Welcome/Introduction
  Terese Rosenthal

U.S. Natural Catastrophe Update
  Carl Hedde

Global Natural Catastrophe Update
  Ernst Rauch

Economic Implications of Natural Catastrophe Losses
  Dr. Robert Hartwig

Questions and Answers
From 1980 until today all loss events; for USA and selected countries in Europe all loss events since 1970.

Retrospectively, all great disasters since 1950.

In addition, all major historical events starting from 79 AD – eruption of Mt. Vesuvio (3,000 historical data sets).

Currently more than 30,000 events
Insured losses in the United States in 2011 totaled $35.9 billion – above the 2000 to 2010 average loss of $23.8 billion (in 2011 Dollars).

Very active thunderstorm (tornado-hail) season with insured losses exceeding $25 billion, more than double the previous record. It was also the deadliest thunderstorm season in over 75 years.

Hurricane Irene and Tropical Storm Lee cause minor wind damage, major flooding in northeastern U.S.

Severe spring flooding events in the Midwest and Great Plains.

Moderate earthquake in Virginia felt across eastern seaboard.

Most damaging wildfire in Texas history.
## Natural Disaster Losses in the United States 2011

<table>
<thead>
<tr>
<th>As of January 1, 2012</th>
<th>Number of Events</th>
<th>Fatalities</th>
<th>Estimated Overall Losses (US $m)</th>
<th>Estimated Insured Losses (US $m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Severe Thunderstorm</td>
<td>69</td>
<td>617</td>
<td>46,548</td>
<td>25,813</td>
</tr>
<tr>
<td>Winter Storm</td>
<td>9</td>
<td>67</td>
<td>2,708</td>
<td>2,017</td>
</tr>
<tr>
<td>Flood</td>
<td>14</td>
<td>20</td>
<td>2,705</td>
<td>535</td>
</tr>
<tr>
<td>Earthquake</td>
<td>5</td>
<td>1</td>
<td>257</td>
<td>50</td>
</tr>
<tr>
<td>Tropical Cyclone</td>
<td>3</td>
<td>0</td>
<td>10,700</td>
<td>5,510</td>
</tr>
<tr>
<td>Wildfire</td>
<td>58</td>
<td>15</td>
<td>1,922</td>
<td>855</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>33</td>
<td>8,000</td>
<td>1,000</td>
</tr>
</tbody>
</table>

Source: MR NatCatSERVICE © 2011 Munich Re
Natural Disasters in the United States, 1980 – 2011
Number of Events, Annual Totals

Source: MR NatCatSERVICE
© 2011 Munich Re
Insured losses due in the U.S. in 2011 were the 5th highest on record, exceeding $35 billion.
## U.S. Natural Catastrophe Update

### Significant Natural Catastrophes, 2011

$1 billion economic loss and/or 50 fatalities

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Estimated Economic Losses (US $m)</th>
<th>Estimated Insured Losses (US $m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>Texas Drought</td>
<td>8,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Jan. 31 – Feb. 3</td>
<td>Winter Storm</td>
<td>1,300</td>
<td>975†</td>
</tr>
<tr>
<td>April 3 - 5</td>
<td>Thunderstorms</td>
<td>3,500</td>
<td>2,000†</td>
</tr>
<tr>
<td>April 8 - 11</td>
<td>Thunderstorms</td>
<td>2,500</td>
<td>1,510†</td>
</tr>
<tr>
<td>April 14 - 16</td>
<td>Thunderstorms</td>
<td>2,100</td>
<td>1,400†</td>
</tr>
<tr>
<td>April 19 - 20</td>
<td>Thunderstorms</td>
<td>1,200</td>
<td>830†</td>
</tr>
<tr>
<td>April 22 – 28</td>
<td>Thunderstorms</td>
<td>15,000</td>
<td>7,300†</td>
</tr>
<tr>
<td>April</td>
<td>Flooding</td>
<td>2,600</td>
<td>500</td>
</tr>
<tr>
<td>May 20 – 27</td>
<td>Thunderstorms</td>
<td>14,000</td>
<td>6,900†</td>
</tr>
<tr>
<td>June 16 – 22</td>
<td>Thunderstorms</td>
<td>1,600</td>
<td>1,200†</td>
</tr>
<tr>
<td>July 10 – 14</td>
<td>Thunderstorms</td>
<td>1,300</td>
<td>980†</td>
</tr>
<tr>
<td>August 18 – 19</td>
<td>Thunderstorms</td>
<td>1,200</td>
<td>840†</td>
</tr>
<tr>
<td>August 26 - 28</td>
<td>Hurricane Irene</td>
<td>10,000</td>
<td>5,000</td>
</tr>
<tr>
<td>September 4 – 19</td>
<td>Wildfire</td>
<td>1,000</td>
<td>530†</td>
</tr>
</tbody>
</table>

