

What Does the Recession Mean for the (Re)insurance Industry?

CAS Annual Seminar on Reinsurance

Hamilton, Bermuda

May 19, 2009

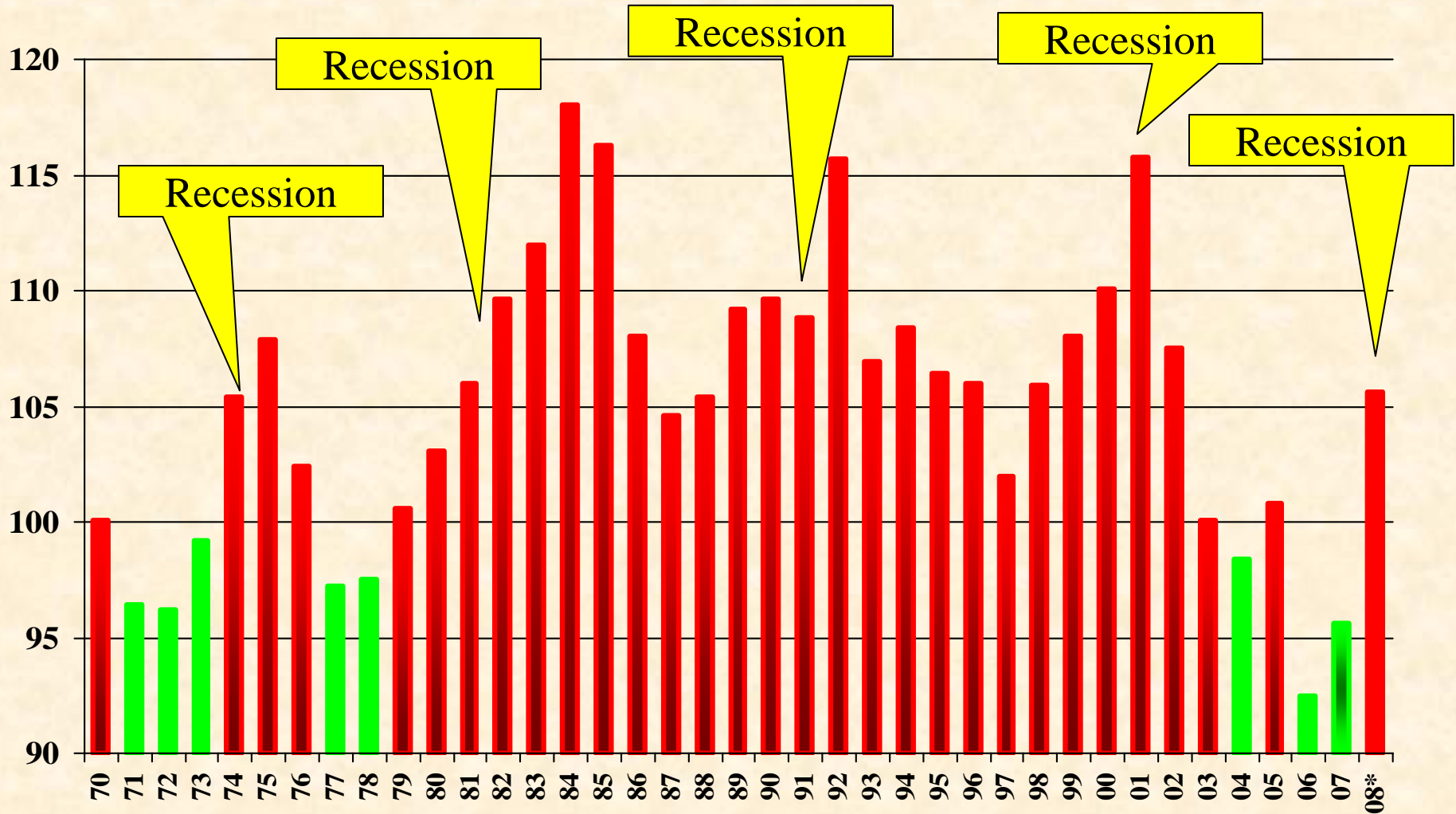


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U.S. P/C Insurance Industry Combined Ratio, 1970-2008*



