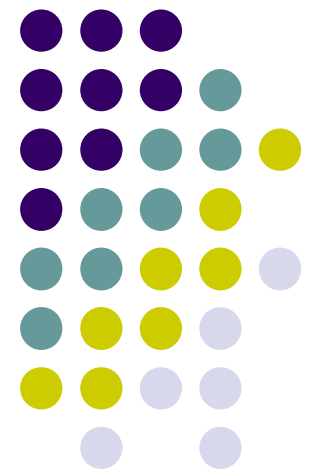
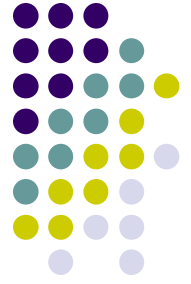


“The Economy and Claims”

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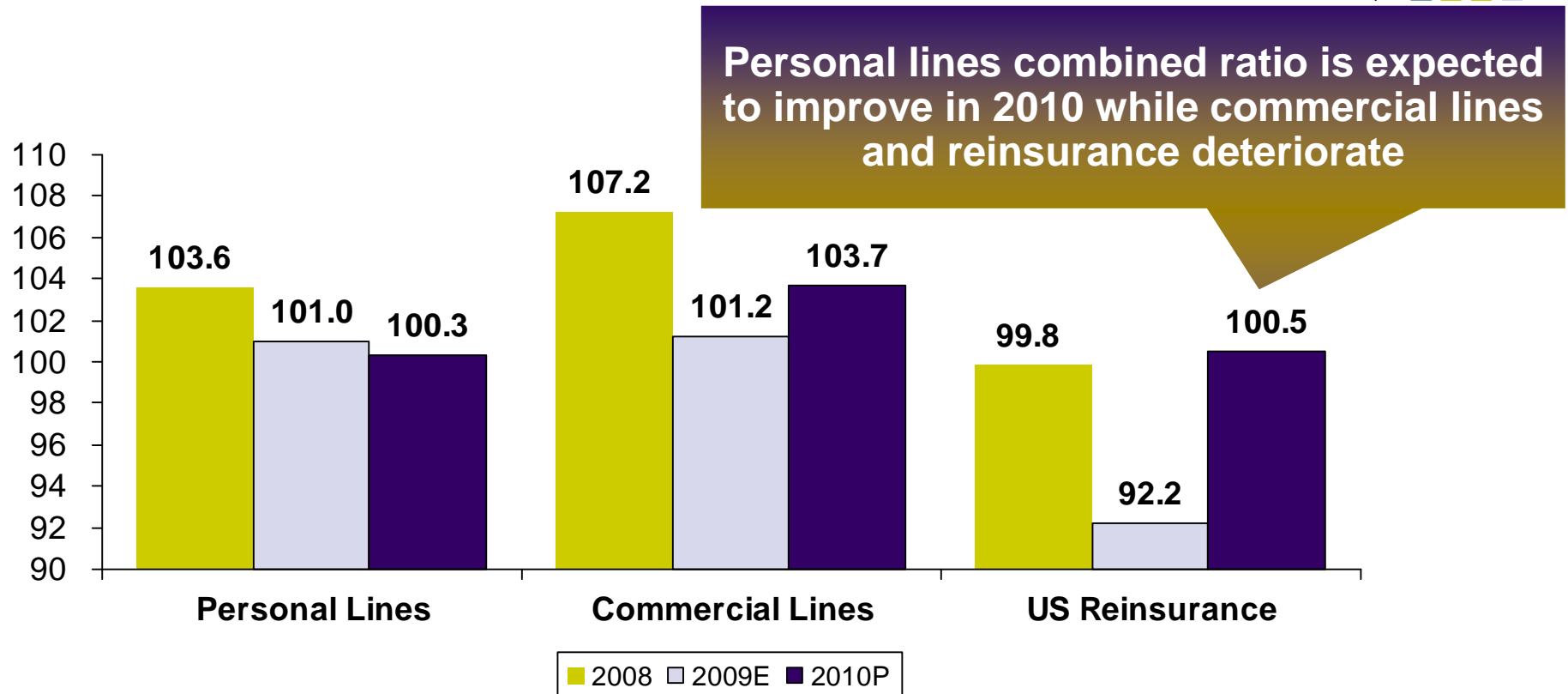




