

Property/Casualty Insurance Financial & Hurricane Update

Insurance Information Institute

April 25, 2006



**Robert P. Hartwig, Ph.D., CPCU, Senior Vice President & Chief Economist
Insurance Information Institute ♦ 110 William Street ♦ New York, NY 10038
Tel: (212) 346-5520 ♦ Fax: (212) 732-1916 ♦ bobh@iii.org ♦ www.iii.org**

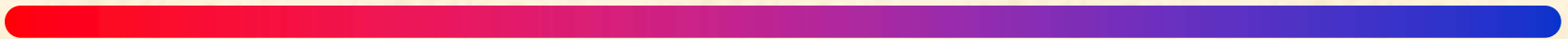


Presentation Outline

- **P/C Profit Overview**
- **Wall Street Perspective**
- **The Six Key Issues Impacting P/C Profitability**
 - **Underwriting**
 - **Pricing**
 - **Investments**
 - **Expenses**
 - **Leverage (Capacity)**
 - **P/C Operating Environment: Tort Focus**
- **Catastrophe Loss Management**
- **Commercial & Personal Lines: A Quick Overview**
- **Flood Insurance Penetration Rates**
- **Q & A**

P/C PROFIT OVERVIEW

2006 Outlook is Good





Highlights: Property/Casualty, 2005 vs. 2004

**Growth rate lowest
since late 1990s**

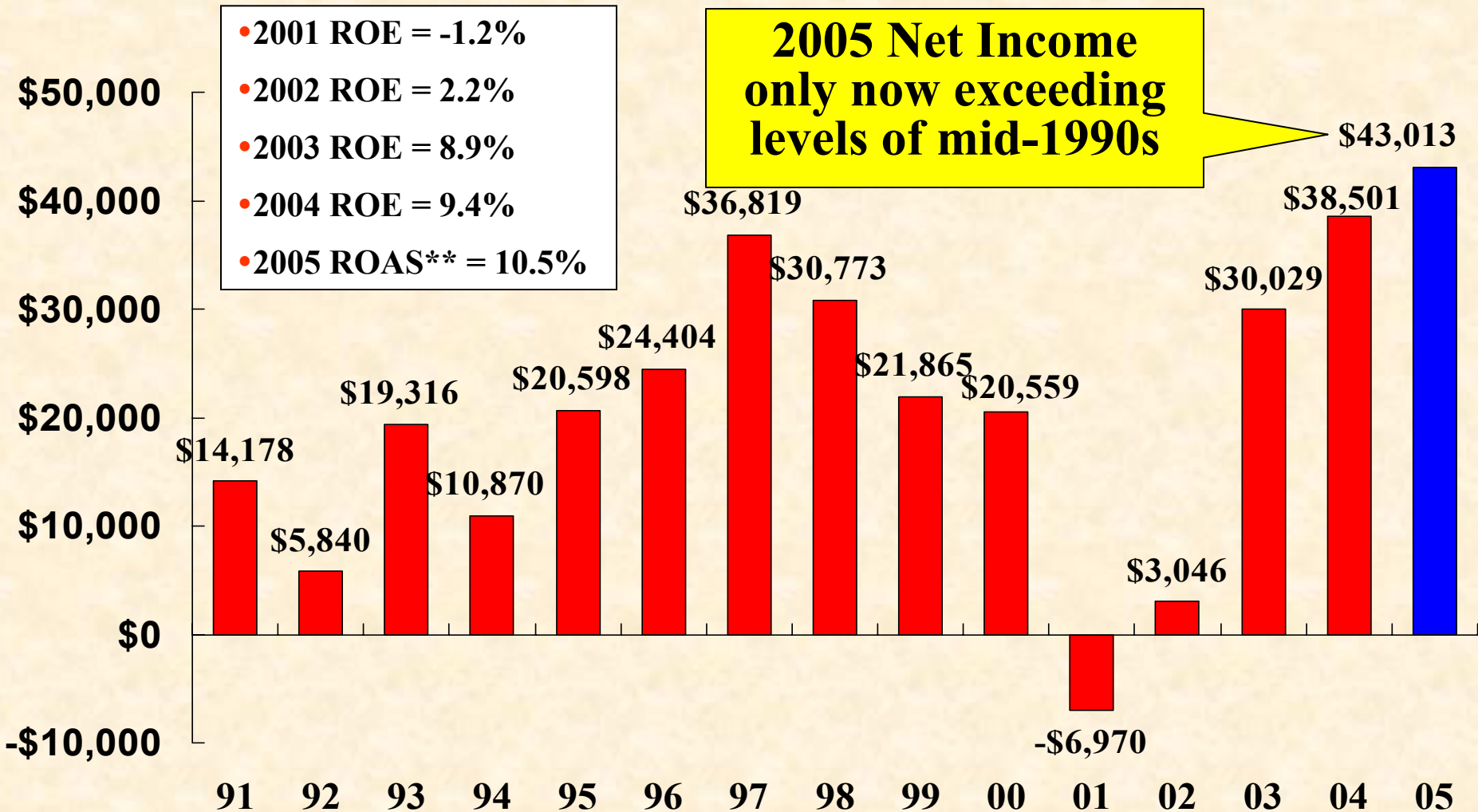
	2005	2004	Change
Net Written Prem.	425,653	424,089	+0.4%
Loss & LAE	311,395	300,948	+0.9%
Net Investment Income	(5,928)	4,263	N/A
Net Inv. Income	49,456	39,966	+23.7%
Net Income (a.t.)	43,013	38,501	+12.3%
Surplus*	427,138	391,294	+9.2%
Combined Ratio*	100.9	98.3	+2.6 pts.

**Investment Income
Rebound?**



P/C Net Income After Taxes

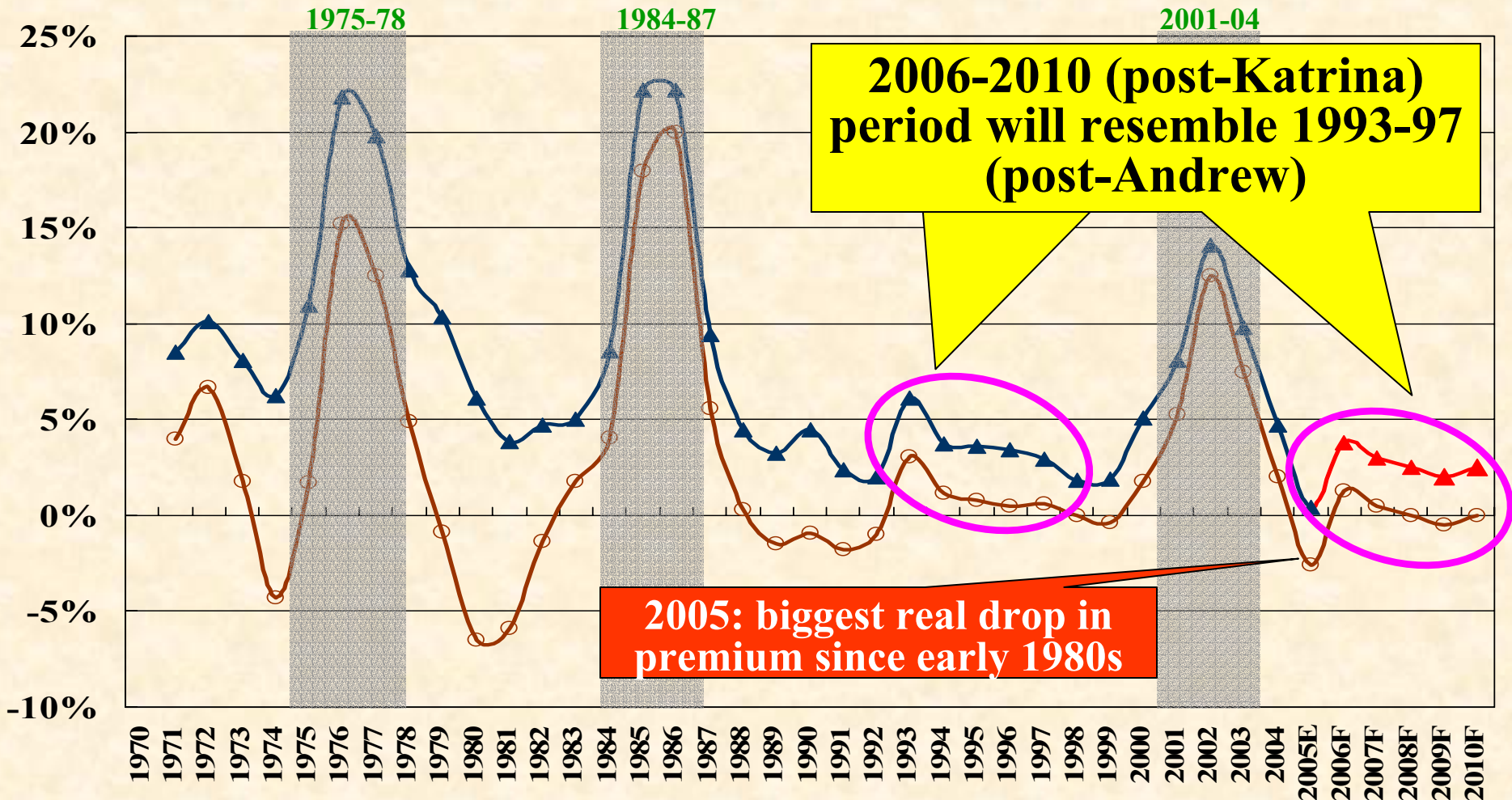
1991-2005 (\$ Millions)



*ROE figures are GAAP; **Return on avg. surplus. ROAS = 9.8% after adj. for one-time special dividend paid by the investment subsidiary of one company. Sources: A.M. Best, ISO, Insurance Information Inst.



Strength of Recent Hard Markets by NWP Growth*

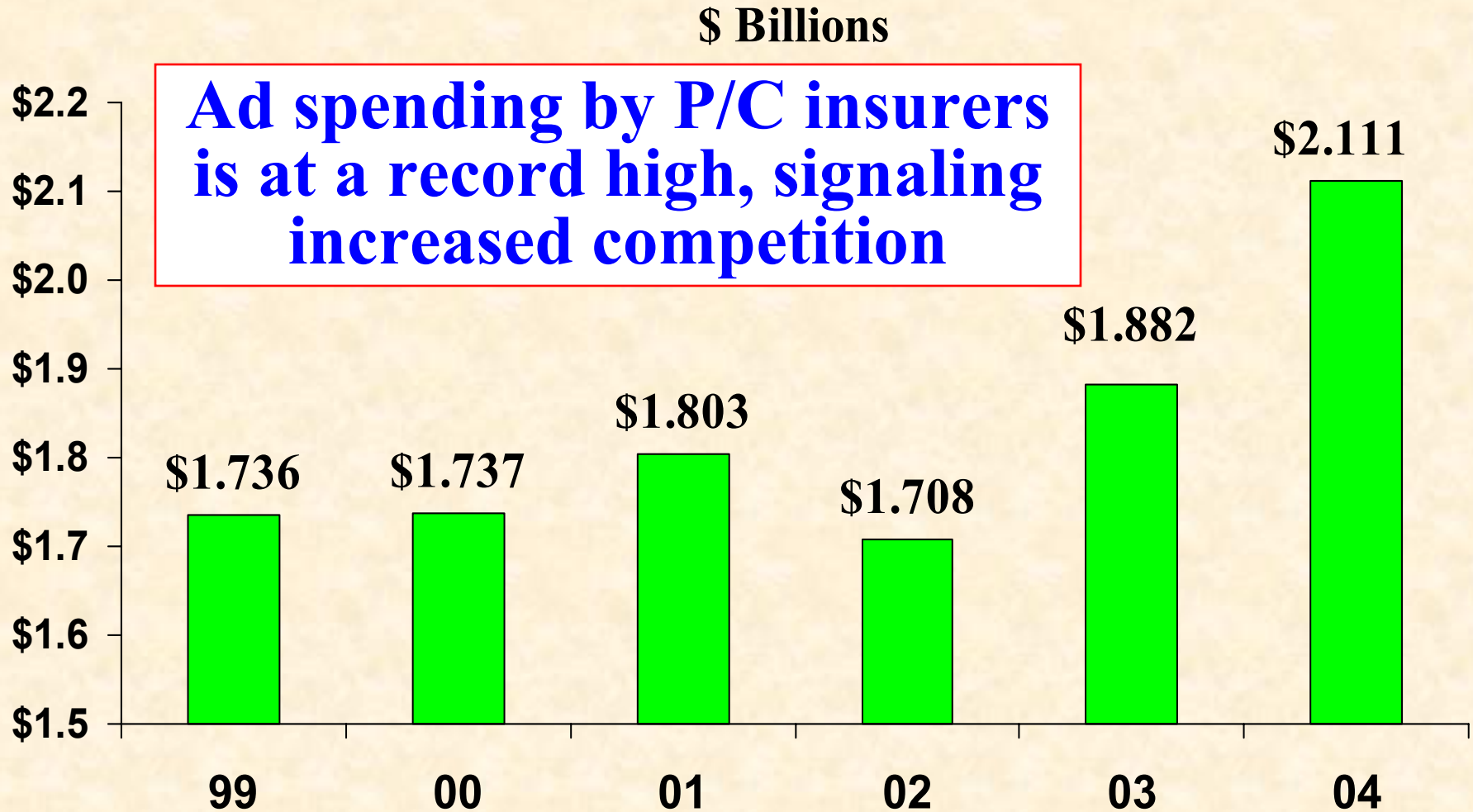


Note: Shaded areas denote hard market periods.
Source: A.M. Best, Insurance Information Institute

*2006-10 figures are ILL forecasts/estimates. 2005 growth of 0.4% equates to 1.8% after adjustment for a special one-time transaction between one company and its foreign parent.



Advertising Expenditures by P/C Insurance Industry, 1999-2004

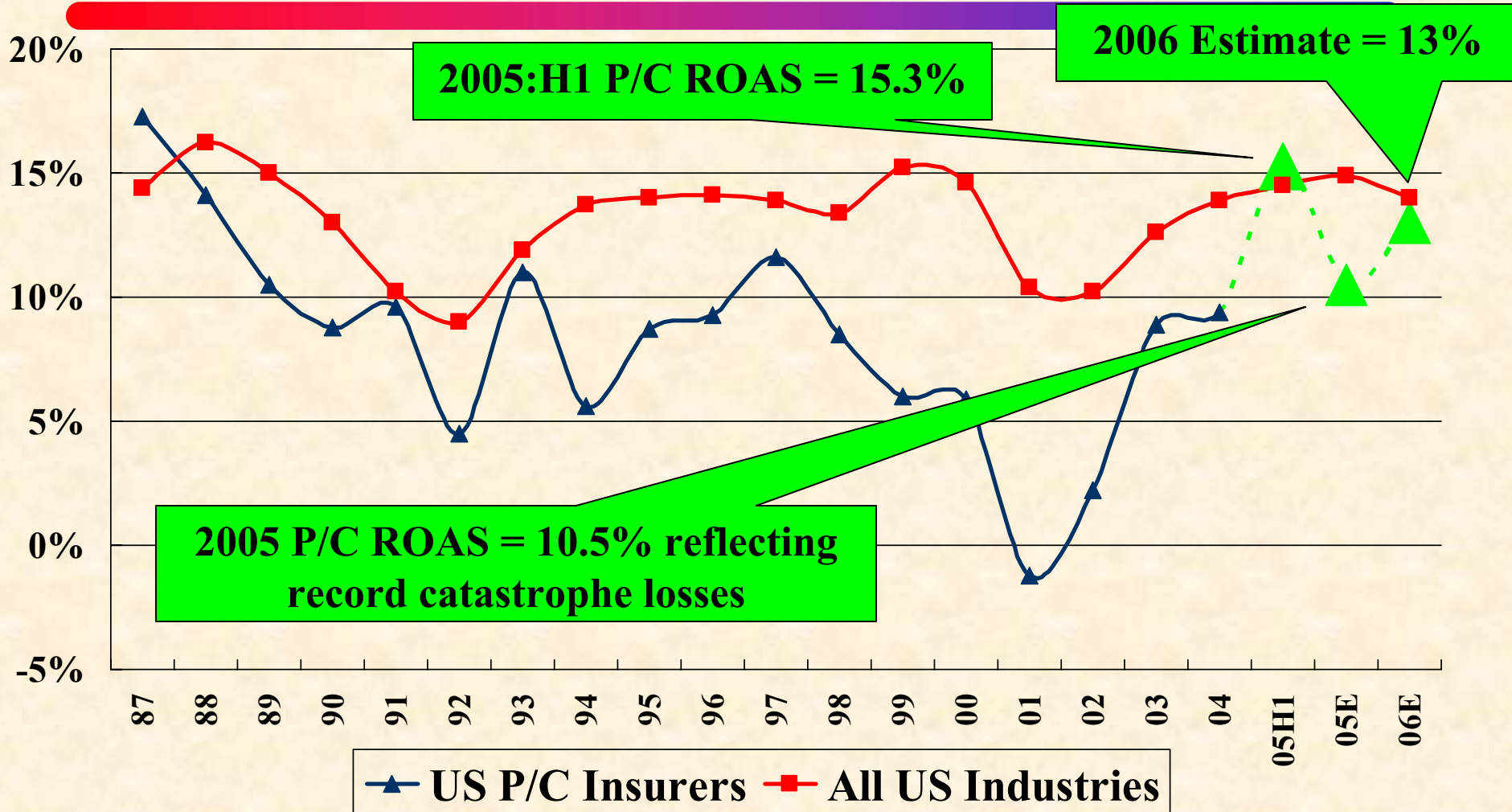


Source: Insurance Information Institute from consolidated P/C Annual Statement data.



ROE: P/C vs. All Industries

1987–2006F*

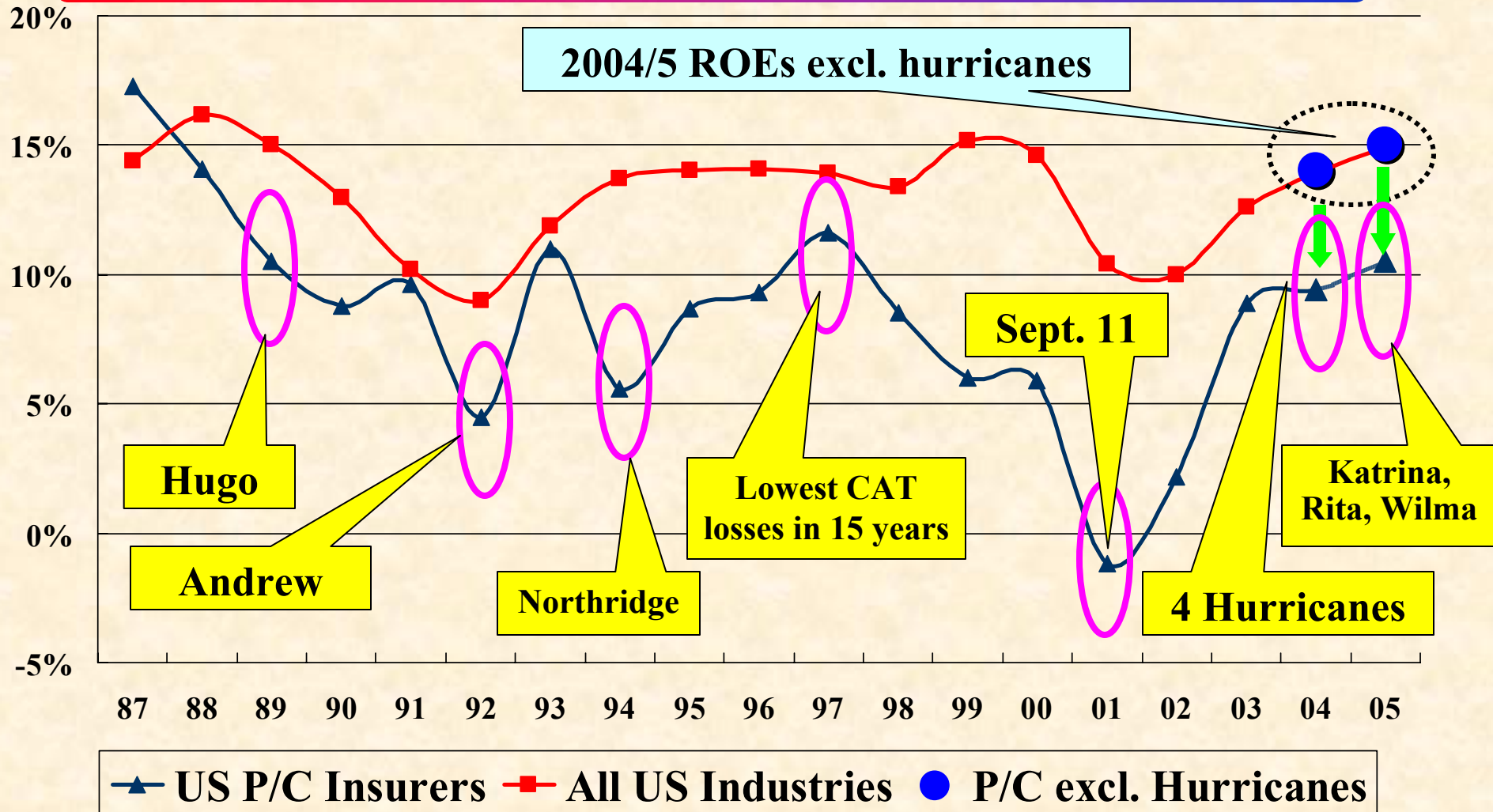


*GAAP ROEs except 2005 P/C figure = return on average surplus. 2005 figure falls to 9.8% after adjustment for special dividend paid by investment subsidiary of 1 company. 2006E figure is III estimate. Source: Insurance Information Institute; *Fortune* for all industry figures.



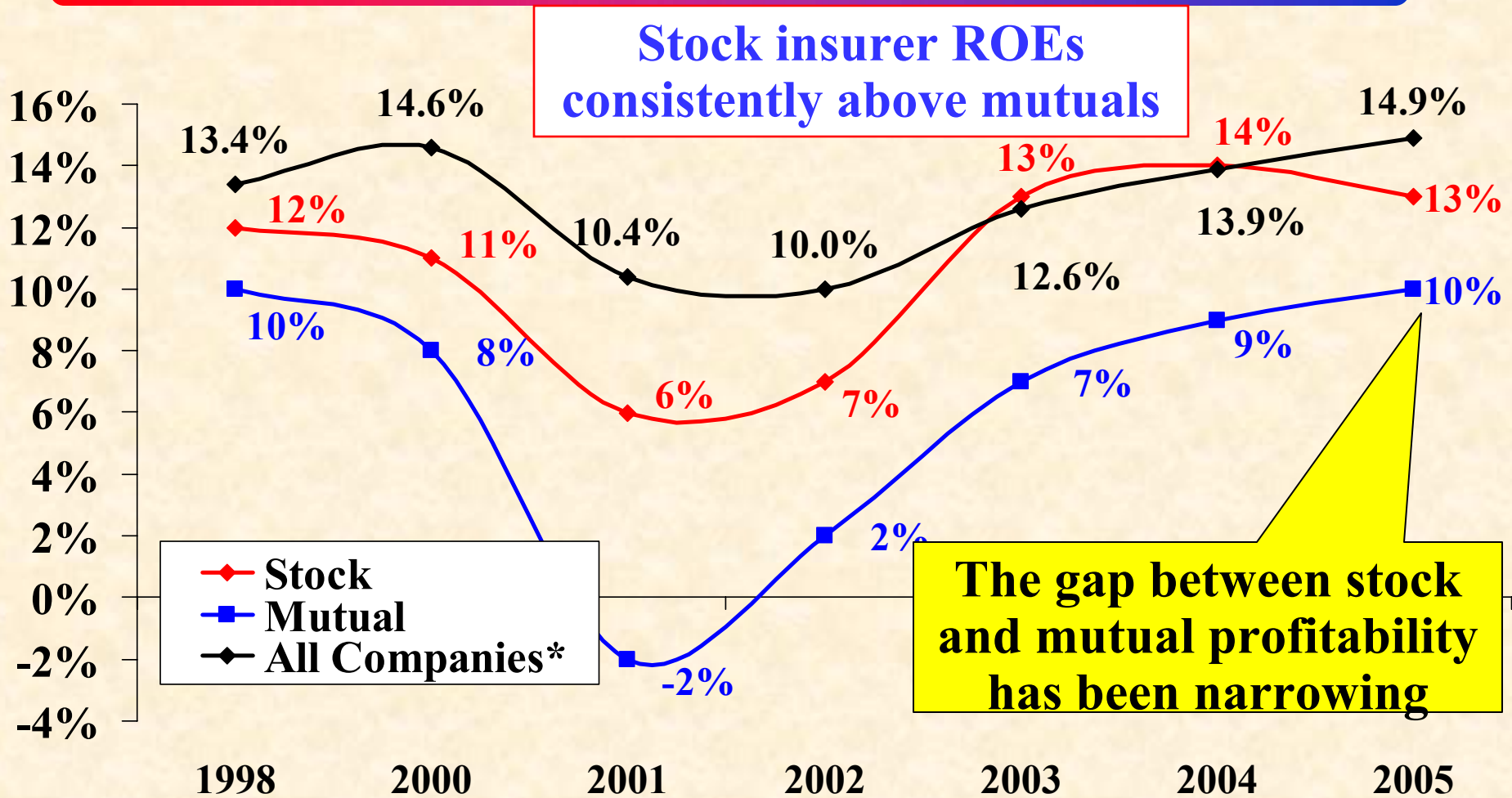
ROE: P/C vs. All Industries

1987–2005





RETURN ON EQUITY (Fortune): Stock & Mutual vs. All Companies*

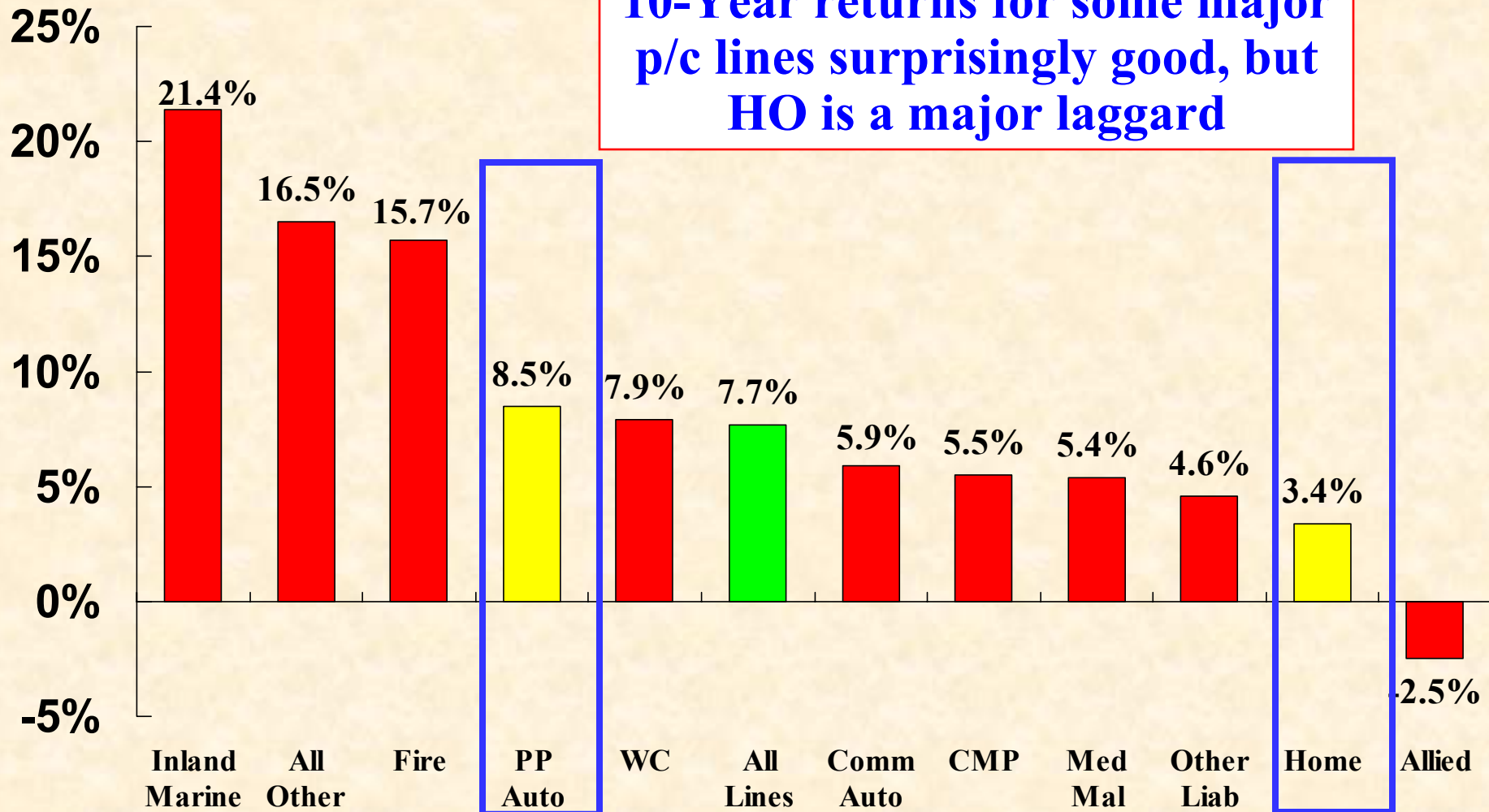


*Fortune 1,000 group.

Source: *Fortune Magazine*, Insurance Information Institute.



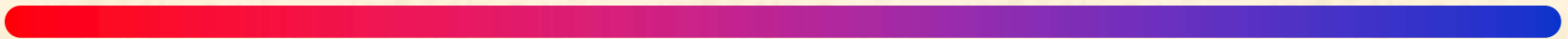
RNW for Major P/C Lines, 1995-2004 Average



Source: NAIC; Insurance Information Institute

WALL STREET:

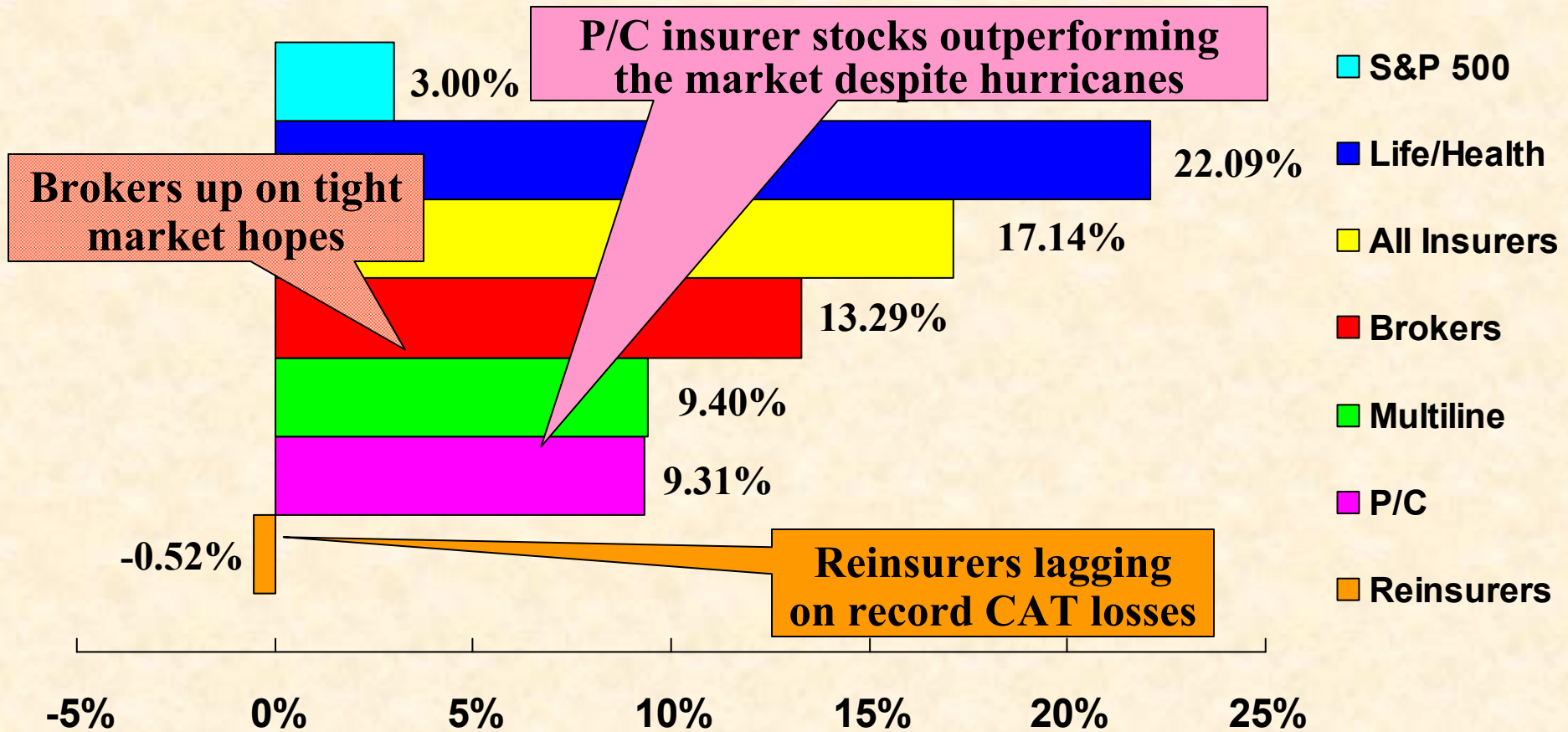
**MAINTAINING THE
CONFIDENCE OF WALL
STREET IS CRITICAL FOR
MANY INSURERS**





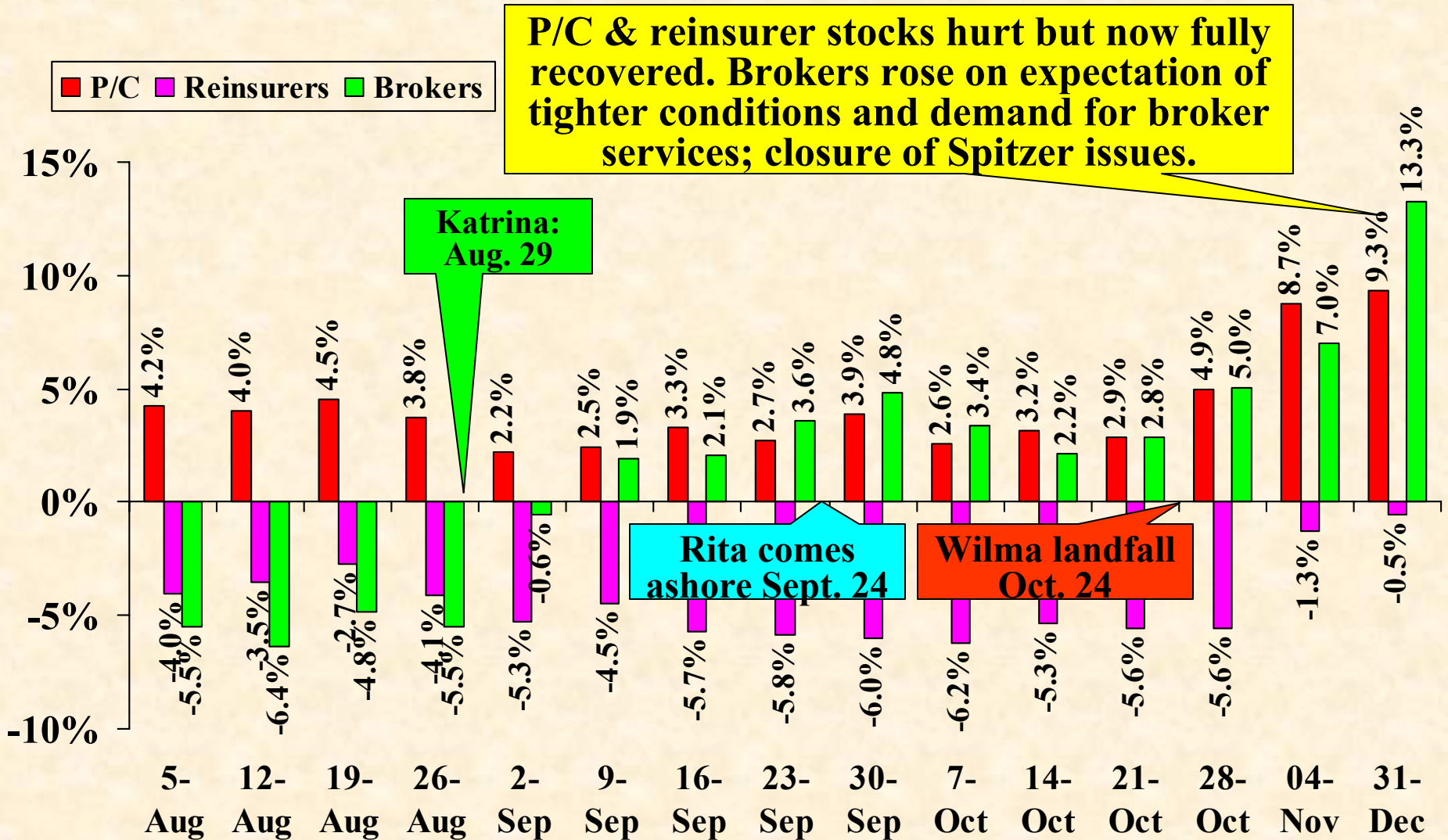
P/C Insurers Stocks Up in 2005, Brokers Up Too, Reinsurers Down

Total 2005 Returns





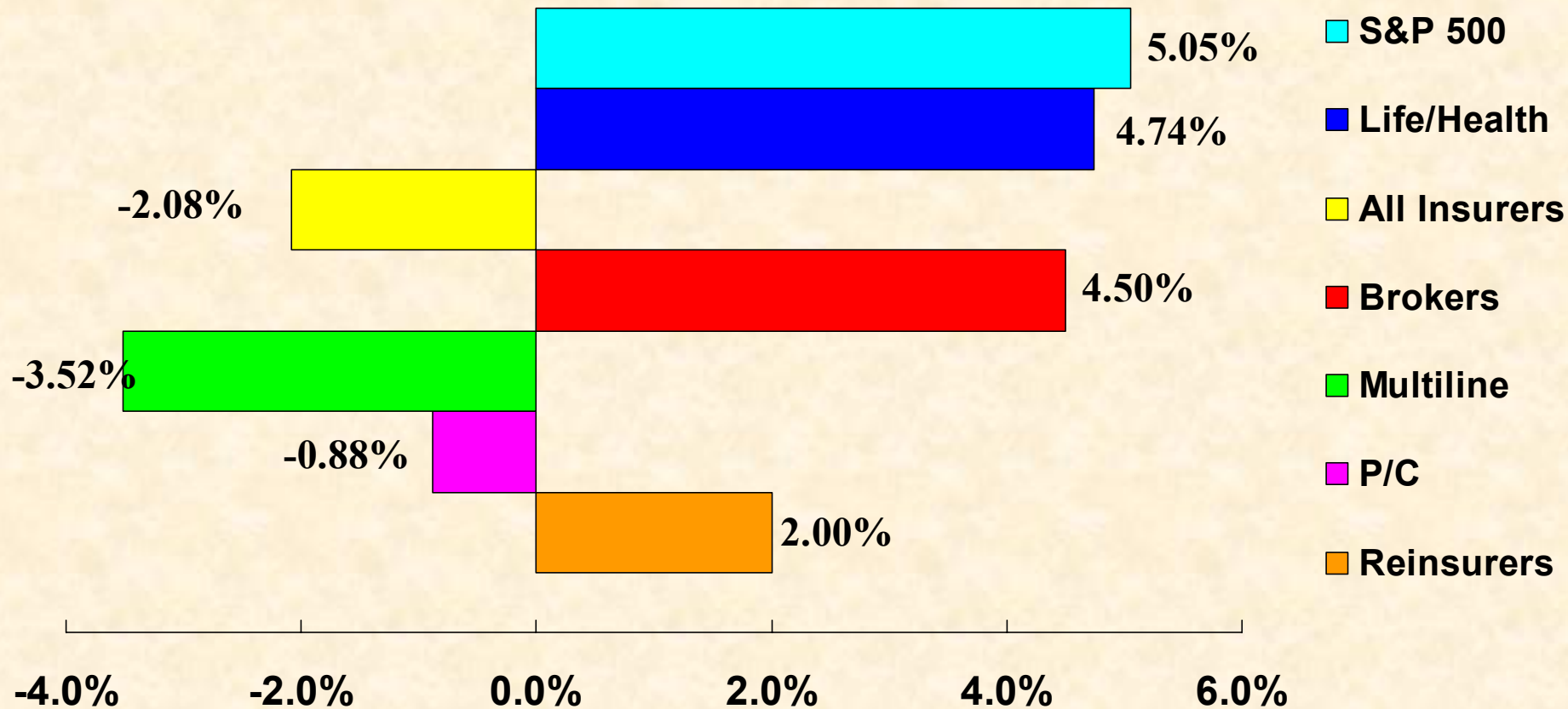
Change in YTD Stock Performance by Sector Pre- & Post-Katrina/Rita/Wilma





