

Insurance 101

The Basics

What is Insurance?

- Methods of addressing uncertain risk
 - Avoid (don't purchase)
 - Keep (don't insure)
 - Transfer (purchase insurance)

- Insurance is the “transfer” of uncertain financial consequences for a certain financial cost (e.g., premium)

How does it work?

- Policy is a legal “contract of adhesion”
- Insurance is for accidental/“fortuitous” events
- Insurance rates “shall not be excessive, inadequate, or unfairly discriminatory”

Why does it work?

- Risks are shared among a large group of “similarly” classified insureds
- Premiums are “conservatively” invested in “liquid” instruments
- “Spread of risk”
- Reinsurance

How does society benefit?

- Payment for losses
- Reduction of uncertainty
- Loss control
- Long-term investments

What are the types of insurers?

- Stock
- Mutual
- Reciprocal exchange
- Lloyd's
- Fraternal benefit societies

How is insurance marketed?

- Independent agents
- Brokers
- Exclusive agents
- Direct
- Direct mail
- Internet

Why regulate insurance?

- Complex promise for future performance
- Solidity
- Equity and Fairness
- Freedom from governmental restraint
- Freedom of access to the market

Who regulates insurance?

- States - Currently
 - McCarran-Ferguson Act
- Federal interest
 - Gramm-Leach-Bliley Act
- Judicial impact

How is insurance regulated?

■ System types

- Open competition - “no file”
- “File and use” or “Use and file”
- “Prior approval”
- State mandated/controlled

■ Why should policyholders care?

- Freedom to choose/purchase
 - Affordability/Availability
- Market responds to competition

So, what does all this mean?

- Complex and mature marketplace
 - 3,100 insurers writing in the U.S.
 - 722 insurers writing in Kentucky
- Intimate relationship with society
 - Delicate balance
 - Complex economic relationships
 - Banking
 - Investments
 - Real Estate

What is the process?

- Company established
- Selection of market segment
- Development of product
 - Policy
 - Jurisdiction
 - Rating/Underwriting
- Sale of product
- Claims Settlement

How are rates developed?

- Law of large numbers
- Probability distributions
- Review of past losses
 - Frequency
 - Severity
- Review of expenses
 - Loss adjustment expenses
 - Overhead expenses

How are rates developed?

- Predictability of future losses and expenses
 - Large number claims over a period of time - 3 to 5 years at least
 - Medical costs, legal costs, jury awards
- Reasonable degree of certainty
- Spread of Risk

What is underwriting?

- Discriminatory classifications
- Application of rules/classifications
- Risk selection
- Pricing

How does it work?

