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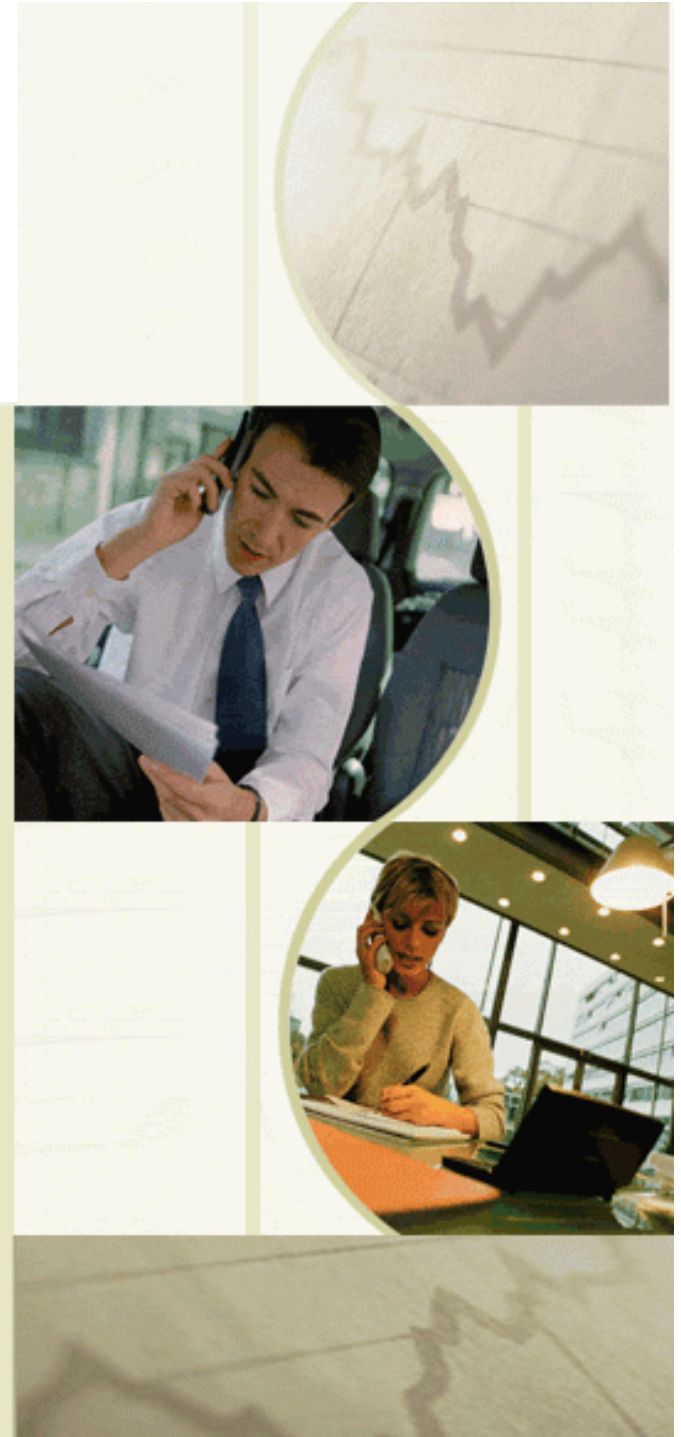
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The Insurance Market in 2010: The Lingering Impact of the Recession on Capacity and Pricing

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Market Insights

<http://corner.advisen.com>

- Insurance Marketplace in 2010 paper
- Copy of these slides
- Recording of today's webinar

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Today's Panelists



Robert Hartwig, President of the Insurance Information Institute



Chris Johnson, Senior Vice President – Marketing and Enterprise Learning at FM Global



Berto Sciolla, Executive Vice President – North American Treaty Reinsurance at Gen Re