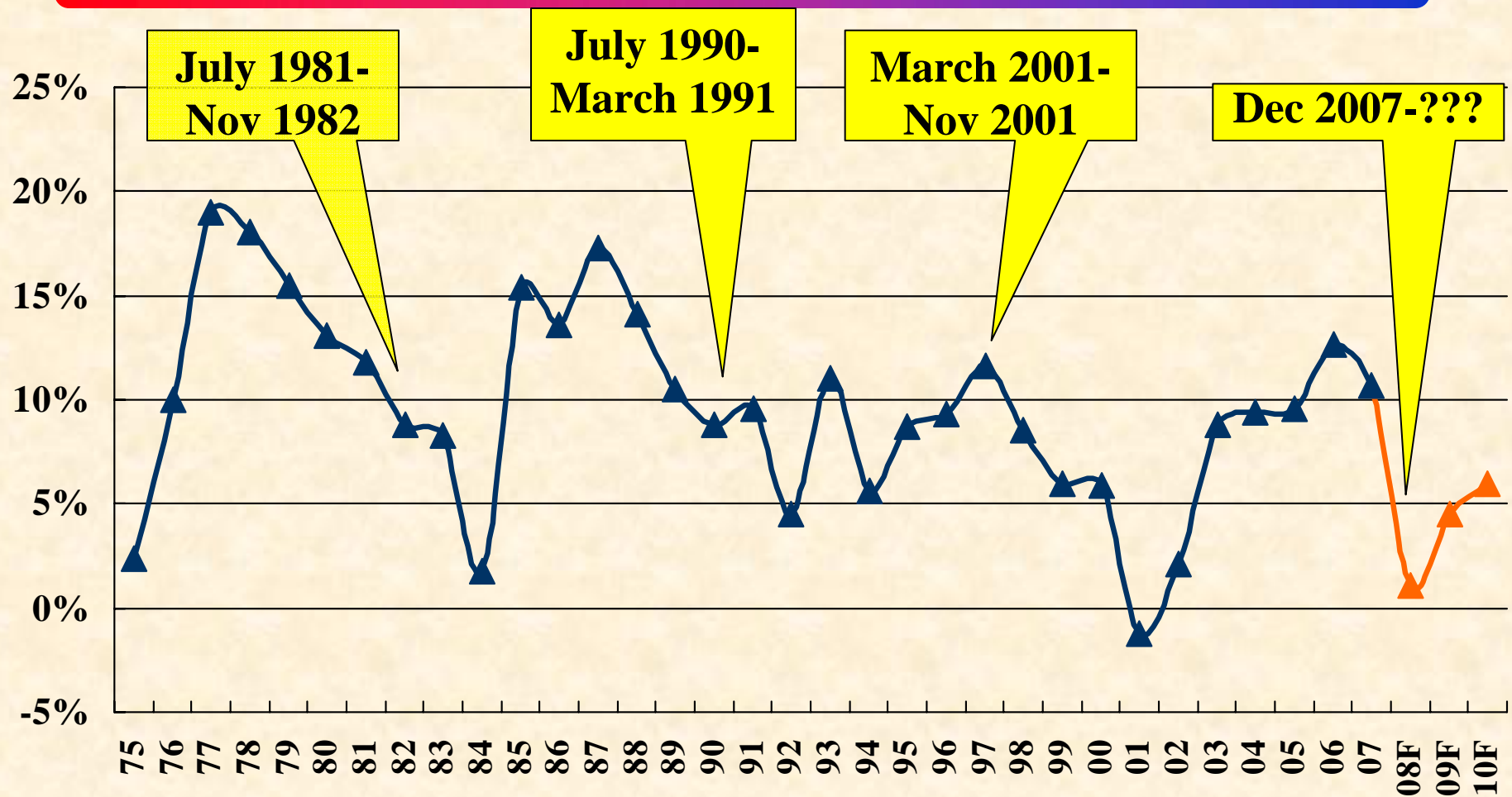
*2008 through Q3

**2000-2007

Sources: A.M. Best; ISO, III



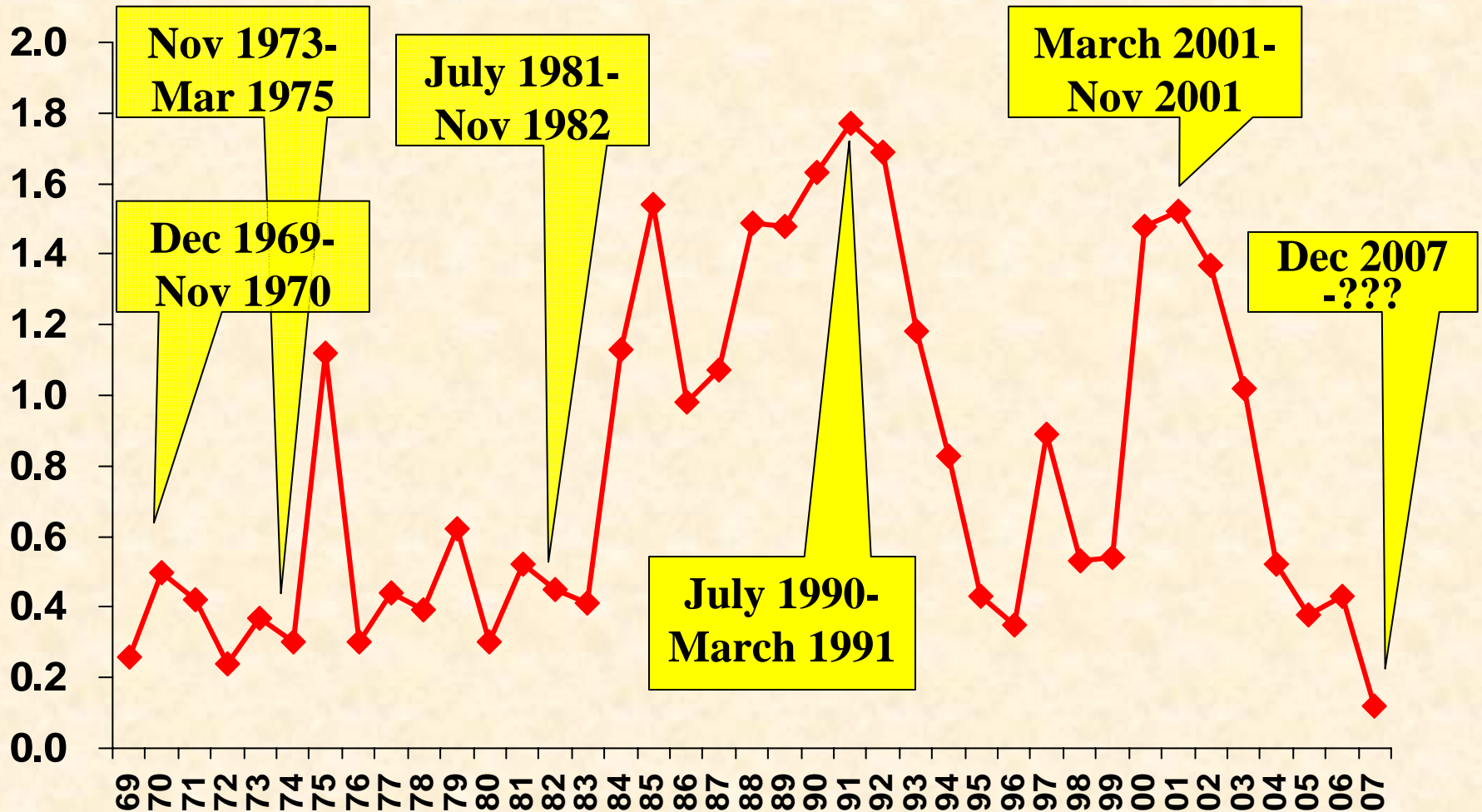
P/C Insurance Industry ROEs and Recent Recessions



Note: 2008 figure is actual 9-month Return on Average Surplus.
Sources: ISO; Insurance Information Institute.