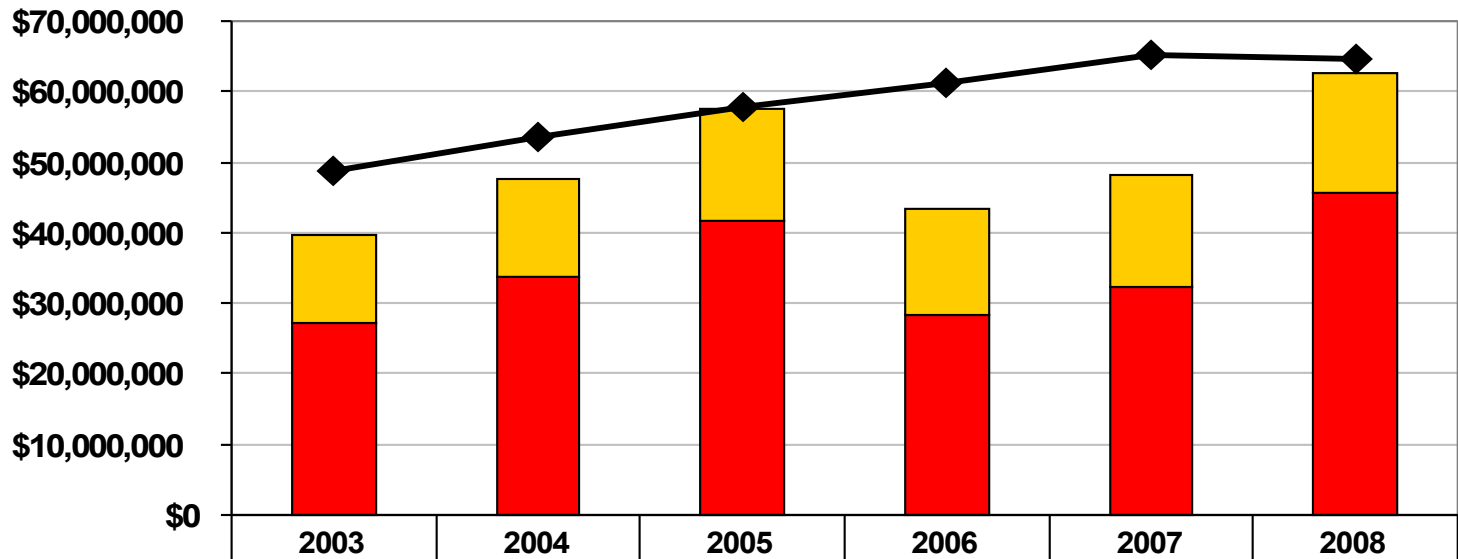
- Agent/Company Representative
 - Application/completion
 - Information - DMV report, etc.

- Underwriters
 - Application/classifications
 - Additional info (financial, loss)
 - Risk Selection
 - Pricing

Part II

Countrywide and State Industry Results

Countrywide Homeowners Insurer Cost & Written Premium Trends (\$000)