Insurance Stocks Off to a Slow Start in 2006

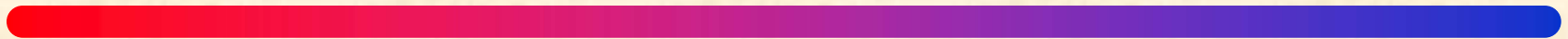
Total YTD Returns Through April 21, 2006



Issue #1

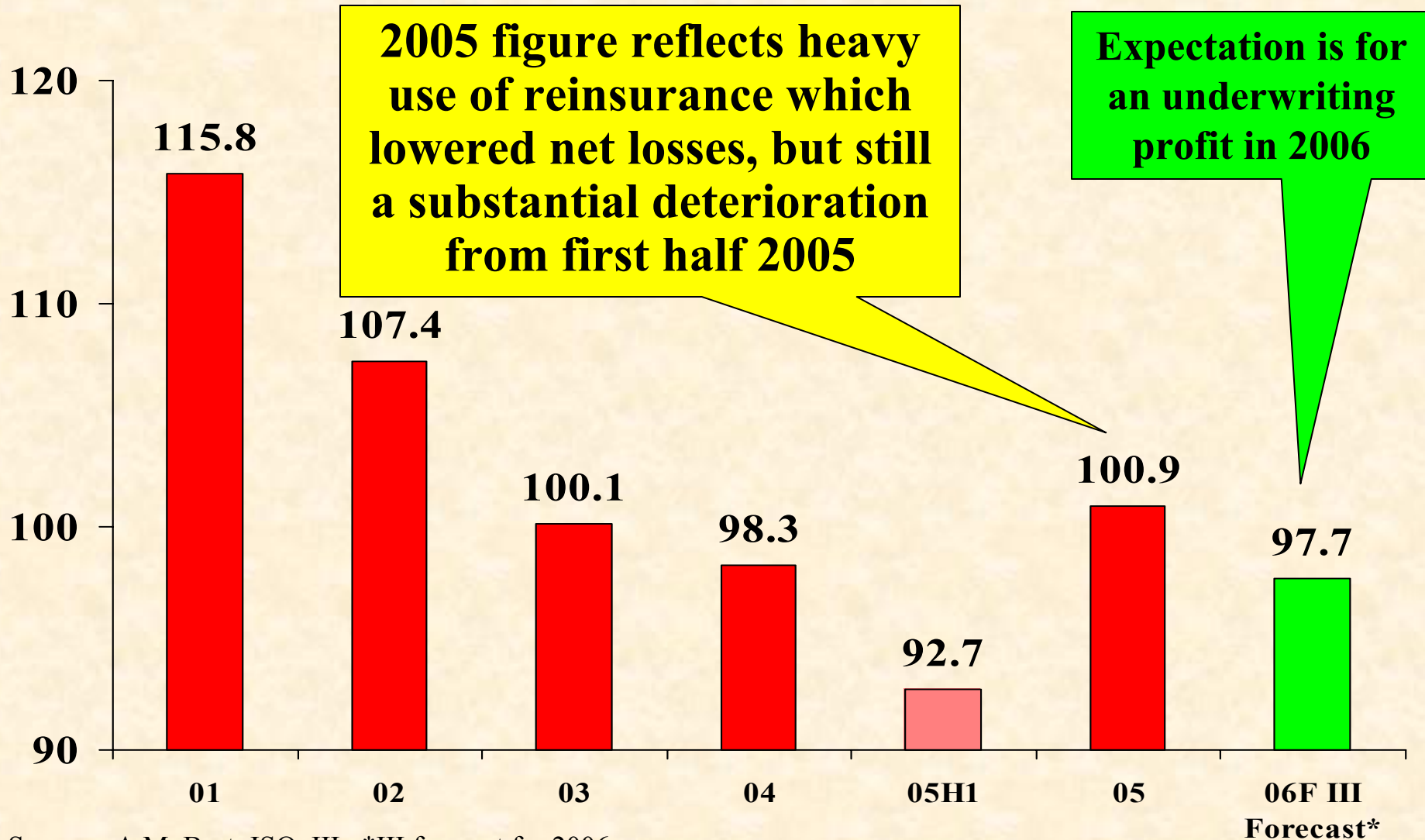
UNDERWRITING

Surprisingly Strong in
2005, Stage is Set for a
Good 2006





P/C Industry Combined Ratio

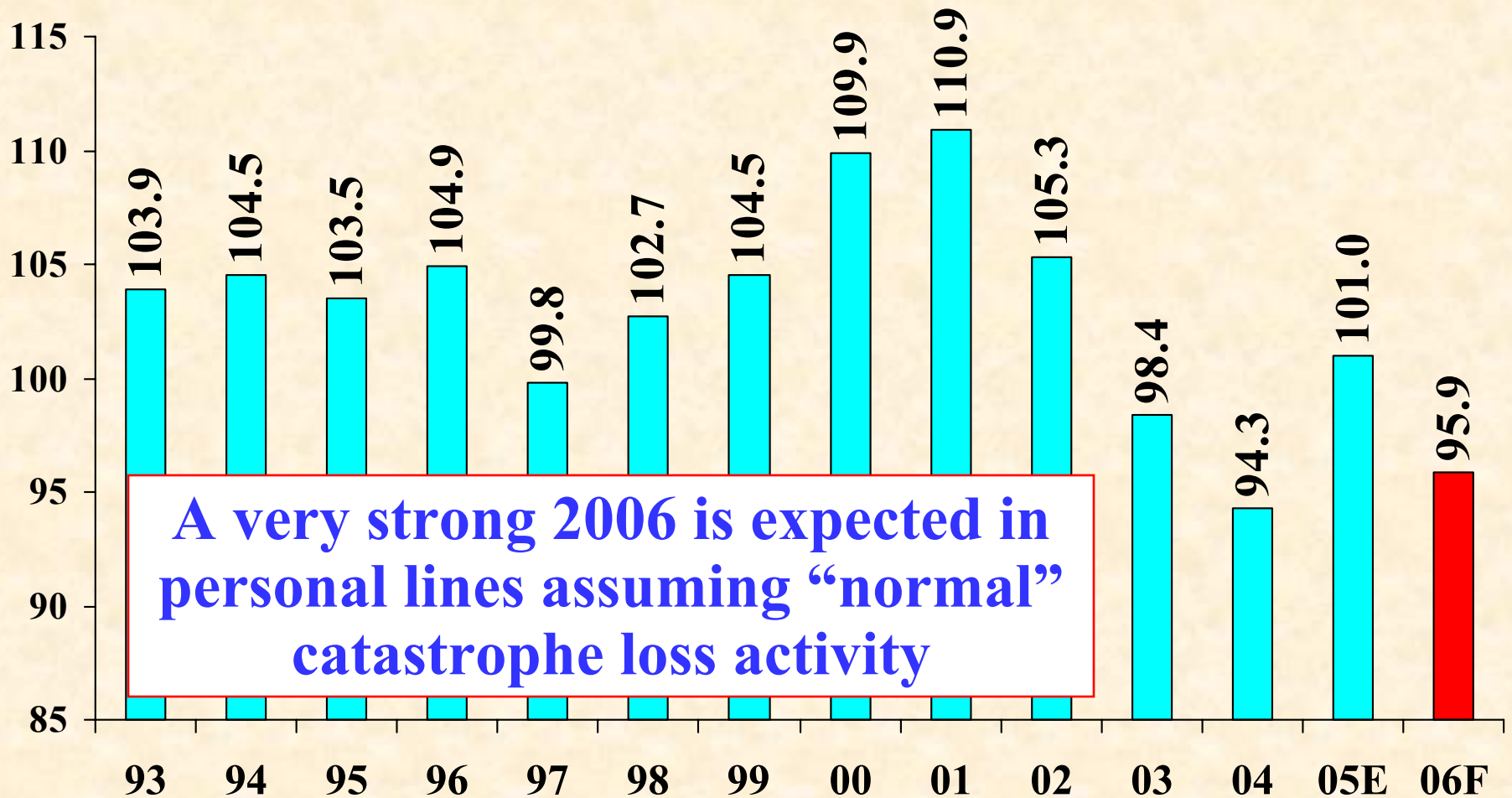


Sources: A.M. Best; ISO, III. *III forecast for 2006



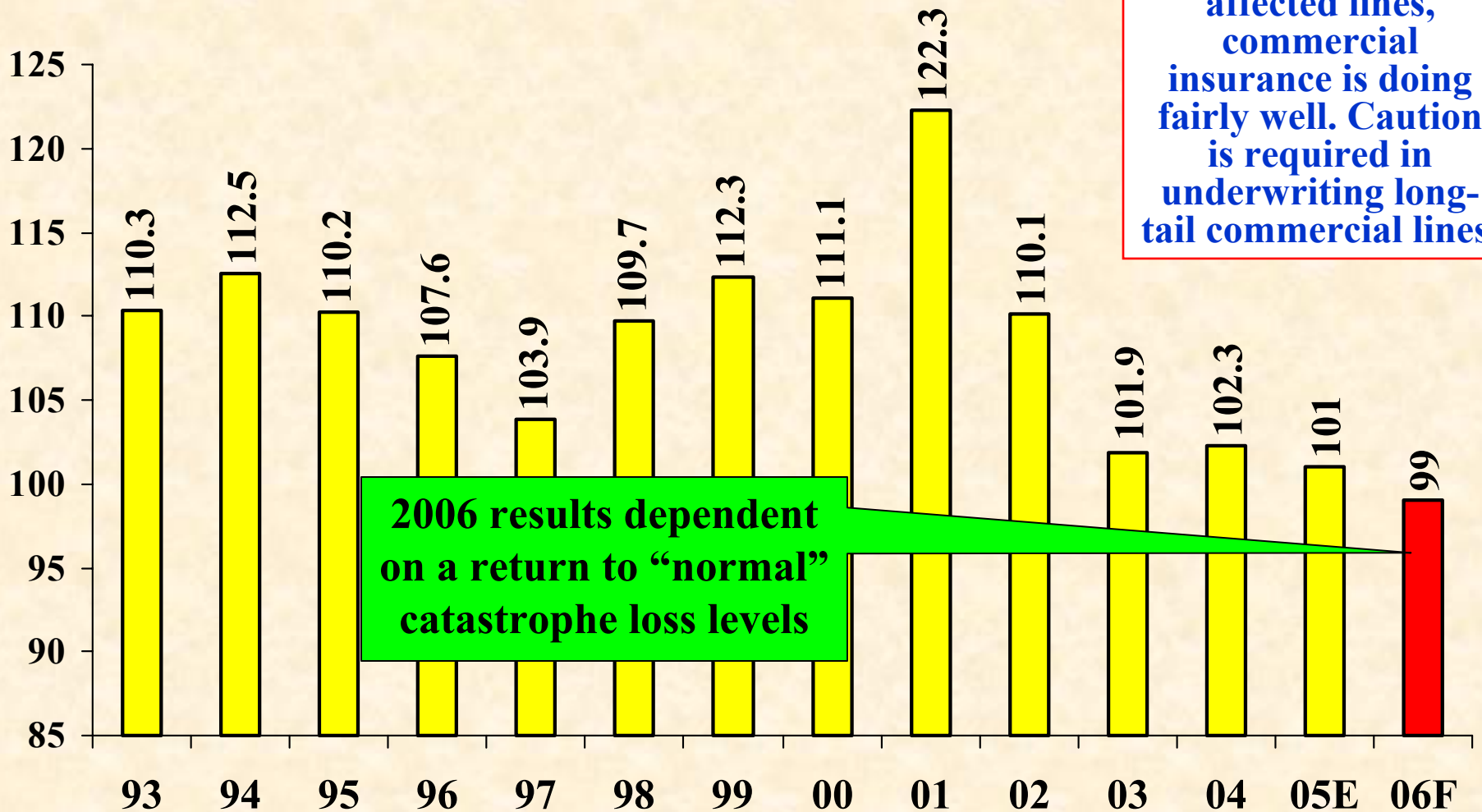
Personal Lines

Combined Ratio, 1993-2006E





Commercial Lines Combined Ratio, 1993-2006E*

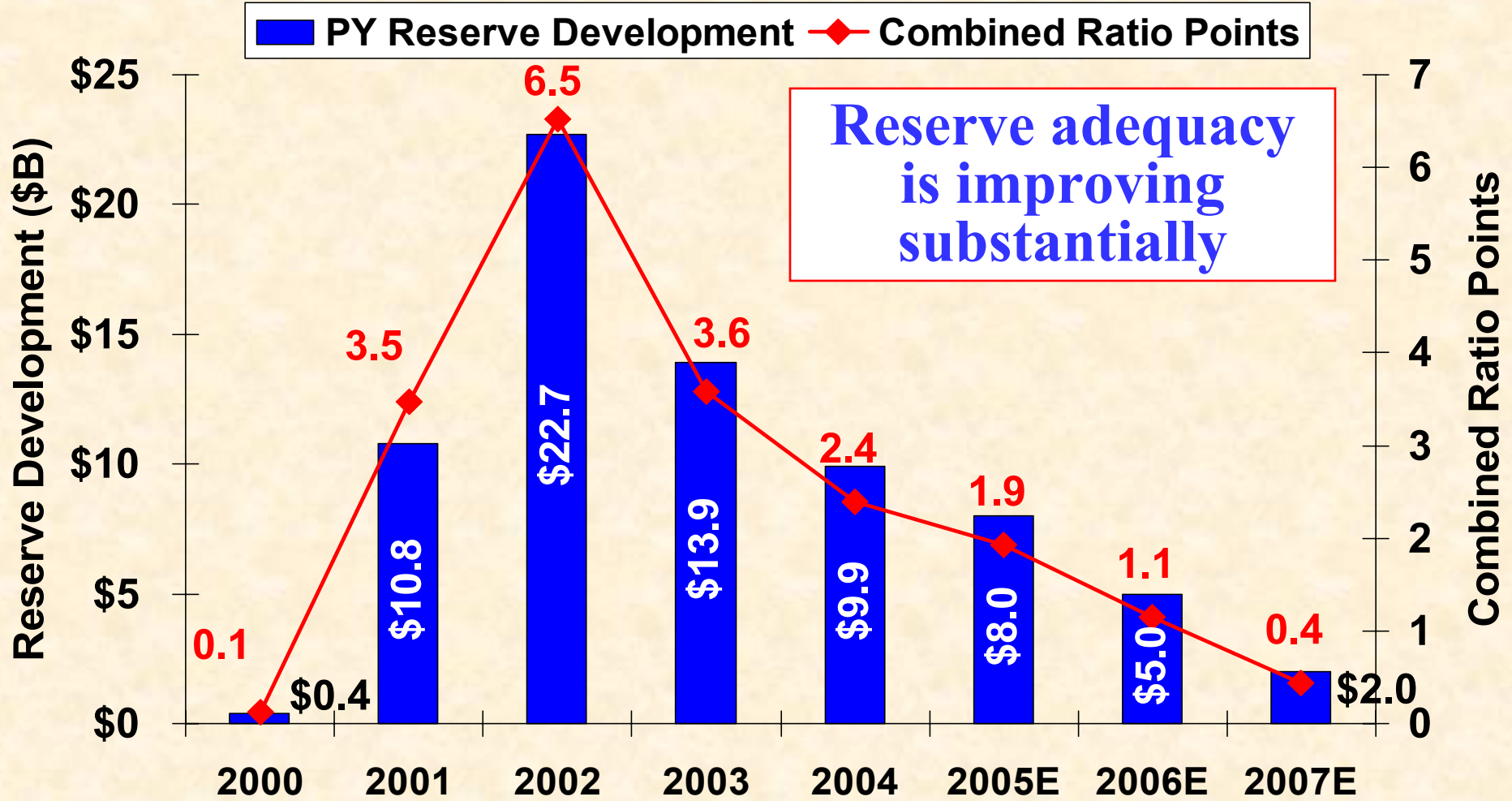


Source: A.M. Best; Insurance Information Institute

*Fitch estimate for 2005. Actual 1H05 combined ratio all lines was 92.7.



Impact of Reserve Changes on Combined Ratio

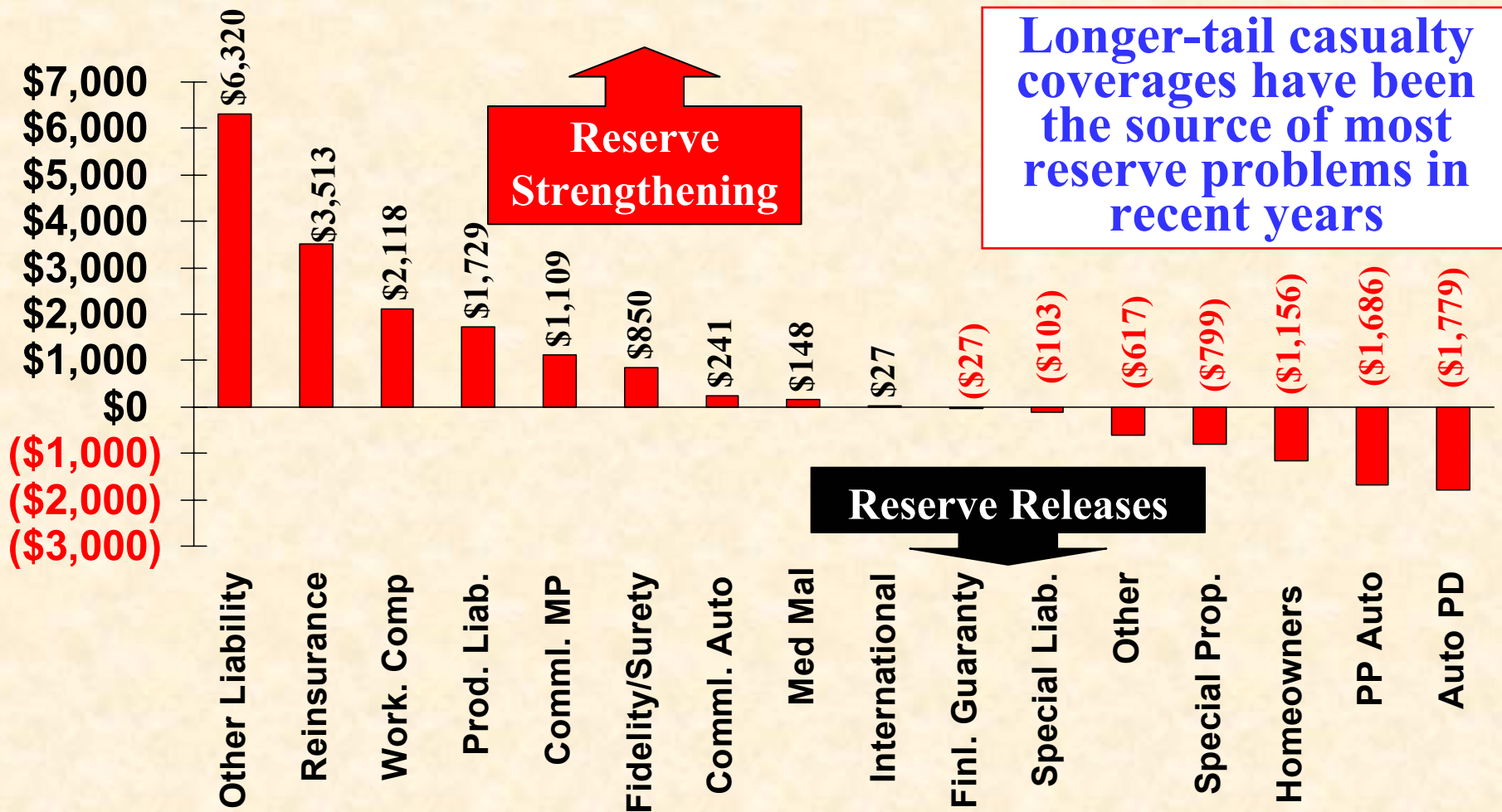


Source: A.M. Best, Lehman Brothers for years 2005E-2007F

2004 Prior Year Reserve



Development by Line (\$ Millions)



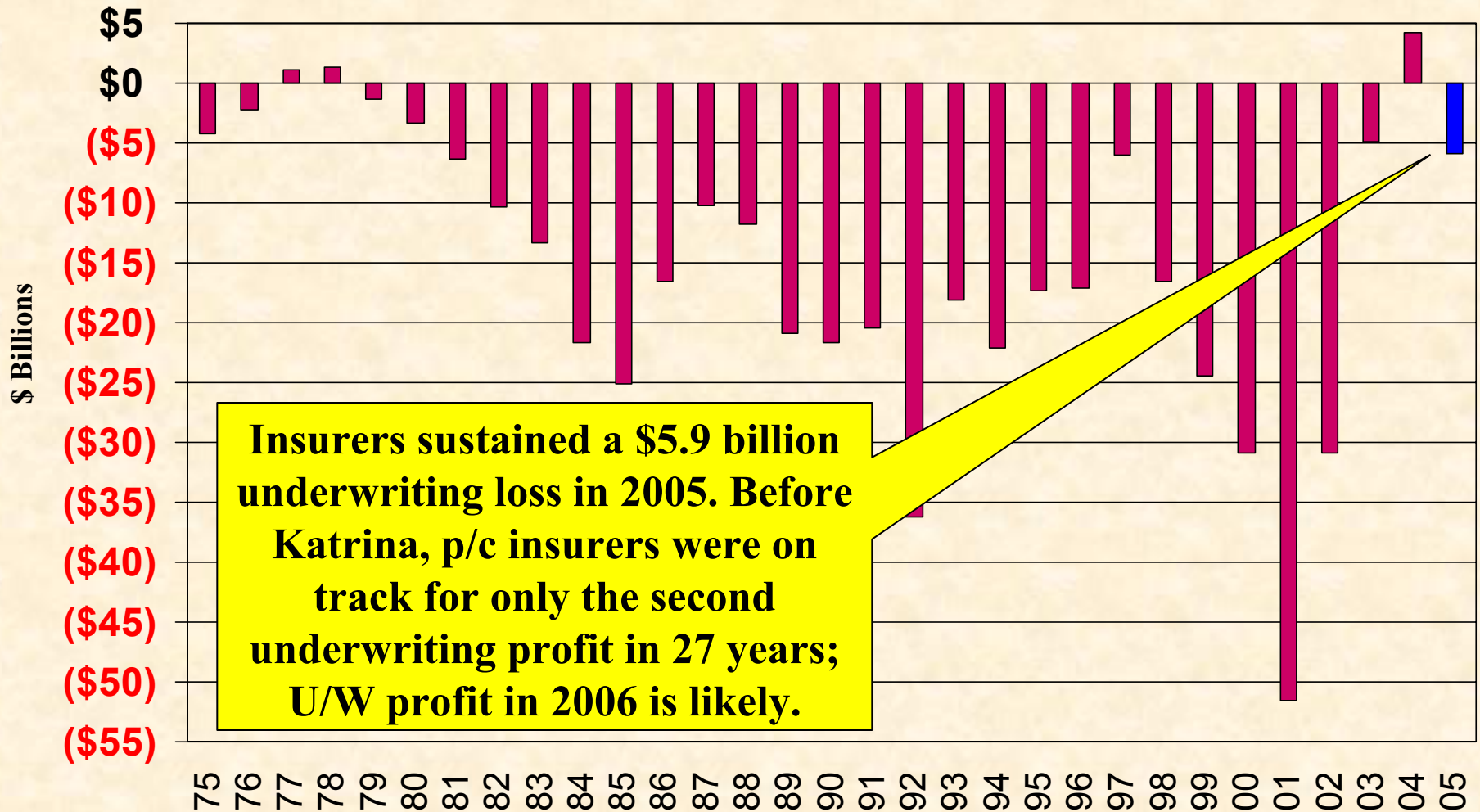
Longer-tail casualty coverages have been the source of most reserve problems in recent years

Reserve Releases



Underwriting Gain (Loss)

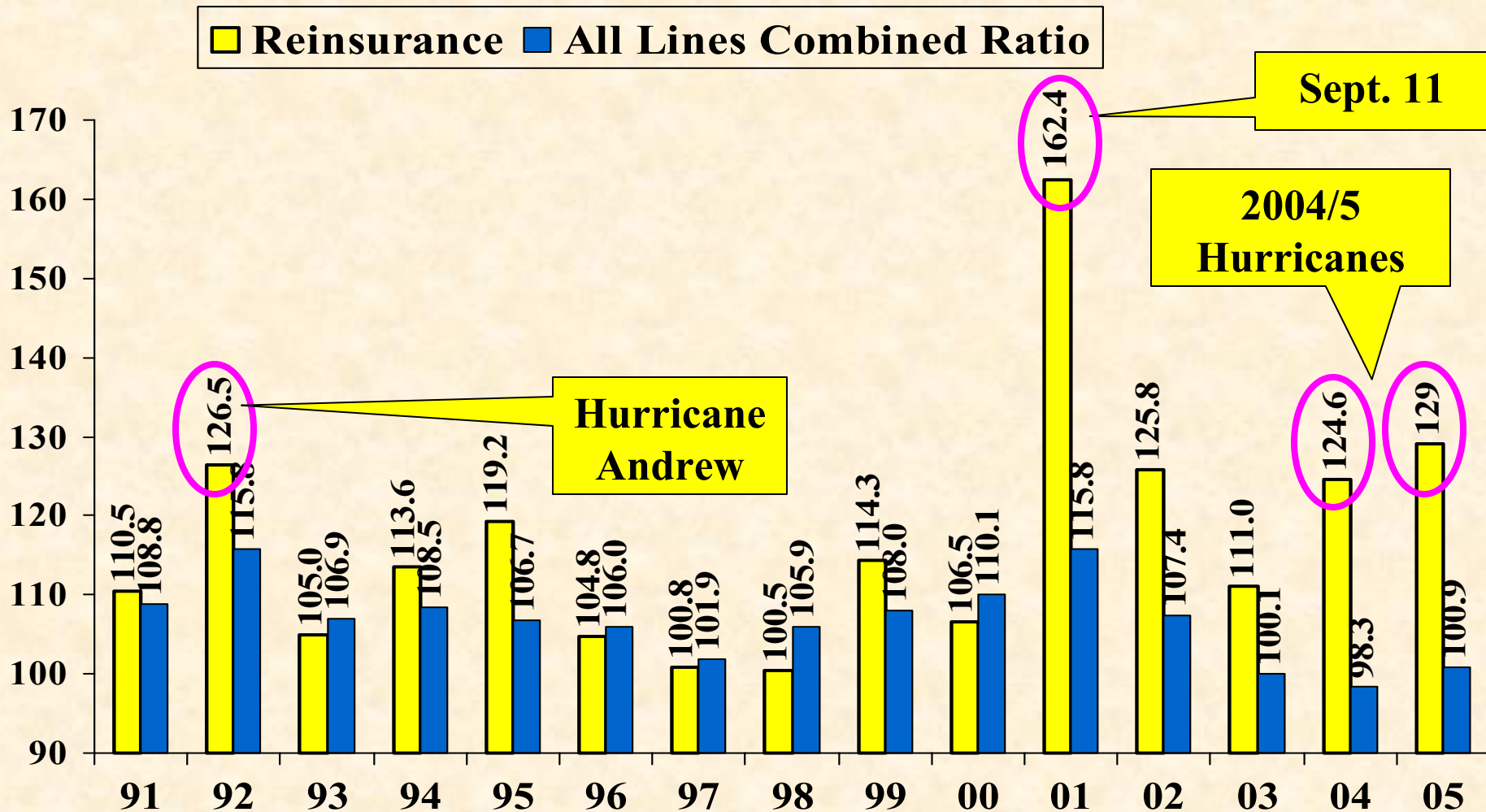
1975-2005





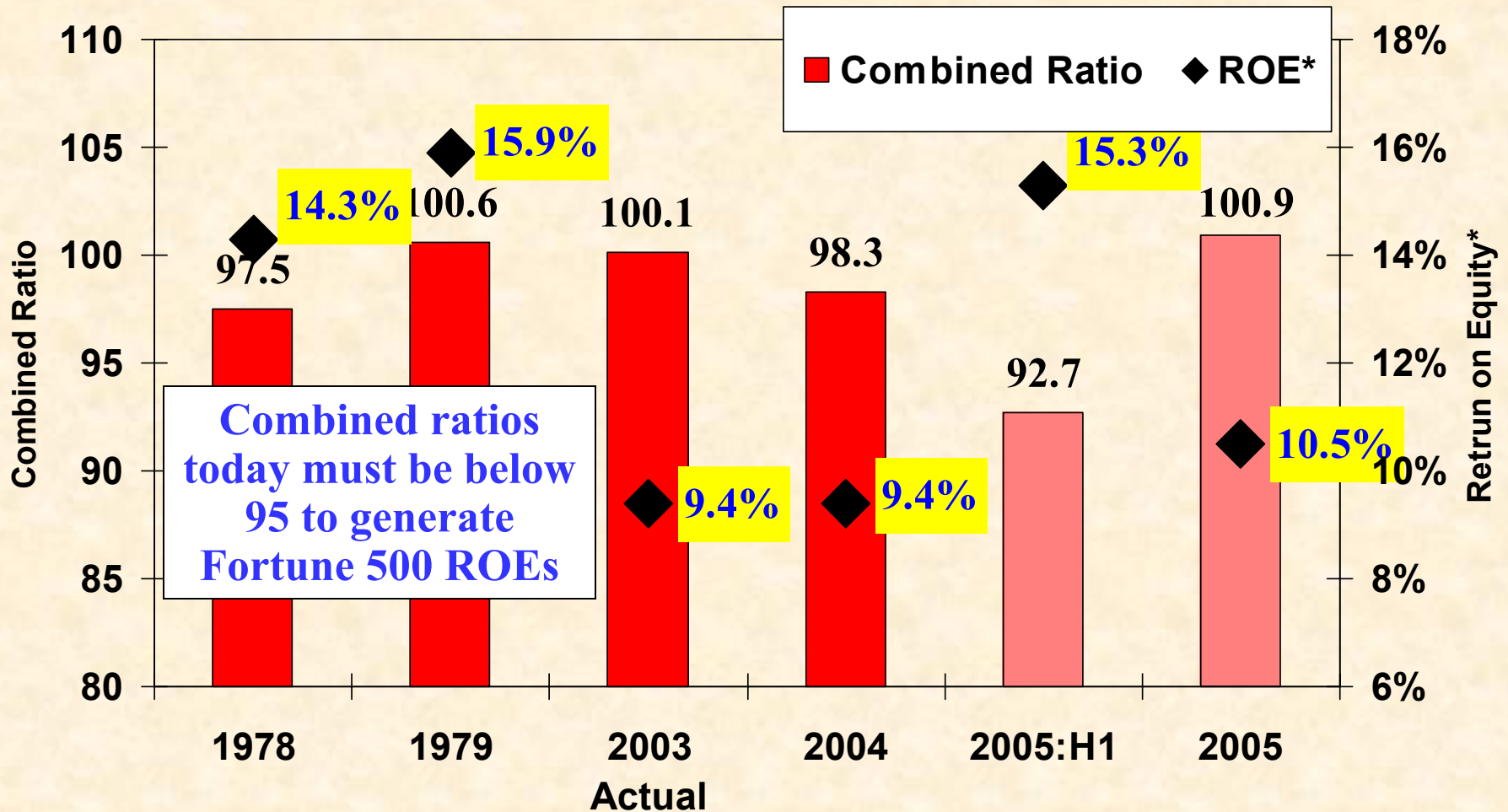
Combined Ratio:

Reinsurance vs. P/C Industry





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



* 2005 figure is return on average statutory surplus.

Source: Insurance Information Institute from A.M. Best and ISO data.

UNDERWRITING AFFECTS FINANCIAL STRENGTH

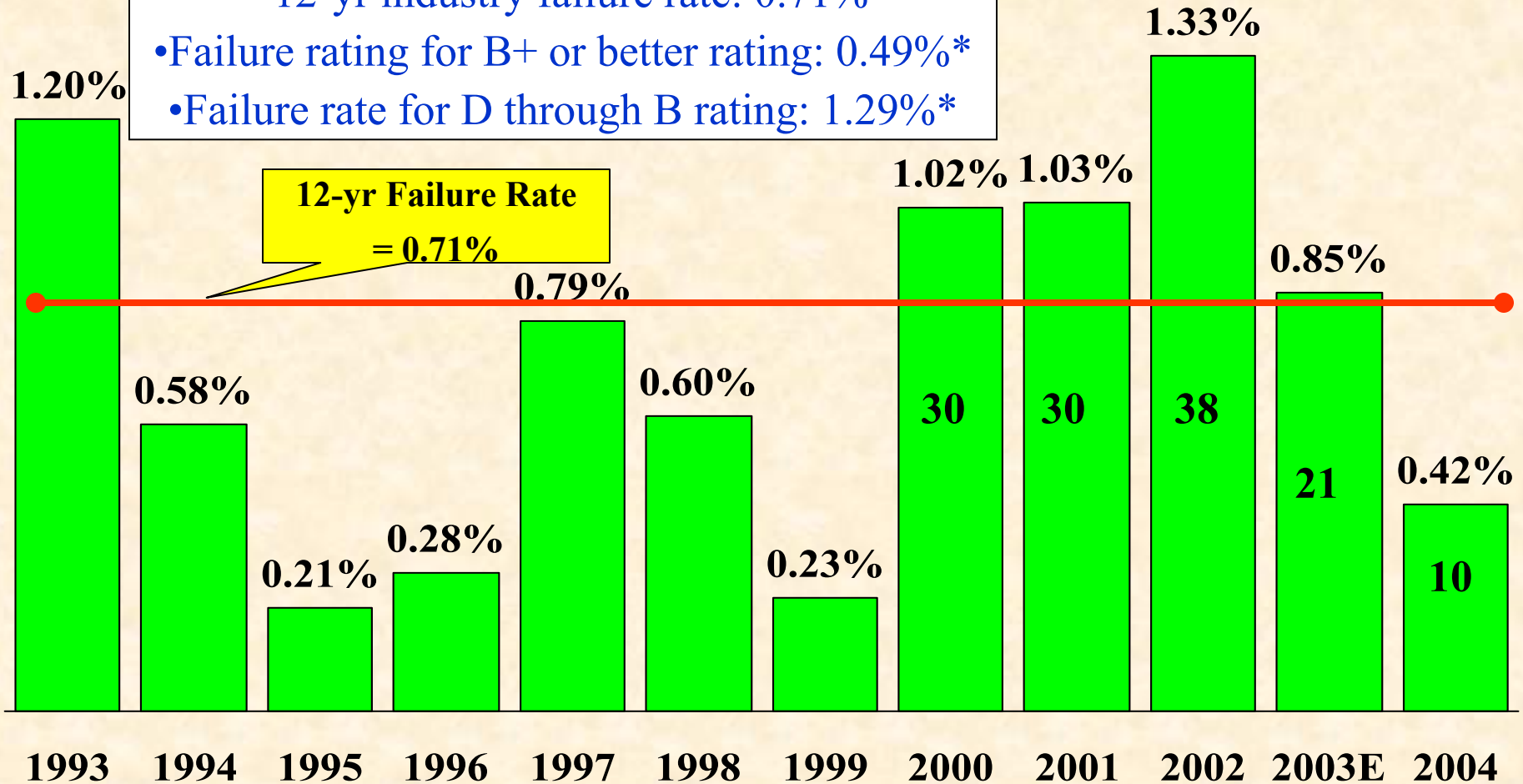
*Is There Cause
for Concern?*





P/C Company Insolvency Rates, 1993 to 2004

- Insurer insolvencies are increasing
- 12-yr industry failure rate: 0.71%
- Failure rating for B+ or better rating: 0.49%*
- Failure rate for D through B rating: 1.29%*





Ratings Agencies Tightening Requirements for CATs

2006 SRQ CAT Model Reqs.*

- All Property Exposure
- Auto Physical Damage
- Reinsurance Assumed
- Pools & Assessments
- All Flood Exposure
- WC Losses from Quake
- Fire Following
- Storm Surge
- Demand Surge
- Secondary Uncertainty

Best currently estimates PML for 100-yr. wind & 250-yr. quake to determine capital adequacy

ALSO “A.M. Best will perform additional “stress-tested” risk-adjusted capital analysis for a second event in order to determine the potential financial condition of an entity post a severe event.”

IMPLICATION: Some insurers may be required to carry more capital to maintain the same rating.

*SRQ = Supplemental Rating Questionnaire

Source: A.M. Best Review & Preview, January 2006.

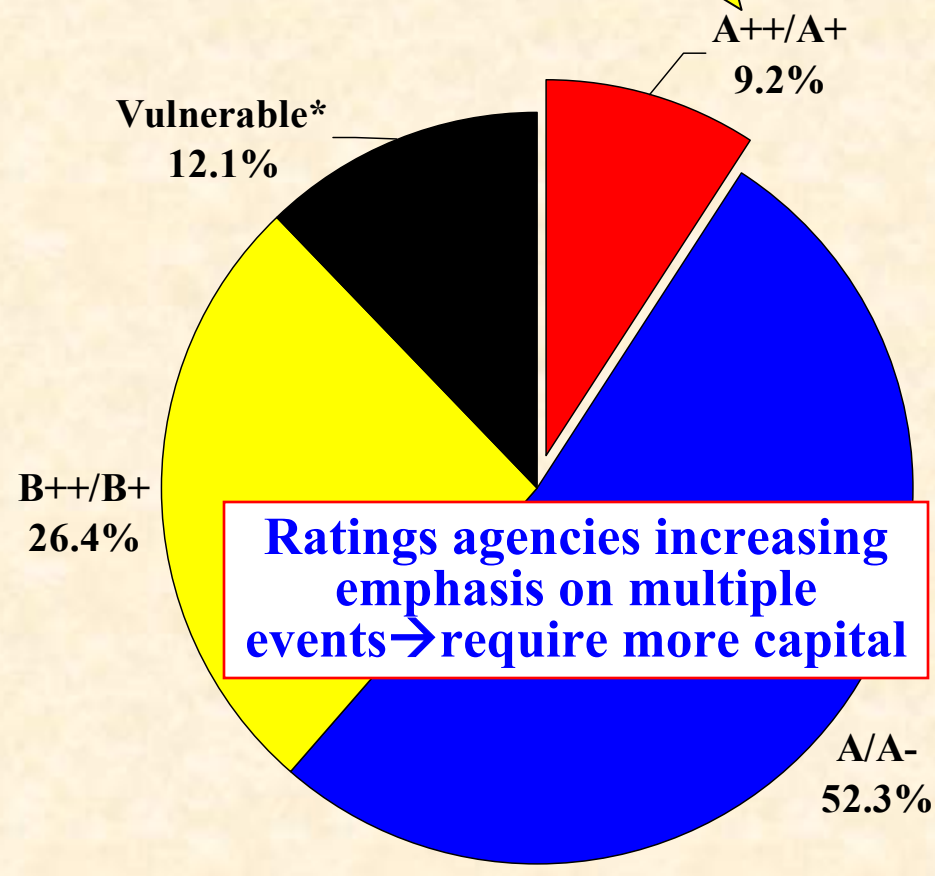
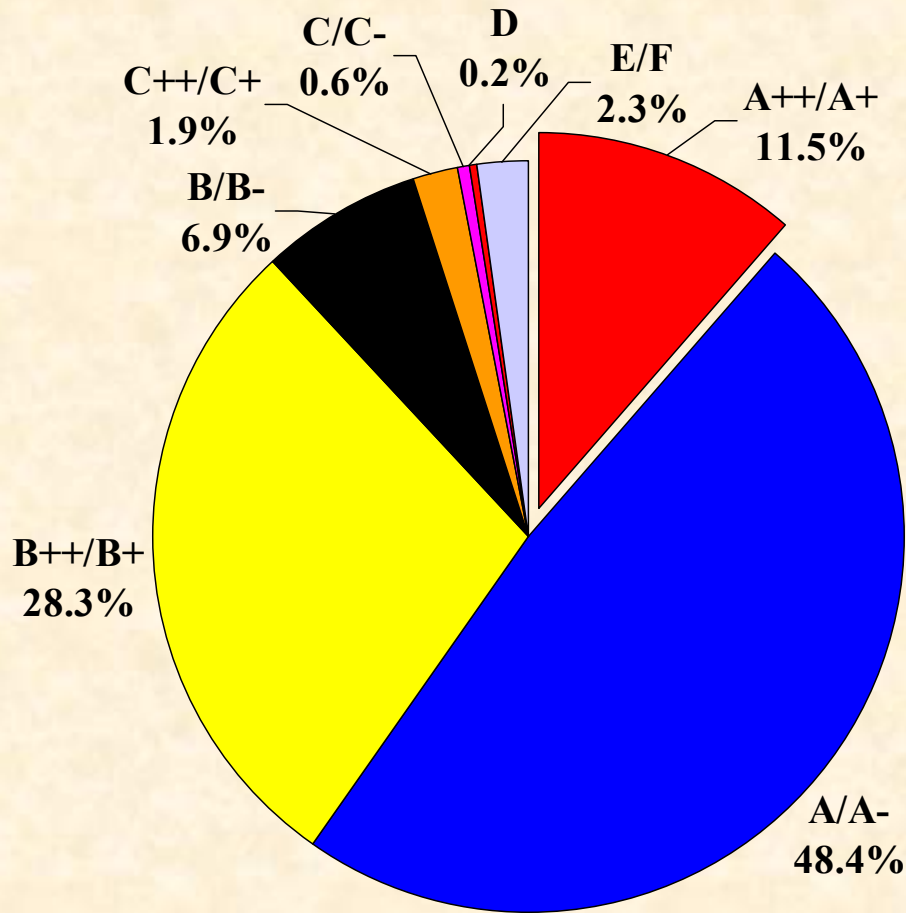


Historical Ratings Distribution, US P/C Insurers, 2000 vs. 2005

2000

2005

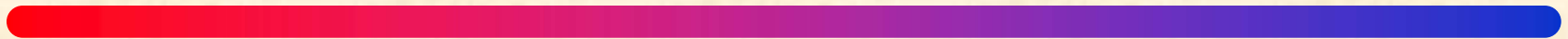
A++/A+ shrinkage



Source: A.M. Best: *Rating Downgrades Slowed but Outpaced Upgrades for Fourth Consecutive Year*, Special Report, November 8, 2004 for 2000; 2006 *Review & Preview* for 2005 distribution. *Ratings 'B' and lower.

