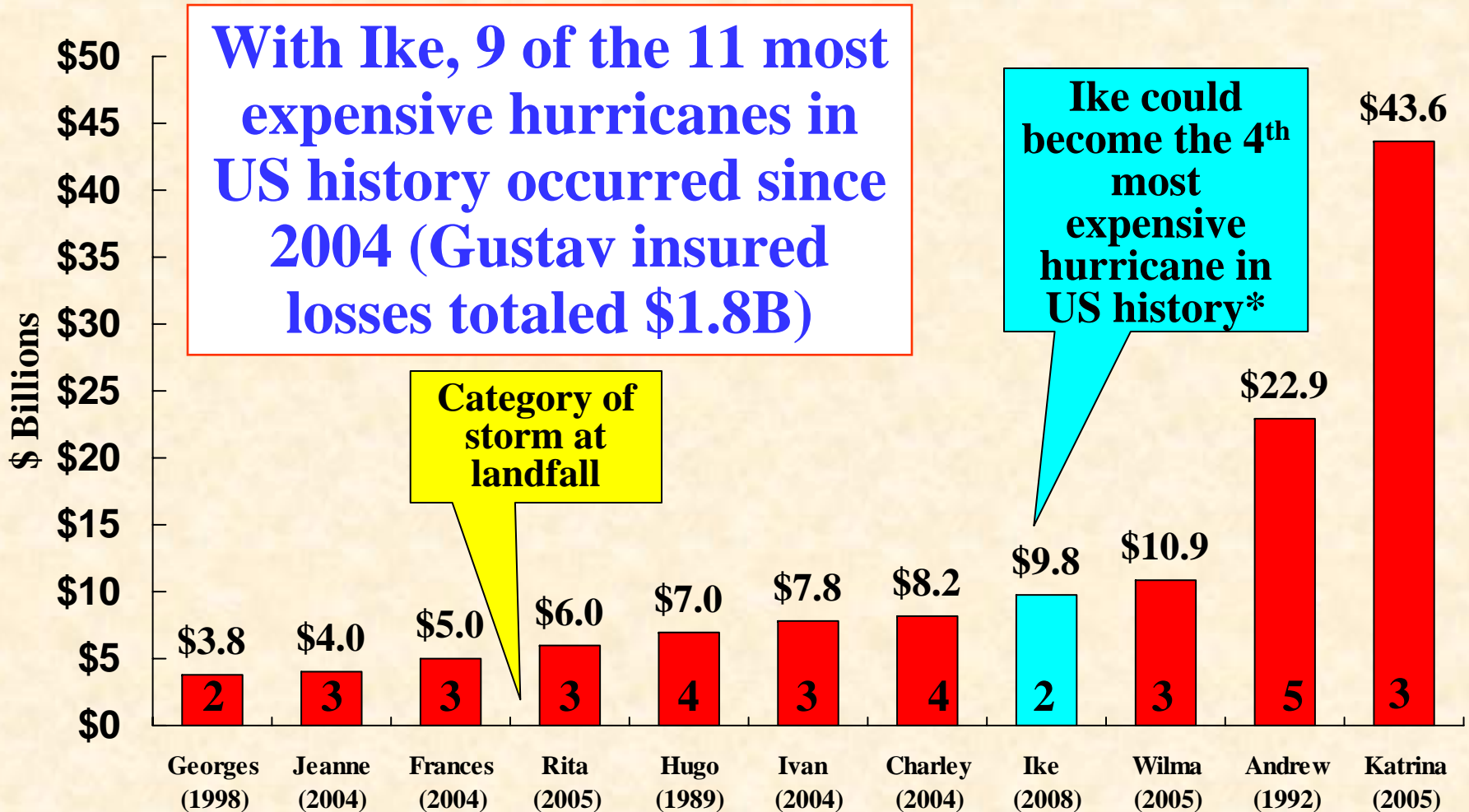
Note: 2001 figure includes \$20.3B for 9/11 losses reported through 12/31/01. Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = \$12.2B.

Source: Property Claims Service/ISO; Insurance Information Institute





# Top 12 Most Costly Hurricanes in US History, (Insured Losses, \$2007)



With Ike, 9 of the 11 most expensive hurricanes in US history occurred since 2004 (Gustav insured losses totaled \$1.8B)

Ike could become the 4<sup>th</sup> most expensive hurricane in US history\*

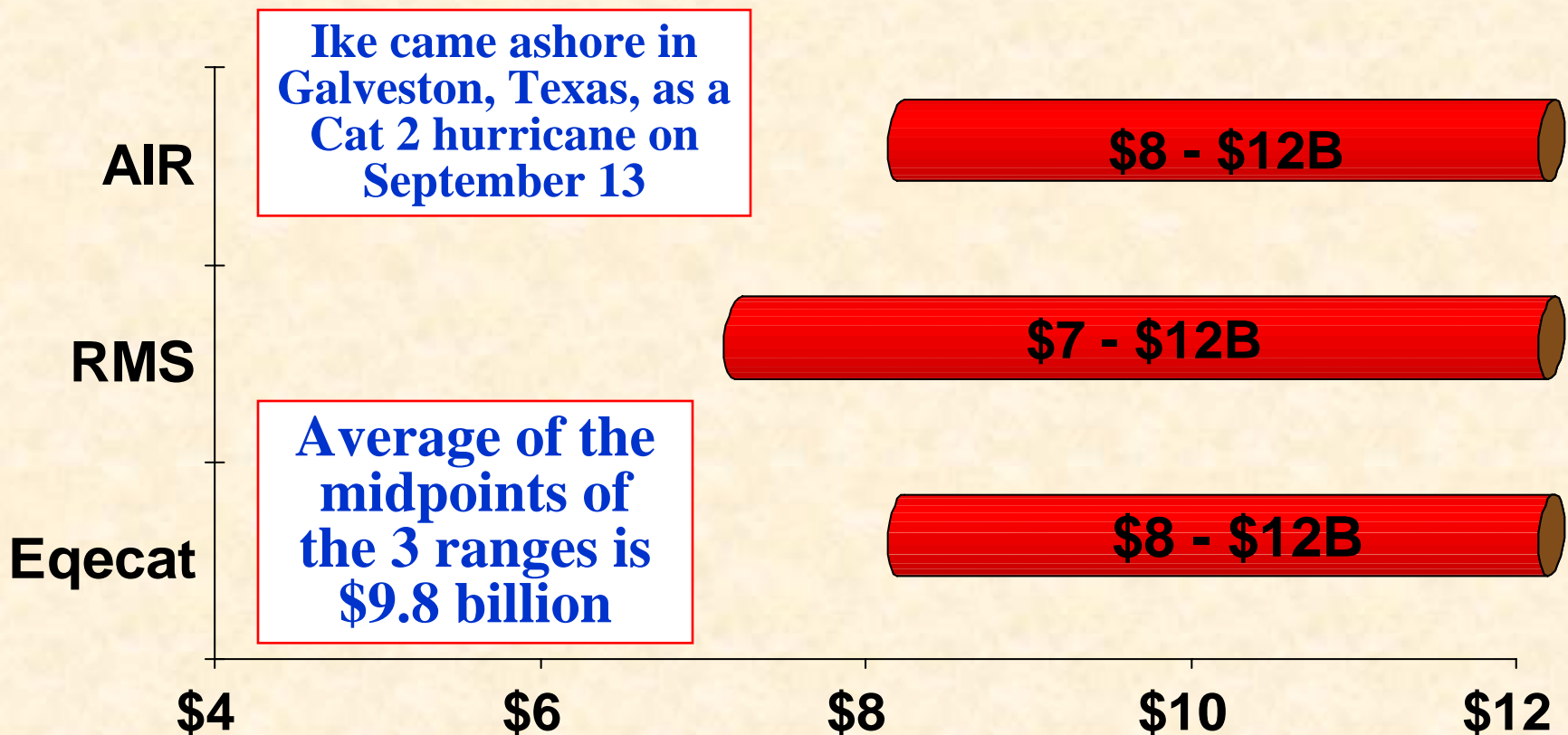
Category of storm at landfall

\*Based on average of midpoints of range estimates from risk modelers AIR, RMS and Egecat as of 9/15/08. Sources: ISO/PCS; AIR Worldwide, RMS, Egecat; Insurance Information Institute inflation adjustments.



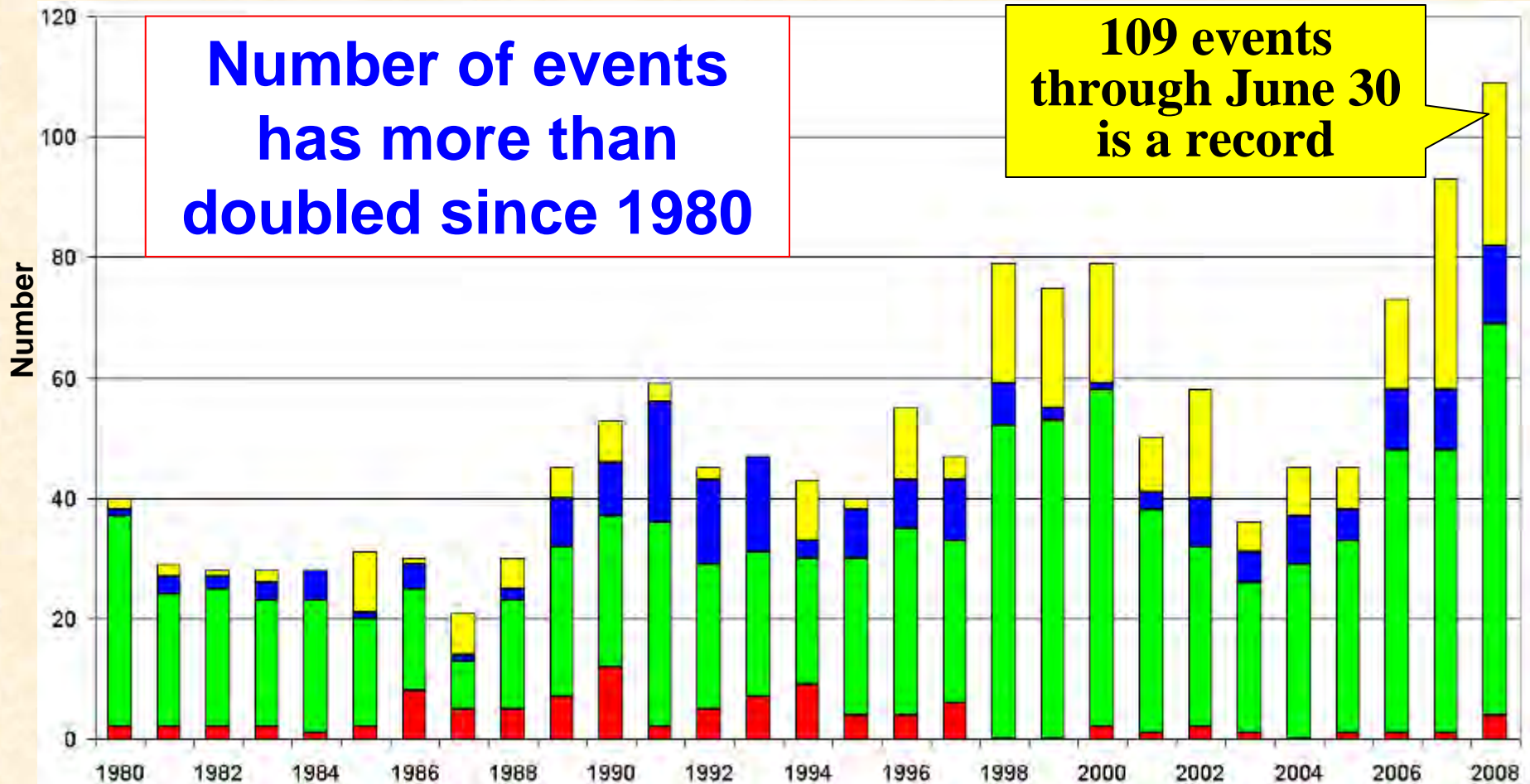
# *Hurricane Ike Initial Insured Loss Estimates*

(Billions of \$, as of September 19, 2008)





