P-C Insurance in the Post-Crisis World
Overview & Outlook for the 2010 and Beyond

Association of Profession Insurance Women
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Presentation Outline

- **Reasons for Optimism, Causes for Concern**
- **Insurance Industry Financial Overview & Outlook**
  - Profitability
  - Premium Growth
  - Underwriting Performance: Commercial & Personal Lines
  - Financial Market Impacts
- **Financial Services Reform: Impacts on the Insurance Industry**
- **Capital & Capacity**
- **Tort System Review: Overview and Causes for Concern**
- **Performance by Segment/Line**
- **Financial Strength & Ratings**
- **The Global Economic Storm: Financial Crisis & Recession**
  - Crisis-Driven Exposure Issues: Personal & Commercial Lines
  - Exposure, Growth & Profitability
- **Catastrophe Losses**

Reasons for Optimism, Causes for Concern in the P/C Insurance Industry

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- **Economic Recovery in US is Self-Sustaining: No Double Dip Recession**
- **Pessimism "Bubble" Persists; Negative Economic News Amplified; Positive News is Discounted**
  - **Financial market volatility will remain a reality**
- **Era of Mass P/C Insurance Exposure Destruction Has Ended**
  - **But restoration of destroyed exposure will take 3+ years in US**
- **No Secondary Spike in Unemployment or Swoon in Payrolls/WC Exposure**
  - **But job and wage growth remains sluggish**
- **Exposure Growth Will Begin in 2nd Half 2010, Accelerate in 2011**
- **Increase in Demand for Commercial Insurance is in its Earliest Stages and Will Accelerate in 2011**
  - **Includes workers comp, commercial auto, marine, many liability coverages, D&O**
  - **Laggards: Property, inland marine, aviation**
  - **Personal Lines: Auto leads, homeowners lags**
- **P/C Insurance Industry Will See Growth in 2011 for the First Time Since 2006**
- **Investment Environment Is/Remains Much More Favorable**
  - **Volatility, however, will persist and yields remain low**
  - **Both are critical issues in long-tailed commercial lines like WC, Med Mal, D&O**

Source: Insurance Information Institute.

Reasons for Optimism, Causes for Concern in the P/C Insurance Industry

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- **P/C Insurance Industry Capacity as of 6/30/10 Is at Record Levels and Has Recovered 100%+ of the Capital Lost During the Financial Crisis**
  - **As of 12/31/09 capacity was within 2% of pre-crisis high**
- **Record Capacity, Depressed Exposures Mean that Generally Soft Market Conditions Will Persist through 2010 and Potentially into 2011**
- **There is No Catalyst for a Robust Hard Market at the Current Time**
- **High Global First Half 2010 CAT Losses Insufficient to Trigger Hard Market**
  - **Localized insurance and reinsurance impacts are occurring, especially earthquake coverage in Latin/South America, Offshore Energy Markets, European Wind Cover**
- **Inflation Outlook for US and Major European Economies and Japan is Tame**
  - **Will temper claims inflation**
  - **Deflation is highly unlikely**
- **Financial Strength & Ratings of Global (Re)Insurance Industries Remained Strong Throughout the Financial Crisis in Sharp Contrast With Banks**
- **Insurers Avoided the Most Draconian Outcomes in Financial Services Reform Legislation**
- **Tort Environment in US is Beginning to Deteriorate; No Tort Reform in US**
- **Major Transformation of US Economy Underway with Major Opportunities for Insurers through 2020 in Health, Tech, Natural Resources, Energy**

Source: Insurance Information Institute.

Profitability

Historically Volatile

P/C Net Income After Taxes 1991–2010:H1 ($ Millions)

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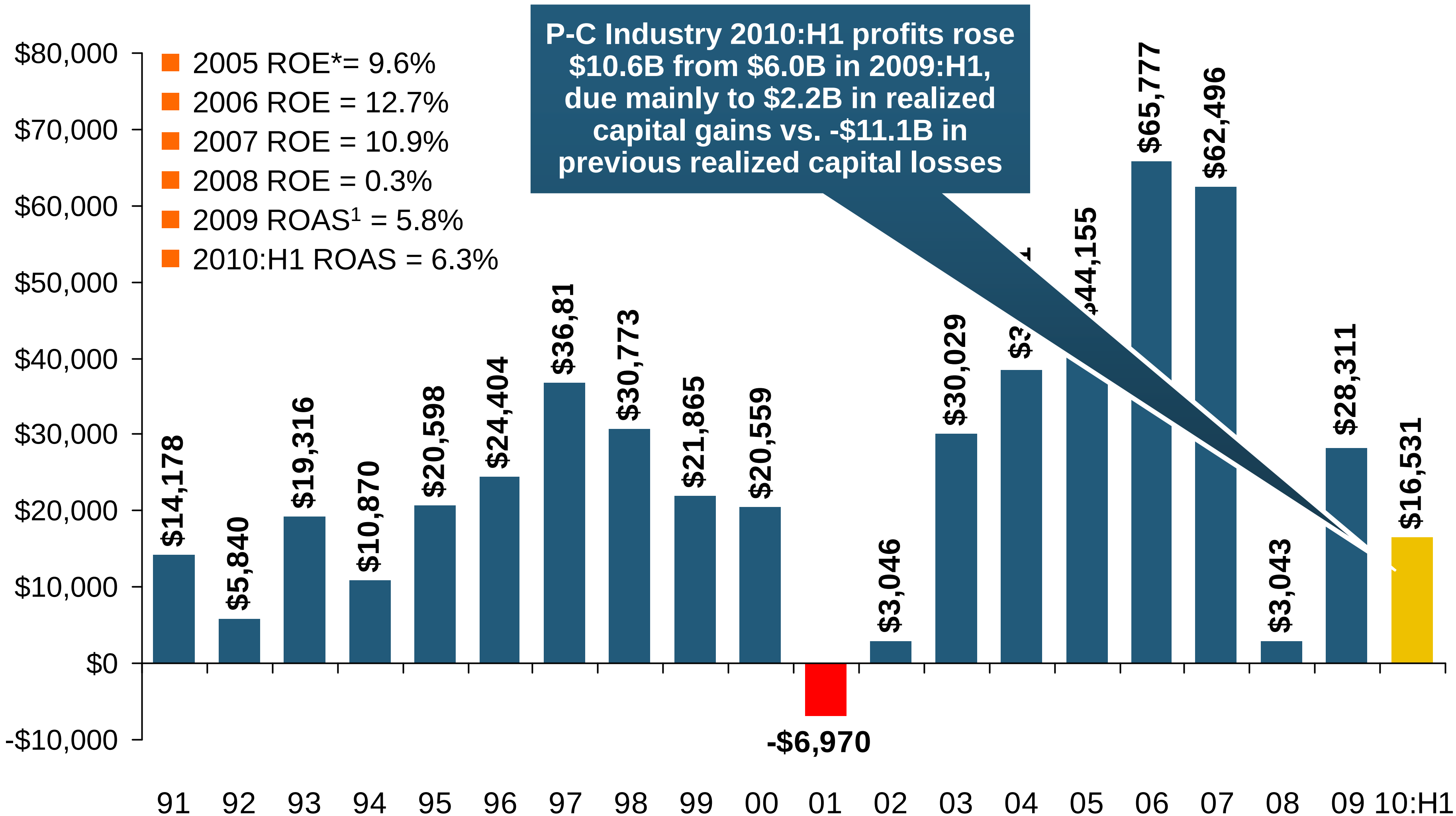

* ROE figures are GAAP; [1]Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 7.5% ROAS for 2010:H1 and 4.6% for 2009. 2009:H1 net income was $19.2 billion and $10.2 billion in 2008:H1 excluding M&FG.

