

Personal Lines Insurance: Overview & Outlook

*Pillars of Profitability &
Drivers of Revenue, Cost,
Profit & Competition*

Insurance Information Institute



March 2006

Robert P. Hartwig, Ph.D., CPCU, Senior 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

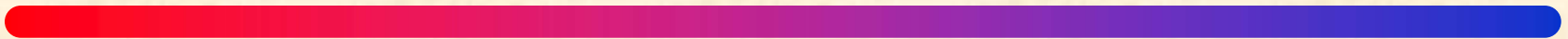


Presentation Outline

- **P/C Profit Overview**
 - **Auto & Home**
- **Public Perceptions of the P/C Insurance Industry**
- **The Six Pillars of P/C Profitability**
 - **Underwriting**
 - **Pricing**
 - **Investments**
 - **Expenses**
 - **Leverage (Capacity)**
 - **P/C Operating Environment: Tort Focus**
- **Catastrophe Loss Management**
- **Auto Insurance: Drivers of Success**
- **Homeowners Insurance: The Jury's Still Out**
 - **Insurance-to-Value**

P/C PROFIT OVERVIEW

2006 Outlook is Good





Highlights: Property/Casualty, 9-Mos. 2005 vs. 9-Mos. 2004

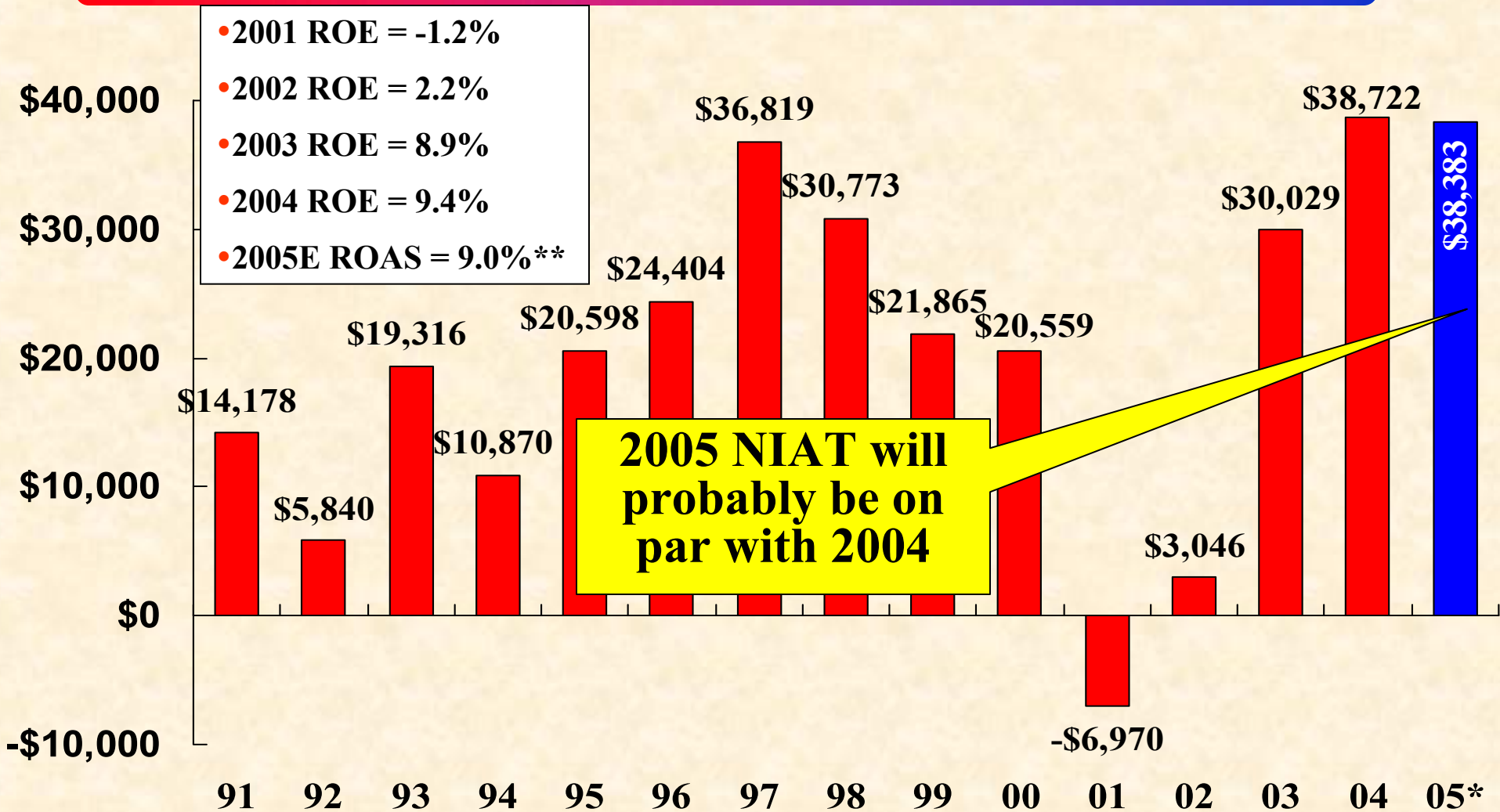
**Growth rate barely
1/2 that of CY2004**

	2005	2004	Change
Net Written Prem. (adj)	326,527	323,337	+1.3%
Loss & LAE	229,563	224,302	+2.3%
Net Investment Income Investment Income Rebound?	(2,828)	3,238	N/A
Net Inv. Income	36,445	28,956	+25.6%
Net Income (a.t.)	28,787	27,567	+4.4%
Surplus*	414,264	393,488	+5.2%
Combined Ratio*	100.0	98.1	+1.9 pts.



P/C Net Income After Taxes

1991-2005:Q3 (\$ Millions)

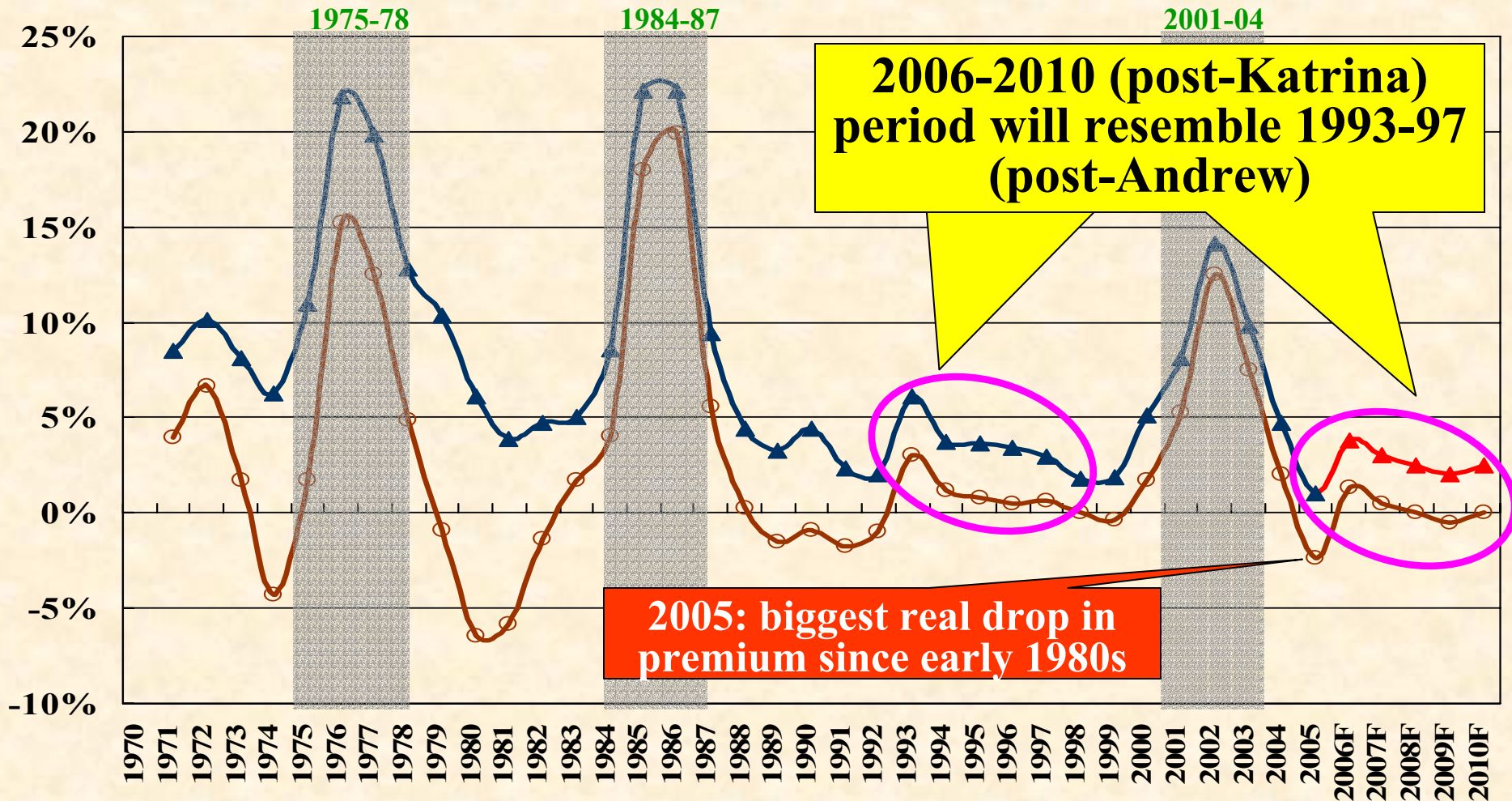


*ROE figures are GAAP; 2005 figure is annualized based on 9-month results. **Return on avg. surplus.

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



Strength of Recent Hard Markets by NWP Growth*



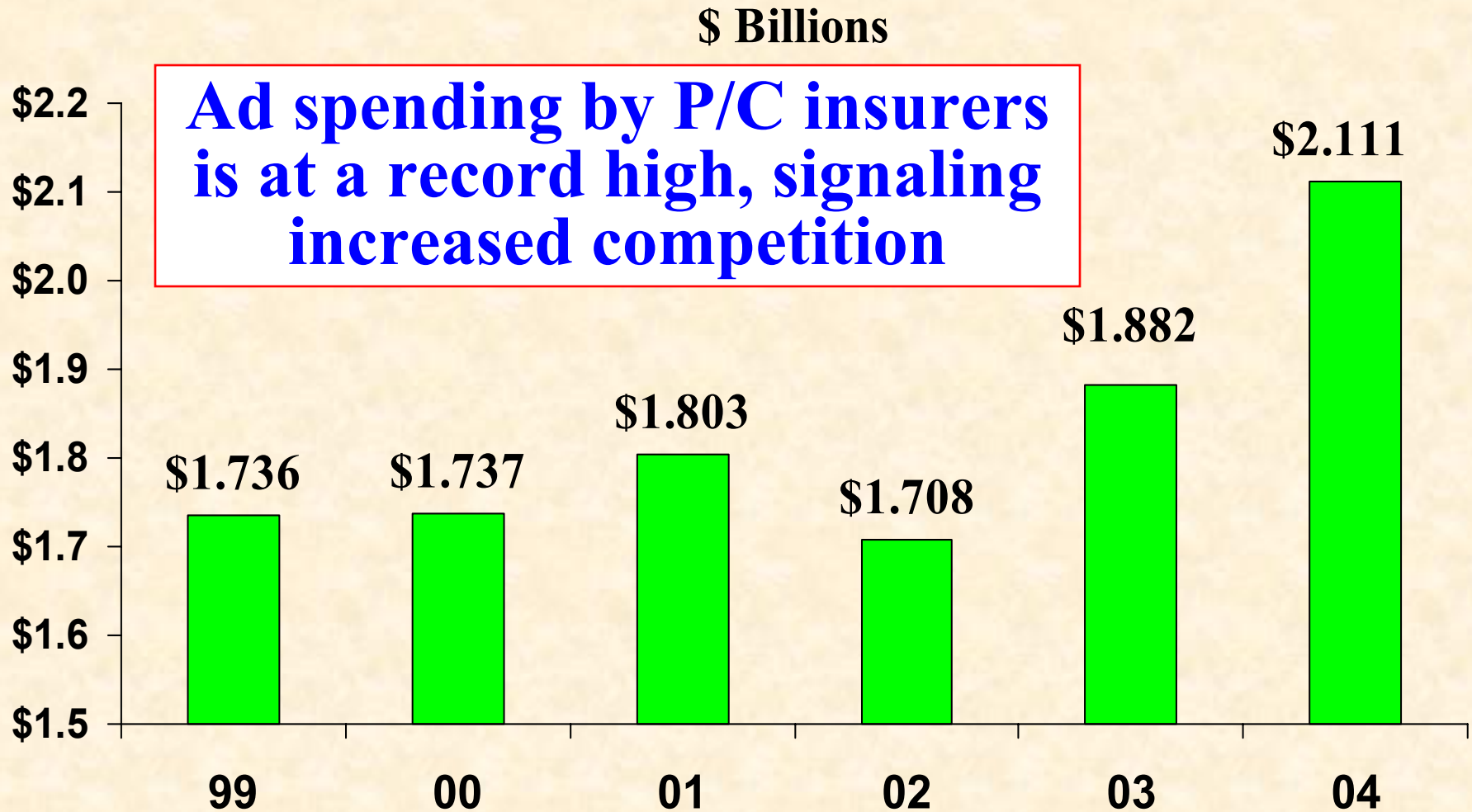
Note: Shaded areas denote hard market periods.

Source: A.M. Best, Insurance Information Institute

*2005-10 figures are III forecasts/estimates.



Advertising Expenditures by P/C Insurance Industry, 1999-2004

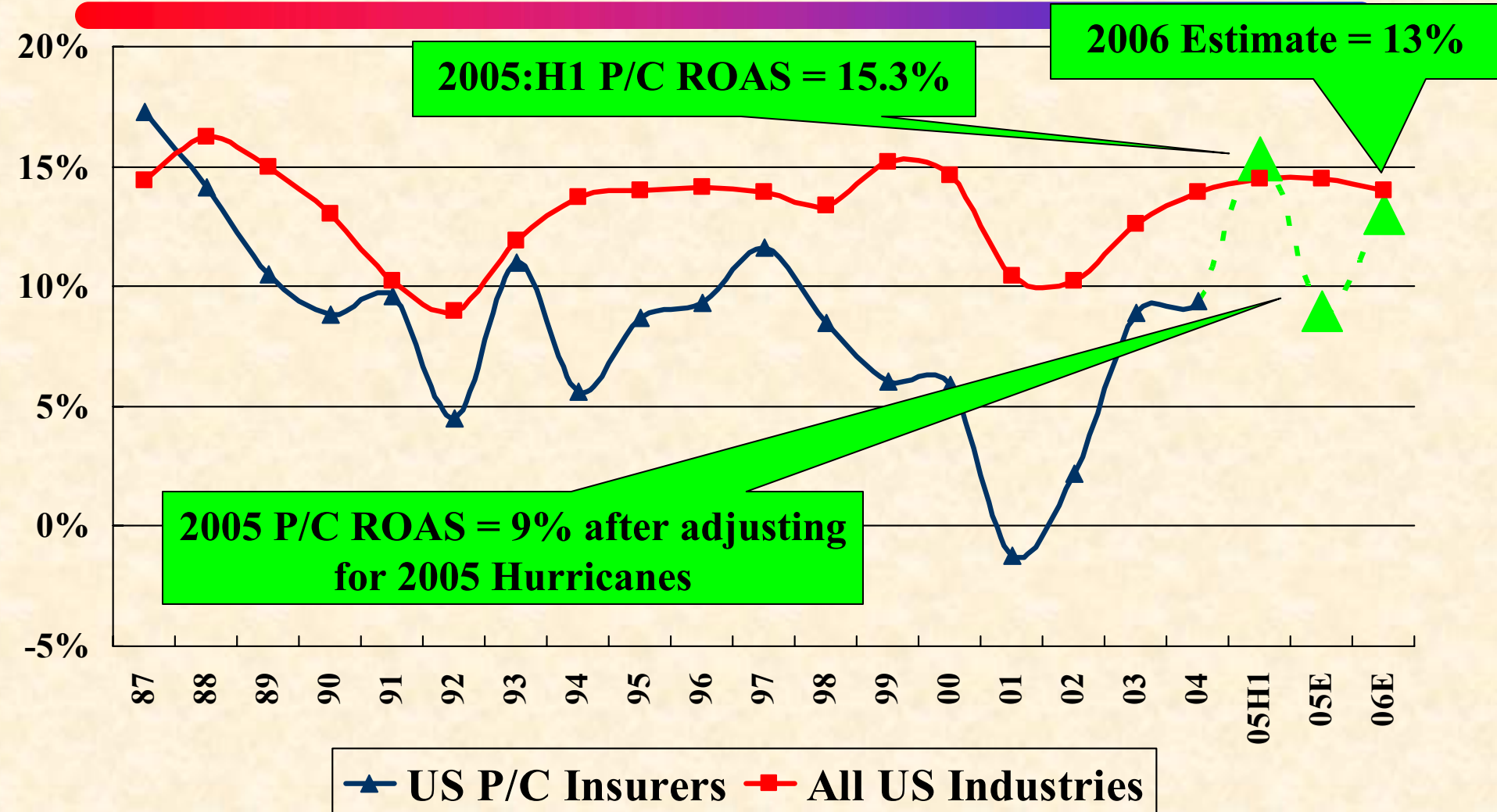


Source: Insurance Information Institute from consolidated P/C Annual Statement data.



ROE: P/C vs. All Industries

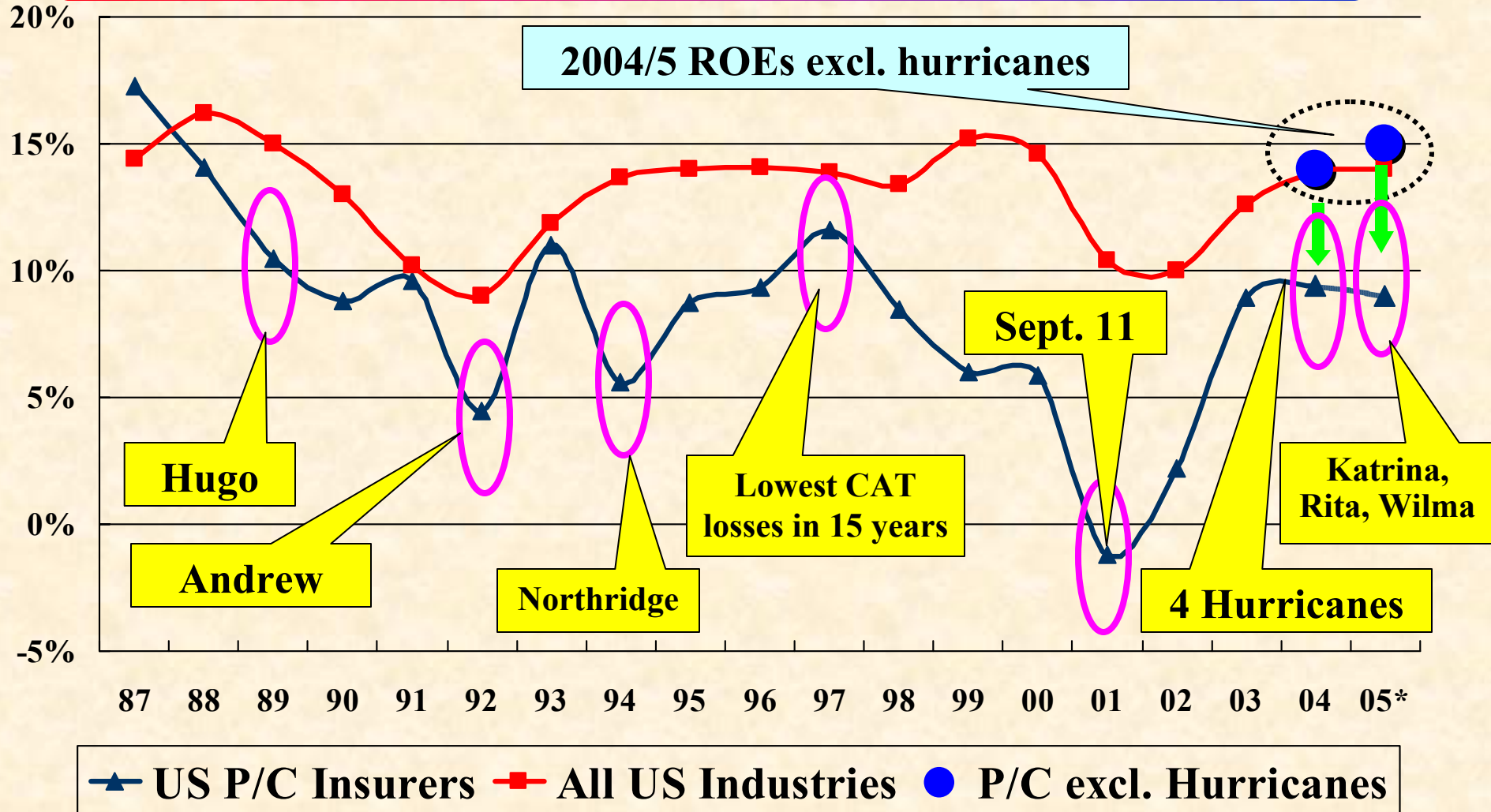
1987–2006F*



*GAAP ROEs except 2005 P/C figure = return on average surplus. 2005/6E figure is Ill full-year estimate.
Source: Insurance Information Institute; *Fortune* for all industry figures



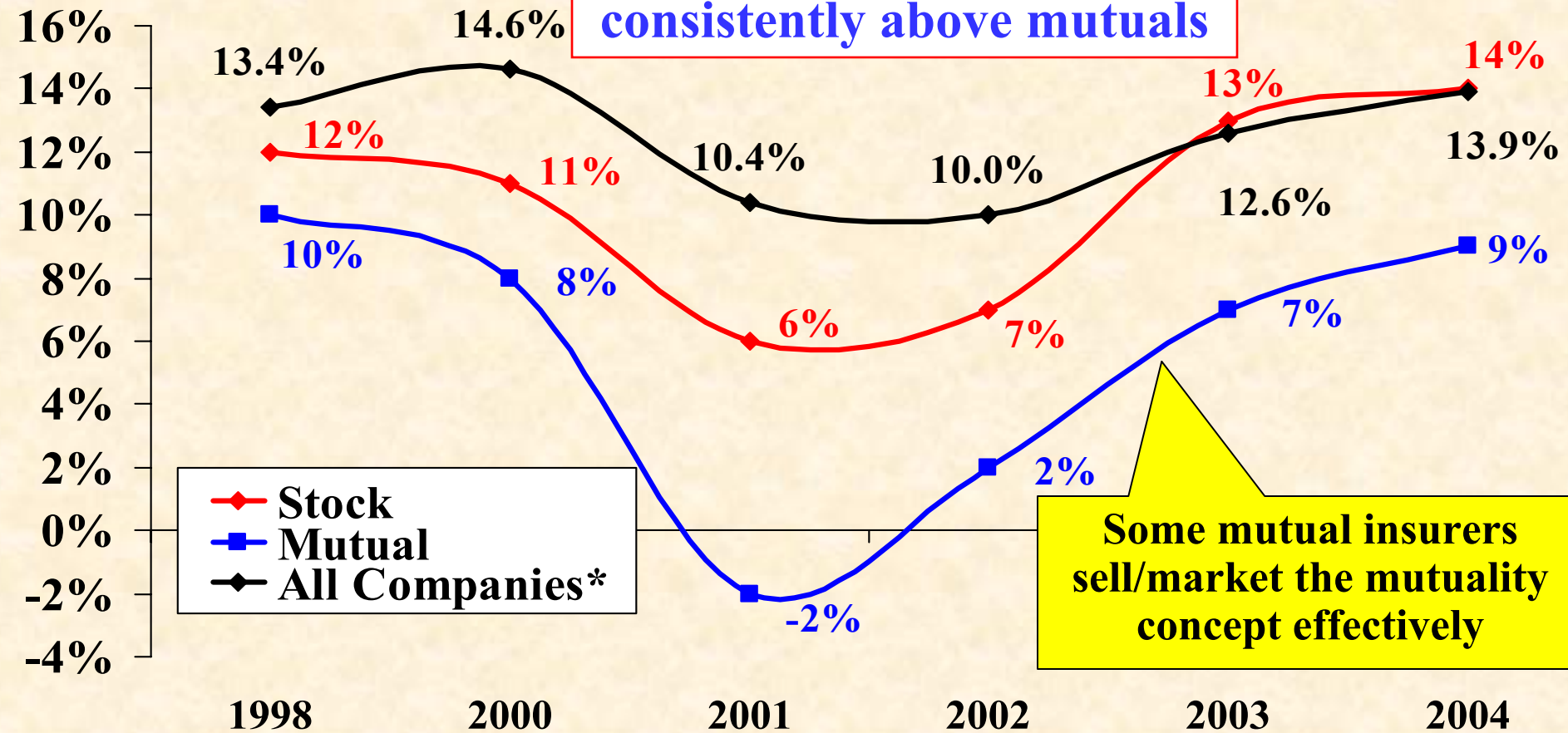
ROE: P/C vs. All Industries 1987–2005E





RETURN ON EQUITY (Fortune): Stock & Mutual vs. All Companies*

Stock insurer ROEs
consistently above mutuals



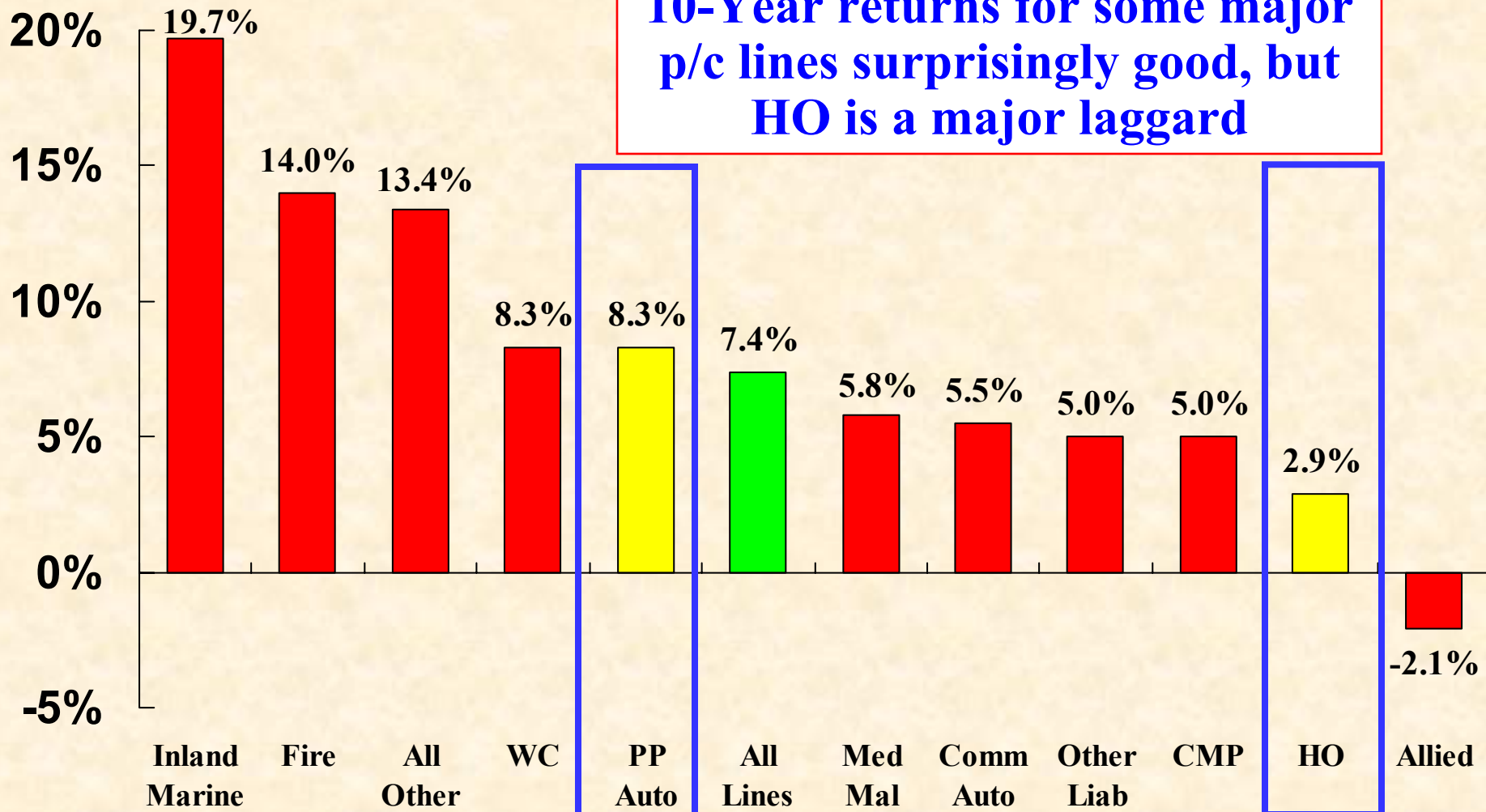
Some mutual insurers
sell/market the mutuality
concept effectively

*Fortune 1,000 group.

Source: *Fortune Magazine*, Insurance Information Institute.



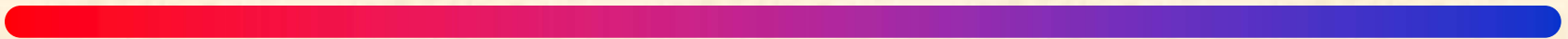
RNW for Major P/C Lines, 1994-2003 Average



Source: NAIC; Insurance Information Institute

WALL STREET:

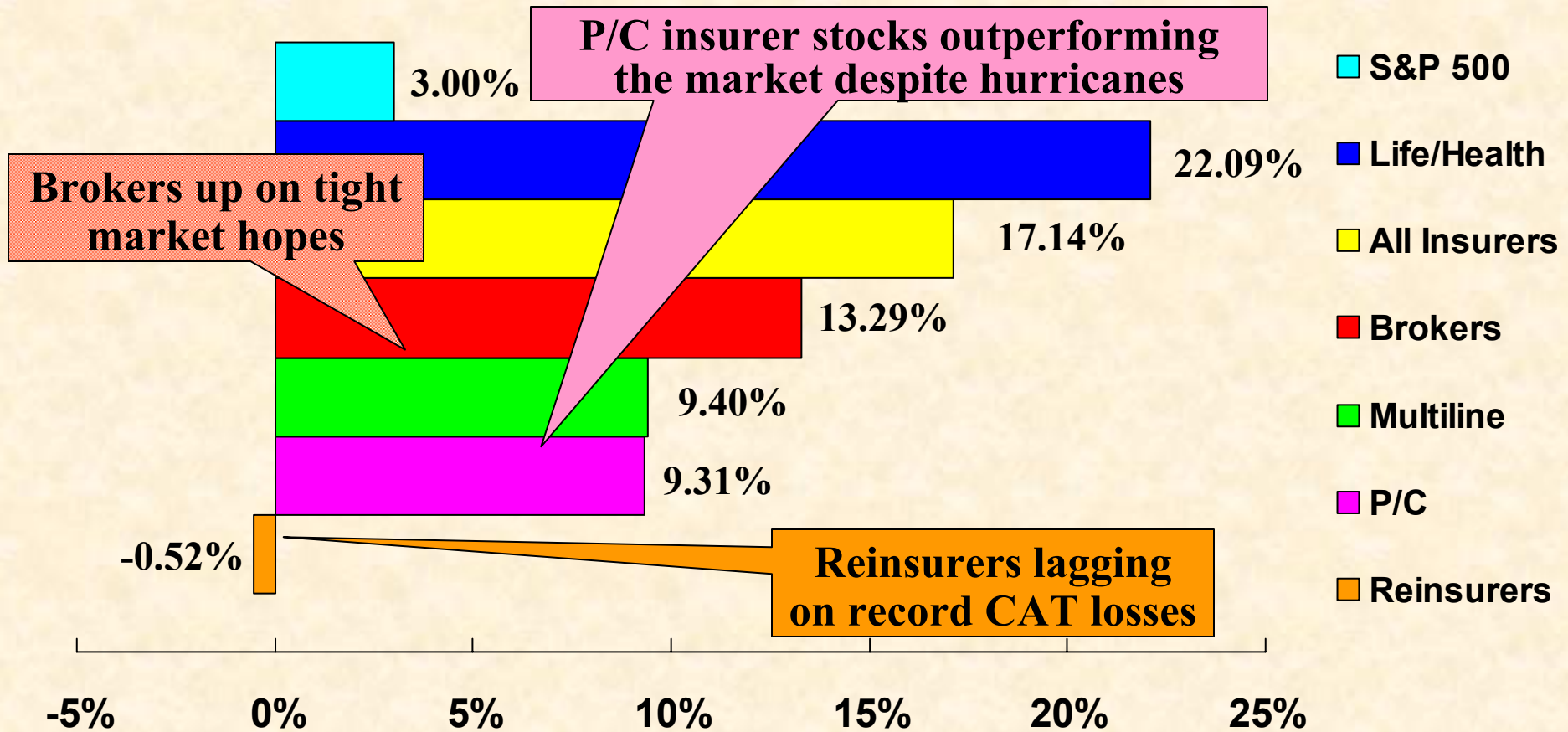
GENERALLY STRONG GAINS





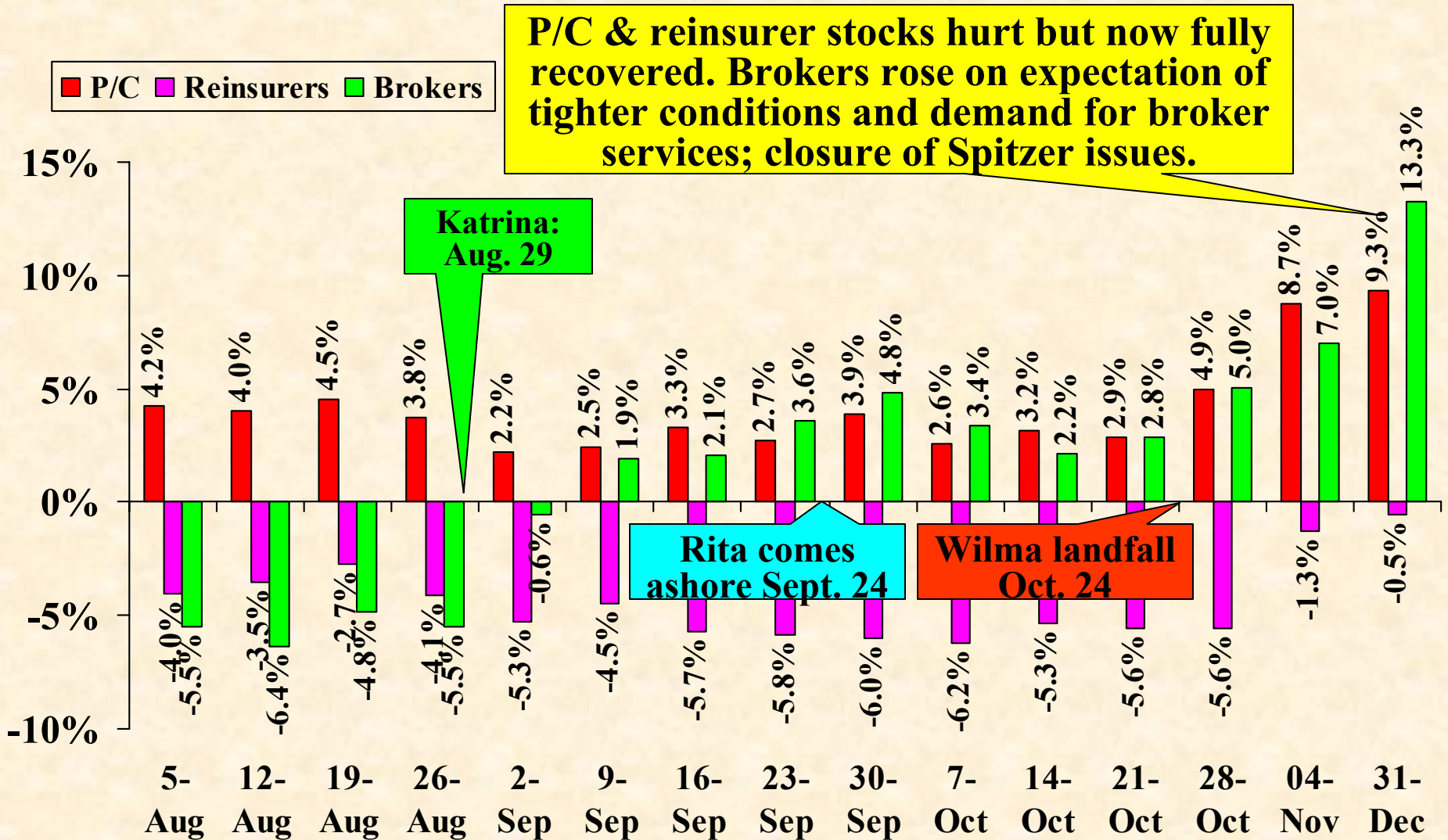
P/C Insurers Stocks Up in 2005, Brokers Up Too, Reinsurers Down

