

P/C Insurance in an Era of Mega-Catastrophes

Overview & Implications

**Institute for Business & Homes Safety
Annual Conference
Orlando, FL**



November 7, 2007

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Presentation Outline

1. **Declining Profitability—*Past the Cyclical Peak***
 - Ratings & Financial Strength
2. **Deteriorating Underwriting Trends: *Still Strong, for How Long?***
 - Key Personal & Commercial Lines Review
3. **Vanishing Premium Growth: *Approaching a Standstill***
4. **Weak Pricing: *Competitive Pressures Mounting***
5. **Rising Expenses: *Creeping Upward***
6. **Overcapacity: *Rapid Capital/Surplus Growth → ROE Pressure***
7. **Investment Volatility: *More Pain, Less Gain***
8. **Catastrophic Loss: *The Worst Has Yet to Come***
 - Reinsurance Summary
9. **Shifting Legal Liability & Tort Environment: *Will the Pendulum Swing Against Insurers?***
10. **Regulation, Legislation & Litigation: *Attention to CATs Grows***

Q&A

#1

DECLINING PROFITABILITY

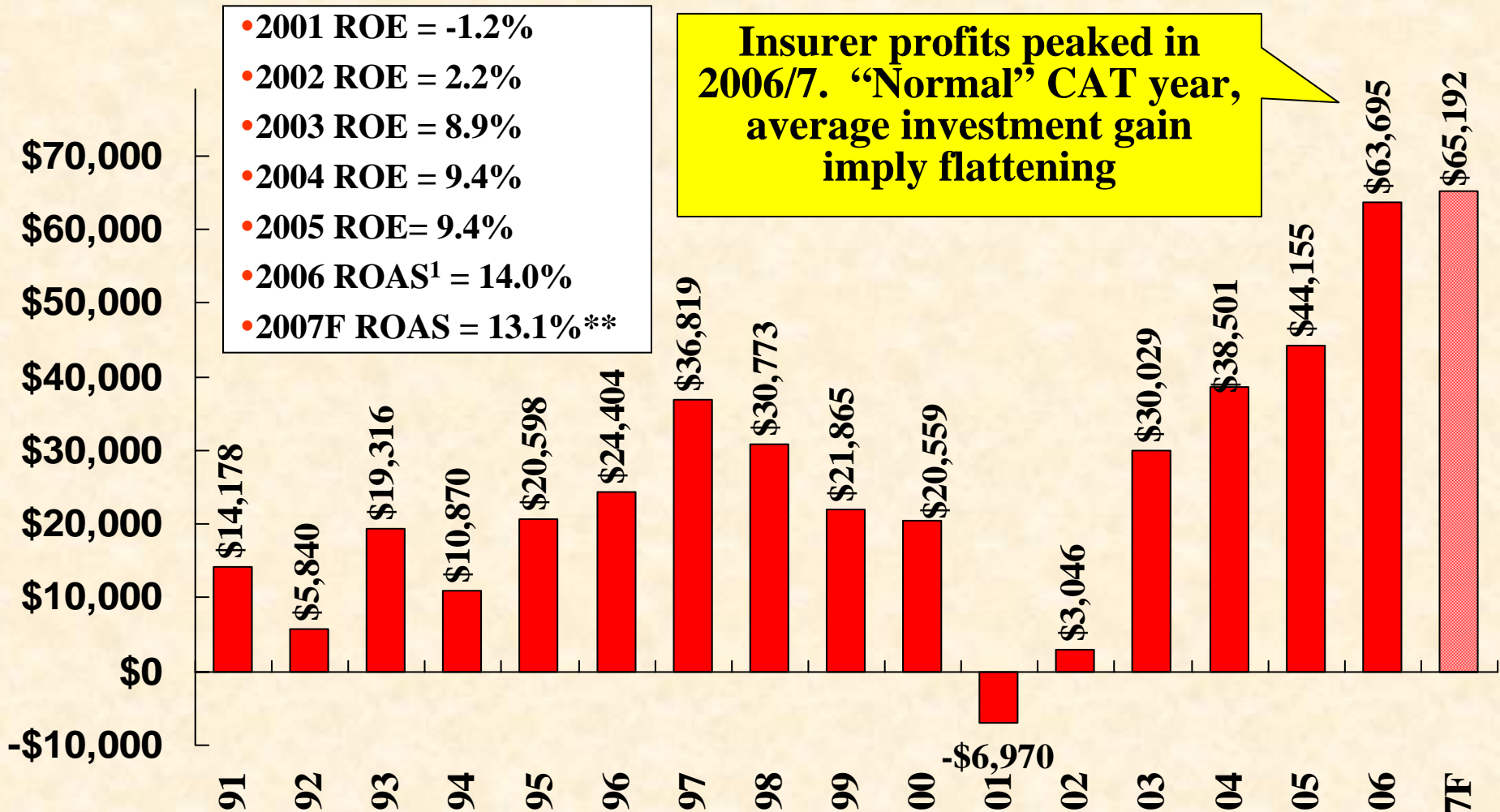
**Profits in 2006/7 Reached
Their Cyclical Peak;
ROEs Already Falling**





P/C Net Income After Taxes

*1991-2007F (\$ Millions)**



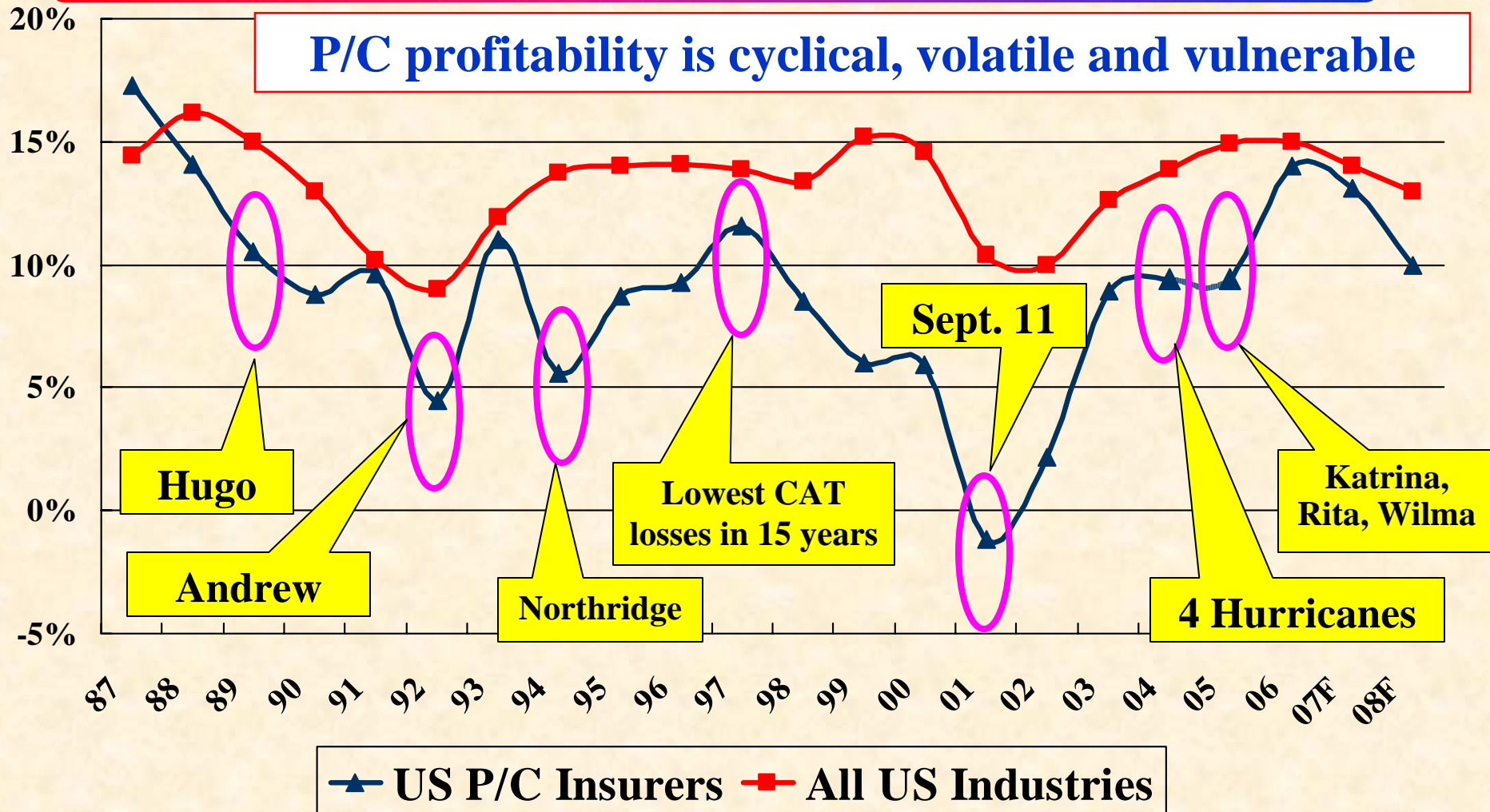
*ROE figures are GAAP; ¹Return on avg. surplus. 2007F figure is annualized actual first half net income of \$32.596B ** Actual first half 2007 result.

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



ROE: P/C vs. All Industries

1987–2008E

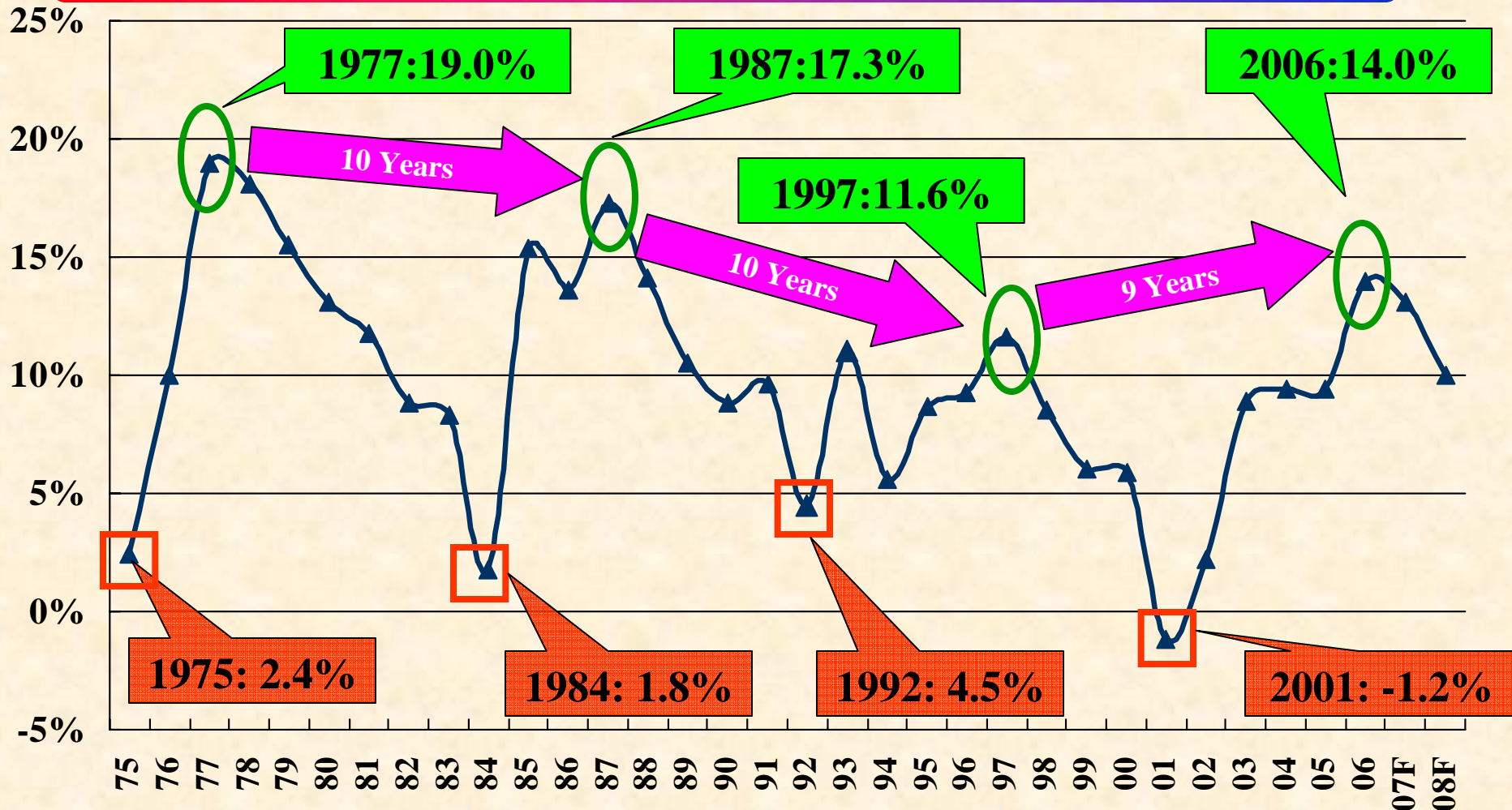


*2007 is actual first half ROAS of 13.1%. 2008 P/C insurer ROE is I.I.I. estimate.

Source: Insurance Information Institute; Fortune



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

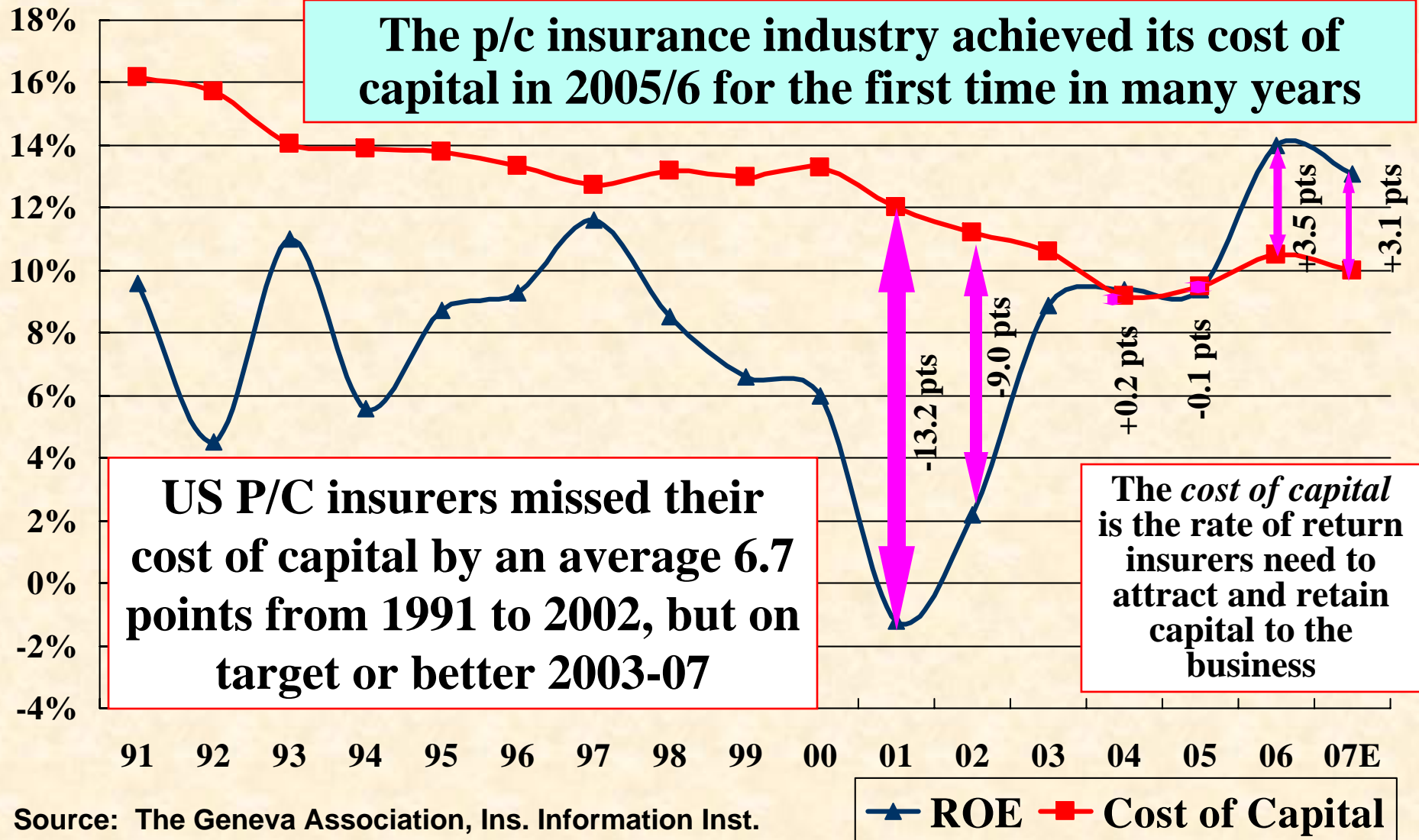


*2007 is actual first half ROAS of 13.1%. 2008 P/C insurer ROE is I.I.I. estimate.

Source: Insurance Information Institute; Fortune



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



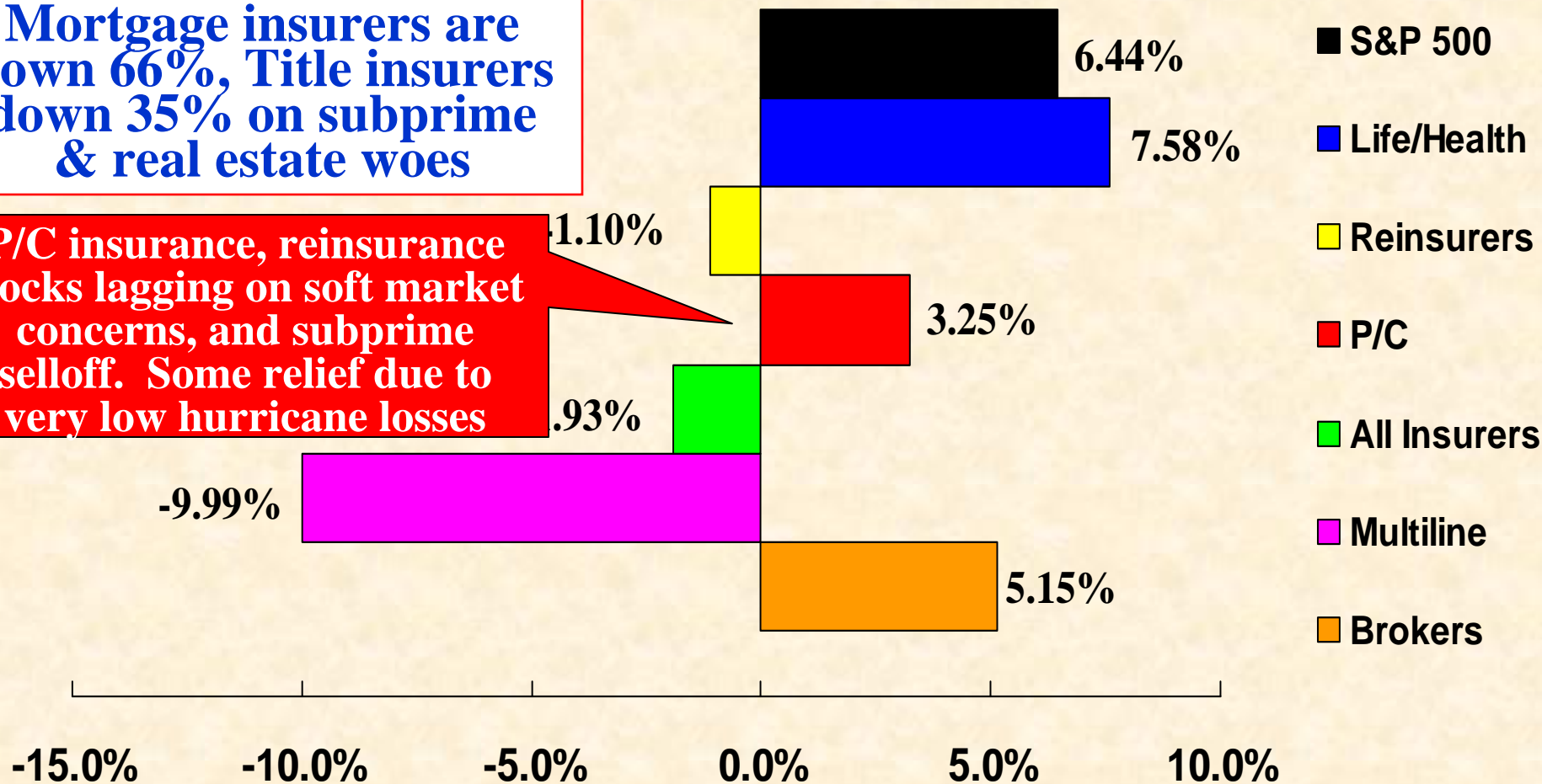


Insurance & Reinsurance Stocks: Finally Gaining in 2007

Total YTD Returns Through November 2, 2007

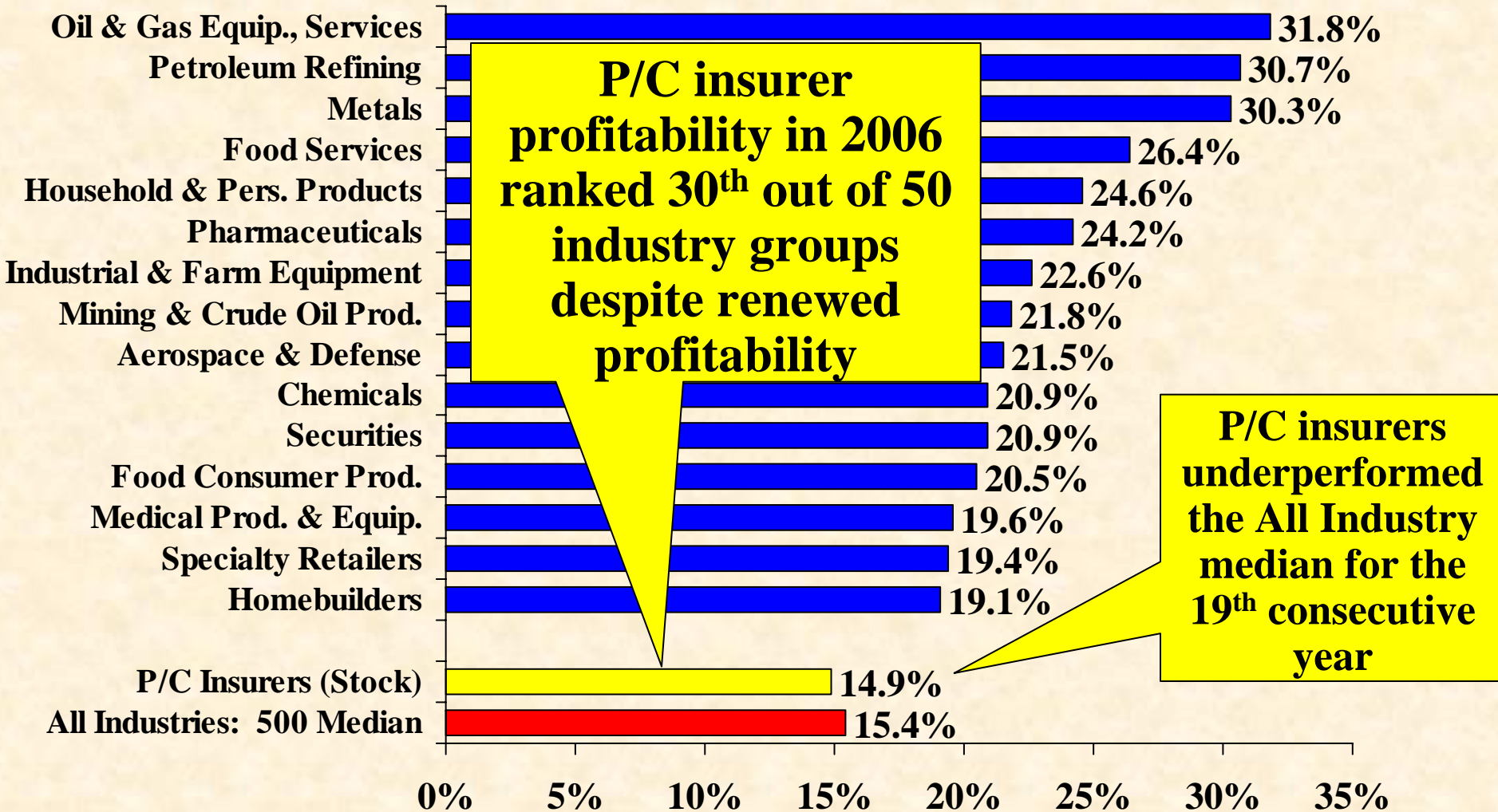
Mortgage insurers are down 66%, Title insurers down 35% on subprime & real estate woes

P/C insurance, reinsurance stocks lagging on soft market concerns, and subprime selloff. Some relief due to very low hurricane losses





Top Industries by ROE: P/C Insurers Still Underperformed in 2006*

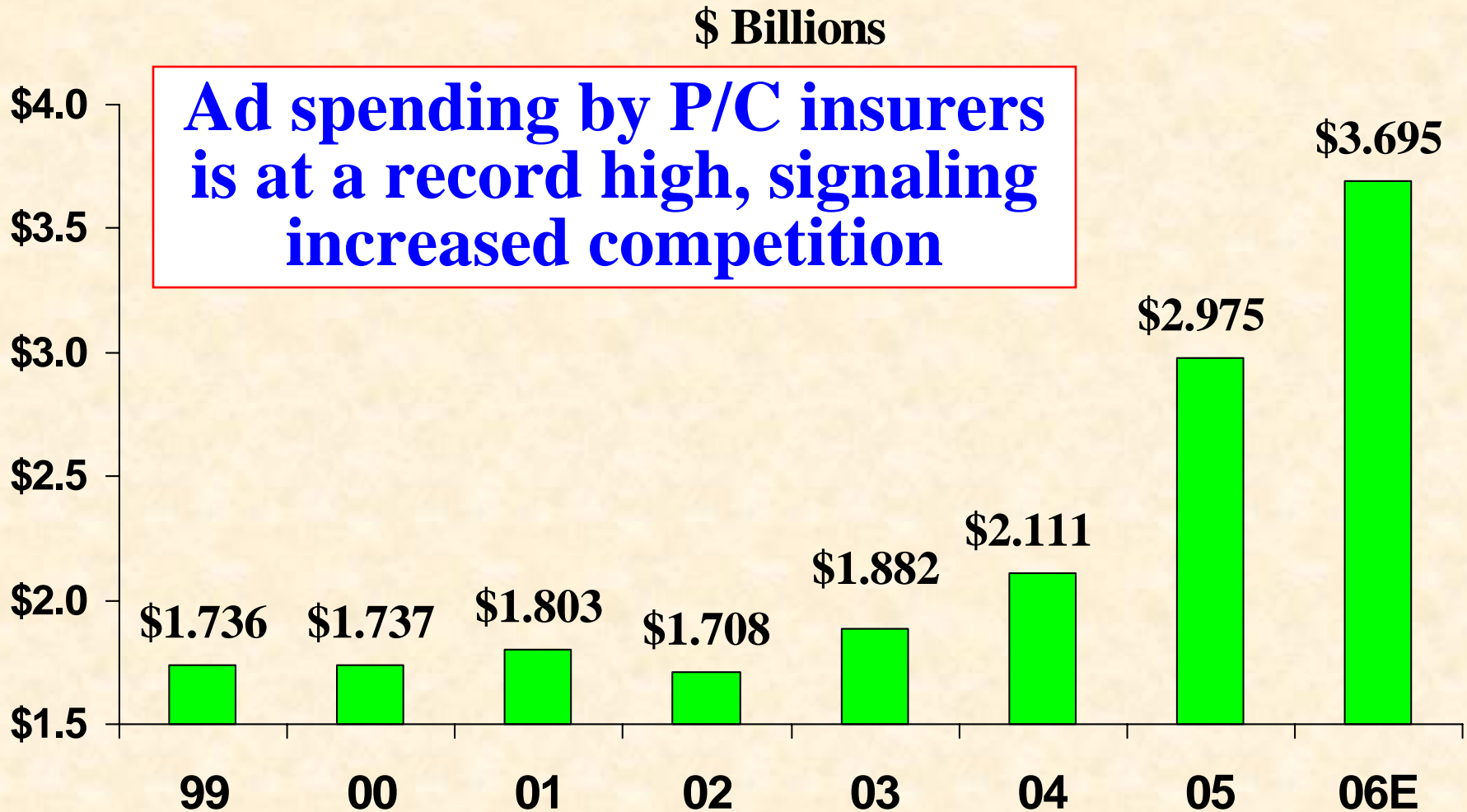


*Excludes #1 ranked Airline category at 65.1% due to special one-time bankruptcy-related factors.

Source: Fortune, April 30, 2007 edition; Insurance Information Institute



Advertising Expenditures by P/C Insurance Industry, 1999-2006



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

FINANCIAL STRENGTH & RATINGS

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



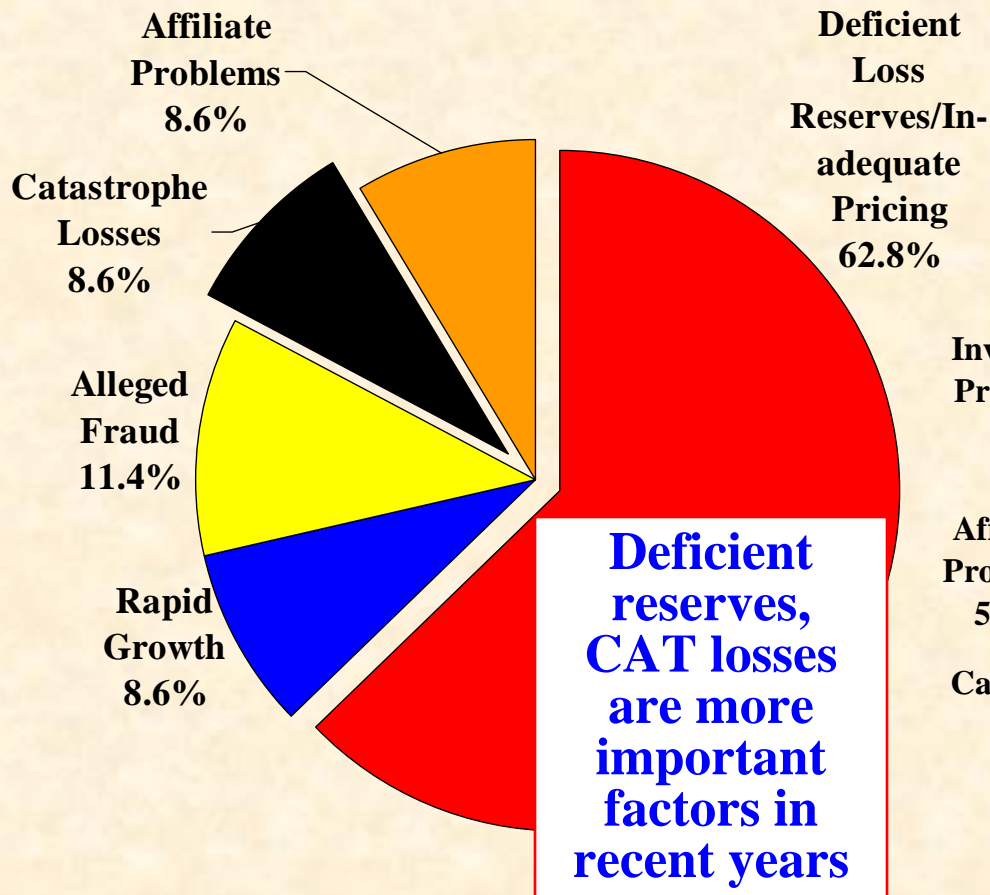
May Takes Its Toll



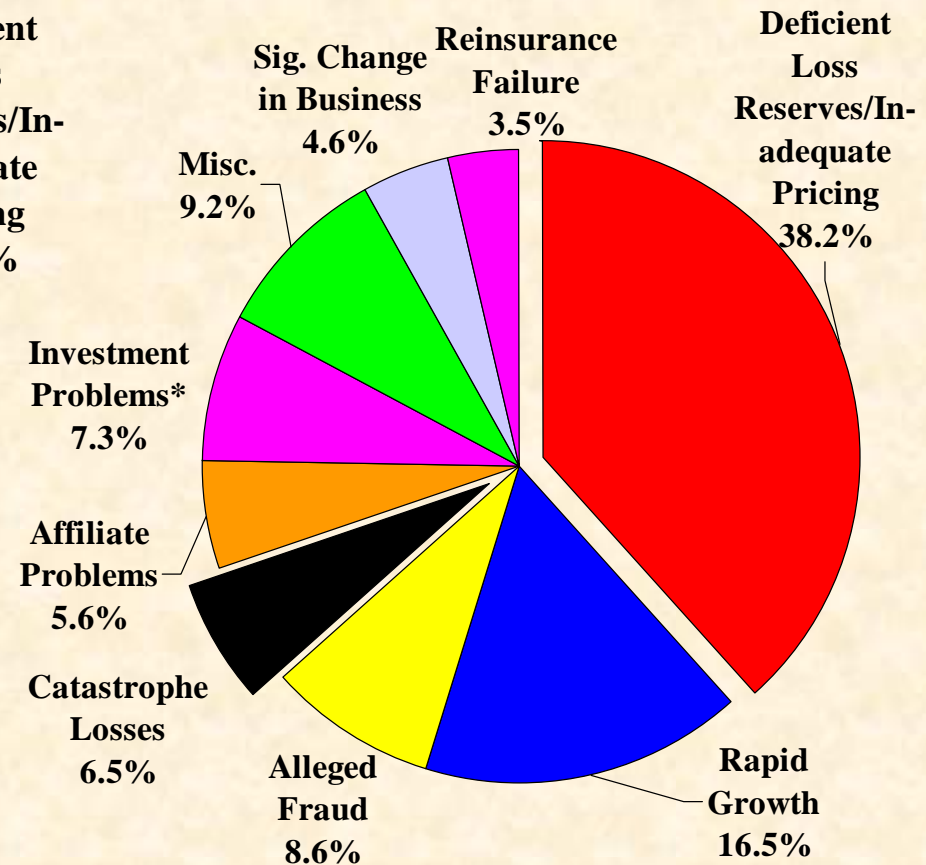


Reasons for US P/C Insurer Impairments, 1969-2005

2003-2005



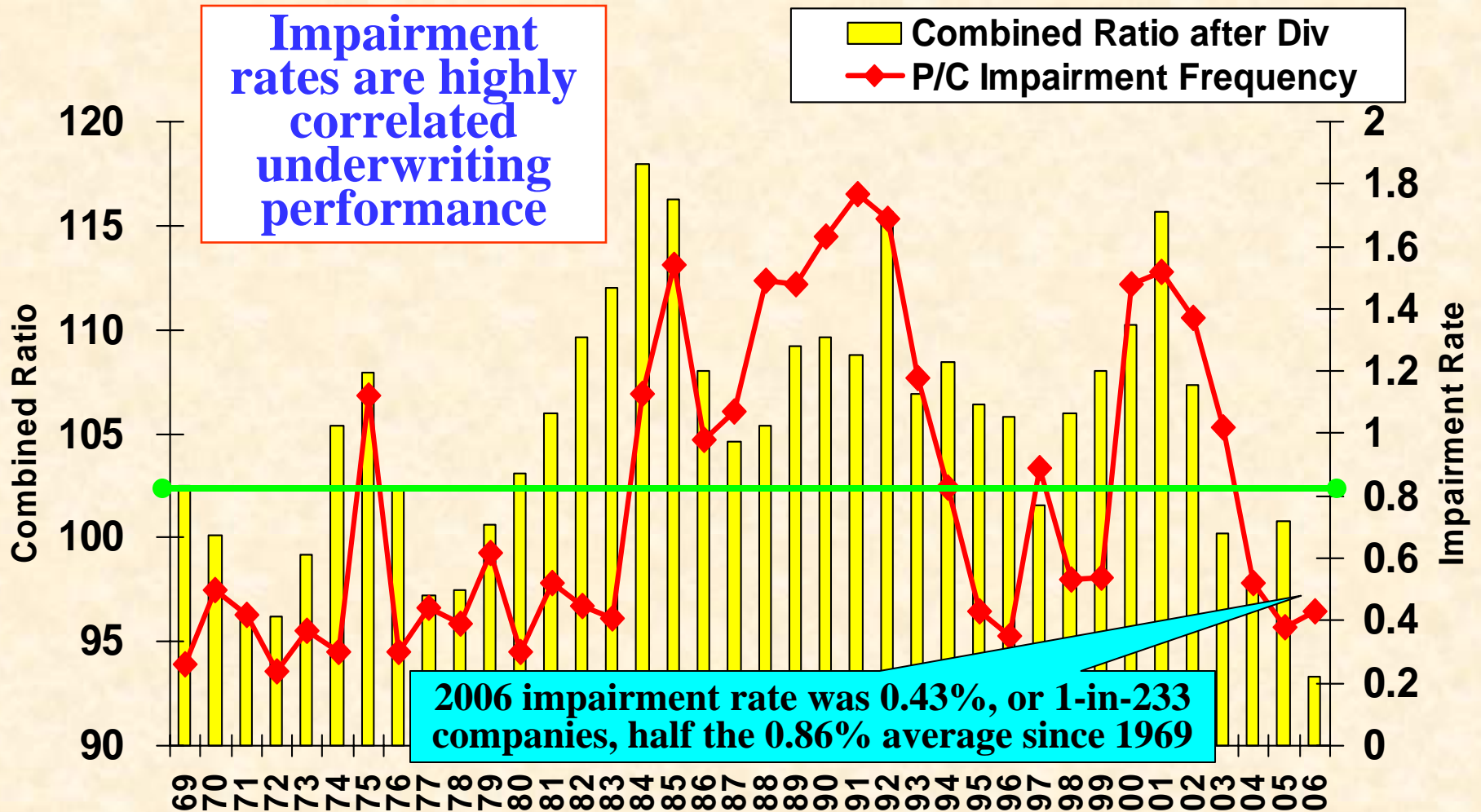
1969-2005



*Includes overstatement of assets.



P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2006



#2

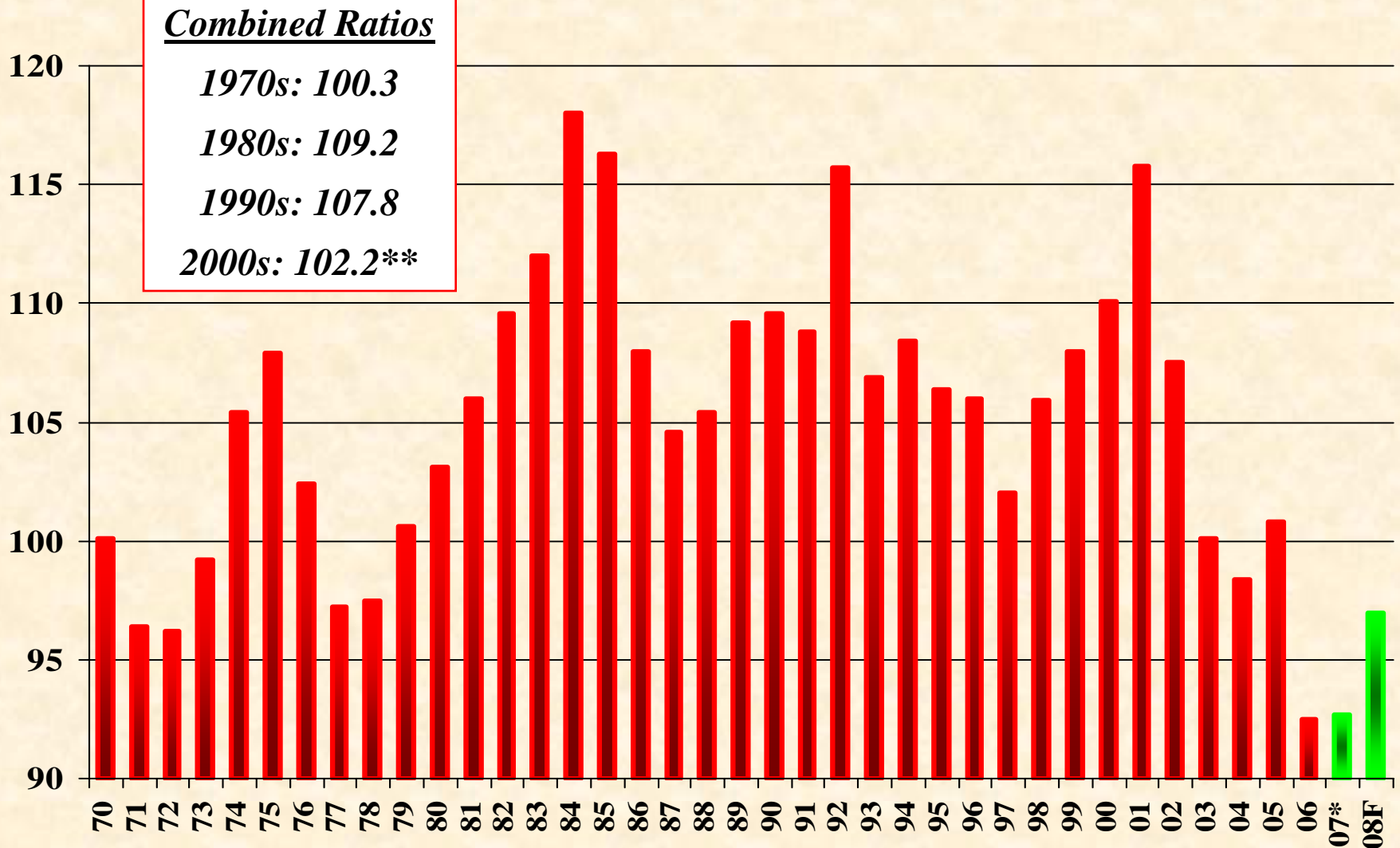
DETERIORATING UNDERWRITING

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





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

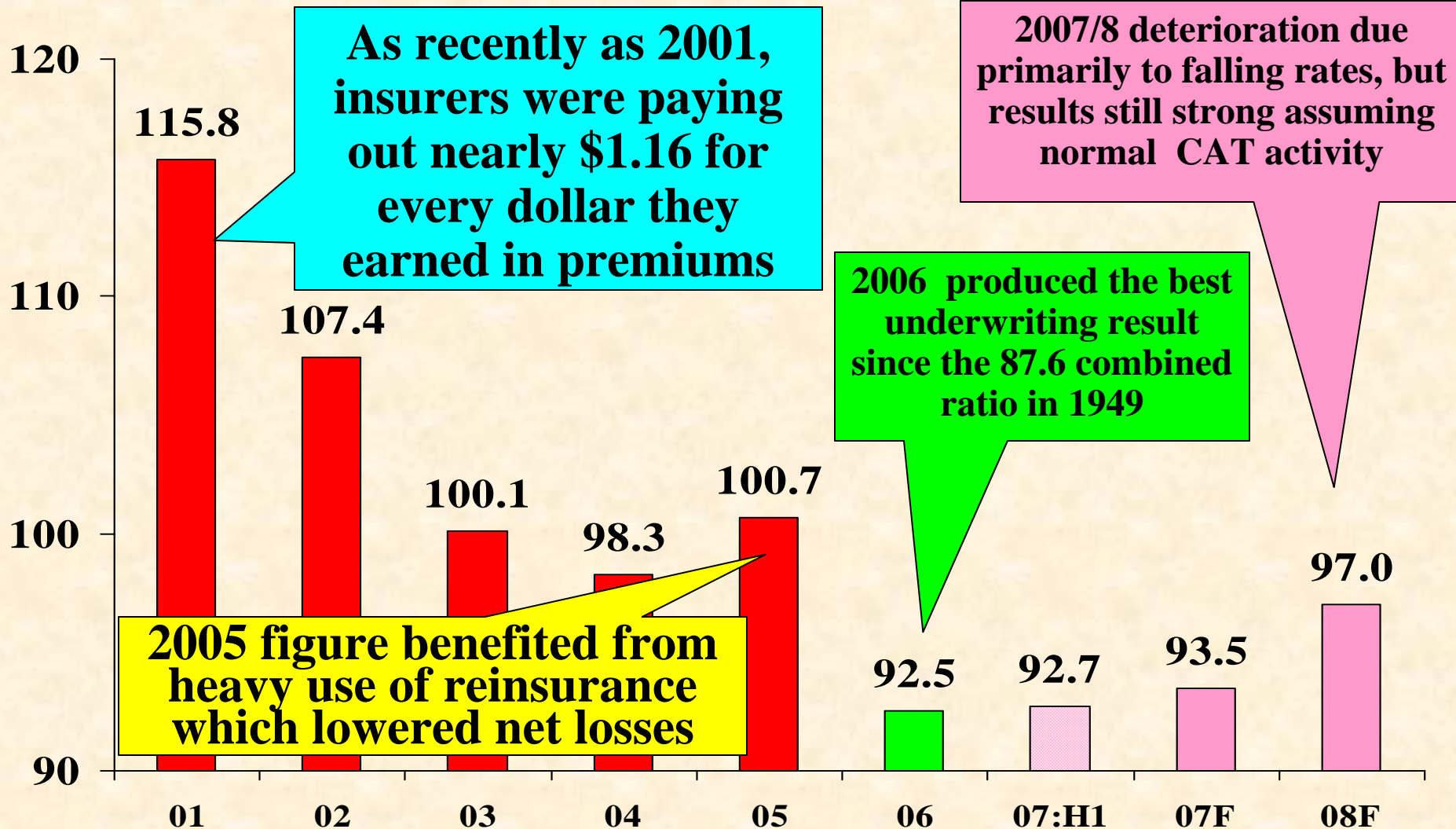


Sources: A.M. Best; ISO, III

*Actual figure of 92.7 through first half 2007. **Through 2007:H1.



