



After the Crisis: The P/C Insurance Industry in the Wake of the "Great Recession"

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Presentation Outline

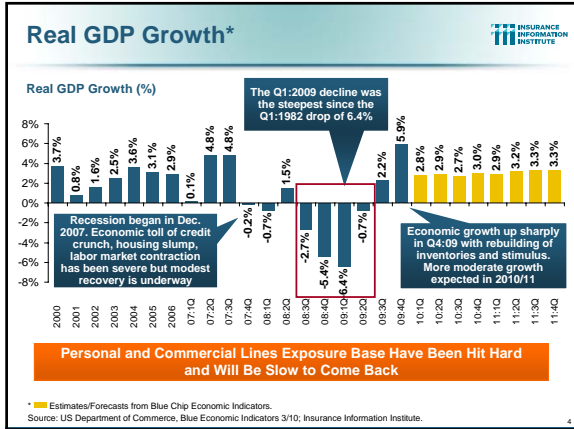


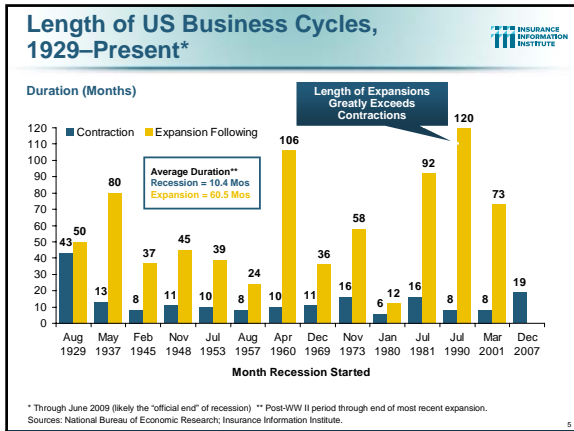
- **The Economic Storm: Financial Crisis & Recession**
 - Exposure, Growth & Profitability
- **Crisis-Driven Exposure Issues: Personal & Commercial Lines**
 - Impacts on Claiming Behavior
- **Threats and Issues Facing P/C Insurers Through 2015**
- **Financial Strength & Ratings**
 - Key Differences Between Insurer and Bank Performance During Crisis
- **Insurance Industry Financial Overview & Outlook**
 - Profitability
 - Premium Growth
 - Underwriting Performance: Commercial & Personal Lines
 - Financial Market Impacts
- **Capital & Capacity**
- **Catastrophe Loss Trends**
- **Q&A**

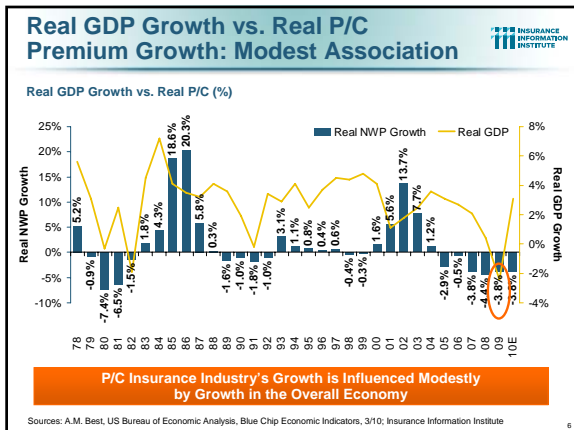


The Economic Storm

What the Financial Crisis and
Recession Mean for the Industry's
**Exposure Base, Growth and
Profitability**





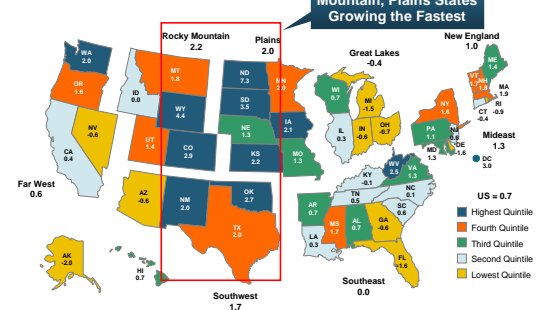


Regional Differences Will Significantly Impact P/C Markets

Recovery in Some Areas Will Begin Years Ahead of Others and Speed of Recovery Will Differ by Orders of Magnitude

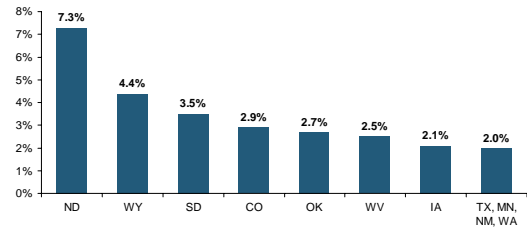
State Economic Growth Varied Tremendously in 2008

Percent Change in Real GDP by State, 2007-2008



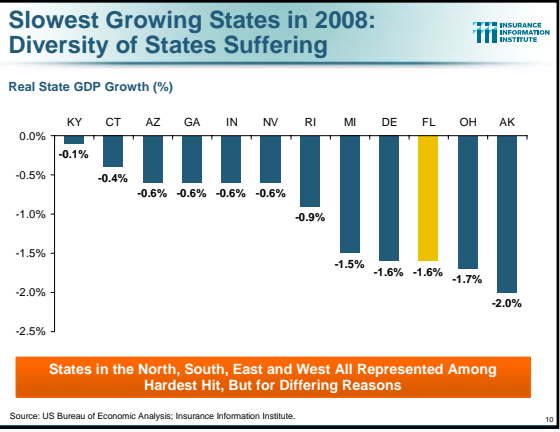
Fastest Growing States in 2008: Plains, Mountain States Lead

Real State GDP Growth (%)



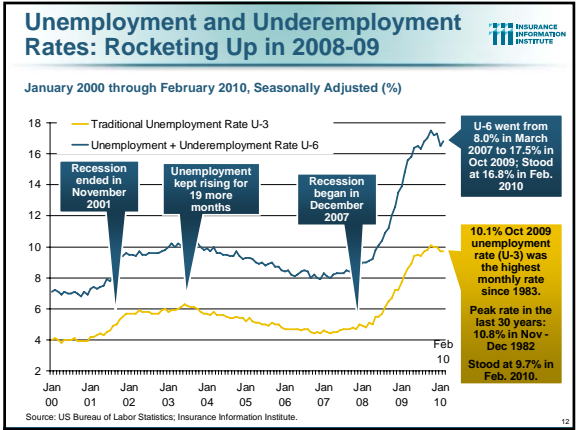
Natural Resource and Agricultural States Have Done Better Than Most Others Recently, Helping Insurance Exposure in Those Areas

Source: US Bureau of Economic Analysis, Insurance Information Institute.



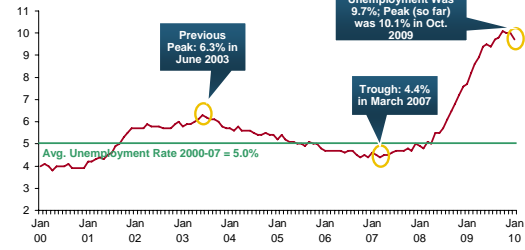
Labor Market Trends

Fast & Furious: Massive Job Losses Sap the Economy and Commercial/Personal Lines Exposure



Unemployment Rate: Has it Peaked?

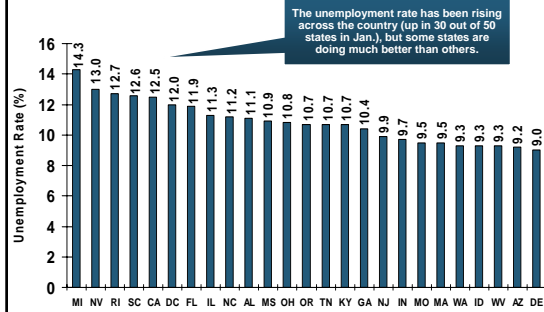
January 2000 through January 2010* (%)



Unemployment Will Likely Rise Again During This Cycle, Impacting Payroll Sensitive P/C and L/H Exposures

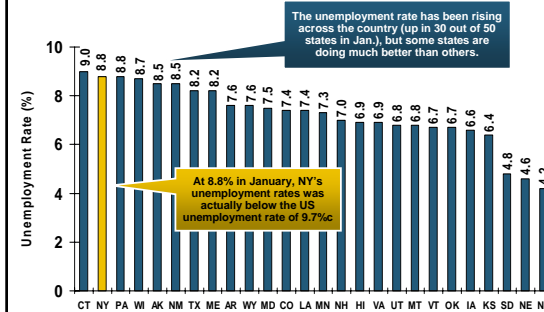
Source: US Bureau of Labor Statistics; Insurance Information Institute.

Unemployment Rates by State, January 2010: Highest 25 States*



*Provisional figures for January 2010, seasonally adjusted. Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Unemployment Rates By State, January 2010: Lowest 25 States*

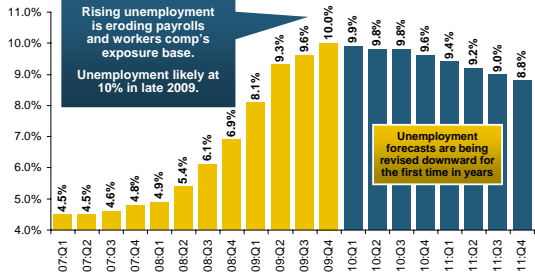


*Provisional figures for January 2010, seasonally adjusted. Sources: US Bureau of Labor Statistics; Insurance Information Institute.

US Unemployment Rate



2007:Q1 to 2011:Q4F*



* = actual; = forecasts

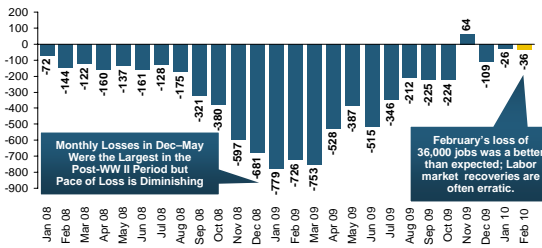
Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (3/10); Insurance Information Institute

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Monthly Change Employment*



January 2008 through February 2010 (Thousands)



Job Losses Since the Recession Began in Dec. 2007 Total 8.4 Million; 14.9 Million People are Now Defined as Unemployed

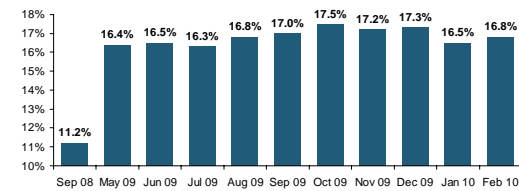
Source: US Bureau of Labor Statistics; <http://www.bls.gov/ces/home.htm>; Insurance Information Institute

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Labor Underutilization: Broader than Just Unemployment



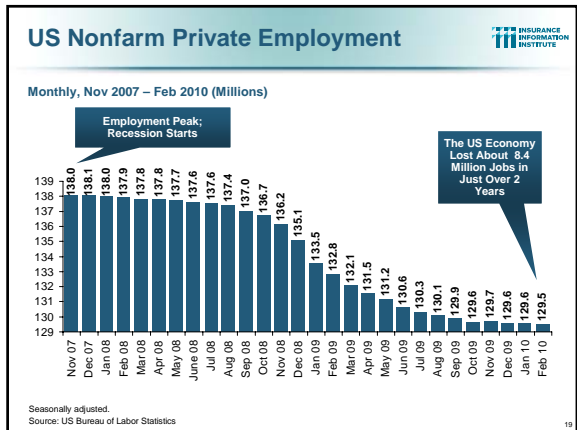
% of Labor Force

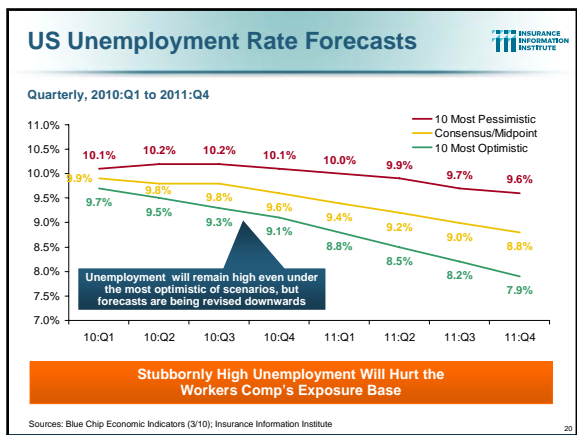


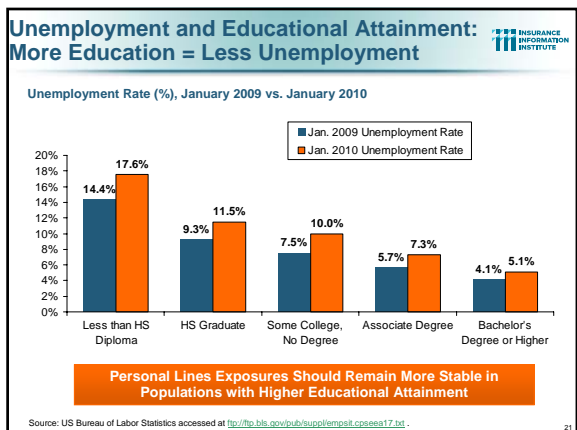
Marginally Attached and Unemployed Persons Account for 16.8% of the Labor Force in Feb. 2010 (1 Out of 6 People). Unemployment Rate Alone was 9.7%. Underutilization Shows a Broader Impact on WC and Other Commercial Exposures

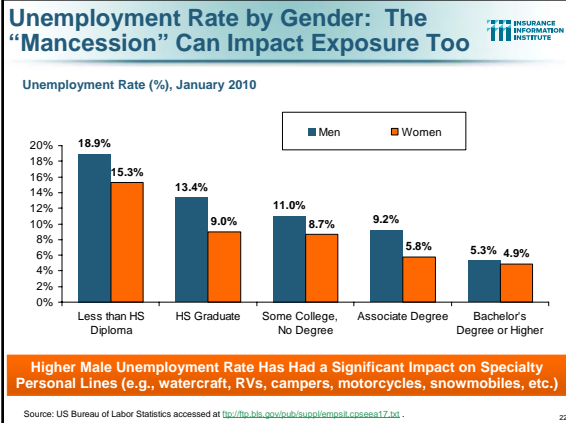
NOTE: Marginally attached workers are persons who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the recent past. Discouraged workers, a subset of the marginally attached, have given a job-market related reason for not looking currently for a job. Persons employed part time for economic reasons are those who want and are available for full-time work but have had to settle for a part-time schedule.
Source: US Bureau of Labor Statistics; Insurance Information Institute.