Total 2005 Returns





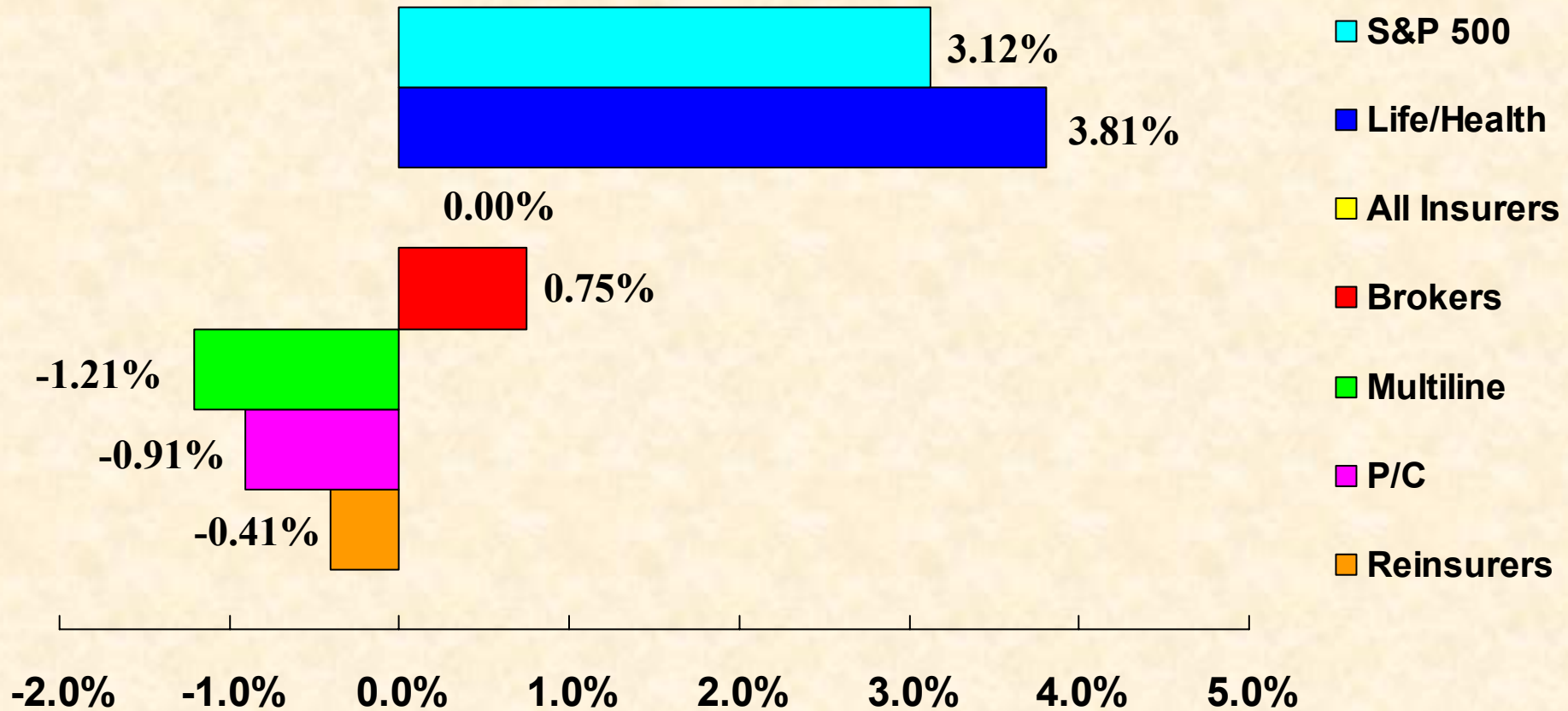
Change in YTD Stock Performance by Sector Pre- & Post-Katrina/Rita/Wilma





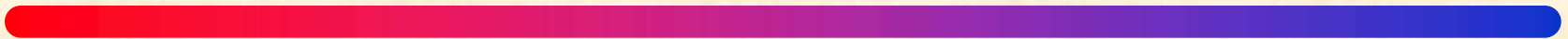
Insurance Stocks Off to a Slow Start in 2006

Total YTD Returns Through February 17, 2006



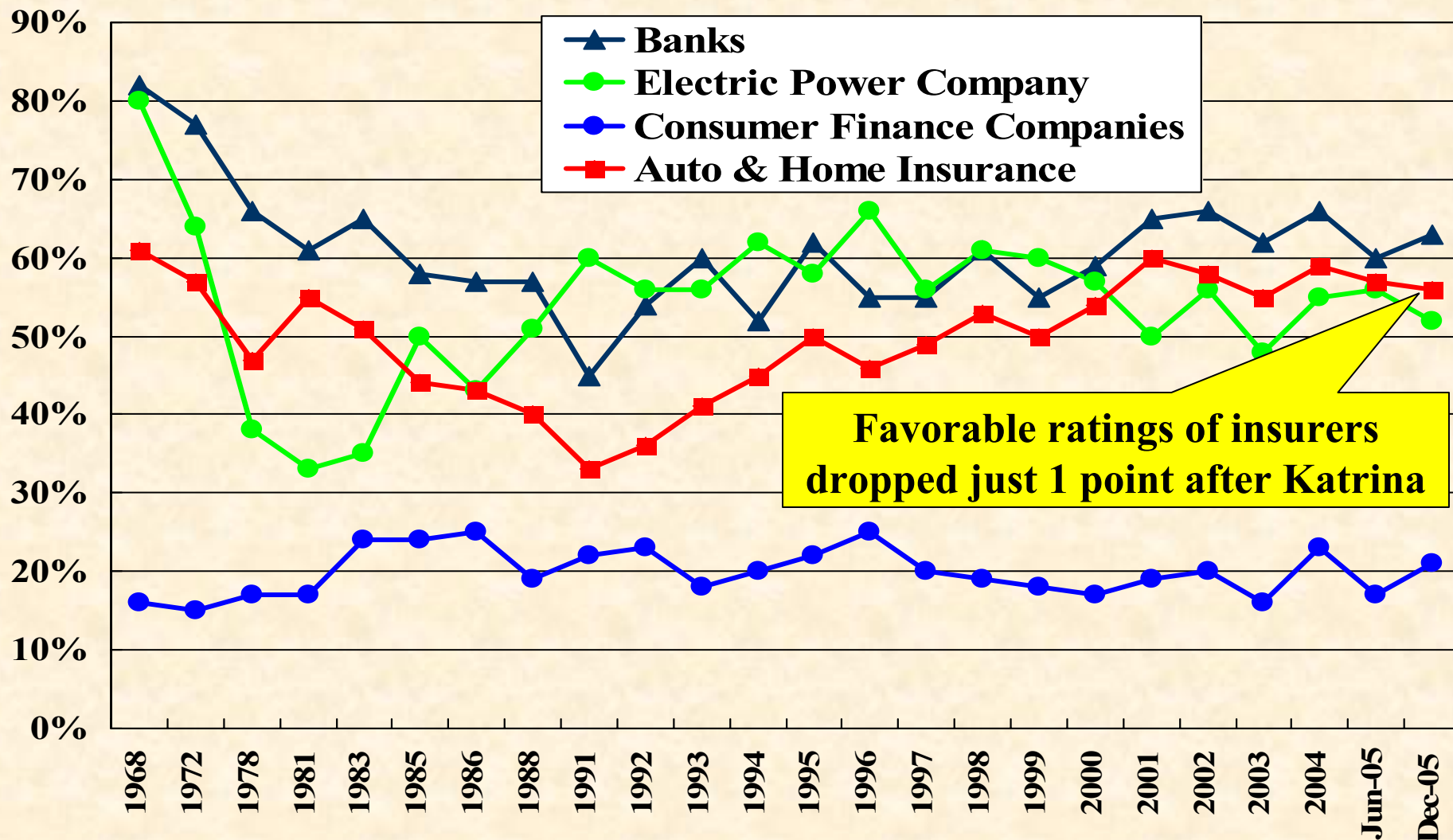
PUBLIC PERCEPTIONS OF INSURANCE INDUSTRY

*Have Public Perceptions of the
Industry Been Affected by Mega-
Disasters and Scandals*





Percent of Public Rating Industry as Very or Mostly Favorable, 1968-2005



Source: Insurance Information Institute *Pulse* Survey, December 2005.

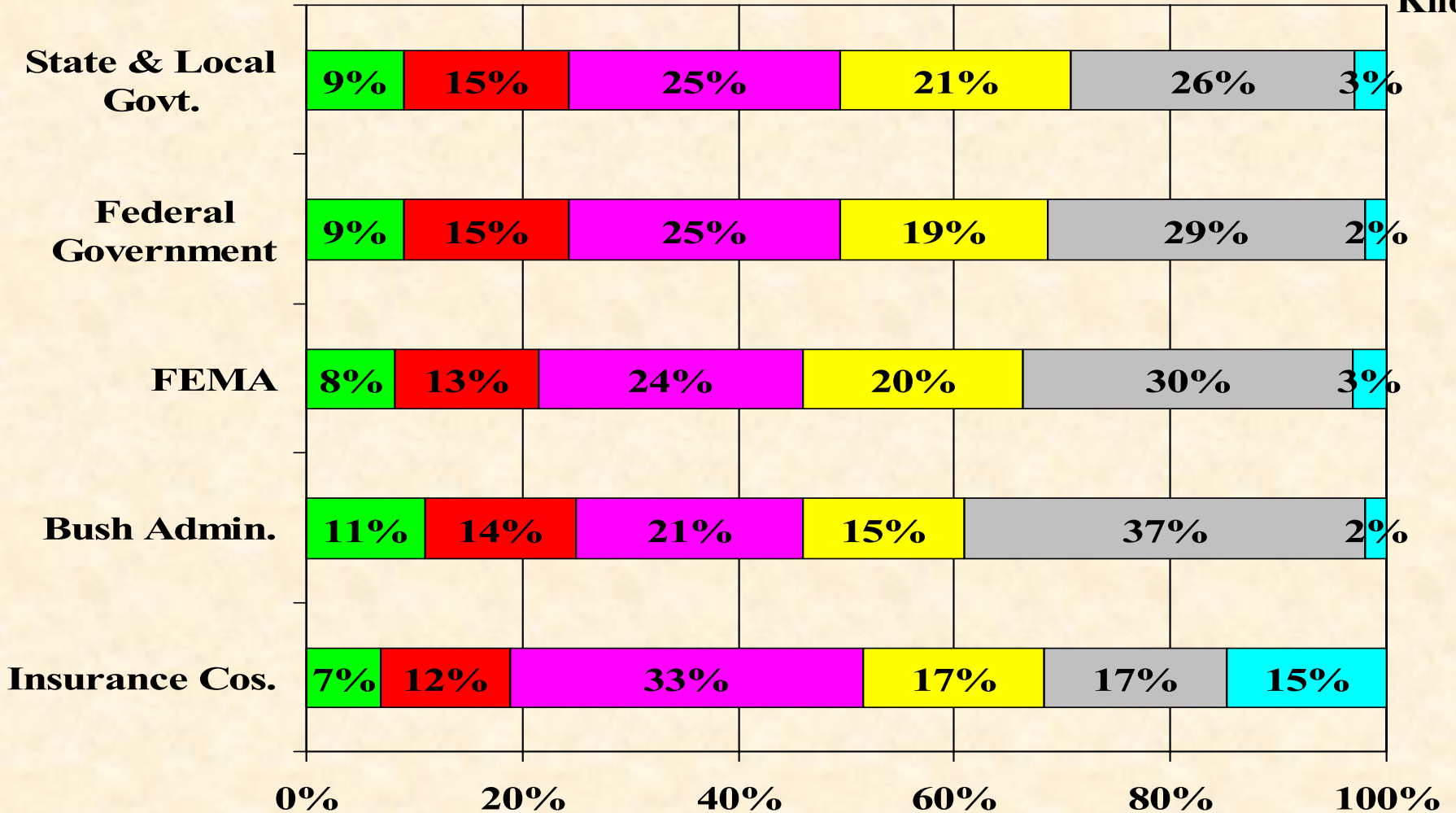


Public Perceptions of Hurricane Katrina Response Adequacy

Best

Worst

Don't Know

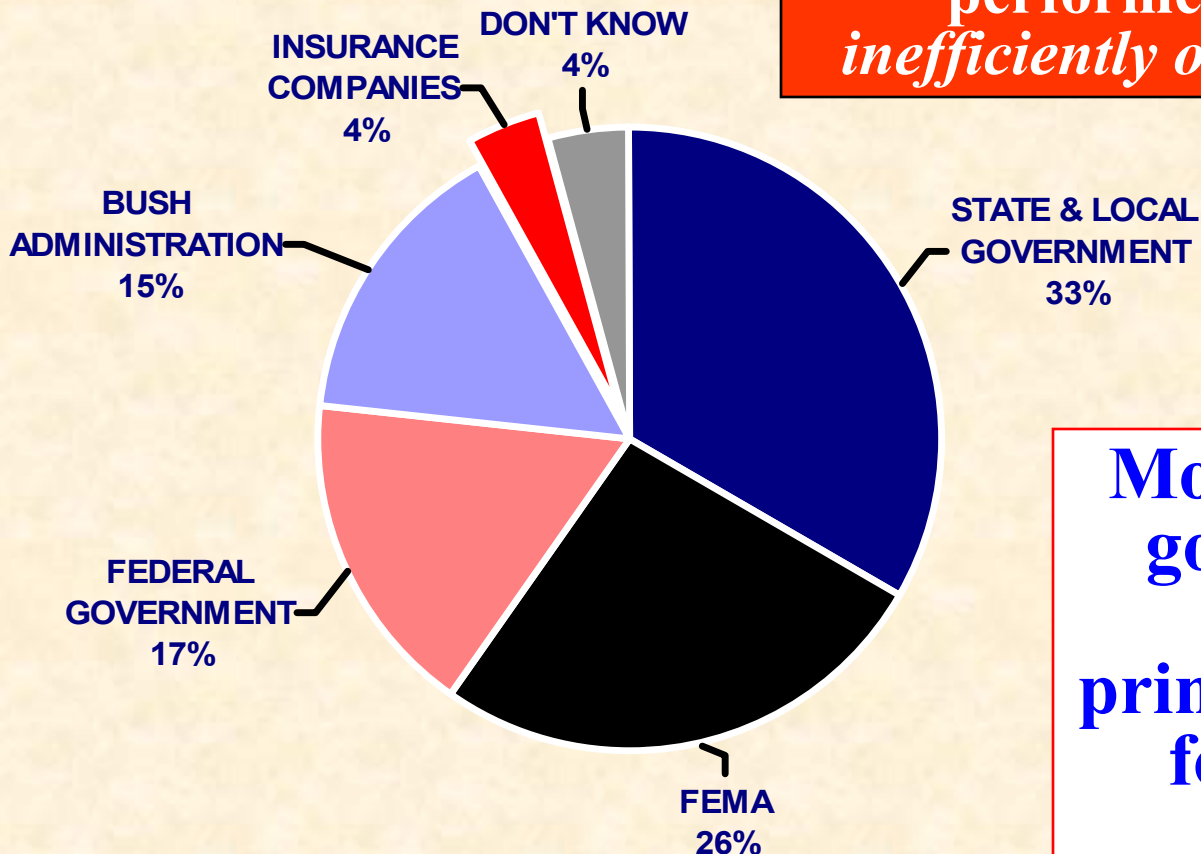


Source: Insurance Information Institute *Pulse* Survey, December 2005.



Who Should be Responsible for Dealing With Katrina?

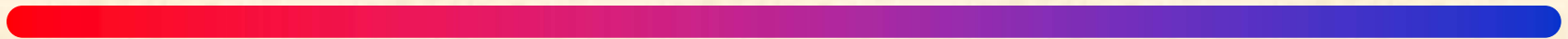
House Special Committee: Chertoff performed his duties “late, inefficiently or not at all.” -2/15/05.



Most people believe governments, not insurers, are primarily responsible for dealing with Katrina

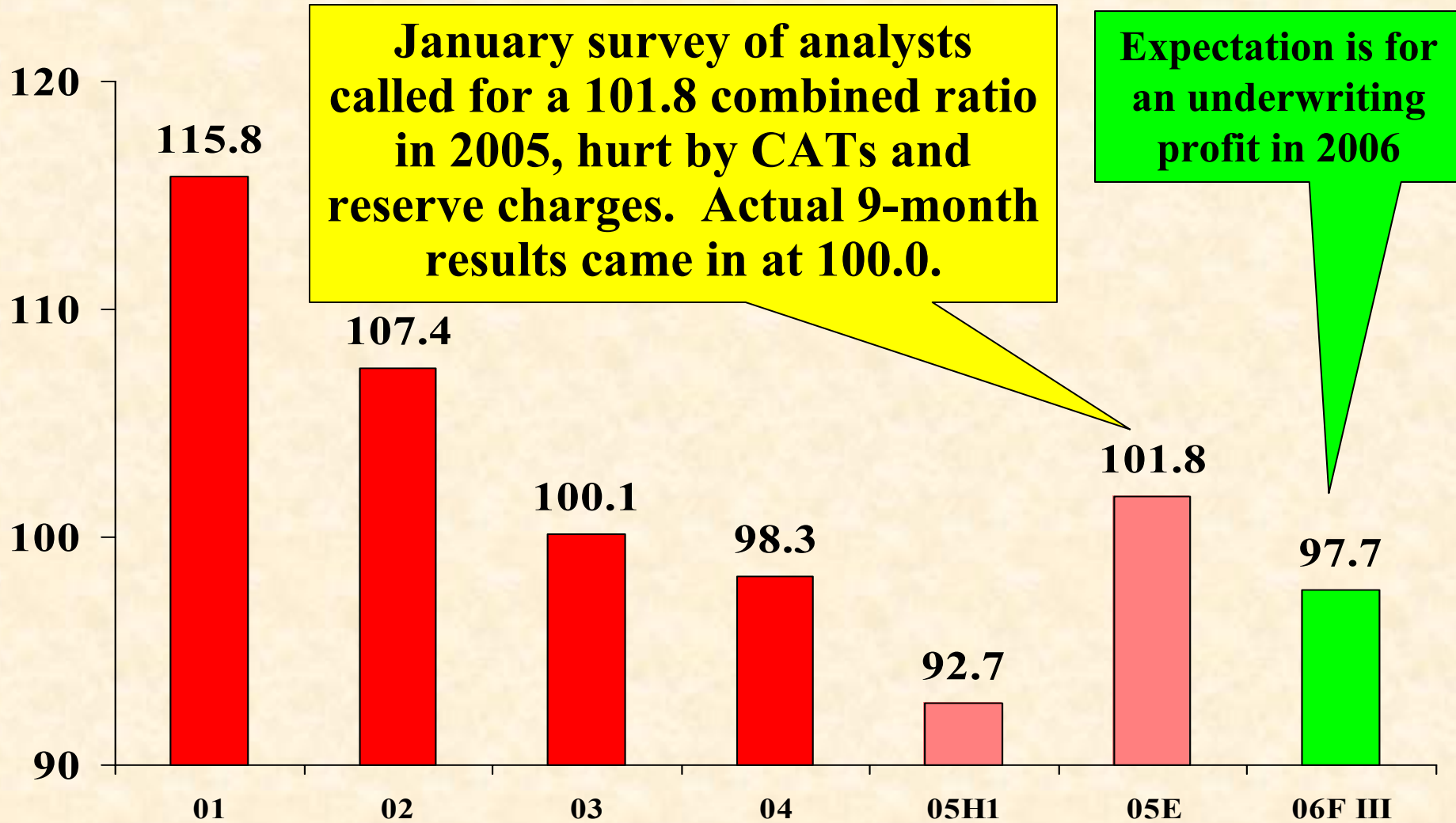
Profit Pillar #1 **UNDERWRITING**

**Surprisingly Strong in
2005, Stage is Set for a
Good 2006**





P/C Industry Combined Ratio



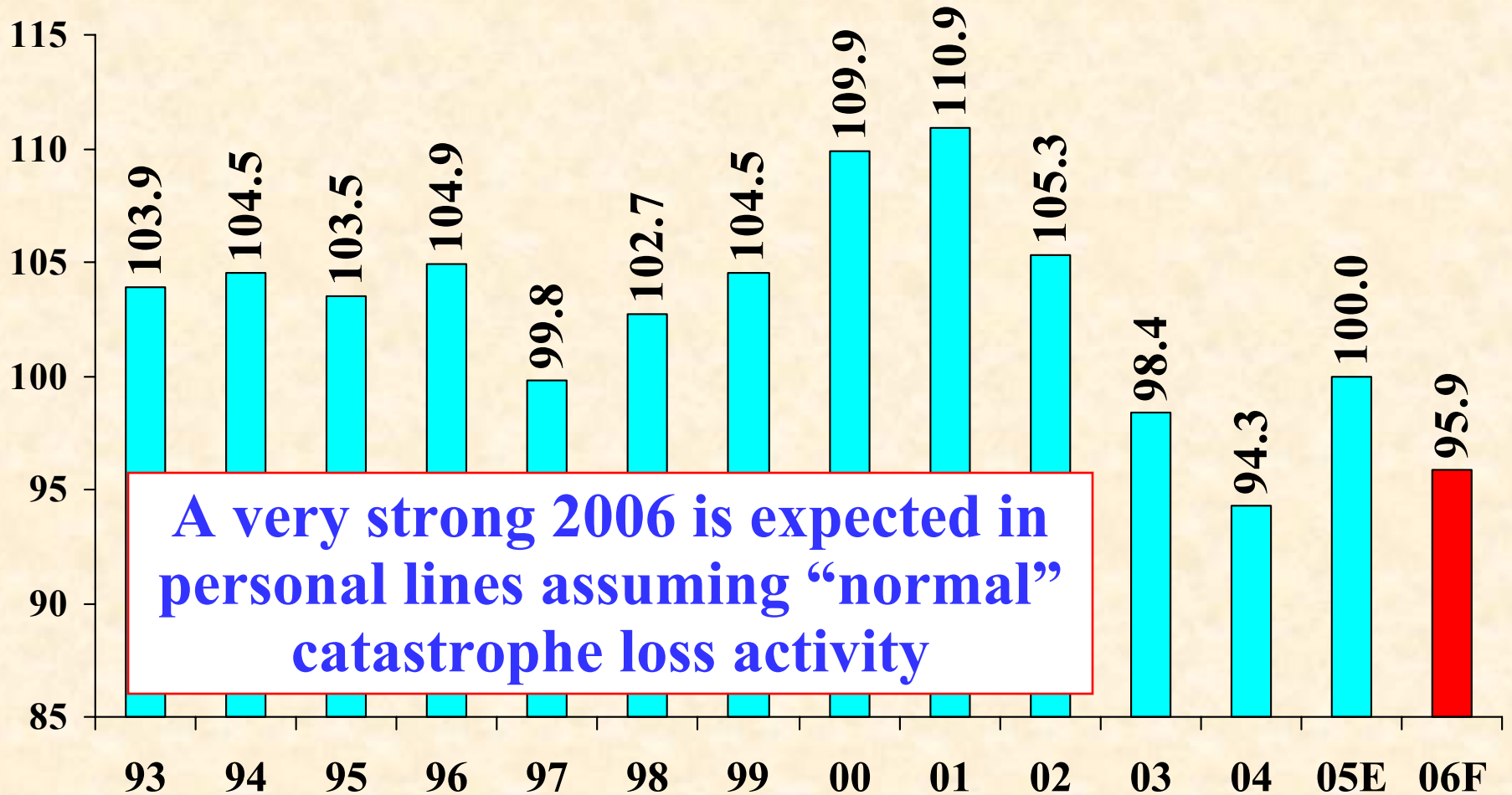
Sources: A.M. Best; ISO, III. *III estimate/forecast for 2005/6

Forecast*



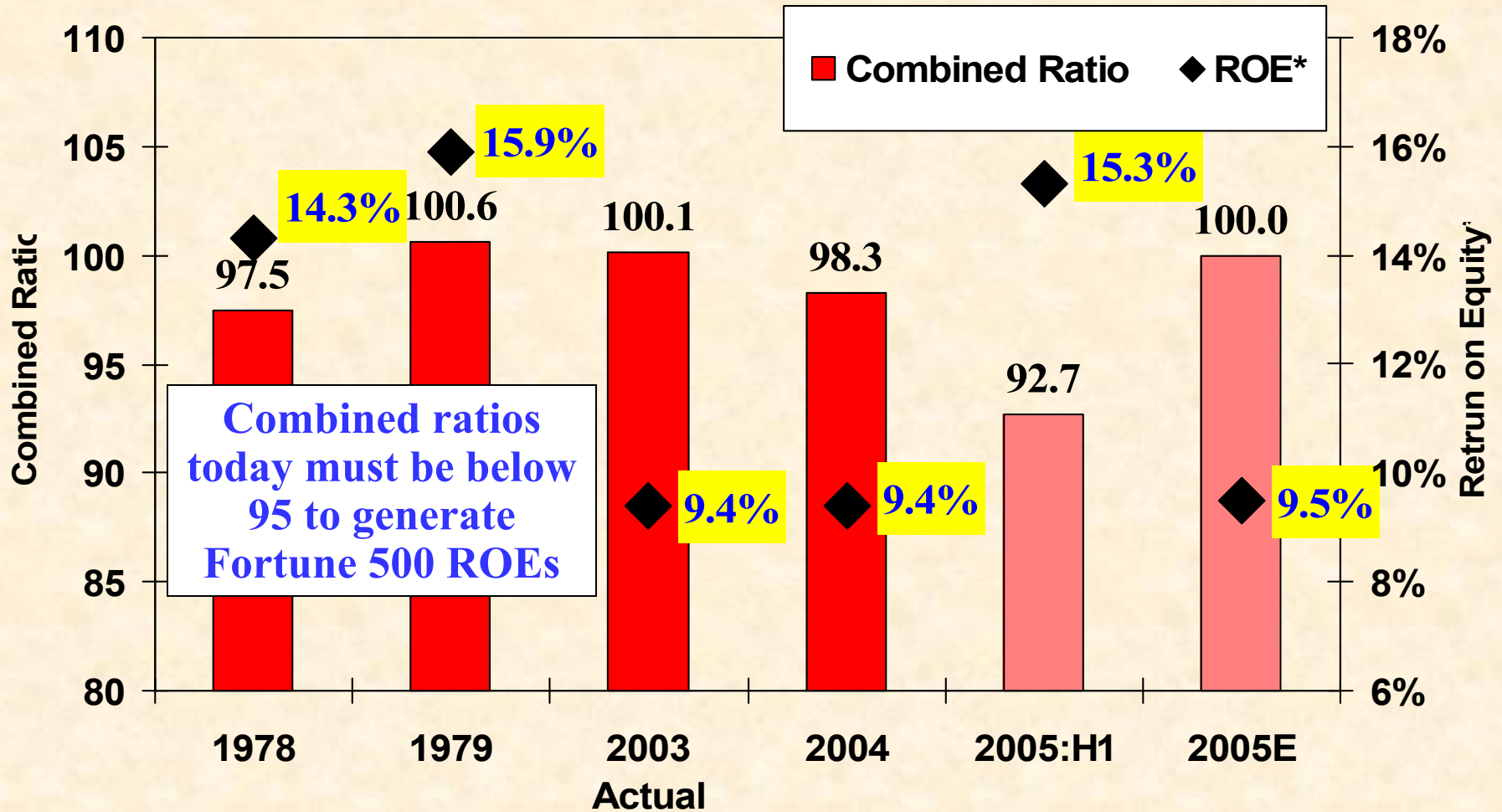
Personal Lines

Combined Ratio, 1993-2006E





A 100 Combined Ratio Isn't What it Used to Be: 95 is Where It's At



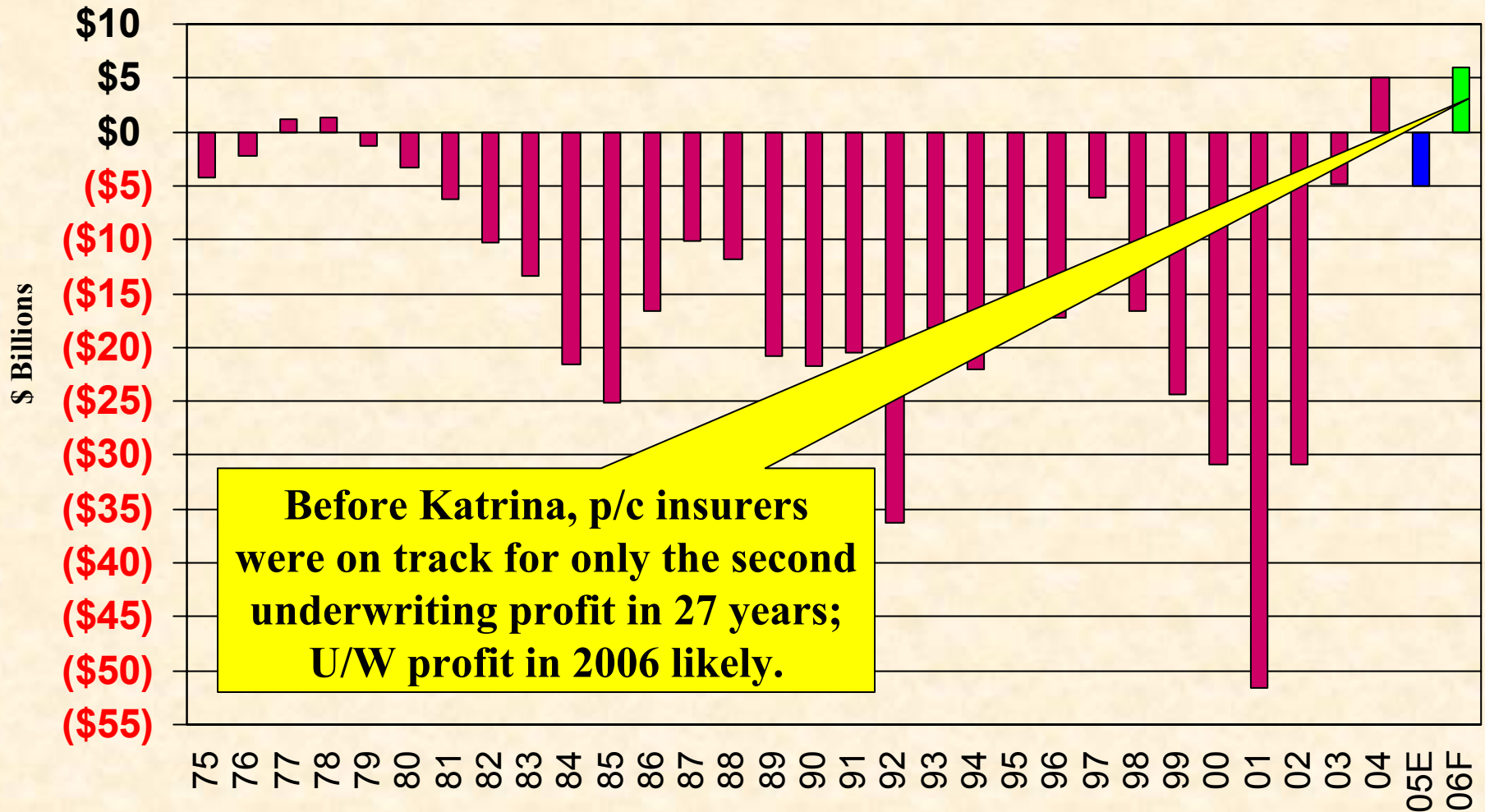
* 2005 figure is return on average statutory surplus based in first 9 months data

Source: Insurance Information Institute from A.M. Best and ISO data.



Underwriting Gain (Loss)

1975-2006F*



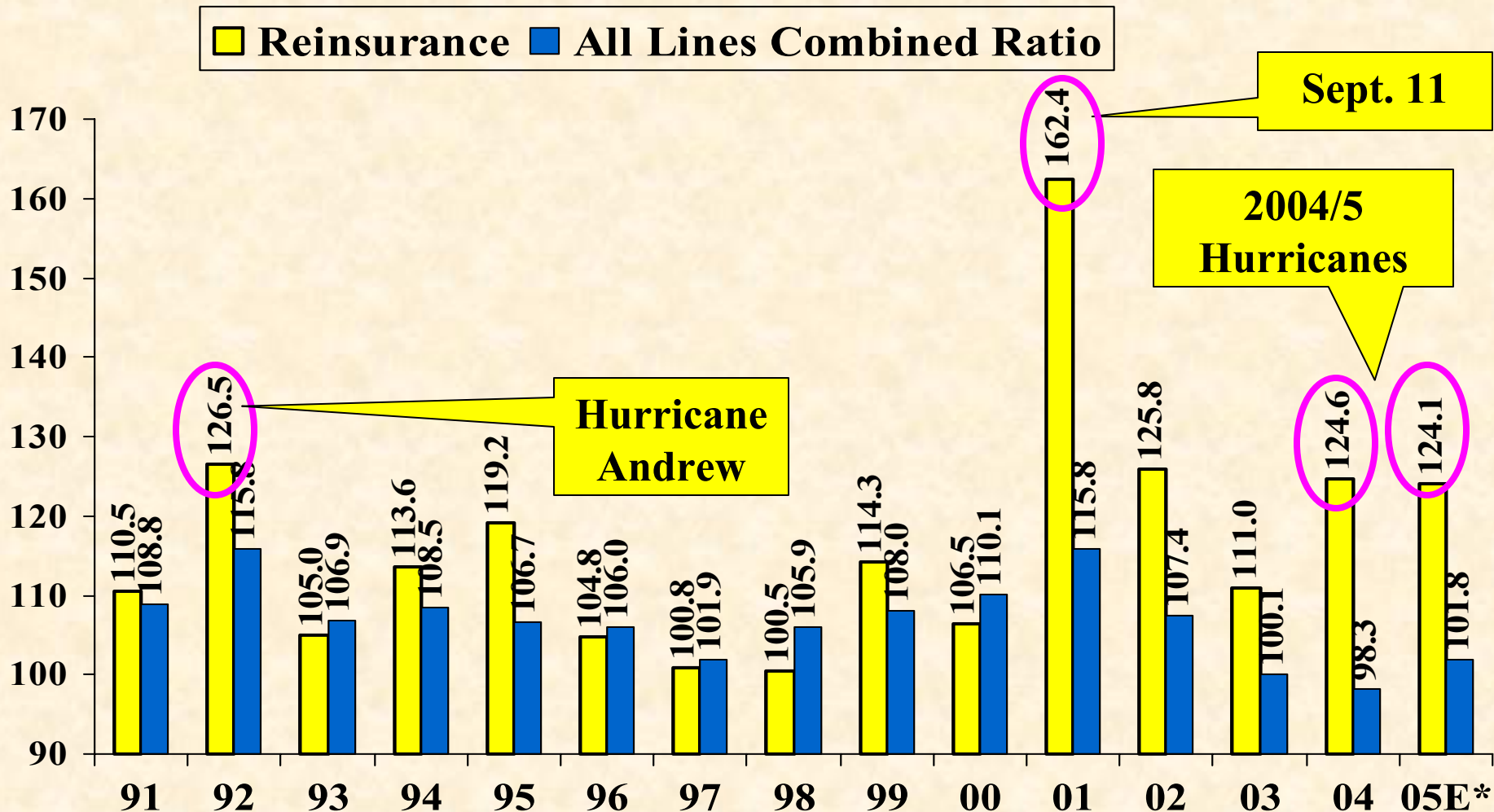
*2005 estimate is III estimate.