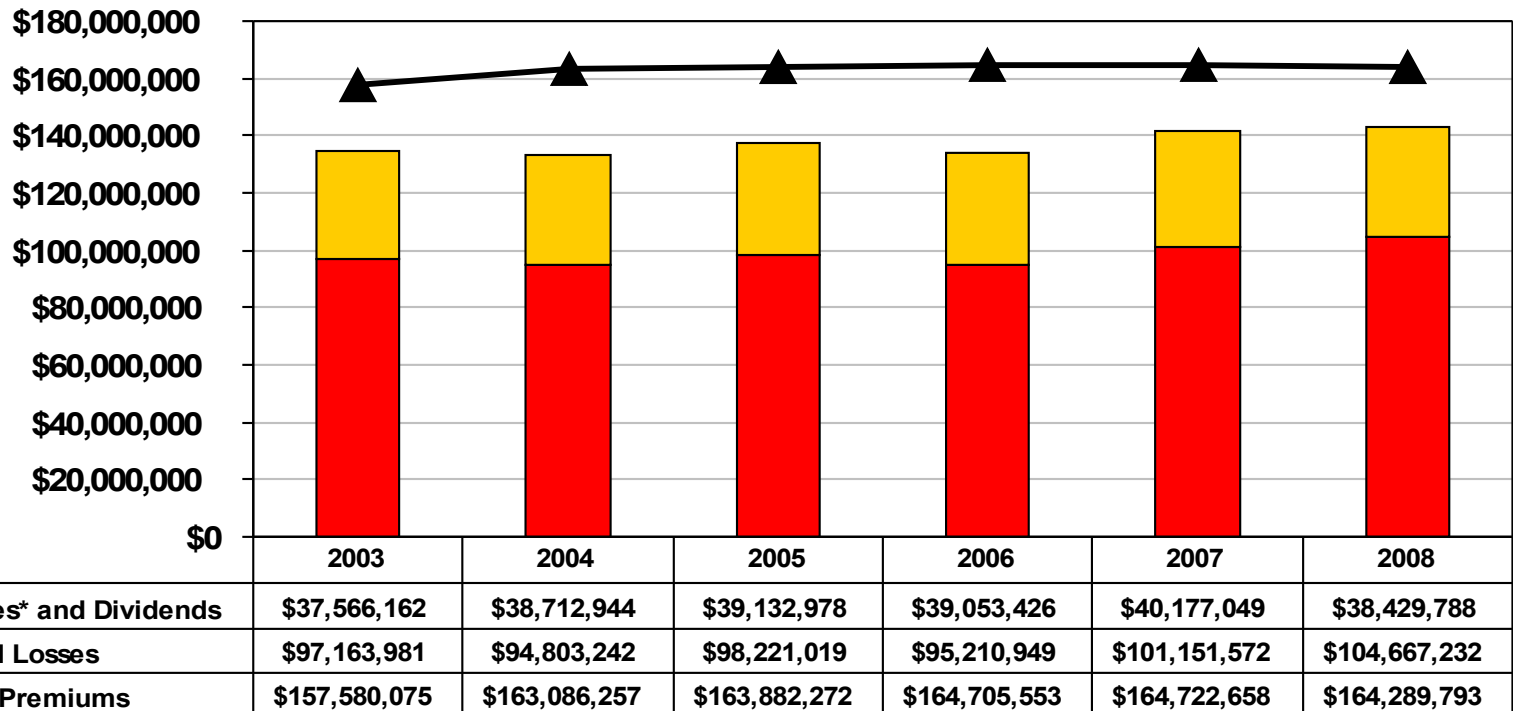


	2003	2004	2005	2006	2007	2008
Expenses* & Dividends	\$12,597,611	\$13,936,848	\$15,801,281	\$15,027,150	\$15,902,904	\$17,043,006
Incurred Losses	\$27,085,092	\$33,623,743	\$41,766,833	\$28,382,907	\$32,269,796	\$45,508,068
Written Premiums	\$48,824,680	\$53,521,999	\$57,845,847	\$61,221,691	\$65,140,204	\$64,619,860

Source: NAIC Annual Statement database via Highline Data LLC

*Expenses include loss adjustment expenses; commissions; taxes, license and fees.

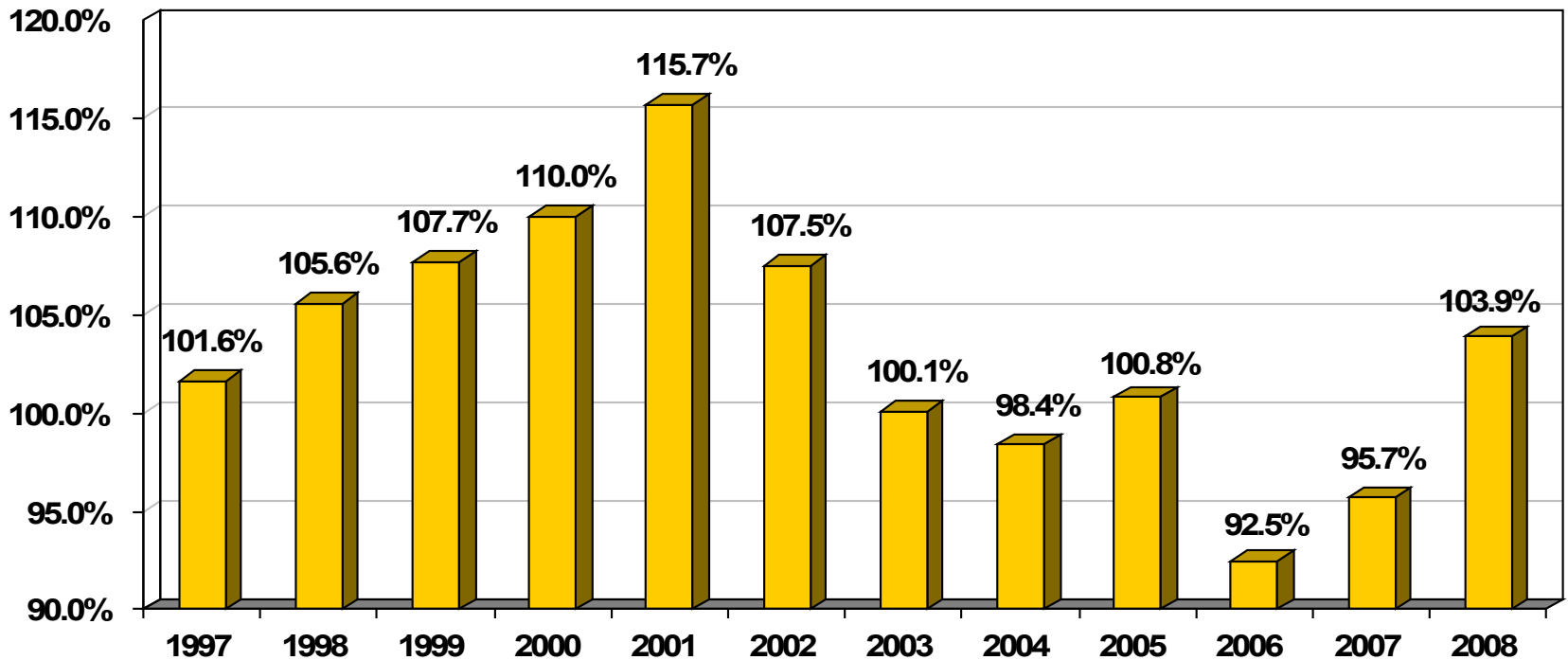
Countrywide Personal Automobile Insurer Cost & Written Premium Trends (\$000)



