

Joy Hatchette - RE: Follow-up questions from today's testimony

From: "Carter, W. Minor" <mcarter@vsadc.com>
To: Joy Hatchette <JHatchette@mdinsurance.state.md.us>
Date: 12/14/2011 4:16 PM
Subject: RE: Follow-up questions from today's testimony

Will have more detailed answers by end of the week, but off the top of my head:

1. That is directly from the ISO report – I believe it is cited in testimony in small print. I emailed that report to Karen and will also do to you later today. I will also find the page reference.
2. I am checking with my member companies, but I don't believe that they do. I found that information also in the ISO report, but will check.
3. Again, I believe all that is contained in the ISO report. It is not Maryland specific. Will check with my companies, but I don't believe that they offer that.

Will find this for you asap. Also, don't hesitate to request any information you want.

Minor

From: Joy Hatchette [mailto:JHatchette@mdinsurance.state.md.us]
Sent: Wednesday, December 14, 2011 2:23 PM
To: Carter, W. Minor
Subject: Follow-up questions from today's testimony

Minor,

Here are the three questions which we would like answers to:

1. On page 4 of your testimony you indicate that "wind losses are, by far, the cause of most catastrophe losses, even if hurricanes and tornadoes are excluded." This does not appear to be consistent with the statistics that are above that statement. Please explain.
2. On page 13 of your testimony in paragraph 1, you indicate that "[i]n some states or portions of a state, policyholders have a 'buy back' option - paying a higher premium in return for a traditional dollar rather than a percentage deductible." Is this option available in any of your member companies, if so, how many?
3. On page 13 of your testimony in paragraph 1, you indicate that some insured's have a 15% deductible. Do any of your member companies have a 15% deductible. If so, how many companies have that deductible and is it optional. If any of your companies offer the 15% deductible in what parts of the State is it offered.

Thanks Joy

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Joy Hatchette - Deductibles.

From: "Carter, W. Minor" <mcarter@vsadc.com>
To: "Trish Winkler (twinkler@mdinsurance.state.md.us)" <twinkler@mdinsurance.state.md.us>, "Emarie S. Payne(epayne@mdinsurance.state.md.us)" <epayne@mdinsurance.state.md.us>, JoyHatchette <JHatchette@mdinsurance.state.md.us>
Date: 12/15/2011 10:14 AM
Subject: Deductibles.
CC: "Karen Stakem Hornig (khornig@mdinsurance.state.md.us)" <khornig@mdinsurance.state.md.us>

No MAMIC companies have deductibles greater than 5%. I have been told that any deductible over 5% is subject to the provisions of Section 19-209 (b).

Minor

Joy Hatchette - Wind/Hail deductibles & buybacks

From: "Carter, W. Minor" <mcarter@vsadc.com>
To: "Trish Winkler (twinkler@mdinsurance.state.md.us)" <twinkler@mdinsurance.state.md.us>, "Emarie S. Payne(epayne@mdinsurance.state.md.us)" <epayne@mdinsurance.state.md.us>, "JoyHatchette (JHatchette@MDinsurance.state.md.us)" <JHatchette@MDinsurance.state.md.us>
Date: 12/16/2011 10:13 PM
Subject: Wind/Hail deductibles & buybacks

All MAMIC companies have percentage deductibles of 2% and 5%, none greater than that.

MAMIC companies don't offer buybacks and, at least at this time, have no intention of offering them in the future. If a company were to offer a buyback, either voluntarily or by MIA requirement, the premium for the buyback would have to be actuarially sound resulting in a rate would be considerably higher than existing rates. A buyback would require a company to purchase considerably more reinsurance and the lower layers in catastrophe reinsurance treaties would be considerably more expensive. The costs associated with a buyback would have to be passed on the insured, resulting in a product that is considerably less affordable than existing deductible schedules for an insured.

I hope this is helpful. Obviously, we cannot speak for other associations or companies. However, I will continue to forward any information that may be relevant.

Minor Carter

INSURANCE TOPICS

Coverage

+ Business

- Commercial Auto
- Liability Insurance
- Property Insurance
- Specialty Business Insurance
- Workers Compensation
- Business Insurance - General

+ Consumer

- Annuities
- Auto Insurance
- Claims Filing
- Credit
- Disability Insurance
- Health Insurance
- Homeowners and Renters Insurance
- Life Insurance
- Life Stages
- Long-term Care Insurance
- Safety and Mitigation
- Specialty Insurance

Disasters and Risks

- Climate Change
- Crime
- Disaster Preparedness
- Highway Safety
- Litigation
- Natural Disasters
- Terrorism

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AMERICAN OVERSIGHT

Catastrophes: Insurance Issues

THE TOPIC

OCTOBER 2011

The term "catastrophe" in the property insurance industry denotes a natural or man-made disaster that is unusually severe. An event is designated a catastrophe by the industry when claims are expected to reach a certain dollar threshold, currently set at \$25 million, and more than a certain number of policyholders and insurance companies are affected.

Regardless of the damage Hurricane Irene inflicted, see below, this year has already been very costly for insurers in terms of catastrophes. In the United States insured catastrophe losses for the first half of 2011 totaled an unprecedented \$27 billion, according to A.M. Best. That does not include losses from Hurricane Irene or the recent wildfires in Texas. State Farm, the nation's largest auto and homeowners insurance company, said that as of September 23, it had paid policyholders \$5 billion due to weather-related catastrophes. But, despite the growing losses, insurers remain strong. As of the end of the first quarter, policyholder surplus stood at \$564.7 billion, although now somewhat lower after claims payments to disaster victims. Policyholder surplus is essentially the equivalent of the industry's net worth and a reliable indicator of its ability to pay claims.

The federal government issued 86 disaster declarations during the first nine months of 2011, a record and an indication of the increased number of catastrophes, as well as a greater propensity to issue federal disaster declarations. In August the National Climatic Data Center listed 10 specific weather-related events that caused more than \$1 billion in cumulative economic losses, including a winter storm, five periods each lasting several days in the spring when storms generated a series of highly destructive tornadoes, wildfires in the South and South-West, the flooding of the Mississippi and Missouri rivers and Hurricane Irene.

This year's hurricane season, which began in June and ends on November 30, is expected to be more active than usual. Government forecasters at the National Oceanic and Atmospheric Administration (NOAA) predict between 12 to 18 named storms, with six to 10 becoming hurricanes, and three to six of those becoming major storms, category 3 or higher. Other forecasters have made similar predictions.

Although storm activity in the Atlantic Ocean during the 2010 hurricane season reached near record levels, tying for the third-highest number with 1887 and 1995, according to NOAA, no hurricane hit the U.S. coast. This year, meteorologists say, wind patterns have changed, potentially allowing more damaging storms to reach the U.S. mainland.

Meanwhile, the magnitude of the damage caused by Katrina and the potential damage

hurricanes Rita and Wilma might have caused had they not weakened from intense Category 5 hurricanes is still reverberating, six years later. Many insurers have reduced the number of policyholders they insure in high-risk areas and added hurricane deductibles to property insurance policies to better manage their exposure to potential hurricane-related losses, see report Hurricane Deductibles.

Disaster losses along the coast are likely to escalate in the coming years, in part because of huge increases in development. One catastrophe modeling company predicts that catastrophe losses will double every decade or so due to growing residential and commercial density and more expensive buildings. Data from the Census Bureau, collected by USA Today, show that in 2006, 34.9 million people were seriously threatened by Atlantic hurricanes, compared with 10.2 million in 1950. Before the 2005 hurricane season, Hurricane Andrew ranked as the single most costly U.S. natural disaster.

Man-made catastrophes such as the attacks on the World Trade Center can also cause huge losses. The attacks led Congress to pass the Terrorism Risk Insurance Act (TRIA) in November 2002. Since then, TRIA has been reauthorized twice. The latest reauthorization, passed at the end of 2007, extends the law to 2014. TRIA provides a federal backstop for commercial insurance losses from terrorist acts, making it easier for insurers to calculate their maximum losses for such a catastrophe and thus to underwrite the coverage, see report on Terrorism Risk and Insurance.

The typical homeowners insurance policy covers damage from a fire, windstorms, hail, riots and explosions—as well as other types of loss such as theft and the cost of living elsewhere while the structure is being repaired or rebuilt after being damaged. Commercial property insurance policies generally cover the same causes of loss with some variation, depending on the coverages selected. Flood and earthquake damage are excluded under homeowners policies—separate policies are available—but are covered under the comprehensive portion of the standard auto policy, which more than 75 percent of drivers who buy auto liability insurance purchase.

Over the 20-year period, 1991 to 2010, hurricanes and tropical storms made up 44.0 percent of total catastrophe losses, followed by tornado losses (30.0 percent), winter storms (7.4 percent), terrorism (6.8 percent), earthquakes and other geologic events (5.1percent), wind/hail/flood (4.1 percent) and fire (2.2 percent). Civil disorders, water damage and utility services disruption combined represented less than 1 percent. Each year about 6 percent of homeowners file claims. Tornado losses increased over the period by one percentage point and wind/hail/and flood losses by 0.8 percent.

Catastrophes

■ **Hurricanes:** Hurricane Irene, the ninth named storm, was the first hurricane of the season. Forecasters had expected it to inflict greater property damage than it ultimately did, due in part, some analysts said, to the difference in wind speeds measured at the eye of the storm by reconnaissance aircraft and measurements on the ground as the storm hit the coast and moved up the eastern seaboard. Nevertheless, insured losses are expected to be as high as \$6 billion. Irene will be remembered for the extensive and devastating flooding that followed the six to 10 inches of rain it dropped on an area already soaked by heavy rainstorms earlier in the month. Rivers and creeks became raging torrents in Vermont and in rural parts of New York State south of Albany. Some 40 people died as a result of the storm. Most loss of life was due to flooding.

■ As of the first week of October 2011, there had been 15 named storms and four hurricanes, of which only Irene made landfall in the United States. At the beginning of the season, forecasters predicted higher than normal storm formation due to continuing high sea-surface temperatures and favorable wind shear conditions in the North Atlantic. Weather Services International, based in Andover Massachusetts, predicted 17 named storms, of which nine would become hurricanes and five Category 3 or higher. Colorado State University said there was a 73 percent chance that at least one major hurricane would make landfall in the United States, with a 49 percent chance that one will hit the East Coast. (The long-term average is 31 percent.) Other forecasters predict a similar scenario.

■ While the 2010 season measured up to forecasters' predictions for an above average number of storms, due mainly to record high sea temperatures off the coast of Africa where many hurricanes begin, upper-level winds steered storms away from the U.S. mainland. Instead, the Caribbean, Central America and Mexico bore the brunt of the property damage and loss of life. More than 200 people died as a result of the season's storms.

■ **Tornadoes:** Losses from thunderstorms in the first half of the year alone exceeded \$16 billion, far above the average for the past decade of \$6.4 billion. It was also the deadliest thunderstorm season in more than 50 years with 593 fatalities. Fifteen people died as a result of winter storms and seven in wildfires. The huge cost of repairing and replacing damaged property and the high number of deaths is attributed to the large percentage of twisters that hit urban areas, leveling entire neighborhoods.

■ In Joplin, Missouri, a city of some 50,000 people, an EF5 tornado, categorized as the most damaging with wind speeds of more than 200 mph, swept through the town on May 22 killing at least 139 people and damaging more than 2,000 structures, including a major hospital. It was the most damaging tornado in more than 60 years, federal officials said.

■ The Joplin disaster came on the heels of a series of other tornadoes of historic intensity that swept across the south. The official tally for tornadoes last year was 1,282. Preliminary unconfirmed eyewitness reports for the first nine months of 2011 are approaching 1,800. The actual confirmed number to the end of May is 1,219, almost as many as for the entire year of 2010.

■ In June Massachusetts was also hit by tornadoes that damaged 5,000 homes and caused \$90 million in insured losses, the costliest disaster in the state's history.

■ The findings of a study from Georgia Tech suggest that the size of a land-falling hurricane is correlated with an increase in the potential for tornadoes as the storm moves inland. The researchers found that since 1995 there has been a 35 percent increase in the size of storms in the Gulf when compared with a previous active period from 1948 to 1964, which led to a doubling of the number of tornadoes spawned per storm. Using a model that incorporated data from past hurricanes, they accurately predicted the number of tornadoes produced by Hurricane Ike in 2008 and from Hurricane Katrina.

■ **Earthquakes:** A rare 5.8 magnitude earthquake in central Virginia rocked the East Coast on August 22 but overall insured losses are expected to be under \$1 million. Most of the damage was centered in and around Washington D.C. and south of the capital. Nuclear reactors close to the epicenter are being scrutinized for damage.

■ On March 11 a huge tsunami hit the coast of northeast Japan, killing thousands of people and injuring many others. The tsunami was generated by a 9.0 magnitude earthquake approximately 80 miles offshore and about 230 miles northeast of Tokyo. The quake was the strongest ever to hit Japan. Two nuclear reactors in the region were damaged by the quake.

■ The recent mega-catastrophes have also drawn attention to business losses caused by property damage, in addition to rebuilding costs. In Chile, Swiss Re notes that business interruption (business income and extra expense) coverage losses due to slow downs or shut downs as a result of the earthquake accounted for half of claims payouts. In some industries, such as pulp and paper, they amounted to two-thirds of claims. More recently, the disasters in Japan cut manufacturers supply lines coverage for such eventualities, where the supplier's premises have been damaged causing production to come to a halt, is known as contingent business interruption coverage.

■ **Wildfires:** Widespread drought and hot weather have dried up vegetation, increasing the risk of wildfires in Texas, Oklahoma and neighboring states. In Texas fires have been devouring acreage since the spring. In mid-April, wildfires affected all but two of the state's 254 counties. By late September wildfire losses in Texas alone were predicted to \$500 million as fires consumed expensive home. Earlier in the year fires in Arizona burned dozens of homes and thousands were evacuated as wildfires pushed into heavily populated areas.

■ Researchers are discovering that embers blown by the wind during wildfires cause most of the fires that burn homes. Also, homes that are less than 15 feet apart are more likely to burn in clusters. In such cases, fire is often spread by combustible fences and decks connected to houses, a study by the Institute for Business & Home Safety found. Thirty-eight states have wildfire risks, the Institute says, and the risk of wildfires keeps growing as more homes

are built in wildland areas, some five million in California alone. Among the preventative features recommended in the study were noncombustible siding, decking and roofing materials; covered vents; and fences not connected directly to the house. In addition, combustible structures in the yard such as playground equipment should be at least 30 feet away from the house and vegetation 100 feet away.

- **Coastal Area Growth:** Data from the Census Bureau show that in 2008, 35.7 million people were seriously threatened by Atlantic hurricanes, compared with 34.9 million in 2006 and 10.2 million in 1950. Other Census data show that the coastal population in states stretching from North Carolina to Texas grew 251 percent between 1950 and 2008 and that the coastal population of Florida was 17.8 million in 2008, about 50 percent of the total coastal population in those states. Moreover, Florida's coastal population grew one percent from 2007 to 2008, the Census Bureau estimates, and three Florida counties—Broward, Palm Beach and Miami/Dade—were among the 10 counties nationwide with the largest increase in population between 1960 and 2008.

Impact of 2004/2005 Hurricanes

- **Coastal Insurance:** Lawmakers and regulators are seeking solutions to make private property insurance more available and affordable in coastal areas vulnerable to hurricanes as insurers reduce the number of the policyholders they insure in high-risk areas to lower the potential for crippling losses in the next major storm. In Alabama, the state's Insurance Underwriting Association, its insurer of last resort, has grown by a third in 12 months, going from 15,214 policies in February 2010 to 20,350 twelve months later.

- Responding to the problem, Alabama Gov. Robert Bentley created a seven-member commission at the beginning of April to study and address the rising cost of homeowners insurance in counties along the Gulf. Coastal policyholders have been pushing for legislation that would require insurers to release data by zip code on the premiums collected and the claims paid since 1990. Some insurers say that the data could be subject to misinterpretation since insurance rates reflect not only past losses but also predicted future trends. Coastal residents believe the data will make it clear whether they are paying substantially more for their insurance than people in other parts of the state and more than past claims would justify. Bills dealing with coastal insurance have been introduced. Several would have a significant impact on the state's revenue in that they lower insurance costs by granting tax credits.

- In New York State, regulators convened a meeting of the Temporary Panel on Homeowners Insurance at the end of 2010. The panel, which was authorized by legislation passed in 2008, met to examine and assess problems related to the affordability and availability of homeowners insurance and the impact a potential catastrophe could have on insurers and residents of the state. Among the subjects considered were standardizing windstorm deductibles and applying them only to damage from hurricanes that make landfall in New York State; reducing the number of nonrenewals that an insurer may issue in any geographic area without notifying the insurance department about its plan; and creating a catastrophe pool to stabilize premiums.

- Currently, part of the premium homeowners pay goes to help pay for future catastrophes. The department is exploring the viability of creating a pool or other funding mechanism that would allow insurers to place the unused "catastrophe load" portion into a fund to be used to help cover the cost of the next catastrophe and obviate the need for a large premium increase after the event. The department is studying the input received at the first meeting in October 2010 to decide what the next steps should be.

- **Adding Wind to Flood Coverage and Vice Versa:** A senator from Mississippi, Roger Wicker, has introduced legislation that would establish a formula for determining how much damage was caused by wind and how much by water in cases where a hurricane has reduced a structure to a slab. The bill, known as the COASTAL Act (Consumer Option for an Alternative System to Allocate Losses), is based on information gathered from state and federal regulators, among others. Sen. Wicker is pushing to include a version of it in the Senate flood insurance bill.

- Disputes about the portion of damage caused by wind and by water when homes are severely damaged prompted legislation to be introduced in the last Congress to require the federal flood insurance program to include optional wind coverage. However, the Obama administration indicated that it would not support such a provision and environmental groups, the U.S. Chamber of Commerce and taxpayer advocates as well as many insurance companies opposed the idea.

- **Creating a Federal Backstop:** After hurricane Katrina several proposals were introduced to create a federal backstop but, as with bills to add wind coverage to the flood insurance program, none were enacted. Environmental groups joined with a group of insurers in opposing these bills, which both saw as promoting growth in coastal areas prone to storm damage. However, some large insurers supported the concept.

- In March 2011 Sens. Barbara Boxer and Dianne Feinstein (both D.-Calif.) introduced into Congress a bill that would authorize the U.S. Department of the Treasury to guarantee up to \$5 billion in bonds to help public entities such as the California Earthquake Authority (CEA) recover from a disaster. Since the sale of bonds would reduce the need for reinsurance, insurance coverage would become more affordable. If the bill were to be enacted, the CEA would be able to lower premiums by one-third, CEA officials say, and pay back the debt with moderate adjustments to premiums.

- The insurance industry is divided about a federal role. Some say that under the current system the federal government (and hence taxpayers) pay for rebuilding in any case through government grants and low interest loans and that the funds would be better spent in an organized and predictable fashion. Other insurers say that worldwide there is enough reinsurance capacity to protect U.S. primary insurers against catastrophe losses and that people who choose to live in disaster-prone areas should not be protected from the cost of their decisions through subsidies from people who choose to live in a less risky location. They believe the solution is for Congress and state legislatures to develop more stringent building codes and tax incentives for homeowners to prepare for hurricanes, see below.
- **Reducing Catastrophe Losses:** In Mississippi legislation creating the Mississippi Windstorm Mitigation Coordinating Council was passed in March 2011. Members of the council would be charged with making practical recommendations as to how to best build or retrofit houses to better withstand hurricanes. The measure also would standardize training for building inspectors and create a check list for homeowners to work from to strengthen their homes.
- An indication of the potential savings from upgrading building codes and stringent enforcement of existing codes comes from the National Institute of Building Sciences, which estimates that society saves an average of \$3.65 for every federal dollar spent on mitigation. One insurer has initiated a pilot program to offer coverage to homeowners along the coast whose homes are built to resist storm damage, with discounts as high as 35 percent. Currently, there are about 5,000 homes that would meet its criteria, the insurer says, but it hopes that the concept of "fortified" homes will catch on.
- Increasingly, consumers are embracing the idea of living in homes that can better withstand severe windstorms and other disasters. More than 200 "Fortified... for Safer Living" projects, which incorporate specific safety design features supported by the Institute for Business and Home Safety (IBHS), have been completed or are in various stages of construction in 16 different states, including states in the Midwest. IBHS says that Fortified requirements strengthen a home's outer envelope, notably the roof and wall systems, doors, windows and other glazed openings, and the foundation. IBHS is now offering a Fortified designation for retrofitted existing homes and is moving to create a Fortified program for light commercial buildings.
- Builders of various types of disaster-resistant structures are finding that the public's appetite for stronger homes has been stimulated by Hurricane Katrina, forecasts of continuing hurricane activity and the inevitability of a severe earthquake in the West at some point in the future. In Mississippi the wind pool, the insurer of last resort, agreed to give owners of homes built to a Fortified standard a credit toward the windstorm part of property insurance policies initially. In Alabama the Beach Pool is offering discounts for homes built to Fortified standards.
- Validating the concept of Fortified homes, all but three of the 17 homes built to the original criteria on the Boliva Peninsula in Gilchrist, Texas survived the high winds of Hurricane Ike in 2008. The three that were damaged were knocked off their foundations by flying debris from non-Fortified homes, which were reduced to slabs.
- IBHS has created a research center to test building and construction components for durability when exposed to high winds, wind-driven water, earthquakes and hail as well as maintenance-related concerns like plumbing system failure and interior fires. The results will be used in consumer education and advocacy campaigns.
- In Florida a state mitigation system, under which homeowners who retrofitted their homes were eligible for discounts, has been modified to ensure that inspectors who perform the evaluations are properly trained. When mitigation discounts are mistakenly or fraudulently authorized by inspectors, policyholders pay a lower premium for coverage but the insurer does not receive a commensurate reduction in risk for the loss of premium income. In 2011, for the first time, inspectors will inspect for sinkhole damage in addition to checking the age and condition of the roof and other parts of the home. Recently, many claims for sinkhole damage, some fraudulent, have been filed. Inspectors will also evaluate how well mobile homes are secured against wind damage.
- Many states have passed legislation requiring insurers to offer discounts for strengthening their homes, including Louisiana, and North and South Carolina. However, Louisiana is the only state among those most affected by Hurricane Katrina to enact a strong statewide code. In Mississippi, while the state is providing funds to allow eligible homeowners to receive financial assistance to build or upgrade homes to stronger construction standards, only seven of its 82 counties are required to enforce wind and flood standards. Mississippi has made efforts to pass a stronger statewide code but met with stiff opposition from the construction industry. Likewise, Alabama has no mandatory statewide building code.
- California recently strengthened its building code, incorporating international building and fire standards and state-specific codes for earthquake and wildfire-prone zones.
- **Residual Markets:** Growth of state-run property insurers is shifting the financial burden of potential hurricane-related damage to all policyholders and taxpayers in these states as they devise ways to fund the claims they will have to pay. By year-end 2010 these insurers had almost \$757.9 billion in exposure to loss, compared with \$54.7 billion in 1990.
- In Florida, where rates for Citizen's, the state's insurer of last resort, had been frozen for three years, legislation was passed to allow increases averaging no more than 10 percent statewide. Rates were raised by an average of 5.4 percent for noncoastal homeowners policies, effective January 2010. However, the insurance commissioner decided to raise rates above the 10 percent threshold for 2011, in part because of an increase in sinkhole claims.

- Despite higher rates, the number of Citizens homeowners insurance policies in force has been creeping up again and now stands at almost 1.3 million, in part because some insurers are downsizing in Florida and there have been some insolvencies, leaving some 200,000 homeowners to find new coverage. A bill aimed at making it harder to obtain coverage through Citizens stalled in the Senate.
- **Hurricane Catastrophe Funds:** The Florida Hurricane Catastrophe Fund, which provides reduced cost reinsurance to the state's property insurers, needs to raise an additional \$710 million to cover the growing cost of claims from the 2005 hurricanes, principally Hurricane Wilma. This will be collected in the form of an additional premium surcharge on all policies sold in the state, with the exception of workers compensation and medical malpractice.
- As insurance companies pay additional claims for damage from 2004 and 2005 storms, they are reimbursed for part of the cost under Hurricane Catastrophe Fund reinsurance contracts that covered these storms. Policyholders already pay a surcharge of 1 percent for an earlier shortfall in the Fund. The new surcharge brings the total to 1.3 percent starting January 1, 2011. The surcharge was due to end in 2012 but will now be extended through July 2016. The final cost to the fund of the 2004 and 2005 hurricane seasons is estimated at \$9.7 billion.
- Proposals are being discussed to again reduce the size of the fund and improve its shaky financial condition by limiting the amount of coverage insurers must purchase, requiring them to contribute a bigger share to each claim payment and to assume a larger deductible or retention. If the fund has insufficient funds to pay claims in the event of a major hurricane, that burden would again fall on the state's taxpayers. The number of participants in the fund has been steadily declining as insurers take larger retentions and therefore need to buy less coverage. In the 2010-2011 contract year, 172 insurers purchased coverage, compared with a high of 307 in 1997-1998.

Disaster Damage Coverage in Developing Countries

- **The Caribbean:** The Caribbean Catastrophe Risk Insurance Facility (CCRIF) said in September 2010 that it would make a payment of slightly more than \$4 million to the government of Anguilla as a result of the damage caused by Hurricane Earl. In November the CCRIF paid out \$12.5 million to Barbados, St. Lucia and St. Vincent after Hurricane Tomas struck the islands at the beginning of the month. Haiti received a payment of about \$7 million after the earthquake in January 2010.
- Established in 2007, the CCRIF is an insurance pool that covers hurricanes and earthquakes for its 16 Caribbean member nations and their territories. In 2009 the European Union made a donation to the CCRIF joining the World Bank, the Caribbean Development Bank and a number of developed nations in contributing to the facility's reserve pool. The reserves paid for start-up costs. Japan funded the initial feasibility study. The Haiti payment is the third the CCRIF has made since its inception. In its first year of existence, it paid about \$1 million to the island of St. Lucia and to the Dominican Republic after a magnitude 7.4 earthquake shook the eastern Caribbean in November 2007. And after Hurricane Ike in 2008, it paid \$6.3 million to the Turks and Caicos Islands. (See Background).
- As a result of the increased awareness of seismic risk, following the Haiti earthquake, 12 of the 16 countries increased their coverage limit for earthquakes when they renewed their policies for the 2010/11 policy period that began in June. Forecasts of a very active hurricane season in 2010 have serious implications for the CCRIF.
- **Mexico and MultiCat:** In October 2009 the Mexican government became the first to use the World Bank's MultiCat bond program, when it sold \$290 million in catastrophe bonds to cover potential damage from earthquakes and Pacific and Atlantic hurricanes. MultiCat provides a common documentation, legal and operational framework for issuing catastrophe bonds, the World Bank says, offering developing countries a cost-effective way to transfer disaster risk to the private sector and lessen the financial and economic impact of natural disasters.
- This type of catastrophe bond is known as a disaster recovery bond, see Reinsurance. Disaster recovery bonds are a new type of risk financing tool for the public sector, similar to business income insurance for businesses. They provide short-term liquidity after a catastrophic event, allowing government entities to function and begin recovery efforts at a time when the disaster has shut down much of the economy and its main source of revenue. The bonds are purchased by investors, who receive a good return except when payments to the issuer of the bond are triggered by the occurrence of the event insured against.
- **Microinsurance:** Small businesses in Haiti will now be able to obtain protection against losses caused by natural catastrophes. A syndicate, which includes a reinsurer, a global development and relief agency and a microfinance distribution institution, will offer parametric coverage to businesses that have taken out small loans with the finance company. Parametric coverage is based on a claim settlement process that takes into account the known and "observable characteristics" of various types of disasters, such as the potential damage that a crop would sustain in a 150 mph wind in a certain part of the country. By not having to rely on individual claims adjusters to decide the amount of damage, claims can be settled quickly, thus allowing the claimant fast access to funds that might be needed to keep the business going. The premium will equal 6 percent of the business's total loan.
- In a pilot study of the feasibility of developing a microinsurance system to provide some financial protection against catastrophic earthquake damage in rural areas of China, the catastrophe modeler, Risk Management Solutions (RMS), said a premium rate of about five yuan (U.S. \$1.5) for about 55 million low-income rural households could be sufficient to cover estimated risk and costs. RMS envisages a three-layer risk sharing program, with the

primary layer covering losses up to 2 billion yuan, the reinsurance layer covering up to 4 billion and the top layer, which would involve some form of government participation, for most extreme events up to 12 billion yuan. (See also Insurance Issues Updates: **Microinsurance and Emerging Markets.**)

THE TEN MOST COSTLY CATASTROPHES, UNITED STATES (1)

(\$ millions)

Rank	Date	Peril	Insured property losses	
			Dollars when occurred	In 2010 dollars (2)
1	Aug. 2005	Hurricane Katrina	\$41,100	\$45,481
2	Sep. 2001	Fire, Explosion: World Trade Center, Pentagon terrorist attacks	18,779	22,924
3	Aug. 1992	Hurricane Andrew	15,500	22,412
4	Jan. 1994	Northridge, CA earthquake	12,500	17,318
5	Sep. 2008	Hurricane Ike	12,500	12,735
6	Oct. 2005	Hurricane Wilma	10,300	11,398
7	Aug. 2004	Hurricane Charley	7,475	8,548
8	Sep. 2004	Hurricane Ivan	7,110	8,130
9	Sep. 1989	Hurricane Hugo	4,195	6,678
10	Sep. 2005	Hurricane Rita	5,627	6,227

(1) Property coverage only. Does not include flood damage covered by the federally administered National Flood Insurance Program.

(2) Adjusted for inflation through 2010 by ISO using the GDP implicit price deflator.

Source: The Property Claim Services (PCS) unit of ISO, a Verisk Analytics company.

INSURED LOSSES, U.S. CATASTROPHES, 2001-2010 (1)

Year	Number of catastrophes	Number of claims (millions)	Dollars when occurred (\$ billions)	In 2010 dollars (2) (\$ billions)
2001	20	1.5	\$26.5	\$32.4
2002	25	1.8	5.9	7.0
2003	21	2.7	12.9	15.2
2004	22	3.4	27.5	31.4
2005	24	4.4	62.3	68.9
2006	31	2.3	9.2	9.9
2007	23	1.2	6.7	7.0
2008	36	4.1	27.0	27.6
2009	27	2.2	10.5	10.6
2010	33	2.4	14.1	14.1

(1) Includes catastrophes causing insured losses to the industry of at least \$25 million and affecting a significant number of policyholders and insurers. Does not include flood damage covered by the federally administered National Flood Insurance Program.

(2) Adjusted to 2010 dollars by ISO using the GDP implicit price deflator.

Source: The Property Claim Services (PCS) unit of ISO, a Verisk Analytics company.

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INSURED LOSSES, U.S. CATASTROPHES, 1999-2008 (1)
INSURED LOSSES, U.S. CATASTROPHES, 2000-2009 (1)
CATASTROPHES BY QUARTER, 2010 (1)

(\$ millions)

Quarter	Insured losses	Number of catastrophes
1	\$2,570	7
2	6,380	14
3	2,030	8
4	3,135	4
Full year	\$14,115	33

(1) Does not include flood damage covered by the federally administered National Flood Insurance Program.

Note: Insured loss to the industry resulting from an occurrence that reaches at least \$25 million and affects a significant number of policyholders and insurers.

Source: The Property Claim Services (PCS) unit of ISO, a Verisk Analytics company.

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CATASTROPHES BY QUARTER, 2009 (1)
MAJOR U.S. CATASTROPHES, 2008
TOP 15 MOST COSTLY HURRICANES IN THE UNITED STATES

(\$ millions)

Rank	Date	Location	Hurricane	Estimated insured loss (1)	
				Dollars when occurred	In 2009 dollars (2)
1	Aug. 25-30, 2005	AL, FL, GA, LA, MS, TN	Katrina	\$41,100	\$45,148
2	Aug. 24-26, 1992	FL, LA	Andrew	15,500	23,702
3	Sep. 12-14, 2008	AR, IL, IN, KY, LA, MO, OH, PA, TX	Ike	12,500	12,456
4	Oct. 24, 2005	FL	Wilma	10,300	11,315
5	Aug. 13-14, 2004	FL, NC, SC	Charley	7,475	8,489
6	Sep. 15-21, 2004	AL, DE, FL, GA, LA, MD, MS, NJ, NY, NC, OH, PA, TN, VA, WV	Ivan	7,110	8,075
7	Sep. 17-22, 1989	GA, NC, PR, SC, VA, U.S. Virgin Islands	Hugo	4,195	7,258
8	Sep. 20-26, 2005	AL, AR, FL, LA, MS, TN, TX	Rita	5,627	6,181
9	Sep. 3-9, 2004	FL, GA, NC, NY, SC	Frances	4,595	5,219
10	Sep. 15-29, 2004	DE, FL, GA, MD, NJ, NY, NC, PA, PR, SC, VA	Jeanne	3,655	4,151
11	Sept. 21-28, 1998	AL, FL, LA, MS, PR, U.S. Virgin Islands	Georges	2,955	3,889
12	Oct. 4, 1995	FL, AL, GA, NC, SC, TN	Opal	2,100	2,956
13	Sep. 14-17, 1999	NC, NJ, VA, FL, SC, PA, 10 other states	Floyd	1,960	2,524
14	Sep. 11, 1992	Kauai and Oahu, HI	Iniki	1,600	2,447
15	Sep. 5, 1996	NC, SC, VA, MD, WV, PA, OH	Fran	1,600	2,188

(1) Property coverage only. Does not include flood damage covered by the federally administered National Flood Insurance Program. As of September 2009.

(2) Adjusted to 2009 dollars by the Insurance Information Institute, using the Bureau of Labor Statistics' Inflation Calculator.

Source: The Property Claim Services (PCS) unit of ISO, a Verisk Analytics company; U.S. Bureau of Labor Statistics.

View Archived Tables:

TOP 15 MOST COSTLY HURRICANES IN THE UNITED STATES
THE TEN MOST COSTLY WILDLAND FIRES IN THE UNITED STATES (1)

(\$ millions)

Rank	Date	Location	Estimated insured loss	
			Dollars when occurred	In 2010 dollars (2)
1	Oct. 20-21, 1991	Oakland Fire, CA	\$1,700	\$2,516
2	Oct. 21-24, 2007	Witch Fire, CA	1,300	1,353
3	Oct. 25-Nov. 4, 2003	Cedar Fire, CA	1,060	1,247
4	Oct. 25-Nov. 3, 2003	Old Fire, CA	975	1,147
5	Nov. 2-3, 1993	Los Angeles County Fire, CA	375	530
6	Oct. 27-28, 1993	Orange County Fire, CA	350	495
7	Jun. 27-Jul. 2, 1990	Santa Barbara Fire, CA	265	406
8	Sep. 6-13, 2010	Fourmile Canyon Fire, CO	210	210
9	May 10-16, 2000	Cerro Grande Fire, NM	140	175
10	Jun. 23-28, 2002	Rodeo Chediski Complex Fire, AZ	120	144

(1) Property coverage only for catastrophic fires. Effective January 1, 1997, Property Claim Services (PCS) unit defines catastrophes as events that cause more than \$25 million in insured property damage and that affect a significant number of insureds and insurers. From 1982 to 1996, PCS used a \$5 million threshold in defining catastrophes.

(2) Adjusted for inflation through 2010 by ISO using the GDP implicit price deflator.

Source: The Property Claim Services (PCS) unit of ISO, a Verisk Analytics company.

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THE TEN MOST COSTLY WILDLAND FIRES IN THE UNITED STATES (1)
TOP TEN STATES FOR WILDFIRES RANKED BY NUMBER OF FIRES, 2010 (1)

Rank	State	Number of fires	Number of acres burned
1	Texas	6,691	203,891
2	California	6,502	108,742
3	North Carolina	3,665	20,000
4	Georgia	3,489	14,534
5	Alabama	2,357	26,331
6	Florida	2,334	37,929
7	Louisiana	2,166	33,401
8	Minnesota	2,037	33,969
9	Massachusetts	2,014	2,117
10	New Jersey	2,011	10,630

(1) As of November 2010.

Source: National Interagency Coordination Center.

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INSURANCE PROVIDED BY FAIR PLANS BY STATE, FISCAL YEAR 2009 (1)
INSURANCE PROVIDED BY FAIR PLANS BY STATE, FISCAL YEAR 2009 (1)

DISASTERS

The insurance industry tracks catastrophes to monitor claim costs, assigning a number to each catastrophe. Each claim arising from the event is tagged so that total industrywide losses can be tabulated. The term catastrophe is often used in the property insurance industry in a narrow way to mean a catastrophic event that exceeds a dollar threshold in claims payouts. This figure has changed over the years with inflation and the increase in development of areas subject to natural disasters. Starting in 1997 the catastrophe definition was raised from \$5 million to \$25 million in insured damage.

While \$25 million is a large figure to most people, there have been four catastrophes that fall into the megacatastrophe category, greatly exceeding that amount. The first two, Hurricane Andrew (1992) and the Northridge earthquake (1994), were both watershed events in that they were far more destructive than most experts had predicted a disaster of this type would be. The third, the terrorist attack on the World Trade Center in 2001, altered insurers' attitudes about man-made risks worldwide. Hurricane Katrina (2005), the fourth catastrophe, is not only the most expensive natural disaster on record but also an event that intensified discussion nationwide about the way disasters, natural and man-made, are managed. It also focused attention on the federal flood insurance program, see report on Flood Insurance.

Hurricane Andrew: Hurricane Andrew, which hit the Bahamas and Southern Florida August 23-24, 1992, and then moved across the Gulf of Mexico to strike portions of Louisiana and other southeastern states on August 25-26, was the costliest natural disaster in U.S. history before Hurricane Katrina. With peak wind gusts of almost 200 mph, the hurricane flattened whole communities, leaving in its wake a wasteland of debris. Eleven property/casualty insurers became insolvent due to Hurricane Andrew (10 in Florida and one in Louisiana) and others were financially impaired. Some of the state's largest homeowners insurance companies had to be rescued by their parent companies and others had to dig deep into their surplus to pay Hurricane Andrew claims. Allstate, for example, paid out \$1.9 billion, \$500 million more than it had made in profits from its Florida operations from all types of insurance and investment income on those funds over the 53 years it had been in business. In total there were 680,239 claims, including 161,400 for damage to automobiles.

The Northridge Earthquake: The Northridge earthquake measured 6.8 on the Richter scale. It jolted the San Fernando Valley, 20 miles northwest of downtown Los Angeles, on January 17, 1994, causing more than 60 deaths and 12,000 injuries and destroying some 8,000 homes. More than 114,000 buildings were damaged and some 430,000 claims were filed. In both natural disasters, Hurricane Andrew and the Northridge earthquake, homeowners accounted for

the bulk of claims and claim dollars.

The Destruction of the World Trade Center: The World Trade Center disaster impacted many kinds of insurance companies, particularly commercial lines companies. Claims were also filed with life insurance companies as well as personal lines insurers. The number of people known to have died as a result of the attacks on the World Trade Center complex has been officially set at 2,976. More than 35,000 claims were filed in New York State alone, according to the New York Department of Insurance. Broken down by type, two-thirds were commercial claims and one third personal, mostly property claims. Lost income and extra expense claims for the cost of getting the business back on track, part of property insurance, represented more than one quarter of the dollars paid out. More than 5,600 workers compensation claims were filed. Other claims were paid by insurance companies to businesses that suffered indirect losses in other parts of the country. These were not reported to the New York Insurance Department.

Other large U.S. man-made disaster losses in the last two decades include those stemming from the Los Angeles riots in 1992, at \$775 million, and the World Trade Center bombing in 1993, at \$510 million, see charts above.

Hurricane Katrina: Katrina, the storm that most affected attitudes about managing natural disaster risk, made landfall first in Florida on August 25, 2005 as a Category 1 storm, then gathered strength as it crossed the warm waters of the Gulf of Mexico, ultimately hitting Louisiana on August 29 as a strong Category 3 storm. The hurricane generated more than 1.7 million claims, more than half of the total in Louisiana. The bulk of the claims, 1.2 million, were for personal property. There were 346,000 claims for damaged vehicles and some 156,000 commercial claims. Claims payments to businesses accounted for half of the \$40.6 billion bill for insured losses.

Katrina left more devastation and a higher reconstruction bill in its wake than any previous storm, in part because of extensive commercial and residential development along the Gulf Coast; the record breaking storm surge, reported to be as high as 29 feet in some areas; and the concentration of energy related and other high value businesses in its path. Katrina's hurricane force winds at landfall covered a wide area, extending for 250 miles, twice as far as Hurricane Andrew. Because the damage was so severe and widespread, the demand for materials and skilled labor quickly exceeded the readily available supply, pushing up construction prices and hence the cost of property insurance claims.

The 2005 hurricane season exposed many weaknesses in the nation's preparedness for megadisasters. For example, many people in flood zones had failed to buy flood insurance, see report on flood insurance, and many communities in harm's way did not have or had not enforced strong building codes, which would have reduced the amount of wind damage. In addition, the disasters drew attention to the need to reconsider land use patterns in areas most

vulnerable to storm damage. And as has happened after other major disasters, many small businesses that suffered damage from the storms failed to reopen, in part because they hadn't bought business income (also known as business interruption) and extra expense insurance which would have helped cover income lost when the business was shut down and the expense of getting back on track after the reconstruction period.

Hurricanes: A hurricane's winds revolve around a center of low pressure expressed in millibars, or inches of mercury, and the entire system moves slowly. Hurricanes are categorized on the Saffir/Simpson intensity scale, which ranges from 1 to 5, reflecting a hurricane's wind intensity. Below is the Saffir-Simpson Hurricane Wind Scale.

THE SAFFIR-SIMPSON HURRICANE WIND SCALE

Category	Sustained wind speed (mph)	Wind damage	Historical example
1	74-95	Very dangerous winds will produce some damage	Hurricane Dolly, 2008, South Padre Island, Texas
2	96-110	Extremely dangerous winds will cause extensive damage	Hurricane Frances, 2004, Port St. Lucie, Florida
3	111-130	Devastating damage will occur	Hurricane Ivan, 2004, Gulf Shores, Alabama
4	131-155	Catastrophic damage will occur	Hurricane Charley, 2004, Punta Gorda, Florida
5	More than 155	Catastrophic damage will occur	Hurricane Andrew, 1992, Cutler Ridge, Florida

Source: U.S. Department of Commerce, National Oceanic and Atmospheric Administration, National Hurricane Center.

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THE SAFFIR-SIMPSON HURRICANE WIND SCALE

A windstorm becomes a tropical storm when average wind speeds reach 39 mph. The hurricane season runs from June 1 to November 30, but the height of the season is from mid-August to mid-October.

The number and severity of hurricanes seems to run in cycles. Experts now think these cycles are influenced by what is known as the Tropical Multi-Decadal System. Since 1995 conditions have been favorable for increased hurricane activity, as they were during another active period, 1950-1970. Three climatic factors are thought to influence the development of hurricanes. First, during an active period the amount of rainfall during the monsoon season in the Sahel region of West Africa just below the Sahara Desert is higher than average, and rainfall is lower than average over the Amazon basin, creating favorable conditions for winds associated with the development of hurricanes. Second, sea-surface temperatures in the tropical Atlantic Ocean and Caribbean Sea are very warm. Third, La Nina causes lower than average sea-surface temperatures in the equatorial Pacific. Between 1947 and 1969, a rainy period in the Sahel, 17 major hurricanes (Category 3 or greater) struck the East Coast of the United States, compared with 10 between 1970 and 1991, when the Sahel was experiencing a drought.

New research suggests that the degree of hurricane activity in the Atlantic Basin is not a proxy for the number of storms that are going to make landfall along the U.S. coastline. According to researchers at AIR Worldwide, the probability of landfall is linked most closely to a storm's genesis, or where it forms, rather than the number of tropical storms in the Atlantic. Genesis patterns change from year to year. The key to understanding why in some years the number of storms making landfall in the United States is high and in others it is low is to compare long-term genesis and storm tracking patterns, the AIR study notes.

Florida is the state most vulnerable to hurricanes. Reliable records on hurricanes only go back to the 1870s. Sketchy accounts of earlier disasters exist in ship's logs and journals. Now, geologists, supported in part by insurers, hope to add to the written record by examining sediments at the bottom of coastal lakes and marshes. During a hurricane, sand and shell debris get swept into these waters. Research so far suggests that between 1,000 and 2,000 years ago, there were five or six Category 4 and 5 hurricanes in the Florida panhandle.

Data compiled by the National Oceanic and Atmospheric Administration (NOAA) on the 30 most powerful storms over the period 1900 to 1996 show that more than 40 percent of the damage they caused occurred in southeast Florida. Of the 158 hurricanes that hit the United States, 47 hit Florida and 26 of those struck the Southeast Florida coast.

Recently, computer simulation models have been developed that can mesh long-term disaster information with current demographic data to produce potential claims losses for any given geographical location under various scenarios. This information allows insurers to better differentiate between high- and low-risk areas in states such as Florida, where formerly, in times of less sophisticated risk delineation, the entire state may have been considered high risk. In addition, computer programs designed to help underwriters evaluate a building's potential damage from windstorms allow insurers to price industrial property insurance coverages more accurately. The ability to generate such information has also led insurers to reassess their business strategies.

But quality and type of building construction are not the only factors that influence the extent of damage a windstorm can cause. Others include the number and type of trees in an area and the type of soil, both of which affect the potential for losses due to falling trees. Soft woods, such as pine, tend to have shallow roots so that they are more easily uprooted than hard woods like oak, particularly in places with sandy soil. Storm surges will cause more damage where the developed land is close to sea level rather than elevated.

Coastal Development: A study published in 2004 by NOAA, based on U.S. Census data, found that in 2003, 53 percent of the nation's population—153 million people—lived in coastal counties (including those that abut the Great Lakes), which in total make up 17 percent of the country's land mass. For the purposes of the study, a coastal county must be part of a coastal

watershed but it does not have to have a shoreline. These ratios have remained steady since 1970 but the number of people has steadily increased. Twenty-three of the 25 most densely populated areas are coastal. Put another way, in 1960 an average of 187 people were living on each square mile of the U.S. coast, excluding Alaska. In 1994, that figure was 274 per square mile, and it is expected to reach 327 people by 2015. The West Coast is in the highest earthquake risk zone.

Between 1980 and 2003, the population of coastal counties grew by 33 million people, or 28 percent. Florida grew 75 percent, Texas 52 percent and Virginia 48 percent. More growth is expected with the highest growth expected in the southernmost part of Florida, the region most exposed to hurricanes. Coastal counties in the Carolinas and Georgia are also expected to see considerable population increases. Large increases are forecast for the Houston, Texas area and Florida's central Gulf Coast. According to population growth projections by the U.S. Census Bureau, by 2030 more than 12 million additional people will be living in Florida and Texas.

Exposure to windstorms and high property values combine to make Florida the state with the highest potential for losses and New York's Long Island the second highest. A 2007 study by AIR Worldwide put the value of insured coastal property in hurricane-prone states—states bordering on the Atlantic Ocean and Gulf of Mexico—at \$8.89 trillion. The value of residential and commercial coastal property in Florida alone was almost \$2.46 trillion. This represented 79 percent of the state's total insured property values. In New York it was \$2.38 trillion, representing 62 percent of the total. Other states where insured coastal property values exceeded 50 percent of the state's total are Connecticut, Maine and Massachusetts.

The growth and concentration of property values in hurricane-prone areas has pushed to the forefront of public policy debates the issue of coastal development and hidden insurance subsidies. Subsidies exist in various aspects of the property insurance transaction. First, they exist where rates for property insurance are no longer commensurate with risk because it is politically unpalatable to raise rates to actuarially justified levels. Second, there are subsidies in the pooling arrangements that were set up to make sure people living along the coast can obtain property insurance. When these pools have insufficient funds to pay claims, the shortfall is picked up by insurance companies, which may then pass the cost on to all property insurance policyholders in the state through explicit policy surcharges, as in Florida, or indirectly in the form of higher property insurance rates. Third, the federal flood insurance program has paid out millions of dollars to rebuild structures in high-risk zones known as repetitive loss properties, where the cost of claims over the years may have totaled much more than the home was worth. This has contributed to the program's deficit and to continued building in high-risk areas.

Catastrophe Deductibles: After Hurricane Andrew, with computer-based models of storms, coastal development patterns and increasing values all indicating how vulnerable insurers were to large weather-related losses, homeowners insurers had difficulty finding the reinsurance coverage they needed to protect their own bottom line. Many homeowners insurers couldn't

obtain reinsurance coverage unless they agreed to greatly reduce their potential maximum losses from such events through higher deductibles. These deductibles exist in regions prone to hail as well as hurricane damage. They are generally equal to a percentage of the structure's insured value as opposed to a straight dollar amount, such as \$1,000. Eighteen states and the District of Columbia have what have become known as hurricane deductibles.

Percentage deductibles for windstorm losses, which may be mandatory in some coastal areas of a state, vary from 1 percent of the home's insured value to 15 percent, depending on many factors that differ from state to state, and sometimes from insurer to insurer, including the home's insured value and the "trigger," the nature of the event to which the deductible applies. In some states or portions of a state, policyholders have a "buy back" option — paying a higher premium in return for a traditional dollar rather than percentage deductible. The percentage deductibles may apply to the entire state or just part of it (see Hurricane and Windstorm Deductibles paper).

For hail damage, in addition to instituting percentage of limits deductibles, some insurers in some states are providing coverage for roofs on a depreciated (actual cash value) basis, rather than replacing a damaged roof with a new one. Some are offering a discount for hail-resistant roofs or imposing a surcharge for roofs that are not hail resistant to encourage people to replace old roofs with new, less damageable ones.

Earthquakes: On the West Coast, earthquakes represent the greatest threat. Statistics show that since 1900, earthquakes have occurred in 39 states and have caused damage in all 50. About 5,000 quakes can be felt each year, with some 400 capable of causing damage to the interior of buildings and 20 capable of causing structural damage. A repetition of the 1906 San Francisco (7.8 in magnitude) could cause as much as \$100 billion in insured damage. However, a major earthquake on the East Coast, though more unlikely, could cause much greater damage. Because earthquakes in the eastern part of the country tend to be thrust-fault quakes, which produce an up-and-down motion rather than the horizontal side-to-side common in California, damage could be 10 times greater, according to seismic experts. The degree of damage also depends on other variables such as the structure of the building and soil conditions (see Earthquakes: Risk and Insurance Issues paper).

California insurers collected only \$3.4 billion in earthquake premiums in the 25-year period prior to the Northridge earthquake and paid out more than \$15.3 billion on Northridge claims alone. After the Northridge earthquake, insurers were reluctant to offer homeowners insurance because they feared additional earthquake exposure could potentially bankrupt them. In response to this crisis in the homeowners insurance market, in 1995 California lawmakers passed a two-part bill that allowed insurers to offer a new earthquake policy with a maximum deductible of 15 percent and created a privately funded, state-run earthquake pool.

Earthquake Insurance: Insurers doing business in California must offer earthquake insurance to their homeowners insurance policyholders, either a policy from the California Earthquake Authority (CEA) or, if they do not participate in the pool, a policy that they underwrite. Several dozen companies now write earthquake insurance in California in addition to the CEA. The CEA became operational in December 1996, with a \$10.5 billion funding package. The CEA could now pay claims caused by a quake more than twice as destructive as Northridge since with each passing earthquake-free year, its claims paying ability increases. Passage of the CEA legislation opened up the homeowners market (see Earthquake paper). More recently, the CEA created a supplementary policy to broaden coverage. Nevertheless, only a small portion of the state's property owners buy earthquake insurance and the percentage appears to grow smaller as the time span since the last major quake increases.

Tornadoes: Each year, about 1,200 tornadoes with gusts of wind as high as 200 mph touch down in the United States. Tornado intensity is measured by the Fujita scale, which runs from 0 through 5, the most damaging, based on the maximum speed of three-second wind gusts and the potential for damage. The scale incorporates 28 different damage indicators based on damage to a wide variety of structures from shopping malls to trees. Though generally not as costly in terms of insured values as hurricanes because they strike a more limited geographic area, tornadoes are more frequent. They can cause severe damage and, particularly before the advent of tornado warnings, many deaths. In the decade 1965-1974, they were responsible for an average of 141 deaths each year, compared with 63 in the 10 years 1999-2008. The peak of the tornado season is April through June or July. Spring tornadoes tend to be more severe and strike the Southeast, which is more densely populated than the Great Plains, thus causing more deaths than those in the summer months. In addition, the South has more mobile homes than other regions. Mobile homes are vulnerable to tornado damage.

Since 1990 the number of tornadoes has generally exceeded 1,000 a year. In the three preceding decades, the only year in which there were more than 1,000 tornadoes was 1973, when 1,102 were reported. This increase may reflect greater ability to detect tornadoes.

Wildland Fires: Fire plays an important role in the life of a forest, clearing away dead wood and undergrowth to make way for younger trees. But for much of the last century, fire-suppression policies focused on extinguishing wildfires as quickly as possible to preserve timber and, increasingly, real estate. These policies have led to the accumulation of brush and other vegetation that is easily ignited and serves as fuel for wildfires. In an effort to reduce the incidence of wildfires, increasingly fire officials are promoting "prescribed burns" to eliminate the accumulated debris. In recent years, most of the large fires with significant property damage have occurred in California, where some of the fastest developing counties are in forested areas. However, wildfires are a growing threat in other states, particularly when there is a drought, as more homes are built in woodland areas that were once wild.

The year 2006 set a national record both in the number of forest fires and their size. A total of 96,385 fires were reported and 9.9 million acres of forest and woodland burned, a 125 percent increase over the 10-year average, according to the National Interagency Fire Center. Fifty percent of the fires occurred in the southern section which stretches from Texas to Georgia. Over the past decade, the number of acres burned has increased as drought, record-setting heat and the build-up of dead trees and undergrowth together with residential development have combined to heighten the risk of fire. According to a University of Wisconsin study, in the West more than 8.6 million new homes have been built within 30 miles of a national forest since 1982.

A scientific study published in the September 4, 2007 issue of the Proceedings of the National Academy of Sciences examined the role houses play in the spread of wildfires. It found that making entire neighborhoods of homes fire resistant slows down the spread of fire. The likelihood of fires spreading from one site to another is dictated in large part by the amount and proximity of fuel—flammable materials such as dry undergrowth, trees that burn easily and unprotected wooden structures. When houses are not fire resistant, they add greatly to the fuel load and potential for the fire spreading because they quickly burn down to the ground. When homes are fire resistant, not only are they less likely to burn but they also act as a fire break, reducing the ultimate size of the fire and enabling it to be brought under control more easily. The Institute for Business & Home Safety (IBHS), a group supported by the insurance industry, is conducting research into how construction, building components, landscaping practices and homeowner behavior play a role in the spread of wildfires, using data from insurance companies that insured structures in the “burn zone,” regardless of whether or not they sustained damage.

Fire damage is covered under a homeowners insurance policy whatever the cause of the fire, unless the person insured under the policy commits arson by intentionally setting fire to the structure. As a result of the greater potential for fire losses where homes are built on mountainous and forested sites, insurers are increasingly requiring homeowners whose property is at risk to take precautions to slow the spread of fire. Such measures include installing fire-resistant roofs and creating a “defensible zone” around the home by removing debris, overhanging tree branches and other items located close to the building that can become fuel for a fire.

Reinsurance: Just as individuals and businesses buy insurance to protect their assets, primary insurers, the companies that sell insurance to consumers, buy reinsurance to protect their bottom line. Reinsurance is sold in layers, reaching up into the millions of dollars to protect insurance companies from possible, but statistically highly unlikely events, such as a \$100 million court award or an extraordinary number of homeowners claims as a result of a hurricane or a fast-spreading brush fire.

Retentions and coinsurance, through which insurers share the risk at various levels with their

reinsurers, as well as coverage amounts have increased dramatically over the past decade. It is now patently evident that the cost of catastrophes, both natural and man-made, can be in the tens of billions of dollars. Hurricane Katrina cost more than \$40 billion but a hurricane hit to Miami or a major terrorist attack could cost much more.

Before September 11, terrorist coverage was provided to commercial policyholders essentially without charge because the risk of an attack was considered remote. Immediately following the disaster, reinsurers said they would no longer offer terrorist coverage to the insurance companies they reinsure because they could not price this unprecedented risk. Legislation that made the federal government the reinsurer of last resort for major terrorist attacks was passed by Congress in November 2002 and extended in 2005 for two more years, making it easier for insurers to calculate maximum losses and therefore to underwrite the coverage (see paper on Terrorism Risk and Insurance). The program was reauthorized by Congress at the end of 2007 for another seven years.

The shortage of catastrophe reinsurance capacity in the United States following Hurricane Andrew, particularly for large national insurance companies, also prompted insurers, reinsurers, investment banks and others to look for new ways to spread the risk of natural disasters (see Reinsurance paper). Increasingly, the capital markets are being seen as a large resource that can be tapped to cover claims at the higher levels (after reinsurance has been exhausted) where there is a low probability of loss. The advantage to investors is diversification. Catastrophe losses are unrelated to the usual speculative risks, which are generally economic. While the number of transactions involving the capital markets is still relatively small, some observers expect catastrophe risk to be securitized and made available to investors on a regular basis.

Pricing: The price of an insurance policy reflects the costs of paying claims covered by that policy, as well as an insurance company's costs for such items as reinsurance. Not surprisingly, reinsurance costs as well as direct claims costs are lower where the risk is low. For example, if a community has a good fire department and ready access to water to extinguish fires, serious fires in that community will likely be fewer than in similar communities that lack a good fire department. The same principle applies to windstorms: premiums will reflect the normal level of windstorm claims in a given community.

How does the insurance industry deal with extraordinary costs such as the \$40.6 billion in insured losses for Hurricane Katrina? Prior to Hurricane Andrew, insurance companies accounted for hurricanes and other catastrophes with a special premium amount known as a "catastrophe loading" to spread the risk over a period spanning 30 to 40 years. Sometimes they used data from several states subject to the same kind of catastrophes to develop the average annual cost of catastrophes. However, since the mid-1990s more sophisticated computer modeling techniques have become available. Insurers now base their rates, in part, on

sophisticated computer models that combine meteorological data with their own exposure data. The meteorological data show the probability of a natural disaster occurring in a particular geographical area and the exposure data indicate how many of the company's policyholders are likely to be affected and to what extent, i.e., what the insurer's potential losses from that event are likely to be. Models can also assess the losses a specific company or building might sustain in a terrorist attack.

Special Catastrophe Programs: One example of a special catastrophe program is the Caribbean Catastrophe Risk Insurance Facility (CCRIF), the first regional insurance fund, which provides hurricane and earthquake catastrophe coverage to its 16 member nations.

In 2004 hurricanes severely damaged the economy of several small Caribbean islands, causing losses in excess of \$4 billion. This prompted Caribbean governments to request the help of the World Bank in facilitating access to catastrophe insurance. The CCRIF started operations in June 2007, after two years of planning.

The CCRIF acts as a mutual insurance company, allowing member nations to combine their risks into a diversified portfolio and purchase reinsurance or other risk transfer products on the international financial markets at a saving of up to 50 percent over what it would cost each country if they purchased catastrophe protection individually. In addition, since a hurricane or earthquake only affects one to three countries in the Caribbean on average in any given year, each country contributes less to the reserve pool than would be required if each had its own reserves.

The CCRIF was initially capitalized by its members with help from donor partners—developed countries, the World Bank and the Caribbean Development Bank. Its members pay premiums based on their probable use of the pool's funds. As countries raise building standards to provide better protection against disasters, premiums will decrease.

Because the CCRIF uses what has become known as parametric insurance to calculate claim payments, claims are paid quickly. Under a parametric system, claim payments are triggered by the occurrence of a specific event that can be objectively verified, such as a hurricane reaching a certain wind speed or an earthquake reaching a certain ground shaking threshold, rather than by actual losses measured by an adjuster, a process that can take months to complete. Payout amounts are derived from models that estimate the financial impact of the disaster. As a form of deductible that encourages risk mitigation, participating governments are only allowed to purchase coverage for up to 20 percent of their estimated losses, an amount believed to be sufficient to cover initial needs. In the United States, the first parametric model was sold to the Alabama Insurance Underwriting Association, the state's wind pool, in 2010.

Building Code Enforcement and Other Damage Mitigation Measures: In the mid-

1980s, a study of the damage caused by Hurricanes Alicia (1983) and Diana (1984), two storms of roughly equal size and intensity, found that the level of building code enforcement affected the cost of claims. Hurricane Alicia hit Texas, causing \$675 million in insured damage, of which close to 70 percent was attributed to poor code enforcement. By contrast, Hurricane Diana hit North Carolina, where codes were effectively enforced. Researchers found that only 3 percent of homes in that state suffered major structural damage as result of the hurricane. (Insured losses for North and South Carolina totaled \$36 million.) This research and a similar assessment of losses in South Carolina after Hurricane Hugo prompted the National Committee on Property Insurance, now the Tampa-based Institute for Business & Home Safety (IBHS) see below, to study coastal municipal building code departments in southern states. Researchers found that building officials and inspectors in about half of the communities surveyed were not enforcing the building code wind-resistance standards on their books.

In South Florida, which has one of the strongest building codes in the country, experts estimated that between 25 and 40 percent of Hurricane Andrew losses were avoidable. A Dade County, Florida, grand jury report issued in December 1992 confirmed that much of the damage was due to lax code enforcement, warning that it was a long-standing problem in the state and that the quality of rebuilding in the hurricane devastated area might be even lower.

As a result, the insurance industry began to develop a building code compliance rating system, similar to its fire protection rating system, which dates back to 1916. Under the fire protection classification program, each local fire department's firefighting capability is ranked according to various factors, such as water supply and whether its firefighters are fulltime paid employees or volunteers. The final ranking is incorporated into the property insurance premium rate structure. The building code enforcement ranking process takes into account such things as the size of the building code enforcement budget relative to the amount of building activity, the professional qualifications of building inspectors and past code enforcement levels, with special emphasis on mitigating losses due to natural disasters. Insurers can now offer discounts on property insurance for new construction in communities that enforce accepted building codes. Communities are regraded for building code enforcement every five years.

Through the Institute for Business and Home Safety (IBHS), insurers are sponsoring building construction that better withstands natural disasters. Named "Fortified...for Safer Living," the program specifies construction, design and landscaping guidelines for homes (and eventually businesses) in areas subject to windstorms, hailstorms and earthquakes. The current program applies to homes now being built. There is also a retrofitting program for existing structures. The aim is to have a fortified model home in every county in Florida and then at least one in every state. In Florida, such houses cost from 4 to 9 percent more to build. Surveys show that on average people are prepared to pay up to 6 percent more for a disaster resistant dwelling.

The concept behind this program is twofold: to keep the structure intact and to protect those

inside from outside debris, which turns into dangerous missiles in a storm. The more secure the structure, the less storm-generated debris there will be. Some states are initiating programs to help consumers "fortify" their homes themselves, sometimes requiring insurers to offer homeowners insurance discounts for improvements. Efforts to reduce catastrophe damage are not confined to hurricane-prone regions. Homes in areas vulnerable to other types of catastrophes can be protected also and even if discounts are not offered, hail and wildfire-resistant roofs and measures taken to reduce earthquake-related damage make structures in high-risk areas more readily insurable, and because there is generally less damage, lessen the frustrations involved in getting back on track after a disaster.

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Personal Lines P-C Insurance Markets: *Trends, Challenges & Opportunities for 2012 & Beyond*

**Insurance Information Institute
December 1, 2011**

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Presentation Outline

- **Personal Lines Growth Overview**
 - ◆ Auto, Home: US and by State
 - ◆ Average Premium/Expenditures
- **Personal Lines Growth Drivers**
 - ◆ Exposure, Pricing Factors
- **Personal Lines Profitability Analysis**
- **Catastrophe Loss Trends: US & Global Impacts**
- **Reinsurance Market Overview & Outlook**
- **Cyclical Drivers in Personal Lines**
 - ◆ Loss as a Cyclical Driver
- **Private Passenger Auto Performance**
- **Distribution Trends**
- **P/C Financial Overview & Outlook: The Role of Cyclicity**
 - ◆ Profitability
 - ◆ Premium Growth
 - ◆ Capital, Capacity and Financial Strength
 - ◆ Underwriting Performance
 - ◆ Investment Performance
- **Financial Crisis, Recession & Recovery: P/C Insurer Impacts**
- **Regulatory Environment “Report Card”**
- **Q&A**



Personal Lines Growth Analysis

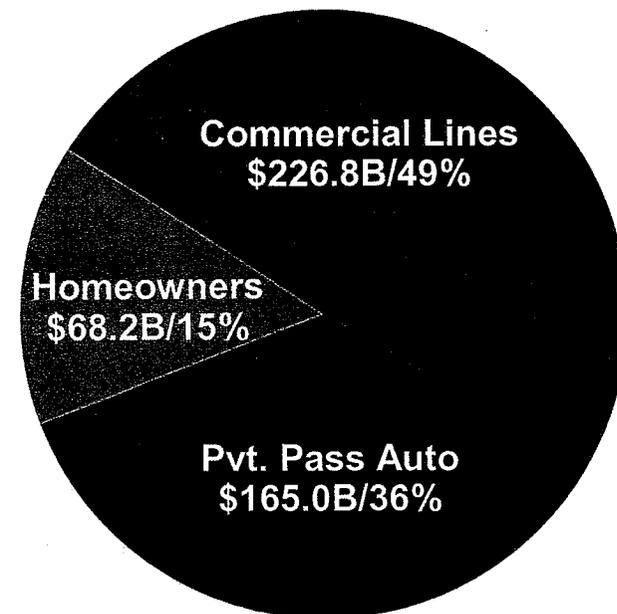
**Growth Trajectories Differ
Substantially by Line, by
State and Over Time**

Distribution of Direct Premiums Written by Segment/Line, 2010

Distribution Facts

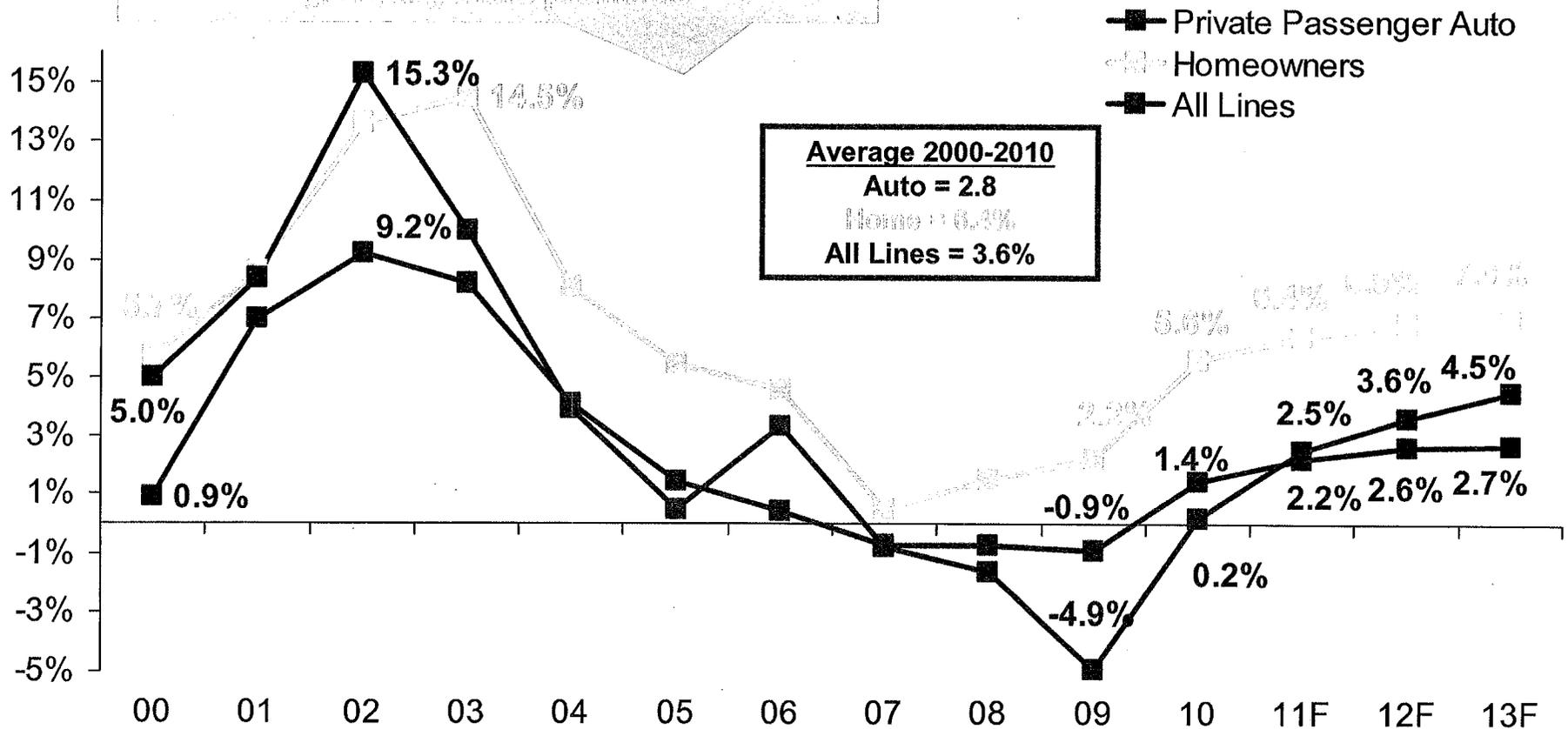
- Personal/Commercial lines split has been about 50/50 for many years; Personal Lines overtook Commercial Lines in 2010
- Pvt. Passenger Auto is by far the largest line of insurance and is currently the most important source of industry profits
- Billions of additional dollars in homeowners insurance premiums are written by state-run residual market plans

2010



Auto & Home vs. All Lines, Net Written Premium Growth, 2000–2013F

With the focus on auto and home, the insurance industry is growing faster than other lines. Over the past decade, auto and home generally earned profitable rates.

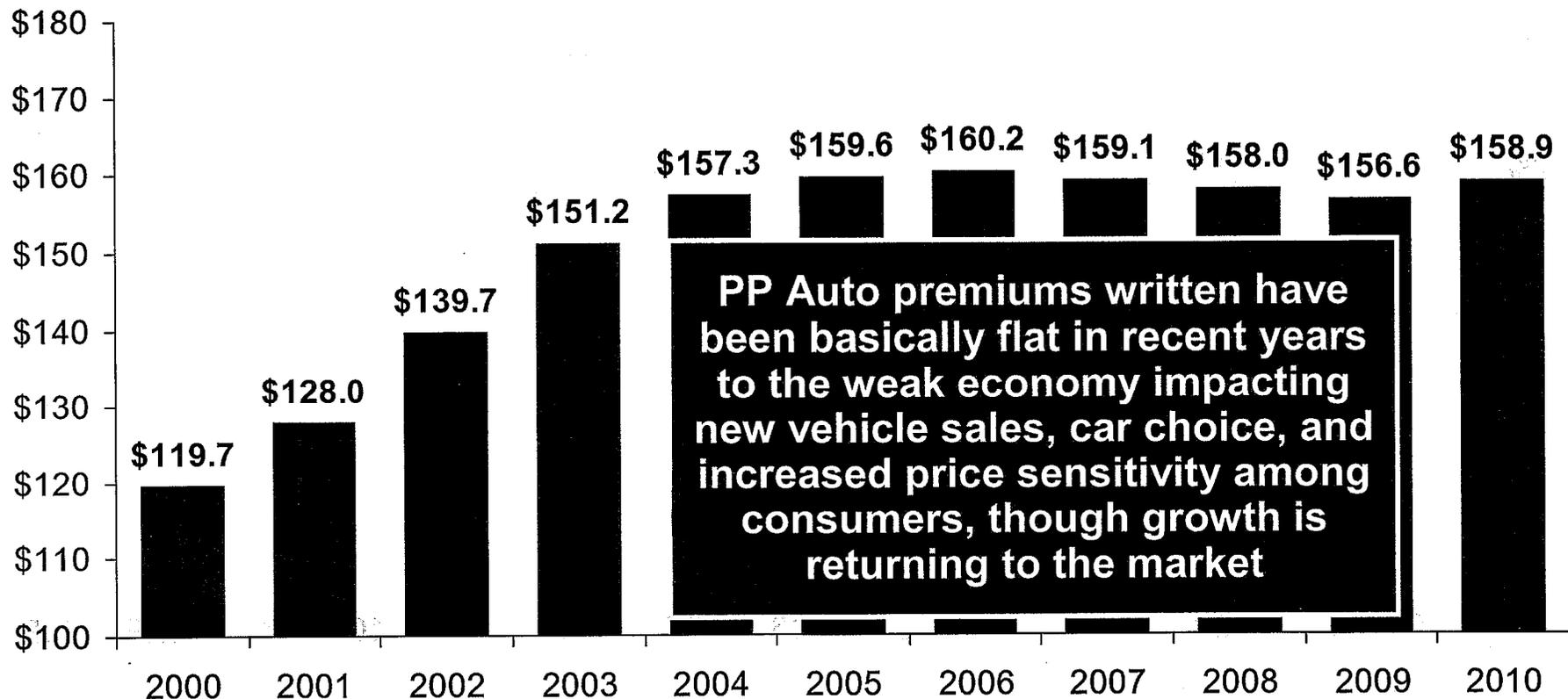


Sources: A.M. Best (historical); Insurance Information Institute (2011F-2013F).