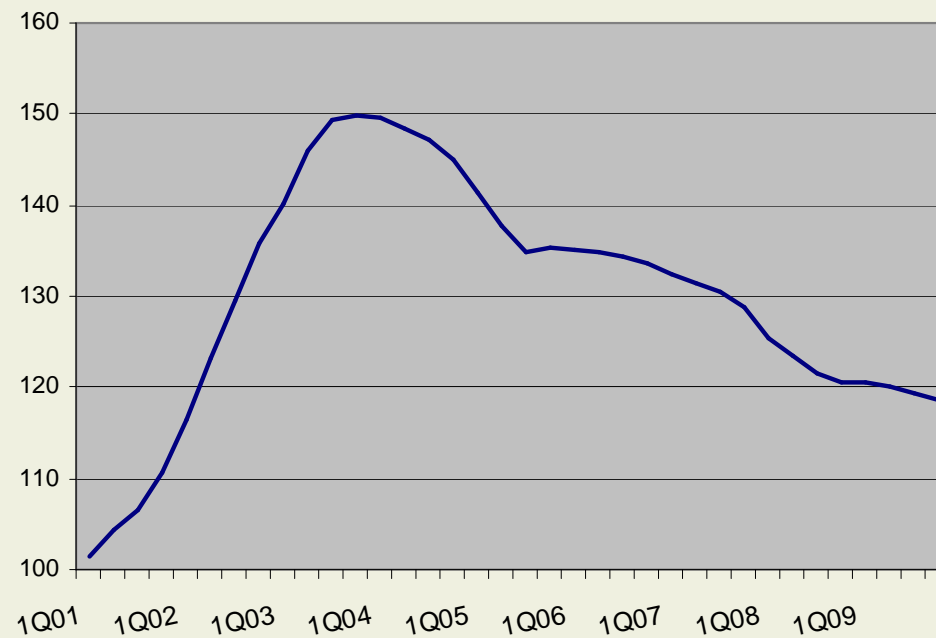
The State of the Market

- Unyielding soft market
- Depressed written premiums
- Capacity growing
- Surging cat losses



The Pricing Cycle

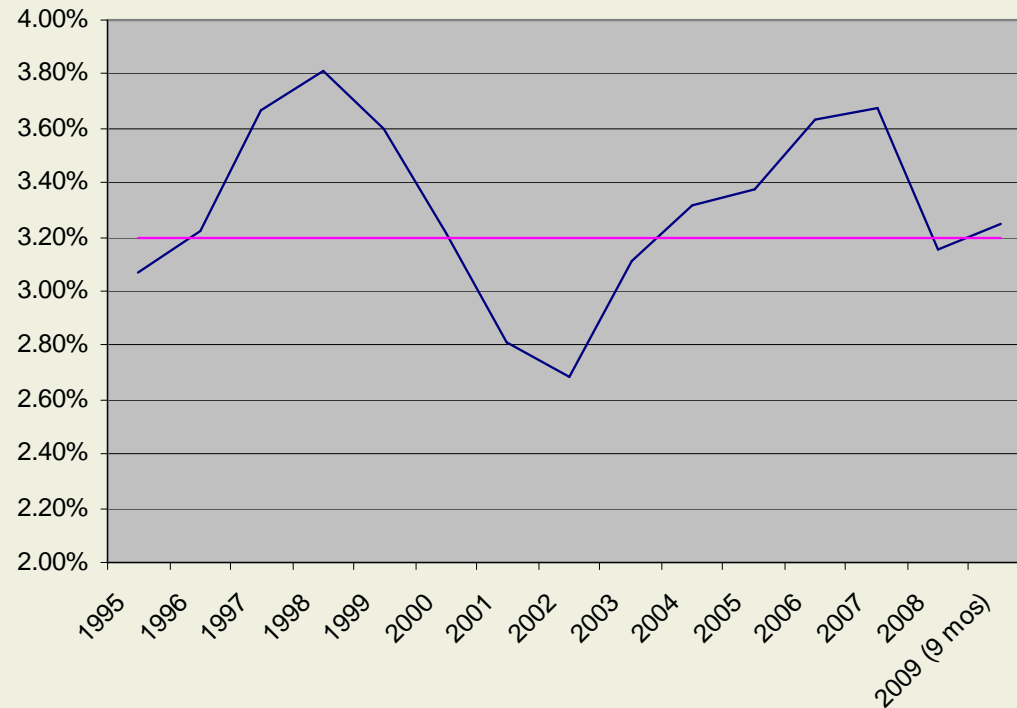
ADVx™ Commercial Lines Premium Change Index





