

Financial Forecast 2010:

The Future of the Property/Casualty Insurance Industry

**Property Casualty Insurers Association of America
Executive Roundtable Seminar
Naples, FL**



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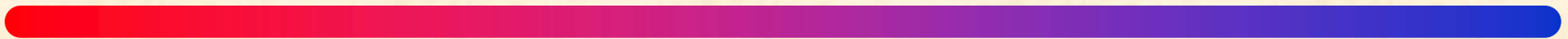


Crystal Ball: 2010



Financial Predictions

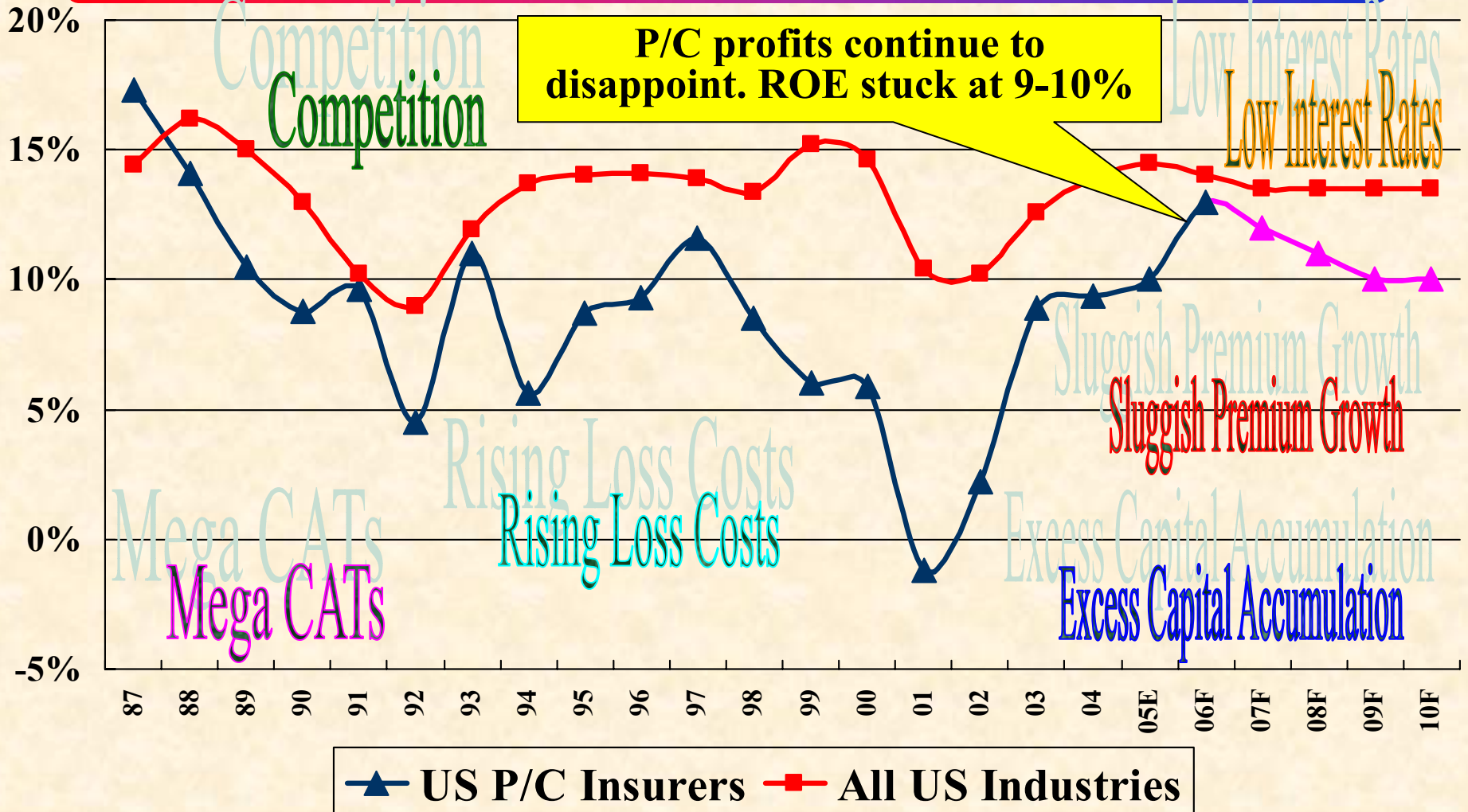
*Slower Growth & Higher Losses =
Disappointing Profits*





