

The Credit Crisis:

What Went Wrong?

**35th General Assembly of the Geneva Association
Hamilton, Bermuda**



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Five Distinguishing

Characteristics of the Credit Crisis

- 1. The crisis originated not in small or financially immature economies fraught with political risk as in the past (e.g., Latin America) but in large, well established and sophisticated financial markets, primarily the United States**
- 2. The crisis was created and exacerbated by some of the largest, most sophisticated financial institutions in the world, suggesting a collapse of basic risk management**
- 3. The crisis was triggered, transmitted and fueled not by widespread defaults on debt instruments as in past credit crises but through excessive leverage (borrowing) and widespread securitization of complex structured financial products. The leverage amplified even small changes in real (or perceived) risk associated with the underlying debt instruments which were then transmitted globally via securitization**



Five Distinguishing

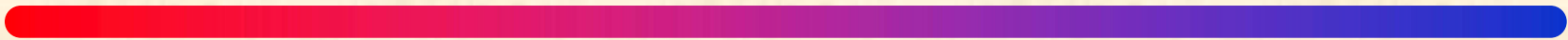
Characteristics of the Credit Crisis

4. **Regulatory and accounting mechanisms for identifying, monitoring, quantifying and controlling excessive exposure to credit risk were at best ineffective and at worst outright failures**
 - **Raises fundamental questions regarding the current nature and form of regulation, its adequacy as well as necessary proscriptive changes to prevent such collapses in the future**
 - **Do mark-to-market requirements exacerbate the problem?**
5. **Traditional economic policy tools (such as central bank interest rate reductions and fiscal stimulus initiatives) were not designed to manage credit and liquidity crises and are therefore are of limited effectiveness.**