Sources: A.M. Best, ISO, Insurance Information Institute

ROE: P/C vs. All Industries 1987–2009*

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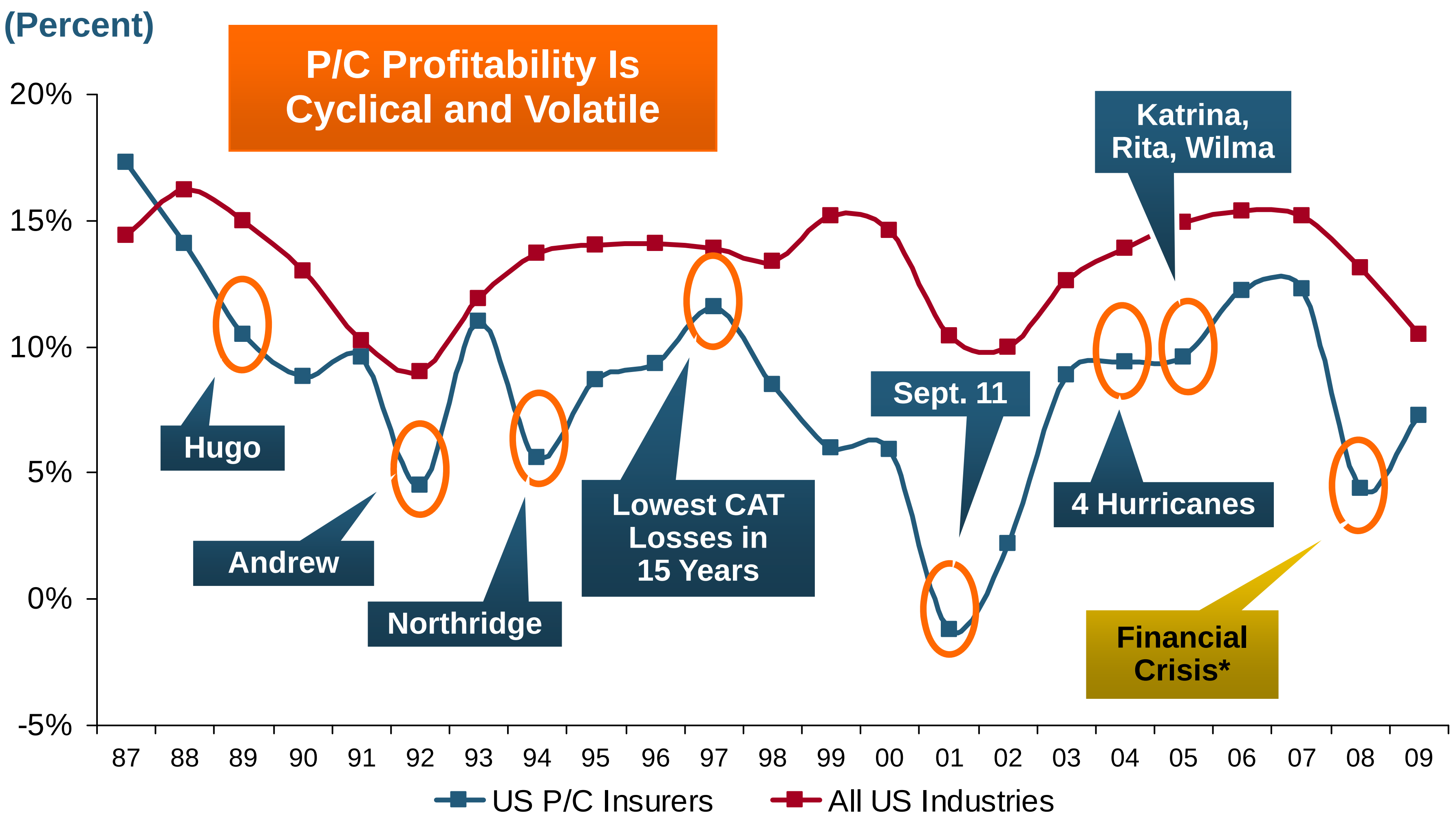
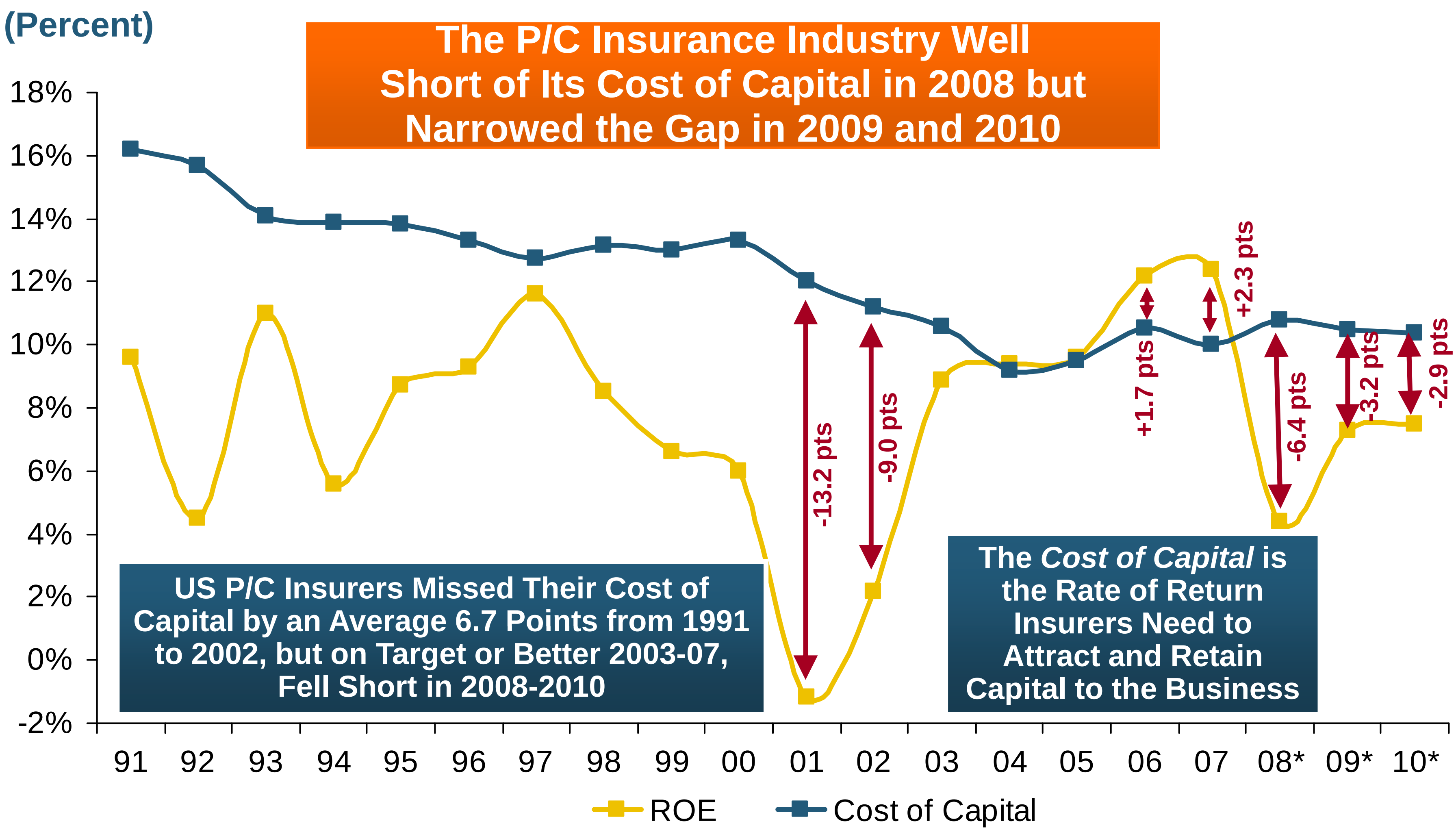


* Excludes Mortgage & Financial Guarantee in 2008 and 2009.
Sources: ISO, *Fortune*; Insurance Information Institute.

ROE vs. Equity Cost of Capital: U.S. P/C Insurance:1991-2010:H1*



* Return on average surplus in 2008-2010 excluding mortgage and financial guaranty insurers.
Source: The Geneva Association, Insurance Information Institute

Median ROE for Insurers vs. Financial Firms & Other Key Industries 2009

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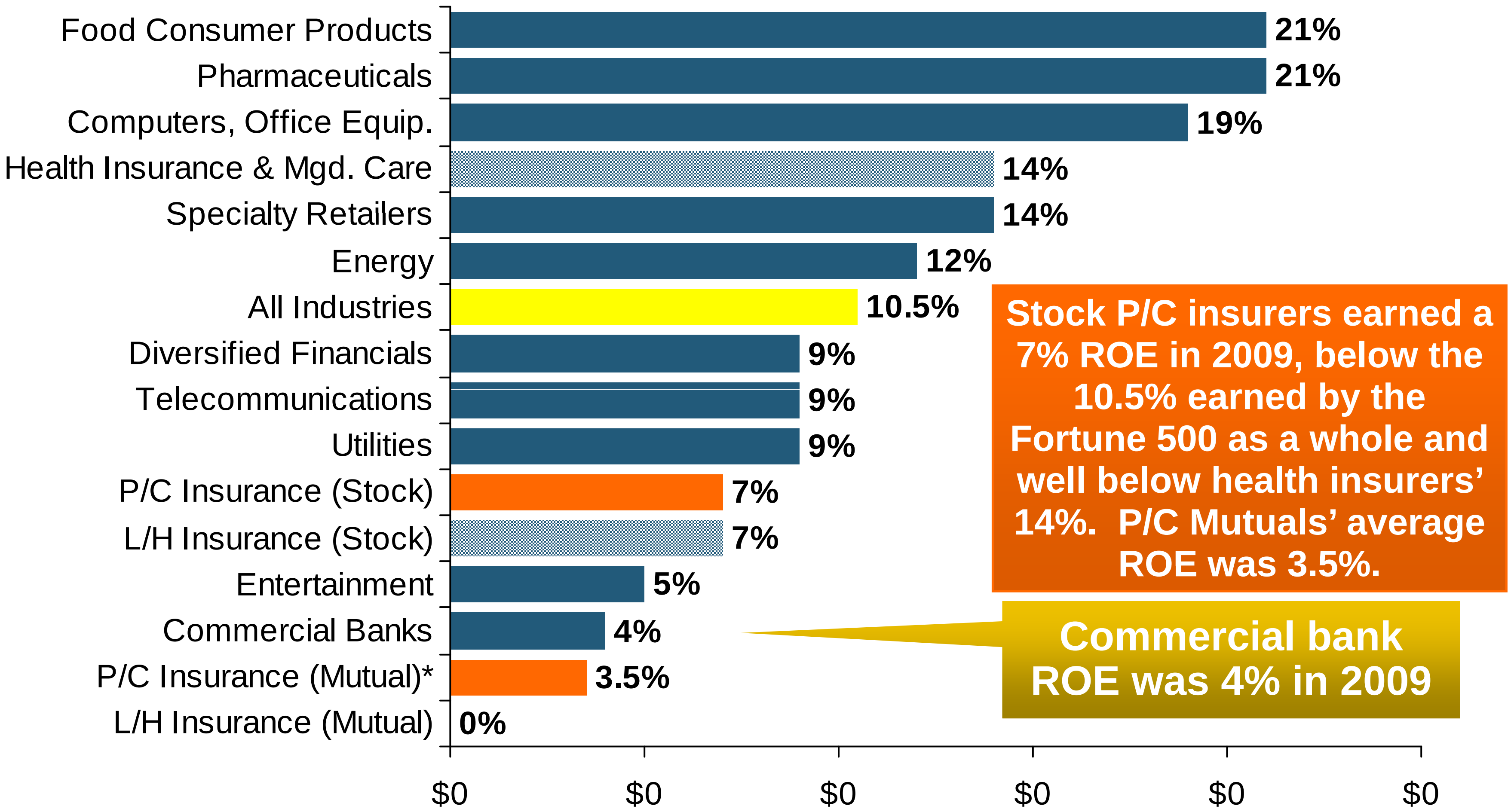
(Profits as a % of Stockholders' Equity)



Source: *Fortune*, May 3, 2010; Insurance Information Institute.

A 100 Combined Ratio Isn't What It Once Was: 90-95 Is Where It's At Now

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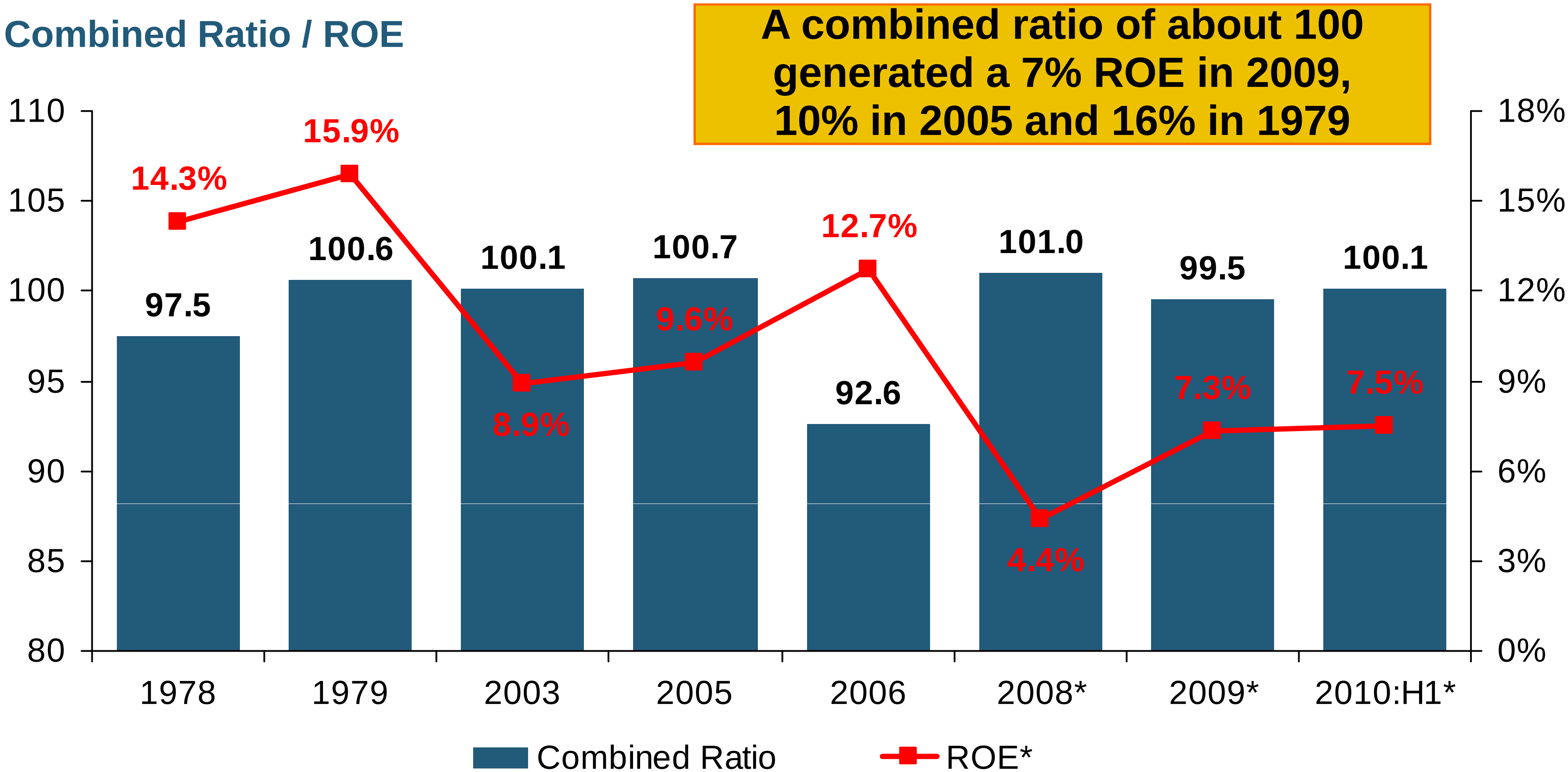

Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2009 and 2010:Q1 figures are return on average statutory surplus. 2008, 2009 and 2010:H1figures exclude mortgage and financial guaranty insurers

Source: Insurance Information Institute from A.M. Best and ISO data.

Financial Services Reform

Insurers Are Impacted, But Not Significantly

Financial Services Reform:
What does it mean for insurers?

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The Dodd Frank Wall Street Reform and Consumer Protection Act

- **Systemic Risk and Resolution Authority**
  - Creates the Financial Stability Oversight Council and the Office of Financial Research
  - Imposes heightened federal regulation on large bank holding companies and "systemically risky" nonbank financial companies, including insurers
- **Federal Insurance Office (FIO)**
  - Establishes the FIO (while maintaining state regulation of insurance) within the Department of Treasury, headed by a Director appointed by the Secretary of Treasury
  - FIO will have authority to monitor the insurance industry, identify regulatory gaps that could contribute to systemic crisis
- **Surplus Lines/Reinsurance**
  - Title V of the Dodd-Frank bill includes, as a separate subtitle, the Nonadmitted and Reinsurance Reform Act (NRRA), which eliminates regulatory inefficiencies associated with surplus lines insurance and reinsurance

Source: Insurance Information Institute (I.I.I.) updates and research; The Financial Services Roundtable; Adapted from summary by Dewey & LeBoeuf LLP

New Rulemakings Under The Dodd Frank Wall Street Reform and Consumer Protection Act

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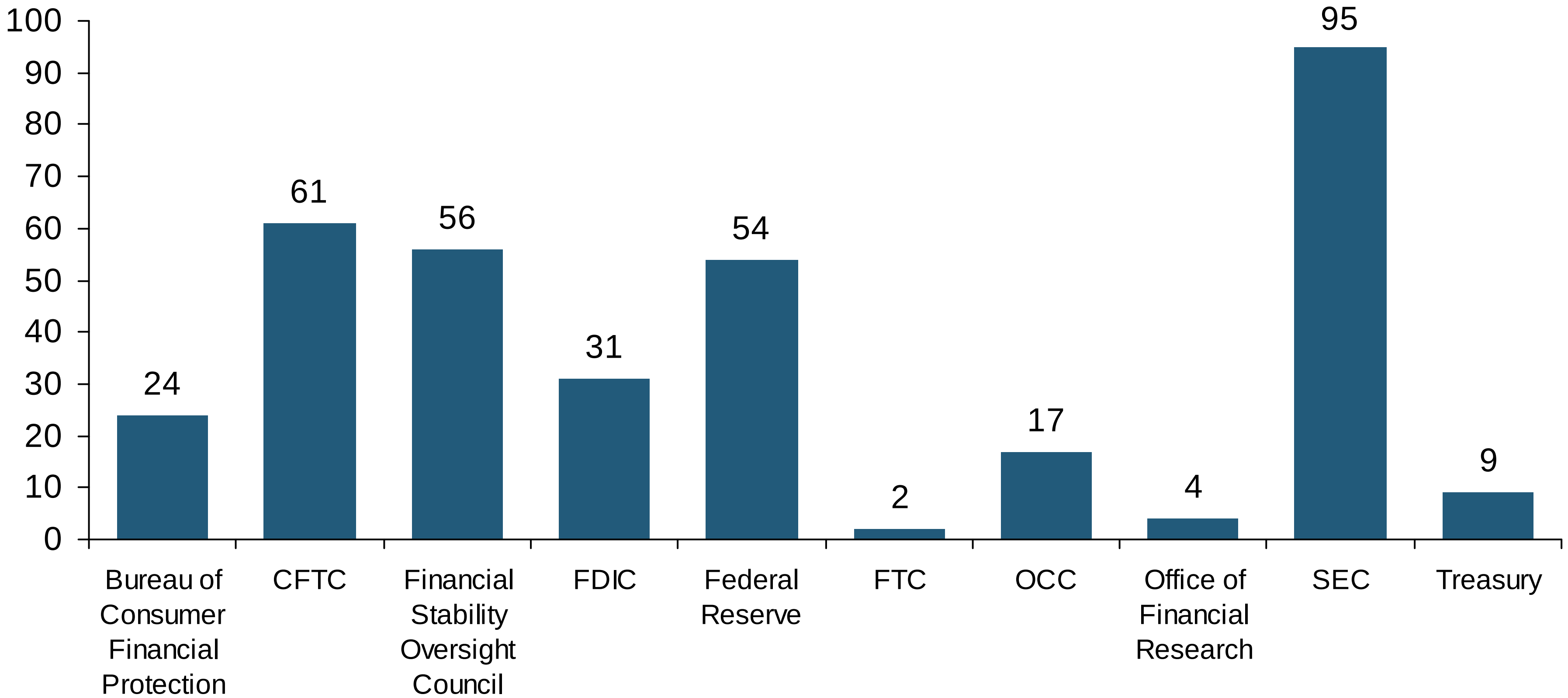
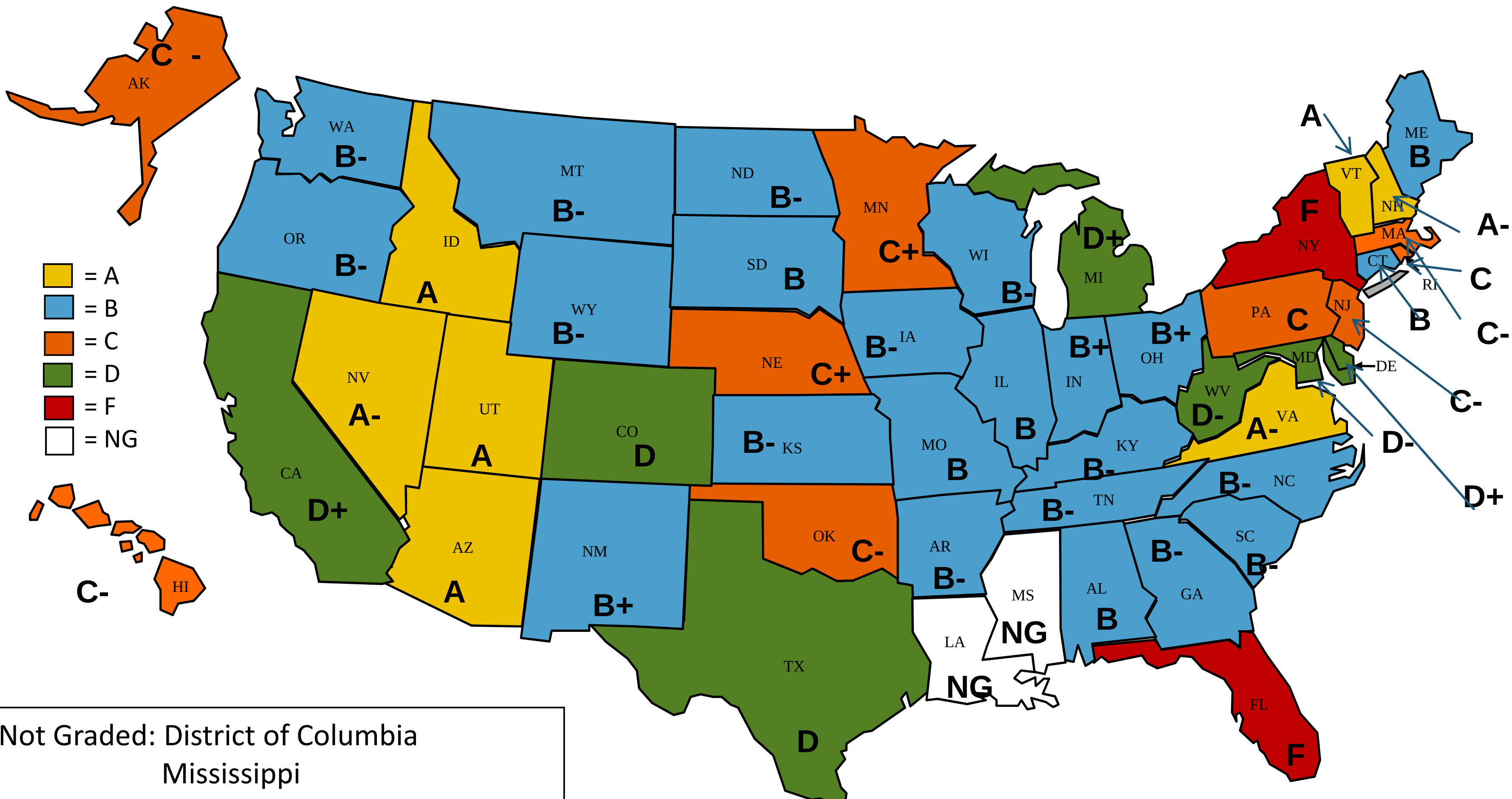
A total of at least 243 new rulemakings are expected under the Dodd-Frank financial reform by Federal Agency*



* Total eliminates double counting for joint rule-makings and this estimate only includes explicit rule-makings in the bill, and thus likely represents a significant underestimate.

Source: Wall Street Journal, July 14, 2010; Davis Polk & Wardwell.

