

## The Global Financial Crisis and Its Impacts on the P/C Insurance Industry

Energy Market Trends, Challenges & Concerns

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Insurance Information Institute

### Presentation Outline

- The Economic Storm: Financial Crisis, Recession and Inflation
- Impacts on Energy Demand, Supply and Insurance Exposure
- Climate Change: Costs and Energy Insurance Market Impacts
- Energy Insurance Market Overview
- Insurer Financial Strength and Ratings
  - Banks vs. Insurers
- Key Threats and Issues Facing P/C Insurers through 2015
- Insurance Industry Overview and Outlook
  - Profitability
  - Premium Growth
  - Underwriting Performance
  - Financial Market Impacts
  - Merger and Acquisition Activity
- Capital and Capacity
- Catastrophe Loss Trends

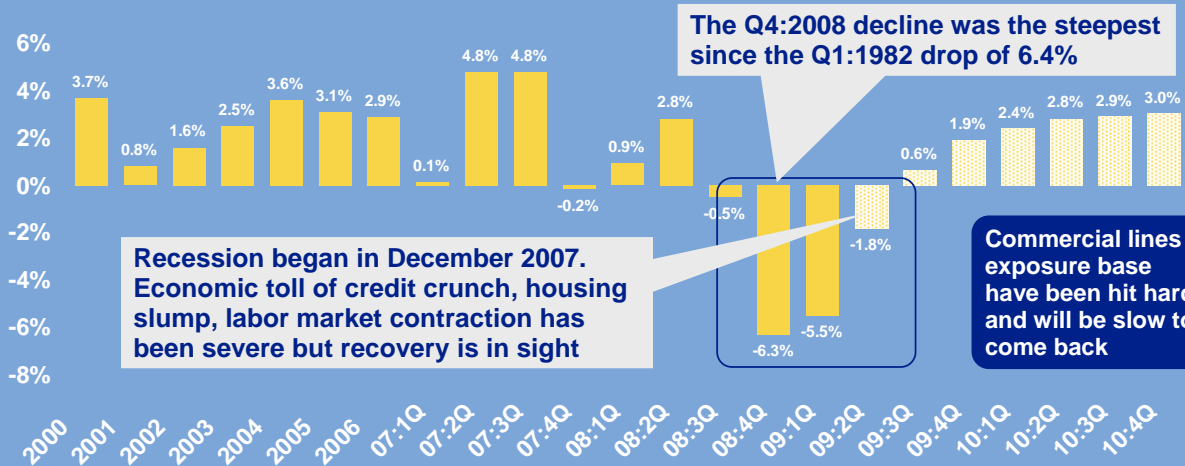


## The Economic Storm

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



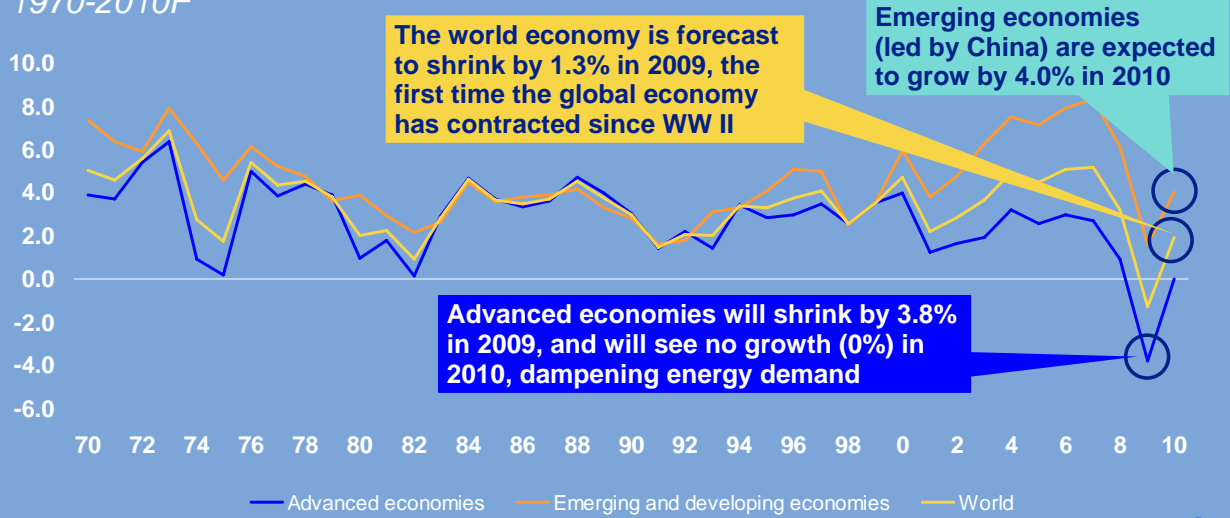
## Real GDP Growth\*



\*Blue bars are Estimates/Forecasts from Blue Chip Economic Indicators. Source: US Department of Commerce, Blue Economic Indicators 6/09; Insurance Information Institute.

## GDP Growth: Advanced and Emerging Economies vs. World

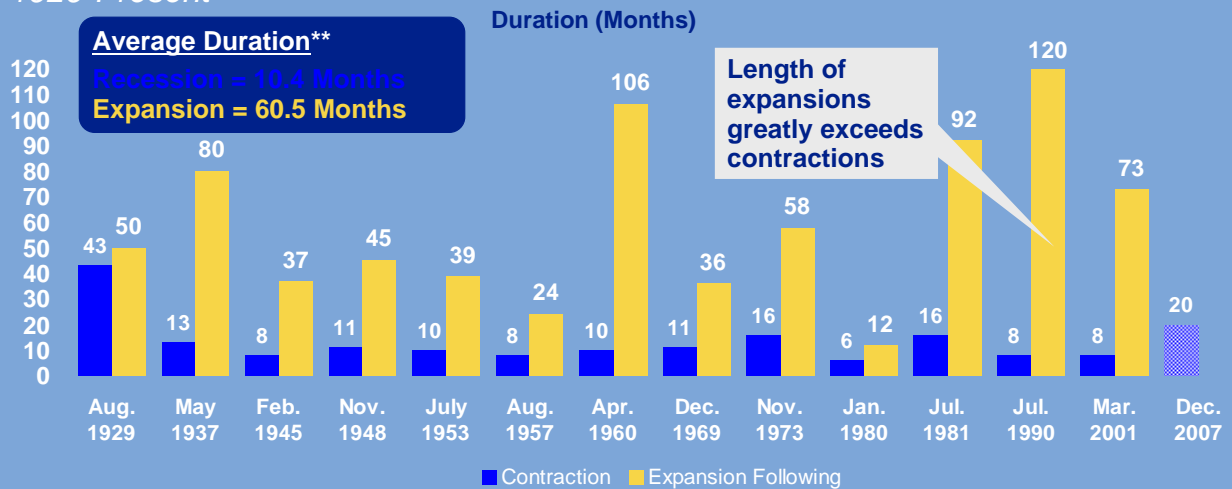
1970-2010F



Source: International Monetary Fund, *World Economic Outlook Update*, April 2009; Ins. Info. Institute.

## Length of US Business Cycles

1929-Present\*

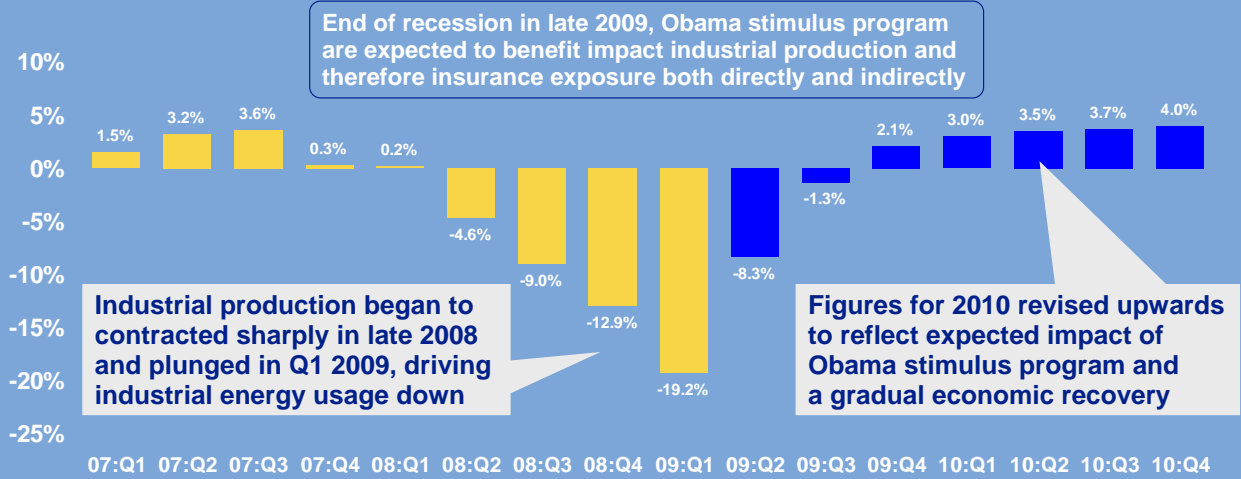


\* As of July 2009, inclusive; \*\*Post-WW II period through end of most recent expansion.  
 Sources: National Bureau of Economic Research; Insurance Information Institute.



## Total Industrial Production

2007:Q1 to 2010:Q4F



Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (6/09); Insurance Info. Inst.



## Global Industrial Production Is in a Tailspin, Reducing Energy Demand

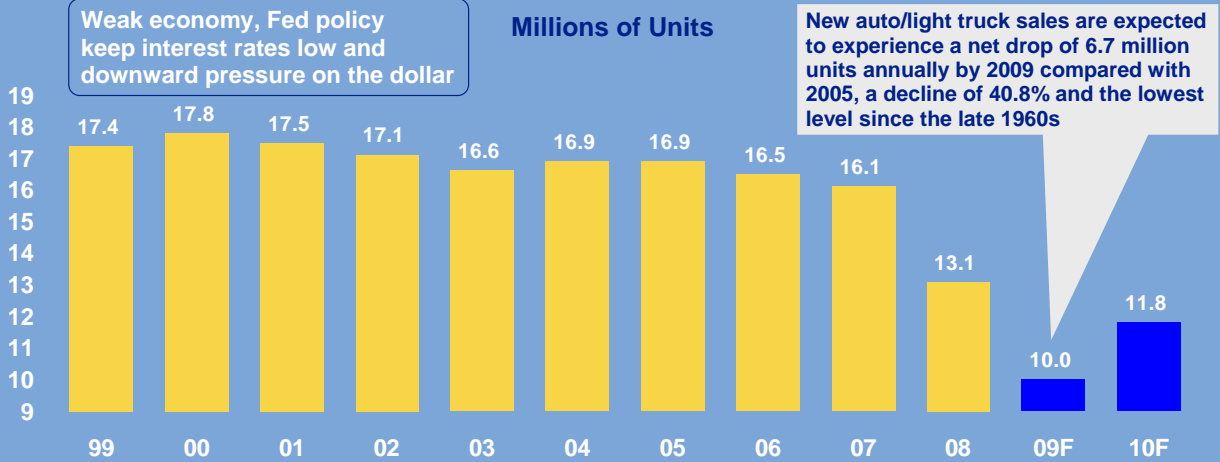
Percent change from year earlier



\*Industrial production was down 17% in advance economies and 4% in emerging economies. Source: International Monetary Fund, World Economic Outlook Update, April 2009, Ins. Info. Institute.

## Auto / Light Truck Sales

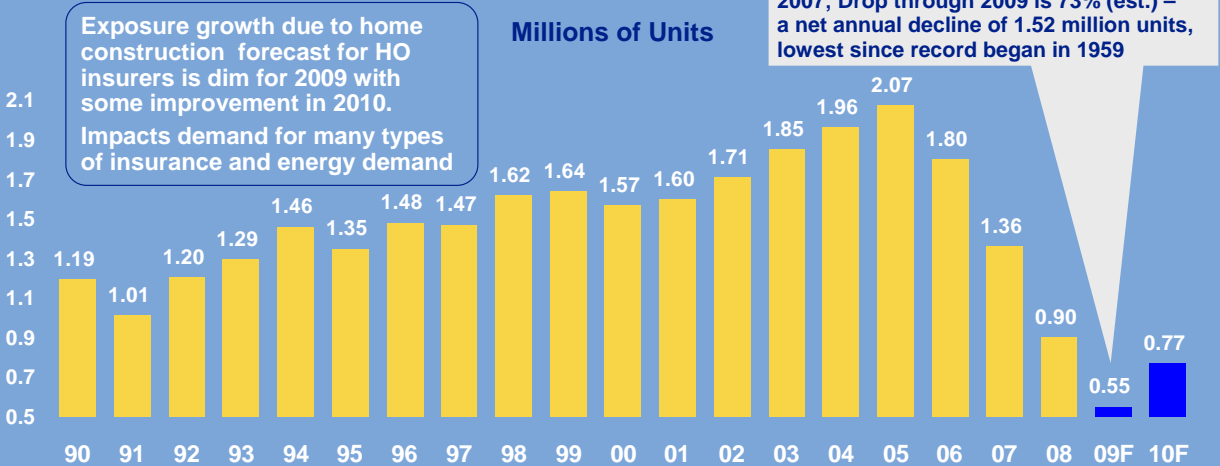
1999-2010F



Source: US Department of Commerce; Blue Chip Economic Indicators (6/09); Insurance Information Inst.