Private Passenger Auto Insurance Net Written Premium, 2000–2010



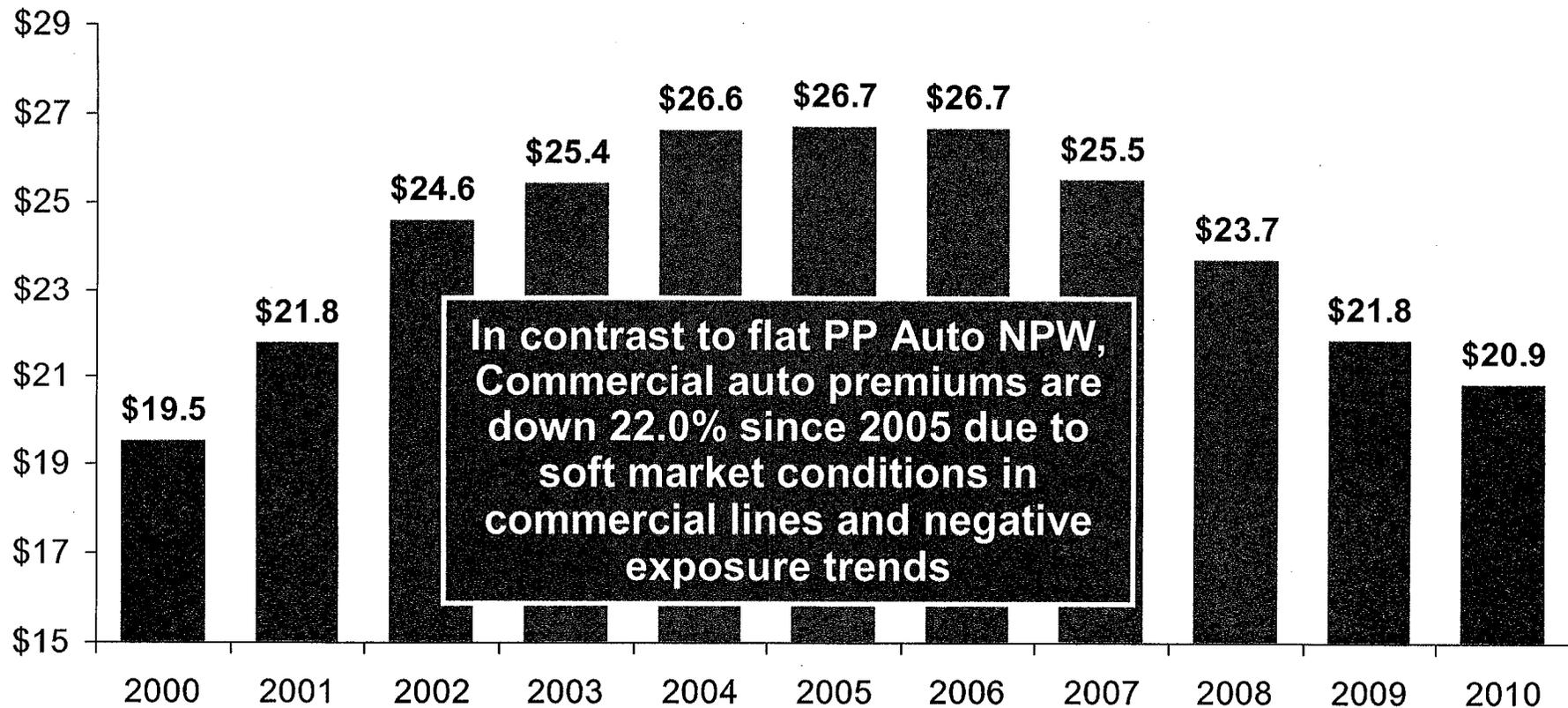
\$ Billion



Sources: A.M. Best; Insurance Information Institute.

Commercial Auto Insurance Net Written Premium, 2000–2010

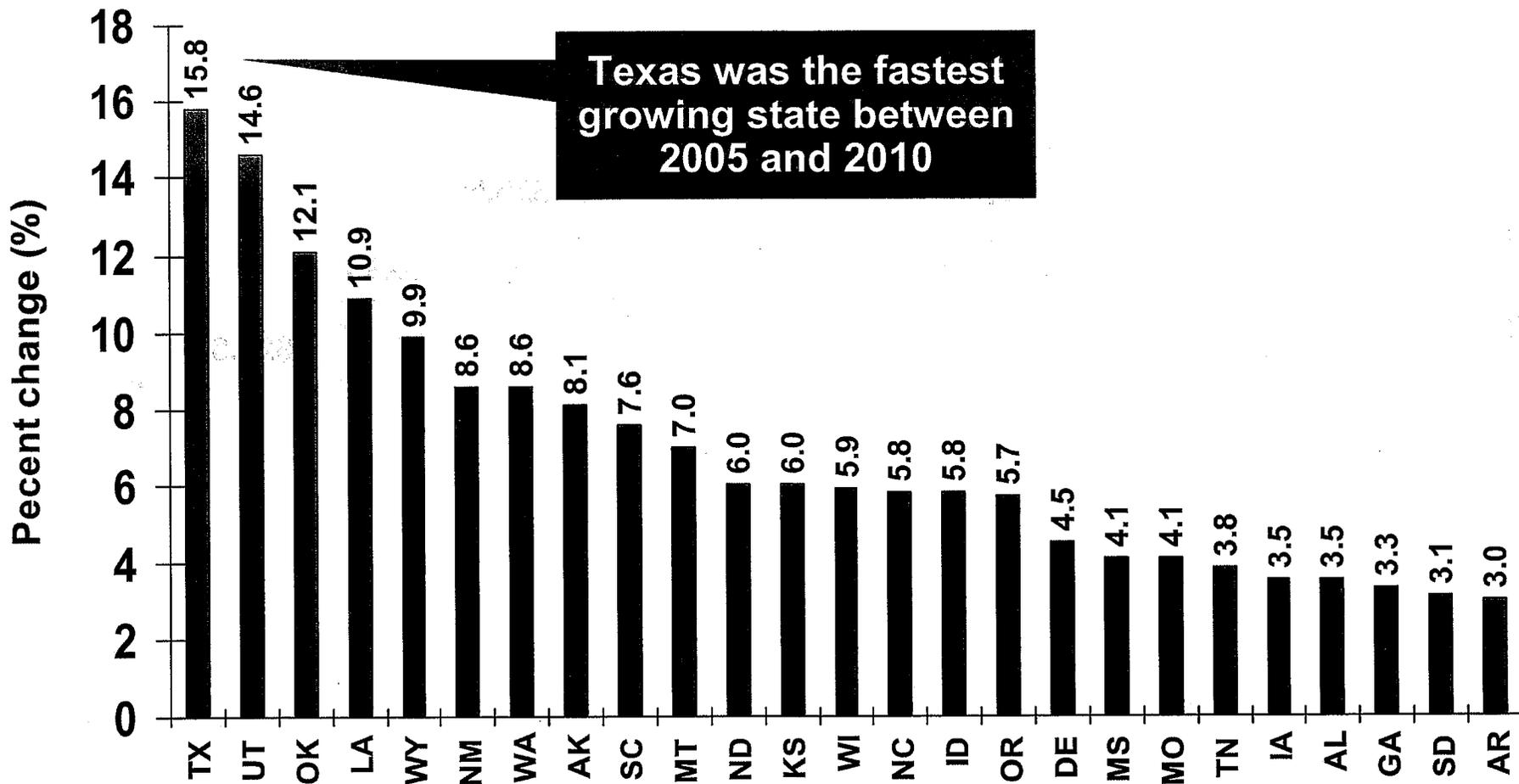
\$ Billion



Sources: A.M. Best; Insurance Information Institute.

Percent Change in DPW: Pvt. Pass. Auto by State, 2005-2010

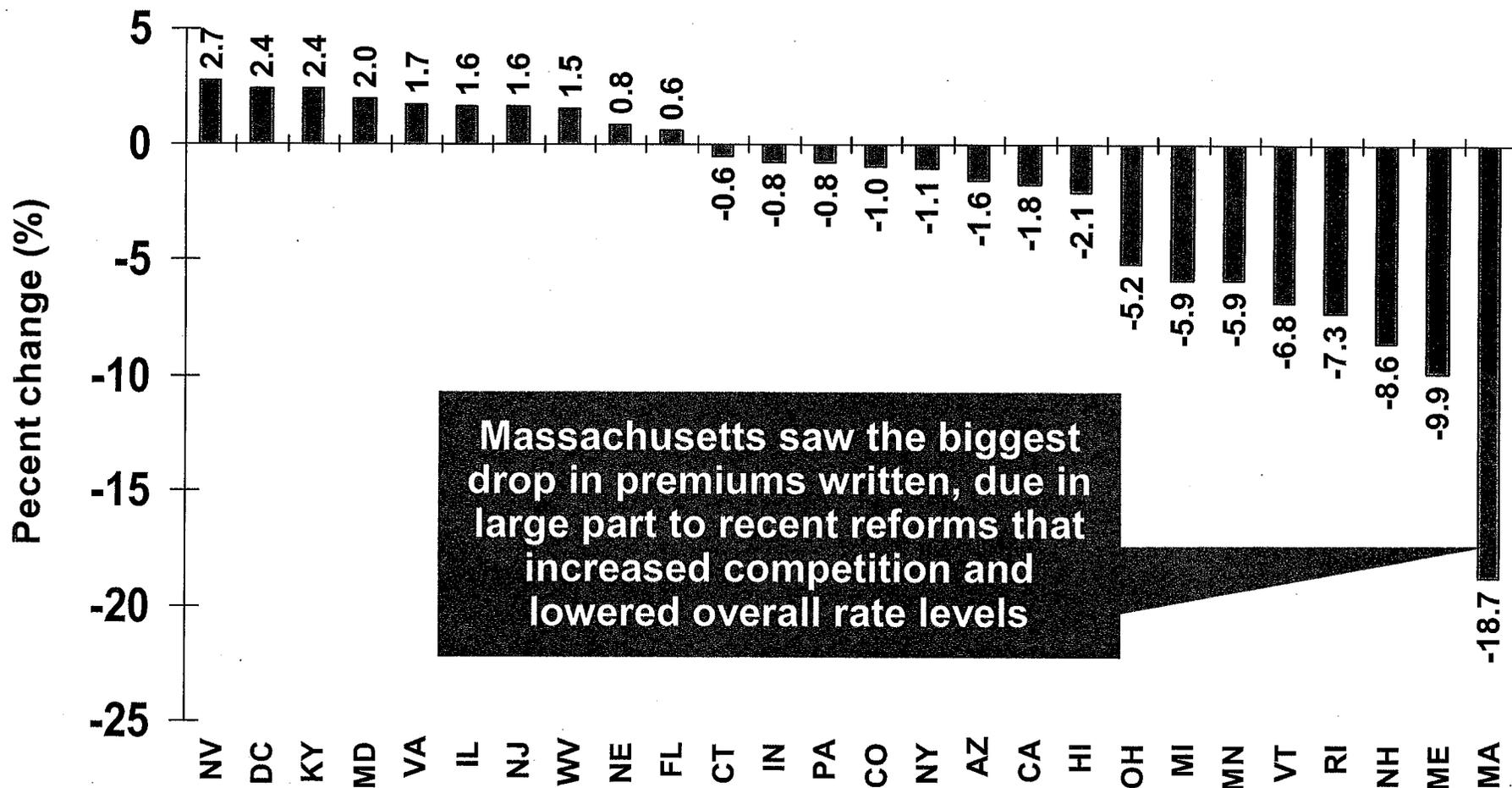
Top 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

Percent Change in DPW: Pvt. Pass. Auto by State, 2005-2010

Bottom 25 States

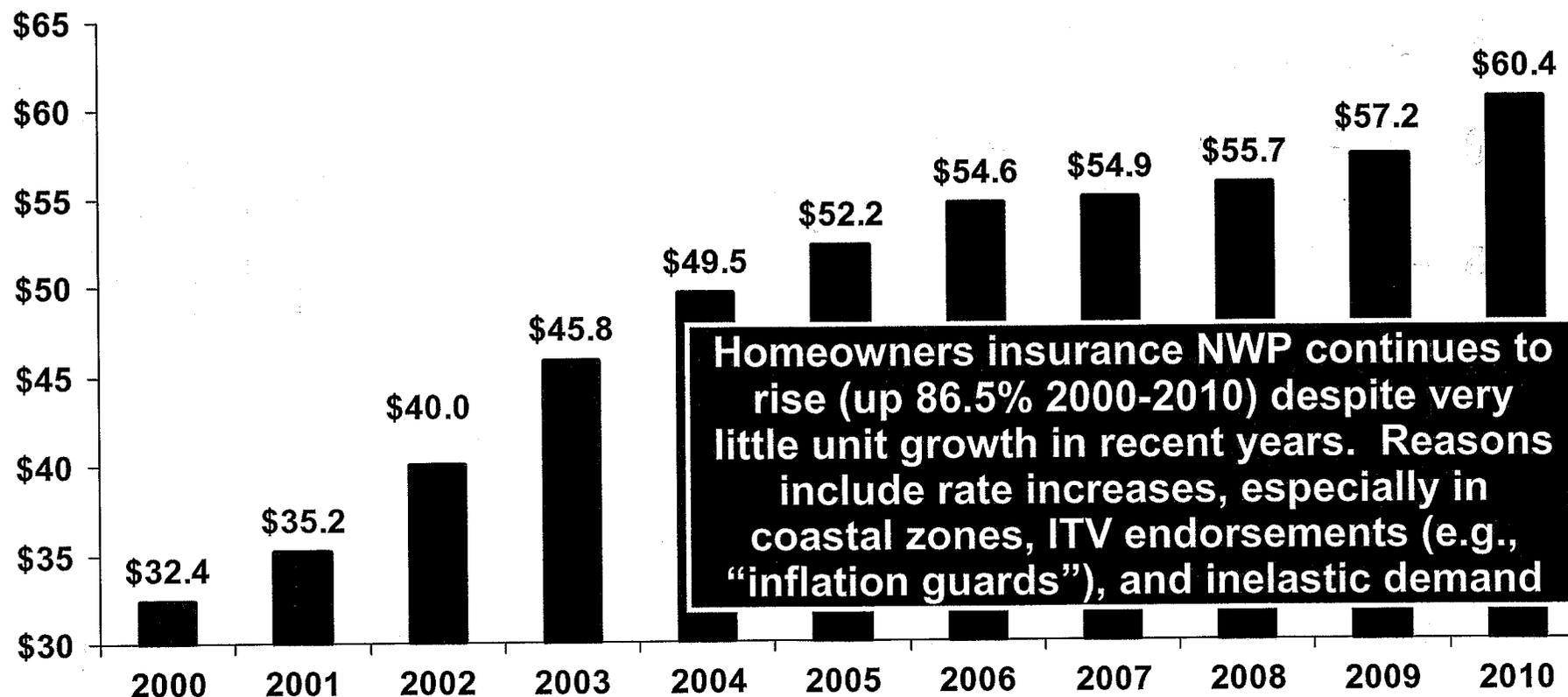


Sources: SNL Financial LC.; Insurance Information Institute.

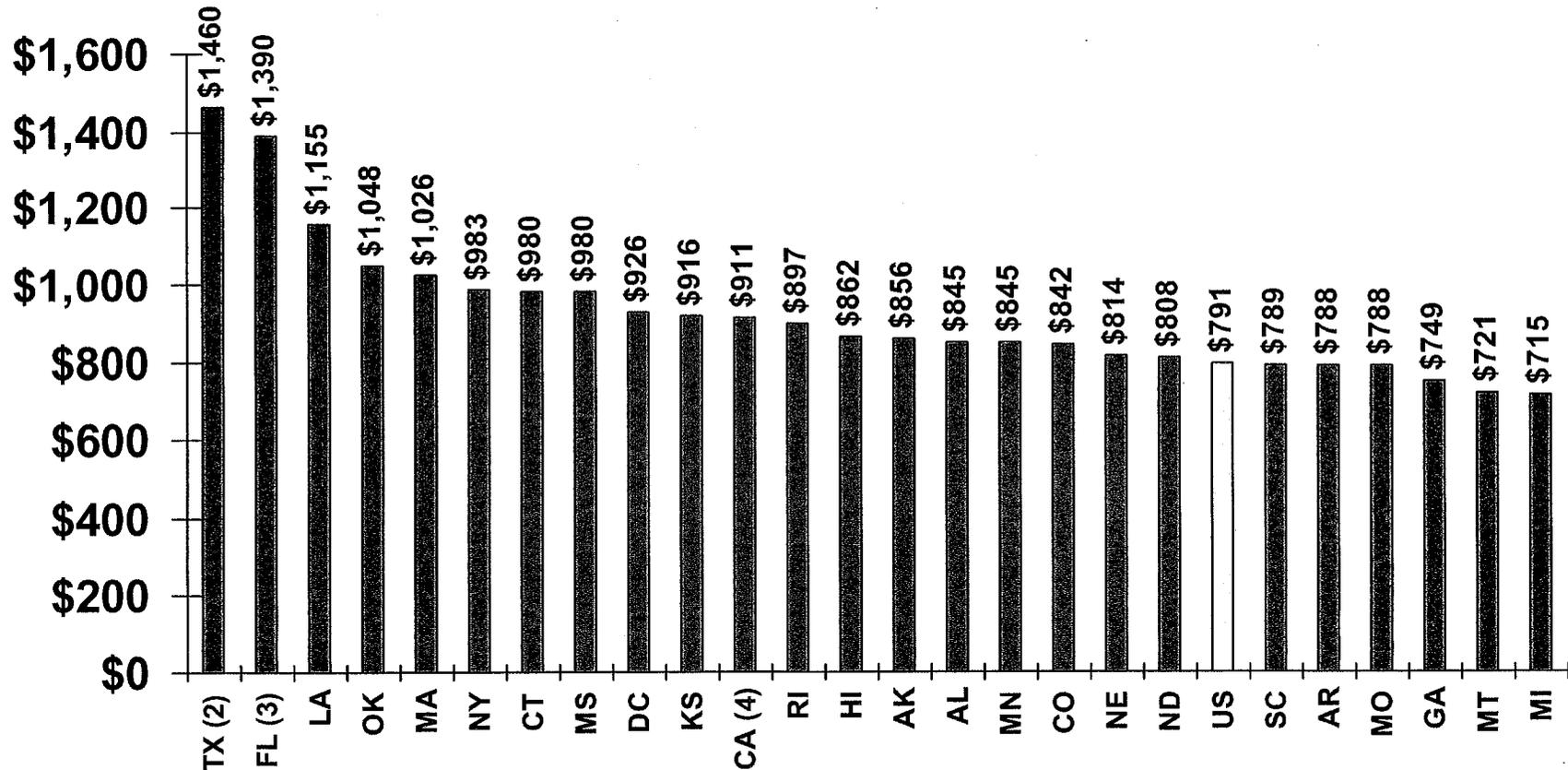
Homeowners Insurance Net Written Premium, 2000–2010



\$ Billions



Average Premiums For Home Insurance By State, 2008 (1)

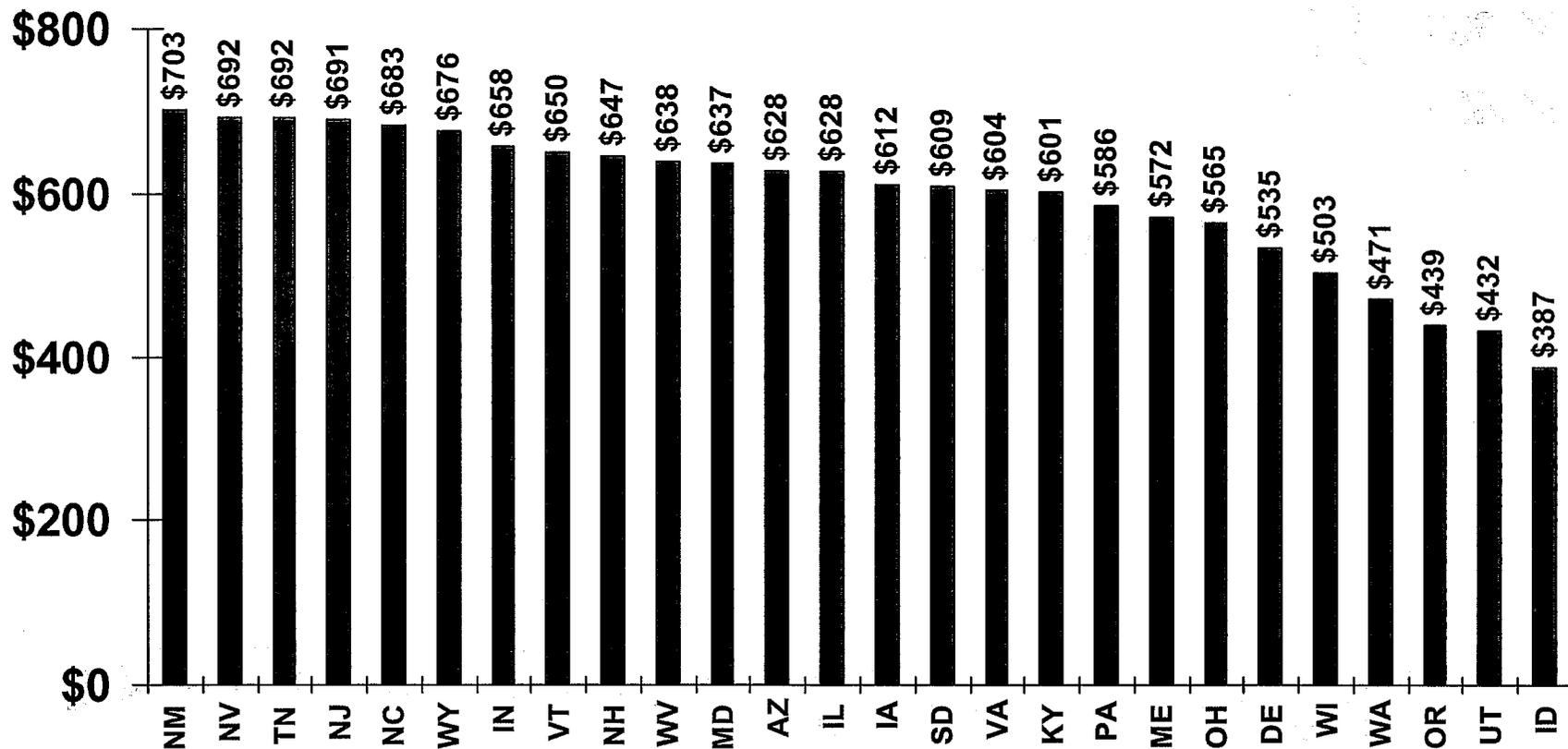


(1) Based on the HO-3 homeowner package policy for owner-occupied dwellings, 1 to 4 family units. Provides "all risks" coverage (except those specifically excluded in the policy) on buildings and broad named-peril coverage on personal property, and is the most common package written. (2) The Texas Department of Insurance developed home insurance policy forms that are similar but not identical to the standard forms. (3) Florida data exclude policies written by Citizens Property Insurance Corporation, the state's insurer of last resort, and therefore are not directly of comparable with other states. (4) California data were provided by the California Department of Insurance.

Note: Average premium=Premiums/exposure per house years. A house year is equal to 365 days insured coverage for a single dwelling.

Source: © 2010 National Association of Insurance Commissioners (NAIC). Reprinted with permission. Further reprint or distribution strictly prohibited without written permission of NAIC.

Average Premiums For Home Insurance By State, 2008 (1) (con't)



(1) Based on the HO-3 homeowner package policy for owner-occupied dwellings, 1 to 4 family units. Provides "all risks" coverage (except those specifically excluded in the policy) on buildings and broad named-peril coverage on personal property, and is the most common package written.

Note: Average premium=Premiums/exposure per house years. A house year is equal to 365 days insured coverage for a single dwelling.

Source: © 2010 National Association of Insurance Commissioners (NAIC). Reprinted with permission. Further reprint or distribution strictly prohibited without written permission of NAIC.



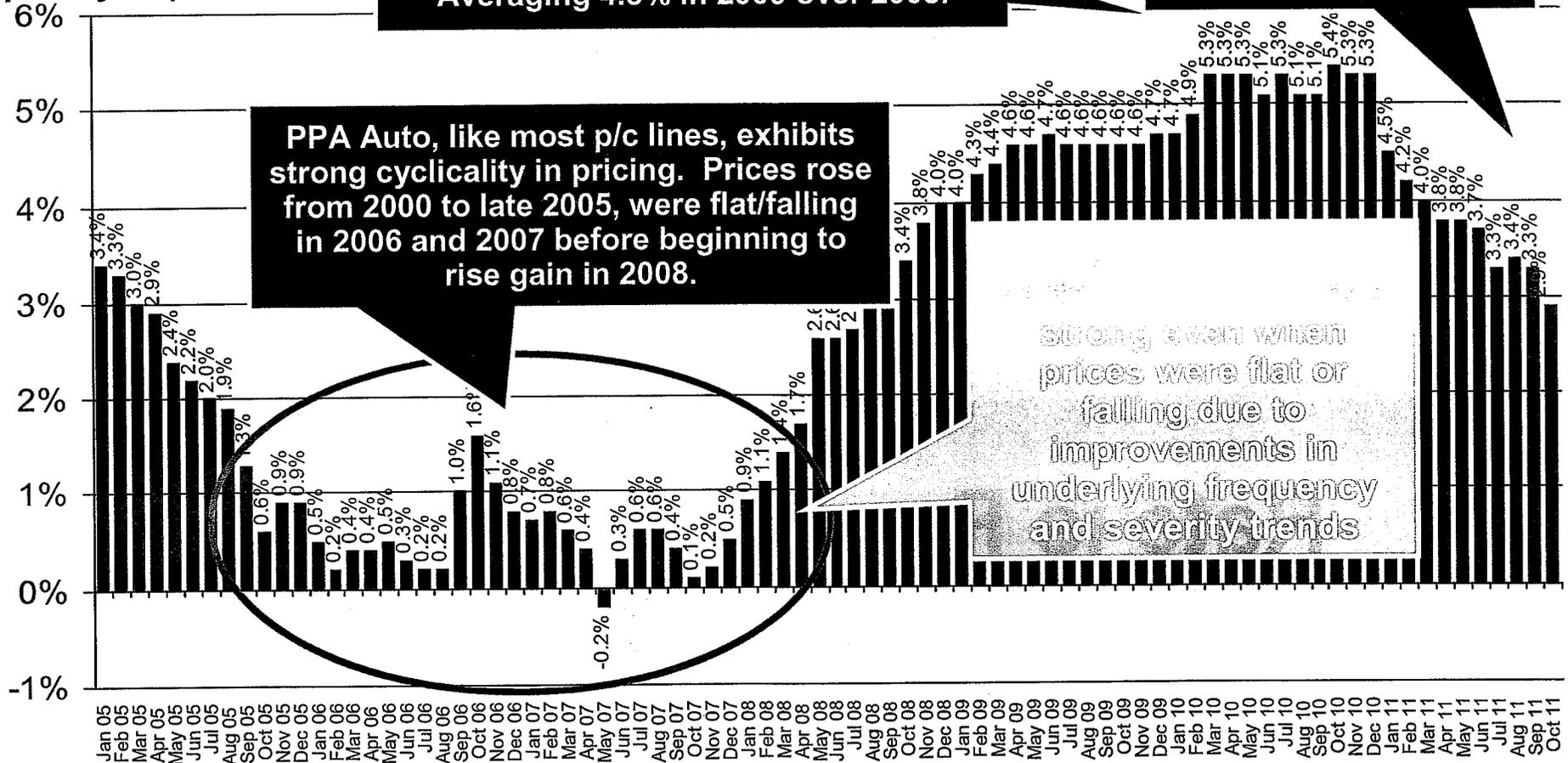
Personal Lines Growth Drivers

**Rate is Presently a Bigger
Driver than Exposure**

Monthly Change* in Auto Insurance Prices, January 2005 - October 2011

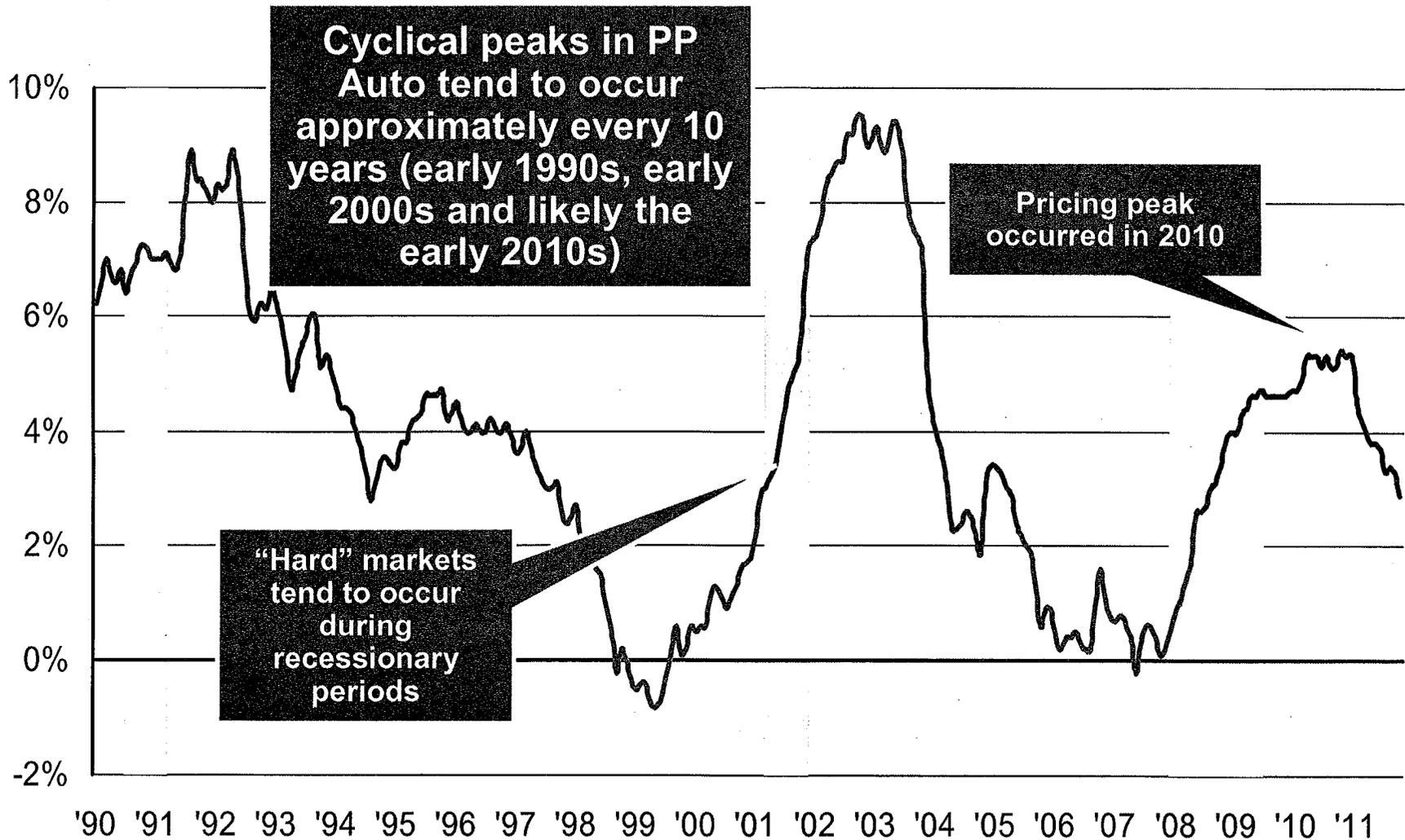


(Percent Change from same month, prior year)



*Percentage change from same month in prior year, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute

Monthly Change* in Auto Insurance Prices, 1991–2011*



*Percentage change from same month in prior year; through October 2011; seasonally adjusted

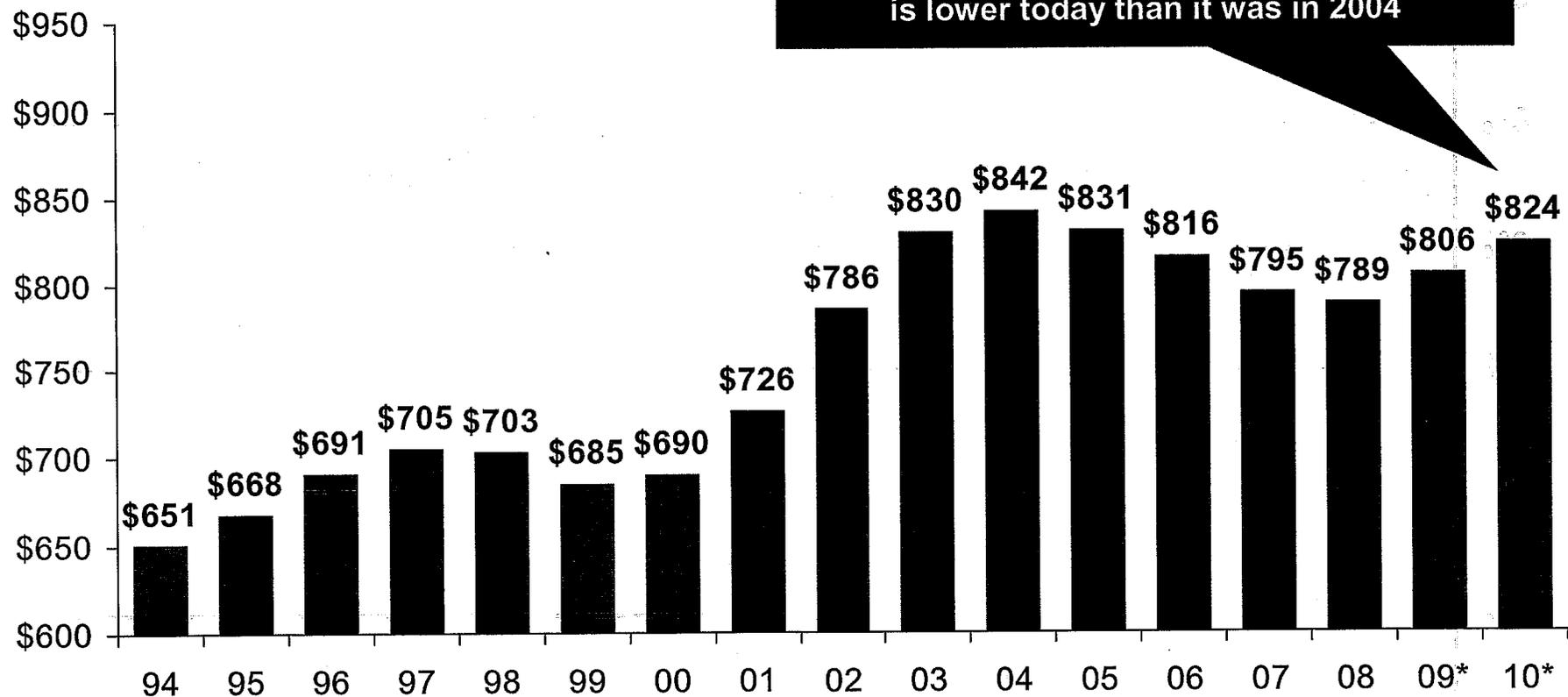
Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

Average Expenditures on Auto Insurance



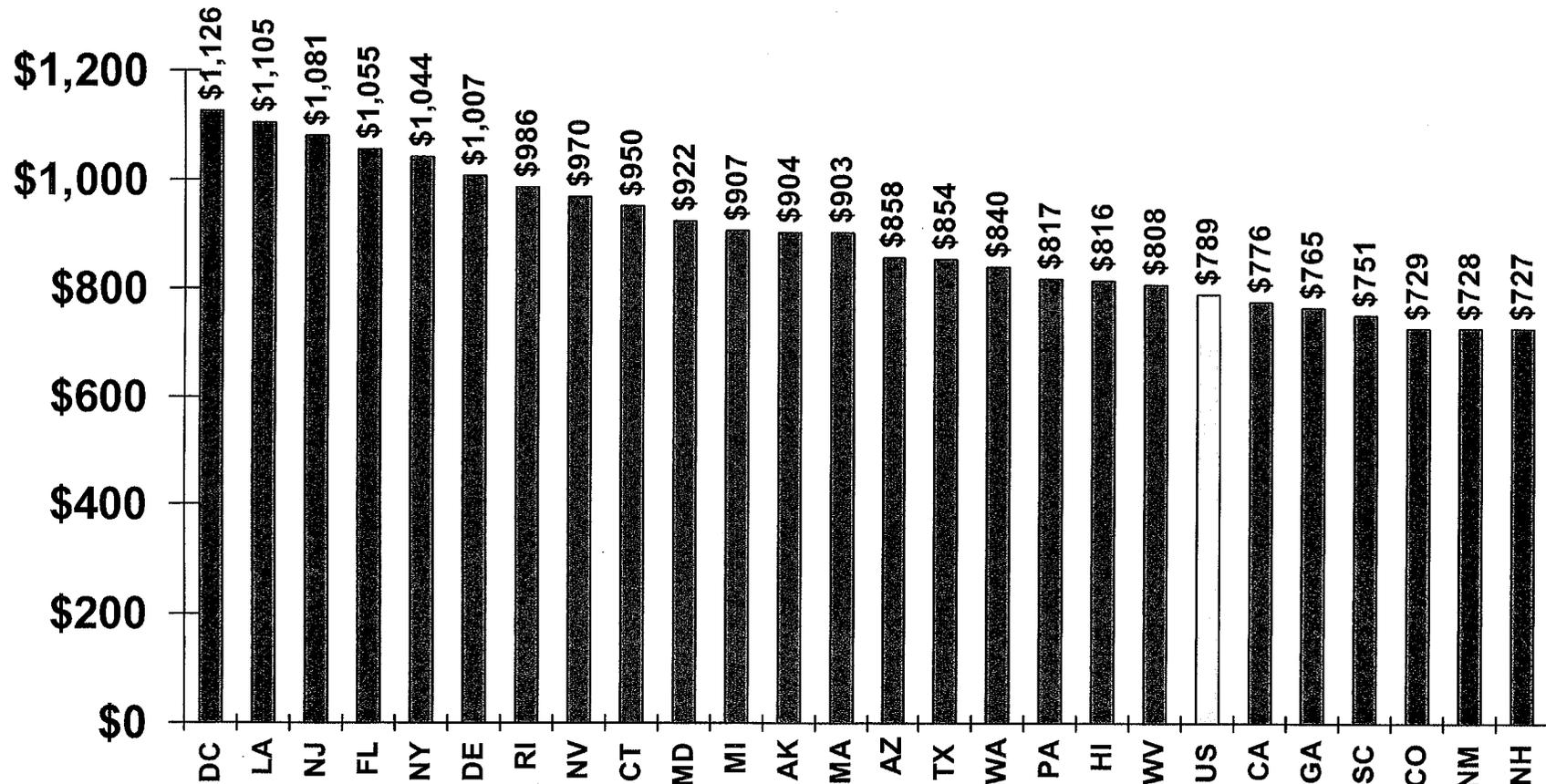
The average expenditure on auto insurance is lower today than it was in 2004



Countrywide Auto Insurance Expenditures Decreased 0.8% in 2008 and Increased 2.2% in 2009 (est.) and 2010 (est.)

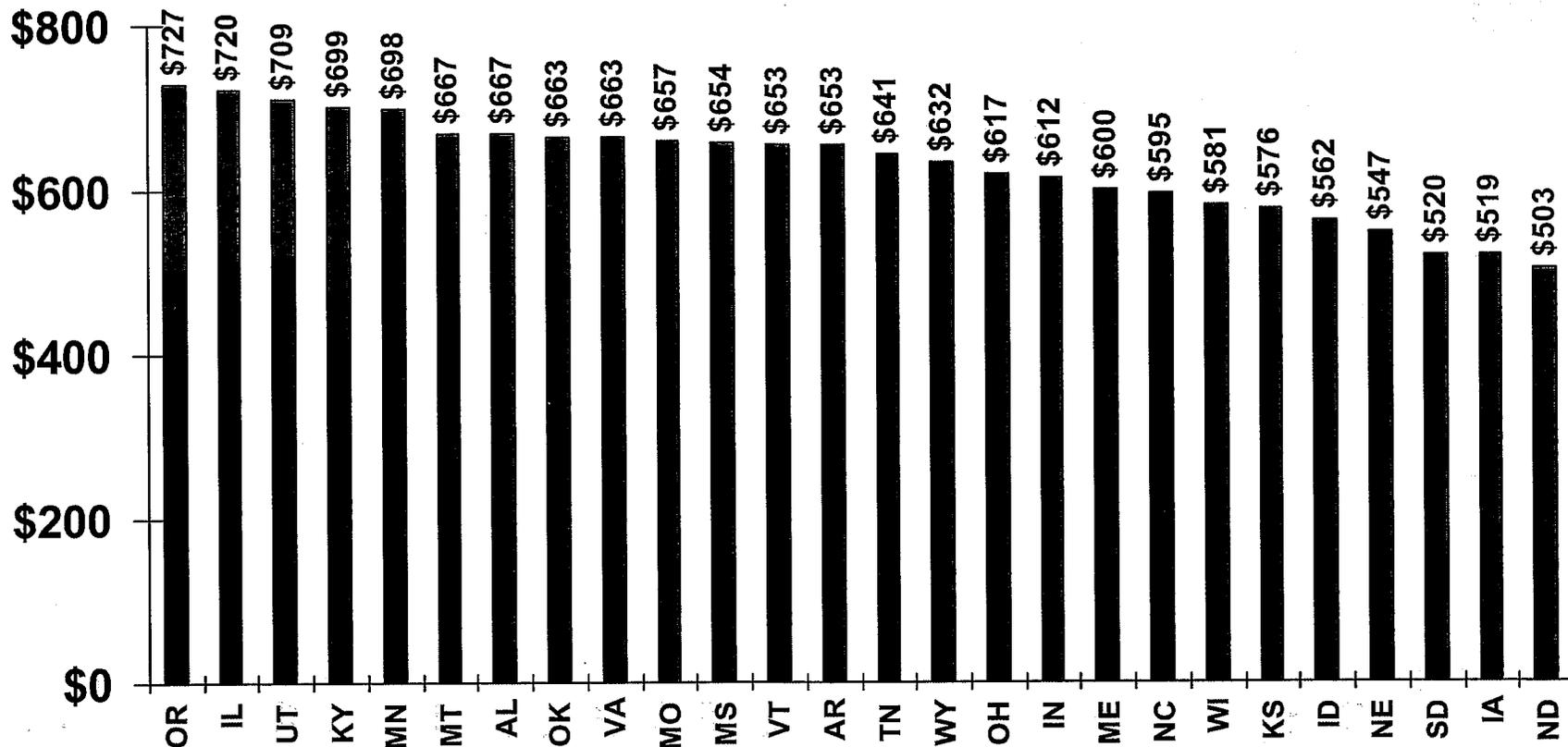
* Insurance Information Institute Estimates/Forecasts
Source: NAIC, Insurance Information Institute estimates 2009-2010 based on CPI and other data.

Average Expenditures For Auto Insurance By State, 2008



Note: Average expenditure=Total written premium/liability car years. A car year is equal to 365 days of insured coverage for a single vehicle.
Source: © 2010 National Association of Insurance Commissioners.

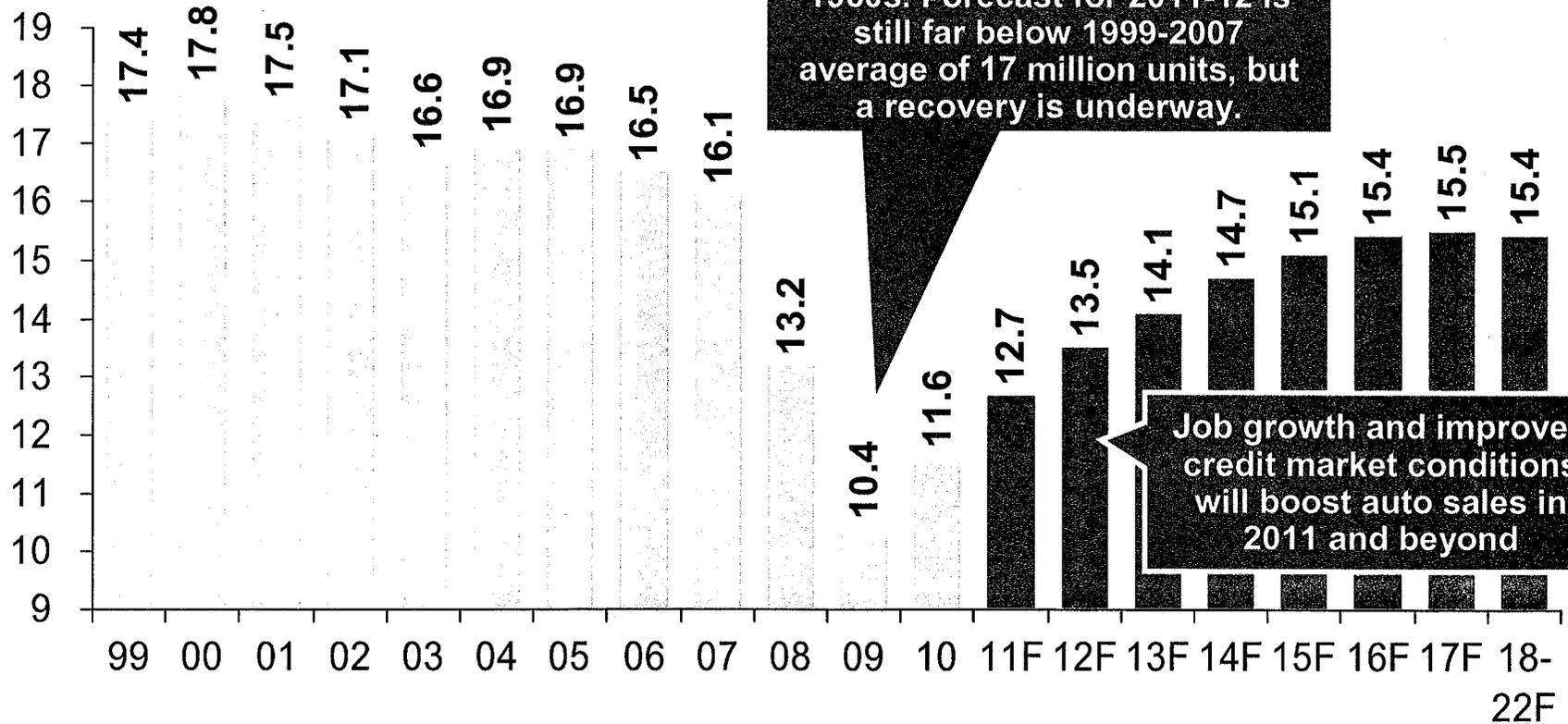
Average Expenditures For Auto Insurance By State, 2008 (con't)



Note: Average expenditure=Total written premium/liability car years. A car year is equal to 365 days of insured coverage for a single vehicle.
Source: © 2010 National Association of Insurance Commissioners.

Auto/Light Truck Sales, 1999-2022F

(Millions of Units)

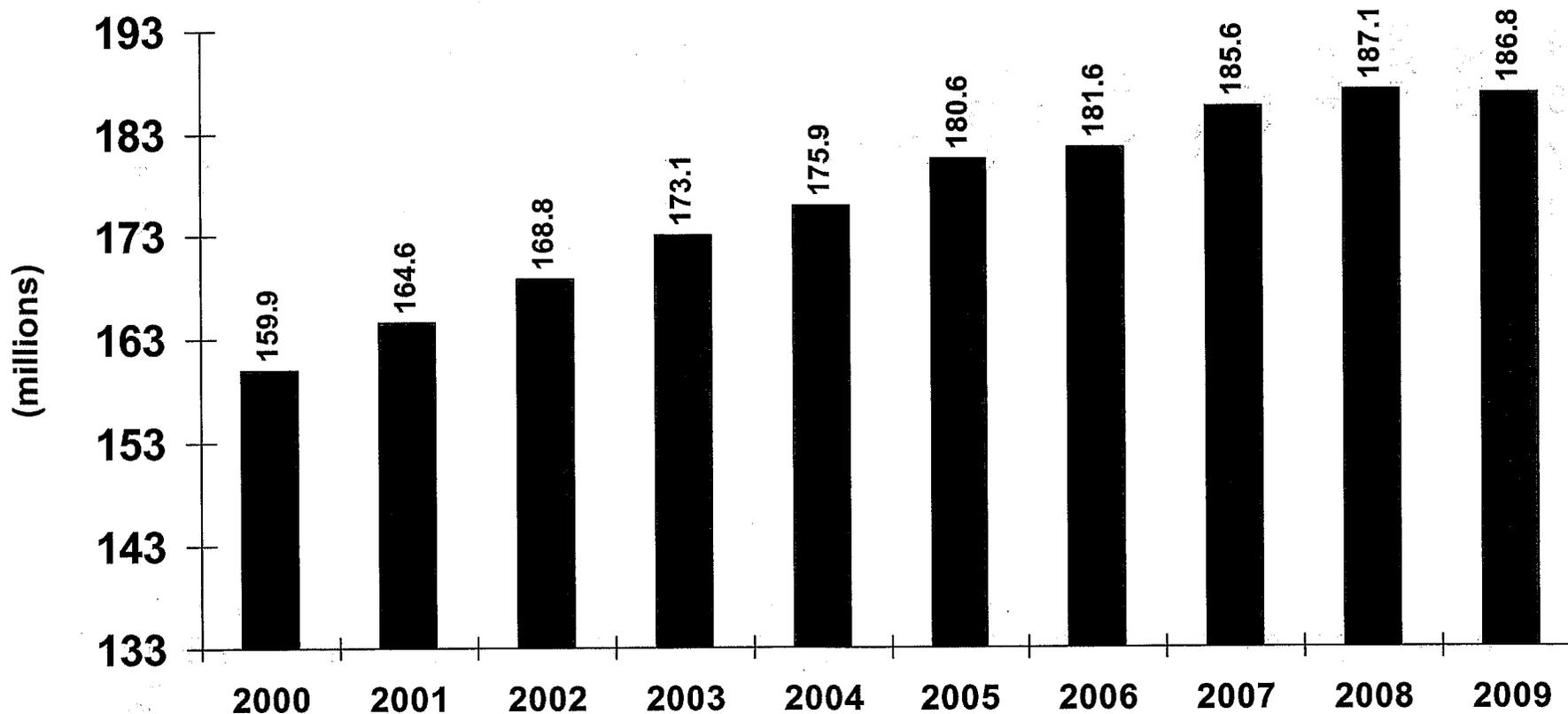


New auto/light truck sales fell to the lowest level since the late 1960s. Forecast for 2011-12 is still far below 1999-2007 average of 17 million units, but a recovery is underway.

Job growth and improved credit market conditions will boost auto sales in 2011 and beyond

Car/Light Truck Sales Will Continue to Recover from the 2009 Low Point, Bolstering the Auto Insurer Growth and the Manufacturing Sector.

Number of Insured Vehicles in the US, 2000-2009*



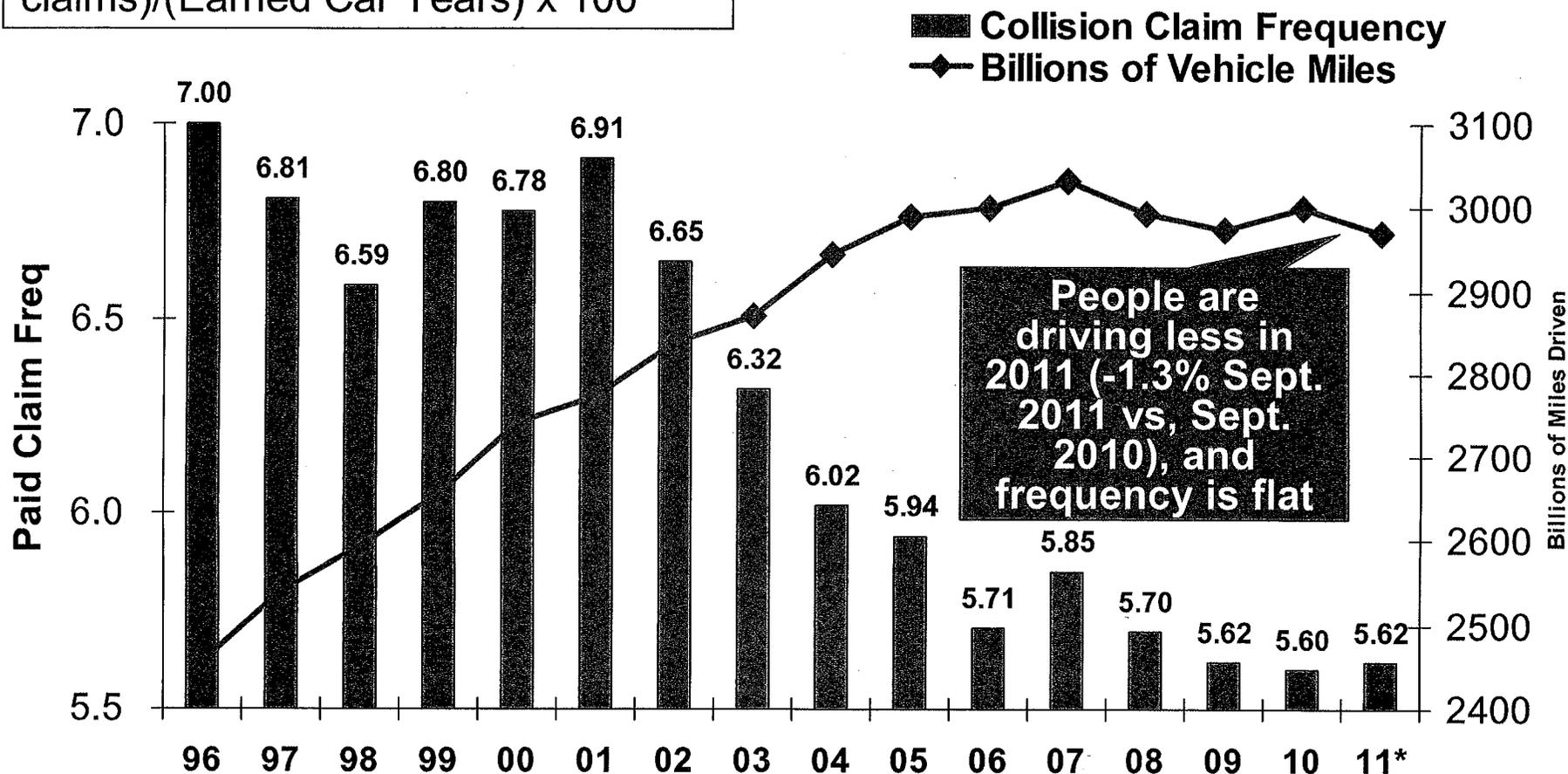
The Number of Insured Passenger Vehicles Stopped Growing During the Economic Downturn. Growth Has Likely Returned.

*Latest available as of Nov. 2011.

Source: Automobile Insurance Plans Service Office.

Do Changes in Miles Driven Affect Auto Collision Claim Frequency?

Paid Claim Frequency = (No. of paid claims)/(Earned Car Years) x 100

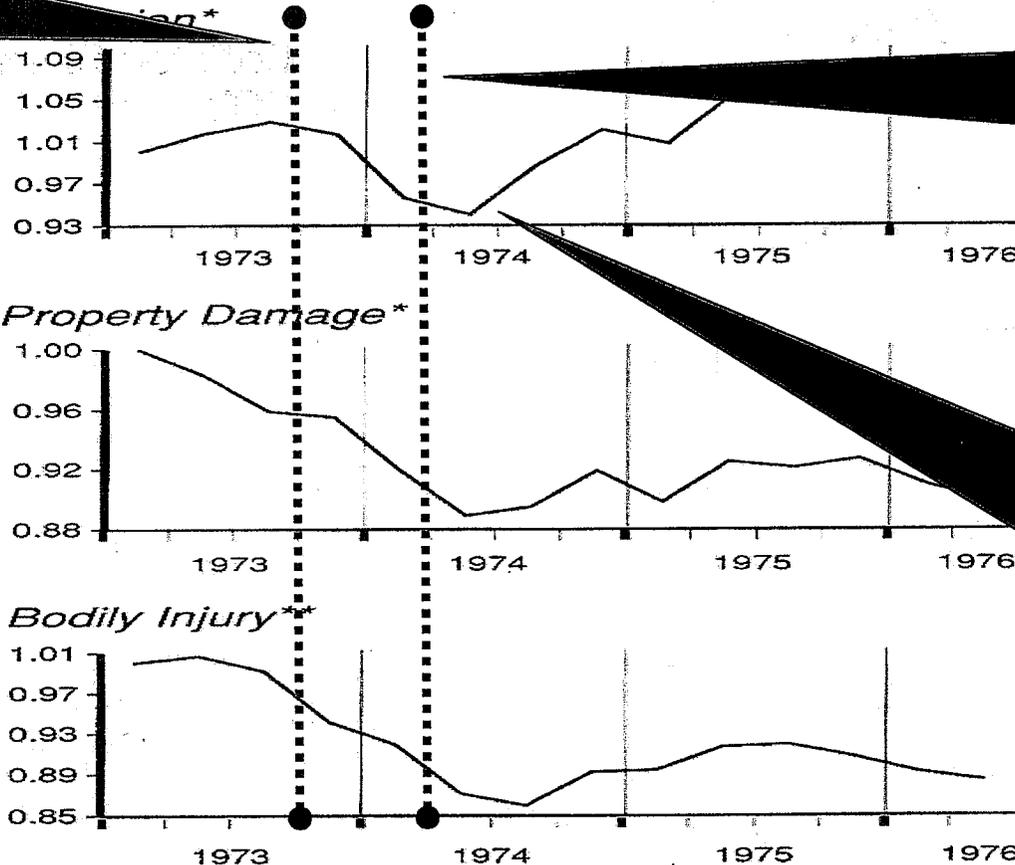


Sources: Federal Highway Administration (<http://www.fhwa.dot.gov/ohim/tvtw/tvtpage.cfm>); ISO Fast Track Monitoring System, *Private Passenger Automobile Fast Track Data*: 2nd Qtr. 2011, published Sep. 30, 2011 and earlier reports. *2011 ISO figure is for 12 months ending 6/30/2011; FHA data is for 12 months ending Sep. 2011.

Auto Insurance: Claim Frequency Impacts of Energy Crisis/Recession of 1973/74

Figure 6

The First Crisis—Frequency



Oct. 17, 1973: Arab oil embargo begins

March 17, 1974: Arab oil states announce end to embargo

Frequency Impacts
Collision: -7.7%
PD: -9.5%
BI: -13.3%

Frequency began to rebound almost immediately after the embargo ended

Driving Stats
 •Gas prices rose 35-40%
 •Miles driven fell 6.7% in 1974

*Seasonally Adjusted, Quarterly Paid Fast Track data indexed to First Quarter 1973.
 **ISO Paid Data, year-ended quarter indexed to First Quarter 1973.

Auto Insurance: Claim Severity Impacts of Energy Crisis/Recession of 1973/74

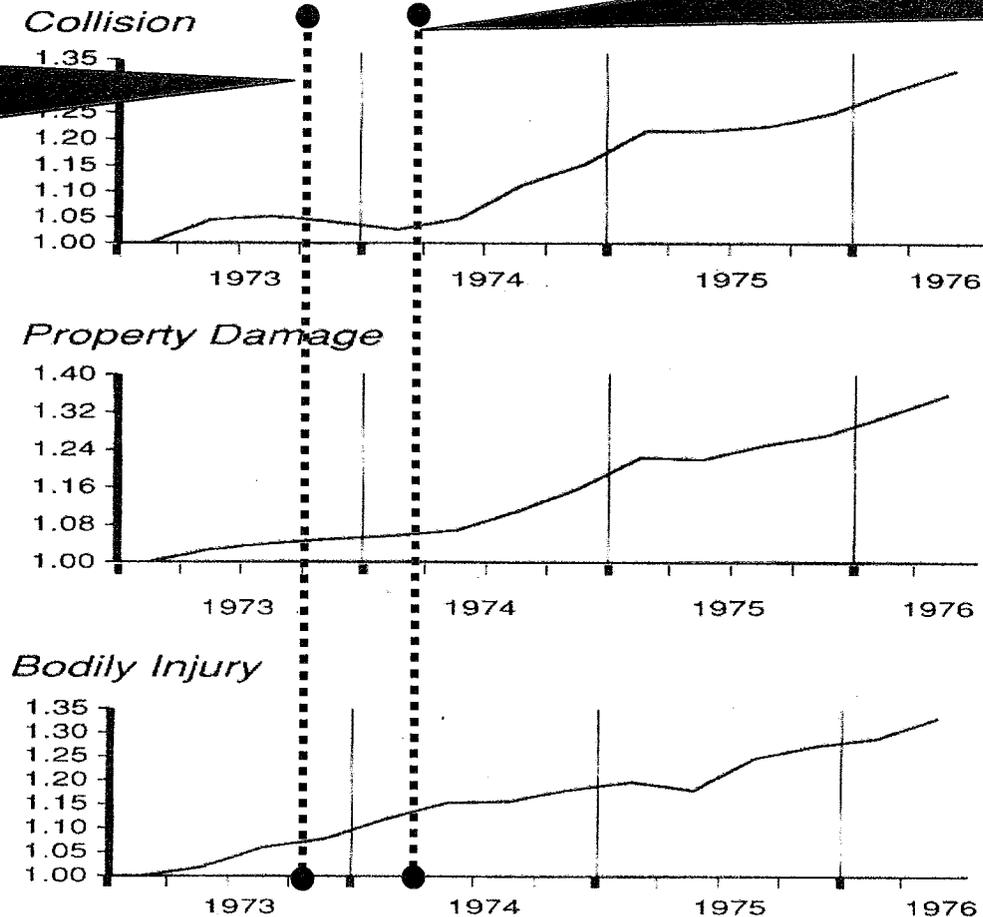
**Oct. 17,
1973: Arab
oil
embargo
begins**

**Severity
Impacts
Collision: -
7.5%
PD: +15.9%
BI: N/A***

Driving Stats
• Gas prices
rose 35-40%
• Miles driven
fell 6.7% in
1974

Figure 7

The First Crisis—Severity*

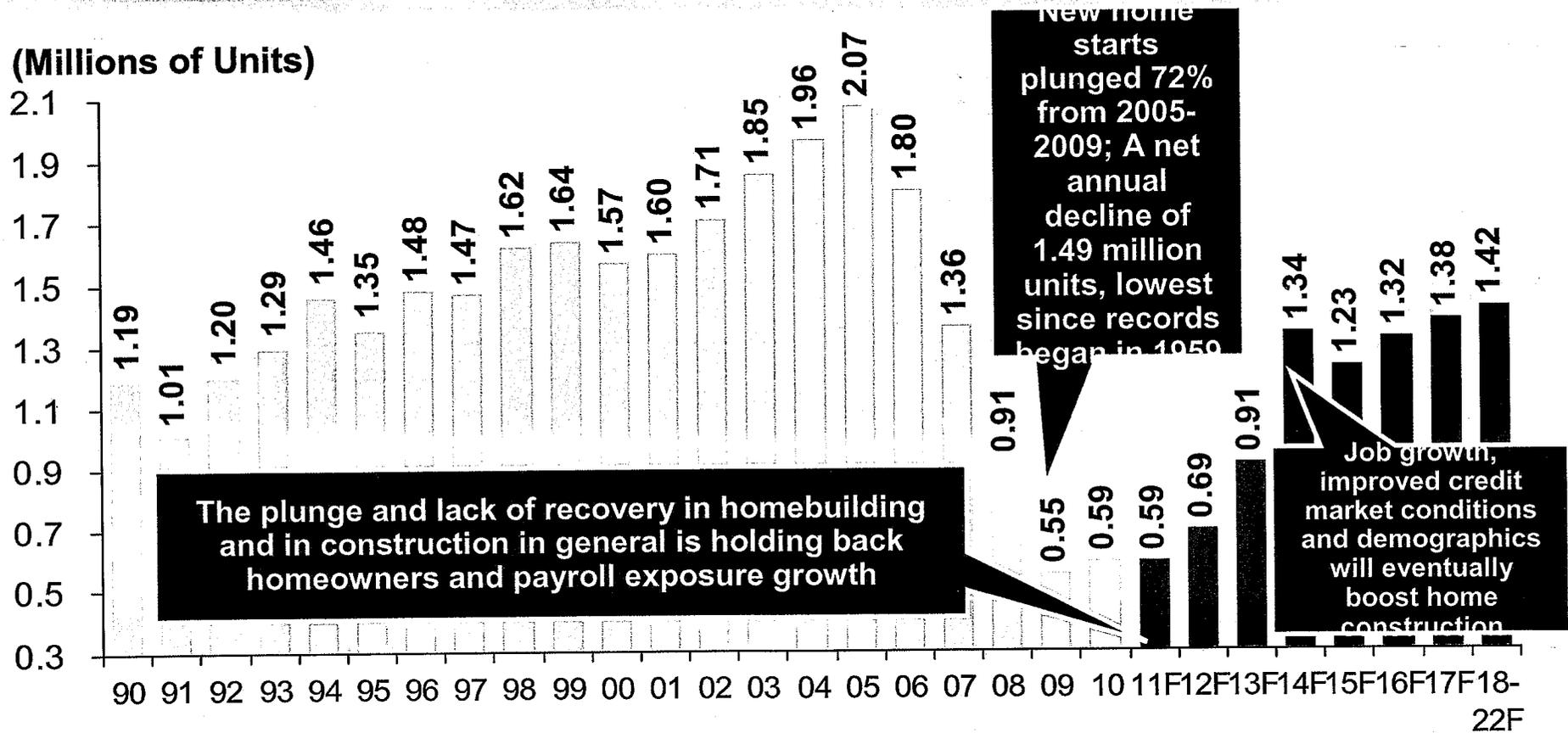


*Seasonally Adjusted, Quarterly Paid Fast Track data indexed to First Quarter 1973.

**March 17,
1974: Arab
oil states
announce
end to
embargo**

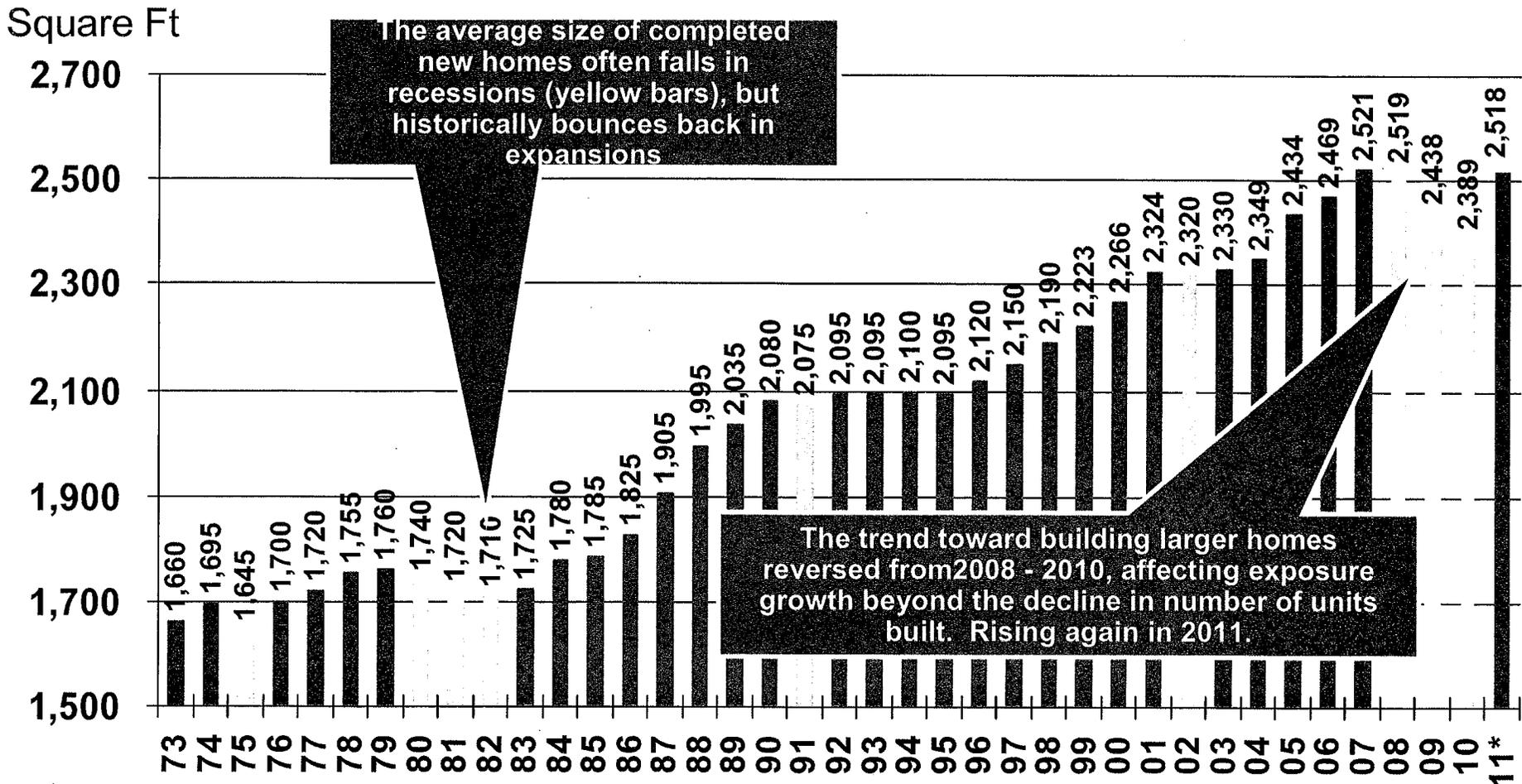
**Collision
severity
began to
rebound
almost
immediately
after the
embargo
ended; PD
accelerated
as inflation
rose; No
discernable
trend change
in BI.**

New Private Housing Starts, 1990-2022F



Little Exposure Growth Likely for Homeowners Insurers Until 2014. Also Affects Commercial Insurers with Construction Risk Exposure, Surety

Average Square Footage of Completed New Homes in U.S., 1973-2011*

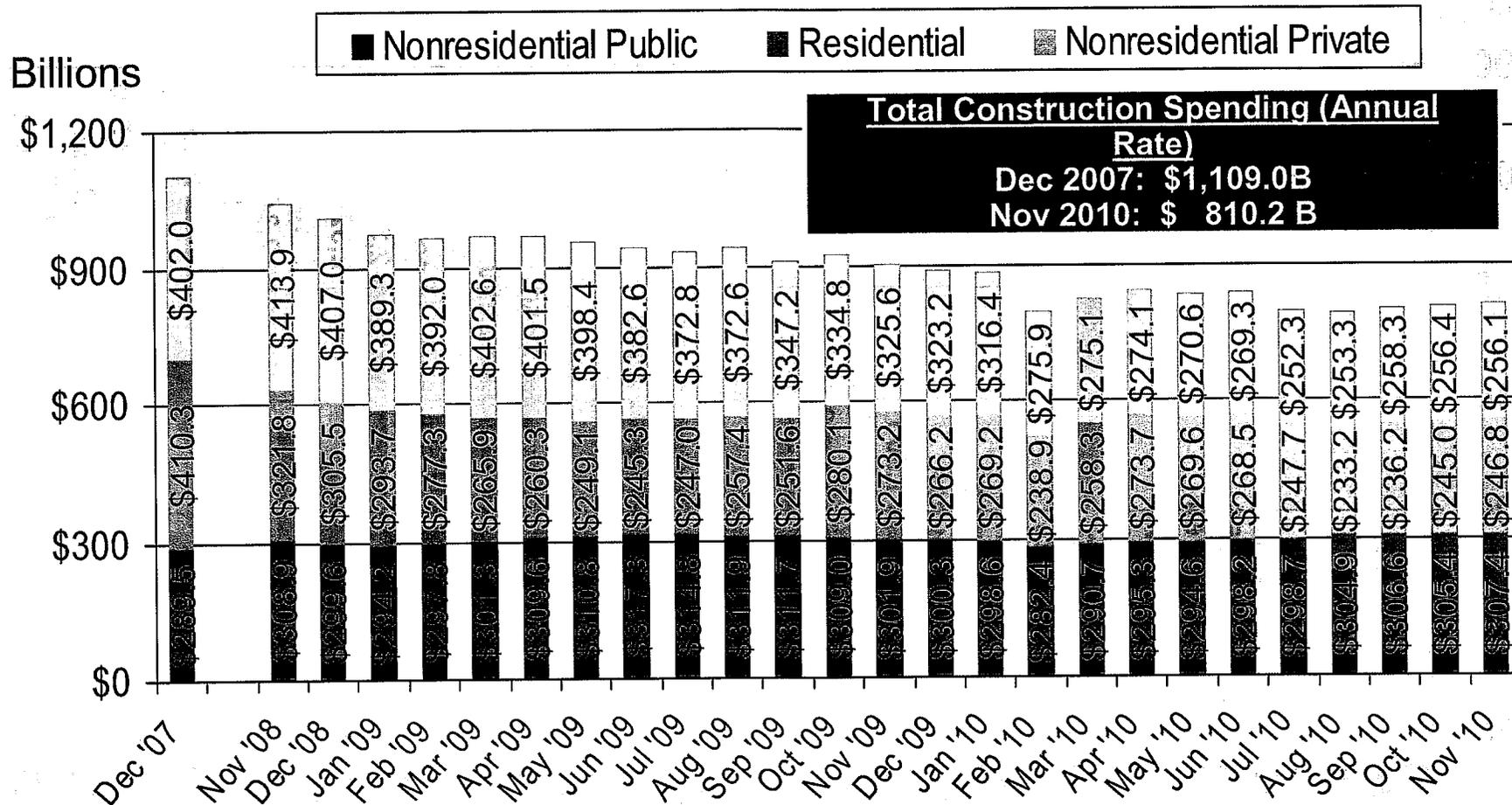


The average size of completed new homes fell by 147 square feet (5.75%) from 2008-2010. This was the largest recession-based drop in nearly four decades.

*2011 figure is weighted average square feet of completed homes in first three quarters of 2011

Source: U.S. Census Bureau: http://www.census.gov/const/www/quarterly_starts_completions.pdf; Insurance Information Institute.

Value* of Construction Put In Place



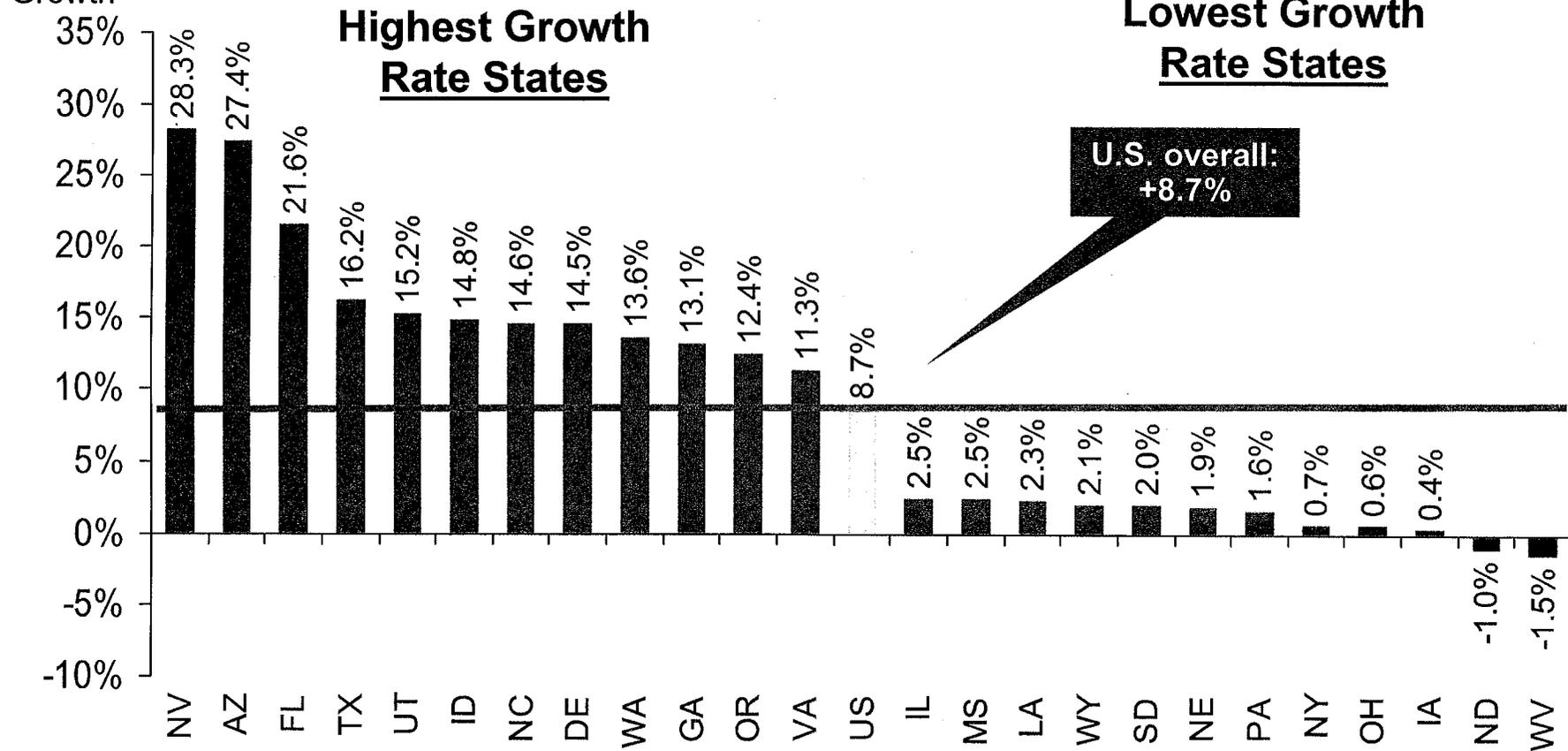
Since the recession started, private residential and nonresidential construction together are down \$300 billion (annual rate) – a drop of 38%. This affects property, surety, and other construction-related exposures.

