

# 2004 Overview & Outlook for the P/C Insurance Industry

**Marsh Risk & Insurance Services Client Event  
San Francisco, CA**

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**The mission of the Insurance Information Institute (I.I.I.) is to improve public understanding of insurance -- what it does and how it works. The I.I.I. enjoys broad membership throughout the insurance industry, including most of the major p/c insurers and reinsurers operating in the United States, as well as companies operating on a regional basis and internationally.**

**For more than 40 years, the I.I.I. has provided definitive insurance information. Today, the I.I.I. is recognized throughout the insurance industry as well as by the media, governments, regulatory organizations, universities and the public as a primary source of information, analysis and referral concerning insurance.**

**Each year, the I.I.I. works on more than 3,700 news stories, handles more than 6,000 requests for information from its members, the media, and other parties and answers nearly 50,000 questions from consumers.**

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# *Presentation Outline*

- **P/C Insurance & Reinsurance Overview: Profit Pressure**
  - **Wall Street Pressure & The Urge to Merge**
- **Why Underwriting Matters: Pressure to Perform**
  - **Ratings, Solvency & Financial Strength Issues**
- **Investment Performance: Low Pressure Area**
  - **Capacity**
- **Macro Factors: Capital, Capacity & Cost Drivers**
- **Pricing: Falling Pressure**
- **Economic Pressures**
- **Long-Term Underwriting Challenges**
  - **Tort Environment**
  - **Workers Comp**
- **Q&A**

*P/C FINANCIAL OVERVIEW:*

## **PROFIT PRESSURE**



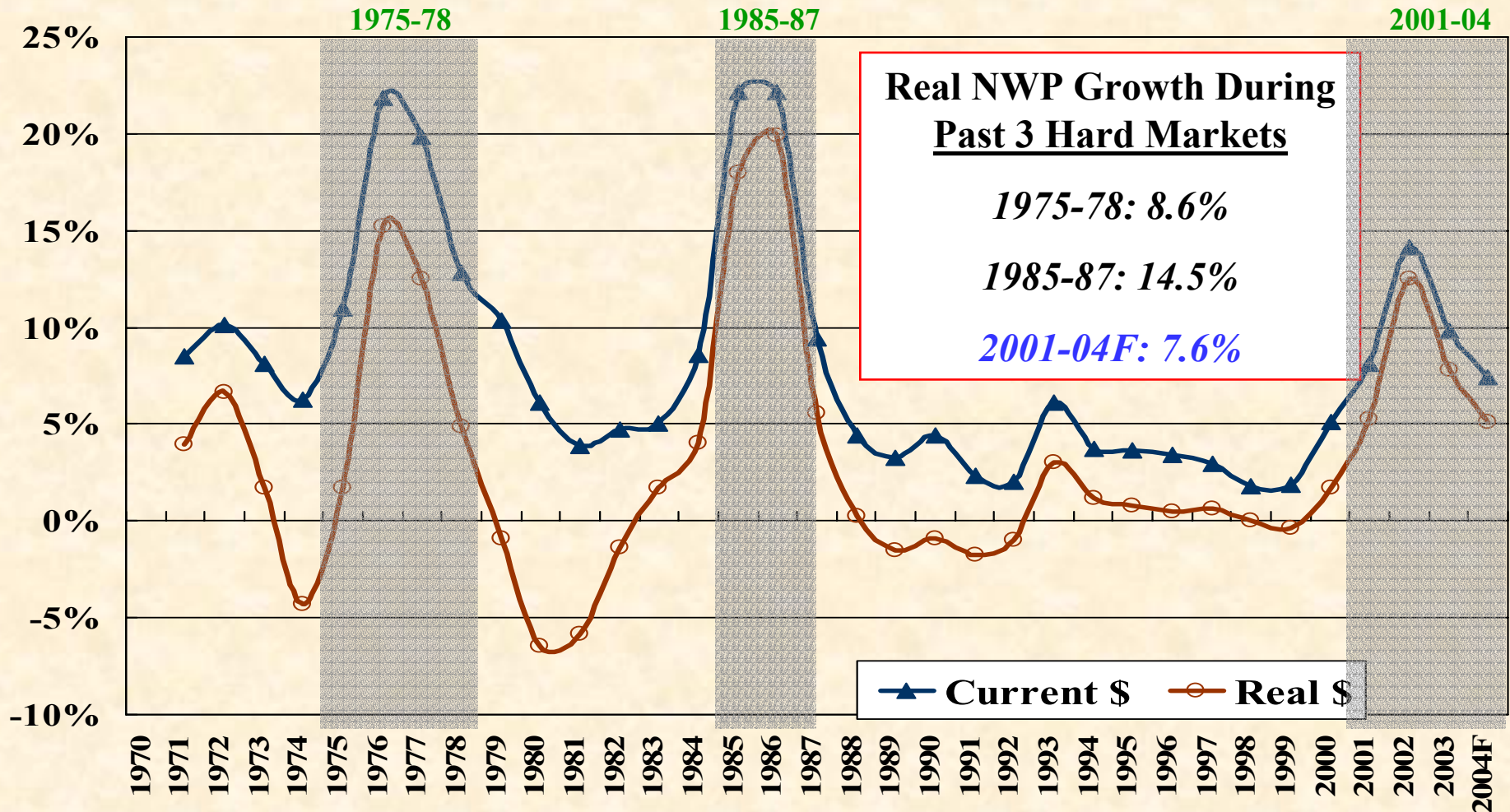


# Highlights: Property/Casualty Full-Year 2003 vs. 2002

	<b>2003</b>	<b>2002</b>	<b>Change</b>
Net Written Prem.	405,855	369,673	+9.8%
Loss & LAE	289,800	283,640	+2.2%
Net UW Gain (Loss)	(4,635)	(30,840)	-85.0%
Net Inv. Income	38,686	37,225	+3.9%
<b><i>Net Income (a.t.)</i></b>	<b>29,877</b>	<b>3,046</b>	<b>+880.9%</b>
Surplus*	346,987	285,386	+21.6%
Combined Ratio	100.1	107.3	-7.2 pts.



# Strength of Recent Hard Markets by Real NWP Growth\*

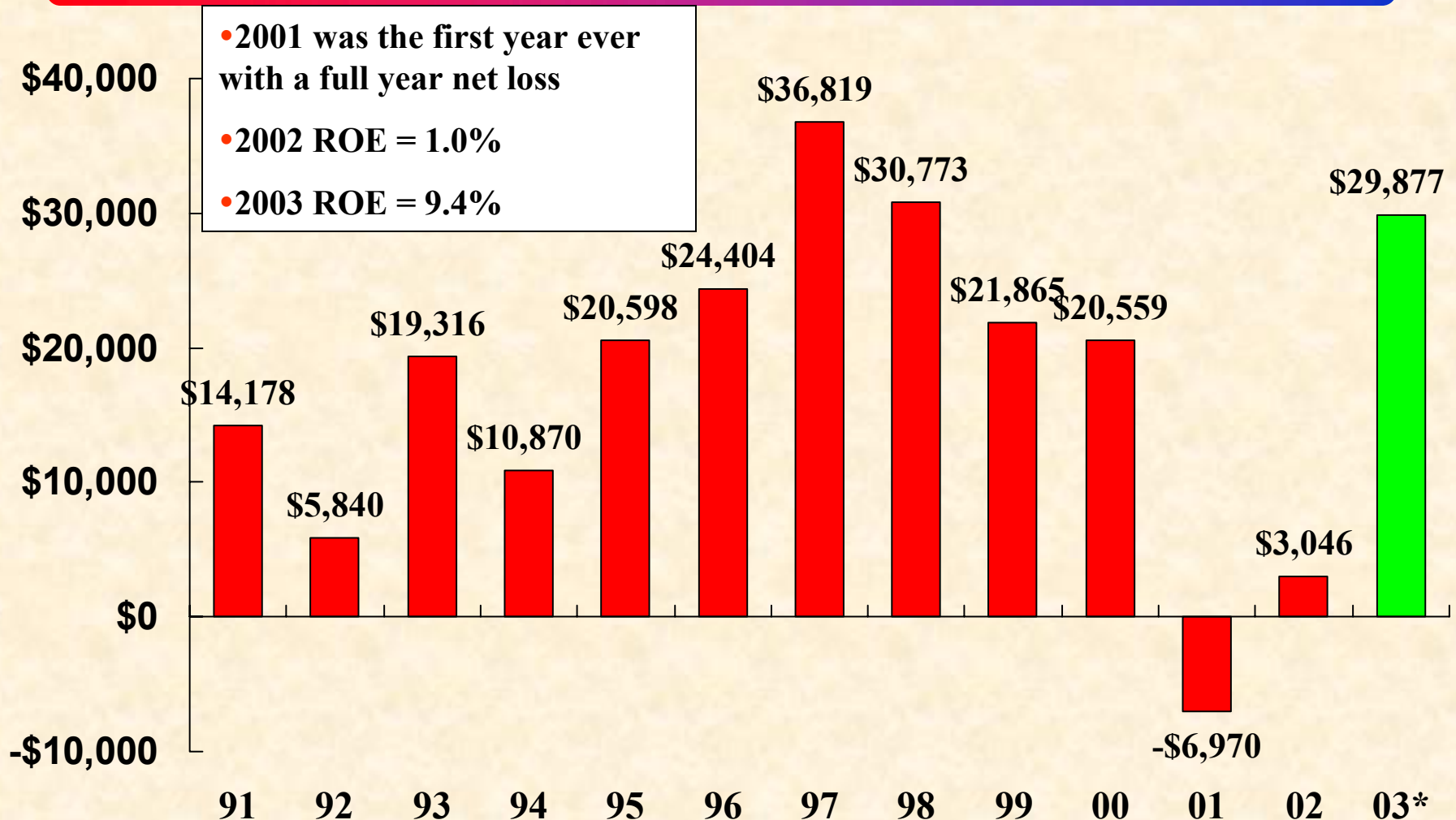


Note: Shaded areas denote hard market periods.  
Source: A.M. Best, Insurance Information Institute

2004 forecast from Ill Groundhog Survey, 2/04.



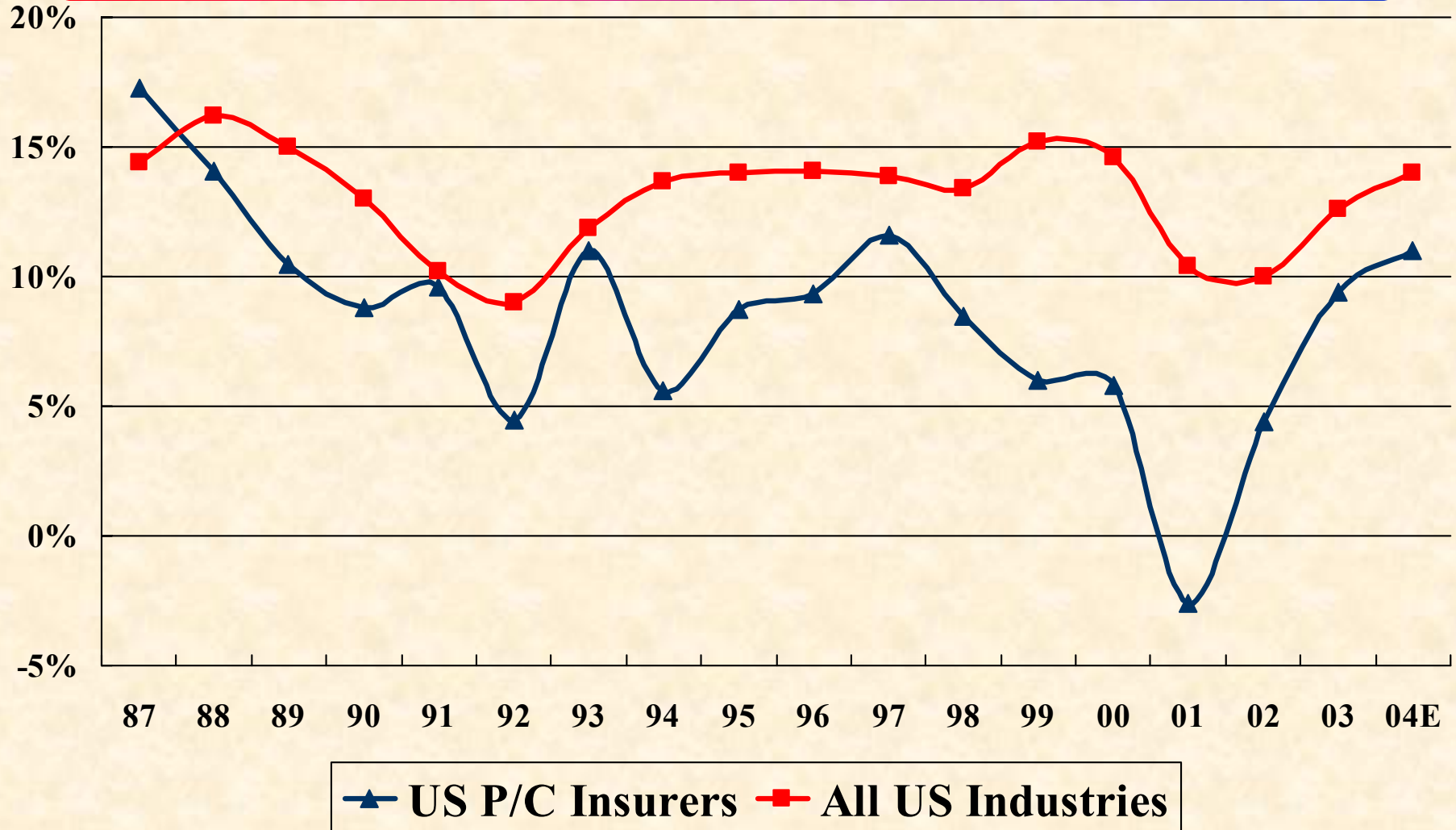
# *P/C Net Income After Taxes* *1991-2003 (\$ Millions)*





# ROE: P/C vs. All Industries

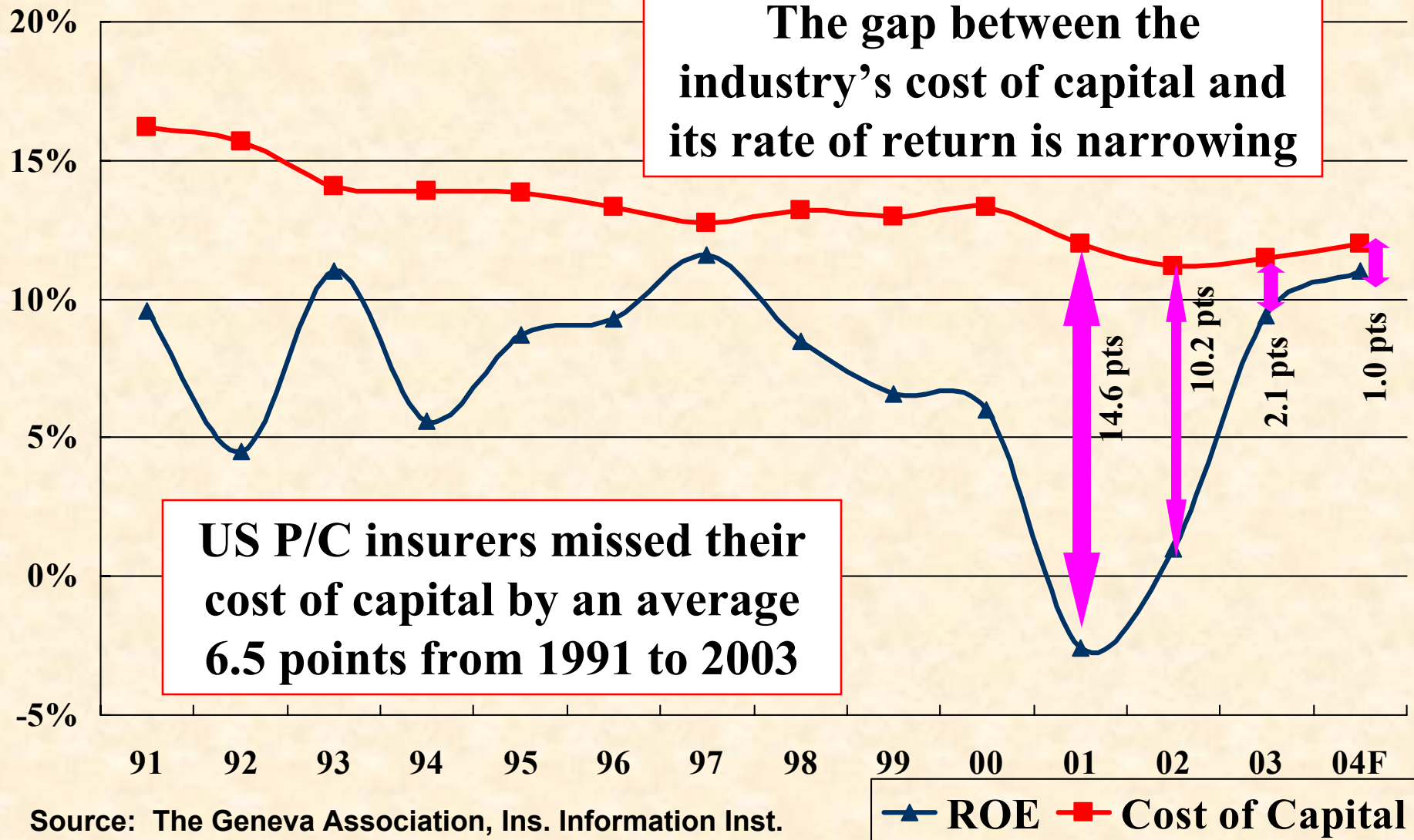
## 1987–2004E



▲ US P/C Insurers ■ All US Industries



# ROE vs. Cost of Capital: US P/C Insurance: 1991 – 2004F



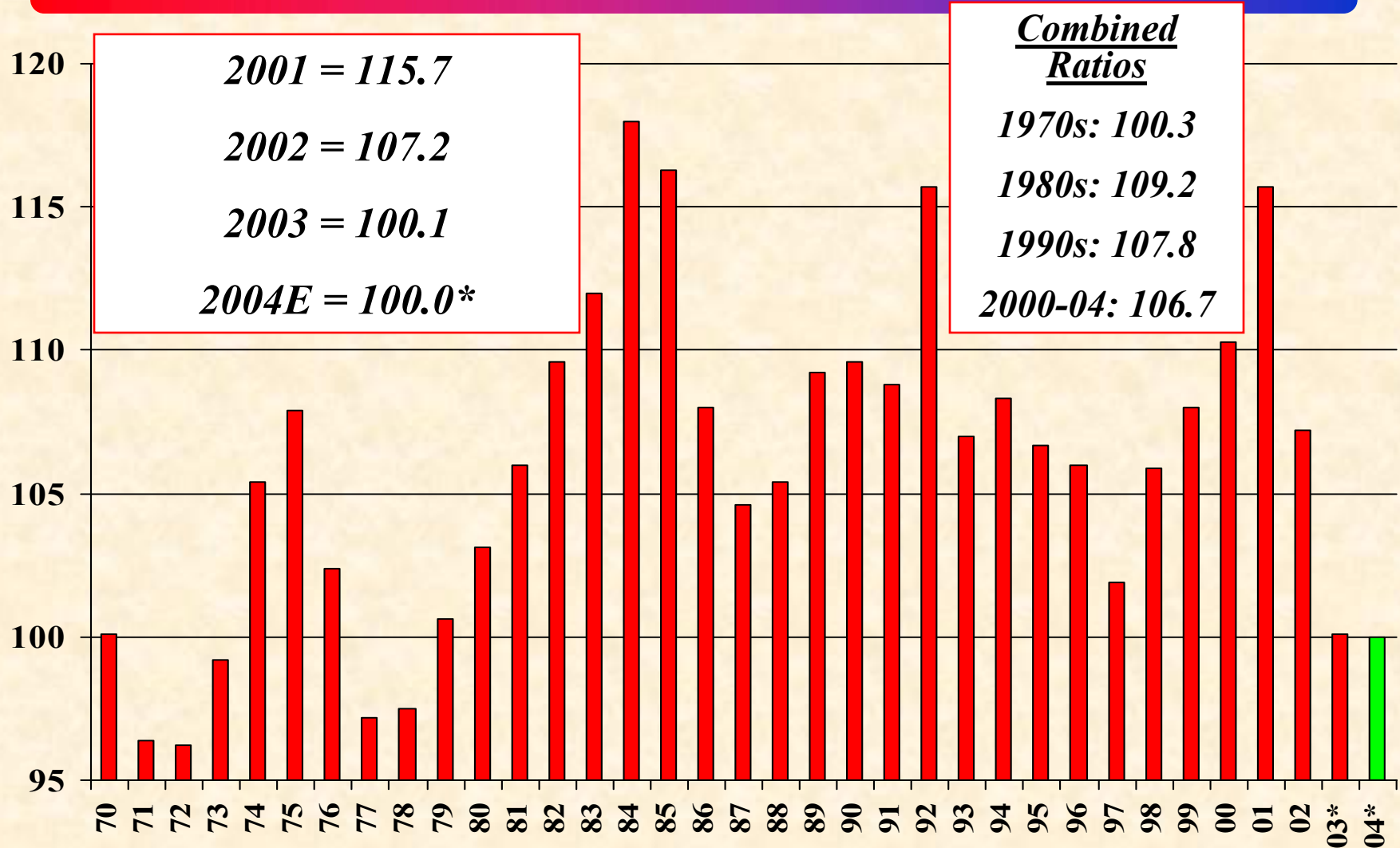
*P/C FINANCIAL OVERVIEW:*

**UNDERWRITING PRESSURE**





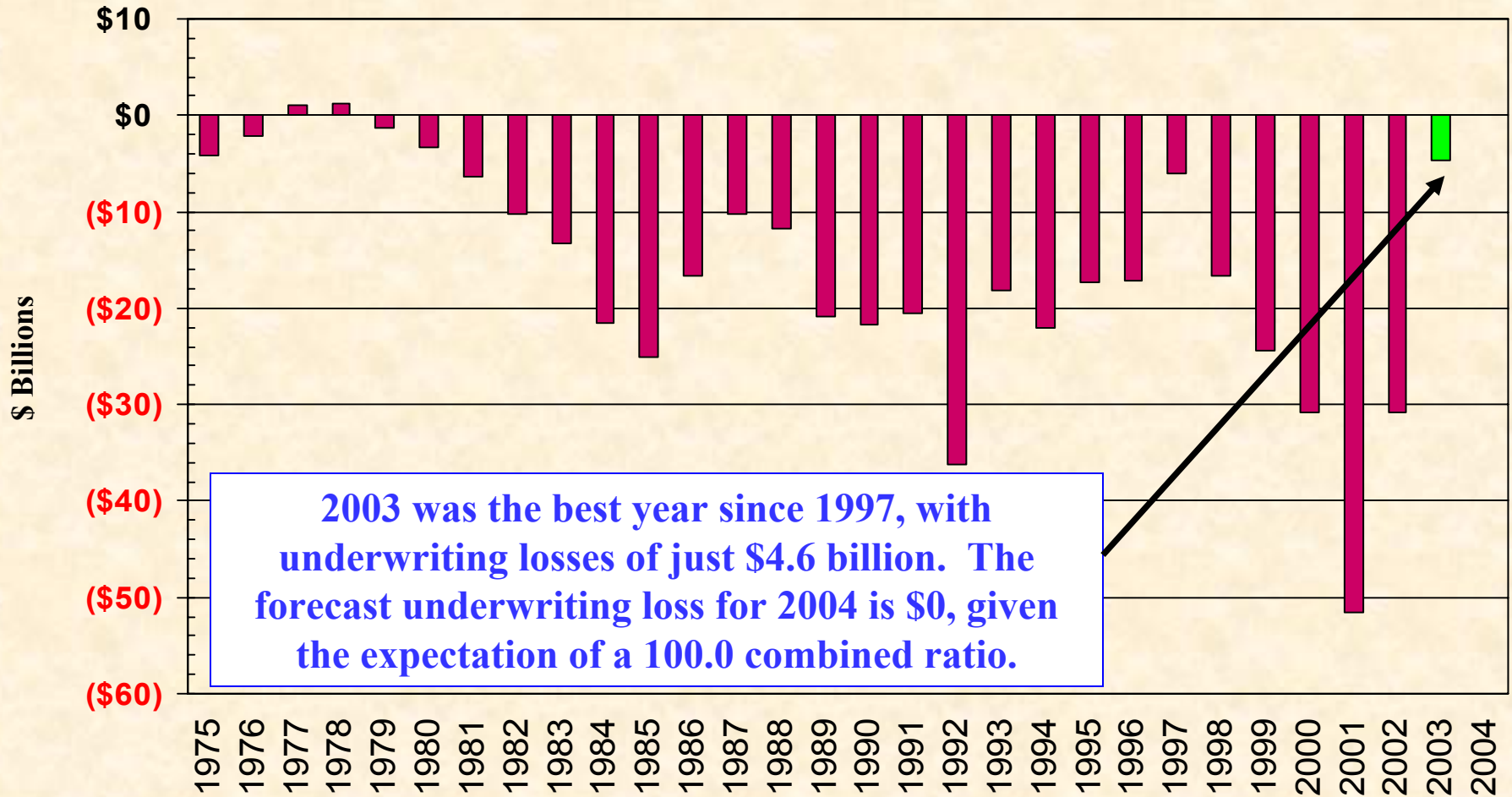
# *P/C Industry Combined Ratio*





# *Underwriting Gain (Loss)*

## *1975-2004F\**



2003 was the best year since 1997, with underwriting losses of just \$4.6 billion. The forecast underwriting loss for 2004 is \$0, given the expectation of a 100.0 combined ratio.

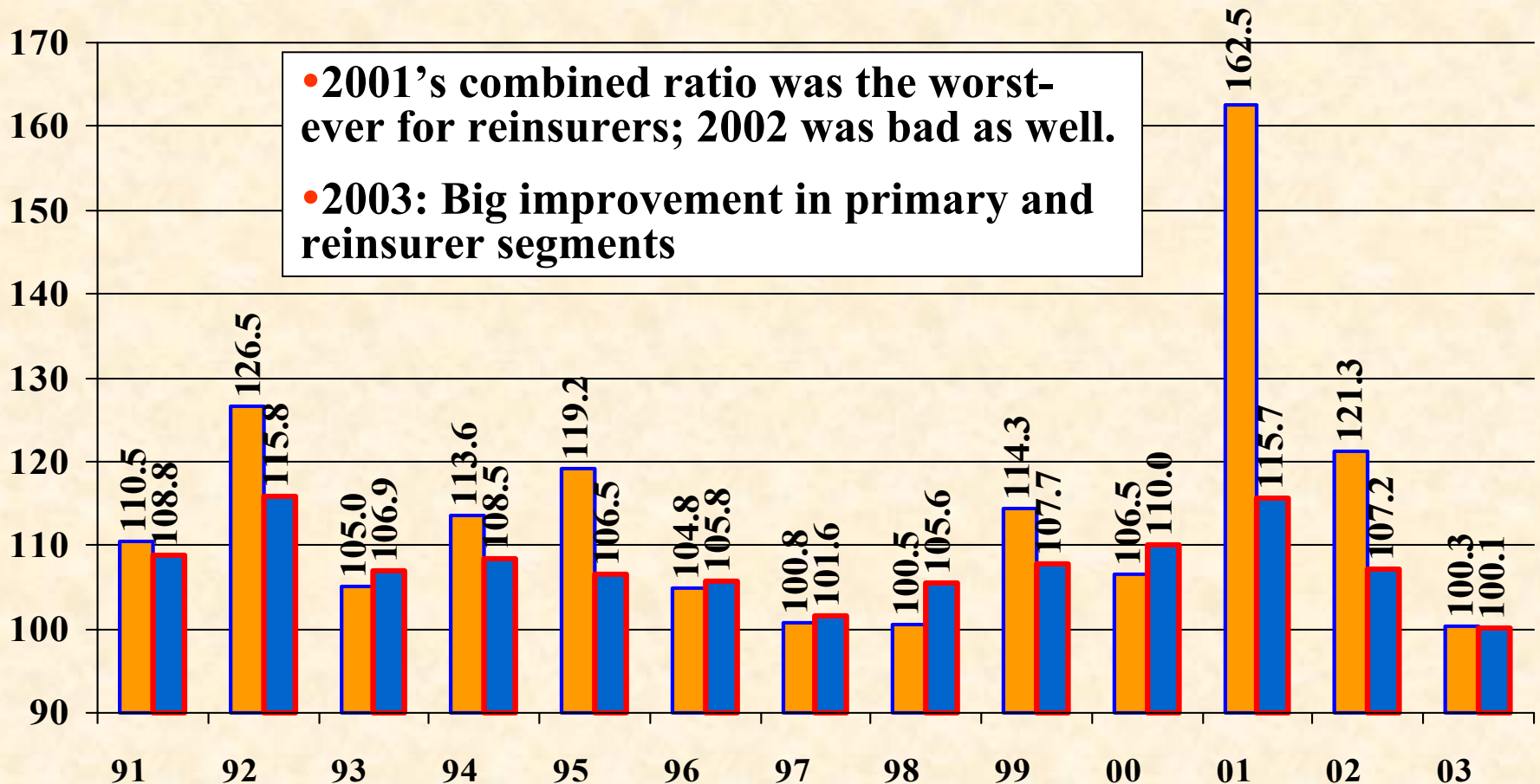
\*2004 underwriting loss is forecast at \$0 (based on forecast combined ratio of 100.0 from III Groundhog forecast, 2/04).

Source: A.M. Best, Insurance Information Institute



# Combined Ratio: Reinsurance vs. P/C Industry

Reinsurance All Lines Combined Ratio





# *Distribution of Reinsurer Combined Ratios, 2003\**

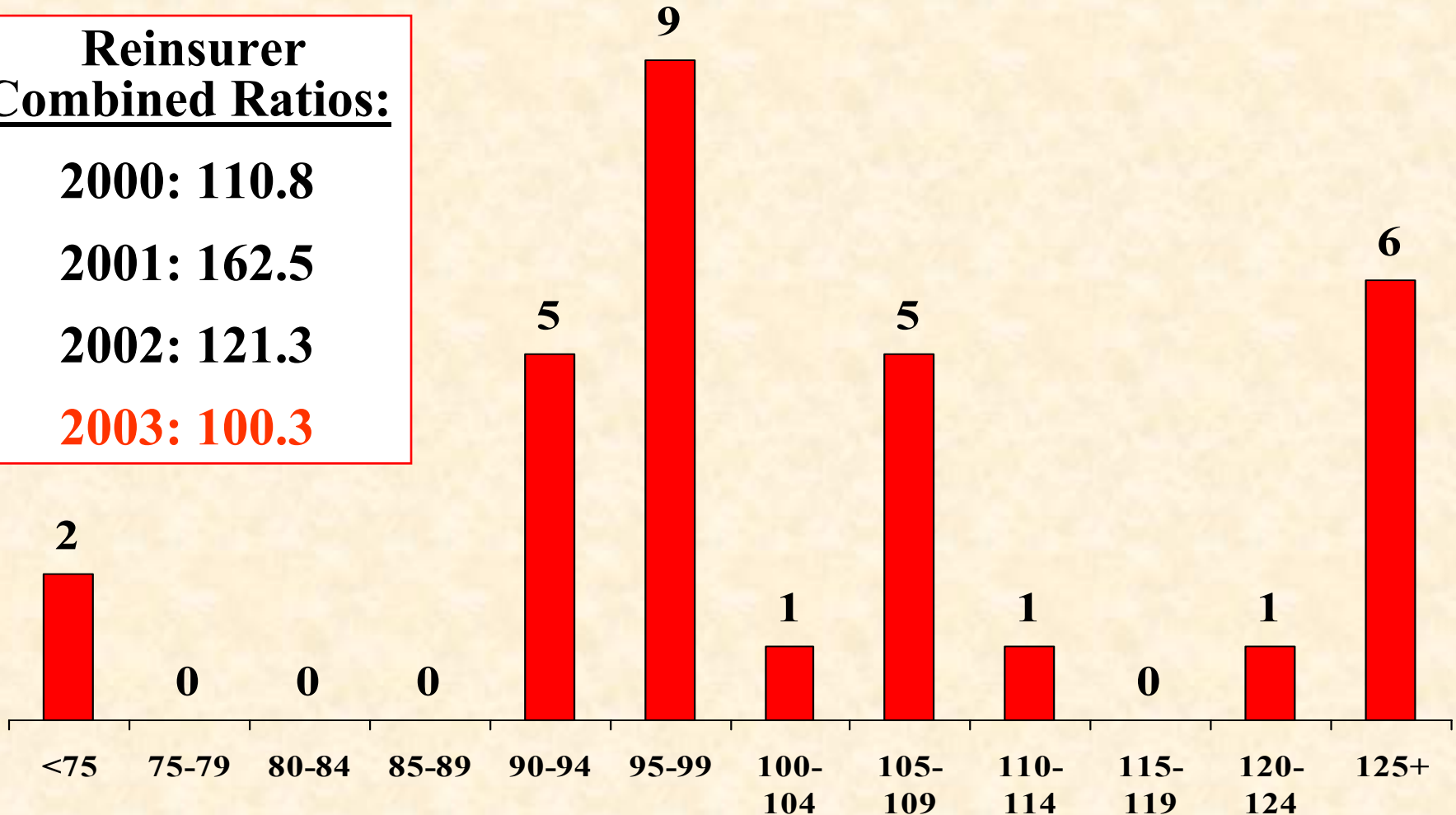
## Reinsurer Combined Ratios:

**2000: 110.8**

**2001: 162.5**

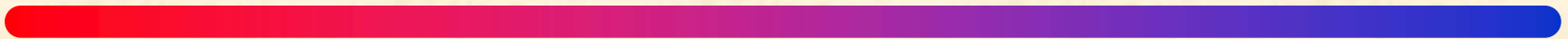
**2002: 121.3**

**2003: 100.3**



*WALL STREET:*

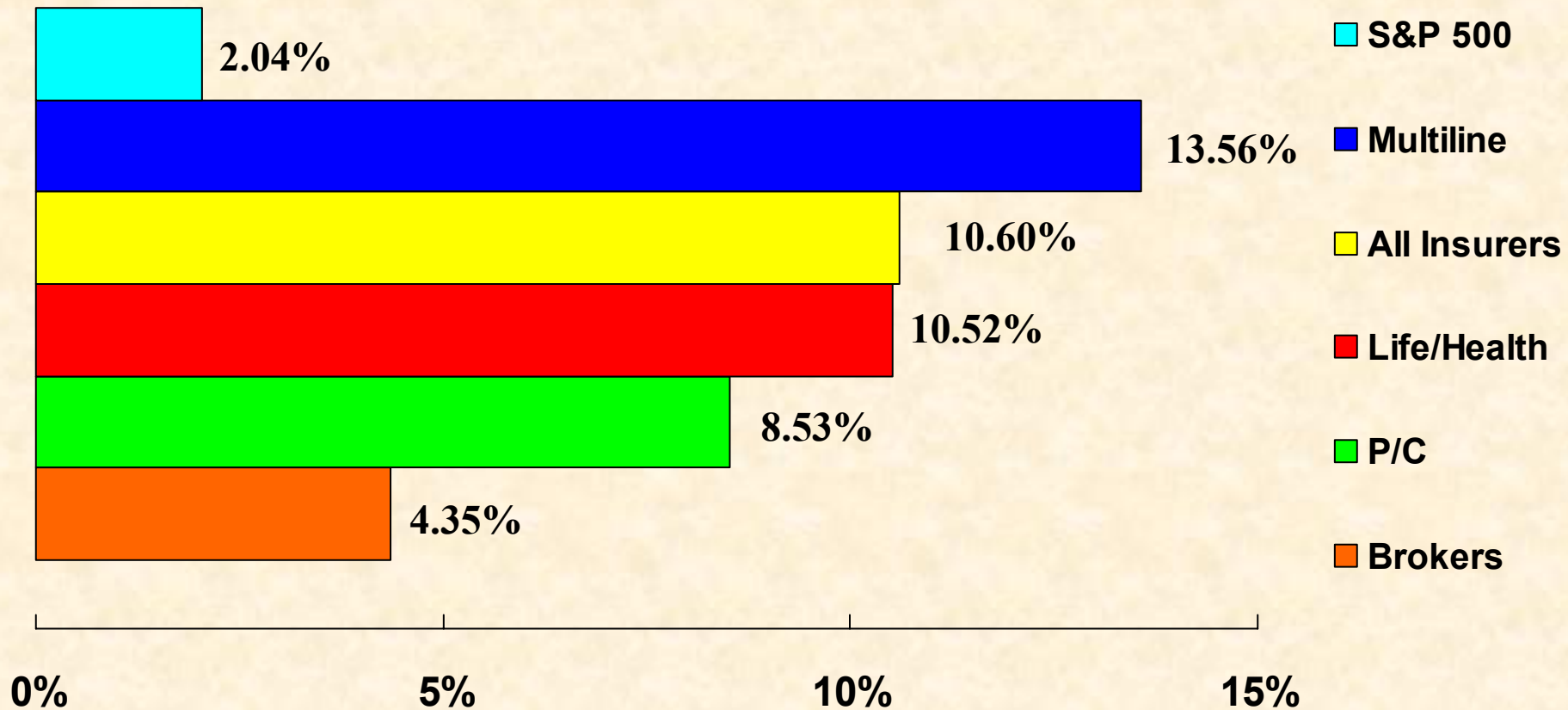
**PRESSURE TO PERFORM &  
THE URGE TO MERGE**





# *Insurer Stocks: Outperforming the S&P 500*

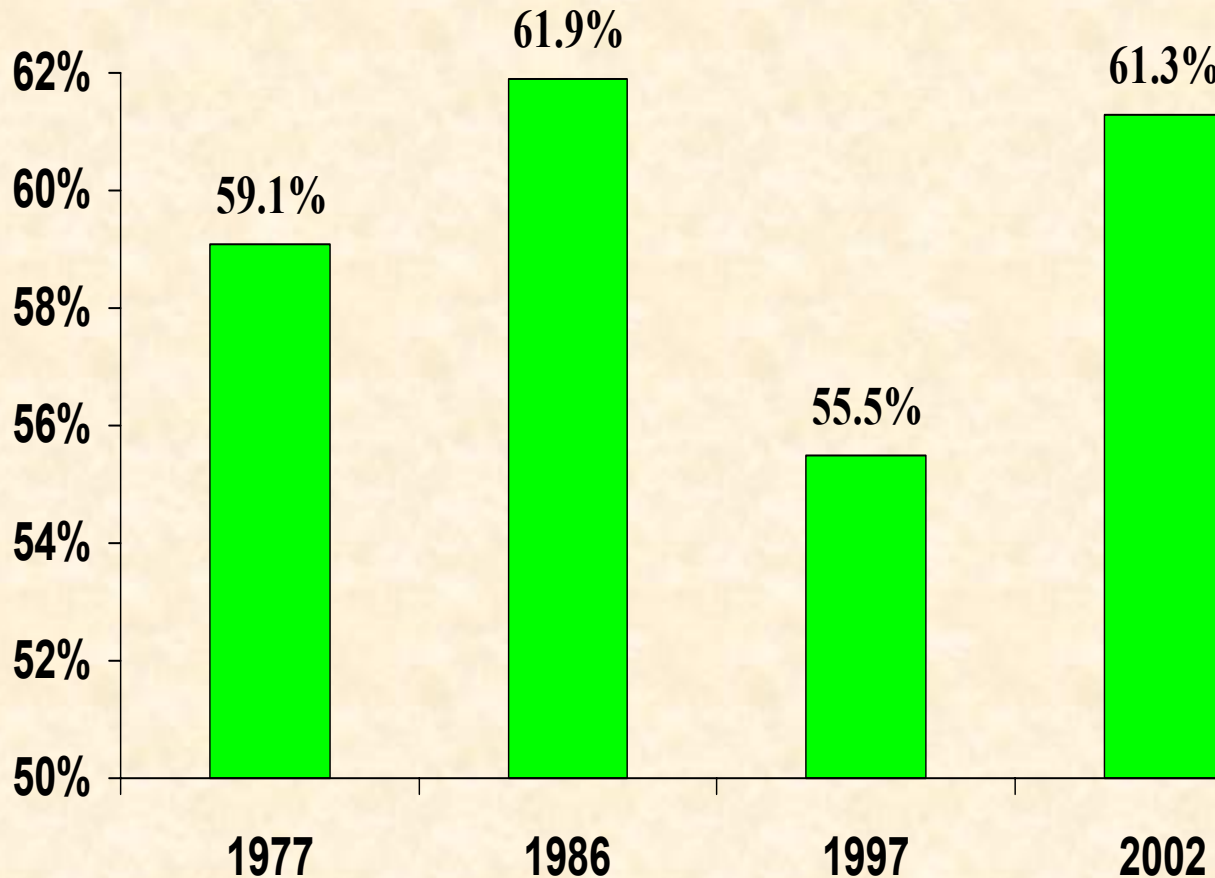
**Total Return 2004 YTD Through April 16, 2004**



Source: SNL Securities, Insurance Information Institute



# Commercial Lines: Top 25 Writers Market Share\*



*Virtually no consolidation in commercial p/c sector over the past 25 years, suggesting:*

*•M&As not generally successful*

*•Scale?*

*•Execution?*

*•Legacy*

*•Distribution?*

*•Deconsolidation (asset sales, spin-offs, failures)*

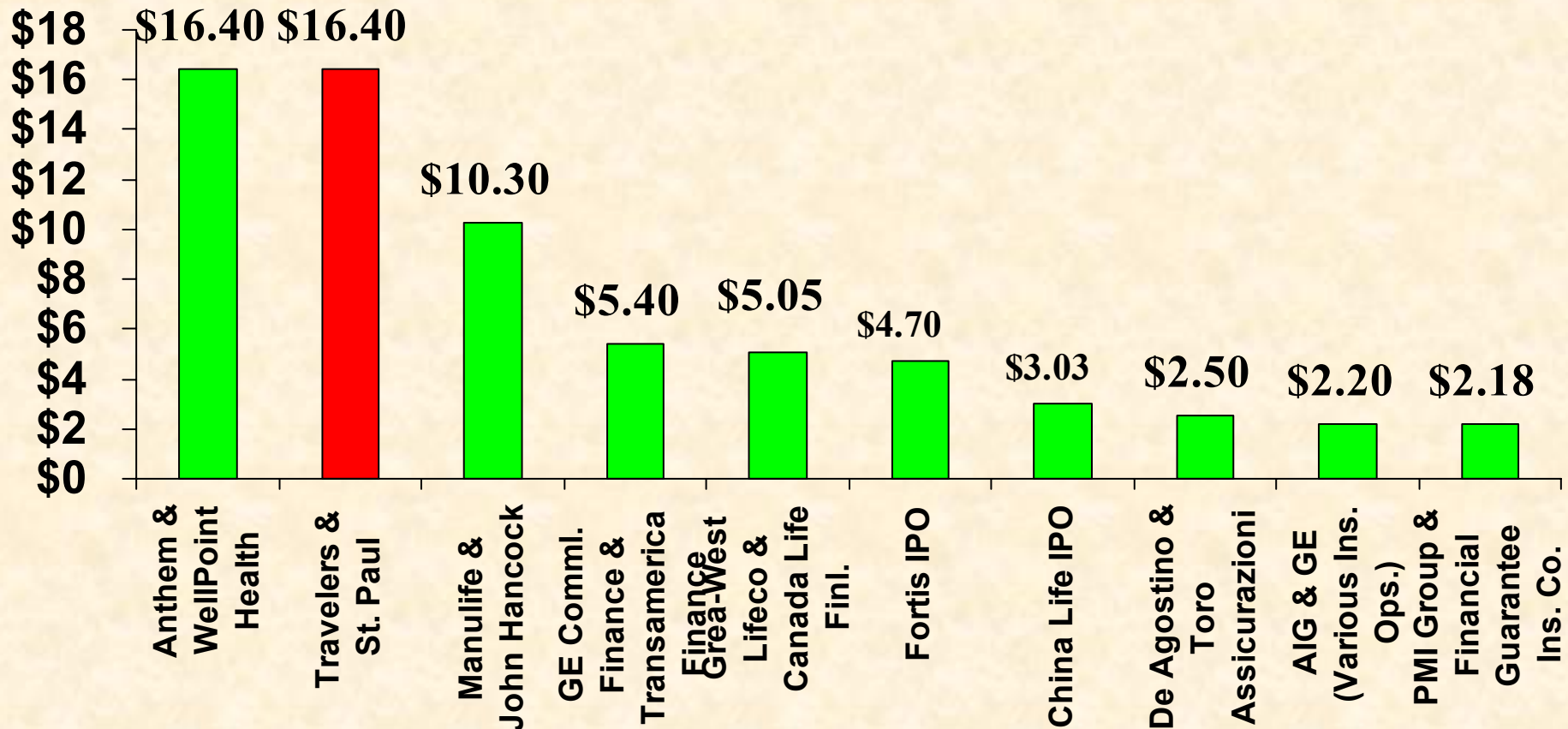
*•Low barriers to entry*

\* By direct premiums written.

