

# Overview & Outlook for the Property/Casualty Insurance Industry

**July 2003**



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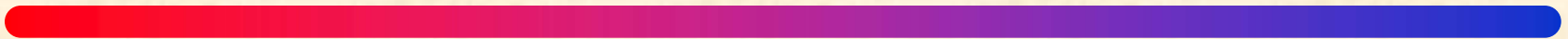
# *Presentation Outline*

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- Hard Market
  - Pricing & Affordability
  - P/C Profitability
  - Underwriting Performance
  - Investment Performance
- Credit/C.L.U.E.
- Tort Environment
- Q & A

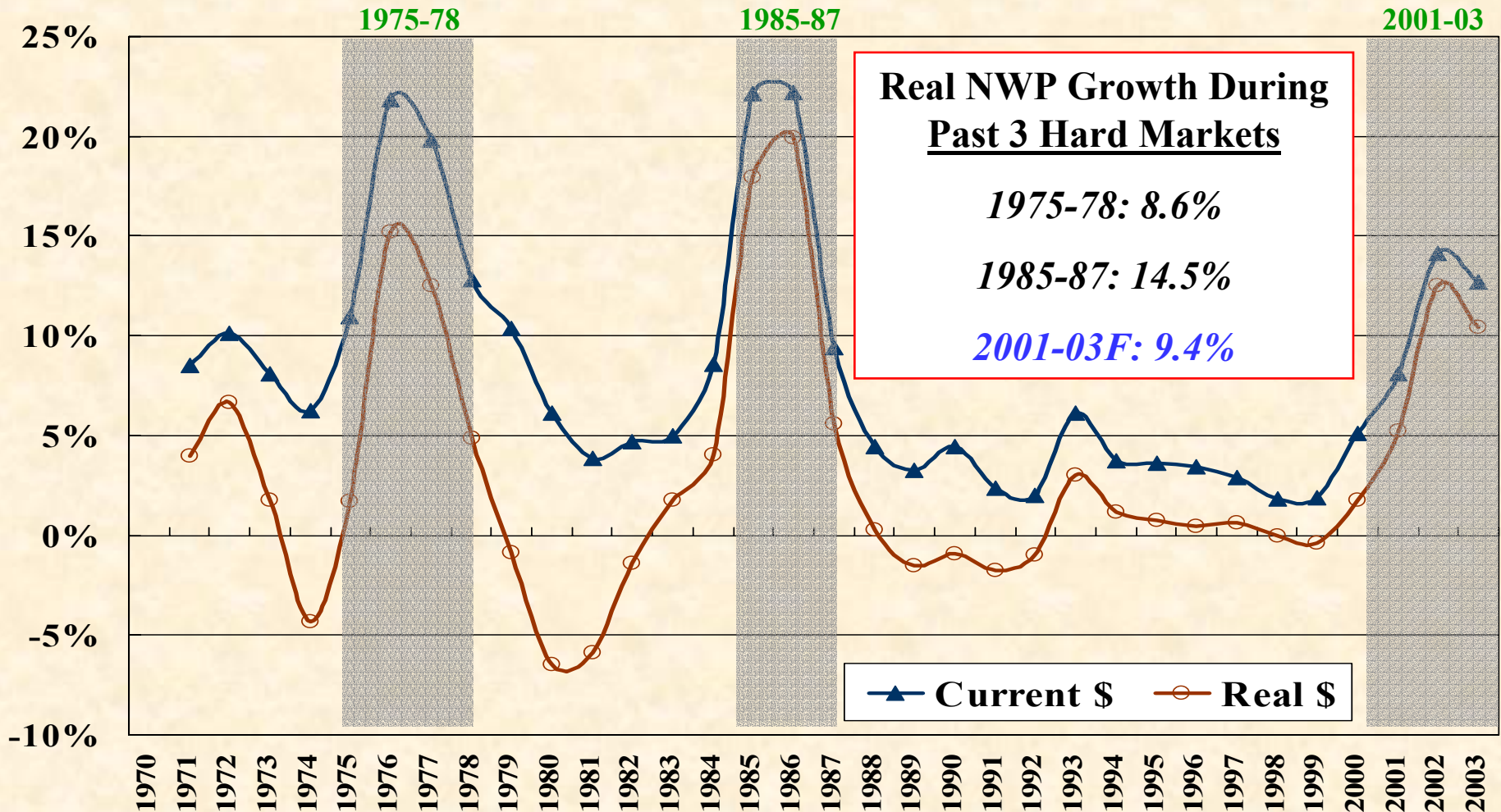
# ***HARD MARKET:***

## **IMPACT ON PRICING & AFFORDABILITY**





# Strength of Recent Hard Markets by Real NWP Growth



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

\*2003 figure is estimate on first quarter result.



# *Council of Insurance Agents & Brokers Rate Survey*

## **First Quarter 2003**

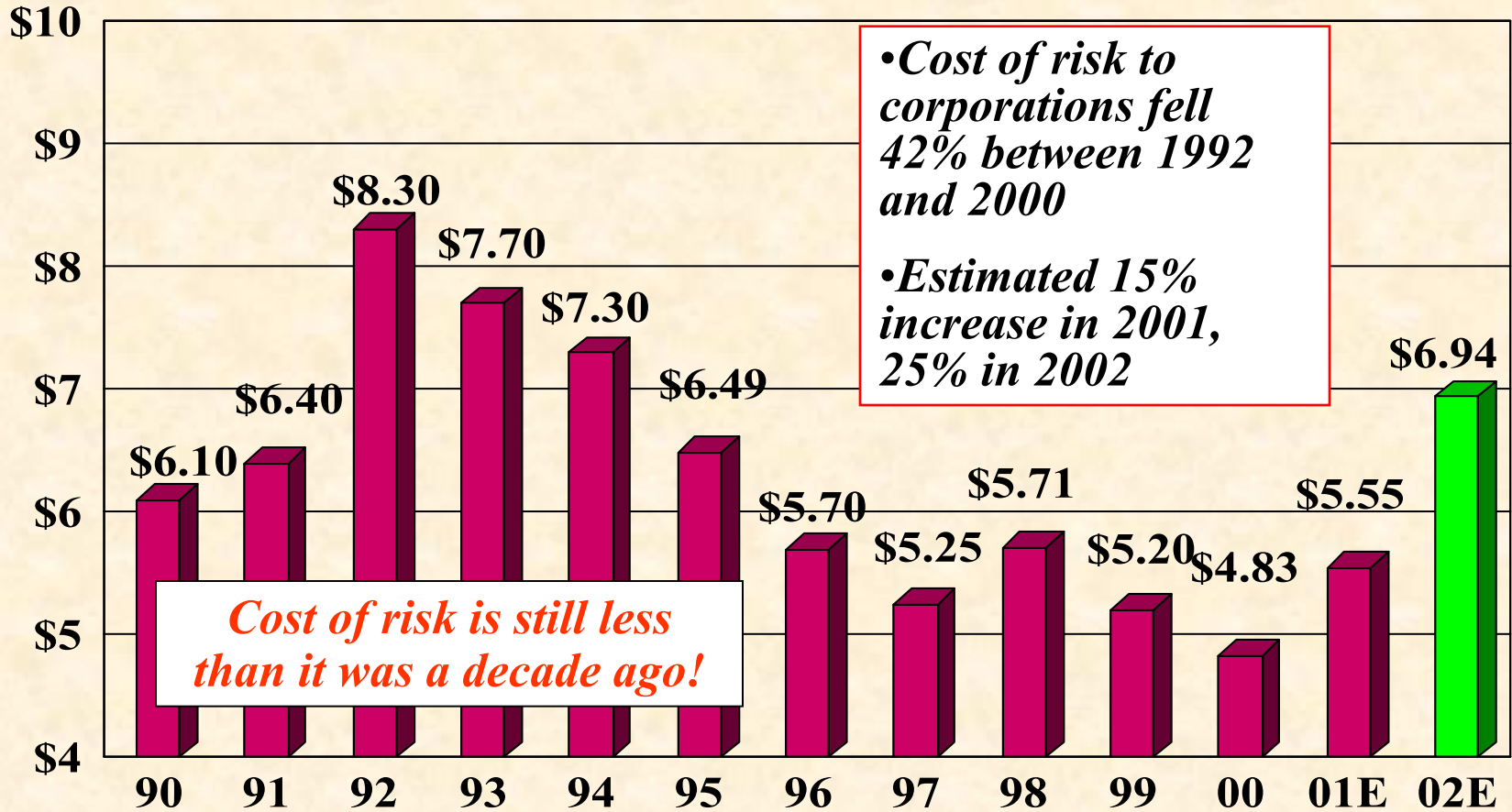
### **Rate Increases By Line of Business**

	No Change	Up 1-10%	10-20%	20-30%	30-50%	50%-100%	>100%
Comm. Auto	8%	23%	40%	19%	5%	0%	0%
Workers Comp	7%	20%	35%	23%	7%	2%	0%
General Liability	7%	23%	42%	20%	3%	0%	0%
Comm. Umbrella	4%	12%	28%	27%	15%	8%	1%
D&O	3%	6%	25%	28%	15%	8%	2%
Comm. Property*	8%	24%	35%	17%	4%	0%	0%
Construction Risk	7%	5%	27%	23%	16%	3%	0%
Terrorism	13%	17%	19%	10%	2%	1%	1%
Business Interr.	13%	33%	28%	7%	1%	0%	0%
Surety Bonds	9%	14%	19%	10%	4%	0%	2%
Med Mal	2%	2%	5%	8%	18%	14%	8%

\*9% of respondent reported a decline.



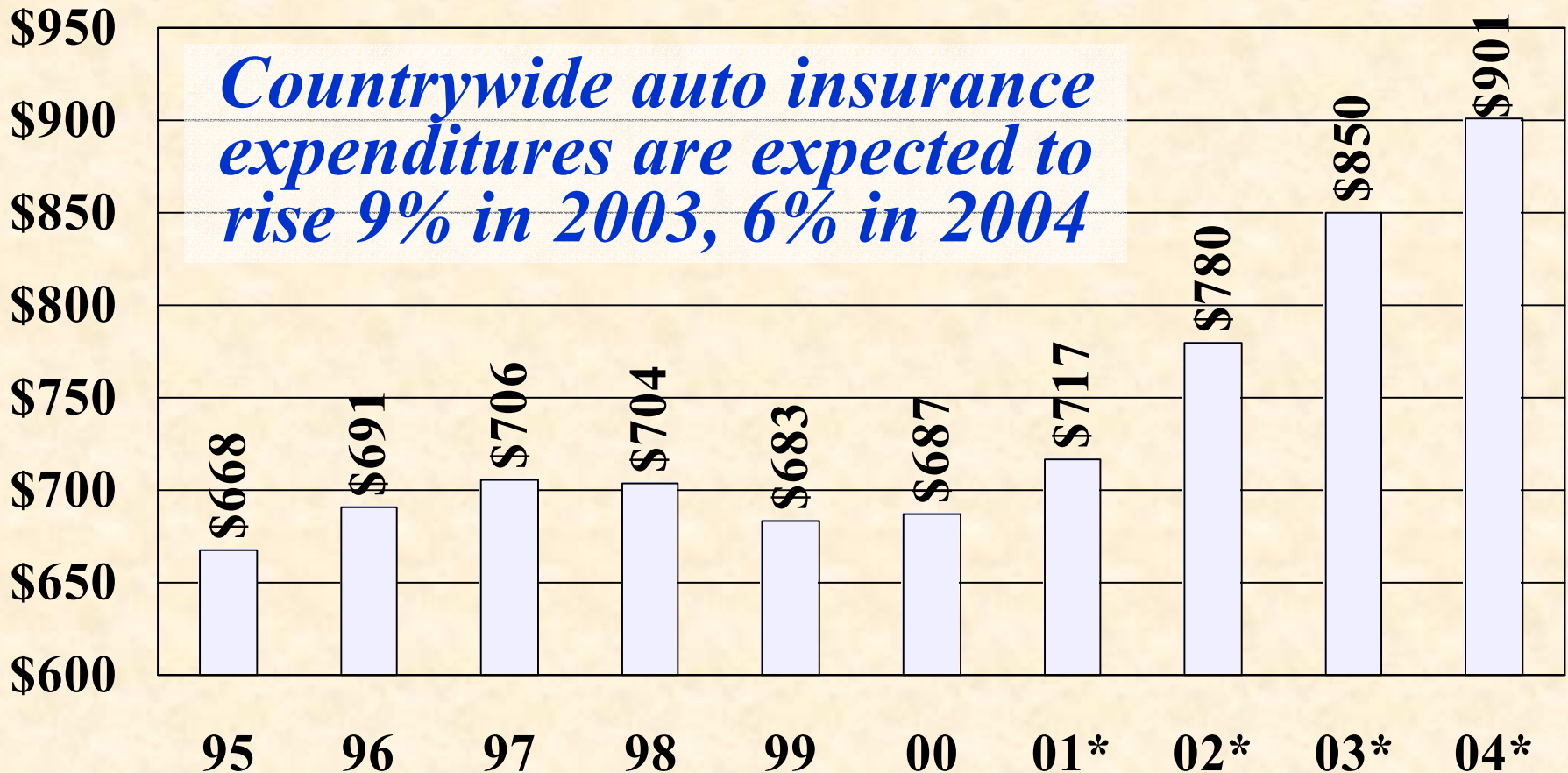
# Cost of Risk per \$1,000 of Revenues: 1990-2002E



Source: 2001 RIMS Benchmark Survey; Insurance Information Institute estimates.



# Average Expenditures on Auto Insurance: US

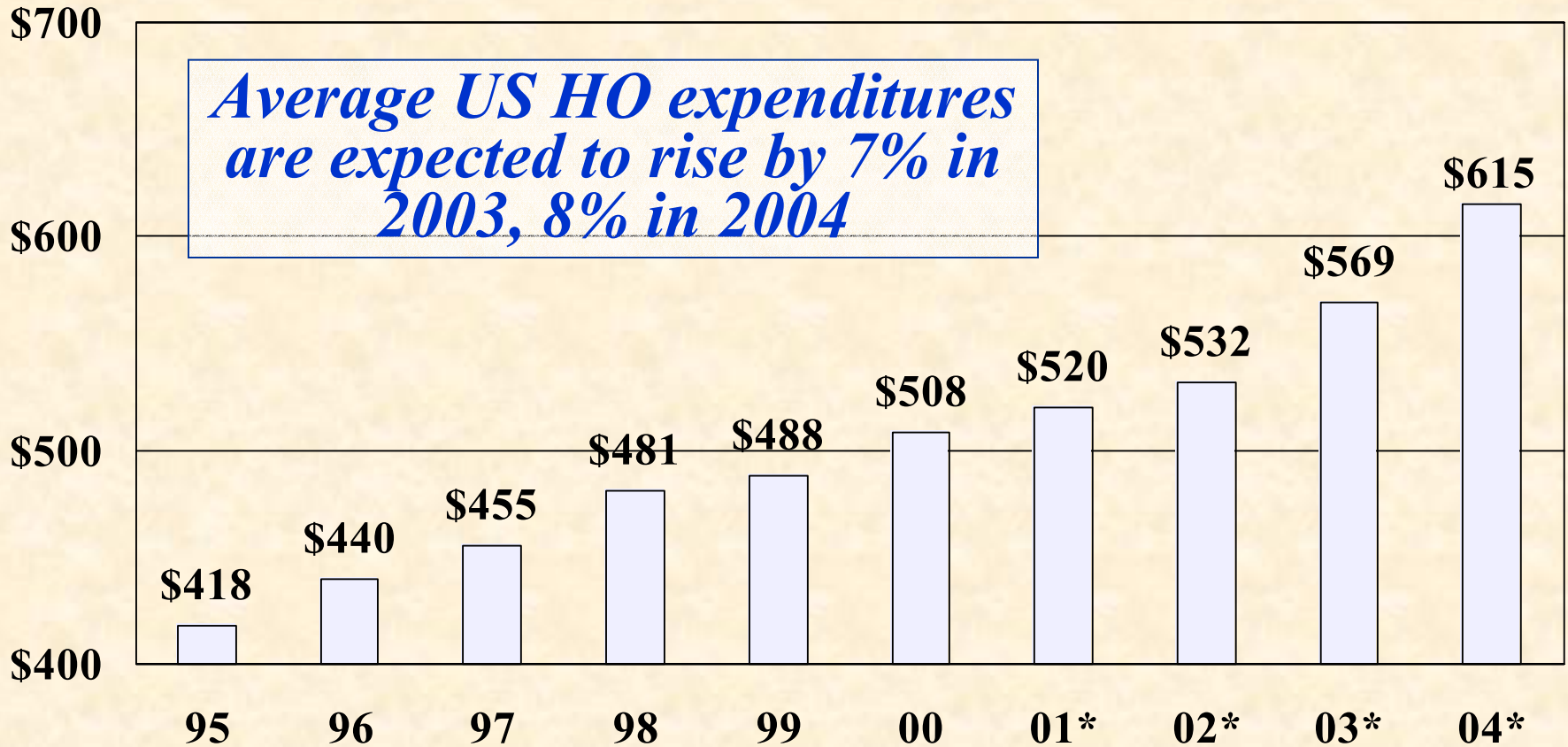


\*III Estimates; Estimates for 2001-2003 based on BLS CPI data for motor vehicle insurance.

Source: NAIC, Insurance Information Institute



# Average Expenditures on Homeowners Insurance: US

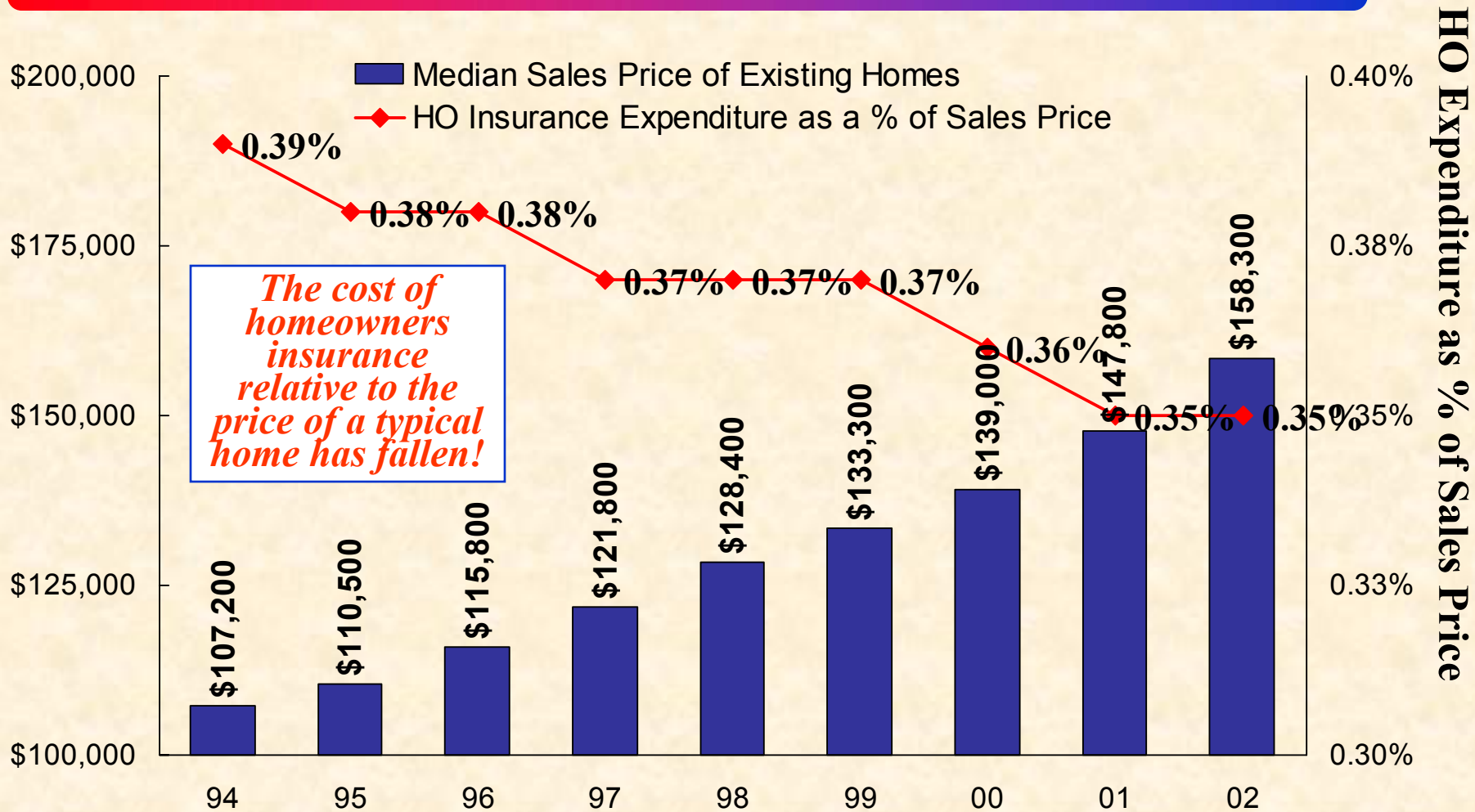


\*III Estimates; Estimates for 2001-2003 based on BLS CPI data for tenants and household insurance.  
Source: NAIC, Insurance Information Institute





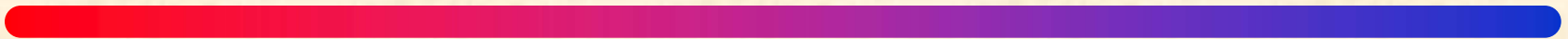
# Homeowners Insurance Expenditure as a % of Median Home Price



Source: Insurance Information Institute calculations based on data from National Association of Realtors, NAIC.

# ***HARD MARKET:***

## **IMPACT ON PROFITABILITY**





# Highlights: Property/Casualty

## First Quarter 2003 (\$ Millions)

	<b>2003</b>	<b>2002</b>	<b>Change</b>
Net Written Prem.	\$101,329	\$89,874	+12.7%
Loss & LAE	69,956	63,185	+10.7%
Net UW Gain (Loss)	(1,461)	(3,644)	-59.9%
Net Inv. Income	8,984	9,007	-0.3%
Net Income (a.t.)	6,365	5,279	+20.6%
Surplus*	289,167	285,235	+1.4%
Combined Ratio**	99.5	107.2	-7.7 pts.

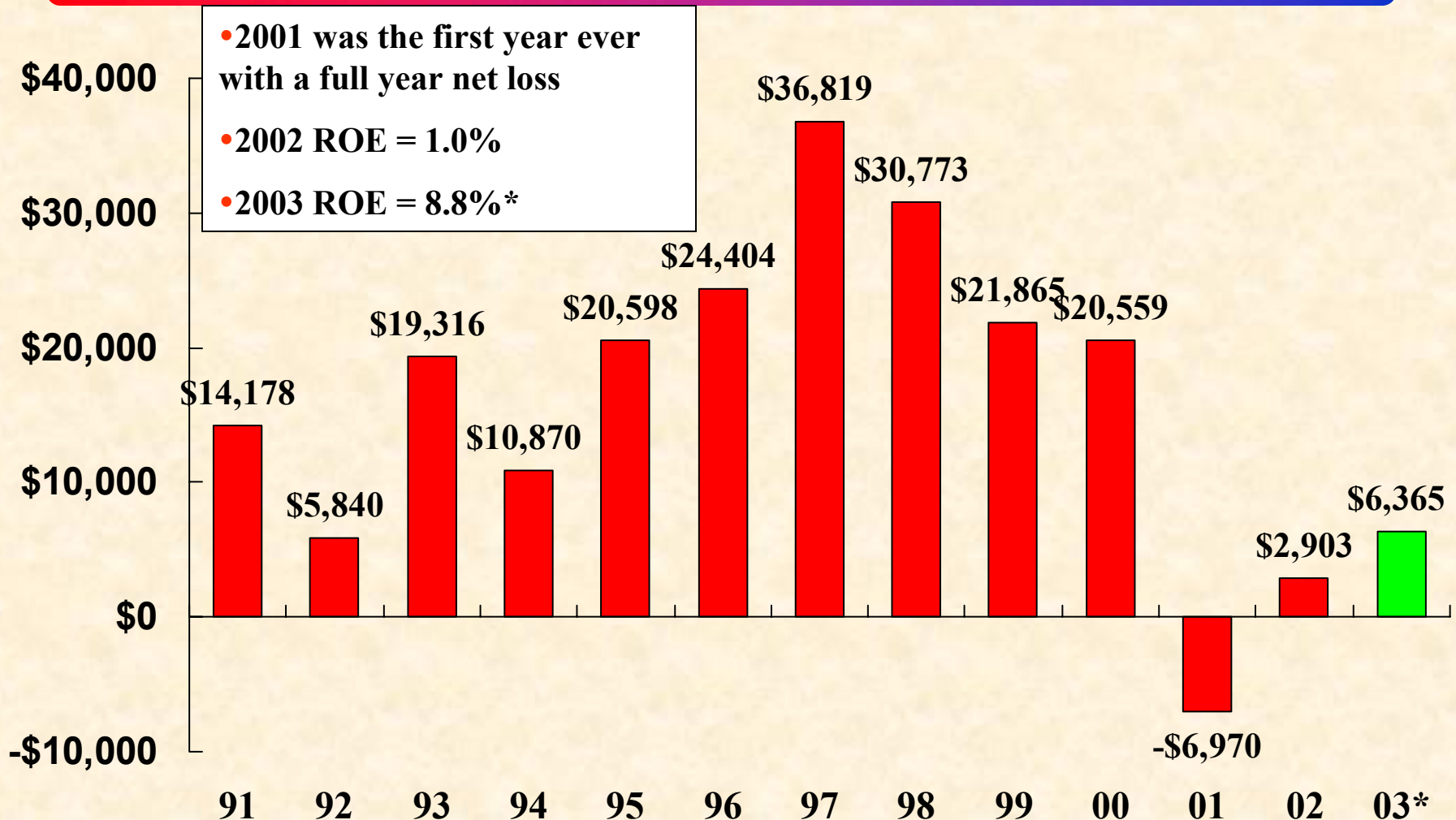
\*Comparison with year-end 2002.

\*\*Comparison is with full year 2002 combined ratio. Comparable 1<sup>st</sup> quarter 2002 figure is 102.2.