Overview

- | Gain an understanding as to how external pressures can impact the claims process
- | Be able to develop new strategies for improving outcomes
- | Know how to identify attitudinal changes of the stakeholders in claim resolution and respond accordingly
- | Meet the challenges ahead with confidence

Calendar Year Combined Ratios by Segment: 2008-2010P



Overall deterioration in 2010 underwriting performance is due to expected return to normal catastrophe activity along with deteriorating underwriting performance related to the prolonged commercial soft market

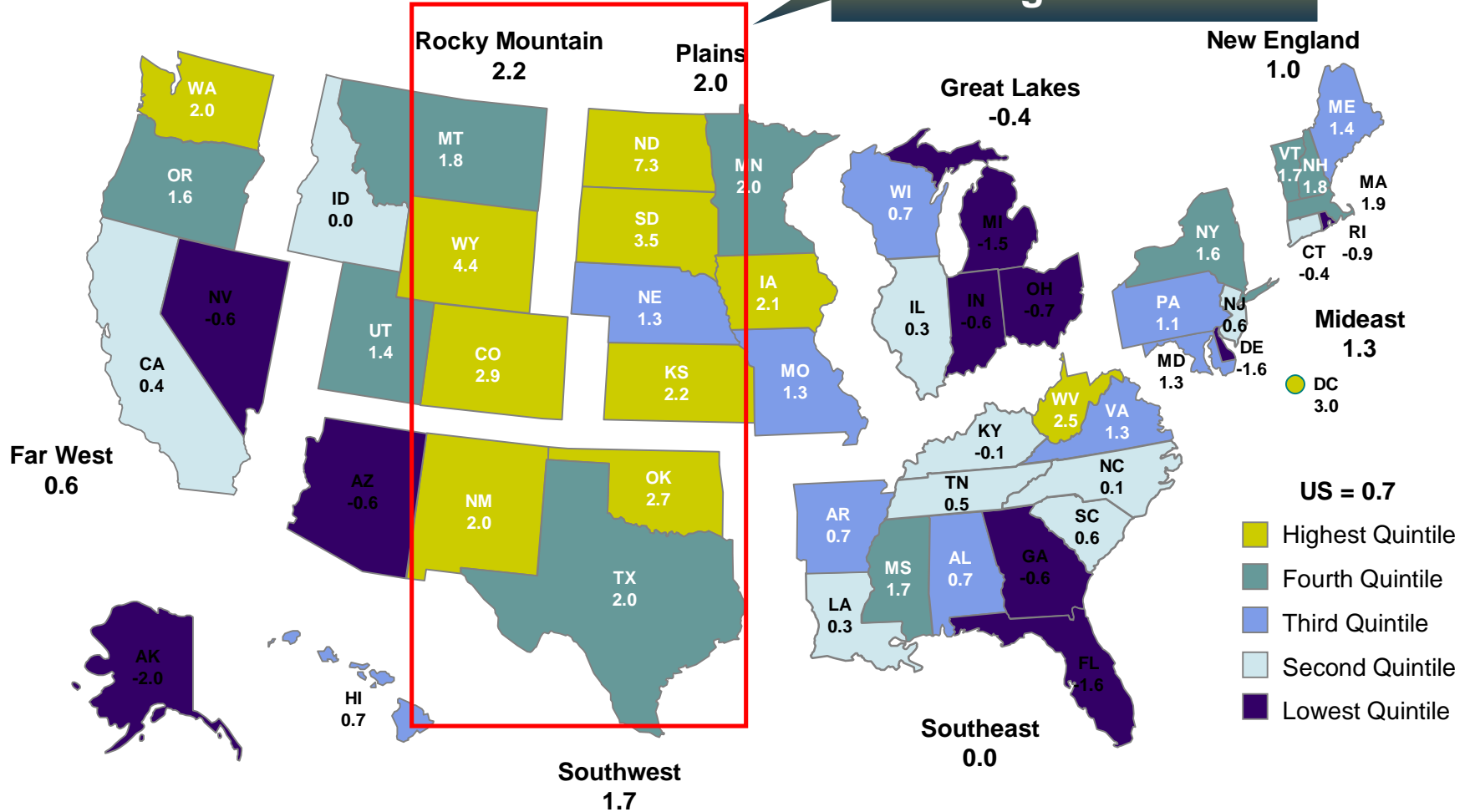
Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute.

