

Financial Services & Insurance: The Long March

Insurance Information Institute
December 2001

*If you'd like a copy of this presentation, I will be
happy to e-mail it to you*



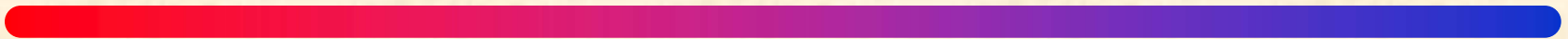
Robert P. Hartwig, Ph.D. ♦ Vice President & Chief Economist
Insurance Information Institute ♦ 110 William Street ♦ New York, NY 10038
Tel: (212) 346-5520 ♦ Fax: (212) 732-1916 ♦ bobh@iii.org ♦ www.iii.org



Presentation Outline

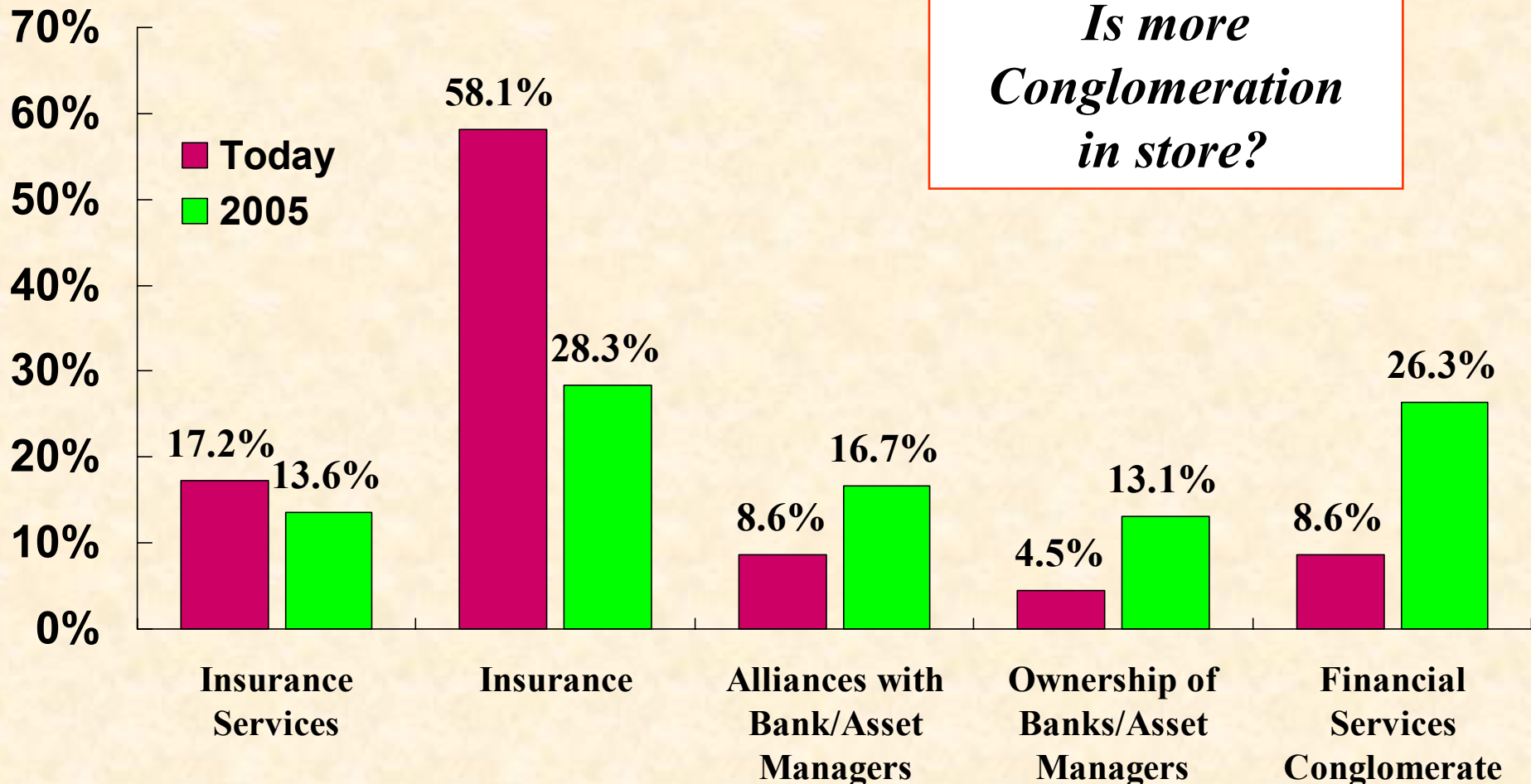
- **Financial Services—What's Happening Today?**
- **Who's the Competition?**
- **Why Bother Getting into Financial Services?**
- **What's Hot?**
- **Lessons from Banks' Experience with Insurance**
- **Does the Internet Make a Difference?**
- **Your Bread & Butter: Investing, Estate & Retirement Planning**
- **The Economy**
- **Q&A**

*CONVERGENCE CREATES
OPTIONS & OPPORTUNITIES
FOR BANKS AND INSURERS*





% Non-Life Insurers Planning to Widen Fin'l. Services Operations

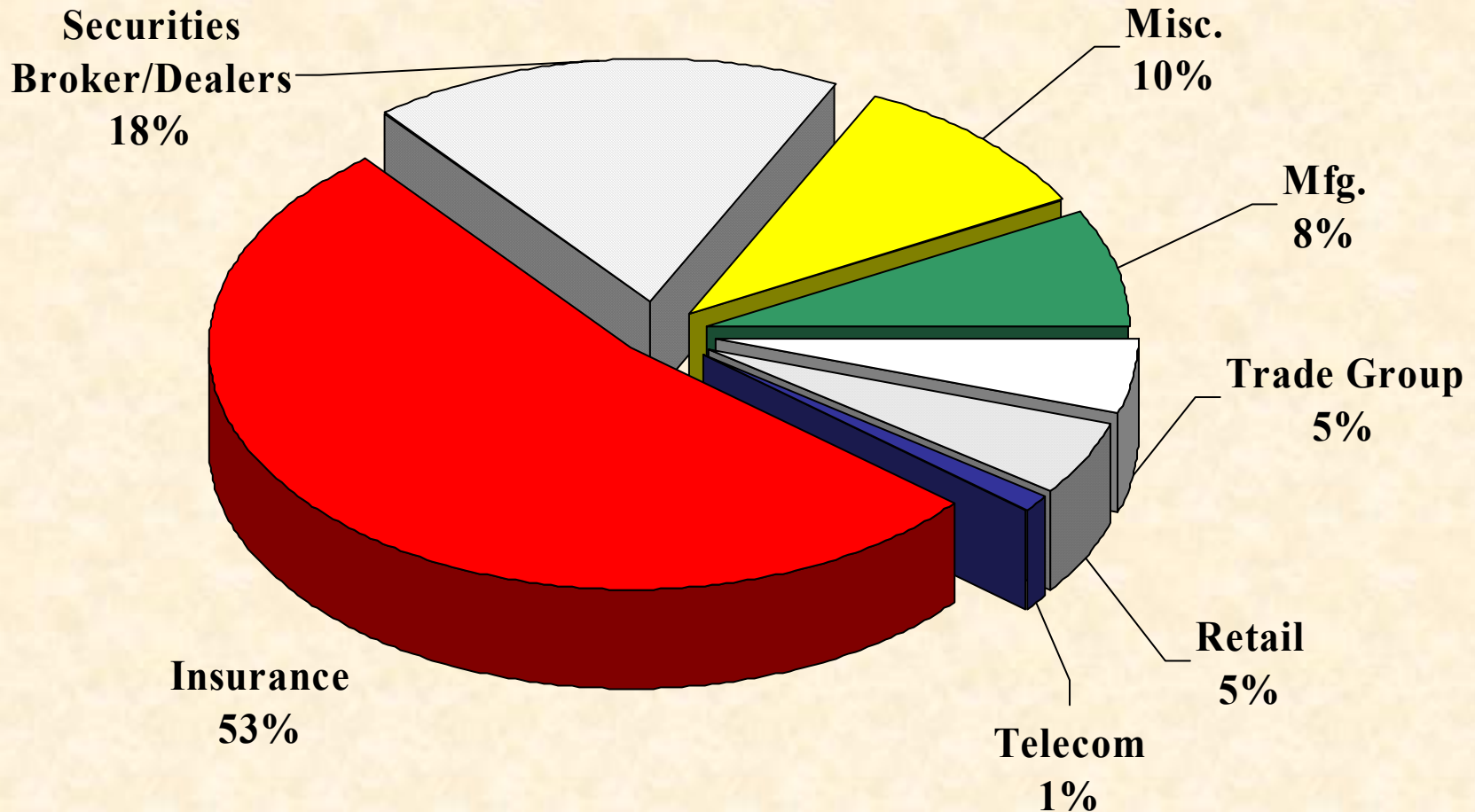


Source: EIU/Pricewaterhouse Coopers; December 2000.



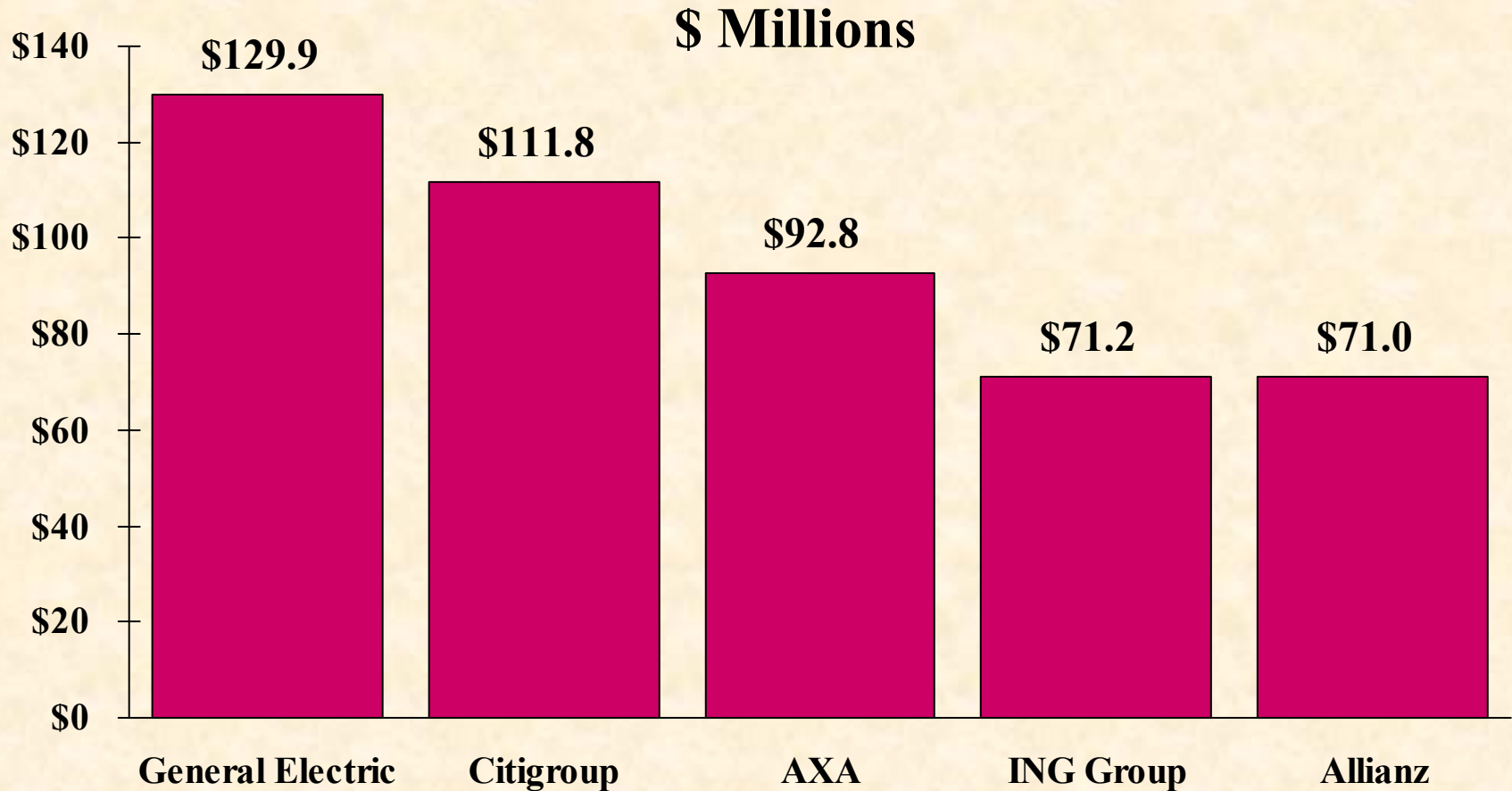
Applications for Thrift Charters, by Industry

January 1, 1997 – May 1, 2001 (220 Applications)





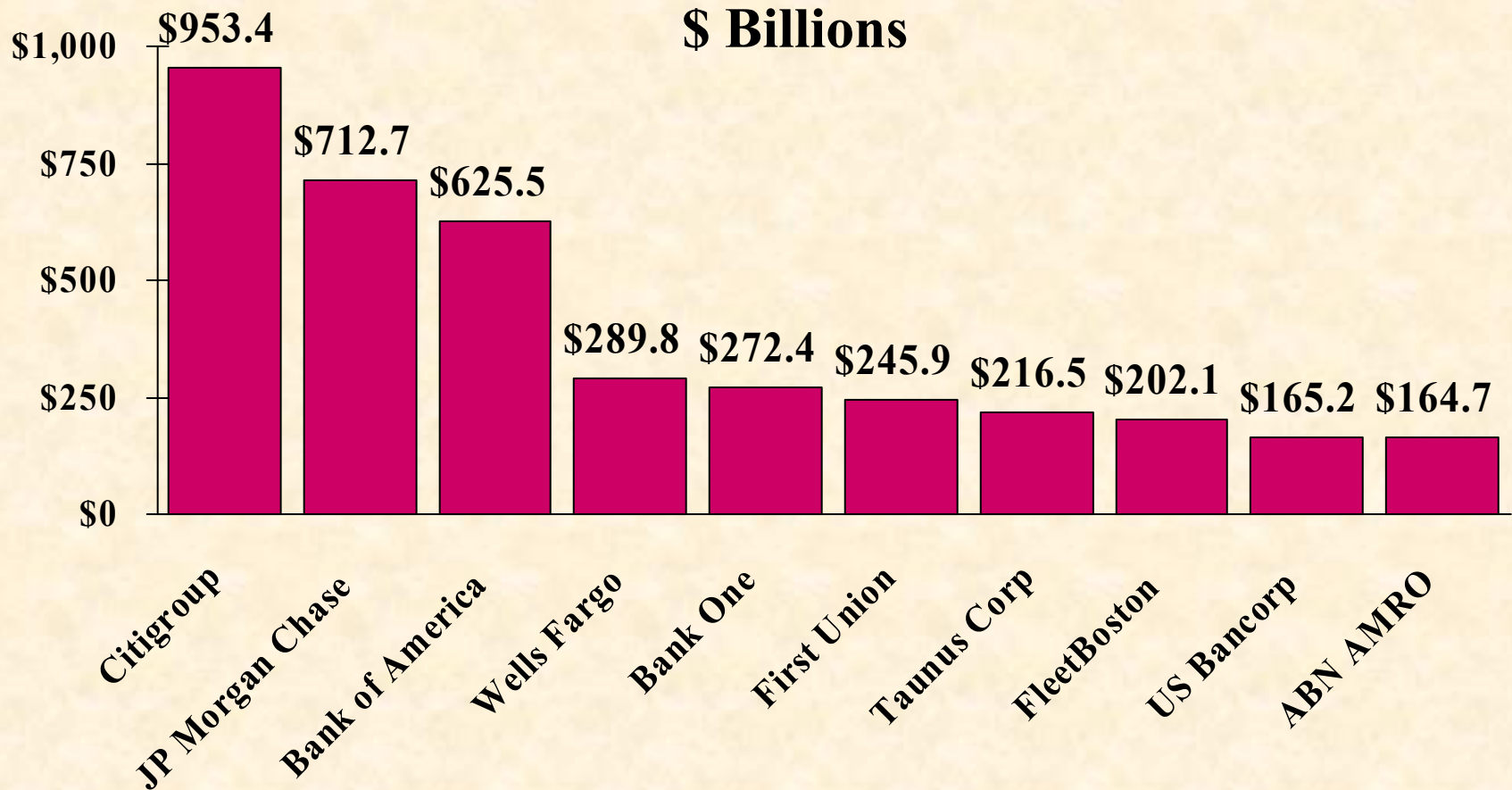
World's Largest Financial Services Firms, 2000



*Estimate
Source: Fortune



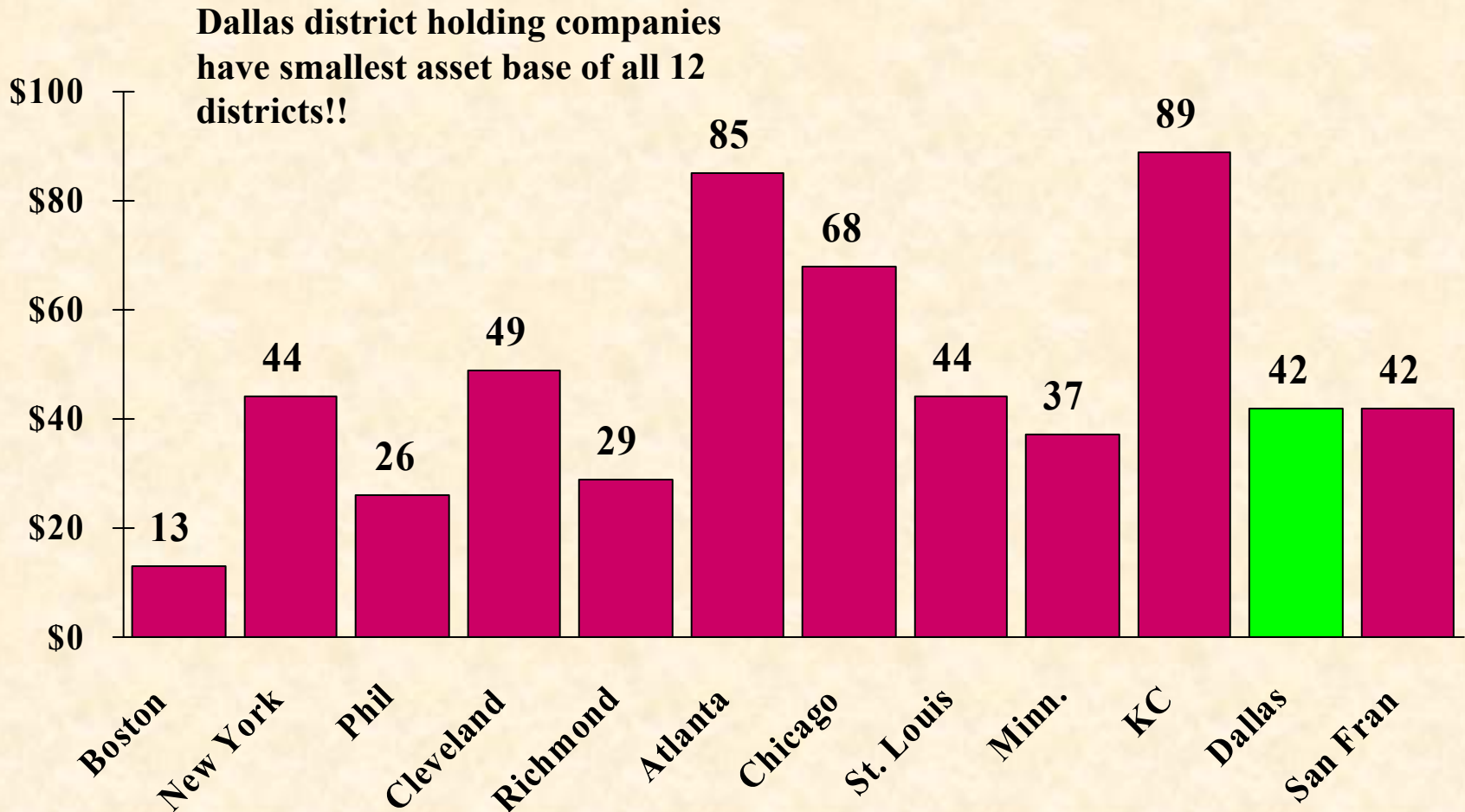
Top 10 Bank Holding Companies (2000, \$ Billions)



Source: Board of Governors of the Federal Reserve; Insurance Information Institute.



*Number of Bank Holding Cos. Formed Since GLB, (by FRB District)**



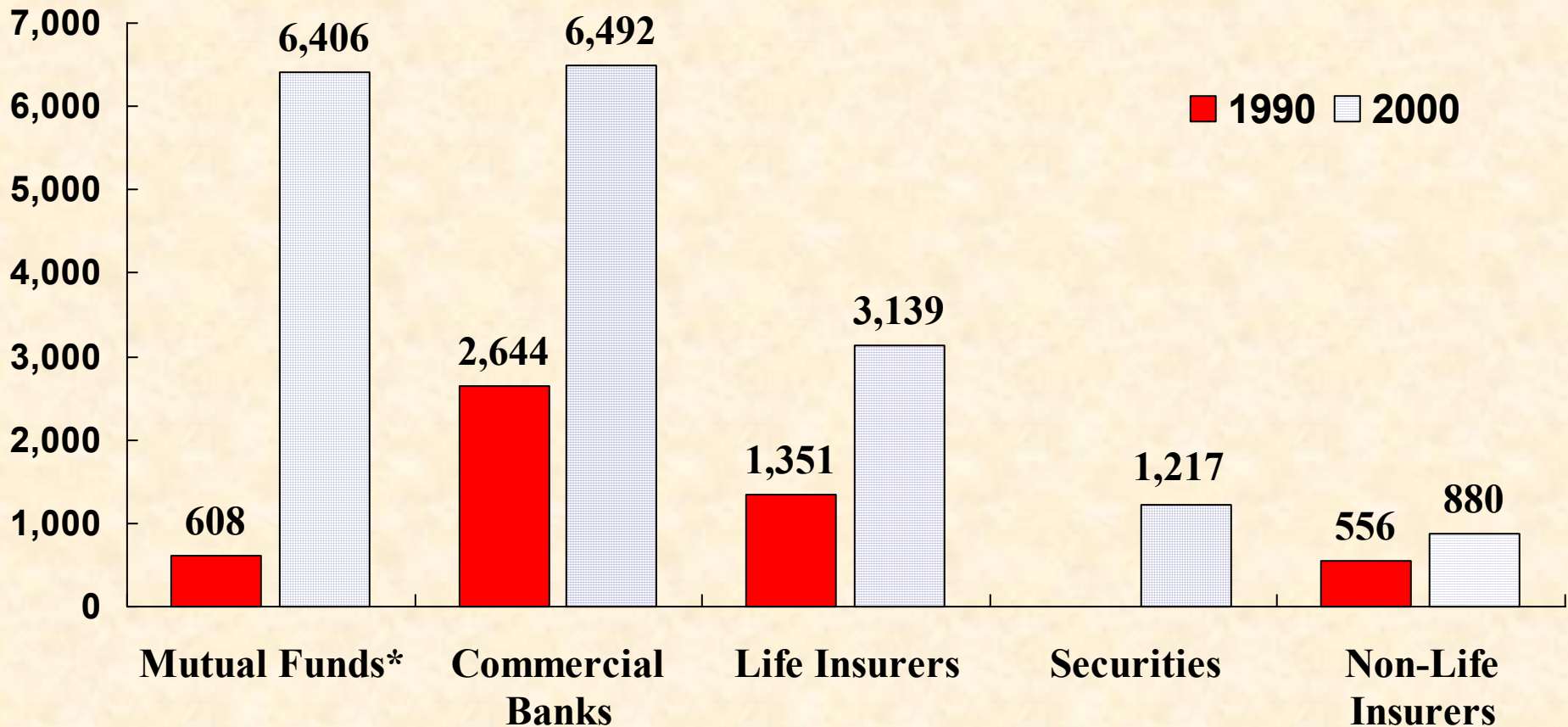
*As of Aug. 10, 2001.; GLB signed into law Nov. 1999.

Source: Board of Governors of the Federal Reserve; Insurance Information Institute.



Financial Assets by Sector

1990 vs. 2000 (\$Billions)



*Includes closed-end funds.

Source: Federal Reserve, Insurance Information Institute



The Mating Dance

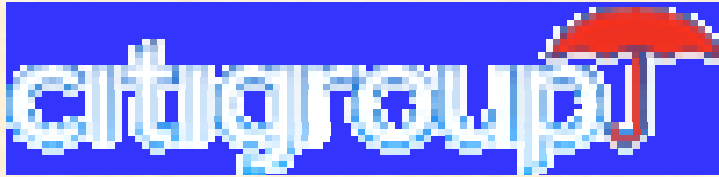


LEHMAN BROTHERS





Wave of the Future?