Sources: A.M. Best, Morgan Stanley, Insurance Information Institute.

# Top 10 Global Insurance Industry Merger & IPO Announcements in 2003

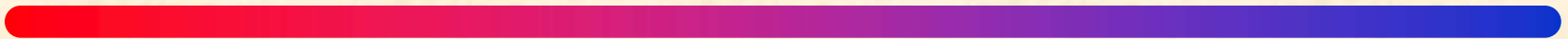
(\$ Billions)



Sources: Bannister *Insurance Mergers Alert*, January 2004.

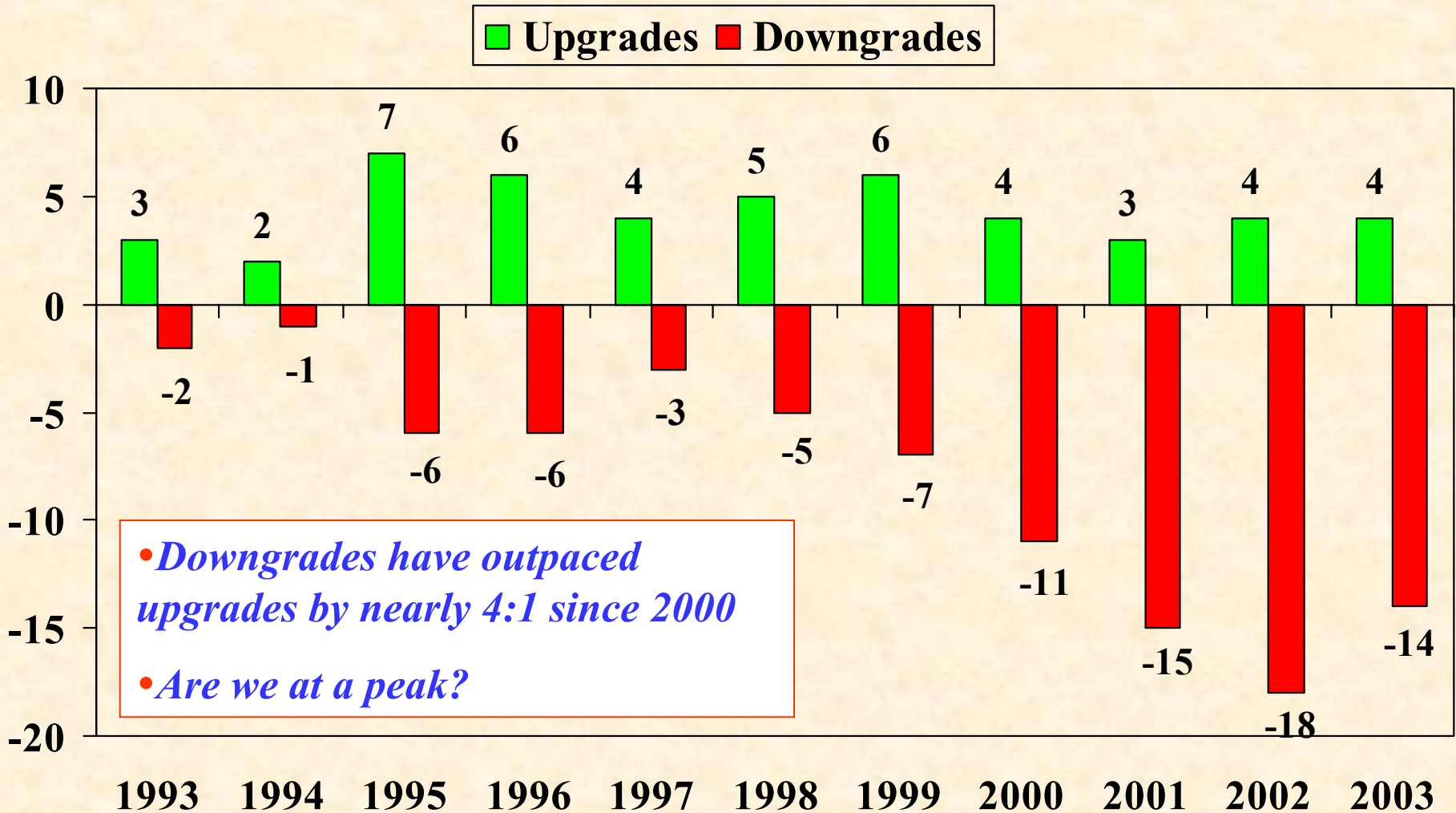
# WHY UNDERWRITING STILL MATTERS:

*RATINGS, SOLVENCY,  
STRENGTH &  
REINSURANCE*





# Number of Insurer Upgrades vs. Downgrades, 1993 to 2003\*

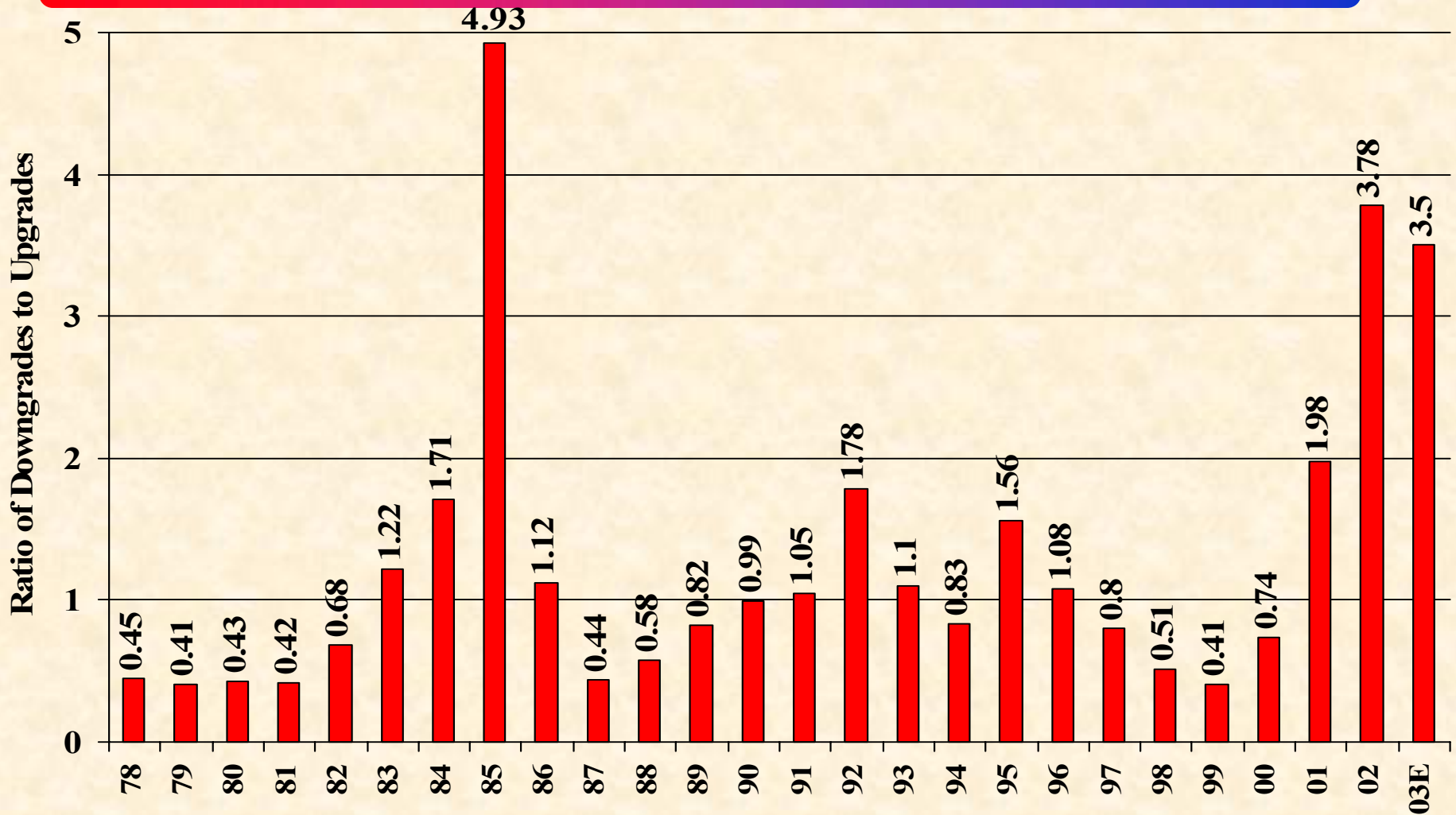


\*North American insurance holding companies through October 17, 2003

Source: Standard & Poor's



# Downgrade/Upgrade Ratio\*

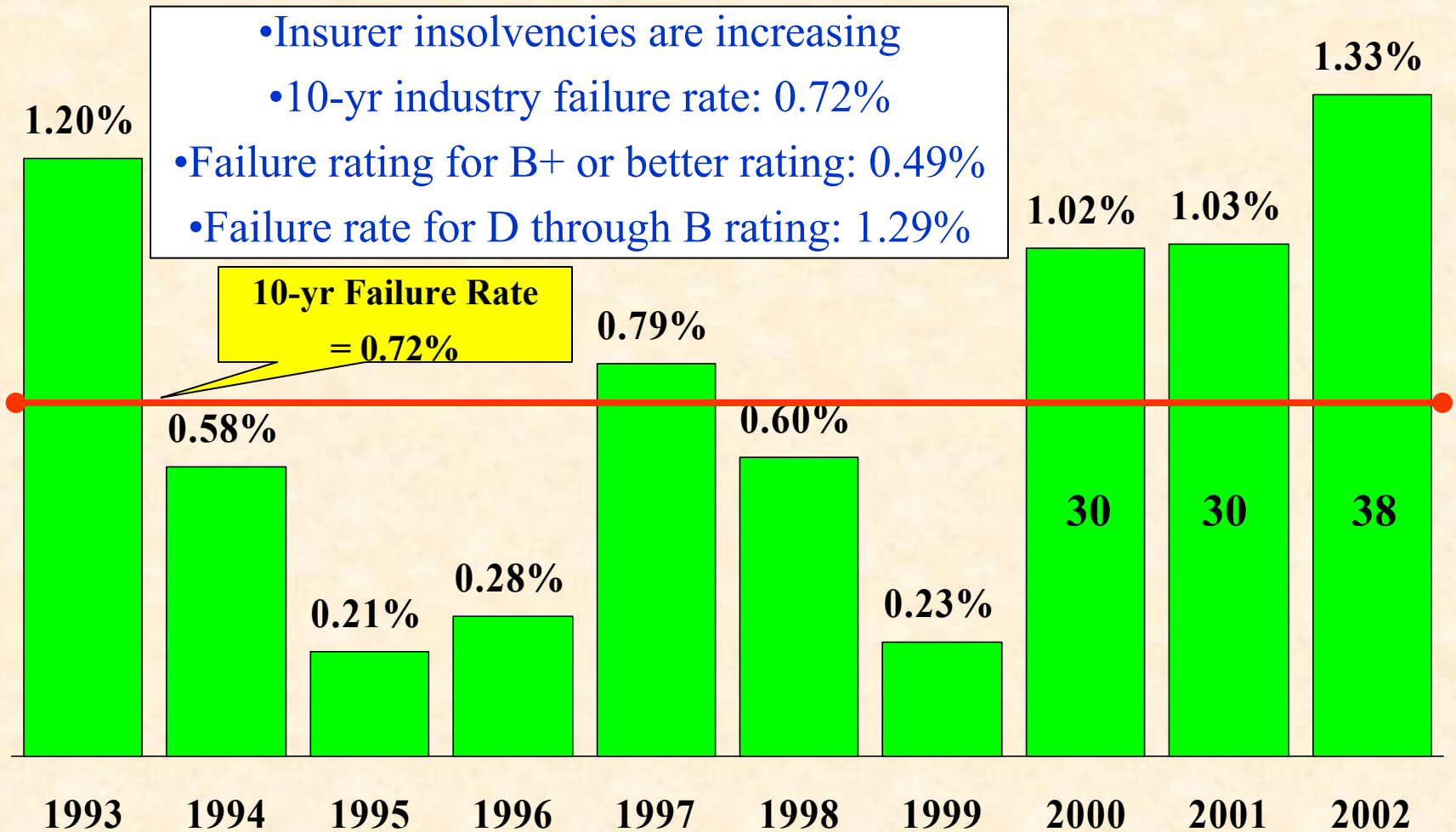


Sources: *Impairment Rate and Rating Transition Study—1977 to 2002*, A.M. Best & Co.; 2003E from S&P.

\*U.S. property/casualty and life/health insurers



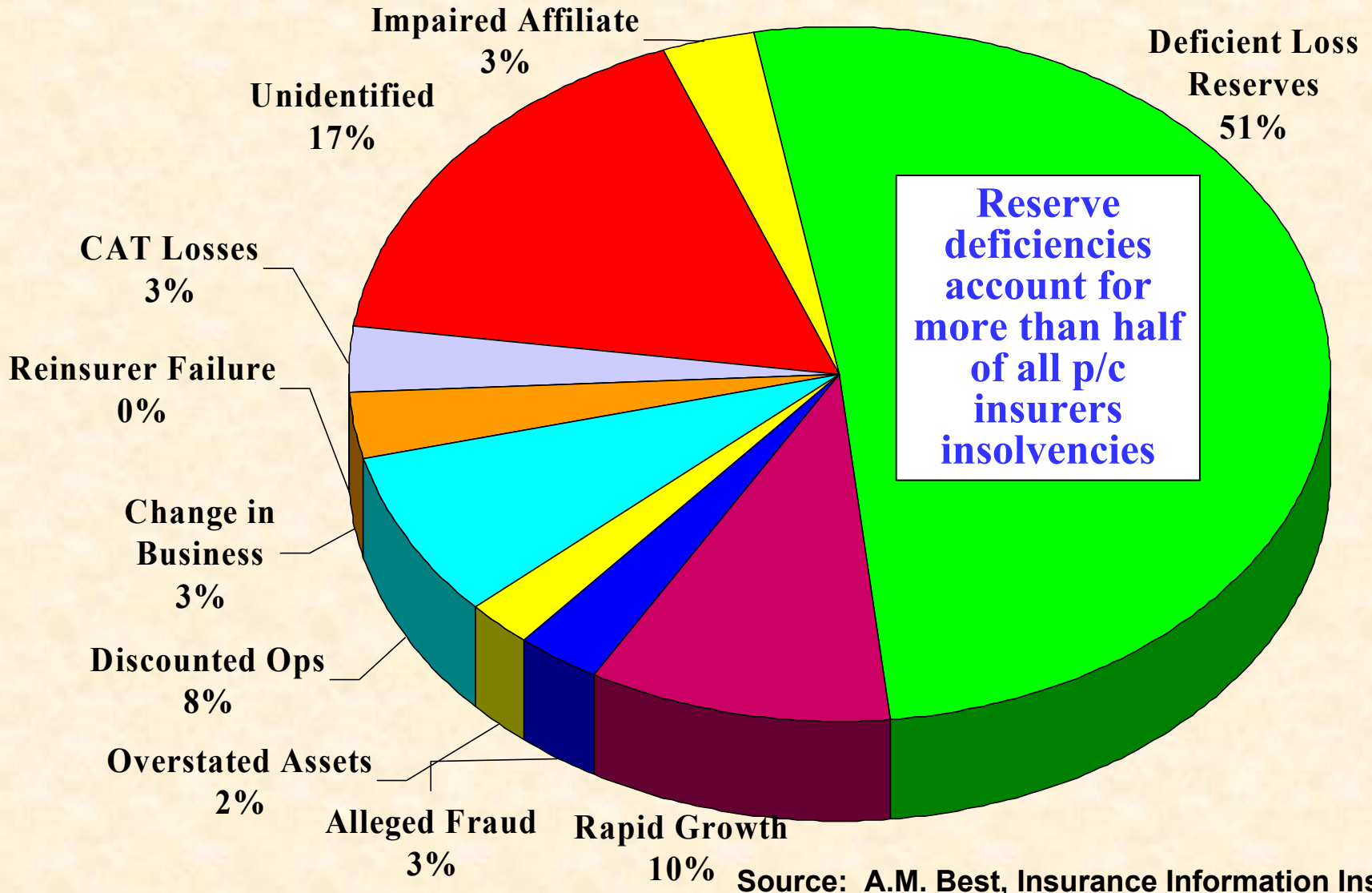
# *P/C Company Insolvency Rates, 1993 to 2002*





# *Reason for P/C Insolvencies*

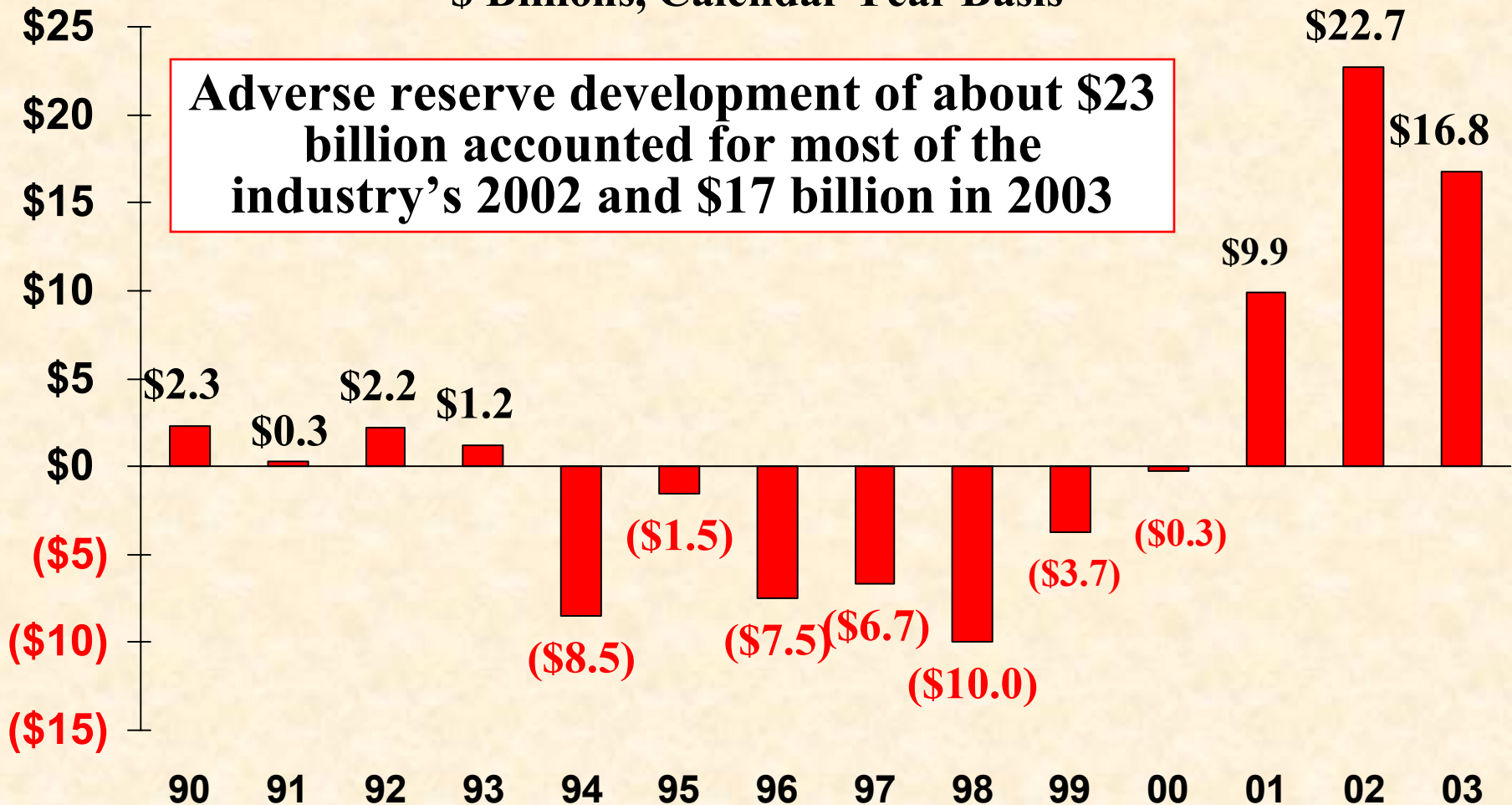
*(218 Insolvencies, 1993-2002)*





# *P/C Insurance Industry Prior Year Reserve Development\**

\$ Billions, Calendar Year Basis



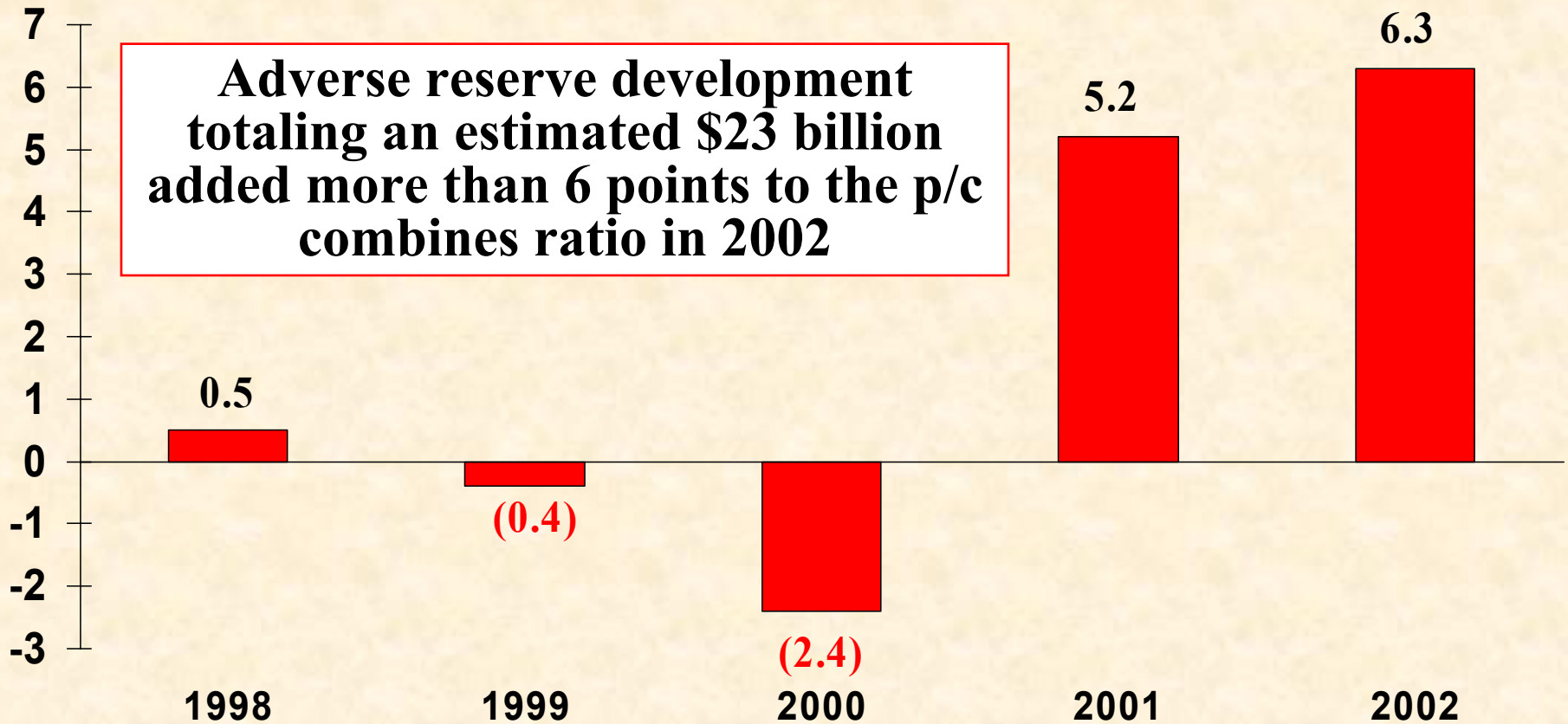
\*Negative numbers indicate favorable development; positive figures represent adverse development.  
Source: A.M. Best, Morgan Stanley, Dowling & Partners Securities, Insurance Information Institute.



# Combined Ratio:

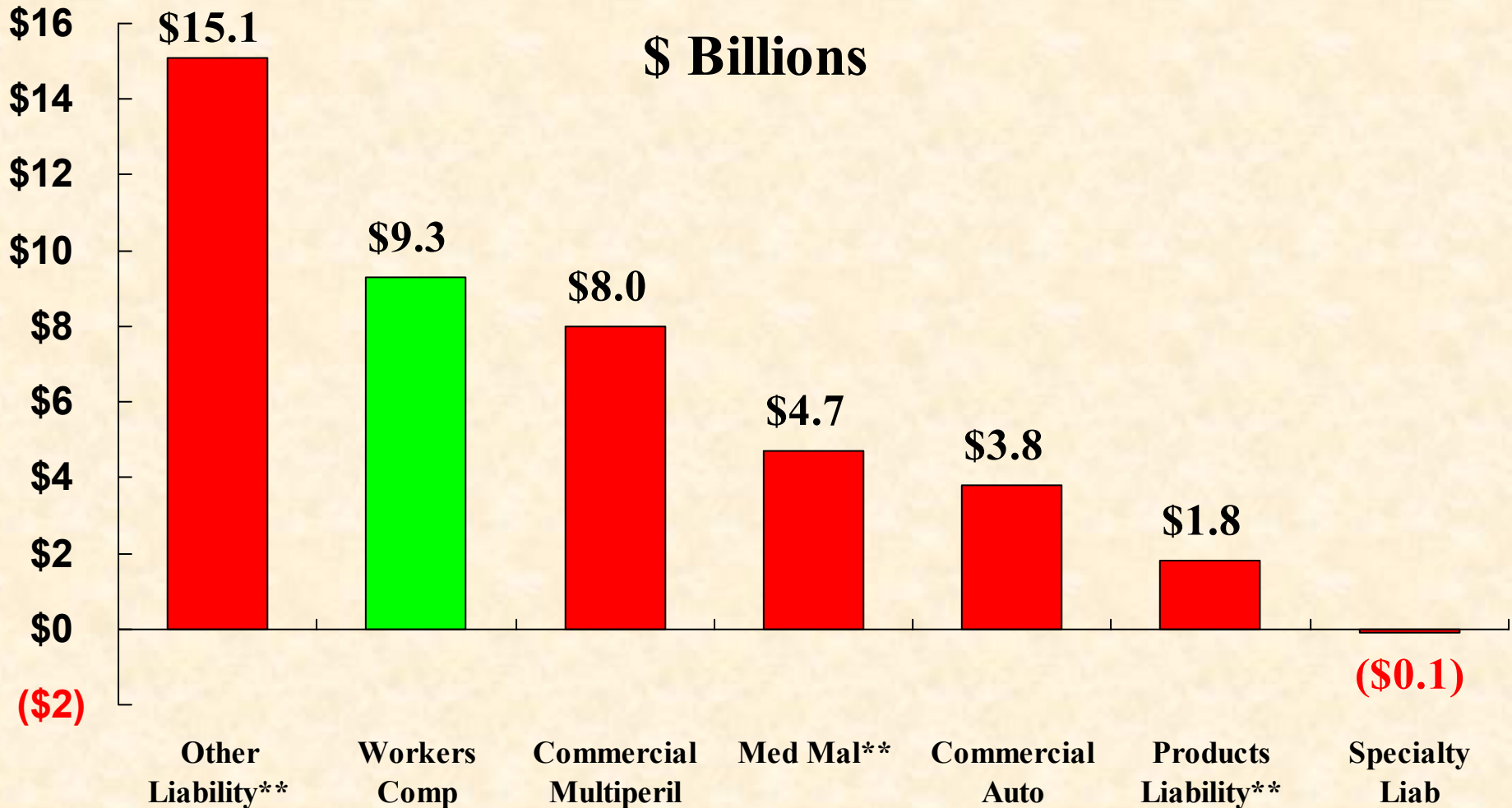
## Impact of Reserve Changes (Points)

Points (Reduced)/Increased





# Commercial Lines Reserve Shortfalls (Year-End 2002)\*



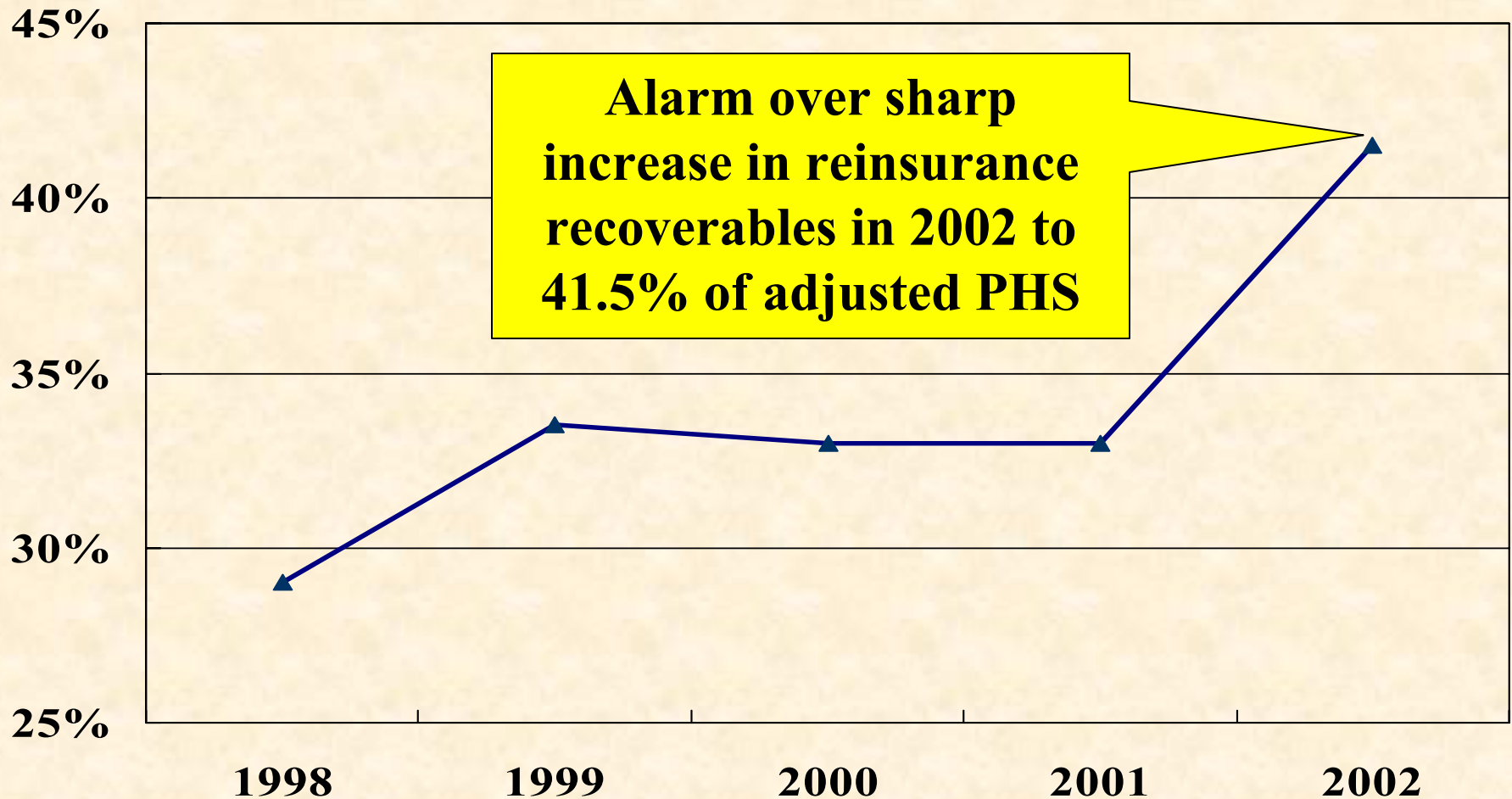
\*Average of Morgan Stanley "top-down" and "bottoms-up" estimates for accident years 1993–2002 as of 12/31/02.

\*\*Occurrence and claims made basis.

Source: Morgan Stanley, January 2004.



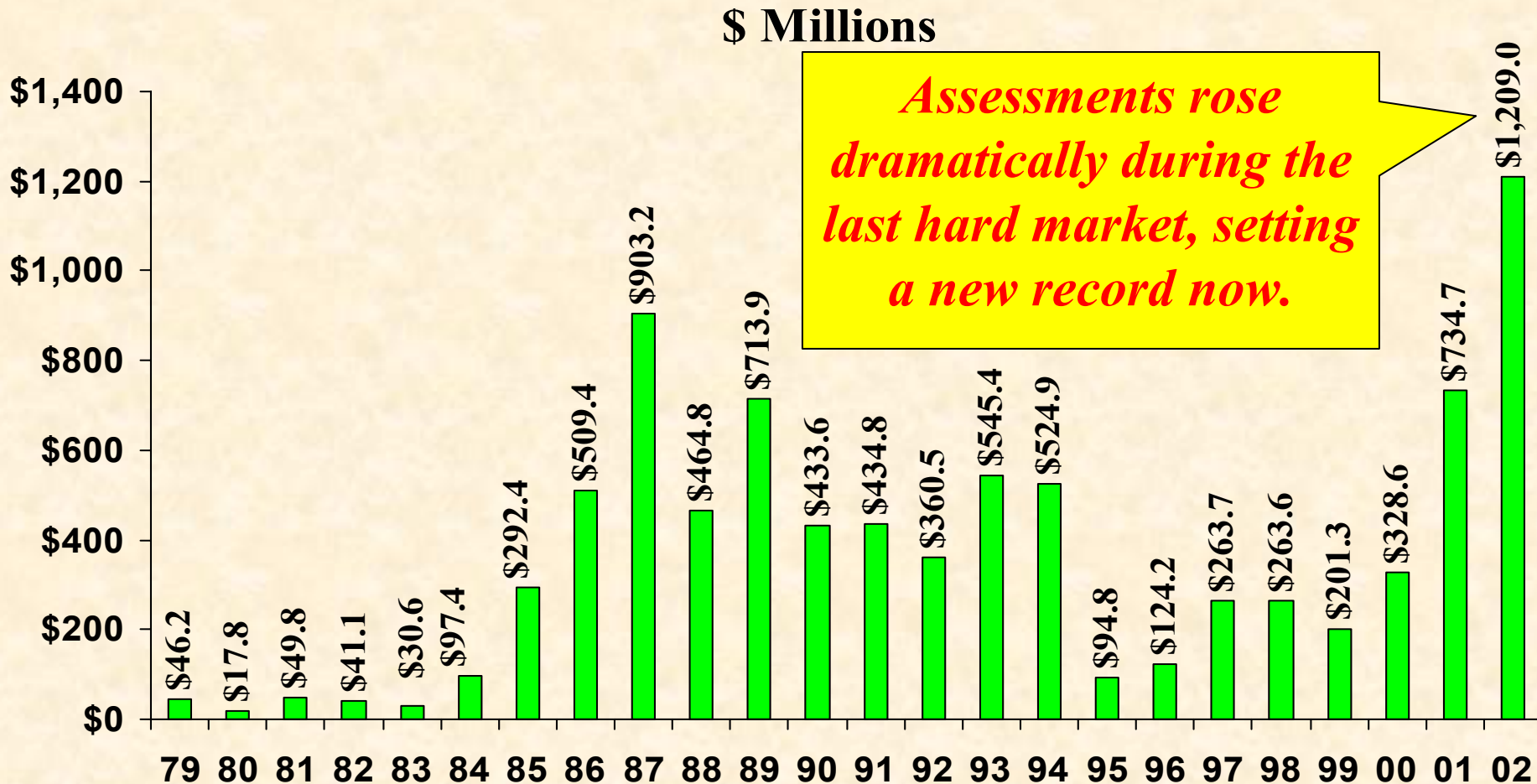
# *US P/C Net Net Reinsurance Recoverables as % of Adjusted PHS*



Source: Reinsurance Association of America from Thompson Financial OneSource database.



# Guarantee Fund Net Assessments\* (1979-2002)

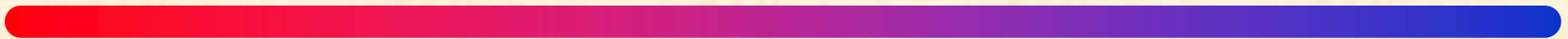


\*Excludes NY and workers comp security funds in NJ and PA.

Source: National Conference of Insurance Guarantee Funds; Insurance Information Institute

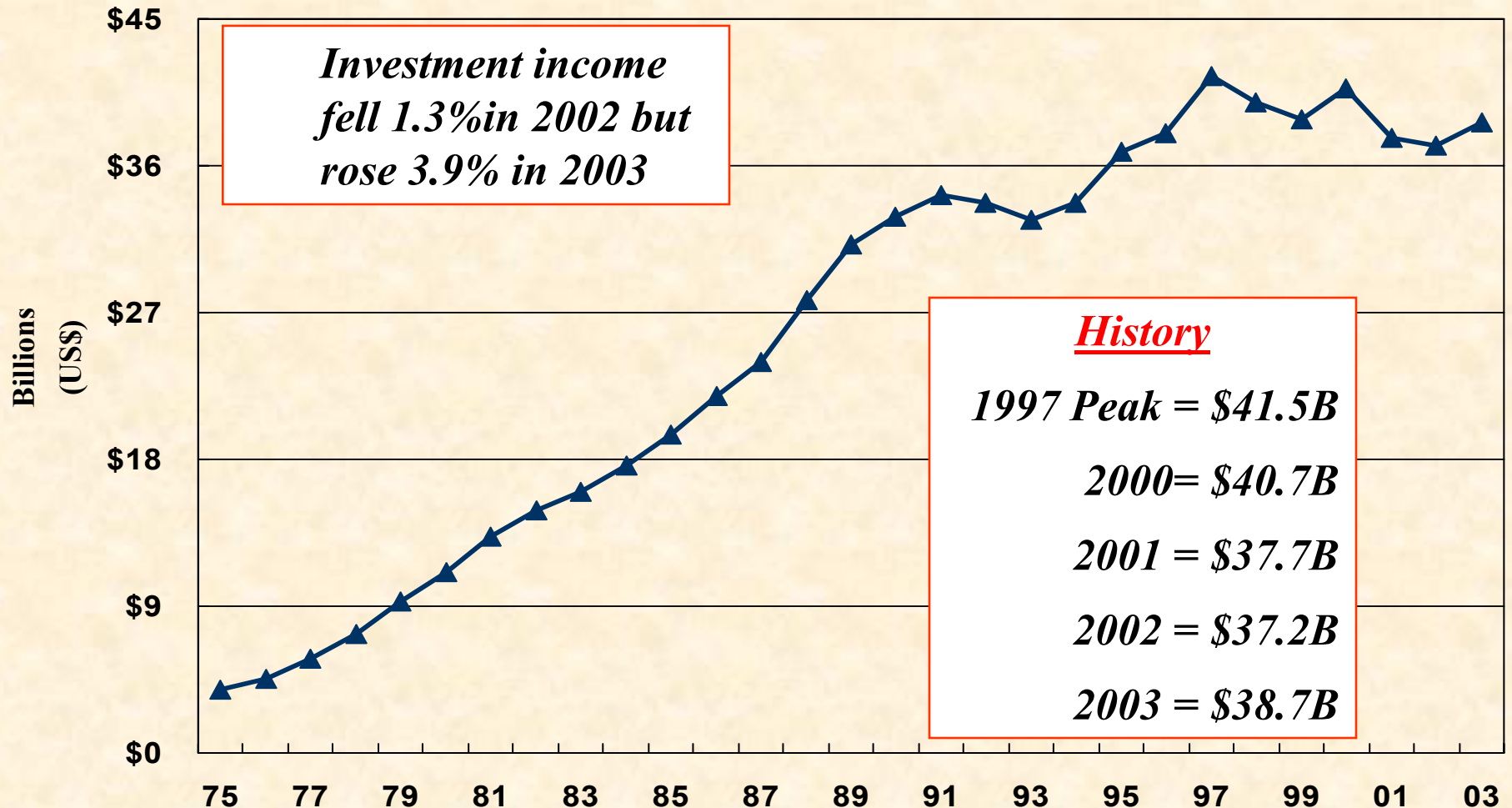
# INVESTMENTS:

*NO SUBSTITUTE FOR  
SOUND UNDERWRITING*



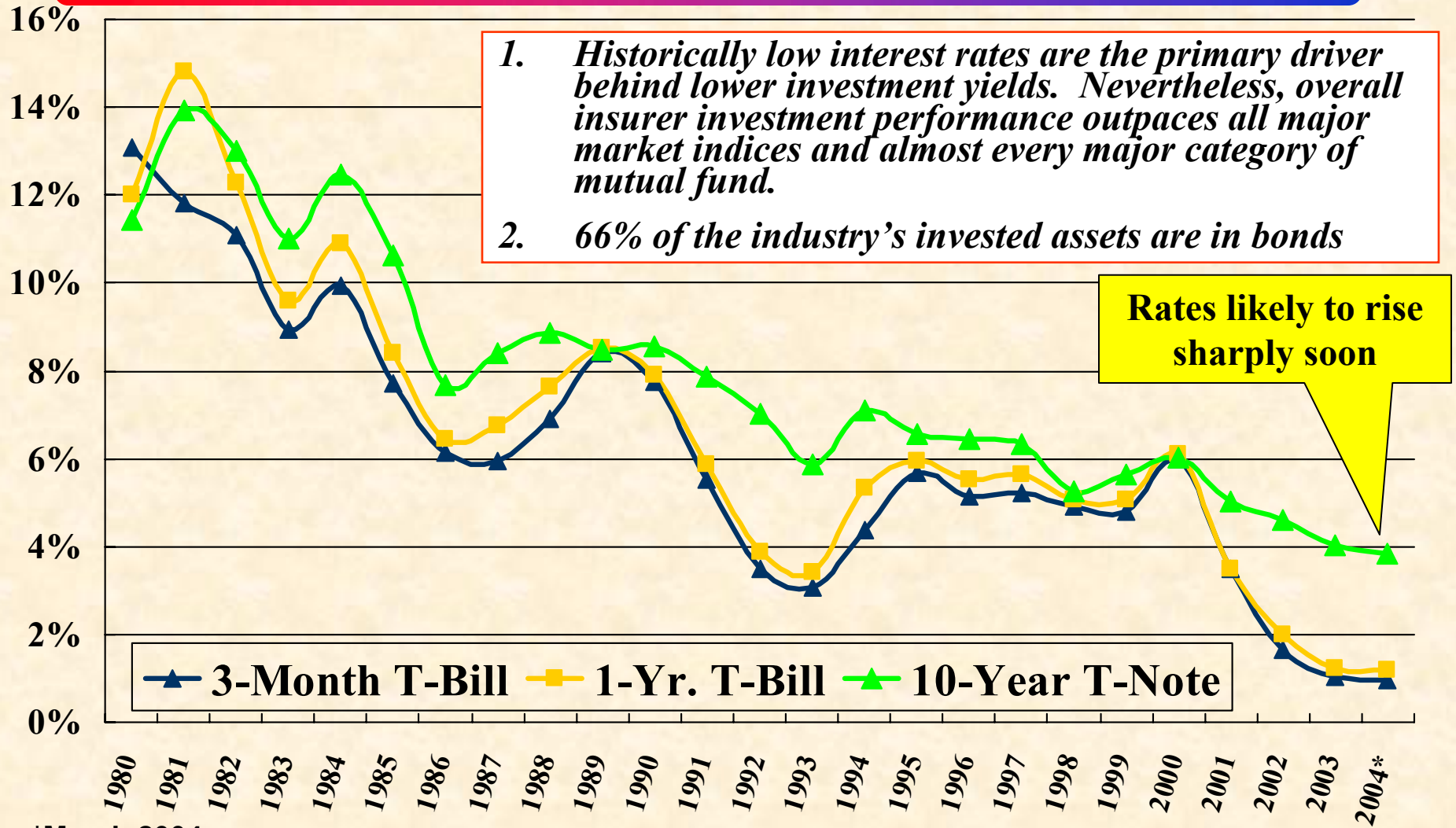


# Net Investment Income





# Interest Rates: Lower Than They've Been in Decades

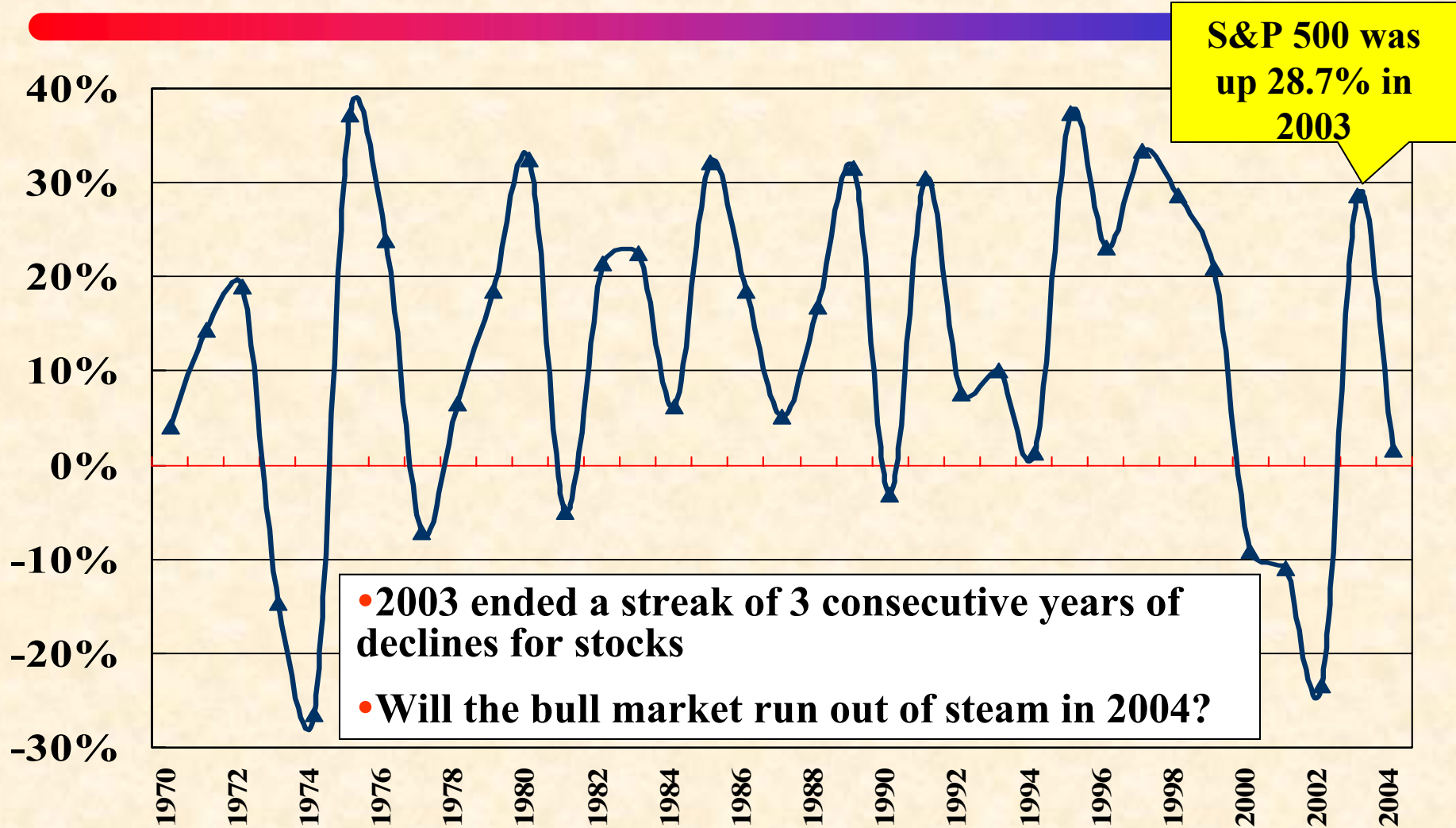


\*March 2004.