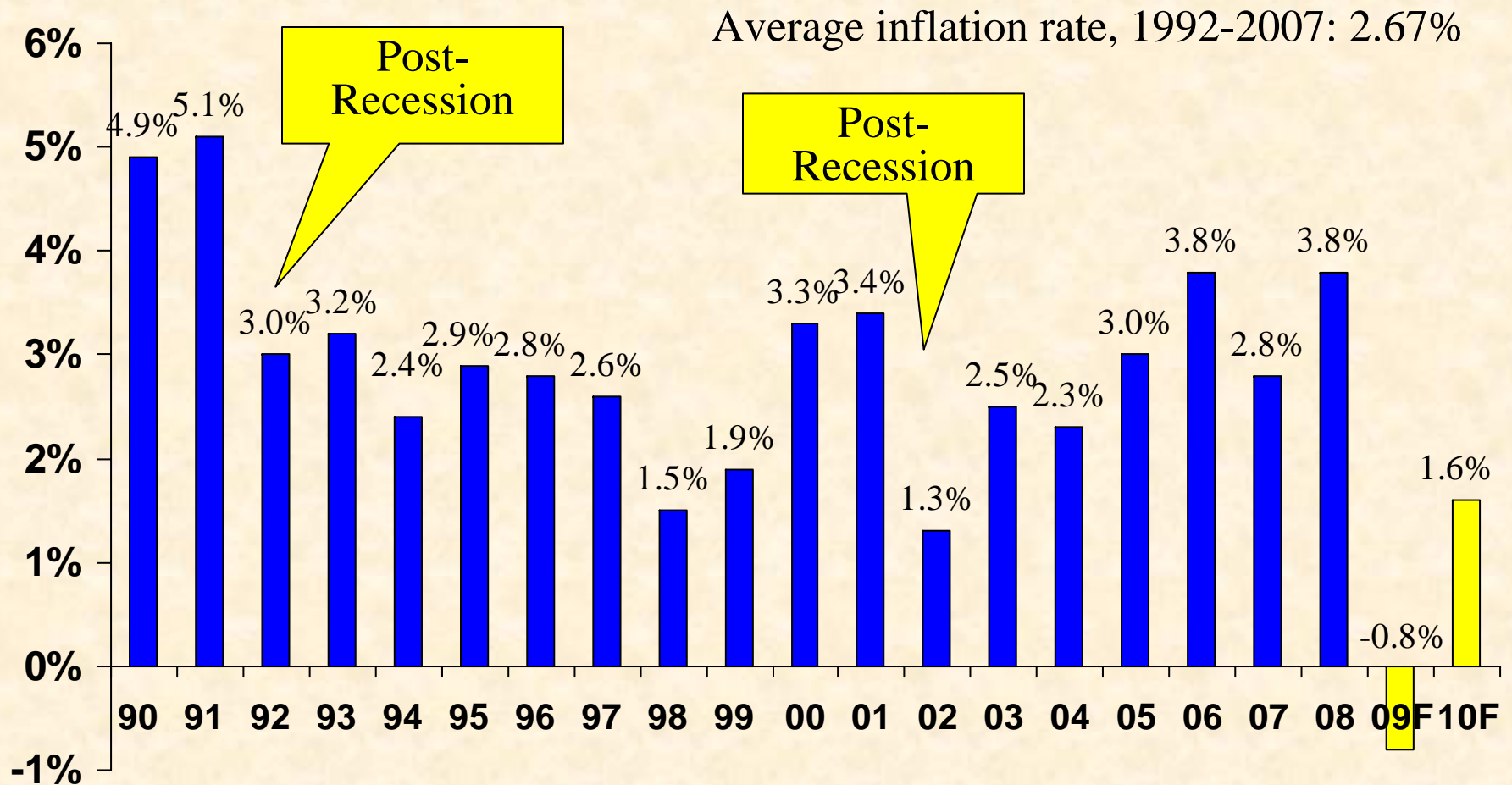
P/C Insurer Impairment Frequency and Recent Recessions, 1969-2007



Source: A.M. Best; Insurance Information Institute



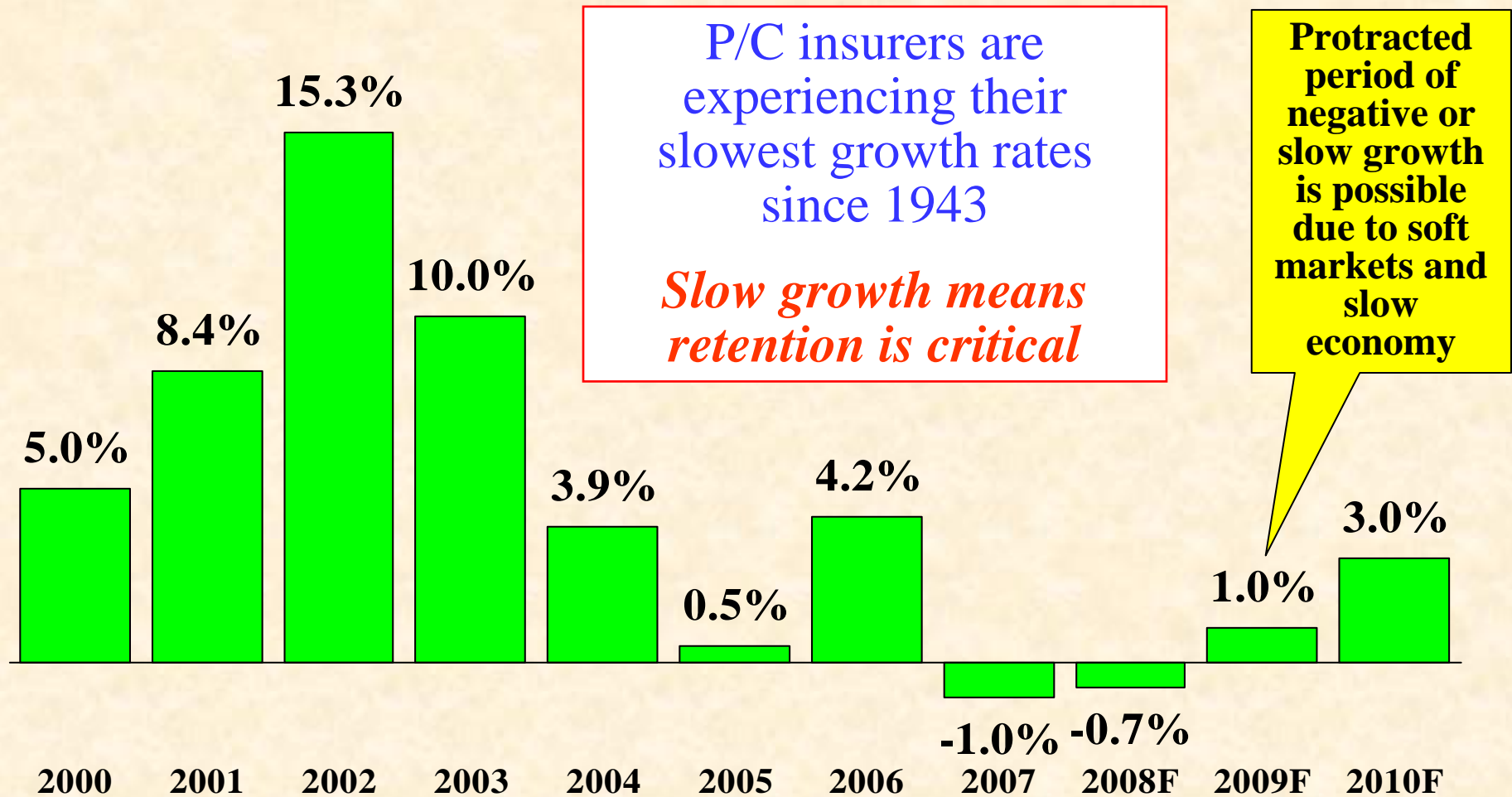
After Recent Recessions, the Annual Inflation Rate Dropped