CHASE INSURANCE GROUP



Know Thy Enemy



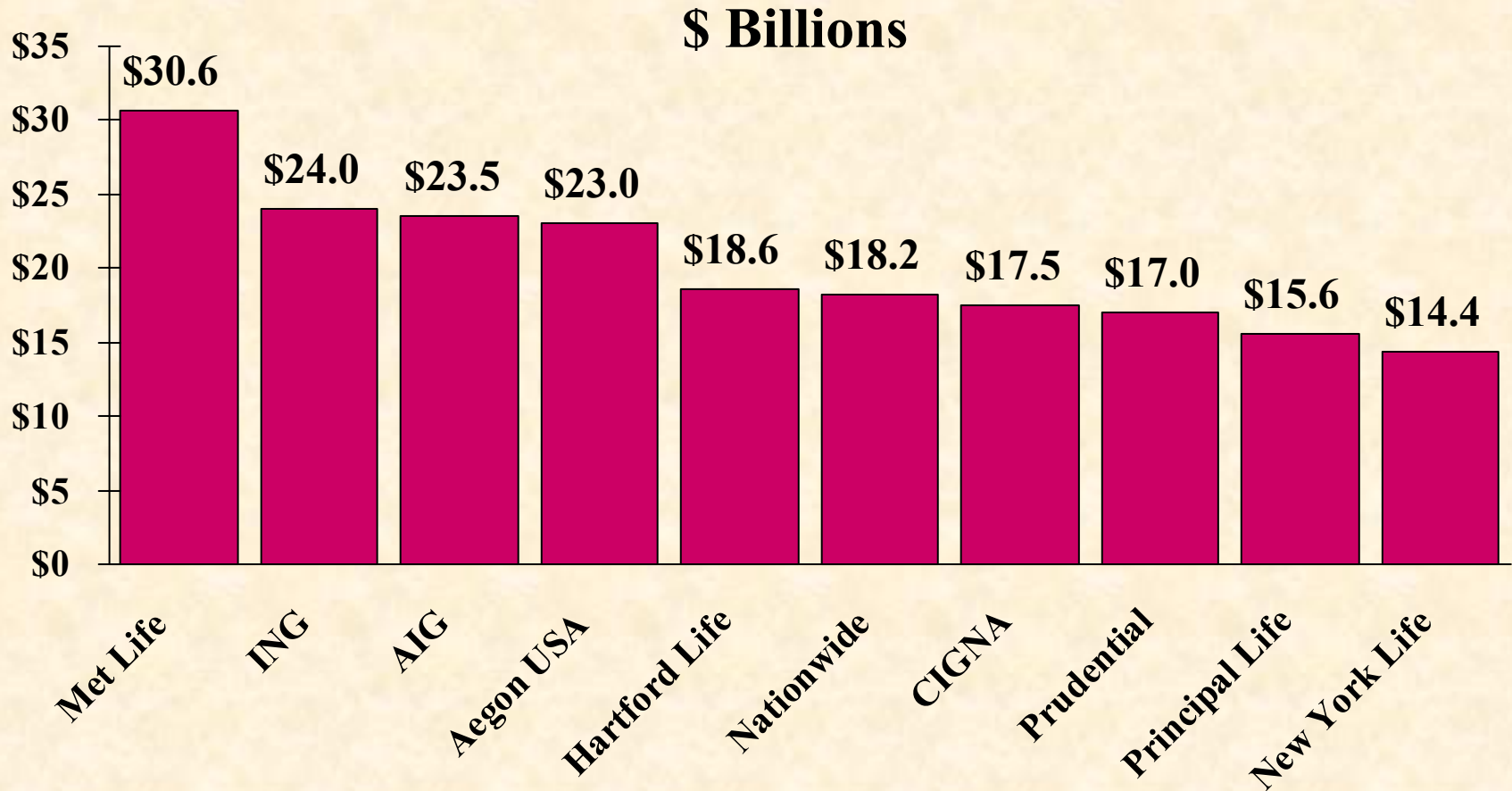


Top 10 P/C Insurers: TX & US

(2000)

Texas	NWP	US	NWP
State Farm	\$3,125.1	State Farm	\$33.3
Allstate	1,997.8	Allstate	21.6
Farmers	1,956.6	Zurich/Farmers	16.8
AIG	817.5	AIG	12.2
USAA	776.9	Berk. Hathaway	10.4
Travelers	695.4	Travelers/Citi	9.9
Progressive	532.6	Nationwide	9.5
Continental	441.5	Liberty	8.7
Liberty	403.8	C N A	8.1
Hartford	401.9	Hartford	6.9

Top 10 Life/Health Insurance Groups & Cos., (2000, US Market)

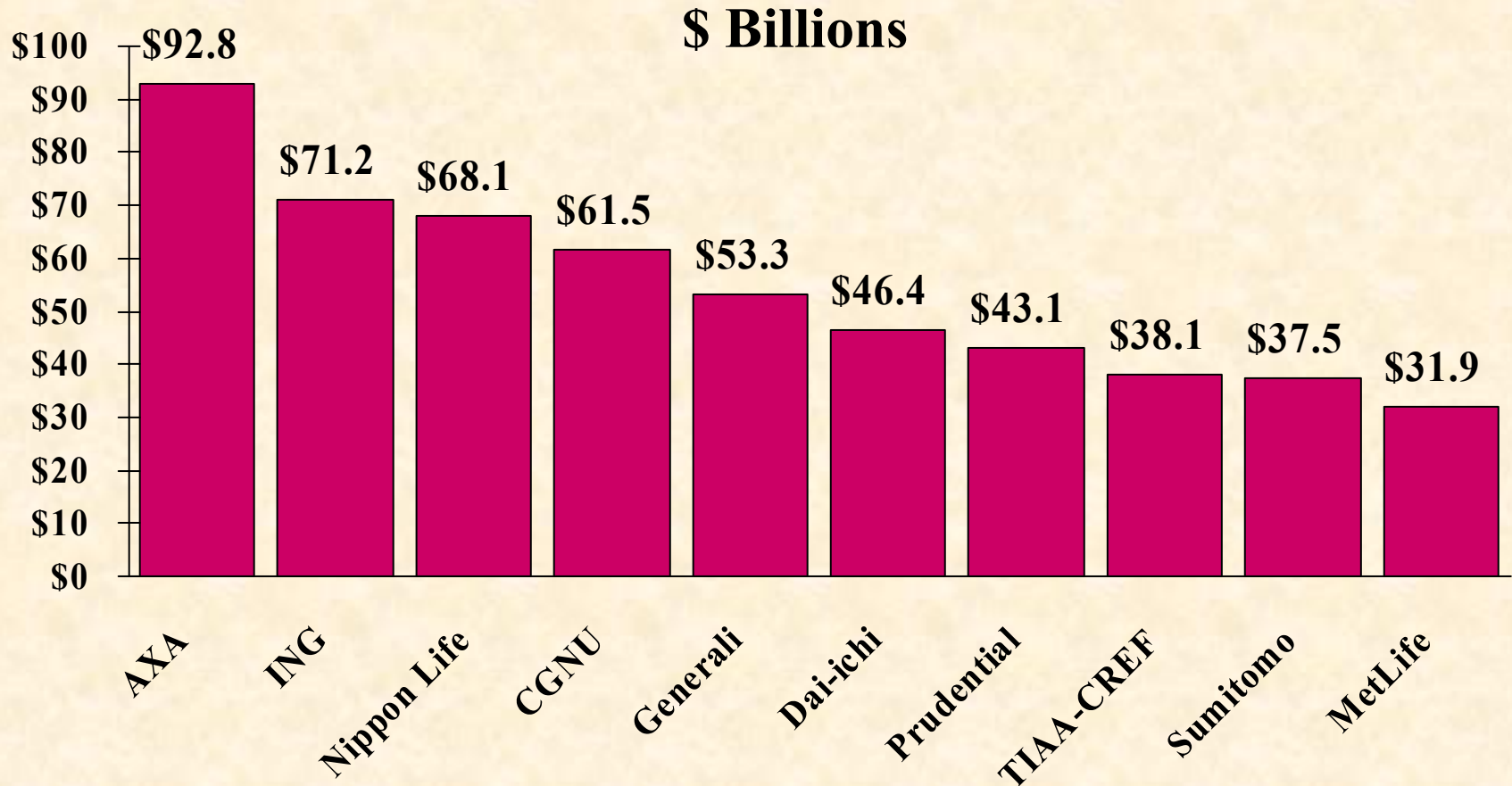


*Estimate

Source: Insurance Services Office, Insurance Information Institute.

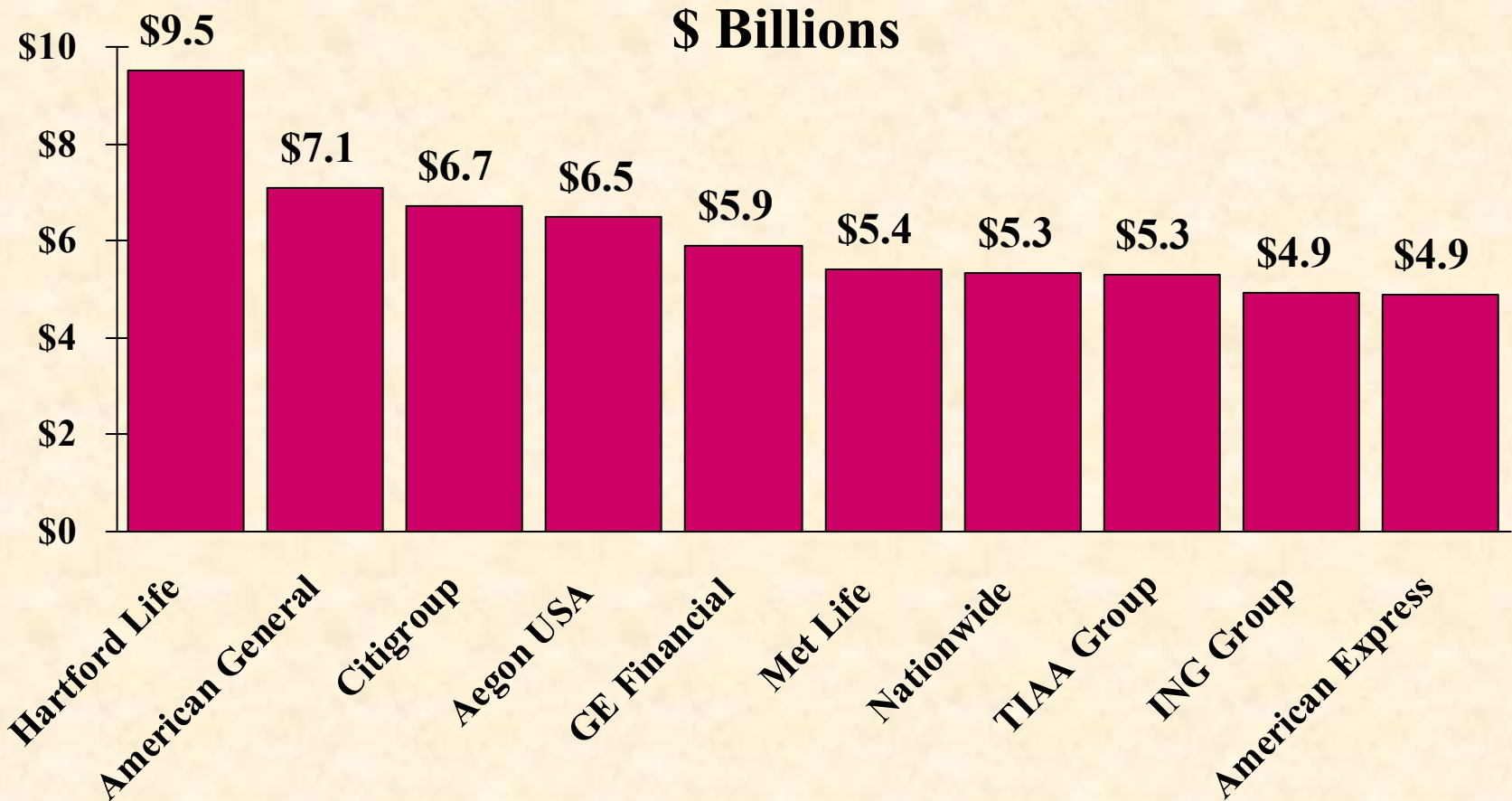


Top 10 Global Life Insurance Companies, (2000)





Top 10 Writers of Annuities, 2000

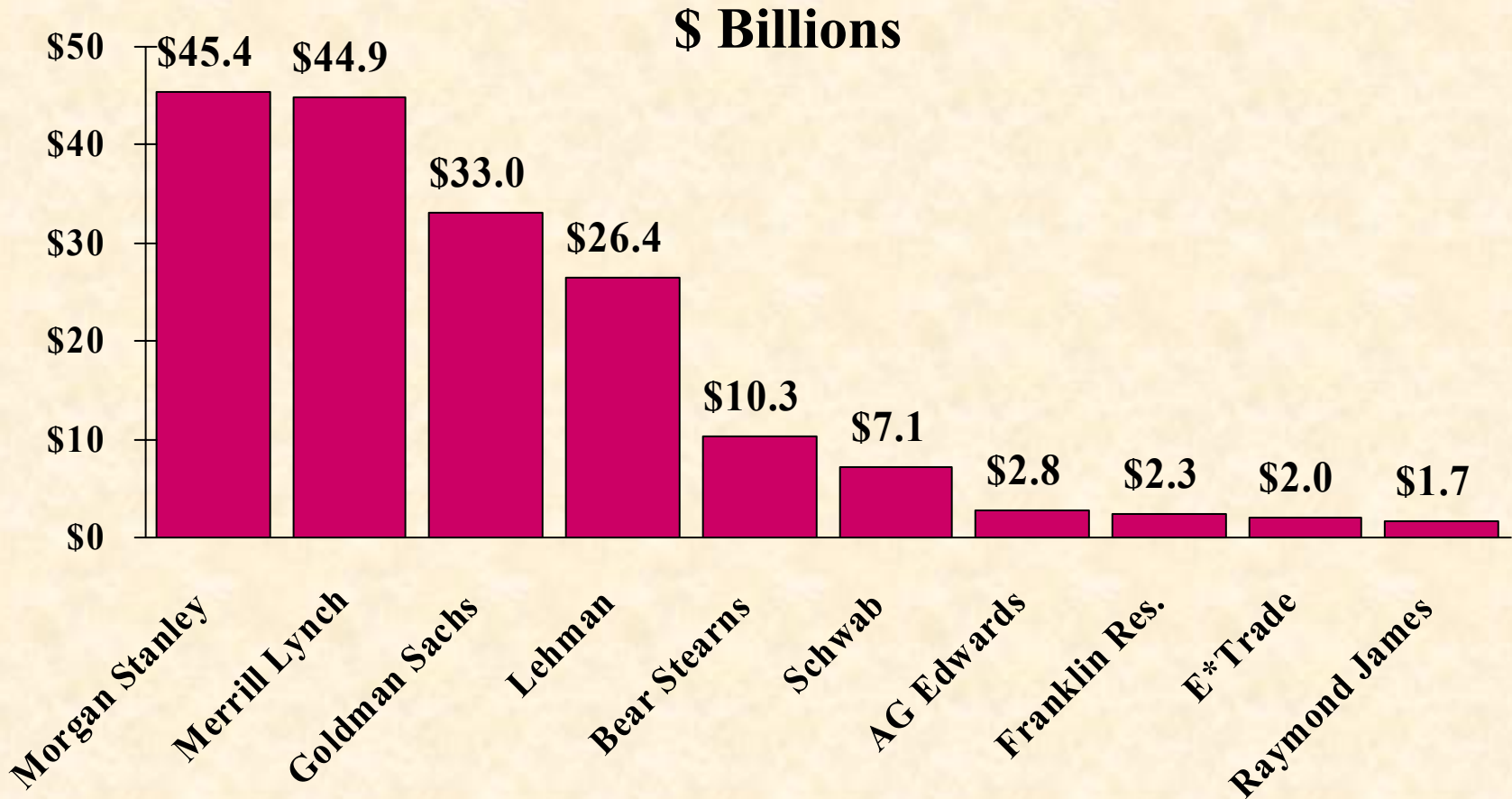


*Estimate

Source: Insurance Services Office, Insurance Information Institute.



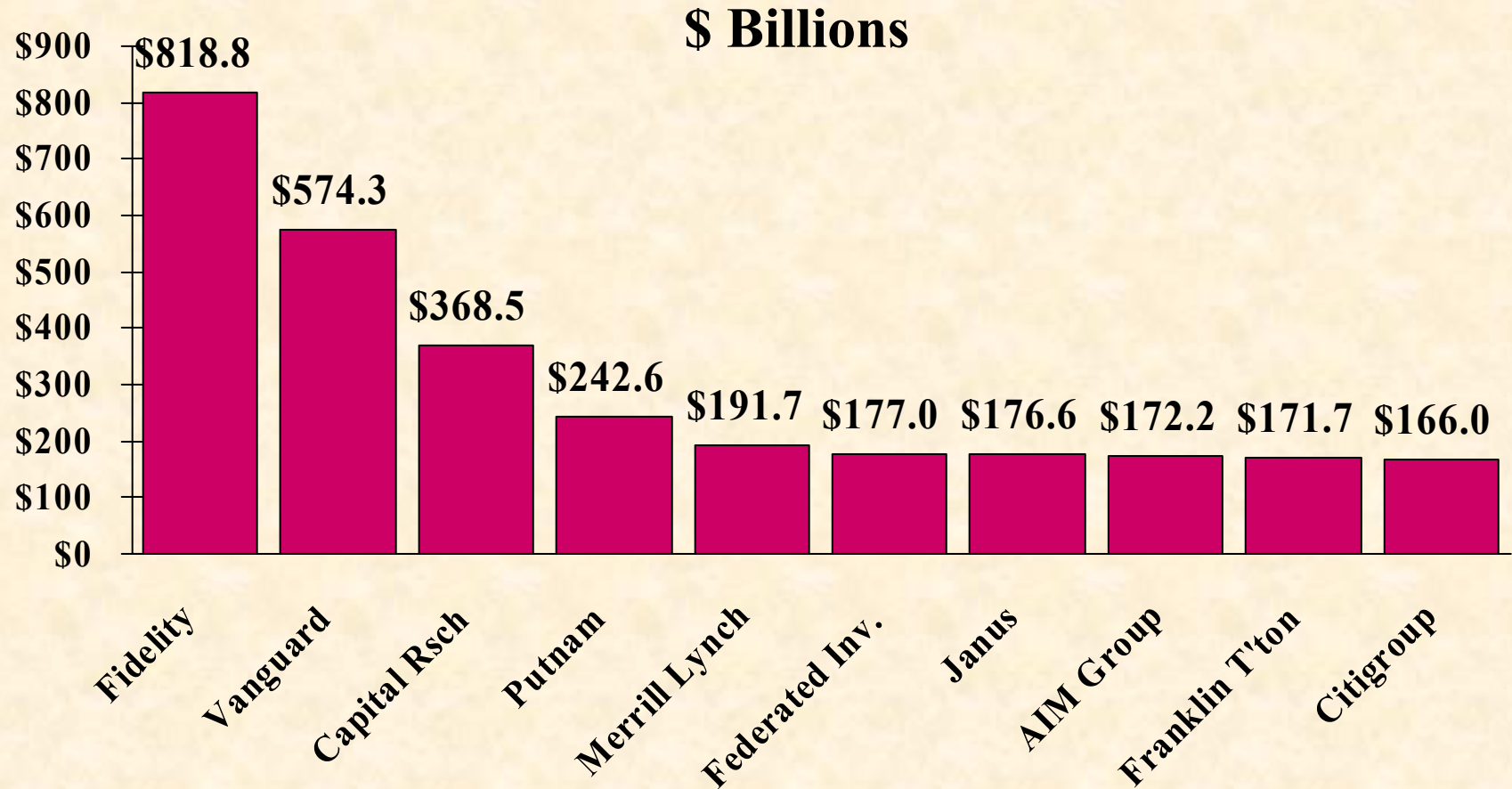
Top 10 Securities Firms' Revenue (2000)



Source: Fortune, Insurance Information Institute.

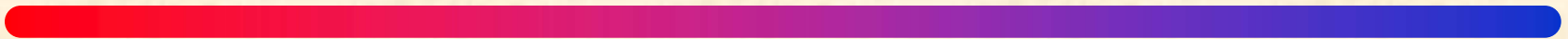


Top 10 Mutual Fund Cos. (Assets, 2000)



Source: Investment Company Institute, Insurance Information Institute.

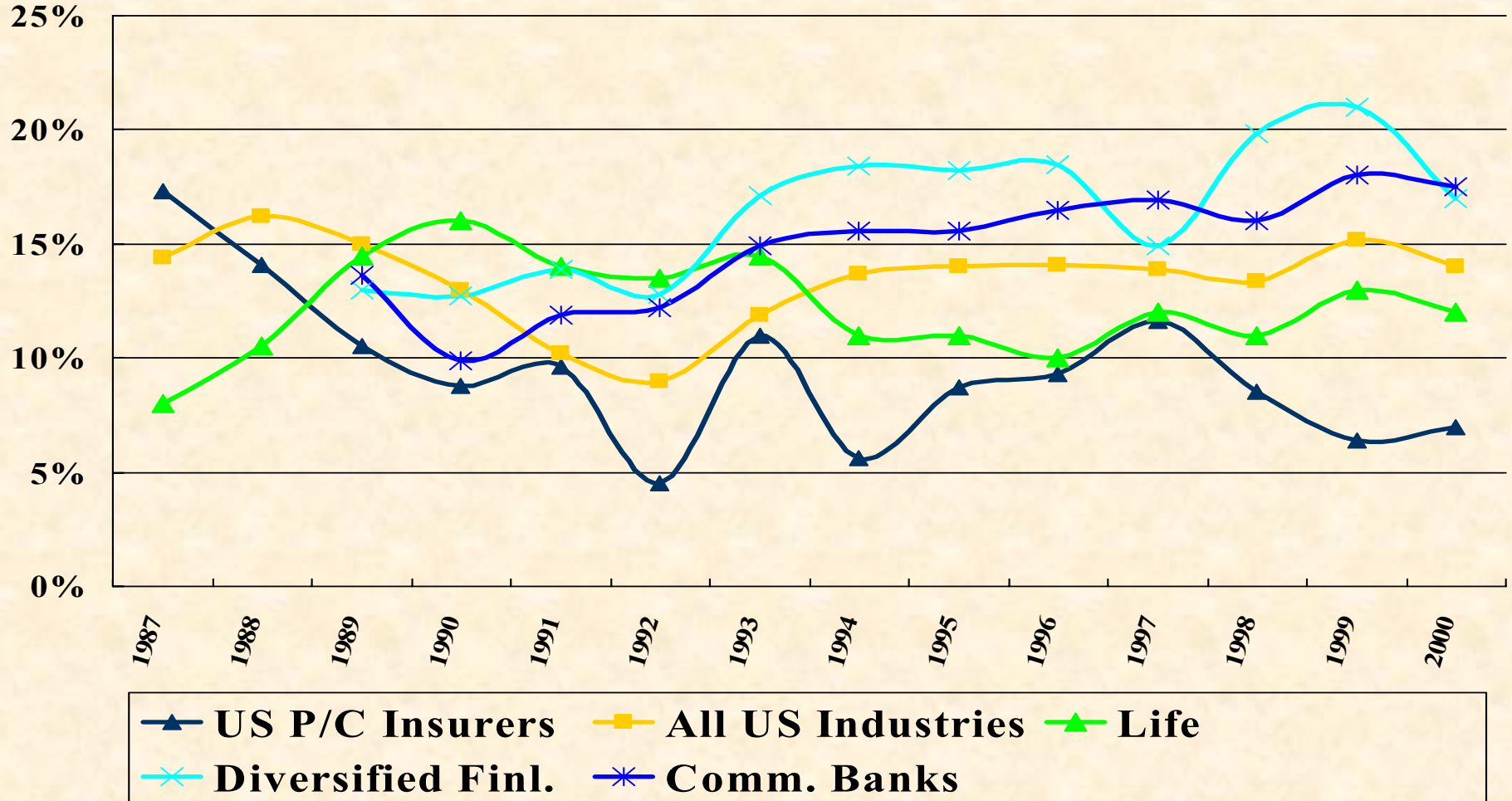
Why Bother Getting into Financial Services?





ROE: Financial Services

Industry Segments, 1987–2000*

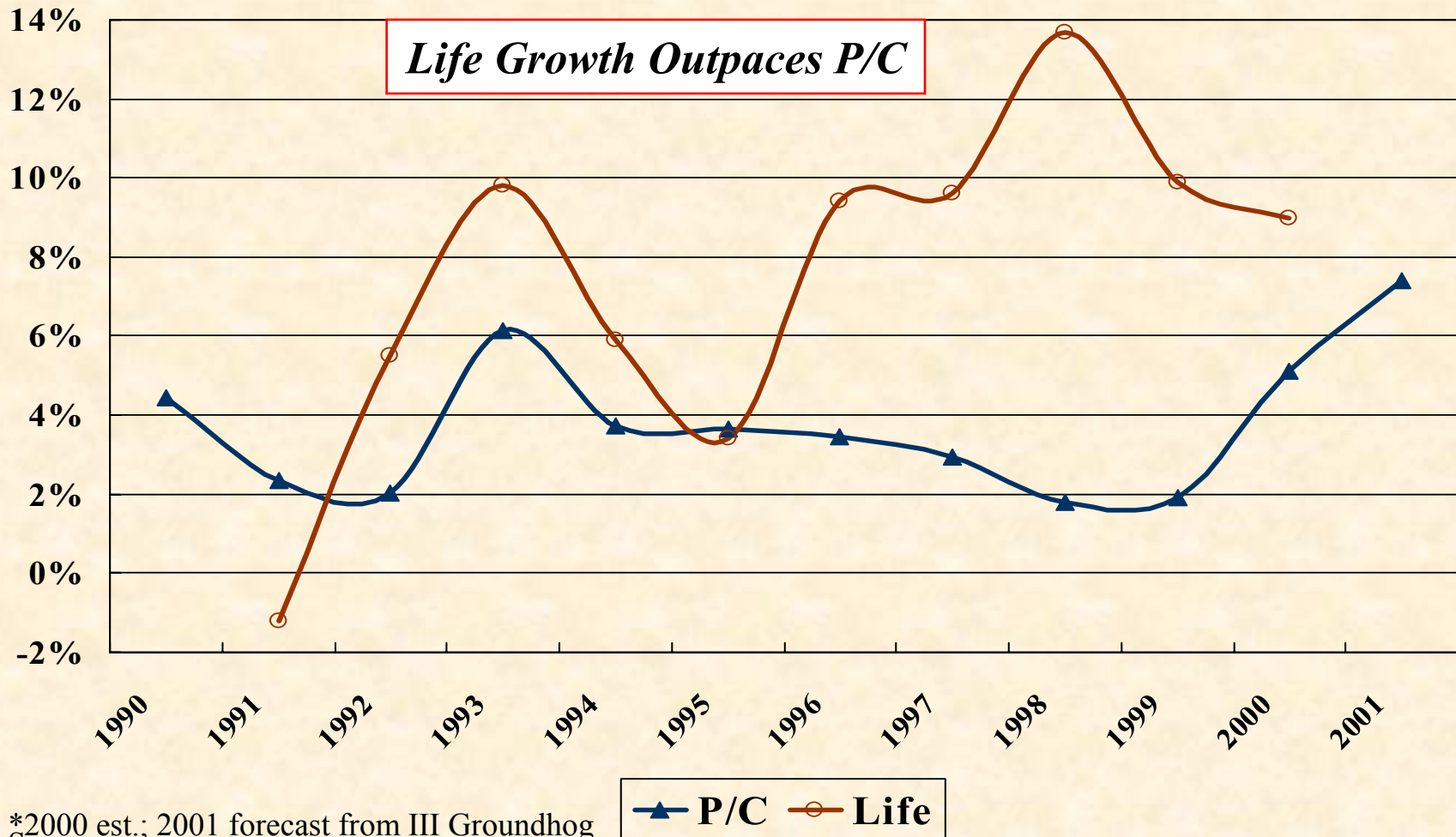


* 2000 figures are estimates.

Source: Insurance Information Institute



Growth in Premiums Written: P/C vs. Life/Annuity

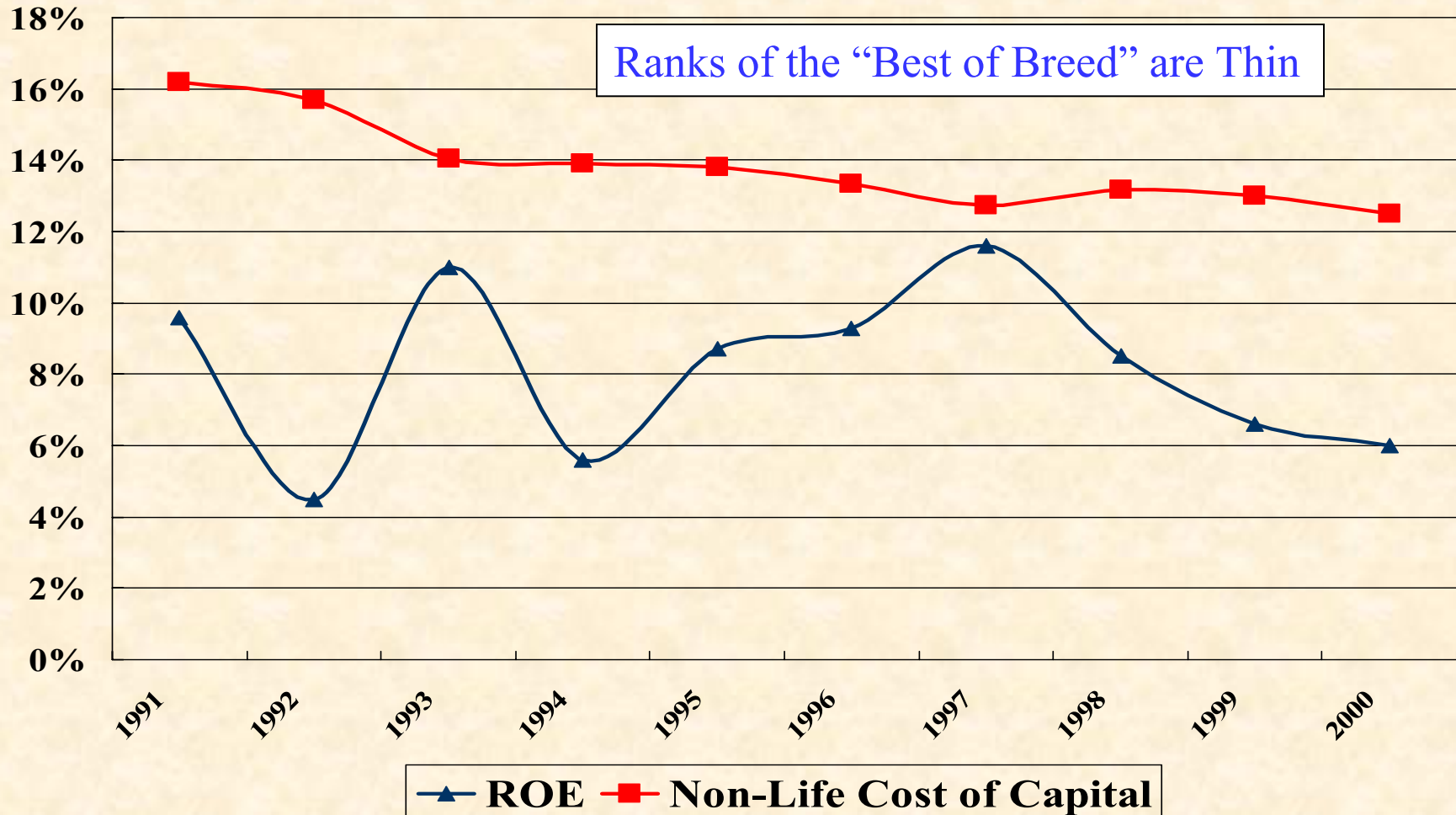


*2000 est.; 2001 forecast from III Groundhog Survey

Source: A.M. Best, Insurance Information Institute



ROE vs. Cost of Capital: US Non-Life 1991 – 2000

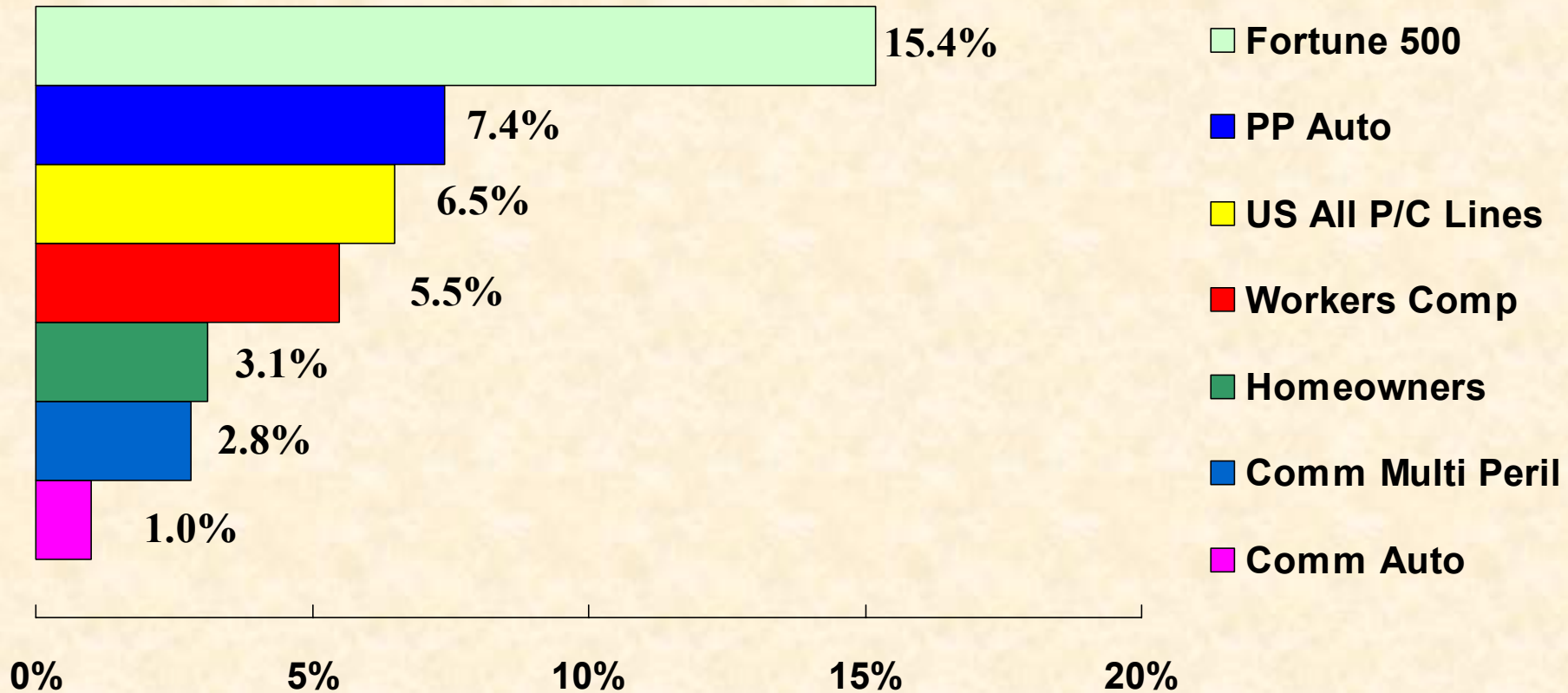


Source: The Geneva Association, Insurance Information Institute.