Sources: (unmarked) - MR NatCatSERVICE, † - Property Claims Services (PCS)
2011 U.S. THUNDERSTORM SEASON
United States Annual Trend of LSR Tornadoes*

*Preliminary tornadoes from NWS Local Storm Reports (LSRs)
Annual average is based on preliminary LSRs, 2005-2010
Deadliest tornado year since 1925: 552 direct fatalities
Deadliest single tornado since 1947: Joplin, Missouri, 158 fatalities
Most observed tornadoes in a month: 748, April
Largest number of tornadoes in a day: 226, April 27
Most EF5 Tornados in a year: 6 (tied for first with 1974)
Aggregate Insured Thunderstorm Losses: $25.8 billion
Billion-dollar insured loss outbreaks: 6
Late April (Alabama) and May (Joplin) outbreaks each caused insured losses in excess of $6 billion, and are among top 10 largest natural catastrophe losses in U.S. history, based on original dollars.
Average thunderstorm losses have increased fivefold since 1980.

2011 Total $25.8 bn
U.S. TROPICAL CYCLONES 2011
Tropical Cyclone Impacting the United States in 2011

Source: NOAA
U.S. Hurricanes in 2011

Hurricane Irene

- Landfalls on August 27 over the NC Outer Banks as a Category 1 hurricane and on August 28 over Brigantine, NJ, and Coney Island, NY, as a tropical storm.
- Minor to moderate wind damage in North Carolina and Virginia, heavy indirect wind damage due to tree fall further north.
- Record flooding across northeast, particularly New Jersey, New York, and Vermont.
- Economic Losses in U.S. of $10 billion, insured losses of $5 billion.
Other U.S. Tropical Cyclones in 2011

**Tropical Storm Don**
- Landfall near Baffin Bay, Texas, on July 30
- Sustained winds at landfall of 50 mph, no significant damage

**Tropical Storm Lee**
- Landfall in Louisiana on September 4 with sustained winds of 45 mph
- Minor wind damage and flooding in Louisiana; As a remnant low, Lee aggravated existing Irene flooding and triggered new flooding in northeastern U.S., particularly in Pennsylvania.
- Estimated $510 million insured loss.
There has not been a major hurricane landfall in the U.S. since 2005.
The current 5-year average (2007-2011) insured tropical cyclone loss is $4.1 billion per year.
OTHER U.S. NATURAL CATASTROPHES IN 2011

Source: FEMA
Heavy snowmelt, saturated soils, and over 20 inches of rain in a month lead to the worst flooding of the lower Mississippi River since 1927.

Record river crests at Vicksburg and Natchez; Morganza Spillway opened in Louisiana to protect Baton Rouge and New Orleans from possible levee failures.

Extensive agricultural damage, property, and inland marine losses due to flood. Estimated economic losses of $2 billion and insured losses of $500 million.

Source: NASA
Number of Acres Burned in Wildfires, 1980 – 2011

2011 Total
8.3 million acres

Source: National Interagency Fire Center
Notable Wildfires in 2011

- Worst wildfire year on record in Texas due to persistent drought.

- **Spring:** Over 3 million acres burned in west Texas from 12 major seats of fire. Over 200 homes and businesses destroyed, $50 million insured loss.

- **September:** Bastrop County Complex Fire near San Antonio destroys over 1,600 homes, insured loss of $530 million.

Source: FEMA
Average annual winter storm losses have almost doubled since the early 1980s.

