

Casualty Actuaries of Greater New York

Industry Overview

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Key Industry Issues

- ◆ **Underwriting Discipline**
 - Pricing Acumen
 - Reserving Commitment
 - Market Conditions, Recessionary Environment
 - Premium Declines back to back years
- ◆ **Capital Management**
 - Managing with Limited Financial Flexibility
- ◆ **The Continued Evolution of ERM**
 - Correlation of Risk
 - Proactive & Flexible

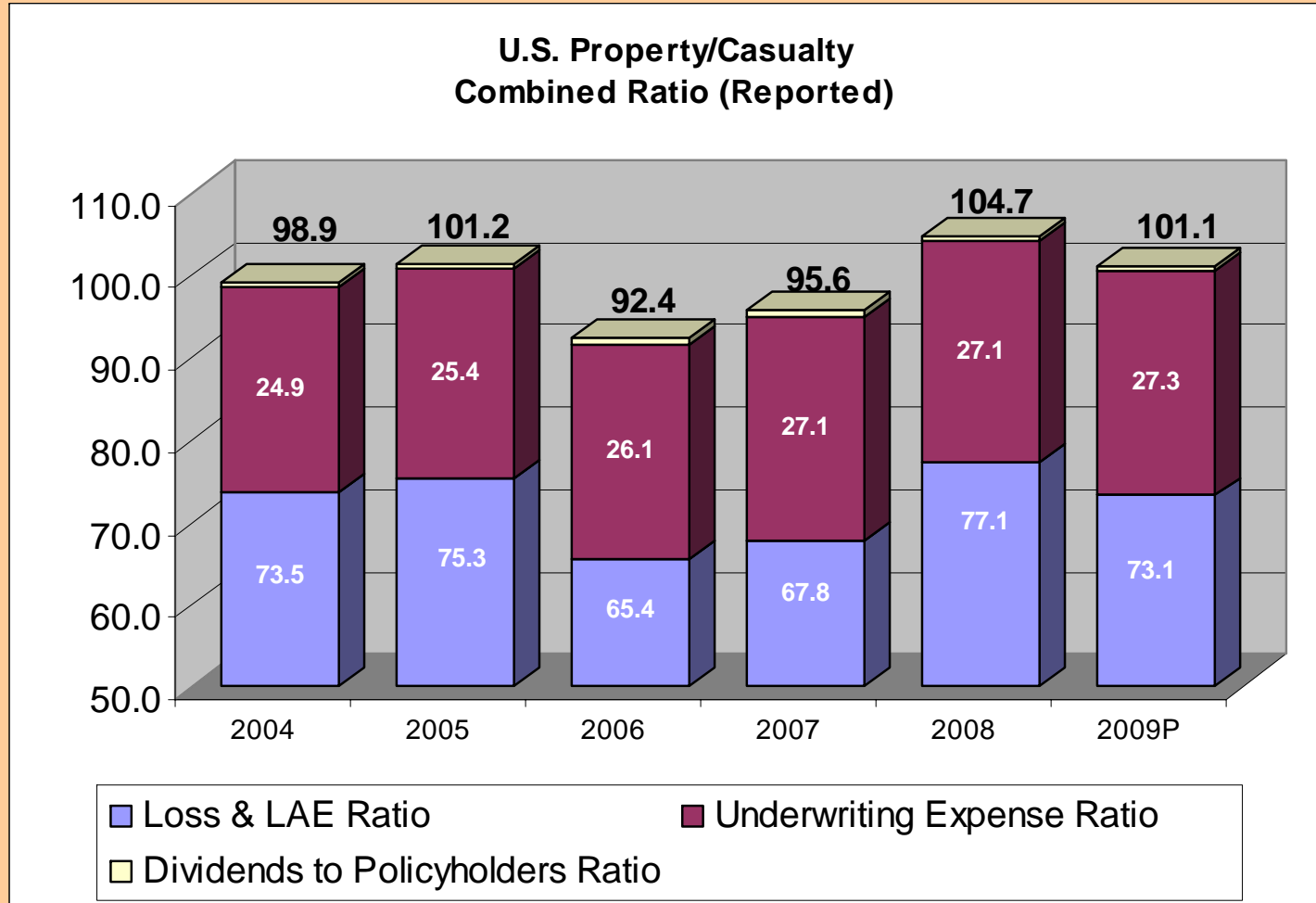


Key Industry Issues

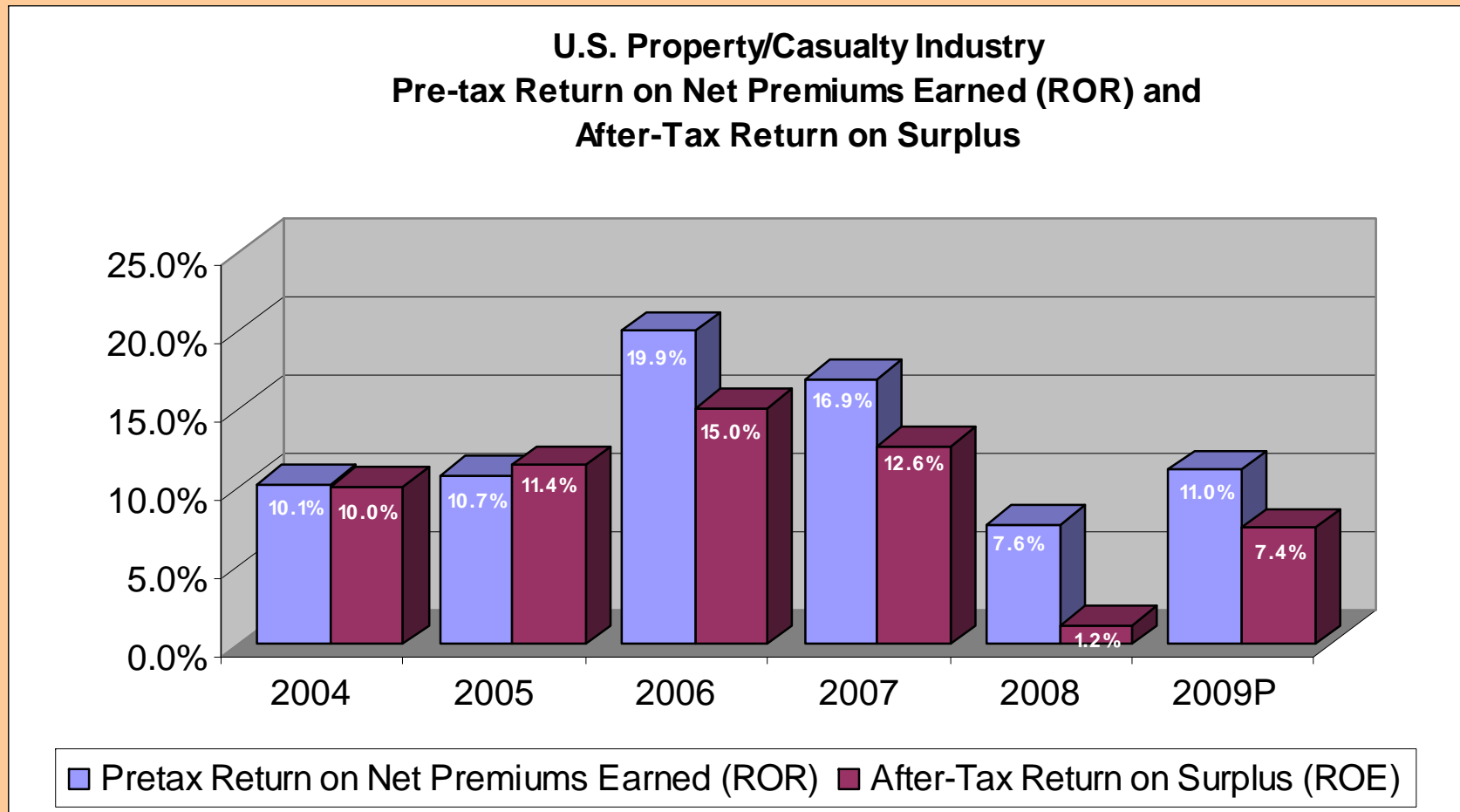
- ◆ **Basic Risk Management**
 - **Getting Comfortable with Data Quality**
 - **Understanding the Models**
- ◆ **Financial Market Volatility**
 - **More to Come**
- ◆ **Will Federal Oversight Increase?**
 - **Impact of New Presidency**
- ◆ **Globalization of Capital Markets**