1999 Return on Equity (Profitability)

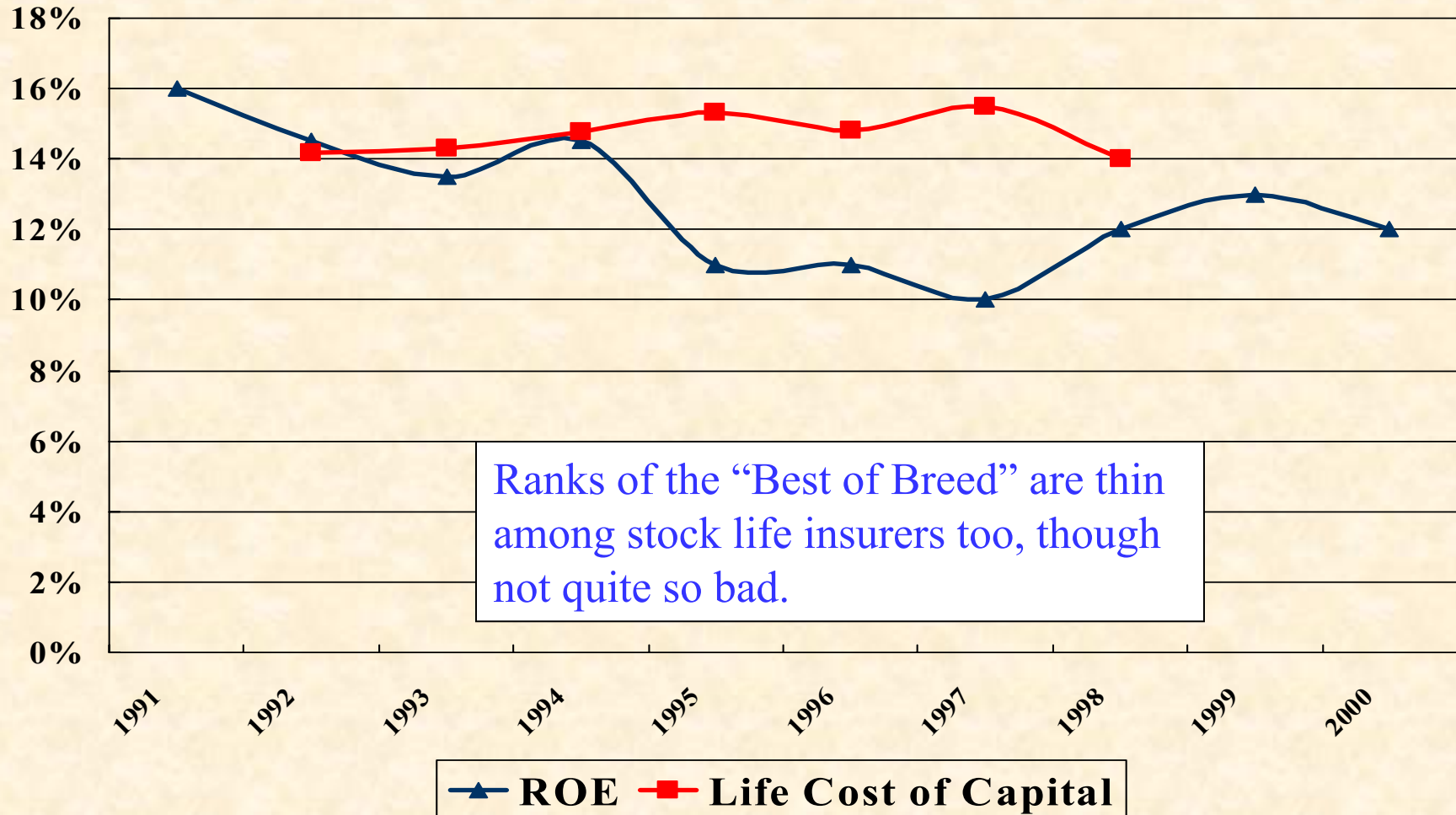
1999



Source: NAIC, Insurance Information Institute



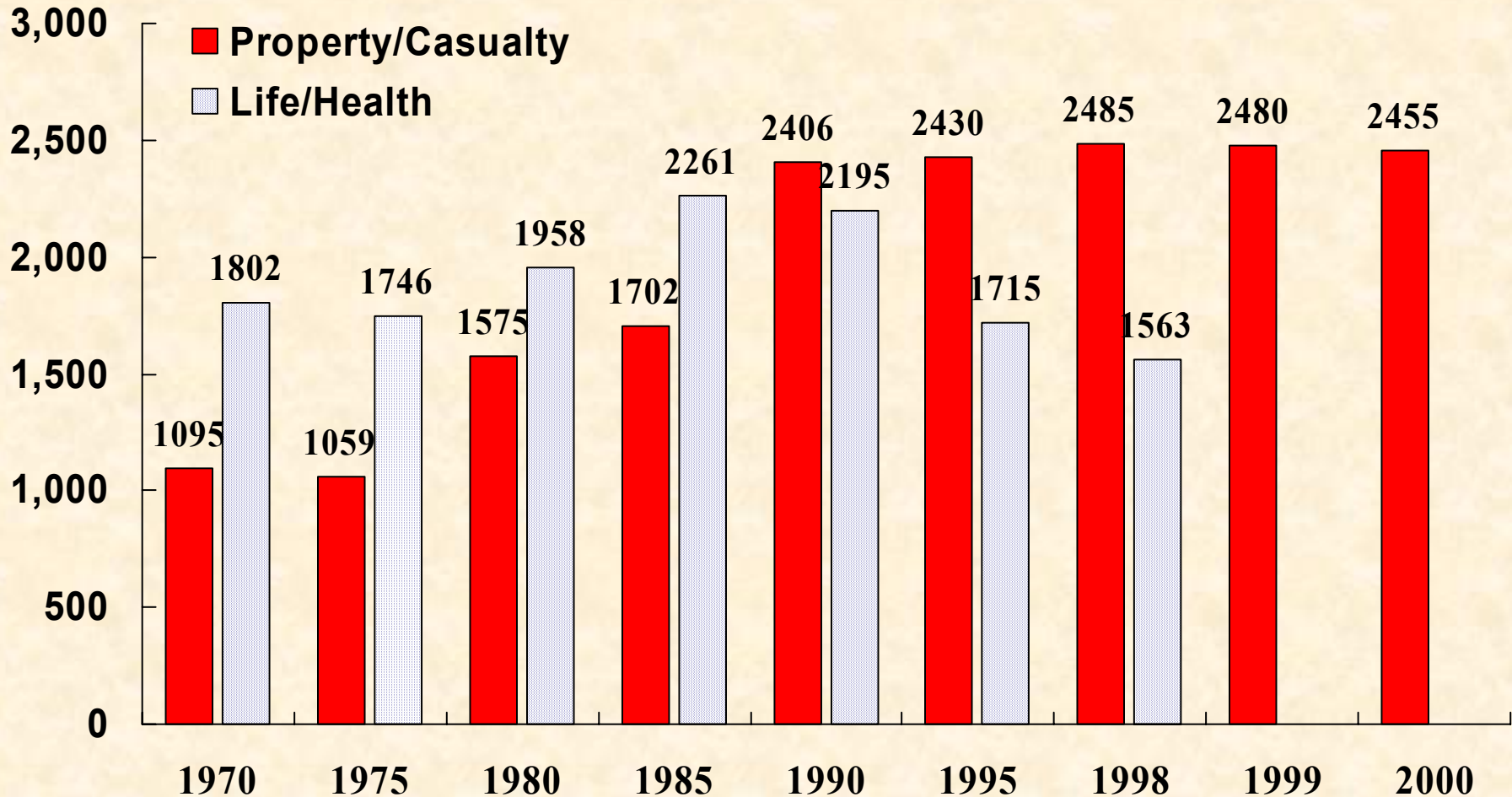
ROE vs. Cost of Capital: US Life Insurance 1992 – 2000



Source: The Geneva Association, Insurance Information Institute.



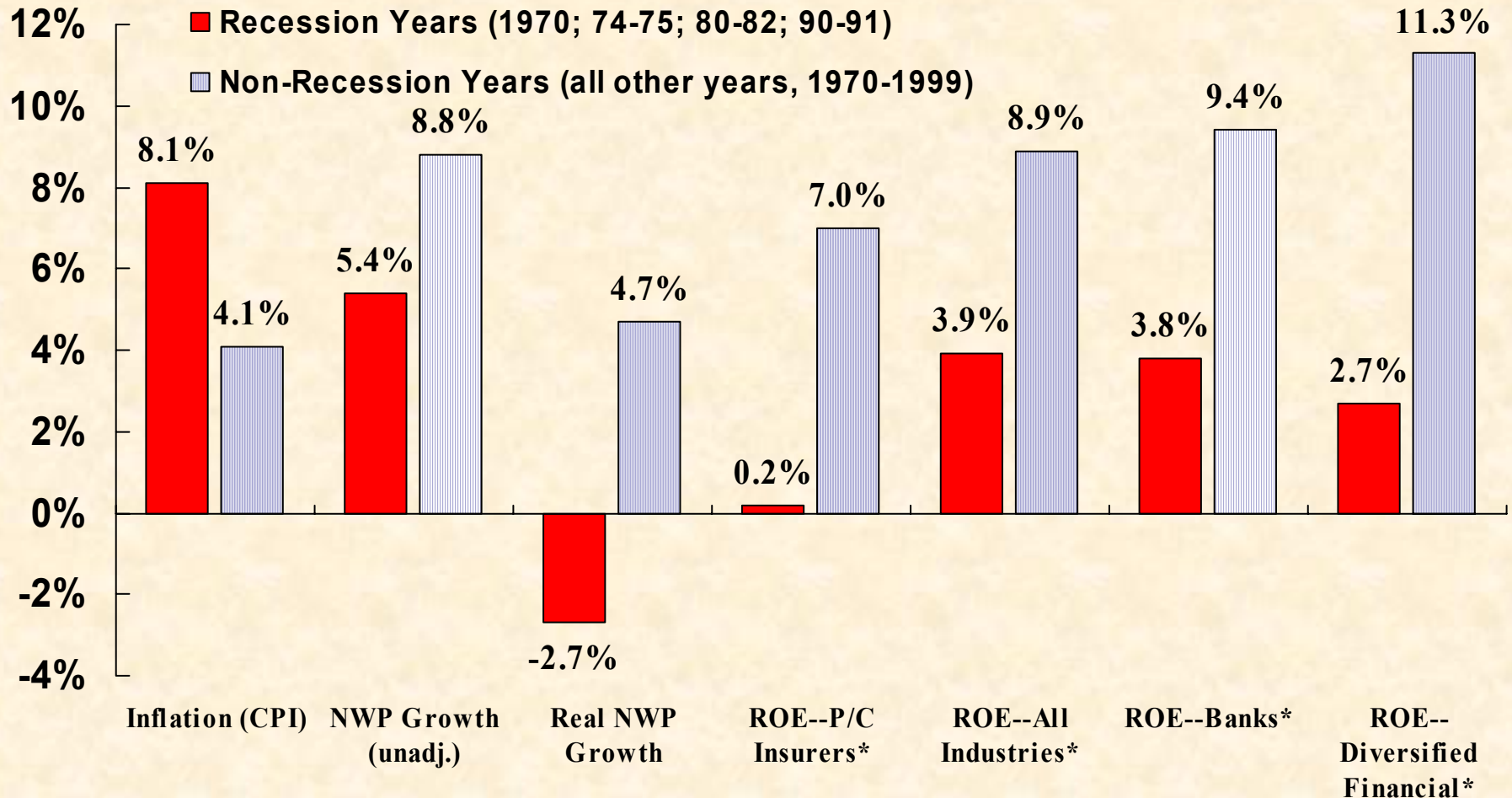
Competition—Still Intense: *Number of Insurers: 1970-2000*



Sources: P/C: A.M. Best; L/H: NAIC.

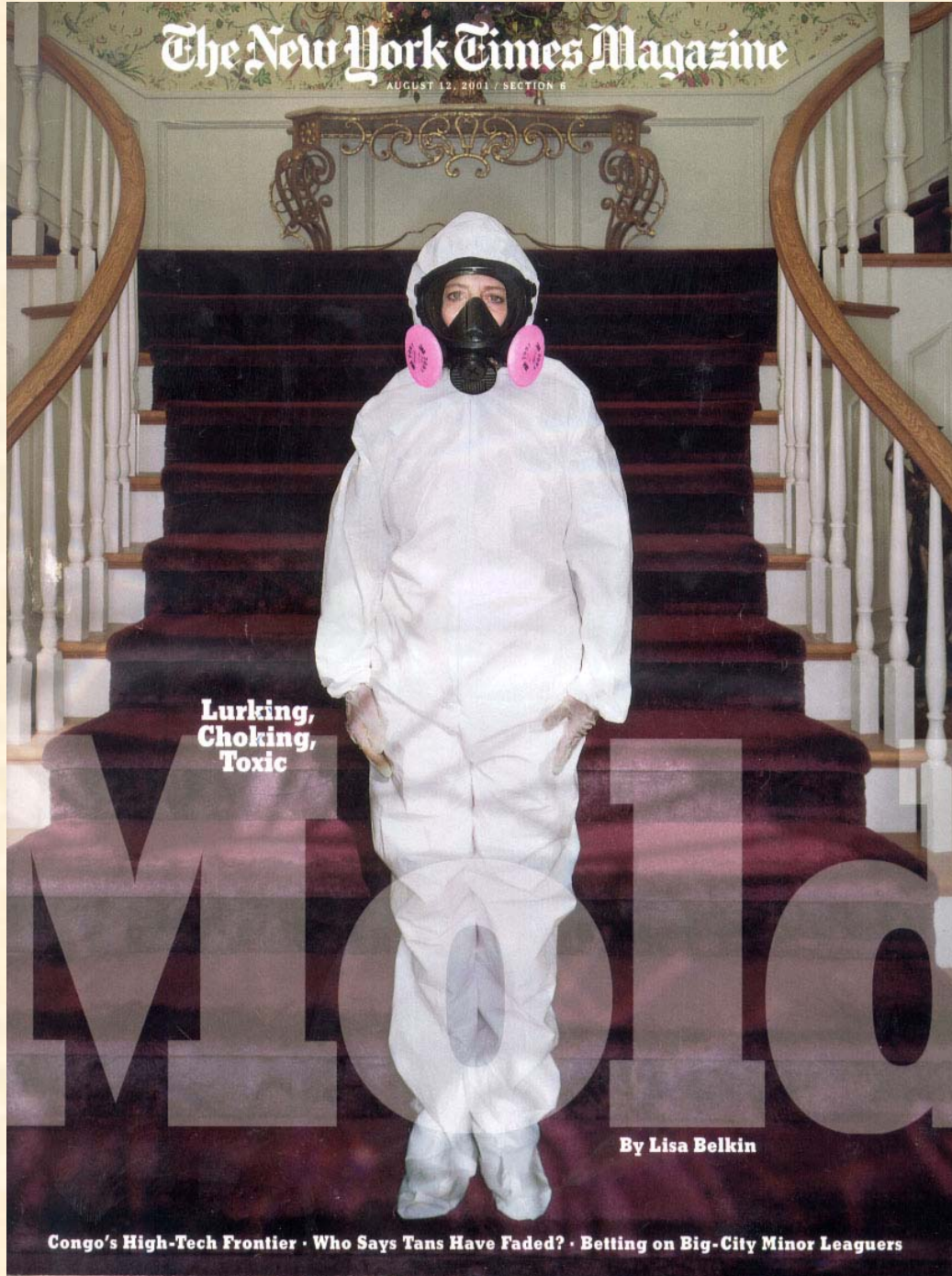


Impact of Recession on P/C Premiums and Profitability (1970-1999)



*GAAP return on equity, adjusted for inflation; Bank data 1952-99; Div. Fin. 1987-99

Source: Insurance Information Institute



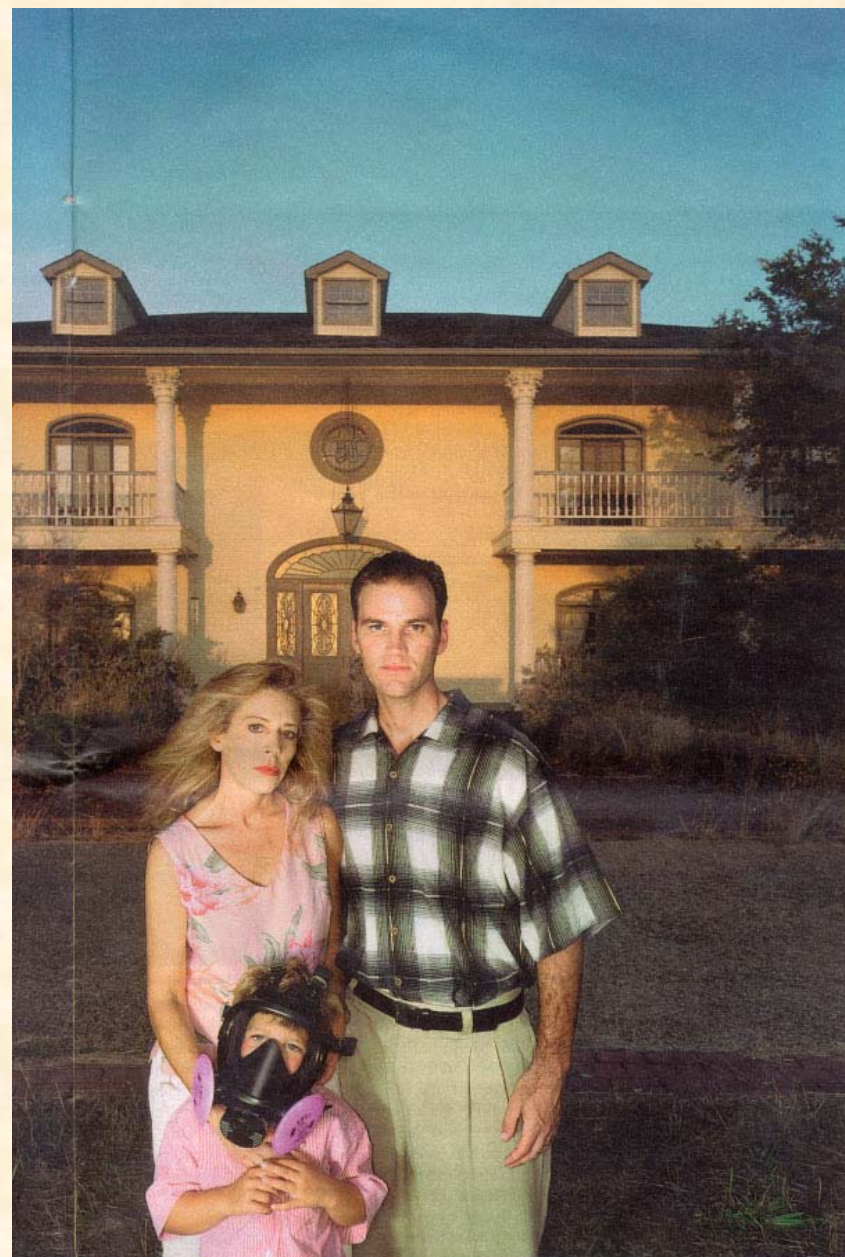
Lurking,
Choking,
Toxic

WMD

By Lisa Belkin

Congo's High-Tech Frontier • Who Says Tans Have Faded? • Betting on Big-City Minor Leaguers

Source: *New York Times Magazine*,
August 12, 2001



Ballard, her family and the dream they had to evict themselves from.



Source: *New York Times Magazine*, August 12, 2001

KIPS BAY TENANTS SAY:

**WE'VE
GOT
KILLER
MOLD**

**It comes in through their vents.
They say it makes them sick, even
kills – and now, they're suing.**

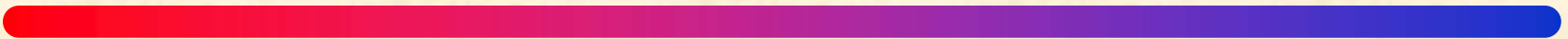
SEE PAGE 3



Financial Services Reform: The Reality so Far

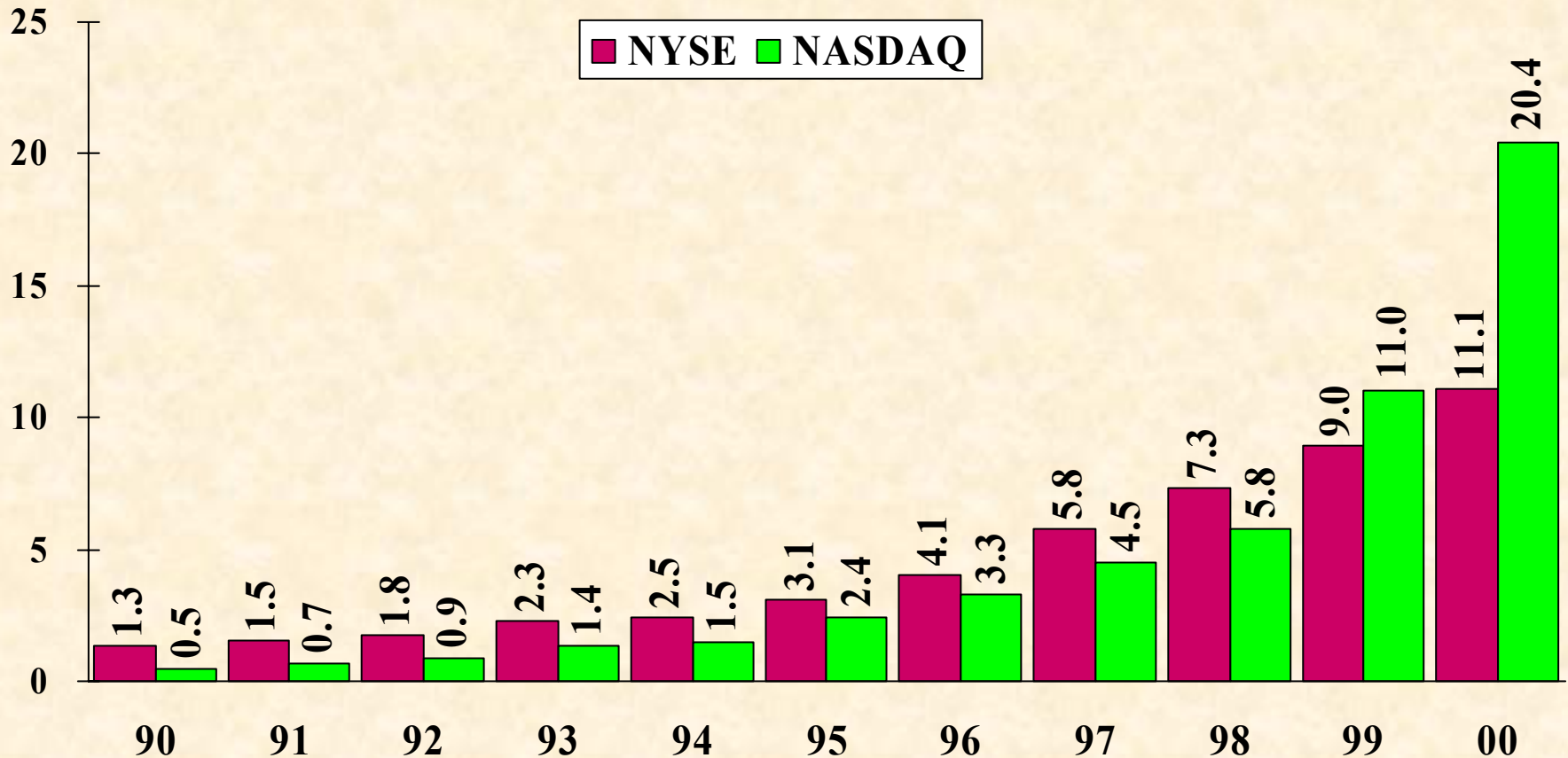
- **GLB:** Signed by President Clinton Nov. 12, 1999
- **M&As:** Little activity between banks and insurers.
 - **Overall M&A activity (\$ & #) down significantly**
 - **Partnerships popular (Travelers/Citi model not followed)**
 - **Acquisition of agencies somewhat popular**
- **Impediments:**
 - **Low ROEs (esp. on P/C side, but also Life)**
 - **Regulatory uncertainties (fed vs. state regulation; privacy)**
 - **Extraordinary economic/financial uncertainty**
- **Organic Growth:**
 - **Many insurers have formed banks**
 - **Has appeal for banks and insurers (e.g. State Farm)**
- **No federal chartering of insurers—yet**

What's Hot?