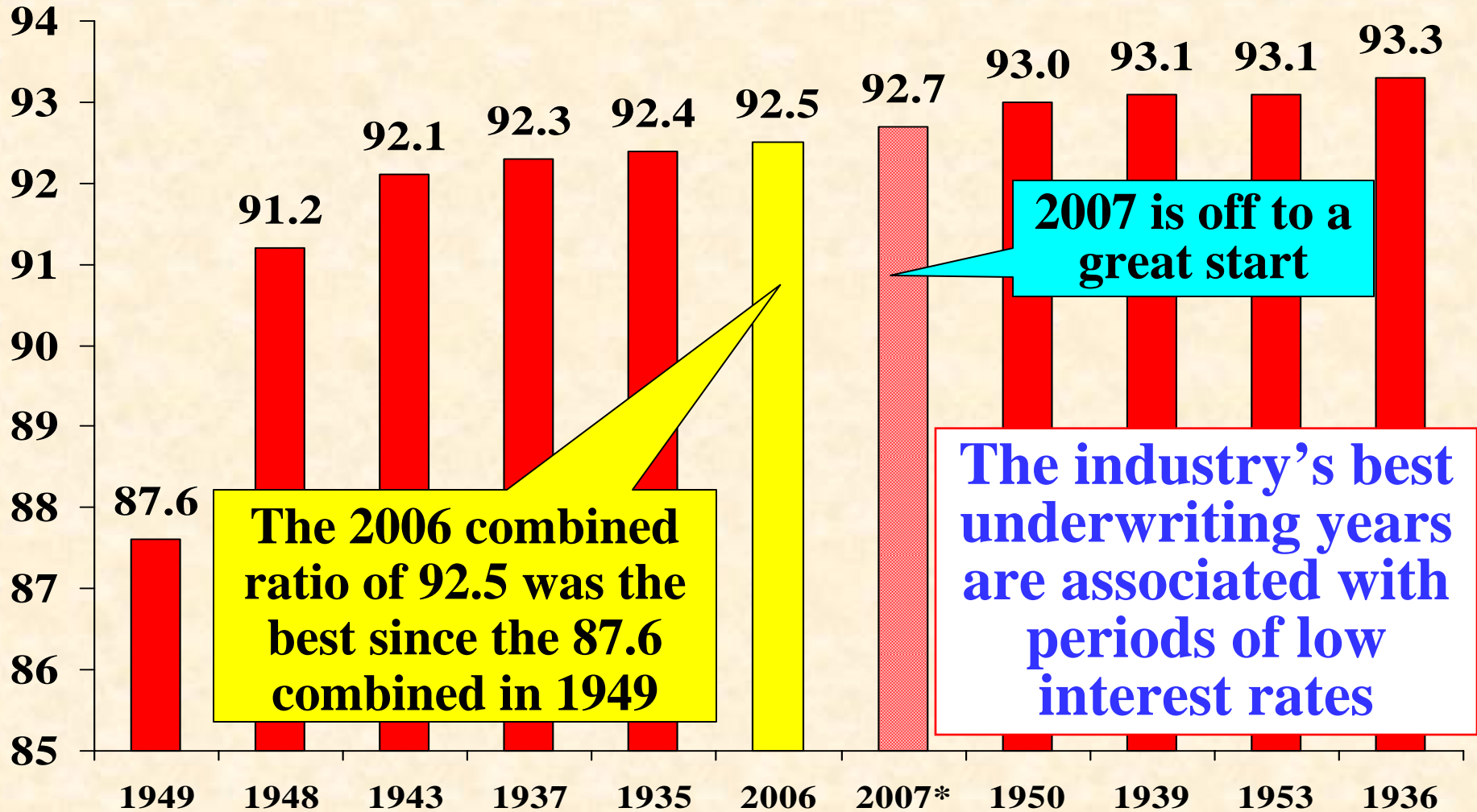
P/C Insurance Combined Ratio, 2001-2008F



Sources: A.M. Best; ISO, III. *III estimates for 2007/8.



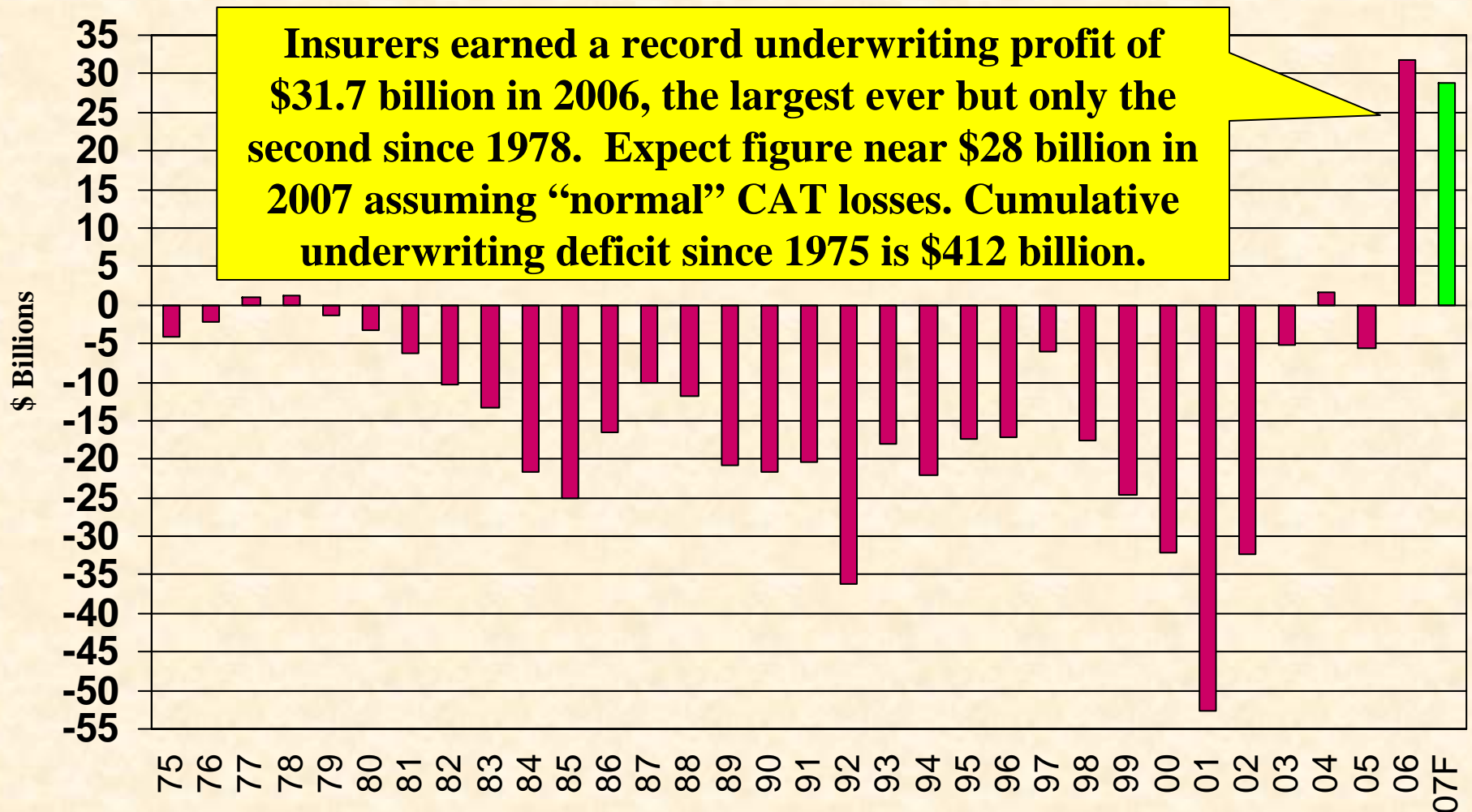
Ten Lowest P/C Insurance Combined Ratios Since 1920 (& 2007:H1)





Underwriting Gain (Loss)

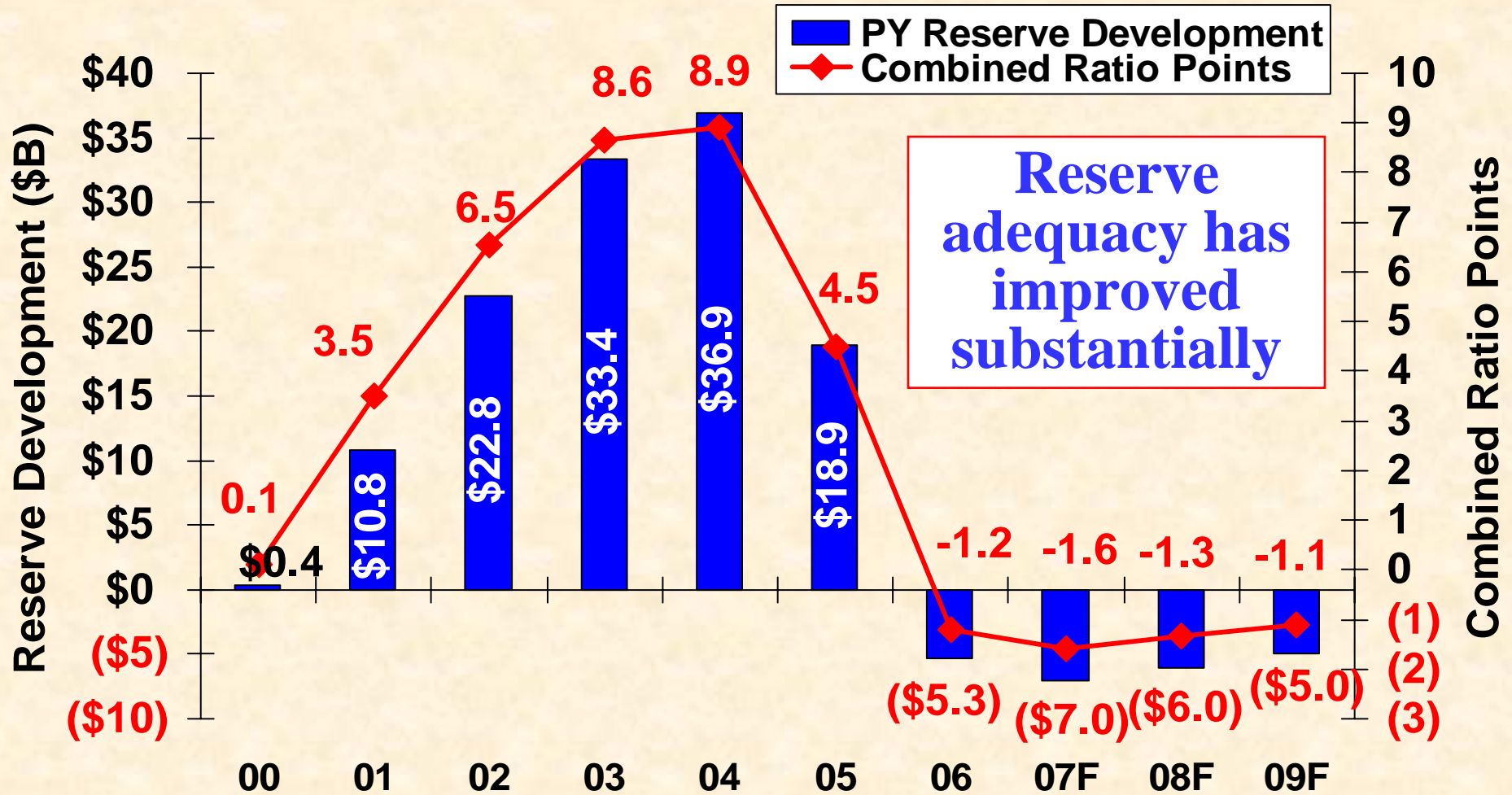
1975-2007F*



Source: A.M. Best, Insurance Information Institute *Actual 2007:H1 underwriting profit = \$14.402B annualized to \$28.8B.

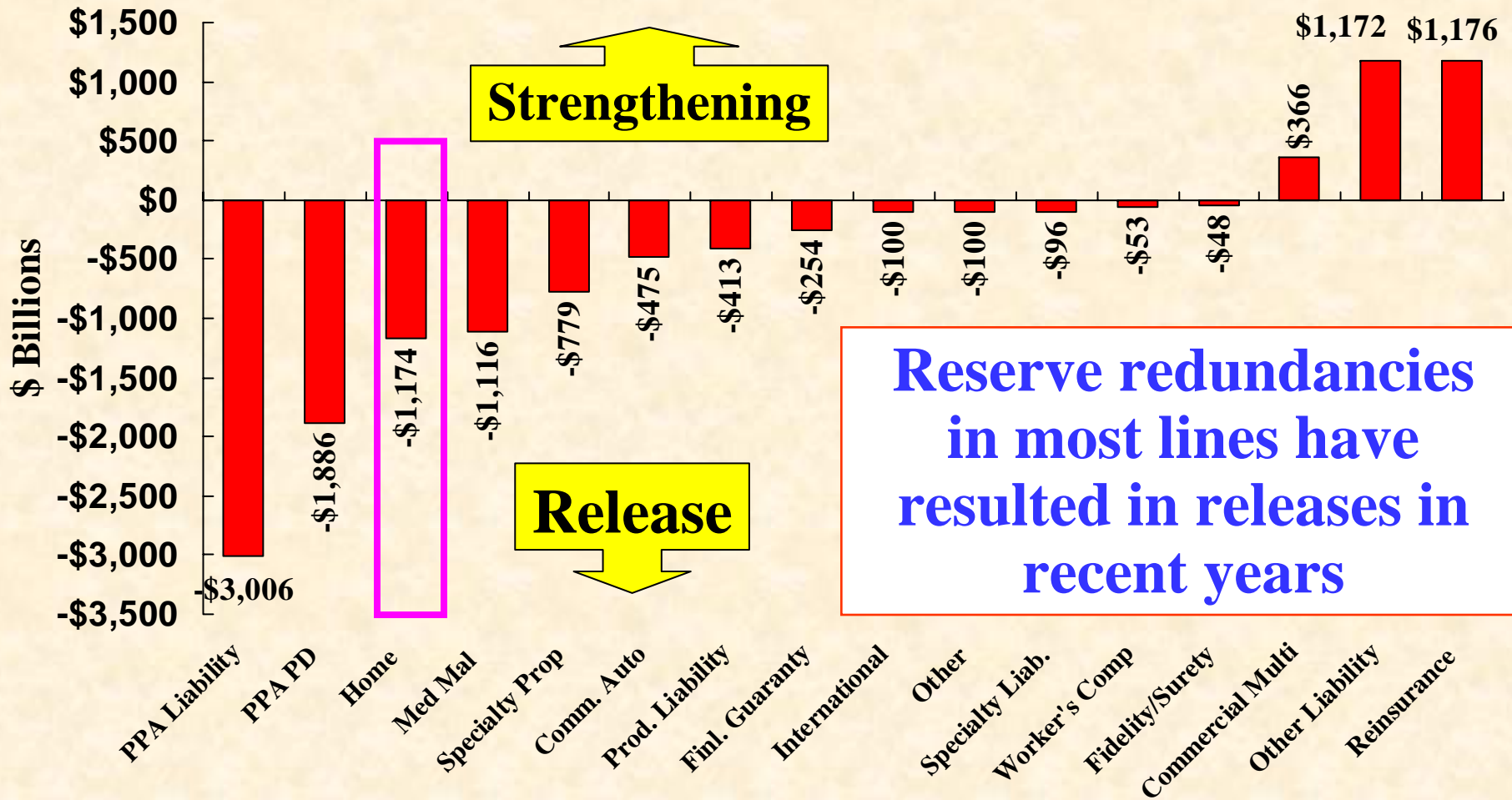


Impact of Reserve Changes on Combined Ratio





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



PERSONAL LINES:

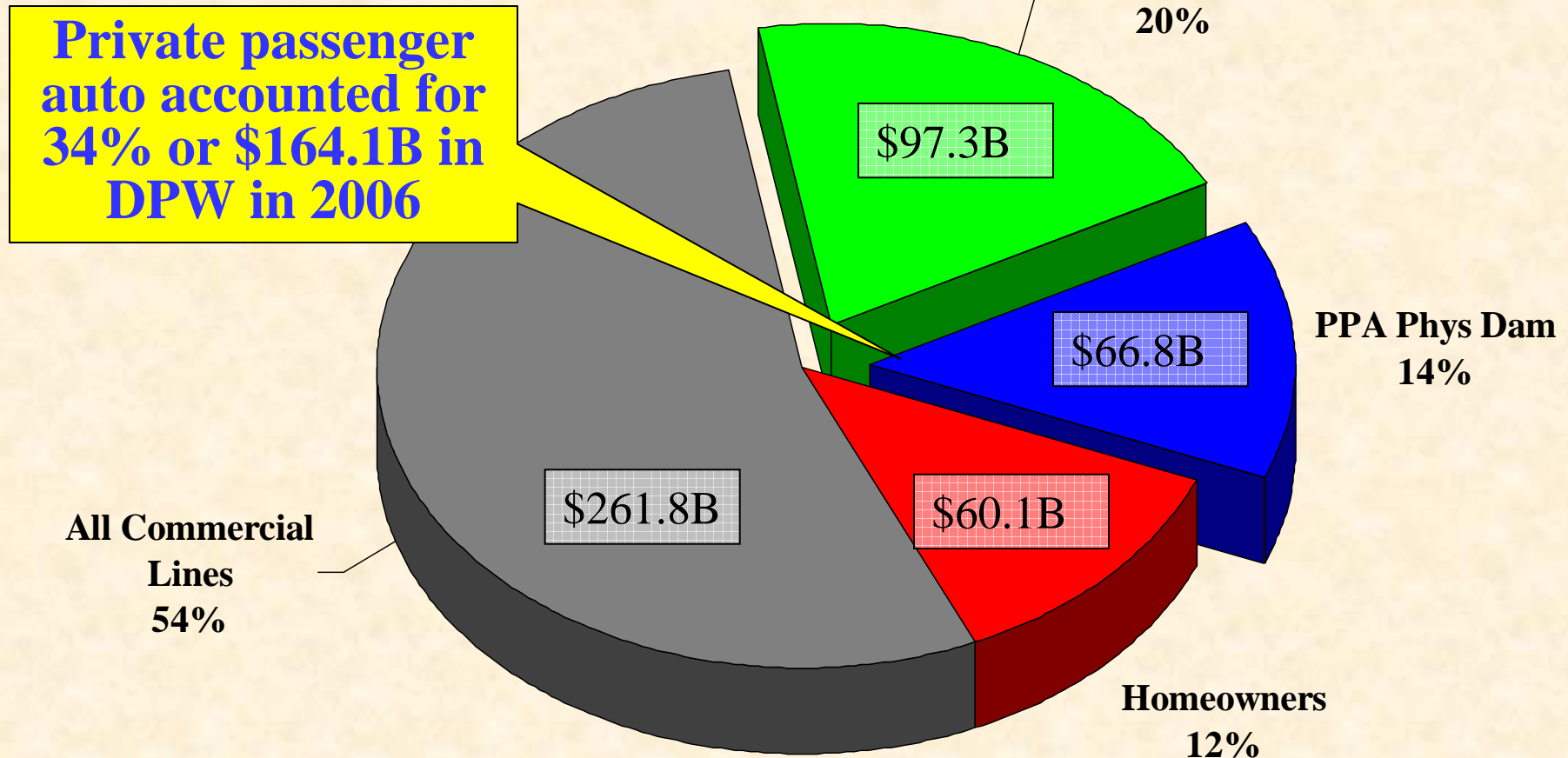
Private Passenger Auto





Private Passenger Auto is Enormous Part of P/C Industry

**Total 2006 Direct Personal + Commercial Premiums Written
= \$486.1 Billion**



**Private passenger
auto accounted for
34% or \$164.1B in
DPW in 2006**

**All Commercial
Lines
54%**

**PPA Liability
20%**

**PPA Phys Dam
14%**

**Homeowners
12%**

\$261.8B

\$97.3B

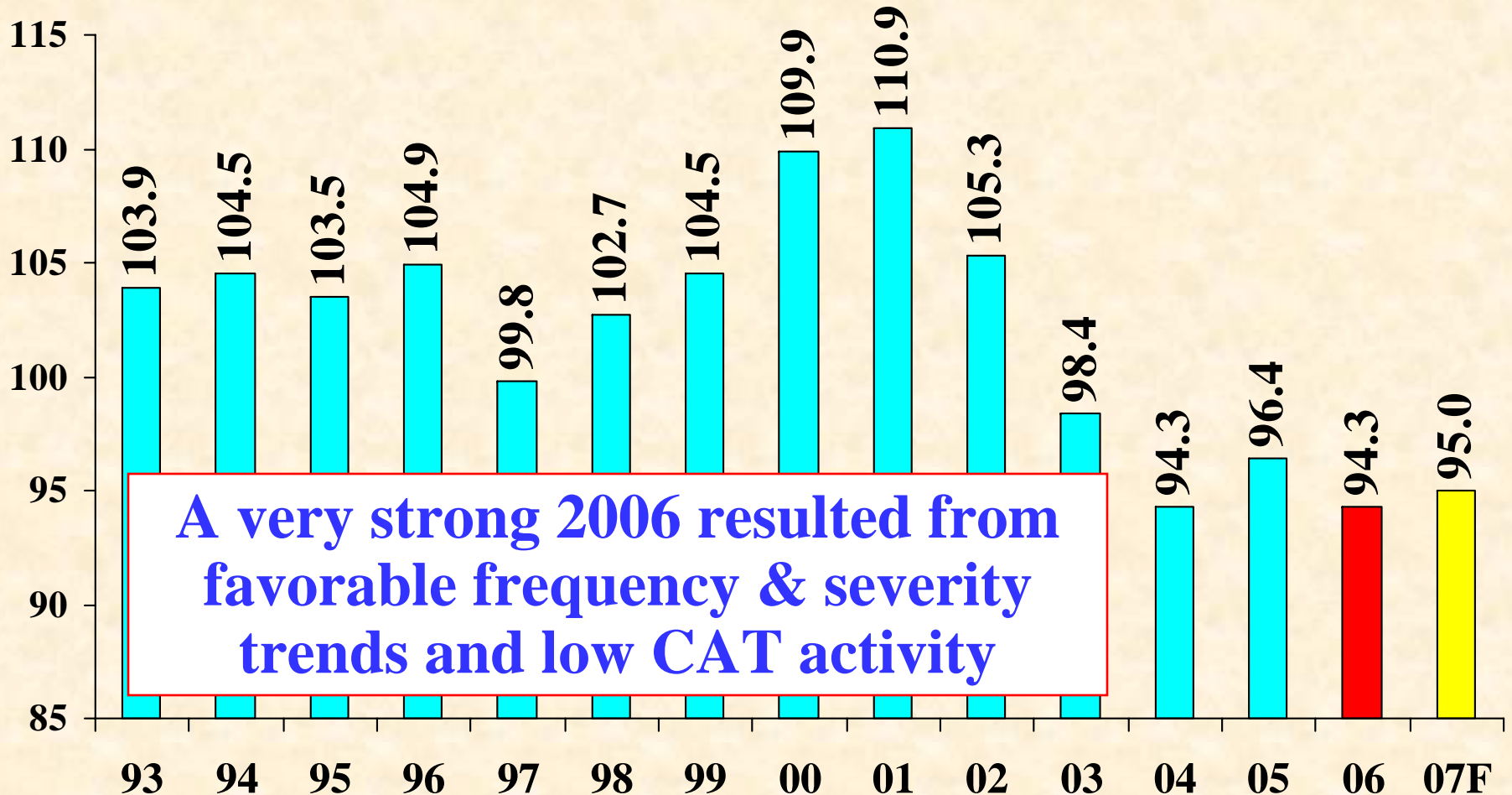
\$66.8B

\$60.1B



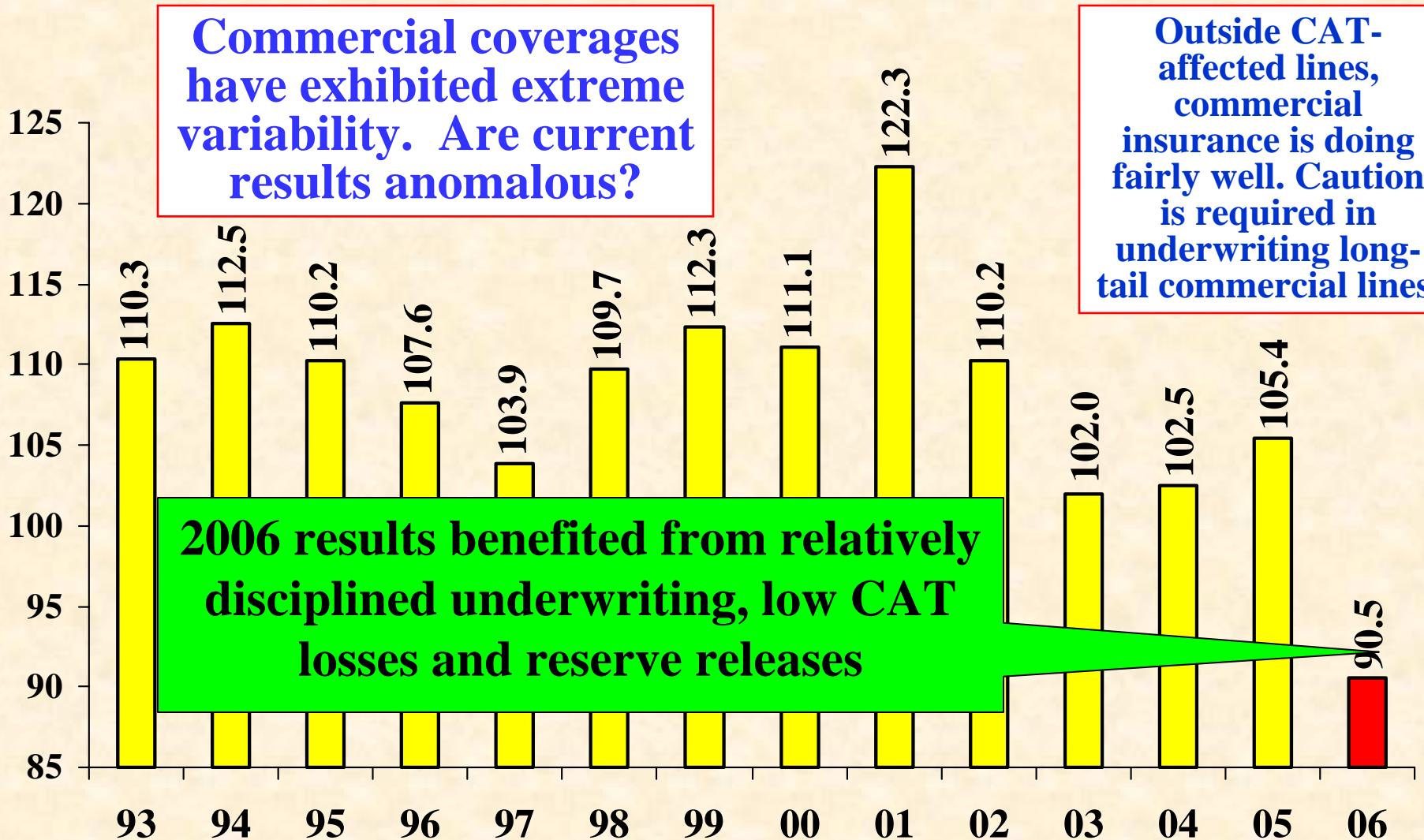
Personal Lines

Combined Ratio, 1993-2006





Commercial Lines Combined Ratio, 1993-2006

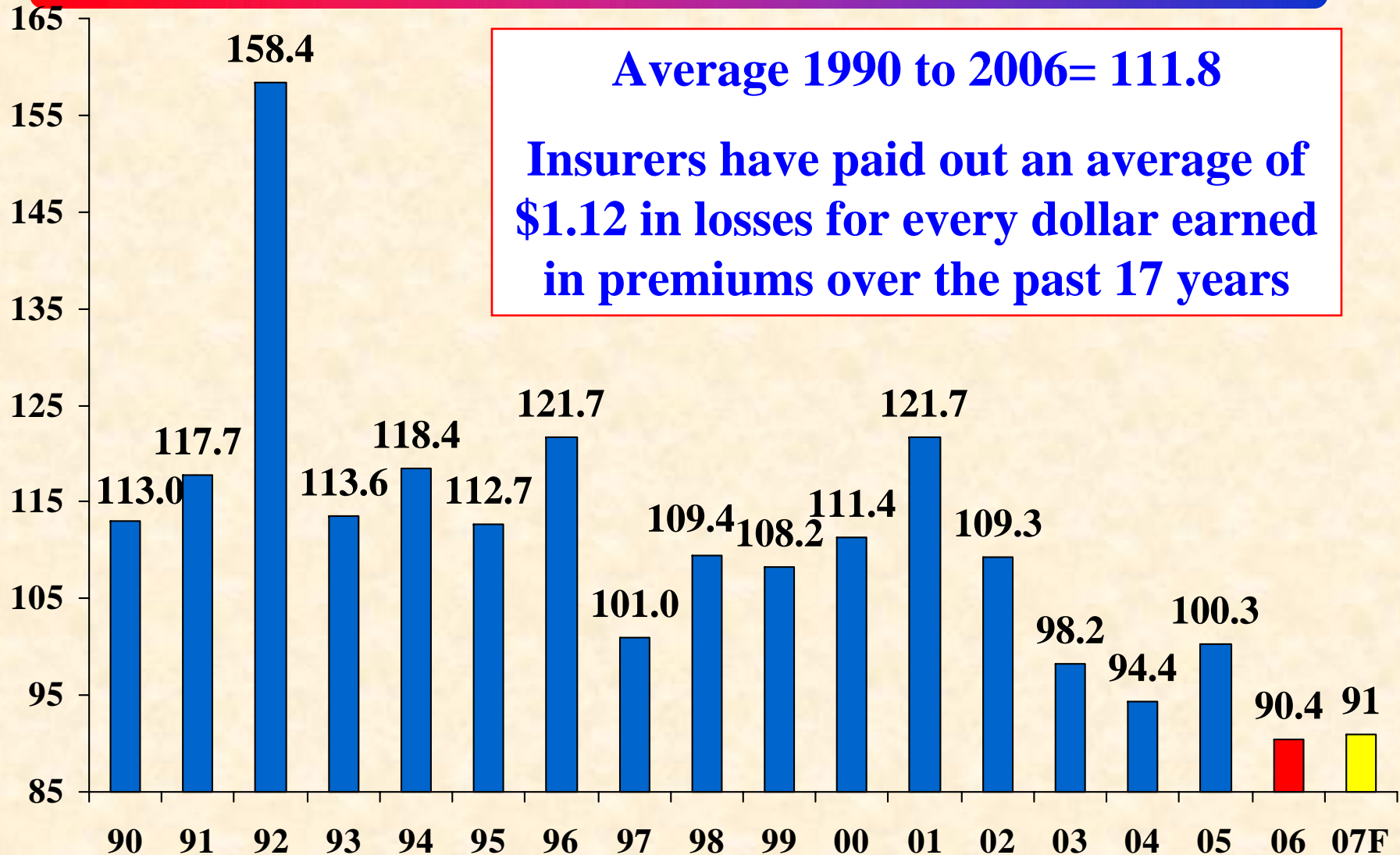


Homeowners Insurance



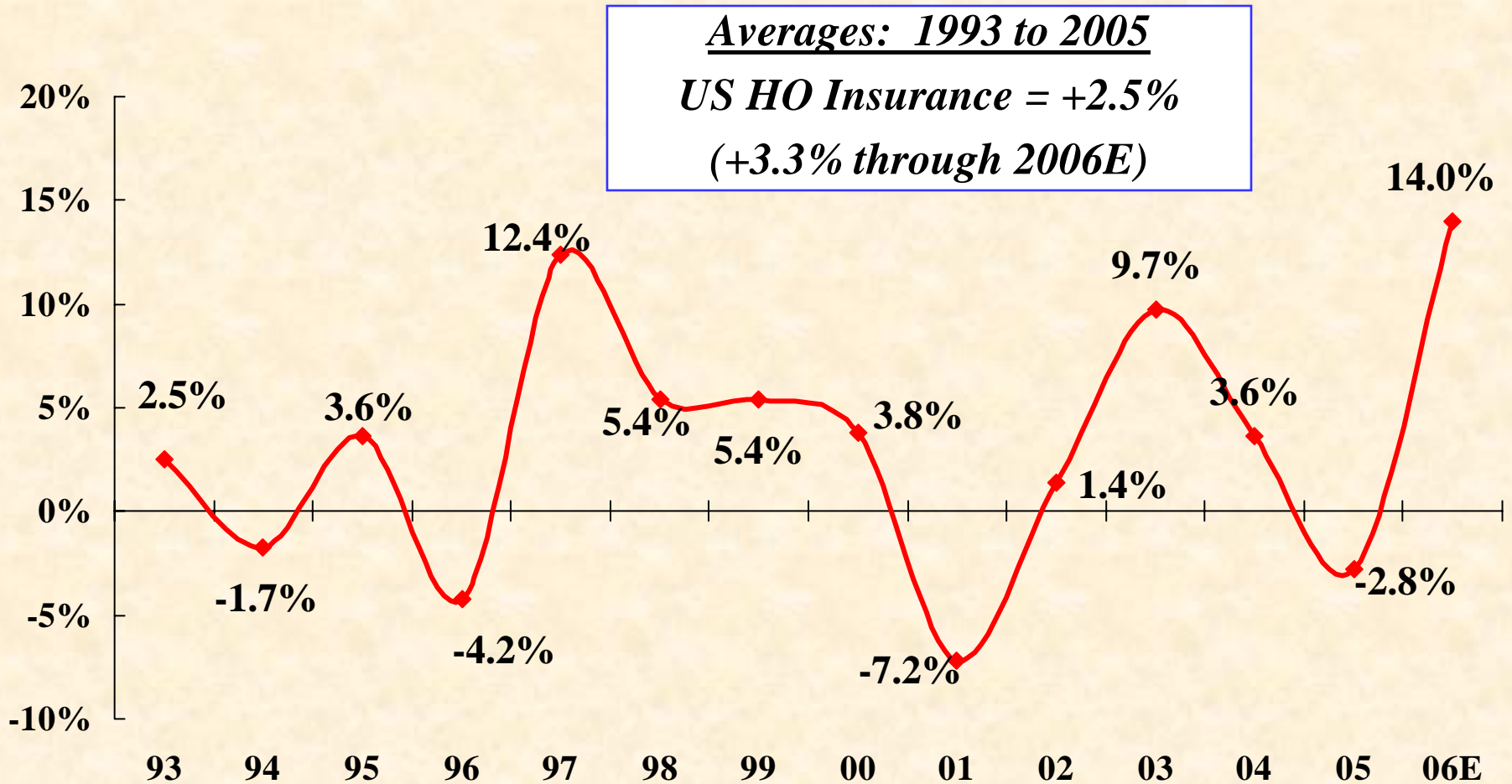


Homeowners Insurance Combined Ratio





Rates of Return on Net Worth for Homeowners Ins: US



36-0857



HOME INVENTORY

INSTRUCTIONS

Minimum requirements: Windows XP, 2000, or MAC OS 10.3 or higher

WINDOWS INSTALLATION

To install the Windows version of the Know Your Stuff Home Inventory Software, double click on the file named "Windows_Installer.exe" and follow the installation prompts.

MAC INSTALLATION

To install the Mac version of the Know Your Stuff Home Inventory Software, double click on the file named "Mac_Installer.dmg".

Note: There are two CDs in this case. One is the Know Your Stuff software installation CD and the other is a blank CD on which you can burn a copy of your home inventory.

version 2.06

I.I.I. HOME INVENTORY SOFTWARE KNOW YOUR STUFF

I.I.I. HOME INVENTORY SOFTWARE

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**Allstate is offering a
version of its Home
Inventory software to
its customers**

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#3

VANISHING PREMIUM GROWTH

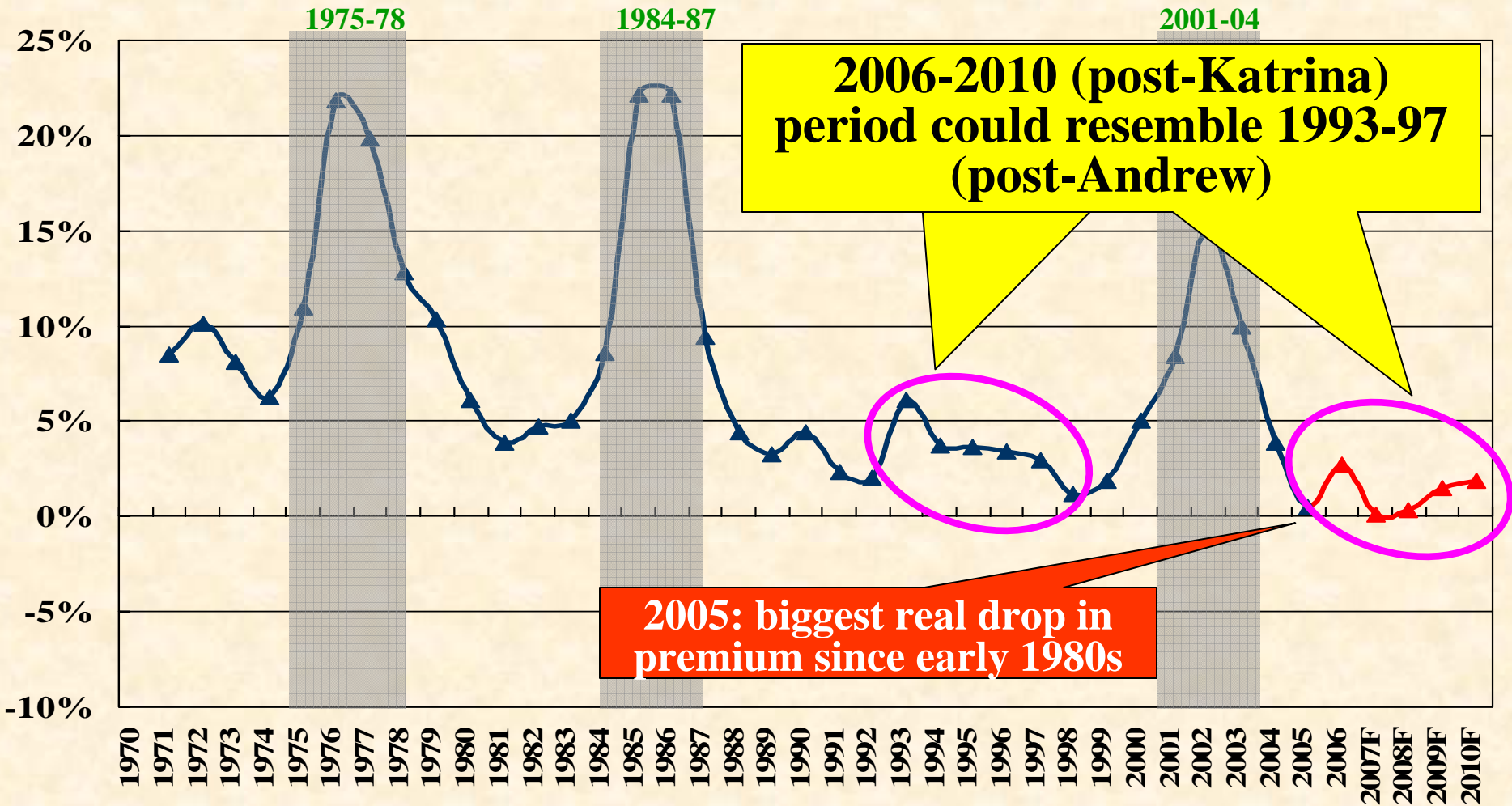


**At a Virtual Standstill
in 2007/08**





Strength of Recent Hard Markets by NWP Growth*

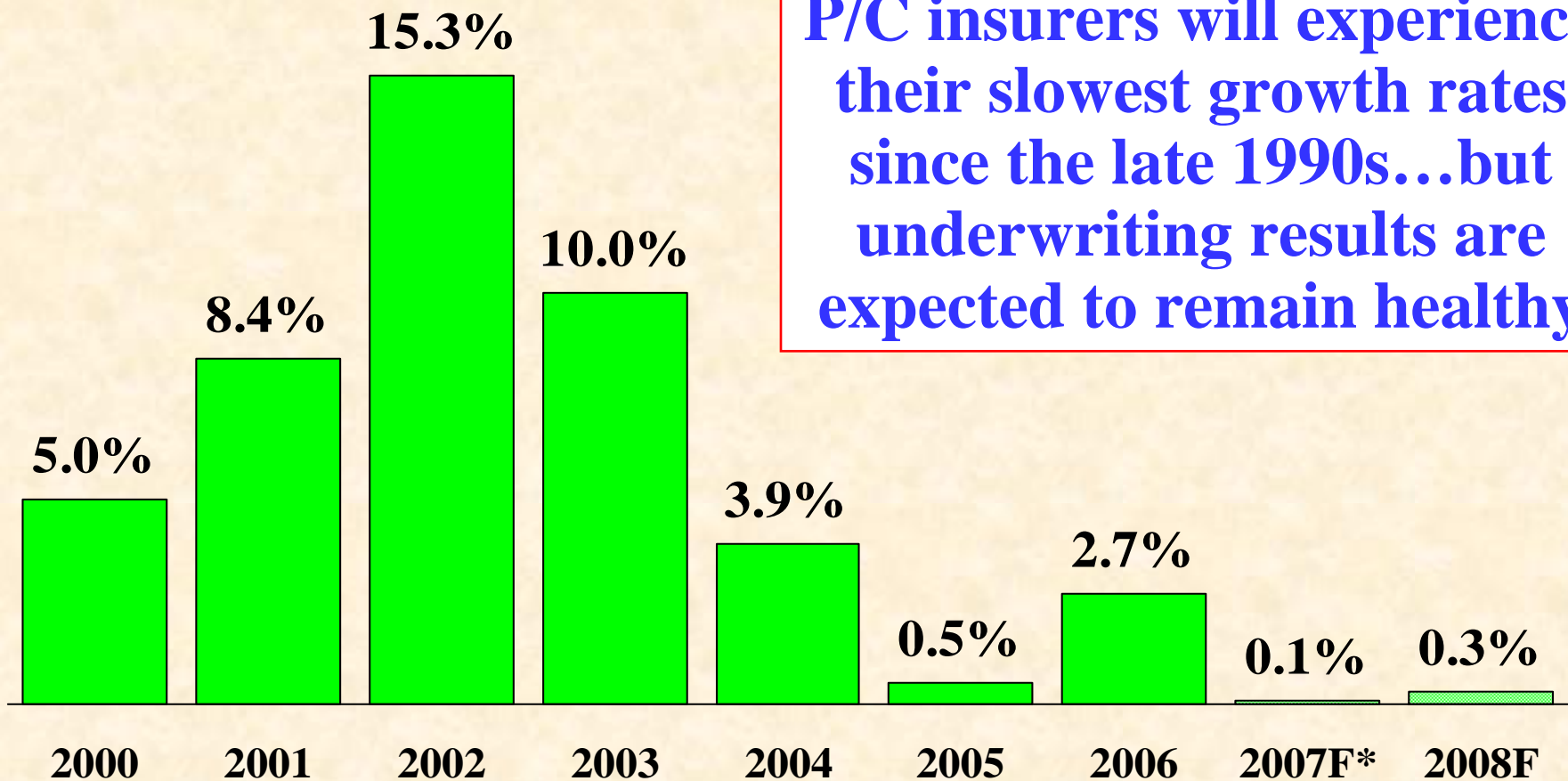


Note: Shaded areas denote hard market periods.
Source: A.M. Best, Insurance Information Institute

*2007-10 figures are III forecasts/estimates.