Source: NAIC Annual Statement database via Highline Data LLC

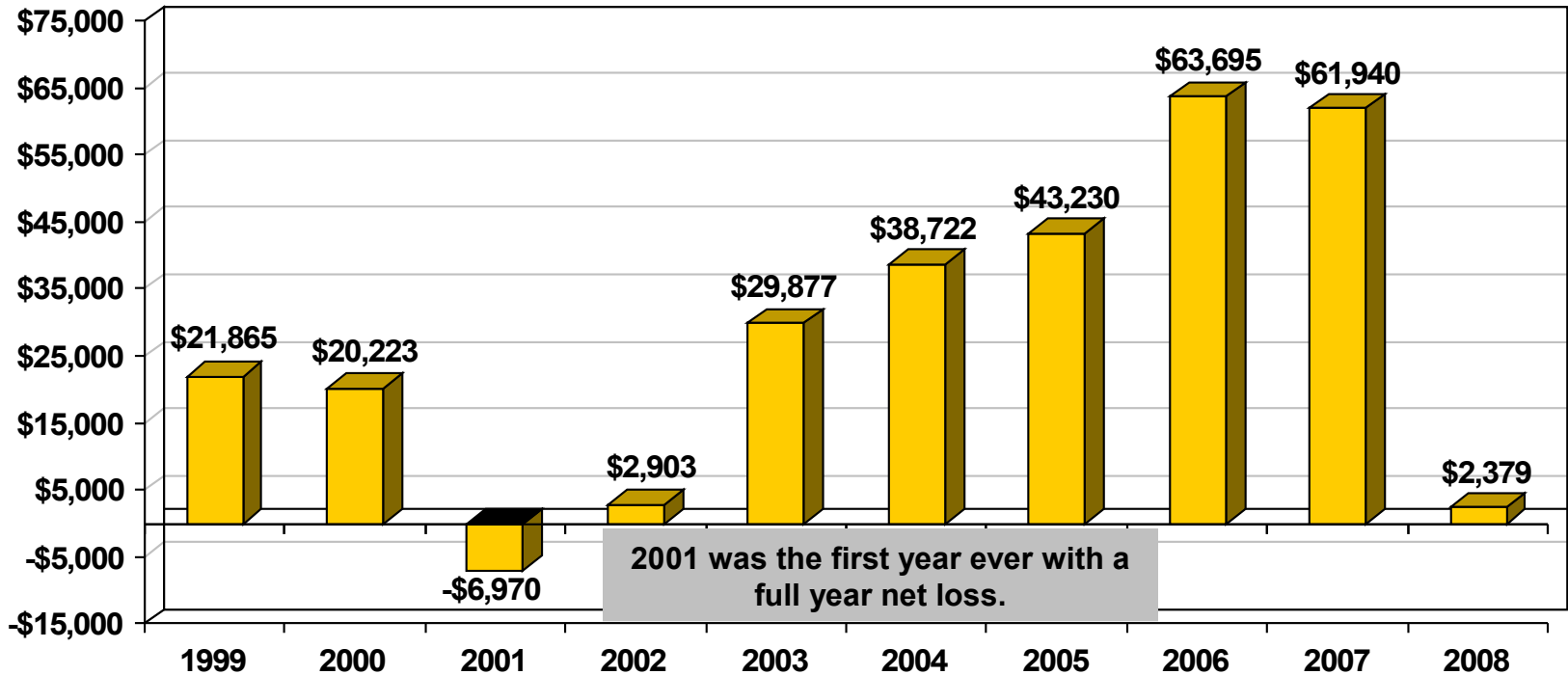
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Property Casualty Industry Combined Ratio