Source: Board of Governors, Federal Reserve System; Insurance Information Institute



# Total Returns for Large Company Stocks: 1970-2004\*

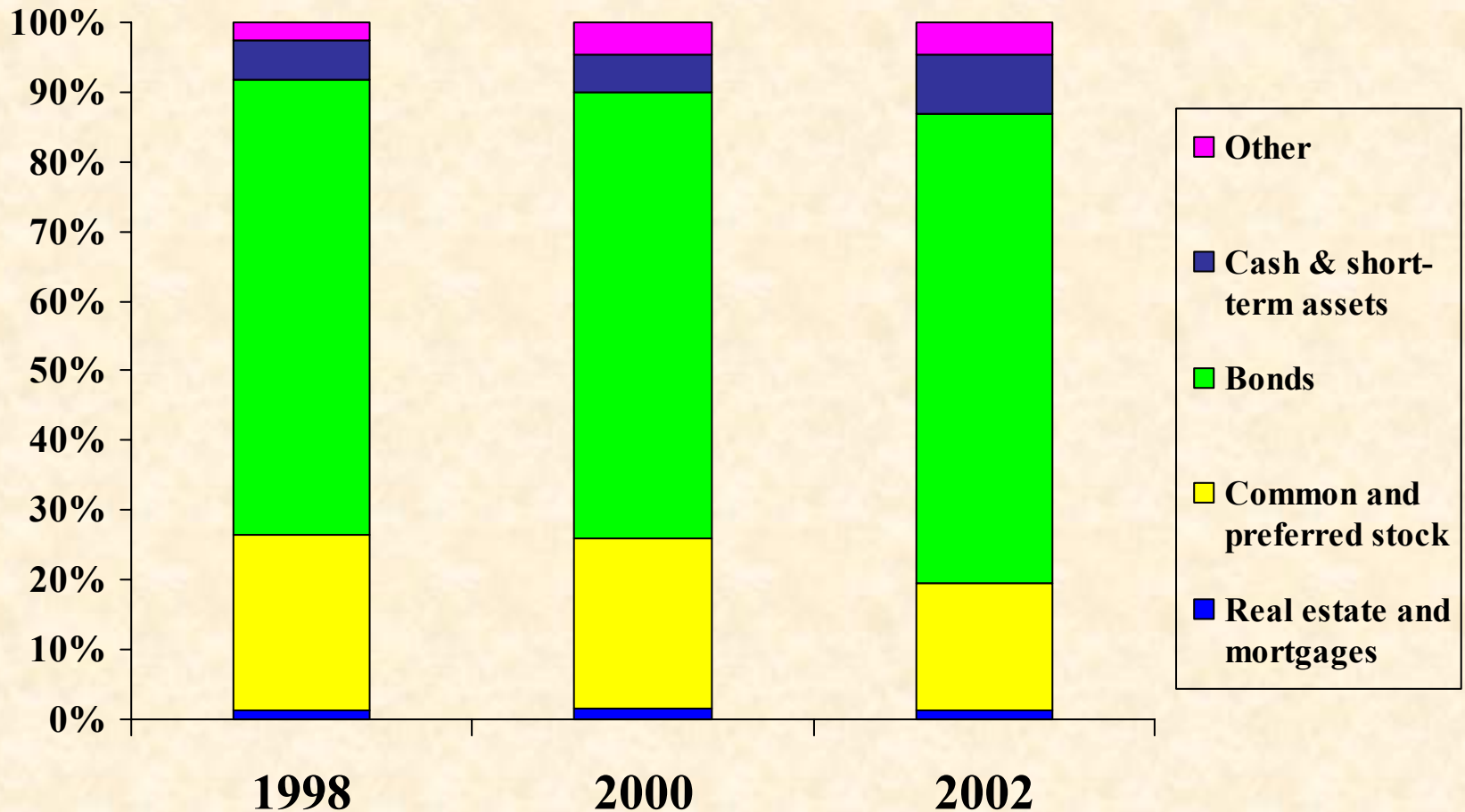


\*As of April 14, 2004.

Source: Ibbotson Associates, Insurance Information Institute



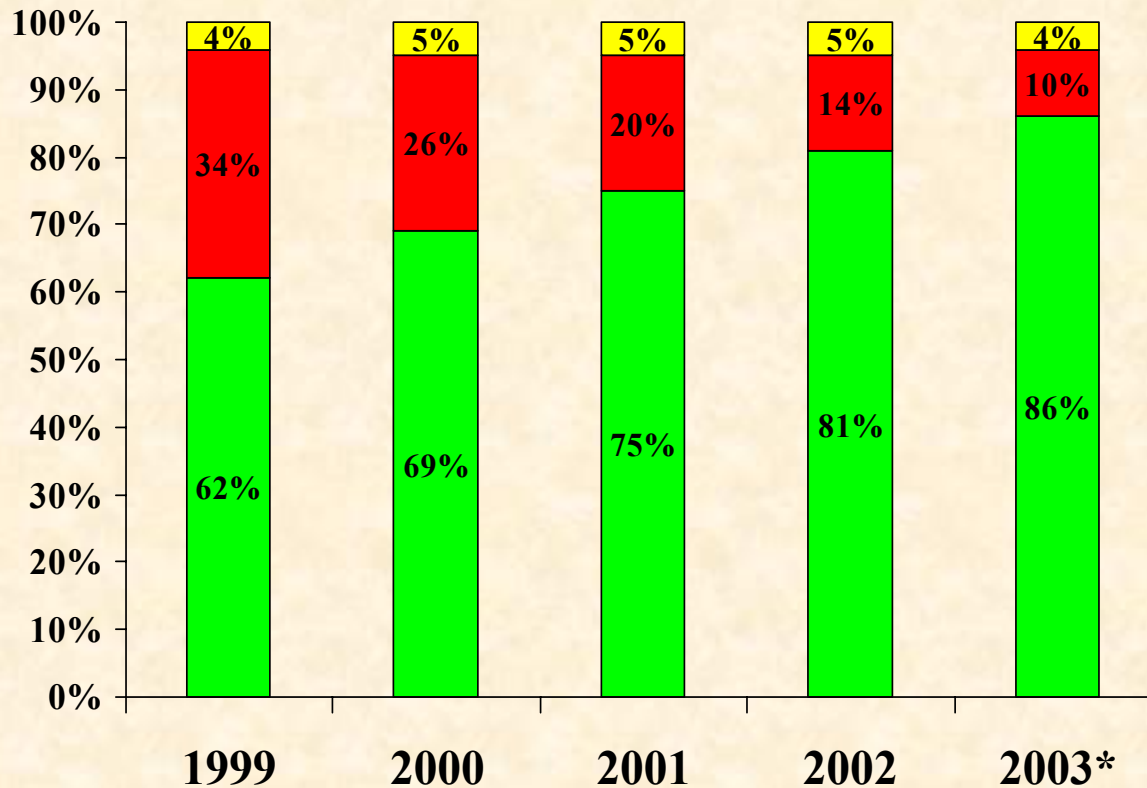
# *US Insurers' Asset Allocation, 1998-2002 (%)*





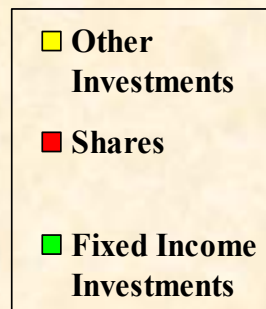
# Swiss Re Asset Allocation Shift: 1999-2003

Swiss Re's fixed income portfolio increased to CHF 81 billion at the end of the first half of 2003, up from CHF 74 billion at year-end 2002.



*“Strong growth in fixed income portfolio reflects reallocation of funds from equity portfolios, cash inflows, market appreciation and two Admin Re transactions.”*

*- Swiss Re Analysts' Meeting, 08/29/03*

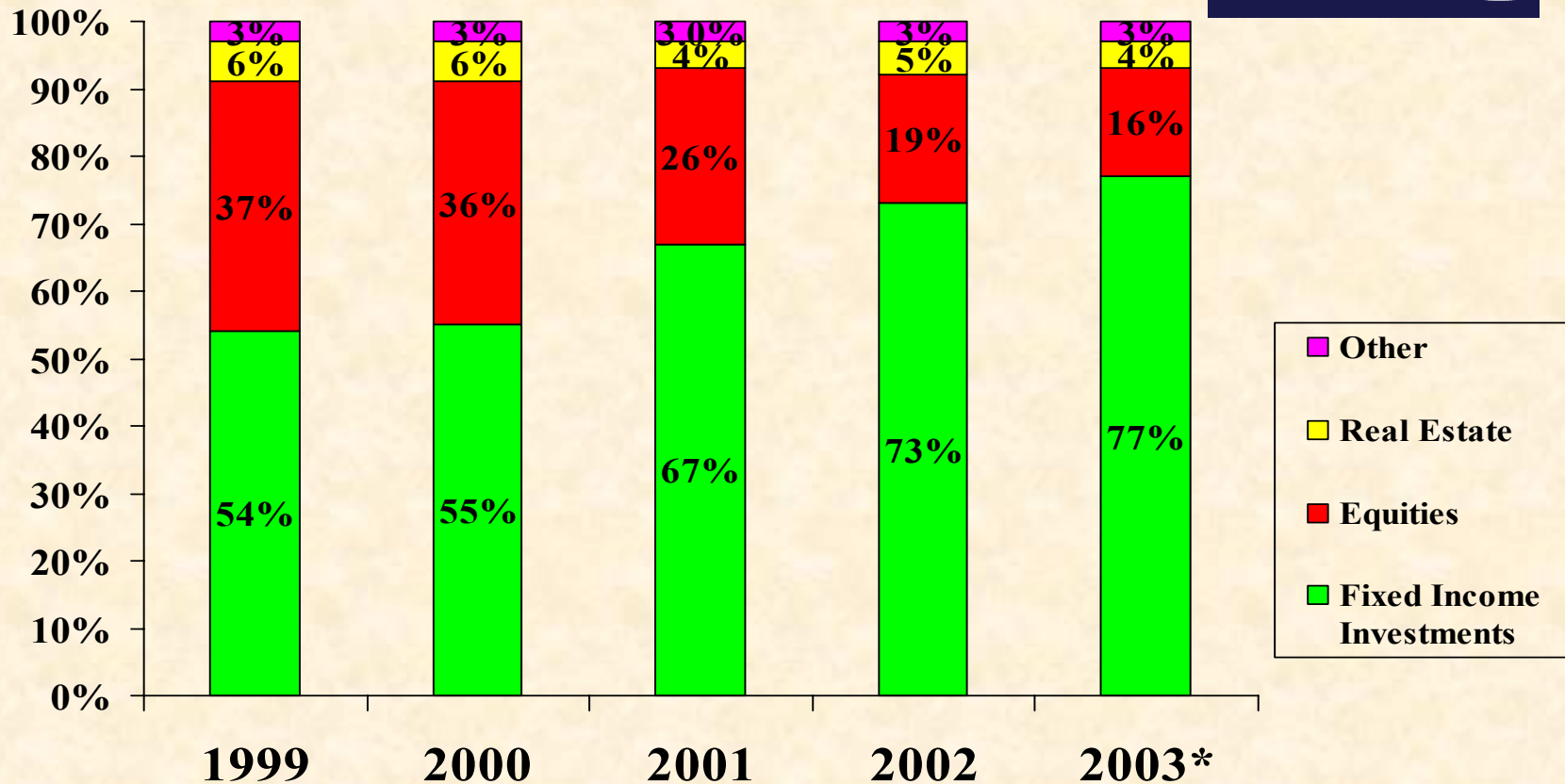


\*As of June 30, 2003

Source: Swiss Re

# Allianz Group Asset Allocation Shift: 1999-2003\*

Allianz's equity exposure has reduced significantly since 1999.

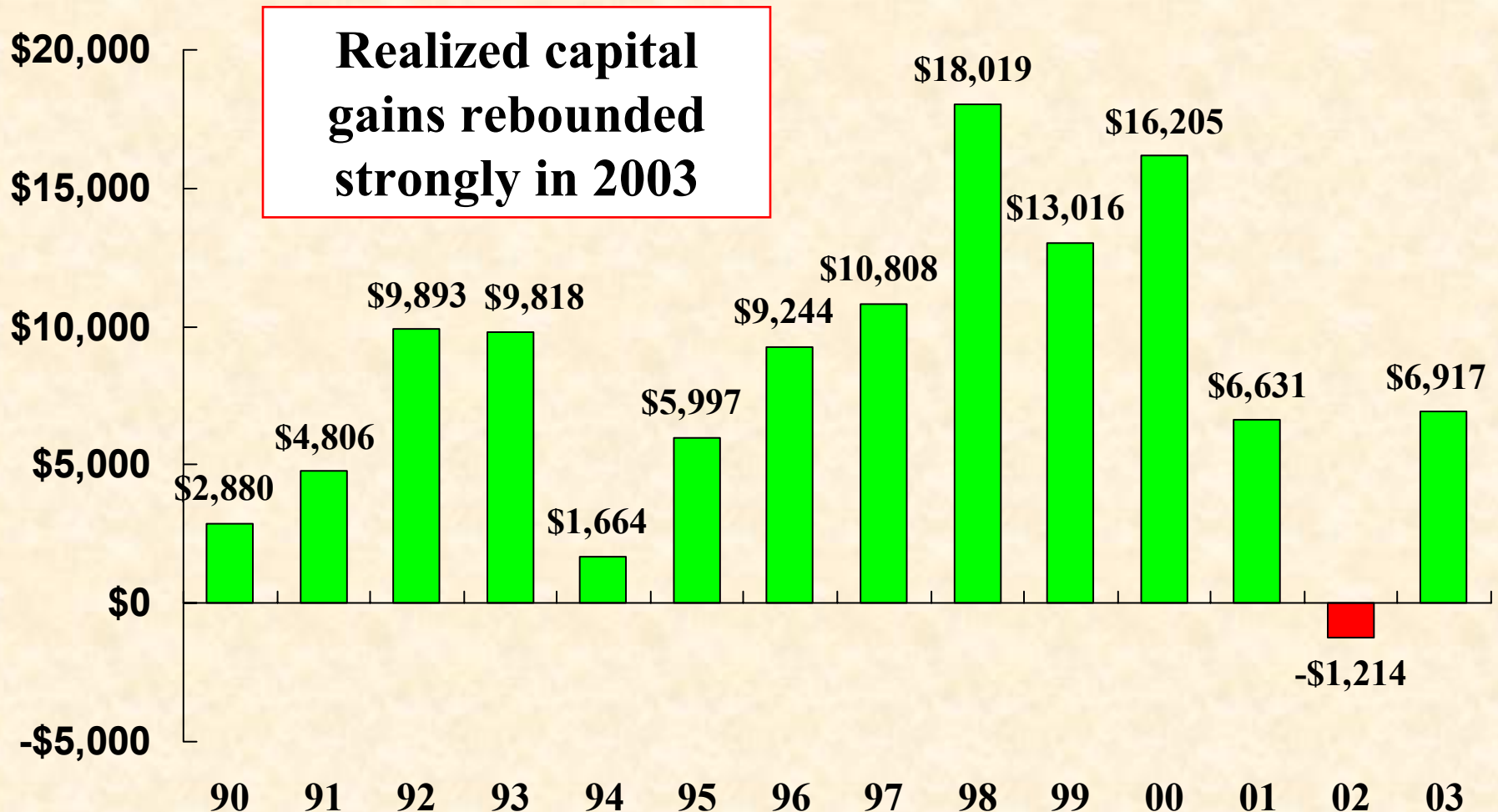


\*As of September 30, 2003.

Source: Allianz Group Financial Results 9M 2003.

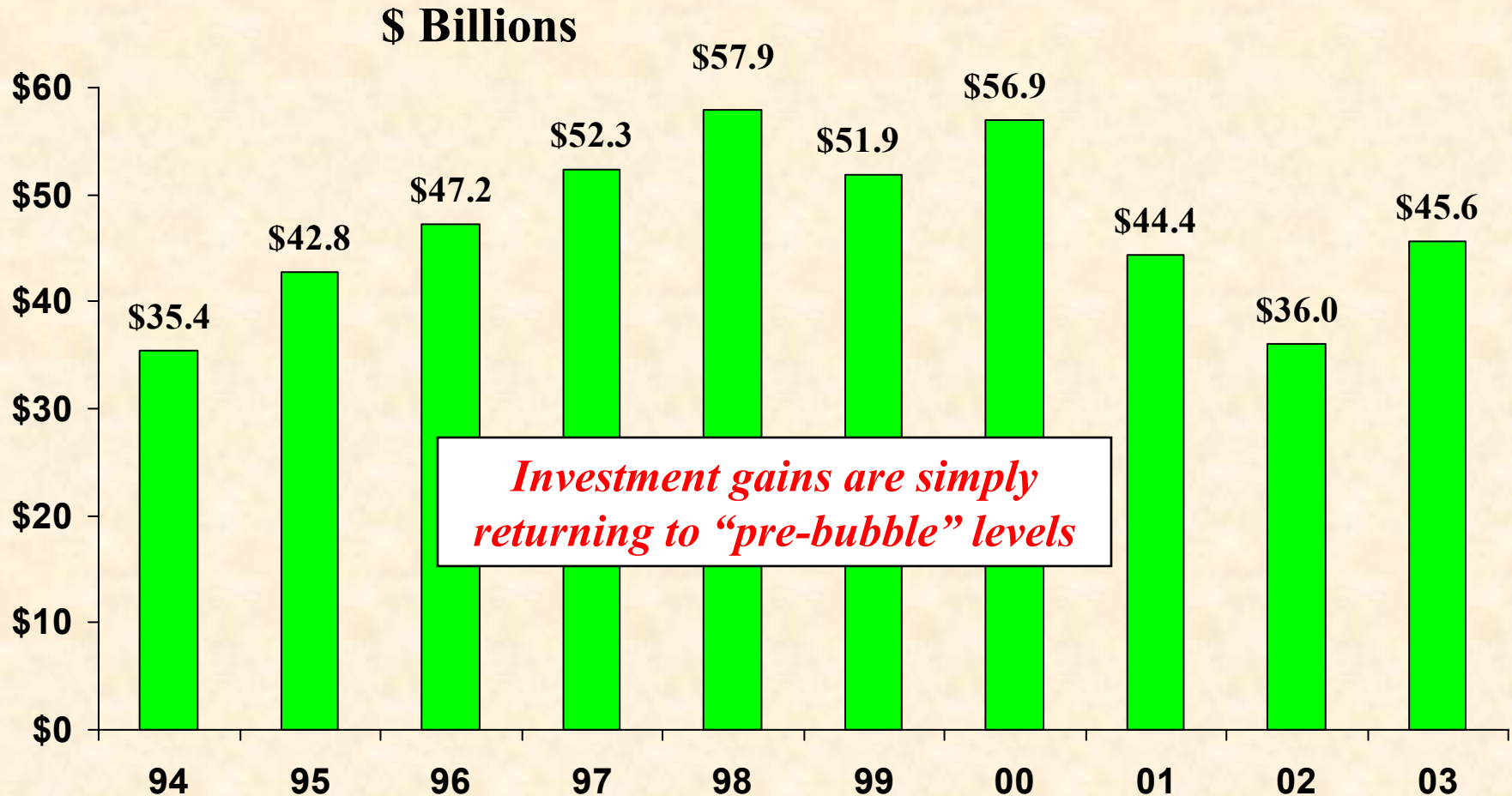


# US P/C Net Realized Capital Gains 1990-2003 (\$ Millions)





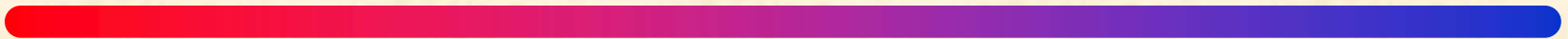
# Property/Casualty Insurance Industry Investment Gain\*



\*Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.  
Source: Insurance Services Office; Insurance Information Institute.

***PRICING:***

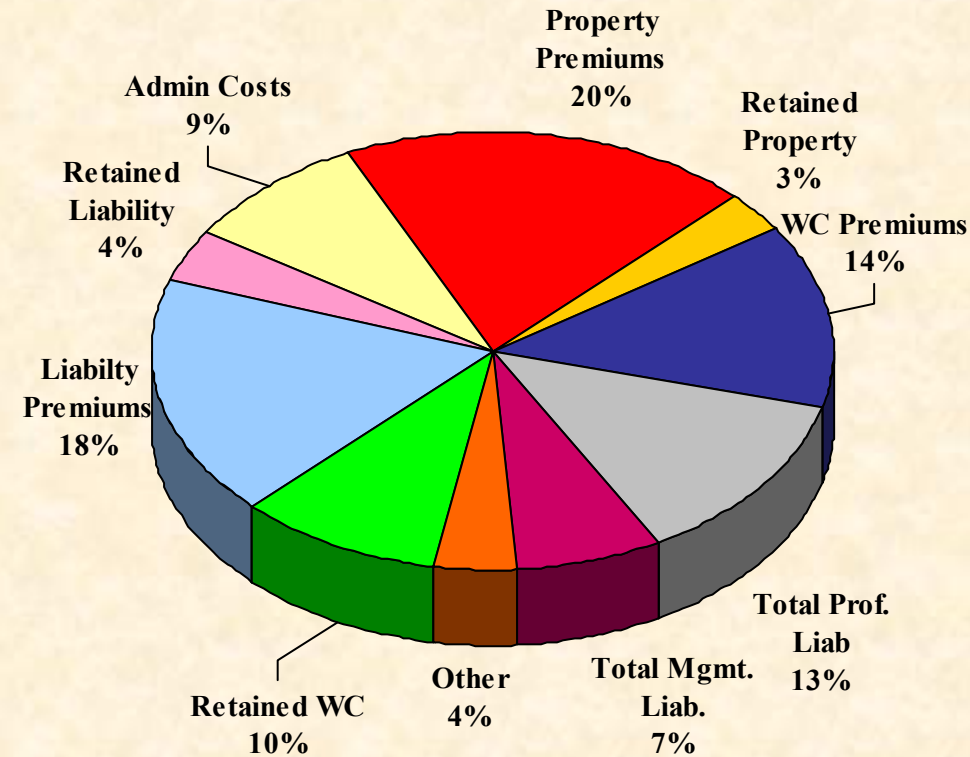
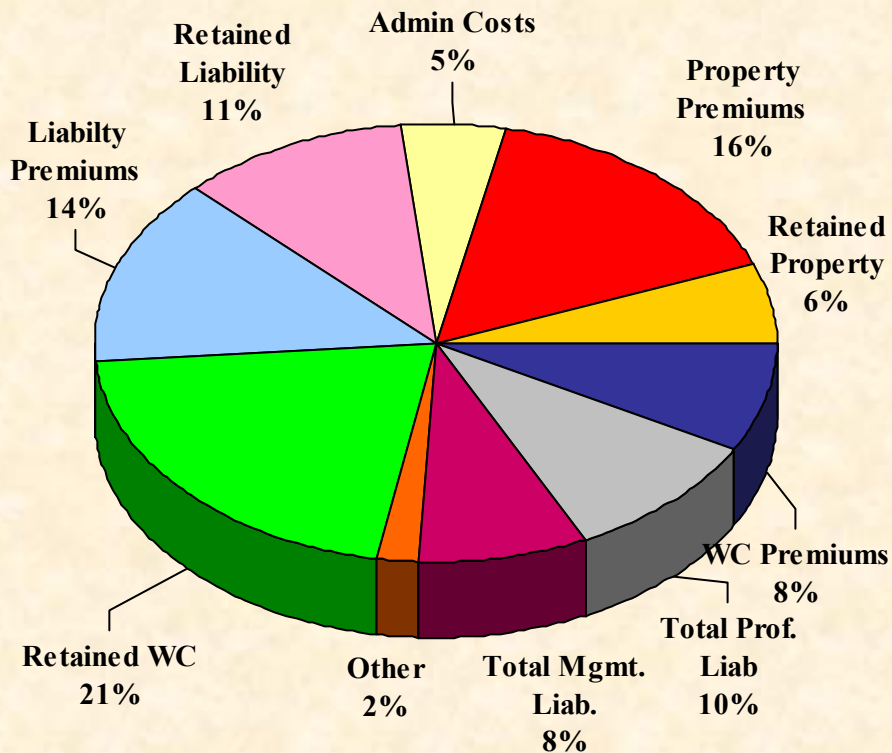
**DOWNWARD  
PRESSURE?**



# How the Risk Dollar is Spent (2003)

## Firms w/Revenues < \$1 Billion

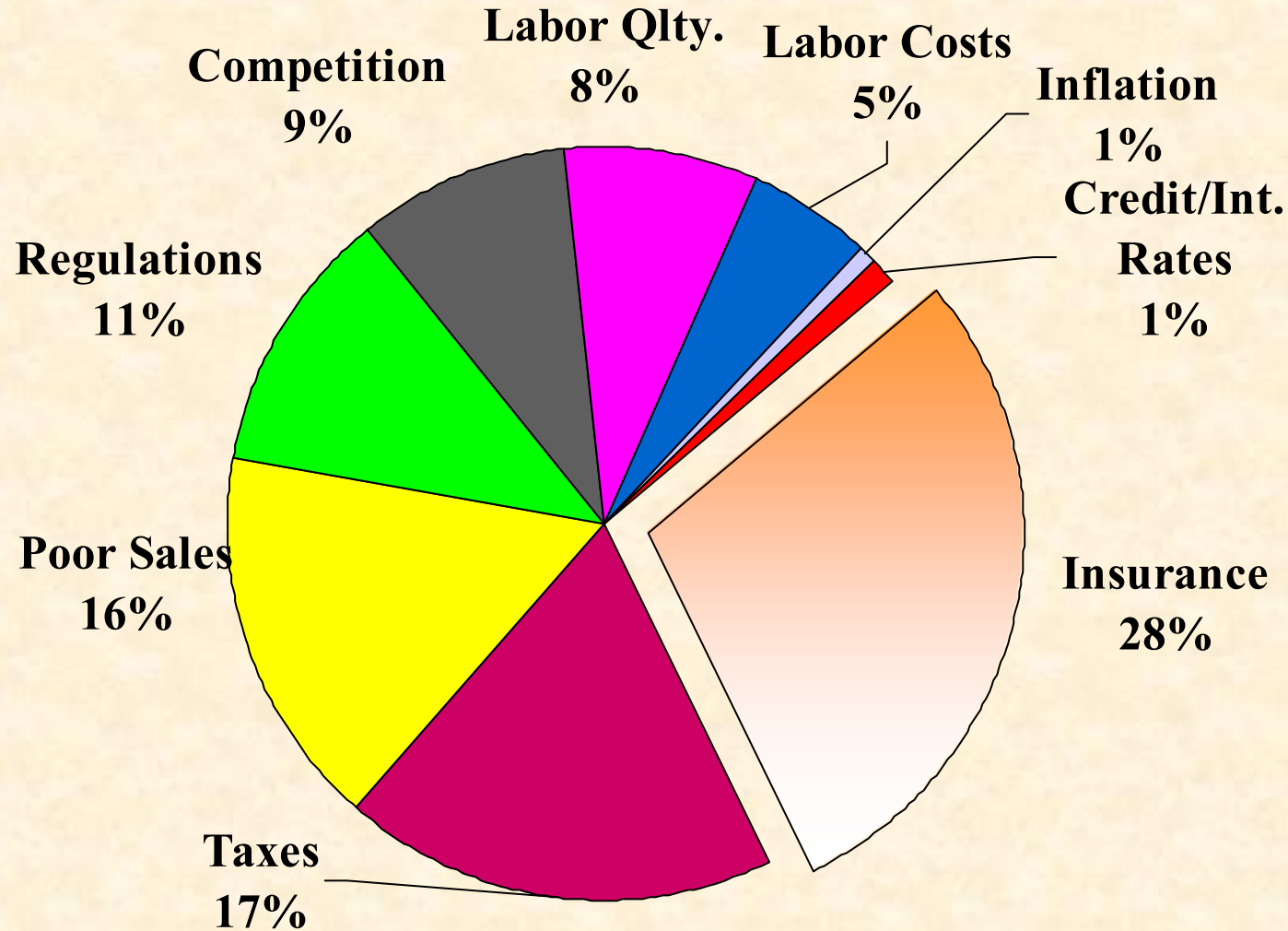
## Firms w/Revenues > \$1 Billion



Source: RIMS (2003); Insurance Information Institute

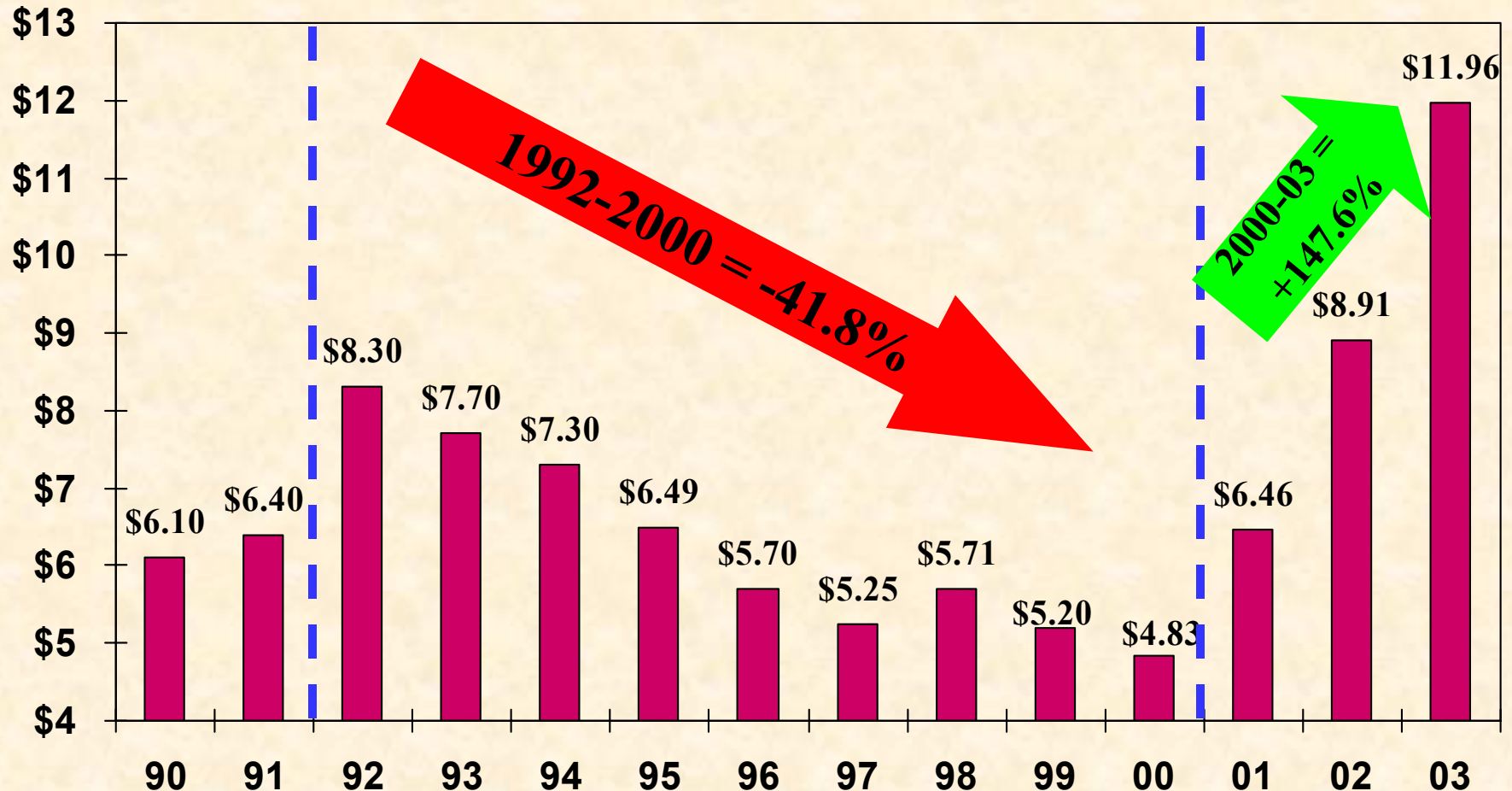


# *Insurance is the Biggest Concern of Small Business Owners*





# Cost of Risk: 1990-2003\*



\* Cost of risk includes insurance premiums, retained losses and administrative expenses

Source: 2003 RIMS Benchmark Survey; Insurance Information Institute



# Components of Cost of Risk Per \$1,000 of Revenue\*

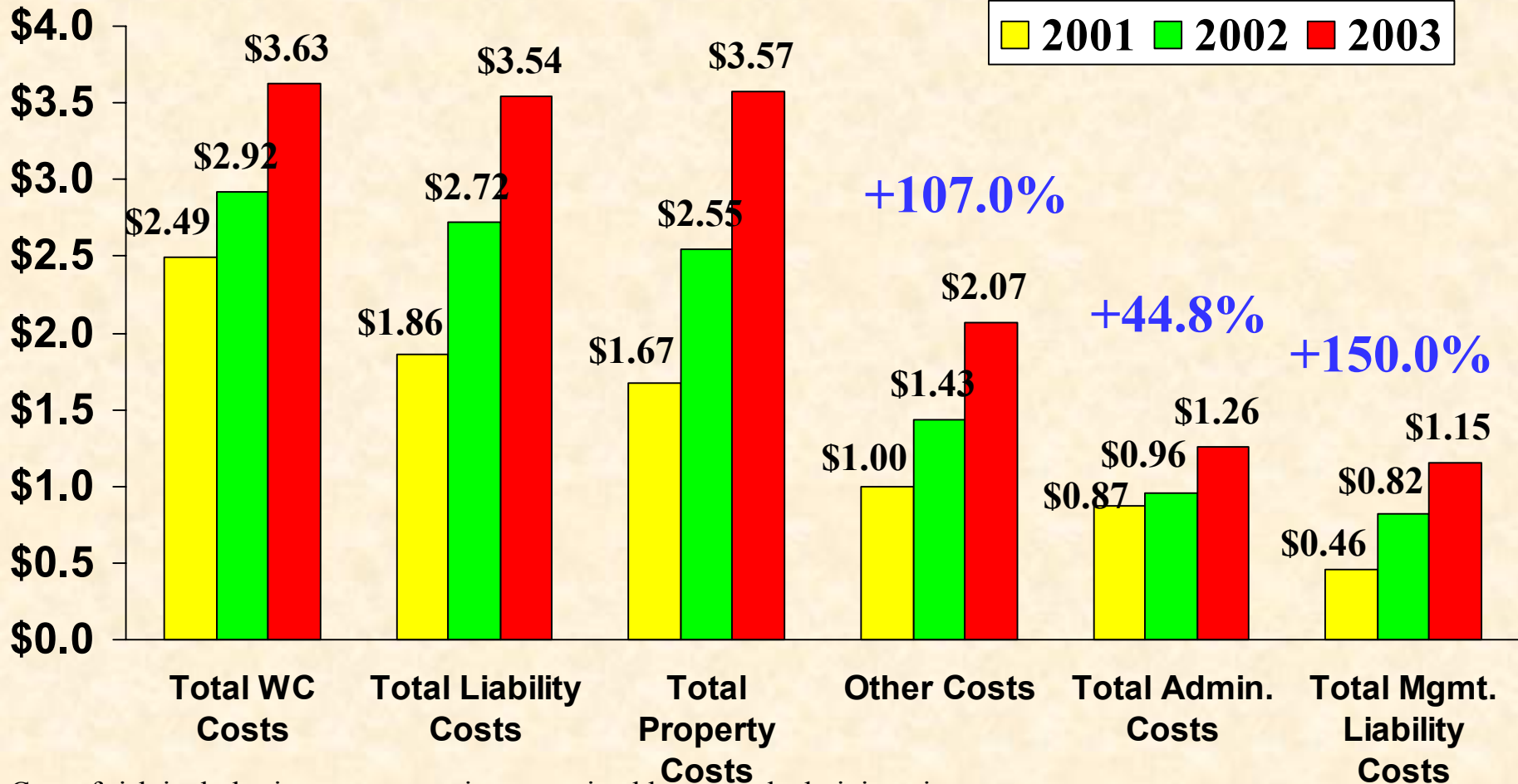
% Change

2001 -03

+45.8%

+90.3%

+113.8%

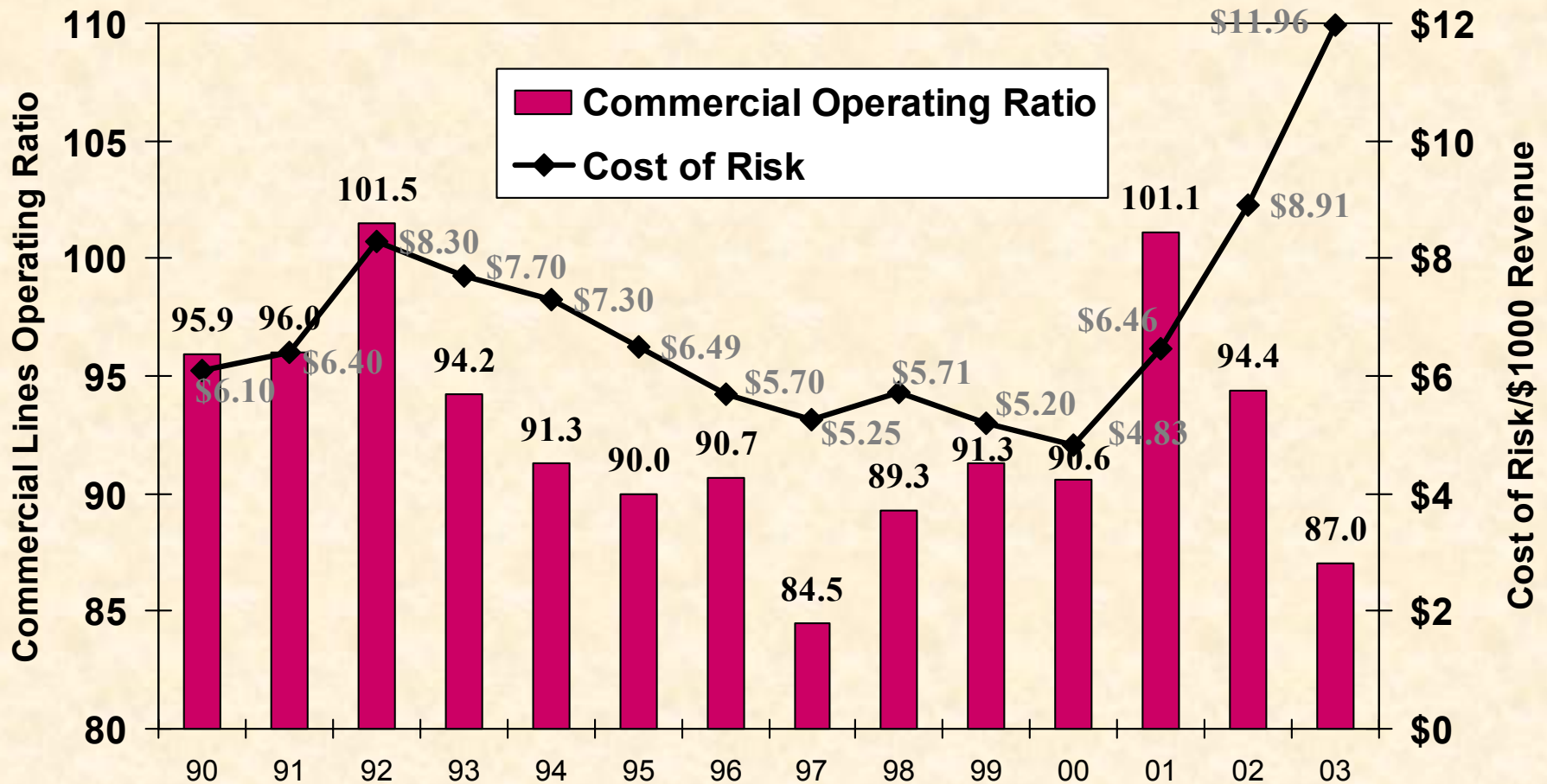


\* Cost of risk includes insurance premiums, retained losses and administrative expenses

Source: 2003 RIMS Benchmark Survey; Insurance Information Institute



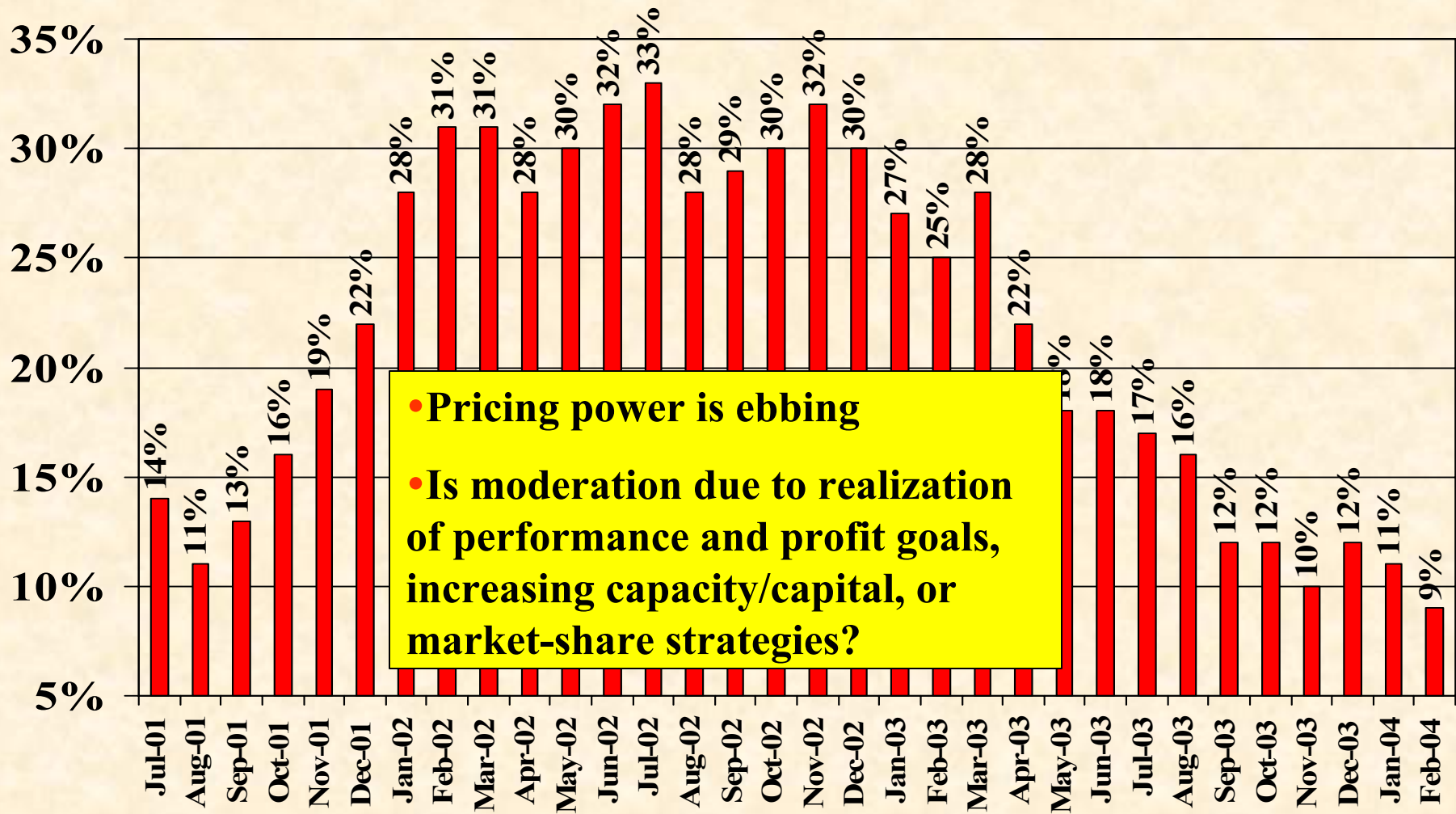
# Cost of Risk vs. Commercial Lines Operating Ratio\*





