

Medical Malpractice Insurance & The Insurance Cycle

Medical Professional Liability & the P/C Insurance Industry

**31st Annual Physician Insurance
Association of America Meeting
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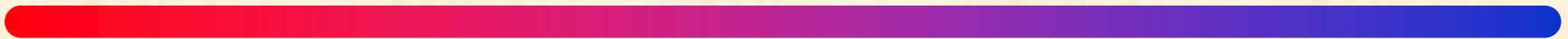


Presentation Outline

- **P/C Operating Overview & Outlook**
 - Profitability
 - Underwriting Trends
 - Premium Growth & Price Drivers
 - Capacity & Surplus
- **Medical Professional Liability Insurance Overview**
 - Medical & Health Care Cost Inflation
 - Med Mal Operating Results
 - Med Mal Investment Performance
- **Med Mal Tort Environment**
- **P/C Investment Overview & Outlook**
- **Weakening Economy: *Insurance Impacts & Implications***
 - Implications of Treasury reform “Blueprint” for insurers
- **Catastrophic Loss: Spillover Effects?**
- **Shifting Legal Liability & Tort Environment: P/C**

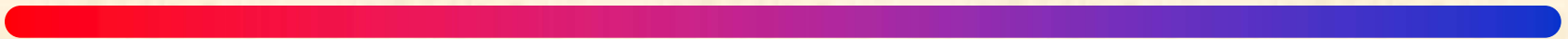
P/C INSURANCE OPERATING OVERVIEW

The Cycle is Alive and Well



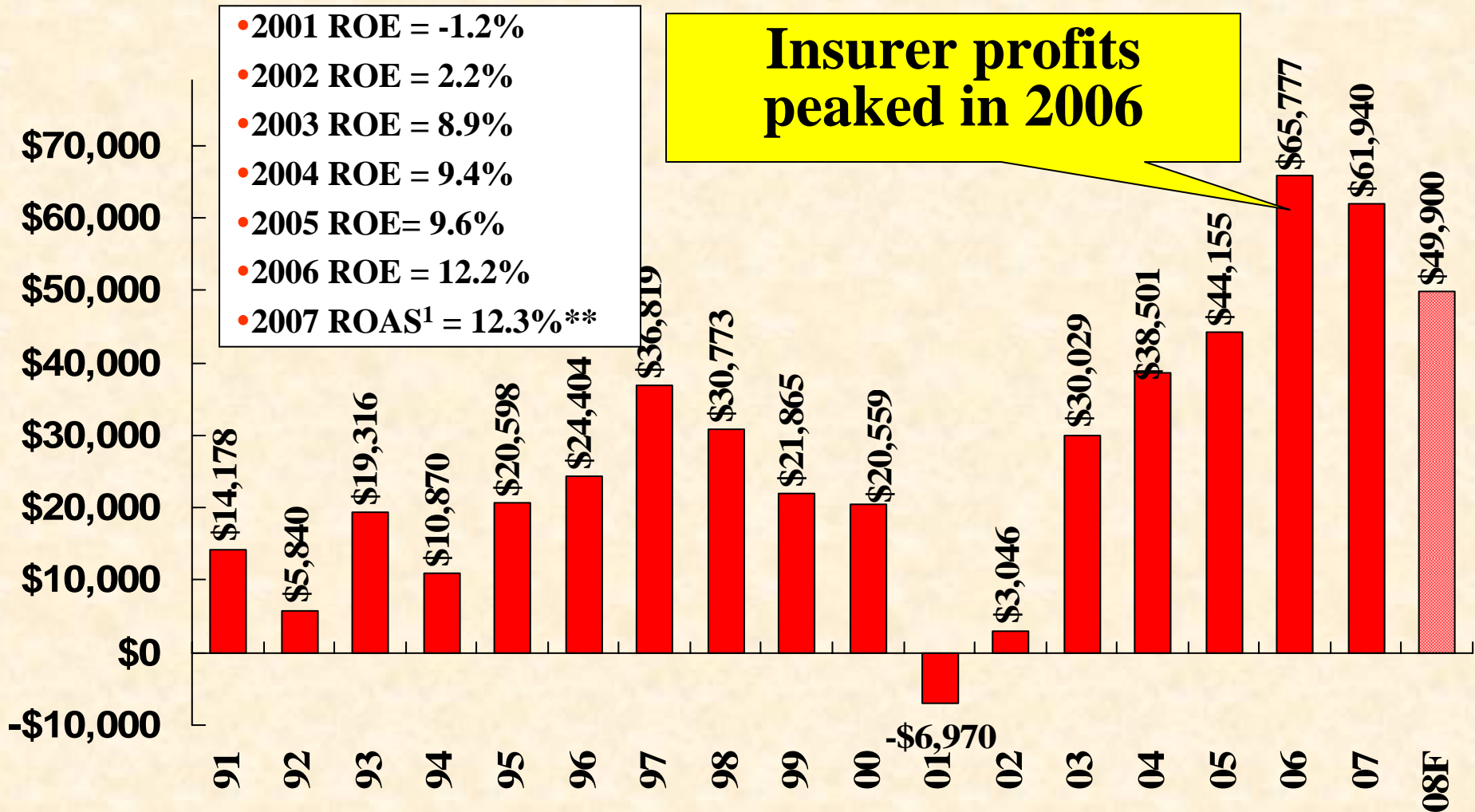
PROFITABILITY

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





P/C Net Income After Taxes *1991-2008F (\$ Millions)**

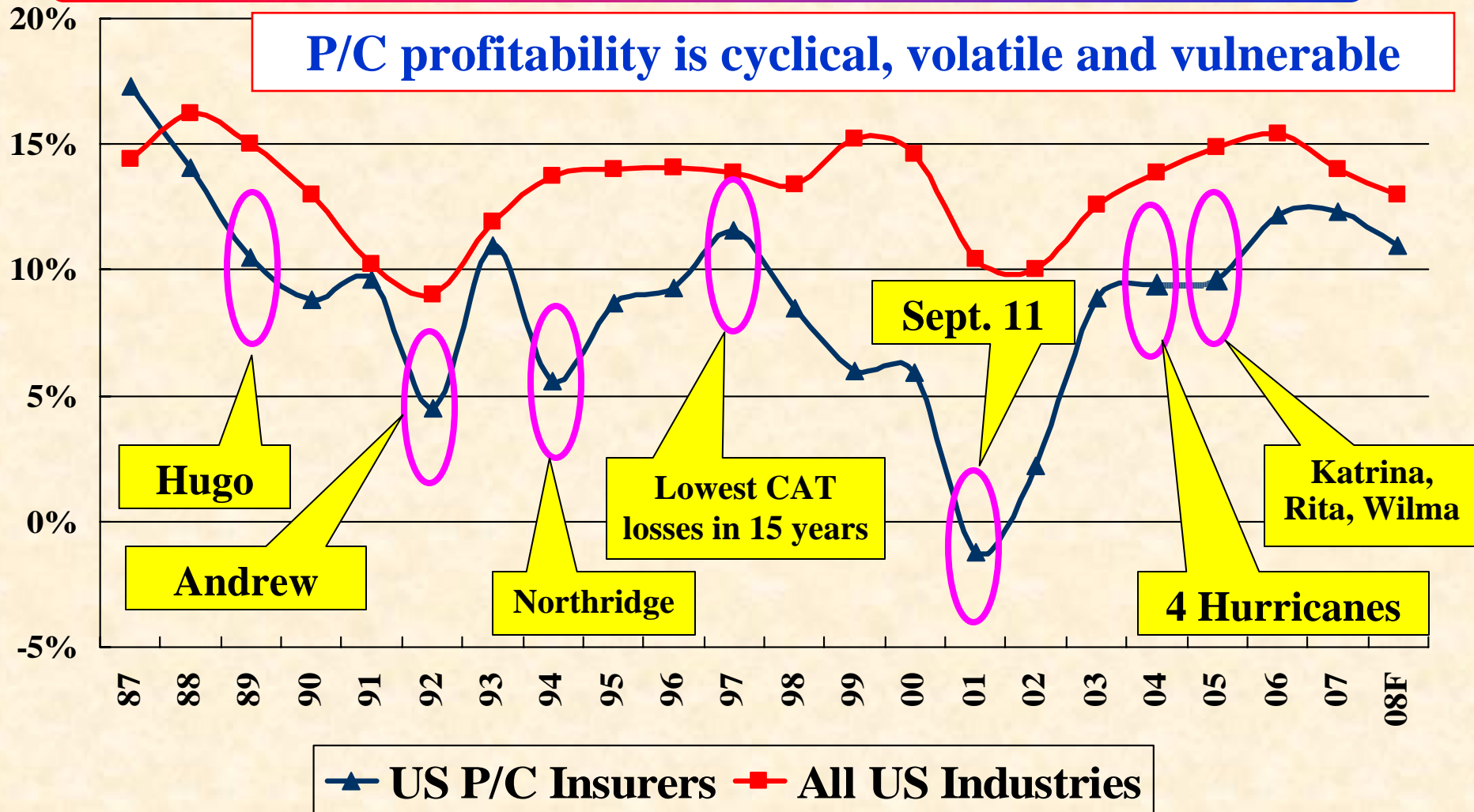


*ROE figures are GAAP; ¹Return on avg. surplus. **Return on Average Surplus; Sources: A.M. Best, ISO, Insurance Information Inst.



ROE: P/C vs. All Industries

1987-2008E

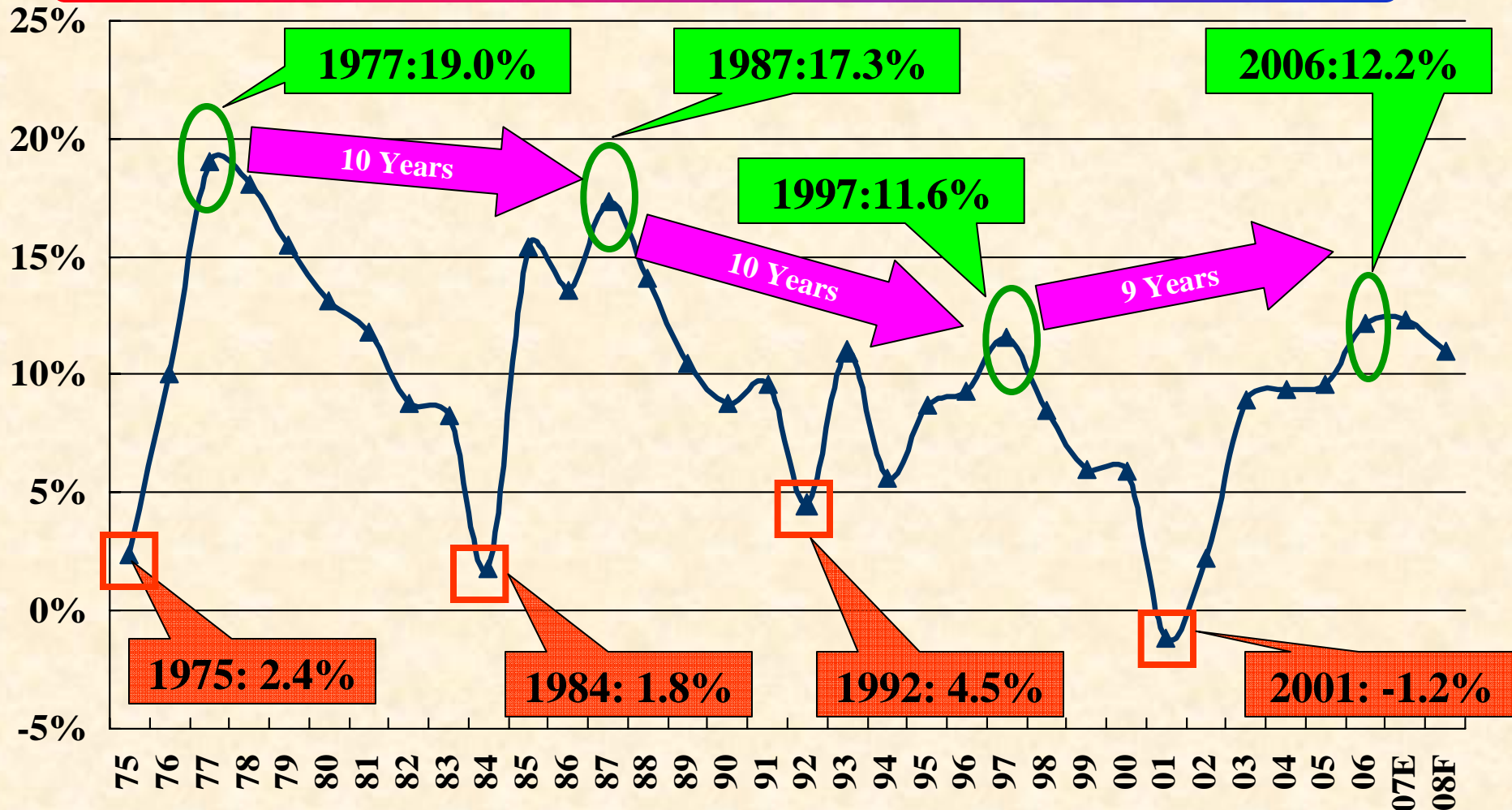


2008 P/C insurer ROE is I.I.I. estimate.

Source: Insurance Information Institute; *Fortune*



Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2008F*

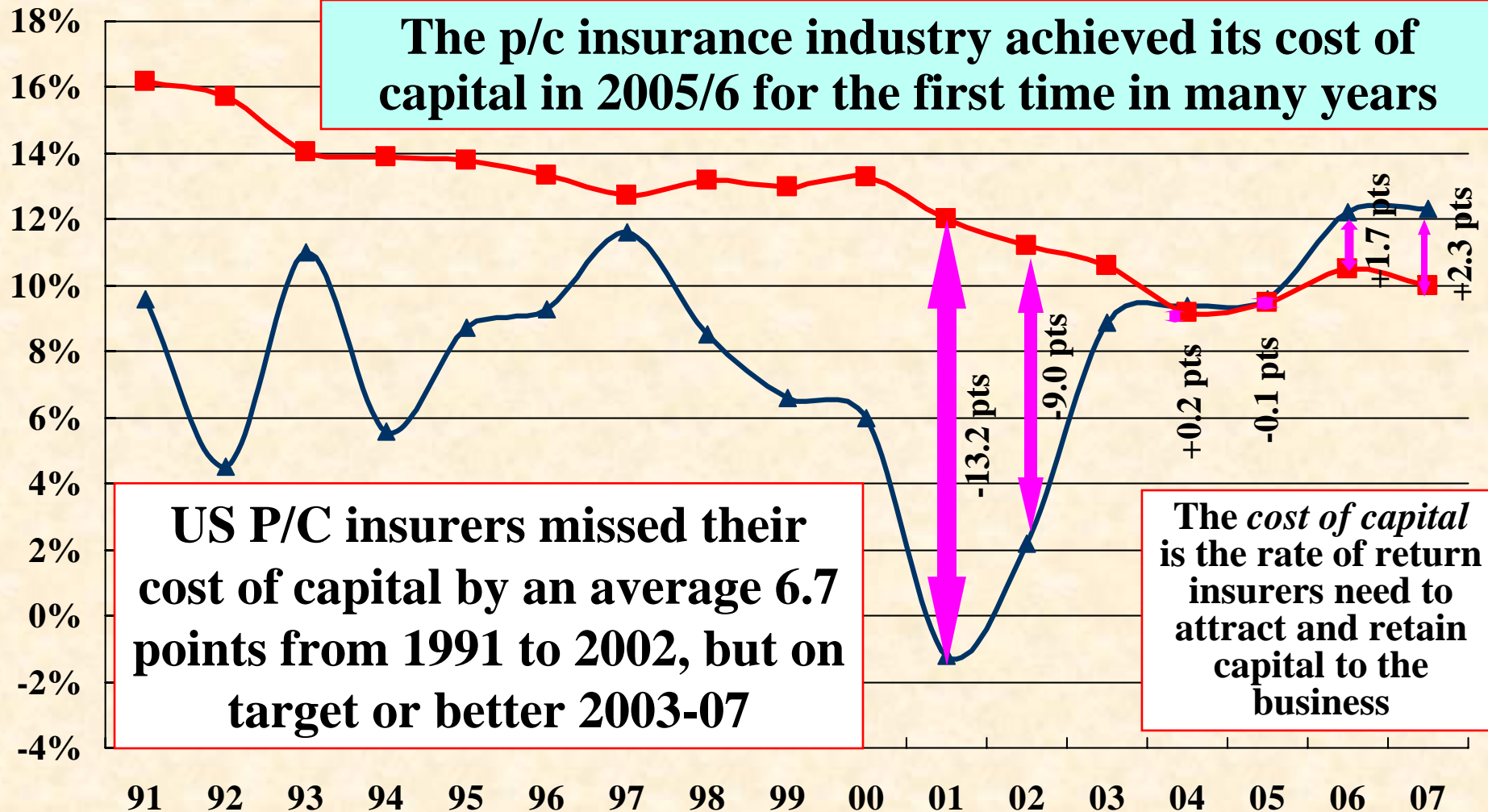


*GAAP ROE for all years except 2007 which is actual ROAS of 12.3%. 2008 P/C insurer ROE is I.I.I. estimate.

Source: Insurance Information Institute, ISO; Fortune



ROE vs. Equity Cost of Capital: US P/C Insurance: 1991-2007



Source: The Geneva Association, Ins. Information Inst.

—▲— ROE —■— Cost of Capital

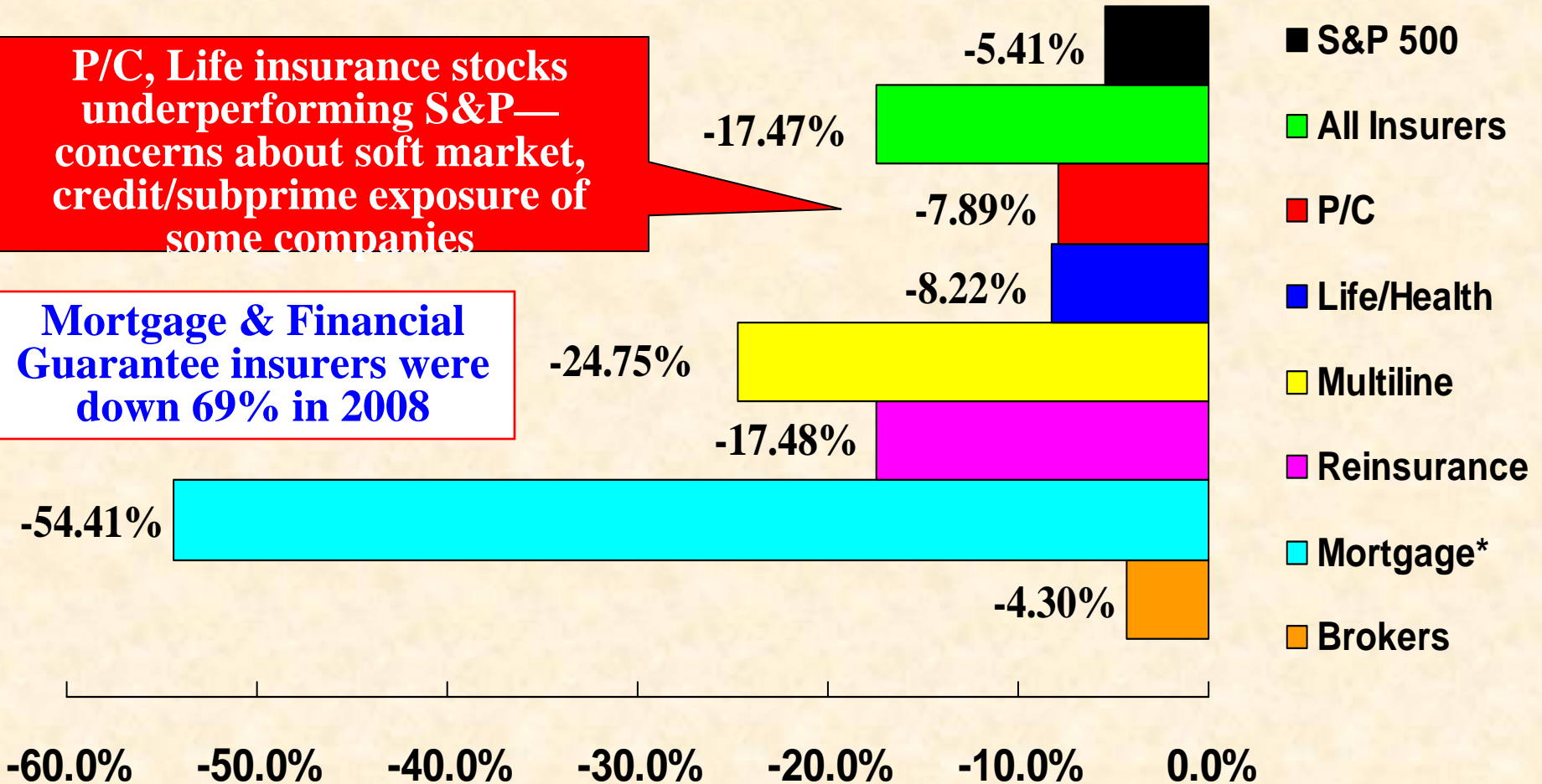


P/C, L/H Stocks: Lagging the S&P 500 Index in 2008

Total YTD Returns Through May 9, 2008

P/C, Life insurance stocks underperforming S&P—concerns about soft market, credit/subprime exposure of some companies

Mortgage & Financial Guarantee insurers were down 69% in 2008



*Includes Financial Guarantee.

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



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
 - 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
 - Looming reserve deficiencies are not hanging over insurers the way they did during the last soft market in the late 1990s
 - Many companies have been releasing redundant reserves, which allows them to boost net income even as underwriting results deteriorate
 - Reserve releases will diminish in 2008; Even more so in 2009
- **Investment Gains**: 2007 was the 5th consecutive up year on Wall Street. With sharp declines in stock prices and falling interest rates, portfolio yields are certain to fall → Contributes to discipline
 - Realized capital gains are already rising as underwriting profits shrink, but like redundant reserves, realized capital gains are a finite resource
 - A sustained equity market decline (and potentially a drop in bond prices at some point) could reduce policyholder surplus



Factors that Will Influence the Length and Depth of the Cycle (cont'd)

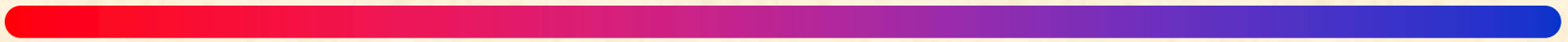
- **Sarbanes-Oxley**: Presumably SOX will lead to better and more conservative management of company finances, including rapid recognition of deficient or redundant reserves
 - With more “eyes” on the industry, the theory is that cyclical swings should shrink
- **Ratings Agencies**: Focus on Cycle Management; Quicker to downgrade
 - Ratings agencies more concerned with successful cycle management strategy
 - Many insurers have already had ratings “haircut” over the last several years the way they did during the last soft market in the late 1990s; Less of a margin today
- **Finite Reinsurance**: Had smoothing effect on earnings; Finite market is gone
- **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 implies greater discipline
 - Liberty Mutual/Safeco deal creates 5th largest p/c insurer. More to come?

FINANCIAL STRENGTH & RATINGS

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

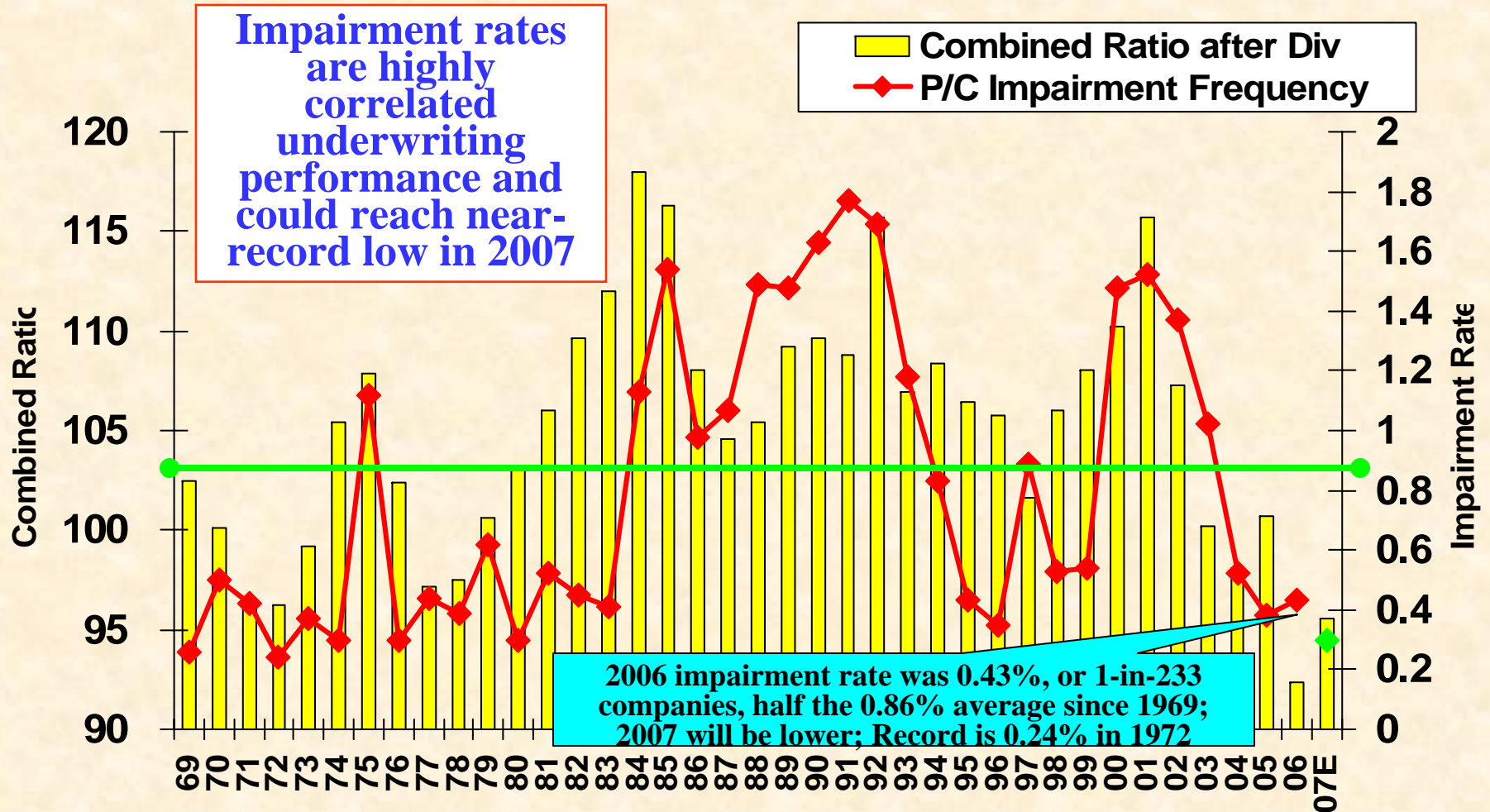


May Takes Its Toll





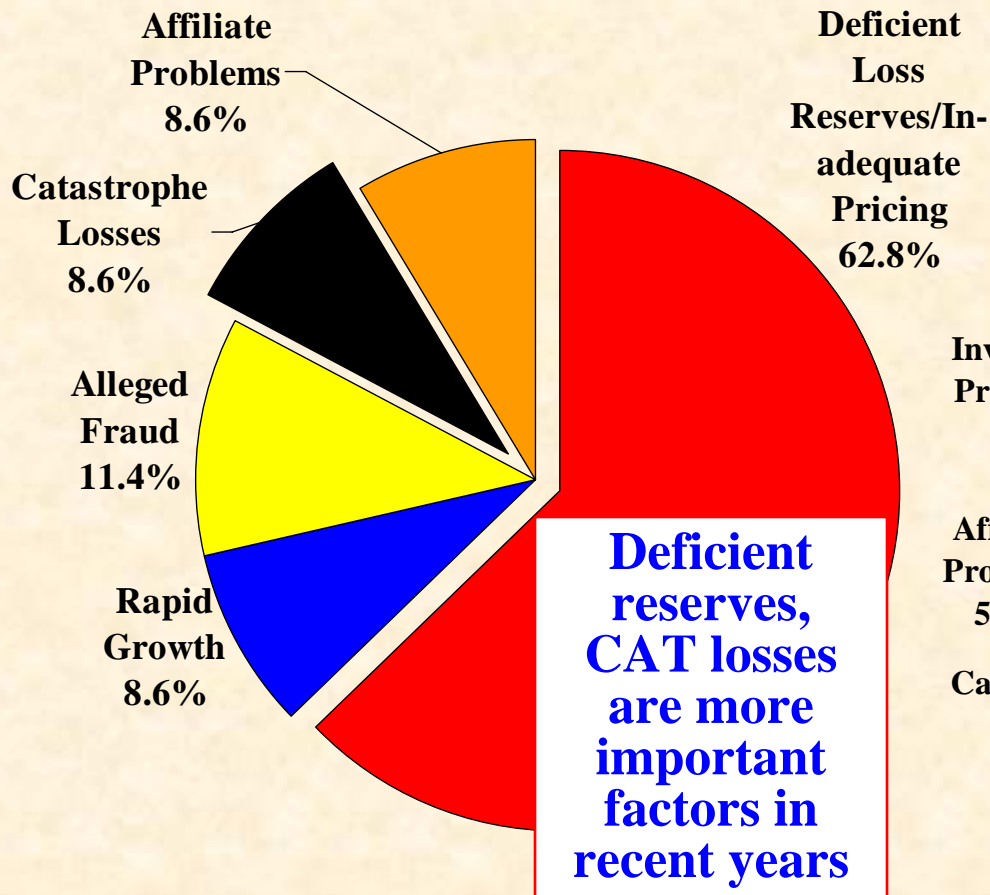
P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2007E



