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[www.iii.org](http://www.iii.org)**INSURERS BOOST CLAIMS-PAYING CAPACITY AS PREMIUM RATES DROP IN MOST OF U.S., I.I.I. REPORTS**  
***Record 2006 Profits Used to Bolster Claims Resources by \$55.7 Billion***

**NEW YORK, January 7, 2007** —With elevated hurricane activity predicted over the next 15 to 20 years, insurers took advantage of last year's respite to fix the roof while the sun was shining, setting aside billions to bolster the industry's claims-paying capacity, according to the Insurance Information Institute (I.I.I.). At the same time, insurers are lowering rates for most drivers, many homeowners and a wide variety of businesses.

The I.I.I. estimates property/casualty insurers boosted by \$55.7 billion its cumulative claims paying resources in 2006, a number equal to 93 percent of the \$59.8 billion in expected net income. The \$55.7 billion figure was a near record, second only to the \$62 billion increase in 2003 as insurers worked to recover from the September 11, 2001 terrorist attacks.

"Insurers directed a significant share of their 2006 profits and investments back into the business," said Dr. Robert Hartwig, President and Chief Economist for the Insurance Information Institute. Dr. Hartwig added that excellent underwriting results, the substantial drop in catastrophe losses and strong investment performance enabled insurers to reinvest billions of dollars in 2006, allowing claims-paying resources to reach an all-time record high estimated at \$481.5 billion.

"This reinvestment by the industry comes at a critical time for insurers and consumers alike," Dr. Hartwig said. "The industry is bolstering its capital position in advance of what is already predicted to be a 2007 hurricane season that is 40 percent above average." Insurers paid out more than \$80 billion in insured losses during the 2004 and 2005 hurricane seasons.

The source of the reinvested funds is primarily profits earned in 2006 and investment gains as well as new capital from investors, the I.I.I. has found. Industry profits have been beneficial to policyholders, allowing insurers to lower prices for many types of insurance across most of the country. The share of P/C insurance premiums paid relative to the overall economy is expected to drop by 3.1 percent in 2007 on top of a 2.5 percent decline in 2006, the I.I.I. said.

Policyholder surplus – a key measure of claims-paying capacity or capital – increased by an estimated 13 percent overall to an estimated \$481.5 billion in 2006, from \$425.8 billion at year-end 2005. The \$55.7 billion increase in policyholder surplus for 2006 compares favorably with a \$35.8 billion increase in 2005. Hartwig warned, however, that certain catastrophes, such as hurricanes and earthquakes, could produce insured losses in excess of \$100 billion while a terrorist attack utilizing nuclear, chemical, biological or radiological weapons could result in claims exceeding \$700 billion.

Insurers are also building capital to comply with new, more stringent ratings agency criteria. In the wake of Hurricane Katrina, agencies which assess the financial strength of insurers and their creditworthiness require them to demonstrate an ability to pay claims arising from more than one major catastrophe per year.

"Meanwhile, buyers of insurance in non-coastal states are the big winners as rising profitability has intensified competition throughout the property/casualty insurance industry," Dr. Hartwig added. "The bottom line is that falling insurance prices are lowering the cost of driving a car, owning a home and the cost of doing business for most Americans." He noted that property insurance prices in hurricane-vulnerable coastal areas continue to rise.

I.I.I. research shows that drivers, homeowners and businesses in most parts of the United States will be left with more cash in their pockets in 2007 as insurance costs fall in absolute terms, or at least relative to income growth and growth in the Gross Domestic Product. More details can be found in the I.I.I.'s 2007 Earlybird Forecast at <http://www.iii.org/media/industry/financials/forecast2007/>.

Auto insurance expenditures for the typical driver nationwide are expected to fall 0.5 percent in 2007 as compared to 2006, the first such year-to-year drop since 1999 (see I.I.I.'s Auto Insurance Forecast: 2007). Homeowners in non-coastal states are

expected to see stable, or even lower, homeowners' insurance premiums this year while businesses purchasing workers' compensation and liability insurance should see reduced prices, too. For additional information on the industry's financial outlook, go to the I.I.I.'s Web site at <http://www.iii.org>.

***The I.I.I. is a nonprofit, communications organization supported by the insurance industry.***

**Insurance Information Institute**

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