# *P/C Net Income After Taxes*

## *1991-2003\* (\$ Millions)*



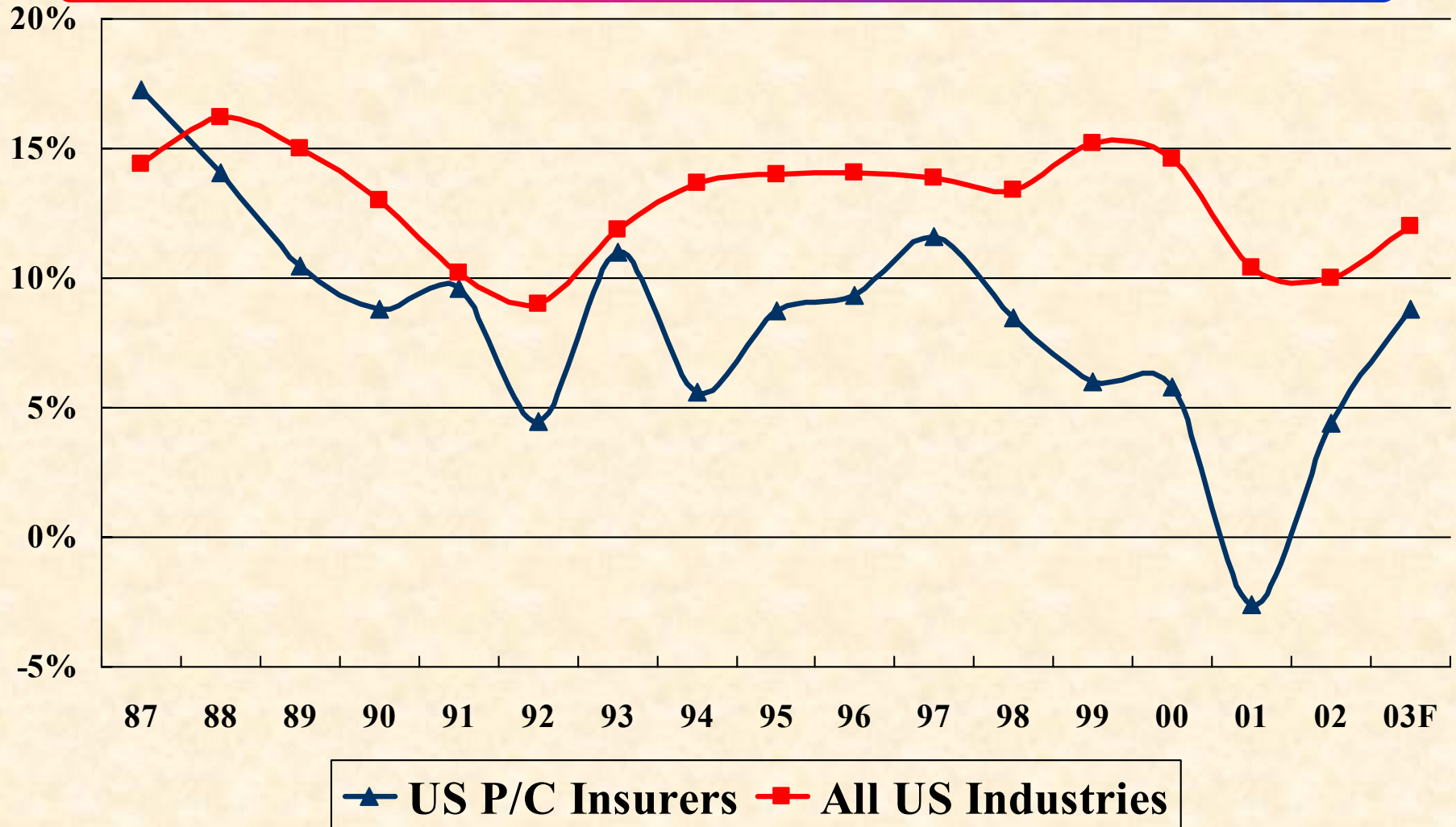
\*First quarter

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



# ROE: P/C vs. All Industries

## 1987–2003E\*



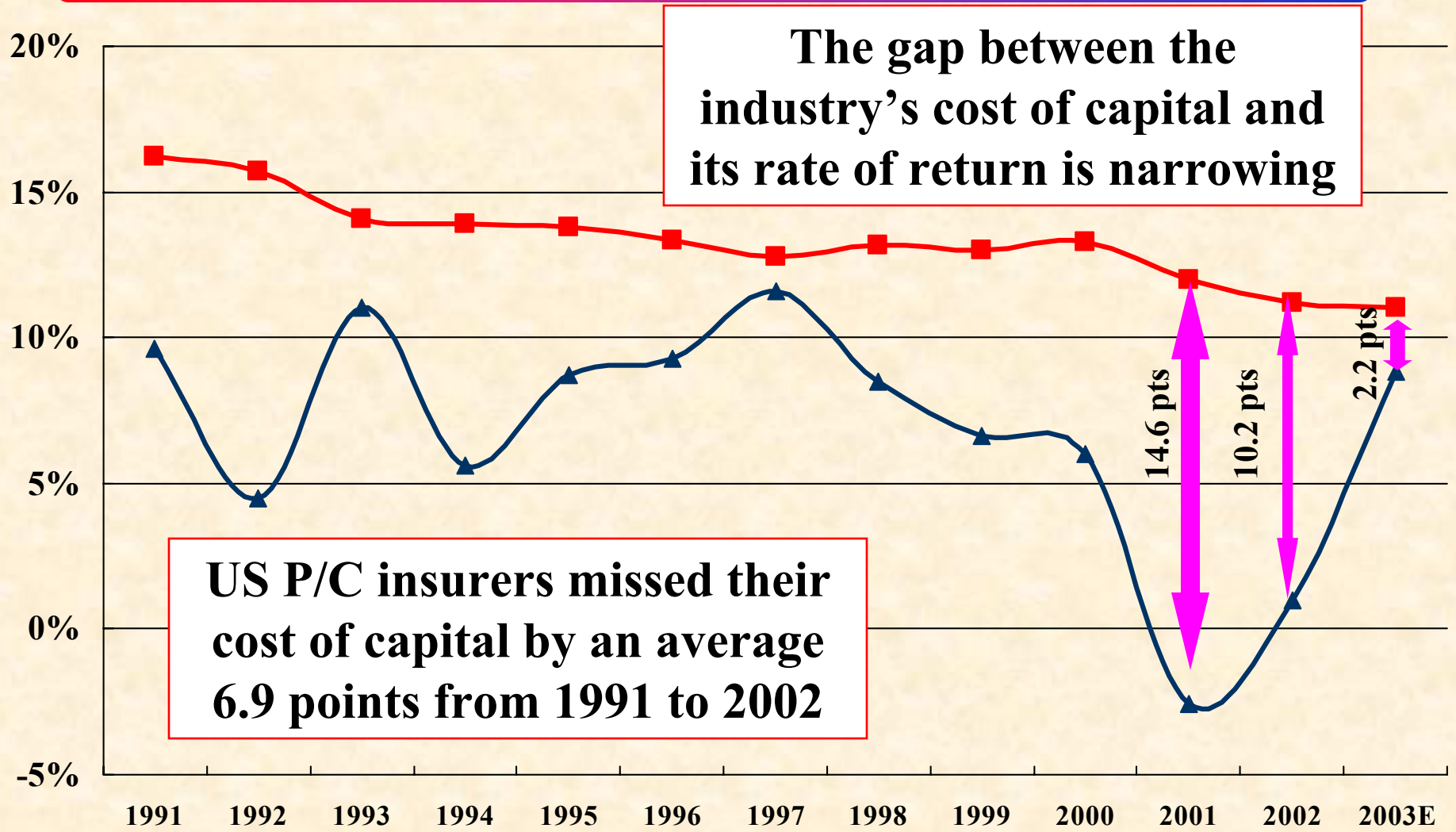
▲ US P/C Insurers ■ All US Industries

\*2003 p/c estimate based on first quarter data.

Source: Insurance Information Institute; *Fortune*



# ROE vs. Cost of Capital: US P/C Insurance: 1991 – 2003E

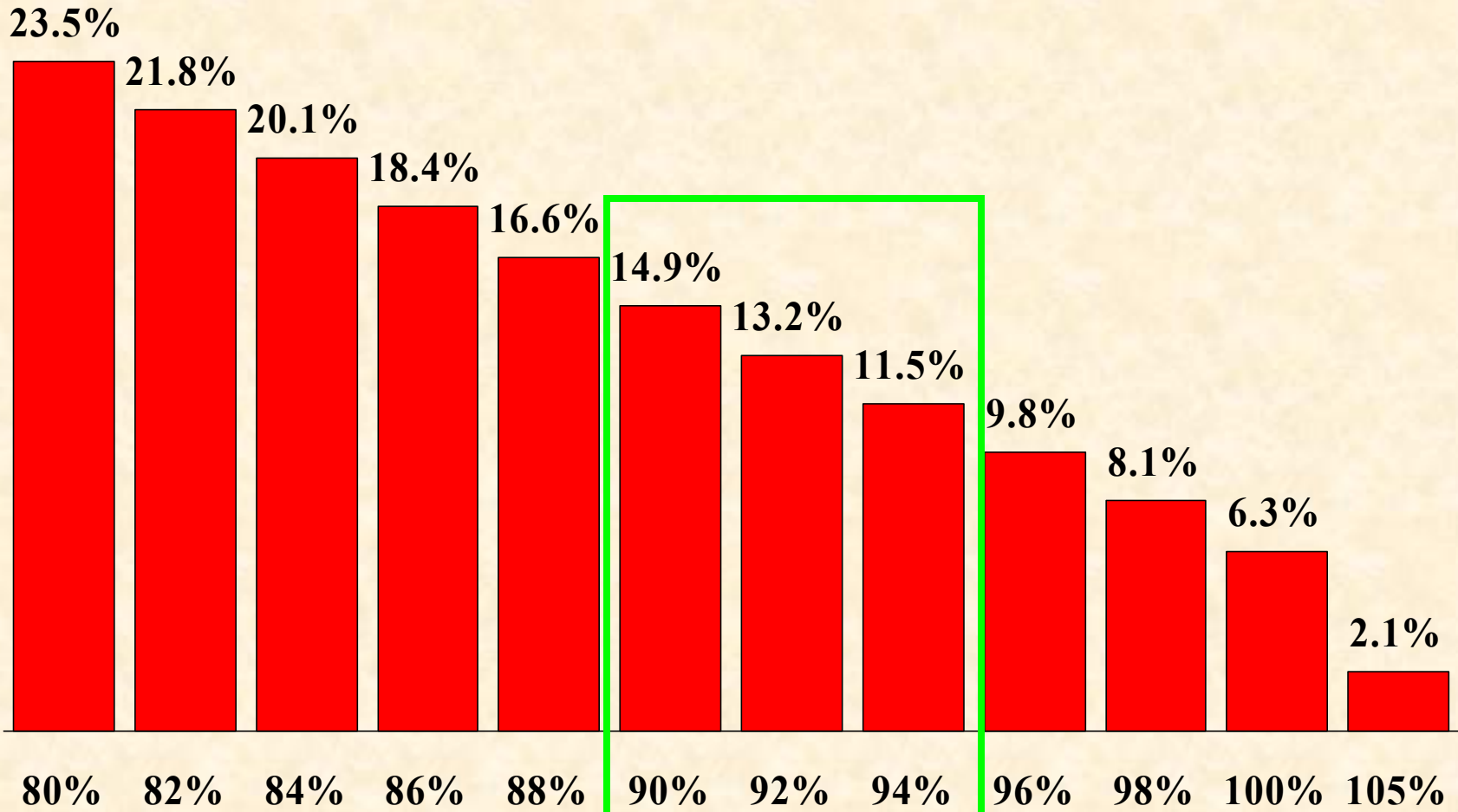


Source: The Geneva Association, Ins. Information Inst.

—▲— ROE —■— Cost of Capital



# *After-Tax ROE for Selected AY Combined Ratios\**

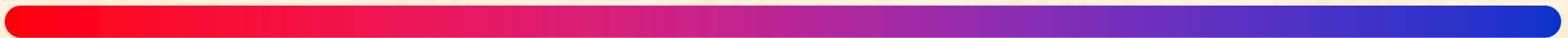


\*Assumes 4% tax-equivalent yield, 28% expense ratio and 140% premium/surplus ratio

Source: Dowling & Partners Securities

# ***HARD MARKET:***

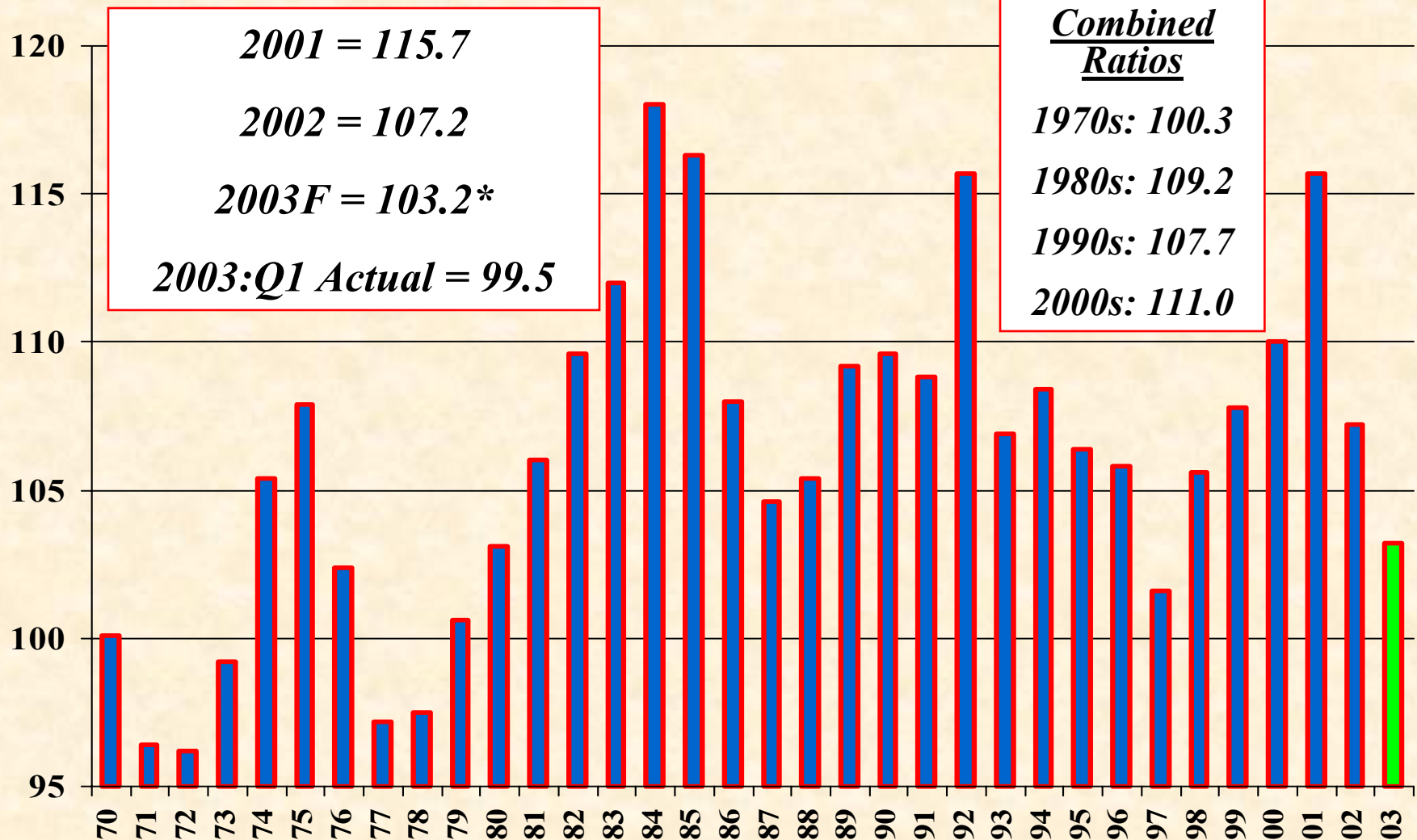
## **IMPACT ON UNDERWRITING PERFORMANCE**







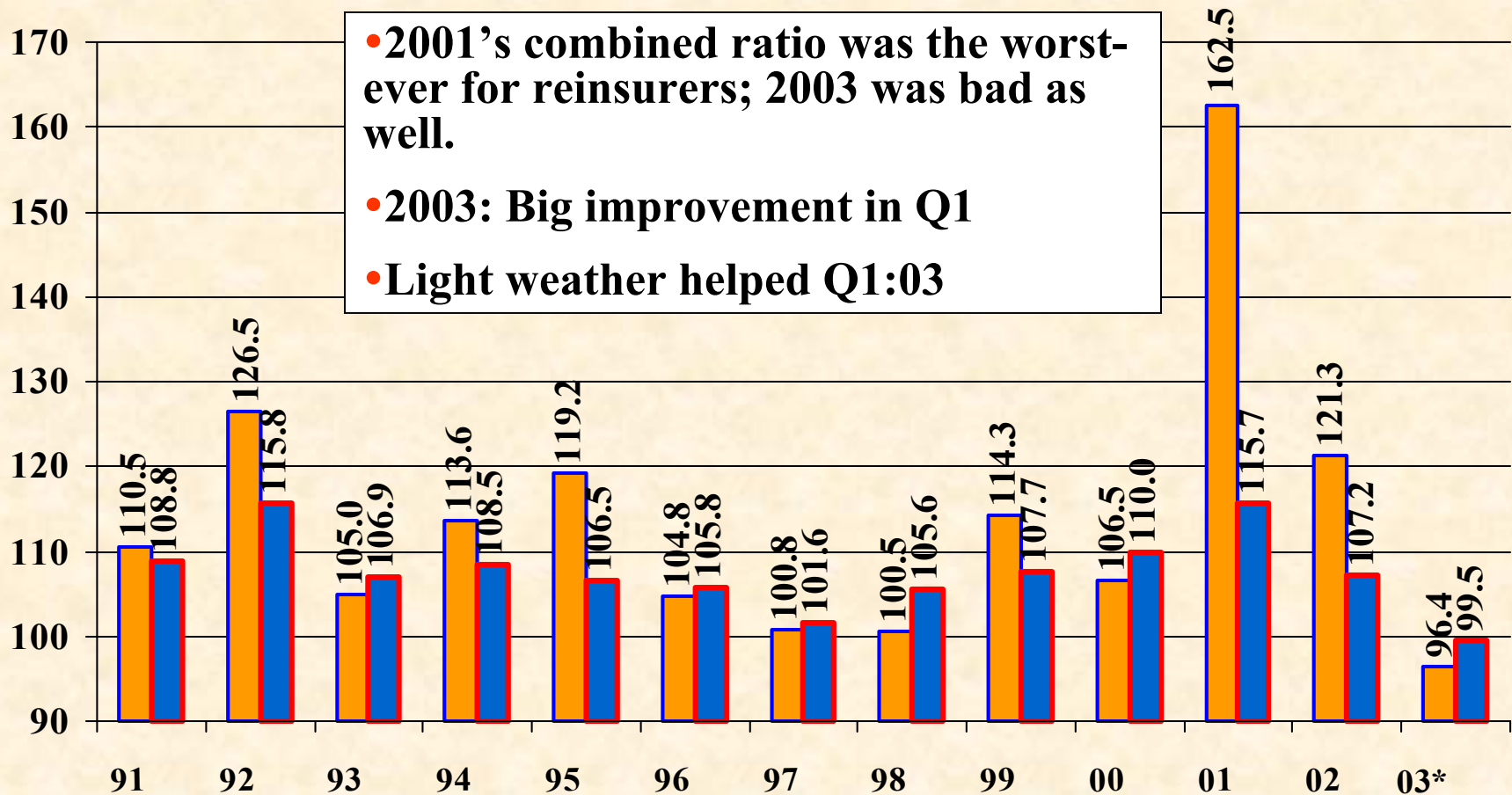
# *P/C Industry Combined Ratio*





# Combined Ratio: Reinsurance vs. P/C Industry

Reinsurance All Lines Combined Ratio



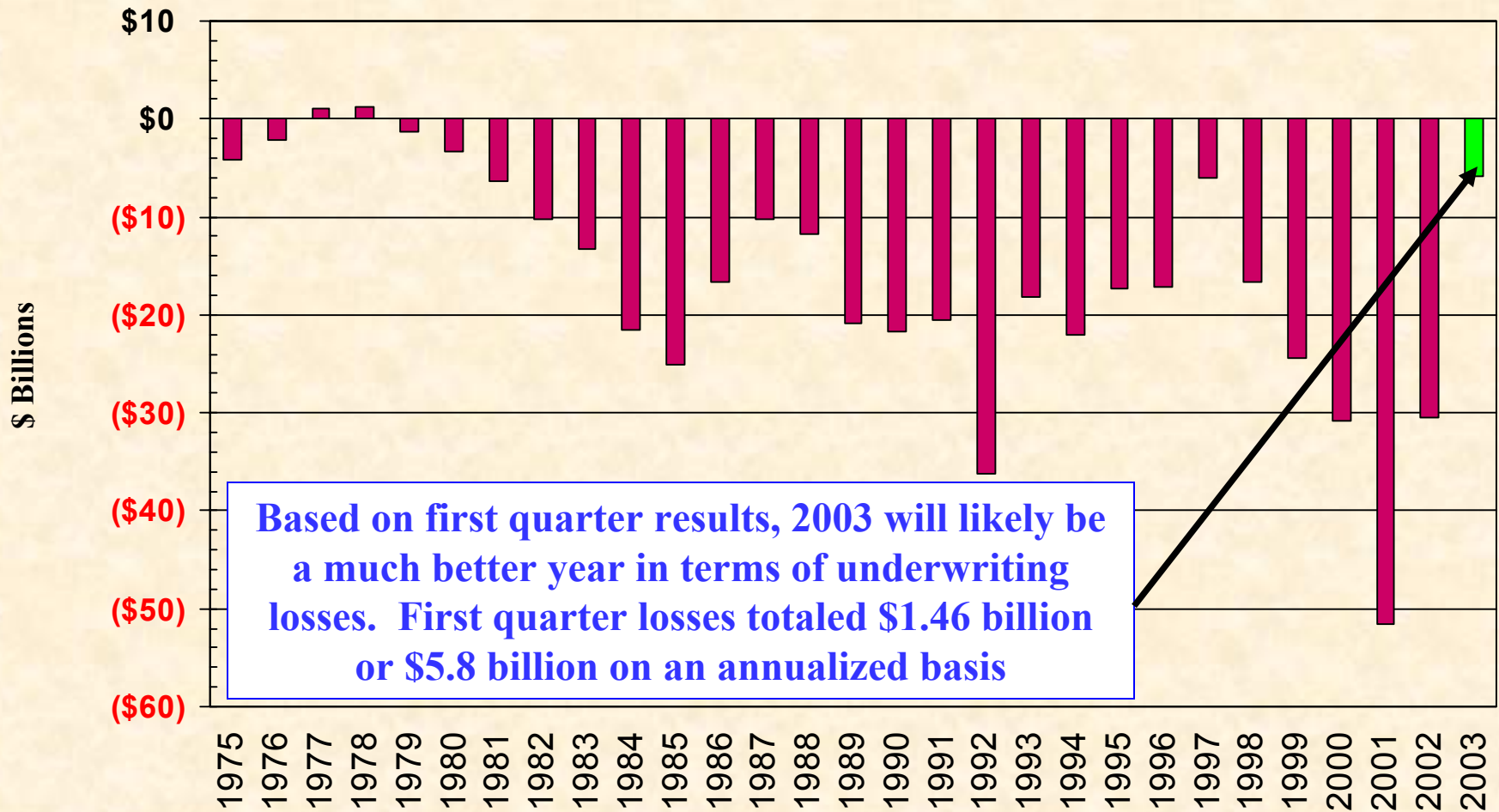
\*First quarter 2003 figures from RAA, ISO.