Credit Crisis

Media Coverage of the Insurance Industry

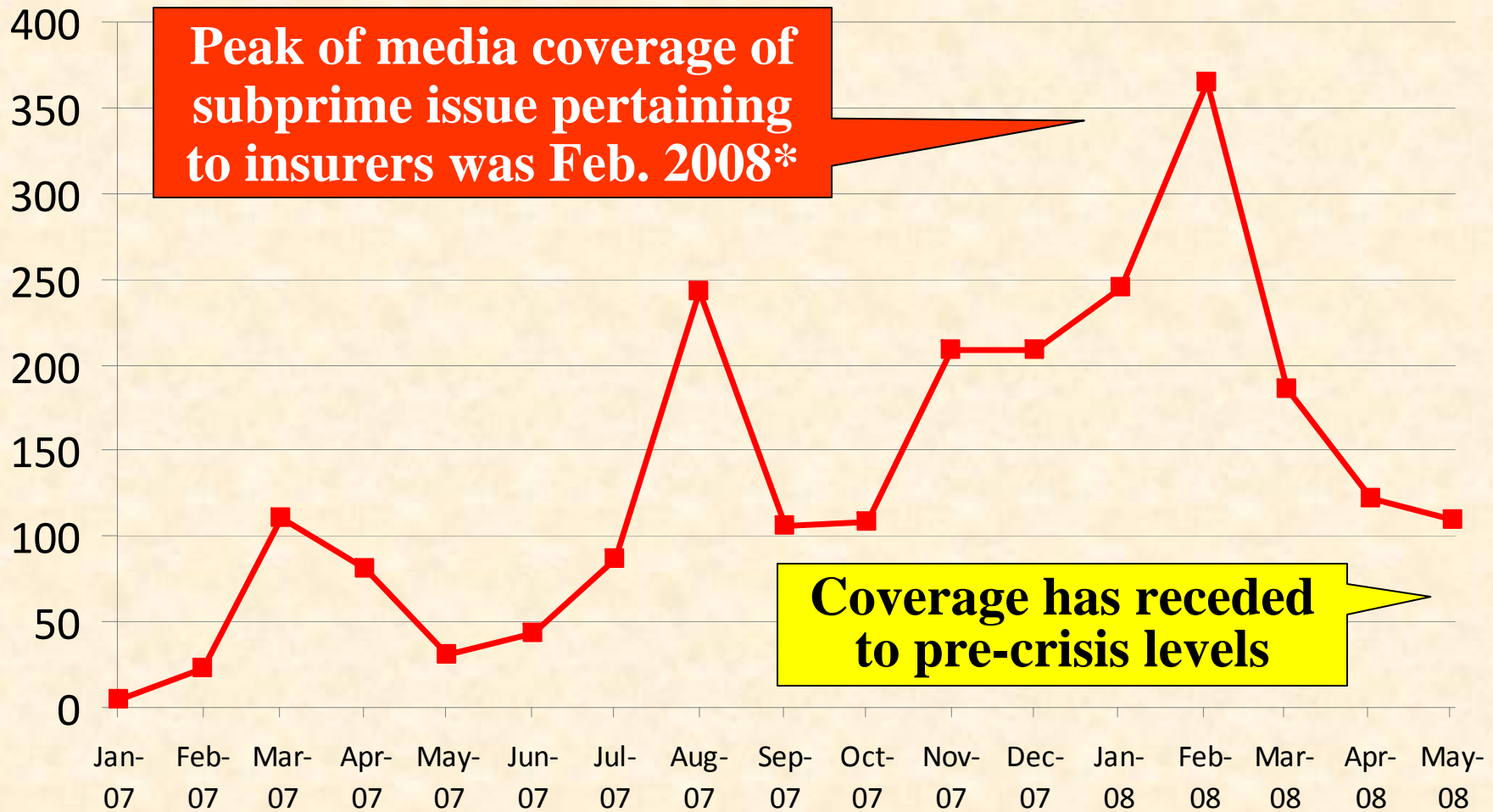
Bond Insurance Dominated Headlines





