
Looking into the Future

2009 Insurance Industry Overview

An Actuarial Perspective

Apex Discussion Series

Presented by:
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Managing Principal

September 9, 2010

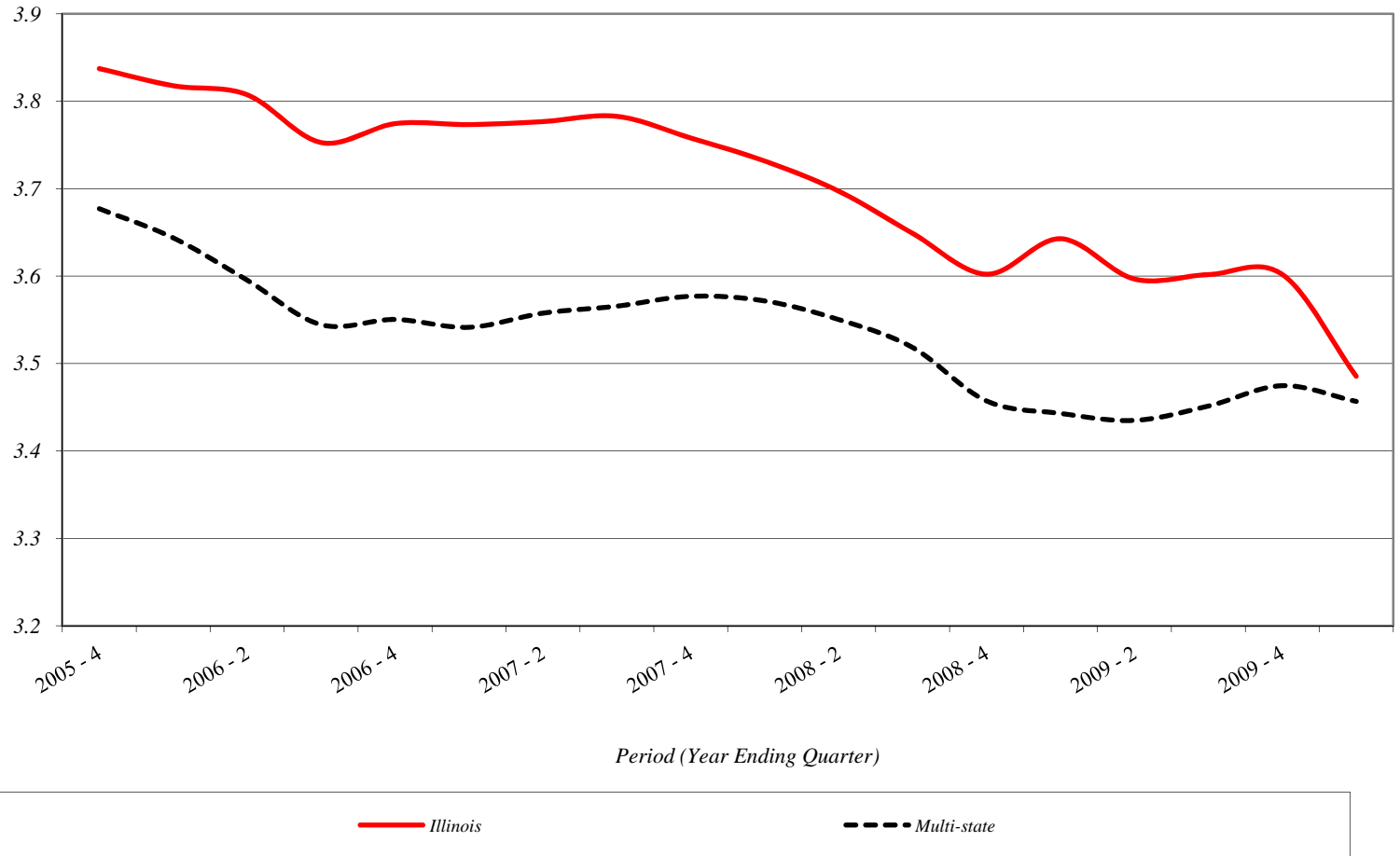
Outline of Presentation

- Introduction
- Personal Lines
- Commercial Auto
- Workers Compensation
- Commercial lines comments by line
- Reinsurance Markets
- Emerging Areas of Concern

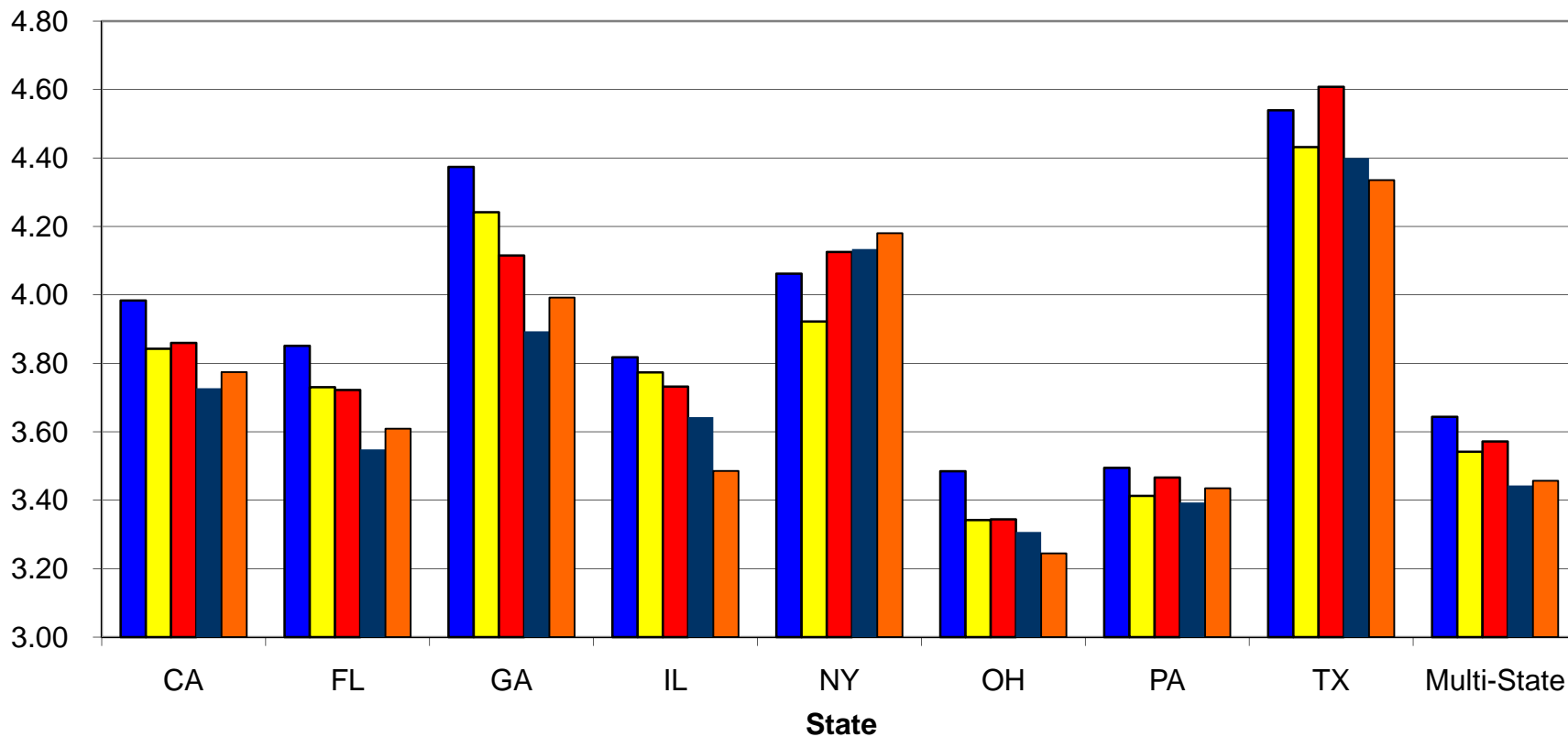
Introduction

- P/C markets in 2009-2010 dominated by impact of U.S. economy
- Soft market continues in light of declining WC claim frequencies (economy) but claim severities are trending up
- Manageable CAT losses
- CAL & GL costs fairly steady
- New uncertainties related to federal intrusion into the business of insurance

Property Damage Paid Claim Frequency Per 100 Cars



Auto Liability PD Claim Frequency 2006 - 2010



Source: Fast Track Data

■ 2006 ■ 2007 ■ 2008 ■ 2009 ■ 2010

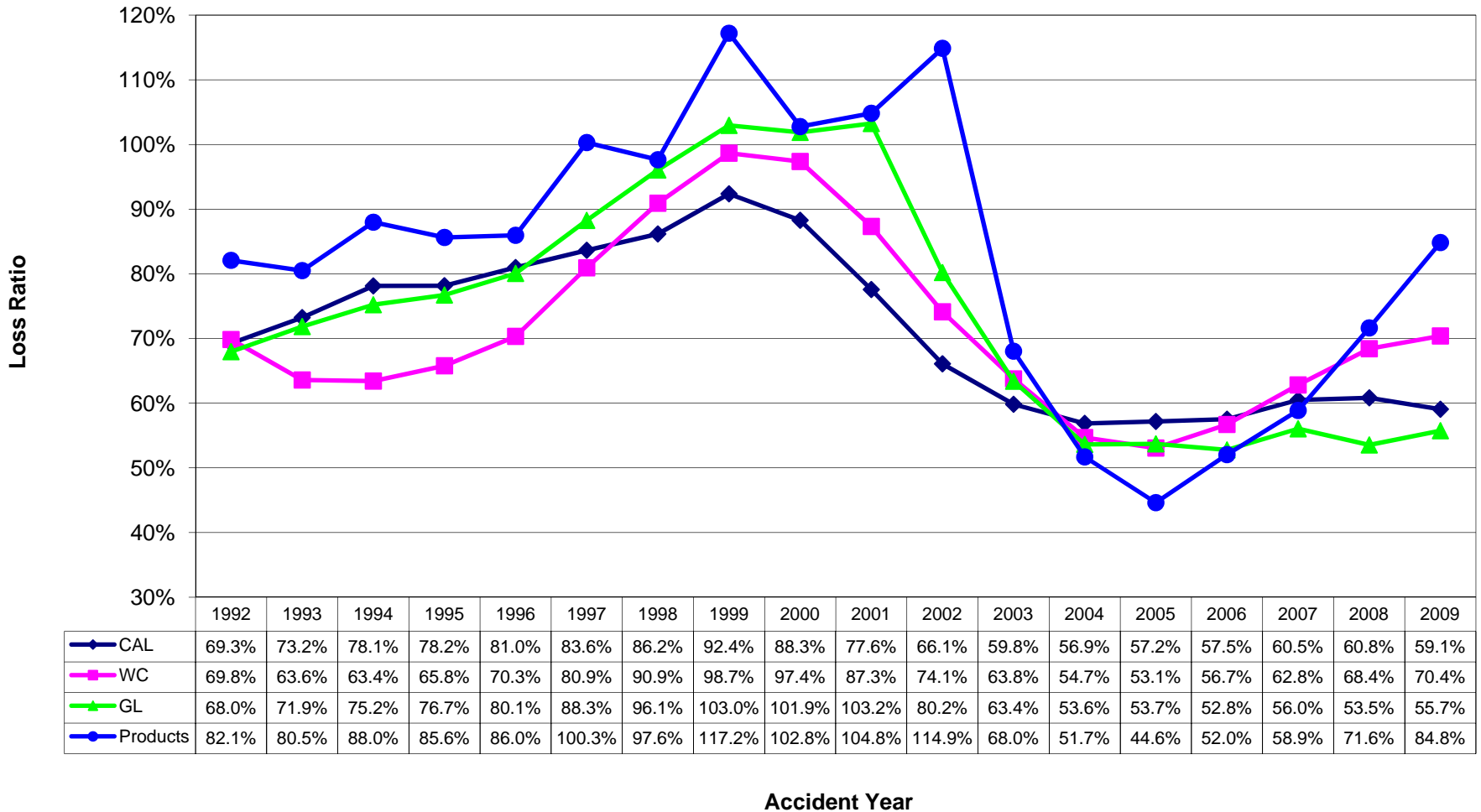
PINNACLE
ACTUARIAL RESOURCES, INC.