Source: A.M. Best, ISO, Reinsurance Association of America, Insurance Information Institute



# *Underwriting Gain (Loss)*

## *1975-2003\**



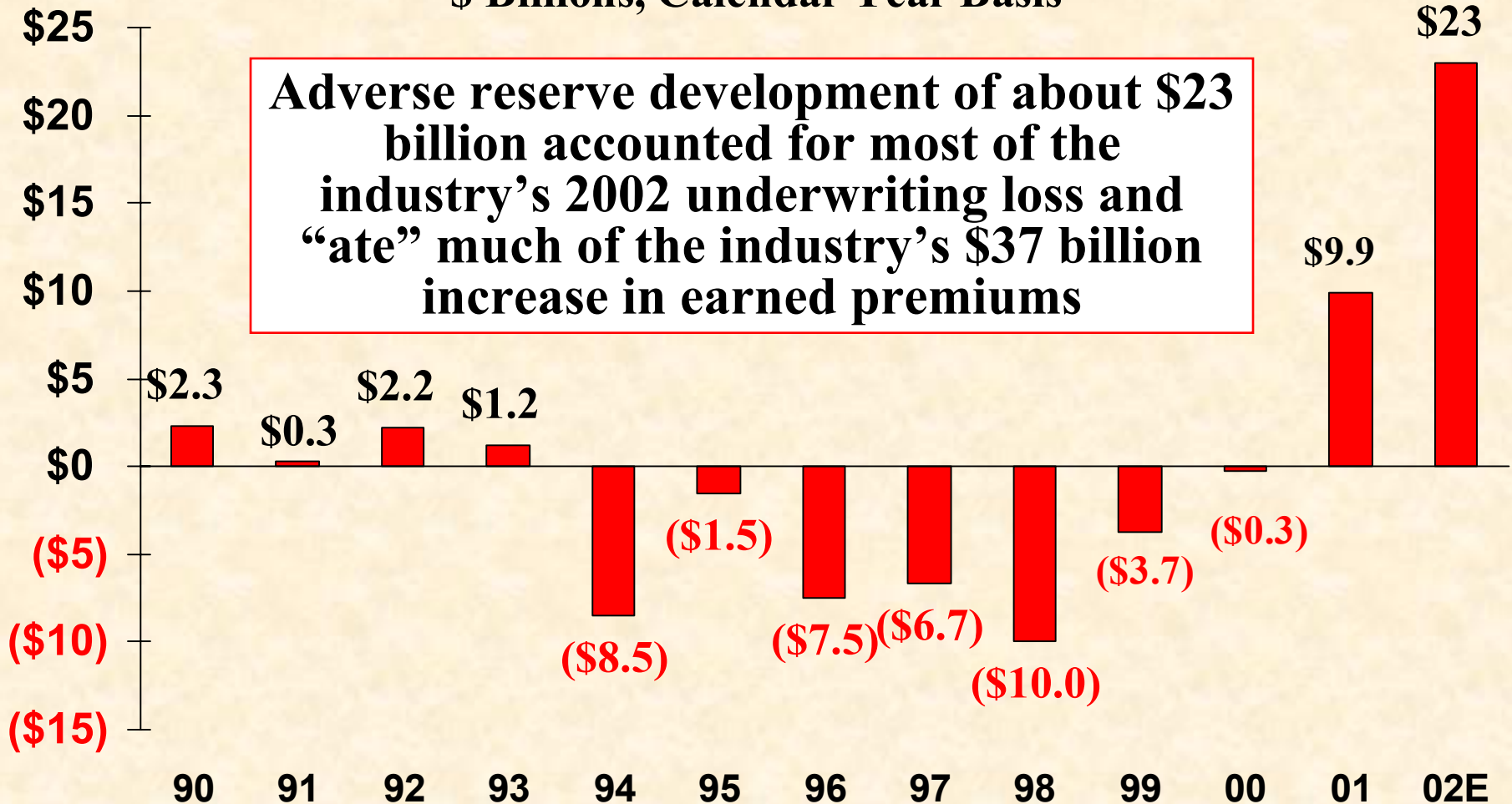
\*2003 figure of \$5.84 billion is annualized based on first quarter underwriting loss of \$1.46 billion

Source: A.M. Best, Insurance Information Institute



# *P/C Insurance Industry Prior Year Reserve Development\**

\$ Billions, Calendar Year Basis

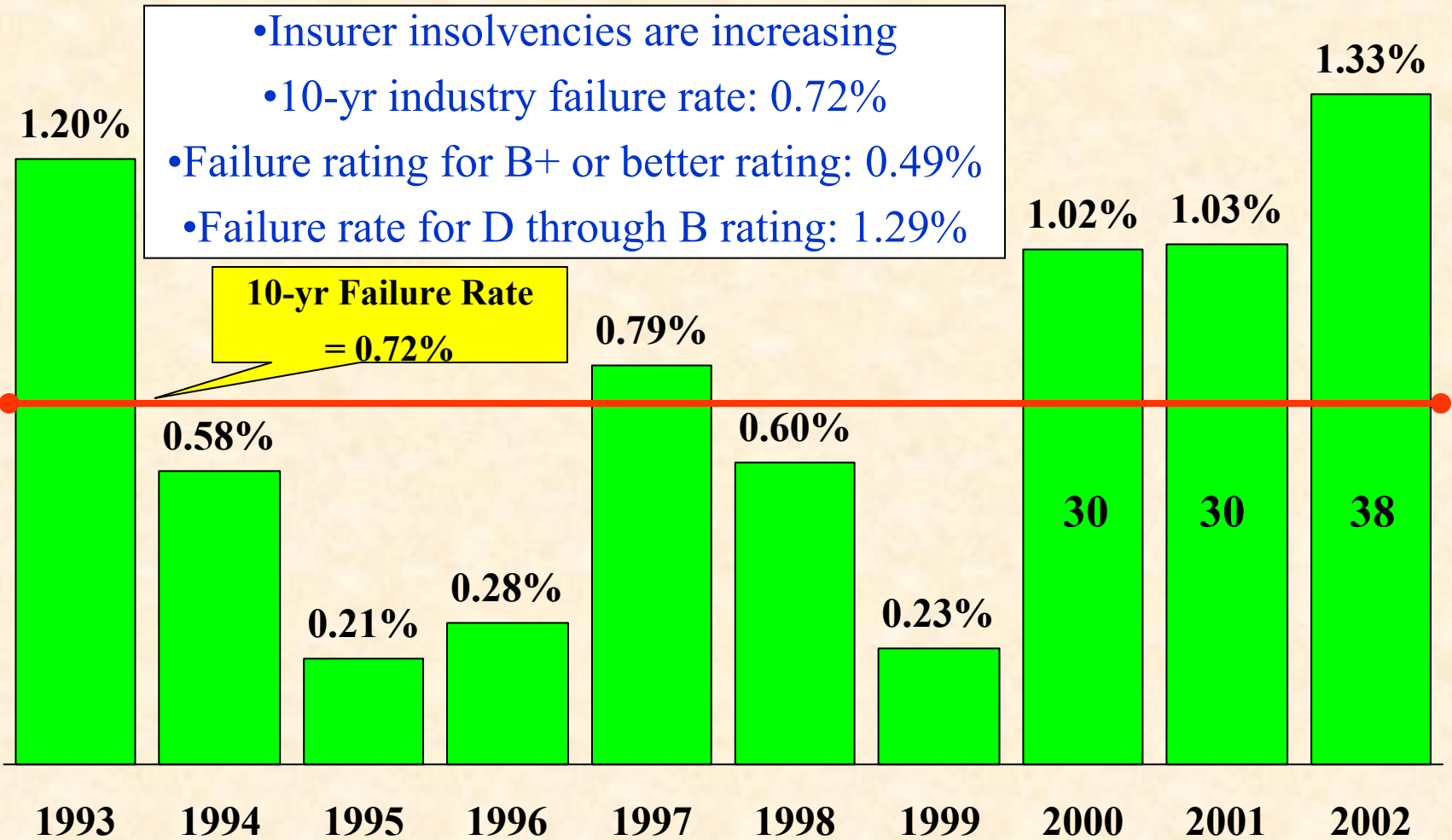


\*Negative numbers indicate favorable development; positive figures represent adverse development.

Source: A.M. Best, Morgan Stanley, Dowling & Partners Securities

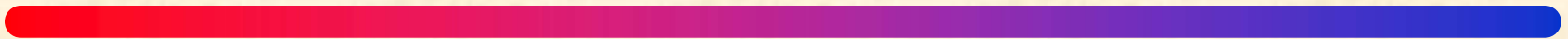


# *P/C Company Insolvency Rates, 1993 to 2002*



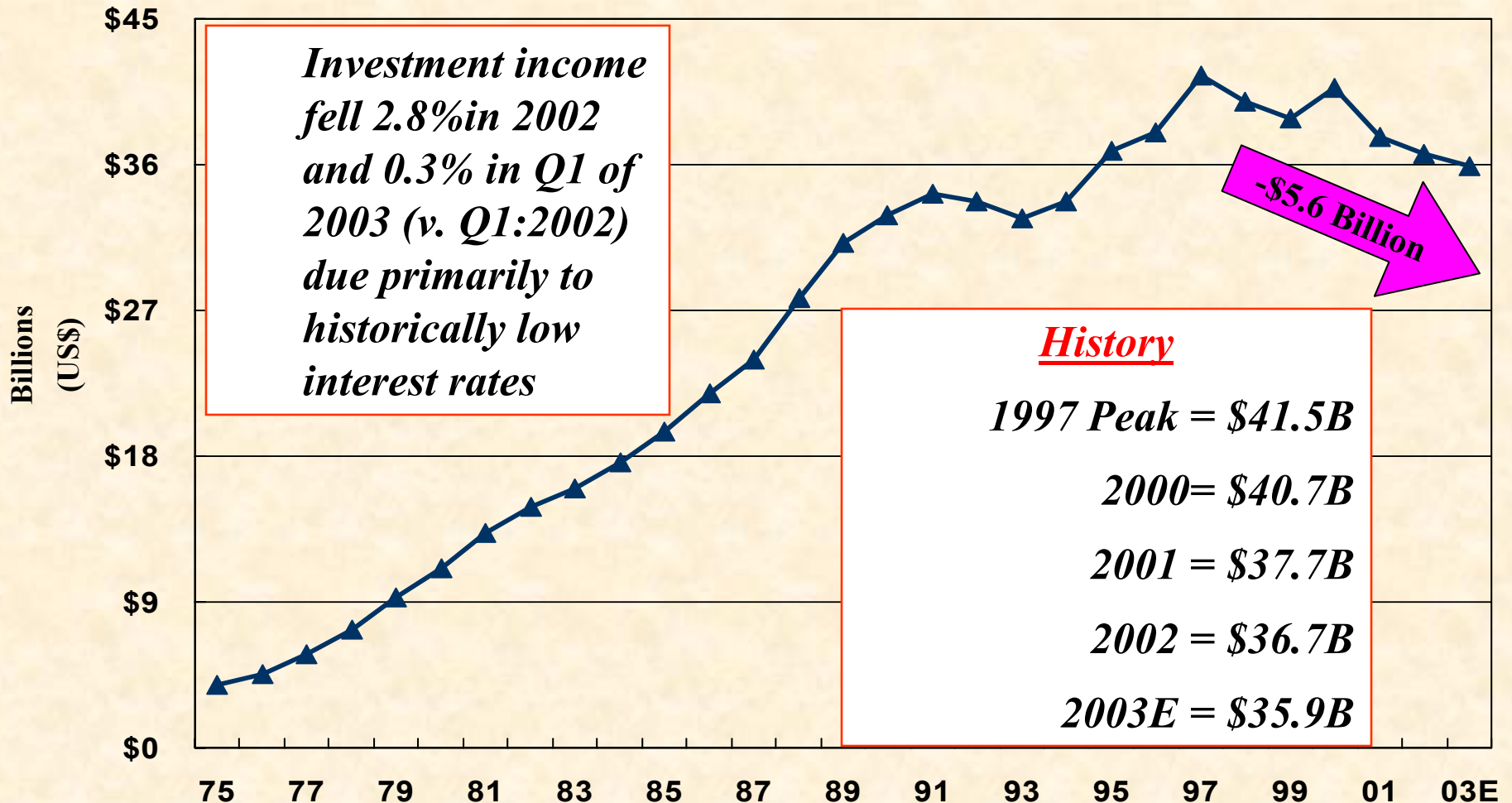
# ***HARD MARKET:***

## **THE ROLE OF INVESTMENT PERFORMANCE**





# Net Investment Income

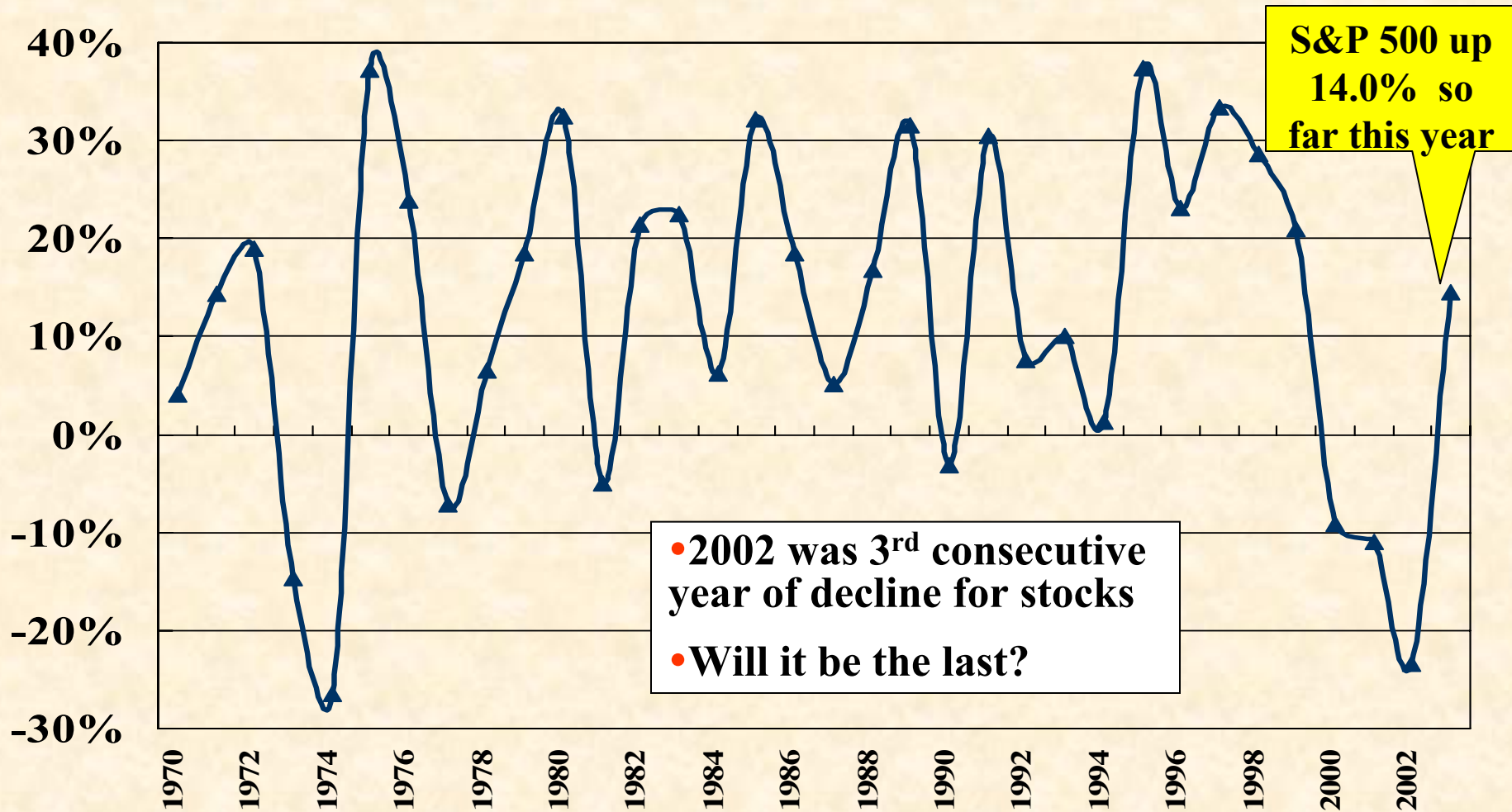


Note: 2003 estimate is based on annualized first quarter investment income of \$8.984 billion.

Source: A.M. Best, Insurance Information Institute



# Total Returns for Large Company Stocks: 1970-2003\*



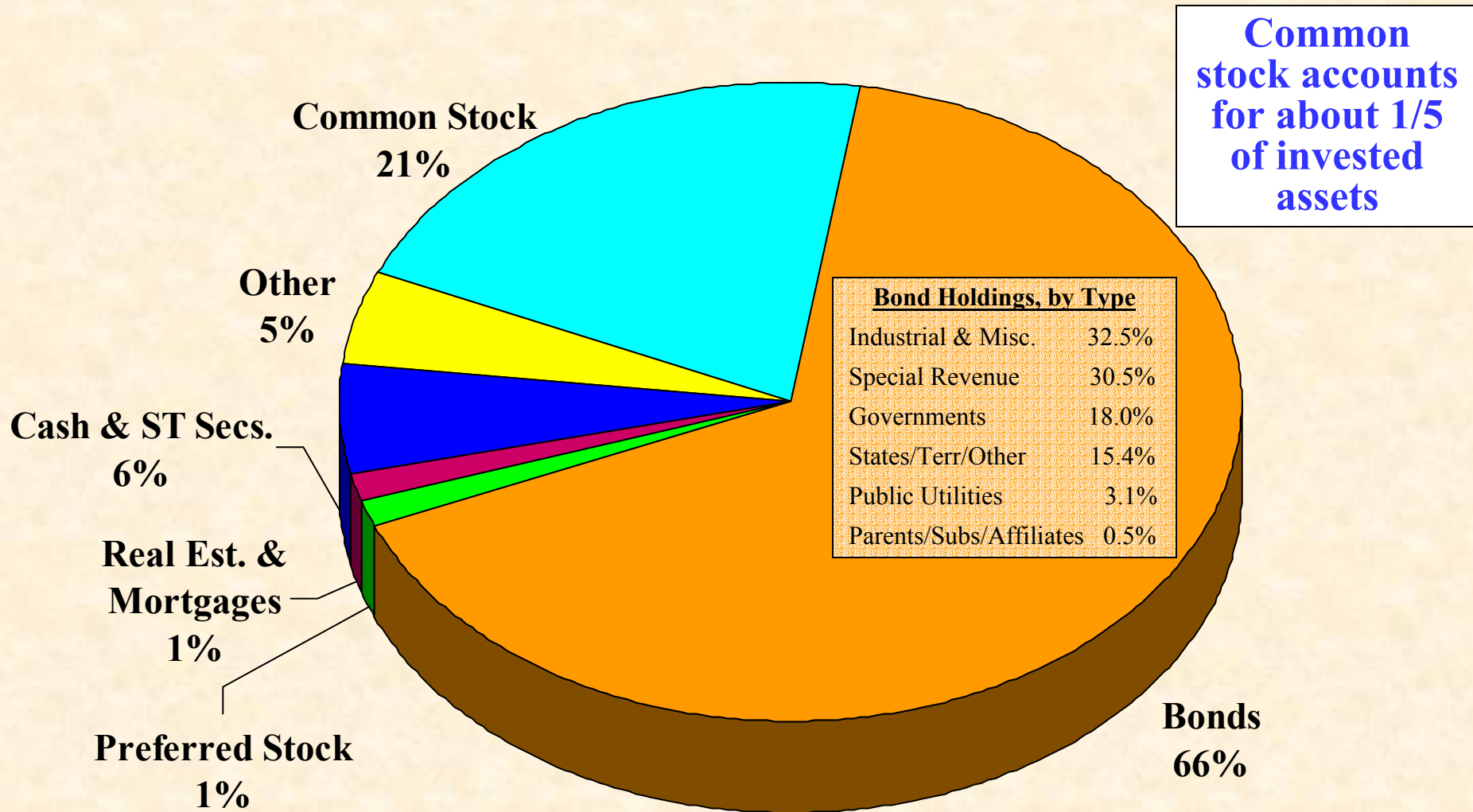
\*As of July 18, 2003.

Source: Ibbotson Associates, Insurance Information Institute





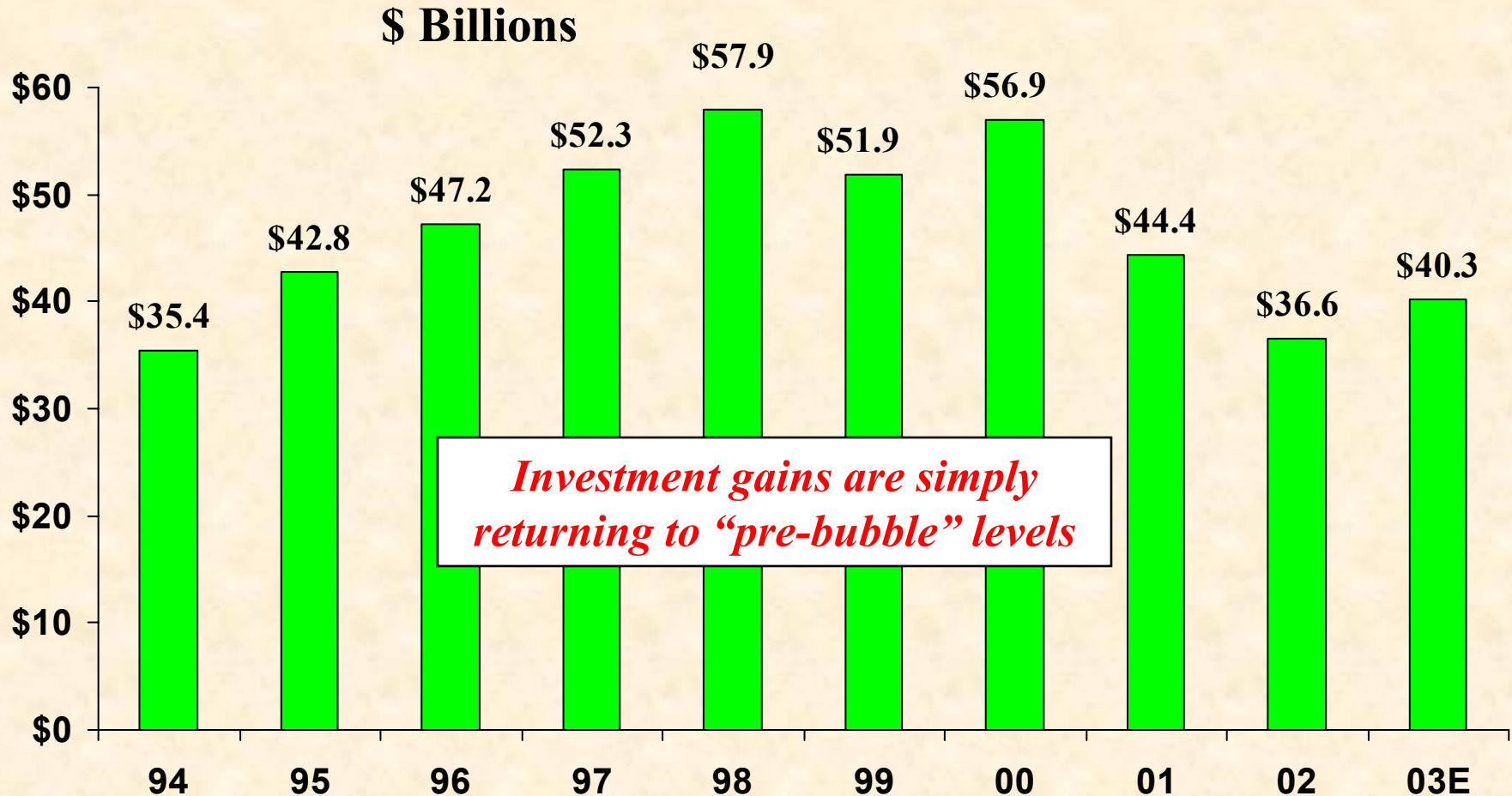
# *P/C Industry Investments, by Type (as of Dec. 31, 2001)*



Source: A.M. Best, Insurance Information Institute



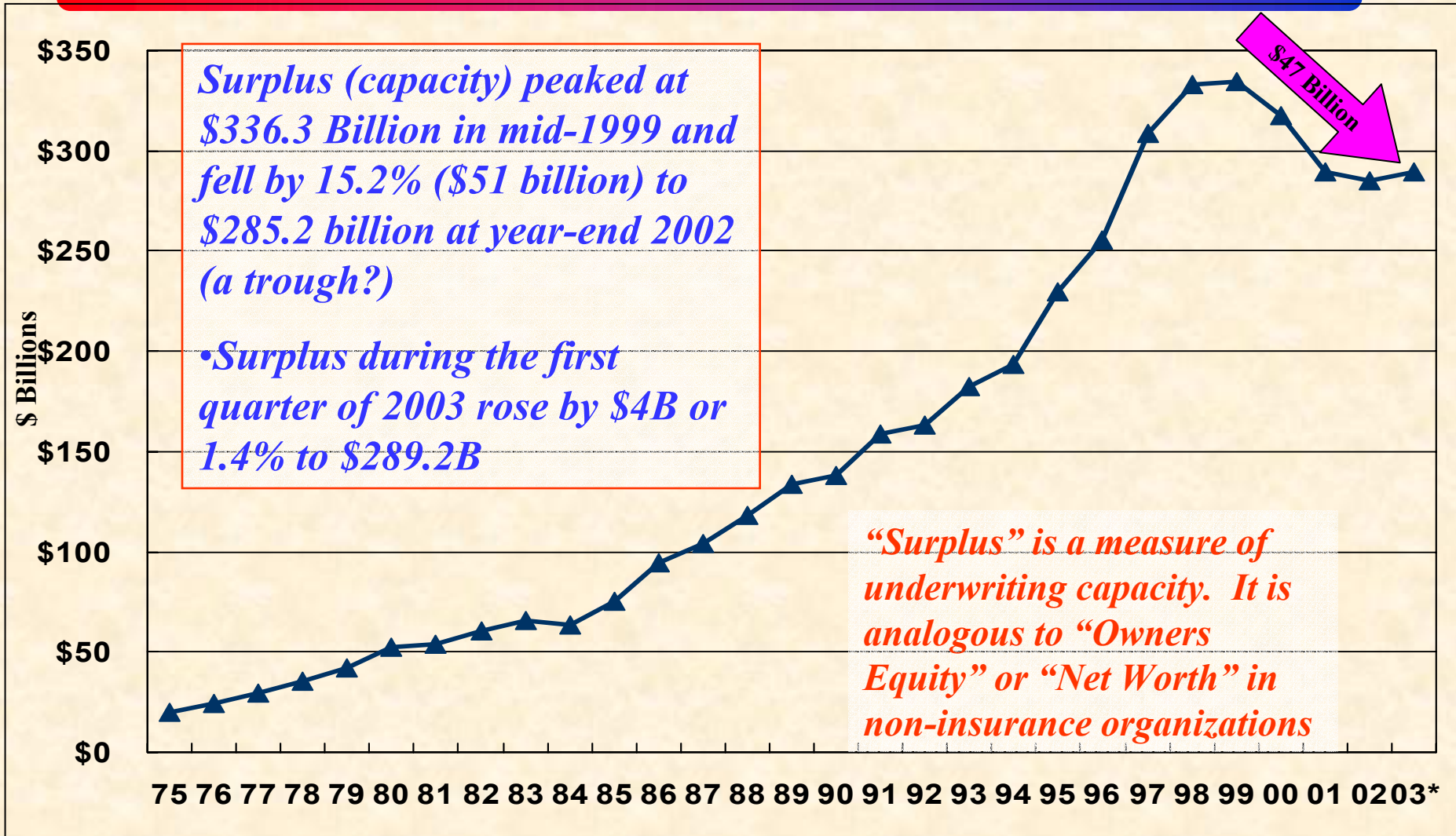
# Property/Casualty Insurance Industry Investment Gain\*



\*Investment gains consists primarily of interest, stock dividends and realized capital gains and losses.  
Source: Insurance Services Office; Insurance Information Institute estimate annualized as of 3/31/03.