2010 Property and Casualty Insurance Report Card



Not Graded: District of Columbia
Mississippi
Louisiana

Source: Heartland Institute, May 2010

Critical Differences Between P/C Insurers and Banks

Superior Risk Management Model and Low Leverage Make a Big Difference

How P/C Insurance Industry Stability Has Benefitted Consumers

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Bottom Line:

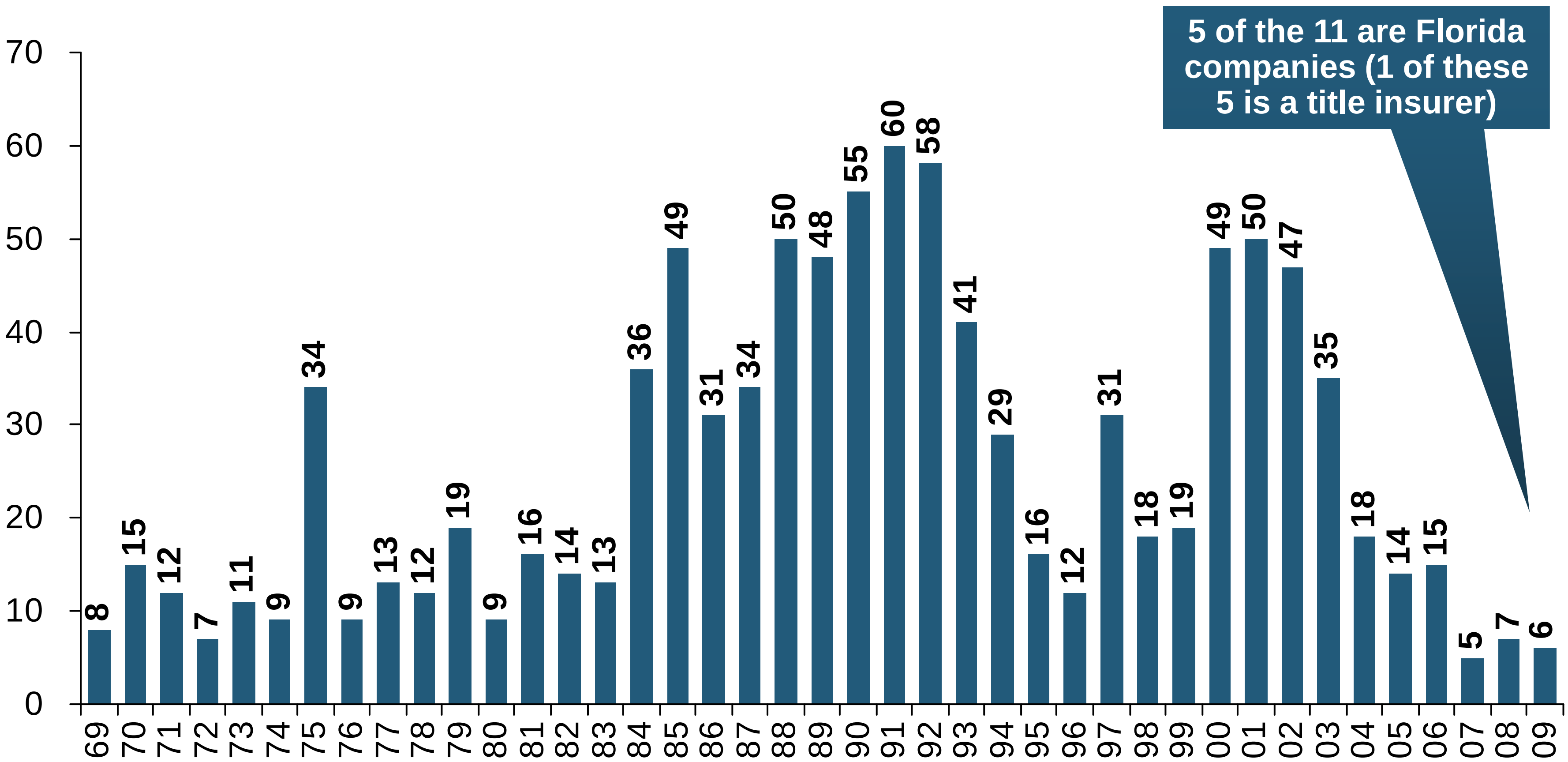
- Insurance markets – unlike banking – are operating ***normally***
- The basic function of insurance – the orderly transfer of risk from client to insurer – ***continues uninterrupted***
- This means that insurers continue to:
  - Pay claims (whereas 286 banks have gone under as of 9/3/10)
    - ***The promise is being fulfilled***
  - Renew existing policies *(banks are reducing and eliminating lines of credit)*
  - Write new policies *(banks are turning away people and businesses who want or need to borrow)*
  - Develop new products *(banks are scaling back the products they offer)*
  - Compete intensively *(banks are consolidating, reducing consumer choice)*

Source: Insurance Information Institute

Financial Strength & Ratings

Industry Has Weathered the Storms Well

P/C Insurer Impairments, 1969–2009

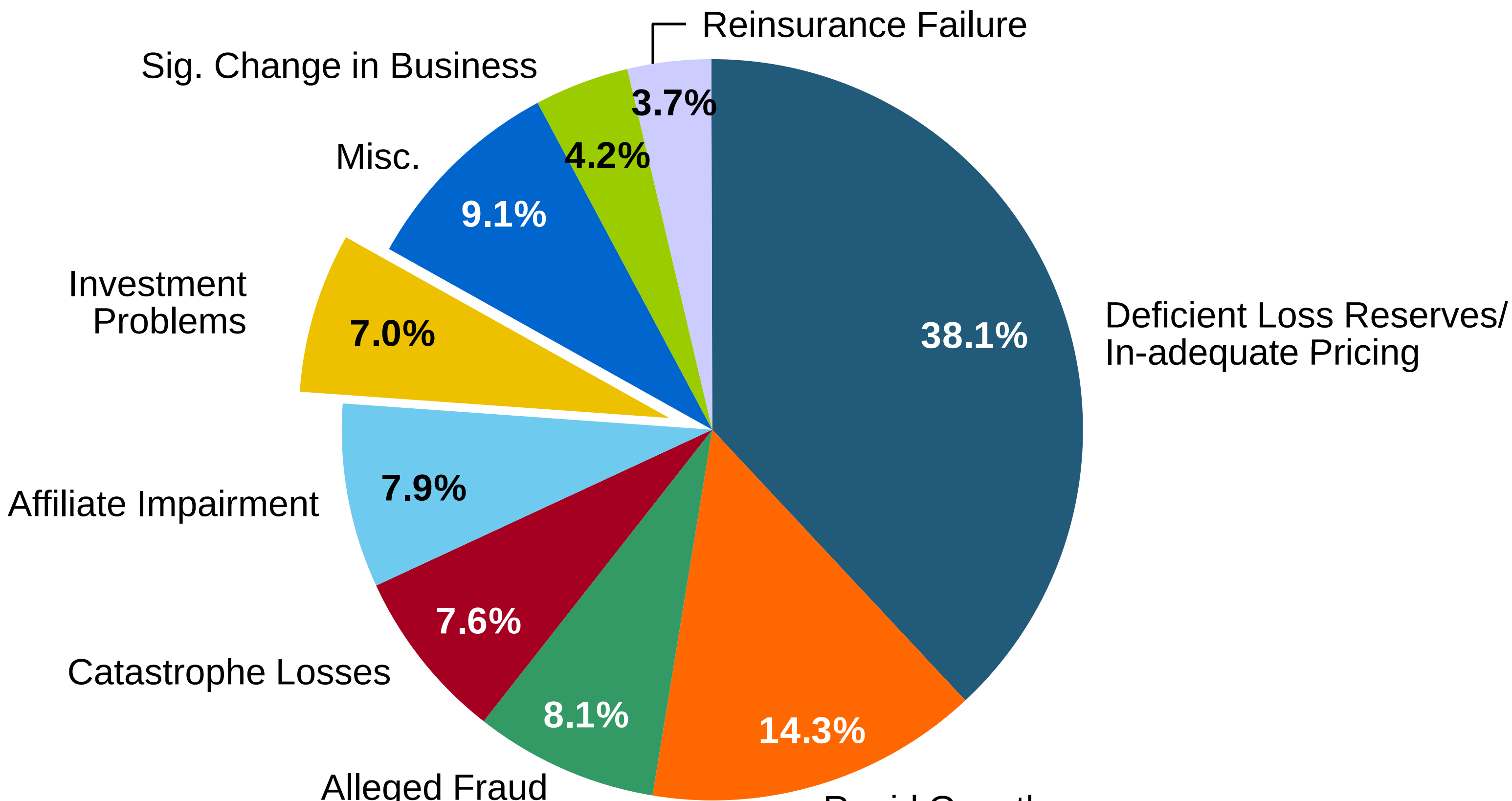


The Number of Impairments Varies Significantly Over the P/C Insurance Cycle, With Peaks Occurring Well into Hard Markets

Source: A.M. Best; Insurance Information Institute.

Reasons for US P/C Insurer Impairments, 1969–2008

Deficient Loss Reserves and Inadequate Pricing Are the Leading Cause of Insurer Impairments, Underscoring the Importance of Discipline. Investment Catastrophe Losses Play a Much Smaller Role



Source: A.M. Best: *1969-2008 Impairment Review*, Special Report, Apr. 6, 2009

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Shifting Legal Liability & Tort Environment

Is the Tort Pendulum Swinging Against Insurers?

Important Issues & Threats Facing Insurers: 2010–2015

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Emerging Tort Threat

- No tort reform (or protection of recent reforms) is forthcoming from the current Congress or Administration
- Erosion of recent reforms is a certainty (already happening)
- Innumerable legislative initiatives will create opportunities to undermine existing reforms and develop new theories and channels of liability
- Torts twice the overall rate of inflation
- Influence personal and commercial lines, esp. auto liability
- Historically ***extremely*** costly to p/c insurance industry
- Leads to reserve deficiency, rate pressure

Bottom Line: **Tort "crisis" is on the horizon and will be recognized as such by 2012–2014**

Source: Insurance Information Institute

Over the Last Three Decades, Total Tort Costs* as a % of GDP Appear Somewhat Cyclical