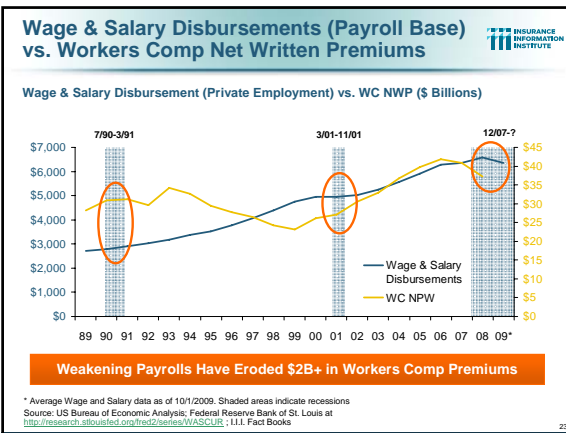
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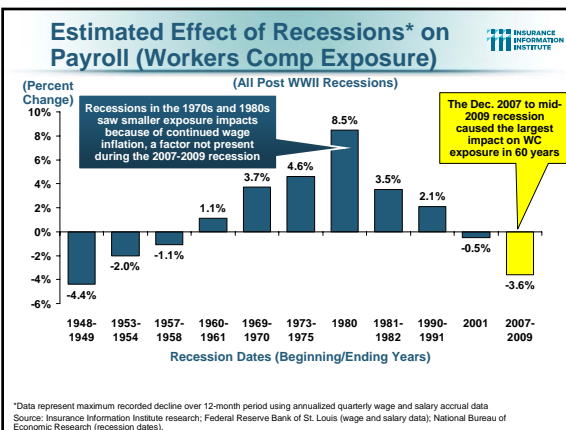


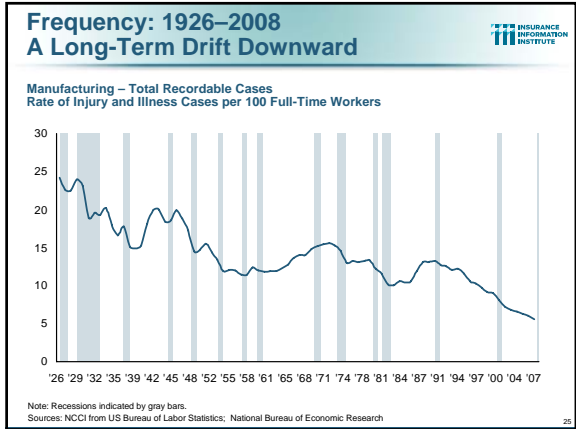


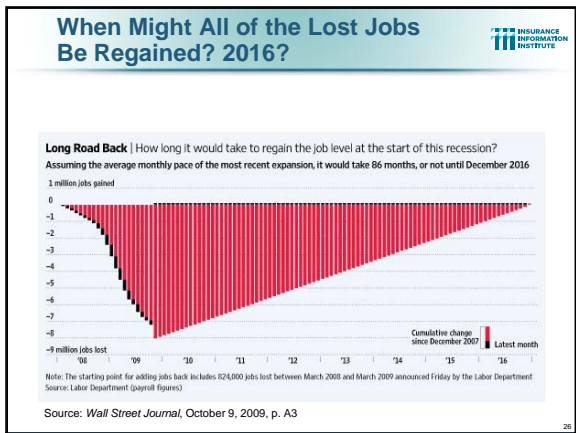








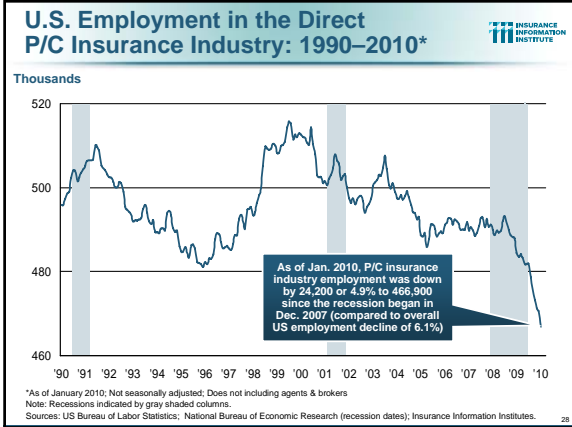


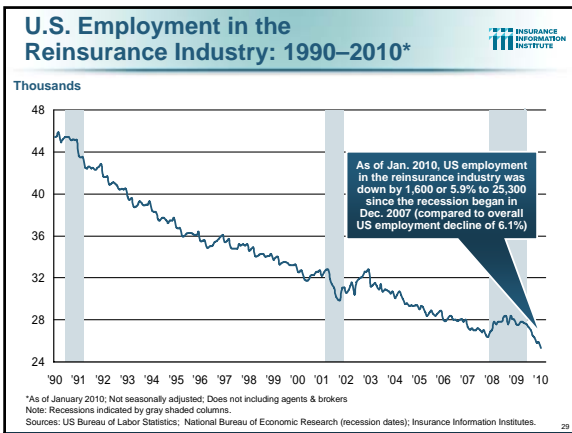


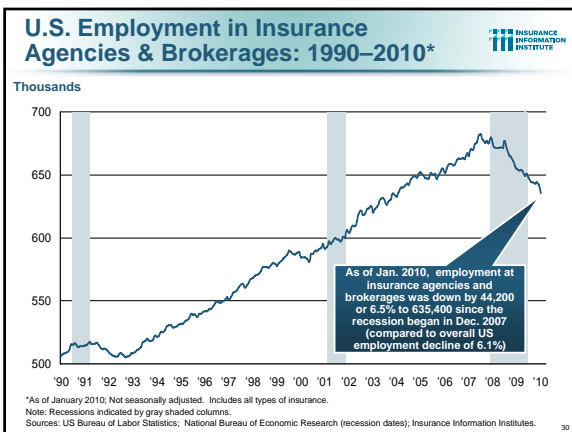
INSURANCE INFORMATION INSTITUTE

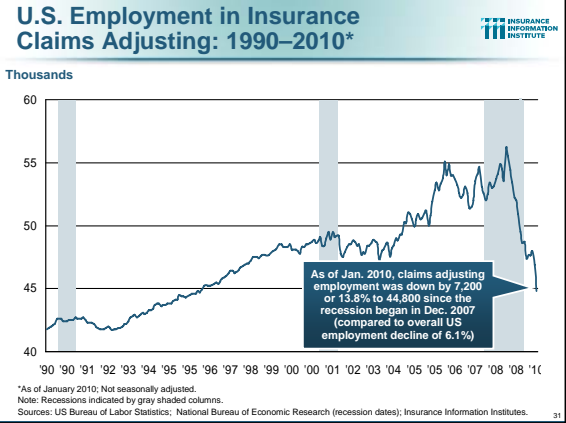
**Insurance Industry
Employment Trends**

**Soft Market, Difficult Economy,
Outsourcing Have Contributed to
Industry's Job Losses**



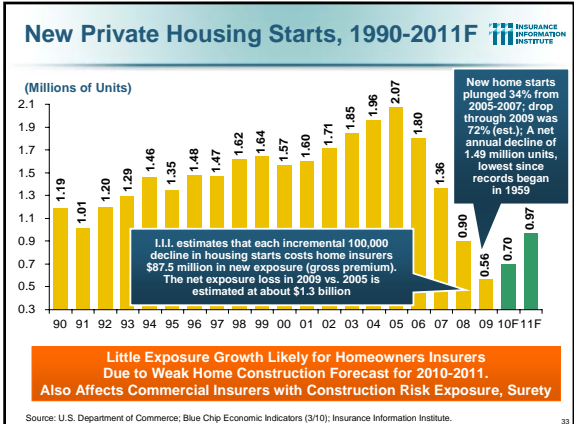


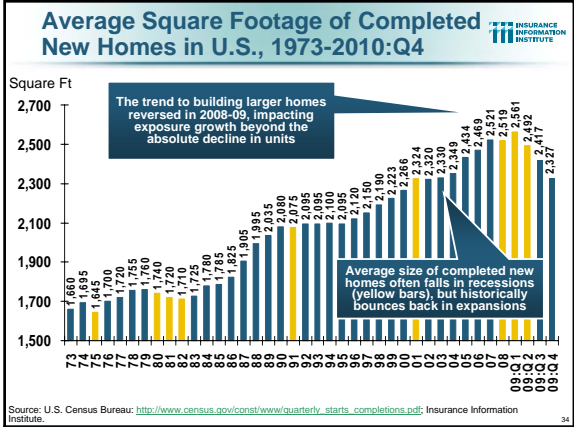


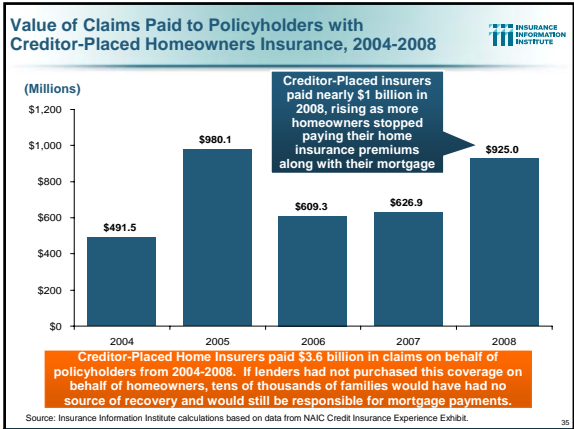


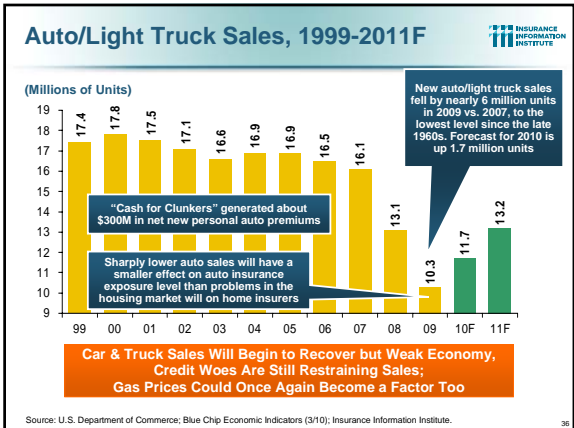
Crisis-Driven Exposure Drivers

Economic Obstacles to Growth in P/C Insurance





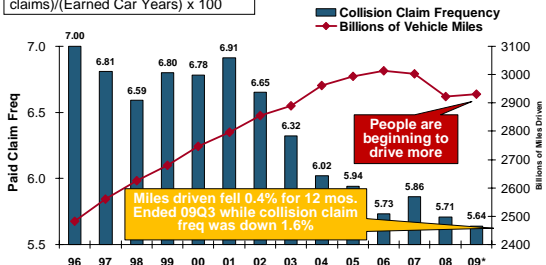




Do Changes in Miles Driven Affect Auto Collision Claim Frequency?