# Policyholder Surplus: 1975-2003\*

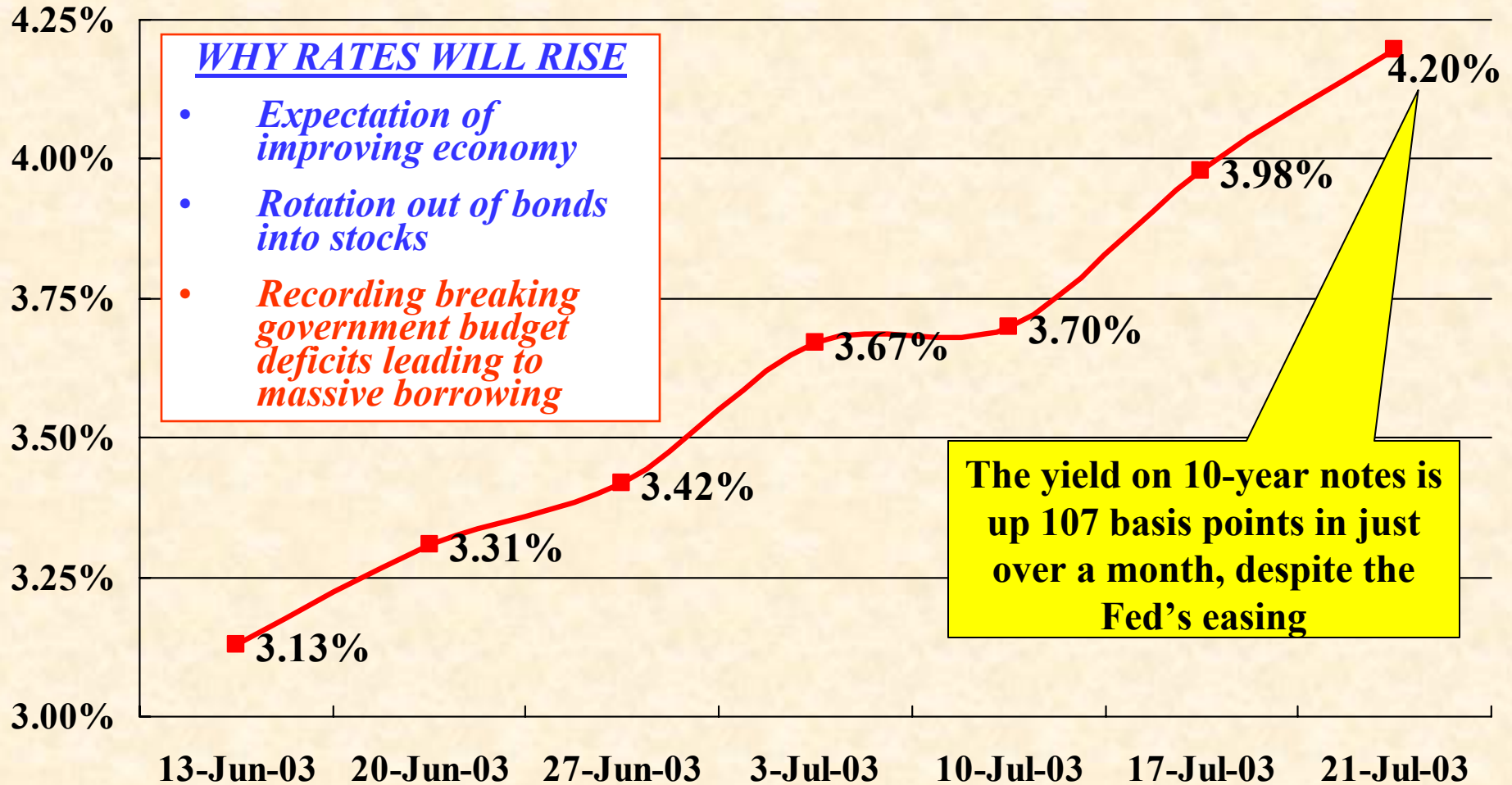




# ...But is the Bond Bubble

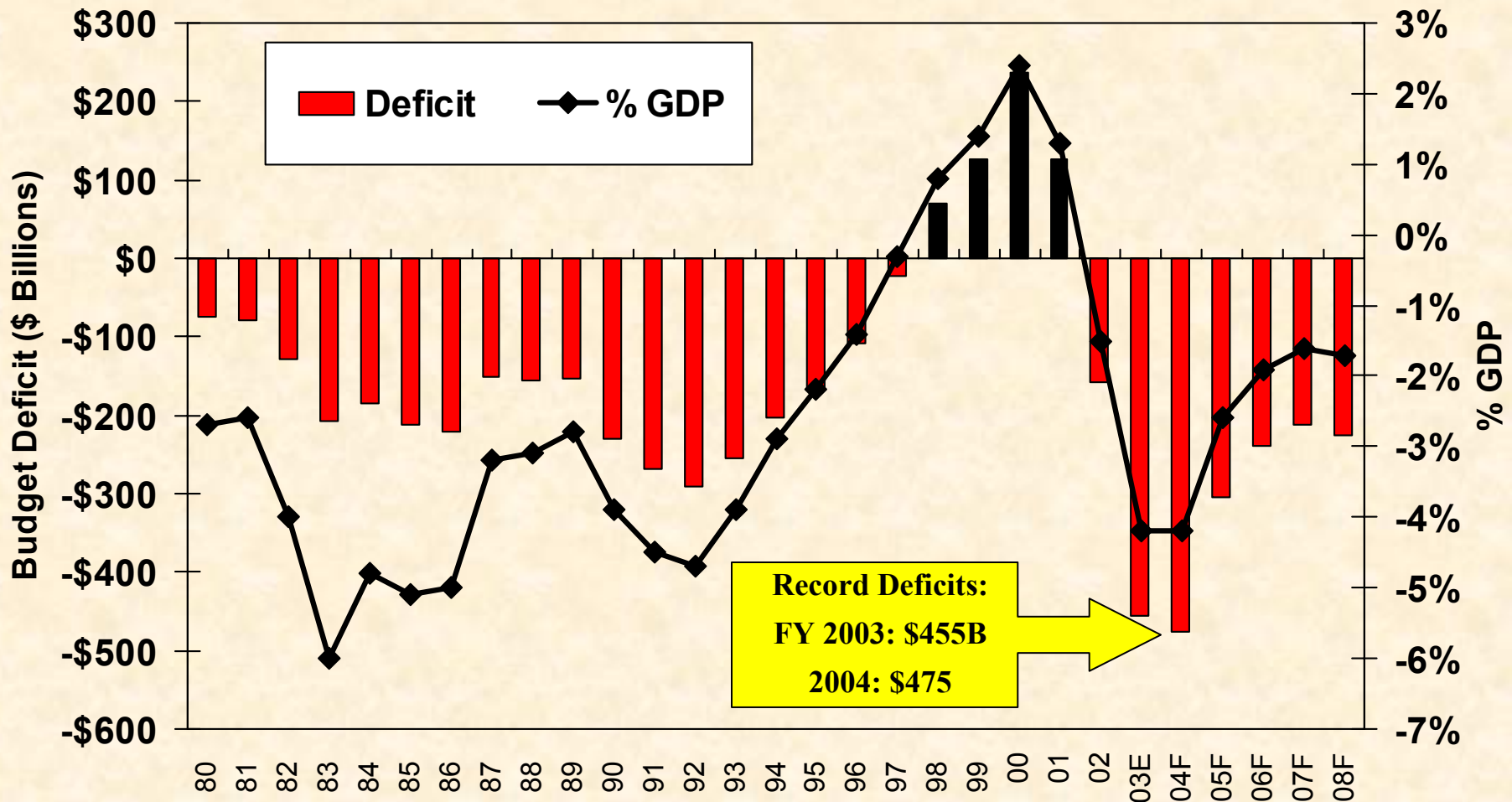
## About to Burst? Rates Will Rise!

### Yield on 10-Year US Treasury Notes

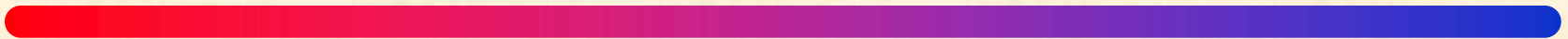




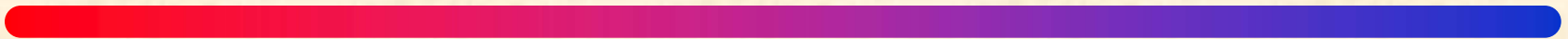
# Federal Budget Deficit: Is it Out of Control?



***THE  
CONTROVERSY  
OVER CREDIT &  
C.L.U.E.***



# *Why Do Insurers Use Credit Information?*



# Why Insurers Use Credit Information in Insurance Underwriting

1. There is a **strong correlation** between **credit standing** and **loss ratios** in both auto and homeowners insurance.
2. There is a **distinct** and **consistent decline** in relative **loss ratios** (which are a function of both claim frequency and cost) as **credit** standing **improves**.
3. The relationship between credit standing and relative loss ratios is statistically **irrefutable**.
4. The odds that such a relationship does not exist in a given random sample of policyholders are usually between 500, 1,000 or even 10,000 to one.



# *What You Might Not*



## *Know About Insurance Scoring*

1. Insurers have been using credit since early 1990s
  - Credit has been used in commercial insurance for decades
2. Insurance scores do ***not*** use the following information:
  - *Ethnicity*      *Nationality*      *Religion*      *Age*
  - *Gender*      *Marital Status*      *Familial Status*      *Income*
  - *Address*      *Handicap*
3. Insurance scoring is revenue neutral
4. Increased use of credit information is a fact of life in the 21<sup>st</sup> century (*Why?*: Works for trust-based relationships)
  - *Loans*      *Leases*      *Rentals*      *Insurance*
  - *Utilities*      *Background Checks*      *Empl. Screening*
  - **NEXT:** *Preferred airport screening for frequent fliers*



# *Intuition Behind Insurance Scoring\**

## 1. Personal Responsibility

- Responsibility is a personality trait that carries over into many aspects of a person's life
- It is intuitive and reasonable to believe that the responsibility required to prudently manage one's finances is associated with other types of responsible and prudent behaviors, for example:
  - Proper maintenance of homes and automobiles
  - Safe operation of cars

## 2. Stability

- It is intuitive and reasonable to believe that financially stable individuals are likely to exhibit stability in many other aspects of their lives.

## 3. Stress/Distraction

- Financial stress could lead to stress, distractions or other behaviors that produce more losses (e.g., deferral of car/home maintenance).

\*This list is neither exhaustive nor is it intended to characterize the behavior of any specific individual.



# *Consequences of Banning Use of Credit in Insurance Underwriting*

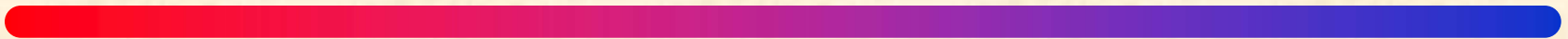
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## **Banning the use of credit information will:**

- Raise premiums for good drivers and responsible homeowners to subsidize those with poor loss histories by millions of dollars each year.
- Decrease incentives to drive safely
- Decrease incentives to properly maintain cars and homes
- Force insurers to rely on less accurate types of information, such as DMV records.
- Make non-standard risks more difficult to place
- Increase size of residual market pools/plans

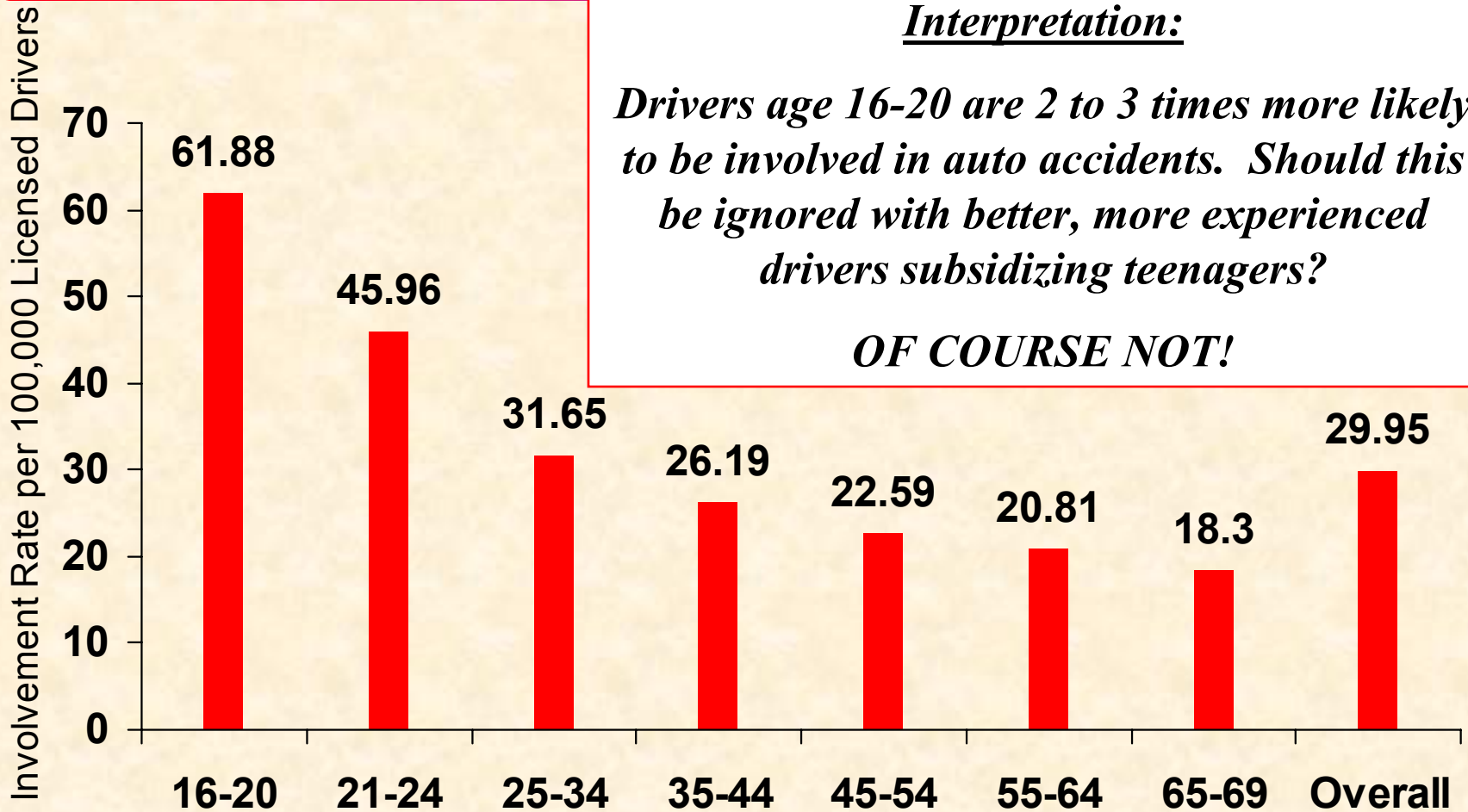
# *Risk & Loss*

*Accounting for Differences in Losses  
by Risk Characteristics Makes  
Insurance Pricing More Equitable*





# Age of Drivers Involved in Auto Accidents, 2000



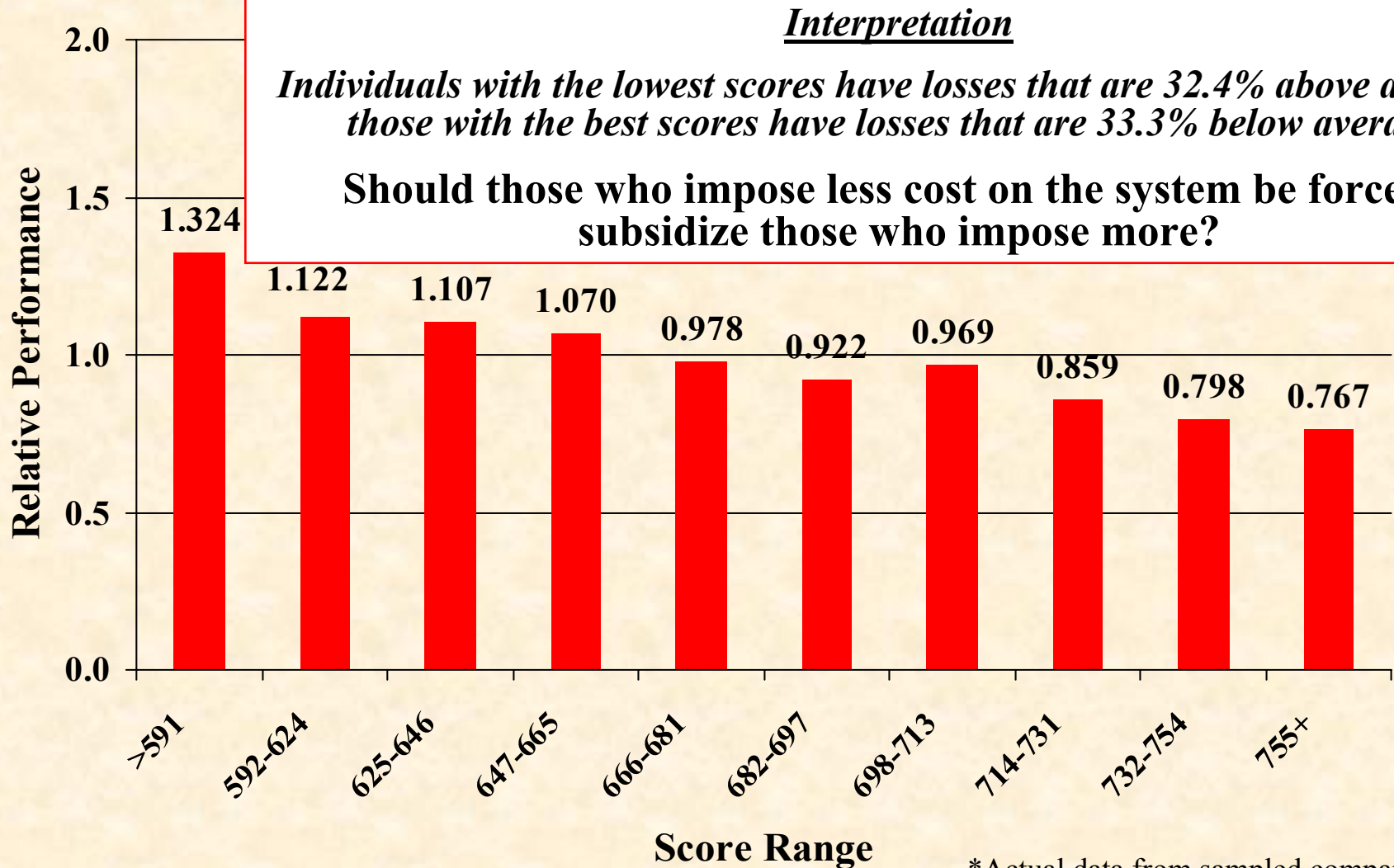
## Interpretation:

*Drivers age 16-20 are 2 to 3 times more likely to be involved in auto accidents. Should this be ignored with better, more experienced drivers subsidizing teenagers?*

***OF COURSE NOT!***



# Credit Quality & Auto Insurance\*

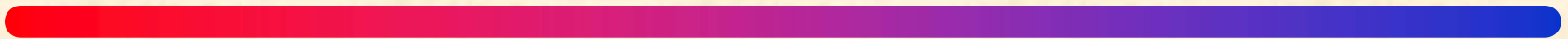


Source: Tillinghast Towers-Perrin

\*Actual data from sampled company. More examples are given later in this presentation.

*Actual Example:*

*How Insurer Use of Credit  
Benefits Consumers &  
What Consumers Stand to Lose*





# *Example: Insurance Savings from Use of Credit Information*

- Insured lives in Westchester County, NY (NYC suburb)
- 2 fully insured vehicles (\$250K/\$500K liability, \$1000 deductible)
  - 2000 Nissan Xterra & 1994 Honda Civic
- Insured's biannual premium was \$862 (March 2003 renewal)
  - No accidents or moving violations on record
- Insured's credit-related discount for the 6-month period was \$148 out of \$410 in total discounts.
  - Credit-related discount saves consumer nearly \$300/year
  - Effectively lowers premium by 14.7%
  - Should this (and millions of other) consumers be denied this discount? Some regulators and consumer groups want you to pay more unnecessarily and subsidize bad drivers.
- August 2002 FICO Score = 777 (out of 850) (= 72<sup>nd</sup> percentile)
  - i.e., 28% have better (higher) scores, 72% have lower (worse) scores



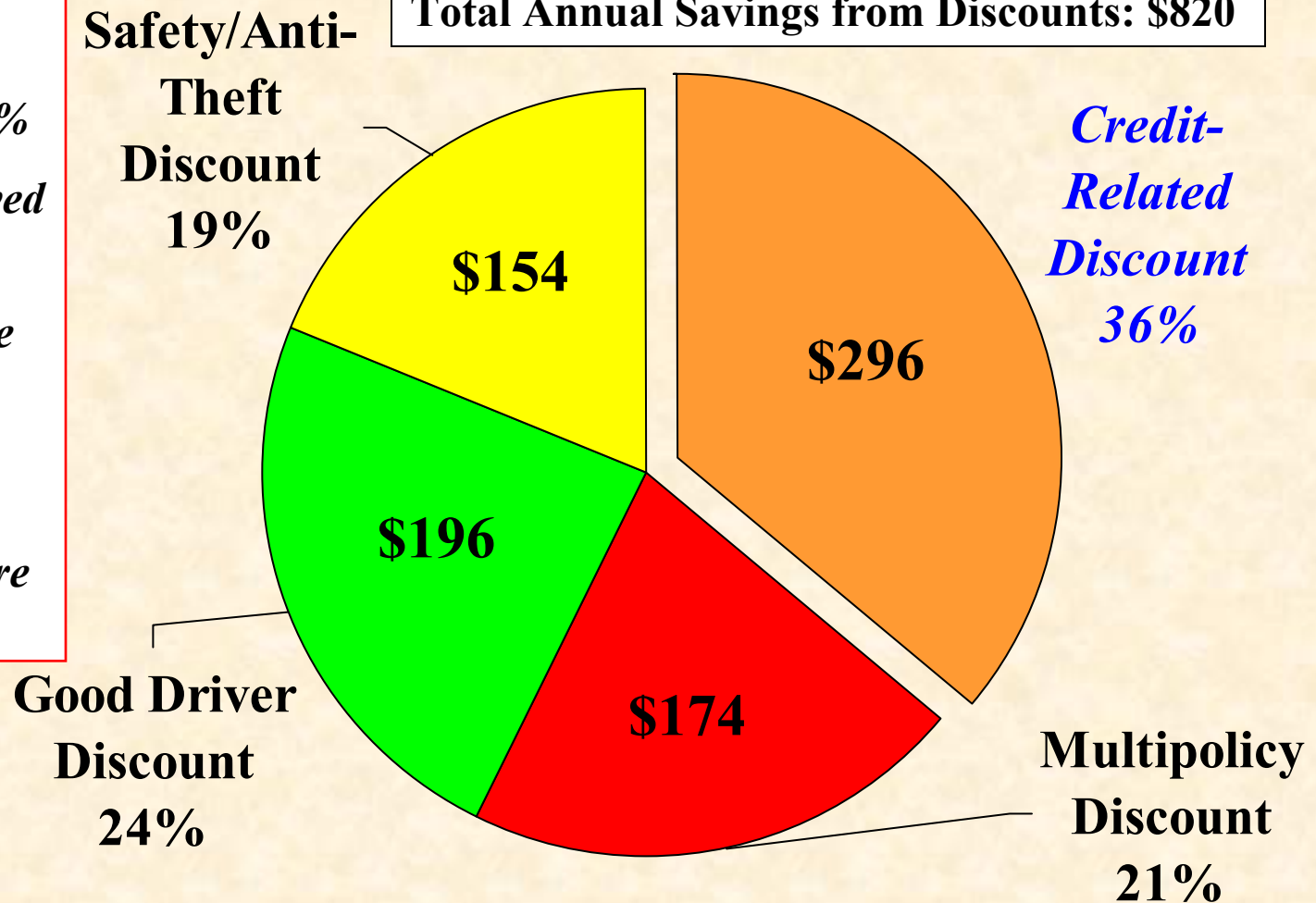


# Example (cont'd): Credit Discount

## Can Save \$100s per Year\*

- *Credit discount lowered annual premium by 14.7%*
- *Policyholder saved nearly \$300*
- *Credit was single largest discount*
- *Opponents of credit will force people to pay more for coverage*