*seasonally adjusted annual rate

Source: <http://www.census.gov/const/C30/release.pdf>

State Population Growth Rate Projections, 2010-2020*

Projected Population Growth



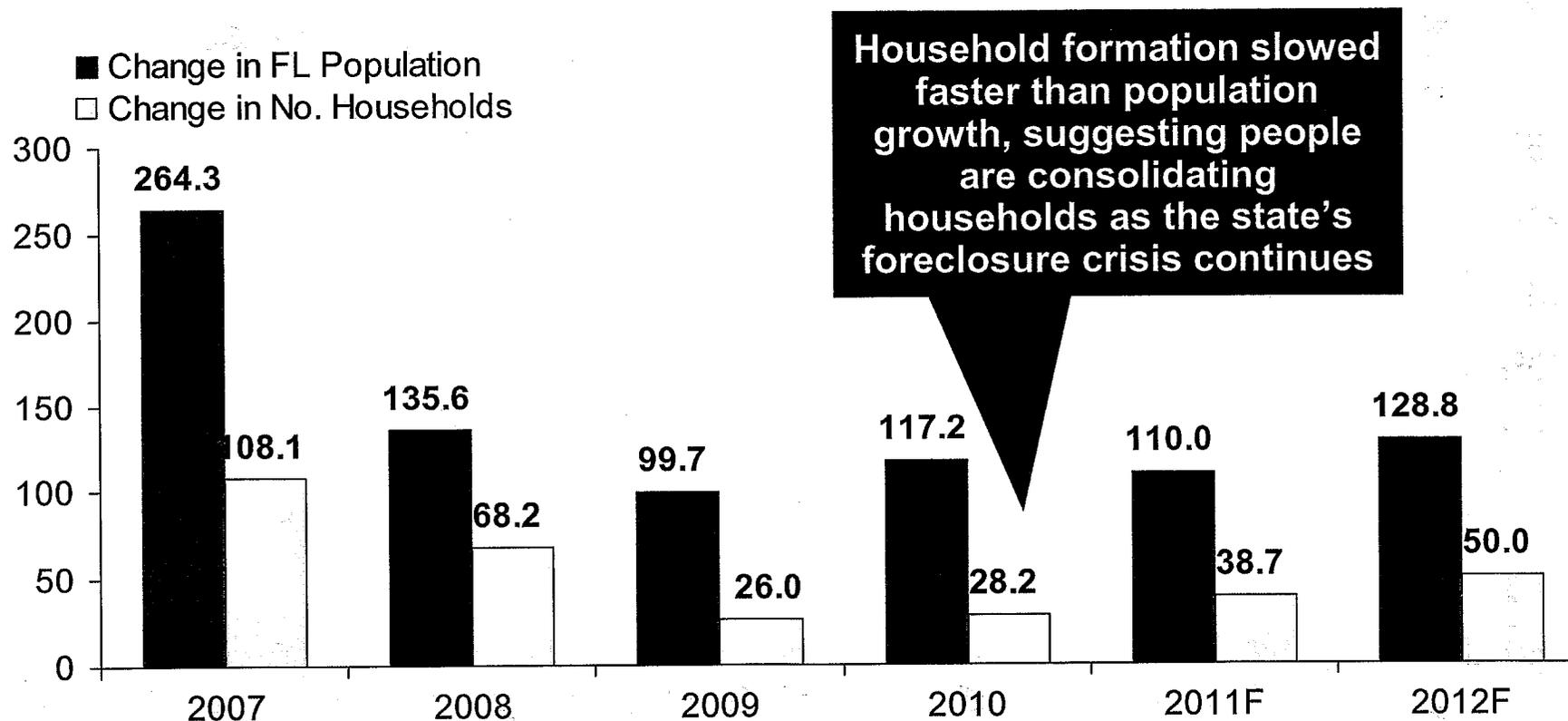
The Mountain West region is projected to grow the most from now to 2020 (up 17.6%), followed by the South Atlantic (up 14.5%) and Pacific (up 11.2%). The Mid-Atlantic is projected to be the slowest-growing region (up 1.9%).

*based on 2000 census. Source: <http://www.census.gov/population/www/projections/projectionsagesex.html> Table 7

FLORIDA CASE STUDY: Weak Population Growth, Slow Household Formation Hurt Personal Lines Exposure Gains



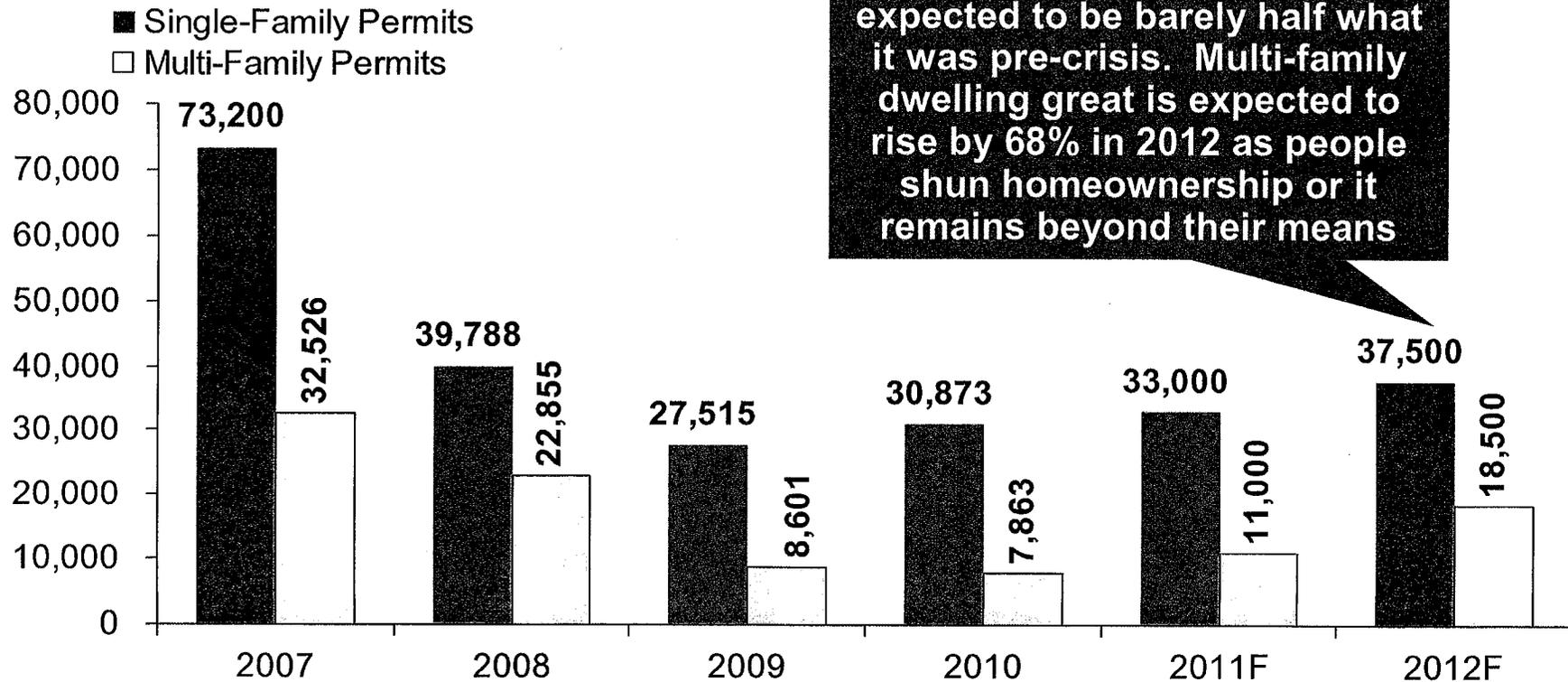
Thousands



FL's Construction Sector, One of Most Critical of FL's Growth Engines, Remains in a Deep Recession

FL Housing Permits: Multi-Family Unit Growth Poised to Soar, Single-Family Weak

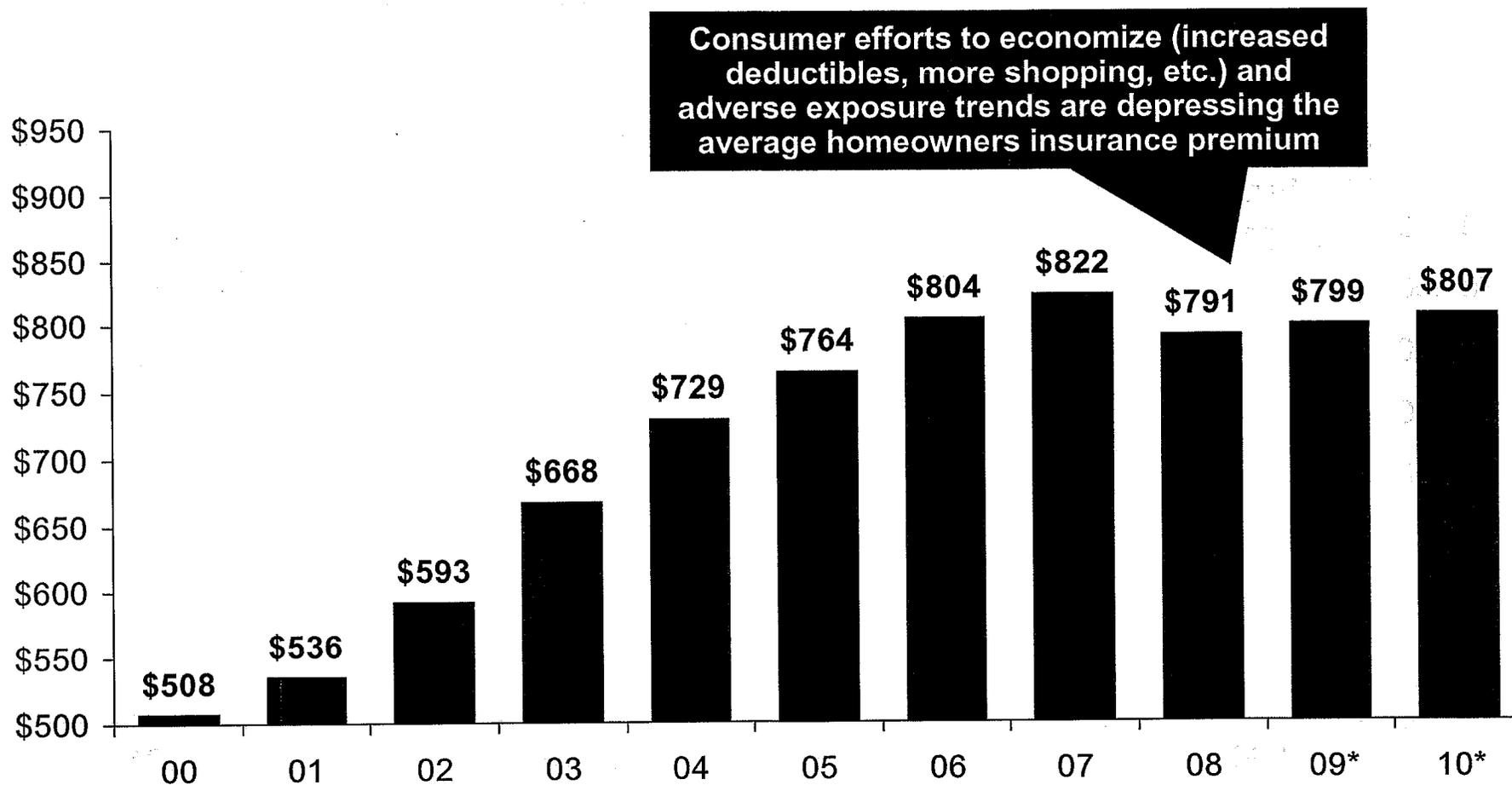
Annual Change, 2007 through 2012F



Single-family home construction in 2012 is expected to be barely half what it was pre-crisis. Multi-family dwelling great is expected to rise by 68% in 2012 as people shun homeownership or it remains beyond their means

FL's Construction Sector, One of Most Critical of FL's Growth Engines, Remains in a Deep Recession

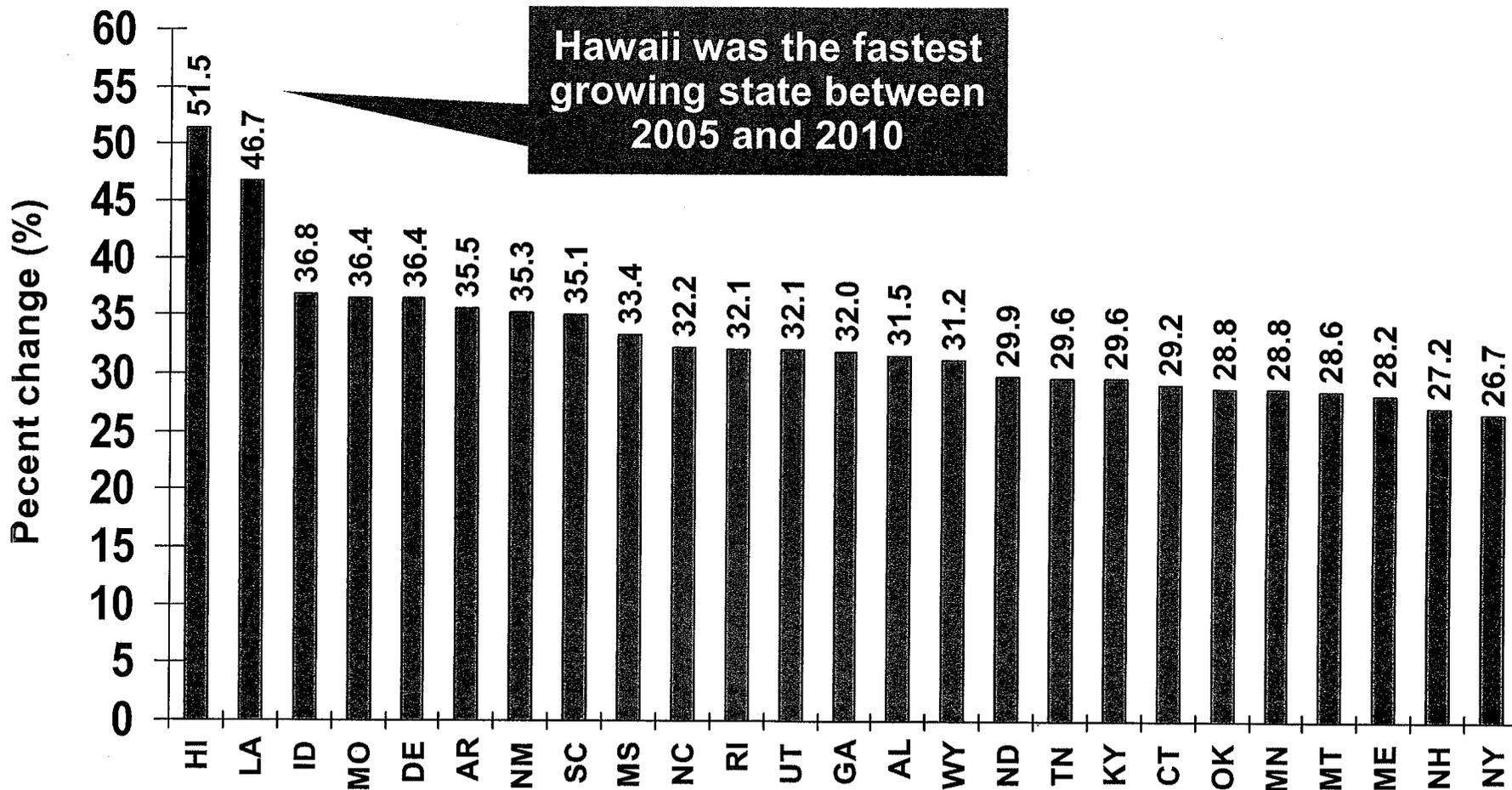
Average Premium for Home Insurance Policies**



* Insurance Information Institute Estimates/Forecasts **Excludes state-run insurers.
Source: NAIC, Insurance Information Institute estimates 2009-2010 based on CPI and other data.

Percent Change in DPW: Homeowners, by State, 2005-2010

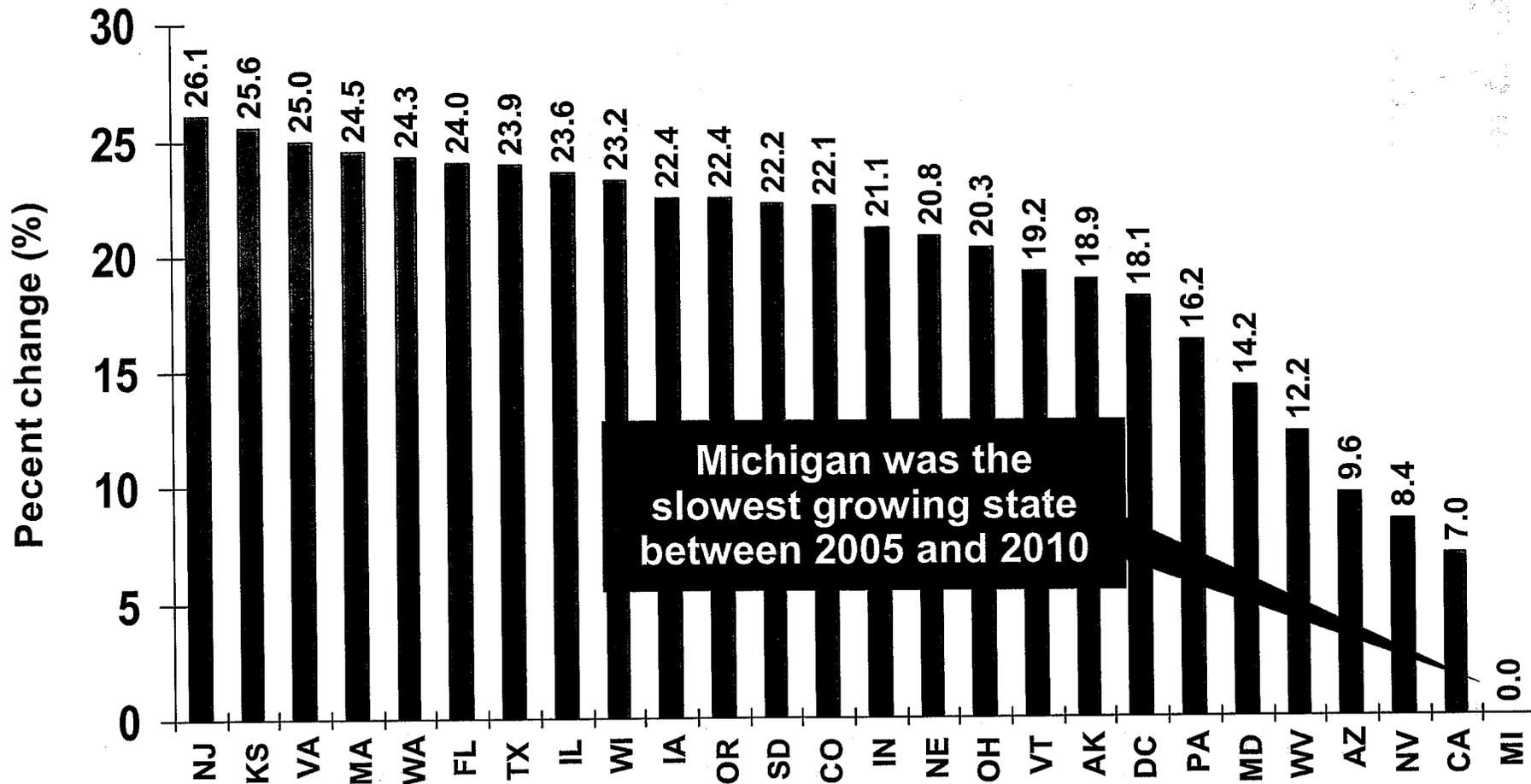
Top 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

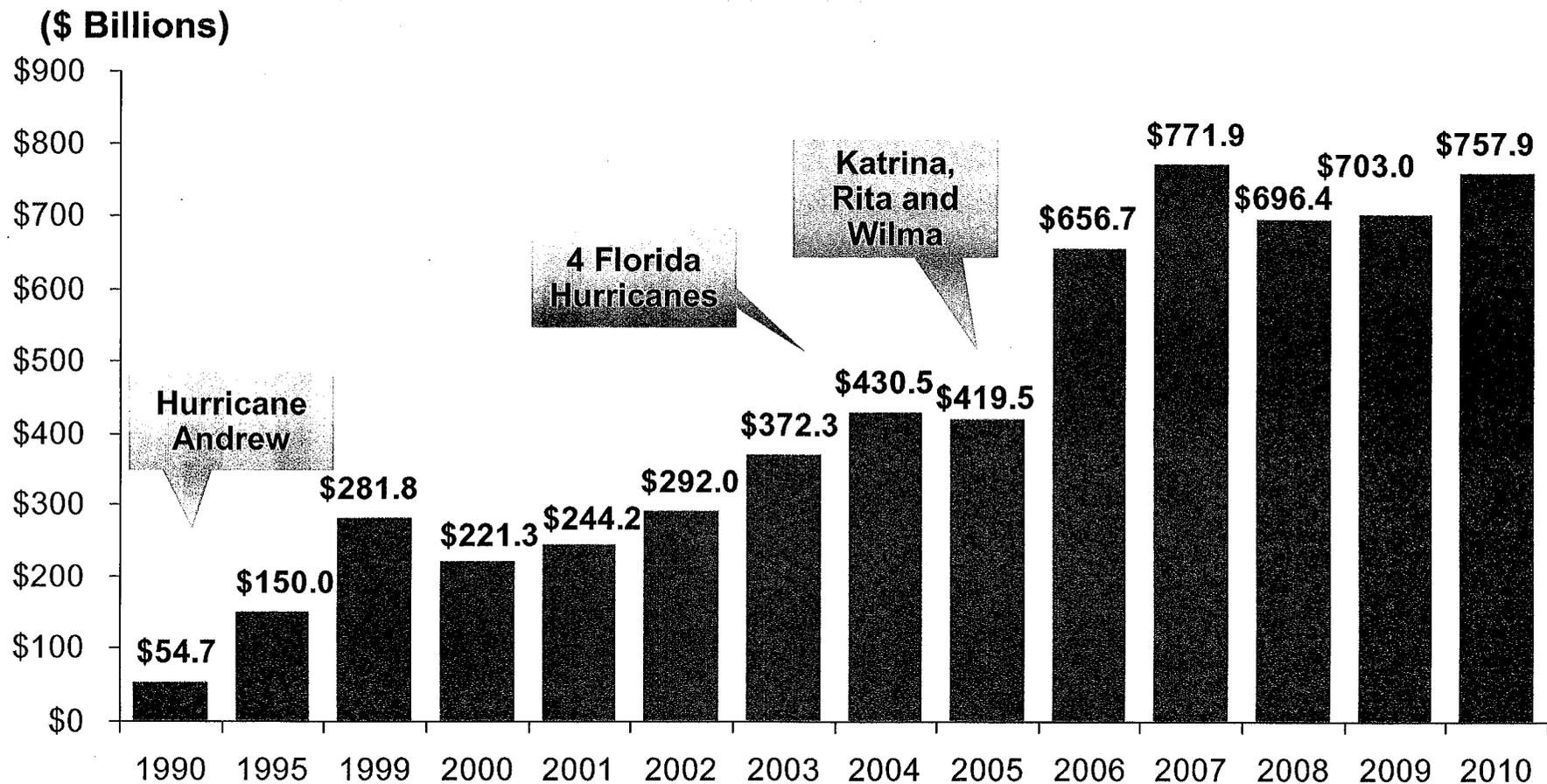
Percent Change in DPW: Homeowners, by State, 2005-2010

Bottom 25 States



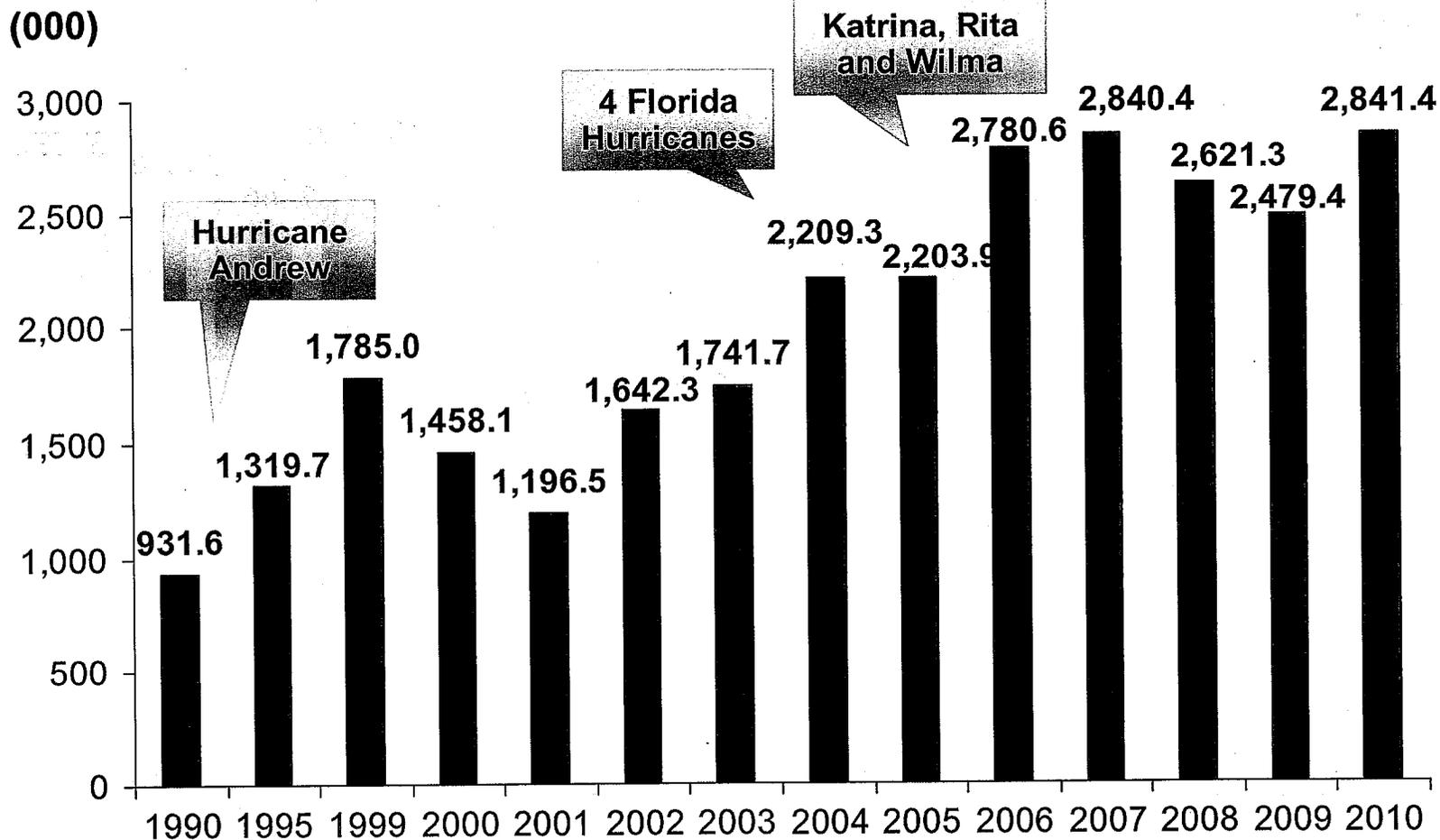
Sources: SNL Financial LC.; Insurance Information Institute.

U.S. Residual Market Exposure to Loss (\$ Billions)



In the 21-year period from 1990 through 2010, total exposure to loss in the residual market (FAIR & Beach/Windstorm) Plans has surged from \$54.7 billion in 1990 to \$757.9 billion in 2010.

U.S. Residual Market: Total Policies In-Force (1990-2010) (000)

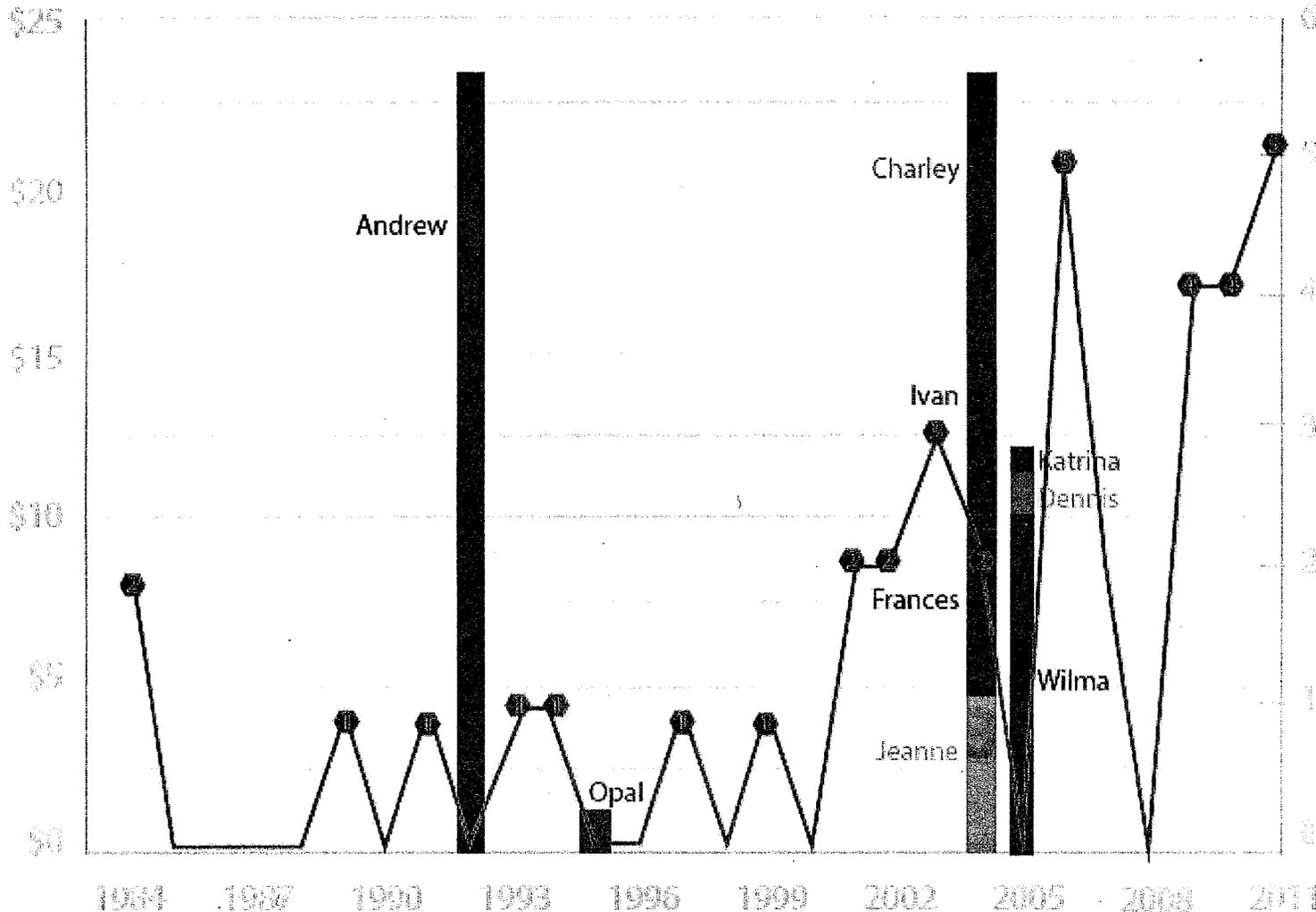


In the 21-year period between 1990 and 2010, the total number of policies in-force in the residual market (FAIR & Beach/Windstorm) Plans has more than tripled.

Hurricanes, Insolvencies and Insured Losses, 1984-2011

Insured Loss (\$ Bill, 2009 Dollars)

No. of Insolvent Insurers



Sources: Florida TaxWatch, *Risk & Reform: A Florida TaxWatch Analysis of Florida's Property Insurance System*, November 2011, citing the Insurance Information Institute and the Florida Hurricane Fact File.

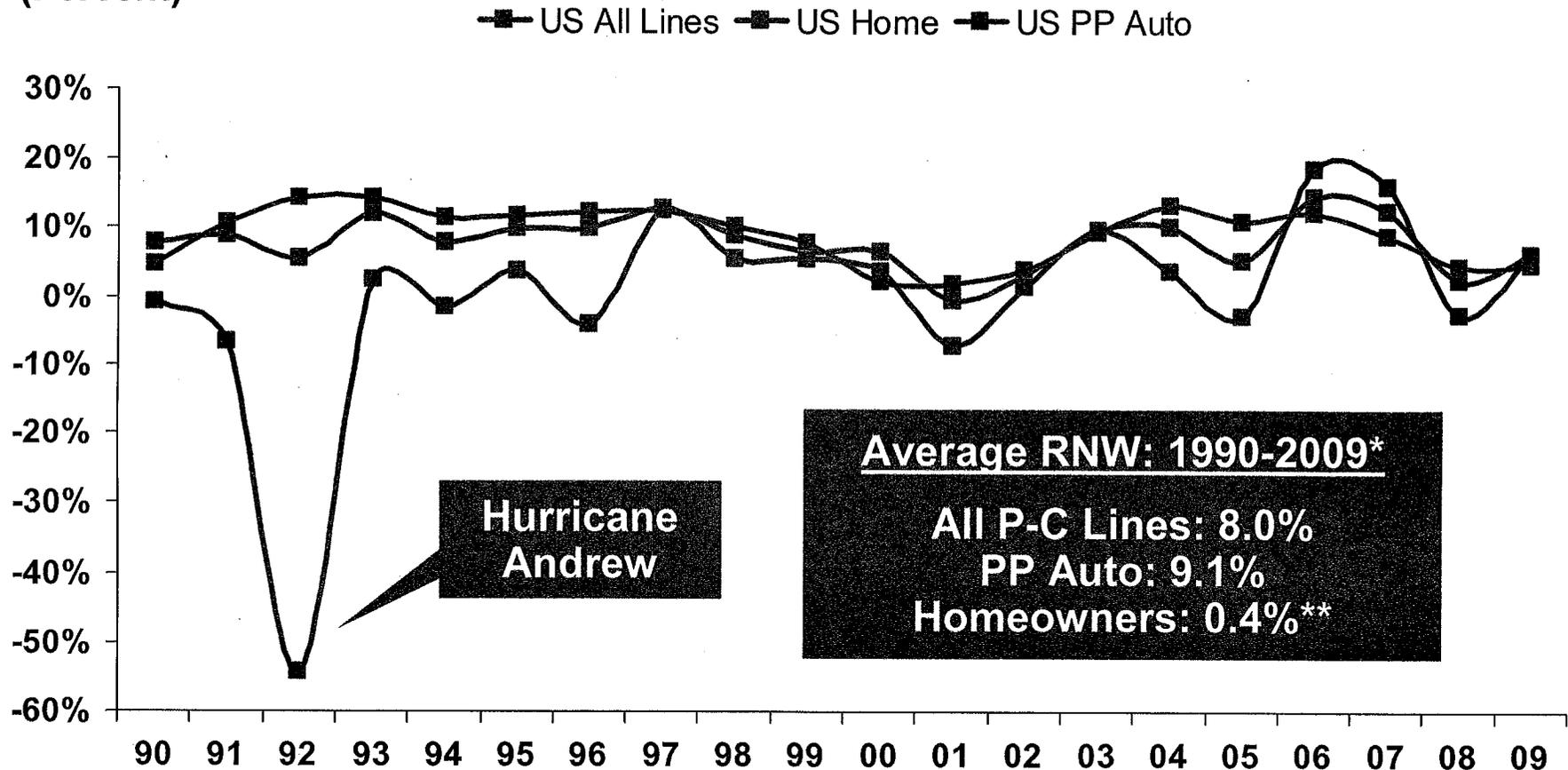


Personal Lines Profitability Analysis

**Significant Variability Over
Time and Across States**

Return on Net Worth: All P-C Lines vs. Homeowners & Pvt. Pass. Auto, 1990-2009*

(Percent)



Pvt. Pass. Auto Has Consistently Outperformed the P-C Industry as a Whole. Homeowners Volatility is Associated Primarily With Coastal Exposure Issues

*Latest available.

**Excluding 1992, the Hurricane Andrew, produces a homeowners RNW of 3.3%.

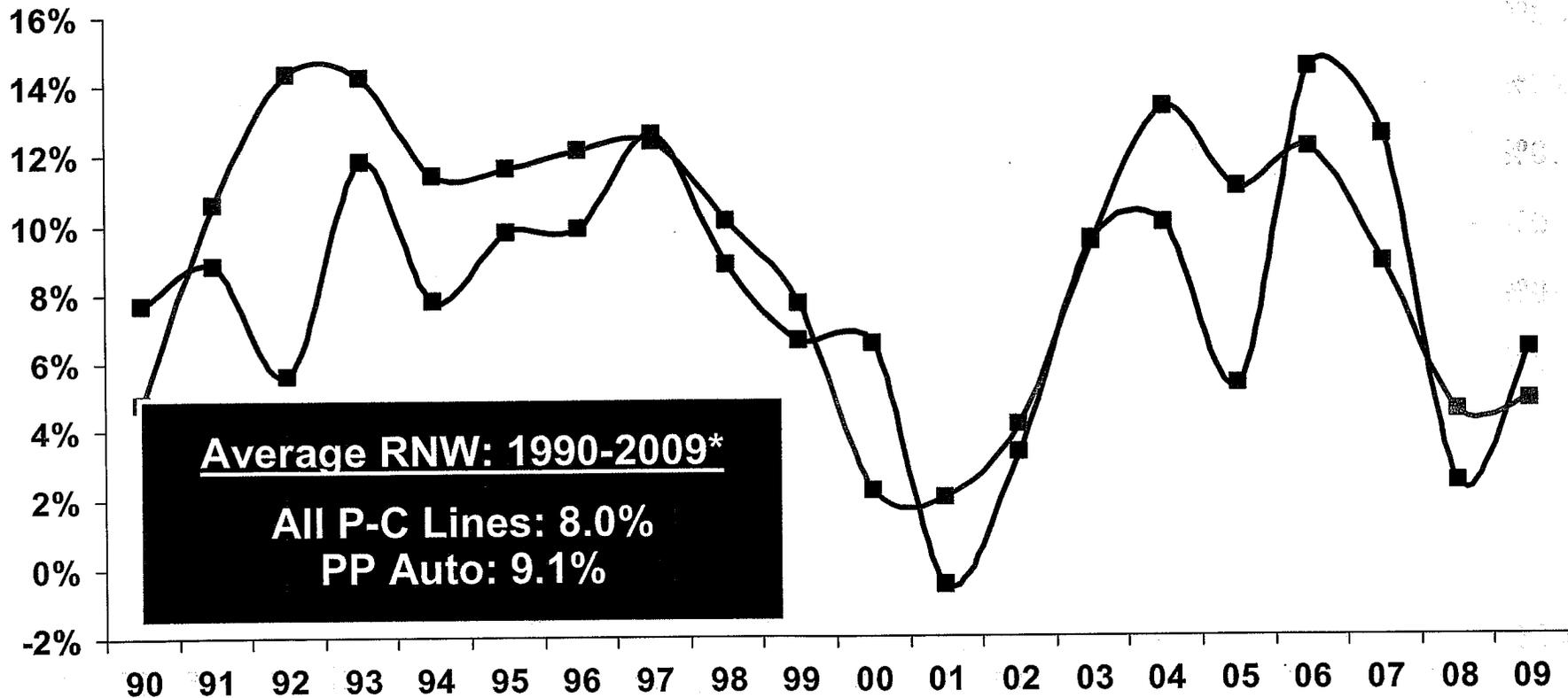
Sources: NAIC.

Return on Net Worth: All P-C Lines vs. Pvt. Pass. Auto, 1990-2009*



(Percent)

■ US All Lines ■ US PP Auto



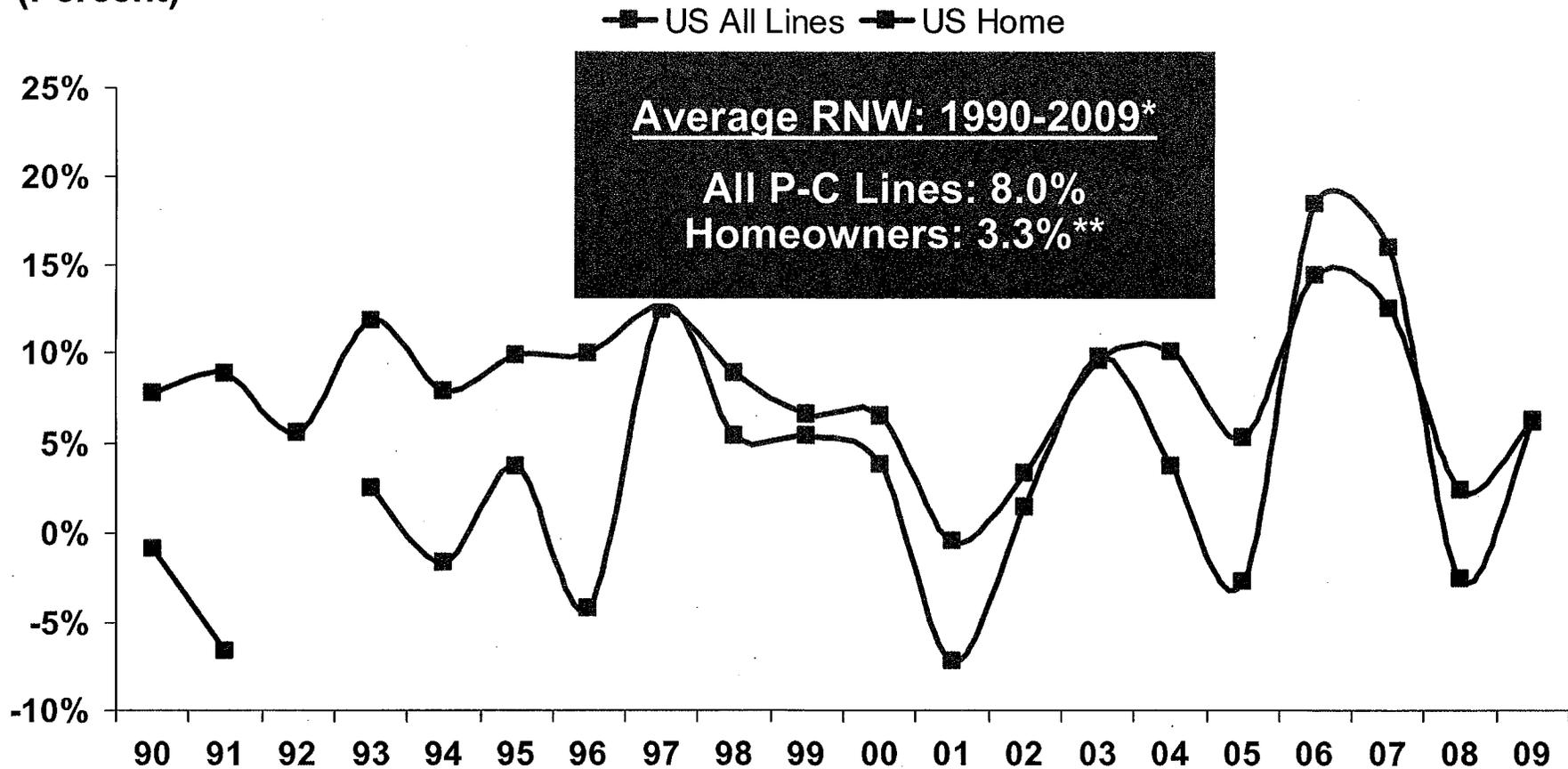
Average RNW: 1990-2009*
All P-C Lines: 8.0%
PP Auto: 9.1%

Pvt. Pass. Auto Profitability Has Exceeded the P-C Industry as a Whole in 13 of the 20 Years from 1990-2009 (Inclusive)

*Latest available.
Sources: NAIC.

Return on Net Worth: All P-C Lines vs. Homeowners & Pvt. Pass. Auto, 1990-2009*

(Percent)



Homeowners Insurance Is Considerably More Volatile than the Market Overall Due to Coastal Exposure and Interior Wind/Hail Events

*Latest available.

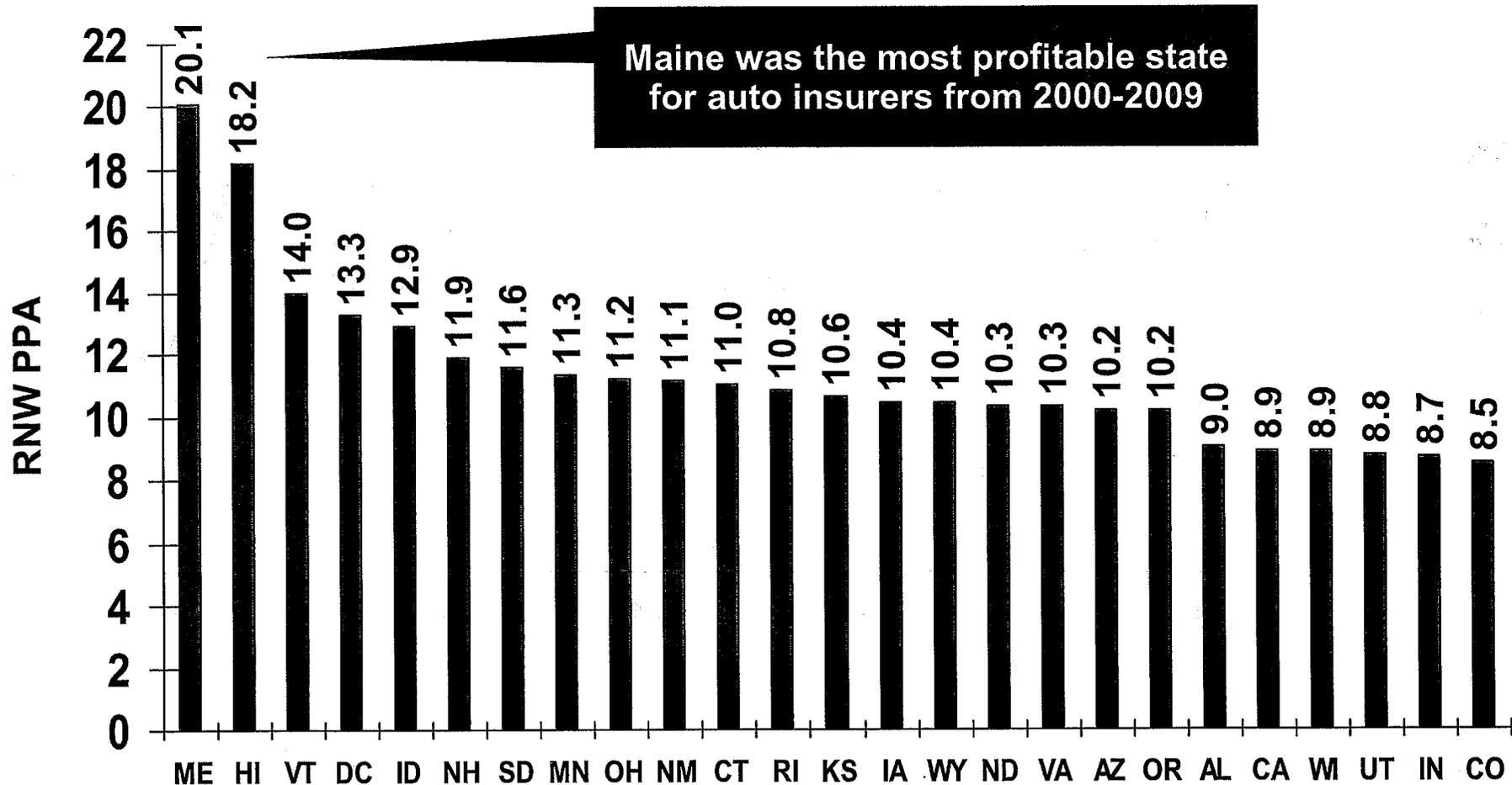
**Excluding Hurricane Andrew (1992); including 1992 produces an average homeowners RNW of 0.4%.

Sources: NAIC.

Return on Net Worth: Pvt. Passenger Auto, 10-Year Average (2000-2009*)

Top 25 States

(Percent)



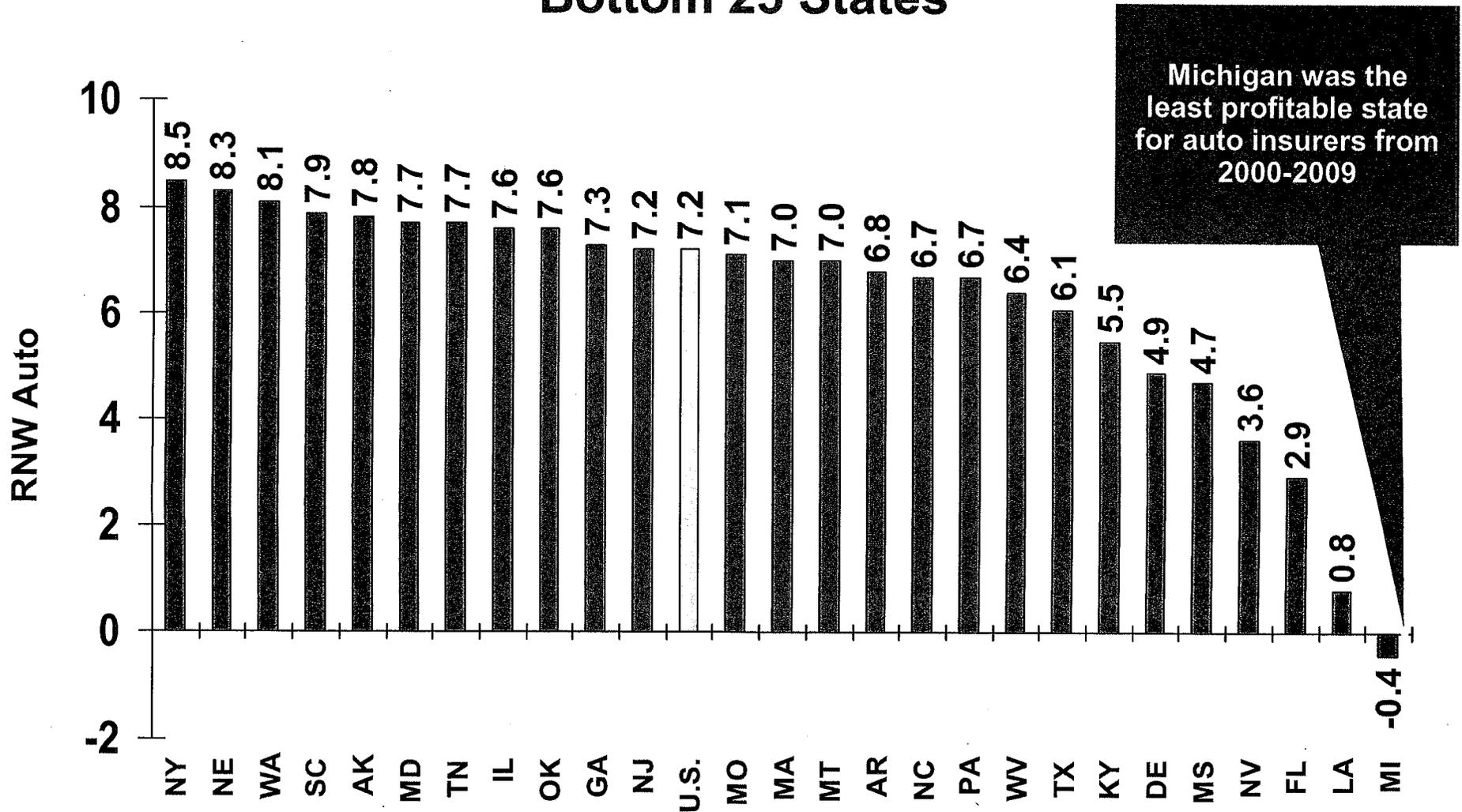
*Latest available.

Sources: NAIC.

Return on Net Worth: Pvt. Passenger Auto, 10-Year Average (2000-2009*)

(Percent)

Bottom 25 States

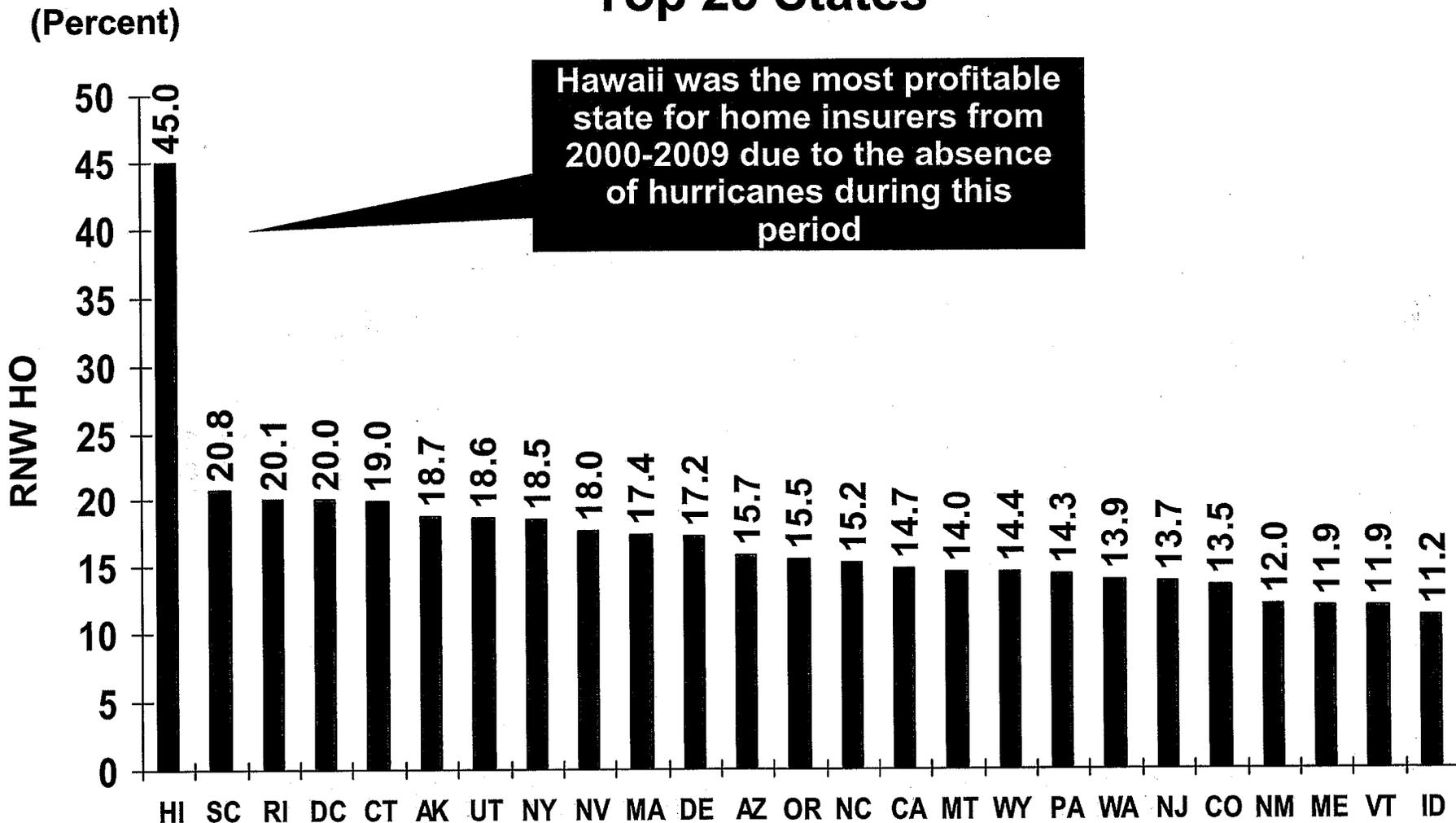


Michigan was the least profitable state for auto insurers from 2000-2009

*Latest available.
Sources: NAIC

Return on Net Worth: Homeowners Insurance, 10-Year Average (2000-2009*)

Top 25 States

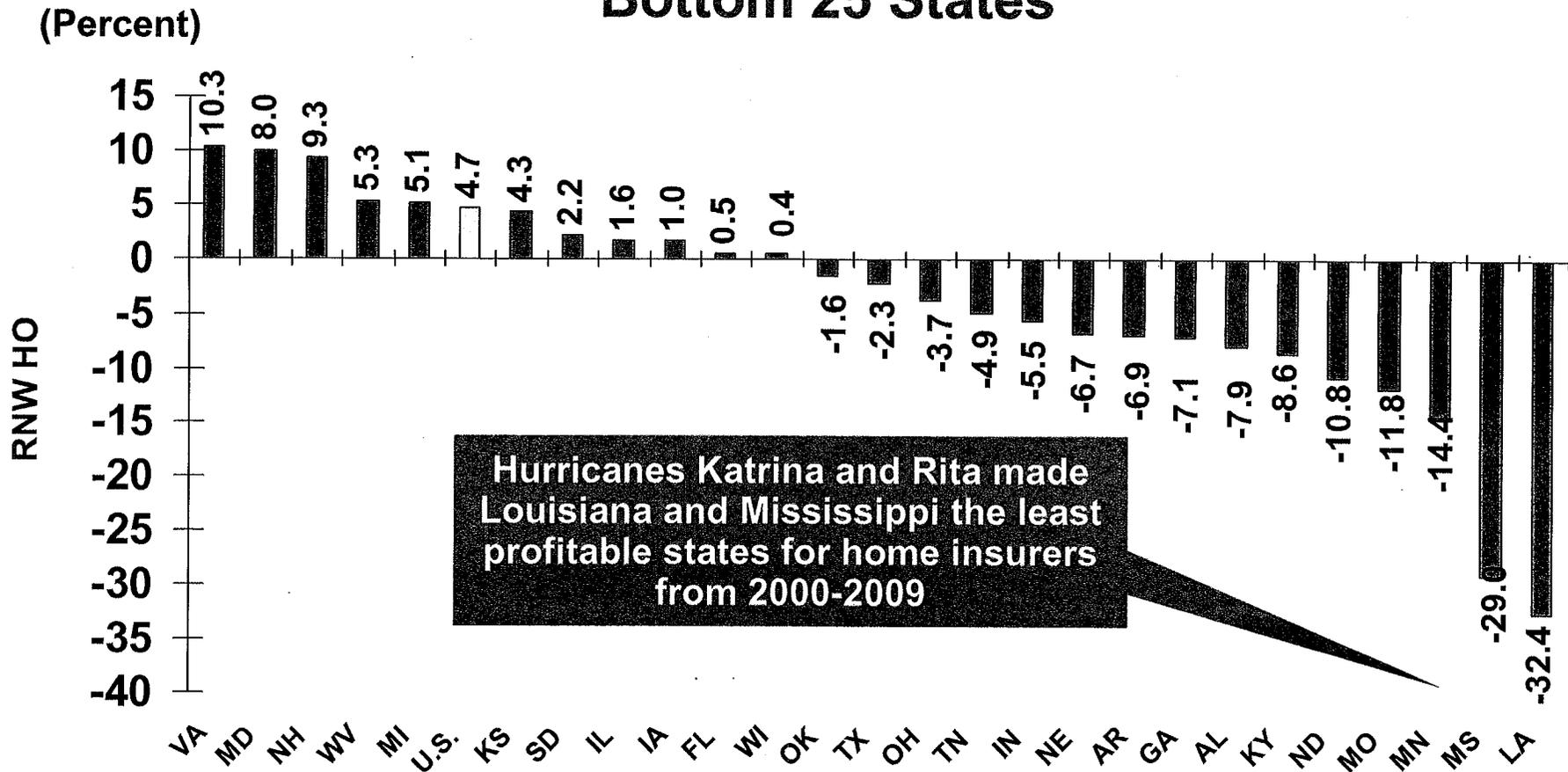


*Latest available.

Sources: NAIC.

Return on Net Worth: Homeowners Insurance, 10-Year Average (2000-2009*)

Bottom 25 States



*Latest available.
Sources: NAIC



Global Catastrophe Loss Developments and Trends

**2011 Will Rewrite Catastrophe Loss
and Insurance History**

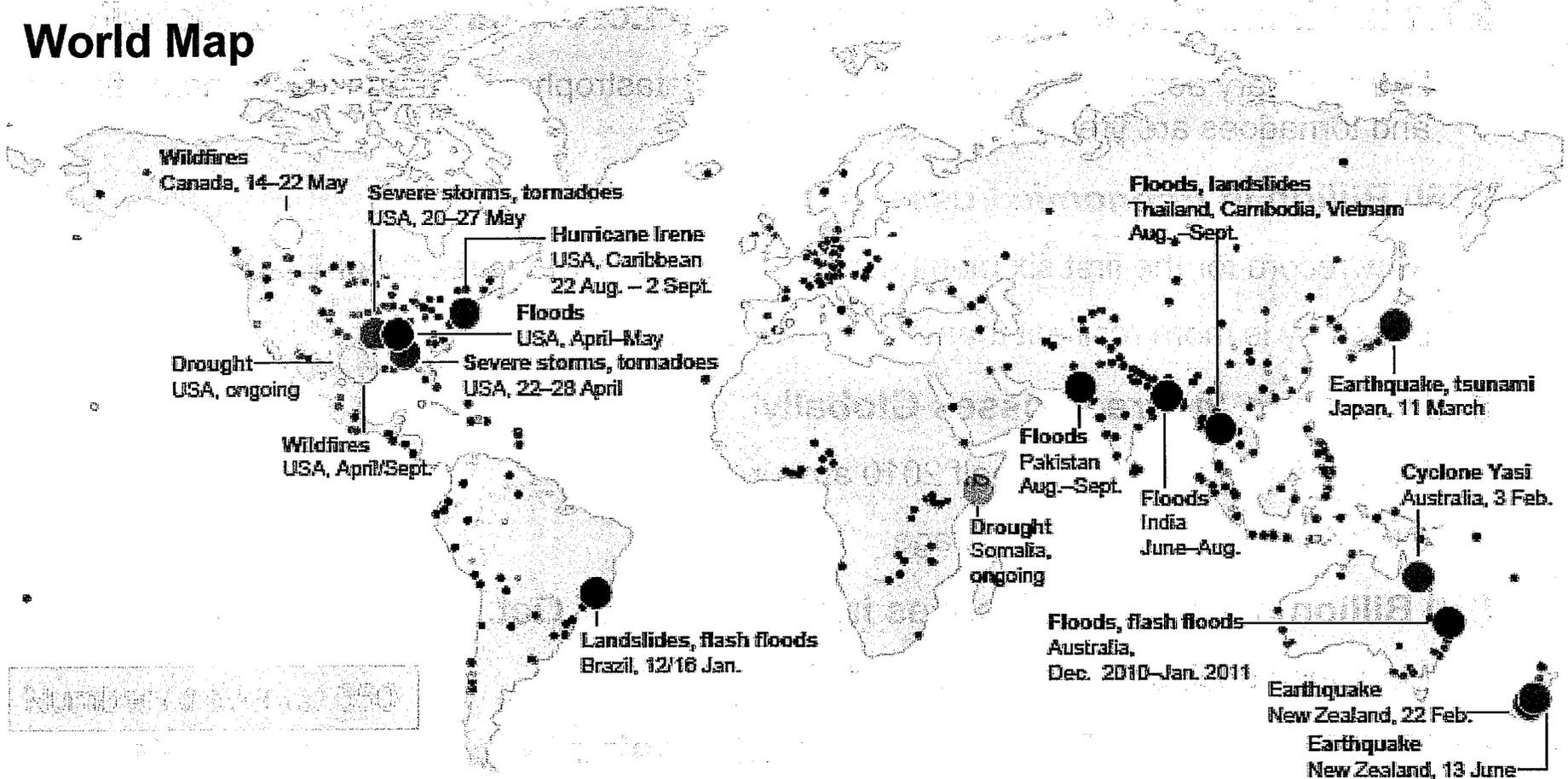
But Will Losses Turn the Market?

Global Catastrophe Loss Summary: First Half 2011

- **2011 Is Already (as of June 30) the *Highest* Loss Year on Record Globally**
 - ◆ Extraordinary accumulation of severe natural catastrophe: Earthquakes, tsunami, floods and tornadoes are the primary causes of loss
- **\$260 Billion in *Economic* Losses Globally**
 - ◆ New record for the first six months, exceeding the previous record of \$220B in 2005
 - ◆ Economy is more resilient than most pundits presume
- **\$55 Billion in *Insured* Losses Globally**
 - ◆ More than double the first half 2010 amount
 - ◆ Over 4 times the 10-year average
- **\$50 Billion in *Economic* Losses in the US (as of Oct. 31)**
 - ◆ More than double through same period in 2010
- **~\$25 Billion in *Insured* Losses in the US Arising from 100+ CAT Events**
 - ◆ Represents close to a tripling through same period in 2010

Natural Loss Events, January – September 2011

World Map



Worldwide Natural Disasters 2011

Significant Natural Disasters (January – September only)



Period	Loss event	Affected area	Overall losses*	Insured losses*	Fatalities*
			US\$m, original values		
Dec 2010–Jan 2011	Floods, flash floods	Australia (Queensland)	7,300	2,550	29
12/16 Jan.	Landslides, flash floods	Brazil (State of Rio de Janeiro)	**	**	1,350
3 Feb.	Cyclone Yasi	Australia (Queensland)	2,000	1,000	1
22 Feb.	Earthquake	New Zealand (Christchurch)	25,000	13,000	181
11 March	Earthquake, tsunami	Japan (esp. northeastern Honshu)	210,000	~30,000	15,800 (3,800 missing)
22–28 April	Severe storms, tornadoes	USA (esp. AL, Tuscaloosa)	12,000	7,300	350
April–May	Floods	USA (esp. Ohio River, Mississippi River, Missouri River)	2,600	**	9
April/Sept.	Wildfires	USA (TX)	1,500	680	4
14–22 May	Wildfires	Canada (Alberta, Slave Lake)	>1,500	720	1
20–27 May	Severe storms, tornadoes	USA (esp. MO, Joplin)	9,000	5,900	176
13 June	Earthquake	New Zealand (Christchurch)	**	**	1
Aug.–Sept.	Floods, landslides	Thailand, Cambodia, Vietnam	**	**	370
Aug.–Sept.	Floods	Pakistan	**	**	445
22 Aug.–2 Sept.	Hurricane Irene	USA, Caribbean	15,000	7,000	54

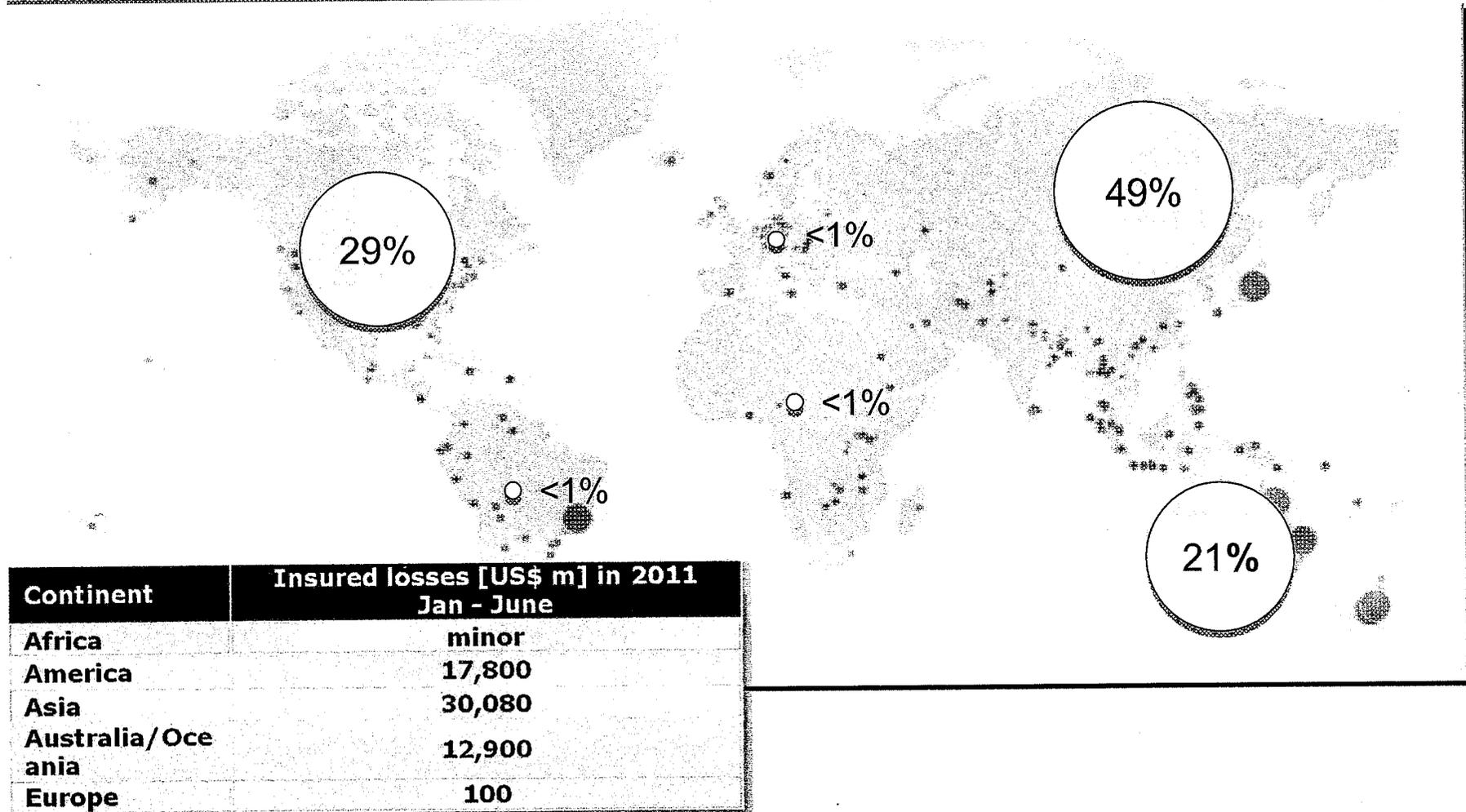
*As at October 2011

**Loss assessment still in progress

Worldwide Natural Disasters 2011

% Distribution of Insured Losses Per Continent (January – June only)

Insured losses 2011 (January – June only): US\$ 60bn



Continent	Insured losses [US\$ m] in 2011 Jan - June
Africa	minor
America	17,800
Asia	30,080
Australia/Oceania	12,900
Europe	100

Worldwide Natural Disasters, 1980-2011

% Distribution of Insured Losses Per Continent (January – June only)

Insured losses 1980 - 2011 (January – June only): US\$ 389bn



Continent	Insured losses [US\$ m] Jan – June only
Africa	1,000
America	237,200
Asia	45,100
Australia/Oceania	25,100
Europe	80,900

Top 16 Most Costly World Insurance Losses, 1970-2011*

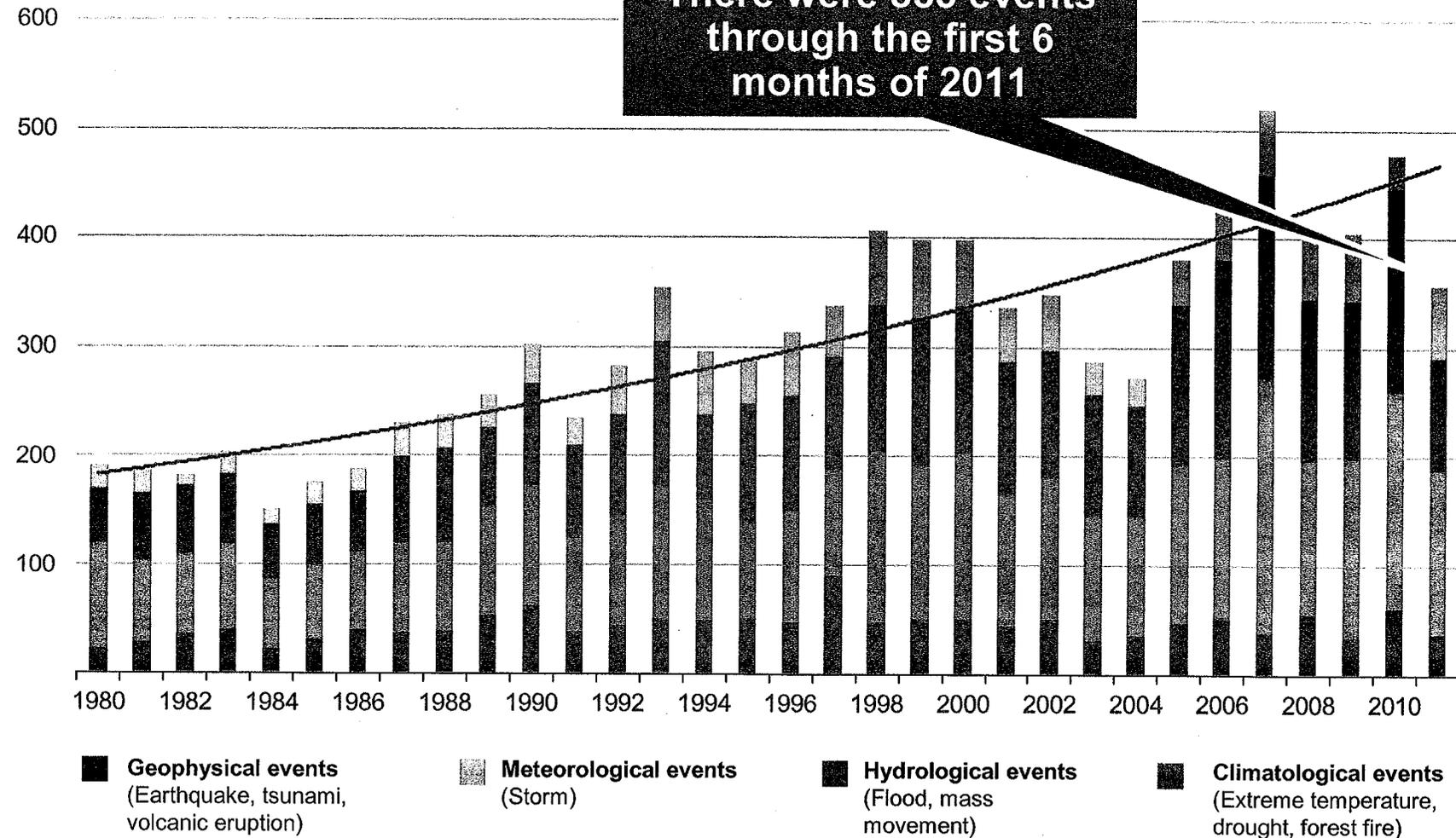
(Insured Losses, 2010 Dollars, \$ Billions)



*Through June 20, 2011. 2011 disaster figures are estimates; Figures include federally insured flood losses, where applicable.
Sources: Swiss Re *sigma* 1/2011; AIR Worldwide, RMS, Eqecat; Insurance Information Institute.