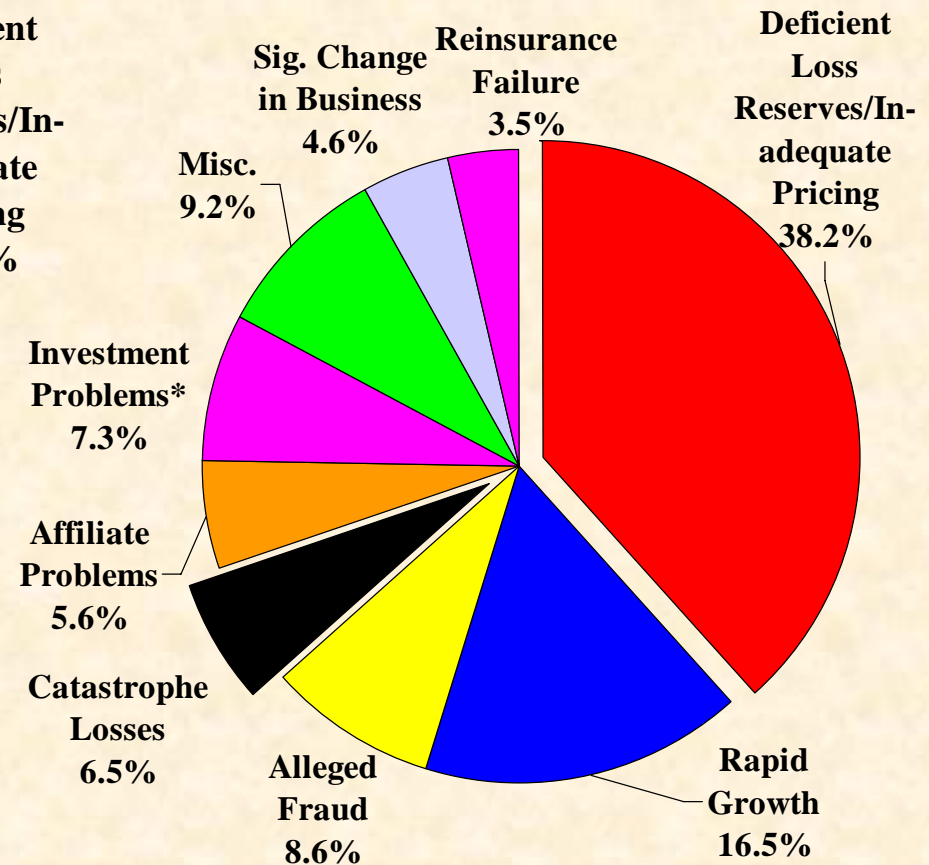


Reasons for US P/C Insurer Impairments, 1969-2005

2003-2005



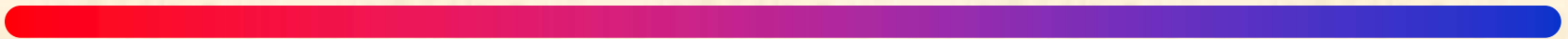
1969-2005



*Includes overstatement of assets.

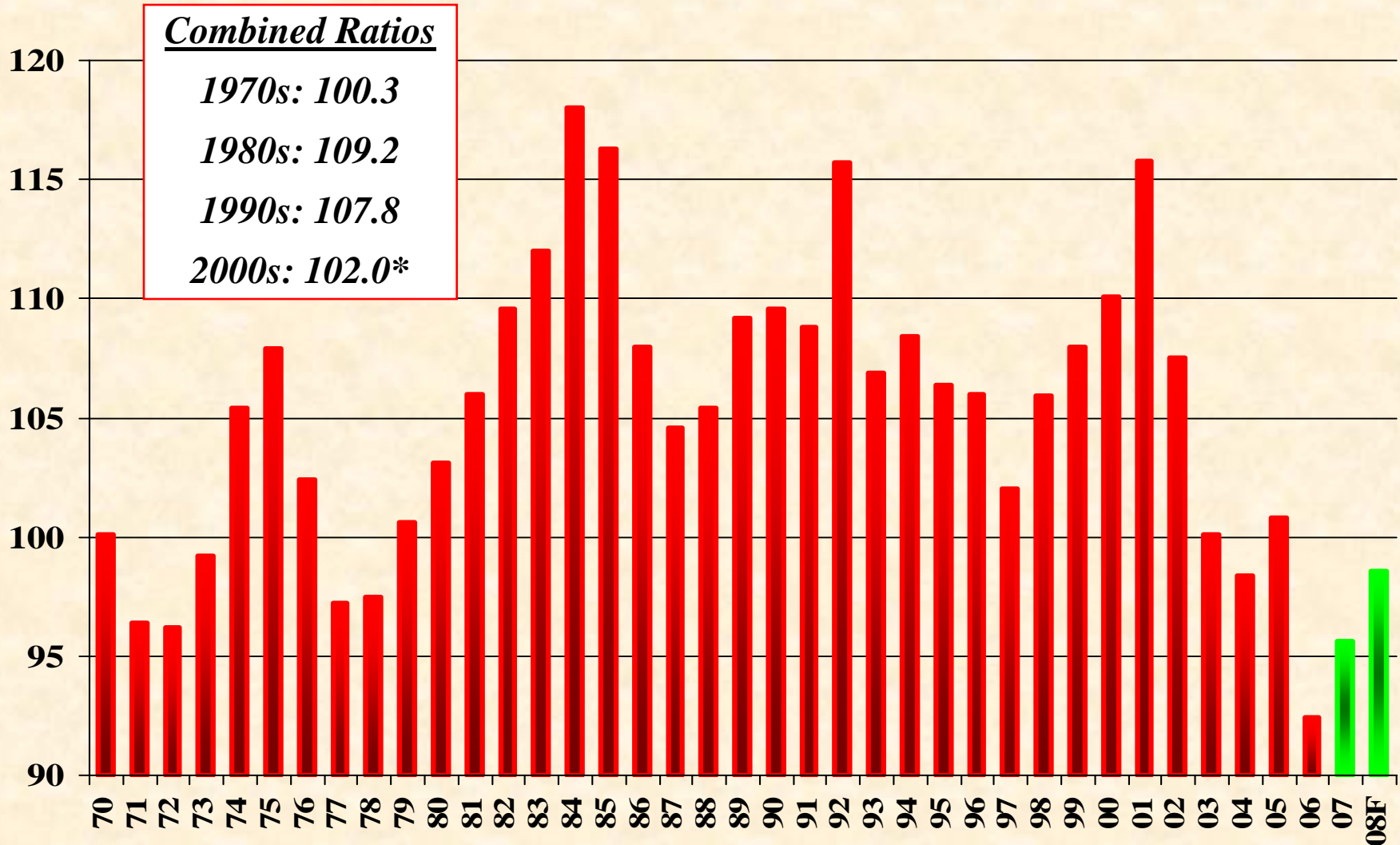
UNDERWRITING TRENDS

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





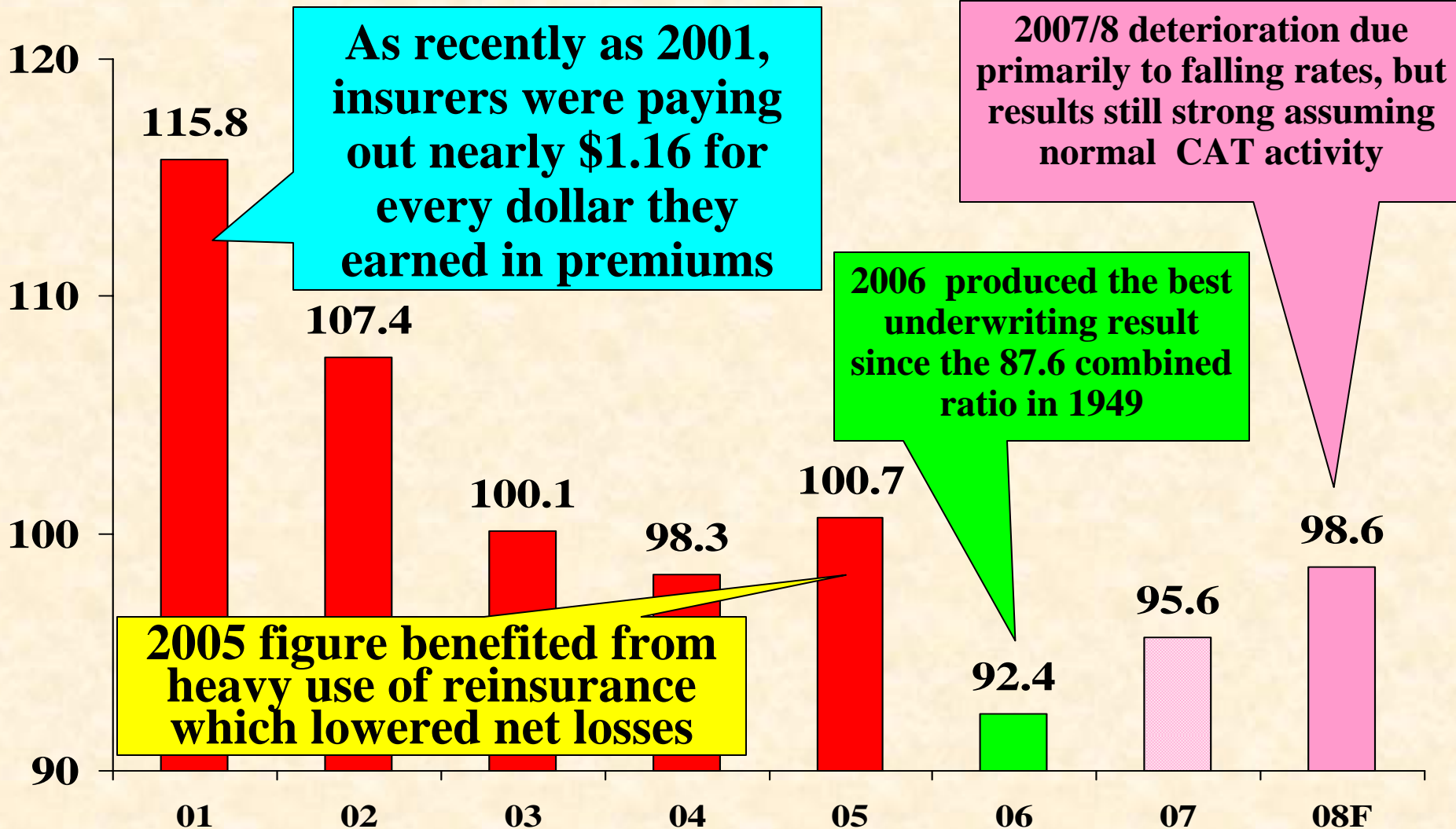
*P/C Insurance Combined Ratio, 1970-2008F**



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



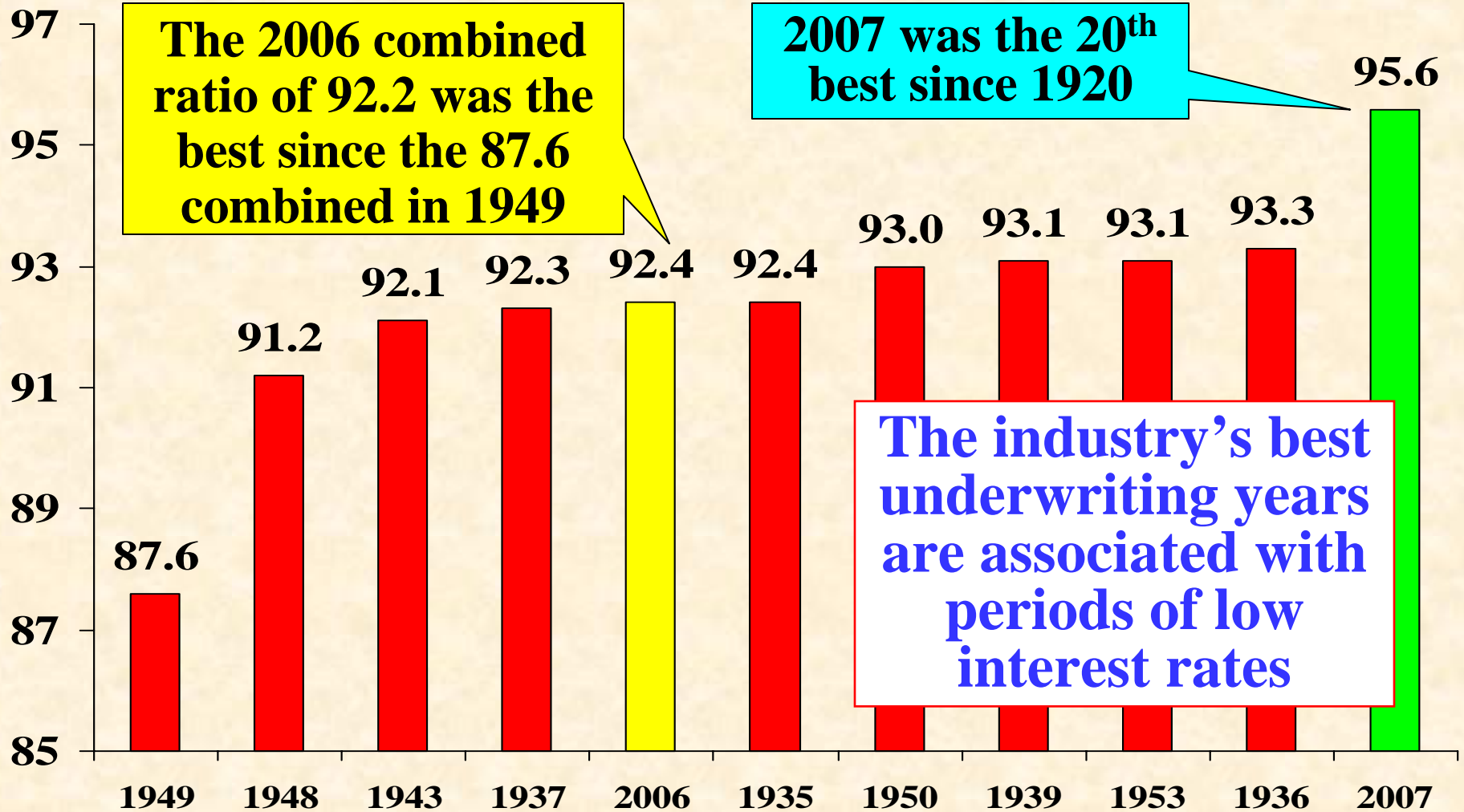
P/C Insurance Combined Ratio, 2001-2008F



Sources: A.M. Best; ISO, III. *III estimates for 2008.



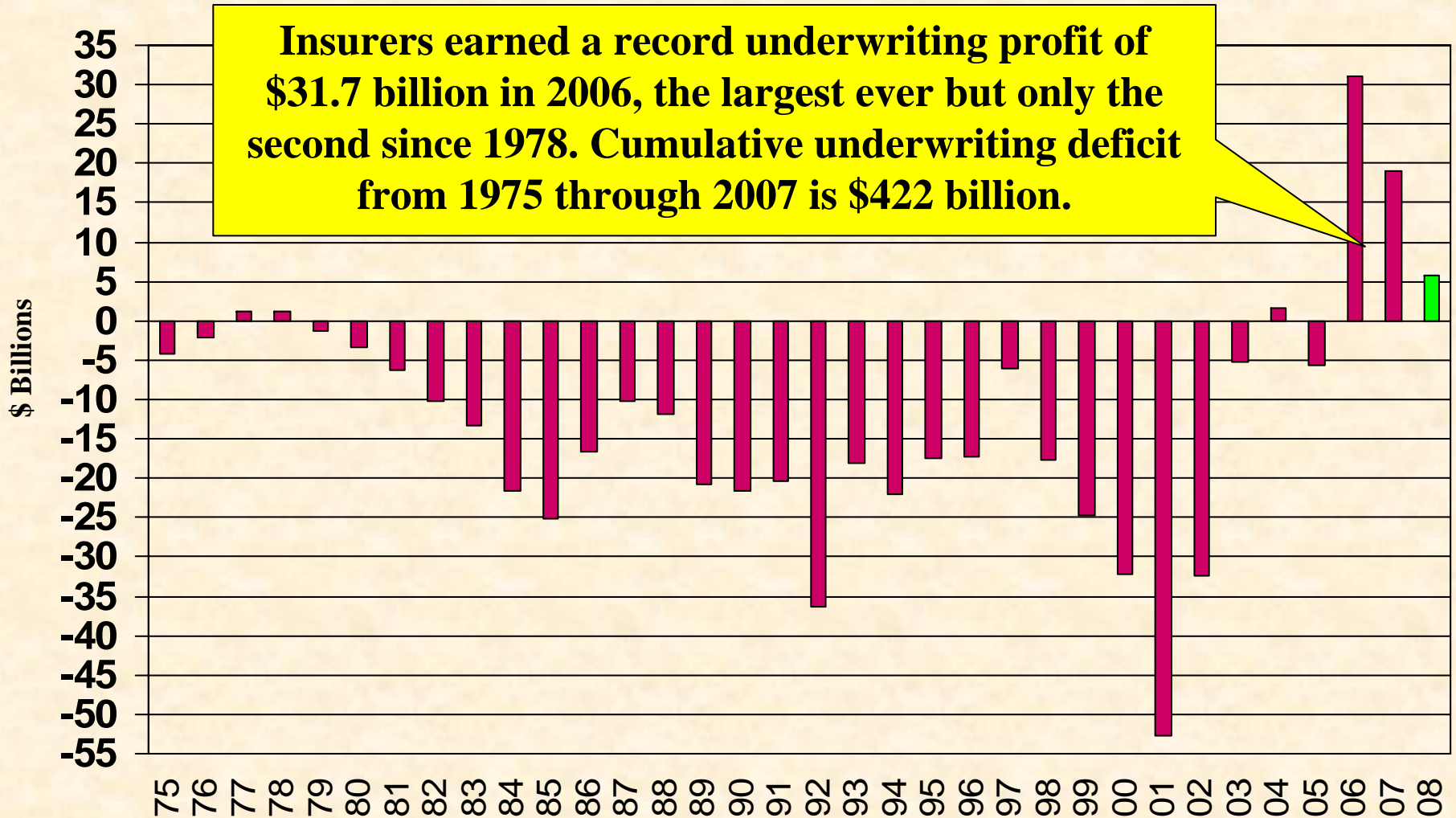
Ten Lowest P/C Insurance Combined Ratios Since 1920 vs. 2007





Underwriting Gain (Loss)

*1975-2008F**

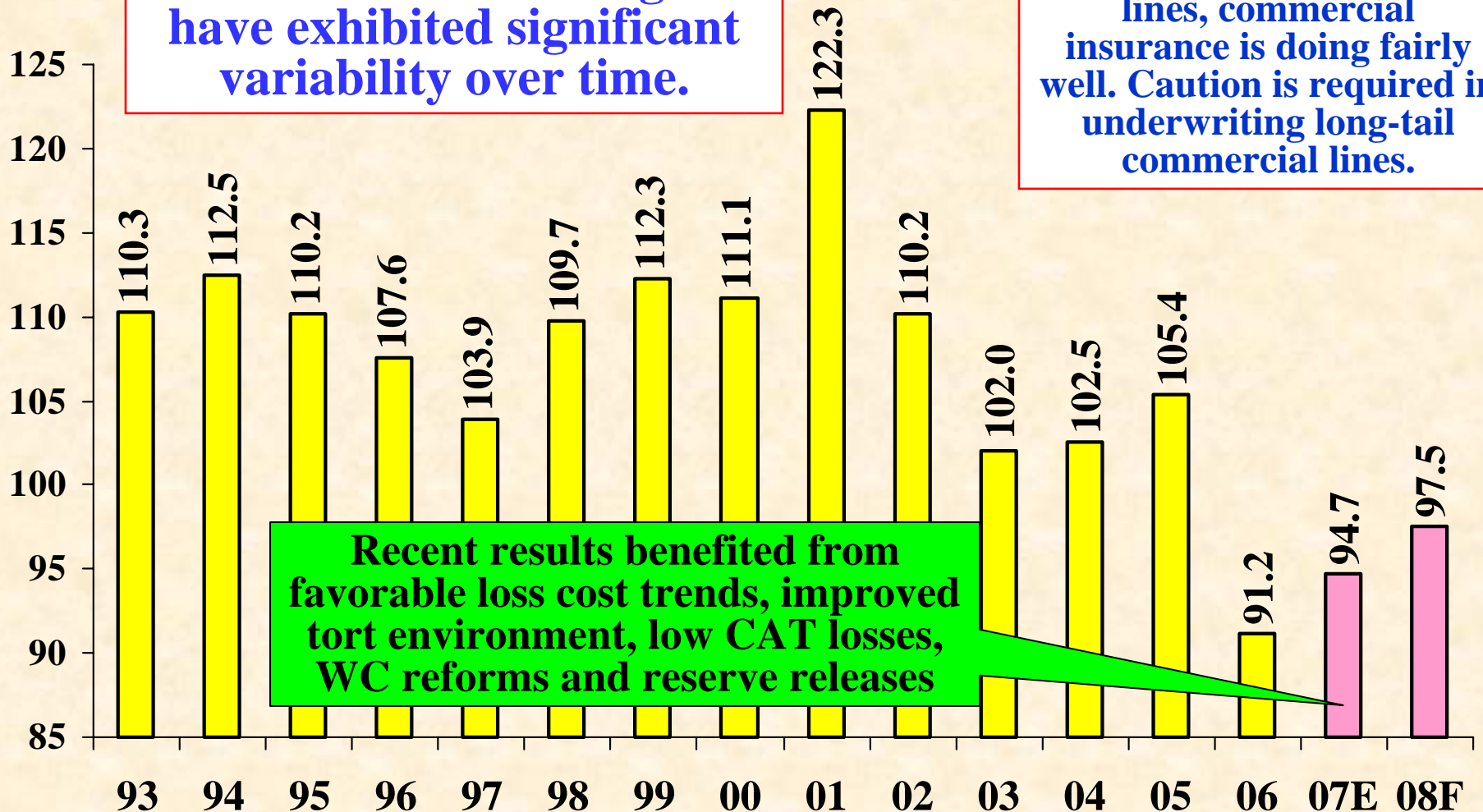




Commercial Lines Combined Ratio, 1993-2008F

Commercial coverages have exhibited significant variability over time.

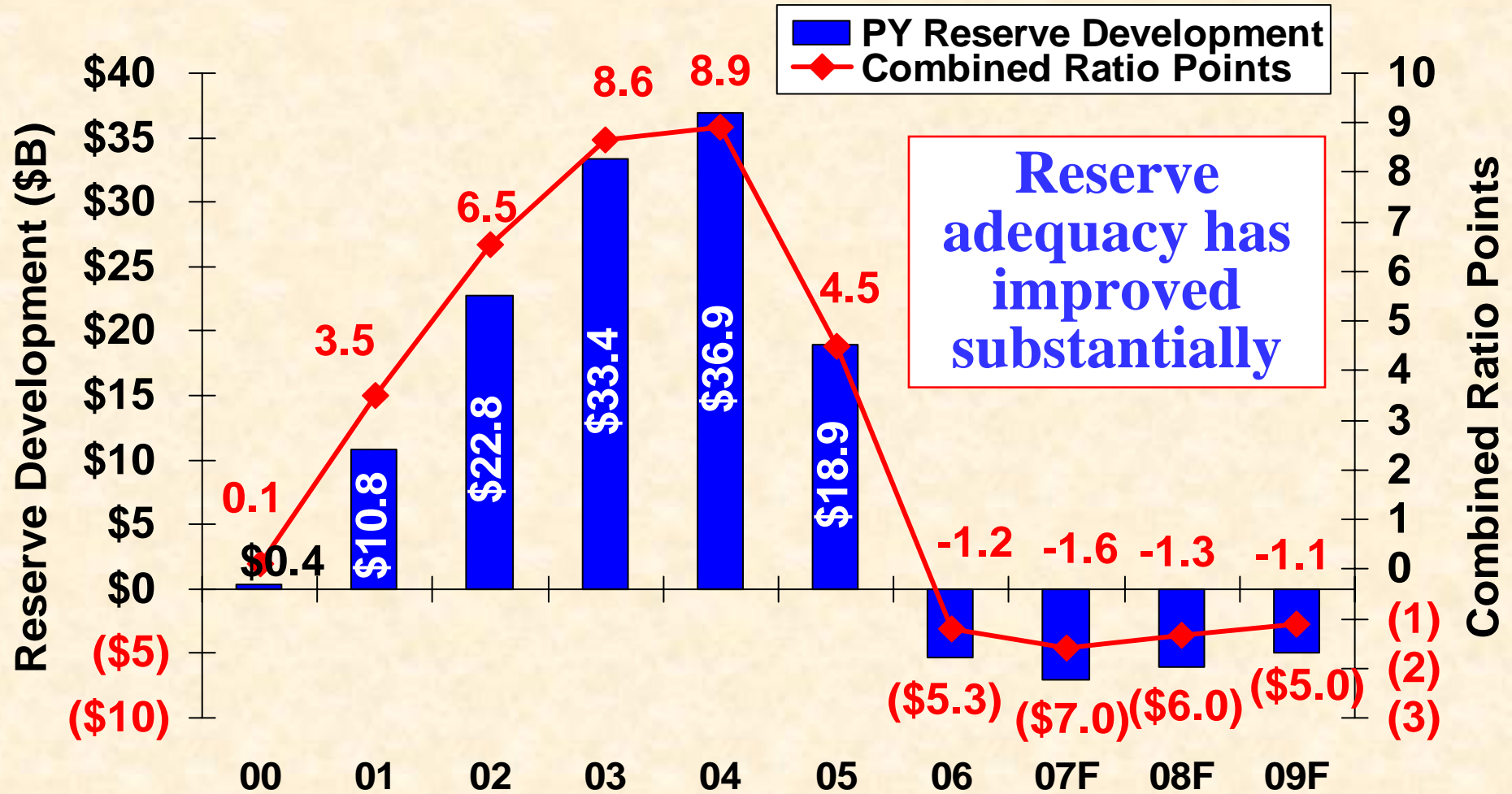
Outside CAT-affected lines, commercial insurance is doing fairly well. Caution is required in underwriting long-tail commercial lines.