Sources: US Bureau of Labor Statistics (actual, blue bars); Blue Chip Economic Indicators, 3/2009 issue, (forecasts, yellow bars)



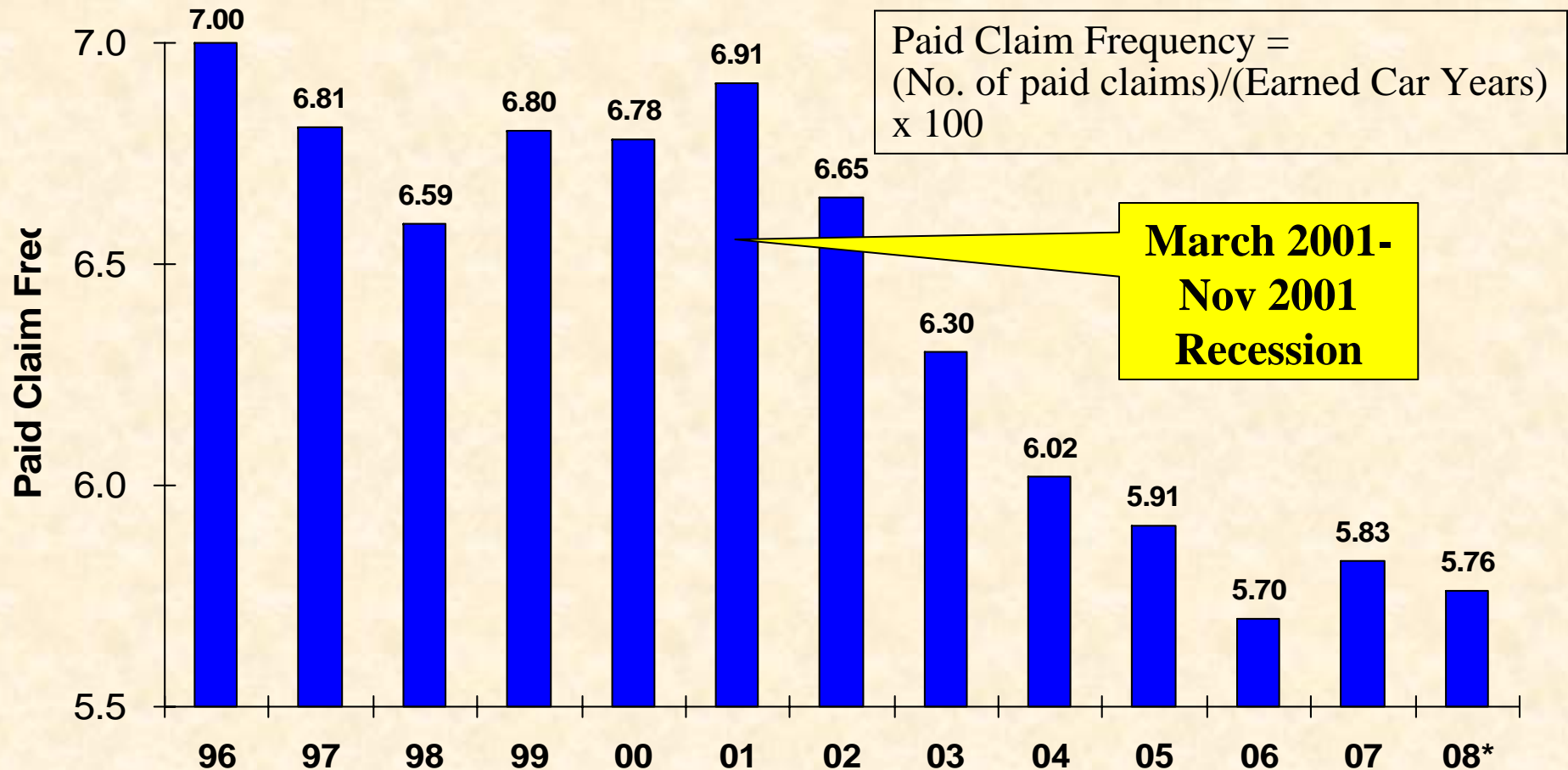
Year-to-Year Change in Net Written Premium, 2000-2010F



Source: A.M. Best (historical and forecast).