CATASTROPHE LOSS MANAGEMENT

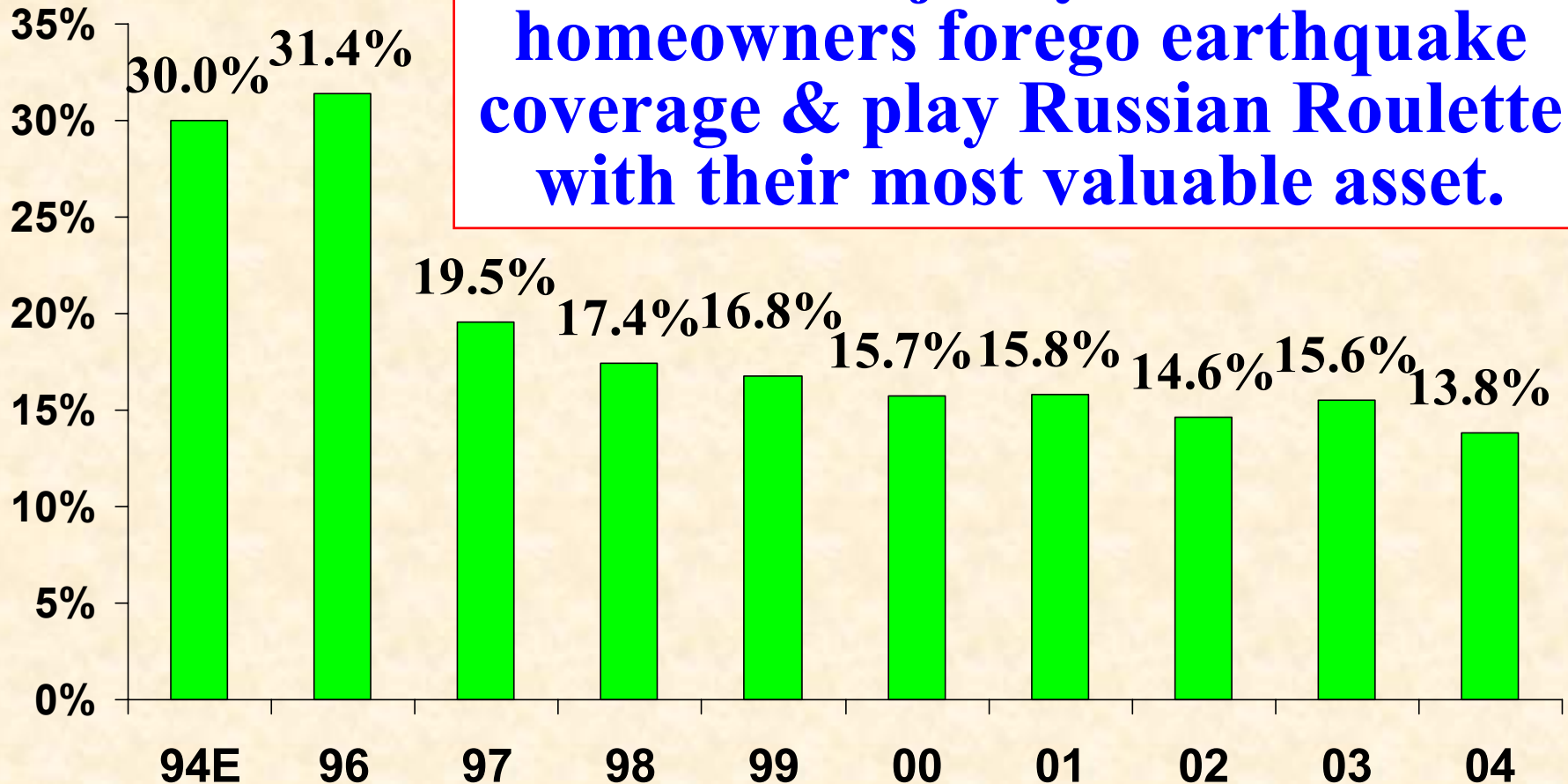
*Failure to Adequately Manage this
Risk Has Been Devastating*





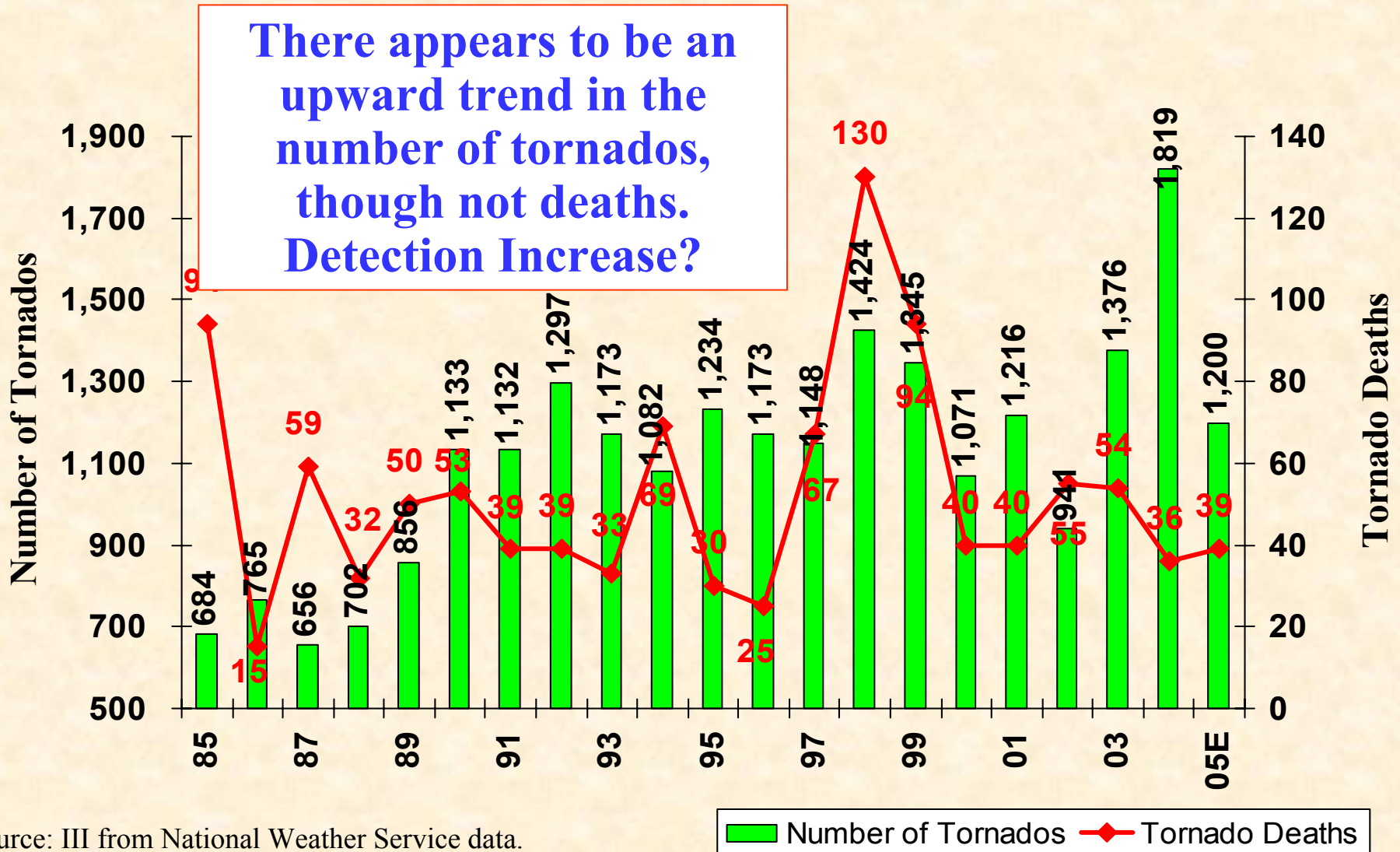
Percentage of California Homeowners with Earthquake Insurance, 1994E-2004

The vast majority of California homeowners forego earthquake coverage & play Russian Roulette with their most valuable asset.





Number of Tornadoes & Associated Deaths, 1985-2005p



Source: III from National Weather Service data.



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



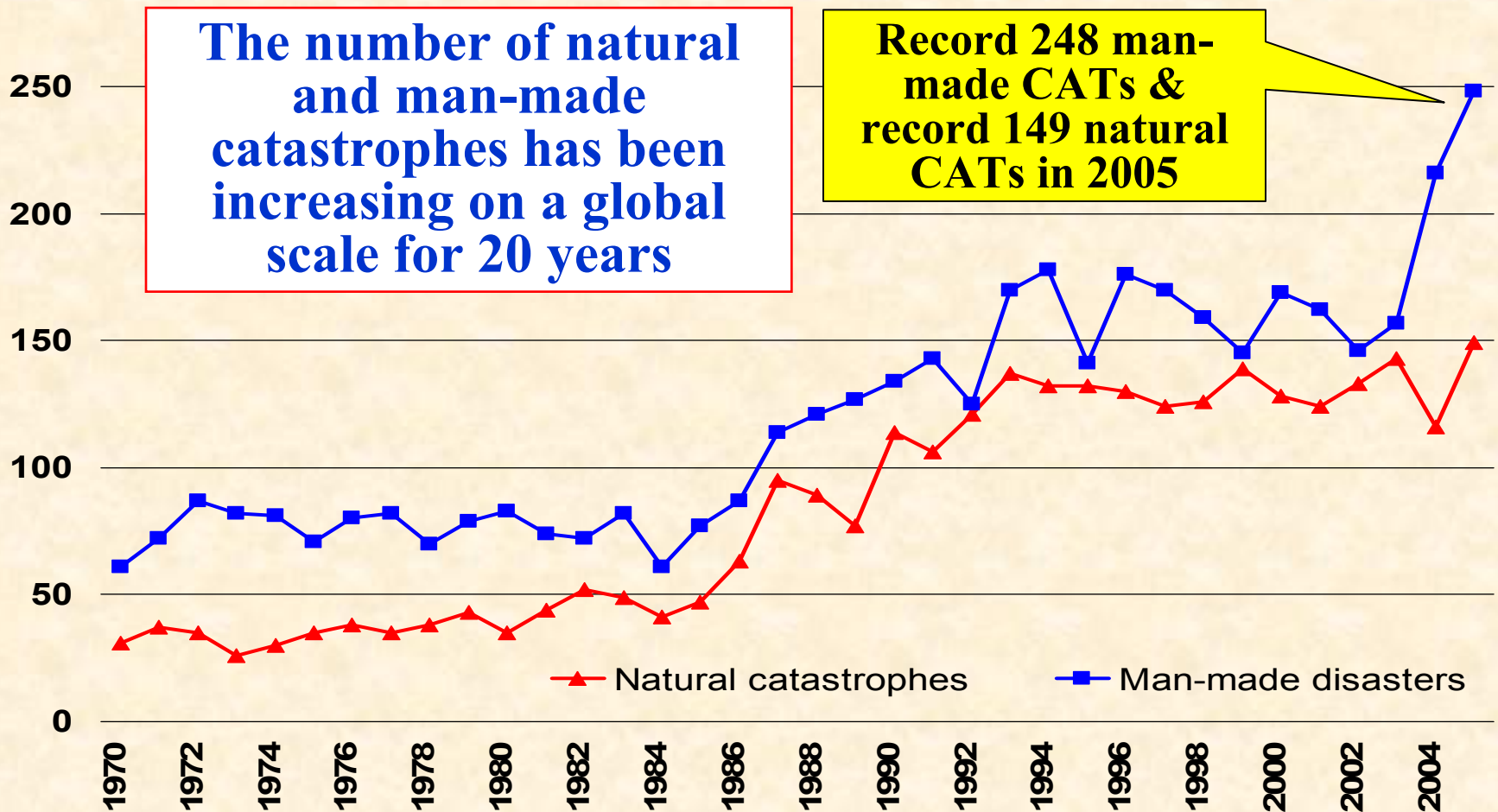
*Excludes \$4B-\$6b offshore energy losses from Hurricanes Katrina & Rita.

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

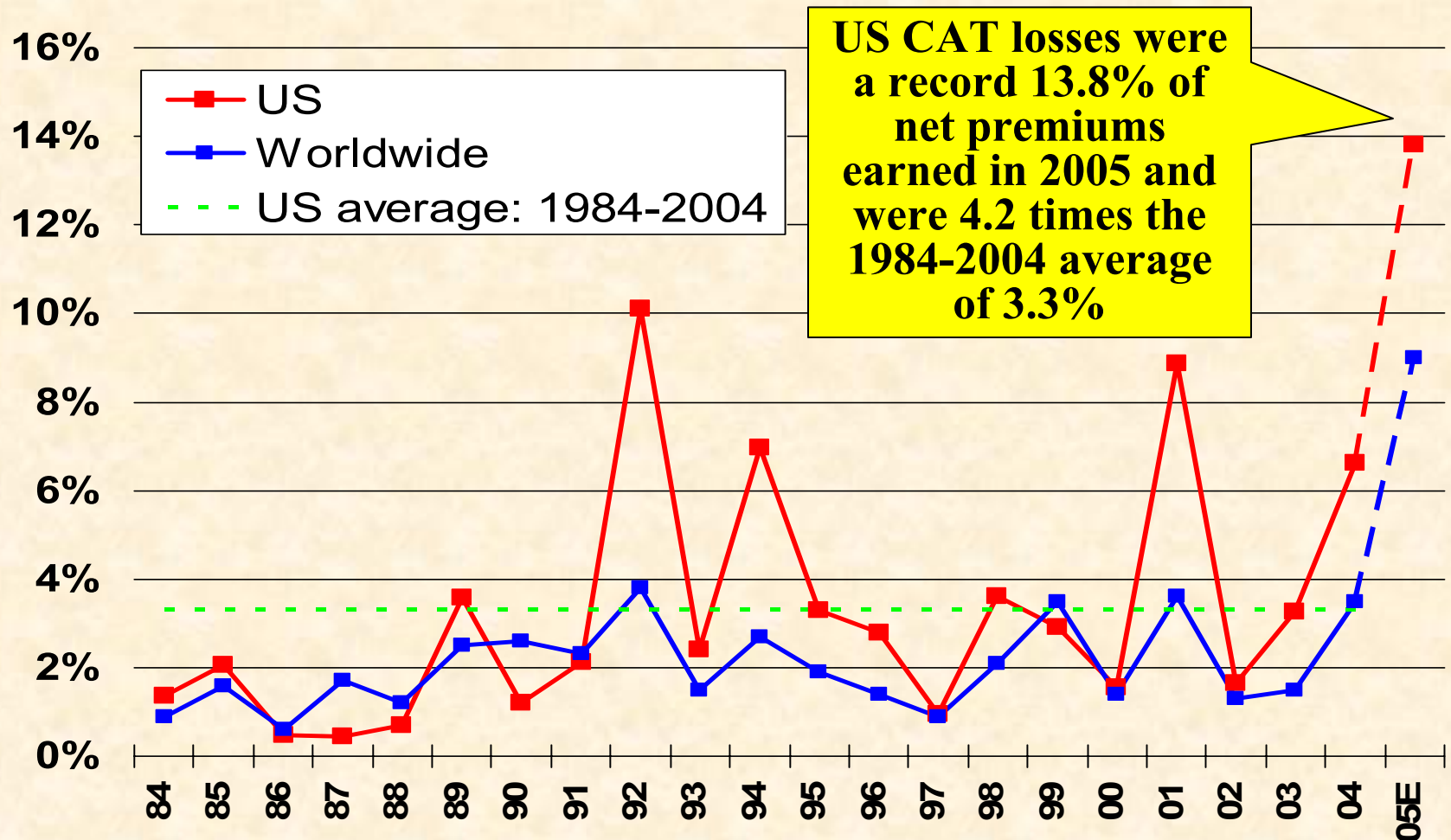


Global Number of Catastrophic Events, 1970–2005





Insured Property Catastrophe Losses as % Net Premiums Earned, 1983-2005E



*Insurance Information Institute figure of 13.8% for 2005 based estimated 2005 DPE of \$417.7B and insured CAT losses of \$57.7B.

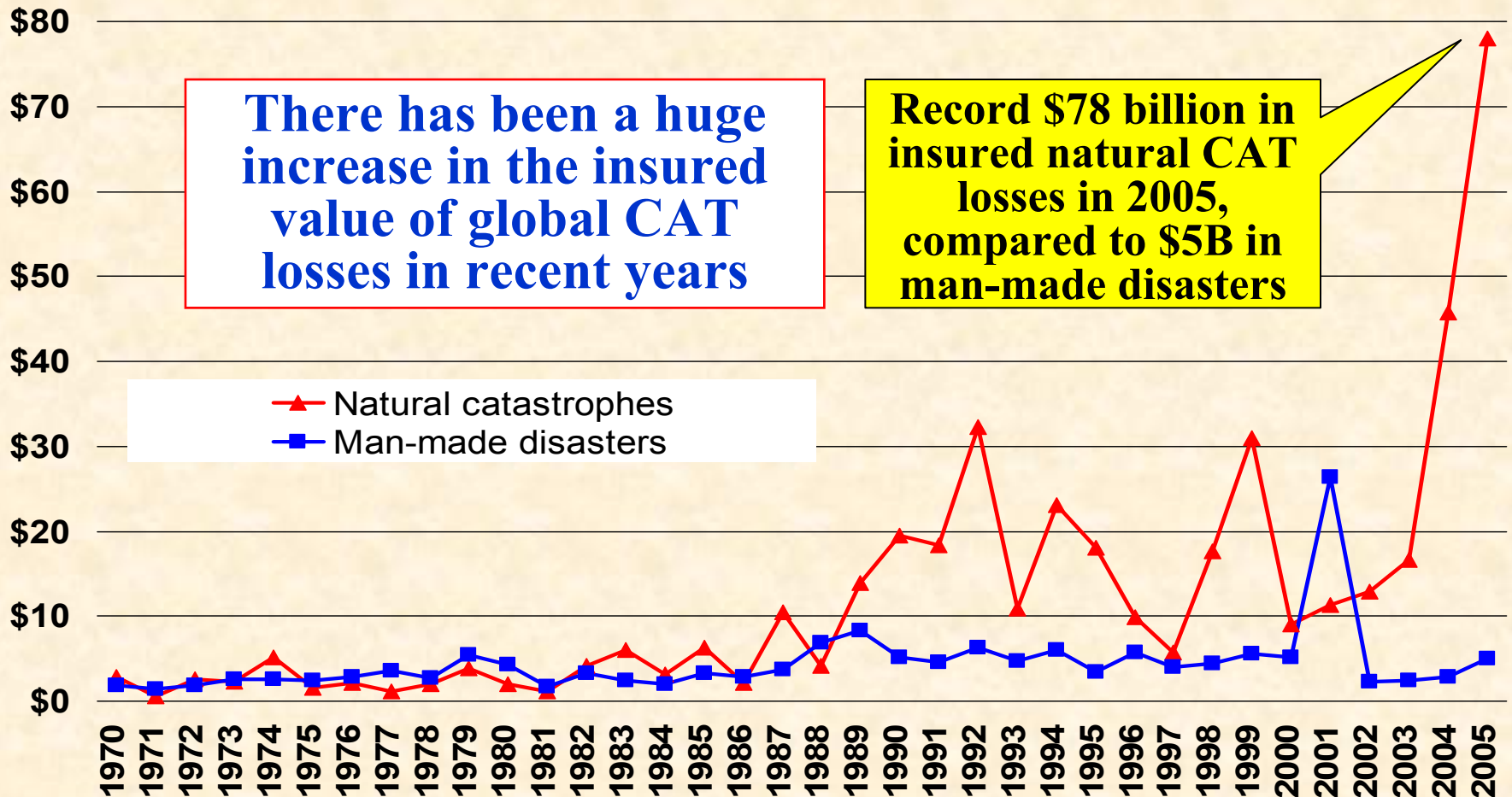
Sources: ISO, A.M. Best, Swiss Re Economic Research & Consulting; Insurance Information Institute.



Global Insured CAT Losses, 1970–2005

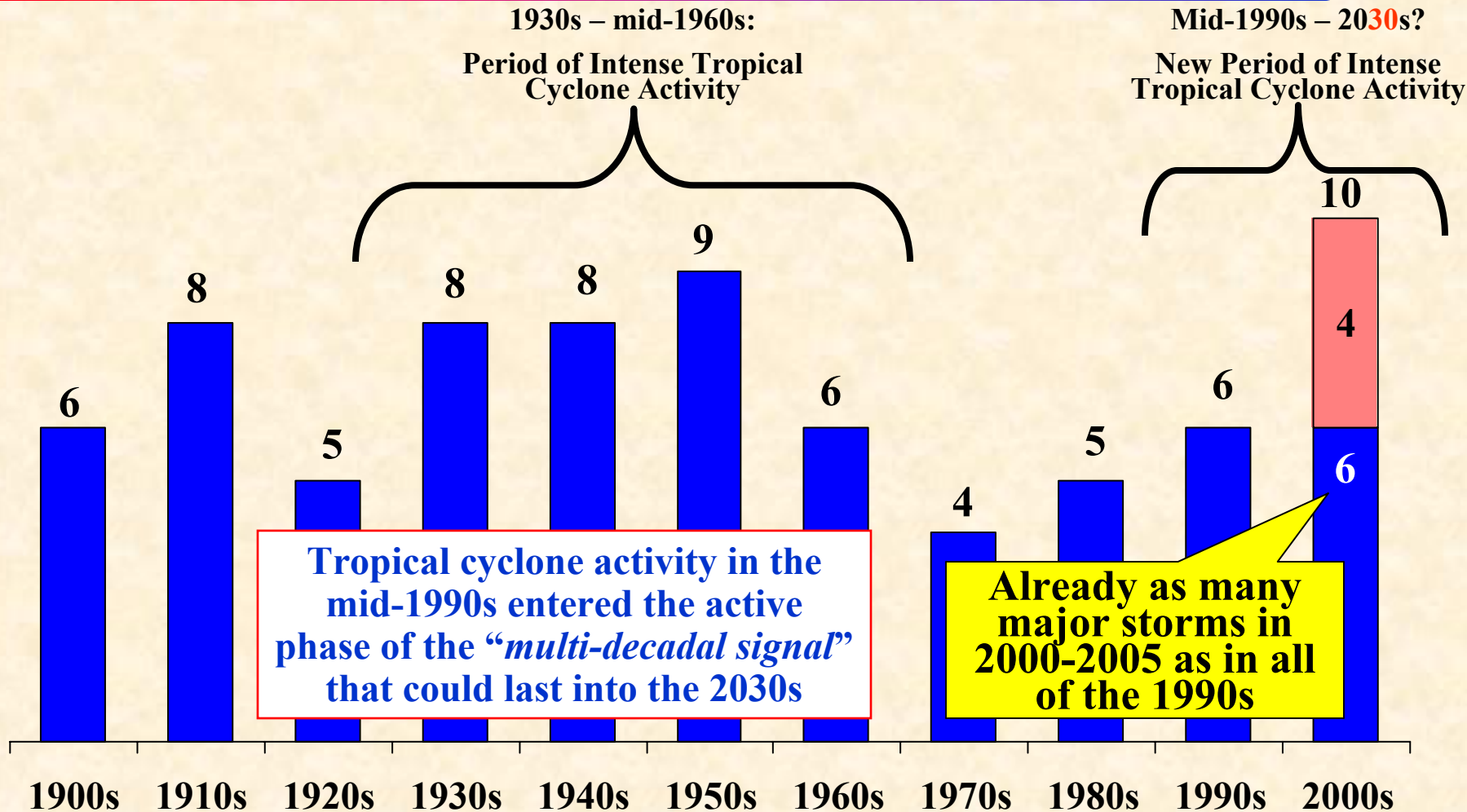
(Property and Business Interruption)

Billion USD, at 2004 prices





Number of Major (Category 3, 4, 5) Hurricanes Striking the US by Decade

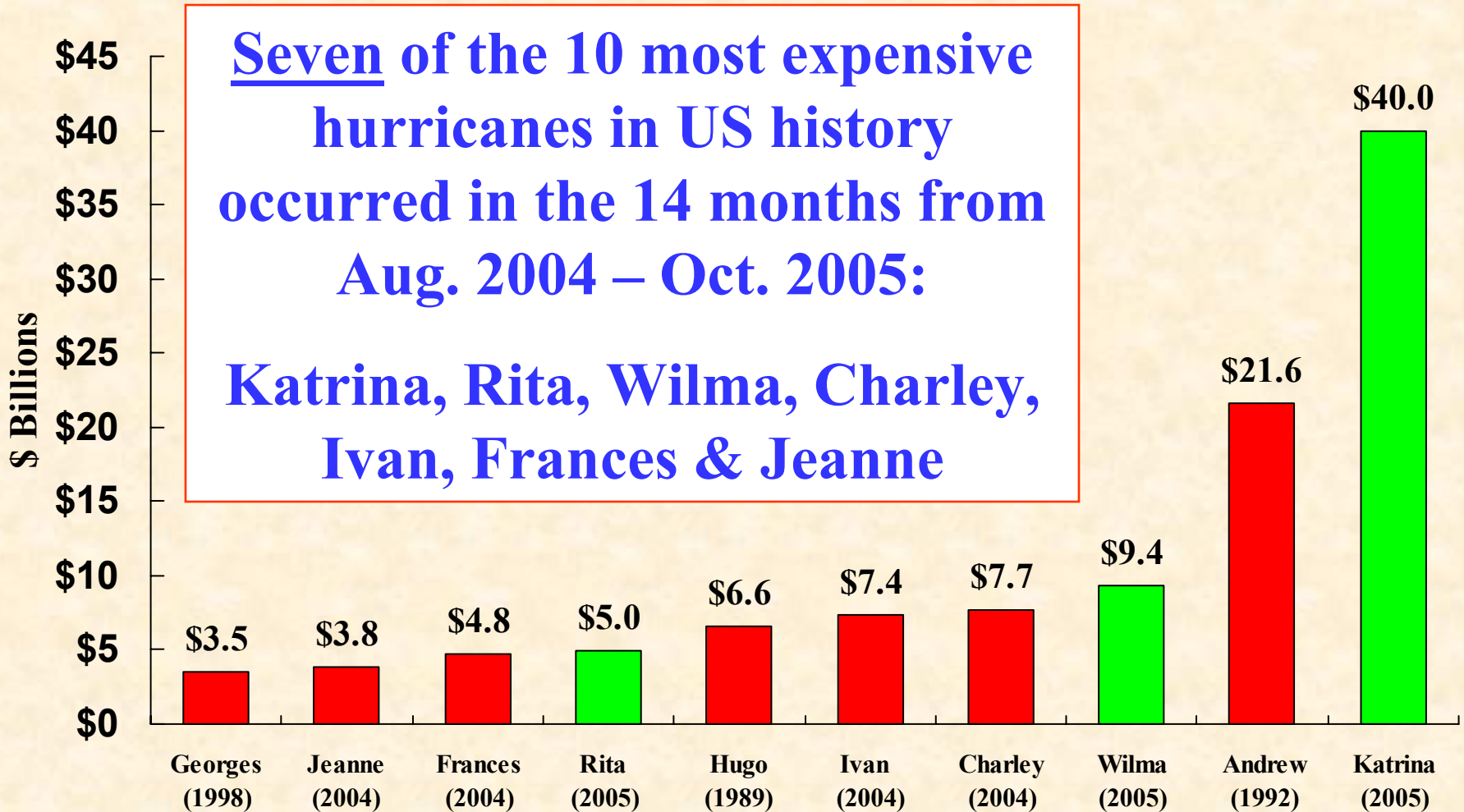


*Figure for 2000s is extrapolated based on data for 2000-2005 (6 major storms: Charley, Ivan, Jeanne (2004) & Katrina, Rita, Wilma (2005)).

Source: Tillinghast from National Hurricane Center: <http://www.nhc.noaa.gov/pastint.shtm>.

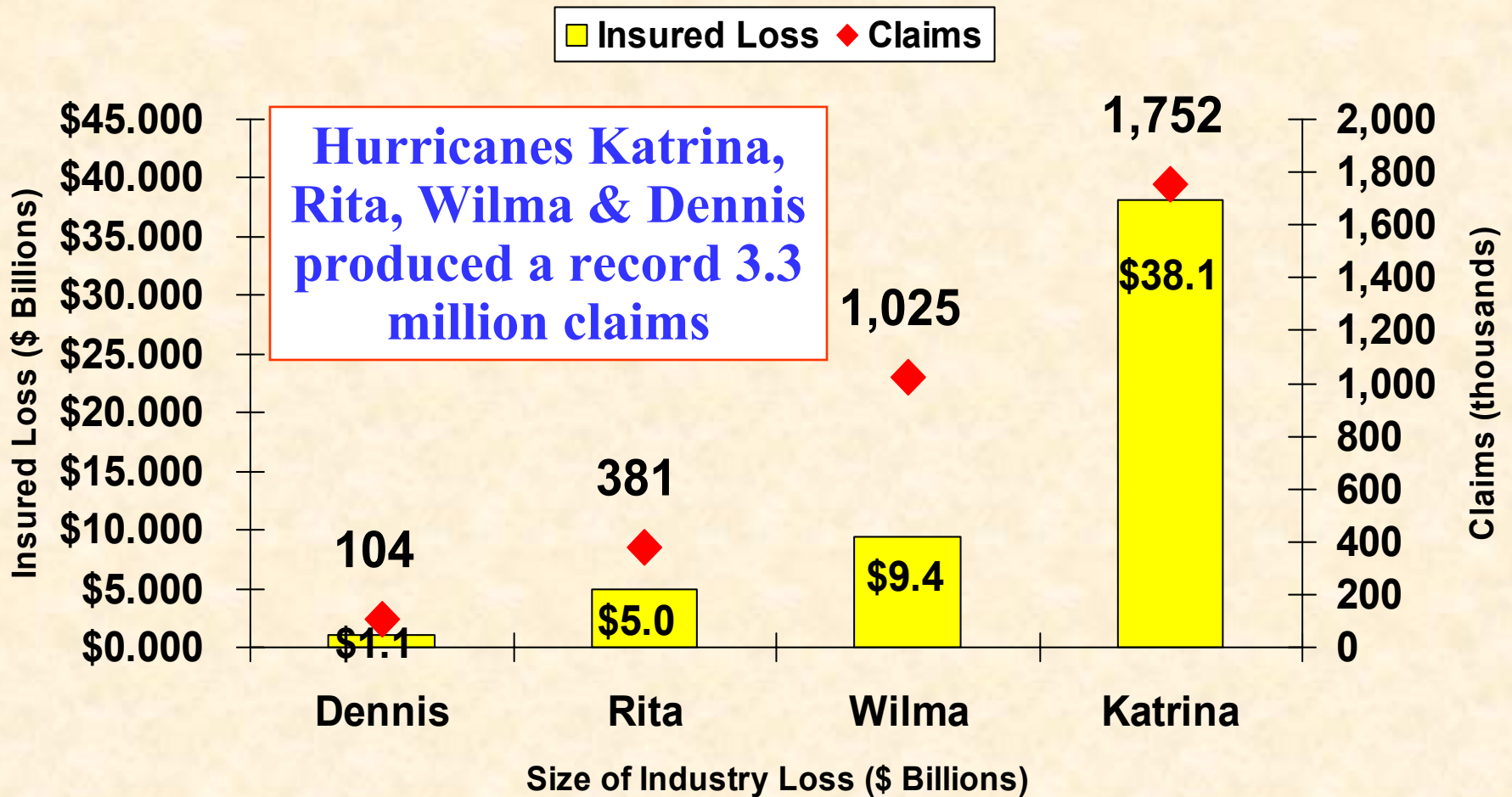


Top 10 Most Costly Hurricanes in US History, (Insured Losses, \$2005)





Insured Loss & Claim Count for Major Storms of 2005*

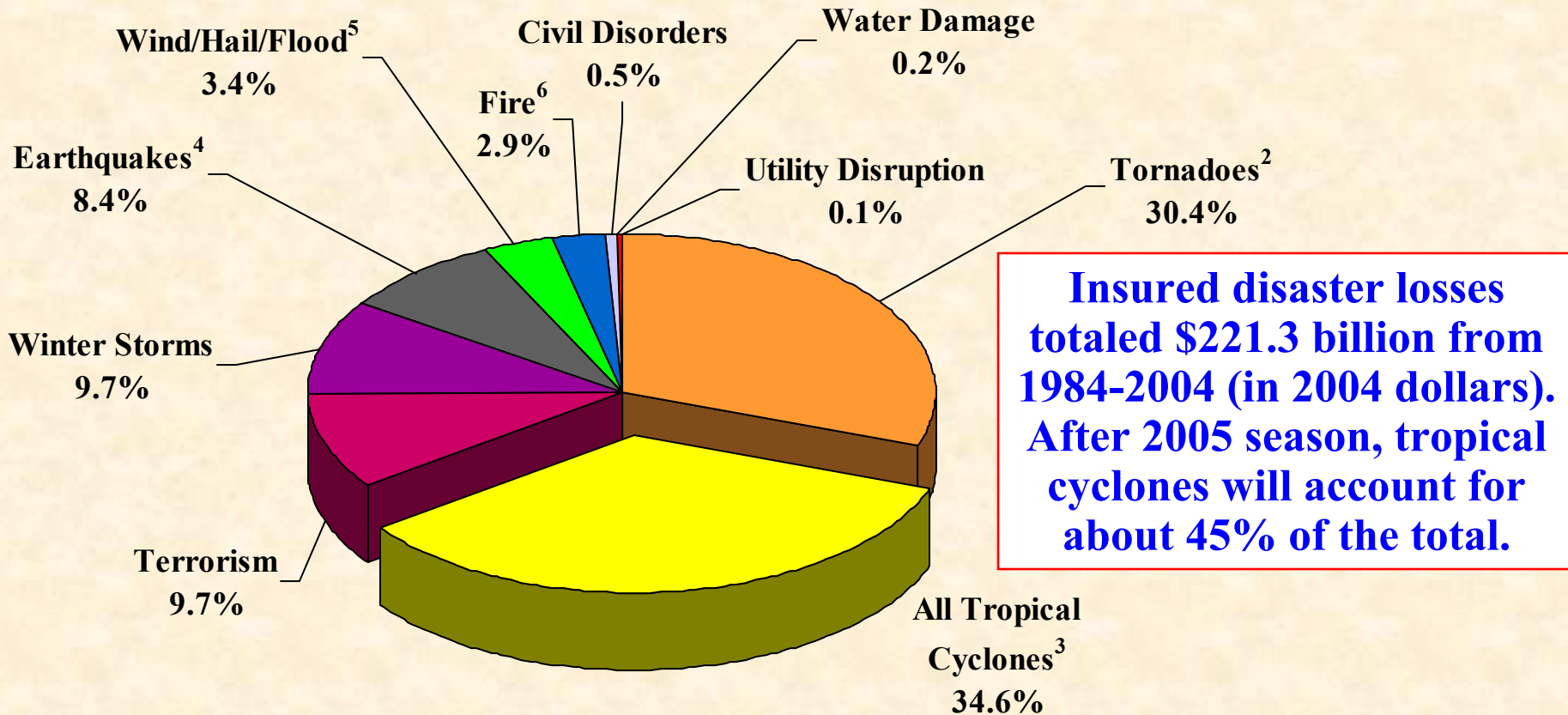


*Property and business interruption losses only. Excludes offshore energy & marine losses.

Source: ISO/PCS as of February 8, 2006 for Dennis, Rita, Katrina and March 27, 2006 for Wilma; Insurance Information



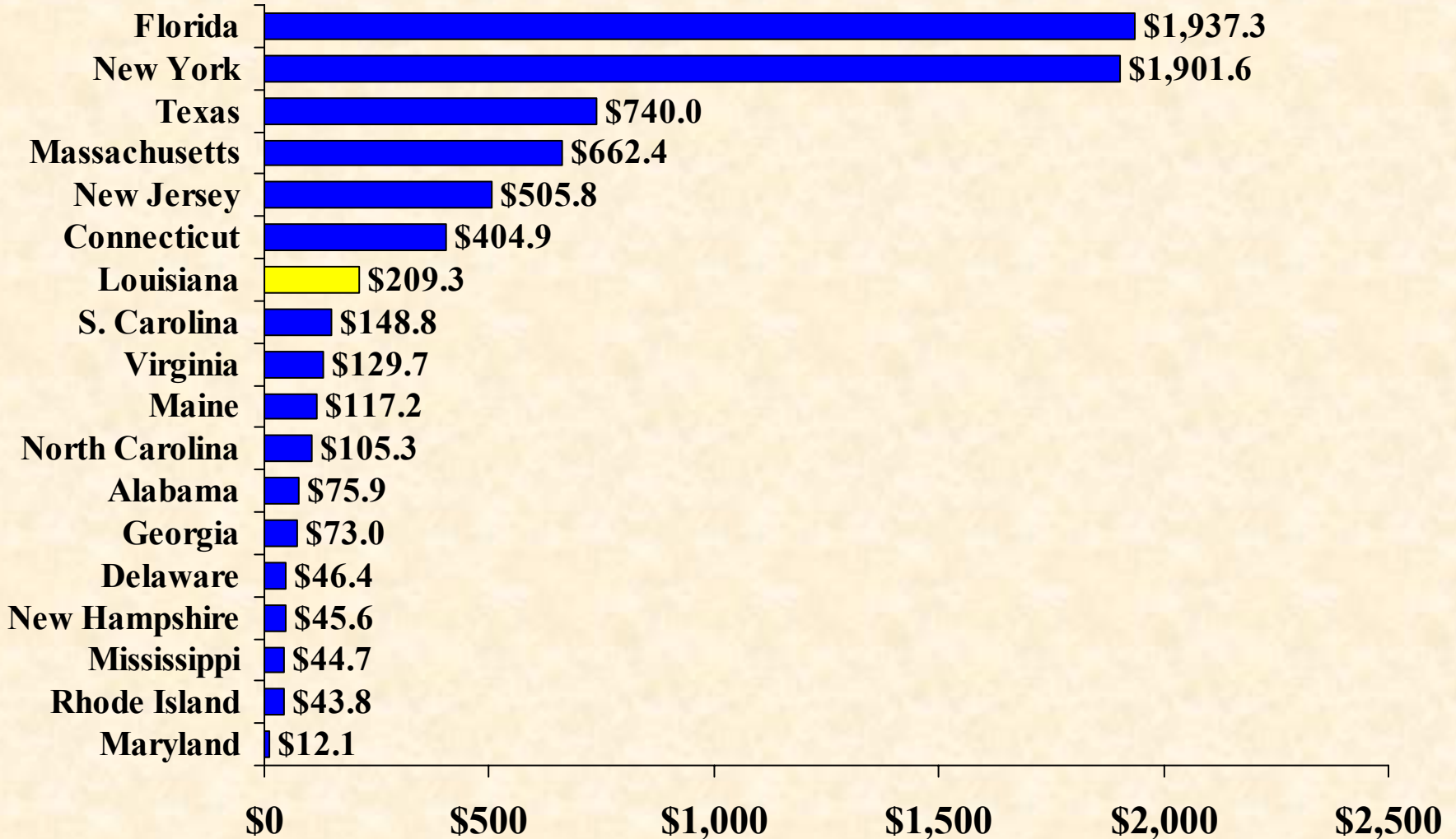
Inflation-Adjusted U.S. Insured Catastrophe Losses By Cause of Loss, 1985-2004¹



¹ Catastrophes are all events causing direct insured losses to property of \$25 million or more in 2004 dollars. Catastrophe threshold changed from \$5 million to \$25 million beginning in 1997. Adjusted for inflation by the III.
² Excludes snow. ³ Includes hurricanes and tropical storms. ⁴ Includes other geologic events such as volcanic eruptions and other earth movement. ⁵ Does not include flood damage covered by the federally administered National Flood Insurance Program. ⁶ Includes wildland fires.