Worldwide Natural Disasters, 1980 – 2011*

Number of Events

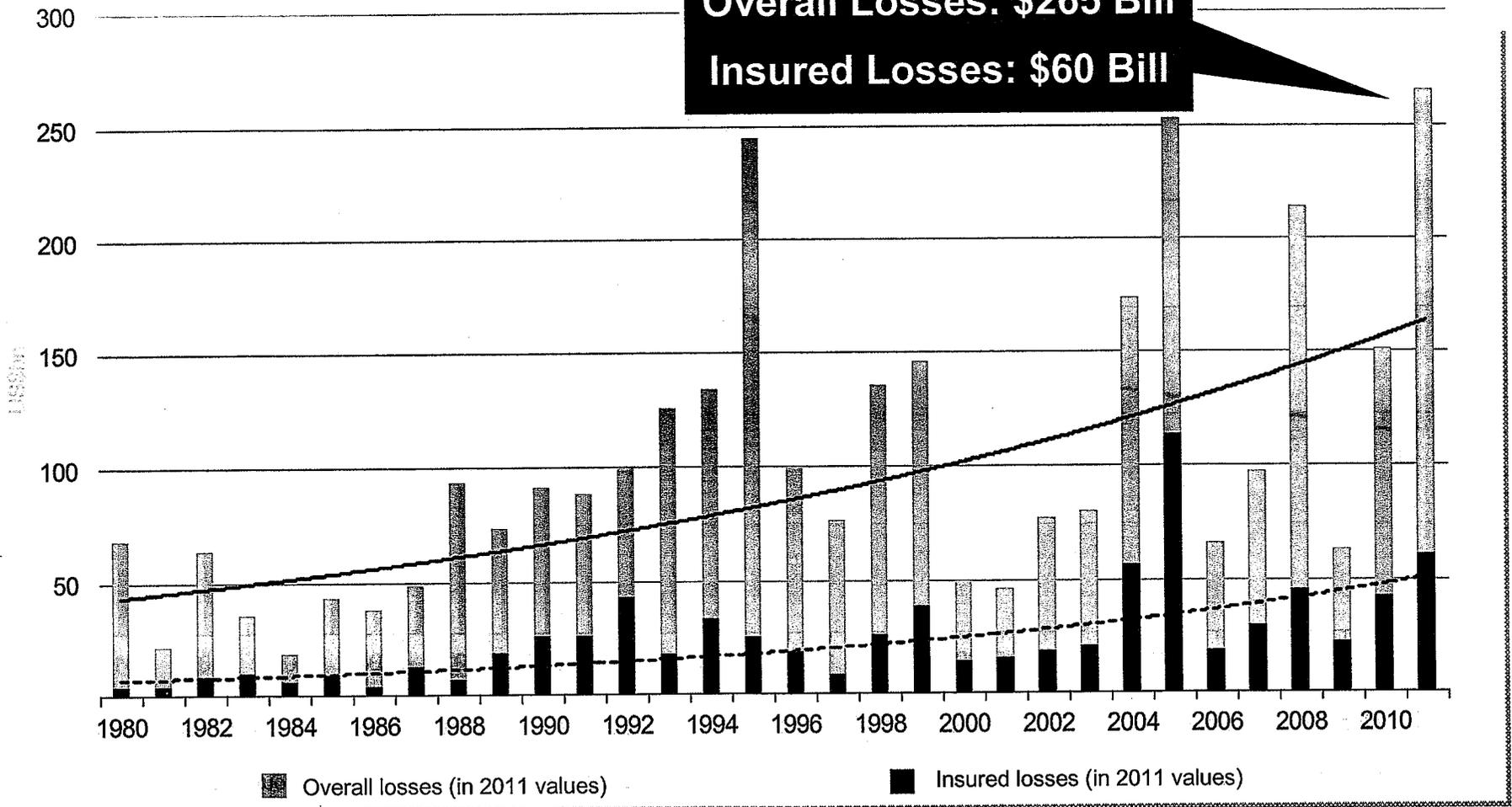


*2011 figure is through June 30.
Source: MR NatCatSERVICE

Worldwide Natural Disasters 1980–2011, Overall and Insured Losses*



First Half 2011
Overall Losses: \$265 Bill
Insured Losses: \$60 Bill



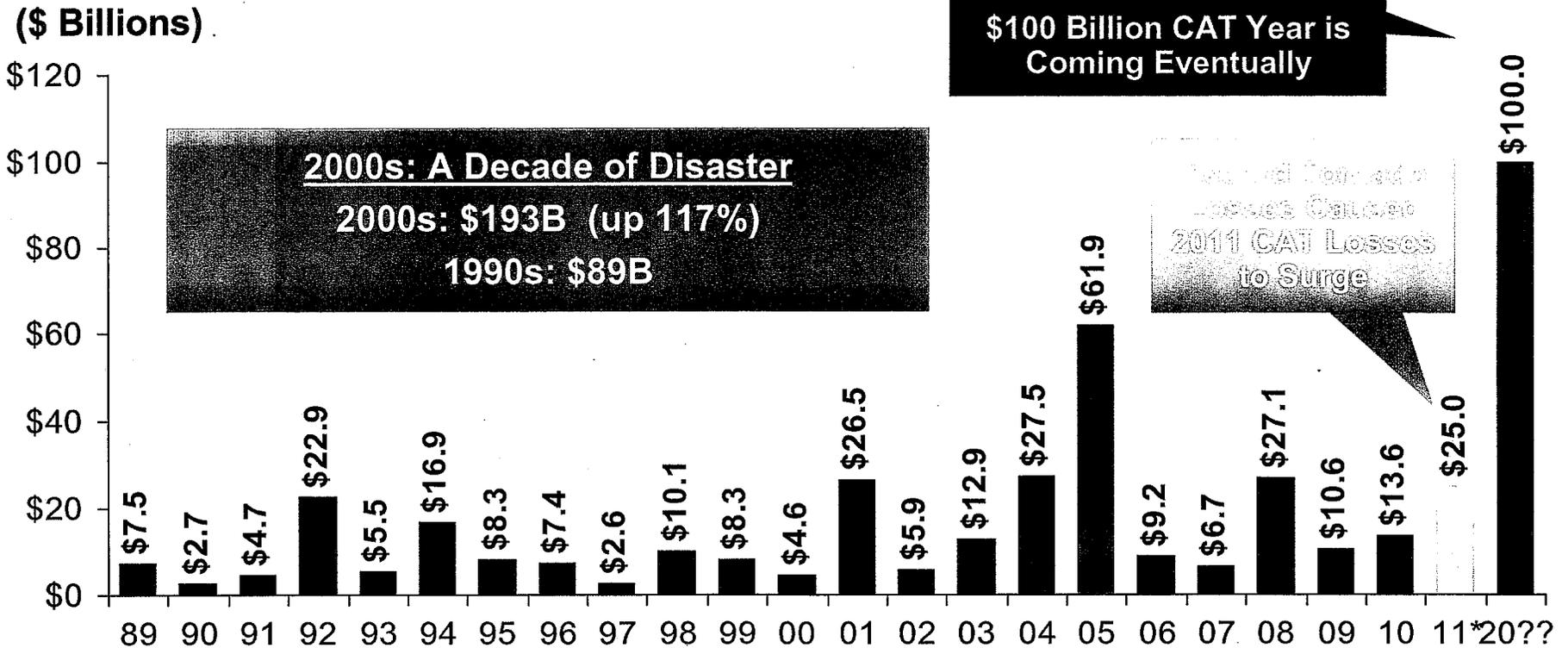
*2011 figure is through June 30.
 Source: MR NatCatSERVICE



U.S. Insured Catastrophe Loss Update

**2011 CAT Losses Already Greatly
Exceed All of 2010 and Will Become One
of the Most Expensive Years on Record**

US Insured Catastrophe Losses



2011 Will Become the 5th or 6th Most Expensive Year in History for Insured Catastrophe Losses in the US

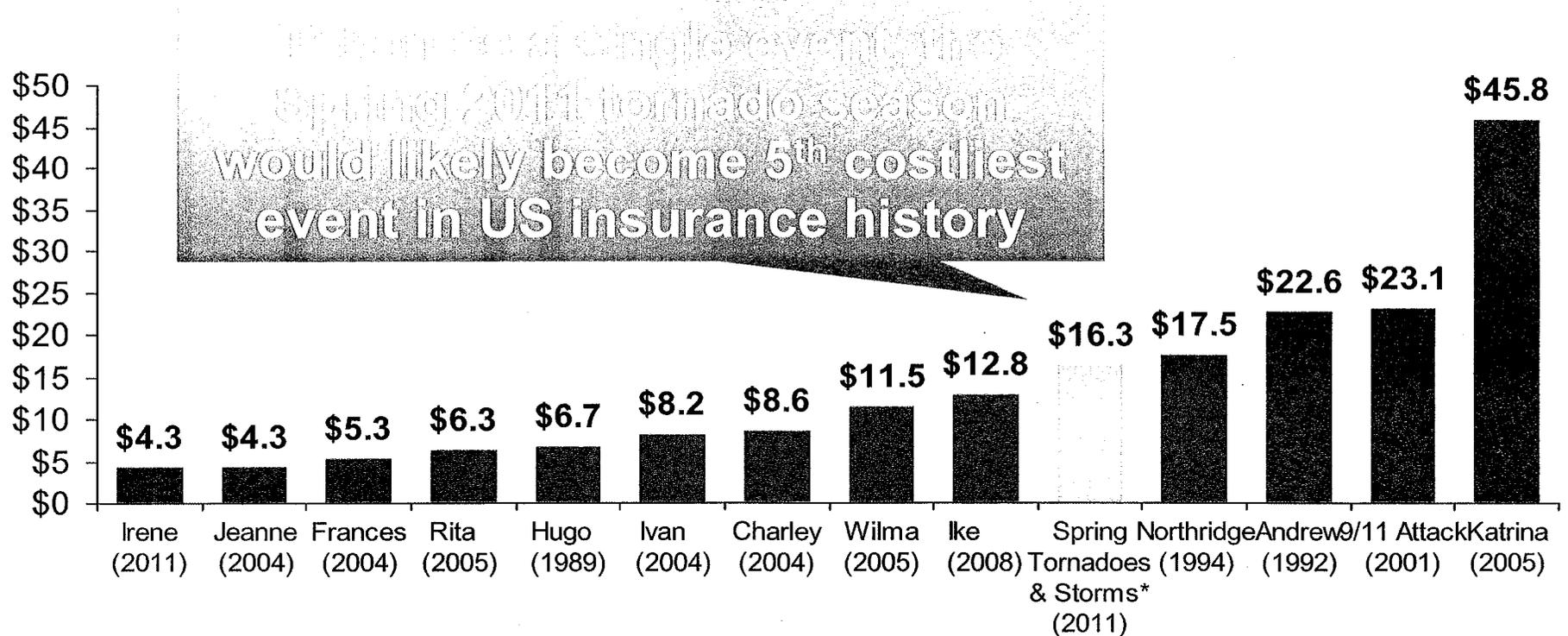
*Estimate through Oct. 31, 2011.

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.

Sources: Property Claims Service/ISO; Insurance Information Institute.

Top 13 (14?) Most Costly Disasters in U.S. History

(Insured Losses, 2010 Dollars, \$ Billions)**



*Losses will actually be broken down into several "events" as determined by PCS.

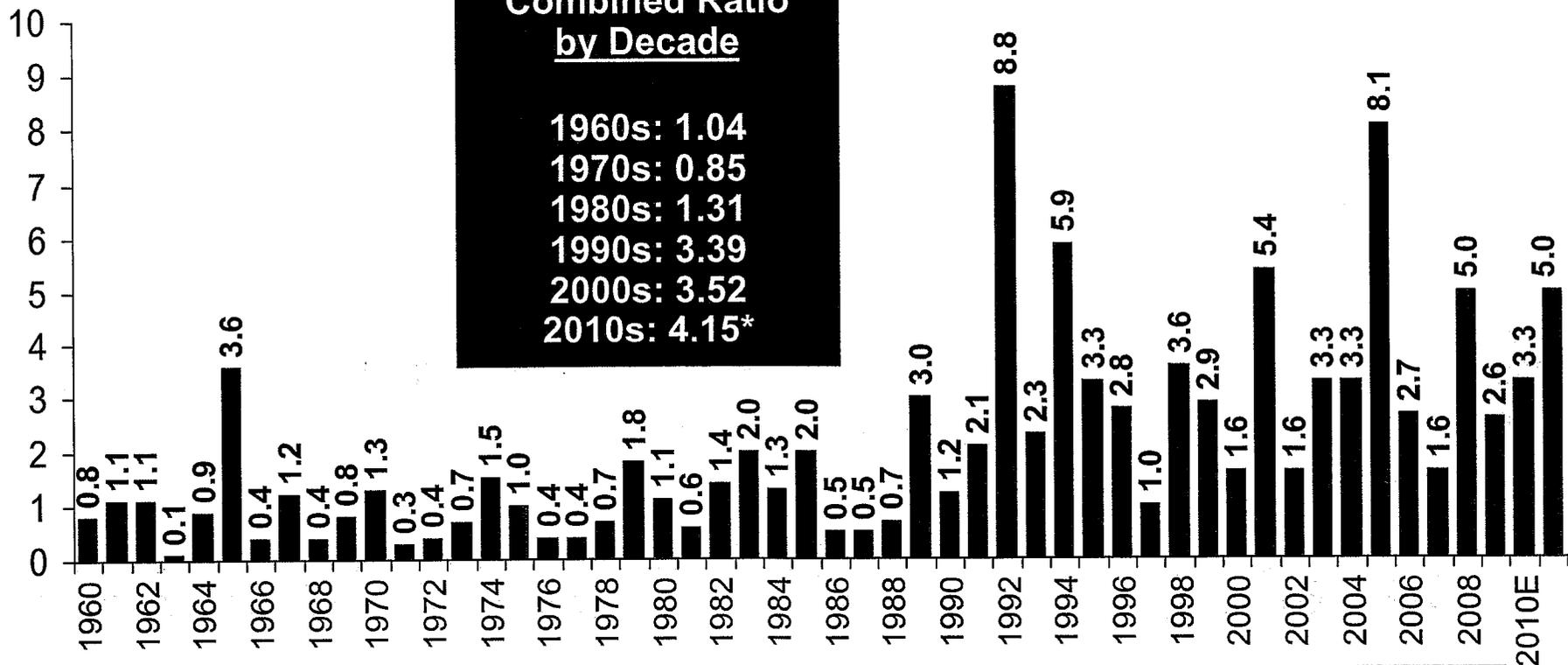
**Hurricane Irene losses stated in 2011 dollars.

Sources: PCS; Insurance Information Institute inflation adjustments.

Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2011:H1*



Combined Ratio Points



The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades

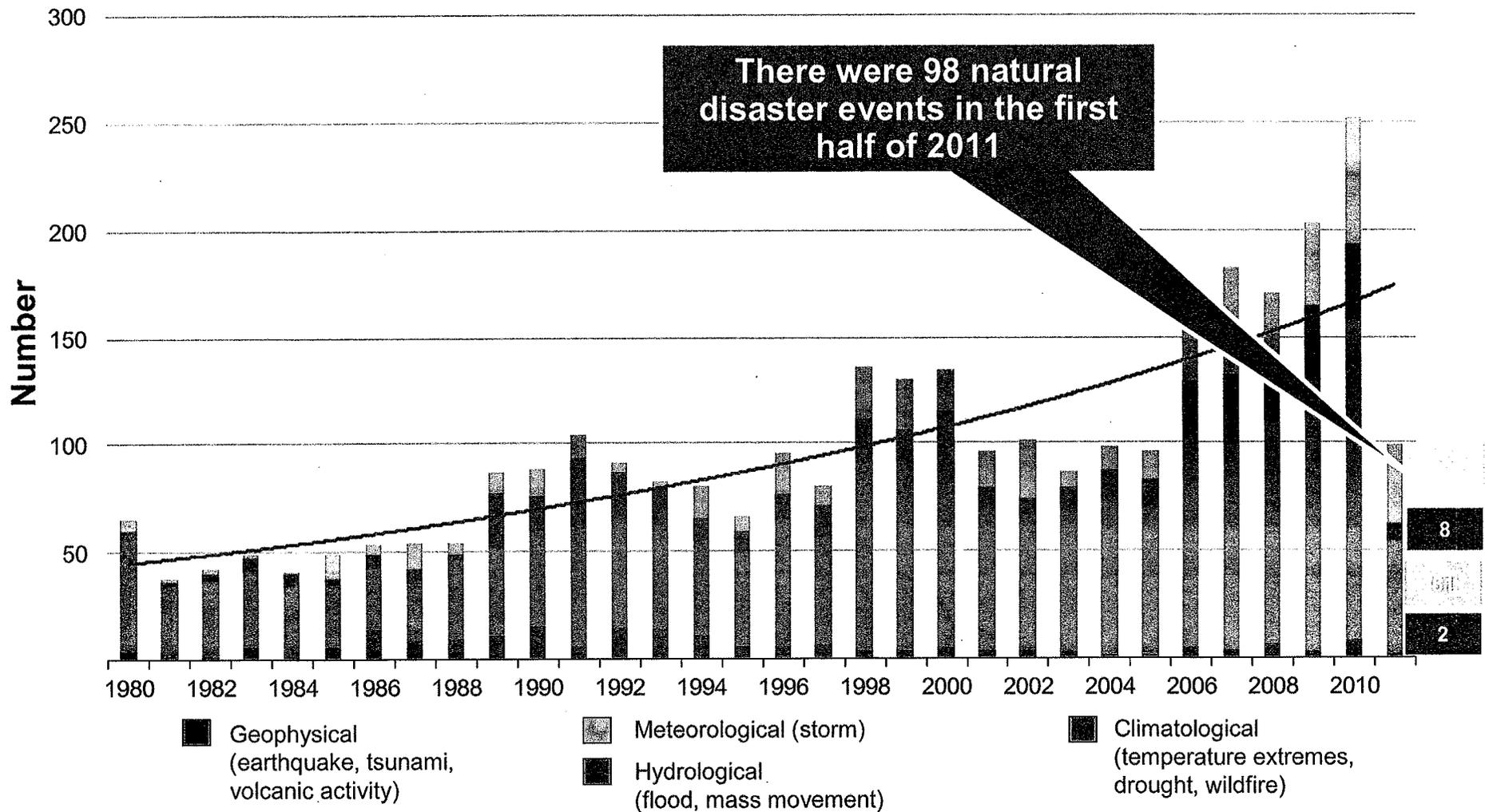
*Insurance Information Institute estimates for 2010 and 2011:H1

Notes: Private carrier losses only. Excludes loss adjustment expenses and reinsurance reinstatement premiums. Figures are adjusted for losses ultimately paid by foreign insurers and reinsurers.

Source: ISO; Insurance Information Institute.

Natural Disasters in the United States, 1980 – 2011*

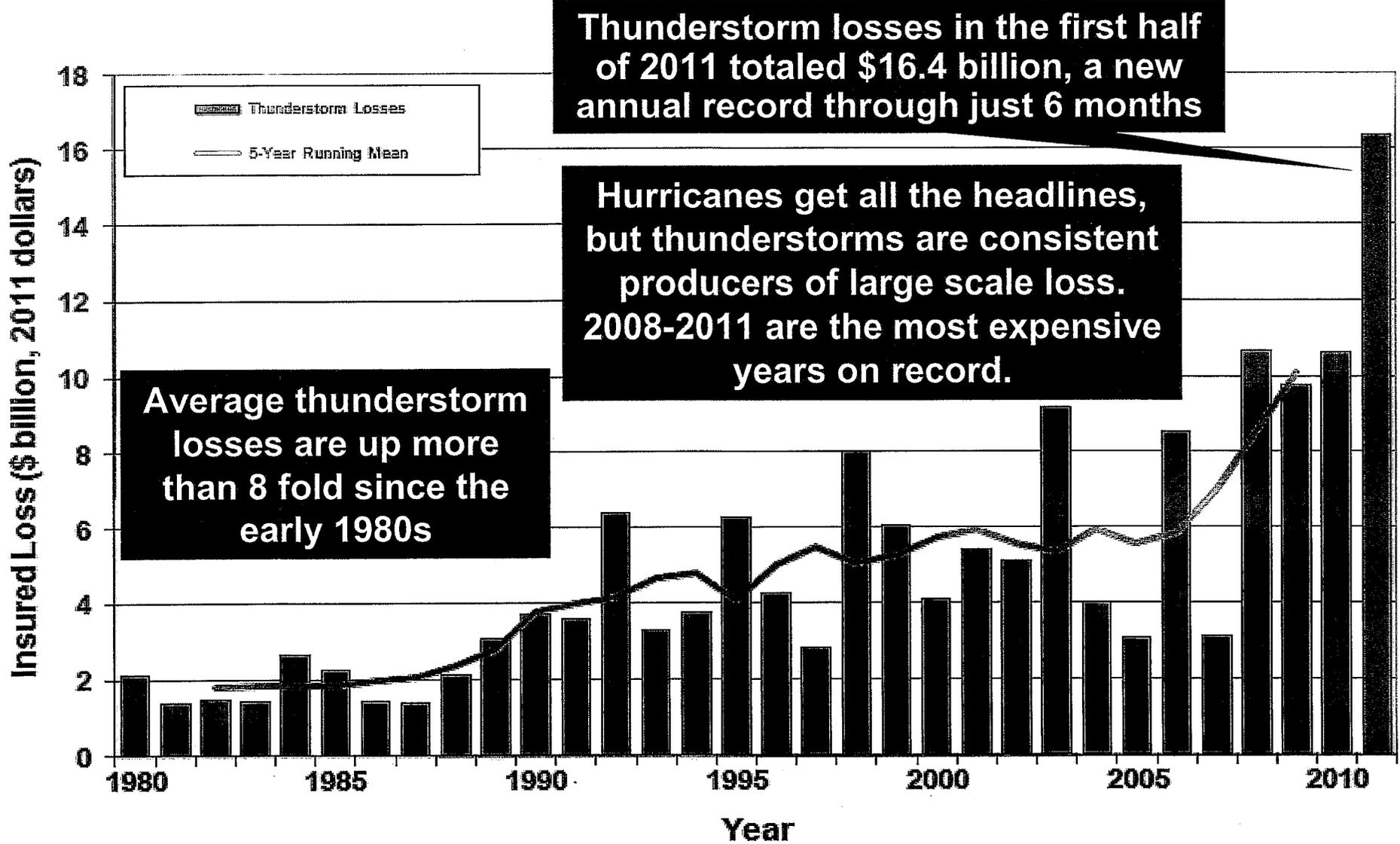
Number of Events (Annual Totals 1980 – 2010 and First Half 2011)



*Through June 30.

Source: MR NatCatSERVICE

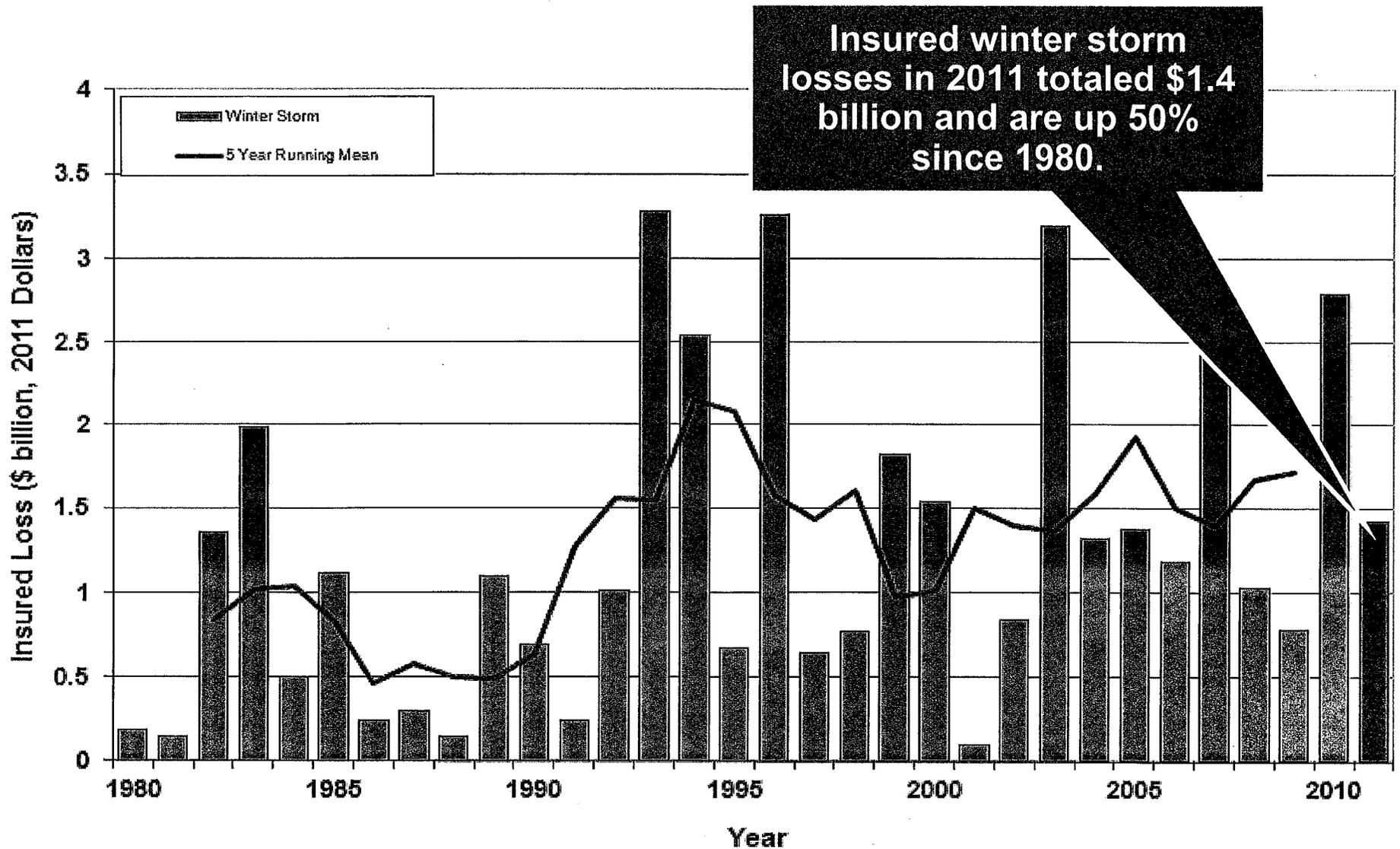
U.S. Thunderstorm Loss Trends, 1980 – 2011*



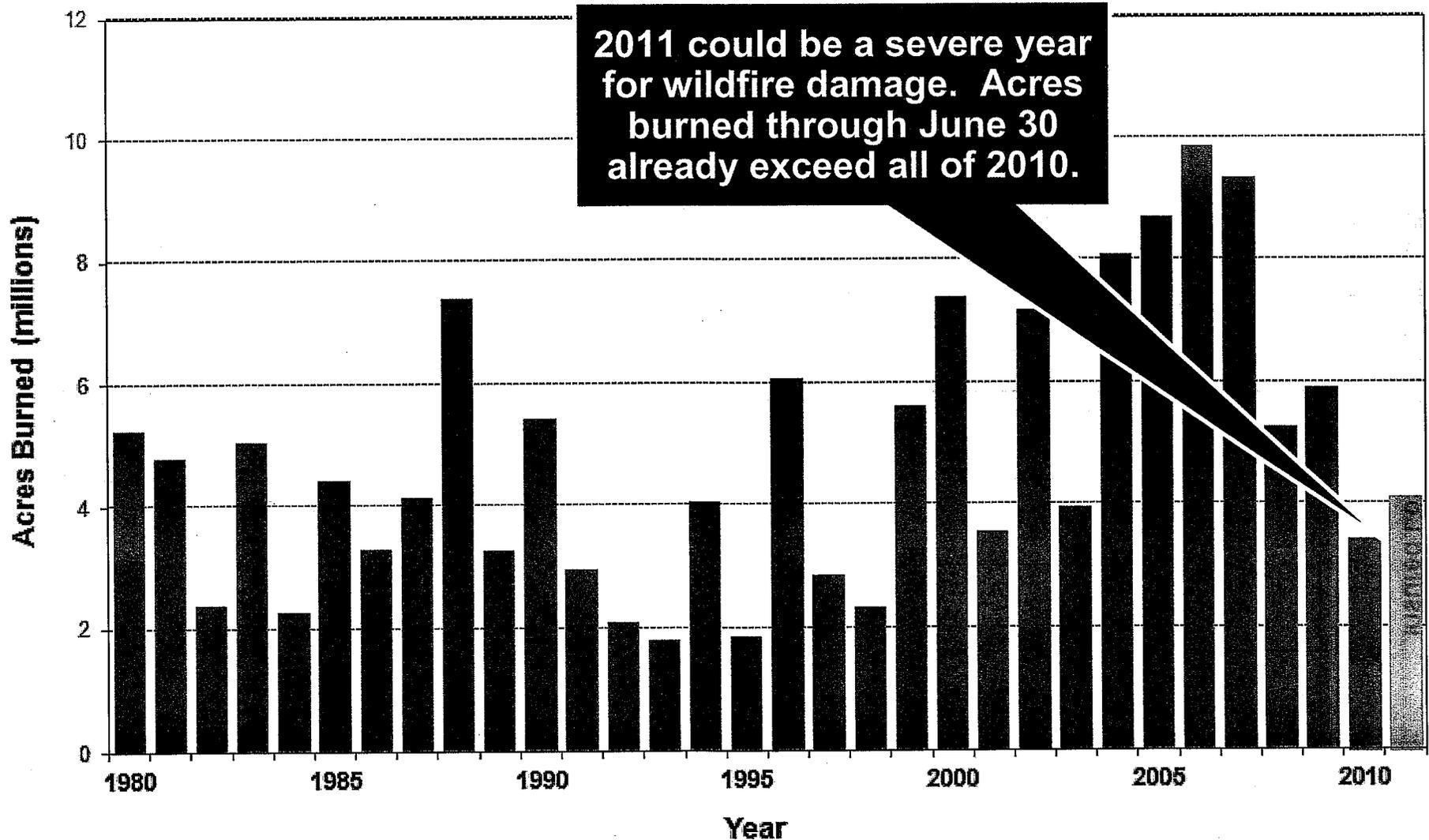
*Through June 30, 2011.

Source: Property Claims Service, MR NatCatSERVICE

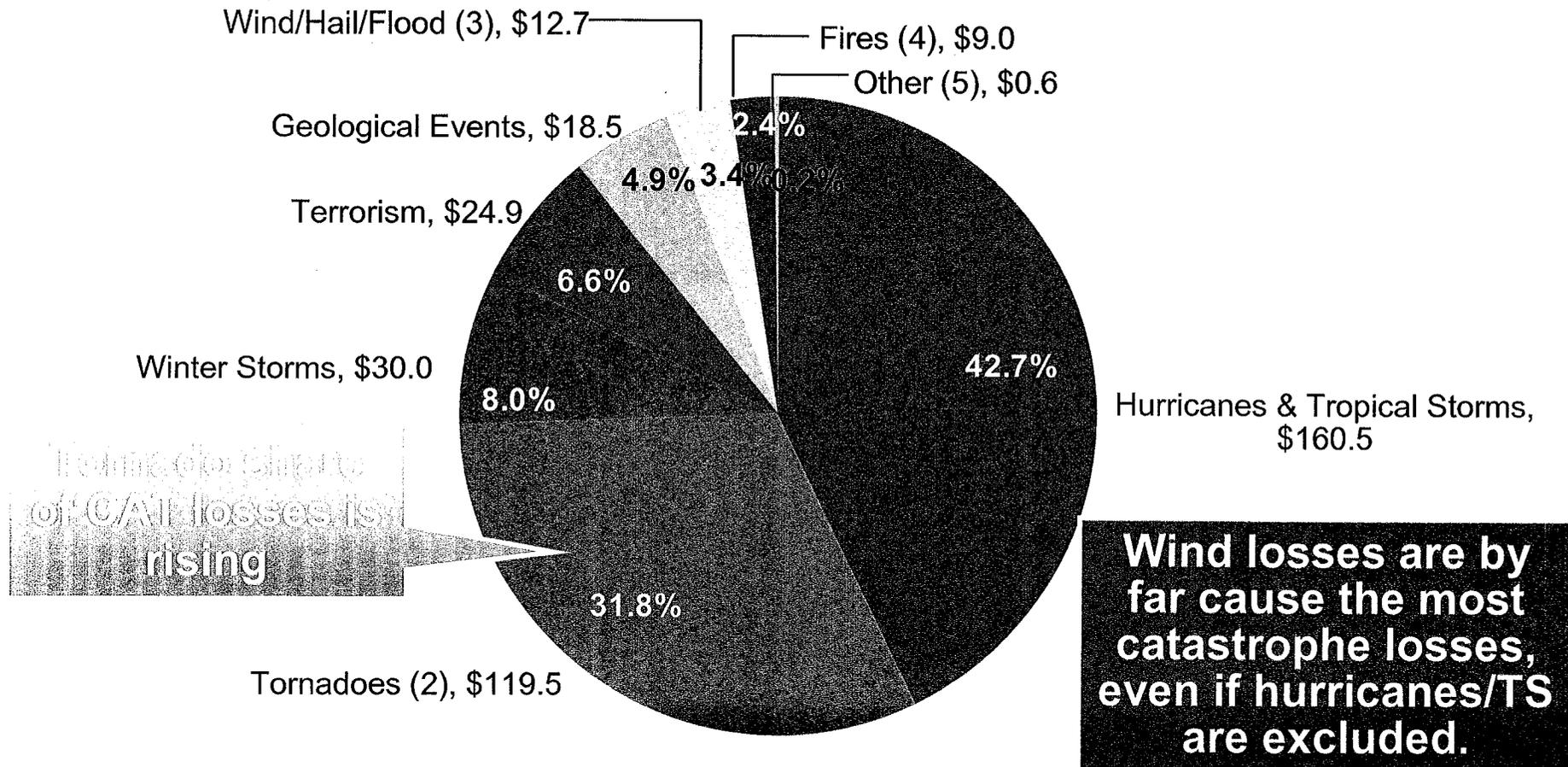
U.S. Winter Storm Loss Trends, 1980 – 2010 (Annual Totals) vs. First Half 2011



U.S. Acreage Burned by Wildfires, 1980 – 2010 (Annual Totals) vs. First Half 2011

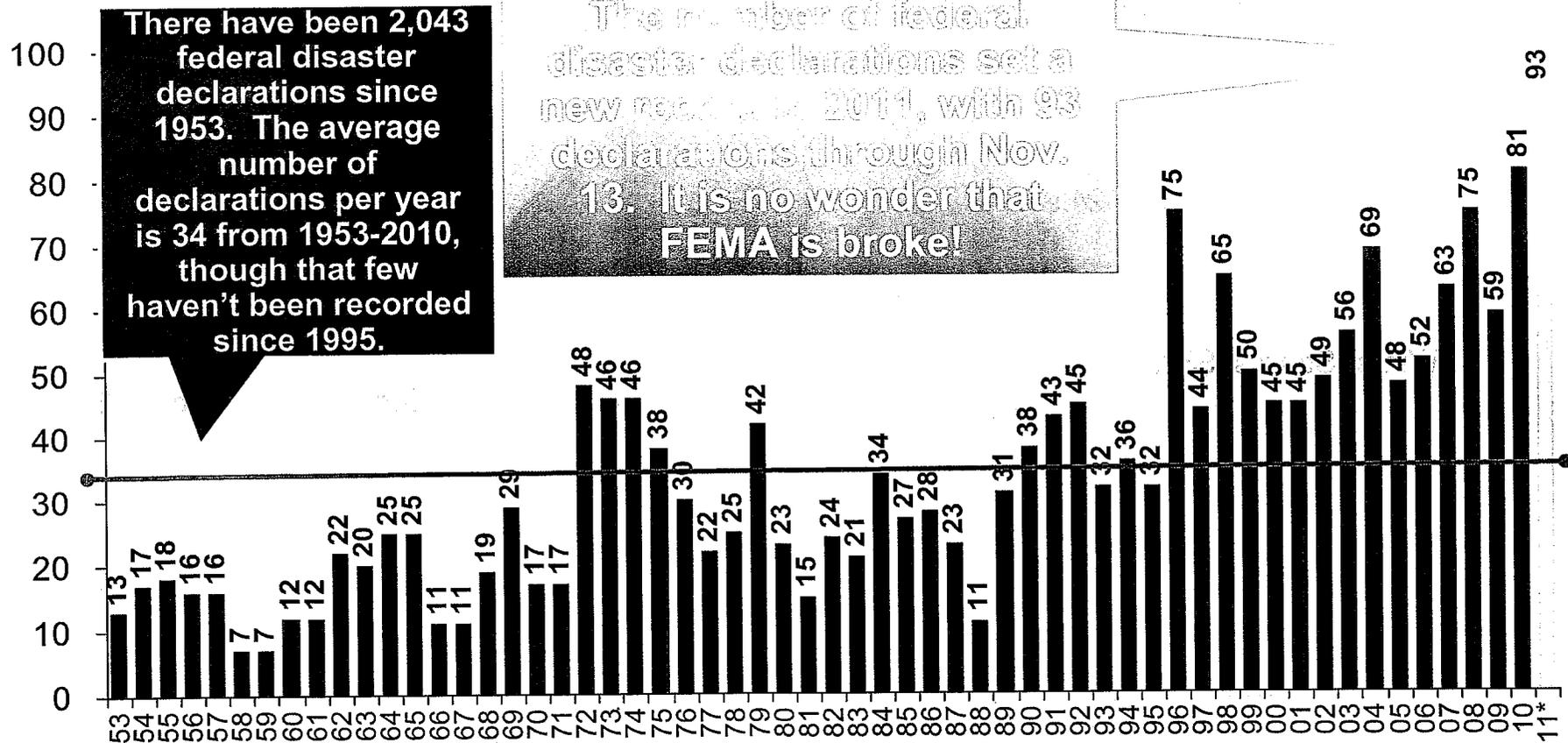


Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1990–2011:H1¹



1. Catastrophes are defined as events causing direct insured losses to property of \$25 million or more in 2009 dollars.
 2. Excludes snow.
 3. Does not include NFIP flood losses
 4. Includes wildland fires
 5. Includes civil disorders, water damage, utility disruptions and non-property losses such as those covered by workers compensation.
 Source: ISO's Property Claim Services Unit.

Number of Federal Disaster Declarations, 1953-2011*

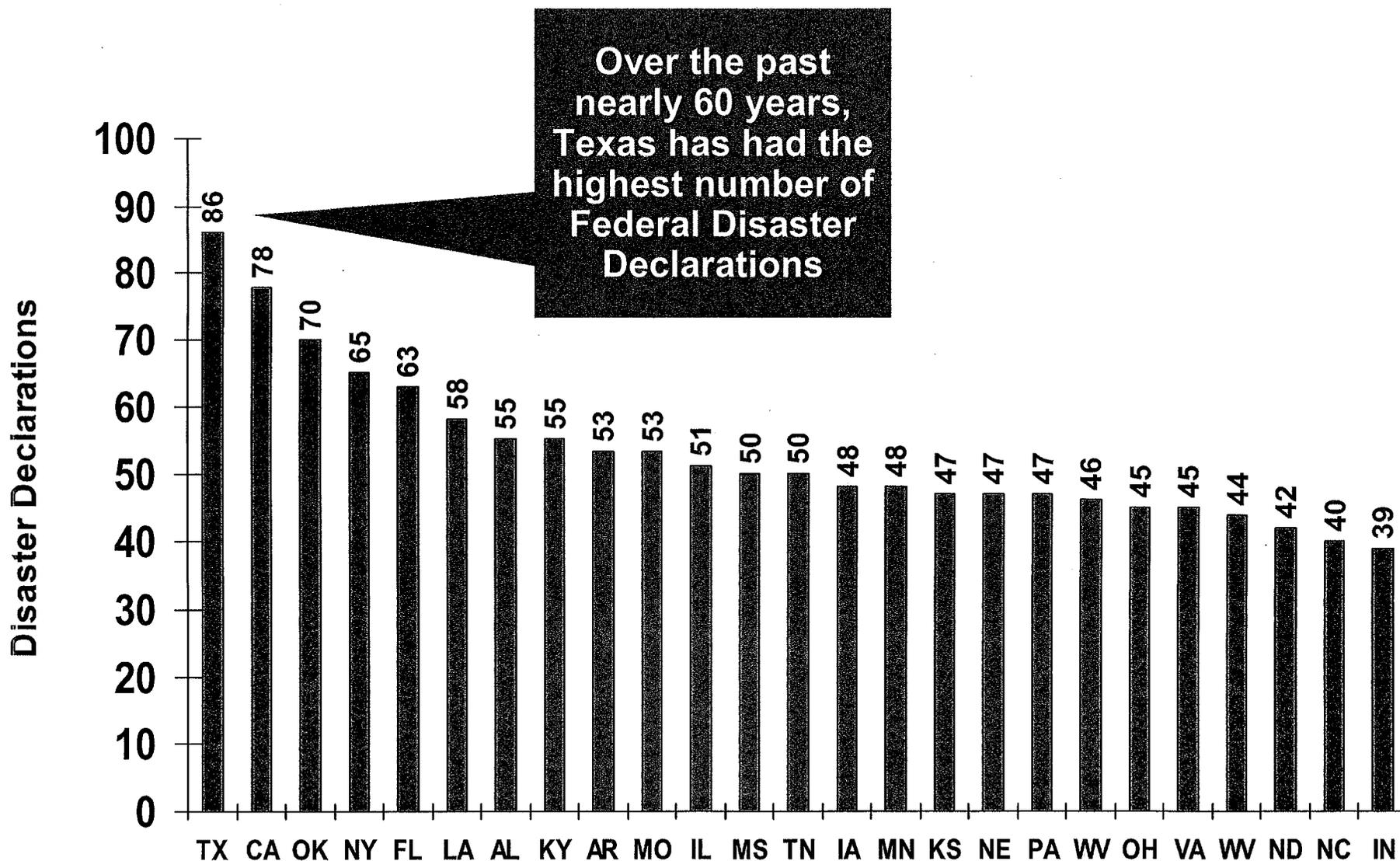


The Number of Federal Disaster Declarations Is Rising and Set a New Record in 2011

*Through November 13, 2011.

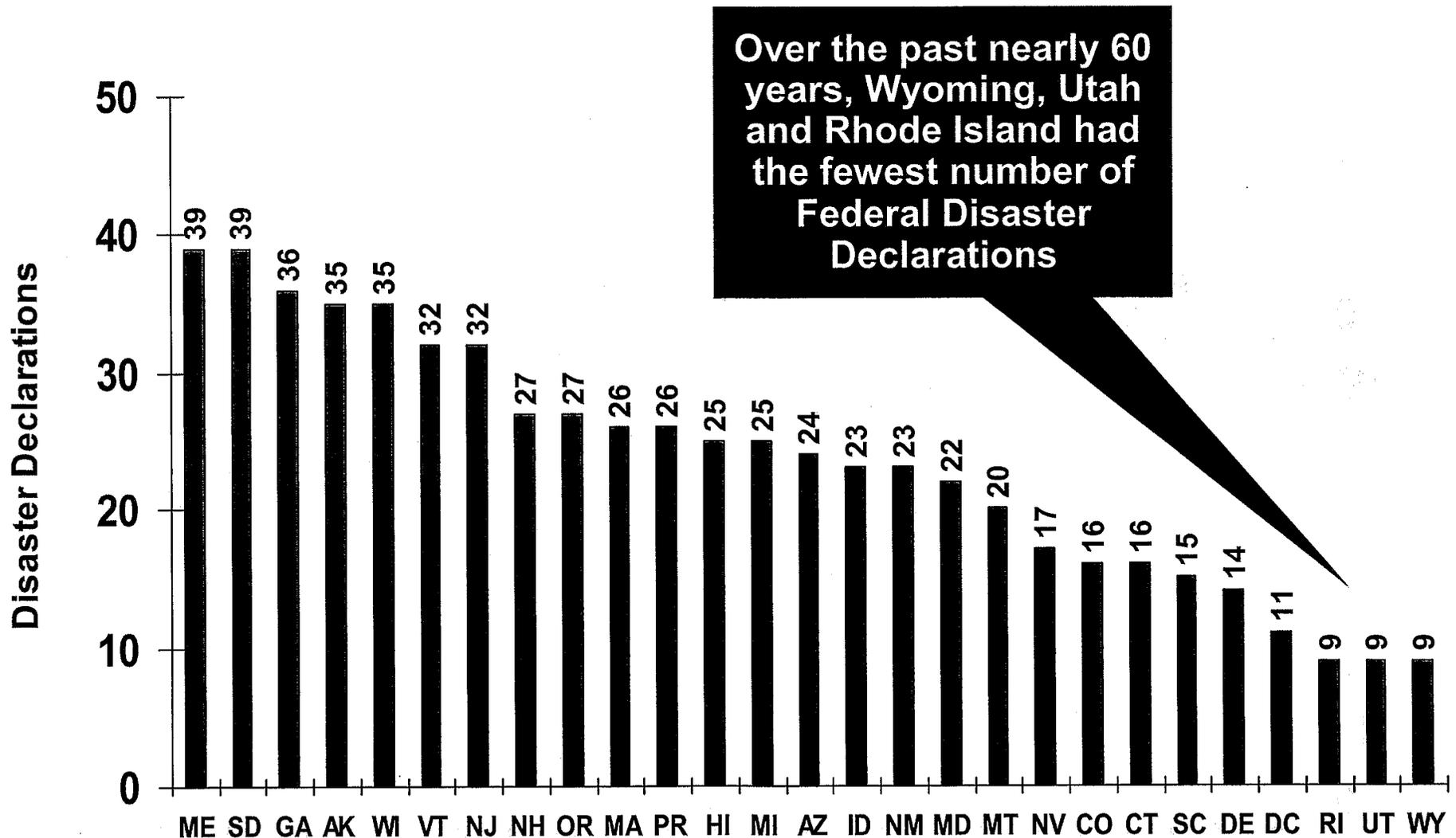
Source: Federal Emergency Management Administration: http://www.fema.gov/news/disaster_totals_annual.fema; Insurance Information Institute.

Federal Disasters Declarations by State, 1953 – Nov. 13, 2011: Highest 25 States



Source: FEMA: http://www.fema.gov/news/disaster_totals_annual.fema; Insurance Information Institute.

Federal Disasters Declarations by State, 1953 – Nov. 13, 2011: Lowest 25 States*



*Includes Puerto Rico and the District of Columbia.

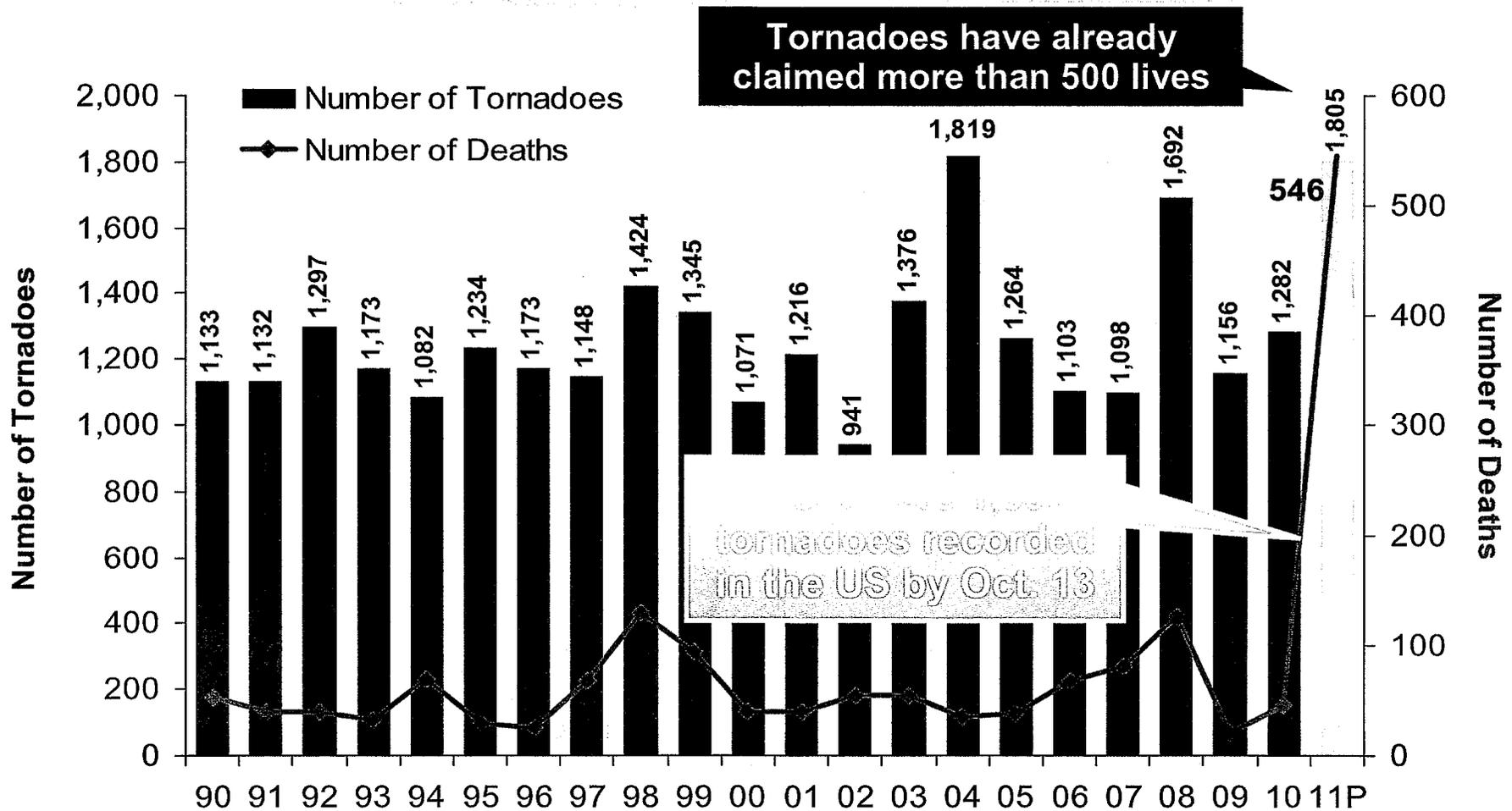
Source: FEMA: http://www.fema.gov/news/disaster_totals_annual.fema; Insurance Information Institute.



SPRING 2011 TORNADO & SEVERE STORM OUTBREAK

**2011 Losses Are Putting Pressure on
US P/C Insurance Markets**

Number of Tornadoes and Related Deaths, 1990 – 2011*



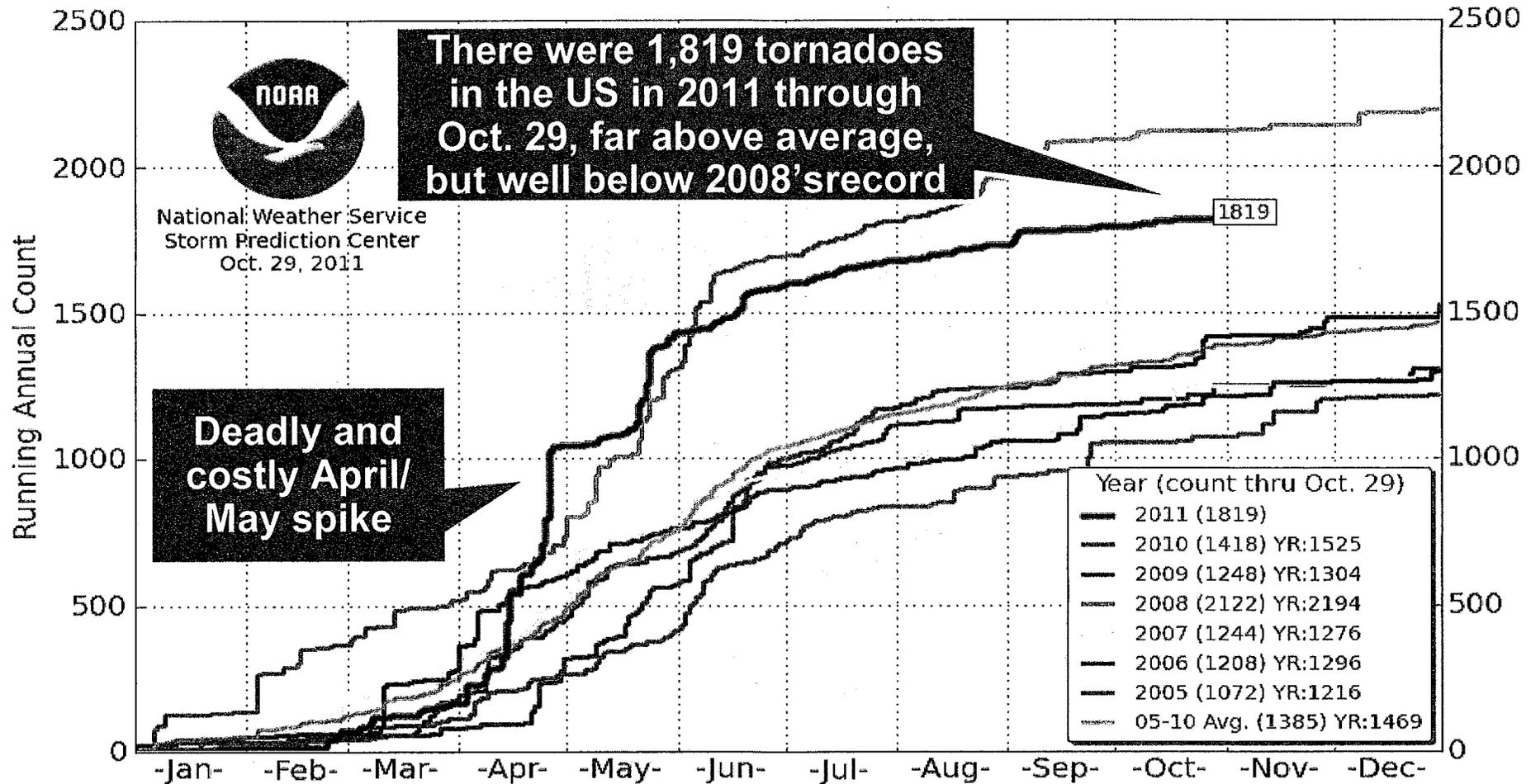
Insurers Expect to Pay at Least \$2 Billion Each for the April 2011 Tornadoes in Alabama and a Similar Amount for the May Storms in Joplin

*2011 is preliminary data through October 13.

Source: U.S. Department of Commerce, Storm Prediction Center, National Weather Service.

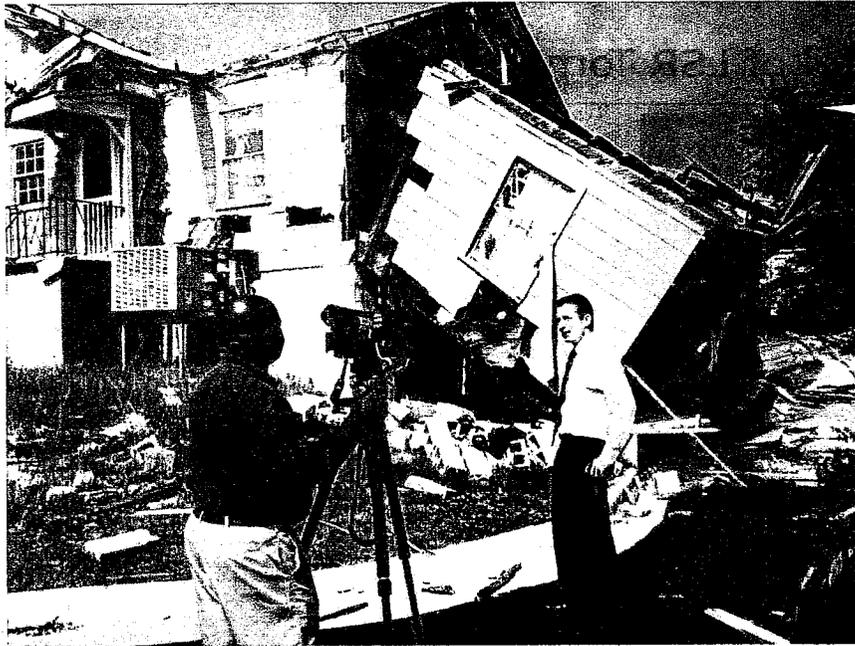
U.S. Tornado Count, 2005-2011*

United States Annual Trend of LSR Tornadoes*



*Preliminary tornadoes from NWS Local Storm Reports (LSRs)
Annual average is based on preliminary LSRs, 2005-2010

Insurers Making a Difference in Impacted Communities

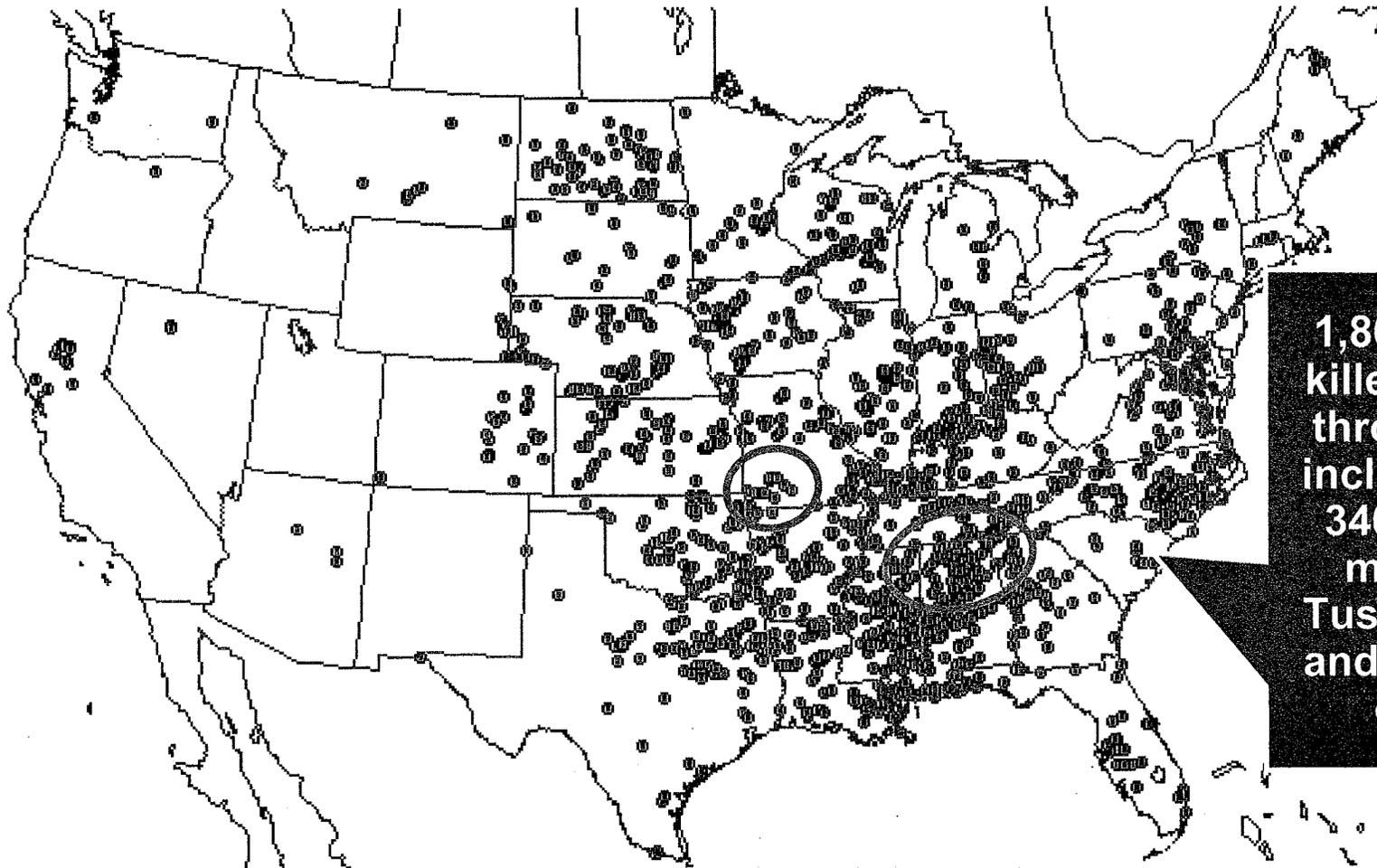


Destroyed home in Tuscaloosa. Insurers will pay some 165,000 claims totaling \$2 billion in the Tuscaloosa/Birmingham areas alone.

Presentation of a check to Tuscaloosa Mayor Walt Maddox to the Tuscaloosa Storm Recovery Fund



Location of Tornadoes in the US, January 1—October 13, 2011



1,805 tornadoes
killed 546 people
through Oct. 13,
including at least
340 on April 26
mostly in the
Tuscaloosa area,
and 130 in Joplin
on May 22



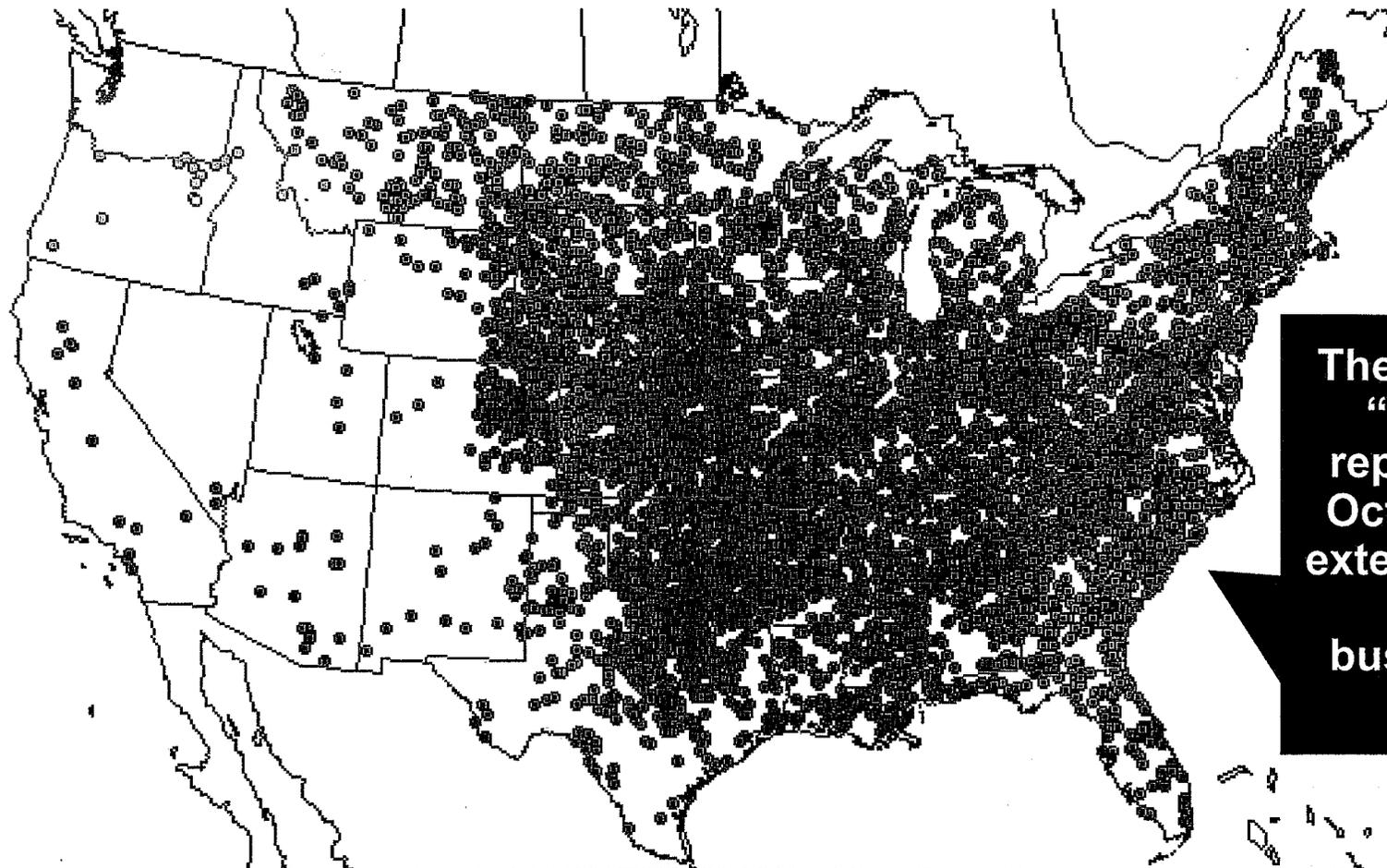
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Tornado Reports
January 01, 2011 - October 13, 2011

Updated: Thursday October 13, 2011 12:59 CT

Location of Large Hail Reports in the US, January 1—October 13, 2011



There were 9,287
“Large Hail”
reports through
Oct. 13, causing
extensive damage
to homes,
businesses and
vehicles



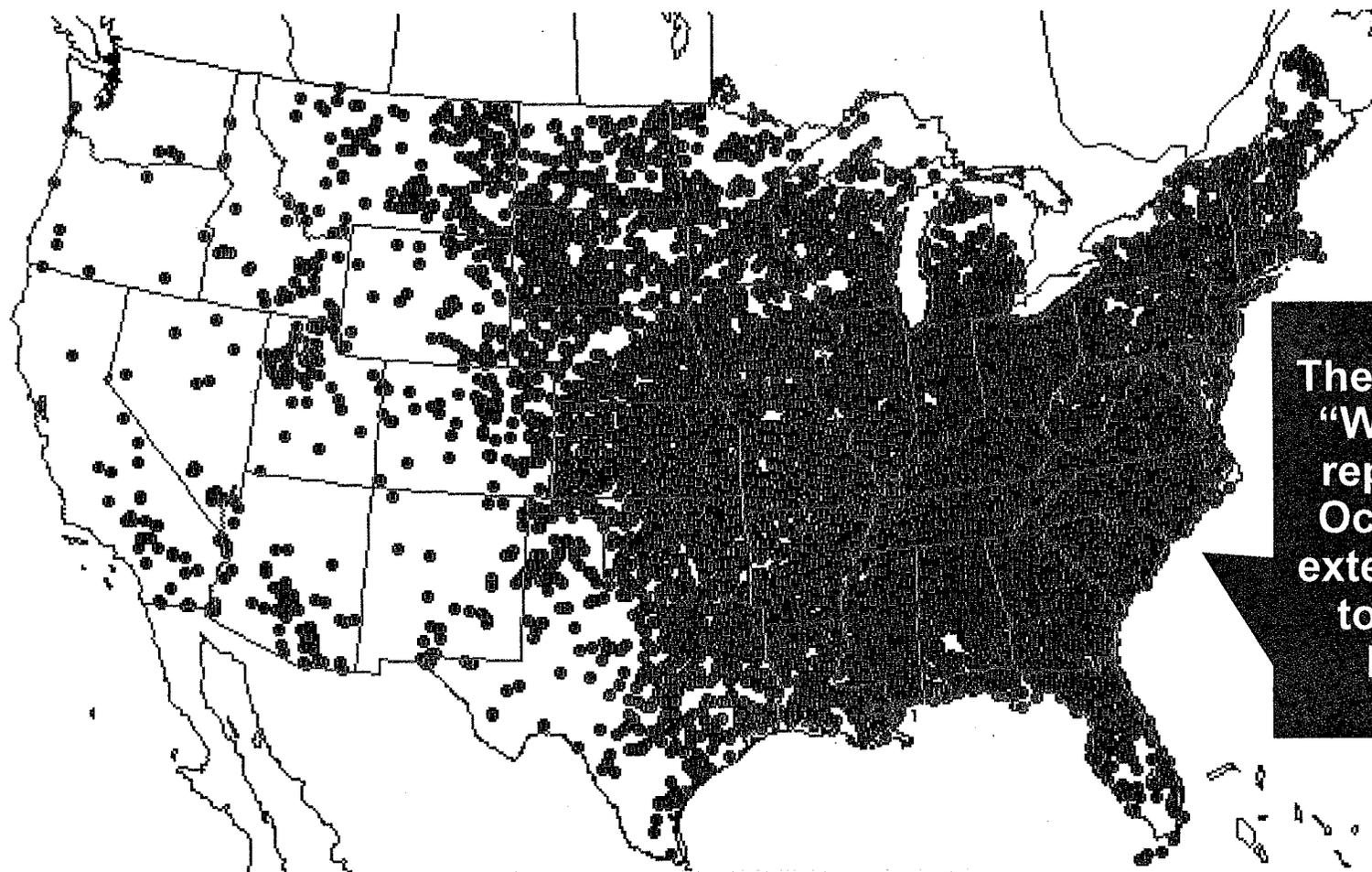
**PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)**

NOAA/Storm Prediction Center Norman, Oklahoma

**Hail Reports
January 01, 2011 - October 13, 2011**

Updated: Thursday October 13, 2011 12:59 CT

Location of Wind Damage Reports in the US, January 1—Oct. 13, 2011



There were 18,293
“Wind Damage”
reports through
Oct. 13, causing
extensive damage
to homes and,
businesses



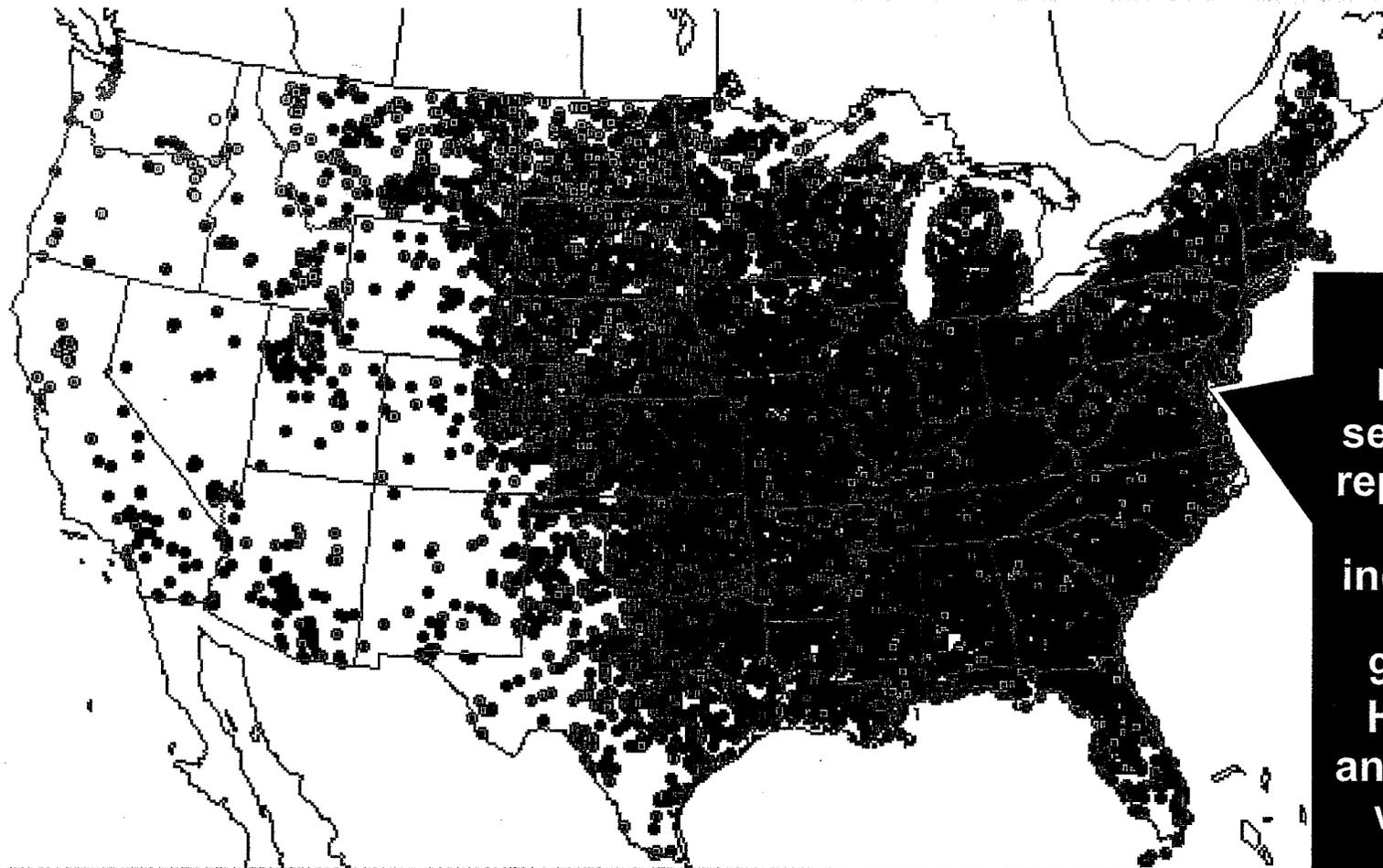
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Wind Reports
January 01, 2011 - October 13, 2011

Updated: Thursday October 13, 2011 12:59 CT

Severe Weather Reports, January 1—October 13, 2011



There have been 29,385 severe weather reports through Oct. 13; including 1,805 tornadoes; 9,287 "Large Hail" reports and 18,293 high wind events



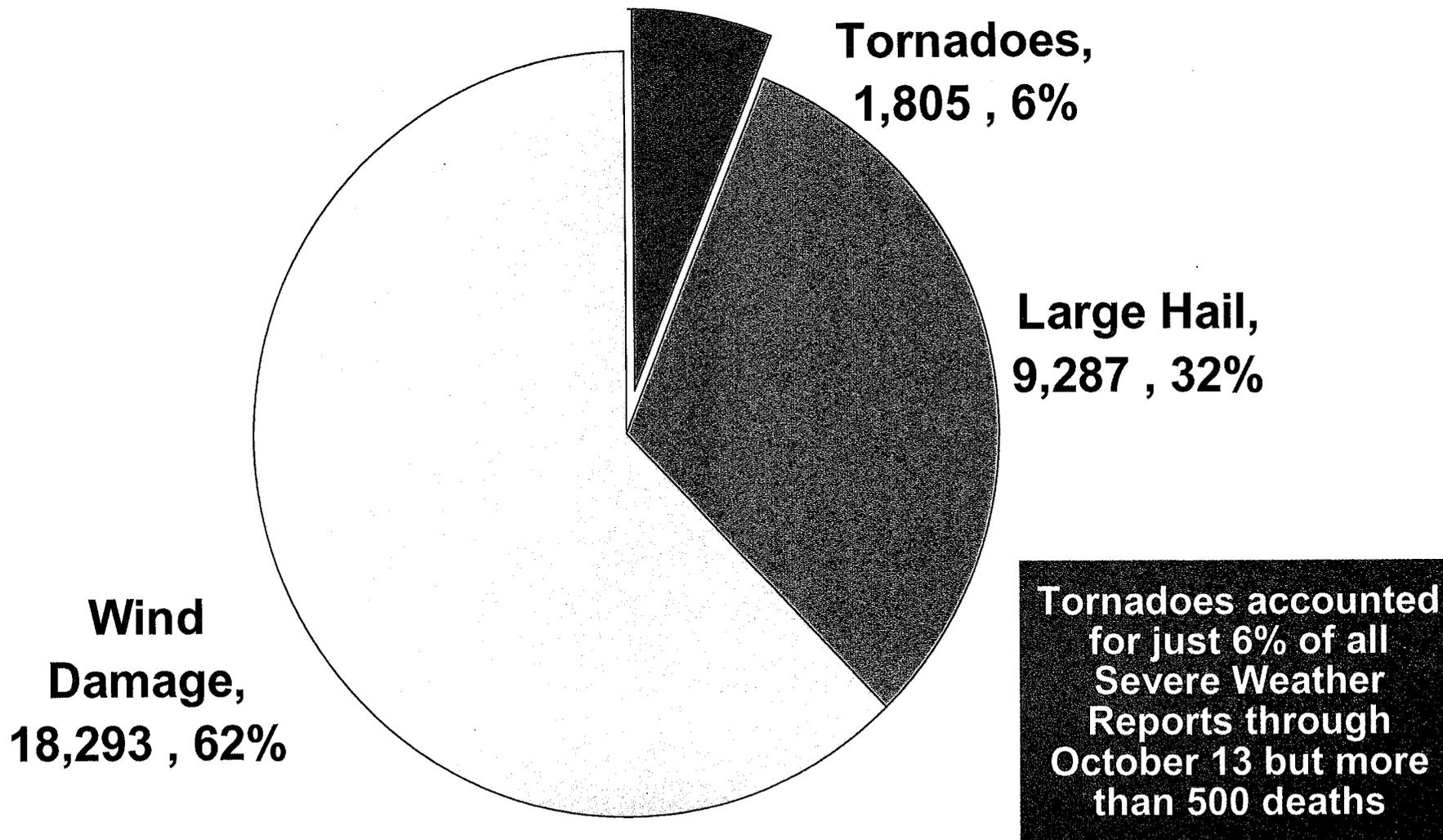
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Severe Weather Reports
January 01, 2011 - October 13, 2011

Updated: Thursday October 13, 2011 12:59 CT

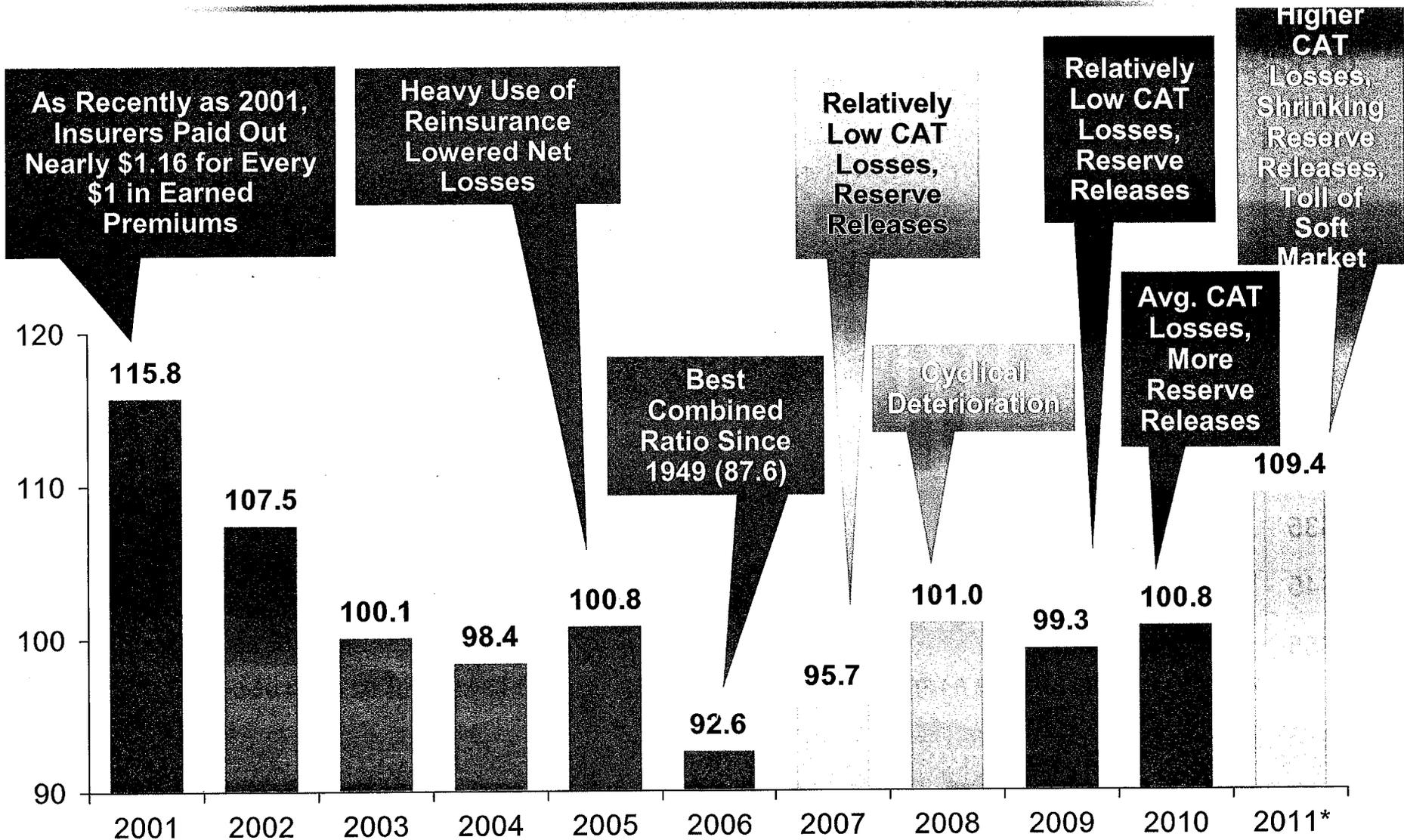
Number of Severe Weather Reports in US, by Type: January 1—October 13, 2011





**Underwriting Trends:
Cycle, Catastrophes Are Among
2011 and 2012 Drivers**

P/C Insurance Industry Combined Ratio, 2001–2011:H1*

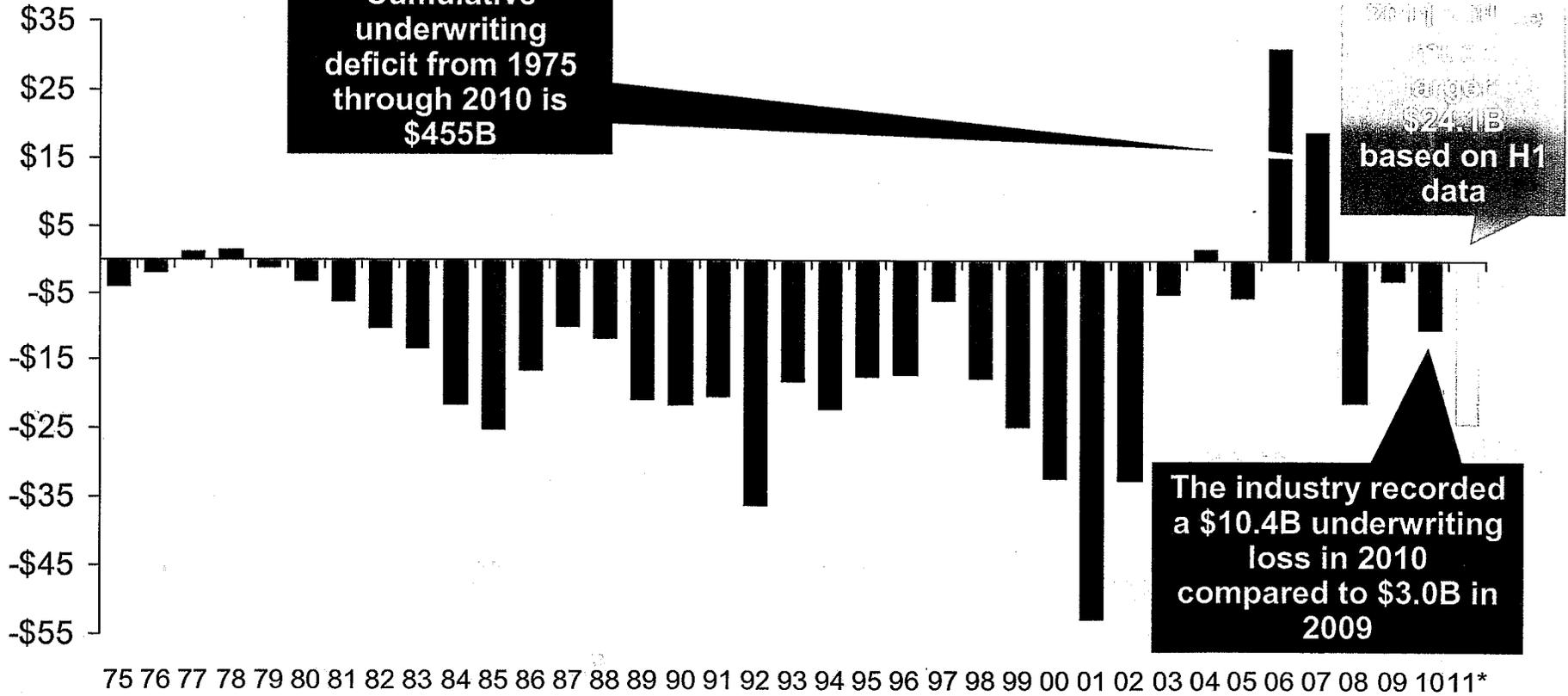


* Excludes Mortgage & Financial Guaranty insurers 2008–2011. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=110.5
Sources: A.M. Best, ISO.; III Estimated for 2011:H1 (Q1 actual ex-M&FG was 102.2).