# Natural Disasters in the United States, 1980-2008 (Jan – June Totals)



**Geophysical**  
(earthquake, tsunami,  
volcanic activity)

**Meteorological (storm)**

**Hydrological**  
(flood, mass movement)

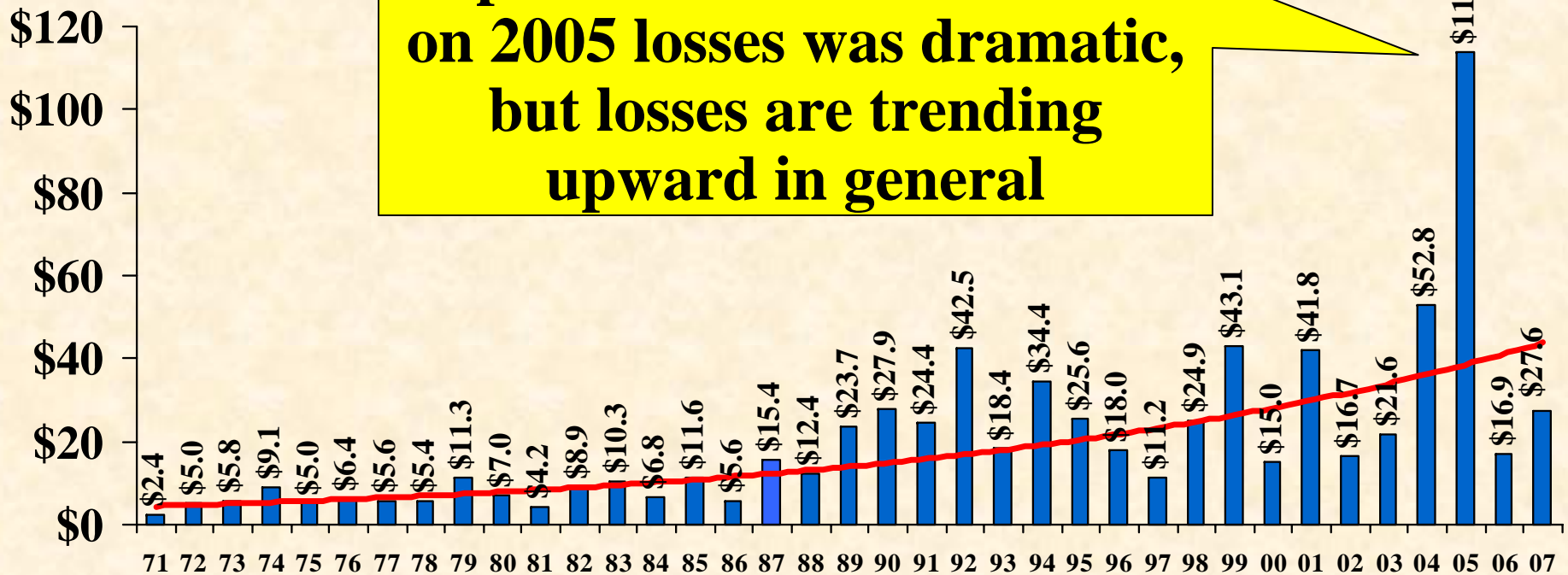
**Climatological**  
(temperature extremes,  
drought, wildfire)



# Global Insured Catastrophe Losses 1970-2007 (\$ 2007)

\$ Billions

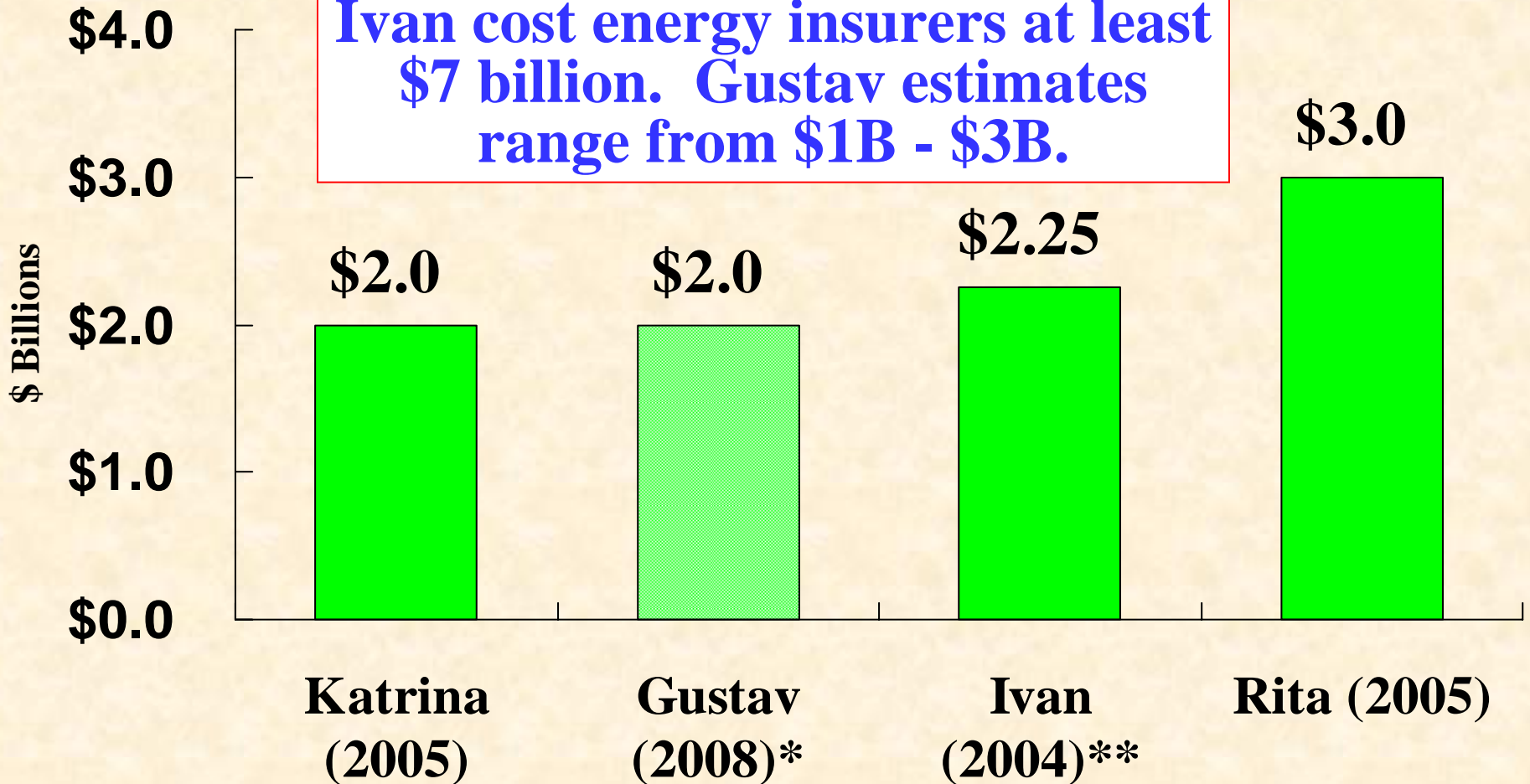
**Impact of Hurricane Katrina  
on 2005 losses was dramatic,  
but losses are trending  
upward in general**





# *Insured Offshore Energy Losses for Recent Major Gulf Storms*

**Hurricanes Katrina, Rita and Ivan cost energy insurers at least \$7 billion. Gustav estimates range from \$1B - \$3B.**

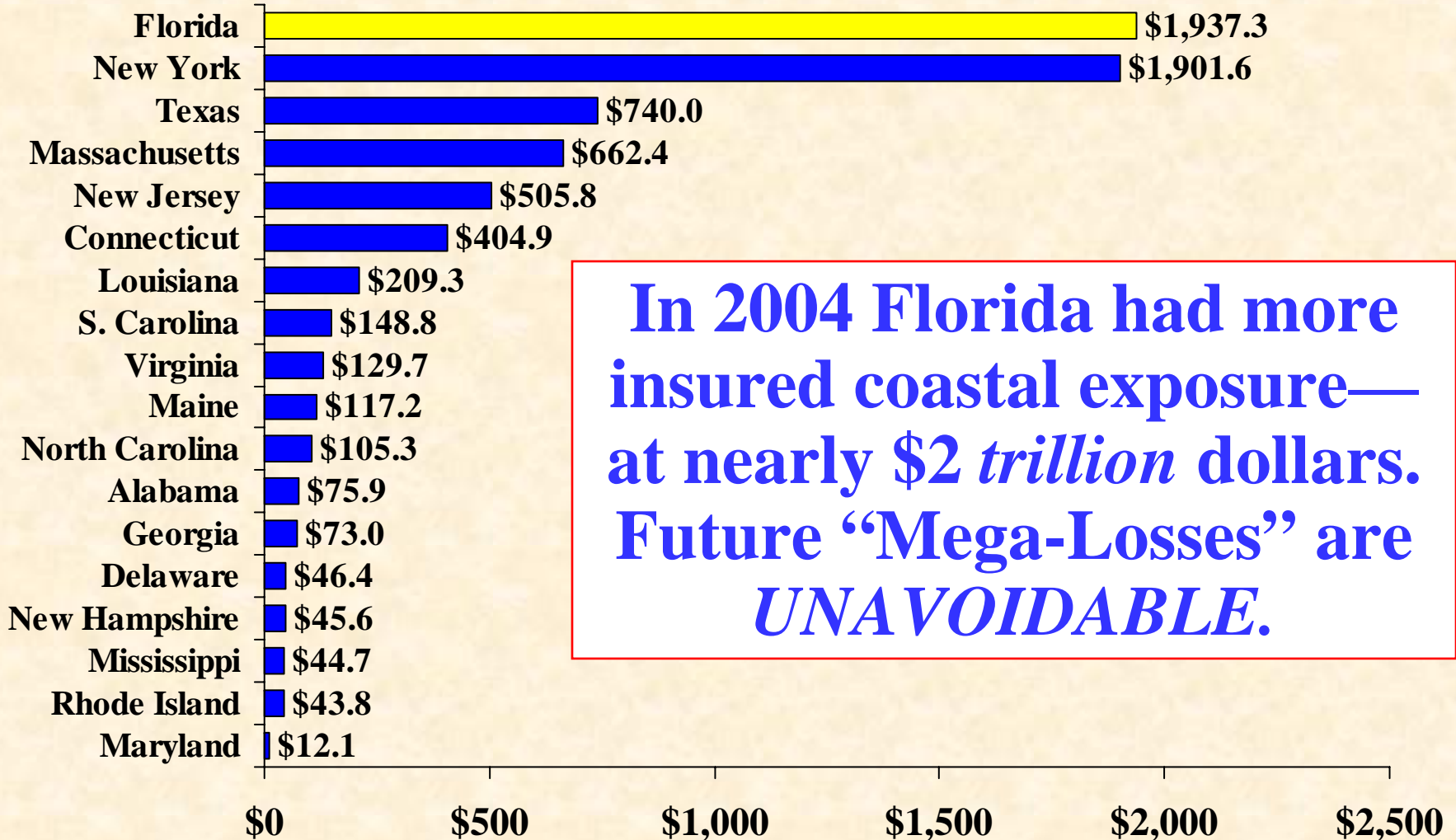


\*Midpoint of RMS estimated range of \$1.0 to \$3.0 billion as of 9/1/08; \*\*Midpoint of range of \$2.0 to \$2.5 billion)  
Sources: Insurance Information Institute research estimates.