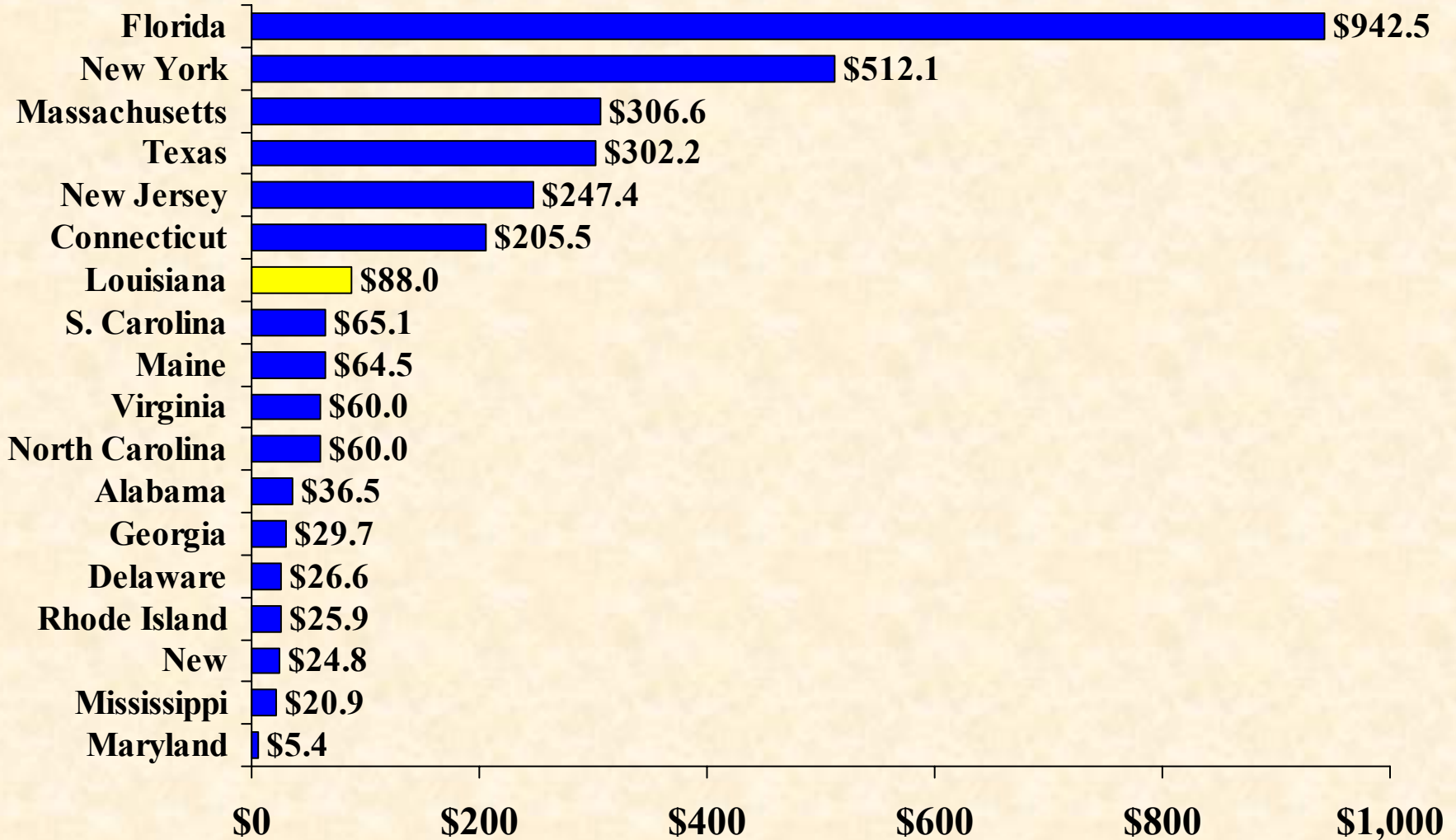
Total Value of Insured Coastal Exposure (2004, \$ Billions)



Source: AIR Worldwide

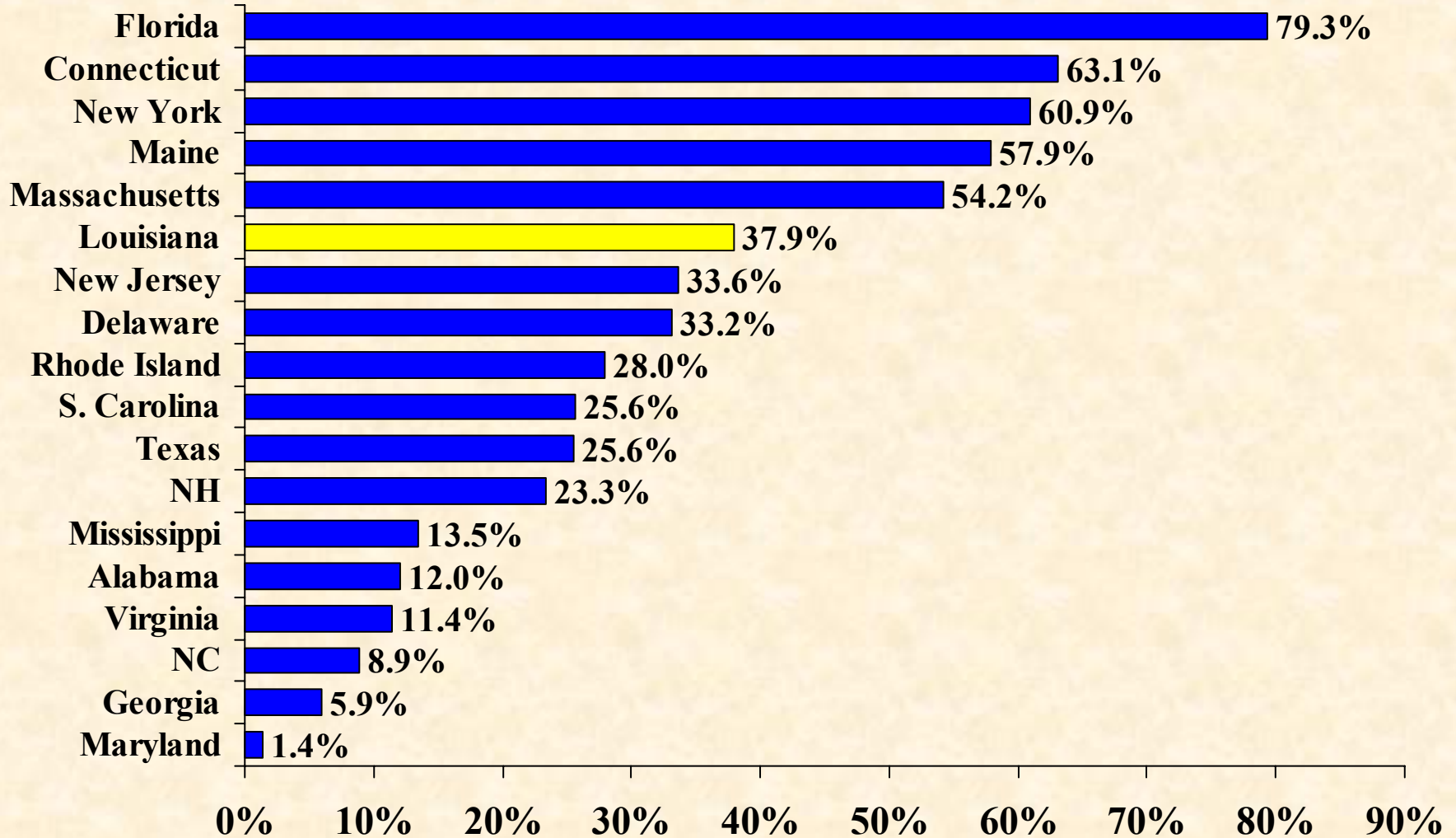


Value of Insured Residential Coastal Exposure (2004, \$ Billions)





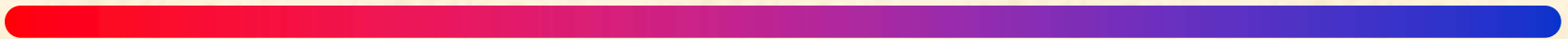
Insured Coastal Exposure as a % of Statewide Insured Exposure (2004, \$ Billions)



Source: AIR Worldwide

The 2006 Hurricane Season:

Preview to Disaster?





Outlook for 2006 Hurricane Season

	Average*	2005	2006F
Named Storms	9.6	26	17
Named Storm Days	49.1	115.5	85
Hurricanes	5.9	14	9
Hurricane Days	24.5	47.5	45
Intense Hurricanes	2.3	7	5
Intense Hurricane Days	13	7	13
Net Tropical Cyclone Activity	100%	275%	195%

*Average over the period 1950-2000.

Source: Dr. William Gray, Colorado State University, April 4, 2006.



Probability of Major Hurricane Landfall (CAT 3, 4, 5) in 2006

	Average*	2006F
Entire US Coast	52%	81%
US East Coast Including Florida Peninsula	31%	64%
Gulf Coast from FL Panhandle to Brownsville, TX	30%	47%
<i>ALSO...Above-Average Major Hurricane Landfall Risk in Caribbean for 2006</i>		

*Average over past century.

Source: Dr. William Gray, Colorado State University, April 4, 2006.

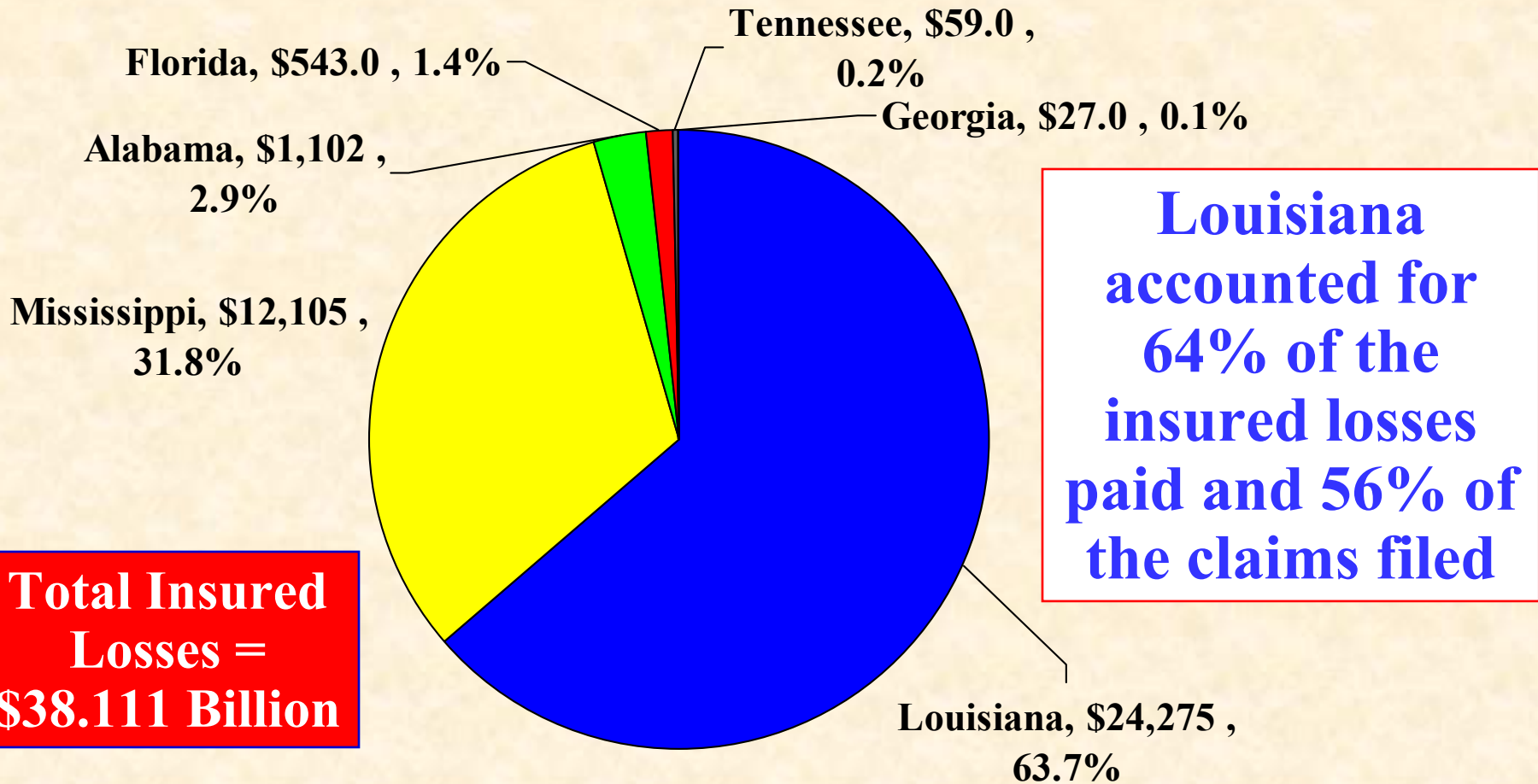
Hurricanes Katrina, Rita & Wilma:

Their Place in History





*Hurricane Katrina Insured Loss Distribution by State (\$ Millions)**

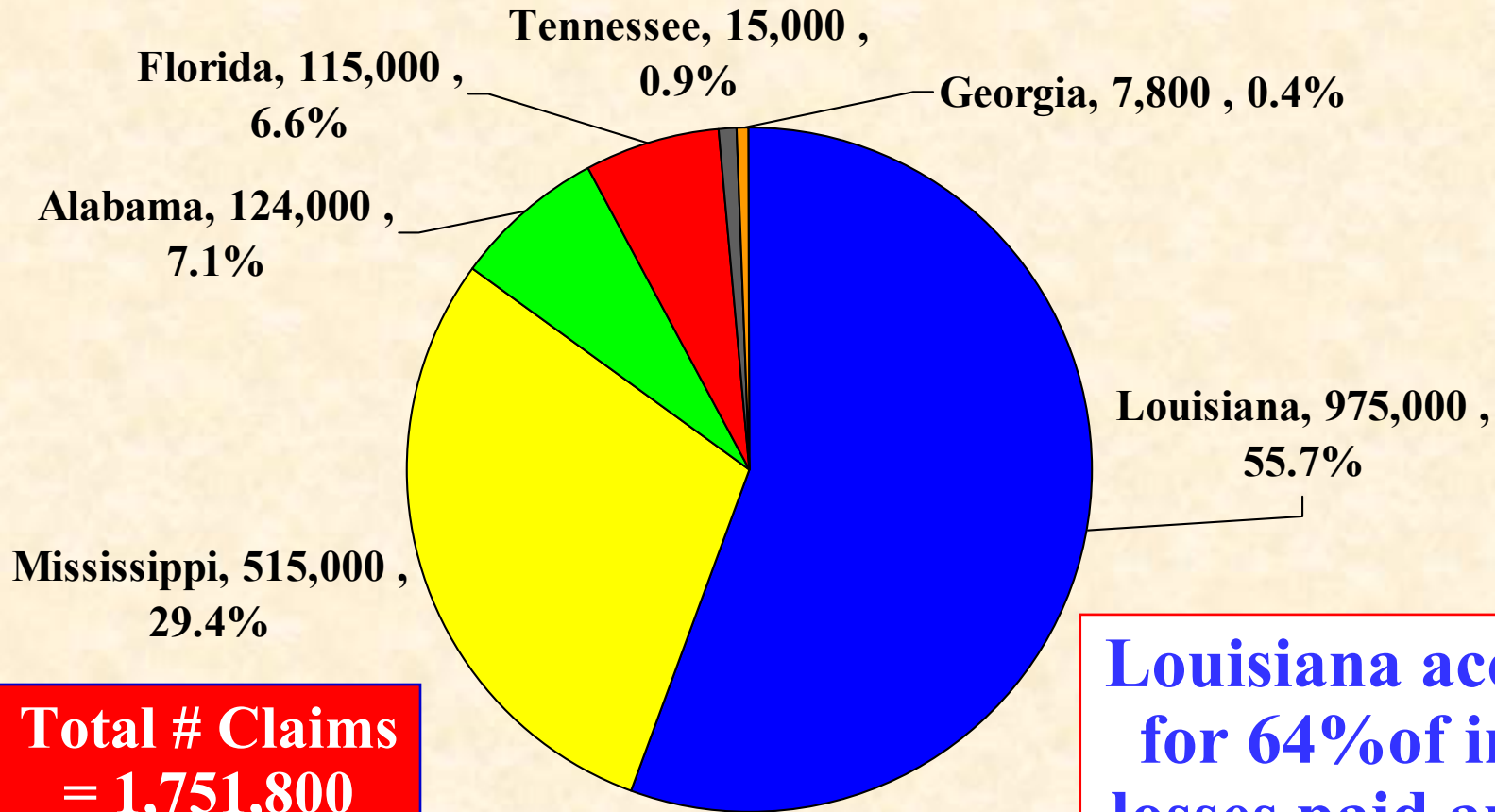


*As of February 8, 2006

Source: PCS division of ISO.



*Hurricane Katrina Claim Count Distribution by State**



**Total # Claims
= 1,751,800**

**Louisiana accounted
for 64% of insured
losses paid and 56%
of claims filed**

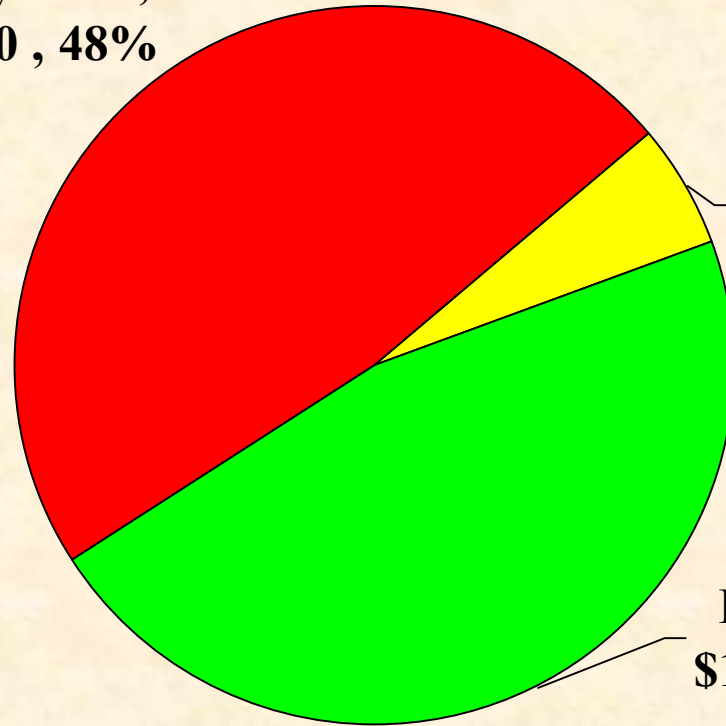
*As of February 8, 2006
Source: PCS division of ISO.

Hurricane Katrina Loss



Distribution by Line (\$ Billions)*

**Commercial
Property & BI,
\$18,278.0 , 48%**



**Vehicle, \$2,139.0 ,
6%**

**Homeowners,
\$17,694.0 , 46%**

Total insured losses are estimated at \$38.1 billion from 1.7518 million claims. Excludes \$2-\$3B in offshore energy losses



*Hurricane Katrina Insured Loss and Claim Distribution by State**

State	Losses (\$Mill)	# Claims	% Losses	% Claims
LA	\$ 24,275.0	975,000	63.7%	55.7%
MS	\$ 12,105.0	515,000	31.8%	29.4%
AL	\$ 1,102.0	124,000	2.9%	7.1%
FL	\$ 543.0	115,000	1.4%	6.6%
TN	\$ 59.0	15,000	0.2%	0.9%
GA	\$ 27.0	7,800	0.1%	0.4%
Totals	\$ 38,111.0	1,751,800	100.0%	100.0%

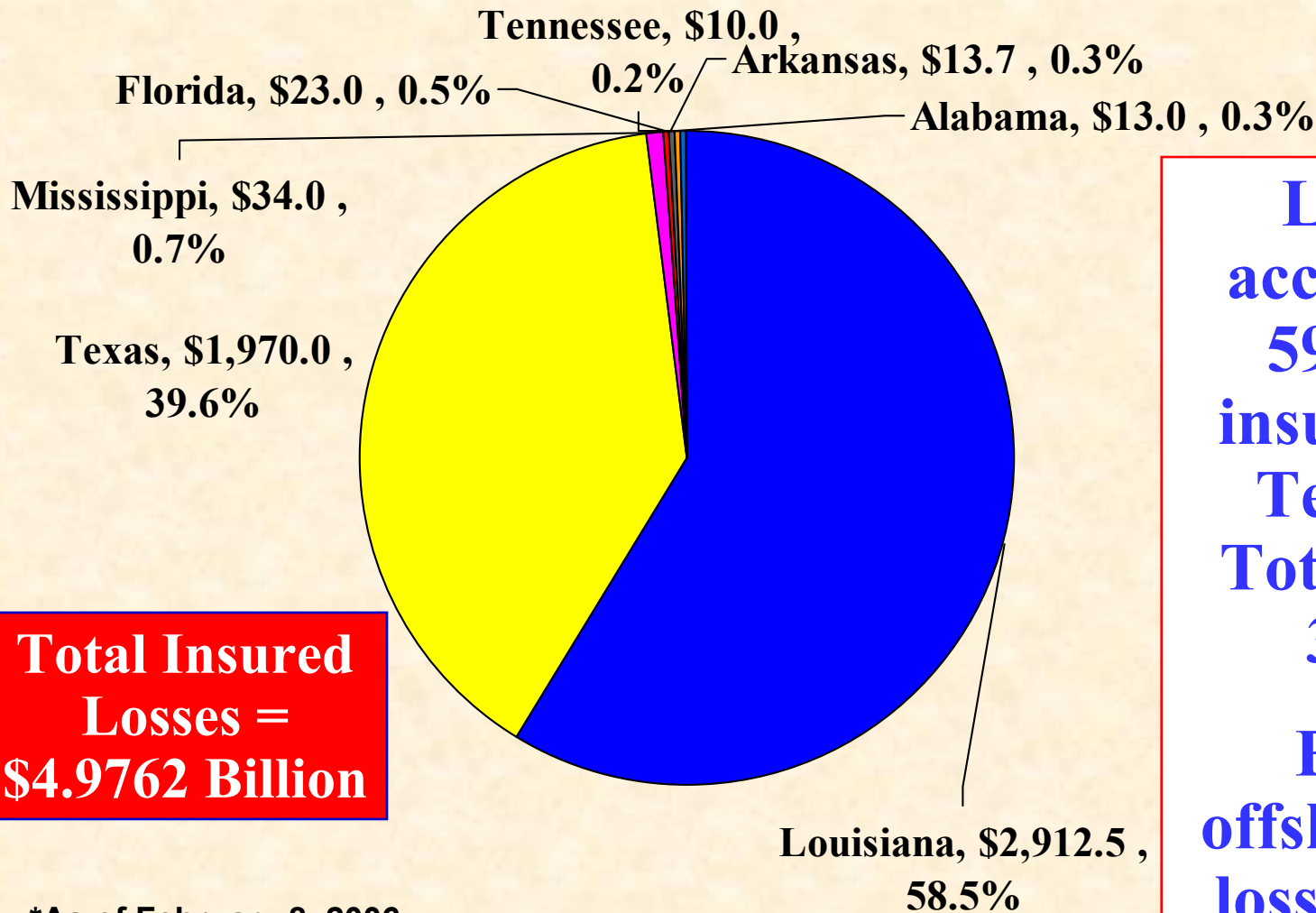
*As of February 8, 2006.

Source: PCS division of ISO.



Hurricane Rita Insured Loss

*Distribution by State (\$ Millions)**



**Total Insured
Losses =
\$4.9762 Billion**

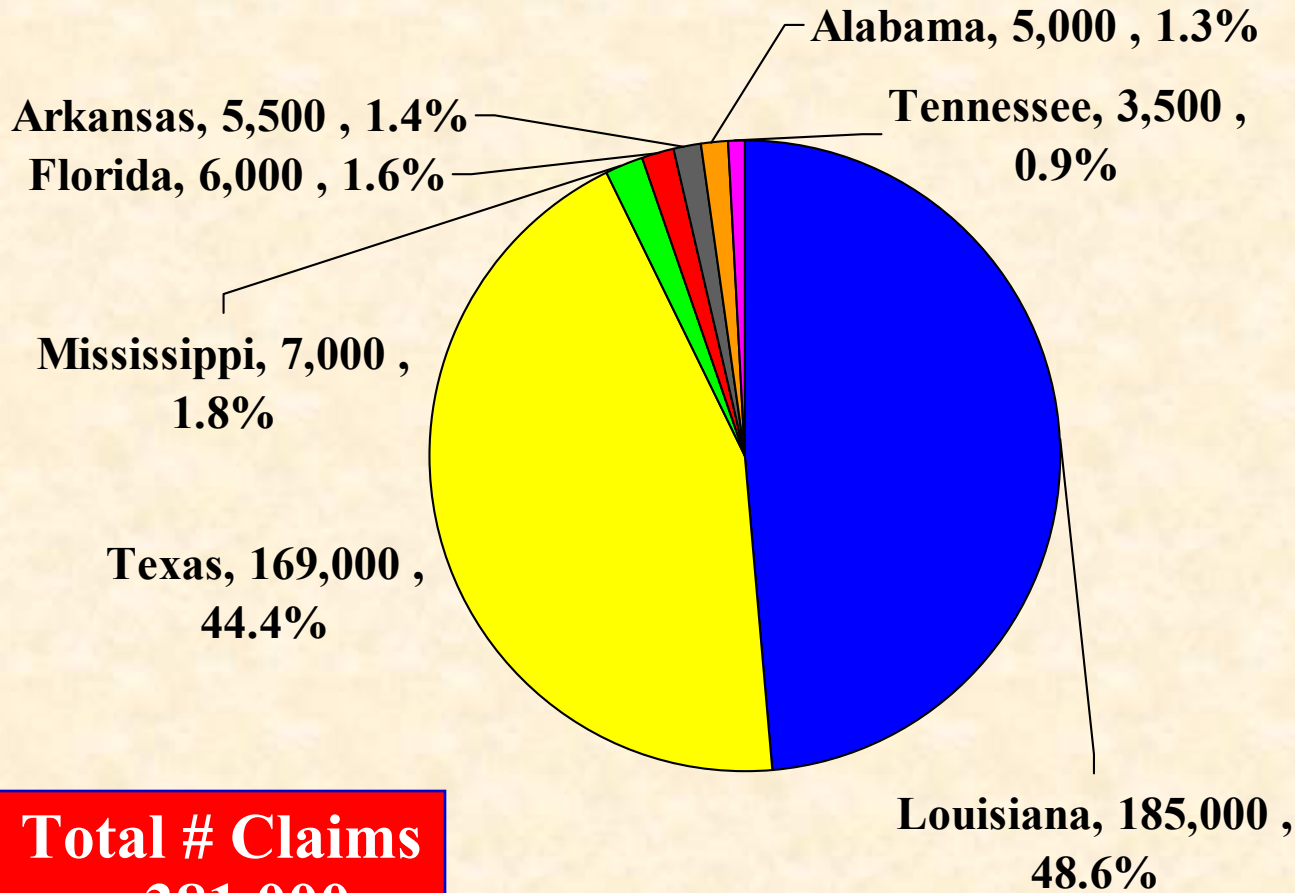
**Louisiana
accounted for
59% of the
insured losses,
Texas 40%.
Total claims =
381,000.**

**Excludes
offshore energy
losses of \$2-3B**

*As of February 8, 2006
Source: PCS division of ISO.



Hurricane Rita Claim Count Distribution by State*



**Total # Claims
= 381,000**

**Louisiana
accounted for
48.6% of the
insured losses,
Texas 44.4%.**

**Excludes
offshore energy
losses of \$2-3B**

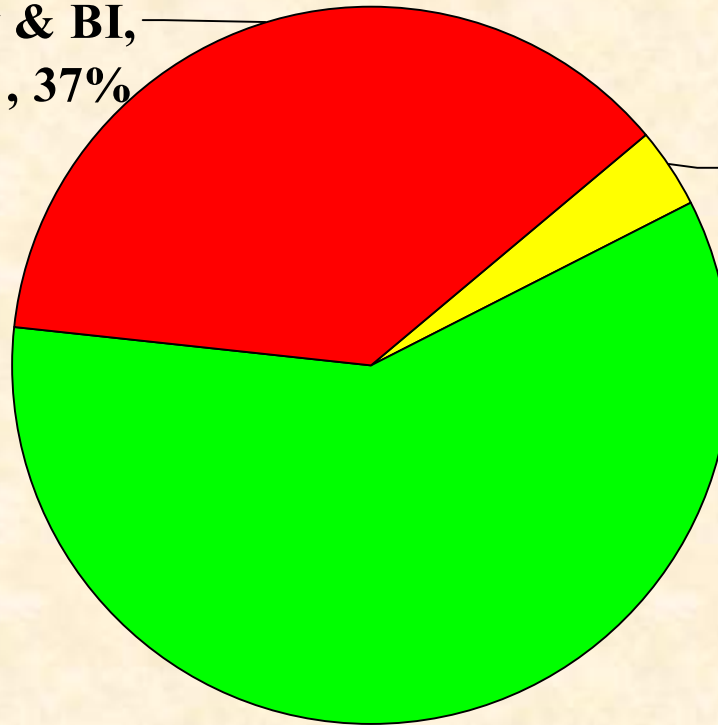
*As of February 8, 2006
Source: PCS division of ISO.



*Hurricane Rita Loss Distribution, by Line (\$ Millions)**

**Commercial
Property & BI,
\$1,846.2 , 37%**

**Vehicles, \$186.0 ,
4%**



**Homeowners,
\$2,944.0 , 59%**

**Total insured
losses are
estimated at \$5.0
billion (excl.
offshore energy
of \$2-\$3B) from
381,000 claims.**

*As of February 8, 2006

Source: PCS division of ISO.



*Hurricane Rita Insured Loss and Claim Distribution by State**

State	Losses (\$Mill)	# Claims	% Losses	% Claims
LA	\$ 2,912.5	185,000	58.5%	48.6%
TX	\$ 1,970.0	169,000	39.6%	44.4%
MS	\$ 34.0	7,000	0.7%	1.8%
FL	\$ 23.0	6,000	0.5%	1.6%
AR	\$ 13.7	5,500	0.3%	1.4%
AL	\$ 13.0	5,000	0.3%	1.3%
TN	\$ 10.0	3,500	0.2%	0.9%
Totals	\$ 4,976.2	381,000	100.0%	100.0%

*As of February 8, 2006.

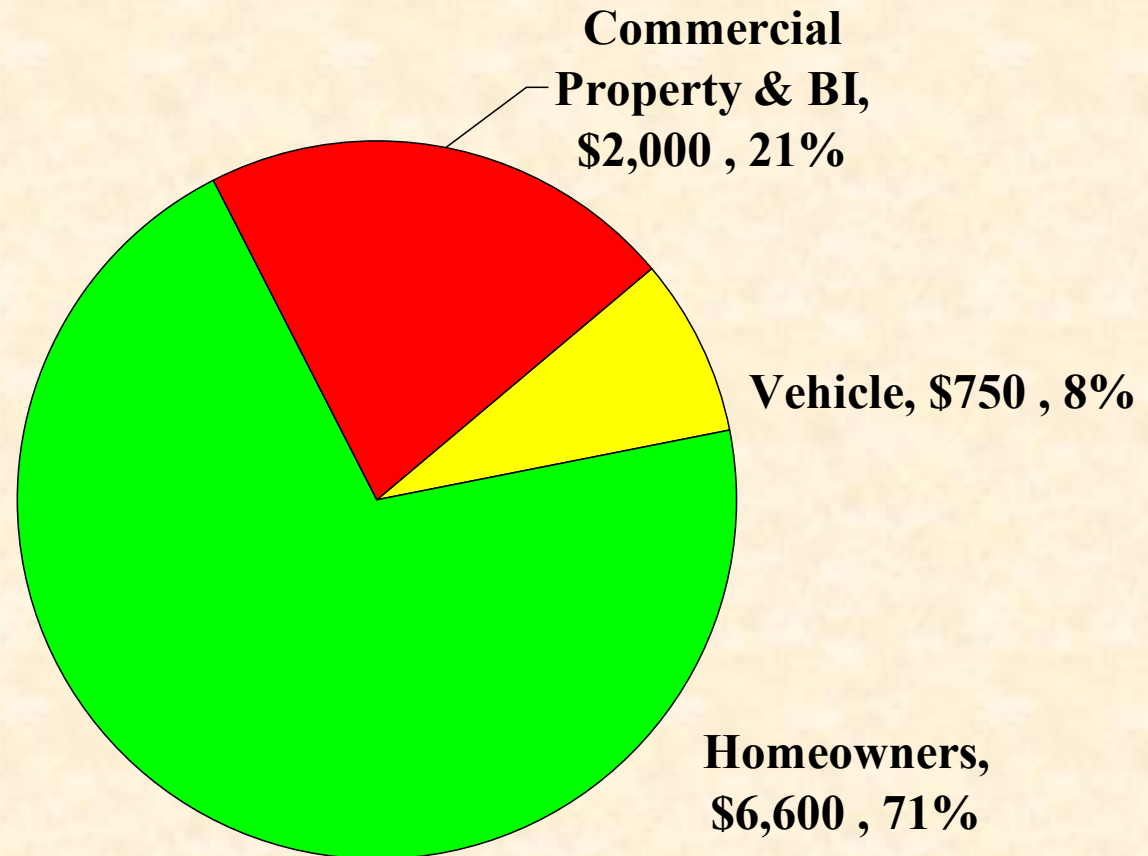
Source: PCS division of ISO.

Hurricane Wilma Loss



Distribution by Line (\$ Millions)*

Total insured losses are estimated at \$9.35 billion from 1.025 million claims



*As of March 27, 2006. All losses are in FL.
Source: PCS division of ISO.



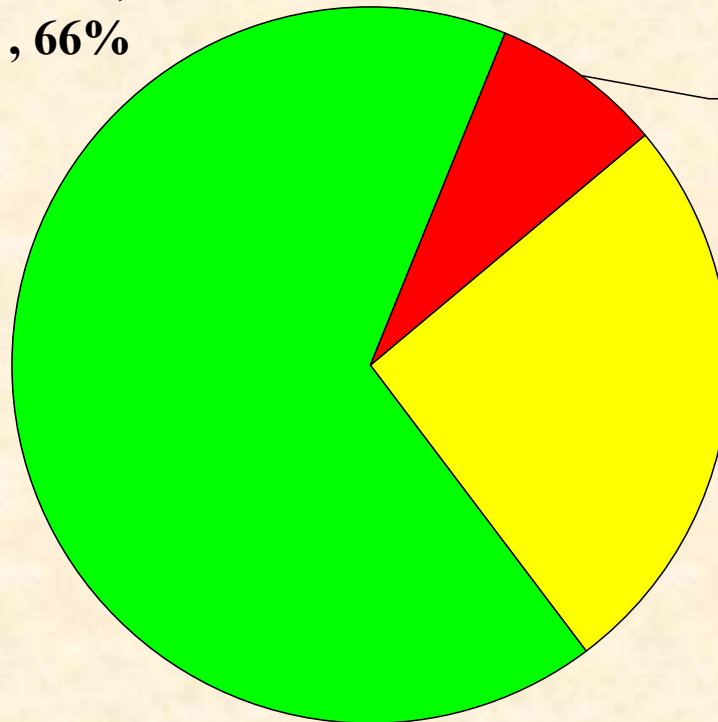
Hurricane Wilma Claim Count

*Distribution by Line (\$ Millions)**

**Homeowners,
680,000 , 66%**

**Commercial
Property & BI,
80,000 , 8%**

**Vehicle, 265,000 ,
26%**

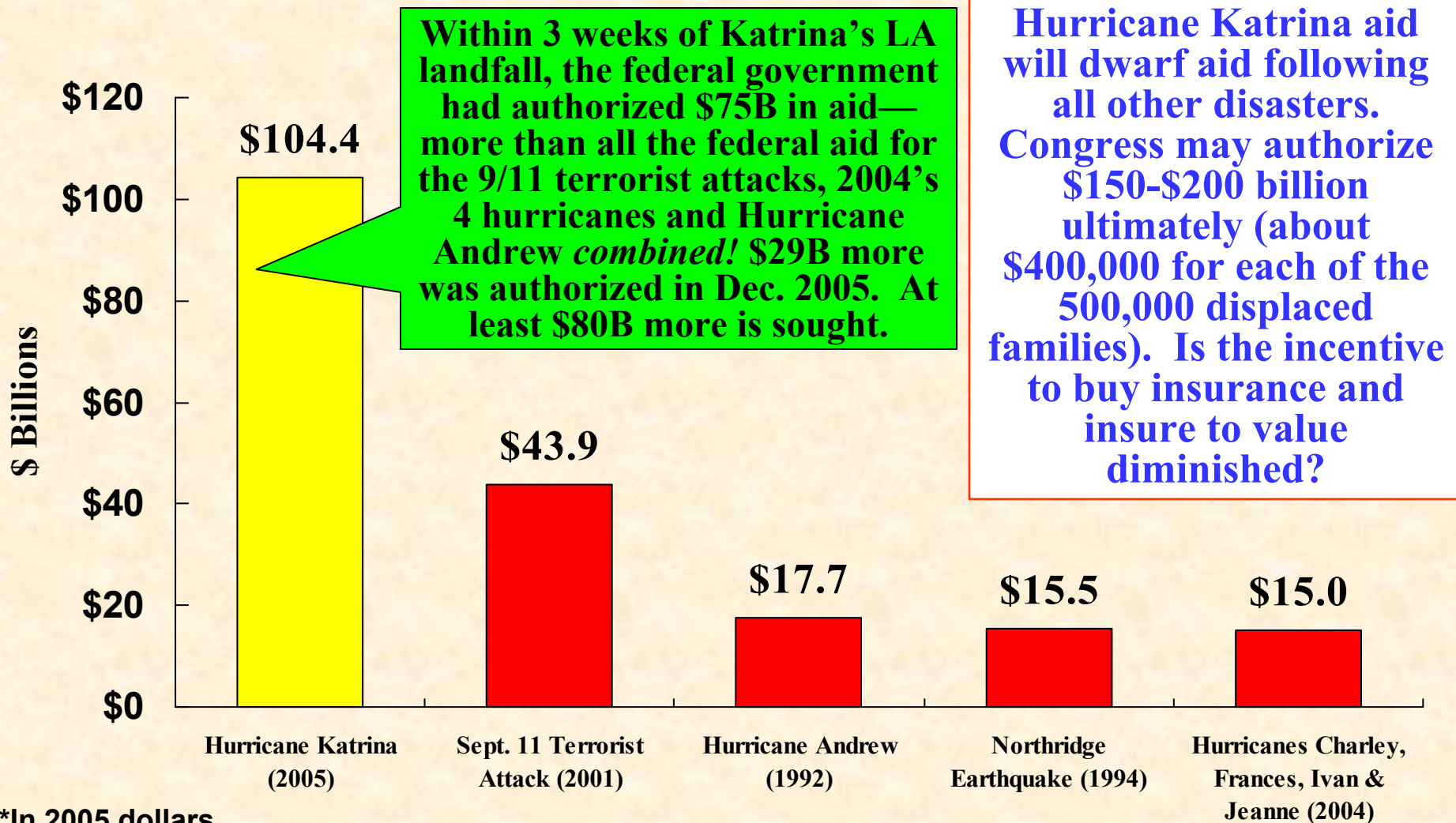


**Total insured
losses are
estimated at
\$9.35 billion
from 1.025
million claims**

***As of March 27, 2006. All losses are in FL.
Source: PCS division of ISO.**



Government Aid After Major Disasters (Billions)*

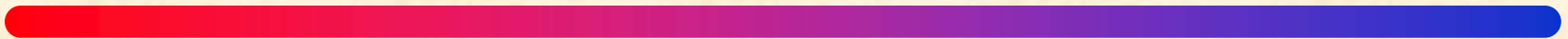


*In 2005 dollars.

Source: United States Senate Budget Committee, Insurance Information Institute as of 12/31/05.