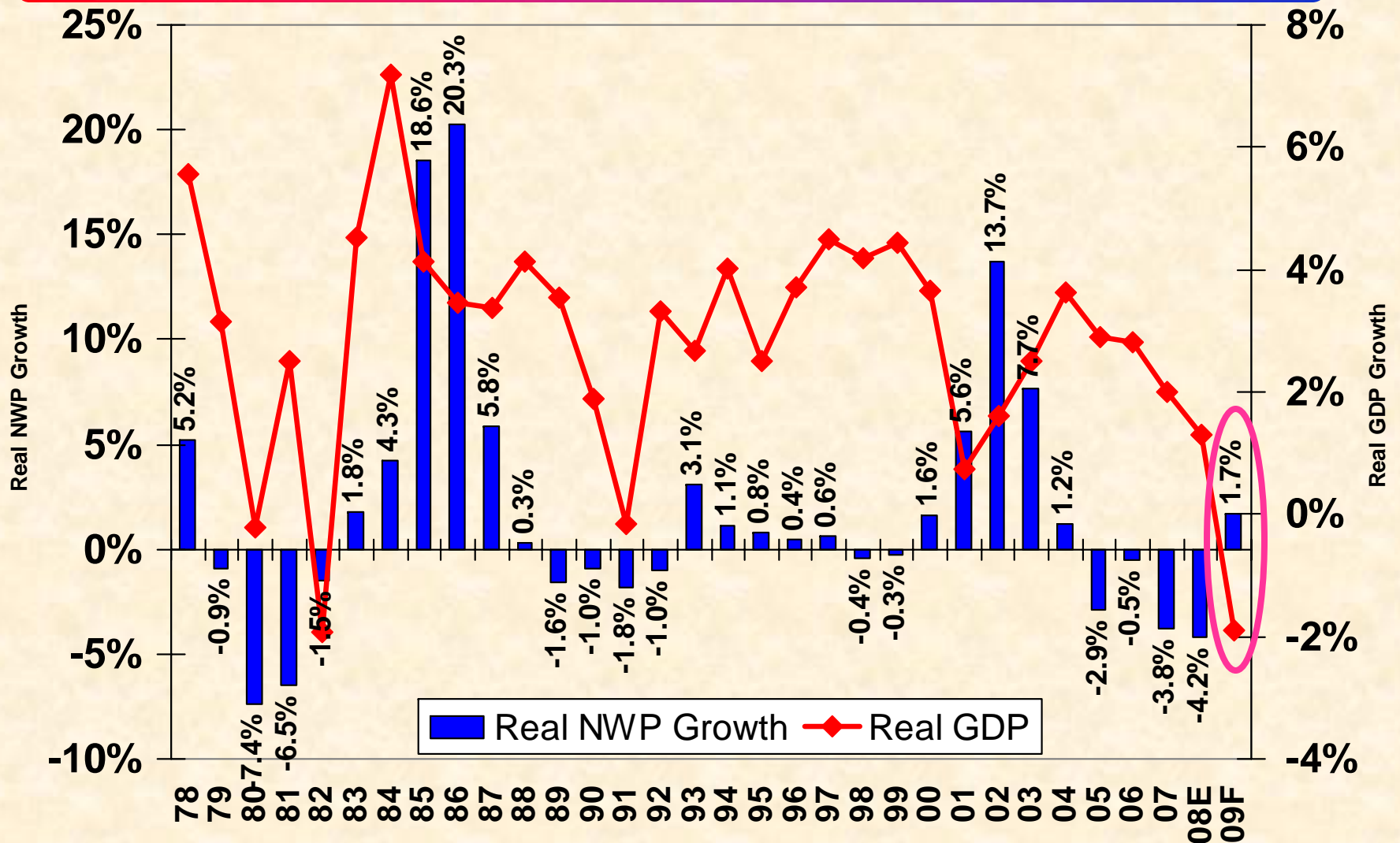
Auto Collision: Paid Claim Frequency Has Been Dropping Since 2001



Sources: Federal Highway Administration (<http://www.fhwa.dot.gov/ohim/tvtw/08juntvt/08juntvt.pdf>); ISO Fast Track Monitoring System, *Private Passenger Automobile Fast Track Data: Third Quarter 2008*, published January 19, 2009 and earlier reports. 2008 figure is for 4 quarters ending Q3 2008.



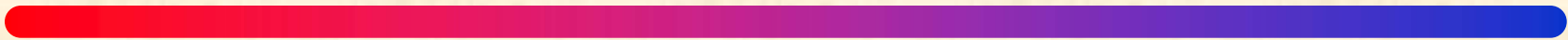
Does National Economic Growth Affect Real P/C Premium Growth? Not Much



Sources: A.M. Best, US Bureau of Economic Analysis, Blue Chip Economic Indicators, 2/09; Insurance Information Inst.