The Firm of Choice

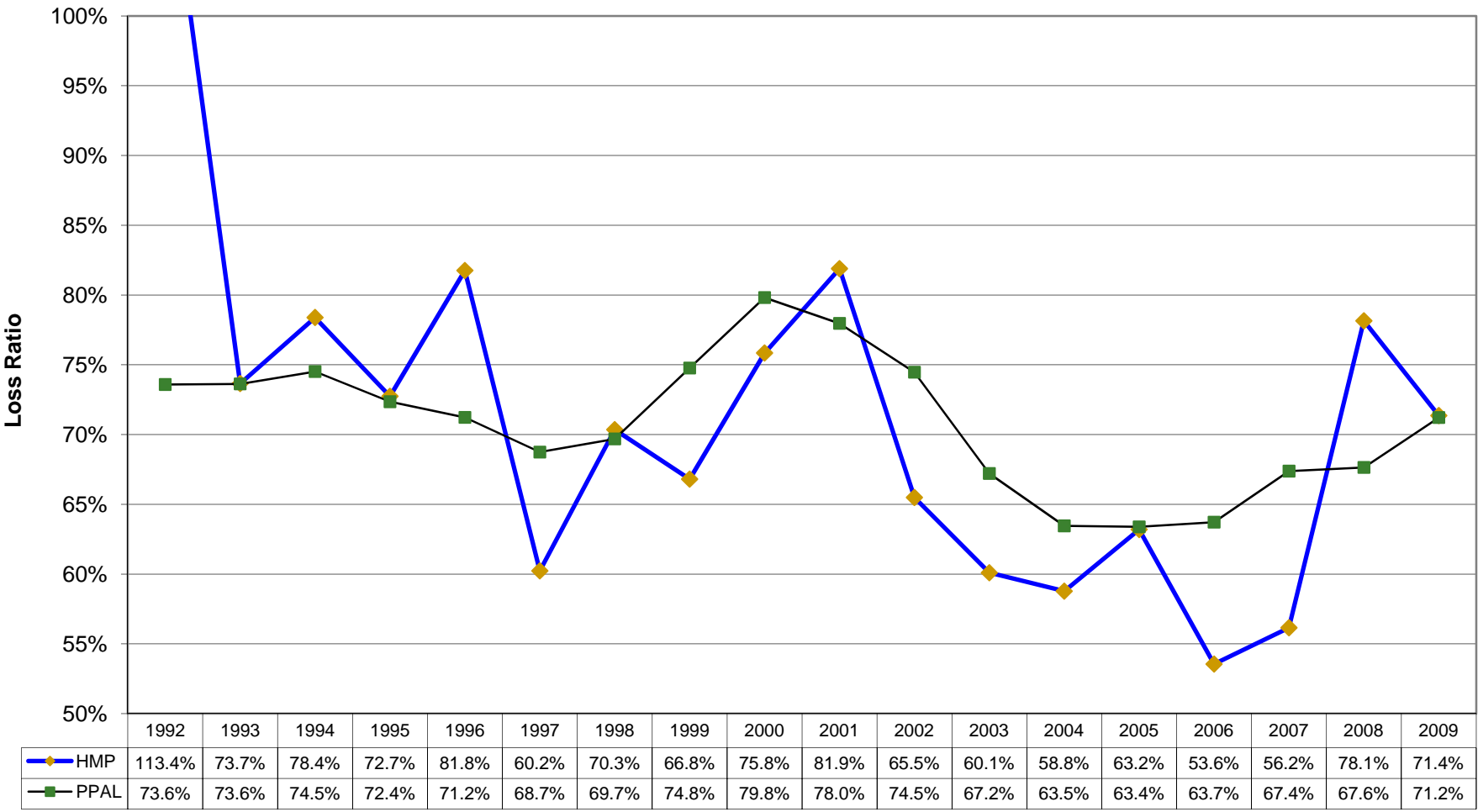
Pinnacle's Analysis of Industry Data

- Aggregate loss development by ASL
- Per electronic Sch P data from A. M. Best
- Long-tailed & Short-tail lines
- Intended use is for comparing loss ratios over time
- No estimate of adequacy of “prior years” IBNR reserves

Aggregate Insurance Industry Loss Ratios thru 2009 Commercial Casualty Coverages

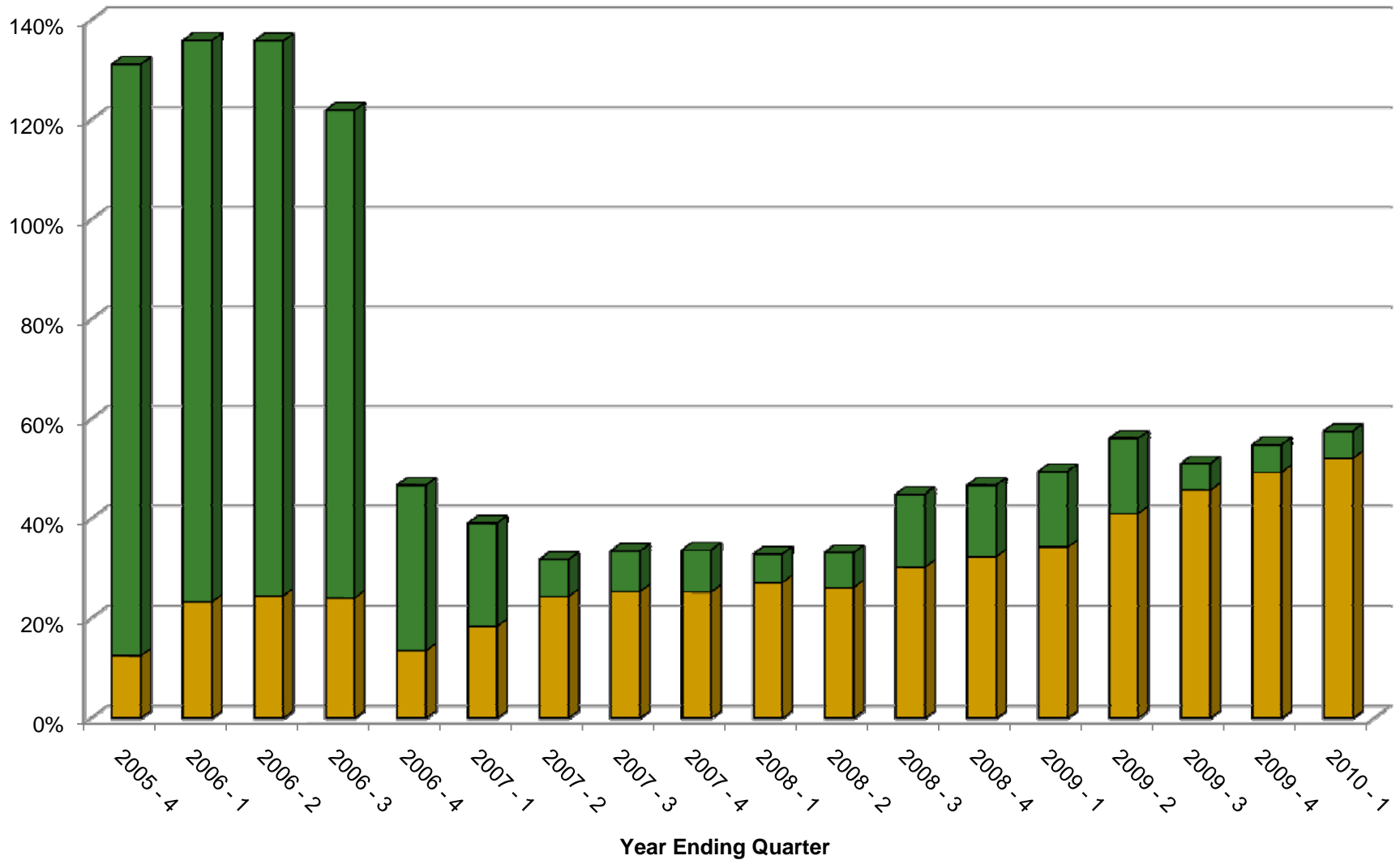


HMP & PPAL Insurance Industry Loss Ratios



Accident Year

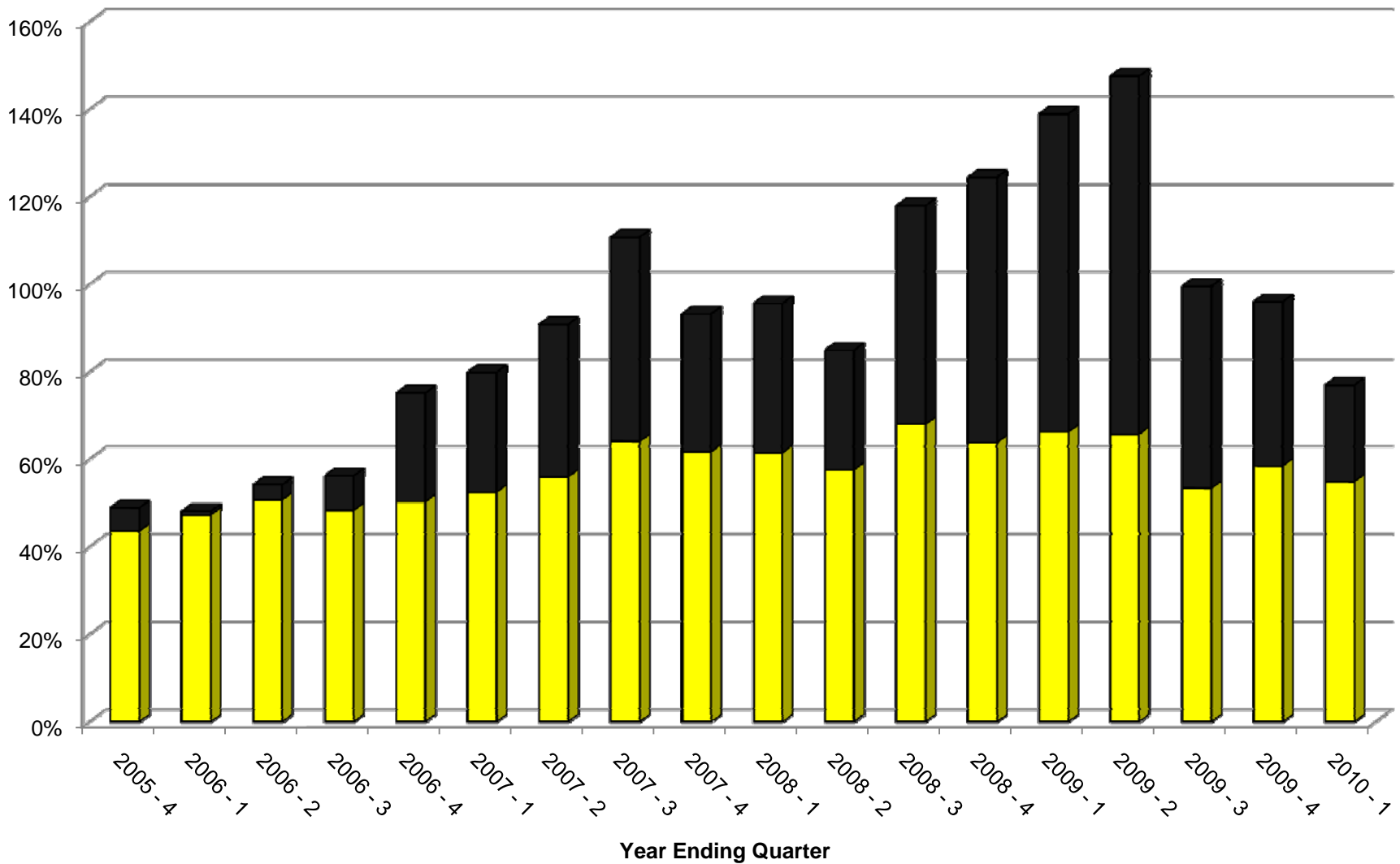
Florida - HMP Loss Ratios Industry Totals



Source: PCI /ISO/NISS Fast Track Data

■ Ex CATs ■ CATs

Ohio - HMP Loss Ratios Industry Totals



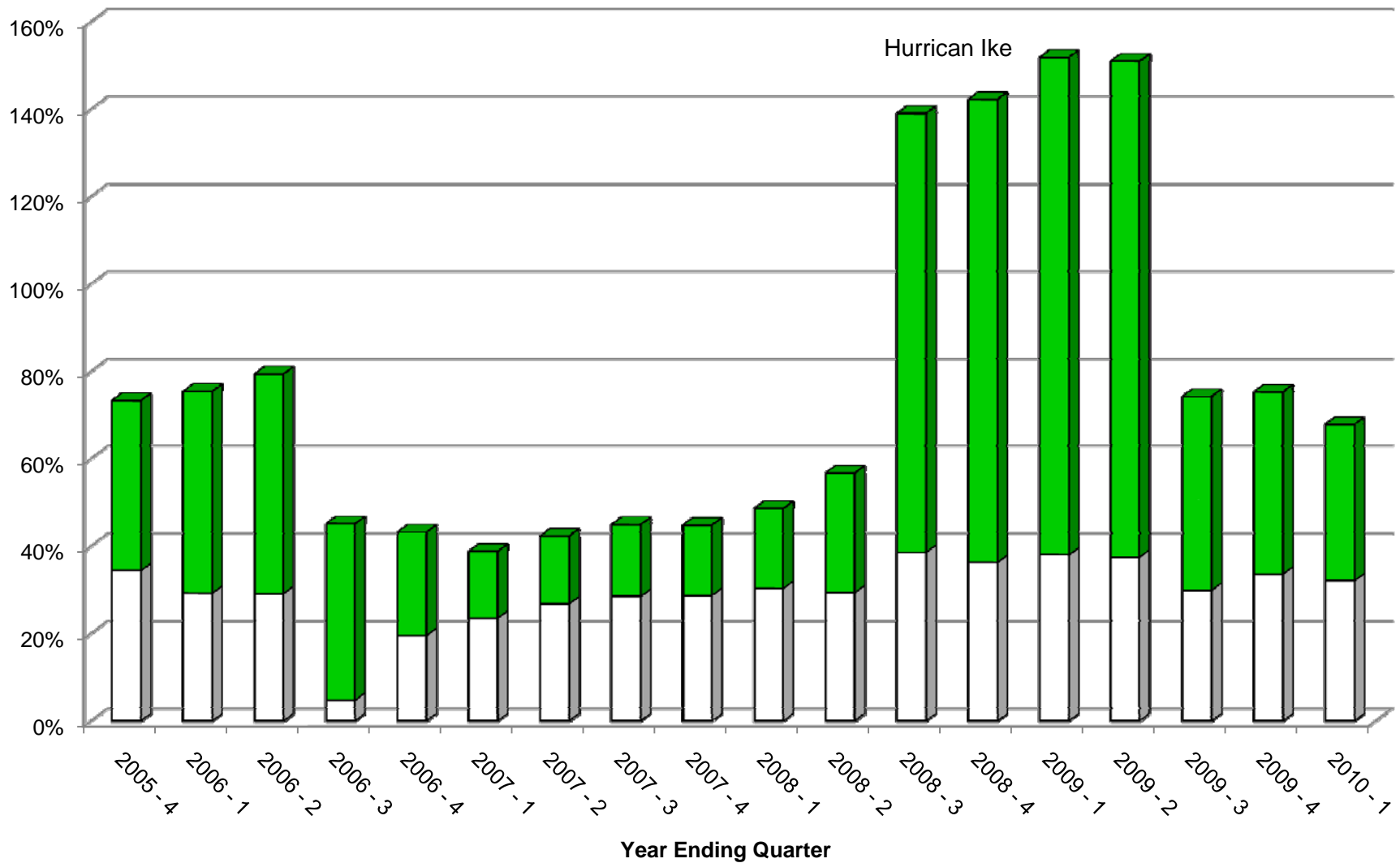
Source: PCI /ISO/NISS Fast Track Data

■ Ex CATs ■ CATs

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Texas - HMP Loss Ratios Industry Totals