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

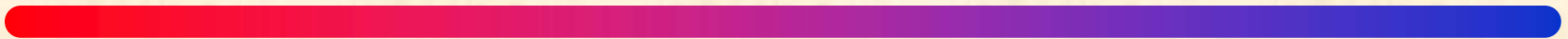


Impact of Reserve Changes on Combined Ratio



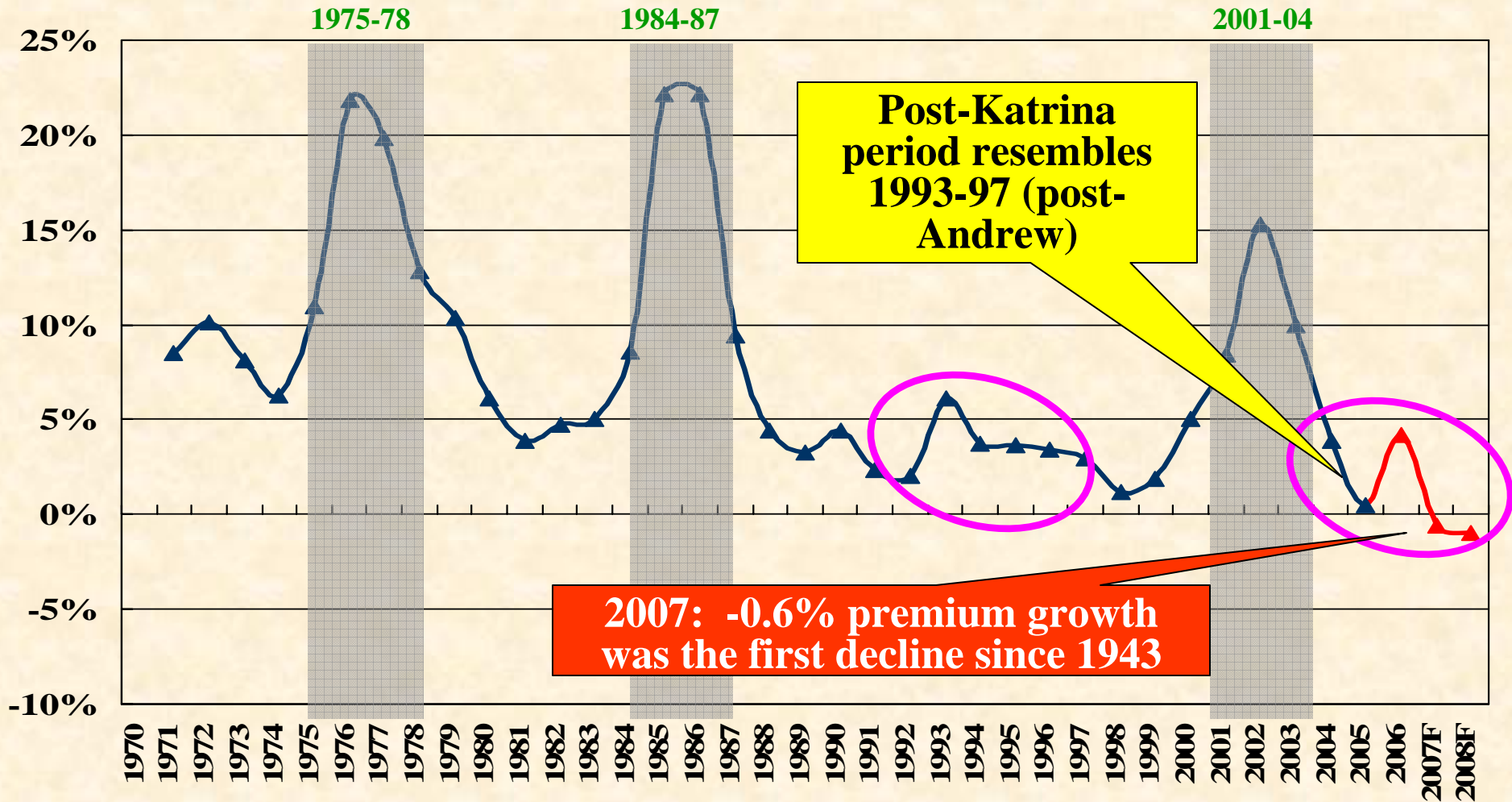
PREMIUM GROWTH

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





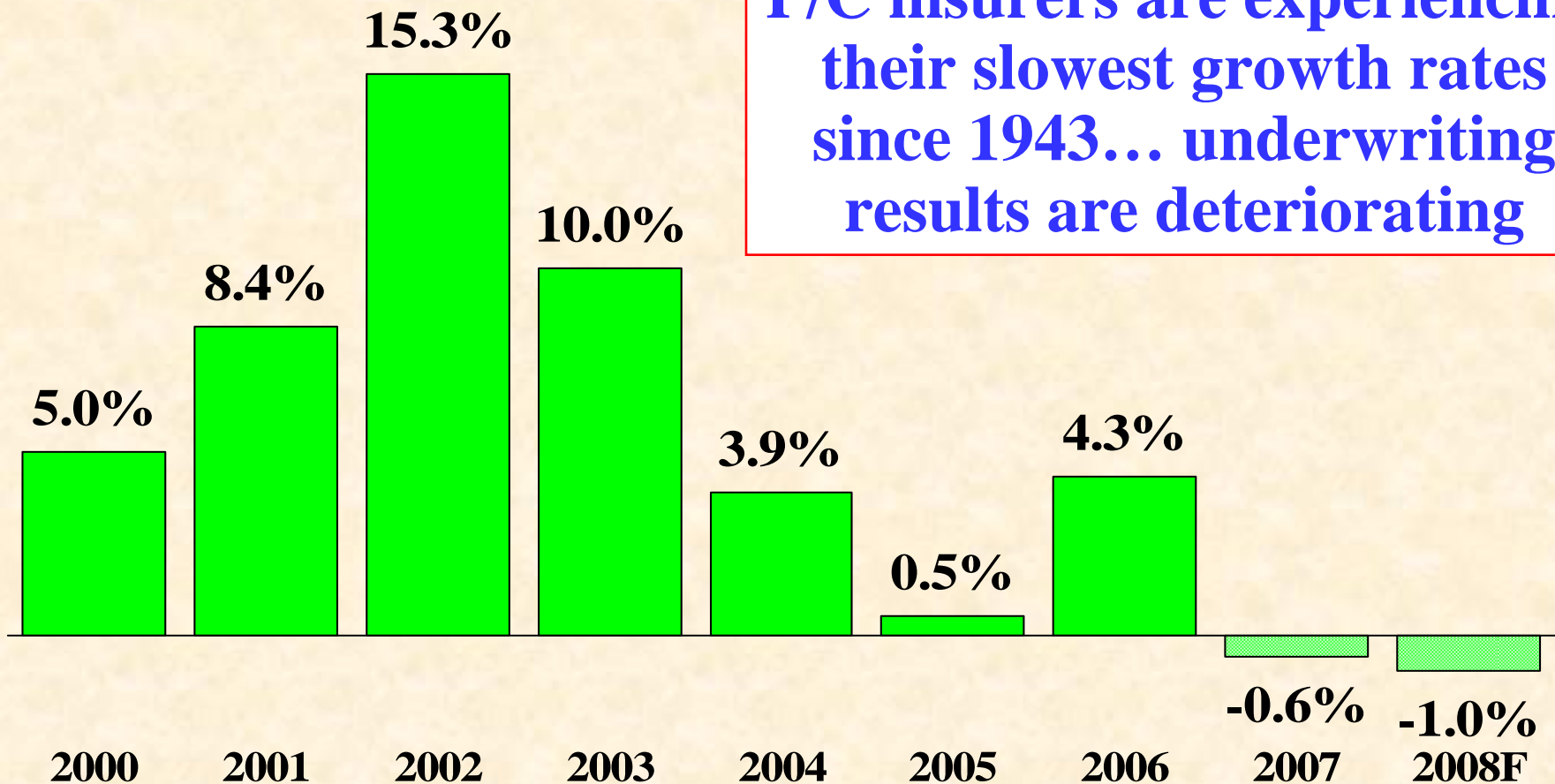
Strength of Recent Hard Markets by NWP Growth*



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



Growth in Net Written Premium, 2000-2008F



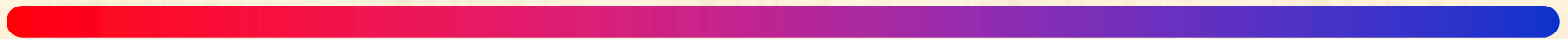
P/C insurers are experiencing their slowest growth rates since 1943... underwriting results are deteriorating

*2008 forecast from A.M. Best.

Source: A.M. Best; Forecasts from the Insurance Information Institute.

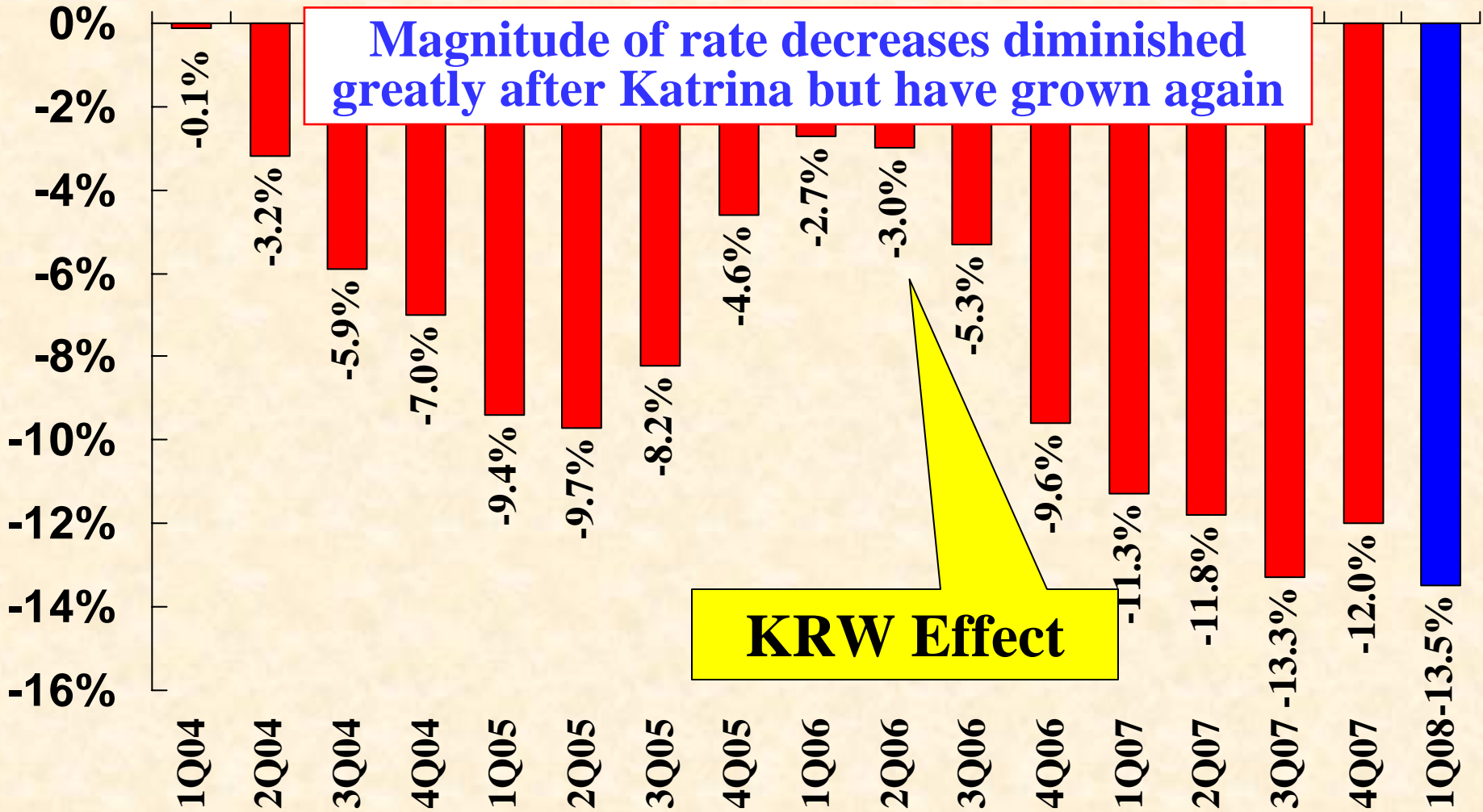
WEAK PRICING

Under Pressure in
2007/08, Especially
Commercial Lines



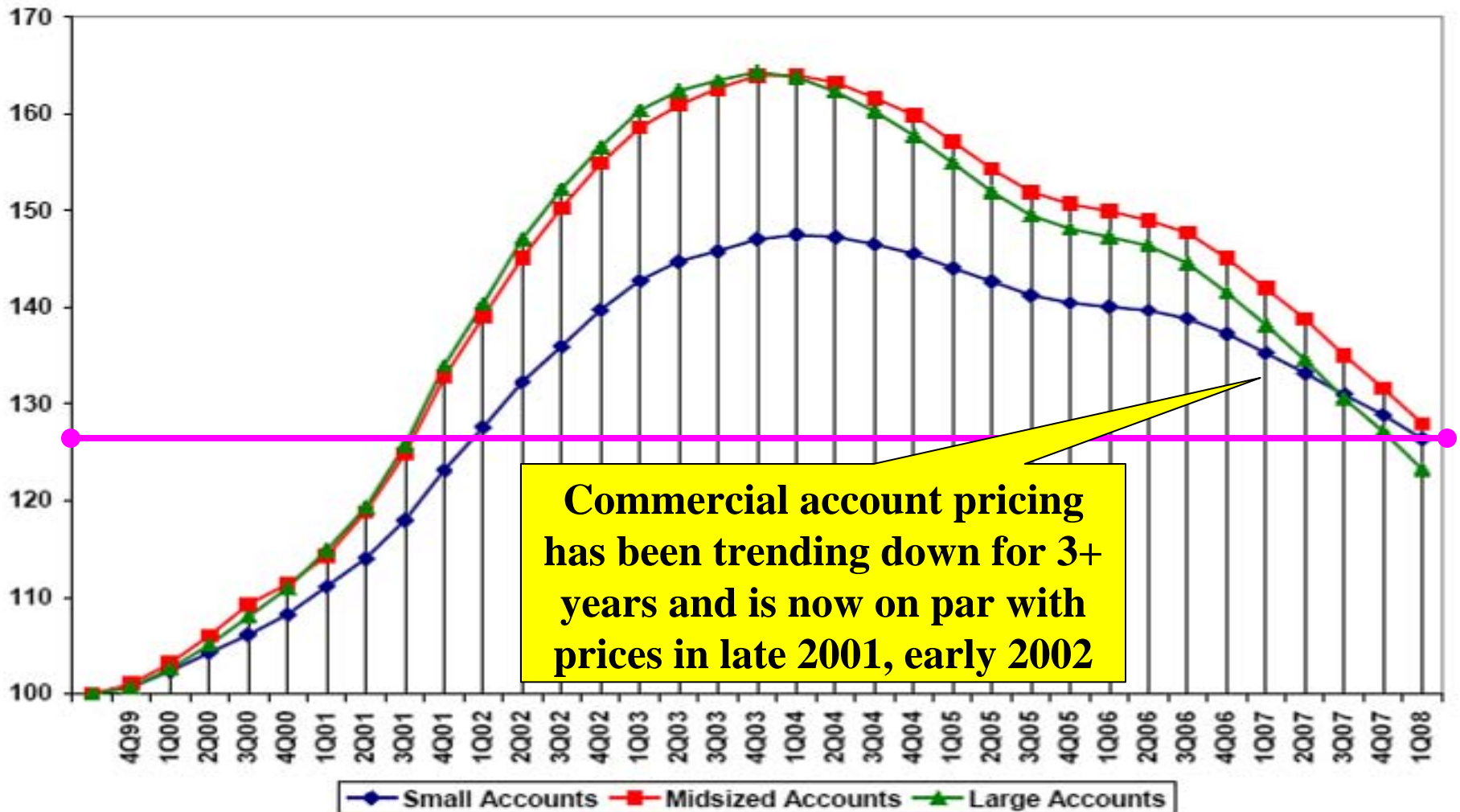


Average Commercial Rate Change, All Lines, (1Q:2004 – 1Q:2008)



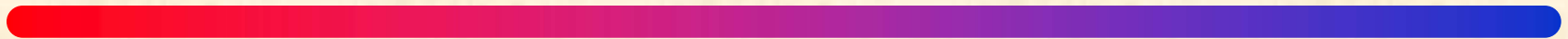


Cumulative Commercial Rate Change by Line: 4Q99 – 1Q08



CAPACITY/ SURPLUS

**Accumulation of Capital/
Surplus Depresses ROEs**



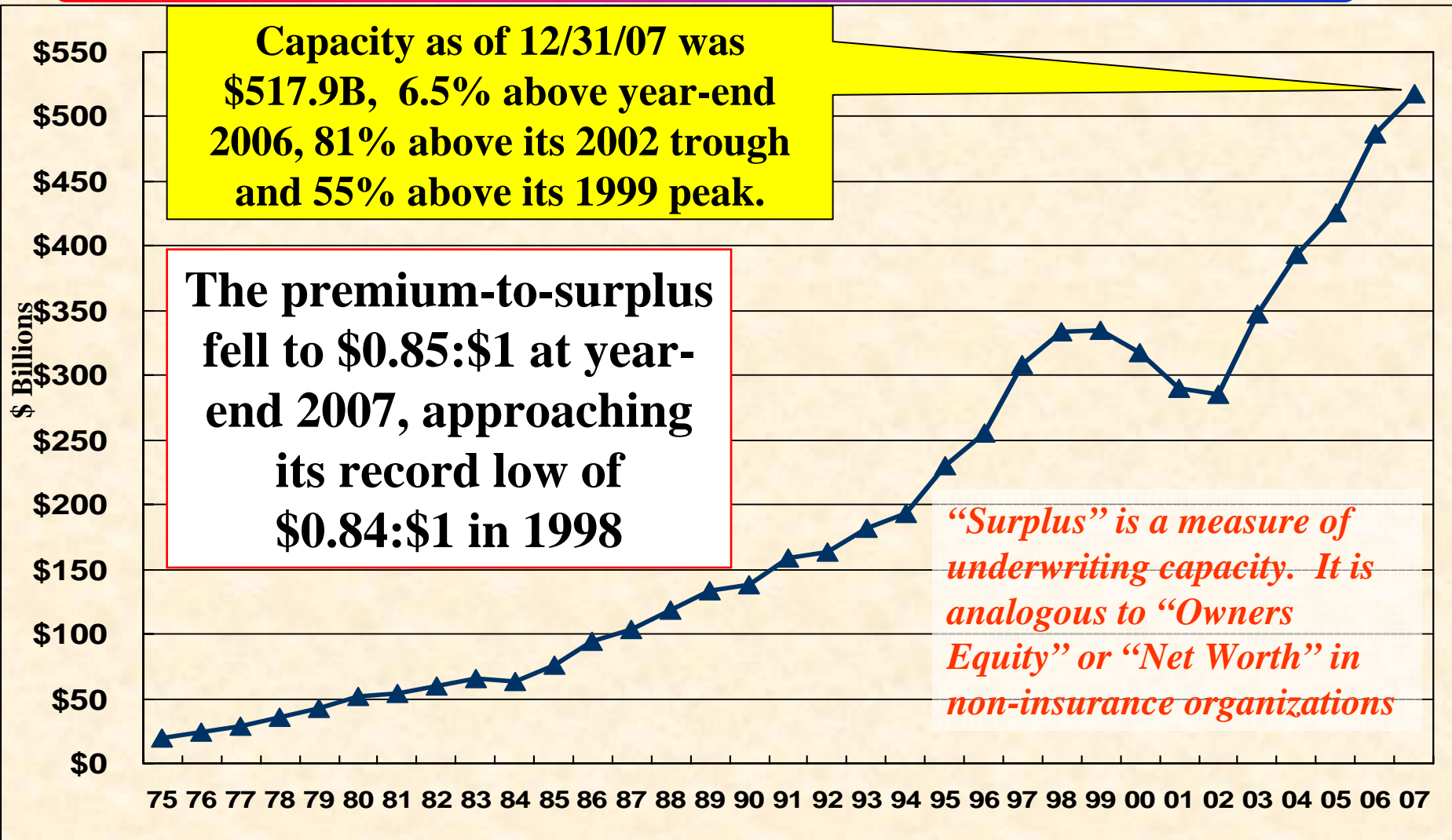


U.S. Policyholder Surplus: 1975-2007*

Capacity as of 12/31/07 was \$517.9B, 6.5% above year-end 2006, 81% above its 2002 trough and 55% above its 1999 peak.

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

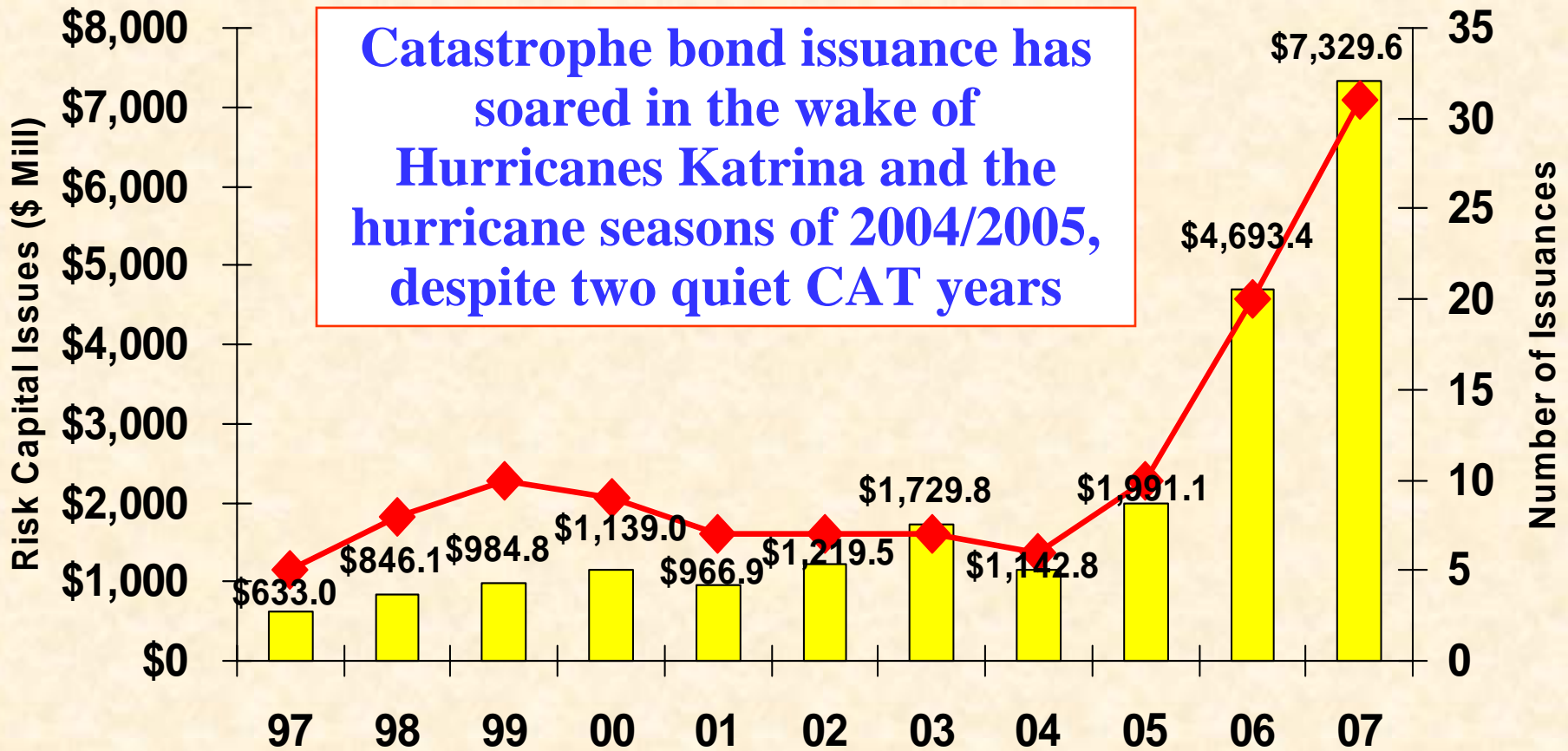
“Surplus” is a measure of underwriting capacity. It is analogous to “Owners Equity” or “Net Worth” in non-insurance organizations





Annual Catastrophe Bond Transactions Volume, 1997-2007

■ Risk Capital Issued ◆ Number of Issuances

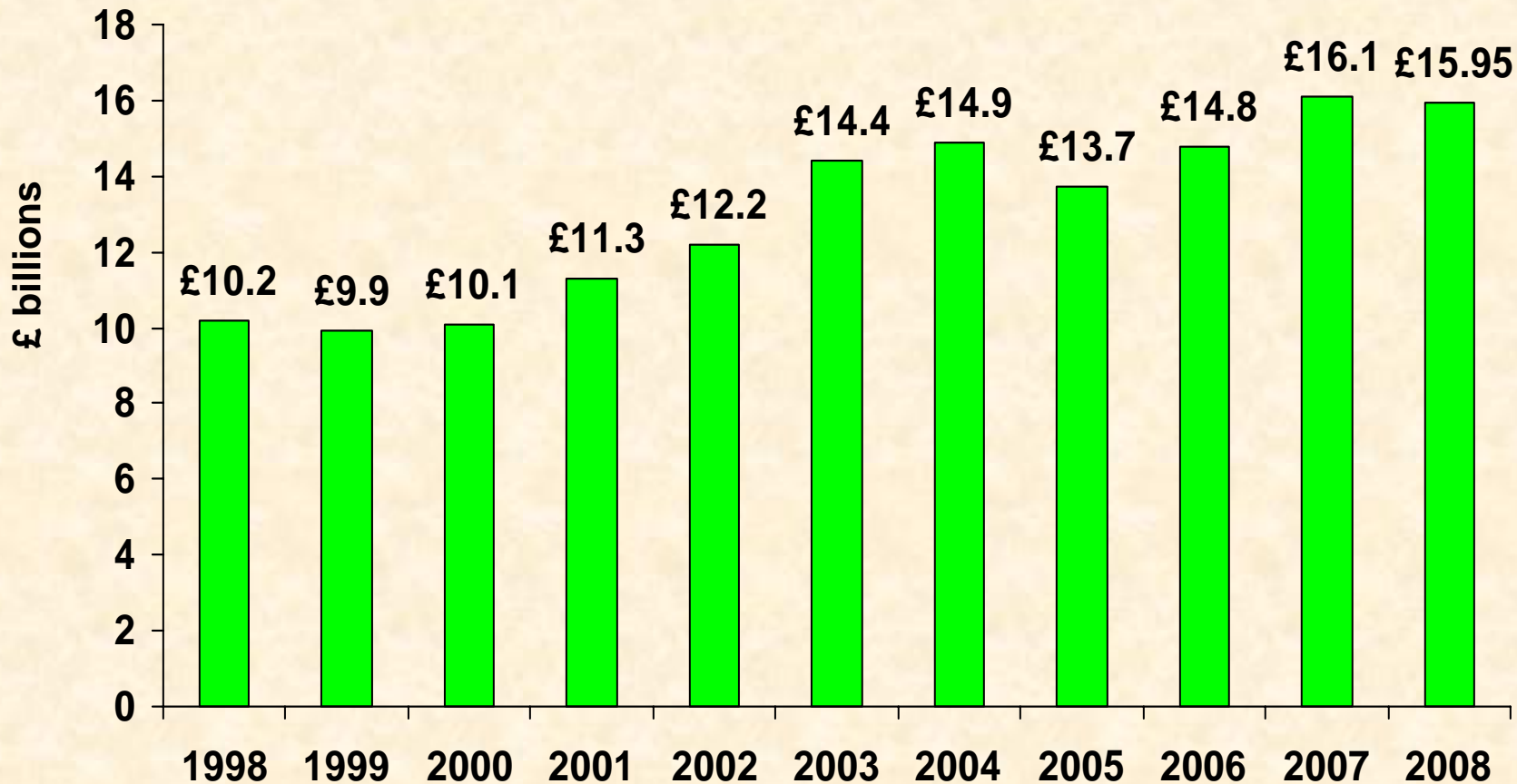




Lloyd's Insurance Market

*Capacity, 1998-2008 (£ billions)**

The capacity of the Lloyd's market rose significantly during the period 2001 to 2004. In 2005, capacity reduced but increased again in 2006 and 2007 due to the impact of the U.S. hurricane season. Capacity reduced to £15.95 billion (\$32 billion) in 2008.



*Beginning of the year.

Source: Lloyd's Members' Services Unit.