TRIA EXTENSION

The Burden Grows





Insurance Industry Retention Under TRIA (\$ Billions)





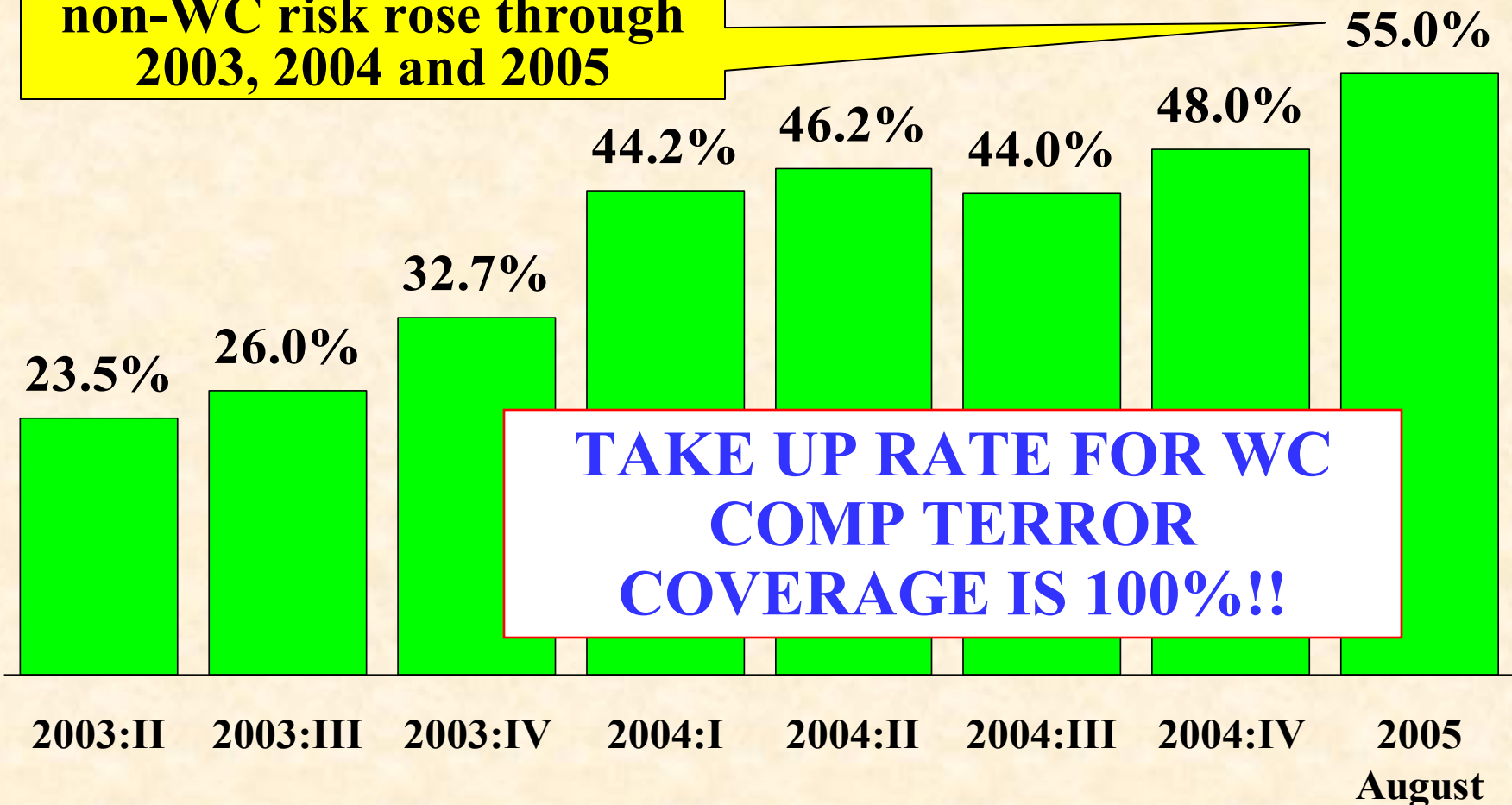
TRIA Extension: Major Features

- **Term: 2-Year Extension—Sunsets December 31, 2007**
 - Extension for 3rd year possible if progress made toward long-term solution
- **Trigger Increased:**
 - Up from \$5MM now to \$50MM in 2006 and \$100MM in 2007
- **Lines Dropped**
 - Commercial Auto, Prof. Liability, Surety, Burglary & Theft, FMP
- **Deductibles Increase for Individual Companies:**
 - 15% Now → 17.5% in 2006 → 20% in 2007 for all lines
- **Retentions Increase for Industry Aggregate:**
 - \$15B Now → \$25B in 2006 → \$27.5B in 2007
- **Co-Pays Increase for Amount Above Industry Aggregate**
 - 10% Now → 10% in 2006 → 15% in 2007
- **Federal Recoupment**
 - Remains conditional
- **Study to Develop Long-Term Solutions**
 - Must produce report to Congress by September 30
- **Nuclear, Biological, Chemical & Radiological Risk**
 - Maintains exclusion



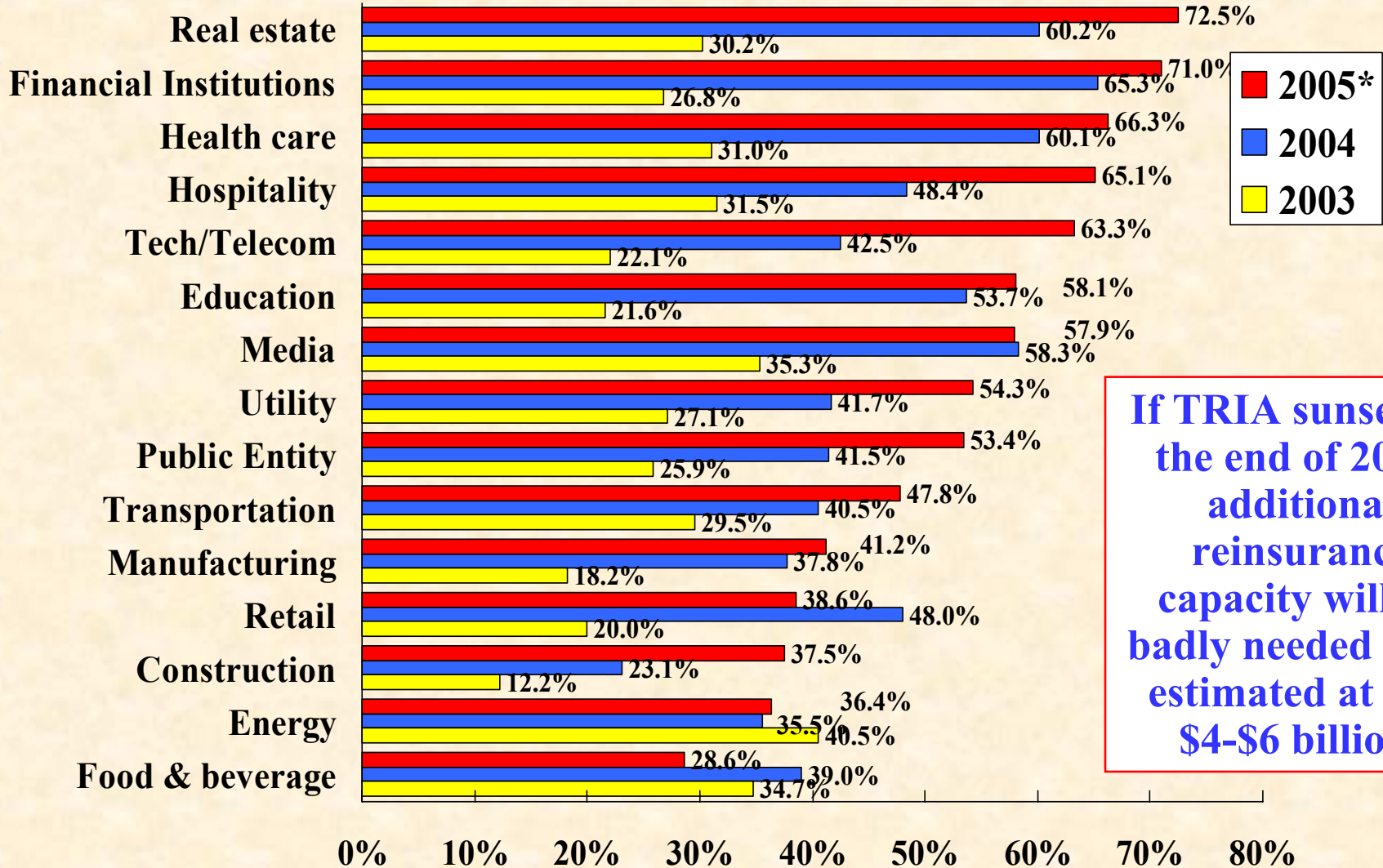
Terrorism Coverage Take-Up Rate Rising

**Terrorism take-up rate for
non-WC risk rose through
2003, 2004 and 2005**



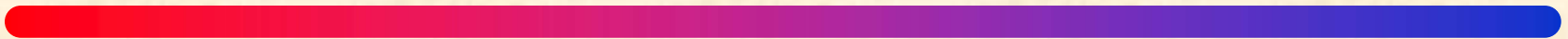


Terrorism Coverage: Take-Up Rates by Industry



If TRIA sunsets at the end of 2007, additional reinsurance capacity will be badly needed (now estimated at just \$4-\$6 billion)

Overview of Plans for a National Catastrophe Insurance Plan





NAIC's Comprehensive National Catastrophe Plan

- **Proposes Layered Approach to Risk**
- **Layer 1: Maximize resources of private insurance & reinsurance industry**
 - Includes “All Perils” Residential Policy
 - Encourage Mitigation
 - Create Meaningful, Forward-Looking Reserves
- **Layer 2: Establishes system of state catastrophe funds (like FHCF)**
- **Layer 3: Federal Catastrophe Reinsurance Mechanism**



Comprehensive National Catastrophe Plan Schematic

1:500 Event

National Catastrophe Contract Program

1:50 Event

State Regional Catastrophe Fund

State Attachment

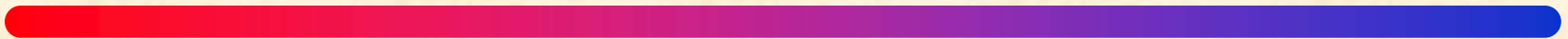
**Personal
Disaster
Account**

Private Insurance

Private Reinsurance

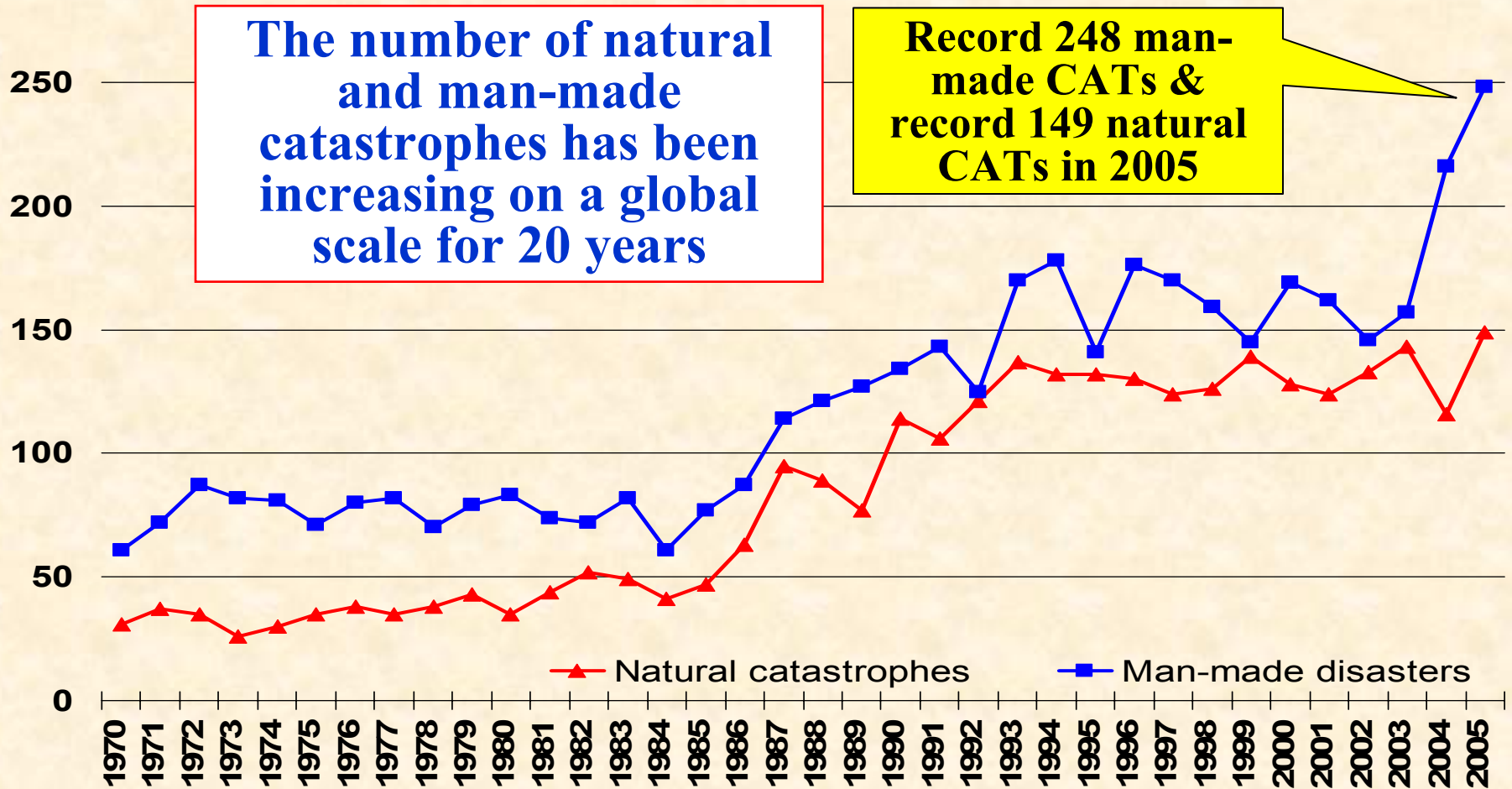
REINSURANCE

*Catastrophes, Consolidation
& New Competitors*





Global Number of Catastrophic Events, 1970–2005



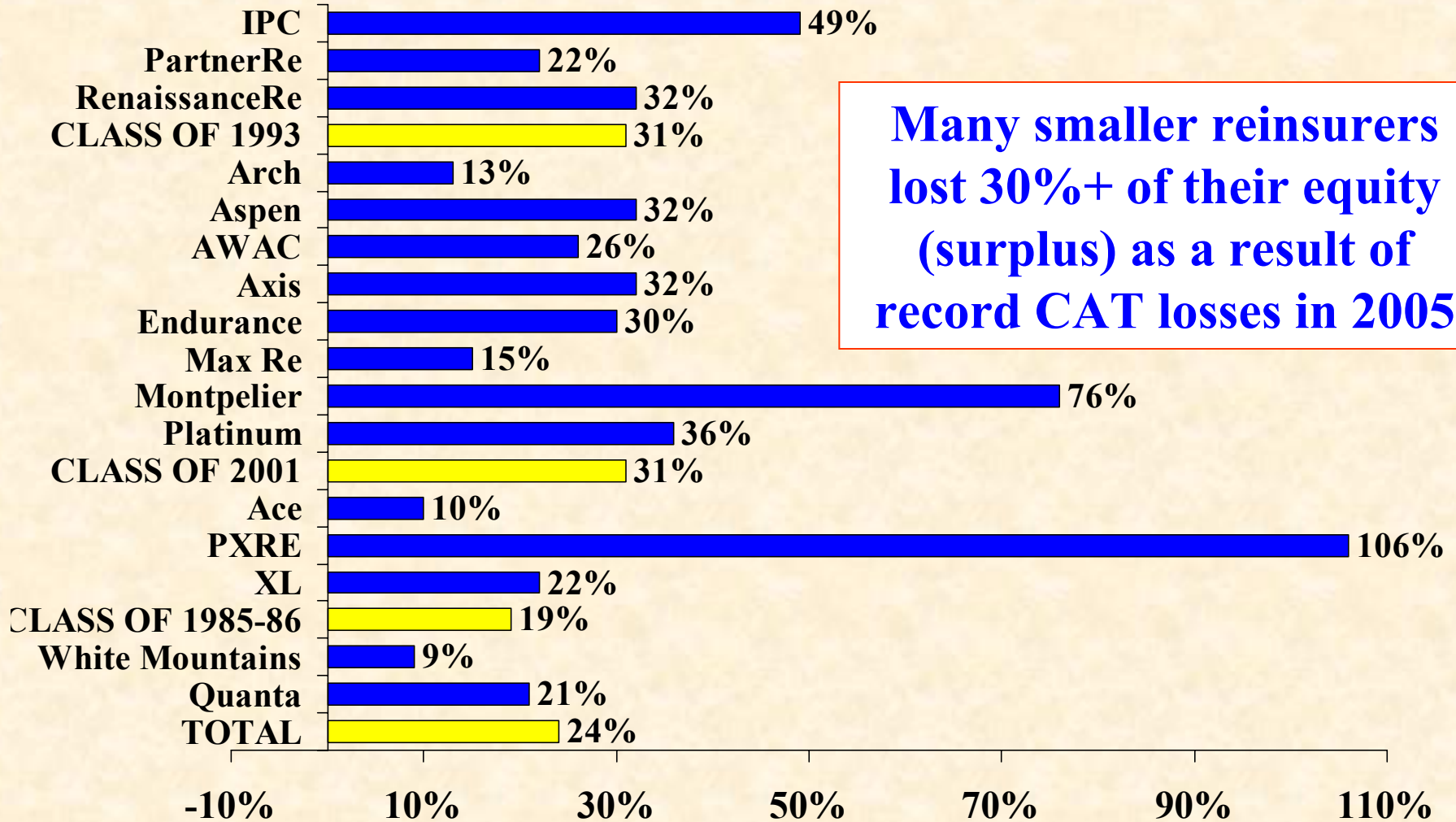


Distribution of Katrina Losses by Market (\$Billions)

Market	Percentage	Amount
Insurers	47% - 53%	\$18.8 - \$28.9
Reinsurers	52% - 44%	\$20.7 - \$24.0
Capital Markets	1% - 3%	\$0.4 - \$1.6
TOTAL	100%	\$39.9 - \$54.6



*FY2005 Loss as a Percentage of First Half 2005 Shareholder Equity**

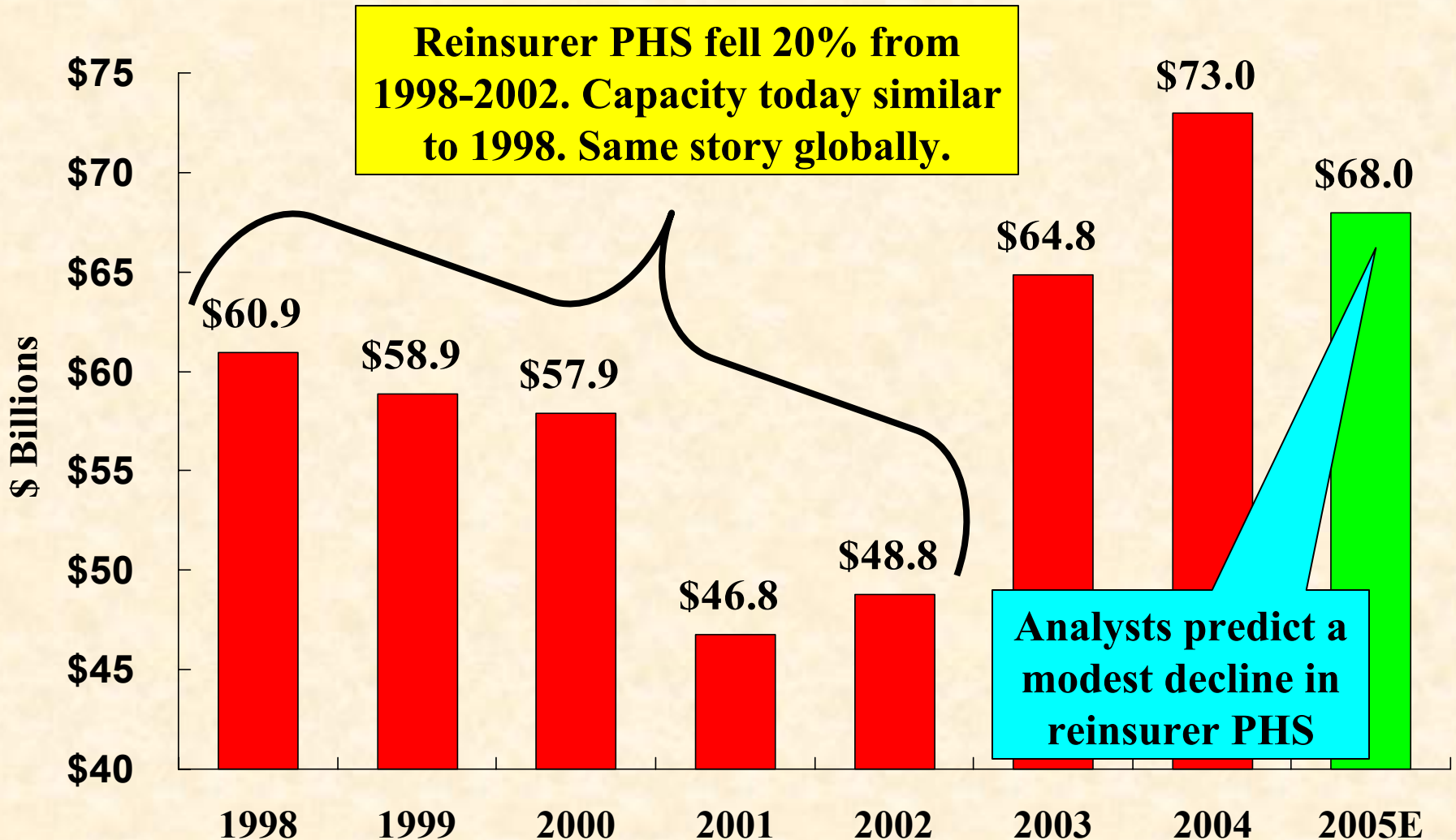


*As of 12/31/05.

Source: New Orleans Times-Picayune, 3/19/06, from NFIP and US Census Bureau data.

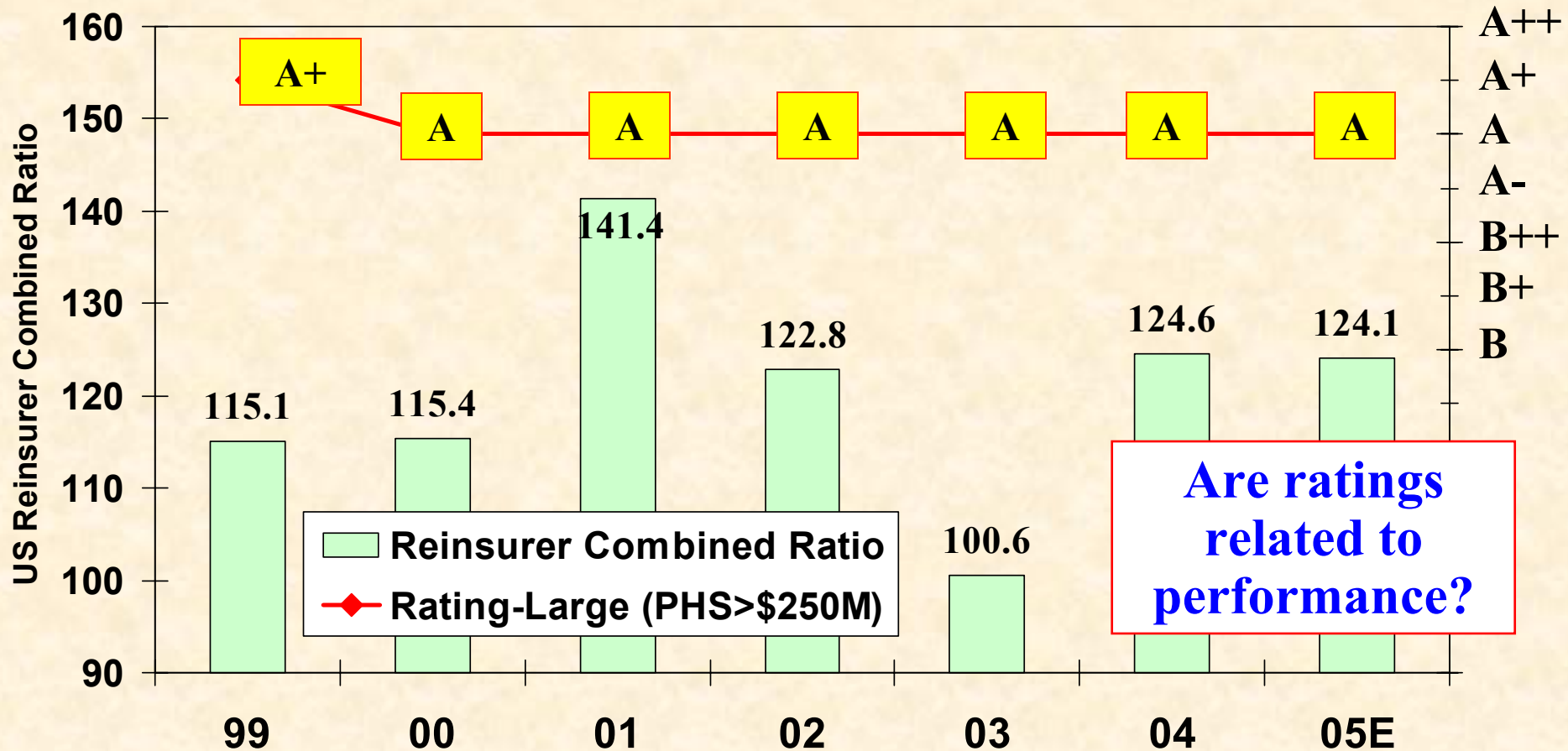


US Reinsurers: Change in Policyholder Surplus (\$ Billions)





US Reinsurer Combined Ratio vs. Median Rating, 1999-2005E*



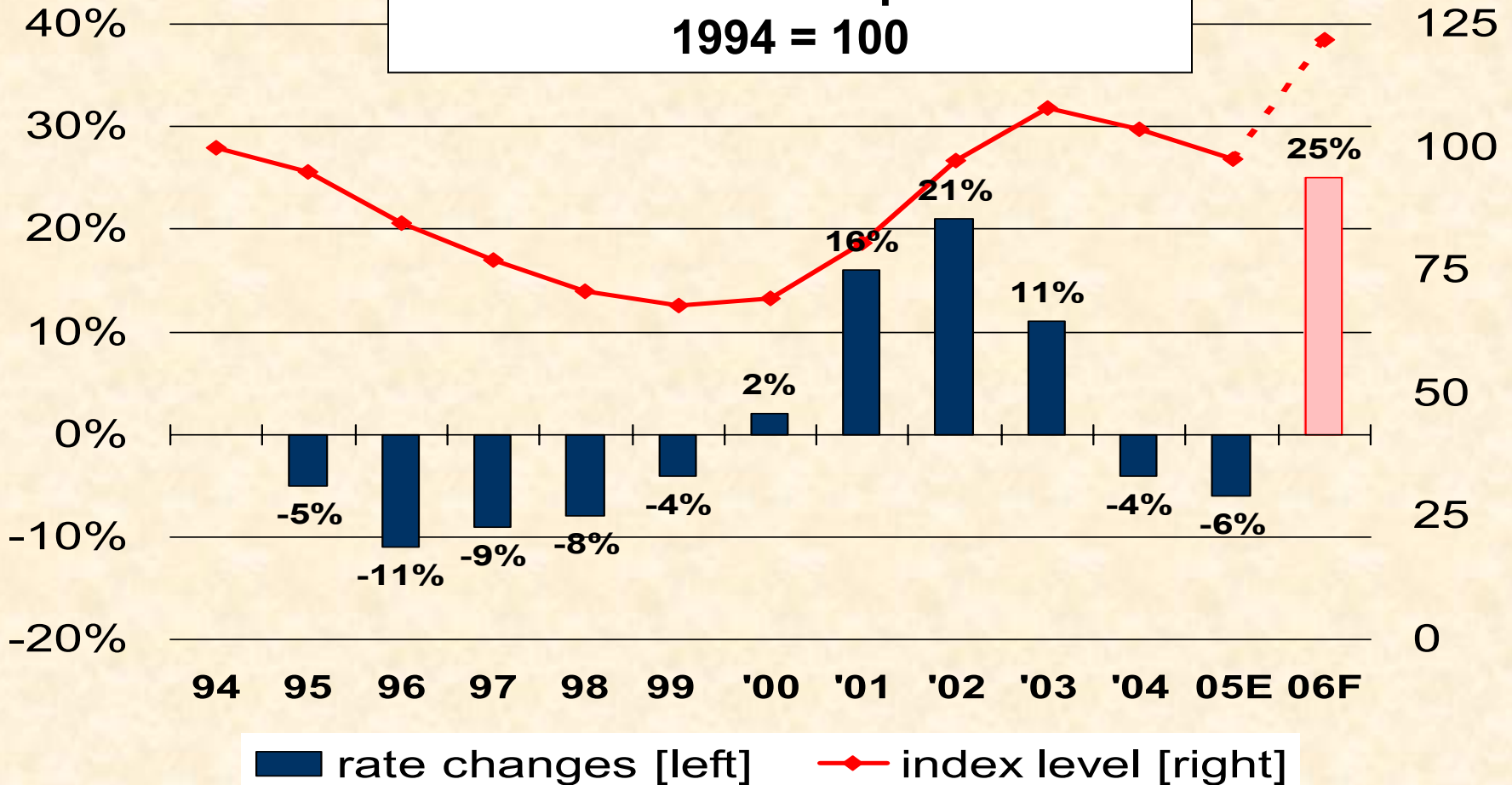
*Combined ratio is for all US reinsurers. Rating is for large reinsurers (policyholder surplus exceeding \$250 million). The median rating for small reinsurers (PHS < \$250M) was A- throughout the 1999-2003 period.

Source: A.M. Best: *Rating Downgrades Slowed but Outpaced Upgrades for Fourth Consecutive Year*, Special Report, November 8, 2004 and 2006 *Review & Preview*.



Reinsurance Prices Surged in 2006 Following Record CATs in 2005

**US cat reinsurance price index:
1994 = 100**





Changes in the 2006 Reinsurance Markets

- **Property CAT reins. rates up 20% - 30% nationally**
- **Property CAT coverage in hurricane exposed areas up 100%-300%**
- **Aggregate reinsurer exposure is *down* 20-30%**
- **Cedants retaining more risk, often by 50-100% or more (higher attachment pts.)**
- **Increased demand for Excess of Loss cover**
 - **XoL is potentially more volatile for reinsurers**
- **Some supply issues as a few small players enter run-off**
- **Marine/Energy reinsurance → most challenging**
- **Start-ups becoming more active**

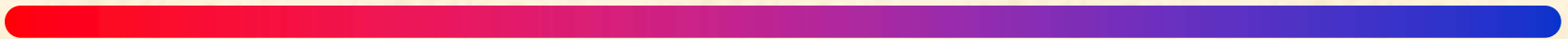


Long-Term Issues for Reinsurers

- **Managing Record Global CAT Losses**
- **Underwriting/Pricing Discipline of Primary Insurers**
- **Competition & Low Barriers to Entry**
- **Alternative Risk Transfer & Securitization**
- **Consolidation**
- **Reinsurance Collectibles**
- **Collateralization Debate/Feud**
- **Global Glut of Capital**
- **Persistently Low Long-Term Interest Rates**
- **Political Risk in Developing/Emerging Markets**

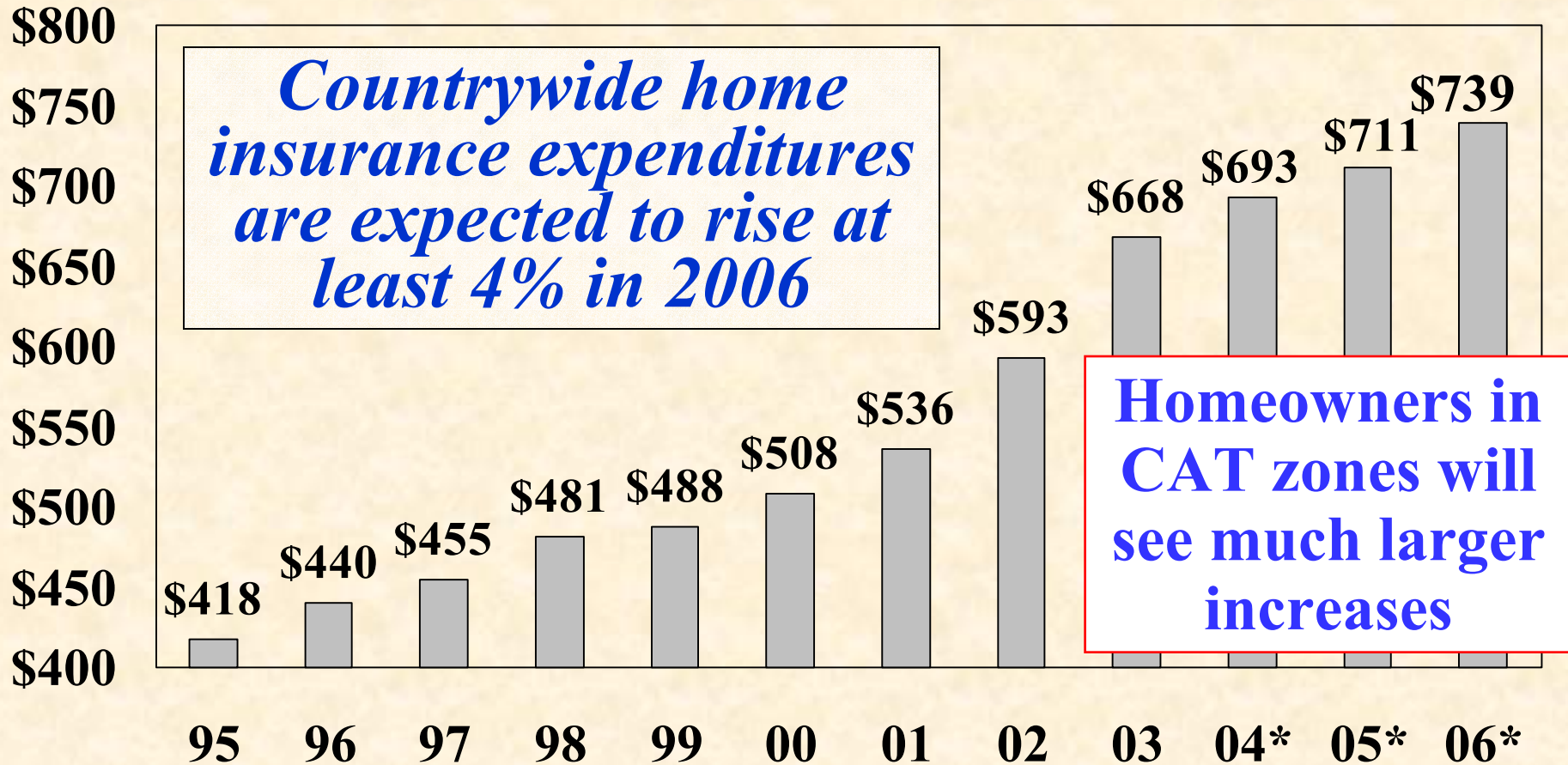
Issue #2
PRICING

*Can Discipline be
Maintained?*





Average Expenditures on Homeowners Insurance**



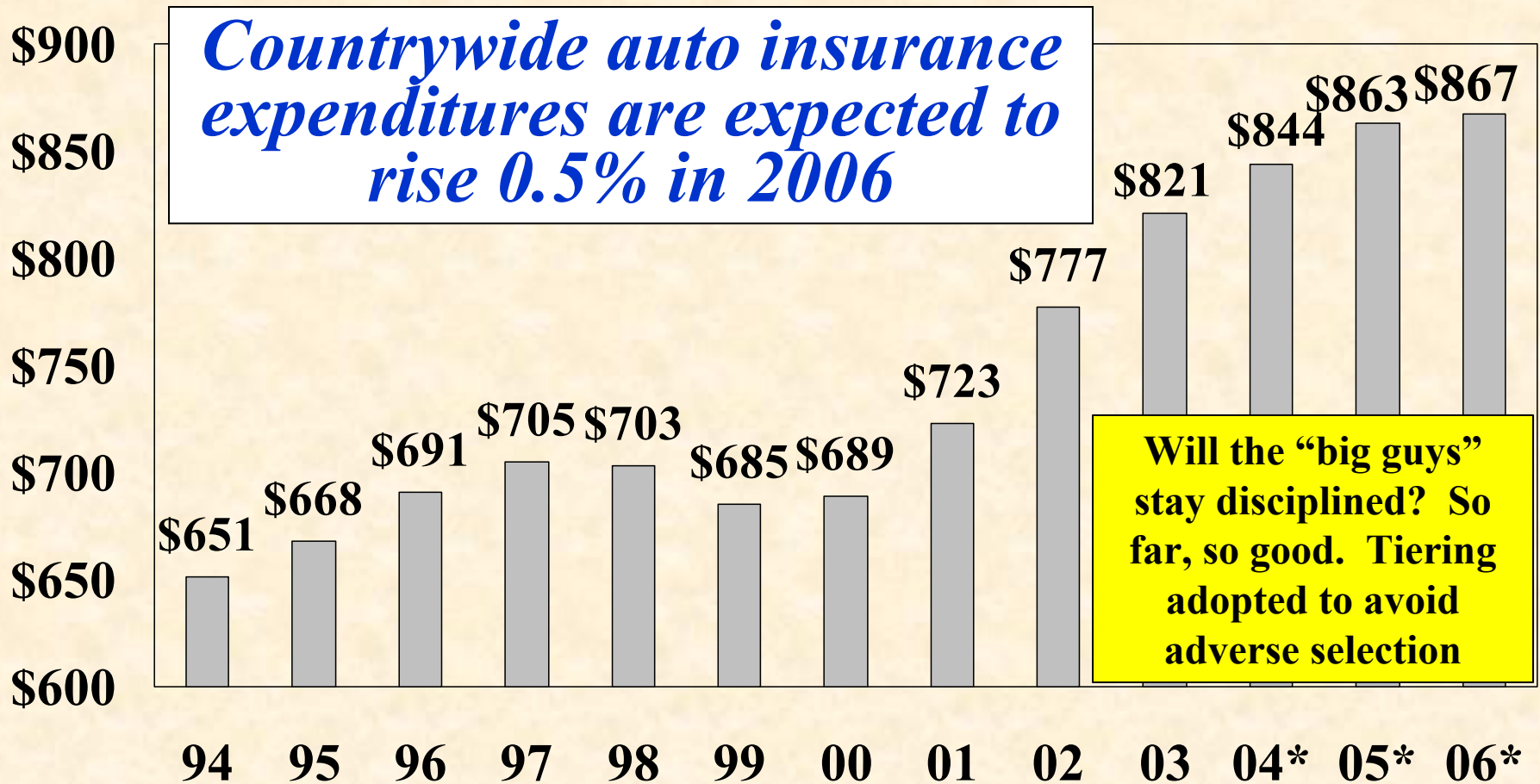
*Insurance Information Institute Estimates/Forecasts