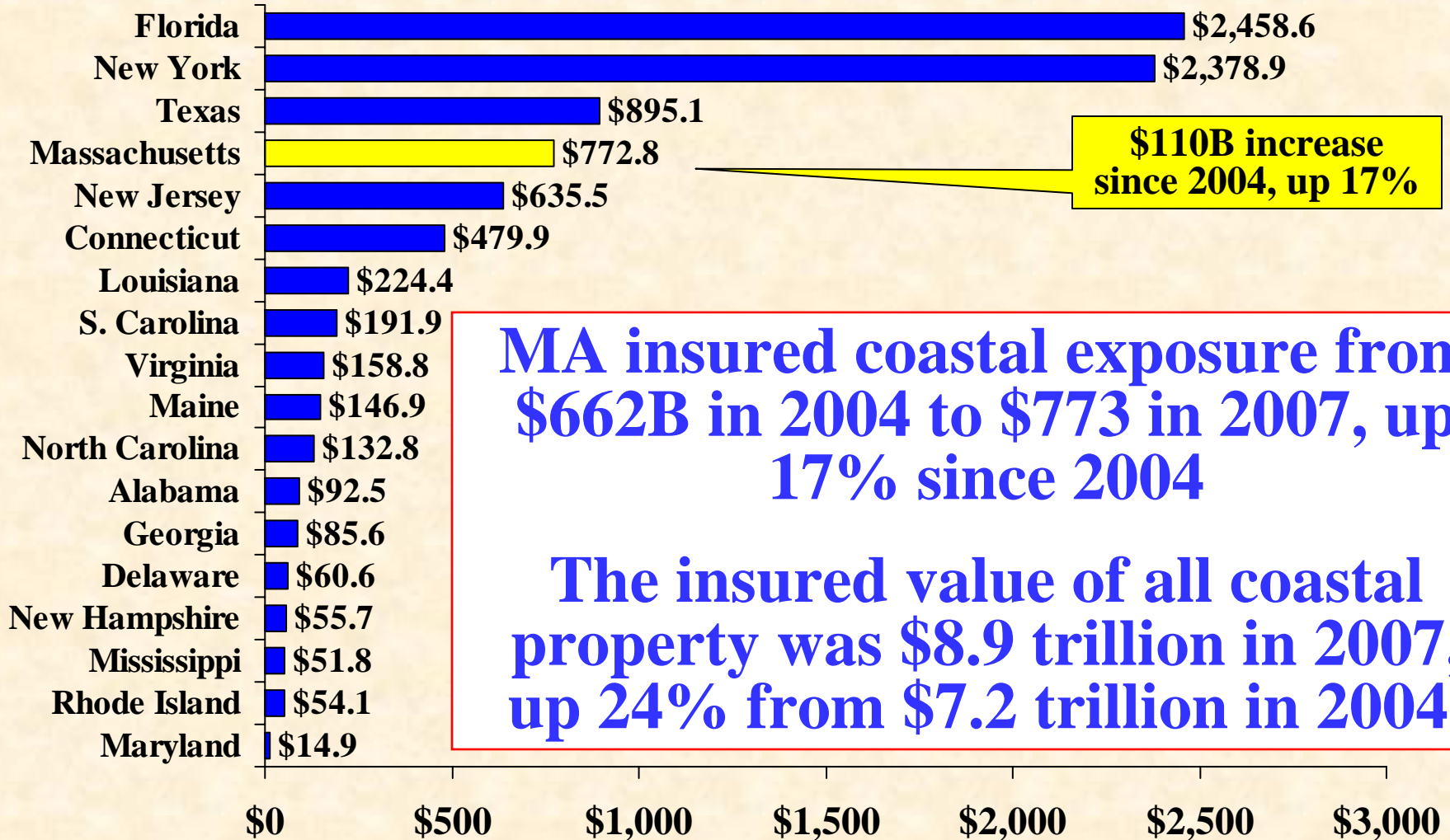
# Total Value of Insured Coastal Exposure (2004, \$ Billions)





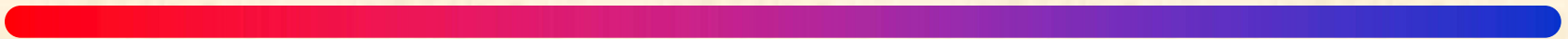


# Total Value of Insured Coastal Exposure (2007, \$ Billions)



# The 2008 Hurricane Season:

*Preview to Disaster?*





# *Outlook for 2008 Hurricane*

## *Season: 90% Worse Than Average*

	Average*	2005	2008F
Named Storms	9.6	28	17
Named Storm Days	49.1	115.5	90
Hurricanes	5.9	14	9
Hurricane Days	24.5	47.5	45
Intense Hurricanes	2.3	7	5
Intense Hurricane Days	5	7	11
Accumulated Cyclone Energy	96.2	NA	175
Net Tropical Cyclone Activity	100%	275%	<b>190%</b>

\*Average over the period 1950-2000.

Source: Dr. Philip Klotzbach and Dr. William Gray, Colorado State University, August 5, 2008.



# *Landfall Probabilities for 2008 Hurricane Season: Above Average*

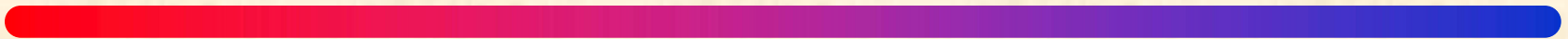
	Average*	2008F
Entire US East & Gulf Coasts	52%	67%
US East Coast Including Florida Peninsula	31%	43%
Gulf Coast from Florida Panhandle to Brownsville	30%	42%
Caribbean	NA	Above Average

\*Average over the past century.

Source: Dr. Philip Klotzbach and Dr. William Gray, Colorado State University, August 5, 2008.

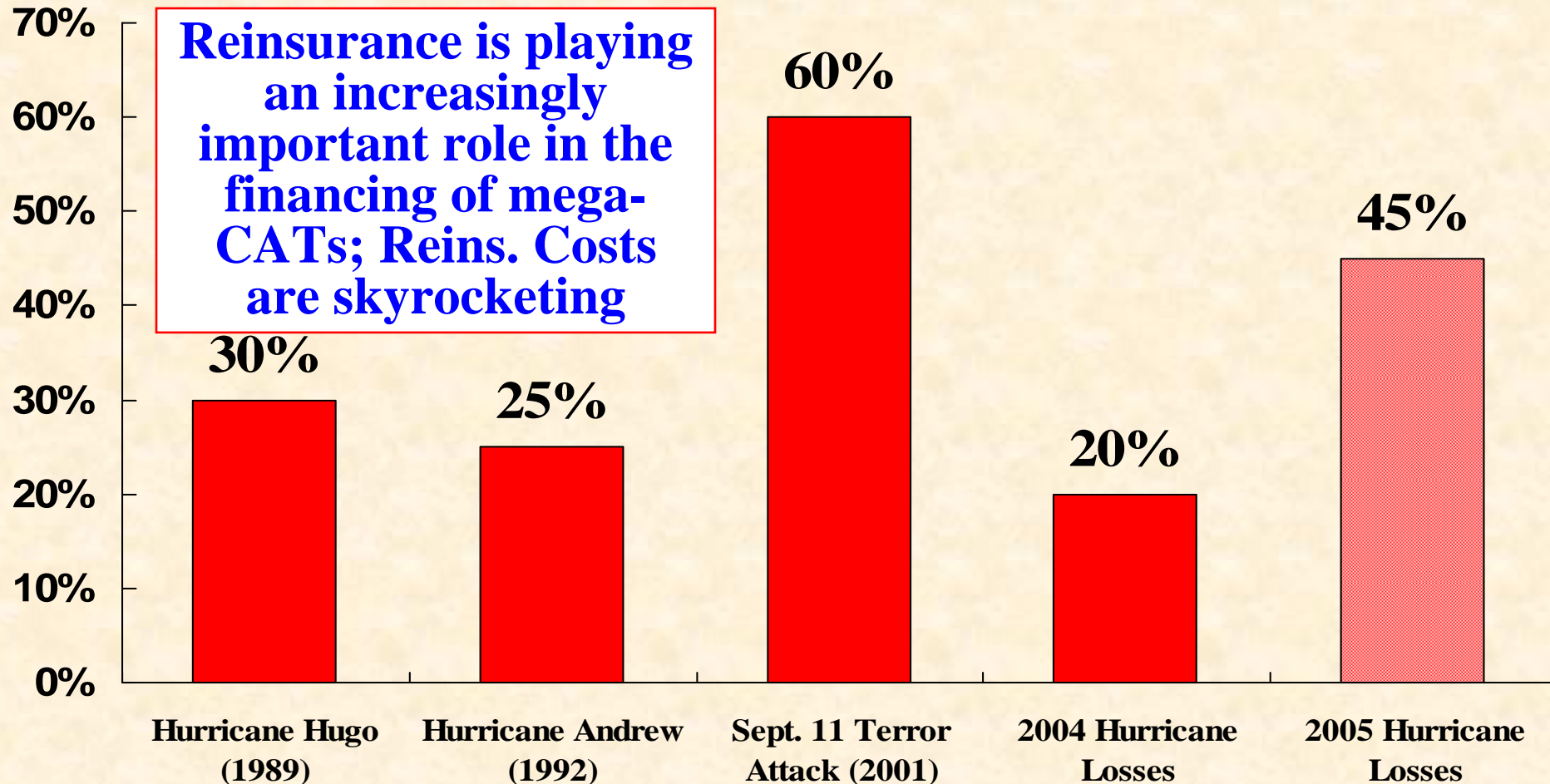
# REINSURANCE MARKETS

*Reinsurance Prices are  
Falling in Non-Coastal  
Zones, Casualty Lines*





# Share of Losses Paid by Reinsurers, by Disaster\*



\*Excludes losses paid by the Florida Hurricane Catastrophe Fund, a FL-only windstorm reinsurer, which was established in 1994 *after* Hurricane Andrew. FHCF payments to insurers are estimated at \$3.85 billion for 2004 and \$4.5 billion for 2005.

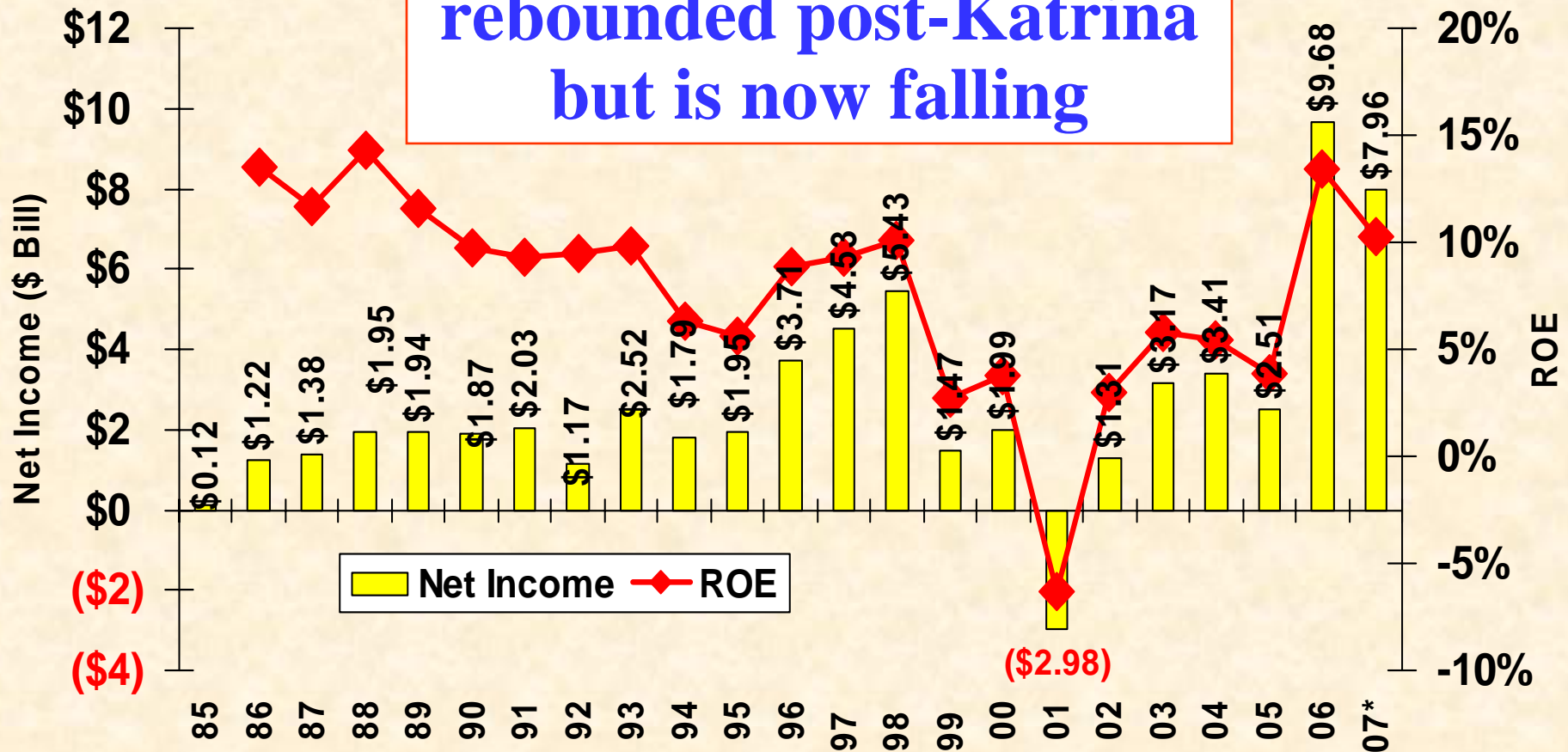
Sources: Wharton Risk Center, Disaster Insurance Project; Insurance Information Institute.





# US Reinsurer Net Income & ROE, 1985-2007\*

Reinsurer profitability rebounded post-Katrina but is now falling



Source: Reinsurance Association of America. \*2007 ROE figure is III estimate based return on average 2007 surplus.