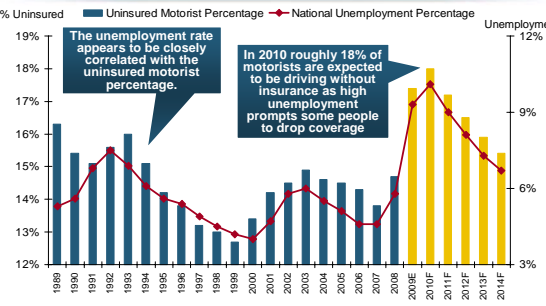


Paid Claim Frequency = (No. of paid claims)/(Earned Car Years) x 100



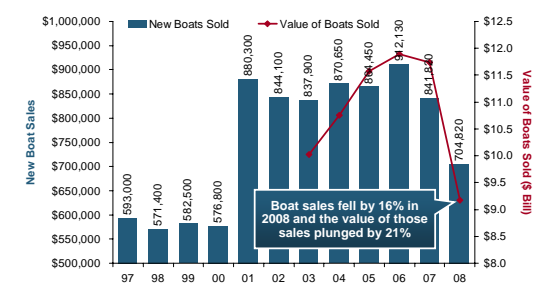
Sources: Federal Highway Administration (<http://www.fhwa.dot.gov/ohim/hvtw/09dashct/page2.cfm>); ISO Fast Track Monitoring System, Private Passenger Automobile Fast Track Data, 3rd Qtr. 2009, published Dec. 31, 2009 and earlier reports. *2009 ISO/FHWA figure is for 12 months ending 9/30/2009.

Unemployment's Effect on Percent of Uninsured Motorists, 1989-2014F

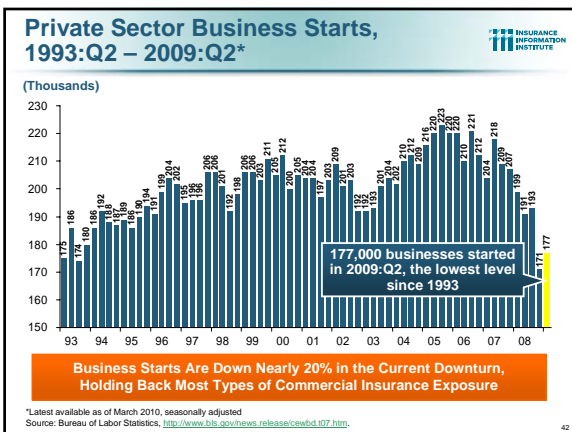
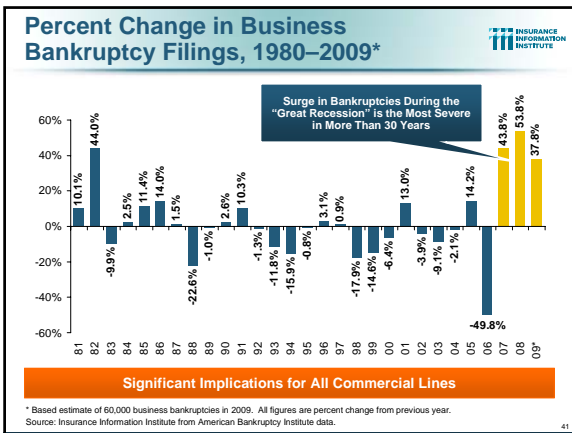
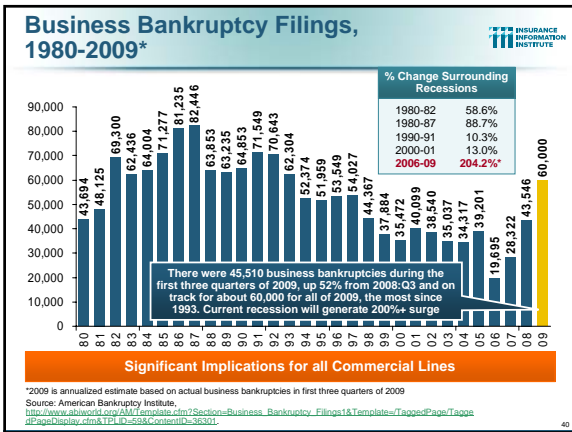


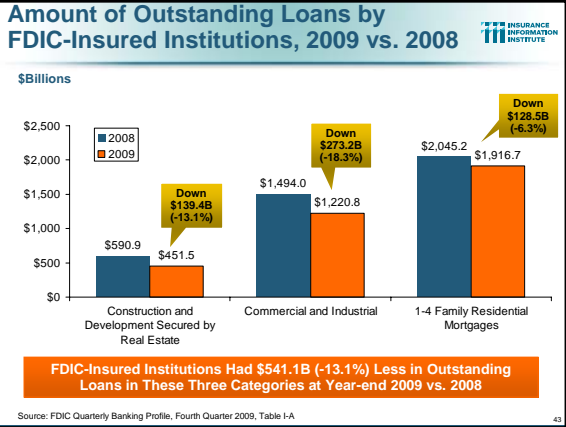
Source: Uninsured Motorists, 2008 Edition, Insurance Research Council; Blue Chip Economic Indicators (Unemployment data, including forecasts); Insurance Information Institute.

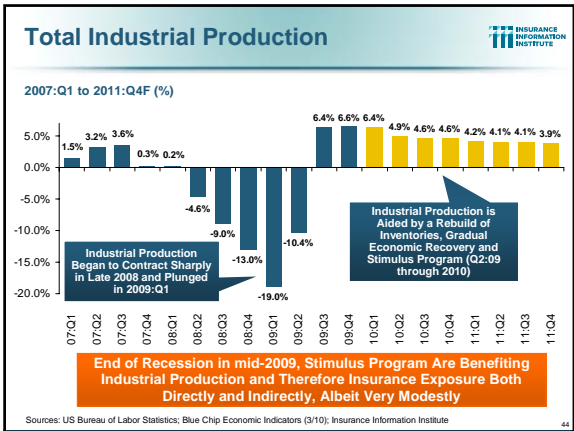
New Boat Sales Symptomatic of Decline in Insured Exposure Growth for Luxury/Discretionary Items



Sources: National Marine Manufacturers Association, 2008 Abstract (latest available as of Feb. 2010); Insurance Information Institute.

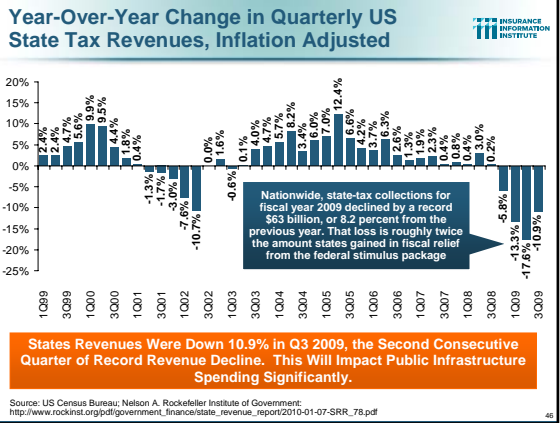






State & Local Government Finances in Dire Straits

Large, Long-Term Cuts Necessary to Align Spending with Shrinking Tax Revenues



Green Shoots

The Recession May Have Ended, but Is it Self-Sustaining?

Hopeful Signs That the Economic Recovery is Underway

- Recession appears to have ended, freefall of 2008/09 is over**
 - GDP shrinkage has ended; Economy is expanding
 - Pace of job losses is slowing, despite setbacks
 - Major stock market indices well off record lows, anticipating recovery
 - Some signs of retail sales stabilization are evident
- Financial sector is stabilizing**
 - Banks are reporting quarterly profits
 - Many banks expanding lending to *very* credit worthy people and businesses
- Housing sector seems to be bottoming out**
 - Home are much more affordable (attracting buyers)
 - Mortgage rates are still low relative to pre-crisis levels (attracting buyers)
 - Freefall in housing starts and existing home sales is ending in many areas
- Inflation and energy prices are under control**
- Consumer and business debt loads are shrinking**

Source: Insurance Information Institute.

10 Industries for the Next 10 Years: Insurance Solutions Needed



- Government
- Health Care
- Energy (Traditional)
- Alternative Energy
- Agriculture
- Natural Resources
- Environmental
- Technology
- Light Manufacturing
- Export-Oriented Industries

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Inflation Trends: *Concerns Over Stimulus Spending and Monetary Policy*

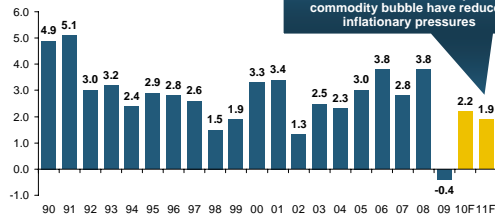
Mounting Pressure on Claim Cost Severities?

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Annual Inflation Rates (CPI-U, %), 1990–2011F



Annual Inflation Rates (%)

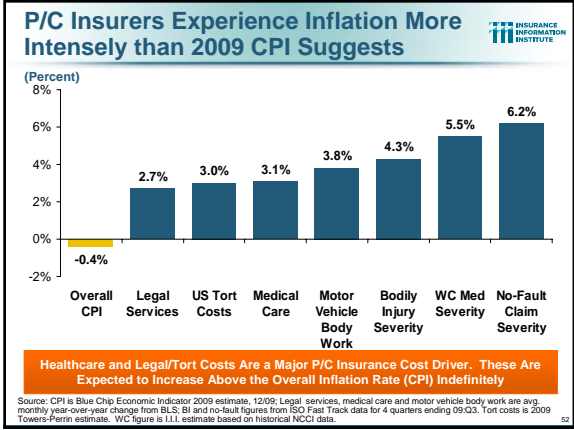


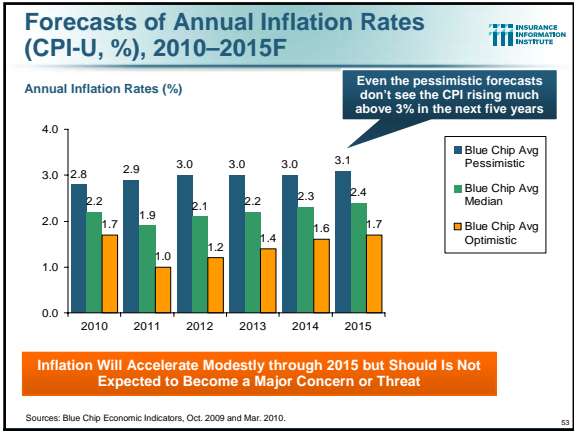
Inflation peaked at 5.6% in August 2008 on high energy and commodity crisis. The recession and the collapse of the commodity bubble have reduced inflationary pressures

There is So Much Slack in the US Economy That Inflation Should Not Be a Concern Through 2010/11, but Depreciation of Dollar is Concern Longer Run

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators, Mar. 10, 2010 (forecasts).

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Top Concerns/Risks for Insurers if Inflation Is Reignited

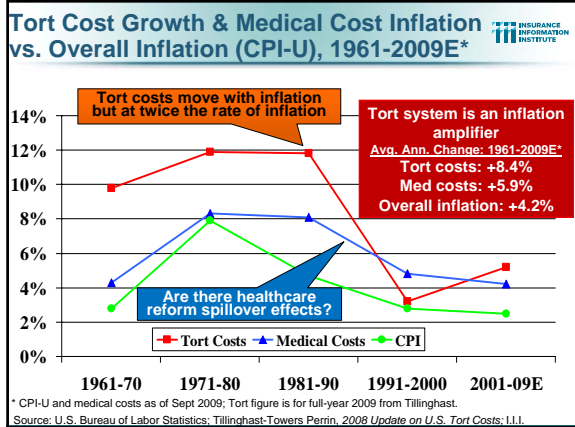
Concerns The Federal Reserve Has Flooded Financial System with Cash (Turned on the Printing Presses), the Federal Gov't Has Approved a \$787B Stimulus and the Deficit is Expected to Mushroom to \$1.8 Trillion. All Are Potentially Inflationary.

- What are the potential impacts for insurers?
- What can/should insurers do to protect themselves from the risks of inflation?

Key Risks From Sustained/Accelerating Inflation

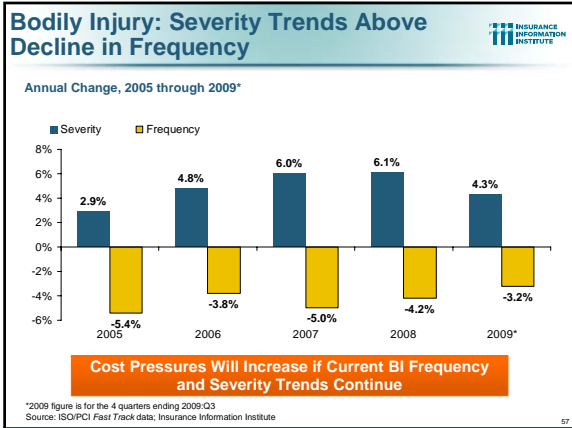
- Rising Claim Severities**
 - Cost of claims settlement rises across the board (property and liability)
- Rate Inadequacy**
 - Rates inadequate due to low trend assumptions arising from use of historical data
- Reserve Inadequacy**
 - Reserves may develop adversely and become inadequate (deficient)
- Burn Through on Retentions**
 - Retentions, deductibles burned through more quickly
- Reinsurance Penetration/Exhaustion**
 - Higher costs → risks burn through their retentions more quickly, tapping into reinsurance more quickly and potentially exhausting their reinsurance more quickly

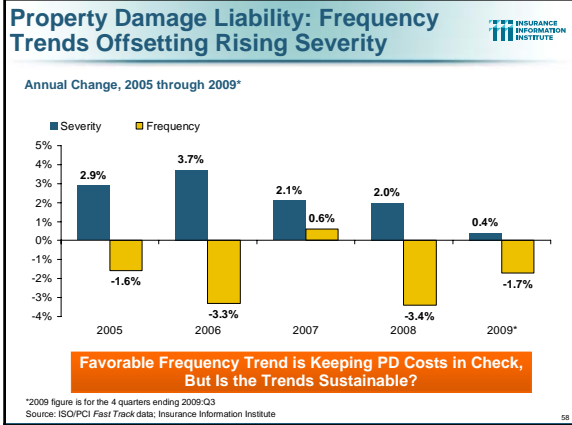
Source: Insurance Information Institute.