**Excludes cost of flood and earthquake coverage.

Source: NAIC, Insurance Information Institute



Average Expenditures on Auto Insurance

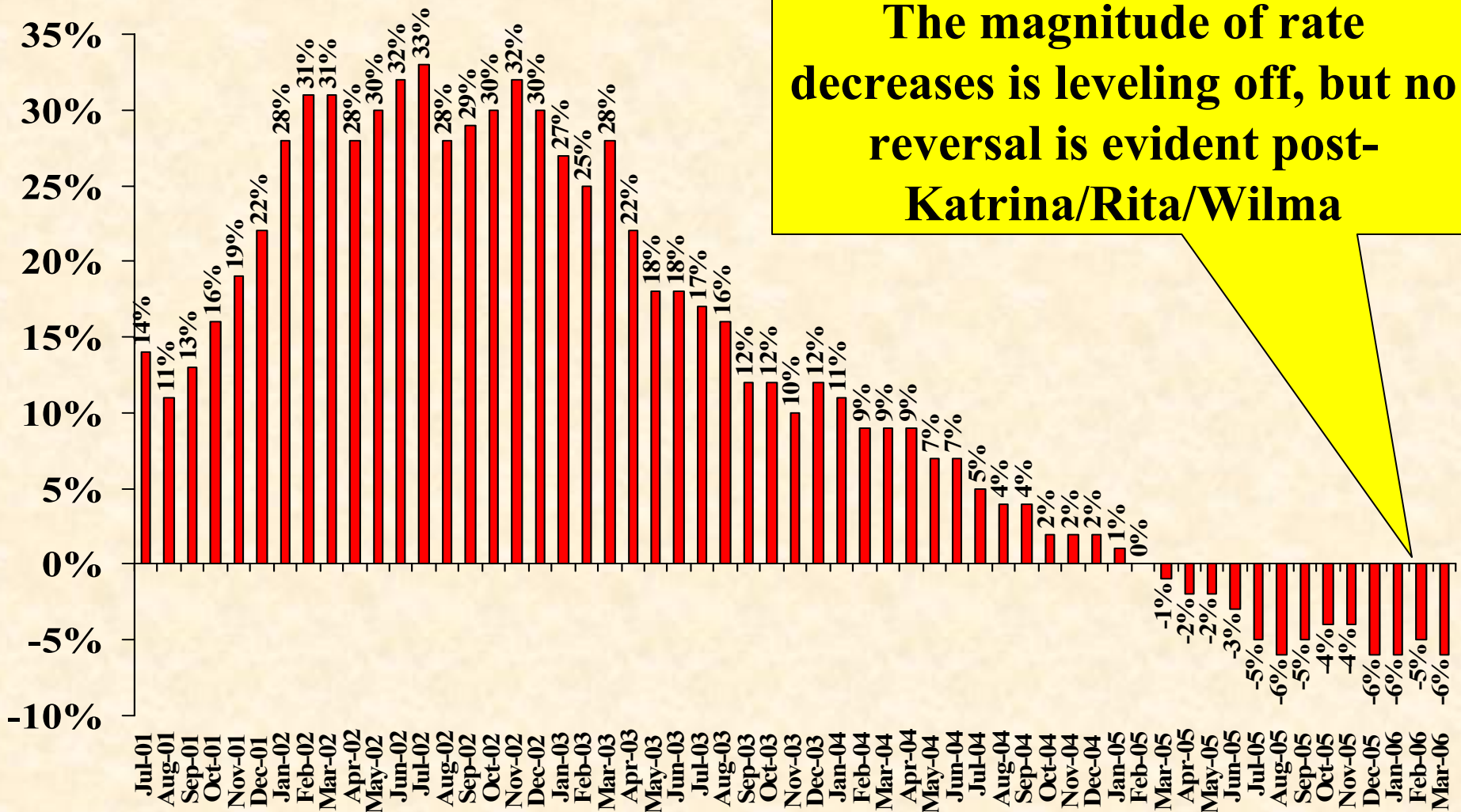


*Insurance Information Institute Estimates/Forecasts

Source: NAIC, Insurance Information Institute

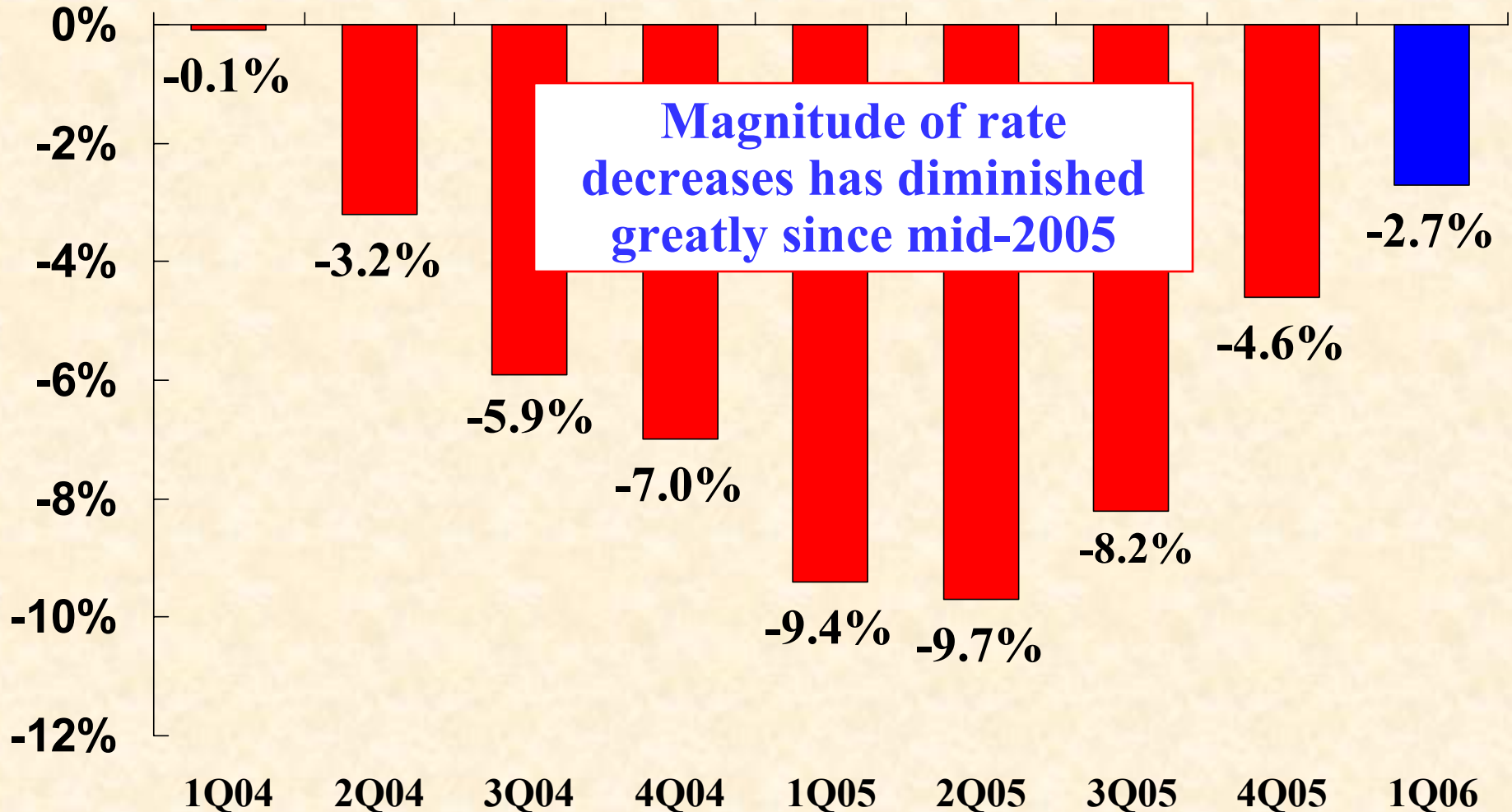


Commercial Premium Rate Changes Are Sharply Lower



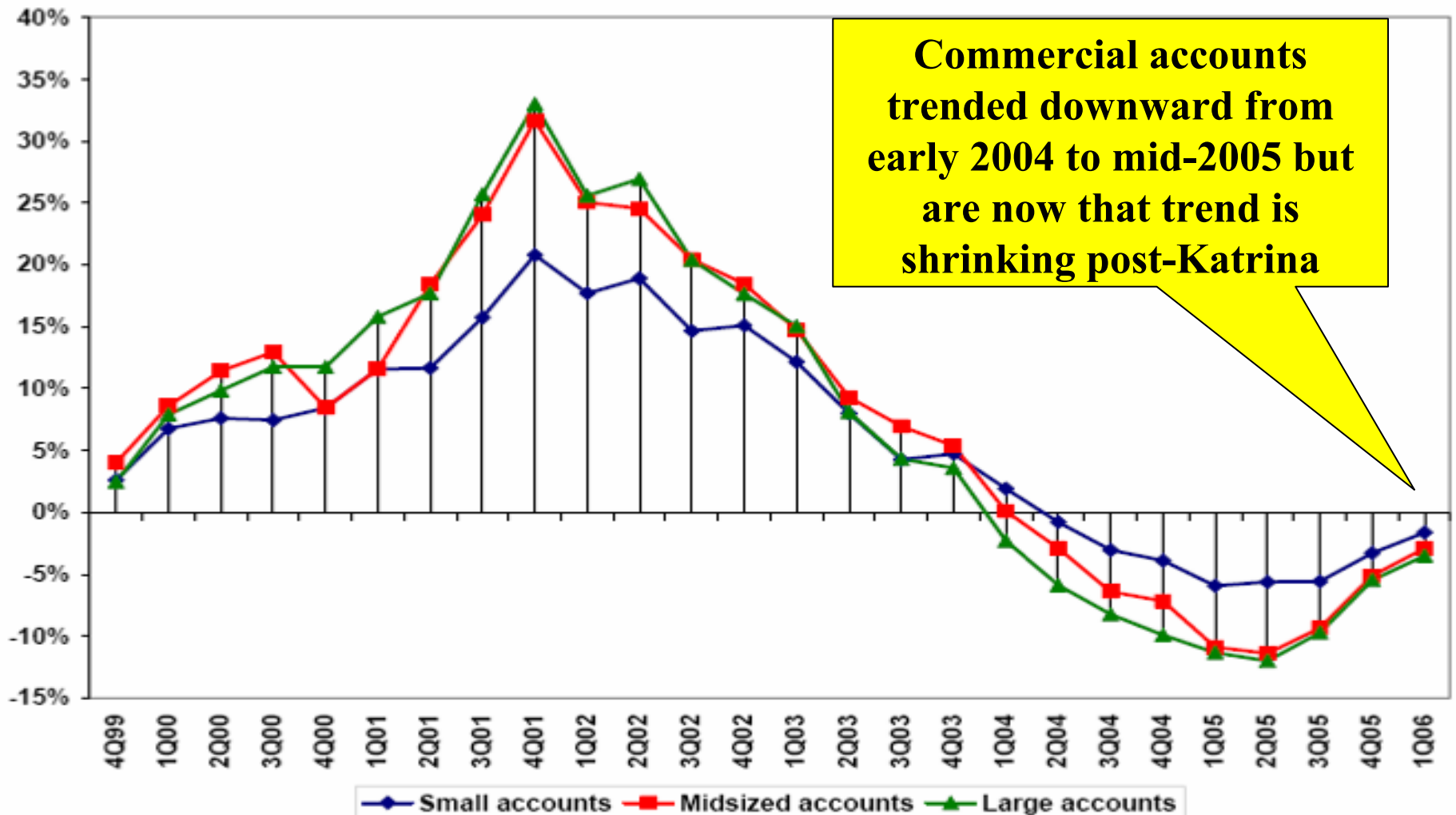


Average Commercial Rate Change, All Lines, (1Q:2004 – 1Q:2006)



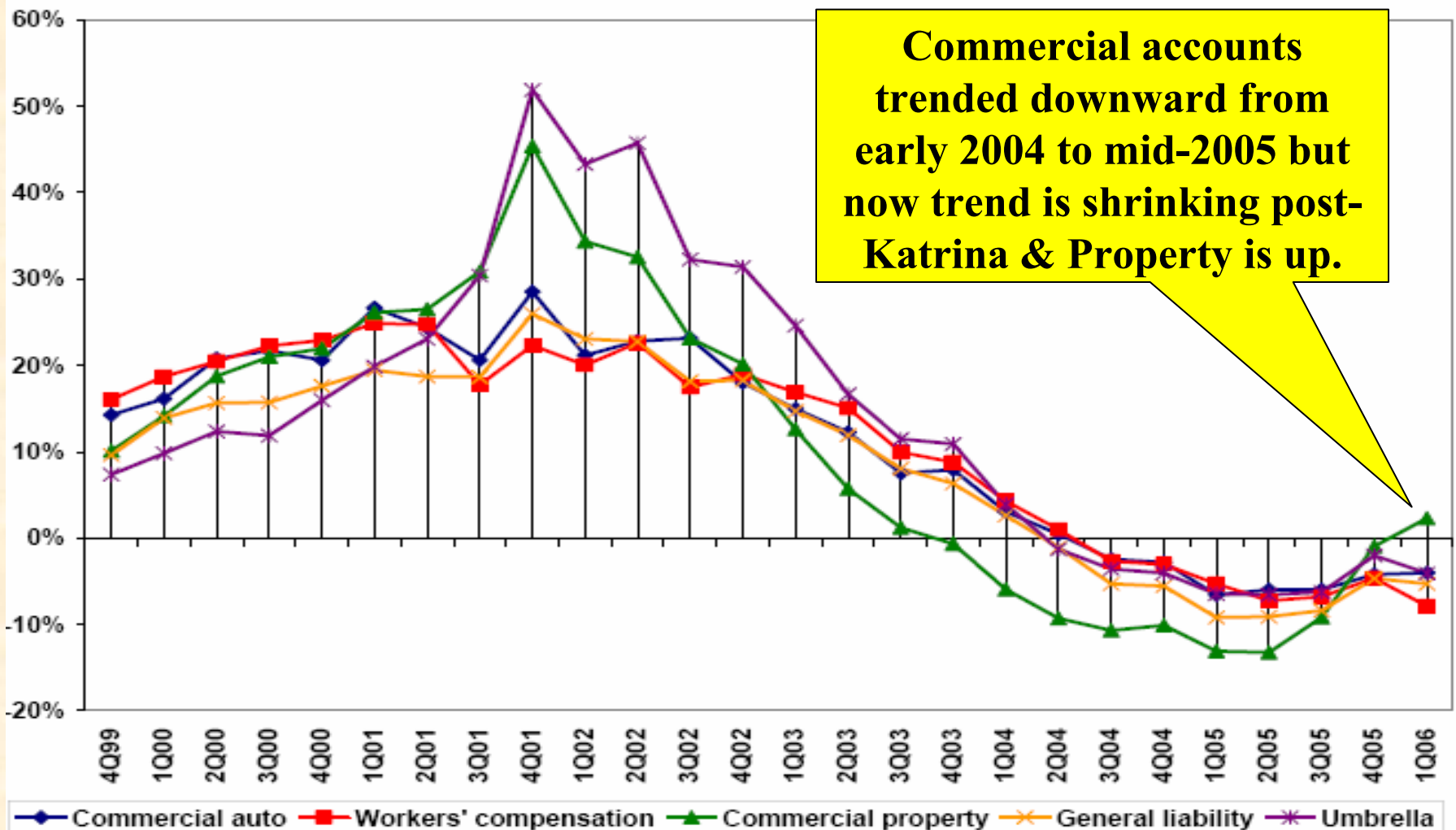


Average Commercial Rate Change by Account Size

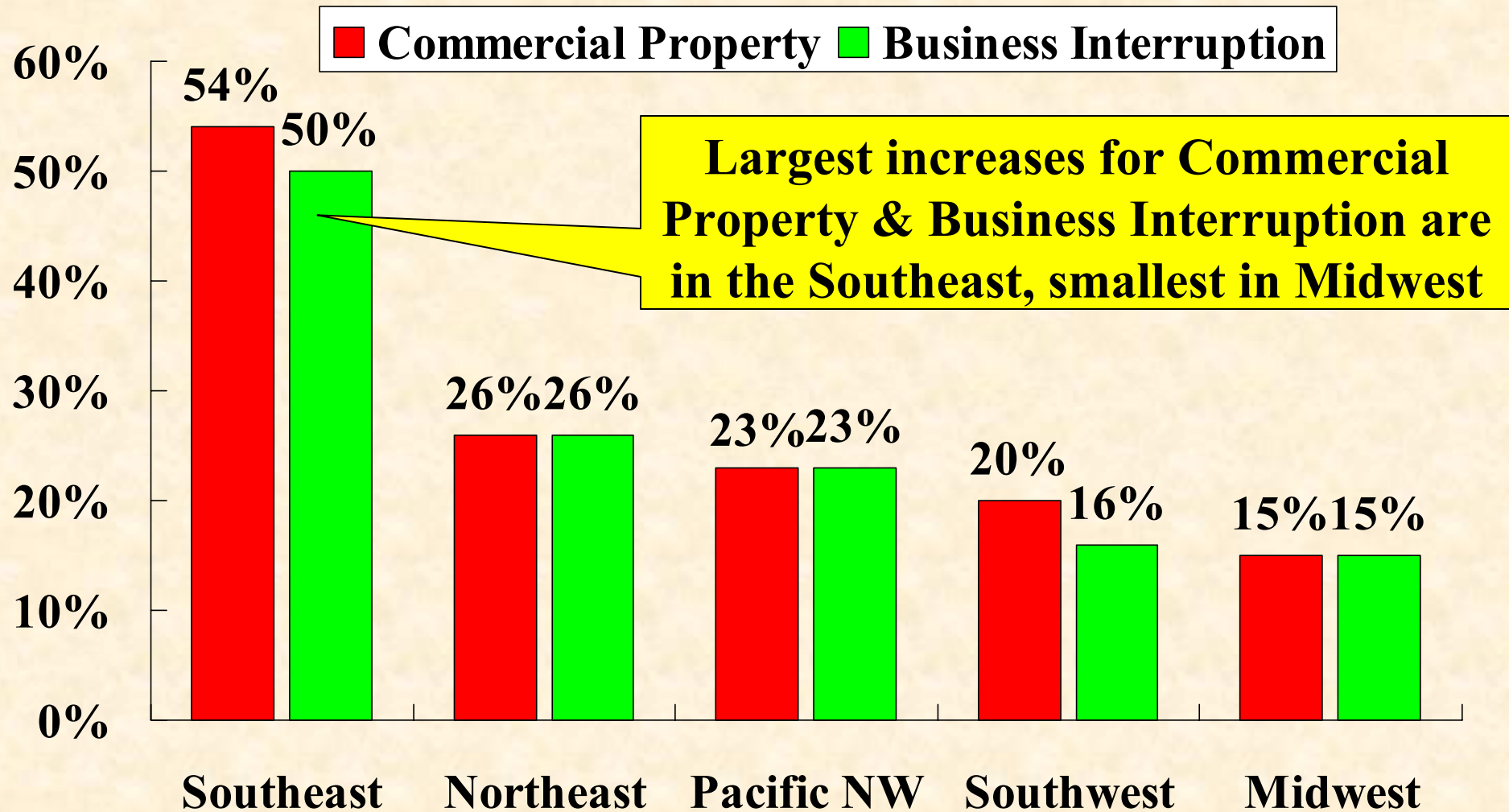




Average Commercial Rate Change by Line



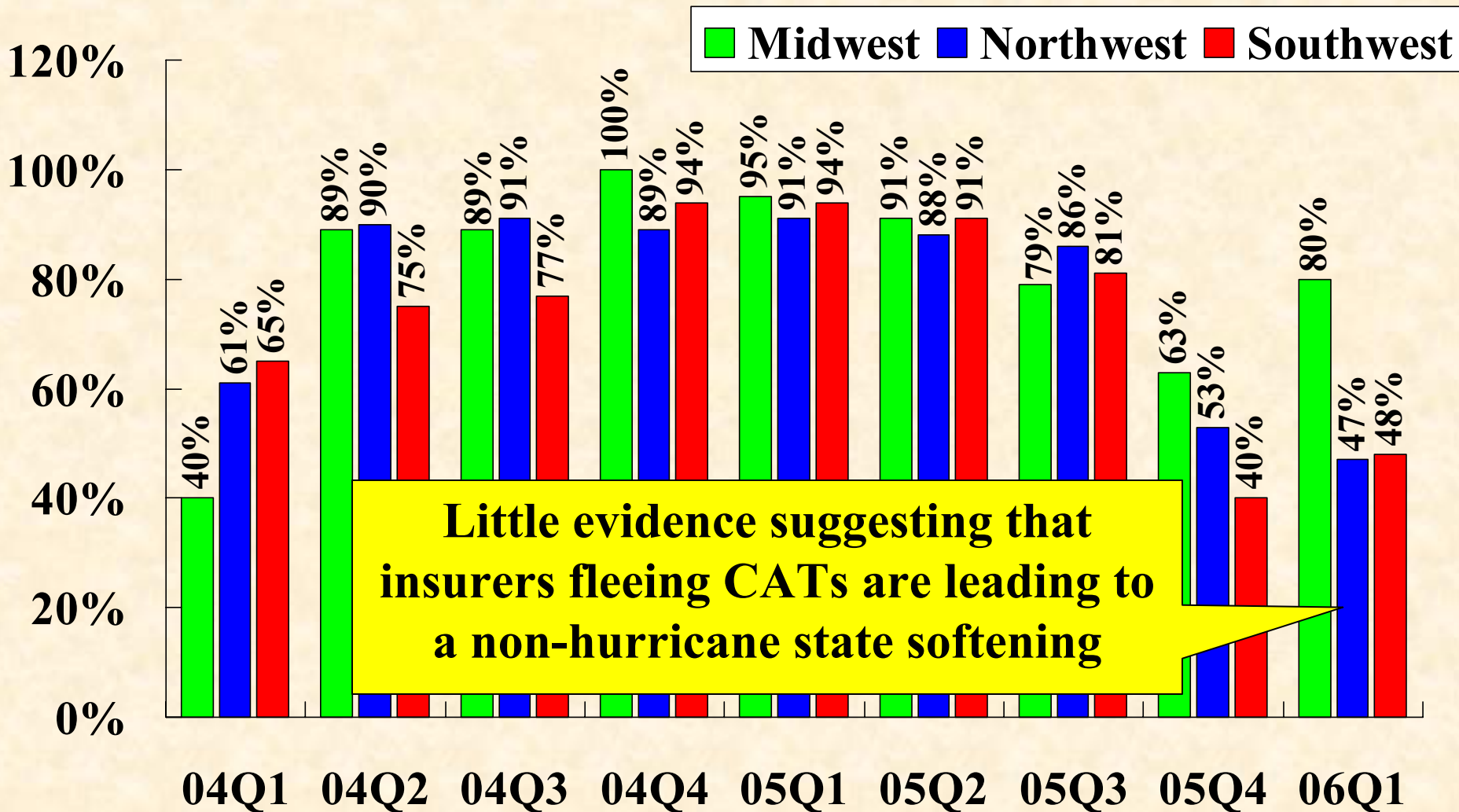
Percent of Commercial Accounts Renewing with/Positive Rate Changes, 1st Qtr. 2006



Percent of Commercial Property Accounts

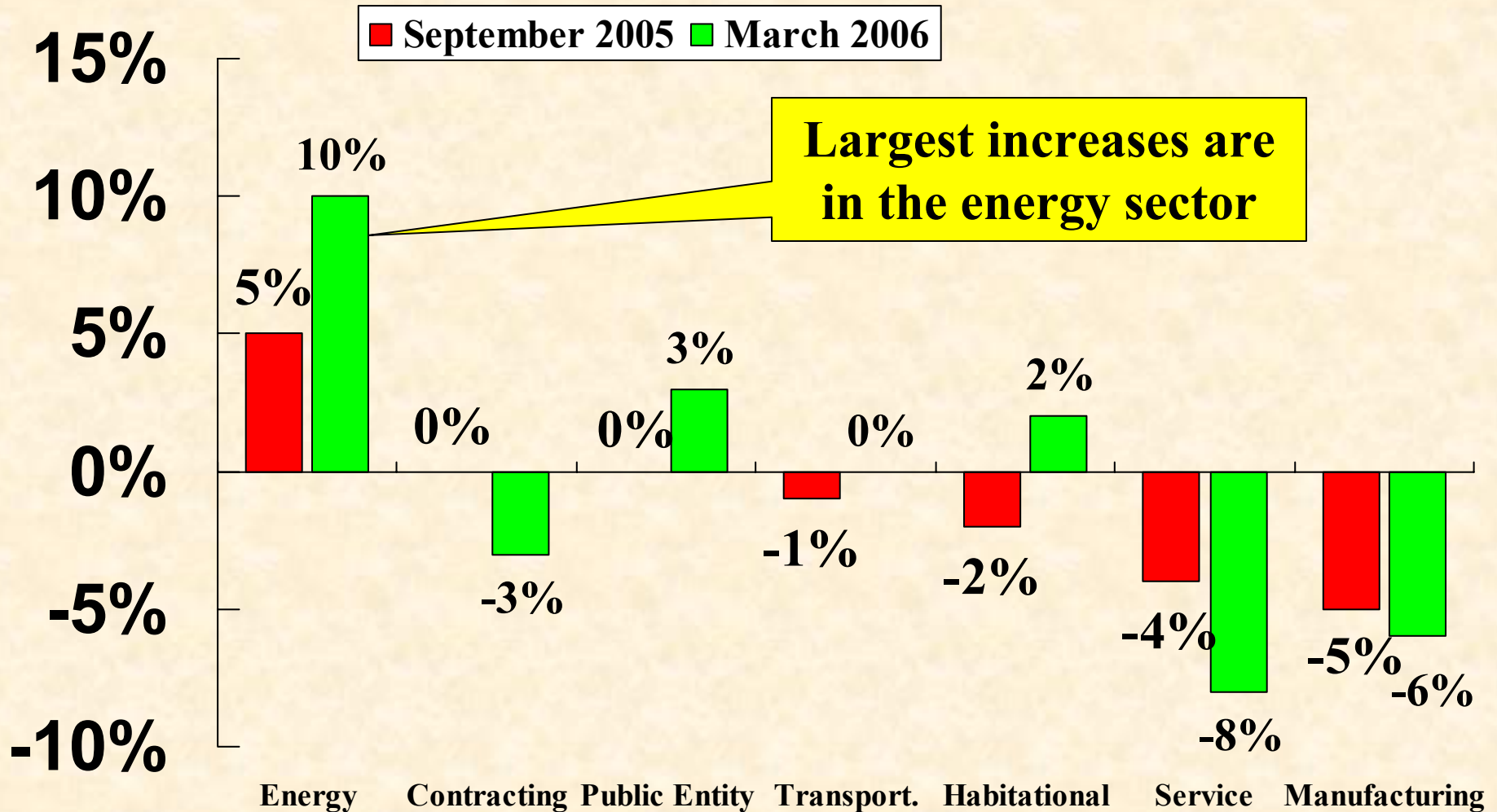


Renewing Negative, 1st Qtr. 2006





Average Rate Increase/Decrease by Industry Class

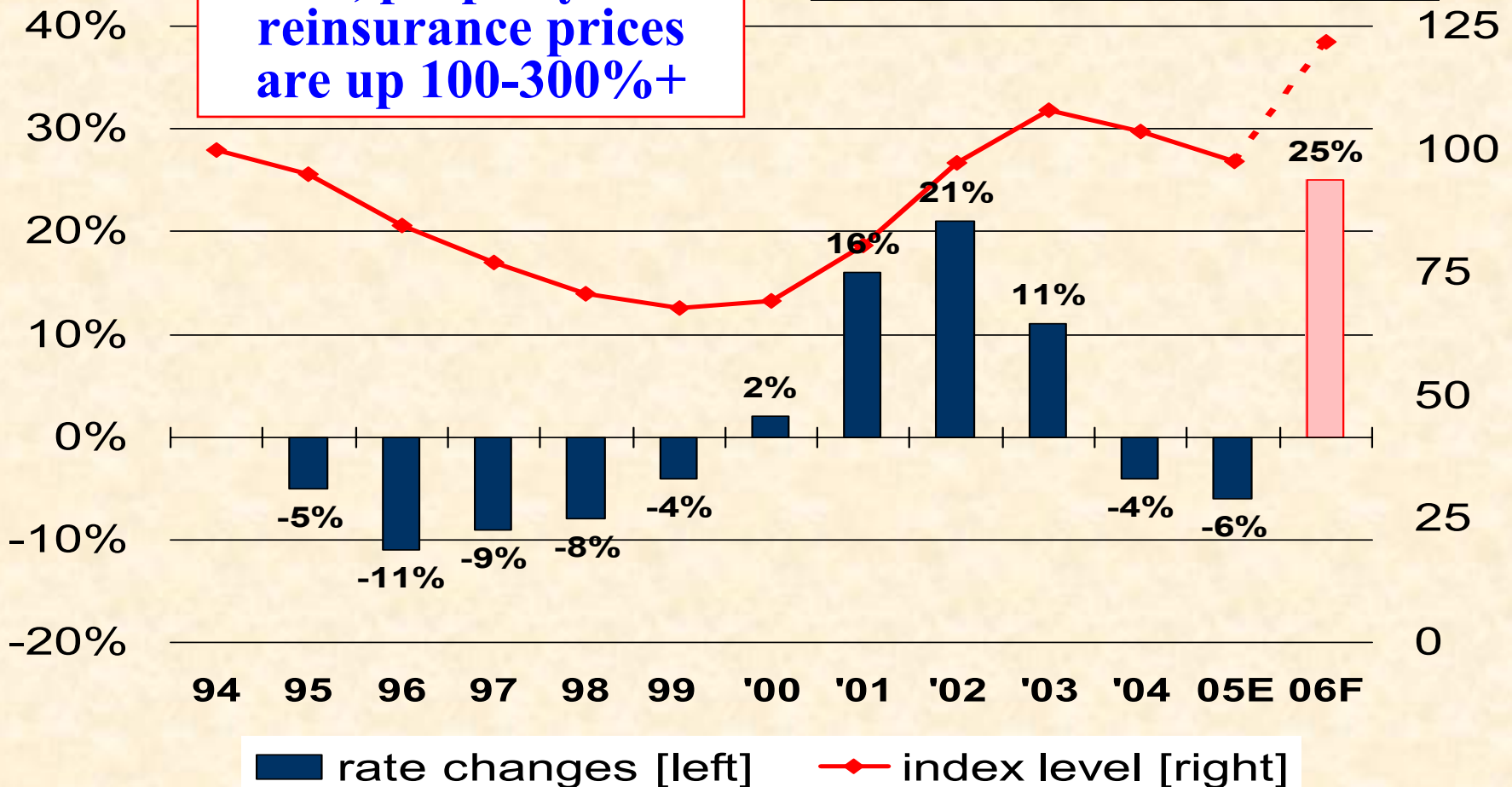




Reinsurance Prices Surged in 2006 Following Record CATs in 2005

In hurricane-prone areas, property CAT reinsurance prices are up 100-300%+

**US cat reinsurance price index:
1994 = 100**



Issue #3

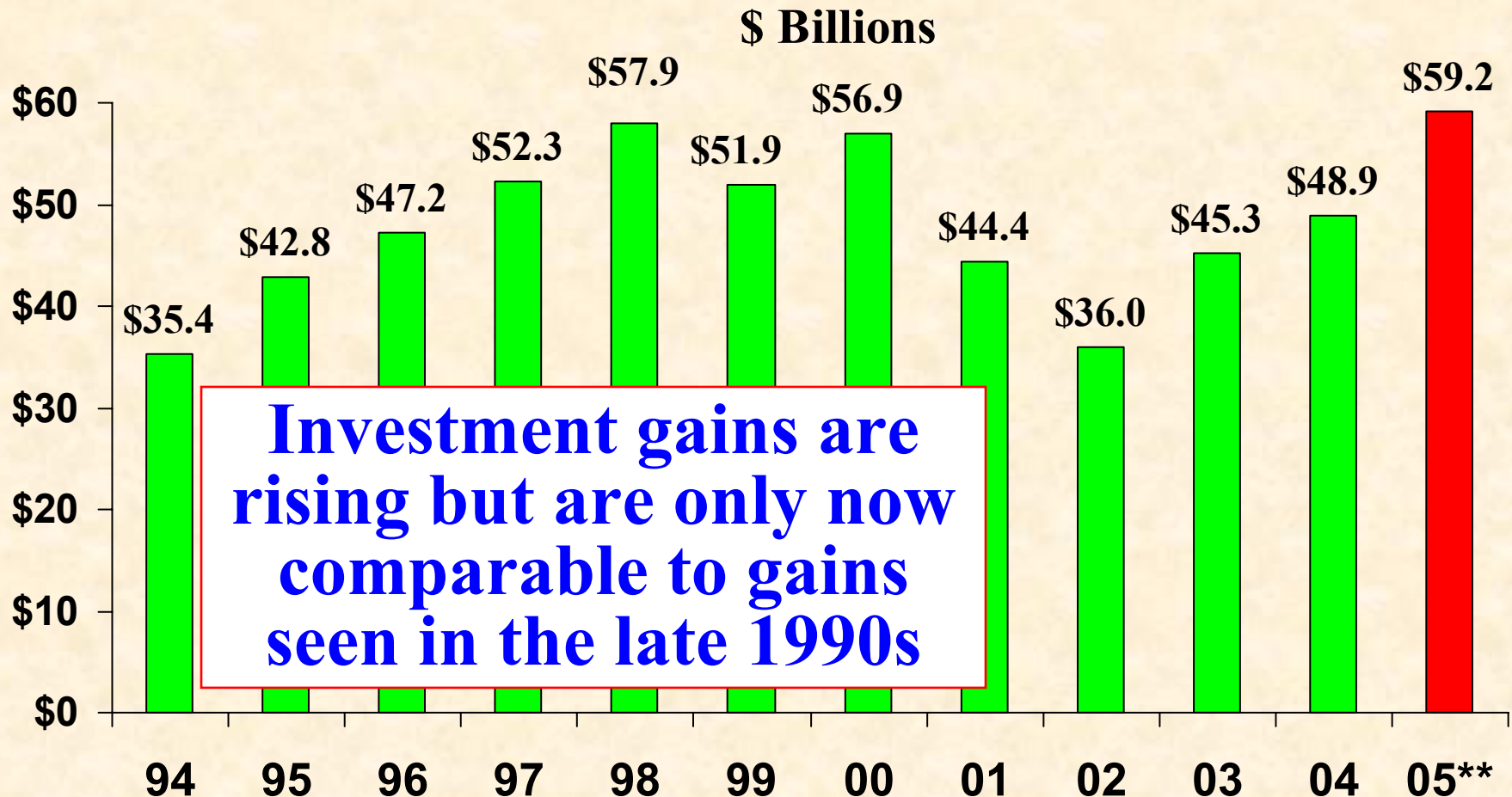
INVESTMENTS

*Does Investment
Performance Affect
iii Discipline?*





Property/Casualty Insurance Industry Investment Gain*



*Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.

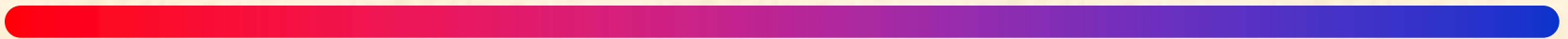
**2005 figure includes special one-time dividend of \$3.2B.

Source: Insurance Services Office; Insurance Information Institute.

Issue #4

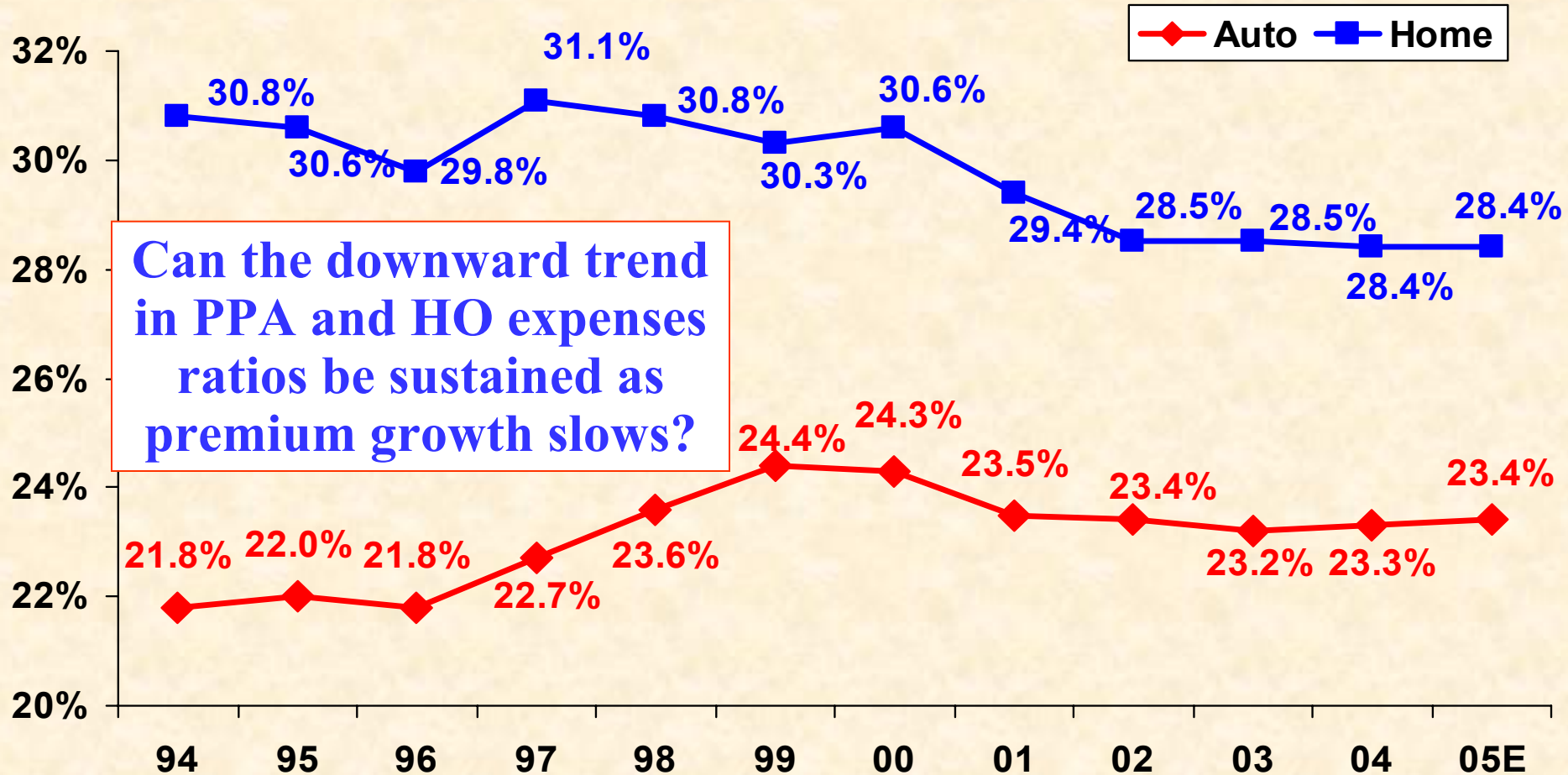
EXPENSES

*Will Expense Ratio Rise as
Premium Growth Slows?*





Personal Lines Underwriting Expense Ratio, * 1994-2005E

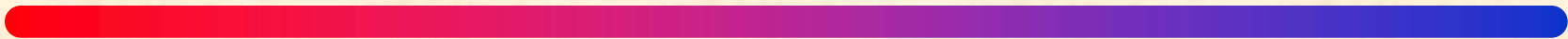


*Ratio of expenses incurred to net premiums written. 2005 figures are III estimates.

Source: A.M. Best; Insurance Information Institute

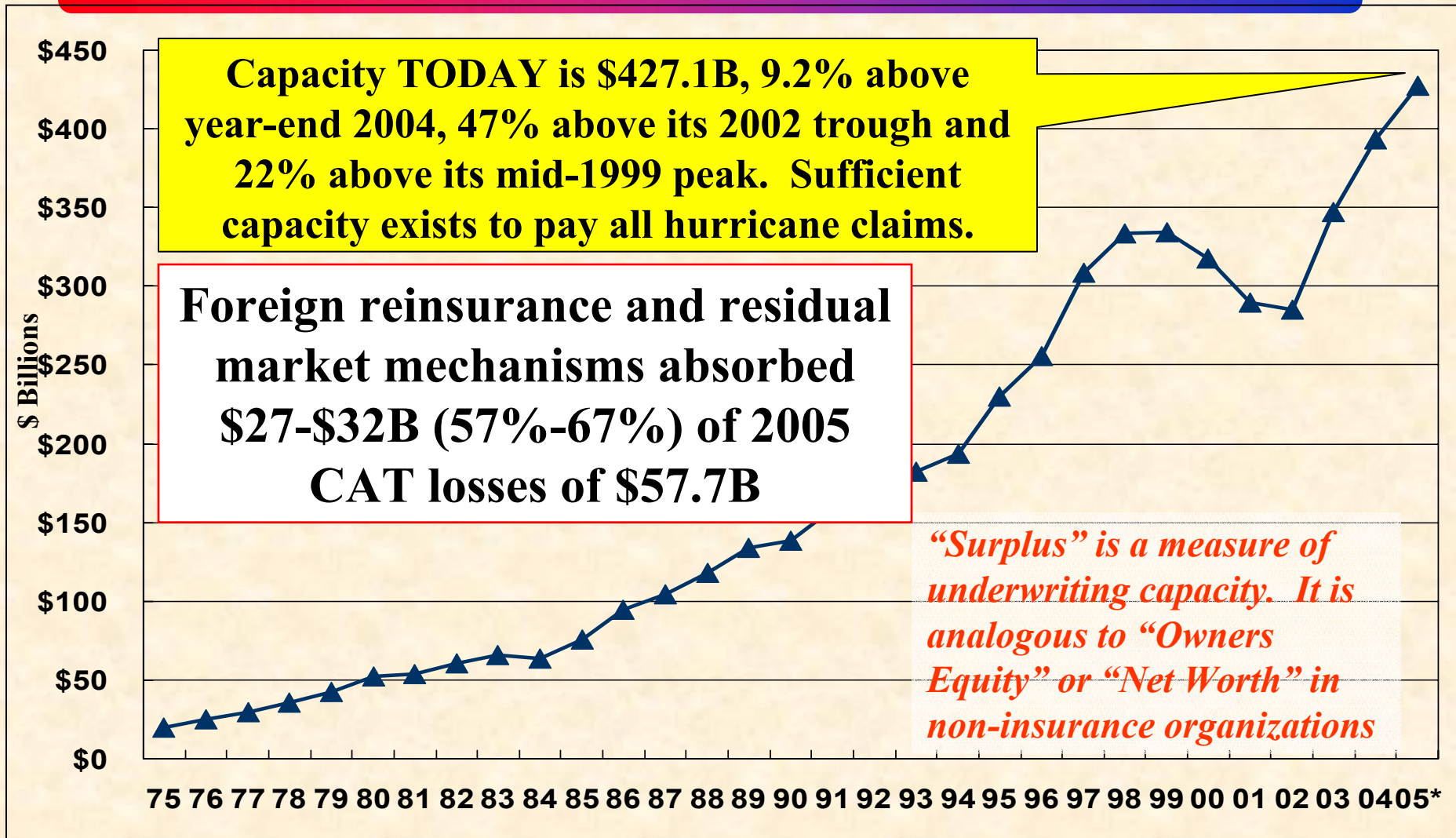
Issue #5
LEVERAGE

*Can the Industry
Efficiently Employ Its
Increasing Capital?*





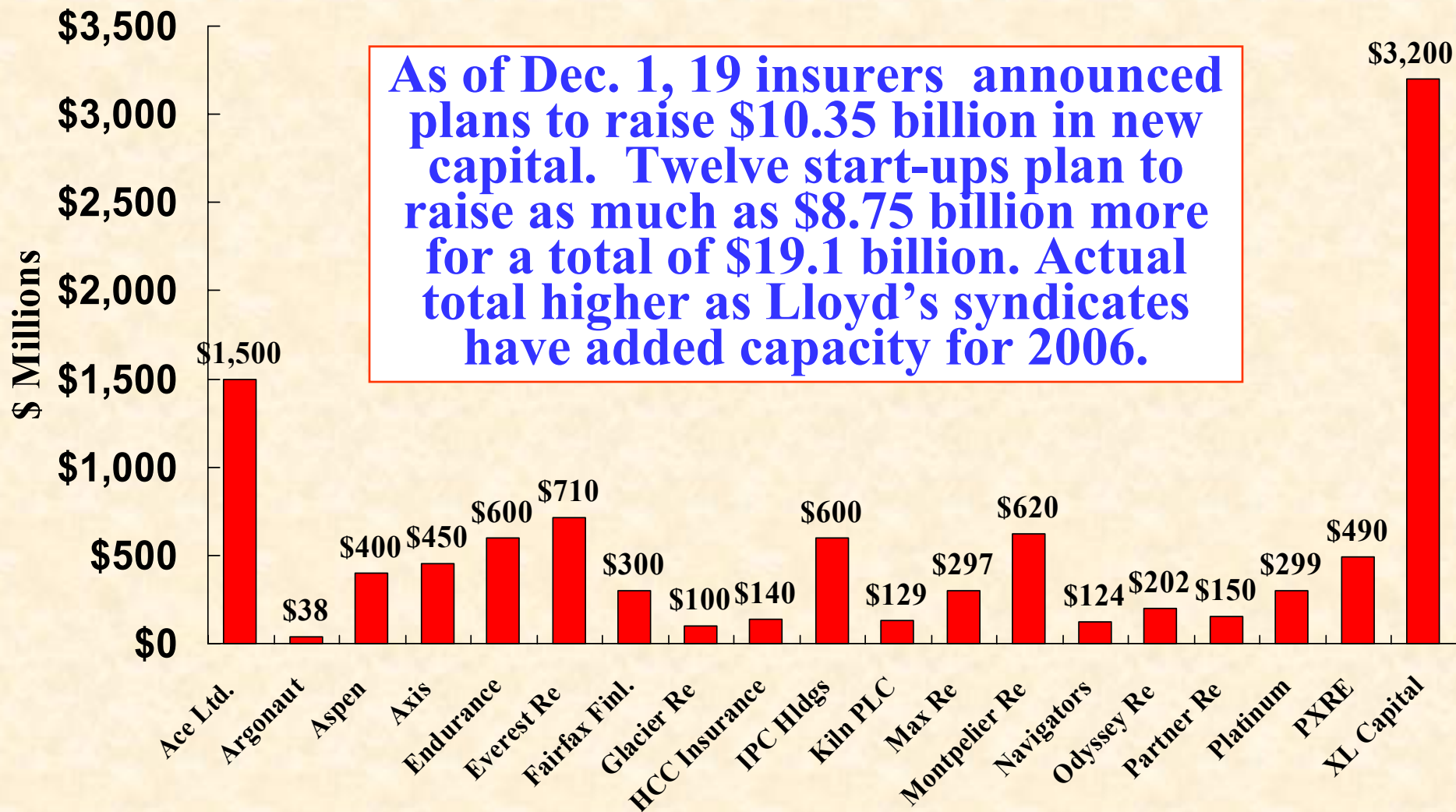
U.S. Policyholder Surplus: 1975-2005*





Announced Insurer Capital Raising*

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



*Existing (re) insurers. Announced amounts may differ from sums actually raised.