State Economic Growth Varied Tremendously in 2008

Percent Change in Real GDP by State, 2007–2008



Mountain, Plains States Growing the Fastest

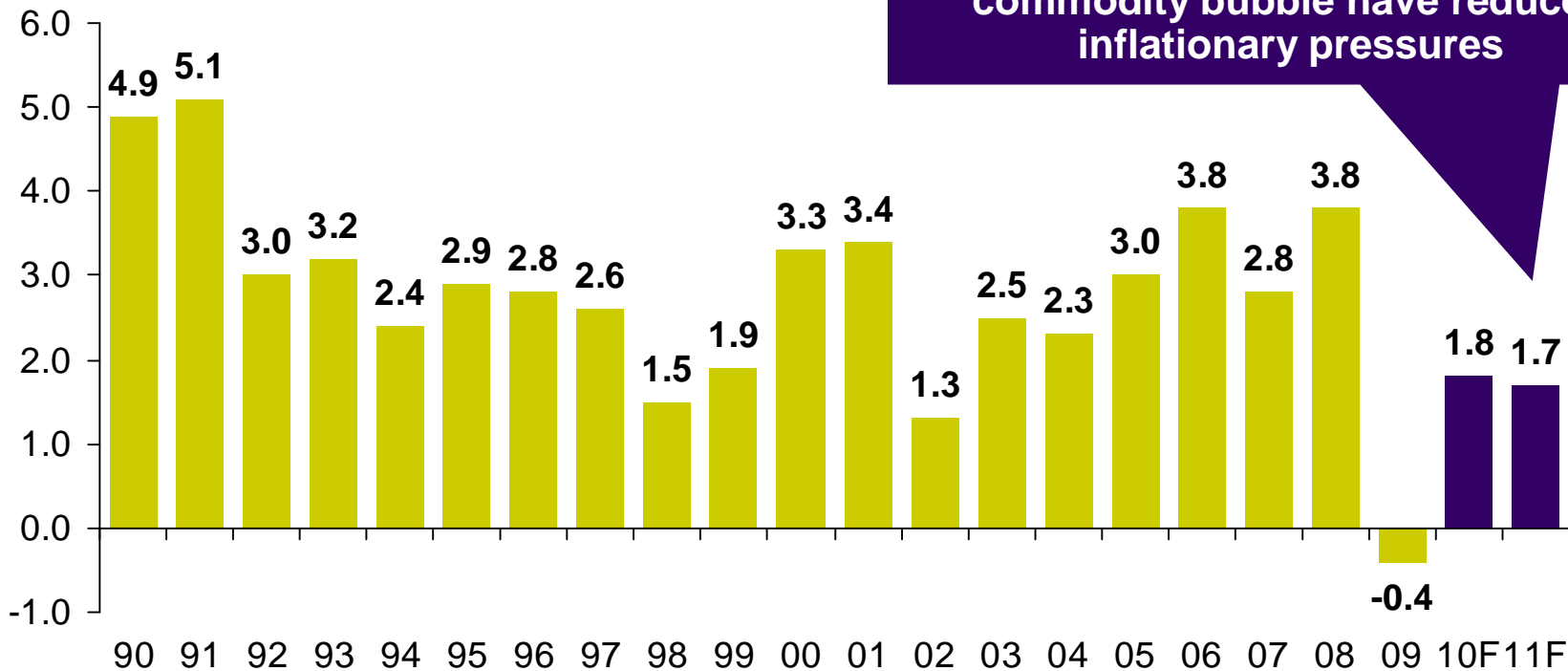


US Bureau of Economic Analysis

Annual Inflation Rates (CPI-U, %), 1990–2011F