Underwriting Gain (Loss) 1975–2011*



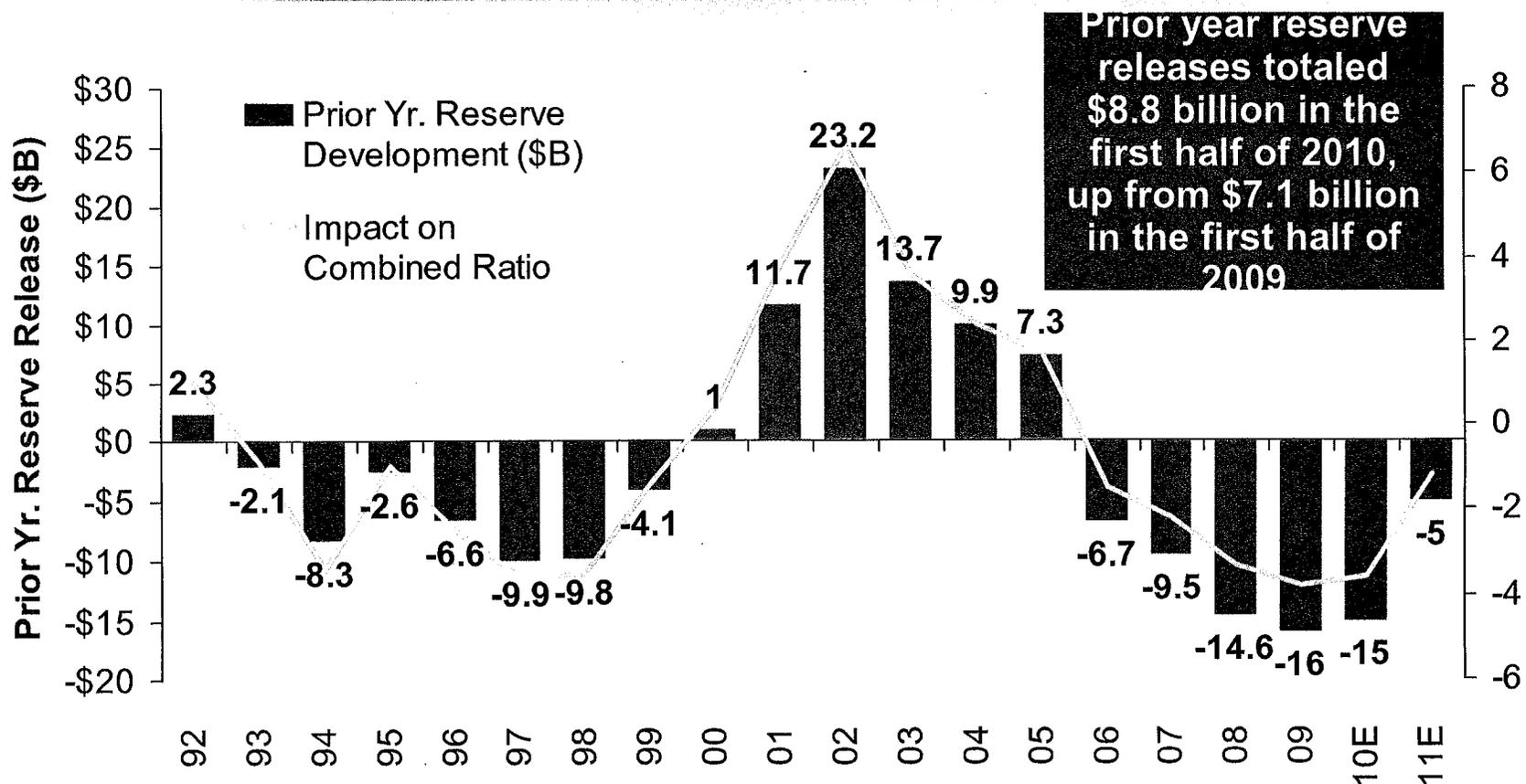
(\$ Billions)



Large Underwriting Losses Are *NOT* Sustainable in Current Investment Environment

* Includes mortgage and financial guaranty insurers in all years. 2011 figure is actual H1 underwriting losses of \$24.098 billion.
Sources: A.M. Best, ISO; Insurance Information Institute.

P/C Reserve Development, 1992–2011E



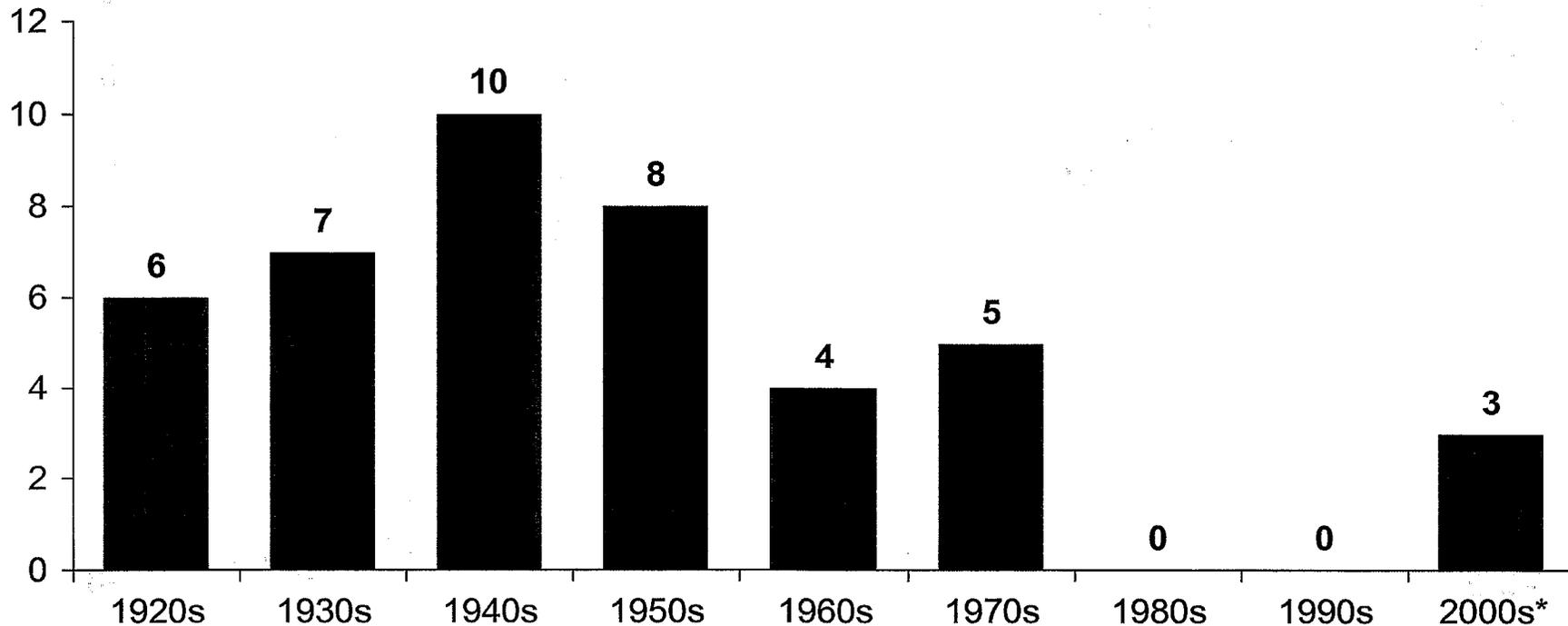
Reserve Releases Are Continuing Strong in 2010 But Should Begin to Taper Off in 2011

Note: 2005 reserve development excludes a \$6 billion loss portfolio transfer between American Re and Munich Re. Including this transaction, total prior year adverse development in 2005 was \$7 billion. The data from 2000 and subsequent years excludes development from financial guaranty and mortgage insurance.

Sources: Barclay's Capital; A.M. Best.

Number of Years with Underwriting Profits by Decade, 1920s–2000s

Number of Years with Underwriting Profits



Underwriting Profits Were Common Before the 1980s (40 of the 60 Years Before 1980 Had Combined Ratios Below 100) – But Then They Vanished. Not a Single Underwriting Profit Was Recorded in the 25 Years from 1979 Through 2003

* 2000 through 2009. 2009 combined ratio excluding mortgage and financial guaranty insurers was 99.3, which would bring the 2000s total to 4 years with an underwriting profit.

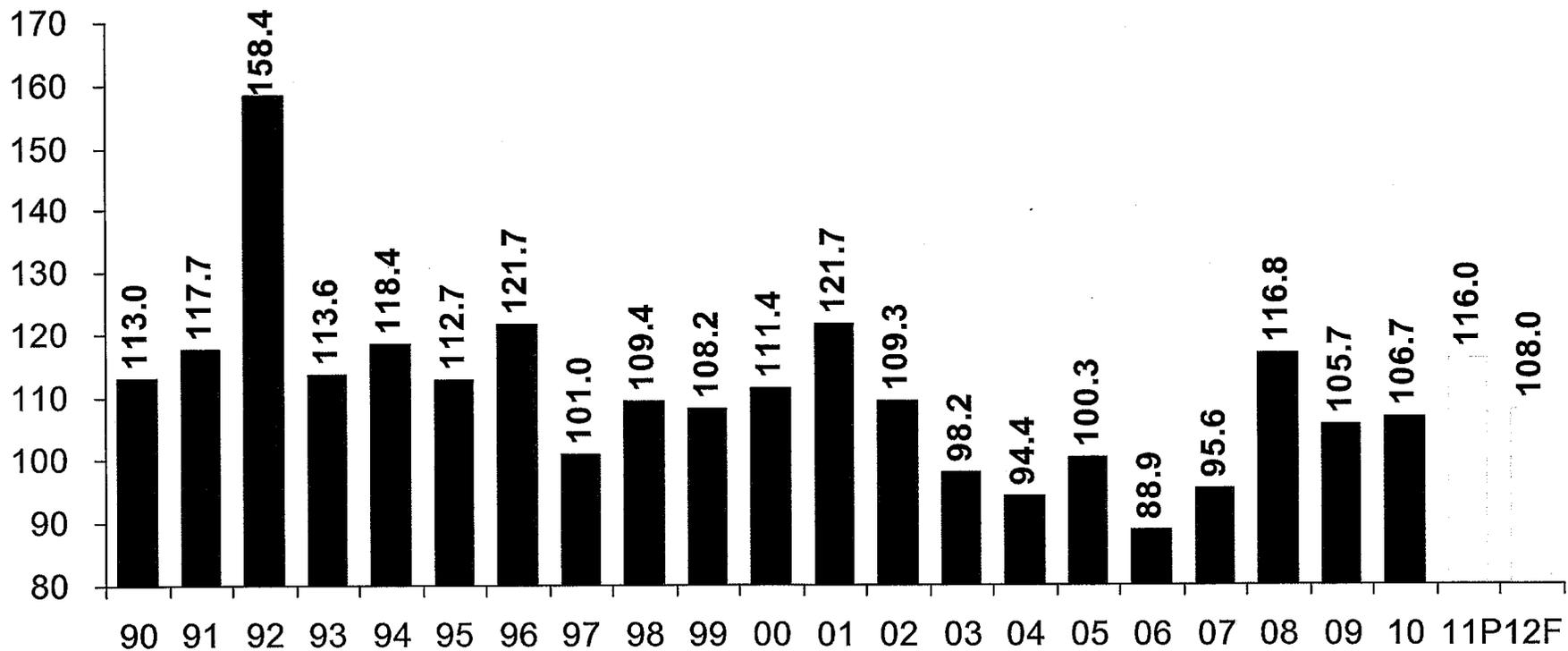
Note: Data for 1920–1934 based on stock companies only.

Sources: Insurance Information Institute research from A.M. Best Data.



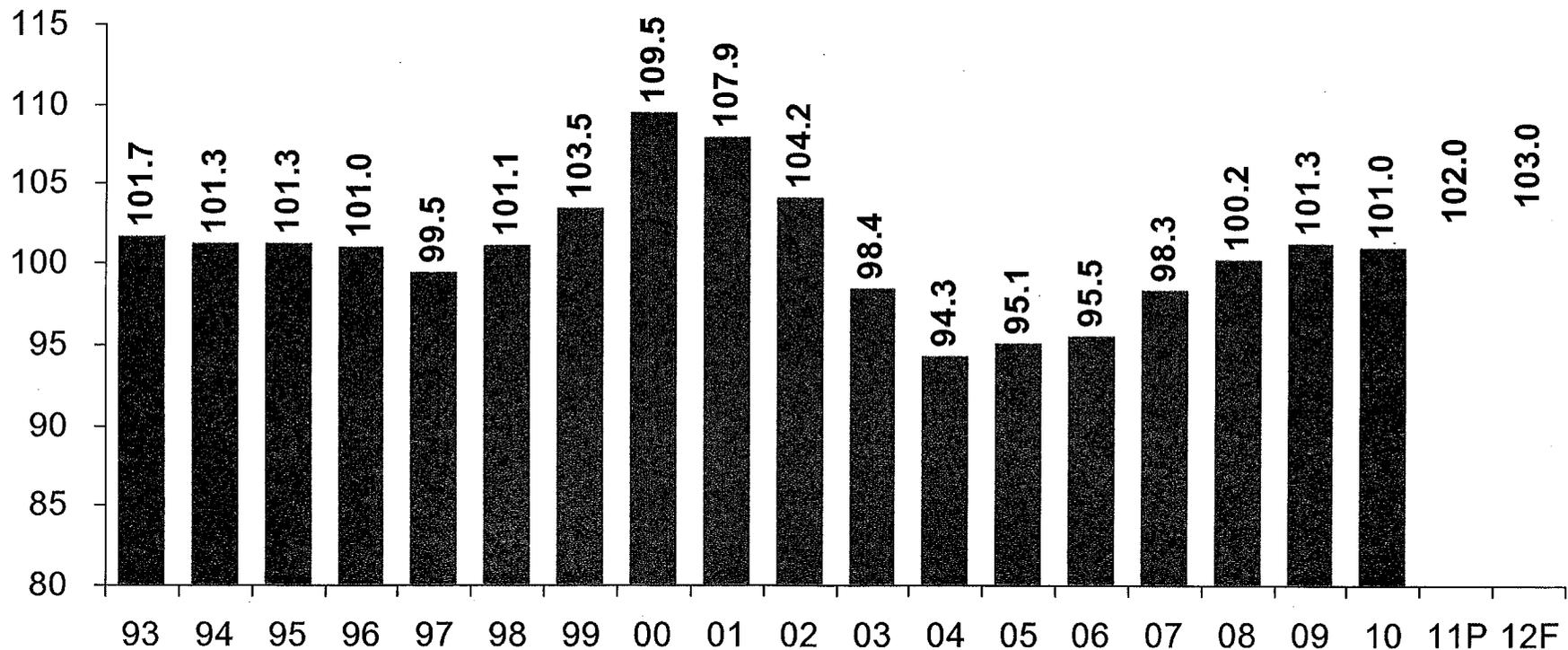
Performance by Segment: Personal Lines

Homeowners Insurance Combined Ratio: 1990–2012F



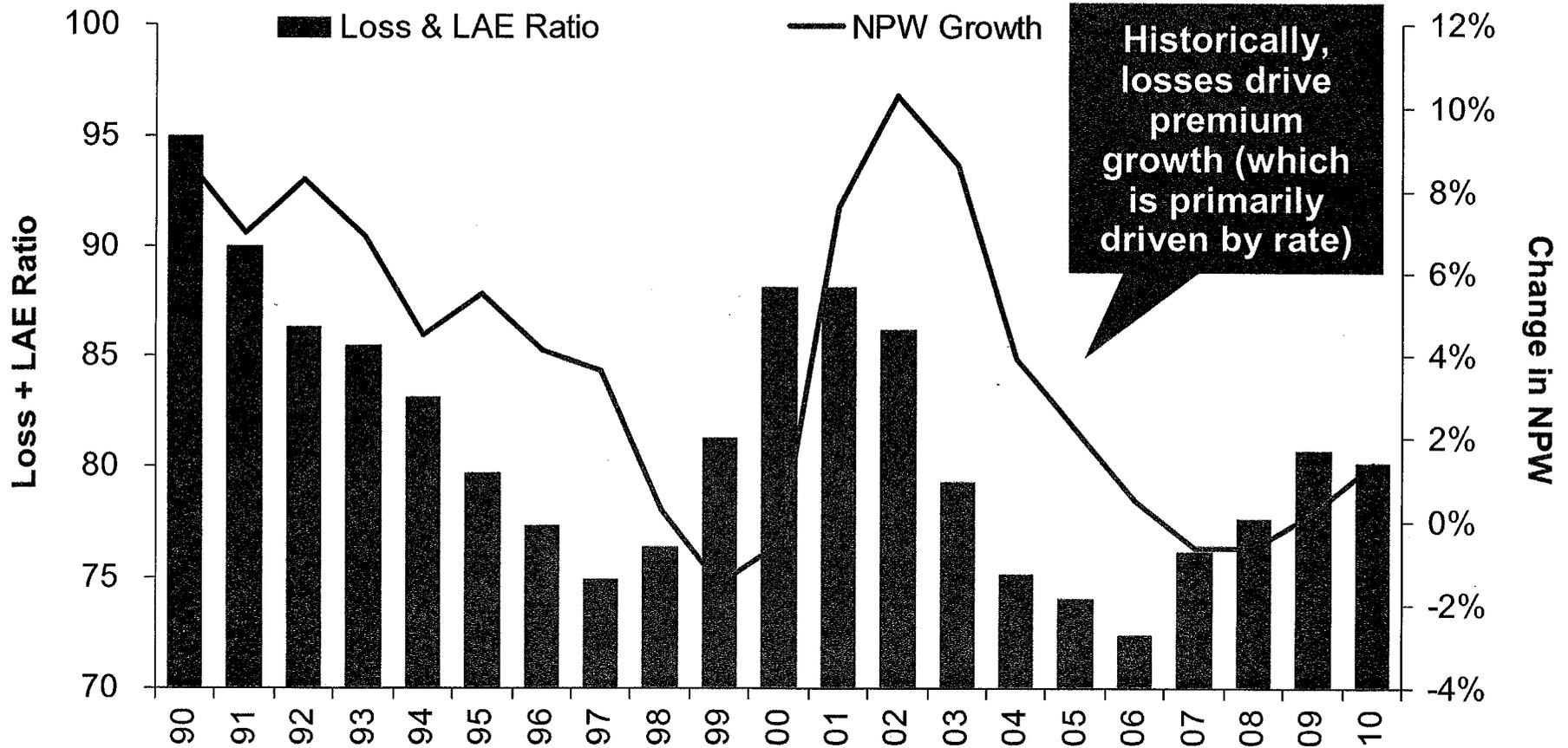
Homeowners Line Could Deteriorate in 2011 Due to Large Cat Losses. Extreme Regional Variation Can Be Expected Due to Local Catastrophe Loss Activity

Private Passenger Auto Combined Ratio: 1993–2012P



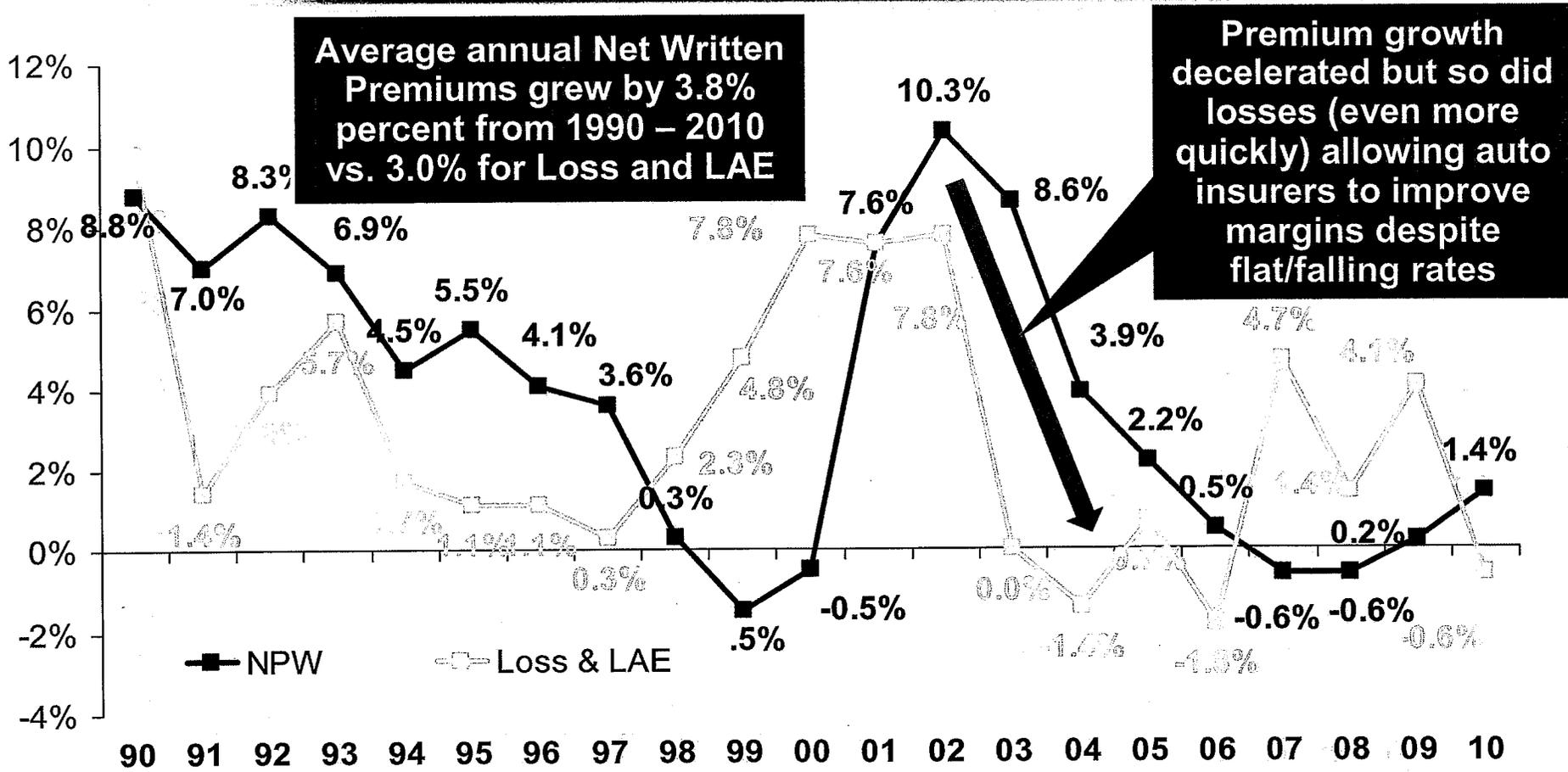
Private Passenger Auto Accounts for 34% of Industry Premiums and Remains the Profit Juggernaut of the P/C Insurance Industry

PP Auto Liability: Loss and LAE vs. Net Premiums Written, 1990-2010



While Premium Growth Decelerated, the Driver Was Primarily Lower Losses, Allowing Auto Insurers to Maintain String Margins

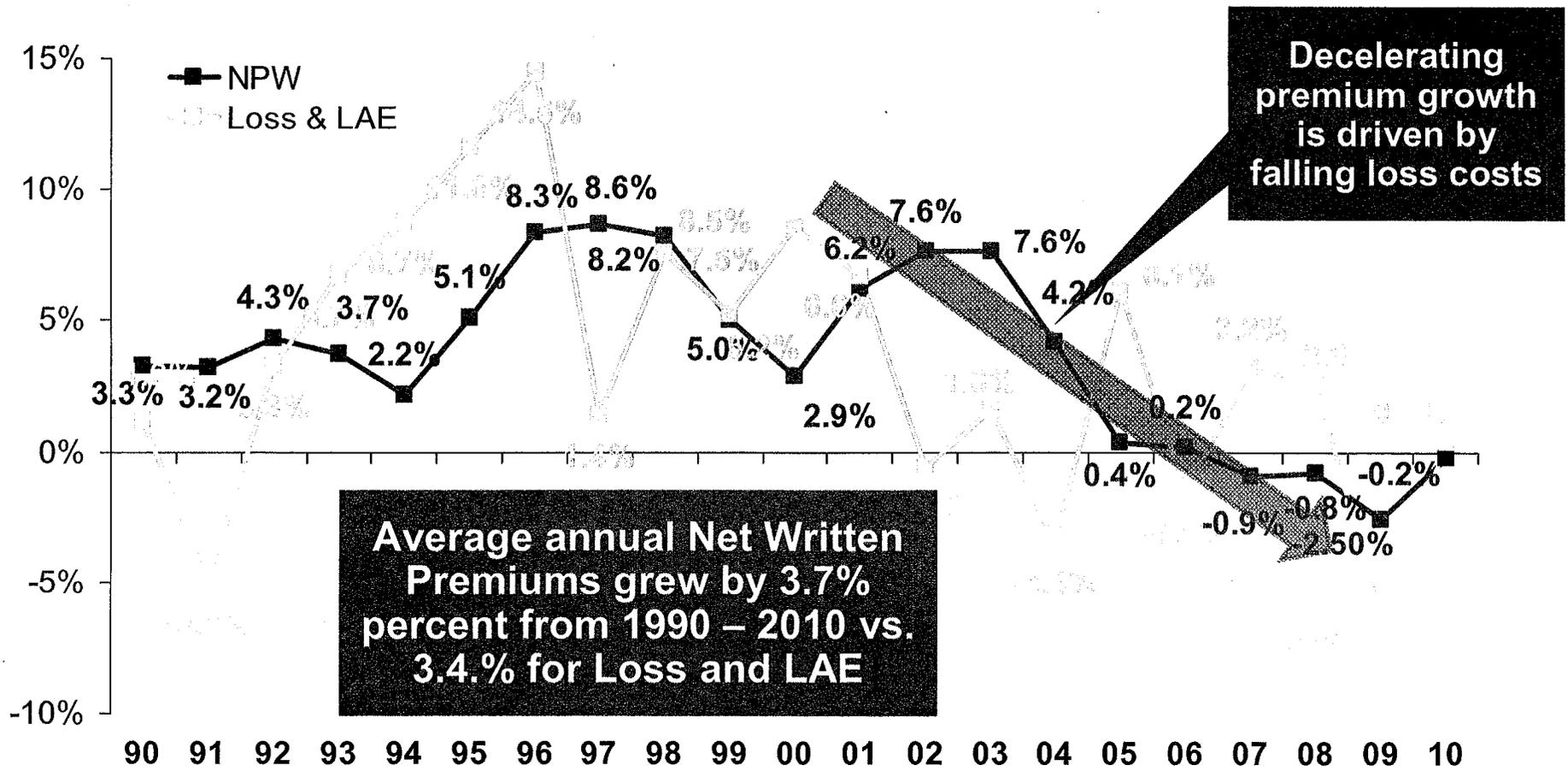
PP Auto Liability: % Change in NPW vs. % Change in Loss & LAE, 1990 - 2010



Losses Drive Premiums
Premiums Exhibit an Elastic Response (with a Lag) to Changes in Losses

Sources: Insurance Information Institute calculations from A.M. Best data..

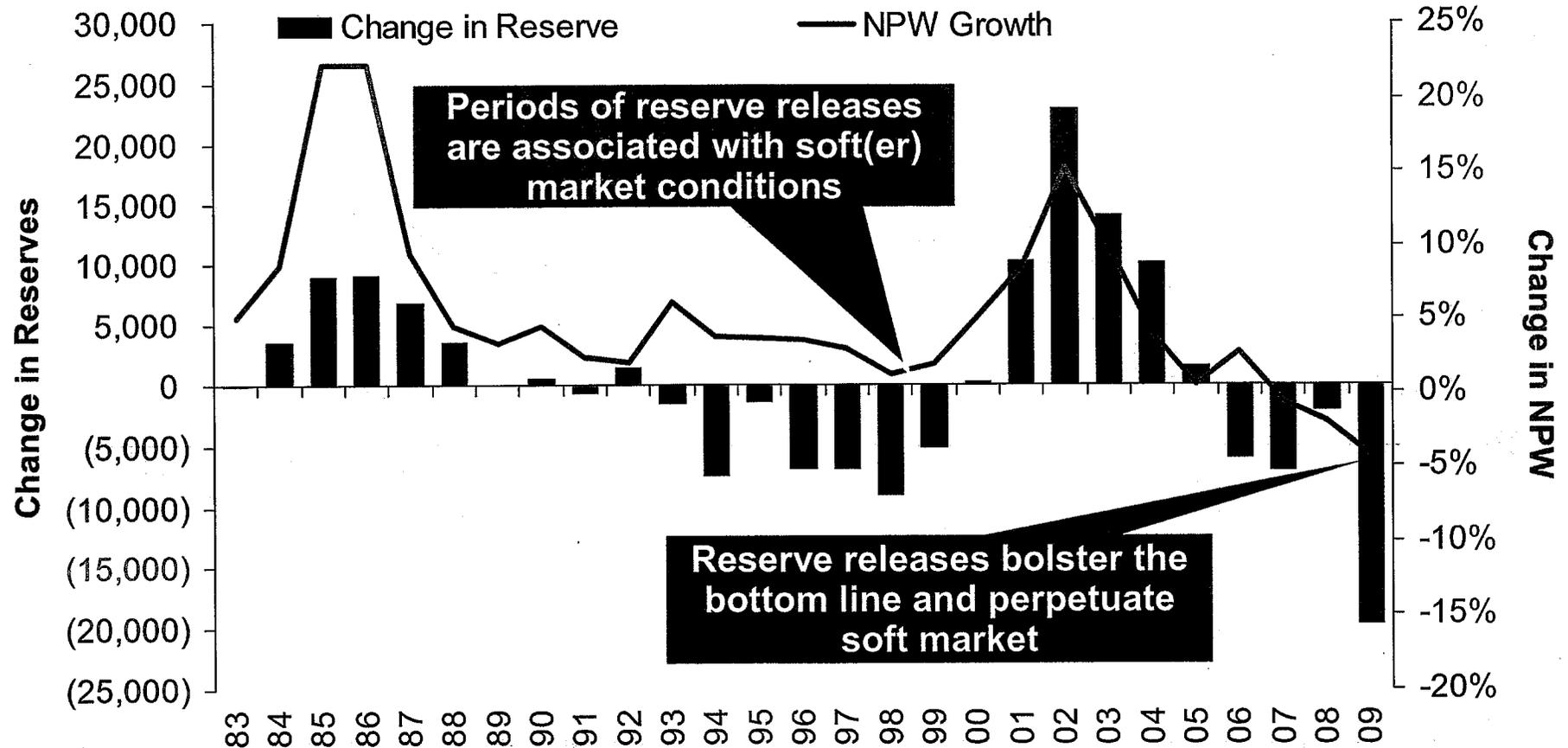
PP Auto Physical Damage: Change in NPW vs. Change in Loss & LAE, 1990 - 2010



Loss Trends Ultimately Drive Premium Trends

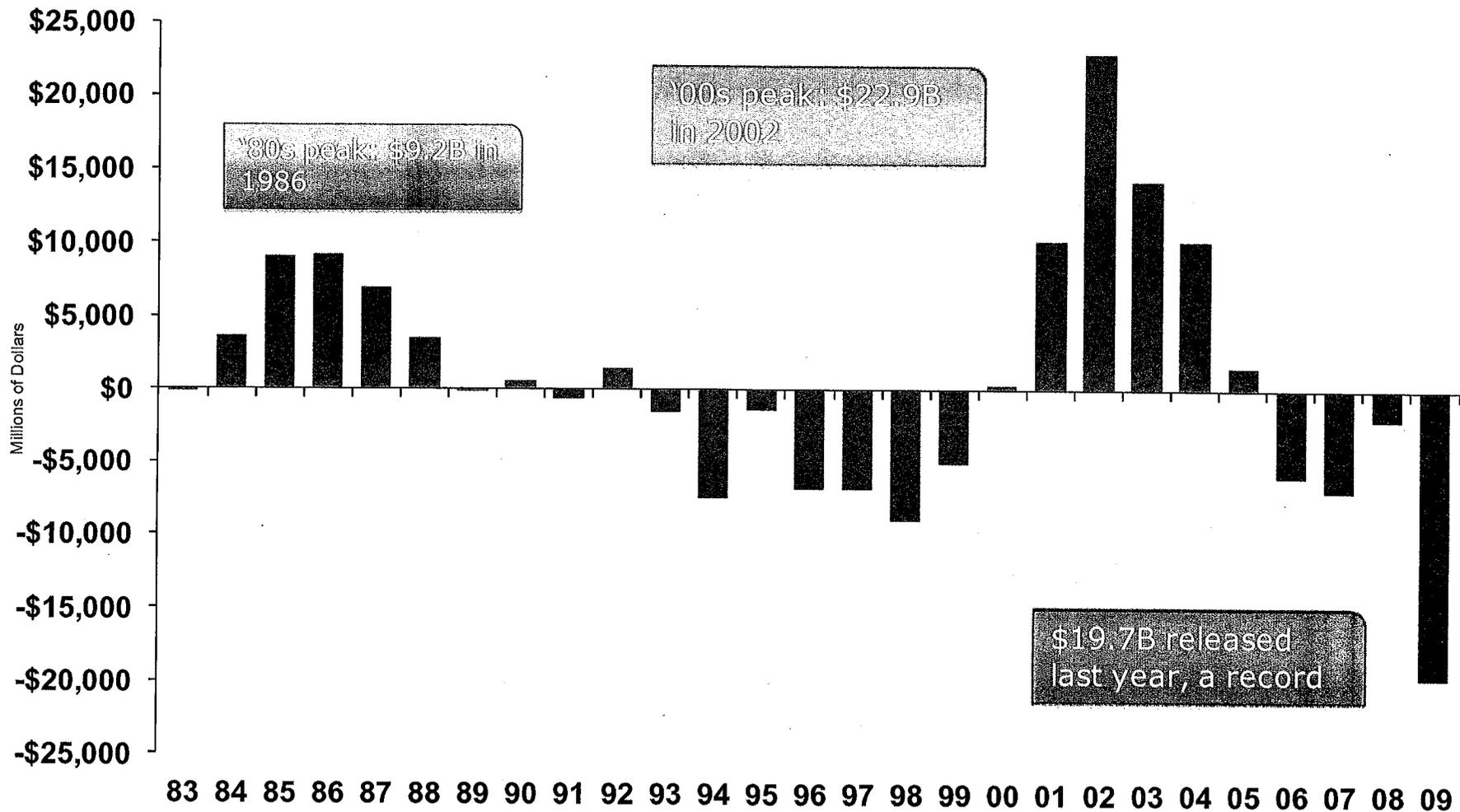
Sources: Insurance Information Institute calculations from A.M. Best data.

P-C Loss Development vs. Change in NPW, 1983-2009



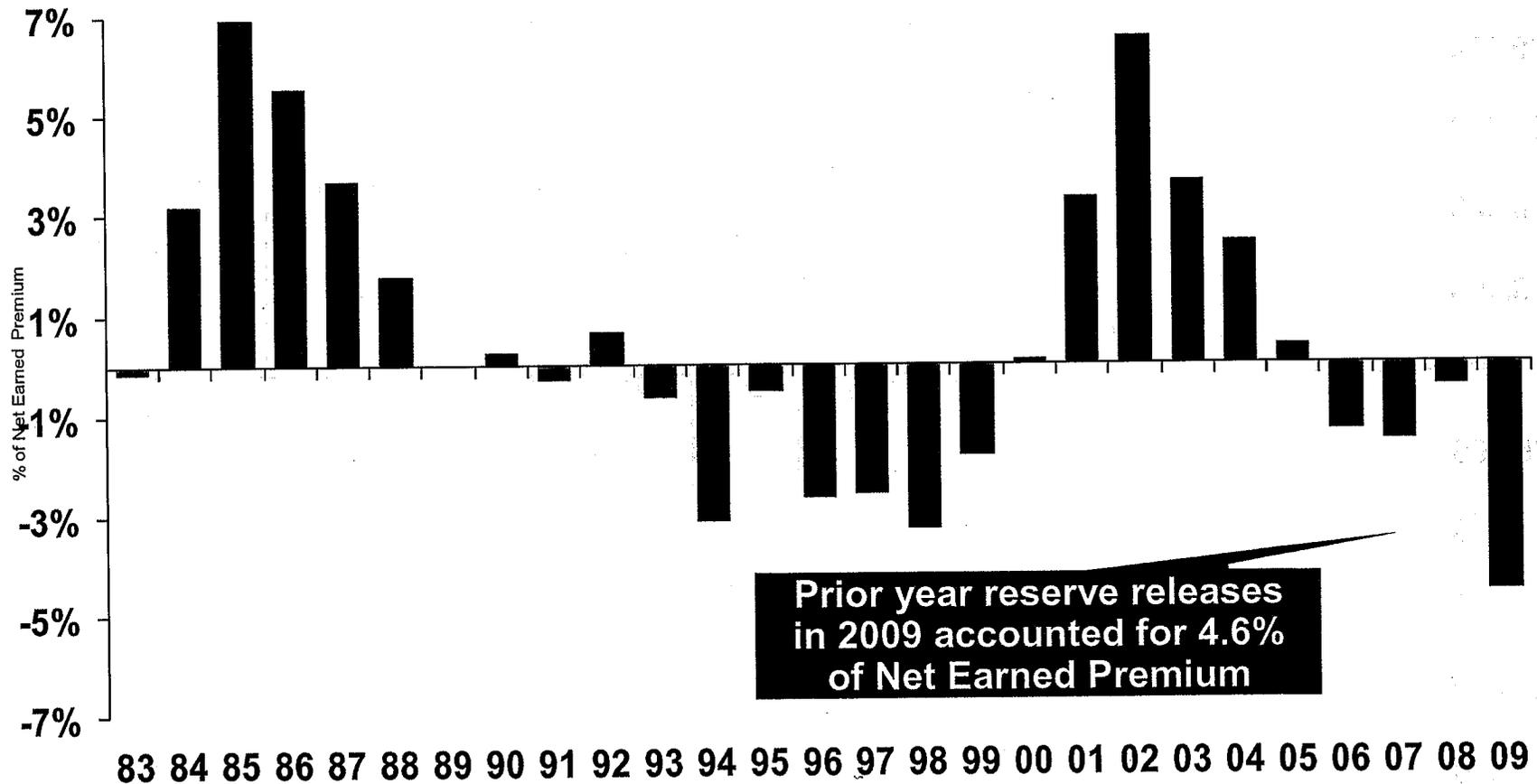
Reserve Releases, in Addition to Losses, Drive Pricing Cycles

P-C Industry Loss Development, 1983-2009 (\$ Millions)



Sources: A.M. Best, Insurance Information Institute

Industry Loss Development as % of Net Earned Premium, 1983-2009



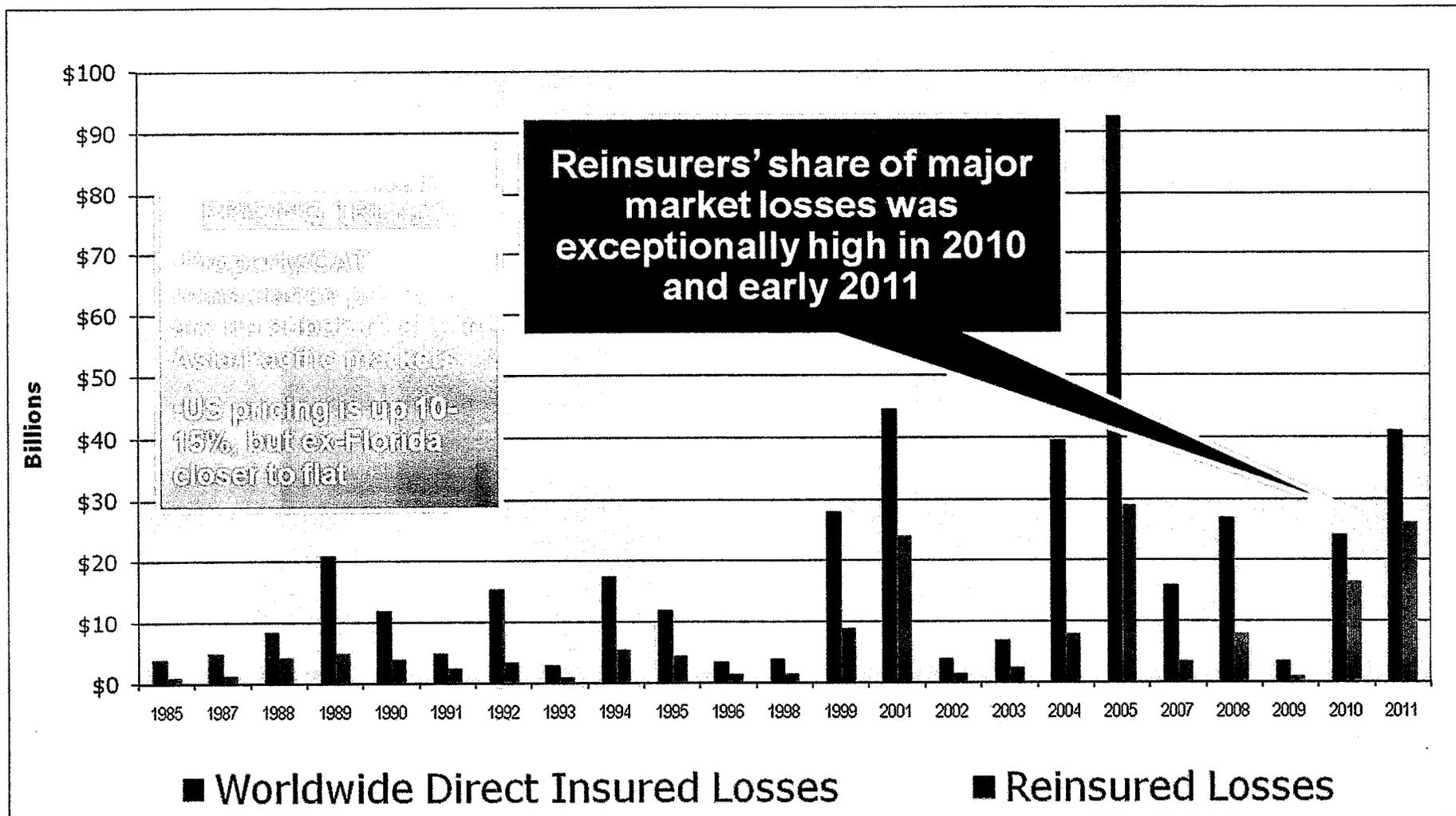
Sources: A.M. Best, Insurance Information Institute



REINSURANCE MARKET CONDITIONS

**Record Global
Catastrophes Activity is
Pressuring Pricing**

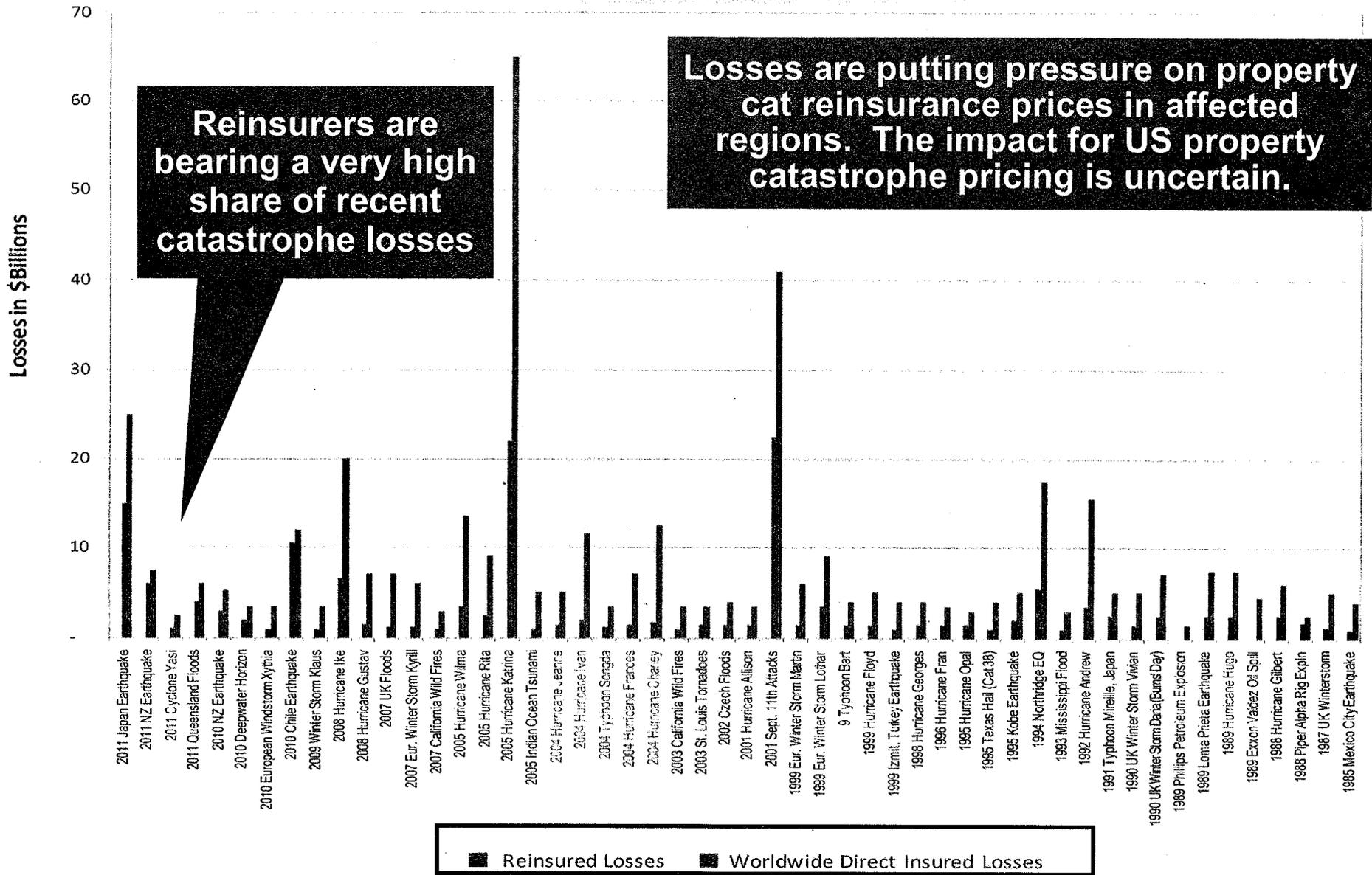
Significant Market Losses, 1985-2011*



Source: Holborn; RAA.

* 2011 events are as of March 31 and are preliminary and may change as loss estimates are refined further.

Significant Market Losses by Event, 1985-2011*

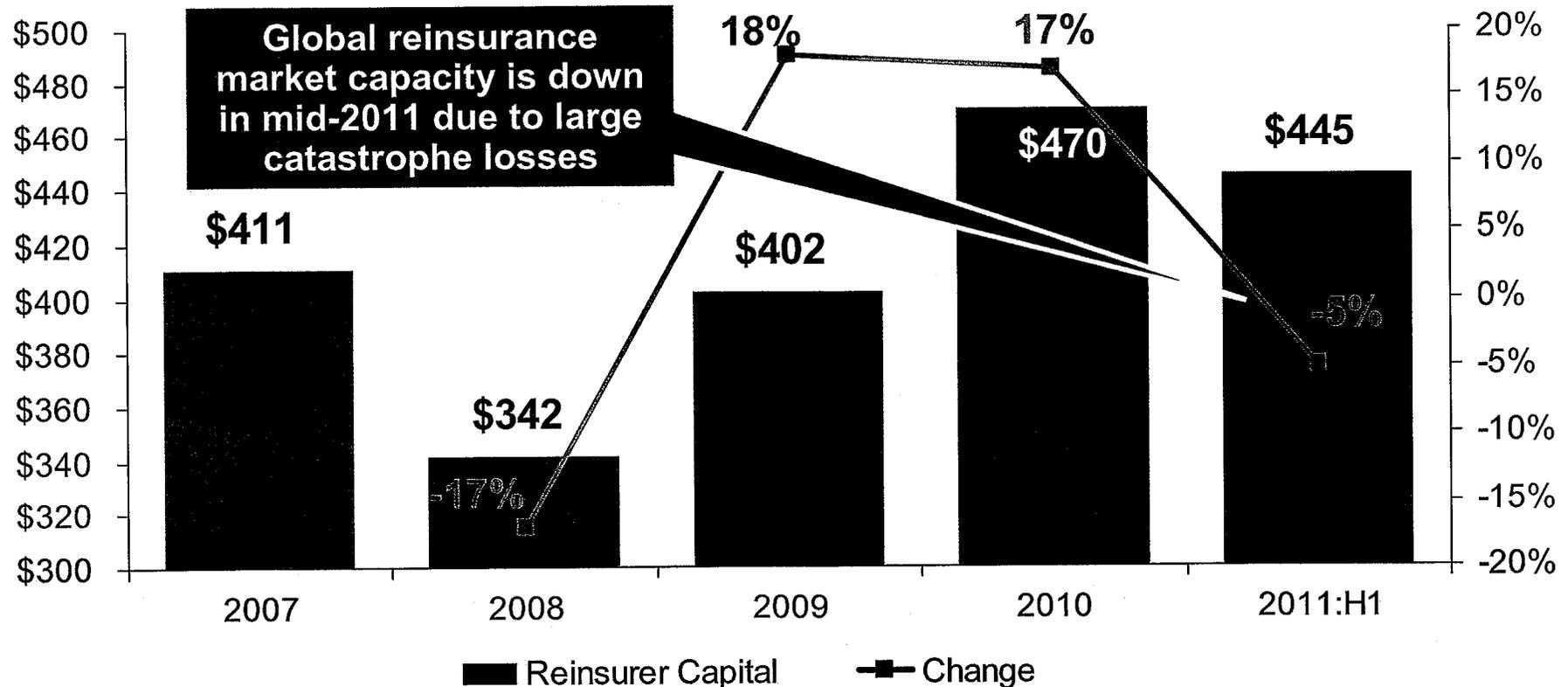


Source: Holborn, RAA. *2011 events as of March 31 are preliminary and may change as loss estimates are refined further.

Global Reinsurance Capital, 2007-2011:H1

Reinsurer Capital

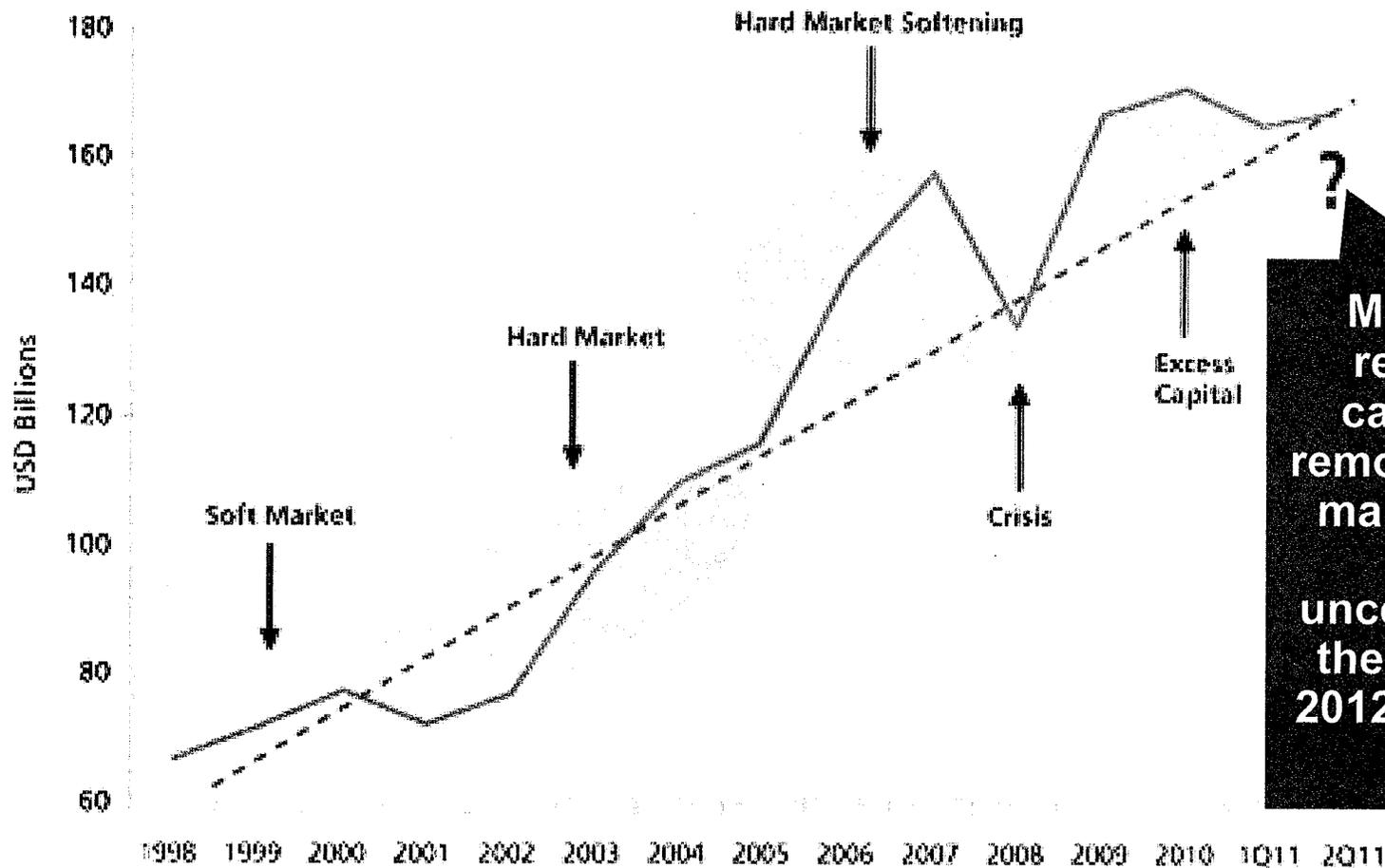
% Change



High Global Catastrophe Losses Have Had a Modest Adverse Impact on Global Reinsurance Market Capacity

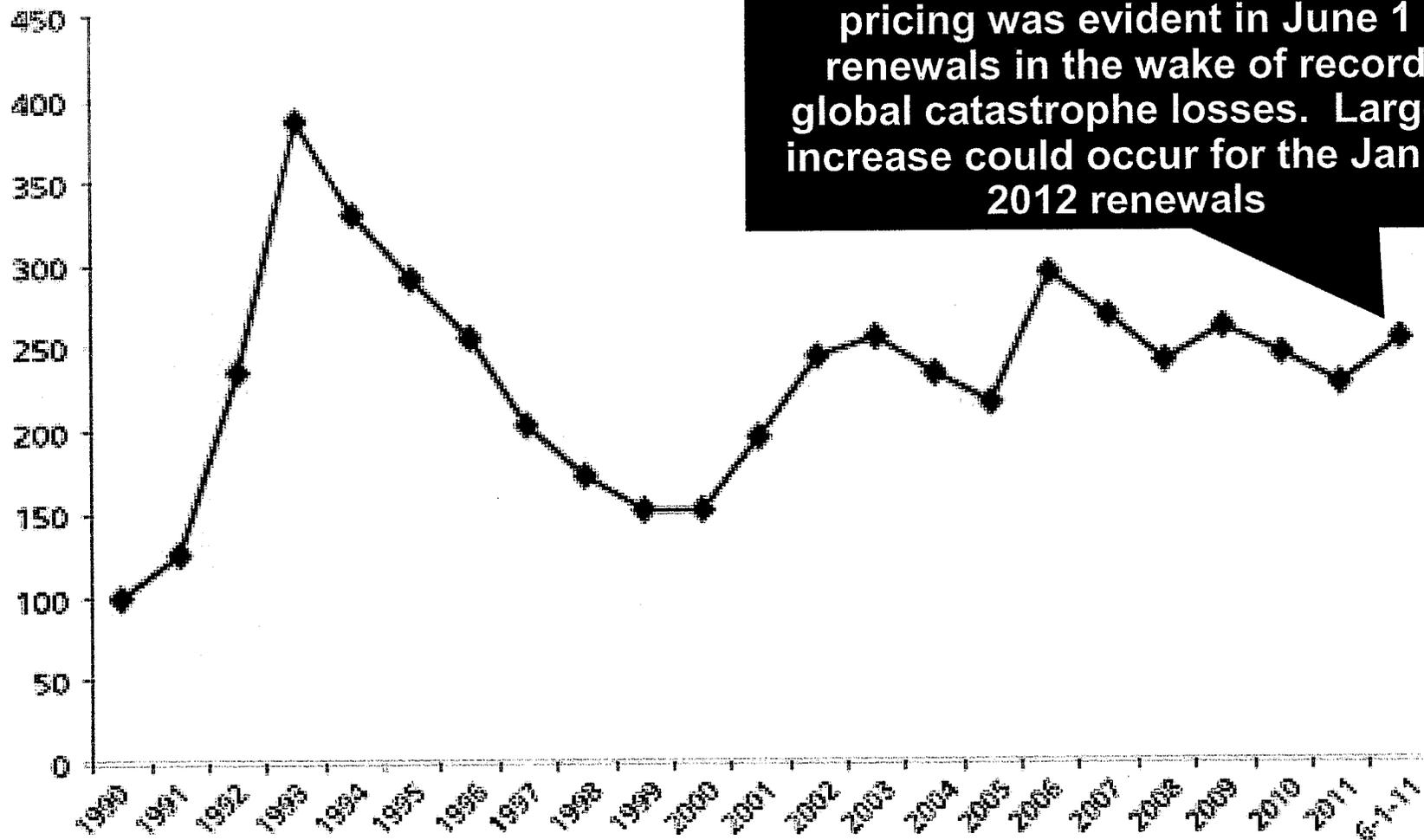
Source: Aon Reinsurance Market Outlook, September 2011 from Individual Company and AonBenfield Analytics; Insurance Information Institute.