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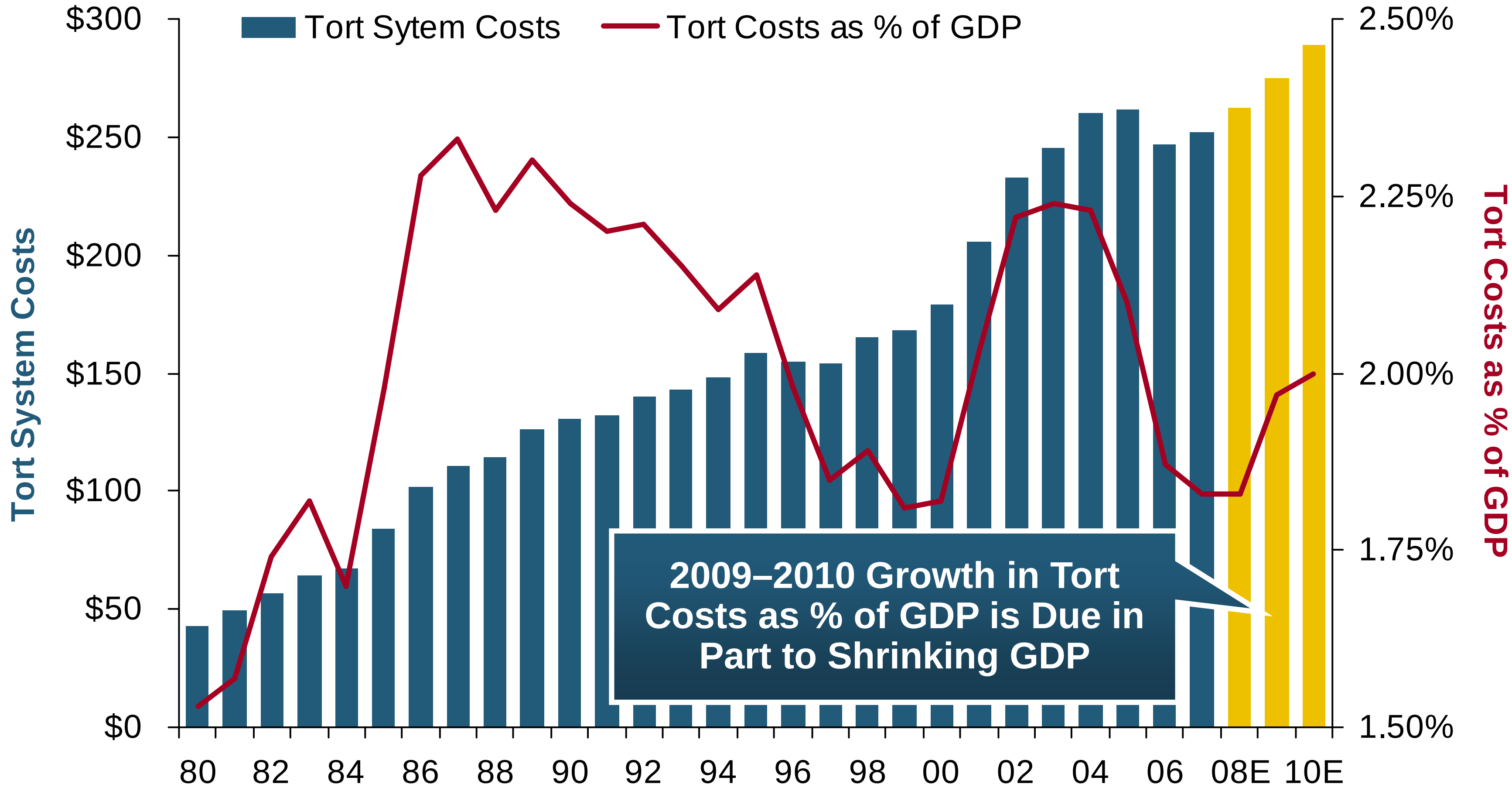
($ Billions)



* Excludes the tobacco settlement, medical malpractice

Sources: Tillinghast-Towers Perrin, *2008 Update on US Tort Cost Trends*, Appendix 1A; I.I.I. calculations/estimates for 2009 and 2010

Trial Bar Priorities

AMERICAN ASSOCIATION for JUSTICE

- Reverse U.S. Supreme Court decisions on pleadings
- Eliminate pre-dispute arbitration
- Erode federal preemption
- Expand securities litigation
- Pass Foreign Manufactures Legal Accountability Act
- Grant enforcement authorities to state
- Confirm pro-trial lawyer judges – "Federalize Madison County"
- Roll back existing legal reforms

Source: Institute for Legal Reform.

Business Leaders Ranking of Liability Systems in 2009*

Best States

1. Delaware
2. North Dakota
3. Nebraska
4. Indiana
5. Iowa
6. Virginia
7. Utah
8. Colorado
9. Massachusetts
10. South Dakota

New in 2009

- North Dakota
- Massachusetts
- South Dakota

Drop-offs

- Maine
- Vermont
- Kansas

Midwest/West has mix of good and bad states.

Worst States

41. New Mexico
42. Florida
43. Montana
44. Arkansas
45. Illinois
46. California
47. Alabama
48. Mississippi
49. Louisiana
50. ***West Virginia***

Newly Notorious

- New Mexico
- Montana
- Arkansas

Rising Above

- Texas
- South Carolina
- Hawaii

Source: US Chamber of Commerce 2009 State Liability Systems Ranking Study; Insurance Info. Institute.

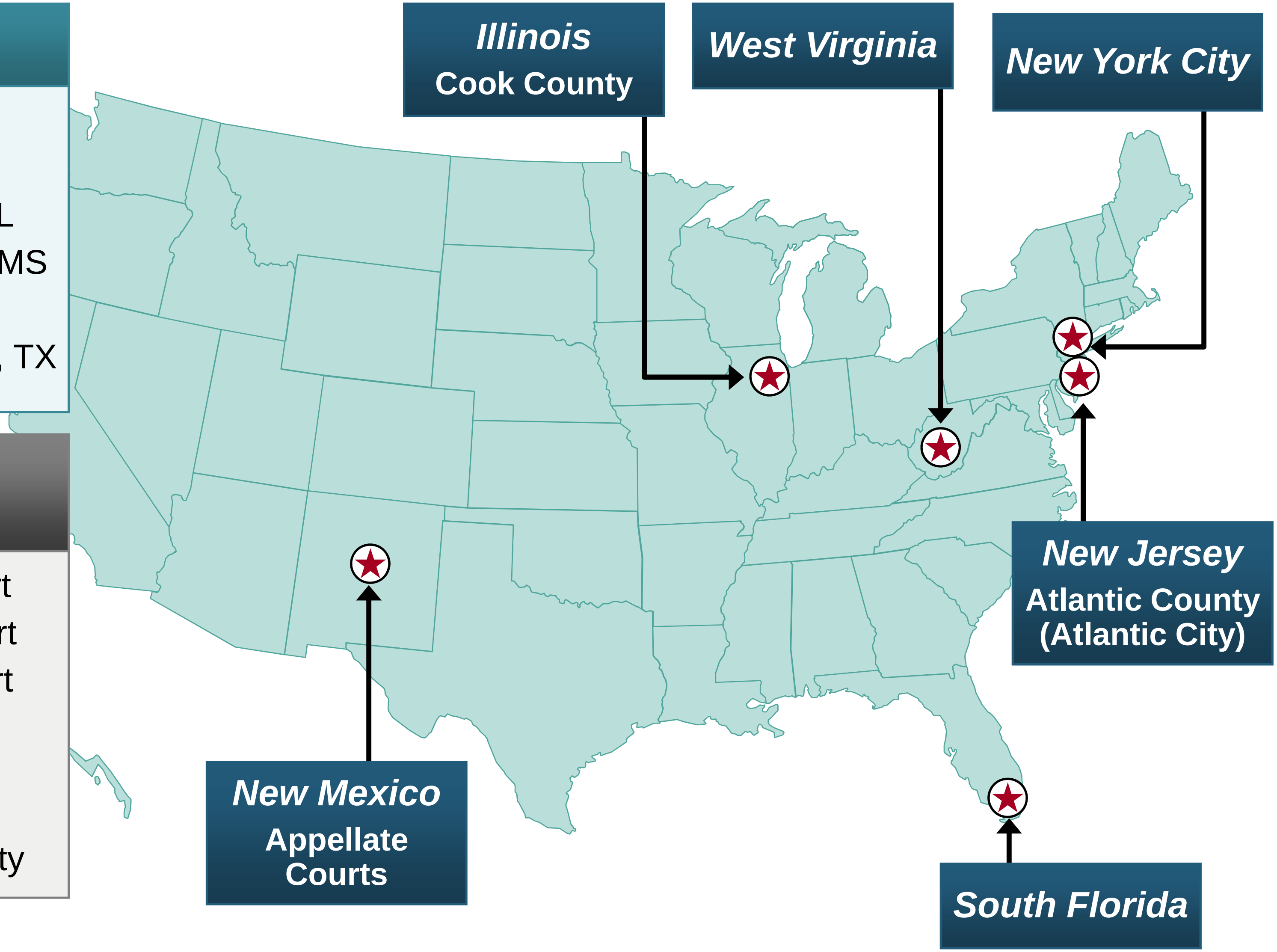
The Nation's Judicial Hellholes: 2010

Watch List

- California
- Alabama
- Madison County, IL
- Jefferson County, MS
- Texas Gulf Coast
- Rio Grande Valley, TX

Dishonorable Mention

- AR Supreme Court
- MN Supreme Court
- ND Supreme Court
- PA Governor
- MA Supreme Judicial Court
- Sacramento County



Source: American Tort Reform Association; Insurance Information Institute

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P/C Premium Growth Primarily Driven by the Industry's Underwriting Cycle, Not the Economy

Soft Market Appears to Persist in 2010 but May Be Easing: Relief in 2011?