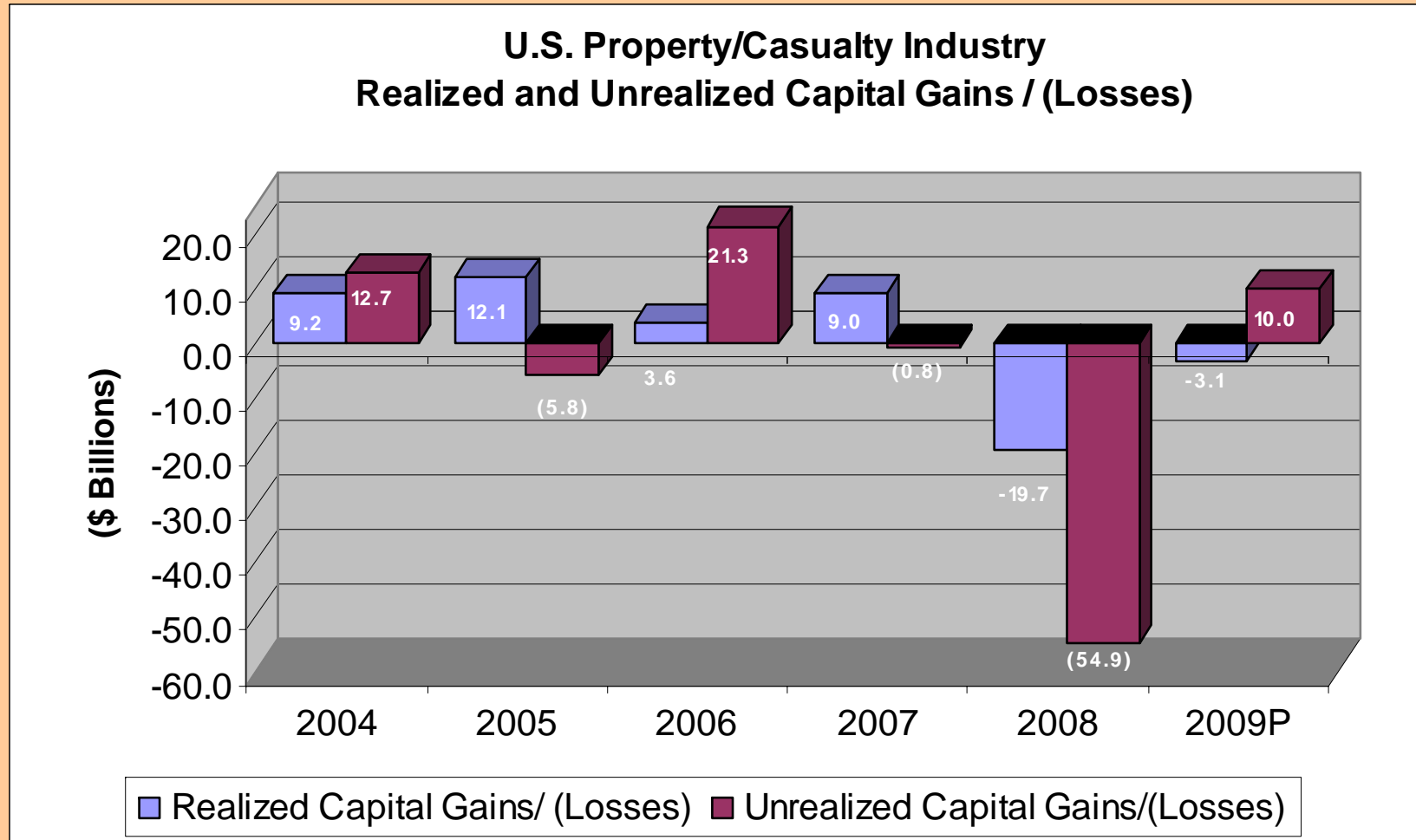
U.S. Property Casualty Industry



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U.S. Property Casualty Industry



Where are we now?

- ◆ **Underwriting results remain under pressure**
- ◆ **Soft market appears to be stabilizing**
- ◆ **Capitalization is adequate**
- ◆ **Access to additional capital limited**
- ◆ **Investment market uncertainty 2009**
- ◆ **Despite external forces, management decisions critical**