**Total Annual Savings from Discounts: \$820**

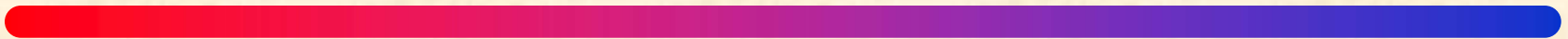


\*Annualized savings based on semi-annual data from example

# *Review of the Evidence:*

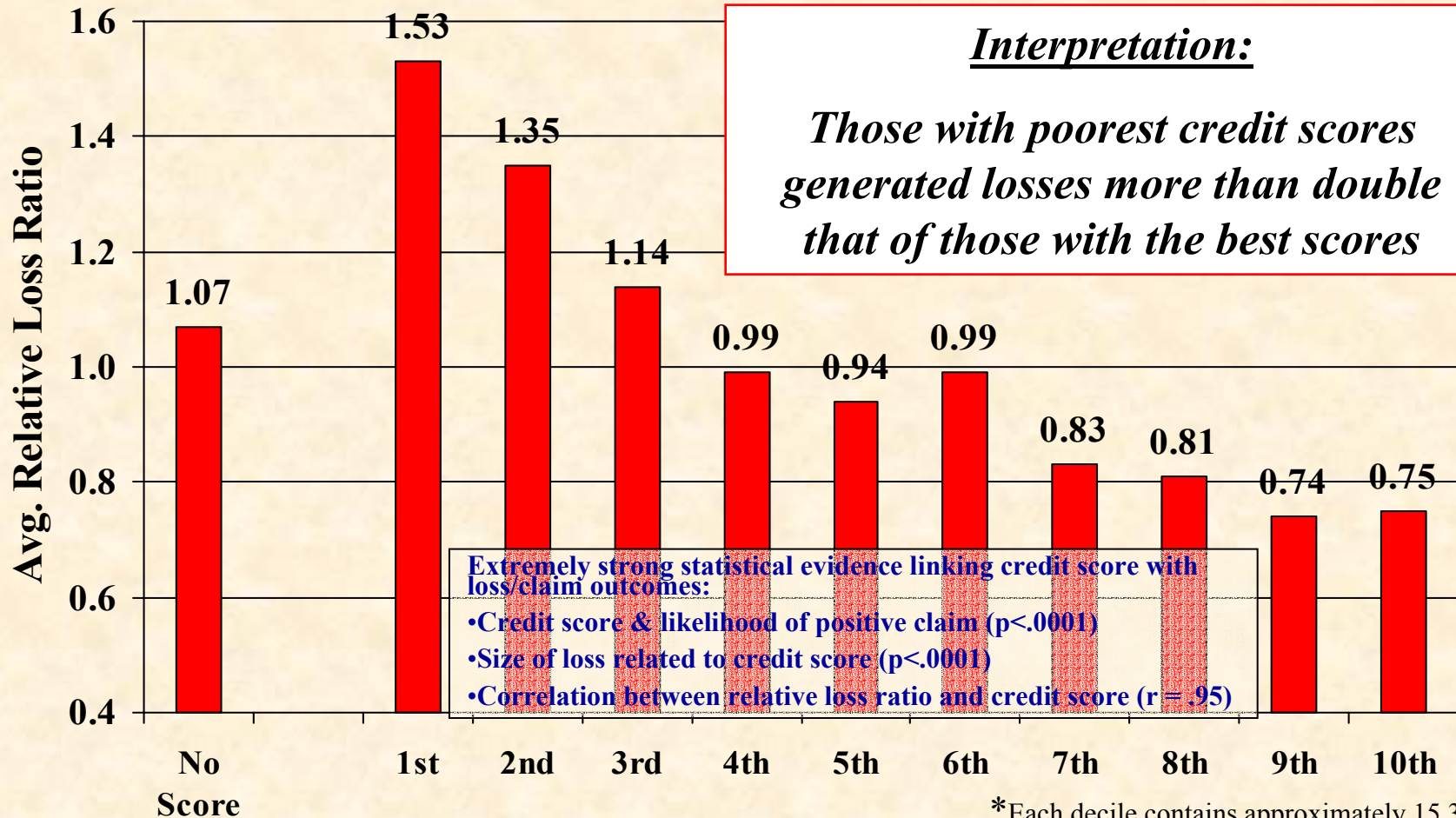
## 3 Recent Analyses

(detailed review available in III credit presentation)





# Texas Auto: Relative Loss Ratio (by Credit Score Decile, Total Market)\*



**Interpretation:**  
*Those with poorest credit scores generated losses more than double that of those with the best scores*

**Extremely strong statistical evidence linking credit score with loss/claim outcomes:**

- Credit score & likelihood of positive claim (p<.0001)
- Size of loss related to credit score (p<.0001)
- Correlation between relative loss ratio and credit score (r = .95)

**1<sup>st</sup> Decile = Lowest Credit Scores**  
**10<sup>th</sup> Decile = Highest Credit Scores.**

## Score Range

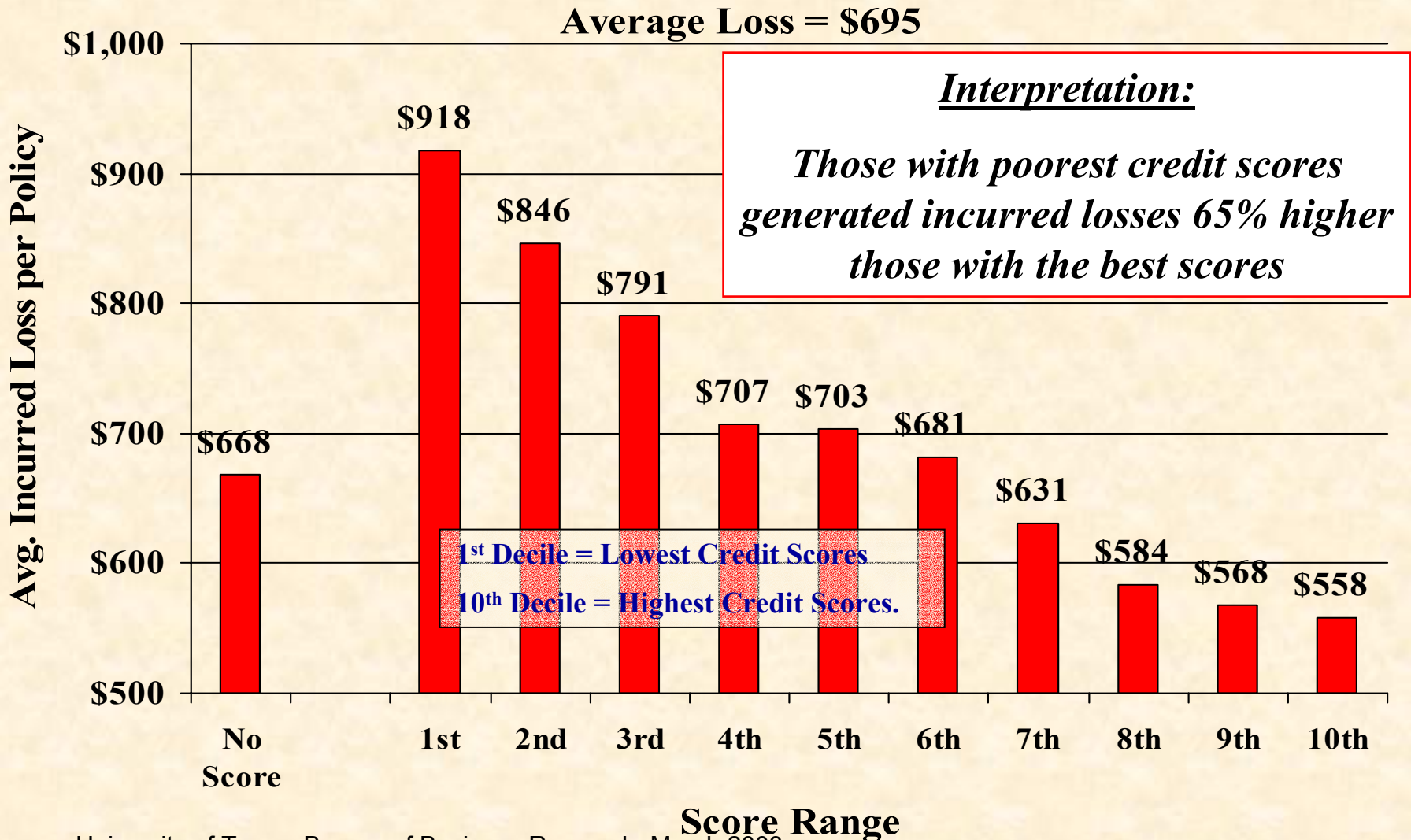
Source: University of Texas, Bureau of Business Research, March 2003.

\*Each decile contains approximately 15,300 policies.  
Includes standard and non-standard policyholders.



# Texas Auto: Average Loss per Policy

(by Credit Score Decile, Total Market)



Score Range



## NAIC (EPIC) Study (June 2003)

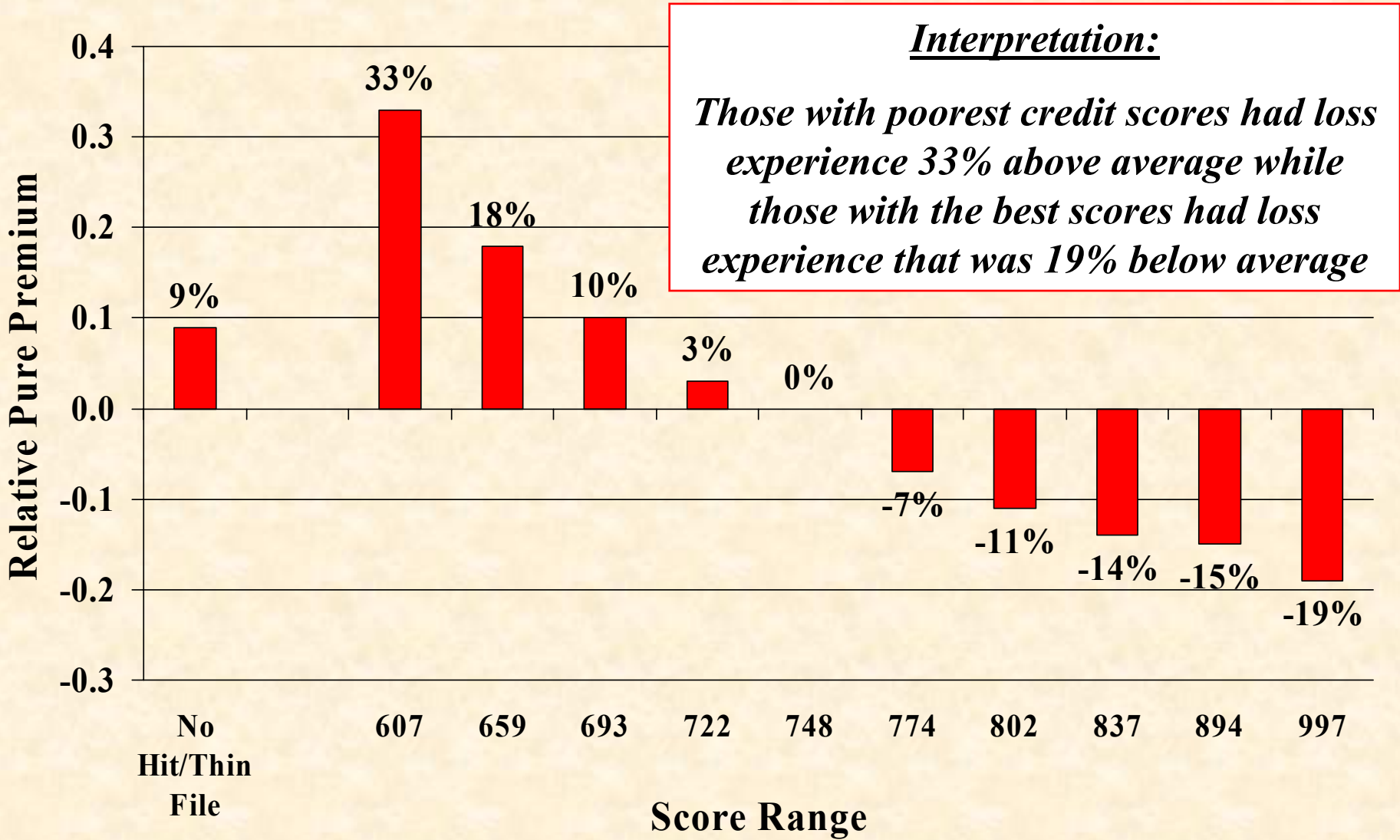
- Analyzed random sample of claim records totaling 2.7 million earned car years from all 50 states for period from 7/1/00 through 6/30/01

### 4 MAJOR FINDINGS:

1. Insurance scores were found to be *correlated* with the propensity of loss (primarily due to frequency)
2. Insurance scores *significantly* increase accuracy of the risk assessment process, even after fully accounting for interrelationships with other variables.
3. Insurance scores are among the 3 *most important* risk factors for each of the 6 coverage types studied
4. Study results apply generally to *all* states and regions



# Indicated Relative Pure Premium by Insurance Score (PD Liability)\*





# *Importance of Rating Factors by Coverage Type*

<b>Coverage</b>	<b>Factor 1</b>	<b>Factor 2</b>	<b>Factor 3</b>
<b>BI Liability</b>	Age/Gender	<b>Ins. Score</b>	Geography
<b>PD Liability</b>	Age/Gender	<b>Ins. Score</b>	Geography
<b>PIP</b>	<b>Ins. Score</b>	Geography	Yrs. Insured
<b>Med Pay</b>	<b>Ins. Score</b>	Limit	Age/Gender
<b>Comprehensive</b>	Model Year	Age/Gender	<b>Ins. Score</b>
<b>Collision</b>	Model Year	Age/Gender	<b>Ins. Score</b>

Source: *The Relationship of Credit-Based Insurance Scores to Private Passenger Automobile Insurance Loss Propensity* Michael Miller, FCAS and Richard Smith, FCAS (EPIC Actuaries), June 2003 (Presented at June 2003 NAIC meeting).



# *Washington State Study on Credit Scoring in Auto UW & Pricing*

## **STUDY DESIGN**

- WA State study released in January 2003 required under ESHB 2544, which also restricted the use of scoring
- Conducted by Washington State University (WSU)
- Objective was to determine who benefits/is “harmed” by scoring, impact of scoring on rates, disparate impacts on “the poor” or “people of color”
- Sampled about 1,000 auto policyholders from each of 3 insurers: age, gender, zip, inception date, score/rate class.
- Study’s models typically explain only 5% - 15% of variation (very low R-square in regression analyses)
- WSU contacted policyholders asked: ethnicity, marital status, income, details of experience if cancelled





# Washington State Study on Credit Scoring in Auto UW & Pricing

## SUMMARY OF FINDINGS

- Statistically the findings are extremely weak, leading even the study's author to conclude: *“The ...models only explain a fraction of the variance in score or discount found in the sample population”* and that *“...while there are statistically detectable patterns in the demographics of credit scoring, most of the variation among individual scores is to due to random chance or other facts not in this data.”*
- Study's models typically explain only 5% - 15% of variation (very low R-square in regression analyses).
- Strongest and most consistent finding is that credit score is positively associated with ***age***
  - Implication: banning on scoring creates disparate impact on older, more experienced drivers



## *Problems With Such Studies*

- Already statistically irrefutable evidence that scoring works. This fact is ignored in WA study.
- Ignores fact that scoring is 100% blind to ethnicity, color, gender, marital status, income, location, etc.
- Introduces the divisive issue of race into an issue where it does not belong (and doesn't exist today)
- **Perpetuates false stereotype that minorities and the poor are incapable of managing their finances responsibly**
- Puts regulators in awkward position of determining who is a minority, who is poor
- Lead to disparate impacts on groups such as older drivers, people who file few claims, and millions of minorities and low income people who benefit today
- Leads to poor public policy decisions that produce perverse economic incentives (e.g., subsidies to drivers who have higher relative losses)

# *CREDIT:*



## *Communications Strategies*

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- Know that Insurers Support Good Public Policy Regarding Credit (NCOIL-like model)
- Be Very Familiar with Supporting Studies
  - Issue suffers from “death by anecdote” syndrome
  - Intransigence (surprise at use, personal credit woes)
  - Helps to be able to convey statistical concepts to lay people
- Understand Rationale for Use of Credit Info
- Understand Consequences of Banning/Severely Restricting Use
- Reframe Issue: Be able to Show How it Benefits Majority of Consumers



# *Comprehensive Loss Underwriting Exchange Reports (CLUE)*

## **Why Insurers Use CLUE:**

- Enormous informational asymmetry between homeowner and insurer
  - Reduction of that asymmetry means that policyholder pays a price more closely associated with the risk assumed
  - Overall pricing system is more fair, equitable
  - Claim frequency depends on property AND owner

## **Consumers Who Learn About CLUE, Like It!**

- Majority of Americans, when CLUE is explained to them, believe CLUE is a good idea
- Most buyers would want to see seller's CLUE report
- Most sellers want buyers to see their CLUE report
- *Why do some realtors want to hide info from buyers?*



# Some Groups Want to Ban C.L.U.E. Reports



Did you know that the insurance companies keep a secret database with information about you and your property called the Comprehensive Loss Underwriting Exchange or C.L.U.E.? If you didn't, you're not alone. C.L.U.E. keeps a record of every time you contact your insurance company with questions about possible claims and counts them against you!

## What They Know About You

Here are just some of the "Causes of Loss" to insurers C.L.U.E. tracks:

- Workers Compensation
- Damage to Property of Others
- Dog Bites
- Fire/Smoke Damage
- Flood/Water Damage
- Slip/Fall
- Vandalism/Theft
- Lost Property-Wedding Ring

Some of these things have nothing to do with property damage.

## Did you also know that with C.L.U.E....

- Two claims in three years your insurance policy can get cancelled?
- Homebuyers are getting their policies cancelled after they move into their new home because insurance companies didn't check their own database?
- Previous owners' claims on the property can affect your insurance?

C.L.U.E. not only promotes property stigmatization and redlining practices, it also is detrimental to homeowners' abilities to find insurance at affordable prices.

**PROTECT THE AMERICAN DREAM OF HOMEOWNERSHIP!**

*It's time for legislation to protect homeowners from C.L.U.E.!*

- **Ad run by realtors in AZ in January 2003: But how would homeowners be helped if CLUE is banned?**
- *CLUE helps protect homebuyers by letting them see what problems a house has had before they buy it*
- *A house without problems or that has been properly repaired will command a premium, benefiting sellers*
- *A house can be made safer and less expensive to insure if repairs have been made properly*
- **Don't YOU want to know what you're buying before you make the biggest investment of your life???**



# *Comprehensive Loss Underwriting Exchange Reports (CLUE)*

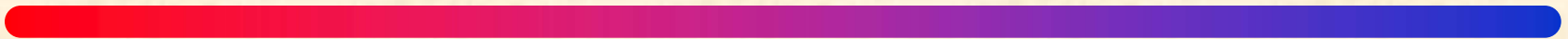
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## **CLUE is:**

- Available to homeowner for just \$12.95
- Can be shared online by property owner
- Can help a homeowner sell a home at a premium
  - No claims
  - Claim properly addressed (e.g., new roof, plumbing upgraded)

**Realtors who oppose CLUE are on the  
wrong side of this issue**

*Has the Cost of HO Insurance  
or Use of Credit/CLUE  
Harmed Homeownership in  
America or Created 'Adverse  
Impacts?'*





# *Difficult to See Where Insurance*

## *Scoring/CLUE Hurting Real Estate Buyers*

- **“Record for Home Sales Likely in 2003”**

- *“Record low mortgage interest rates, a growing number of households, rising consumer confidence and an improving economy mean probably will set a **third consecutive record for both existing- and new-home sales this year.**”*

- David Lereah, NAR Chief Economist, June 3, 2003

- **“Existing Home Sales Still on a Roll in April”**

- *“Sales of existing homes single-family homes rose in April 2003 and are at the **fifth highest level of activity ever recorded.**”*

- As reported on [www.realtor.org](http://www.realtor.org) on June 13, 2003

- **“Most Metro Area Home Prices Rising Above Norms”**

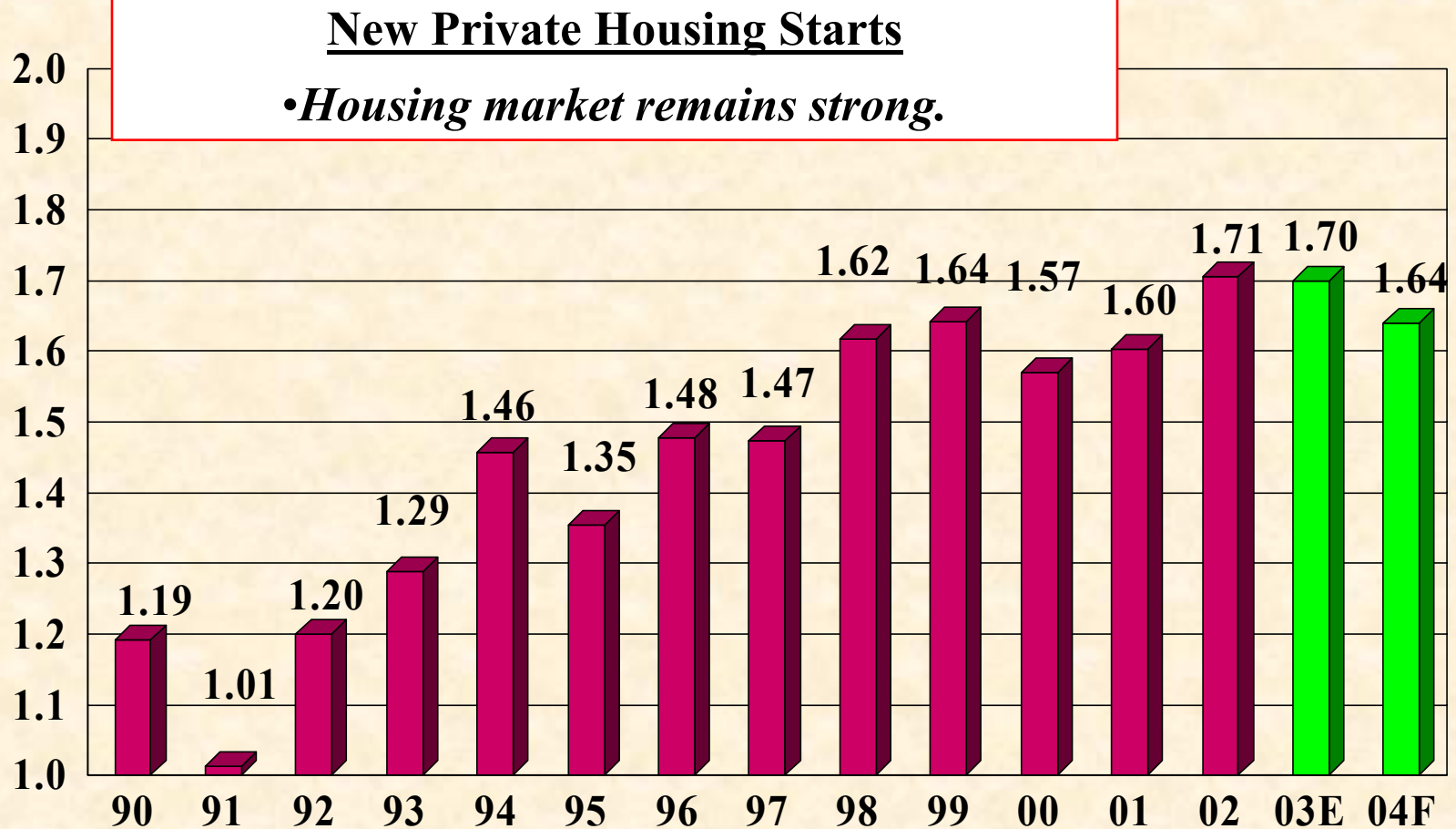
- *“...short supply is continuing to put pressure on home prices in many areas, with more buyers than sellers...”*

- David Lereah, NAR Chief Economist, February 12, 2002





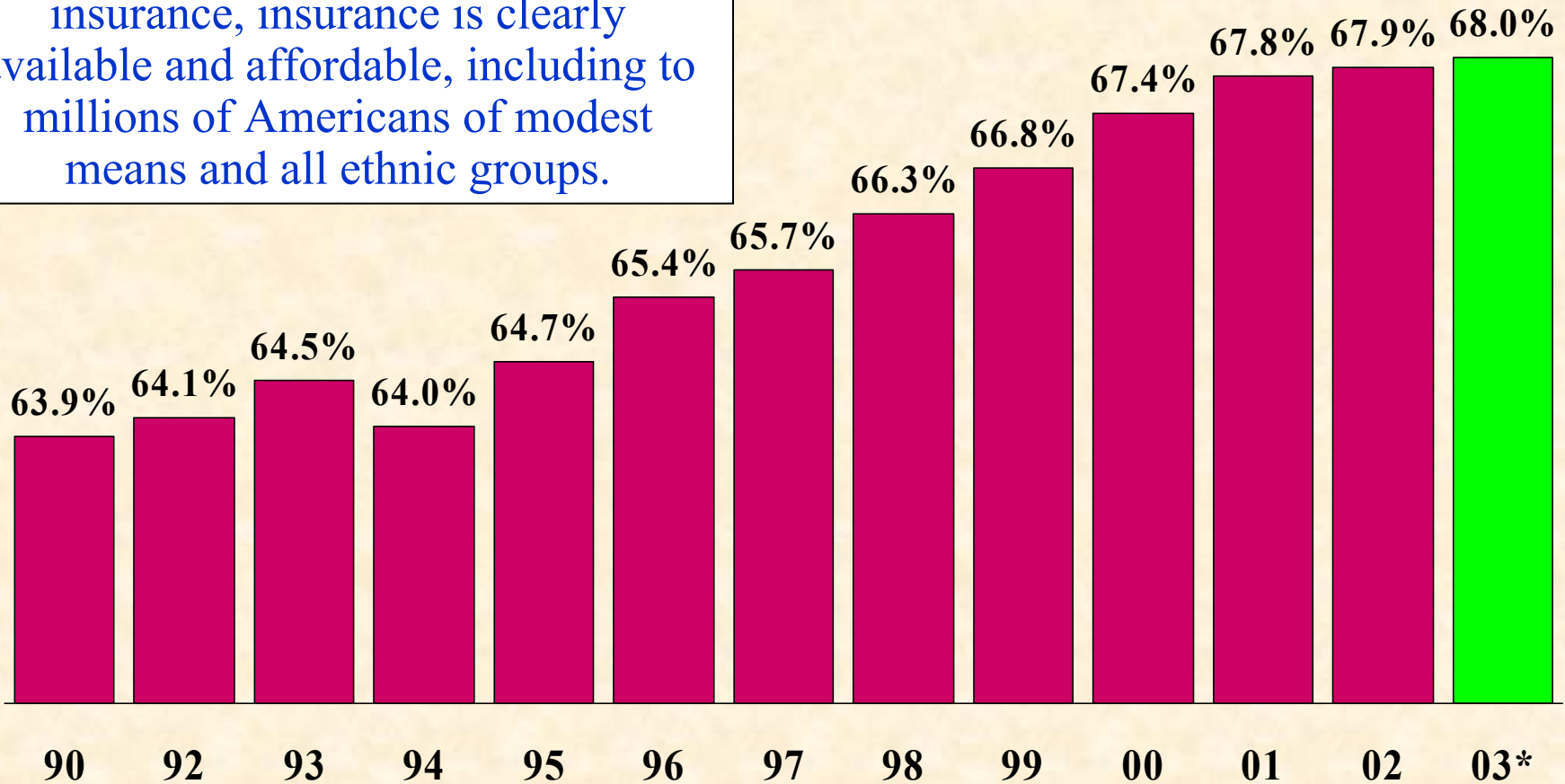
# *New Private Housing Starts* *(Millions of Units)*





# U.S. Homeownership Rates, 1990 to 2003\*

Homeownership is at a record high. Because you can't buy a home without insurance, insurance is clearly available and affordable, including to millions of Americans of modest means and all ethnic groups.