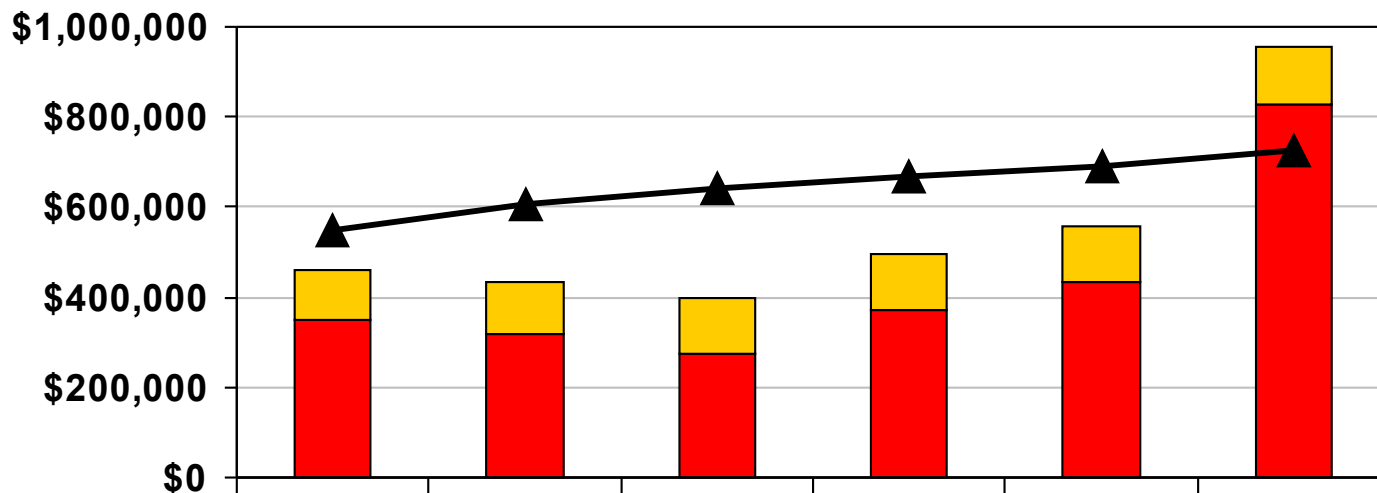
Source: PCI based on A.M. Best's Aggregates & Averages

P/C Net Income 1999-2008 (after taxes in \$ millions)



Source: ISO Industry Financial Results

Kentucky Homeowners Insurer Cost & Written Premium Trends (\$000)