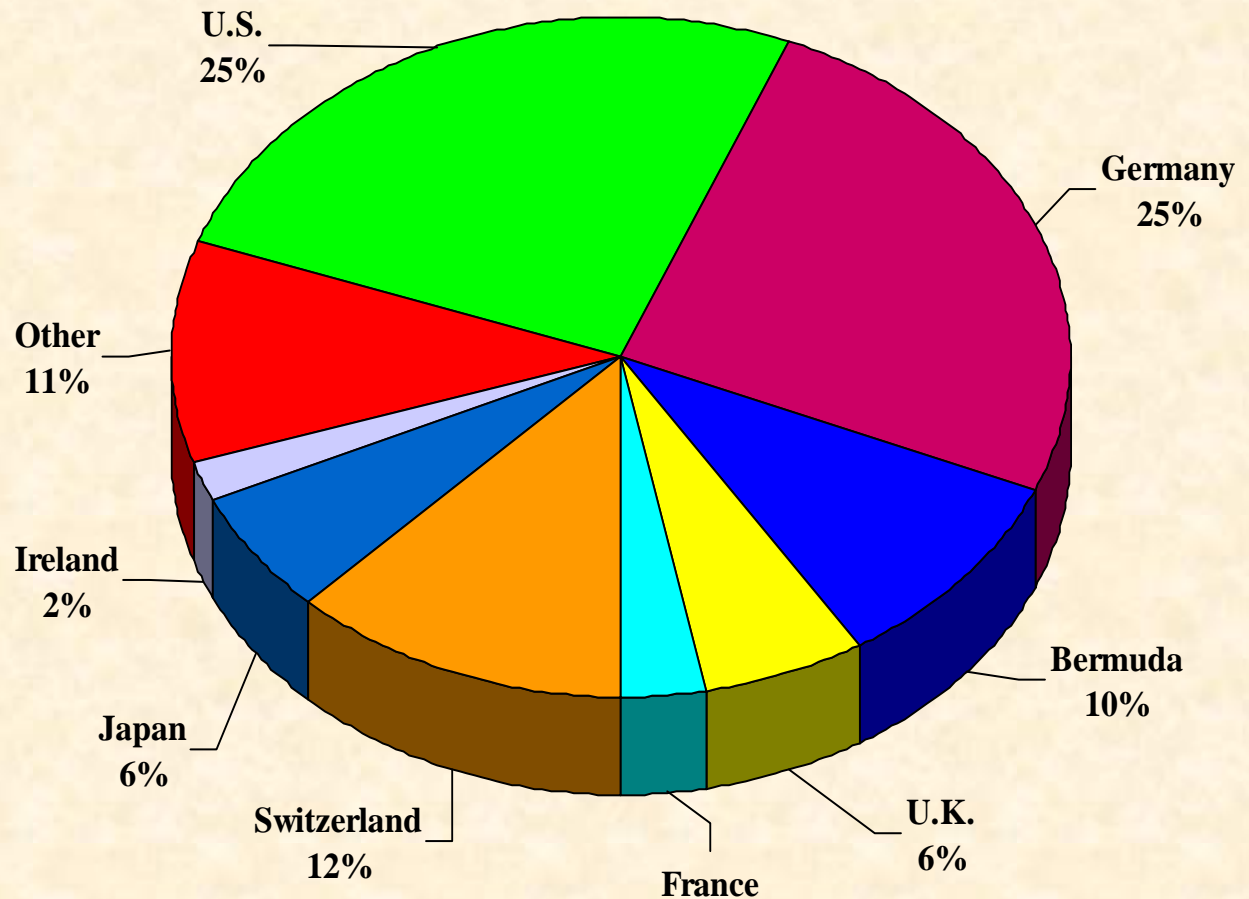


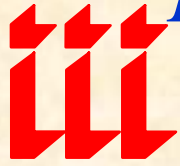
# Regional Distribution of Reinsurers by NWP, 2006

**Eight countries account for 89 percent of global reinsurance volume.**

International reinsurers from Germany, Switzerland and France account for 40 percent of global reinsurance volume.

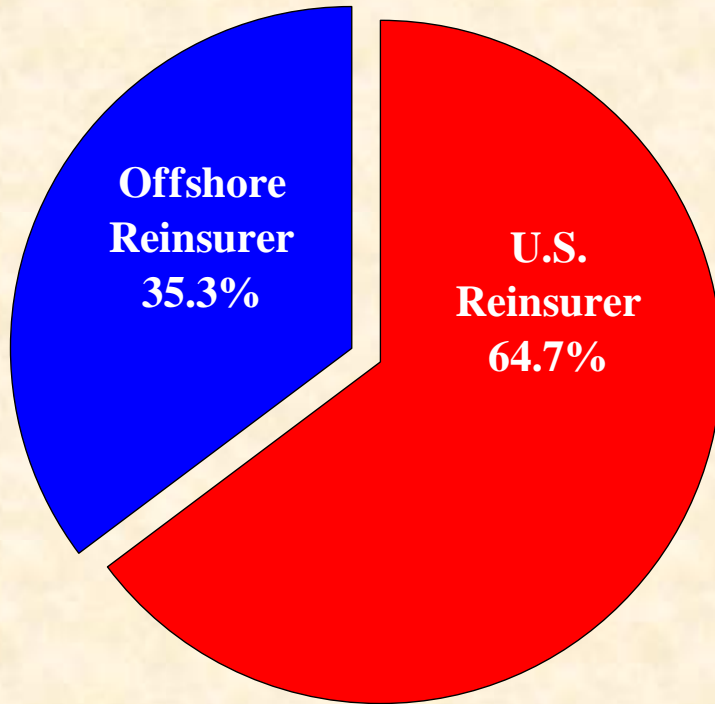
Bermuda is a growing market, with a 10 percent share. Lloyd's and London-based reinsurers account for 6 percent of the world market.



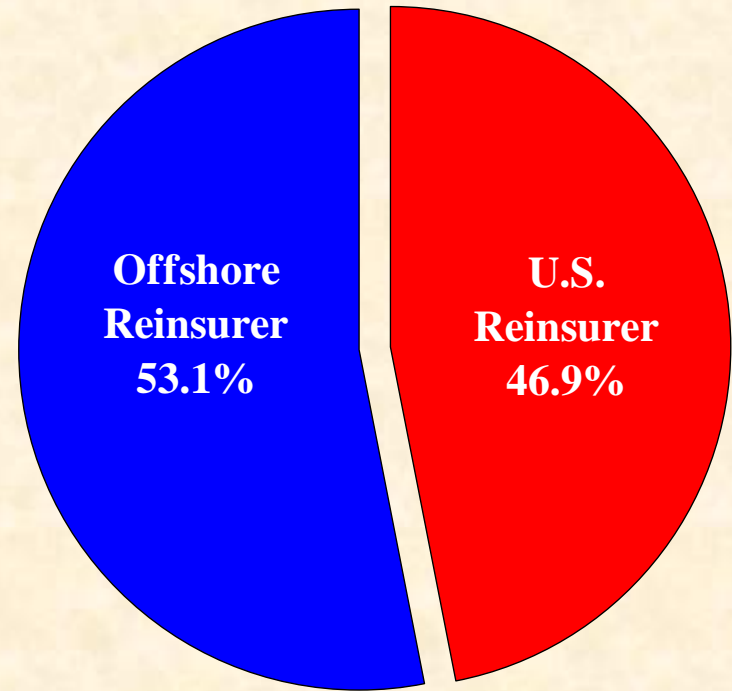


# Reinsurer Market Share Comparison: 1990 vs. 2006

**1990**



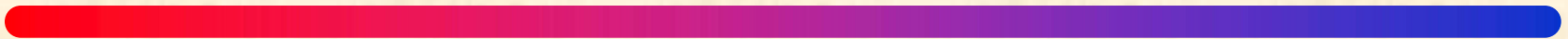
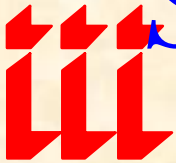
**2006**



**U.S. Reinsurer market share fell precipitously between 1990 and 2006**

# Shifting Legal Liability & Tort Environment

*Is the Tort Pendulum  
Swinging Against Insurers?*





# *Bad Year for Tort Kingpins\**



## “King of Class Actions” Bill Lerach

- Former partner in class action firm Milberg Weiss
- Admitted felon. Guilty of paying 3 plaintiffs \$11.4 million in 150+ cases over 25 years & lying about it repeatedly to courts
- Will serves 1-2 years in prison and forfeit \$7.75 million; \$250,000 fine



## “King of Torts” Dickie Scruggs

- Won billions in tobacco, asbestos and Katrina litigation
- Pleaded guilty for attempting to offer a judge \$40,000 bribe to resolve attorney fee allocation from Katrina litigation in his firm’s favor. His son/others → guilty on related charges
- Could get 5 years in prison, \$250,000 fine



# *Bad Year for Tort Kingpins\** *(Continued)*



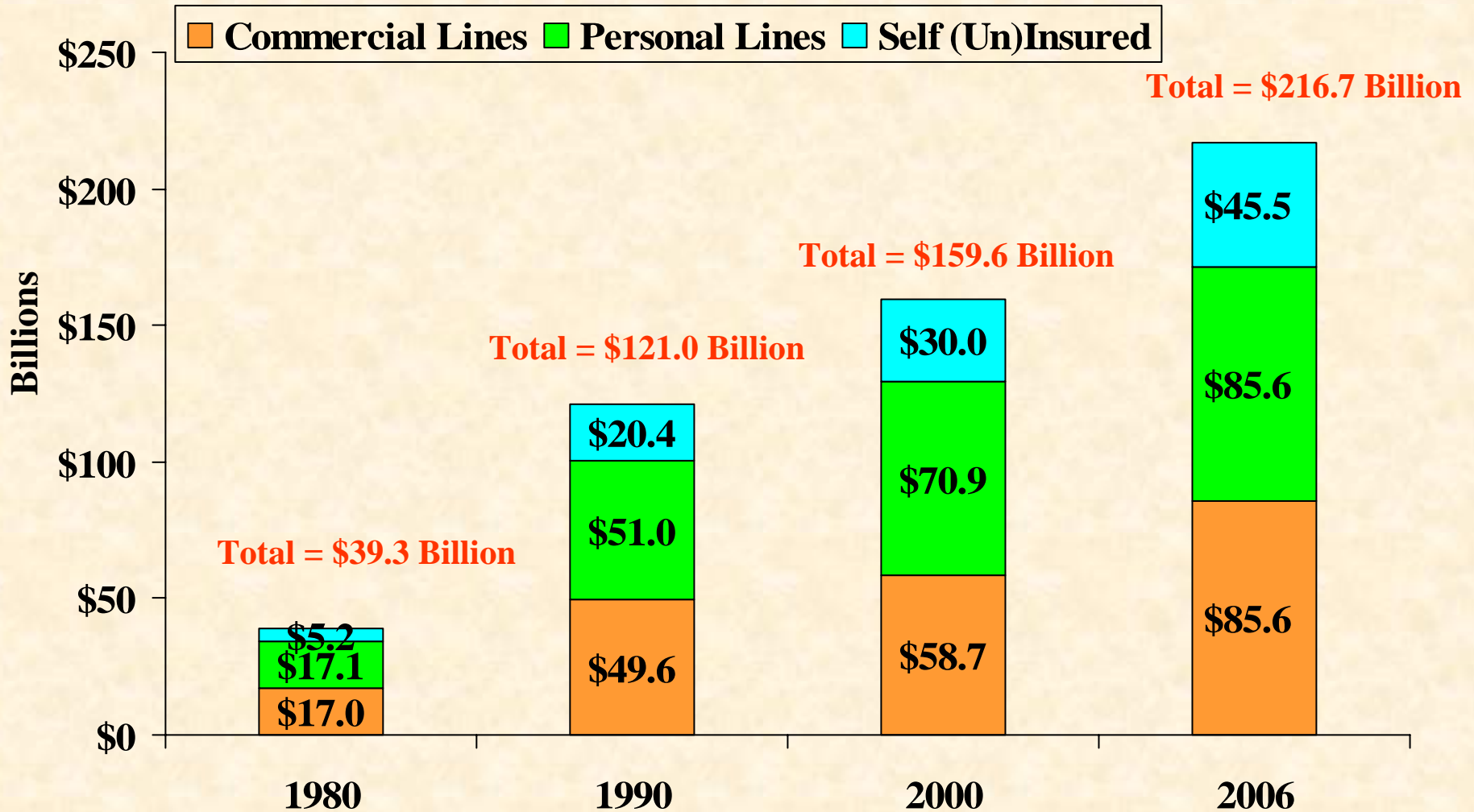
## **“King of Class Actions” Melvyn Weiss**

- **Former partner in class action firm Milberg Weiss; Earned \$251 million in legal fees**
- **Pled guilty to federal charges of racketeering and conspiracy for paying kickbacks to professional plaintiffs**
- **Sentenced to 30 months in prison, pay \$9.75 million in restitution; \$250,000 fine**