Source: A.M. Best, Insurance Information Institute



Combined Ratio:

Reinsurance vs. P/C Industry



* All lines figure is full-year III estimate. RAA figure for 2005:9 mos.

Source: A.M. Best, ISO, Reinsurance Association of America, Insurance Information Institute

UNDERWRITING AFFECTS FINANCIAL STRENGTH

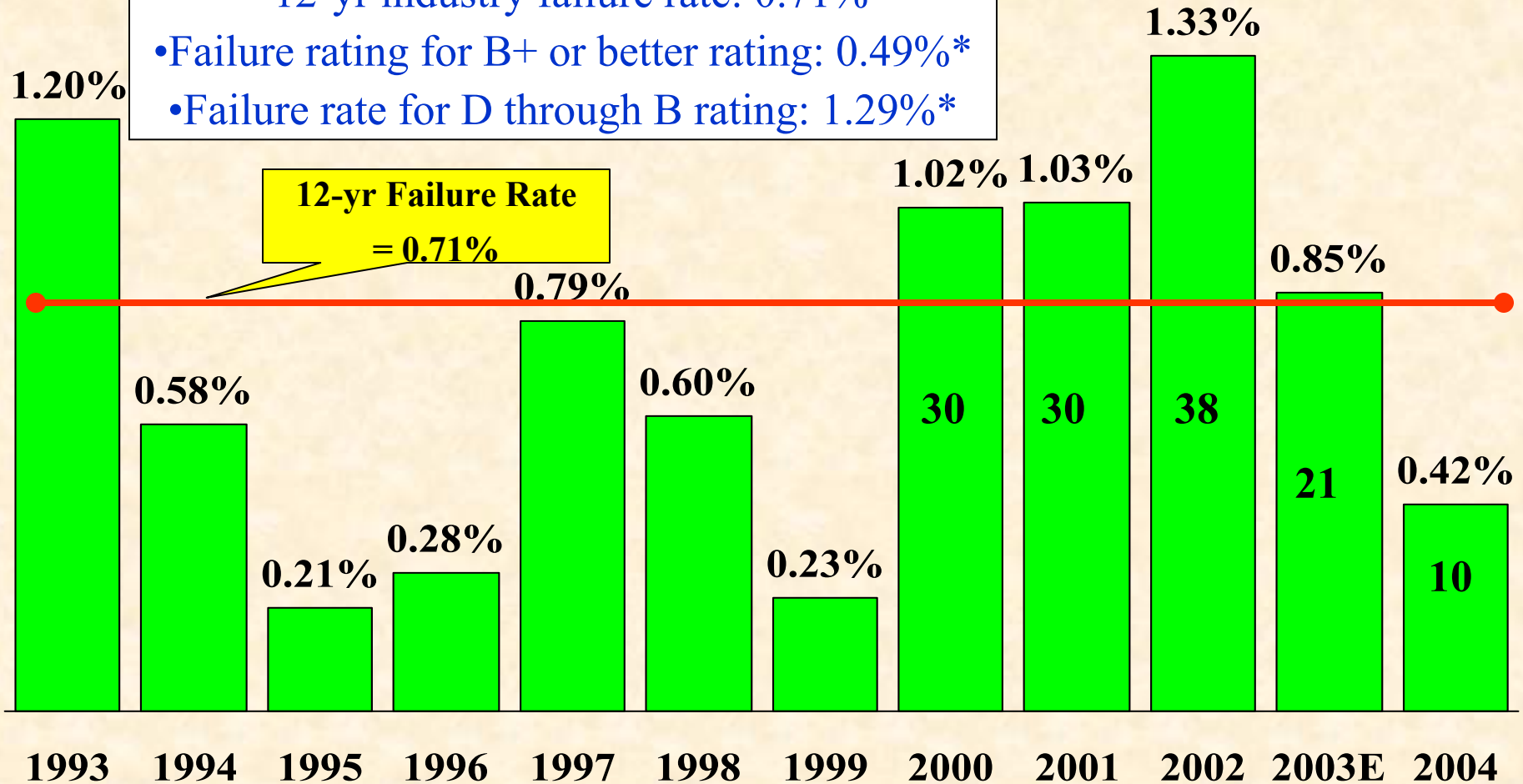
*Is There Cause
for Concern?*





P/C Company Insolvency Rates, 1993 to 2004

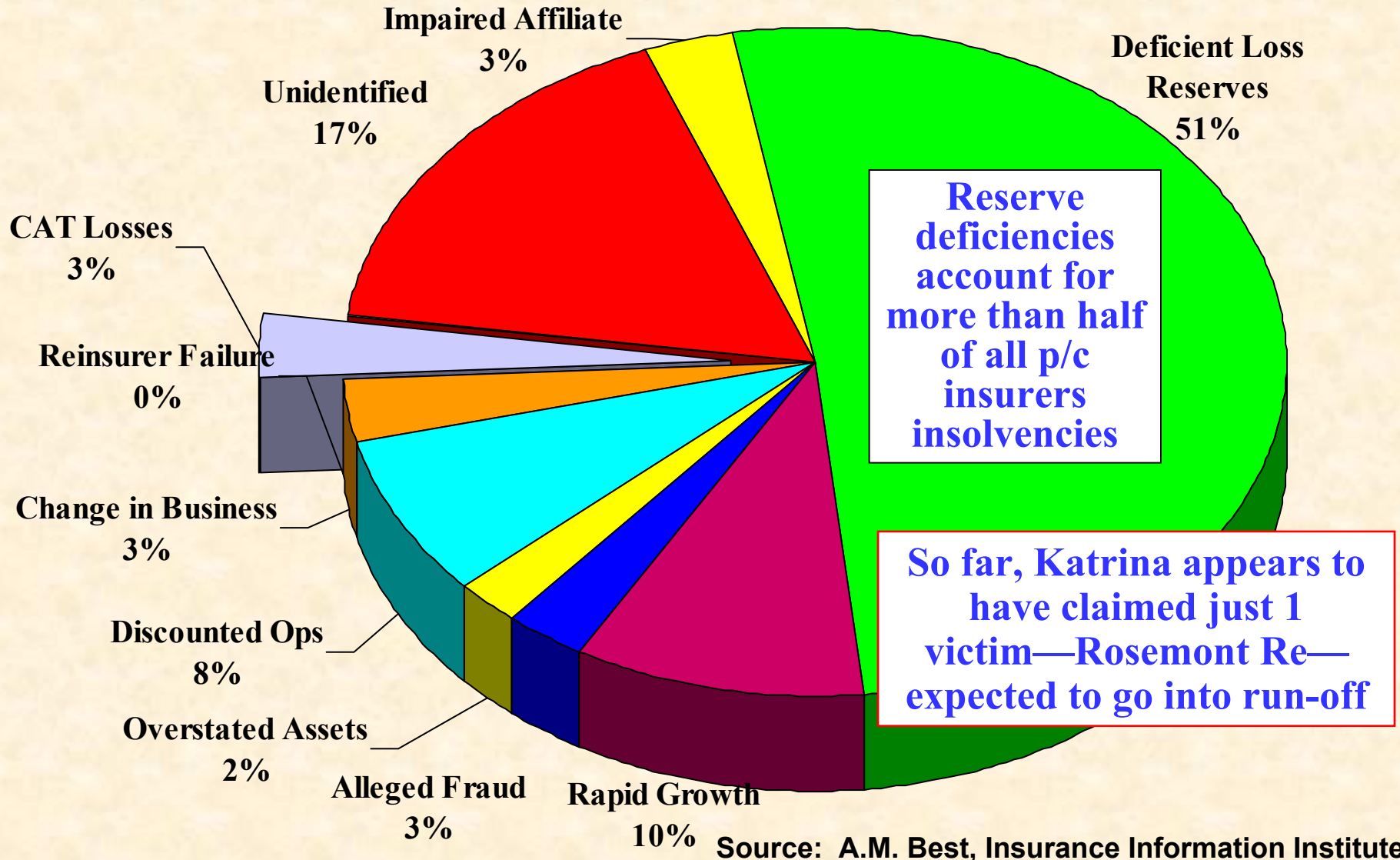
- Insurer insolvencies are increasing
- 12-yr industry failure rate: 0.71%
- Failure rating for B+ or better rating: 0.49%*
- Failure rate for D through B rating: 1.29%*





Reason for P/C Insolvencies

(218 Insolvencies, 1993-2002)





Ratings Agencies Tightening Requirements for CATs

2006 SRQ CAT Model Reqs.*

- All Property Exposure
- Auto Physical Damage
- Reinsurance Assumed
- Pools & Assessments
- All Flood Exposure
- WC Losses from Quake
- Fire Following
- Storm Surge
- Demand Surge
- Secondary Uncertainty

Best currently estimates PML for 100-yr. wind & 250-yr. quake to determine capital adequacy

ALSO “A.M. Best will perform additional “stress-tested” risk-adjusted capital analysis for a second event in order to determine the potential financial condition of an entity post a severe event.”

IMPLICATION: Some insurers may be required to carry more capital to maintain the same rating.

*SRQ = Supplemental Rating Questionnaire

Source: A.M. Best Review & Preview, January 2006.

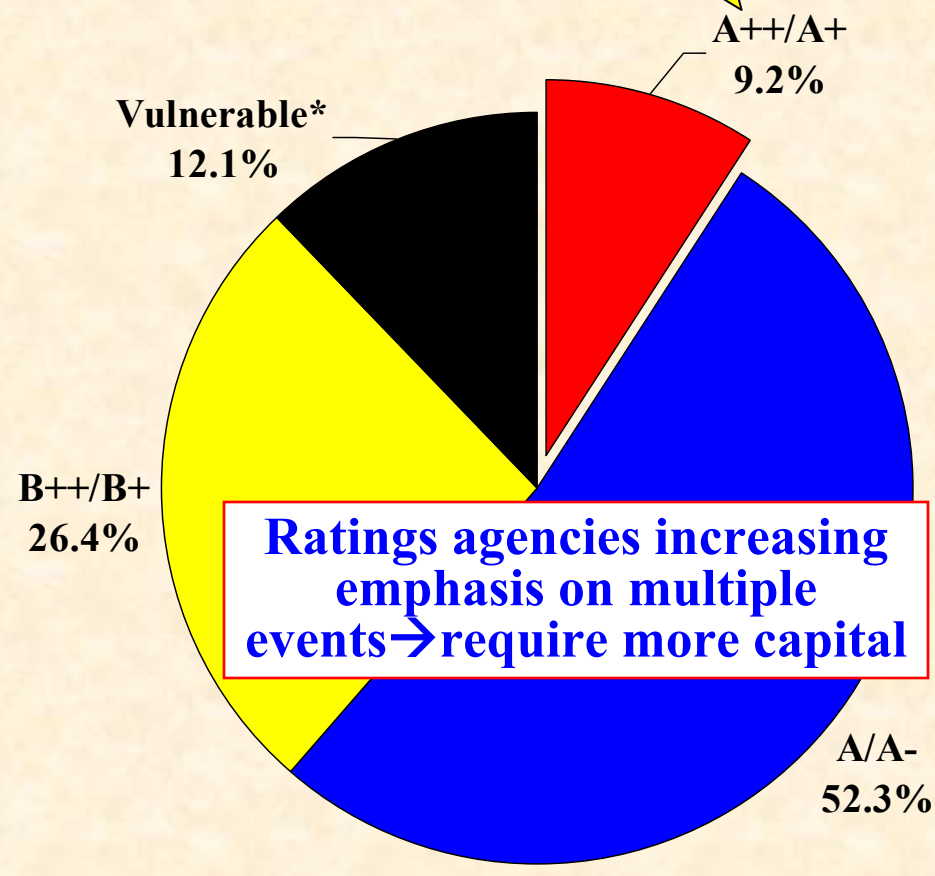
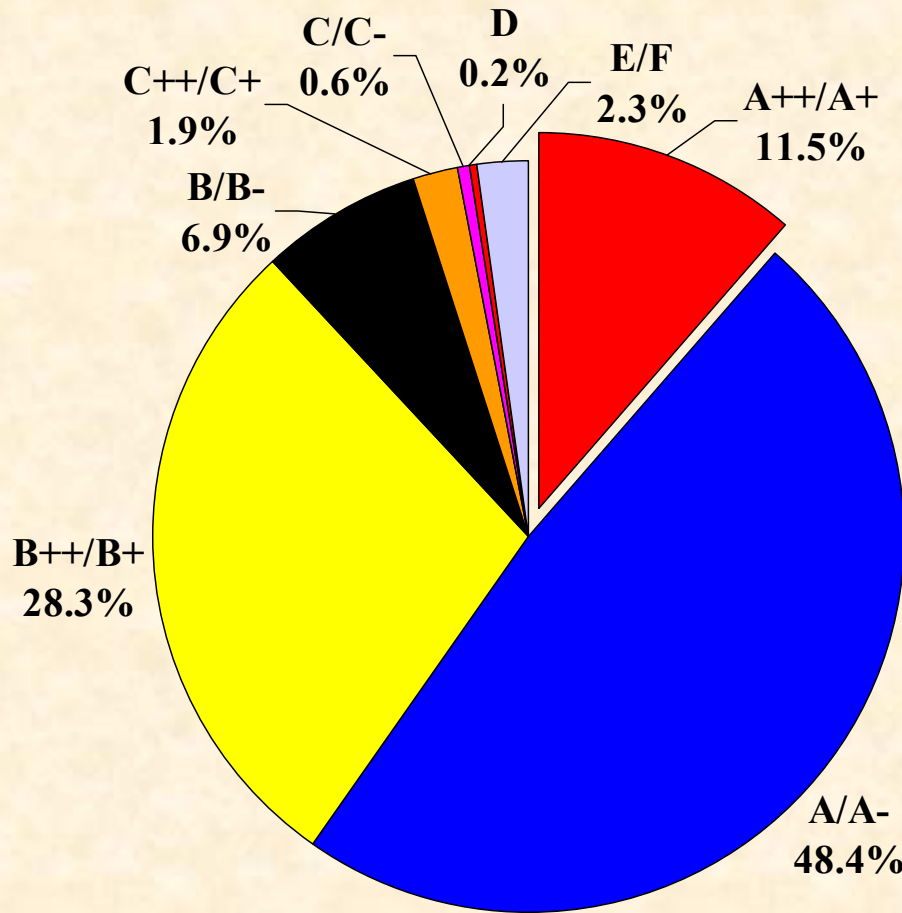


Historical Ratings Distribution, US P/C Insurers, 2000 vs. 2005

2000

2005

A++/A+ shrinkage



Source: A.M. Best: *Rating Downgrades Slowed but Outpaced Upgrades for Fourth Consecutive Year*, Special Report, November 8, 2004 for 2000; 2006 *Review & Preview* for 2005 distribution. *Ratings 'B' and lower.



P/C Insurers Maintaining Rating of A+ or Better Rating for 50+ Years

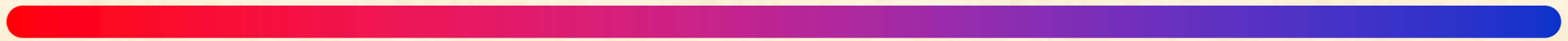
P/C Company

1. AIU Insurance Co.
2. Alfa Mutual Ins. Co.
3. Amica Mutual Ins. Co.
4. Church Mutual Ins. Co.
5. Federal Insurance Co.
6. General Reinsurance Corp.
7. Great Northern Ins. Co.
8. Lititz Mutual Ins. Co.
9. Nationwide Mutual Fire Co.
10. Otsego Mutual Fire
11. Quincy Mutual Fire Ins. Co.
12. State Automobile Mutual Ins. Co.
13. State Farm Mutual Automobile Ins. Co.
14. Vigilant Insurance Co.

Group Affiliation

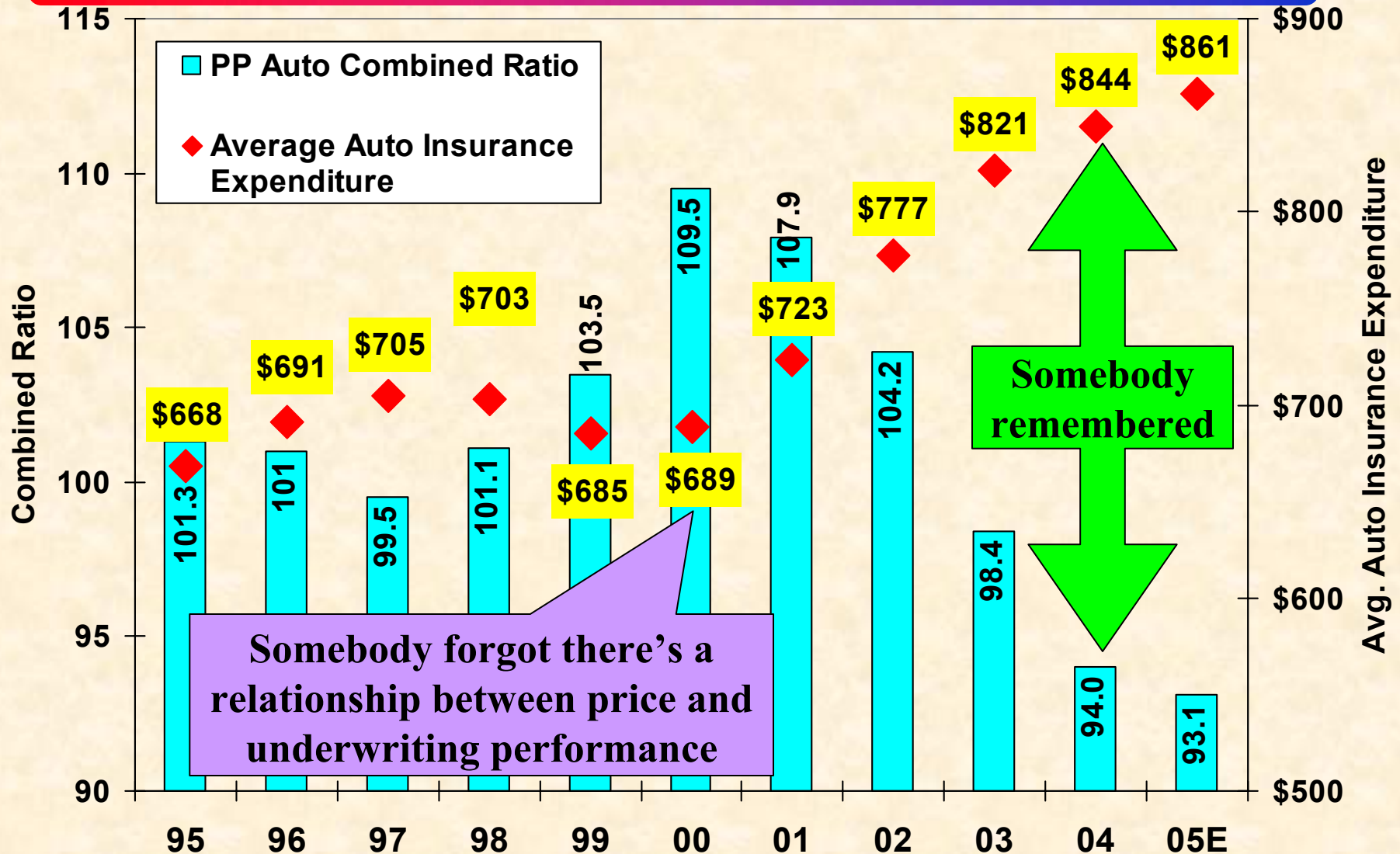
1. American International Group
2. Alfa Insurance Group
3. Amica Mutual Group
4. None
5. Chubb Group of Ins Cos.
6. Berkshire Hathaway Ins. Group
7. Chubb Group of Ins Cos.
8. Lititz Mutual Group
9. Nationwide Mutual Group
10. None
11. Quincy Mutual Group
12. State Auto Ins. Group
13. State Farm Group
14. Chubb Group of Ins Cos.

**Underwriting
Matters Because
Pricing is Often
Undisciplined**



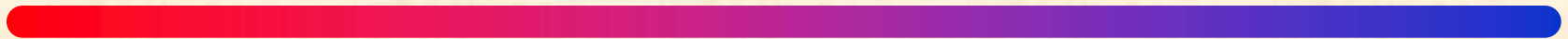


Private Passenger Auto Combined Ratios, 1993-2005E



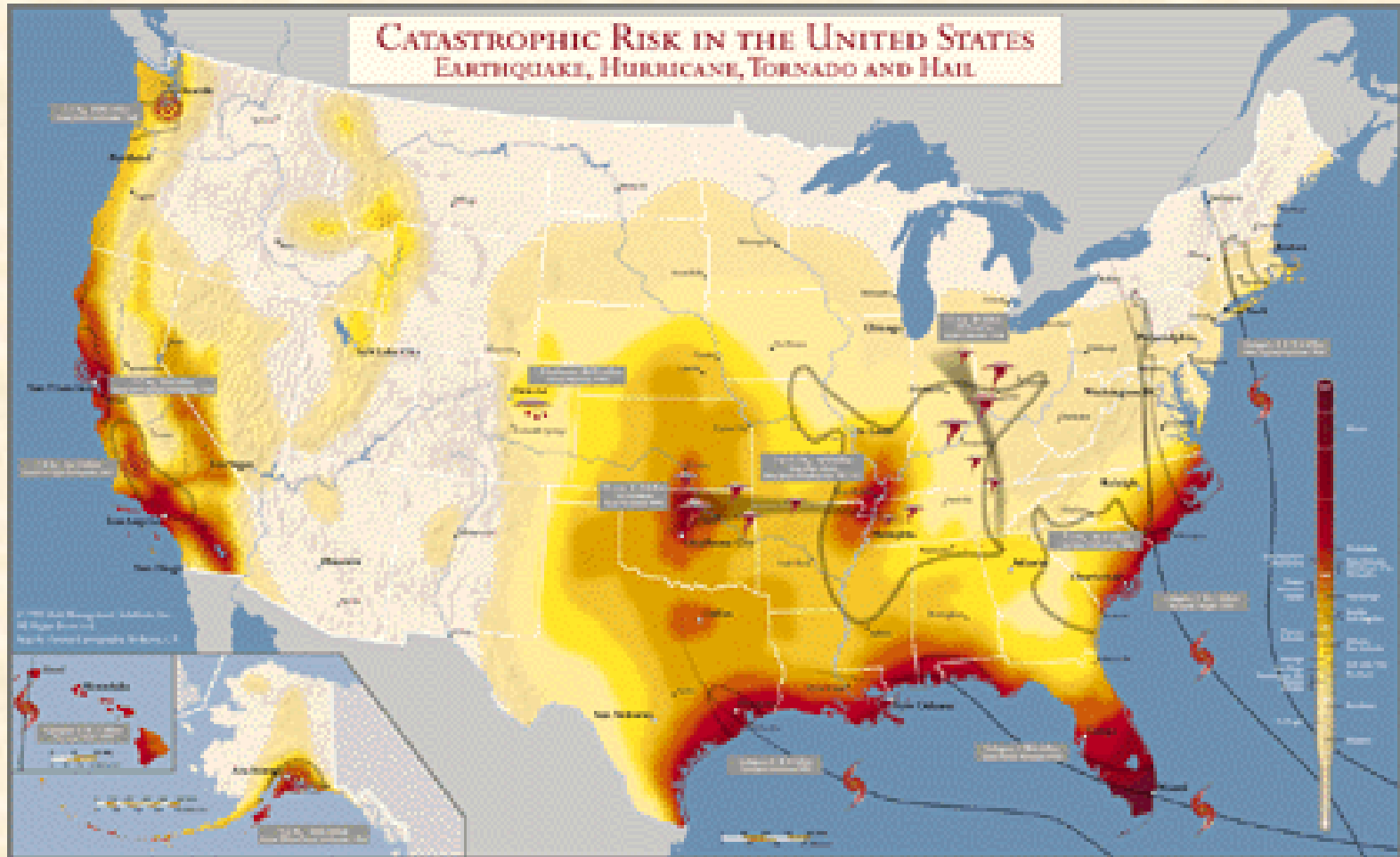
CATASTROPHE LOSS MANAGEMENT

*Failure to Adequately Manage this
Risk Has Been Devastating*





Most of US Population & Property Has Major CAT Exposure





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



2005 was by far the worst year ever for insured catastrophe losses in the US, but the worst has yet to come.

\$100 Billion CAT year is coming soon

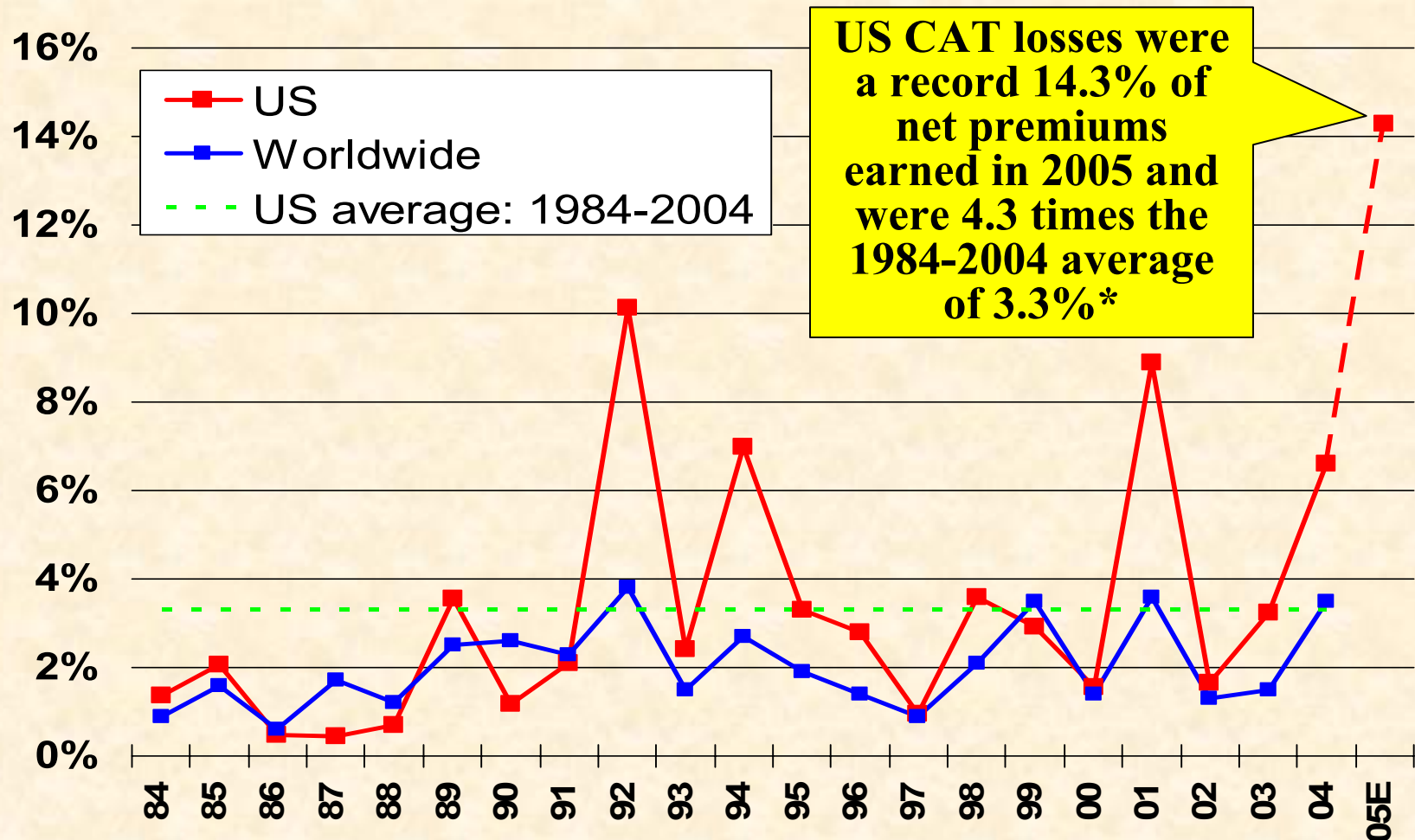
Excludes \$4B-\$6b offshore energy losses from Hurricanes Katrina & Rita.

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

Source: Property Claims Service/ISO; Insurance Information Institute



Insured Property Catastrophe Losses as % Net Premiums Earned, 1983–2005E

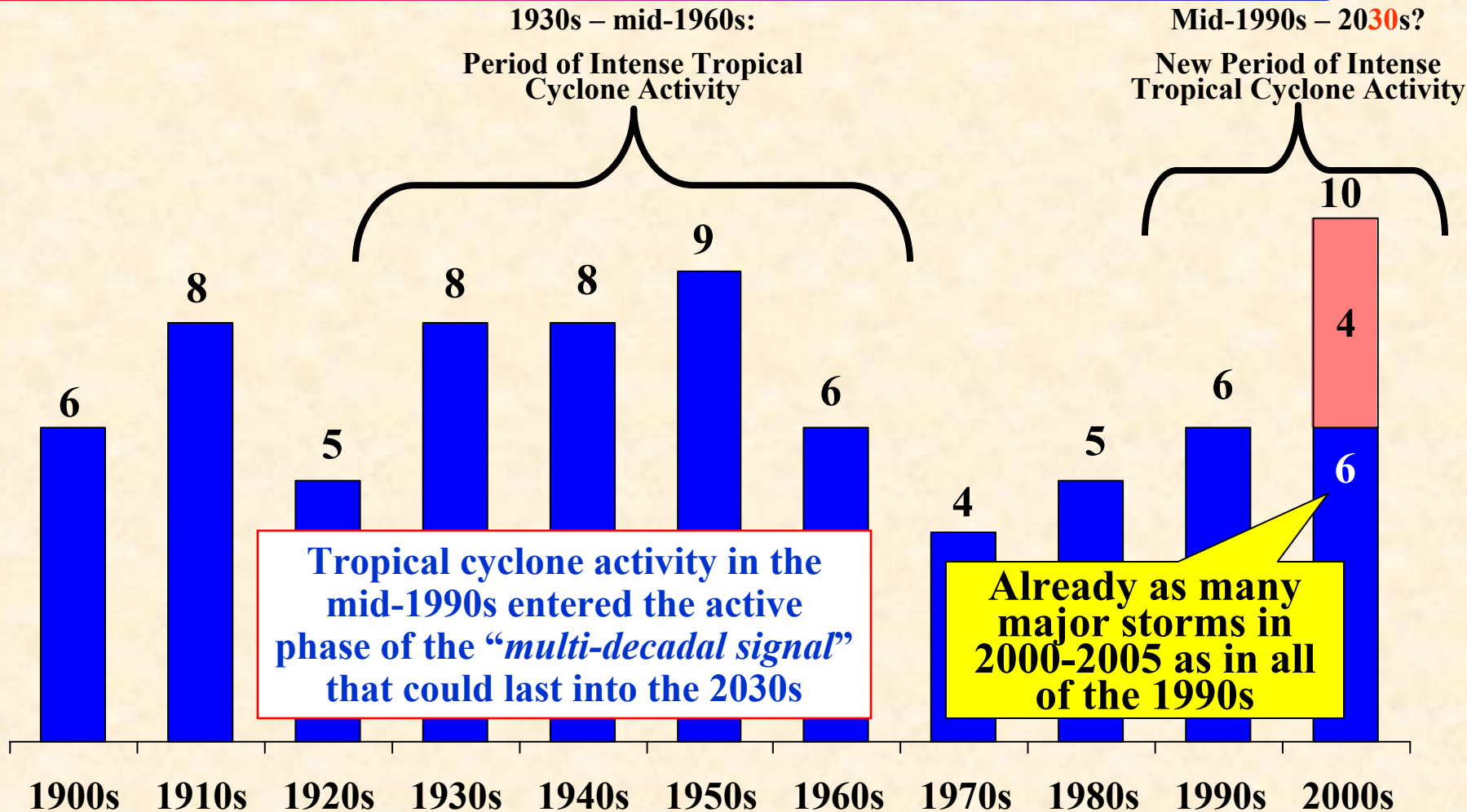


*Insurance Information Institute estimate of 14.3% for 2005 based estimated 2005 DPE of \$418.8B and estimated insured CAT losses of \$60B.

Sources: ISO, A.M. Best, Swiss Re Economic Research & Consulting; Insurance Information Institute.



Number of Major (Category 3, 4, 5) Hurricanes Striking the US by Decade

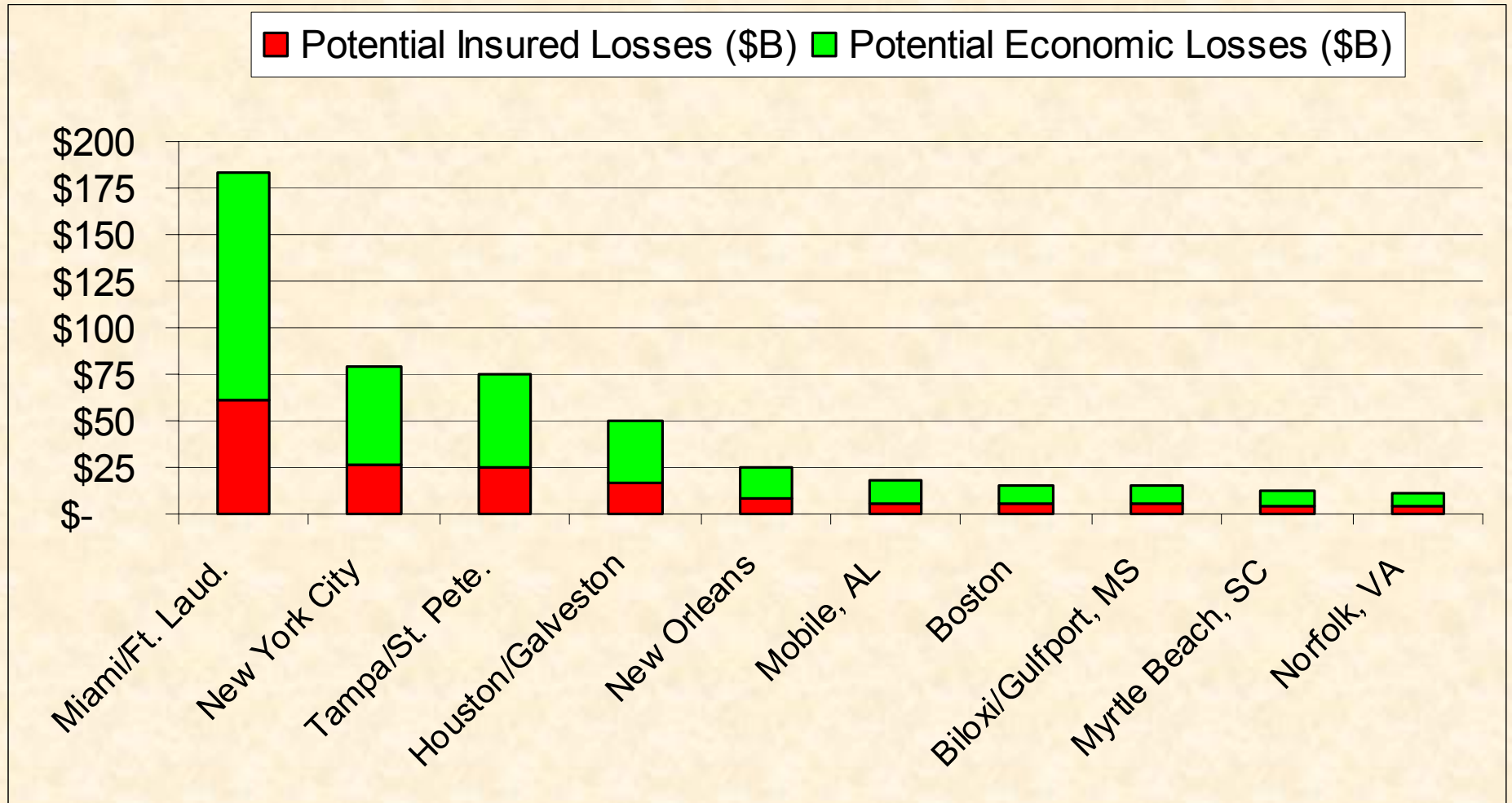


*Figure for 2000s is extrapolated based on data for 2000-2005 (6 major storms: Charley, Ivan, Jeanne (2004) & Katrina, Rita, Wilma (2005)).

