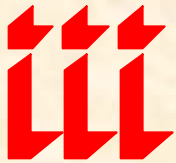
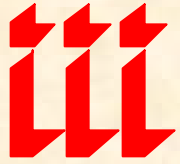


Property/Casualty Insurance Overview and Outlook: 2001 and Beyond

Inland Marine Underwriters Association
Keystone Resort & Conference Center
Keystone, CO
June 4, 2001



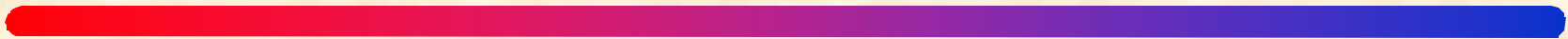
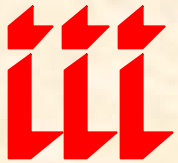
Robert P. Hartwig, Ph.D. ♦ Vice President & Chief Economist
Insurance Information Institute ♦ 110 William Street ♦ New York, NY 10038
Tel: (212) 669-9214 ♦ Fax: (212) 732-1916 ♦ bobh@iii.org ♦ www.iii.org

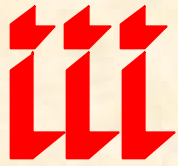


Presentation Outline

- Property/Casualty Overview and Outlook
- Why Ron Thornton Can't Sleep at Night
 - Inland Marine Market
- Profits, Capital, Pricing, Investments
- Competition & Consolidation
- Distribution
- Courts & Torts
- Economy

PROPERTY/CASUALTY OVERVIEW AND OUTLOOK

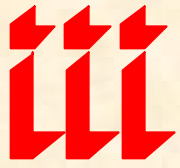




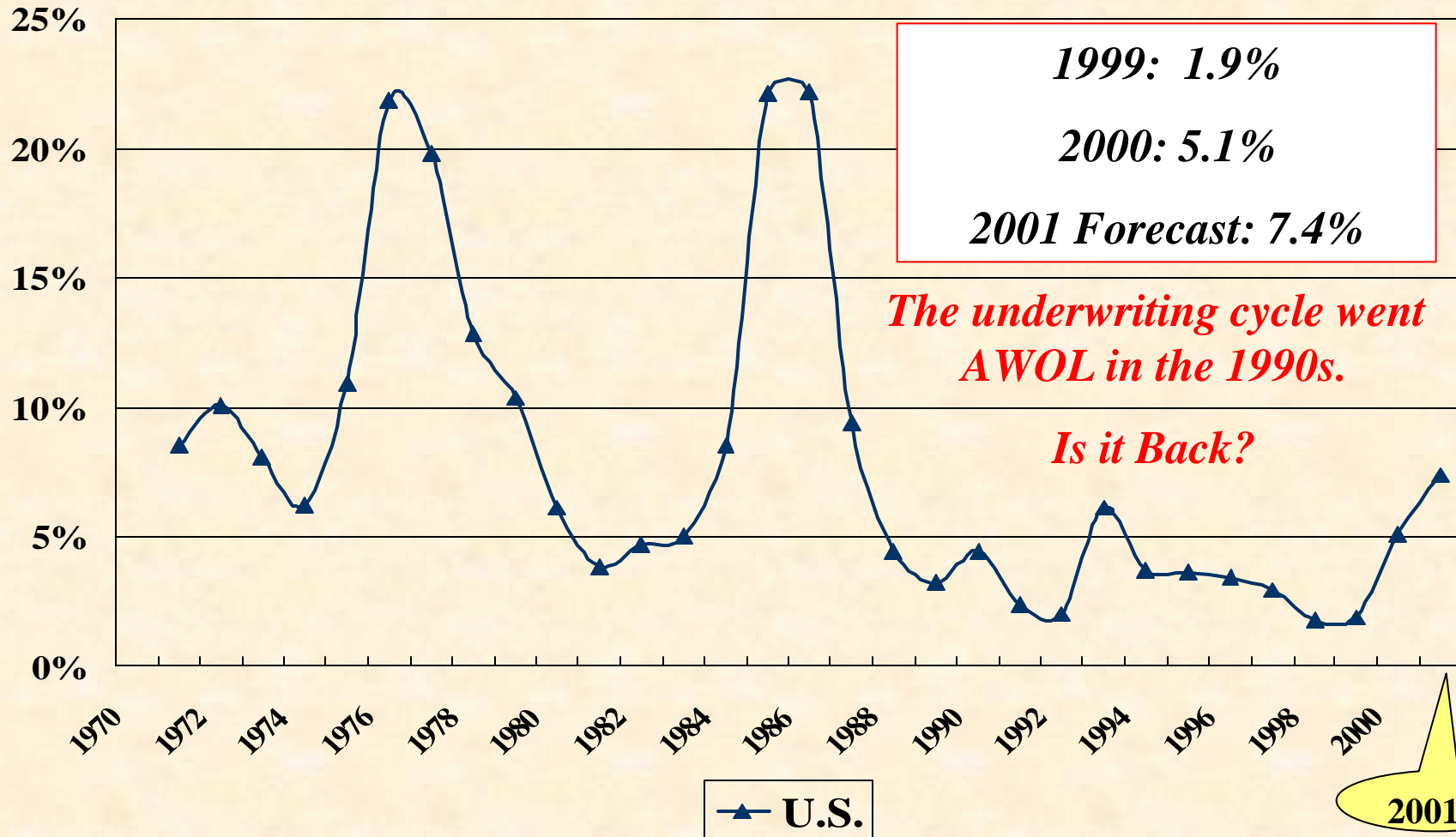
Highlights: Full-Year 2000

(\$ Millions)

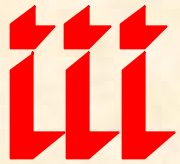
	2000	1999	Change
Net Written Prem.	301,559	286,934	+5.1%
Loss & LAE	241,602	222,270	+8.7%
Net UW Gain (Loss)	(28,634)	(19,729)	+45.1%
Net Inv. Income	40,836	38,855	+5.1%
Net Income (a.t.)	20,223	21,865	-7.5%
Surplus	319,399	334,348	-4.5%
Combined Ratio	110.5	107.8	+2.7 pts.



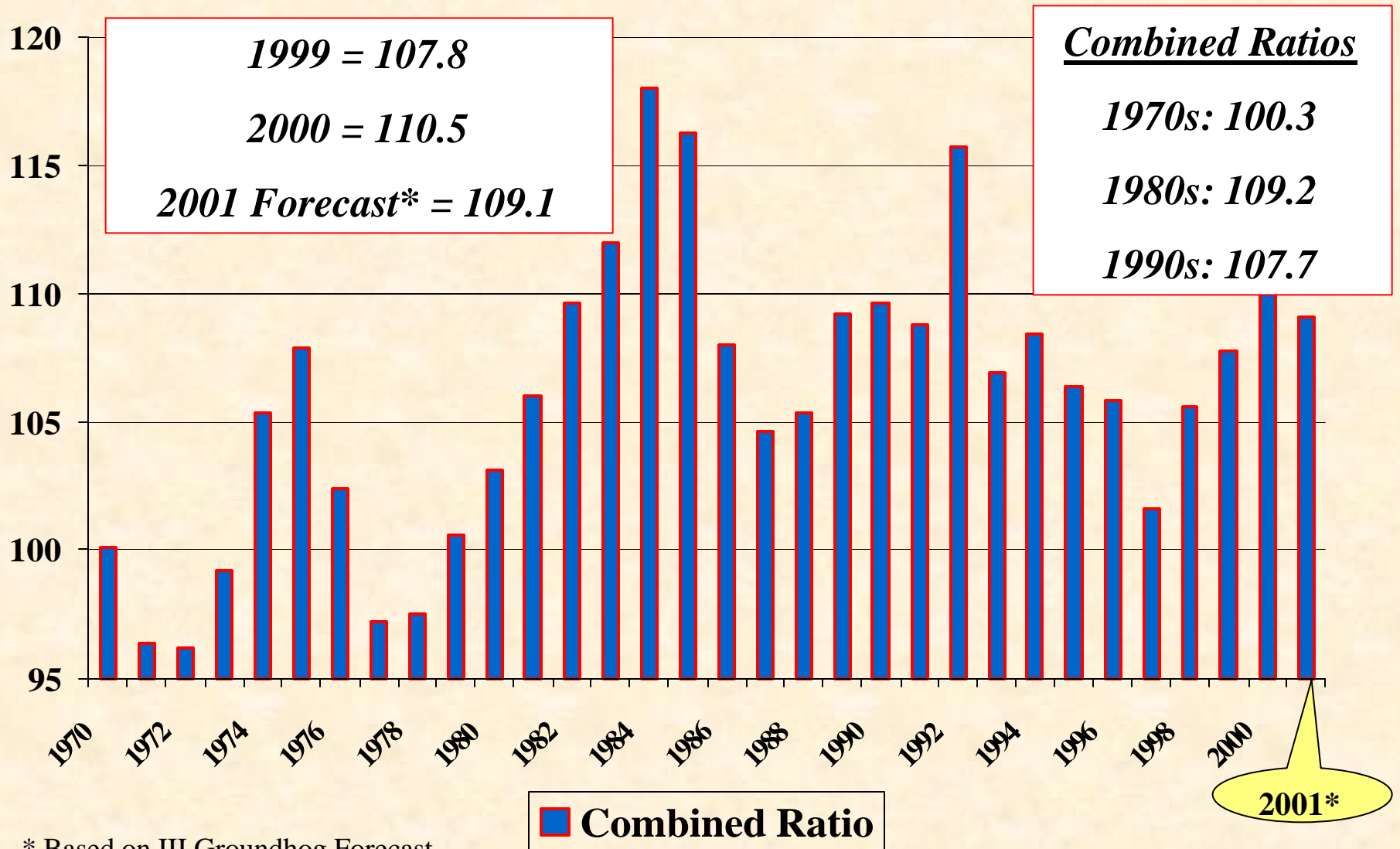
Growth in Net Premiums Written (All P/C Lines)



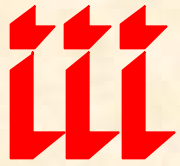
Source: A.M. Best, Insurance Information Institute



P/C Industry Combined Ratio



* Based on III Groundhog Forecast

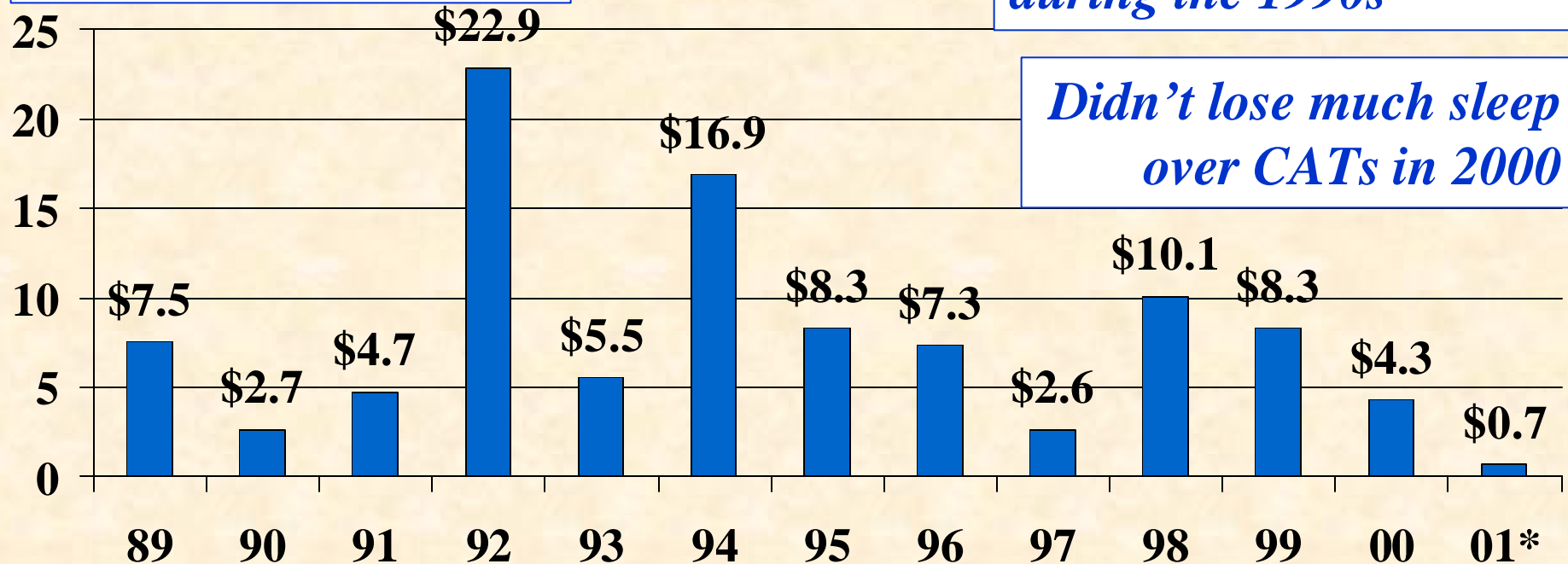


U.S. Insured Catastrophe Losses

*CATs in 1990s caused
\$90B in insured losses*

\$ Billions

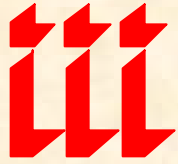
*CATs cost insurers \$750
million per month
during the 1990s*



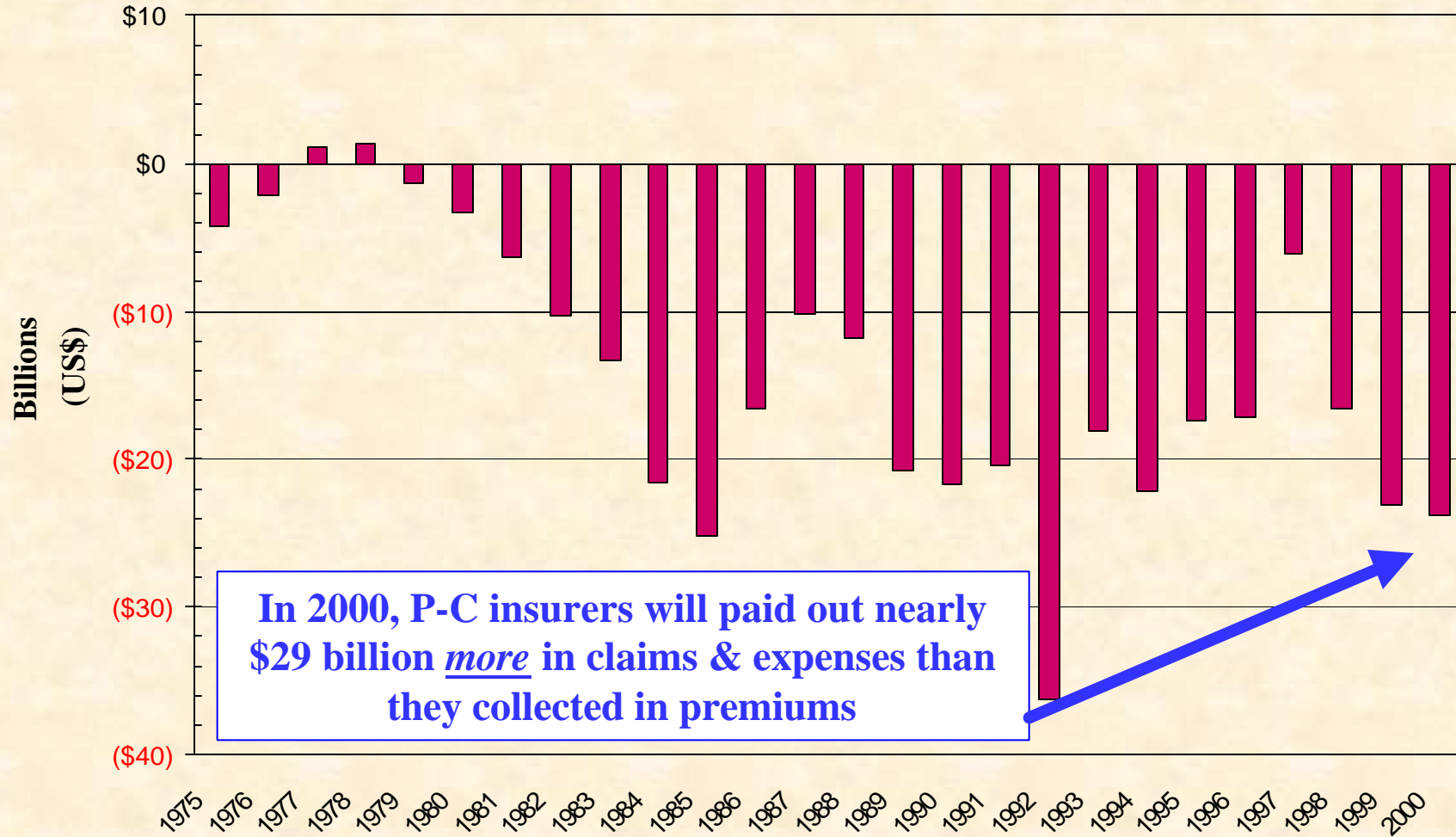
*Didn't lose much sleep
over CATs in 2000*

*First Quarter 2001.

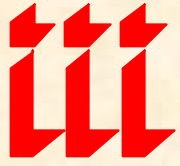
Source: Property Claims Service, Insurance Information Institute



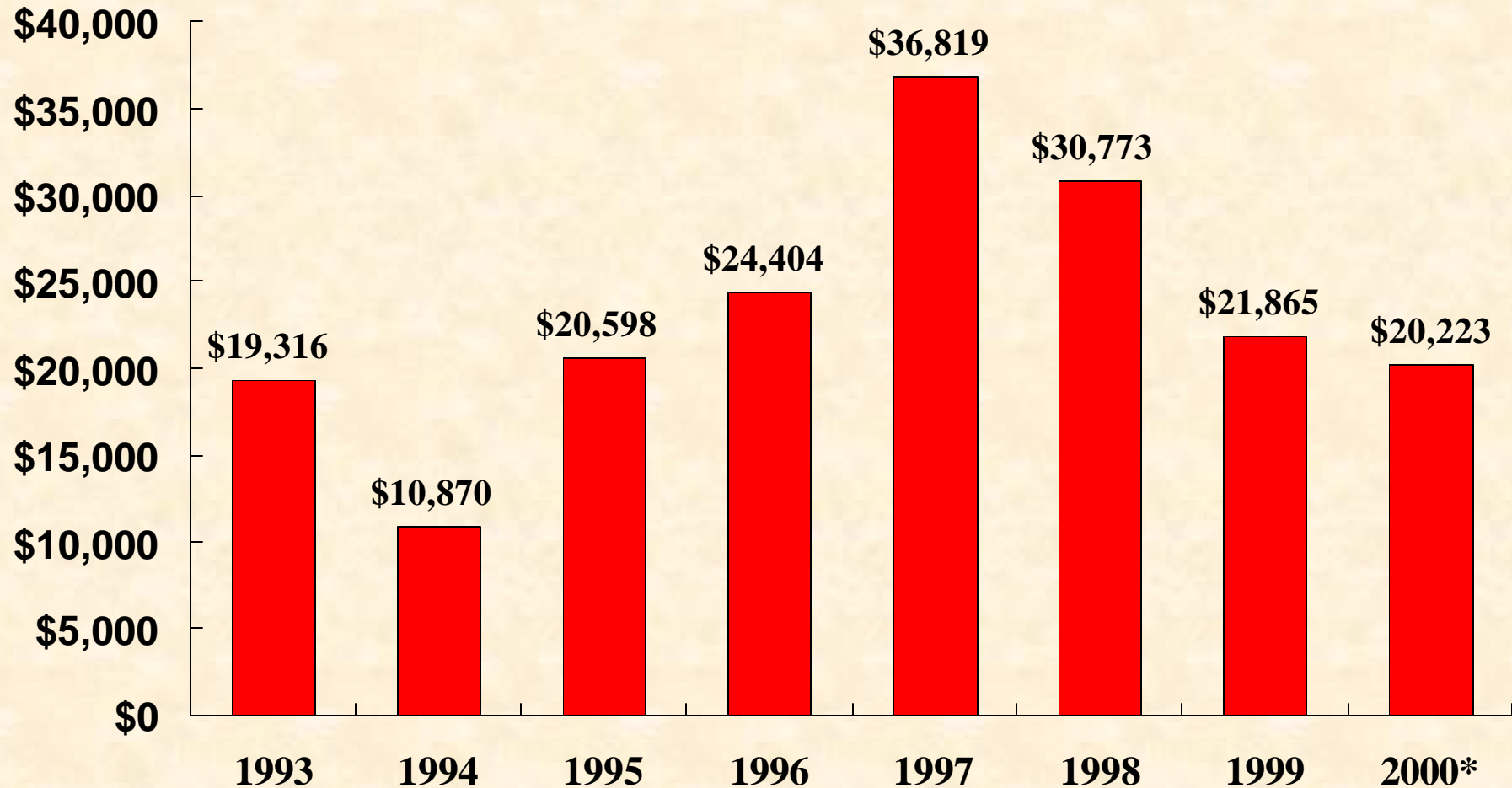
Underwriting Gain (Loss) 1975-2000



Source: A.M. Best, Insurance Information Institute

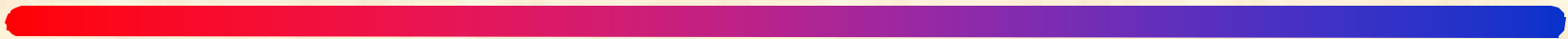
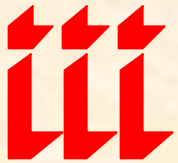