Media Coverage of Subprime Exposure of Insurers*

January 2007—May 2008



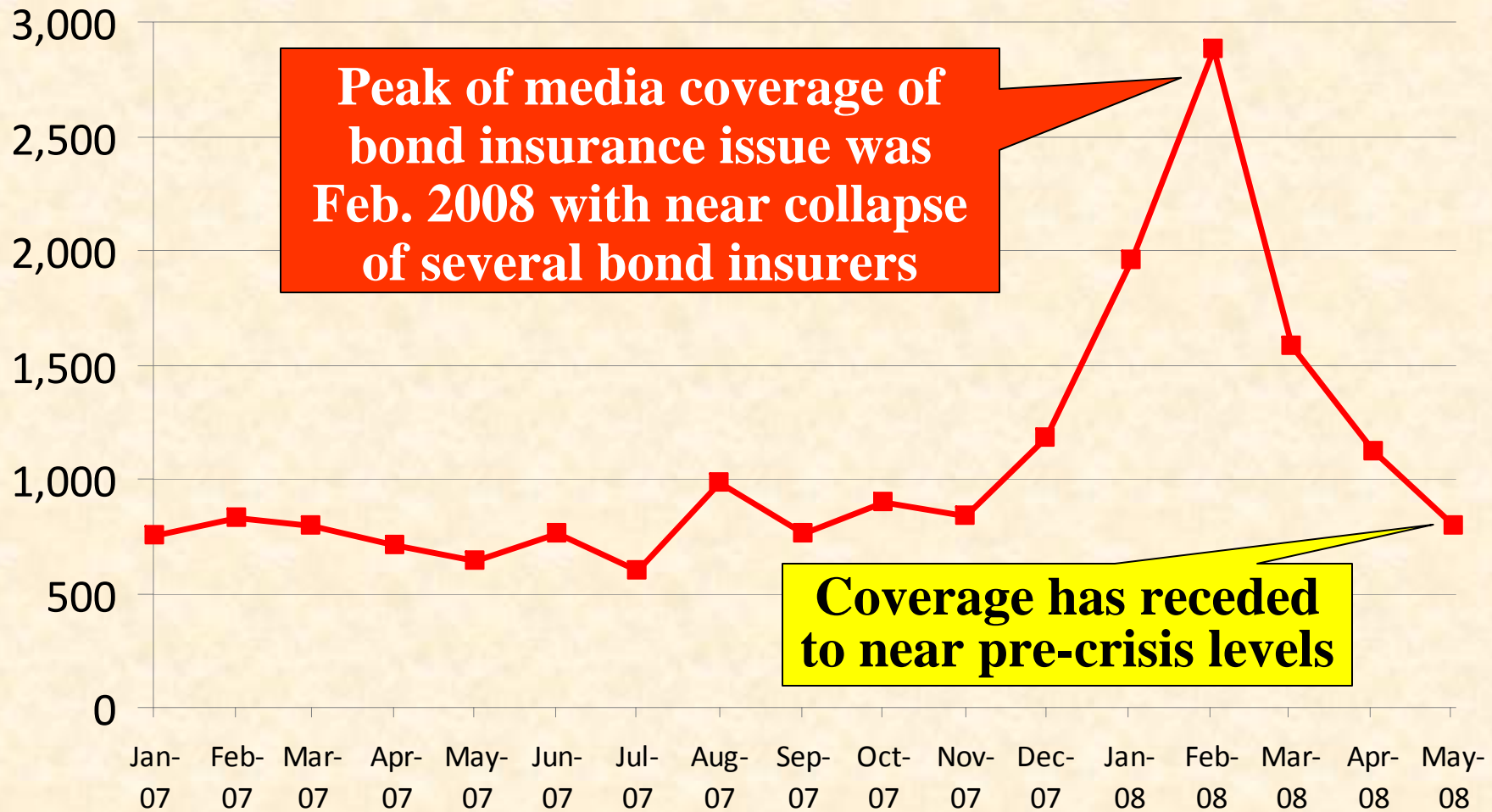
Source: Lexis/Nexis searches.