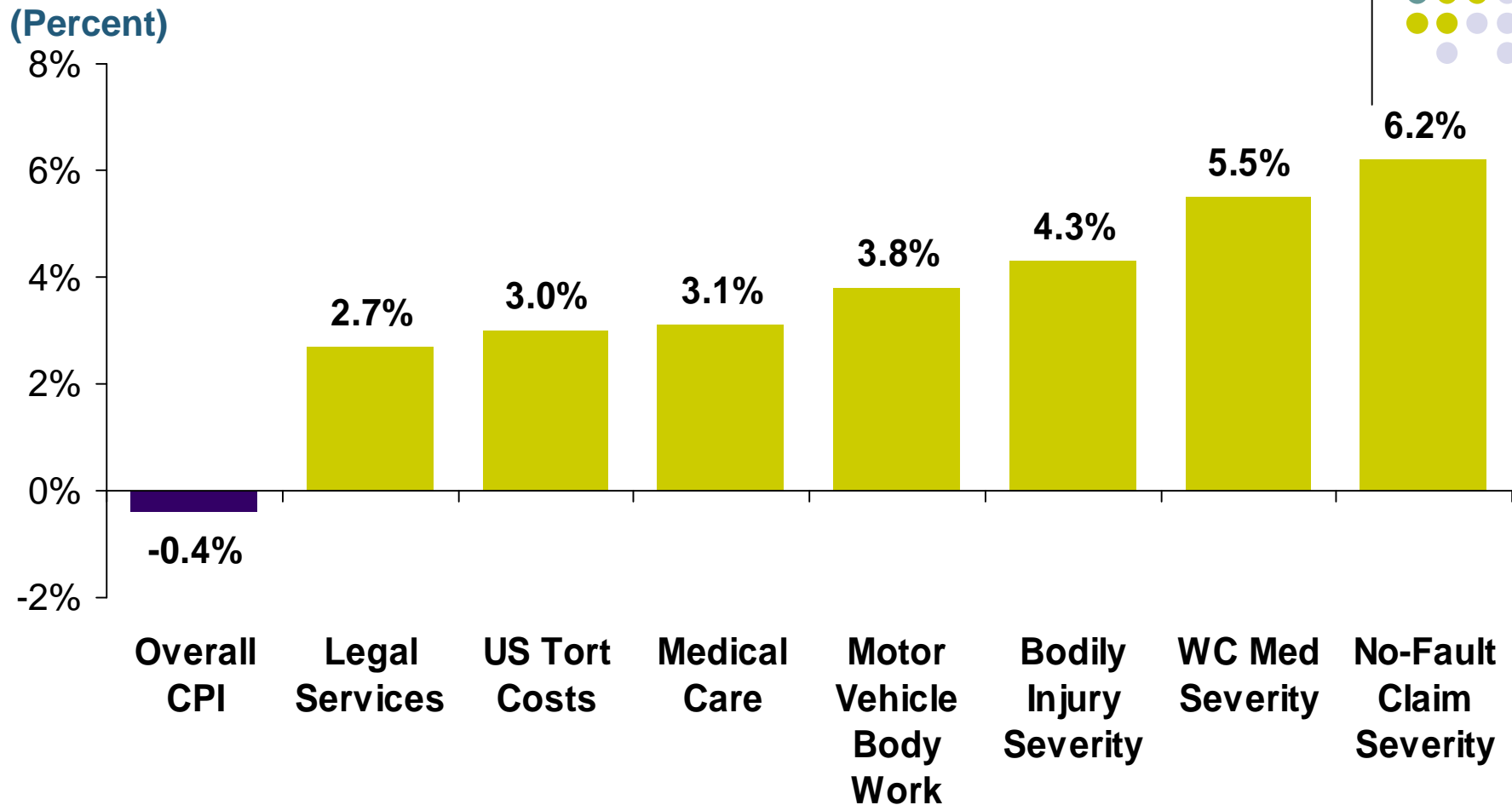
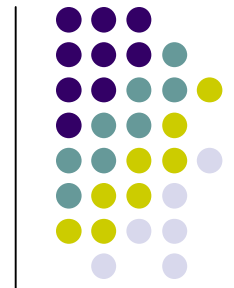
Inflation peaked at 5.6% in August 2008 on high energy and commodity crisis. The recession and the collapse of the commodity bubble have reduced inflationary pressures