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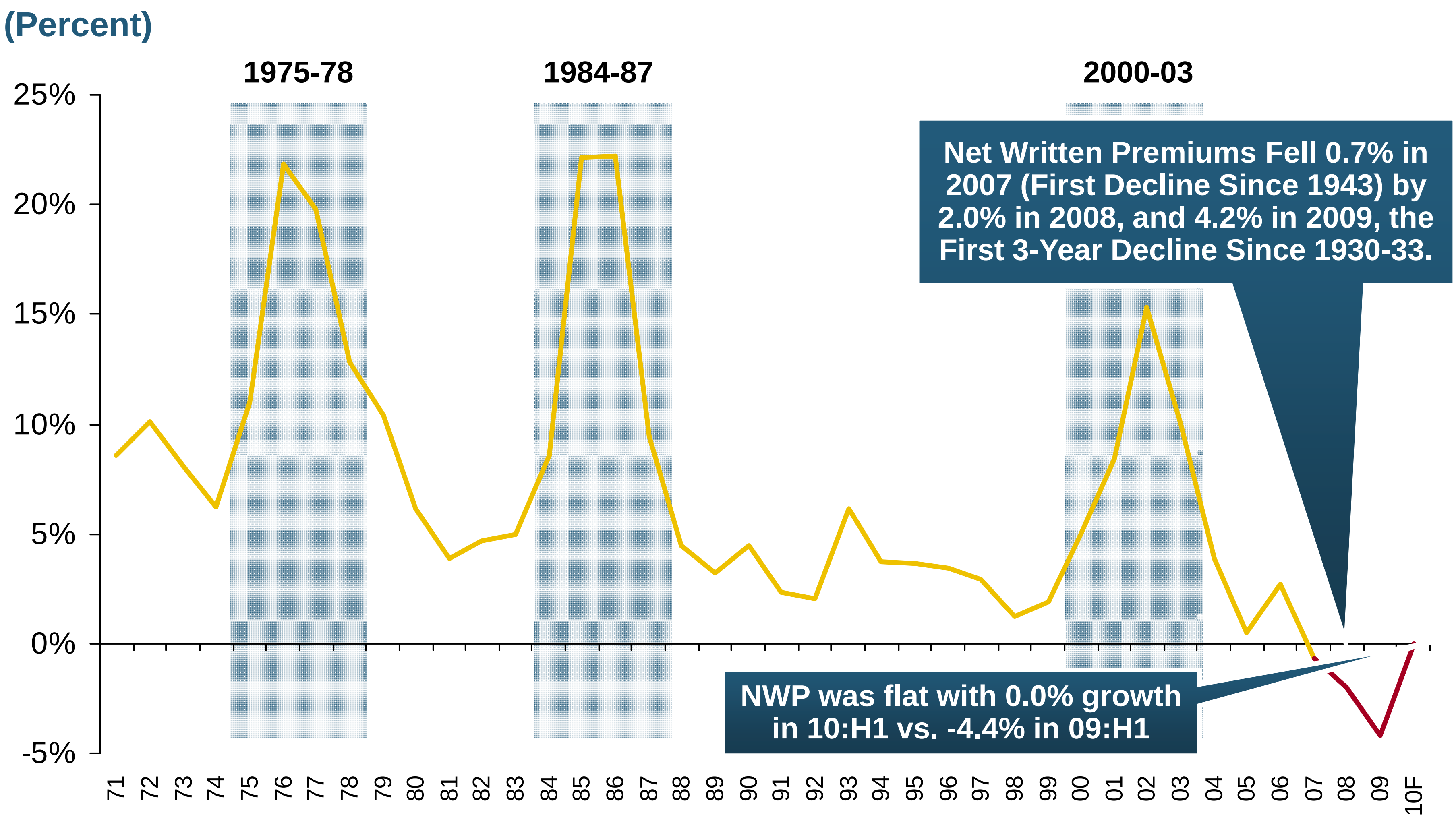
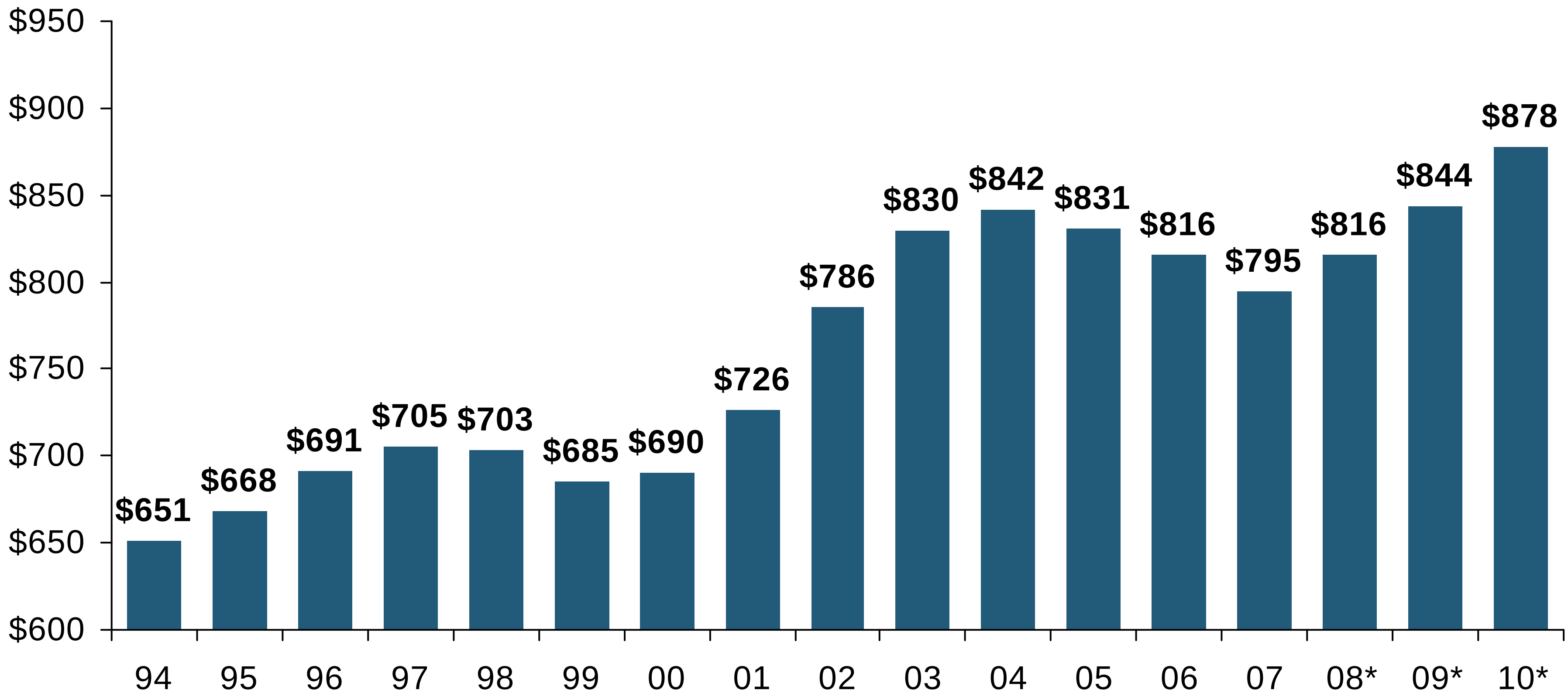


Shaded areas denote "hard market" periods

Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute.

Average Expenditures on Auto Insurance

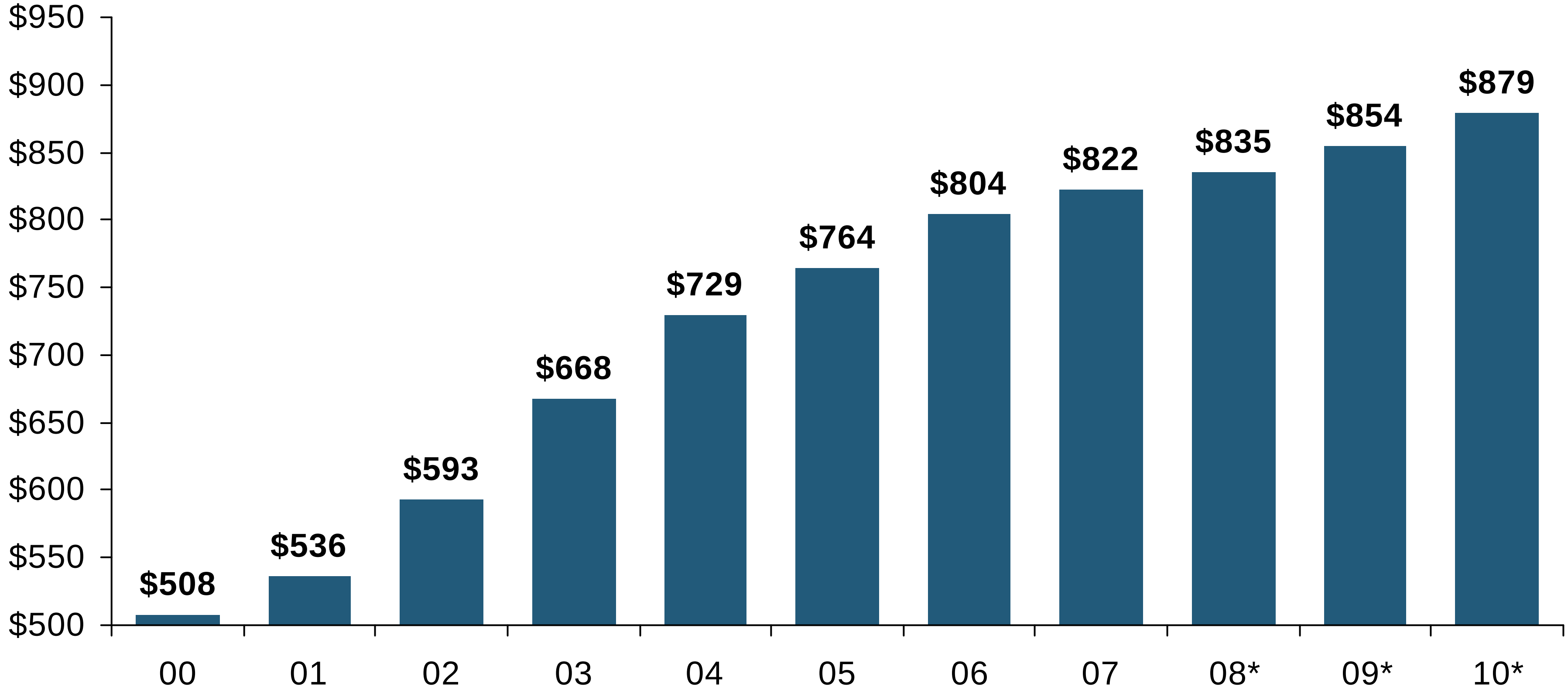


Countrywide Auto Insurance Expenditures Increased 2.6% in 2008 and 3.5% Pace in 2009 (est.) and 4% in 2010 (est.)

* Insurance Information Institute Estimates/Forecasts

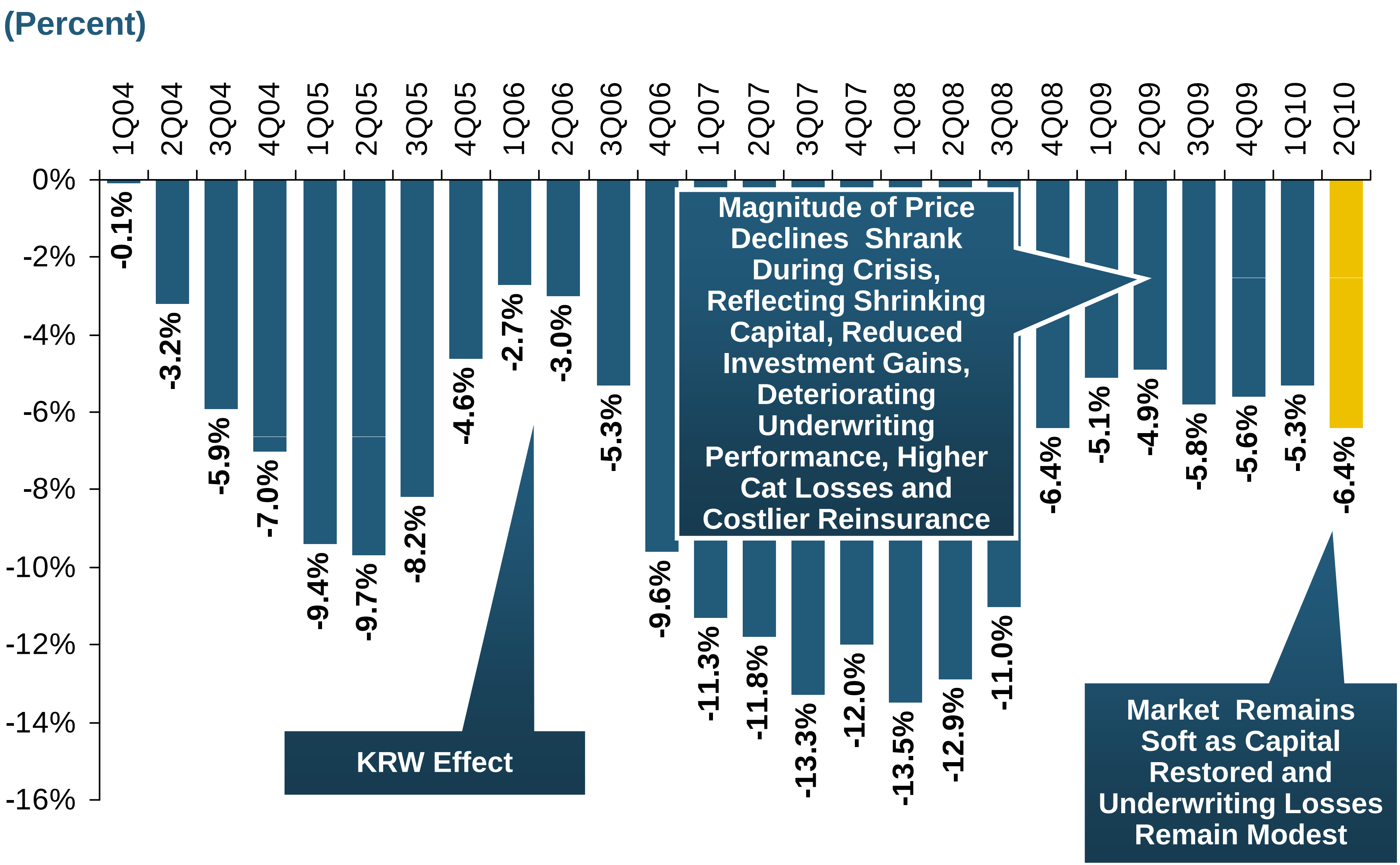
Source: NAIC, Insurance Information Institute estimates 2008-2010 based on CPI data.

