2009 General Insurance Industry Survey

Direct Underwriters, Reinsurers and Brokers

This is the result of a joint research effort between J.P. Morgan and Deloitte

Insurance

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- **Welcome**

  17th consecutive annual *J.P. Morgan Deloitte General Insurance Industry Survey*

- **2009 industry summary**
- **Economic overlay**
- **2010 outlook**
- **Premium rates**
- **Claims performance**
- **Top 5 issues underwriters/brokers**
- **Capacity**
- **Competition**

Insurance profits collapse in 2009

- 2009 financial year was bad for reported insurance profits
- Reported combined ratio -101%, up 7% from 2008/worse than 96% forecast
- Falling industry profits due to increased claims, catastrophe activity, increased competition and adverse discount rate movements
- Trends worse for personal lines - combined ratio of 102% - commercial lines more stable at 95%
- Premium rates increased in 2009 in response to profit collapse in almost all classes, except workers compensation
- Personal lines rate increases strongest - 8% overall - driven by householders & CTP increases
- Commercial classes rate increases more moderate – 4% - with SMEs greatest
- Rise in personal line premiums due to industry’s attempt to restore profitability following large claims activity (above allowances) during the last 2-3 years.
- More moderate increases in rates in the commercial markets reflects some financial discipline in the industry, which responded to the financial crisis and reduced reserve releases before they were reflected in significant losses.

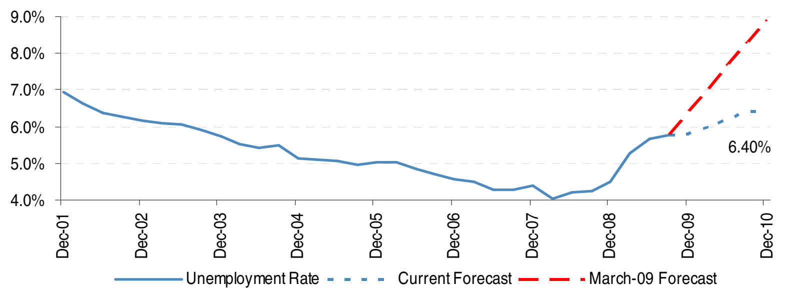
2009 estimates of the impact of the financial crisis on insurance margins by class of business

Last year's story

Classes	Possible Impact on Margins from Claims	Rank -Claims	Possible Impact on Margins from Yields (-2.0%)	Rank - Yields	Possible Impact on Margins - Total	Total Impact - Rank	IAG	SUN	QBE
Directors and Officers	-25%	1	-7%	1	[illegible]	**1**			1%
Professional Indemnity	-7%	2	-7%	1	-14%	**2**	1%	2%	6%
CTP	-3%	4	-7%	1	-10%	**3**	11%	10%	5%
Public Liability	-2%	5	[illegible]	1	-9%	**4**	4%	8%	17%
Workers' Compensation	-4%	3	-4%	5	-8%	**5**	2%	3%	11%
Fire and ISR (Property)	-2%	5	-1%	6	-3%	**6**	18%	17%	37%
Motor	0%	7	-1%	6	-1%	**7**	39%	34%	15%
Householders & Other	2%	8	-1%	6	2%	**8**	25%	25%	8%
Impact from Claims on Margins							-0.4%	-0.6%	-2.2%
Impact from Yields on Margins							-1.6%	-2.0%	-2.8%
Impact Total on Margins for CY09 ex rate movements							**-2.0%**	**-2.6%**	**-4.9%**
Margins for CY09							*10%*	*11%*	*19%*
Total Impact as % of Margins for FY09							-20%	-24%	-26%
Sustainable Margins							*12%*	*12%*	*15%*
Total Impact as % of Sustainable Margins							-17%	-22%	-33%

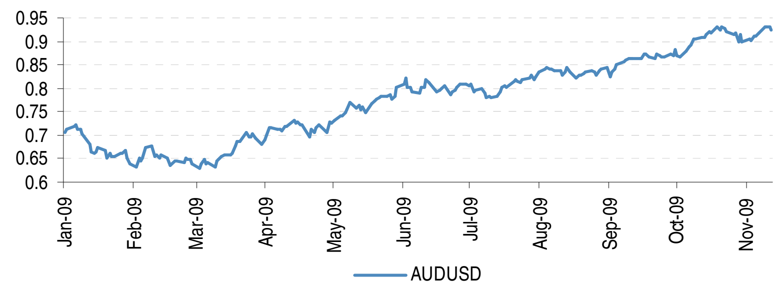
Economic overlay: macro factors providing tailwinds for Australian general insurance