There is So Much Slack in the US Economy Inflation Should Not Be a Concern Through 2010/11, but Deficits and Monetary Policy Remain Longer Run Concerns

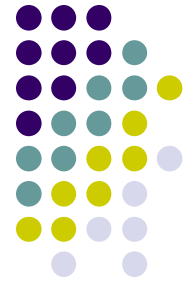
Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators, June 10, 2010 (forecasts).

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.



Inflation Concerns

- | Caused by: \$787B stimulus and a deficit expected to increase to \$1.8T
- | Challenges created:
 - | Claims severity increasing (property and liability)
 - | Rate inadequacy due to inaccurate assumptions
 - | Reserve inadequacy due to adverse development
 - | Costs exceeding deductible and retention thresholds
 - | More claims approaching or exceeding policy limits
 - | Reinsurance penetration / exhaustion

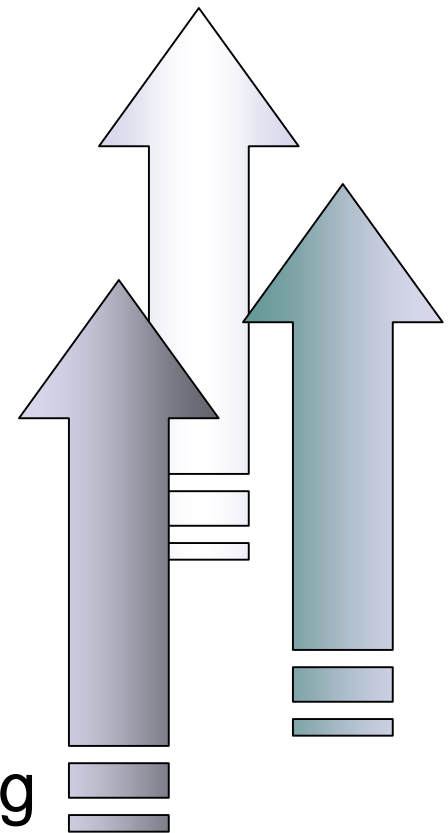
Legal costs

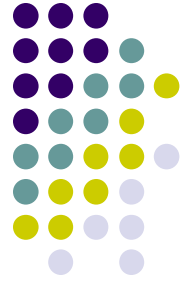
- | No foreseeable tort reform due to current political climate
- | Recent reforms are eroding
 - | Legislative initiatives
 - | New theories of liability
- | Tort costs increasing at twice the rate of inflation
- | Can lead to reserve deficiency or rate inadequacy



Signs of Recovery

- | Through the worst of the recession
 - | GDP shrinkage is diminishing
 - | Pace of job losses is slowing
 - | Major stock markets recovering losses
 - | Retail sales slowly increasing
- | Financial sector stabilizing
 - | Banks are reporting profits
- | Housing still problematic
- | Inflation and energy costs stabilizing
- | Consumer and business debt is shrinking





Near Term Claiming Behavior

- | Reduced frequency
 - | Fearful of cancellation if claim made
 - | Less home ownership
- | Increased severity
 - | Only large losses being reported
 - | Construction costs have increased
 - | Impact of “green” construction techniques and ordinances
- | Fraud