ROE: P/C vs. All Industries

1987-2010F*

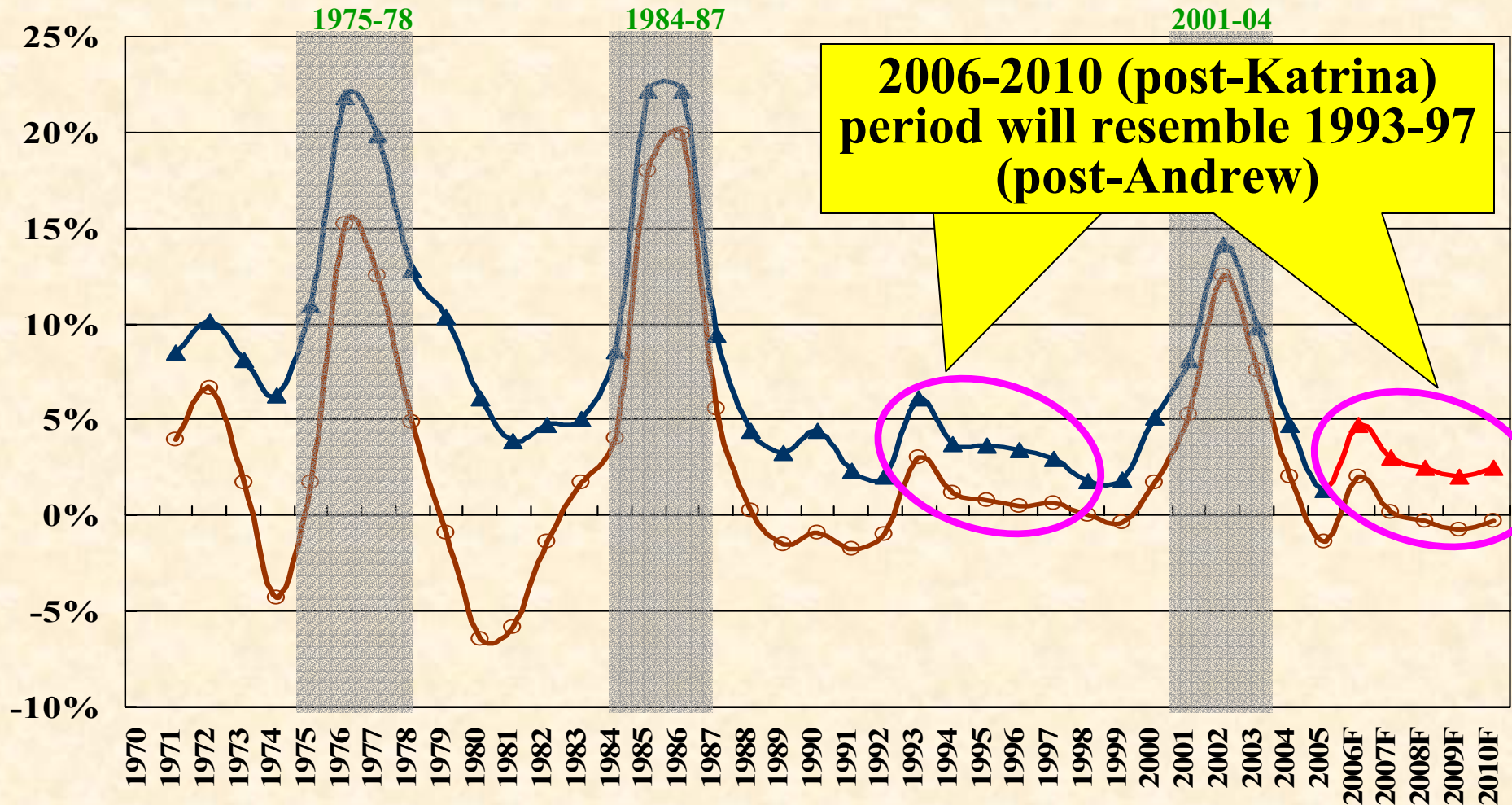


*GAAP ROEs except 2005 P/C figure = return on average surplus. 2005E-10F are ILL estimates.

Source: Insurance Information Institute; *Fortune* for all industry figures



Strength of Recent Hard Markets by NWP Growth*



Note: Shaded areas denote hard market periods.

Source: A.M. Best, Insurance Information Institute

*2005-10 figures are III forecasts/estimates.



2010: Leakage of P/C Insurance Premium Continues

- **Large Deductibles**
 - **Efficient Use of Corporate Capital**
 - **Makes Sense for Personal Lines Policyholders**
- **Alternative Risk Transfer**
 - **Especially Captives: Popular for Ever-Smaller Risks**
 - **Dedicated Reinsurance Facilities**
 - **Contingent Funding: Debt, Post-Event Assessments, Govt.**
 - **Securitization**
 - **Diversification in Portfolios of Asset-Backed Securities**
 - **Self-Insurance**
 - **Self Insurance Groups**
 - **Risk-Retention Groups**
- **Residual Markets**
 - **FL; Large Expansion in LA, MS, TX & Elsewhere**

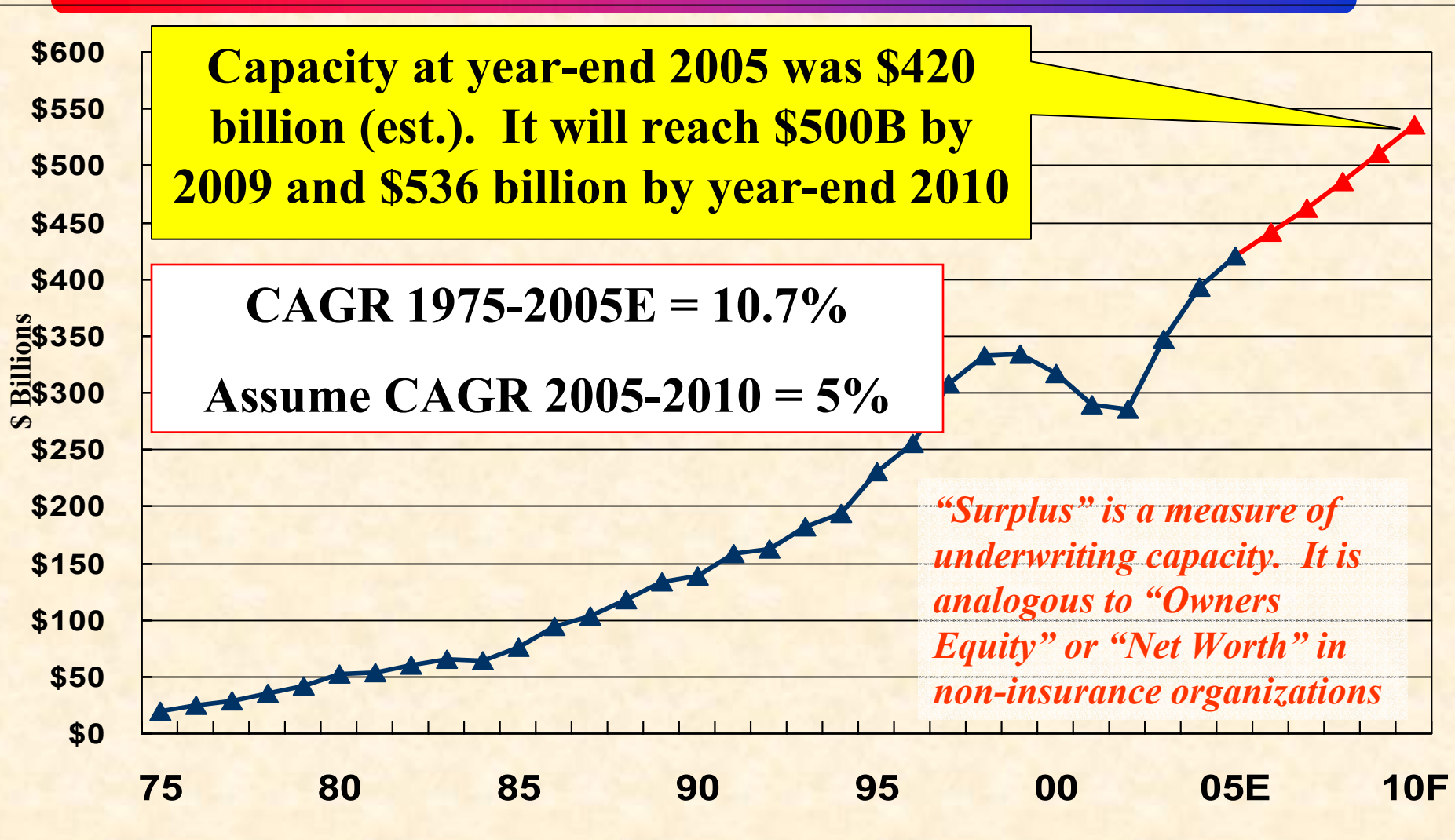


U.S. Policyholder Surplus: 1975-2005*

Capacity at year-end 2005 was \$420 billion (est.). It will reach \$500B by 2009 and \$536 billion by year-end 2010