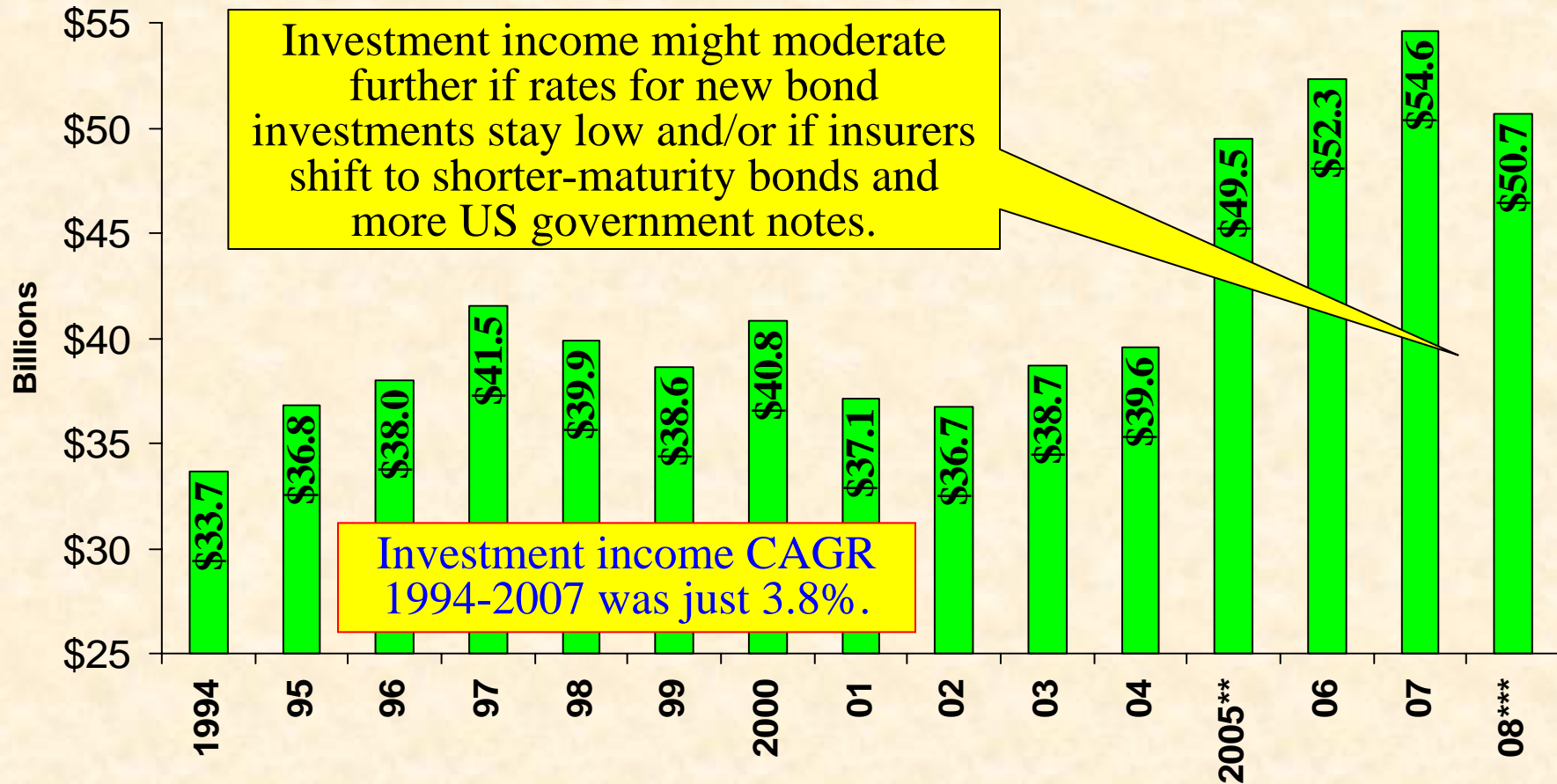
Investment Performance

*Investments are
the Main Source
of Declining Profitability*





P/C Industry Investment Income, 1994-2008:Q3*



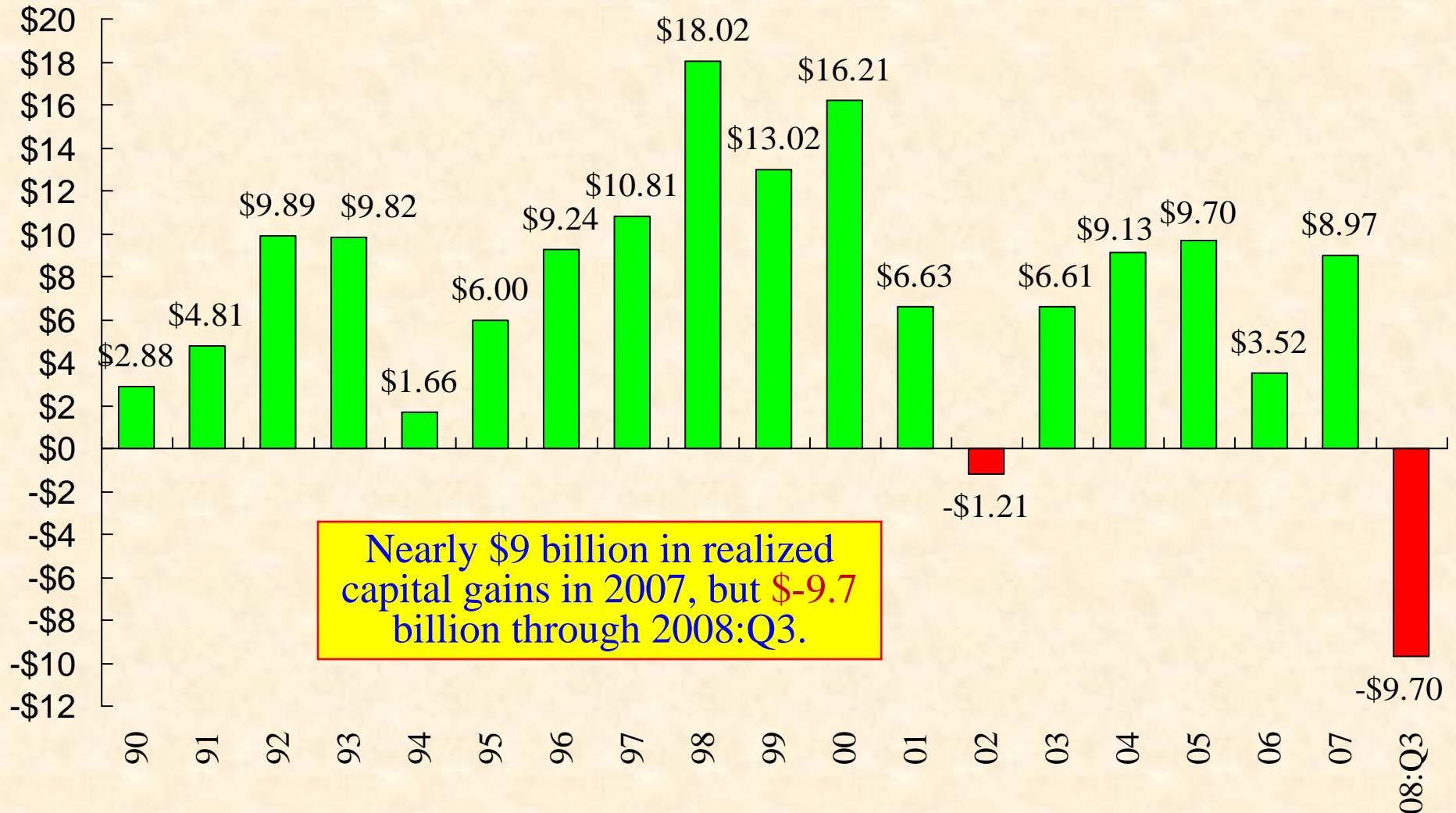
*Primarily interest and stock dividends. ** Investment income (excluding one-time dividend) jumped in 2005 as insurers that had accumulated cash captured rising bond interest rates. Also, 2005 figure includes special one-time dividend of \$3.2B. ***Annualized based on result in first three quarters.