Unemployment not as bad as initially expected



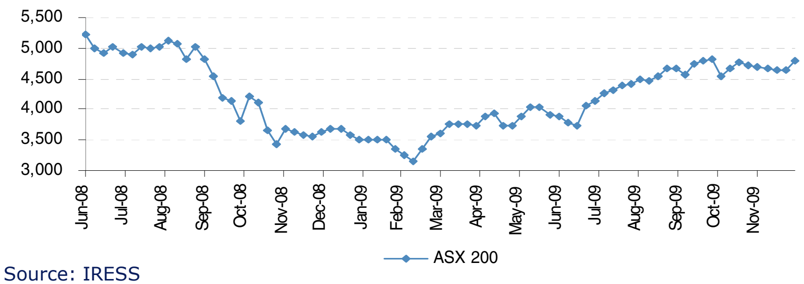
Source: ABS, J.P. Morgan estimates

AUD/USD exchange rate continues to strengthen



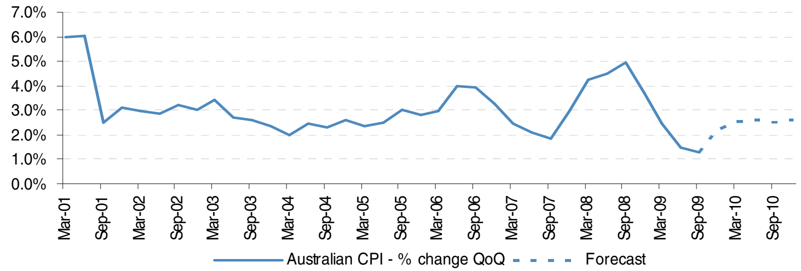
Source: IRESS, J.P. Morgan estimates

ASX200 performance



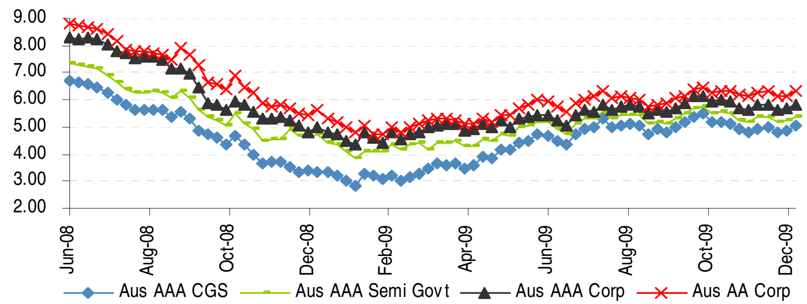
Source: IRESS

Change in Australian CPI



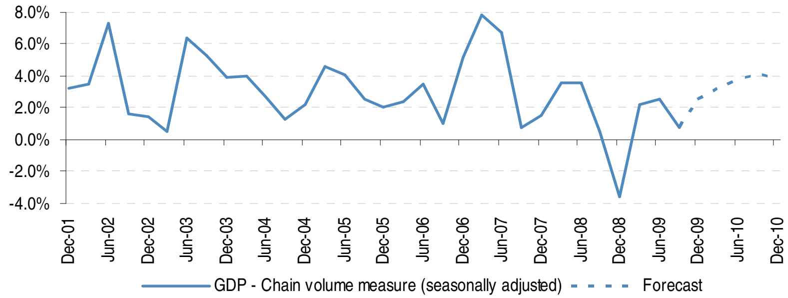
Source: IRESS, J.P. Morgan estimates

Yields on Fixed Interest rebound



Source: J.P. Morgan, JULI Index

GDP growth is on the rebound following some weakness



Source: IRESS, J.P. Morgan estimates

More stable 2010 outlook: survey participants expect strong premium rate increases to continue

This is a real turn in the cycle since there have been premium decreases in the majority of classes for a number of years.

- The industry forecast combined ratios to improve to 95% in 2010:
  - Sharp improvements in ratios expected in personal lines
  - Flat trends expected in commercial lines
  - CTP & workers’ compensation of most concern given combined ratios of 100%+ in 2009
  - Reserve releases in CTP and workers compensation classes are reducing
  - Premium rates increases expected in CTP insufficient to move the class into profit
  - Reinsurance rates have risen – following large catastrophe costs.