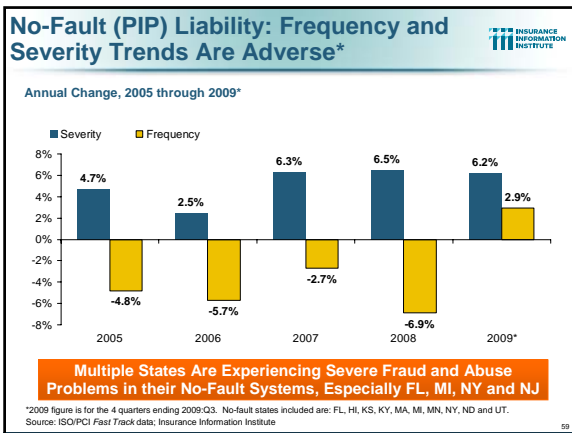


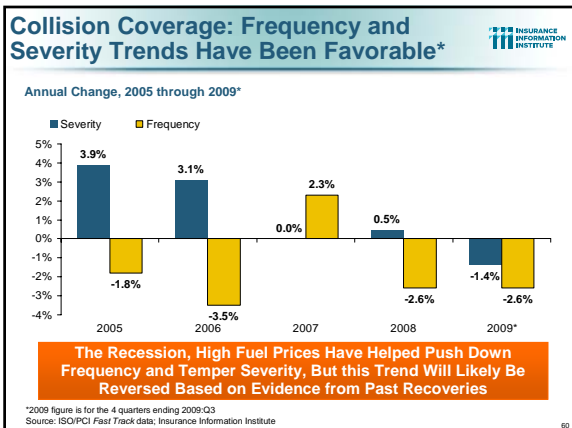
Claim Trends in Auto Insurance

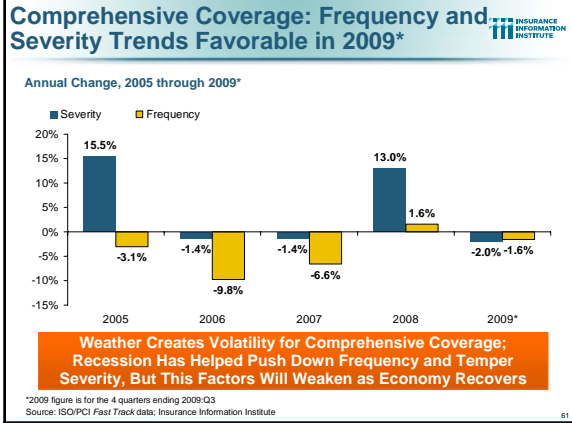
**Rising Costs Held in Check by Falling Frequency:
 Can That Pattern Be Sustained?**







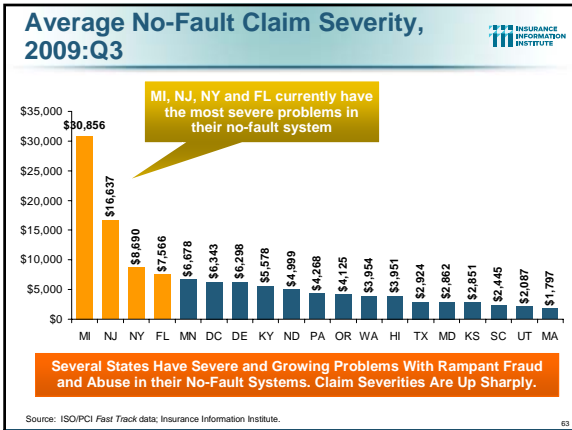




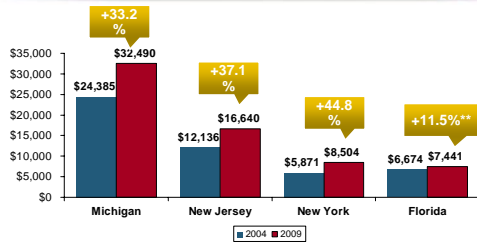
Insurance Information Institute

Fraud & Abuse in Private Passenger Auto Insurance

Skyrocketing No-Fault (PIP) Claim Costs Are a Major Concern in Several States



Increase in No-Fault Claim Severity: 2004-2009*



The no-fault systems in MI, NJ, NY and FL are under stress due to rising fraud and abuse which will ultimately lead to higher premiums for drivers

*2009 figure is for the 4 quarters ending 2009:03.
 **Since 2006 the increase in Florida was 17.3% (average severity that year was \$6,674).
 Sources: Insurance Information Institute research from ISO/PCI Fast Track data.



Key Threats Facing Insurers Amid Financial Crisis

Challenges for the Next 5-8 Years

Important Issues & Threats Facing Insurers: 2010-2015



1 Erosion of Capital

- Losses were larger and occurred more rapidly than was commonly understood or presumed possible
- Max surplus loss at 3/31/09 was 16%=\$85B from 9/30/07 peak
- P/C policyholder surplus could have been much larger
- Some insurers propped up results by reserve releases
- Decline in PHS of 1999-2002 was 15% over 3 years and was entirely made up and them some in 2003. Recent decline was -16% in 5 quarters
- During the opening years of the Great Depression (1929-1933) PHS fell 37%, Assets fell 28% and Net Written Premiums fell by 35%. It took until 1939-40 before these key measures returned to their 1929 peaks

Bottom Line: Capital and Assets Fall Faster and Farther Than Many Believed Possible. It Will Take Until 2010 to Return to the 2007 Peaks (Without Market Relapse)

Source: Insurance Information Institute.

Important Issues & Threats Facing Insurers: 2010–2015



2 Reloading Capital After “Capital Event”

- Continued asset price erosion coupled with major “capital event” would have lead to shortage of capital among *some* companies
- Possible Consequences: Insolvencies, forced mergers, calls for gov’t aid, requests to relax capital requirements
- P/C insurers have come to assume that large amounts of capital can be raised quickly and cheaply after major events (post-9/11, Katrina)
 - This assumption was incorrect during and immediately after the crisis*
- Cost of capital can rise sharply (relative “risk-free” rates), reflecting both scarcity, increasing volatility and heightened investor risk aversion

Implications: P/C (re)insurers need to protect capital today and develop detailed contingency plans to raise fresh capital and generate internally. Was a reality for some life insurers.

Source: Insurance Information Institute.

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Important Issues & Threats Facing Insurers: 2010–2015



3 Long-Term Reduction in Investment Earnings

- Low interest rates, risk aversion toward equities and many categories of fixed income securities lock in a multi-year trajectory toward ever lower investment gains
- Fed actions in Treasury markets keep yields low
- Many insurers have not adjusted to this new investment paradigm of a sustained period of low investment gains
- Regulators will not readily accept it; many will reject it**
- Implication 1:** Industry must be prepared to operate in environment with investment earnings accounting for a smaller fraction of profits
- Implication 2:** Implies underwriting discipline of a magnitude not witnessed in this industry in more than 30 years. Yet to manifest itself.
- Lessons from the period 1920–1975 need to be relearned

Source: Insurance Information Institute.

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Important Issues & Threats Facing Insurers: 2010–2???



4 Regulatory Overreach

- Principle danger is that P/C insurers get swept into vast federal regulatory overhaul and subjected to inappropriate, duplicative and costly regulation (Dual Regulation)
- Systemic Risk Regulator (Too Big To Fail)
 - Is any insurer systemically important?
- Federal Insurance Office Creation Within Treasury?
 - Eventual “mission creep”? Activist director?
- Consumer Financial Protection Agency
 - Will it be limited to banks/creditors
- Federal Trade Commission: All Lines Study Authority?
- McCarran-Ferguson Rollback
 - Will it be limited to Health/Med Mal lines?
- OFC/State Regulation Debate Lingers
- Taxation/Offshore Domiciles

Bottom Line: Regulatory Outcome is Uncertain and Risk of Adverse Outcome Exists. Ultimate Regulation Structure Will Be in Place for Decades

Source: Insurance Information Institute.

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Federal Insurance Office: What Would it Do?



Duties of the Federal Insurance Office

- Establishes office within US Treasury headed by a Director appointed by Treasury Secretary, and charged with:
 1. Monitor the insurance industry to gain expertise
 2. Identify regulatory gaps that could contribute to a systemic crisis in the insurance industry or the U.S. financial system
 3. Recommend to the federal authority having systemic risk responsibility the designation of certain insurers (and their affiliates) for heightened prudential standards (although recognition of this role of the FIO is not evident in existing systemic risk regulation proposals)
 4. Assist in the administration of the Terrorism Risk Insurance Program

Source: Federal Insurance Office Act of 2009 (HR 2609); Adapted from summary by Jason Schupp at Zurich American Insurance Company, Federal Regulation Reform Series, Dec. 6, 2009.

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Federal Insurance Office: What Would it Do?



Duties of the Federal Insurance Office (continued)

5. Coordinate Federal efforts and establish Federal policy on prudential aspects of international insurance matters (including representation of the U.S. before the International Association of Insurance Supervisors and assisting the Secretary of Treasury in the negotiation of international agreements relating to prudential matters)
6. Consult with the States on national matters of importance to insurance and international insurance matters relating to prudential regulation
7. Determine whether state insurance matters are preempted by international insurance agreements relating to prudential matters
8. Advise the Secretary of Treasury on major domestic and prudential international matters of importance
9. Consult with state insurance commissioners, both individually and collectively, as appropriate

Source: Federal Insurance Office Act of 2009 (HR 2609); Adapted from summary by Jason Schupp at Zurich American Insurance Company, Federal Regulation Reform Series, Dec. 6, 2009.

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Systemic Risk: Oversight & Resolution Authority



Issues Related to Systemic Risk & Resolution Authority

- Federal Authority created to oversee systemic risk of large financial holding companies (e.g., Federal Reserve or other existing/new agency) [a.k.a. **TOO BIG TOO FAIL**]
 - P/C insurers are working to "carve out" and exception to systemic risk oversight (arguing they were not the source/cause of problems)
 - Without such an exception, p/c insurers could be subject to assessments (e.g., Financial Responsibility Tax) for failed noninsurance financial institutions or could be forced to repay funds provided for government assistance to firms due to problems outside of their p/c insurance operations
- European Regulators Believe Large (Re)Insurers Should Be Included Under the Definition of Systemically Important Firms
 - ECB named 8 insurers/reinsurers as systemically important

Source: Federal Insurance Office Act of 2009 (HR 2609); Adapted from summary by Jason Schupp at Zurich American Insurance Company, Federal Regulation Reform Series, Dec. 6, 2009.

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Systemic Risk: Oversight & Resolution Authority



How Current Systemic Risk Proposal Could Affect Insurers

- Bank holding companies with more than \$50 billion in assets would be subject to an assessment (Financial Responsibility Tax) in order to build a \$50 billion fund to wind down (resolve) large, insolvent financial institutions
 - This first group could include some insurers that own banks
- If the \$50 billion resolution fund is exhausted, then other non-bank financial institutions (including insurers, even those without banks) with more than \$50 billion in consolidated assets would be assessed to make up any shortfall
- Bottom Line: P/C insurers do not object to the concept of systemic risk, but feel that the focus on size alone is inappropriate given the roots of the financial crisis and the fact that p/c insurers were not the cause

Source: Insurance Information Institute

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Systemic Risk: Oversight & Resolution Authority



Rational for Excluding P/C Insurers from Systemic Regulation

- The insurance business model (encompassing both insurers and reinsurers) has specific features that make it a source of stability within the financial system
 - Up-front premiums provide strong operating cash flow
 - Insurance policies generally represent longer-term liabilities with little or no ability for the policy holder to demand immediate payments (no "run" on insurers)
 - The few insurers that experienced serious problems were impacted not by their insurance business but by quasi-banking activities. This includes AIG and "monoline" insurers provided financial guarantees and engaged in CDS writing and trading
- Core Activities of Insurers Have No Systemic Relevance
 - Only 2 non-core activities seem to have relevance assuming they are conducted on a huge scale using poor risk management control
 - Derivatives trading on non-insurance balance sheets
 - Mismanagement of short-term funding from commercial paper or securities lending

Source: Geneva Association, *Systemic Risk in Insurance*, March 2010.