Source: Tillinghast from National Hurricane Center: <http://www.nhc.noaa.gov/pastint.shtm>.

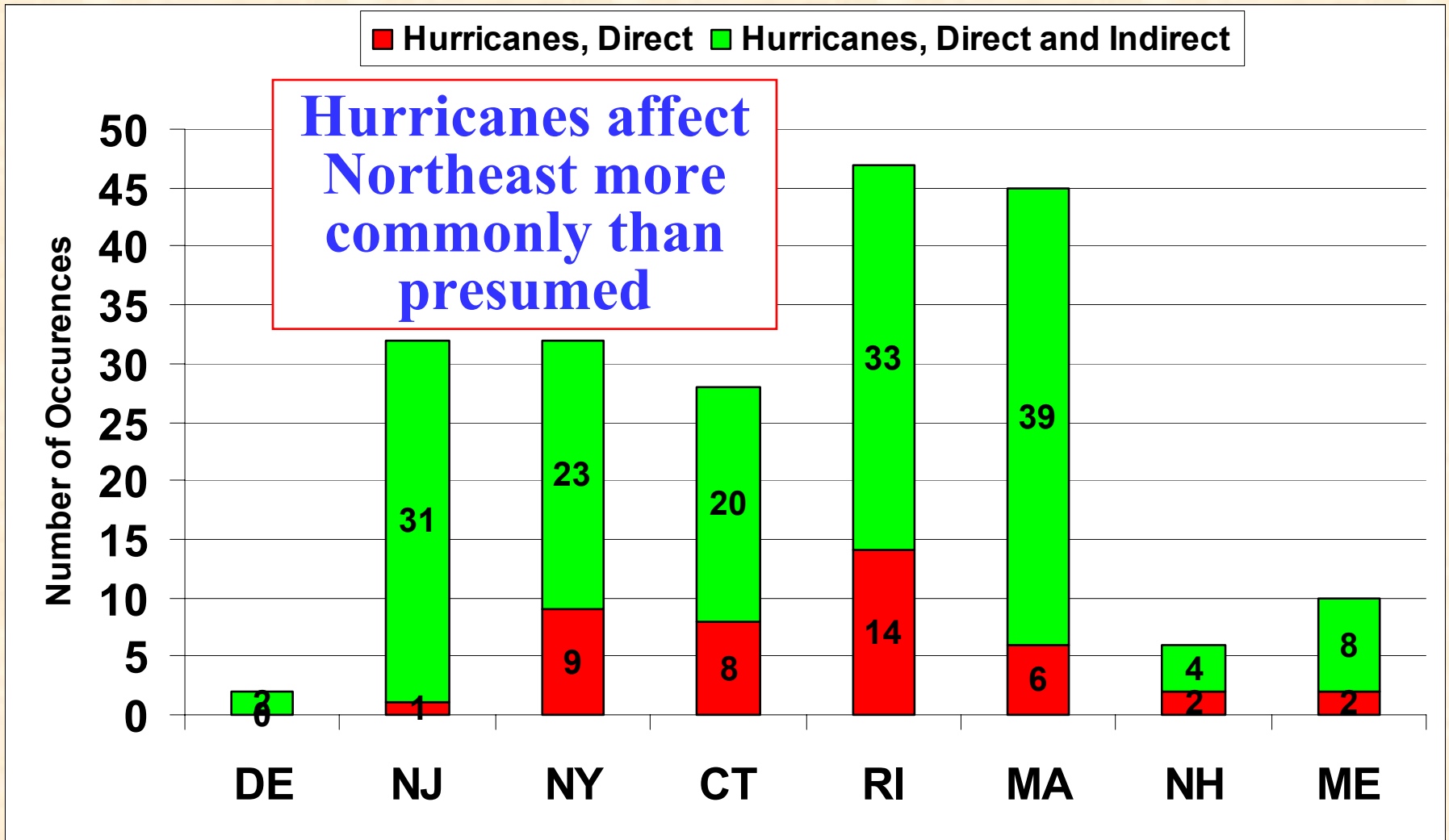


Top 10 U.S. Cities for Hurricane Risk



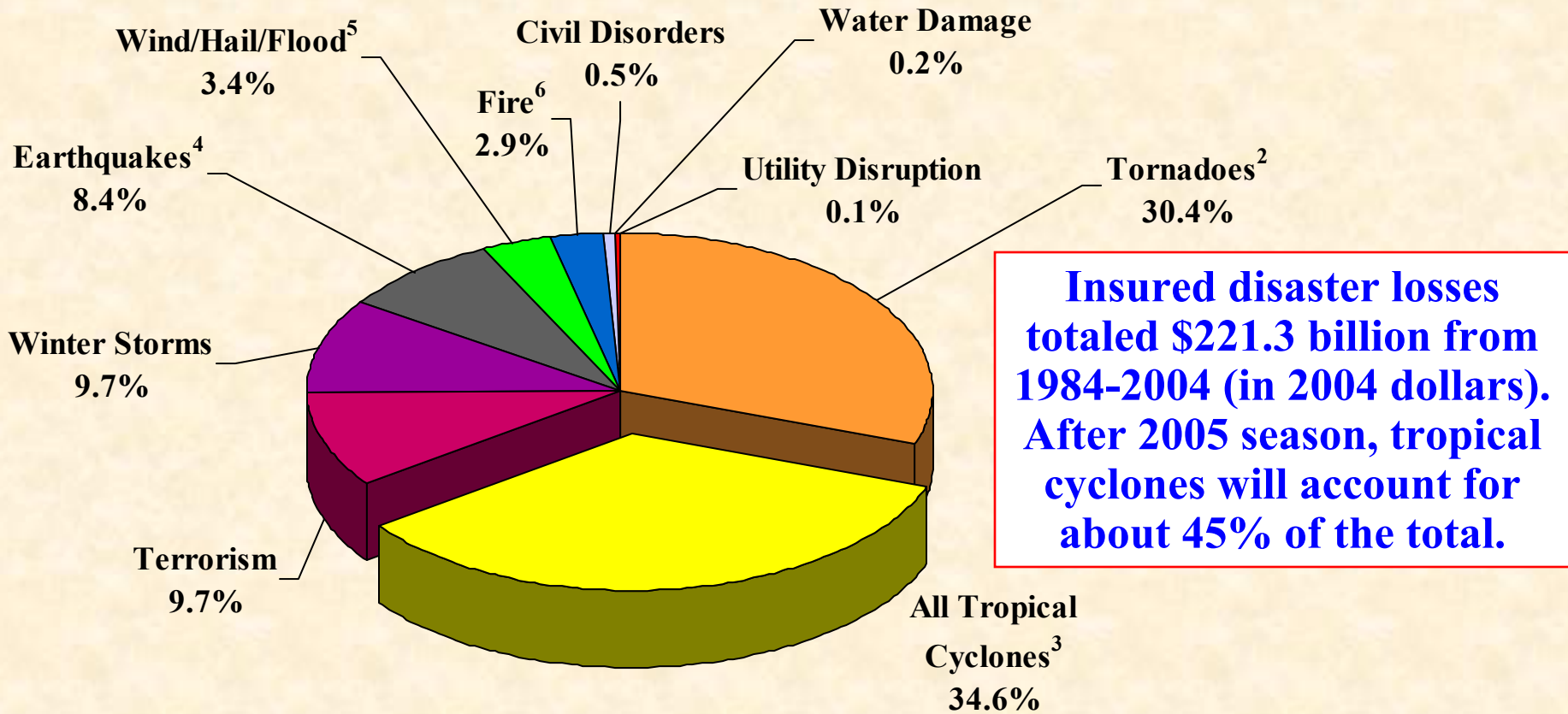


Number of Hurricanes Directly and Indirectly Affecting the Northeast United States Since 1900





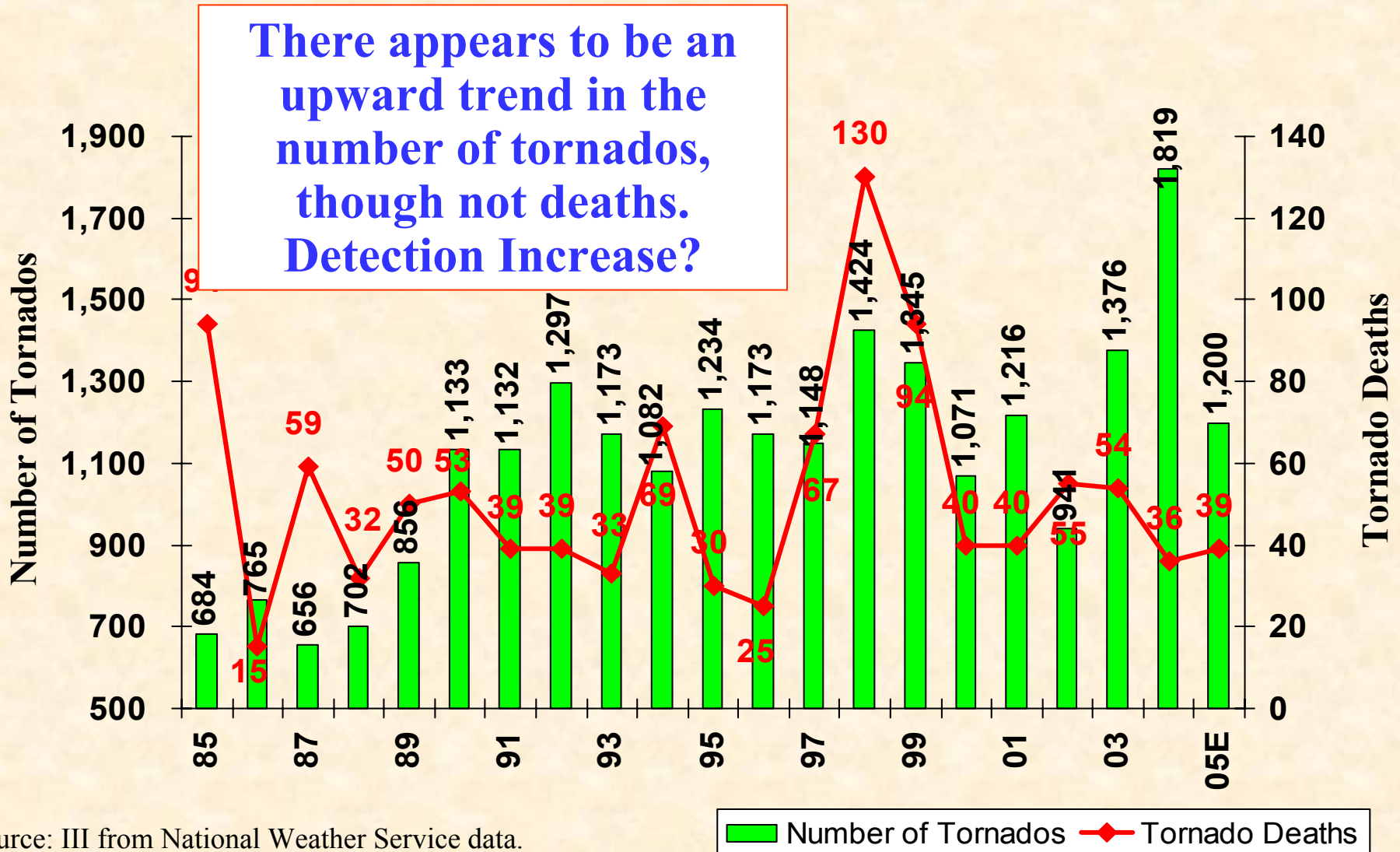
Inflation-Adjusted U.S. Insured Catastrophe Losses By Cause of Loss, 1985-2004¹



¹ Catastrophes are all events causing direct insured losses to property of \$25 million or more in 2004 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.



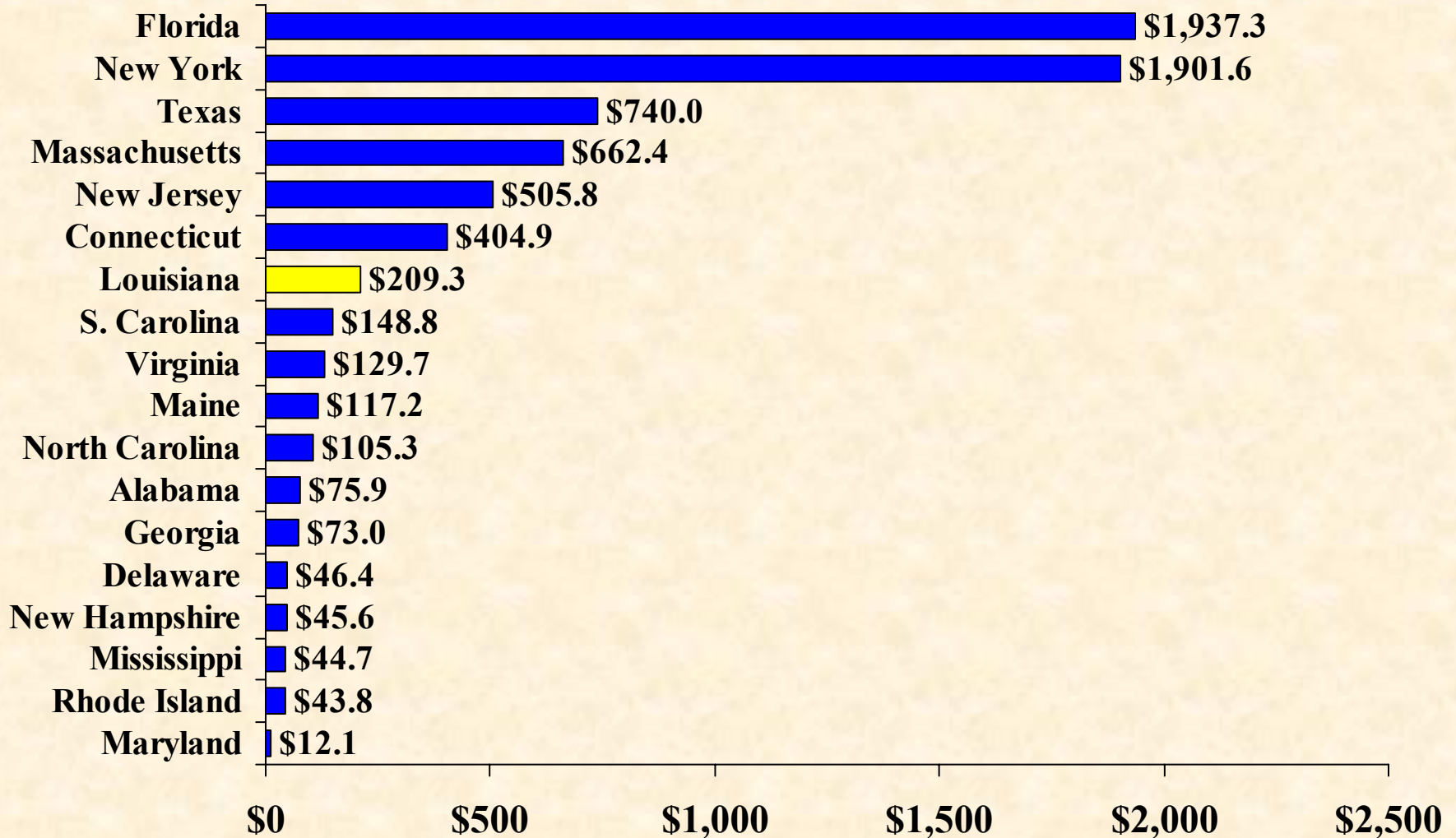
Number of Tornadoes & Associated Deaths, 1985-2005p



Source: III from National Weather Service data.

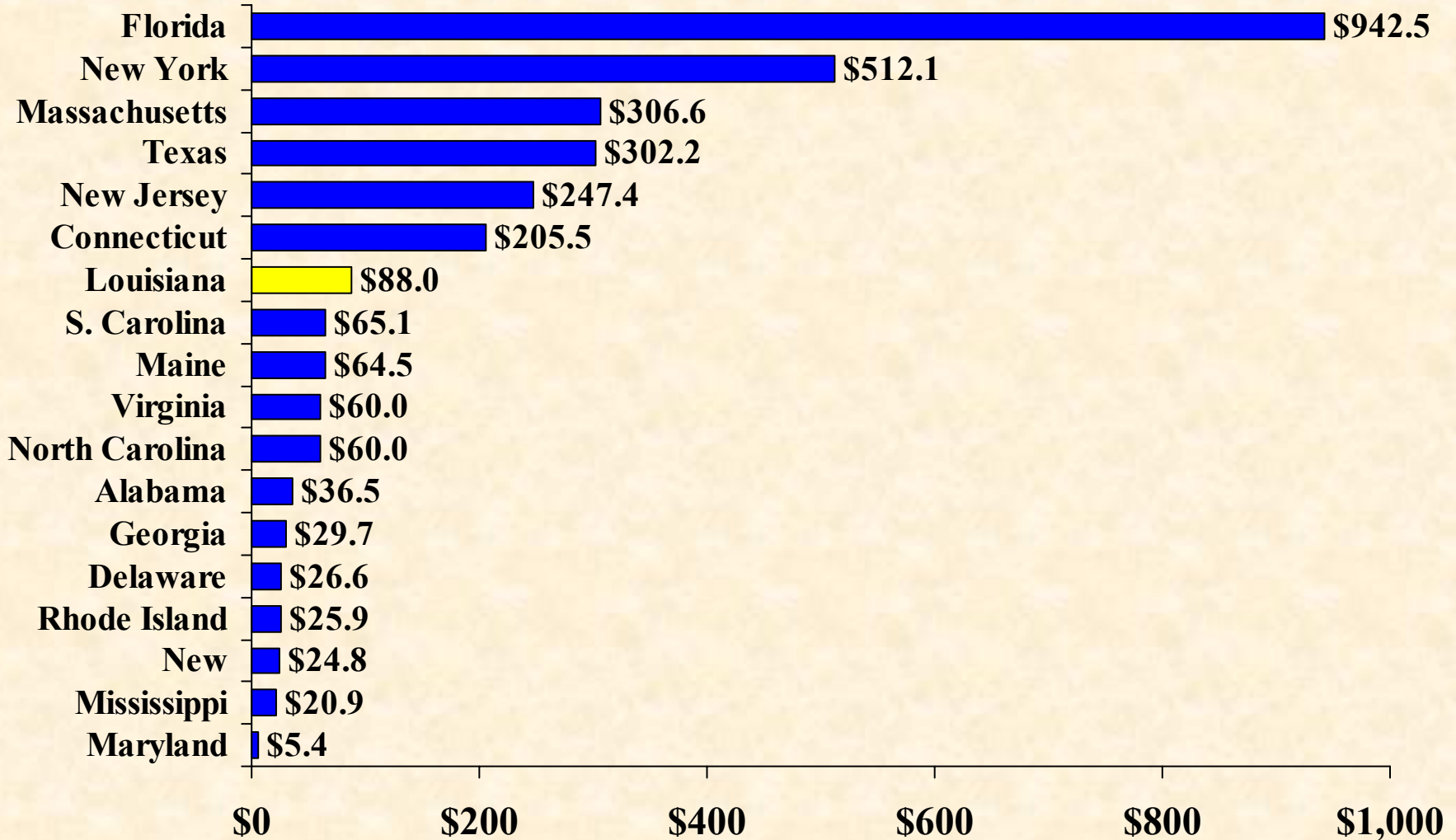


Total Value of Insured Coastal Exposure (2004, \$ Billions)



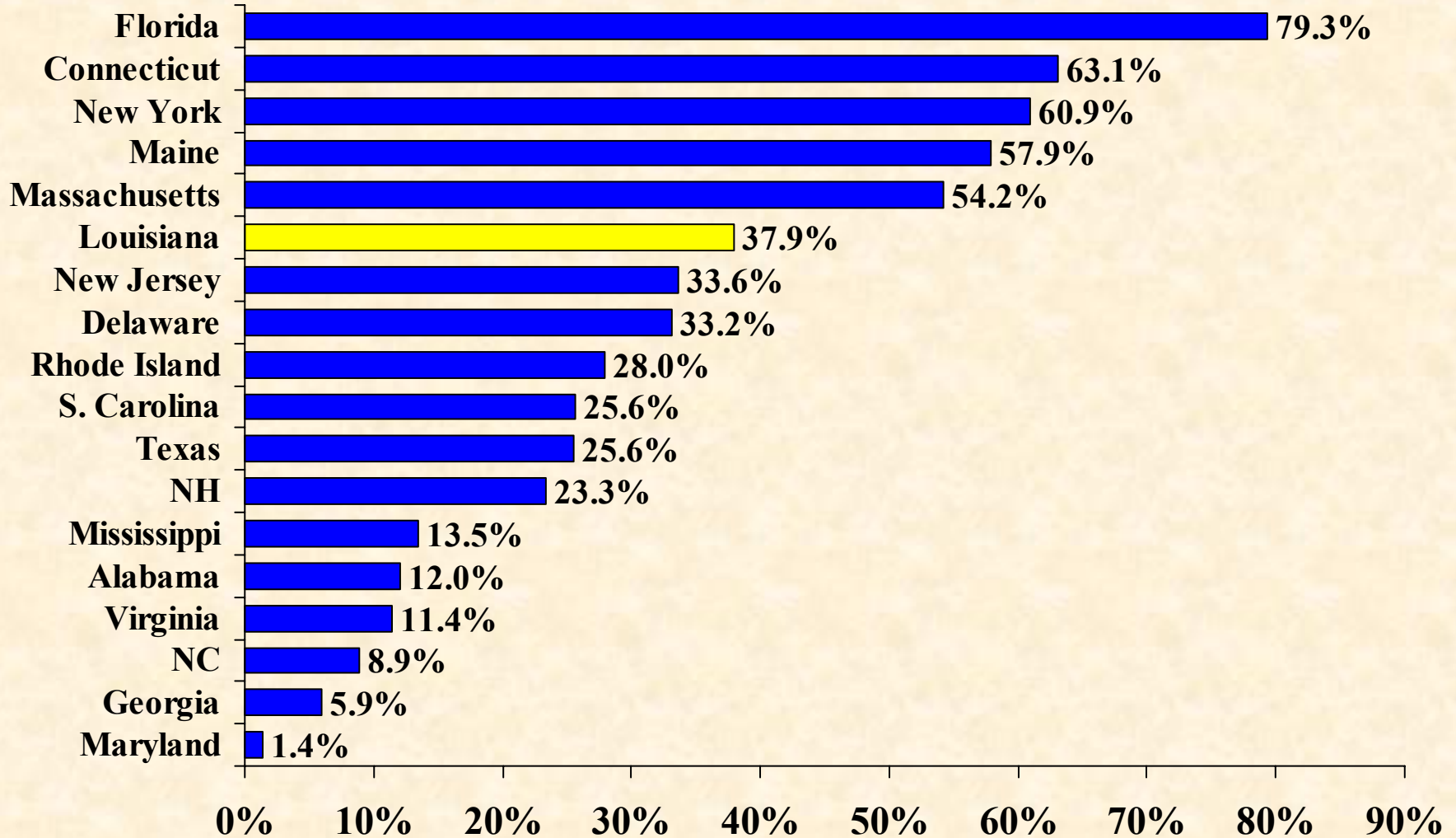


Value of Insured Residential Coastal Exposure (2004, \$ Billions)





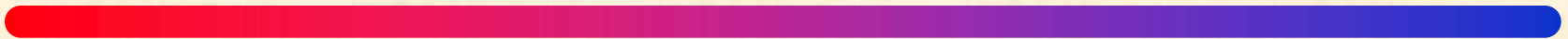
Insured Coastal Exposure as a % of Statewide Insured Exposure (2004, \$ Billions)



Source: AIR Worldwide

The 2006 Hurricane Season:

Preview to Disaster?





Outlook for 2006 Hurricane Season

	Average*	2005**	2006F
Named Storms	9.6	26	17
Named Storm Days	49.1	115.5	85
Hurricanes	5.9	14	9
Hurricane Days	24.5	47.5	45
Intense Hurricanes	2.3	7	5
Intense Hurricane Days	2.3	7	5
Net Tropical Cyclone Activity	100%	263%	195%

*Average over the period 1950-2000.

**As of December 4, 2005.

Source: Dr. William Gray, Colorado State University, December 6, 2005.



Probability of Major Hurricane Landfall (CAT 3, 4, 5) in 2006

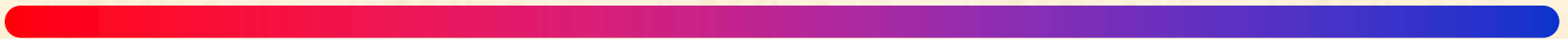
	Average*	2006F
Entire US Coast	52%	81%
US East Coast Including Florida Peninsula	31%	64%
Gulf Coast from FL Panhandle to Brownsville, TX	30%	47%
<i>ALSO...Above-Average Major Hurricane Landfall Risk in Caribbean for 2006</i>		

*Average over past century.

Source: Dr. William Gray, Colorado State University, December 6, 2005.

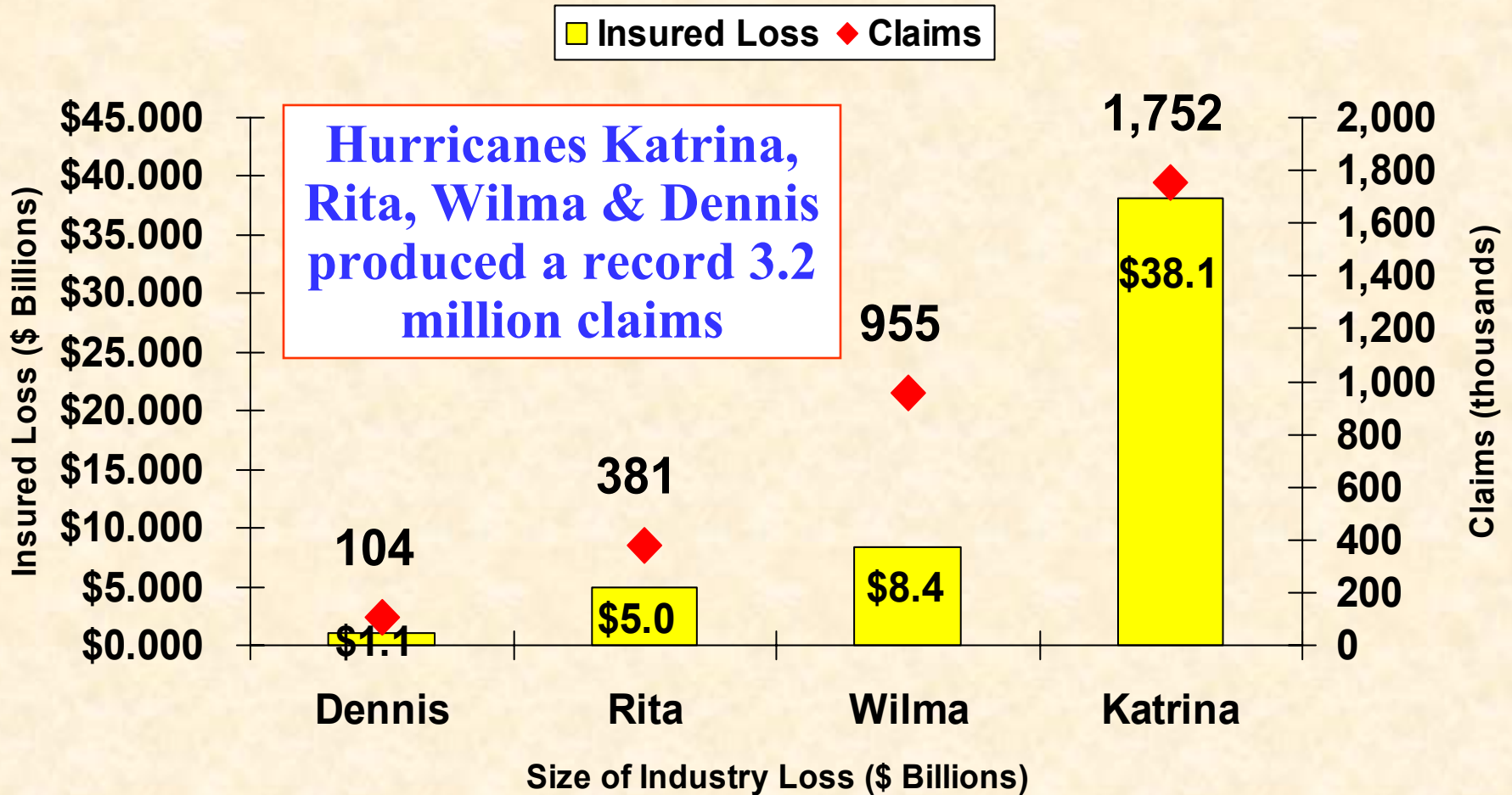
Hurricanes Katrina, Rita & Wilma:

Their Place in History





Insured Loss & Claim Count for Major Storms of 2005*

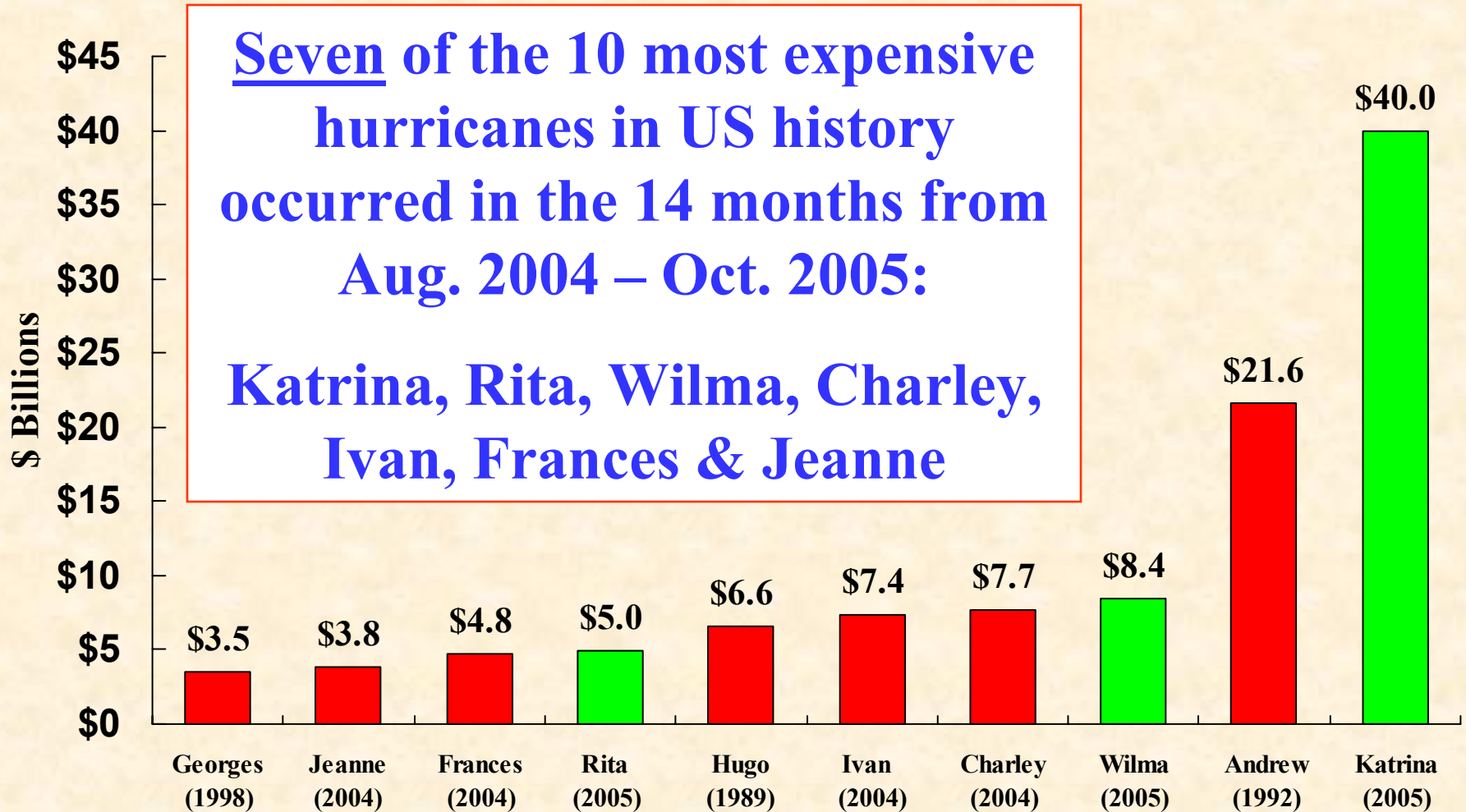


*Property and business interruption losses only. Excludes offshore energy & marine losses.

Source: ISO/PCS as of February 8, 2006; Insurance Information Institute.