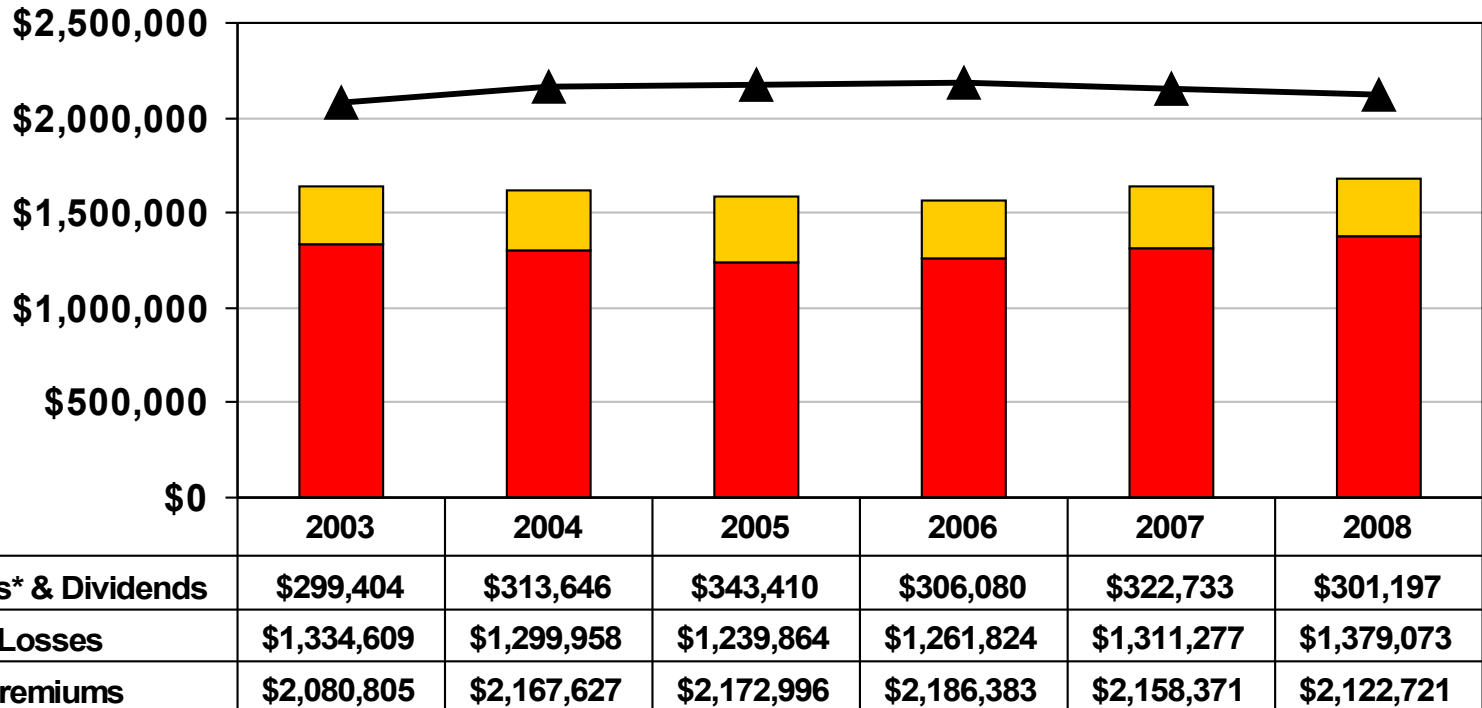


	2003	2004	2005	2006	2007	2008
Expenses* & Dividends	\$106,590	\$114,303	\$125,950	\$122,957	\$125,012	\$130,611
Incurred Losses	\$351,430	\$320,708	\$274,367	\$372,044	\$434,458	\$826,860
Written Premiums	\$546,557	\$608,089	\$643,306	\$668,344	\$691,137	\$725,705

Source: NAIC Annual Statement database via Highline Data LLC

*Expenses include loss adjustment expenses; commissions; taxes, license and fees.