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

Reasons Behind Capital Build-Up & Repurchase Surge

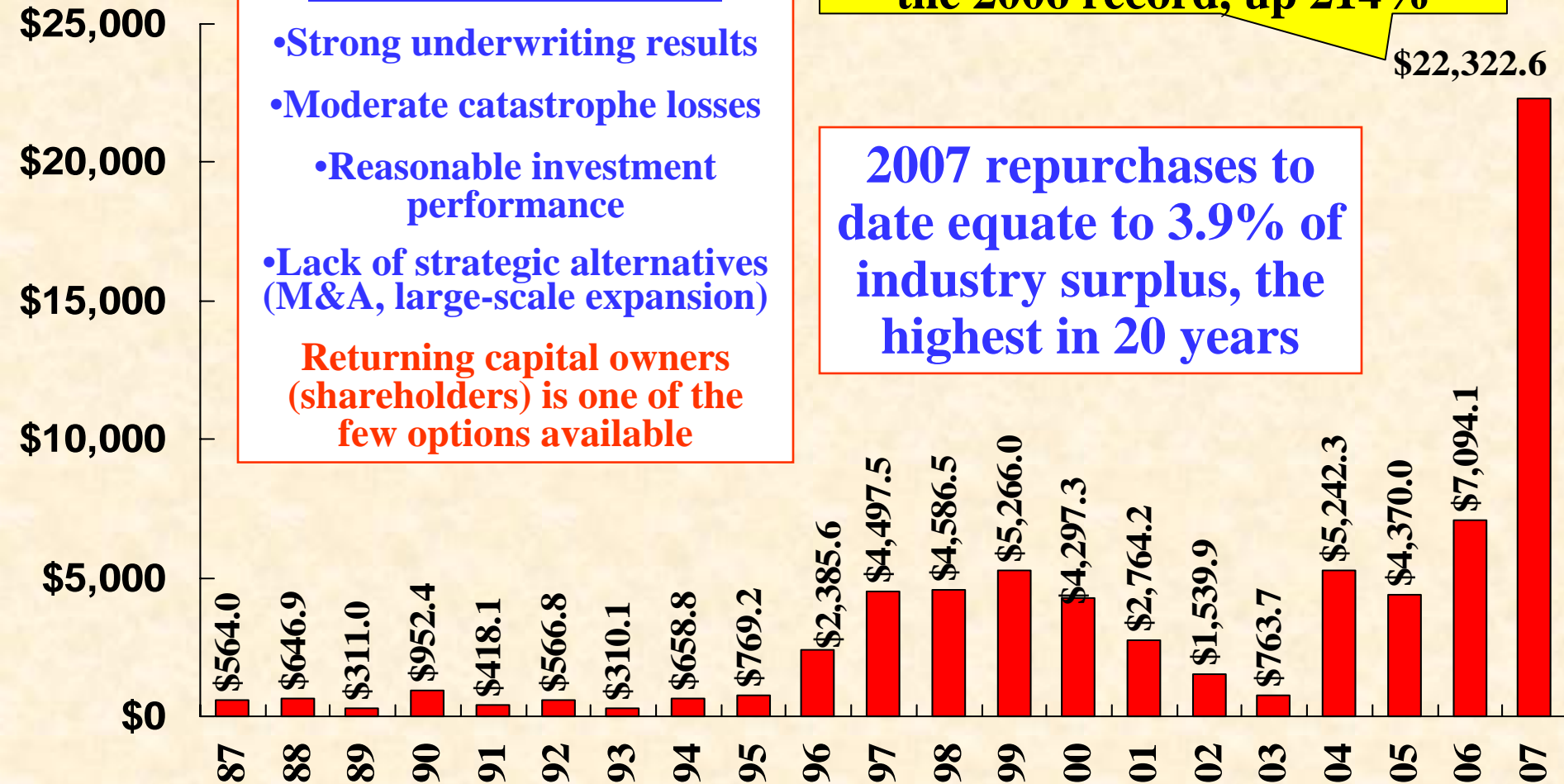
- Strong underwriting results
- Moderate catastrophe losses
 - Reasonable investment performance
- Lack of strategic alternatives (M&A, large-scale expansion)

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



MEDICAL PROFESSIONAL LIABILITY OVERVIEW

 Significant Improvements

MEDICAL & HEALTH CARE COST INFLATION

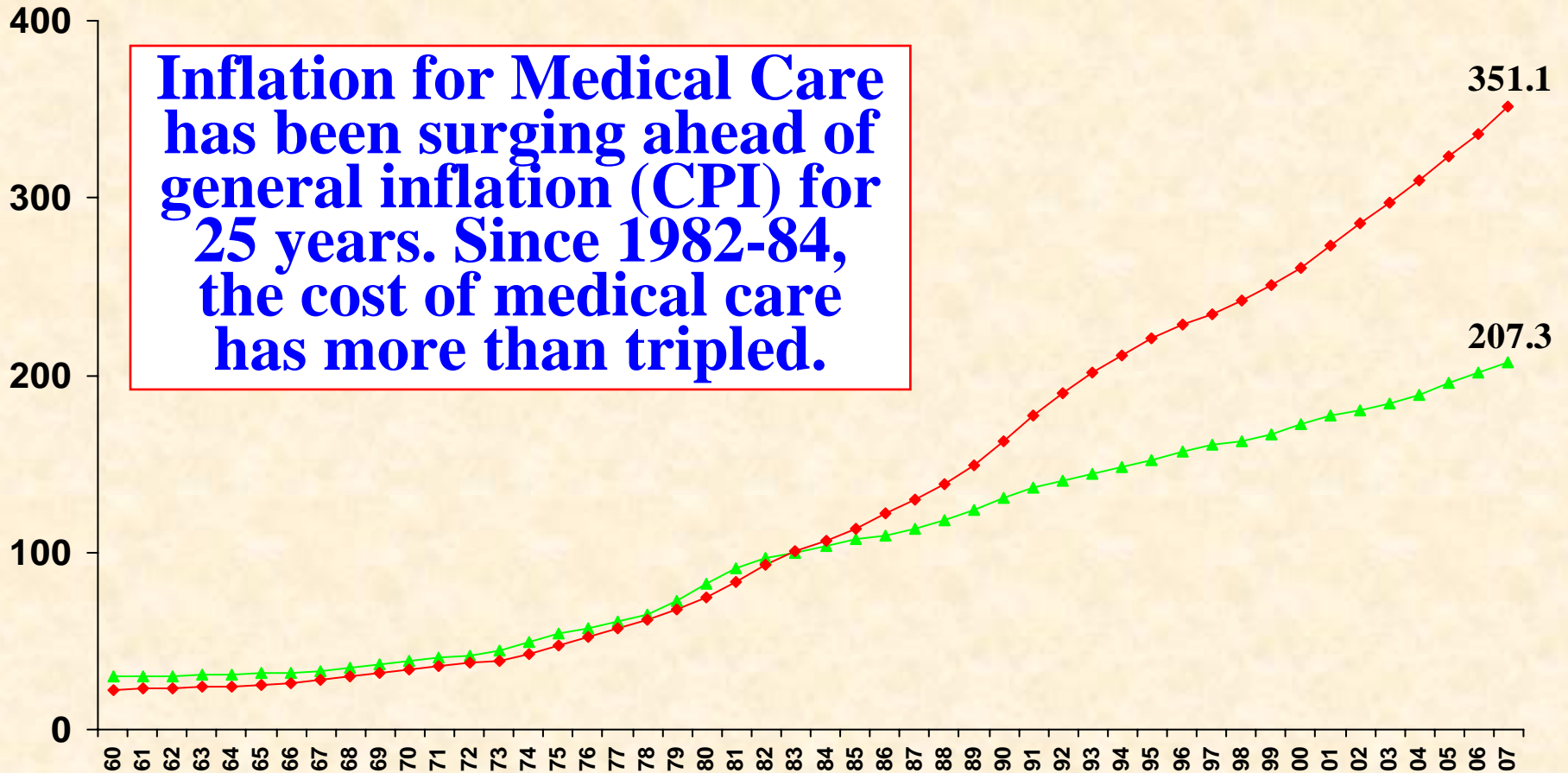
iii National Problem &
Insurer Cost Driver



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

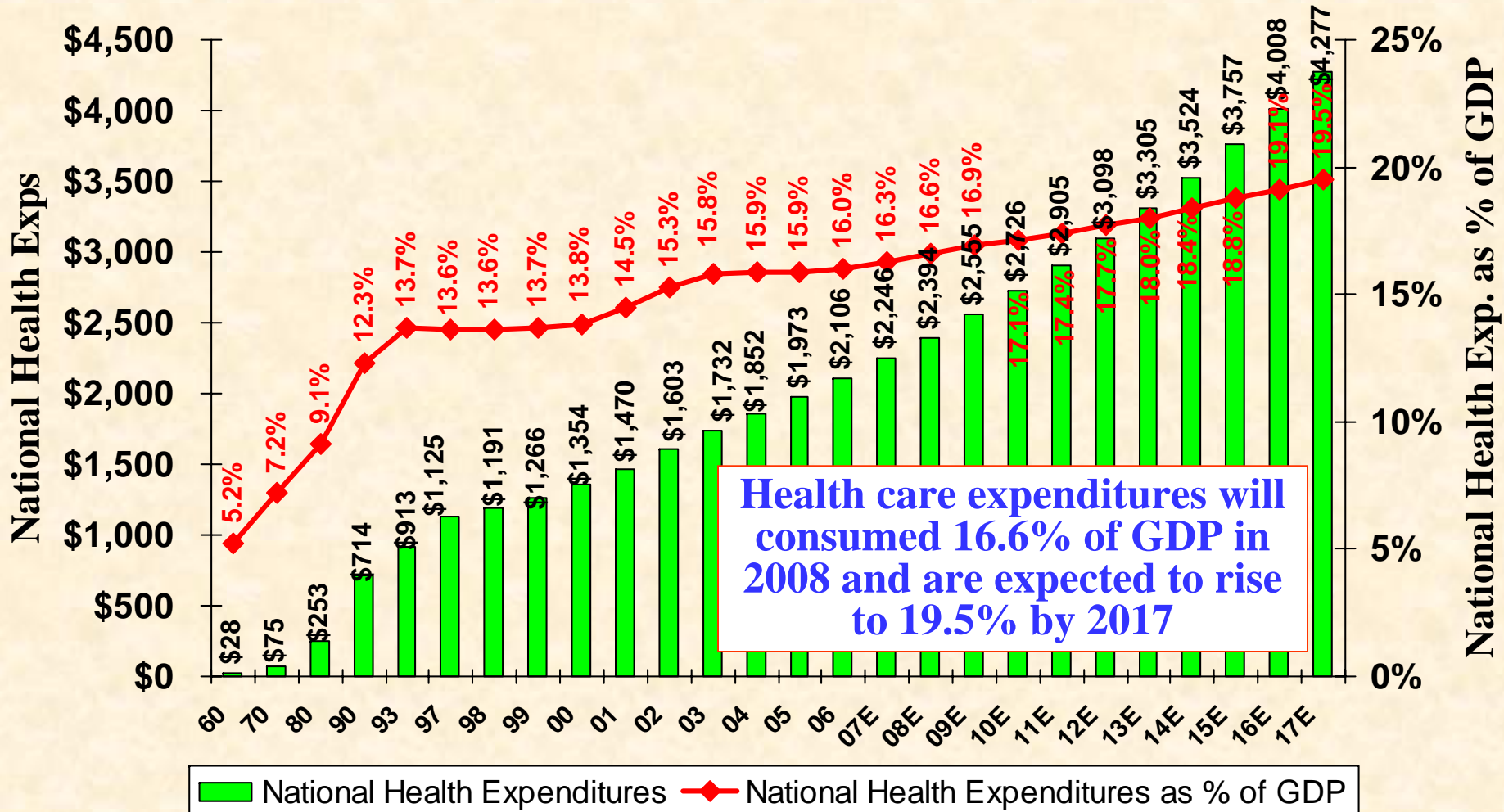
▲ All Items ◆ Medical Care

(Base: 1982-84=100)



Source: Department of Labor (Bureau of Labor Statistics).

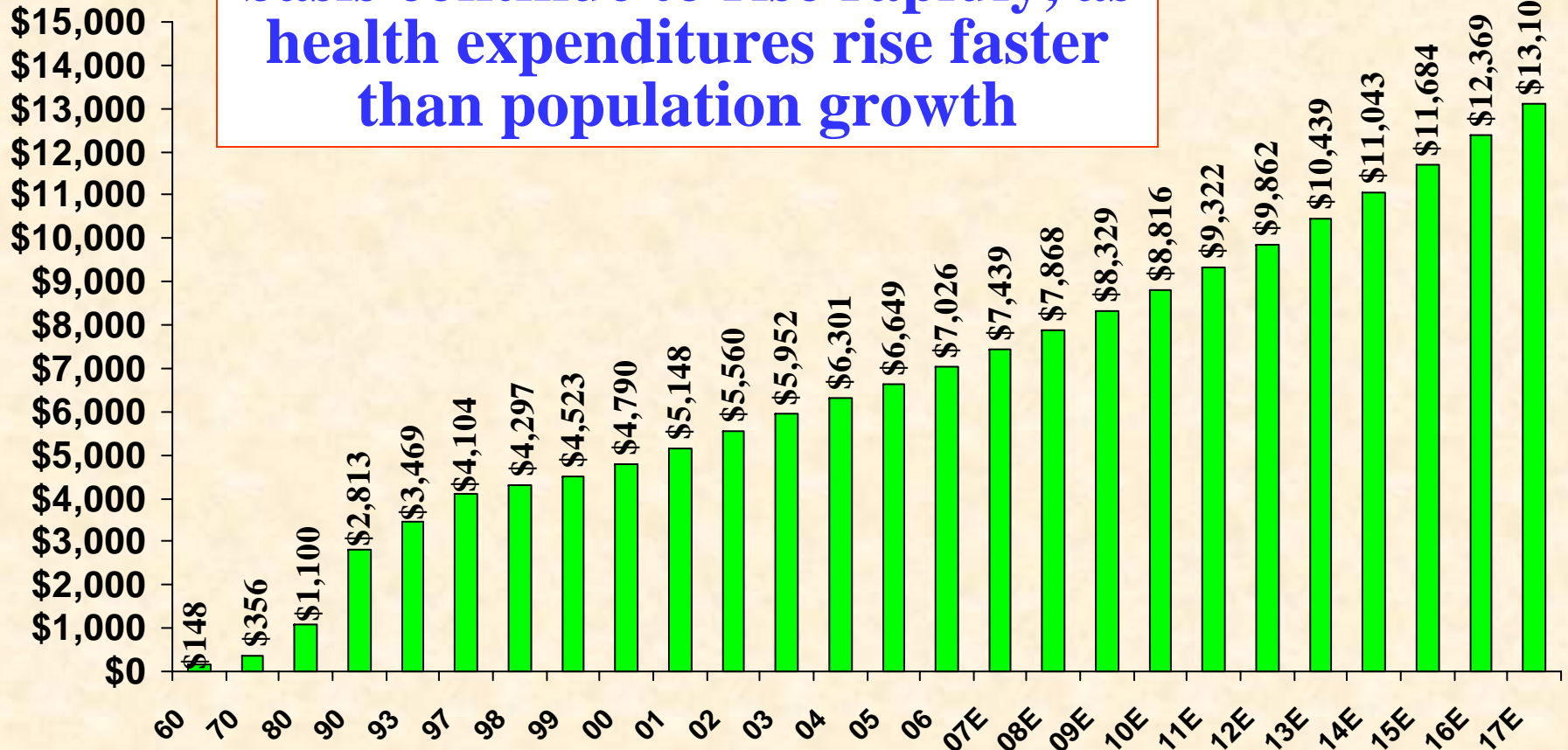
National Health Expenditures and Health Expenditures as a Share of GDP, 1960-2017F (\$ Billions)





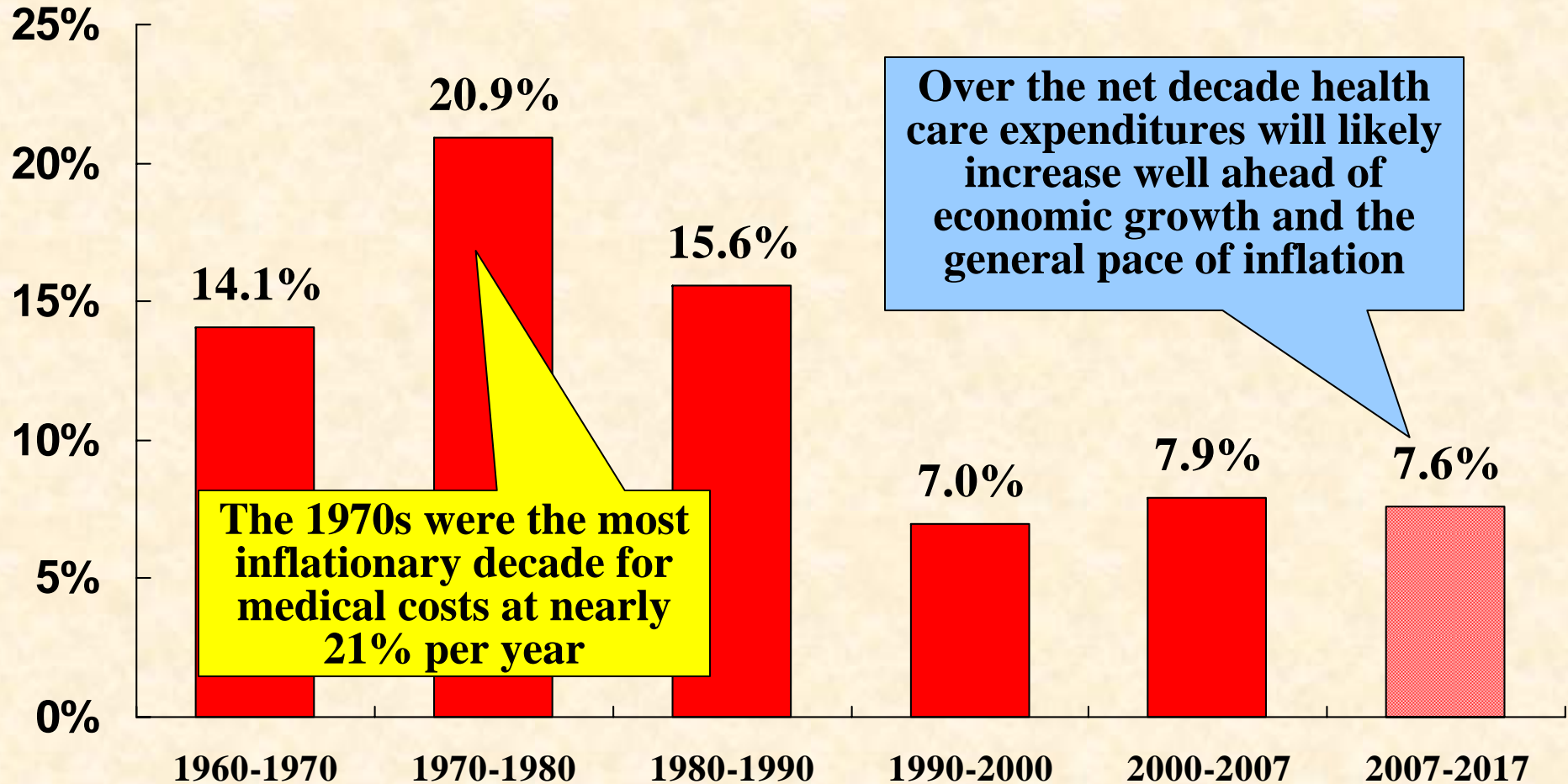
National Health Expenditures Per Capita, 1960-2017E (\$Bill)

Health costs on a per capita basis continue to rise rapidly, as health expenditures rise faster than population growth





Average Annual Growth in US Per Capital Health Care Costs, 1960-2017F



Over the net decade health care expenditures will likely increase well ahead of economic growth and the general pace of inflation

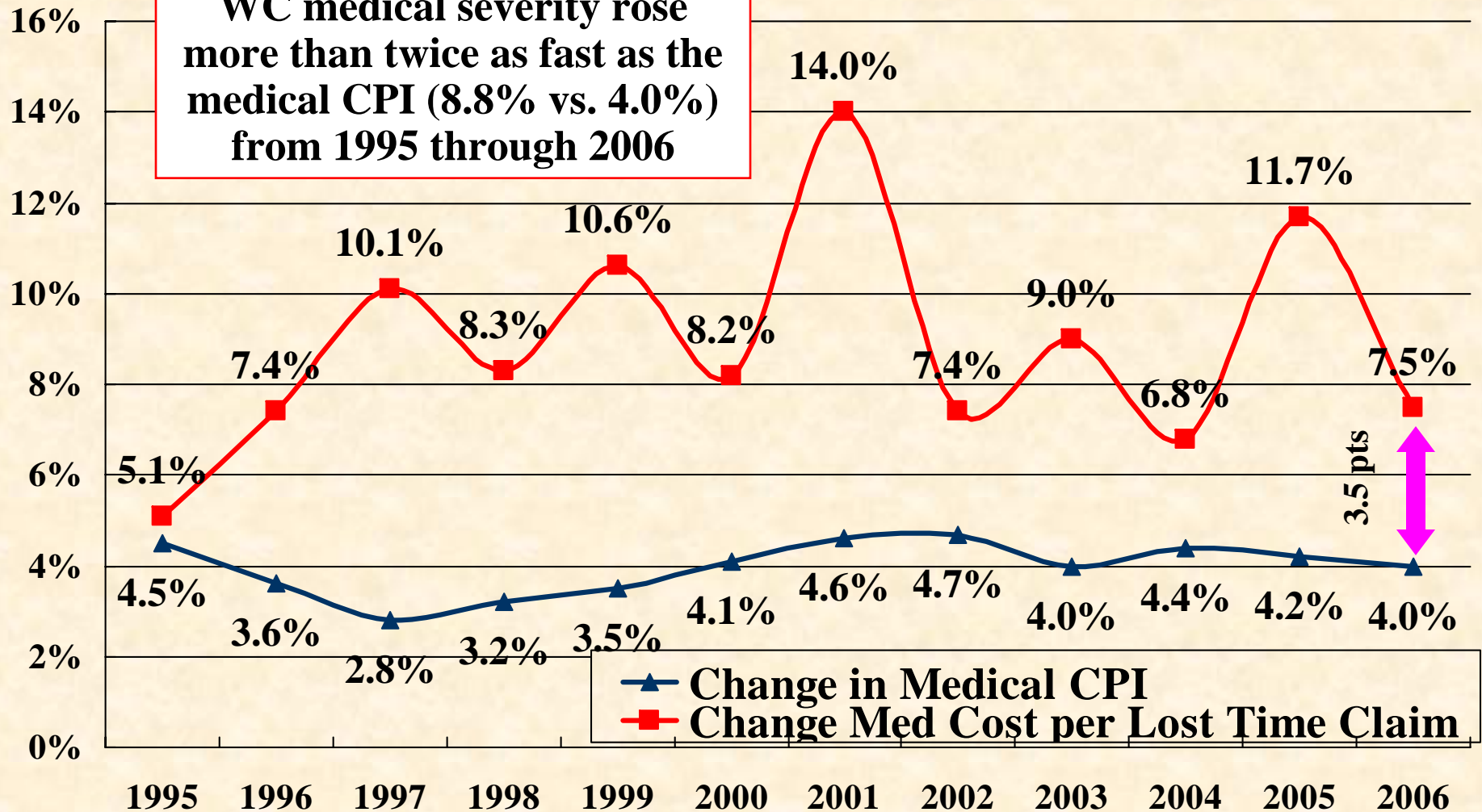
The 1970s were the most inflationary decade for medical costs at nearly 21% per year

Source: Insurance Information Institute calculations based on data from the Centers for Medicare & Medicaid Services, Office of the Actuary.



WC Medical Severity Rising Far Faster than Medical CPI

WC medical severity rose more than twice as fast as the medical CPI (8.8% vs. 4.0%) from 1995 through 2006



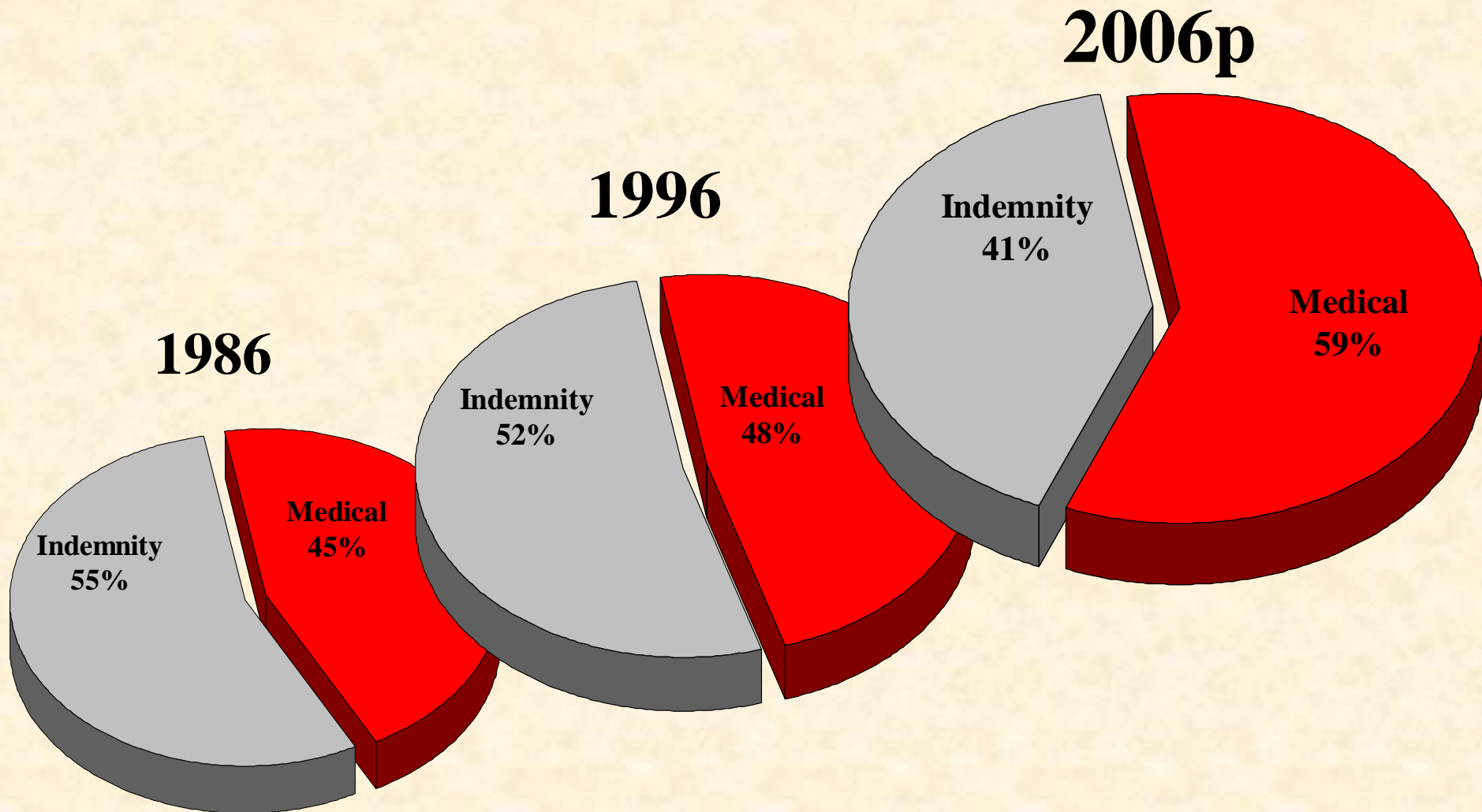
3.5 pts

▲ Change in Medical CPI
■ Change Med Cost per Lost Time Claim

Sources: Med CPI from US Bureau of Labor Statistics, WC med severity from NCCI based on NCCI states.