Historical Capital Levels of Guy Carpenter Reinsurance Composite, 1998—2Q11



Most excess reinsurance capacity was removed from the market in 2011, leaving uncertainty as to the direction of 2012 reinsurance renewals

Global Property Catastrophe Rate on Line Index, 1990-2011 YTD (6/1/11)



A modest increase in global property catastrophe reinsurance pricing was evident in June 1 renewals in the wake of record global catastrophe losses. Larger increase could occur for the Jan.1, 2012 renewals

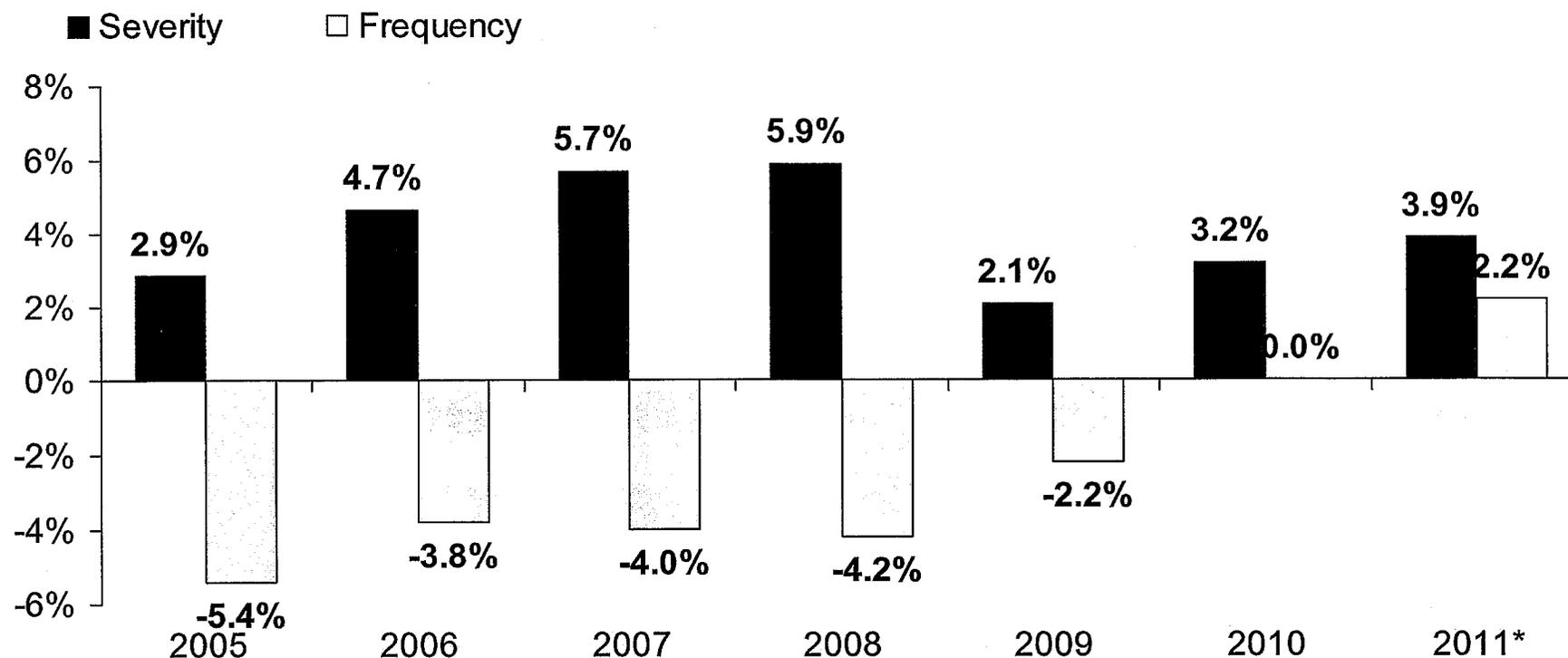


Claim Trends in Auto Insurance

**Rising Costs Held in Check by
Falling Frequency:
Can That Pattern Be Sustained?**

Bodily Injury: Severity Trend Rising, Frequency Decline Has Ended

Annual Change, 2005 through 2011*



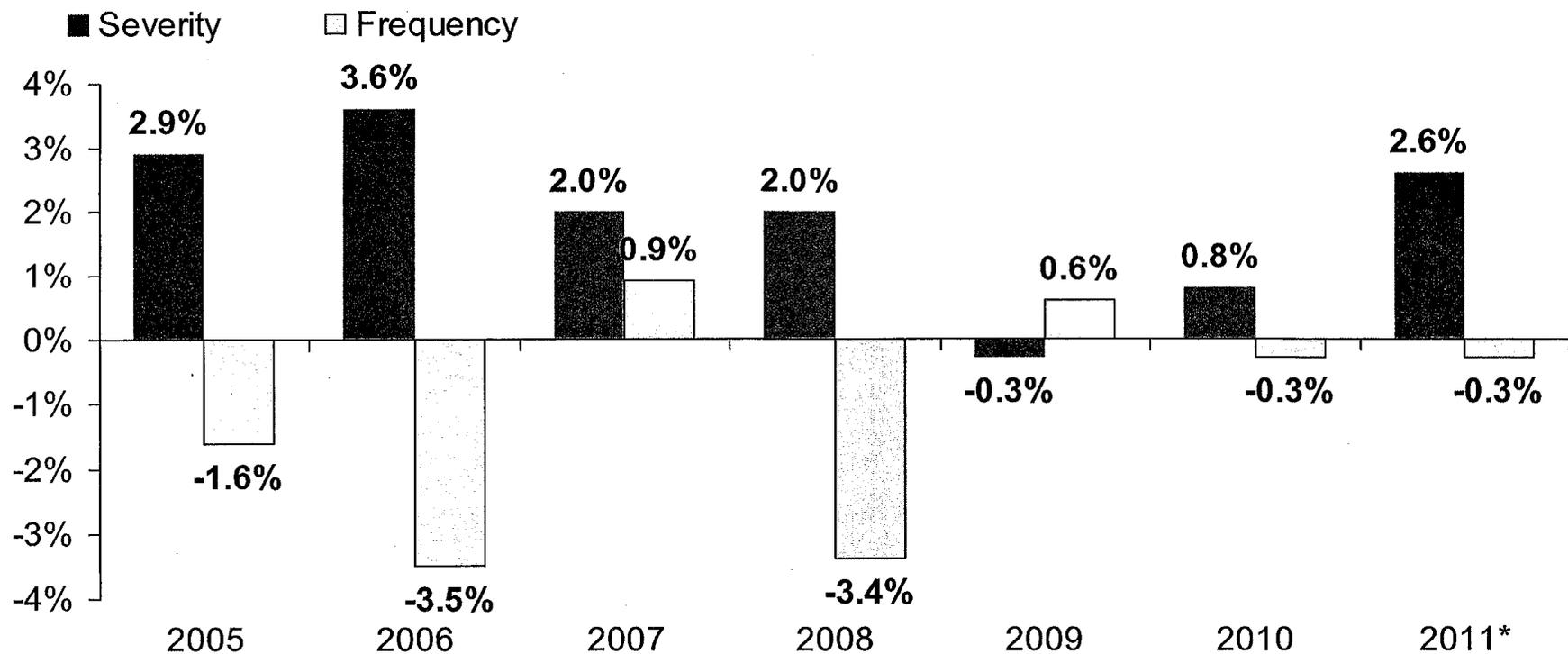
Cost Pressures Will Increase if BI Severity Frequency Increases Continue

*For 2011, data are for the 4 quarters ending with 2011:Q2.
Source: ISO/PCI *Fast Track* data; Insurance Information Institute

Property Damage Liability: Severity is Up, Frequency Nearly Flat Since 2009



Annual Change, 2005 through 2011*



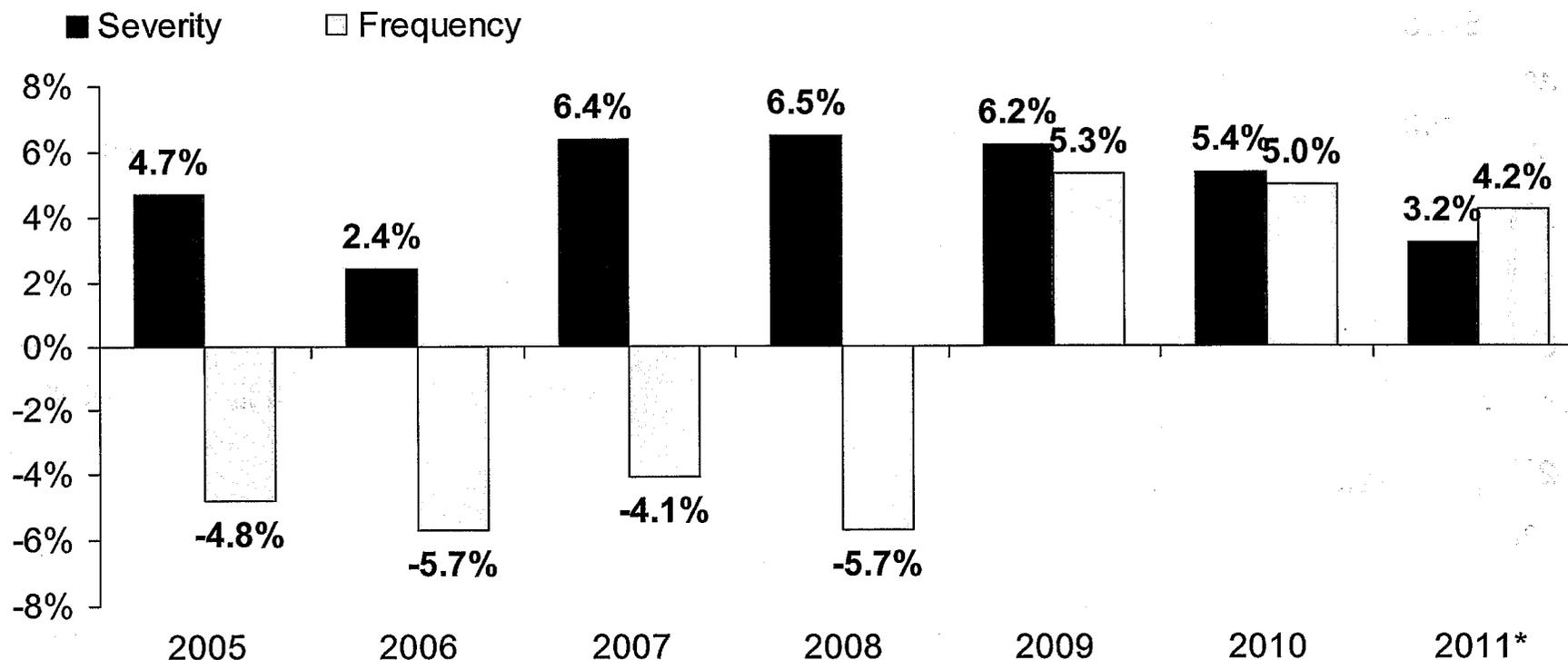
Severity/Frequency Trends Were Stable Through 2010, But Rising Severity in 2011 Is a Concern

*For 2011, data are for the 4 quarters ending with 2011:Q2.
Source: ISO/PCI *Fast Track* data; Insurance Information Institute

No-Fault (PIP) Liability: Frequency and Severity Trends Are Adverse*



Annual Change, 2005 through 2011*

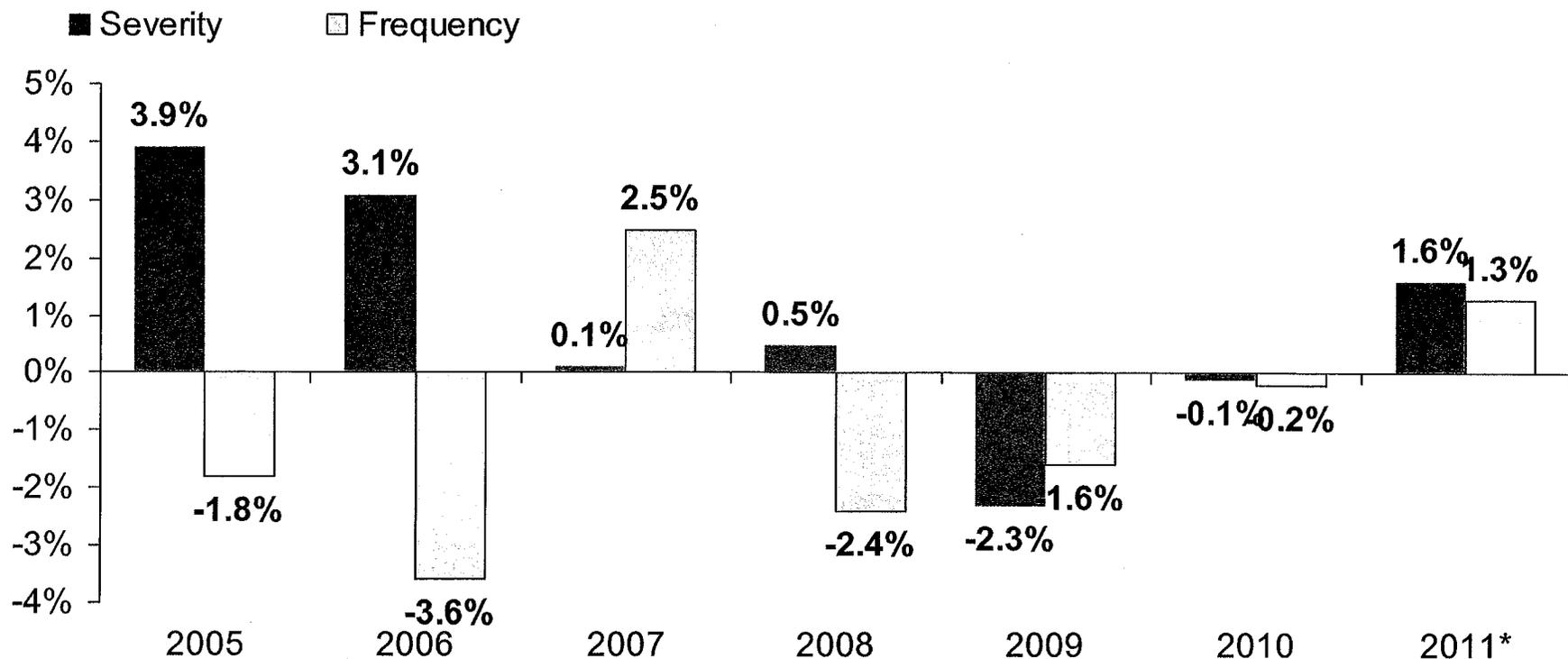


Multiple States Are Experiencing Severe Fraud and Abuse Problems in their No-Fault Systems, Especially FL, MI, NY and NJ

*No-fault states included are: FL, HI, KS, KY, MA, MI, MN, NY, ND and UT; 2010 data are for the 4 quarters ending 2011:Q2.
Source: ISO/PCI *Fast Track* data; Insurance Information Institute

Collision Coverage: Frequency and Severity Trends Have Been Favorable

Annual Change, 2005 through 2011*



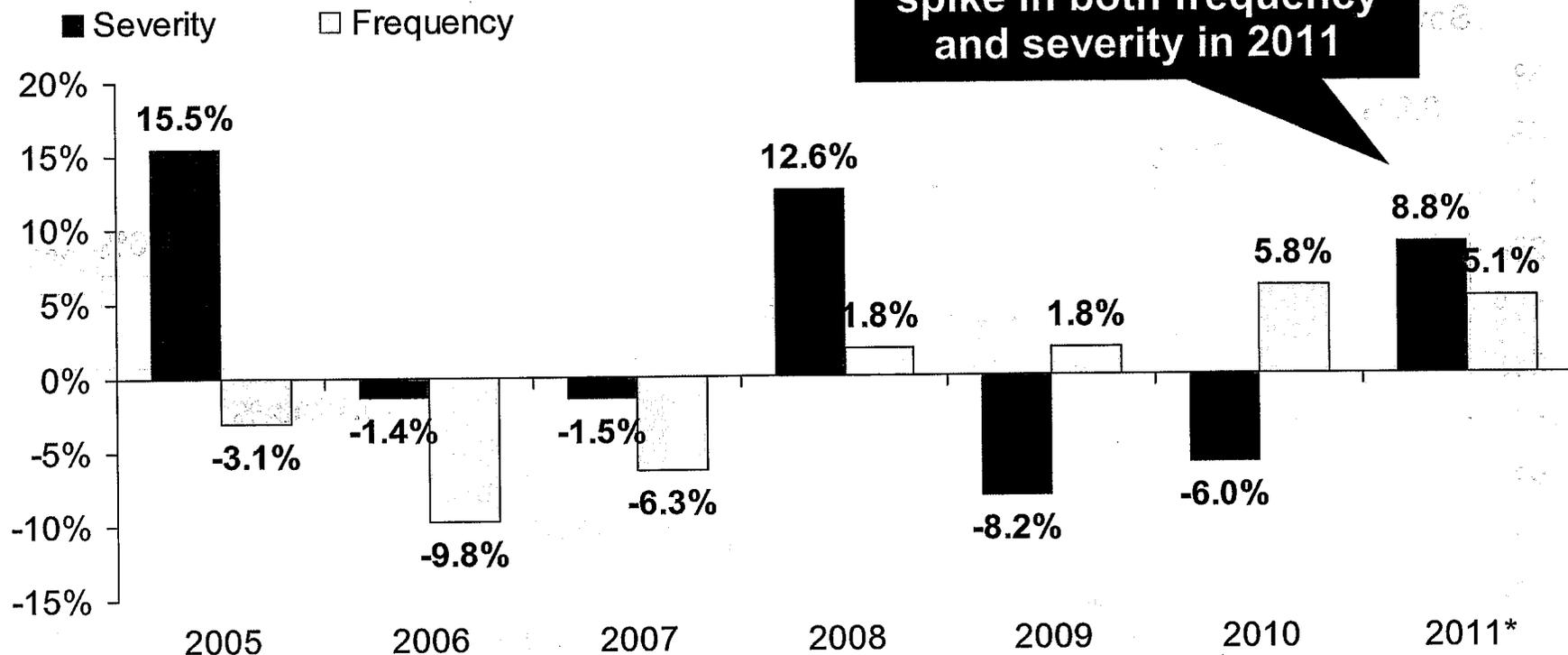
The Recession, High Fuel Prices Have Helped Temper Frequency and Severity, But this Trend Will Likely Be Reversed Based on Evidence from Past Recoveries

*For 2011, data are for the 4 quarters ending with 2011:Q2.

Source: ISO/PCI Fast Track data; Insurance Information Institute

Comprehensive Coverage: Frequency and Severity Trend in 2011 is Unfavorable

Annual Change, 2005 through 2011*



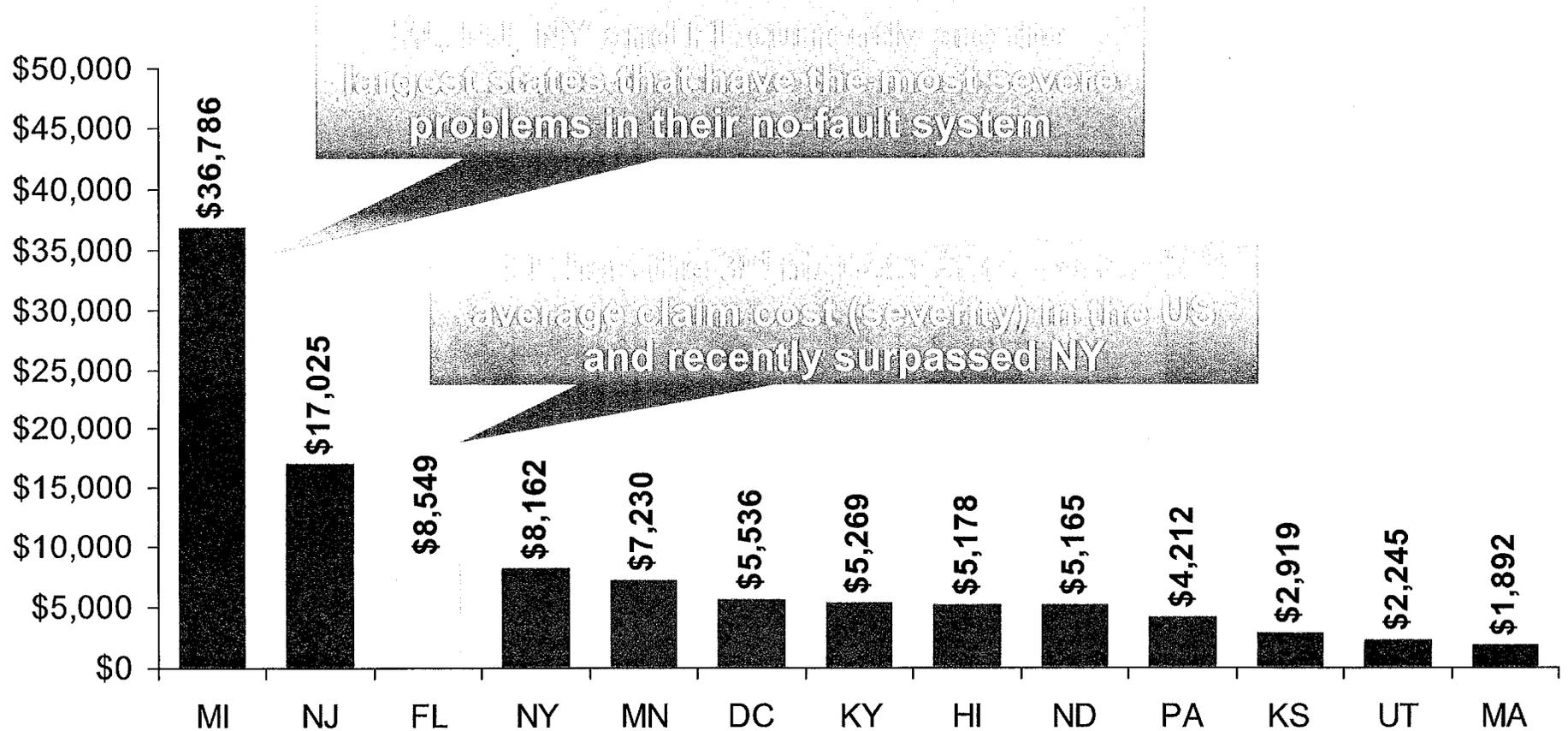
Severe weather is likely a principal cause of the spike in both frequency and severity in 2011

Weather Creates Volatility for Comprehensive Coverage; Recession Has Helped Push Down Frequency and Temper Severity, But This Factors Will Weaken as Economy Recovers

*For 2011, data are for the 4 quarters ending with 2011:Q2.

Source: ISO/PCI *Fast Track* data; Insurance Information Institute

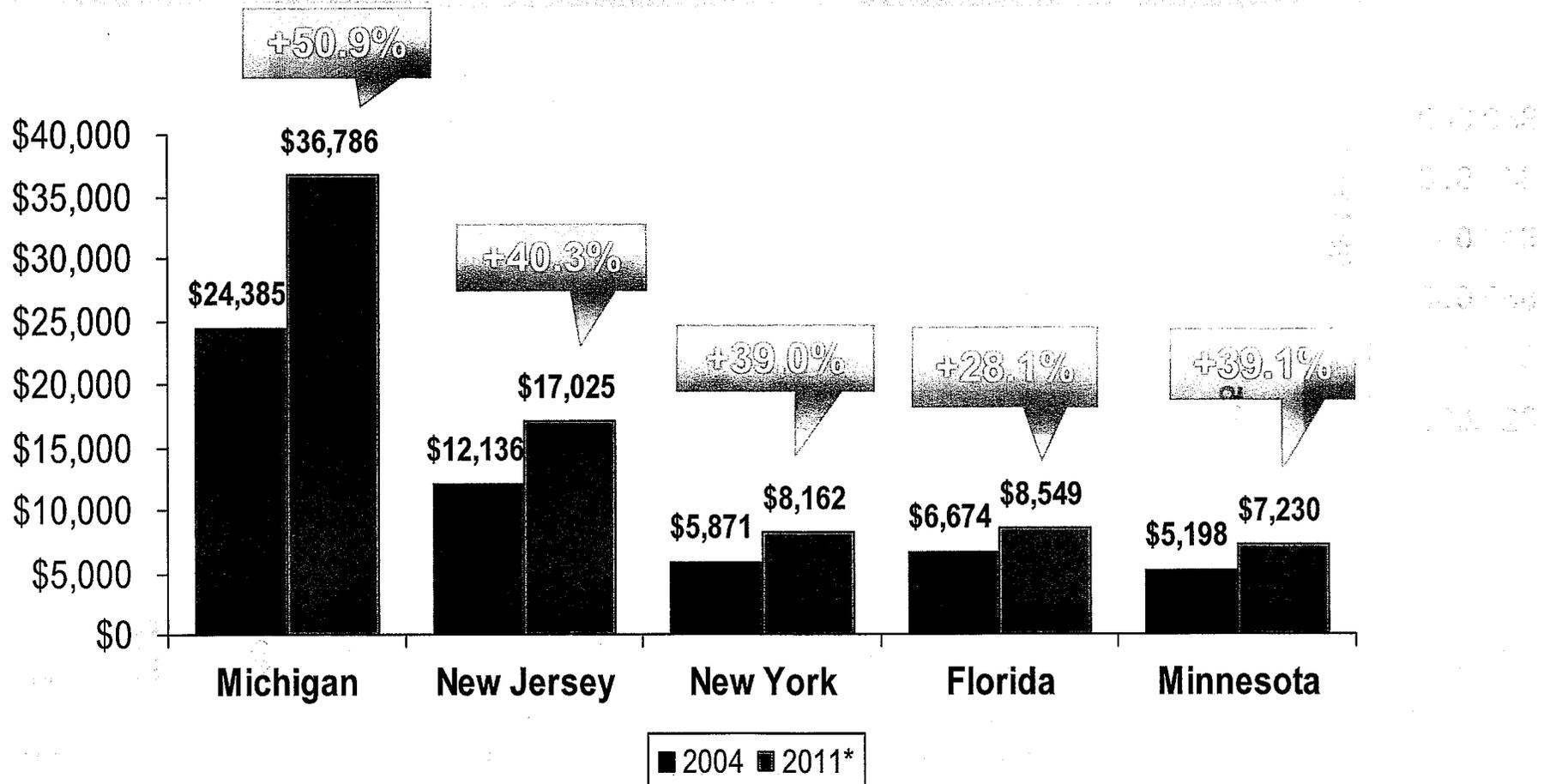
Average No-Fault Claim Severity, 2011:Q2*



Several States Including FL Have Severe and Growing Problems With Rampant Fraud and Abuse in their No-Fault Systems. Claim Severities Are Up Sharply.

*Average of the four quarters ending 2011:Q2.
Source: ISO/PCI *Fast Track* data; Insurance Information Institute.

Increase in No-Fault Claim Severity: Selected States, 2004-2011*

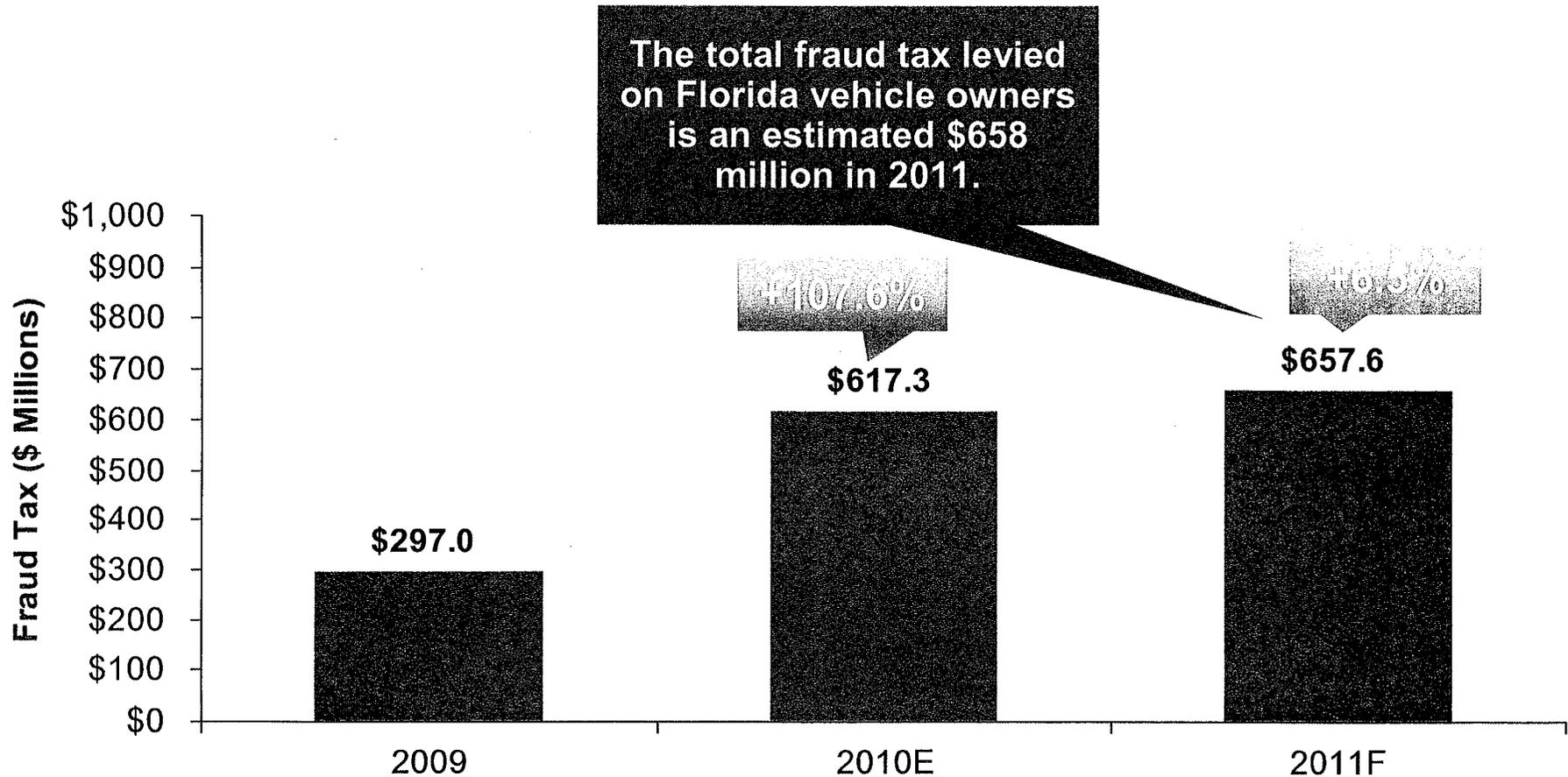


The no-fault systems in MI, NJ, NY, FL, and MN are under stress due to rising fraud and abuse, which leads to higher premiums for honest drivers.

*2011 figures are for the 4 quarters ending 2011:Q2.

Sources: Insurance Information Institute research from ISO/PCI *Fast Track* data.

Florida's No-Fault Fraud Tax: Estimated Aggregate Annual Cost, 2009-2011E (\$ Millions)



Unscrupulous Medical Providers and Attorneys Are Costing Honest Florida Drivers Hundreds of Millions of Dollars

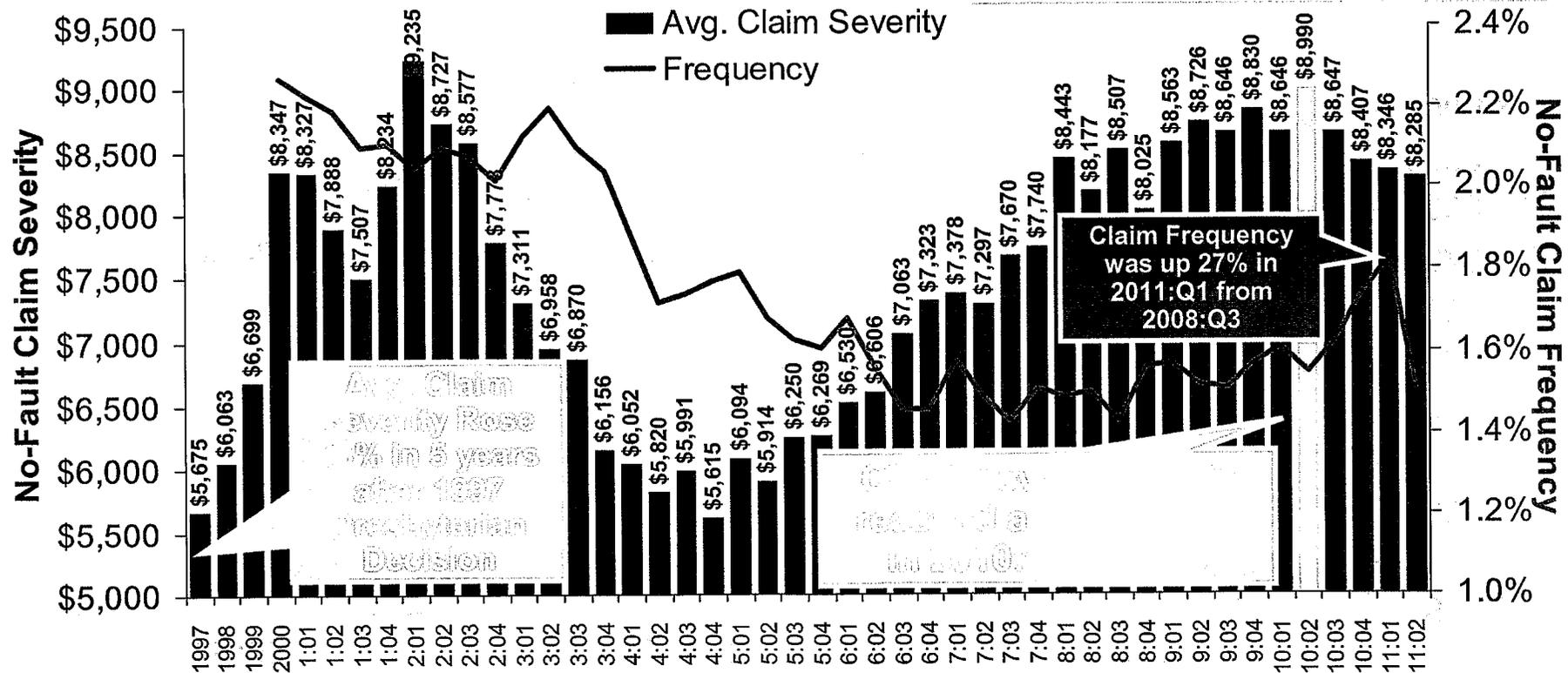
*2011 estimate is based on data through Q2:2011.

Source: Insurance Information Institute calculations and research from ISO/PCI and AIPSO data.

New York State No-Fault Claim Frequency and Severity, 1997-2011:Q2

No-Fault Claim Severity

Avg. Claim Severity is up 48% since 2004:Q4 through 2011:Q2



About 10% of No-Fault Claim Costs in 2011 Were Estimated to Be Attributable to Fraud and Abuse

*2011 figure is based on data for the 4 quarters ending Q2:2011, adjusted by I.I.I. for 2011:Q1 data anomaly.
 Source: Insurance Information Institute calculations and research from ISO/PCI Fast Track data.

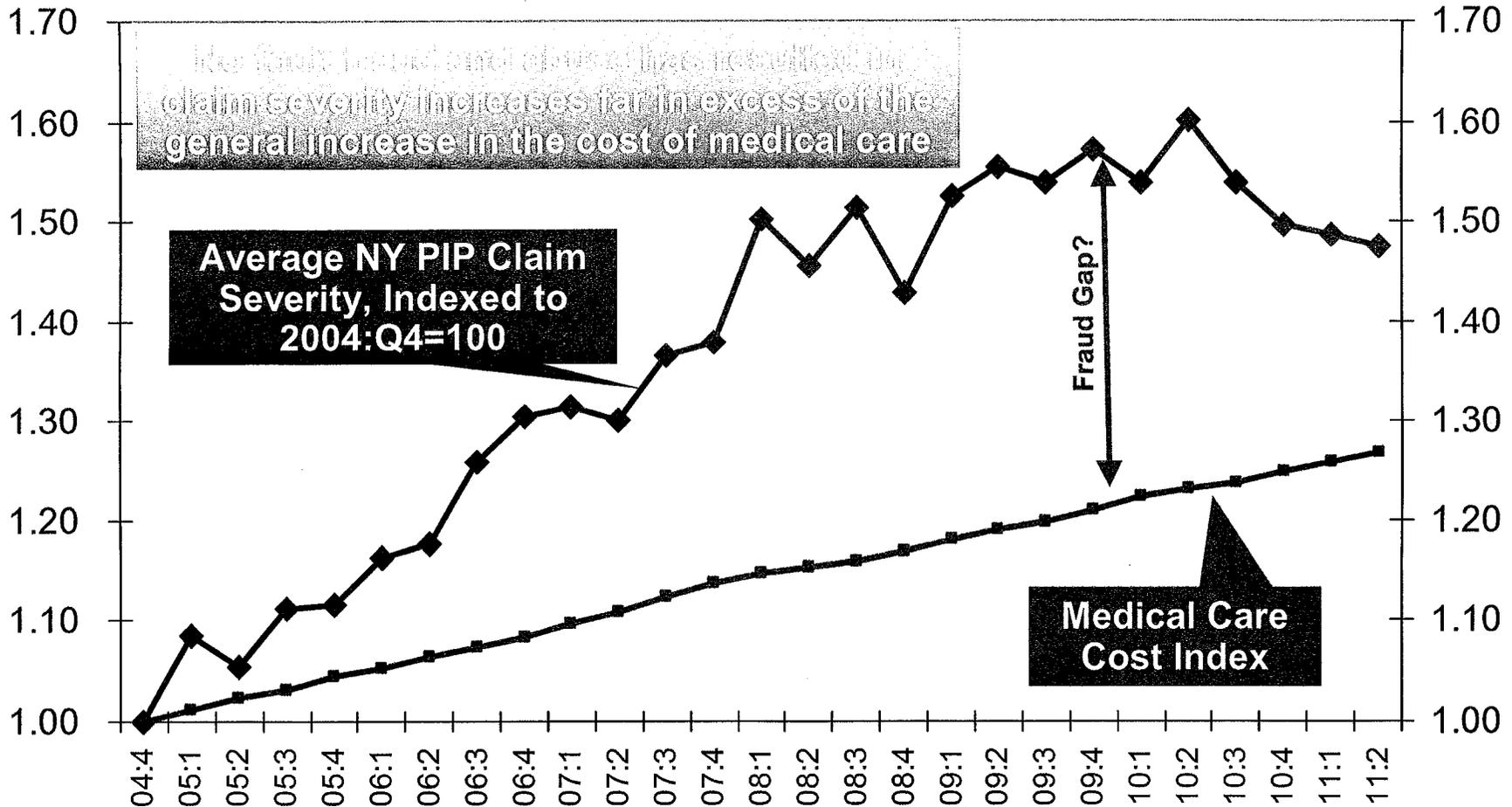
New York's No-Fault Fraud Problem, Paid Claims Severity**



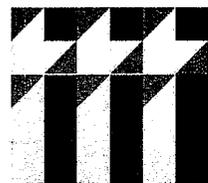
Medical Care Cost Index

NY PIP Severity Index

—■— US city medical care index* —◆— NY PIP Avg claim severity



*Middle month of quarter **For the four quarters ending in quarter indicated
 Sources: Insurance Information Institute calculations based on ISO/PCI *Fast Track* Data and BLS Medical Care CPI

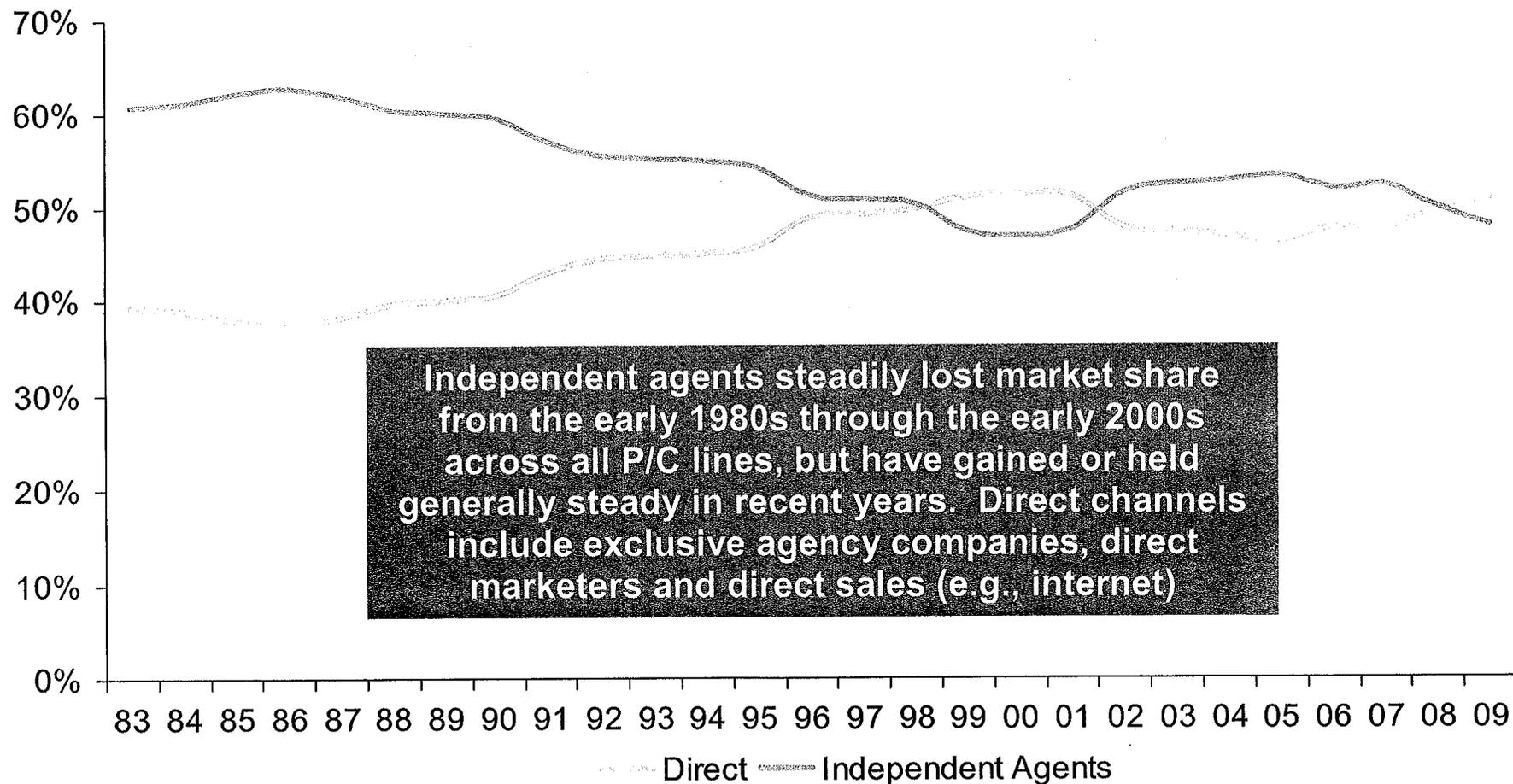


**INSURANCE
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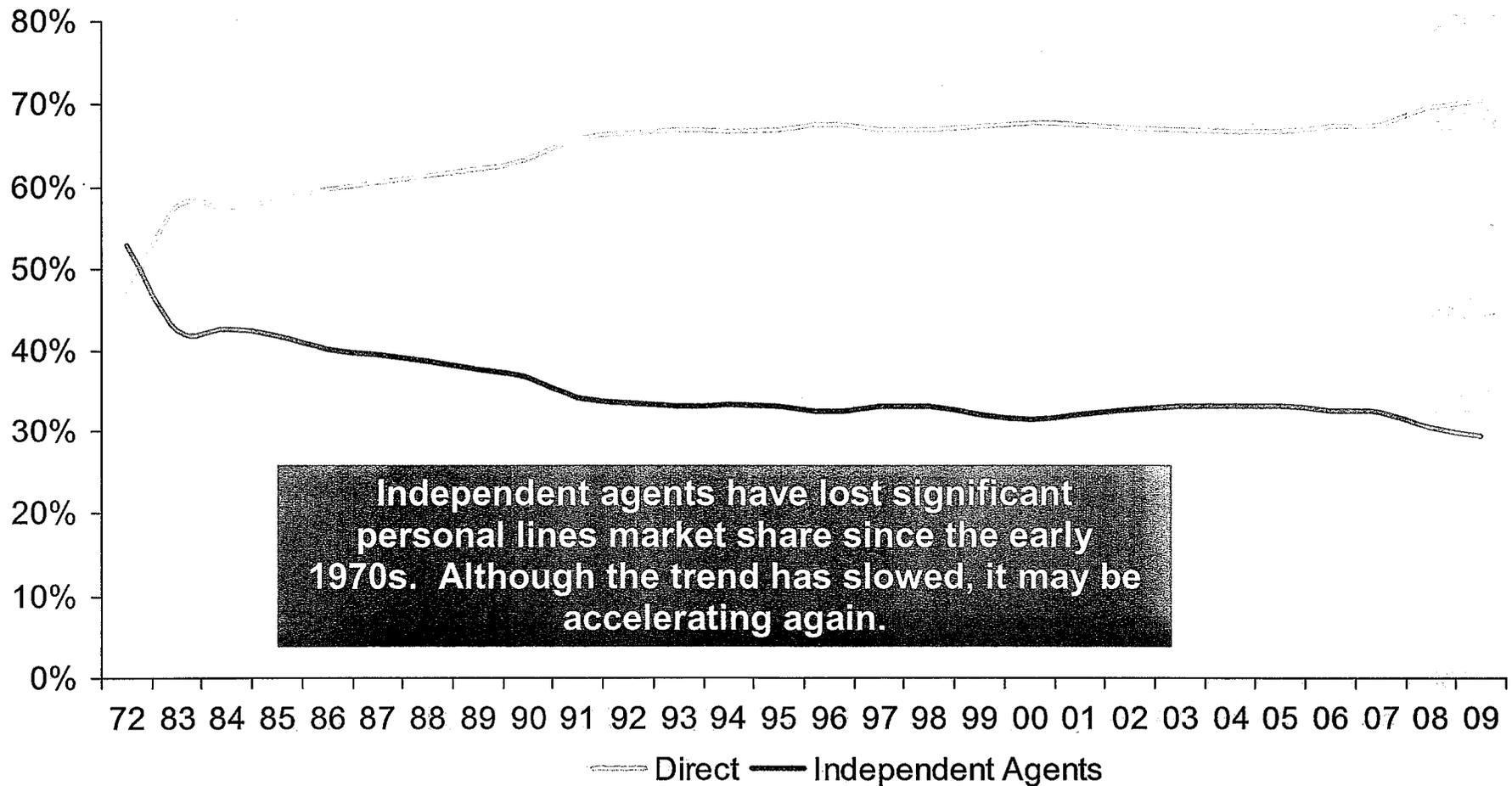
Distribution Trends

Distribution by Channel Type Continues to Evolve

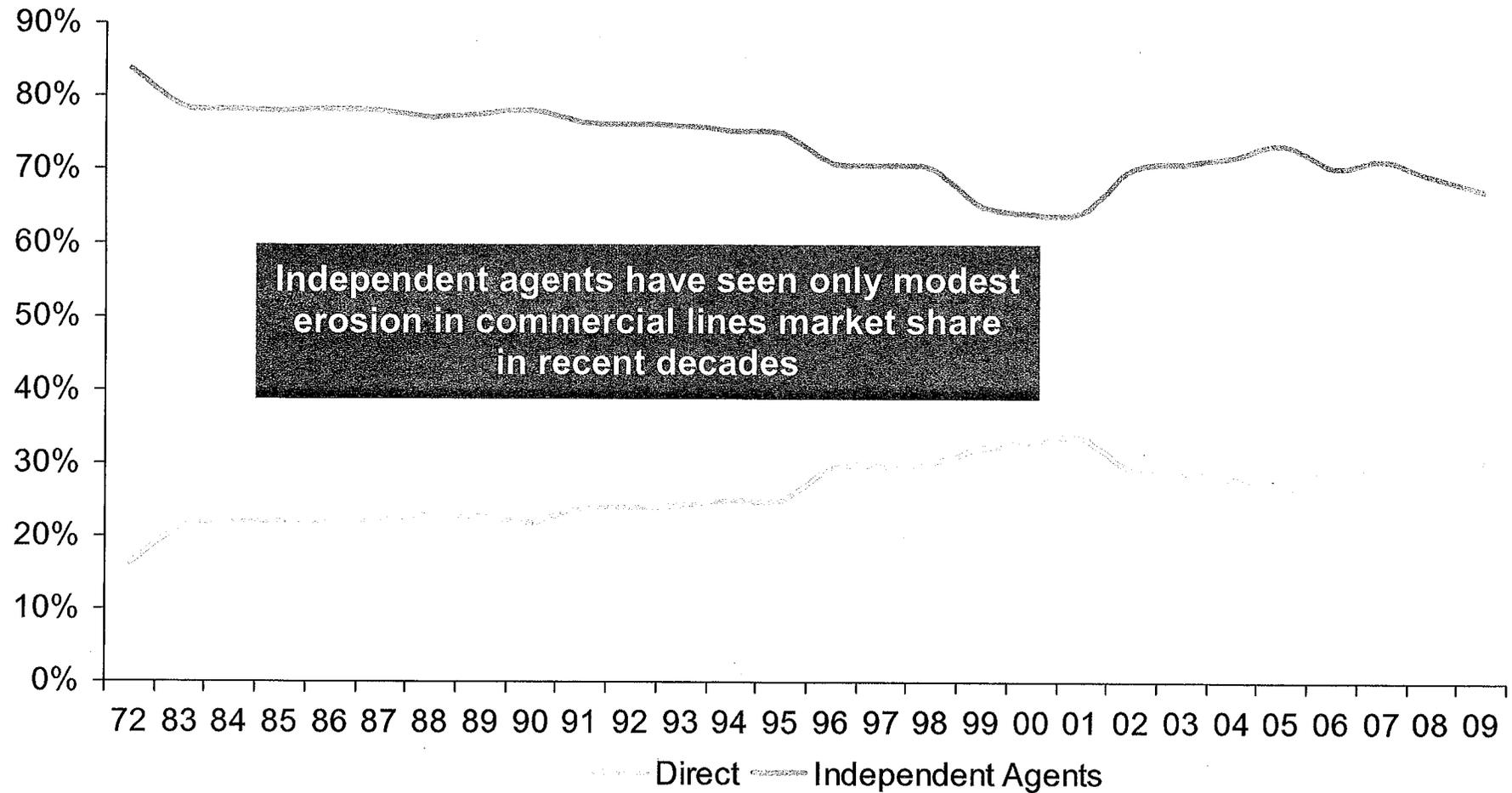
All P/C Lines Distribution Channels, Direct vs. Independent Agents



Personal Lines Distribution Channels, Direct vs. Independent Agents



Commercial P/C Distribution Channels, Direct vs. Independent Agents



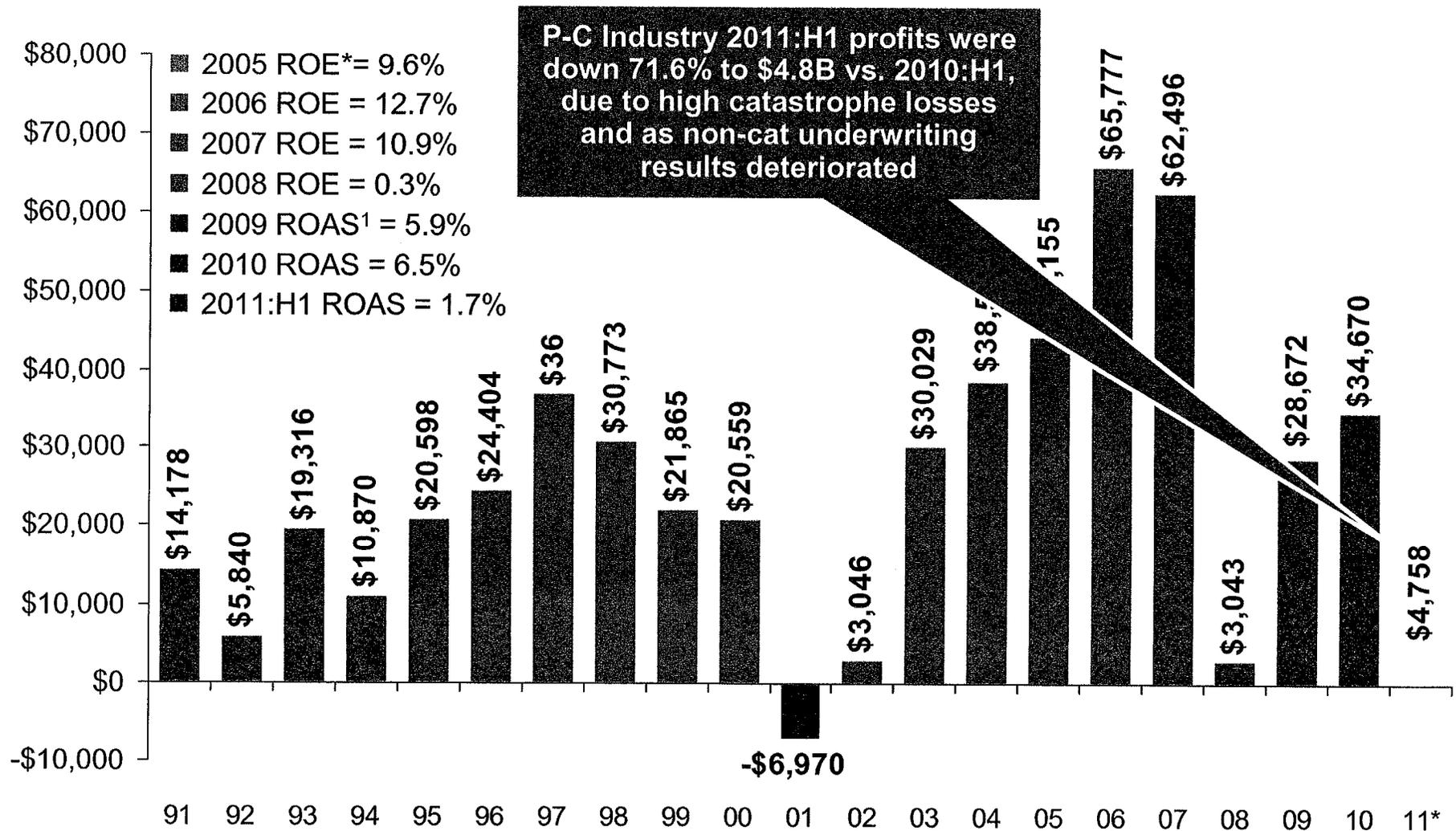
Source: Insurance Information Institute; based on data from Conning and A.M. Best.



P/C Insurance Industry Financial Overview

**Profit Recovery Will Be Set
Back by High CATs, Low
Interest Rates, Diminishing
Reserve Releases**

P/C Net Income After Taxes 1991–2011:H1 (\$ Millions)



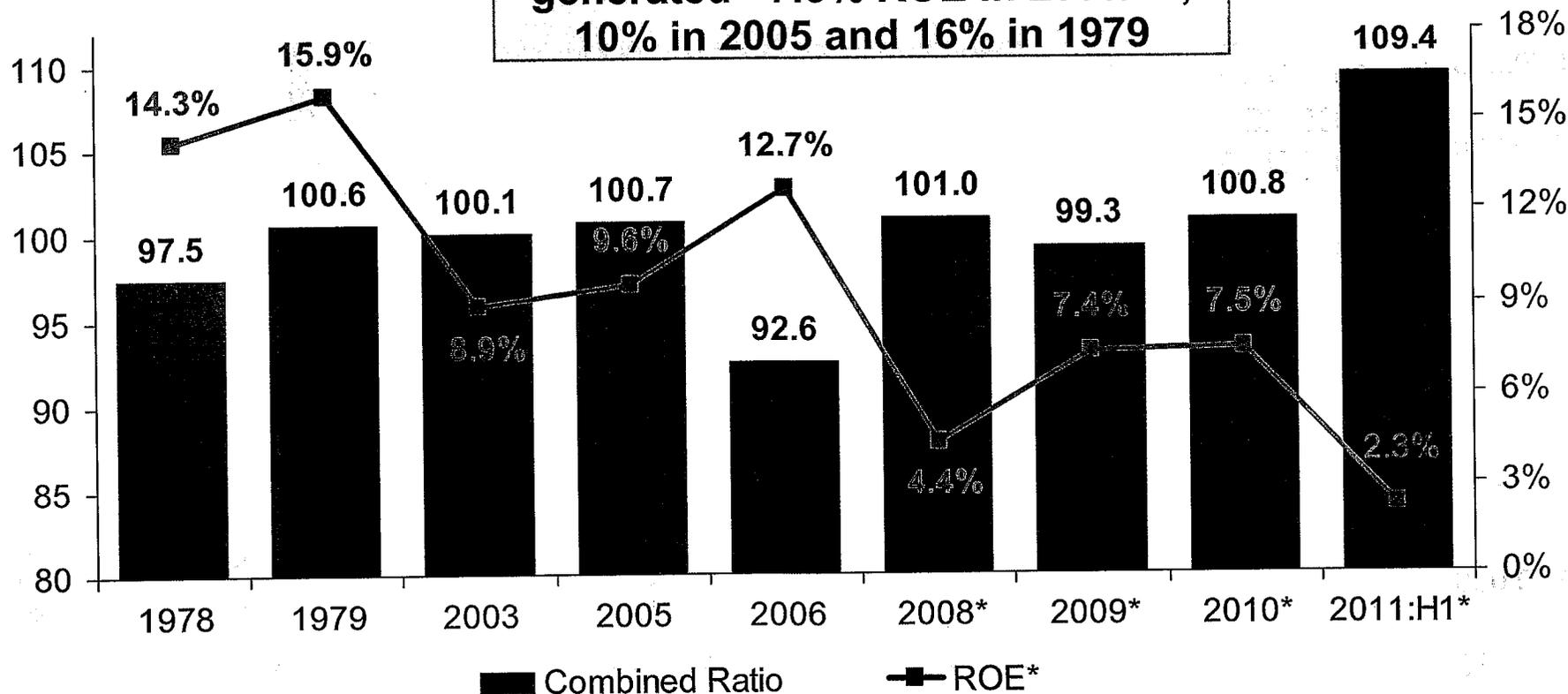
* ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 2.3% ROAS for 2011:H1, 7.5% for 2010 and 7.4% for 2009.

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

A 100 Combined Ratio Isn't What It Once Was: Investment Impact on ROEs

Combined Ratio / ROE

A combined ratio of about 100 generated ~7.5% ROE in 2009/10, 10% in 2005 and 16% in 1979

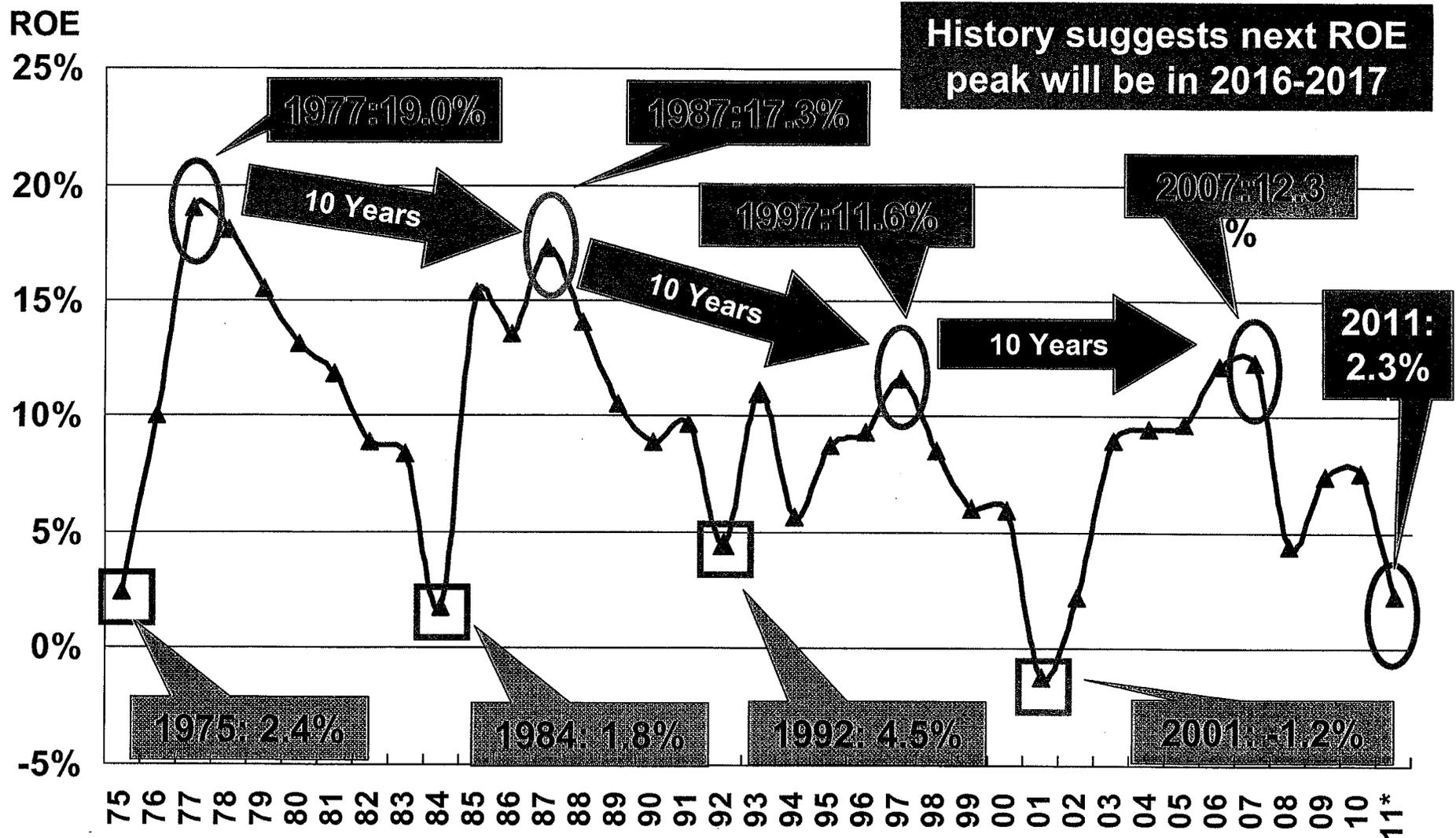


Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2009 and 2010 figures are return on average statutory surplus. 2008 -2011 figures exclude mortgage and financial guaranty insurers. 2011H1 combined ratio including M&FG insurers is 110.5 , ROAS = 2.3%.

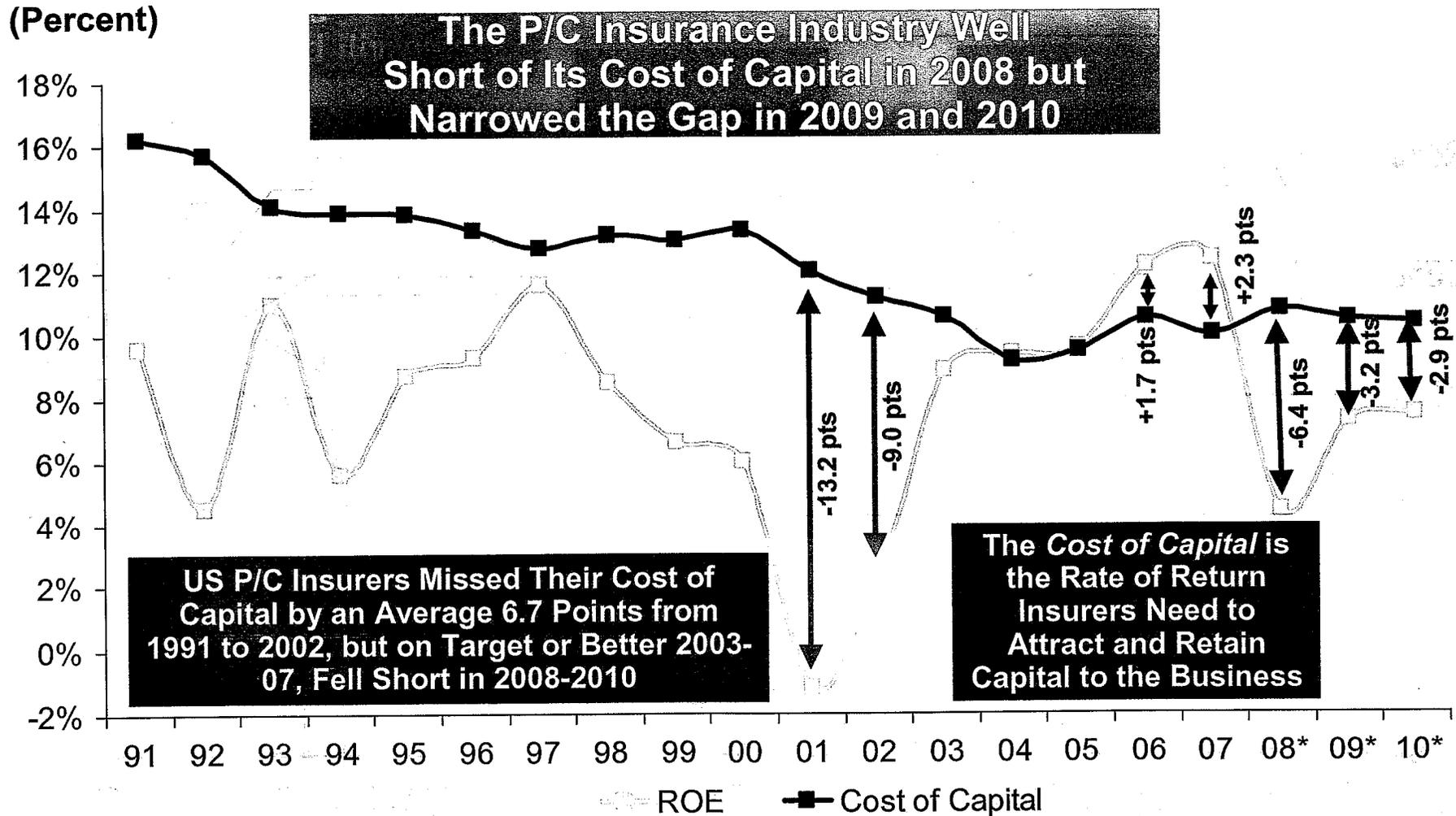
Source: Insurance Information Institute from A.M. Best and ISO data.

Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2011*



*Profitability = P/C insurer ROEs are I.I.I. estimates. 2011 figure is an estimate based on annualized ROAS for H1 data.
 Note: Data for 2008-2011 exclude mortgage and financial guaranty insurers. For 2011:H1 ROAS = 1.7% including M&FG.
 Source: Insurance Information Institute; NAIC, ISO, A.M. Best.

ROE vs. Equity Cost of Capital: U.S. P/C Insurance:1991-2010:H1*



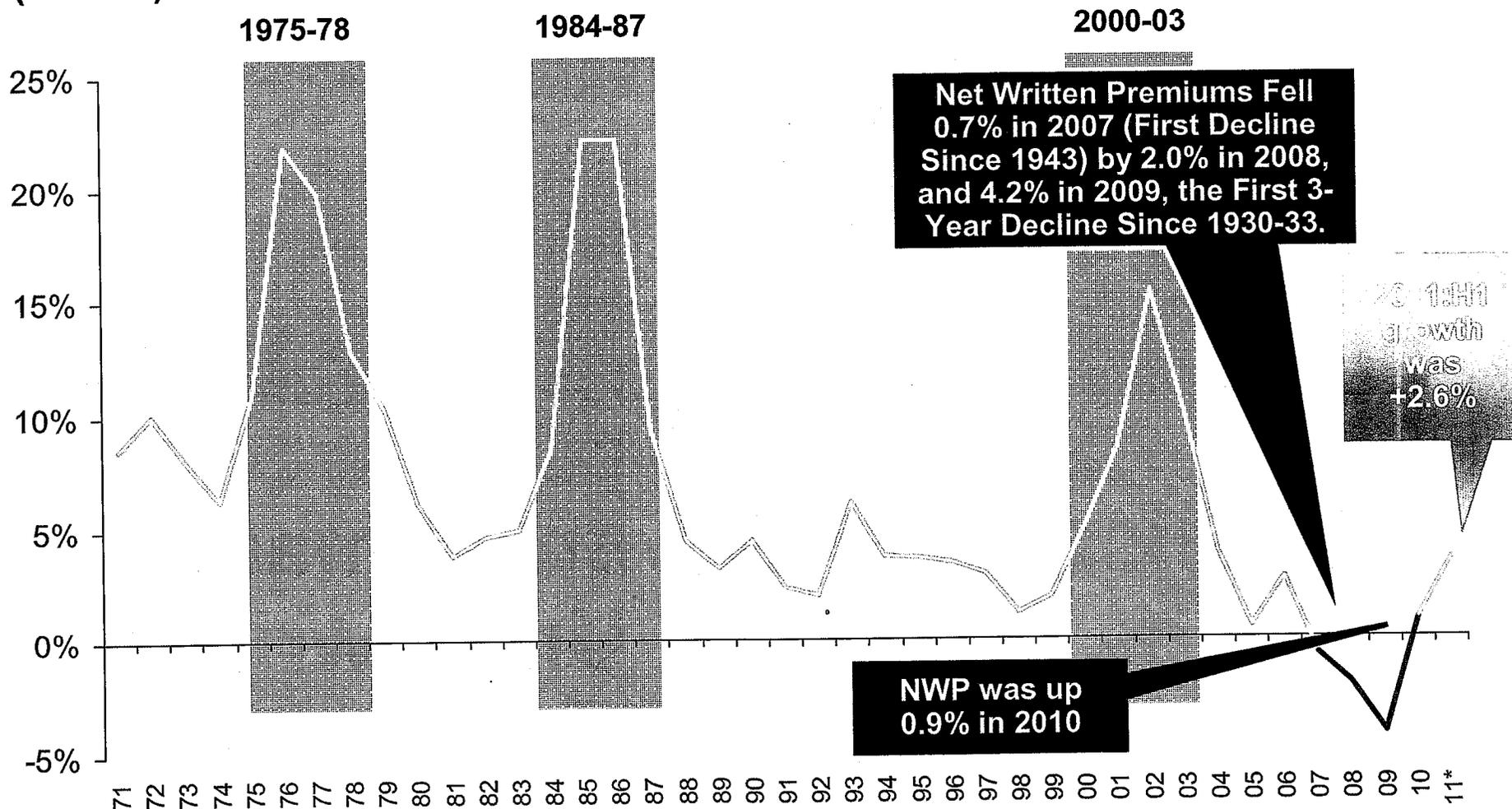
* Return on average surplus in 2008-2010 excluding mortgage and financial guaranty insurers.
Source: The Geneva Association, Insurance Information Institute

P/C Premium Growth Cycles

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

Soft Market Persisted in 2010 but Growth Returned: More in 2011/12?

(Percent)

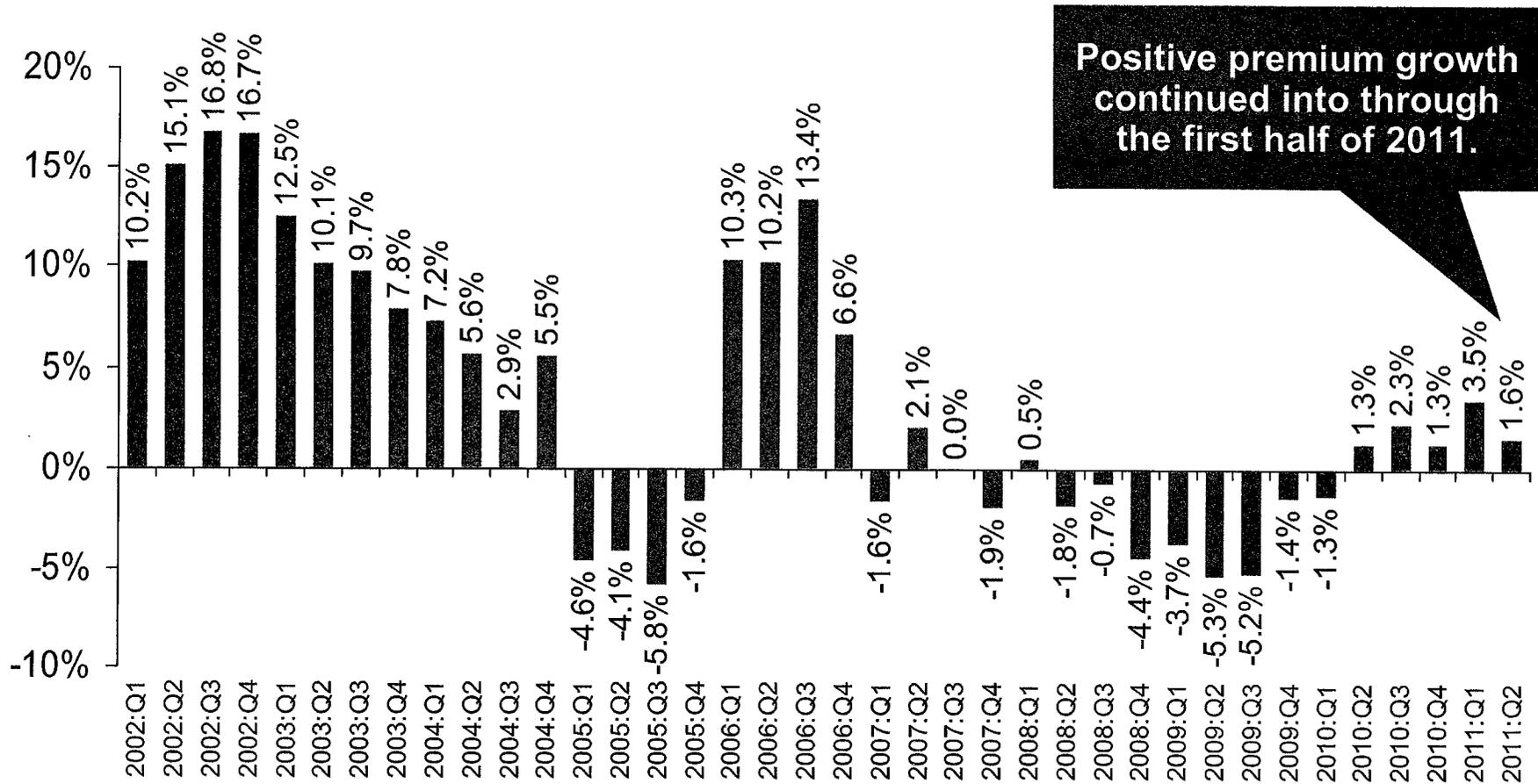


*2011 figure is for H1 vs. 2010:H1.

Shaded areas denote "hard market" periods

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

P/C Net Premiums Written: % Change, Quarter vs. Year-Prior Quarter

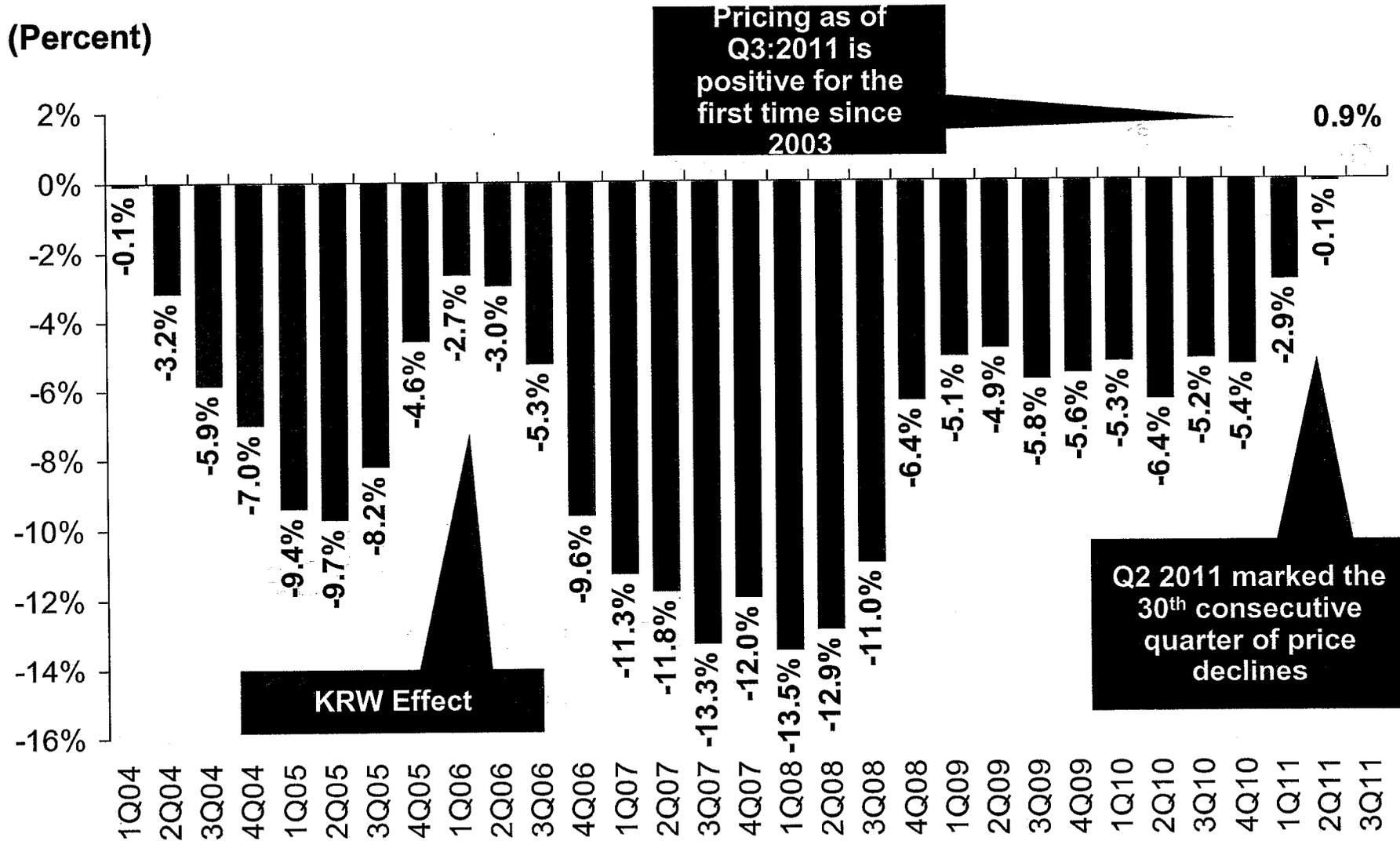


Positive premium growth continued into through the first half of 2011.

Pricing and more stable exposure environment are contributing to consistent positive growth in recent quarters (vs. the same quarter, prior year)

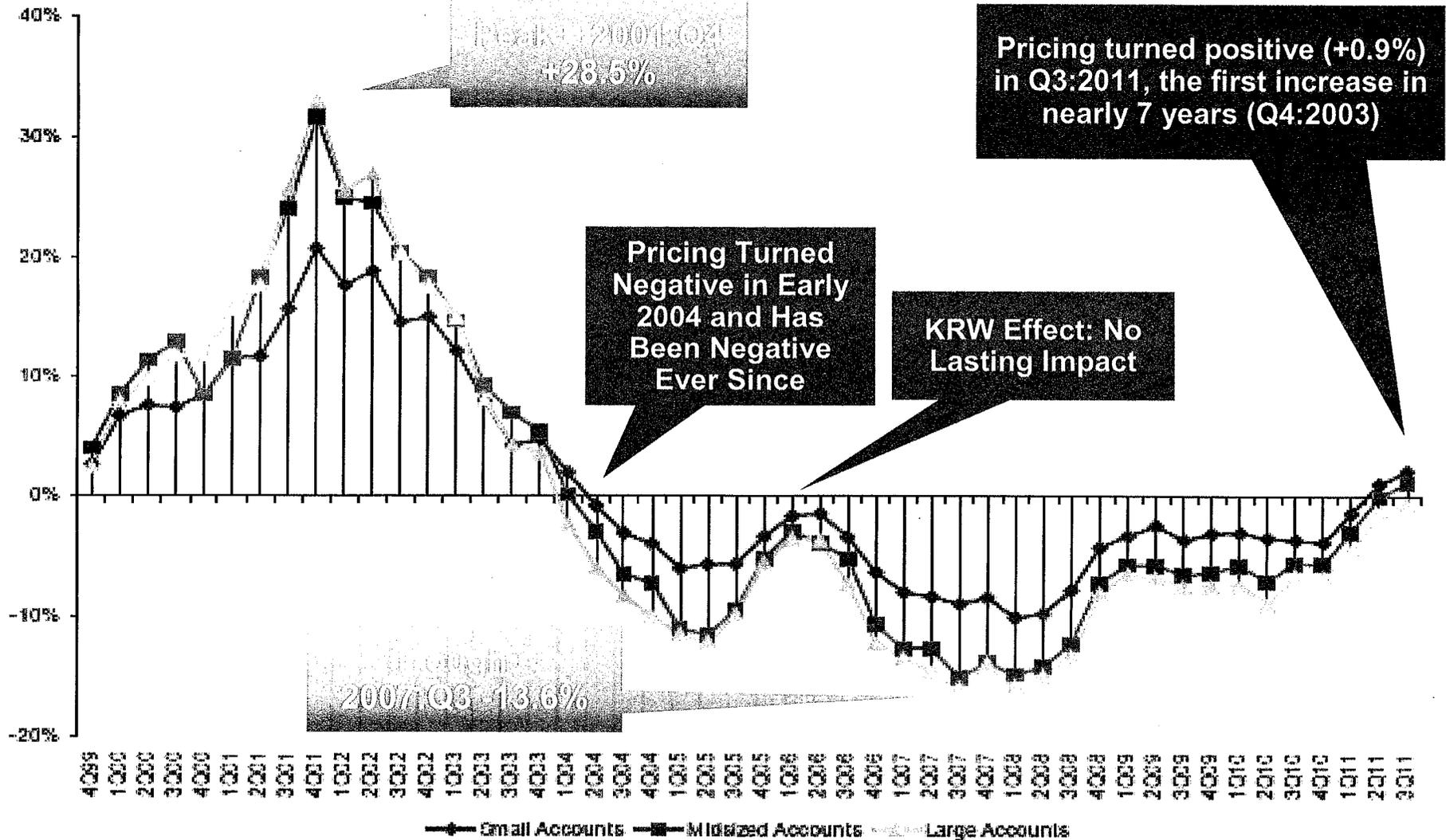
Sources: ISO, Insurance Information Institute.