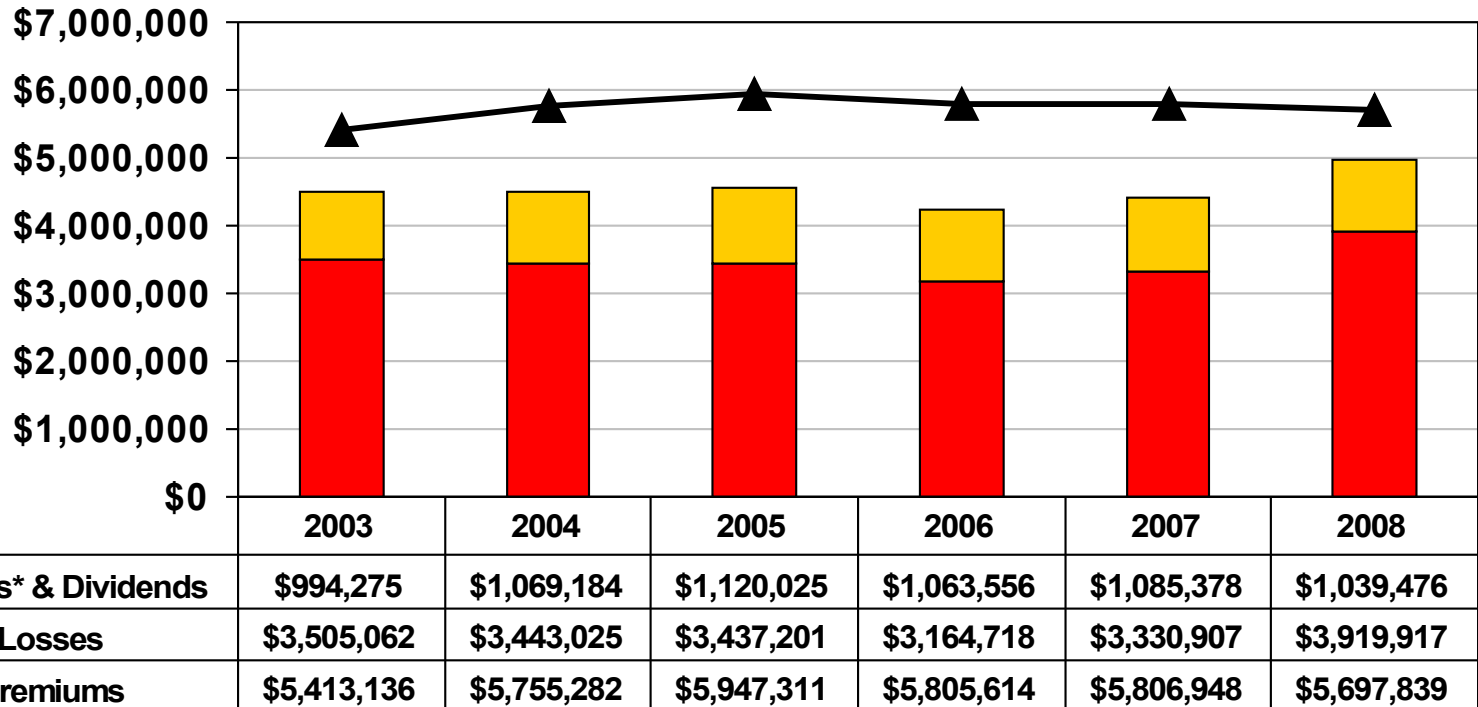
Kentucky Personal Automobile Insurer Cost & Written Premium Trends (\$000)



Source: NAIC Annual Statement database via Highline Data LLC

*Expenses include loss adjustment expenses; commissions; taxes, license and fees.

Kentucky Total Property & Casualty Lines Insurer Cost & Written Premium Trends (\$000)



Source: NAIC Annual Statement database via Highline Data LLC

*Expenses include loss adjustment expenses; commissions; taxes, license and fees.

Questions?

Thank you!