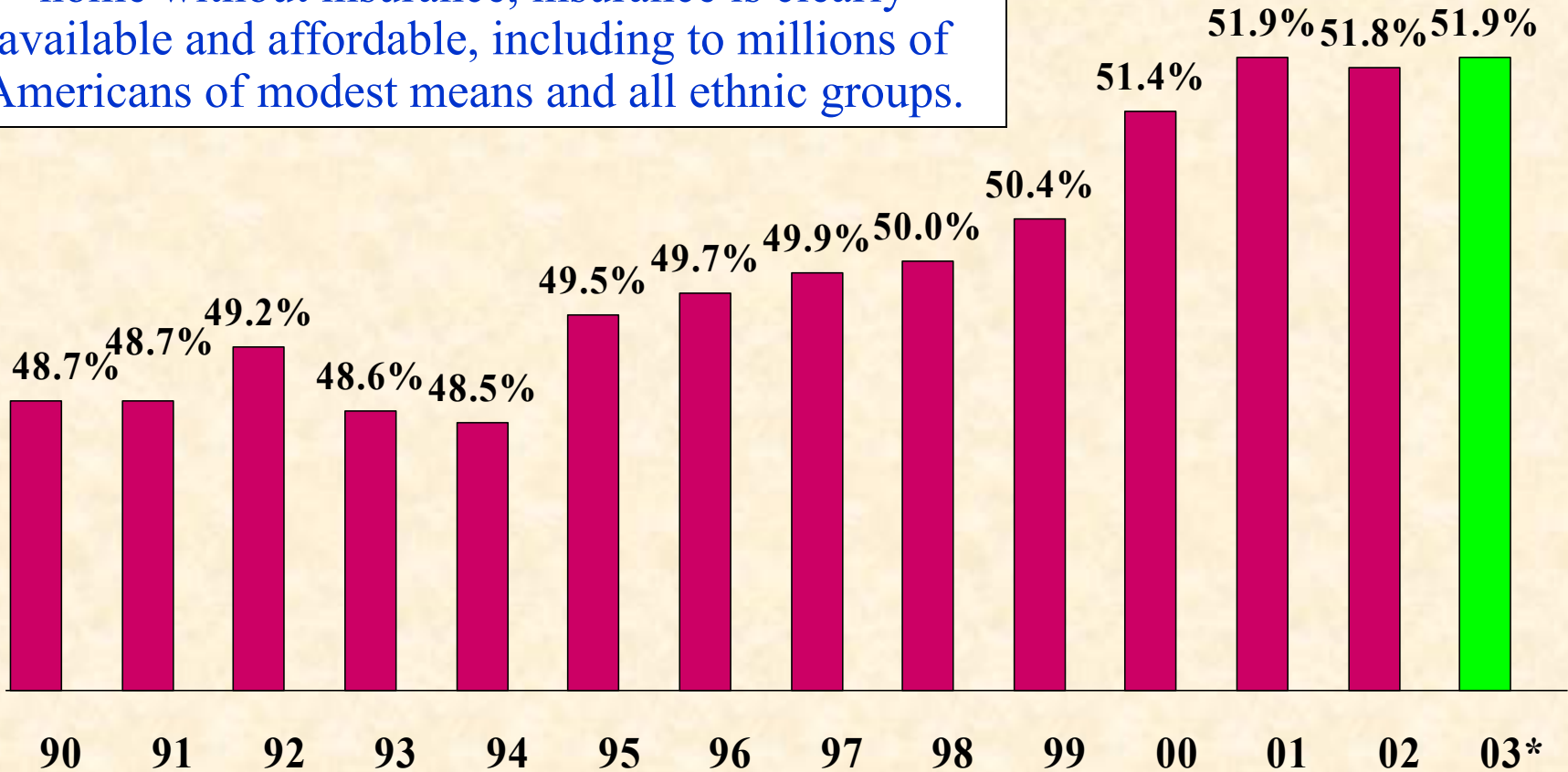


\* First Quarter  
Source: U.S. Census Bureau



# Homeownership Rates in Central Cities, 1990 to 2003\*

Homeownership rates in central cities is rising to record/near record levels. Because you can't buy a home without insurance, insurance is clearly available and affordable, including to millions of Americans of modest means and all ethnic groups.

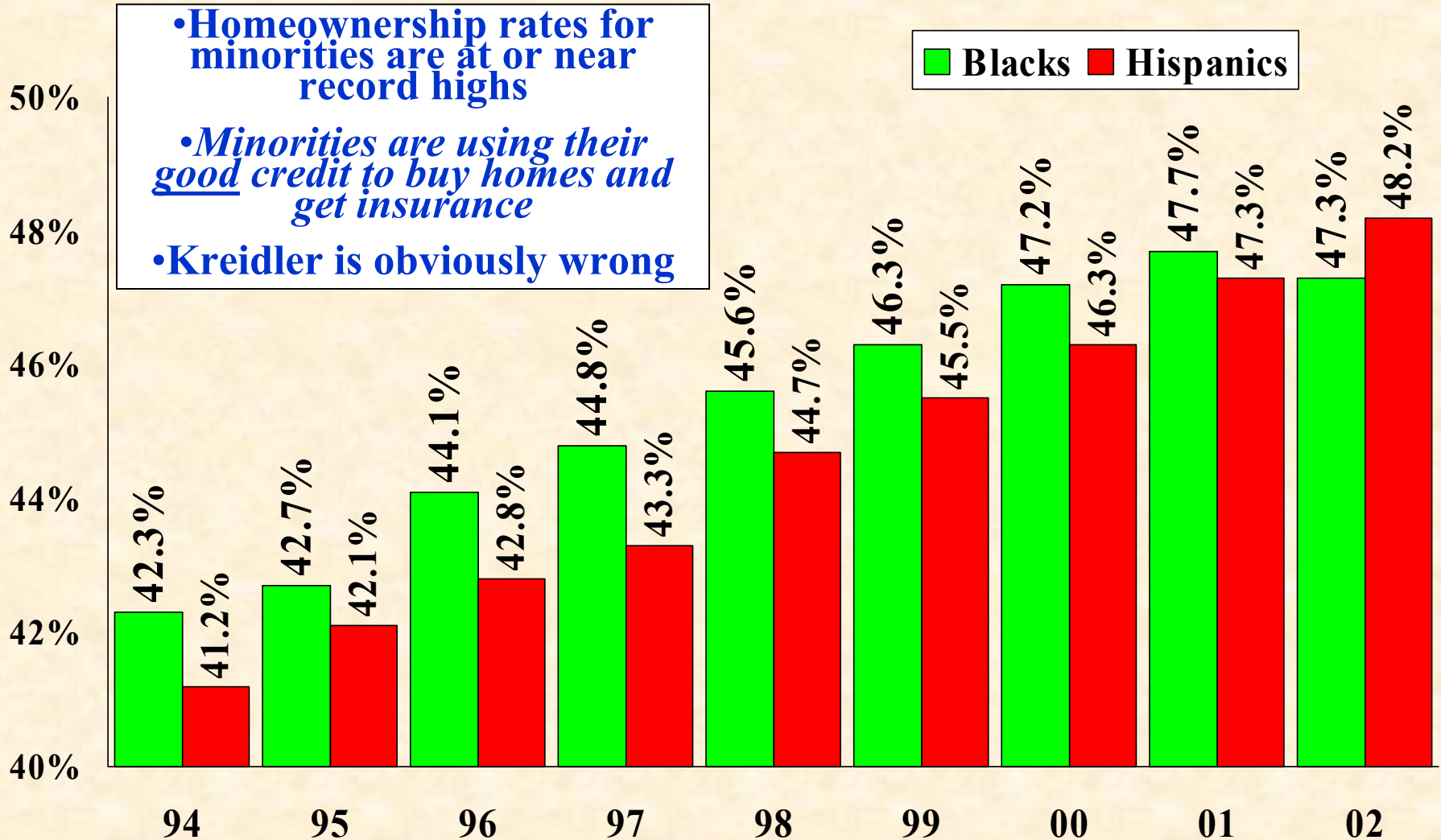


\*First quarter 2003.

Source: U.S. Census Bureau



# Homeownership Rates Among Minorities is Rising, 1994 to 2002

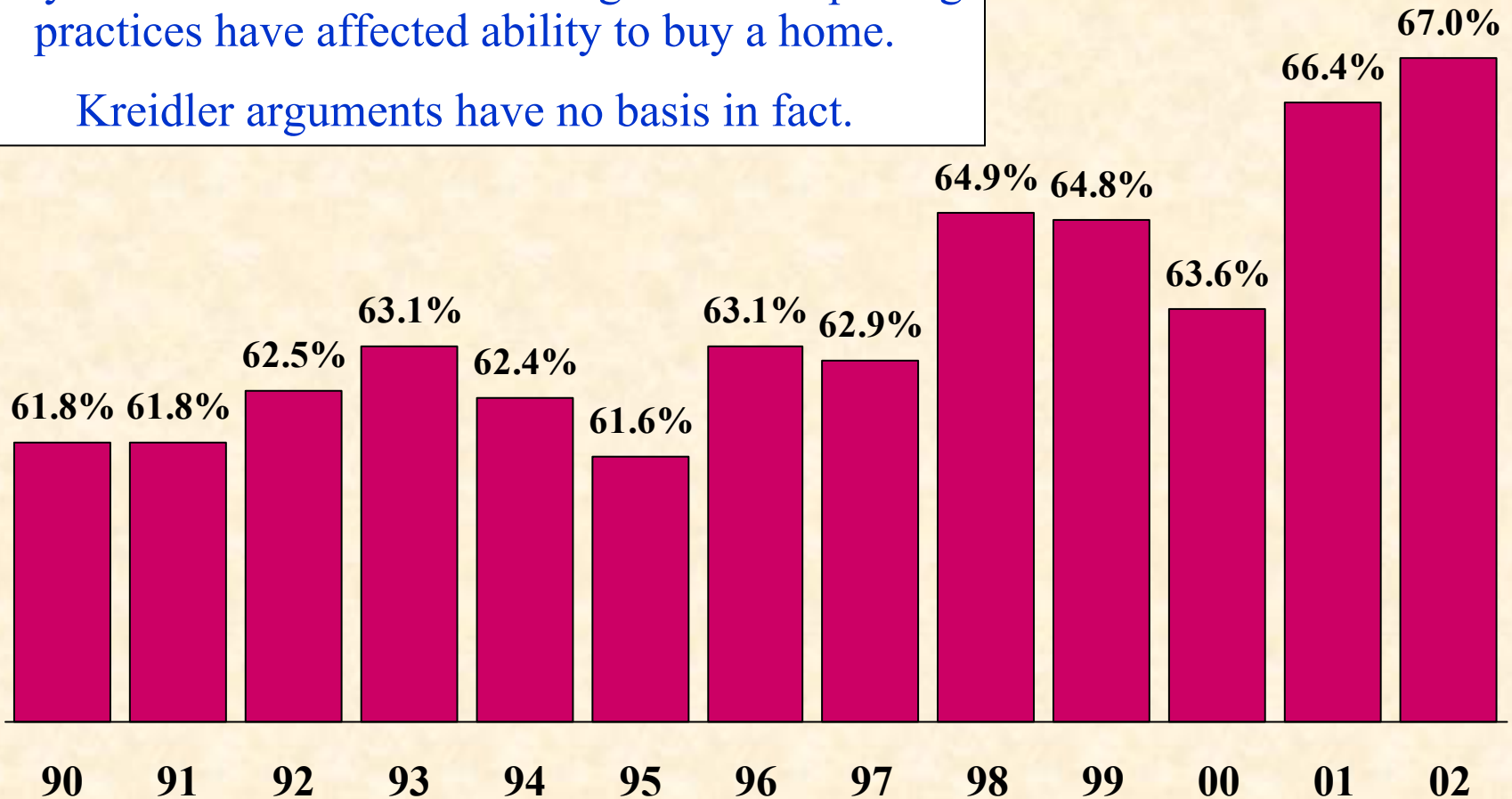




# Homeownership Rates in Washington State, 1990 to 2002

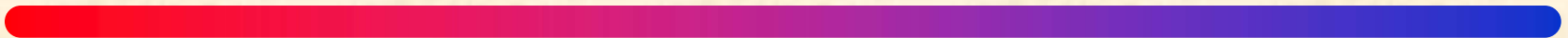
Homeownership rates reached a record high in WA last year. No evidence that scoring or insurer pricing practices have affected ability to buy a home.

Kreidler arguments have no basis in fact.



**TORT-ure**

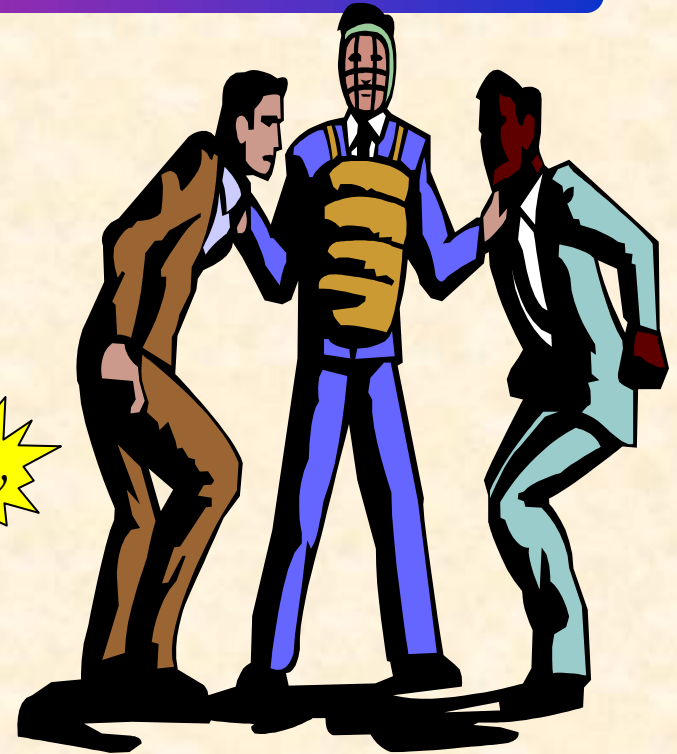
***ABUSE OF THE U.S. CIVIL  
JUSTICE SYSTEM***





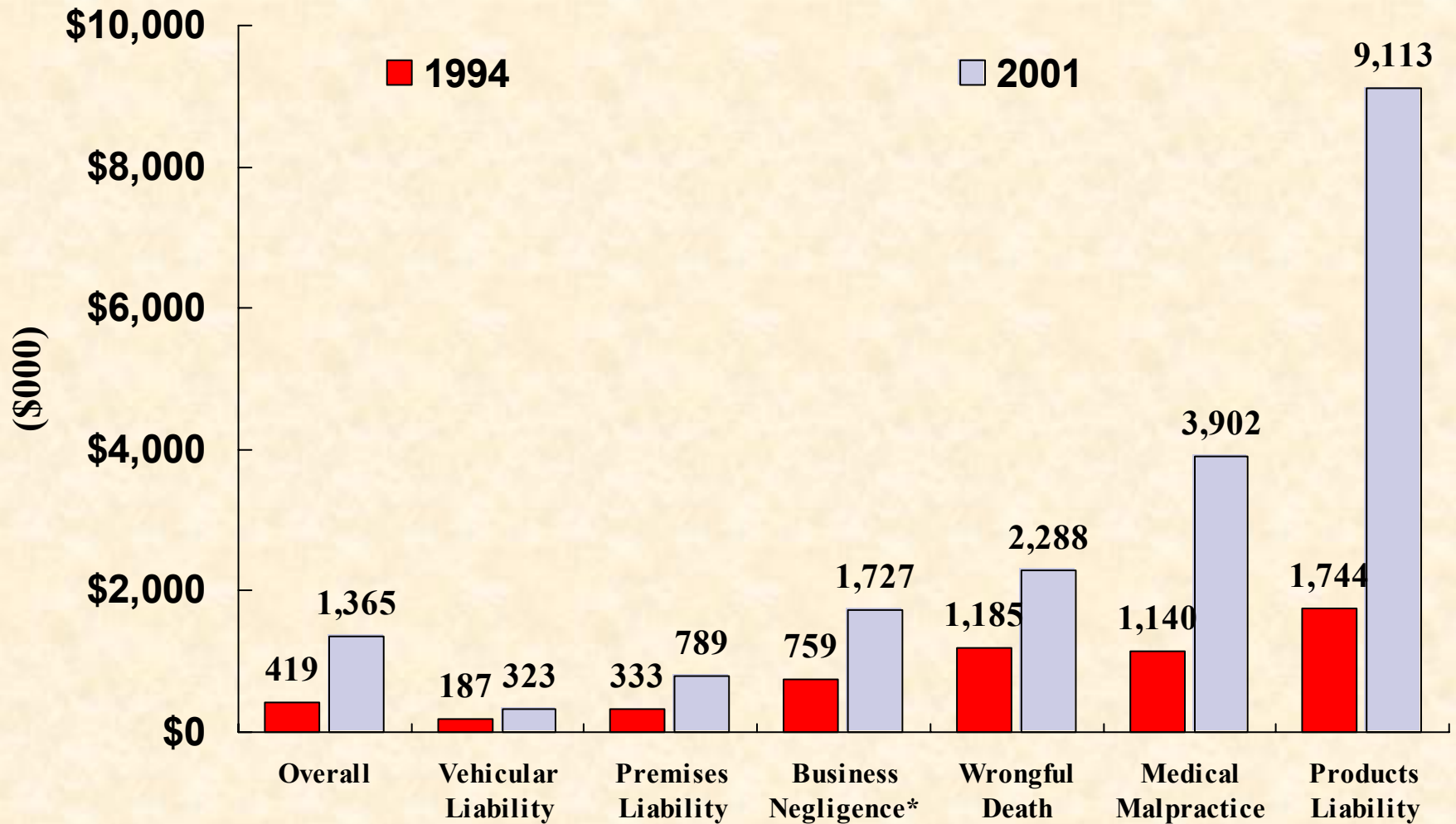
# TORT-ure

- Asbestos
- “Toxic” Mold
- Medical Malpractice
- Construction Defects
- Lead
- Fast/Fattening Foods & Obesity *New*
- Reality TV *New*
- Arsenic Treated Lumber
- Guns
- Genetically Modified Foods (Corn)
- Pharmaceuticals & Medical Devices
- Security exposures (workplace violence, post-9/11 issues)
- Slavery
- What’s Next?





# Average Jury Awards 1994 vs. 2001



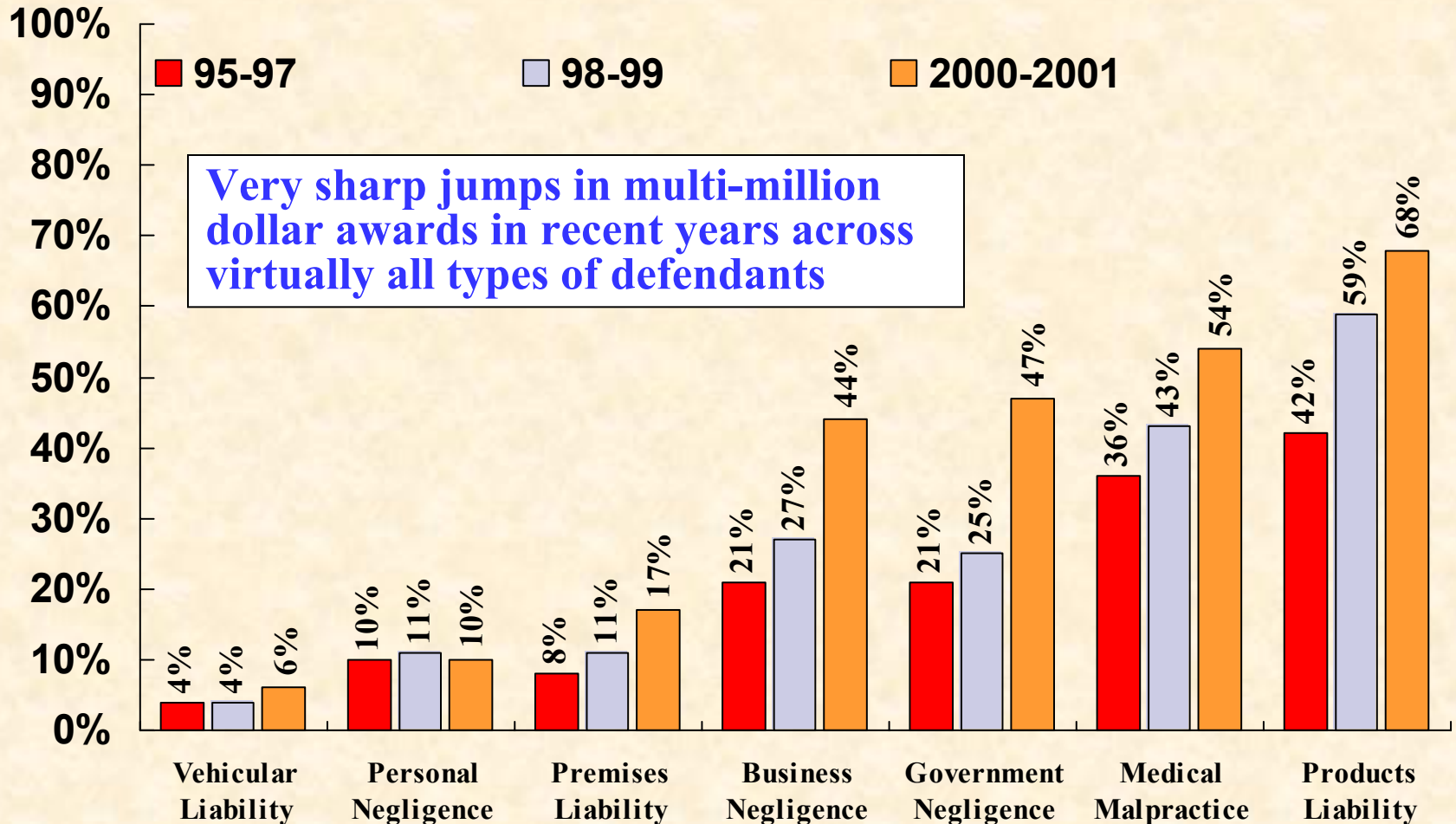
\*Figure is for 2000 (latest available)

Source: Jury Verdict Research; Insurance Information Institute.





# Trends in Million Dollar Verdicts\*



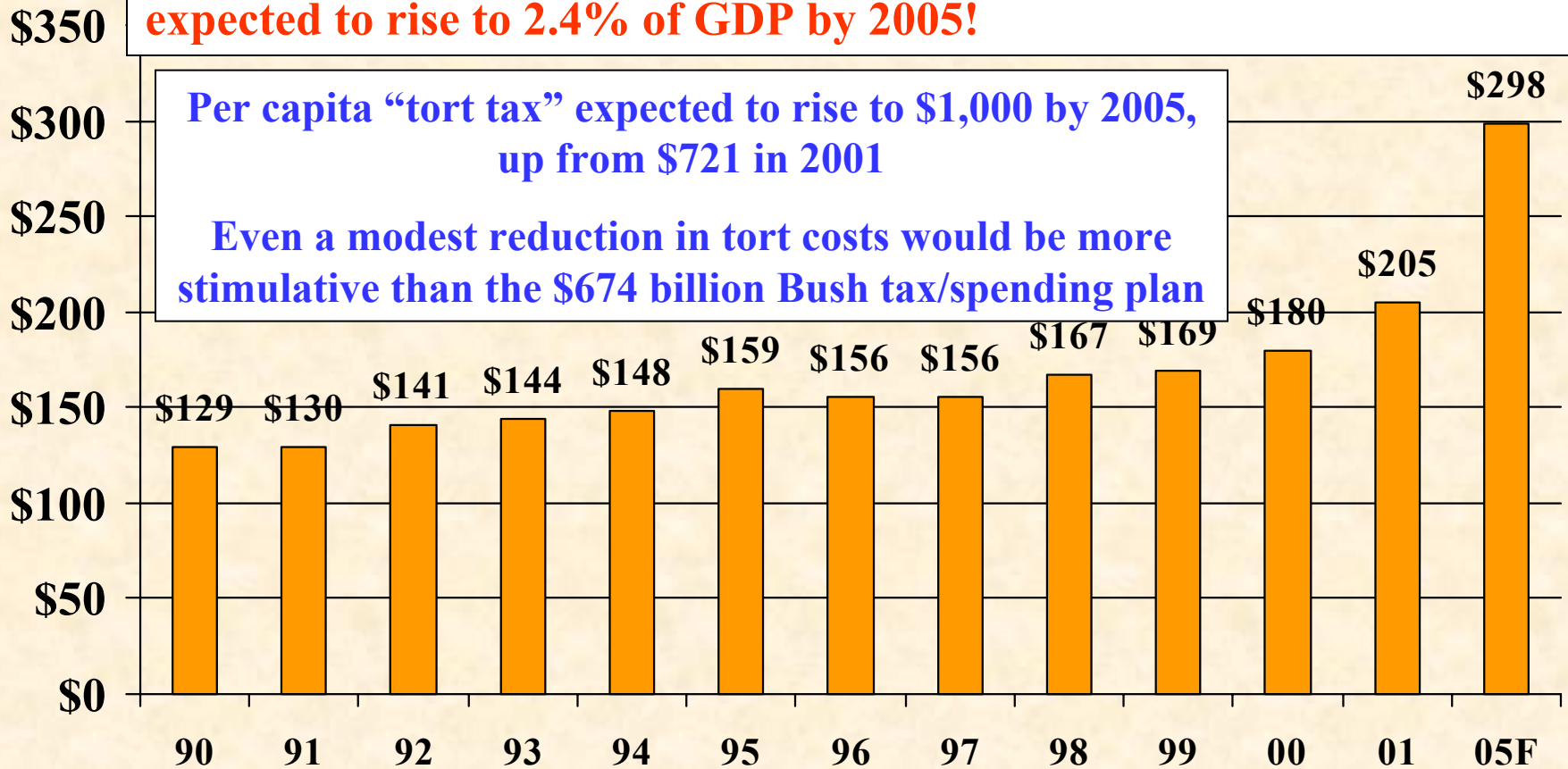
\*Verdicts of \$1 million or more.

Source: Jury Verdict Research; Insurance Information Institute.



