

American Risk and Insurance Association Annual Meeting

Jay Fishman

Chairman & Chief Executive Officer
The Travelers Companies, Inc.



August 6, 2007





Coastal Development

- New Condo Construction in South Miami Beach, 2007 – 2009:
 - Number of new developments: 15
 - Number of individual units: 2,111
 - Average price of the cheapest unit: \$940,333
 - Average price of the most expensive unit: \$6,460,000
 - Aggregate property value: \$6 billion+
- 55% of U.S. population lives within 50 miles of the coast

Hurricane Andrew

- Largest hurricane before Andrew was Hurricane Hugo, with \$6.8 billion of insured losses in 1989 (in 2006 \$)
- Andrew:
 - Over \$22 billion of insured losses (in 2006 \$)
 - 700,000 homeowners claims
 - 107,380 homes damaged; 28,066 destroyed
 - 82,000 businesses destroyed or damaged
 - A dozen insurers became insolvent

East Coast Wind Dilemma

- Unpredictable Regulation
- Perception of Industry
- Affordability
- Inadequate Focus on Solvency

East Coast Hurricane Program

Private, Market-Based Insurance Concept

- Creation of East Coast Wind Zone
- Federal Regulation of Wind Underwriting and Pricing to Provide for Stable Regulatory Environment
- Continued State Regulation for Certain Matters
- Consistent and Predictable Model

East Coast Hurricane Program

Private, Market-Based Insurance Concept

- Federal Regulation of Wind Underwriting and Pricing to Provide for Stable Regulatory Environment
 - Rates
 - Actuarially sound ('risk-based')
 - Provides for “refund” of excess profits and “recoupment” of excess losses over time

- Accounting Policy
 - Formulaic reserves required
 - No change in related tax treatment – deductible for book purposes at accrual, but continued deductibility for tax purposes at payment

East Coast Hurricane Program

Private, Market-Based Insurance Concept

- Continued State Regulation for Certain Matters
 - Form
 - Residual market regulation
 - Safety net – market of last resort
 - Pass through of costs to other policy holders

East Coast Hurricane Program

Private, Market-Based Insurance Concept

- Policy to provide for affordability
 - Temporary credit for some, 100% offset by temporary increase for others
- Mitigation of losses to manage premium levels
 - Federal economic incentives for states tied to enforcement of Federal building standards
 - Mitigation further incentivized by actuarial rate-setting process
- Appropriate risk management and capitalization

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