Sources: ISO; Insurance Information Institute.



P/C Industry Net Realized Capital Gains, 1990-2008:Q3

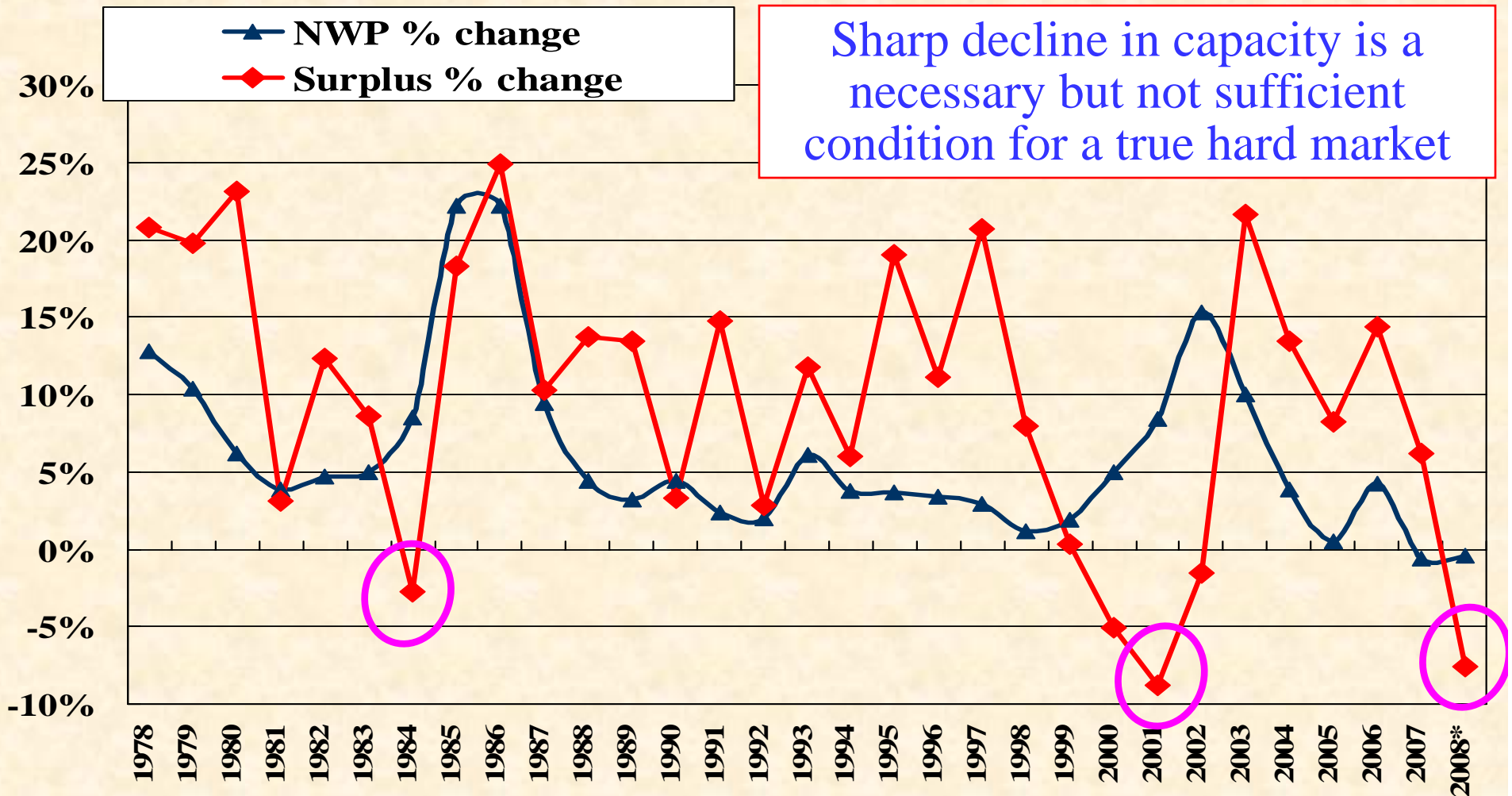
\$ Billions



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



Historically, Hard Markets Follow When Surplus “Growth” is Negative

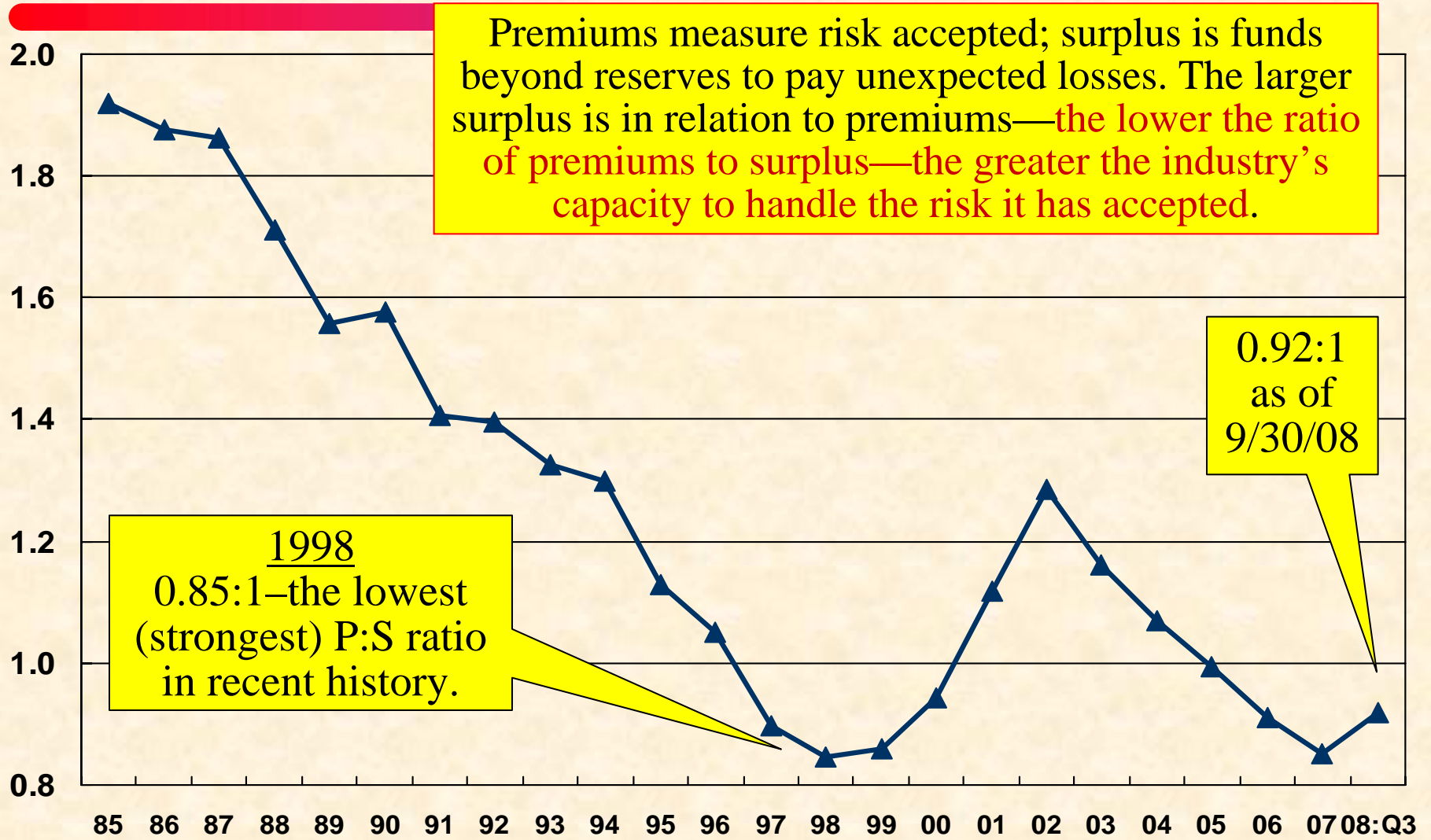


*Actual 9-month 2008 result.

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