Cycle Drivers

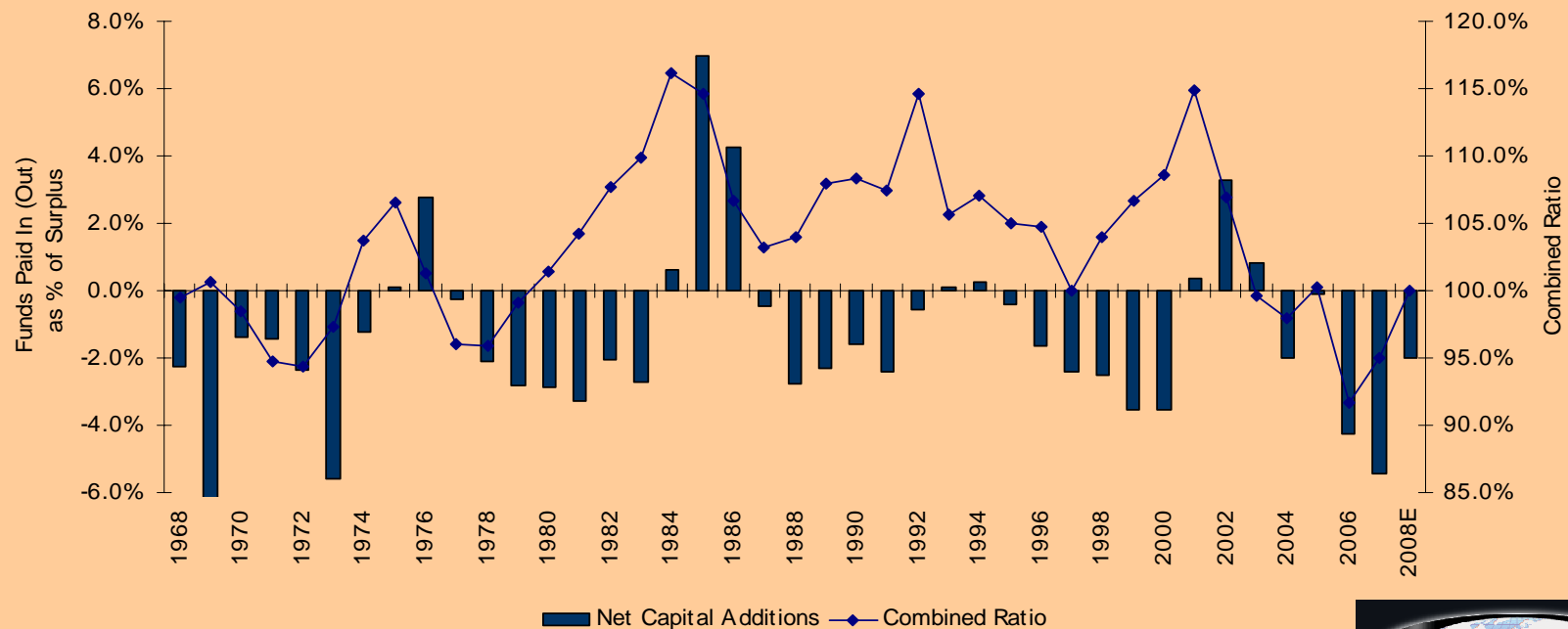
- ◆ **Excess Capital**
- ◆ **Investment Returns**
- ◆ **Underwriting Profitability**
- ◆ **Return on Equity/Surplus**



P&C cycle and capital flows

- ◆ Historically, capital enters the P&C industry after high combined ratios
- ◆ U/W Results deteriorate during times of Net Capital Outflow
 - ◆ Profitability lagged the actual pricing trends due to Reserving
 - ◆ New capital requires improved returns

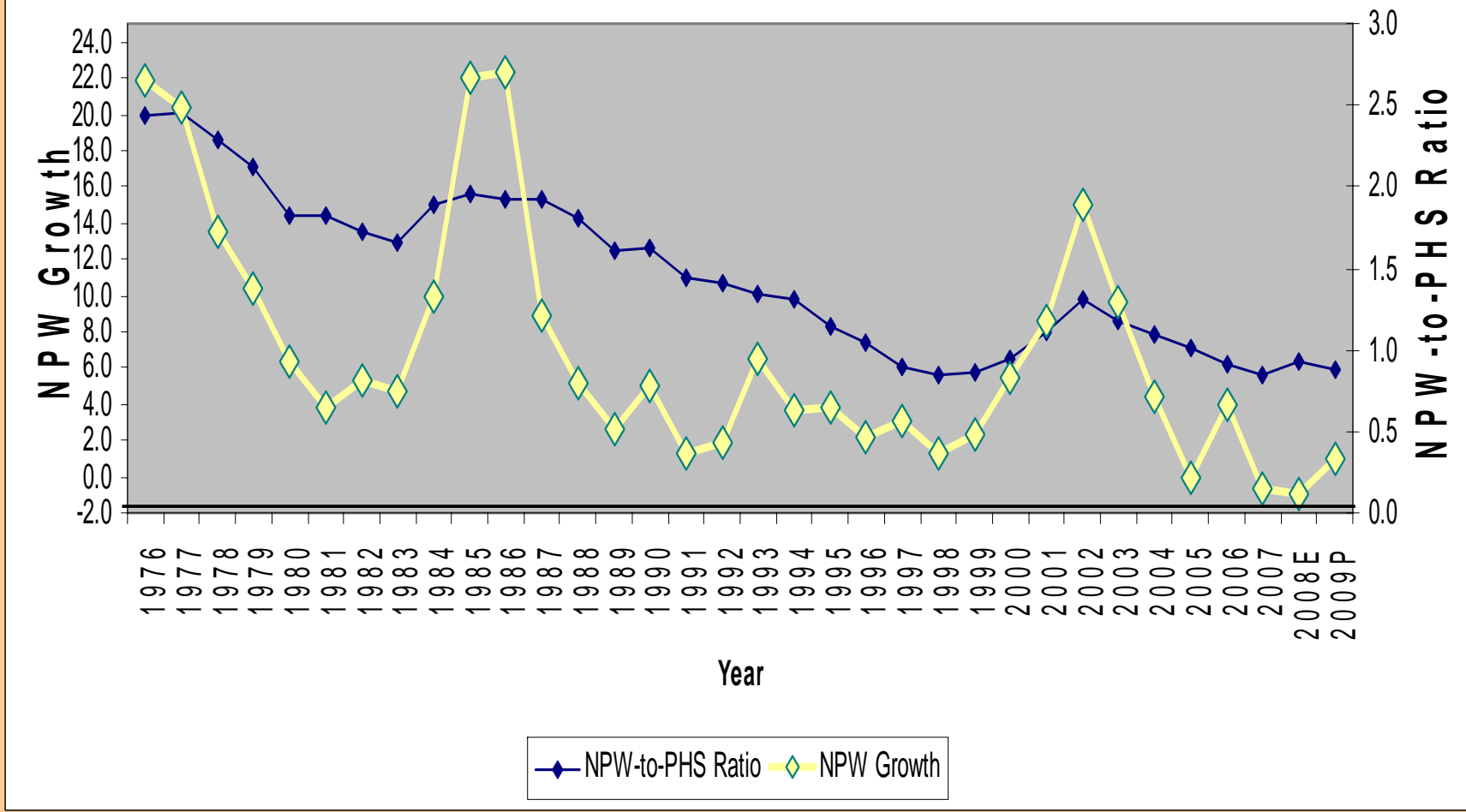
Net Capital Additions as % of Policyholders' Surplus vs. Total Industry Combined Ratios