Source: Property Claims Service

U.S. Winter Storm Loss Trends
Annual totals 1980 – 2011
Central Virginia Earthquake

- Magnitude 5.8 on August 23, largest ever recorded in Virginia.
- Felt as far away as Canada to the north and Savannah, GA to the South.
- Minor structural and contents damage near epicenter and to old masonry buildings, including the U.S. National Cathedral and the Washington Monument in the District of Columbia.
- Only minor economic and insured losses.

Source: USGS

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GLOBAL NATURAL CATASTROPHE UPDATE

Ernst Rauch
Head of Corporate Climate Center
Munich Re
Natural Catastrophes Worldwide 2011

Headlines

**Number of events: 820**
- The number is in line with the 10-year-average (2001-2010: 790).

**Fatalities: 27,000**
- The number is quite low in comparison with previous years (2001-2010: 106,000).
- The figures do not include the drought fatalities in East Africa, esp. Somalia.

**Overall direct losses: US$ 380bn**
- 2011 is the costliest year for overall losses due to natural catastrophes.

**Insured losses: US$ 105bn**
- The insured losses are the highest figures too, topped the 2005 losses in original values (US$ 101bn).
<table>
<thead>
<tr>
<th>Event Type</th>
<th>Event Description</th>
<th>Impact Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earthquake, tsunami Japan</td>
<td>Strongest earthquake in Japan, Mw 9.0, with destructive tsunami waves up to 40 meters.</td>
<td>Costliest event ever in terms of overall losses; costliest event 2011 in terms of insured losses.</td>
</tr>
<tr>
<td>New Zealand</td>
<td>Three strong earthquakes (Mw 5.9/6.3/7.0) in 10 months.</td>
<td>Second highest losses for the insurance industry in 2011.</td>
</tr>
<tr>
<td>Floods Australia and Thailand</td>
<td>The series of floods 2010/11 were the most devastating in modern Australian history.</td>
<td>Strong rainfalls from Aug.-Nov.; highest insured losses ever from nat cat events in Thailand.</td>
</tr>
<tr>
<td>Drought, famine Somalia</td>
<td>Lack of rain, two short rainy seasons since October 2010.</td>
<td>Expected deaths due to famine in the tens of thousands.</td>
</tr>
</tbody>
</table>
### Natural Catastrophes Worldwide 2011

#### Overview and comparison with previous years

<table>
<thead>
<tr>
<th>Category</th>
<th>2011</th>
</tr>
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<tbody>
<tr>
<td>Number of events</td>
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<td>Fatalities</td>
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Global Natural Catastrophe Update

© 2011 Munich Re
### Natural Catastrophes Worldwide 2011
Overview and comparison with previous years

<table>
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<th>2010</th>
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<td>152,000</td>
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<tr>
<td><strong>Insured losses in US$ m</strong> (original values)</td>
<td>105,000</td>
<td>42,000</td>
</tr>
<tr>
<td><strong>Fatalities</strong></td>
<td>27,000</td>
<td>296,000</td>
</tr>
<tr>
<td></td>
<td>2011</td>
<td>2010</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>--------</td>
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Overview and comparison with previous years

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
<th>Average of the last 10 years 2001-2010</th>
<th>Average of the last 30 years 1981-2010</th>
<th>Top Year 1981-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of events</strong></td>
<td>820</td>
<td>970</td>
<td>790</td>
<td>630</td>
<td></td>
</tr>
<tr>
<td><strong>Overall losses in US$ m (original values)</strong></td>
<td>380,000</td>
<td>152,000</td>
<td>113,000</td>
<td>75,000</td>
<td>2007 (1,025)</td>
</tr>
<tr>
<td><strong>Insured losses in US$ m (original values)</strong></td>
<td>105,000</td>
<td>42,000</td>
<td>35,000</td>
<td>19,000</td>
<td>2005 (101,000)</td>
</tr>
<tr>
<td><strong>Fatalities</strong></td>
<td>27,000</td>
<td>296,000</td>
<td>106,000</td>
<td>69,000</td>
<td>2010 (296,000)</td>
</tr>
</tbody>
</table>