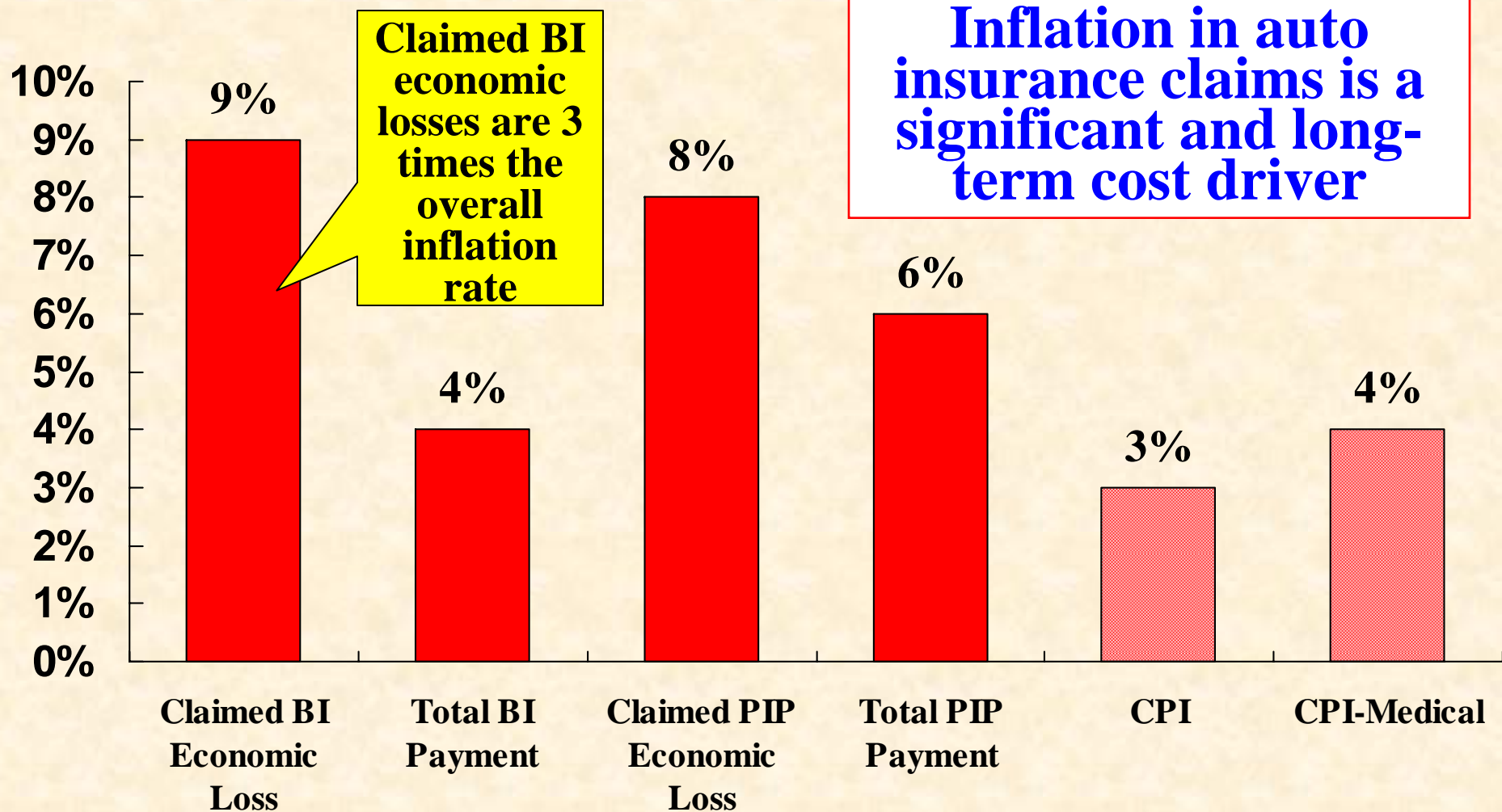
Med Costs Share of Total Costs is Increasing Steadily



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



Auto Claim Costs Rise Faster than CPI or Health Care Costs



Sources: Insurance Research Council, *Auto Insurance Claims: Countrywide Patterns in Treatment, Cost and Compensation*, 2008 Edition; Insurance Information Institute.

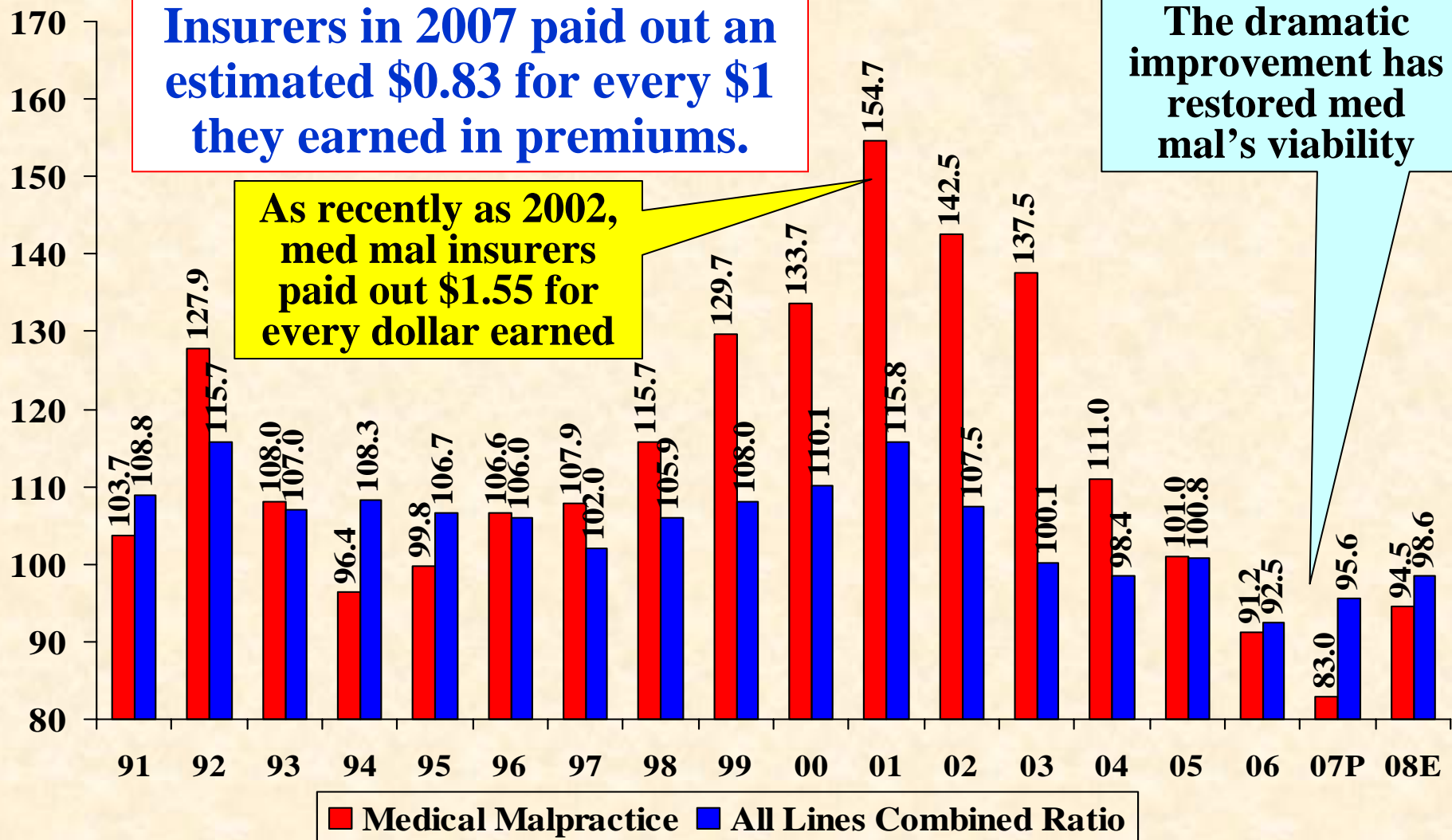
MEDICAL MALPRACTICE OPERATING ENVIRONMENT



**Improved, But
Still Vulnerable**

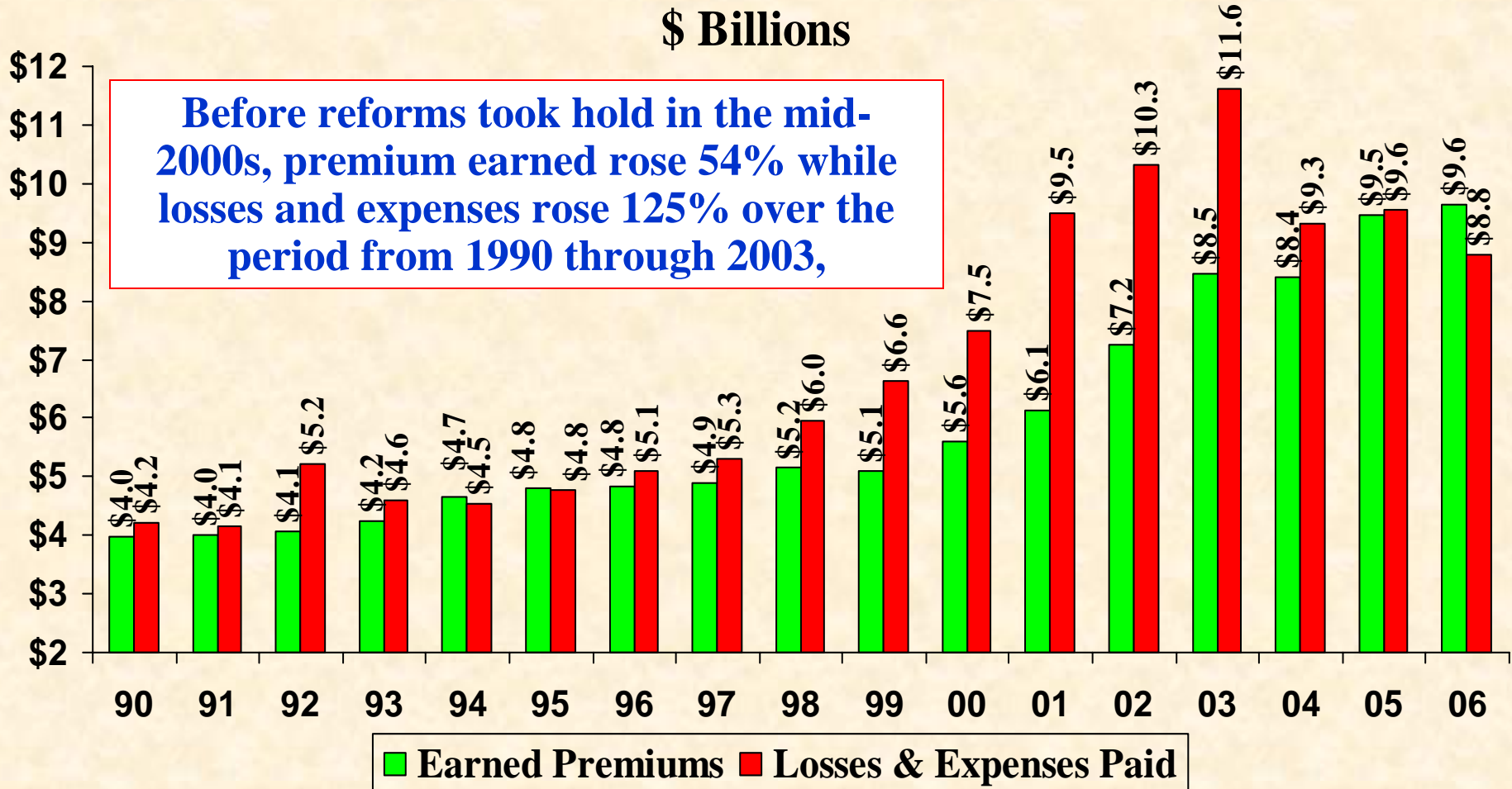


Medical Malpractice Combined Ratio



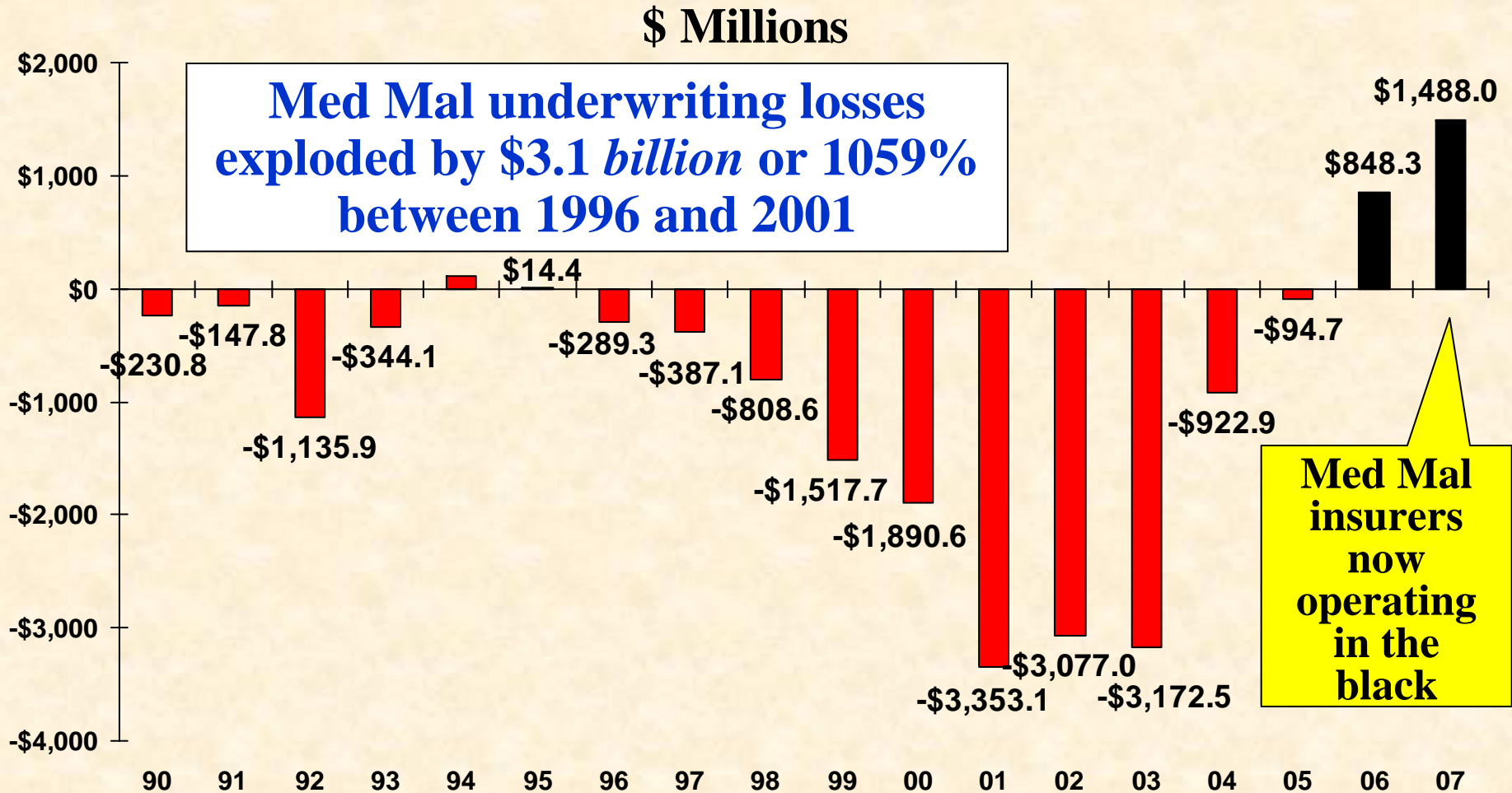


Medical Malpractice: Losses & Expenses Paid vs. Premiums Earned





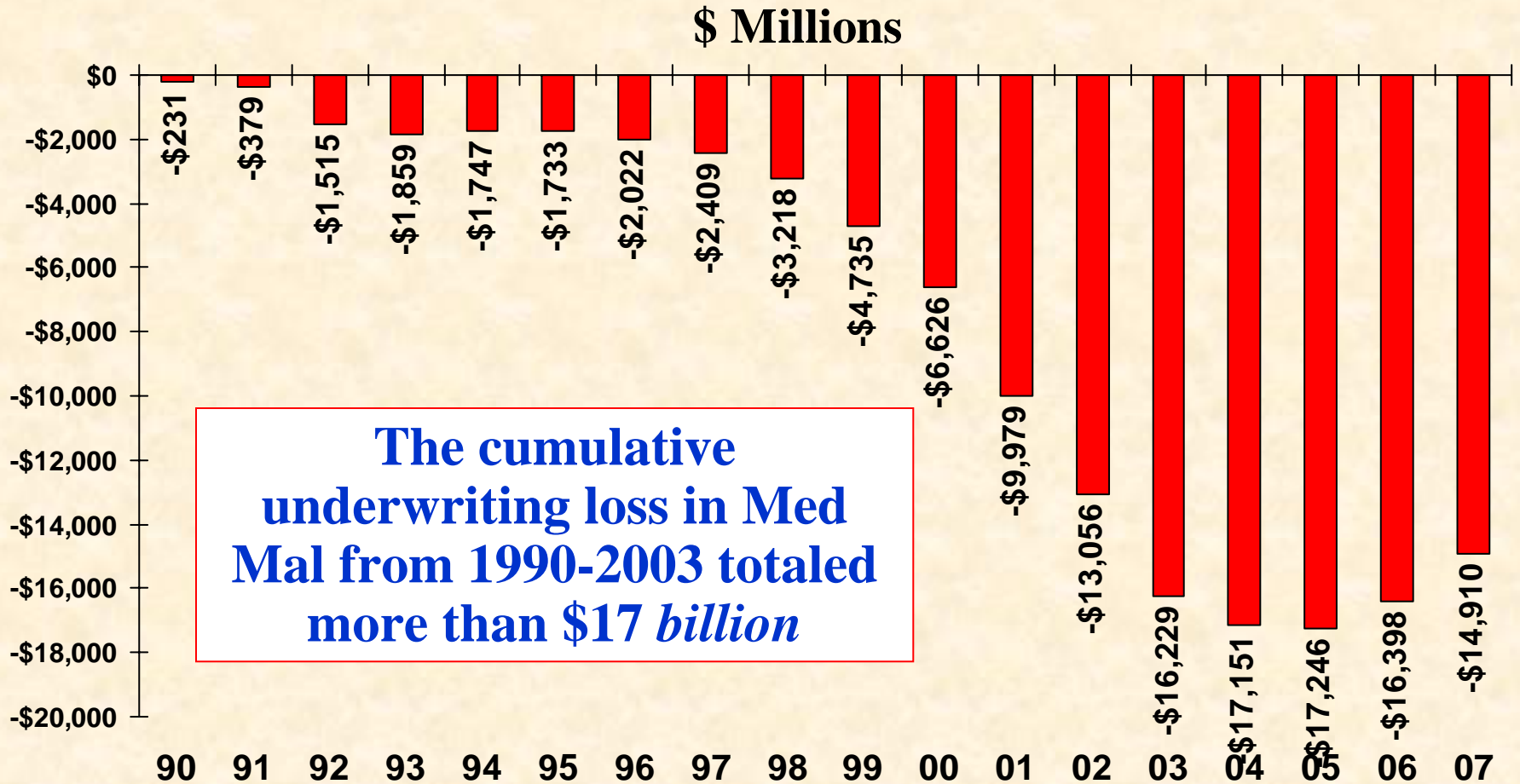
Medical Malpractice: Underwriting Loss/Profit, 1990-2007p



Source: Insurance Information Institute calculations based on data from A.M. Best.



Medical Malpractice: Cumulative Underwriting Losses



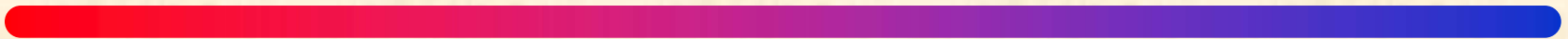


Outlook for MPLI

Operating Environment

- **Short-Term**: Soft market persists, driven by relatively good underlying underwriting performance
- **Intermediate Term**: Cyclical deterioration in profitability as underwriting begins to deteriorate under soft market conditions
- **Long-Run**: Erosion of reforms of recent years begins to take toll, further damaging results
- **Conclusion**: Underwriting Cycle can't be banished, but its depth and length can be moderated via disciplined underwriting and pricing
- **Tort Cycle**: Med Mal tends to experience a tort crisis every 10-15 years. If history is any guide, the next crisis will be evident around 2012-2015

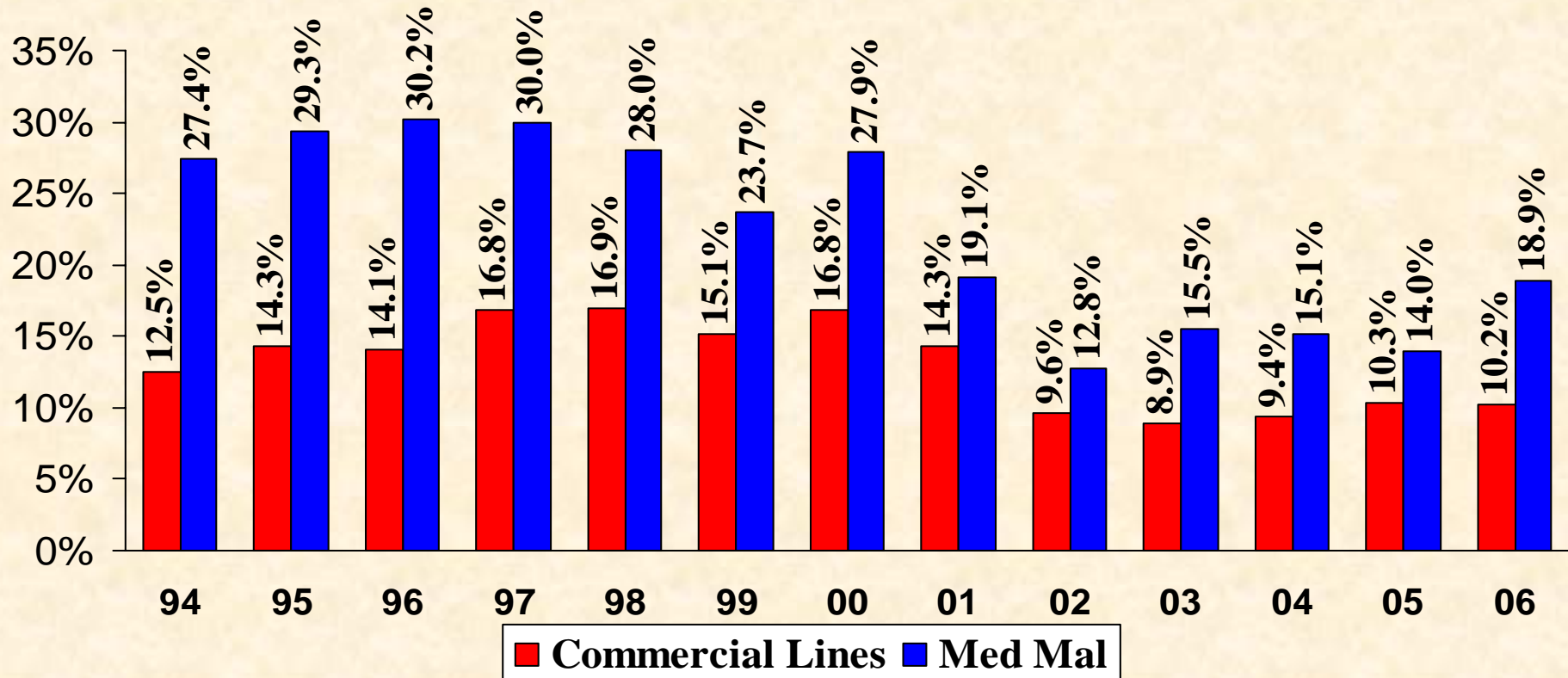
*Investment Component
of Medical Malpractice
Operating Results*





Investment Gain: Med Mal vs. All Commercial Lines*

Investment returns have generally shrunk since 2000, but are still important. “Heavy Lifting” must be done through underwriting & pricing

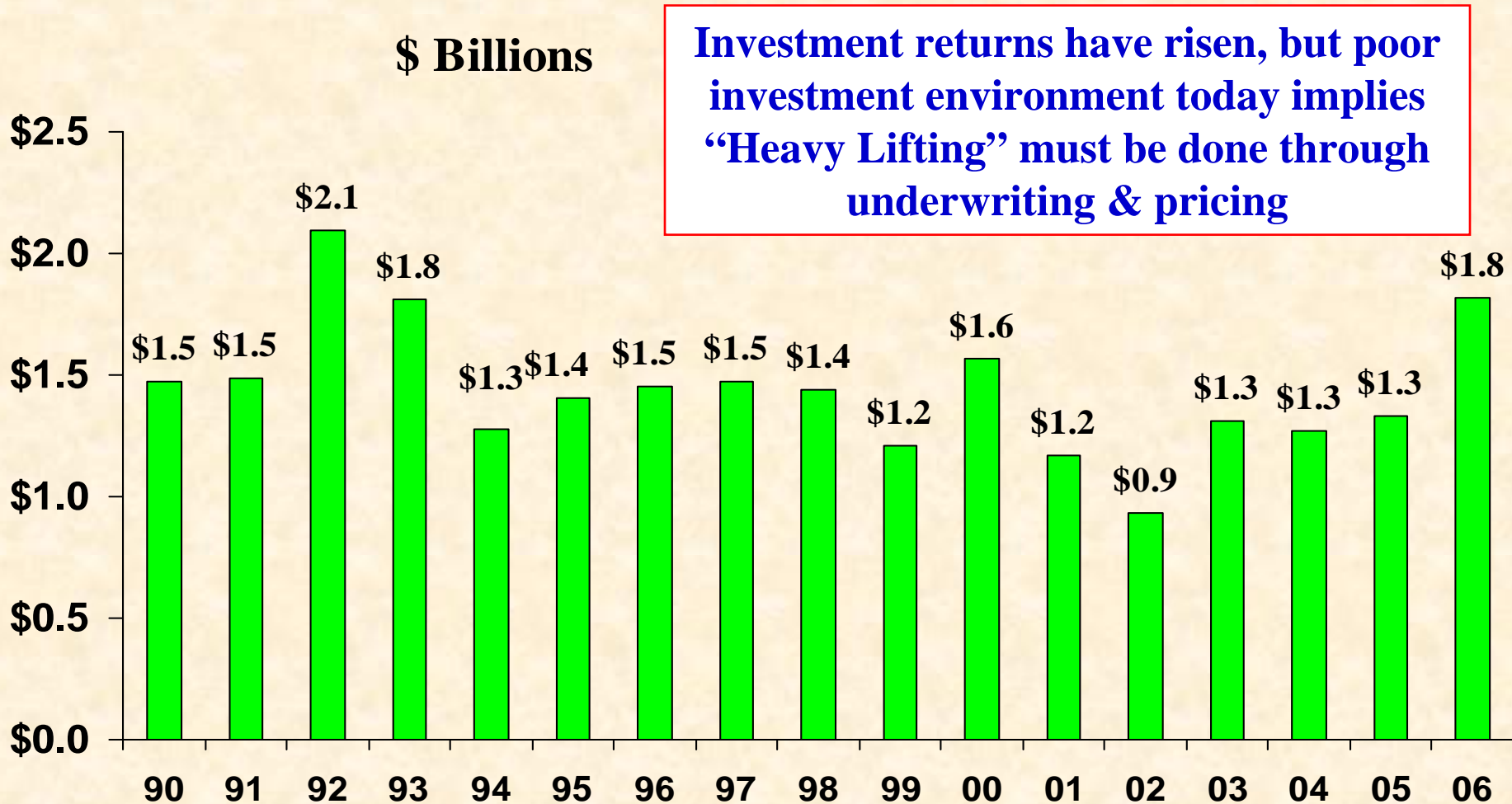


*As a % of net earned premium. Investment gains consists primarily of interest, dividends and realized capital gains and losses.

Source: A.M. Best; Insurance Information Institute estimate



Medical Malpractice Investment Gain*

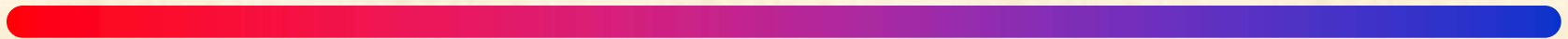


*Imputed from investment gain data as a % of net earned premium. Investment gains consists primarily of interest, dividends and realized capital gains and losses.