Value of Shares Traded, 1990- 2000 (\$ Trillions)

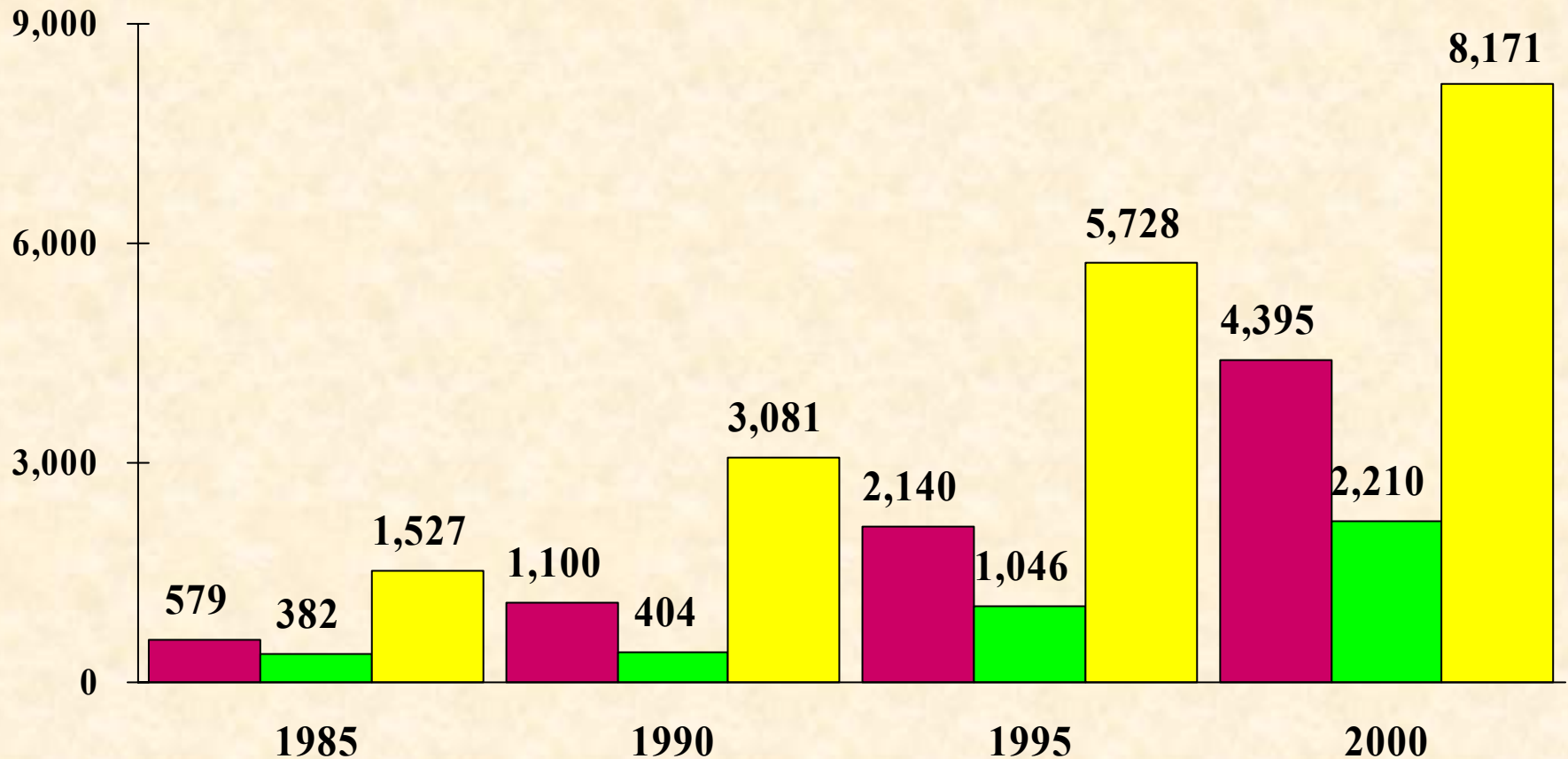


Source: Securities Industry Association, Insurance Information Institute



Number of Mutual Funds, 1985- 2000*

Equity Bond Total



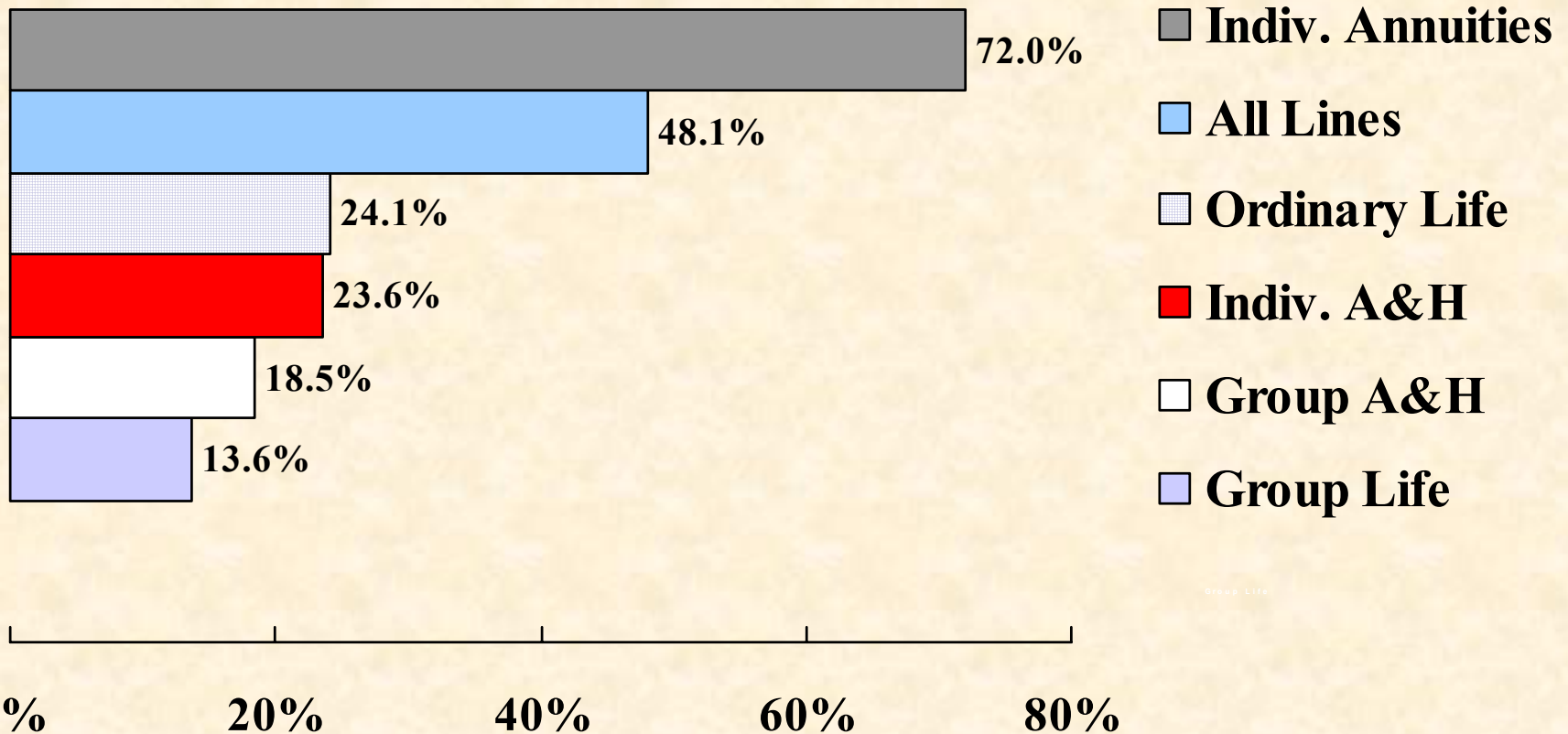
*Total also includes hybrid and money market funds.

Source: Investment Company Institute, Insurance Information Institute



Principal Categories of Revenue Growth for Life Insurers

Percent Change from 1995 - 2000

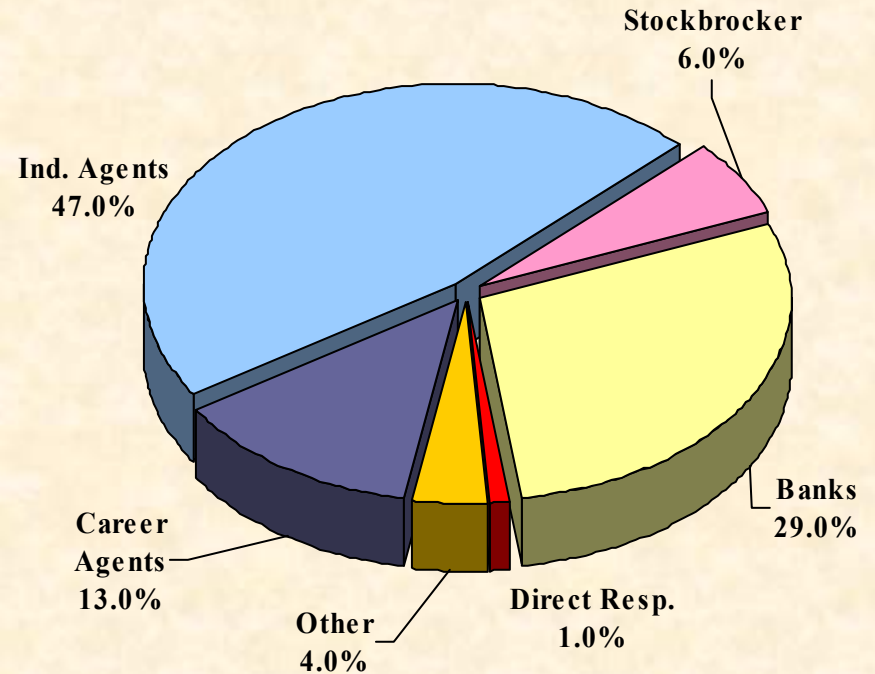
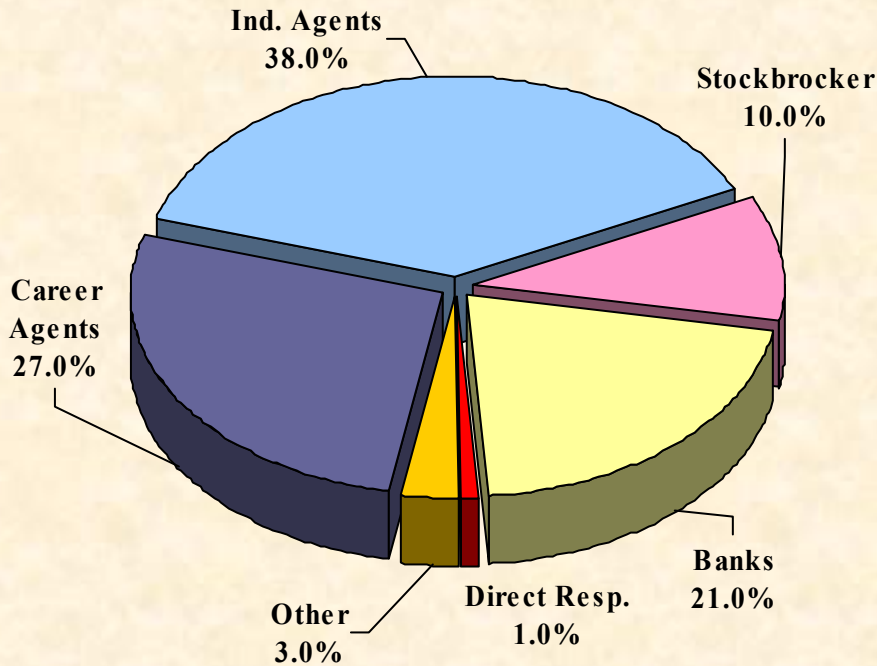




Fixed Annuity Sales, Distribution Channel (2000)

1995

2000



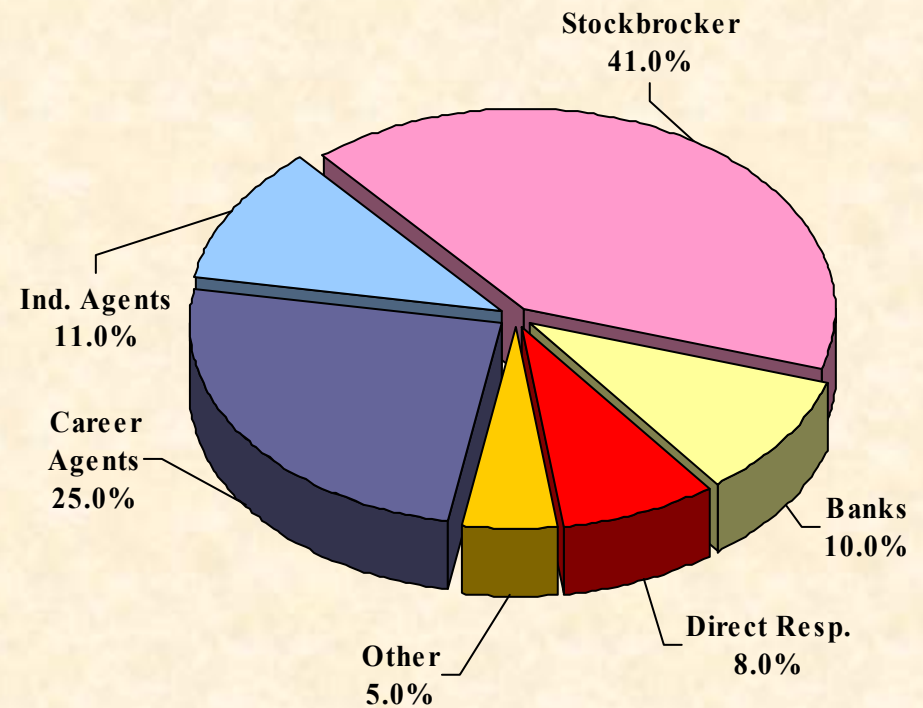
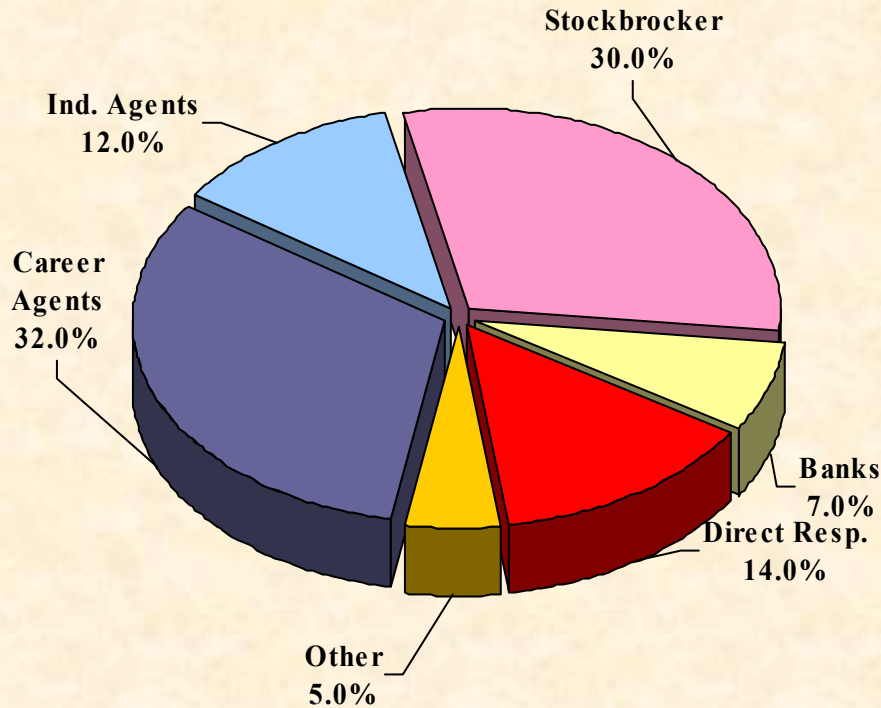
Source: LIMRA.



Variable Annuity Sales, Distribution Channel (2000)

1995

2000



Source: LIMRA.



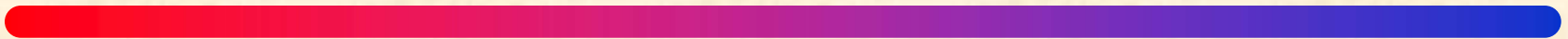
Annuities: Too Many Eggs in One Basket?

“C N A To Cut Staff 11%; Charges To Be Taken”

--Wall Street Journal, December 6, 2001

- *Will cut 1,850 jobs (600 at Chicago HQ)*
- *Discontinue variable life and annuity business*
- *Take charge up to \$174 million (2/3 for restructuring)*
- *Reduce number of offices from 169 to 68*

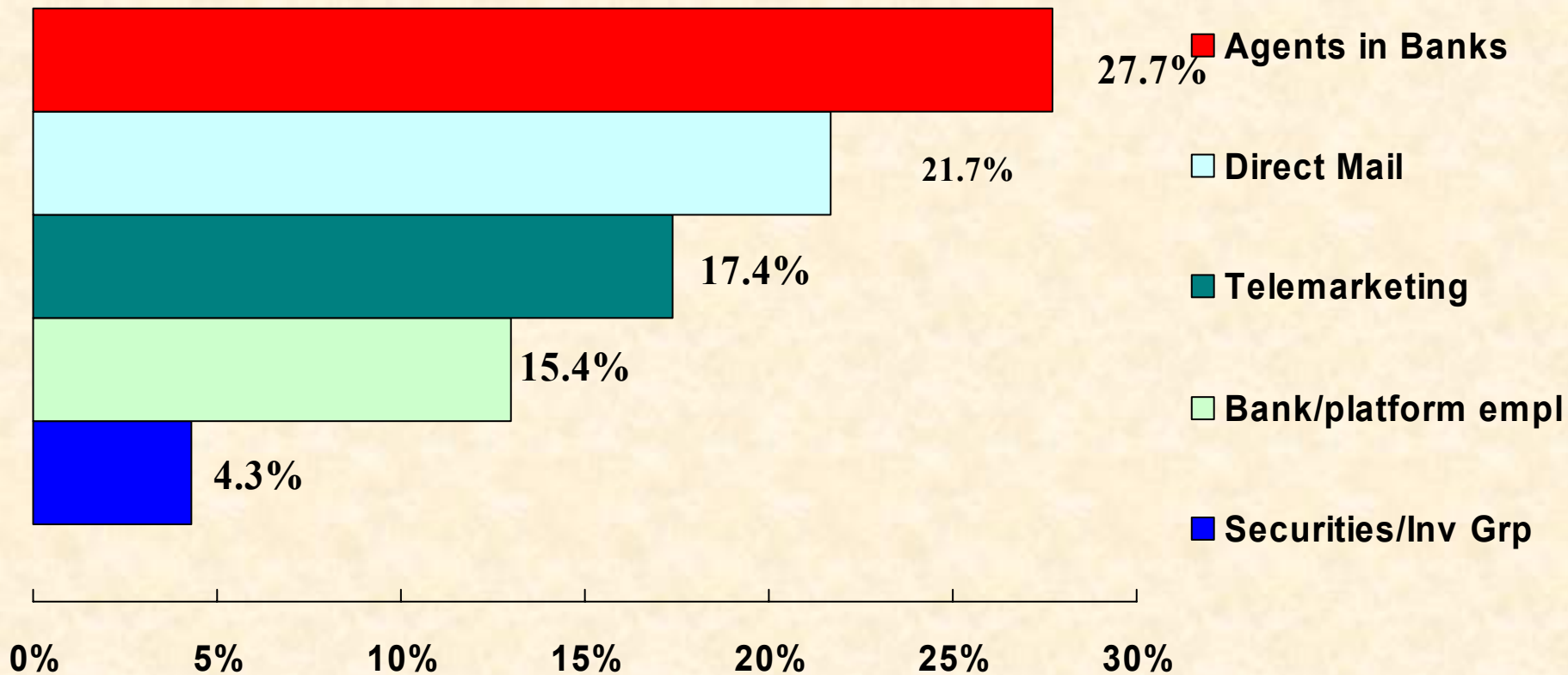
What are the Banks Doing?