# Cost of U.S. Tort System (*\$ Billions*)

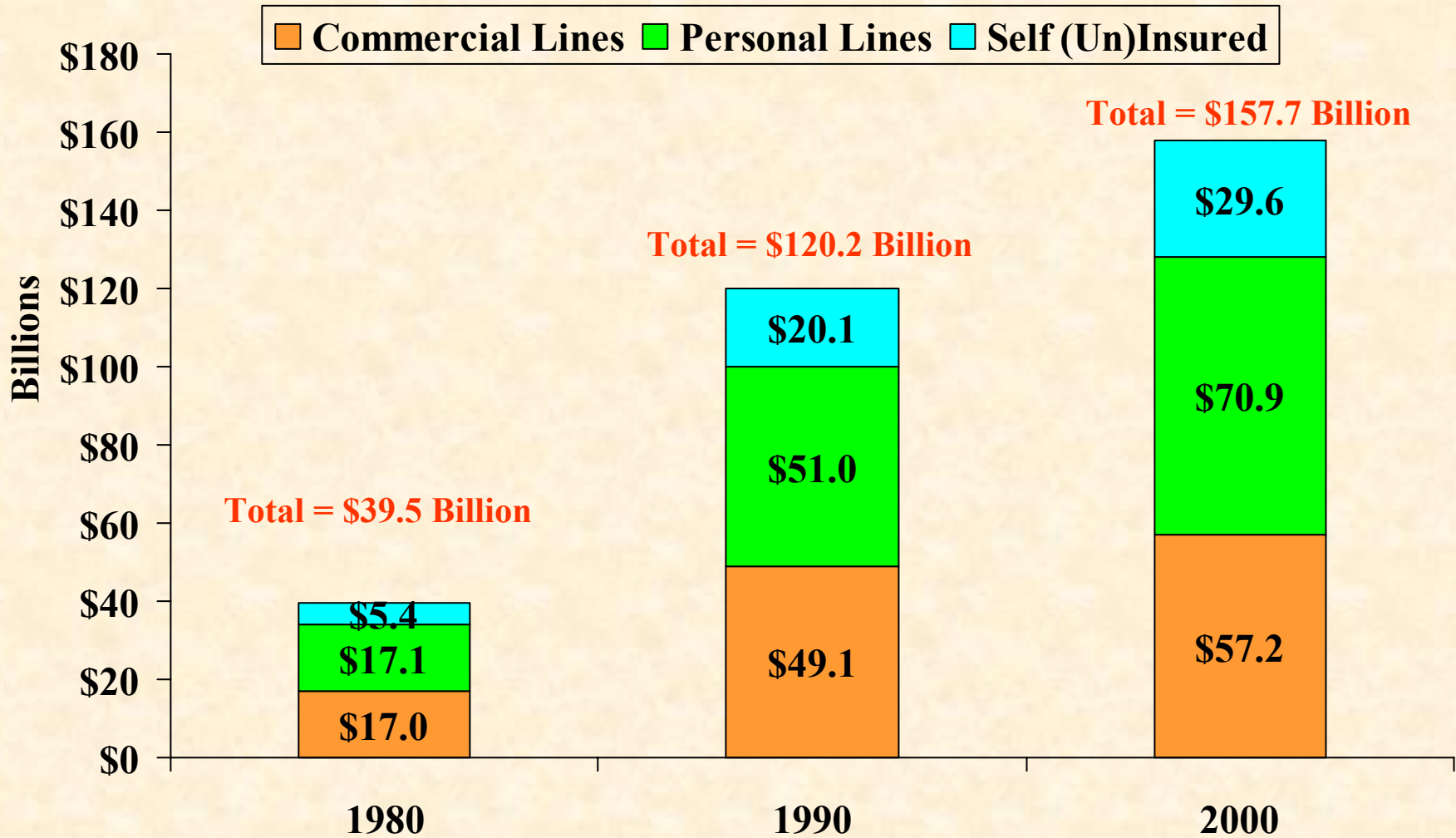
**Tort costs consumed 2.0% of GDP annually on average since 1990, expected to rise to 2.4% of GDP by 2005!**



Source: Tillinghast-Towers Perrin. 2005 forecasts from Tillinghast.



# *Personal, Commercial & Self (Un) Insured Tort Costs\**

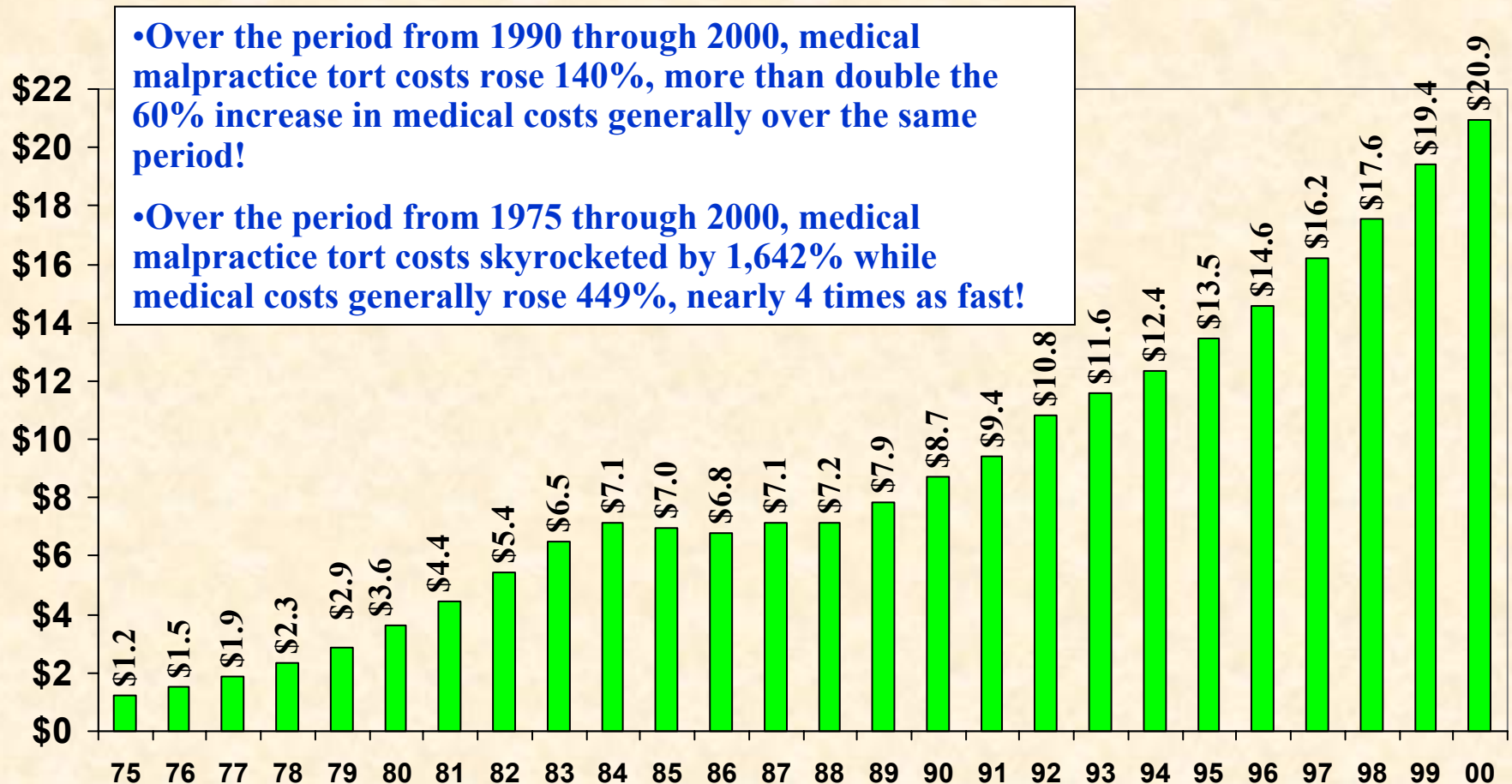


\*Excludes medical malpractice  
Source: Tillinghast-Towers Perrin



# Medical Malpractice: Tort Cost Growth is Skyrocketing

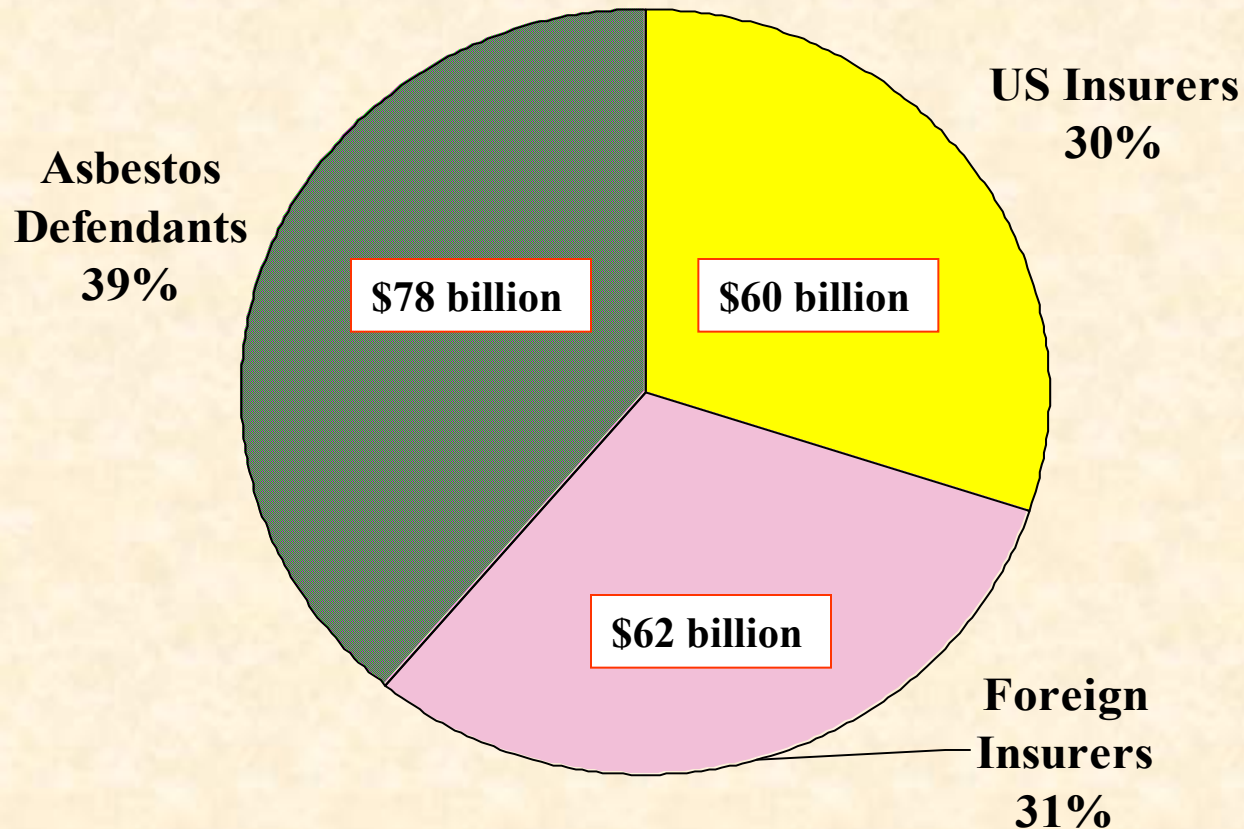
**\$ Billions**





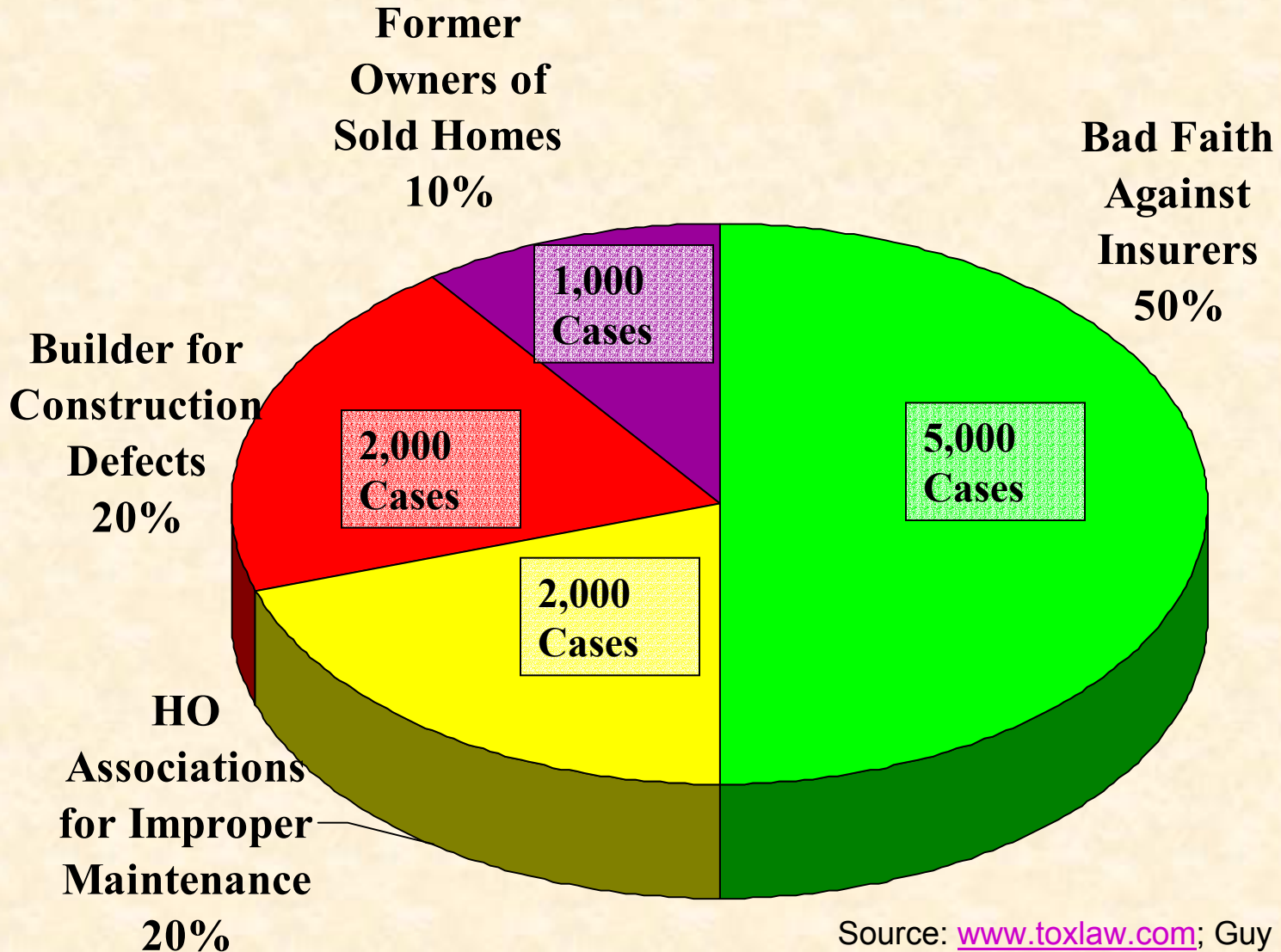
# Who Will Pay for the US Asbestos Mess?

**Estimated Total US Settlements & Expenses = \$200 billion**



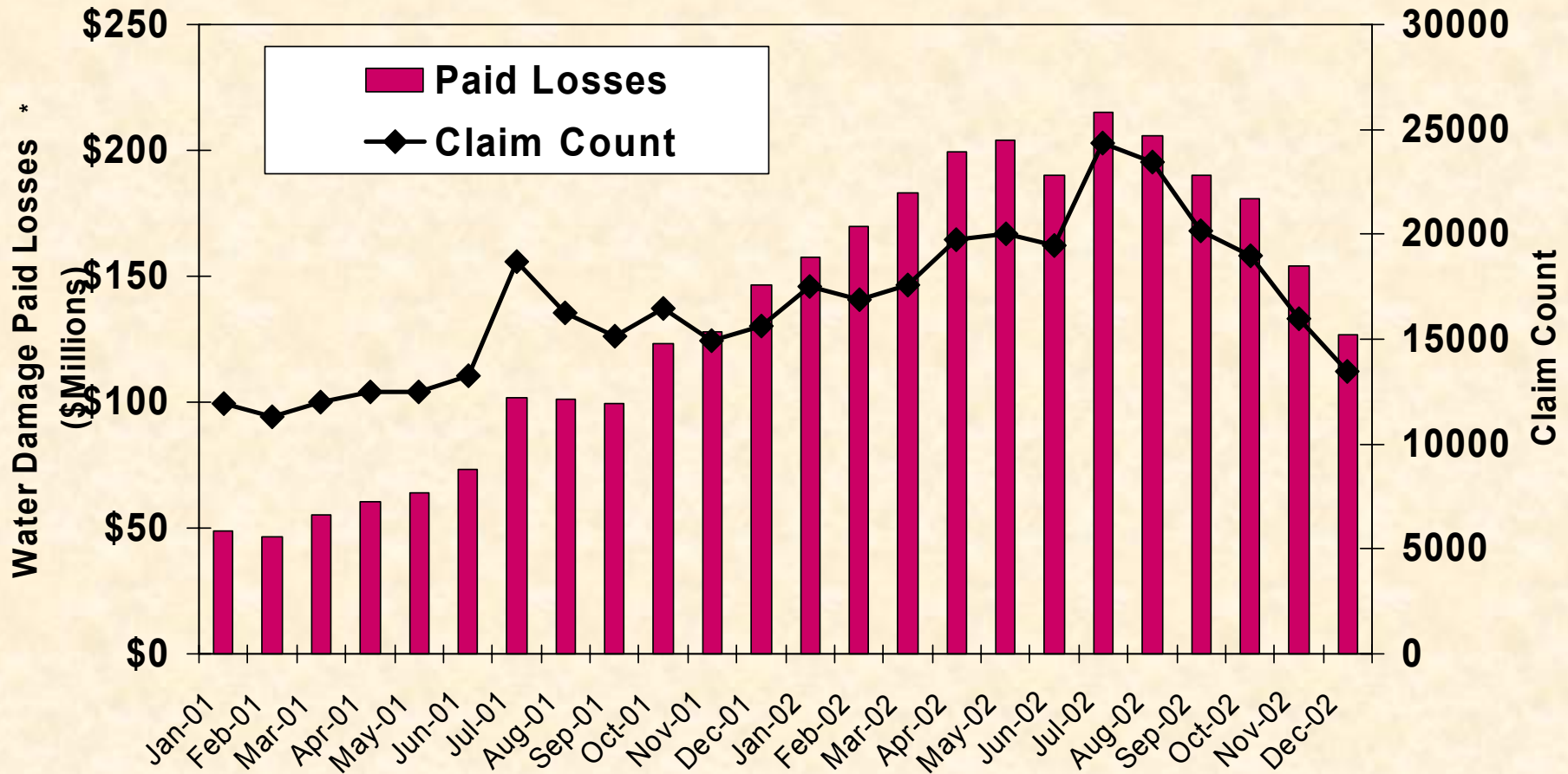


# *U.S.: Documented Toxic Mold Suits*





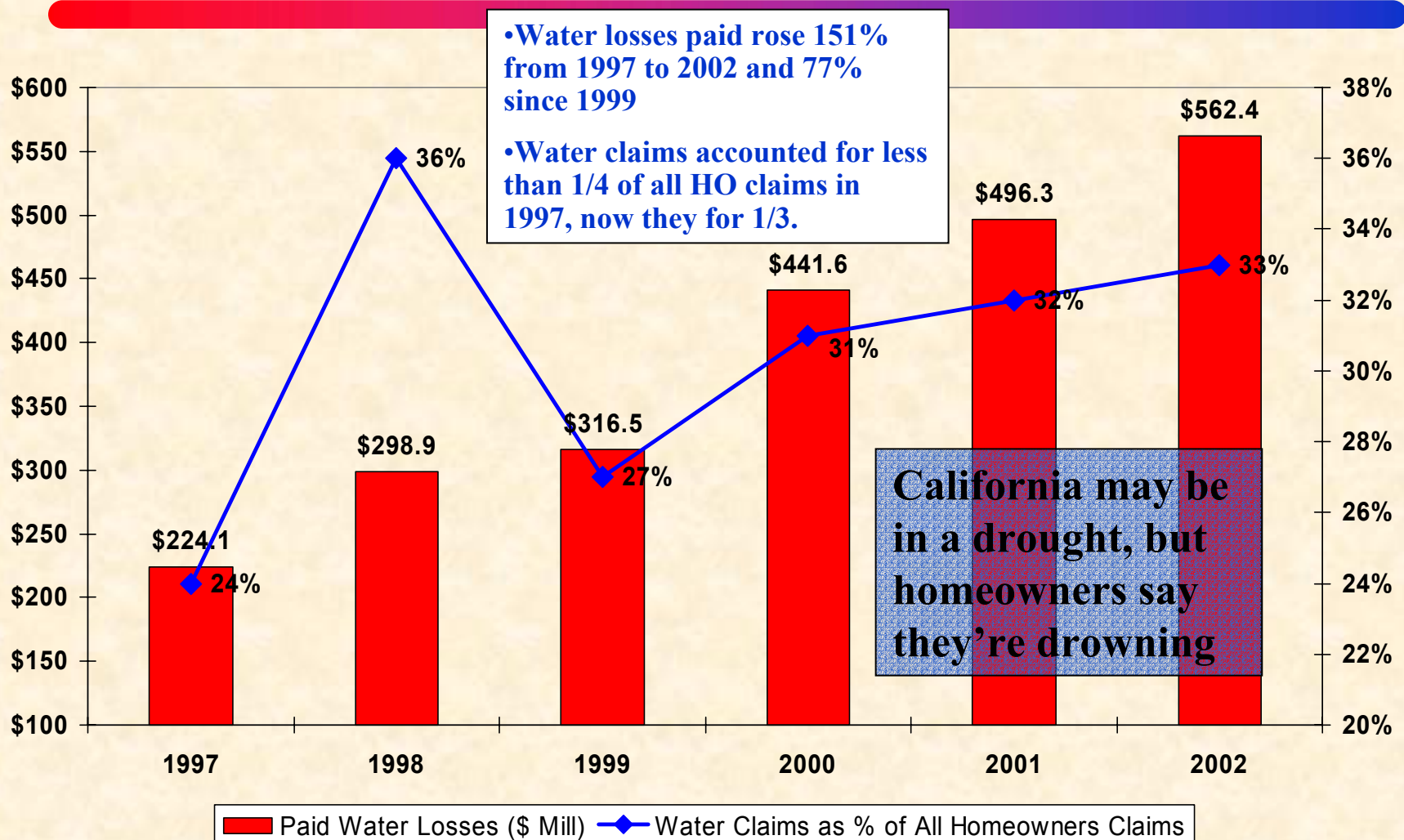
# Texas: Mold Losses/Claims Are Finally Moderating\*



\* Data are for TDI Cause 61: Discharge – Other Damage. Not all claims in cause 61 are mold and mold claims may also arise from other (non-water) causes of loss.