*Excluding bond/monoline insurers.



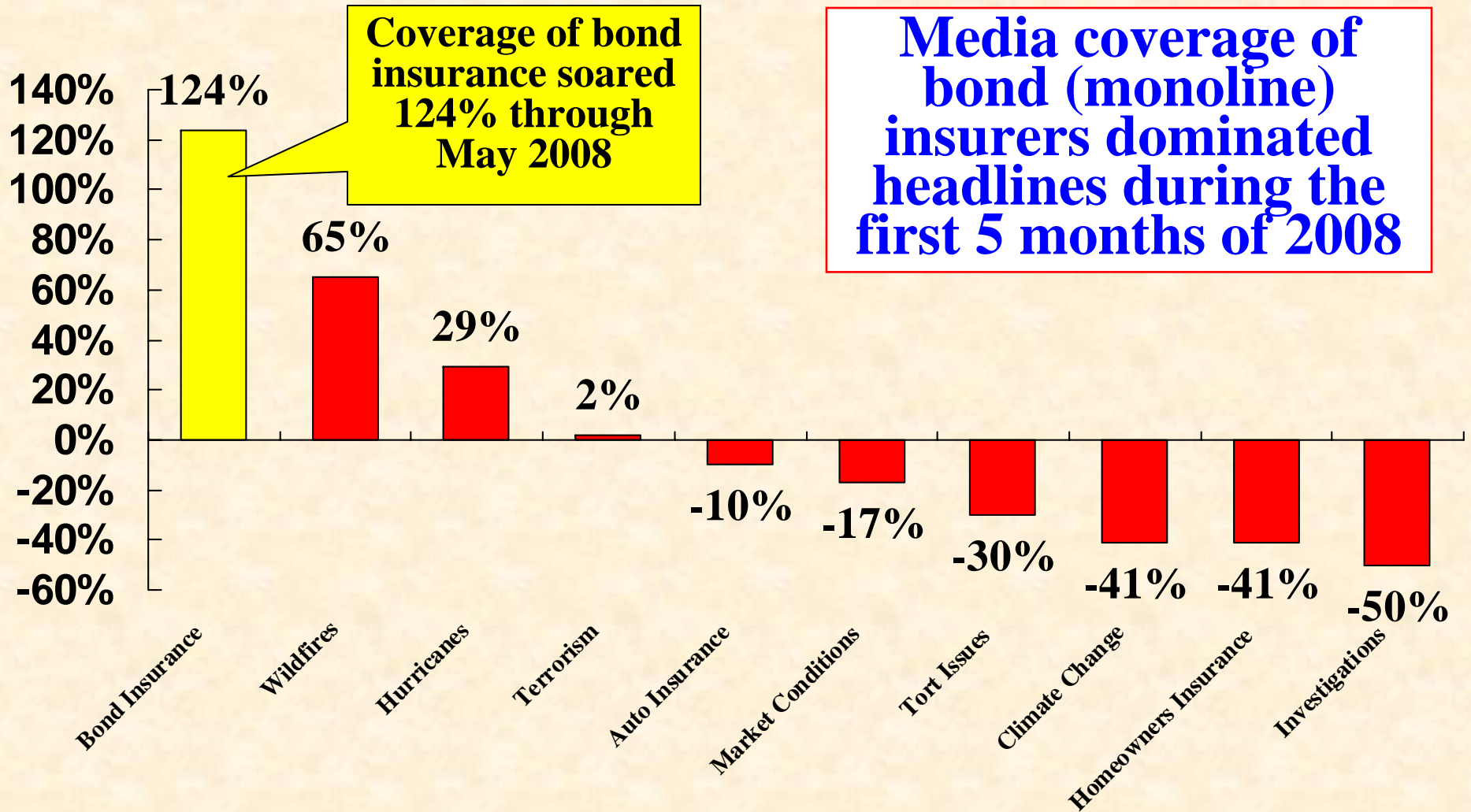
Media Coverage of Bond Insurance/Bond Insurers