U.S. P/C Industry Premiums-to-Surplus Ratio: 1985-2008:Q3

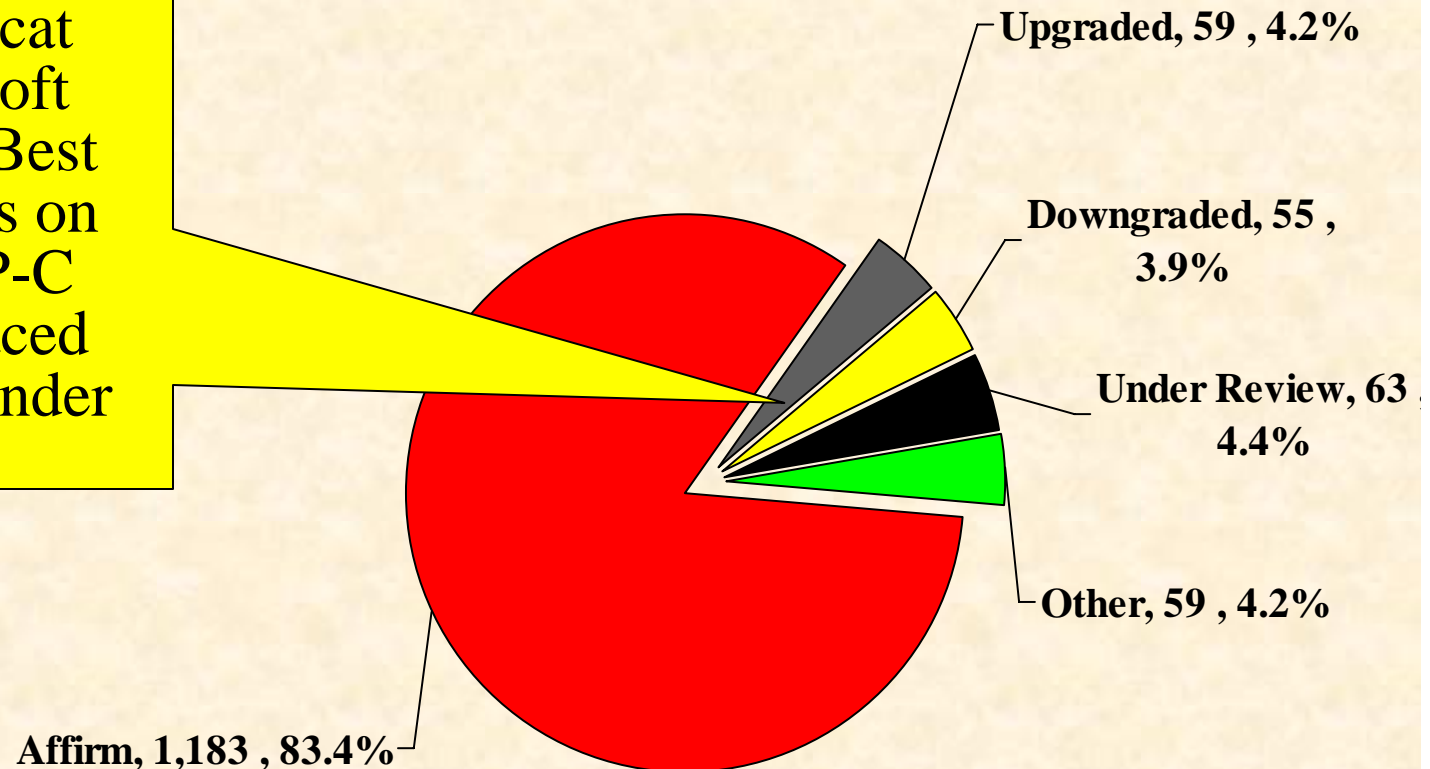


Sources: A.M. Best, ISO, Insurance Information Institute.



*In 2008, A.M. Best Affirmed or Upgraded 88% of P/C Insurers**

In 2008, despite financial market turmoil, high cat losses and a soft market, A.M. Best lowered ratings on just 3.9% of P-C insurers. It placed another 4.4% under review



*Through December 19.
Source: A.M. Best.