Source: A.M. Best; Insurance Information Institute estimate

Medical Malpractice Tort Environment

Harvesting the Fruits
of Reform

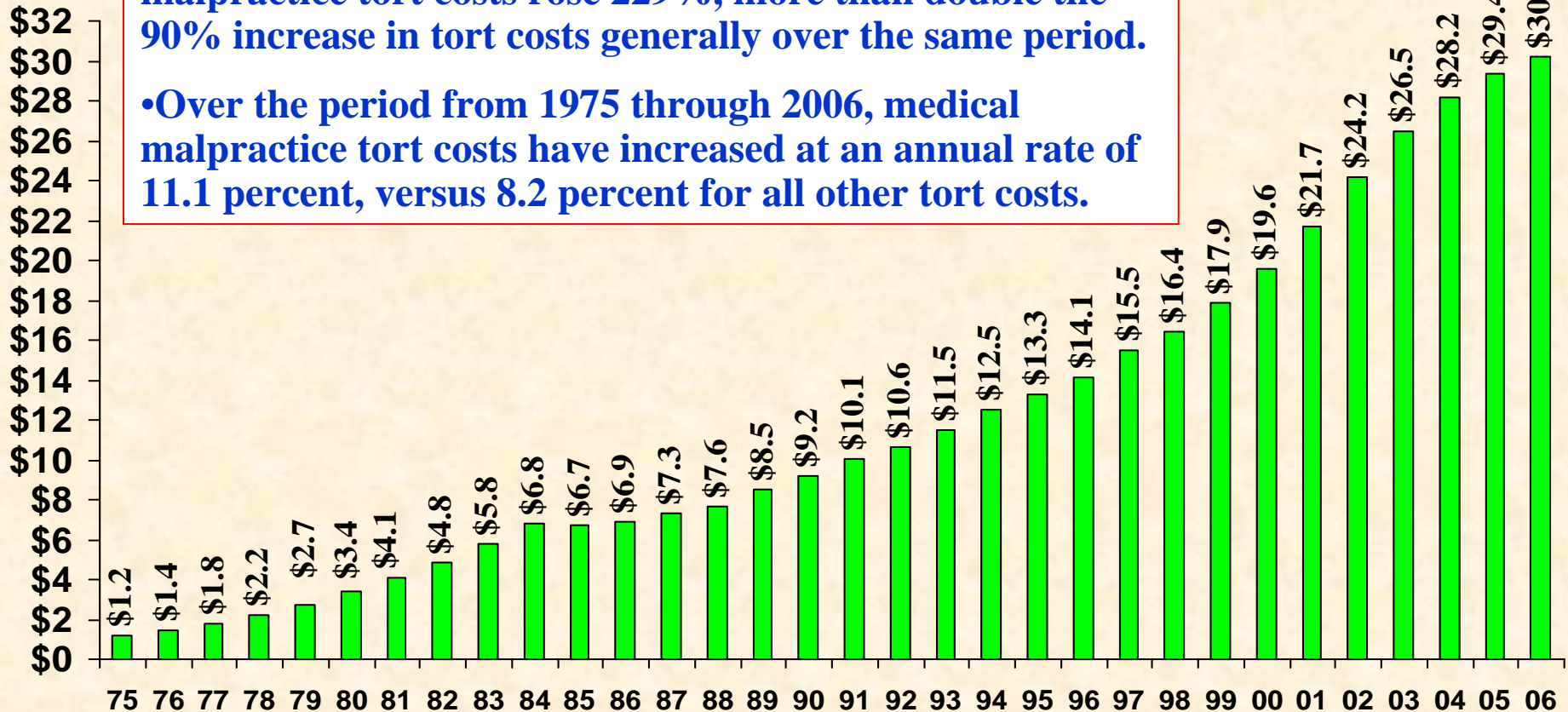




Medical Malpractice Tort Cost: Growth Continues, Though Modestly

\$ Billions

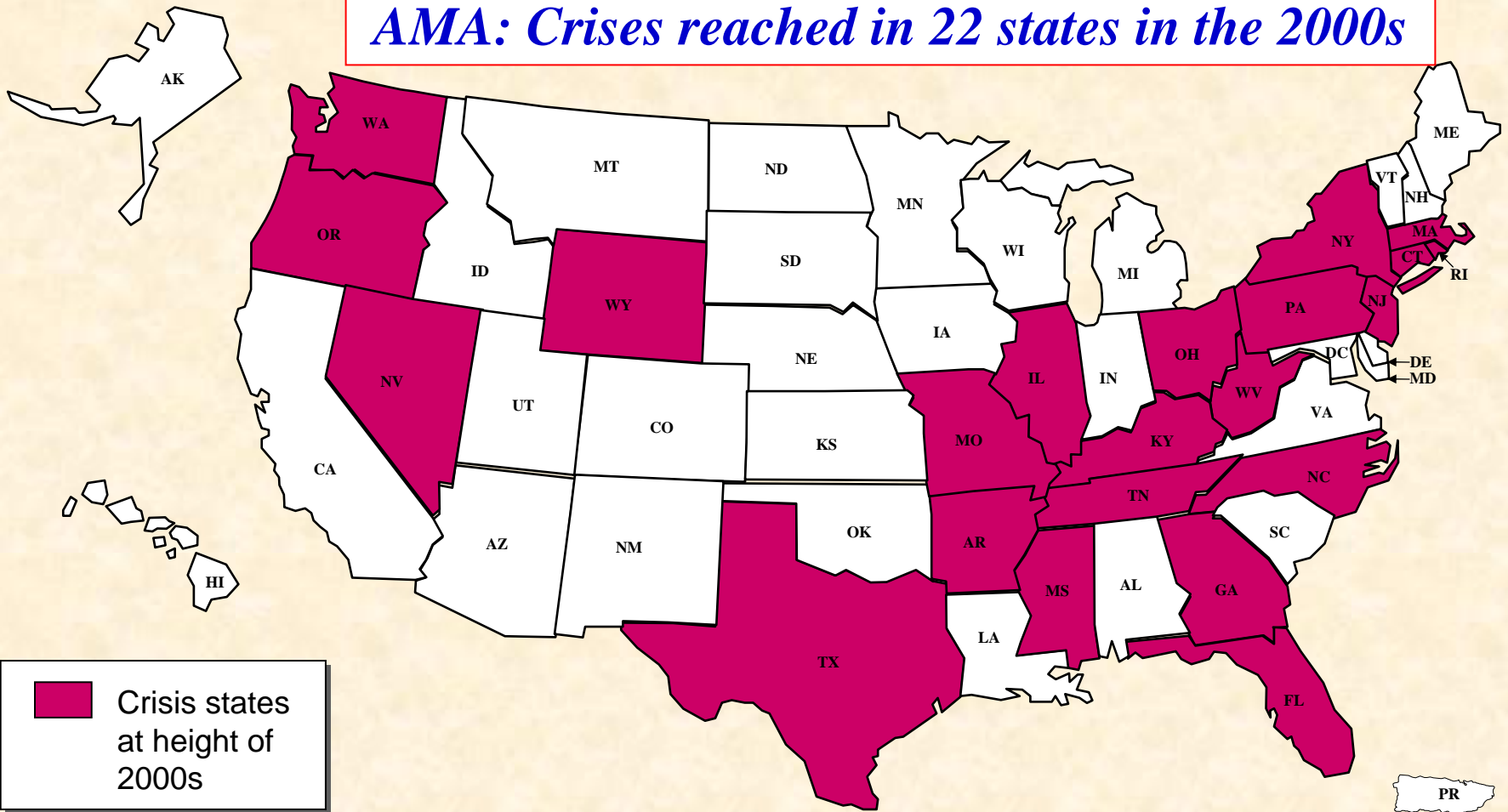
- Over the period from 1990 through 2006, medical malpractice tort costs rose 229%, more than double the 90% increase in tort costs generally over the same period.
- Over the period from 1975 through 2006, medical malpractice tort costs have increased at an annual rate of 11.1 percent, versus 8.2 percent for all other tort costs.





Medical Crises across the U.S.*

AMA: Crises reached in 22 states in the 2000s



*The AMA is no longer categorizing states as crisis states.

Source: American Medical Association, February 2008



2007 Top Ten Verdicts

| Value | Issue | State |
|-----------------|---------------------------|------------|
| \$109 Million | Medical Malpractice | New York |
| \$102.7 Million | Premises Liability, Death | Florida |
| \$55.2 Million | Product Liability, Death | California |
| \$54 Million | Private Air Crash | Florida |
| \$54 Million | Personal Injury, Death | New Mexico |
| \$50 Million | Product Liability, Death | Florida |
| \$50 Million | Product Liability, Death | Alabama |
| \$47.6 Million | Product Liability, Death | Nevada |
| \$47.5 Million | Vioxx | New Jersey |
| \$45 Million | Auto Crash, Death | Florida |

1 of the top 10 awards in
2007 was related to medical liability
Total Cost = \$109 Million.



2002 Top Ten Verdicts

| Value | Issue | State |
|-----------------------|--|-----------------|
| \$28 Billion | Tobacco (Product Liability) | Florida |
| \$2.2 Billion | Negligence (Pharmacy Mal) | Missouri |
| \$270 Million | Product Liability (Medical Mal) | California |
| \$225 Million | Product Liability (Bollover) | Texas |
| \$150 Million | Product Liability (Medical Mal) | Oregon |
| \$122 Million | Product Liab. (Auto Accident) | Virginia |
| \$97.2 Million | Product Liability (Medical Mal) | California |
| \$95.2 Million | Med Mal (Birth Injury) | New York |
| \$91 Million | Product Liability (Medical Mal) | New York |
| \$80 Million | Med Mal (Birth Injury) | New York |
| \$80 Million | Prod. Liab/Personal Inj. (Auto) | Missouri |

7 of the top 20 awards in 2001/2002 were related to medical liability
Total Cost = \$3.0 Billion!



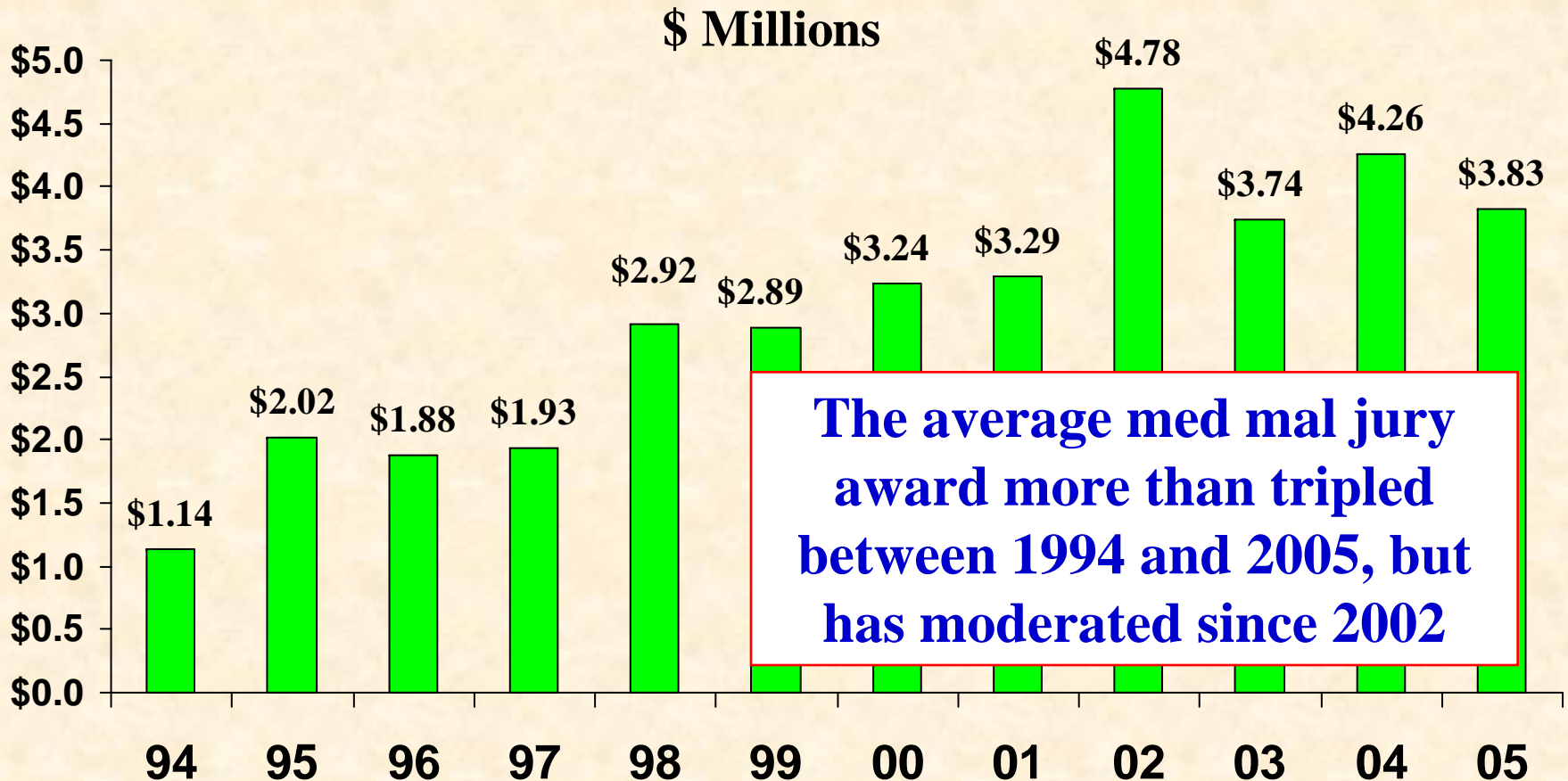
2001 Top Ten Verdicts

| Value | Issue | State |
|------------------------|-----------------------------|-----------------|
| \$3 Billion | Tobacco | California |
| \$1 Billion | Land Contamination | Louisiana |
| \$480 Million | Private Airplane Crash | Florida |
| \$312.8 Million | Nursing Home | Texas |
| \$ 256 Million | Police Auto Crash | Colorado |
| \$116 Million | Intellectual Property Theft | Virginia |
| \$114.9 Million | Medical Malpractice | New York |
| \$108.2 Million | Inheritance Dispute | Texas |
| \$107.8 Million | Medical Malpractice | New York |
| \$94.5 Million | Real Estate | California |

Source: LawyersWeekly USA, January 2002.



Average Jury Award in Medical Malpractice Cases*

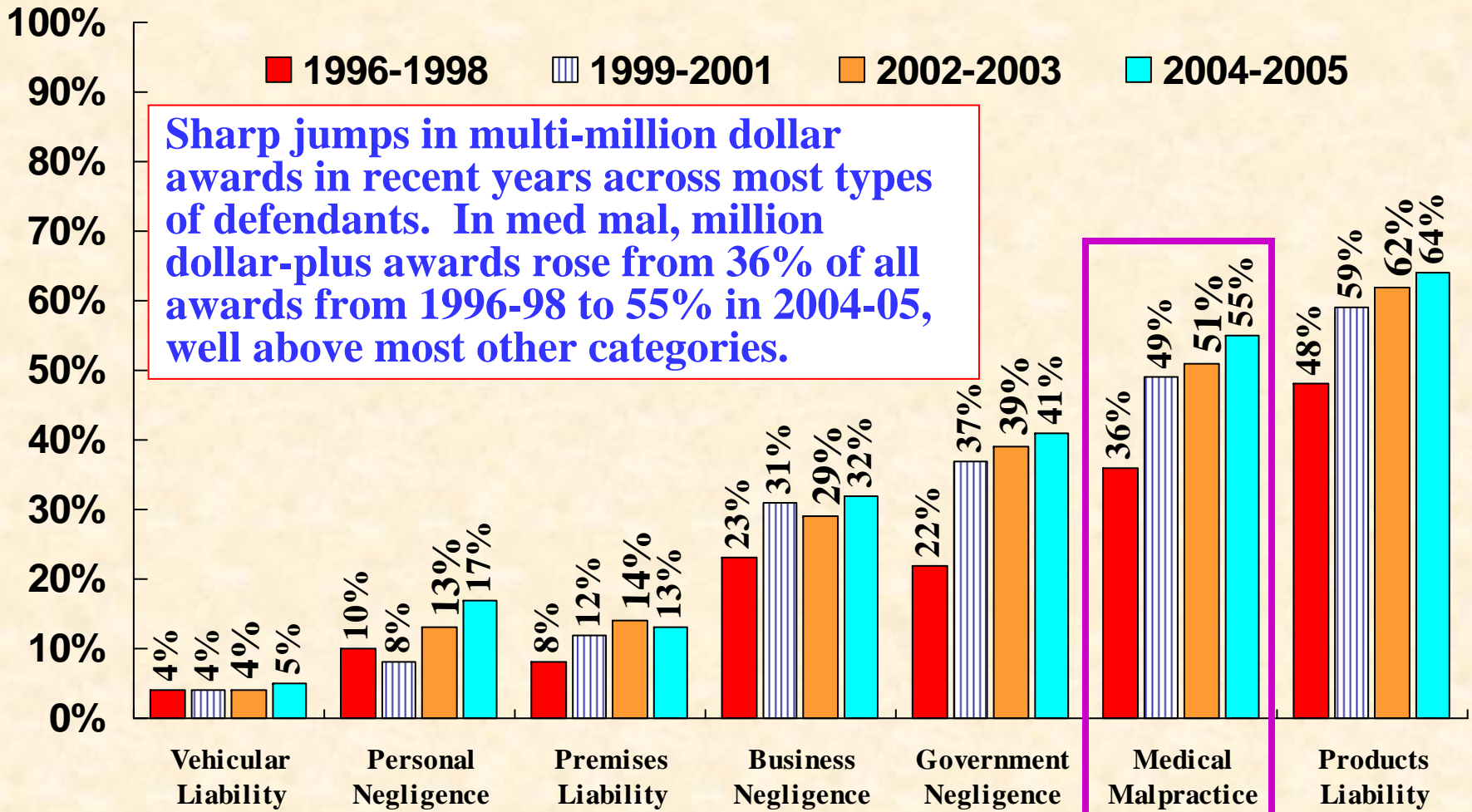


*Ultimate award may be reduced by judge or upon appeal.

Source: Jury Verdict Research; Insurance Information Institute.



Trends in Million Dollar Verdicts*

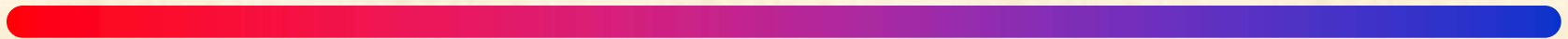


*Verdicts of \$1 million or more.

Source: Jury Verdict Research; Insurance Information Institute.

MERGER & ACQUISITION

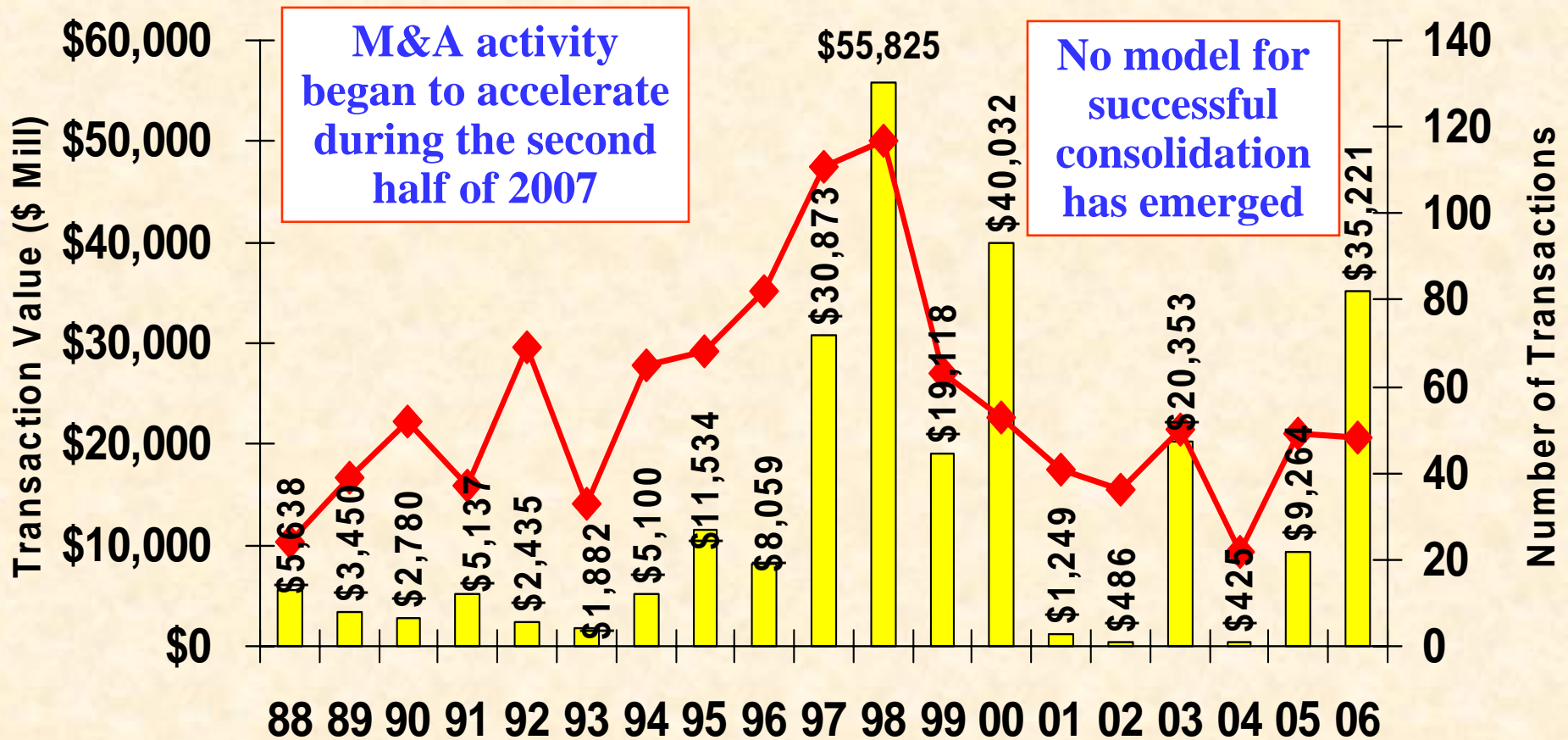
Catalysts for P/C
Consolidation Growing
in 2008





P/C Insurance-Related M&A Activity, 1988-2006

Transaction Values ◆ Number of Transactions





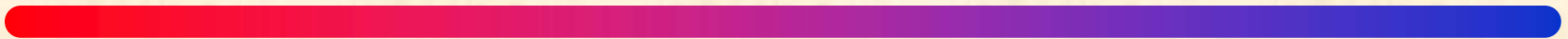
Motivating Factors for Increased P/C Insurer Consolidation

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

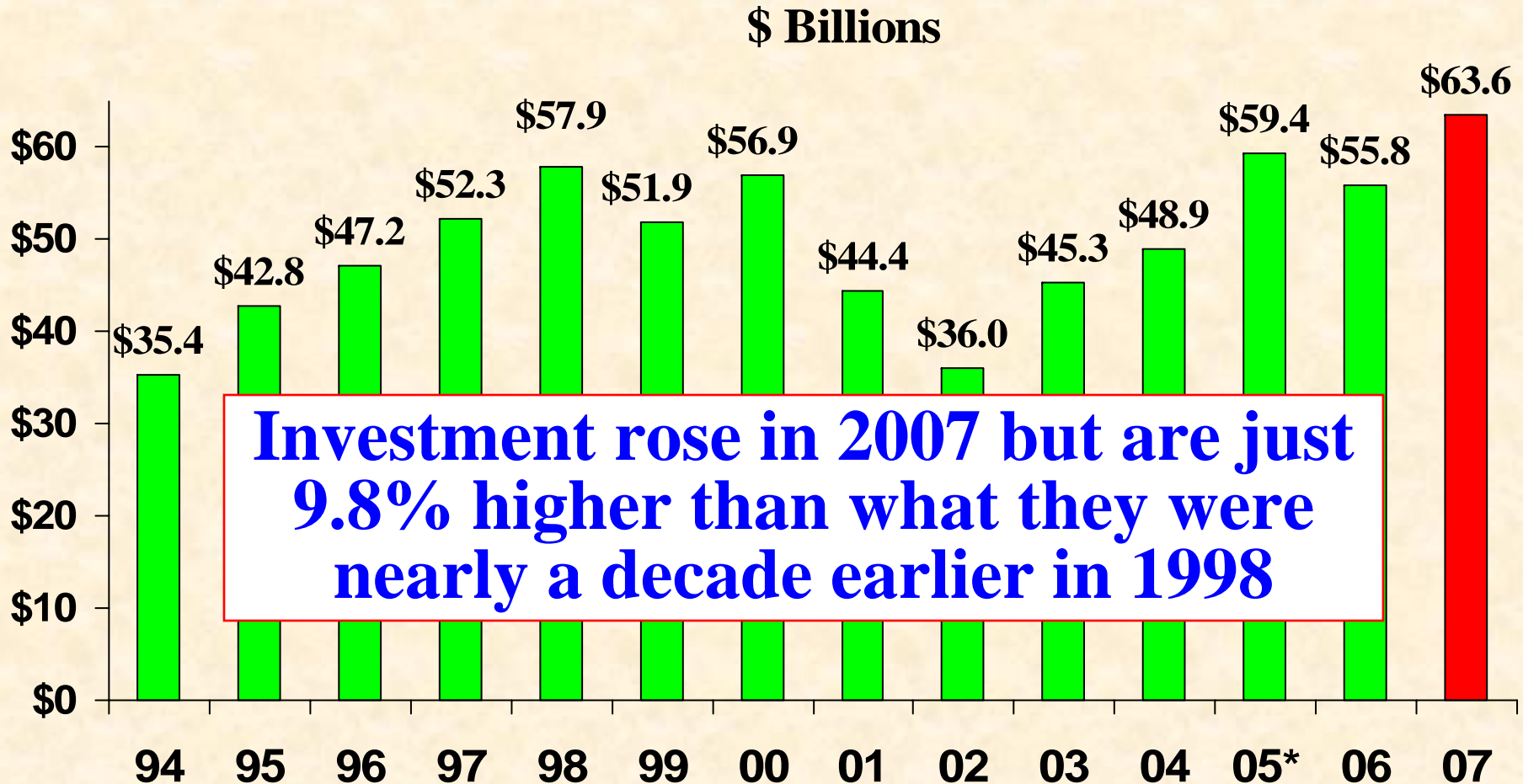
P/C INVESTMENT OVERVIEW

*More Pain,
Little Gain*





Property/Casualty Insurance Industry Investment Gain¹



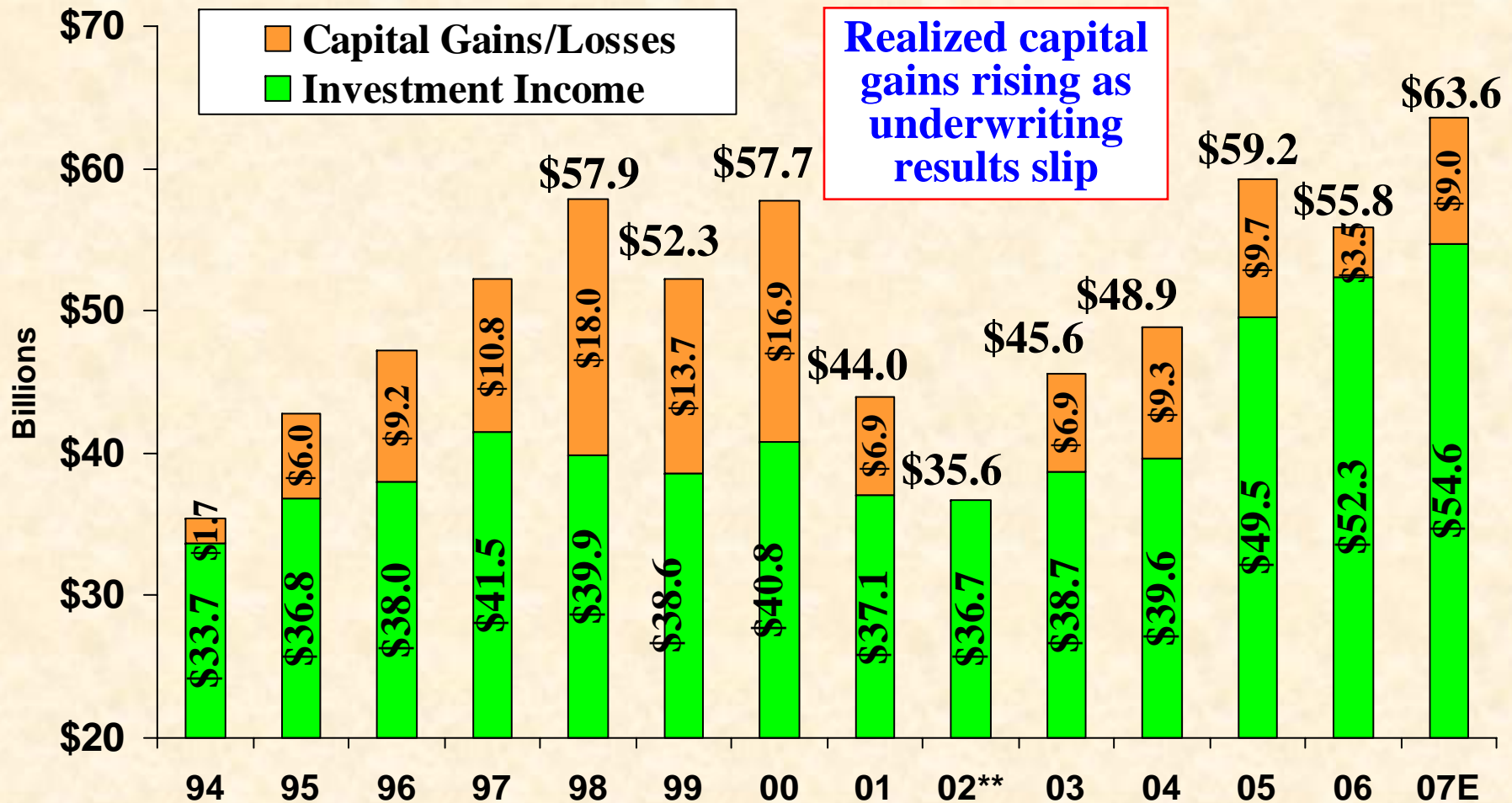
¹Investment gains consist primarily of interest, stock dividends and realized capital gains and losses. 2006 figure consists of \$52.3B net investment income and \$3.4B realized investment gain.