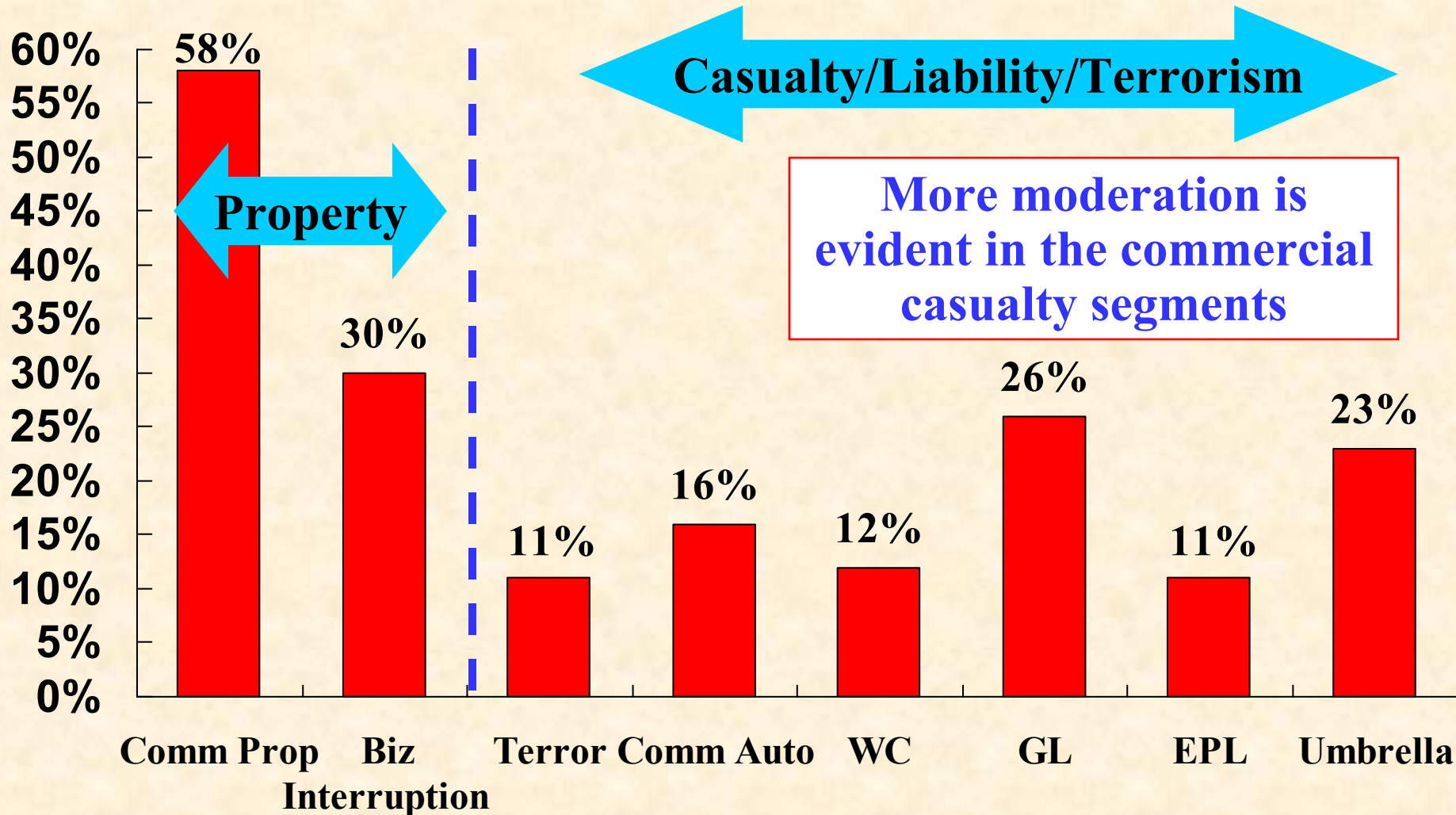
# PRICING

## Commercial Premium Rate Changes Highly Cyclical



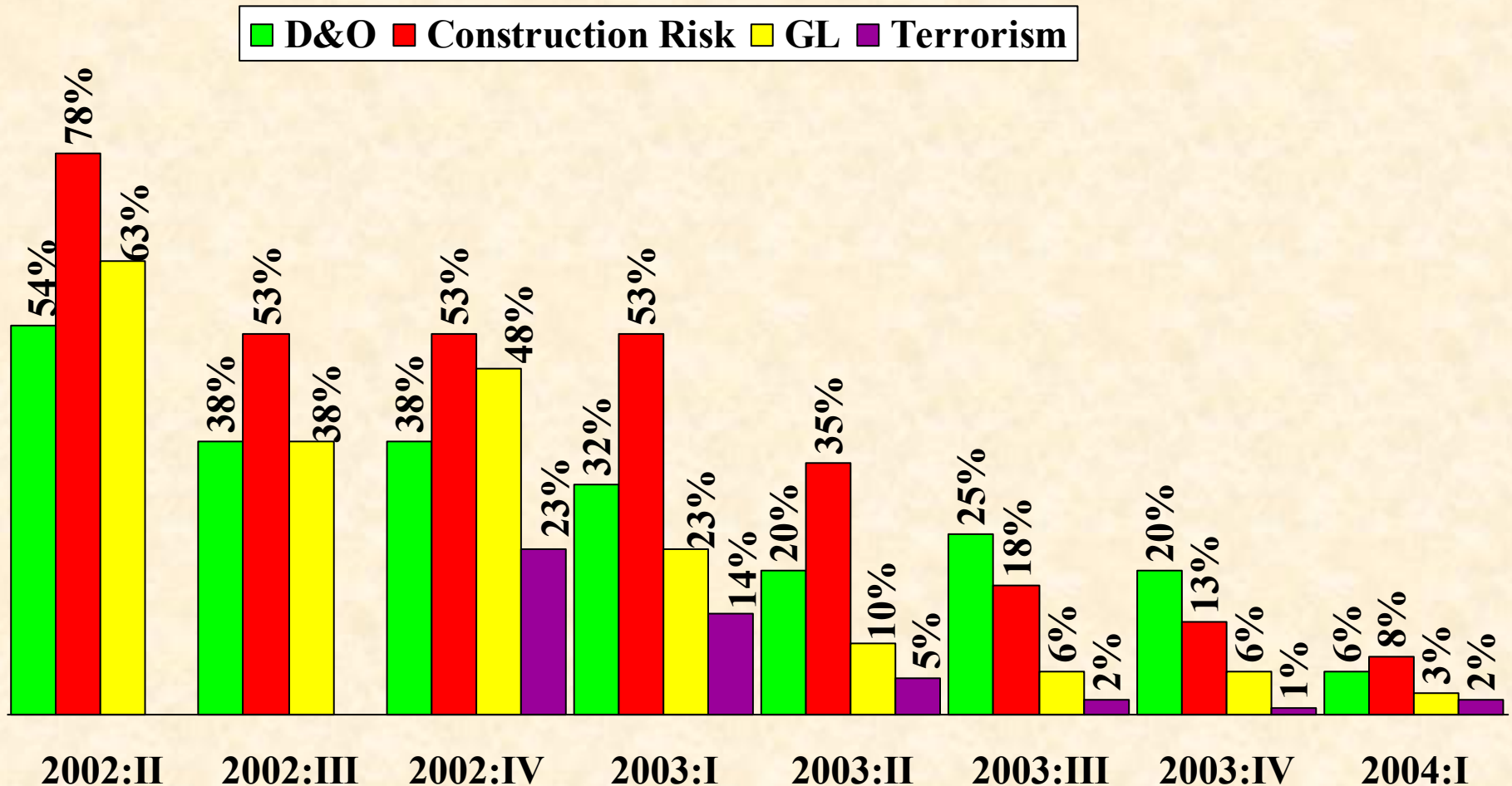


# *P/C Soft Spots: % Accounts With Negative Price Change (1<sup>st</sup> Qtr. 2004)*



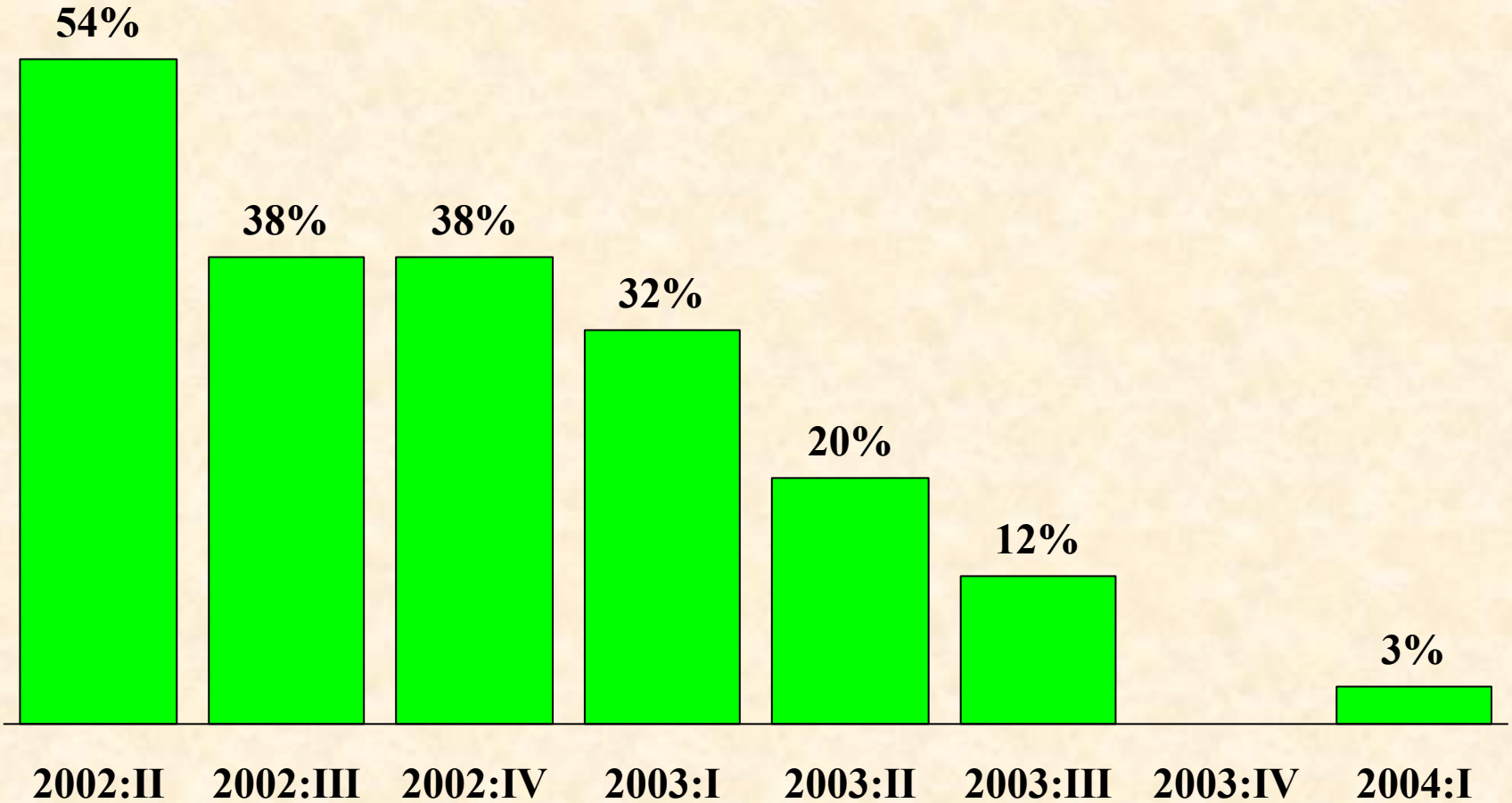


# Proportion of Accounts Renewing With Increase of 20% or More, (Select Lines)



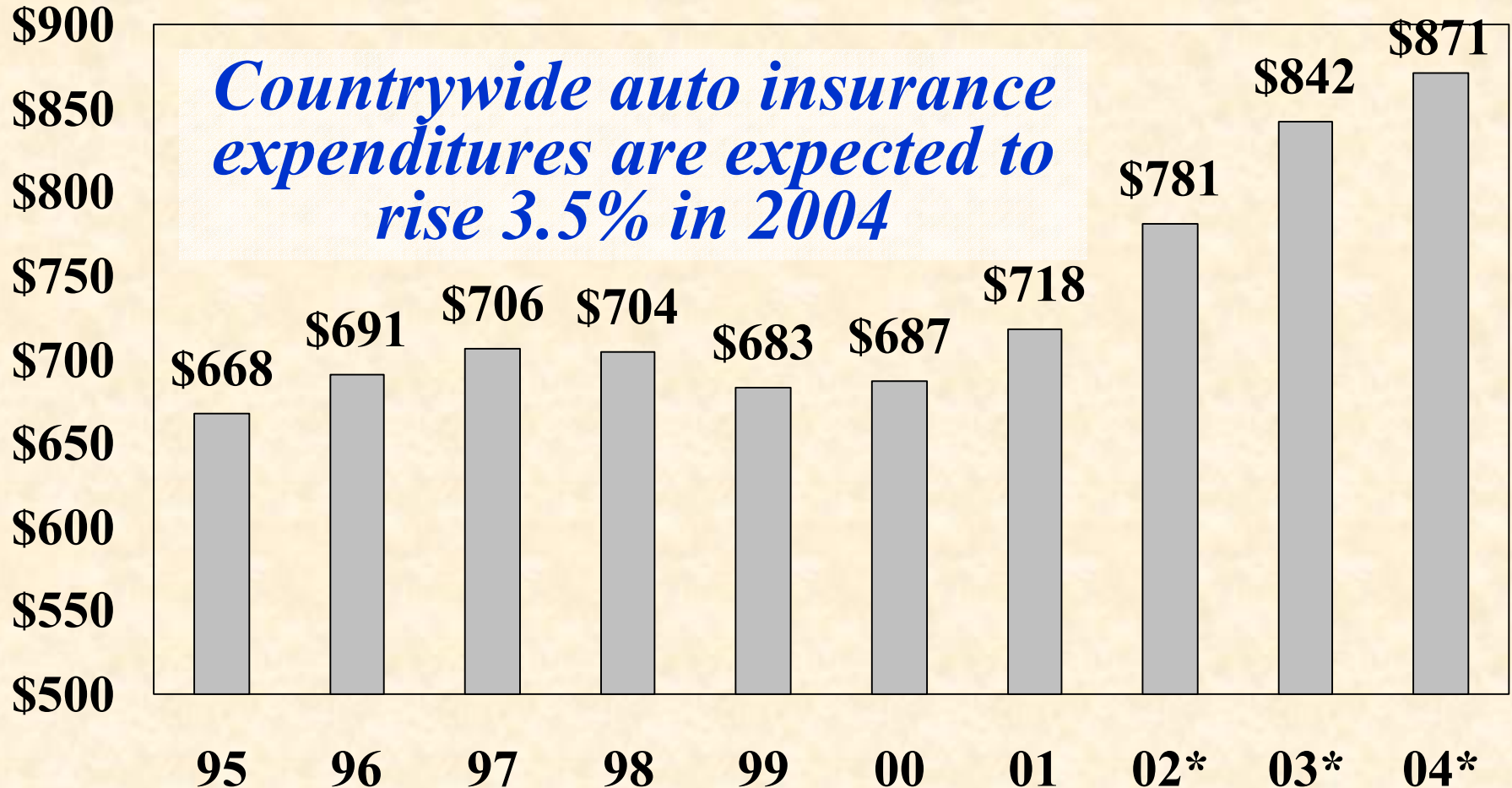


# *Proportion of Workers Comp Accounts Renewing With Increase of 20% or More*





# Average Expenditures on Auto Insurance: US

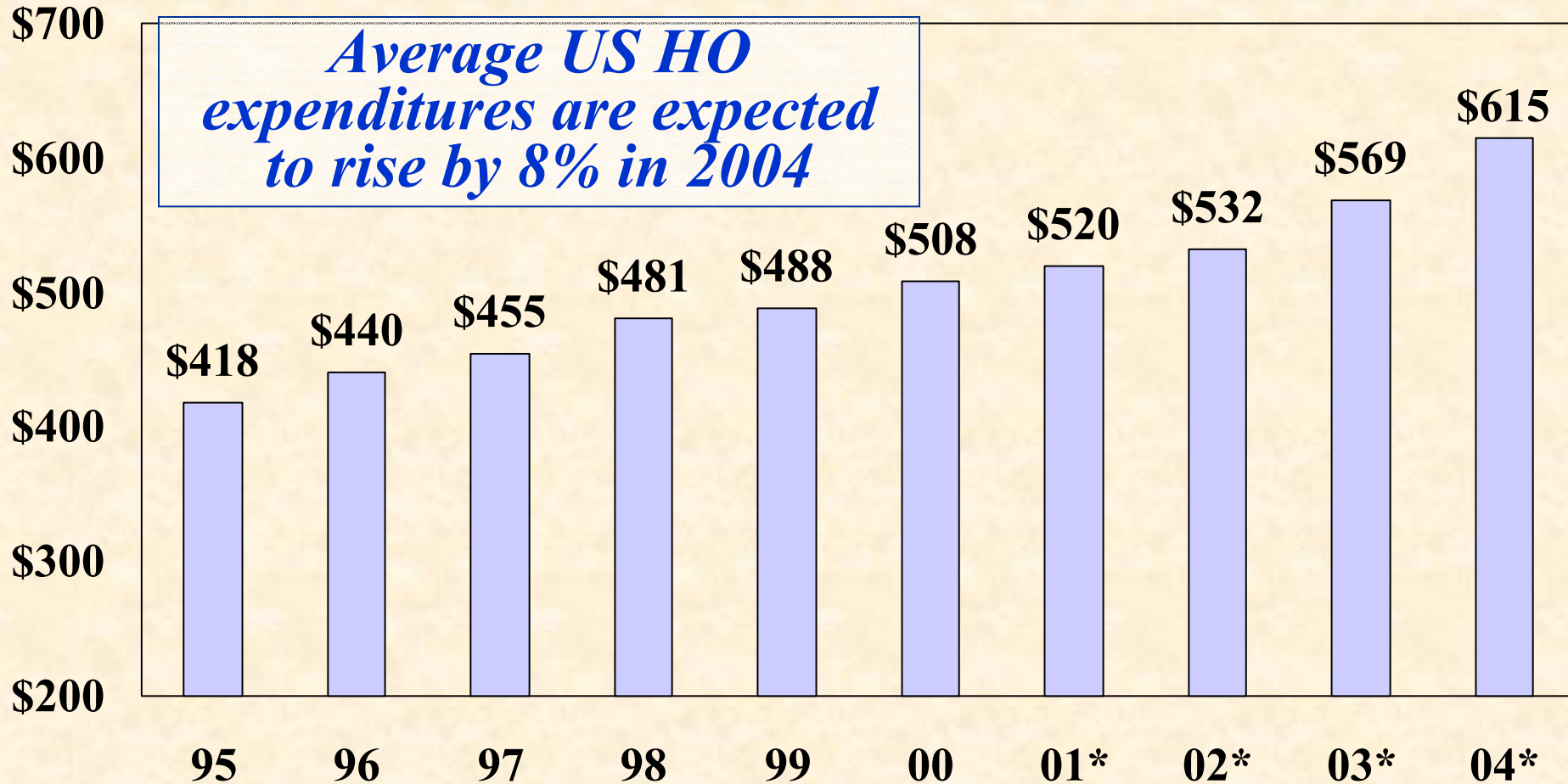


\*III Estimates; Estimates for 2002-2004 based on BLS CPI data for motor vehicle insurance.

Source: NAIC, Insurance Information Institute



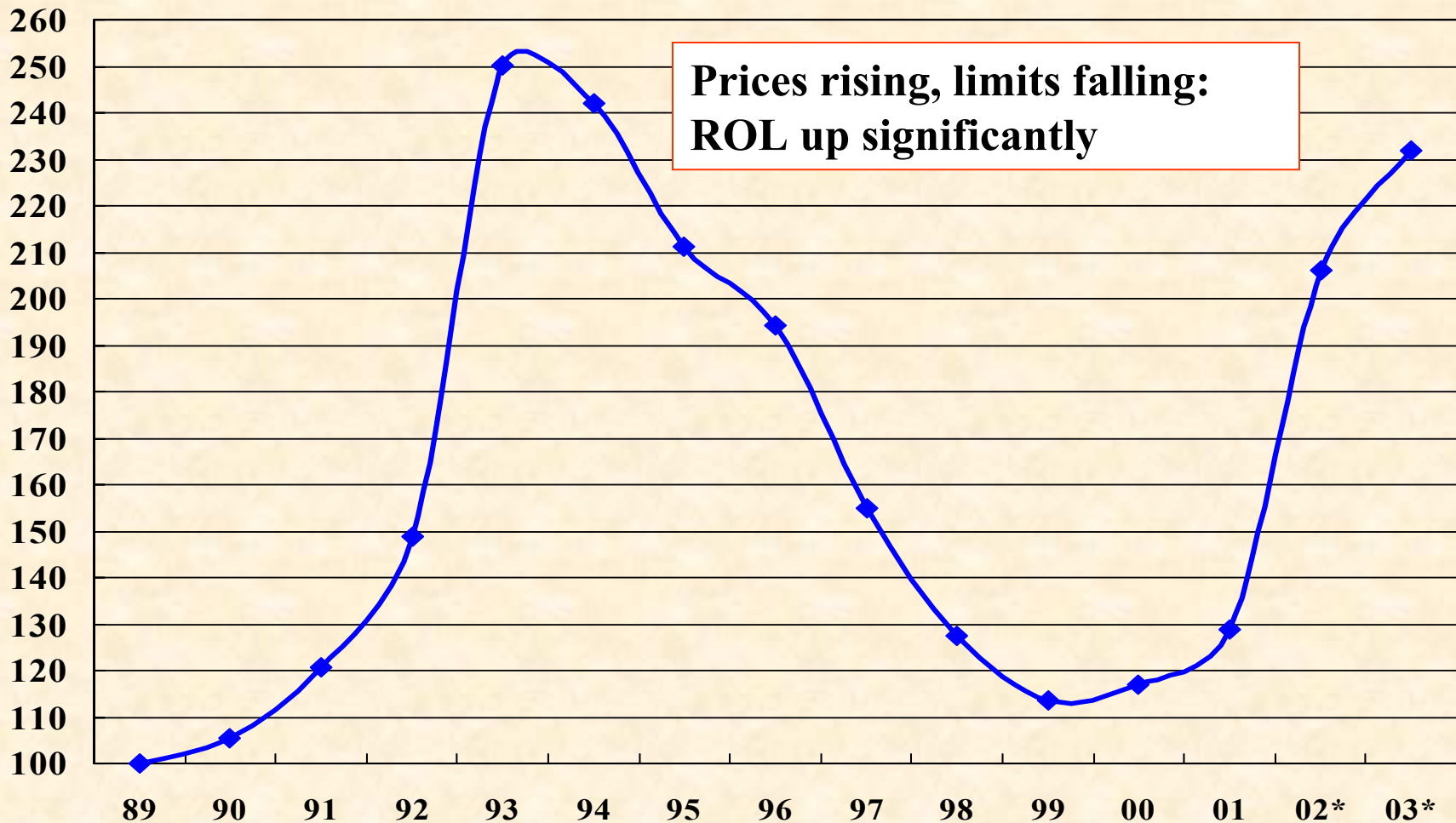
# Average Expenditures on Homeowners Ins.: US



\*III Estimates; Estimates for 2001-2003 based on BLS CPI data for tenants and household insurance  
Source: NAIC, Insurance Information Institute, TX Department of Insurance.



# Rate On Line Index (1989=100)



Source: Guy Carpenter

\* III Estimate

# P/C COST DRIVERS

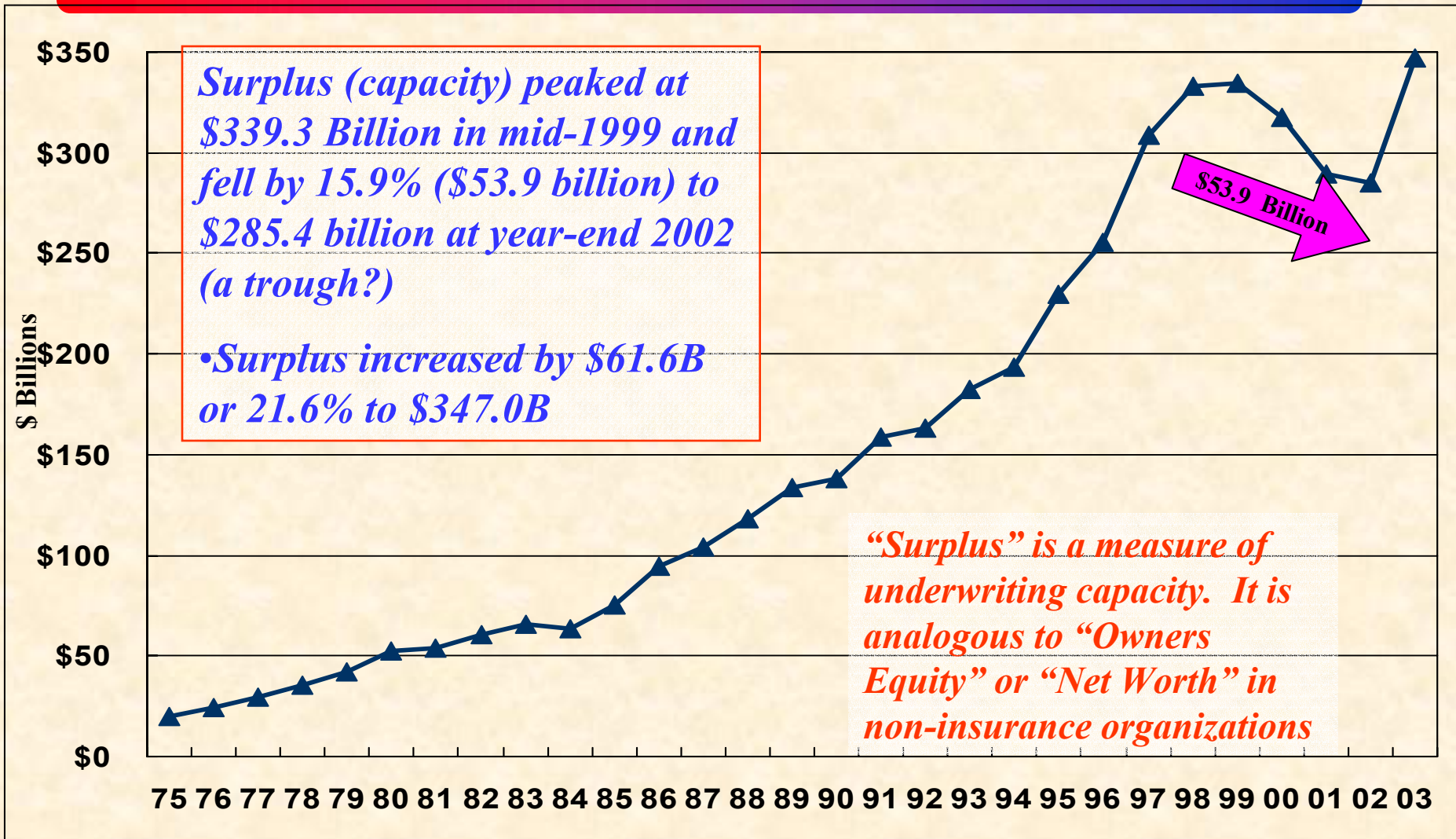


*Macro Factors*

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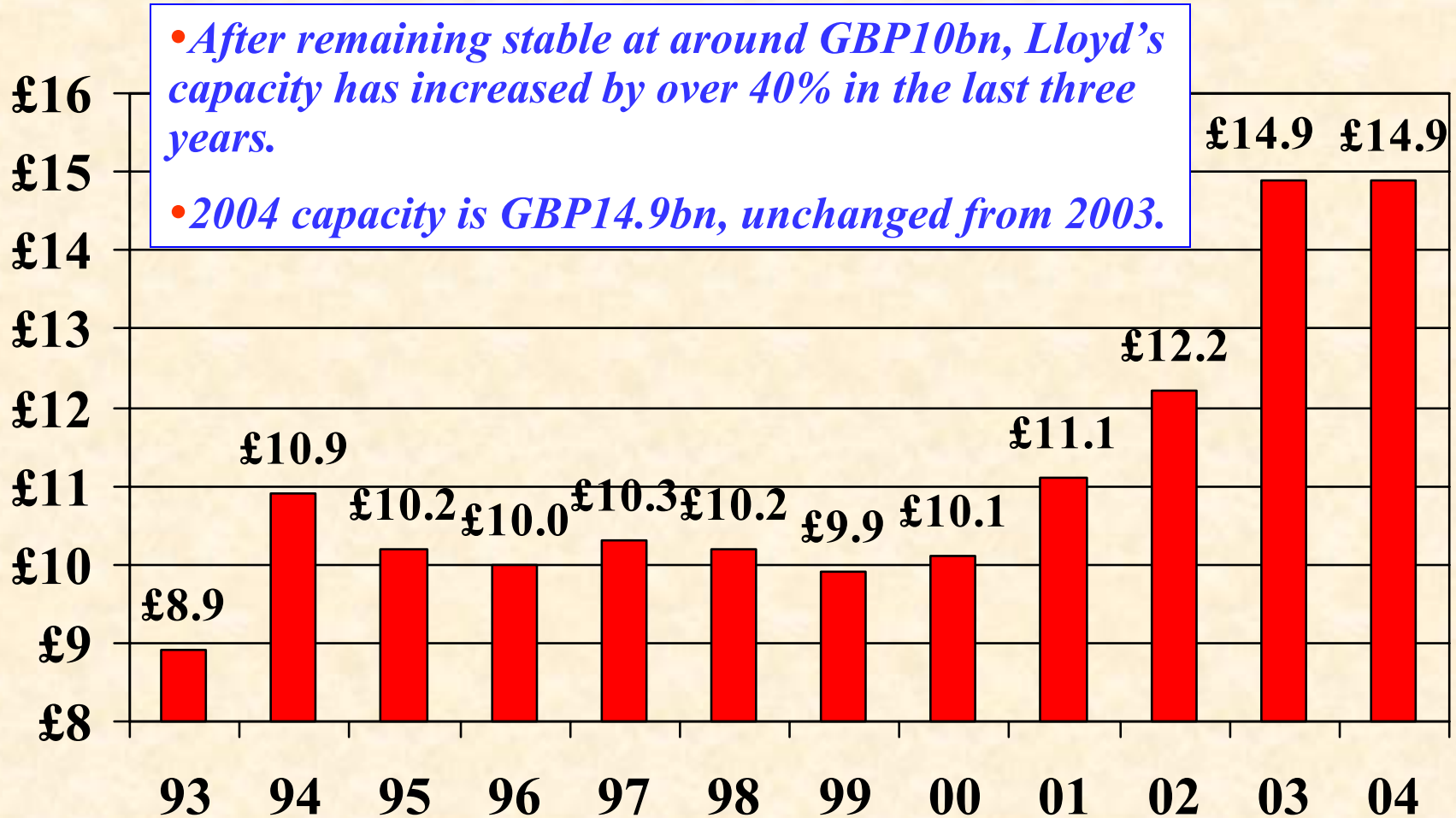


# U.S. Policyholder Surplus: 1975-2003



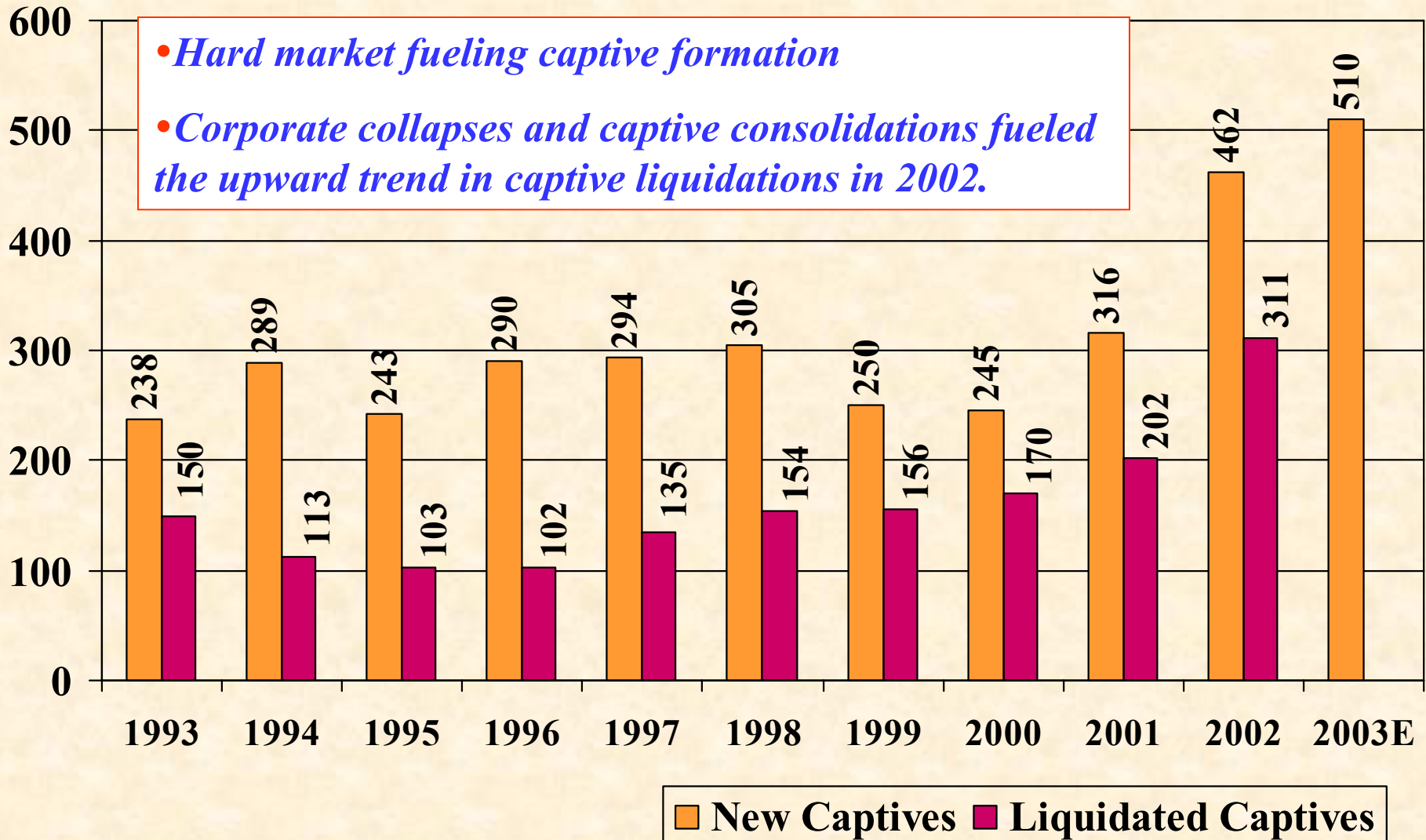


# Capacity of Lloyd's Market





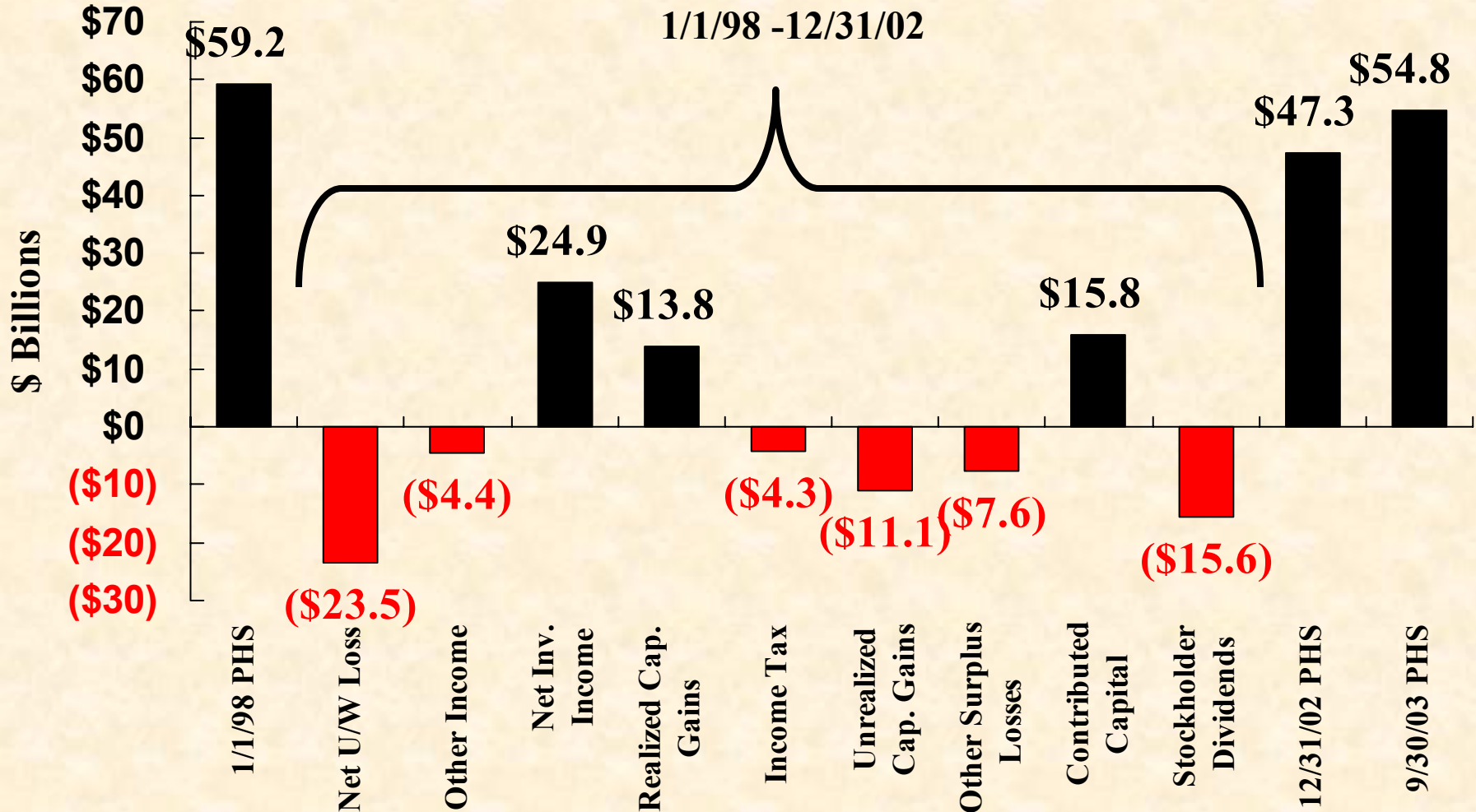
# Number of Captive Formations & Liquidations 1993 to 2003E





# Change in Policyholder Surplus for US Reinsurers

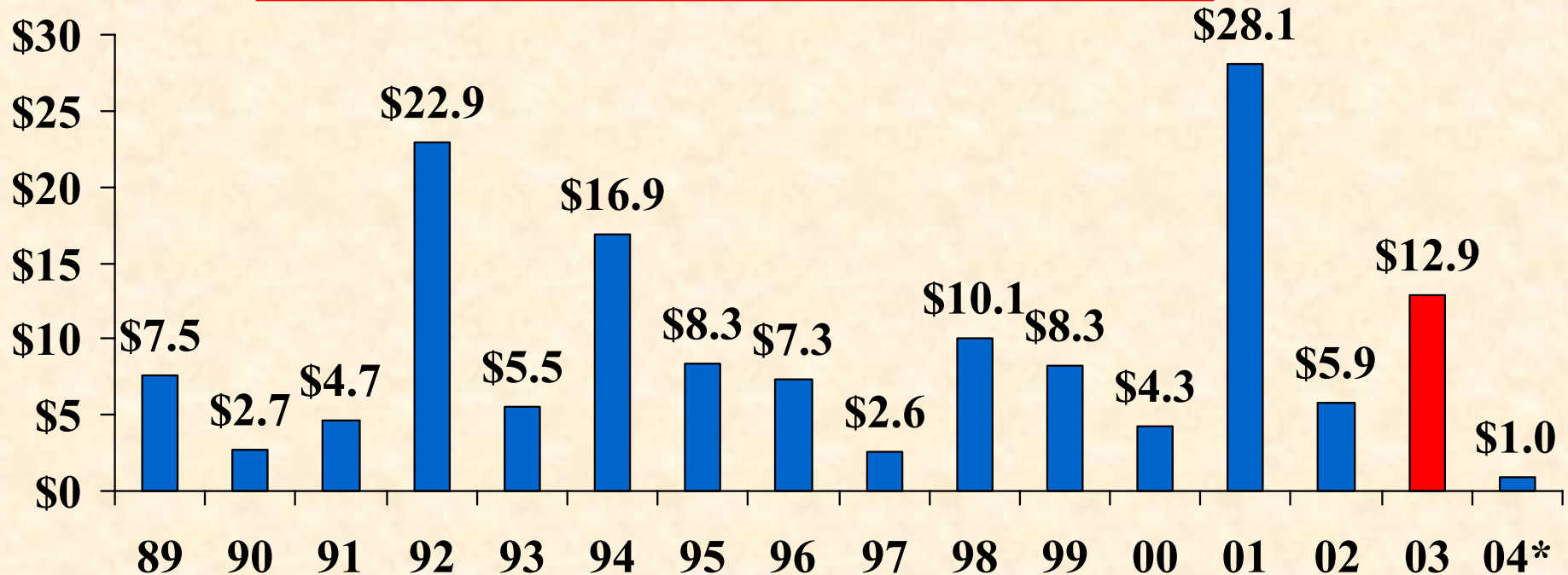
Contributing Factors Over 5 years:  
1/1/98 -12/31/02





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

**2003 was the 4<sup>th</sup> worst year ever for insured catastrophe losses in the US. There were 4 events with losses exceeding \$1 billion**



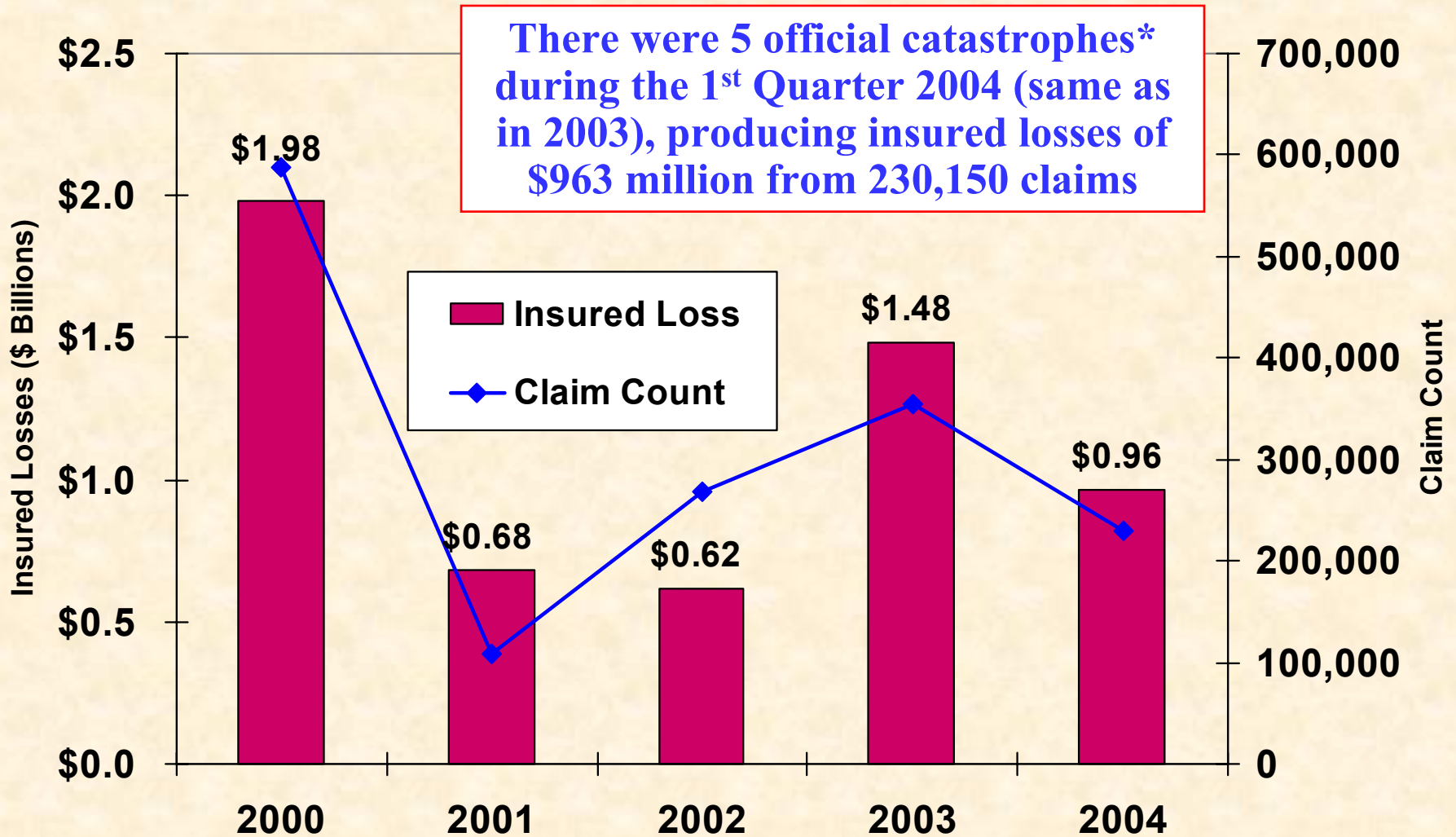
\*2004 figure is for 1<sup>st</sup> quarter only (\$963 million).