# Personal, Commercial & Self (Un) Insured Tort Costs\*



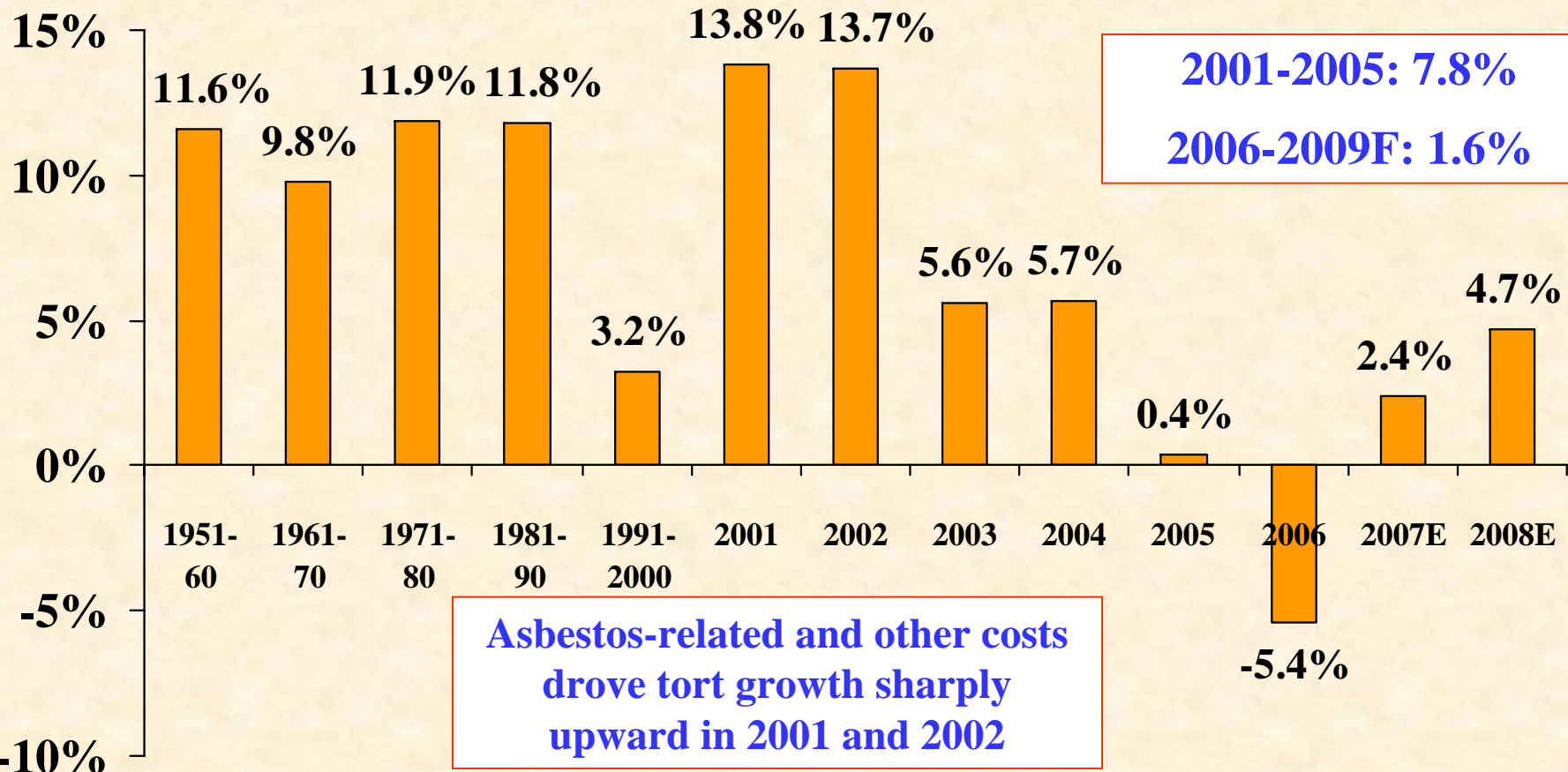
\*Excludes medical malpractice

Source: Tillinghast-Towers Perrin, 2007 Update on US Tort Cost Trends.



# Growth in Cost of U.S. Tort System, 1951-2009F

Tort costs moderated beginning in 2003 as many improvements in the tort system began to bear fruit

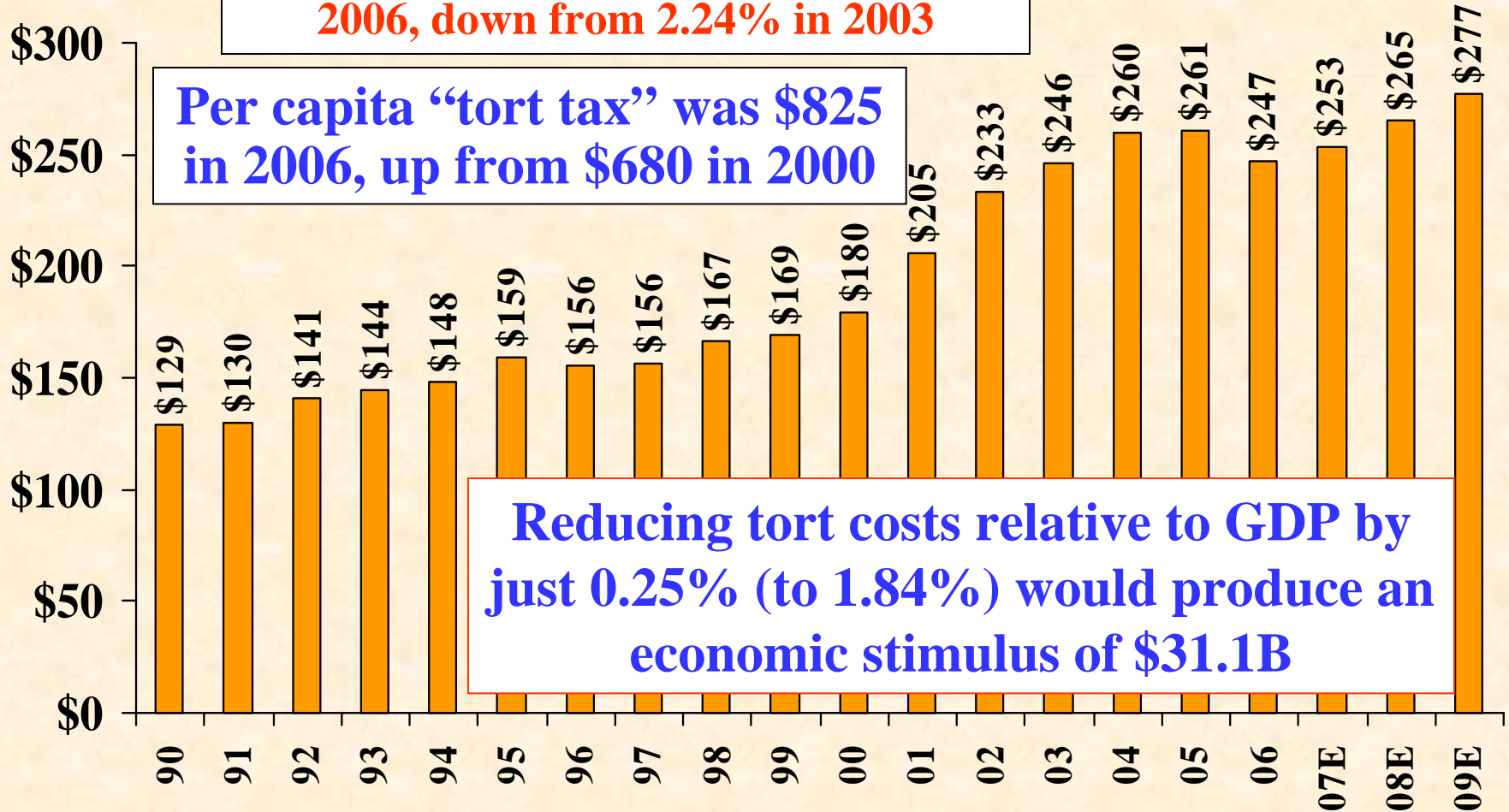




# Cost of US Tort System (\$ Billions)

**Tort costs consumed 1.87% of GDP in 2006, down from 2.24% in 2003**

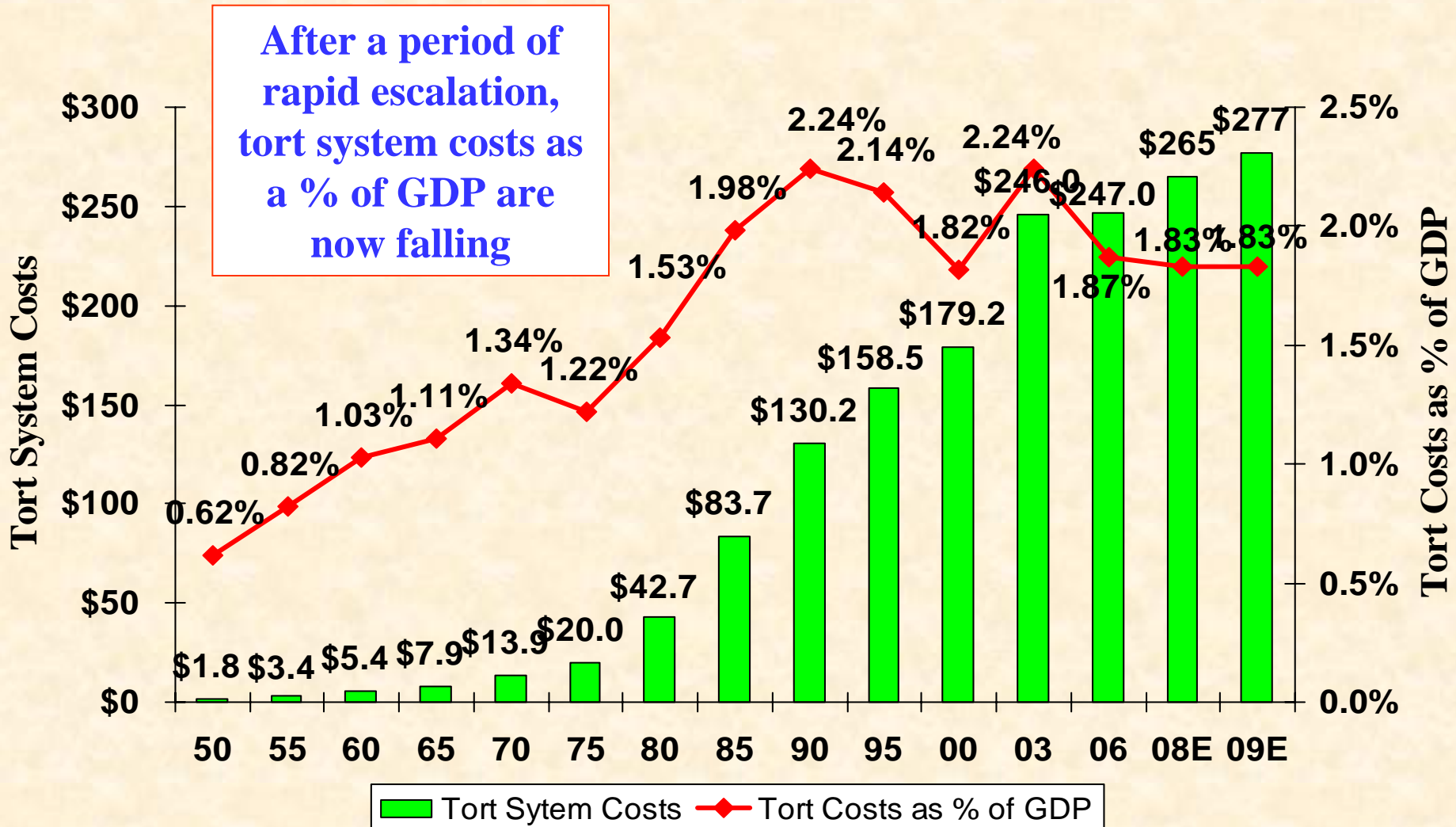
**Per capita “tort tax” was \$825 in 2006, up from \$680 in 2000**