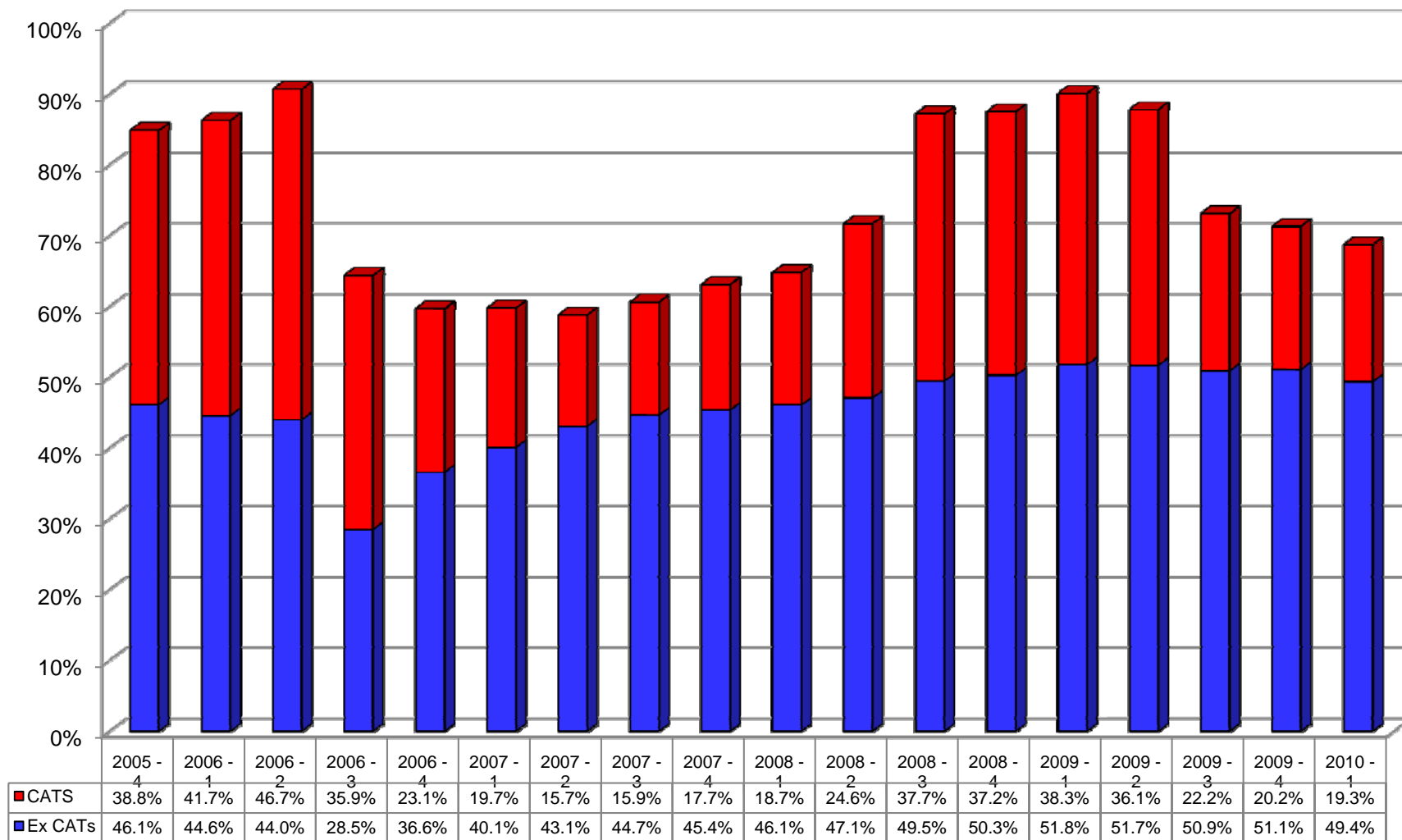
Source: PCI /ISO/NISS Fast Track Data

□ Ex CATs ■ CATS

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Multistate - HMP Loss Ratios Industry Totals



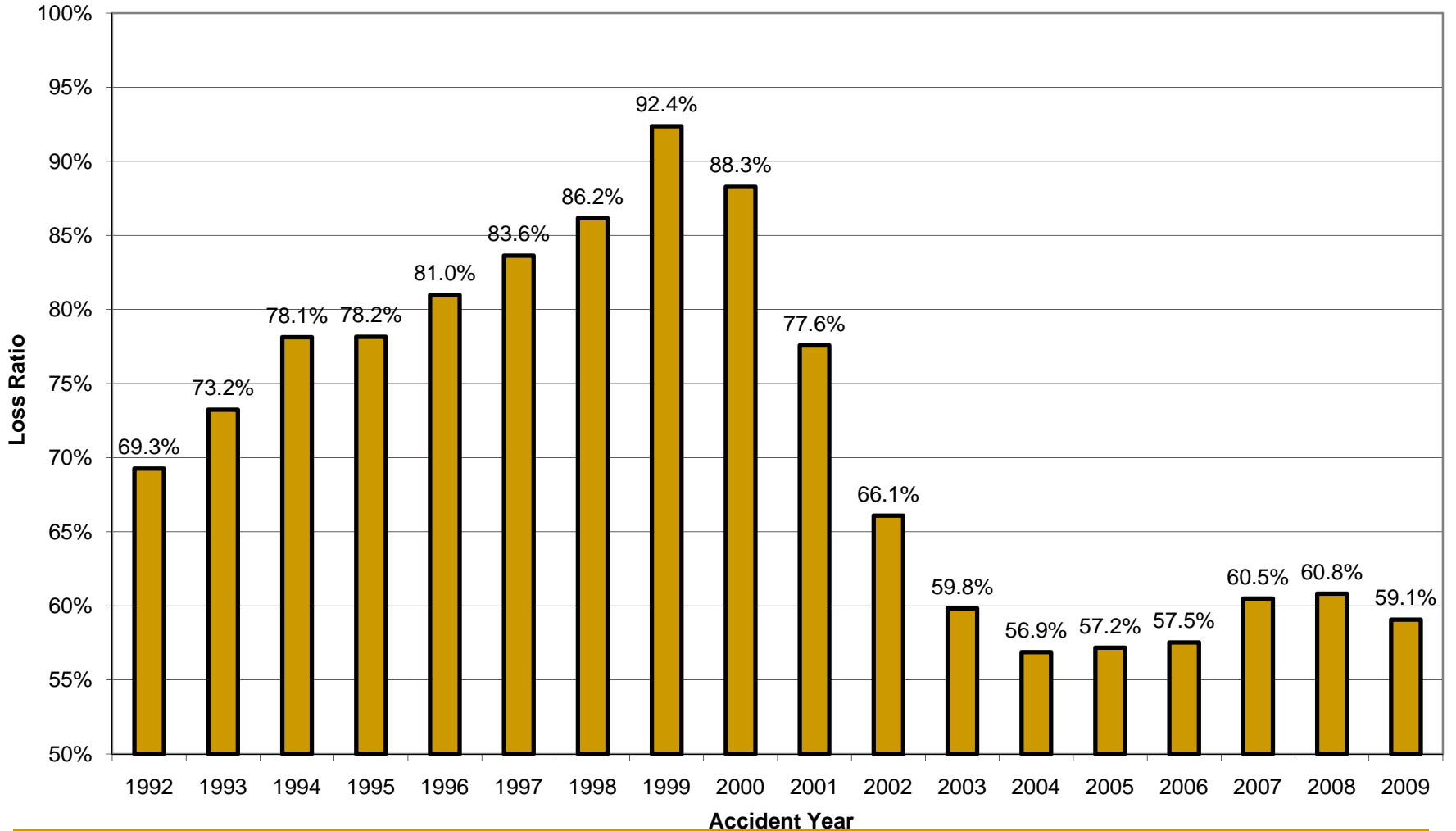
Source: PCI /ISO/NISS Fast Track Data

Year Ending Quarter

Current State of CAL Market

- Premium erosion (declining annual mileage)
- Steady/declining claim frequency per mile driven
- Moderately increasing loss ratios
- Use of sophisticated pricing models
- Enhanced safety features

Commercial Auto Liability Insurance Industry Loss Ratios



Industry Loss Development from Best's Aggregates & Averages
 Schedule P Data (as of 12/31/2009) in millions
 Impact of Prior Years' Reserve Changes on Cal. Year Loss Ratio

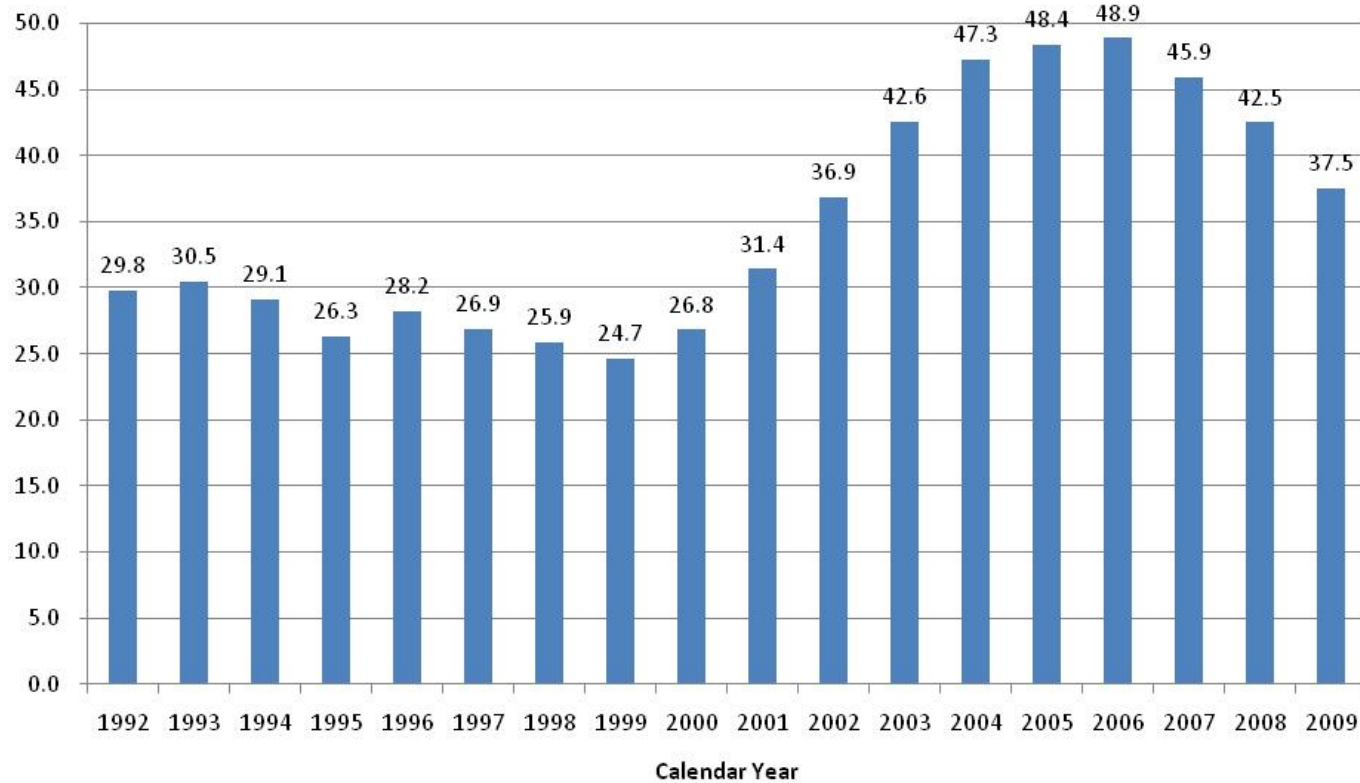
ASL	Accident Year	Calendar Year													
		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009				
CAL	1990	(82)													
	1991	(45)	36												
	1992	(64)	24	22											
	1993	(50)	(16)	15	(15)										
	1994	(48)	(15)	3	(4)	38									
	1995	(1)	(21)	(14)	(5)	(8)	(51)								
	1996	64	30	2	(20)	8	18	6							
	1997	230	200	45	(5)	(23)	17	(9)	21						
	1998	379	388	152	36	(35)	(11)	(34)	7	5					
	1999	628	485	389	153	(8)	34	(22)	(23)	(1)	59				
	2000		442	419	295	175	117	(30)	(17)	2	(21)				
	2001			(3)	346	256	157	(59)	(44)	(8)	(29)				
	2002				(275)	243	84	2	(26)	(50)	(17)				
	2003					(397)	(66)	30	(75)	(50)	(51)				
	2004						(549)	(62)	(63)	(93)	8				
	2005							(318)	(148)	(9)	(77)				
	2006								(379)	(122)	(59)				
	2007									(142)	(37)				
	2008										(163)				
		1,011	1,552	1,031	506	249	(250)	(496)	(747)	(468)	(387)	Incurred Loss Dollars			
		12,675	13,924	15,740	17,487	18,754	19,177	19,246	19,074	18,262	16,989	Earned Premium			
		8.0%	11.1%	6.5%	2.9%	1.3%	-1.3%	-2.6%	-3.9%	-2.6%	-2.3%	Impact on Loss Ratio			