CAGR 1975-2005E = 10.7%

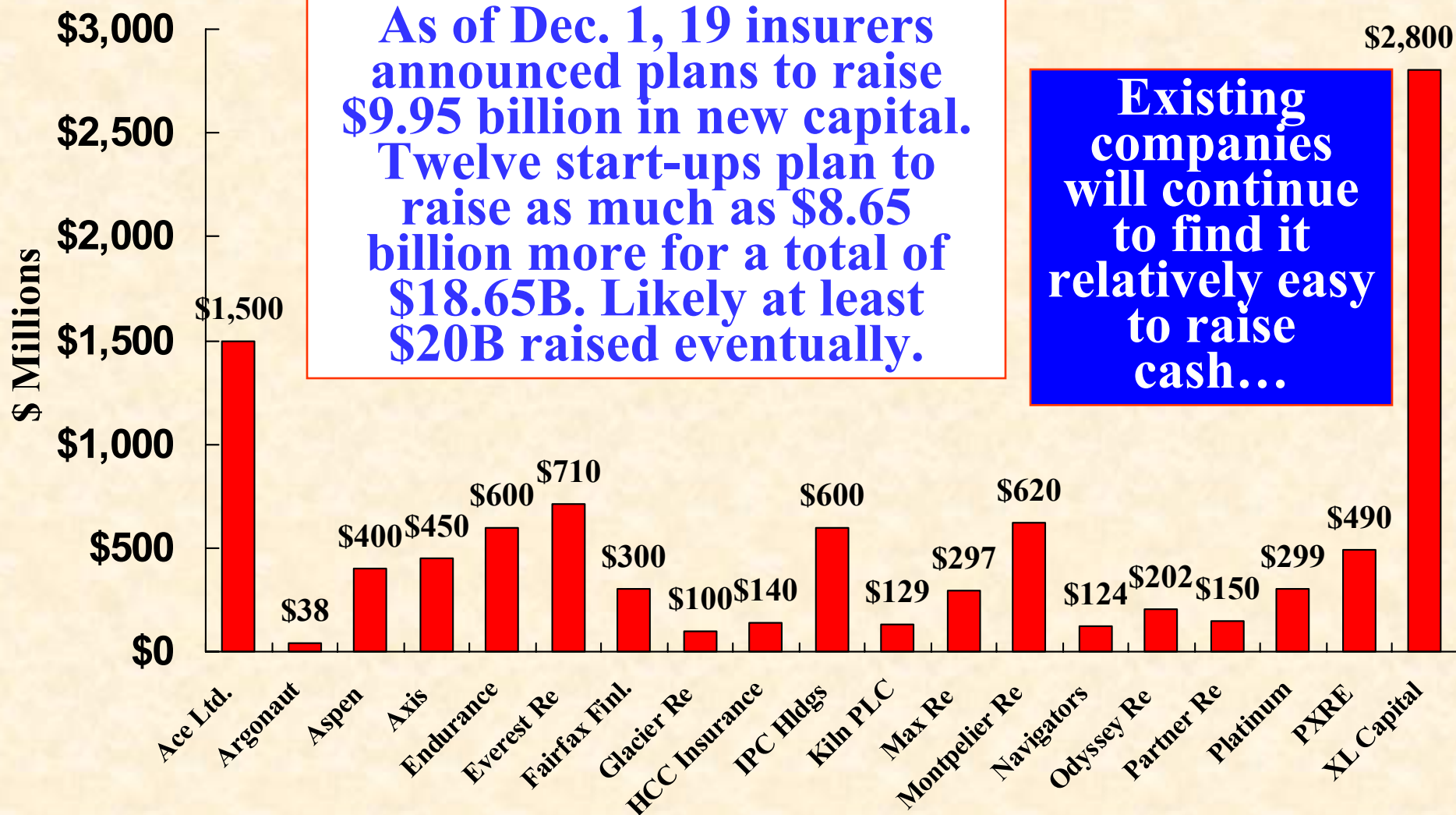
Assume CAGR 2005-2010 = 5%





Announced Insurer Capital Raising*

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



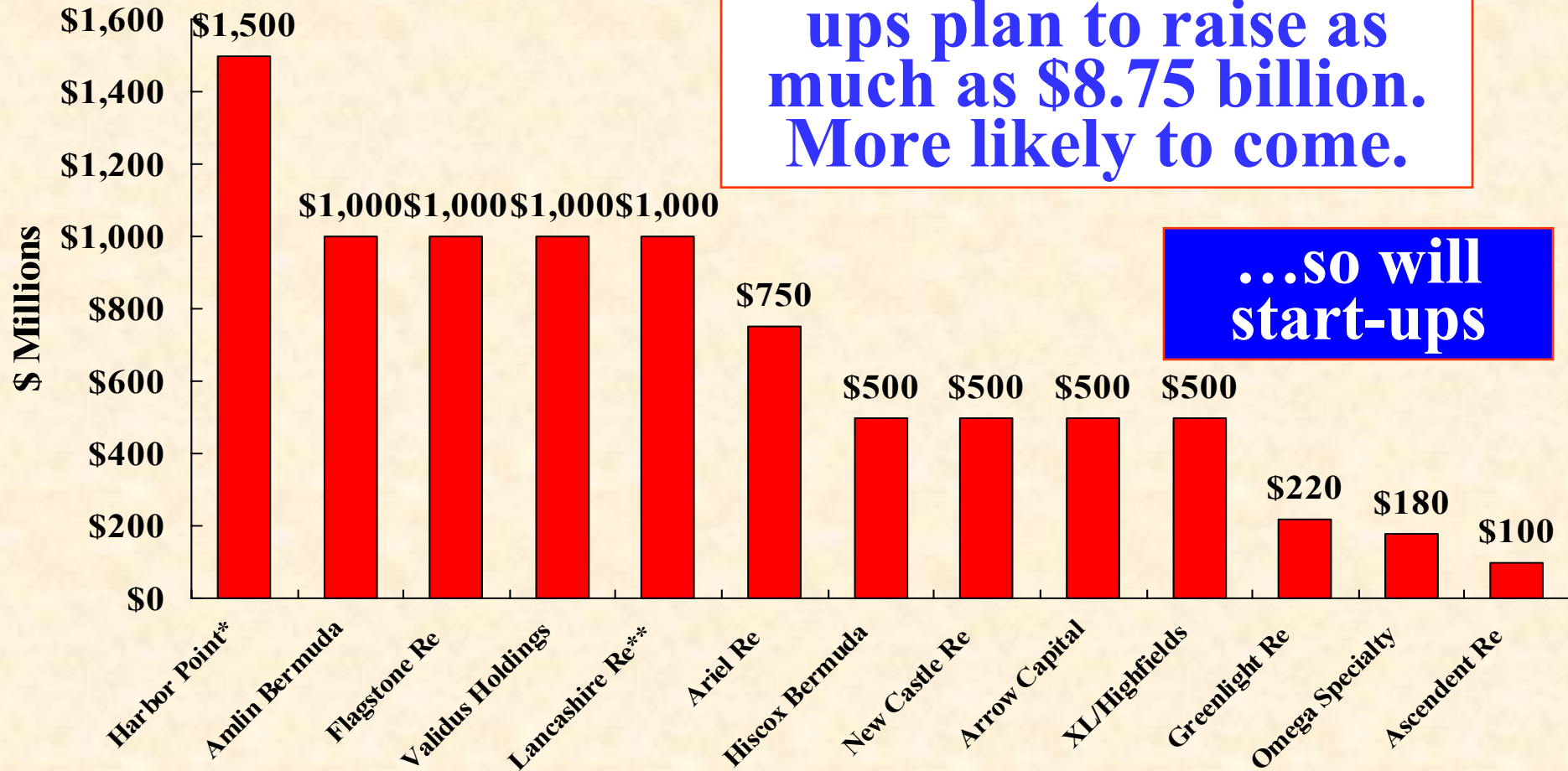
*Existing (re) insurers. Announced amounts may differ from sums actually raised.
Sources: Morgan Stanley, Lehman Brothers, Company Reports; Insurance Information Institute.