74



Critical Differences Between P/C Insurers and Banks

Superior Risk Management Model and Low Leverage Make a Big Difference

75

How Insurance Industry Stability Has Benefitted Consumers



Bottom Line:

- Insurance markets – unlike banking – are operating *normally*
- The basic function of insurance – the orderly transfer of risk from client to insurer – *continues uninterrupted*
- This means that insurers continue to:
 - ♦ Pay claims (whereas 198 banks have gone under as of 3/12/10)
 - *The promise is being fulfilled*
 - ♦ Renew existing policies (*banks are reducing and eliminating lines of credit*)
 - ♦ Write new policies (*banks are turning away people and businesses who want or need to borrow*)
 - ♦ Develop new products (*banks are scaling back the products they offer*)
 - ♦ Compete intensively (*banks are consolidating, reducing consumer choice*)

Source: Insurance Information Institute

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Reasons Why P/C Insurers Have Fewer Problems Than Banks



A Superior Risk Management Model

- **Emphasis on Underwriting**
 - ♦ Matching of risk to price (via experience and modeling)
 - ♦ Limiting of potential loss exposure
 - ♦ *Some banks sought to maximize volume and fees and disregarded risk*
- **Strong Relationship Between Underwriting and Risk Bearing**
 - ♦ *Insurers always maintain a stake in the business they underwrite, keeping "skin in the game" at all times*
 - ♦ *Banks and investment banks package up and securitize, severing the link between risk underwriting and risk bearing, with (predictably) disastrous consequences – straightforward moral hazard problem from Econ 101*
- **Low Leverage**
 - ♦ Insurers do not rely on borrowed money to underwrite insurance or pay claims → *There is no credit or liquidity crisis in the insurance industry*
- **Conservative Investment Philosophy**
 - ♦ High quality portfolio that is relatively less volatile and more liquid
- **Comprehensive Regulation of Insurance Operations**
 - ♦ The business of insurance remained comprehensively regulated whereas a separate banking system had evolved largely outside the auspices and understanding of regulators (e.g., hedge funds, private equity, complex securitized instruments, credit derivatives – CDS's)
- **Greater Transparency**
 - ♦ Insurance companies are an open book to regulators and the public

Source: Insurance Information Institute

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Important Issues & Threats Facing Insurers: 2010–2015



5 Emerging Tort Threat

- No tort reform (or protection of recent reforms) is forthcoming from the current Congress or Administration
- Erosion of recent reforms is a certainty (already happening)
- Innumerable legislative initiatives will create opportunities to undermine existing reforms and develop new theories and channels of liability
- Torts twice the overall rate of inflation
- Influence personal and commercial lines, esp. auto liability
- Historically *extremely* costly to p/c insurance industry
- Leads to reserve deficiency, rate pressure

Bottom Line: Tort "crisis" is on the horizon and will be recognized as such by 2012–2014

Source: Insurance Information Institute

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Terrorism: Insurance Concerns Resurface



Reasons Why Concerns Are Mounting in 2010

- Perception (Reality) that U.S. vulnerability is rising
- Thwarted Christmas Day attack by "underwear bomber"
 - And new bin Laden tape claiming al Qaeda is responsible
- Foiled NYC Subway Bomber Plot (Zazi case)
- Trials of Guantanamo 9/11 suspects in Manhattan Court (?)
- U.K. in January Raised Terror Alert Status to 2nd Highest Level
- Increased anti-terror efforts, including full-body scans
- Effort by government to appear more vigilant, prepared
- Rise of groups such as al Qaeda in the Arabian Peninsula
- U.S. military surge in Afghanistan operations
- Most buyers, producers have not thought about coverage issues recently
- **Obama Administration's Intent to Reduce Support for TRIA**

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Obama Administration Proposal to Scale Back Terrorism Risk Insurance Program



Administration's Budget Proposal for FY 2011:

- Includes proposal to scale back federal support for terrorism risk insurance program
- Proposal projects savings of \$249 million from 2011-2020
- Administration's justification is that this would "encourage the private sector to better mitigate terrorism risk through other means, such as developing alternative reinsurance options and building safer buildings."

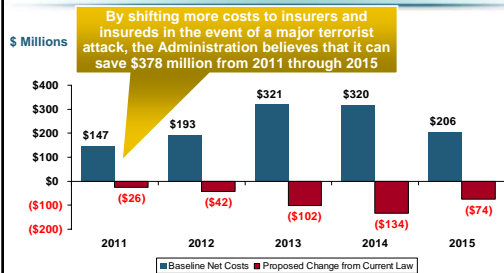
Key Concerns Among Industry Observers Over Proposed Reduction in Federal Support

- Suggestion of changes to law would have detrimental effect on availability and affordability of terrorism insurance
- A 2009 Aon study estimated some 70-80 percent of the commercial property insurance market would revert to absolute exclusions for terrorism, if TRIA is changed.

Source: Budget of the U.S. Government Fiscal Year 2011

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Terrorism Risk Insurance Program Faces Reduced Support Under 2011 Proposed Federal Budget



The availability of terrorism coverage is threatened by the proposal in the FY 2011 federal budget. Coverage will likely be less available and more expensive.

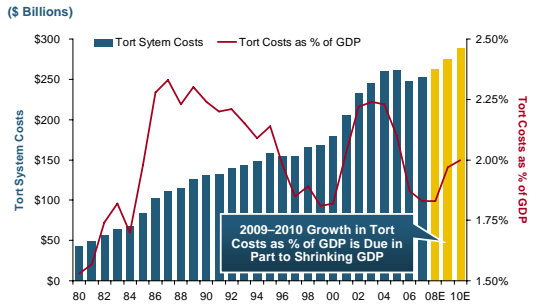
Sources: U.S. federal budget for FY 2011 as proposed in February 2010; Insurance Information Institute.

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**Shifting Legal Liability &
Tort Environment**

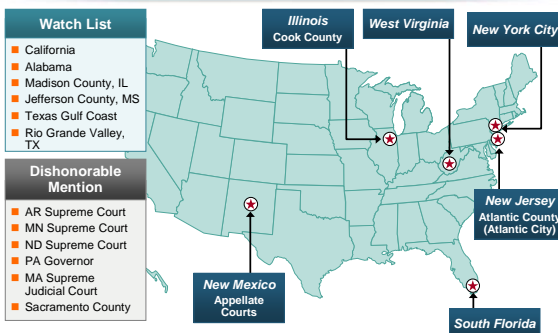
**Is the Tort Pendulum
Swinging Against Insurers?**

**Over the Last Three Decades, Total Tort Costs*
as a % of GDP Appear Somewhat Cyclical**



* Excludes the tobacco settlement, medical malpractice
Sources: Tilghman-Towers Perrin, 2009 Update on US Tort Cost Trends, Appendix 1A: I.I. calculations/estimates for 2009 and 2010

The Nation's Judicial Hellholes: 2010

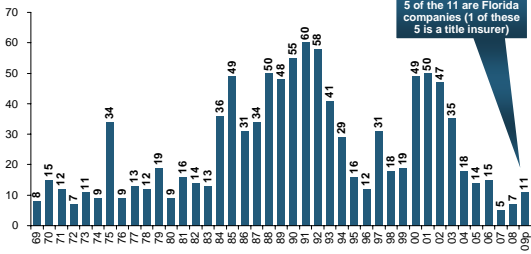


Source: American Tort Reform Association; Insurance Information Institute

Financial Strength & Ratings

Industry Has Weathered the Storms Well

P/C Insurer Impairments, 1969–2009p

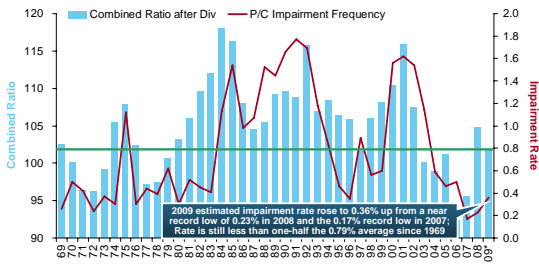


5 of the 11 are Florida companies (1 of these 5 is a title insurer)

The Number of Impairments Varies Significantly Over the P/C Insurance Cycle, With Peaks Occurring Well into Hard Markets

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

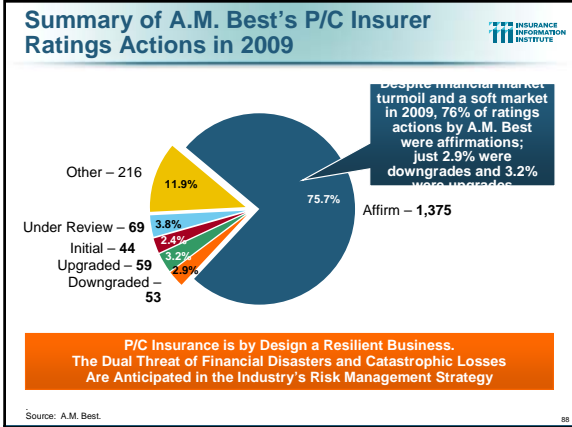
P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2009p

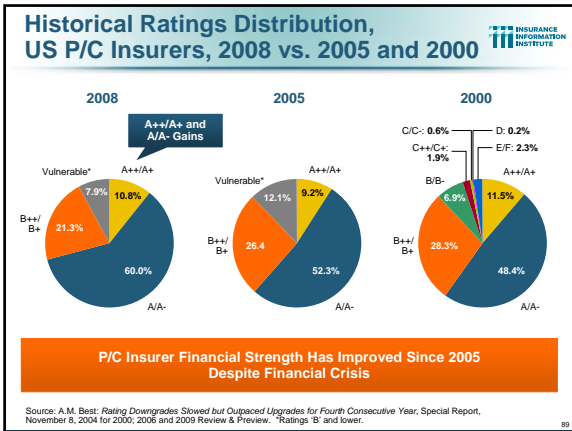


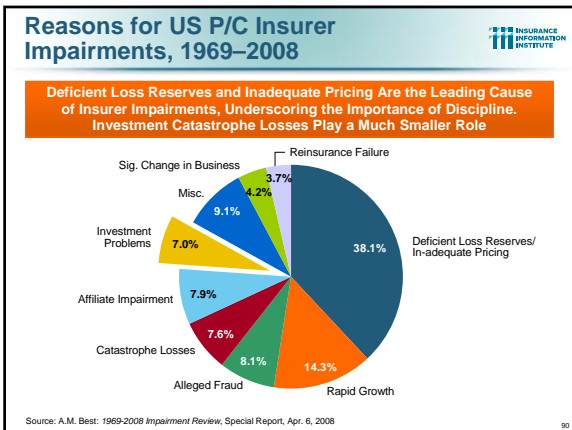
2009 estimated impairment rate rose to 0.36% up from a near record low of 0.23% in 2008 and the 0.17% record low in 2007. Rate is still less than one-half the 0.79% average since 1969.

Impairment Rates Are Highly Correlated With Underwriting Performance and Reached Record Lows in 2007/08

¹Combined ratio of 101.7 is through Q3-09; 0.36% 2009 impairment rate is III estimate based on preliminary A.M. Best data. Source: A.M. Best, Insurance Information Institute









P/C Insurance Financial Performance

A Resilient Industry in Challenging Times

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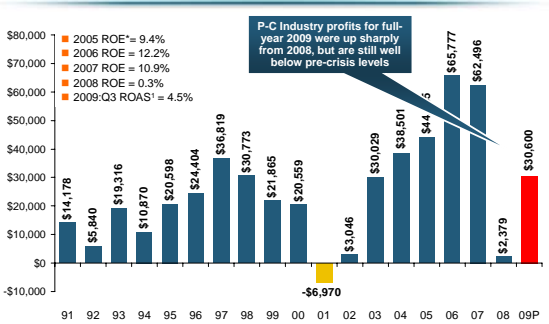


Profitability

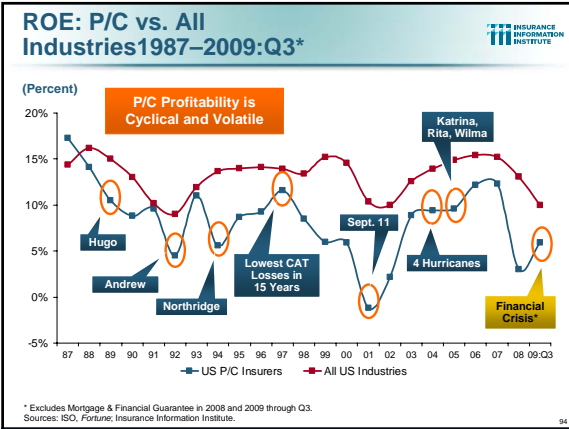
Historically Volatile

92

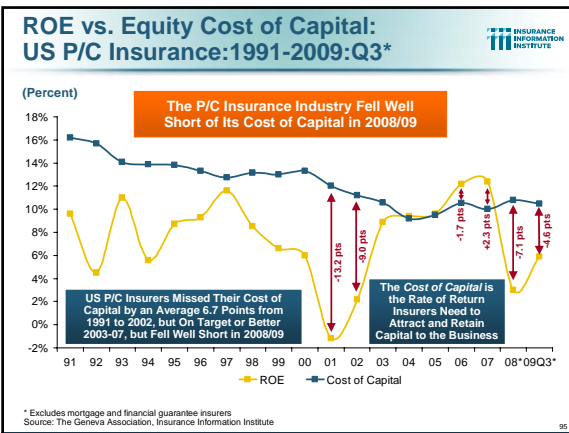
P/C Net Income After Taxes 1991–2009P (\$ Millions)