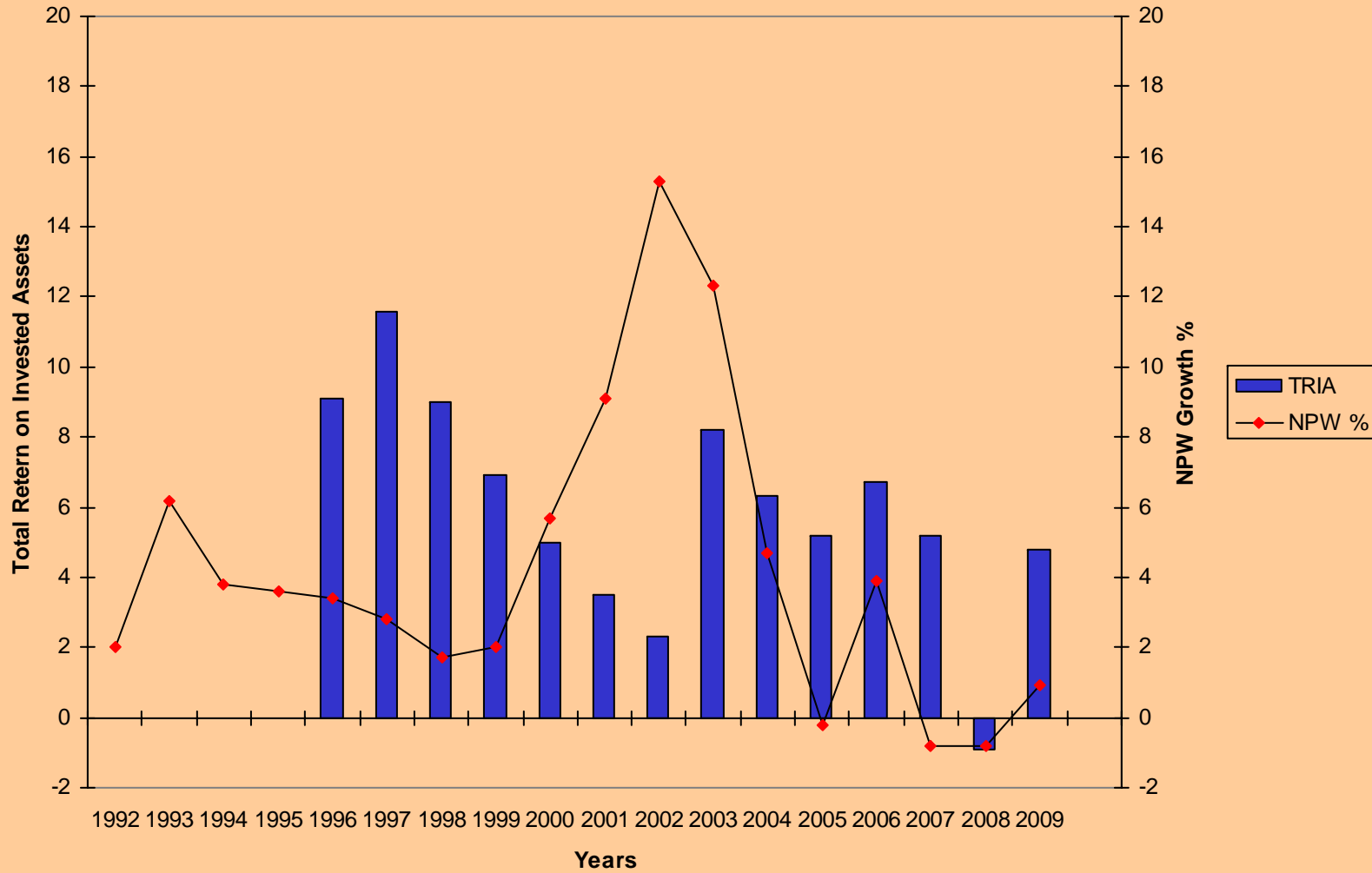
Source: A. M. Best Aggregates & Averages and FPK estimates.