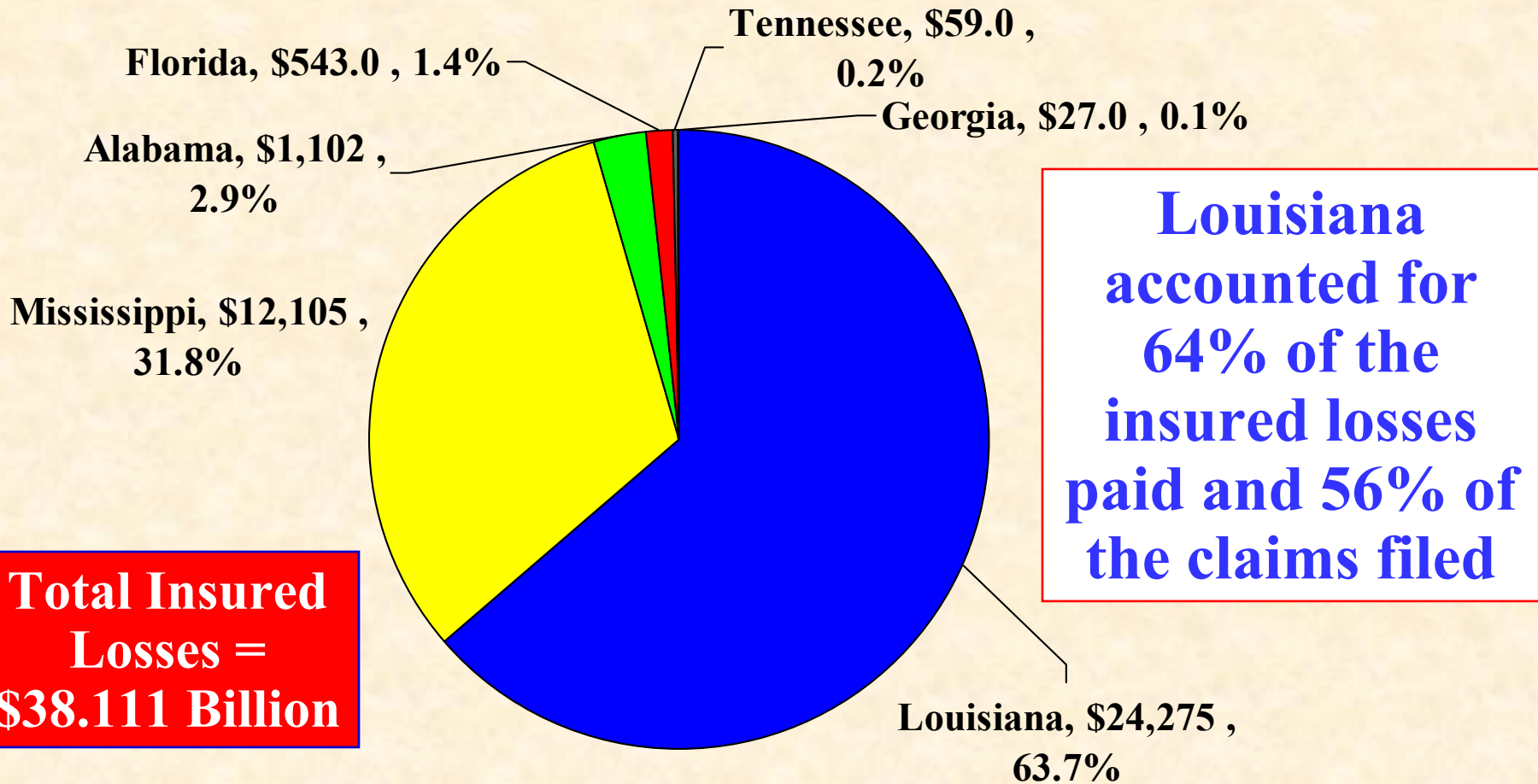


Top 10 Most Costly Hurricanes in US History, (Insured Losses, \$2005)





*Hurricane Katrina Insured Loss Distribution by State (\$ Millions)**

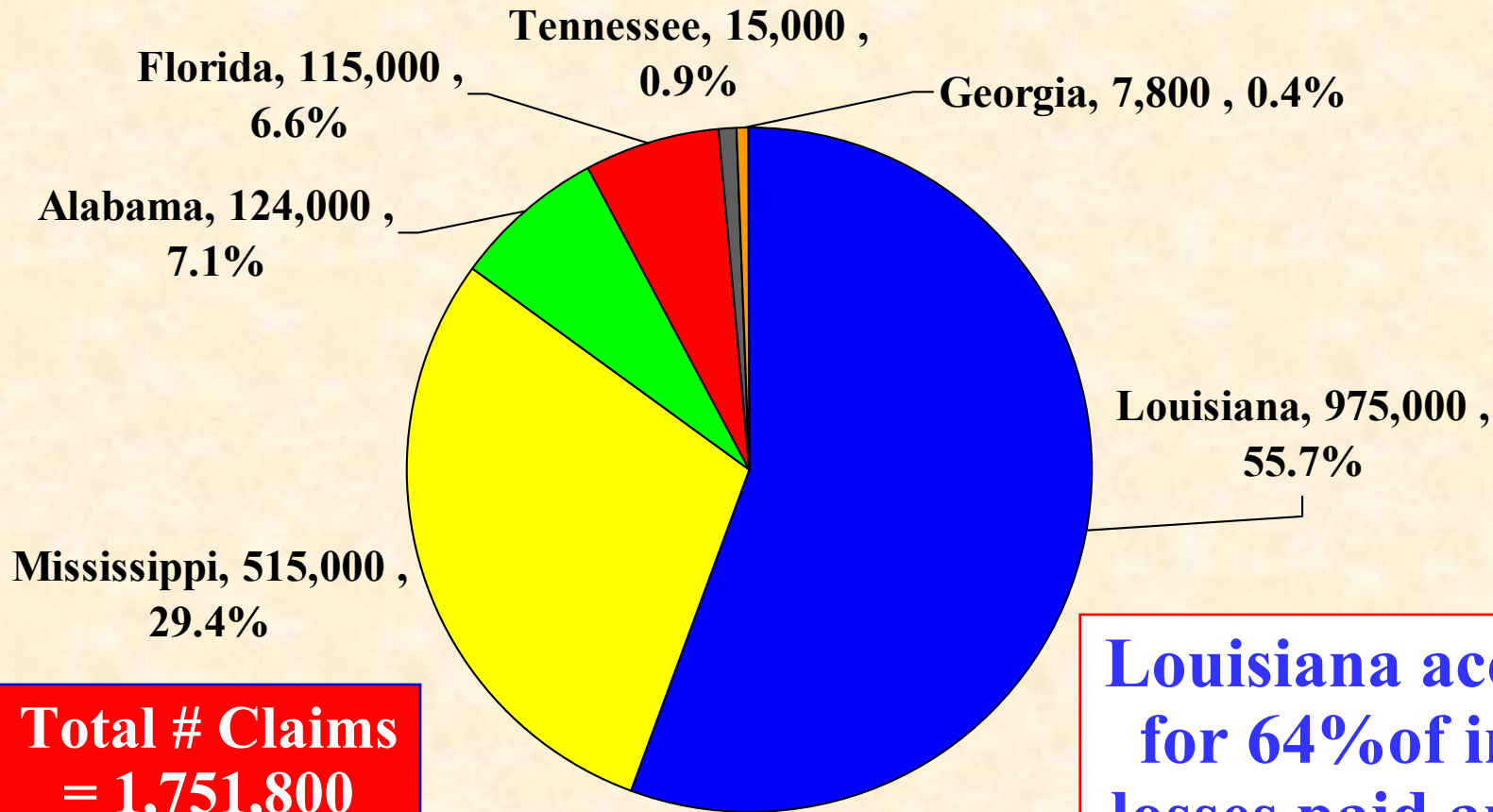


*As of February 8, 2006

Source: PCS division of ISO.



Hurricane Katrina Claim Count Distribution by State*



**Total # Claims
= 1,751,800**

Louisiana accounted for 64% of insured losses paid and 56% of claims filed

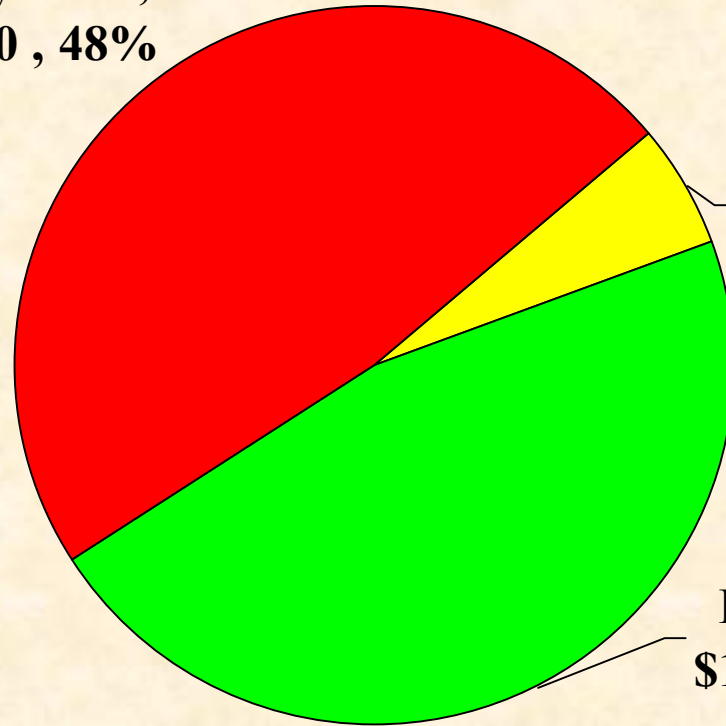
*As of February 8, 2006
Source: PCS division of ISO.

Hurricane Katrina Loss



Distribution by Line (\$ Billions)*

**Commercial
Property & BI,
\$18,278.0 , 48%**



**Vehicle, \$2,139.0 ,
6%**

**Homeowners,
\$17,694.0 , 46%**

Total insured losses are estimated at \$38.1 billion from 1.7518 million claims. Excludes \$2-\$3B in offshore energy losses



*Hurricane Katrina Insured Loss and Claim Distribution by State**

State	Losses (\$Mill)	# Claims	% Losses	% Claims
LA	\$ 24,275.0	975,000	63.7%	55.7%
MS	\$ 12,105.0	515,000	31.8%	29.4%
AL	\$ 1,102.0	124,000	2.9%	7.1%
FL	\$ 543.0	115,000	1.4%	6.6%
TN	\$ 59.0	15,000	0.2%	0.9%
GA	\$ 27.0	7,800	0.1%	0.4%
Totals	\$ 38,111.0	1,751,800	100.0%	100.0%

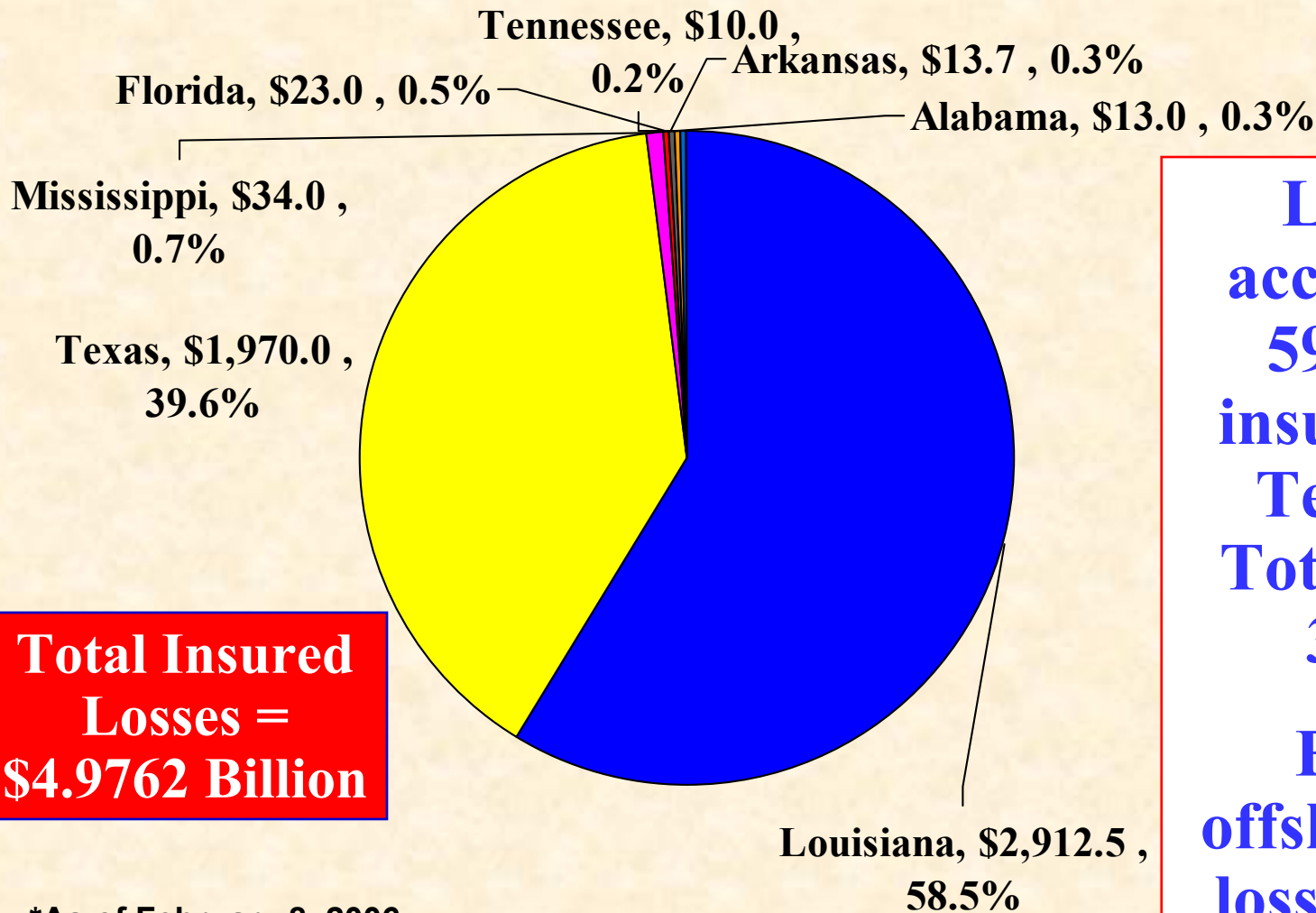
*As of February 8, 2006.

Source: PCS division of ISO.



Hurricane Rita Insured Loss

*Distribution by State (\$ Millions)**



**Total Insured
Losses =
\$4.9762 Billion**

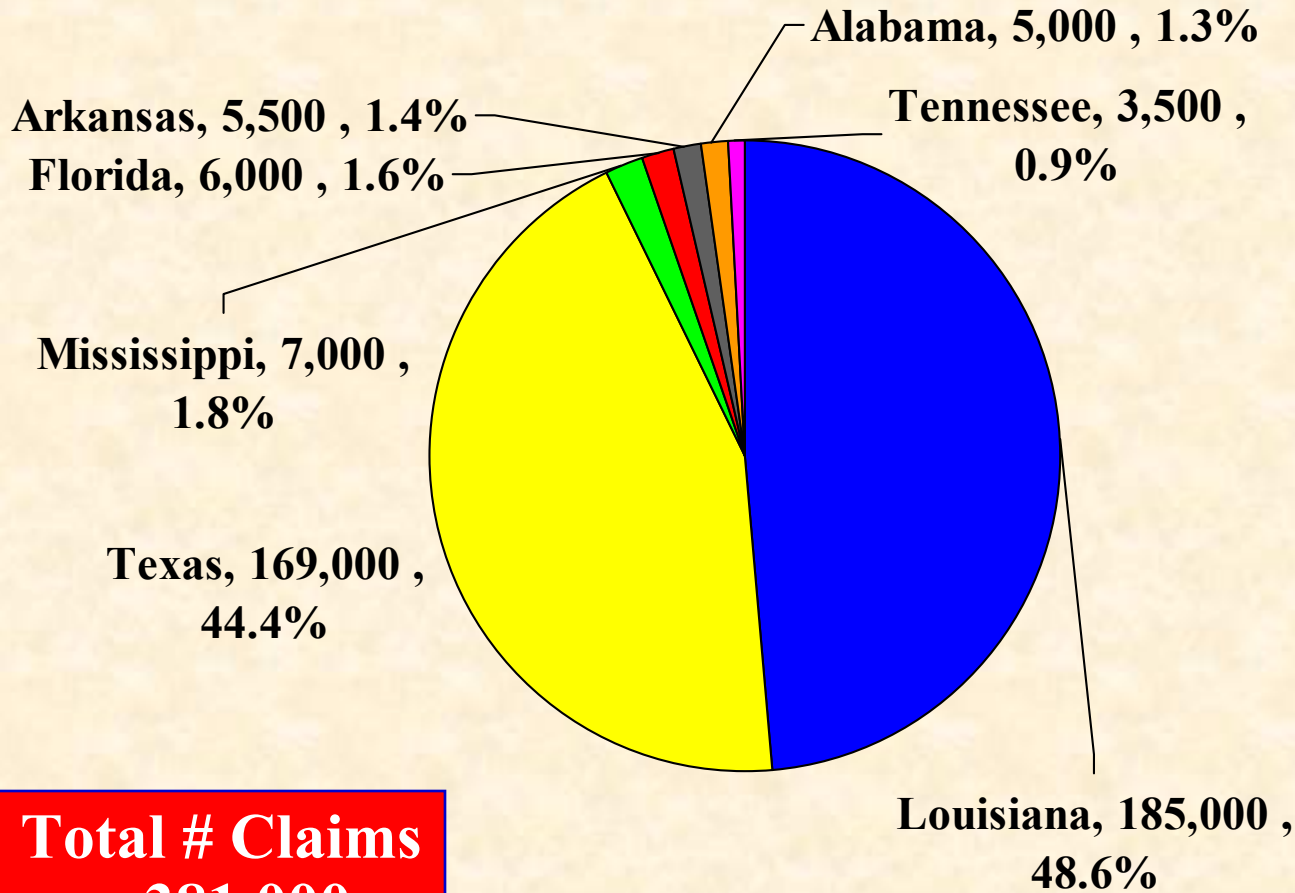
**Louisiana
accounted for
59% of the
insured losses,
Texas 40%.
Total claims =
381,000.**

**Excludes
offshore energy
losses of \$2-3B**

*As of February 8, 2006
Source: PCS division of ISO.



Hurricane Rita Claim Count Distribution by State*



**Total # Claims
= 381,000**

**Louisiana
accounted for
48.6% of the
insured losses,
Texas 44.4%.**

**Excludes
offshore energy
losses of \$2-3B**

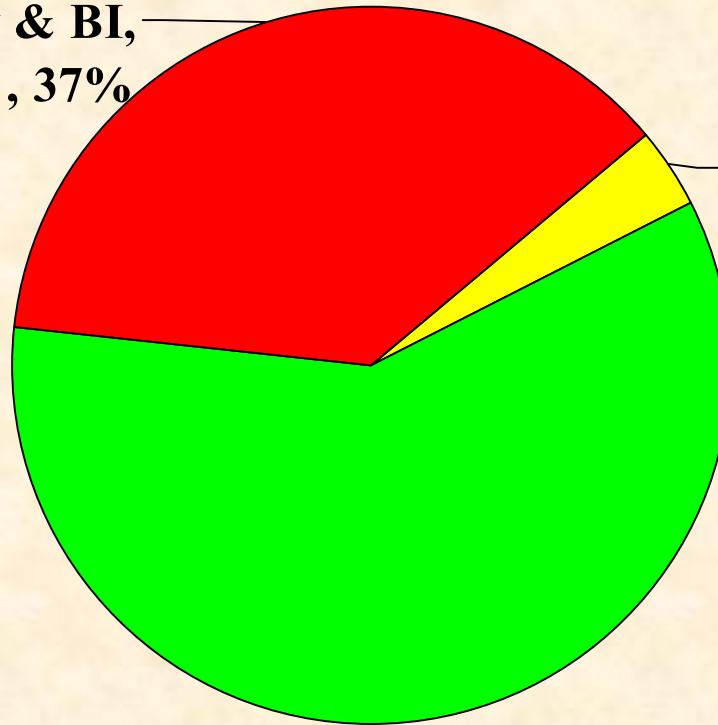
*As of February 8, 2006
Source: PCS division of ISO.



*Hurricane Rita Loss Distribution, by Line (\$ Millions)**

**Commercial
Property & BI,
\$1,846.2 , 37%**

**Vehicles, \$186.0 ,
4%**



**Homeowners,
\$2,944.0 , 59%**

**Total insured
losses are
estimated at \$5.0
billion (excl.
offshore energy
of \$2-\$3B) from
381,000 claims.**

*As of February 8, 2006

Source: PCS division of ISO.



*Hurricane Rita Insured Loss and Claim Distribution by State**

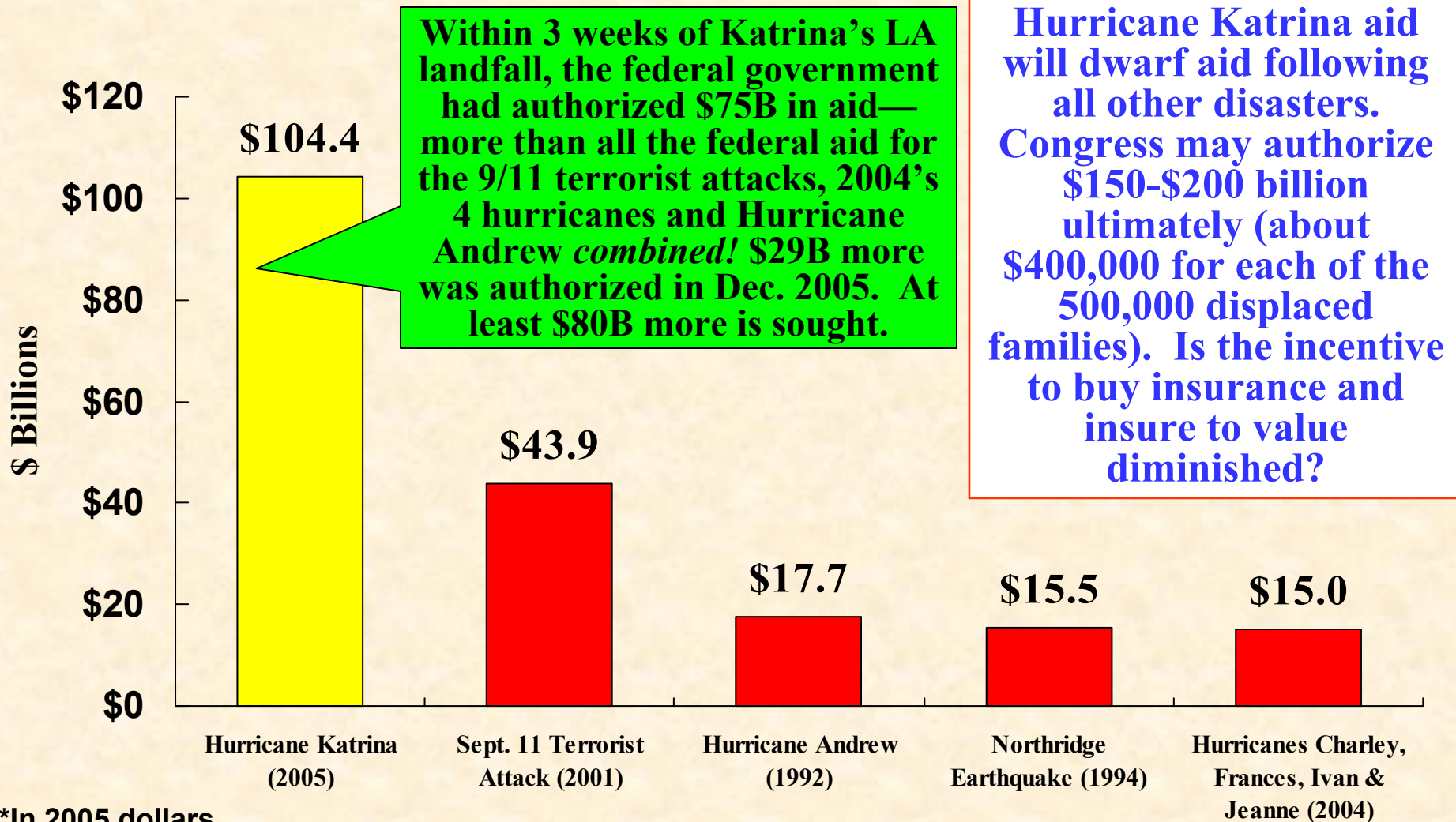
State	Losses (\$Mill)	# Claims	% Losses	% Claims
LA	\$ 2,912.5	185,000	58.5%	48.6%
TX	\$ 1,970.0	169,000	39.6%	44.4%
MS	\$ 34.0	7,000	0.7%	1.8%
FL	\$ 23.0	6,000	0.5%	1.6%
AR	\$ 13.7	5,500	0.3%	1.4%
AL	\$ 13.0	5,000	0.3%	1.3%
TN	\$ 10.0	3,500	0.2%	0.9%
Totals	\$ 4,976.2	381,000	100.0%	100.0%

*As of February 8, 2006.

Source: PCS division of ISO.



Government Aid After Major Disasters (Billions)*



*In 2005 dollars.

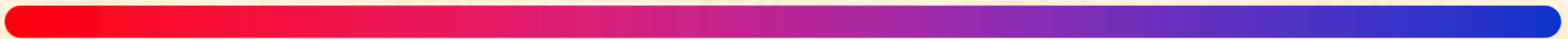
Source: United States Senate Budget Committee, Insurance Information Institute as of 12/31/05.



Distribution of Katrina Losses by Market (\$Billions)

Market	Percentage	Amount
Insurers	47% - 53%	\$18.8 - \$28.9
Reinsurers	52% - 44%	\$20.7 - \$24.0
Capital Markets	1% - 3%	\$0.4 - \$1.6
TOTAL	100%	\$39.9 - \$54.6

Overview of Plans for a National Catastrophe Insurance Plan





NAIC's Comprehensive National Catastrophe Plan

- **Proposes Layered Approach to Risk**
- **Layer 1: Maximize resources of private insurance & reinsurance industry**
 - Includes “All Perils” Residential Policy
 - Encourage Mitigation
 - Create Meaningful, Forward-Looking Reserves
- **Layer 2: Establishes system of state catastrophe funds (like FHCF)**
- **Layer 3: Federal Catastrophe Reinsurance Mechanism**



Comprehensive National Catastrophe Plan Schematic

1:500 Event

National Catastrophe Contract Program

1:50 Event

State Regional Catastrophe Fund

State Attachment

**Personal
Disaster
Account**

Private Insurance

Private Reinsurance



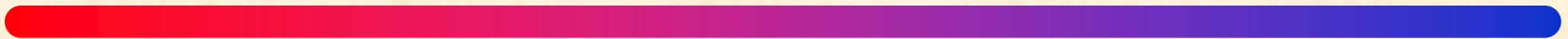
Legislation: Comprehensive National Catastrophe Plan

- **H.R. 846: Homeowners Insurance Availability Act of 2005**
 - Introduced by Representative Ginny Brown-Waite (R-FL)
 - Requires Treasury to implement a reinsurance program offering contracts sold at regional auctions
- **H.R. 4366: Homeowners Insurance Protection Act of 2005**
 - Also worked on by Rep. Brown-Waite
 - Establishes national commission on catastrophe preparation and protection
 - Authorizes sale of federally-backed reinsurance contracts to state catastrophe funds
- **H.R. 2668: Policyholder Disaster Protection Act of 2005**
 - Backed by Rep. Mark Foley (R-FL)
 - Amends IRS code to permit insurers to establish tax-deductible reserve funds for catastrophic events
 - 20-year phase-in for maximum reserve
 - Use limited to declared disasters

Profit Pillar #2

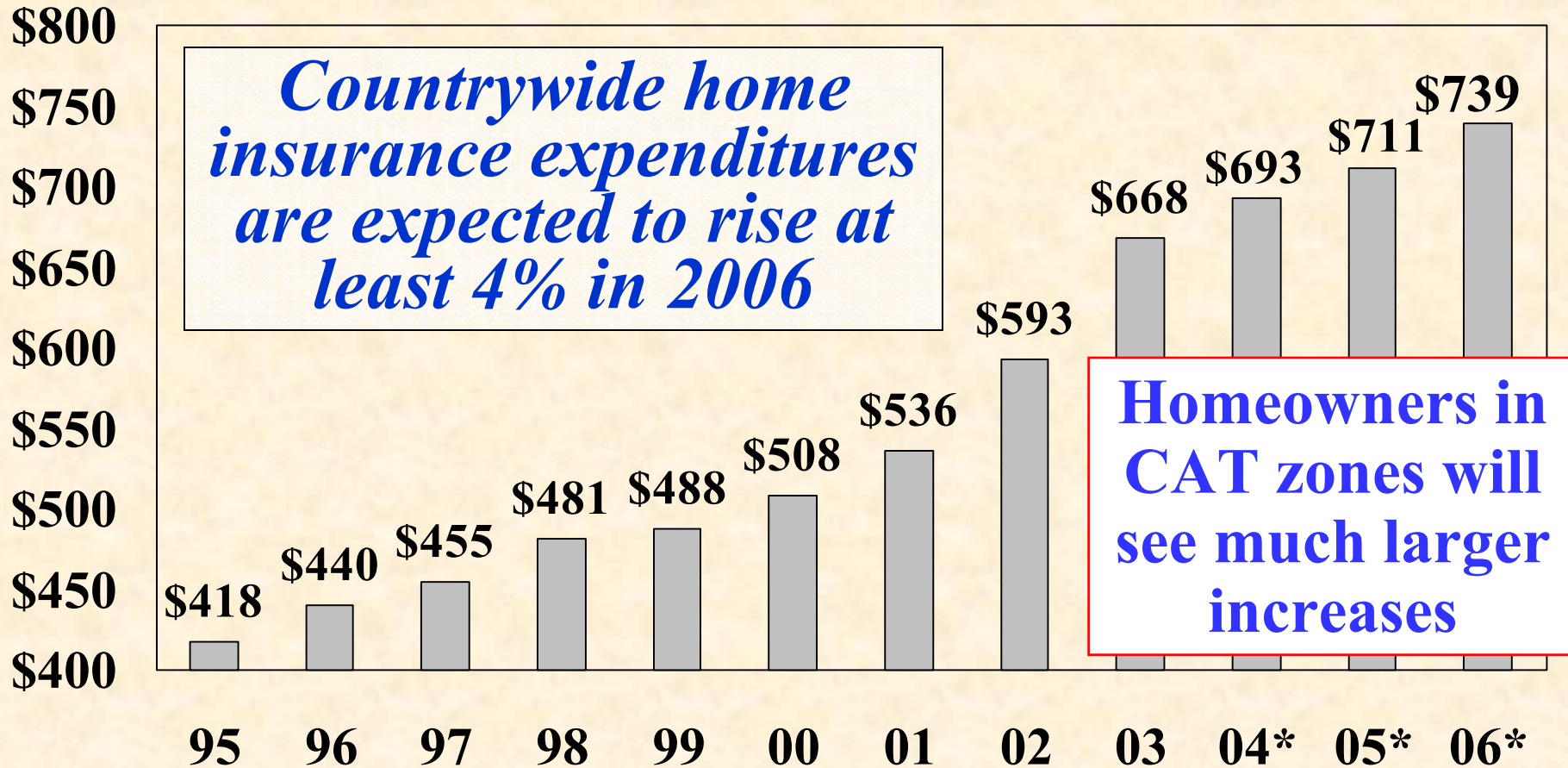
PRICING

*Can Discipline be
Maintained?*





Average Expenditures on Homeowners Insurance**



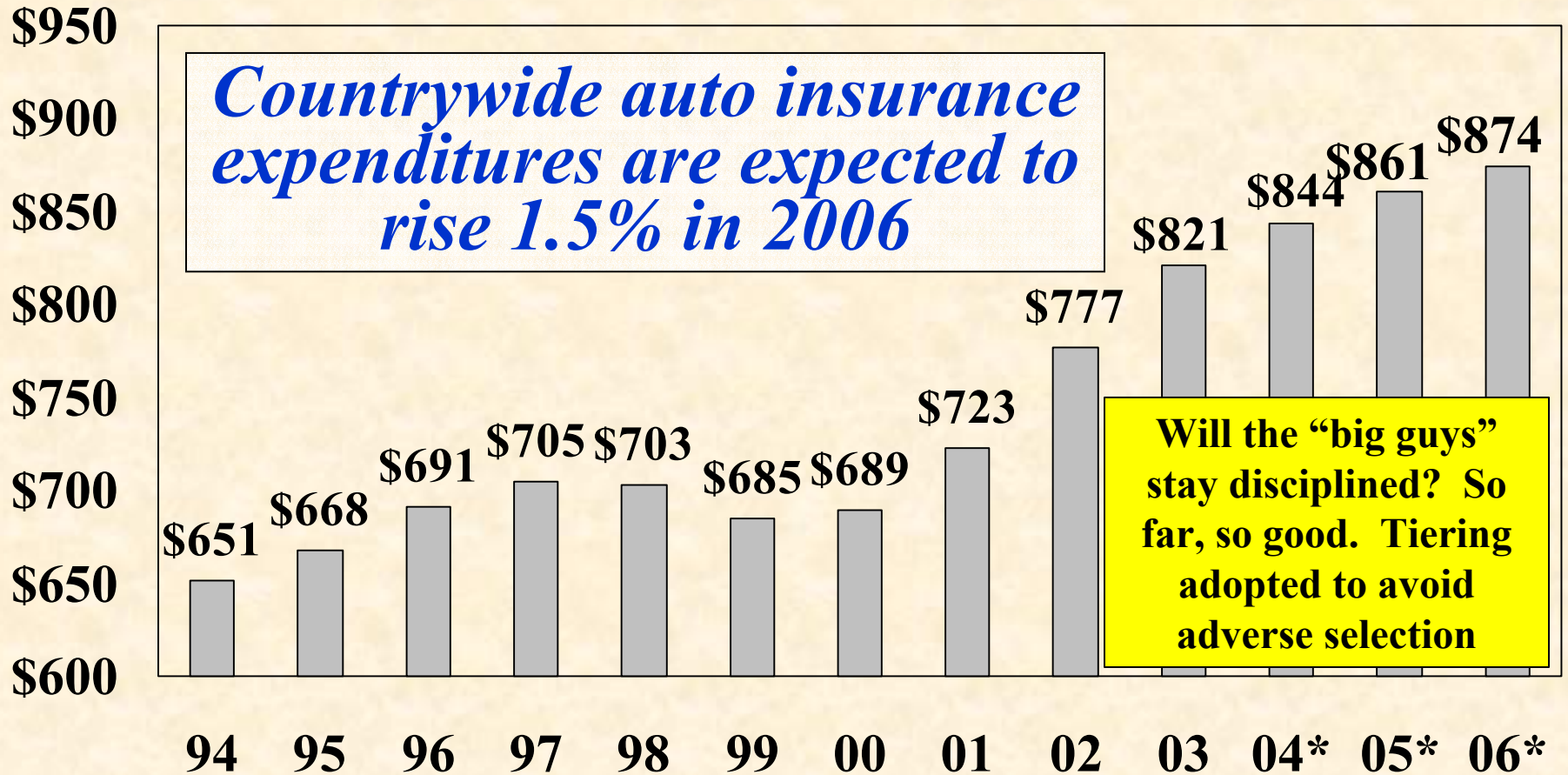
*Insurance Information Institute Estimates/Forecasts

**Excludes cost of flood and earthquake coverage.

Source: NAIC, Insurance Information Institute



Average Expenditures on Auto Insurance



*Insurance Information Institute Estimates/Forecasts

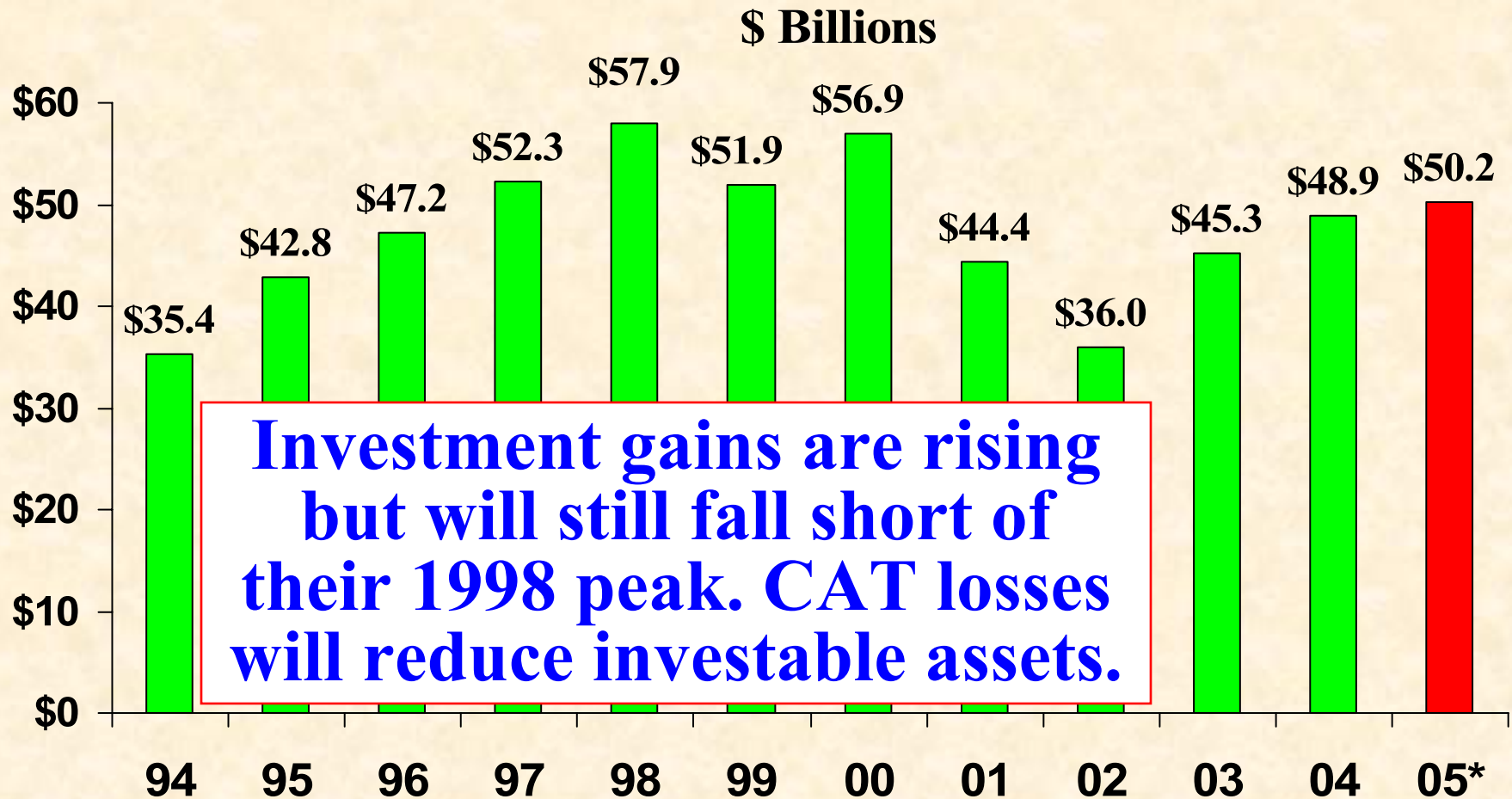
Source: NAIC, Insurance Information Institute

Profit Pillar #3 **INVESTMENTS**

*Does Investment
Performance Affect
iii Discipline?*



Property/Casualty Insurance Industry Investment Gain*

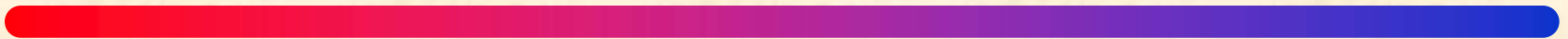


*Investment gains consist primarily of interest, stock dividends and realized capital gains and losses. Annualized 2005 figure based on data as of 9/30/05, adjusted for special dividend of \$3.1B.