Premium rates are moving up – direct market

Industry actual and expected premium rate movements

	2007A	2008A	2008F from 2007 survey	2009A	2009F from 2008 survey	2010F	2011F
Domestic classes							
Domestic motor	2	3	3	5	4	5	4
Householders	4	4	5	10	6	9	7
CTP (NSW)	-12	-3	-2	10	4	9	7
CTP (QLD)	-1	3	-4	14	7	15	7
Weighted average	**0**	**3**	**1**	**8**	**5**	**7**	**6**
Commercial classes							
Fire & ISR (Commercial property)	-9	-3	-3	5	4	6	5
Commercial motor	-2	9	6	10	8	6	5
Public & Product Liability	-10	-6	-6	1	-1	4	4
Workers compensation (WA only)	-14	-12	-7	-6	-6	8	5
Workers compensation (TAS, NT & ACT)	-11	-8	-7	-5	-1	6	4
Professional indemnity	-9	-7	-6	4	0	8	6
Directors & officers	-8	-6	-6	6	4	9	7
Weighted average	**-8**	**-2**	**-3**	**4**	**3**	**6**	**5**

Source: 2009 J.P. Morgan Deloitte General Insurance Survey

Participants expect personal lines profitability to improve significantly – direct market

Industry actual and expected combined ratios

	2007A	2008A	2008F from 2007 survey	2009A	2009F from 2008 survey	2010F	2011F
Domestic classes							
Domestic motor	89	93	92	91	88	85	85
Householders	96	91	92	108	88	90	89
CTP (NSW)	100	112	109	125	110	110	109
CTP (QLD)	86	103	99	101	105	118	109
Weighted average	**92**	**95**	**95**	**102**	**92**	**92**	**91**
Commercial classes							
Fire & ISR (Commercial property)	92	99	94	99	89	96	95
Commercial motor	103	103	102	98	98	94	95
Public & Product Liability	88	84	89	88	86	90	89
Workers compensation (WA only)	90	94	96	100	98	100	99
Workers compensation (TAS, NT & ACT)	93	95	96	91	101	95	95
Professional indemnity	92	86	94	84	89	91	88
Directors & officers	76	88	76	109	90	87	86
Weighted average	**94**	**95**	**94**	**95**	**92**	**94**	**93**

Source: 2009 J.P. Morgan Deloitte General Insurance Survey

Premium rates are moving up in reinsurance modestly– profitability very mixed

Industry actual and expected Premium Rate movements

Class	2007A	2008A	2009A	2010F	2011F
Catastrophe	-6	-3	5	7	3
Property Proportional	-5	-3	6	5	4
Property Non Proportional	-1	0	4	4	1
Professional Indemnity	-3	-3	5	5	4
Public and Product Liability			4	5	4
Directors and Officers			5	6	5

Source: 2009 J.P. Morgan Deloitte General Insurance Survey

Industry actual and expected Combined Ratios

Class	2007A	2008A	2009A	2010F	2011F
Catastrophe	111	70	114	75	71
Property Proportional	114	103	127	92	100
Property Non Proportional	61	85	84	86	86
Professional Indemnity	95	82	90	90	92
Public and Product Liability			72	78	78
Directors and Officers			87	96	94

Source: 2009 J.P. Morgan Deloitte General Insurance Survey

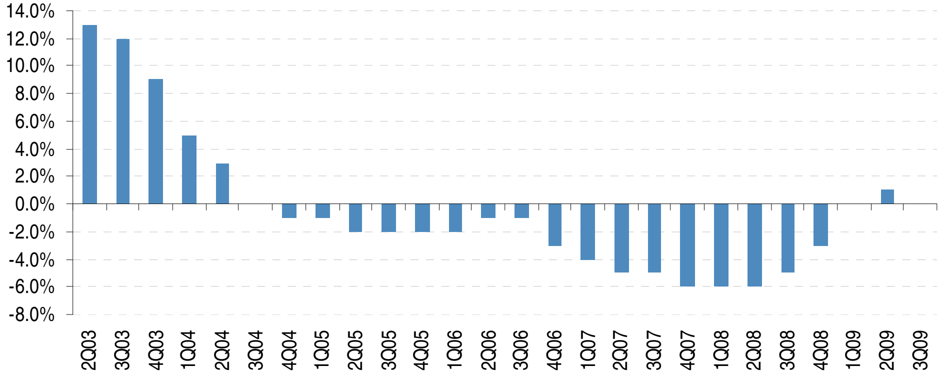
Source: 2009 J.P. Morgan Deloitte General Insurance Survey

Outlook for claim trends: participants expect claim inflation to remain at current levels and further increases in claim frequency

- **Superimposed inflation emerging** in CTP (11% inflation in total), with workers' compensation and professional indemnity a concern for some participants
- **Considerable reserve releases** in long tail lines masked some of the reported results in CTP and workers compensation
- **Superimposed inflation** trends in liability classes appear limited
- **Claim trends in motor** impacted by the low A$ leading to increased inflation
- **Catastrophe** – 2009 bushfires hurt claim trends in Home, Fire and ISR.
- **Fraudulent claims** and litigation increase during weak economic conditions which can have an impact on professional indemnity, directors and officers, workers compensation and commercial property claims.