## New Private Housing Starts

1990-2010F

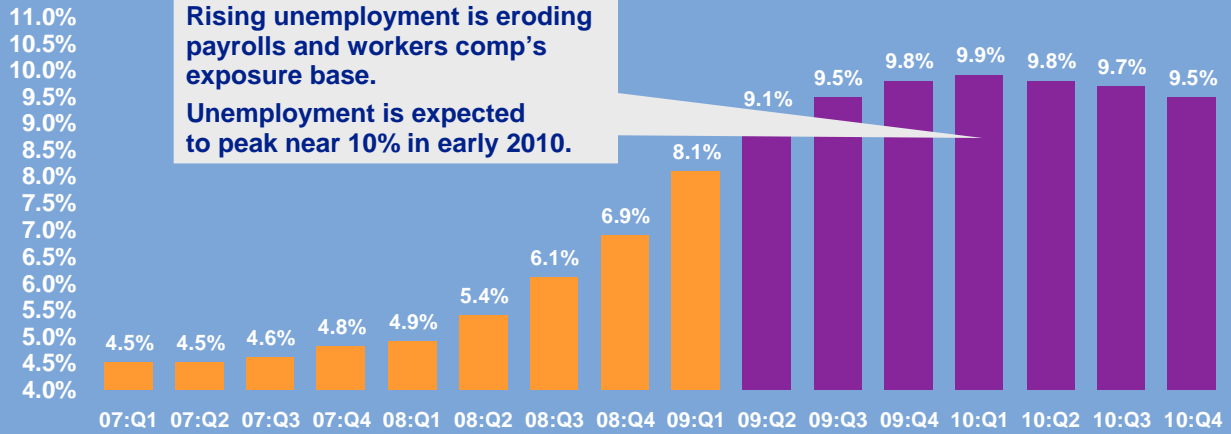


Source: US Department of Commerce; Blue Chip Economic Indicators (6/09); Insurance Information Inst.



## US Unemployment Rate

2007:Q1 to 2010:Q4F\*

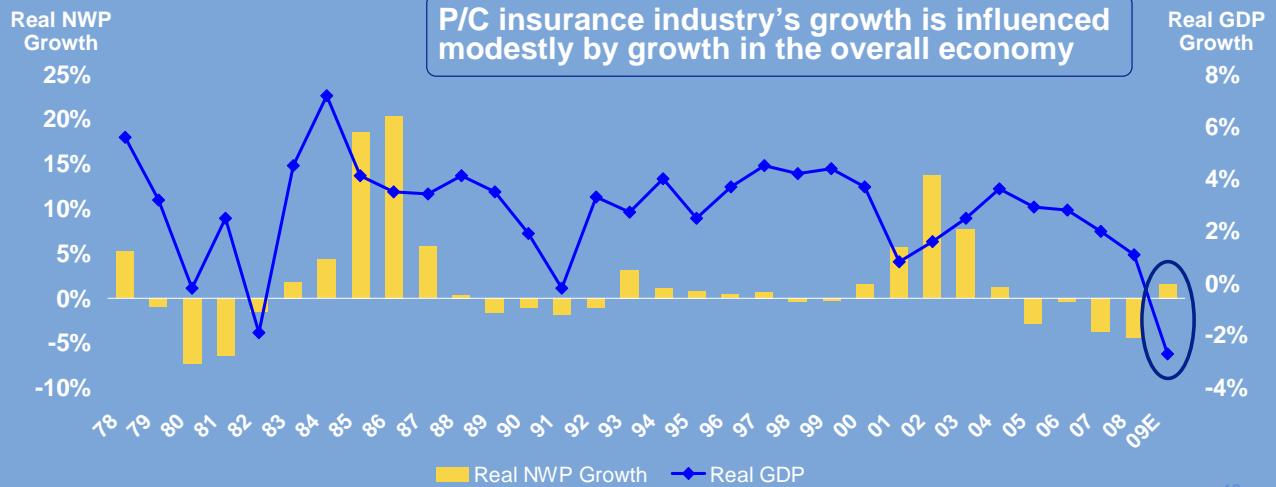


\* Blue bars are actual; Yellow bars are forecasts  
Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (6/09); Insurance Info. Inst.



## Real GDP Growth vs. Real P/C Premium Growth

Modest association



Sources: A.M. Best, US Bureau of Economic Analysis, Blue Chip Economic Indicators, 6/09; Insurance Information Inst.



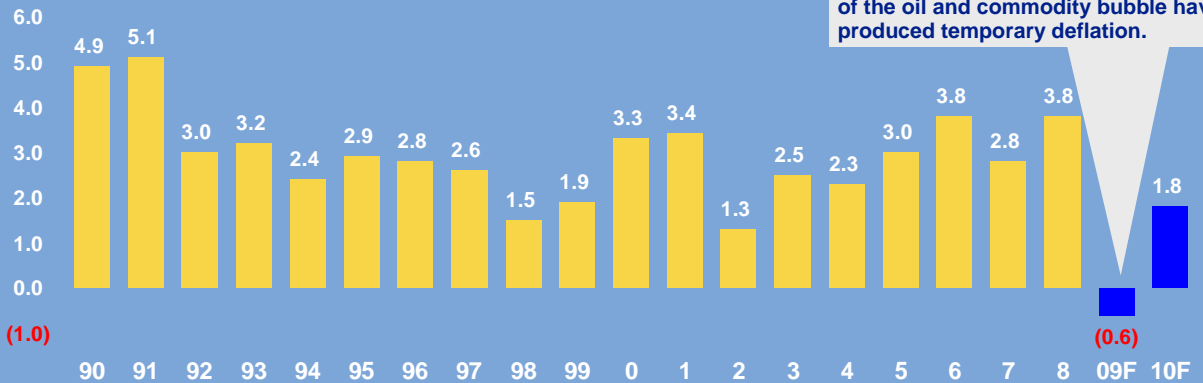
## Inflation Trends

Pressures Claim Cost Severities via Medical and Tort Channels



## Annual Inflation Rates (CPI-U, %)

1990-2010F

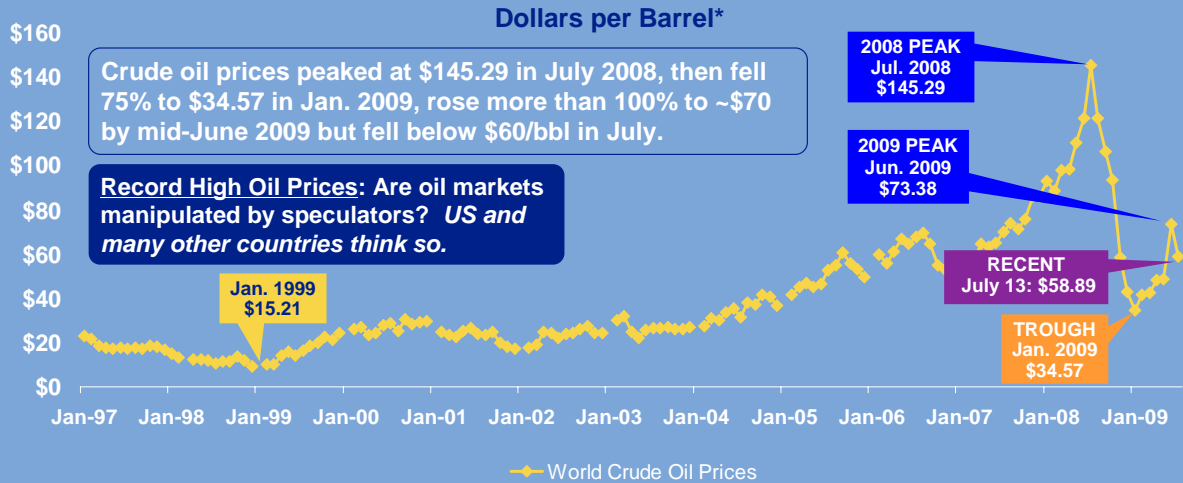


Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators, June 10, 2009 (forecasts).

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## World Crude Oil Prices

1997-July 2009

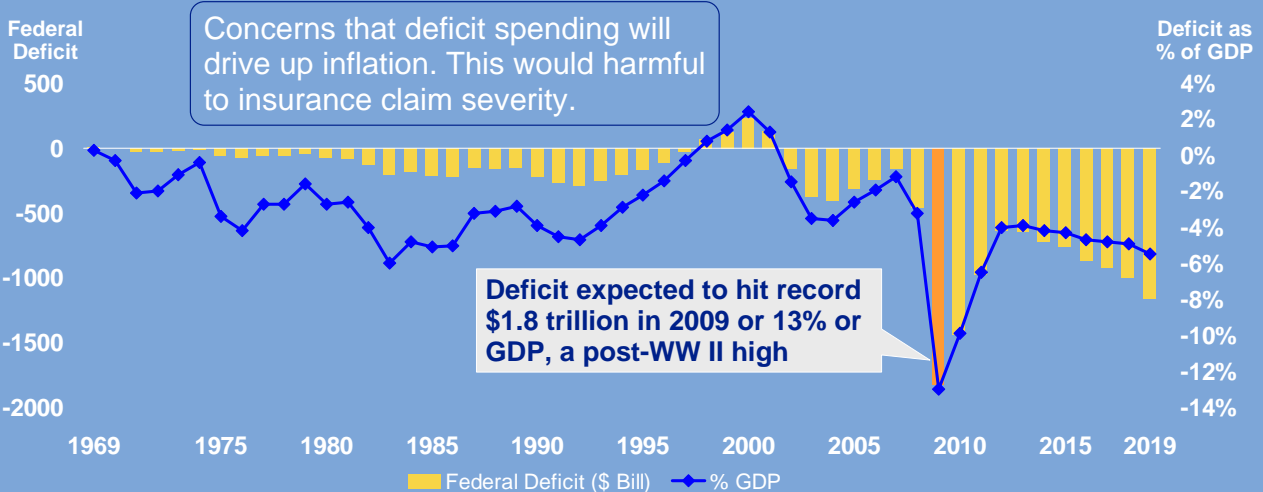


\*All countries spot market price weighted by estimated export volume.  
Source: Energy Information Administration; <http://tonto.eia.doe.gov/dnav/pet/hist/wotworldw.htm>

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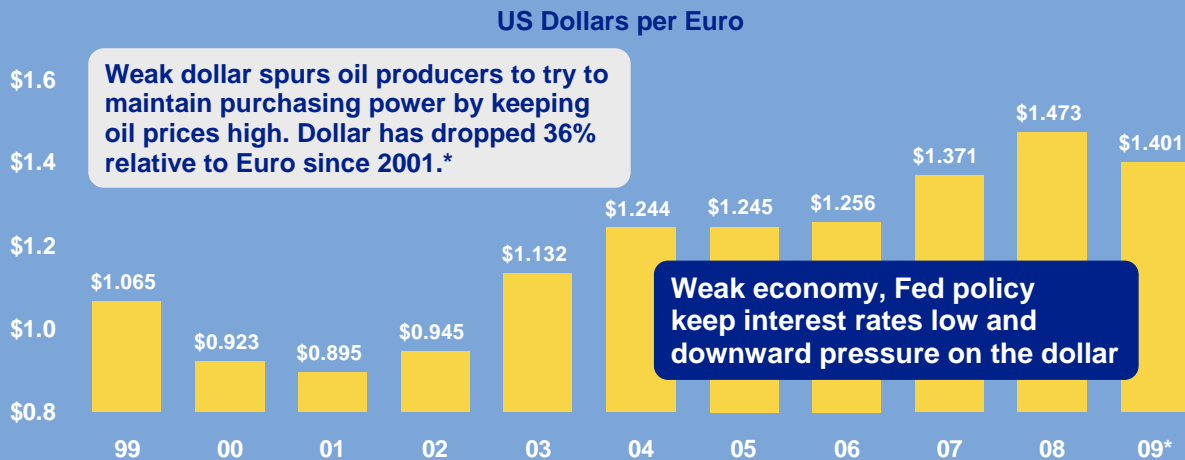
## US Budget Deficit

1969-2019F



Sources: Congressional Budget Office analysis of President's budget, March 2009.

## Depreciation of Dollar Is Inflationary, Especially for Energy Prices



\*As of June 2009.

Source: Board of Governors of the Federal Reserve Bank; Insurance Information Institute.

17

## 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 Govt. 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 re-insurance more quickly and potential exhausting their reinsurance more quickly

Source: Ins. Info. Inst.

18

## Green Shoots

### Is the Recession Nearing an End?

## Hopeful Signs That the Economy Will Begin to Recover Soon

- Recession appears to be bottoming out, freefall has ended
  - Pace of GDP shrinkage is beginning to diminish
  - Pace of job losses is slowing
  - 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 credit worthy people and businesses
- Housing sector likely to find bottom soon
  - 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 (for now)
- Consumer & business debt loads are shrinking

## 11 Industries for the Next 10 Years

*Insurance solutions needed*

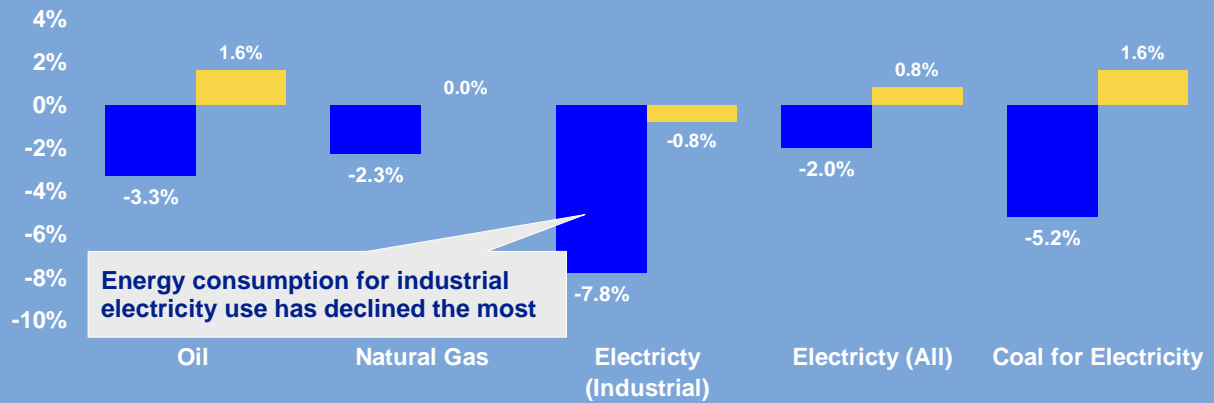
- Government
- Education
- Health Care
- Energy (Traditional)
- Alternative Energy
- Agriculture
- Natural Resources
- Environmental
- Technology
- Light Manufacturing
- Export-Oriented Industries

## The Global Financial Crisis

Impacts of Energy Demand, Supply and Insurance Exposure

## Severe Recession Is Depressing US Energy Demand in 2009, Easing in 2010

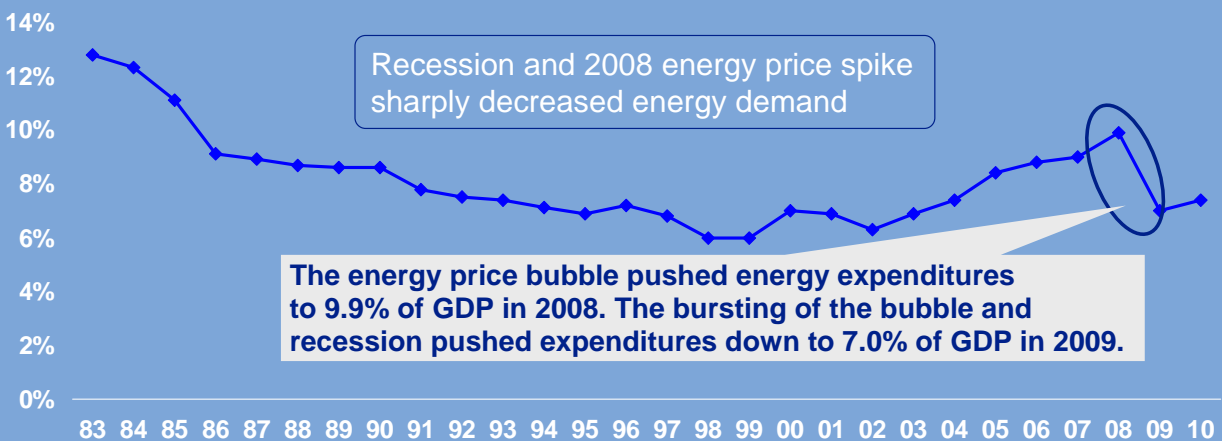
Percentage change in consumption, 2009 and 2010



Sources: Energy Information Administration, Short-Term Energy Outlook, July 2009.