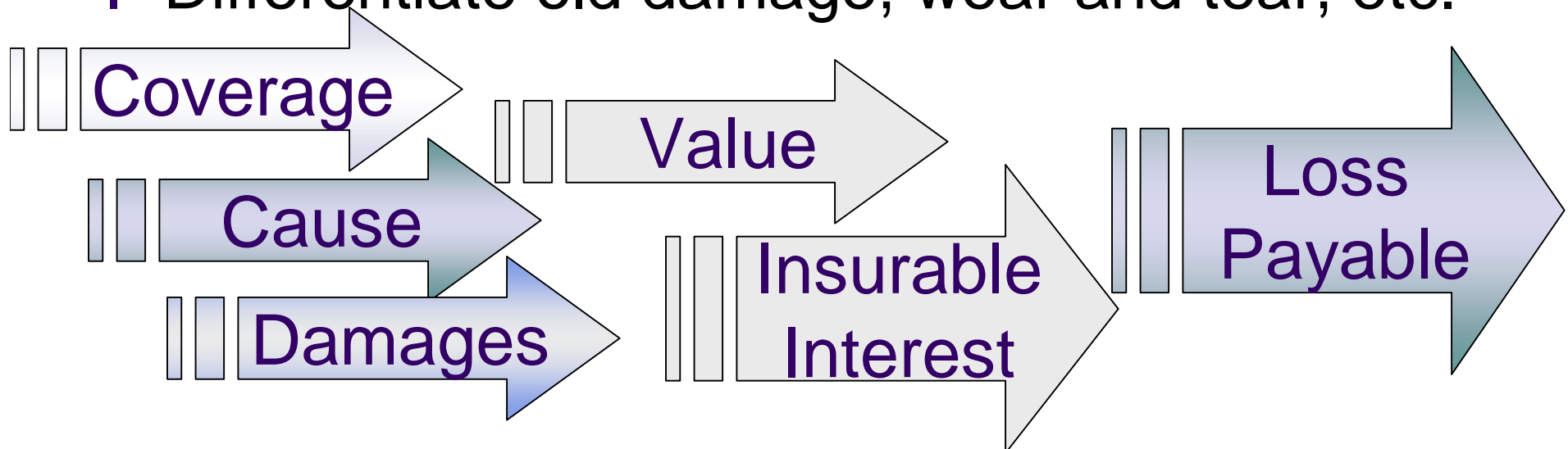
Impact on Claims

1. Did something happen that was unexpected and in retrospect, you deduced it was caused by the bad economy?
2. Have volume and severity been impacted and how?
3. How has involvement of public adjusters and attorneys changed?
4. How has the claims adjustment process been changed? Are there new stakeholders?