Growth in Net Written Premium, 2000-2008F



P/C insurers will experience their slowest growth rates since the late 1990s...but underwriting results are expected to remain healthy

*2007 figure base on 2007 actual first half result of 0.1%.

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

#4

WEAK PRICING

**Under Intense Pressure
in 2007/08, Especially**

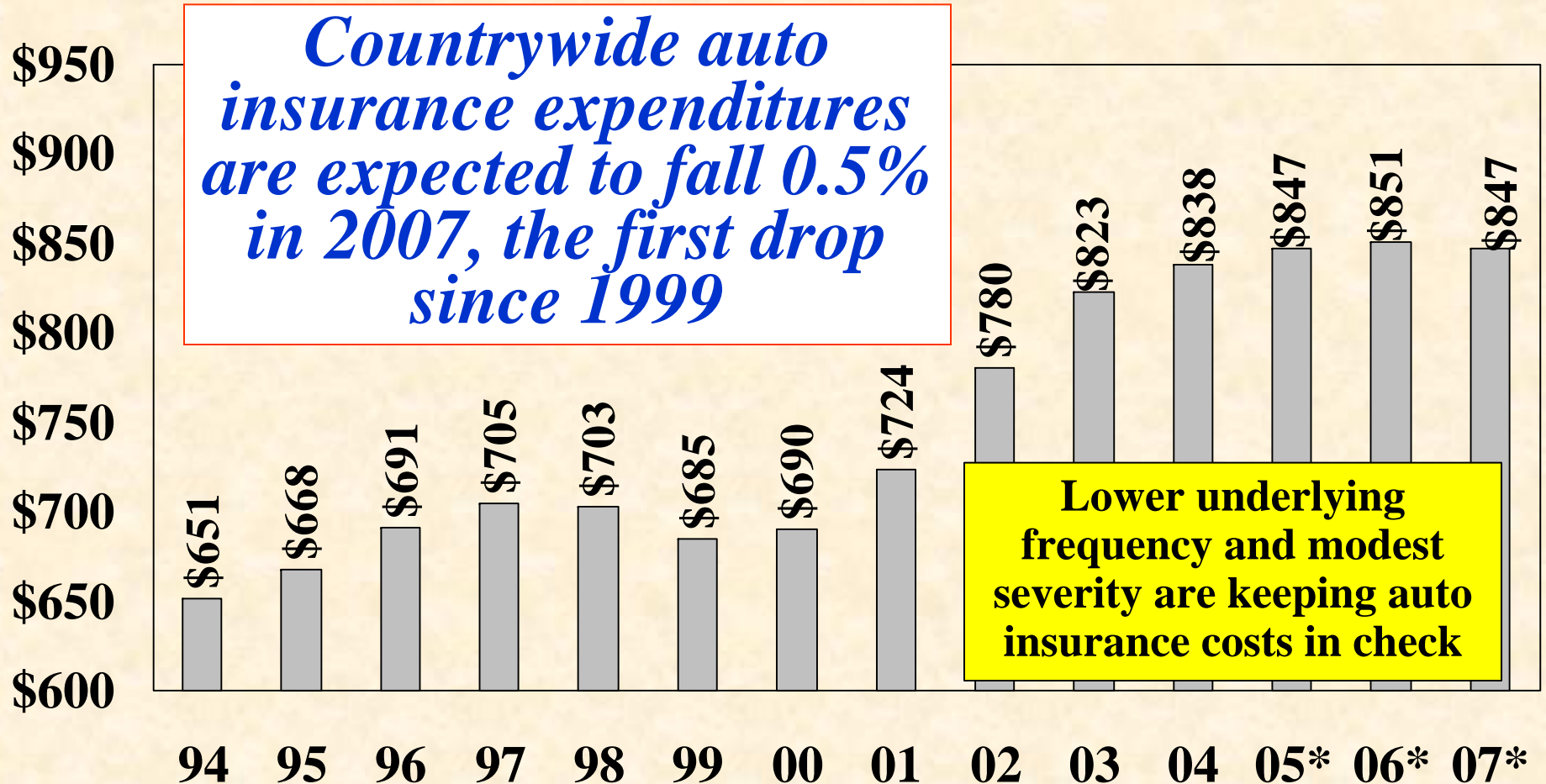


Commercial Lines





Average Expenditures on Auto Insurance



*Insurance Information Institute Estimates/Forecasts

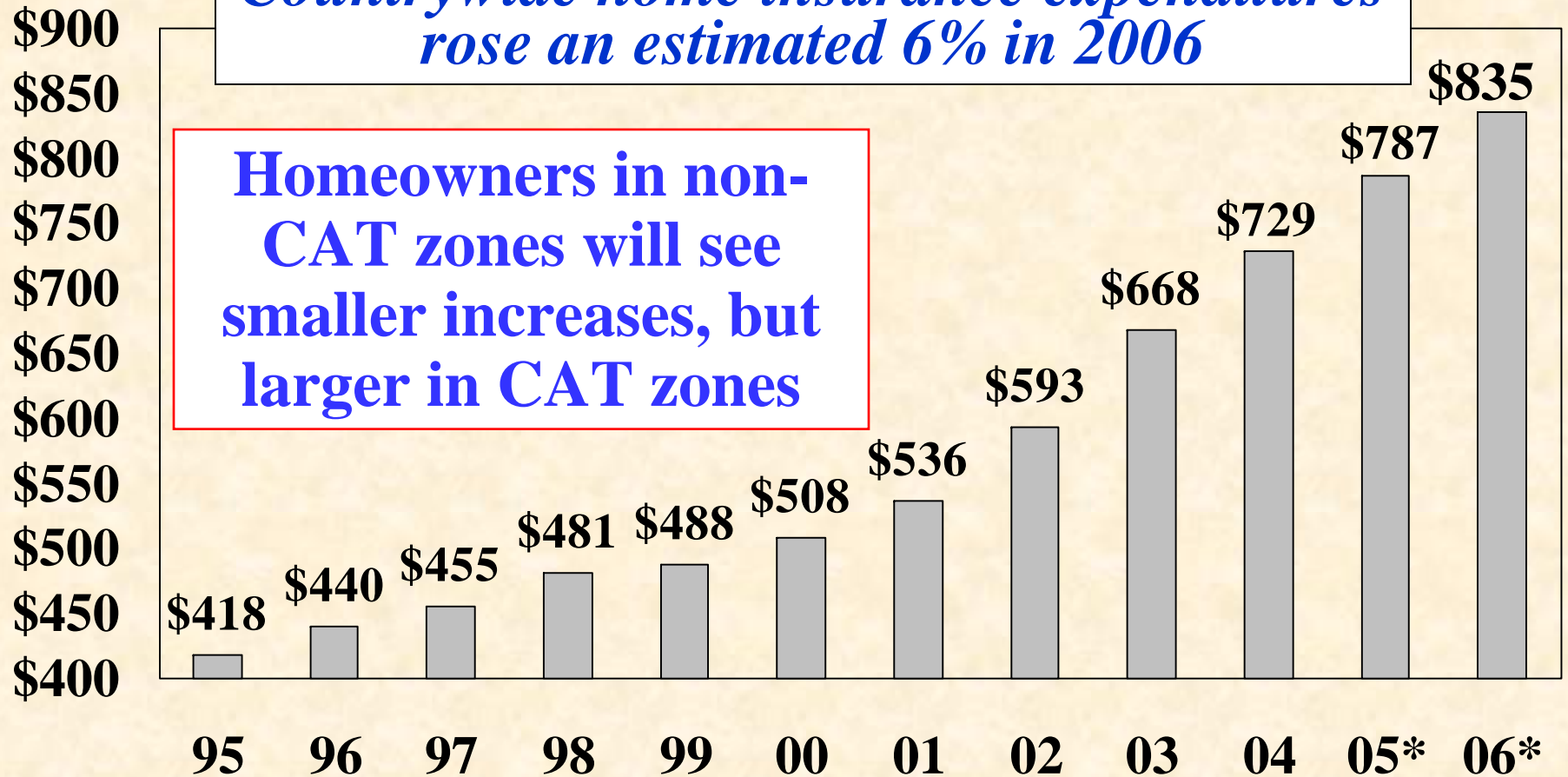
Source: NAIC, Insurance Information Institute



Average Expenditures on Homeowners Insurance**

Countrywide home insurance expenditures rose an estimated 6% in 2006

Homeowners in non-CAT zones will see smaller increases, but larger in CAT zones



*Insurance Information Institute Estimates/Forecasts

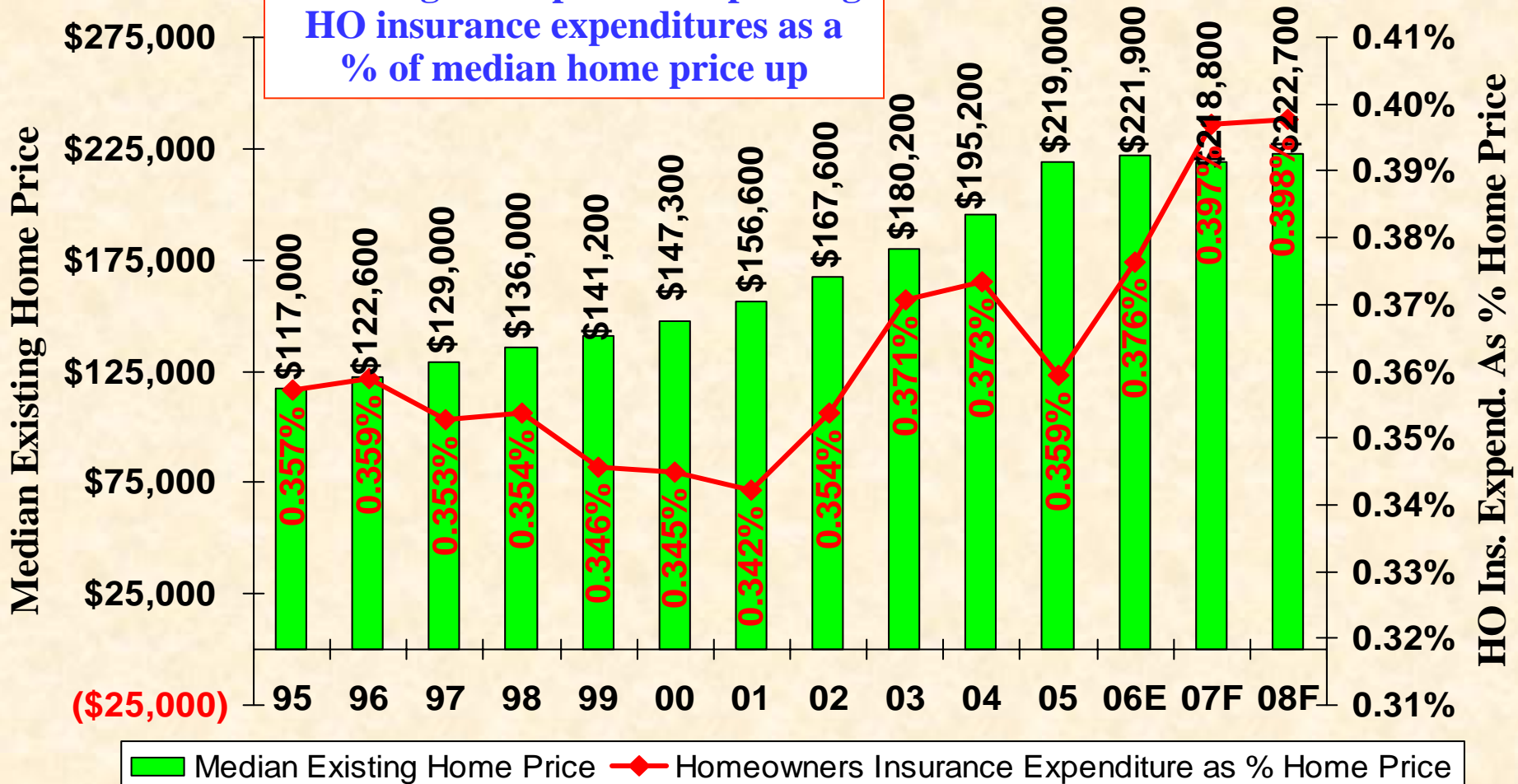
**Excludes cost of flood and earthquake coverage.

Source: NAIC, Insurance Information Institute



Homeowners Insurance Expenditures as a % of Median Existing Home Prices, 1995-2008F

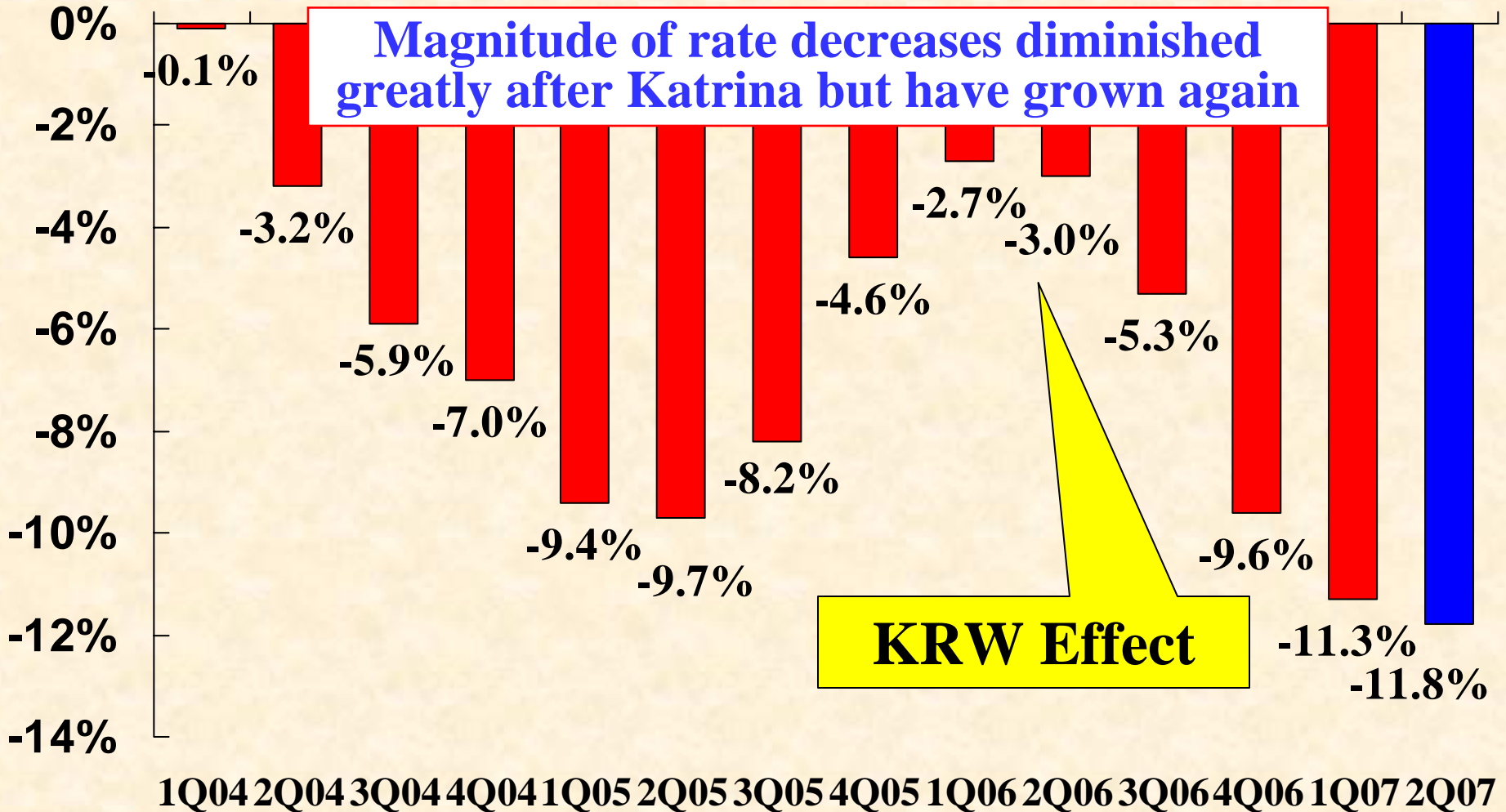
Record catastrophe losses and declining home prices are pushing HO insurance expenditures as a % of median home price up



Source: National Association of Realtors, NAIC; Insurance Info. Institute calculations and HO expenditure estimates/forecasts for years 2005-2008.

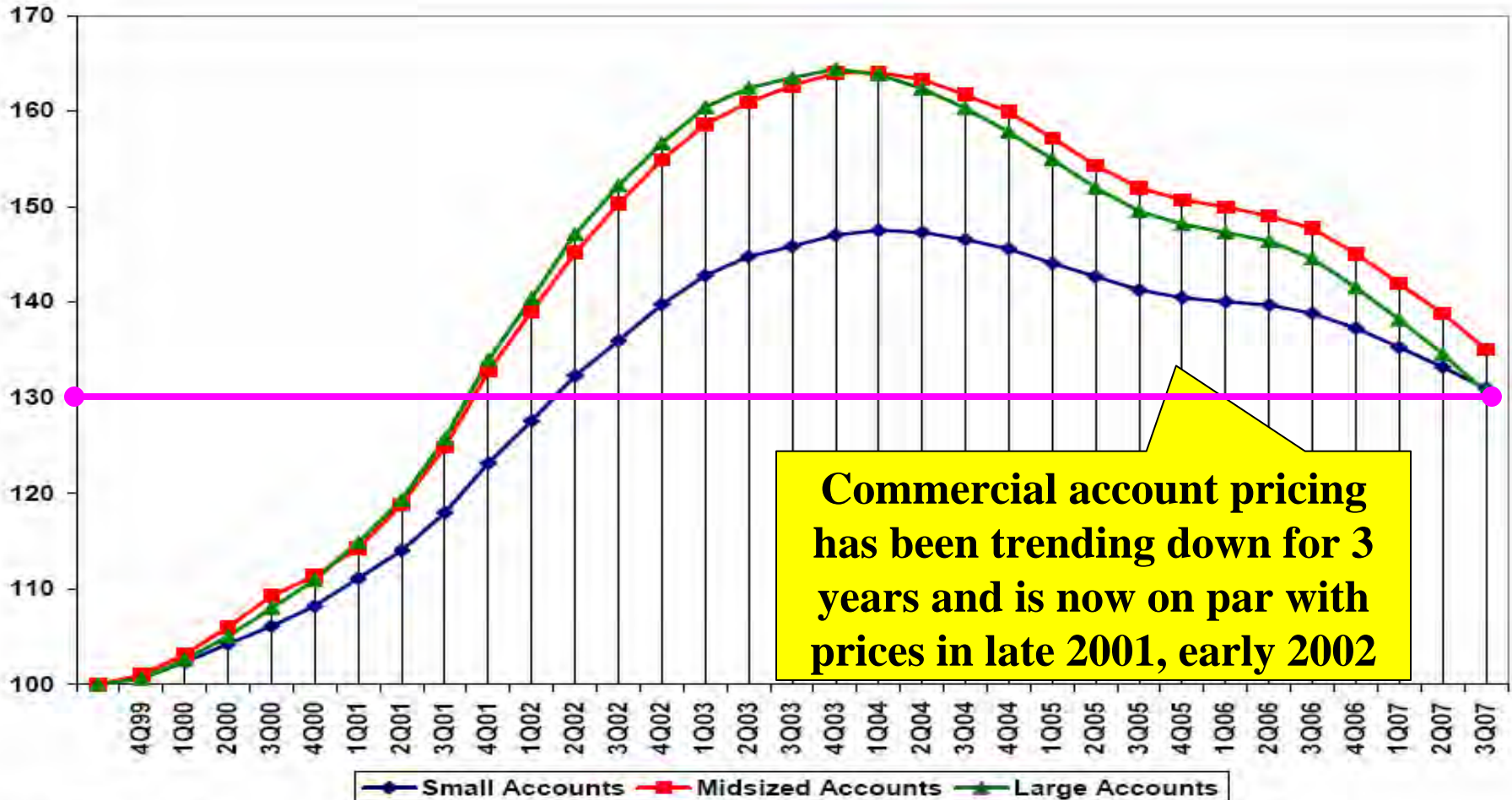


Average Commercial Rate Change, All Lines, (1Q:2004 – 2Q:2007)





Cumulative Commercial Rate Change by Line: 4Q99 – 3Q07



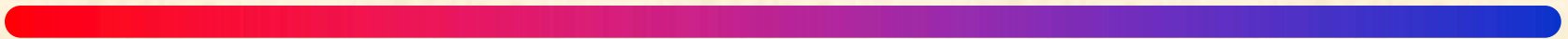
Source: Council of Insurance Agents & Brokers. Chart prepared by Lehman Brothers Equity Research.

Source: Council of Insurance Agents & Brokers

#5

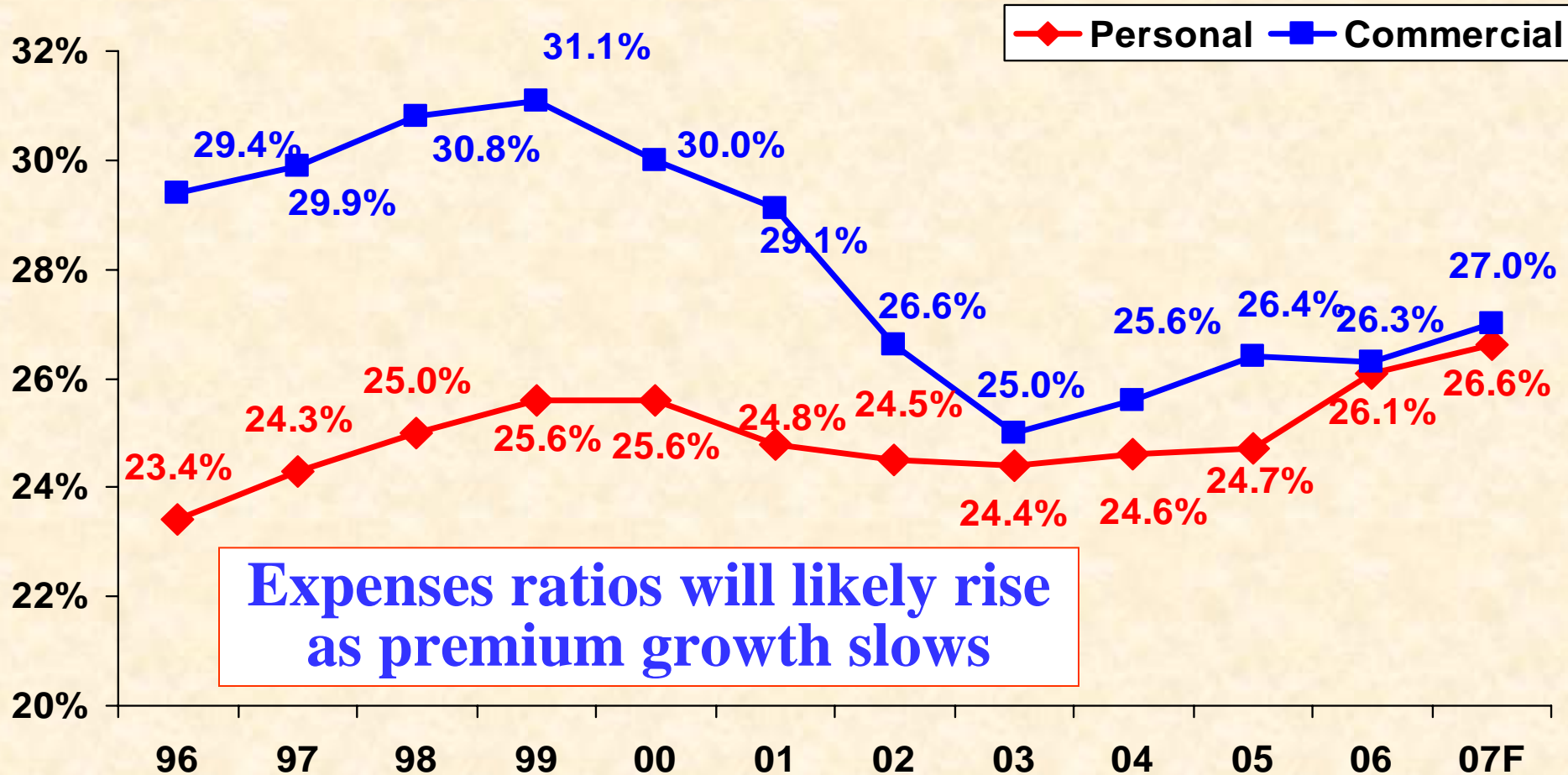
RISING EXPENSES

*Expense Ratios Will Rise as
Premium Growth Slows*





Personal vs. Commercial Lines Underwriting Expense Ratio*



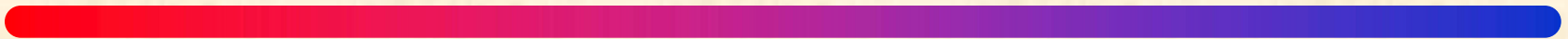
*Ratio of expenses incurred to net premiums written.

Source: A.M. Best; Insurance Information Institute

#6

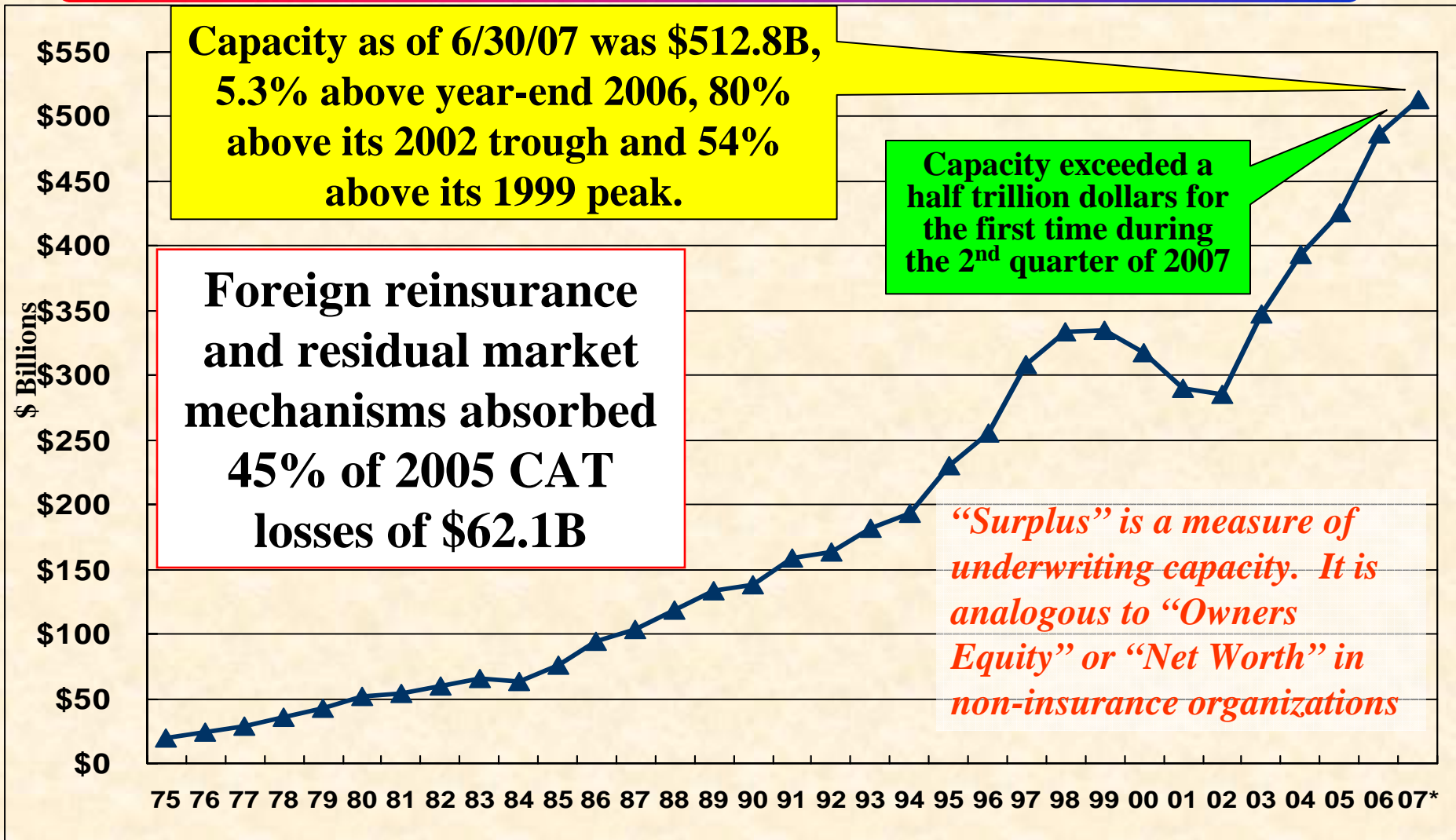
OVERCAPACITY

**Accumulation of Capital/
Surplus Depresses ROEs**





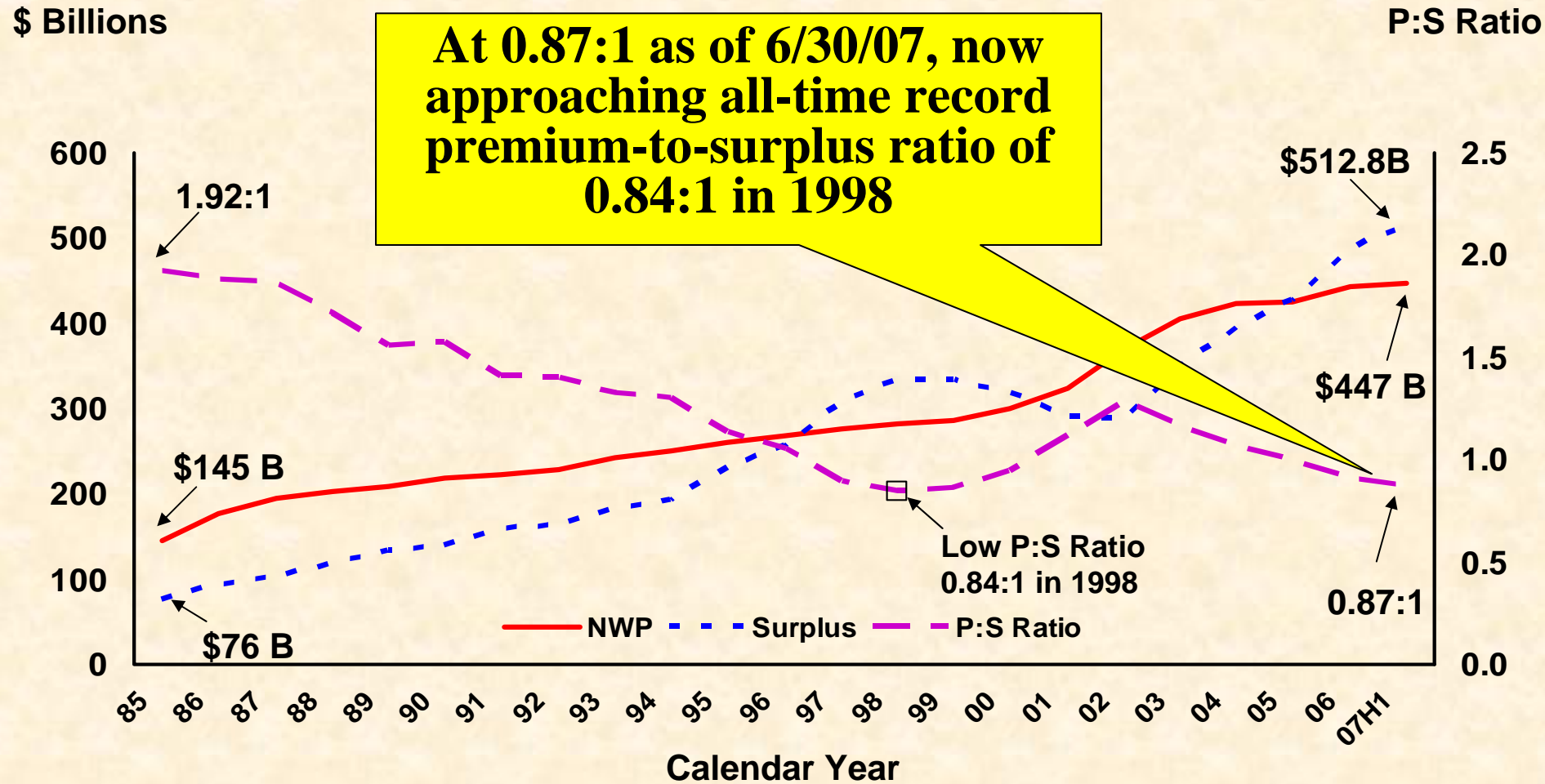
U.S. Policyholder Surplus: 1975-2007*





P/C Industry Premium-to-Surplus Ratio, 1985-2007:H1

Private Carriers

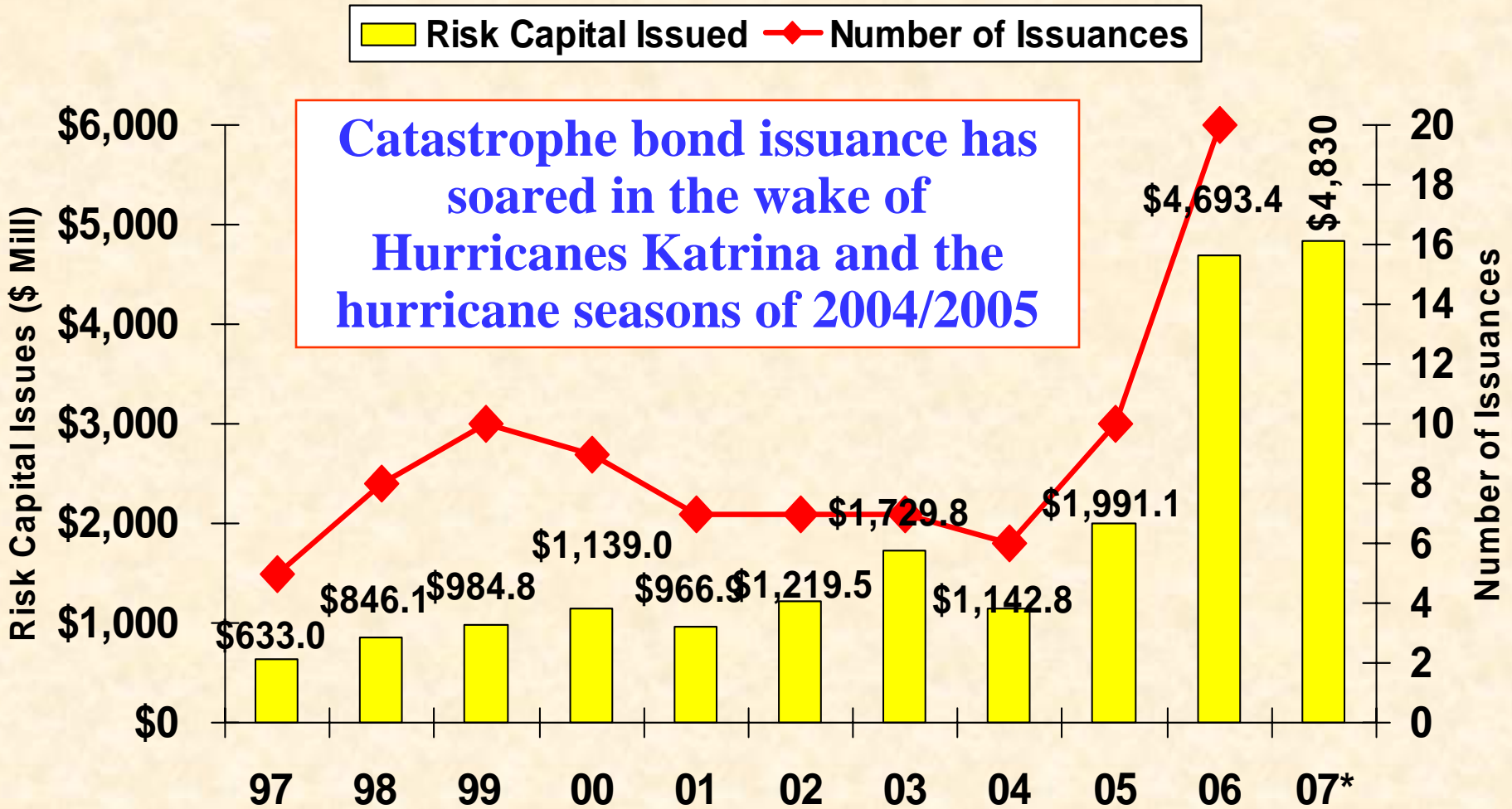


H1 = First Half

Source: 1985-2006, A.M. Best Aggregates & Averages;; 2007 ISO



Annual Catastrophe Bond Transactions Volume, 1997-2007*





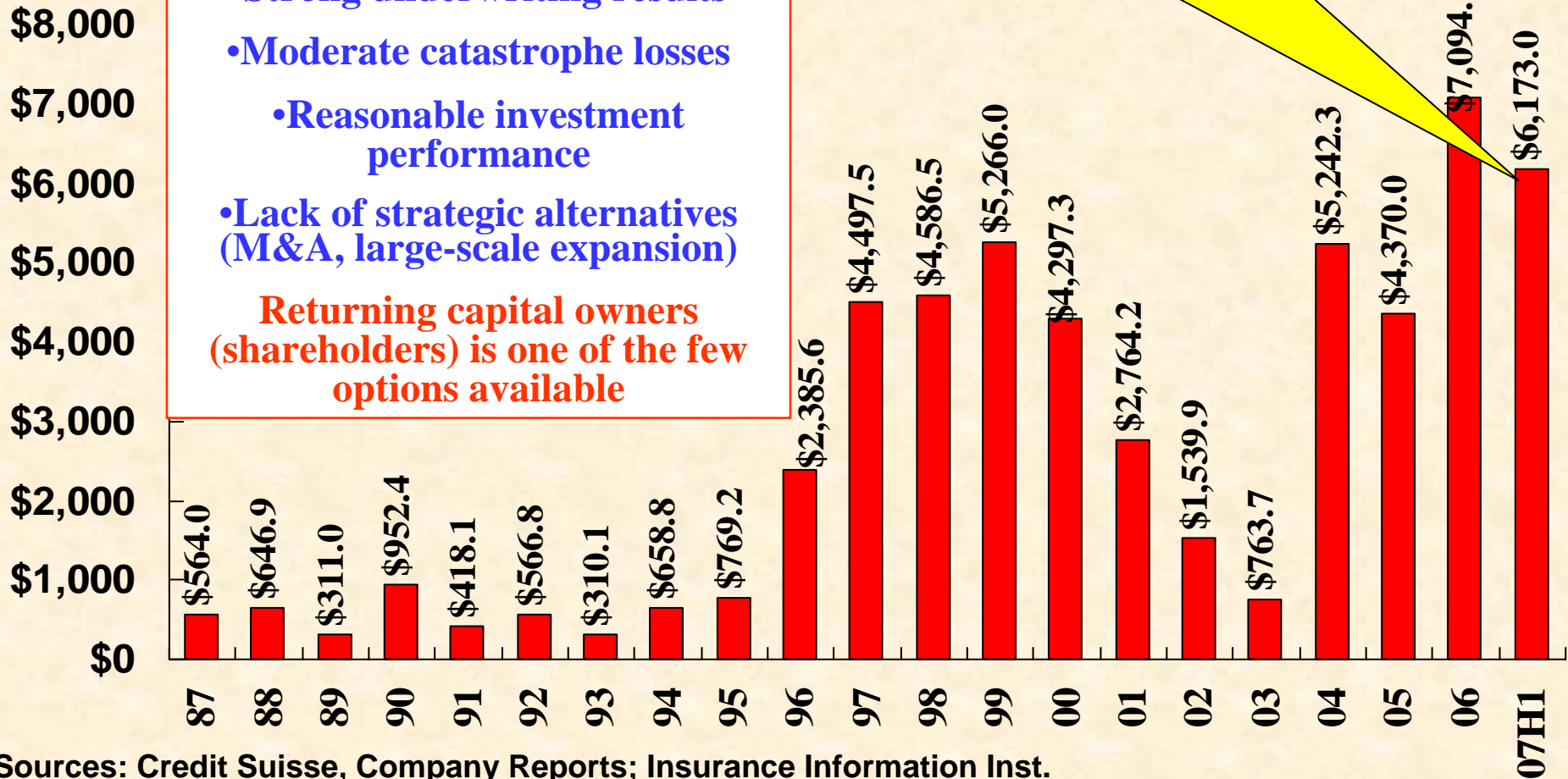
*P/C Insurer Share Repurchases, 1987- First Half 2007 (\$ Millions)**

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**

**First half 2007 share
buybacks are already 86%
of the 2006 record**



MERGER & ACQUISITION

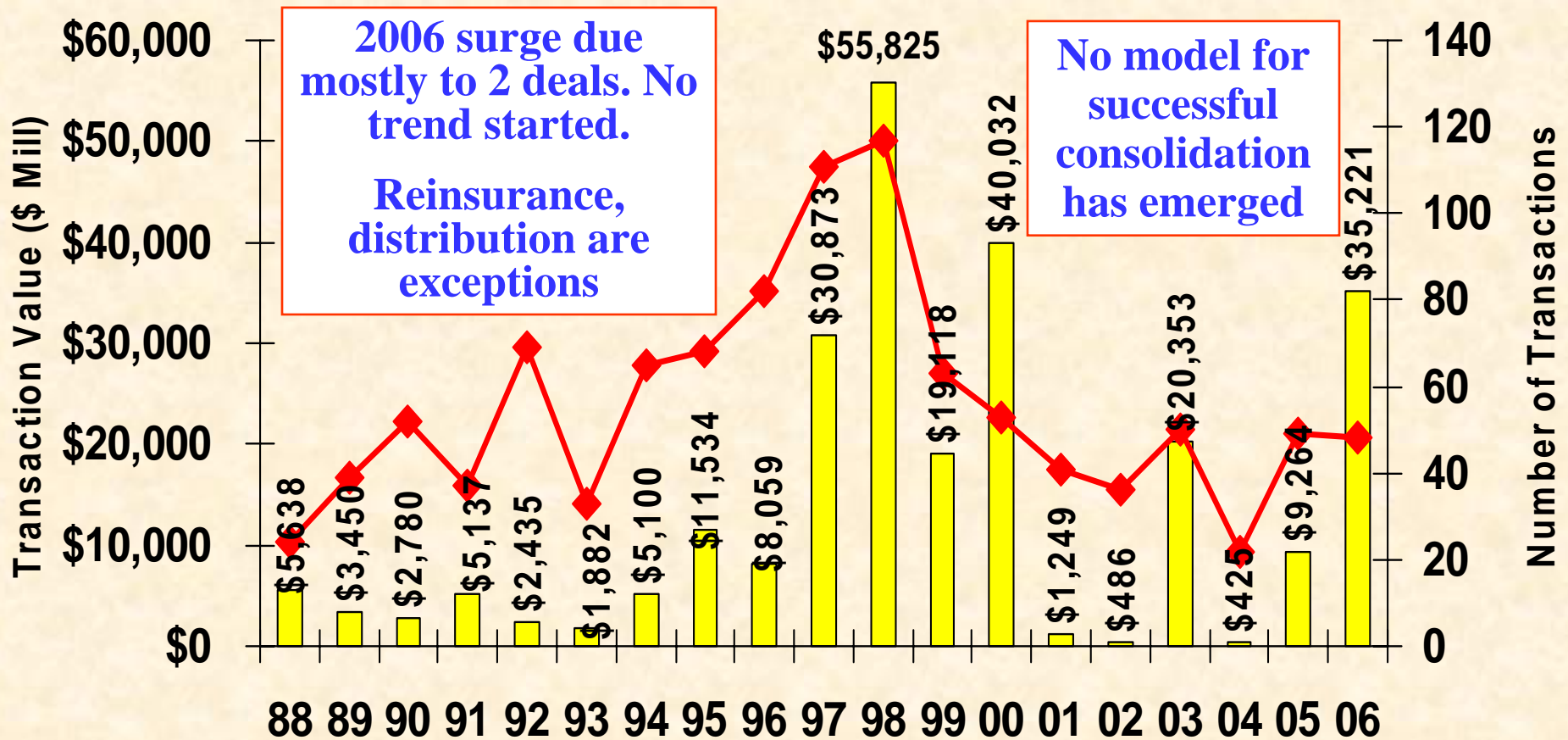
**Few Catalysts for Major
P/C Consolidation in '08**