Current State of WC Market

- Premium erosion (declining exposure, soft market)
- Continued declines in claim frequency (esp. indemnity claims)
- Accelerating severity trends
- Accelerating loss ratios
- Investment returns recovering
- Shift towards more medical v indemnity

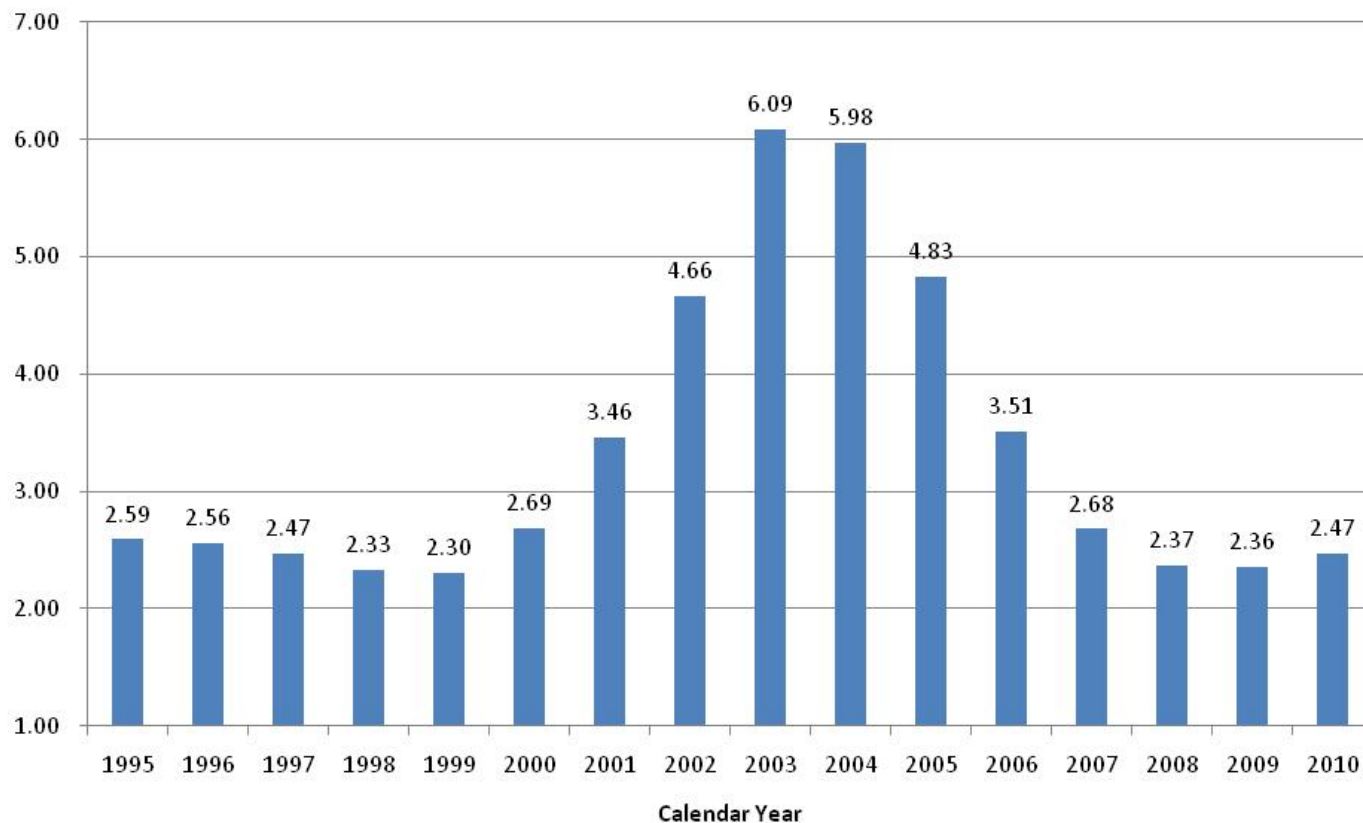
WC Net Written Premiums Industry Totals

Billions



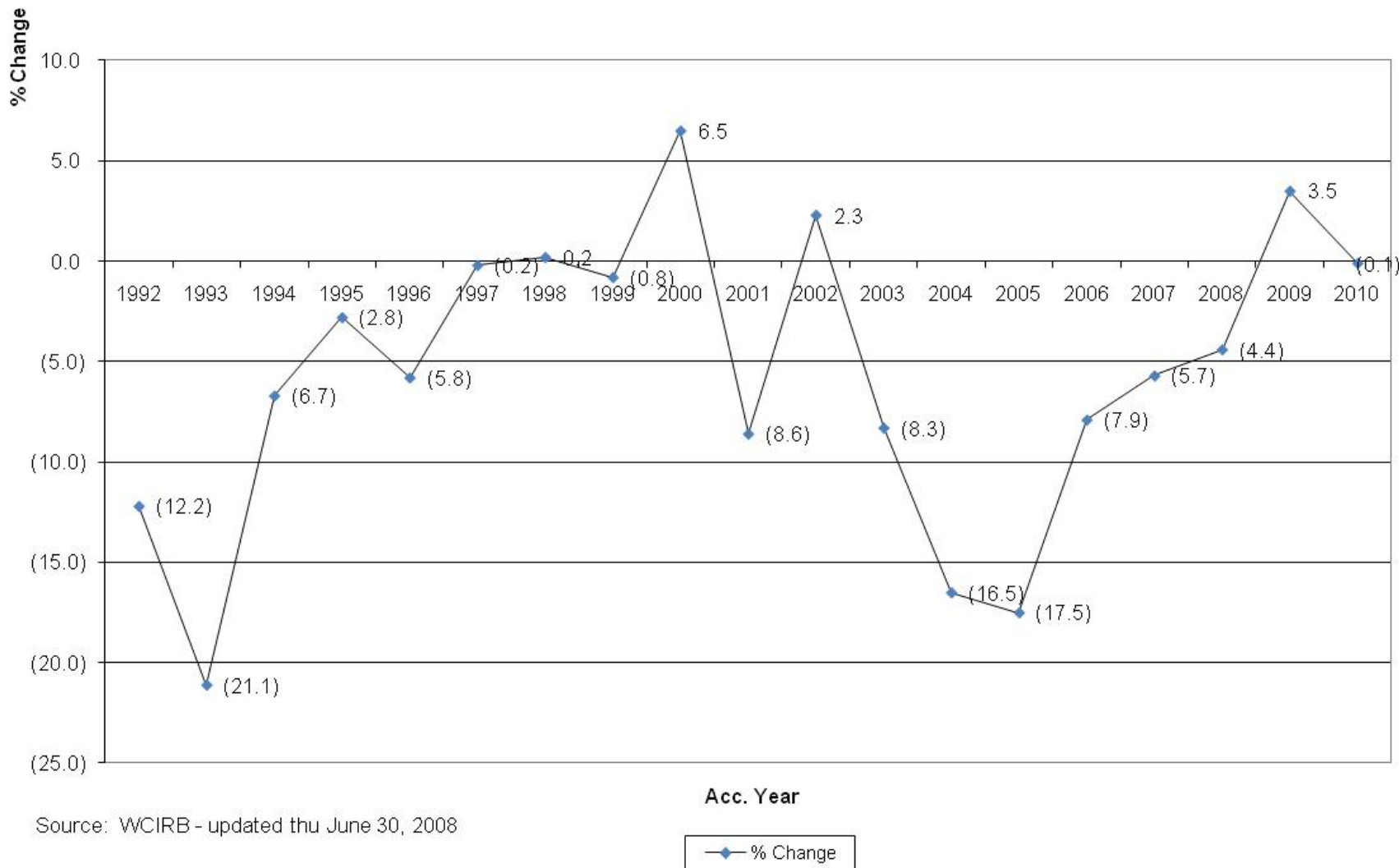
Source: A. M. Best's Electronic Data

California WC
Average Rate per \$100 Payroll

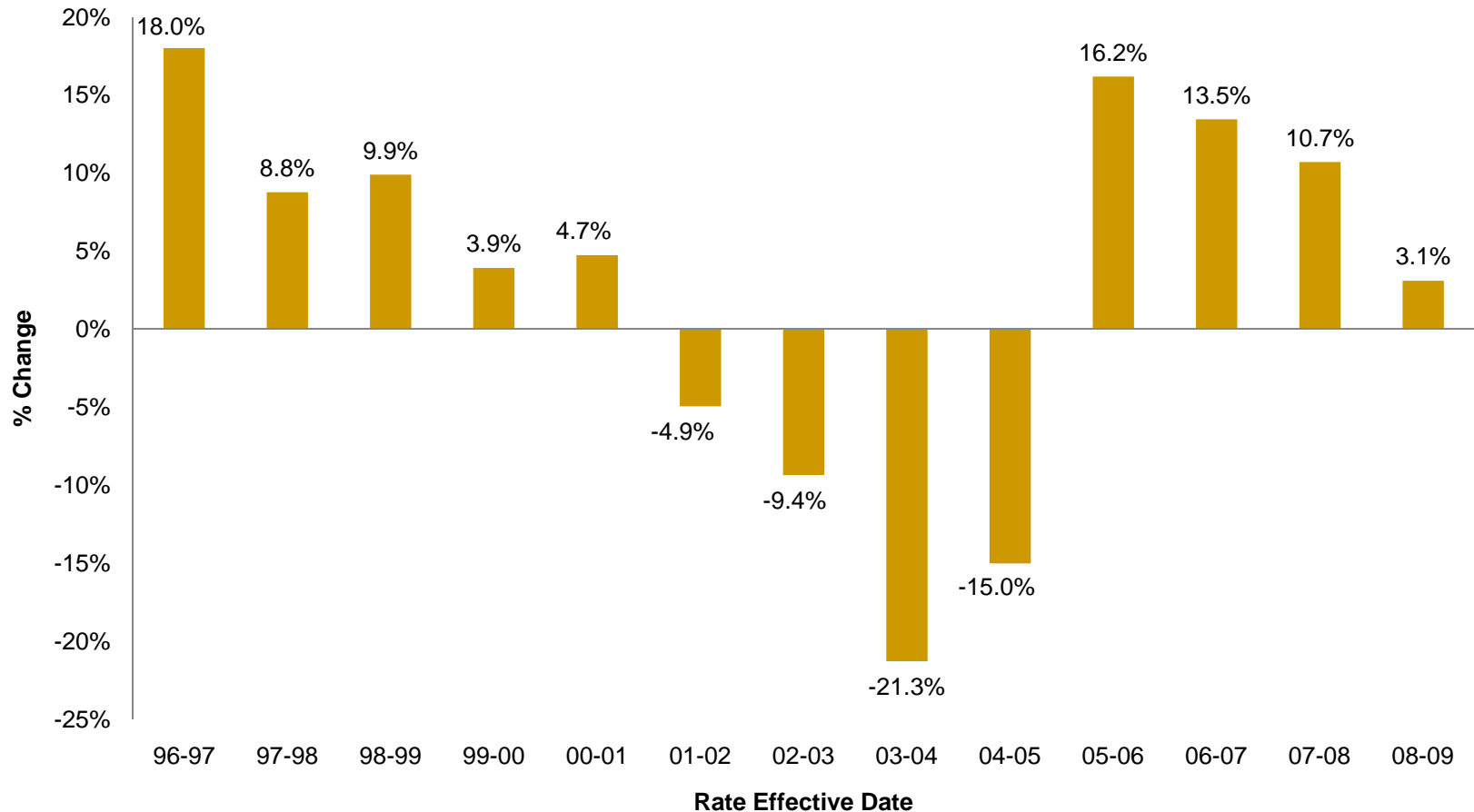


Source: WCIRB 2010 Data thru 3/31/2010

California Workers Compensation % Change in Indemnity Claim Frequency by Acc. Year