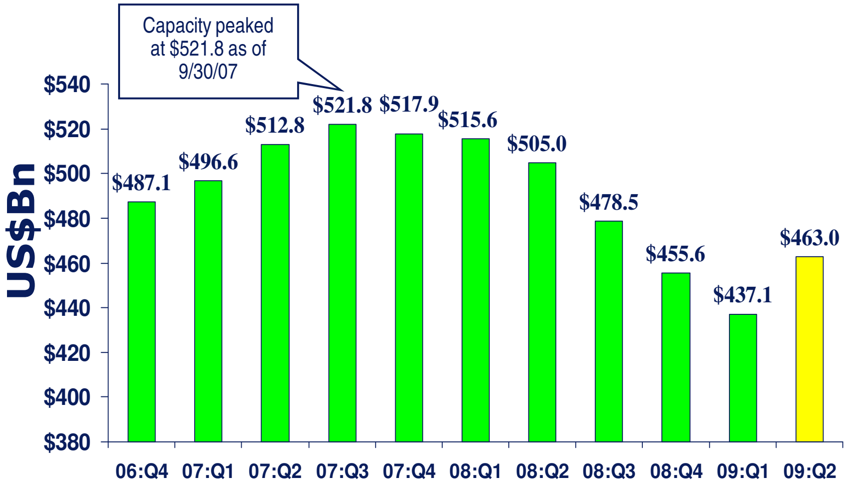
BUT:…global rates are flat with lots of capacity and reserve releases will continue to provide a break on rates

U.S Commercial Premium Rates – Quarterly (YoY) Δ in rates



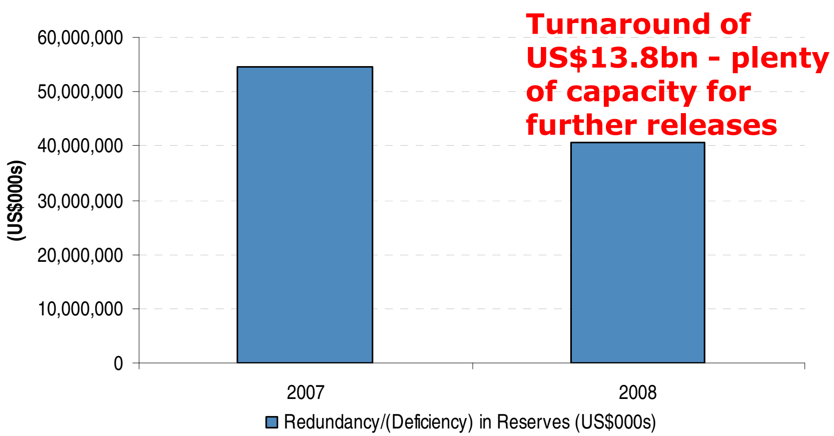
Source: Towers Perrin

U.S Policyholder Surplus



Source: 2009 J.P. Morgan Deloitte General Insurance Survey

U.S Industry Reserves decline significantly but remain positive



Source: J.P. Morgan estimates, Schedule P data

Top 5 issues confronting underwriters

Issues confronting the industry (underwriters)

	% of respondents who raised the issue
Weather / Catastrophes / Climate change	67%
Changing regulatory environment	58%
Increased competition	42%
Underwriting discipline / profitability	33%
Attracting/retaining staff	25%

Source: 2009 J.P. Morgan Deloitte General Insurance Survey

Top issues confronting the brokers

Issues confronting the industry (brokers)

Issue	% Respondents
Retaining / Attracting staff	60%
Taxes / Regulation	50%
Poor profitability / pricing	40%
Economic environment (GFC claims)	40%
Weather / Catastrophe events	40%
Direct marketing resulting in loss of broker share	30%
Underinsurance	20%
Excess capacity	20%
Solvency concerns	20%
Internet distribution	20%
Costs between intermediary & carrier	20%

Source: 2009 J.P. Morgan Deloitte General Insurance Survey

Capacity is a concern with reinsurance rates up ~5% in 2010

Change in industry capacity (%)