The Pricing Cycle Supply & Demand

Surplus as % GDP

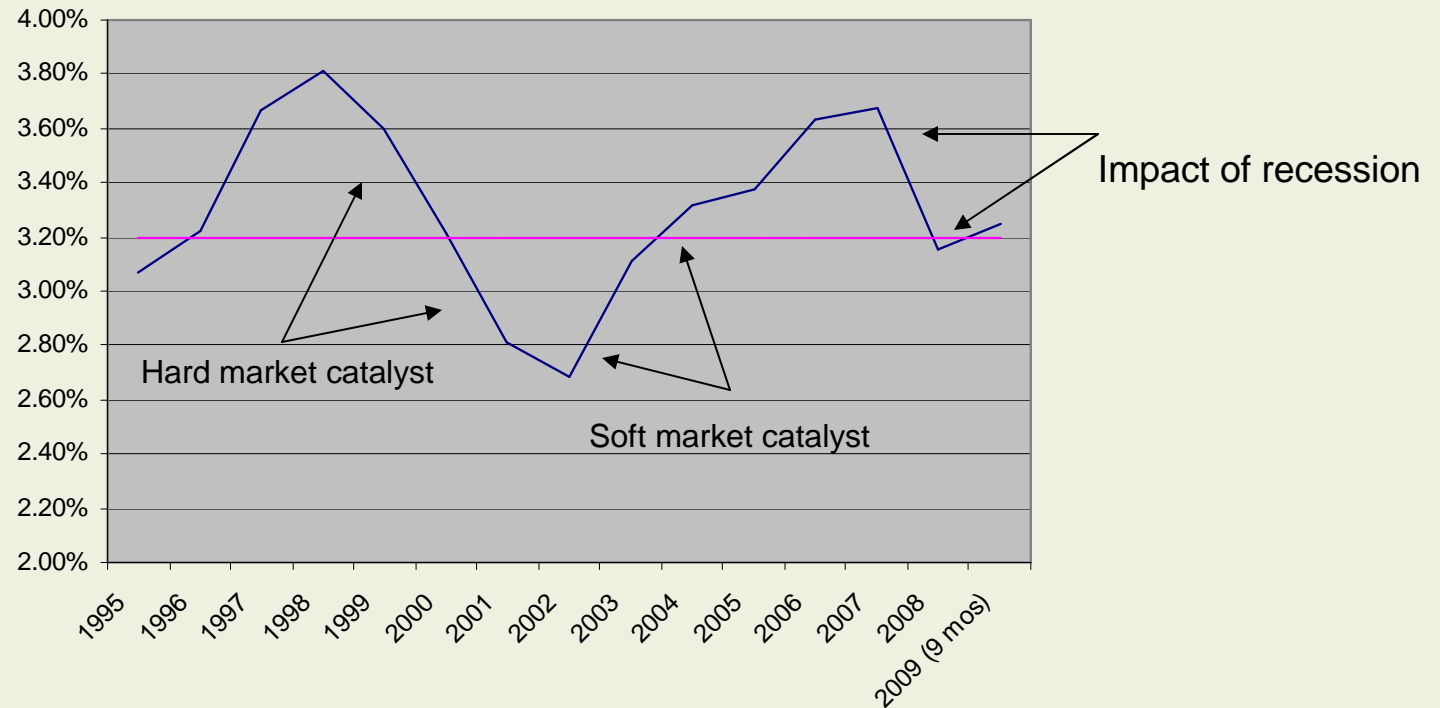


Sources: III, ISO, BEA



The Pricing Cycle Supply & Demand

Surplus as % GDP



Sources: III, ISO, BEA



Credit Crisis & Recession

- Premium volume
 - Less to insure
 - Revenue, payroll, etc. down
- Capacity
 - Stock market recovery restoring surplus
- Rates
 - Decreasing demand and increasing supply keeps downward pressure on rates
- Claims
 - Fraudulent claims up
 - EPLI claims up
 - FI D&O claims now decreasing after surging 2007-2009



Other Factors

- Catastrophe losses
 - Maybe \$110 billion in 2010 (Swiss Re)
- New capacity
 - Insurers raising debt and equity capital
- Loss reserve releases
 - Now substantially played out
- Developing economies
 - Engines of growth
- New products & market segments
 - Quest for growth & profitability in down market
- Insurer risk & capital management
 - Encouraged by rating agencies, regulators, SOX



By-line Developments

- General liability
 - Highly competitive
 - Premium volume sensitive to economic downturn
- Property
 - Pricing soft, but not falling as rapidly as some other lines
 - Premium volume holding up
- Workers compensation
 - Payrolls (=premium) down sharply
 - Pricing trends vary widely by state
- D&O
 - Bifurcated market: FI versus commercial
 - Premium volume not highly sensitive to economy



Forecast

- No end in sight for soft market
 - 2010 decreases probably low single digits
 - New capacity could prolong soft market conditions
 - Cat losses could accelerate turn
- Economic recovery will be slow
 - Premium volume to remain depressed
 - Further contribute to competitive pricing
- Brokers continue to struggle with lower commission income
 - Could contribute to market consolidation
- Inevitable hard(er) market, but not until 2011 at earliest
 - Sharp rebound per 2001-2003 unlikely
 - Increases most likely gradual and erratic
 - Flood of new capital could smother rally



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