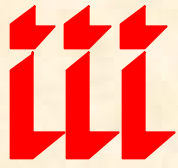
P/C Net Income After Taxes *1993-2000 (\$ Millions)*



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

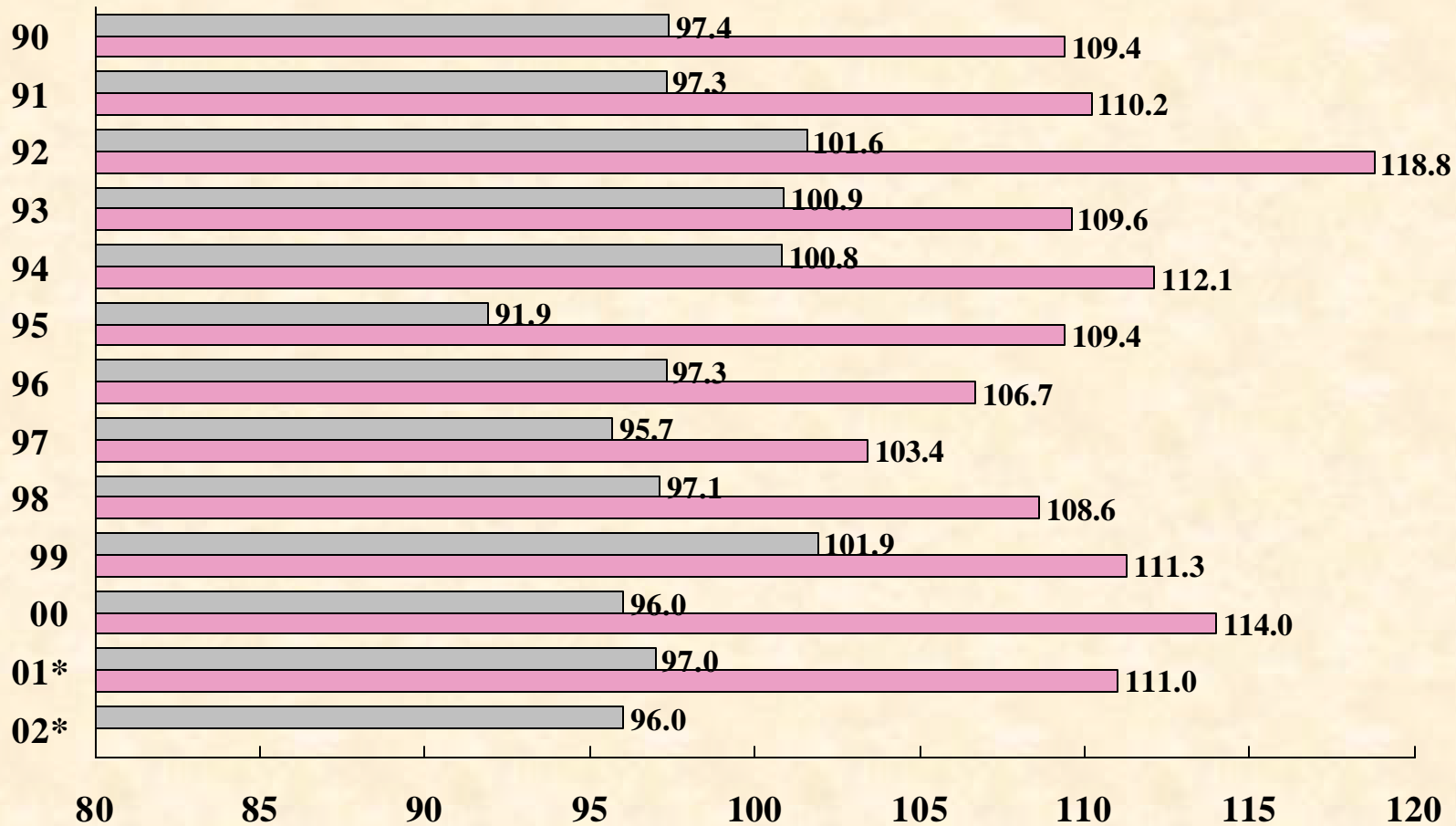
INLAND MARINE MARKET



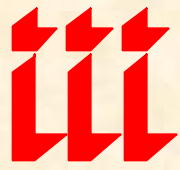


Combined Ratio: Inland Marine vs. Commercial Lines

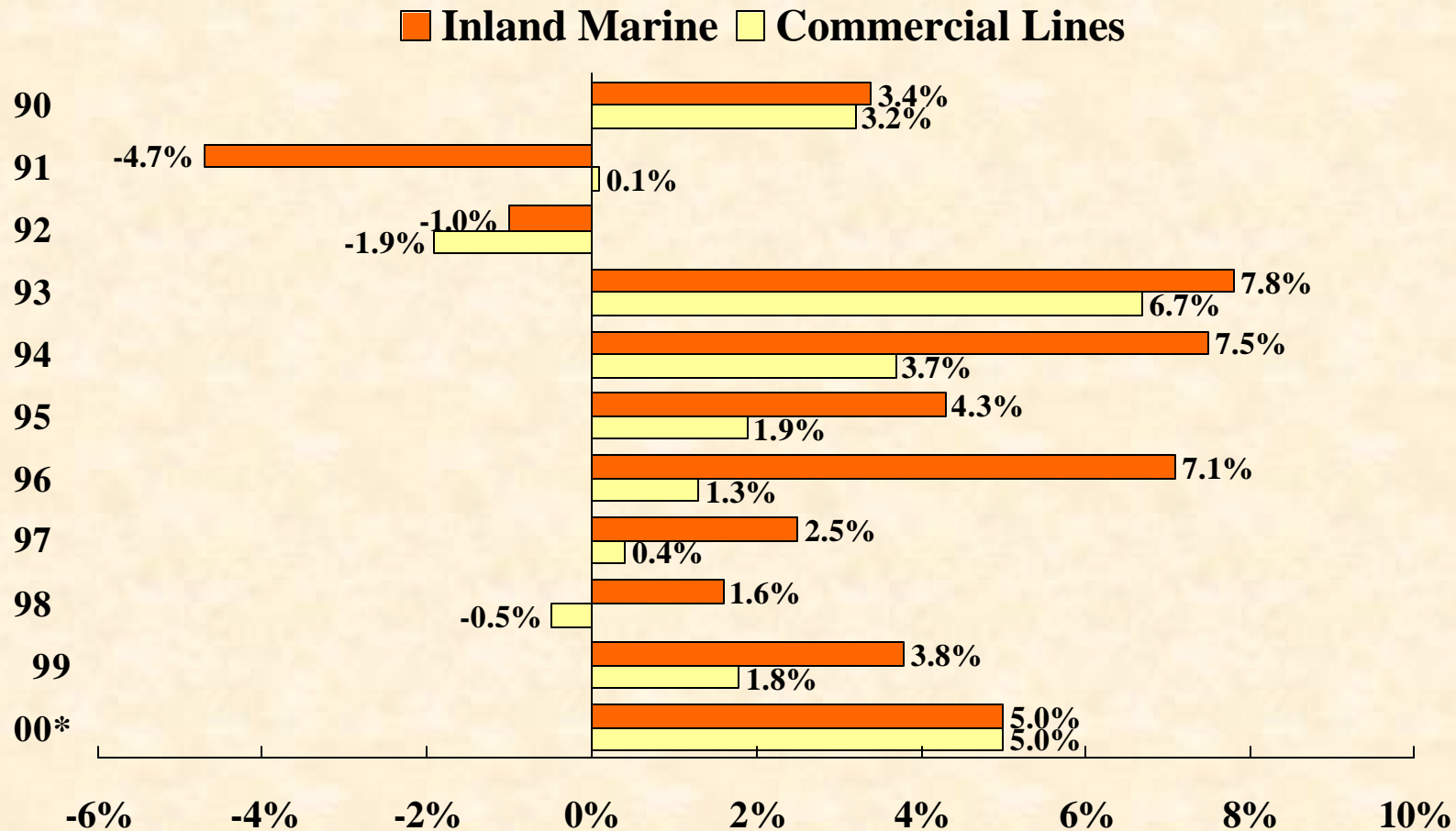
■ Inland Marine ■ Commercial Lines



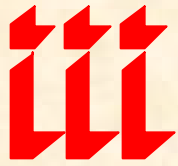
Source: A.M. Best, Insurance Information Institute



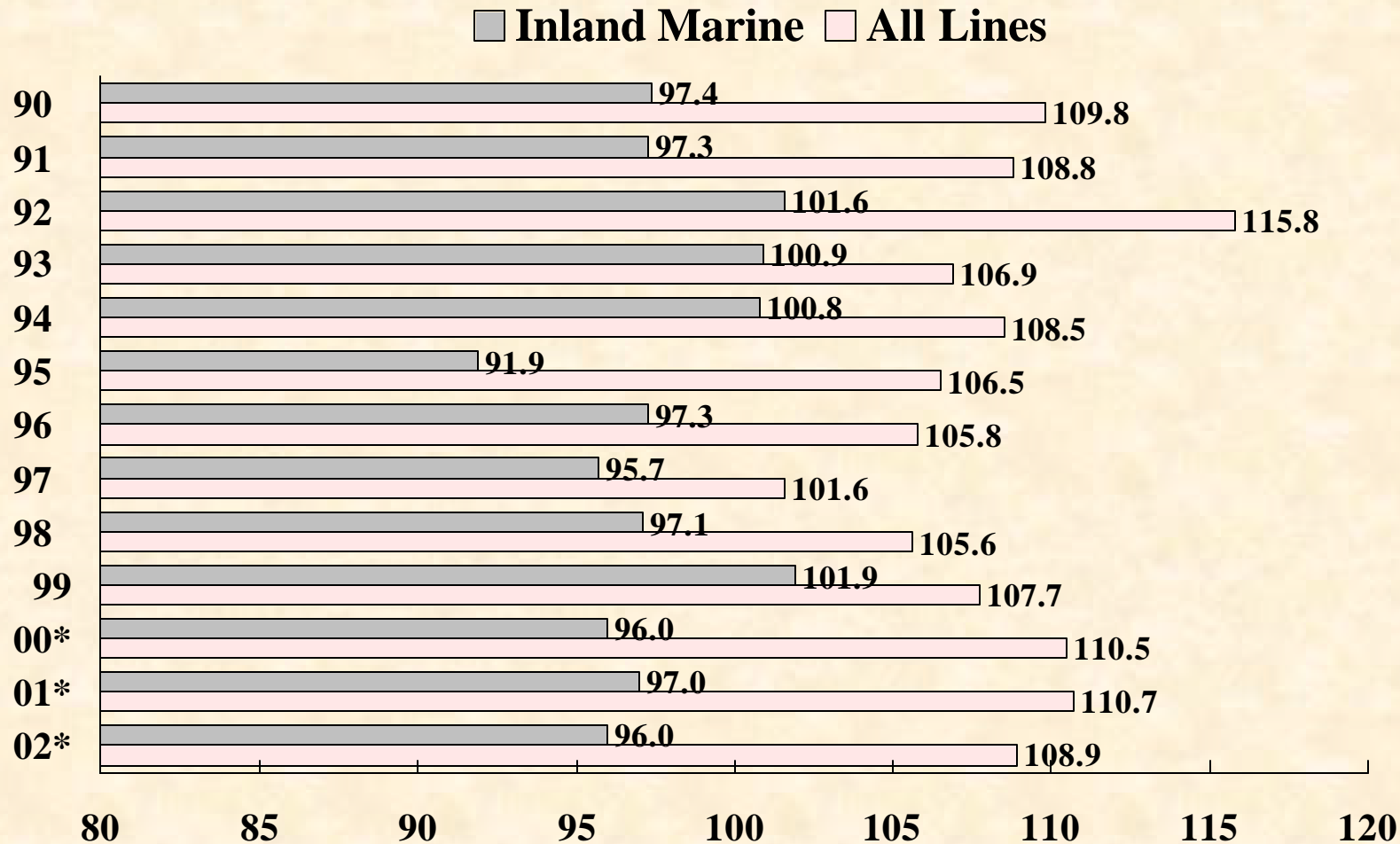
Change in Net Premiums Written: Inland Marine vs. Commercial Lines



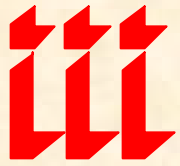
Source: A.M. Best, Insurance Information Institute



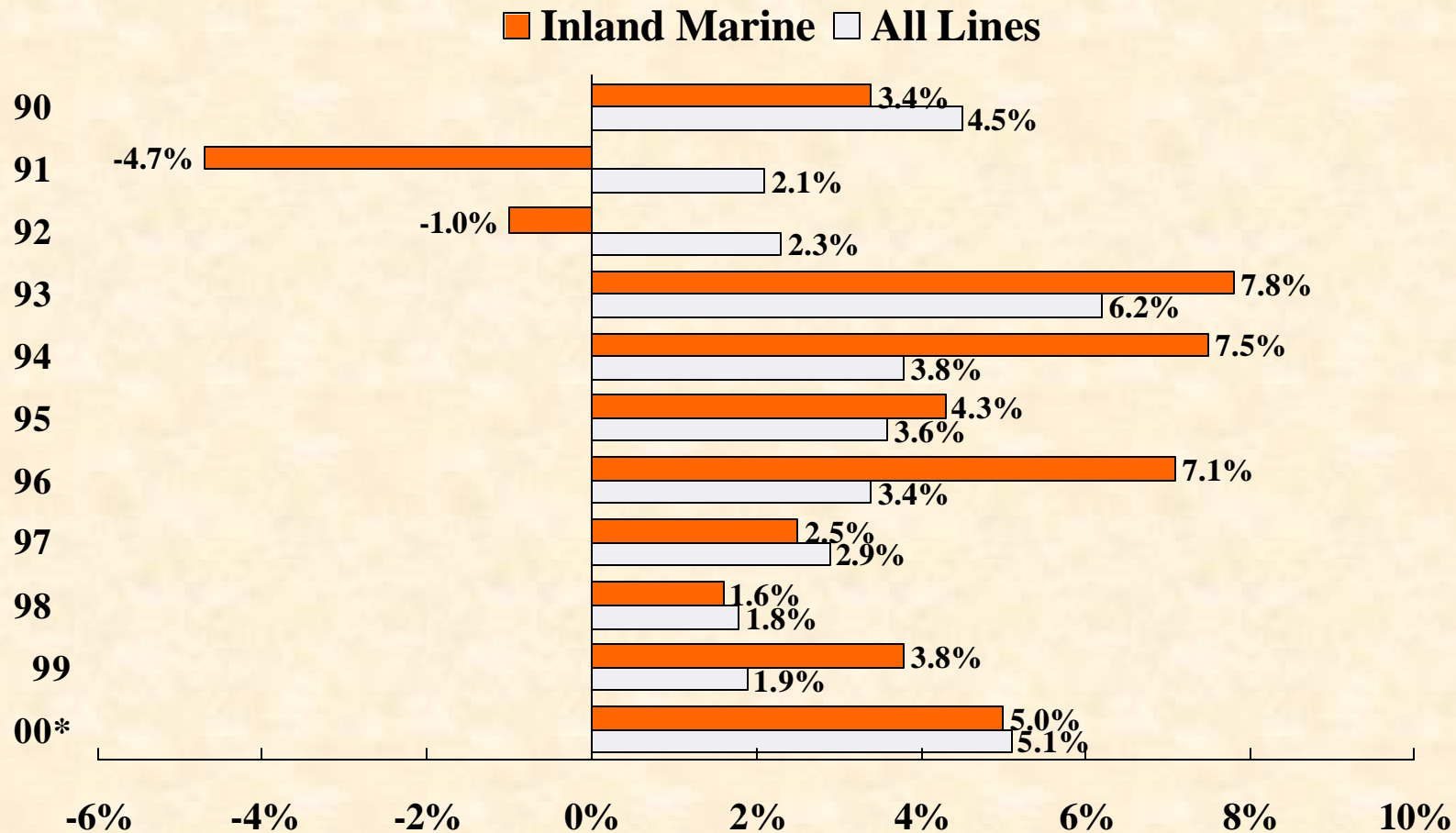
Combined Ratio: Inland Marine vs. All Lines



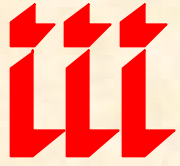
Source: A.M. Best, Insurance Information Institute



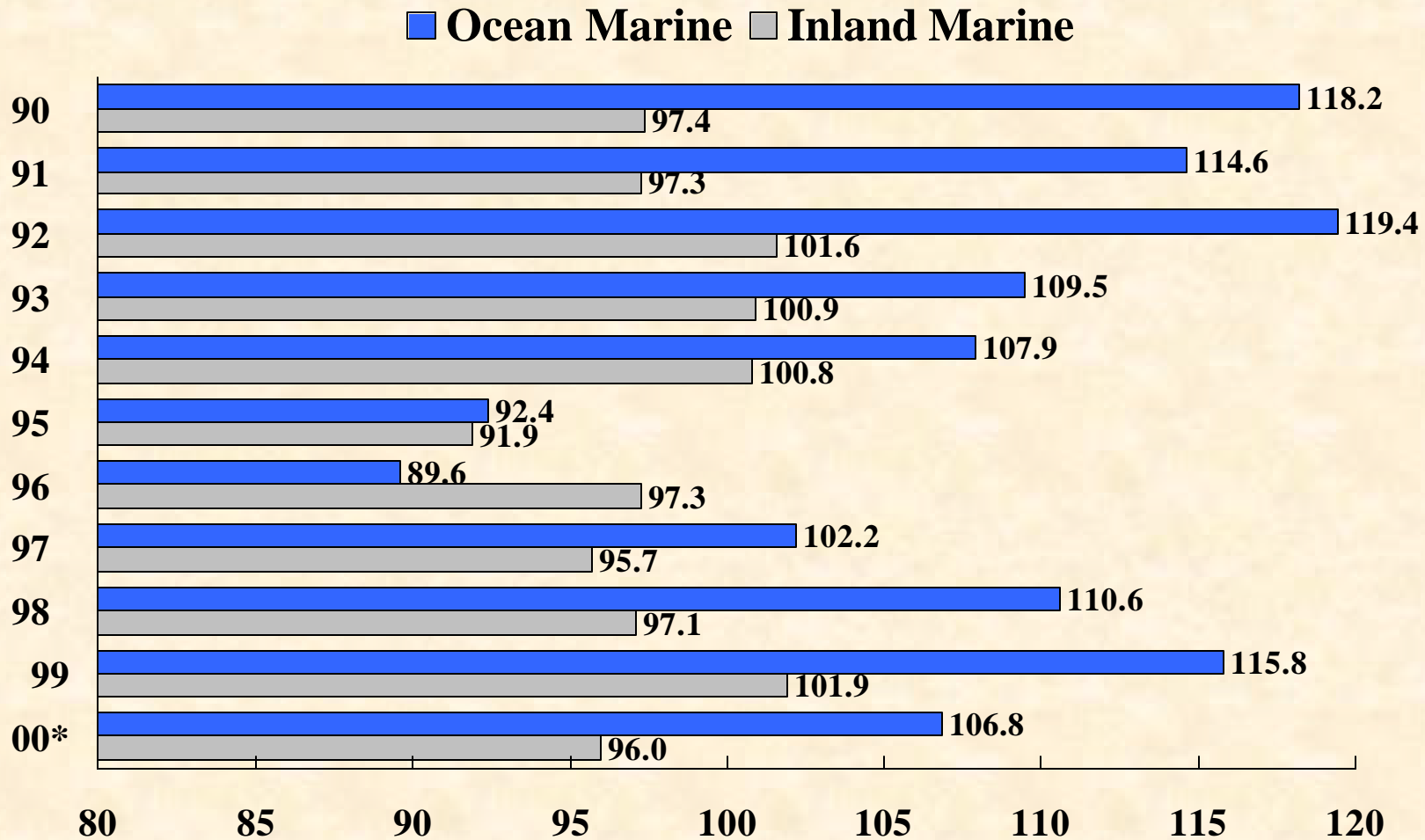
Change in Net Premiums Written: Inland Marine vs. All Lines



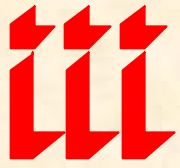
Source: A.M. Best, Insurance Information Institute