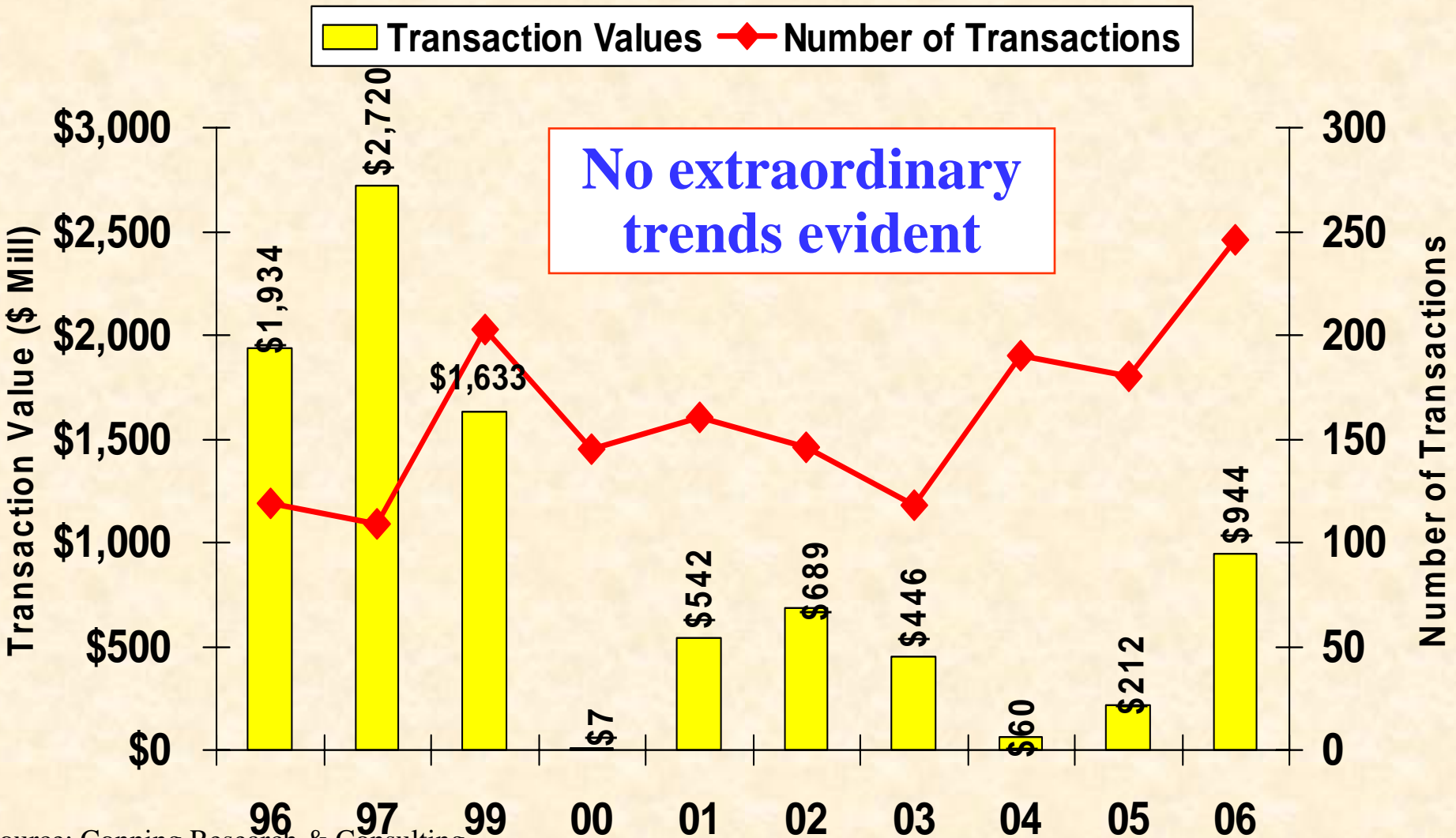
P/C Insurance-Related M&A Activity, 1988-2006

Transaction Values ◆ Number of Transactions





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

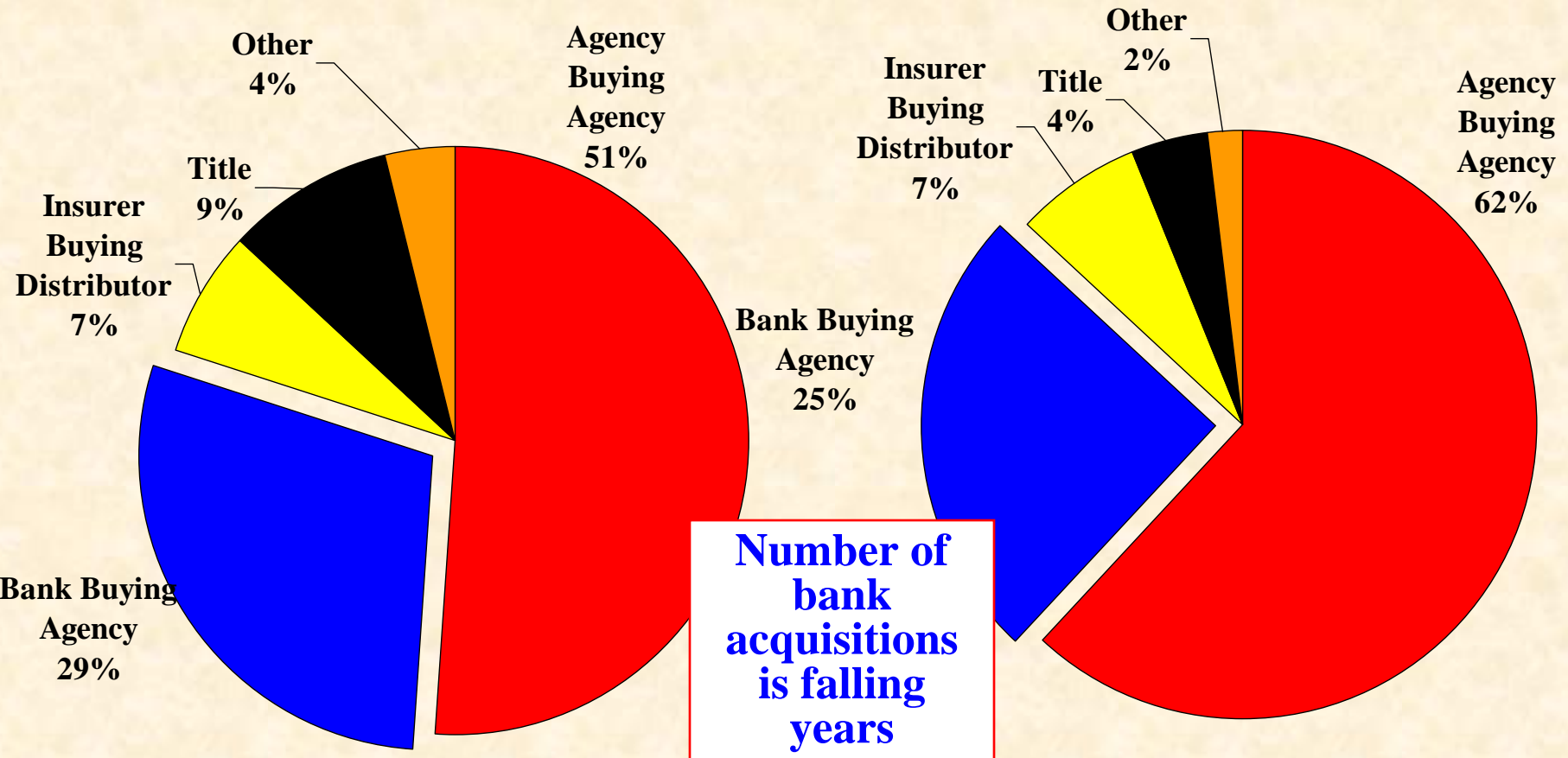




Distribution Sector M&A Activity, 2005 vs. 2006

2005

2006



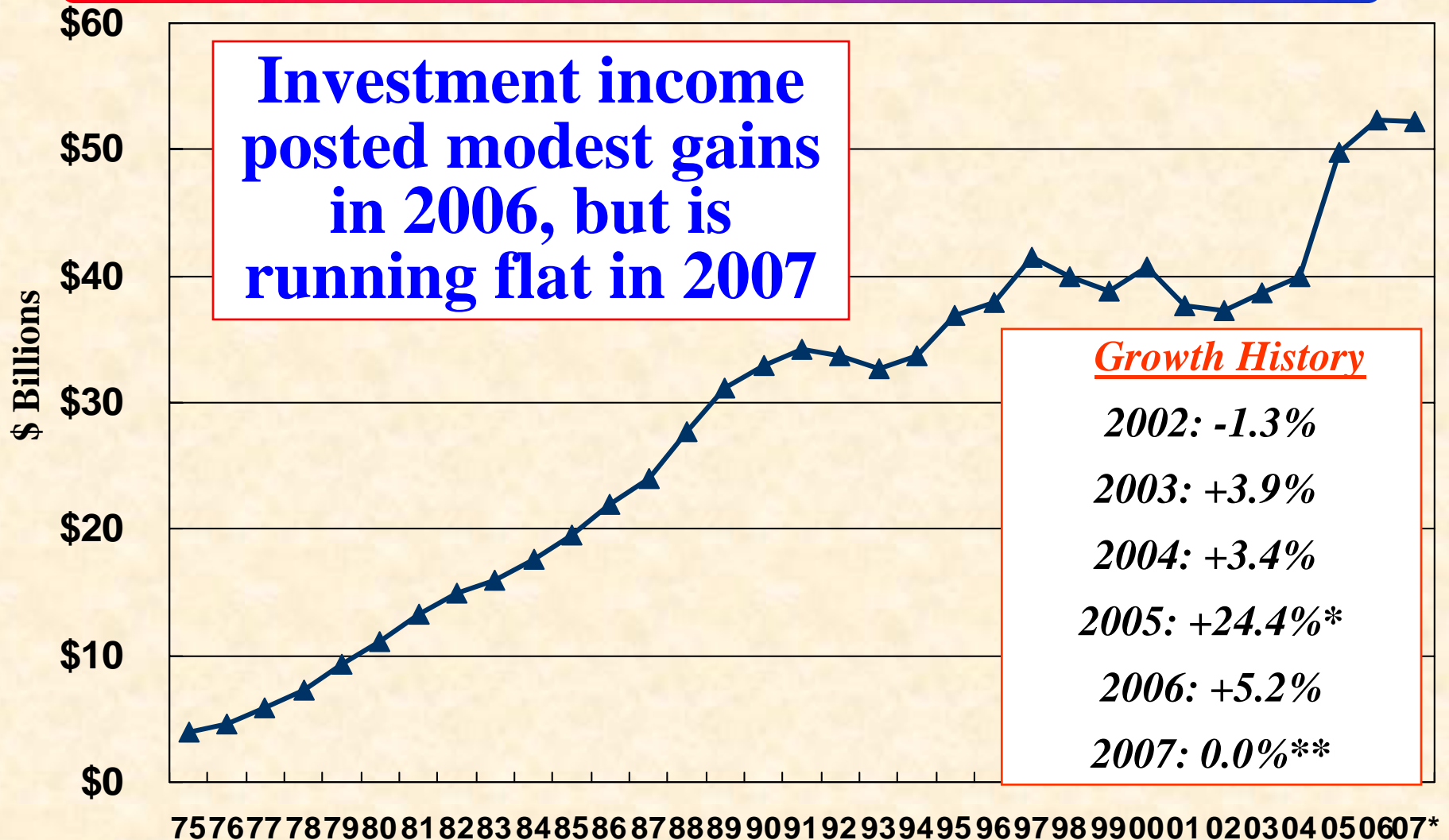
#7 FLAT & VOLATILE INVESTMENTS



*More Pain,
Little Gain*



Net Investment Income



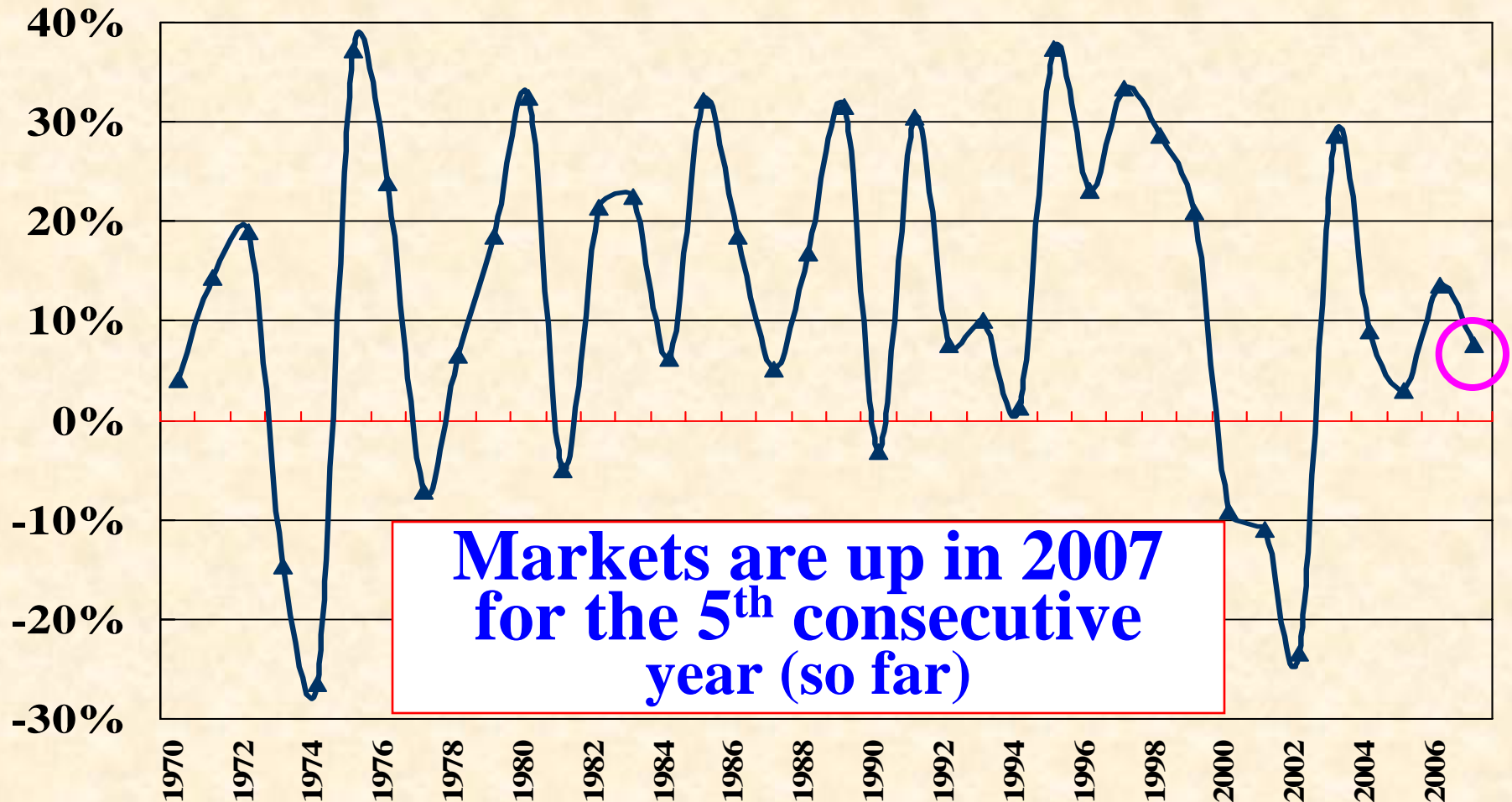
Source: A.M. Best, ISO, Insurance Information Institute;

*Includes special dividend of \$3.2B. Increase is 15.7% excluding dividend. **Based on annualized H1 result of \$26.128B.



Total Returns for Large Company Stocks: 1970-2007*

S&P 500 was up 13.62% in 2006, Up 6.44% YTD 2007*

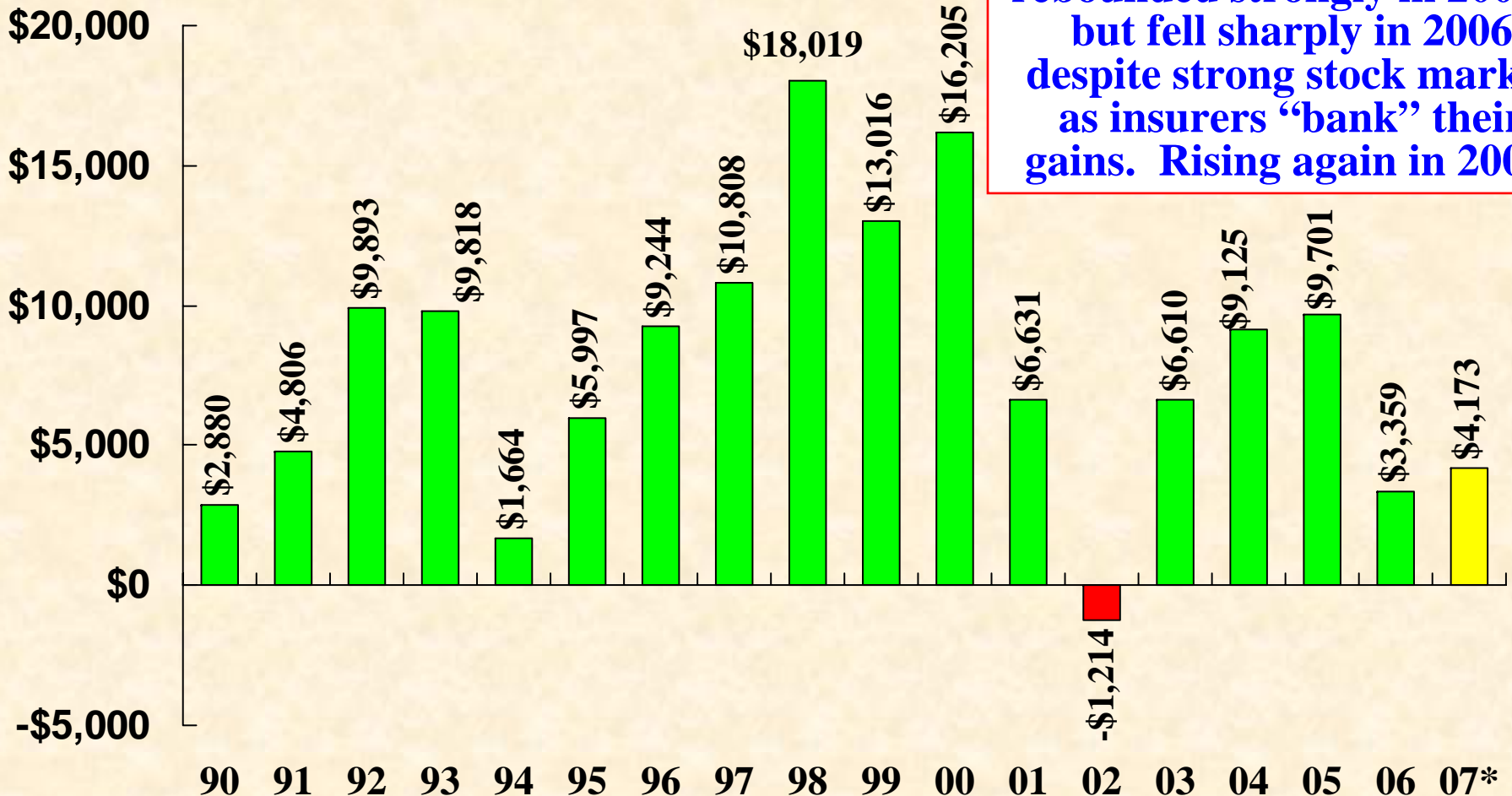


**Markets are up in 2007
for the 5th consecutive
year (so far)**



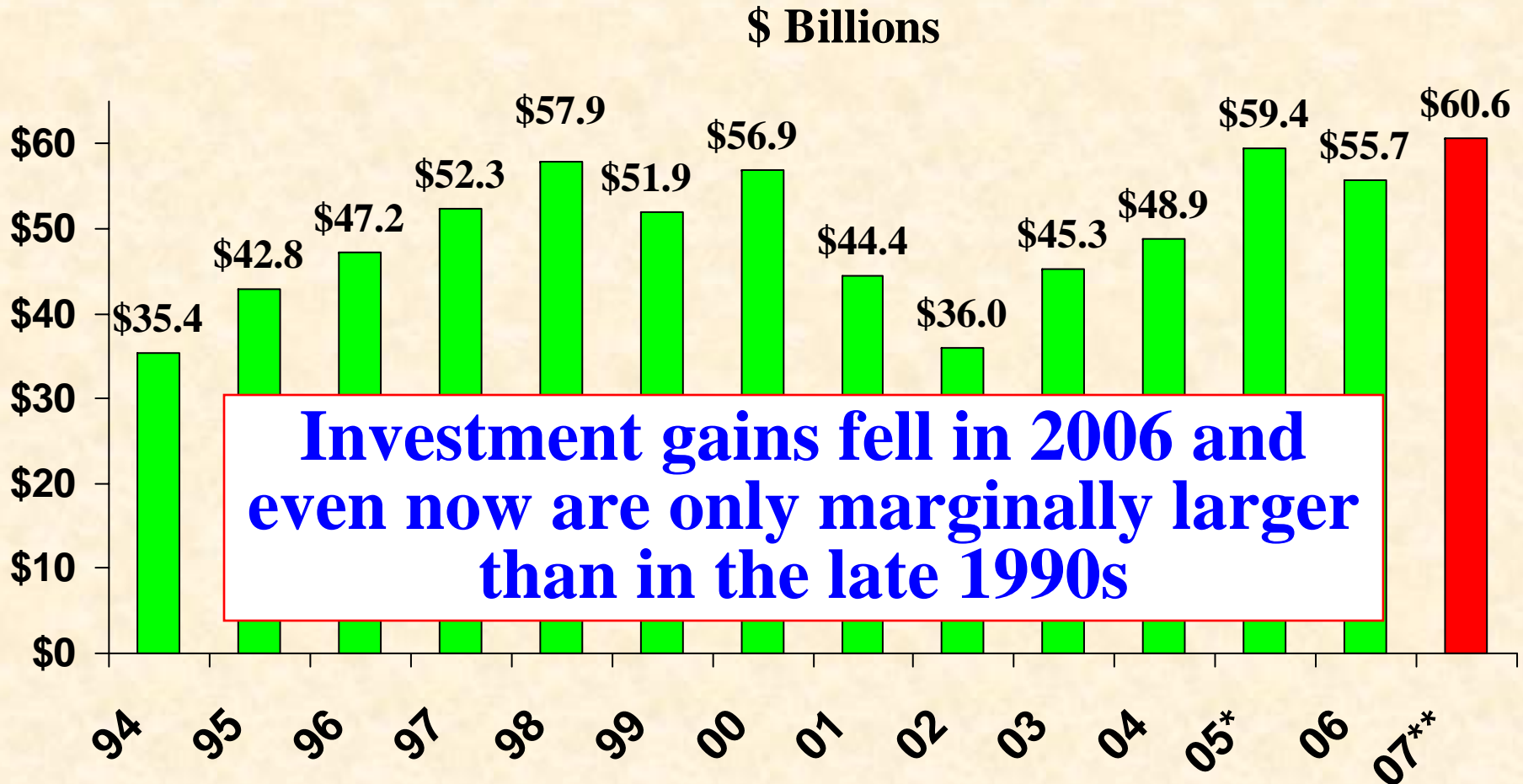
US P/C Net Realized Capital Gains, 1990-2007:H1 (\$ Millions)

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.





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. **Annualized H1 result of \$30.301B.

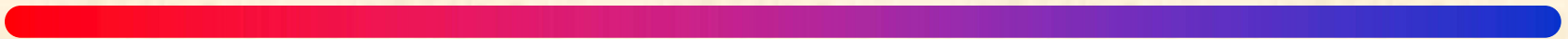
Sources: ISO; Insurance Information Institute.

#8

CATASTROPHIC LOSS

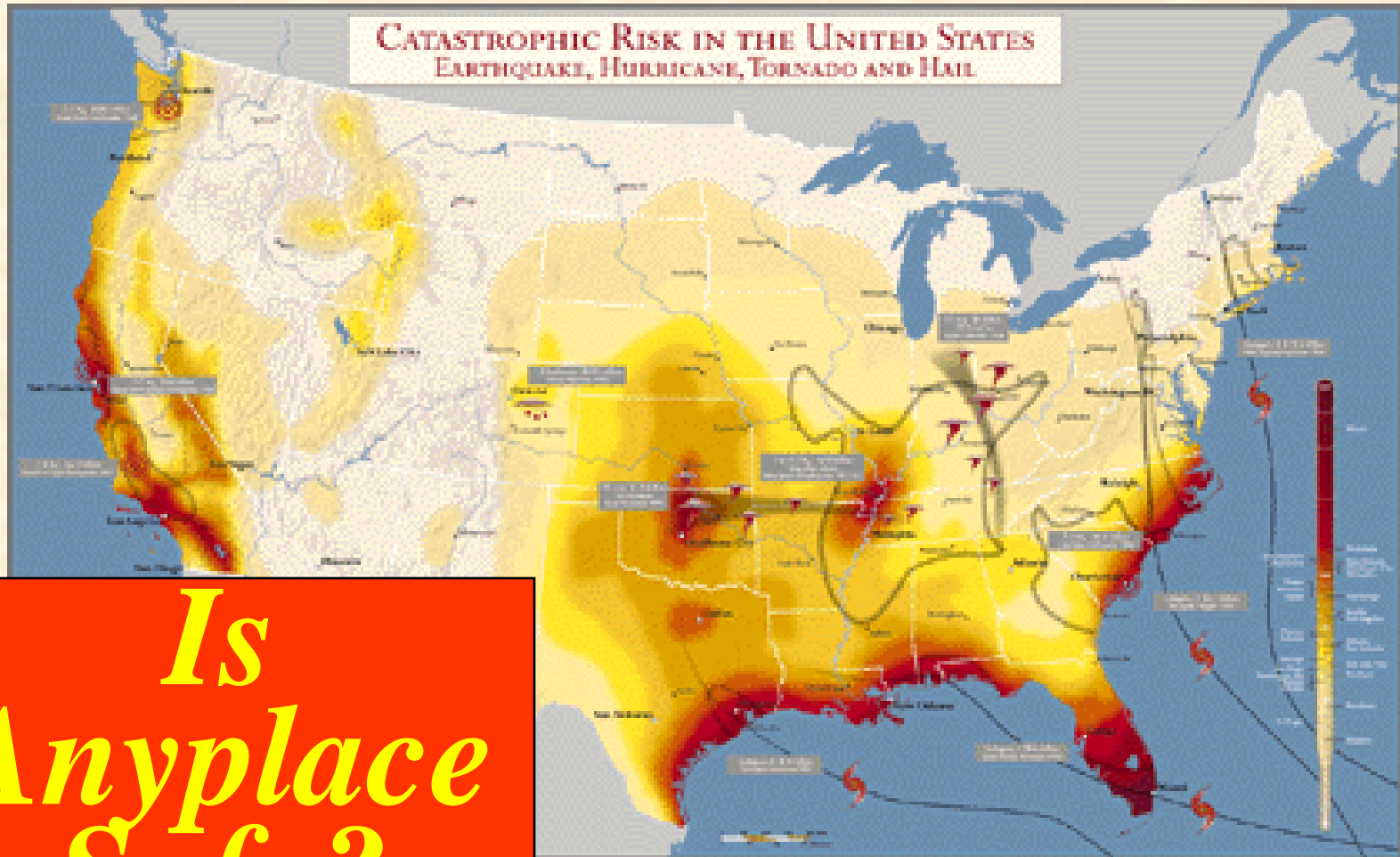


Wind, Fire & Water





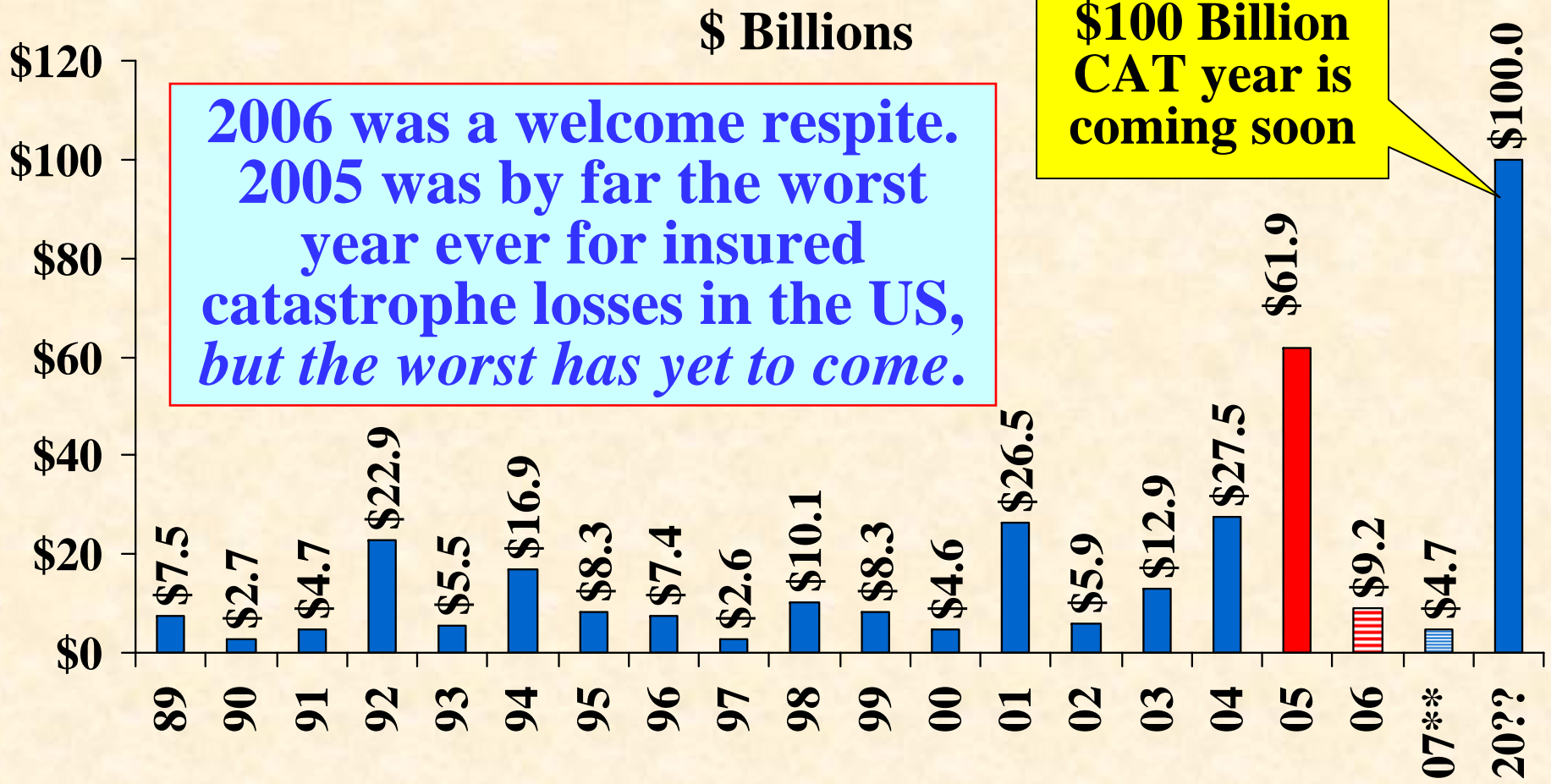
Most of US Population & Property Has Major CAT Exposure



*Is
Anyplace
Safe?*



U.S. Insured Catastrophe Losses*



*Excludes \$4B-\$6b offshore energy losses from Hurricanes Katrina & Rita. **Through 9/30/07.

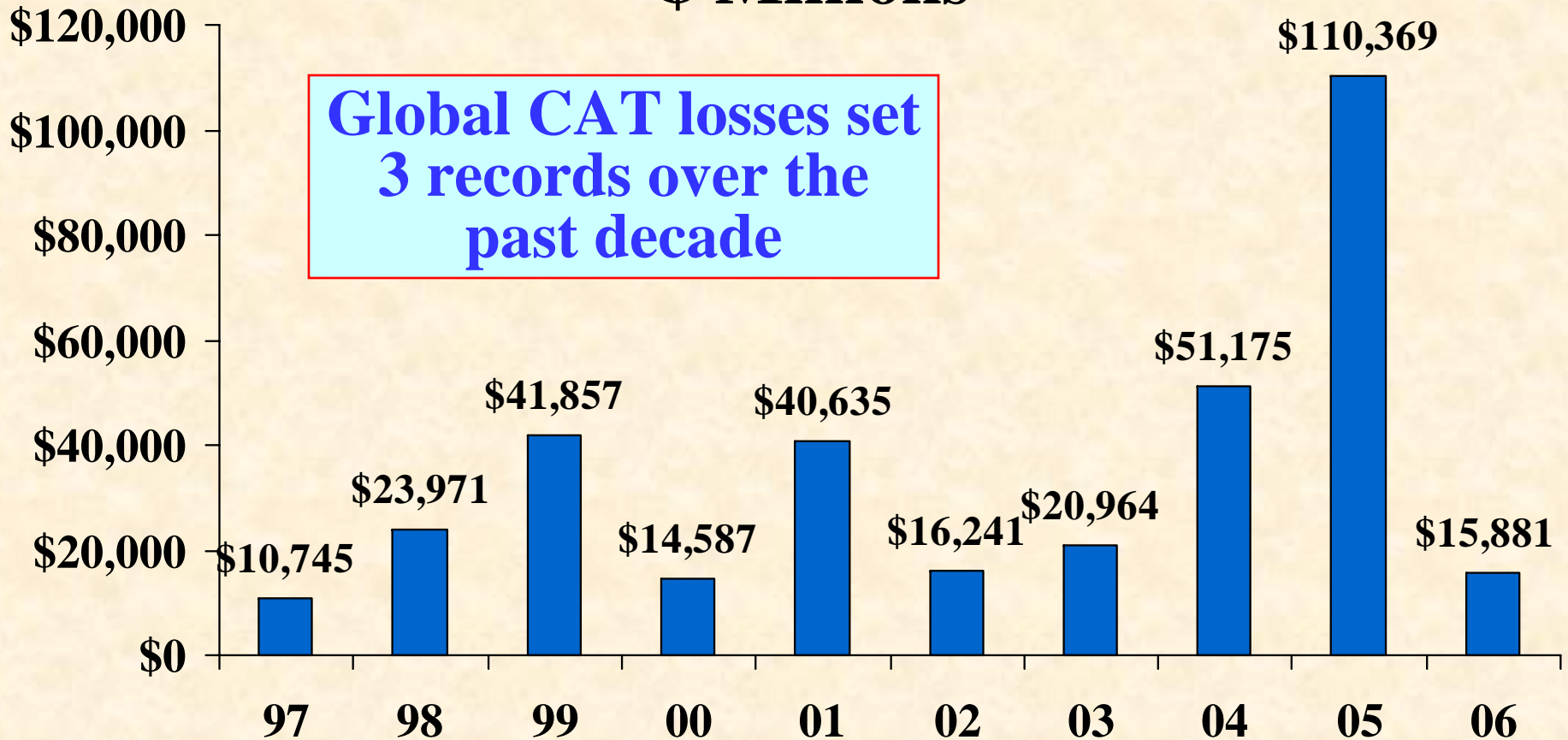
Note: 2001 figure includes \$20.3B for 9/11 losses reported through 12/31/01. Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = \$12.2B.

Source: Property Claims Service/ISO; Insurance Information Institute



Global Insured Catastrophe Losses*

\$ Millions

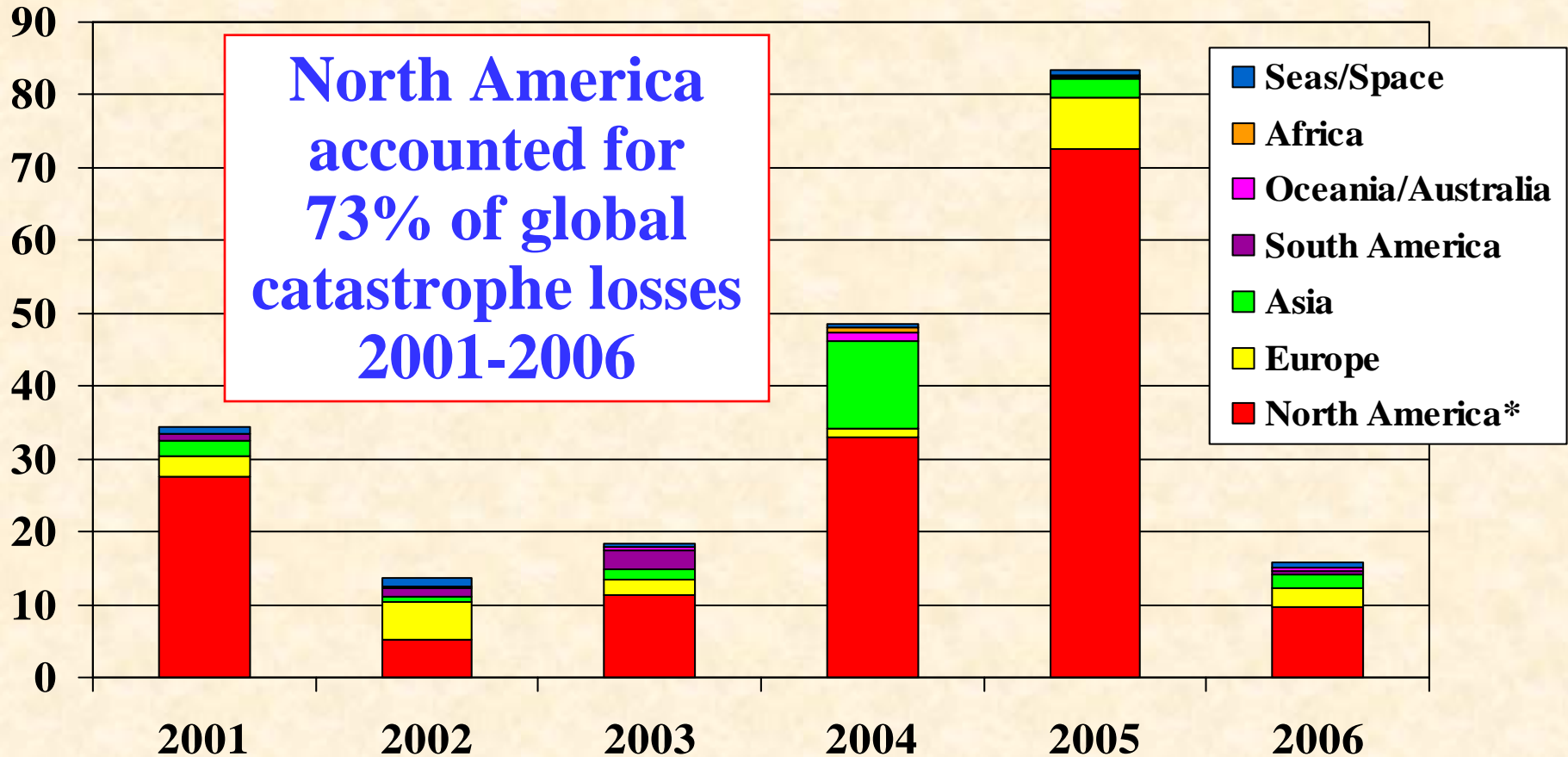


*Property losses only.

Source: Swiss Re, *sigma* 2/07.



Global Insured Catastrophe Losses by Region, 2001-2006



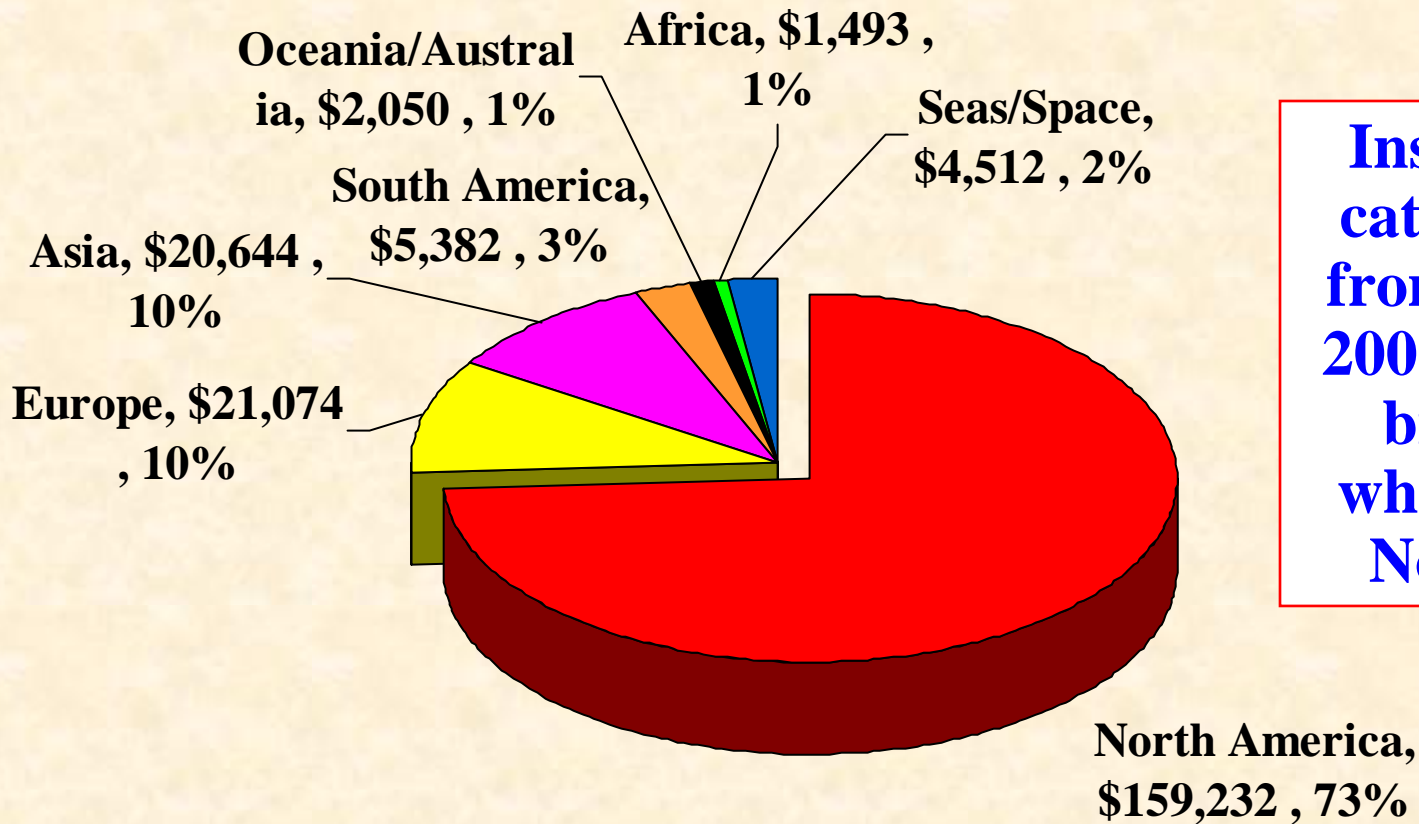
North America
accounted for
73% of global
catastrophe losses
2001-2006

- Seas/Space
- Africa
- Oceania/Australia
- South America
- Asia
- Europe
- North America*

Notes: 2001-03 figures for N. America include US only. 2001 figure includes only property losses from 9/11.
Source: Insurance Information Institute compiled from Swiss Re *sigma* issues.