Announced Capital Raising by Insurance Start-Ups

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

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



...so will start-ups

*Chubb, Trident are funding Harbor Point. Announced amounts may differ from sums actually raised. **Stated amount is \$750 million to \$1 billion. ***XL Capital/Hedge Fund venture. Arrow Capital formed by Goldman Sachs.

Sources: Morgan Stanley, Company Reports; Insurance Information Institute.



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



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

\$100 Billion CAT year is coming soon

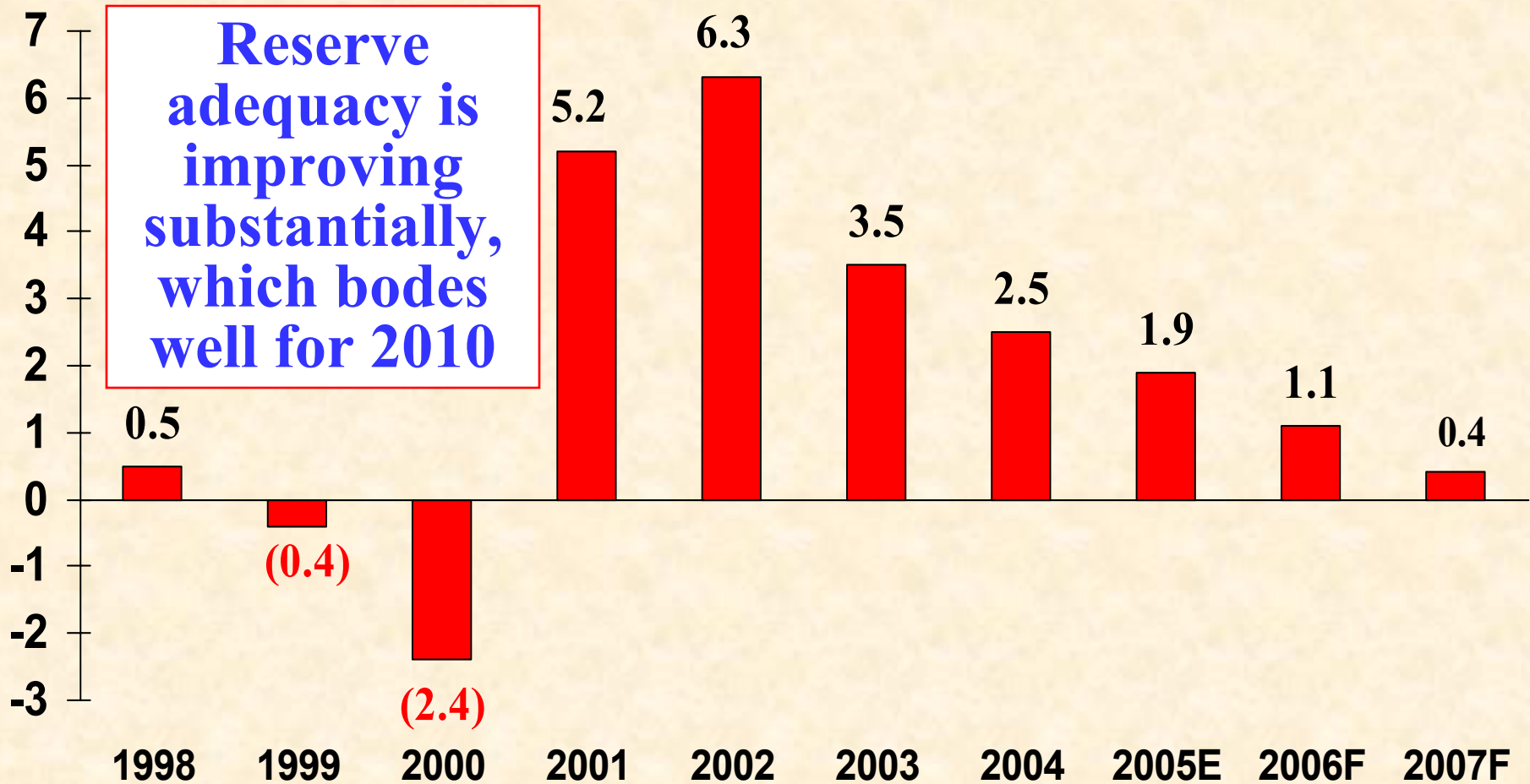
*Includes \$53.7 billion per ISO/PCS plus \$4B offshore energy losses from Hurricanes Katrina & Rita.
Note: 2001 figure includes \$20.3B for 9/11 losses reported through 12/31/01. Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = \$12.2B.
Source: Property Claims Service/ISO; Insurance Information Institute



Combined Ratio:

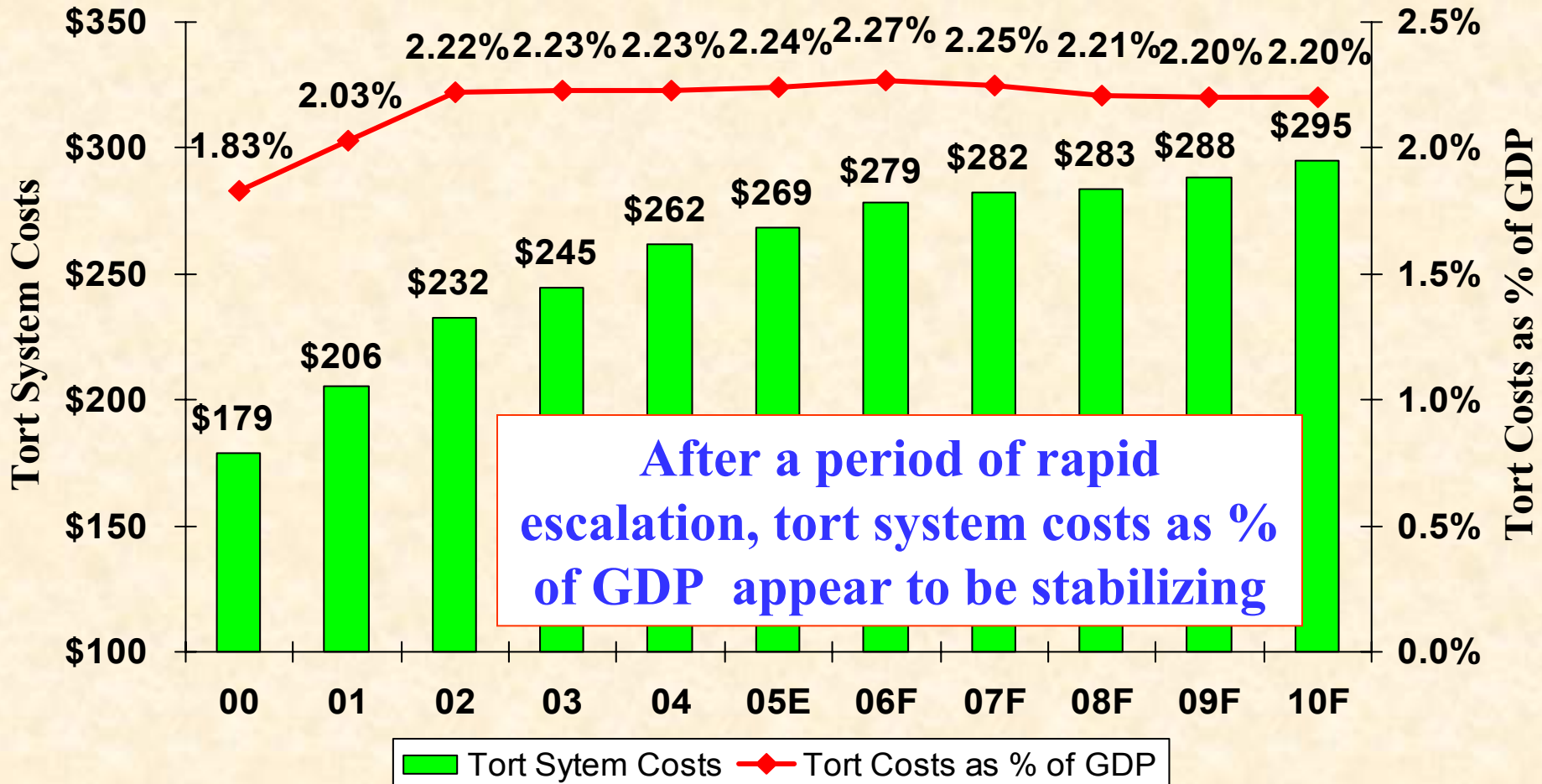
Impact of Reserve Changes (Points)