**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.

**Source:** Property Claims Service/ISO; Insurance Information Institute



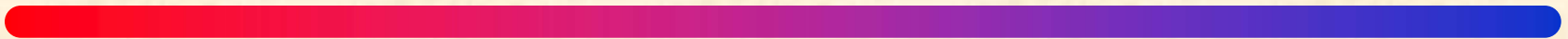
# 1<sup>st</sup> Quarter U.S. Insured Catastrophe Losses, 2000-2004\*



\*Events with insured losses of at least \$25 million

Source: Property Claims Service/ISO; Insurance Information Institute

# WORKERS COMP



*WORKERS COMPENSATION  
MEDICAL COSTS:*

**CRITICAL CONDITION**

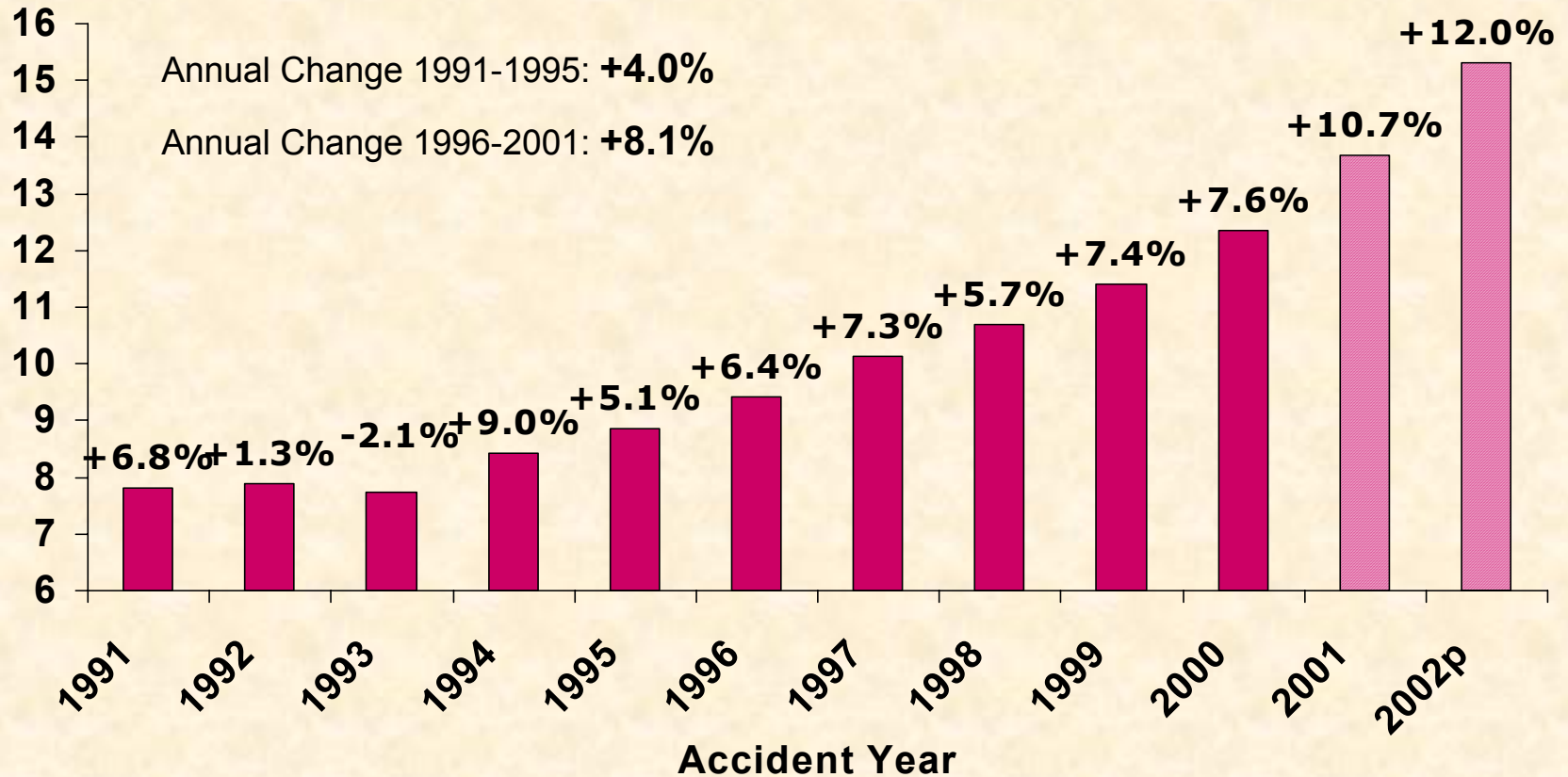




# WC Medical Claim Costs

## Accelerating Too

Medical Claim Cost (000s)



Based on data through 12/31/2001, developed to ultimate, as of 12/2/2002

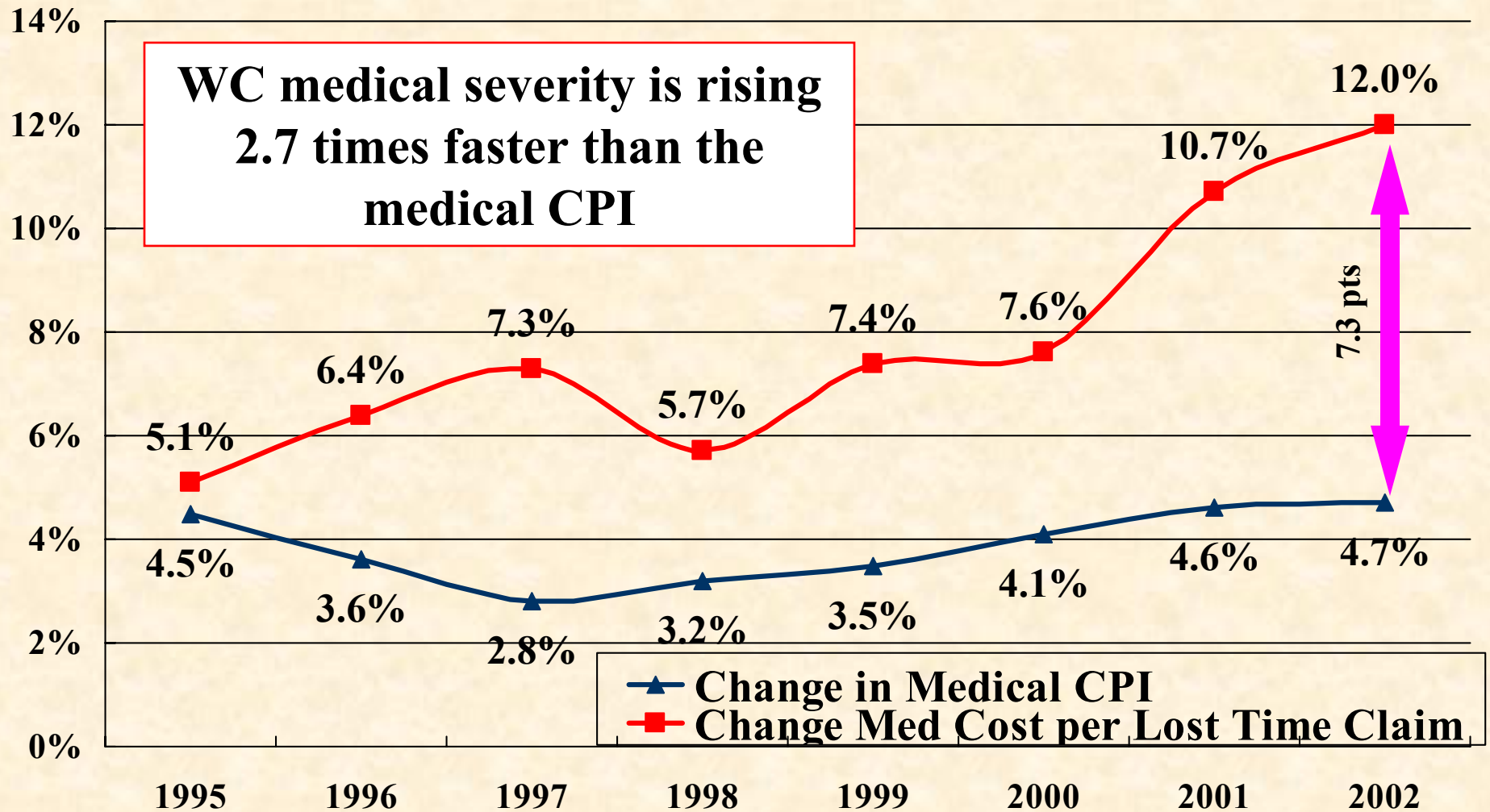
Based on the states where NCCI provides ratemaking services

Excludes the effects of deductible policies

Source: NCCI

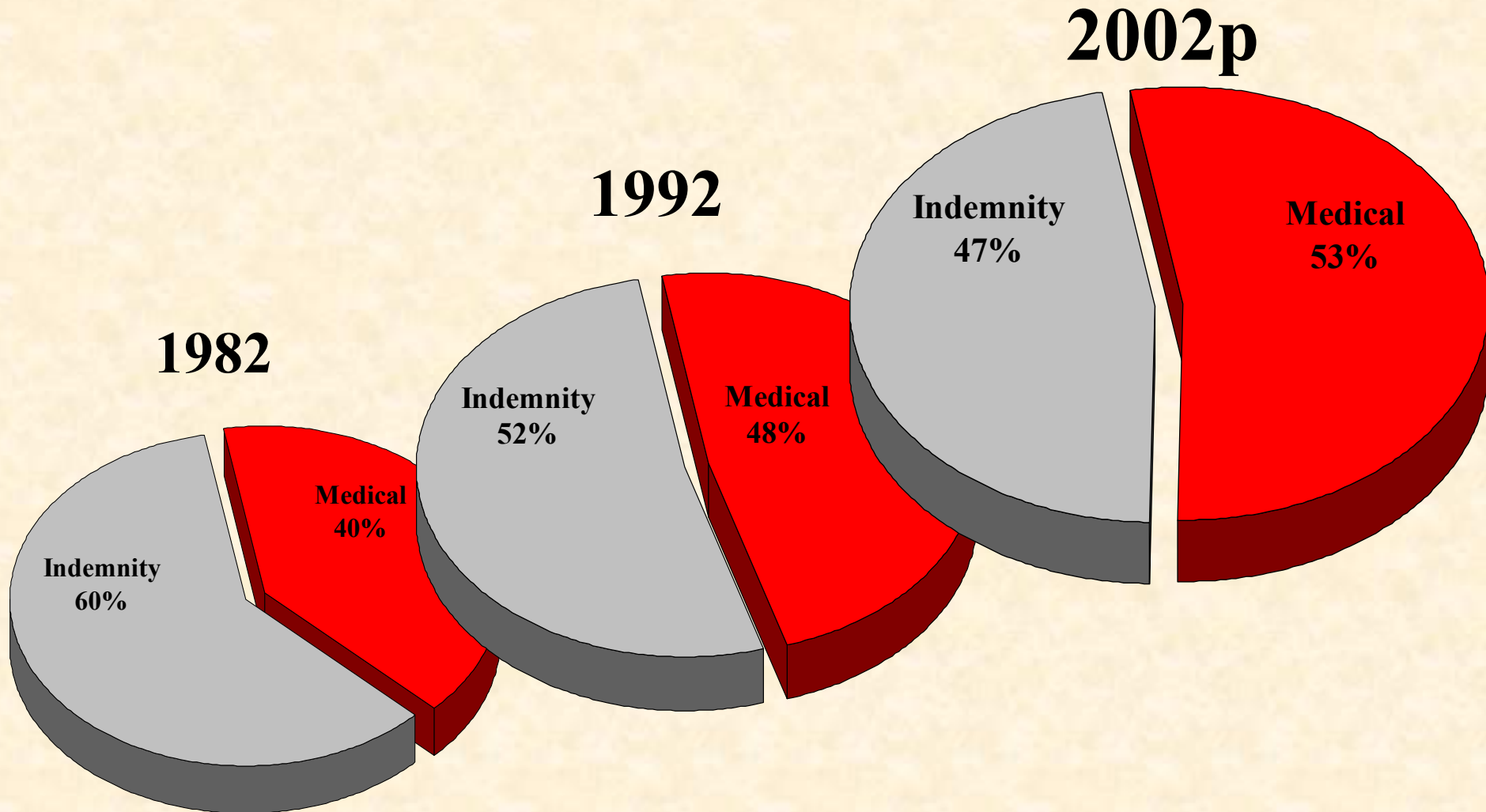


# *WC Medical Severity Rising Far Faster than Medical CPI*





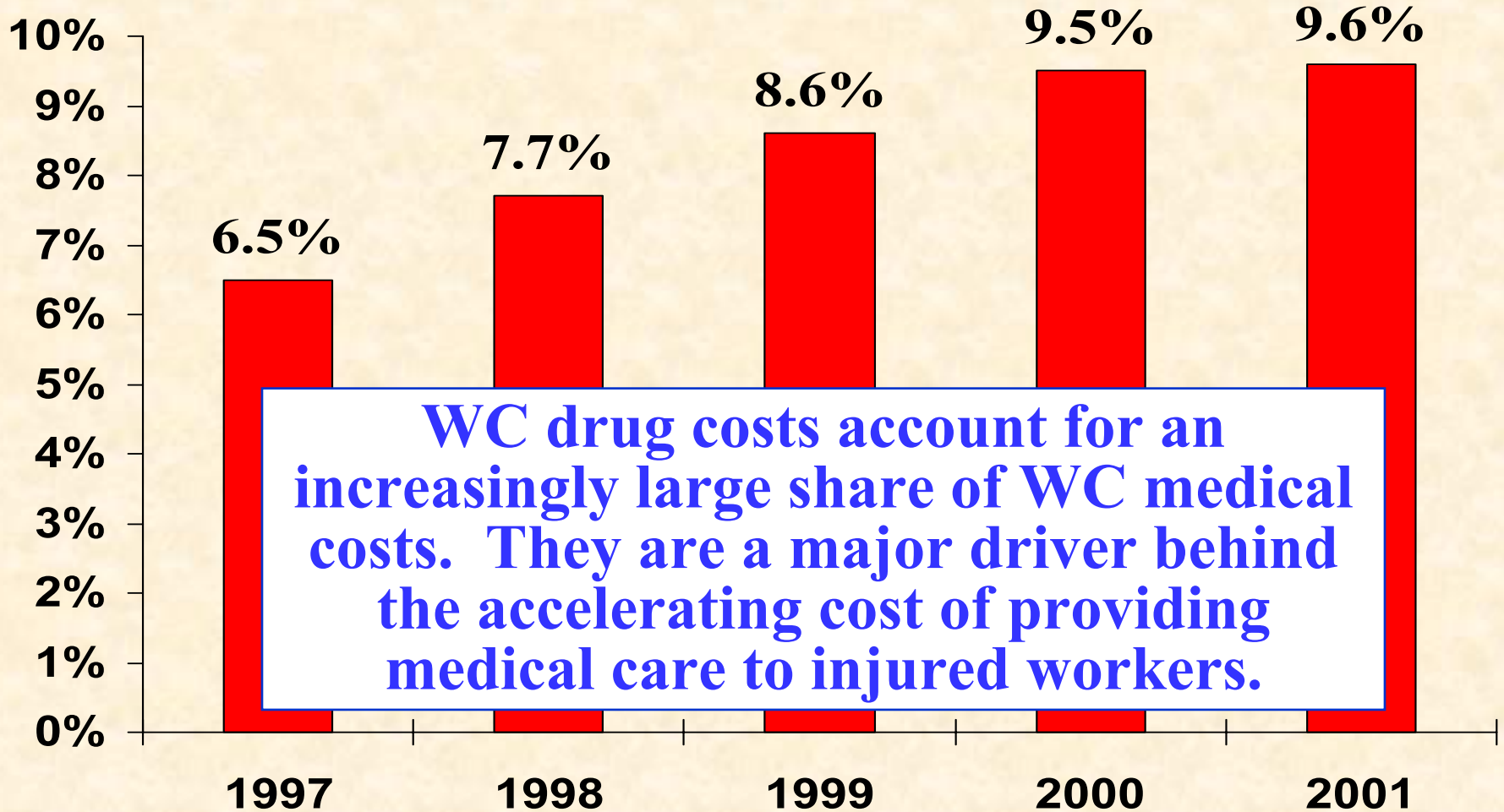
# *Med Costs Share of Total Costs is Increasing Steadily*



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



# *WC Drug Costs as % of Total WC Medical Costs\**

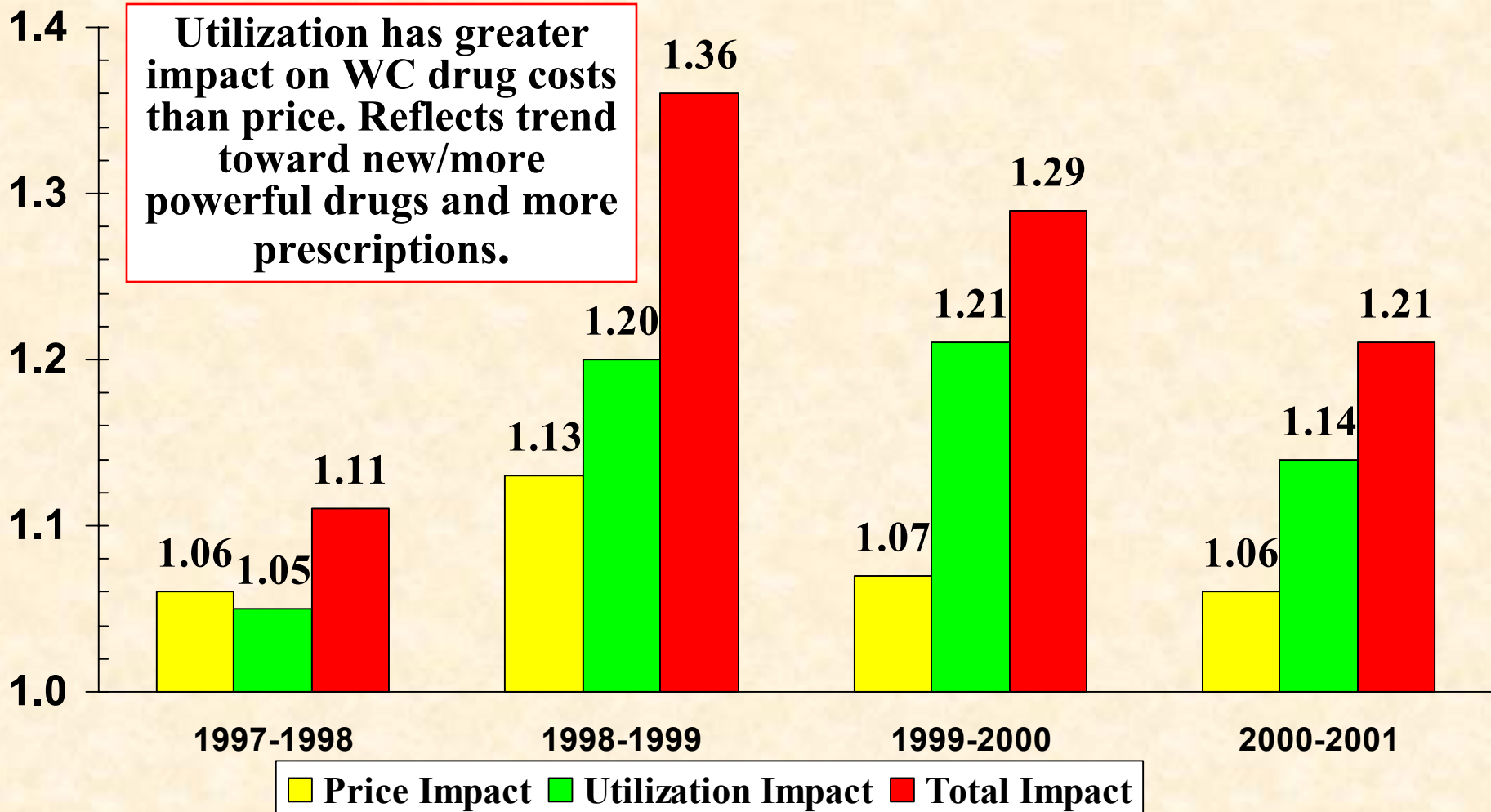


\*Analysis is on an accident year (AY) basis, developed through 8<sup>th</sup> report.

Source: National Council on Compensation: *Prescription Drugs: Comparison of Drug Costs and Patterns of Use in Workers Compensation and Group Health Plans.*



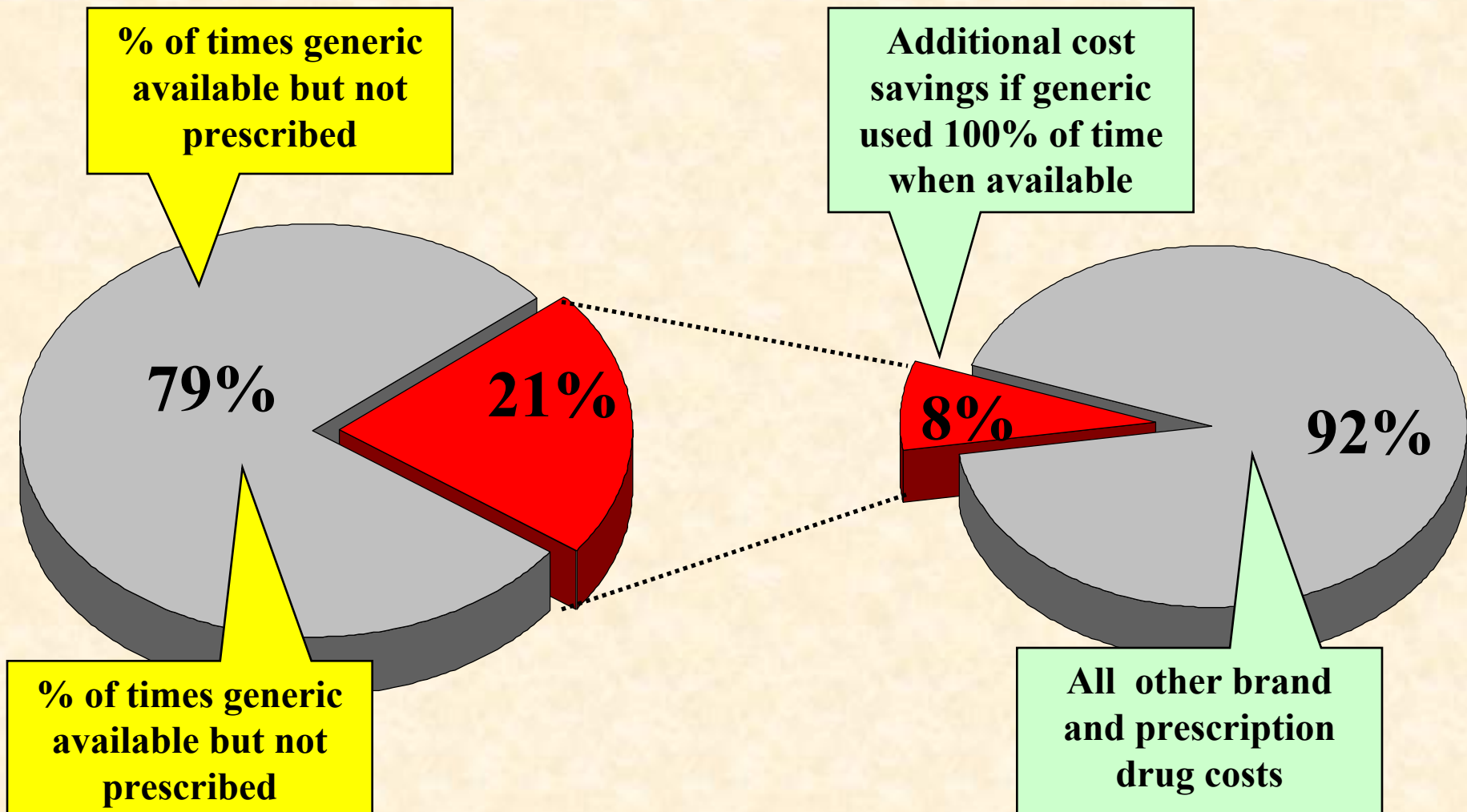
# Impact of Price & Utilization on Workers Comp Drug Costs\*



Source: National Council on Compensation: *Prescription Drugs: Comparison of Drug Costs and Patterns of Use in Workers Compensation and Group Health Plans.*



# *Generic Prescriptions Written When Generics Available in WC*

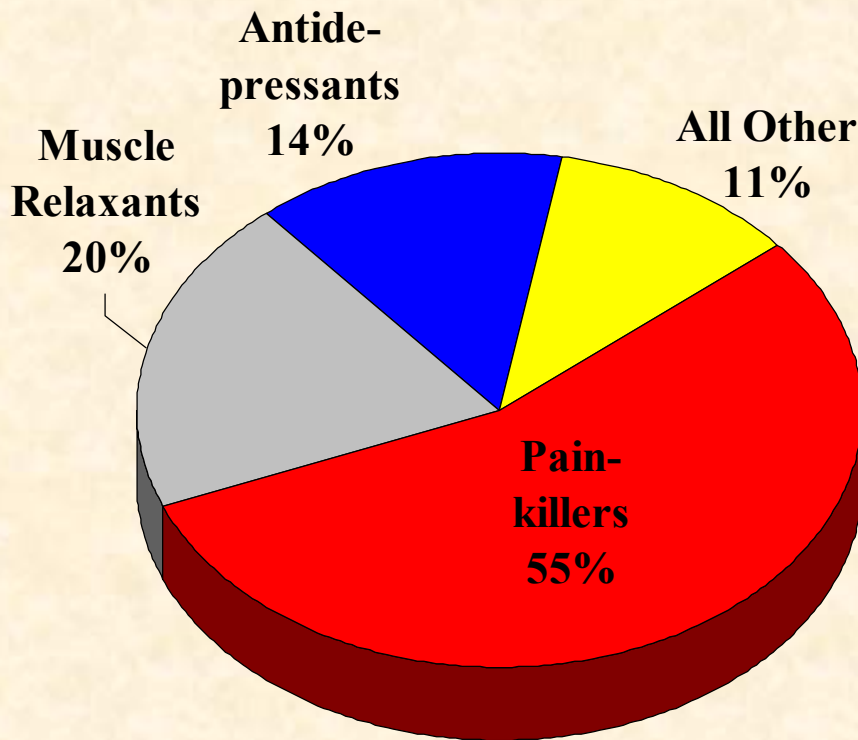


Source: National Council on Compensation Insurance: *Prescription Drugs: Comparison of Drug Costs and Patterns of Use in Workers Compensation and Group Health Plans.*

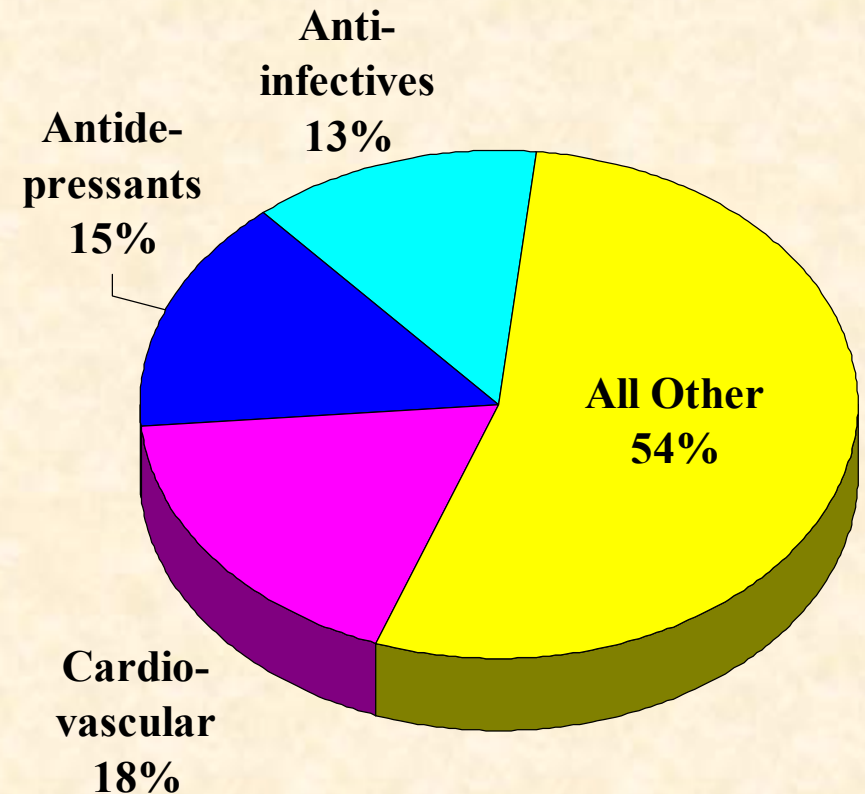
# Prescription Drug Cost Breakdown: WC vs. General Health



## Workers Comp % Total Paid



## Group Health % Total Paid



Source: National Council on Compensation Insurance: *Prescription Drugs: Comparison of Drug Costs and Patterns of Use in Workers Compensation and Group Health Plans.*



# Top 10 Prescription Drugs by Total Paid in Workers Comp

DRUG NAME	Brand vs. Generic
Celebrex (anti-inflammatory)	Brand (generic not available)
Oxycontin (painkiller)	Brand (generic not available)
Vioxx (anti-inflammatory)	Brand (generic not available)
Hydrocodone (painkiller)	Generic
Neurontin (painkiller)	Brand (generic not available)
Ultram (painkiller)	Brand (generic available)
Carisoprodol (muscle relaxant)	Generic (same as Soma)
Cyclobenzaprine (muscle relaxant)	Generic
Soma (muscle relaxant)	Brand (Same as carisoprodol)
Ambien (sedative)	Brand (generic not available)

Source: National Council on Compensation Insurance.



# *Reasons for Increased Prescription Drug Utilization in Workers Comp*

## **Aggressive Marketing**

- **Major pharmaceuticals spend twice as much on advertising as on R&D**

## **Greater Availability & Dependence on Medications for Treatments**

## **Aging Workforce: requires more assistance from prescription drugs**

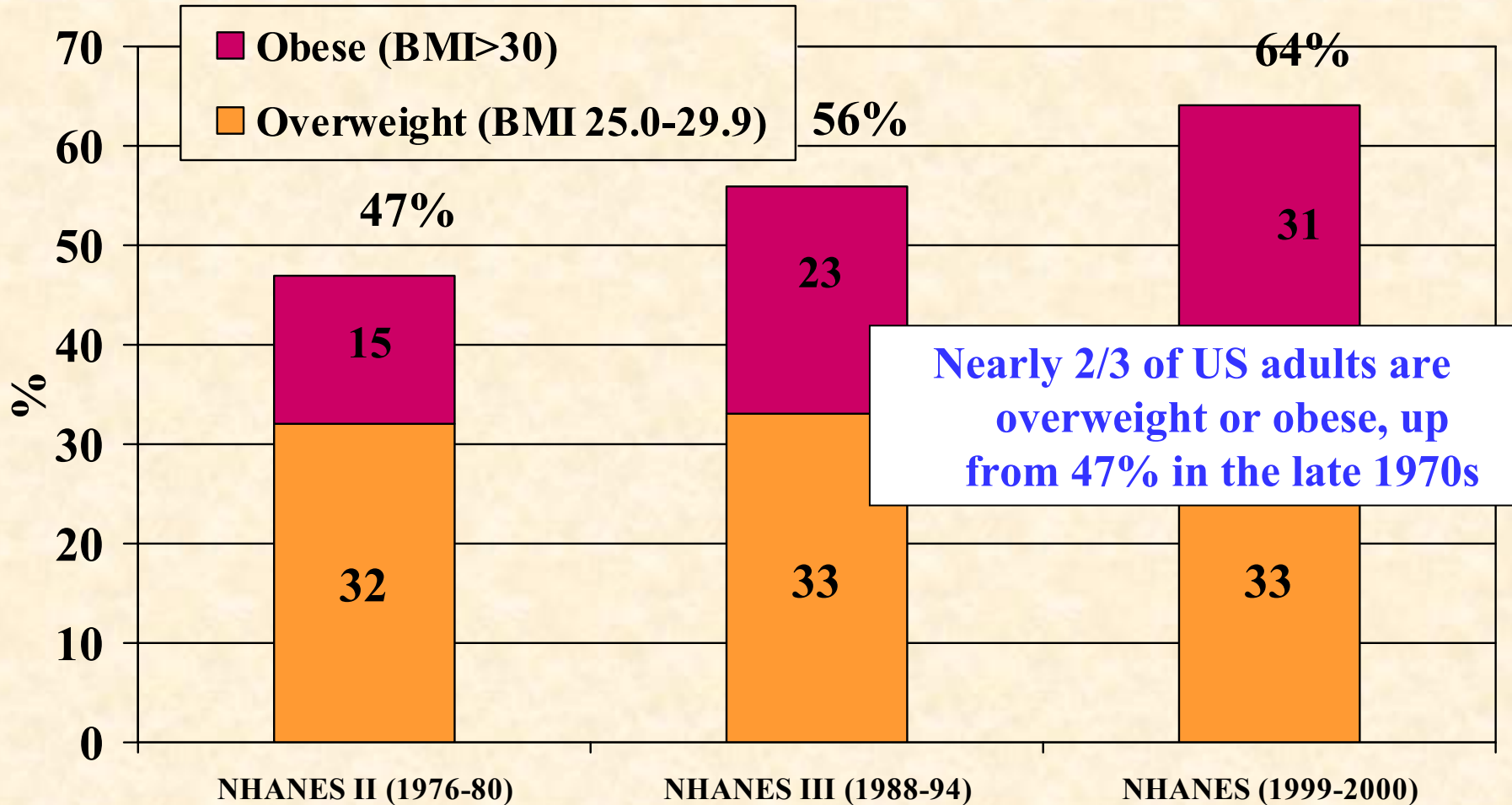
## **Unhealthy Workforce**

- **E.g.,: About 2/3 of adults are overweight or obese, increasing the frequency of some types of injuries and making recovery more difficult relative to a healthy weight individual.**

## **Addiction? (e.g., Oxycontin)**

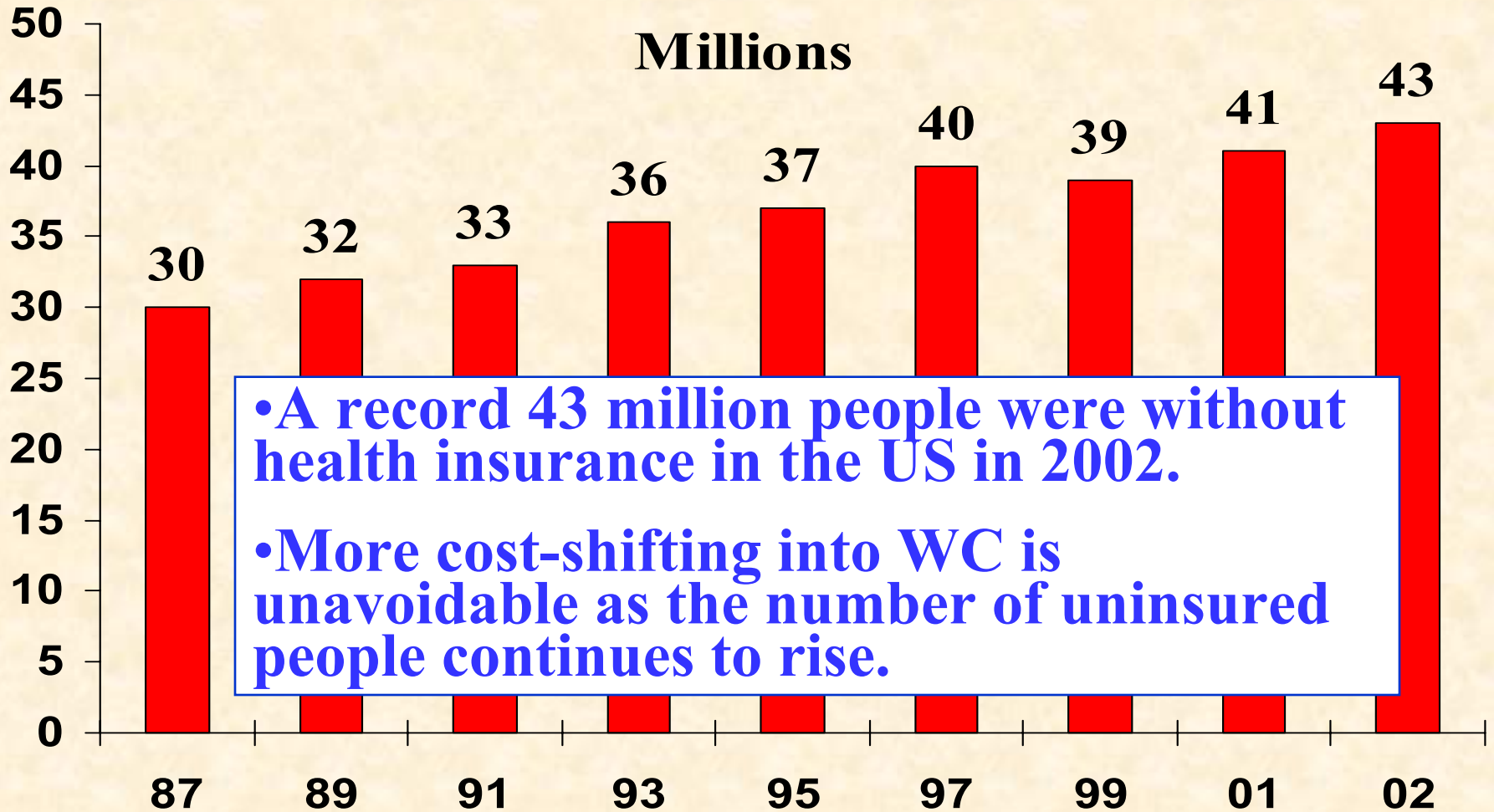


# Prevalence of Overweight and Obesity among US Adults (aged 20-74 years)



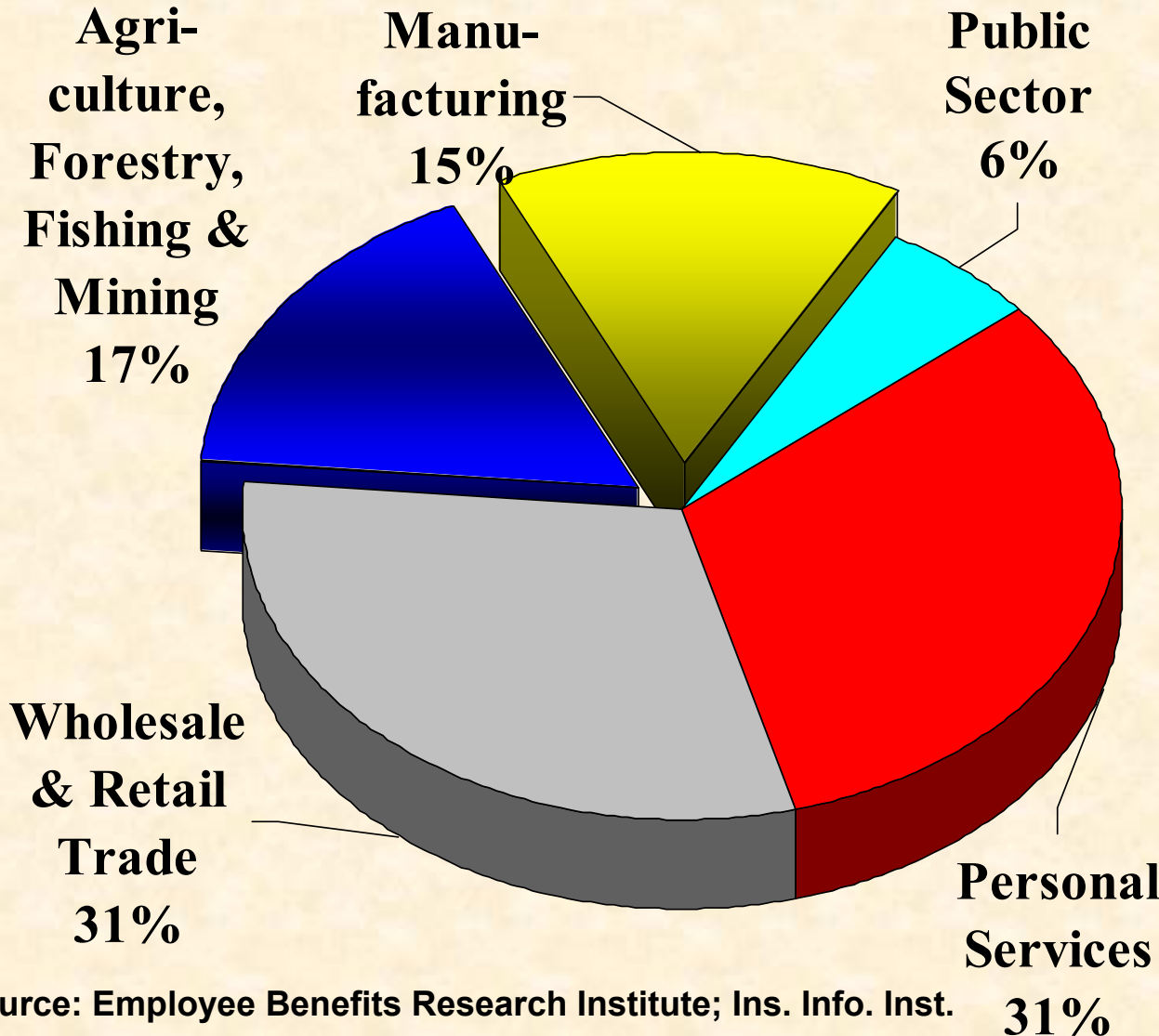


# *Number of Uninsured People in the US Under Age 65\**





# *Industries Where Workers Without Health Benefits are Employed*

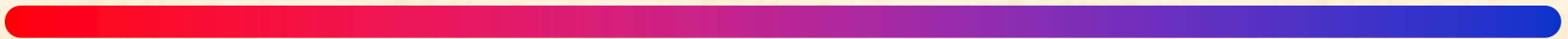


**•About 1/3 of Americans w/o health coverage work in hazardous class industries**

**•Cost shifting into WC among this group is likely**

# *“CHALLENGING” STATES*

*California*  
*Texas*





## *Problem States*

---

### California:

- State would be insolvent if it were a private carrier
- Has about 50% of state market share, making it not only the largest WC insurer in CA, but also US
- Recent sharp increase in benefits
- Passed reform 9/03; Hope to lower costs \$5 - \$6B