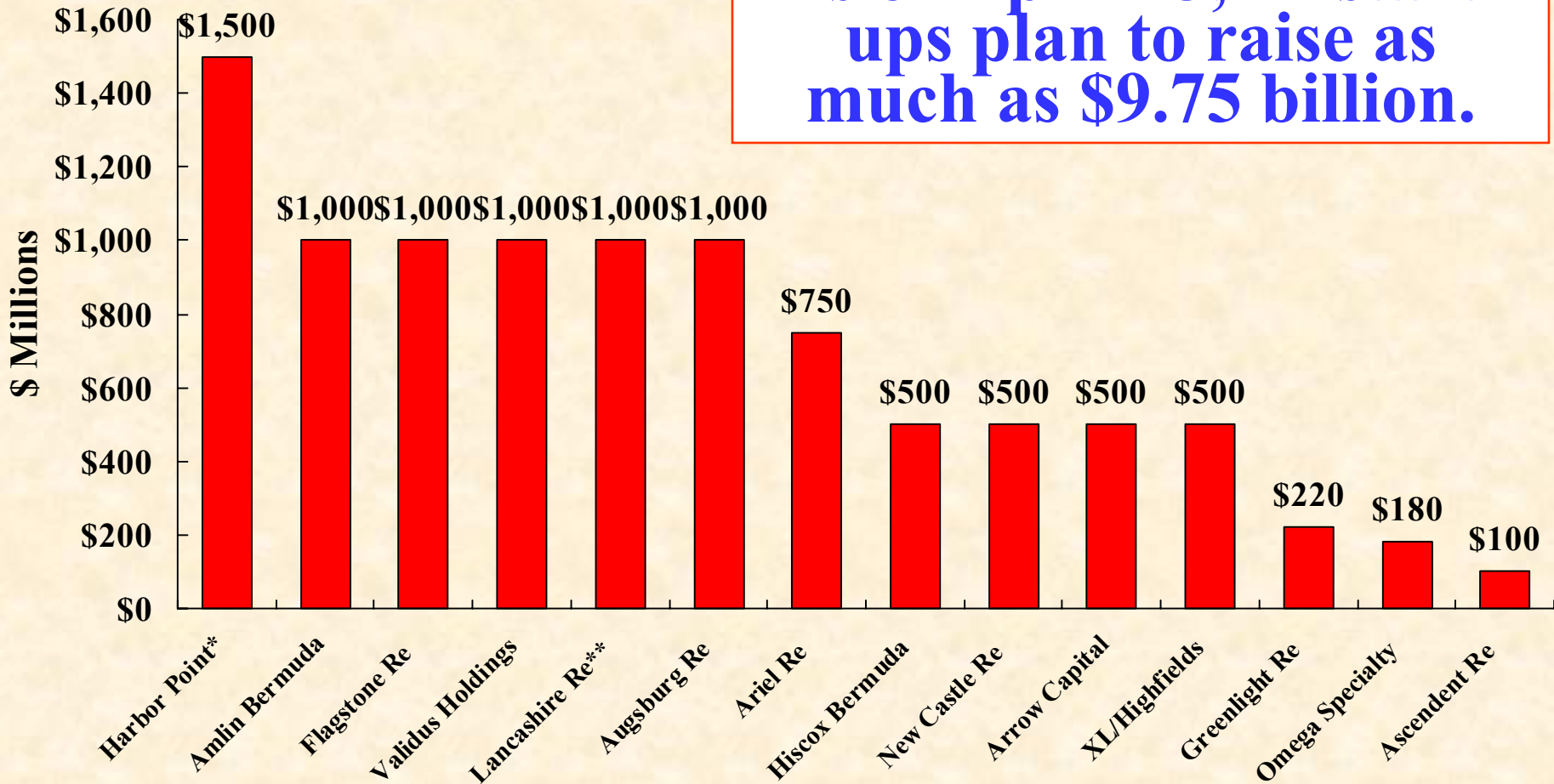
Sources: Morgan Stanley, Lehman Brothers, Company Reports; Insurance Information Institute.



Announced Capital Raising by Insurance Start-Ups

(\$ Millions, as of April 15, 2006)

As of April 15, 14 start-ups plan to raise as much as \$9.75 billion.

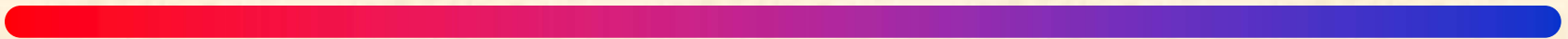


*Chubb, Trident are funding Harbor Point. Announced amounts may differ from sums actually raised. **Stated amount is \$750 million to \$1 billion. ***XL Capital/Hedge Fund venture. Arrow Capital formed by Goldman Sachs.

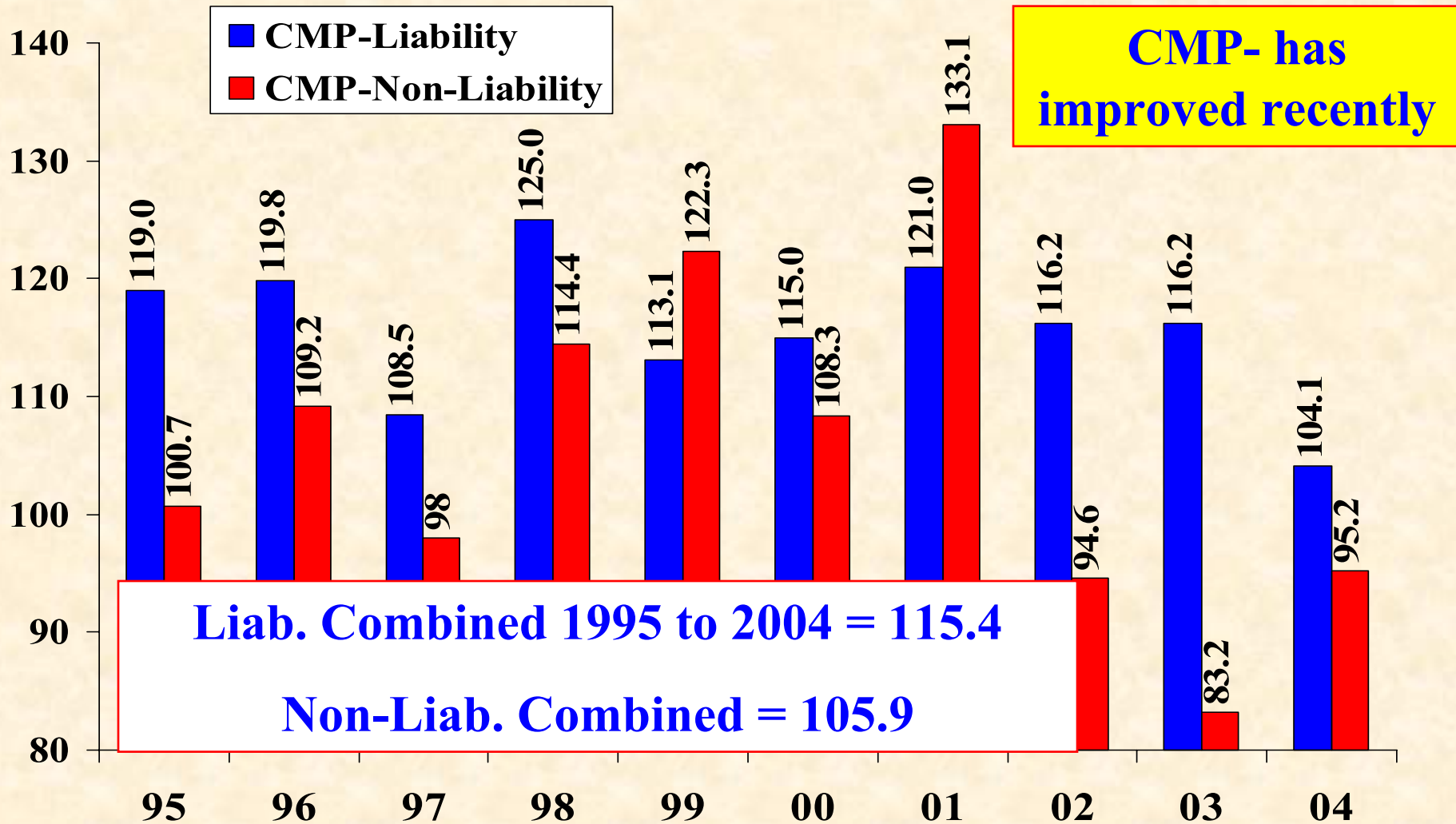
Sources: Morgan Stanley, Company Reports; Insurance Information Institute.

COMMERCIAL INSURANCE

BETTER—FOR NOW

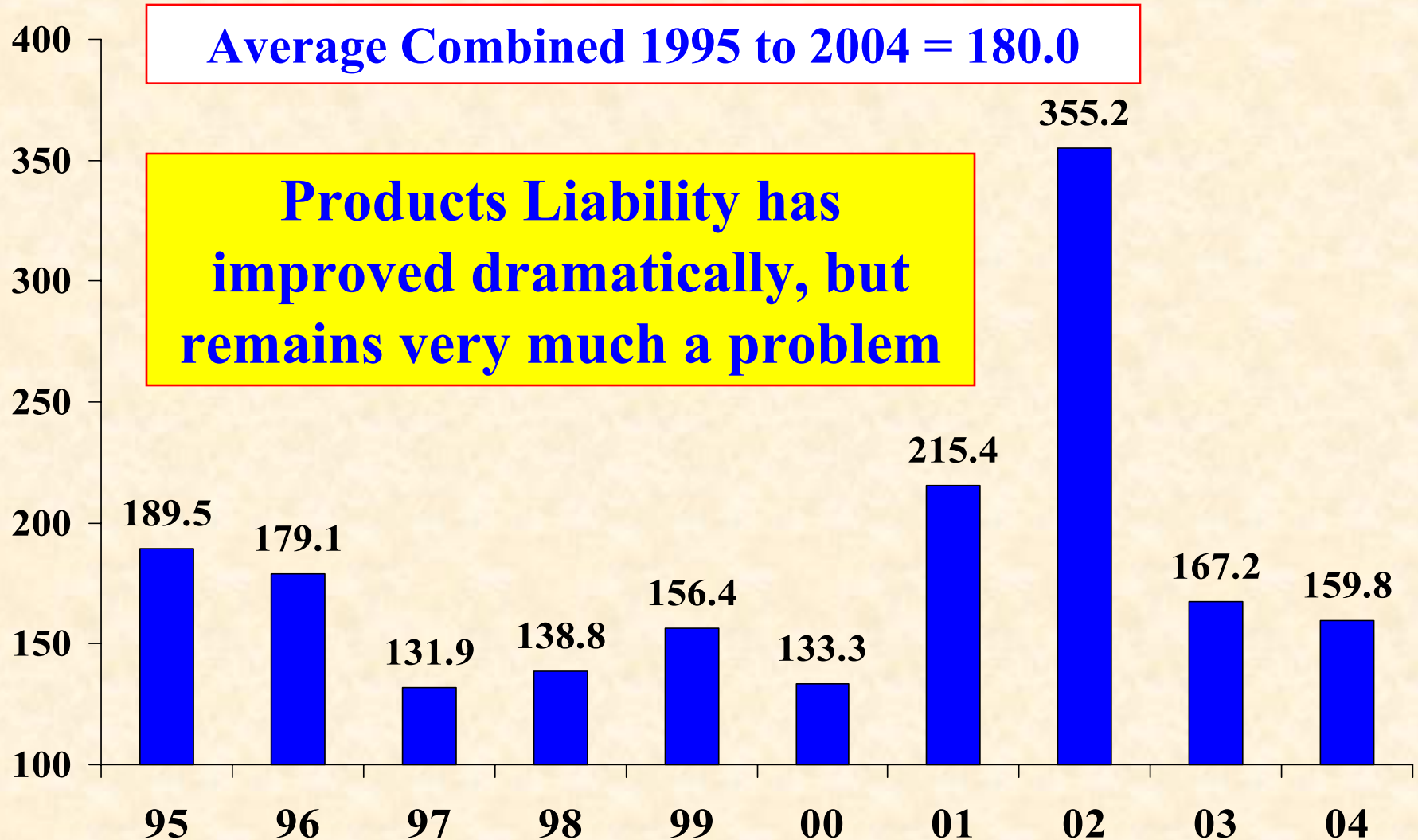


Commercial Multi-Peril Combined (Liability vs. Non-Liability Portion)



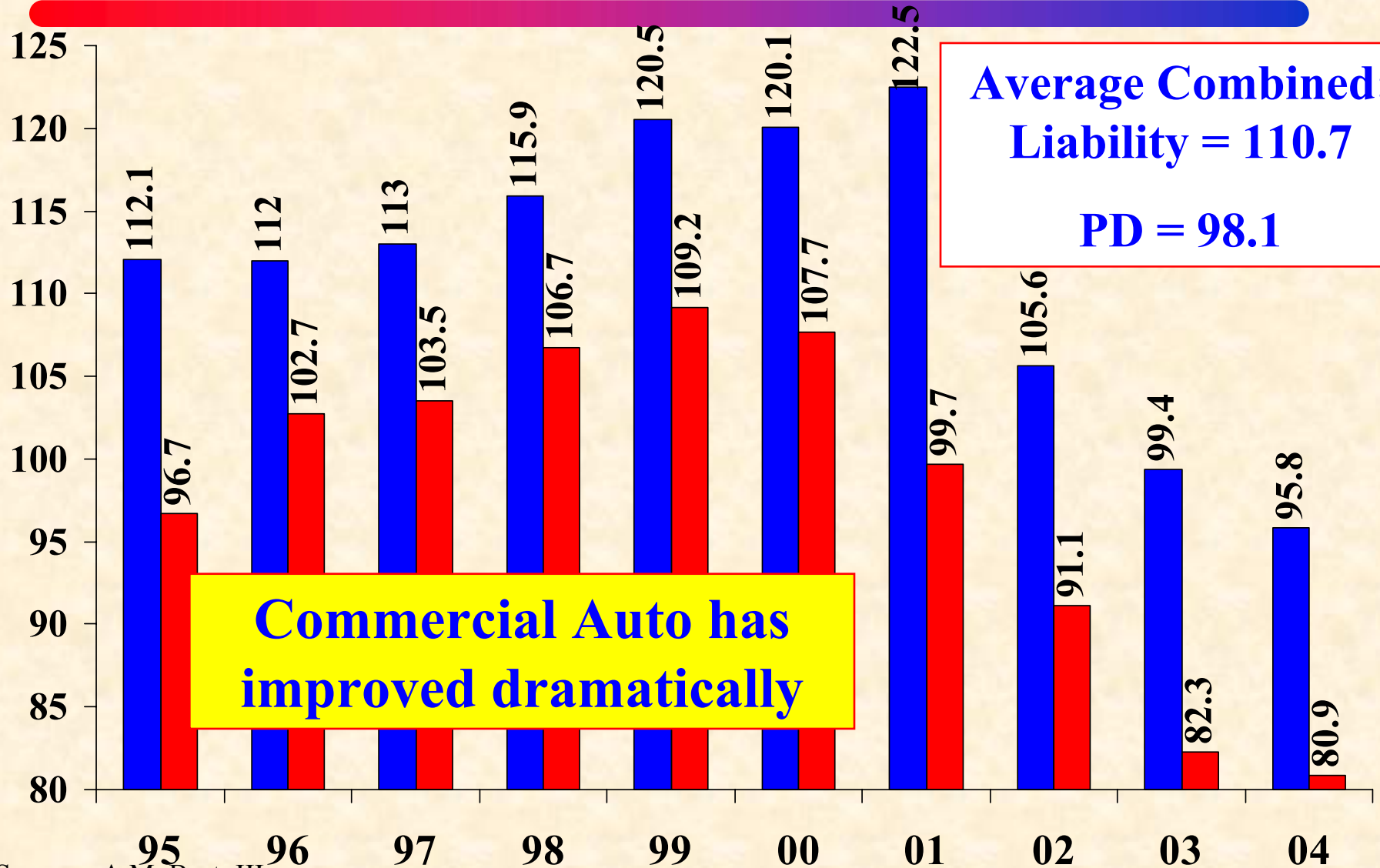


Products Liability Combined Ratio





Commercial Auto Liability & PD Combined Ratios

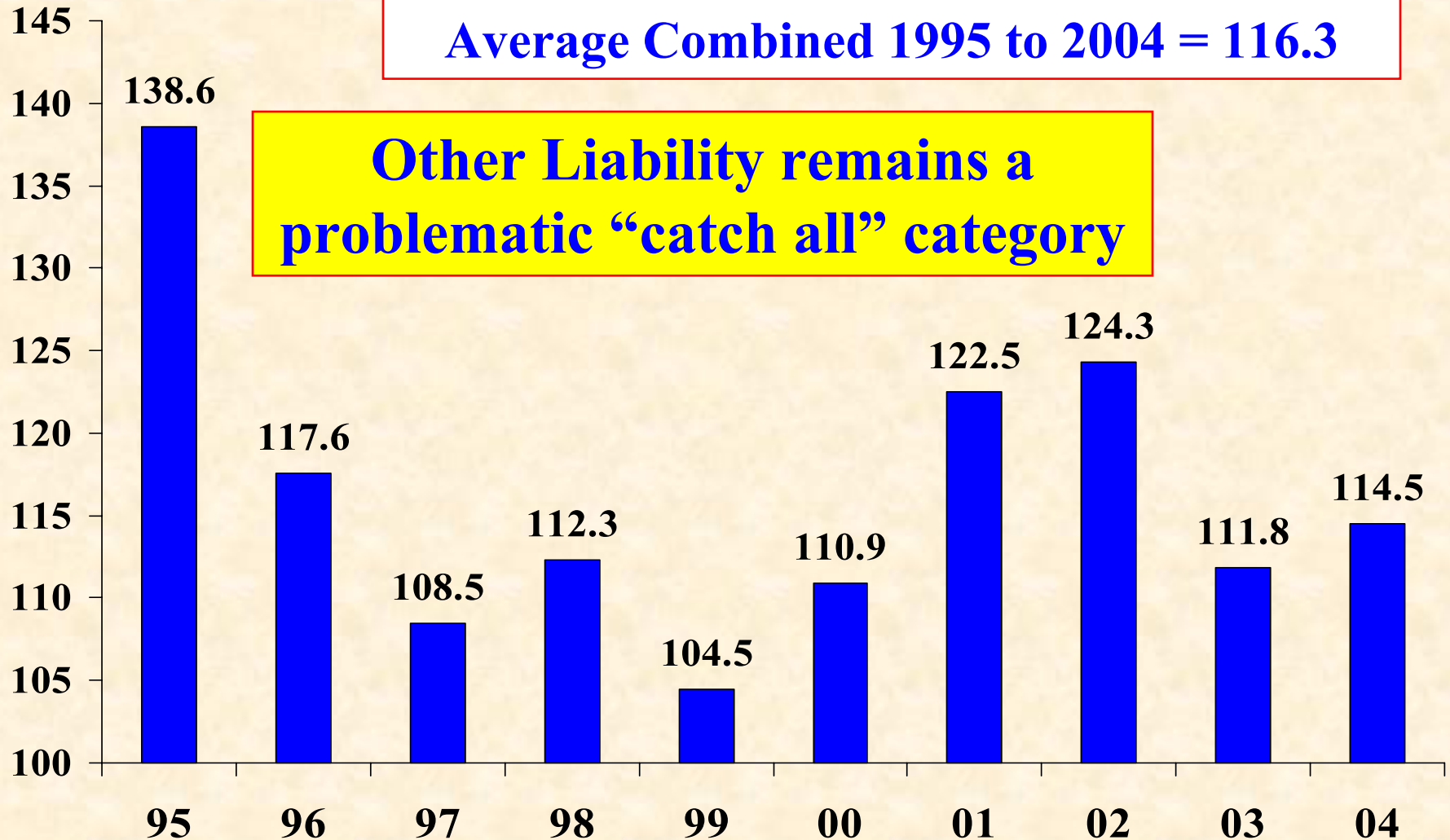




Other Liability Combined Ratio

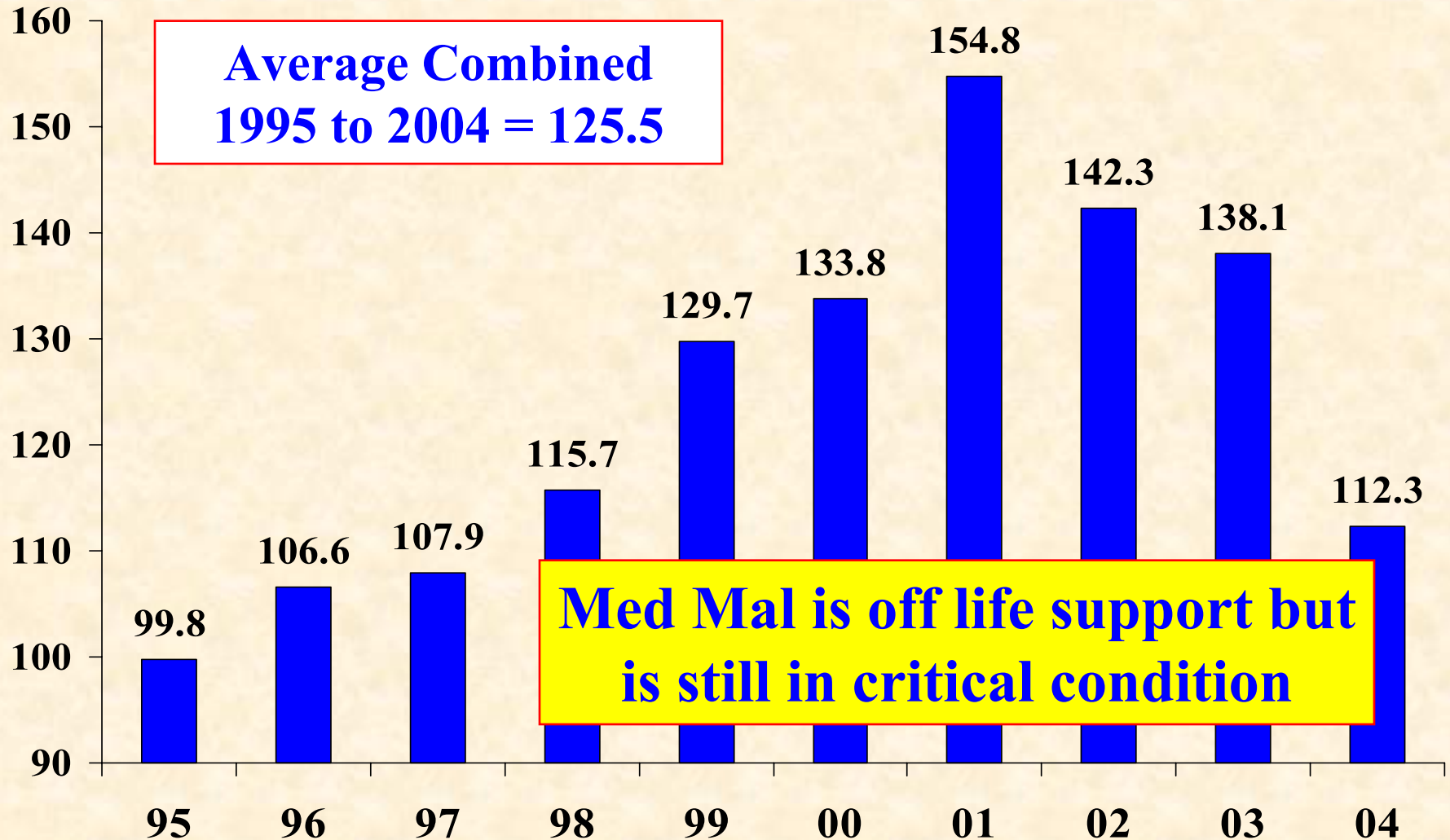
Average Combined 1995 to 2004 = 116.3

Other Liability remains a problematic “catch all” category



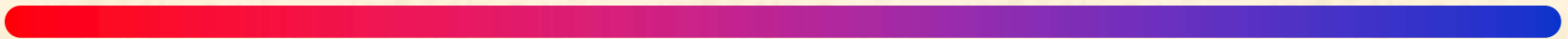


Medical Malpractice Combined Ratio



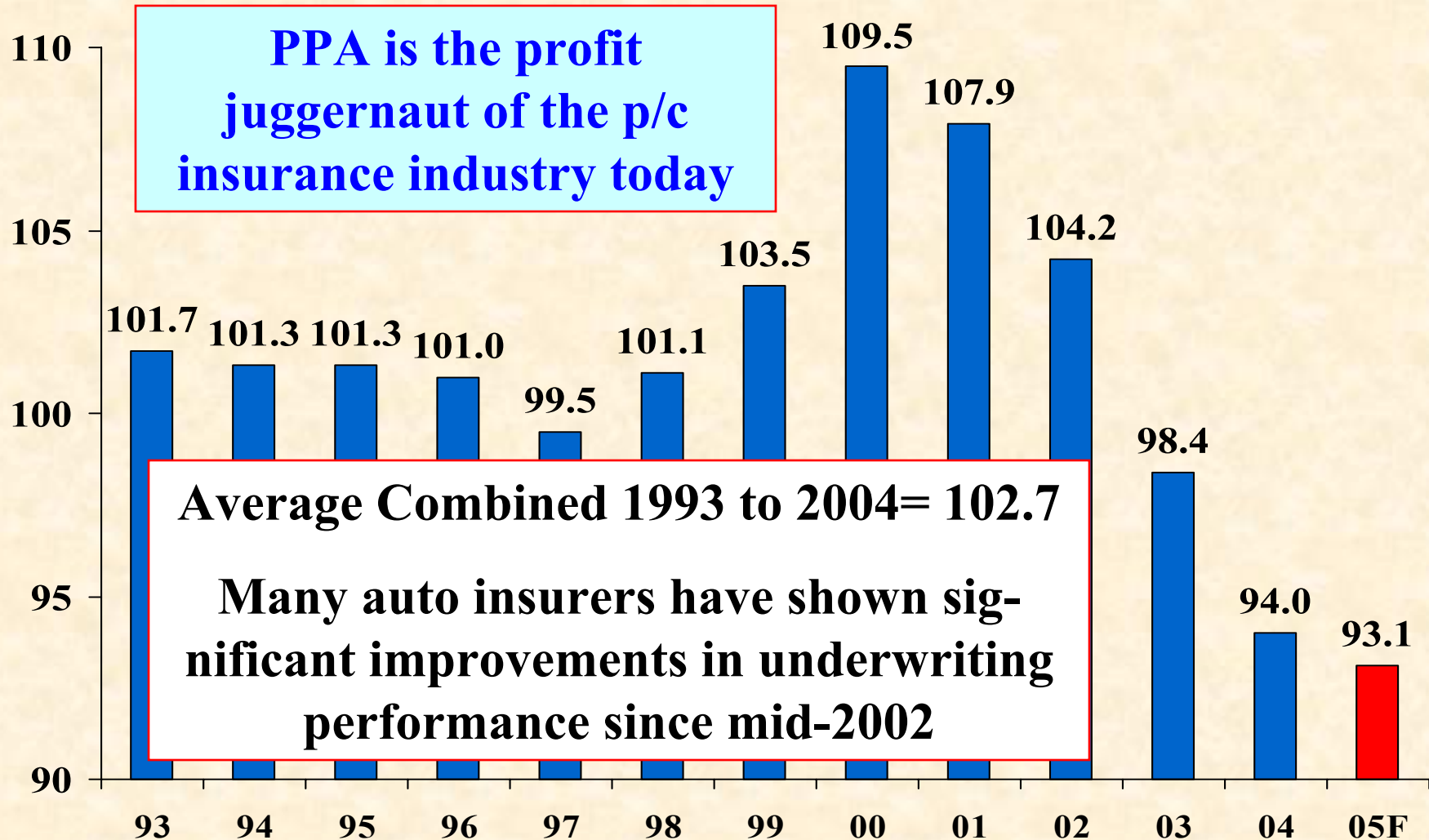
AUTO & HOME:

*A SUCCESSFUL SHIFT TO
THE UNDERWRITING
CULTURE?*



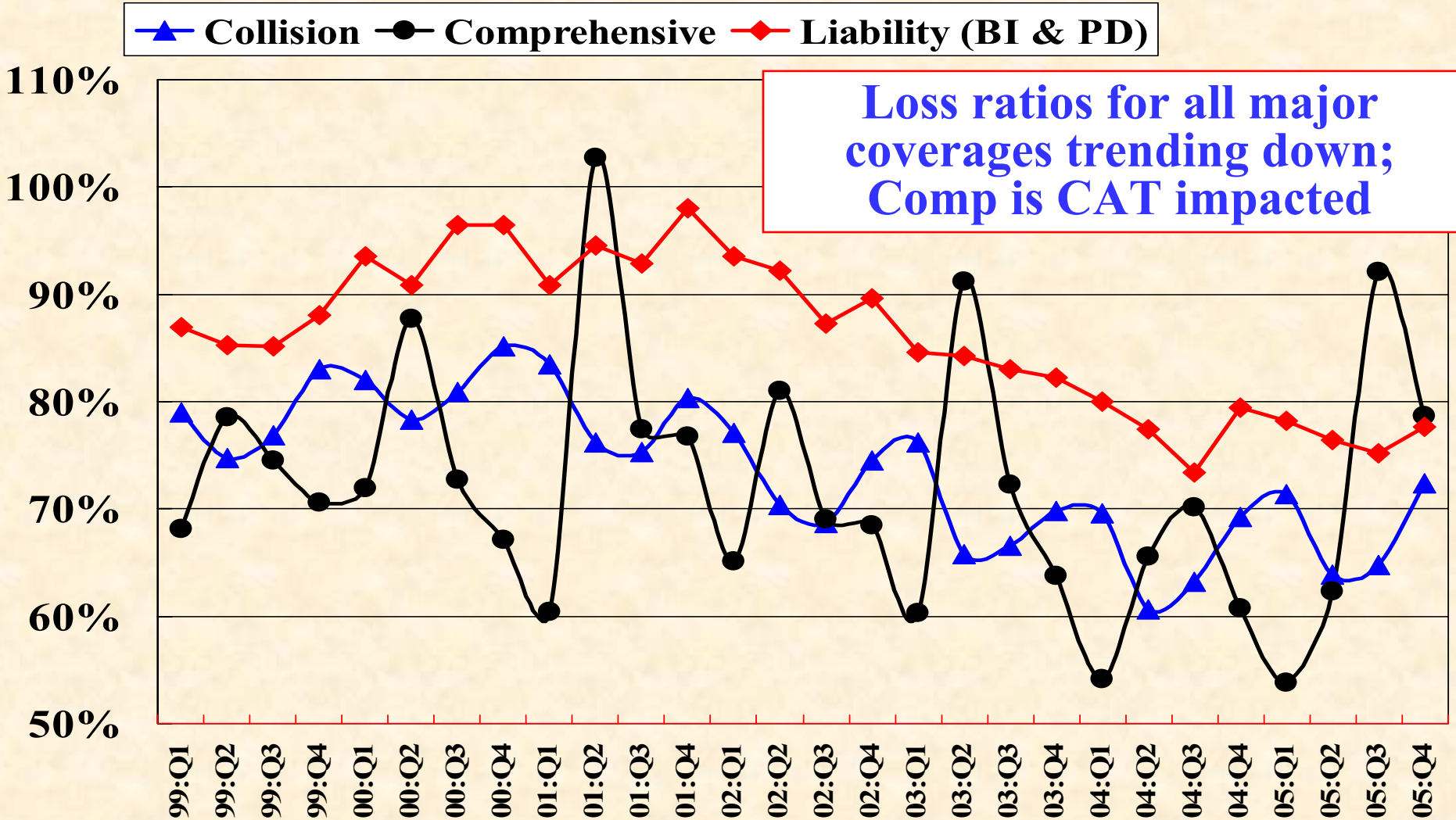


Private Passenger Auto Combined Ratio





Private Passenger Auto: Incurred Loss Ratios*, 1999-2005:Q4



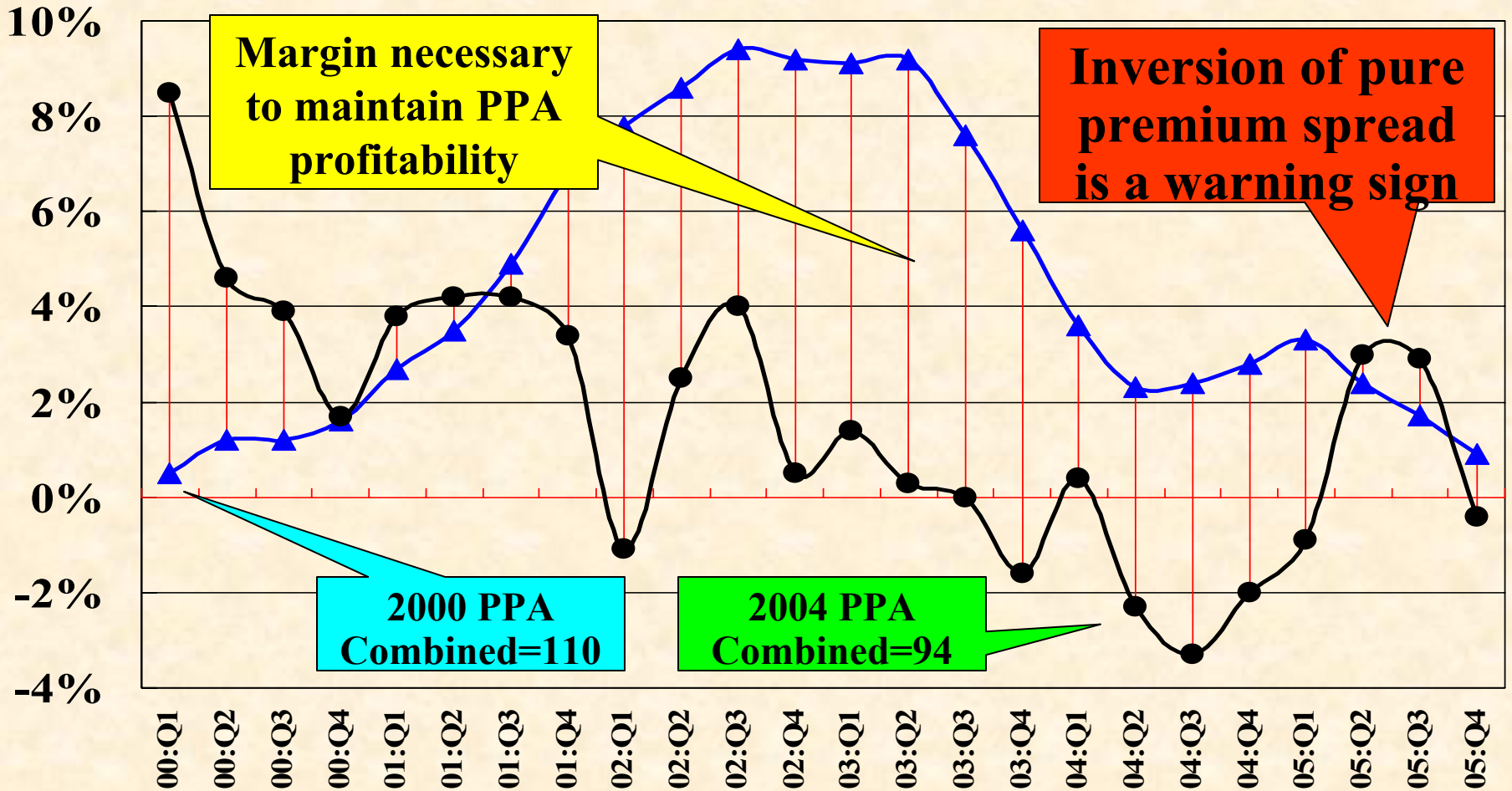
Source: ISO Fast Track; Insurance Information Institute.

*Direct basis



Pure Premium Spread: Personal Auto PD Liability, 2000-2005:Q4

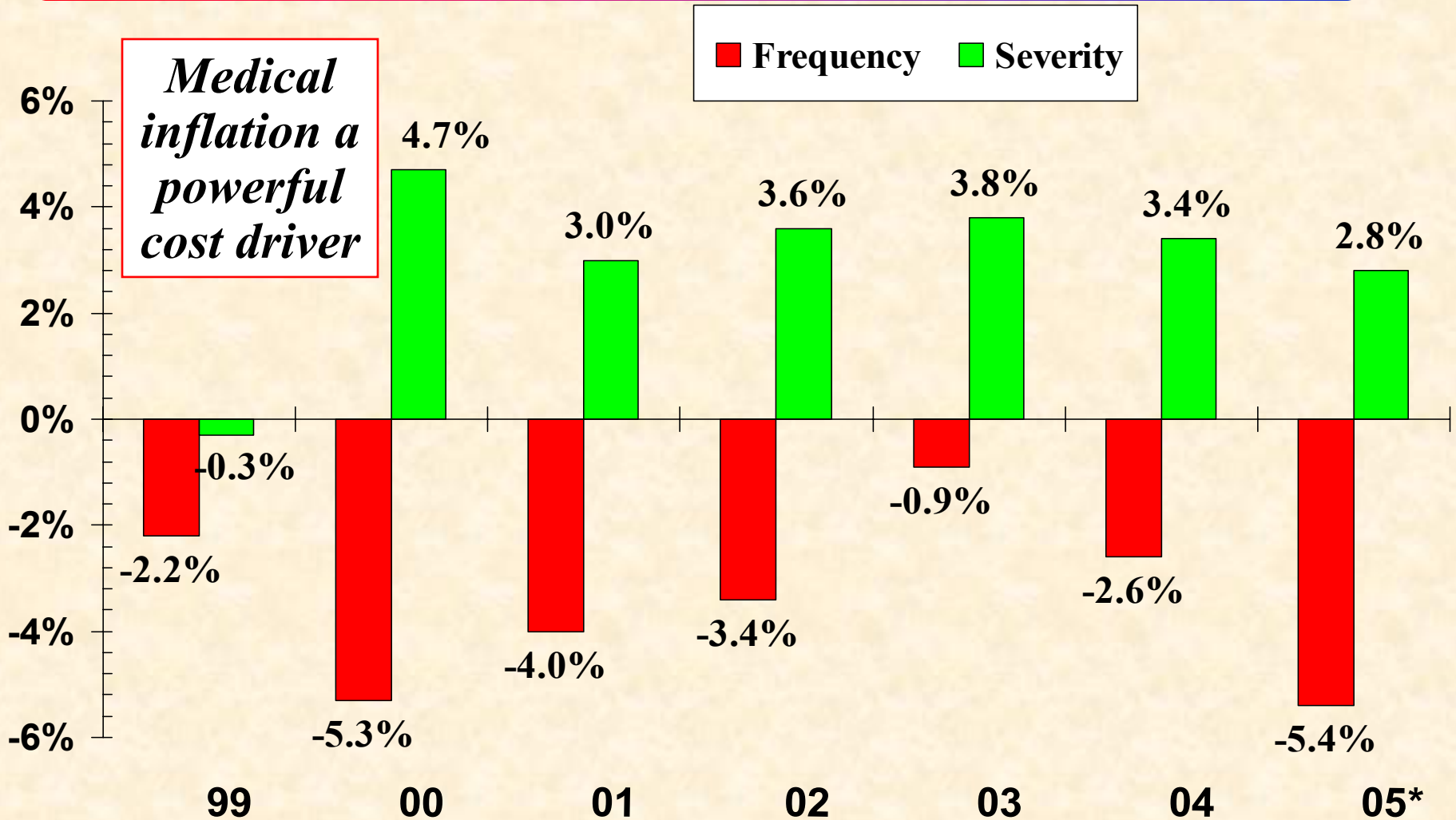
▲ Auto Insurance Component of CPI ● Personal Auto-PD Pure Premium



Bodily Injury: Severity Trends



Now Offset Declining Claim Freq.