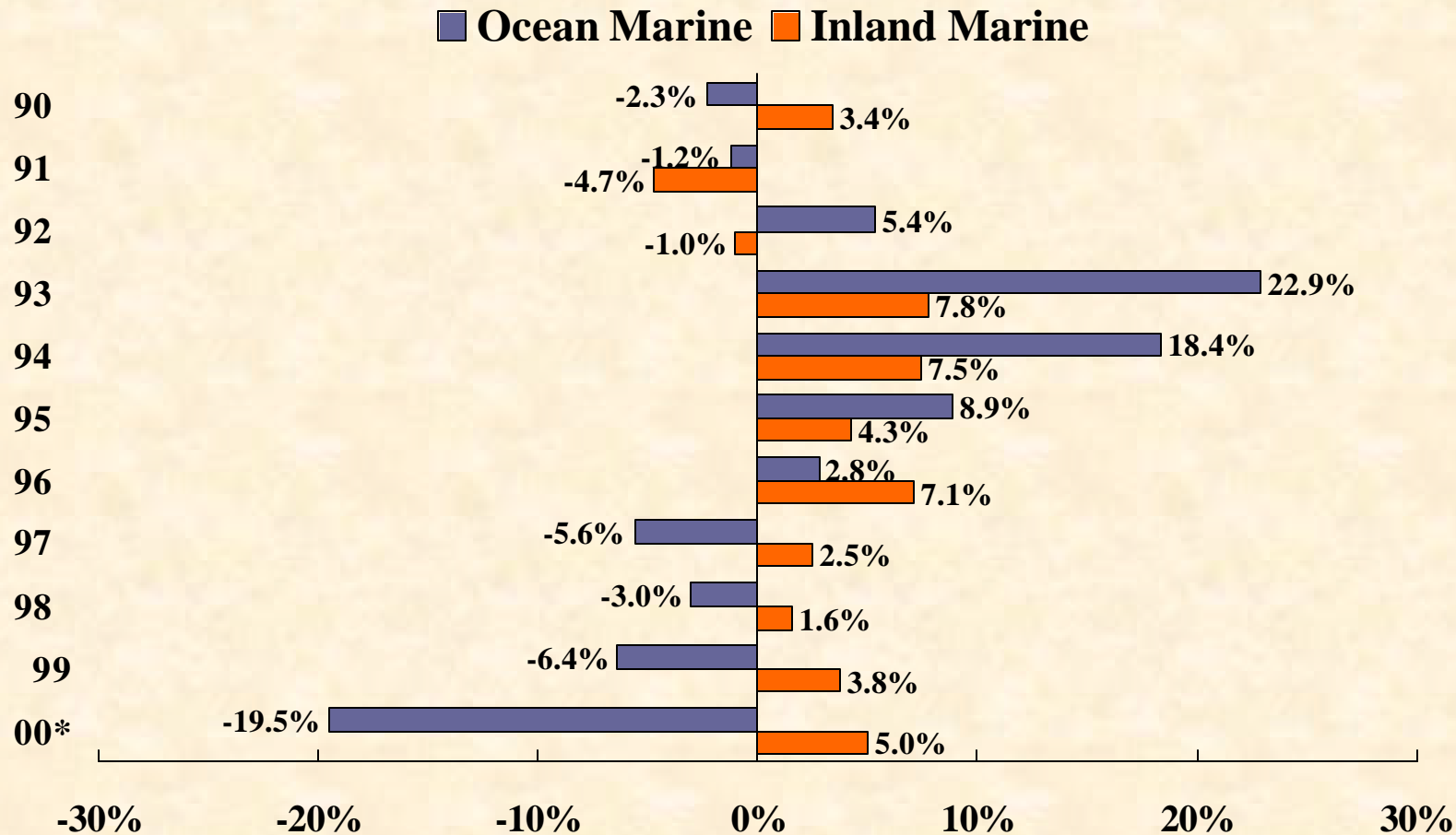
Combined Ratio: Inland Marine vs. Ocean Marine



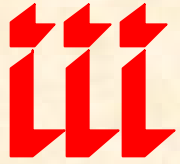
Source: A.M. Best, AIMU, Insurance Information Institute



Change in Net Premiums Written: Inland Marine vs. Ocean Marine



Source: A.M. Best, AIMU, Insurance Information Institute

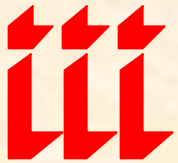


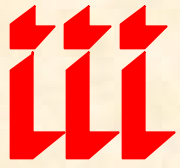
Things to Consider:

Inland Marine Insurance

- Inland marine consistently better performer among commercial and all p/c lines—expected to remain that way
 - Breakeven combined = 103 (2001 expected = 97)
 - Get “*energized*”: instrumentalities
 - Builders risk: + or - ?
 - Long-term trade prospects bright (e.g., China & WTO)
- No longer among fastest growing lines;
 - “Catching-up” by other lines
 - Slowing economy
 - High fuel prices reduces shipments
 - Sales of expensive baubles & trinkets falling
 - Land transportation equipment sales plummeting
 - Business expenditures on equipment falling

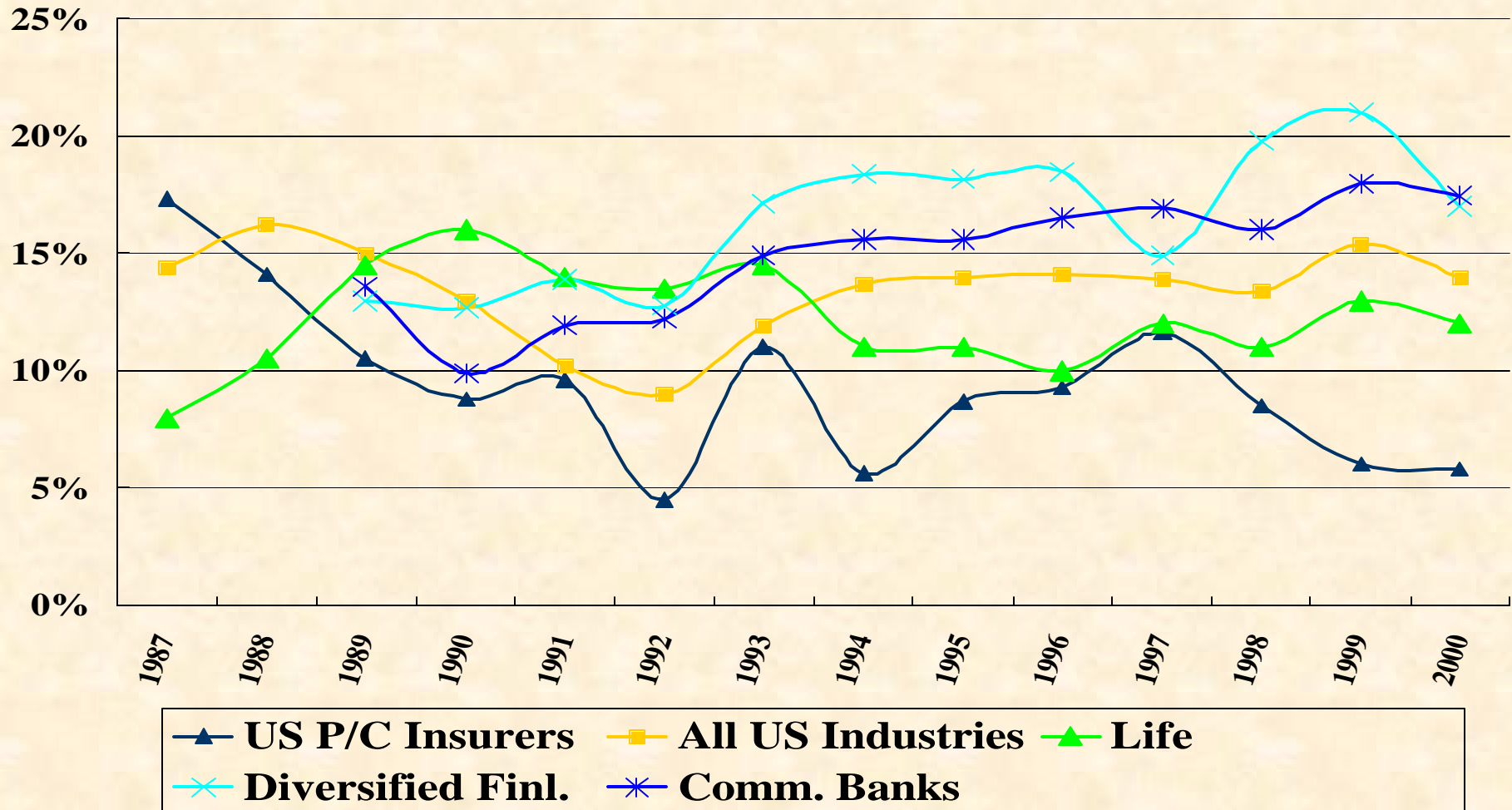
PROFITS





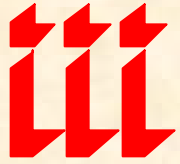
ROE: Financial Services

Industry Segments, 1987–2000



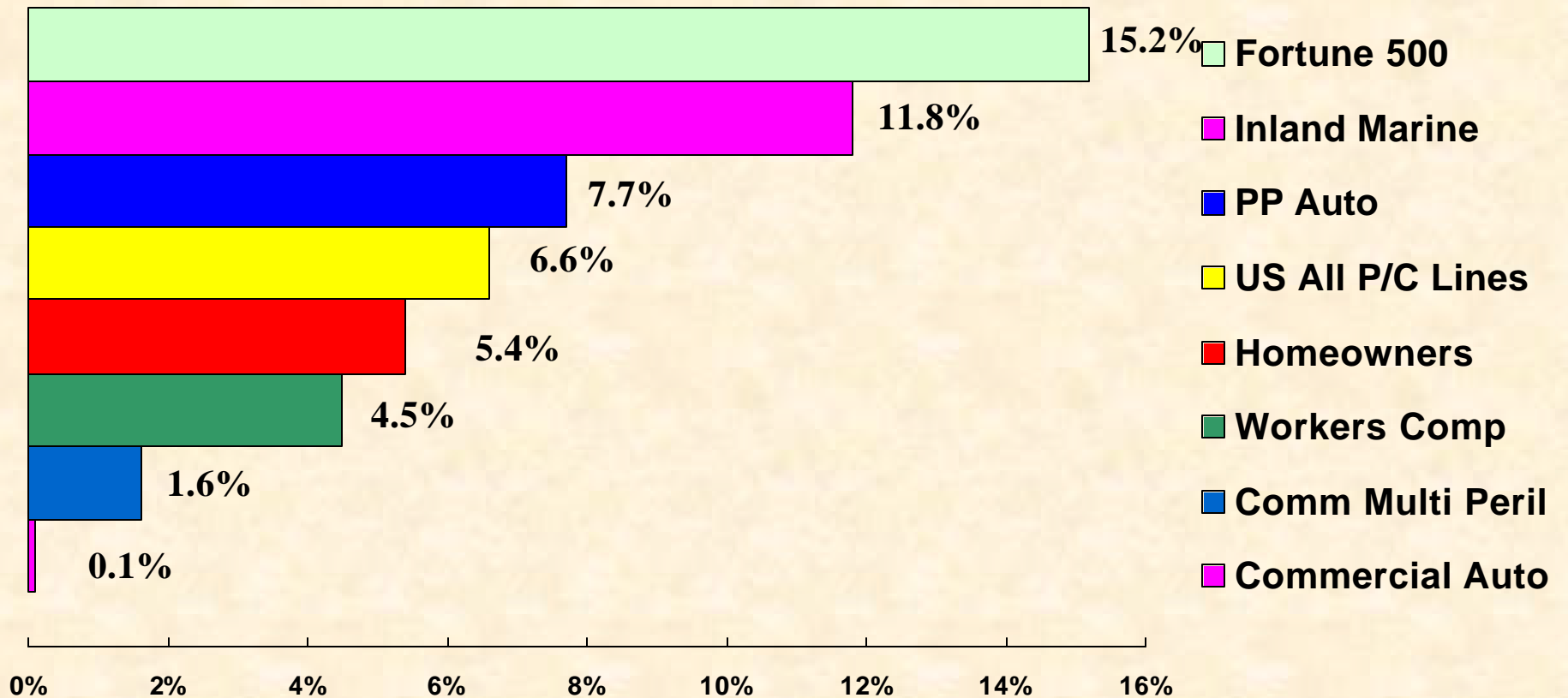
* Some 2000 figures are estimates.

Source: Insurance Information Institute

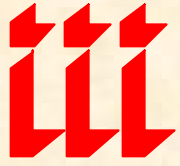


1999 Return on Equity (Profitability)

1999



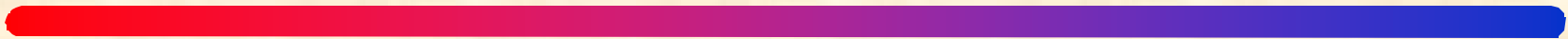
Source: NAIC, Insurance Information Institute

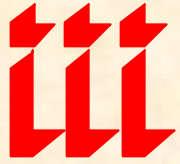


Sagging Profits are the Symptom, not the Cause

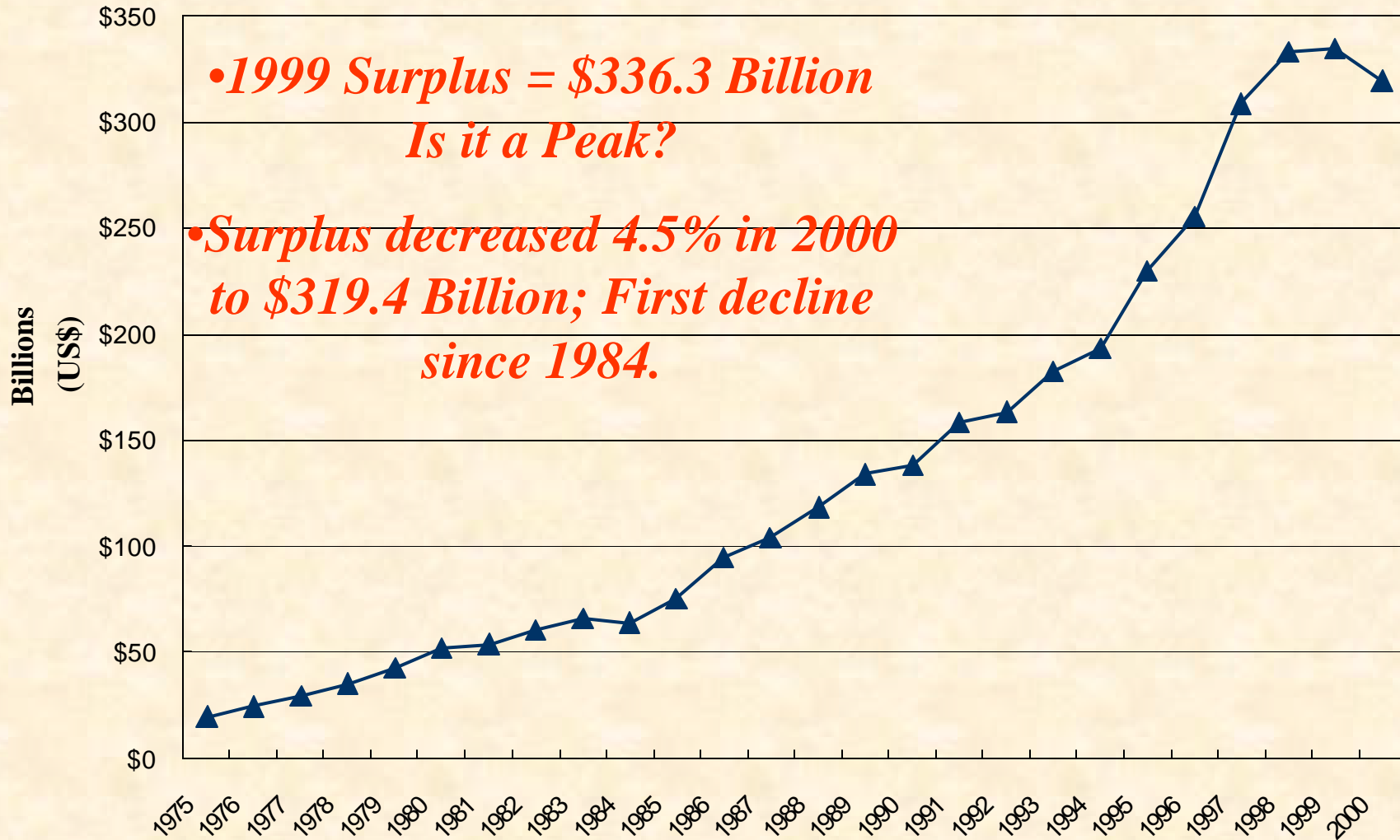
- Capital/Capacity
- Pricing
- Investments
- Competition
- Consolidation
- Distribution
- Class Action
- Wall Street
- Economy

CAPITAL/ CAPACITY



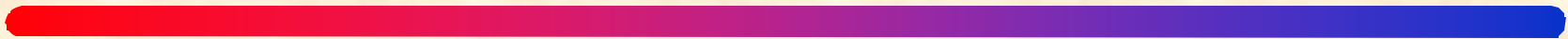
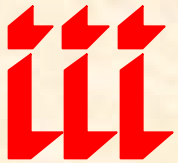


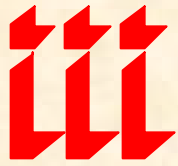
Policyholder Surplus: 1975-2000 (Capital, Total P/C)



Source: A.M. Best, Insurance Information Institute

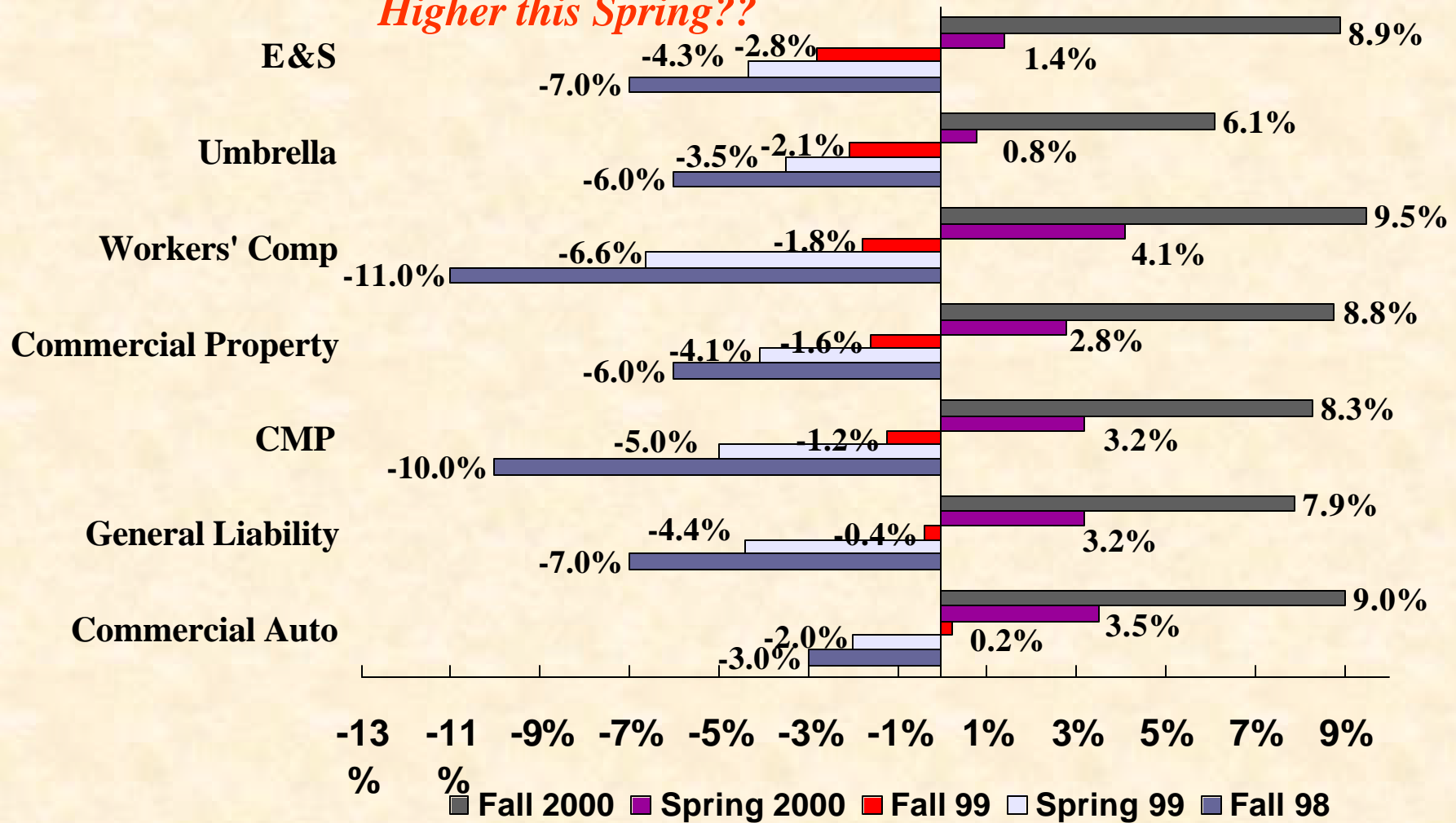
PRICING/ REINSURANCE



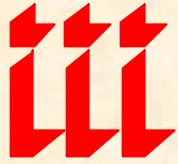


Average Price Change of Commercial Insurance Renewals

Higher this Spring??