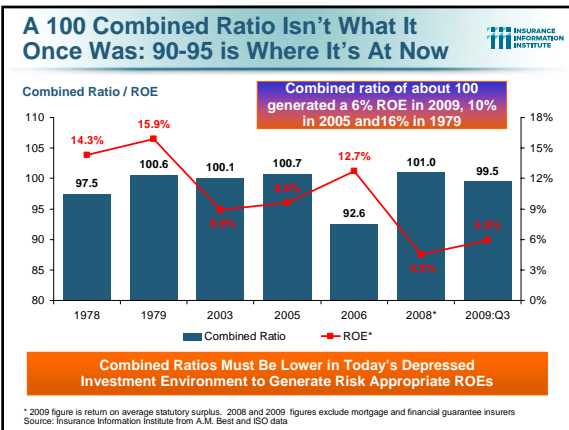
* ROE figures are GAAP. ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 4.5% ROAS for 2008 and 5.9% for the first 9 months of 2009. 2009:Q3 net income was \$20.5 billion excluding M&FG.
 Sources: A.M. Best, ISO, Insurance Information Institute



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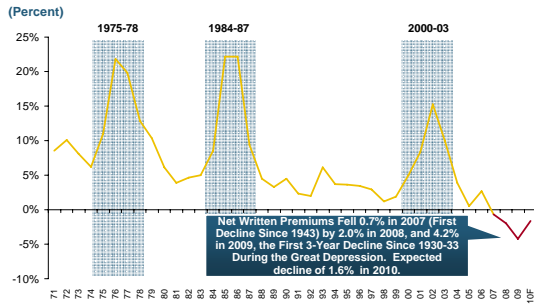
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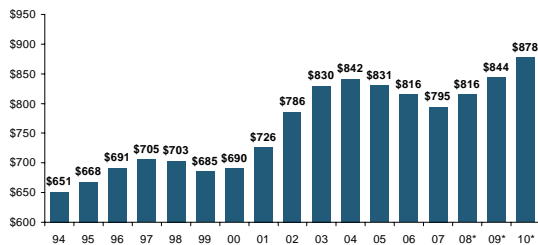
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**P/C Premium Growth
Primarily Driven by the
Industry's Underwriting Cycle,
Not the Economy**

**Strength of Recent Hard
Markets by NWP Growth**

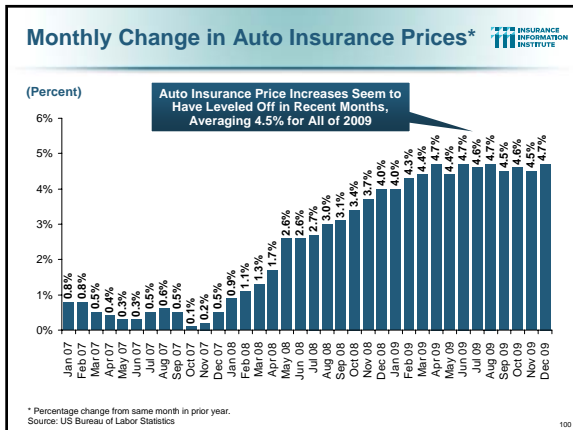


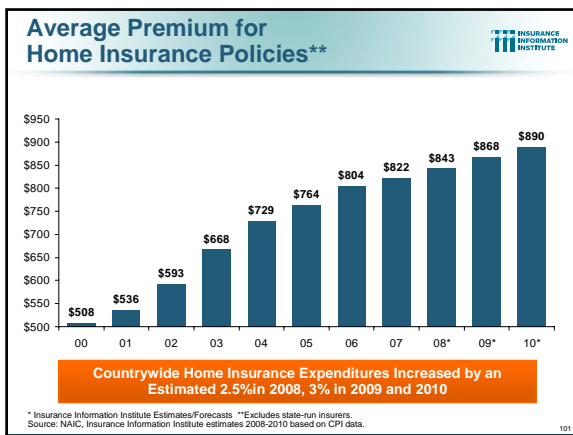
Average Expenditures on Auto Insurance

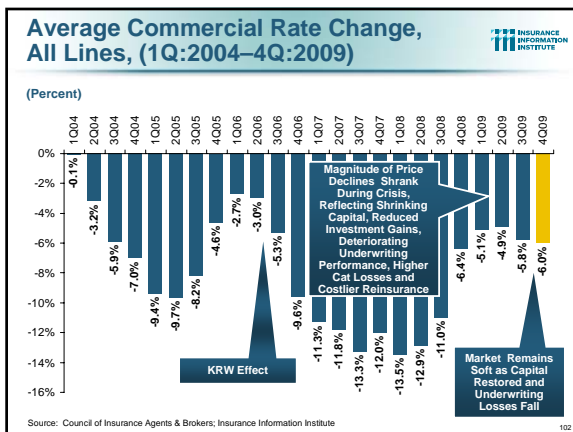


**Countrywide Auto Insurance Expenditures Increased
2.6% in 2008 and 3.5% Pace in 2009 (est.) and 4% in 2010 (est.)**

* Insurance Information Institute Estimates/Forecasts
Source: NAIC, Insurance Information Institute estimates 2008-2010 based on CPI data.

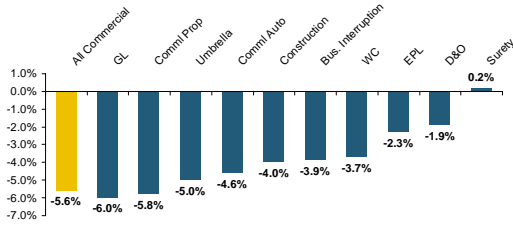






Change in Commercial Rate Renewals, by Line: 2009:Q4

Percentage Change (%)



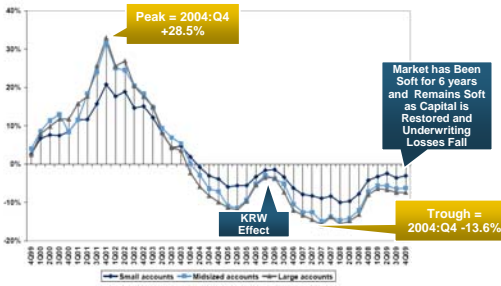
Most Major Commercial Lines Renewed Down in Q4:2009 by Roughly the Same Margin as a Year Earlier

Source: Council of Insurance Agents and Brokers; Insurance Information Institute.

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Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2009:Q4

Percentage Change (%)

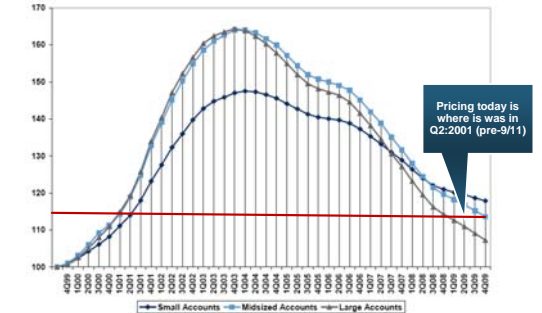


Source: Council of Insurance Agents and Brokers; Insurance Information Institute.

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Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2009:Q4

1999:Q4 = 100



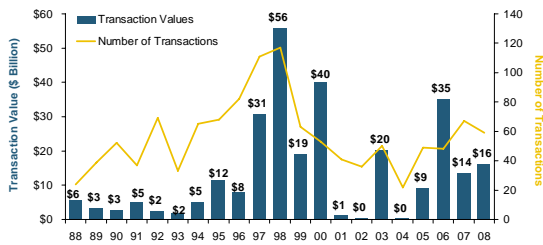
Source: Council of Insurance Agents and Brokers; Insurance Information Institute.

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Merger & Acquisition

Barriers to Consolidation Will Diminish in 2010

P/C Insurance-Related M&A Activity, 1988–2008

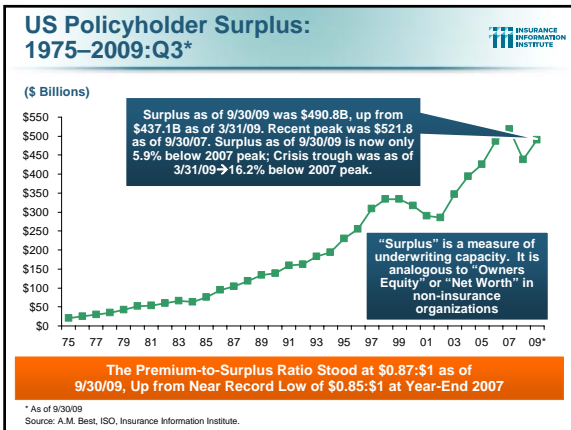


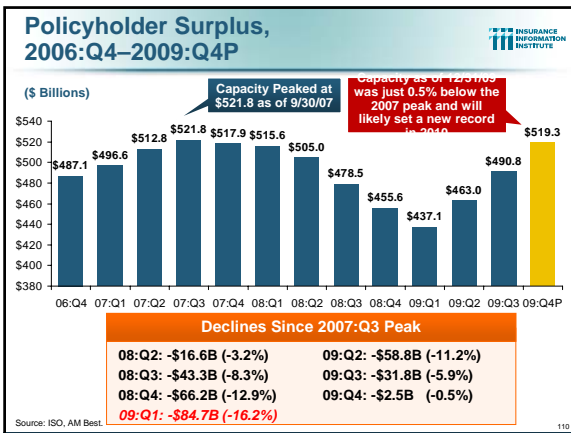
2009 Off to a Stronger Start With AIG Unit Sales and Bermuda Consolidation \$ Value of Deal Up 20% in 2009, Volume Down 12%

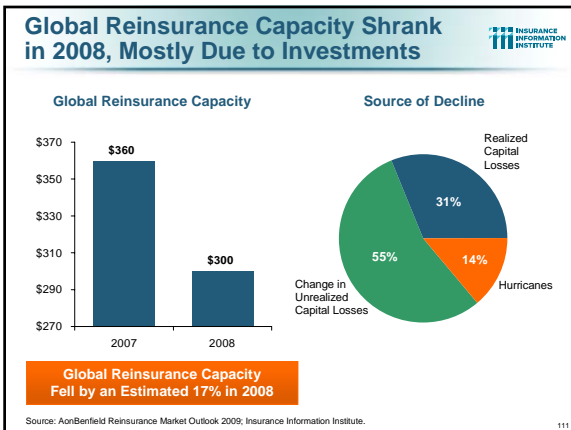
Source: Conning Research & Consulting.

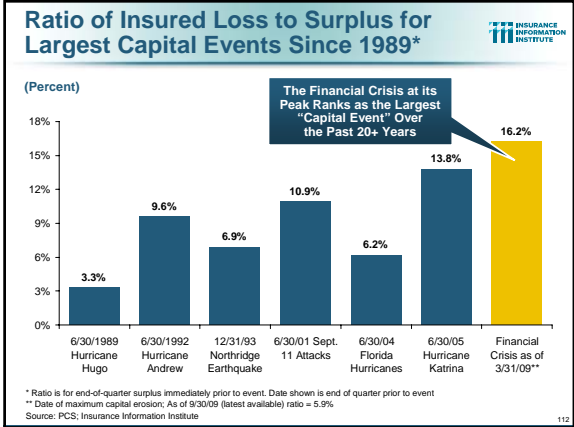
Capital/Policyholder Surplus (US)

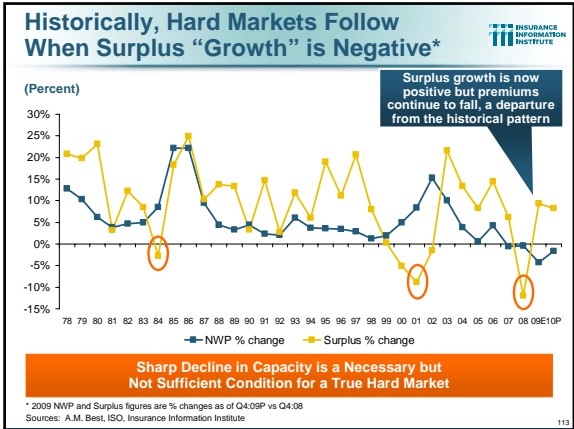
Shrinkage, but Not Enough to Trigger Hard Market







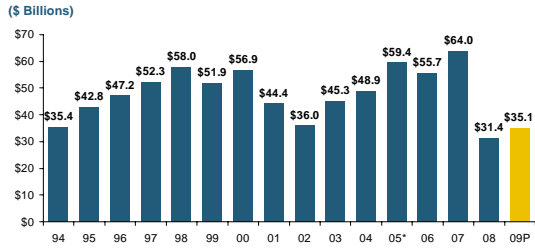




Investment Performance

Investments Are a Principle Source of Declining Profitability

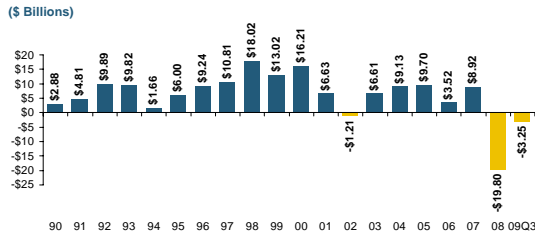
Property/Casualty Insurance Industry Investment Gain: 1994–2009P¹



Investment Gains Fell by 51% In 2008 Due to Lower Yields, Poor Equity Market Conditions. In 2009, the Return of Realized Capital Losses Helped Offset Lower Investment Income

¹ Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.
 * 2005 figure includes special one-time dividend of \$3.2B.
 Sources: ISO; Insurance Information Institute.