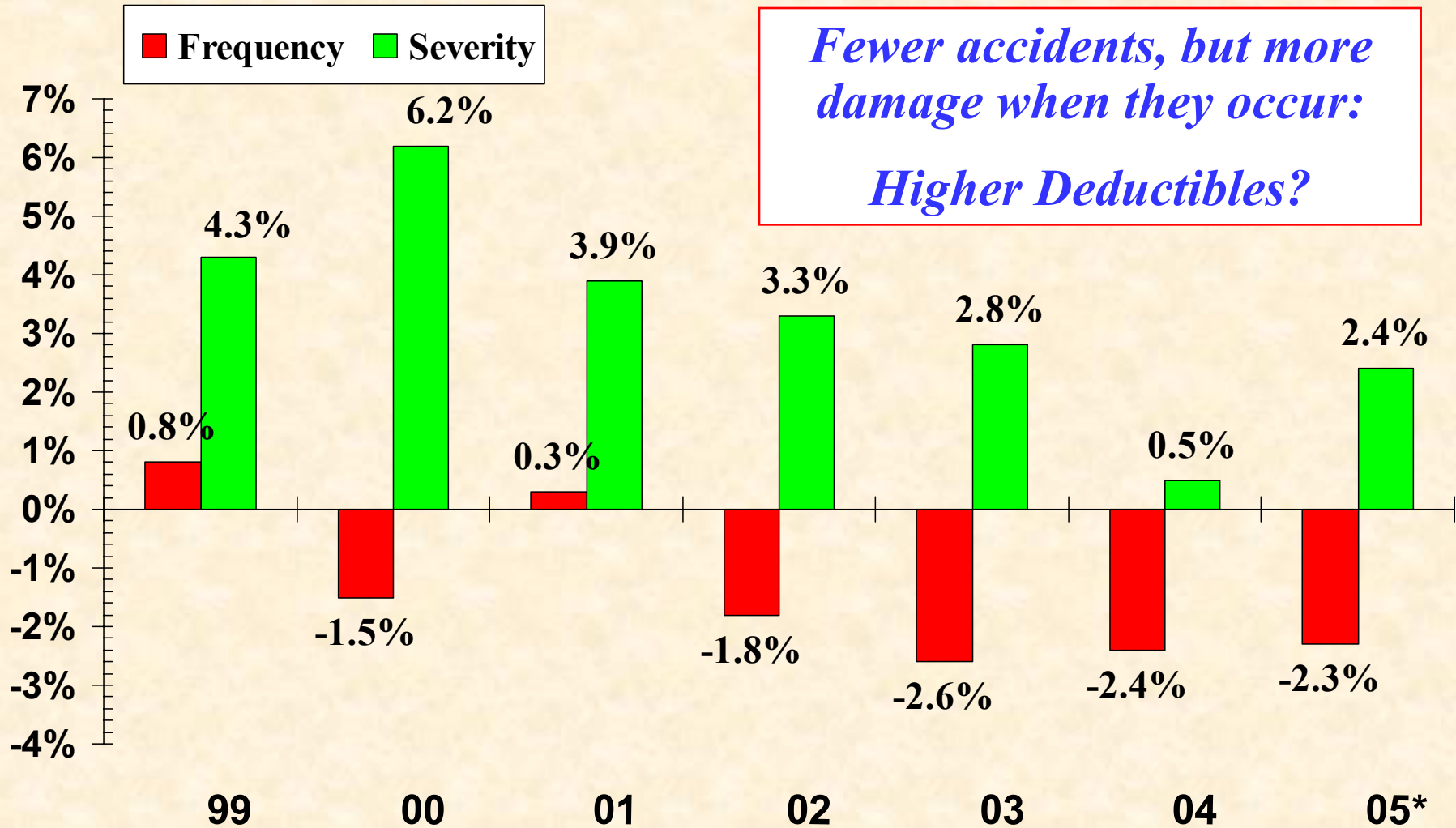
*Four quarters ending 2005:Q4.

Source: ISO Fast Track data.



PD Liability: Frequency Trend

Swamps Rising Claim Severity



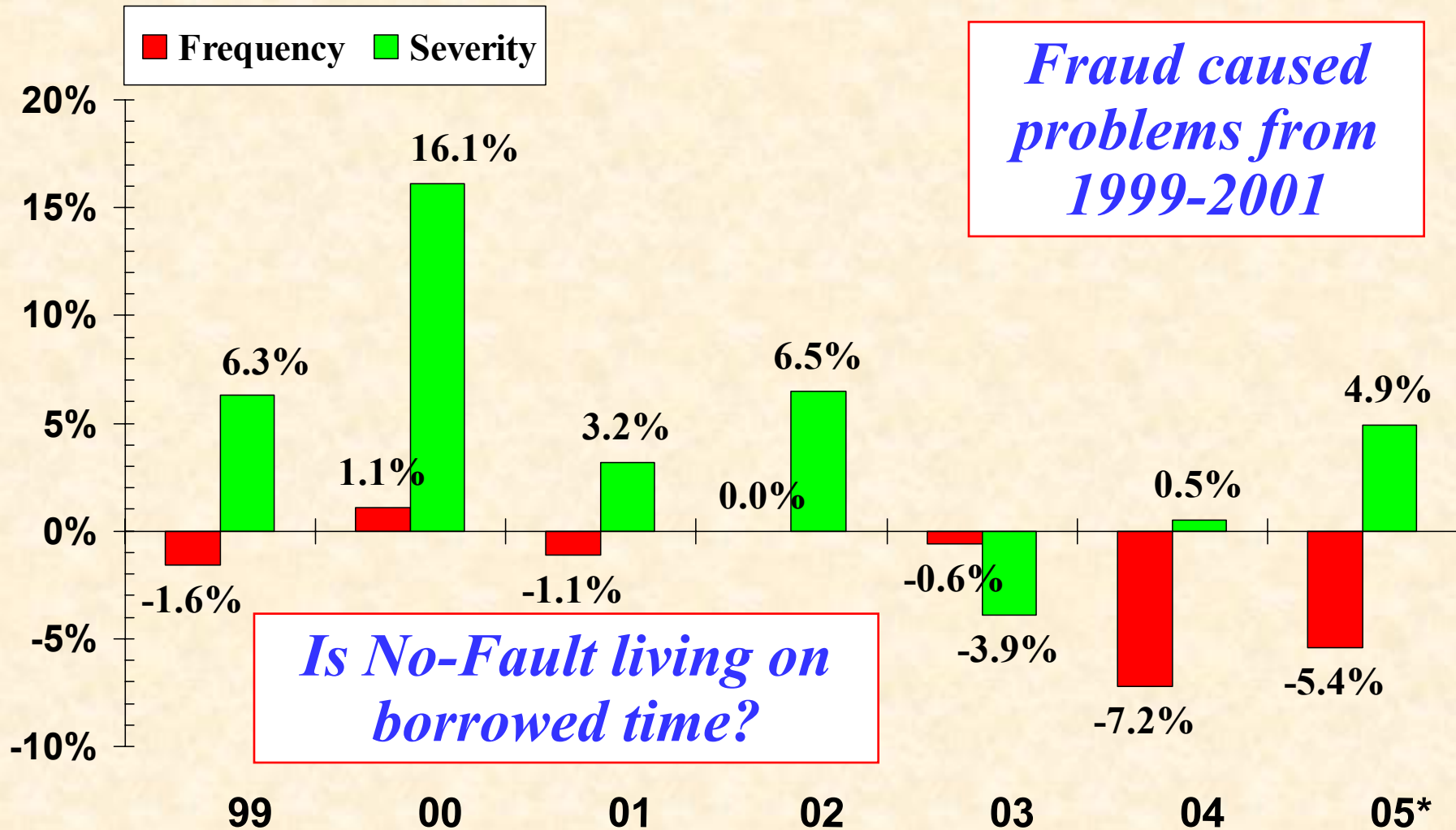
Fewer accidents, but more damage when they occur:

Higher Deductibles?

*Four quarters ending 2005:Q4.
Source: ISO Fast Track data.



PIP: Frequency Trend Now Offsets Rising Claim Severity



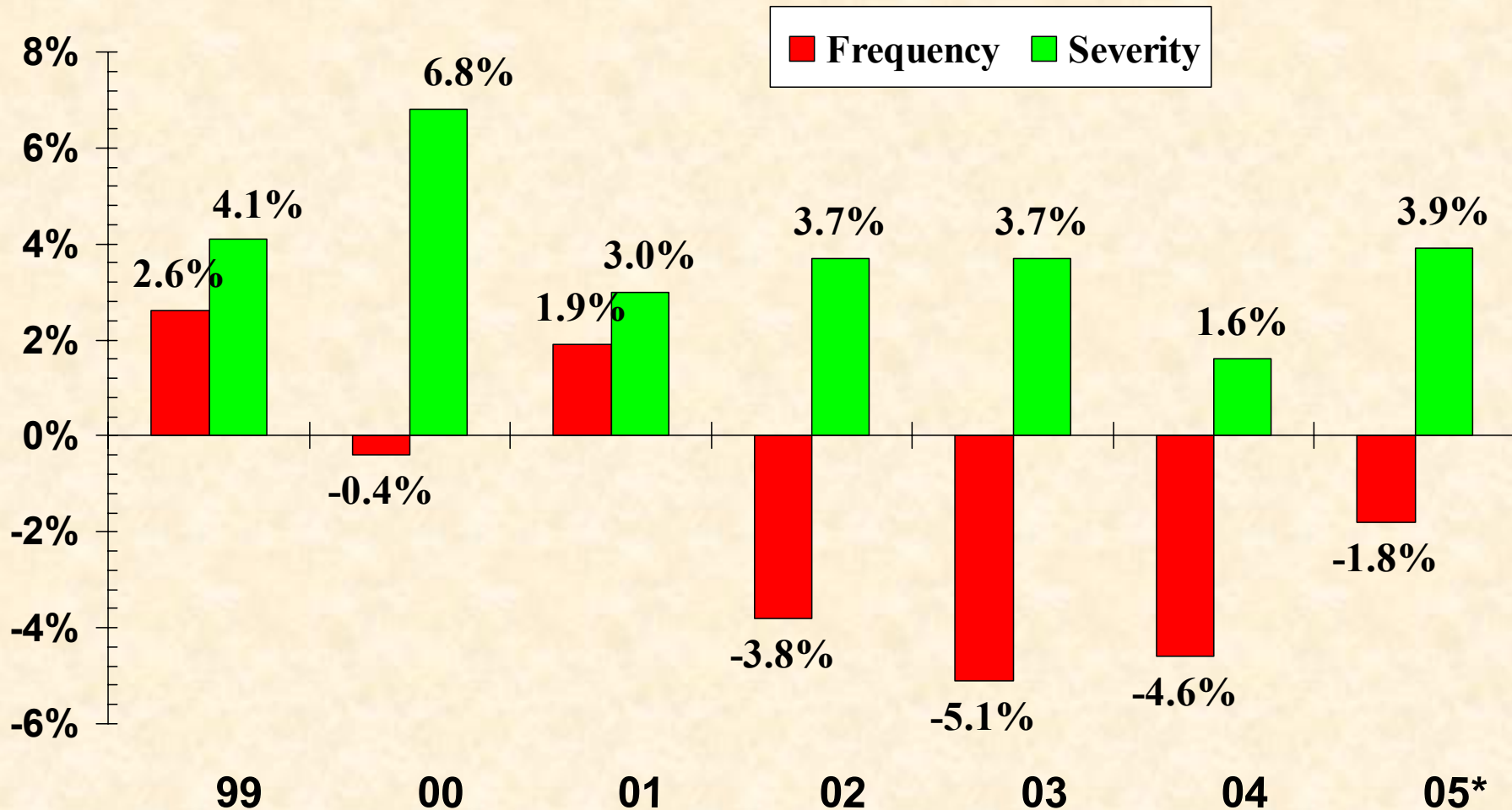
*Four quarters ending 2005:Q4.

Source: ISO Fast Track data.



Collision: Frequency Trend

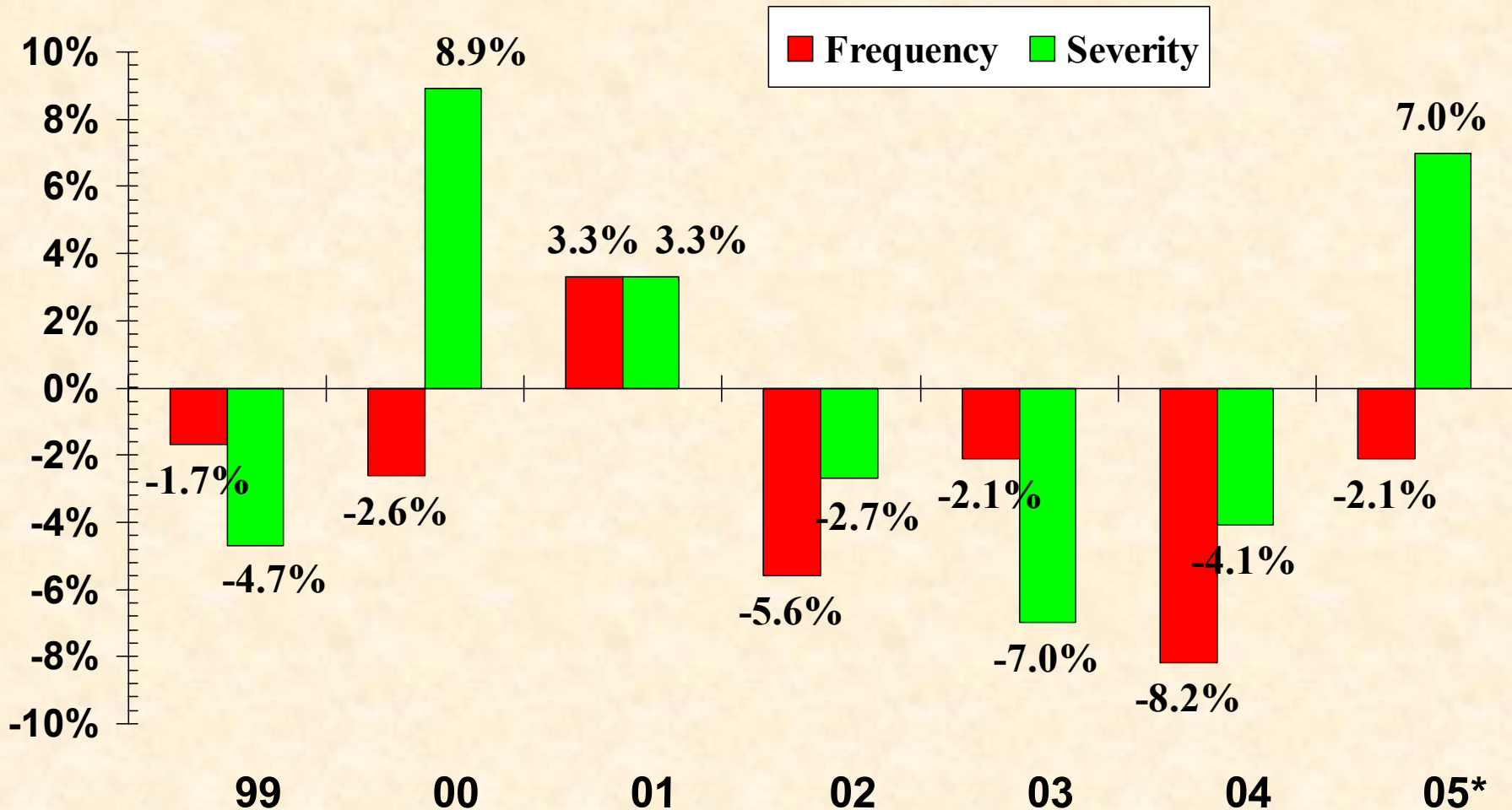
Swamps Rising Claim Severity



*Four quarters ending 2005:Q4.
Source: ISO Fast Track data.

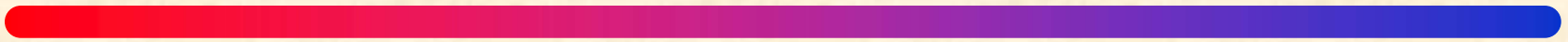


Comprehensive: Favorable Frequency and Severity Trends



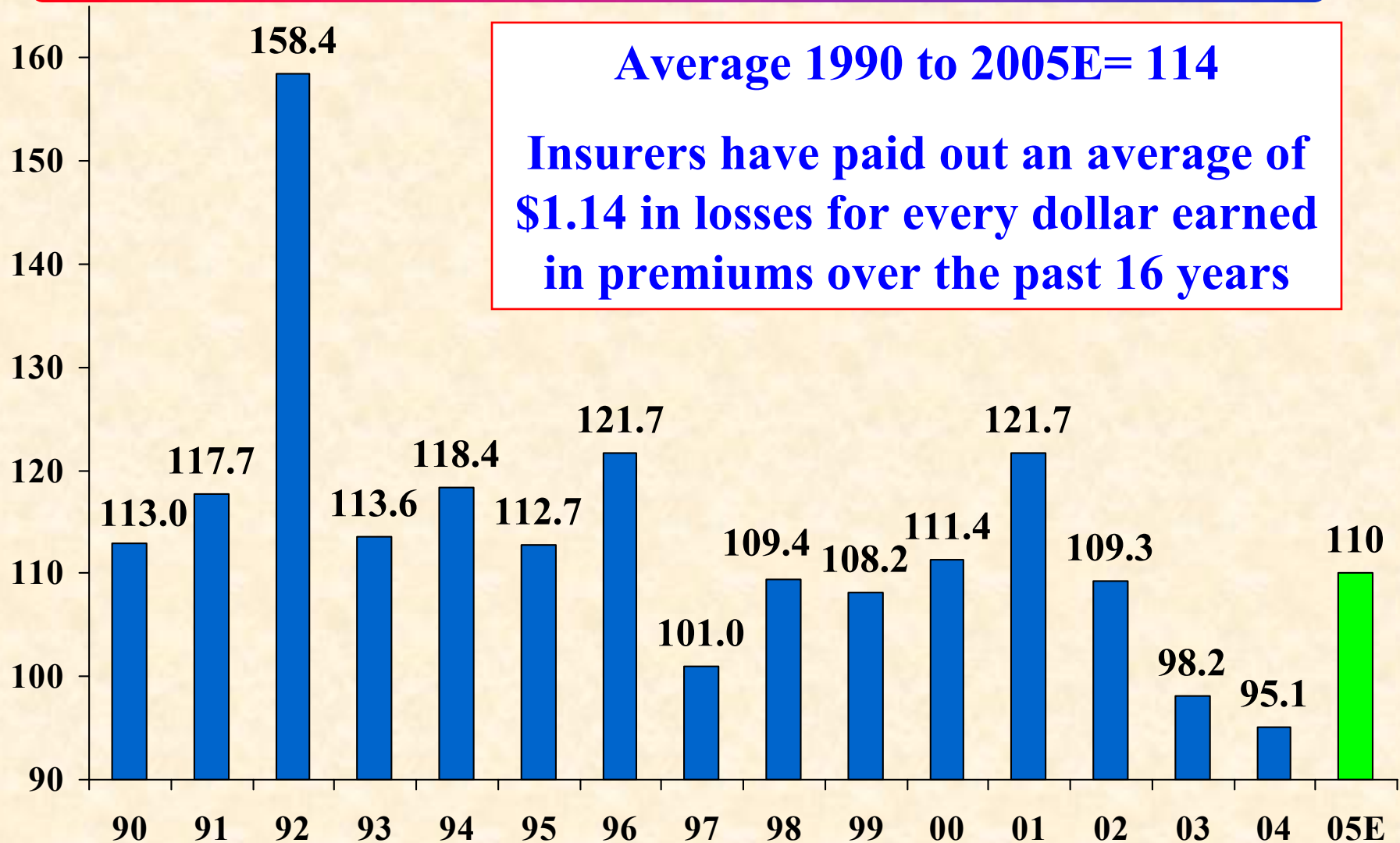
*Four quarters ending 2005:Q4.
Source: ISO Fast Track data.

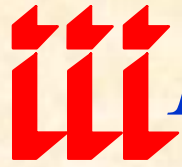
Homeowners





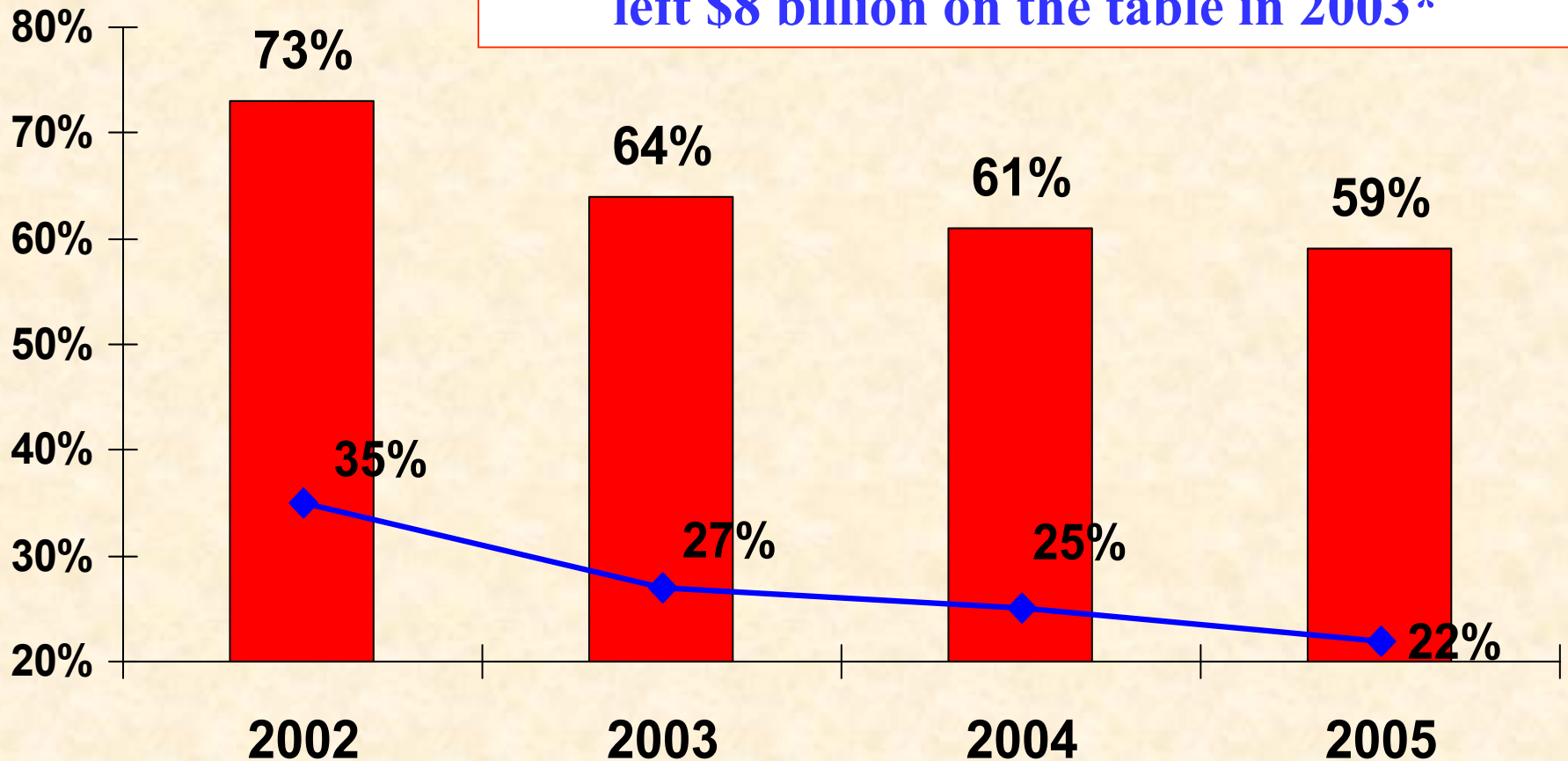
Homeowners Insurance Combined Ratio





Insurance-to-Value in HO is a National Problem, Improved Recently

Less than ITV means homeowners insurers left \$8 billion on the table in 2003*



*According MS/B.
Source: Marshall & Swift/Boeckh

■ Proportion of Home Undervalued **◆ Average Undervaluation**

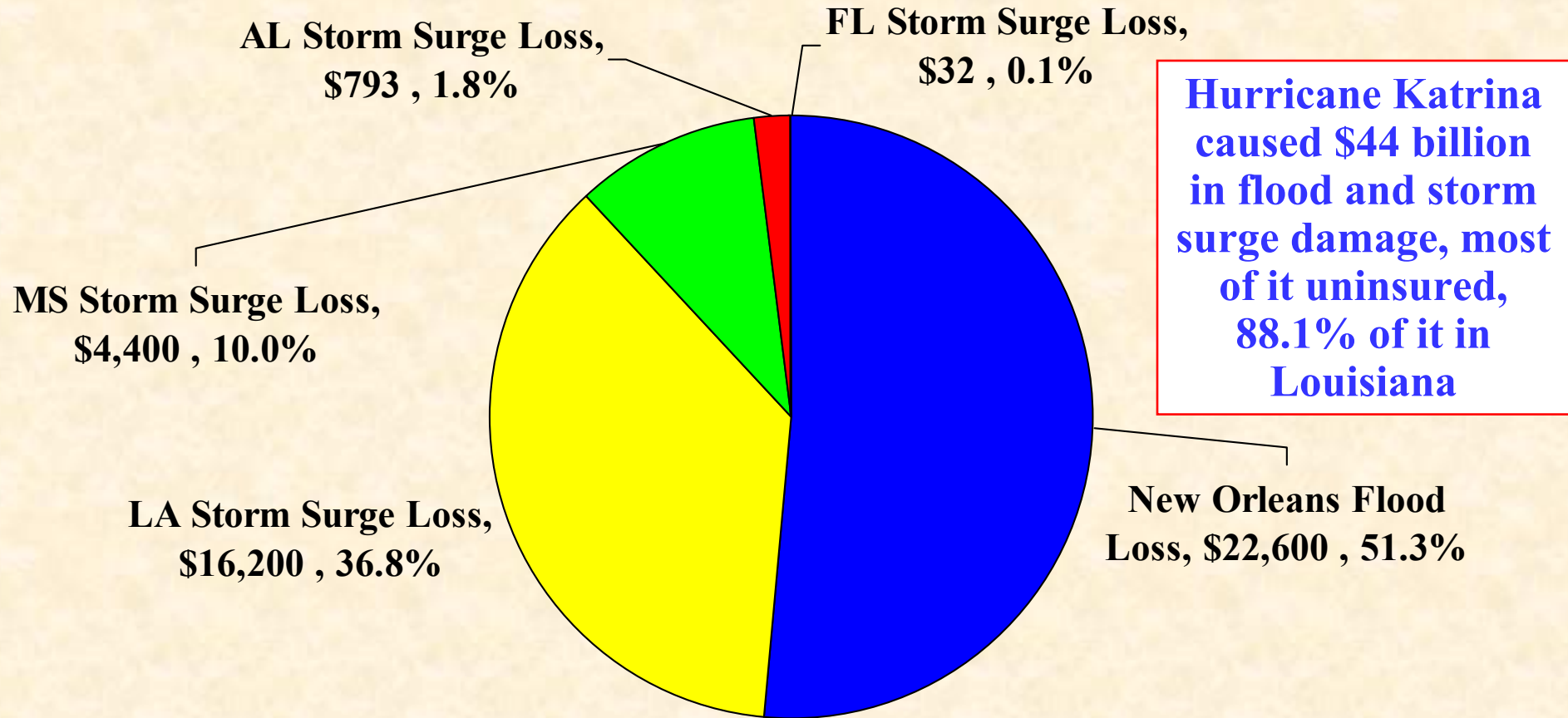
Flood Statistics





Property Damage from Hurricane

Katrina Flood & Storm Surge (\$ Millions)*

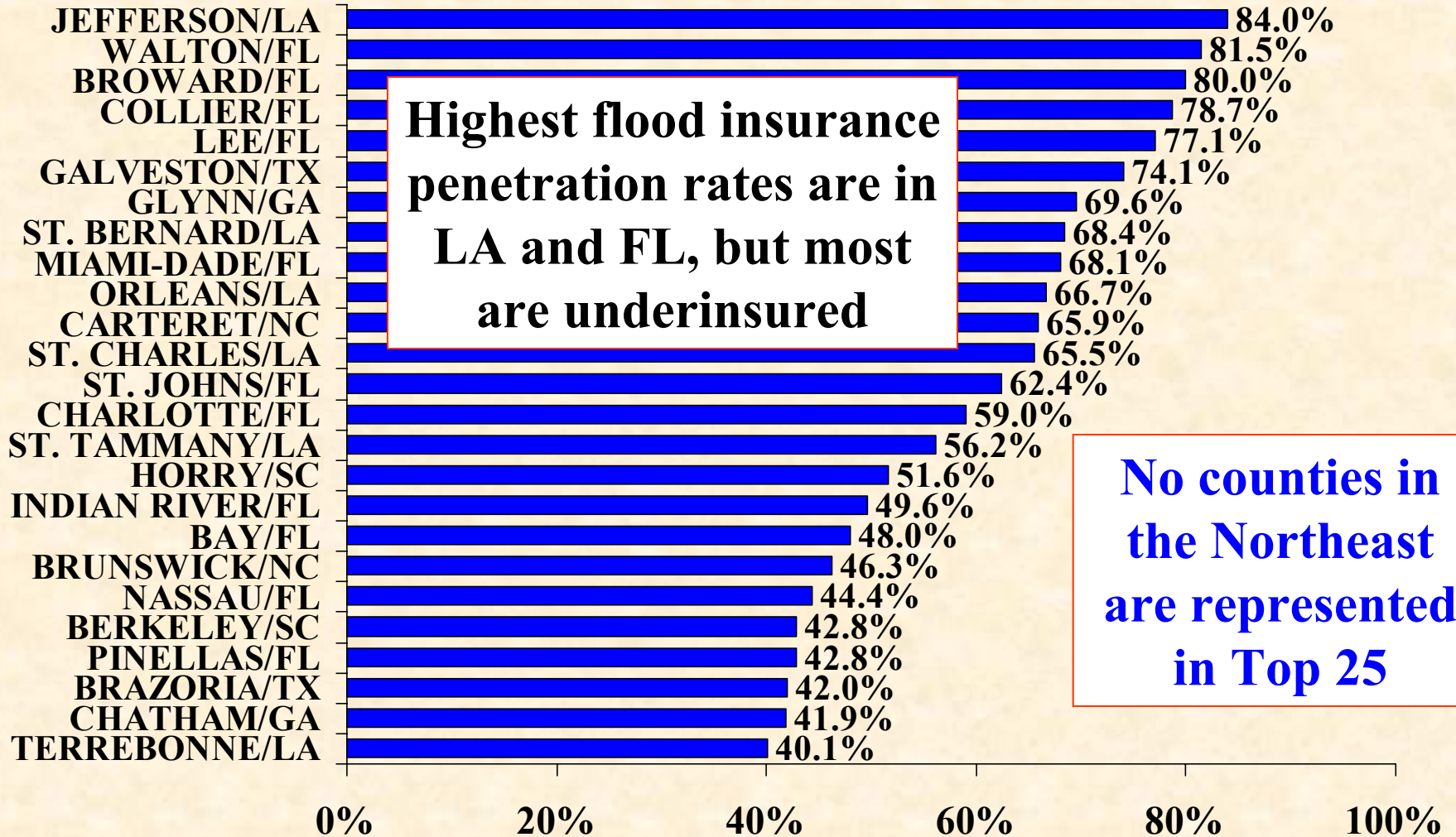


*Value of property damage by flood and storm surge *whether or not insured*.

Source: AIR Worldwide, September 29, 2005.



Flood Insurance Penetration Rates: Top 25 Counties/Parishes in US*

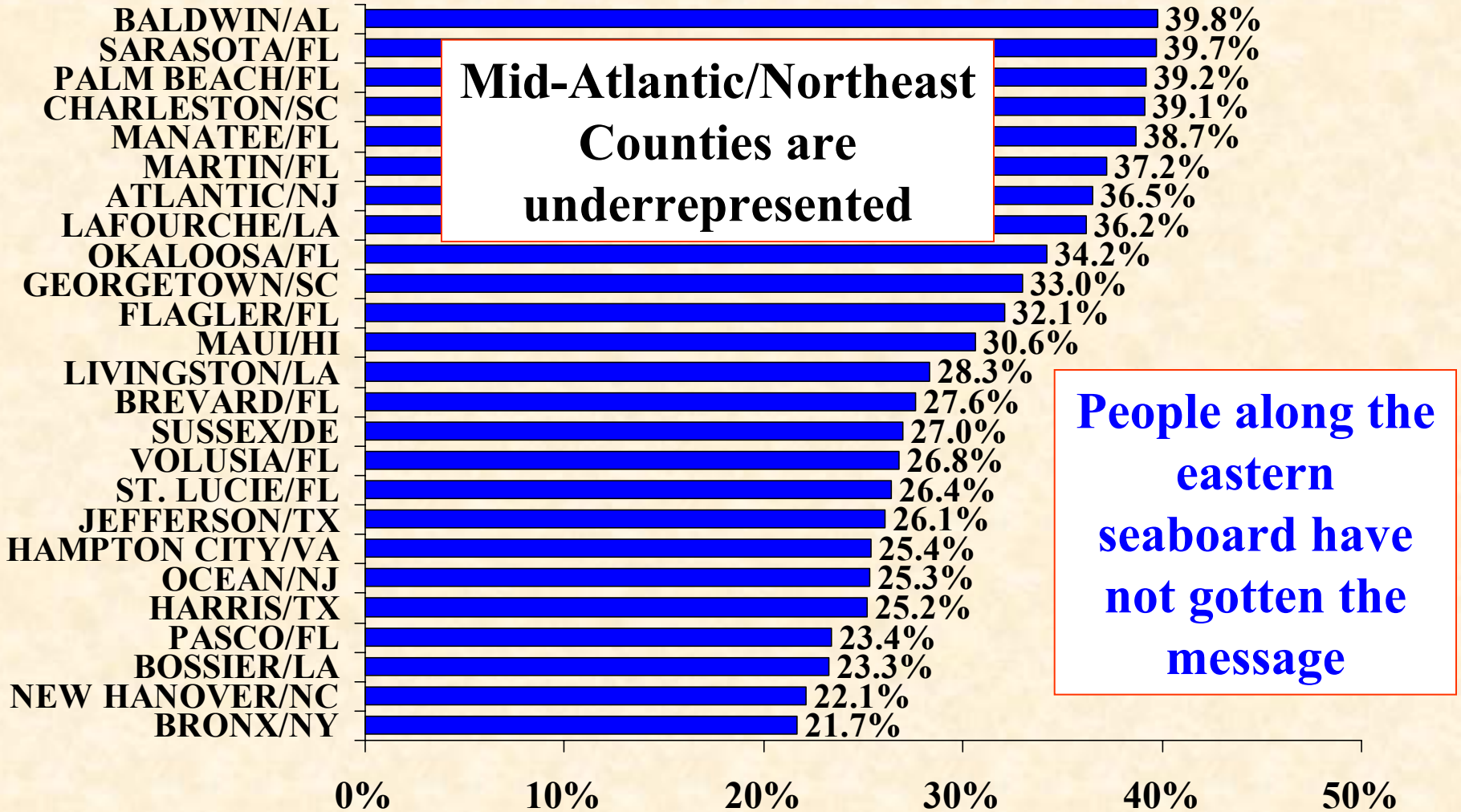


*As of 12/31/05.

Source: New Orleans Times-Picayune, 3/19/06, from NFIP and US Census Bureau data.



Flood Insurance Penetration Rates: Counties/Parishes Ranked 26-50*

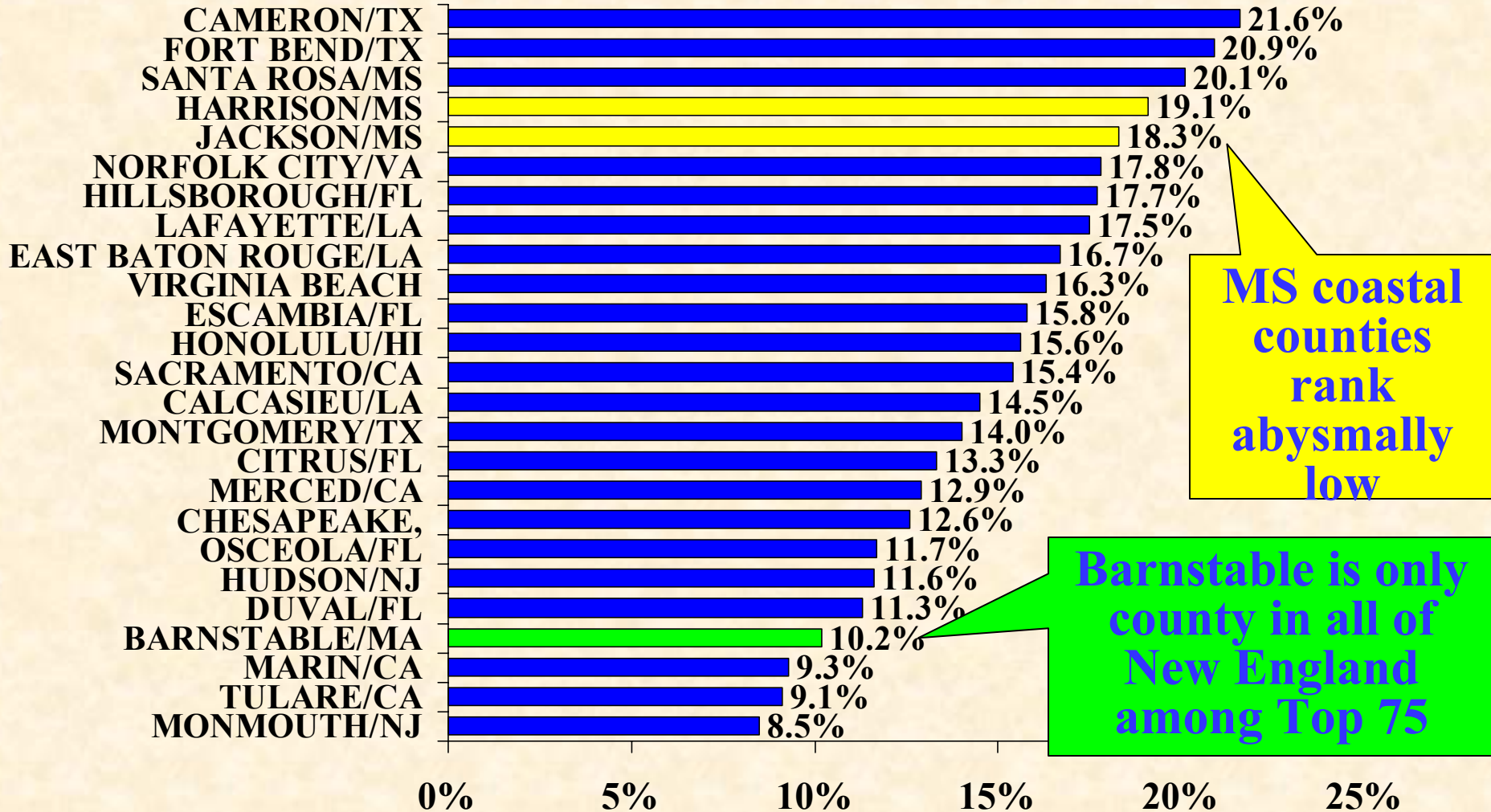


*As of 12/31/05.

Source: New Orleans Times-Picayune, 3/19/06, from NFIP and US Census Bureau data.



Flood Insurance Penetration Rates: Counties/Parishes Ranked 51-75*



*As of 12/31/05.

Source: New Orleans Times-Picayune, 3/19/06, from NFIP and US Census Bureau data.



Insurance Information Institute On-Line

WWW.III.ORG

*If you would like a copy of this presentation, please
give me your business card with e-mail address*