### Texas:

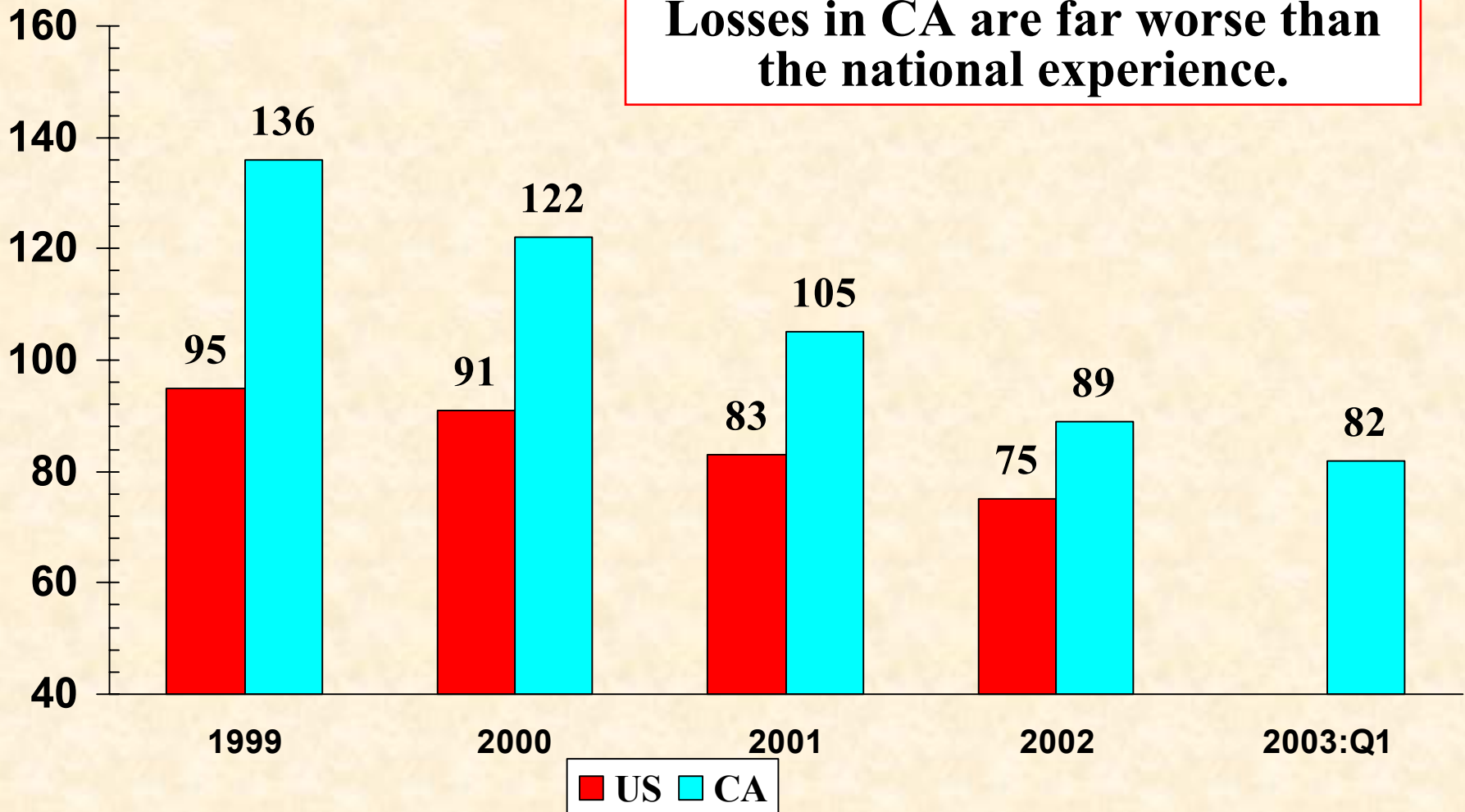
- Fraud/Abuse, esp w/chiros
- Utilization issues
- Legislature doesn't reconvene until January 2005

### Florida:

- Bona fide "crisis"
- Utilization/fraud/abuse problems
- Passed reform this summer: reduced rates 12.5%



# Workers Comp Loss Ratios Much Higher in California\*

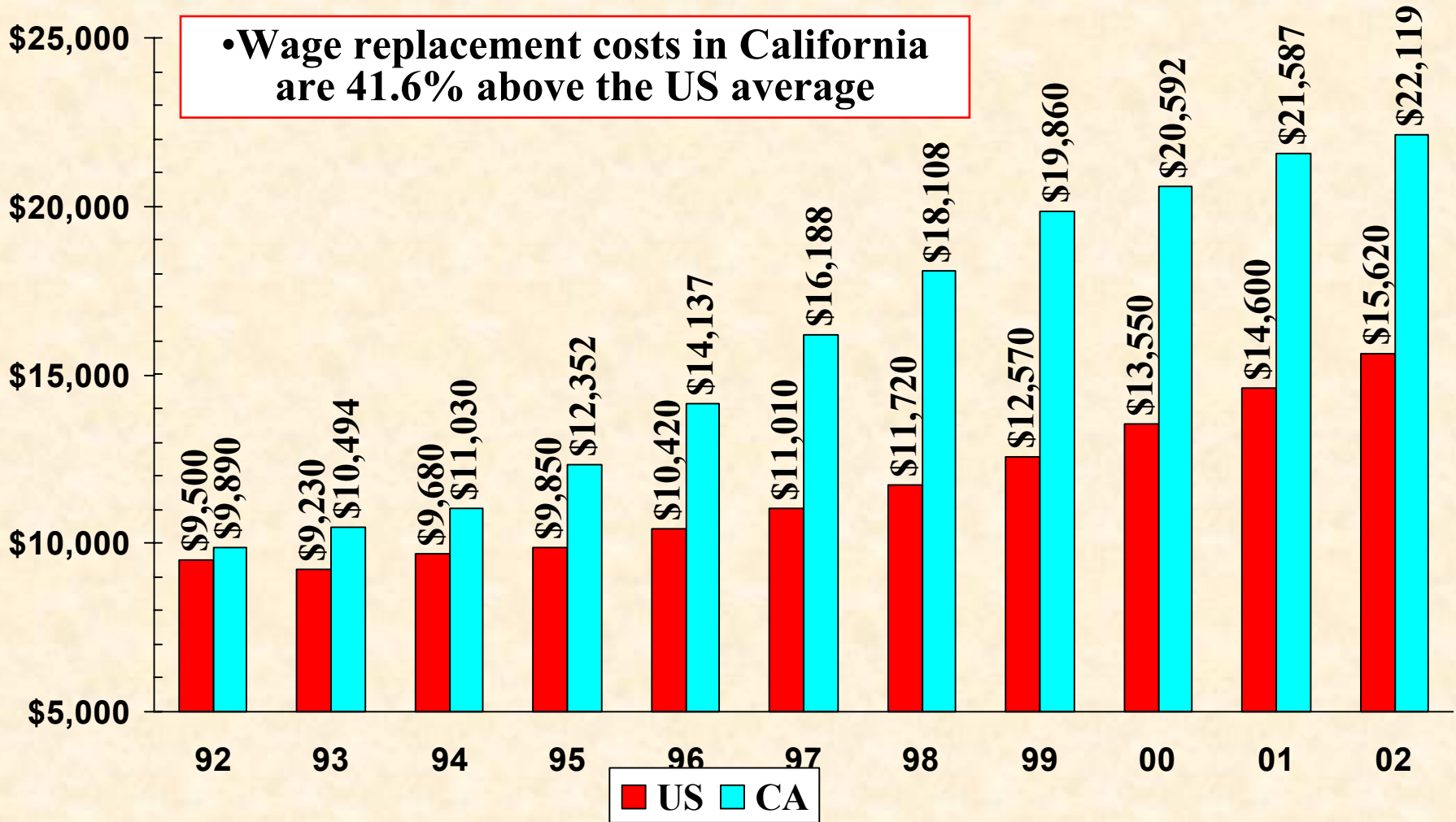


\*Accident year data except Q1 2003 for CA which is calendar year.

Source: NCCI, WCIRB

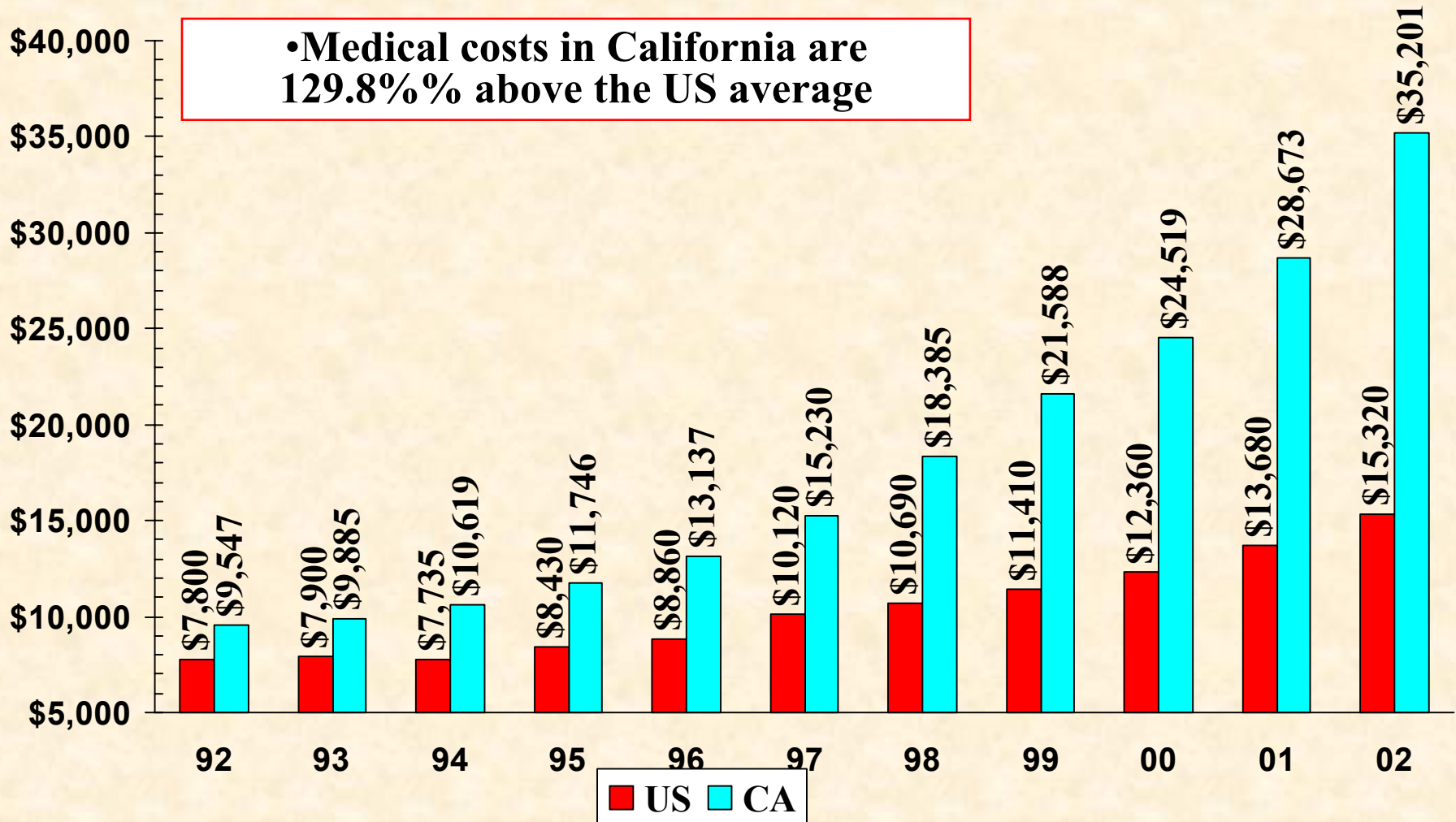


# Workers Comp Indemnity (Wage Replacement) Costs Higher in CA



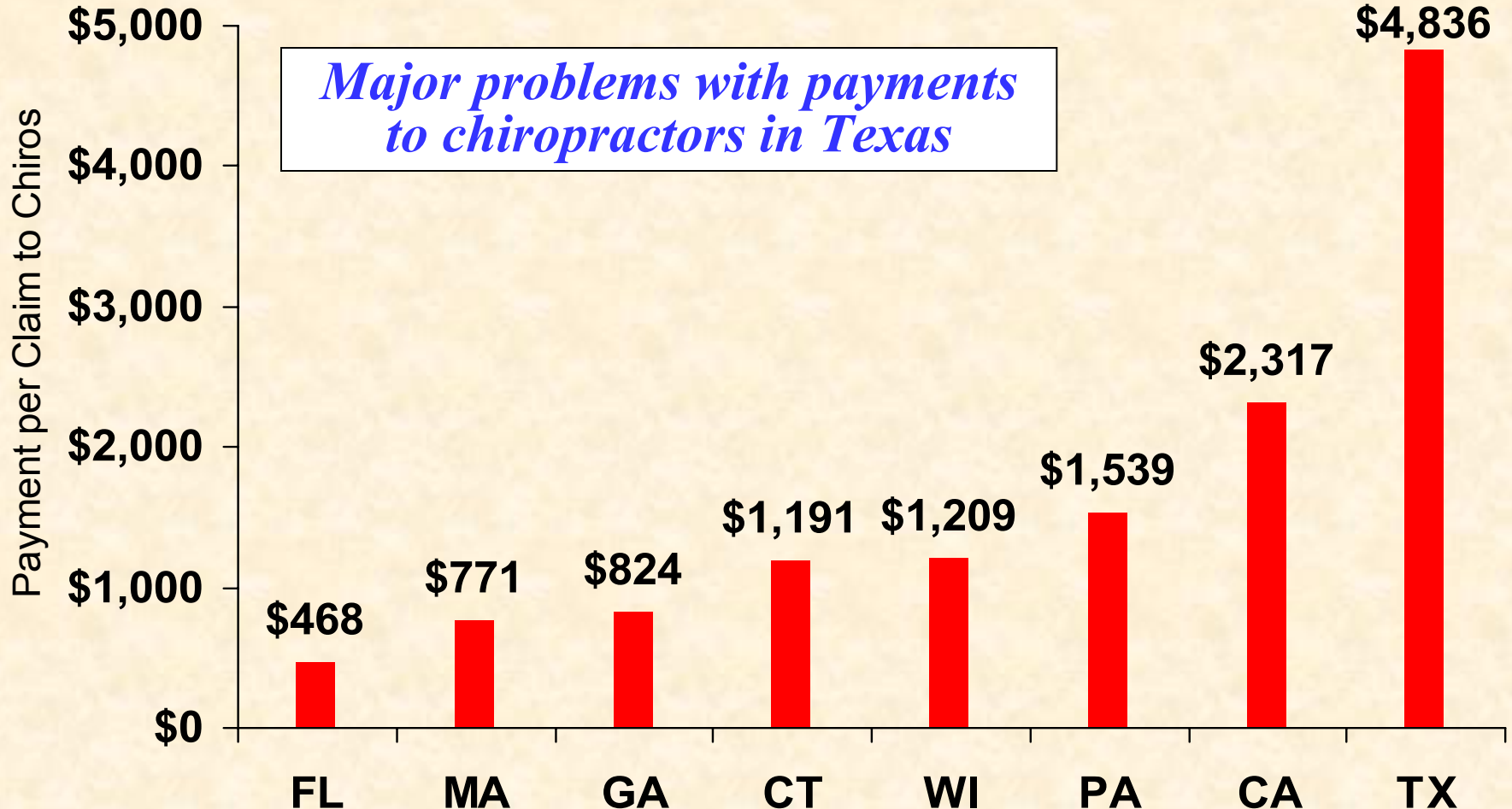


# Workers Comp Medical Costs are Much Higher in California





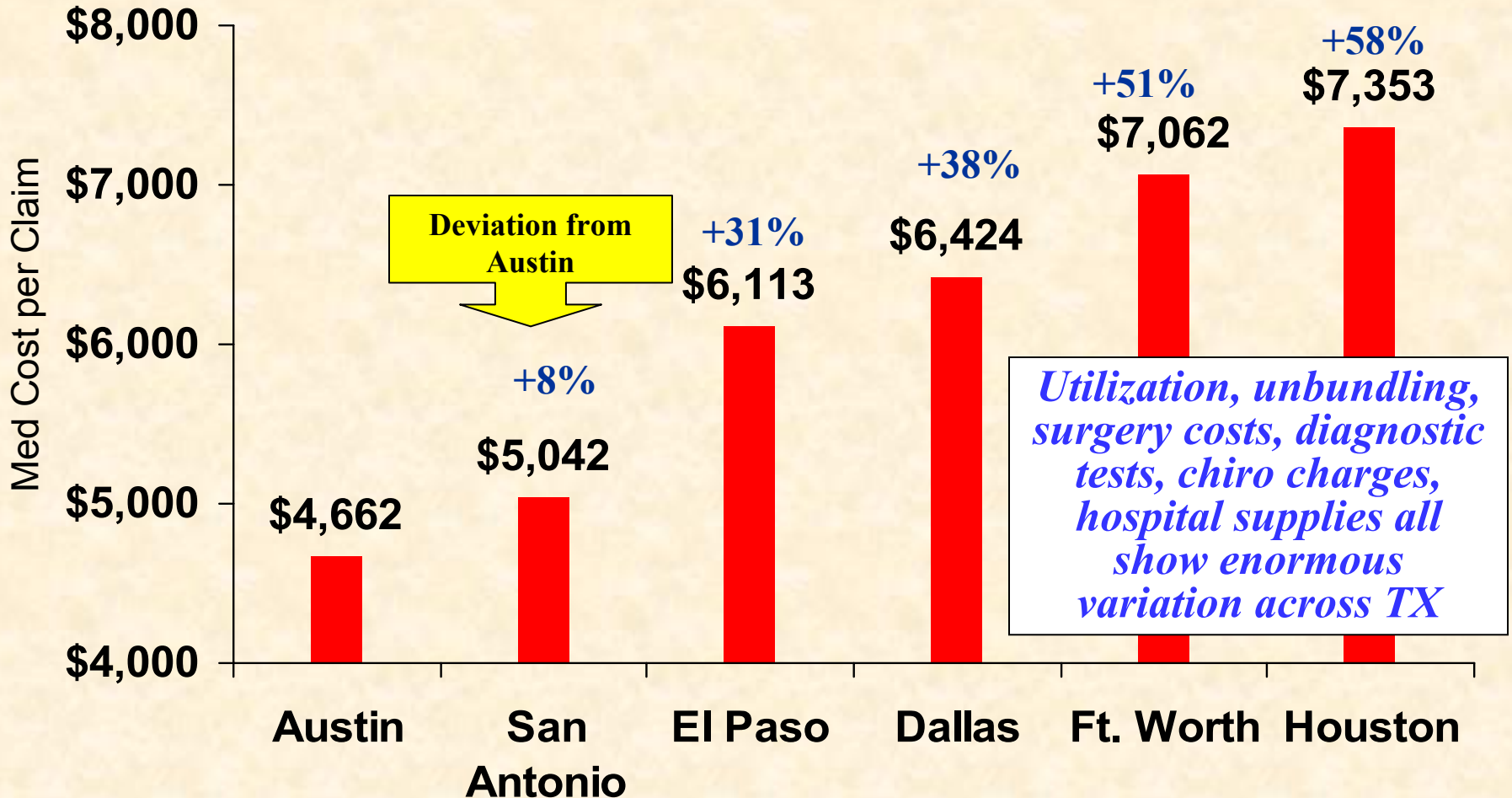
# Average Payment per Claim for Chiro. Visits in Selected States



Source Eccleston, Wang, Watson and Zhao (2000) in *Targeting More Costly Care: Area Variation in Texas Medical Costs and Utilization*, Workers Compensation Research Institute (2002).



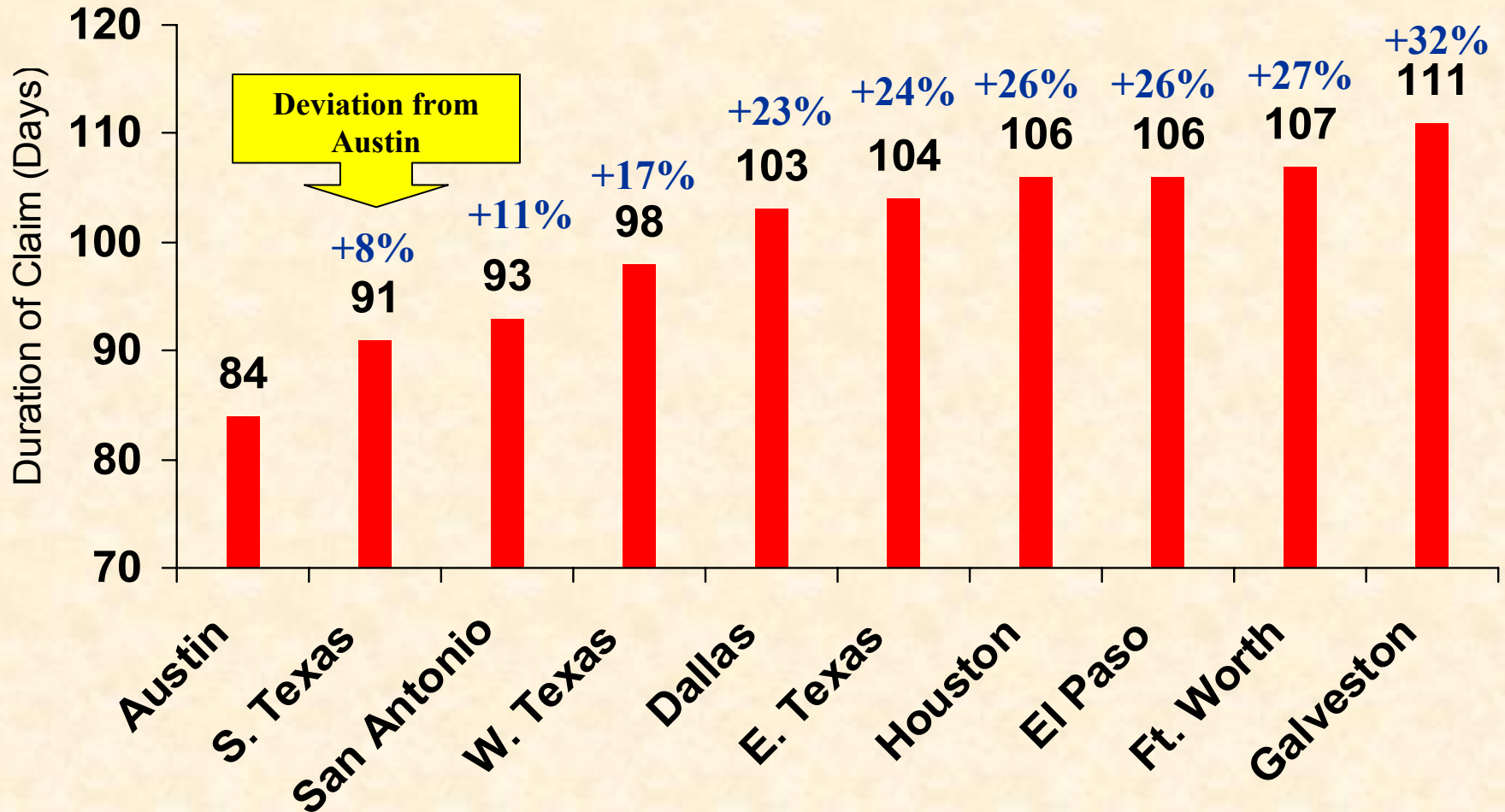
# Variation in Medical Costs Per Claim in Texas



Source *Targeting More Costly Care: Area Variation in Texas Medical Costs and Utilization*, Workers Compensation Research Institute (2002); 1996 injuries w/experience as of June 1997.



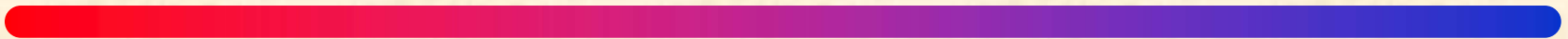
# *Duration of Temporary Disability Claims in Texas*



Source *Targeting More Costly Care: Area Variation in Texas Medical Costs and Utilization*, Workers Compensation Research Institute (2002); 1996 injuries w/experience as of June 1997.

# ***LEGAL LIABILITY & TORT ENVIRONMENT***

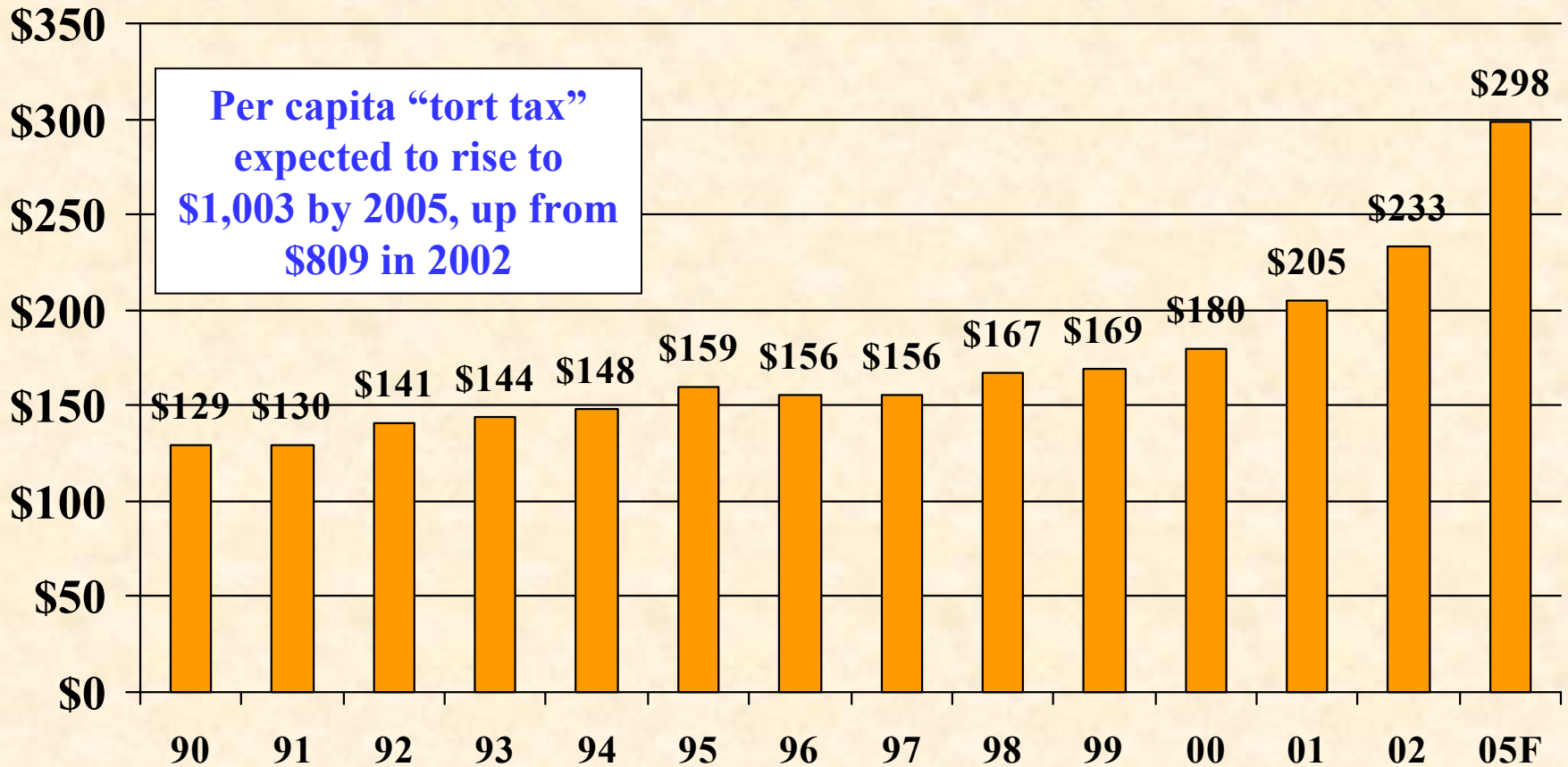
*(full presentation available upon  
request to III members)*



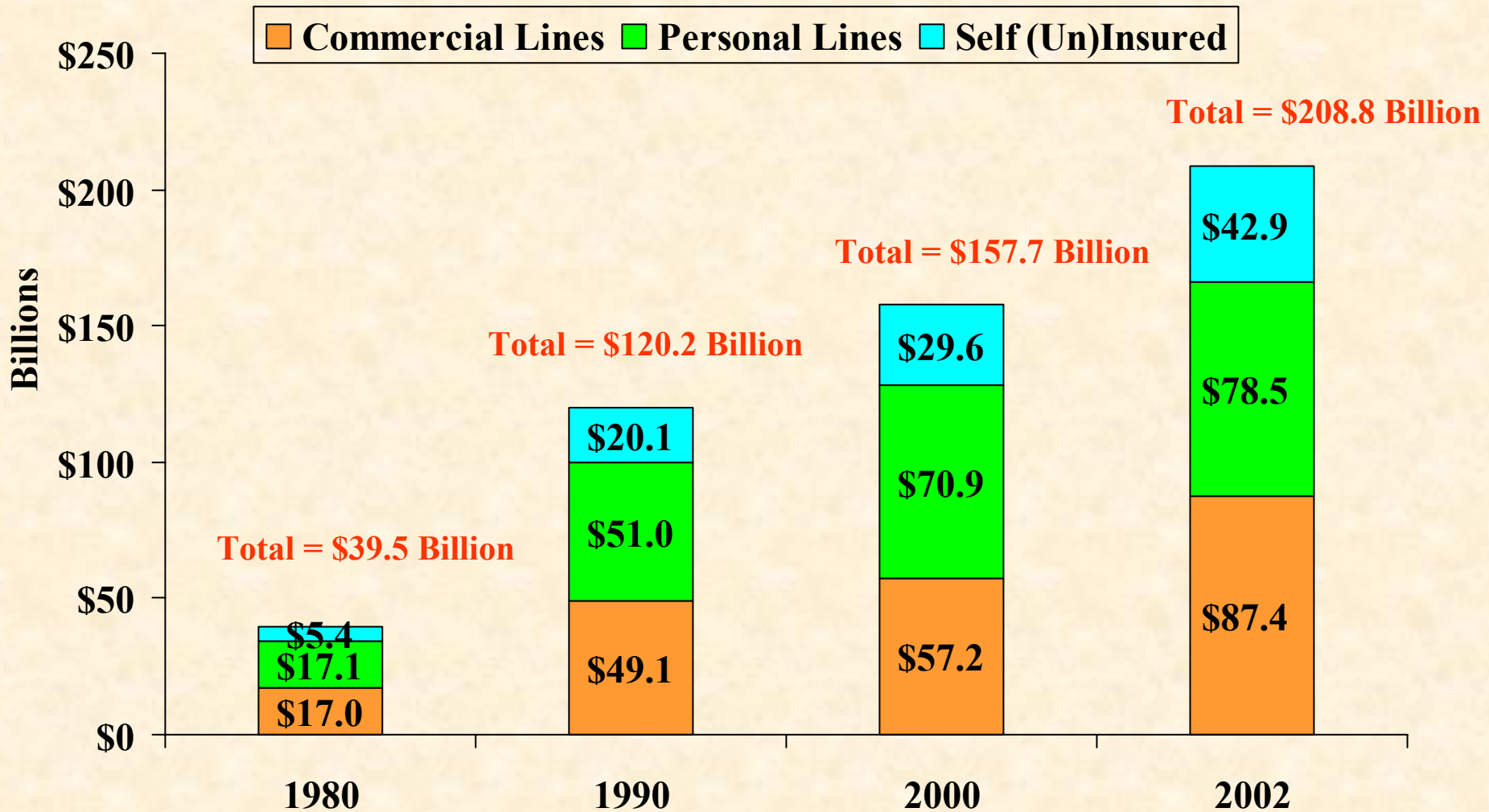


# Cost of U.S. Tort System (\$ Billions)

**Tort costs consumed 2.23% of GDP in 2002**



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



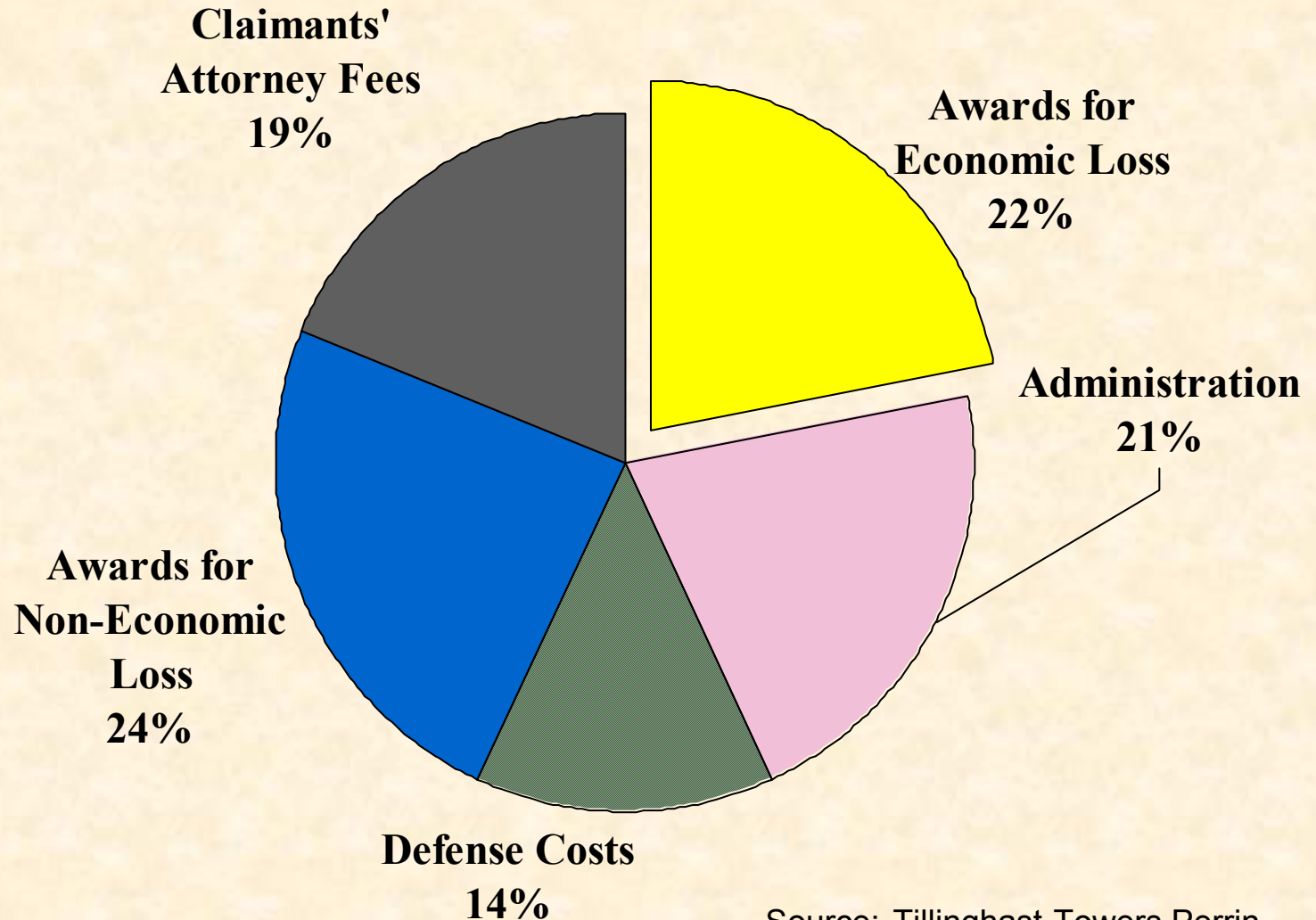
\*Excludes medical malpractice  
Source: Tillinghast-Towers Perrin



# Where the Tort Dollar Goes (2002)

Tort System is extremely inefficient:

- Only 22% of the tort dollar compensates victims for economic losses
- At least 54% of every tort dollar never reaches the victim

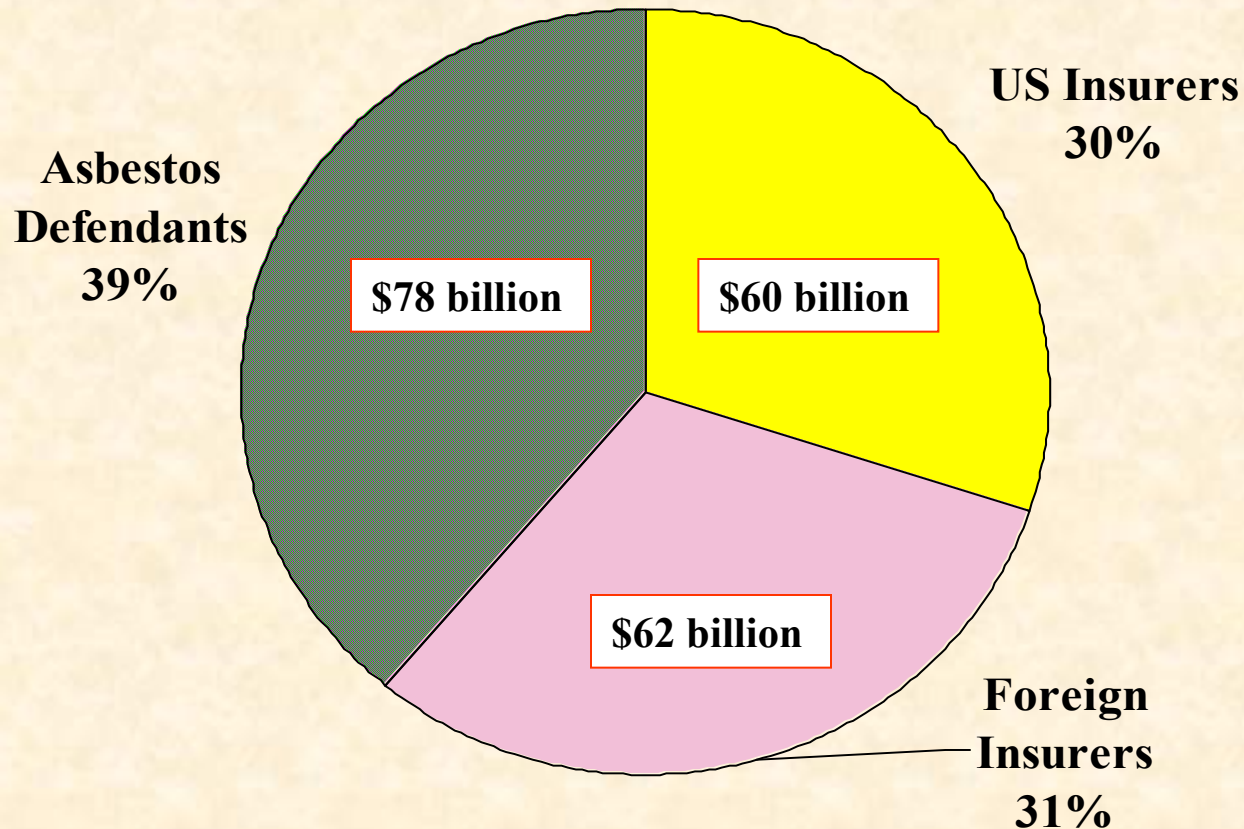


Source: Tillinghast-Towers Perrin



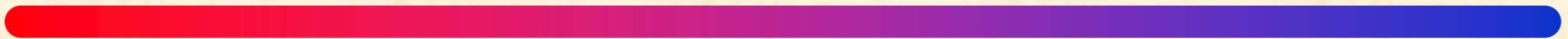
# Who Will Pay for the US Asbestos Mess?