## US Energy Expenditures as a % of GDP Have Been Hurt by Recession

Percentage of GDP

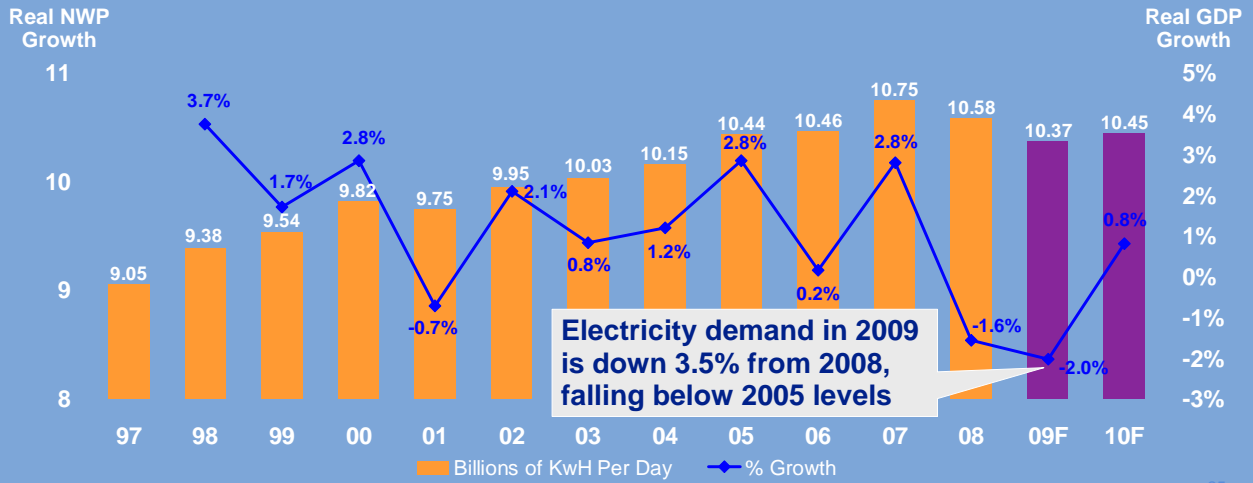


Source: Energy Information Administration, Short-Term Energy Outlook, March 10, 2009; Ins. Info. Inst.

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## US Total Electricity Consumption

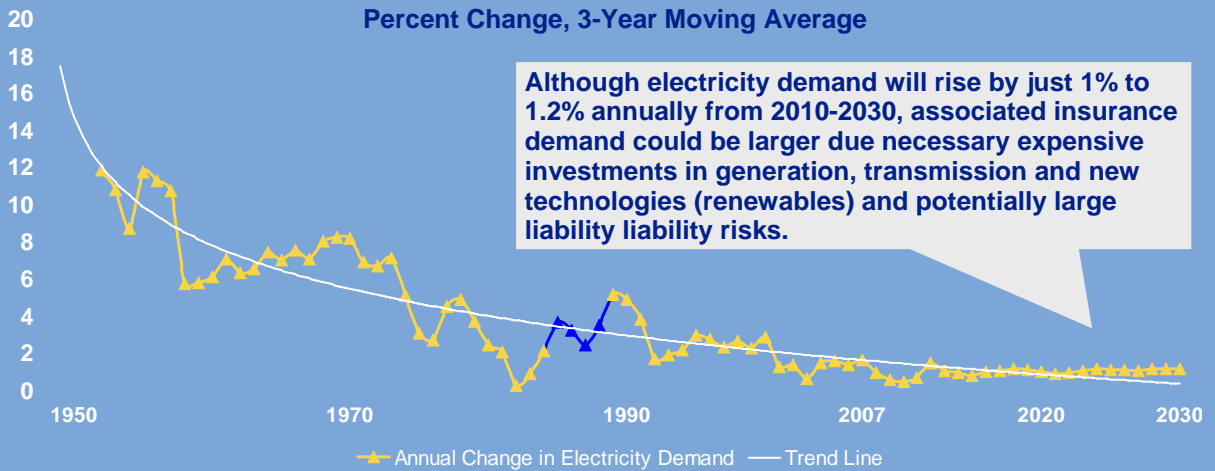
1997-2010F



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## US Electricity Demand Growth Continues to Slow: But Insurance Demand May Be Above Trend

Percent Change, 3-Year Moving Average

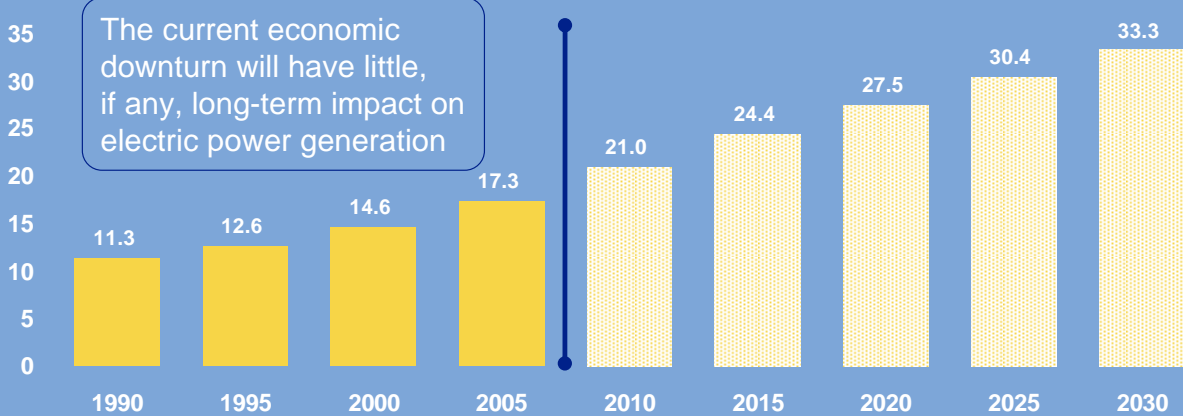




## World Net Effective Electric Power Generation

1990-2030 (est.)

Trillions of Kilowatt Hours



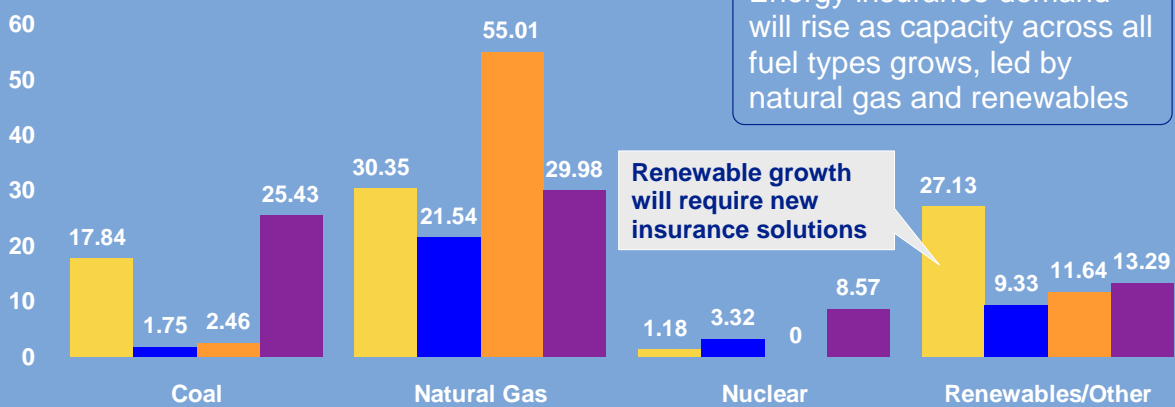
Source: Energy Information Administration, 2008 International Energy Outlook, Insurance Information Institute.



## US Electricity Capacity Additions by Fuel Type

2008-2030F

Gigawatts



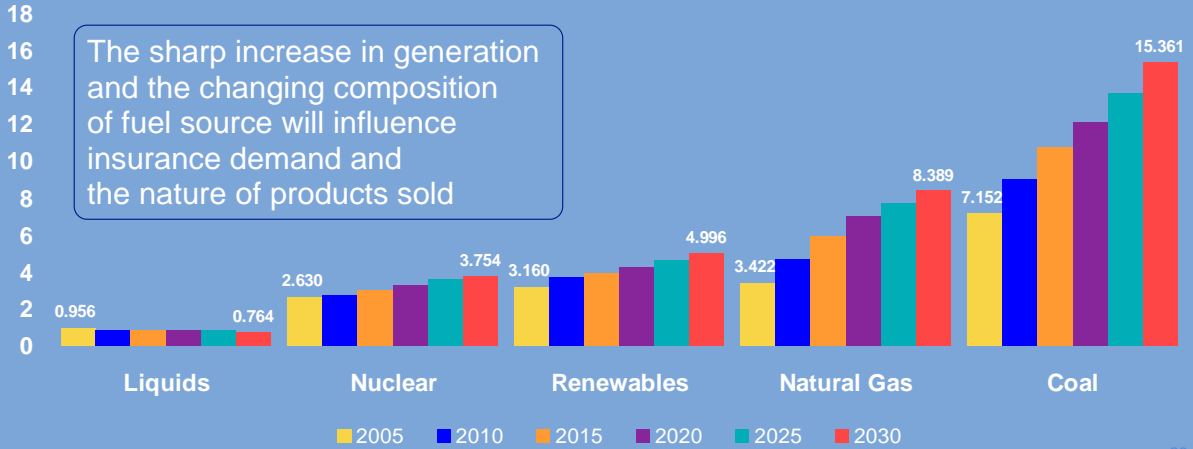
Sources: Energy Information Administration, Annual Energy Outlook, March 2009.



## World Electricity Generation by Fuel

2005-2030F

Trillions of Kilowatt Hours

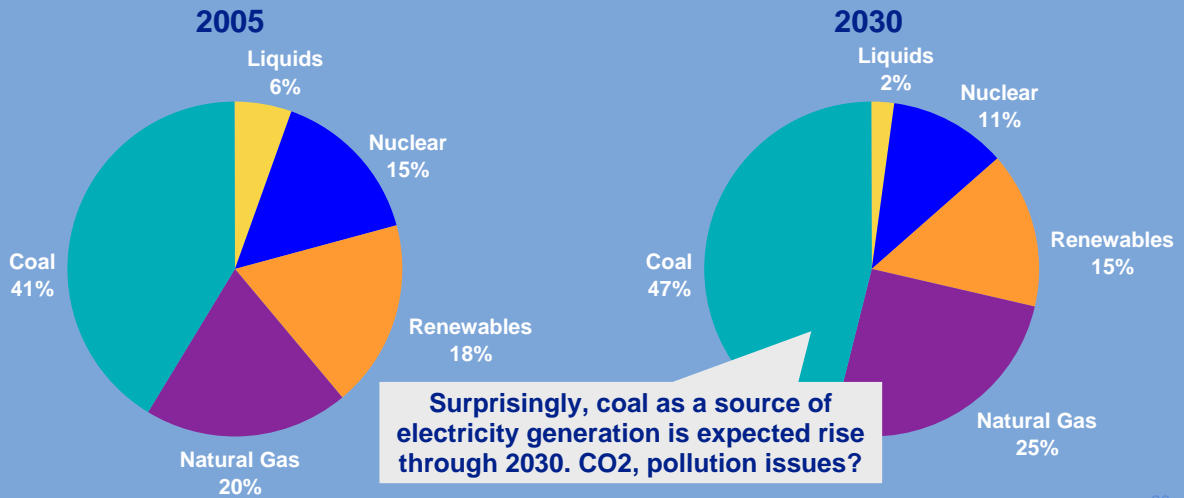


Source: US Department of Energy Report #DOE/EIA-0484 ( Sept. 2008); Insurance Information Institute



## World Electricity Generation by Fuel Source Share

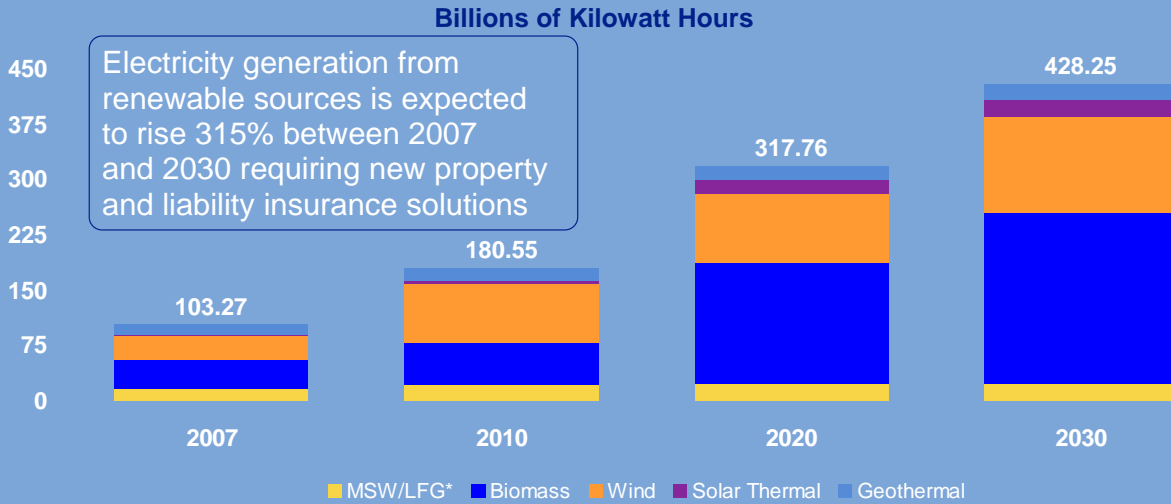
2005 vs. 2030F



Source: Insurance Information Institute from data reported in US Department of Energy Report #DOE/EIA-0484 ( Sept. 2008).