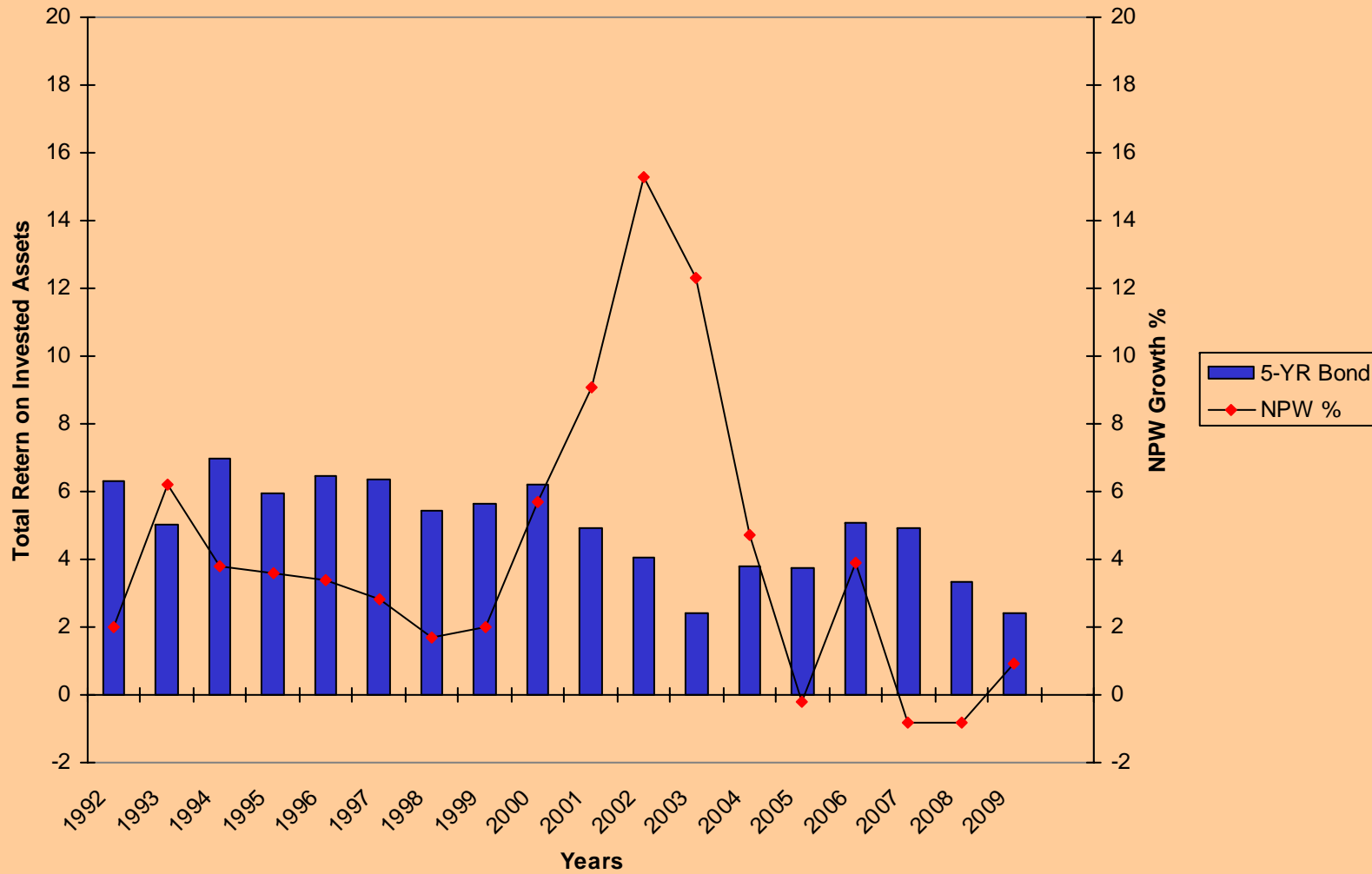
U.S. Property/Casualty Industry



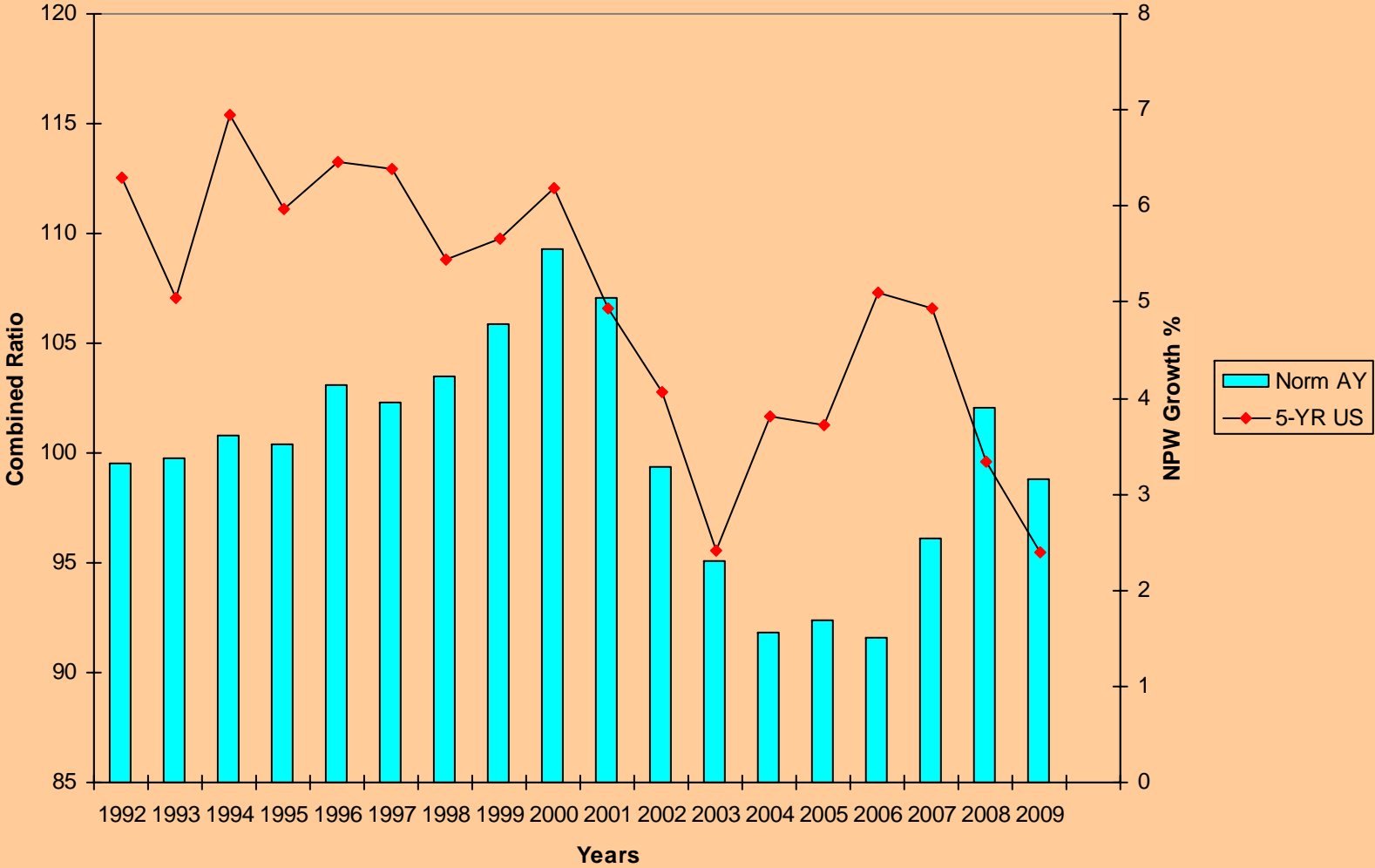
NPW Growth vs Total ROIA



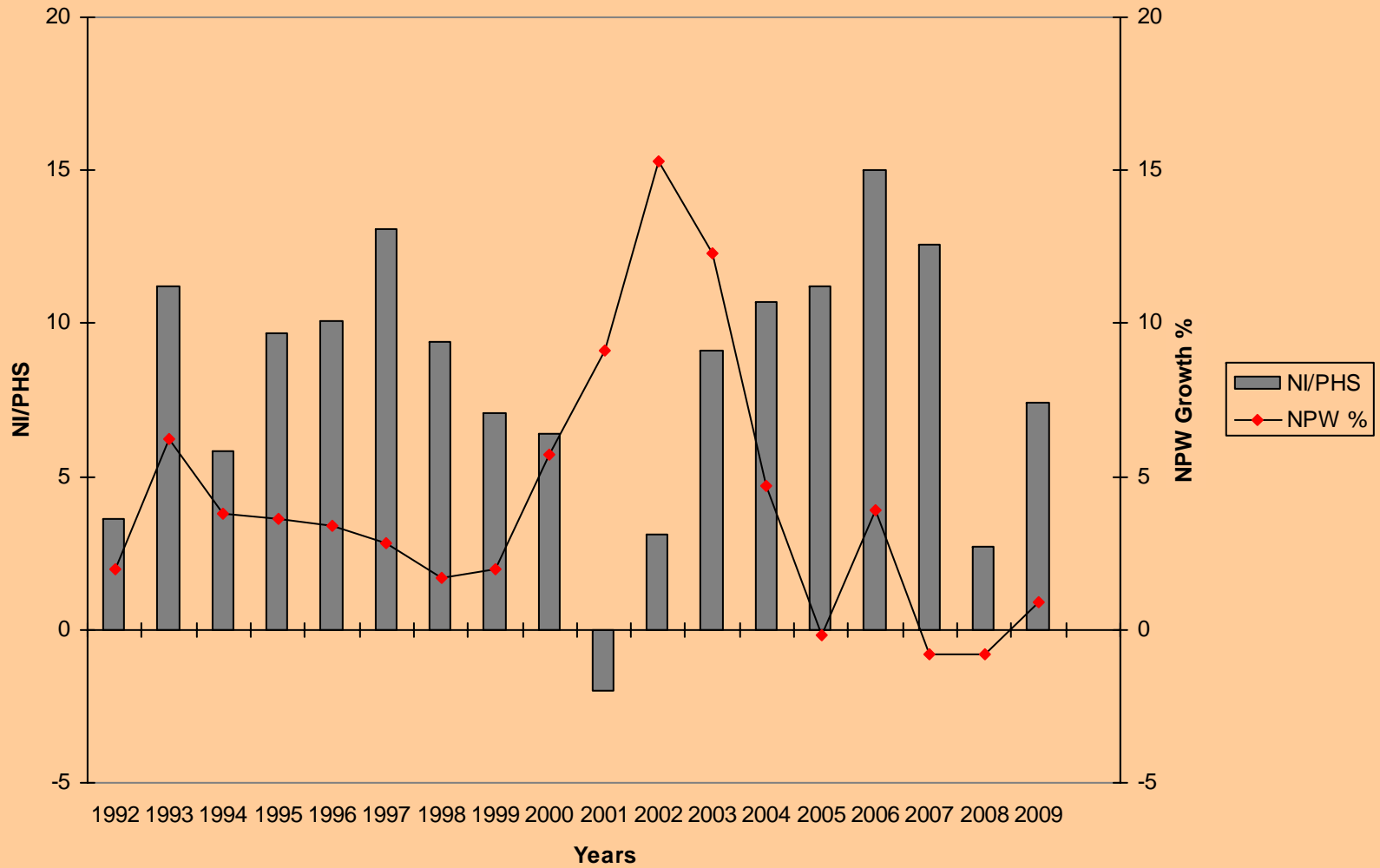
NPW Growth vs 5-YR US Bond



NPW Growth vs U/W Performance



NPW Growth vs NI/PHS



Key Cycle Issues

- ◆ Underwriting cycles can be managed
- ◆ Enterprise risk management
- ◆ Capital management
- ◆ Management leadership
- ◆ Focus on long-term profitability
- ◆ Company culture



Reserving Cycle

- ◆ Overestimate underwriting changes
- ◆ Optimistic view of loss trends
- ◆ Pressures for earnings

Leads to

- ◆ Inadequate loss reserves

Leads to

- ◆ Inadequate rates and premium

Leads to

- ◆ Inadequate IBNR...



Reserving Cycle

- ◆ Don't get caught in this cycle
- ◆ Reserve adequacy is a philosophy
- ◆ Actuaries must constantly look for and consider adverse changes



Impact of ERM

- ◆ Improved data availability
- ◆ Improved management controls
- ◆ Need to communicate company goals
- ◆ ERM serves to improve communication



Rating Issues

- ◆ **ERM even more important**
- ◆ **Concentrations and Correlations**
- ◆ **Increased focus on Liquidity**
 - ◆ Liquidity Requirements
 - ◆ Liquidity Resources
 - ◆ Impact of a Crisis Scenario on Both



Questions