Source: Conning



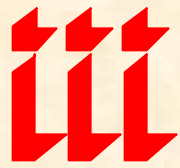
Reinsurance Price Changes

(Rate on Line Index, 1989=100)

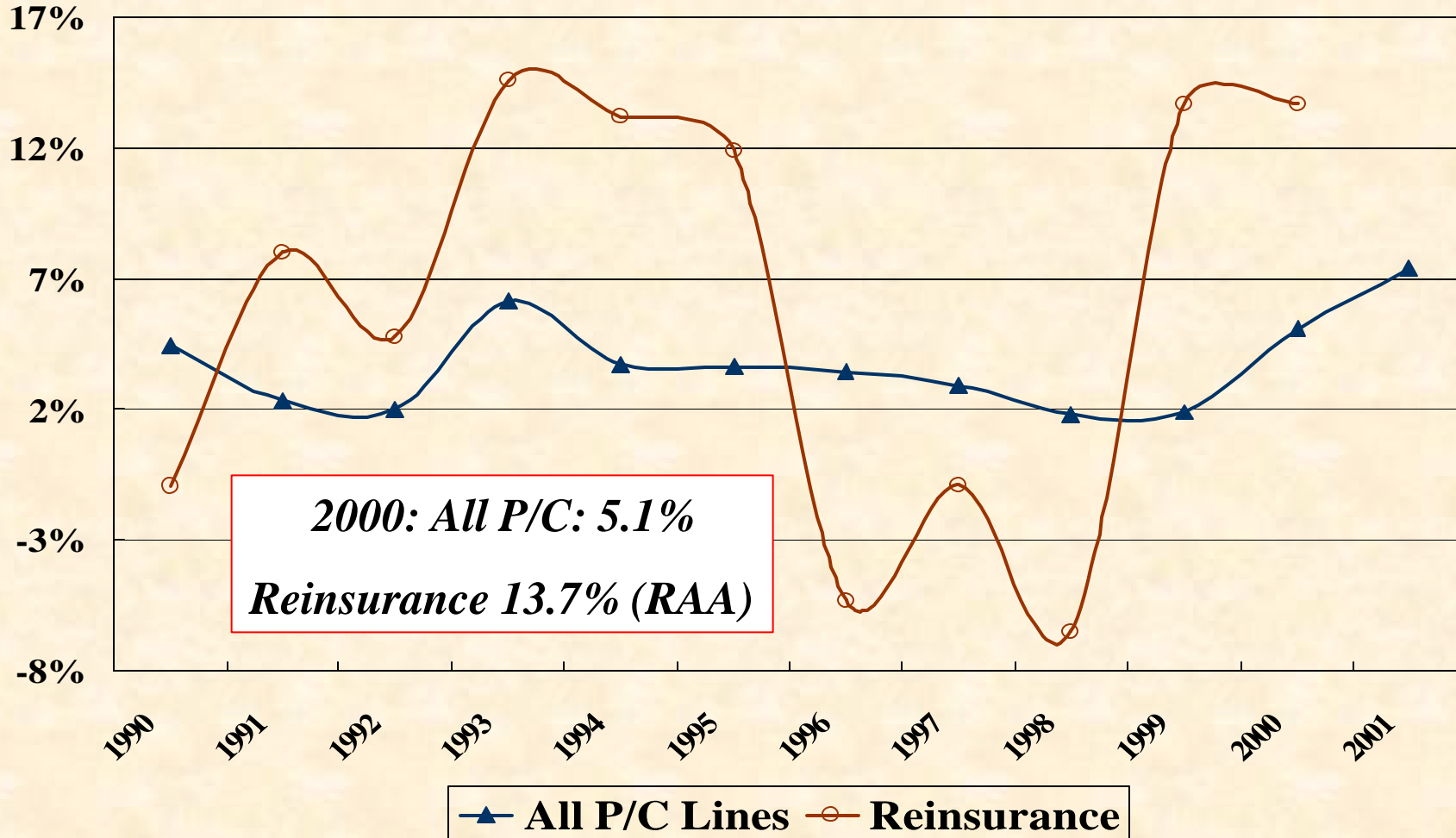


Source: Guy Carpenter

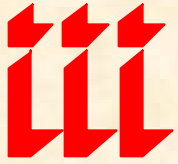
* Estimate



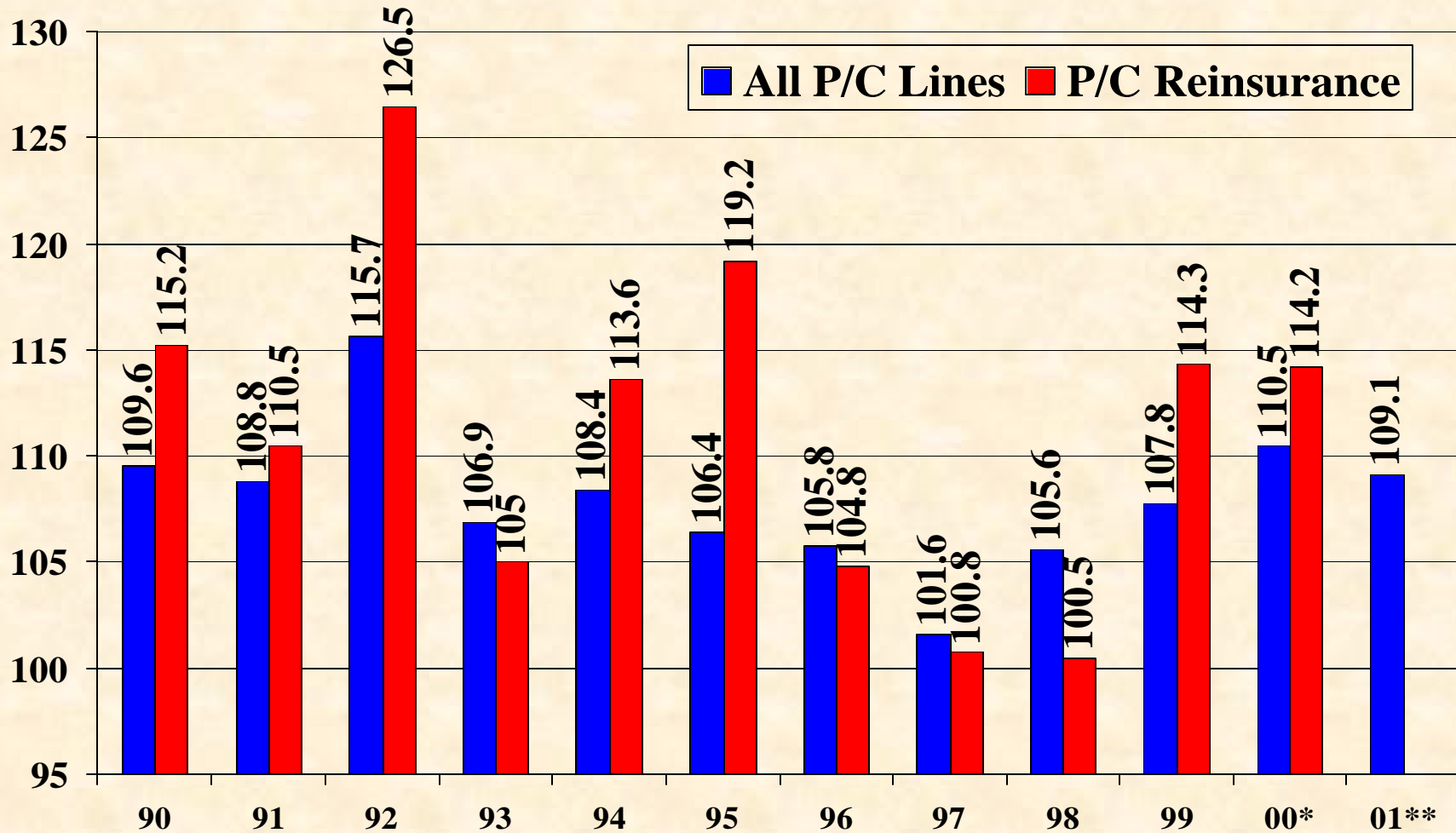
Growth in Net Premiums Written: All P/C v. Reinsurance



Source: A.M. Best, RAA, Insurance Information Institute



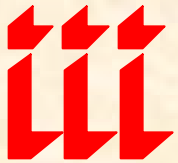
Combined Ratio: All P/C vs. Reinsurance

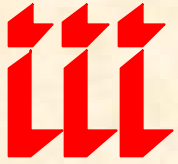


*2000 reinsurance figure is RAA estimate.

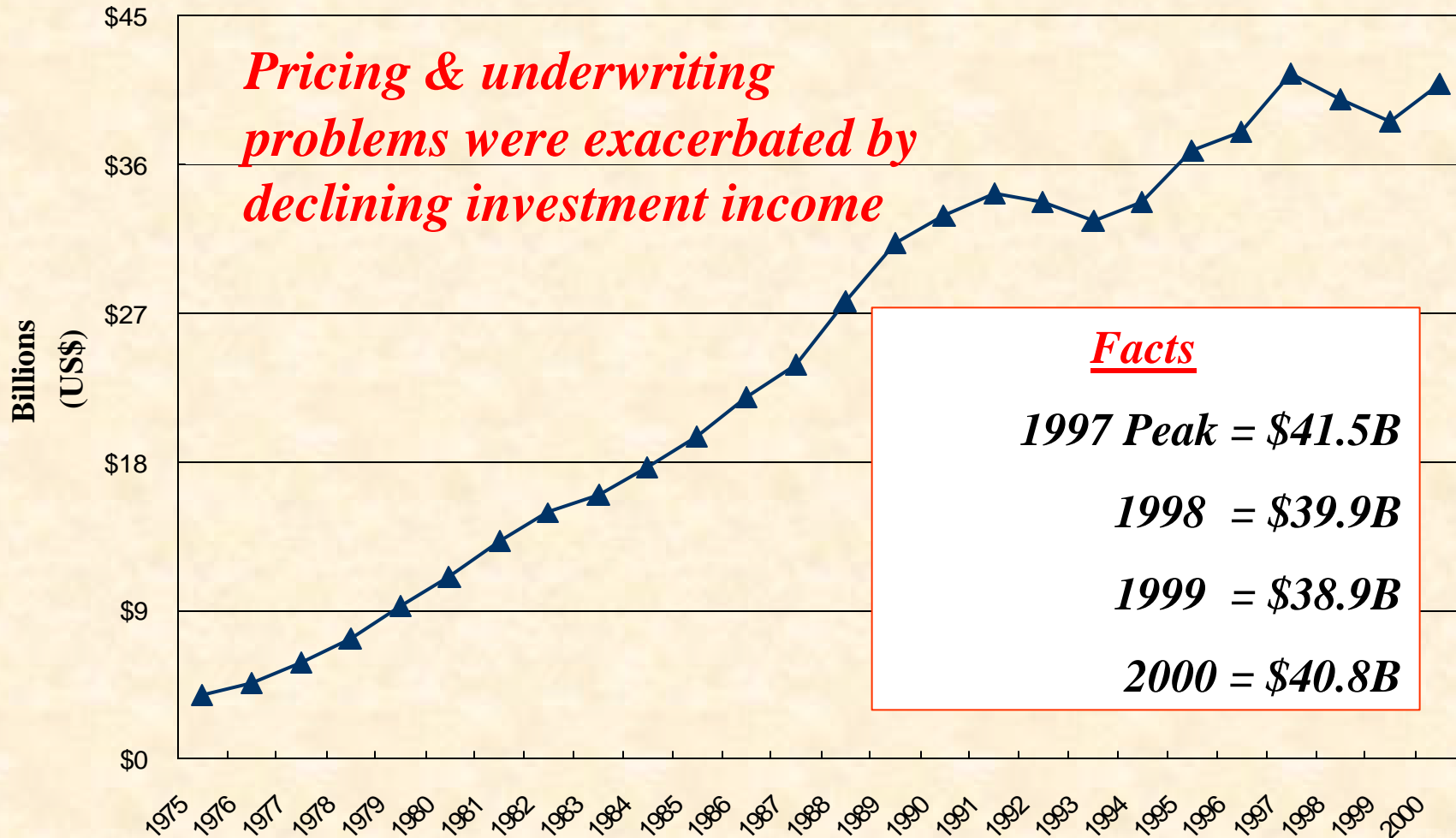
** Based on III Groundhog Forecast

INVESTMENTS

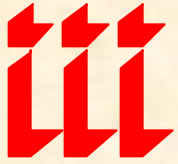




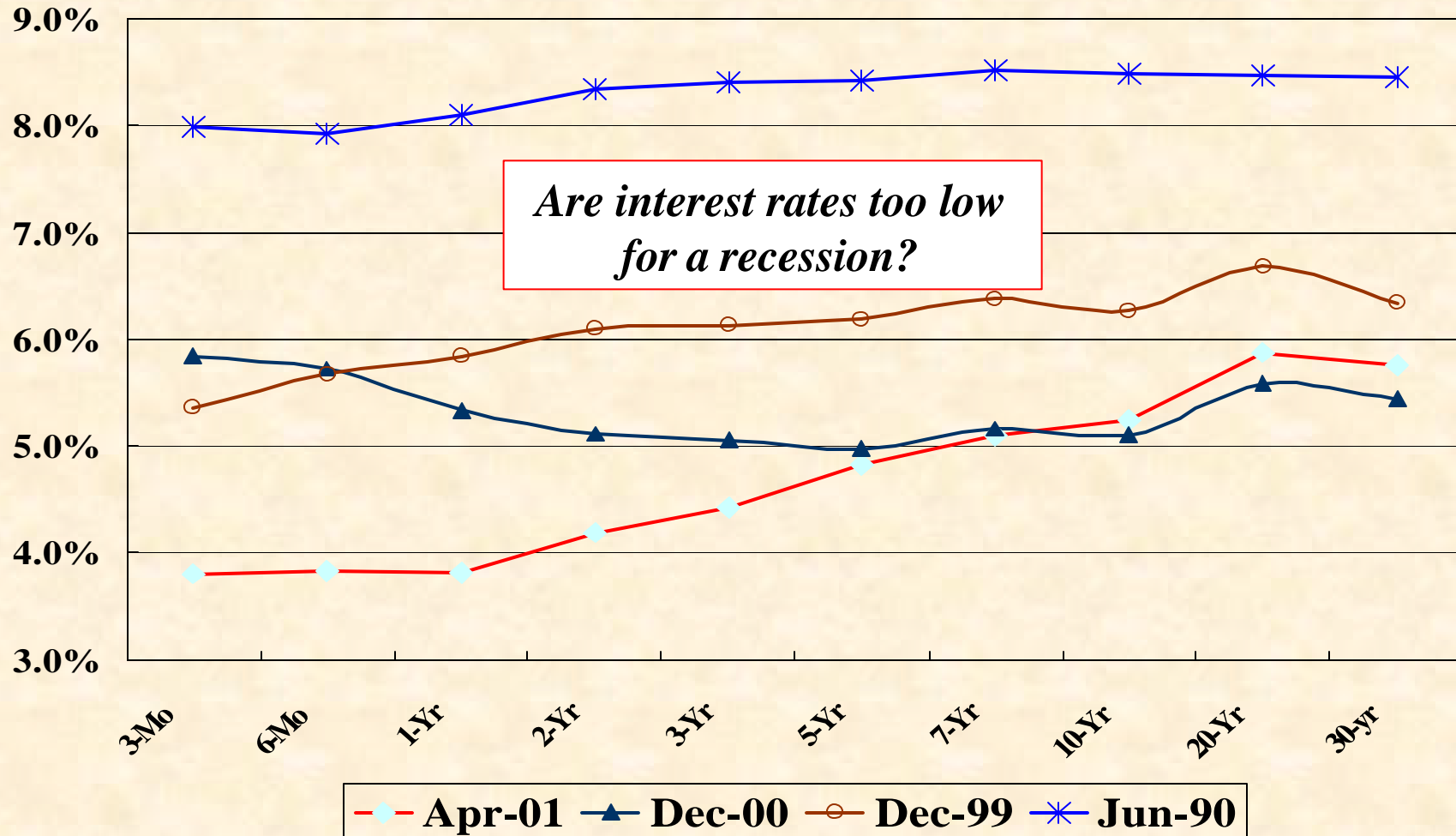
Net Investment Income



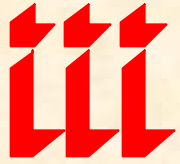
Source: A.M. Best, Insurance Information Institute



Treasury Yield Curves

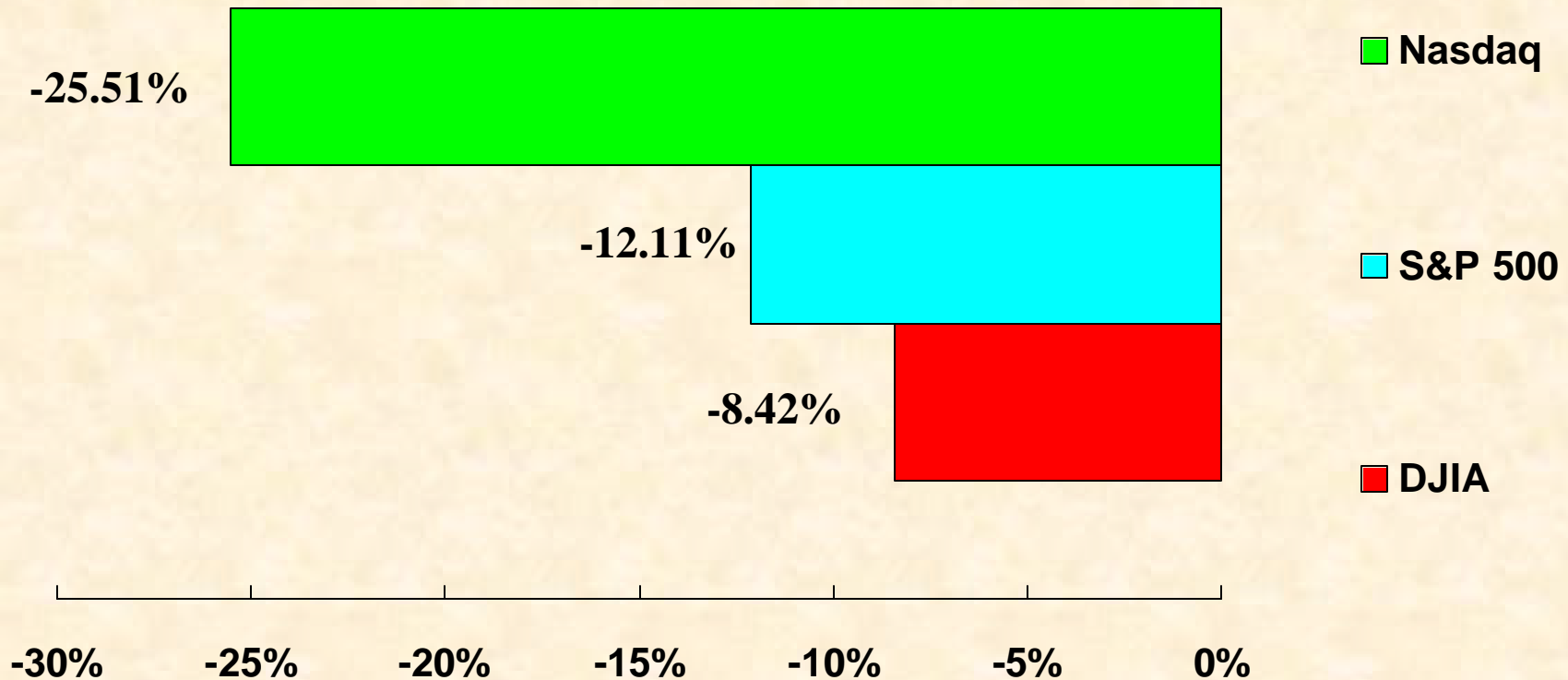


Source: Federal Reserve, Insurance Information Institute



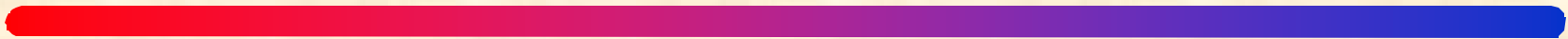
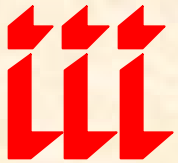
Stock Markets: Going Nowhere in 2001