## Non-Hydro Renewable Electricity Generation by Energy Source (US) 2005-2030F

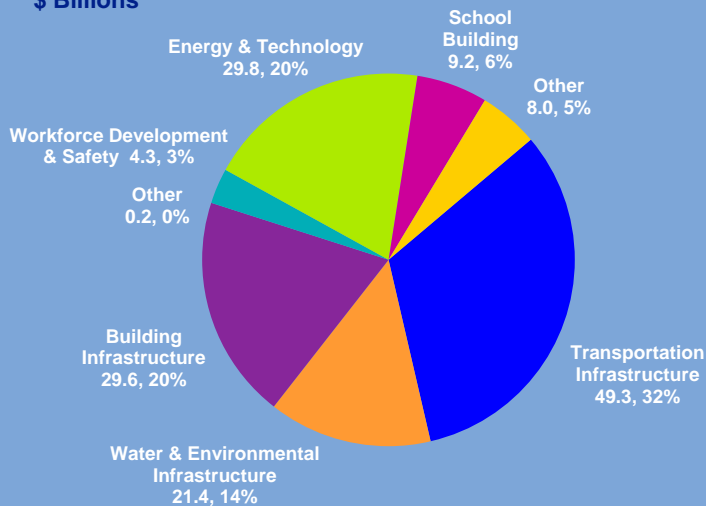


Sources: Energy Information Administration, *Annual Energy Outlook*, March 2009. \*Municipal Solid Waste/Landfill Gas.



## Economic Stimulus Package: \$143.4 in Construction Spending

\$ Billions



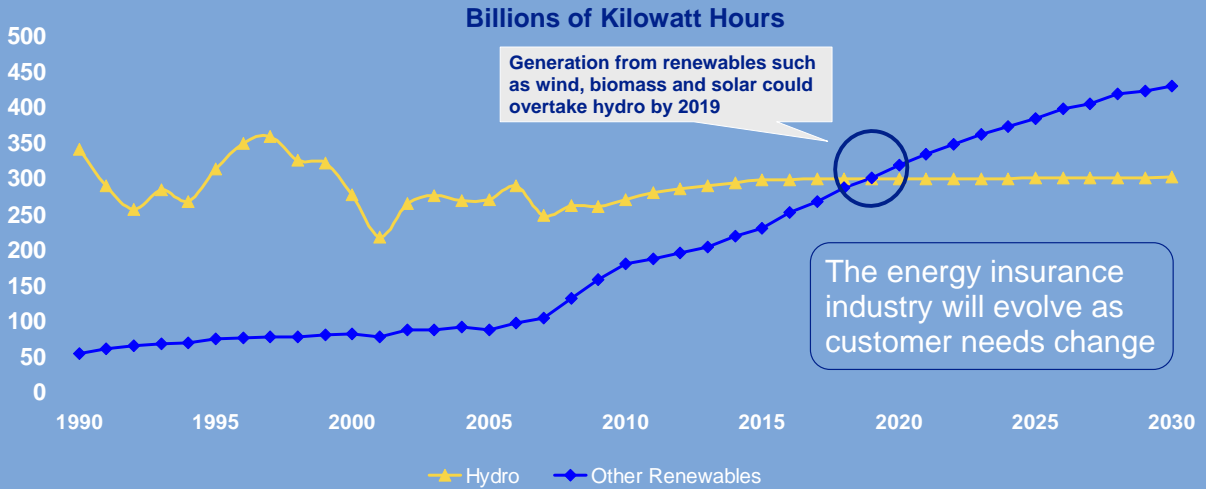
There is approximately \$140B in new construction spending in the stimulus package, 20% for energy and tech.

Source: Associated General Contractors at [http://www.agc.org/cs/rebuild\\_america\\_future](http://www.agc.org/cs/rebuild_america_future) (2/18/09); Insurance Info. Inst..



## Grid Connected Electricity Generation from Renewables

1990-2030F\*

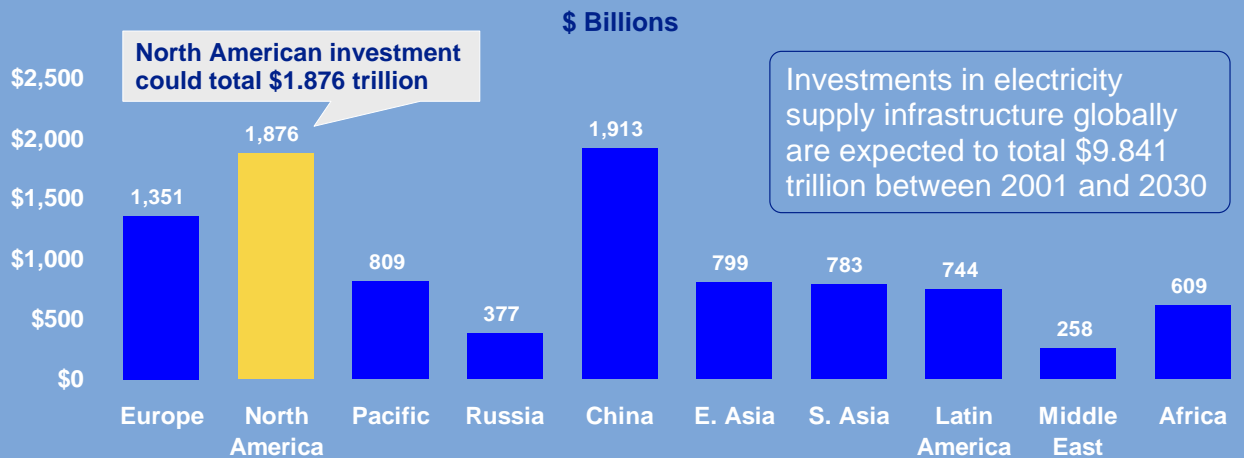


Sources: Energy Information Administration, *Annual Energy Outlook*, March 2009; Insurance Information Institute.



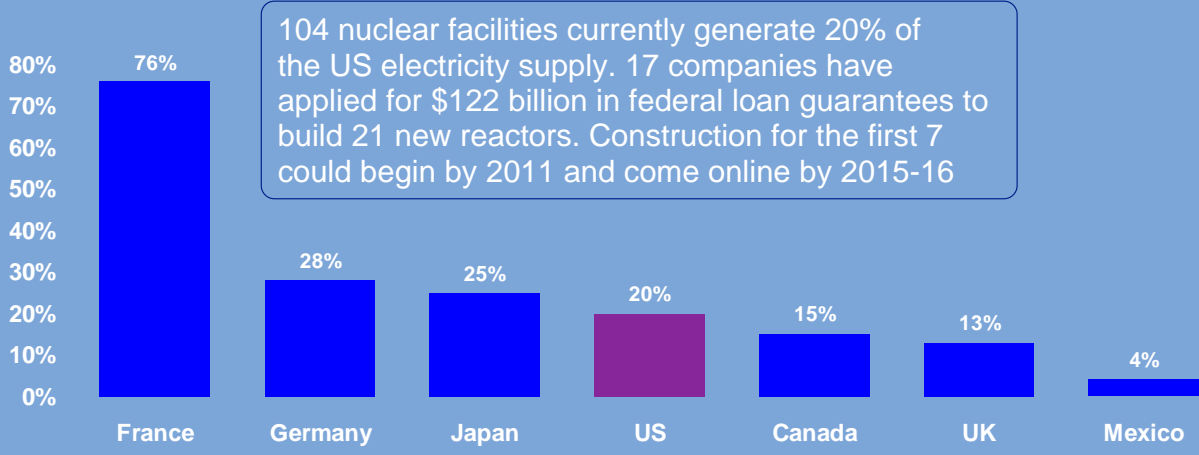
## Electricity Supply Infrastructure

Despite crisis, huge investments needed along with insurance: 2001-2030 (est.)



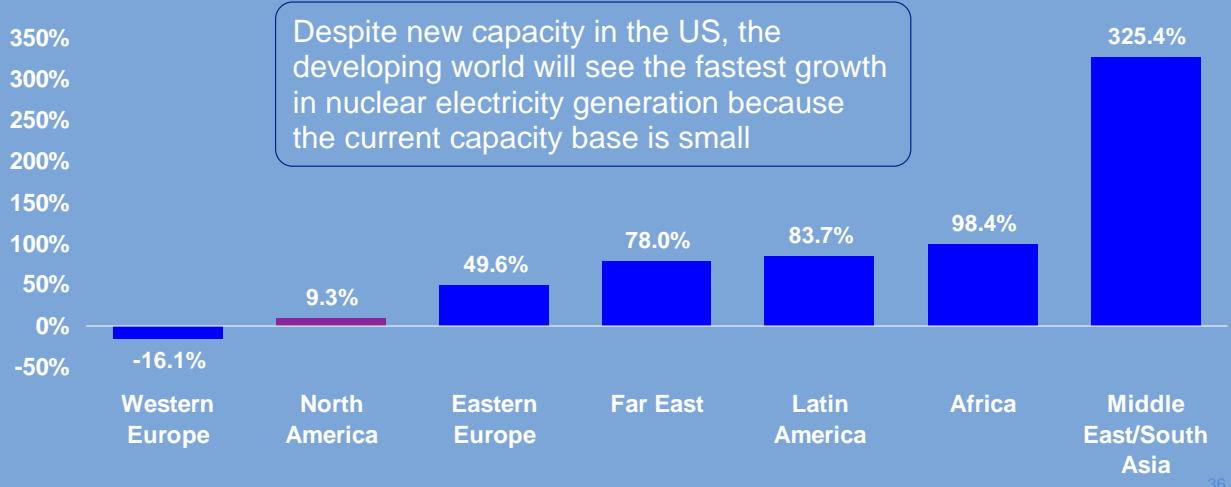
Source: International Atomic Energy Agency, *World Outlook for Electricity Investment*.

### Share of Electricity Generating Capacity Based on Nuclear by Country 2008



Source: International Atomic Energy Agency; Insurance Information Institute.

### Growth in Global Nuclear Electricity Generation by Region 2007-2020F



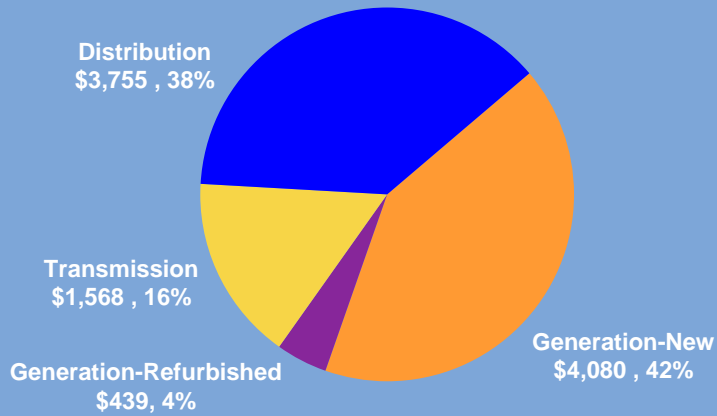
Source: International Atomic Energy Agency, World Outlook for Electricity Investment.

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## World Energy Supply Infrastructure Investment by Category

2001-2030 (est.)

\$ Billions



Generation will account for 46% or \$4.5 trillion of all investment through 2030 to meet rising demand. Current downturn will have no impact on long-term global energy demand and the need to develop supply infrastructure.

Source: International Atomic Energy Agency, *World Outlook for Electricity Investment*.

37

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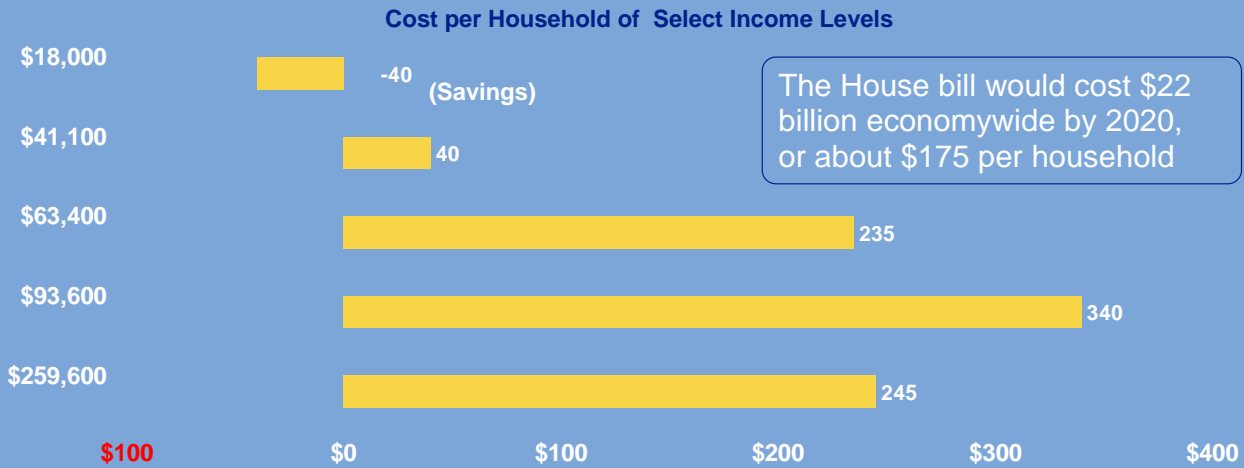
## CO<sub>2</sub> Regulation

Greenhouse gases can be reduced, but at what cost?