**Estimated Total US Settlements & Expenses = \$200 billion**



# *THE U.S. LEGAL SYSTEM: IS IT OUT OF CONTROL?*

*TRENDS, CONDITIONS & OUTLOOK*





# TORT-ure

- Asbestos *New*
- Silicosis *New*
- “Toxic” Mold
- Medical Malpractice
- Construction Defects
- Lead
- Fast/Fattening Foods & Obesity *New*
- Reality TV *New*
- Arsenic Treated Lumber
- Guns
- Genetically Modified Foods & Labeling
- Generic Drugs, Pharmaceuticals & Medical Devices
- Security exposures (workplace violence, post-9/11 issues)
- Slavery





# *Business Leaders Ranking of Liability Systems for 2004*

## **Best States**

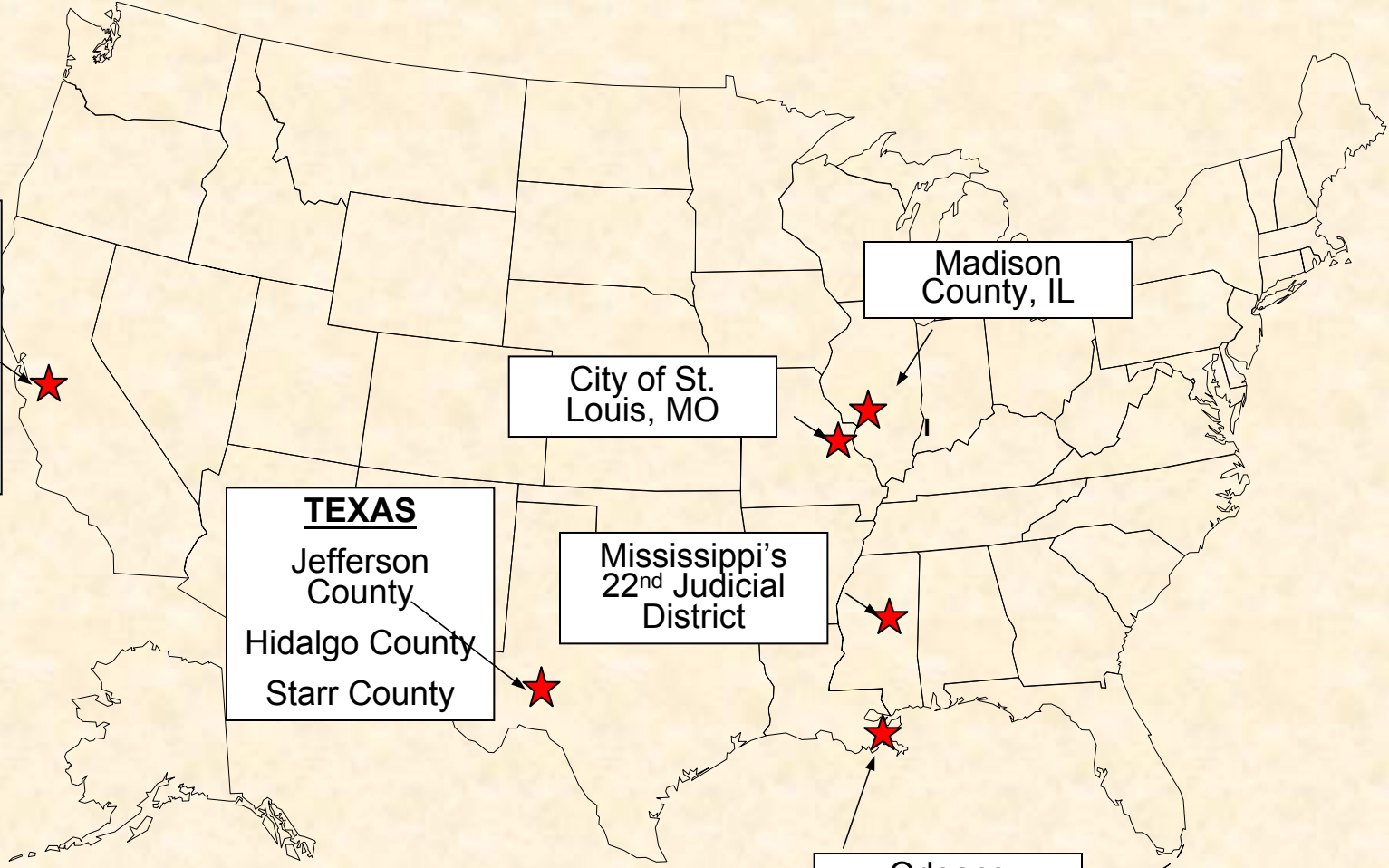
1. Delaware
2. Nebraska
3. Virginia
4. Iowa
5. Idaho
6. Utah
7. New Hampshire
8. Minnesota
9. Kansas
10. Wisconsin

## **Worst States**

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

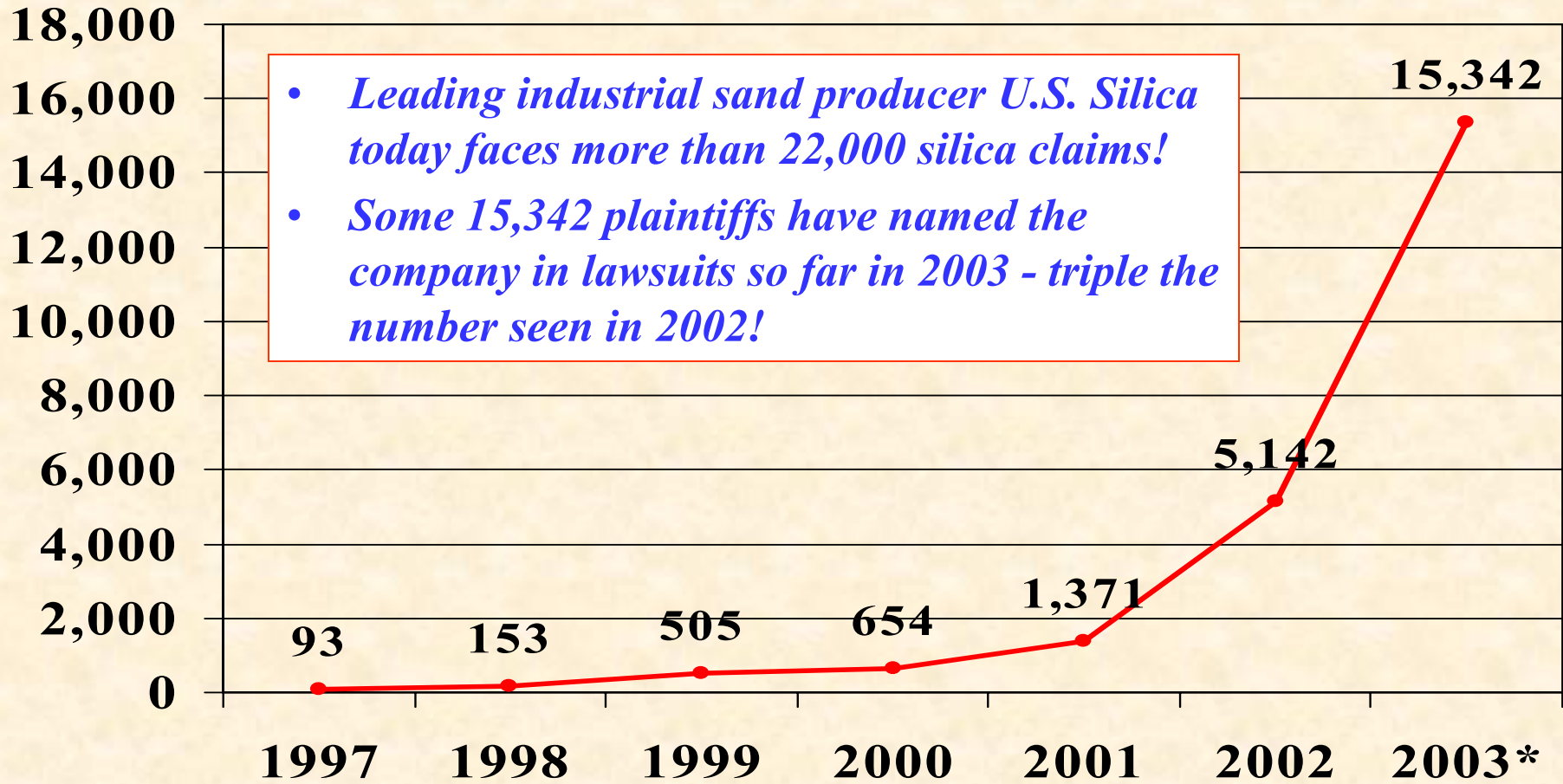


# *The Nation's Judicial Hellholes*





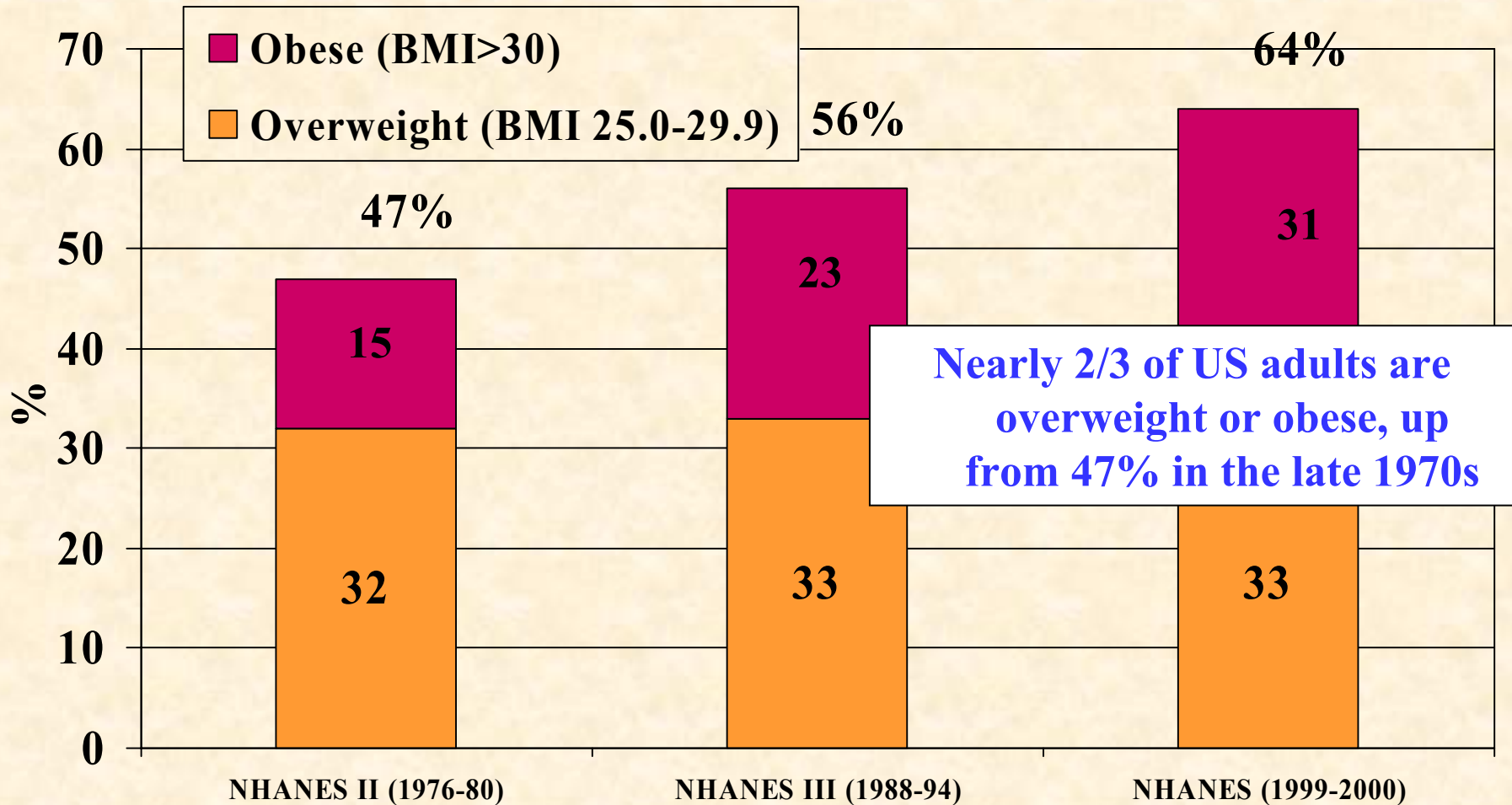
# Claims Filed Against U.S. Silica By Claimant (1997-2003)



*Some 87% of the lawsuits filed are from Mississippi and Texas!*



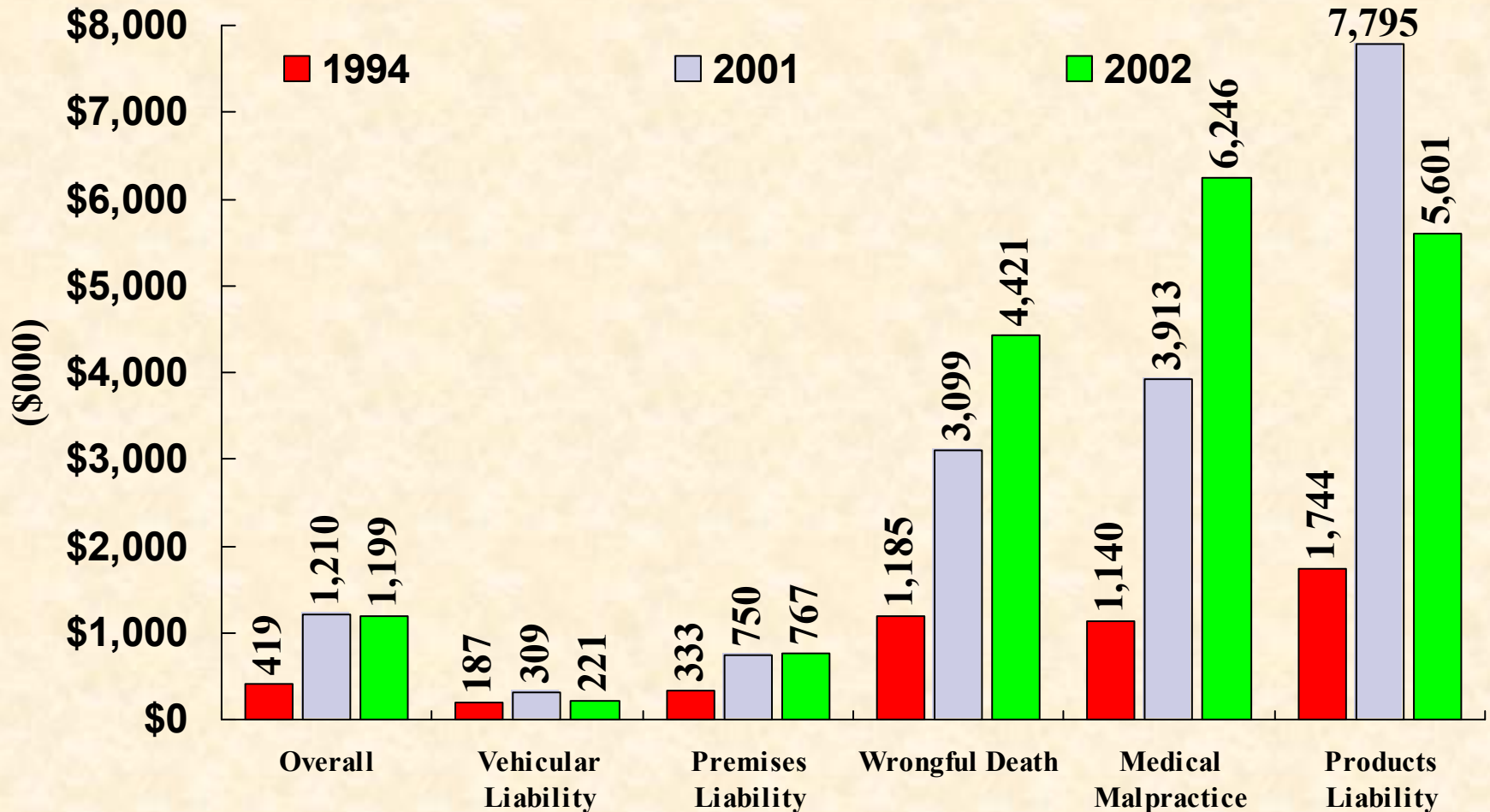
# Prevalence of Overweight and Obesity among US Adults (aged 20-74 years)



Source: Centers of Disease Control and Prevention (CDC), National Center for Health Statistics (NCHS), National Health and Nutrition Examination Survey (NHANES); Insurance Information Institute



# Average Jury Awards 1994 vs. 2001 and 2002





# *Probability of Plaintiff*

## *Verdict is Rising*

	<u>1994</u>	<u>1997</u>	<u>2002</u>
<b>Premises Liability</b>	43%	45%	49%
<b>Business Negligence</b>	NA	57%	62%
<b>Vehicular Liability</b>	58%	59%	63%
<b>Products Liability</b>	39%	39%	61%

Source: Jury Verdict Research, *2003 Current Award Trends*

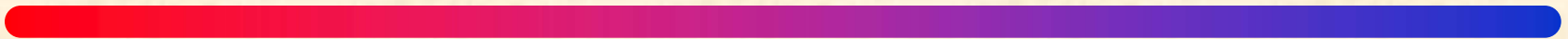


# *There is ~~Was~~ is ~~Was~~ Was a Glimmer of Hope for Tort Reform*

## Best Chance for Tort Reform in Years

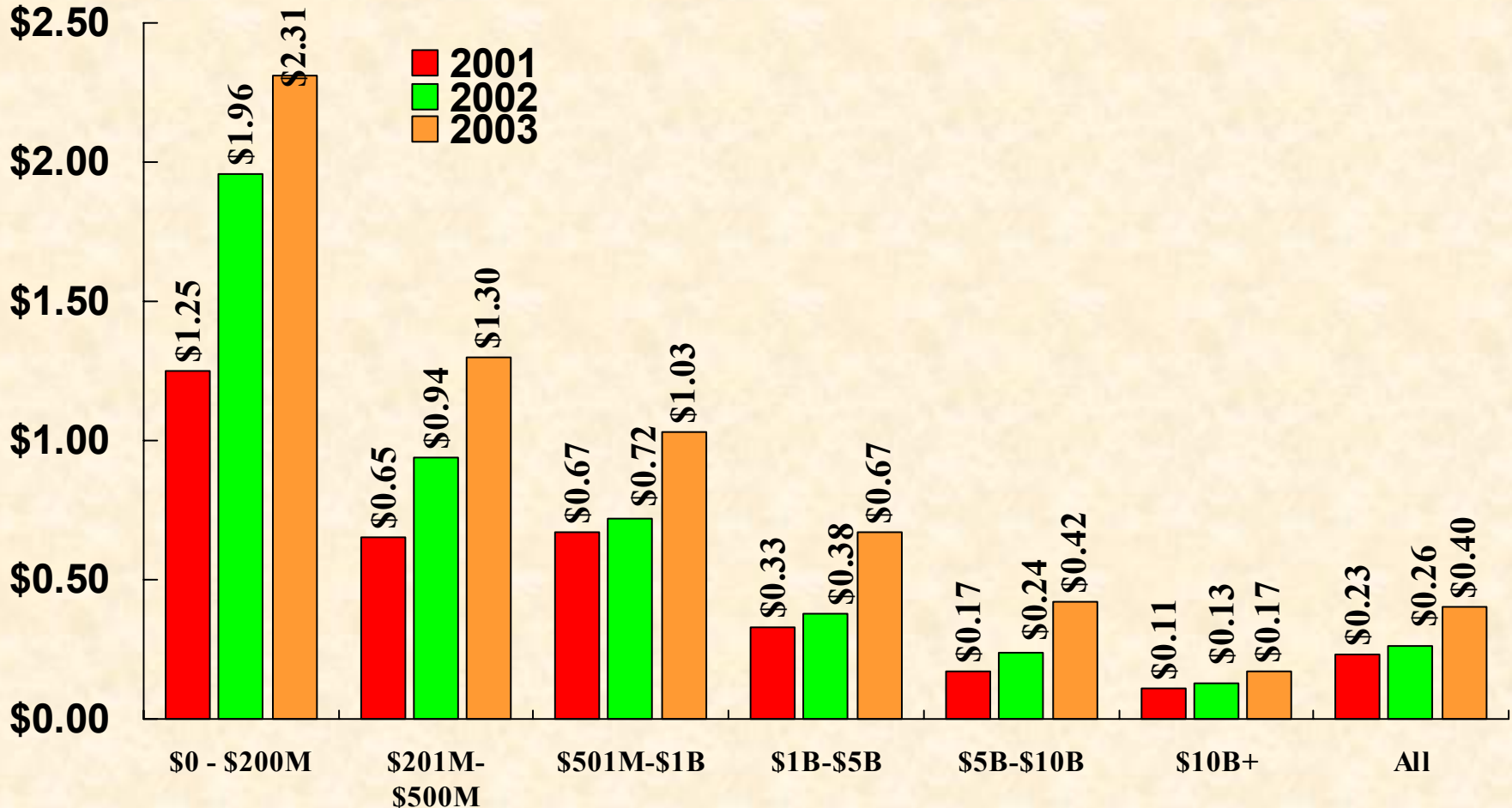
- Medical Malpractice
  - States—already happening: 20+ states have caps
  - Federal reform discussed in Congress but bill *failed* in Senate
  - Attempt to get caps for specialties failed February 2004
- Class Action Reform
  - Class Action Fairness Act
  - *Failed* by 1 Vote 10/22/03; Likely back up 2004???
- Asbestos Reform
  - Fairness in Asbestos Injury Resolution of 2003; *Failed Apr. 2004*
- Punitive Damages—What's Reasonable
  - Supreme Court ruled favorably in *Campbell v. State Farm*

*INFLUENCE OF TORT  
ENVIRONMENT AND LEGAL  
LIABILITY TRENDS ON PRICING*



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

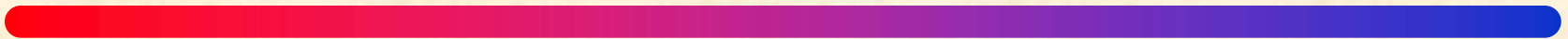
## 2001 to 2003



\*Across entire liability program

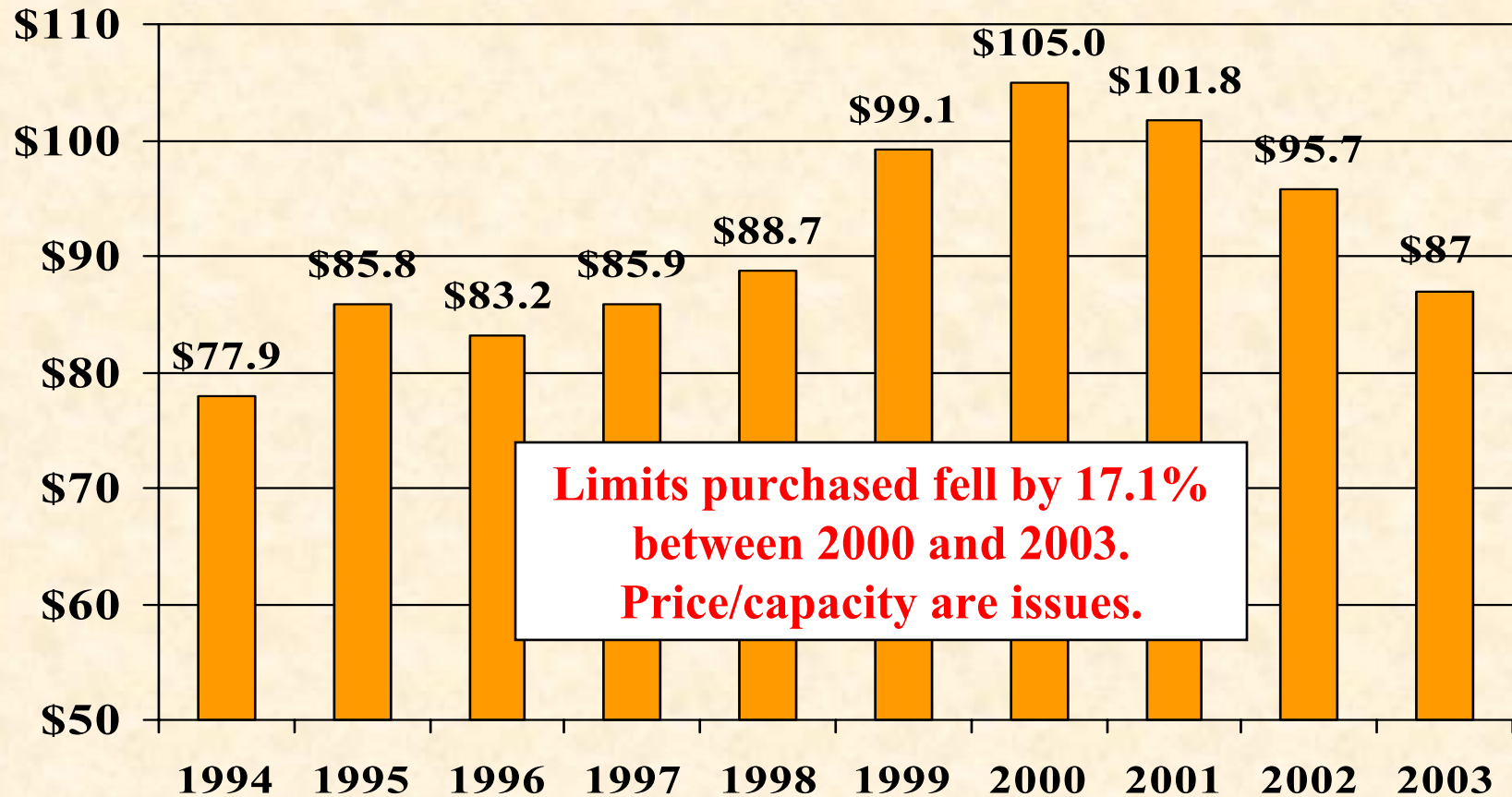
Source: Marsh, 2003 Limits of Liability Report

*INFLUENCE OF MASS TORT  
ENVIRONMENT AND LEGAL  
LIABILITY TRENDS ON  
AVAILABILITY*





# Average Total Limits Purchased by All Firms\* (\$ Millions)

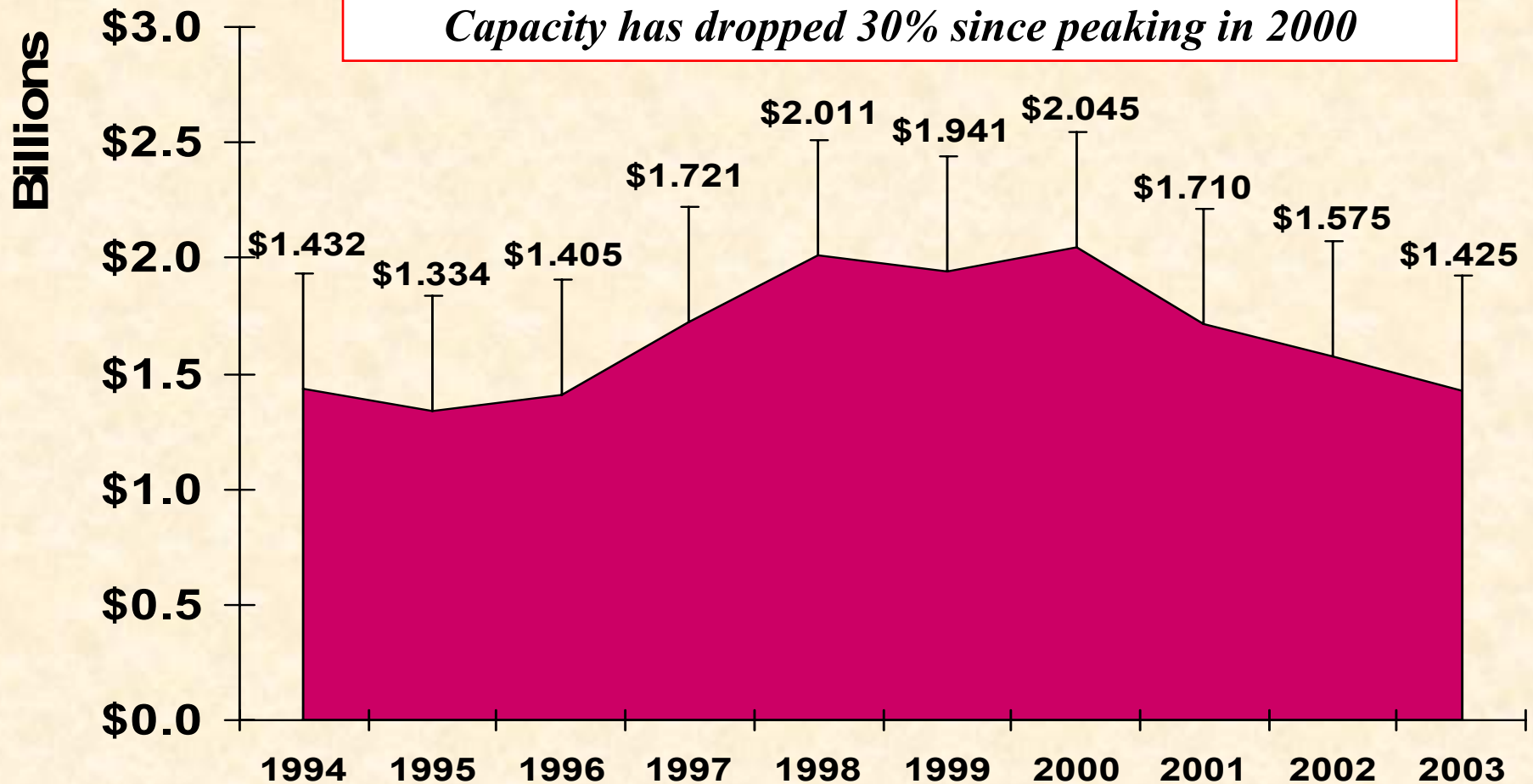


\*Includes underlying primary limits

Source: *Limits of Liability 2003*, Marsh, Inc.



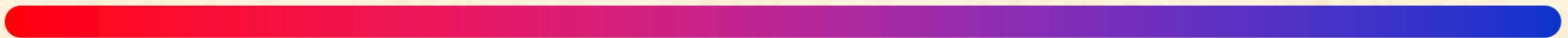
# Excess Liability Market Capacity



Source: Marsh, 2003 Limits of Liability Report

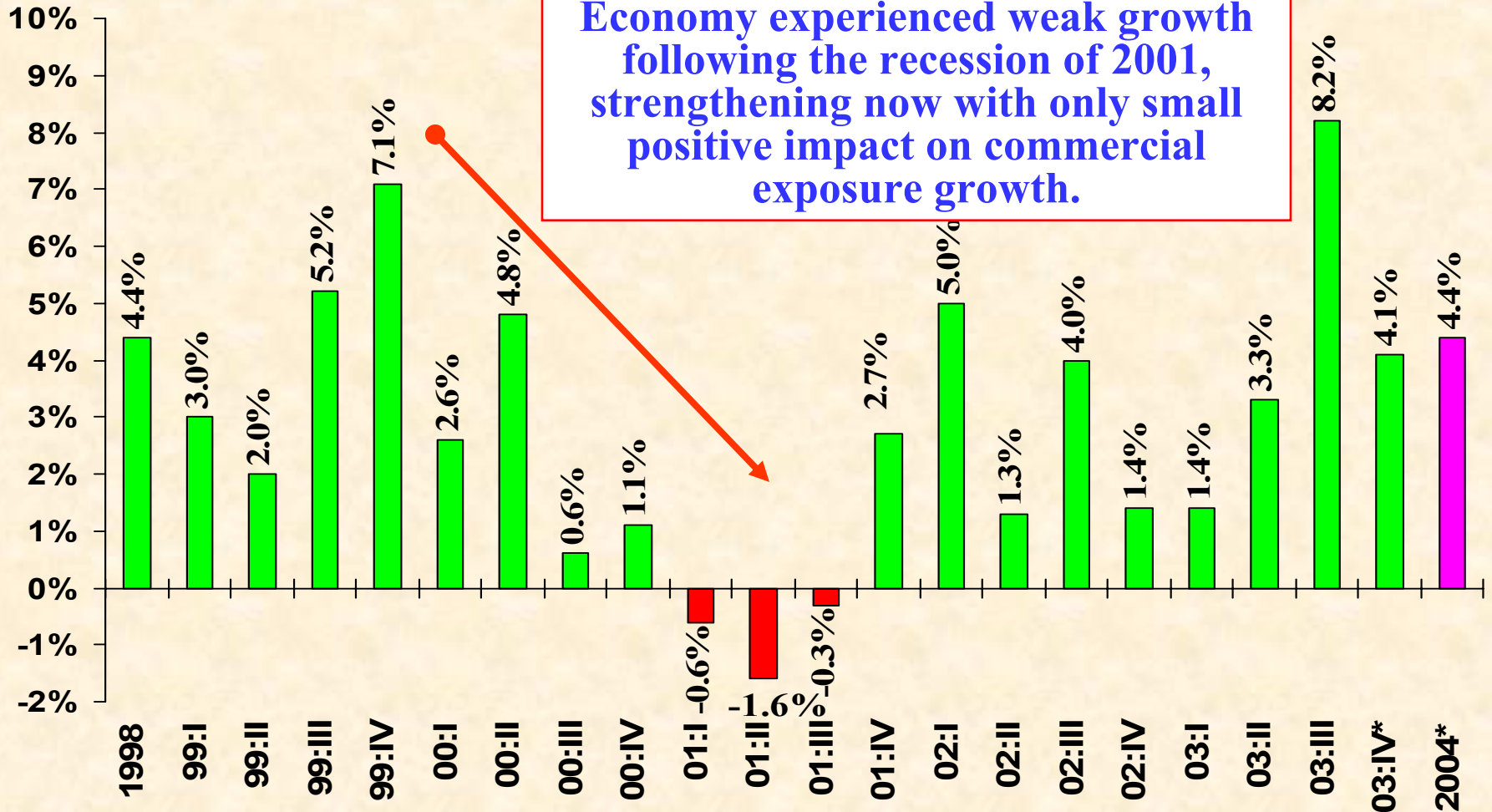
# ECONOMIC PRESSURE:

**PERSONAL LINES DOING  
WELL, BUT PRODUCTIVITY  
GAINS & “JOBLESS”  
RECOVERY IS (WAS?) BAD  
NEWS FOR COMMERCIAL  
INSURERS**





# Real GDP Growth

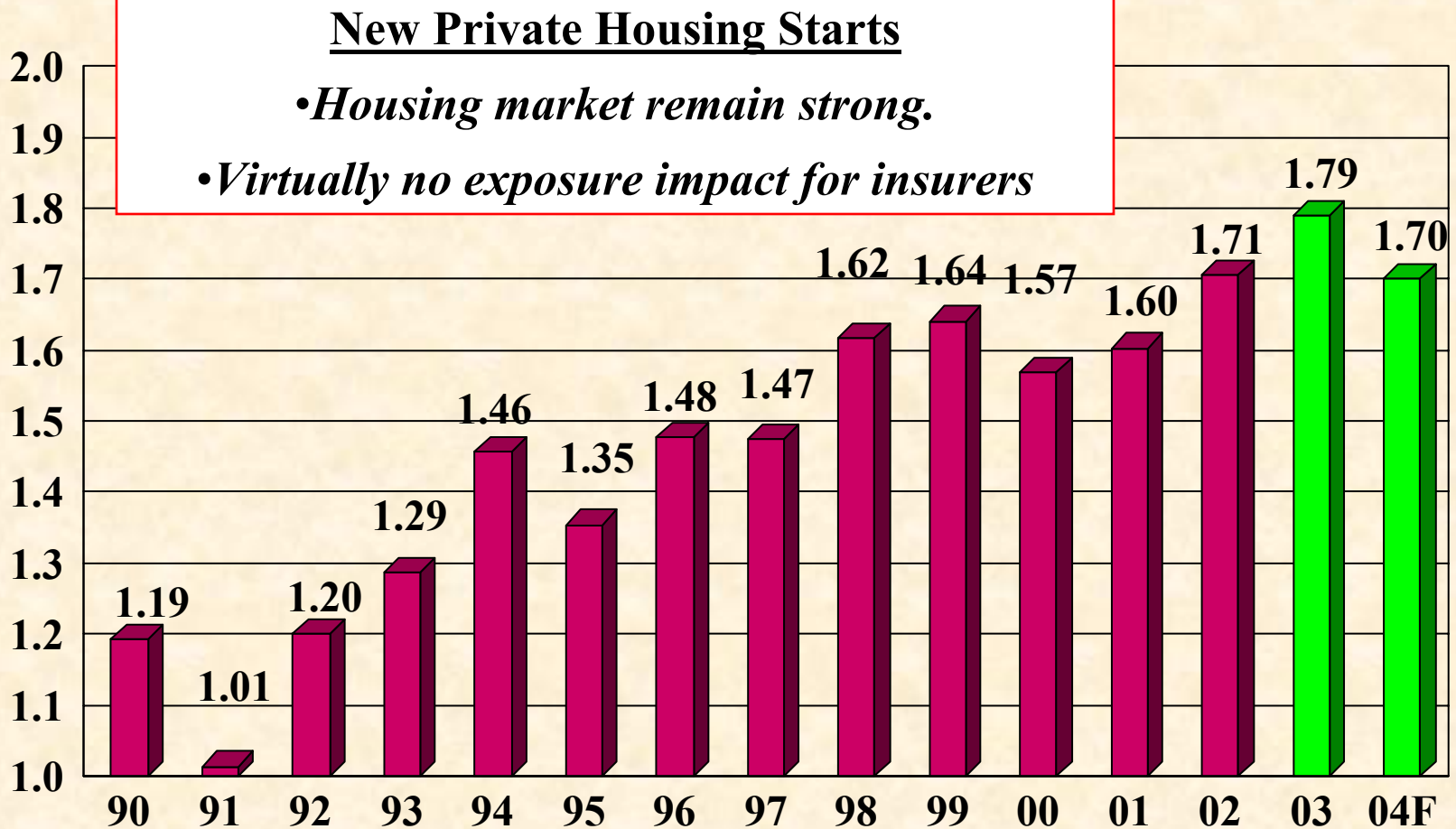


\*Estimate/Forecast

Source: US Department of Commerce, Blue Economic Indicators 12/03; Insurance Information Institute.

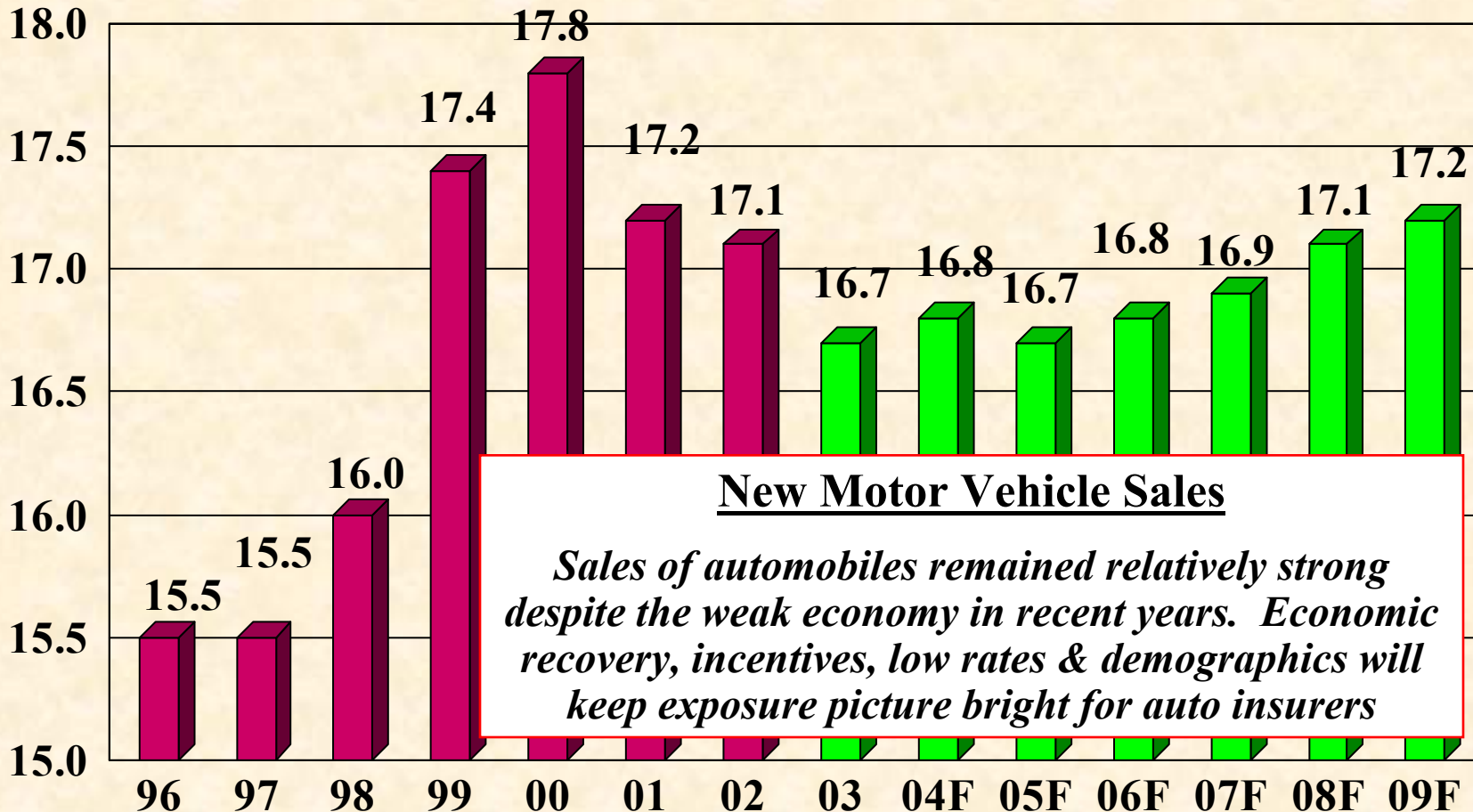


# *New Private Housing Starts* *(Millions of Units)*





# Motor Vehicle Retail Sales (Millions of Units)

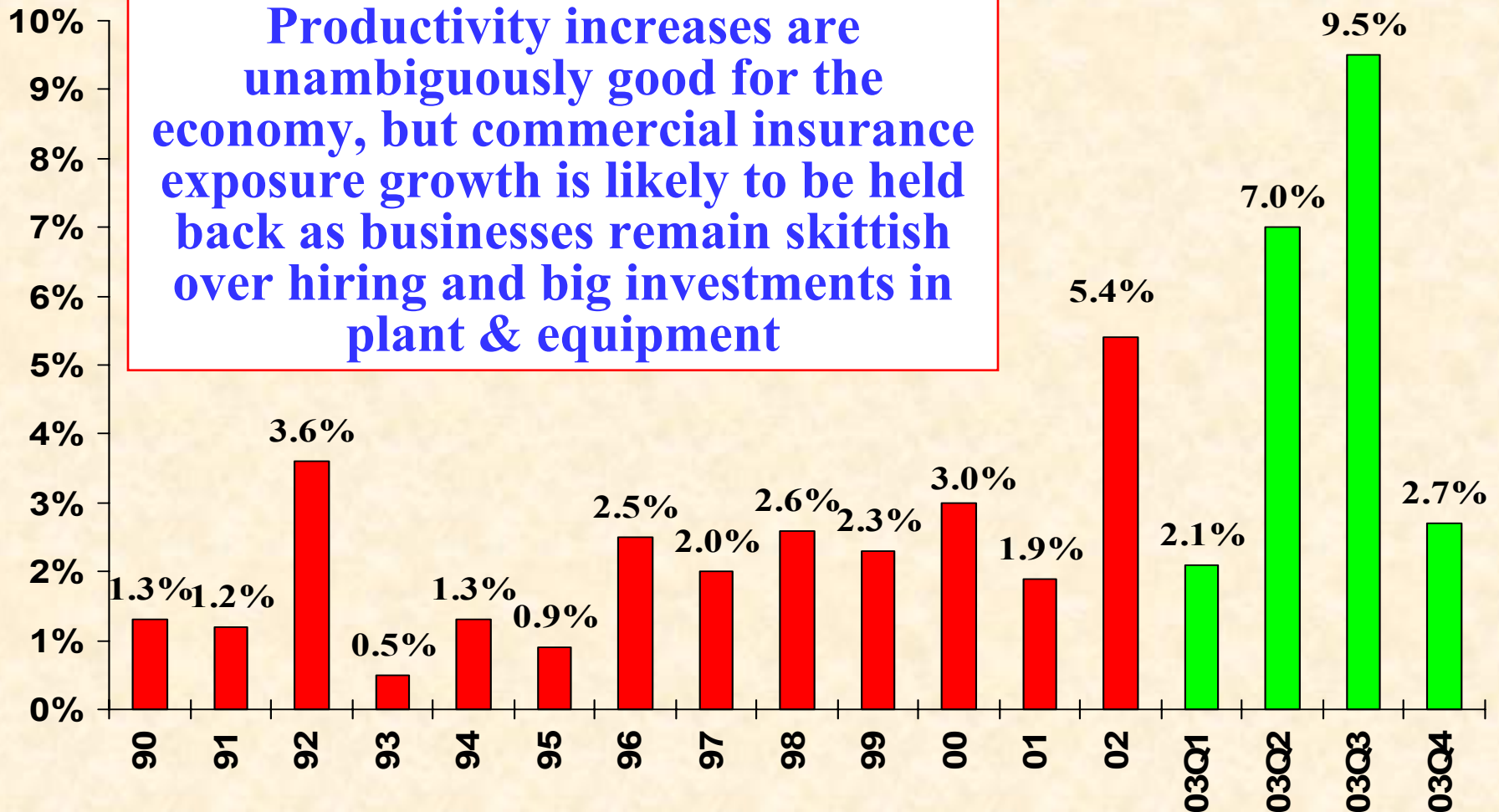


Source: US Department of Commerce; Insurance Information Institute;  
Blue Chip Economic Indicators as of December 2003.



# *Current Recovery is Productivity Led*

**Productivity increases are unambiguously good for the economy, but commercial insurance exposure growth is likely to be held back as businesses remain skittish over hiring and big investments in plant & equipment**





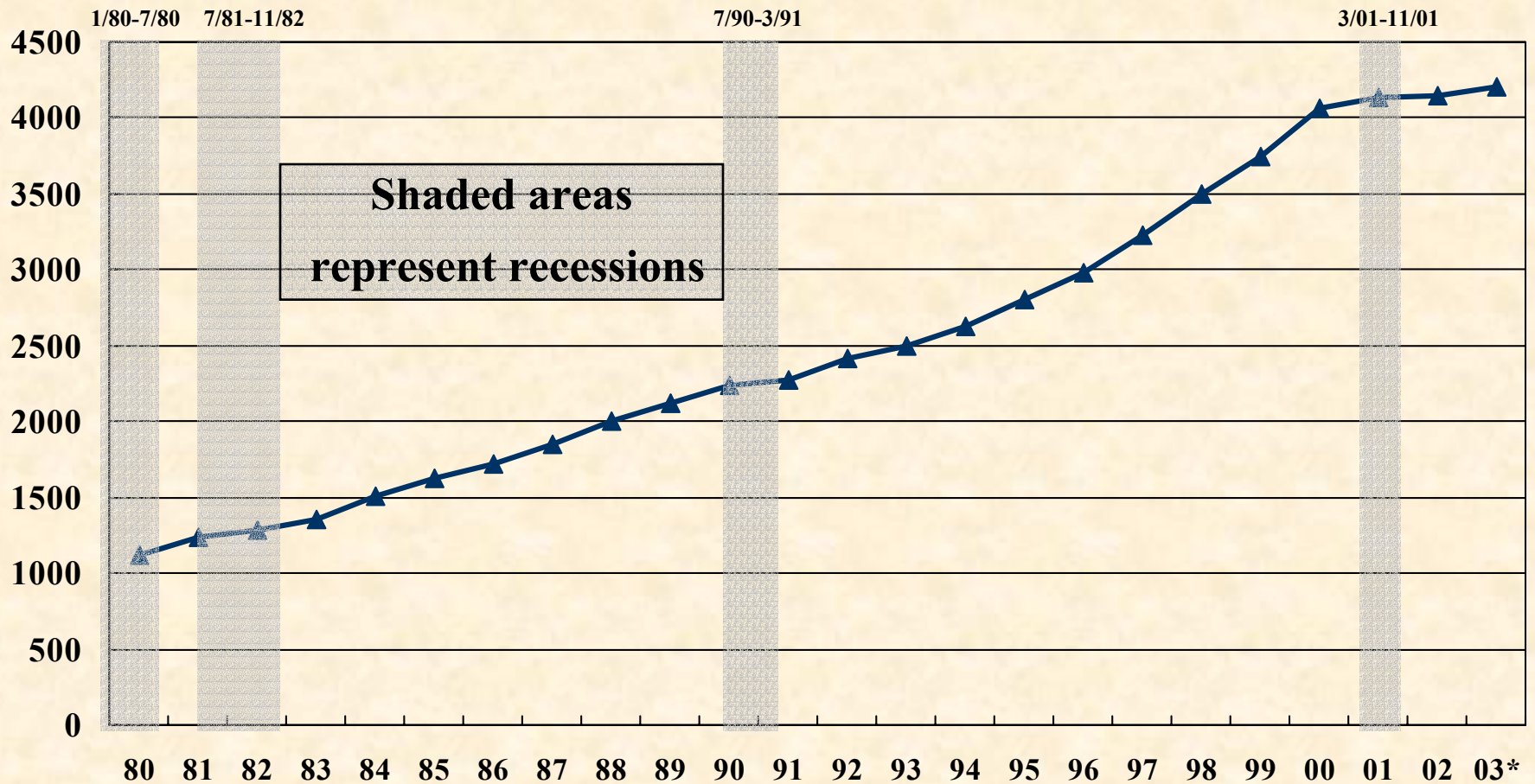
# Number of Employed Workers (Millions)



Source: U.S. Bureau of Labor Statistics; Insurance Information Institute

# *“Jobless Recovery” of 2001-2003* *Hurting Workers Comp Exposure*

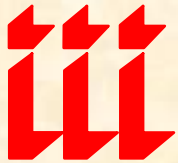
## Wage & Salary Disbursement (Private Employment, \$Billions)



\*Ill estimate based in data through September 2003.