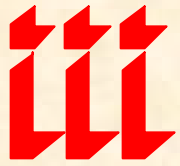
Total Returns: First Quarter 2001



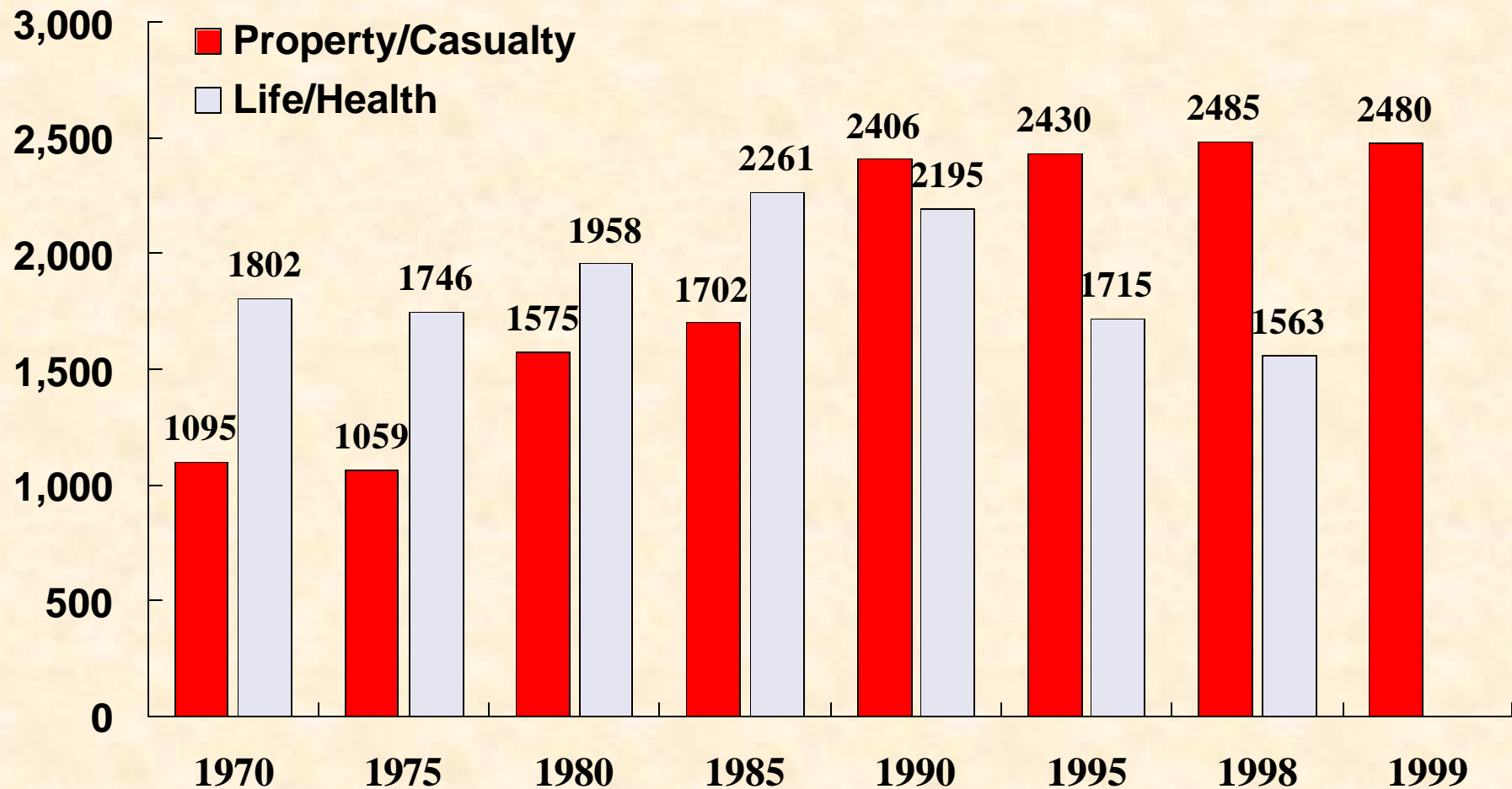
Source: Insurance Information Institute

COMPETITION

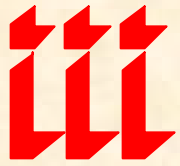




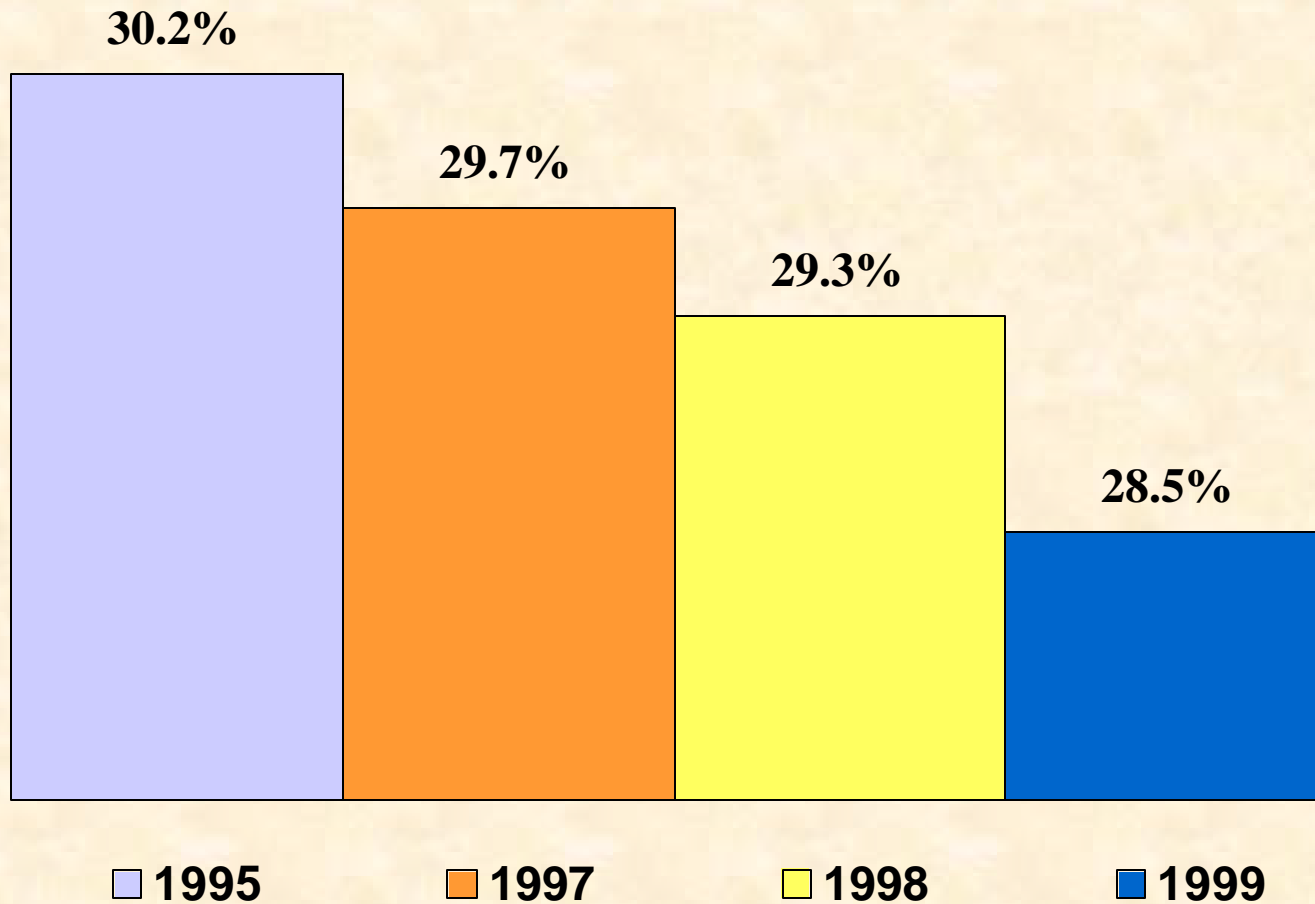
Competition—Still on the Rise: Number of Insurers: 1970-1999



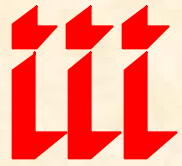
Sources: P/C: A.M. Best; L/H: NAIC.



Market Share of Top 5 P/C Insurers

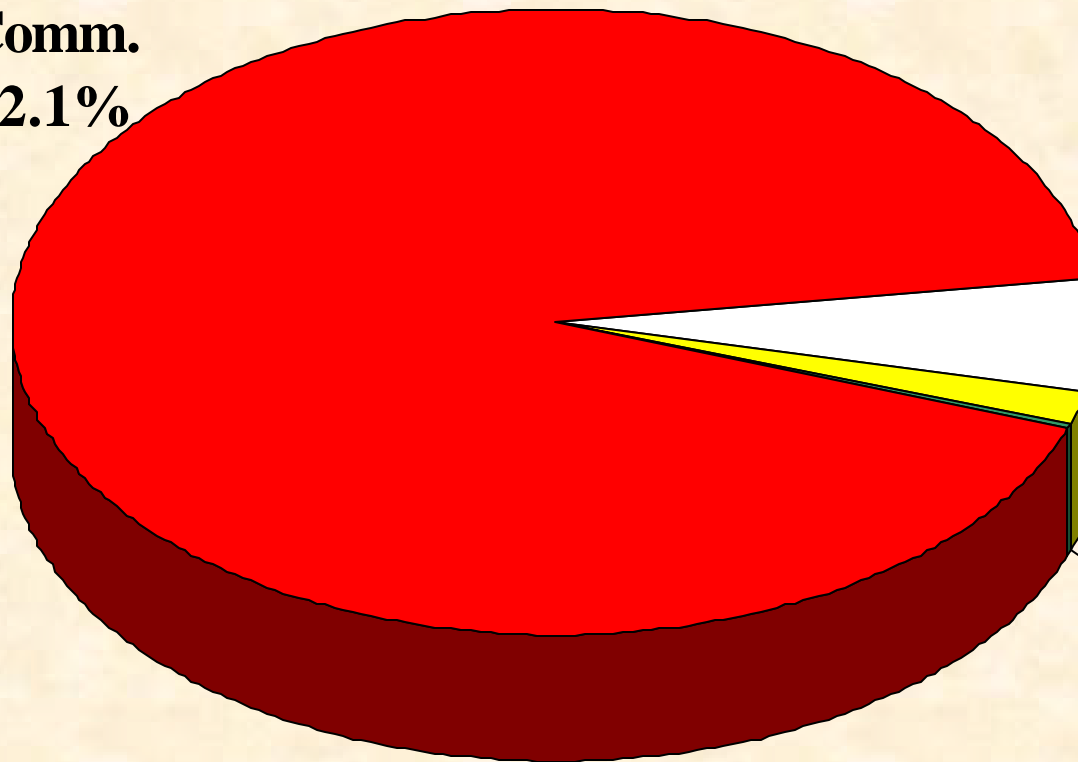


Source: *Insurance Information Institute Fact Book (annual issues)*



Global ART Market Still Small

**Traditional
Comm.
92.1%**



**Captives
6.0%**

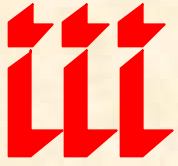
**Finite
Solutions
1.6%**

**Other
0.3%**

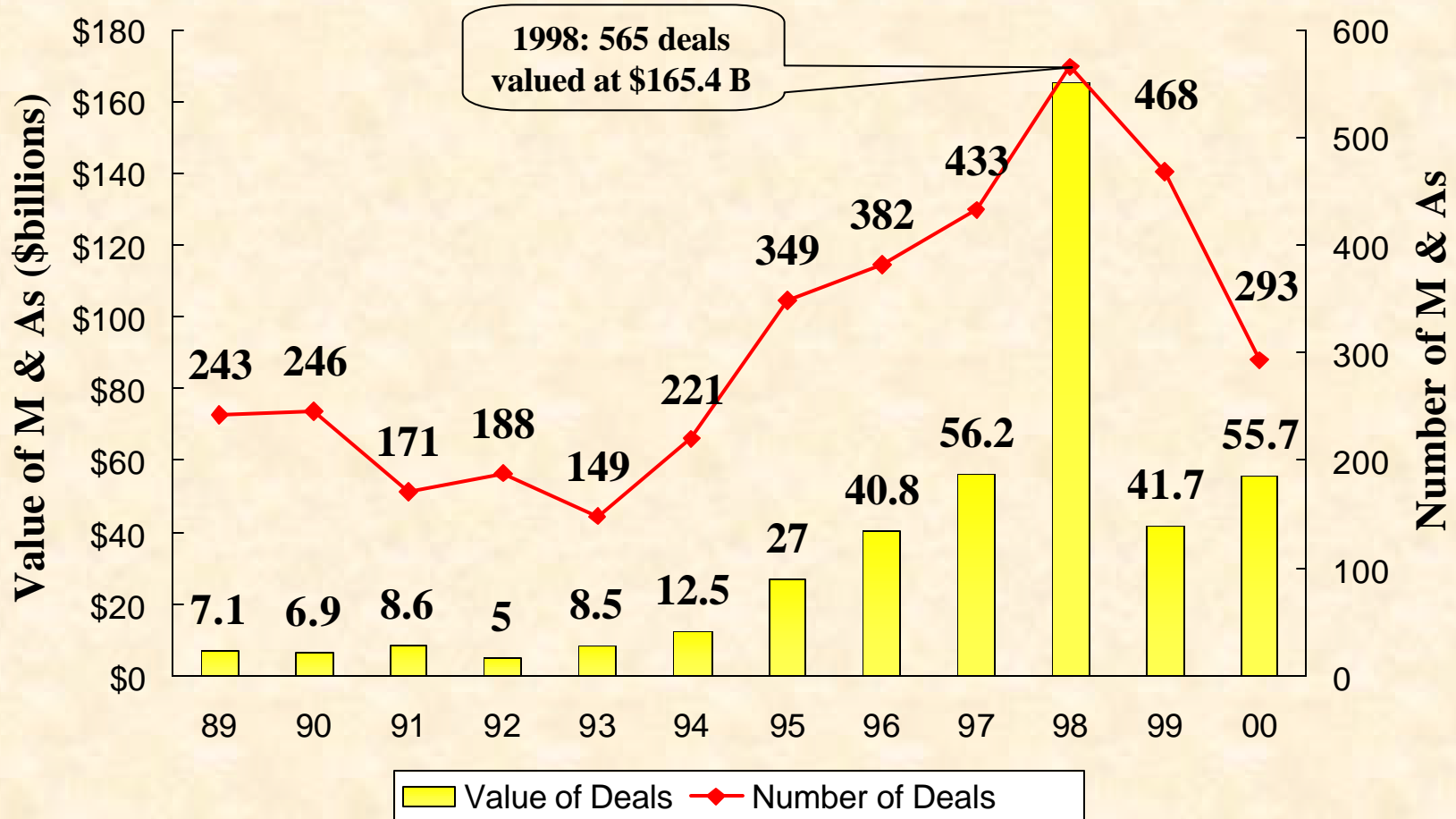
Source: Swiss Re

CONSOLIDATION



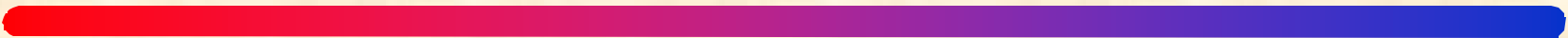


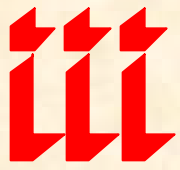
Insurance Mergers and Acquisitions



Source: Compiled from Conning & Company reports.