38



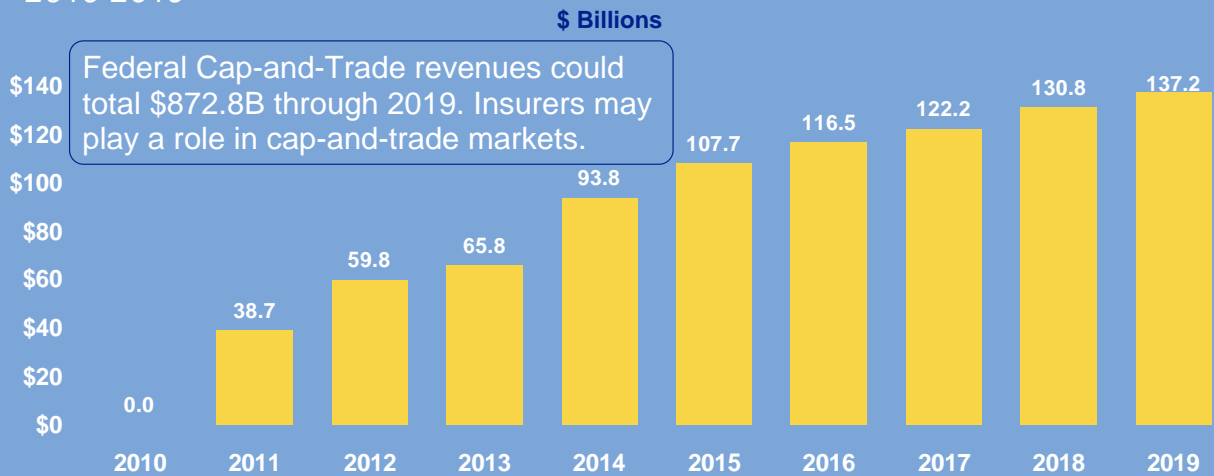
### Estimated Cost per Household in 2020 If House Climate Bill Is Enacted\*



\*As of June 26, 2009.  
Source: Congressional Budget Office.



### Net Govt. Revenue from Federal Cap-and-Trade Programs 2010-2019\*



\*Excludes \$9.5 billion in collections from Carbon Storage Research Corporation.  
Source: Congressional Budget Office, June 26, 2009; Insurance Information Institute.

## Energy Market Review

Global Energy Business is Deeply Impacted by Crisis,  
But Other Factors Matter Too

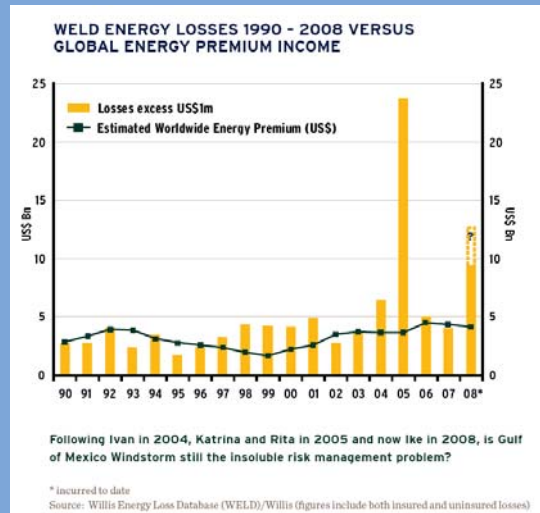
## Global Energy Insurance Markets

### *Key trends*

#### Insurance capacity

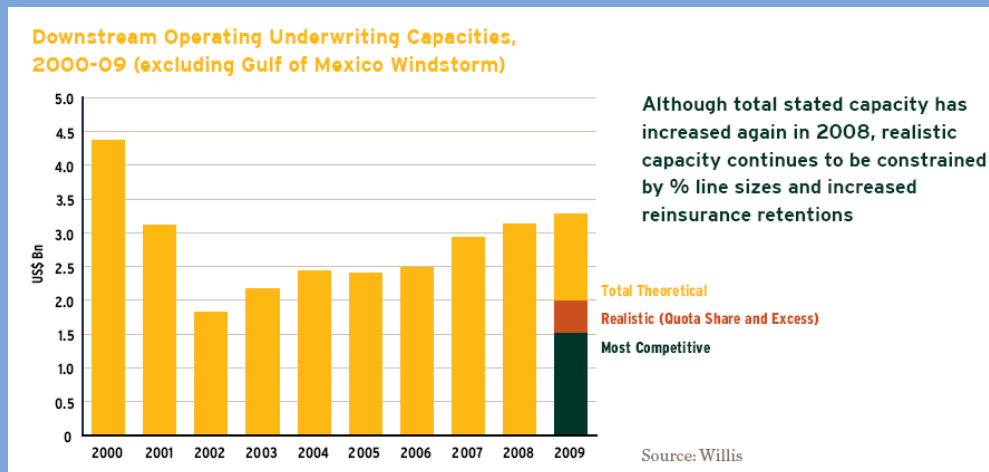
- Aggregate commercial property/casualty (nonlife) capacity fell sharply in 2008 and early 2009 due to
  - Reduced asset values
  - Higher underwriting losses
  - Sharply lower investment returns
- Surprisingly, overall energy market capacity levels for 2009 have increased, despite start of early stage of market hardening, financial crisis and dislocations of key competitors
- Higher capacity and basic laws of supply and demand temper extent of market hardening and limit price gains
- Capacity freed up due in part to reduced construction activity and reduced business interruption levels
- Fallout from Gulf of Mexico windstorm causes some supply issues for offshore and onshore risks

## Energy Losses vs. Global Energy Premium Income 1990-2008\*



\*Figures include both insured and uninsured losses  
Source: Willis Energy Market Review: March 2009

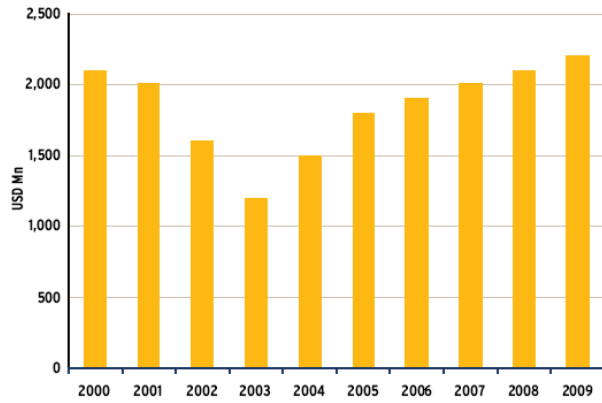
## Downstream Operating Underwriting Capacities 2000-09 (excl. GOM)



Source: Willis Energy Market Review: March 2009

## Total Theoretical Liability Capacity 2000-2009

Total Theoretical Liability Capacity, 2000-09



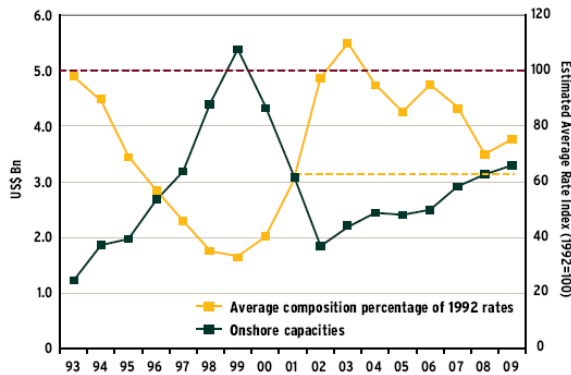
Our chart illustrates our estimate of total theoretical liability capacity. The continued health of the liability market is demonstrated with plenty of opportunity to create competition.

Source: Willis

Source: Willis Energy Market Review: March 2009

## Onshore Capacities and Average Rating Levels 1993-2009 (excl. GOM)

Energy Insurer Capacities and Average Rating Levels, 1993-2009  
(excluding Gulf of Mexico windstorm)



In general terms, average rating levels for downstream still remain above those of the immediate pre-9/11 market

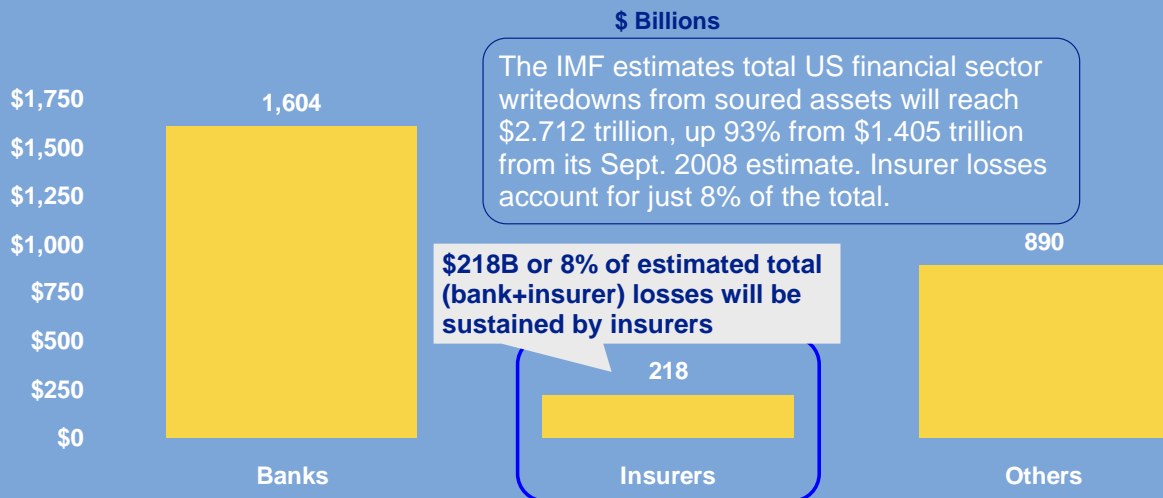
Source: Willis

Source: Willis Energy Market Review: March 2009

## Financial Strength

Industry Has Weathered the Storms Well

## US Financial Institutions Facing Huge Losses from the Credit Crunch\*



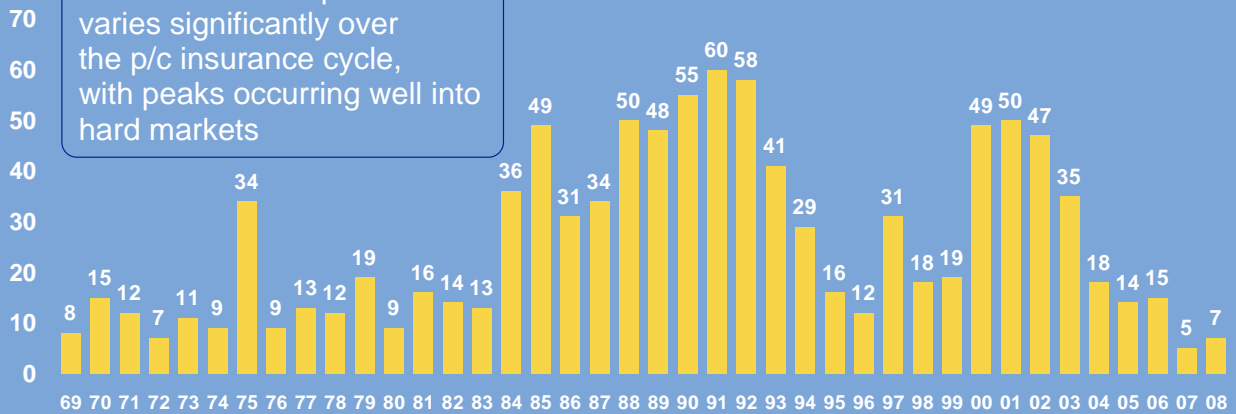
\*Estimate of financial sector writedowns, 2007-2010, as of April 2009. Includes loans and securities. Source: IMF Global Financial Stability Report, April 2009.



## P/C Insurer Impairments

1969-2008

The number of impairments varies significantly over the p/c insurance cycle, with peaks occurring well into hard markets

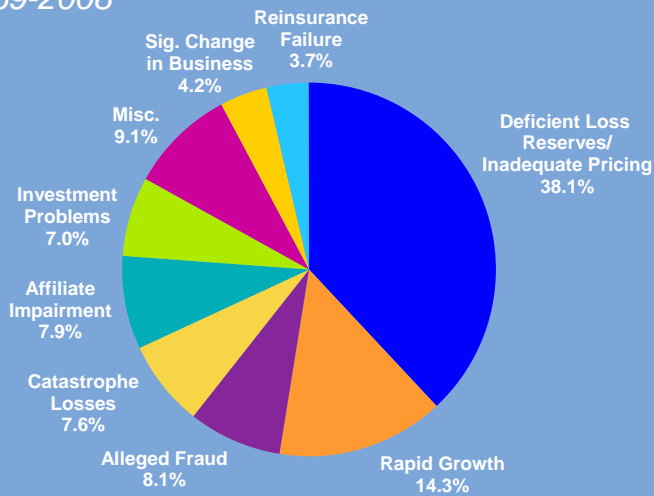


Source: A.M. Best; Insurance Information Institute



## Reasons for US P/C Insurer Impairments

1969-2008



Deficient loss reserves and inadequate pricing are the leading cause of insurer impairments, underscoring the importance of discipline. Investment catastrophe losses play a much smaller role.