January 2007—May 2008





Media Coverage of Key Insurance Issues: Jan-May 2008 vs. Jan-May 2007

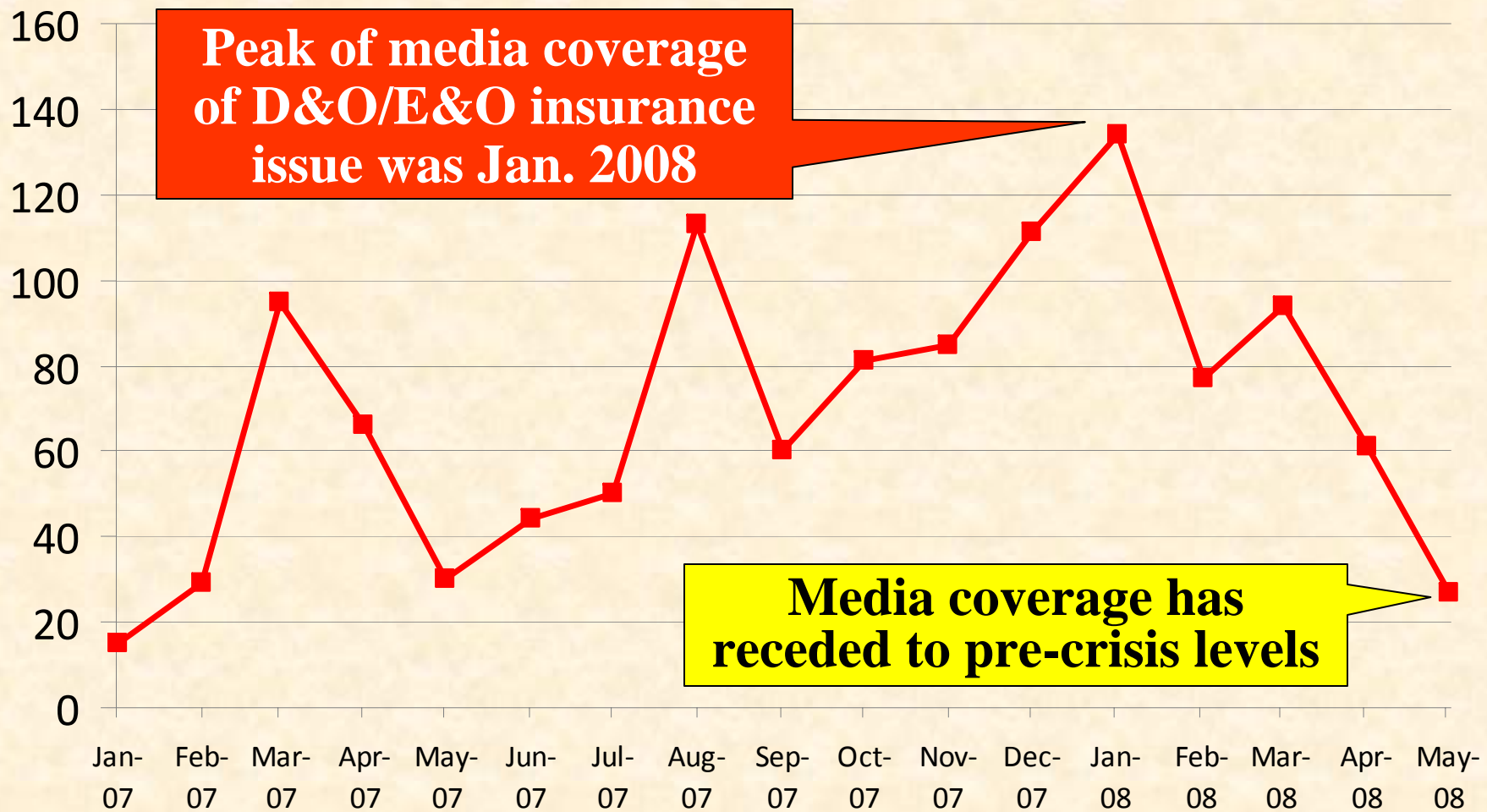


Sources: Insurance Information Institute from Lexis/Nexis search.



Media Coverage of D&O/E&O Insurance/Insurers

January 2007—May 2008



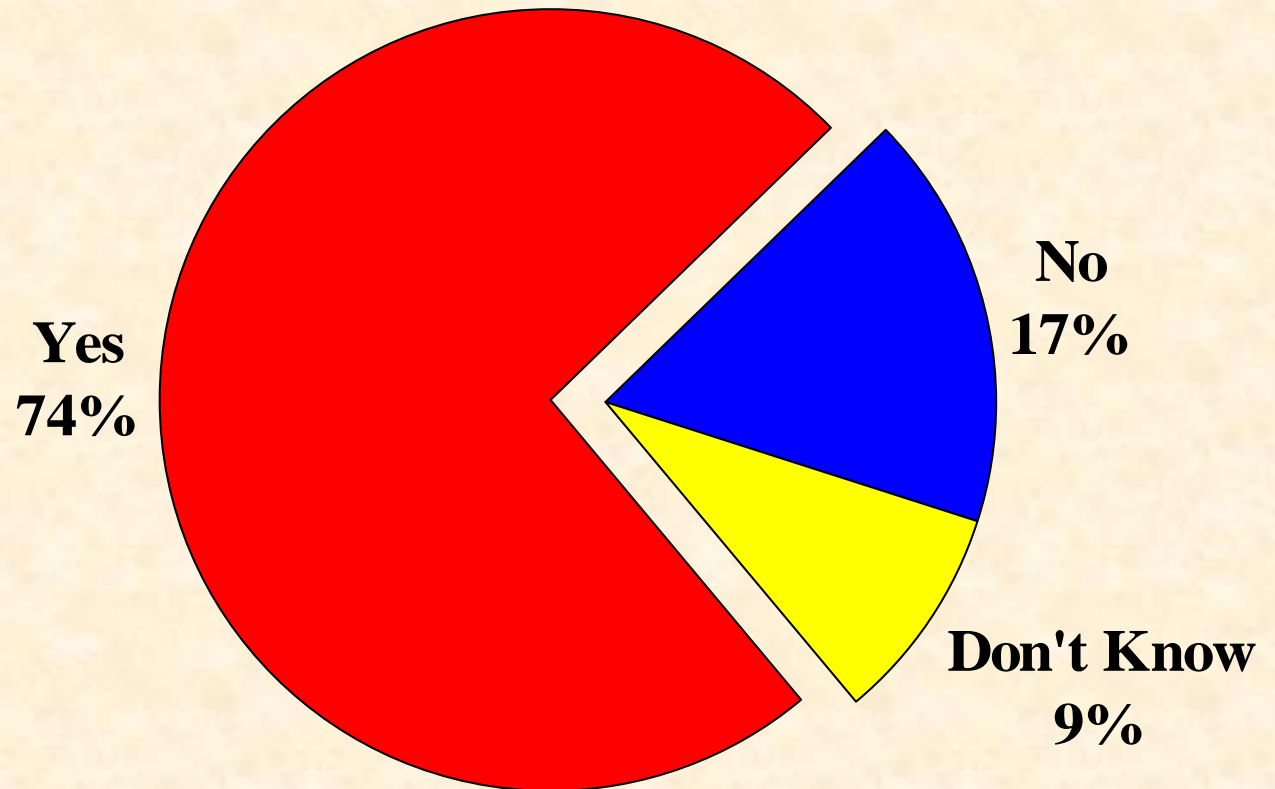
Credit Crisis
Public Public
Perceptions of the
Insurance Industry

iii Consumers Concerns



POLL: Has the Insurance Industry Been Affected by the Downturn in the Economy?