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

Sources: ISO; Insurance Information Institute.



Property/Casualty Industry Investment Results, 1994-2007



*Primarily interest, stock dividends, and realized capital gains and losses.

**Not shown: \$1.1B capital loss in 2002.

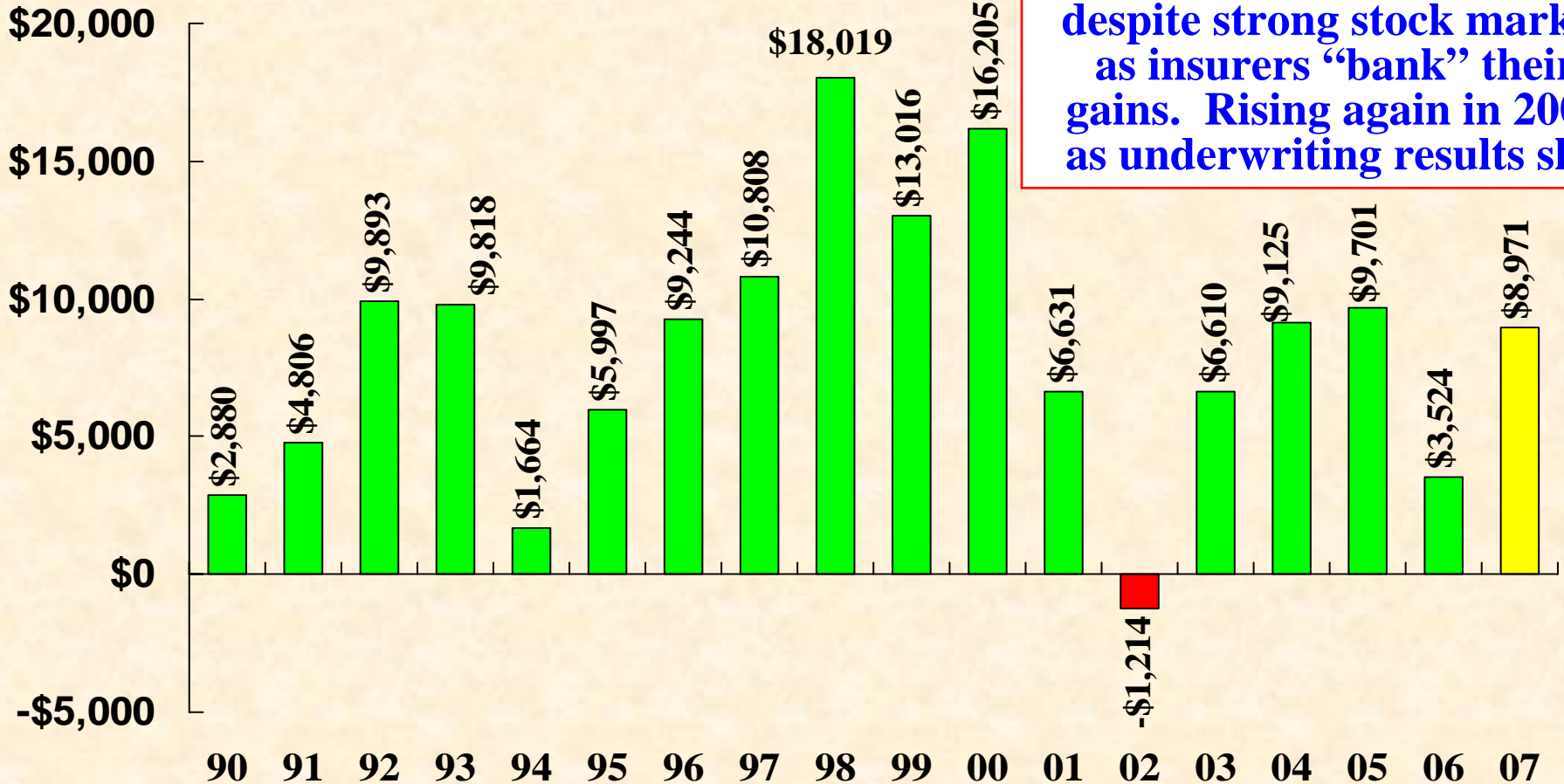
2005 figure includes special one-time dividend of \$3.2B.

Sources: ISO; Insurance Information Institute.



US P/C Net Realized Capital Gains, 1990-2007 (\$ Millions)

Realized capital gains rebounded strongly in 2004/5 but fell sharply in 2006 despite strong stock market as insurers “bank” their gains. Rising again in 2007 as underwriting results slip

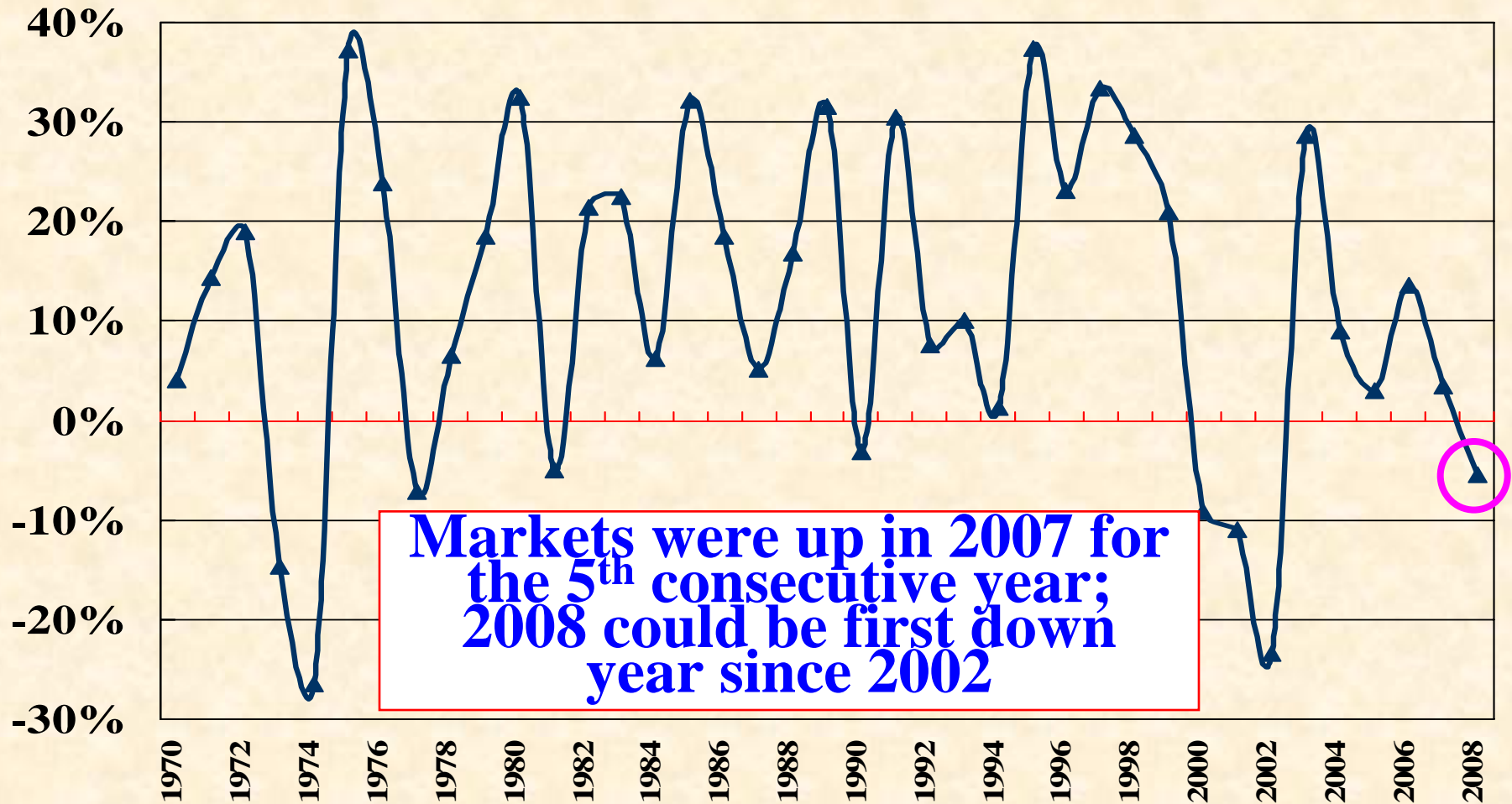


Sources: A.M. Best, ISO, Insurance Information Institute.



Total Returns for Large Company Stocks: 1970-2008*

S&P 500 was up 3.5% in 2007, down 5.45% YTD 2008*

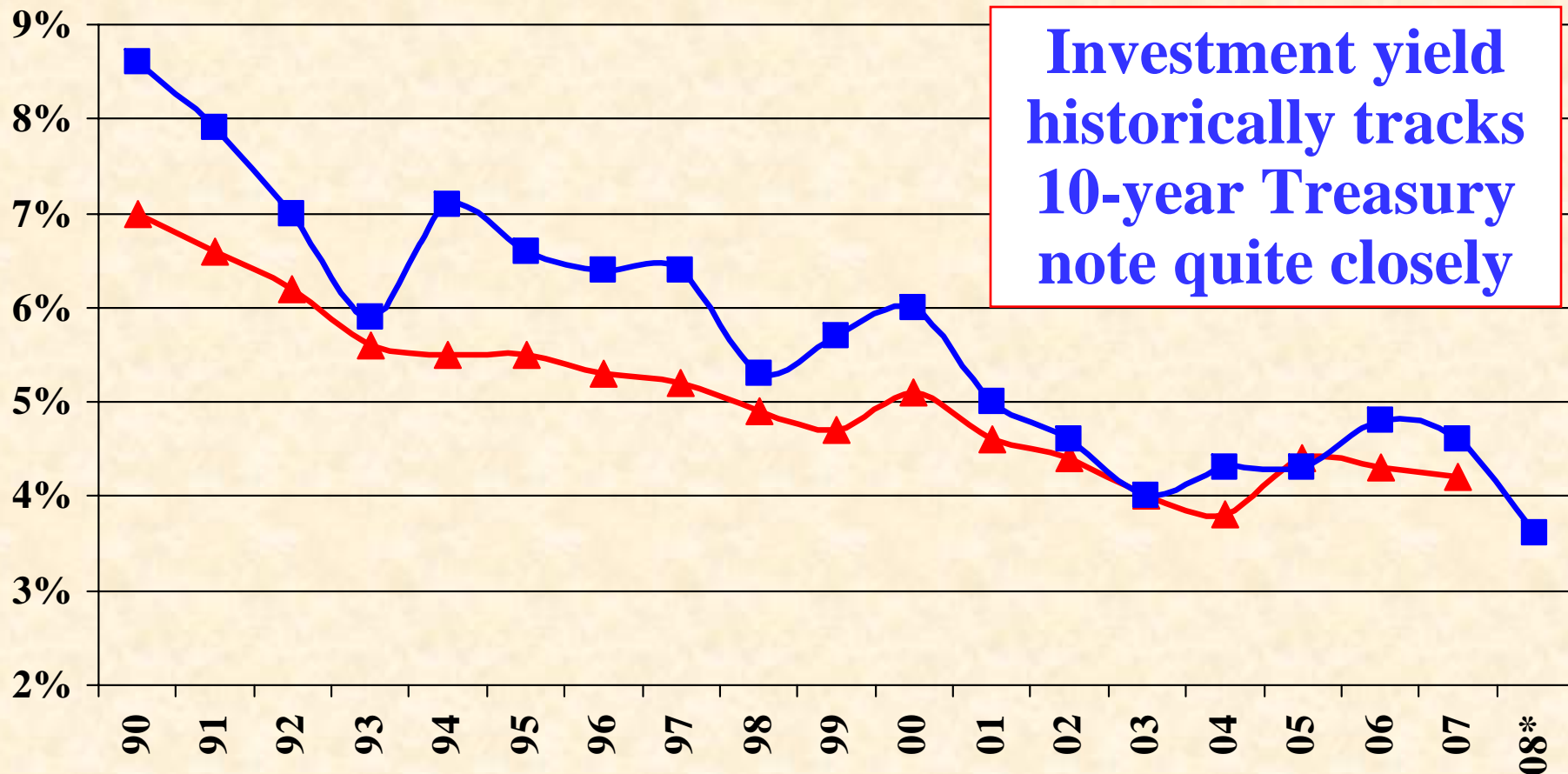


Source: Ibbotson Associates, Insurance Information Institute.

*Through May 9, 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 January 2008 month-end.

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

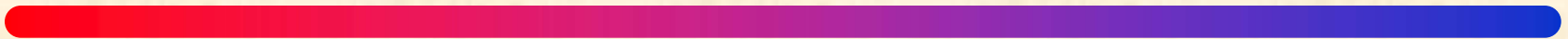


Investment Outlook

- **Short-Term**: Low interest rates, poor equity market performance will reduce investment gains and depress profitability
- **Intermediate Term**: Fed likely to begin raising rates as early as late 2008, if credit market conditions continue to improve
 - Stock markets could begin recovery from first quarter lows
- **Long-Run**: Interest rates and stock market returns are modest
- **Conclusion**: Insurers (including long-tail carriers offering MPLI) cannot count on investment gains to offset underwriting losses
- **Implication**: Insurers Must Remain Disciplined in Terms of Underwriting and Pricing

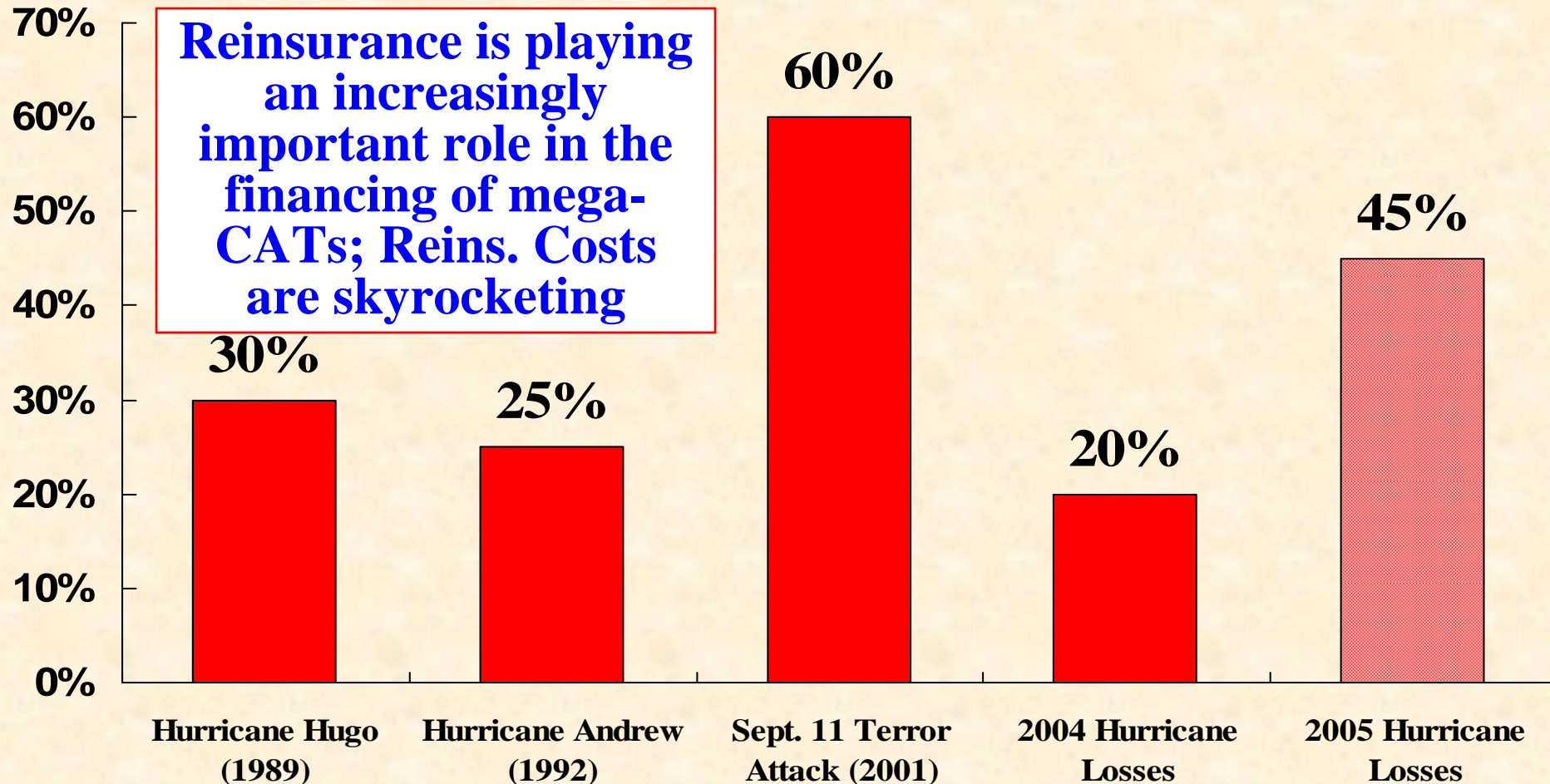
REINSURANCE MARKETS

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





Share of Losses Paid by Reinsurers, by Disaster*



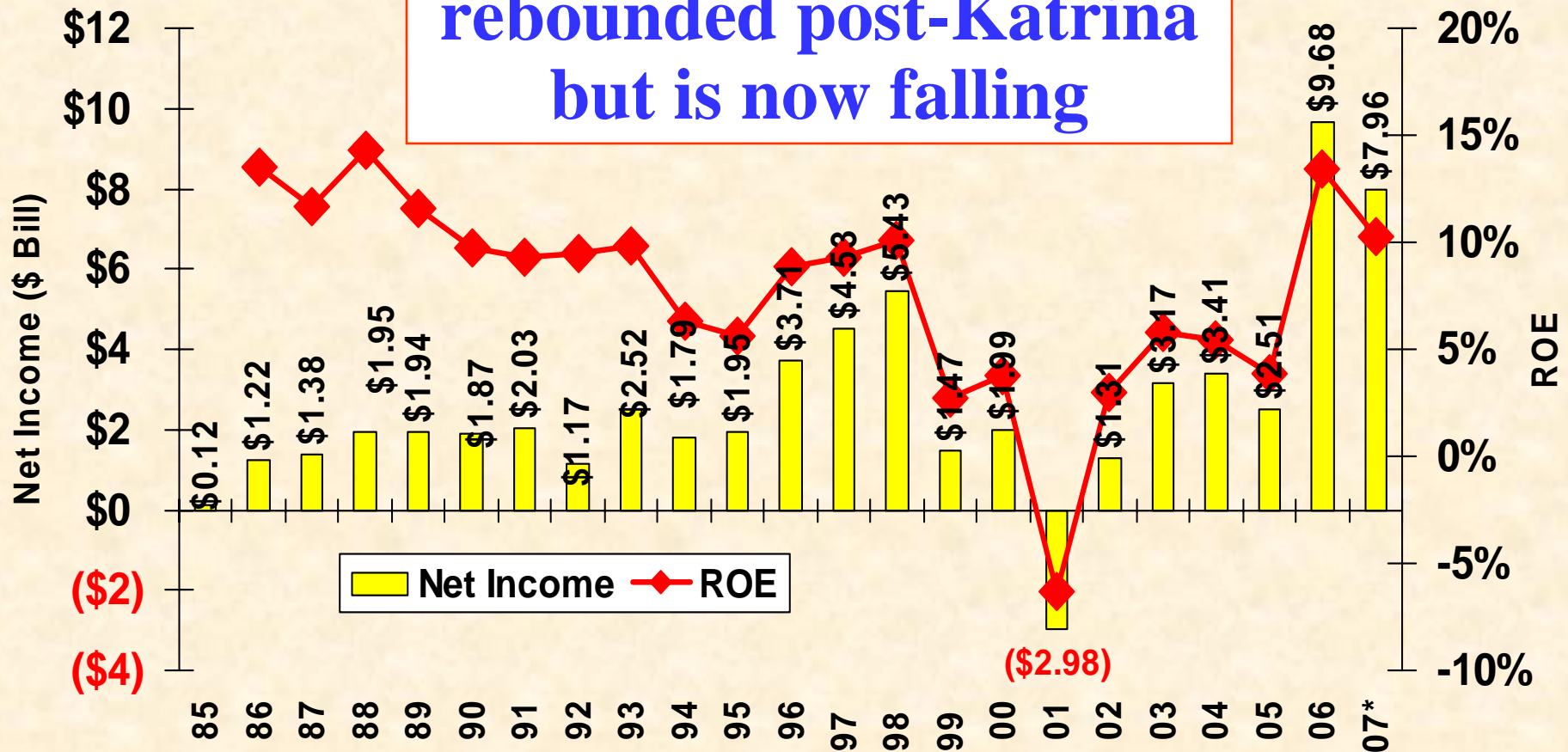
*Excludes losses paid by the Florida Hurricane Catastrophe Fund, a FL-only windstorm reinsurer, which was established in 1994 *after* Hurricane Andrew. FHCF payments to insurers are estimated at \$3.85 billion for 2004 and \$4.5 billion for 2005.

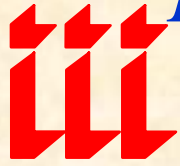
Sources: Wharton Risk Center, Disaster Insurance Project; Insurance Information Institute.



US Reinsurer Net Income & ROE, 1985-2007*

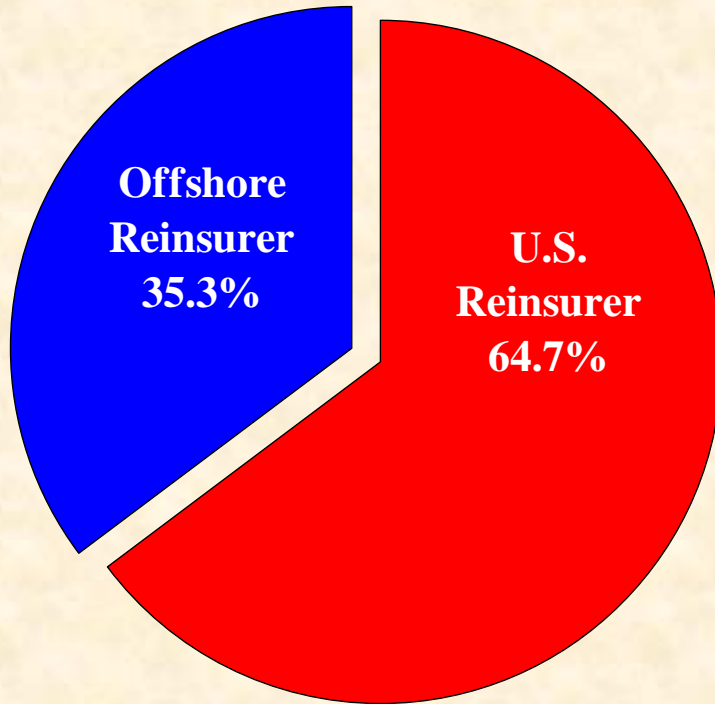
Reinsurer profitability rebounded post-Katrina but is now falling



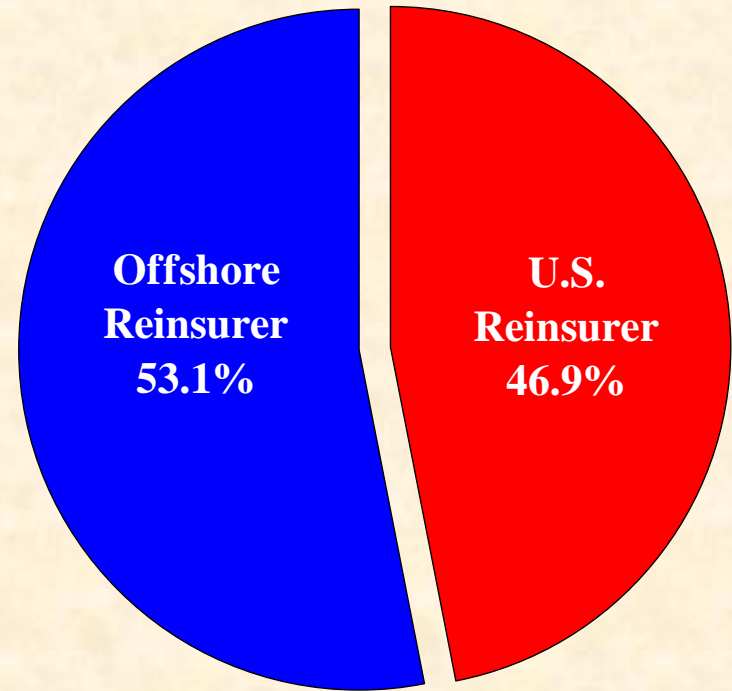


Reinsurer Market Share Comparison: 1990 vs. 2006

1990



2006



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

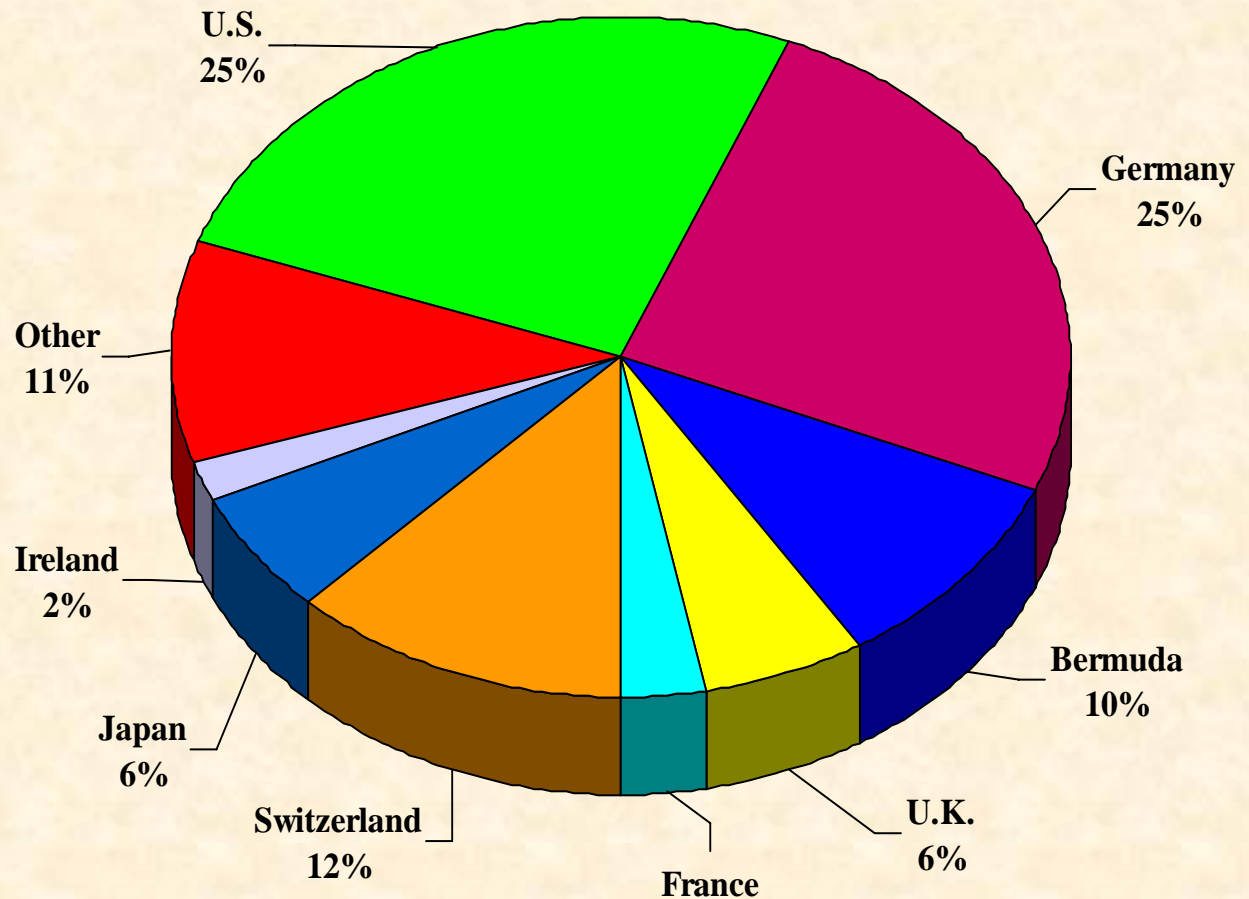


Regional Distribution of Reinsurers by NWP, 2006

Eight countries account for 89 percent of global reinsurance volume.