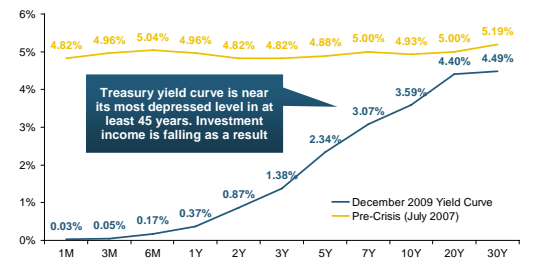
P/C Insurer Net Realized Capital Gains, 1990-2009:Q3



Realized Capital Losses Hit a Record \$19.8 Billion in 2008 Due to Financial Market Turmoil, a \$27.7 Billion Swing From 2007, Followed by an \$3.25B Drop through Q3 2009. This is a Primary Cause of 2008/2009's Large Drop in Profits and ROE

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

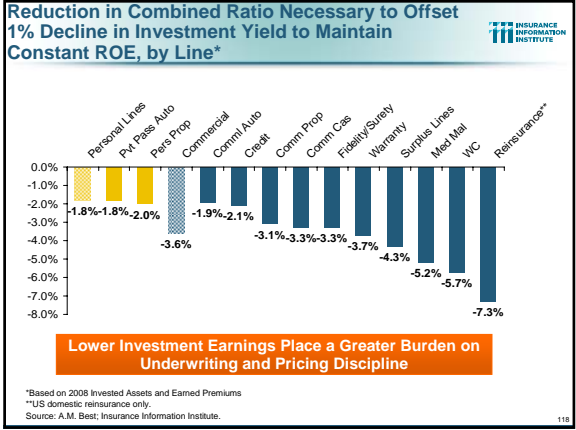
Treasury Yield Curves: Pre-Crisis (July 2007) vs. Dec. 2009

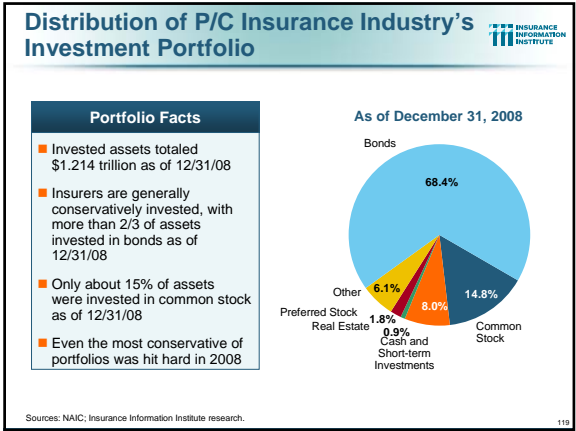


Treasury yield curve is near its most depressed level in at least 45 years. Investment income is falling as a result

Stock Dividend Cuts Will Further Pressure Investment Income

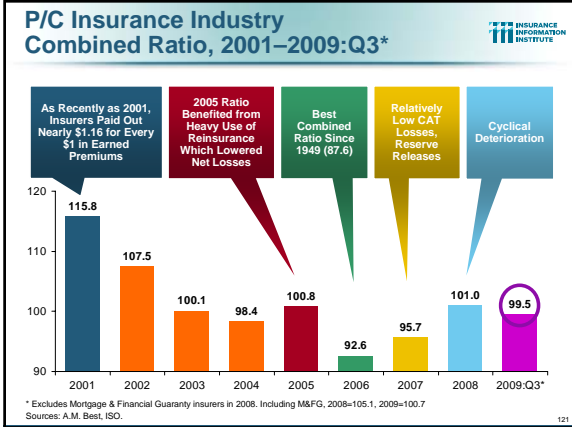
Sources: Board of Governors of the United States Federal Reserve Bank; Insurance Information Institute.

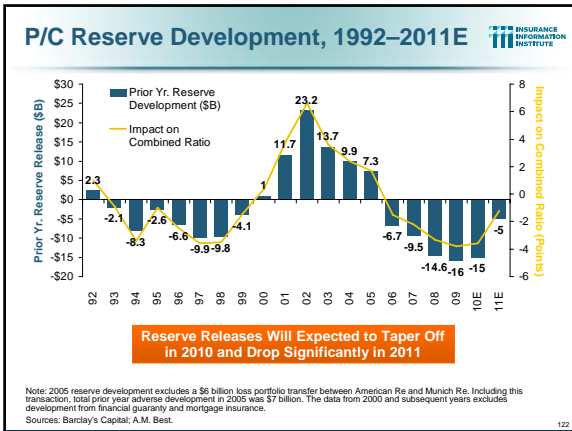


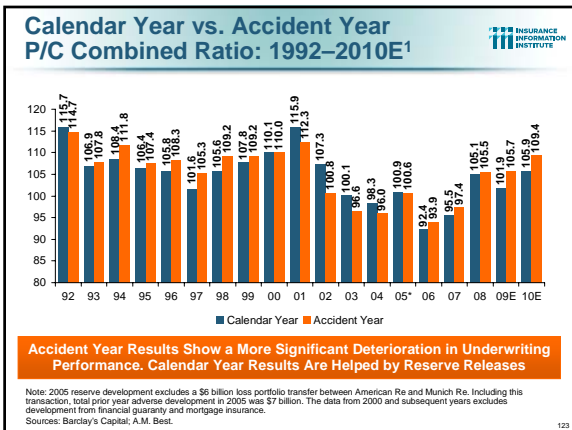


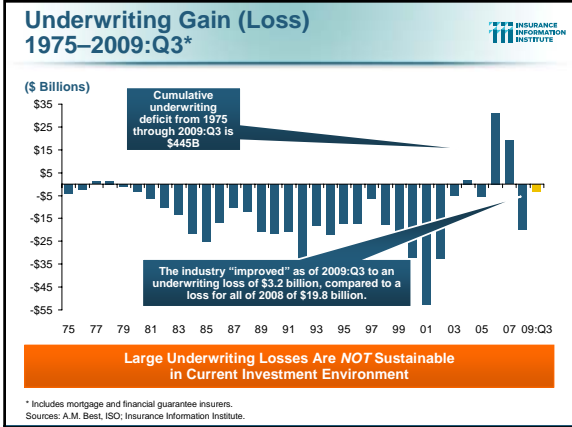
INSURANCE INFORMATION INSTITUTE

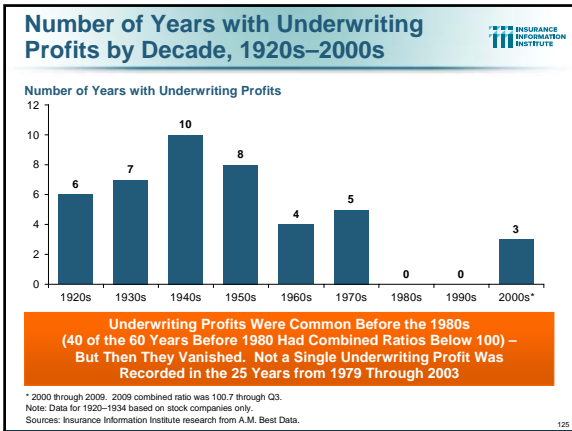
Underwriting Trends – Financial Crisis Does Not Directly Impact Underwriting Performance: Cycle, Catastrophes Were 2008's Drivers







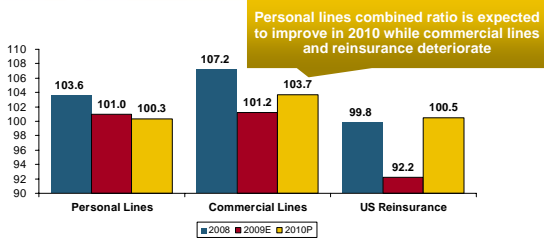




**Performance by Segment:
Commercial/Personal Lines &
Reinsurance**

Calendar Year Combined Ratios by Segment: 2008-2010P

INSURANCE INFORMATION INSTITUTE



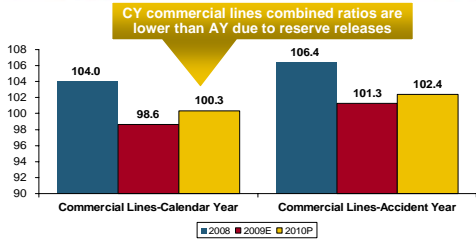
Personal lines combined ratio is expected to improve in 2010 while commercial lines and reinsurance deteriorate

Overall deterioration in 2010 underwriting performance is due to expected return to normal catastrophe activity along with deteriorating underwriting performance related to the prolonged commercial soft market

Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute. 127

Calendar vs. Accident Year Combined Ratios by Segment: 2008-2010P*

INSURANCE INFORMATION INSTITUTE



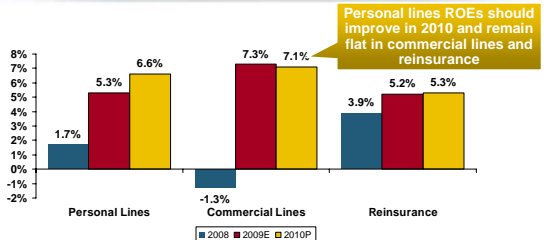
CY commercial lines combined ratios are lower than AY due to reserve releases

The ability of reserves releases to favorably impact calendar year results will diminish over time reserved redundancies fall

*Normalized to reflect average/typical level of catastrophe losses. Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute. 128

After-Tax Return on Surplus (ROE) by Segment: 2008-2010P

INSURANCE INFORMATION INSTITUTE

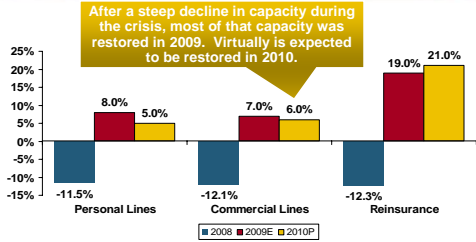


Personal lines ROEs should improve in 2010 and remain flat in commercial lines and reinsurance

Profitability will rise or stabilize across most p/c lines, barring a financial crisis relapse or major catastrophic losses

Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute. 129

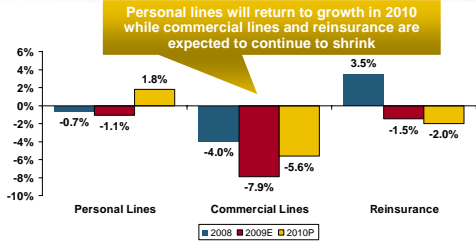
Change in Policyholder Surplus by Segment: 2008-2010P



Rapid growth in policyholder surplus to pre-crisis levels combined with ongoing slow growth or declines in premiums (esp. in commercial lines) implies a build-up of excess capacity—a major factor in weak commercial lines and reinsurance pricing

Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute.

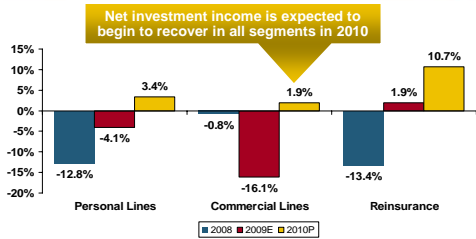
Net Written Premium Growth by Segment: 2008-2010P



Rate and exposure are more favorable in personal lines, whereas a prolonged soft market and sluggish recovery from the recession weigh on commercial lines. Low catastrophe losses and ample capacity are holding down reinsurance prices while higher insurer retentions impact premiums

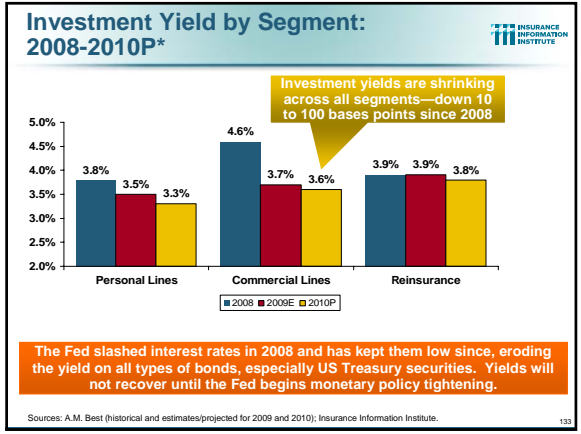
Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute.