Source: Insurance Services Office; Insurance Information Institute.

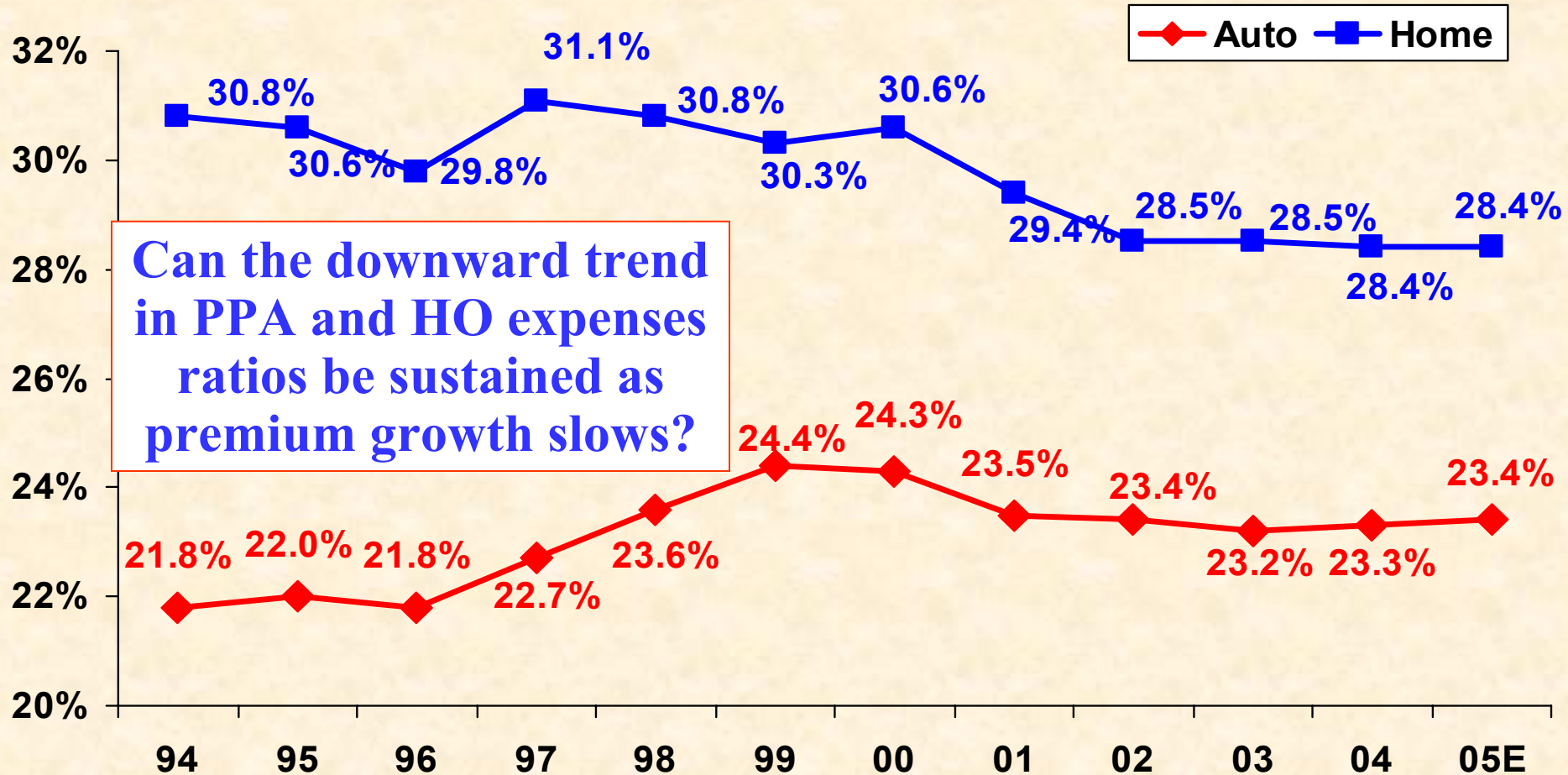
Profit Pillar #4 **EXPENSES**

*Will Expense Ratio Rise as
Premium Growth Slows?*





Personal Lines Underwriting Expense Ratio, * 1994-2005E

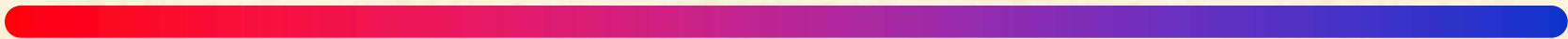


*Ratio of expenses incurred to net premiums written. 2005 figures are III estimates.

Source: A.M. Best; Insurance Information Institute

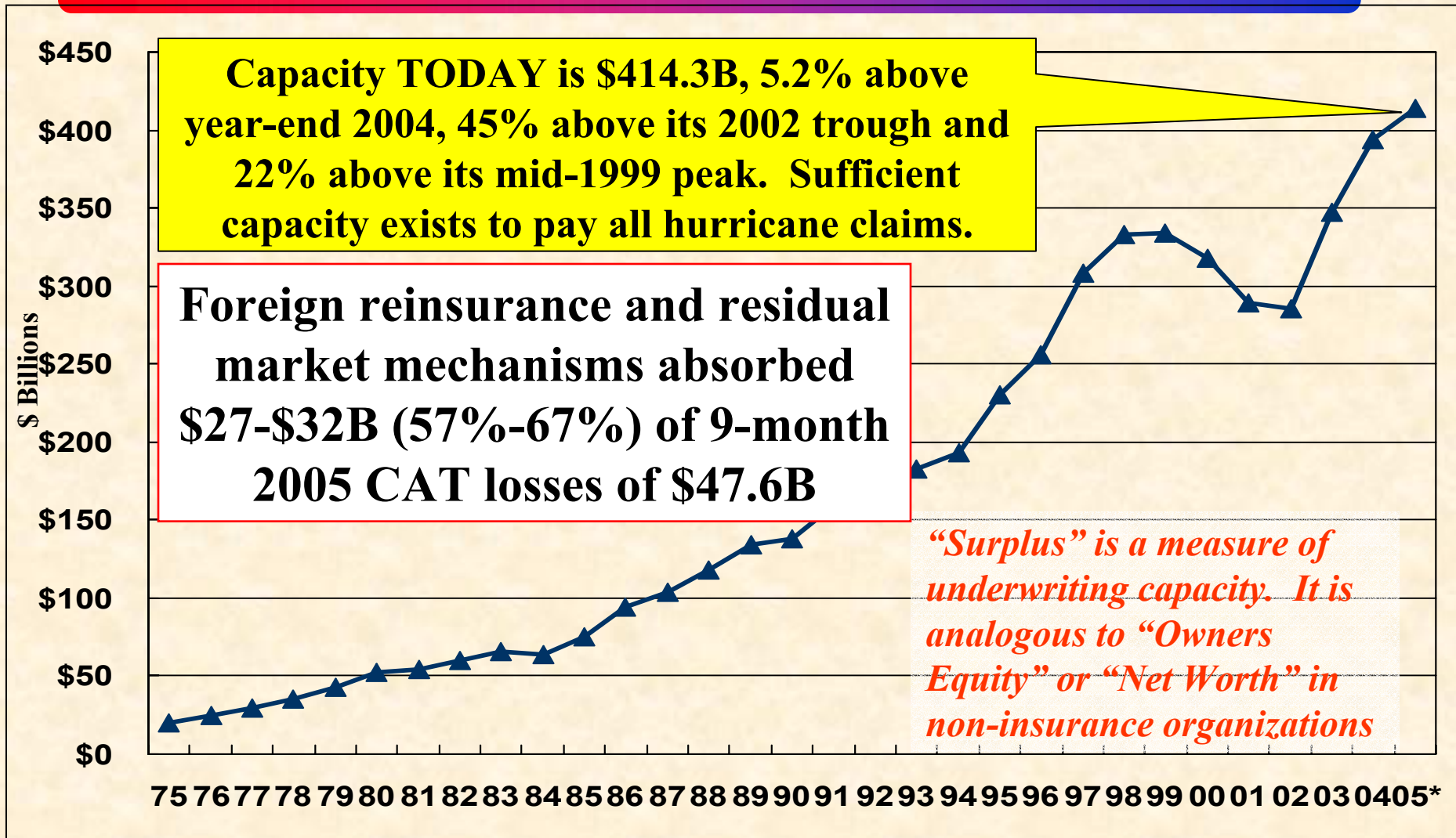
Profit Pillar #5 **LEVERAGE**

*Can the Industry
Efficiently Employ Its
Increasing Capital?*





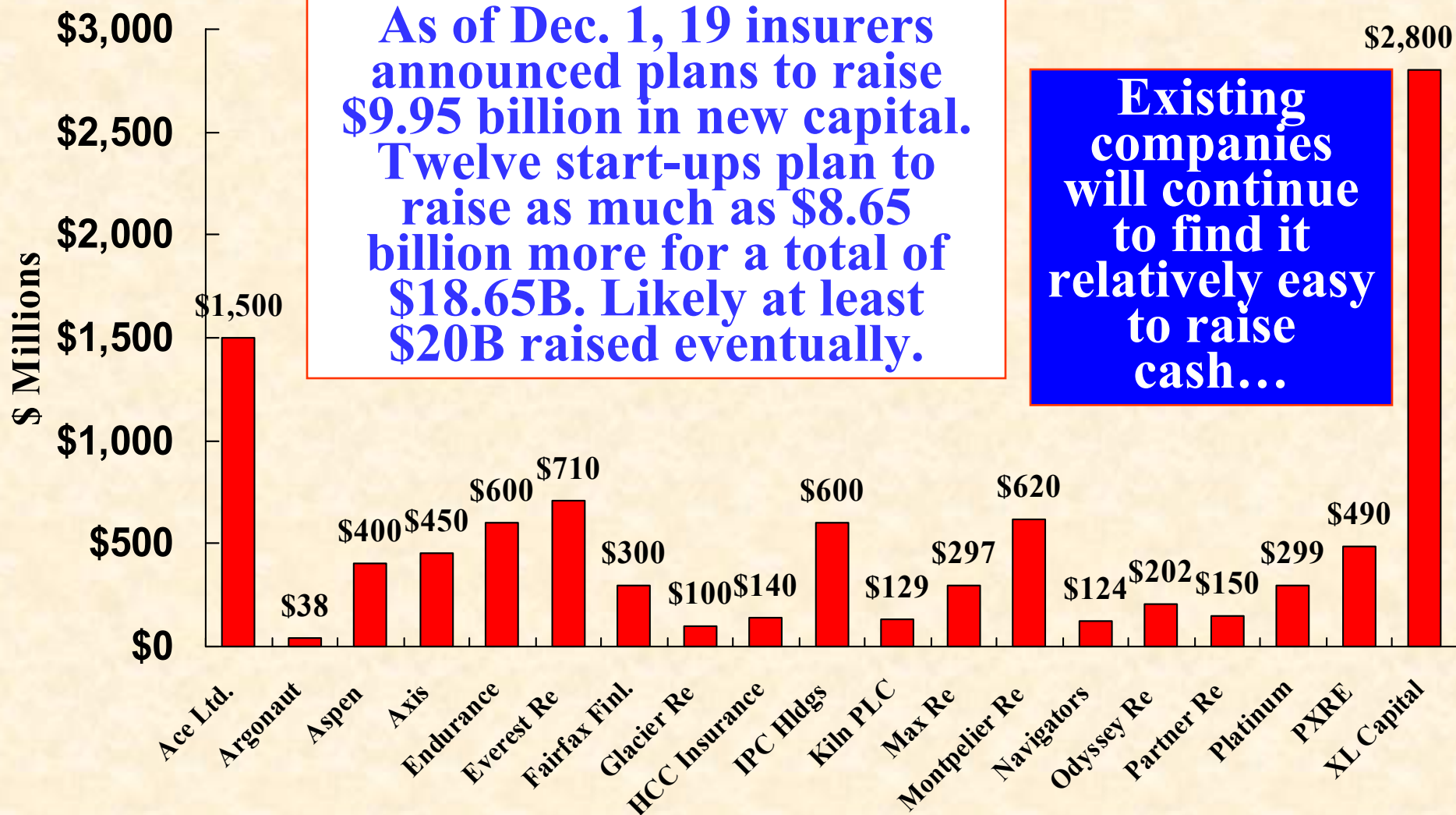
U.S. Policyholder Surplus: 1975-2005*





Announced Insurer Capital Raising*

(\$ Millions, as of December 1, 2005)



As of Dec. 1, 19 insurers announced plans to raise \$9.95 billion in new capital. Twelve start-ups plan to raise as much as \$8.65 billion more for a total of \$18.65B. Likely at least \$20B raised eventually.

Existing companies will continue to find it relatively easy to raise cash...

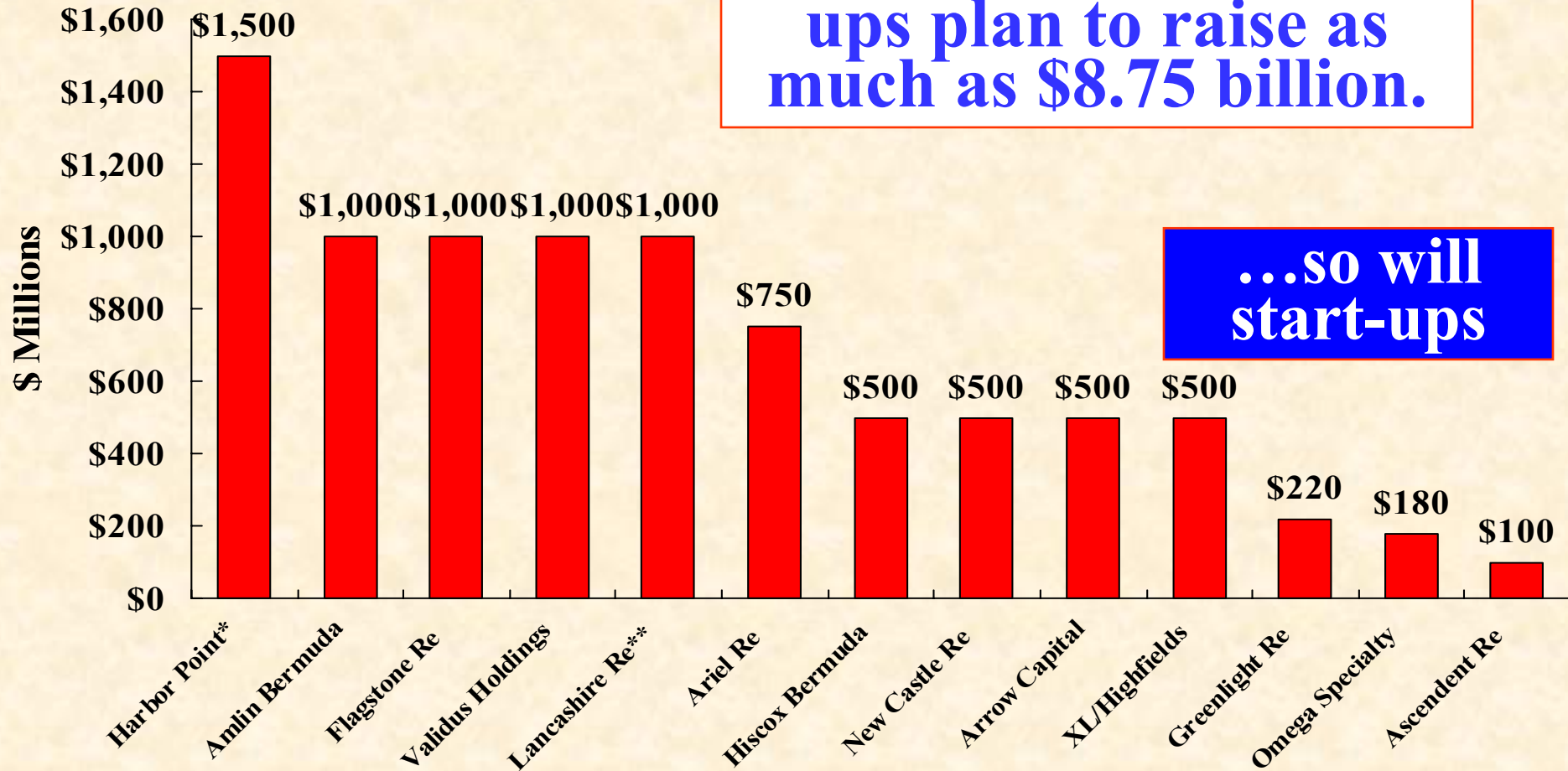
*Existing (re) insurers. Announced amounts may differ from sums actually raised.
Sources: Morgan Stanley, Lehman Brothers, Company Reports; Insurance Information Institute.



Announced Capital Raising by Insurance Start-Ups

(\$ Millions, as of December 11, 2006)

As of Dec. 11, 13 start-ups plan to raise as much as \$8.75 billion.



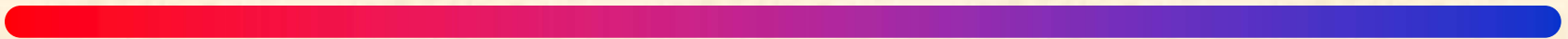
...so will start-ups

*Chubb, Trident are funding Harbor Point. Announced amounts may differ from sums actually raised. **Stated amount is \$750 million to \$1 billion. ***XL Capital/Hedge Fund venture. Arrow Capital formed by Goldman Sachs.
Sources: Morgan Stanley, Company Reports; Insurance Information Institute.

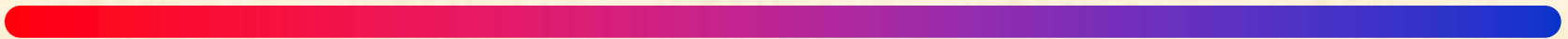
Profit Pillar #6

P/C OPERATING ENVIRONMENT

*Have Things Changed for
the Better?*

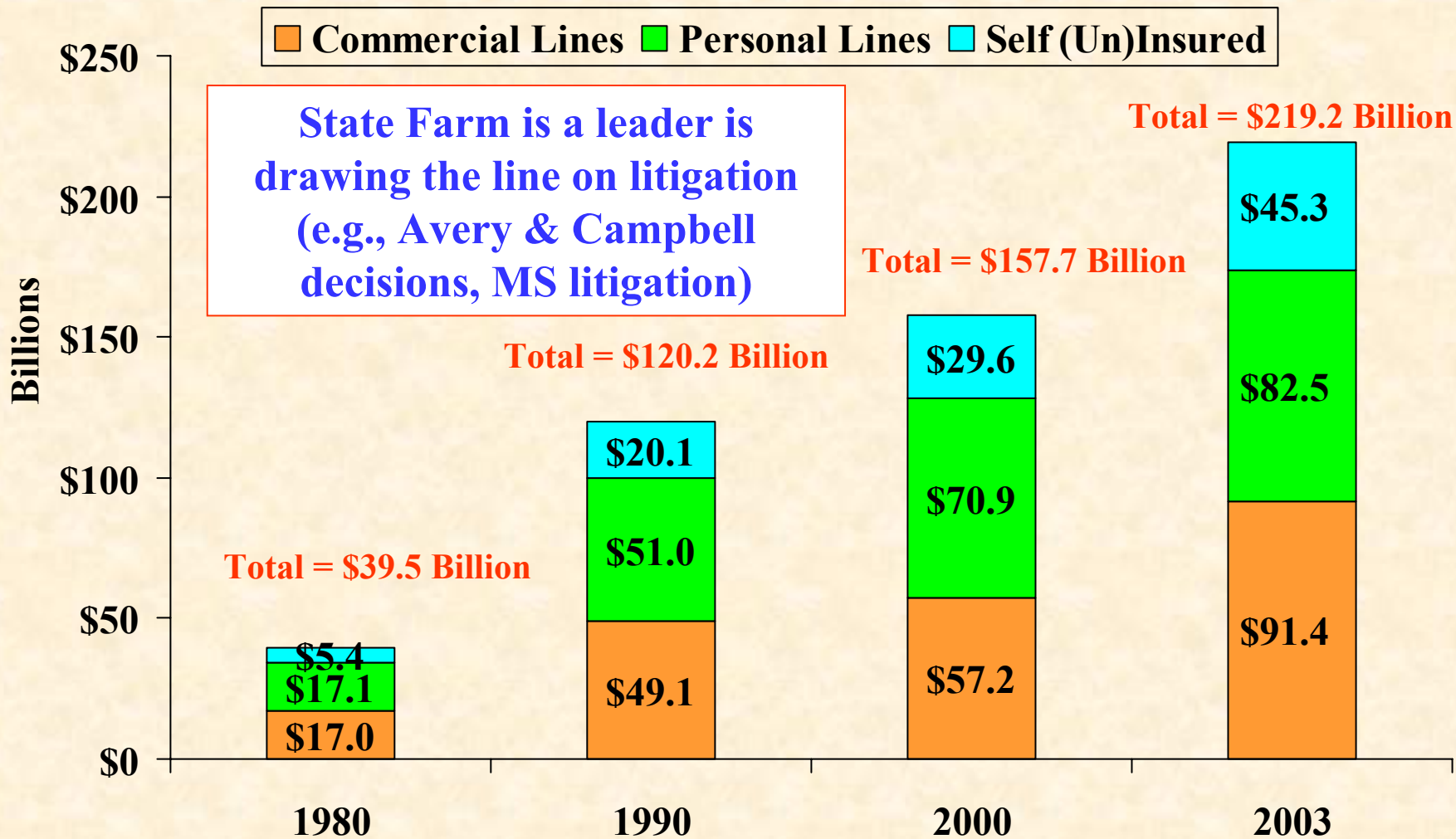


TORT SYSTEM





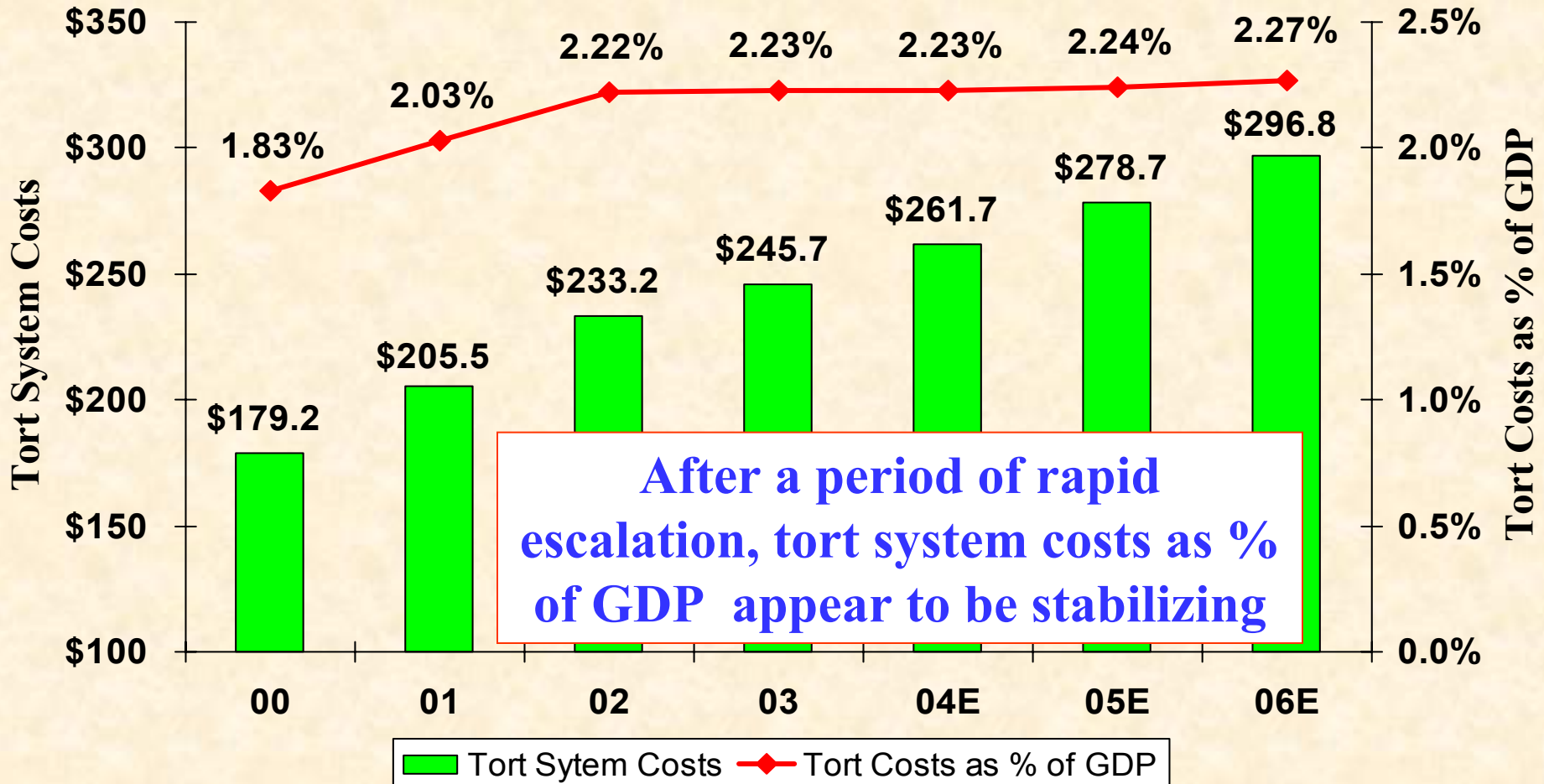
Personal, Commercial & Self (Un) Insured Tort Costs*



*Excludes medical malpractice
Source: Tillinghast-Towers Perrin



Tort System Costs, 2000-2006E



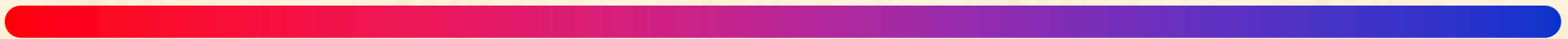


Other Operational Challenges

- **Insurance Scoring: Challenges Based on Disparate Impact**
- **Territorial Rating: Race-Based Issues Loom Large**
- **CAT Modeling: Need Greater Acceptance by Regulators**
- **Regulatory Environment: Still Antiquated**

AUTO & HOME:

*A SUCCESSFUL SHIFT TO
THE UNDERWRITING
CULTURE?*



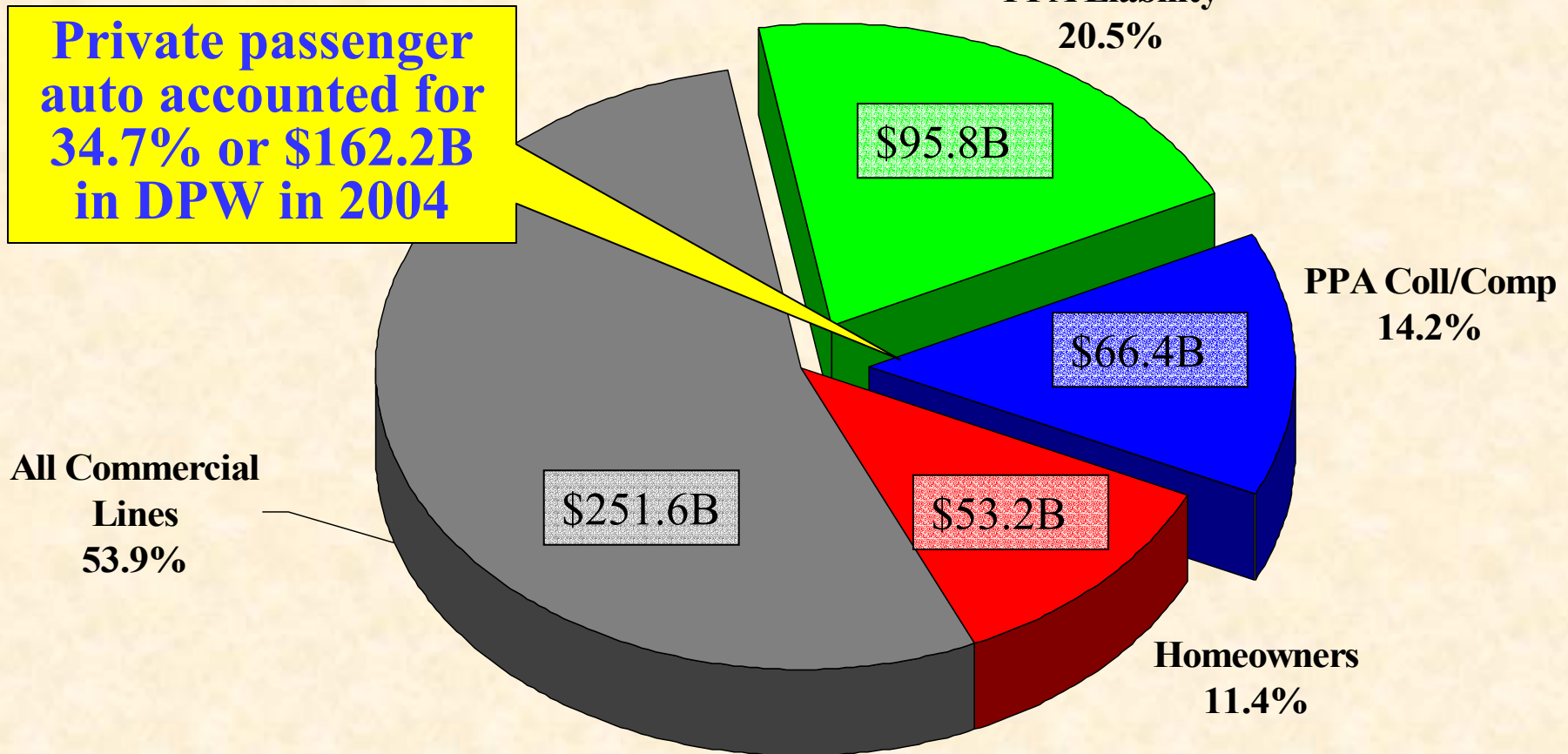
Private Passenger Auto





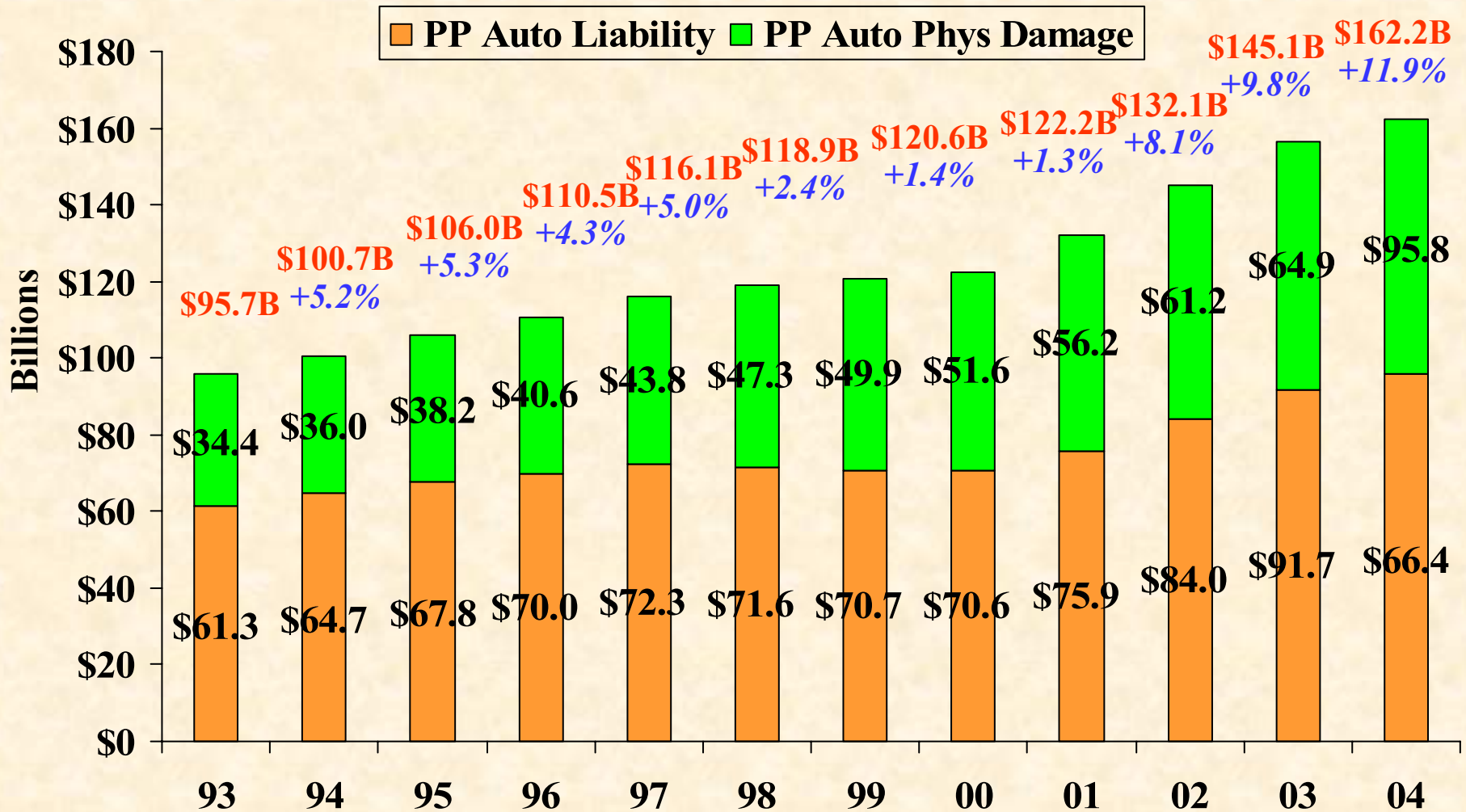
Private Passenger Auto is Enormous Part of P/C Industry