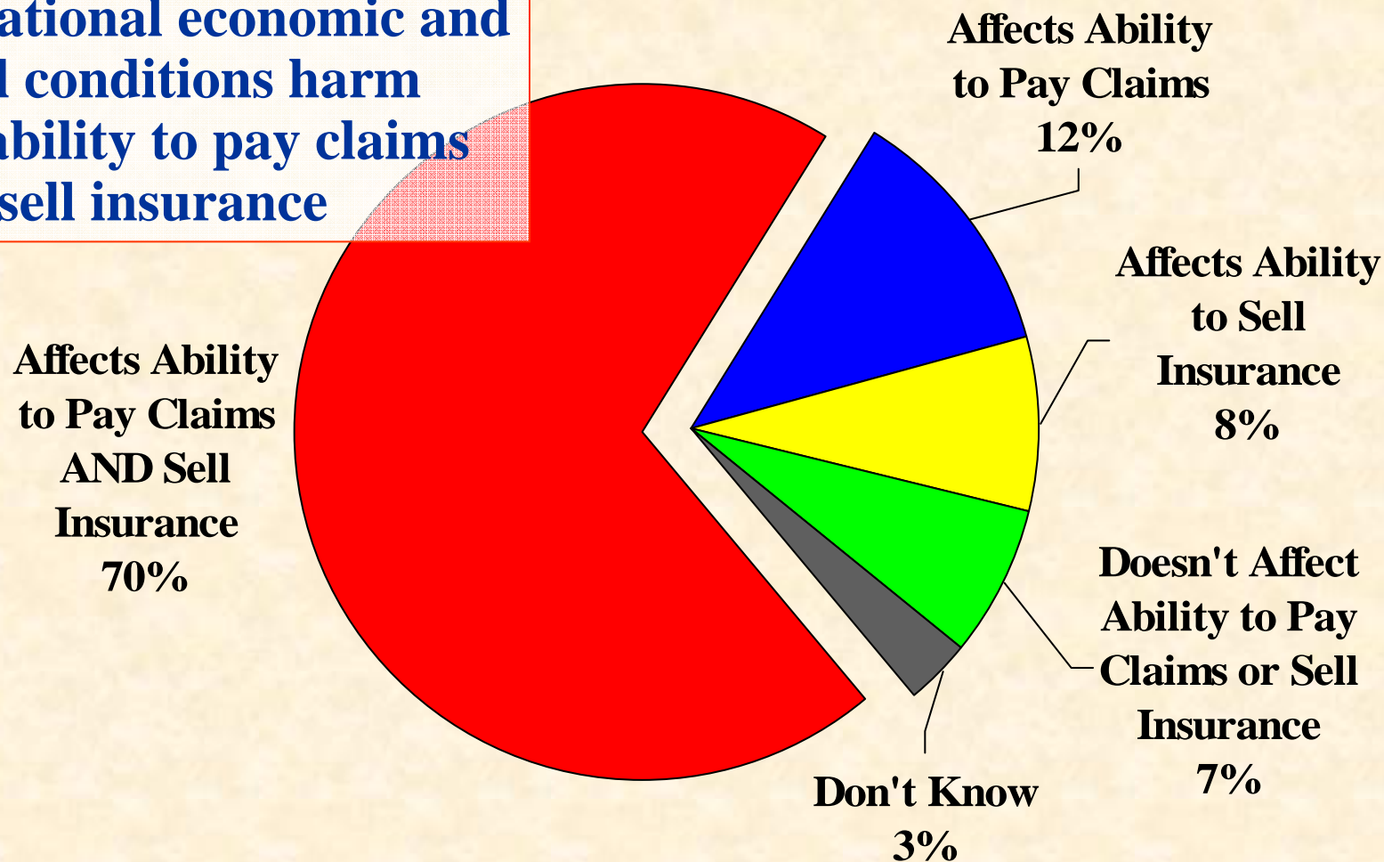
Nearly 3 in 4 Americans believe that the economic downturn has adversely affected the insurance industry





POLL: How Will US Economic/Financial Problems Affect Insurers?