Points (Reduced)/Increased



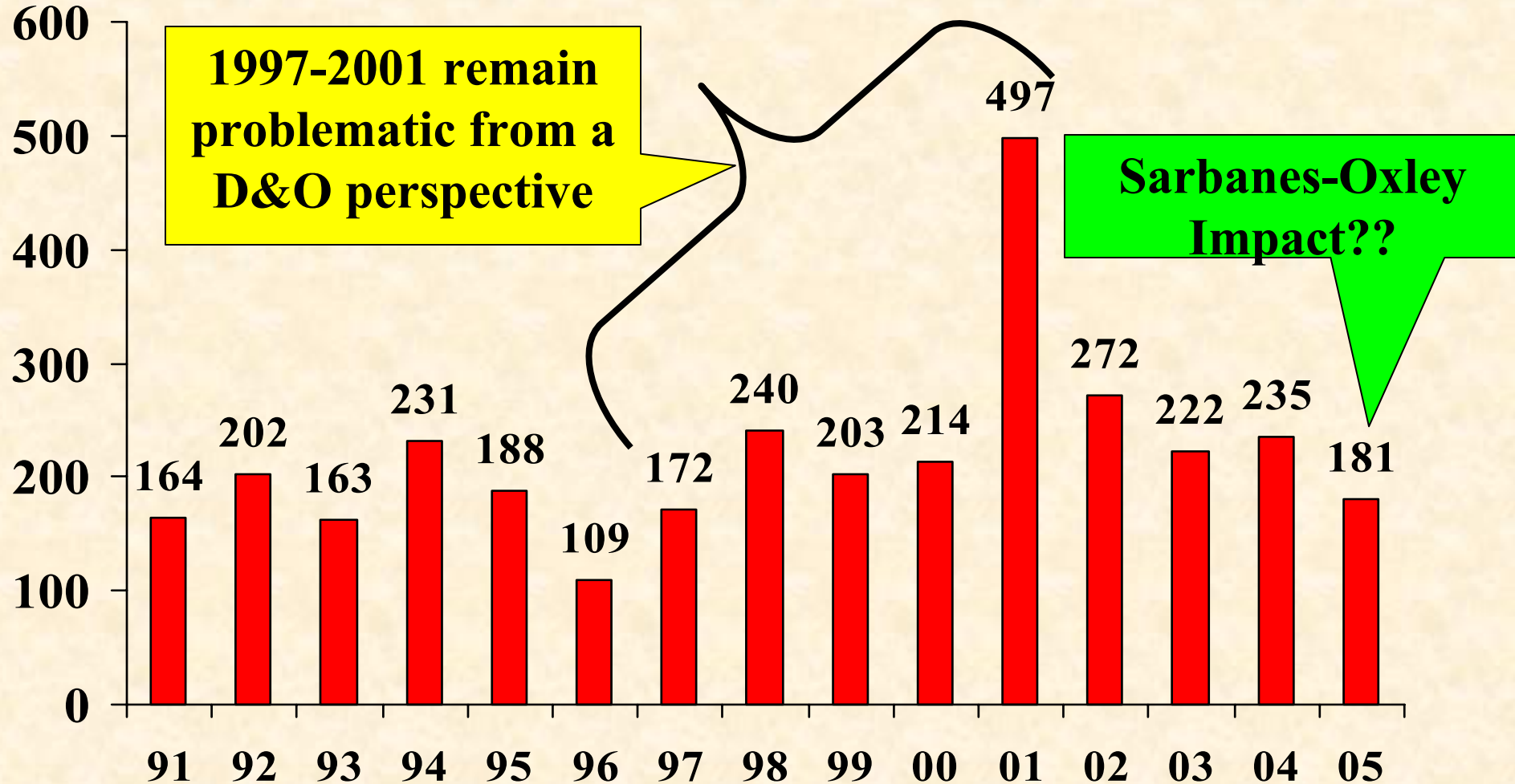


Tort System Costs, 2000-2010F





Shareholder Class Action Lawsuits*



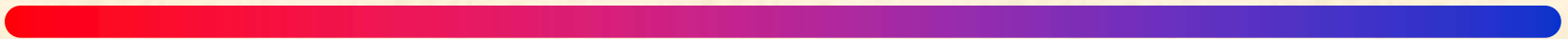
*Securities fraud suits filed in U.S. federal courts.

**Suits of \$100 million or more.

Source: Stanford University School of Law (securities.stanford.edu); Insurance Information Institute