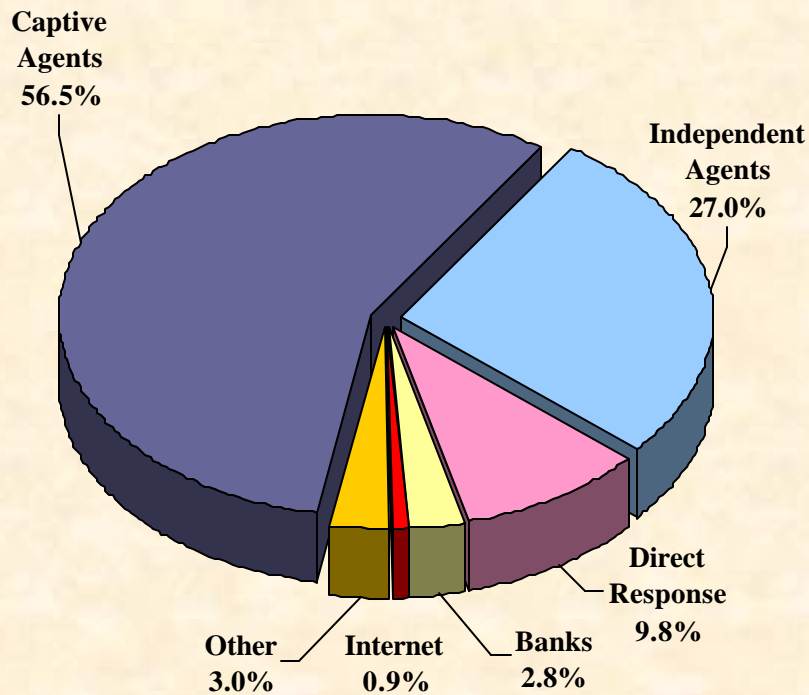
DISTRIBUTION



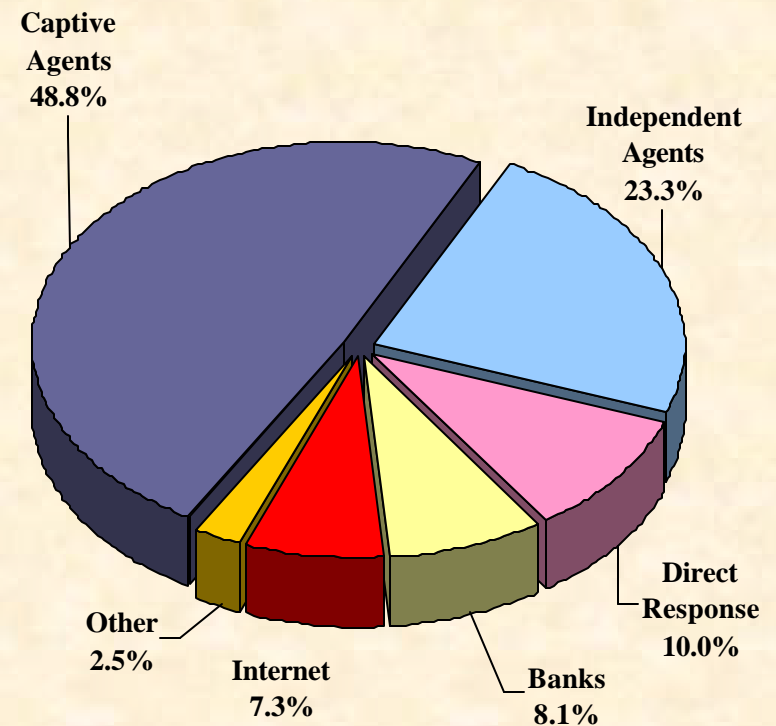


Shifting Distribution Channels: Property/Casualty Insurers

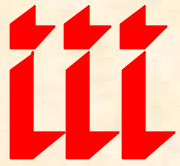
1998



2003

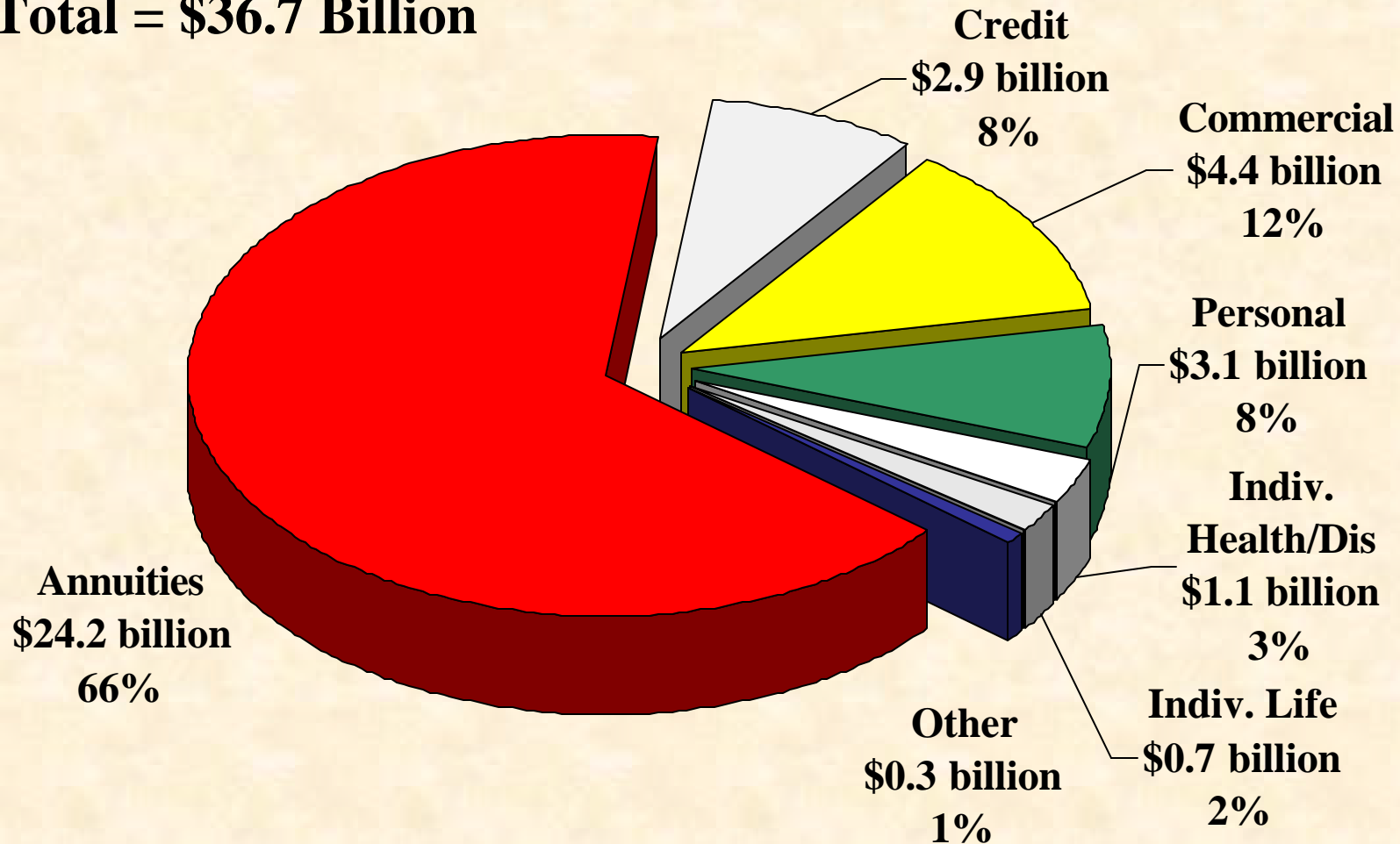


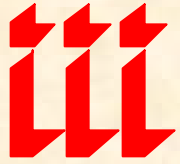
Source: Datamonitor



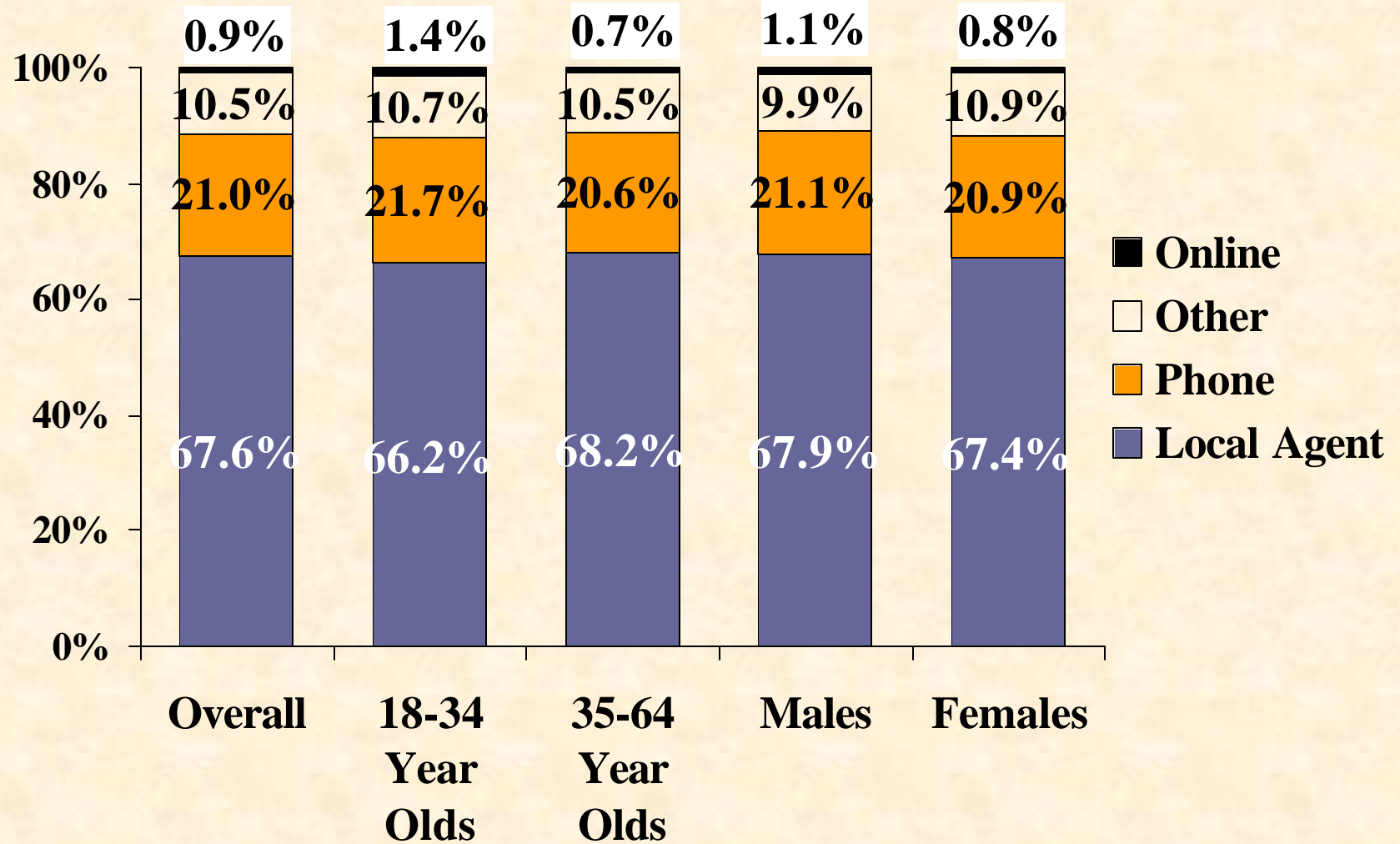
1999 Bank Insurance Premiums

Total = \$36.7 Billion



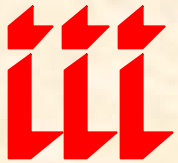


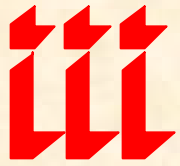
How Americans Shop for Auto Insurance



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

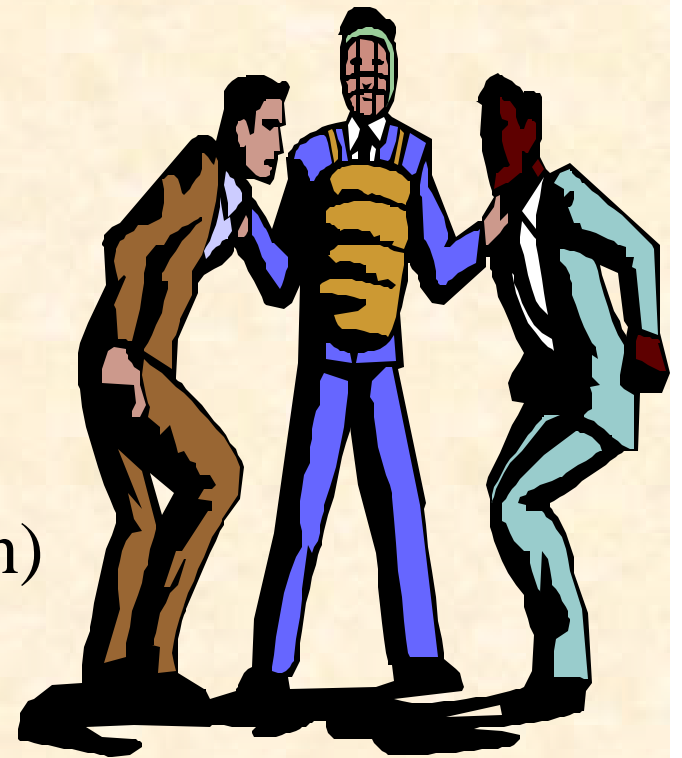
COURTS & TORTS

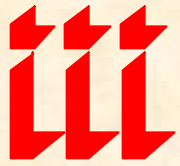




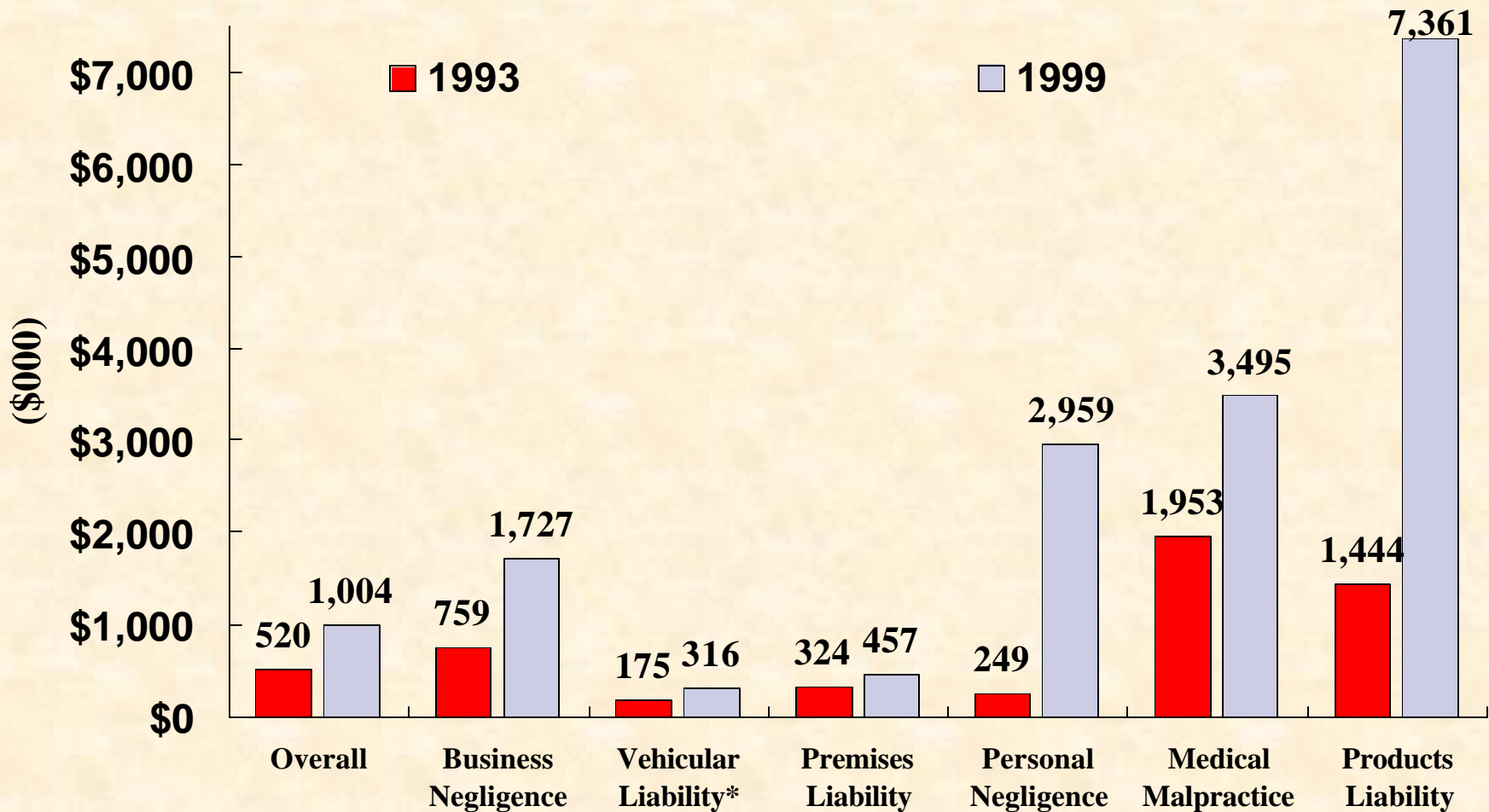
TORT-ure

- Asbestos
- Aftermarket Parts
- Medical Claims Review
- Lead
- Construction Defects
- Toxic Mold
- Guns
- Genetically Modified Foods (Corn)
- Y2K Sue & Labor
- Nursing Homes/Med Mal
- Tobacco
- What's Next: Foot & Mouth, Mad Cow?





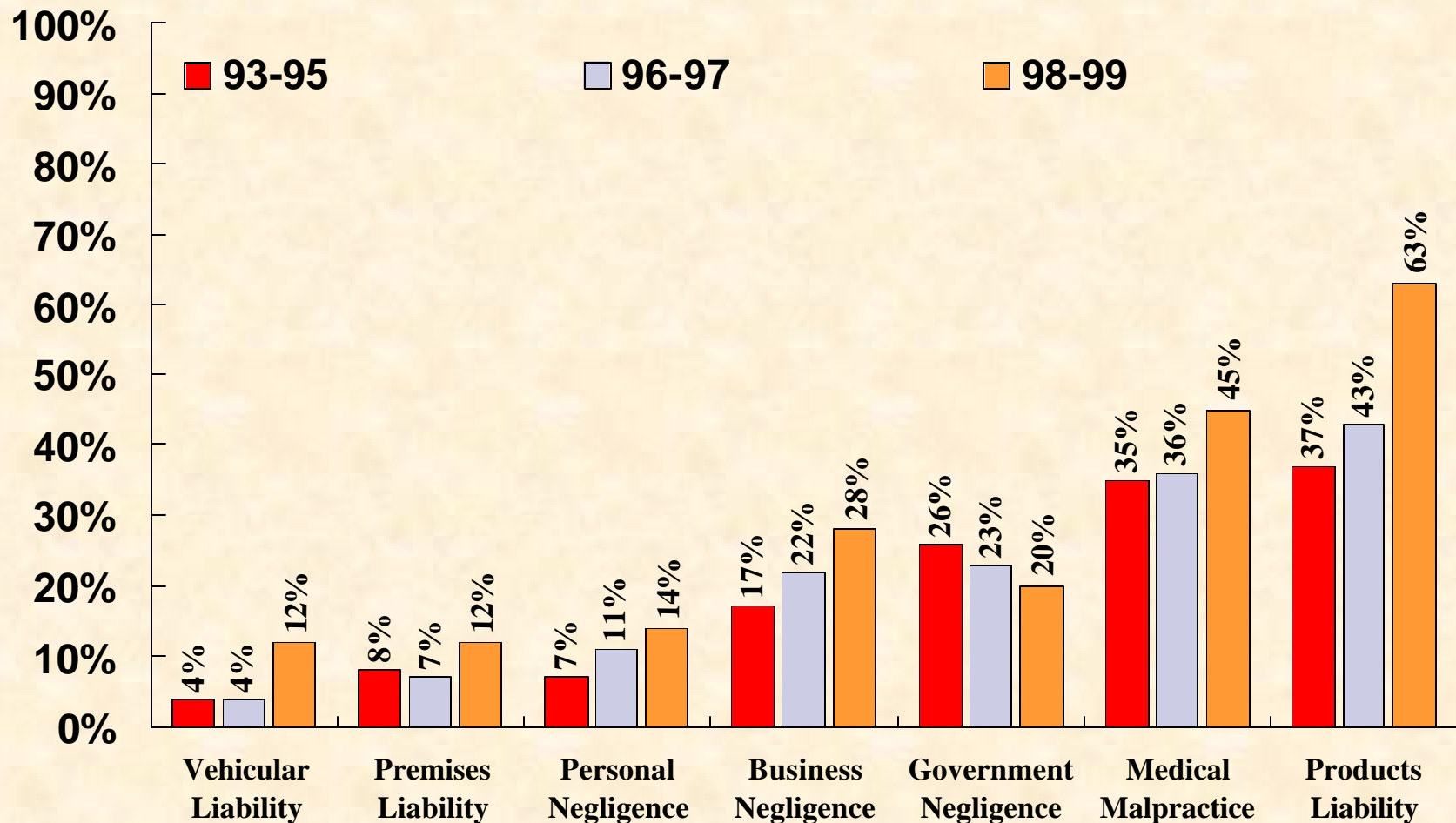
Average Jury Awards 1993 vs. 1999



*Comparison is between 1994 and 1999.

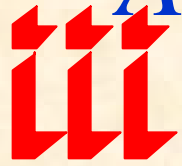
Source: Jury Verdict Research; Insurance Information Institute.

Trends in Million Dollar Verdicts*



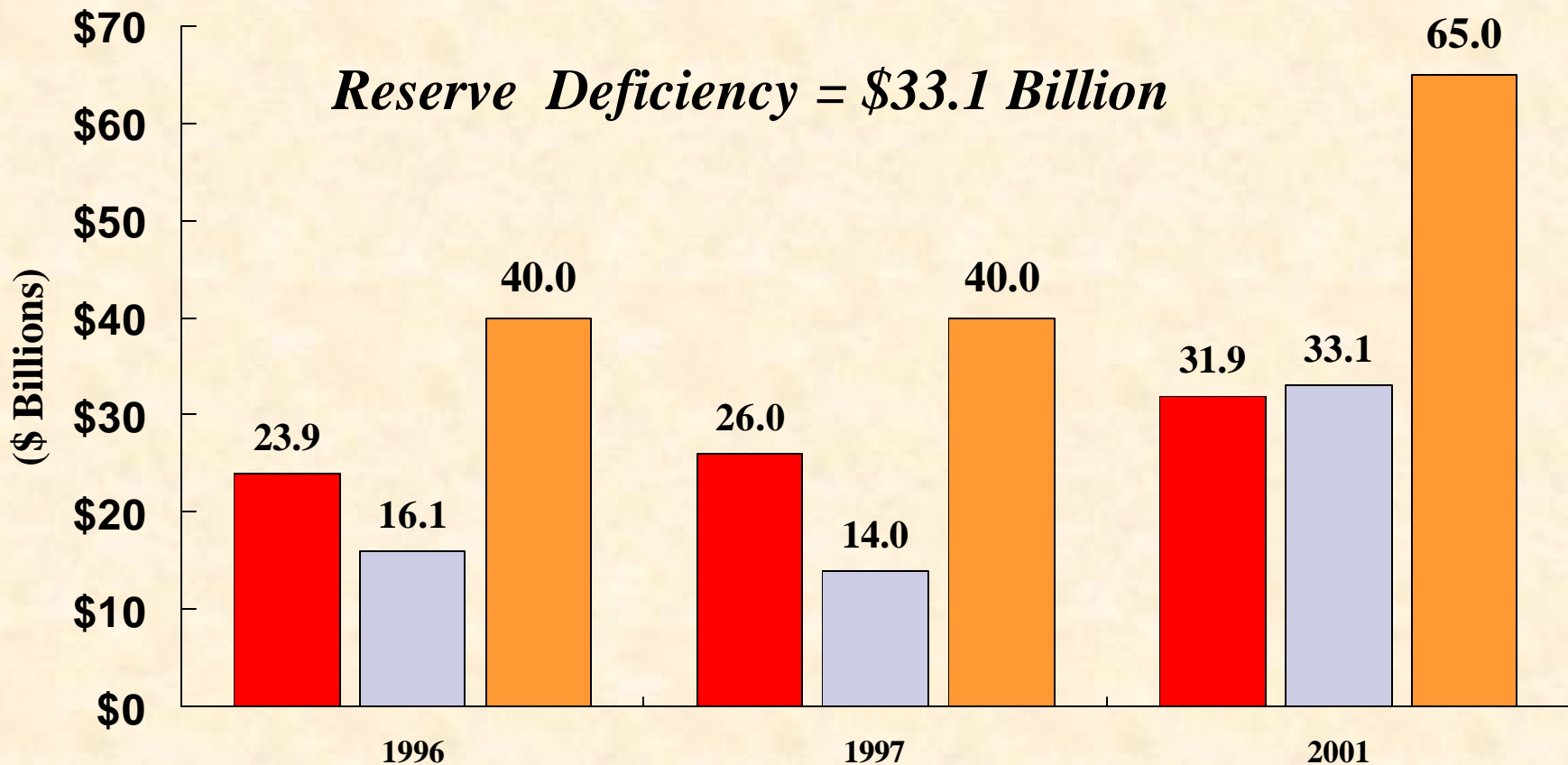
*Verdicts of \$1 million or more.

Source: Jury Verdict Research; Insurance Information Institute.