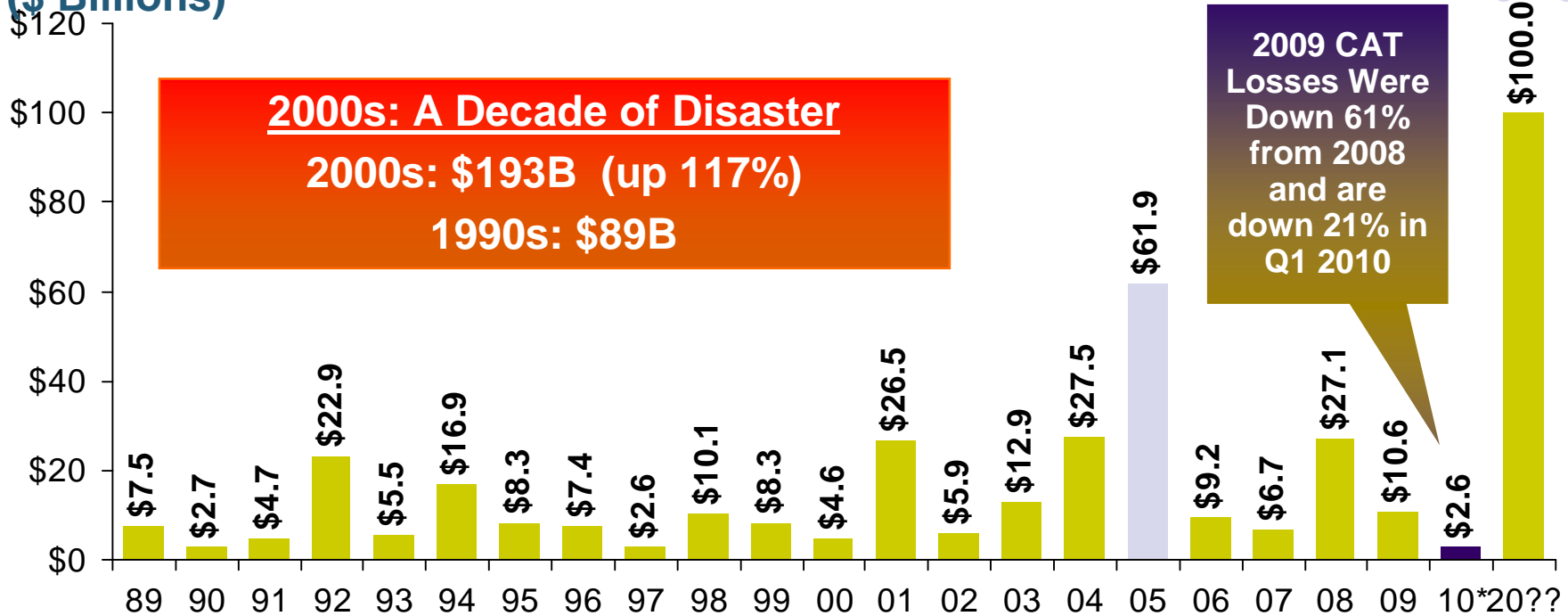
Loss and Damage Estimation

- | Confirm coverage and any limitations
- | Determination of date, cause, and origin
- | Analysis of resultant damage from the covered loss
- | Differentiate old damage, wear and tear, etc.



US Insured Catastrophe Losses

(\$ Billions)



2009 CAT Losses Were Less than Half of 2008.
2005 Was by Far the Worst Year Ever for Insured Catastrophe Losses in the Decade of the 2000s, But the Worst Has Yet to Come

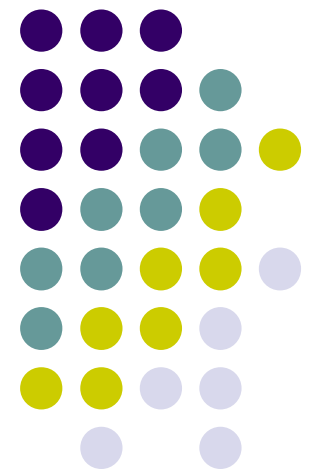
*Through March 31, 2010.

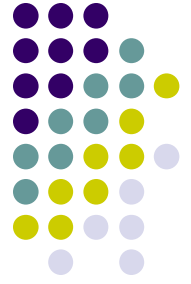
Note: 2001 figure includes \$20.3B for 9/11 losses reported through 12/31/01. Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = \$12.2B.

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

Loss Adjustment Considerations

*“Modest doubt is called
the beacon of the wise.”*
--Shakespeare, Troilus and Cressida





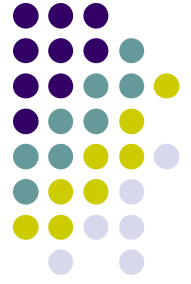
Vacancy

- | Increase in hazard while within the control or knowledge of the insured
- | Vacancy for more than 60 days (or as specified)
 - | Theft if unoccupied for more than 30 days
 - | Freezing if unoccupied for more than 30 days unless insured has used due diligence to maintain heat and drain appliances
 - | Breakage of glass / vandalism and malicious mischief if vacant for 30 consecutive days



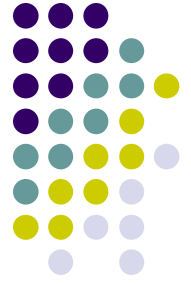
Insurable Interest

- | “any equitable or legal estate, or any right that may be prejudicially affected, or any liability that may be brought into operation by a peril insured against.”
 - | Individuals, Partnerships, Association and Joint-Stock Companies, Legal Representatives of the Insured, Corporations, Bailors, Receivers and Trustees in Bankruptcy, Guardians, Sole Ownership, Part Owners, Life Tenant, Vendors, Vendees, Lessor, Lessee



Loss payable

- | Kinds of payees:
 - | Payee designated or named in the policy
 - | Person who has a lien on the proceeds of the policy
 - | Assignee of the claim
 - | Garnishee or judgment creditor