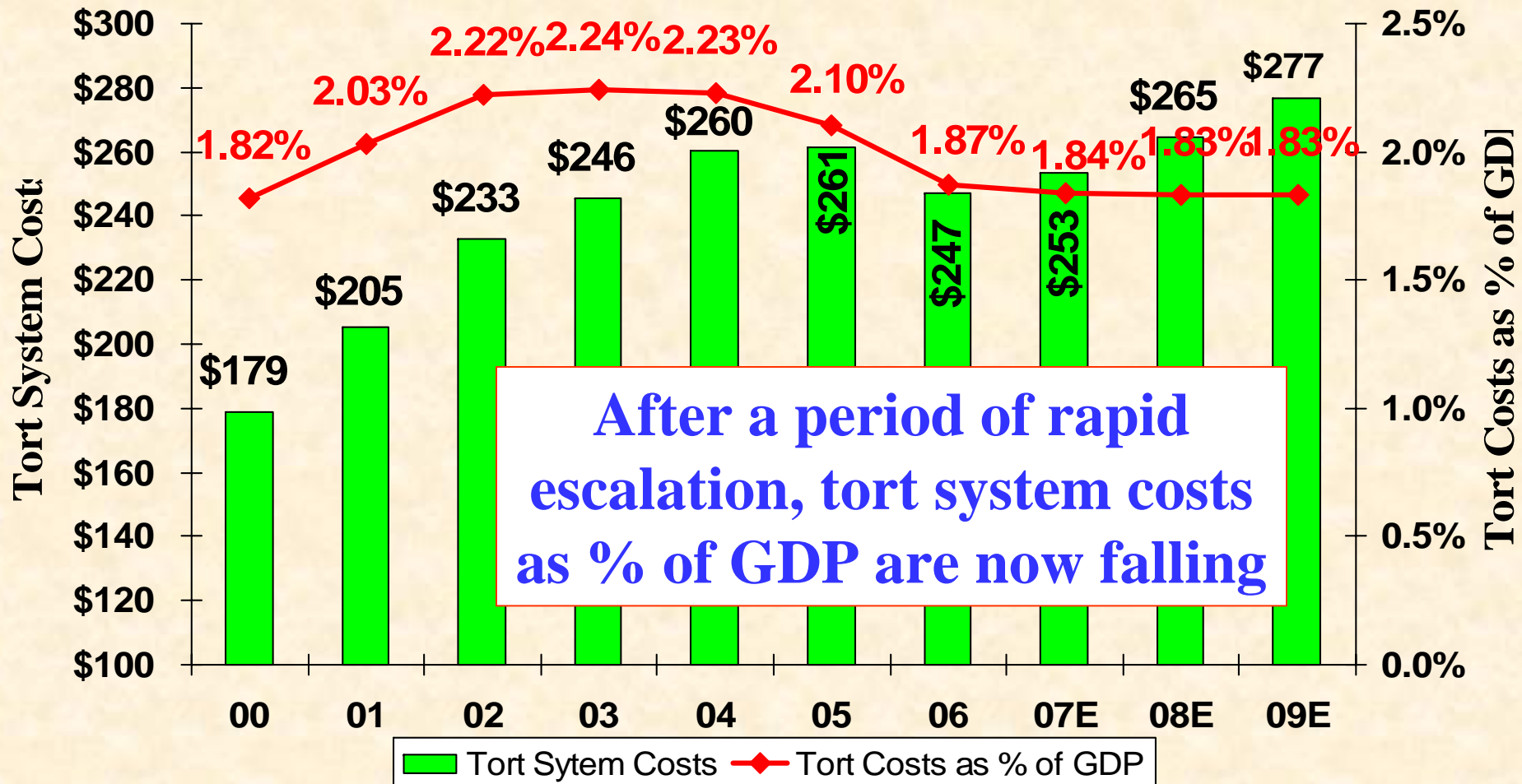
**Reducing tort costs relative to GDP by just 0.25% (to 1.84%) would produce an economic stimulus of \$31.1B**



# Tort System Costs, 1950-2009E

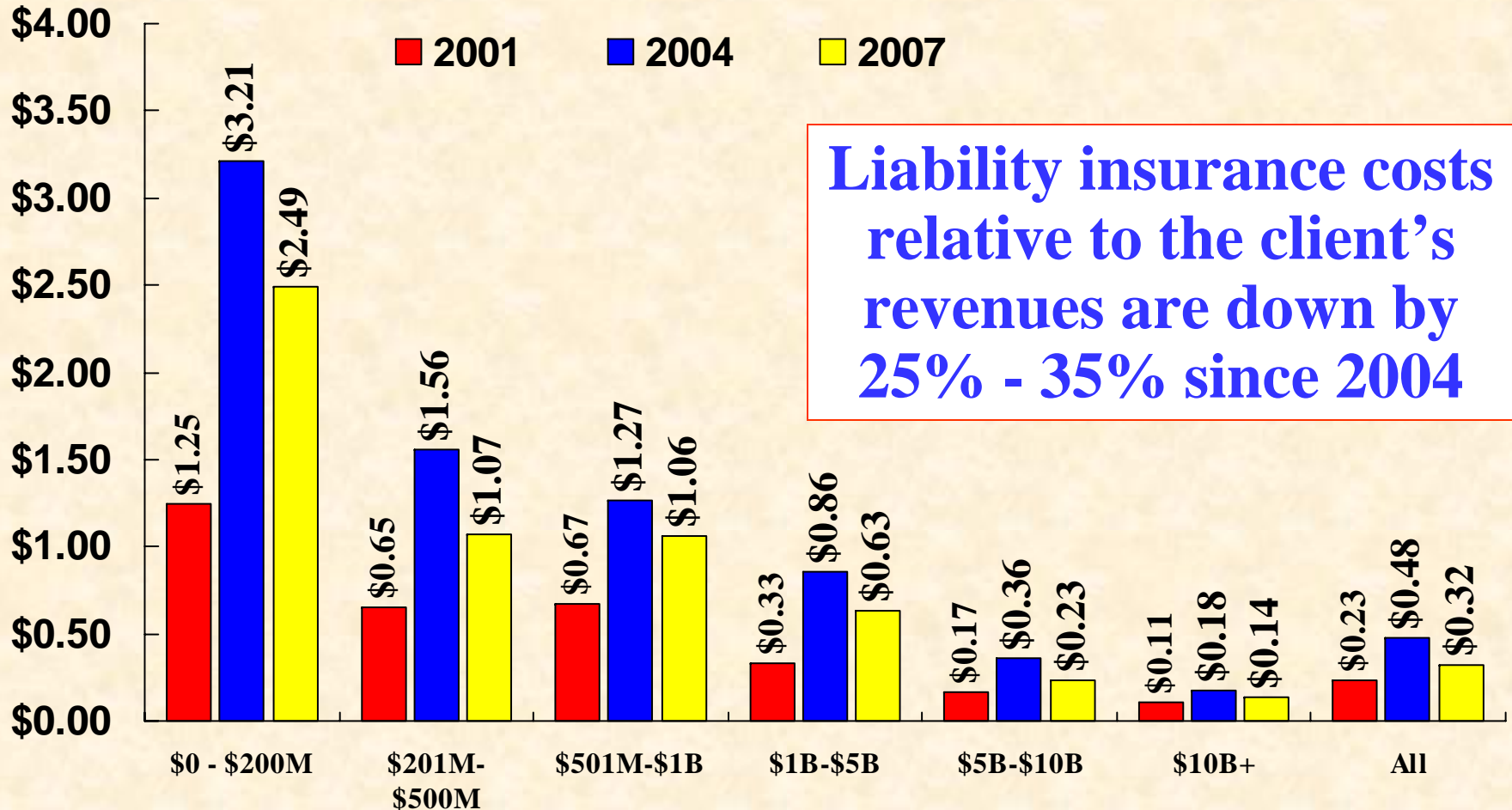


# Tort System Costs and Tort Costs as a Share of GDP, 2000-2009F



# Liability: Average Cost per \$1,000 of Revenue\*

## United States, 2001 to 2007



\*Across entire liability program (full population)

Source: Marsh, 2007 Limits of Liability Report





# The Nation's Judicial Hellholes (2007)

## Watch List

*Madison County, IL*

*St. Clair County, IL*

*Northern New Mexico*

*Hillsborough County, FL*

*Delaware*

*California*

## Dishonorable Mentions

*District of Columbia*

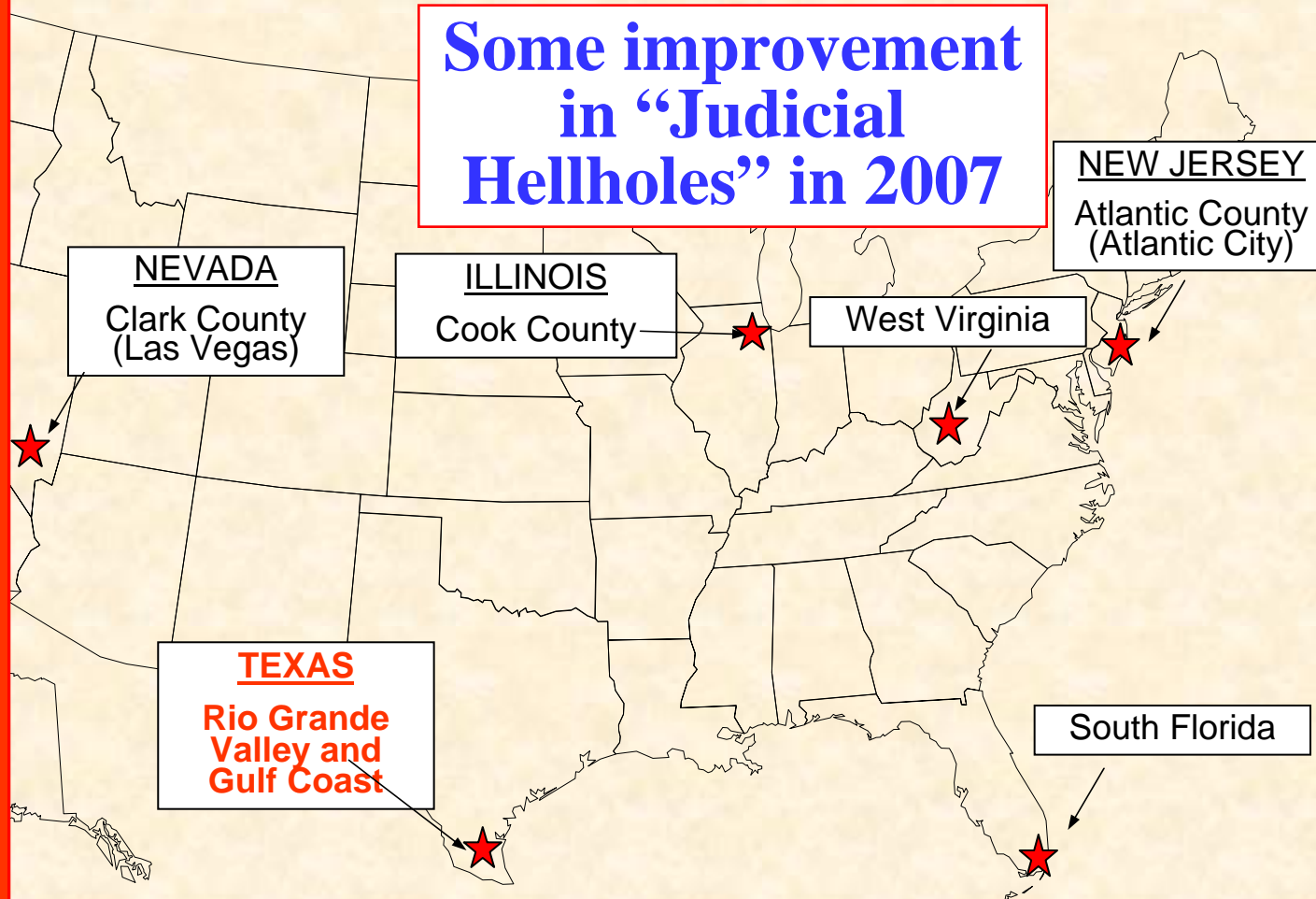
*MO Supreme Court*

*MI Legislature*

*GA Supreme Court*

*Oklahoma*

Some improvement  
in “Judicial  
Hellholes” in 2007





# *Business Leaders Ranking of Liability Systems for 2007*

## Best States

1. Delaware
2. Minnesota
3. Nebraska
4. Iowa
5. Maine
6. New Hampshire
7. Tennessee
8. Indiana
9. Utah
10. Wisconsin

## *New in 2007*

*ME, NH, TN,  
UT, WI*

## *Drop-Offs*

*ND, VA, SD,  
WY, ID*

*Midwest/West  
has mix of good  
and bad states*

## Worst States

41. Arkansas
42. Hawaii
43. Alaska
44. Texas
45. California
46. Illinois
47. Alabama
48. Louisiana
49. Mississippi
50. West Virginia