Source: A.M. Best; 1969-2008 Impairment Review, Special Report, Apr. 6, 2008

## Critical Differences between P/C Insurers and Banks

Superior Risk Management Model and Low Leverage  
Make a Big Difference

## 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 89 banks have gone under as of 7/24/09**)
    - **The promise is being fulfilled**
  - Renew existing policies (**banks are reducing and eliminating lines of credit**)
  - Write new policies (**banks are turning away businesses and people who want or need to borrow**)
  - Develop new products (**banks are scaling back the products they offer**)

## 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*

## Reasons Why P/C Insurers Have Fewer Problems Than Banks

### *A Superior Risk Management Model*

- 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

## Top 5 Threats Facing Insurers Amid Financial Crisis

Challenges for the Next 5-8 Years

## Important Issues & Threats Facing Insurers

2009 - 2015

### 1. Erosion of capital

- Losses are larger and occurring more rapidly than is commonly understood or presumed
- Surplus down 16%=\$85B since 9/30/07 peak
- P/C policyholder surplus could be even more by year-end 2009
- 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 then some in 2003. Current decline is ~13% 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 could fall much farther and faster than many believe. It will take years to return to the 2007 peaks (likely until 2011 with a sharp hard market and 2015 without one)



## Important Issues & Threats Facing Insurers

2009 - 2015

### 2. Reloading Capital after “Capital Event”

- Continued asset price erosion coupled with major “capital event” could lead to shortage of capital among *some* companies
- Possible Consequences: Insolvencies, forced mergers, calls for government 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 may be incorrect in the current environment*
- Cost of capital is *much* higher today, reflecting both scarcity and risk
- **Implications: P/C (re)insurers need to protect capital today and develop detailed contingency plans to raise fresh capital & generate internally. Already a reality for some life insurers.**

Source: Insurance Information Inst.

57



## Important Issues & Threats Facing Insurers

2009 - 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
- Price bubble in Treasury securities keeps 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 Inst.

58

## Important Issues & Threats Facing Insurers

2009 - 2015

### 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)
- Danger is high as feds get their nose under the tent
- Status quo is viewed as unacceptable by all
- Pushing for major change is not without *significant* risk in the current highly charged political environment
- Insurance and systemic risk
- Disunity within the insurance industry
- Impact of regulatory changes will be felt for decades
- **Bottom Line: Regulatory outcome is uncertain and risk of adverse outcome is high**

## Important Issues & Threats Facing Insurers

2009 - 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, especially 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**

## Regulatory Reform

### Office of National Insurance (ONI) duties

1. Monitor “all aspects of the insurance industry”
2. Gather information
3. Identify the emergence of any problems or gaps in regulation that could contribute to a future crisis
4. Recommend to the Federal Reserve insurance companies it believes should be supervised as Tier 1 FHCs
5. Administer the Terrorism Risk Insurance Program
6. Authority to enter into international agreements and increase international cooperation on insurance regulation

Source: “Financial Regulatory Reform, A New Foundation: Rebuilding Financial Supervision and Regulation,” US Department of the Treasury, June 2009.

61

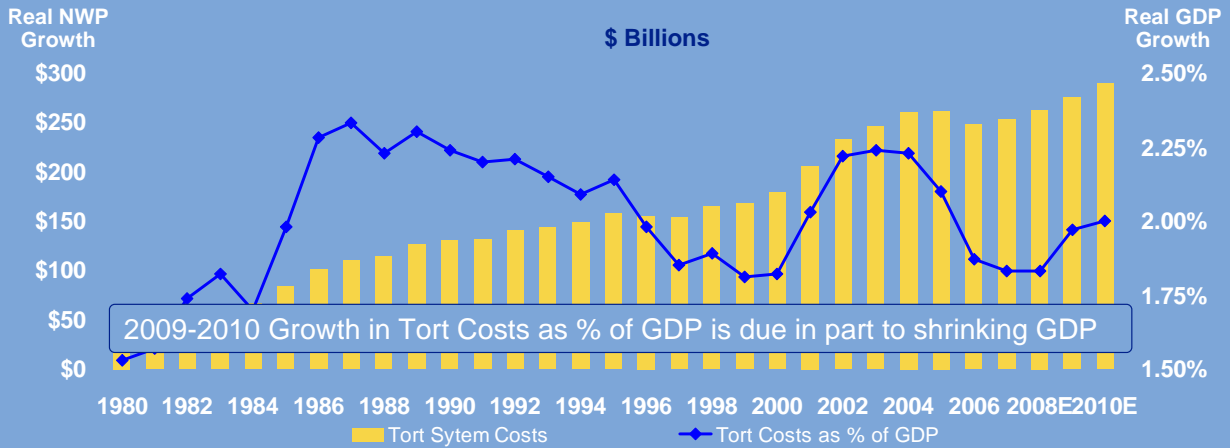
## Shifting Legal Liability & Tort Environment

Is the Tort Pendulum  
Swinging Against Insurers?

62

09

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



\*Excludes the tobacco settlement, medical malpractice

Sources: Tillinghast-Towers Perrin, 2008 Update on US Tort Cost Trends, Appendix 1A; I.I.I. calculations/estimates for 2009 and 2010

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## Business Leaders Ranking of Liability Systems for 2008

### Best States

1. Delaware
2. Nebraska
3. Maine
4. Indiana
5. Utah
6. Virginia
7. Iowa
8. Vermont
9. Colorado
10. Kansas

### New in 2008

CO, IN, KS, VA, VT

### Drop-Offs

MN, NH, TN, WI

Midwest/West has mix of good and bad states

### Worst States

41. Texas
42. Florida
43. South Carolina
44. California
45. Hawaii
46. Illinois
47. Alabama
48. Mississippi
49. Louisiana
50. West Virginia

### Newly Notorious

FL, SC

### Rising Above

AR, AK

Source: US Chamber of Commerce 2008 State Liability Systems Ranking Study; Insurance Info. Institute.

### The Nation's Judicial Hellholes (2008/2009)

**Watch List**

Rio Grande Valley & Gulf Coast, TX

Madison County, IL

Baltimore, MD

St Louis (the city of), St Louis and Jackson Counties, MO

**Dishonorable Mentions**

MA Supreme Judicial Court

MO Supreme Court



Source: American Tort Reform Association; Insurance Information Institute

### Directors & Officers Coverage

Financial Crisis is Driving D&O Litigation, Not Energy Issues

09

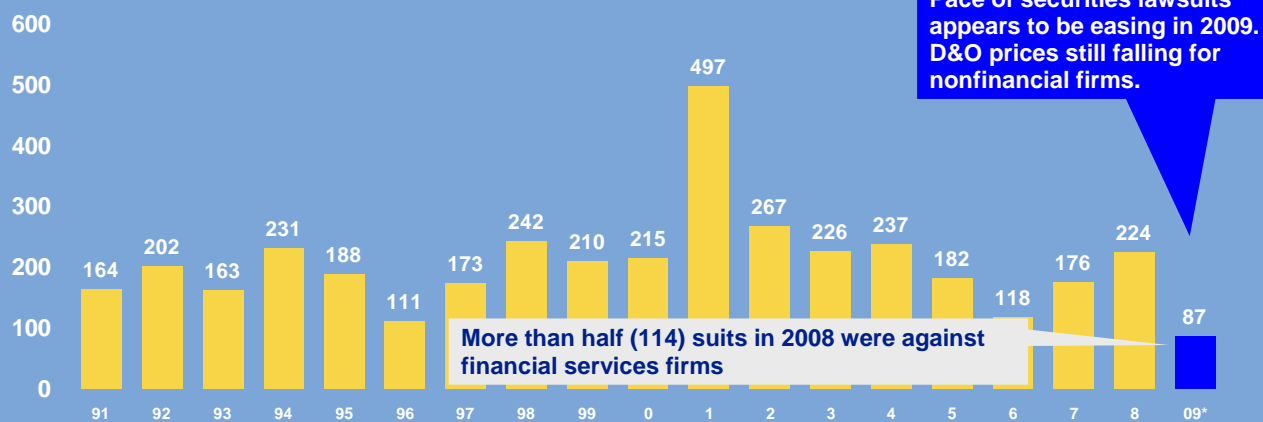
## Corporate Governance & Directors & Officers Coverage

- D&O litigation threat on the increase
  - Financial crisis and economic fallout are driving much of the (threatened) litigation today
    - Financial services firms are the targets of more than half of recent litigation
  - Energy sector is not at center of today's D&O concerns
    - Focus is on financial institutions and other entities affected by financial/credit problems
    - Outside of financial institutions, prices falling

67

09

## Shareholder Class Action Lawsuits\*

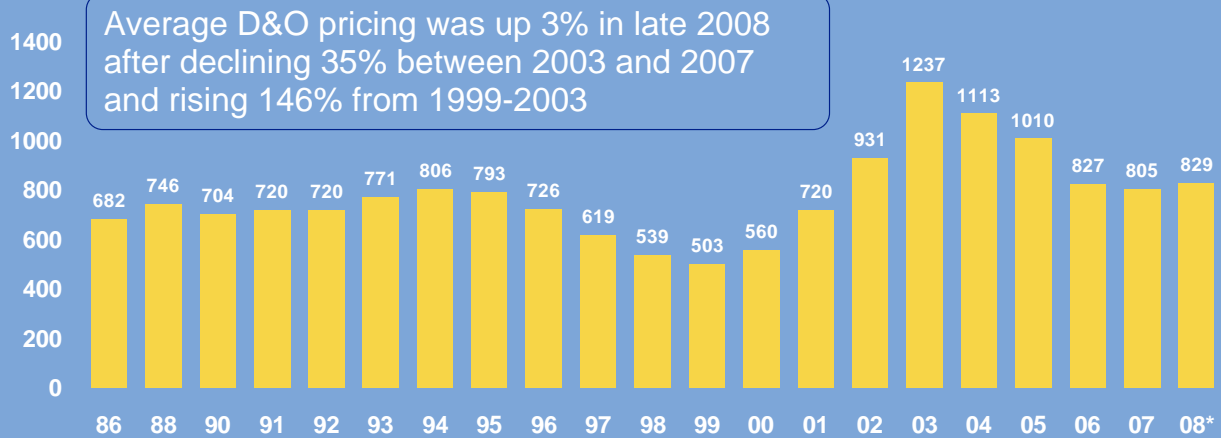


\*Securities fraud suits filed in U.S. federal courts; 2009 figure is current through July 15.  
Source: Stanford University School of Law (securities.stanford.edu); Insurance Information Institute

68

## D&O Premium Index

1974 Average = 100



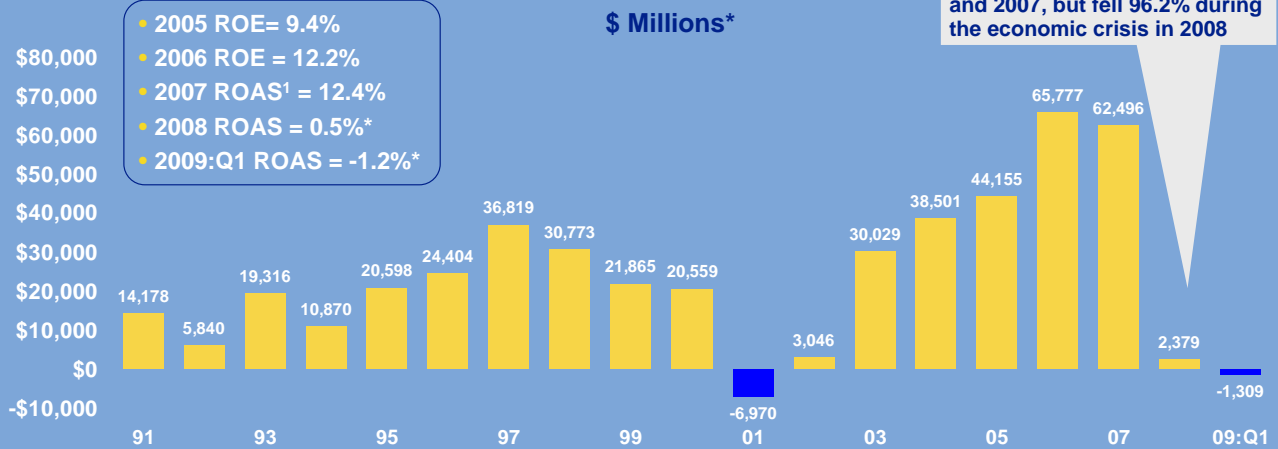
\*2008 figure is based on 4th quarter Aon survey indicating a 3% increase in D&O pricing.  
Source: Tillinghast Towers-Perrin, 2007 Directors and Officers Liability Survey.

## Profitability

Historically Volatile

### P/C Net Income after Taxes

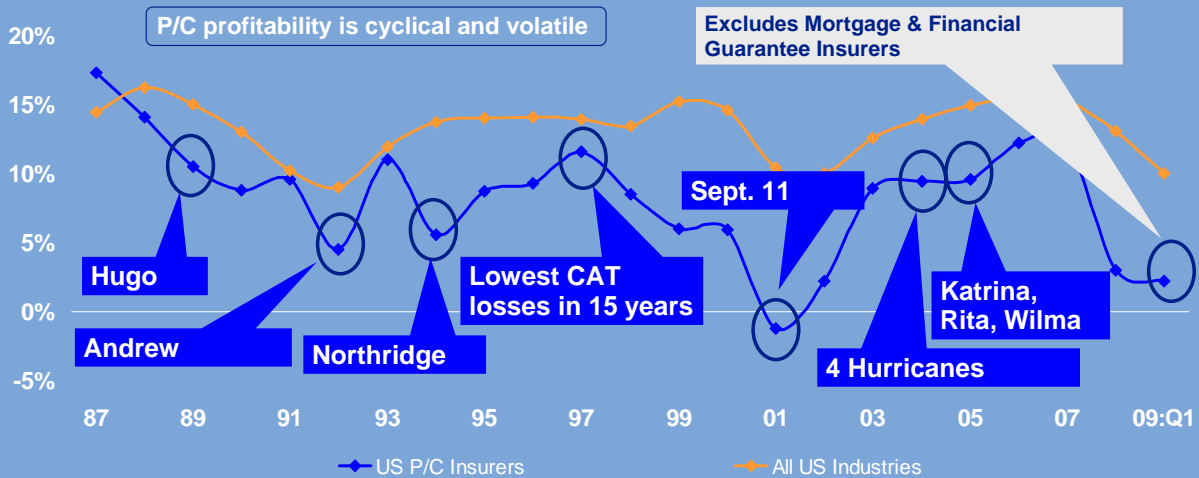
1991-2009:Q1



\*ROE figures are GAAP; <sup>1</sup>Return on avg. surplus. Excluding Mortgage & Financial Guarantee insurers yields an 4.2% ROAS for 2008 and 2.2% for 2009:Q1 net income was \$2.4 billion excl. M&FG. Sources: A.M. Best, ISO, Insurance Information Inst. 71