# California: Surging Water Claim Frequency and Costs: Symptom of Growing Mold Problem







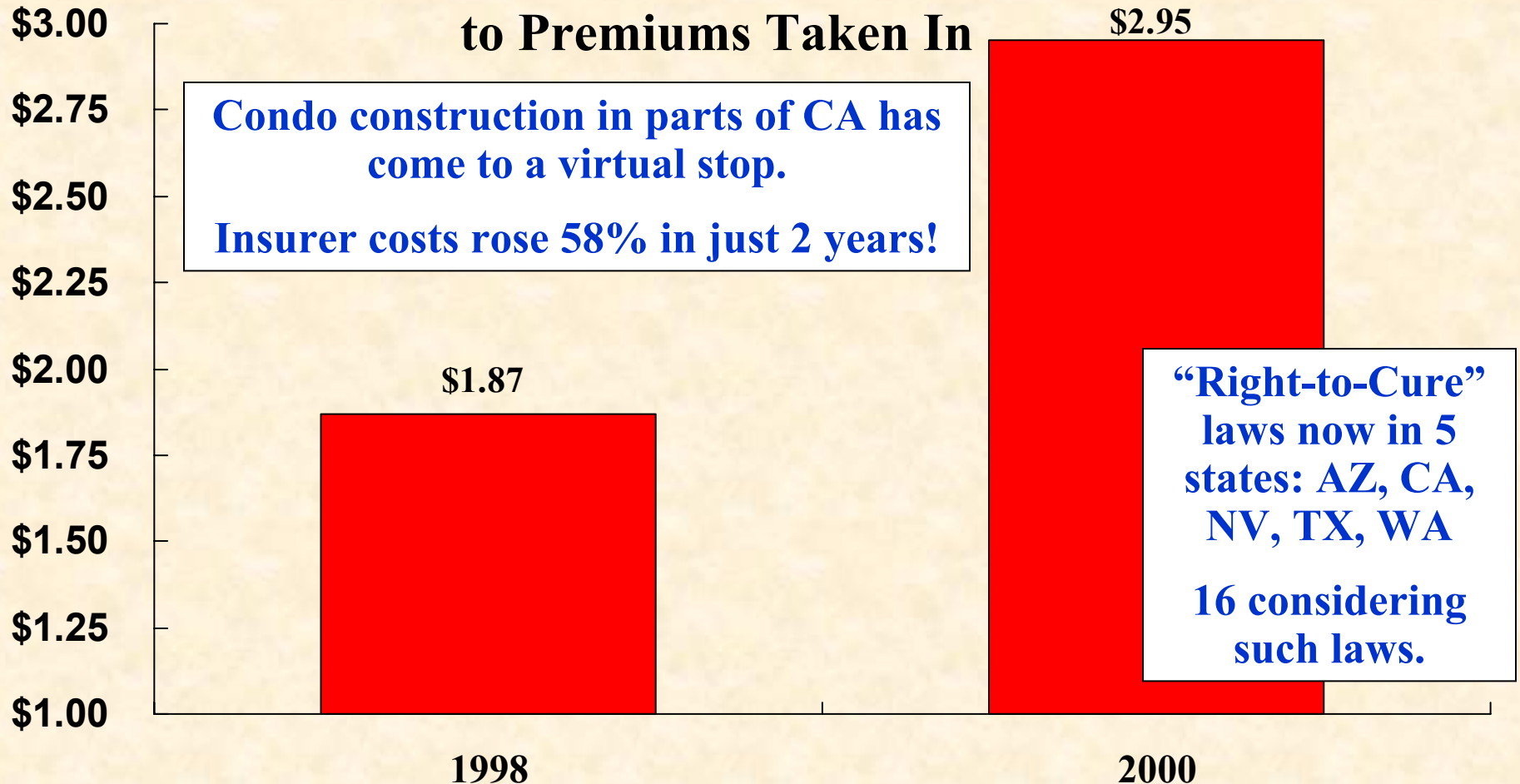
# *Where are the Next Battlefields for Mold?*

- Homeowners issue probably crested in 2002
- Migration to commercial area affects many lines:
  - Commercial Property      Commercial Liability
  - Products Liability      Builders Risk/Construction Defects
  - Workers Comp...
- Hot Spots:
  - Apartments/Condos/Co-ops      Office Structures
  - Schools      Municipal Buildings
  - Cars? (GM case in NC)
- Trend toward class actions since science doesn't support massive individual non-economic damages
  - Much more lucrative for trial lawyers to form class



# *Construction Defect Litigation Destroying CA Condo Market*

## **Ratio of Losses Paid Out to Premiums Taken In**





# *Fast Food/Junk Science: Edible Asbestos?*

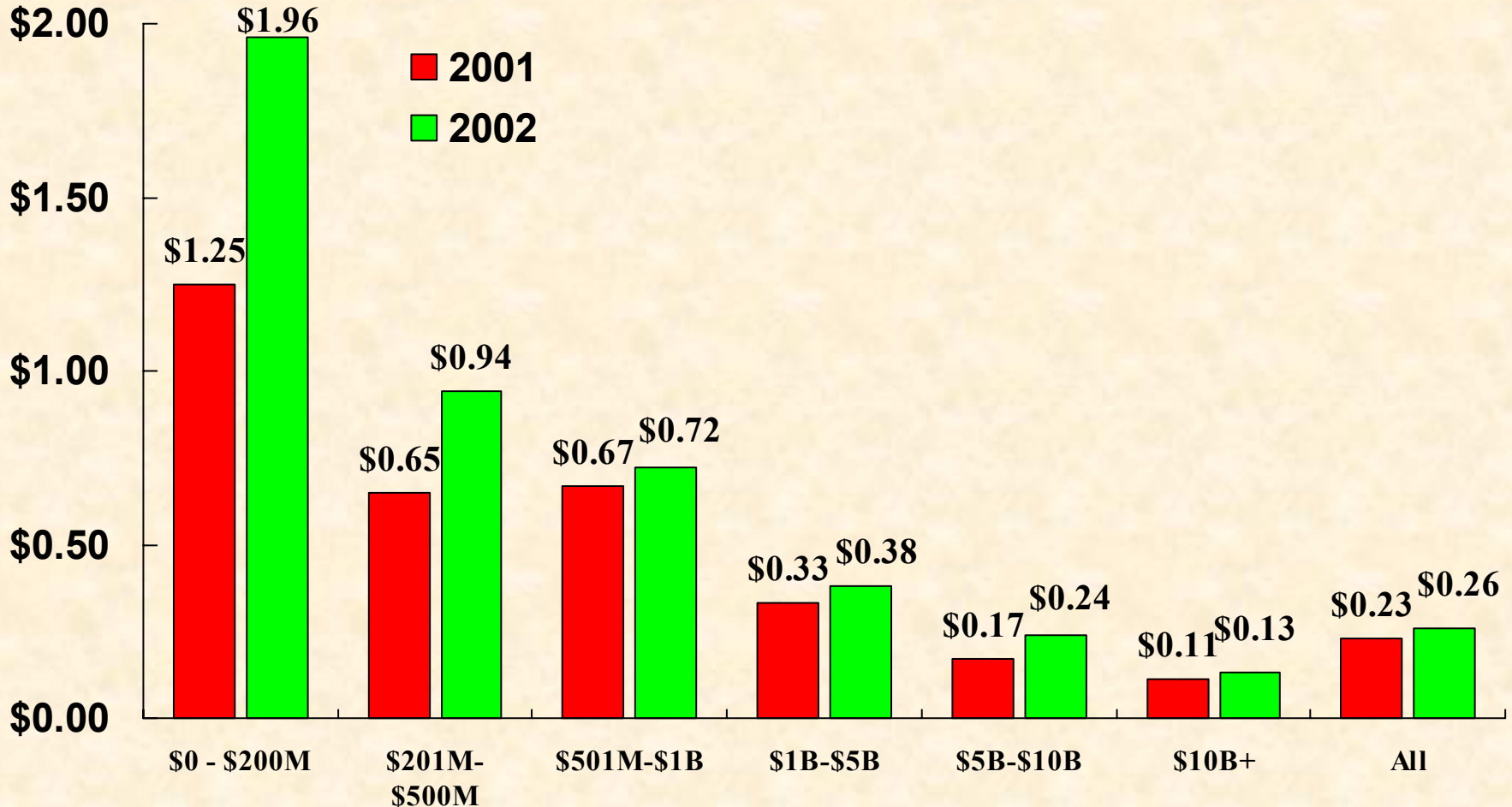
- Are the food service & manufacturing industry's vulnerable to suits over obesity?
- McDonald's sued in late 2002 over allegations that their food makes people fat
- Kraft sued earlier this year over trans fats in Oreo cookies



UPDATE: TRANS FAT AND OREO® COOKIES

# Liability: Average Cost per \$1,000 of Revenue\*

## 2001 vs. 2002

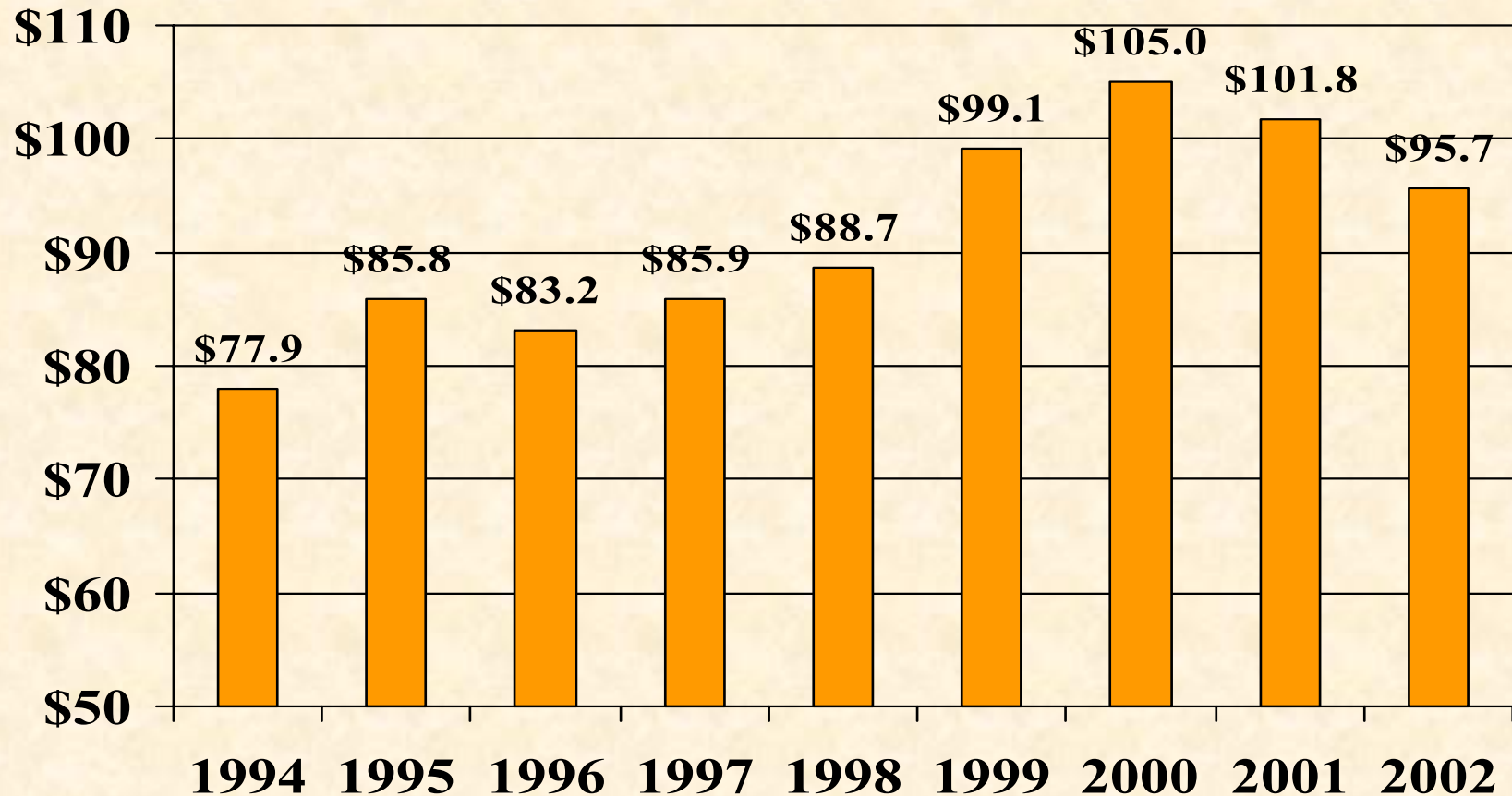


\*Across entire liability program

Source: Marsh, 2002 Limits of Liability Report



# *Average Total Limits Purchased by All Firms\* (\$ Millions)*

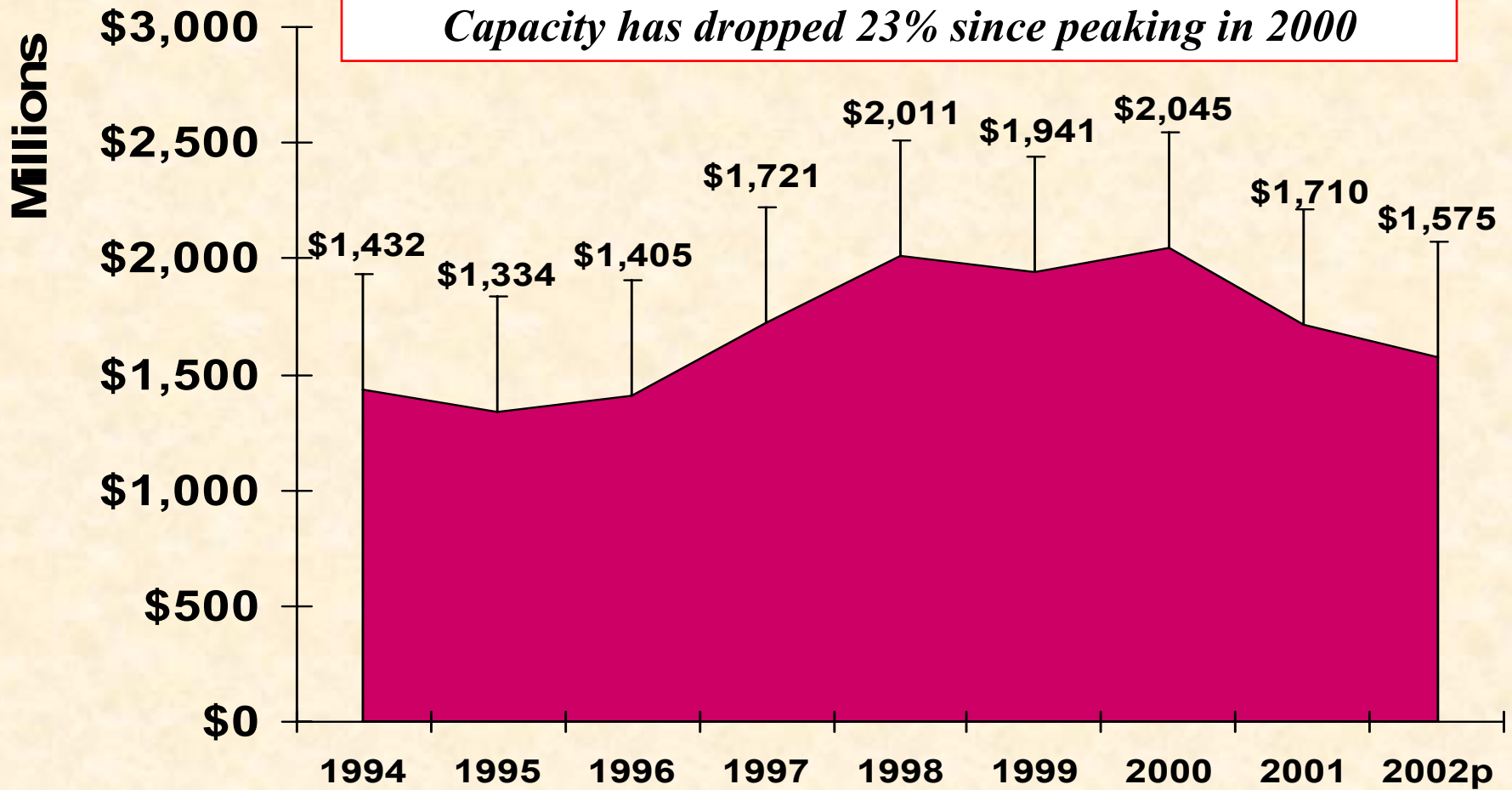


\*Includes underlying primary limits

Source: *Limits of Liability 2002*, Marsh, Inc.



# Excess Liability Market Capacity



Source: Marsh, 2002 Limits of Liability Report



# *Business Leaders Ranking of Liability Systems for 2003*

## Best States

1. Delaware
2. Nebraska
3. Iowa
4. South Dakota
5. Indiana
6. North Dakota
7. Utah
8. Virginia
9. Minnesota
10. New Hampshire

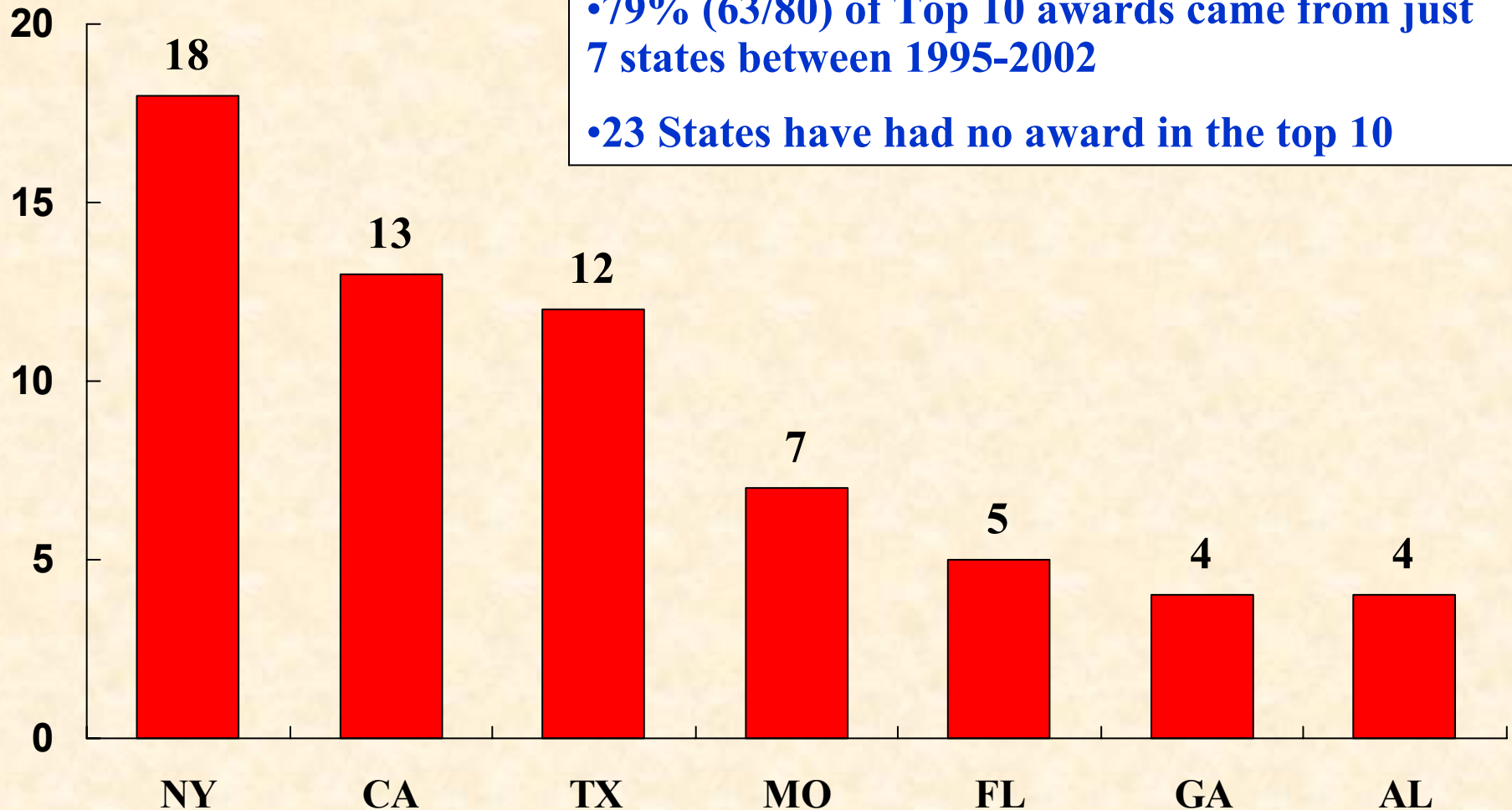
**Washington fell  
from 3<sup>rd</sup> in 2002 to  
21<sup>st</sup> in 2003!**

## Worst States

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



# States With the Most Top 10 Jury Awards 1995-2002

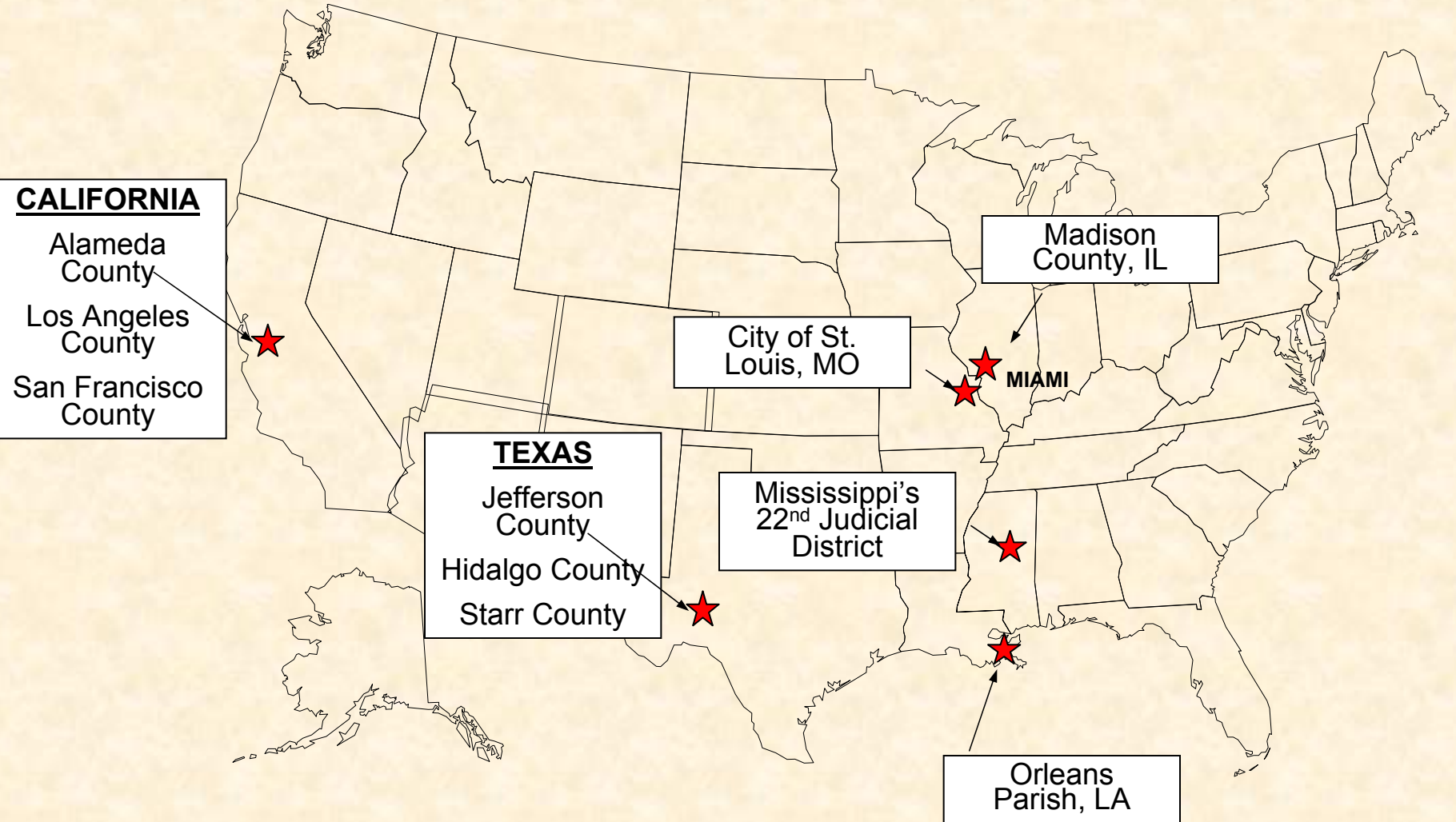


- 79% (63/80) of Top 10 awards came from just 7 states between 1995-2002
- 23 States have had no award in the top 10





# *The Nation's Judicial Hellholes: An International Embarrassment*





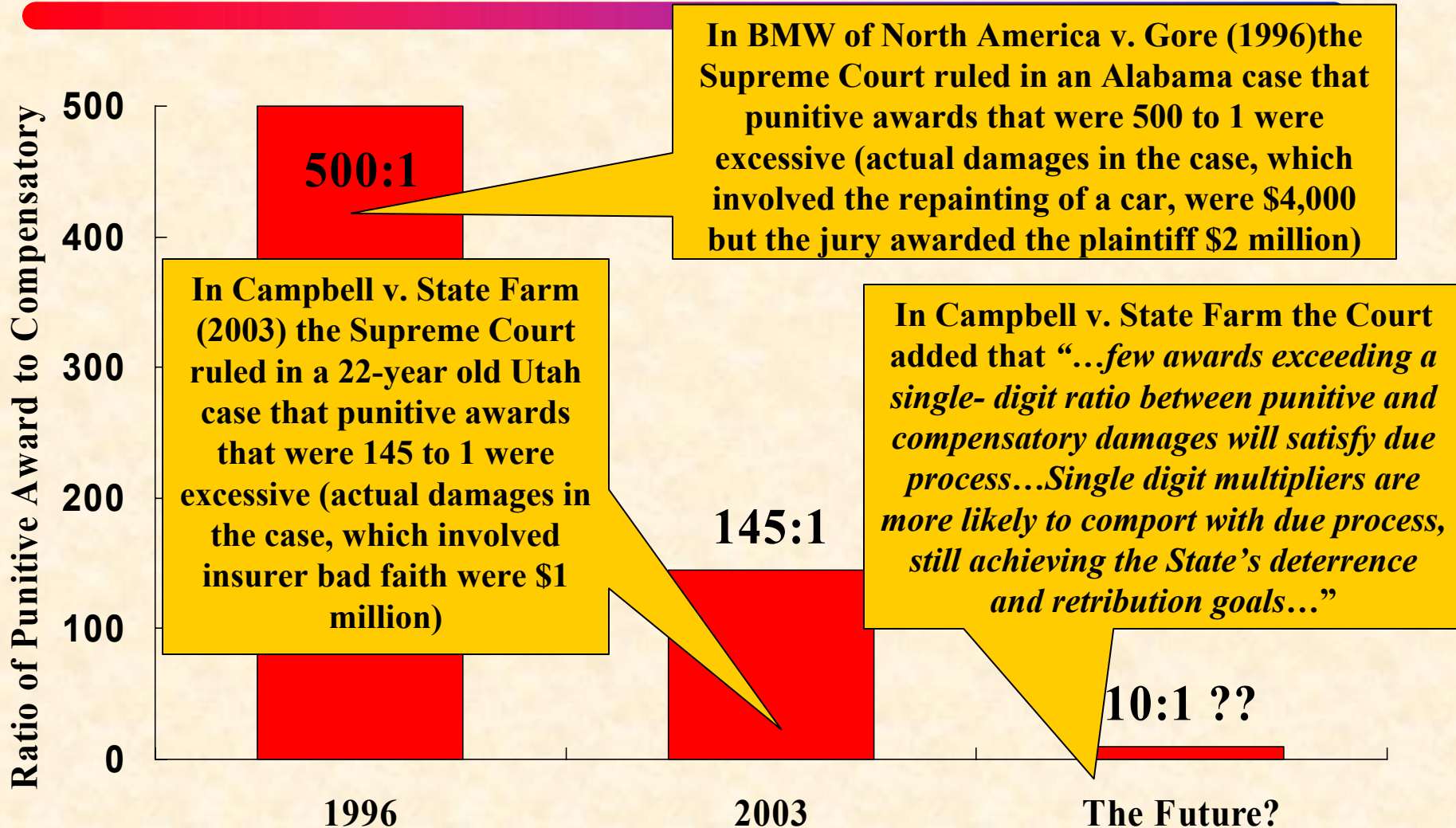
# *There is a Glimmer of Hope for Tort Reform*

## **Best Chance for Tort Reform in Years**

- Medical Malpractice
  - States—already happening: 20+ states have caps
  - Federal reform discussed in Congress but bill failed in Senate
- Class Action Reform
  - Class Action Fairness Act
  - Presently 2 or 3 votes short in the Senate. Vote in September
- Asbestos Reform
  - Fairness in Asbestos Injury Resolution of 2003
- Punitive Damages—What's Reasonable
  - Supreme Court ruled favorably in *Campbell v. State Farm*



# Are We Finally Seeing Punitives Reigned In by the Supreme Court?





# *Summary*

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- **Profitability on the mend, but for how long?**
- **Underwriting still needs improvement**
- **Credit: Need to set the record straight in WA**
  - **Adopt NCOIL-type model**
- **Tort system: A partial fix is in underway**



# *Insurance Information Institute On-Line*

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**WWW.III.ORG**

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give me your business card with e-mail address*