Global Insured Catastrophe Losses by Region, 2001-2006

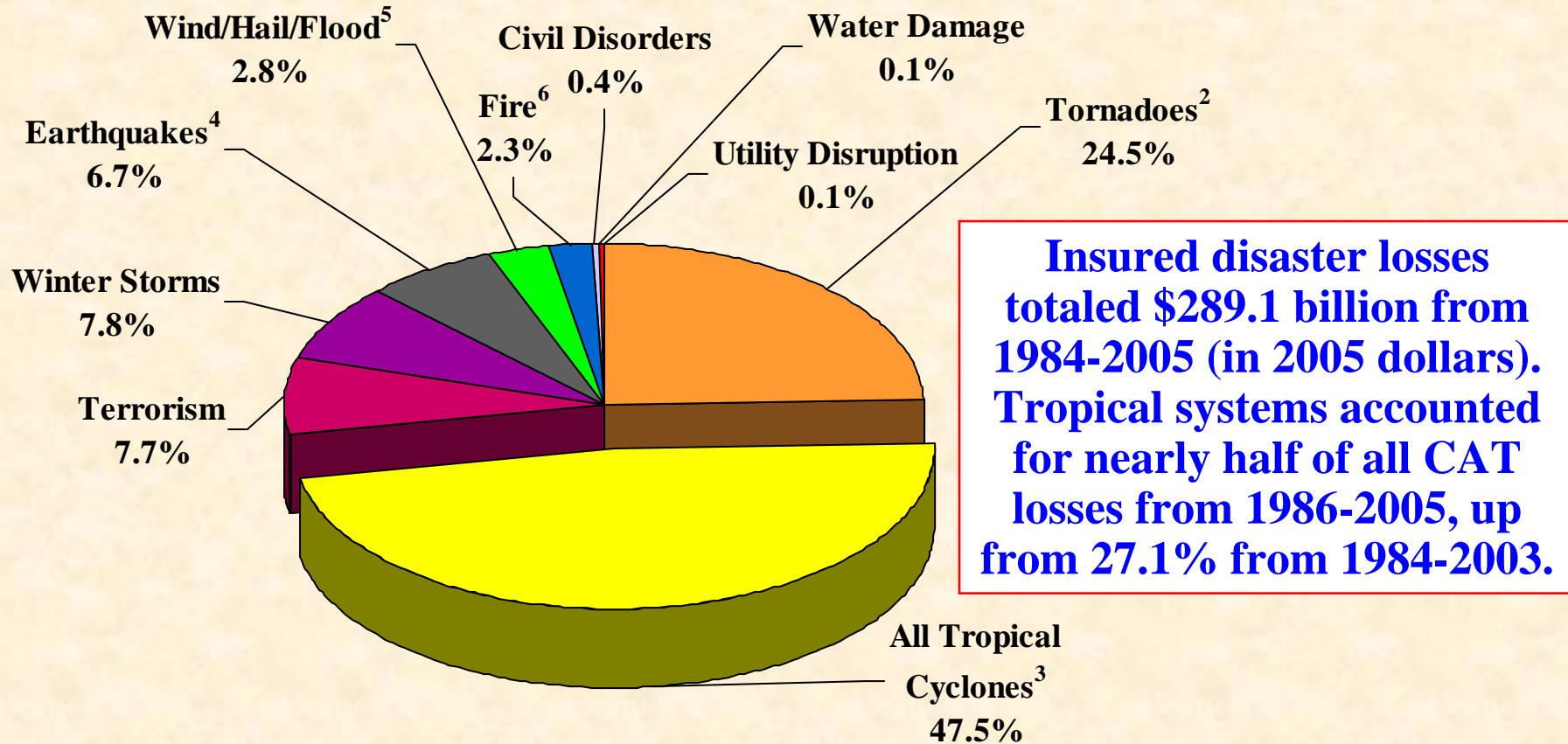


Insured property catastrophe losses from 2001 through 2006 totaled \$214.3 billion, 73% of which occurred in North America.

Notes: 2001-03 figures for N. America include US only. 2001 figure includes only property losses from 9/11.
Source: Insurance Information Institute compiled from Swiss Re *sigma* issues.



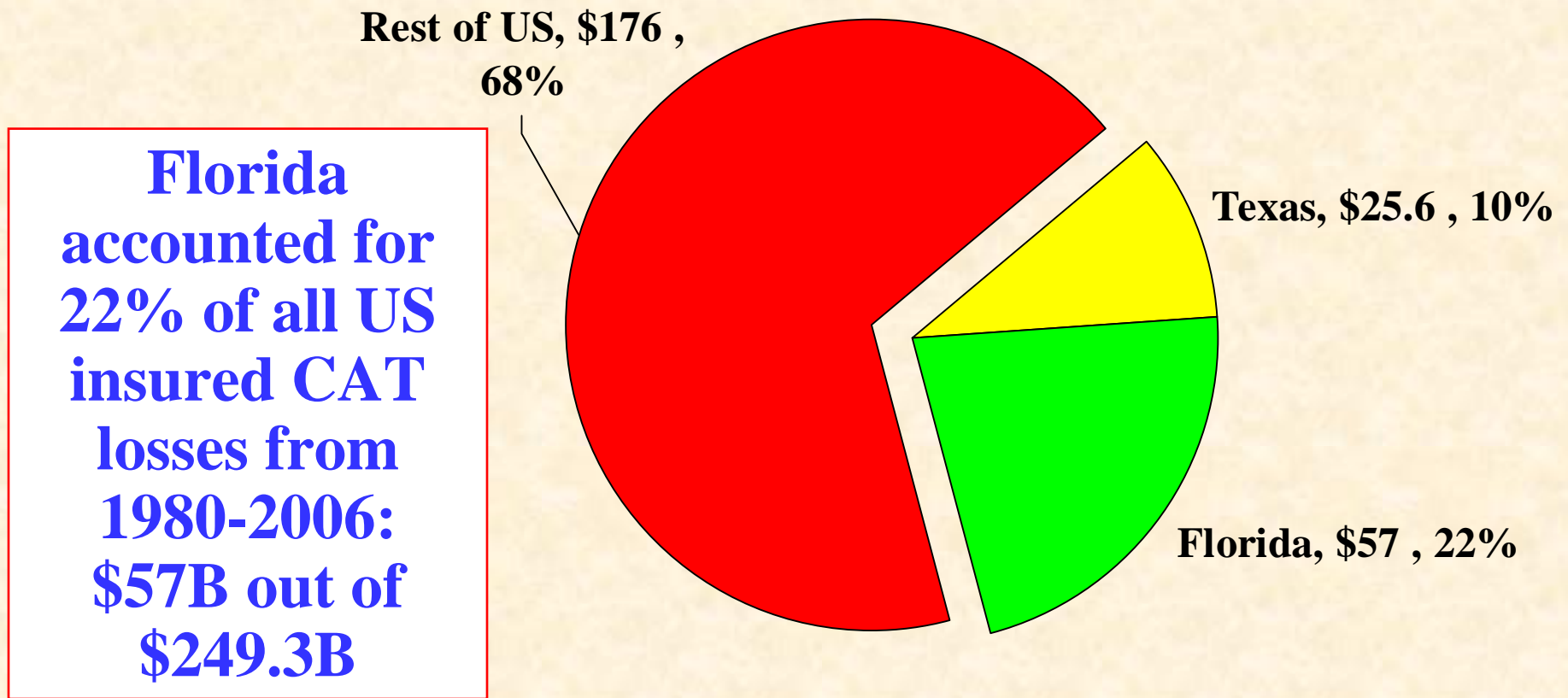
Inflation-Adjusted U.S. Insured Catastrophe Losses By Cause of Loss, 1986-2005¹



¹ Catastrophes are all events causing direct insured losses to property of \$25 million or more in 2005 dollars. Catastrophe threshold changed from \$5 million to \$25 million beginning in 1997. Adjusted for inflation by the III.
² Excludes snow. ³ Includes hurricanes and tropical storms. ⁴ Includes other geologic events such as volcanic eruptions and other earth movement. ⁵ Does not include flood damage covered by the federally administered National Flood Insurance Program. ⁶ Includes wildland fires.

*Distribution of US Insured CAT Losses: TX, FL vs US, 1980-2006**

\$ Billions of 2005 Dollars

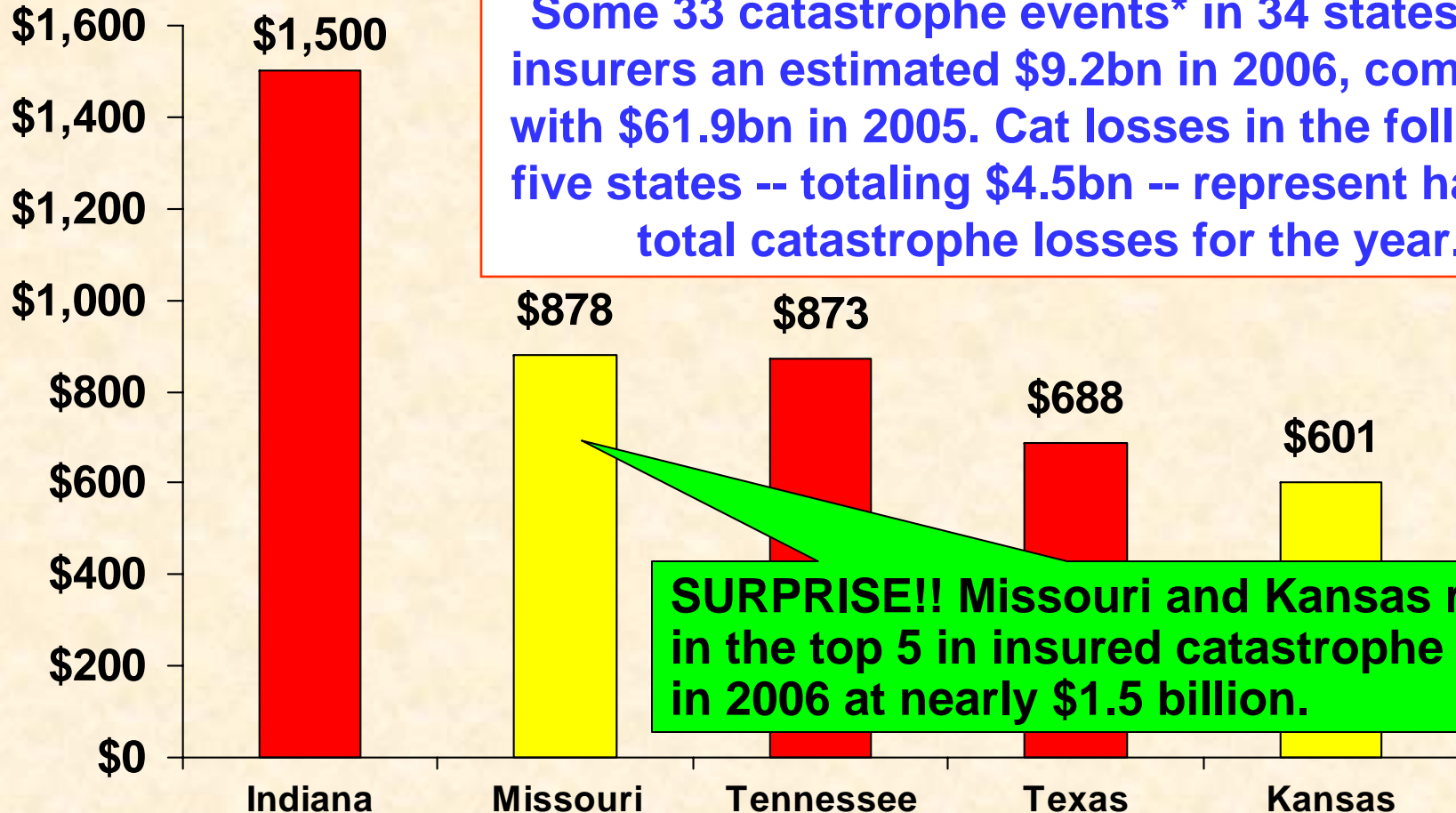


*All figures (except 2006 loss) have been adjusted to 2005 dollars.

Source: PCS division of ISO.



U.S. Catastrophe Losses 2006: States With Largest Losses (\$ Millions)



Some 33 catastrophe events* in 34 states cost insurers an estimated \$9.2bn in 2006, compared with \$61.9bn in 2005. Cat losses in the following five states -- totaling \$4.5bn -- represent half the total catastrophe losses for the year.

SURPRISE!! Missouri and Kansas ranked in the top 5 in insured catastrophe losses in 2006 at nearly \$1.5 billion.

*ISO defines a catastrophe event as an event causing \$25 million or more in insured property losses.

Source: ISO; Insurance Information Institute



2007 Hurricane Season: No Big Hits... So Far

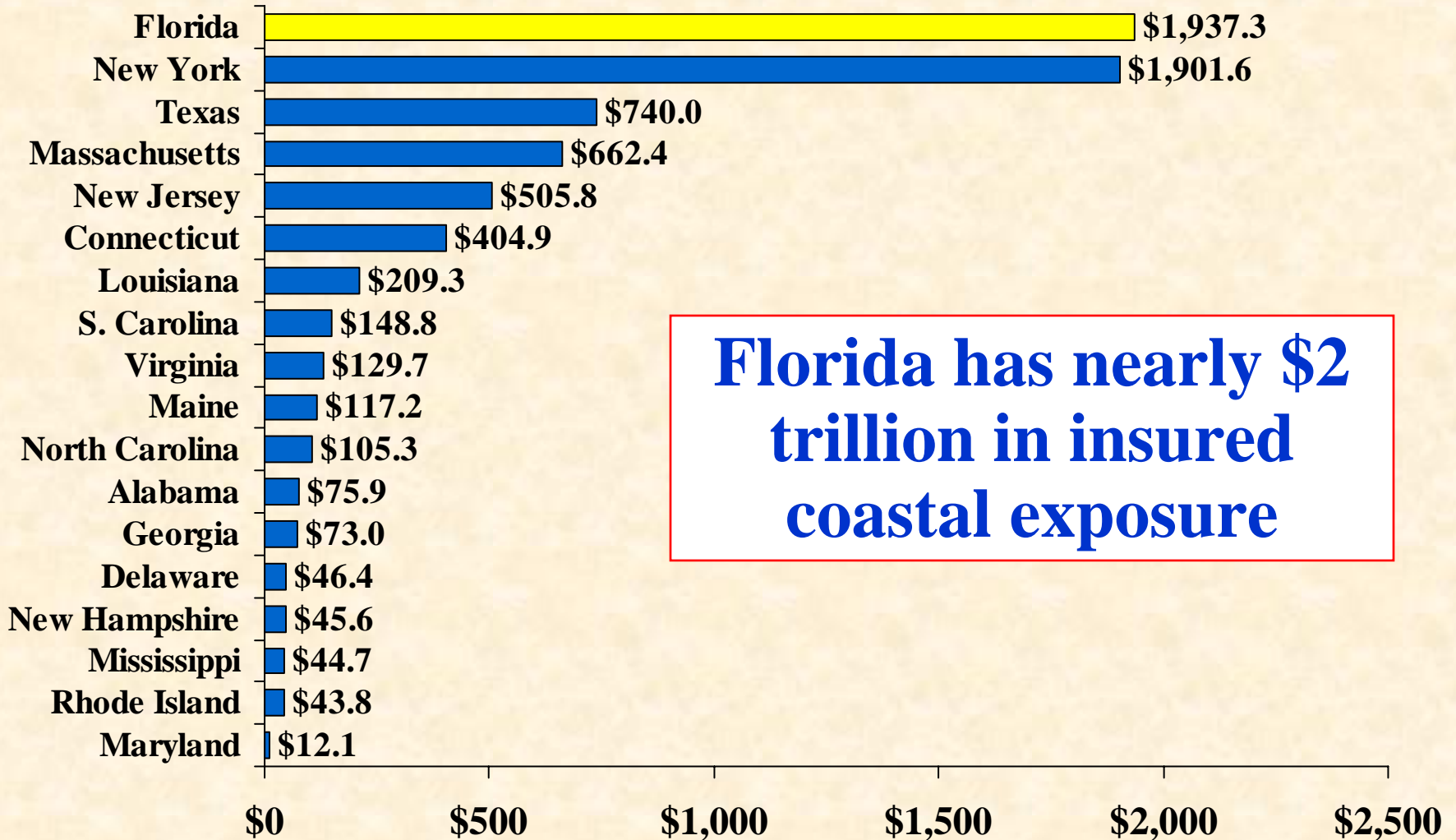


A Sigh of Relief

The 2007 season saw 14 named storms including two rare Category 5 storms, but the US escaped this year with very little loss

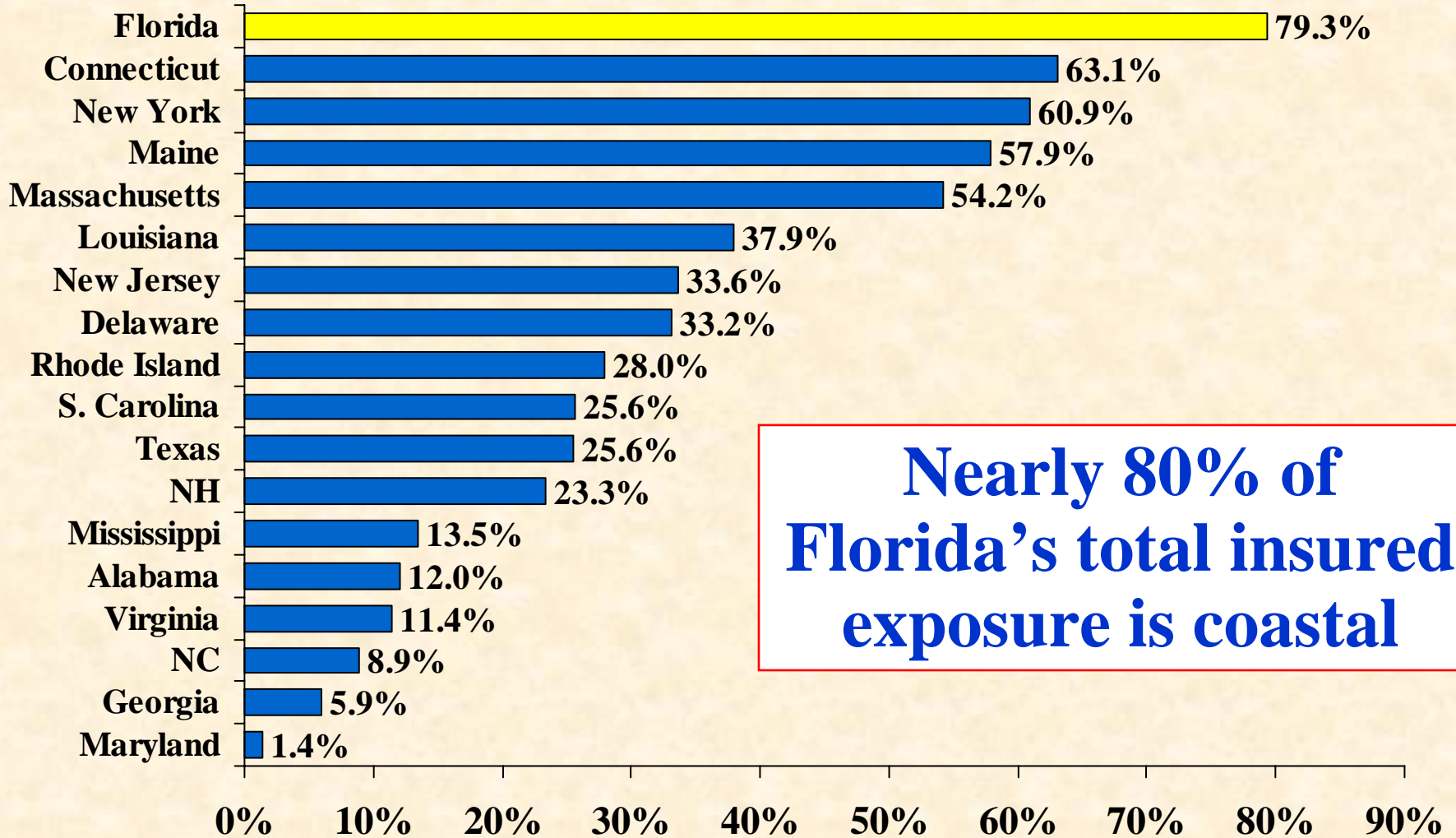


Total Value of Insured Coastal Exposure (2004, \$ Billions)





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



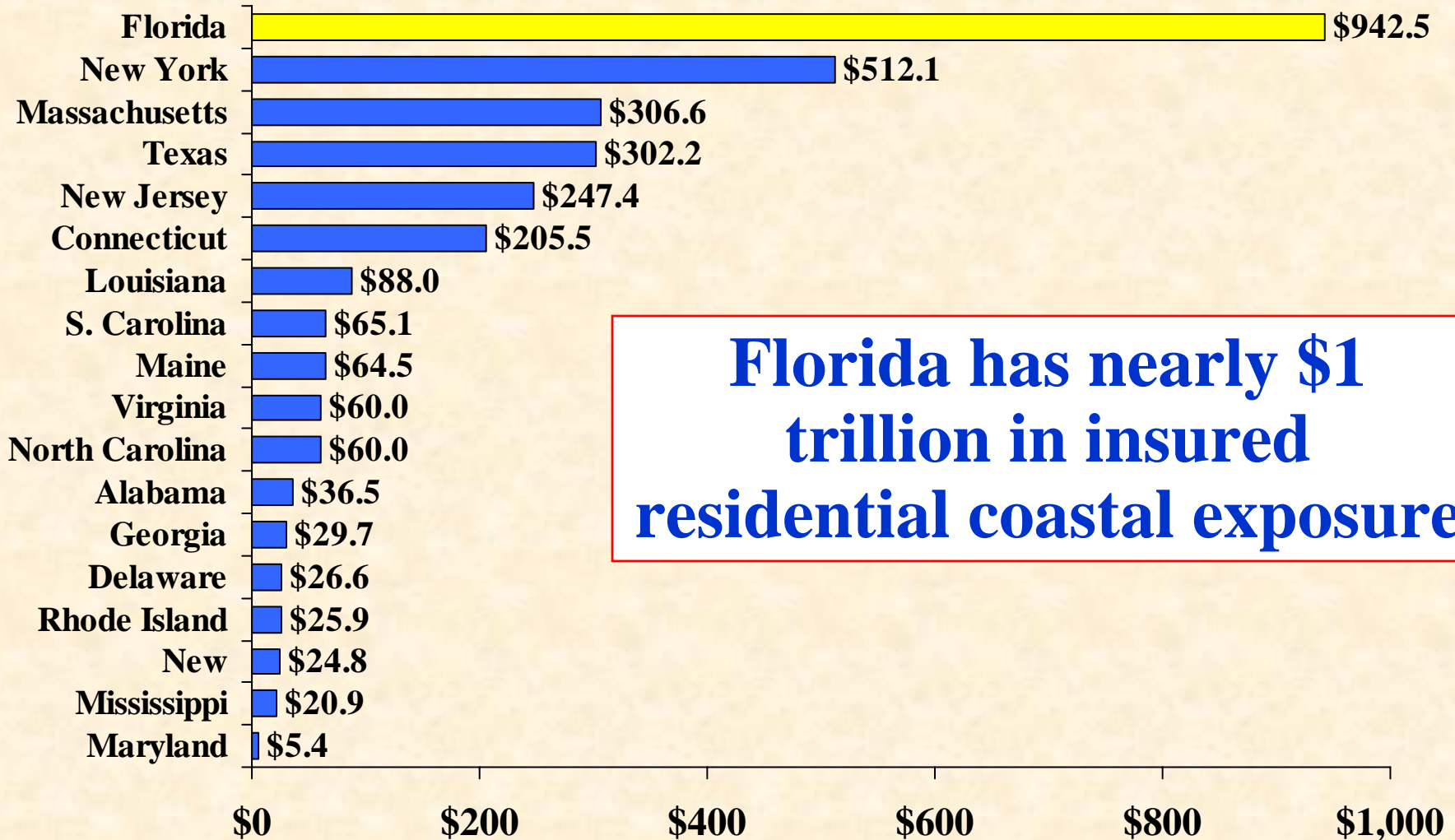
Nearly 80% of Florida's total insured exposure is coastal

*Ill list

Source: AIR Worldwide

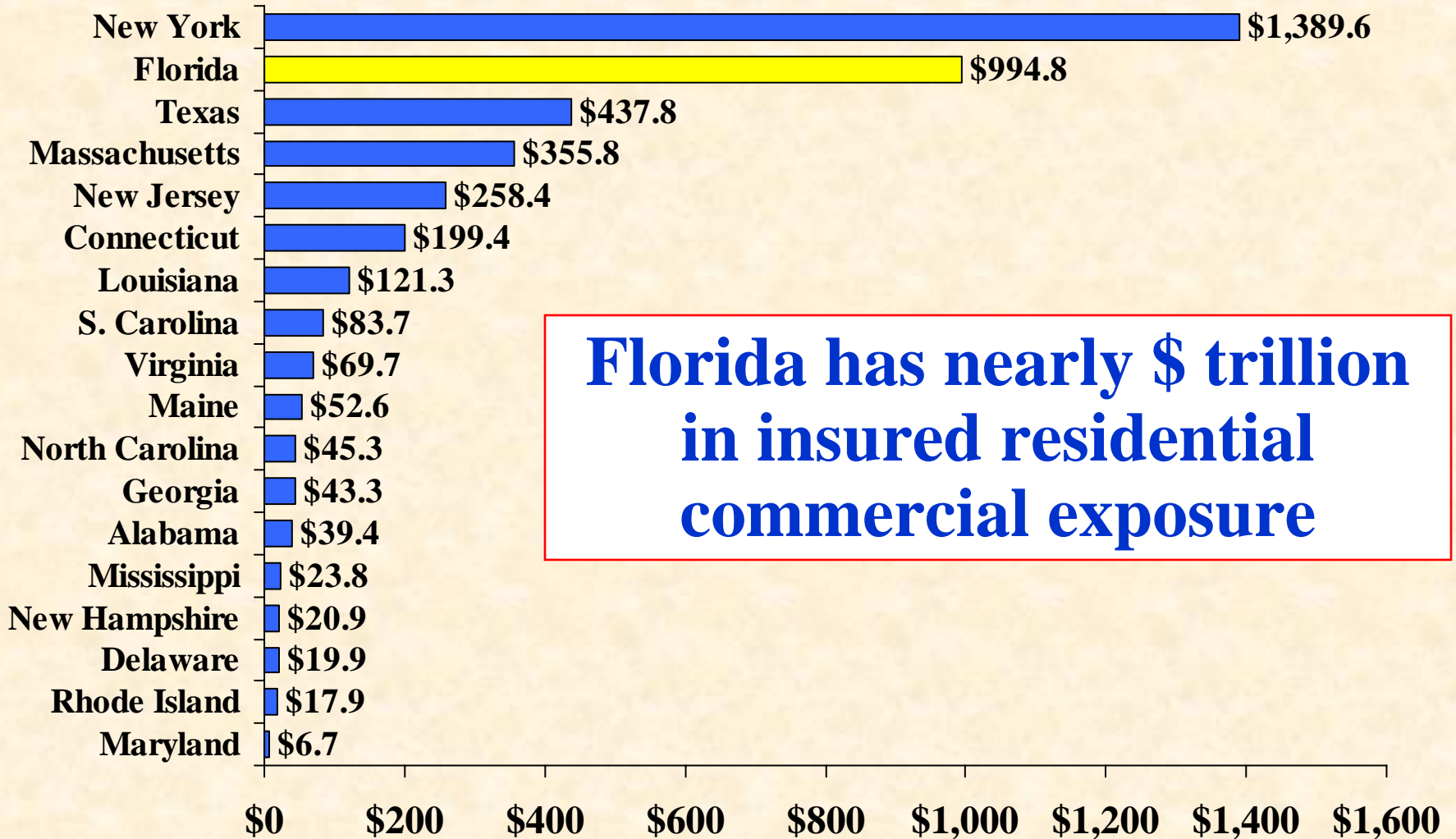


Value of Insured Residential Coastal Exposure (2004, \$ Billions)





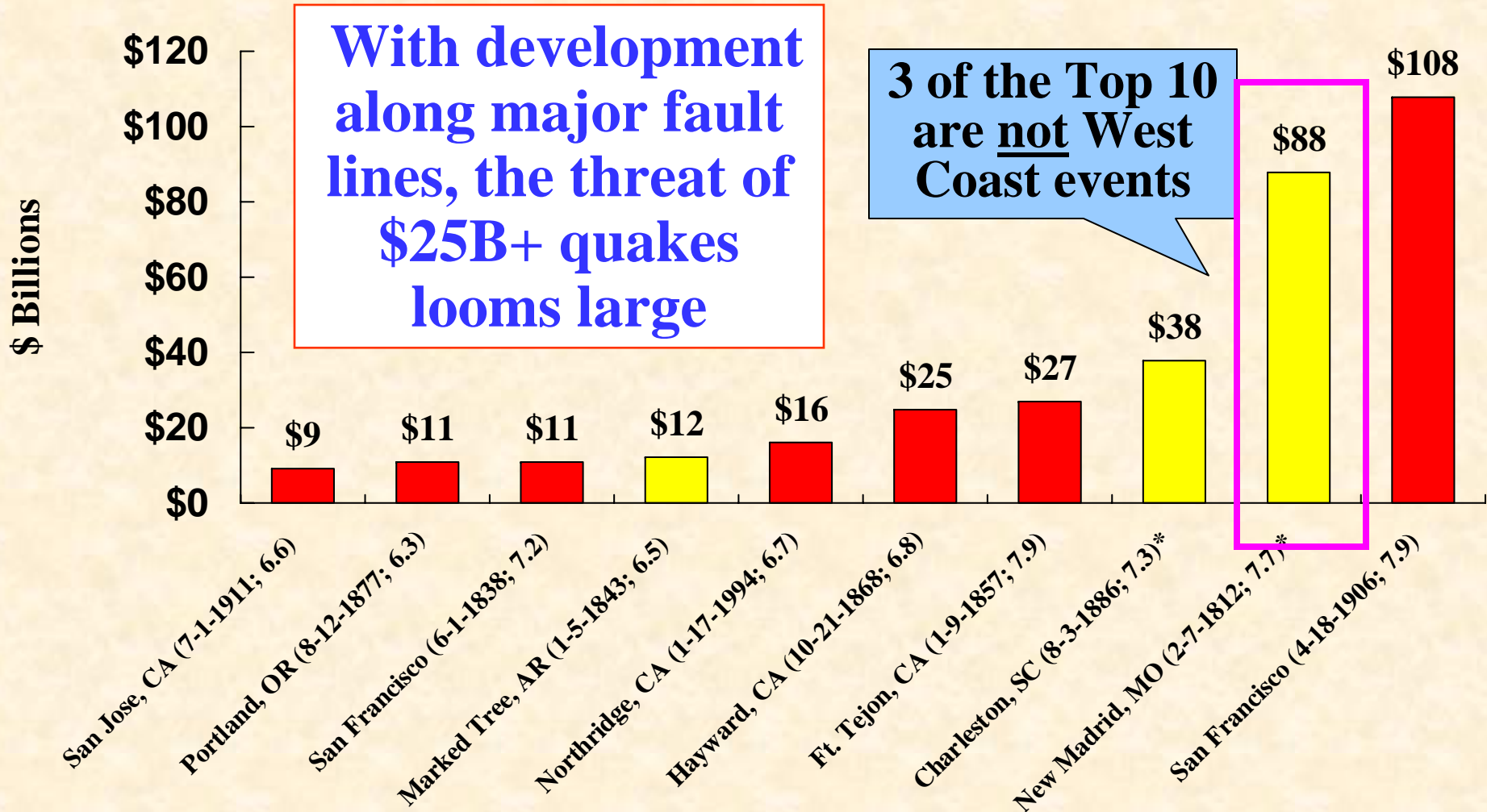
Value of Insured Commercial Coastal Exposure (2004, \$ Billions)





Insured Losses from Top 10 Earthquakes Adjusted to 2005 Exposure Levels

(Billions of 2005 Dollars)





Number of Tornadoes, 1985 – 2006p

There are usually more than 1,000 confirmed tornadoes each year in the US. They accounted for about 25% of catastrophe losses since 1985



Source: US Dept. of Commerce, Storm Prediction Center, National Weather Service; Ins. Info. Inst.

California Wildfires

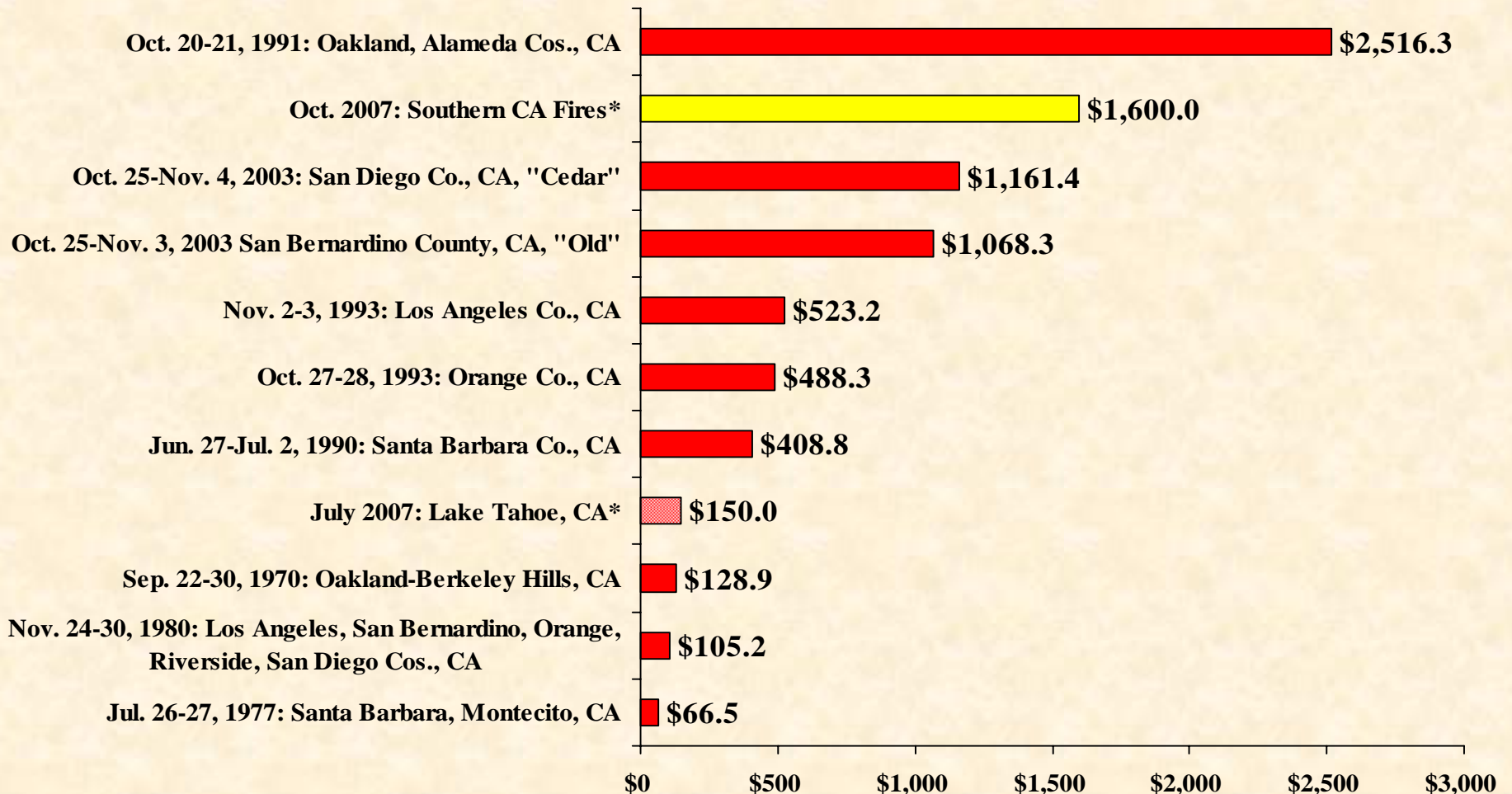
Update & Historical Perspective





Top Ten Catastrophic Wildland Fires In California, 1970-2007*

Insured Losses (Millions 2006 \$)

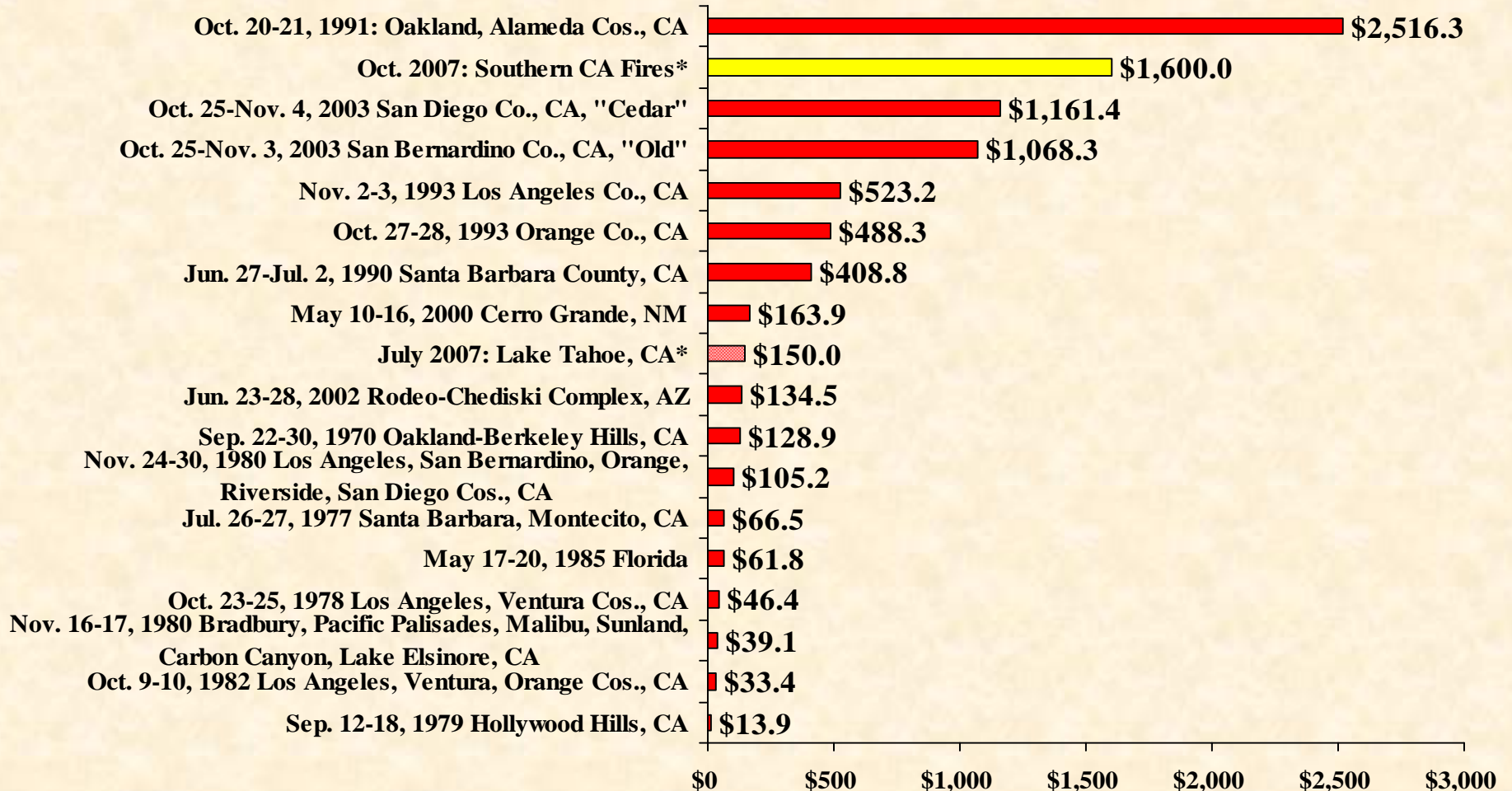


*Estimated insured losses. Adjusted to 2006 dollars by the Insurance Information Institute. 2007 fire losses are stated in 2007 dollars.
Source: ISO's Property Claim Services Unit; Insurance Information Institute.



Top Catastrophic Wildland Fires In The United States, 1970-2007*

Insured Losses (Millions 2006 \$)



*Estimated insured losses. Adjusted to 2006 dollars by the Insurance Information Institute. 2007 fire losses are stated in 2007 dollars.

Source: ISO's Property Claim Services Unit; Insurance Information Institute.

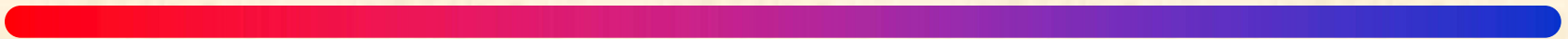


Top 15 California Homeowners Insurers, 2006

Rank	Company	Direct Premiums Written	Market Share (%)
1	State Farm IL Group	\$1,436,028,885	21.7%
2	Zurich Insurance Group	1,116,433,543	16.9
3	Allstate Insurance Group	887,879,647	13.4
4	California State Auto Group	414,417,030	6.3
5	USAA Group	294,930,839	4.5
6	AUTO Club Enterprises Ins. Group	266,029,053	4.0
7	Nationwide Group	233,463,019	3.5
8	Mercury General Group	196,753,111	3.0
9	Safeco Insurance Group	182,038,003	2.8
10	Allianz Insurance Group	165,577,501	2.5
11	Liberty Mutual Insurance Group	128,771,659	1.9
12	Travelers Group	124,763,066	1.9
13	Hartford Fire & Casualty Group	107,073,769	1.6
14	Balboa Insurance Group	100,850,262	1.5
15	American International Group	90,424,381	1.4

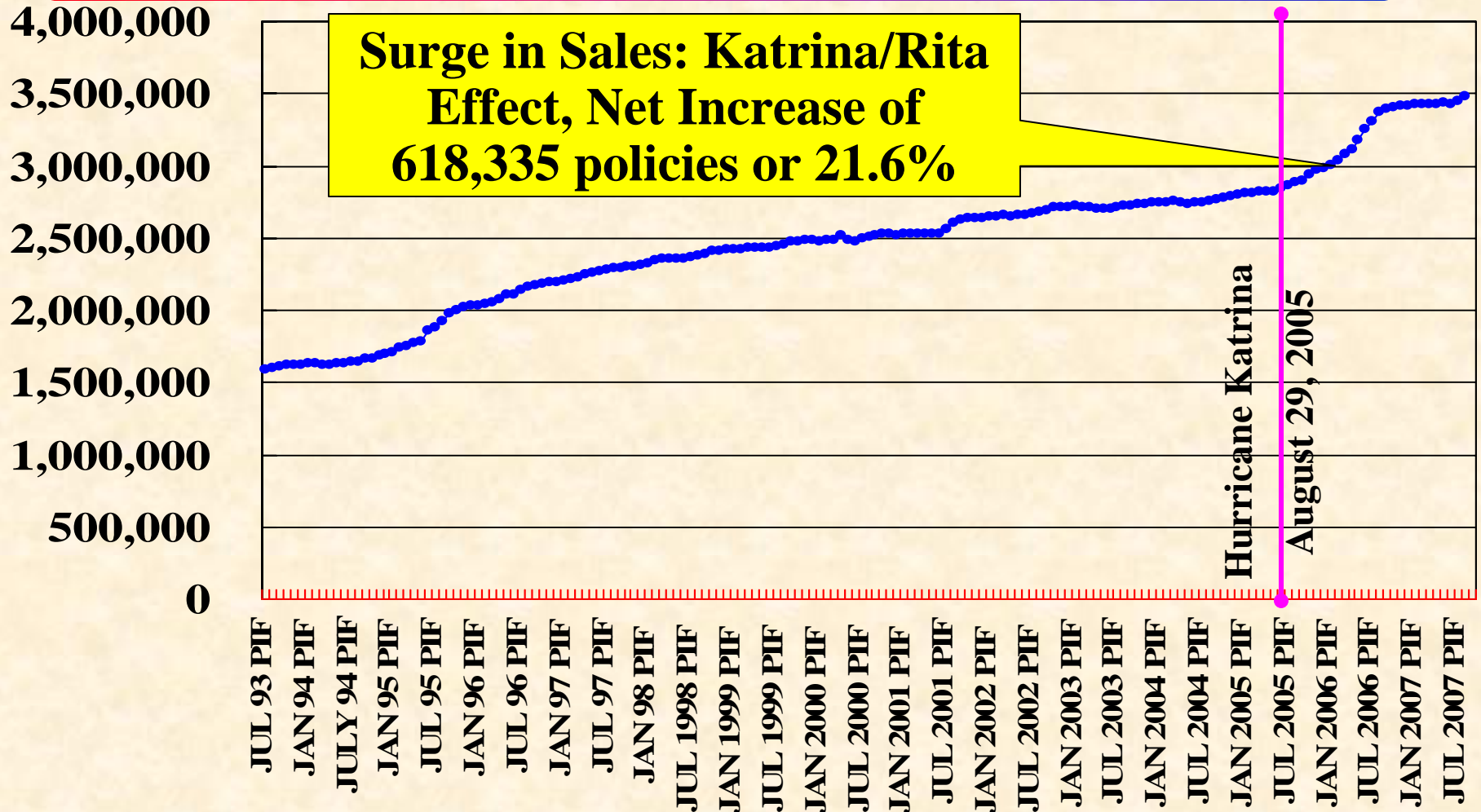
Flood Insurance

Analysis of Purchase and Policy Purchase and Lapse Since Katrina





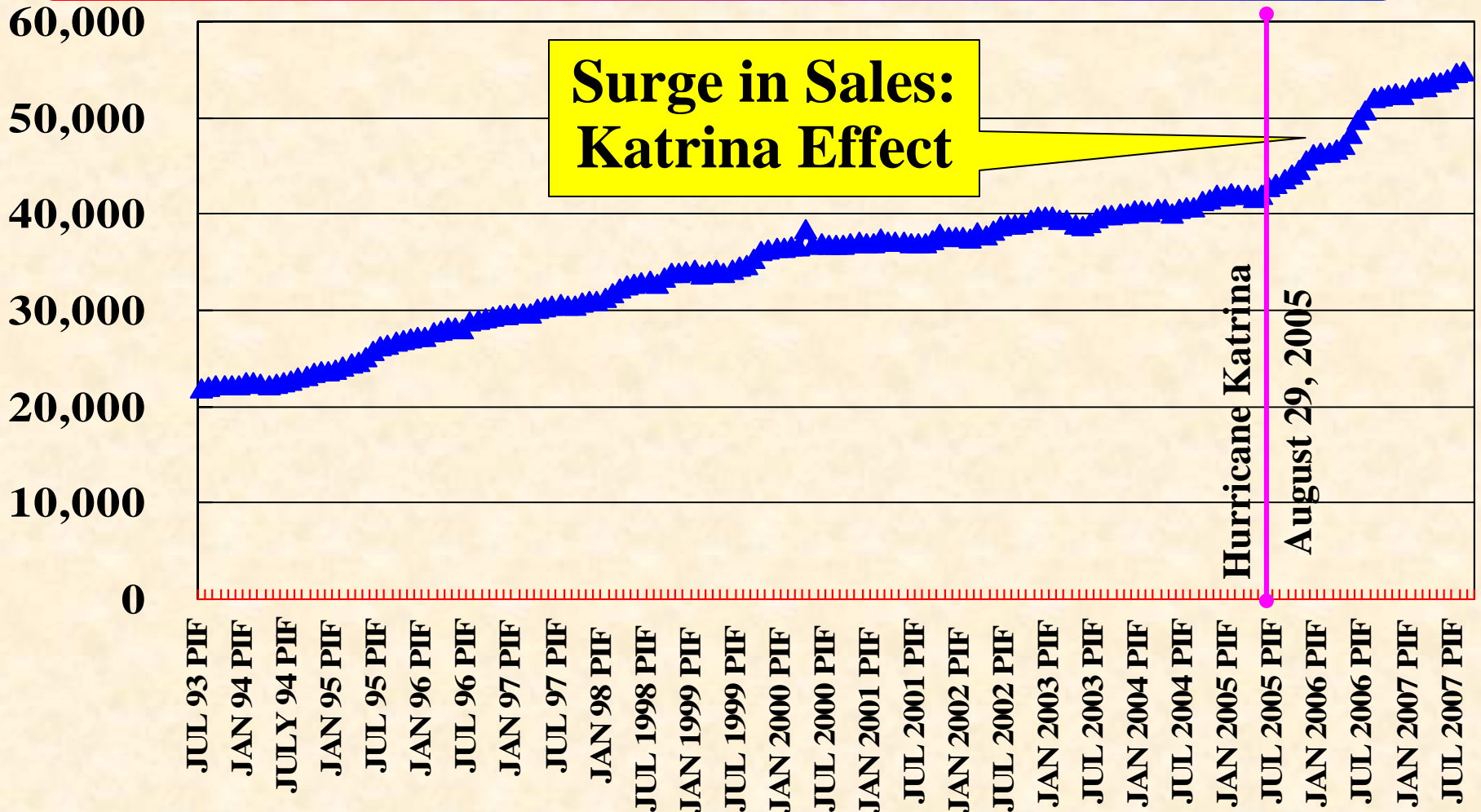
Gulf States: NFIP Flood Policies in Force: July 1993 – July 2007*



*Mandatory purchase of flood coverage for structures in floodplains with federally backed mortgages became effective in 1993. NFIP National Advertising Campaign began in 1993. PIF= Policies In Force. Gulf States are: AL, FL, LA, MS and TX. Source: NFIP; Insurance Information Institute.