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Natural Catastrophes Worldwide 2011
The five costliest natural catastrophes for the insurance industry

<table>
<thead>
<tr>
<th>Date</th>
<th>Region</th>
<th>Event</th>
<th>Fatalities</th>
<th>Overall losses US$ m</th>
<th>Insured losses US$ m</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.3.2011</td>
<td>Japan</td>
<td>Earthquake, tsunami</td>
<td>15,840</td>
<td>210,000</td>
<td>35,000-40,000</td>
</tr>
<tr>
<td>22.2.2011</td>
<td>New Zealand</td>
<td>Earthquake</td>
<td>181</td>
<td>16,000</td>
<td>13,000</td>
</tr>
<tr>
<td>1.8-15.11.2011</td>
<td>Thailand</td>
<td>Floods, landslides</td>
<td>813</td>
<td>40,000</td>
<td>10,000</td>
</tr>
<tr>
<td>22-28.4.2011</td>
<td>USA</td>
<td>Severe storms/tornadoes</td>
<td>350</td>
<td>15,000</td>
<td>7,300</td>
</tr>
<tr>
<td>22.8-2.9.2011</td>
<td>USA, Caribbean</td>
<td>Hurricane Irene</td>
<td>55</td>
<td>15,000</td>
<td>7,000</td>
</tr>
</tbody>
</table>

Source: MR NatCatSERVICE
Natural Catastrophes Worldwide 1980 – 2011

Number of events

Source: MR NatCatSERVICE

© 2011 Munich Re
Overall losses totaled $380 billion; Insured losses totaled $105 billion

Source: MR NatCatSERVICE

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Geophysical events (earthquake, tsunami, volcanic activity)
Meteorological events (storm)
Hydrological events (flood, mass movement)
Climatological events (extreme temperature, drought, wildfire)

Selection of significant loss events (see table)

Number of events: 820

Source: MR NatCatSERVICE
<table>
<thead>
<tr>
<th>Region</th>
<th>Overall losses</th>
<th>Insured losses</th>
<th>Fatalities</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Island, Canterbury, Christchurch, Lyttelton</td>
<td>US$ 16bn*</td>
<td>US$ 13bn*</td>
<td>181</td>
</tr>
</tbody>
</table>

*Losses in original values

Source: MR NatCatSERVICE

Global Natural Catastrophe Update

Earthquake New Zealand

February 2011

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### Floods Thailand

**August – November 2011**

<table>
<thead>
<tr>
<th>Region</th>
<th>Overall losses</th>
<th>Insured losses</th>
<th>Fatalities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phichit, Nakhon Sawan, Phra Nakhon Si Ayuttaya, Pathumthani, Nonthaburi, Bangkok</td>
<td>US$ 40bn*</td>
<td>US$ 10bn*</td>
<td>813</td>
</tr>
</tbody>
</table>

*Losses in original values* 

Source: MR NatCatSERVICE

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**Natural Catastrophes Worldwide 2011**

Insured losses US$ **105bn** - Percentage distribution per continent

<table>
<thead>
<tr>
<th>Continent</th>
<th>Insured losses US$ m</th>
</tr>
</thead>
<tbody>
<tr>
<td>America (North and South America)</td>
<td>40,000</td>
</tr>
<tr>
<td>Europe</td>
<td>2,000</td>
</tr>
<tr>
<td>Africa</td>
<td>Minor damages</td>
</tr>
<tr>
<td>Asia</td>
<td>45,000</td>
</tr>
<tr>
<td>Australia/Oceania</td>
<td>18,000</td>
</tr>
</tbody>
</table>
Natural Catastrophes Worldwide 1980 – 2011
Insured losses US$ 870bn - Percentage distribution per continent

<table>
<thead>
<tr>
<th>Continent</th>
<th>Insured losses US$ m</th>
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</thead>
<tbody>
<tr>
<td>America (North and South America)</td>
<td>566,000</td>
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<tr>
<td>Europe</td>
<td>146,000</td>
</tr>
<tr>
<td>Africa</td>
<td>2,000</td>
</tr>
<tr>
<td>Asia</td>
<td>115,000</td>
</tr>
<tr>
<td>Australia/Oceania</td>
<td>41,000</td>
</tr>
</tbody>
</table>