**Total 2004 Direct Personal + Commercial Premiums Written
= \$467.0 Billion**





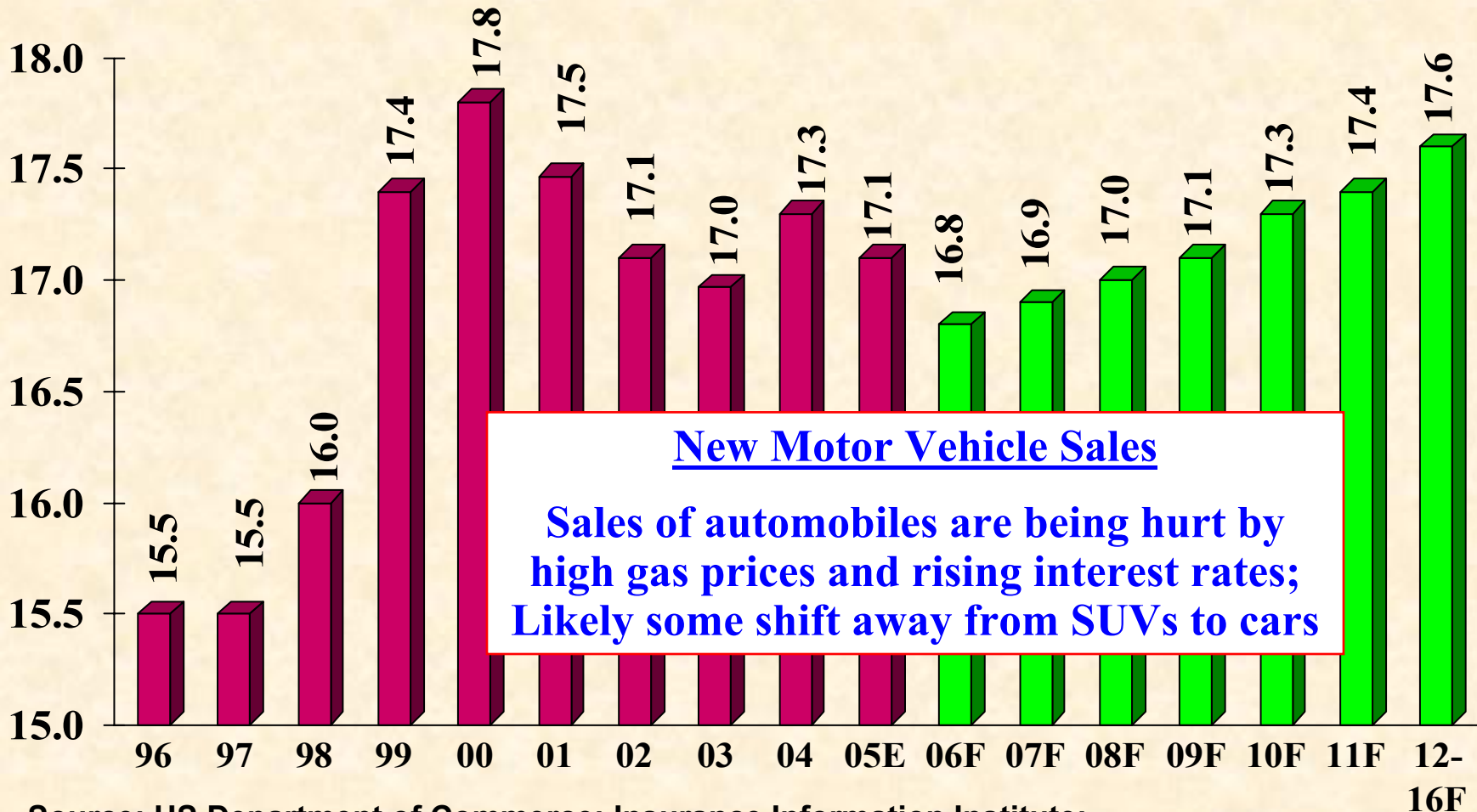
Auto Insurance: Direct Premiums Written





Motor Vehicle Retail Sales

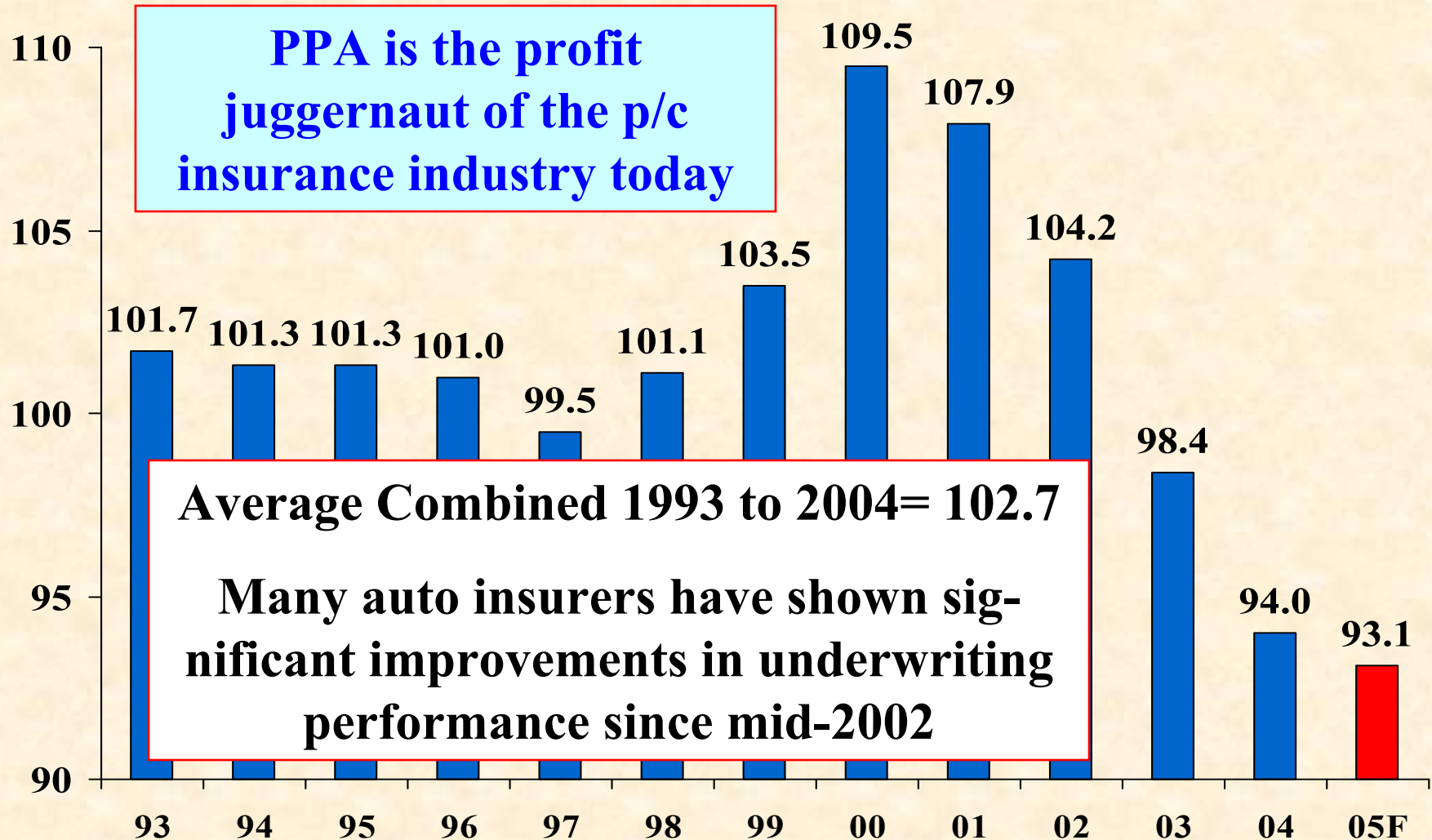
(Millions of Units)



Source: US Department of Commerce; Insurance Information Institute; Blue Chip Economic Indicators as of January 2006 through 2007; I/I forecast thereafter.

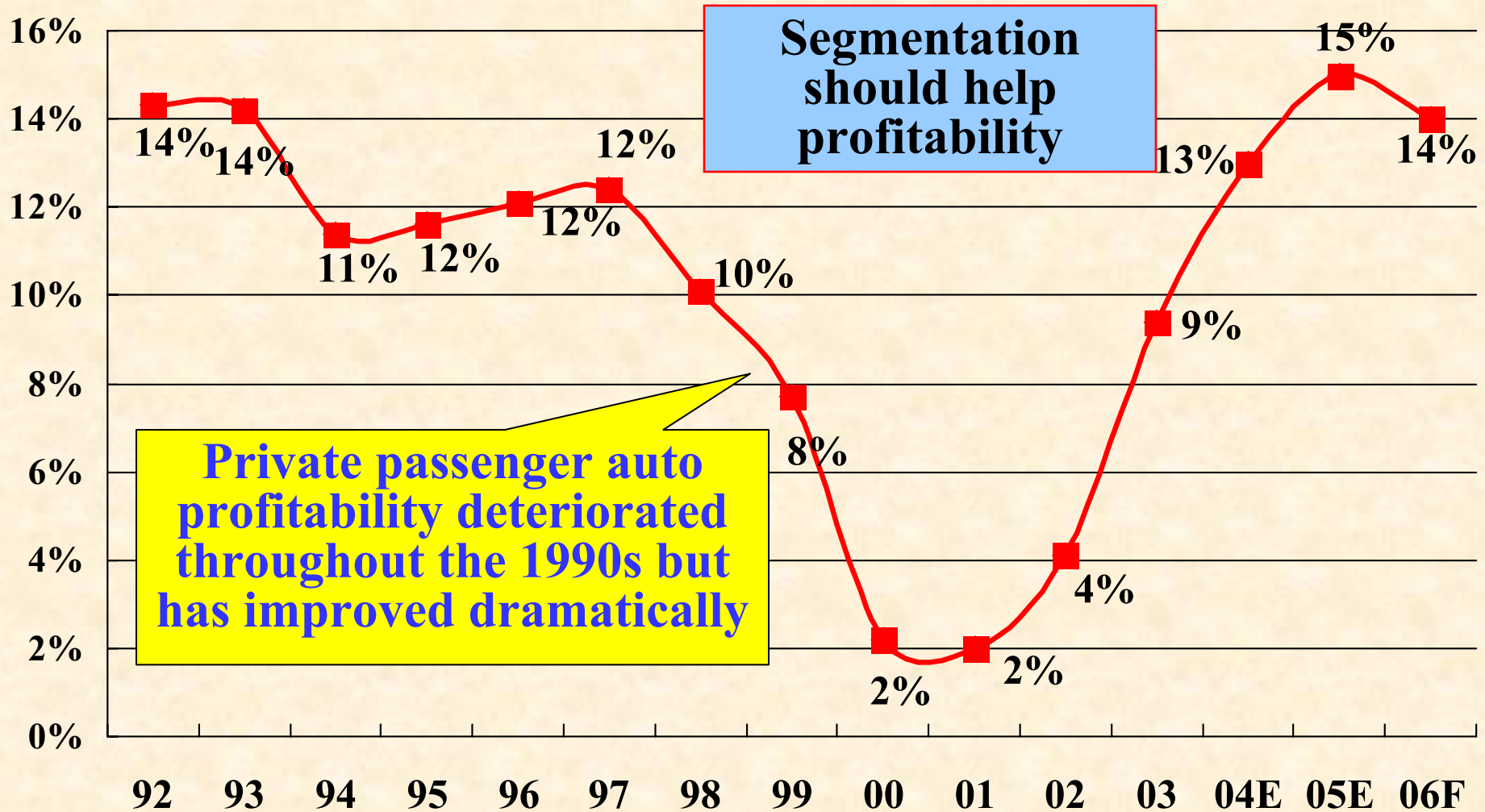


Private Passenger Auto Combined Ratio



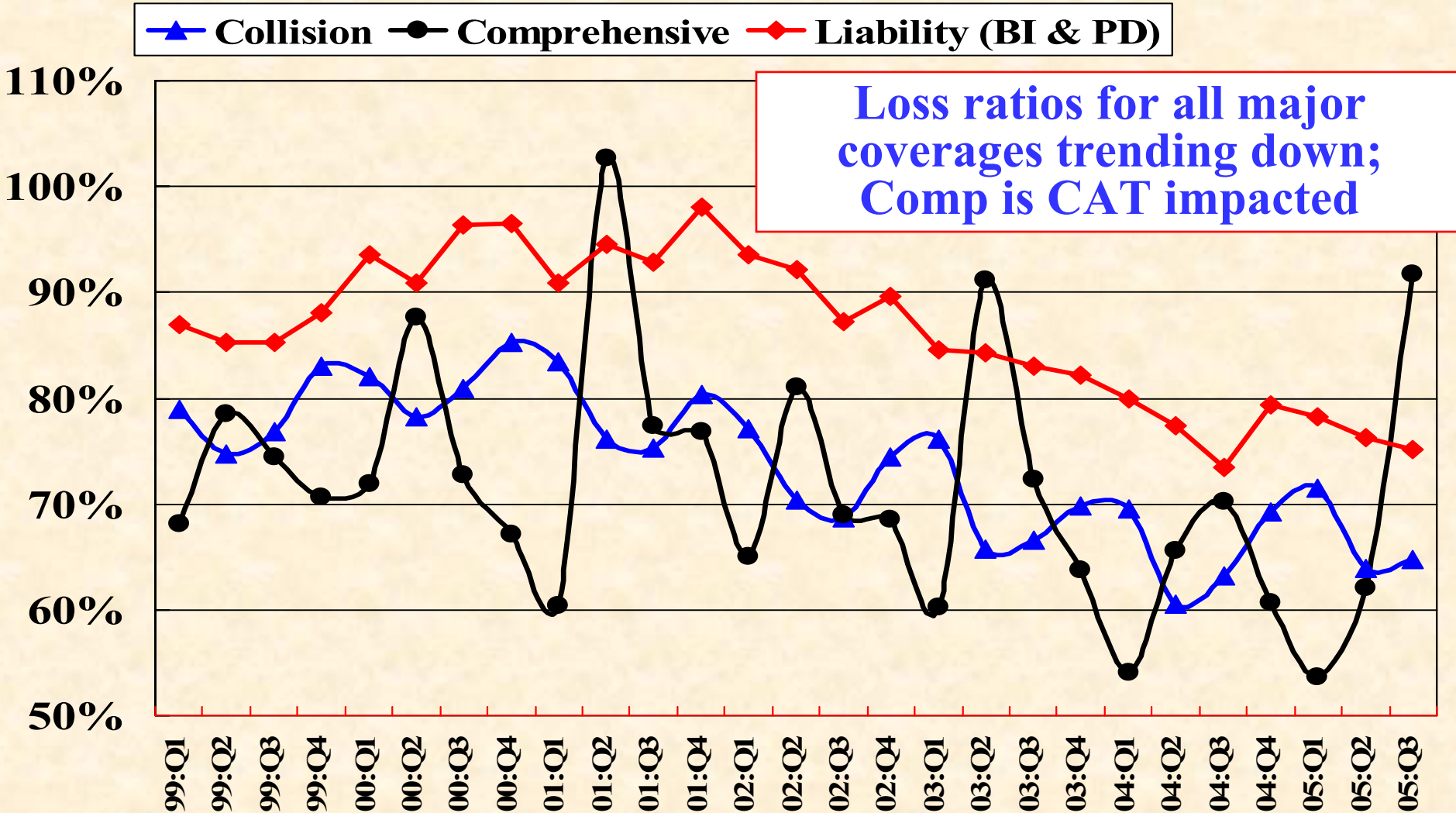


RNW: Private Passenger Auto, United States, 1992-2006F





Private Passenger Auto: Incurred Loss Ratios*, 1999-2005:Q3



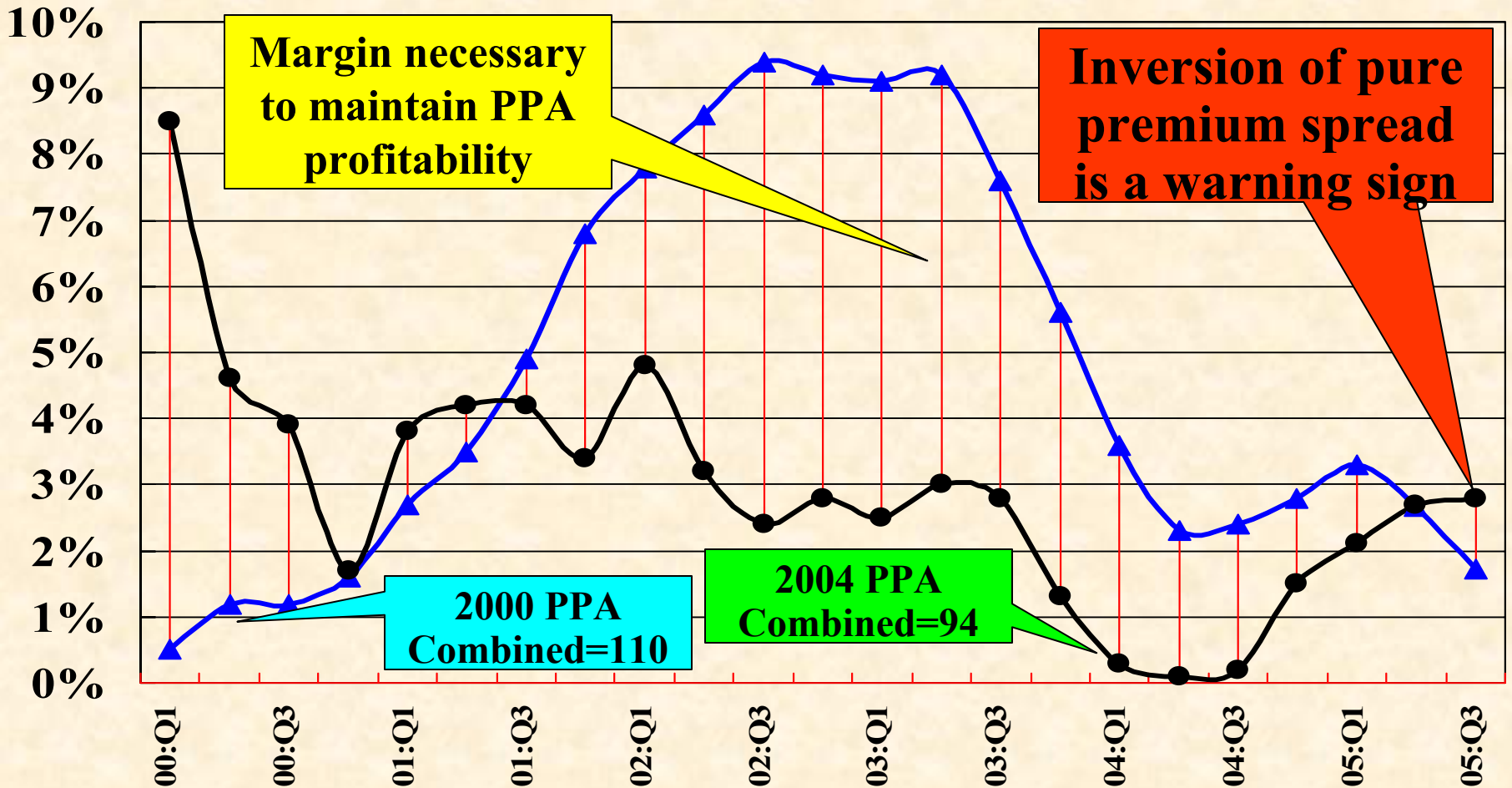
Source: ISO Fast Track; Insurance Information Institute.

*Direct basis



Pure Premium Spread: Personal Auto PD Liability, 2000-2005:Q3

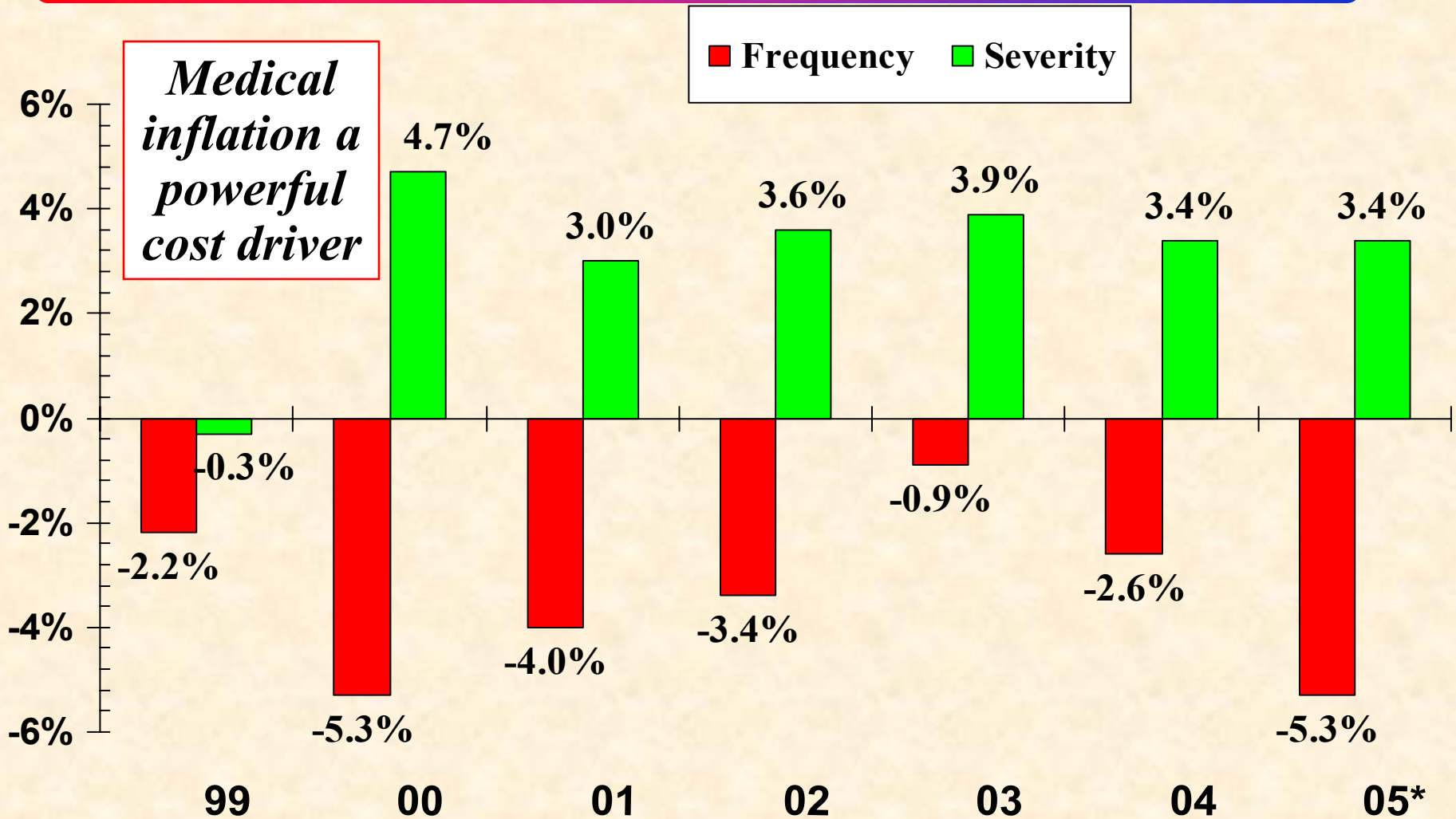
▲ Auto Insurance Component of CPI ● Personal Auto-PD Pure Premium



Bodily Injury: Severity Trends



Now Offset Declining Claim Freq.



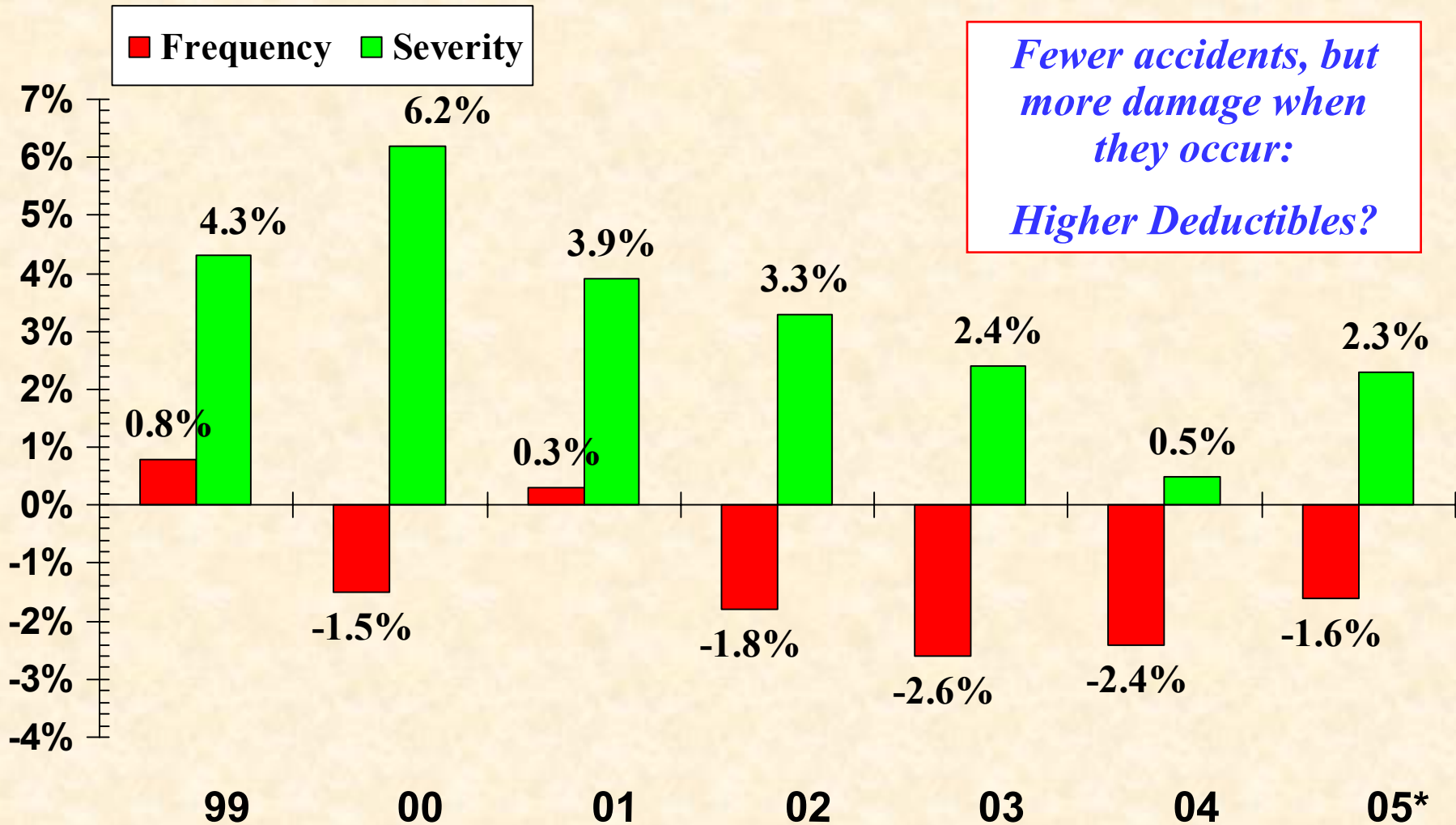
*Four quarters ending 2005:Q3.

Source: ISO Fast Track data.



PD Liability: Frequency Trend

Swamps Rising Claim Severity

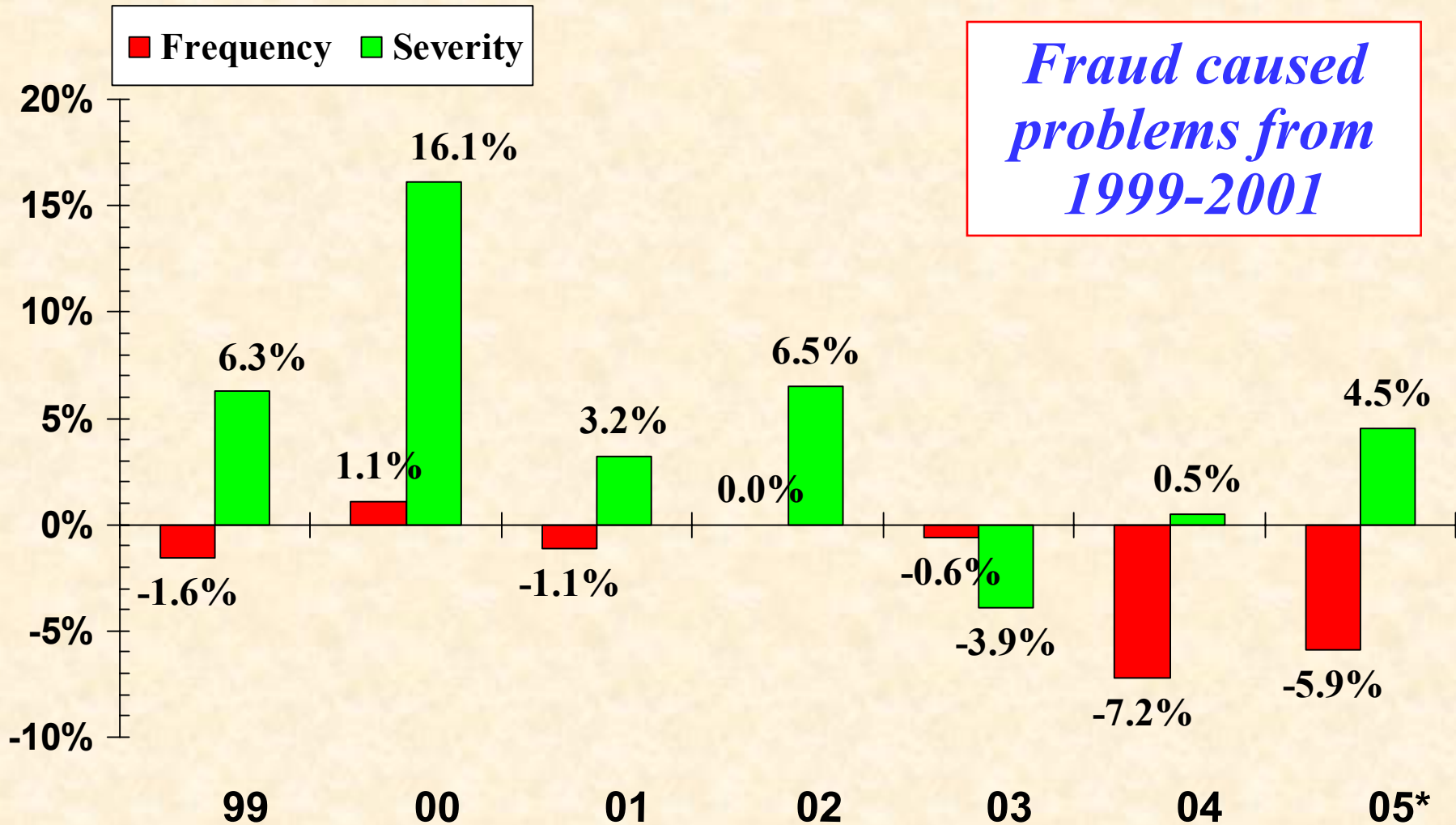


*Fewer accidents, but
more damage when
they occur:
Higher Deductibles?*

*Four quarters ending 2005:Q3.
Source: ISO Fast Track data.



PIP: Frequency Trend Now Offsets Rising Claim Severity



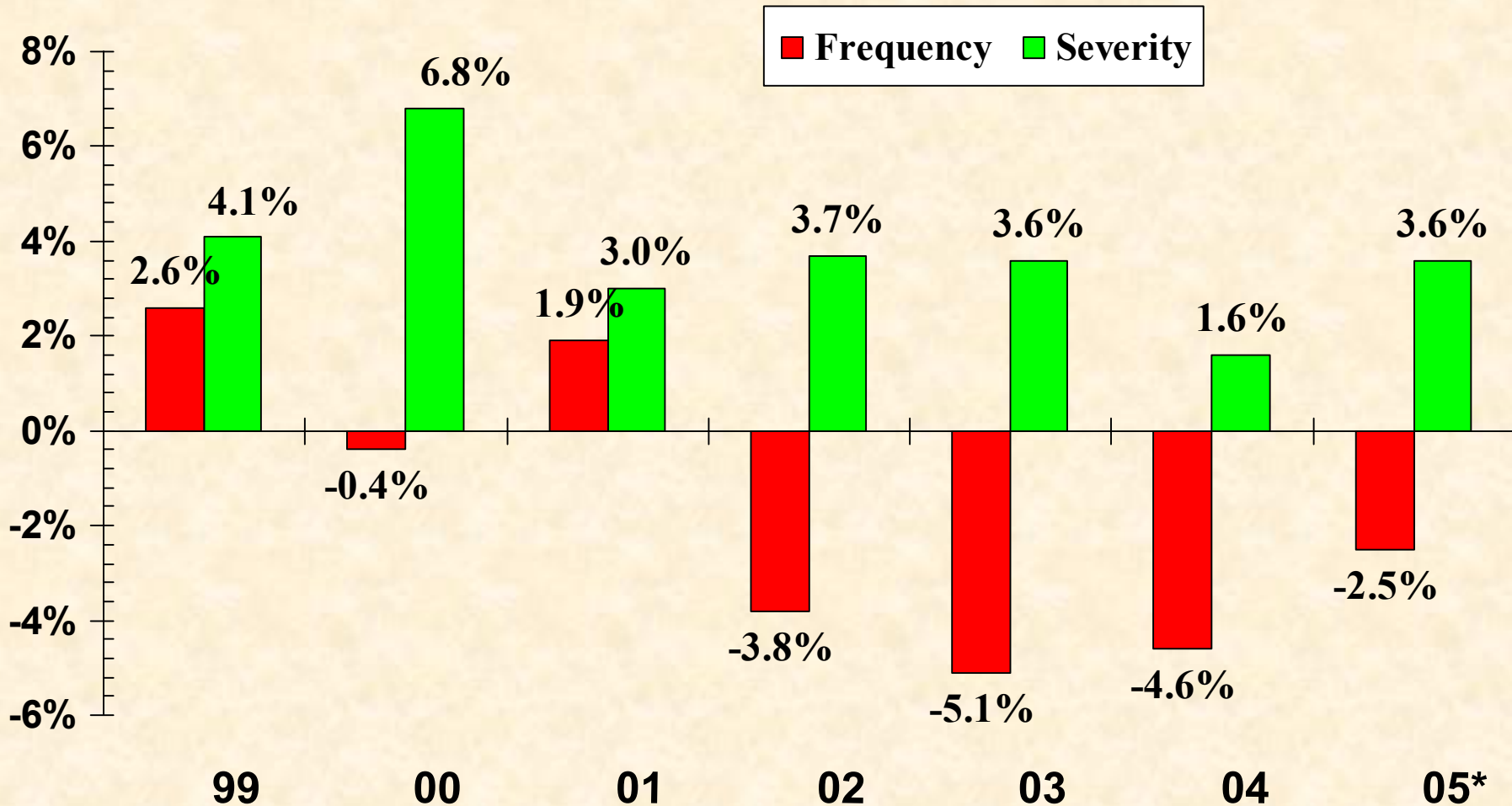
*Fraud caused
problems from
1999-2001*

*Four quarters ending 2005:Q3.
Source: ISO Fast Track data.