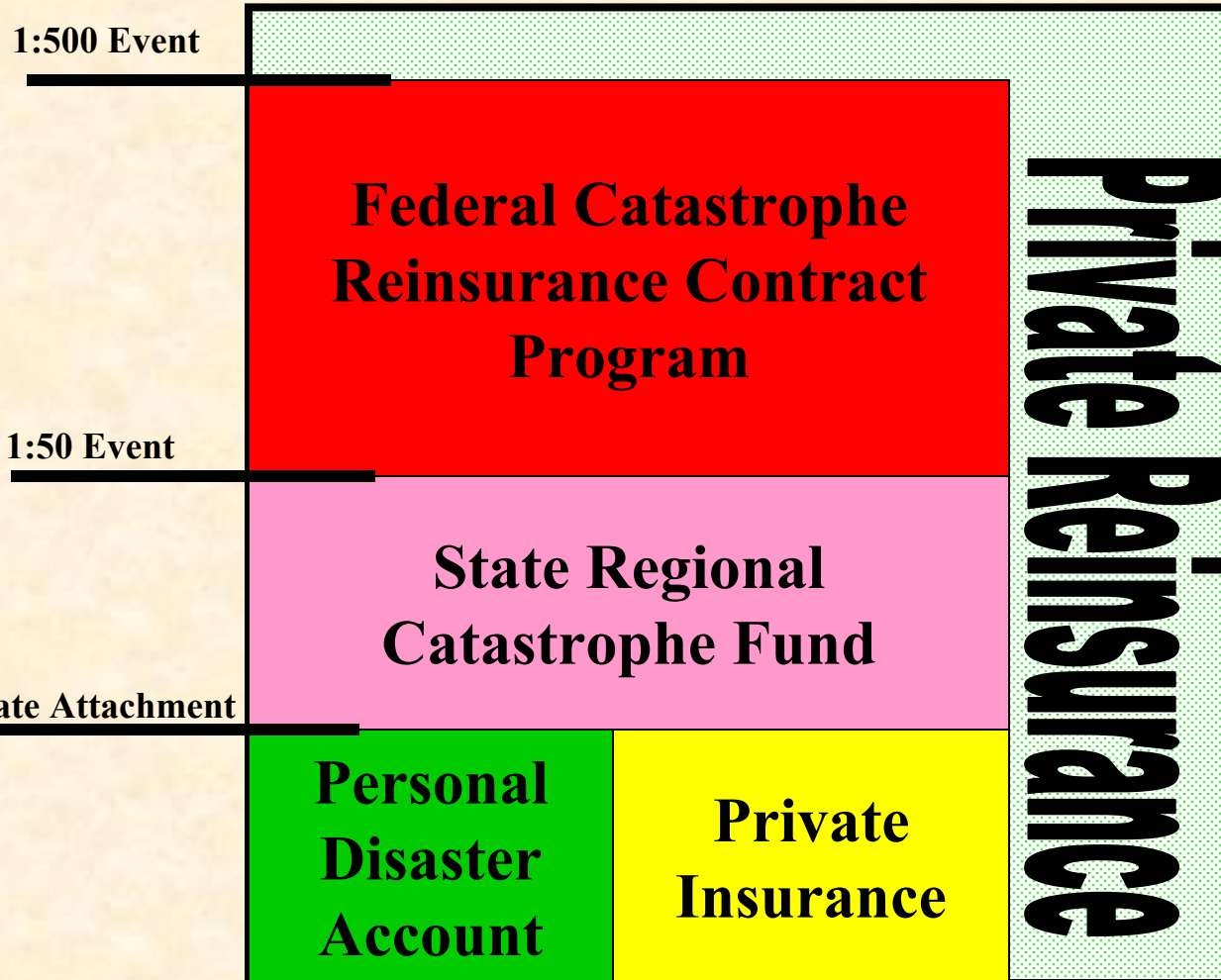
Regulatory Predictions

*Congressional Apathy Continues
on P/C Issues*





Tough Road for Comprehensive National Catastrophe Plan



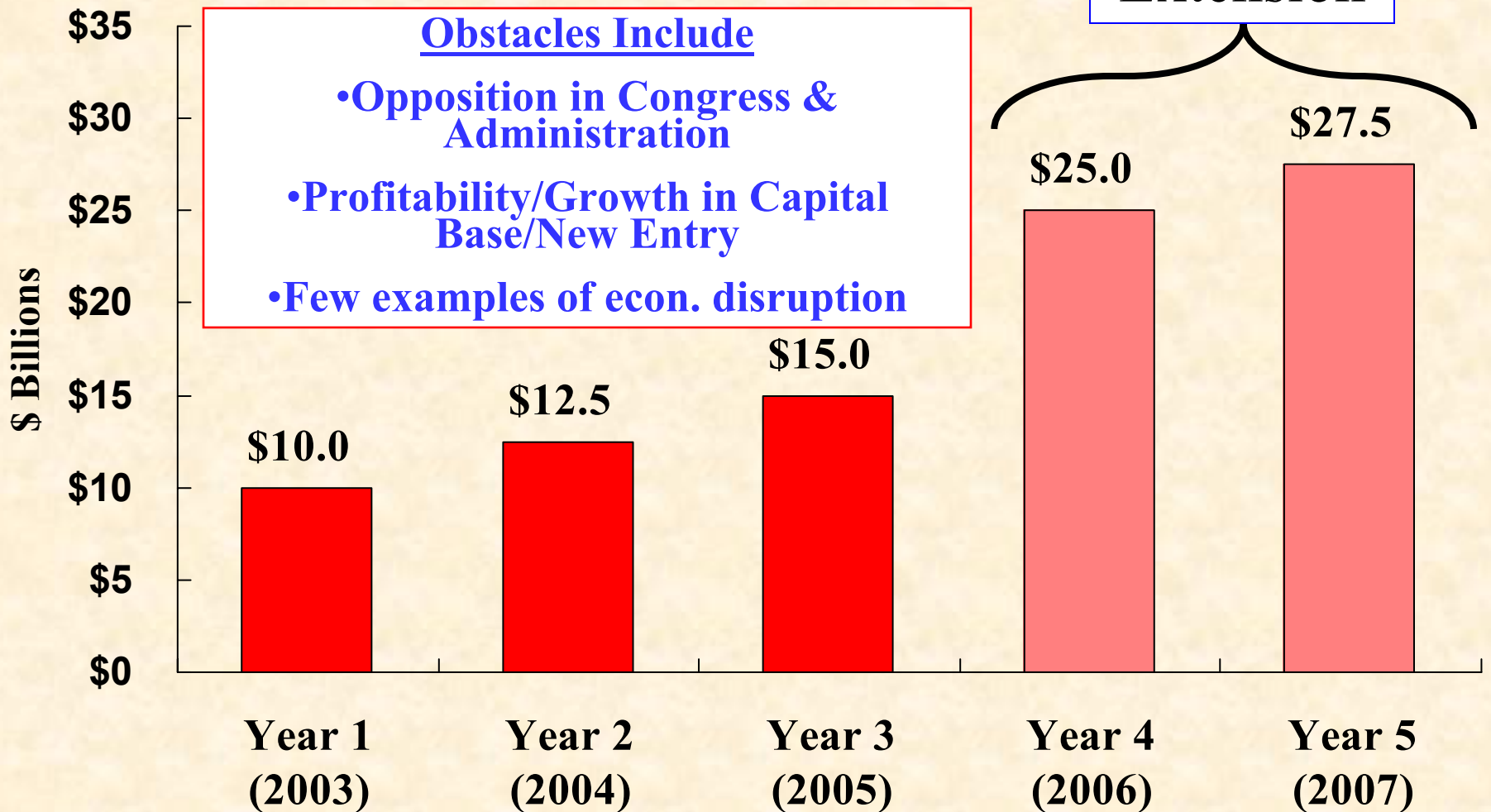
Unlikely National CAT Plan in place by 2010. Major obstacles include:

- Divisions within industry*
- Opposition in Congress*



TRIA's Days Are Numbered: Congress & Administration Want it Dead

Industry Aggregate Retention (\$ Bns)



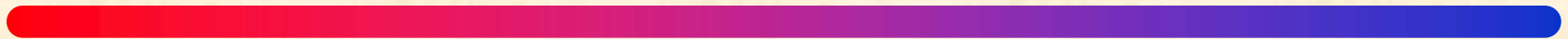


Status of Other Regulatory Issues by 2010

- **No Optional Federal Charter by 2010**
- **Little Progress on Regulatory Modernization (e.g., SMART Act)**
- **Asbestos “Reform” Not to Industry Satisfaction**
- **Incremental Additional Improvements in Tort Environment**