70% of those polled believe that the recent national economic and financial conditions harm insurers' ability to pay claims and sell insurance

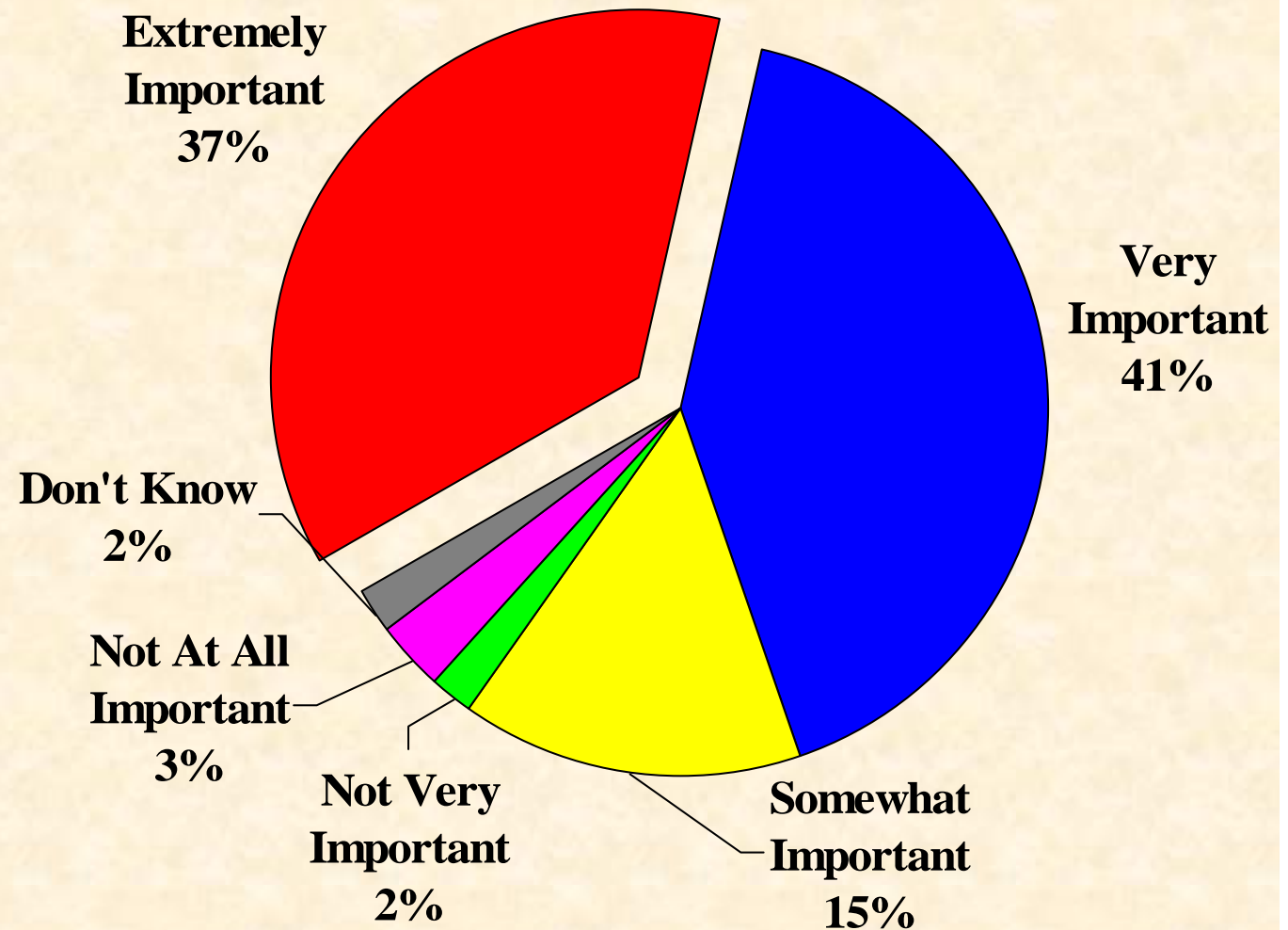


Source: Insurance Information Institute, 2008 *Pulse* Survey, May 2008.