Collision: Frequency Trend

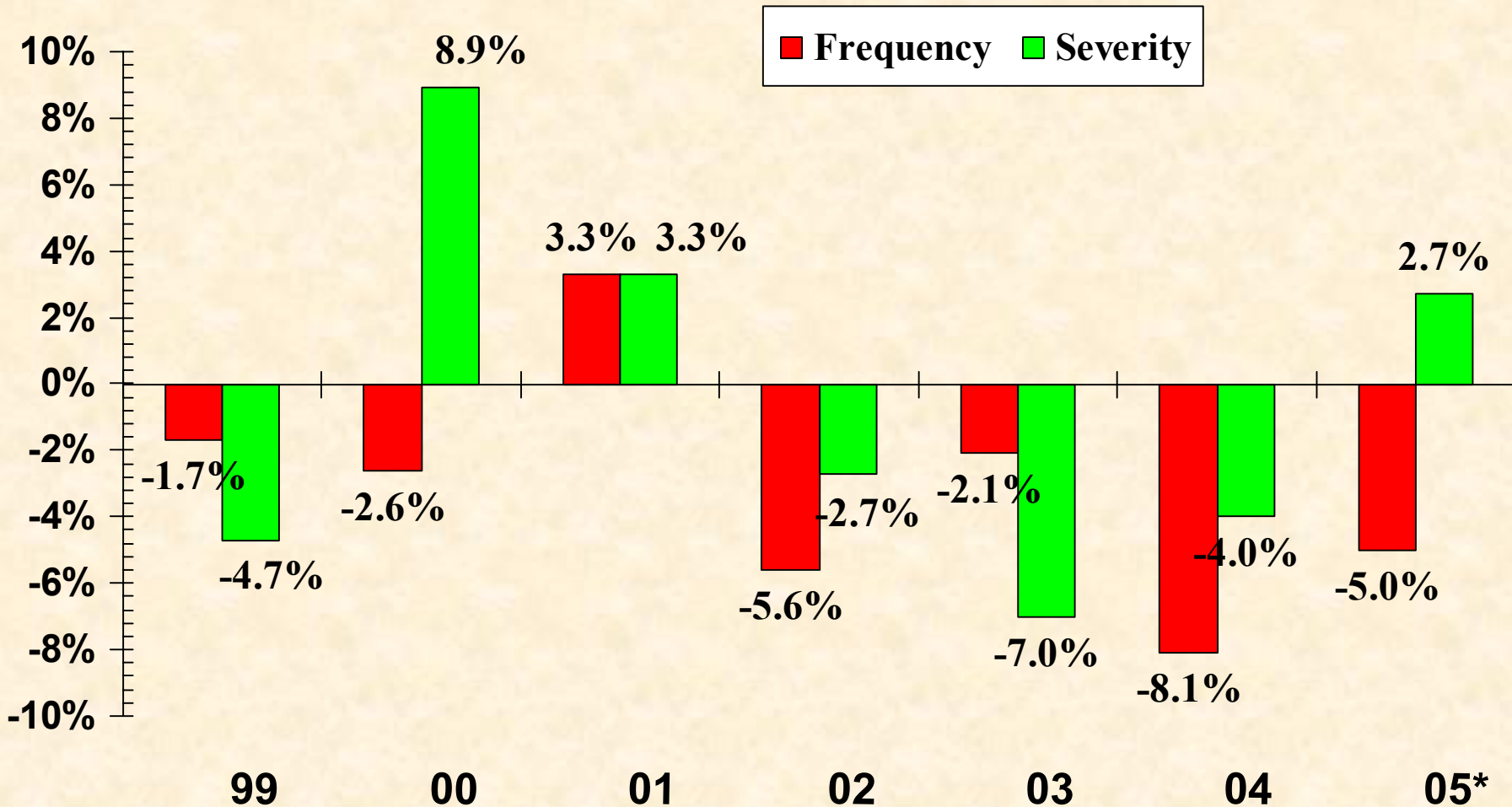
Swamps Rising Claim Severity



*Four quarters ending 2005:Q3.
Source: ISO Fast Track data.

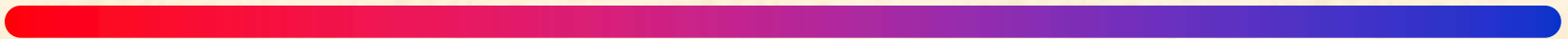


Comprehensive: Favorable Frequency and Severity Trends



*Four quarters ending 2005:Q3.
Source: ISO Fast Track data.

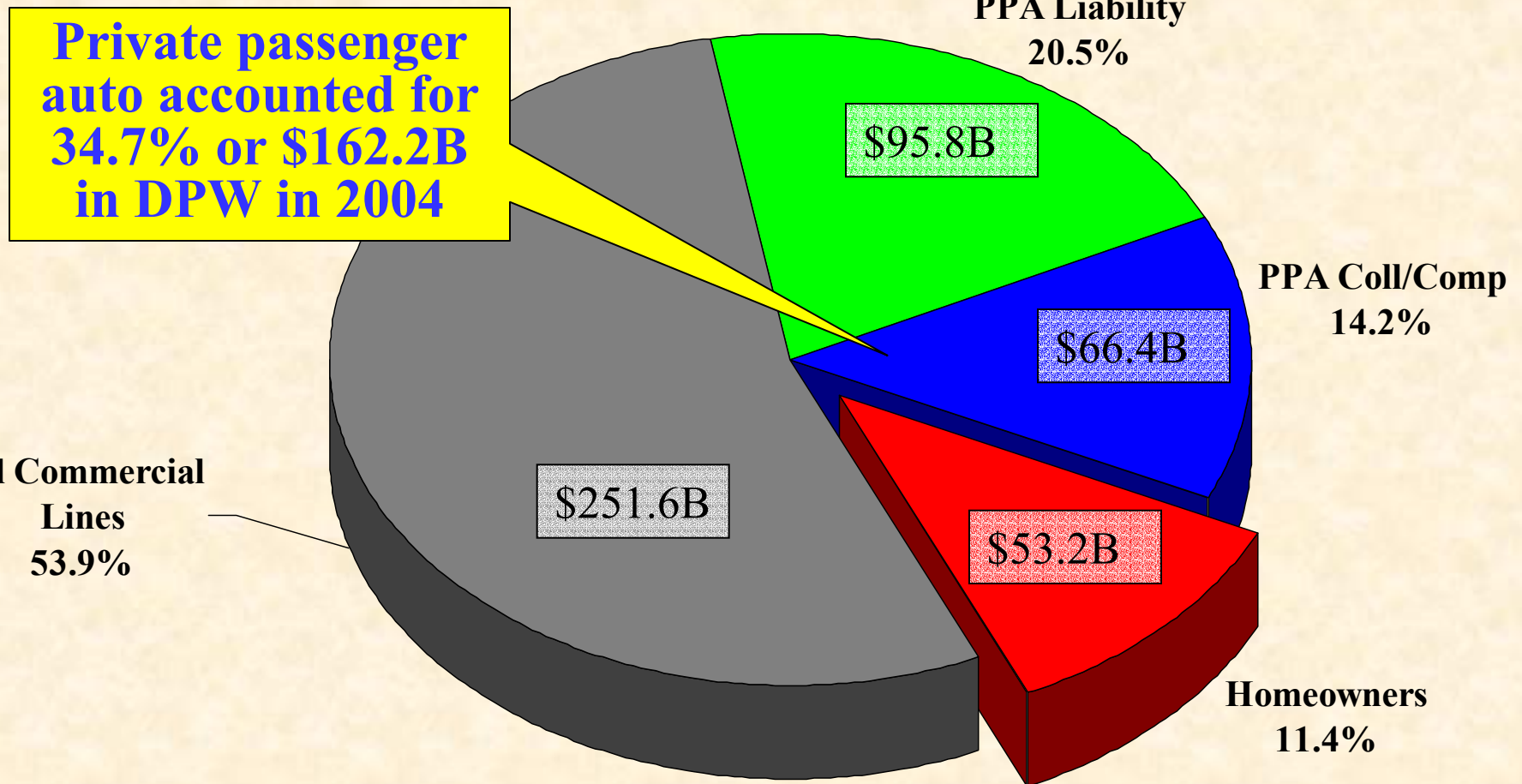
Homeowners





Private Passenger Auto is Enormous Part of P/C Industry

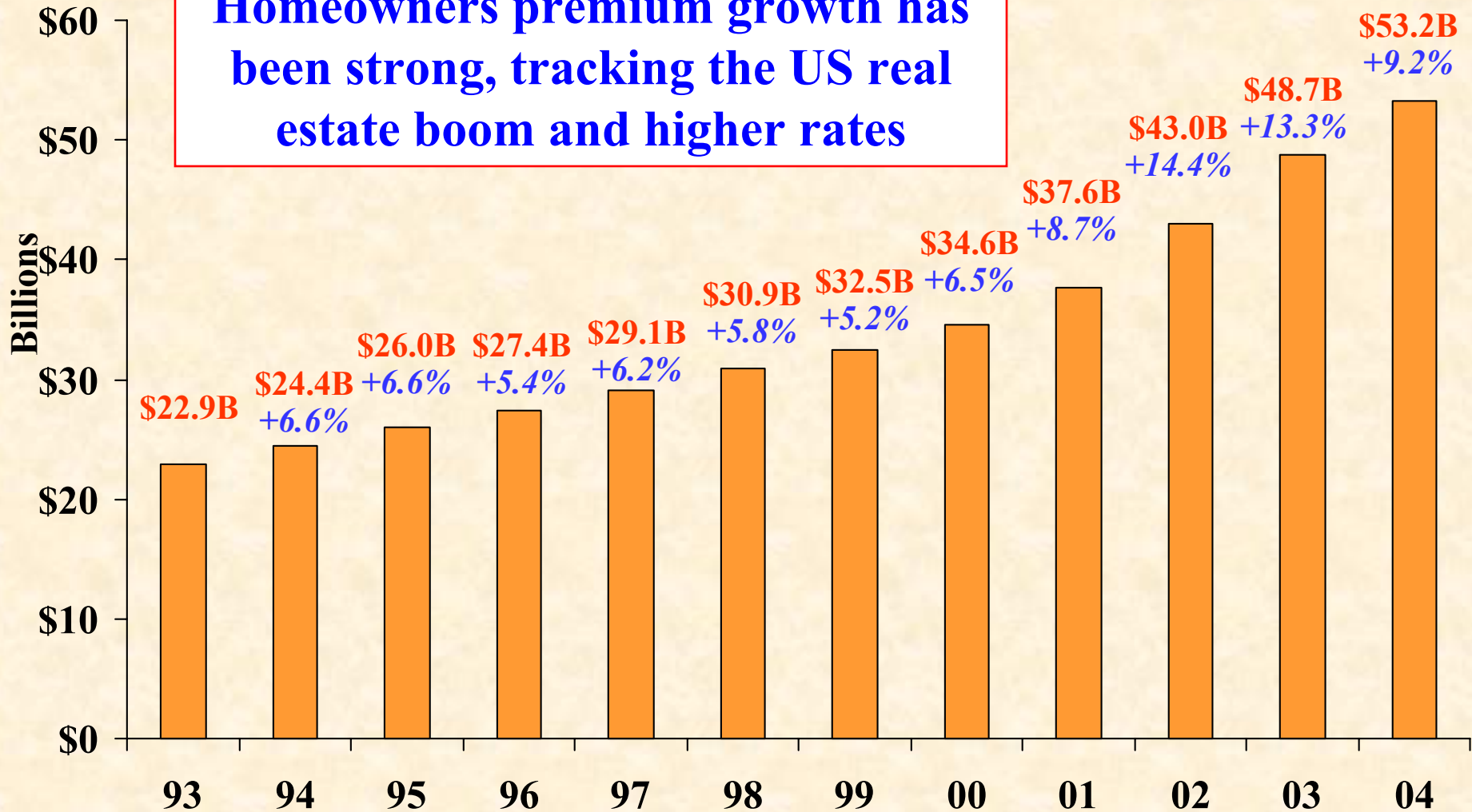
**Total 2004 Direct Personal + Commercial Premiums Written
= \$467.0 Billion**





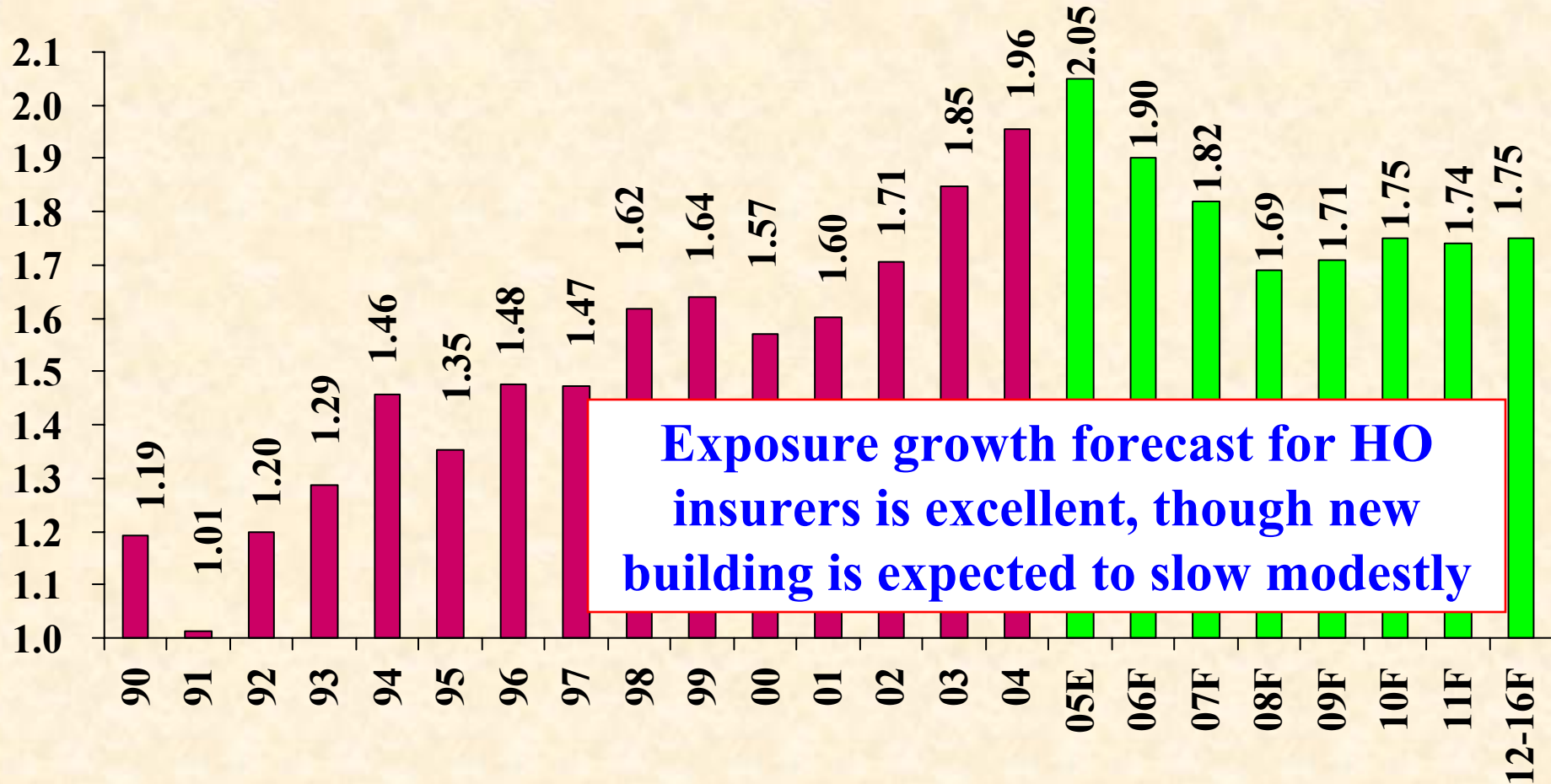
Homeowners Insurance: Direct Premiums Written

Homeowners premium growth has been strong, tracking the US real estate boom and higher rates



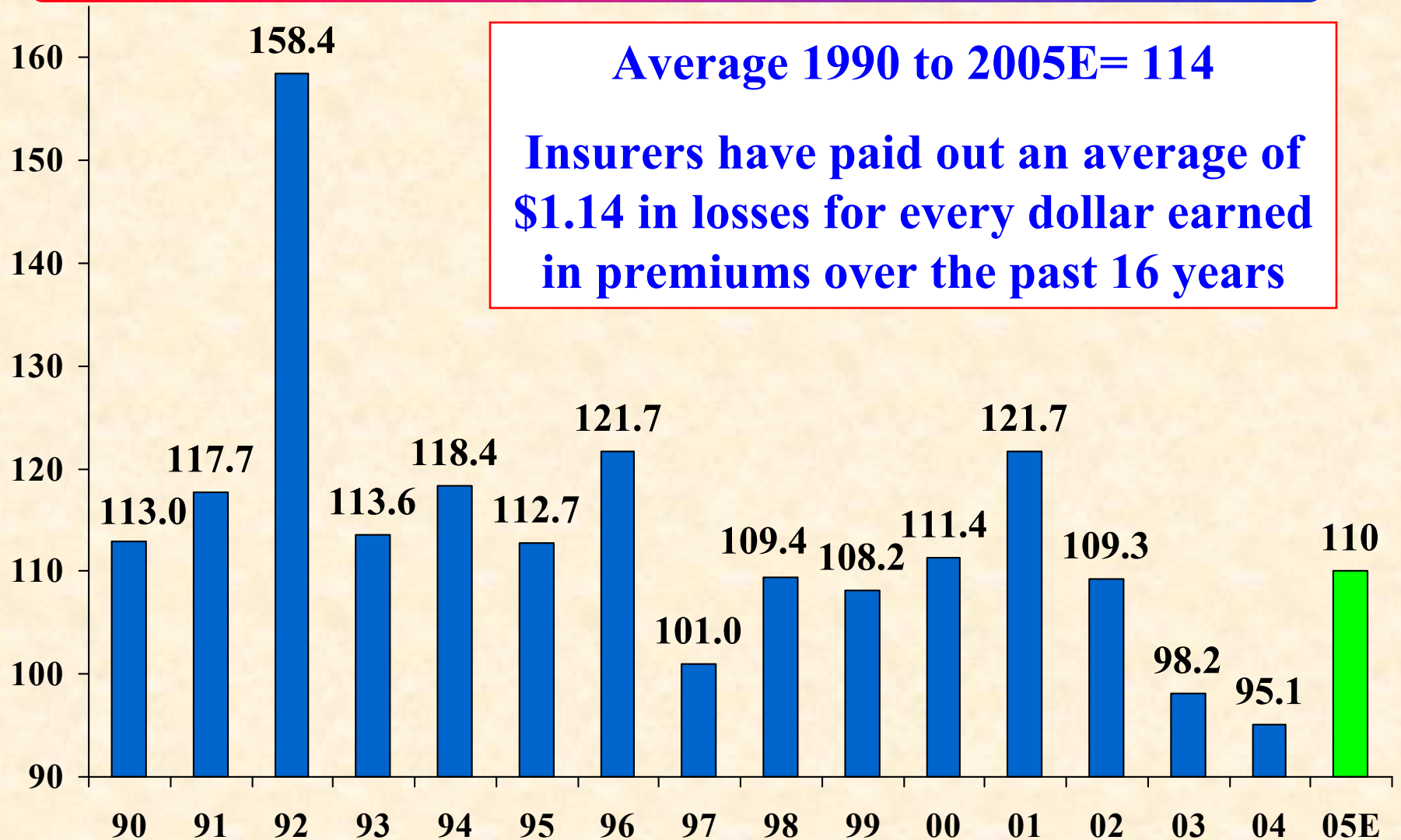


New Private Housing Starts *(Millions of Units)*



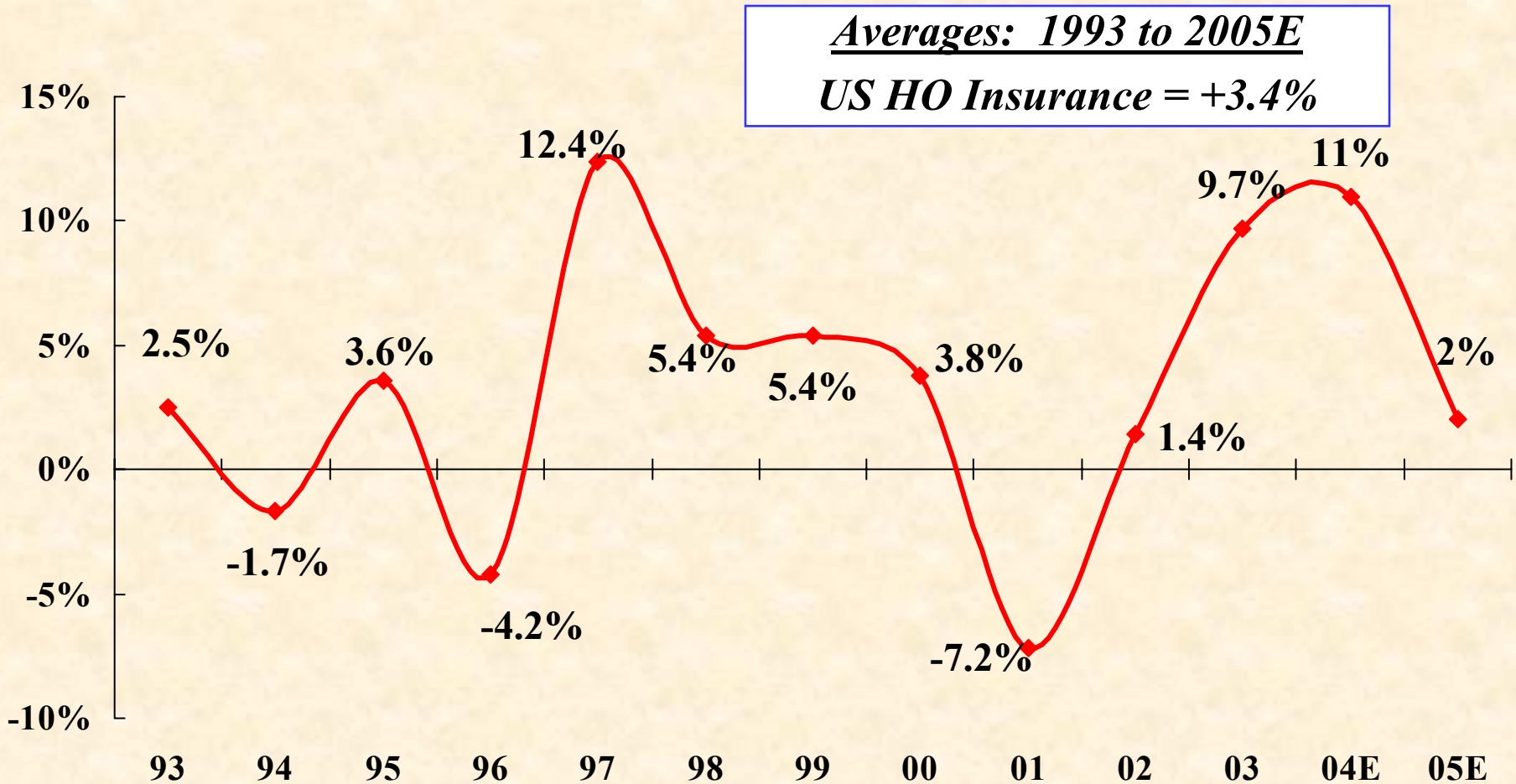


Homeowners Insurance Combined Ratio



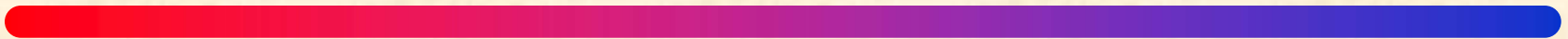


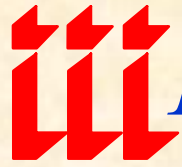
Rates of Return on Net Worth for Homeowners Ins: US



INSURANCE-TO- VALUE:

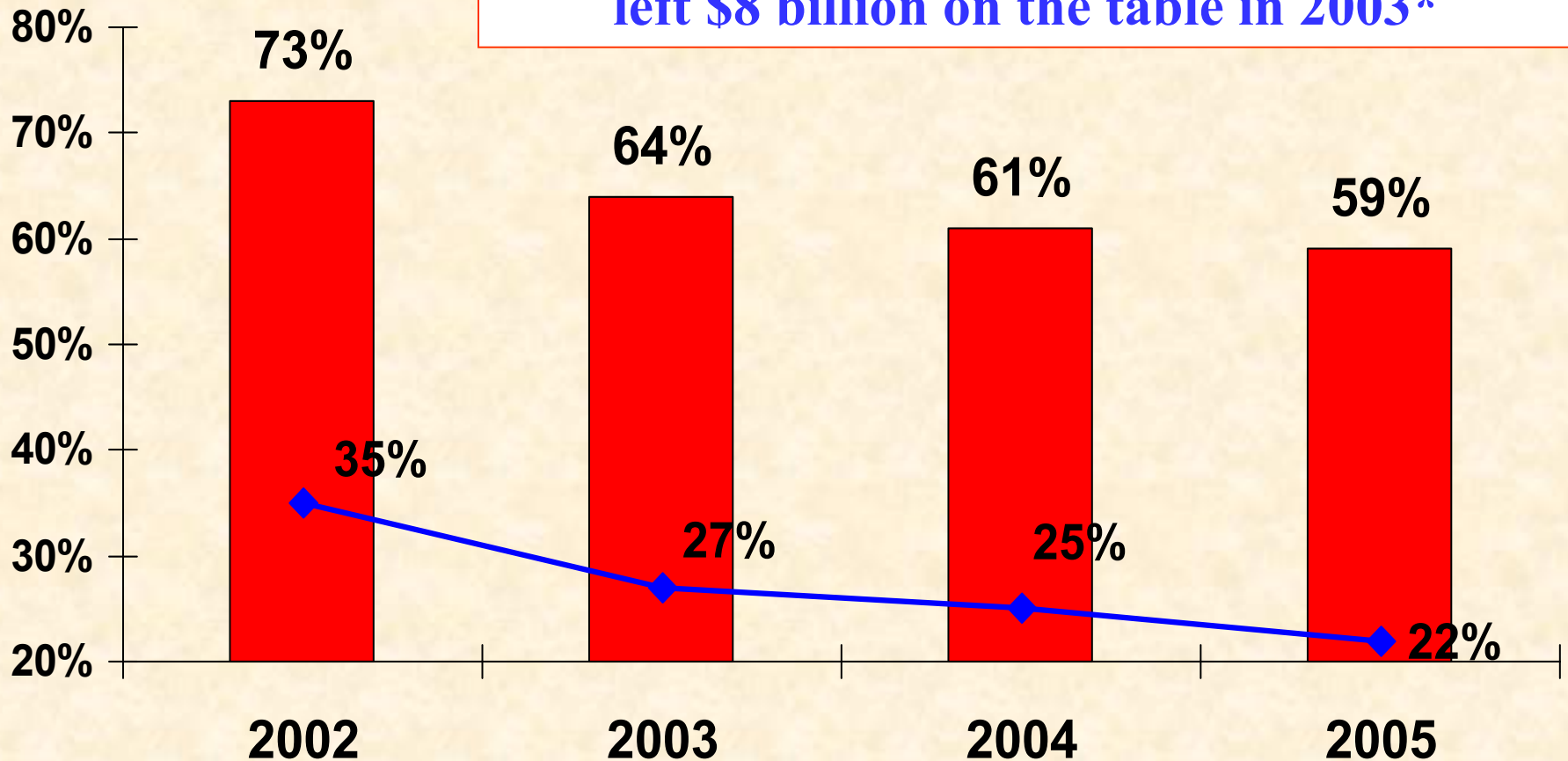
*Ending the Blame Game is a
Win-Win Situation Deal*





Insurance-to-Value in HO is a National Problem, Improved Recently

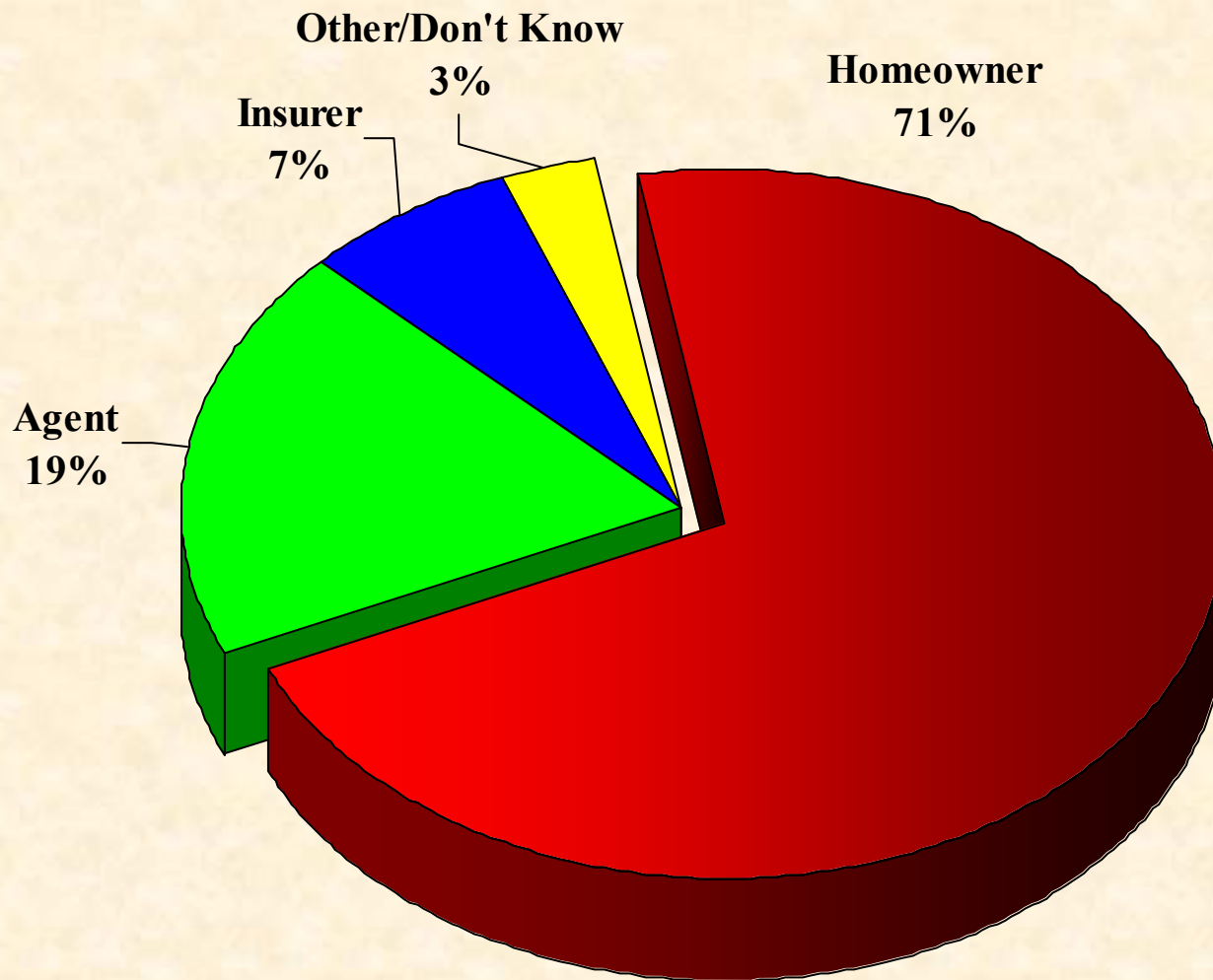
Less than ITV means homeowners insurers left \$8 billion on the table in 2003*



*According MS/B.
Source: Marshall & Swift/Boeckh

■ Proportion of Home Undervalued **◆ Average Undervaluation**

Who's Responsibility Is It to Keep Homeowners Policy Up-to-Date?

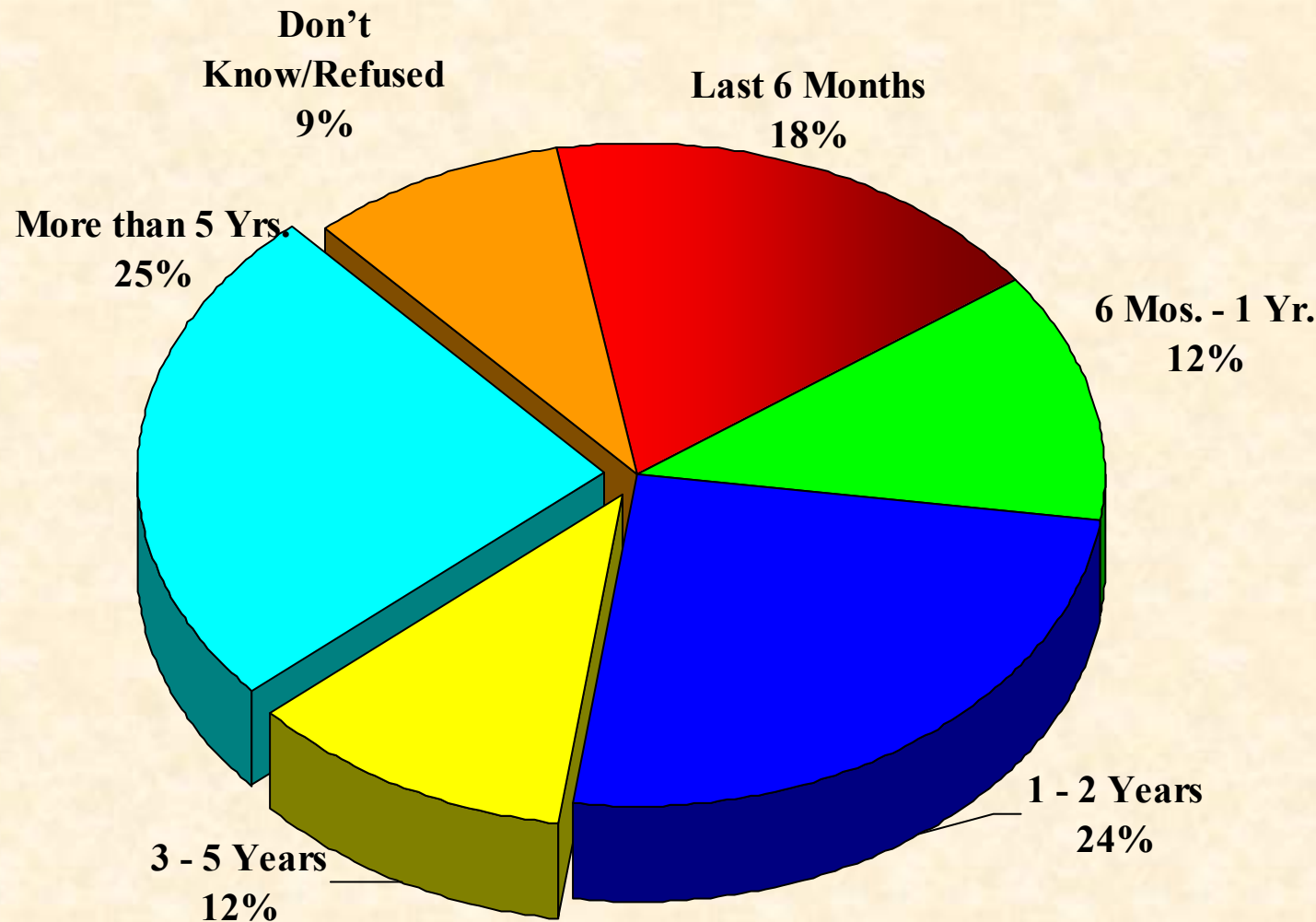


- Nearly 3 out of 4 people, even fire-weary Californians, believe it is the homeowner's responsibility to keep insurance up-to-date
- BUT 26% believe it's the agent's or insurer's responsibility
- This substantial minority is wrong, but gets heard (CA, FL) and comments reflect badly on insurers
- Media, regulators and legislators join fray

Source: September 2004 poll of 800 Californians conducted for the Insurance Information Network of California by Public Opinion Strategies. Margin of error = +/- 3.46%.



Time Since Homeowner Last Updated HO Policy



- Nearly 40% of people haven't updated their homeowner's policy within the last 3 years
- Huge potential for problems, especially in disaster-prone states
- Leads automatically to large under-insurance problems

Source: September 2004 poll of 800 Californians conducted for the Insurance Information Network of California by Public Opinion Strategies. Margin of error = +/- 3.46%.



Why People Don't Increase Homeowners Coverage



- 22% cite expense as reason they don't adjust they're HO coverage
- 25% don't realize they need to
- 30% say they're too busy (to think about protecting their most valuable asset)
- 25% say their agent said there's nothing to worry about

Source: Harris interactive poll conducted for Fireman's Fund, July 2004.

See: <http://www.firemansfund.com/dcmssites/about/pdf/firemansfundtoplinerev2.pdf>



Summary

- **Home/Auto picture is bright for 2006, assuming “normal” CAT loss activity**
- **Concern about pricing discipline, esp. if freq/severity trends turn adverse**
- **Rising investment returns insufficient to support deep soft market in terms of price, terms & conditions**
- **Clear need to be more underwriting focused**
- **Major Challenges:**
 - **Maintaining price/underwriting discipline**
 - **Managing variability/volatility of results**



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*