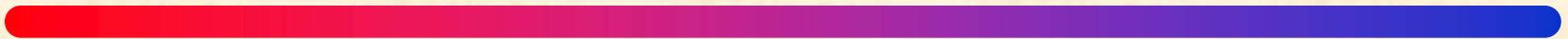
International reinsurers from Germany, Switzerland and France account for 40 percent of global reinsurance volume.

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



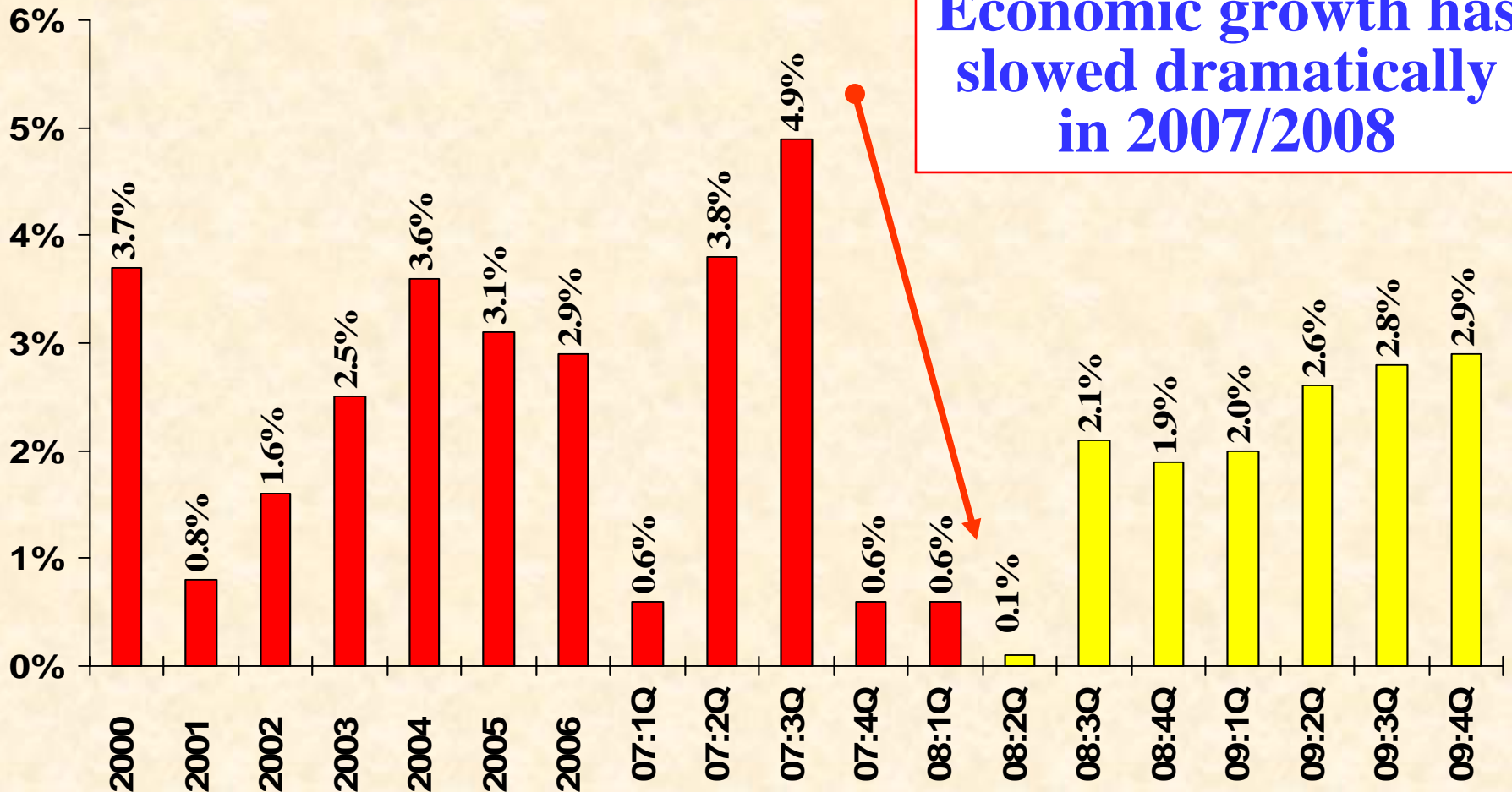
A STORMY ECONOMIC FORECAST

*What a Weakening Economy
& Credit Crunch Mean for
the Insurance Industry*





Real GDP Growth*



*Yellow bars are Estimates/Forecasts.

Source: US Department of Commerce, Blue Economic Indicators 4/08; Insurance Information Institute.



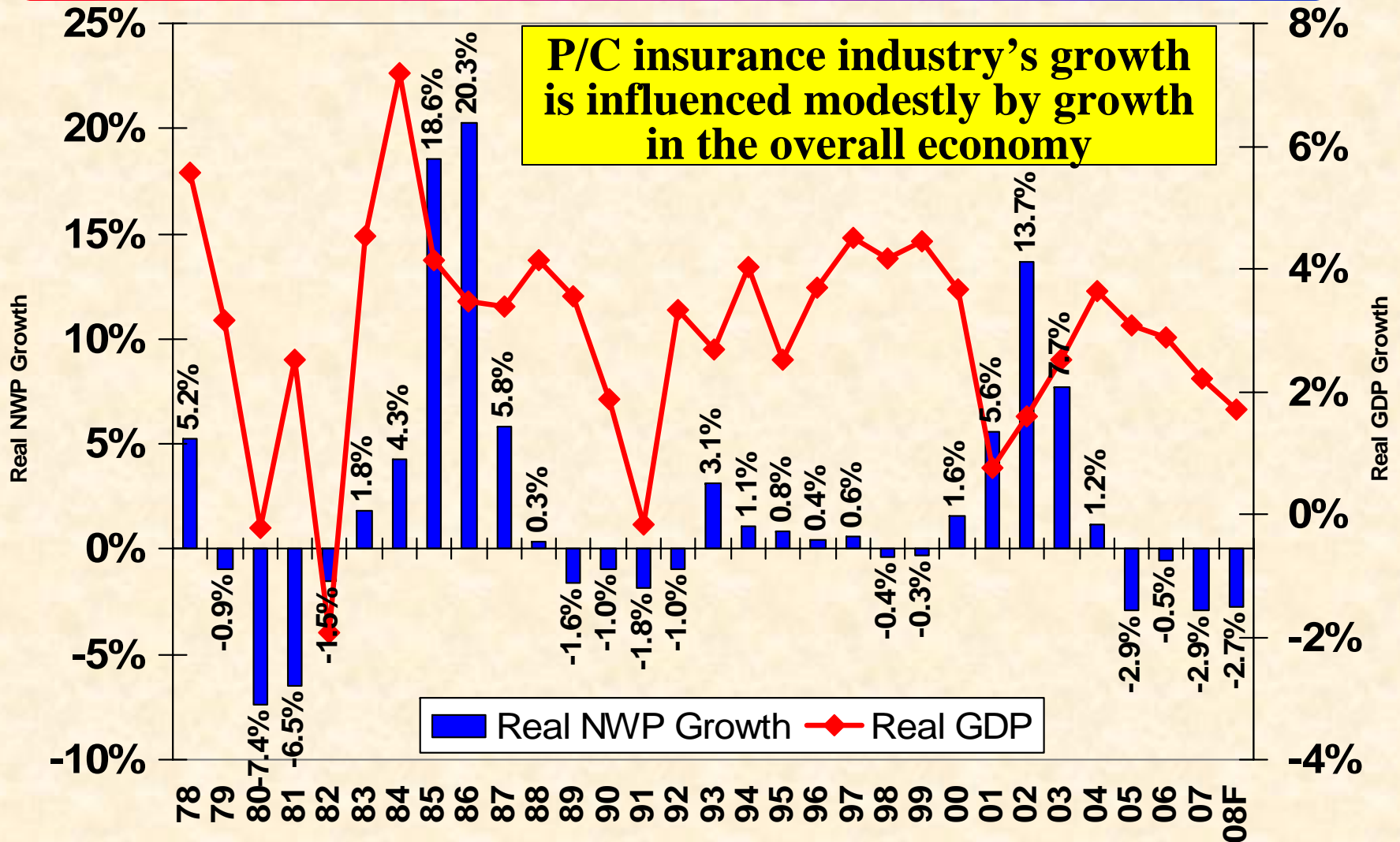
A Few Facts About the Relationship Between Insurance & Economy

- **Vast Majority of Insurance Business is Tied to Renewals**
 - Approximately 98+% of P/C business (units) is linked to renewals
 - A very large share of p/c insurance premiums are statutorily or *de facto* compulsory (e.g., WC, auto liability, surety, usually HO...)
 - P/C insurers have marginal exposure impact due to economy
 - Most life revenues and units are renewals, but some products (e.g., variable annuities are sensitive to market volatility)
 - Life insurers who manage 401(k) assets seeing more loans and hardship withdrawals;
- **Insurers are Sensitive to Interest Rates**
 - About 2/3 of P/C invested assets and 75% of Life assets are fixed income
 - Historically, yield on industry portfolios has tracked 10-year note closely
 - All else equal, lower total investment gain implies greater emphasis on underwriting
 - Historically, industry's best underwriting performances are rooted in periods when interest rates were low and/or equity market performance poor (1930s – 1950s, early 2000s gave rise to strong 2006/07)




Real GDP Growth vs. Real P/C

Premium Growth: Modest Association



Summary of Treasury “Blueprint” for Financial Services Modernization

 **Impacts on Insurers**



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 insurers would still be subject to state taxes, provisions for compulsory coverage, residual market and guarantee funds**
 - **OFC would specify specific lines covered by charter; Separate charters needed for P/C and Life**
- **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**



Treasury Regulatory Recommendations

Affecting Insurers (cont'd)

- **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
- **Establishment of Office of Insurance Oversight (OIO)**
 - Department within Treasury to handle issues needing immediate attention such “reinsurance collateral”; OIO could focus immediately on “key areas of federal interest in the insurance sector”
 - OIO: lead regulatory voice on international regulatory policy
 - Would have authority to ensure states achieved uniform implementation of declared US international insurance policy goals
 - OIO would also serve as advisor to Treasury Secretary on major domestic and international policy issues
- **UPDATE: HR 5840 Introduced April 17 Would Establish Office of Insurance Information (OII)**
 - Very similar to OIO

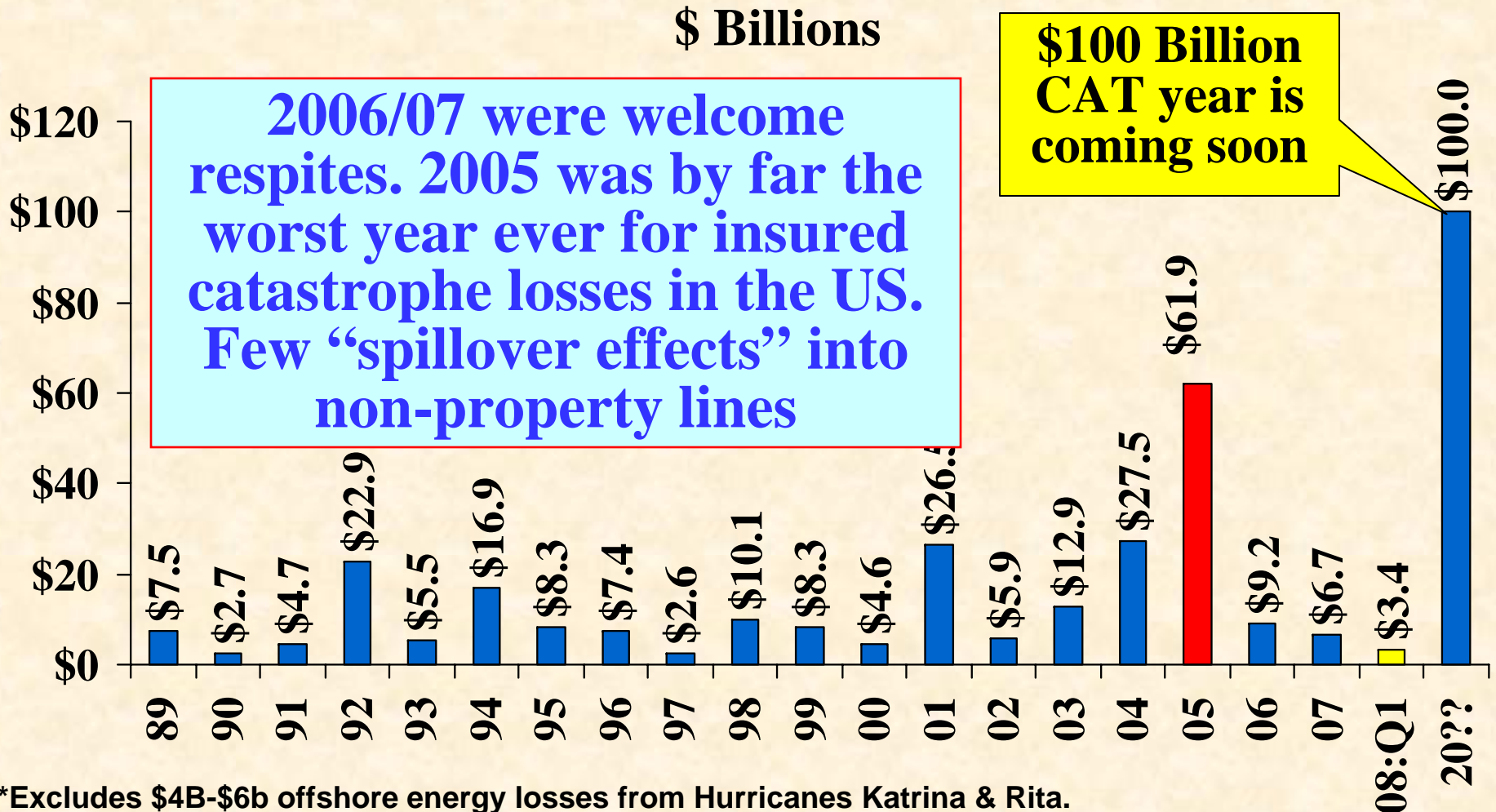
CATASTROPHIC LOSS

**No Appreciable
Spillover Effects**





U.S. Insured Catastrophe Losses*



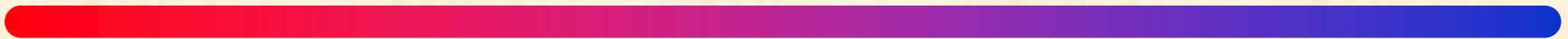
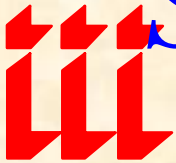
*Excludes \$4B-\$6b offshore energy losses from Hurricanes Katrina & Rita.

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

Shifting Legal Liability & Tort Environment

*Is the Tort Pendulum
Swinging Against Insurers?*



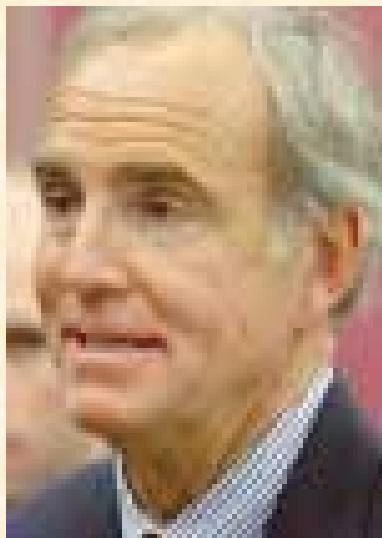


*Bad Year for Tort Kingpins**



“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

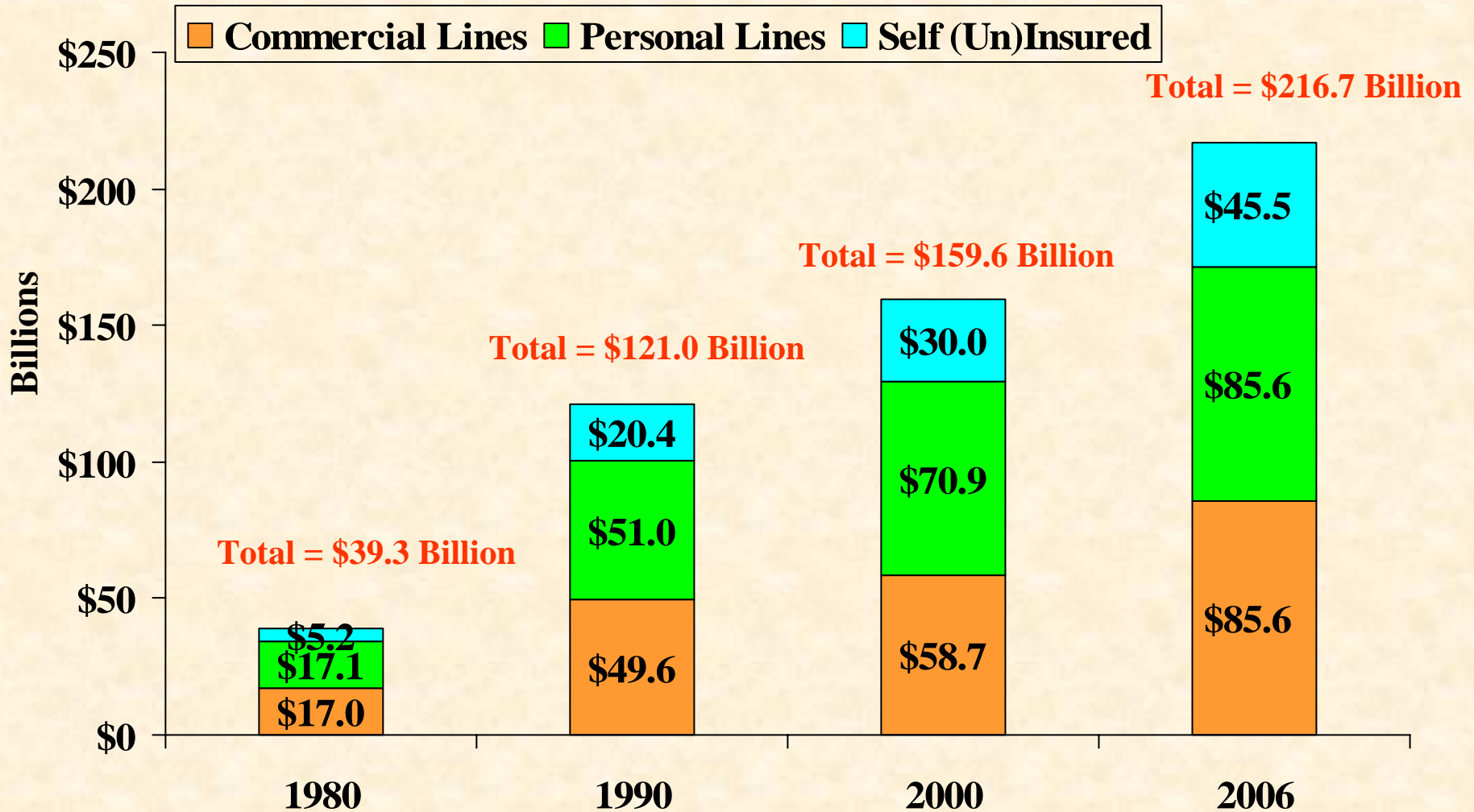


“King of Torts” Dickie Scruggs

- 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



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

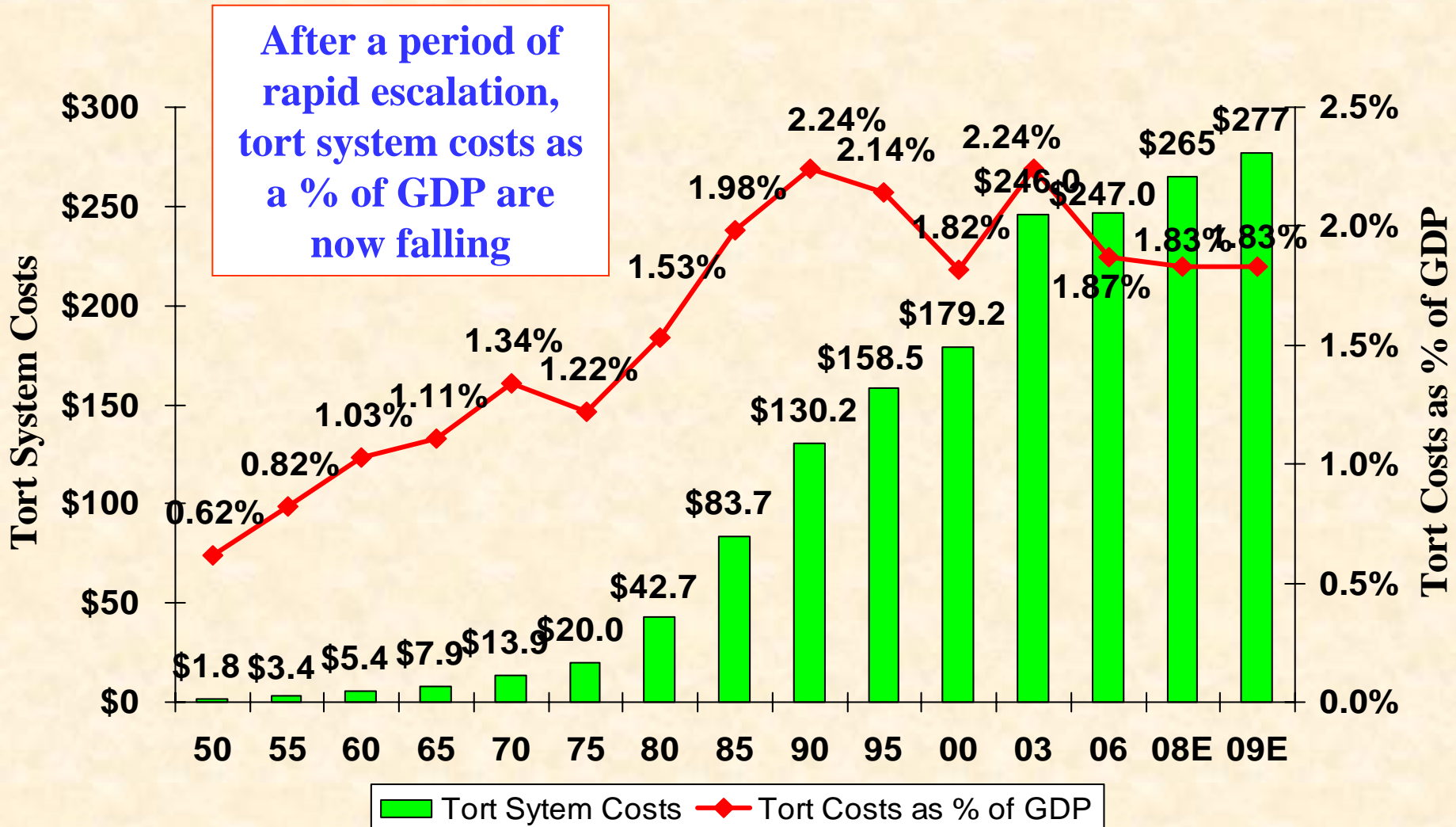


*Excludes medical malpractice

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



Tort System Costs, 1950-2009E





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

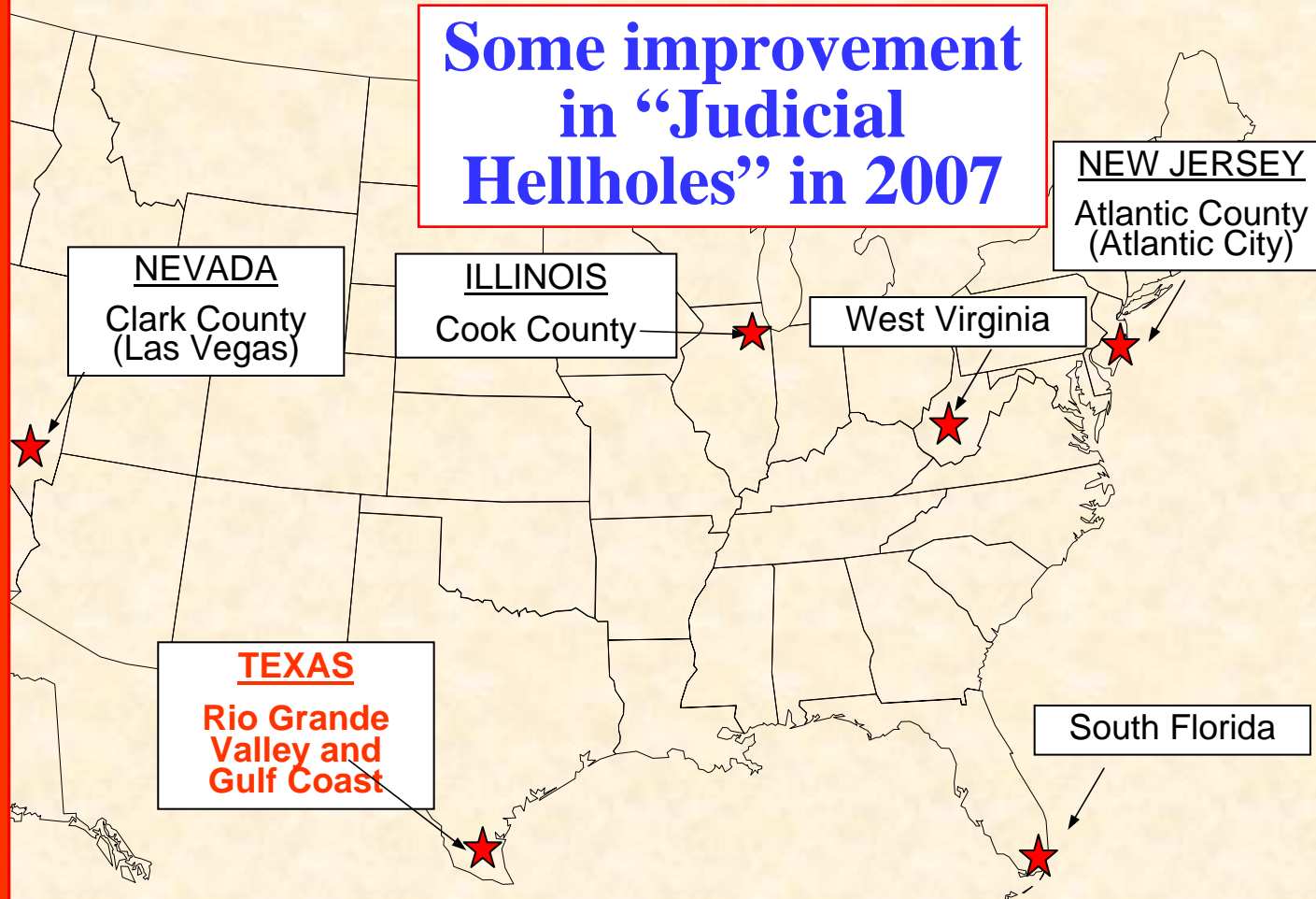
MO Supreme Court

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



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