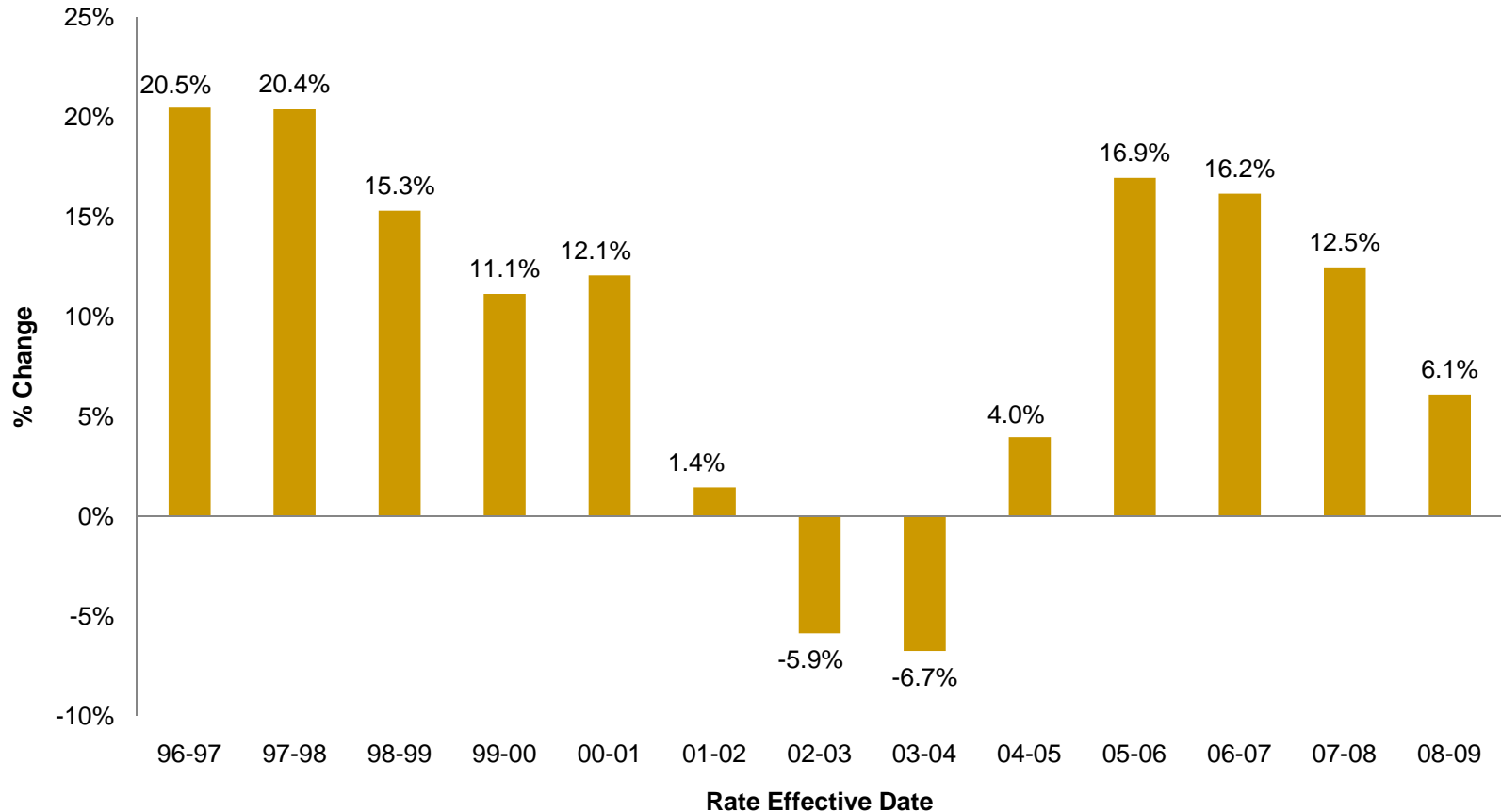
California Workers Compensation Estimated Change in Indemnity Claim Severity as of March 31, 2010



Source: WCIRB January 1, 2011 Pure Premium

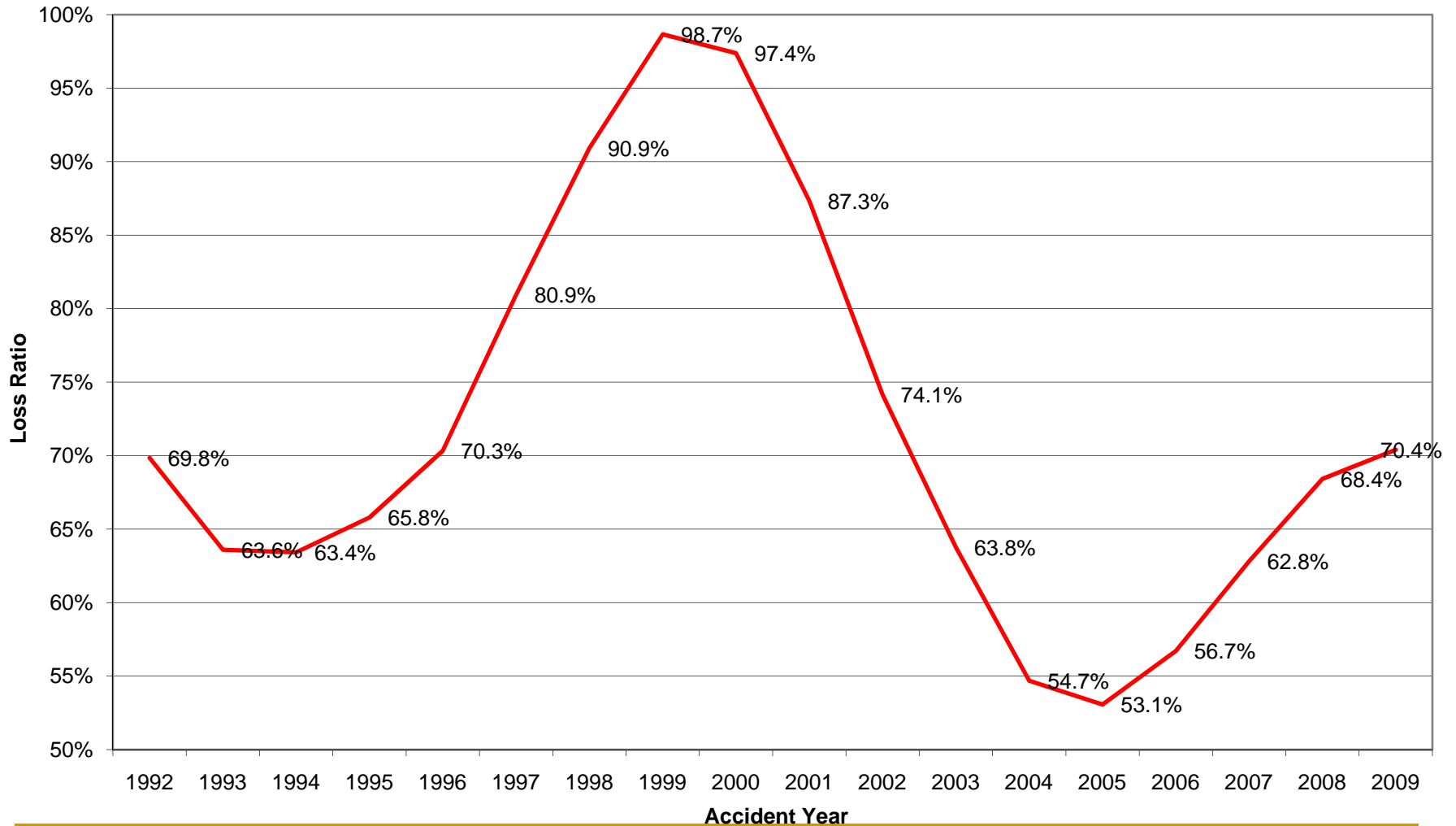
California Workers Compensation Estimated Change in Medical* Claim Severity as of March 31, 2010

*excludes medical-only losses



Source: WCIRB January 1, 2011 Pure Premium

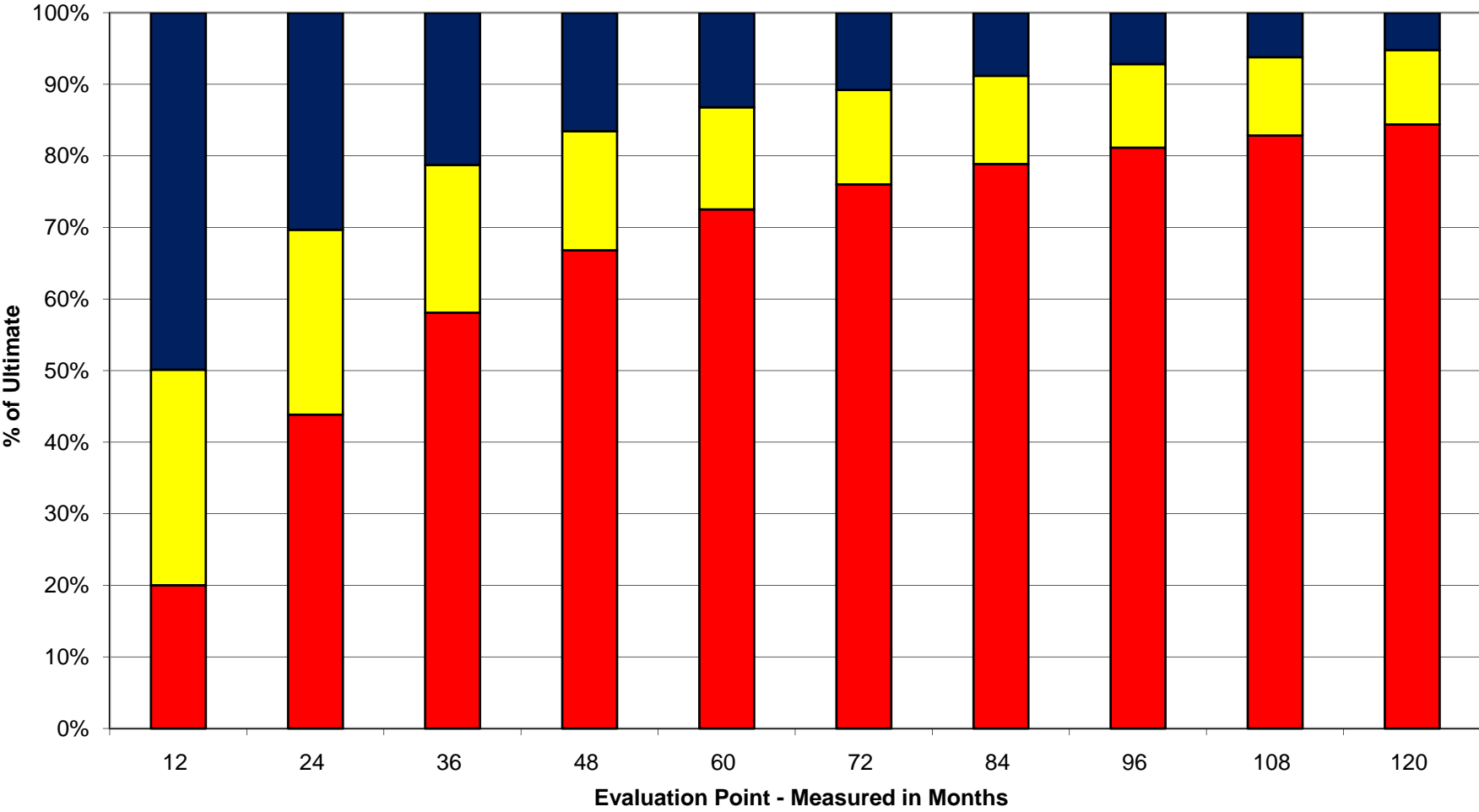
Workers Compensation Insurance Industry Loss Ratios



Change in Dist. of WC Losses by Type

<u>Acc.</u> <u>Year</u>	<u>% of Total</u>	
	<u>Medical</u>	<u>Indemnity</u>
1988	46%	54%
1998	53%	47%
2008	58%	42%