Bank Distribution Channels for P/C Insurance

2000

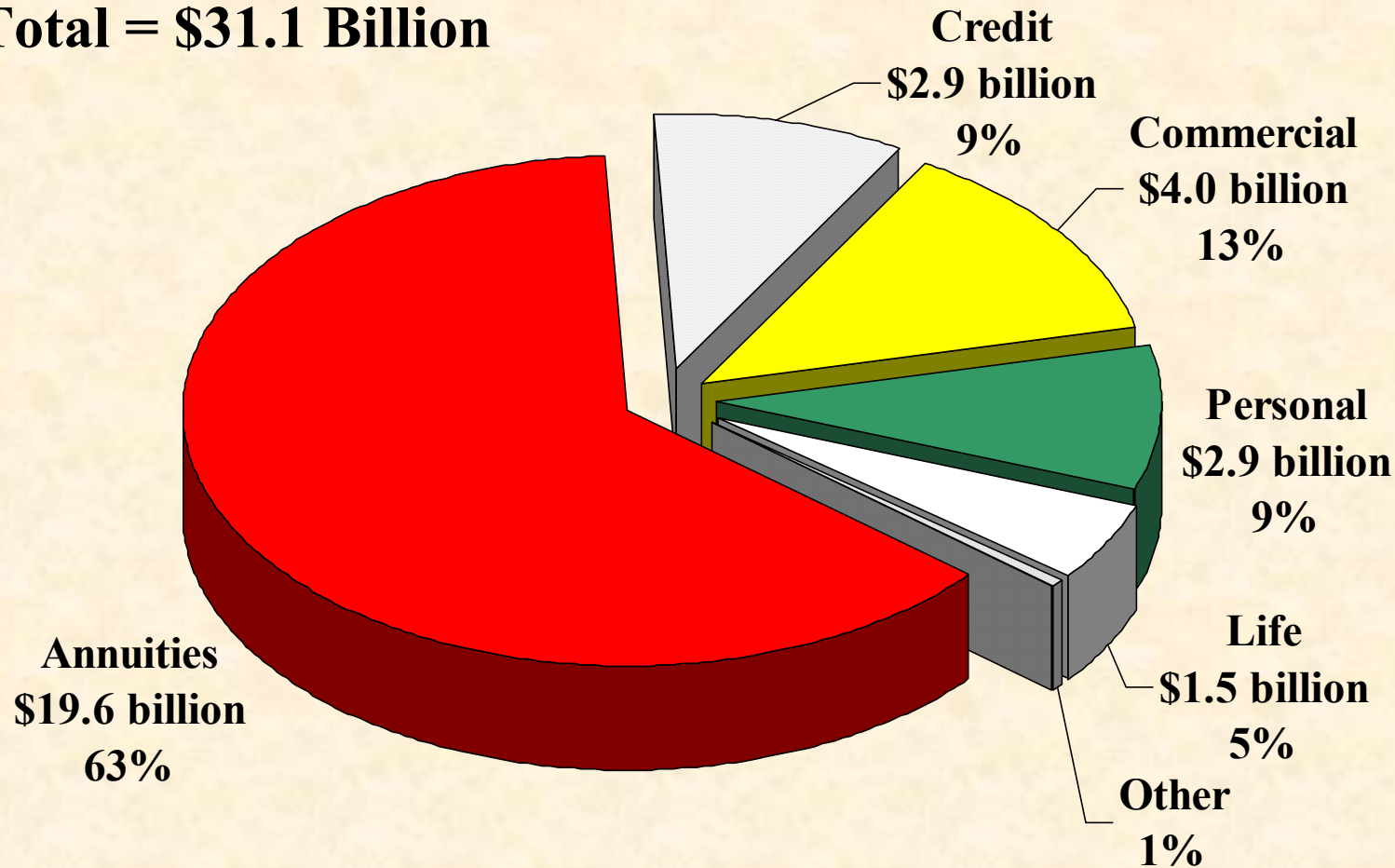


Source: American Bankers Insurance Association, Insurance Information Institute



1998 Bank Insurance Premiums

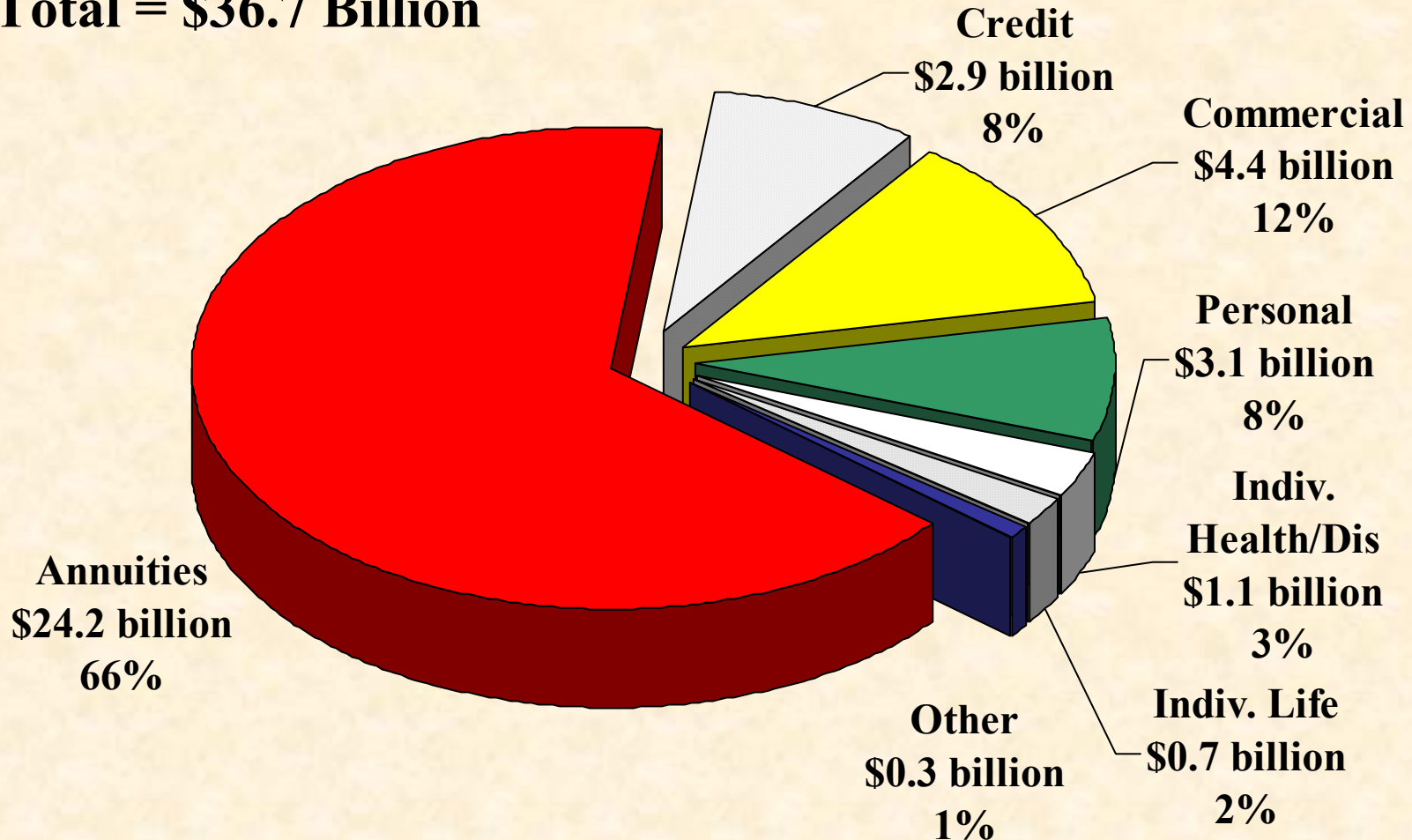
Total = \$31.1 Billion





1999 Bank Insurance Premiums

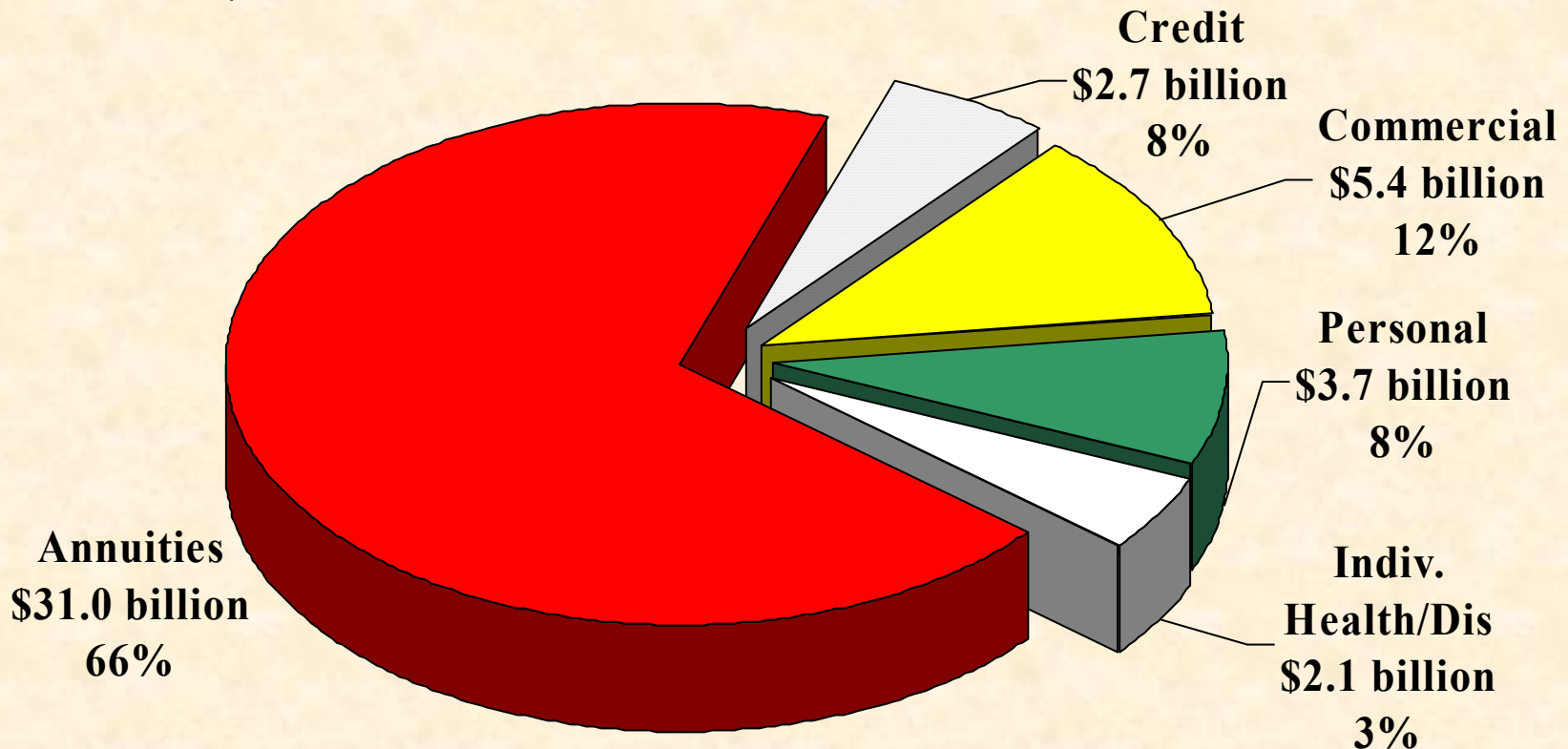
Total = \$36.7 Billion





2000 Bank Insurance Premiums

Total = \$44.9 Billion





Annuity Sales through Banks, 2000

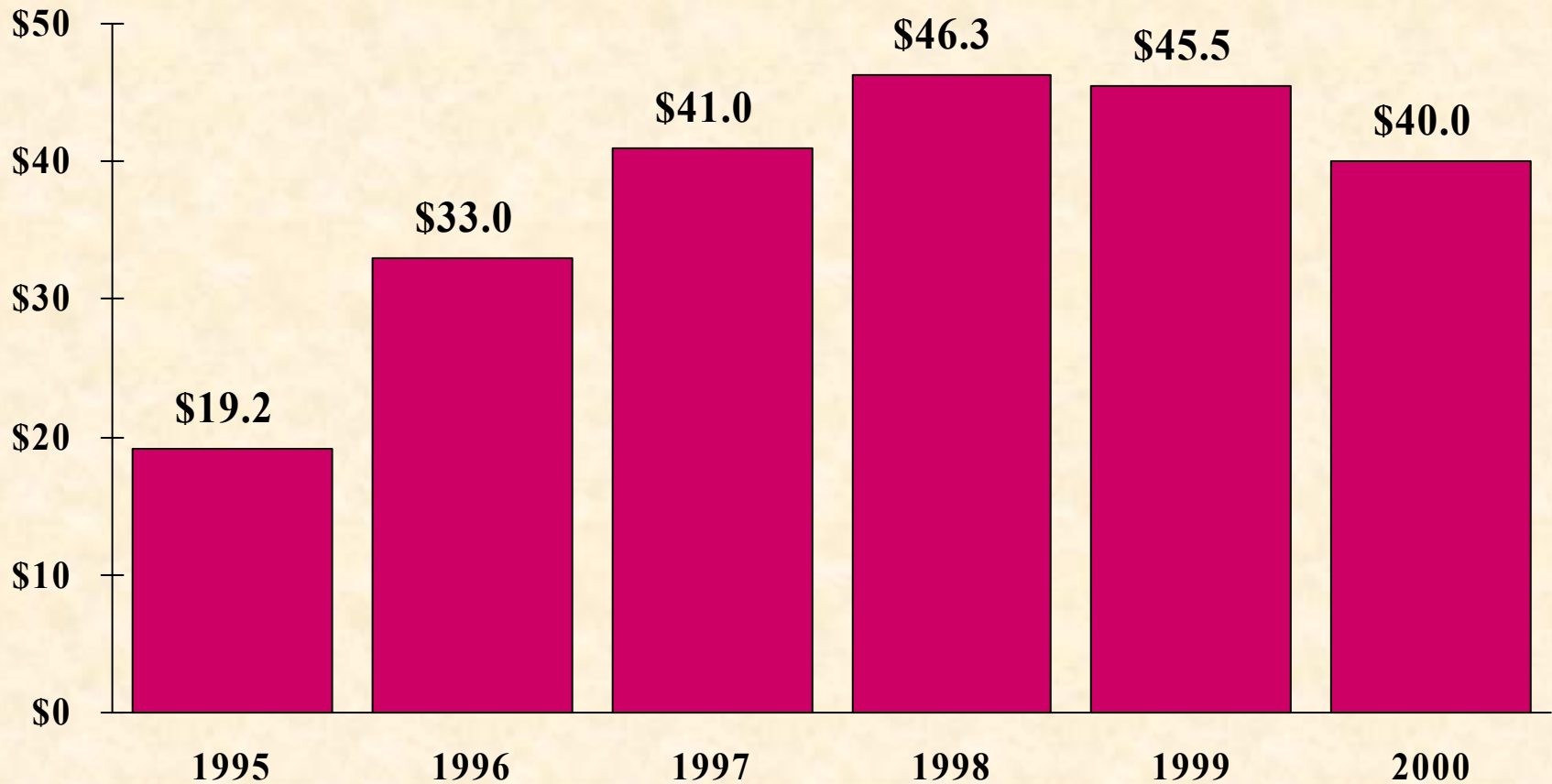


Source: Kenneth Kehrer & Associates/American Banker



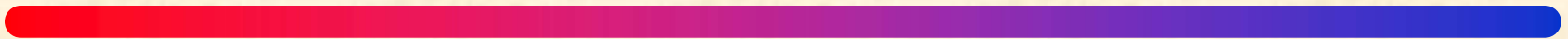
Bank Sales of Mutual Funds

\$ Billions



Source: Kenneth Kehr Associates, Insurance Information Institute.

WHY MOST BANKS FAIL AT SELLING INSURANCE





Bankers Hours? Image Problem





Why Most Banks Fail in Insurance

- **Short-Term Thinking**
 - **Stick with it**
- **Failure to Think Strategically**
 - **Need to focus on customers' insurance needs**
- **Putting a Banker in Charge**
 - **Specialized expertise important**



Why Most Banks Fail in Insurance (cont'd)

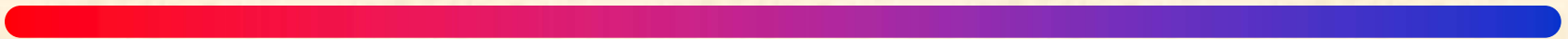
- **Neglecting Cultural Issues**
 - **Europeans successful at cultural integration**
- **Ignoring Commercial Market**
 - **Especially middle market**



What Can We Expect?

- **More Partnerships**
- **Major Insurers Focus on Organic Growth**
- **Europeans:**
 - **Dominant, Aggressive, Experienced**
- **CEOs Focused and Distracted by Other Issues**
 - **Profits, disasters, economy**
- **Many Banks/Insurers struggling with “core issues”**

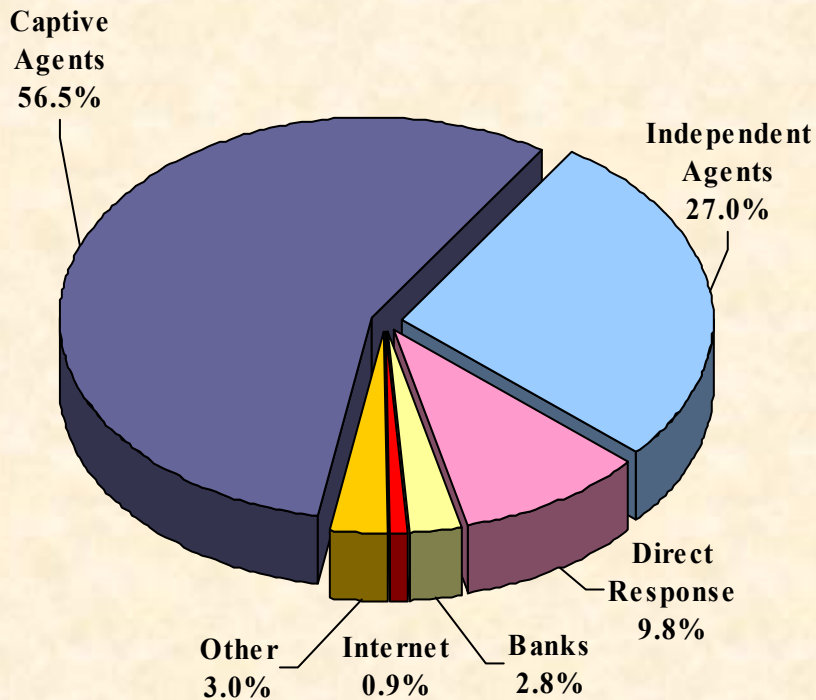
*Does the Internet Make a
Difference?*



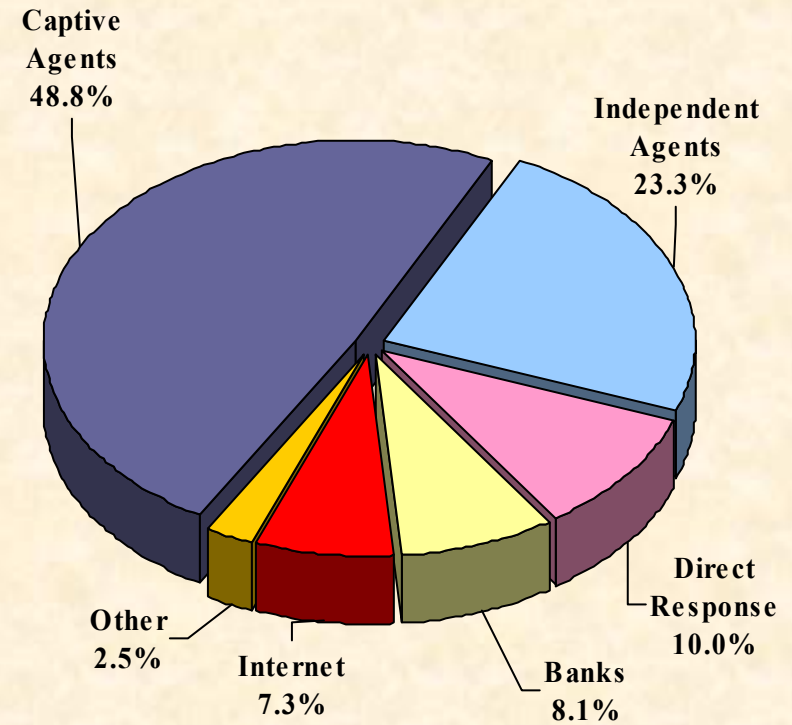


Shifting Distribution Channels: Property/Casualty Insurers

1998

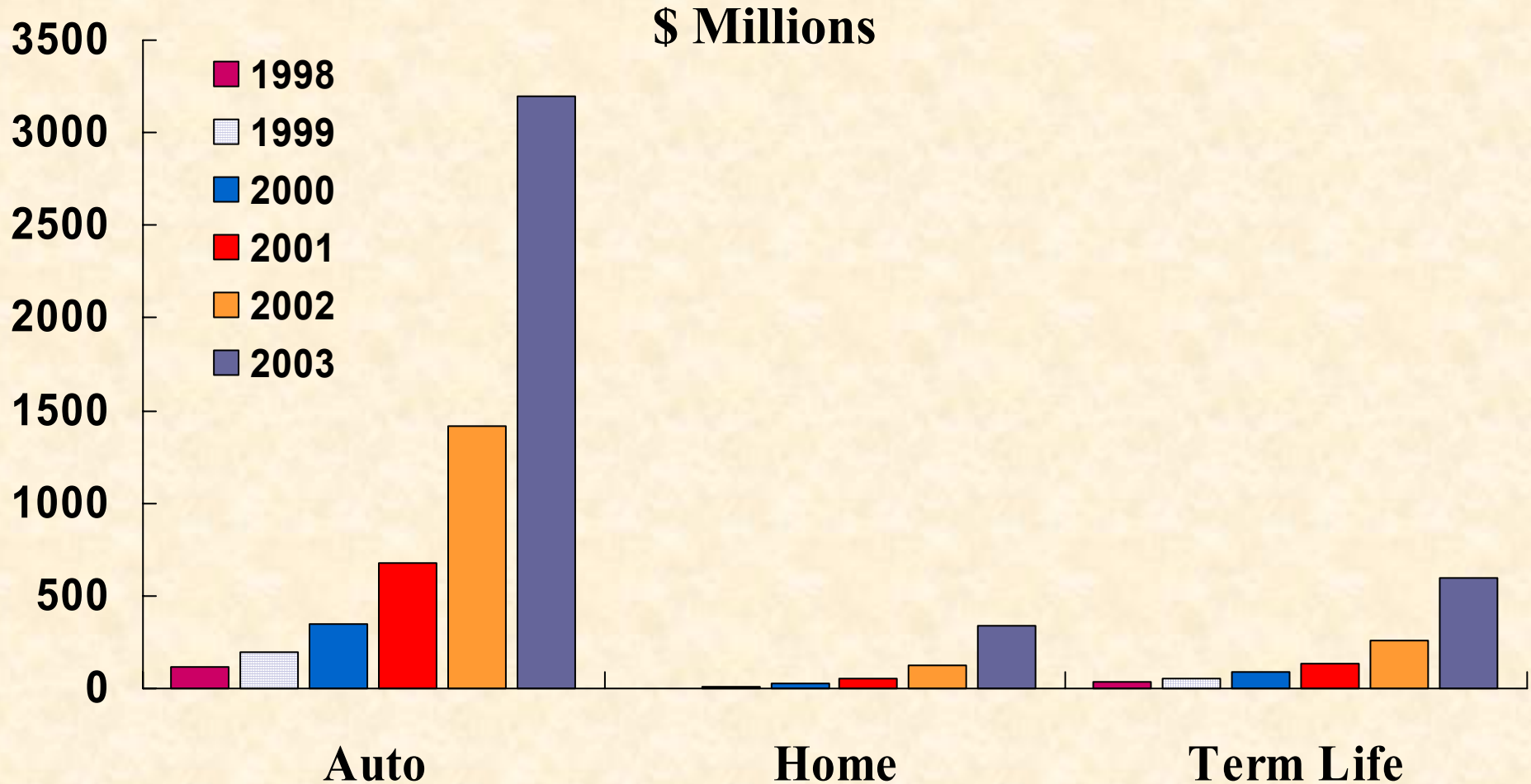


2003



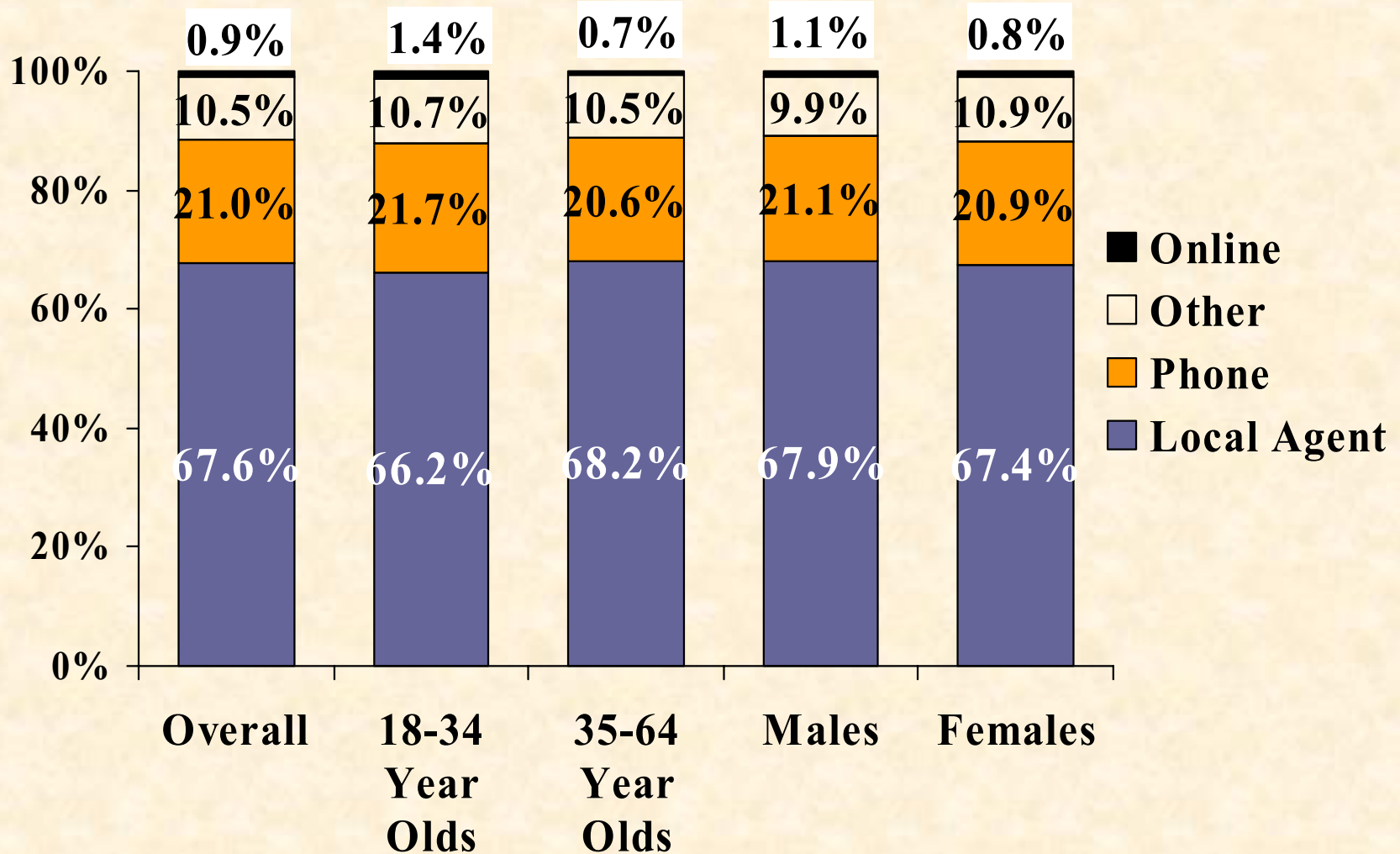


Projected Online Sales of Auto, Home & Term Life Insurance





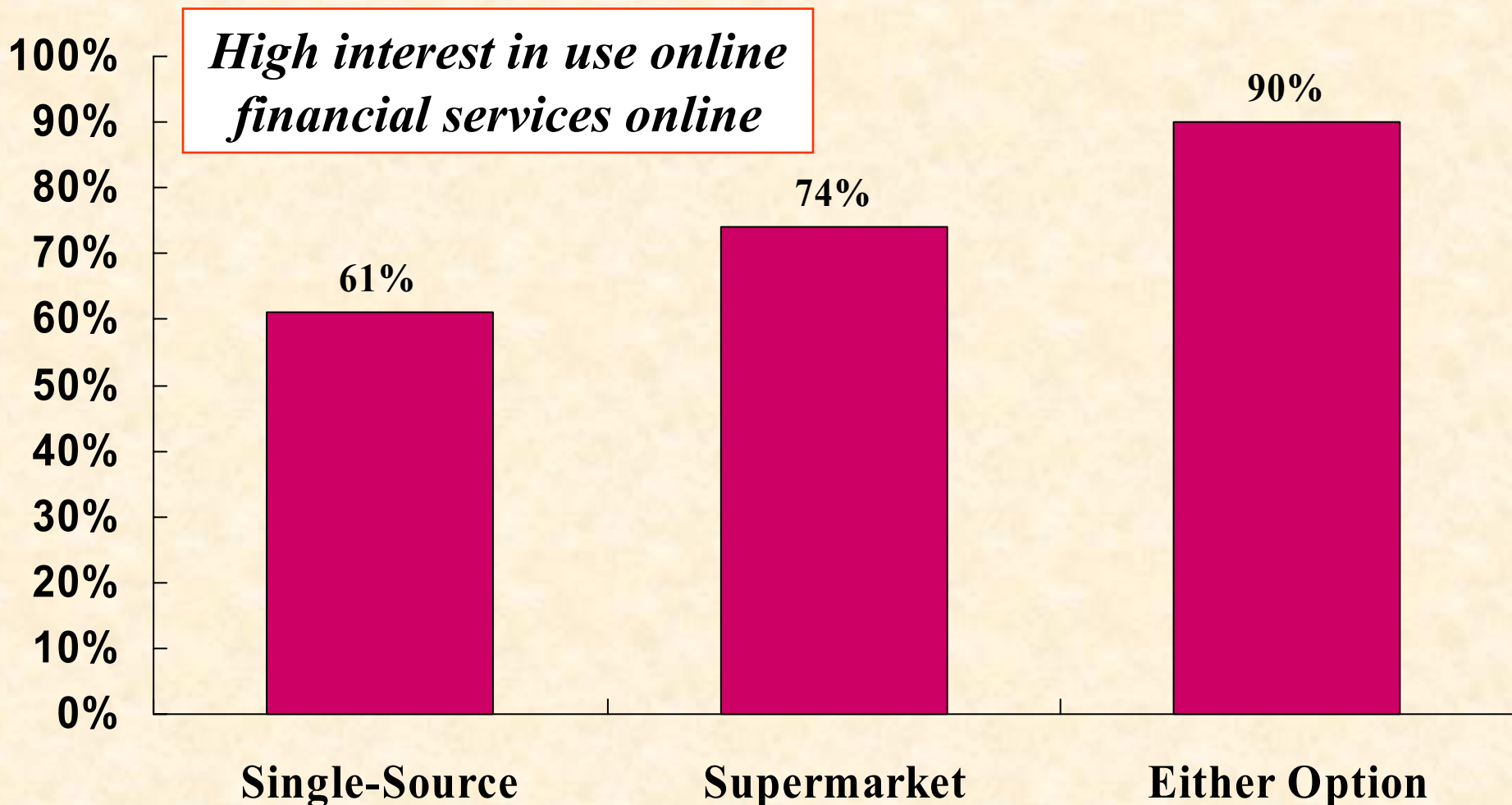
How Americans Shop for Auto Insurance



Source: Progressive Insurance; Survey of 31,500 consumer in 156 markets; Nov/Dec 2000.



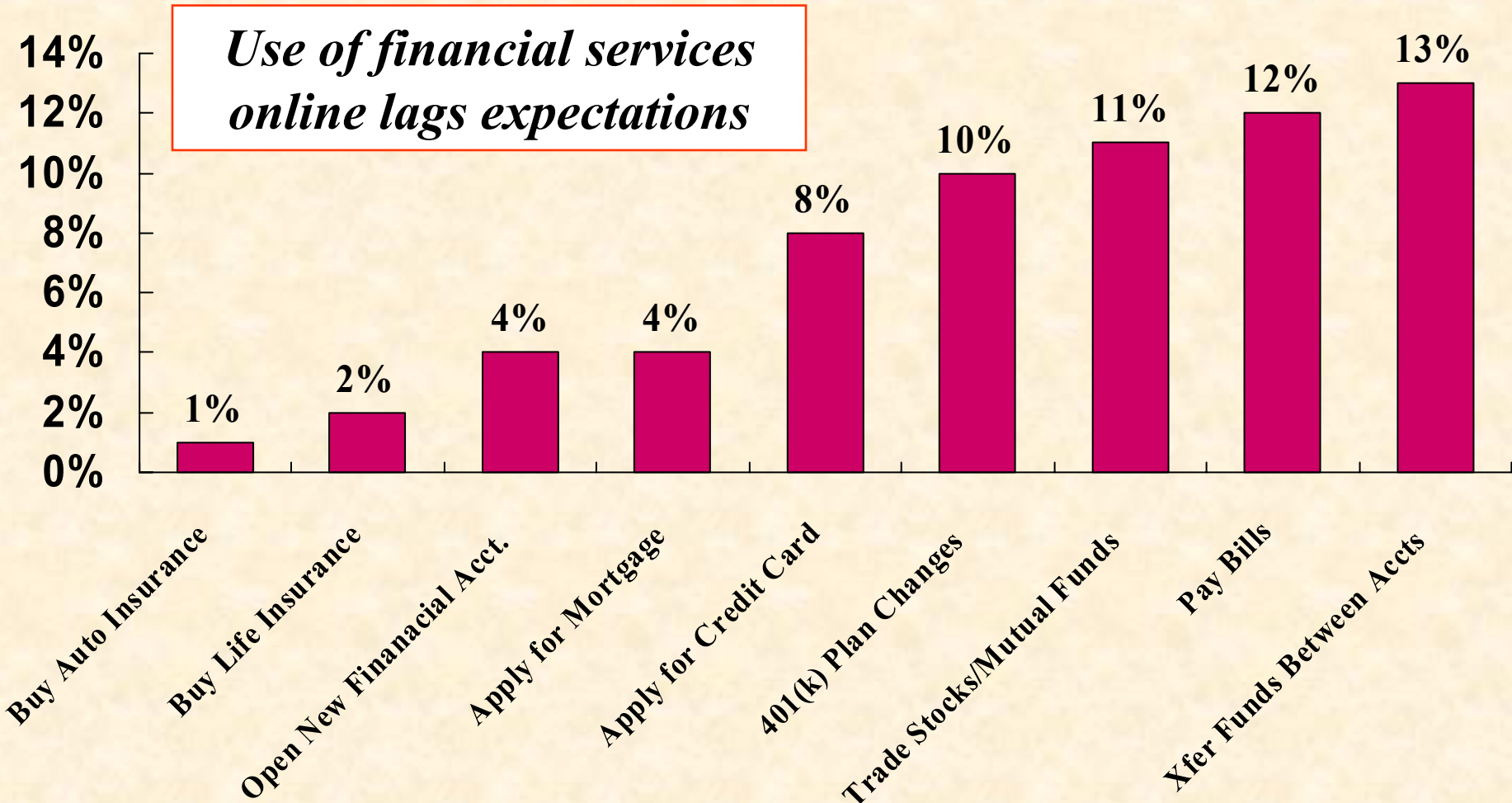
Interest in 1-Stop Shopping Concept



Source: Bank Administration Institute,; Cambridge Group; as of February 2000.



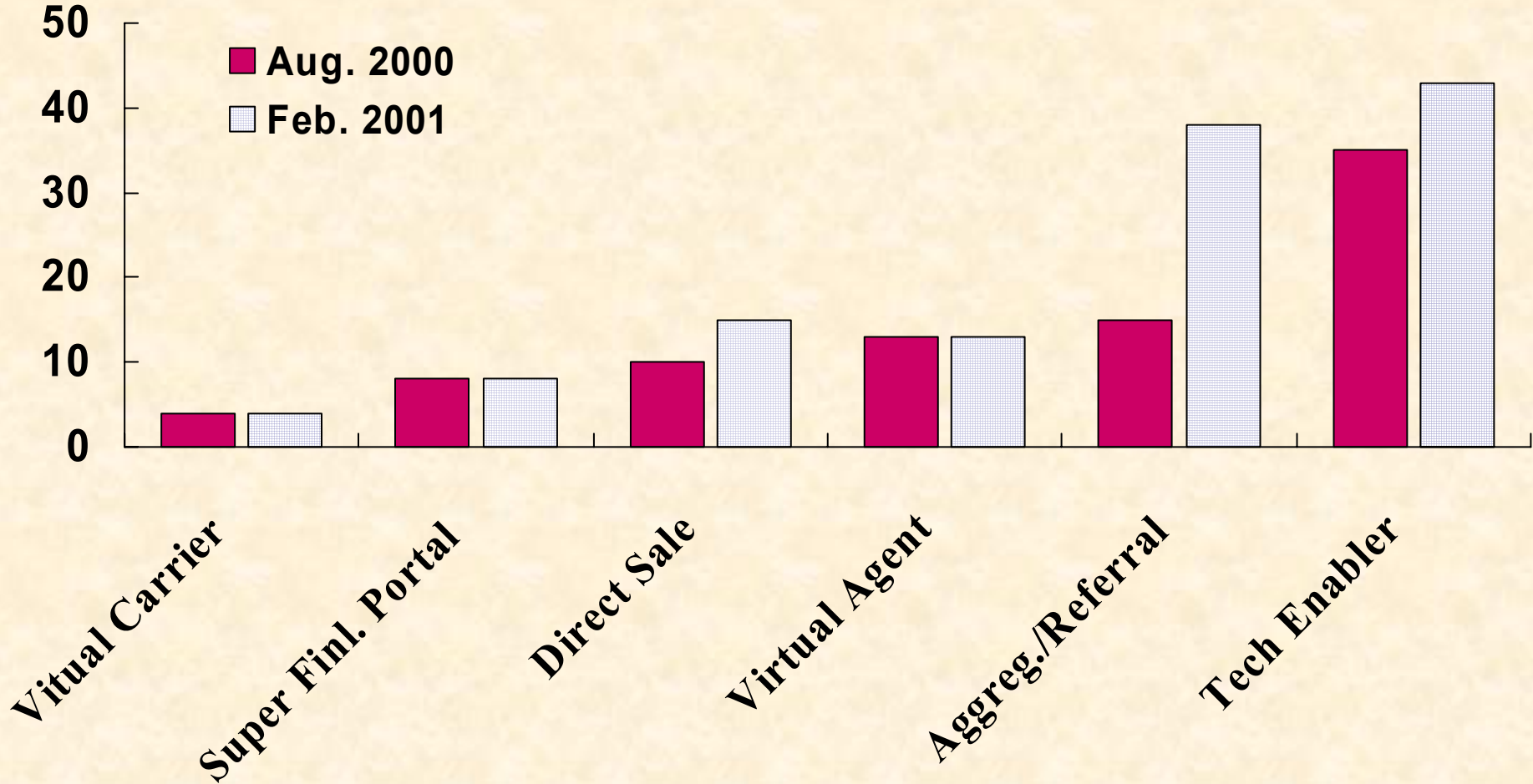
% On-Line Customers Conducting Selected Transactions



Source: Bank Administration Institute,; Cambridge Group; as of February 2000.