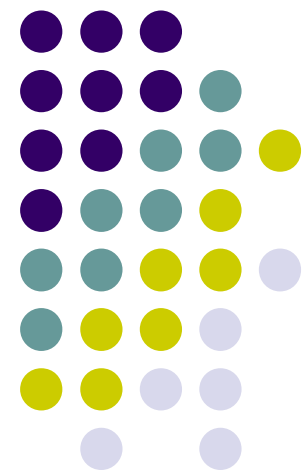
Loss Payable

- | Policy language may specify liability to the mortgagee only and not the named insured or any other lienholder
- | Pay the loss directly to the mortgagee based on damage or policy limit
 - | Obtain article of subrogation and assignment
- | Pay mortgage debt and take assignment of the mortgage
 - | Unlikely in case of foreclosure

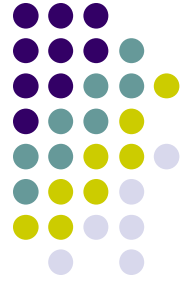
Facing a New World...

*“My interest is in the future
because I am going to spend the
rest of my life there.”*

-- Charles F. Kettering



The Power Within You



- | Fear, doubt, anger are powerless
- | Authentic power rests within you
- | More power is coming **YOUR** way



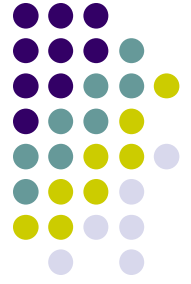
Finding Your Power

I Knowledge

“I went to a bookstore the other day. I asked the woman behind the counter where the self-help section was. She said, ‘if I told you that it would defeat the whole purpose.’ ”

-- Brian Kiley





Finding Your Power (con't)

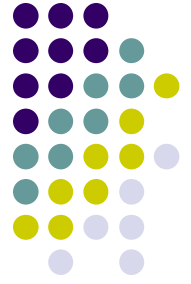
I Choices

“I love to shop after a bad relationship. I don't know. I buy a new outfit and it makes me feel better. It just does. Sometimes if I see a really great outfit, I'll break up with someone on purpose.”

-- Rita Rudner



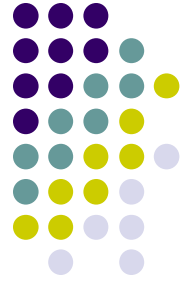
Finding Your Power (con't)



- | Time and distance of minimal importance

*The Butterfly Effect: from Beijing to New York
the world is comprised of unimaginable
dynamic, complex systems*

“Tomorrow is a Matter of Choice Make it Yours!” ...*Wolfgang Grulke*



I Industrial Age

- I learn a skill
- I security
- I job preservation
- I capital equipment
- I status quo
- I hierarchical and regulated
- I zero sum
- I measure inputs

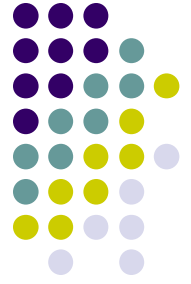
I Information Age

- I lifelong learning
- I risk-taking
- I job creation
- I intellectual capital
- I speed and change
- I distributed and networked
- I win-win
- I measure outputs

Overcoming Conventional Wisdom



- | 1900 Experts solve problems
- | 1950 Everybody solves problems
- | 1965 Experts improve whole system
- | 2000 Everybody improves whole system



Importance of Intangibles

I Tangibles

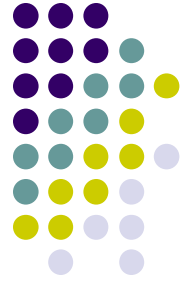
- I mass
- I size
- I physical assets

I Intangibles

- I knowledge
- I innovation
- I swiftness



The Power of Knowledge



- | Identify
- | Analyze
- | Respond

Deep Learning Cycle

- | Skills and capabilities
- | Awareness and sensibilities
- | Attitudes and beliefs

A final thought...

“A Winner in Waiting”

By Donald Hurzeler, CPCU, CLU