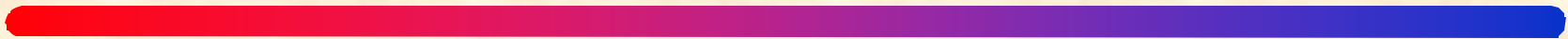
Asbestos: Reserve Deficiency and Ultimate Costs Growing

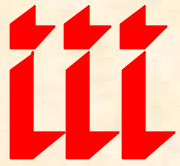
■ Incurred Losses to Date ■ Unfunded Future Liabilities ■ Ultimate Costs



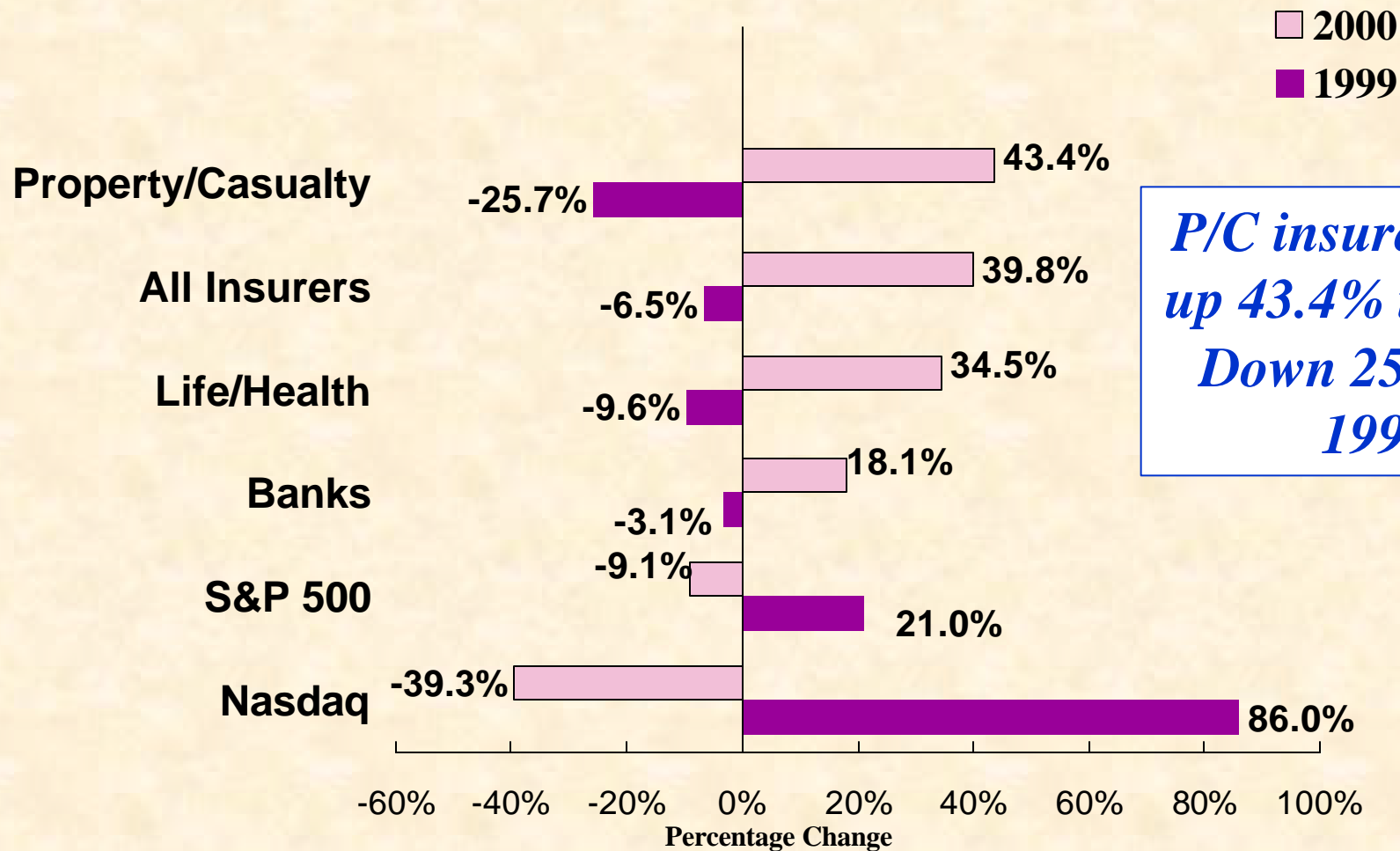
Source: A.M. Best.

WALL STREET



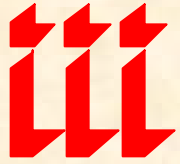


Performance on Wall Street Highly Erratic



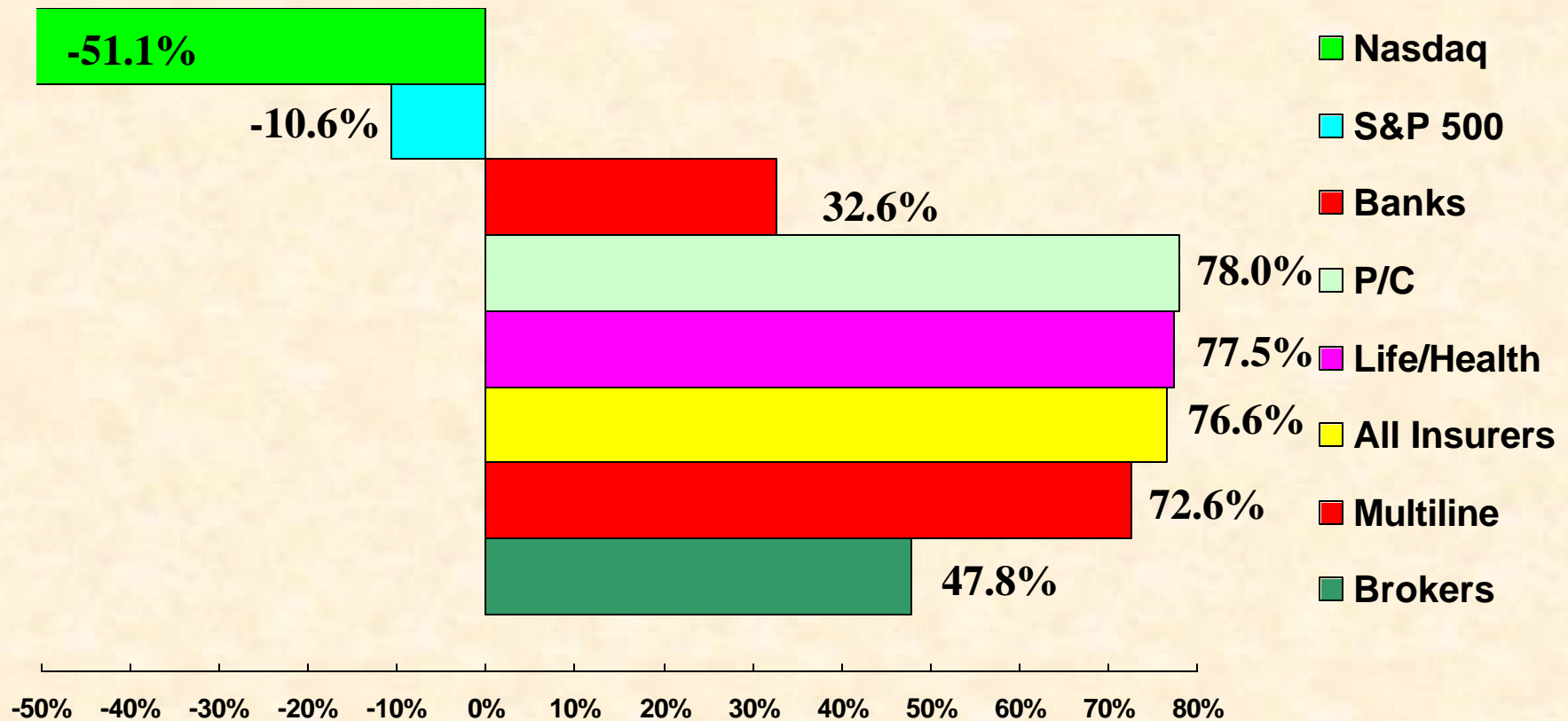
P/C insurers were up 43.4% in 2000; Down 25.7% in 1999

Source: SNL Securities; Insurance Information Institute



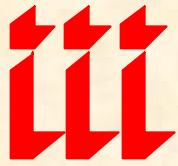
Insurance Stock Performance: After the Tech Crash

Total Return: March 10 through Year End 2000*



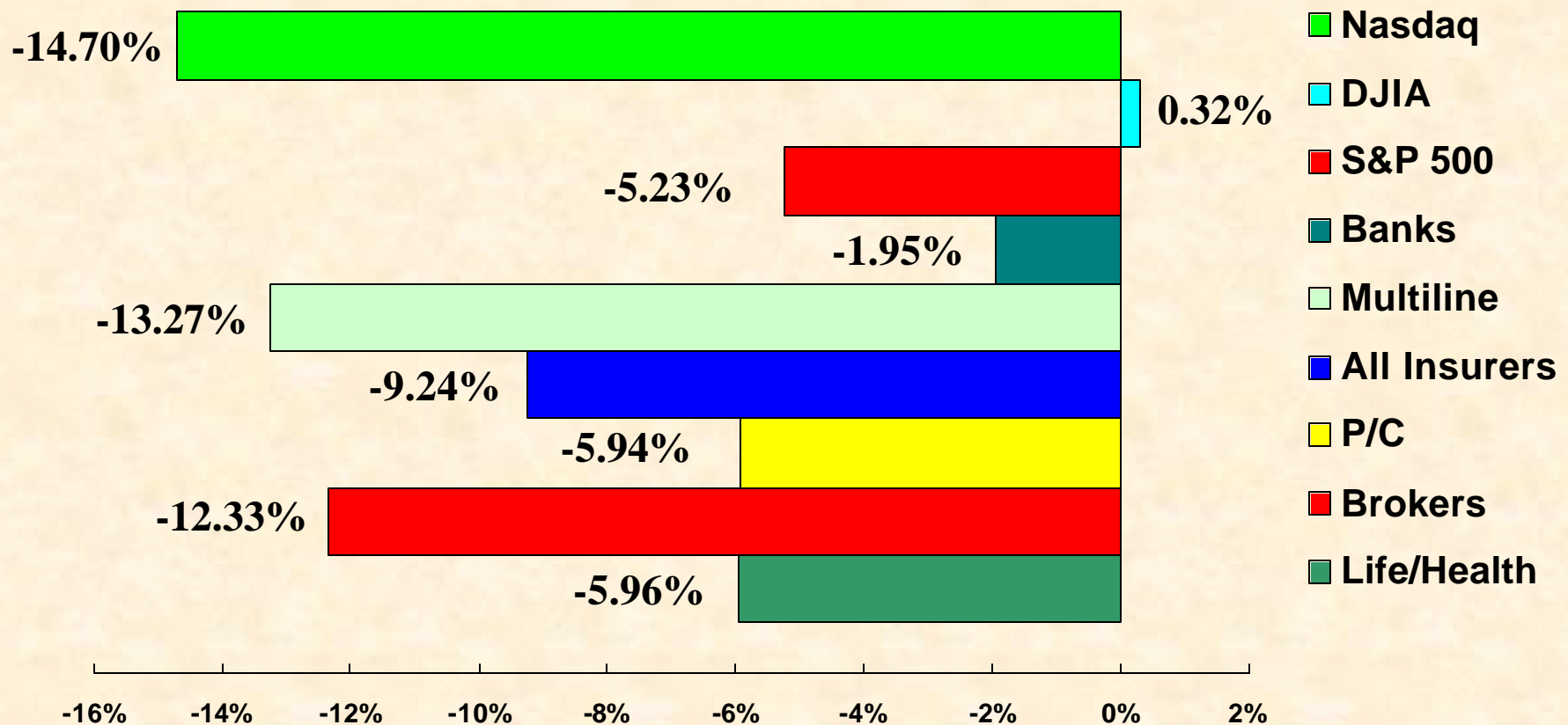
* NASDAQ peaked on March 10, 2000 at 5048.62

Source: Insurance Information Institute, SNL Securities



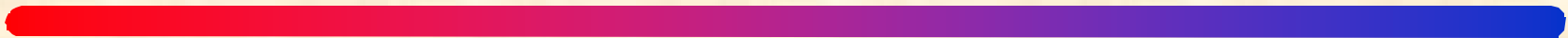
Insurance Stock Performance: Off to a Slow Start in 2001

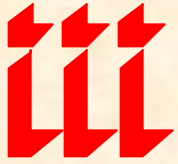
Total Return YTD through May 11, 2001



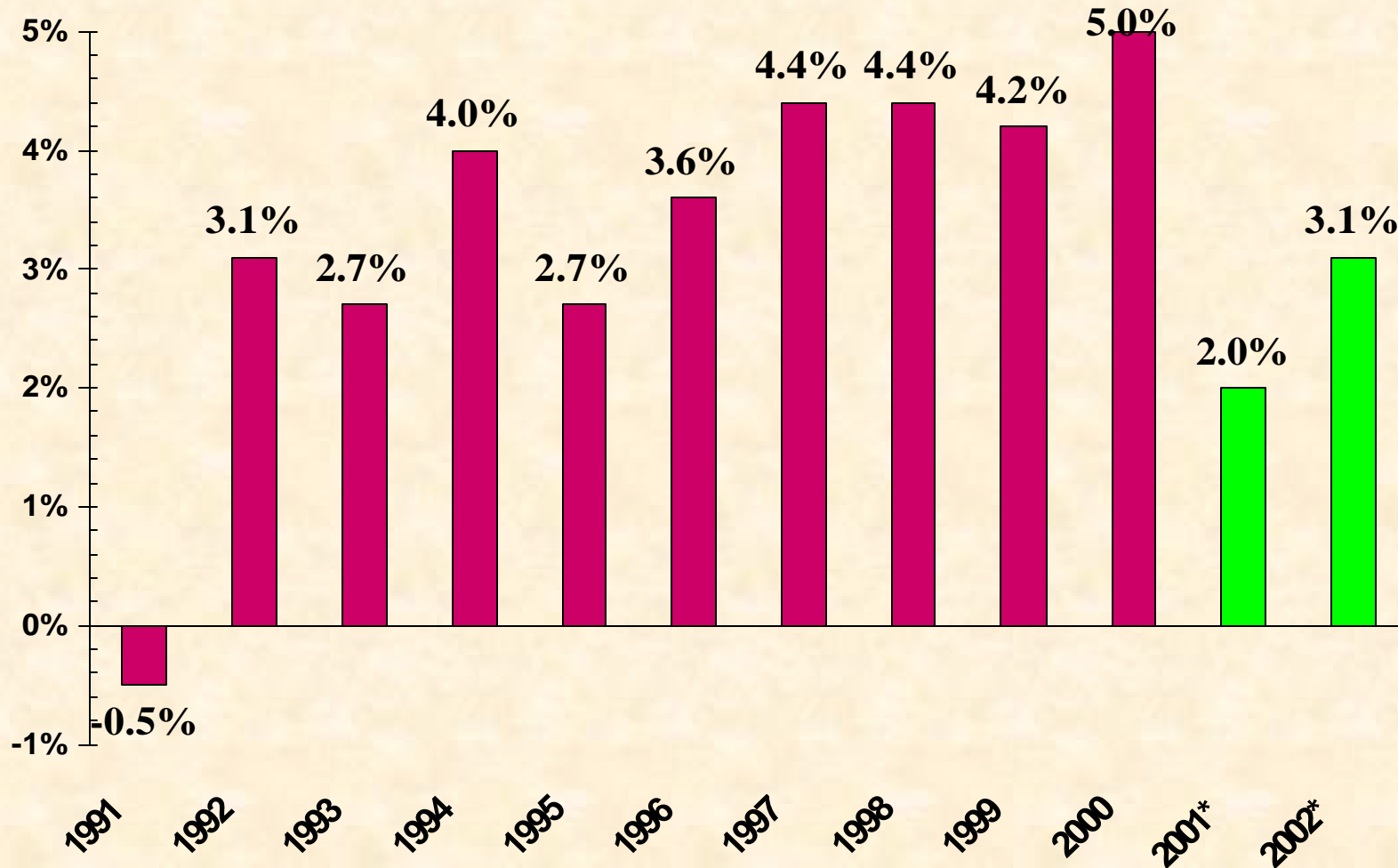
Source: SNL Securities, Insurance Information Institute

THE ECONOMY

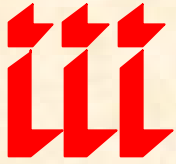




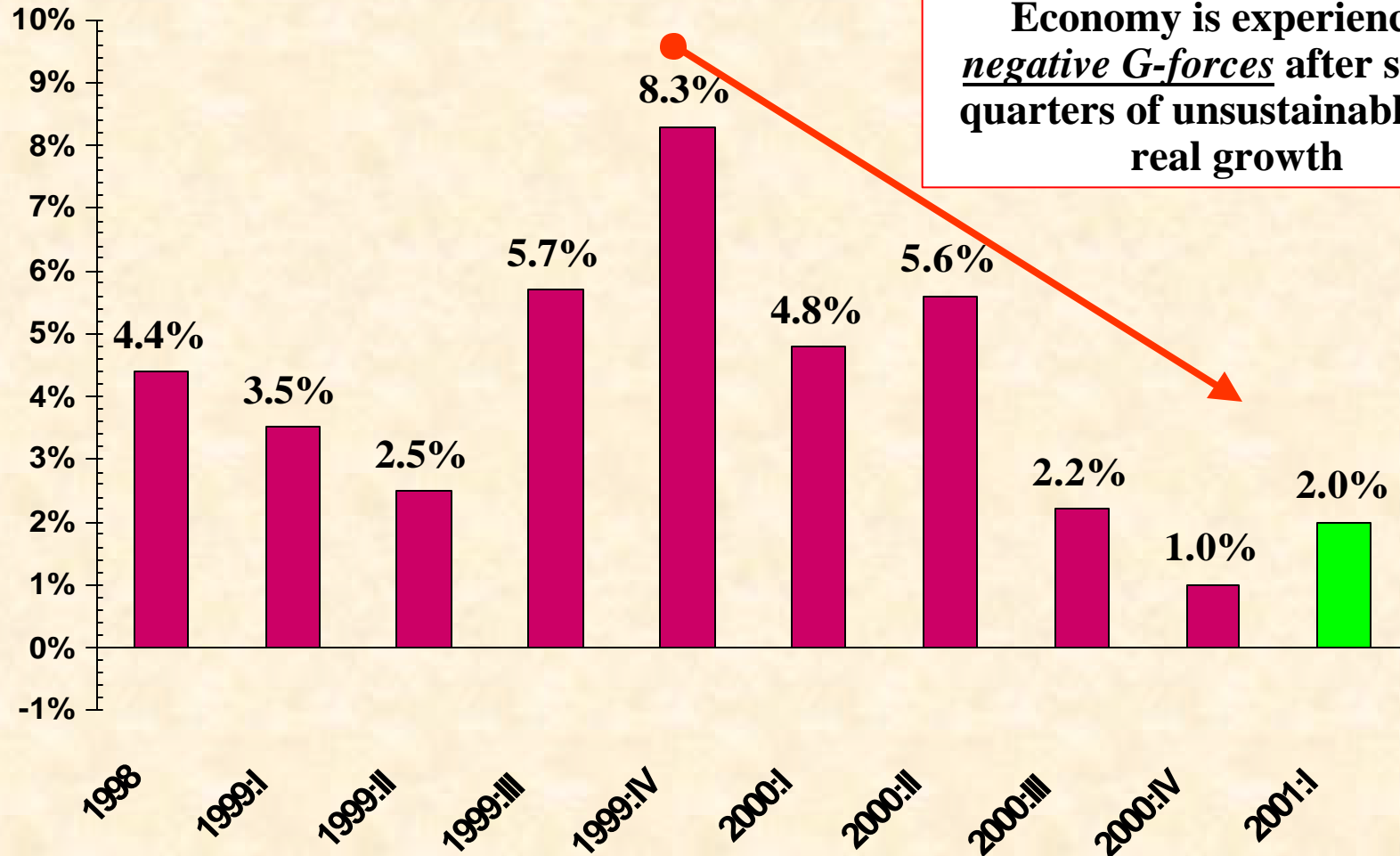
Real GDP Growth



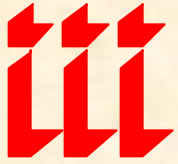
Source: US Department of Commerce; Insurance Information Institute.
*Forecasts: Blue Chip Economic Indicators.