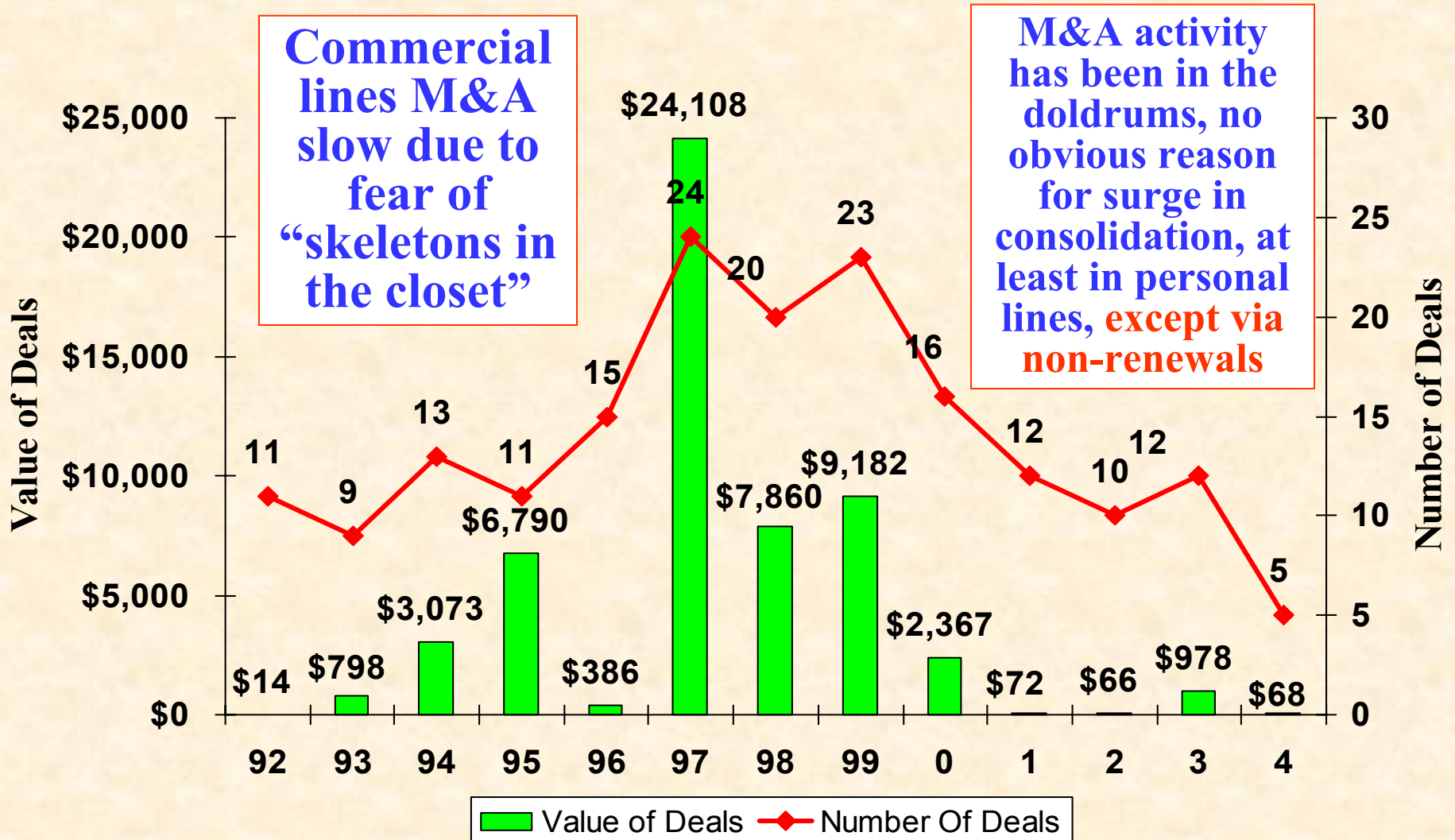
Competitive Predictions

*Wave of Consolidation Among
Primary P/C Companies is Not
Imminent*





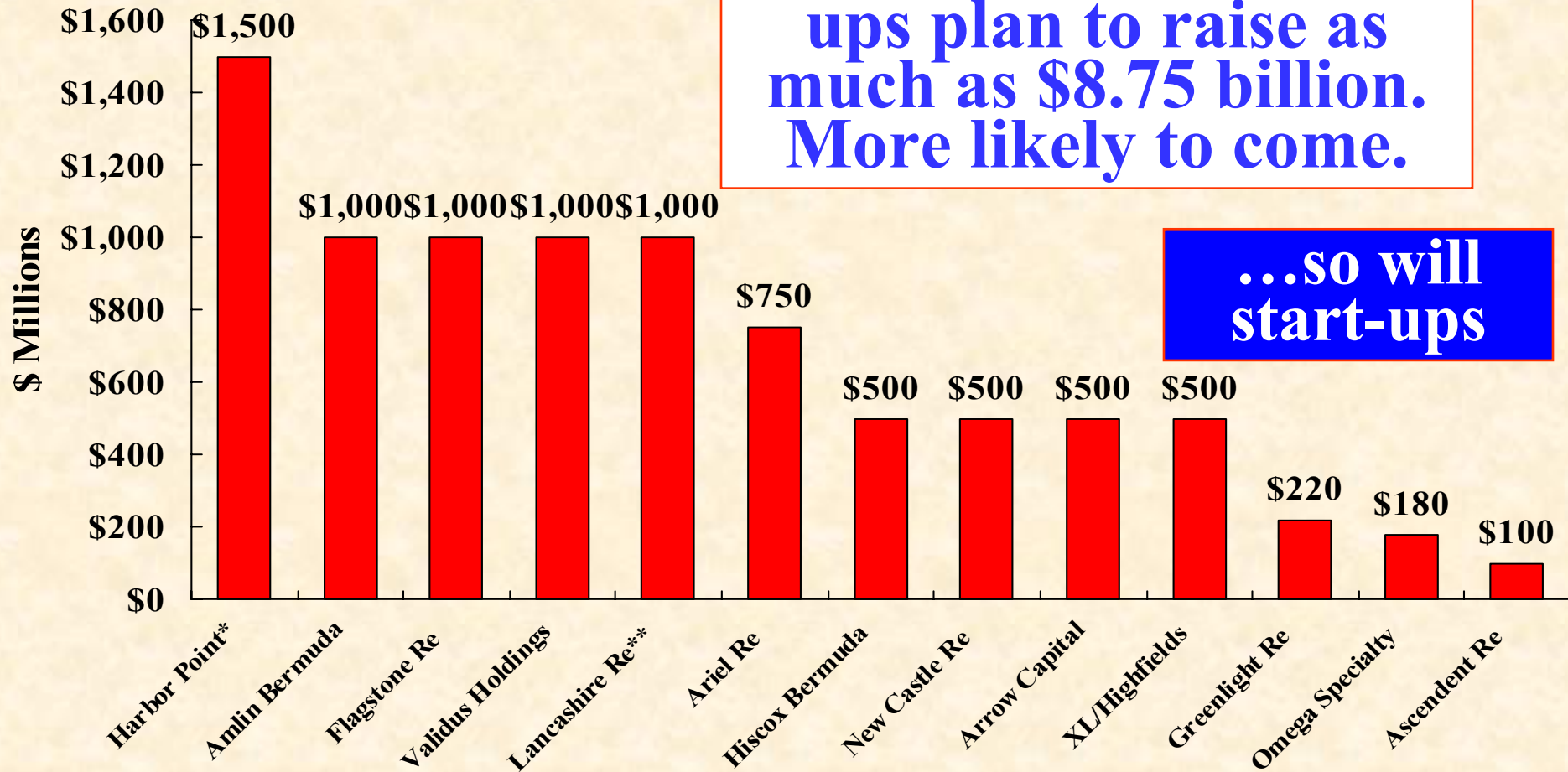
M&A Activity Affecting Personal Lines, 1992-2004 (\$ Mill)





Class of 2005: Many Will Be Gone by 2010

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



...so will start-ups

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Sources: Morgan Stanley, Company Reports; Insurance Information Institute.

Walmarted: Retailers Will Eventually *Show Interest in P/C Insurance*



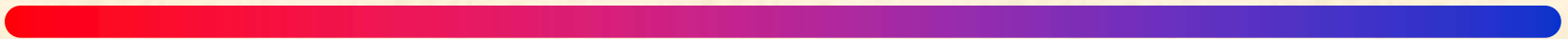
- **Banks will continue to acquire distribution channels**
- **Retailers chafing to get into retail banking**
- **Insurance not far behind, at least on distribution side**
 - **Walmart shaking up warranty business**



**Retailing & Insurance
have a long history.
Remember Sears and
Allstate?**

Political Predictions

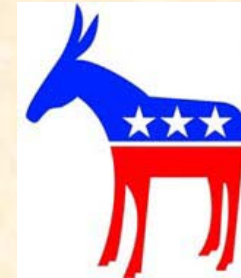
Change is in the Air



2010: Political Order Will Be Shaken Up



- **One House of Congress Changes Hands by 2010**
- **Change of Party in the White House**
- **Eliot Spitzer is the Next Governor of New York**





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