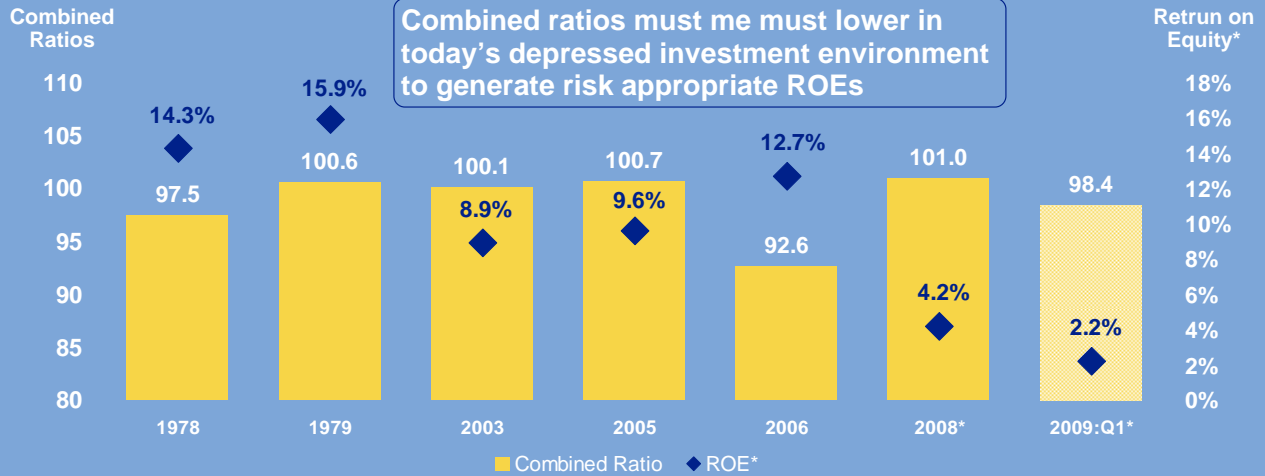
### ROE: P/C vs. All Industries

1987-2009: Q1\*



\*Excludes Mortgage & Financial Guarantee in 2008 and 2009 Sources: ISO, Fortune, Insurance Information Institute. 72

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

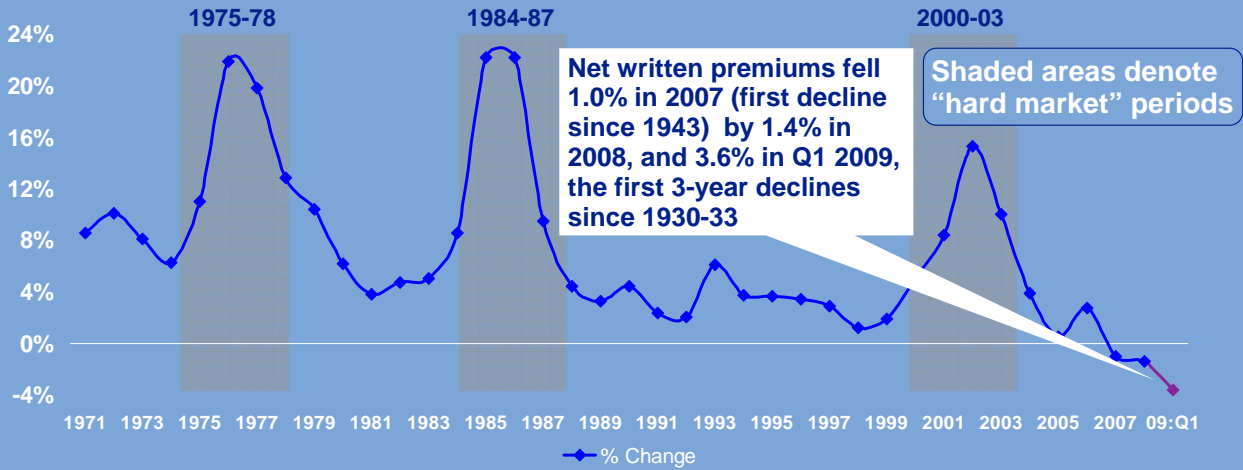


## P/C Premium Growth

Primarily Driven by the Industry's Underwriting Cycle,  
Not the Economy

### Strength of Recent Hard Markets

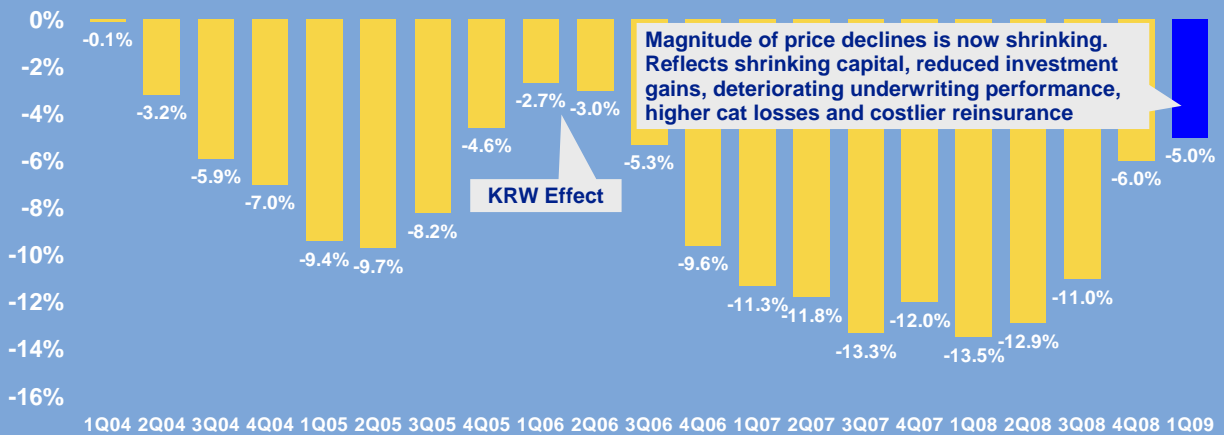
By NWP Growth



Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute

### Average Commercial Rate Change

All Lines, 1Q:2004 – 1Q:2009



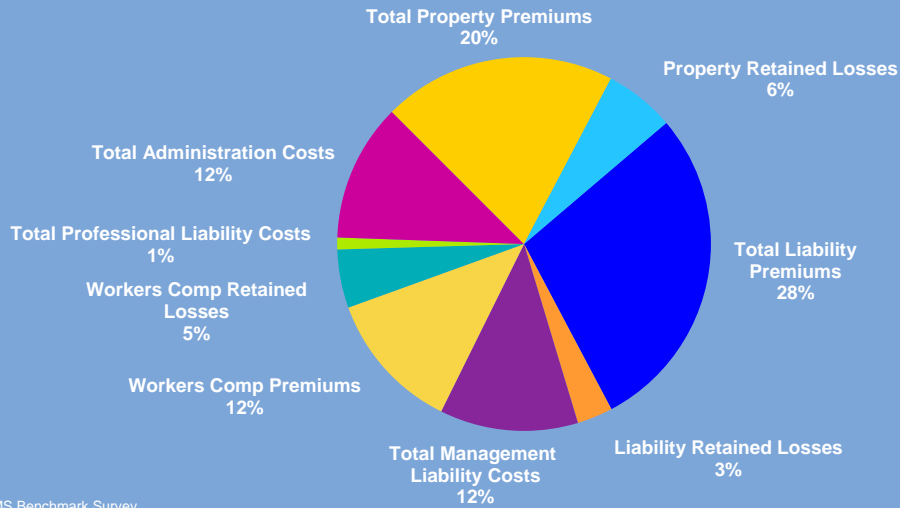
Source: Council of Insurance Agents & Brokers; Insurance Information Institute

## Cost of Risk

Utility Sector Focus

## Utilities: How the Risk Dollar is Spent

*Respondent Revenues < \$1B*



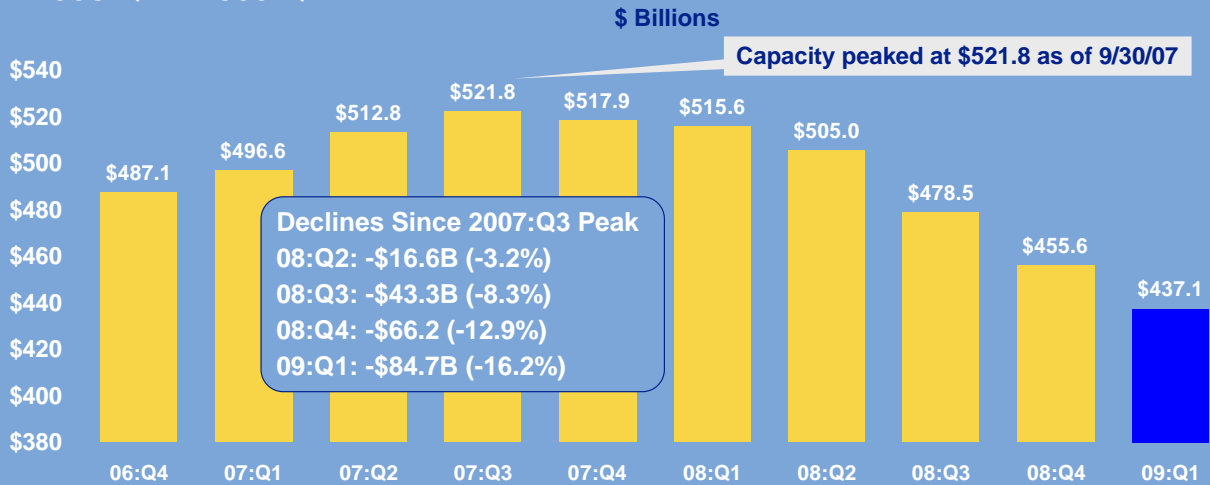
Source: 2008 RIMS Benchmark Survey

## Capital/Policyholder Surplus

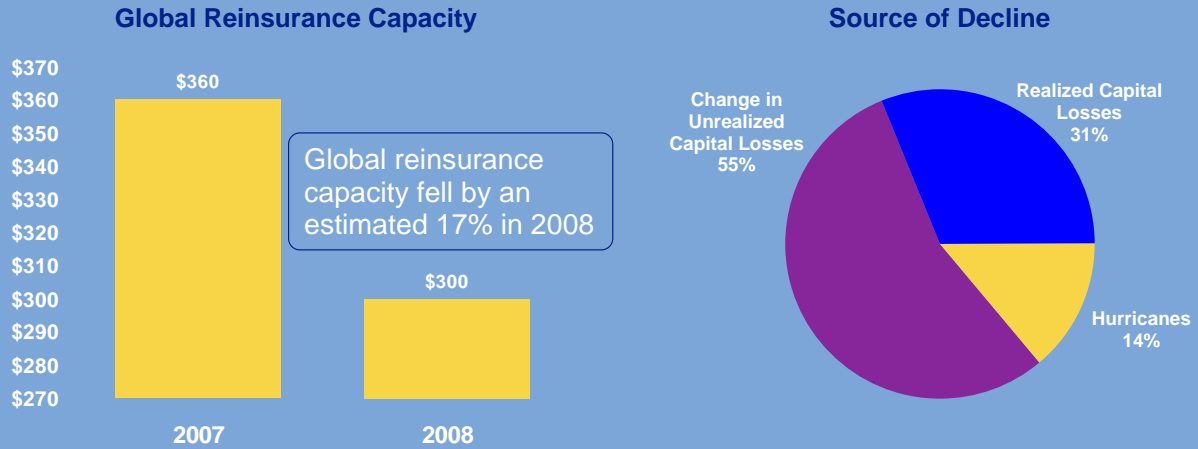
Shrinkage, But Capital is Within Historic Norms

## Policyholder Surplus

2006:Q4 – 2009:Q1

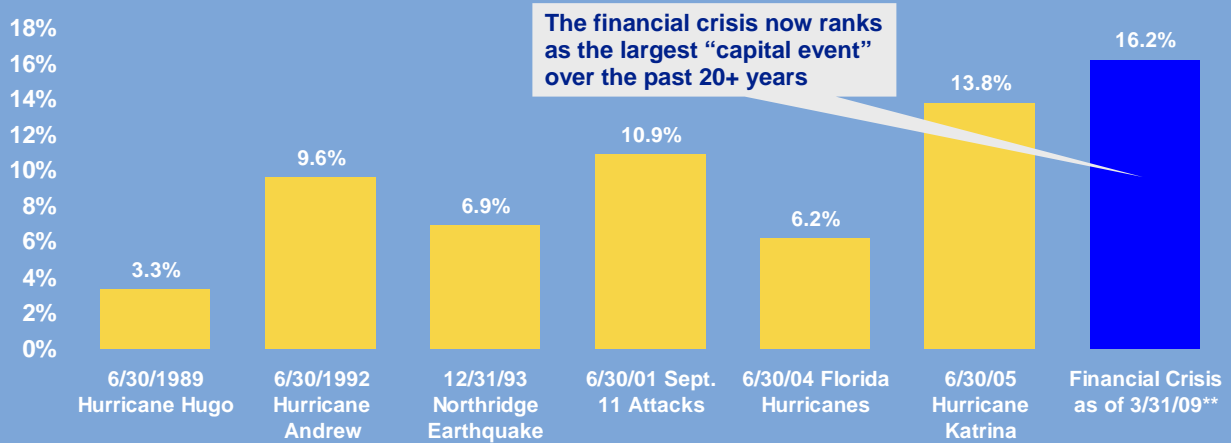


## Global Reinsurance Capacity Shrank in 2008, Mostly Due to Investments



Source: AonBenfield Reinsurance Market Outlook 2009; Insurance Information Institute.