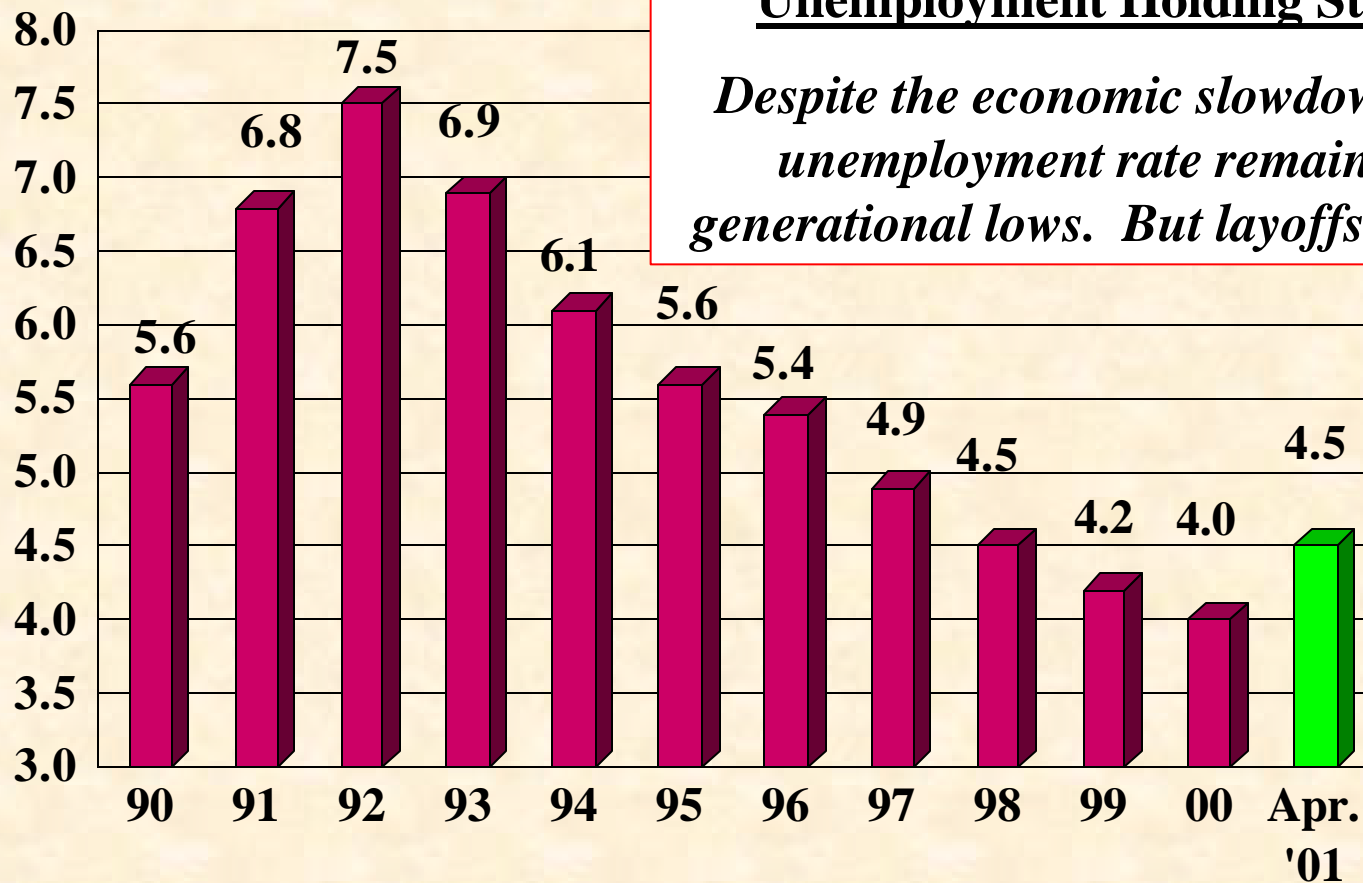
Real GDP Growth



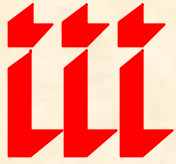
Source: US Department of Commerce; Insurance Information Institute.
*Preliminary.



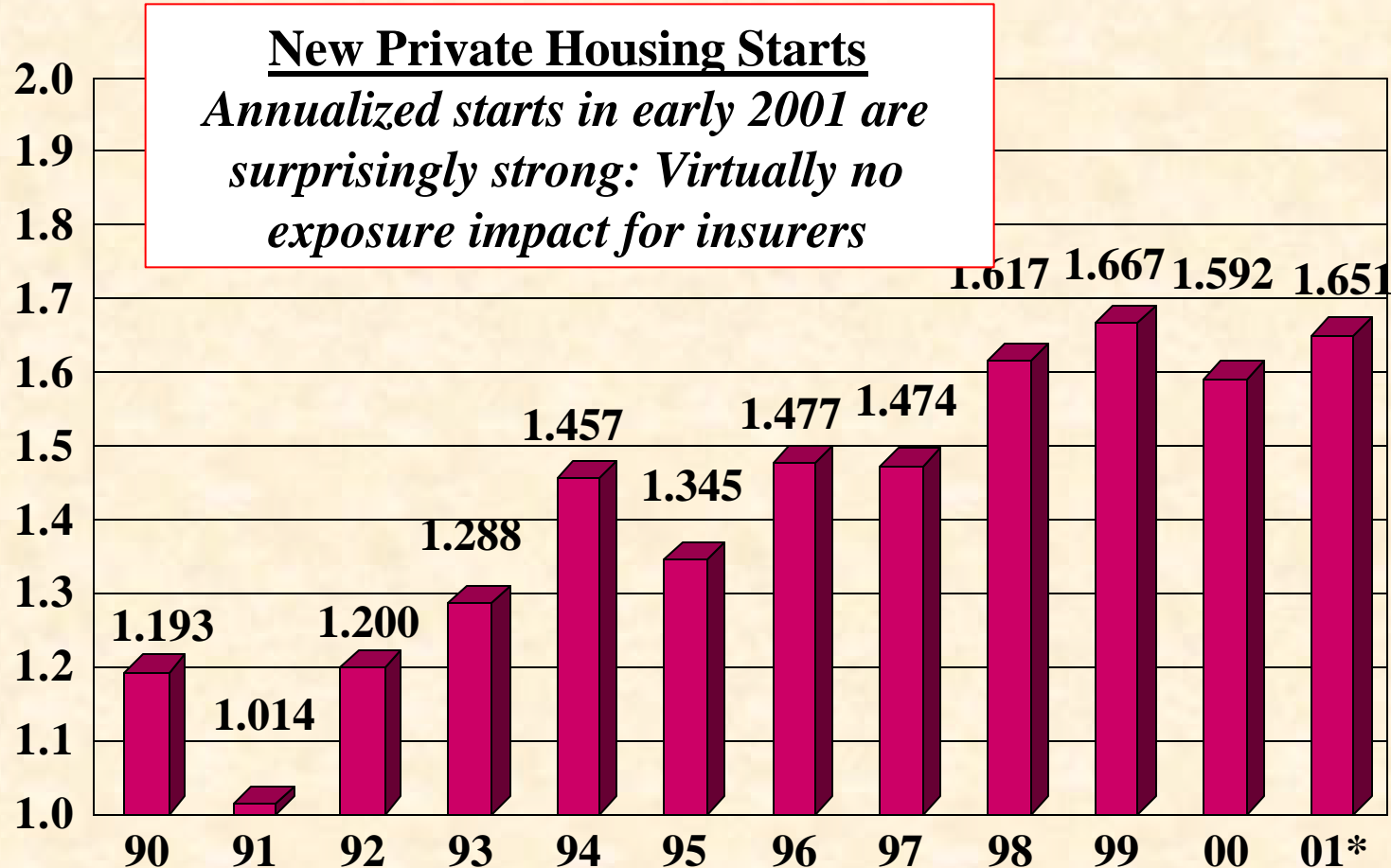
Unemployment Rate (%)



Source: US Bureau of Labor Statistics; Insurance Information Institute.

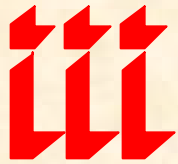


New Private Housing Starts *(Millions of Units)*

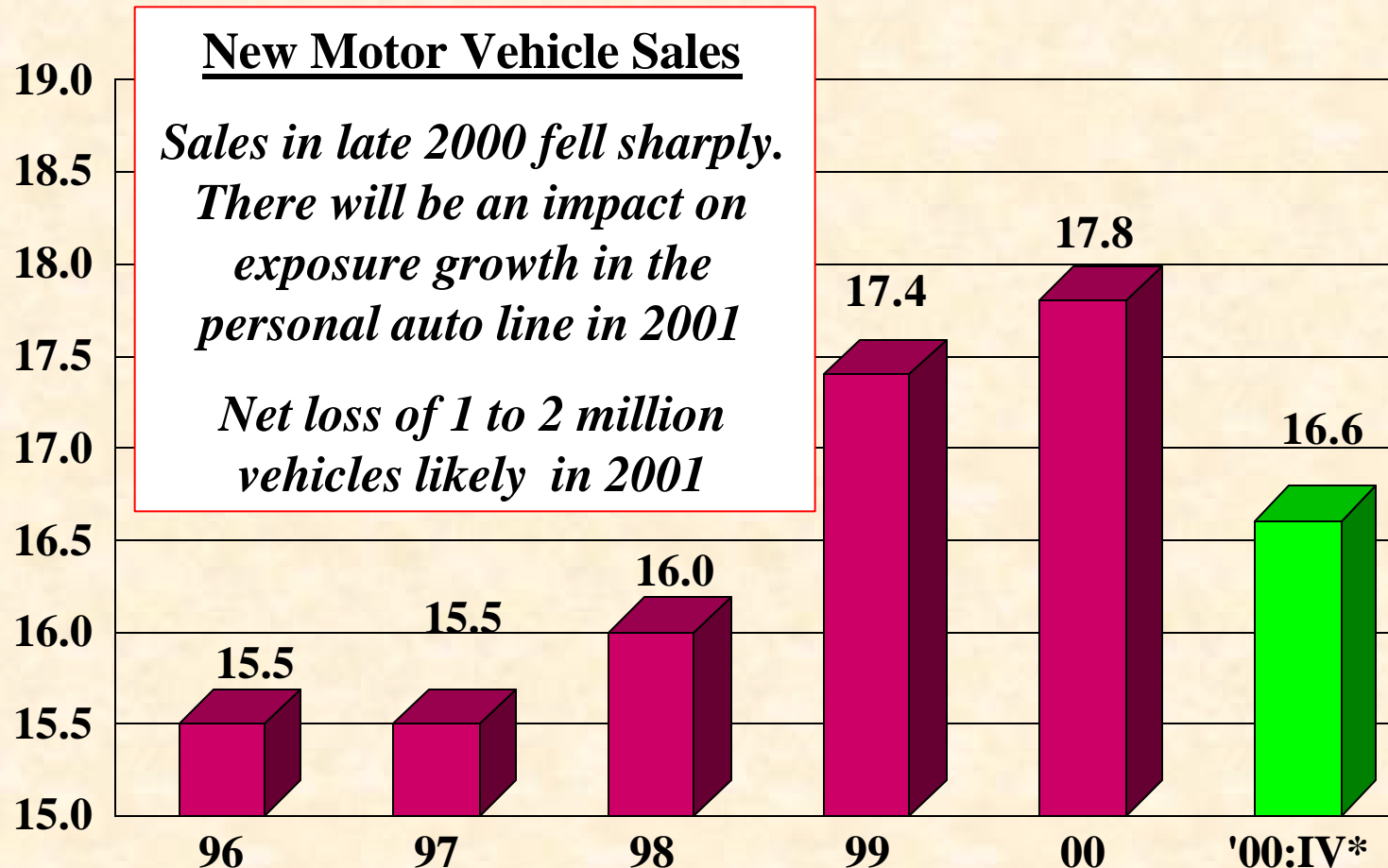


Source: US Department of Commerce; Insurance Information Institute

*Annualized January 2001 data.

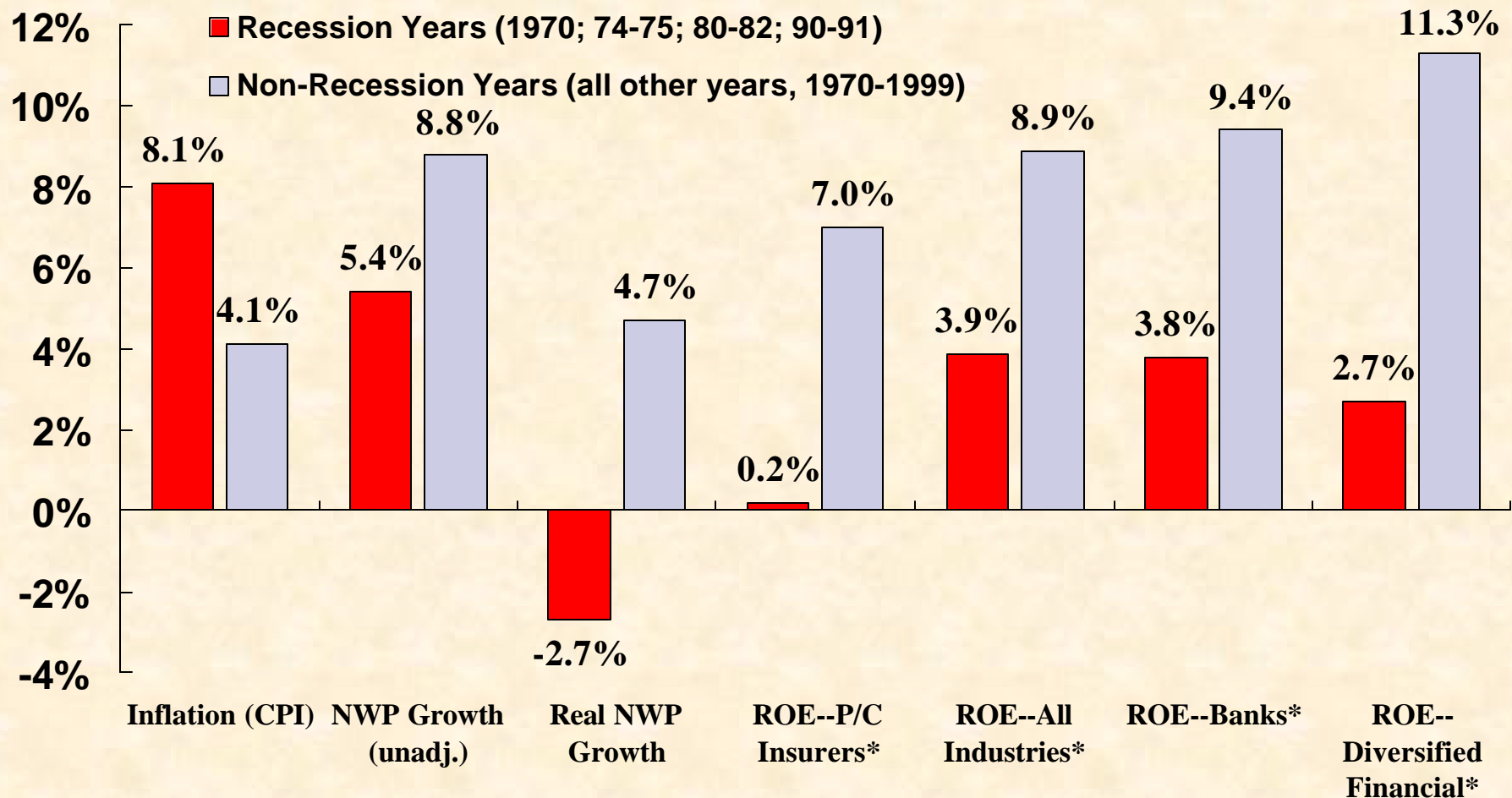


Motor Vehicle Retail Sales (Millions of Units)

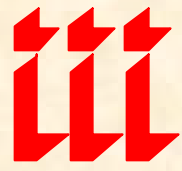


Source: US Department of Commerce; Insurance Information Institute
*Seasonally Adjusted Annual Rate.

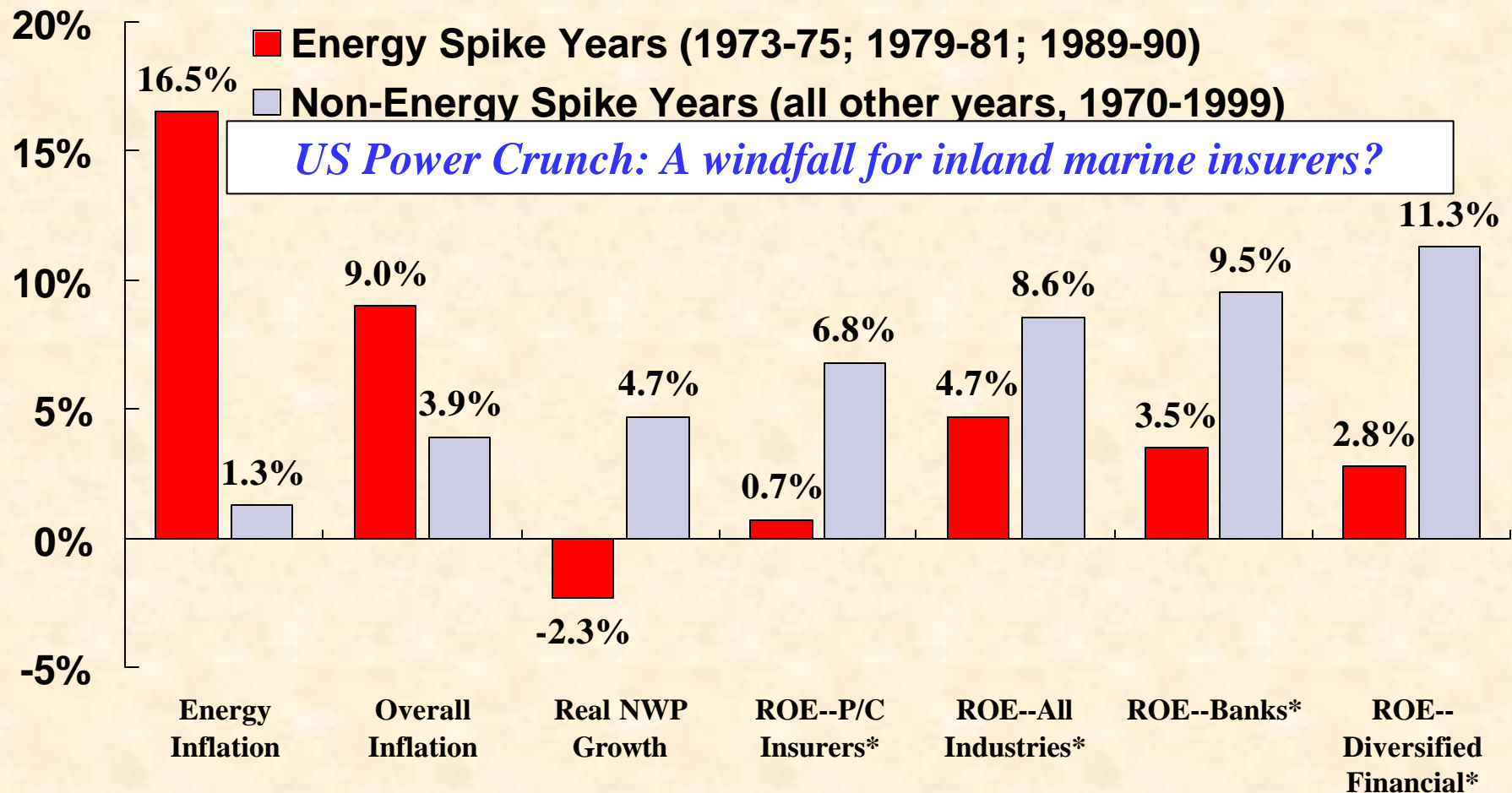
Impact of Recession on P/C Premiums and Profitability (1970-1999)



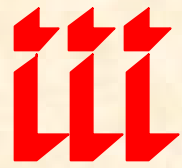
*GAAP return on equity, adjusted for inflation; Bank data 1952-99; Div. Fin. 1987-99
 Source: Insurance Information Institute



Impact of Energy Price Shocks on P/C Premiums and Profitability



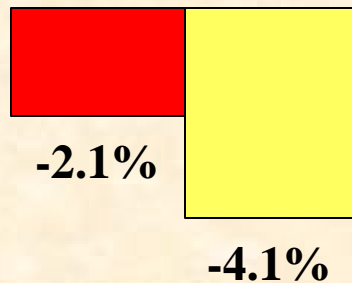
*GAAP return on equity, adjusted for inflation.
Source: Insurance Information Institute



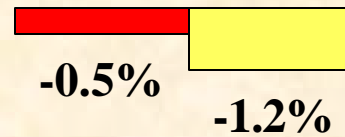
Recession & Credit Risk:

Impact on Earnings & Surplus

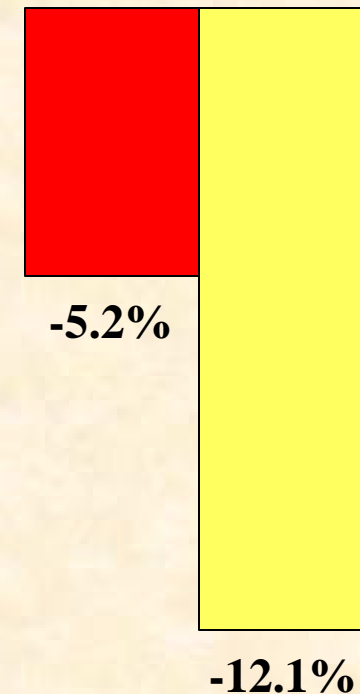
4.08% Default Rate
All Corporates



10% Default Below
Investment Grade



100% Default Below
Investment Grade



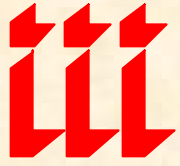
Some Companies
with Credit Woes

- Xerox
- Sunbeam
- TWA
- **PG&E**
- **Edison Intl.**

- Decline 2001E Earnings
- Decline in Surplus

- *Credit Default Swaps*
- *Debt Guarantees*

Source: Goldman Sachs; 10K/10Q Reports.



*Insurance Information
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