Source: MR NatCatSERVICE

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Natural Catastrophes in Asia 1980 – 2011
Overall and insured losses

Source: MR NatCatSERVICE
© 2011 Munich Re
Summary

US$ 105bn insured losses - 47% of losses due to earthquakes (30-year-average = 10%)

Asia (44%) and North America (37%) are mainly impacted in terms of insured losses

Thailand floods – costliest flood event for overall and insured losses

Japan earthquake, tsunami – 15,840 fatalities – deadliest natural disaster in 2011

New Zealand earthquakes – high losses for the insurance market, minor fatalities

Building codes are essential to save lives – however, insured losses are nevertheless significant
Market and Financial Impact of 2011 Catastrophe Losses

Insurance Information Institute
January 4, 2012

Robert P. Hartwig, Ph.D., CPCU, President & Economist
Insurance Information Institute ♦ 110 William Street ♦ New York, NY 10038
Tel: 212.346.5520 ♦ Cell: 917.453.1885 ♦ bobh@iii.org ♦ www.iii.org
2011: Nowhere to Run, Nowhere to Hide

Most of the Country East of the Rockies Suffered Severe Weather in 2011, Impacting Most Insurers
Location of Tornadoes in the US, January 1—December 27, 2011

1,894 tornadoes killed 552 people in 2011, including at least 340 on April 26 mostly in the Tuscaloosa area, and 130 in Joplin on May 22.

Location of Large Hail Reports in the US, January 1—December 27, 2011

There were 9,417 “Large Hail” reports in 2011, causing extensive damage to homes, businesses and vehicles.

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2011_annual_summary.html#
There were 18,685 “Wind Damage” reports through Dec. 27, causing extensive damage to homes and businesses.
There have been 29,996 severe weather reports through Dec. 5; including 1,894 tornadoes; 9,417 “Large Hail” reports and 18,685 high wind events.
The number of federal disaster declarations set a new record in 2011, with 99, shattering 2010’s record 81 declarations.

There have been 2,049 federal disaster declarations since 1953. The average number of declarations per year is 34 from 1953-2010, though that few haven’t been recorded since 1995.


Federal Disasters Declarations by State, 1953 – 2011: Highest 25 States*

Over the past nearly 60 years, Texas has had the highest number of Federal Disaster Declarations.

Over the past nearly 60 years, Wyoming, Utah and Rhode Island had the fewest number of Federal Disaster Declarations.


Top 14 Most Costly Disasters in U.S. History

(Insured Losses, 2011 Dollars, $ Billions)

Taken as a single event, the Spring 2011 tornado and storm season are is the 4th costliest event in US insurance history

*Losses will actually be broken down into several “events” as determined by PCS. Includes losses for the period April 1 – June 30. Sources: PCS; Insurance Information Institute inflation adjustments.
P/C Insurance Industry Financial Overview

Profit Recovery Was Set Back in 2011 by High Catastrophe Loss & Other Factors
P/C Net Income After Taxes
1991–2011:Q3 ($ Millions)

- $6,970
- $10,000
- $20,000
- $30,000
- $40,000
- $50,000
- $60,000
- $70,000
- $80,000

2005 ROE* = 9.6%
2006 ROE = 12.7%
2007 ROE = 10.9%
2008 ROE = 0.1%
2009 ROE = 5.0%
2010 ROE = 5.6%
2011:Q3 ROAS1 = 1.9%

P-C Industry 2011:Q3 profits were down 71% to $8.0B vs. 2010:Q3, due primarily to high catastrophe losses and as non-cat underwriting results deteriorated.

* ROE figures are GAAP; 1Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 3.0% ROAS for 2011:Q3, 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 Ratios Must Be Lower in Today’s Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2011 figure is return on average statutory surplus. 2008 -2011 figures exclude mortgage and financial guaranty insurers. 2011:Q3 combined ratio including M&FG insurers is 109.9, ROAS = 1.9%.
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 through Q3 data.