	2007A	2008A	2009A	2009F from 2008 survey	2010F	2011F
Domestic classes						
Domestic motor	4	0	3	1	1	1
Householders	1	1	4	1	4	4
CTP (NSW)	1	0	0	0	0	0
CTP (QLD)	2	0	0	0	0	0
Weighted average	**2**	**0**	**1**	**1**	**1**	**1**
Commercial classes						
Fire & ISR (Commercial property)	4	6	1	3	0	1
Commercial motor	4	2	0	0	0	0
Public & Product Liability	13	-1	0	-1	5	5
Workers compensation (WA only)	2	0	1	0	1	1
Workers compensation (TAS, NT & ACT)	2	0	0	0	0	0
Professional indemnity	11	9	2	-1	0	0
Directors & officers	10	7	3	0	2	2
Weighted average	**7**	**3**	**1**	**1**	**2**	**2**

Source: 2009 J.P. Morgan Deloitte General Insurance Survey

We believe increased competition will temper rate increases in personal lines and expect continued weakness in global commercial insurance rates cycle

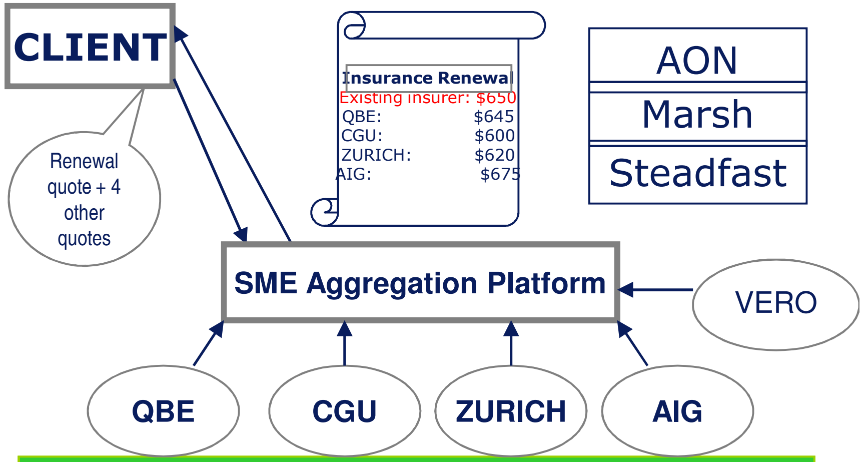
Competition: environment getting tougher, despite rate increases

Change in industry capacity (%)

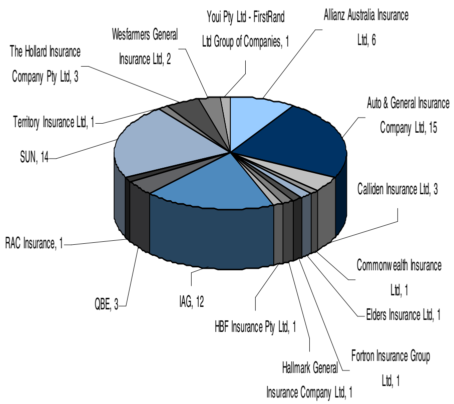
	2007A	2008A	2009A	2010F	2011F
Domestic classes					
Domestic motor	4	0	3	1	1
Householders	1	1	4	4	4
CTP (NSW)	1	0	0	0	0
CTP (QLD)	2	0	0	0	0
Weighted average	**2**	**0**	**1**	**1**	**1**
Commercial classes					
Fire & ISR (Commercial property)	4	6	1	0	1
Commercial motor	4	2	0	0	0
Public & Product Liability	13	-1	0	5	5
Workers compensation (WA only)	2	0	1	1	1
Workers compensation (TAS, NT & ACT)	2	0	0	0	0
Professional indemnity	11	9	2	0	0
Directors & officers	10	7	3	2	2
Weighted average	**7**	**3**	**1**	**2**	**2**

Source: 2009 J.P. Morgan Deloitte General Insurance Survey

Contestable environment – a major threat?



63 brands and only 16 underwriters, heavily concentrated – Competition appears greater than is actually the case

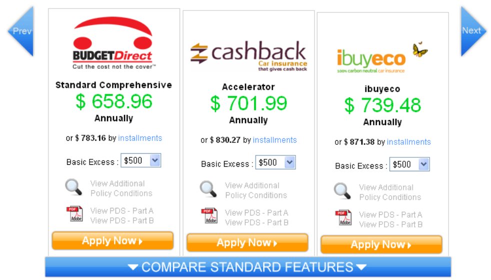


Insurer	FY09E GWP (A$m)
Suncorp	4603
IAG	4263
Allianz	1250
QBE	500
Wesfarmers	284
Elders	171
Auto and General Insurance Co	136
Calliden	81
The Hollard Insurance Co	70

Source: Company Reports, JP Morgan estimates

Source: Company Reports

Personal lines aggregators - iSelect Offering



Source: www.iselect.com.au

Recent personal lines entrants

- Coles, Virgin Money, Progressive, Australia Post, Others

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Note on industry group:
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