## Ratio of Insured Loss to Surplus for Largest Capital Events since 1989\*



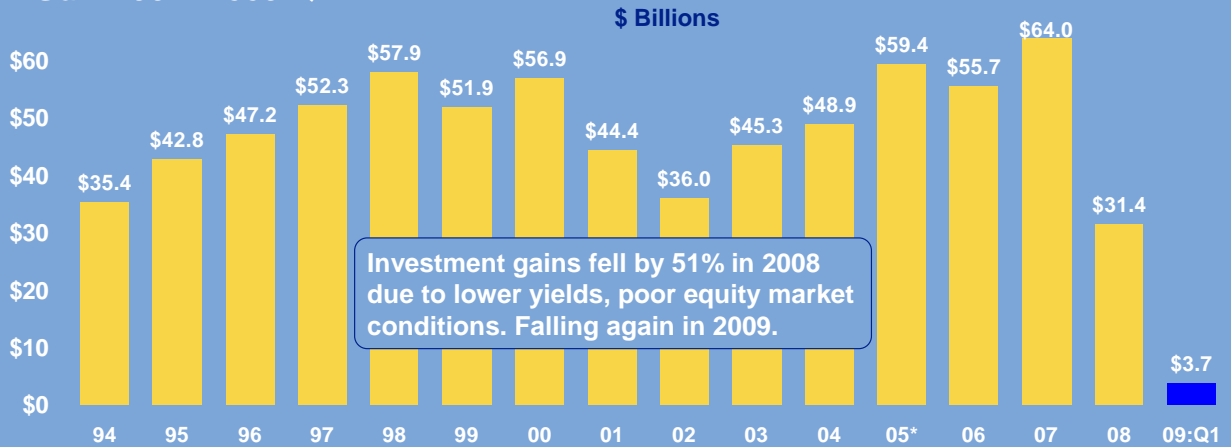
\*Ratio is for end-of-quarter surplus immediately prior to event. Date shown is end of quarter prior to event.  
 \*\*Latest available  
 Source: PCS; Insurance Information Institute.

## Investment Performance

Investments Are the Principle Source of Declining Profitability

## Property/Casualty Insurance Industry Investment Gain

Gain: 1994- 2009:Q1<sup>1</sup>



<sup>1</sup>Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.

2006 figure consists of \$52.3B net investment income and \$3.4B realized investment gain.

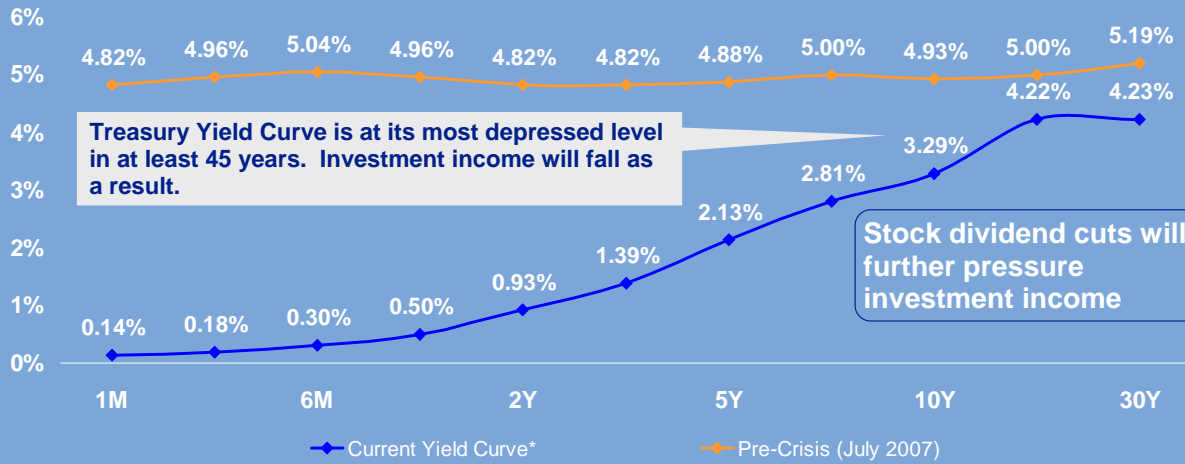
\*2005 figure includes special one-time dividend of \$3.2B.

Sources: ISO; Insurance Information Institute.



## Treasury Yield Curves

Pre-Crisis vs. Current\*



\*May 2009.  
Sources: Federal Reserve; Insurance Information Institute.

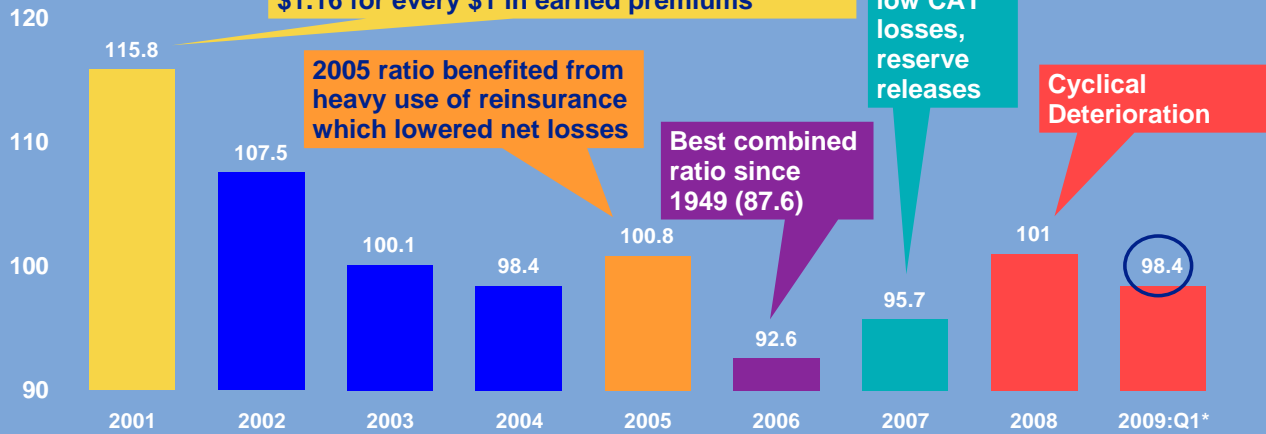


## Underwriting Trends

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

### P/C Insurance Industry Combined Ratio

2001-2009:Q1\* As recently as 2001, insurers paid out nearly \$1.16 for every \$1 in earned premiums



\*Excludes Mortgage & Financial Guarantee insurers in 2008/09. Including M&FG, 2008=105.1, 2009=102.2

Sources: A.M. Best, ISO.

### Commercial Lines Combined Ratio

1993-2009F



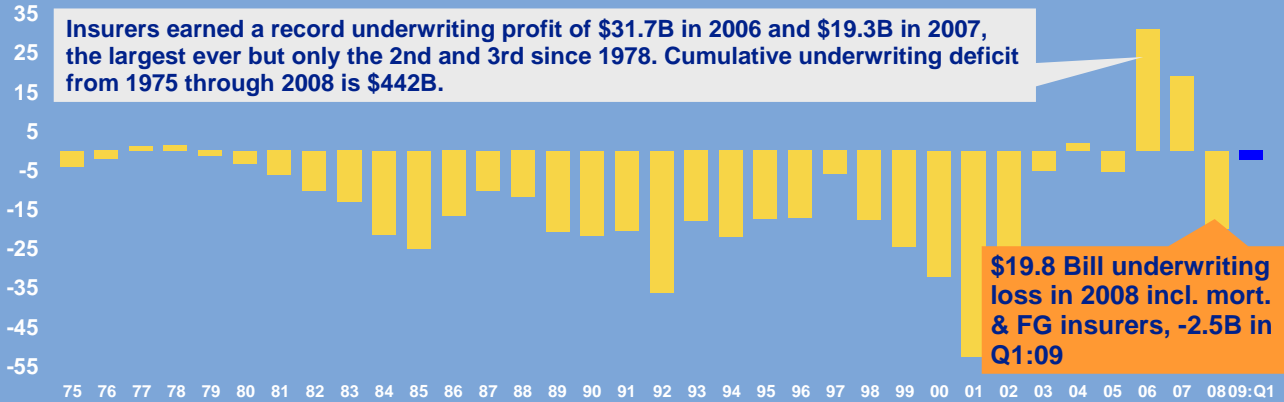
Sources: A.M. Best (historical and forecasts)



## Underwriting Gain (Loss)

1975-2009:Q1\*

\$ Billions\*



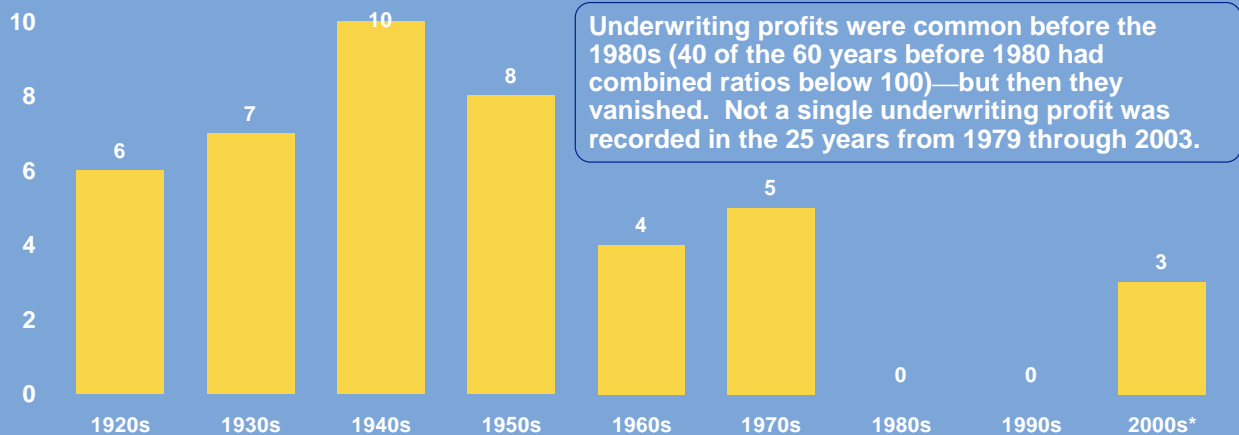
Source: A.M. Best, ISO; Insurance Information Institute \* Includes mortgage & finl. guarantee insurers



## Number of Years With Underwriting Profits by Decade

1920s - 2000s

\$ Billions



Note: Data for 1920 - 1934 based on stock companies only. Sources: Insurance Information Institute research from A.M. Best Data.

\*2000 through 2008.

# Catastrophic Loss

Catastrophe Losses Trends Are Trending Adversely

# US Insured Catastrophe Losses

\$ Billions\*



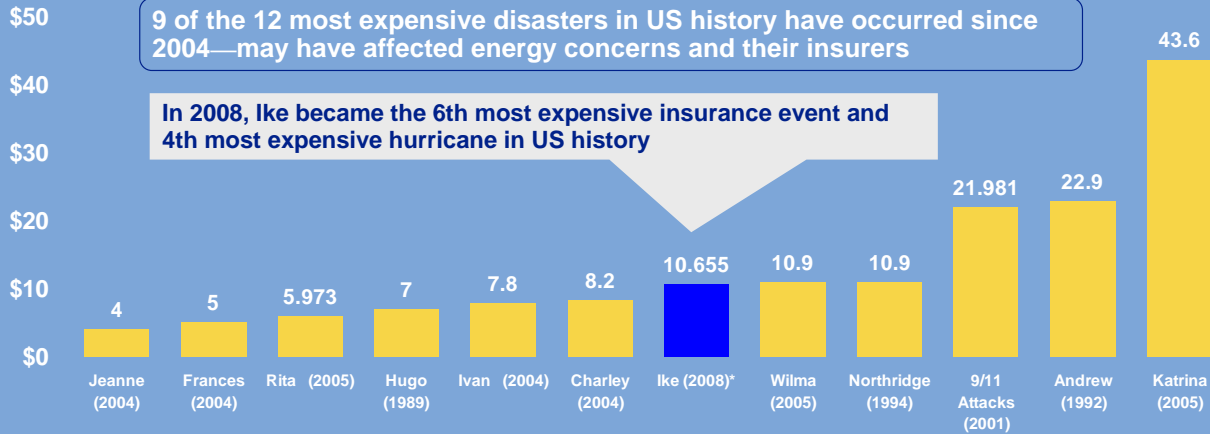
\*Based on PCS data through March 31 = \$2.66 billion.  
 Note: 2001 figure includes \$20.3B for 9/11 losses reported through 12/31/01. Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = \$12.2B.  
 Source: Property Claims Service/ISO; Insurance Information Institute



## Top 12 Most Costly Disasters in US History

Insured Losses, \$2007

\$ Billions

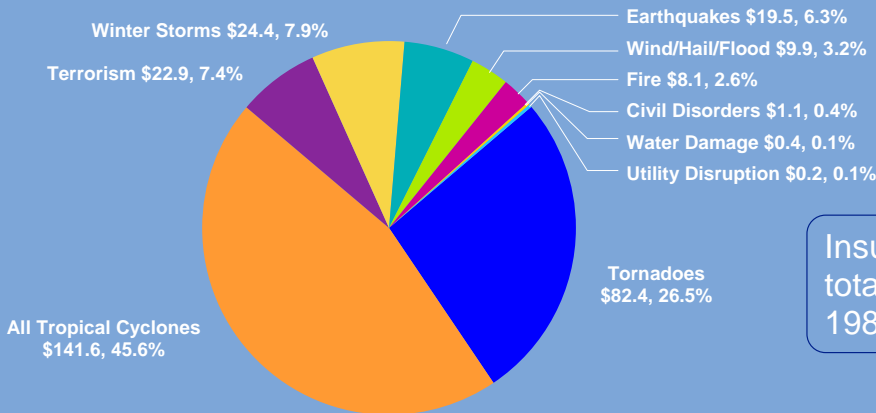


\*PCS estimate as of 12/15/08.  
Sources: ISO/PCS; AIR Worldwide, RMS, Egecat; Insurance Information Institute inflation adjustments.



## Inflation-Adjusted U.S. Insured Catastrophe Losses By Cause of Loss

1988-2007<sup>1</sup>



Insured disaster losses totaled \$310.5 billion from 1988-2007 (in 2007 dollars)

<sup>1</sup> Catastrophes are all events causing direct insured losses to property of \$25 million or more in 2007 dollars. Catastrophe threshold changed from \$5 million to \$25 million beginning in 1997. Adjusted for inflation by the III. <sup>2</sup> Excludes snow. <sup>3</sup> Includes hurricanes and tropical storms. <sup>4</sup> Includes other geologic events such as volcanic eruptions and other earth movement. <sup>5</sup> Does not include flood damage covered by the federally administered National Flood Insurance Program. <sup>6</sup> Includes wildland fires.  
Source: Insurance Services Office (ISO).

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***Thank you for your time and your attention!***