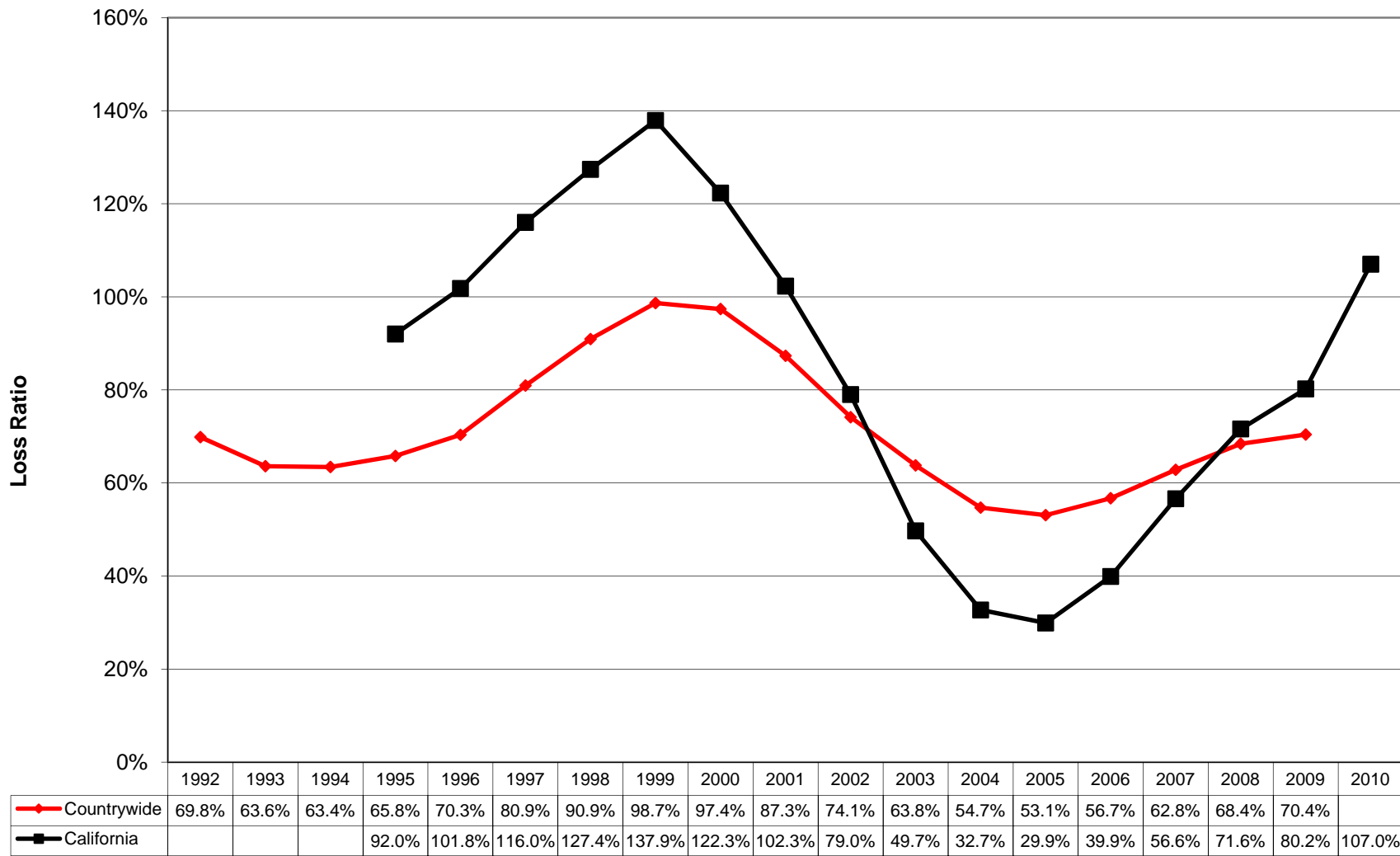
Workers Compensation Loss Development Patterns Benchmarks based on Industry Data



■ Paid
 ■ Case
 ■ IBNR

Workers Compensation Insurance Industry Loss Ratios California v Countrywide

Note: CA LRs do not include LAE, and reflect impact of Guzman/Ogilvie



Accident Year

Industry Loss Development from Best's Aggregates & Averages
 Schedule P Data (as of 12/31/2009) in millions
 Impact of Prior Years' Reserve Changes on Cal. Year Loss Ratio

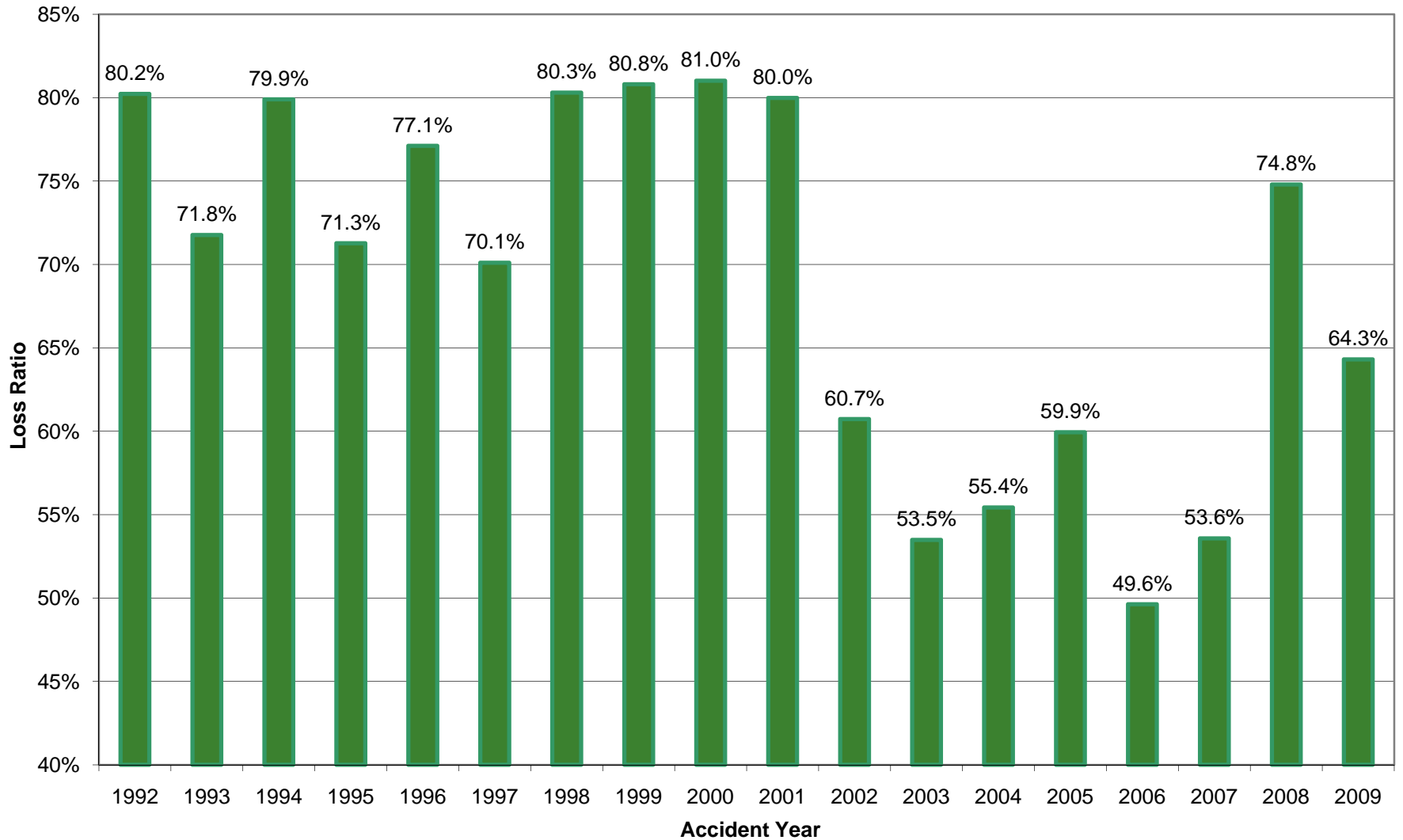
ASL	Accident Year	Calendar Year													
		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009				
WC	1990	(773)													
	1991	(163)	(56)												
	1992	(133)	(125)	13											
	1993	(229)	(93)	(37)	261										
	1994	(278)	(47)	(81)	104	791									
	1995	(136)	(106)	(107)	75	28	1,832								
	1996	(209)	(71)	99	194	84	317	1,143							
	1997	(21)	61	292	52	248	317	131	1,781						
	1998	522	347	424	328	261	425	229	157	479					
	1999	951	600	808	384	236	694	284	306	(31)	1,791				
	2000		1,185	883	554	581	840	402	342	8	431				
	2001			863	70	228	1,272	338	505	185	493				
	2002				(161)	227	742	272	426	40	483				
	2003					(1,710)	(1,270)	11	289	55	339				
	2004						(2,594)	(987)	(1,185)	(278)	(780)				
	2005							(2,119)	(1,792)	(519)	(1,283)				
	2006								(1,846)	(514)	(807)				
	2007									(722)	(495)				
	2008										176				
		(470)	1,694	3,157	1,861	974	2,574	(296)	(1,016)	(1,297)	349	Incurring Loss Dollars			
		26,683	31,280	36,690	42,354	47,029	48,057	48,576	45,605	42,218	37,213	Earned Premium			
		-1.8%	5.4%	8.6%	4.4%	2.1%	5.4%	-0.6%	-2.2%	-3.1%	0.9%	Impact on Loss Ratio			

Aggregate Insurance Industry Experience - Workers Compensation
 Loss Development as % of Accident Year-ending Reserves
 all figures in millions

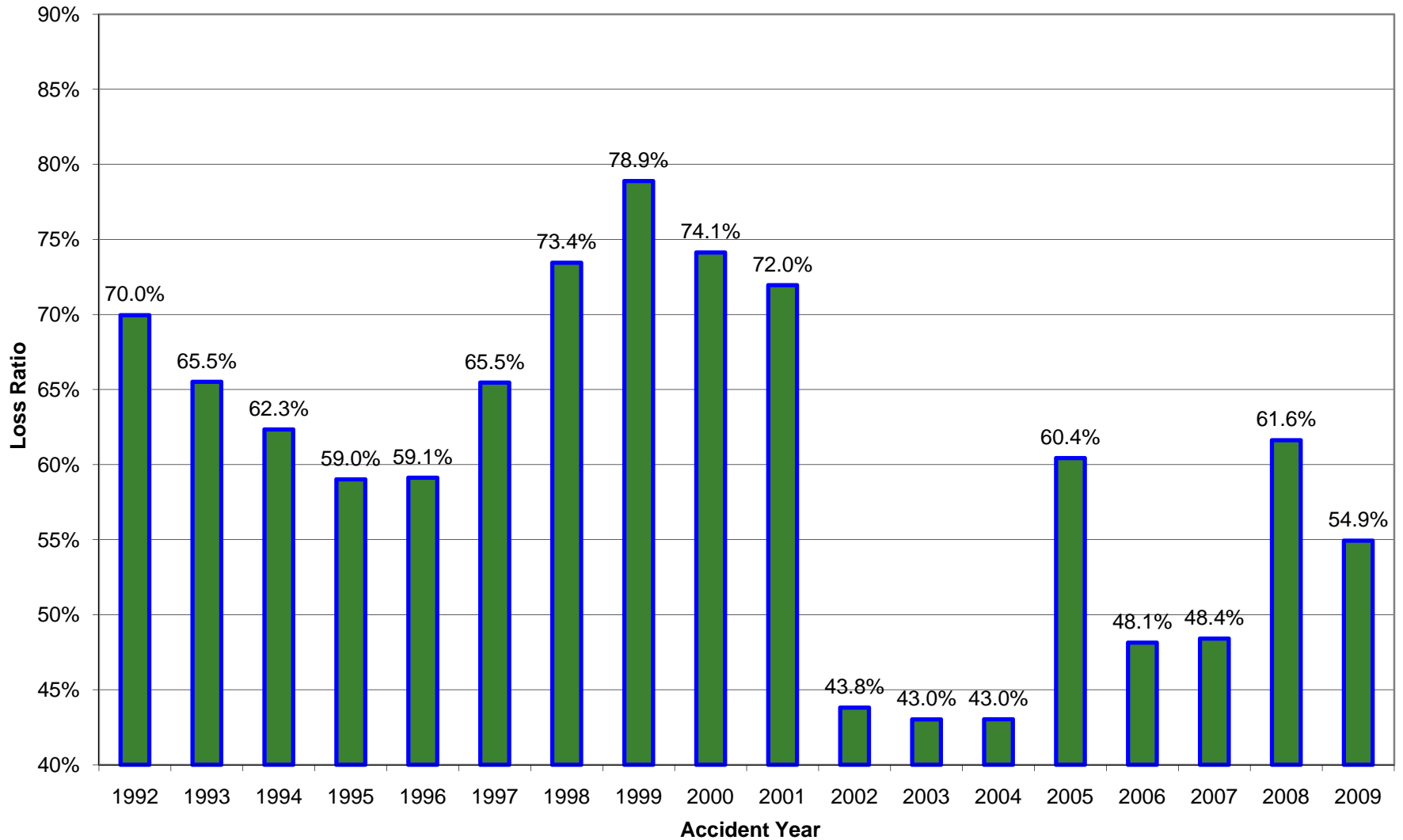
Acc. Year	Held Reserves at Acc. Year-End			Loss Dev. through 12/09	Deviation as % of Held
	Case	IBNR	Total		
all figures in millions					
1982	3,868	3,510	7,378	94	1.3%
1983	4,274	3,415	7,689	1,079	14.0%
1984	4,889	3,803	8,692	2,318	26.7%
1985	5,488	4,743	10,232	2,535	24.8%
1986	6,337	6,171	12,508	1,925	15.4%
1987	7,154	7,464	14,618	1,608	11.0%
1988	8,248	8,156	16,404	2,099	12.8%
1989	8,834	9,700	18,534	2,231	12.0%
1990	9,877	11,062	20,939	1,509	7.2%
1991	11,691	13,457	25,148	(1,591)	-6.3%
1992	9,742	13,971	23,714	(4,602)	-19.4%
1993	8,246	13,007	21,254	(4,791)	-22.5%
1994	7,145	11,670	18,815	(4,021)	-21.4%
1995	6,020	10,078	16,098	(2,393)	-14.9%
1996	6,247	10,410	16,657	(459)	-2.8%
1997	5,890	8,200	14,089	1,791	12.7%
1998	6,080	7,895	13,976	3,134	22.4%
1999	6,444	8,453	14,896	4,231	28.4%
2000	6,812	9,408	16,220	5,226	32.2%
2001	7,740	11,519	19,259	3,955	20.5%
2002	7,695	13,627	21,322	2,029	9.5%
2003	8,242	17,429	25,671	(2,285)	-8.9%
2004	7,953	19,760	27,713	(5,824)	-21.0%
2005	8,110	19,431	27,541	(5,713)	-20.7%
2006	8,058	18,656	26,714	(3,166)	-11.9%
2007	8,415	17,495	25,910	(1,216)	-4.7%
2008	8,429	15,951	24,380	176	0.7%
2009	8,415	17,495	25,910		