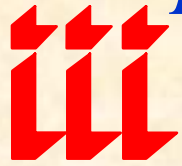


POLL: How Important is the Financial Strength of Your Insurance Company?

78% of those polled believe that an insurer's financial strength is "Extremely" or "Very" important

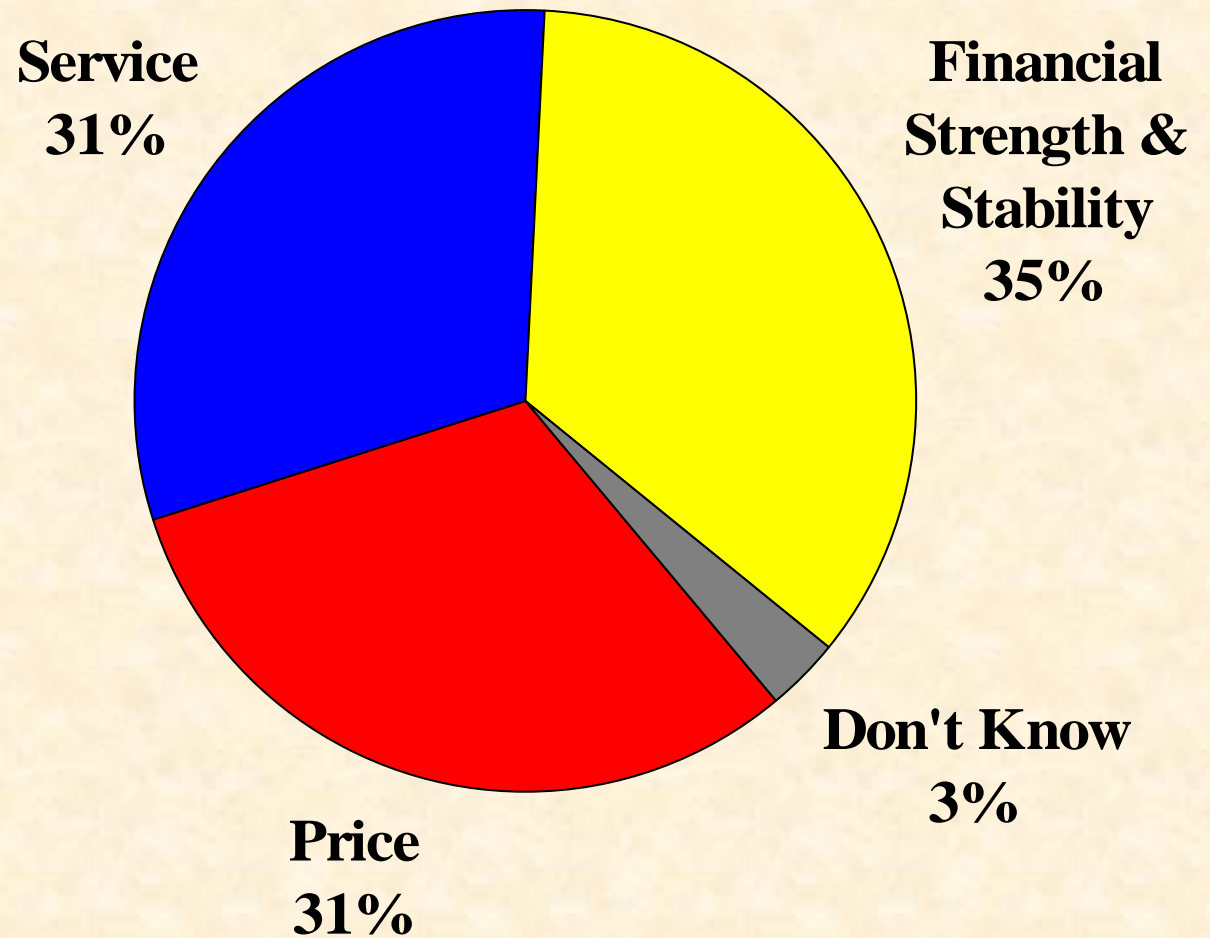


Source: Insurance Information Institute, 2008 *Pulse* Survey, May 2008.



POLL: What is the MOST Important Quality to You When You Choose an Insurer?

Americans are nearly equally divided between price, service and financial strength when it comes to the most important quality of their insurer



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Download at:

www.iii.org/media/presentations/CreditCrisis

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