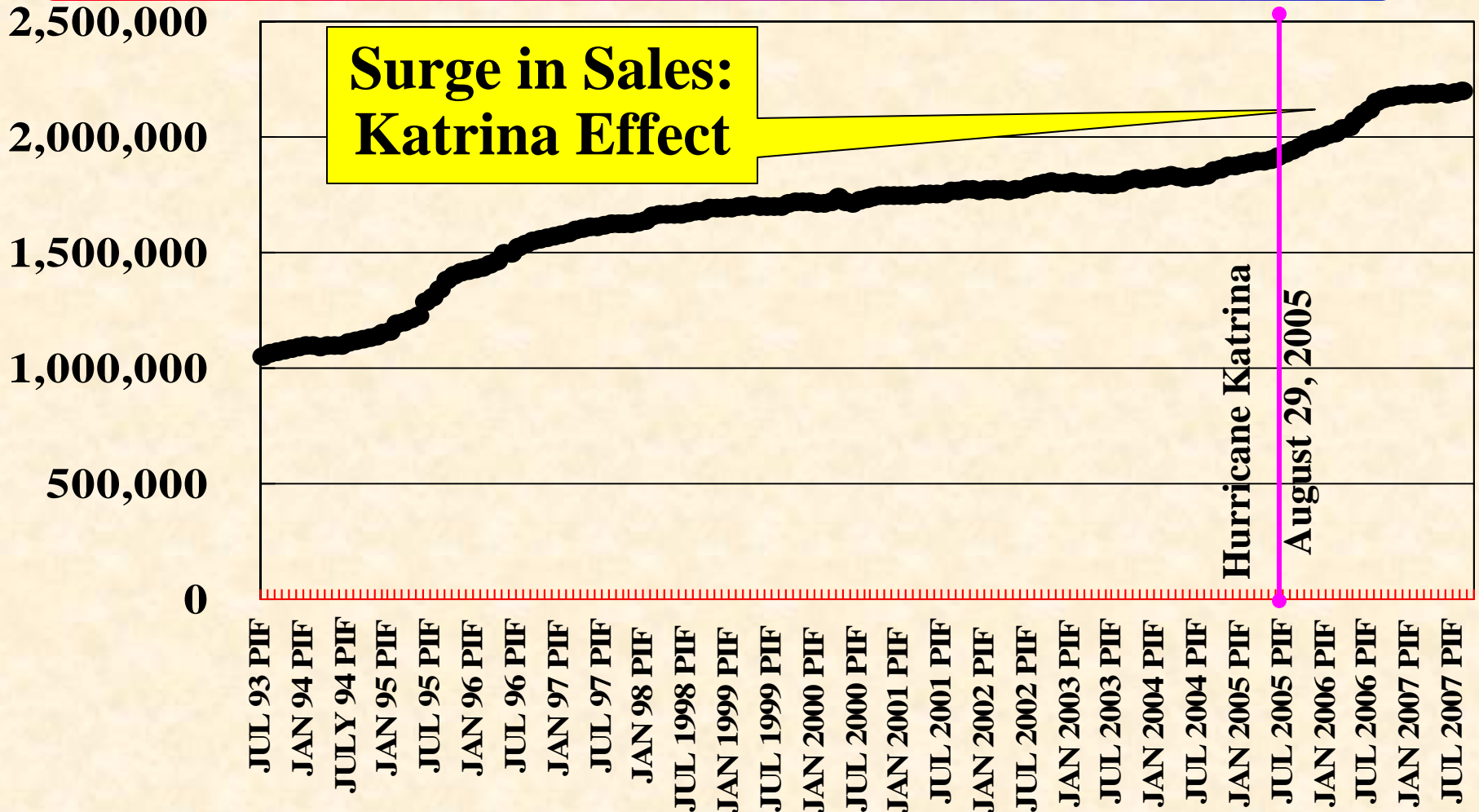
Alabama: NFIP Flood Policies in Force: July 1993 – July 2007*



*Mandatory purchase of flood coverage for structures in floodplains with federally backed mortgages became effective in 1993. NFIP National Advertising Campaign began in 1993. PIF= Policies In Force. Source: NFIP; Insurance Information Institute



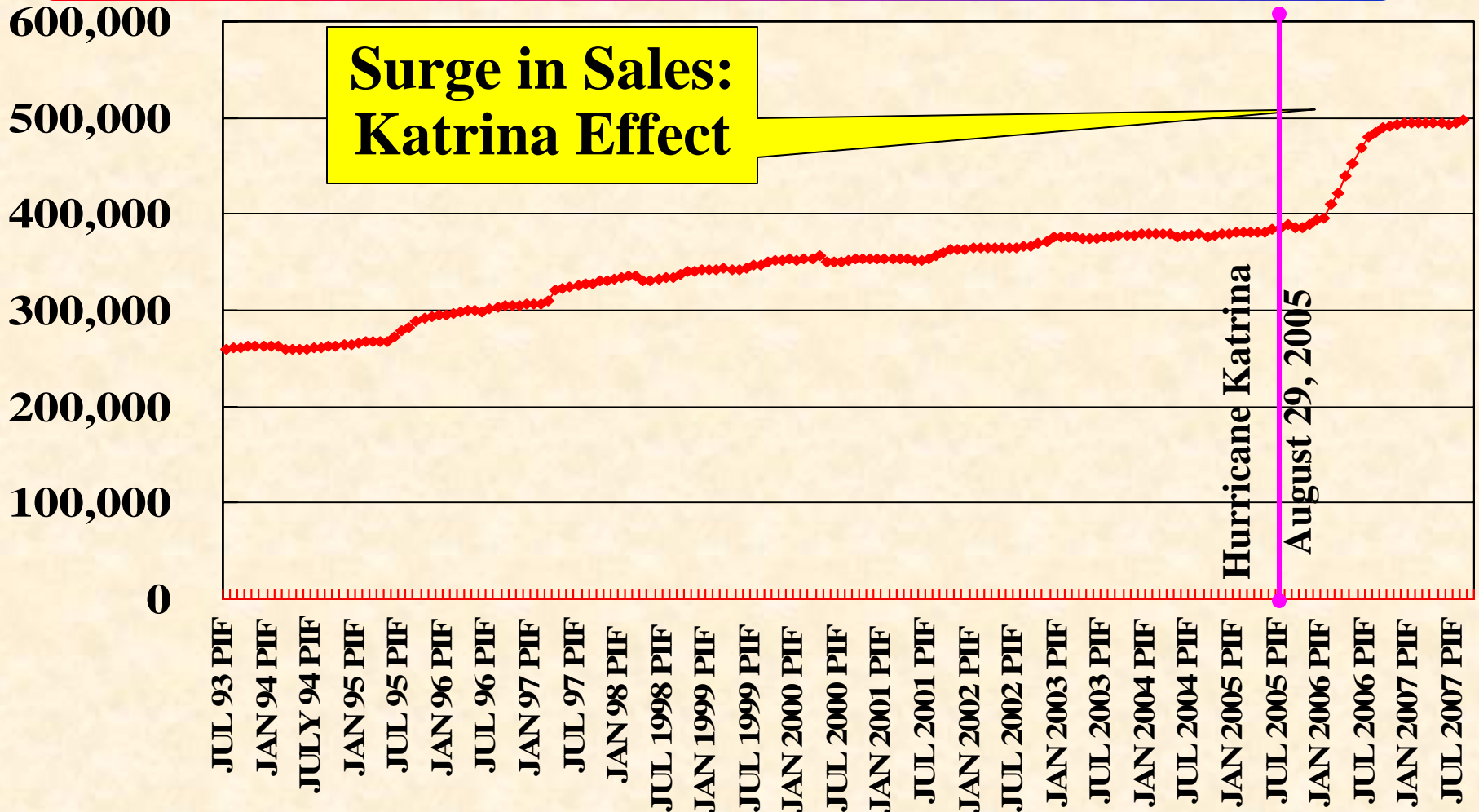
Florida: NFIP Flood Policies in Force: July 1993 – July 2007*



*Mandatory purchase of flood coverage for structures in floodplains with federally backed mortgages became effective in 1993. NFIP National Advertising Campaign began in 1993. PIF= Policies In Force. Source: NFIP; Insurance Information Institute



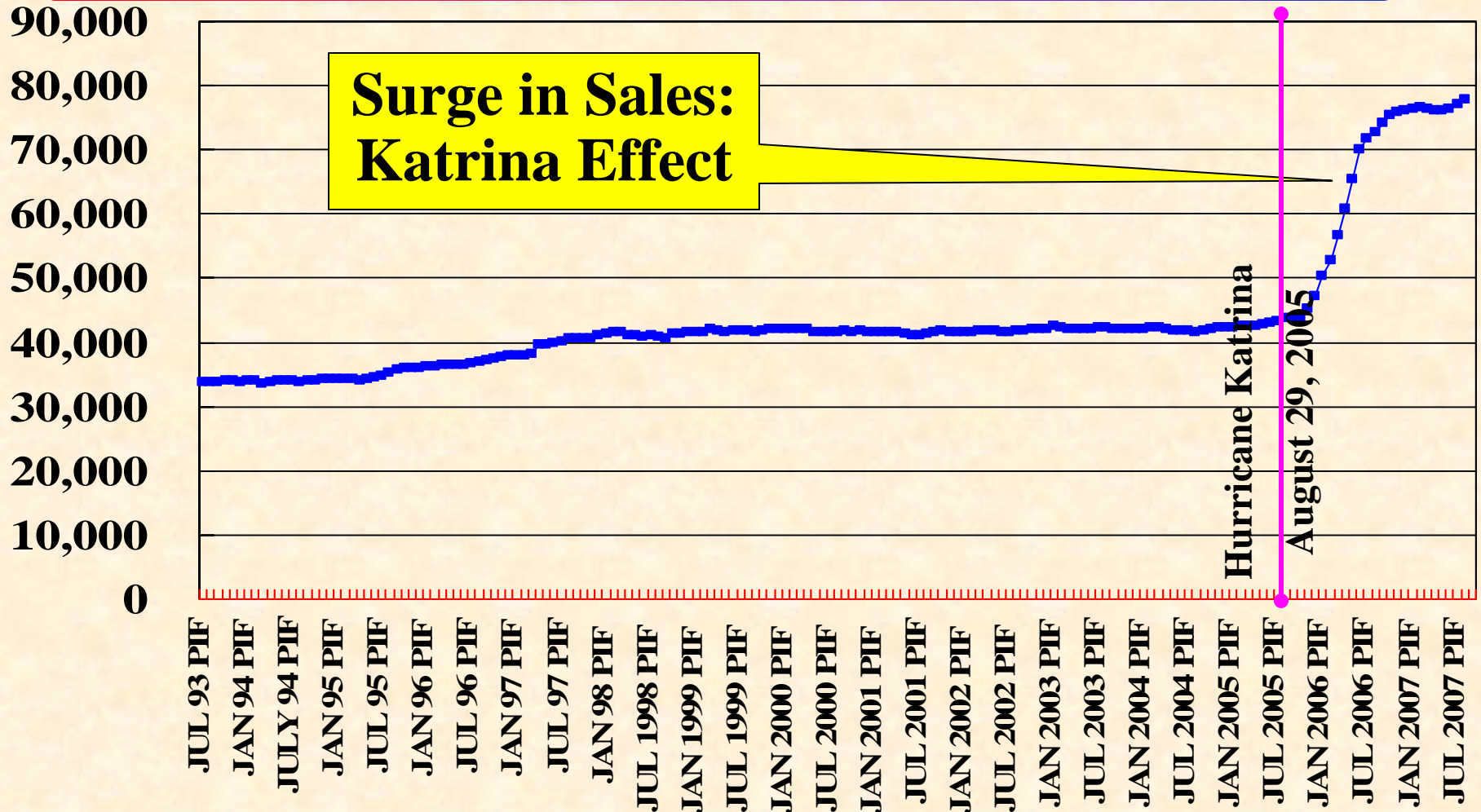
Louisiana: NFIP Flood Policies in Force: July 1993 – July 2007*



*Mandatory purchase of flood coverage for structures in floodplains with federally backed mortgages became effective in 1993. NFIP National Advertising Campaign began in 1993. PIF= Policies In Force. Source: NFIP; Insurance Information Institute



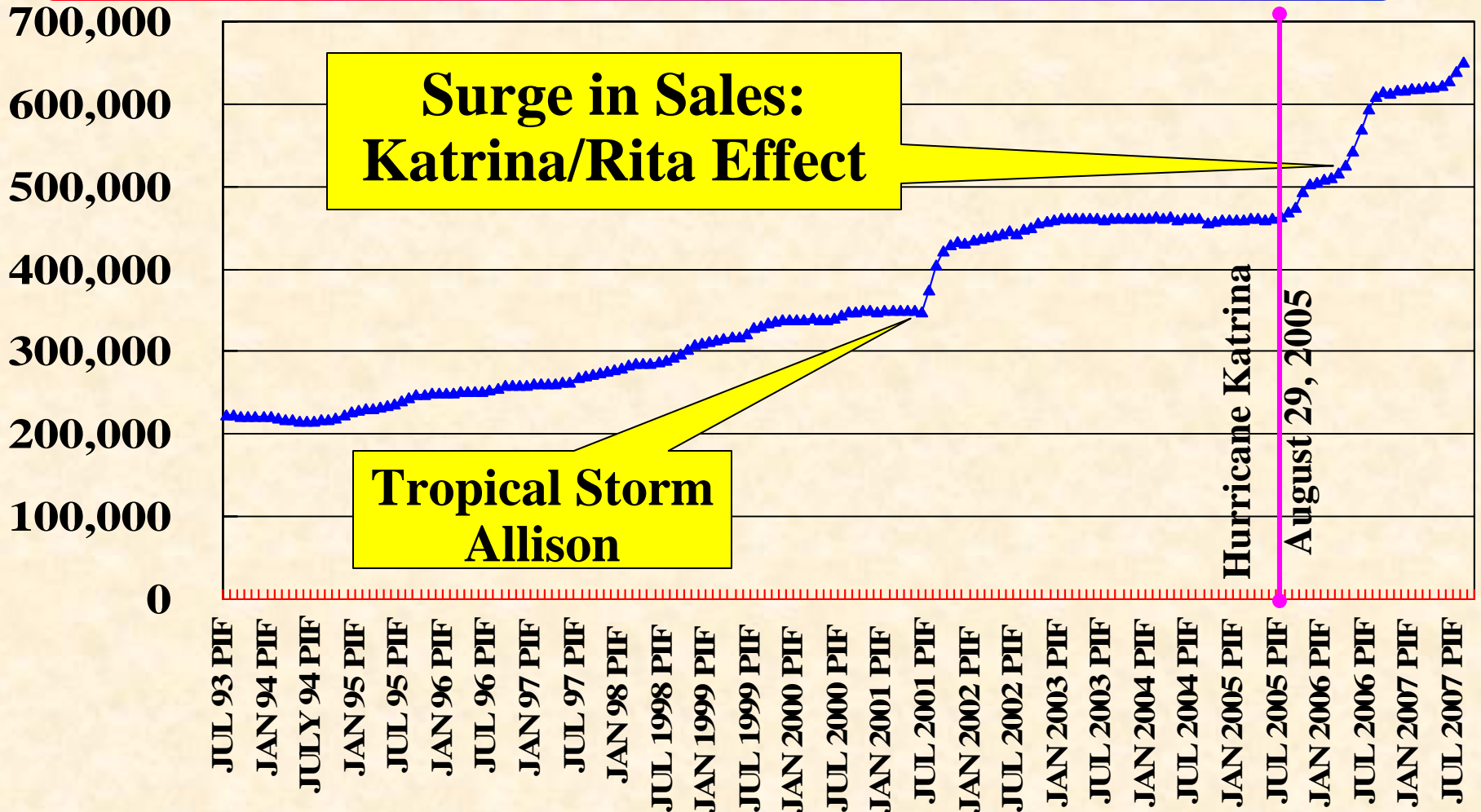
Mississippi: NFIP Flood Policies in Force: July 1993 – July 2007*



*Mandatory purchase of flood coverage for structures in floodplains with federally backed mortgages became effective in 1993. NFIP National Advertising Campaign began in 1993. PIF= Policies In Force. Source: NFIP; Insurance Information Institute



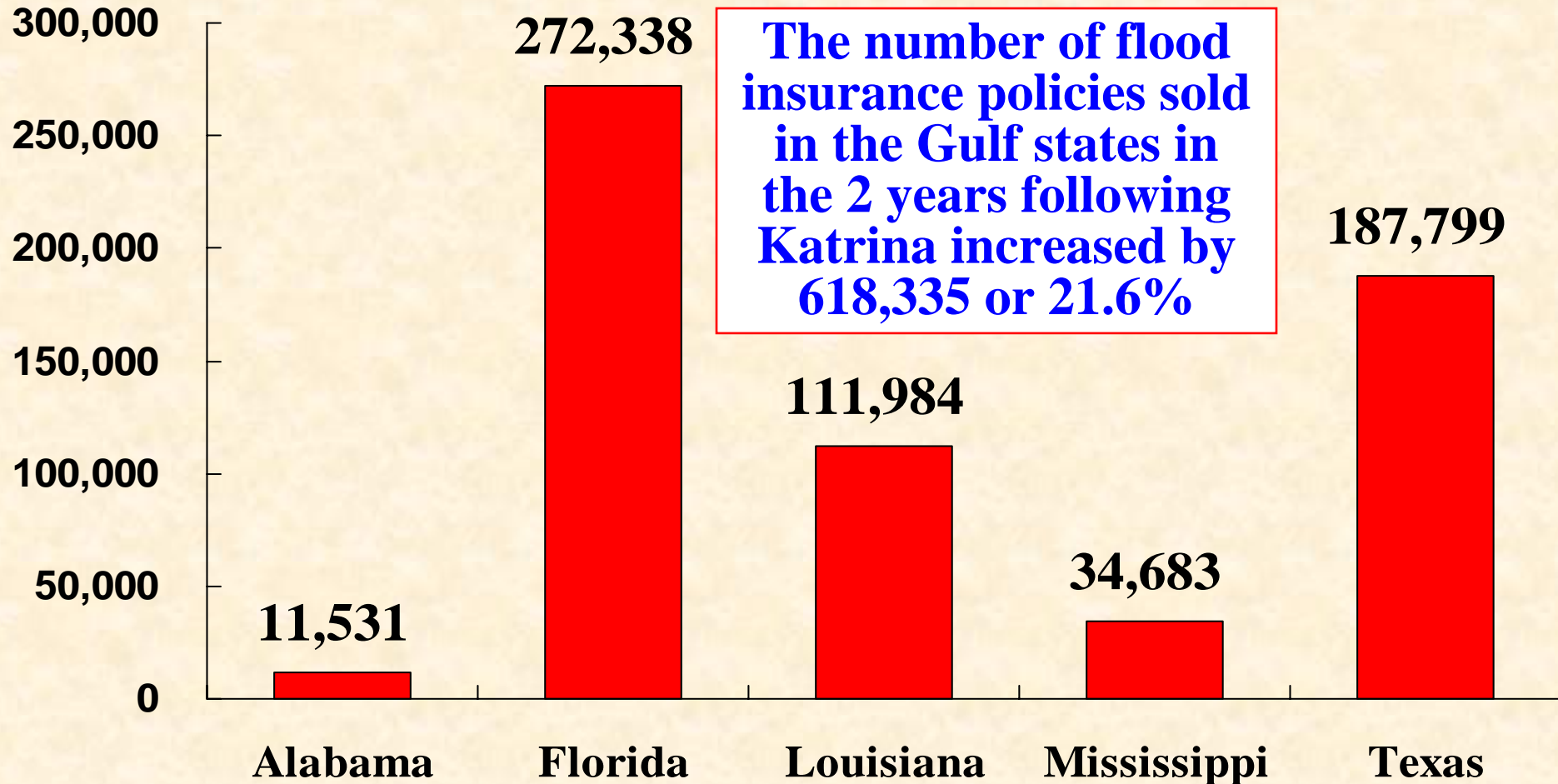
Texas: NFIP Flood Policies in Force: July 1993 – July 2007*



*Mandatory purchase of flood coverage for structures in floodplains with federally backed mortgages became effective in 1993. NFIP National Advertising Campaign began in 1993. PIF= Policies In Force. Source: NFIP; Insurance Information Institute



*NFIP Flood Policy Growth in Gulf States Since Katrina**

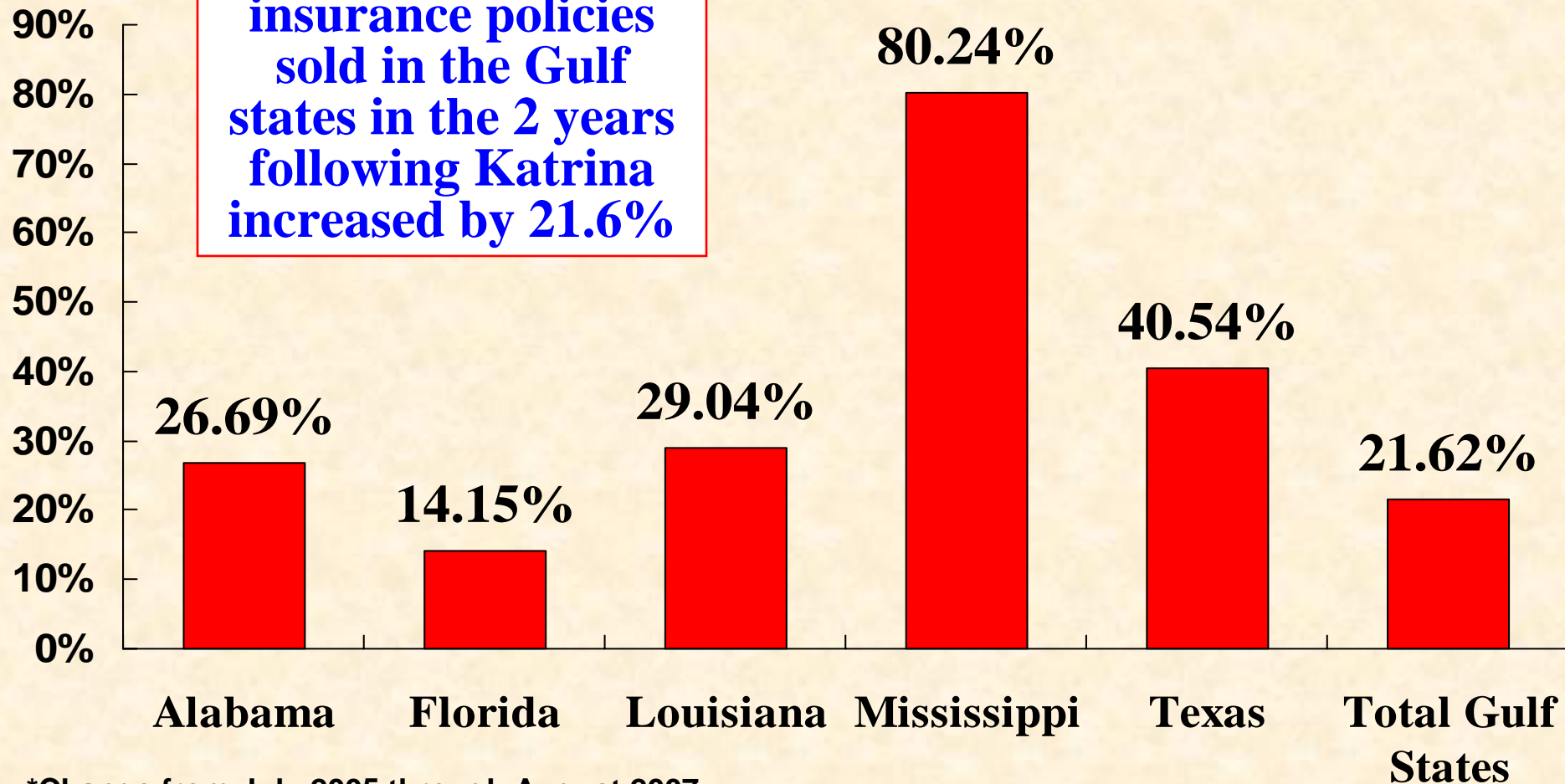


*Change from July 2005 through August 2007.
Sources: NFIP ; Insurance Information Institute.



*NFIP Flood Policy Growth in Gulf States Since Katrina**

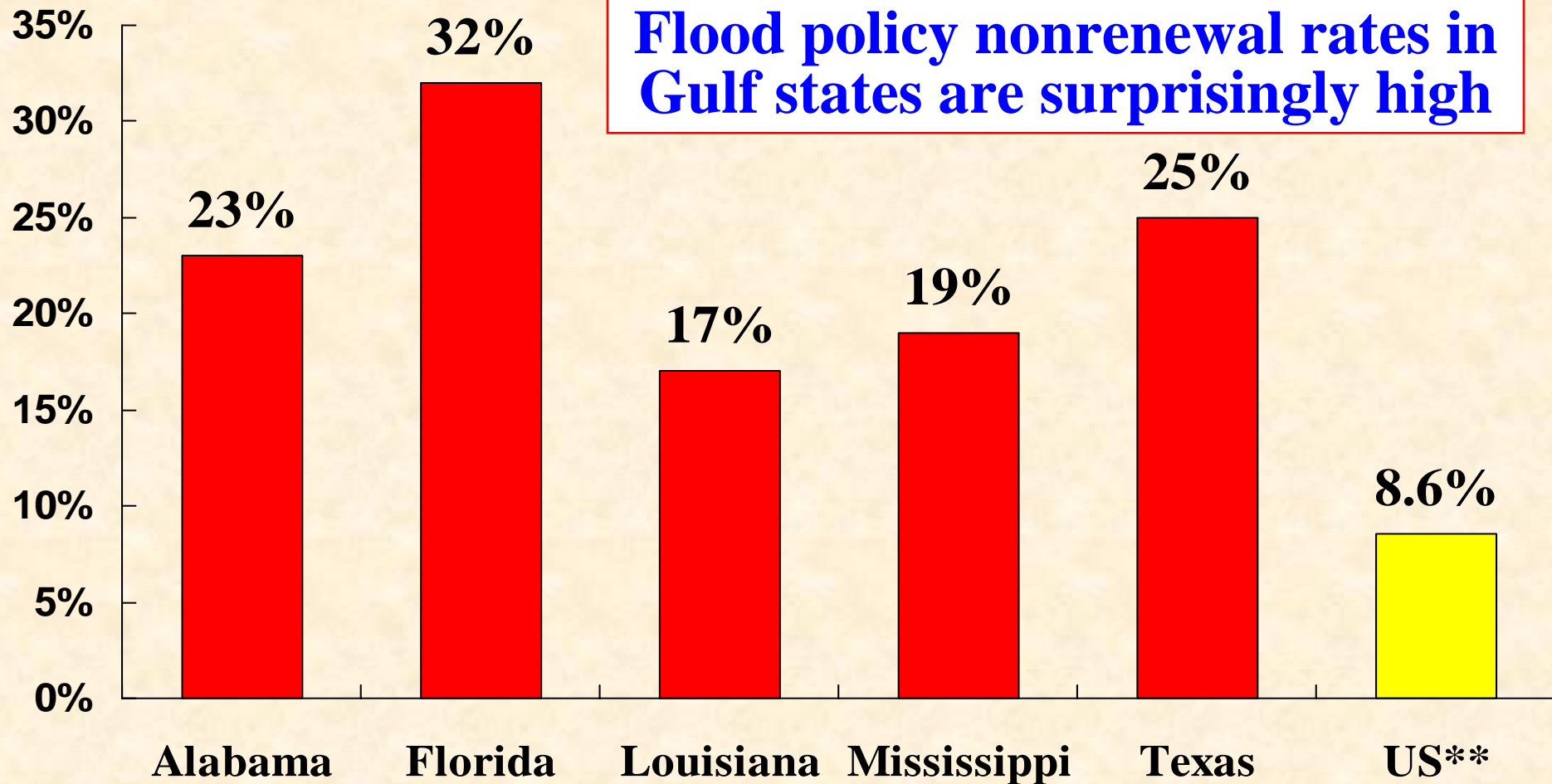
The number of flood insurance policies sold in the Gulf states in the 2 years following Katrina increased by 21.6%



*Change from July 2005 through August 2007.
Sources: NFIP ; Insurance Information Institute.



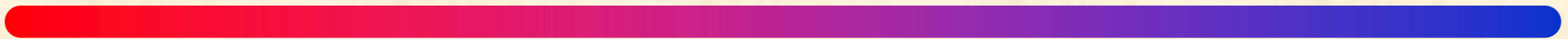
Percentage of NFIP Flood Policies Issued Since Katrina That Are Not Renewed*



*Policies issued since July 2005 as of August 2007. **US figure is nonrenewal rate for all policies in force, average over 12 month period ending August 2007.

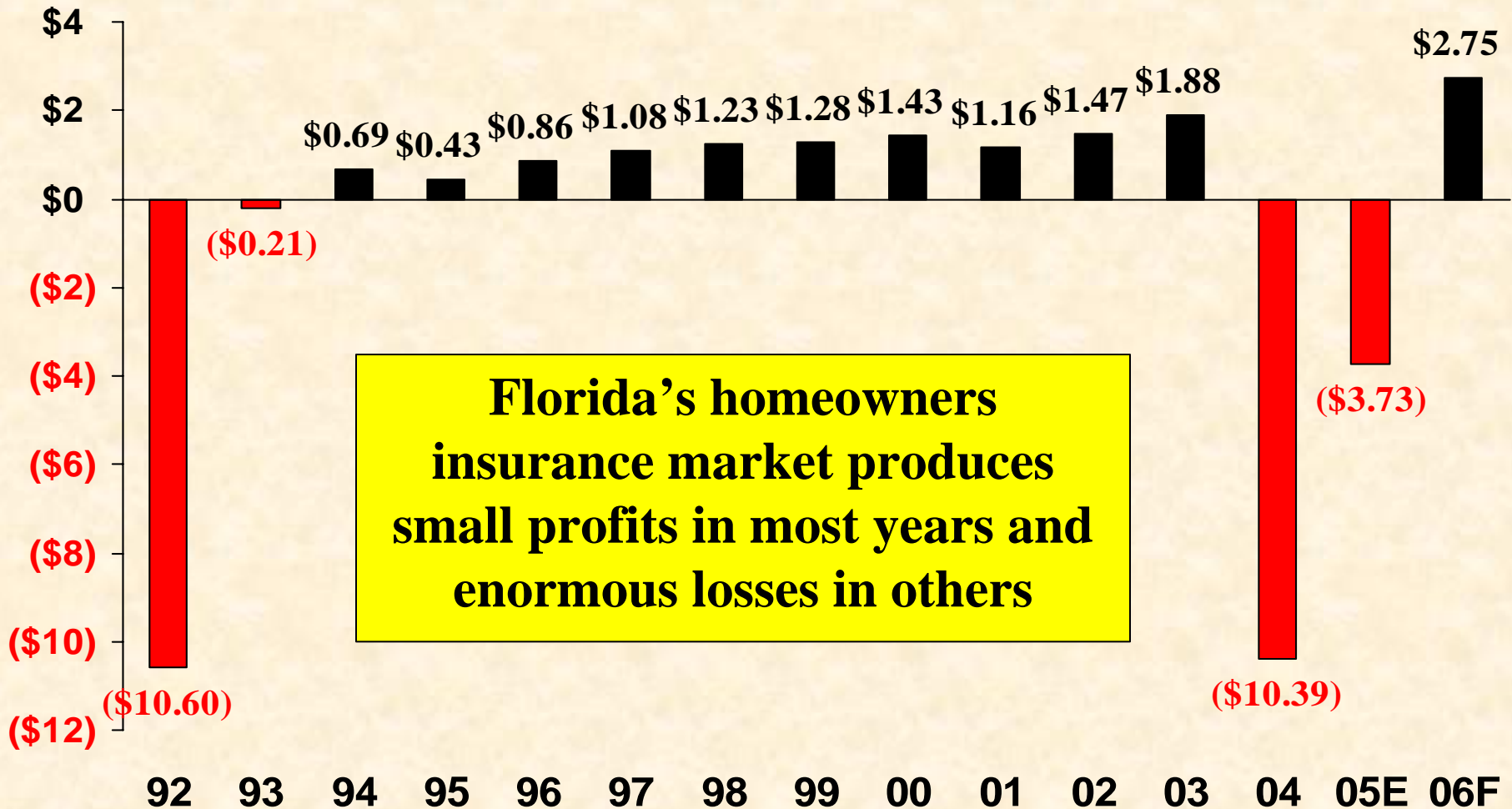
Sources: NFIP ; Insurance Information Institute.

*States Create Their
Own Vulnerability and
Try to Blame Insurers*





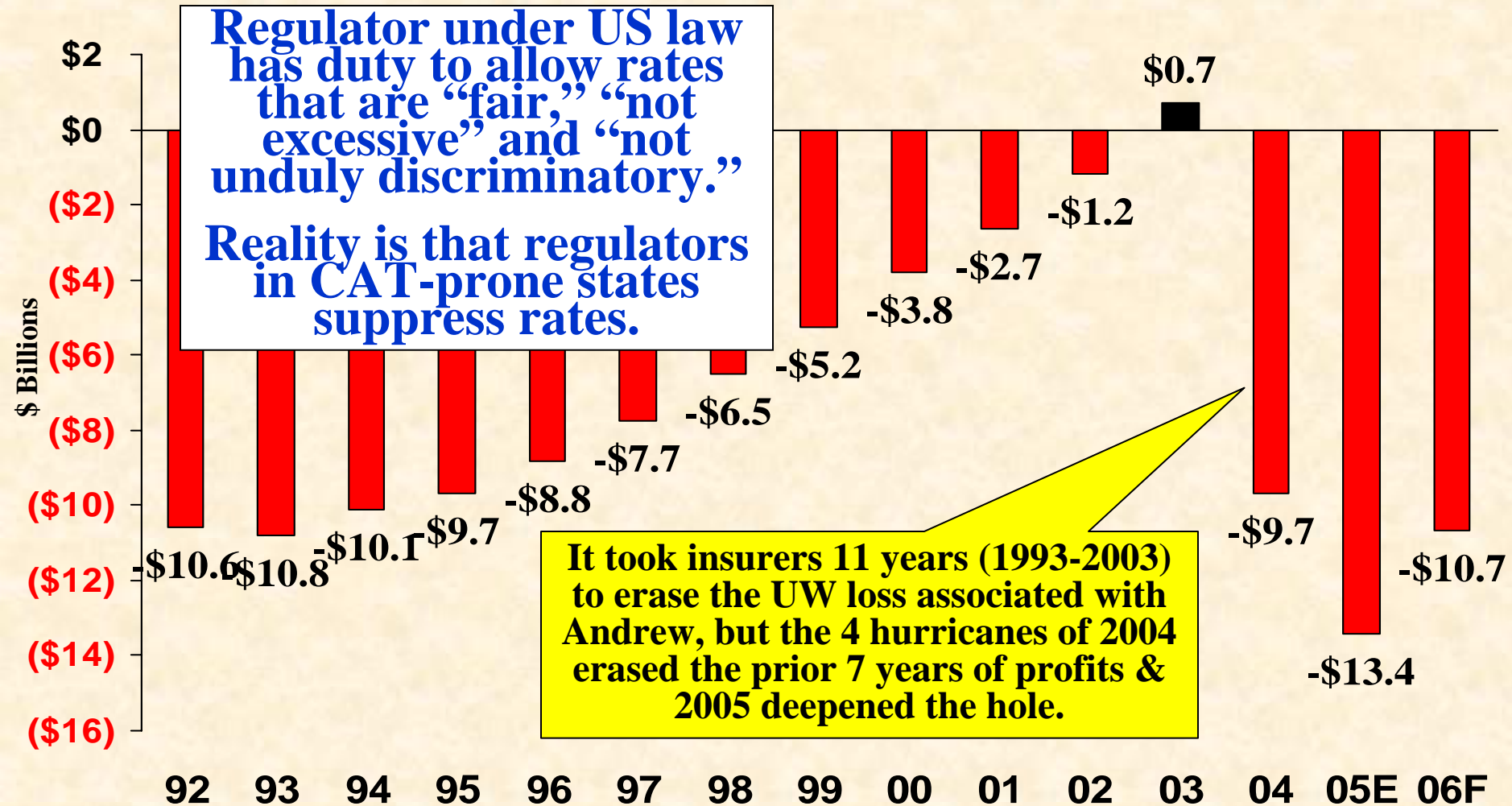
*Underwriting Gain (Loss) in Florida Homeowners Insurance, 1992-2006E**



*2005 estimate by Insurance Information Institute based on historical loss and expense data for FL adjusted for estimated 2005 residential windstorm losses of \$7.35B. 2006 estimate from Ins. Info. Inst.



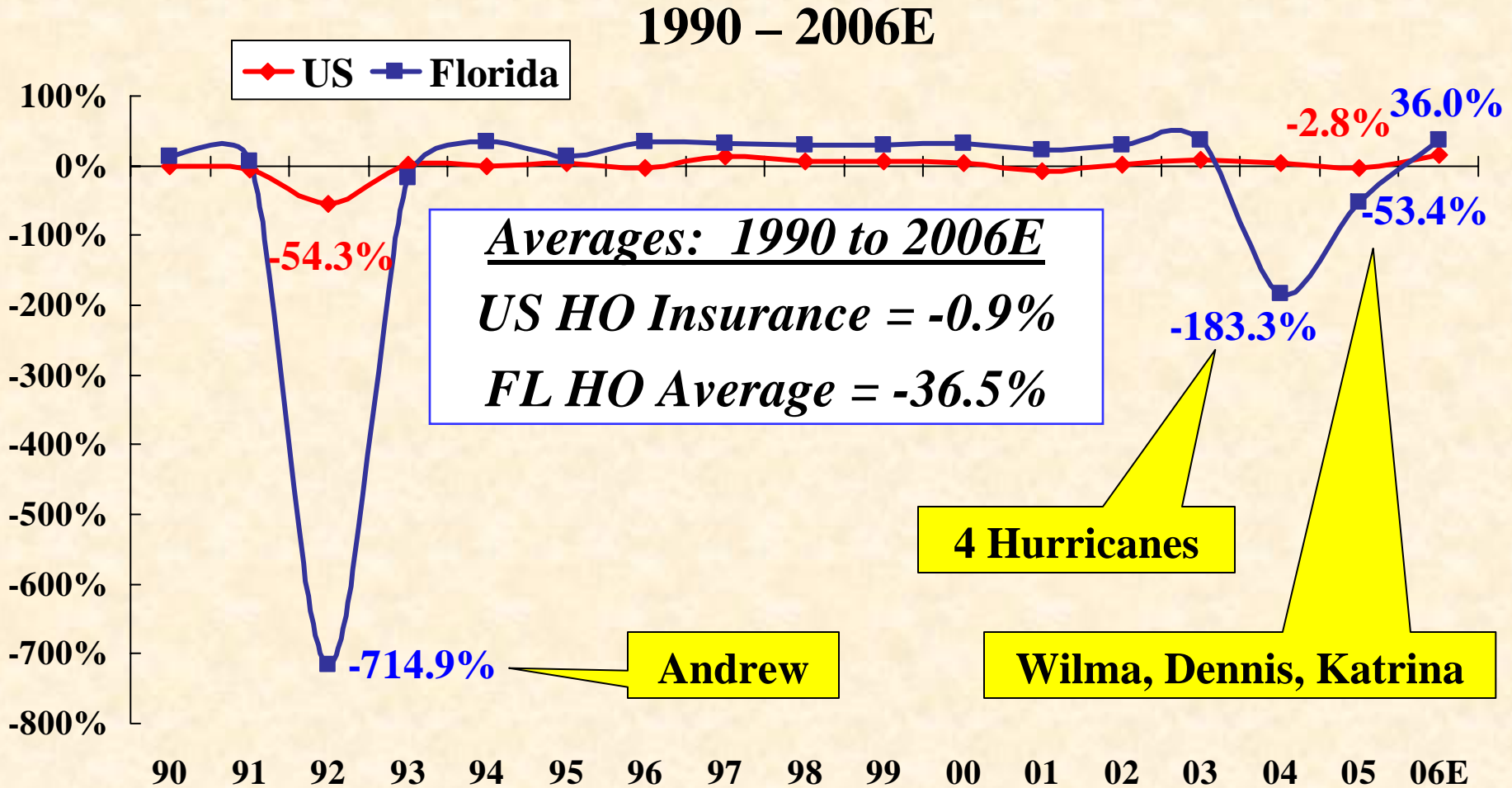
Cumulative Underwriting Gain (Loss) in Florida Homeowners Insurance, 1992-2006E*



*2005 estimate by Insurance Information Institute based on historical loss and expense data for FL adjusted for estimated 2005 residential windstorm losses of \$7.35B. 2006 estimate from Ins. Info. Inst.