## *Newly Notorious*

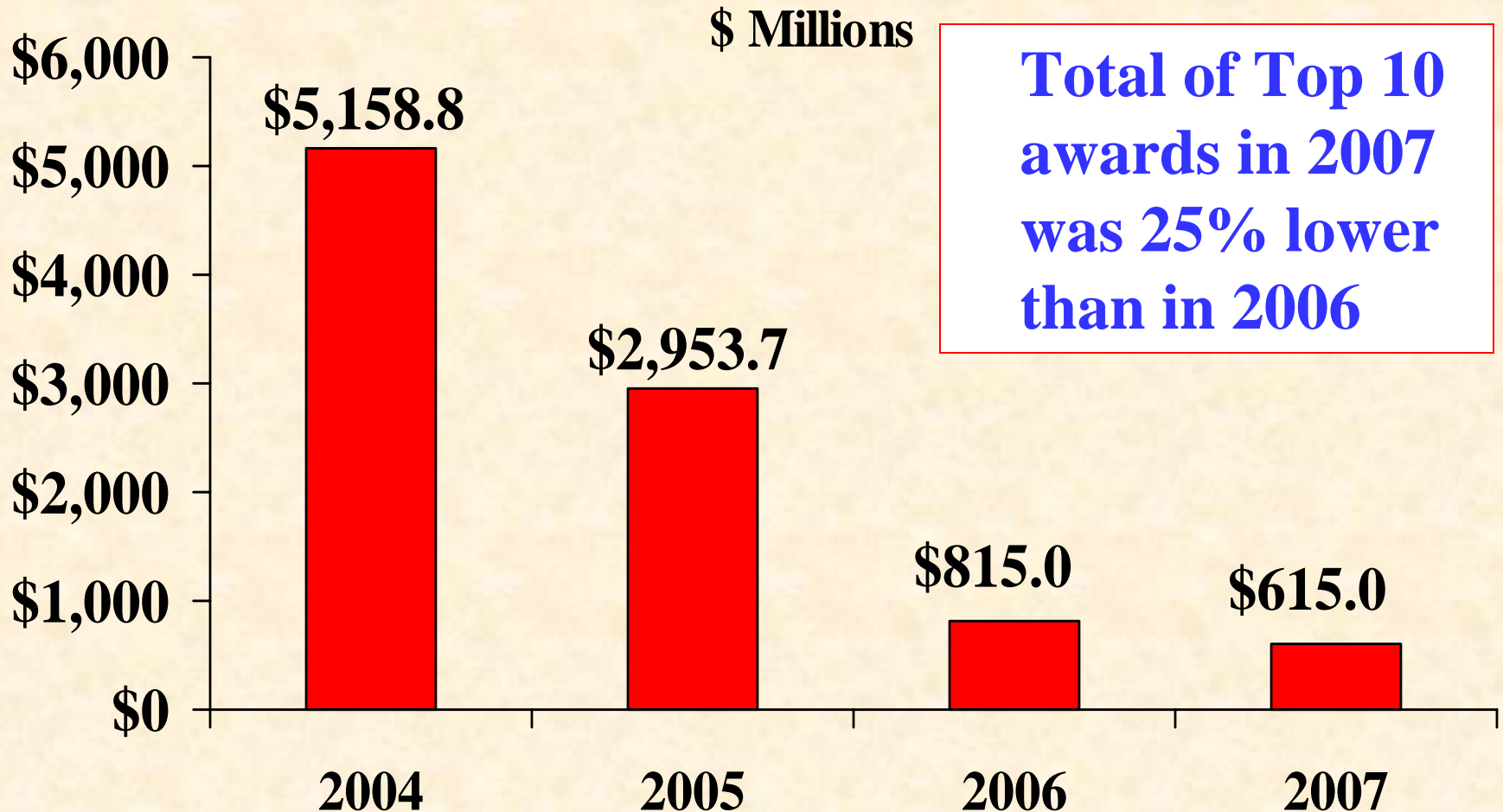
*AK*

*Rising  
Above*

*FL*

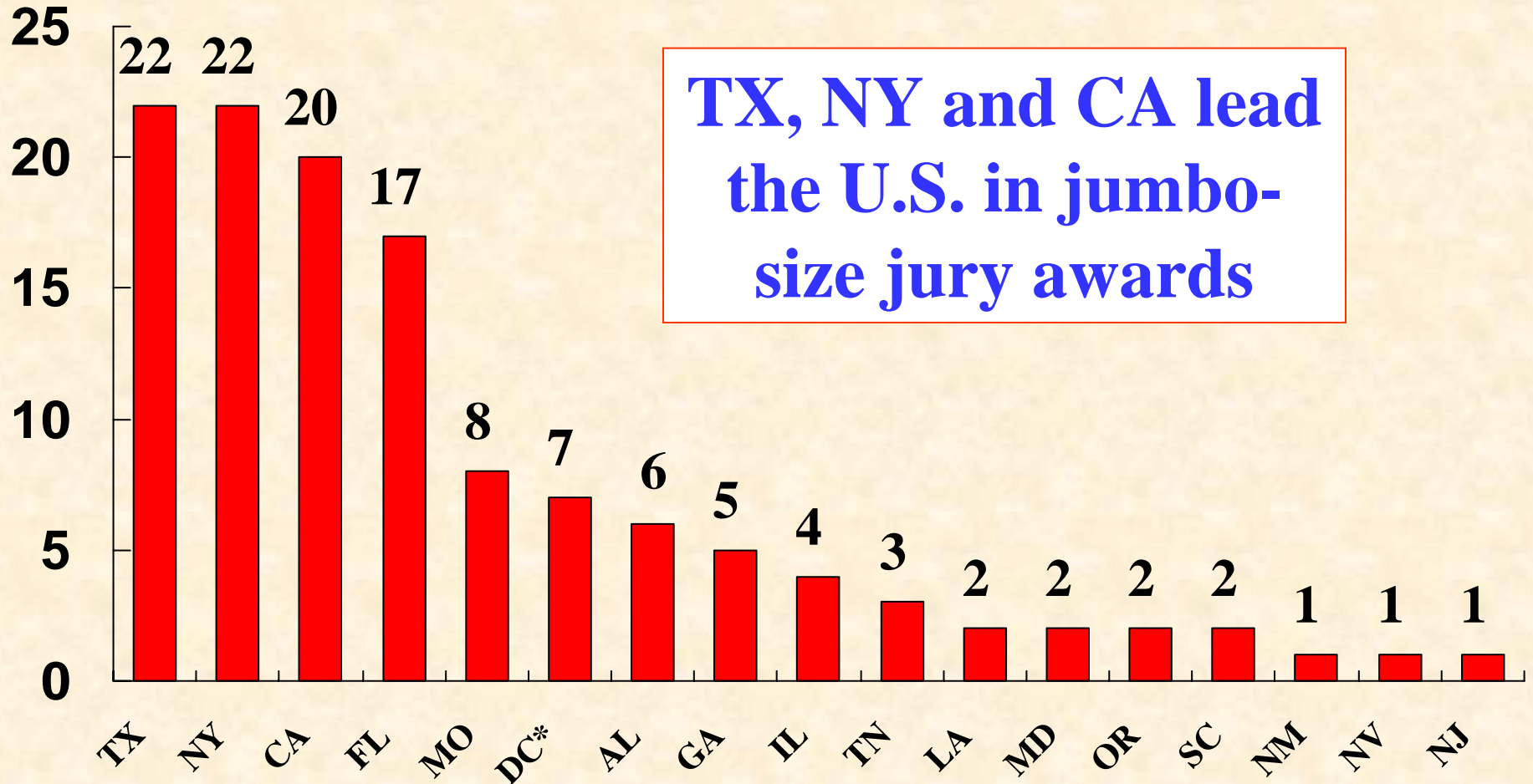


# *Sum of Top 10 Jury Awards, 2004-2007*





# Number of Top 10 Jury Awards, 1995 - 2007

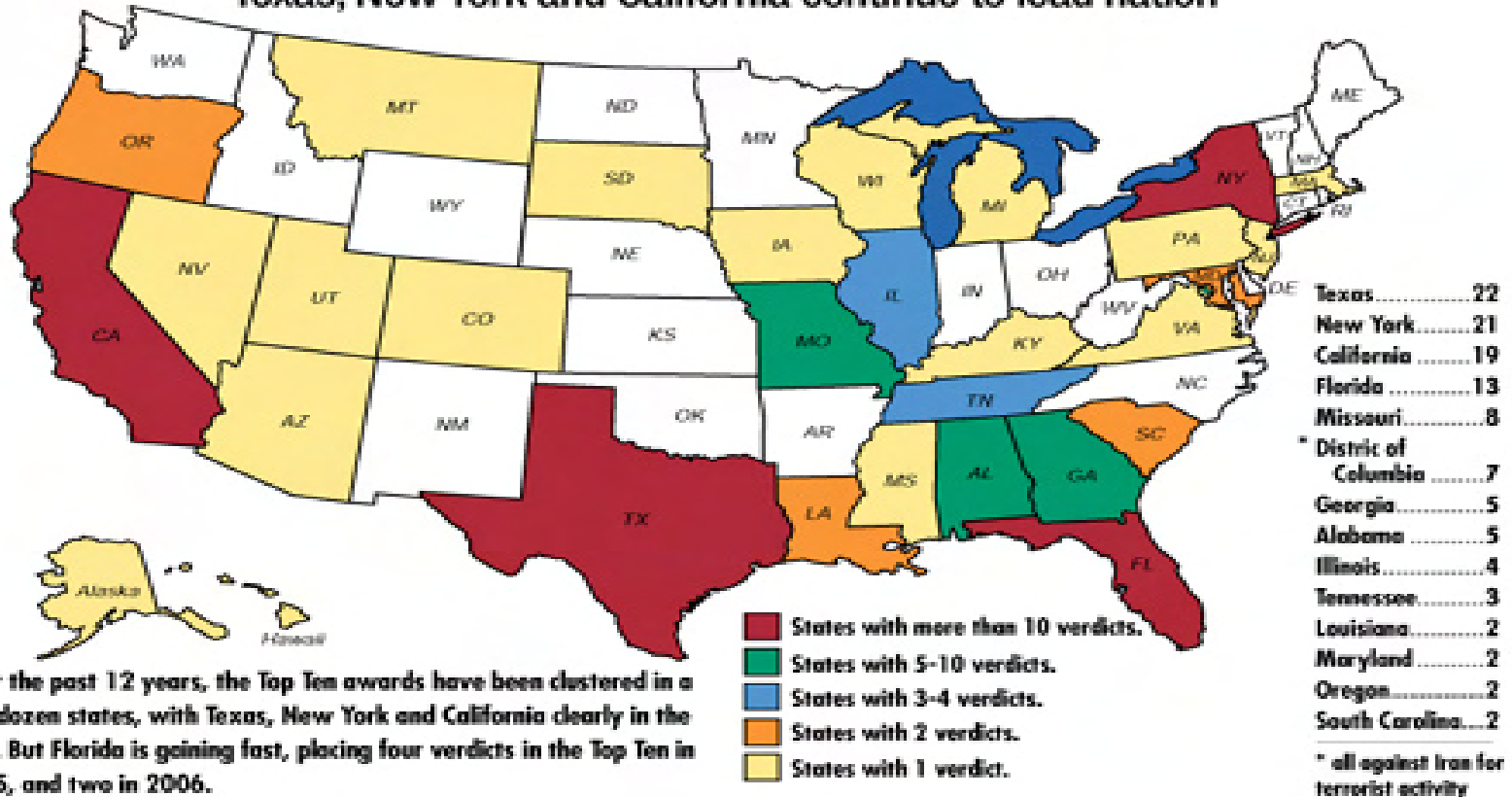




# Total Top 10 Verdicts, 1995 through 2006

## Top Ten verdicts since 1995

Texas, New York and California continue to lead nation





# *2007 Top Ten Verdicts*

<b>Value</b>	<b>Issue</b>	<b>State</b>
<b>\$109 Million</b>	<b>Medical Malpractice</b>	<b>New York</b>
<b>\$102.7 Million</b>	<b>Premises Liability, Death</b>	<b>Florida</b>
<b>\$55.2 Million</b>	<b>Product Liability, Death</b>	<b>California</b>
<b>\$54 Million</b>	<b>Private Air Crash</b>	<b>Florida</b>
<b>\$54 Million</b>	<b>Nursing Home, Death</b>	<b>New Mexico</b>
<b>\$50 Million</b>	<b>DUI Crash</b>	<b>Florida</b>
<b>\$50 Million</b>	<b>Product Liability, Death</b>	<b>Alabama</b>
<b>\$47.6 Million</b>	<b>Prempro</b>	<b>Nevada</b>
<b>\$47.5 Million</b>	<b>Vioxx</b>	<b>New Jersey</b>
<b>\$45 Million</b>	<b>Auto Crash, Death</b>	<b>Florida</b>

Source: LawyersWeekly USA, January 22, 2008.