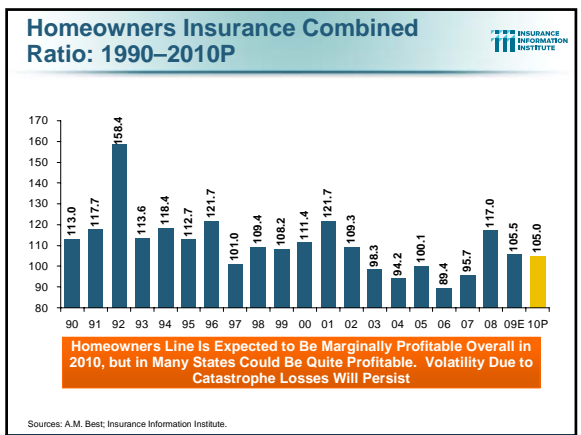
Change in Net Investment Income by Segment: 2008-2010P*

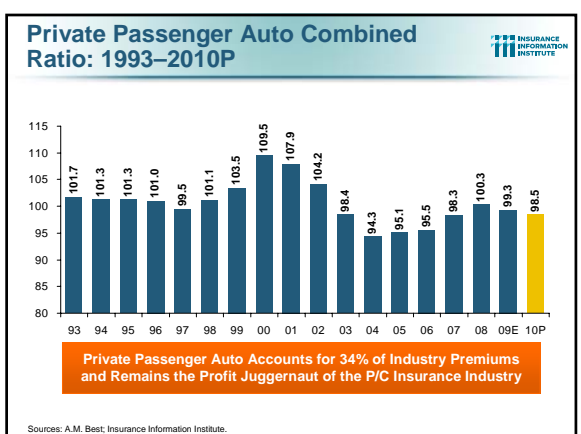


Investment income consists primarily of interest on bonds and stock dividends. Both were hit hard during the financial crisis as the Fed slashed interest rates to near zero and corporations cut dividends. A recovery in investment asset values beginning in Q2 2009—which reduced realized capital losses—has helped offset some of the decrease in investment income.

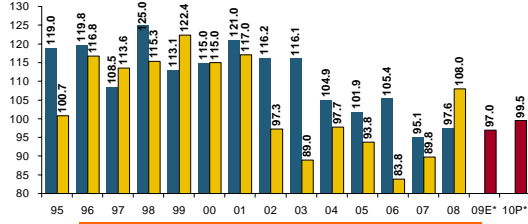
Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute.







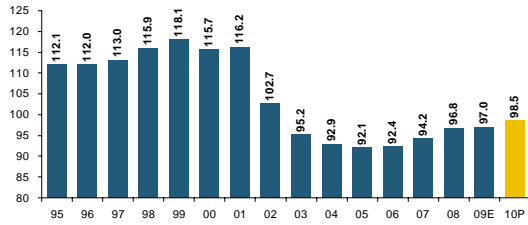
Commercial Multi-Peril Combined Ratio: 1995–2010P



Commercial Multi-Peril is Expected to Continue to Perform Reasonably Well

*2009E and 2010P figures are for the combined liability and non-liability components. Sources: A.M. Best; Insurance Information Institute.

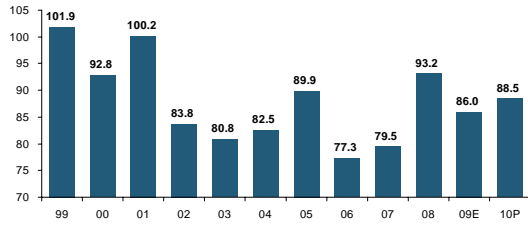
Commercial Auto Combined Ratio: 1993–2010P



Commercial Auto is Expected to Remain Reasonably Profitable in 2010

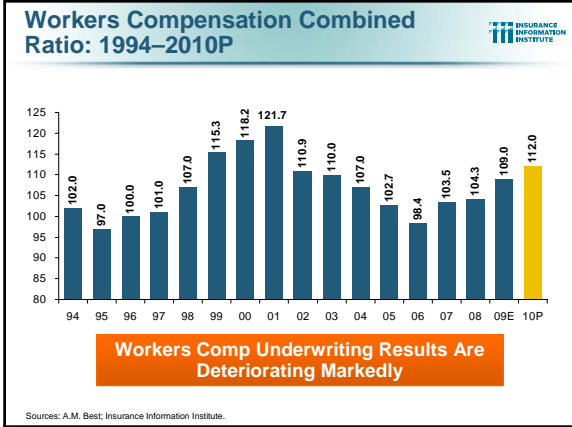
Sources: A.M. Best; Insurance Information Institute.

Inland Marine Combined Ratio: 1999–2010P

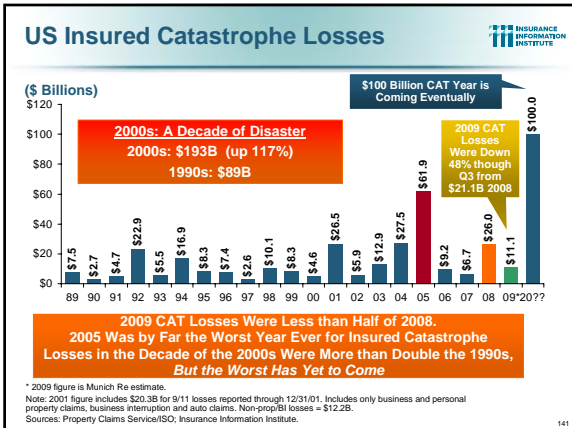


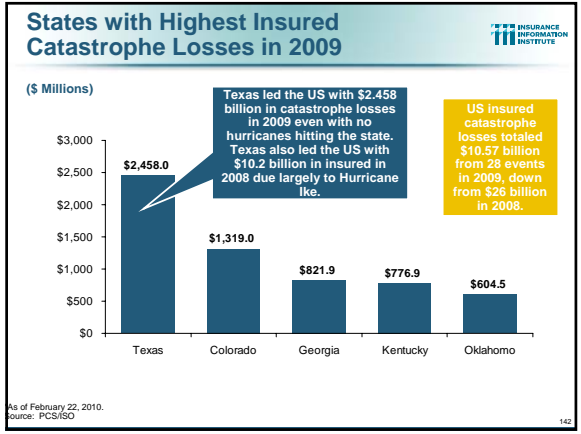
Inland Marine is Expected to Remain Among the Most Profitable of All Lines

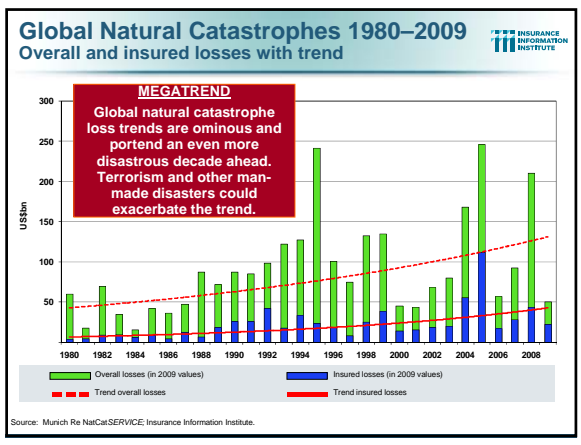
Sources: A.M. Best; Insurance Information Institute.



Catastrophic Loss – Catastrophe Losses Trends Are Trending Adversely







Natural Catastrophe Losses in the U.S. 2009

INSURANCE INFORMATION INSTITUTE

As of January 2010	Fatalities	Estimated Overall Losses (US \$m)	Estimated Insured Losses (US \$m)
Tropical Cyclones	8	Minor	Minor
Severe Thunderstorms	21	13,710	9,625 [†]
Winter Storms	70	1,600	770 [†]
Wildfires	6	280	185
Floods	22	1,600	232

2009 was a near record year for thunderstorm losses

Sources: (unmarked) - MR NatCatSERVICE, [†] Property Claims Services (PCS)

U.S. Significant Natural Catastrophes in 2009



\$1+ billion economic loss and/or 50+ fatalities (as of Jan. 2010)

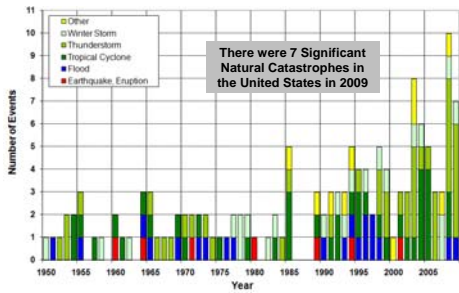
Date	Event	Est. Economic Losses (US \$m)	Estimated Insured Losses (US \$m)
January 26 - 28	Winter Storm	1,100	565 ^f
February 10 - 13	Thunderstorms	2,500	1,350 ^f
March 25 - 26	Thunderstorms	1,500	995 ^f
March - April	Flood	1,000	75
April 9 -11	Thunderstorms	1,700	1,150 ^f
June 10 -18	Thunderstorms	2,000	1,100 ^f
July 20 -21	Thunderstorms	1,000	800 ^f

Sources: (unmarked) - MR NatCatSERVICE.

U.S. Significant Natural Catastrophes, 1950 – 2009



Number of Events (\$1+ Bill economic loss and/or 50+ fatalities)

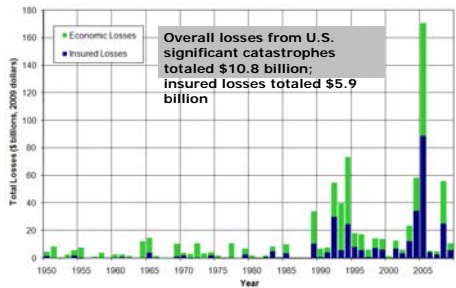


Sources: MR NatCatSERVICE

Losses from U.S. Significant Natural Catastrophes 1950 – 2009



(\$1+ billion economic loss and/or 50+ fatalities)

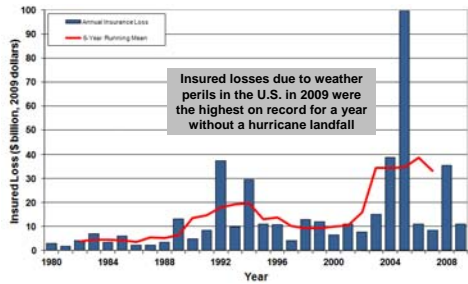


Sources: MR NatCatSERVICE

Insured Losses Due to Weather Perils in the U.S.: 1980 – 2009



(Tropical Cyclone, Thunderstorm, and Winter Storm only)

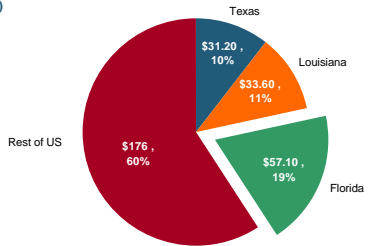


Sources: MR NatCatSERVICE, Property Claims Services

Distribution of US Insured CAT Losses: TX, FL, LA vs. US, 1980-2008*



(\$ Billions)



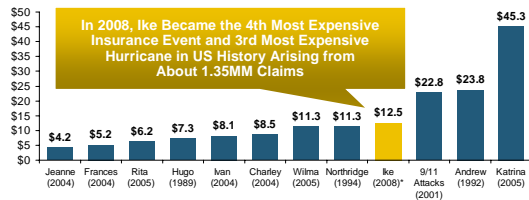
Florida Accounted for 19% of All US Insured CAT Losses from 1980-2008: \$57.1B out of \$297.9B

* All figures (except 2006-2008 loss) have been adjusted to 2005 dollars. Source: PCS division of ISO.

Top 12 Most Costly Disasters in US History

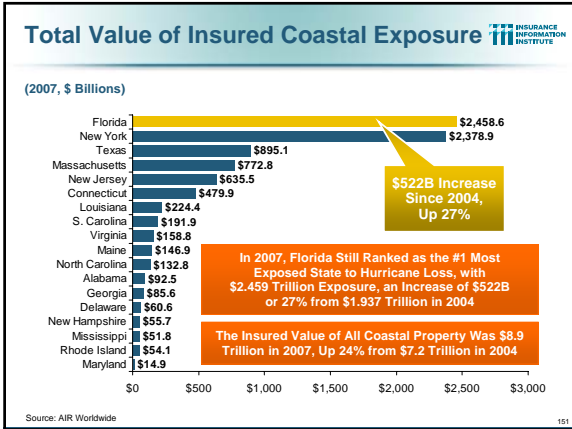


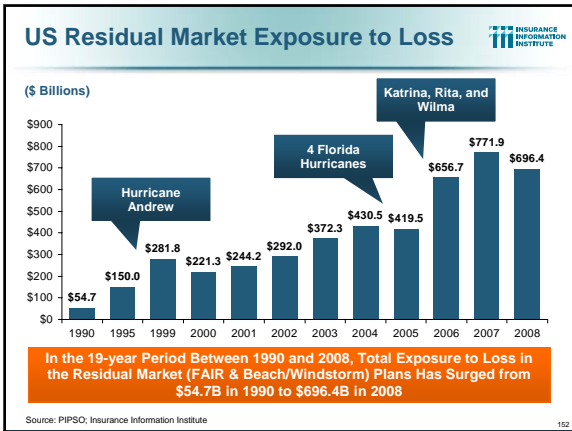
(Insured Losses, 2008, \$ Billions)



8 of the 12 Most Expensive Disasters in US History Have Occurred Since 2004; 8 of the Top 12 Disasters Affected FL

* PCS estimate as of August 1, 2009. Sources: PCS; Insurance Information Institute inflation adjustments.





Insurance Information Institute Online:

www.iii.org

Thank you for your time and your attention!

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