U.S. economy in recession in 1981-82, July '90 - March '91, March -Nov '01,
 Dec. 2007 - Present

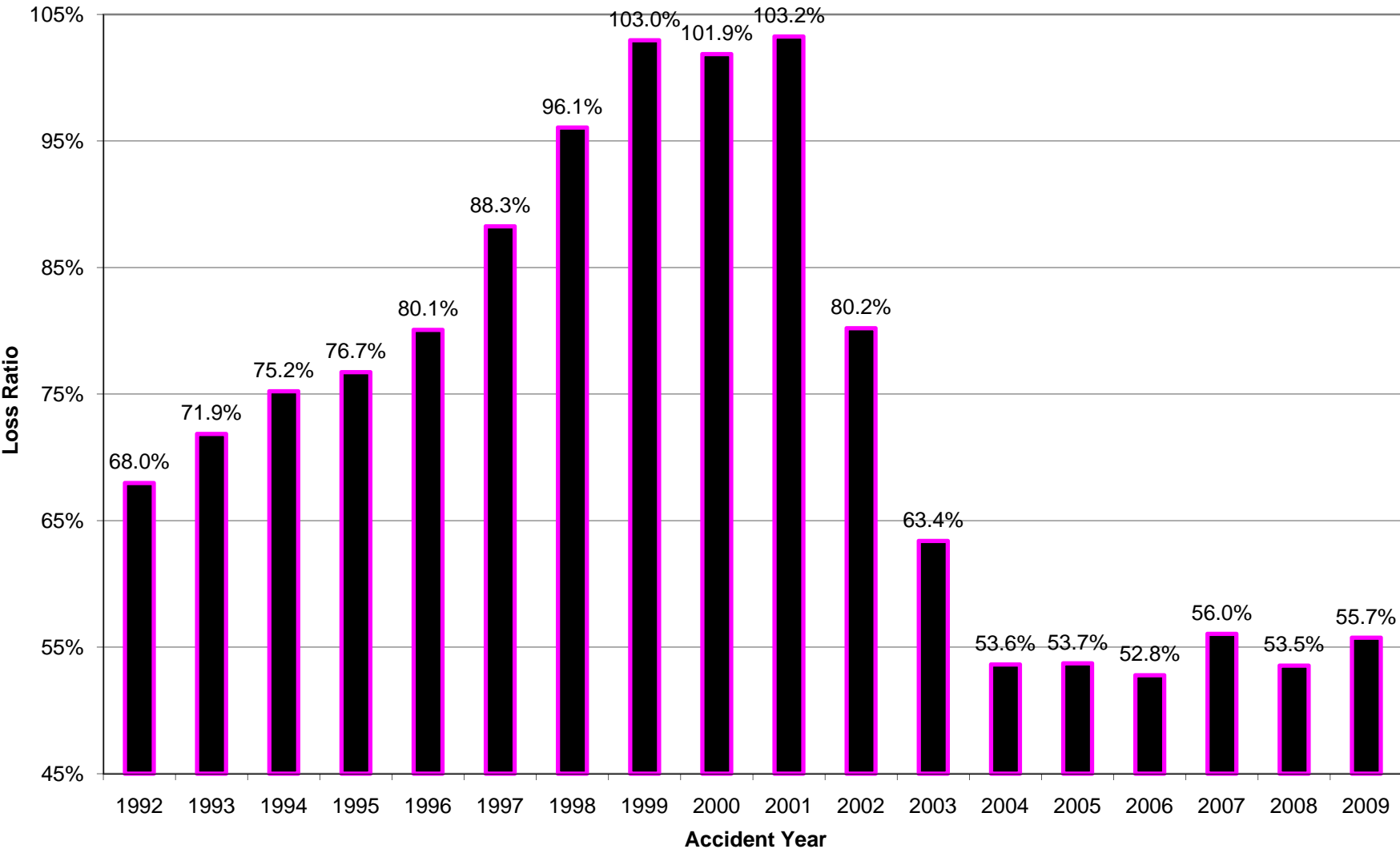
Commercial Multiple Peril Loss Ratios



Special Liability Loss Ratios



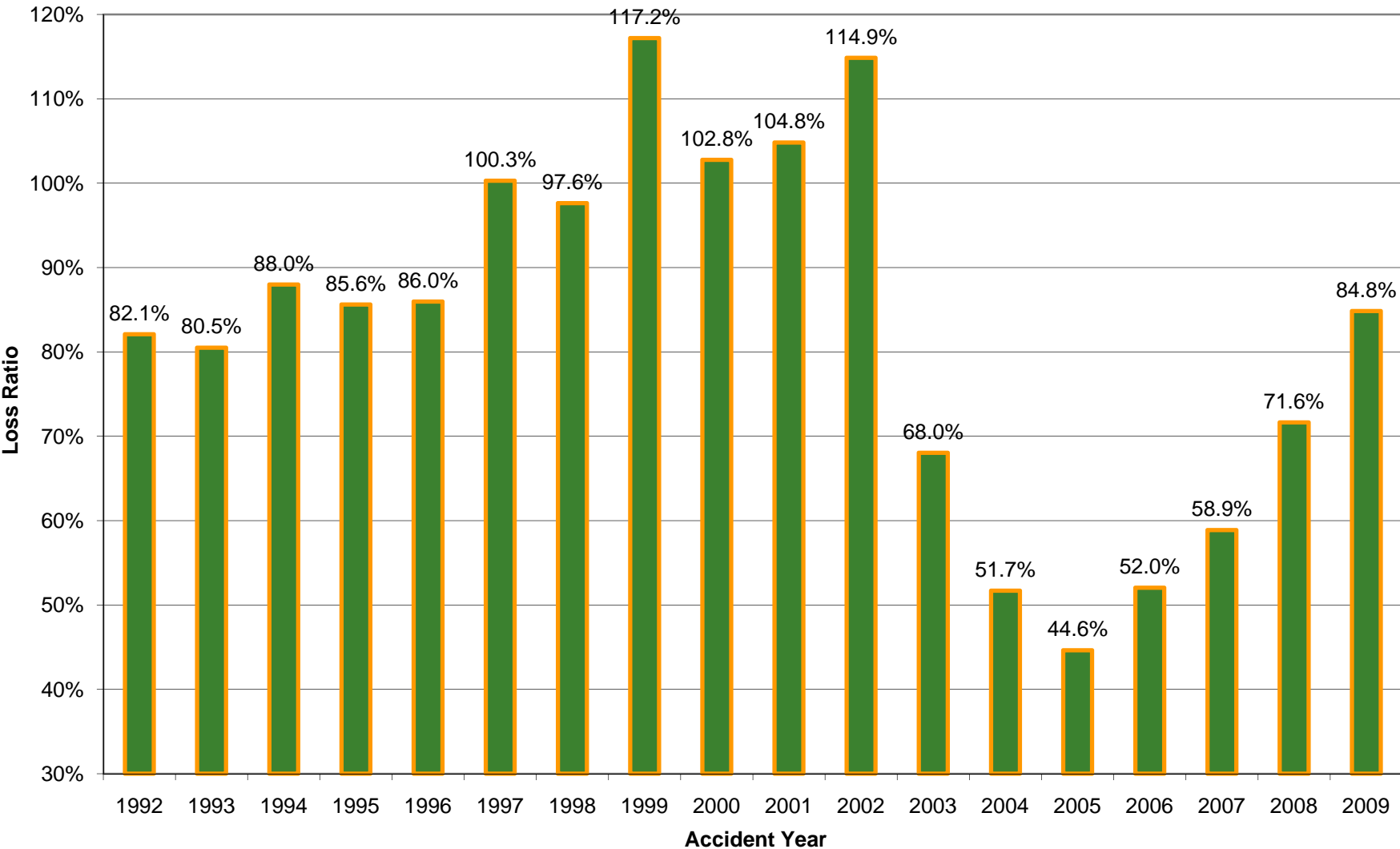
General Liability- Occurrence Insurance Industry Loss Ratios



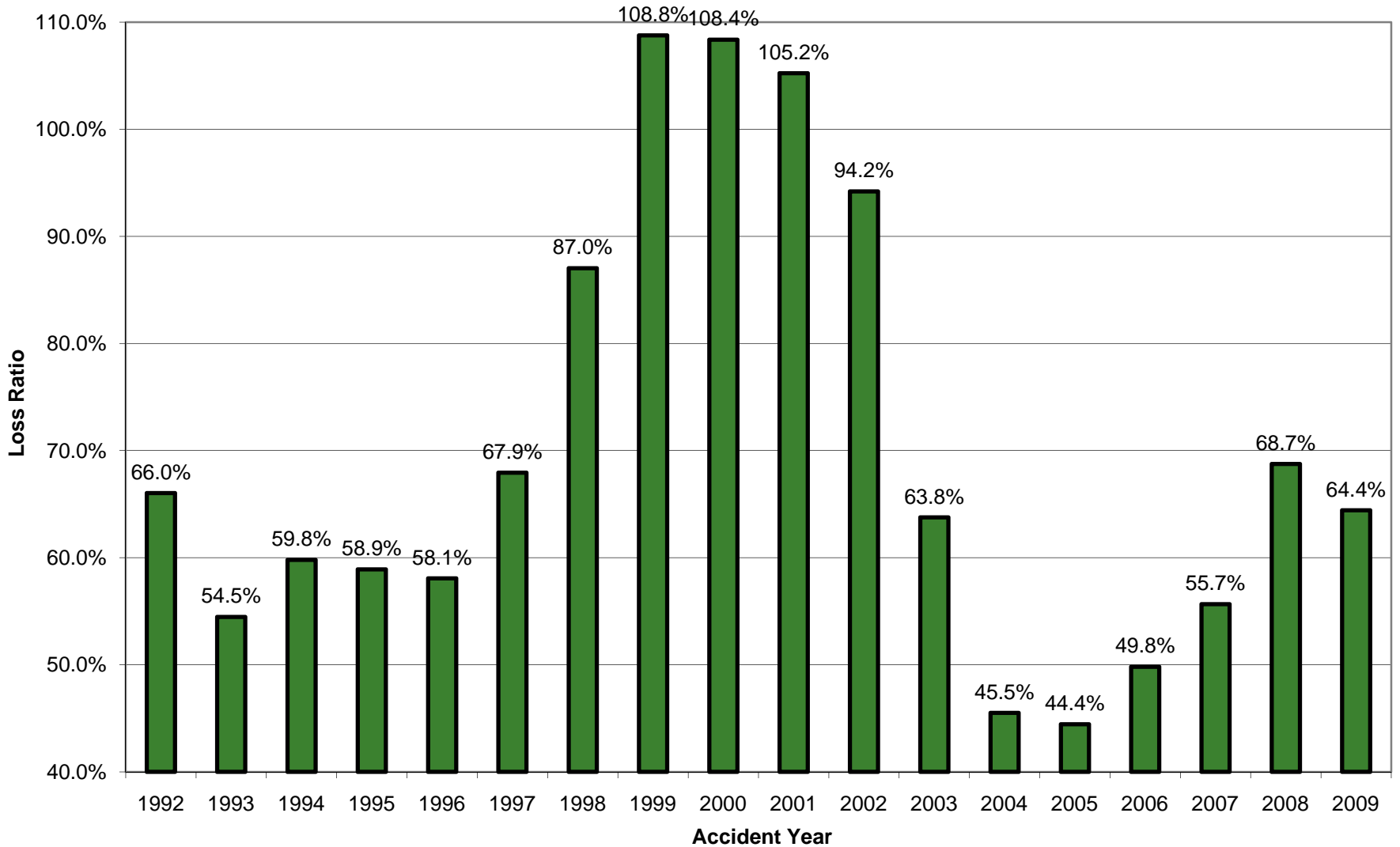
Industry Loss Development from Best's Aggregates & Averages
Schedule P Data (as of 12/31/2009) in millions
Impact of Prior Years' Reserve Changes on Cal. Year Loss Ratio