Average Commercial Rate Change, All Lines, (1Q:2004–3Q:2011)



Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2011:Q3

Percentage Change (%)

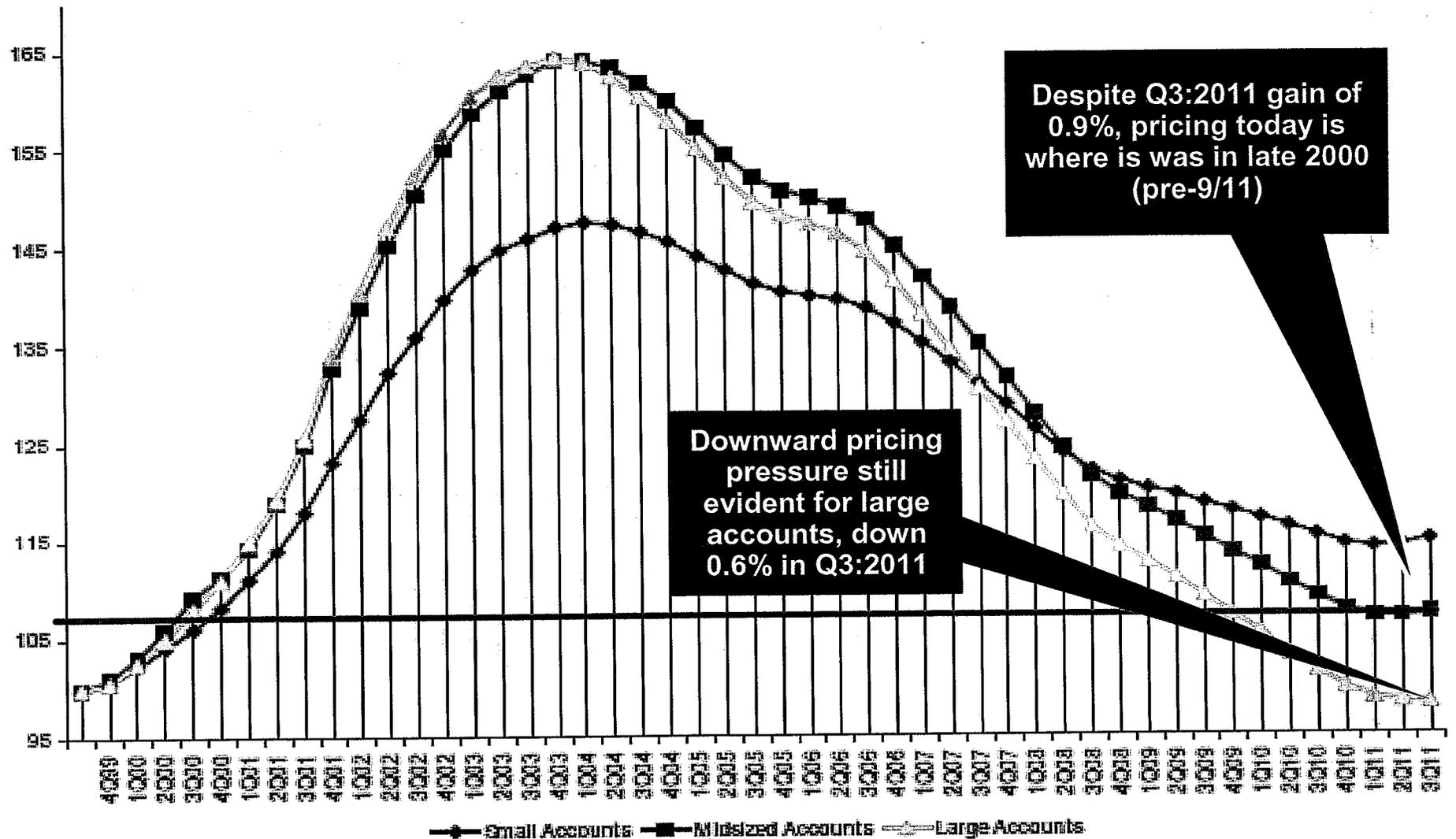


Source: Council of Insurance Agents and Brokers; Insurance Information Institute.

Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2011:Q3



1999:Q4 = 100



Despite Q3:2011 gain of 0.9%, pricing today is where it was in late 2000 (pre-9/11)

Downward pricing pressure still evident for large accounts, down 0.6% in Q3:2011

Source: Council of Insurance Agents and Brokers; Insurance Information Institute.



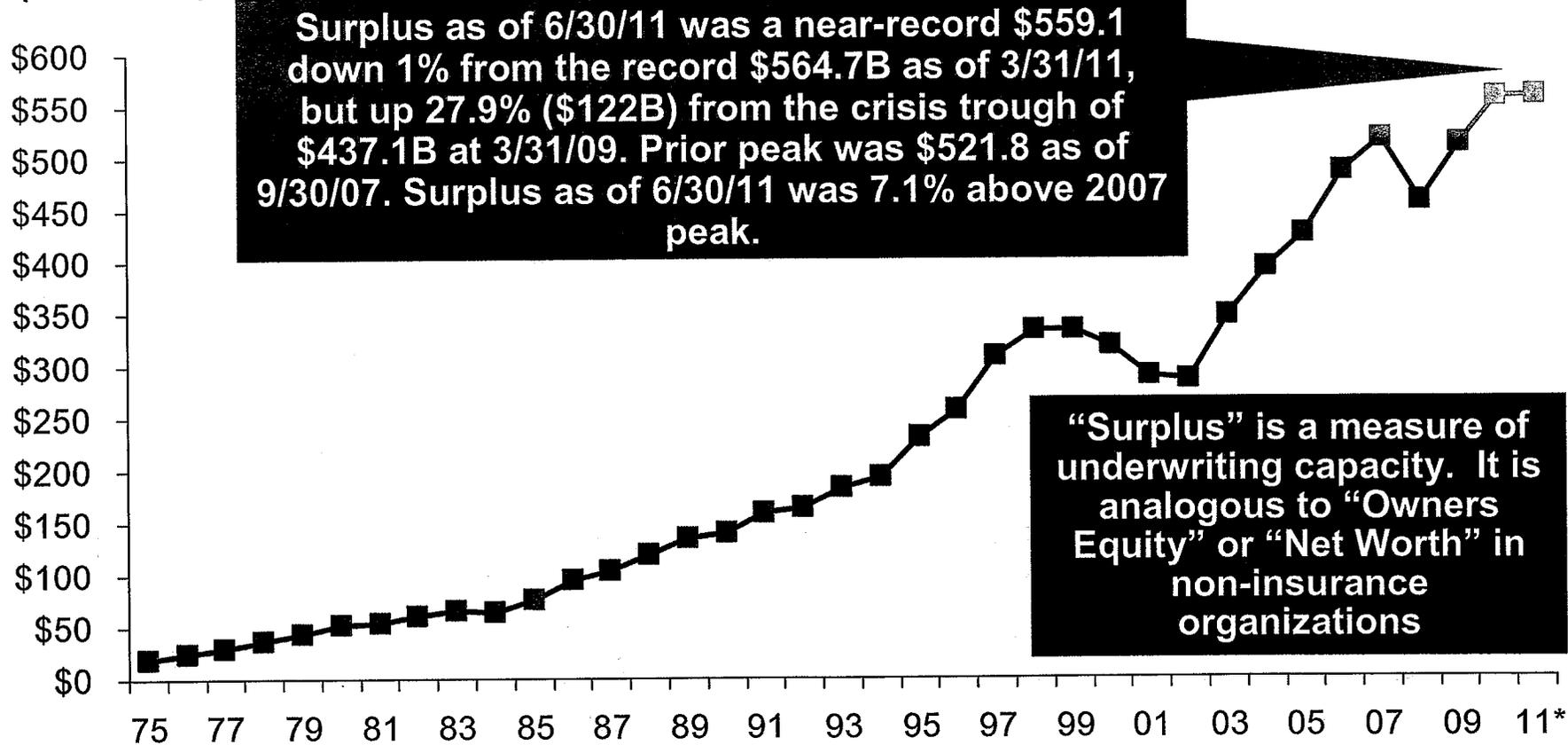
Capital/Policyholder Surplus (US)

**Have Large Global Losses Reduced
Capacity in the Industry, Setting
the Stage for a Market Turn?**

US Policyholder Surplus: 1975–2011*



(\$ Billions)

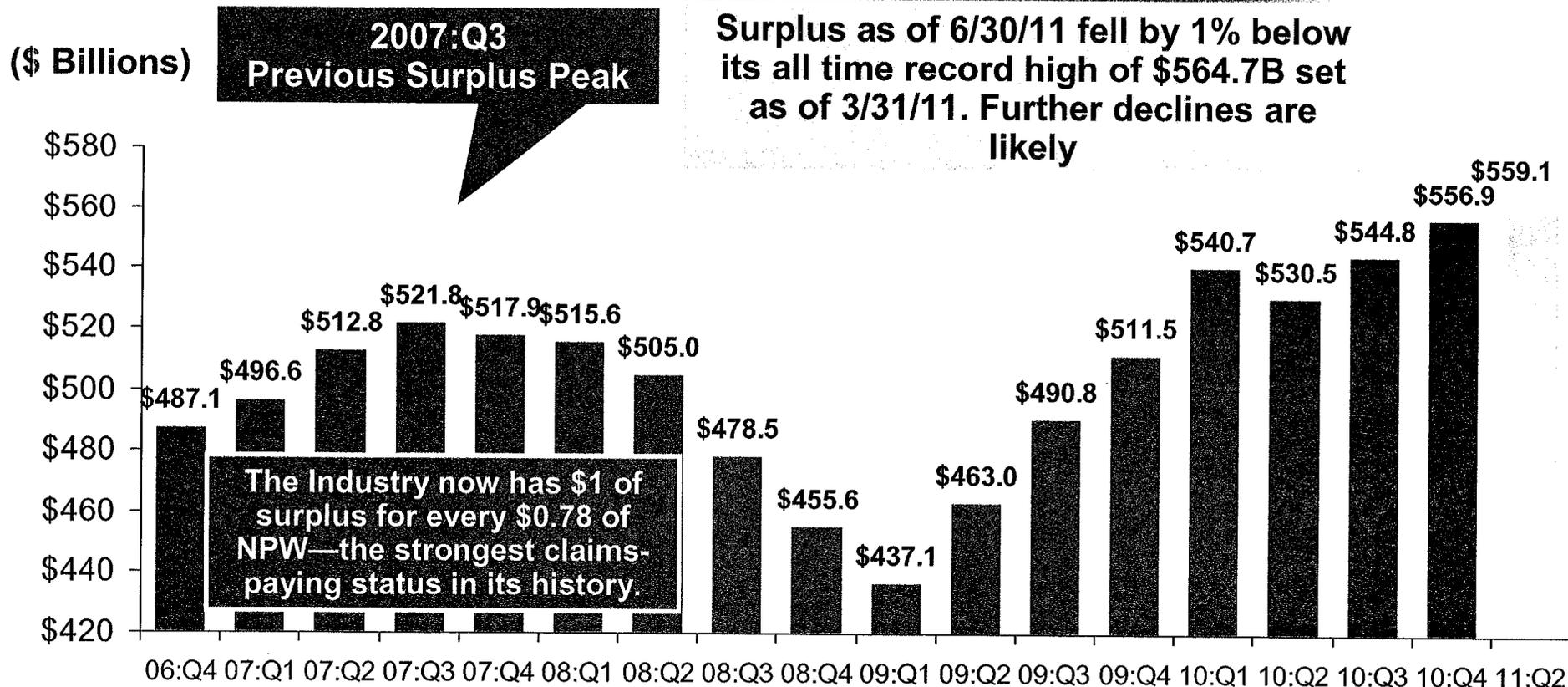


The Premium-to-Surplus Ratio Stood at \$0.78:\$1 as of 6/30/11, A Near Record Low (at Least in Recent History)**

* As of 6/30/11.

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

Policyholder Surplus, 2006:Q4–2011:Q2



*Includes \$22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business in early 2010.

Sources: ISO, A.M. Best.

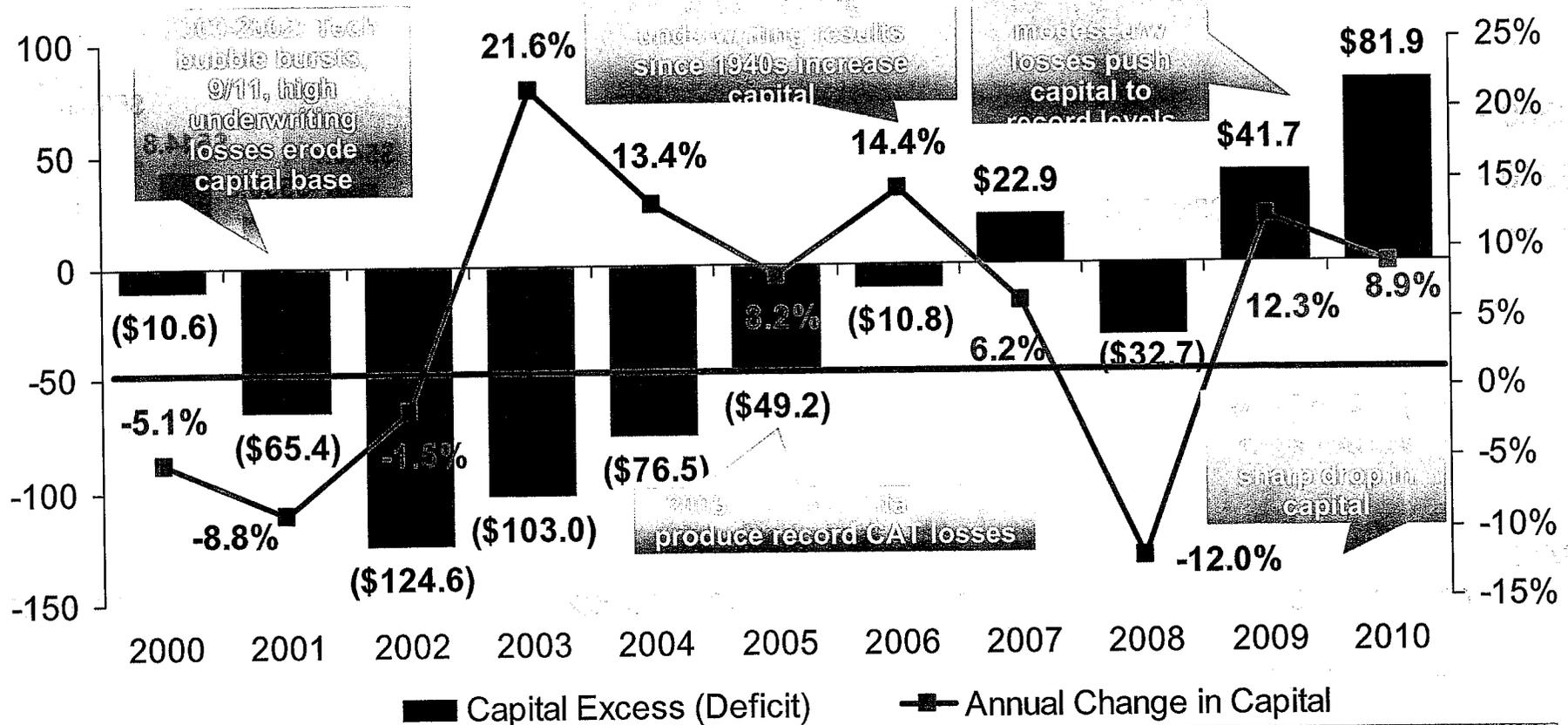
Quarterly Surplus Changes Since 2007:Q3 Peak	
09:Q1: -\$84.7B (-16.2%)	10:Q2: +\$8.7B (+1.7%)
09:Q2: -\$58.8B (-11.2%)	10:Q3: +\$23.0B (+4.4%)
09:Q3: -\$31.0B (-5.9%)	10:Q4: +\$35.1B (+6.7%)
09:Q4: -\$10.3B (-2.0%)	11:Q1: +\$42.9B (+8.2%)
10:Q1: +\$18.9B (+3.6%)	11:Q2: +\$37.3B (+7.1%)

Implied Excess (Deficit) Capital Assuming Premium/Surplus Ratio = 0.9:1



Excess/(Deficit) Capital (Policyholder Surplus)

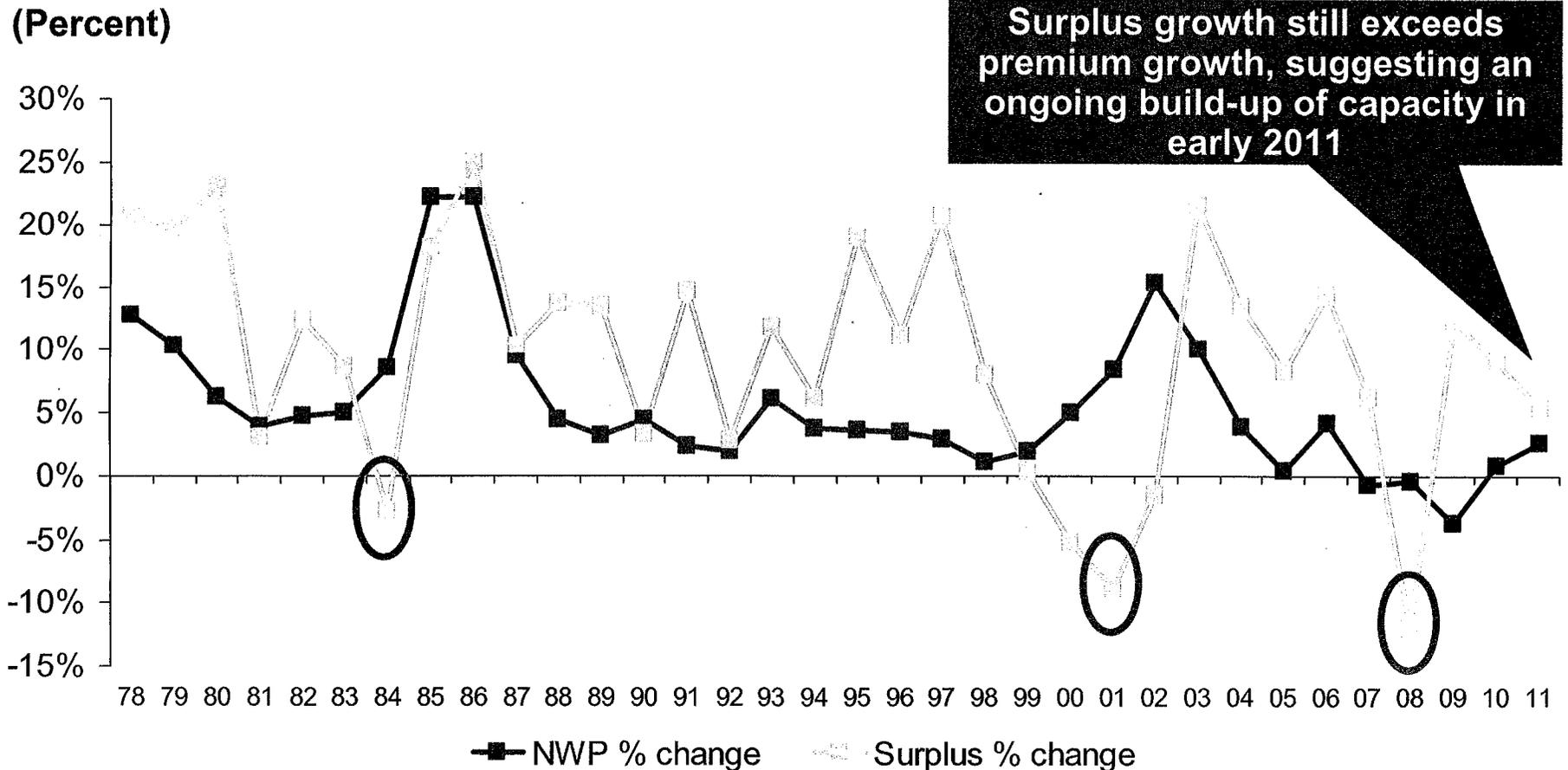
Annual Change in Policyholder Surplus



Record Policyholder Surplus (Capital) Has Resulted Significant Excess Capital in the P/C Insurance Sector As of Year End 2010. Deteriorating Underwriting Losses, Higher CAT Activity, More Modest Market Returns Will Likely Shrink Excess Capital in 2011.

Note: The assumption of a 0.9:1 P/S ratio is derived from a Feb. 2011 announcement by Advisen, Ltd., that the US P/C insurance industry has \$74 billion in excess capital. The implied P/S ratio (calculated by III) is 0.88:1, which was rounded to 0.9:1.
Source: Insurance Information Institute calculations from A.M. Best and ISO data. * Net Premiums Written

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

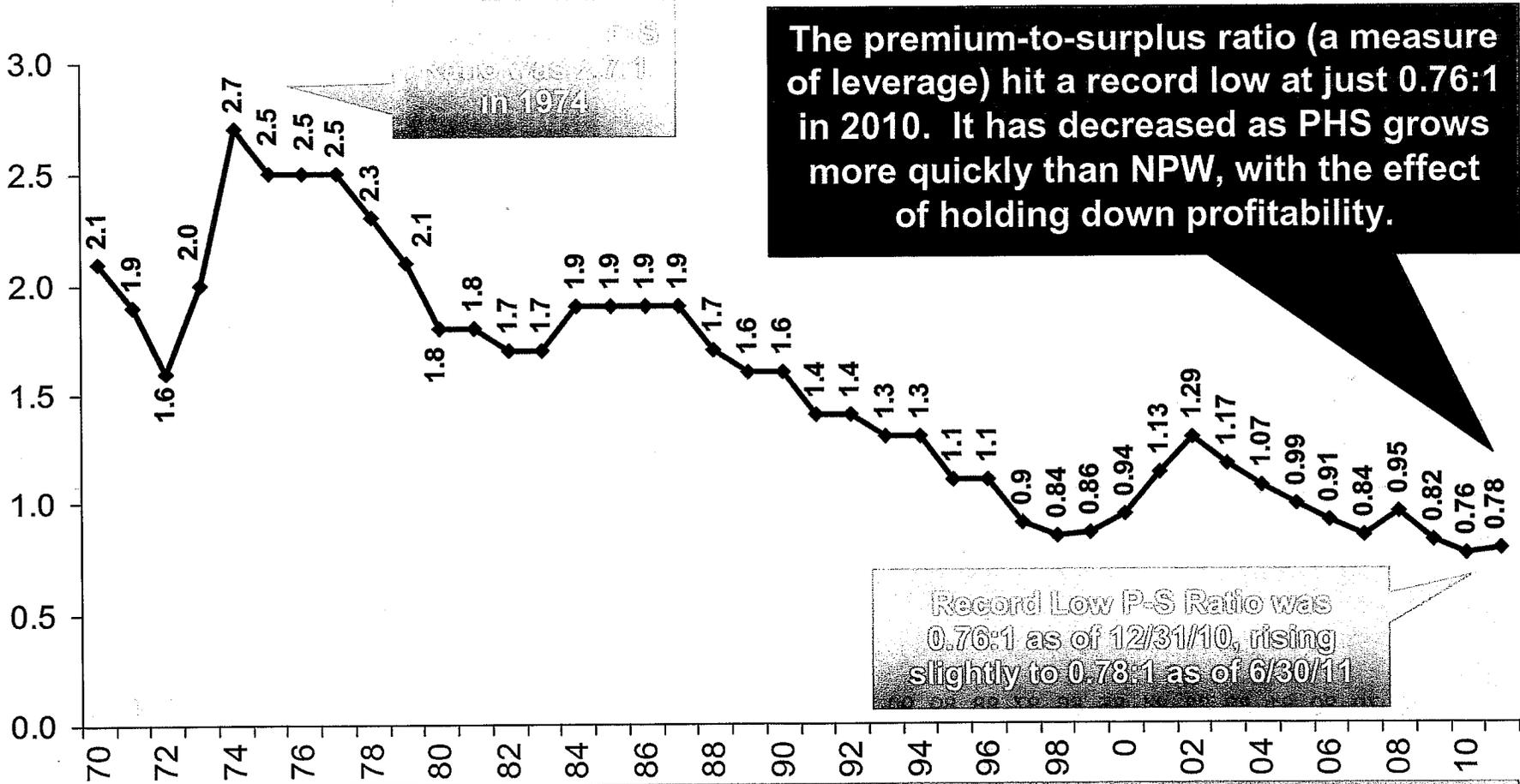


Sharp Decline in Capacity is a Necessary but Not Sufficient Condition for a True Hard Market

* 2011 NWP and Surplus figures are % changes as of H1:11 vs. H1:10.

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

Ratio of Net Premiums Written to Policyholder Surplus, 1970-2011*



The premium-to-surplus ratio (a measure of leverage) hit a record low at just 0.76:1 in 2010. It has decreased as PHS grows more quickly than NPW, with the effect of holding down profitability.

Record Low P-S Ratio was 0.76:1 as of 12/31/10, rising slightly to 0.78:1 as of 6/30/11

The Premium-to-Surplus Ratio in 2011:H1 Implies that P/C Insurers Held \$1 in Surplus Against Each \$0.78 Written in Premiums. In 1974, Each \$1 of Surplus Backed \$2.70 in Premium.

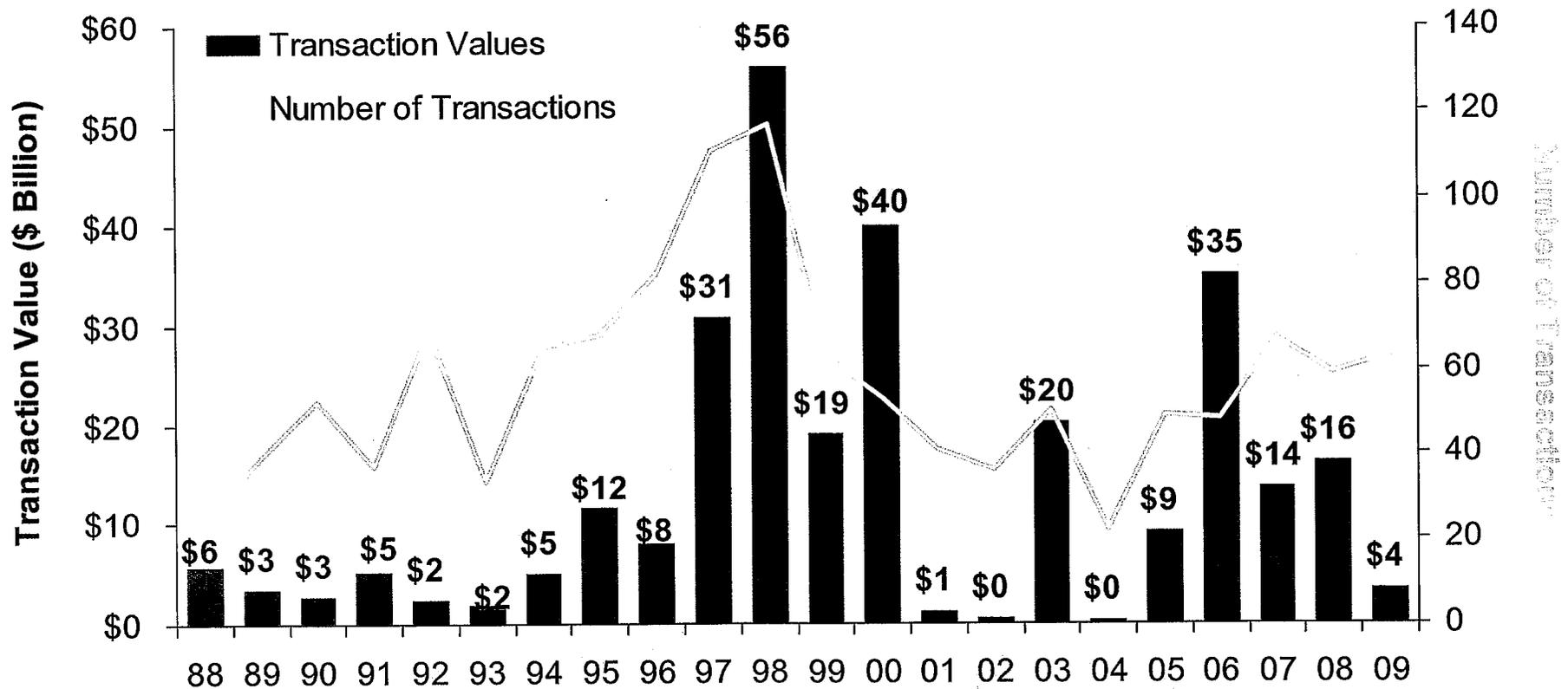
*2011 data are as of 6/30/11.
Sources: Insurance Information Institute calculations from A.M. Best data.



Merger & Acquisition

**Capital Cycles Can
Drive Consolidation**

U.S. P/C Insurance-Related M&A Activity, 1988–2009



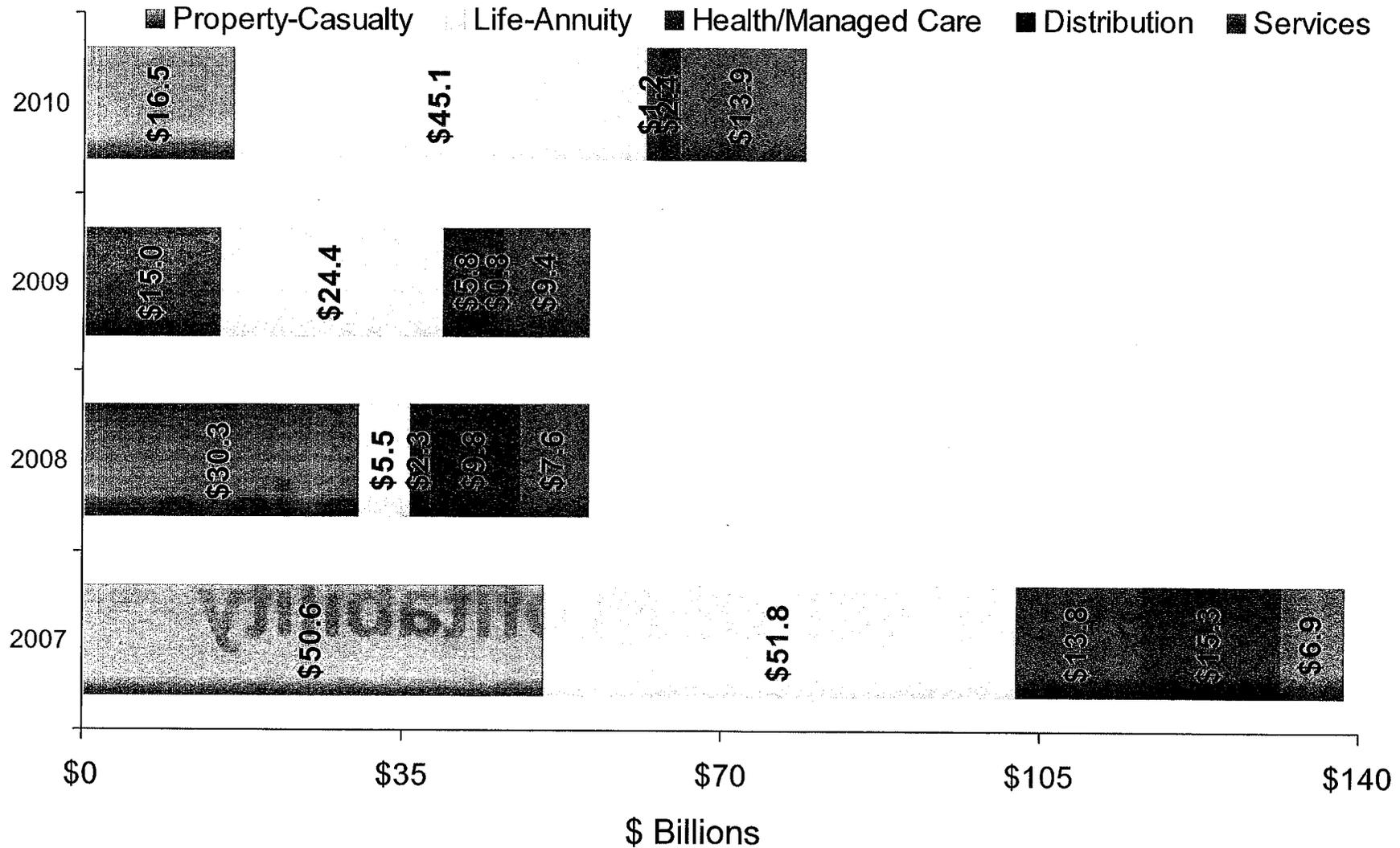
**\$ Value of Deals Down 78%
in 2009, Volume Up 7%**

**2010: No Mega Deals So Far, Despite
Record Capital, Slow Growth and Improved
Financial Market Conditions**

Note: U.S. Company was the acquirer and/or target.

Source: Conning Research & Consulting.

M&A Activity Globally Among P/C Insurers Remains Subdued: Little Capacity Leaving



Sources: Conning Research; Insurance Information Institute.



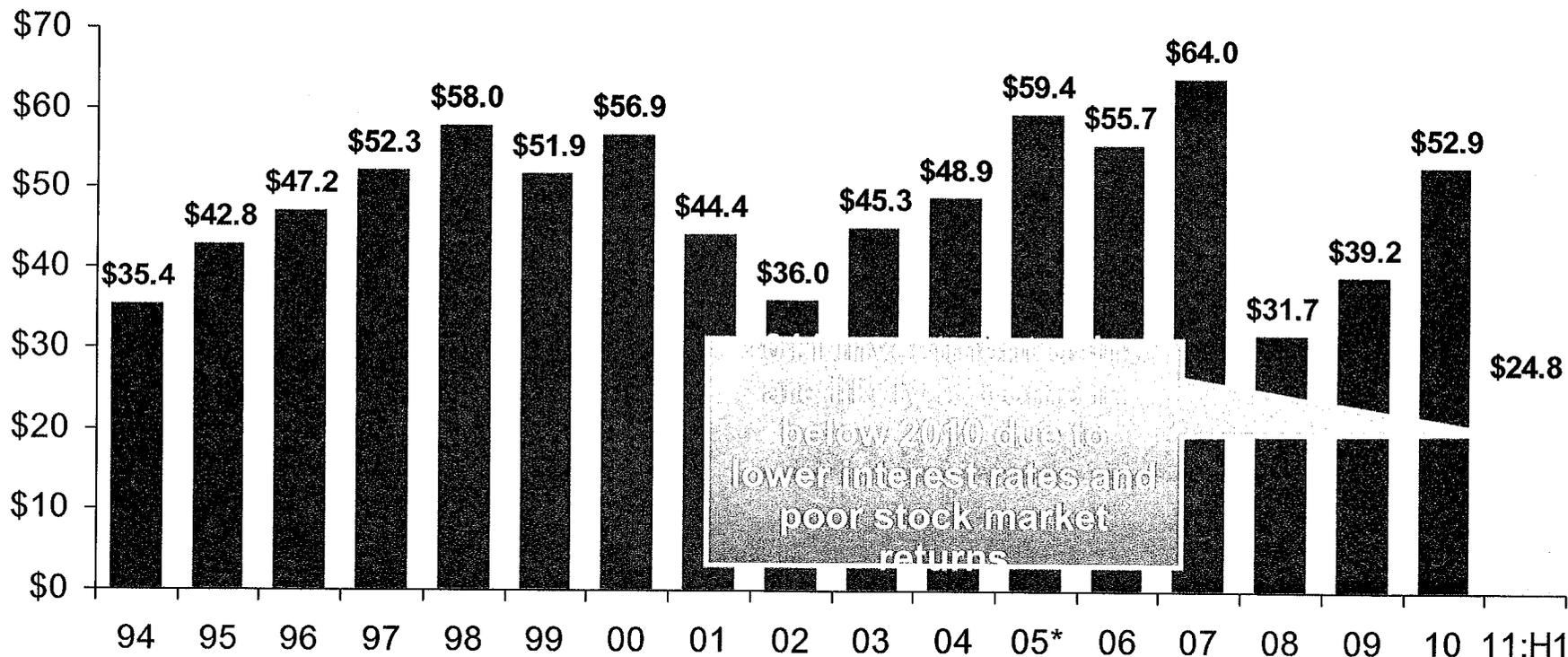
INVESTMENTS: THE NEW REALITY

**Investment Performance is a
Key Driver of Profitability**

Property/Casualty Insurance Industry Investment Gain: 1994–2011:H1¹



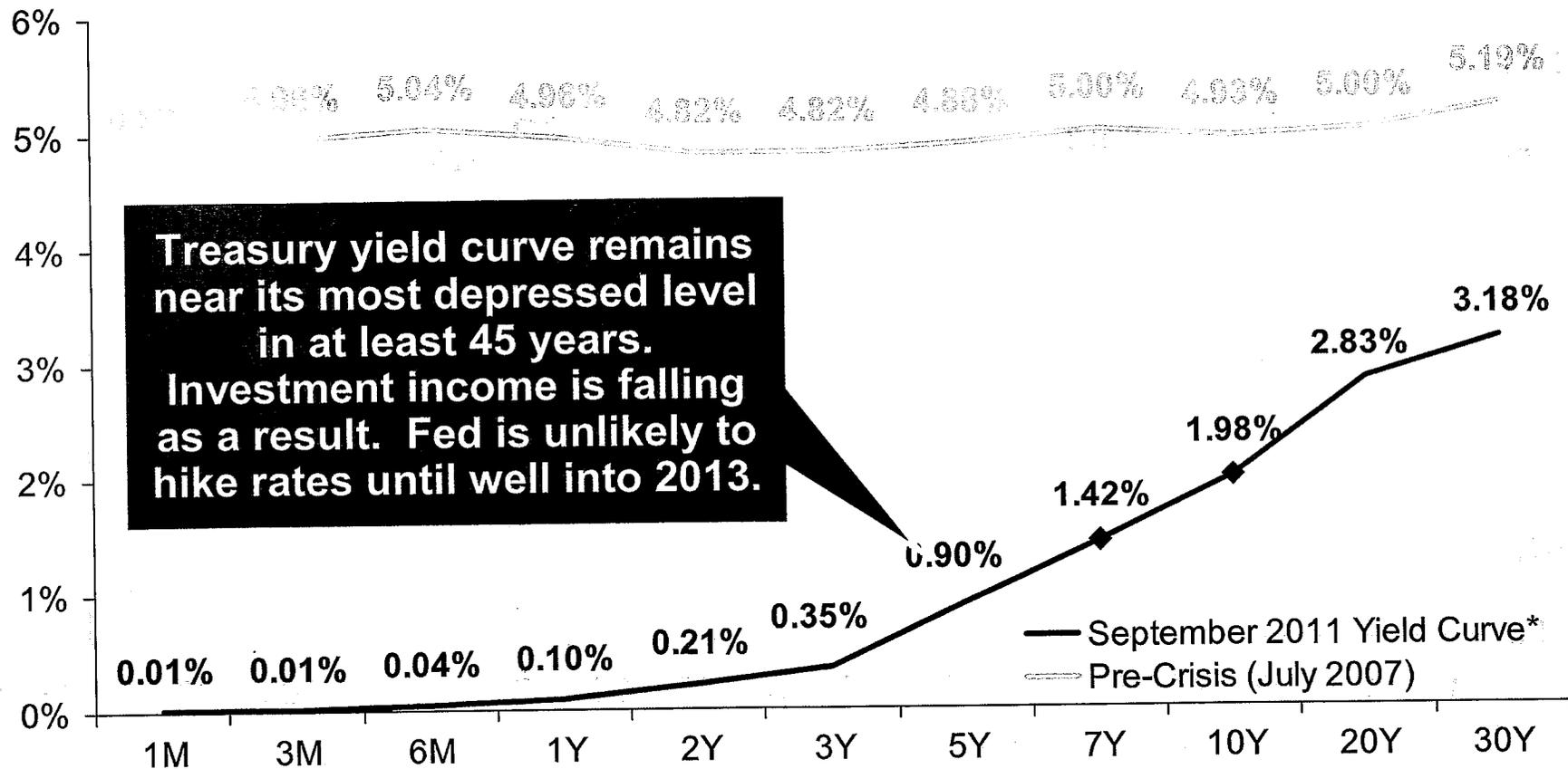
(\$ Billions)



Investment Gains Recovered Significantly in 2010 Due to Realized Investment Gains; The Financial Crisis Caused Investment Gains to Fall by 50% in 2008

¹ Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.
 * 2005 figure includes special one-time dividend of \$3.2B.
 Sources: ISO; Insurance Information Institute.

Treasury Yield Curves: Pre-Crisis (July 2007) vs. Sept. 2011*



The End of the Fed's Quantitative Easing Is Unlikely to Push Interest Rates Up Substantially Given Ongoing Economic Weakness

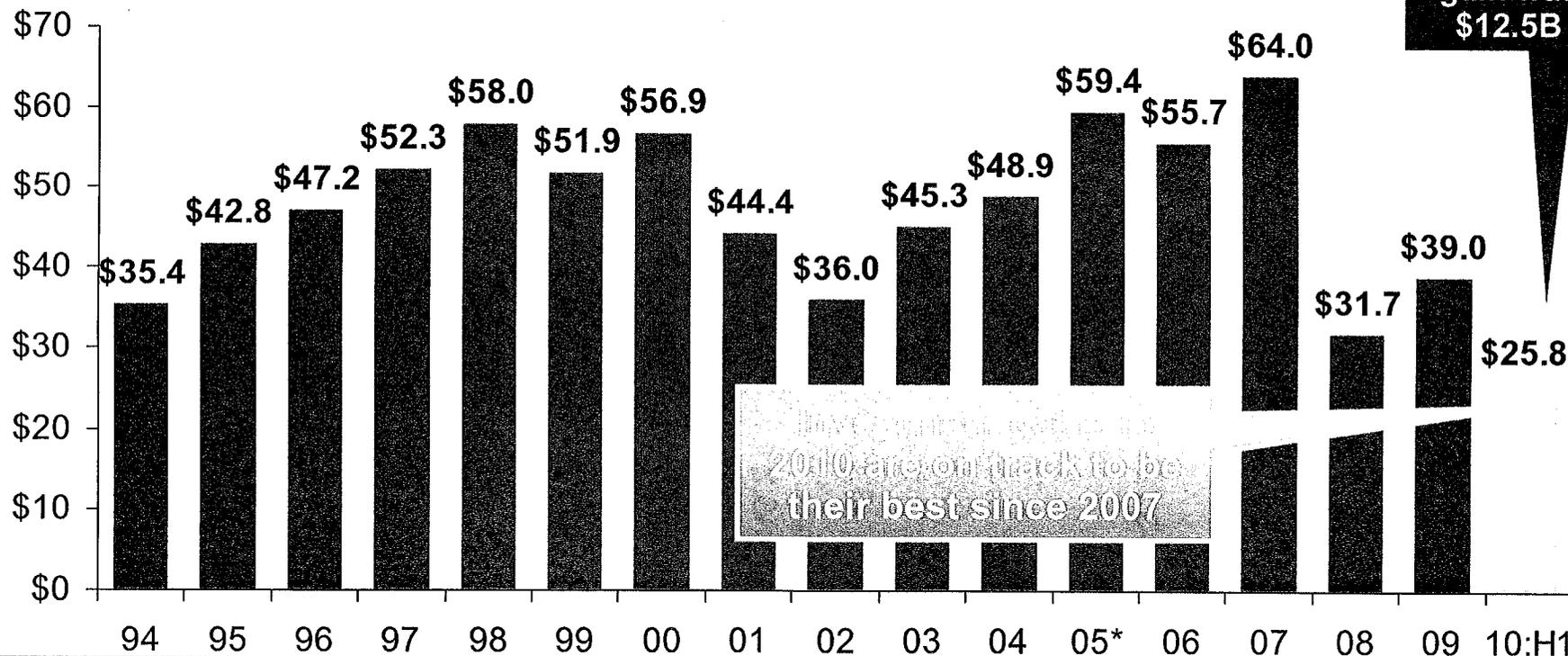
*Average of daily rates.

Sources: Board of Governors of the United States Federal Reserve Bank; Insurance Information Institute.

Property/Casualty Insurance Industry Investment Gain: 1994–2010:H1¹



(\$ Billions)



2009:H1 gain was \$12.5B

Investment gains in 2010:H1 are on track to be their best since 2007

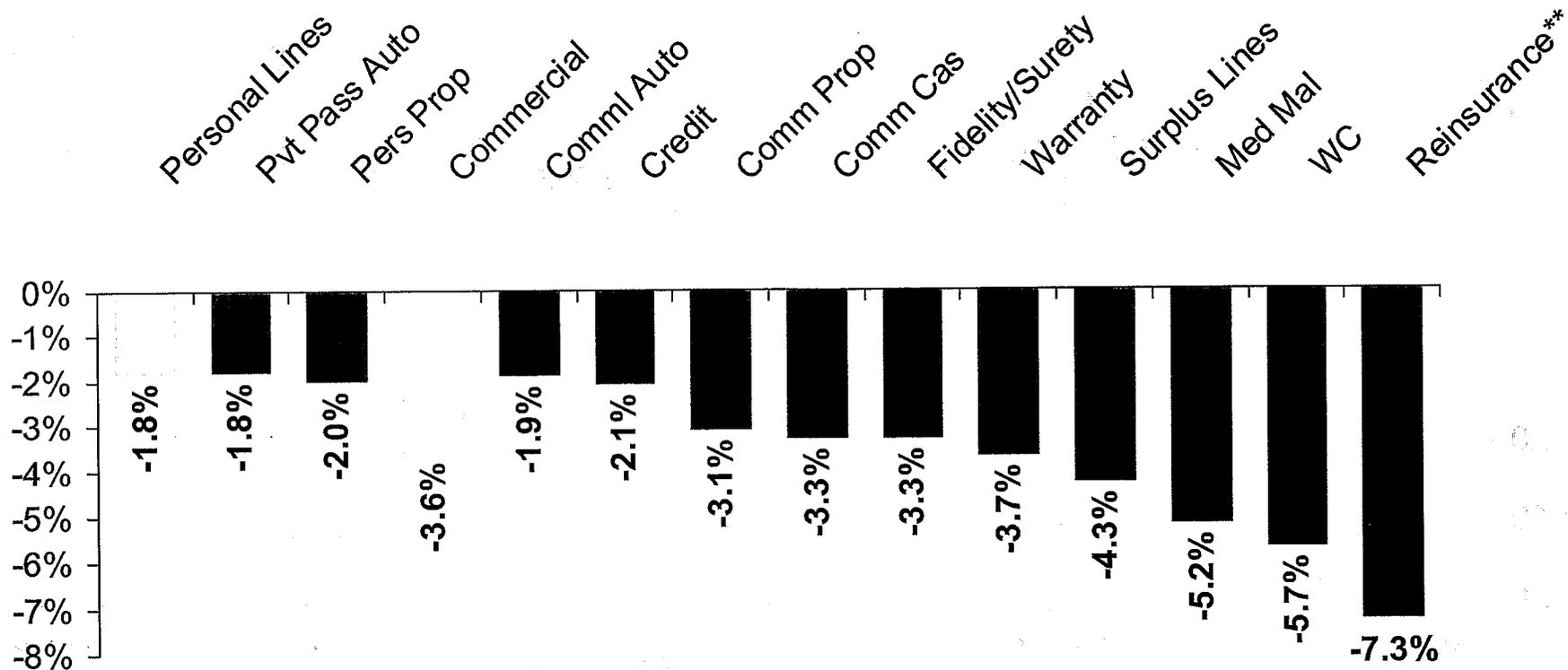
In 2008, Investment Gains Fell by 50% Due to Lower Yields and Nearly \$20B of Realized Capital Losses
2009 Saw Smaller Realized Capital Losses But Declining Investment Income
Investment Gains Are Recovering So Far in 2010

¹ Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.

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

Sources: ISO; Insurance Information Institute.

Reduction in Combined Ratio Necessary to Offset 1% Decline in Investment Yield to Maintain Constant ROE, by Line*



Lower Investment Earnings Place a Greater Burden on Underwriting and Pricing Discipline

*Based on 2008 Invested Assets and Earned Premiums

**US domestic reinsurance only

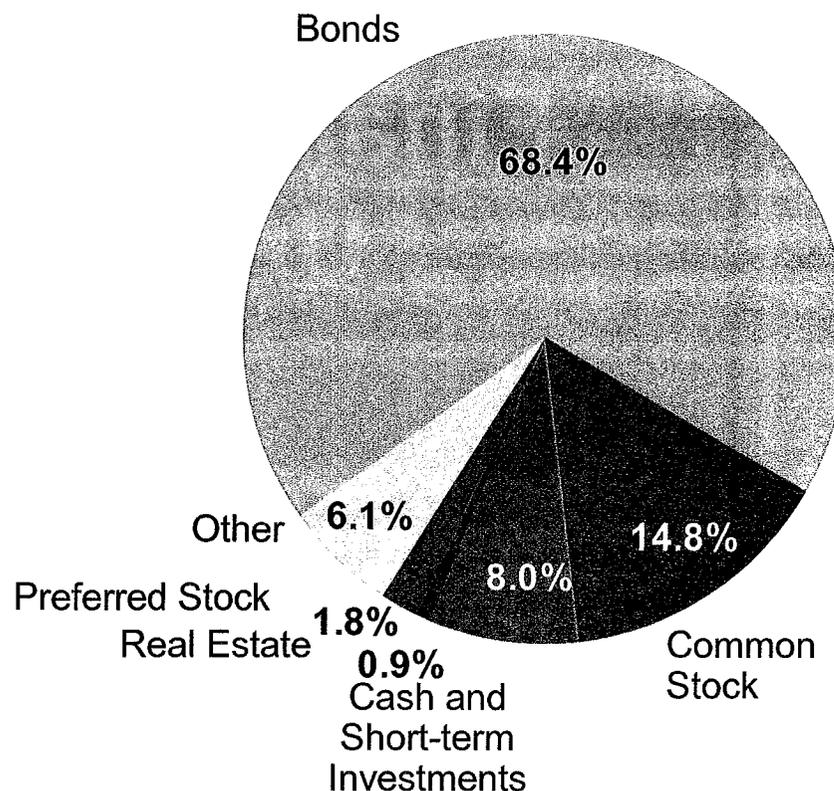
Source: A.M. Best; Insurance Information Institute.

Distribution of P/C Insurance Industry's Investment Portfolio

Portfolio Facts

- Invested assets totaled \$1.214 trillion as of 12/31/08
- Insurers are generally conservatively invested, with more than 2/3 of assets invested in bonds as of 12/31/08
- Only about 15% of assets were invested in common stock as of 12/31/08
- Even the most conservative of portfolios was hit hard in 2008

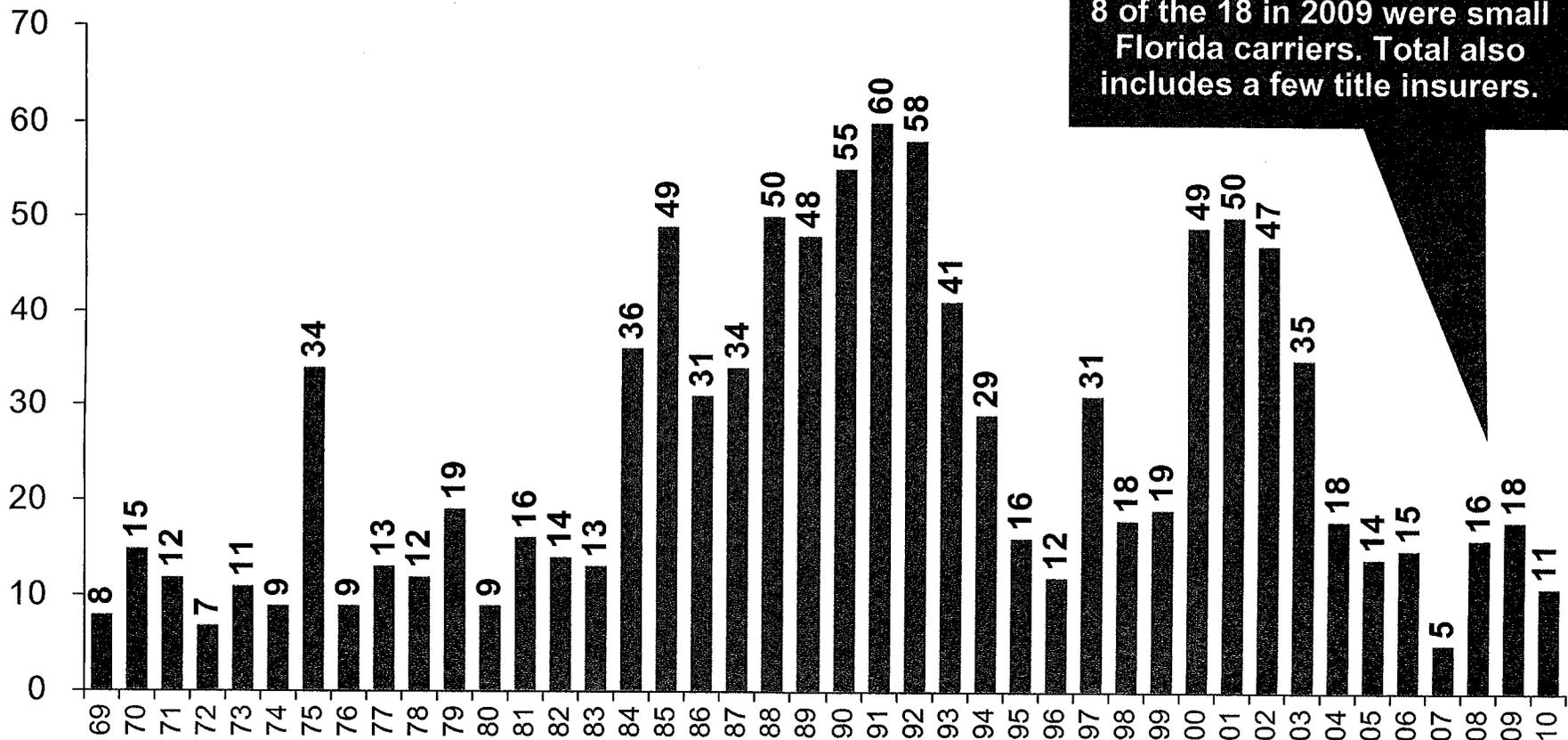
As of December 31, 2008



Financial Strength & Underwriting

**Cyclical Pattern is P-C Impairment
History is Directly Tied to
Underwriting, Reserving & Pricing**

P/C Insurer Impairments, 1969–2010

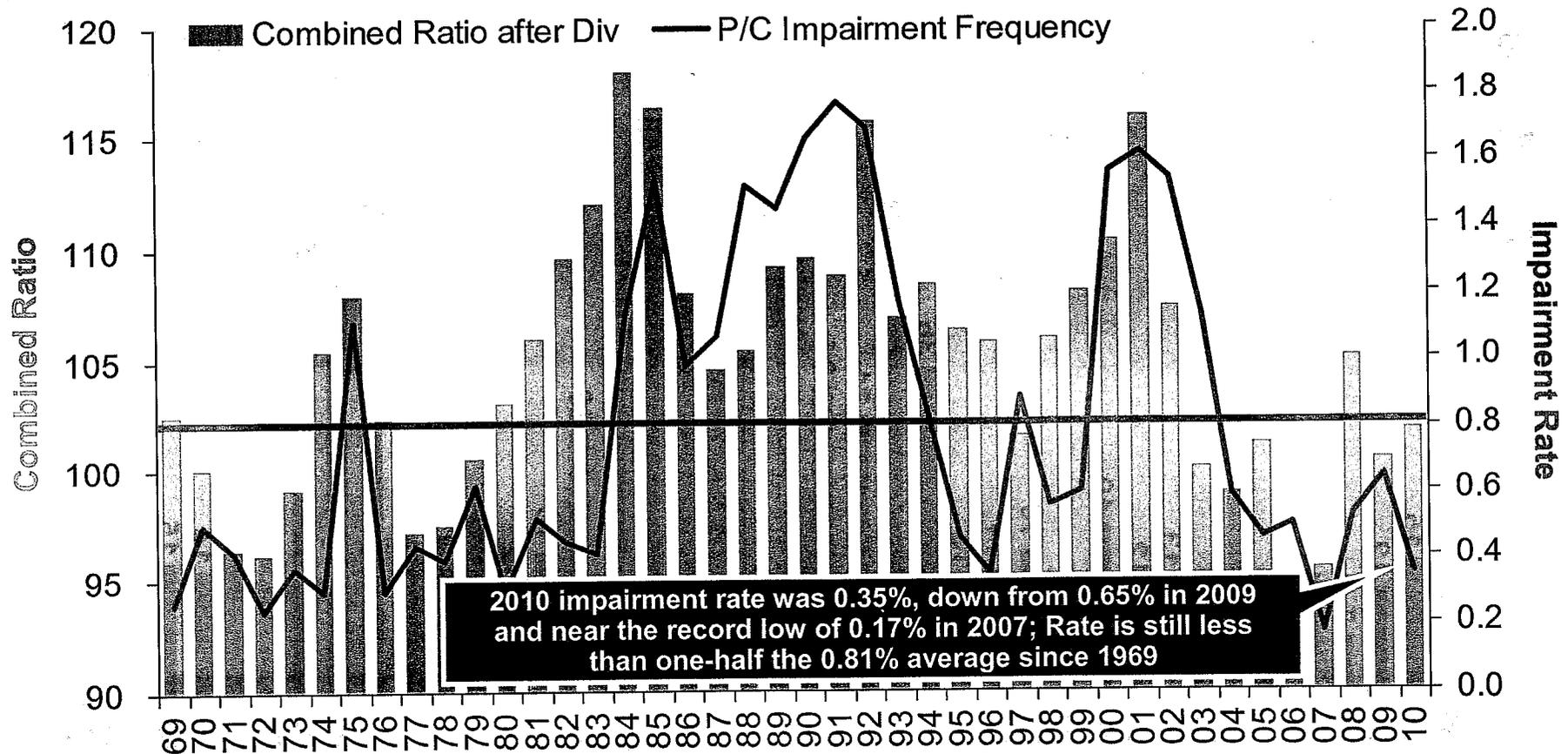


8 of the 18 in 2009 were small Florida carriers. Total also includes a few title insurers.

The Number of Impairments Varies Significantly Over the P/C Insurance Cycle, With Peaks Occurring Well into Hard Markets

Source: A.M. Best Special Report "1969-2010 Impairment Review," June 21, 2010; Insurance Information Institute.

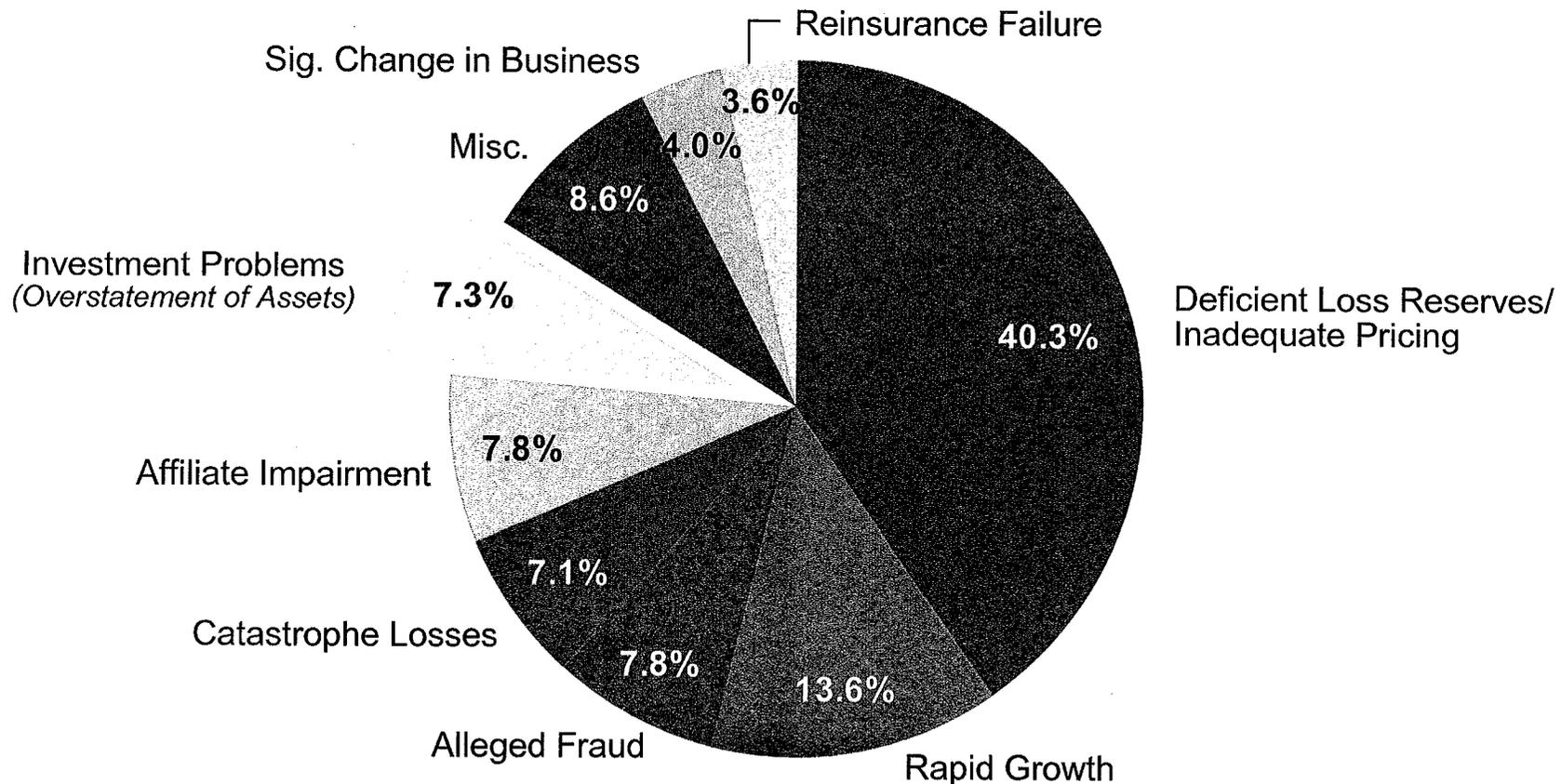
P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2010



Impairment Rates Are Highly Correlated With Underwriting Performance and Reached Record Lows in 2007

Reasons for US P/C Insurer Impairments, 1969–2010

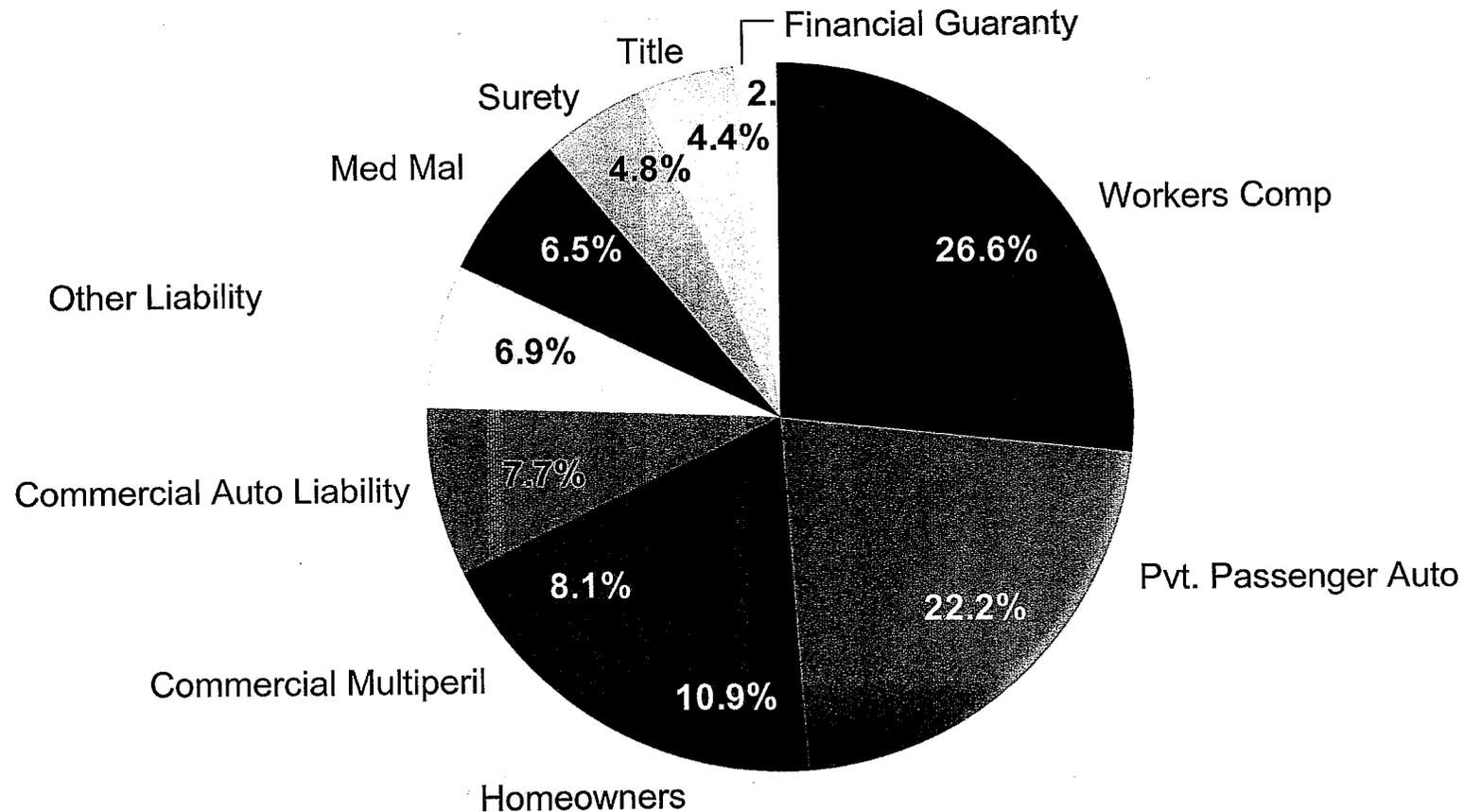
Historically, Deficient Loss Reserves and Inadequate Pricing Are By Far the Leading Cause of P-C Insurer Impairments. Investment and Catastrophe Losses Play a Much Smaller Role



Source: A.M. Best: 1969-2010 Impairment Review, Special Report, April 2011.

Top 10 Lines of Business for US P/C Impaired Insurers, 2000–2010

Workers Comp and Pvt. Passenger Auto Account for Nearly Half of the Premium Volume of Impaired Insurers Over the Past Decade

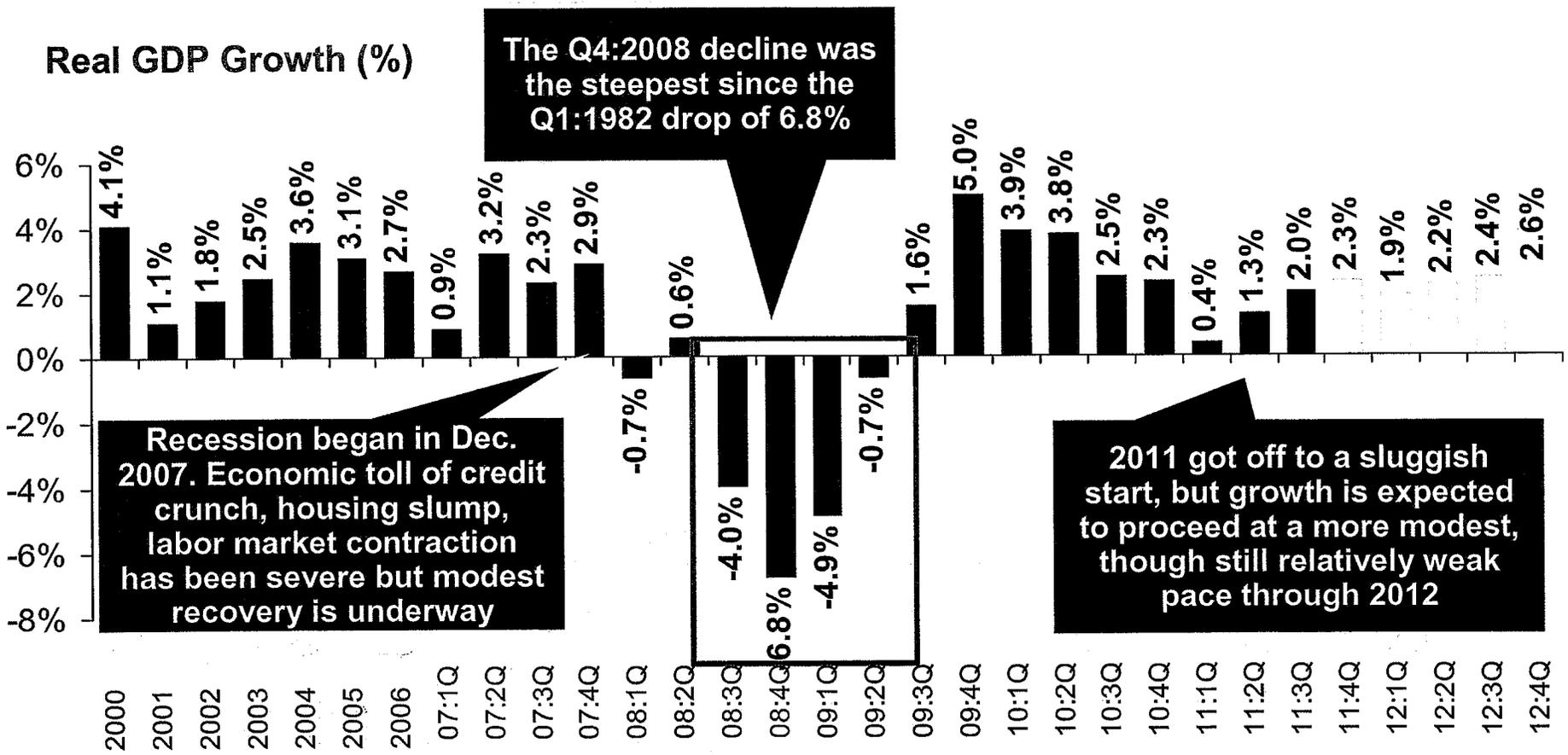




The Economic Storm

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

US Real GDP Growth*



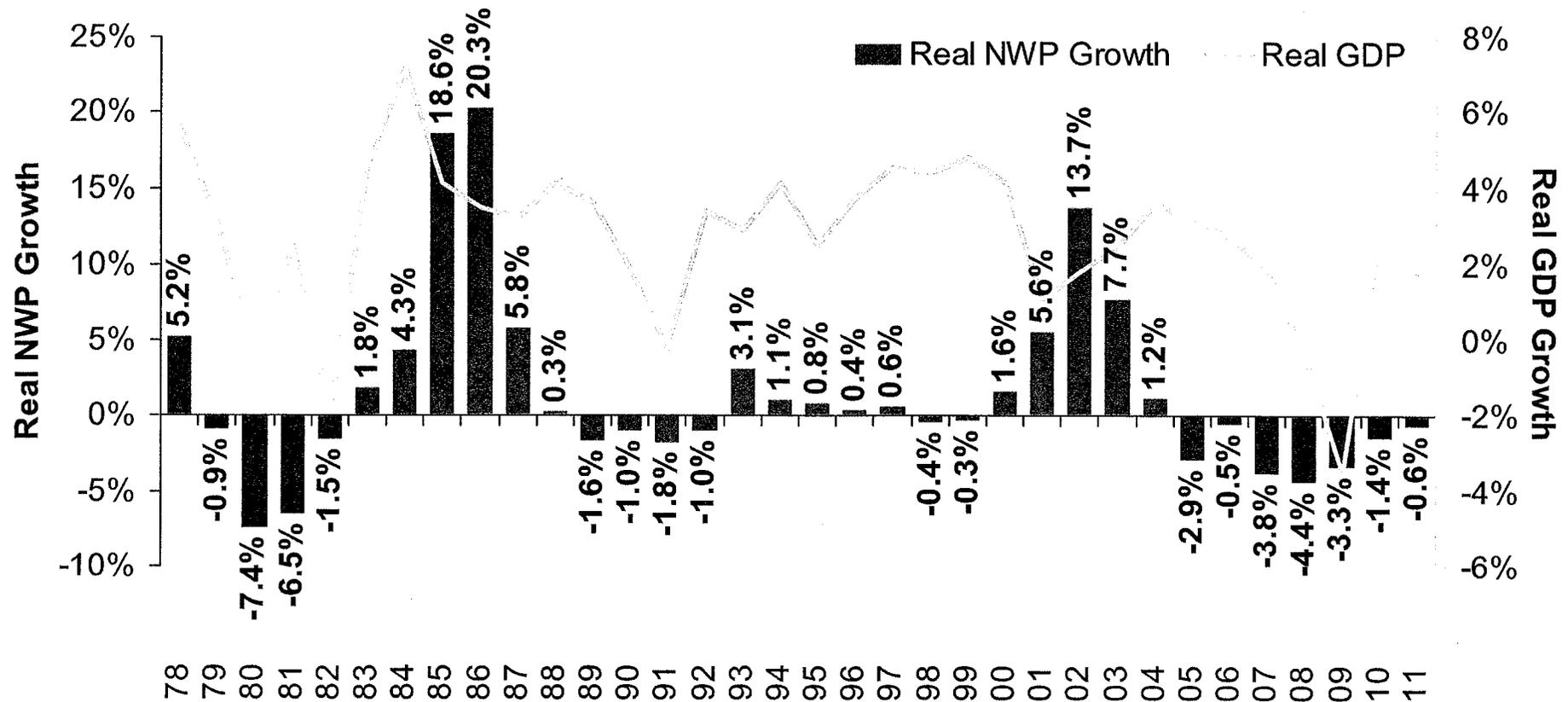
Demand for Insurance Continues To Be Impacted by Sluggish Economic Conditions, but the Benefits of Even Slow Growth Will Compound and Gradually Benefit the Economy Broadly

* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 11/11; Insurance Information Institute.