6-Month Change in Number of E-Distribution Start-Ups



Source: Conning



Distribution Channels Continue to Proliferate

Customer



**Agent
Broker**

Mail

Telephone

Bank



Internet Dealerships

Payroll Plans

Stock Exchanges

Online Auctions

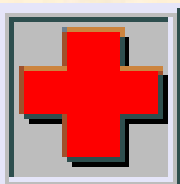
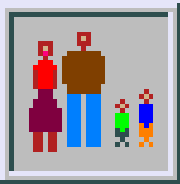
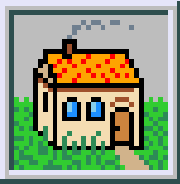
????

Insurer





Insurers: Tangled in the Web?

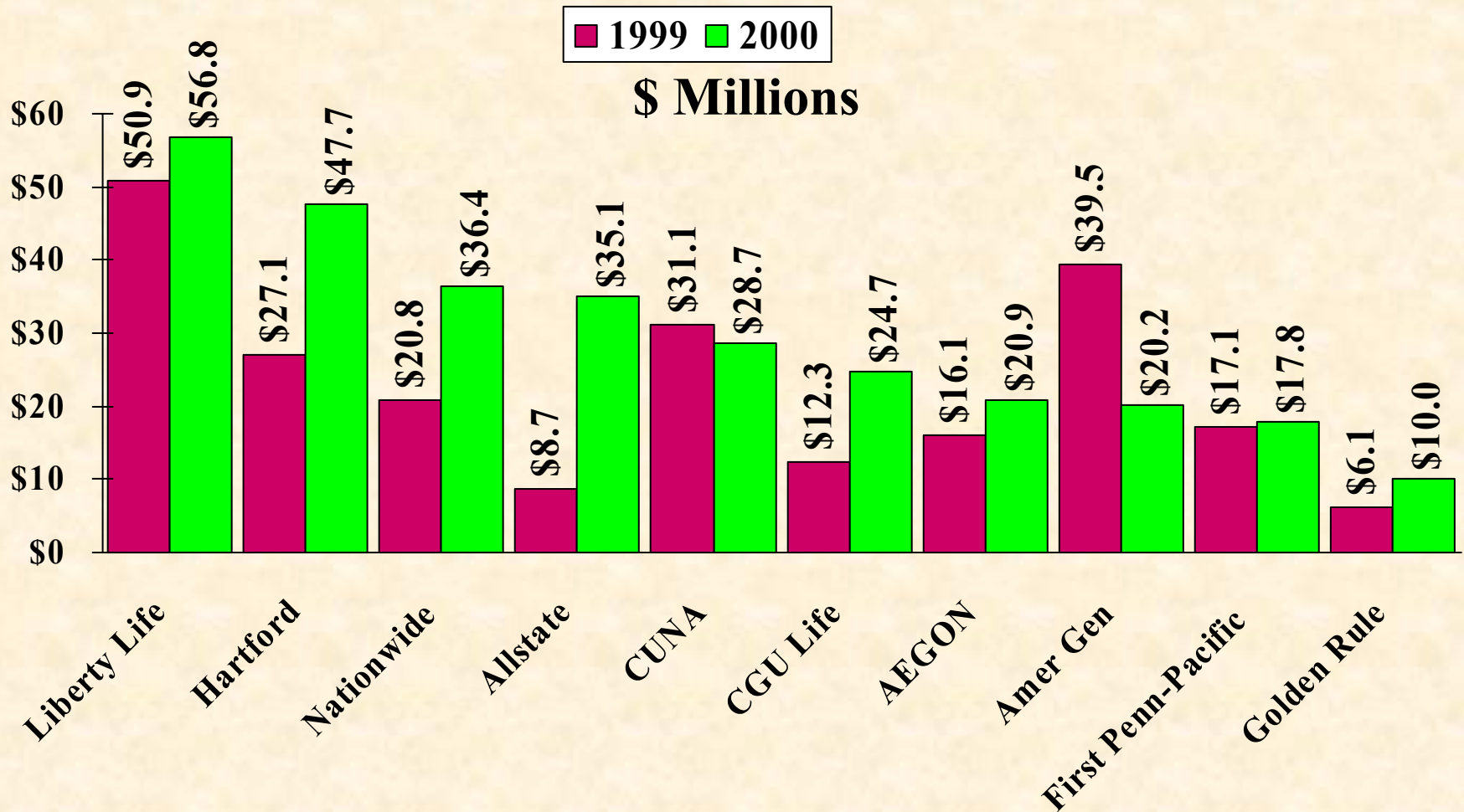


www.NoAgent.com



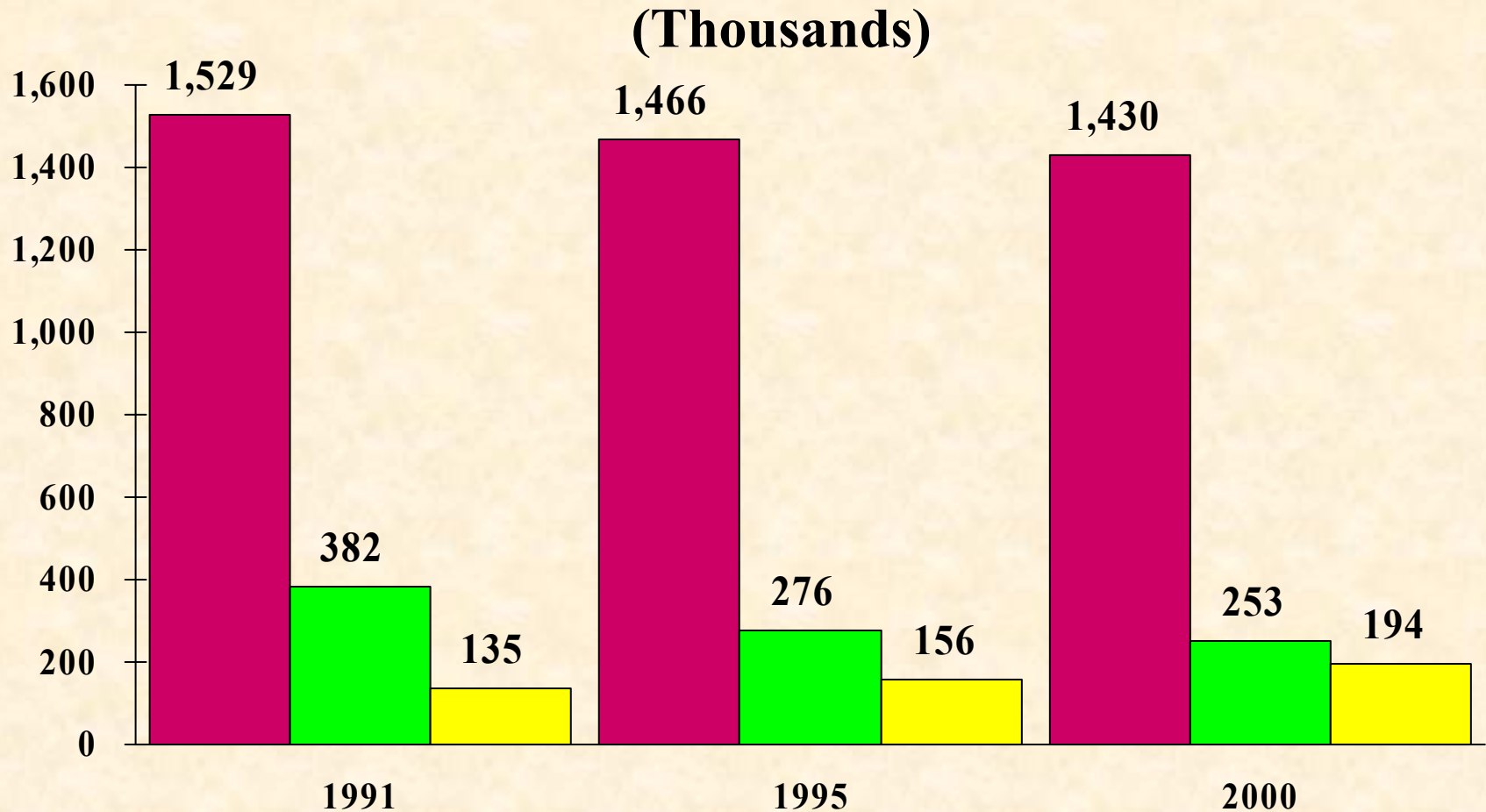


Leading Insurers Selling Life Ins. Through Banks





Employment in Banking Sector, 1991- 2000



Source: Bureau of Labor Statistics, Insurance Information Institute.

Investing



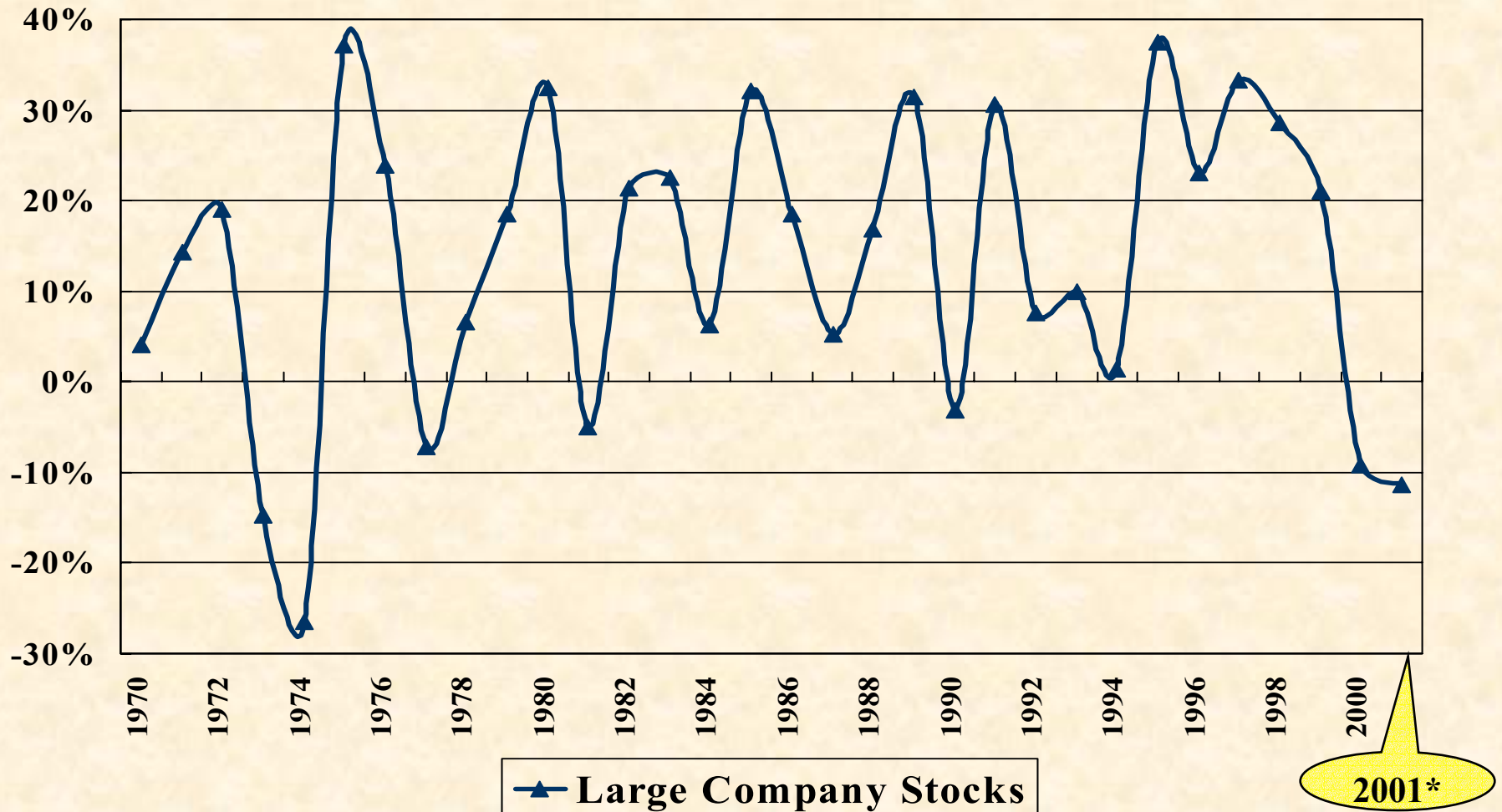


Investing: Rewards but Many Pitfalls

- **Agent often has inside track on major life events (banks don't)**
- **Appropriate advice: Assessing the customer's needs**
 - **90 year olds don't need annuities (it's happened)**
- **Bad advice can ruin a relationship and cost you the customer's p/c and life business too**
- **Decision on what to push can't be entirely commission-driven**
 - **E.g., tech funds pushed aggressively until tech bubble burst**
 - **Better of with dollar cost averaging, but commission not as good**
- **Knowledge Gap: LT market performance, stocks v. bonds, interest rates, FX, GDP, CPI, M&A**
- **Impact of economy on performance**



Total Returns for Large Company Stocks: 1970-2001

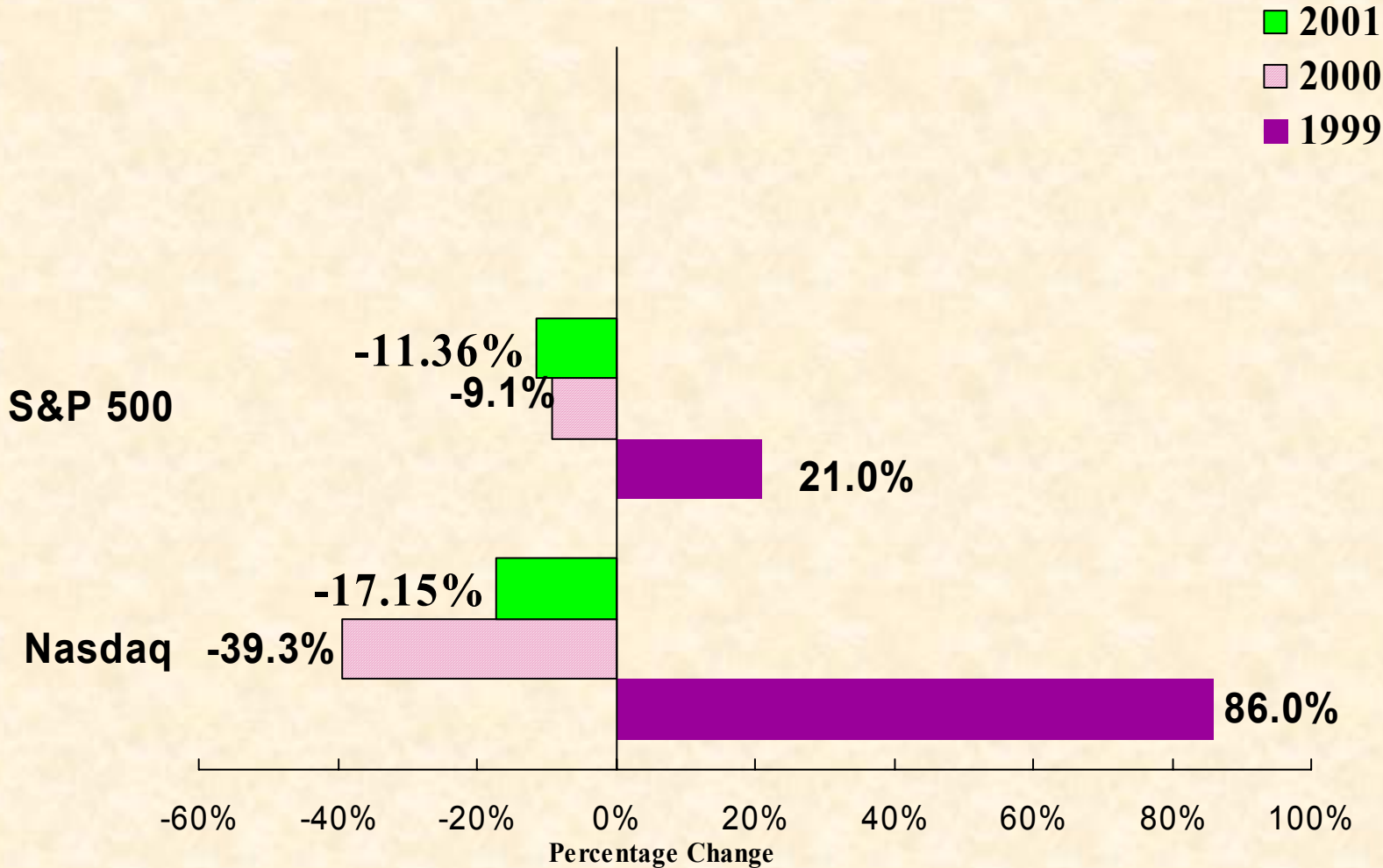


*As of December 5, 2001.

Source: Ibbotson Associates, Insurance Information Institute



What a Difference a Year Makes!

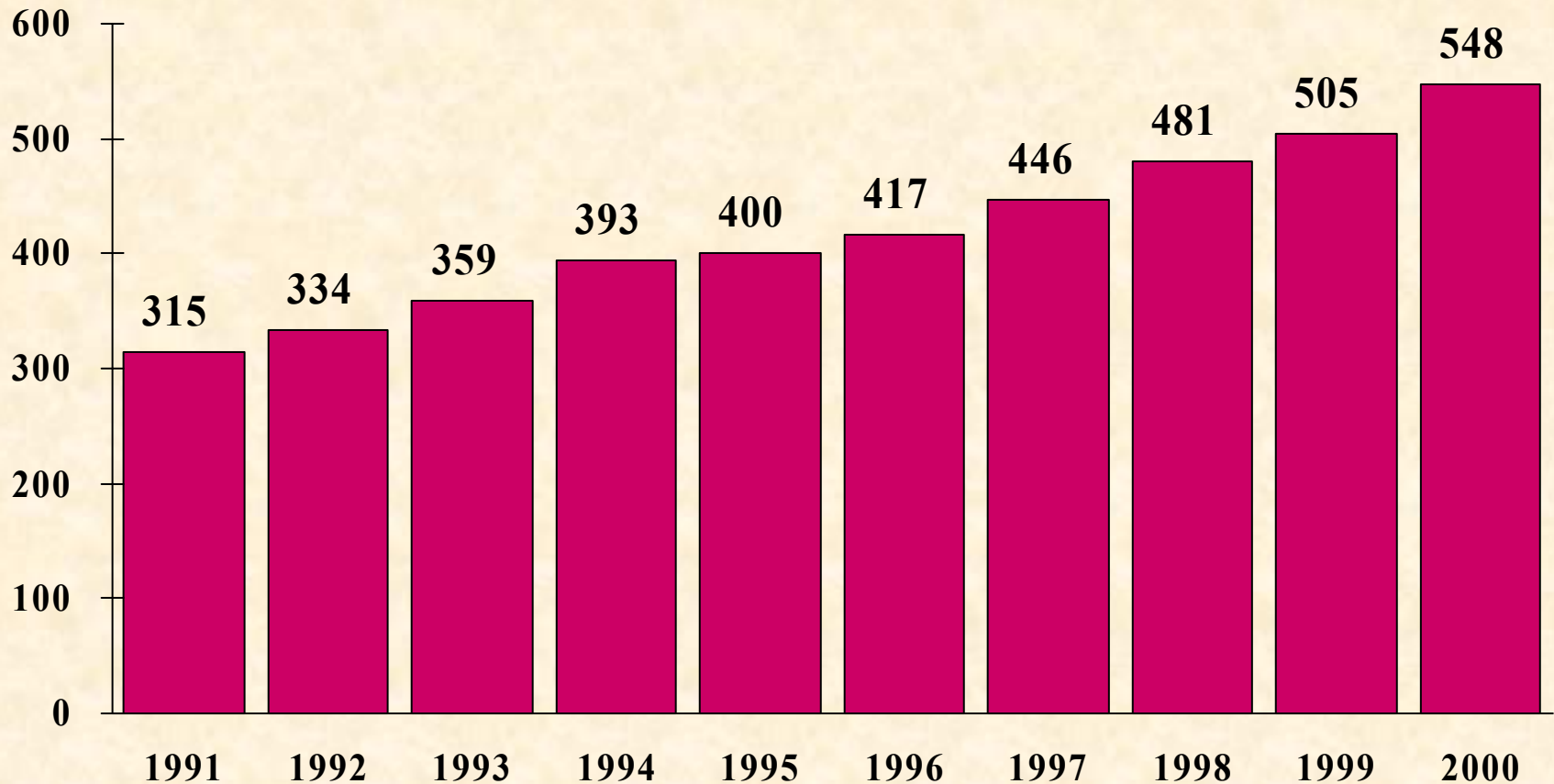


Source: Insurance Information Institute



Security Broker & Dealer Employment, 1991-2000

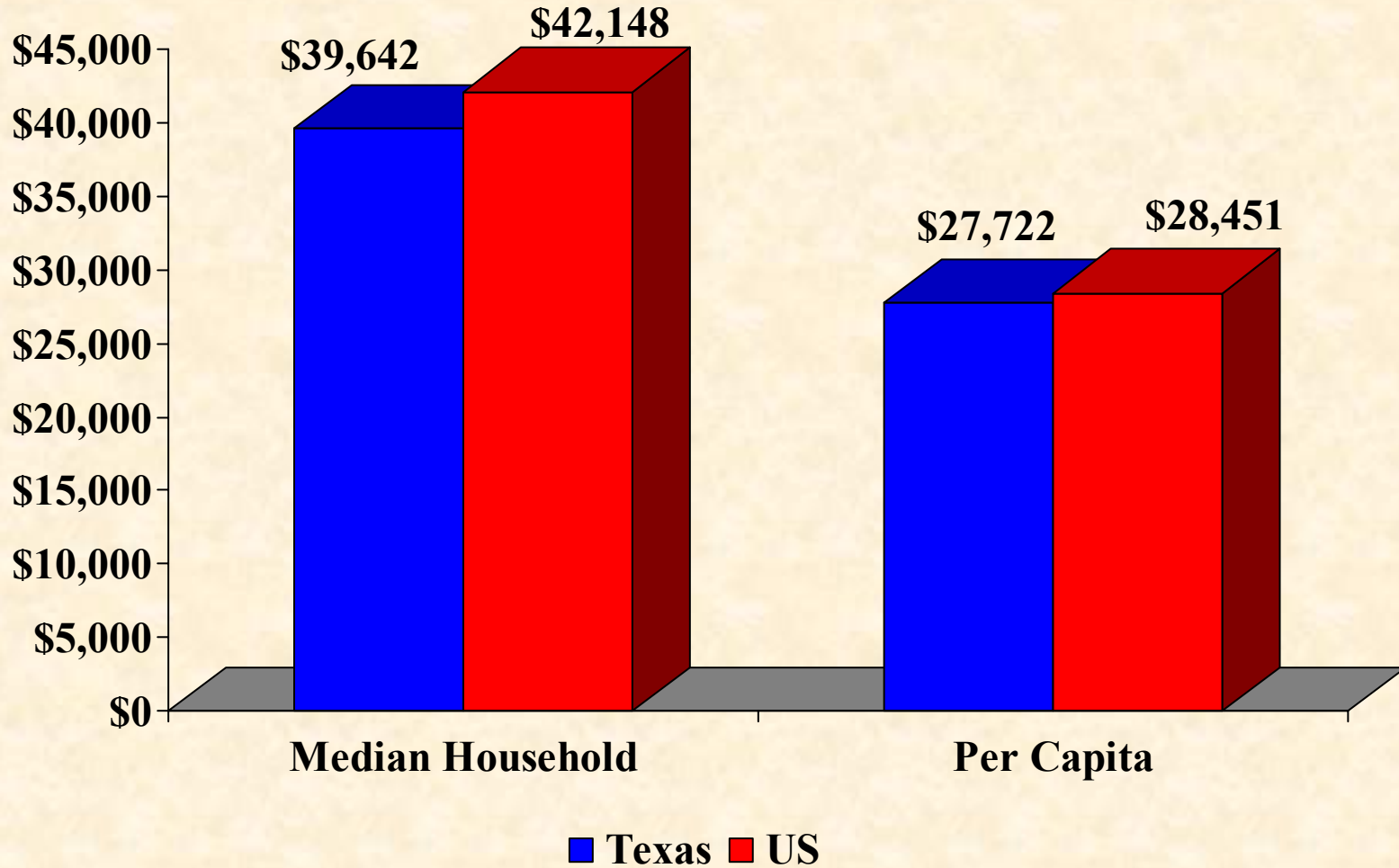
(Thousands)



Source: Bureau of Labor Statistics, Insurance Information Institute.