Source: US Bureau of Economic Analysis; Insurance Information Institute.

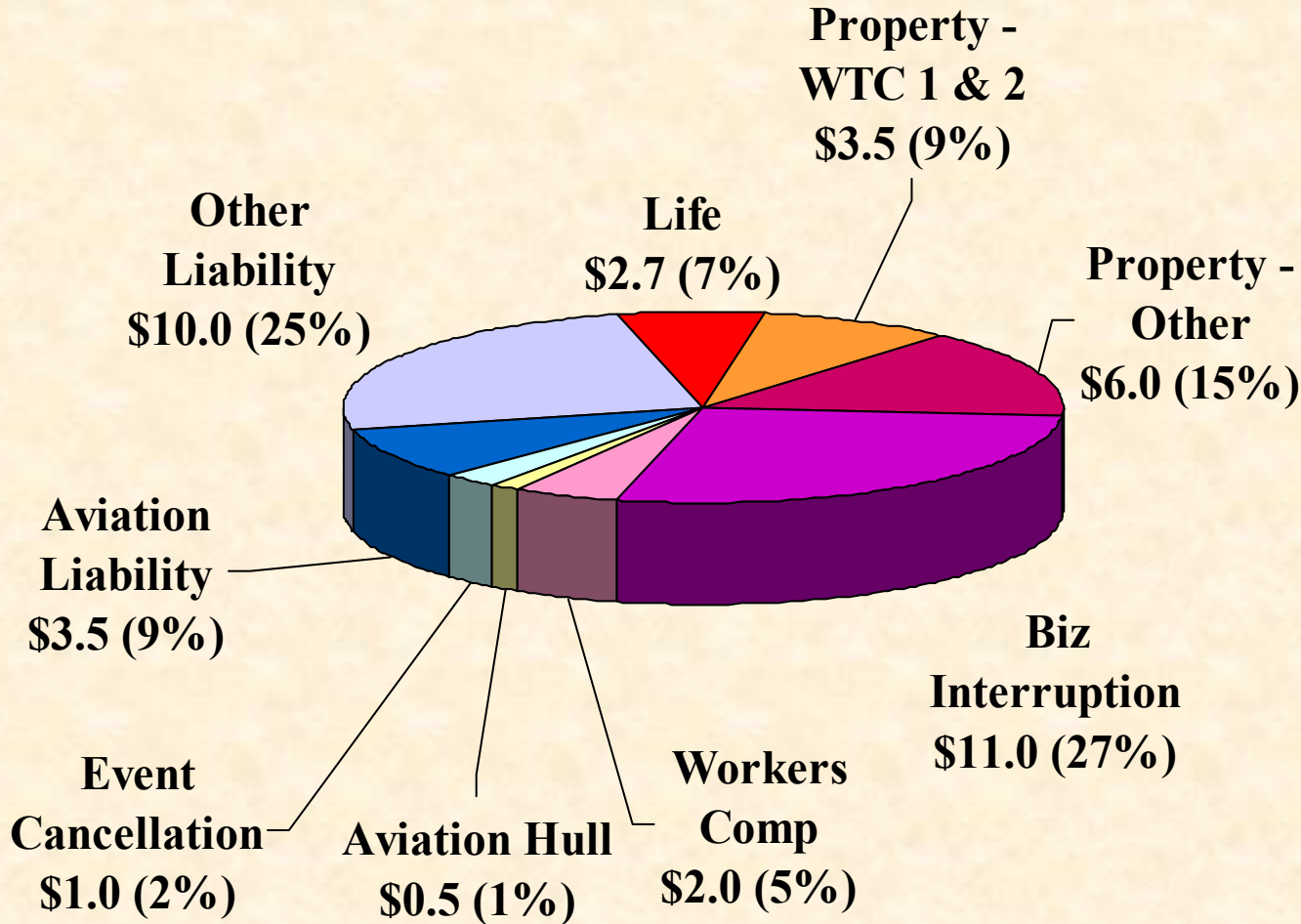
# *THE CHALLENGE OF TERRORISM*





# Sept. 11 Industry Loss Estimates

(\$ Billions)



## Consensus Insured Losses Estimate: \$40.2B

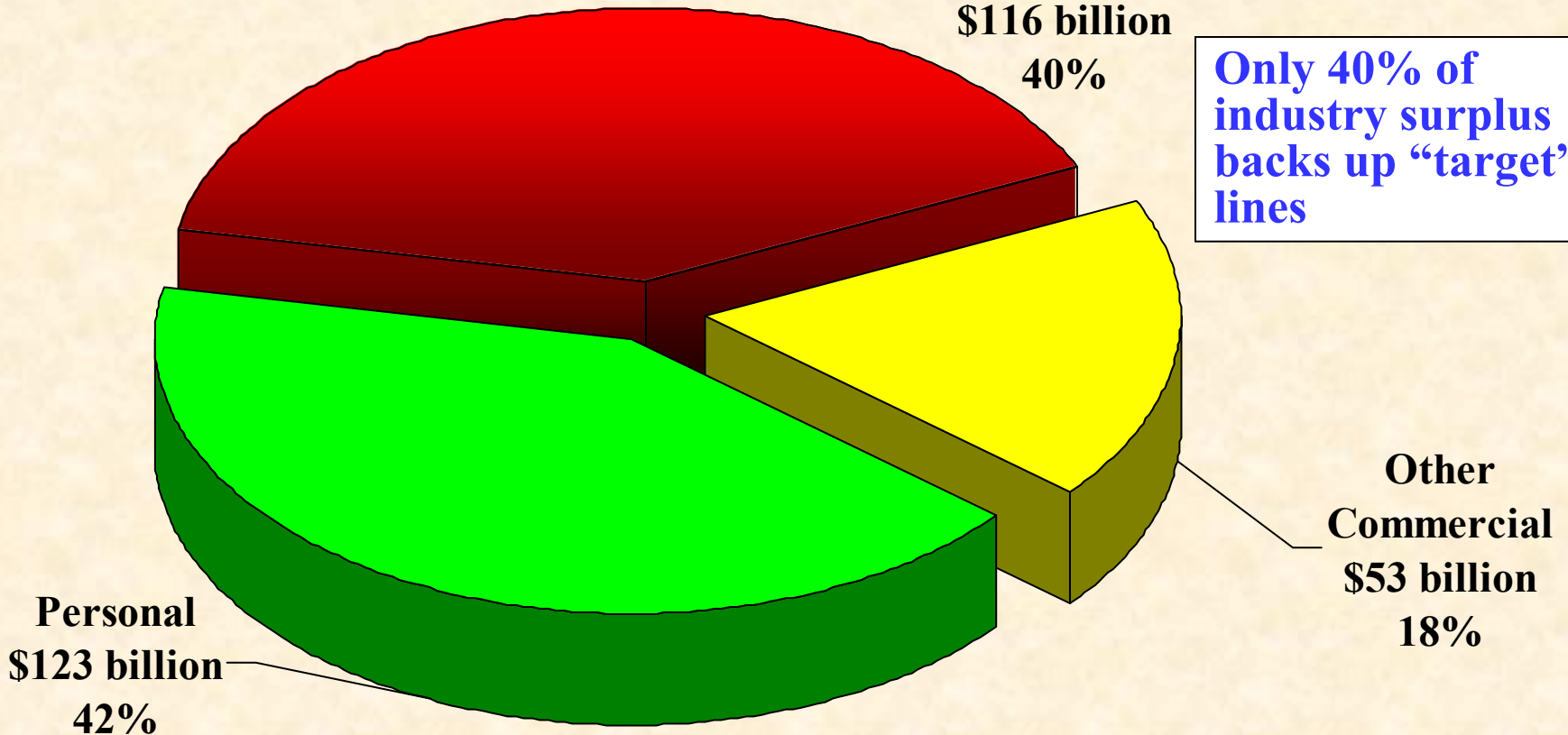


# Capital Myth: US P/C Insurers Have \$300 Billion to Pay Terrorism Claims

Total PHS = \$298.2 B as of 6/30/01  
= \$291.1 B as of 12/31/02

"Target"  
Commercial\*  
\$116 billion  
40%

Only 40% of industry surplus backs up "target" lines



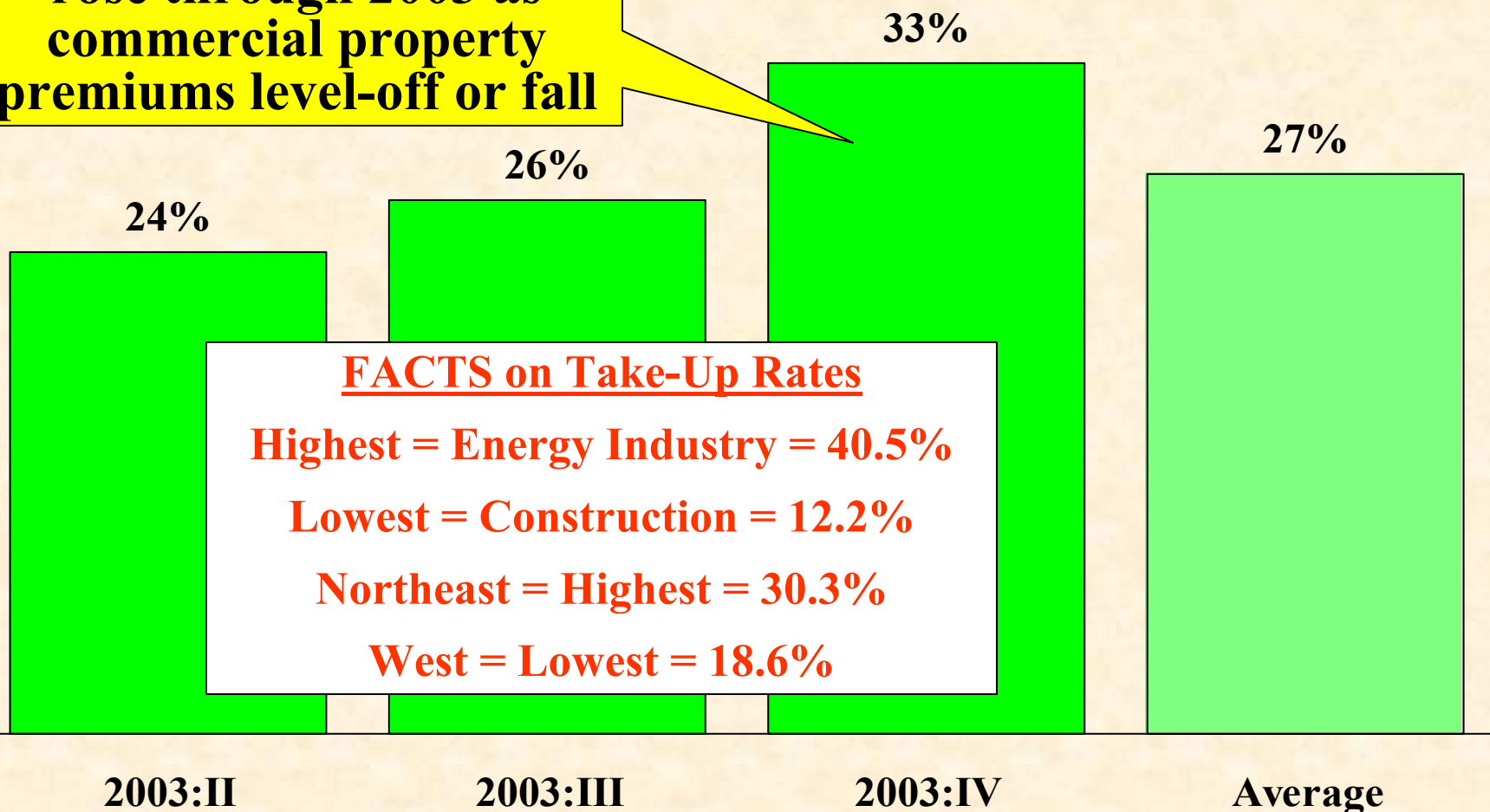
\*"Target" Commercial includes: Comm property, liability and workers comp; Surplus must also back-up on non-terrorist related property/liability and WC claims

Source: Insurance Information Institute based on A.M. Best Q.A.R Data.

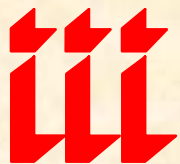


# Terrorism Coverage Take-Up Rate Rising

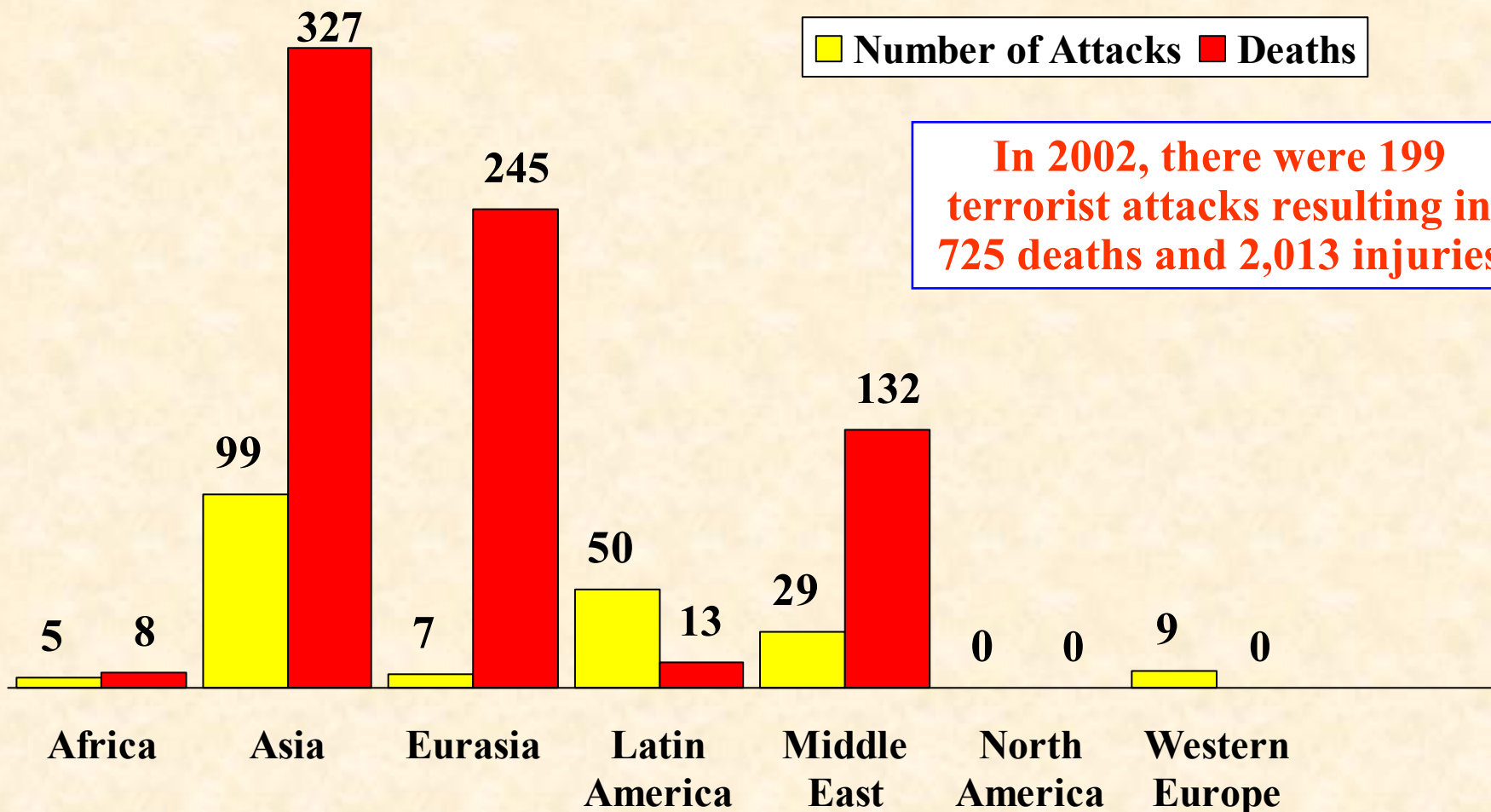
Terrorism take-up rate rose through 2003 as commercial property premiums level-off or fall



**FACTS on Take-Up Rates**  
**Highest = Energy Industry = 40.5%**  
**Lowest = Construction = 12.2%**  
**Northeast = Highest = 30.3%**  
**West = Lowest = 18.6%**

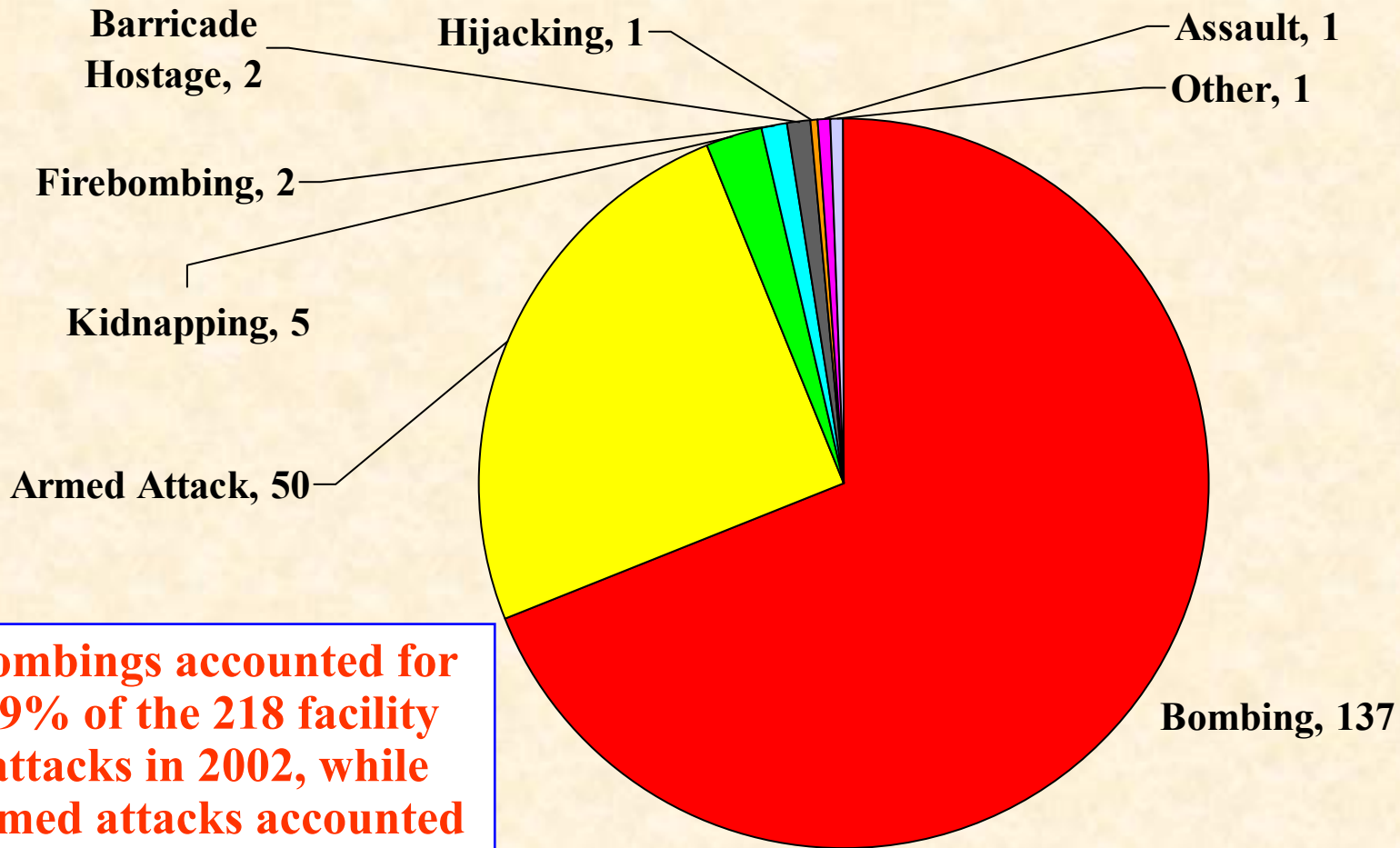


# Total International Terrorist Attacks, 2002





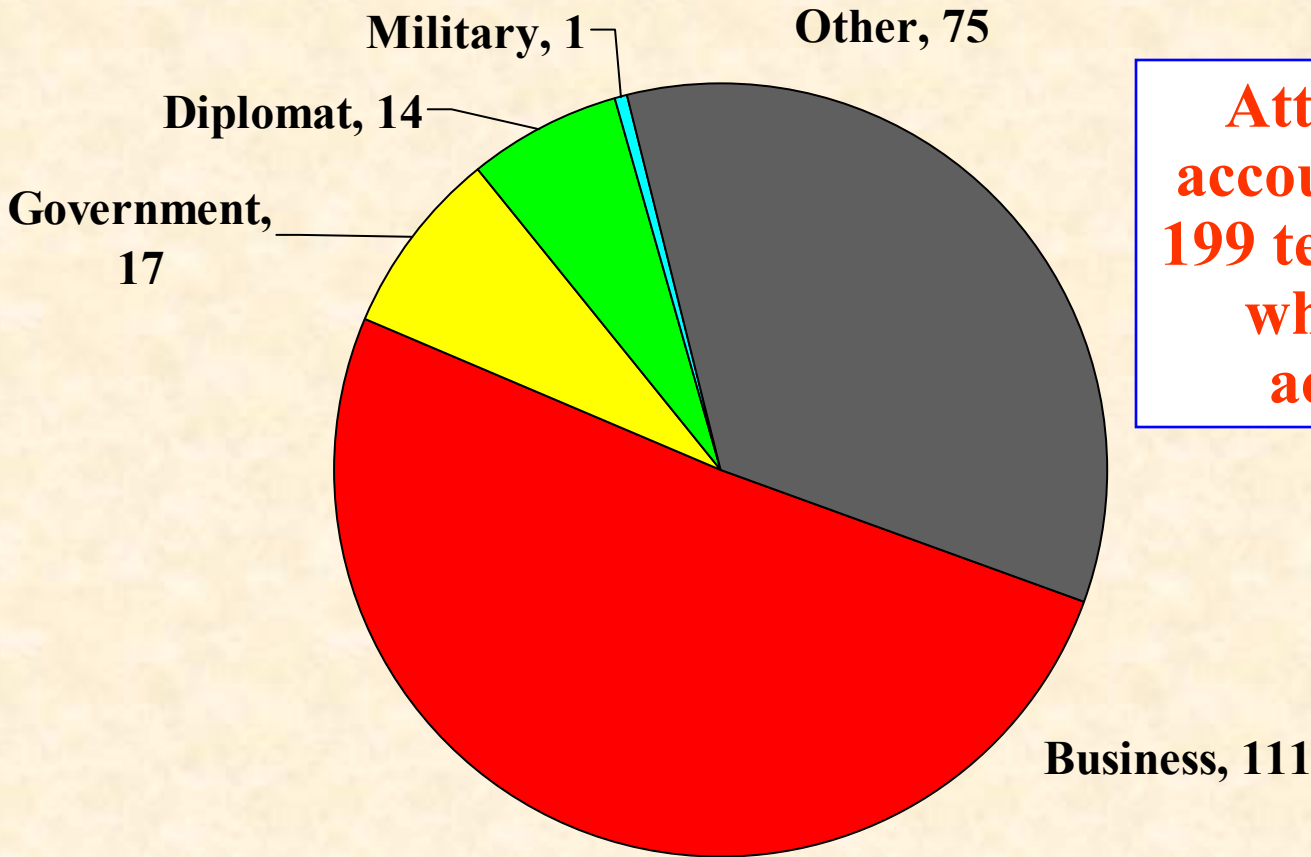
# International Terrorist Attacks by Type of Event, 2002



**Bombings accounted for 69% of the 218 facility attacks in 2002, while armed attacks accounted for 25%,**



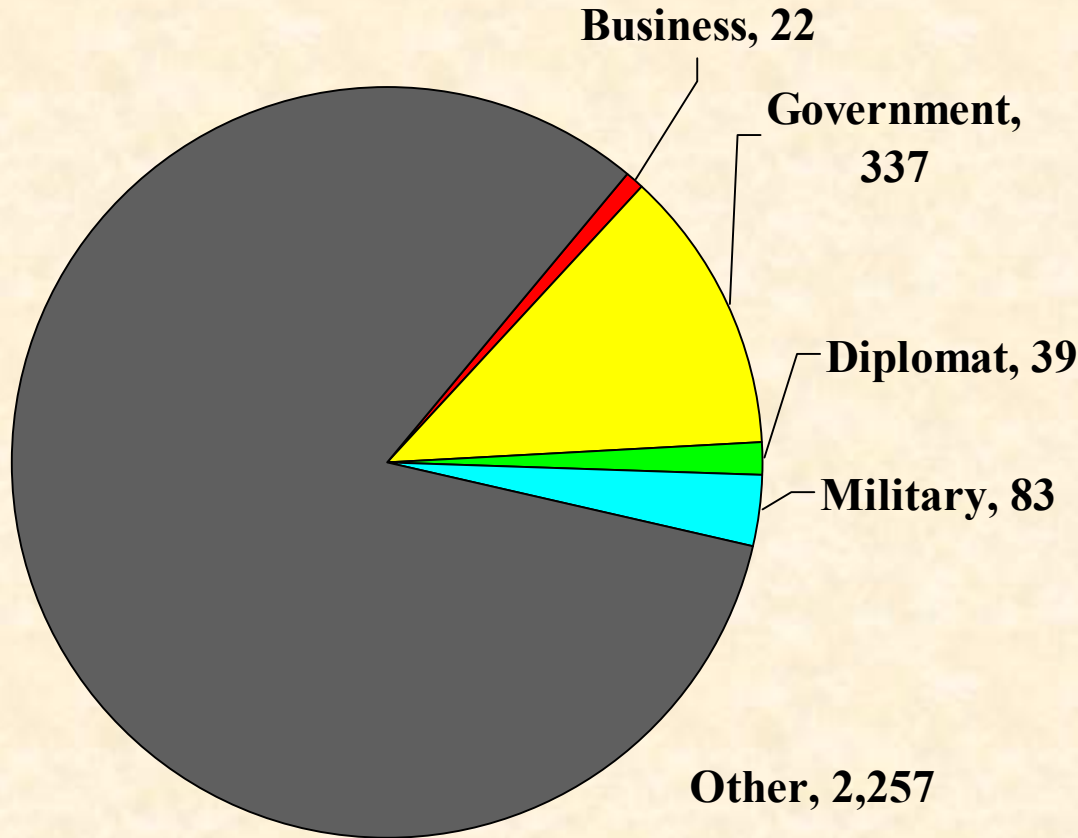
# *International Terrorist Attacks by Type of Facility Struck, 2002*



**Attacks on businesses  
accounted for 56% of the  
199 terror attacks in 2002,  
while armed attacks  
accounted for 9%,**



# International Terrorist Attacks by Casualty, 2002\*



**Terrorist attacks killed more civilians than any other group (82% of the 2,738 casualties), followed by government workers (12%) in 2002. Business personnel accounted for less than 1% of casualties (despite 56% of attacks being against business facilities).**

\*Total of 2,738 casualties consists of 725 deaths and 2,013 injuries.

Source: *Patterns of Global Terrorism*, US Department of State; Insurance Information Institute

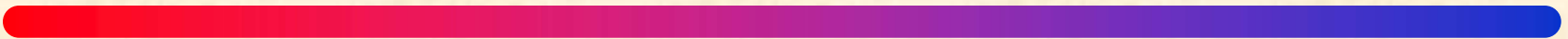


# *Political Risk Rankings for Selected Countries*

Low	Med/Low	Medium	Med/High	High
United States	China	Russia	Pakistan	Iraq
Canada	Saudi Arabia	Mexico	Venezuela	Afghanistan
W. Europe	South Africa	India	Honduras	Argentina
Japan	Poland	Indonesia	Uruguay	Nicaragua
Australia	South Korea	Turkey	Ukraine	Cuba
New Zealand	Baltic States	Egypt	Jordan	Georgia
Singapore	Malaysia	Thailand	Bangladesh	North Korea
	Chile	Columbia	Nigeria	Myanmar
	Israel	Brazil	Ecuador	Tajikistan

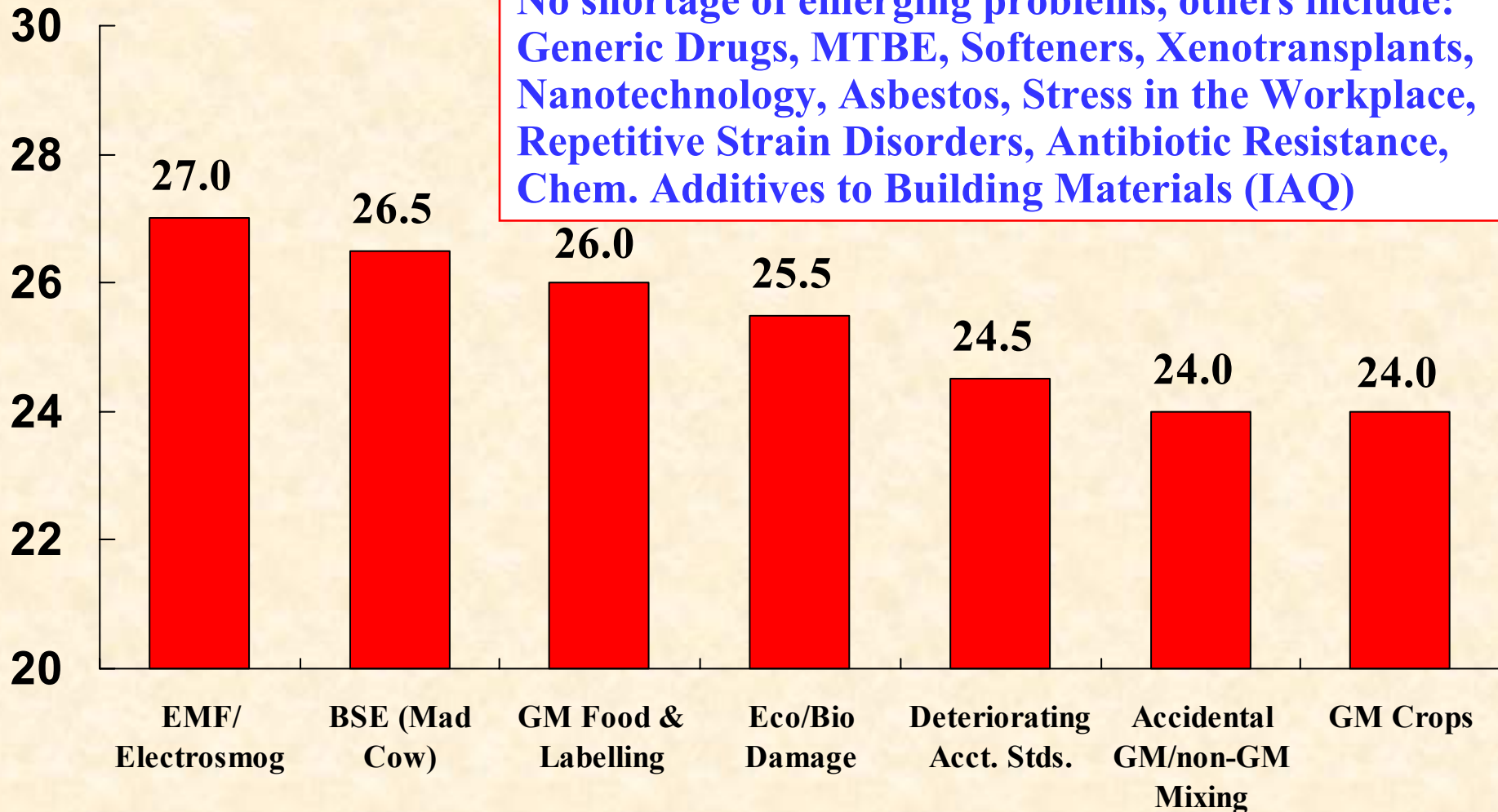
# *EMERGING RISKS:*

*No Shortage of Long-Term Challenges*





# *Possible Top Risks from Contemporary Perspective*





# *Old McDonald Had a Problem*

**INSURANCE RAMIFICATIONS  
OF MAD COW DISEASE**



Insurance & Avian Flu

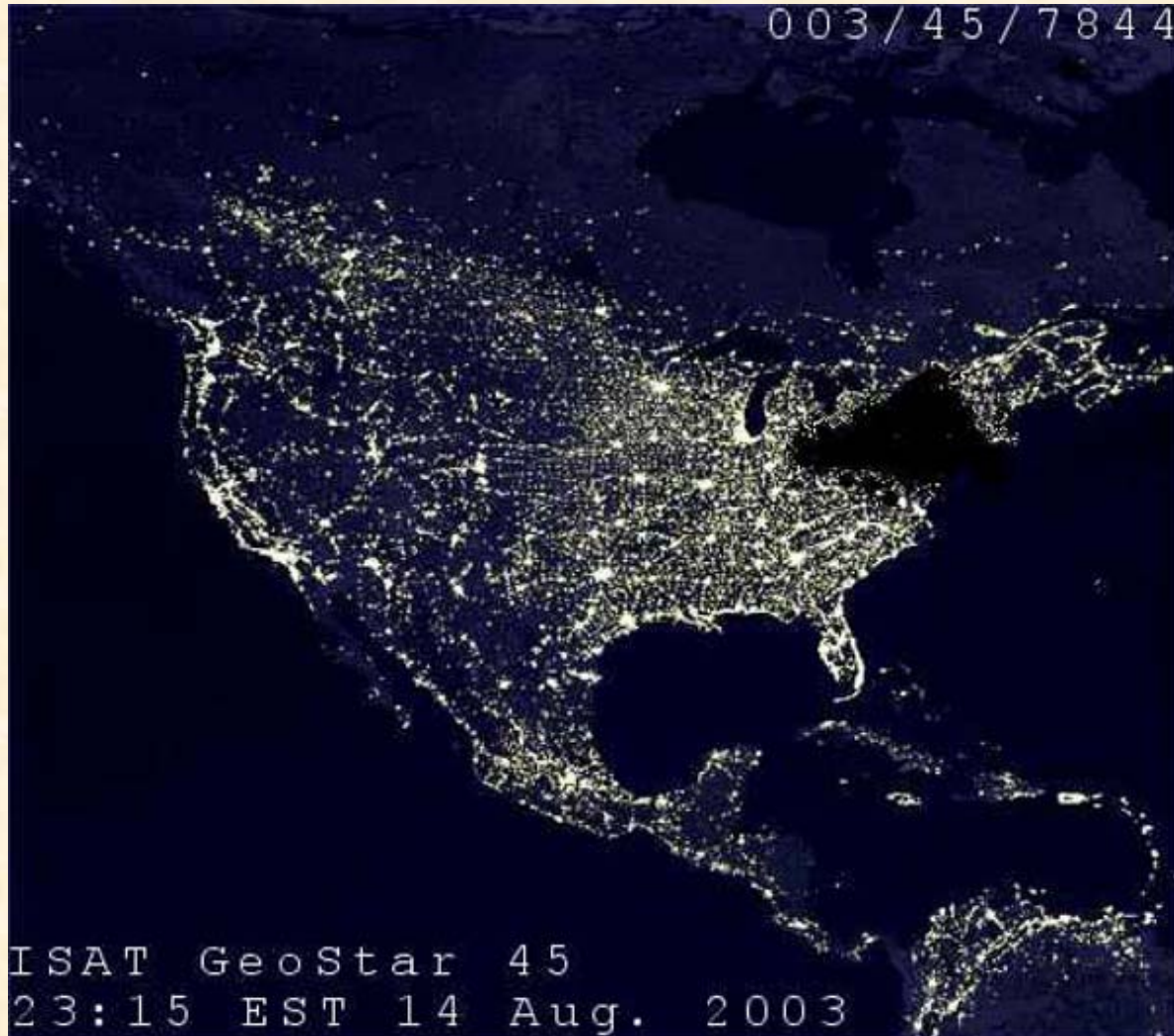


**Toxic Spuds?**





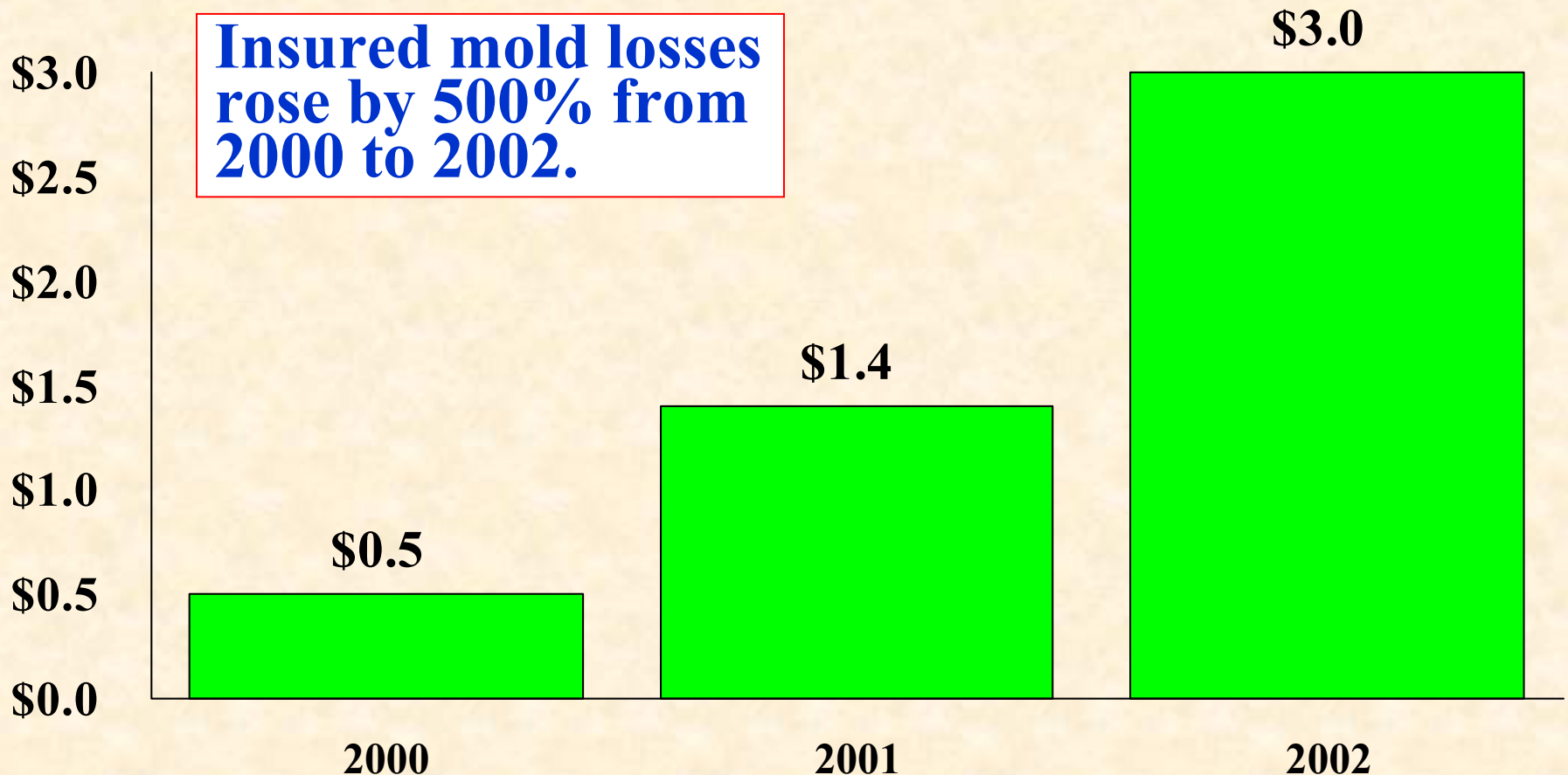
# *Blackouts: Are More in Store?*





# *Estimated Insured Mold Losses: 2000-2002*

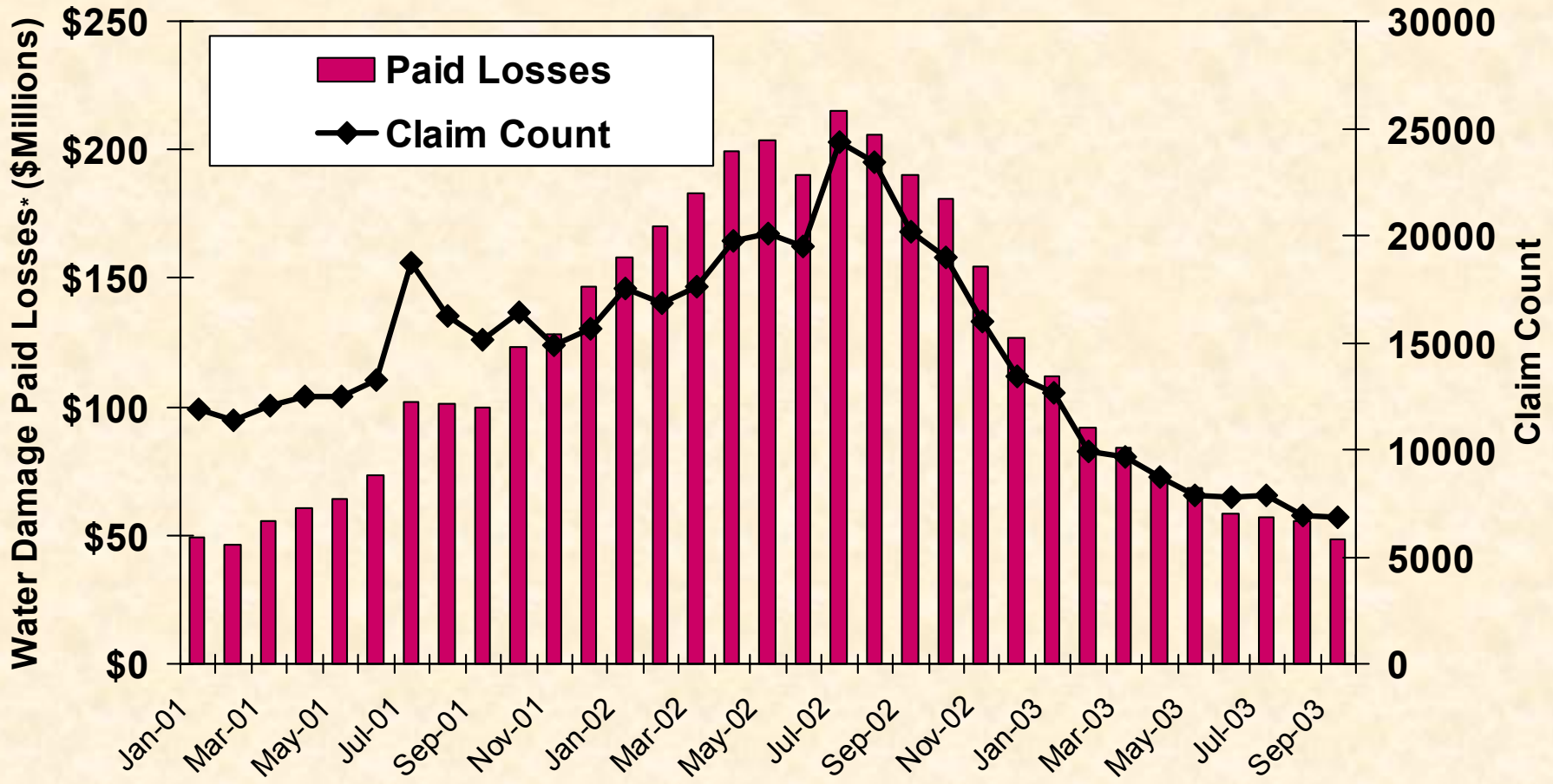
**\$ Billions**





# Texas: Mold Losses/Claims

## Continuing to Moderate\*



\* Data are for TDI Cause 61: Discharge – Other Damage. Not all claims in cause 61 are mold and mold claims may also arise from other (non-water) causes of loss.



# Summary

- **Pressure to perform is intense: profits, UW, Wall Street...**
- **2004/5 represent “sweet spot” in the current cycle for p/c insurance (underwriting/earnings)**
- **Soaring capacity: Tougher to higher ROE; Tests discipline**
- **Rising investment returns: Hopefully not a distraction**
- **Reserve deficiency remains industry’s principal boogieman**
- **Major Challenges:**
  - **Maintaining price/underwriting discipline**
  - **Managing variability/volatility of results**
  - **New/emerging/re-emerging risks**
  - **Product innovation: Will ART Eat our Lunch?**



# *Insurance Information Institute On-Line*

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give me your business card with e-mail address*