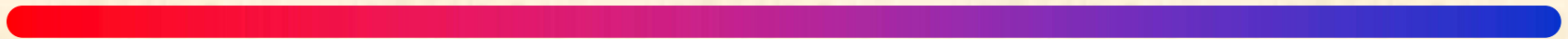


# REGULATORY & LEGISLATIVE ENVIRONMENT

*Isolated Improvements,*



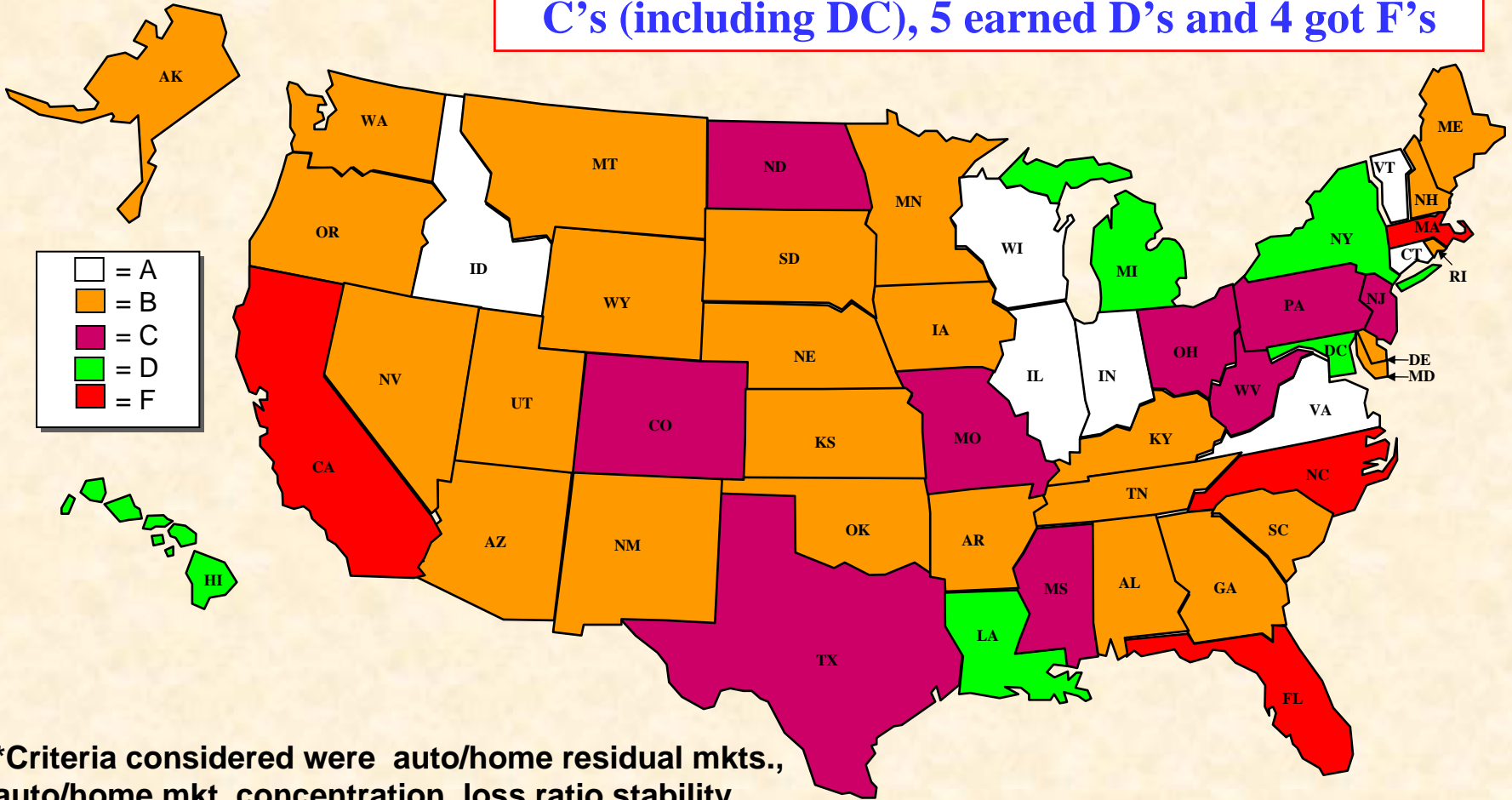
*Mounting Zealoutry*





# Rating of Auto/Home Insurance Regulatory & Operating Environment\*

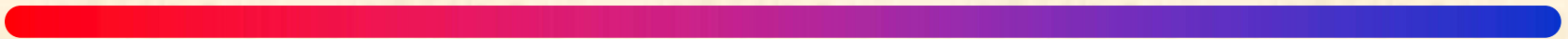
Most states (25) get a "B", but 7 got A's, 10 got C's (including DC), 5 earned D's and 4 got F's



\*Criteria considered were auto/home residual mkt.s., auto/home mkt. concentration, loss ratio stability, reg. env.,form regulation, credit scores, territorial restrictions

Source: James Madison Institute, Feb. 2008

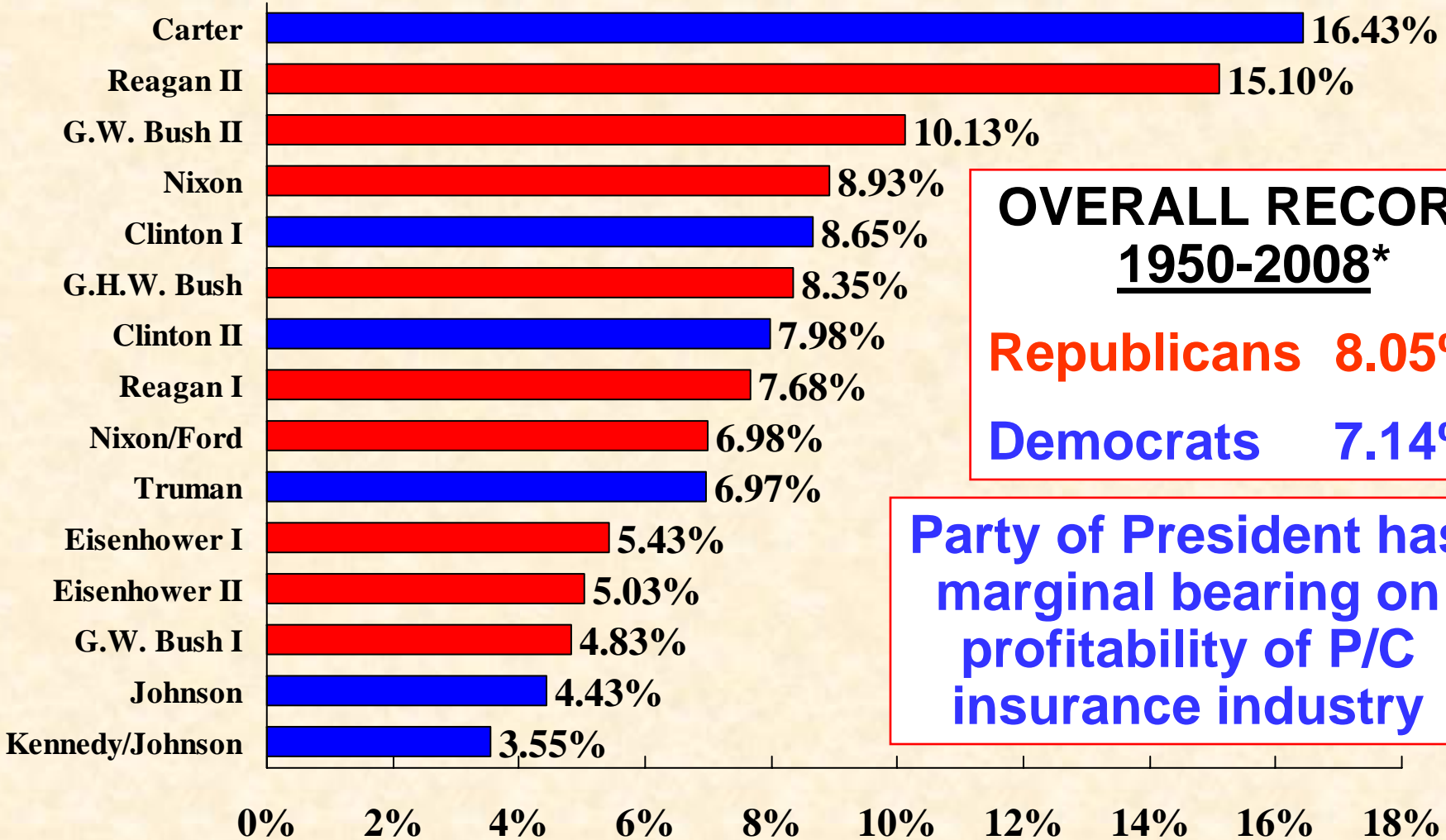
***PRESIDENTIAL  
POLITICS & P/C  
PROFITABILITY***



# P/C Insurance Industry ROE by Presidential Administration, 1950-2008\*



ELECTION IMPACT



**OVERALL RECORD:  
1950-2008\***

**Republicans 8.05%**

**Democrats 7.14%**

**Party of President has marginal bearing on profitability of P/C insurance industry**

\*ROE for 2008 based on Q1 data. Truman administration ROE of 6.97% based on 3 years only, 1950-52.  
Source: Insurance Information Institute

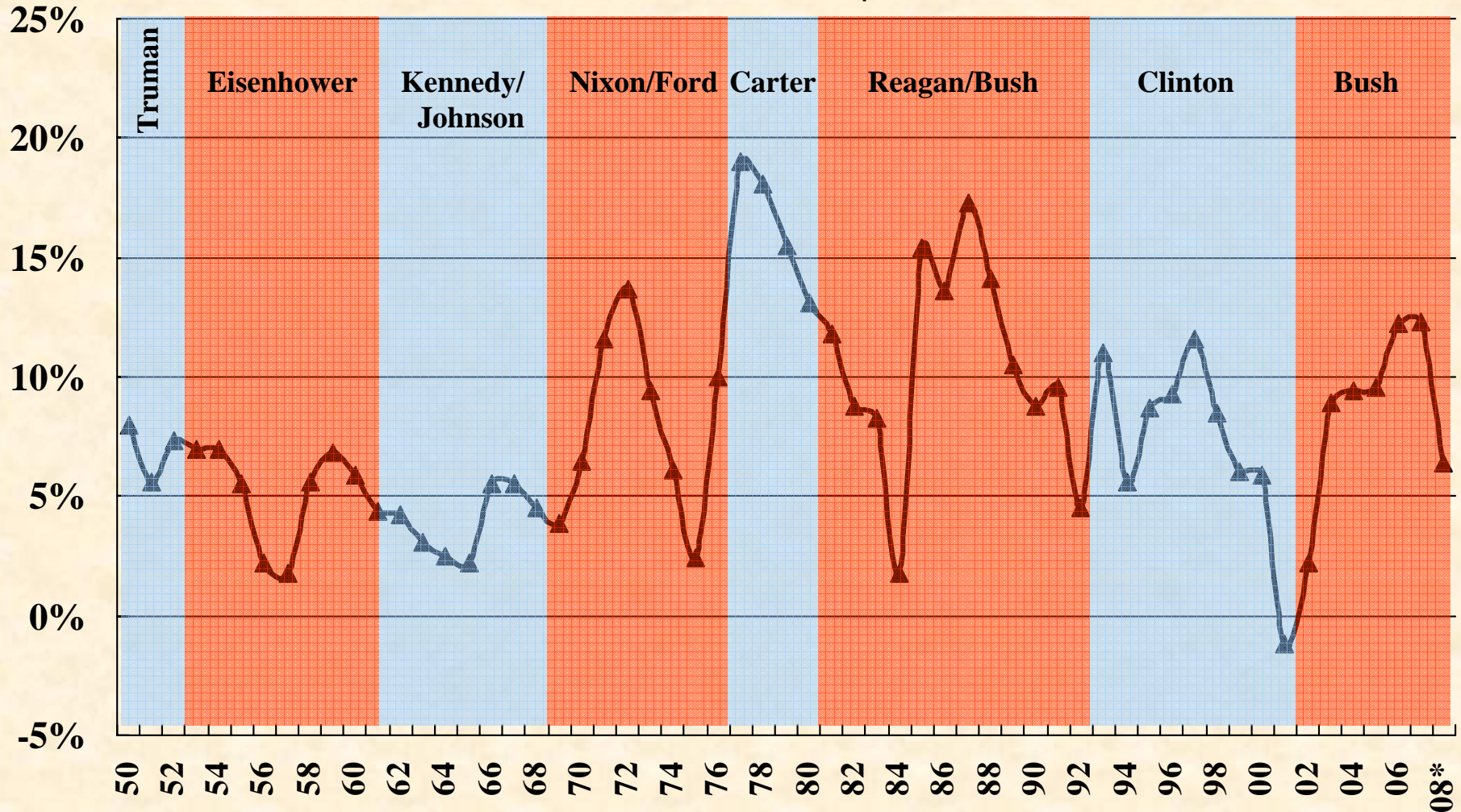




# *P/C Insurance Industry ROE by Presidential Party Affiliation, 1950–2008\**

**BLUE** = Democratic President

**RED** = Republican President



Source: Insurance Information Institute. \*2008 based Q1 data.



# *Insurance Information Institute On-Line*

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