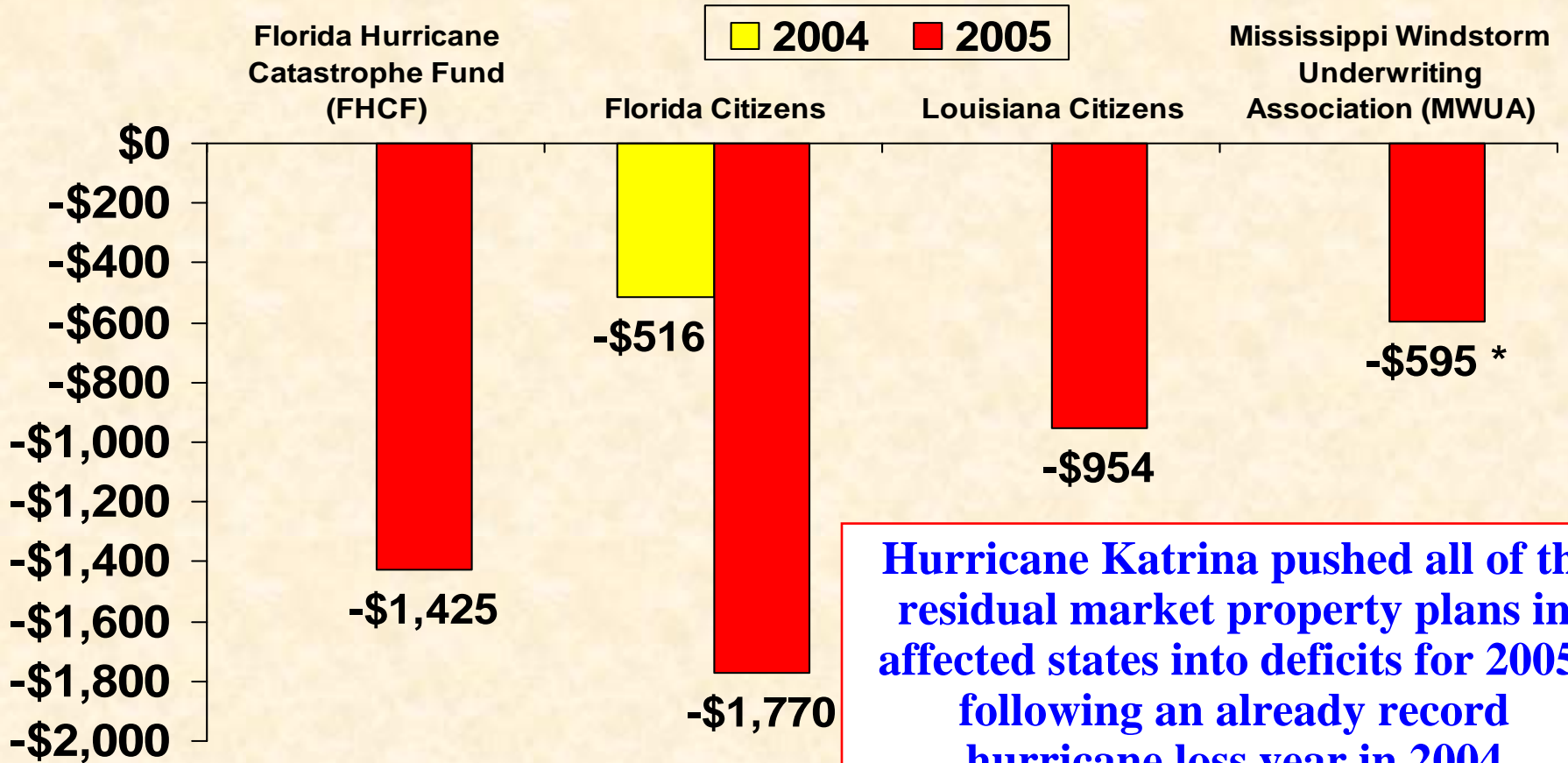


Rates of Return on Net Worth for Homeowners Ins: US vs. Florida





Major Residual Market Plan Estimated Deficits 2004/2005 (Millions of Dollars)



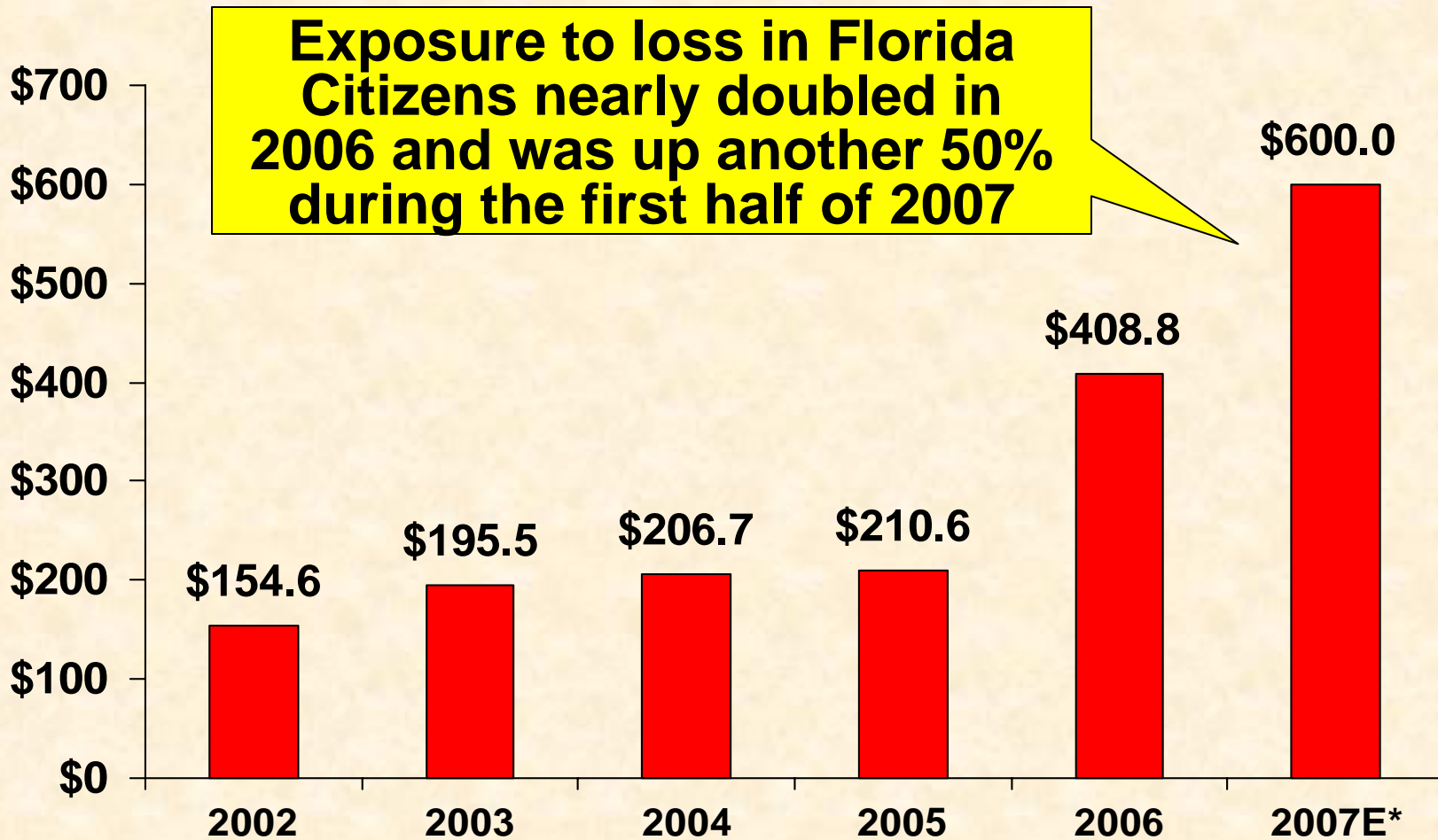
Hurricane Katrina pushed all of the residual market property plans in affected states into deficits for 2005, following an already record hurricane loss year in 2004

* MWUA est. deficit for 2005 comprises \$545m in assessments plus \$50m in Federal Aid.

Source: Insurance Information Institute

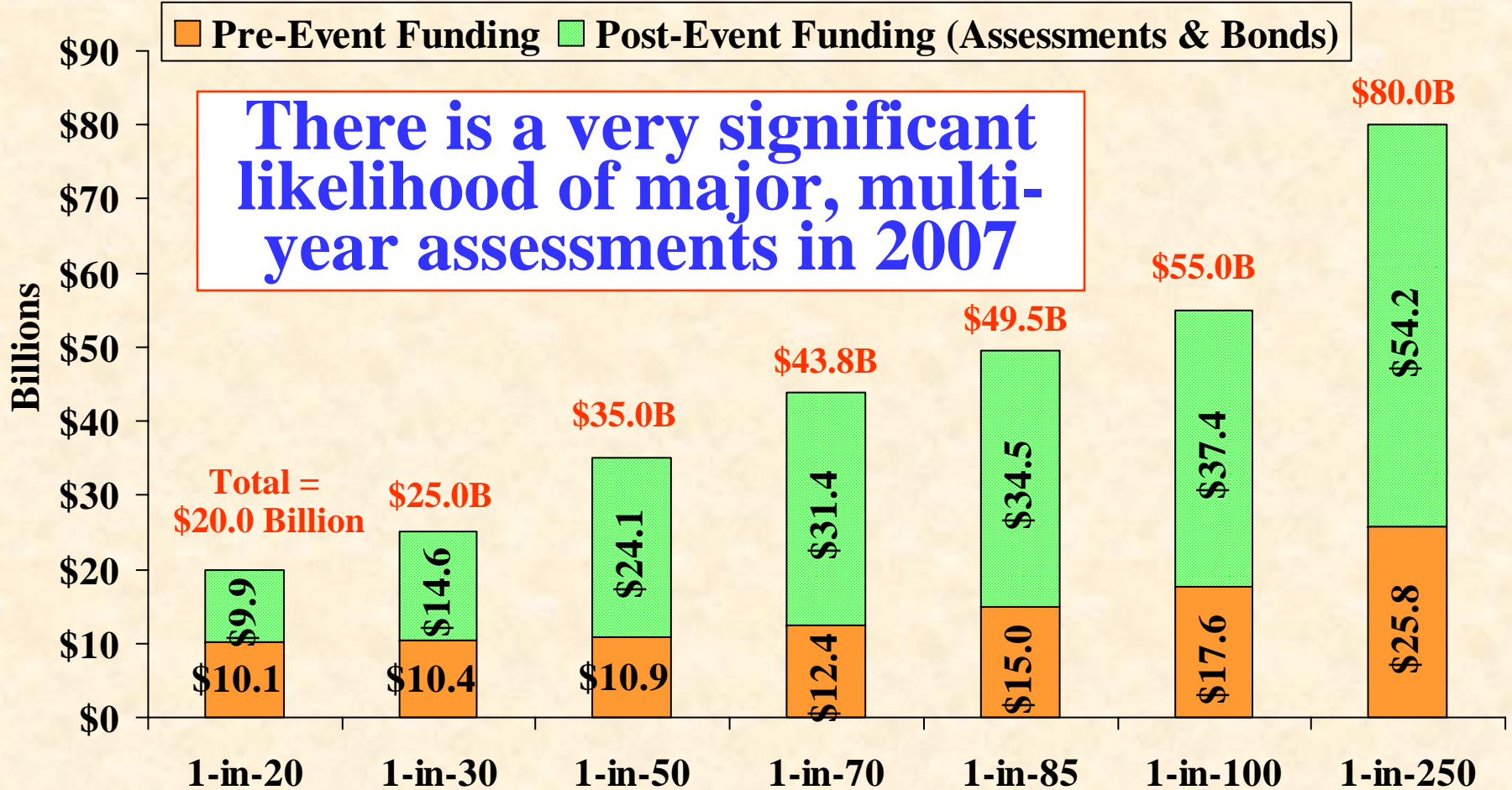


Florida Citizens Exposure to Loss (Billions of Dollars)





Pre- vs. Post-Event in FL for 2007 Hurricane Season



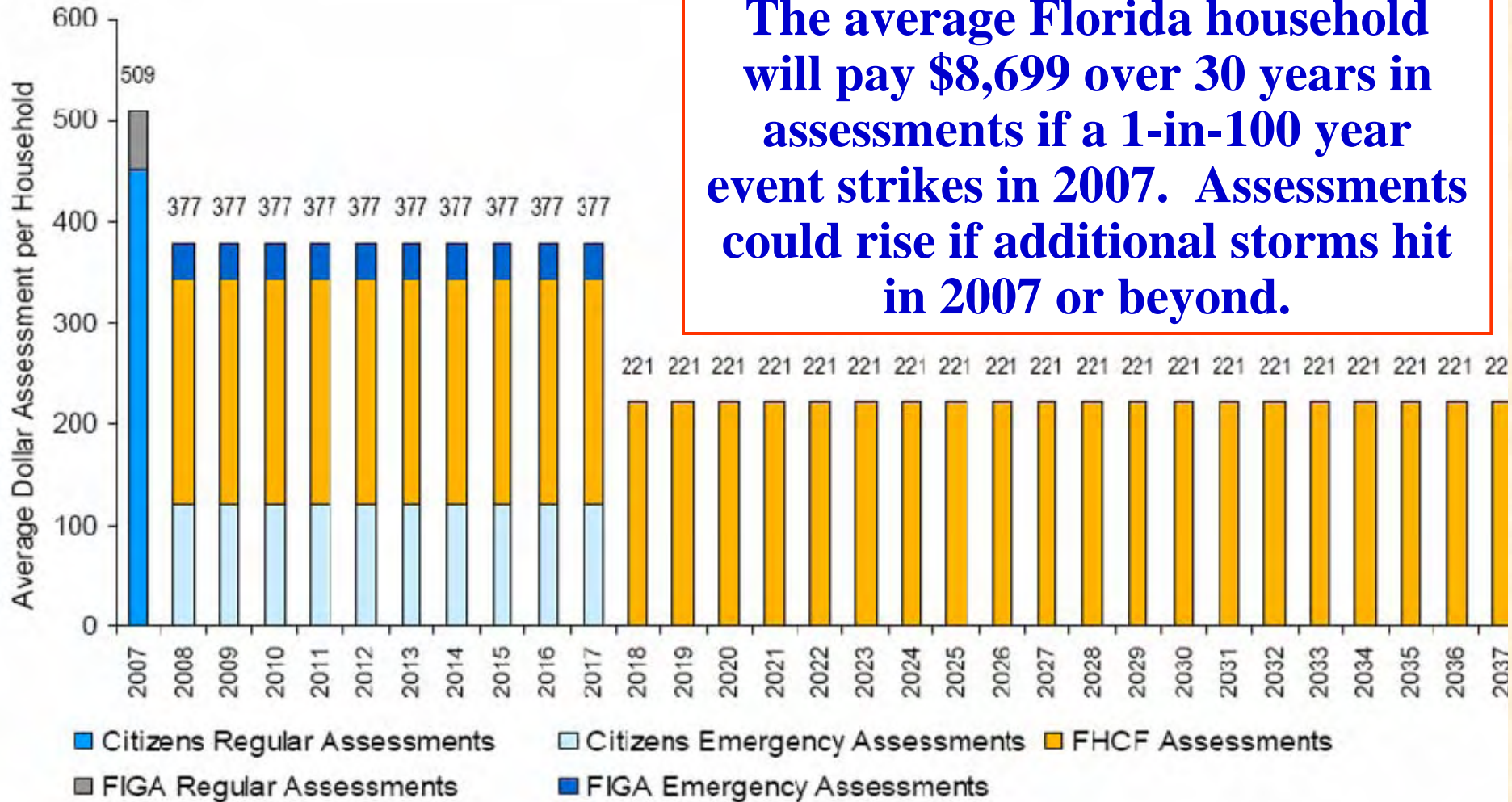
Notes: Pre-event funding includes funds available to Citizens, FHCFC and private carriers plus contingent funding available through private reinsurance to pay claims in 2007. Post-event funding is on a present value basis and does not include financing costs. Probabilities are expressed as “odds of a single storm of this magnitude or greater happening in 2007.”
Source: Tillinghast Towers Perrin, *Study of Recent Legislative Changes to Florida’s Property Insurance Mechanisms*, 3/07.



Average Annual Assessment per

Household, 1-in-100 Year Event in 2007

The average Florida household will pay \$8,699 over 30 years in assessments if a 1-in-100 year event strikes in 2007. Assessments could rise if additional storms hit in 2007 or beyond.



Source: Tillinghast Towers Perrin, *Study of Recent Legislative Changes to Florida's Property Insurance Mechanisms*, 3/07.



Savings vs. Costs by Region: *Neither Equitable nor Proportionate*

STATEWIDE AVERAGE

Average Savings: \$265
Cost of 1-in-30 Storm: \$2,550
Cost is 10 times avg. savings

ORLANDO

Average Savings: \$30
Cost of 1-in-30 Storm: \$2,075
Cost is 69 times avg. savings

TALLAHASSEE

Average Savings: \$20
Cost of 1-in-30 Storm: \$2,000
Cost is 100 times avg. savings

TAMPA

Average Savings: \$100
Cost of 1-in-30 Storm: \$2,300
Cost is 23 times avg. savings

MIAMI

Average Savings: \$1,120
Cost of 1-in-30 Storm: \$3,375
Cost is 3 times avg. savings



New Condo Construction in South Miami Beach, 2007-2009

- **Number of New Developments: 15**
- **Number of Individual Units: 2,111**
- **Avg. Price of Cheapest Unit: \$940,333**
- **Avg. Price of Most Expensive Unit: \$6,460,000**
- **Range: \$395,000 - \$16,000,000**
- **Overall Average Price per Unit: \$3,700,167***
- **Aggregate Property Value: At least \$6 Billion**



*Based on average of high/low value for each of the 15 developments

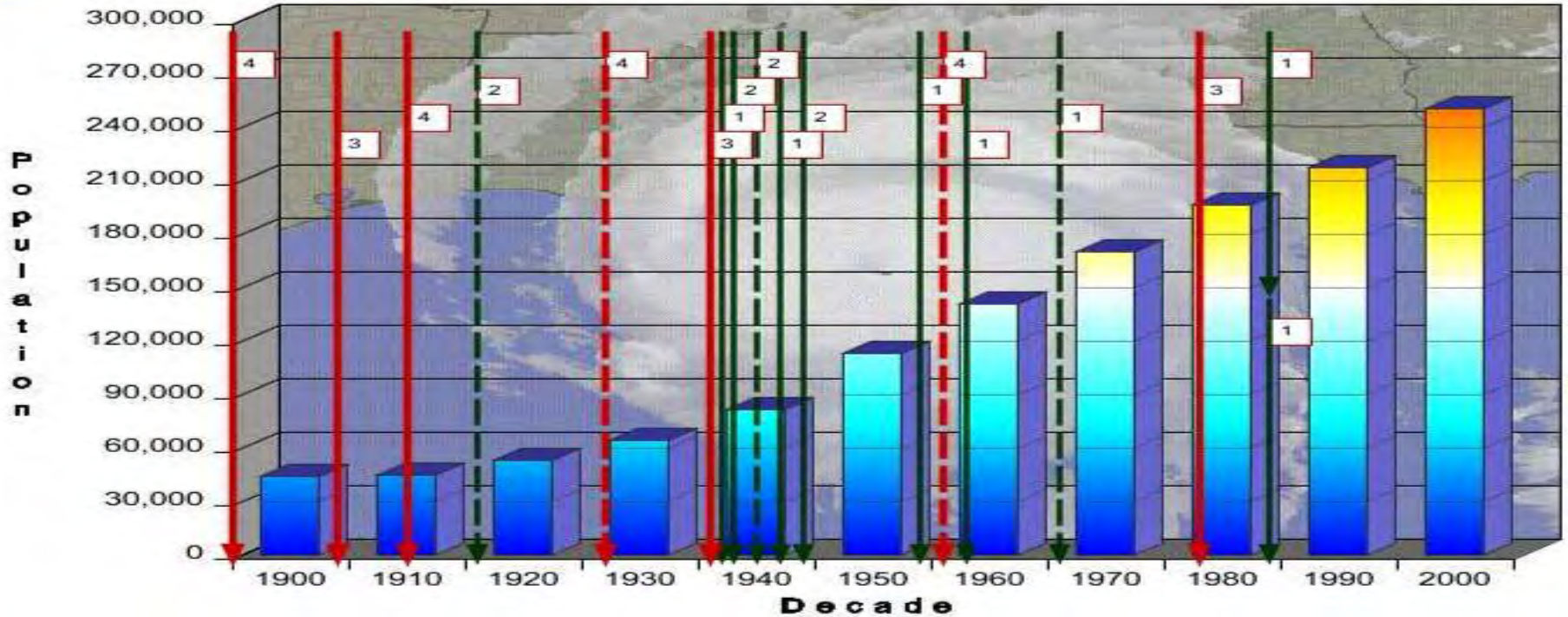
Source: Insurance Information Institute from www.miamicondolifestyle.com accessed April 5, 2007.



Historical Hurricane Strikes in Galveston County, TX, 1900-2002



Galveston, TX

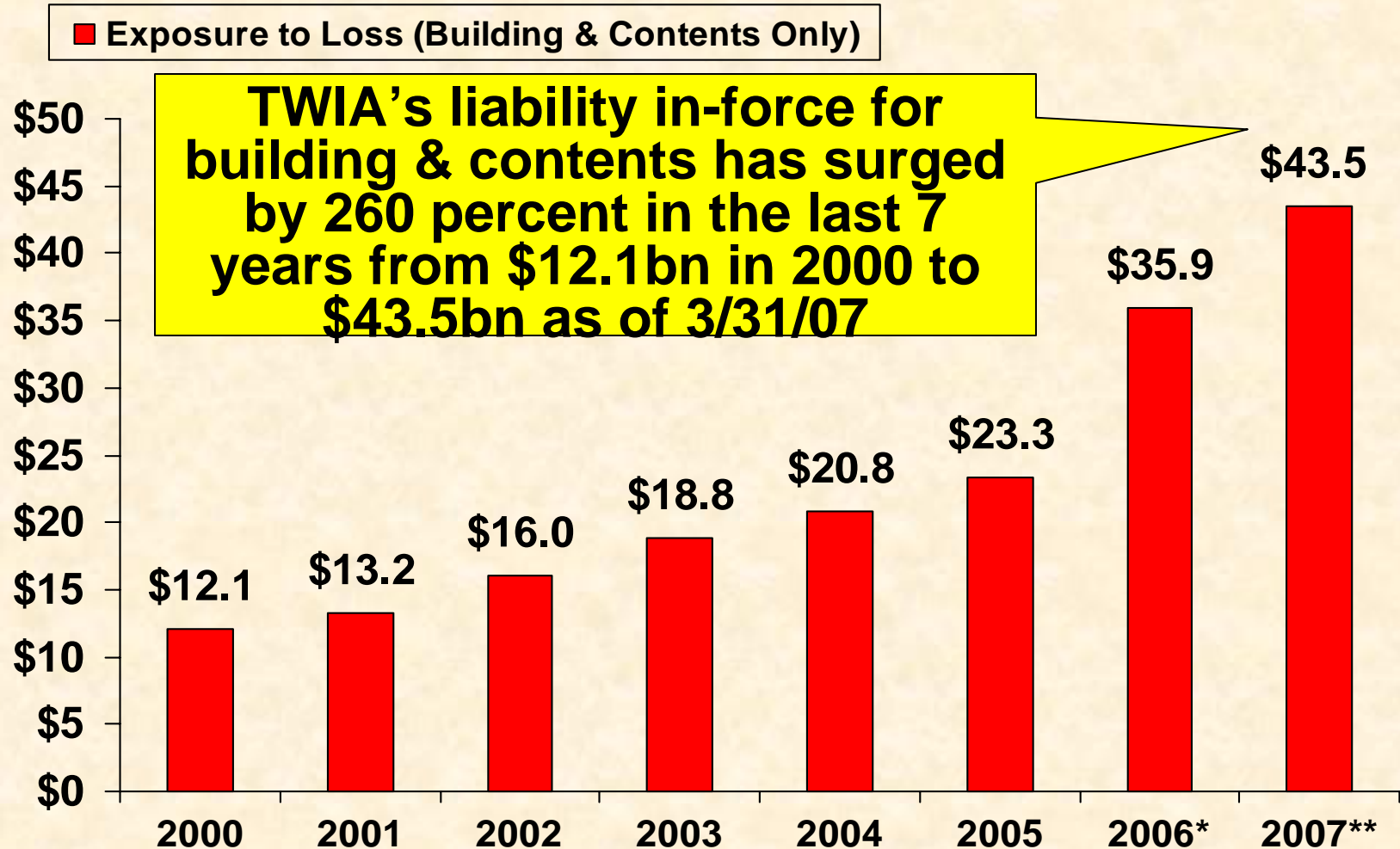


Legend

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



TWIA Growth In Exposure to Loss *(Building & Contents Only, \$ Billions)*

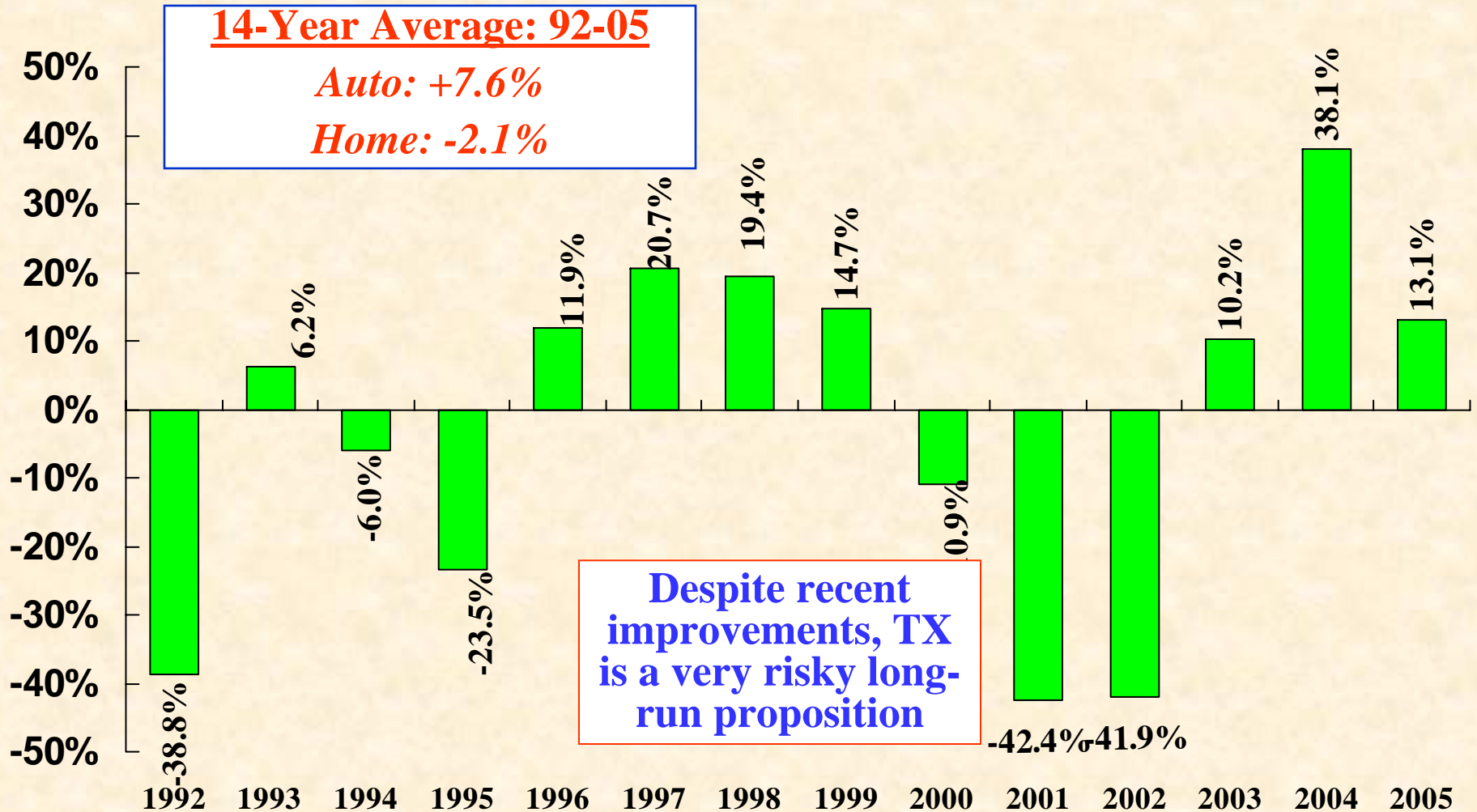


Source: TWIA; Insurance Information Institute;

*As of 11/30/06; **As of 3/31/07.



ROE for Homeowners Insurance in Texas, 1992 - 2005





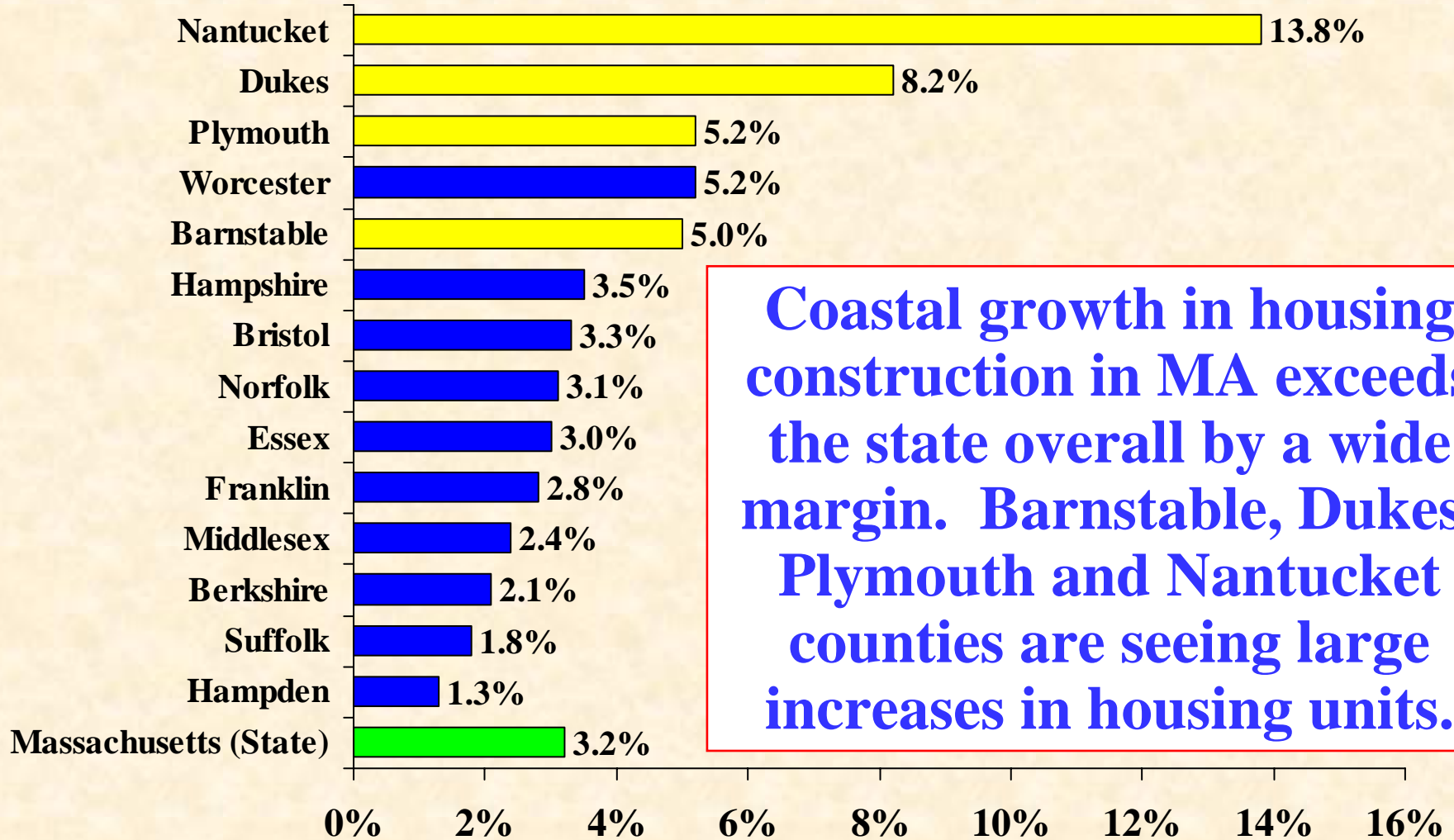
New Construction in Galveston: Will Dreams be Blown Away?

- **More than \$2.3 Billion Residential, Commercial and Public Construction is Under Way in 2007**
- **More than 6,500 Residential Units Under Construction**
 - **Mostly condos, including several towers up to 27 stories high**
 - **One development by Centex Homes will consist of 2,300 condos and houses on 1,000 acres**
- **The Average Home Price Rose 89% to \$232,800 over the 4 Years Ending Jan. 2007**
- **Typical Price Range for Newer Condos: \$400,000 Up to \$1.5 Million**
 - **An undeveloped waterview lot can go for as much as \$300,000**
 - **Most will be insured via TWIA → Limits up to \$1.6 million + contents**
- **Inconvenient Truth: Galveston is Site of the Deadliest Natural Disaster in US History**
 - **At least 8,000 people were killed in a 1900 hurricane**
 - **3,600 homes were destroyed**
 - **The current seawall is only 15.6 ft. high; Katrina's storm surge was nearly 30 feet.**
- **Insured Losses Today from Repeat of 1900 Storm Would Cost \$21 - \$33 Billion**
 - **Would become the 3rd most expensive hurricane in US history (after Katrina and Andrew)**





Percentage Increase in Estimated Housing Units for MA Counties, 2000 to 2006

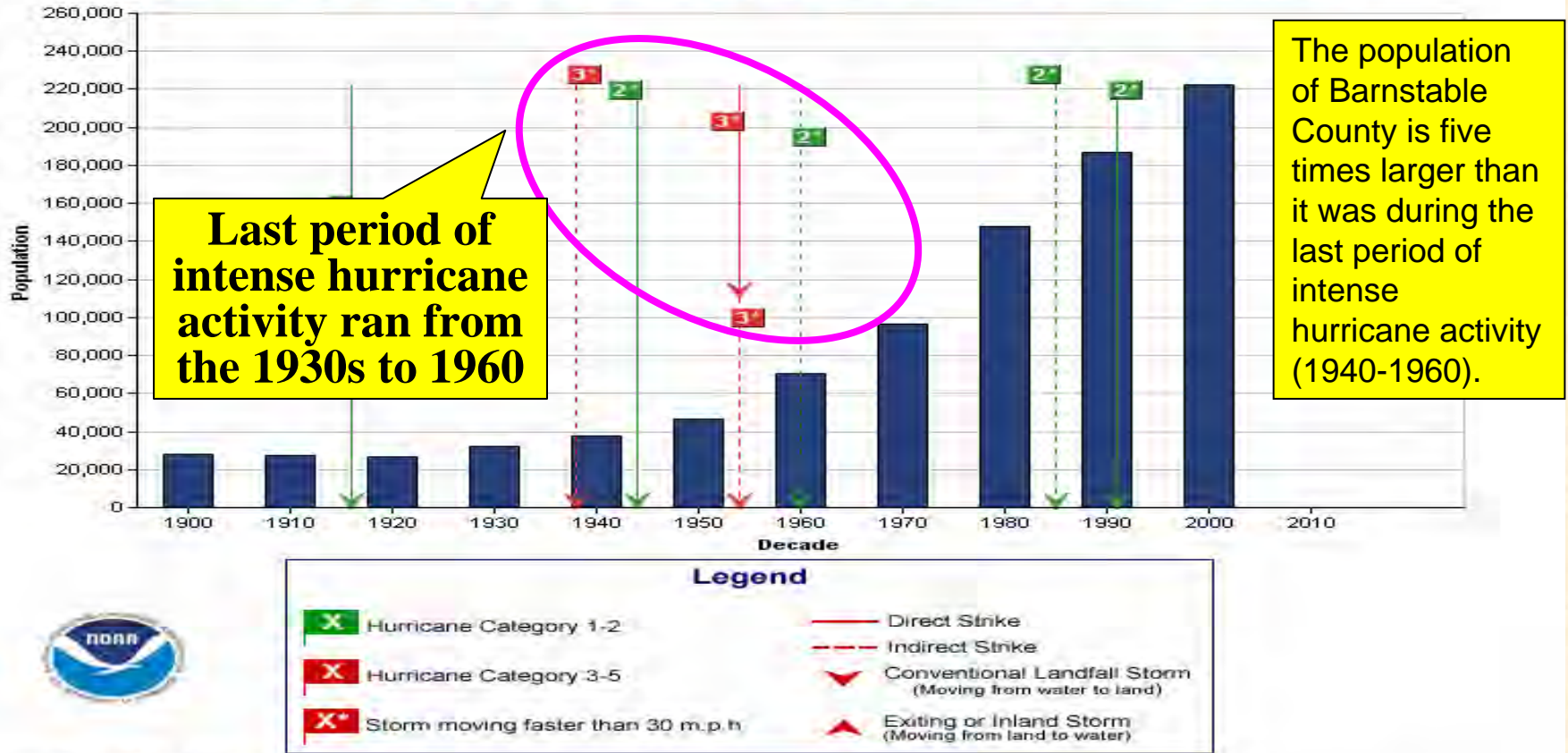


Coastal growth in housing construction in MA exceeds the state overall by a wide margin. Barnstable, Dukes, Plymouth and Nantucket counties are seeing large increases in housing units.



Barnstable County, Massachusetts*

Hurricane Strikes vs Population for Barnstable, Massachusetts



The population of Barnstable County is five times larger than it was during the last period of intense hurricane activity (1940-1960).

Last period of intense hurricane activity ran from the 1930s to 1960



Hurricane Strike Data: National Hurricane Center

Population Data: U.S. Census Bureau

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

NOTE: There may be discrepancies between the strike data shown in this chart and the HURDAT strike data used in the Historical Hurricanes Tracks Tool.

The National Hurricane Center is currently updating the strike data used for these charts.

For more information visit http://www.aoml.noaa.gov/hrd/data_sub/re_anal.html

NOTE: Population data is current as of 2000 U.S. Census. X-axis on graphs depict years through 2010 to illustrate storms that have occurred from 2000-2006.