ASL	Accident Year	Calendar Year																
		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009							
GL - Occ	1990	1,003																
	1991	(118)	(297)															
	1992	(107)	(83)	3,255														
	1993	(118)	(140)	(100)	3,316													
	1994	(259)	(182)	(76)	(40)	2,717												
	1995	(199)	(74)	(115)	(11)	11	4,418											
	1996	(75)	(152)	(24)	(96)	188	140	2,042										
	1997	(157)	106	214	(59)	177	206	151	1,936									
	1998	337	365	383	(59)	541	354	98	38	722								
	1999	214	220	746	328	480	531	269	(8)	436	1,882							
	2000		44	557	755	706	206	98	168	37	40							
	2001			216	81	415	504	267	184	(88)	88							
	2002				(44)	360	544	270	88	32	81							
	2003					(680)	(41)	(195)	(364)	(145)	(0)							
	2004						(1,932)	(739)	(501)	(296)	(43)							
	2005							(1,033)	(499)	(756)	(166)							
	2006								(618)	(913)	(443)							
	2007									(704)	(501)							
	2008										(469)							
		521	(193)	5,057	4,172	4,916	4,929	1,227	424	(1,674)	469							Incurred Loss Dollars
		12,030	12,826	17,168	21,461	25,116	25,080	27,990	28,015	26,197	24,501							Earned Premium
		4.3%	-1.5%	29.5%	19.4%	19.6%	19.7%	4.4%	1.5%	-6.4%	1.9%							Impact on Loss Ratio

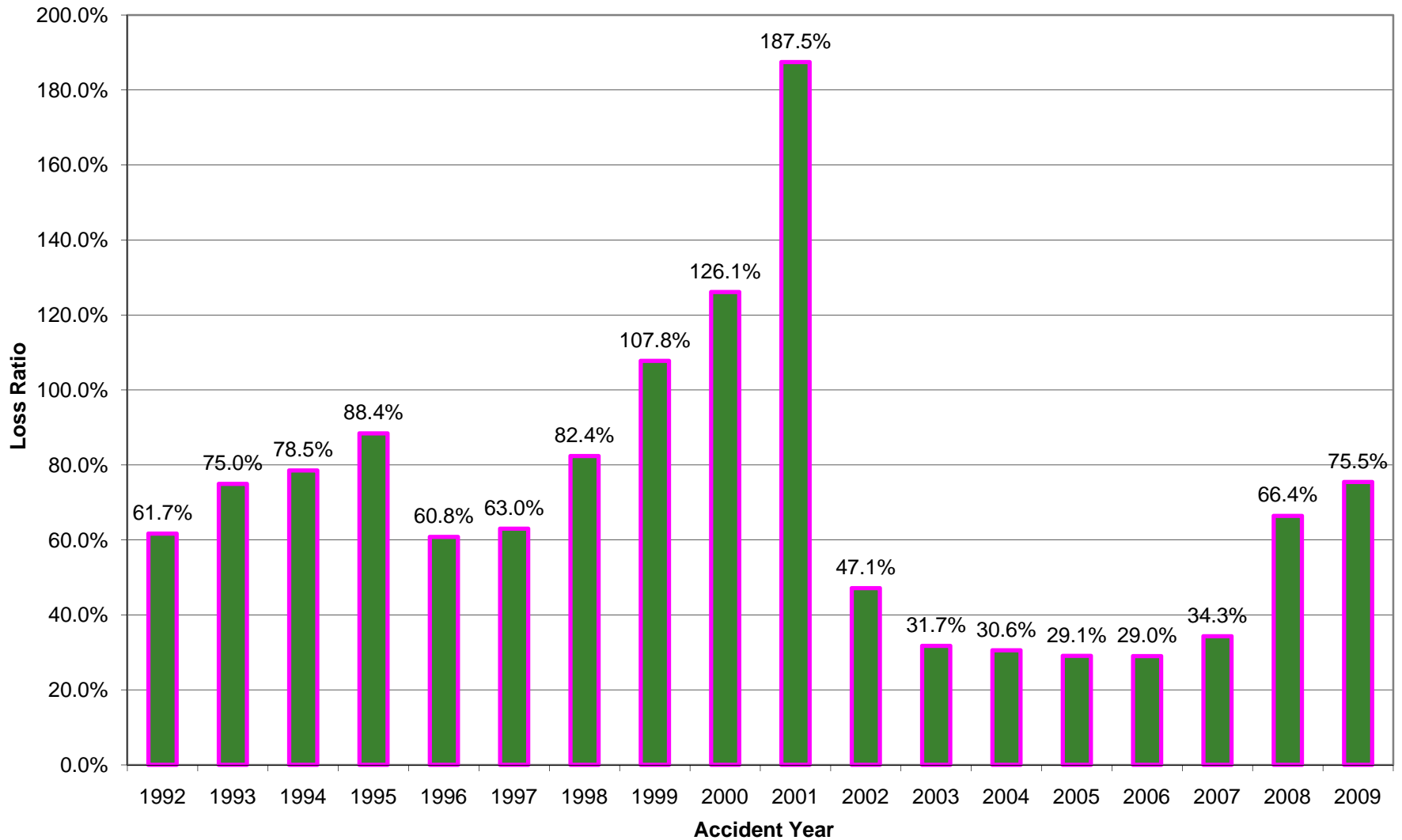
Products Liability- Occurrence Insurance Industry Loss Ratios



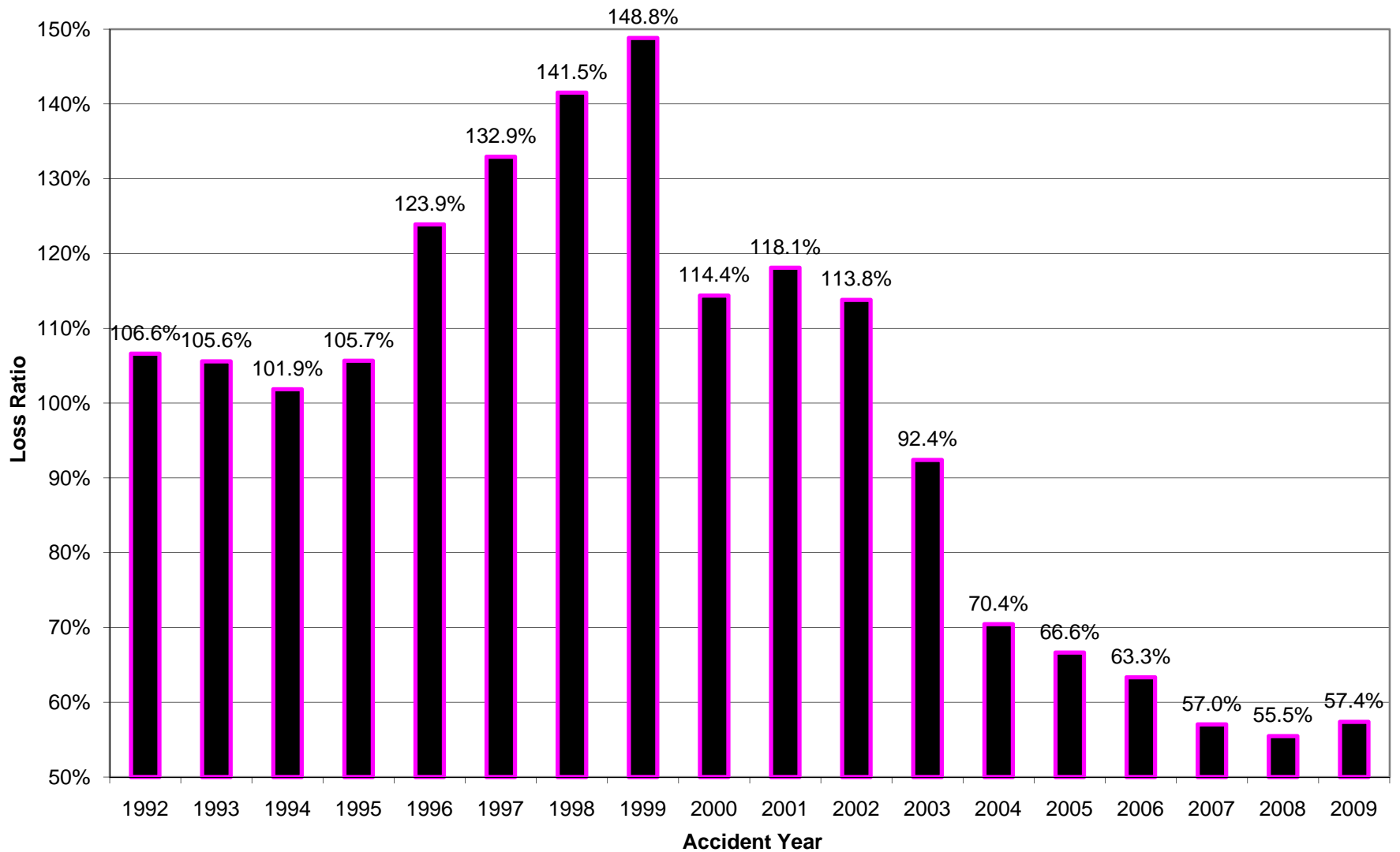
Other Liability-Claims Made Loss Ratios



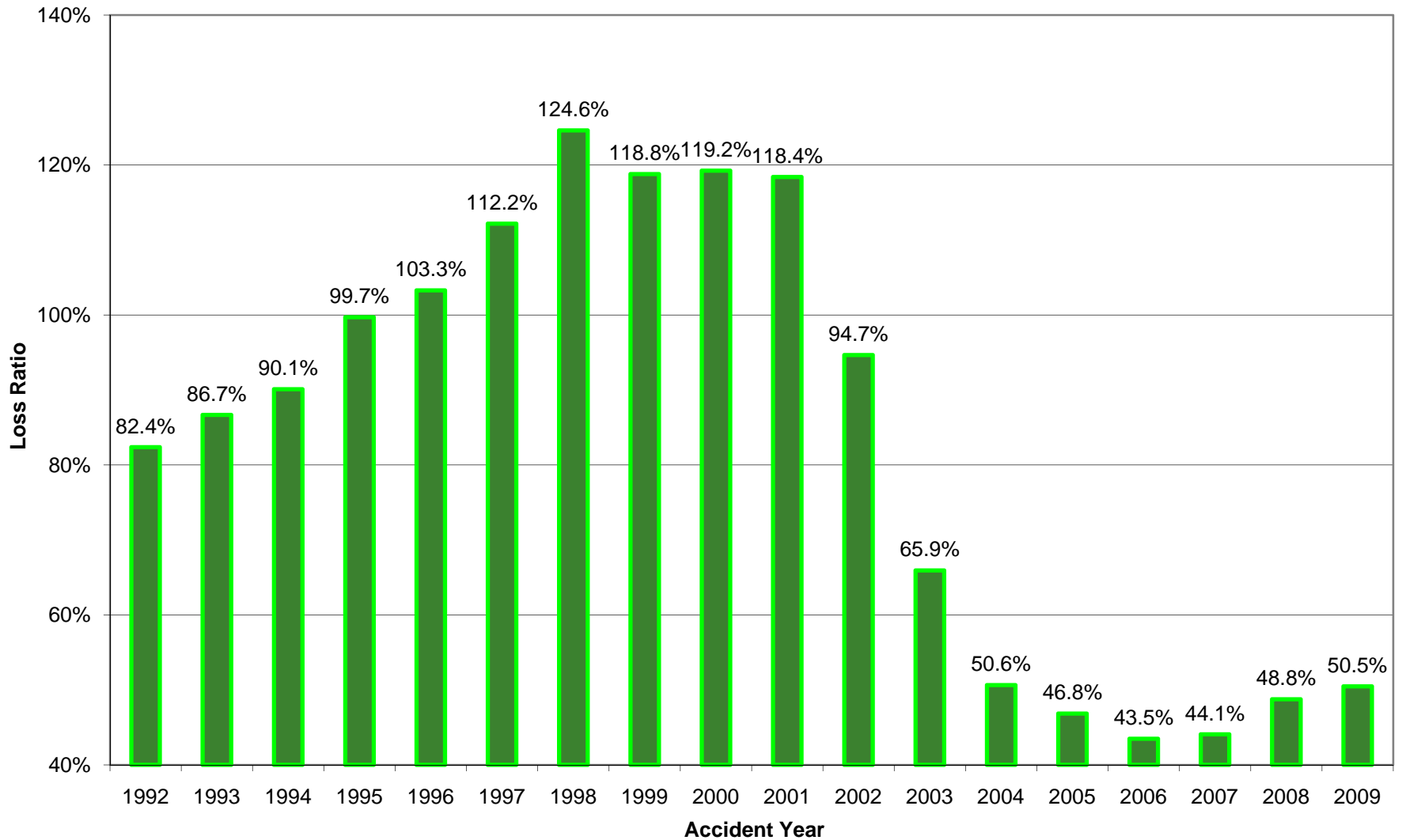
Products Liability-Claims Made Loss Ratios



Medical Malpractice-Occurrence Loss Ratios



Medical Malpractice-Claims Made Loss Ratios



Reinsurance Markets

- \$4B profit in first 6 months 2010 v \$0.4B loss last year; excess capital “waiting” to be used up
- Rates remain soft, especially casualty
- Property CAT (FL) also soft
- Sluggish demand due to economy
- Manageable CATS in 2010 (so far) – Deepwater Horizon, Chilean earthquake
- Earthquake model recalibration – impact on buyers/sellers

Emerging Areas of Concern

- Healthcare Reform
 - Mental Health benefits (1 in 5 CA residents express need for mental health care)
 - Migration of healthcare providers to other industries
- CATS / Property Market
- SCHIP claim reporting & impact on WC
- Aging workforce & impact on P/C markets
- Federal intrusions into business of insurance
 - As rate regulators
 - As shareholders of P/C carriers
 - Guardians of Executive Compensation