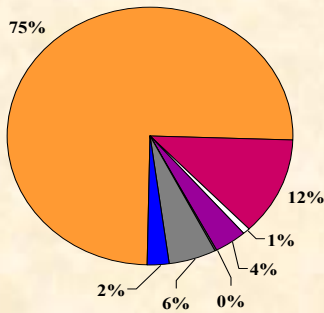
Texas: Income, 2000





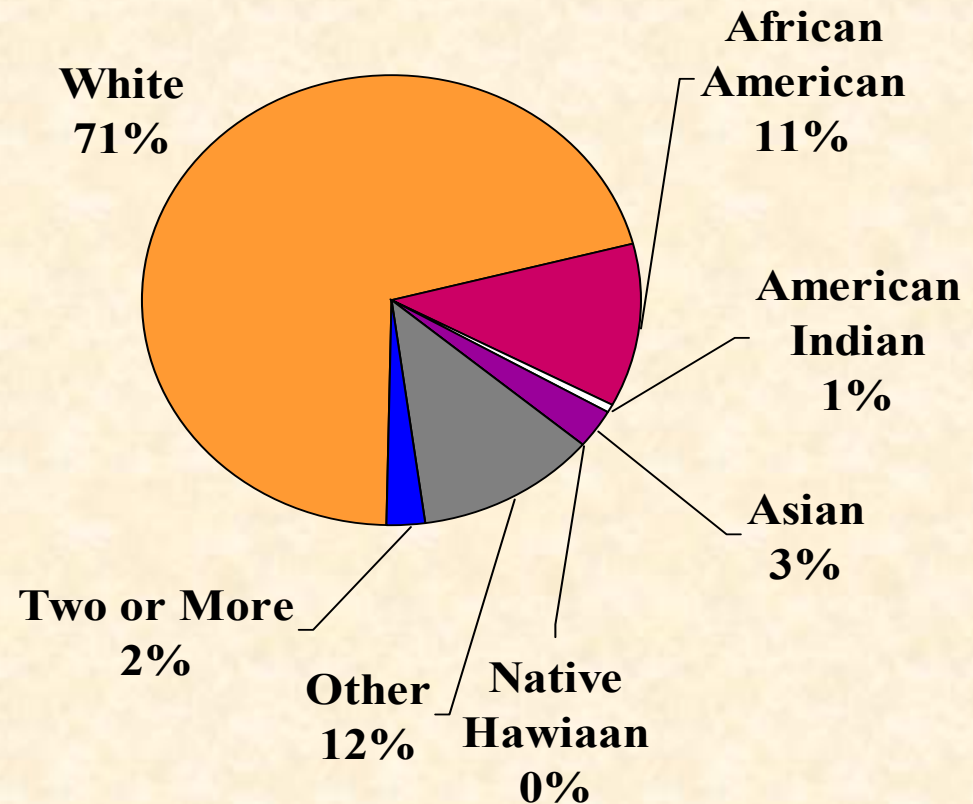
Texas: Race Distribution 2000

U.S. Population



6.67 Million (32%) residents of Texas identify themselves as Latino or Hispanic (of any race)

Texas Population



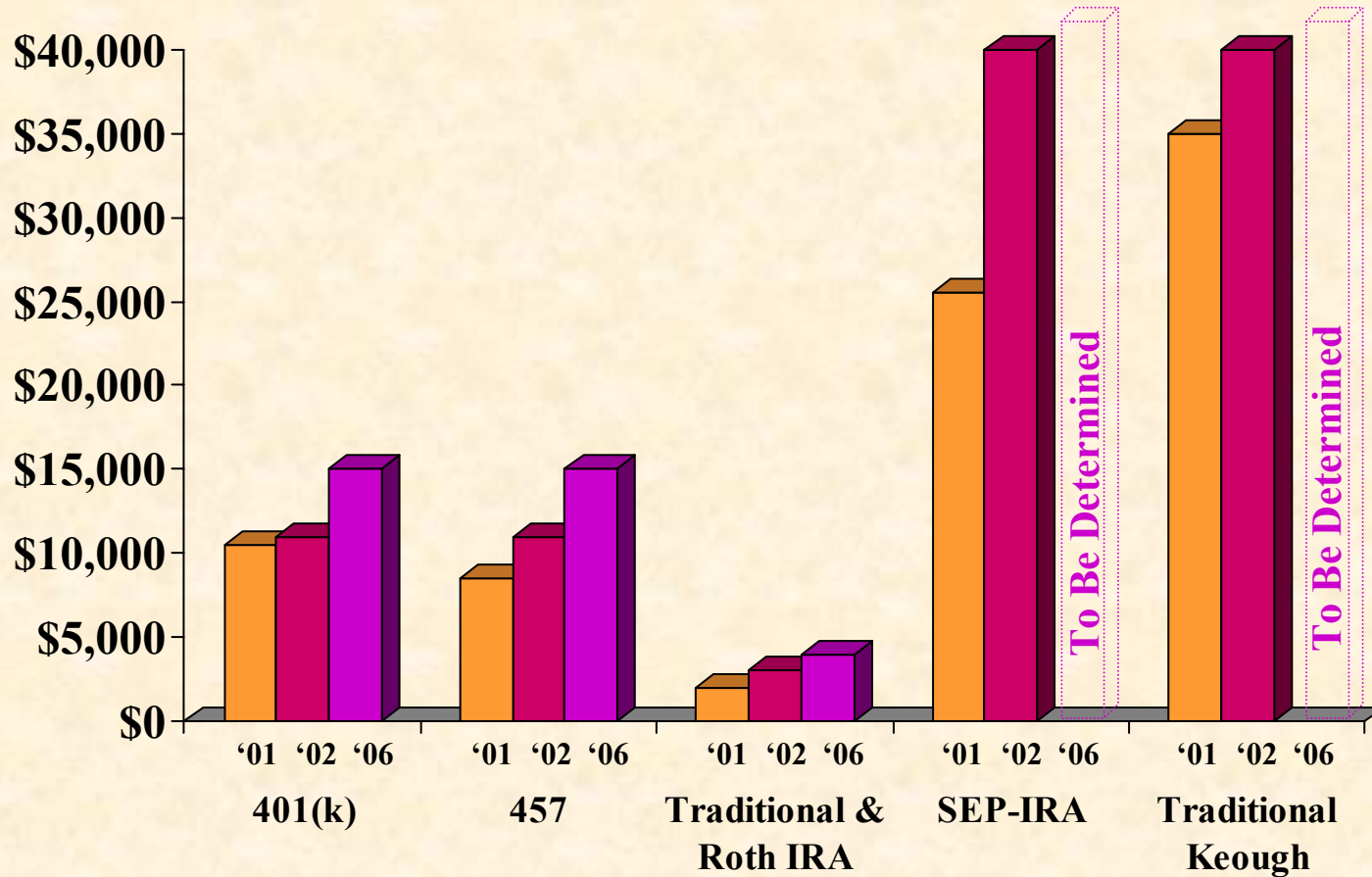
Retirement





Retirement Planning

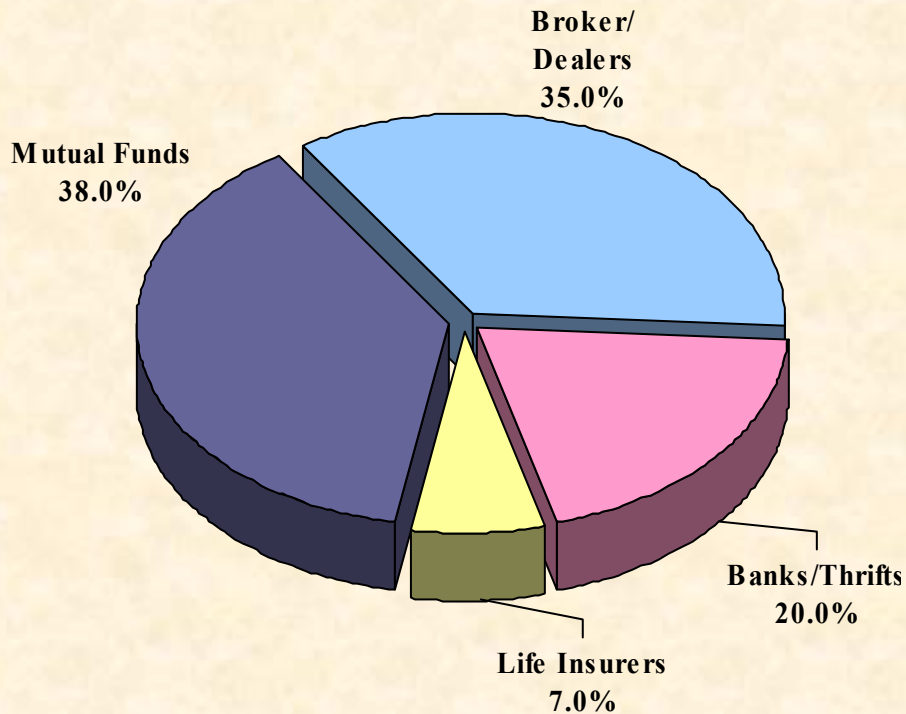
Maximum contribution



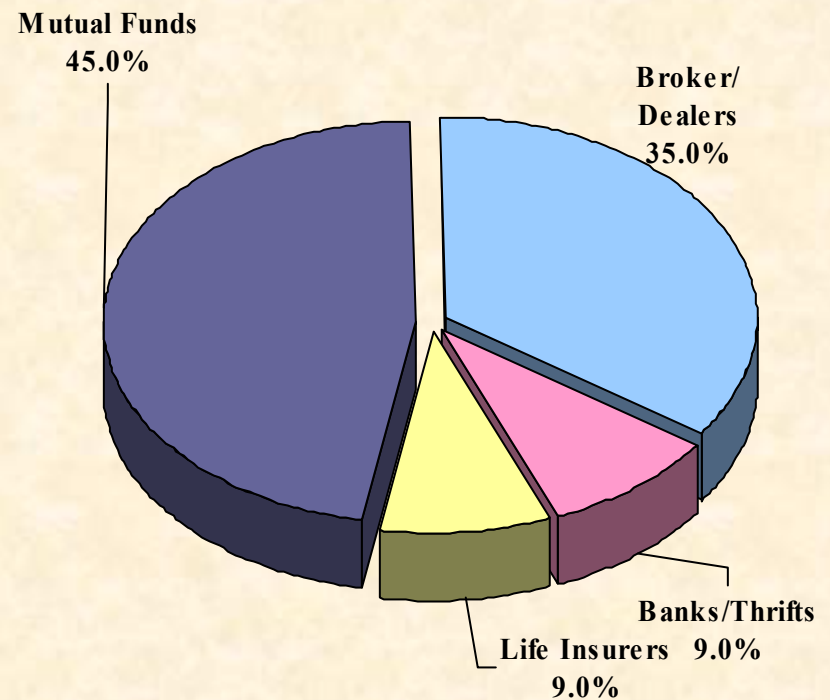


IRA Market Shares

1995



2000

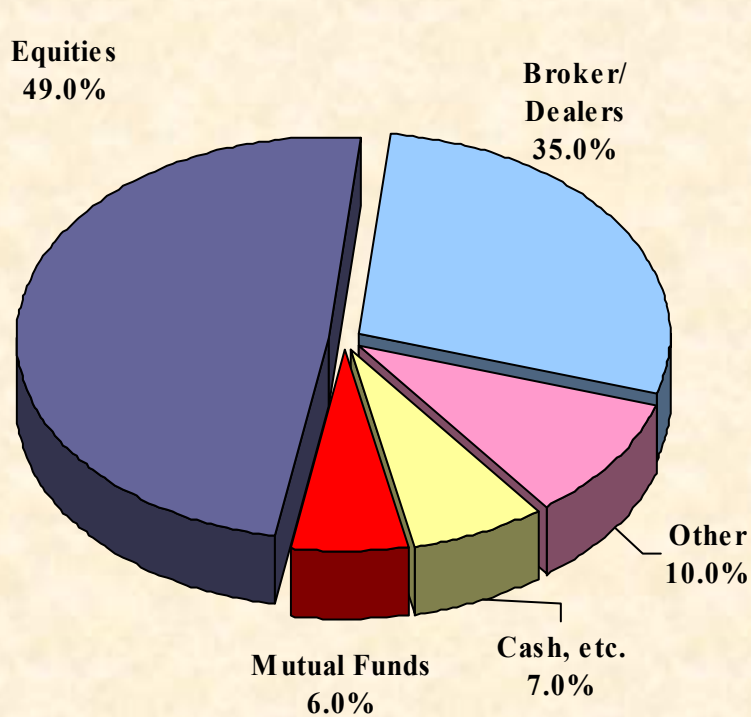


Source: Investment Company Institute.

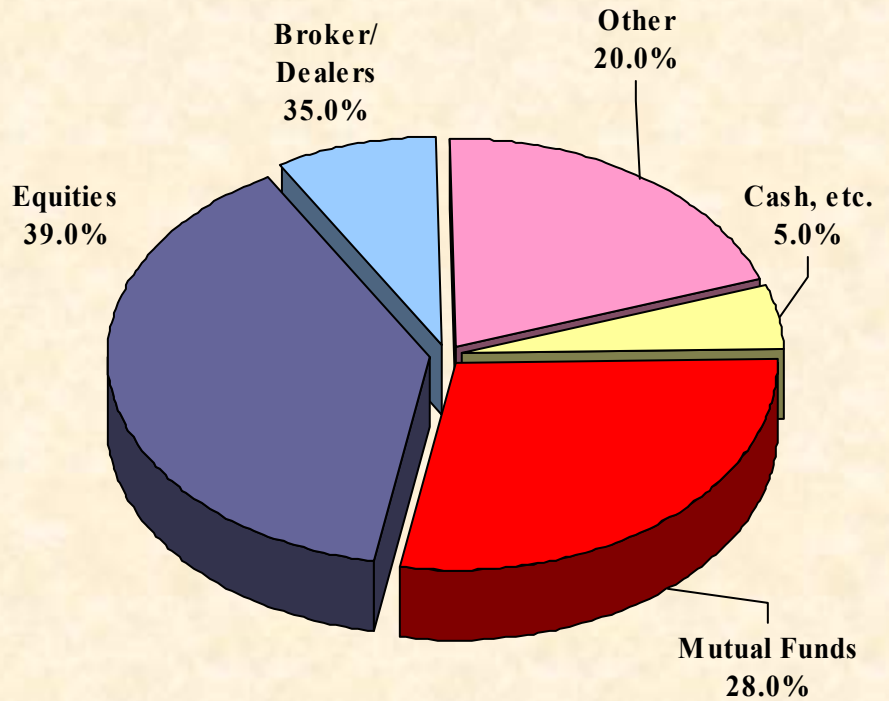


Retirement Benefit Asset Mix (2000)

Private Defined Benefits Plans



Private Defined Contribution Plans



Estate Planning

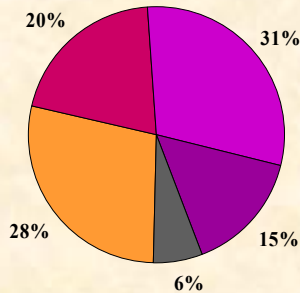




Texas: Age Distribution, 2000

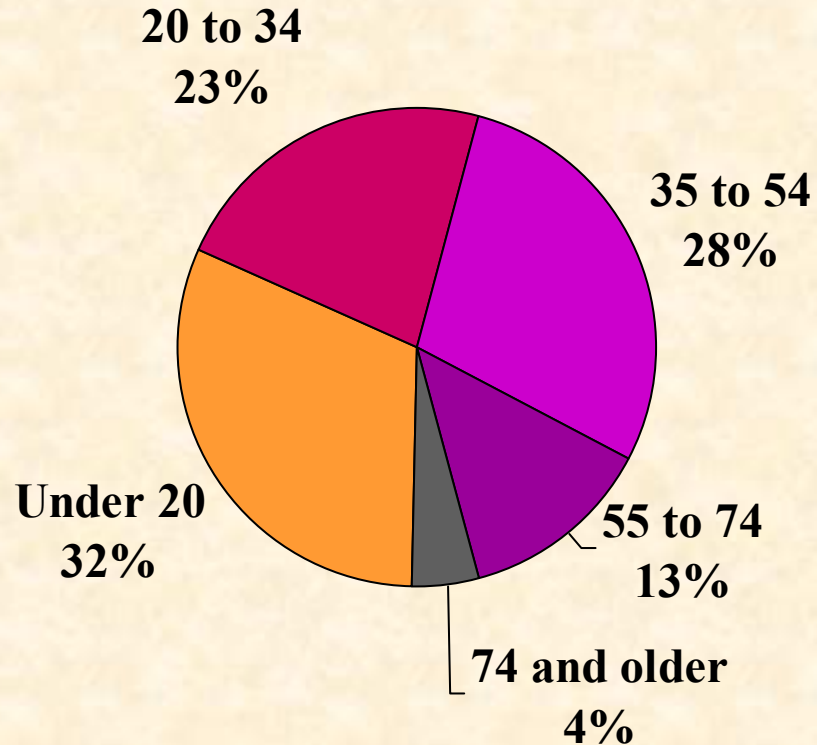
U.S. Population: 276 Million

Nov 2001 projections



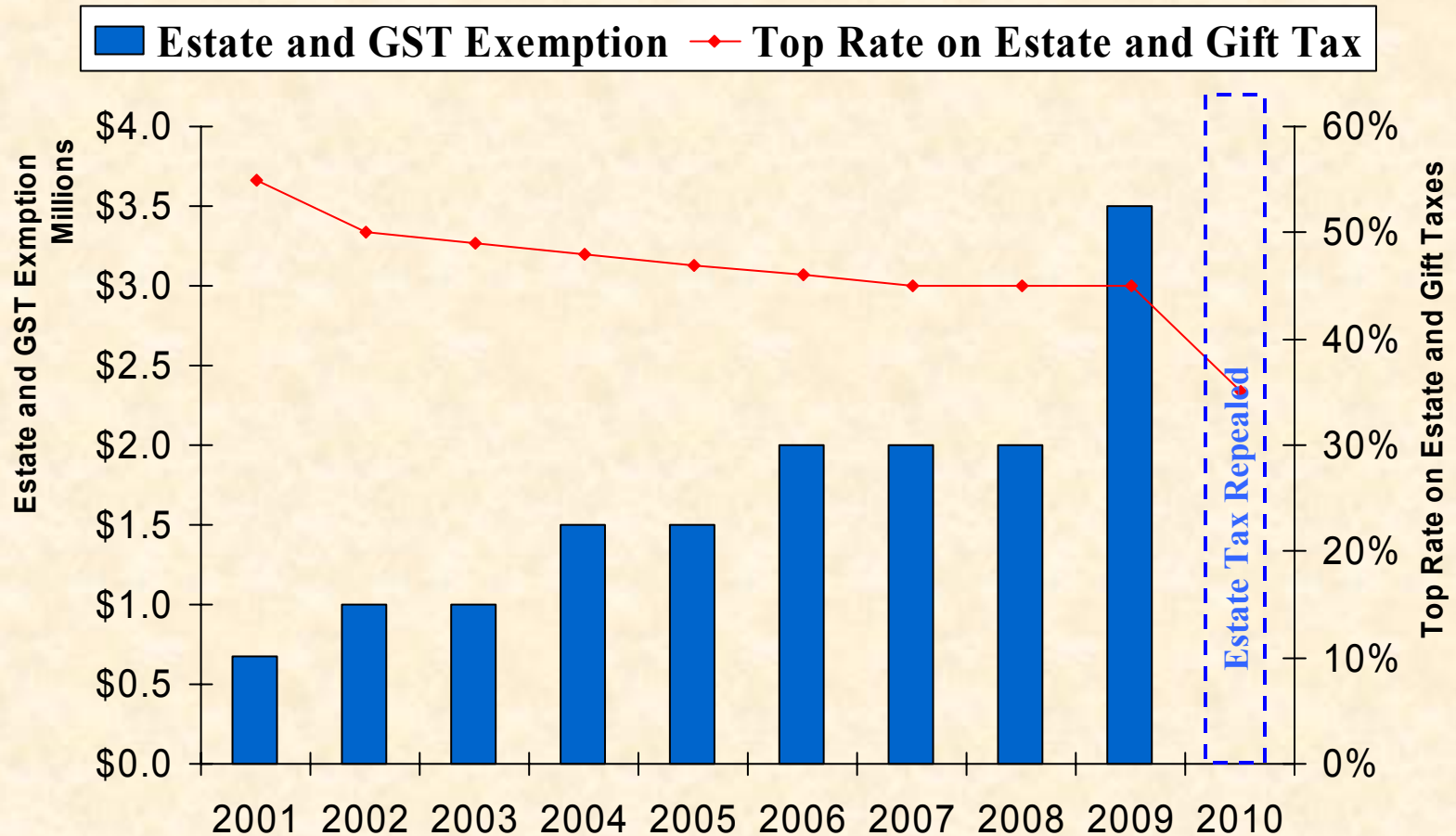
TX has a significantly younger population than the US as a whole.

Texas Population: 20,851,820

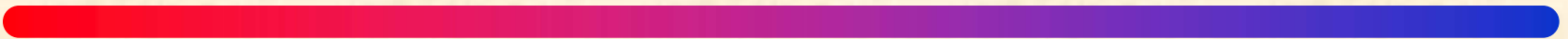




Estate Planning: Death & Taxes

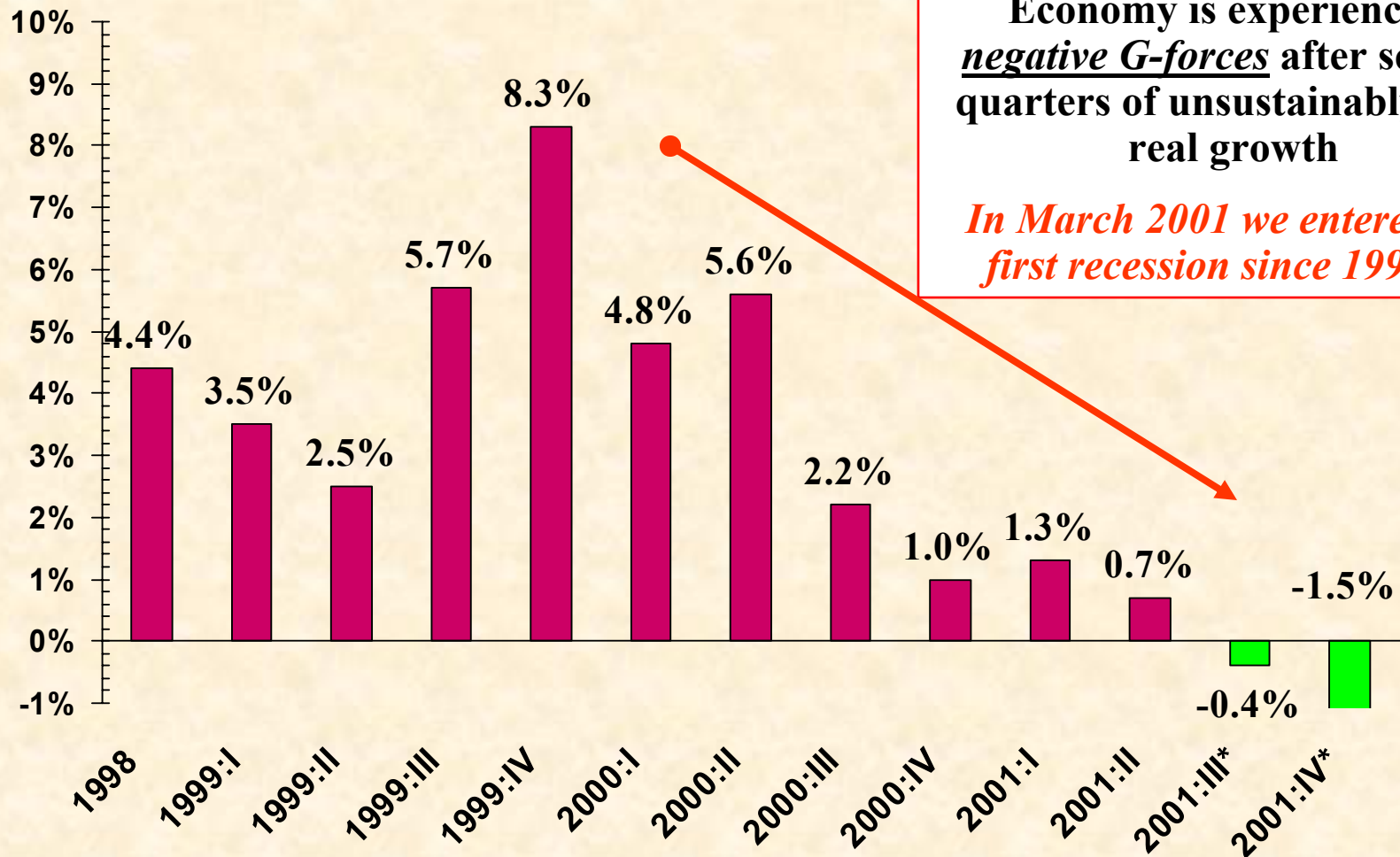


It's the Economy, Stupid!





Real GDP Growth



Economy is experiencing negative G-forces after several quarters of unsustainably high real growth

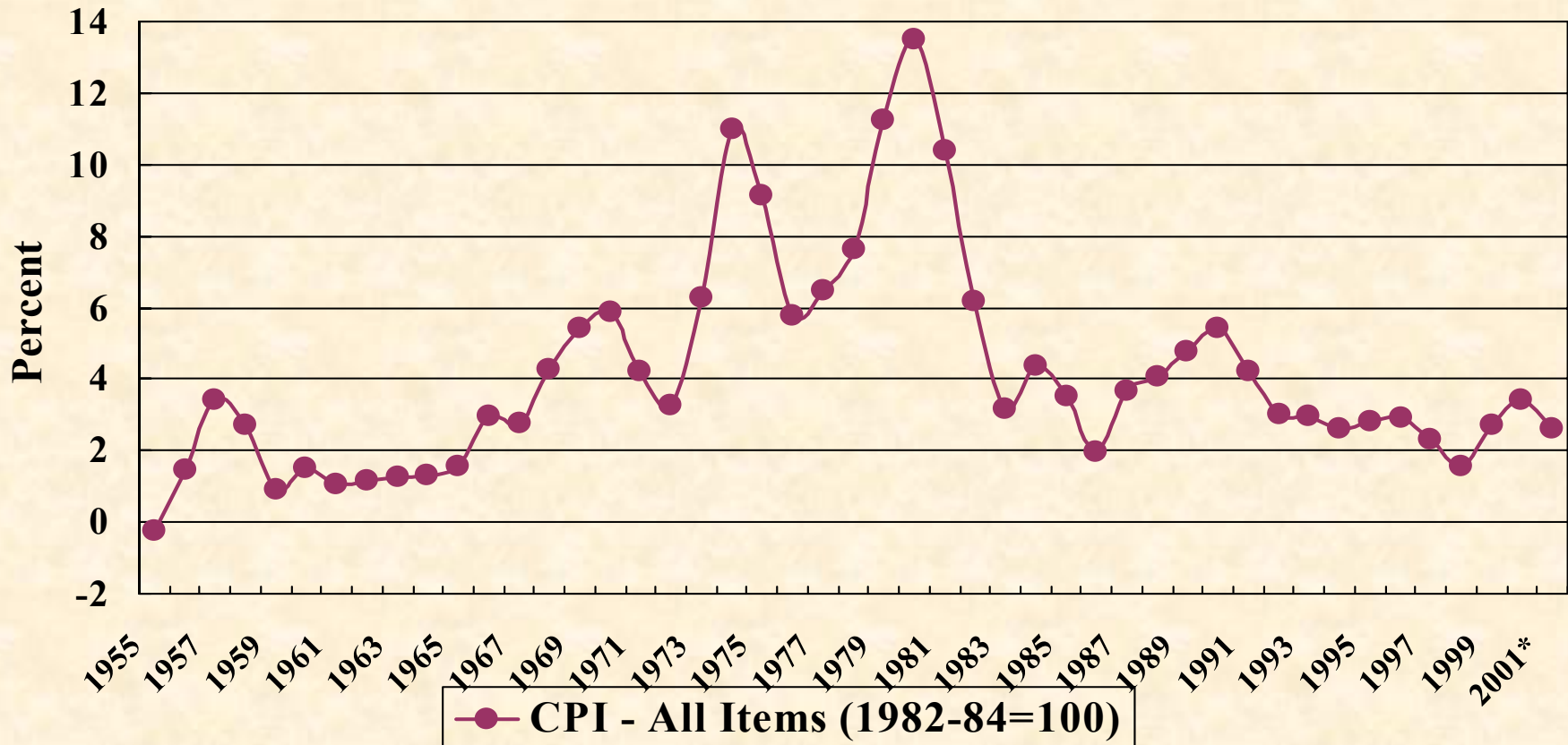
In March 2001 we entered our first recession since 1990/91

Source: US Department of Commerce; Insurance Information Institute.

*Estimate.