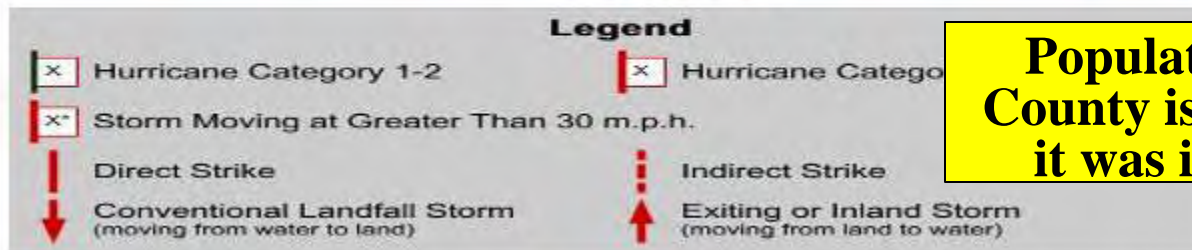
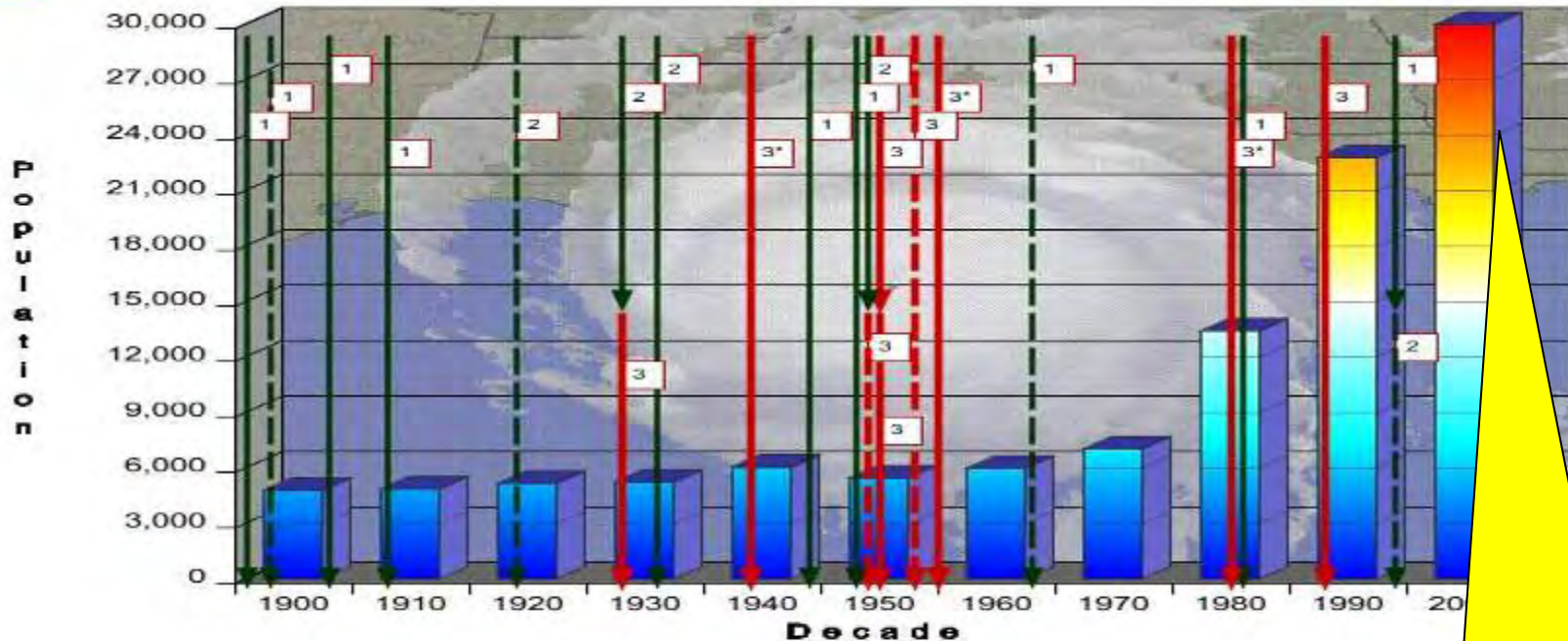
*Barnstable County is mostly comprised of Cape Cod



Historical Hurricane Strikes in Dare County, NC, 1900-2002



Dare, NC

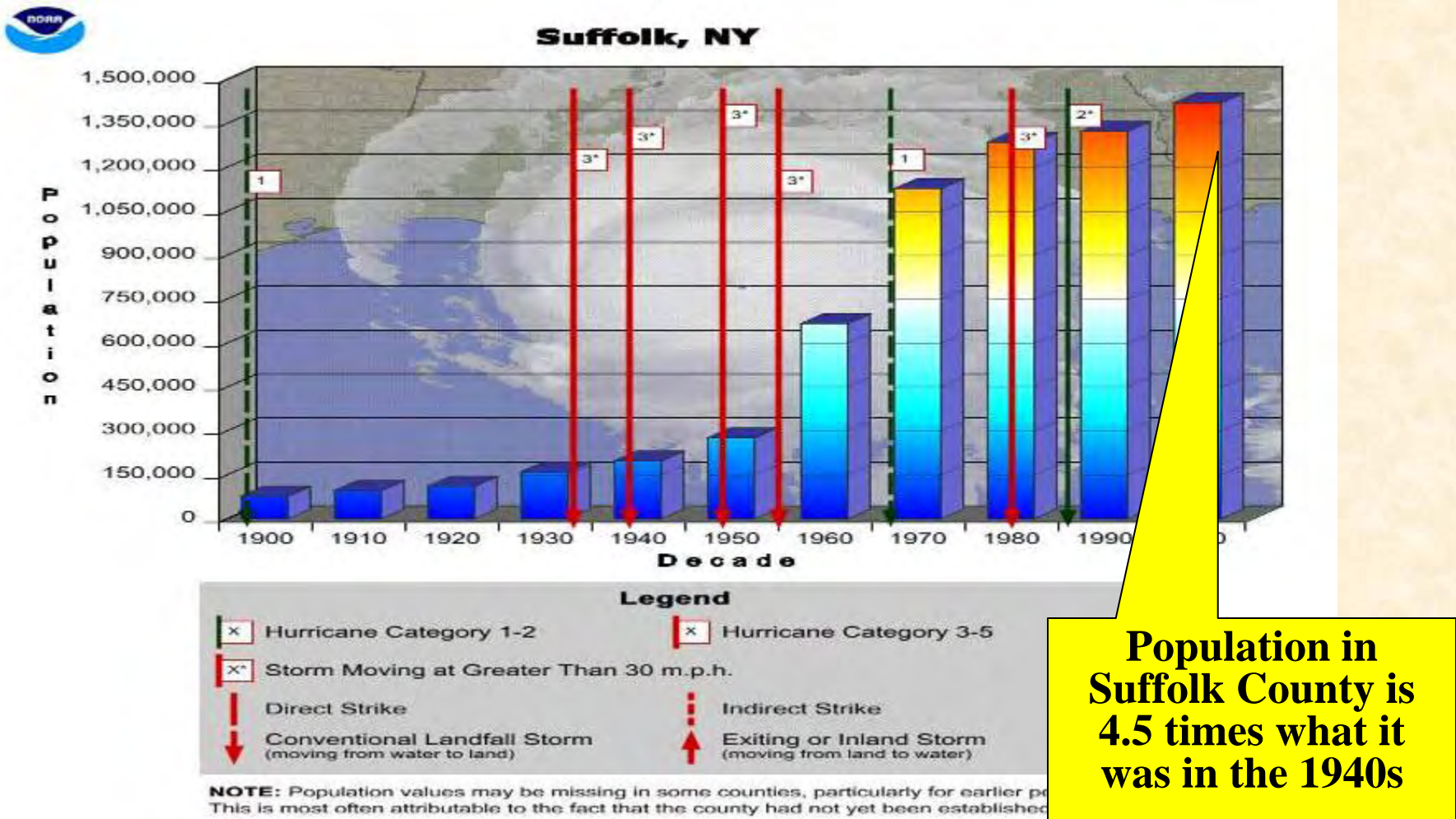


Population in Dare County is 6 times what it was in the 1950s

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



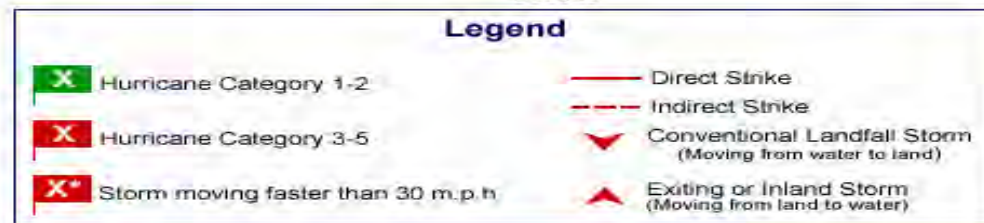
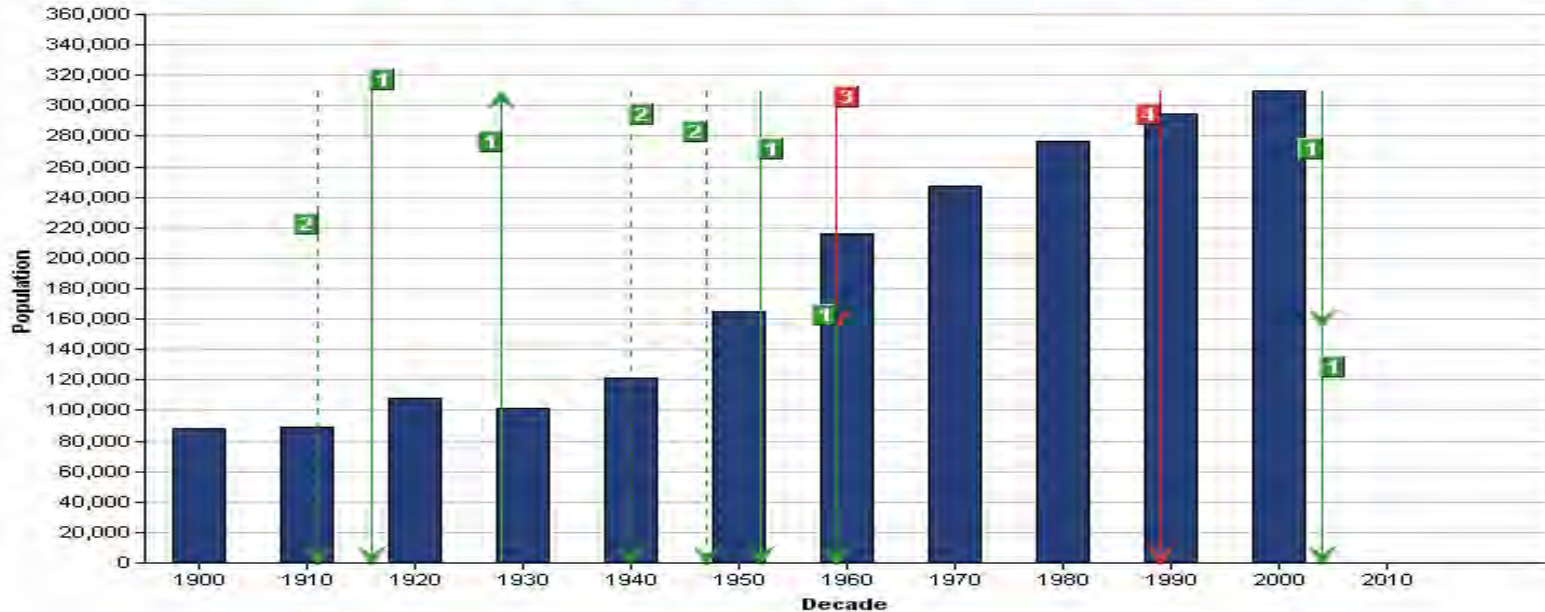
Historical Hurricane Strikes in Suffolk County, NY, 1900-2002





Hurricane Strikes vs. Population for Charleston County, South Carolina

Hurricane Strikes vs Population for Charleston, South Carolina



Hurricane Strike Data: National Hurricane Center

Population Data: U.S. Census Bureau

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

NOTE: There may be discrepancies between the strike data shown in this chart and the HURDAT strike data used in the Historical Hurricanes Tracks Tool.

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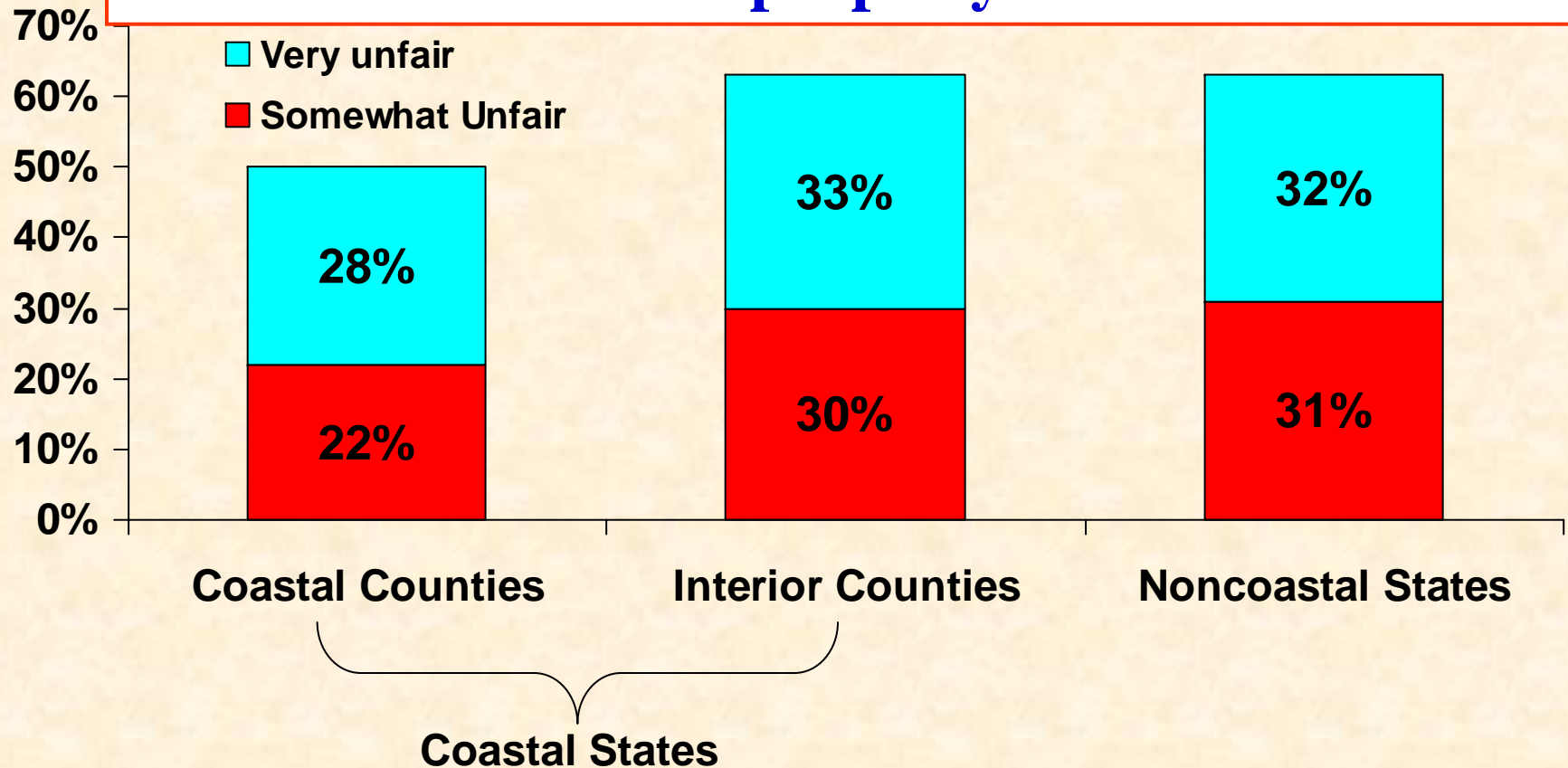
NOTE: Population data is current as of 2000 U.S. Census. X-axis on graphs depict years through 2010 to illustrate storms that have occurred from 2000-2006.



Public Attitude Monitor 2006:

Unfairness of Policyholder Subsidies

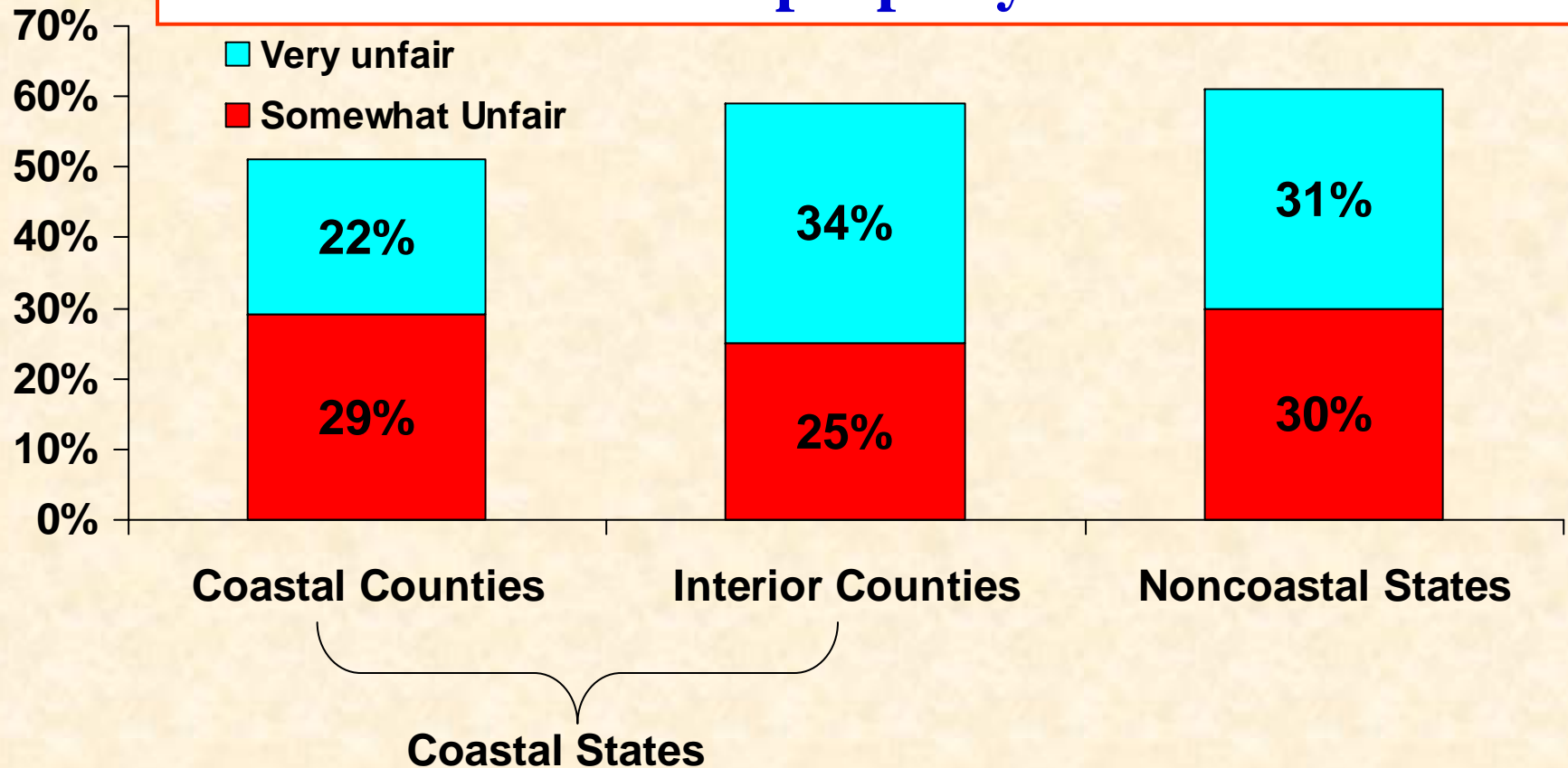
Most non-coastal policyholders believe premium subsidies for coastal property owners are unfair





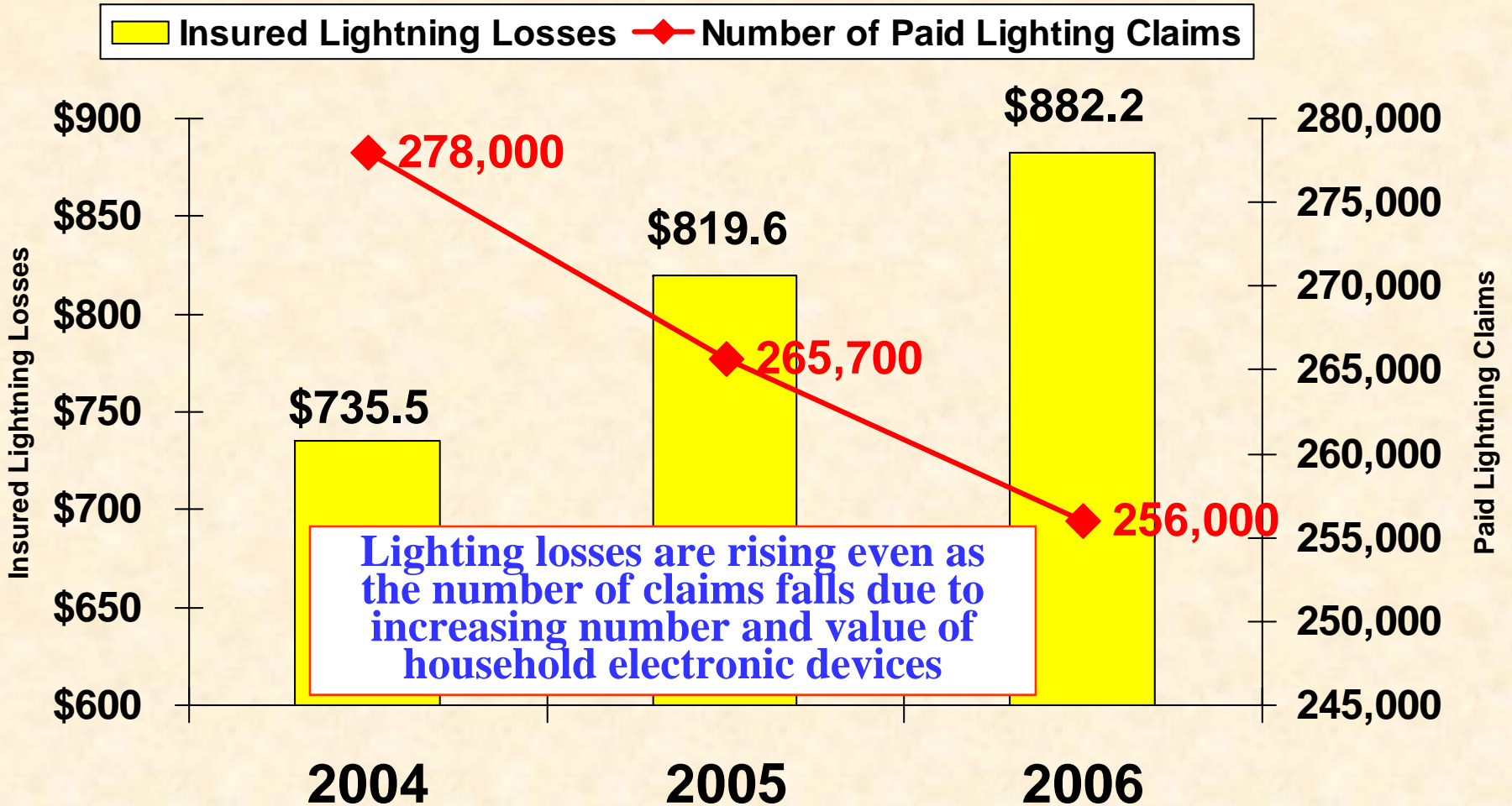
Public Attitude Monitor 2006: Unfairness of Taxpayer Subsidies

Most non-coastal dwellers believe taxpayer subsidies for coastal property owners are unfair



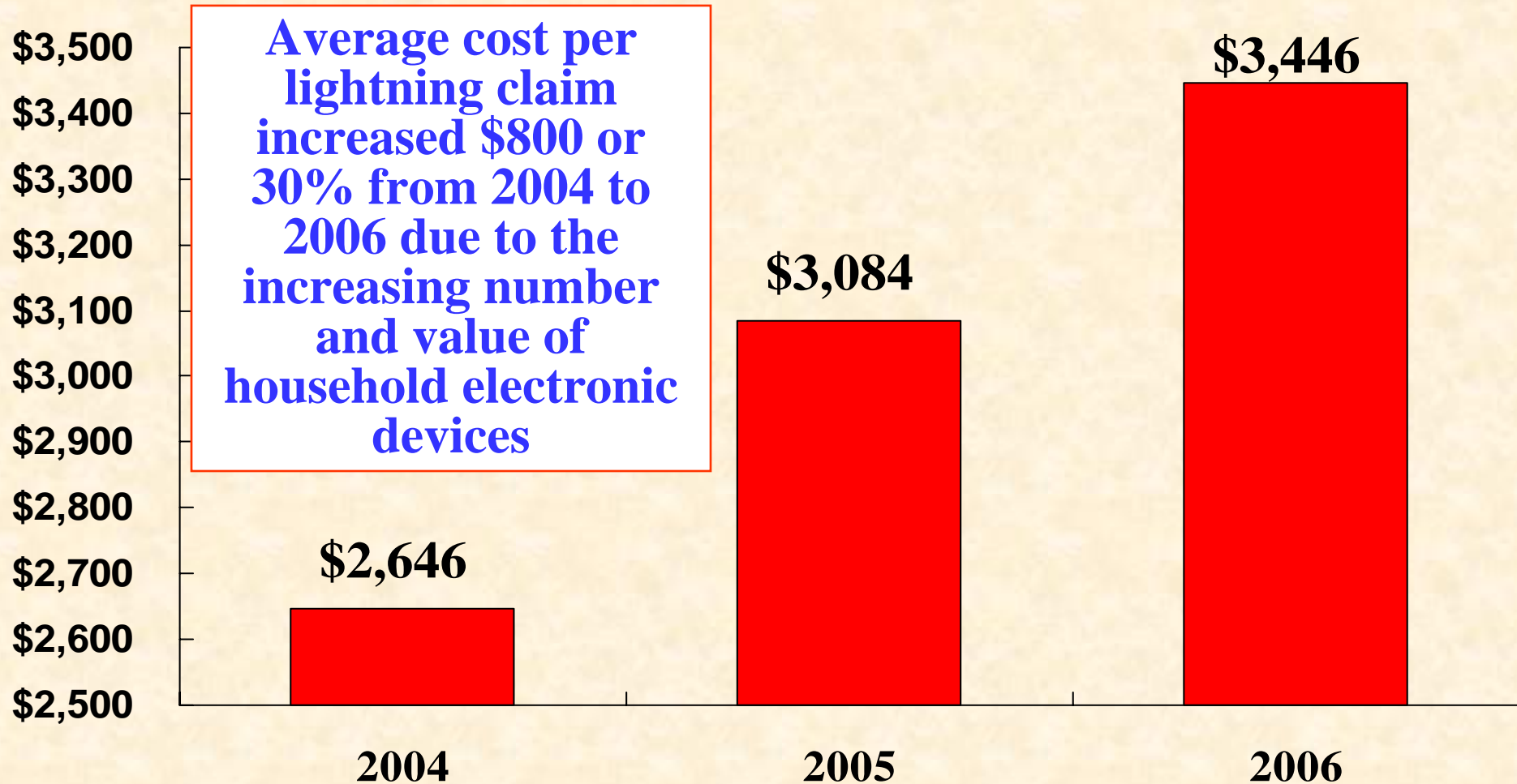


Insured Lightning Losses And Paid Claims, 2004-2006





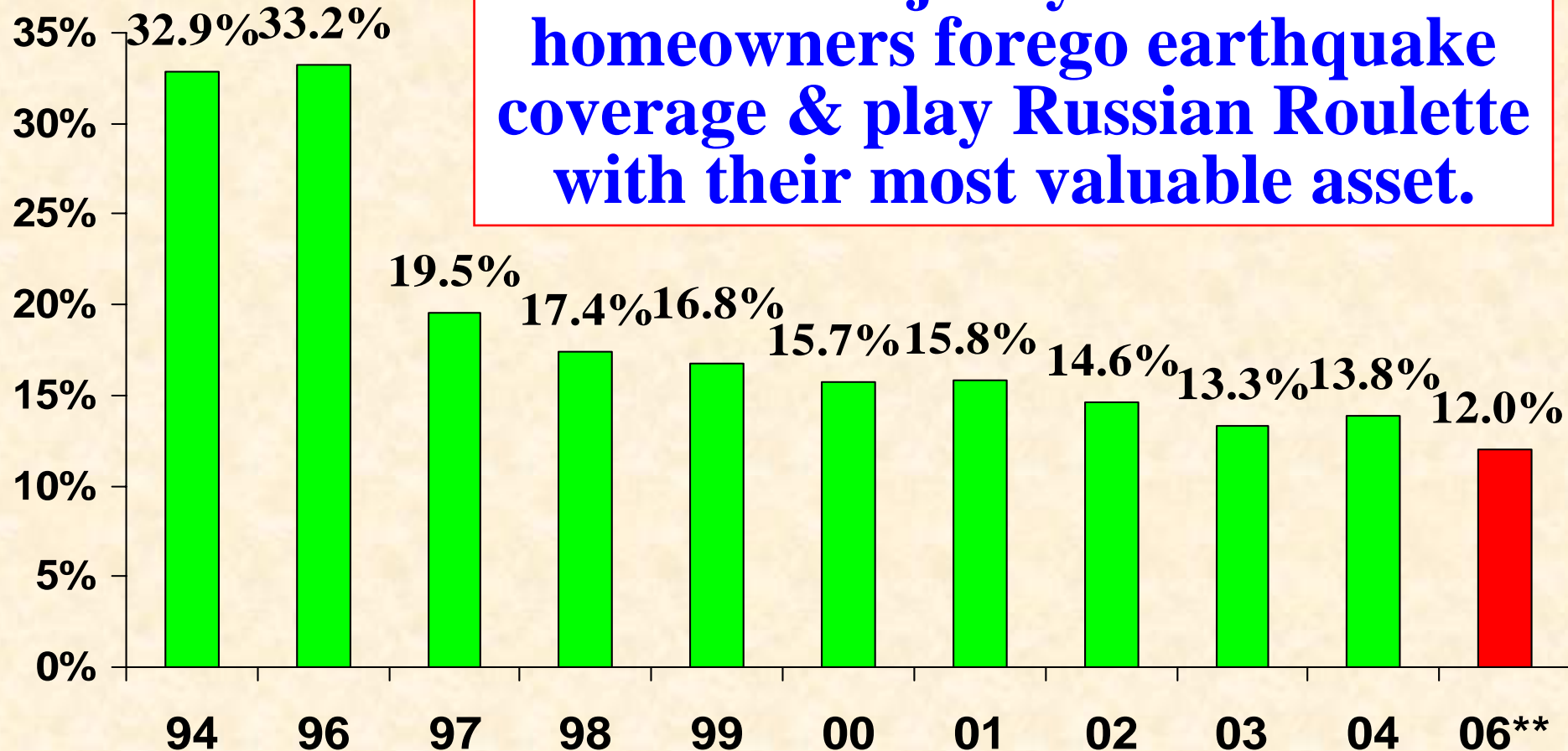
Average Cost per Lightning Claim, 2004 - 2006





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

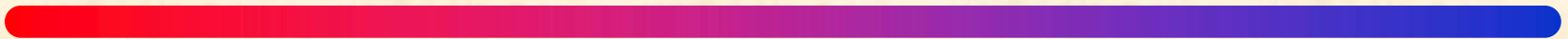
The vast majority of California homeowners forego earthquake coverage & play Russian Roulette with their most valuable asset.



*Includes CEA policies beginning in 1996. **2006 estimate from Insurance Information Network of CA.
Source: California Department of Insurance; Insurance Information Institute.

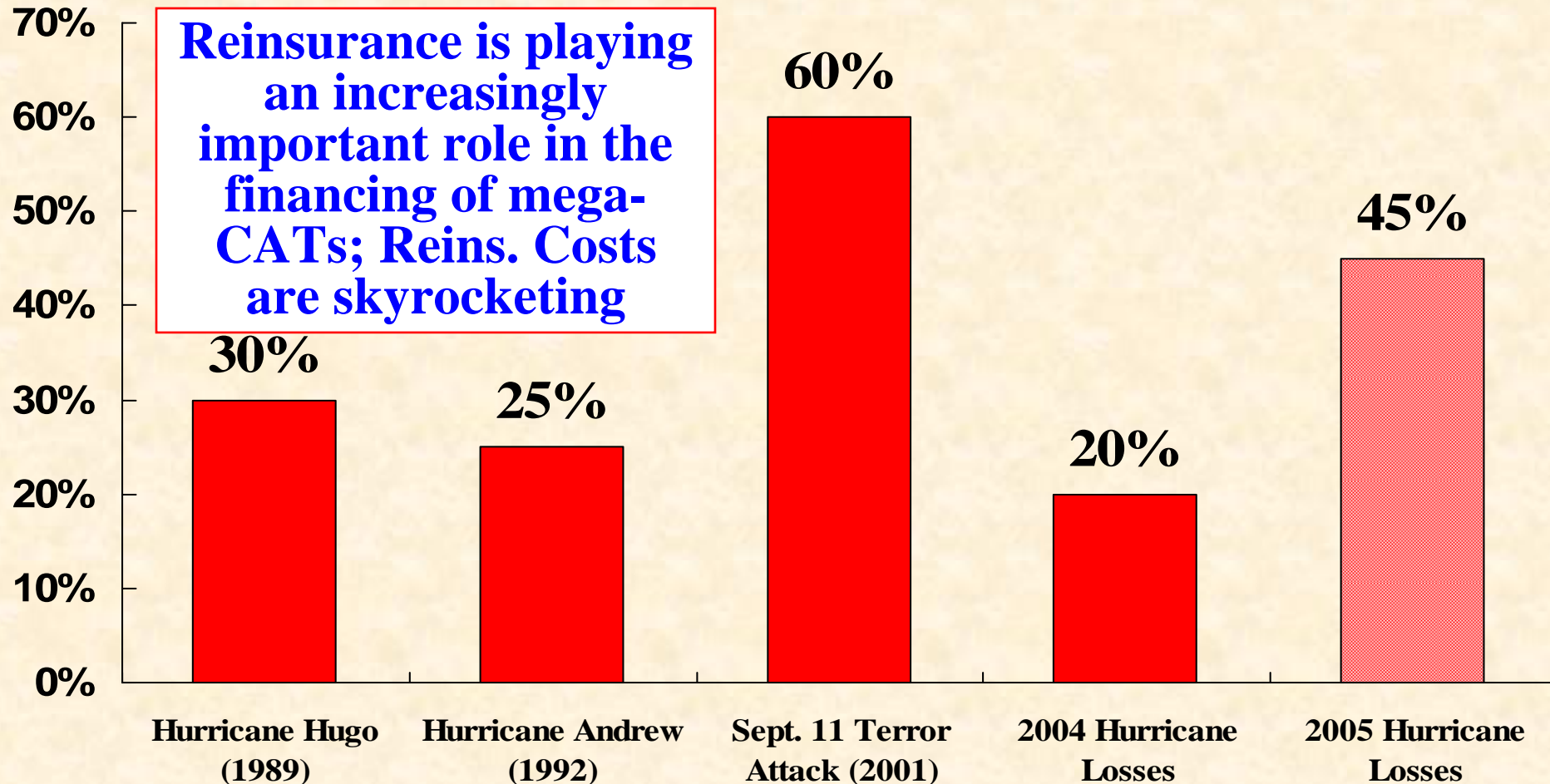
REINSURANCE MARKETS

*Reinsurance Prices are
Stabilizing; Falling in Some
Areas*





Share of Losses Paid by Reinsurers, by Disaster*



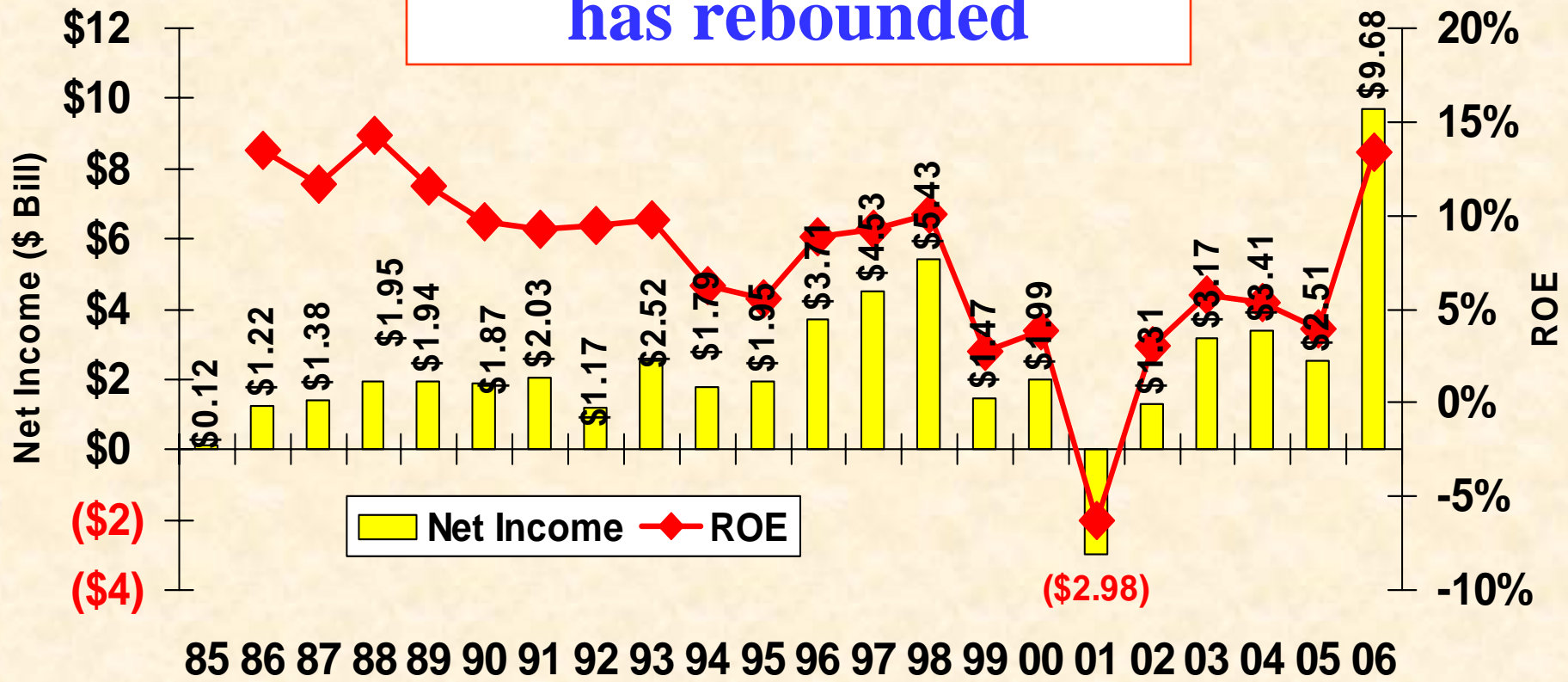
*Excludes losses paid by the Florida Hurricane Catastrophe Fund, a FL-only windstorm reinsurer, which was established in 1994 *after* Hurricane Andrew. FHCF payments to insurers are estimated at \$3.85 billion for 2004 and \$4.5 billion for 2005.

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



US Reinsurer Net Income & ROE, 1985-2006

Reinsurer profitability
has rebounded



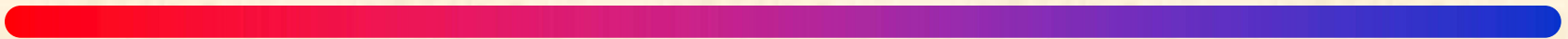


Debate Over Reinsurance Market Performance & Government

- Reinsurance markets typically suffer large shocks, followed by a period of higher prices and transient capacity constraints
- A new equilibrium between Supply and Demand is typically found within 18 months, commensurate with changes in the risk landscape. This is Economics 101 and is a textbook illustration of how capitalism works.
- A competing hypothesis suggests that reinsurance markets “fail” because they do not provide a stable price or quantity of protection as is required in an economy with *continuously exposed fixed assets, especially one that is growth oriented*
- Public Policy Solution: Acting on this hypothesis generally results in displacement of private (re)insurance capital by government intermediaries
- **Question Asked**: Are policyholders and the economy better served through free markets, government or some hybrid?

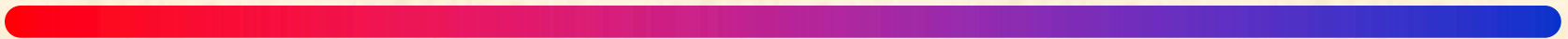
Catastrophe Regulation & Litigation

*Is the Pendulum Swinging
Against Insurers?*



Financing CAT Risk: Ideas & Proposals

*Insurers & Policymakers Are Trying
to Tackle this Difficult Issue*





Proposals & Ideas About

- **Insurers and Policymakers Have Proposed and Support a Wide Range of Ideas and Proposals**
- **Proposals Reflect Different Assessments of the Risk and About the Appropriate Role of Government vis a vis Private Markets**
- **Approaches Range from Free Market, Pure Risk-Based Pricing to Significant and Active Role by State/Federal Government**
- **Some Proposals Call for a Government “Back Stop” That Comes into Play at Some Level of Loss (National CAT Fund)**
- **Some Believe that Level is When an Event Threatens Solvency**
- **Remaining Availability/Affordability Issues May Lend Themselves to Government Role Under Any Plan**



PROTECTING AMERICA

PREPARING FOR AND PROTECTING AMERICA FROM CATASTROPHE

HOME * LEGISLATION * NEWSROOM * RESOURCES

A VULNERABLE AMERICA

HURRICANES EARTHQUAKES

WHAT ARE YOU AT RISK FOR?

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

REPLAY


AMERICA NEEDS YOUR VOICE!

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

CONTACT YOUR ELECTED OFFICIALS > **JOIN OUR CAUSE >**

FACTS & FIGURES:

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



SEARCH

- HELP PROTECT AMERICA
 - UNDERSTAND YOUR RISKS >
 - STRENGTHEN 1ST RESPONDERS >
 - BUILD SMARTER & STRONGER >
 - ADVOCATE CATASTROPHE FUNDS >

PREPARE YOURSELF:

HOW CAN BETTER PREPARE tips for average americans >

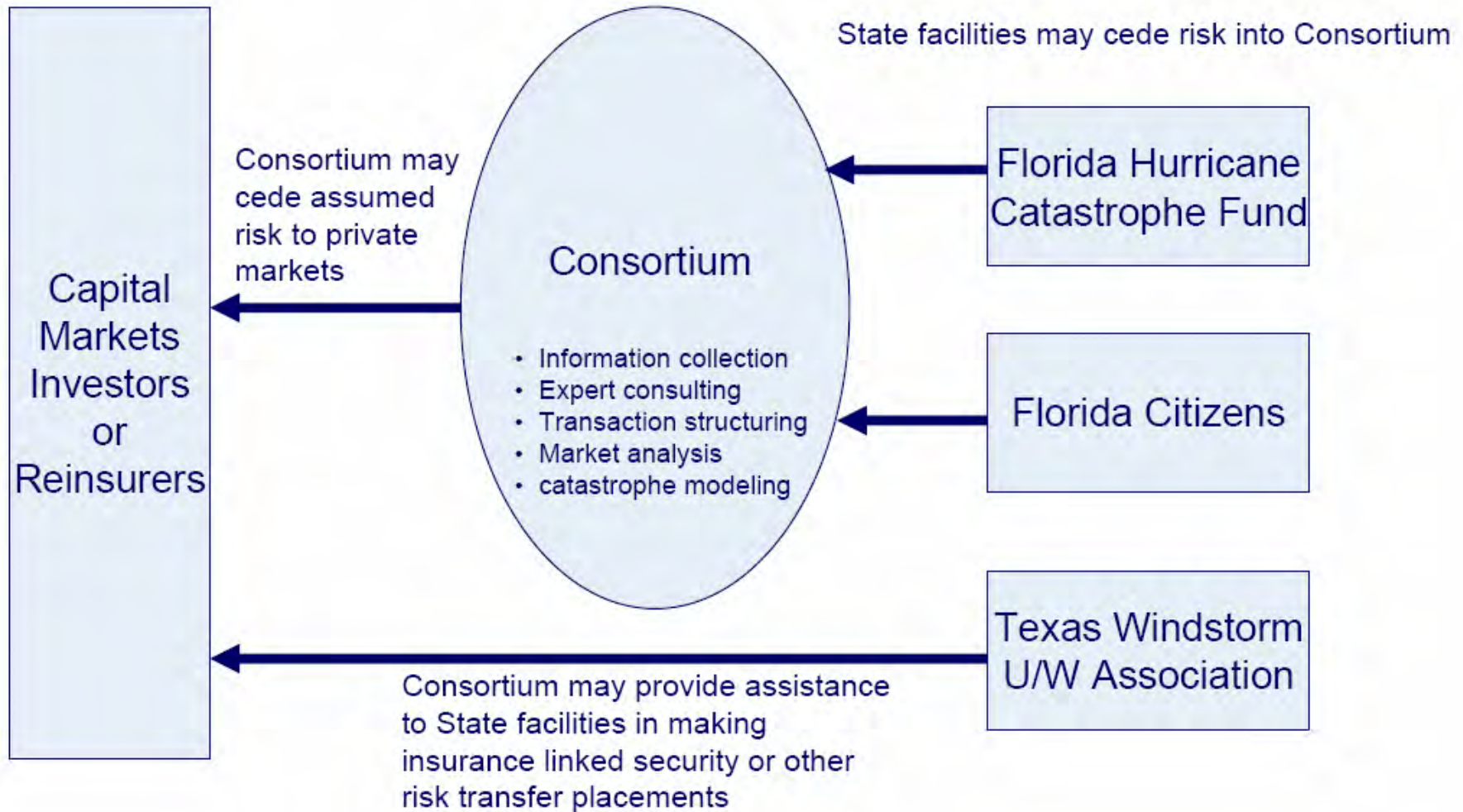


RECENT NEWS:

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



How the Homeowners Defense Act of 2007 Would Operate





Homeowners Defense Act of 2007: How it Works & Rationale

The Act has Two Main Components:

- 1. Establishment of Consortium to encourage state facilities to cede risk into the private markets, particularly the catastrophe bond markets**
- 2. Creation of a Federal loan program to provide pre-event liquidity and post-event long term financing for state residual markets and catastrophe funds**



Homeowners Defense Act of 2007: How it Works & Rationale

- **With the back-drop of terrifying financial conditions within State property residual markets in certain states, the objectives of the Bill appear to be:**
 - 1. Transfer of catastrophic risk from under-capitalized state facilities into the global reinsurance network and capital markets**
 - 2. Ensuring the ability of these State facilities to make good on their commitments in the weeks after a storm and to spread over-time the potentially massive state taxpayer burden caused by under-capitalization and unsound pricing**



Homeowners Defense Act of 2007: How it Works & Rationale

The Main Questions Appear to be Whether:

- 1. The Bill would lead to the structural changes necessary to bring these facilities into financial health over time or simply enable further fiscal deterioration**
- 2. The State facilities could be otherwise motivated to purchase reinsurance and explore capital market solutions without the need for Federal involvement**
- 3. Adequate private capital can be mustered to meet the borrowing needs of the State catastrophe funds and residual markets**



Terrorism Risk Insurance Act

Federal Terrorism Reinsurance (TRIA)

- **TRIA expires 12/31/07. The current federal program offers \$100 billion of coverage subject to a \$27.5B industry aggregate retention.**
- **Under S. XXXX: “Terrorism Risk Insurance Program Reauthorization Act of 2007”**
 - **7-Yr. Extension, expiring 12/31/14**
 - **Maintains 20% Direct Earned Premium Deductible for duration of Extension**
 - **NBCR risks remain *excluded* (in contrast to House bill)**
 - **No personal lines or group life**
 - **Eliminates distinction between foreign and domestic acts of terrorism**
 - **Deletes requirement that terrorist act be on behalf of foreign person or foreign interest**
 - ***Changes in definition of terrorist act require substantial rate and form filings in states***
 - **Federal government’s cap remains at \$100 billion through 2014**
 - **Requires Comptroller General to issue report within 1 year on feasibility of NBCR insurance market; CG must also issue report within 180 days on obstacles in development of private sector market for terror insurance**
- **Administration has said it will not oppose Senate bill (issued veto threat for House)**



Catastrophe Litigation

- **Insurers have won virtually every major case in post-Katrina litigation environment**
 - **Most cases centered on validity of flood exclusion and various wind vs. water theories**
- **This came at a high PR cost as post-Katrina litigation was dragged out over a 2-year period accounting for the vast majority of negative press in the first 16 months after the storm**
 - **FL significantly added to negative press in 2007**
- **While the industry was successful at explaining the rationale for pursuing most cases, it struggled with the classic David vs. Goliath story**
- **Championed by personally affected politicians**
- **Feeds “Insurance Hoax” genre of stories**
 - **View that insurers systematically deny, delay and lowball**
 - **Bad Faith litigation is wave of future (e.g., LA AG suit)**
- **Exacerbated by hundreds of thousands of nonrenewals**



Summary

- **Industry results were *unsustainably* good 2006/07; Overall profitability reached its highest level (est. 14%) since 1988**
 - **Strong 2007 but profitability slipping**
- **Underwriting results were aided by lack of CATs & favorable underlying loss trends, including tort system improvements**
- **Most of the escalating toll from CAT losses is the direct of state and local decisions to permit development in vulnerable areas and then provide insurance subsidies to property owners, killing the “messenger of risk”**
- **States/communities will never relinquish this right and therefore losses will spiral upward indefinitely**
 - **Mitigation, fortified homes can have significant tempering effect on aggregate losses if widely implemented and enforced**
- **Property cat reinsurance markets past peak & more competitive**
- **Premium growth rates are slowing to their levels since the late 1990s; Insurance is more affordable in most locations**
- **Clear need to remain underwriting focused**
- **Major Challenges:**
 - **Slow Growth Environment Ahead**
 - **Maintaining price/underwriting discipline**
 - **Managing variability/volatility of results**
 - **Managing regulatory/litigation threats**



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