Note: Data for 2008-2011 exclude mortgage and financial guaranty insurers. For 2011:Q3 ROAS = 1.9% including M&FG.

Source: Insurance Information Institute; NAIC, ISO, A.M. Best.
Soft Market Persisted in 2010 but Growth Returned: More in 2011?

Net Written Premiums Fell 0.7% in 2007 (First Decline Since 1943) by 2.0% in 2008, and 4.2% in 2009, the First 3-Year Decline Since 1930-33.

NWP was up 0.9% in 2010

2011:Q3 growth was +3.1%

*2011 figure is through first 9 months vs. same period in 2010
Shaded areas denote “hard market” periods
Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute.
Finally! Back-to-back quarters of net written premium growth (vs. the same quarter, prior year)

Sources: ISO, Insurance Information Institute.
Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2011:Q3

Percentage Change (%)

Peak = 2001:Q4
+28.5%

Pricing turned positive (+0.9%) in Q3:2011, the first increase in nearly 7 years (Q4:2003)

Pricing Turned Negative in Early 2004 and Has Been Negative Ever Since

Trough = 2007:Q3
-13.6%

KRW Effect: No Lasting Impact

Source: Council of Insurance Agents and Brokers; Insurance Information Institute.
Average Commercial Rate Change, All Lines, (1Q:2004–4Q:2011E*)

(Percents)

Pricing as of Q3:2011 is positive for the first time since 2003. Slightly stronger gains in Q4.

Q2 2011 marked the 30th consecutive quarter of price declines.

Source: Council of Insurance Agents & Brokers (1Q04-4Q11); Marsh (Q411E); Insurance Information Institute
Change in Commercial Rate Renewals, by Line: 2011:Q3

Major Commercial Lines Renewed Uniformly Upward in Q3:2011 for the First Time Since 2003; Property Lines & Workers Comp Leading the Way

Percentage Change (%)

- General Liability: 0.2%
- Surety: 0.3%
- Comml Auto: 0.6%
- Construction: 0.8%
- D&O: 0.8%
- Umbrella: 1.3%
- EPL: 1.5%
- Bus. Interruption: 1.9%
- Commercial Property: 3.0%
- Workers Comp: 4.1%

Property lines are showing larger increases than casualty lines, with the exception of workers compensation.

Source: Council of Insurance Agents and Brokers; Insurance Information Institute.
Most excess reinsurance capacity was removed from the market in 2011, leaving uncertainty as to the direction of 2012 reinsurance renewals.
Catastrophes Will Lead Insurers their Largest Underwriting Loss in a Decade
As Recently as 2001, Insurers Paid Out Nearly $1.16 for Every $1 in Earned Premiums

Heavy Use of Reinsurance Lowered Net Losses

Relatively Low CAT Losses, Reserve Releases

Relatively Low CAT Losses, Reserve Releases

Avg. CAT Losses, More Reserve Releases

Higher CAT Losses, Shrinking Reserve Releases, Toll of Soft Market

Best Combined Ratio Since 1949 (87.6)

Cyclical Deterioration


Sources: A.M. Best, ISO.
Homeowners Insurance Combined Ratio: 1990–2011P

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

Sources: A.M. Best (1990-2010); Insurance Information Institute (2011P).
Large Underwriting Losses Are NOT Sustainable in Current Investment Environment

* Includes mortgage and financial guaranty insurers in all years
Sources: A.M. Best, ISO; Insurance Information Institute.
Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2011E*

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.

*Insurance Information Institute estimates for 2010 and 2011.

The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades
Financial Strength & Underwriting

Cyclical Pattern in P-C Impairment History is Directly Tied to Underwriting, Reserving & Pricing
The Number of Impairments Varies Significantly Over the P/C Insurance Cycle, With Peaks Occurring Well into Hard Markets

3 small insurers in Missouri did encounter problems in 2011 following the May tornado in Joplin. They were absorbed by a larger insurer and all claims were paid.

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.
SURPLUS/CAPITAL/CAPACITY

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

Surplus as of 9/30/11 was down 4.6% below its all time record high of $564.7B set as of 3/31/11. Further declines are possible.

*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.
Thank you for your time and your attention!

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