Change in Consumer Price Index

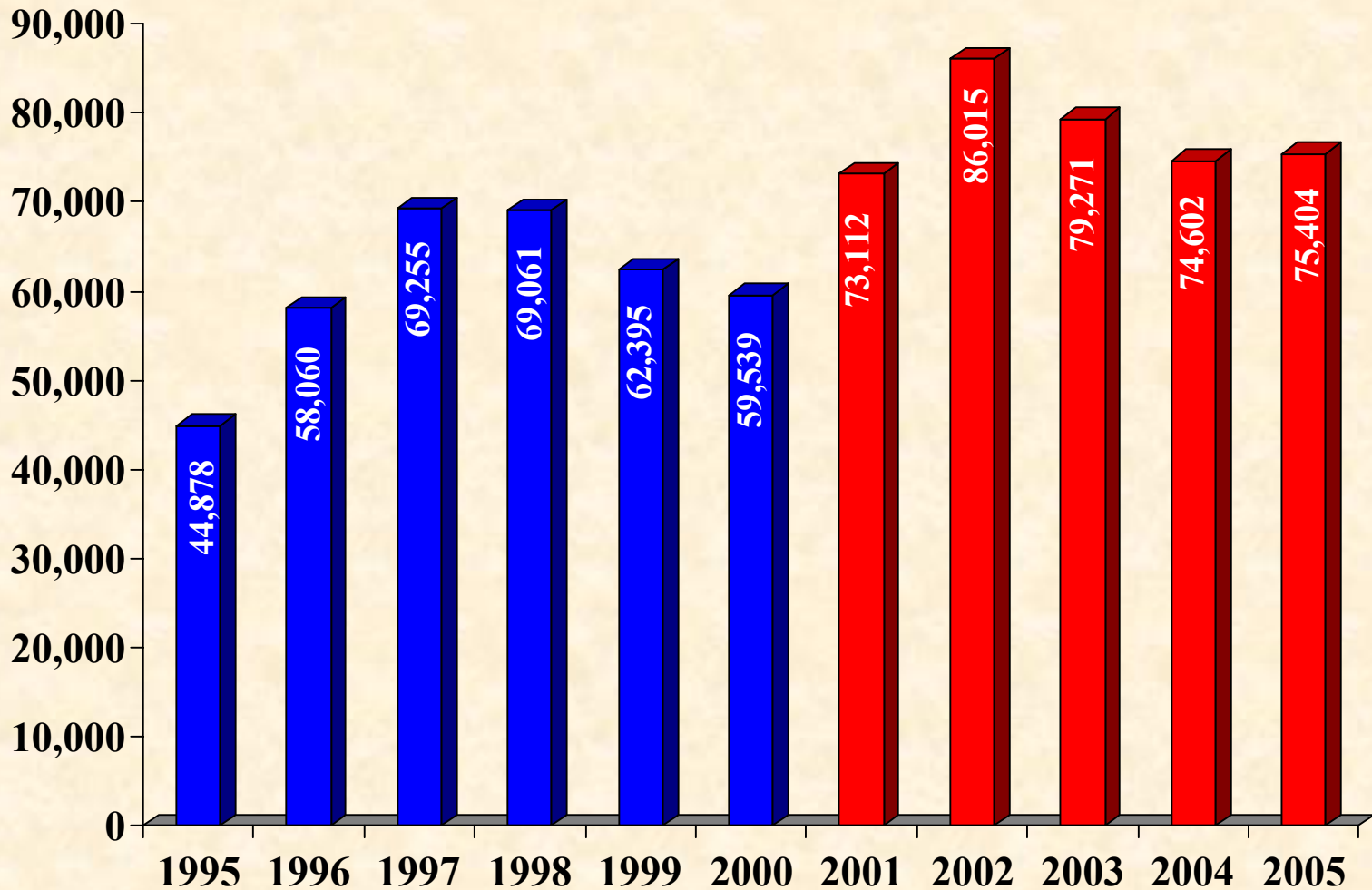


*Estimate

Source: Bureau of Labor Statistics

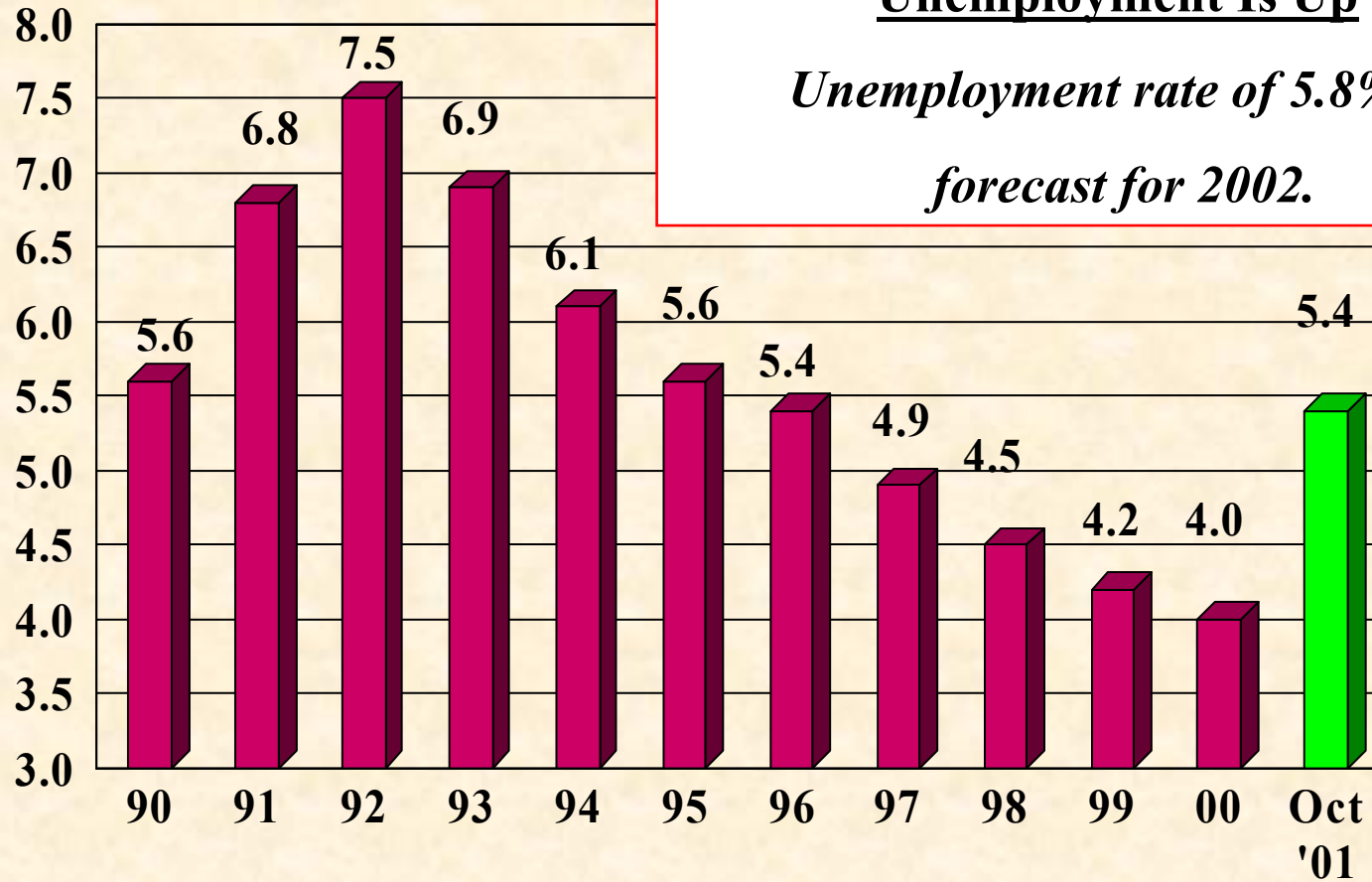


Texas: Personal Bankruptcies



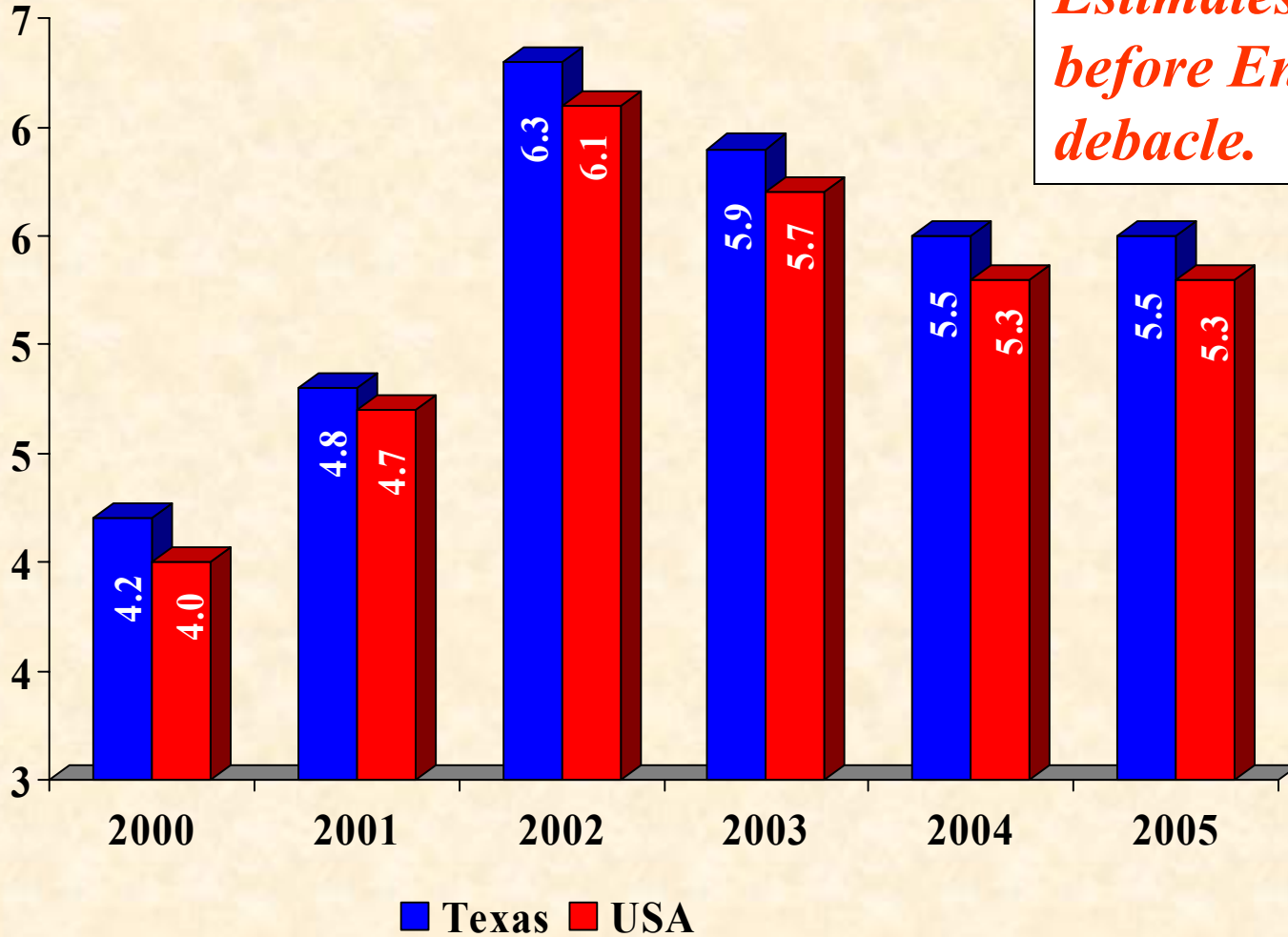


Unemployment Rate (%)





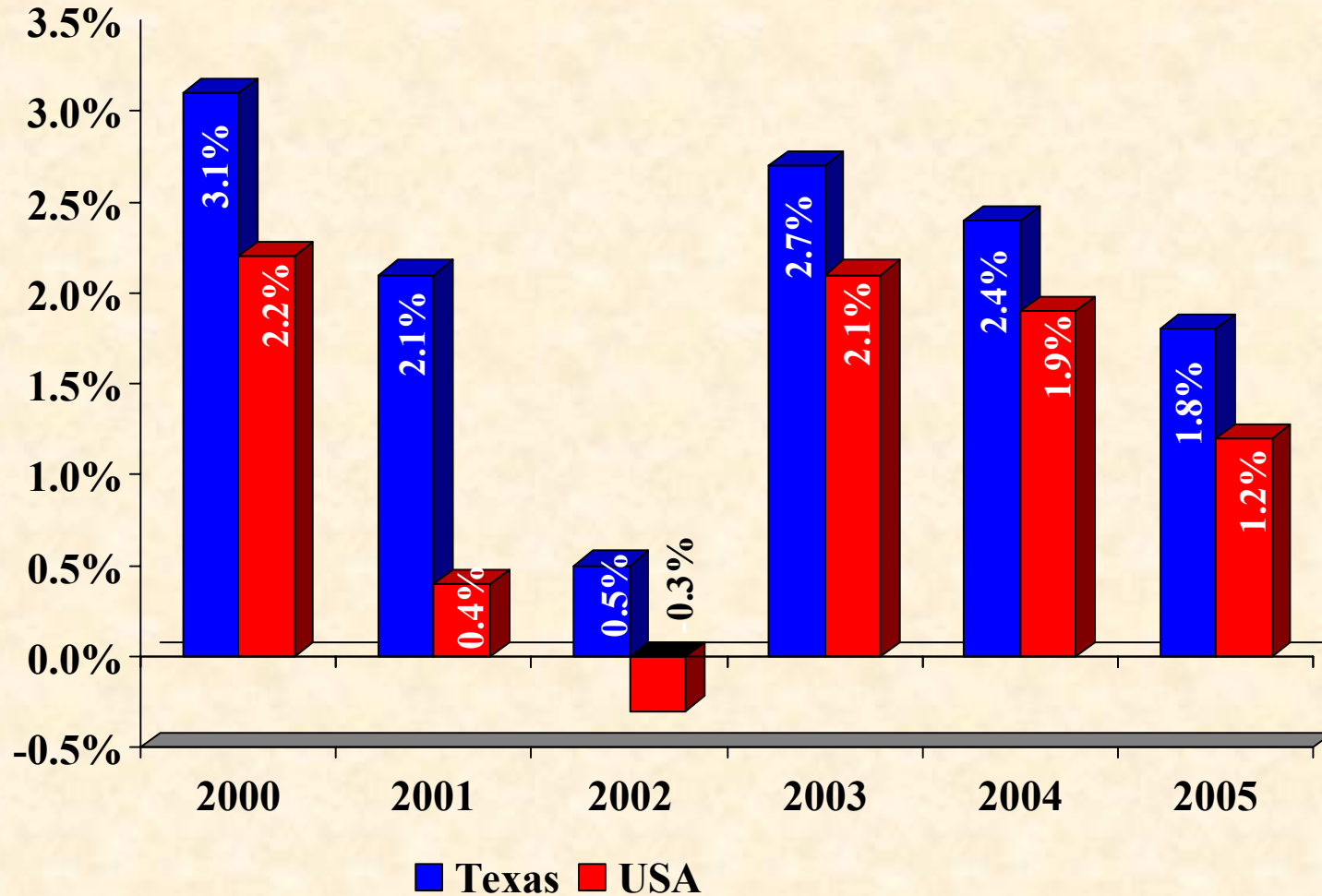
Texas: Unemployment Rate



*Estimates made
before Enron
debacle.*

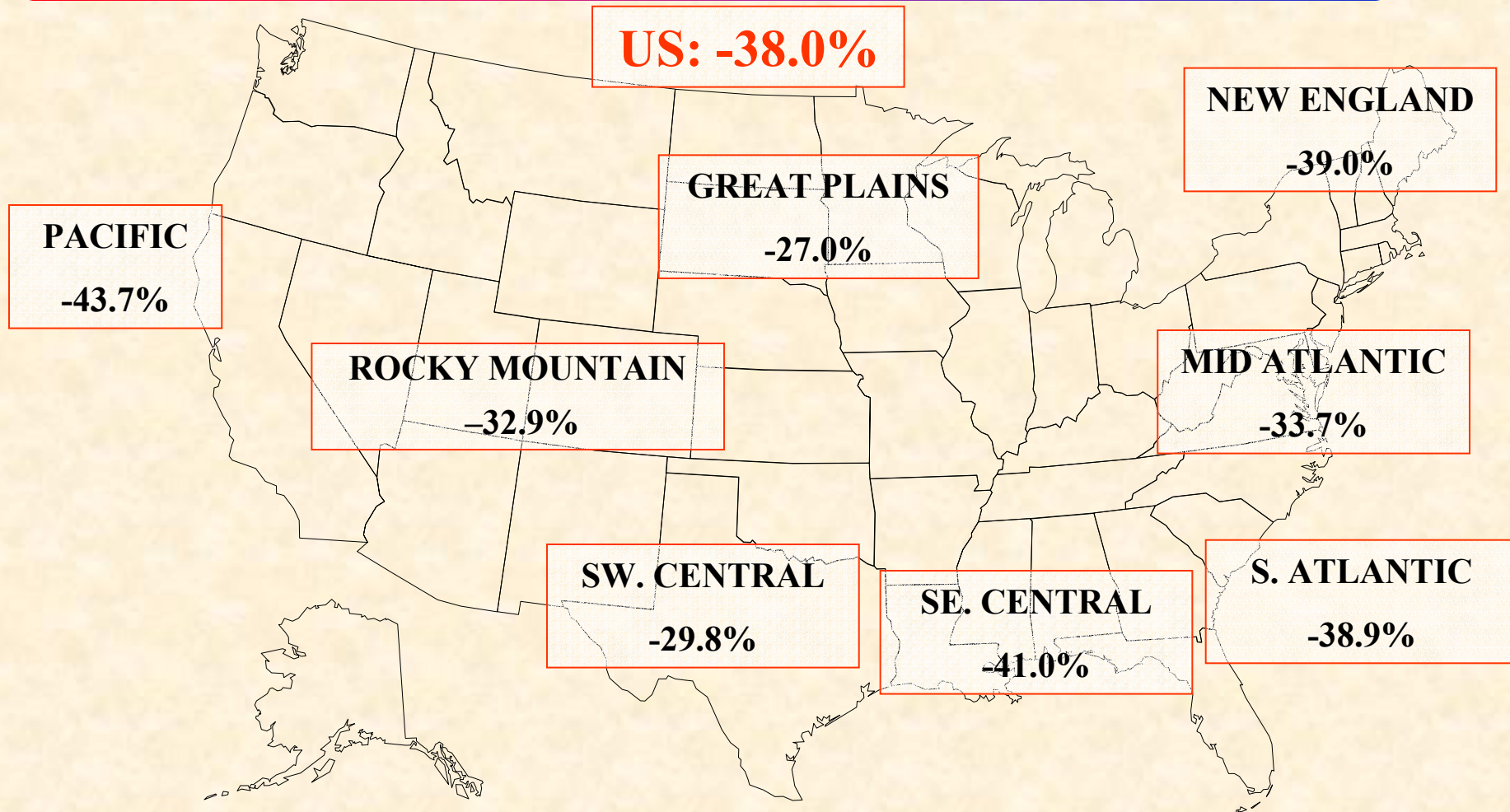


Texas: Change in Employment



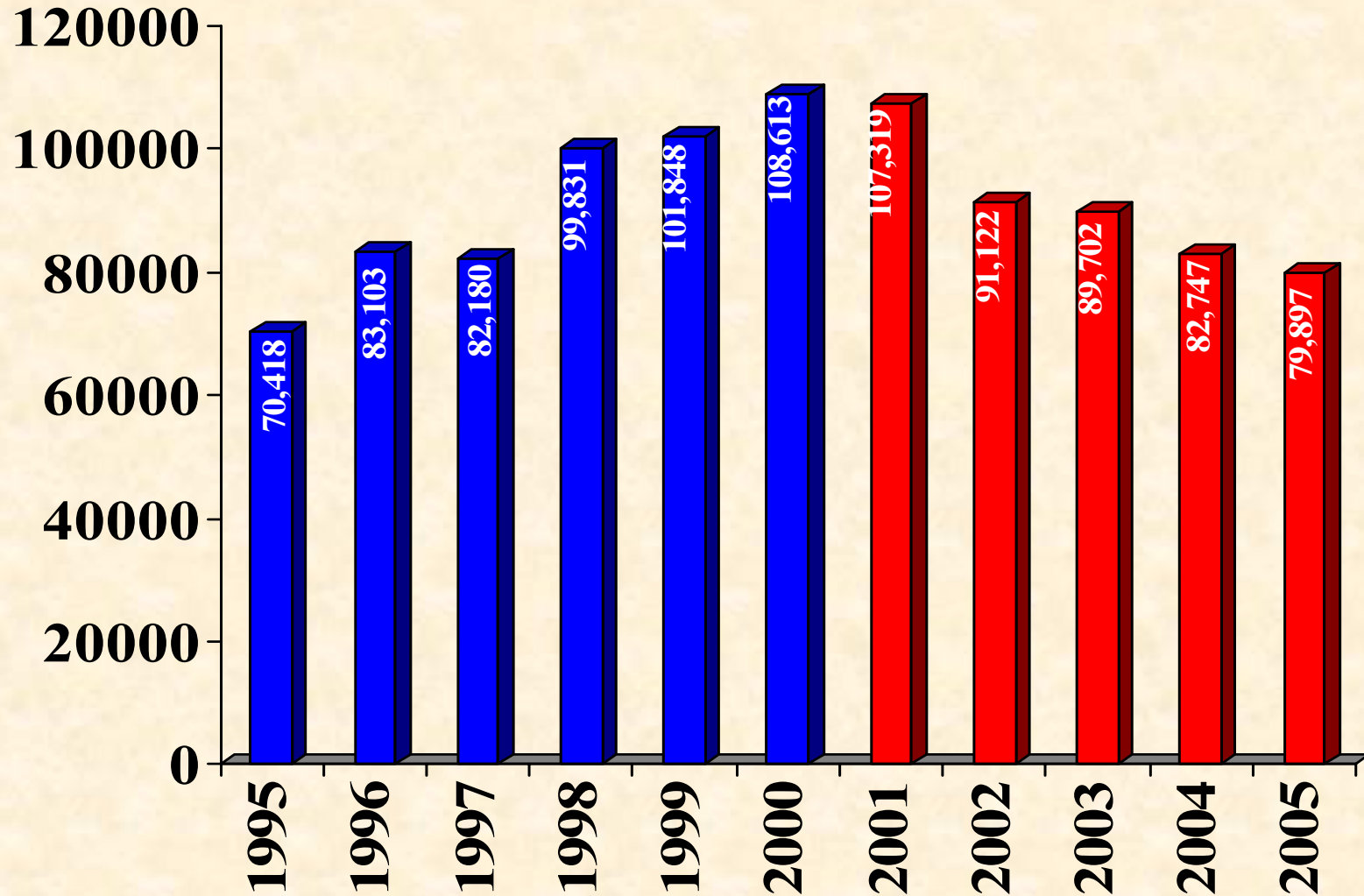


Consumer Confidence: Nov. '01 vs. Nov. '00



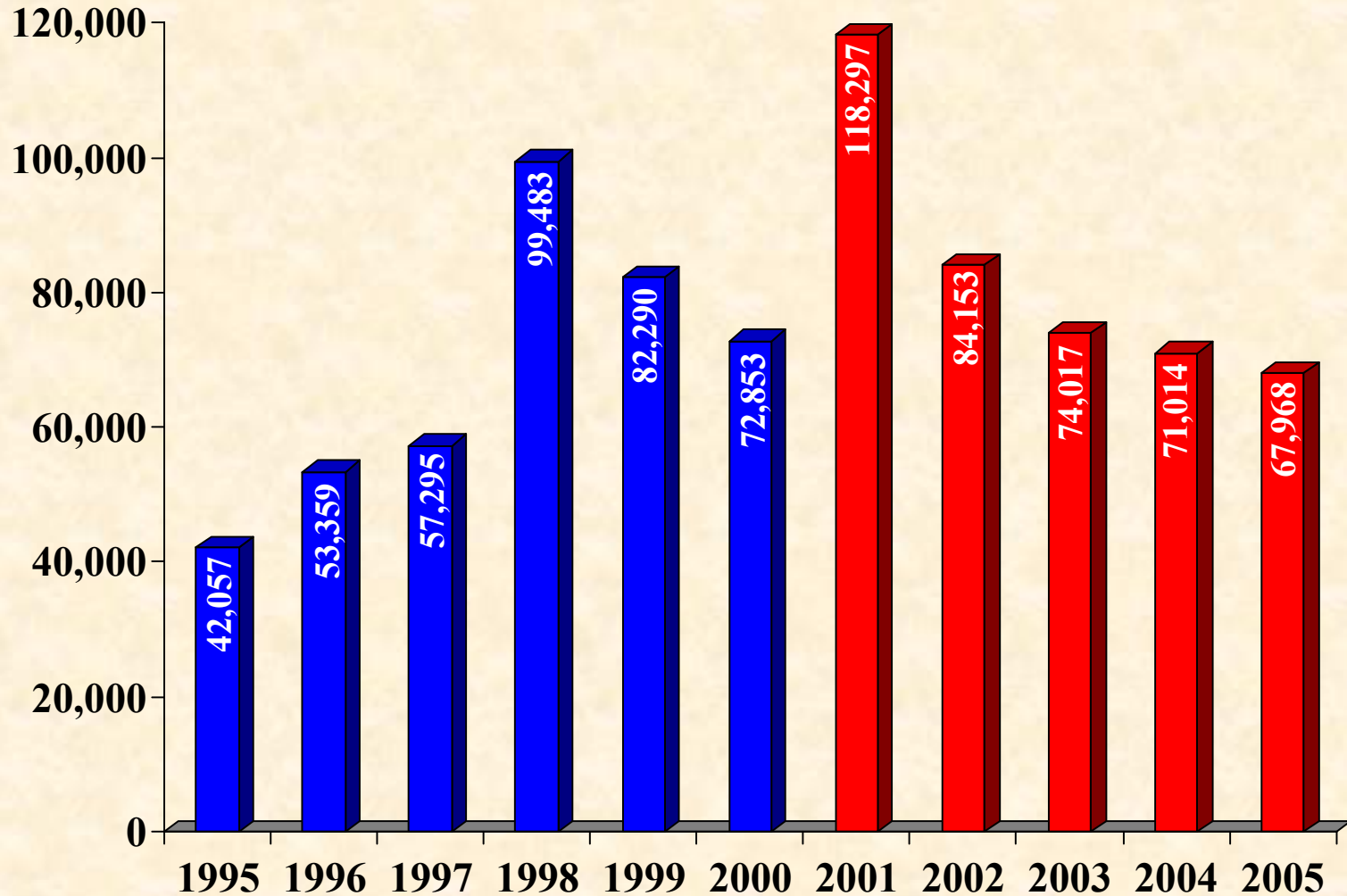


Texas: Single-Family Housing Permits



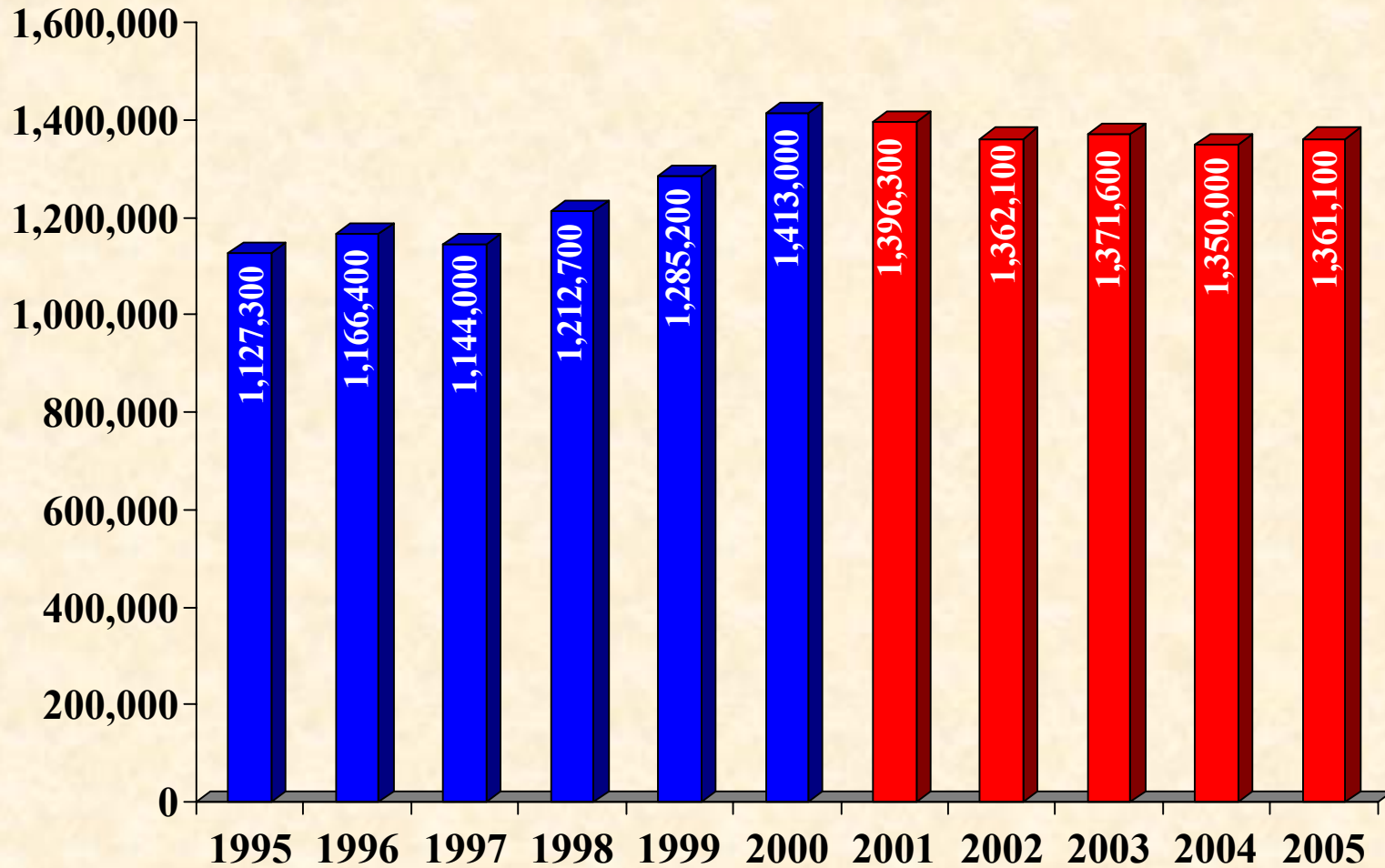


Texas: Mortgage Originations





Texas: New Vehicle Registrations





Insurance Information Institute On-Line

WWW.III.ORG

*If you would like a copy of this presentation, please
give me your business card with e-mail address or*