Real GDP Growth vs. Real P/C Premium Growth: Modest Association

Real GDP Growth vs. Real P/C (%)



P/C Insurance Industry's Growth is Influenced Modestly by Growth in the Overall Economy

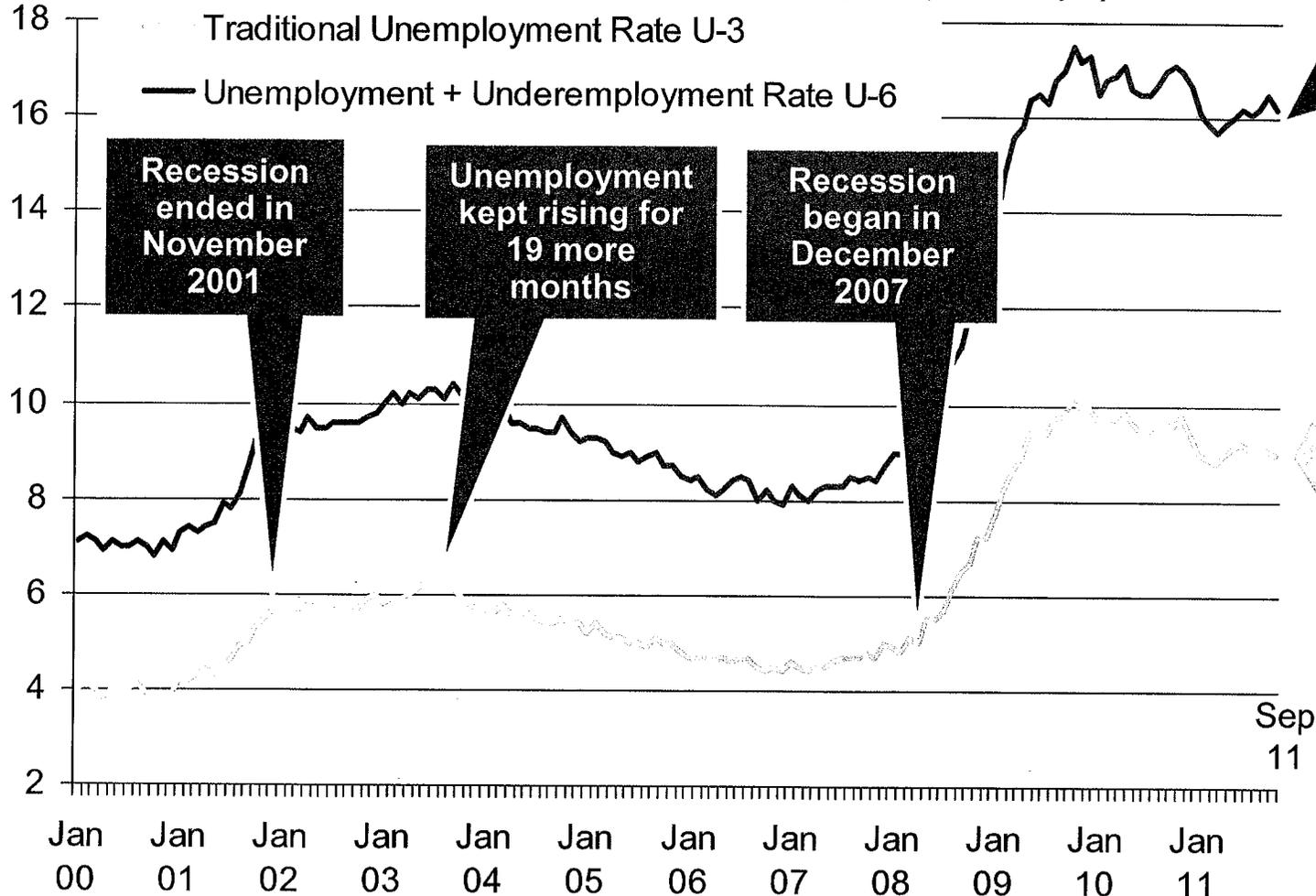


Labor Market Trends

Massive Job Losses Sapped the Economy and Personal/Commercial Lines Exposure, But Trend is Improving

Unemployment and Underemployment Rates: Stubbornly High in 2011

January 2000 through October 2011, Seasonally Adjusted (%)



Recession ended in November 2001

Unemployment kept rising for 19 more months

Recession began in December 2007

U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 16.2% in Oct. 2011

Unemployment stood at 9.0% in October

Unemployment peaked at 10.1% in October 2009, highest monthly rate since 1983.

Peak rate in the last 30 years: 10.8% in November - December 1982

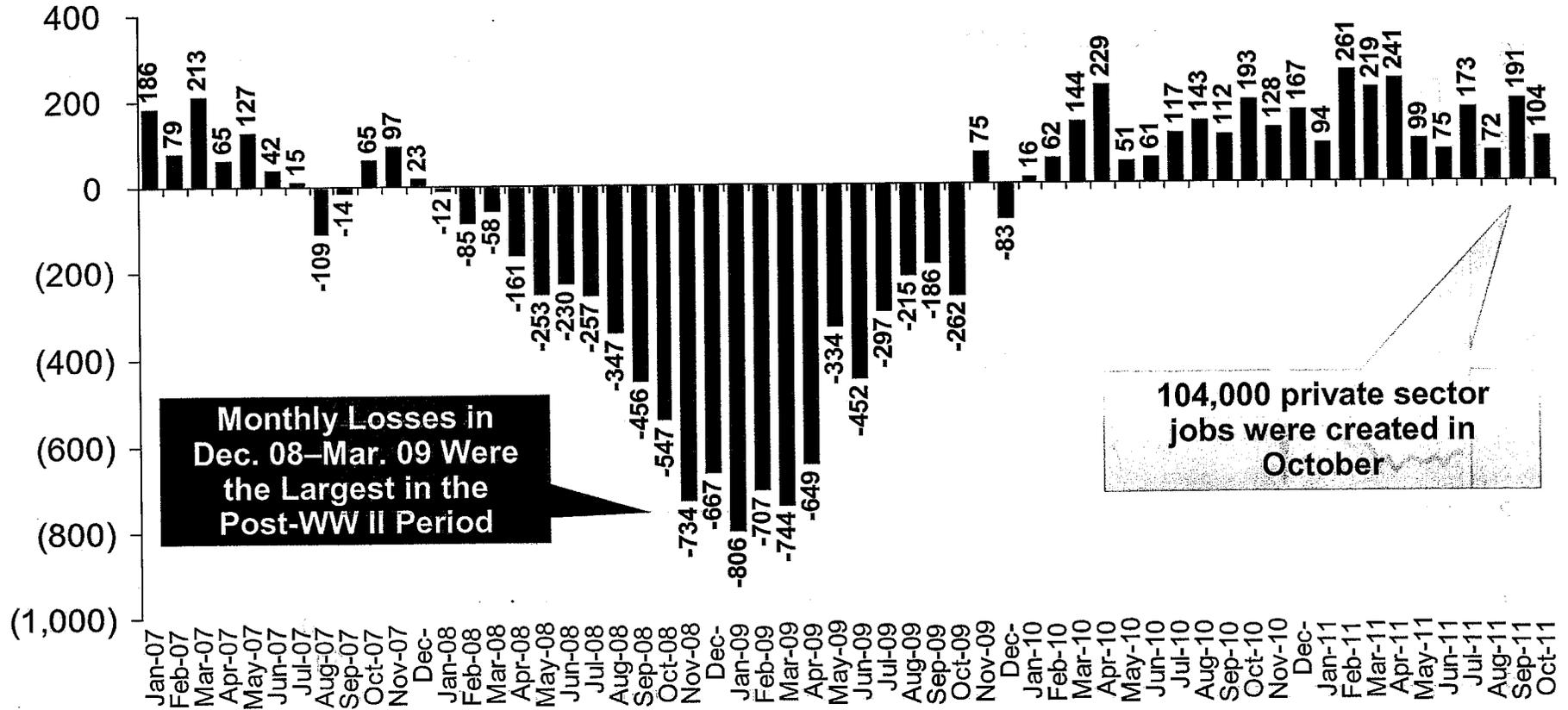
Stubbornly high unemployment and underemployment will constrain overall economic growth

Source: US Bureau of Labor Statistics; Insurance Information Institute.

Monthly Change in Private Employment



January 2008 through October 2011* (Thousands)



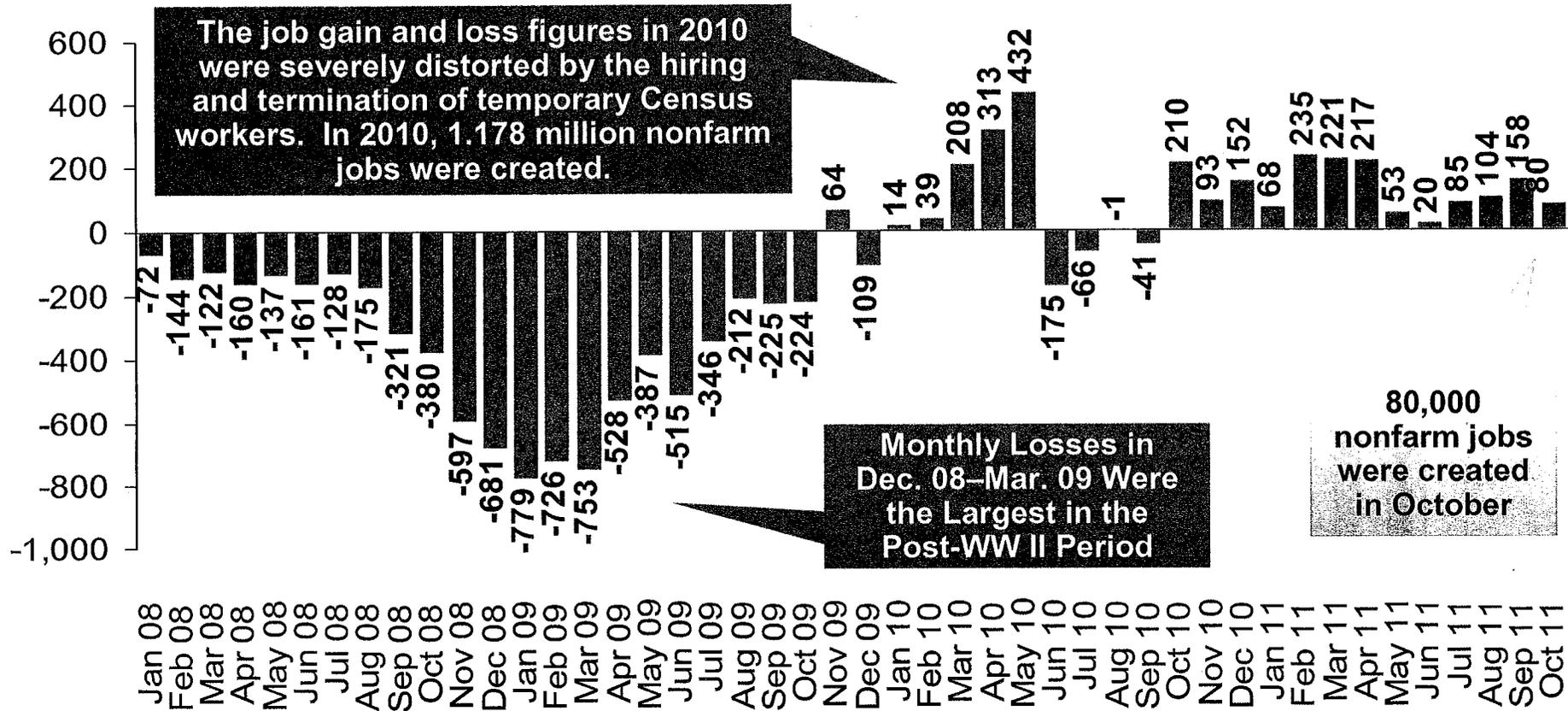
Monthly Losses in Dec. 08–Mar. 09 Were the Largest in the Post-WW II Period

104,000 private sector jobs were created in October

Private Employers Added 2.952 million Jobs Since Jan. 2010 After Having Shed 4.66 Million Jobs in 2009 and 3.81 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

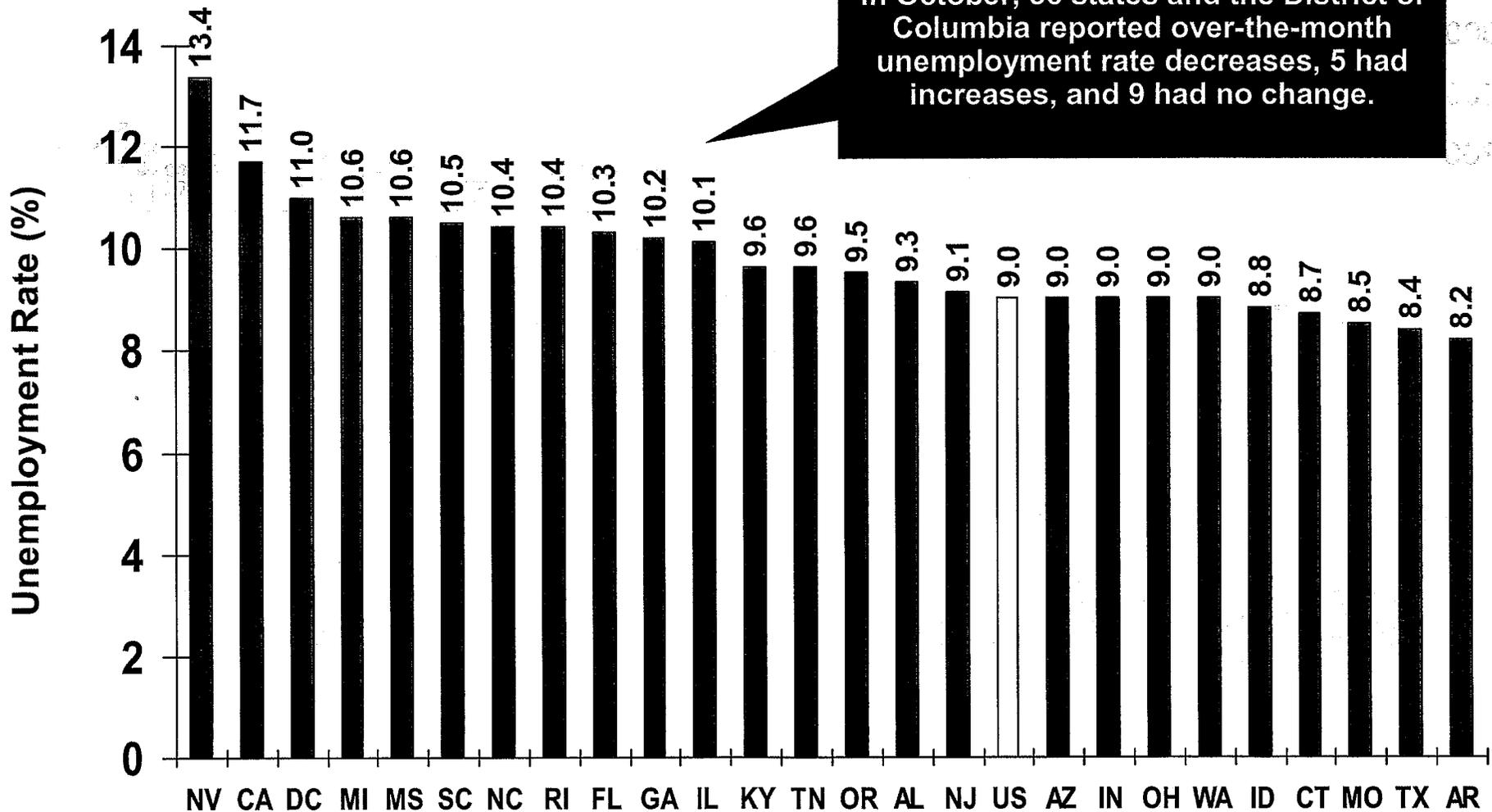
Monthly Change Employment*

January 2008 through October 2011* (Thousands)



Job Losses Since the Recession Began in Dec. 2007 Peaked at 8.4 Mill in Dec. 09; 13.9 Million People are Now Defined as Unemployed

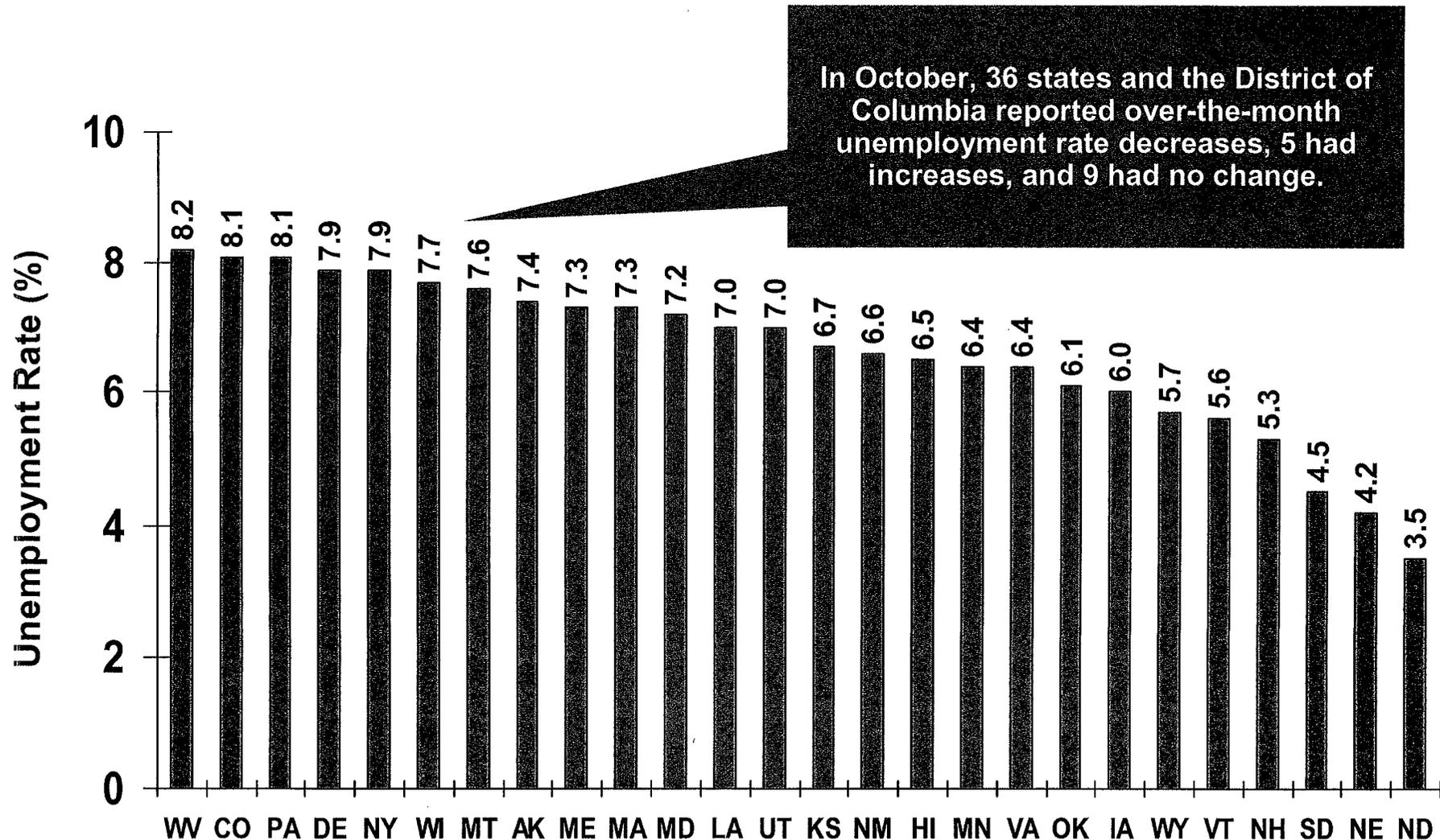
Unemployment Rates by State, October 2011: Highest 25 States*



*Provisional figures for October 2011, seasonally adjusted.

Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Unemployment Rates By State, October 2011: Lowest 25 States*

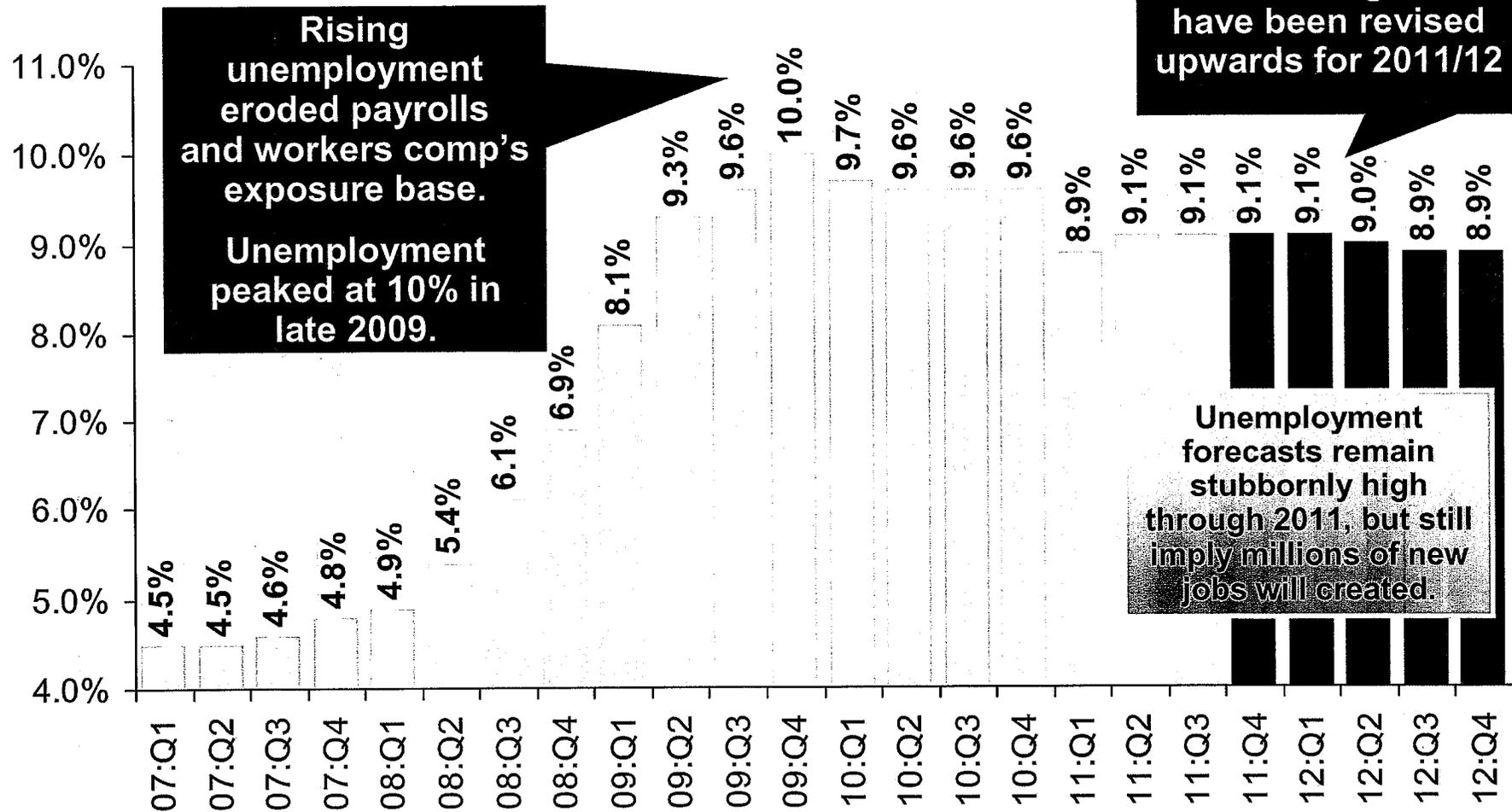


*Provisional figures for October 2011, seasonally adjusted.

Sources: US Bureau of Labor Statistics; Insurance Information Institute.

US Unemployment Rate

2007:Q1 to 2012:Q4F*



* □ = actual; ■ = forecasts

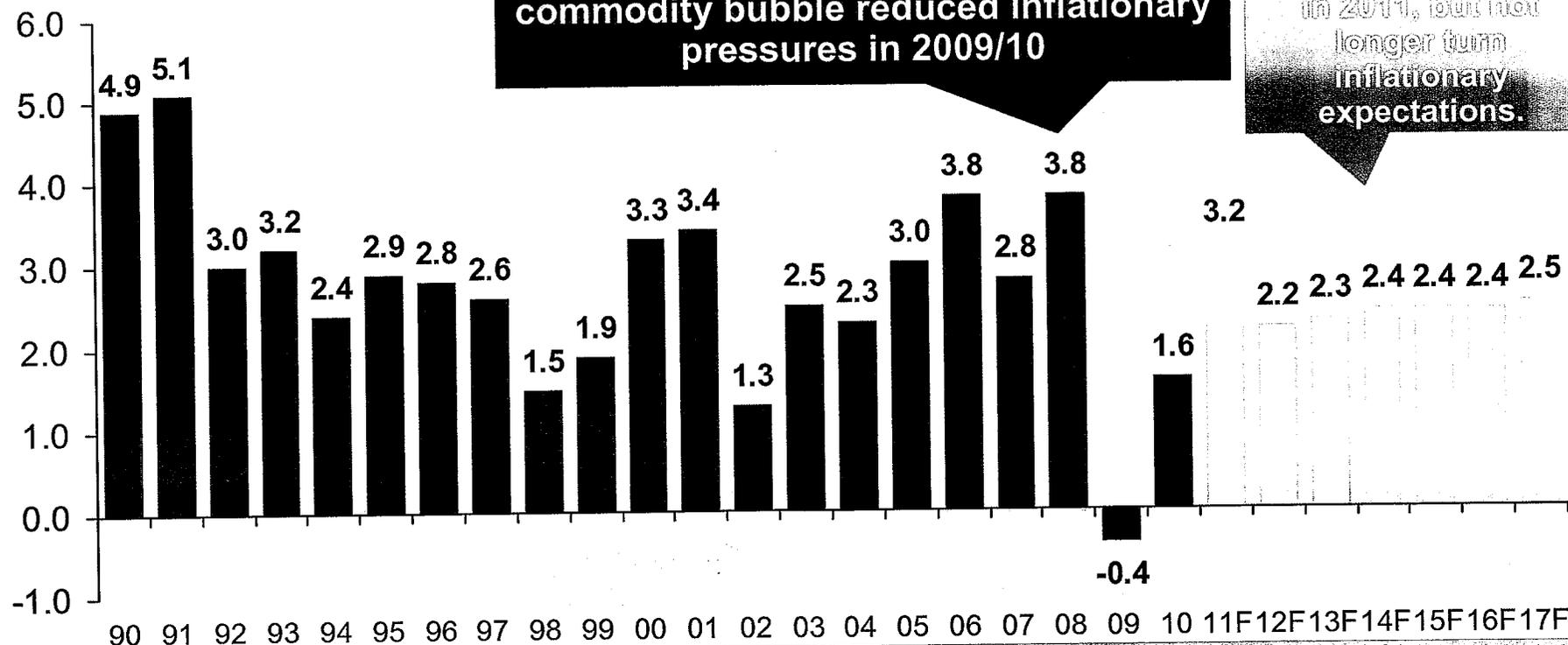
Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (11/11); Insurance Information Institute

Inflation

**Is it a Threat to Claim Cost
Severities?**

Annual Inflation Rates, (CPI-U, %), 1990–2017F

Annual
Inflation
Rates (%)



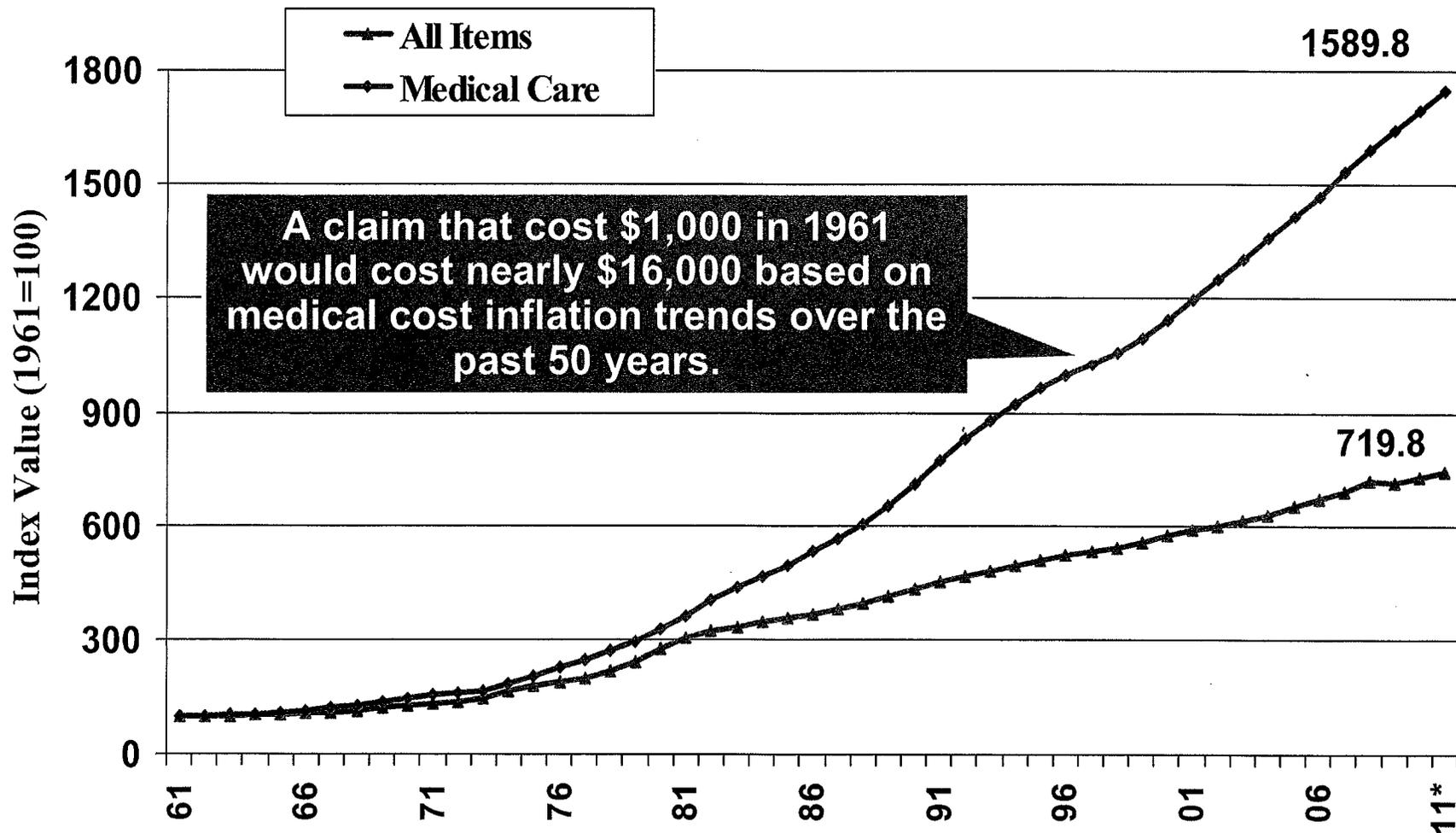
Inflation peaked at 5.6% in August 2008 on high energy and commodity crisis. The recession and the collapse of the commodity bubble reduced inflationary pressures in 2009/10

pushing up inflation in 2011, but not longer term inflationary expectations.

The slack in the U.S. economy suggests that inflation should not heat up before 2012, but other forces (commodity prices, inflation in countries from which we import, etc.), plus U.S. debt burden, remain longer-run concerns

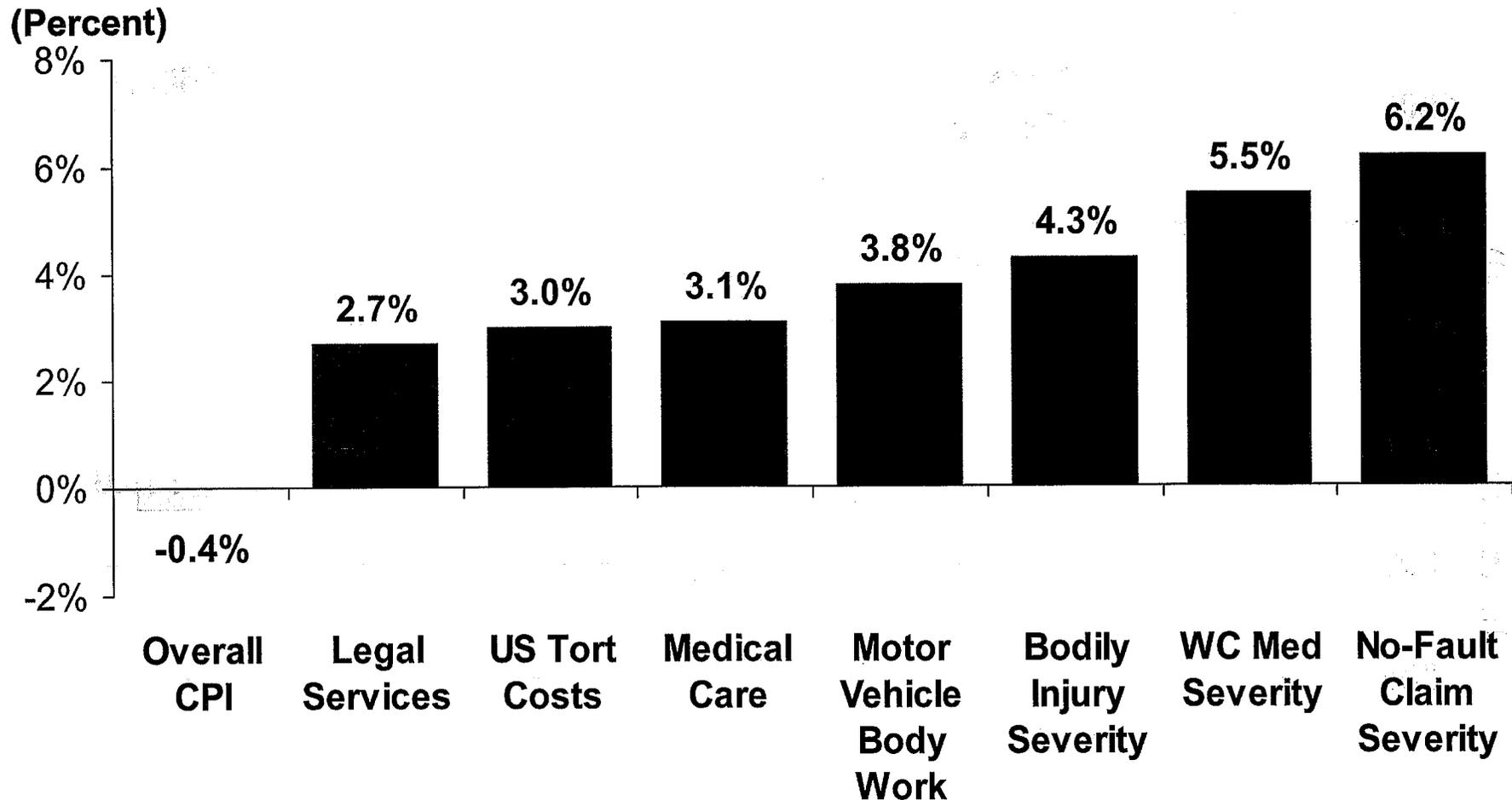
Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators, 10/11 and 11/11 (forecasts).

Medical Cost Inflation Has Outpaced Overall Inflation Over 50 Years



*Based on change from Feb. 2011 to Feb. 2010 (latest available)
Source: Department of Labor (Bureau of Labor Statistics)

P/C Insurers Experience Inflation More Intensely than 2009 CPI Suggests



Healthcare and Legal/Tort Costs Are a Major P/C Insurance Cost Driver. These Are Expected to Increase Above the Overall Inflation Rate (CPI) Indefinitely

Source: CPI is Blue Chip Economic Indicator 2009 estimate, 12/09; Legal services, medical care and motor vehicle body work are avg. monthly year-over-year change from BLS; BI and no-fault figures from ISO Fast Track data for 4 quarters ending 09:Q3. Tort costs is 2009 Towers-Perrin estimate. WC figure is I.I.I. estimate based on historical NCCI data.

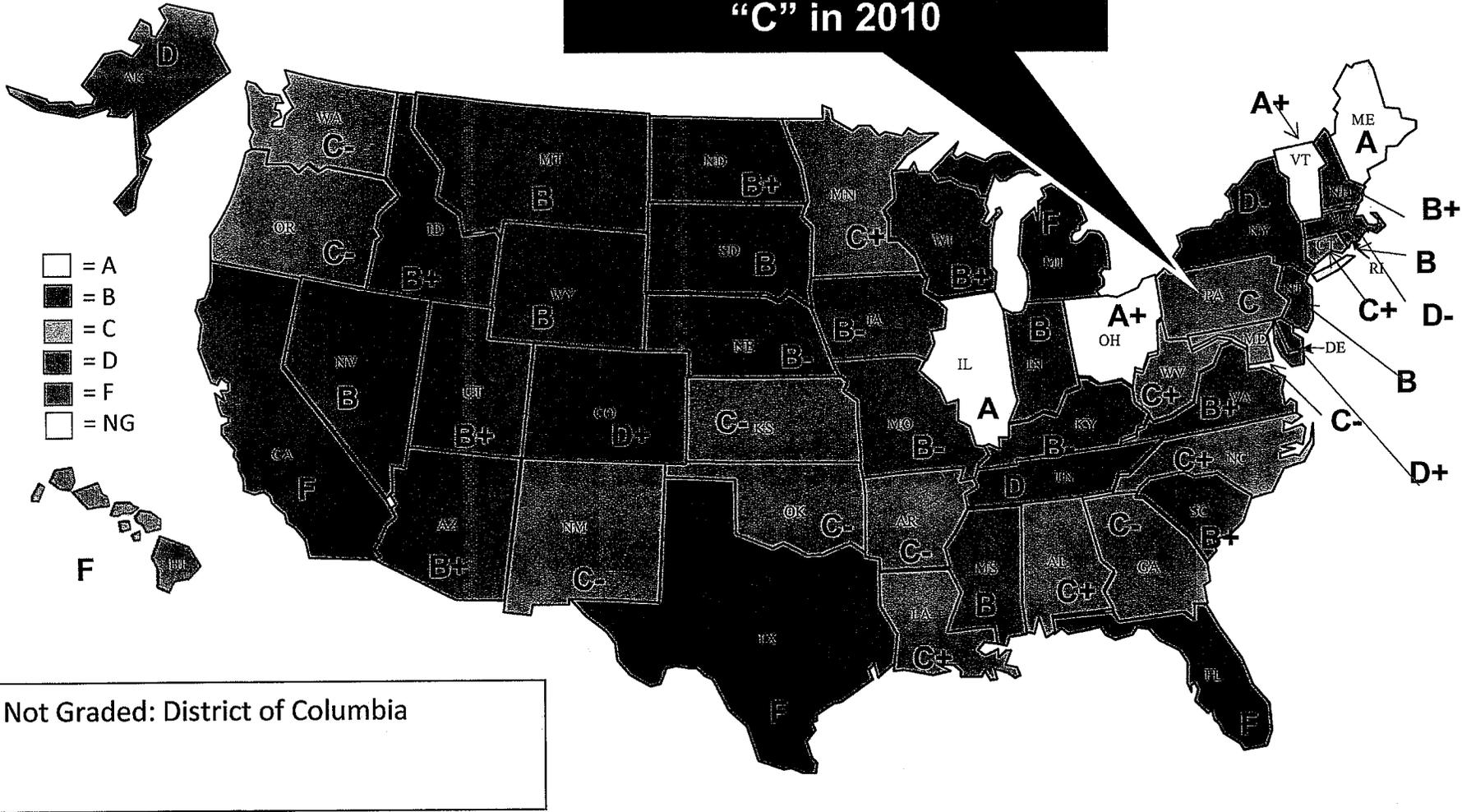


Regulatory Environment & Financial Services Reform

**State Regulatory Environments
Vary Tremendously and Can
Impact Insurer Profitability and
Ability to Compete**

2010 Property and Casualty Insurance Regulatory Report Card

Pennsylvania's regulatory environment got a grade of "C" in 2010



Not Graded: District of Columbia

Source: Heartland Institute, May 2011

Insurance Information Institute Online:

www.iii.org

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

Twitter: twitter.com/bob_hartwig



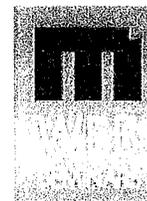
verisk
Insurance Solutions



Monday Web Seminar Series

2011 Catastrophes: How Bad Is Bad?

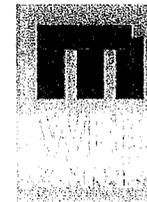
THE SCIENCE OF RISKSM



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The policy of Verisk Analytics and subsidiary companies, including ISO, is to comply in all respects with federal and state antitrust laws. With this in mind, we want to mention that during all seminars held under our auspices, the antitrust laws prohibit discussion of certain topics. Because we want to avoid even the appearance of an antitrust violation, we go beyond the letter of the law, and we will not discuss any matter that violates the spirit of the antitrust laws or could be perceived as doing so.

A copy of our Policy Statement on Discussion at Meetings can be found at www.iso.com/statement.

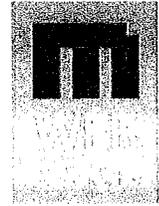


Today's Presentation

Gary Kerney, AIC, RPA

Assistant Vice President

Property Claim Services (PCS)



Definition of Catastrophe

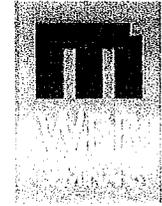
- An event causing \$25 million or more of insured property damage **AND**
- Affecting a significant number of policyholders and insurers
- Same definition in use for the PCS-Canada Service



What Is Included in a PCS Estimate?

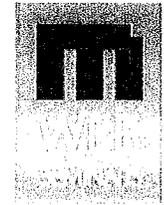
Property Claim Services (PCS) Estimate Components

- **Insured loss:** Direct loss in US\$, including ground-up, gross loss (gross of reinsurance but net of deductible and other limiting clauses), generally defined as the full or total insured property damage paid for by an insurer. PCS estimates do not include loss adjustment expense.
- **Claim count:** The number of claims received and anticipated for a particular event. Claims involving a single structure or insured that are layered among a number of insurers are counted by PCS as a single loss. (For example, PCS considered the World Trade Center complex to be one loss, even though coverage was provided by a number of insurers in various layers of a single program.)
- **Personal lines losses:** Involve homeowners, condominium unit owners, mobile-home owners, tenants policies covering structural, personal property, and time element (additional living expense) losses.
- **Commercial lines losses:** Include losses to commercial properties (retail, office, industrial), business personal property, time element (business interruption, contingent business interruption, extra expense), including buildings housing condominiums or apartment units.
- **Vehicles:** Includes both personal and commercial vehicles and insured losses covered by comprehensive coverage. (PCS does not include collision losses, such as those that may occur during a winter storm, in our estimates of catastrophe loss. PCS also does not include liability losses.)



2011 Catastrophe Activity

- The 2011 catastrophe summary
 - 30 declared catastrophe events
 - More than \$32 billion of insured property damage
 - More than 4.75 million catastrophe claims



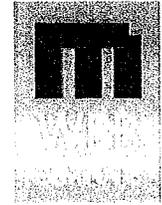
Catastrophe Claims Comparison

- Catastrophe claims in 2011 – 4.75 million
 - Since 1998 – 39.1 million
 - 2011 claims as a percent of total – 12%
- Catastrophe property loss in 2011 – \$32.5 billion
 - Since 1998 – \$258.4 billion
 - 2011 insured loss as a percent of total – 12.5%

2011 Hurricane Season

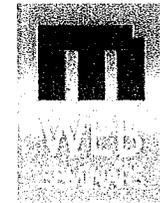


	Named Storms	Hurricanes	Major Hurricanes
2011 Forecast			
CSU	16	9	5
TSR	16	9	4
WSI	15	8	4
NOAA	14-19	7-10	3-5
2011 Actual	19	7	3
Seasonal Average	11	6	3



2011 Catastrophe Loss Impact on the States

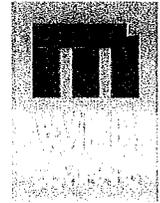
- Affected by catastrophes
 - 40 of the 50 states and the District of Columbia
- The “losing” states
 - Texas \$3.600 billion 9 events
 - Alabama \$3.157 b 5 events
 - Missouri \$3.067 b 7 events
 - Tennessee \$2.800 b 7 events
 - North Carolina \$2.197 b 7 events
 - Kansas \$1.373 b 7 events
 - Ohio \$1.356 b 8 events
 - Illinois \$1.247 b 12 events



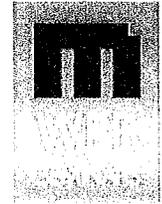
Estimated Insured Loss by Storm Family: 1950 to 2010

• Hurricane (88)	• \$136,556,445,790
• Wind and Thunderstorm Event (1,251)	• \$118,705,197,458
• Winter Storm	• \$25,438,656,159
• Fire – Other	• \$20,050,753,604
• Earthquake	• \$13,964,150,000
• Wildland Fire	• \$6,677,348,000
• Tropical Storm	• \$4,094,320,000
• Riot	• \$970,250,000
• Water Damage	• \$300,000,000
• Utility Service Disruption	• \$180,000,000
• Volcanic Eruption	• \$27,000,000
• Total Insured Loss (1,598)	• \$326,989,121,011

Catastrophe History Summary Report

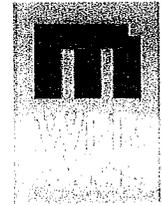


Year	Total Dollar Loss	Frequency
2000	4,570,000,000	24
2001	26,548,500,000	20
2002	5,850,000,000	25
2003	12,885,000,000	21
2004	27,490,000,000	22
2005	63,301,200,000	24
2006	9,238,000,000	33
2007	6,710,000,000	23
2008	27,045,000,000	37
2009	10,570,000,000	28
2010	14,315,000,000	34
2011	32,470,000,000	30
Total	239,992,700,000	321



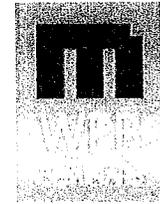
Catastrophes Costing \$1 Billion or More

- From 1989 to 1999, 13 catastrophes caused more than \$1 billion each, for a total of \$50 billion.
 - An annual average of 1 catastrophe and \$4.5 billion
- From 2001 to 2010, 30 catastrophes caused more than \$1 billion each, for a total of \$145 billion.
 - An annual average of 3 catastrophes and \$14.5 billion
- Through the end of November 2011, 7 catastrophes caused more than \$1 billion each, for a total of \$23.4 billion.



Top Ten Catastrophes

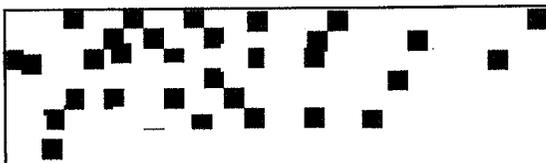
• Hurricane Katrina	\$41.1 billion
• WTC attack	\$18.8 billion
• Hurricane Andrew	\$15.0 billion
• Northridge earthquake	\$12.5 billion
• Hurricane Ike	\$12.5 billion
• Hurricane Wilma	\$10.3 billion
• Hurricane Charley	\$ 7.5 billion
• Severe weather (April 2011)	\$ 7.3 billion
• Hurricane Ivan	\$ 7.1 billion
• Severe weather (May 2011)	\$ 6.5 billion



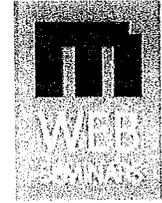
Top Ten States Affected by Catastrophes*

• Florida	\$51.9 billion
• Texas	\$40.0 billion
• Louisiana	\$35.3 billion
• New York	\$25.6 billion
• California	\$24.2 billion
• Mississippi	\$17.5 billion
• Alabama	\$10.3 billion
• Oklahoma	\$ 9.8 billion
• Missouri	\$ 9.3 billion
• North Carolina	\$ 8.8 billion

* Includes 2011 catastrophes



Feedback



- Send feedback to:
 - mondaywebseminars@verisk.com
- Next event:
 - Monday, December 19, 2:00 p.m. Eastern time
 - Medicare Case Law Update: Assessing the Effects of *Hadden v. U.S.* and Other Recent Medicare Secondary Payer Cases
- Visit www.verisk.com/ws to register

Reforms Needed to Prepare for Major Catastrophes, Insurance CEOs Tell Forum

JANUARY 10, 2006

New York, Jan.10, 2006 ? Unless the nation changes the way it addresses major catastrophes, the next hurricane or earthquake will wreak far more economic devastation than Hurricane Katrina, insurance industry leaders told executives at the 10th annual Joint Industry Forum, held here.

The panelists agreed that regulatory constraints keep rates artificially low and encourage development in high risk areas such as Florida; in effect, forcing homeowners and taxpayers to subsidize wealthy owners of waterfront properties.

"People are willing to pay high prices for homes in coastal areas, but are not willing to pay the real cost of insuring them, said W.G. Jurgensen, chief executive officer, Nationwide. "Florida is a one of a kind; a geographical anomaly, he said. "If the state is going to continue to attract new residents, it will have to make them pay for the view. You can't ask those living in low risk areas to subsidize West Palm Beach.

Insurers have had decades of profits wiped out by Hurricane Katrina and are pulling back from writing insurance in high risk locations, according to Frederick H. Eppinger, president and CEO, The Hanover Insurance Group. "Into this supply breach have stepped under-capitalized start-up companies, many of which could become insolvent in the event of a mega-disaster. Meanwhile, the cheap rates they offer drive responsible, established carriers out of the market.

According to Eppinger, thoughtful companies are pulling back from the market. "Undercapitalized companies will fill the gap, he said. "The question is will they have enough cash when needed to pay claims?

Edward M. Liddy, chairman, president and chief executive officer, Allstate, said the 2005 hurricane season has raised awareness of the need for a plan to deal with mega-catastrophes. "The solution is a private program sponsored by the government under which rates for homeowners would be actuarially sound, he said. "States would create pools funded by all entities that benefit from a robust local economy such as the banking and real estate sectors. The key is to pre-fund the cost of reconstruction after a catastrophe.

Liddy called for a federal program to back up the pools in early years, before adequate funds can be accumulated.

Brian O'Hara, president and CEO, XL Capital Ltd., said he was wary of getting the federal government involved. "Ratemaking controls at the state level prevent the real costs from being included in premiums. True free markets would go a long way to solving the problem of funding catastrophes.

CEOs talked about the emotional toll the 2005 catastrophes took on their teams of claims adjusters, calling them heroes. They described how some adjusters had lost everything they had to the storms, but worked 24/7 to settle their neighbors' claims.

Edward B. Rust Jr., chairman and CEO, State Farm, observed that new technology helped his

company provide policyholders with better services. "Satellite imagery now allows us to quickly identify damaged properties so that we can issue checks to policyholders even before we've had a chance to visit their homes.

CEOs voiced concern about the number of underinsured and uninsured homes and businesses in the Gulf States, a problem which is at the root of legal challenges regarding insurance contracts. There was general agreement that litigants would not prevail.

"This goes to the heart of the sanctity of contract law in the U.S, said Ronald R. Pressman, chairman, president and CEO, GE Insurance Solutions.

On the wind versus flood issue, Pressman called for educating consumers on the importance of adequate coverage and urged the industry to "think about this educational effort as a long term investment.

The panel discussion was moderated by Charles M. Chamness, president, National Association of Mutual Insurance Companies.

The Property/Casualty Insurance Joint Industry Forum was created to provide leaders from the widest spectrum of the p/c insurance and reinsurance industry with an opportunity to meet with each other in discussion of topics of general interest.

The sponsoring organizations of the Forum represent a wide spectrum of insurance interests and audiences. They include: ACORD, American Institute for Chartered Property Casualty Underwriters, The Geneva Association, Institute for Business & Home Safety, Insurance Information Institute, Insurance Institute for Highway Safety, International Insurance Society, Inc., ISO, National Association of Mutual Insurance Companies, National Council on Compensation Insurance, National Insurance Crime Bureau, Property Casualty Insurers Association of America and Reinsurance Association of America.

ISO: Property/Casualty Insurers' Profits and Profitability Tumbled In First-Half 2011 As Catastrophes Ravaged Underwriting Results

OCTOBER 7, 2011

ISO/PCI/INSURANCE INFORMATION INSTITUTE

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JERSEY CITY, N.J., October 7, 2011 — Private U.S. property/casualty insurers' net income after taxes fell to \$4.8 billion in first-half 2011 from \$16.8 billion in first-half 2010, with insurers' overall profitability as measured by their annualized rate of return on average policyholders' surplus decreasing to 1.7 percent from 6.4 percent.

Driving the declines in insurers' net income and overall rate of return, net losses on underwriting grew to \$24.1 billion in first-half 2011 from \$5.1 billion in first-half 2010. The combined ratio — a key measure of losses and other underwriting expenses per dollar of premium — deteriorated to 110.5 percent for first-half 2011 from 101.7 percent for first-half 2010, according to ISO and the Property Casualty Insurers Association of America (PCI).

The deterioration in underwriting results is largely attributable to a spike in net losses and loss adjustment expenses (LLAE) from catastrophes. ISO estimates that insurers' net LLAE from catastrophes in first-half 2011 totaled \$23.9 billion, up from \$8 billion in first-half 2010. These amounts exclude LLAE that emerged after insurers closed their books for each period but do include late emerging LLAE from events in prior periods.

Partially offsetting the deterioration in underwriting results, net investment gains — the sum of net investment income and net realized capital gains (or losses) on investments — grew \$2.4 billion to \$28.4 billion in first-half 2011 from \$26 billion in first-half 2010.

Insurers' miscellaneous other income fell \$0.1 billion to \$0.6 billion in first-half 2011 from \$0.7 billion in first-half 2010, and their federal and foreign income taxes dropped \$4.7 billion to \$0.1 billion from \$4.8 billion.

Policyholders' surplus — insurers' net worth measured according to Statutory Accounting Principles — fell \$0.2 billion to \$559.1 billion at June 30, 2011, from \$559.2 billion at year-end 2010.

Insurers' 1.7 percent annualized rate of return on average surplus for first-half 2011 was the lowest for any first half since the start of ISO's quarterly records in 1986 and 7.7 percentage points less than the 9.4 percent average first-half rate of return for the 25 years from 1986 to 2010.

The figures are consolidated estimates for all private property/casualty insurers based on reports accounting for at least 96 percent of all business written by private U.S. property/casualty insurers.

“Despite record-setting catastrophe losses from events like the deadly EF 5 tornado that struck Joplin, Missouri, last May, insurers emerged from first-half 2011 financially sound and well able to continue providing essential financial protection to consumers and businesses alike — a quiet but important testament to insurers’ enterprise risk management and the effectiveness of state solvency regulation,” said David Sampson, PCI’s president and CEO. “As of June 30, 2011, insurers had \$559.1 billion in policyholders’ surplus to cover new claims and meet other contingencies — more than 150 times all direct insured losses to U.S. property from Hurricane Irene. The industry is strong, well-capitalized, and capable of paying claims.”

“The 110.5 percent combined ratio for first-half 2011 is the worst six-month underwriting result since the 111.1 percent combined ratio for first-half 2001. Even after adjusting for record catastrophe losses, the latest data indicates that insurers continued to face strong headwinds in their core business — underwriting,” said Michael R. Murray, ISO’s assistant vice president for financial analysis. “ISO estimates that insurers’ combined ratio would have risen 1.3 percentage points to 103 percent in first-half 2011 if net LLAE from catastrophes had remained the same as they were in first-half 2010. The deterioration in adjusted underwriting results is a particular cause for concern, because today’s low interest rates severely limit insurers’ ability to generate incremental investment income.”

The property/casualty industry’s 1.7 percent annualized rate of return for first-half 2011 was the net result of negative rates of return for mortgage and financial guaranty insurers and single-digit rates of return for other insurers. ISO estimates that mortgage and financial guaranty insurers’ annualized rate of return on average surplus improved to negative 26.1 percent for first-half 2011 from negative 43.6 percent for first-half 2010. Excluding mortgage and financial guaranty insurers, the industry’s annualized rate of return fell to 2.3 percent in first-half 2011 from 7.6 percent in first-half 2010.

Underwriting Results

Underwriting gains (or losses) equal earned premiums minus LLAE, other underwriting expenses, and dividends to policyholders.

Net losses on underwriting grew \$19 billion to \$24.1 billion in first-half 2011 from \$5.1 billion in first-half 2010, as growth in LLAE and other underwriting expenses outpaced growth in premiums earned.

Net written premiums rose \$5.5 billion, or 2.6 percent, to \$218.8 billion for first-half 2011 from \$213.3 billion for first-half 2010. Net earned premiums rose \$4.5 billion, or 2.2 percent, to \$212.5 billion from \$208 billion.

Net LLAE (after reinsurance recoveries) rose \$21.7 billion, or 14.2 percent, to \$174.2 billion in first-half 2011 from \$152.5 billion in first-half 2010.

Other underwriting expenses — primarily acquisition expenses; expenses associated with underwriting, pricing, and servicing insurance policies; and premium taxes — rose \$1.8 billion, or 3.1 percent, to \$61.6 billion in first-half 2011 from \$59.8 billion in first-half 2010.

Dividends to policyholders totaled \$0.8 billion in first-half 2011, essentially unchanged from dividends to policyholders in first-half 2010.

Though the increase in overall LLAE is primarily a result of losses from catastrophes, other losses also rose. ISO estimates that private insurers' net LLAE from catastrophes jumped \$15.9 billion to \$23.9 billion in first-half 2011 from \$8 billion in first-half 2010. Other net LLAE rose \$5.7 billion, or 4 percent, to \$150.3 billion through six-months 2011 from \$144.5 billion through six-months 2010.

According to ISO's Property Claim Services (PCS) unit, catastrophes striking the United States in first-half 2011 caused \$23 billion in direct insured losses (before reinsurance recoveries) for all insurers (including residual-market insurers and foreign insurers and reinsurers), up \$14.1 billion compared with the direct insured losses caused by catastrophes striking the United States in first-half 2010 and about three times the \$7.7 billion average for first-half direct catastrophe losses during the past ten years.

U.S. insurers' \$23.9 billion in net LLAE from catastrophes in first-half 2011 included an estimated \$19.7 billion in LLAE from catastrophes that struck the United States. Though estimating the LLAE from foreign catastrophes included in U.S. insurers' financial results is difficult, the available information suggests that U.S. insurers' net LLAE for first-half 2011 included between \$3 billion and \$5 billion in LLAE from catastrophes striking elsewhere around the globe — events such as the earthquake and tsunami that struck northeastern Japan on March 11 and the earthquake that struck Christchurch, New Zealand, on February 22 (February 21 UTC).

Downward revisions to the estimated ultimate cost of claims incurred in prior years and consequent releases of LLAE reserves reduced reported net LLAE for both first-half 2011 and first-half 2010. Such downward revisions and releases dropped to \$7.3 billion in first-half 2011 from \$9.1 billion in first-half 2010. Excluding those amounts, net LLAE increased \$19.9 billion, or 12.3 percent, to \$181.5 billion in first-half 2011 from \$161.6 billion in first-half 2010.

Reflecting the excess of increases in the costs of providing coverage over increases in premiums, the combined ratio deteriorated by 8.8 percentage points to 110.5 percent in first-half 2011 from 101.7 percent in first-half 2010.

The \$24.1 billion in net losses on underwriting in first-half 2011 amounted to 11.3 percent of the \$212.5 billion in net premiums earned during the period, whereas the \$5.1 billion in net losses on underwriting in first-half 2010 amounted to 2.5 percent of the \$208 billion in net premiums earned during that period.

"Growth in net written premiums accelerated to 2.6 percent in first-half 2011 from 0.4 percent in first-half 2010 and negative 4.4 percent in first-half 2009. But results varied significantly by sector," said Murray. "Excluding mortgage and financial guaranty insurers, net written premium growth for insurers writing predominantly commercial lines climbed to 2.9 percent in first-half 2011 from negative 3.1 percent in first-half 2010. Conversely, premium growth for insurers writing mostly personal lines slowed to 2.7 percent from 3.5 percent. Net written premium growth for insurers writing more balanced books of business increased to 2.2 percent in first-half 2011 from 1.7 percent in first-half 2010."

“While the acceleration in first-half net written premium growth to the fastest rate in five years is certainly welcome news, written premium growth continued to fall short of nominal growth in the economy and insurers’ losses and loss adjustment expenses,” said Sampson. “In first-half 2011, U.S. current dollar GDP rose 3.9 percent compared with its level a year earlier, while insurers’ net written premiums increased 2.6 percent. Even excluding the effects of catastrophes, insurers’ losses and loss adjustment expenses rose 4 percent — again, one and a half times as fast as premiums.”

“Reflecting the weakness in the economy, mortgage and financial guaranty insurers continued to suffer disproportionate losses on underwriting,” said Murray. “Though mortgage and financial guaranty insurers’ combined ratio improved 10 percentage points to 186.3 percent for first-half 2011 from 196.4 percent for first-half 2010, their combined ratio for first-half 2011 was 76.9 percentage points worse than the 109.4 percent combined ratio for the industry excluding mortgage and financial guaranty insurers.”

Mortgage and financial guaranty insurers’ net written premiums fell 2.4 percent to \$2.6 billion for first-half 2011 from \$2.7 billion for first-half 2010. Their net earned premiums fell 7.2 percent to \$3.1 billion in first-half 2011 from \$3.3 billion a year earlier, with the 10-percentage-point improvement in mortgage and financial guaranty insurers’ combined ratio driven by a 16.6 percent drop in their LLAE to \$4.9 billion in first-half 2011 from \$5.8 billion in first-half 2010. Mortgage and financial guaranty insurers’ other underwriting expenses rose to \$0.8 billion in first-half 2011 from \$0.6 billion a year earlier.

Excluding mortgage and financial guaranty insurers, industry net written premiums rose 2.6 percent in first-half 2011 to \$216.2 billion, earned premiums increased 2.3 percent to \$209.4 billion, LLAE grew 15.4 percent to \$169.3 billion, other underwriting expenses increased 2.8 percent to \$60.8 billion, and dividends to policyholders were essentially unchanged from their level in first-half 2010 at \$0.8 billion. Reflecting those developments, the combined ratio for the industry excluding mortgage and financial guaranty insurers rose 9.2 percentage points to 109.4 percent for first-half 2011 from 100.2 percent for first-half 2010.

Investment Results

Insurers’ net investment income — primarily dividends from stocks and interest on bonds — increased 4.5 percent to \$24.8 billion in first-half 2011 from \$23.7 billion in first-half 2010. Insurers’ net realized capital gains on investments in first-half 2011 grew \$1.3 billion to \$3.6 billion from \$2.3 billion a year earlier. Combining net investment income and net realized capital gains, overall net investment gains rose \$2.4 billion, or 9.2 percent, to \$28.4 billion for first-half 2011 from \$26 billion for first-half 2010.

“The growth in insurers’ investment income in first-half 2011 resulted from a \$1.8 billion increase in the dividends that one insurer received from a major noninsurance operation acquired in early 2010,” said Sampson. “Excluding that \$1.8 billion, insurers’ net investment income actually declined by \$0.7 billion, or 2.8 percent, to \$23.1 billion in first-half 2011 as a consequence of low interest rates and declines in investment income yields. Insurers’ average holdings of cash and invested assets — the assets on which insurers earn investment income — rose 4.8 percent in first-half 2011 compared with their level a year earlier.”

Combining the \$3.6 billion in net realized capital gains in first-half 2011 with \$3.9 billion in net unrealized capital gains during the same period, insurers posted \$7.5 billion in net overall

capital gains for first-half 2011 — an \$11.8 billion swing from the \$4.3 billion in overall capital losses on investments for first-half 2010.

“Insurers’ overall capital gains for first-half 2011 reflect developments in financial markets. The NASDAQ Composite and the New York Stock Exchange Composite both rose 4.5 percent during first-half 2011, with the S&P 500 rising 5 percent and the Dow Jones Industrial Average climbing 7.2 percent,” said Murray. “Insurers’ investment results also benefited from a decline in realized capital losses on impaired investments, which dropped to \$1.2 billion in first-half 2011 from \$2.2 billion in first-half 2010. But the major stock indexes all declined significantly in third-quarter 2011 and were down year-to-date as of the close on September 30 — meaning insurers’ results for nine-months 2011 may show overall capital losses instead of capital gains.”

Pretax Operating Income

Pretax operating income — the sum of net gains or losses on underwriting, net investment income, and miscellaneous other income — fell \$18 billion, or 93.4 percent, to \$1.3 billion for first-half 2011 from \$19.3 billion for first-half 2010. The \$18 billion decrease in operating income was the net result of the \$19 billion increase in net losses on underwriting, the \$1.1 billion increase in net investment income, and the \$0.1 billion decline in miscellaneous other income.

Mortgage and financial guaranty insurers’ operating income improved to negative \$1.8 billion in first-half 2011 from negative \$2 billion in first-half 2010. Excluding mortgage and financial guaranty insurers, the insurance industry’s operating income fell \$18.2 billion, or 85.4 percent, to \$3.1 billion for first-half 2011 from \$21.3 billion for first-half 2010.

Net Income after Taxes

Combining operating income, net realized capital gains (losses), and federal and foreign income taxes, the insurance industry’s net income after taxes for first-half 2011 totaled \$4.8 billion — down \$12 billion, or 71.6 percent, from \$16.8 billion for first-half 2010. The \$12 billion decline in net income was the net result of the \$18 billion decrease in operating income, the \$1.3 billion increase in net realized capital gains, and the \$4.7 billion decrease in federal and foreign income taxes.

Mortgage and financial guaranty insurers’ net income after taxes rose to negative \$1.6 billion for first-half 2011 from negative \$2.6 billion for first-half 2010. Excluding mortgage and financial guaranty insurers, the insurance industry’s net income after taxes dropped \$13.1 billion to \$6.3 billion for the six months ending June 30, 2011, from \$19.4 billion for the six months ending June 30, 2010.

Policyholders’ Surplus

Policyholders’ surplus decreased \$0.2 billion to \$559.1 billion as of June 30, 2011, from \$559.2 billion at year-end 2010. Additions to surplus in first-half 2011 included insurers’ \$4.8 billion in net income after taxes, \$3.9 billion in net unrealized capital gains on investments (not included in net income), \$1.5 billion in new funds paid in, and \$0.1 billion in miscellaneous other additions to surplus. Those additions were more than offset by \$10.4 billion in dividends to shareholders.

Insurers' \$3.9 billion in net unrealized capital gains on investments in first-half 2011 constituted a \$10.5 billion swing from their \$6.5 billion in net unrealized capital losses in first-half 2010.

The \$1.5 billion in new funds paid in during first-half 2011 was down from \$23.7 billion in first-half 2010.

Miscellaneous additions to surplus declined \$0.2 billion to \$0.1 billion in first-half 2011 from \$0.3 billion in first-half 2010.

Dividends to shareholders declined to \$10.4 billion in first-half 2011 from \$12.9 billion in first-half 2010.

Mortgage and financial guaranty insurers' surplus fell to \$11.6 billion as of June 30, 2011, from \$12.3 billion at year-end 2010. Excluding mortgage and financial guaranty insurers, industry surplus rose \$0.6 billion to \$547.5 billion as of June 30 this year from \$546.9 billion as of December 31, 2010.

"Using 12-month trailing premiums, the premium-to-surplus ratio as of June 30, 2011, was 0.77 — almost identical to the record-low 0.76 for full-year 2010 based on annual data extending back to 1959 and only about half the 1.49 average premium-to-surplus ratio for the 52 years from 1959 to 2010. Similarly, the ratio of loss and loss adjustment expense reserves to surplus as of June 30 this year was 1.03 — far below the 1.42 average LLAE-reserves-to-surplus ratio for the past 52 years," said Murray. "With leverage ratios such as these providing simple measures of the amount of risk supported by each dollar of surplus, insurers appear to be exceptionally well capitalized at this point. But to the extent that these same leverage ratios provide insight into insurers' capacity utilization and the potential supply of insurance, they help explain why some insurance markets have remained so soft for so long."

Second-Quarter Results

The property/casualty insurance industry's consolidated net income after taxes fell to negative \$3.1 billion in second-quarter 2011, down \$10.8 billion from positive \$7.8 billion in second-quarter 2010. Property/casualty insurers' annualized rate of return on average surplus dropped to negative 2.2 percent in second-quarter 2011 from positive 5.8 percent a year earlier.

Mortgage and financial guaranty insurers' annualized rate of return fell to negative 34.6 percent in second-quarter 2011 from negative 27.4 percent in second-quarter 2010, as their net income after taxes dropped to negative \$1 billion from negative \$0.8 billion. Excluding mortgage and financial guaranty insurers, the insurance industry's annualized rate of return fell to negative 1.5 percent in second-quarter 2011 from positive 6.5 percent in second-quarter 2010.

The \$3.1 billion net loss after taxes for the entire insurance industry in second-quarter 2011 was a result of \$7.3 billion in pretax operating losses, less \$2.6 billion in net realized capital gains on investments and \$1.7 billion in federal and foreign income tax recoveries.

The industry's \$7.3 billion in pretax operating losses for second-quarter 2011 was a \$16.3 billion swing from the industry's \$9 billion in pretax operating income for second-quarter 2010. The industry's second-quarter 2011 pretax operating losses were the net result of \$19.6 billion in net losses on underwriting and \$12.2 billion in net investment income. Excluding mortgage and financial guaranty insurers, pretax operating losses for second-quarter 2011 amounted to \$6.3 billion — a \$15.8 billion swing from \$9.6 billion in pretax operating income for second-quarter 2010.

Net losses on underwriting grew \$16.3 billion to \$19.6 billion in second-quarter 2011 from \$3.3 billion in second-quarter 2010.

ISO estimates that the net LLAE from catastrophes included in private U.S. insurers' financial results rose to \$17.4 billion in second-quarter 2011 from \$5.8 billion a year earlier. These amounts exclude LLAE that emerged after insurers closed their books for each period but do include late emerging LLAE from events in prior periods.

Excluding loss adjustment expenses, direct insured losses from catastrophes striking the United States in second-quarter 2011 totaled \$20.8 billion, up \$14.4 billion from the direct insured losses caused by catastrophes that struck the United States in second-quarter 2010, according to ISO's PCS unit.

Second-quarter 2011 net losses on underwriting amounted to 18.3 percent of the \$107.3 billion in premiums earned during the period. Second-quarter 2010 net losses on underwriting amounted to 3.2 percent of the \$104.8 billion in premiums earned during that period.

The industry's combined ratio deteriorated to 117.6 percent in second-quarter 2011 from 102.3 percent in second-quarter 2010 — rising to its highest level since the 120.3 percent combined ratio for fourth-quarter 2001 and setting a new record high for the second quarter based on quarterly records extending back to 1986.

The \$19.6 billion in net losses on underwriting was after deducting \$0.3 billion in premiums returned to policyholders as dividends, with dividends to policyholders up \$0.1 billion from their level in second-quarter 2010.

Written premiums rose \$1.7 billion, or 1.6 percent, to \$109.7 billion in second-quarter 2011 from \$108 billion in second-quarter 2010.

Earned premiums grew \$2.4 billion, or 2.3 percent, to \$107.3 billion in second-quarter 2011 from \$104.8 billion in second-quarter 2010.

Excluding mortgage and financial guaranty insurers, net written premiums rose 1.7 percent in second-quarter 2011, earned premiums rose 2.5 percent, LLAE increased 23.3 percent, and the combined ratio climbed to 116.5 percent from 101.3 percent in second-quarter 2010.

“In second-quarter 2011, the industry achieved its fifth successive quarter of growth in written premiums, following 12 quarters of declines,” said Sampson. “But written premium growth slowed to 1.6 percent in second-quarter 2011 from 3.5 percent in first-quarter 2011, and economists warn that the economy is at risk of slipping back into recession. All of this suggests that insurers would be well advised to sharpen their focus on the core fundamentals of the insurance business — cost-based pricing, disciplined underwriting, solid claims adjudication, and risk management.”

The \$12.2 billion in net investment income in second-quarter 2011 was up \$0.2 billion, or 1.3 percent, compared with \$12.1 billion in second-quarter 2010.

Miscellaneous other income dwindled to near nil in second-quarter 2011 from \$0.2 billion in second-quarter 2010.

Net realized capital gains on investments climbed to \$2.6 billion in second-quarter 2011 from \$1.3 billion in second-quarter 2010.

Combining net investment income and net realized capital gains, net investment gains rose \$1.5 billion, or 11.1 percent, to \$14.8 billion in second-quarter 2011 from \$13.4 billion a year earlier.

Insurers did not post meaningful amounts of net unrealized capital gains or losses on investments in second-quarter 2011, but that constituted an improvement from insurers' \$11.4 billion in net unrealized capital losses on investments in second-quarter 2010. Combining realized and unrealized amounts, the insurance industry posted \$2.7 billion in net overall capital gains in second-quarter 2011 — a \$12.8 billion swing from the \$10.1 billion in net overall capital losses on investments in second-quarter 2010.

The \$2.7 billion in overall capital gains for second-quarter 2011 was net of \$0.5 billion in realized write-downs on impaired investments, with realized write-downs on impaired securities falling from \$1.1 billion in second-quarter 2010.

OPERATING RESULTS FOR 2011 AND 2010

(\$ Millions)

FIRST HALF	2011	2010
NET WRITTEN PREMIUMS	218,792	213,332
PERCENT CHANGE (%)	2.6	0.4
NET EARNED PREMIUMS	212,491	207,980
PERCENT CHANGE (%)	2.2	(1.5)
INCURRED LOSSES & LOSS ADJUSTMENT EXPENSES	174,154	152,503
PERCENT CHANGE (%)	14.2	(0.9)
STATUTORY UNDERWRITING GAINS (LOSSES)	(23,288)	(4,321)
POLICYHOLDERS' DIVIDENDS	810	777
NET UNDERWRITING GAINS (LOSSES)	(24,098)	(5,098)
PRETAX OPERATING INCOME	1,280	19,320
NET INVESTMENT INCOME EARNED	24,819	23,744
NET REALIZED CAPITAL GAINS (LOSSES)	3,605	2,297
NET INVESTMENT GAINS	28,424	26,041
NET INCOME (LOSS) AFTER TAXES	4,758	16,778
PERCENT CHANGE (%)	(71.6)	181.3
SURPLUS (CONSOLIDATED)	559,058	532,811
LOSS & LOSS ADJUSTMENT EXPENSE RESERVES	574,977	559,189
COMBINED RATIO, POST-DIVIDENDS (%)	110.5	102.0
SECOND QUARTER	2011	2010
NET WRITTEN PREMIUMS	109,746	108,010
PERCENT CHANGE (%)	1.6	1.7
NET EARNED PREMIUMS	107,259	104,831
PERCENT CHANGE (%)	2.3	(0.8)
INCURRED LOSSES & LOSS ADJUSTMENT EXPENSES	95,404	77,655
PERCENT CHANGE (%)	22.9	3.3
STATUTORY UNDERWRITING GAINS (LOSSES)	(19,262)	(3,044)
POLICYHOLDERS' DIVIDENDS	348	259

FIRST HALF	2011	2010
NET UNDERWRITING GAINS (LOSSES)	(19,610)	(3,303)
PRETAX OPERATING INCOME	(7,347)	8,990
NET INVESTMENT INCOME EARNED	12,222	12,067
NET REALIZED CAPITAL GAINS (LOSSES)	2,617	1,284
NET INVESTMENT GAINS	14,839	13,350
NET INCOME (LOSS) AFTER TAXES	(3,065)	7,759
PERCENT CHANGE (%)	NM*	6.0
SURPLUS (CONSOLIDATED)	559,058	532,811
LOSS & LOSS ADJUSTMENT EXPENSE RESERVES	574,977	559,189
COMBINED RATIO, POST-DIVIDENDS (%)	117.6	102.3

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