Average Premium for Home Insurance Policies**



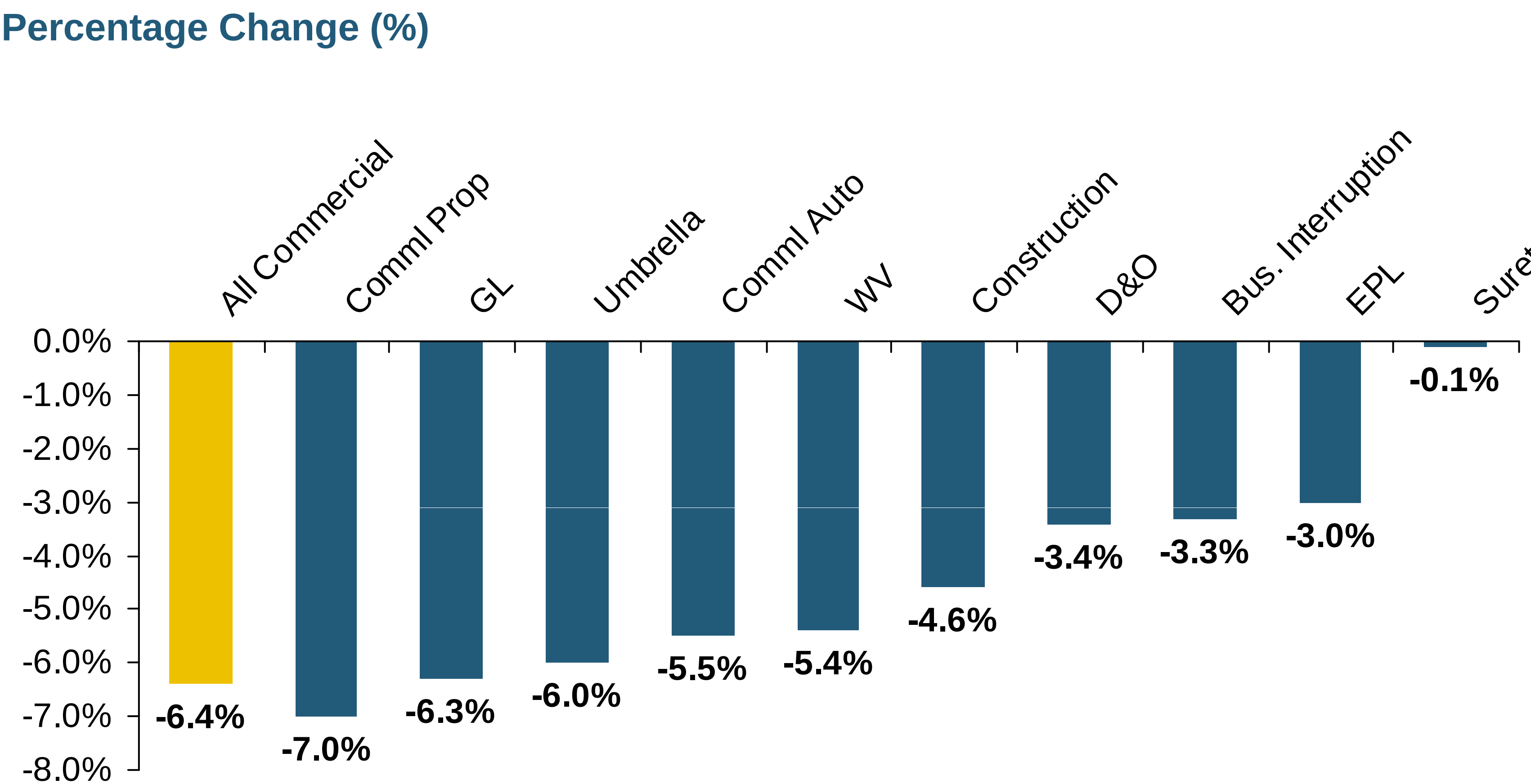
* Insurance Information Institute Estimates/Forecasts **Excludes state-run insurers.
Source: NAIC, Insurance Information Institute estimates 2008-2010 based on CPI data.

Average Commercial Rate Change, All Lines, (1Q:2004–2Q:2010)



Source: Council of Insurance Agents & Brokers; Insurance Information Institute

Change in Commercial Rate Renewals, by Line: 2010:Q2

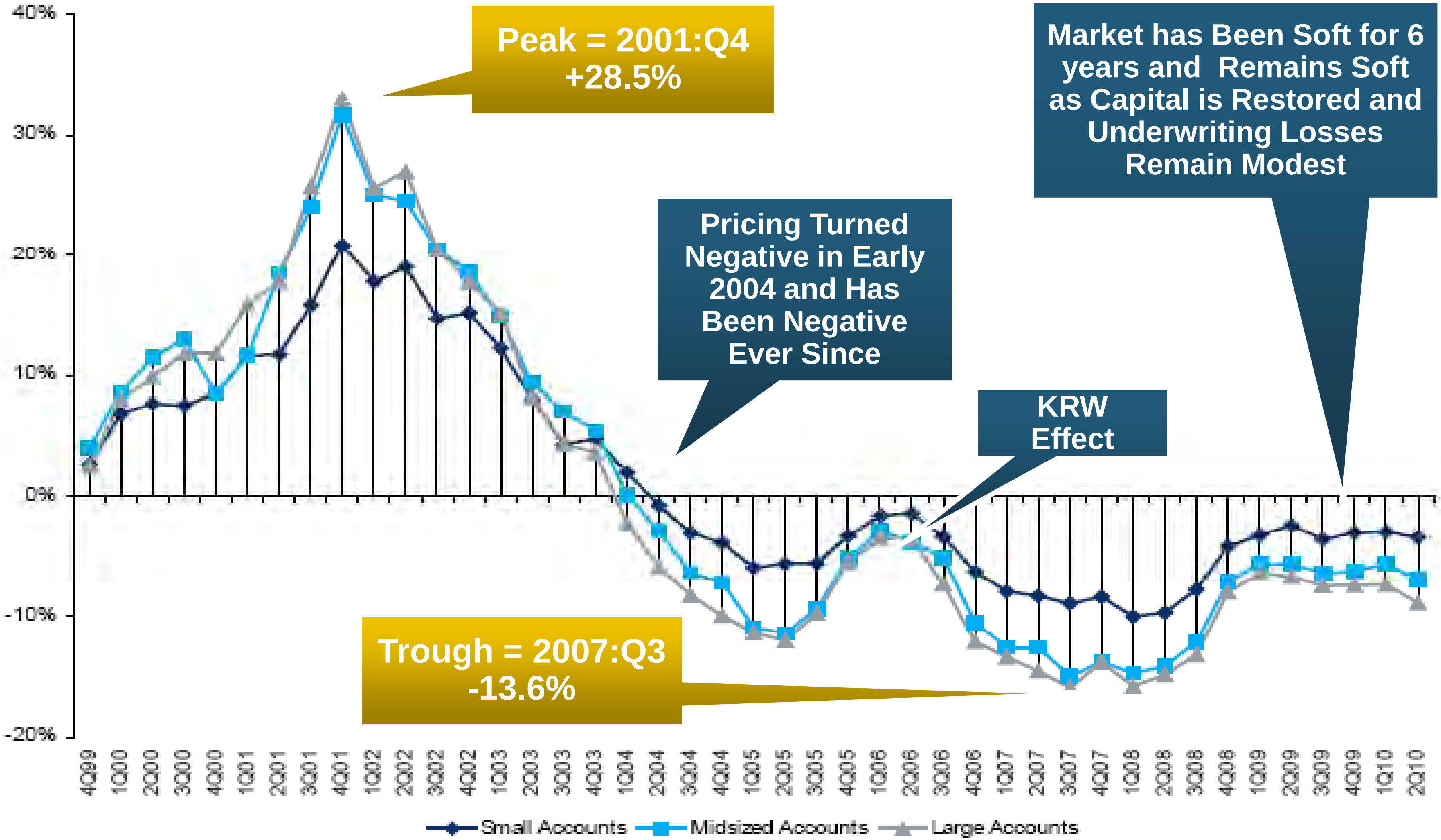


Most Major Commercial Lines Renewed Down in Q2:2010 at a Faster Pace than a year Earlier

Source: Council of Insurance Agents and Brokers; Insurance Information Institute.

Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2010:Q2

Percentage Change (%)

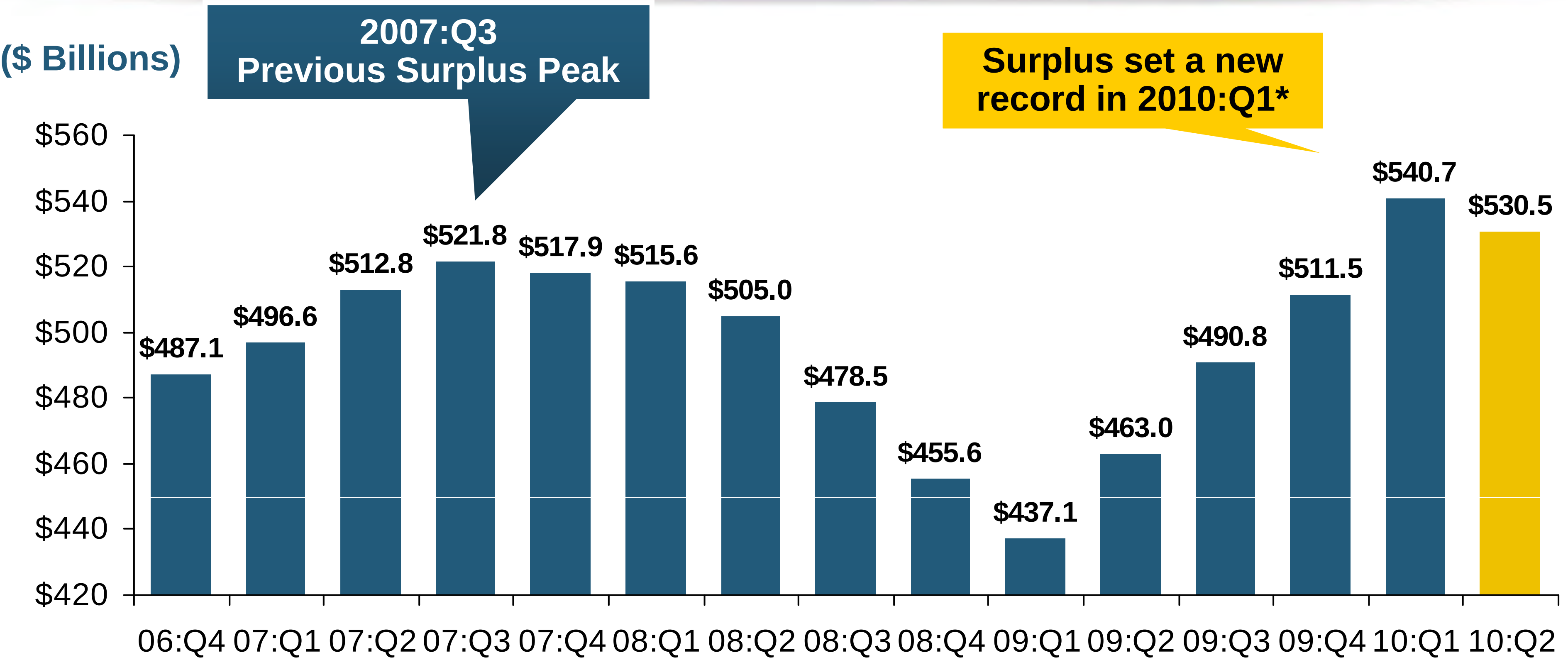


Source: Council of Insurance Agents and Brokers; Insurance Information Institute.

Capital/Policyholder Surplus (US)

Shrinkage, but Not Enough to Trigger Hard Market

Policyholder Surplus, 2006:Q4–2010:Q2



*Includes $22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business

Quarterly Surplus Changes Since 2009:Q1 Trough

09:Q1: -$84.7B (-16.2%)	*10:Q1: +$18.9B (+3.6%)*
09:Q2: -$58.8B (-11.2%)	10:Q2: -$10.2B (-1.9%)
09:Q3: -$31.8B (-5.9%)	
09:Q4: -$10.3B (-2.0%)	

Sources: ISO, A.M .Best.

Paid-in Capital, 2005–2010:H1

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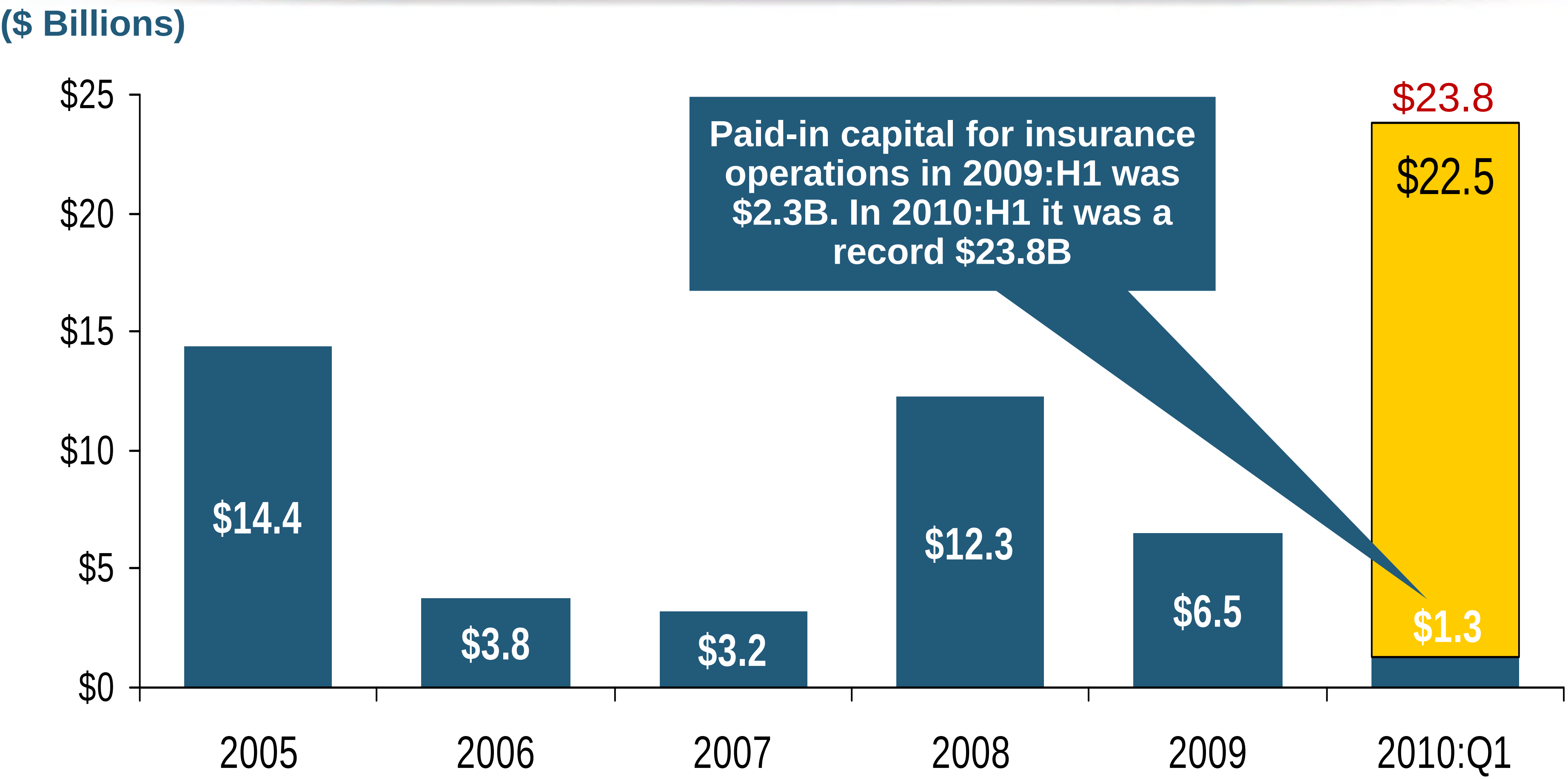
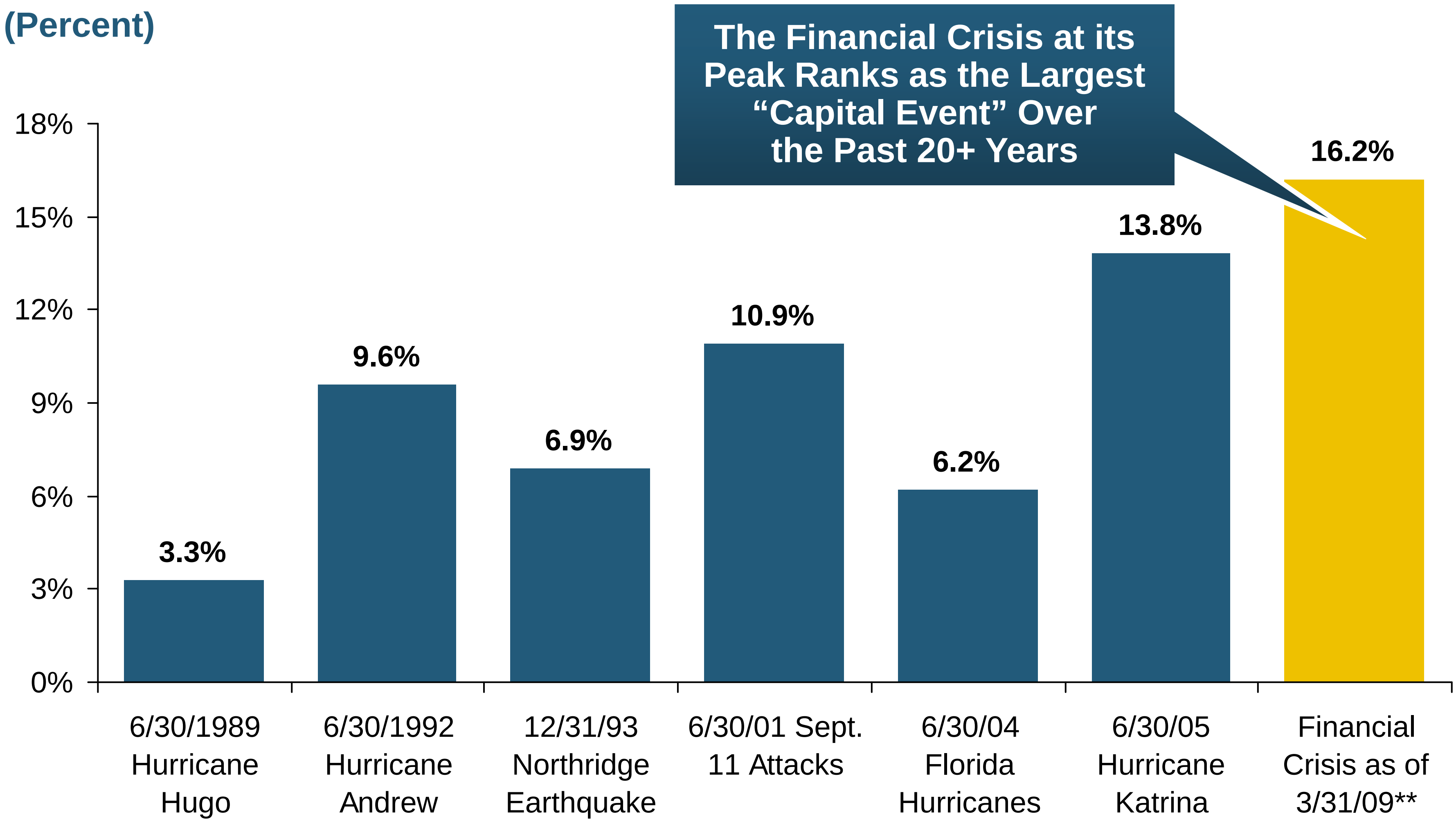


In 2010:H1 One Insurer's Paid-in Capital Rose by $22.5B as Part of an Investment in a Non-insurance Business

Source: ISO.

Ratio of Insured Loss to Surplus for Largest Capital Events Since 1989*

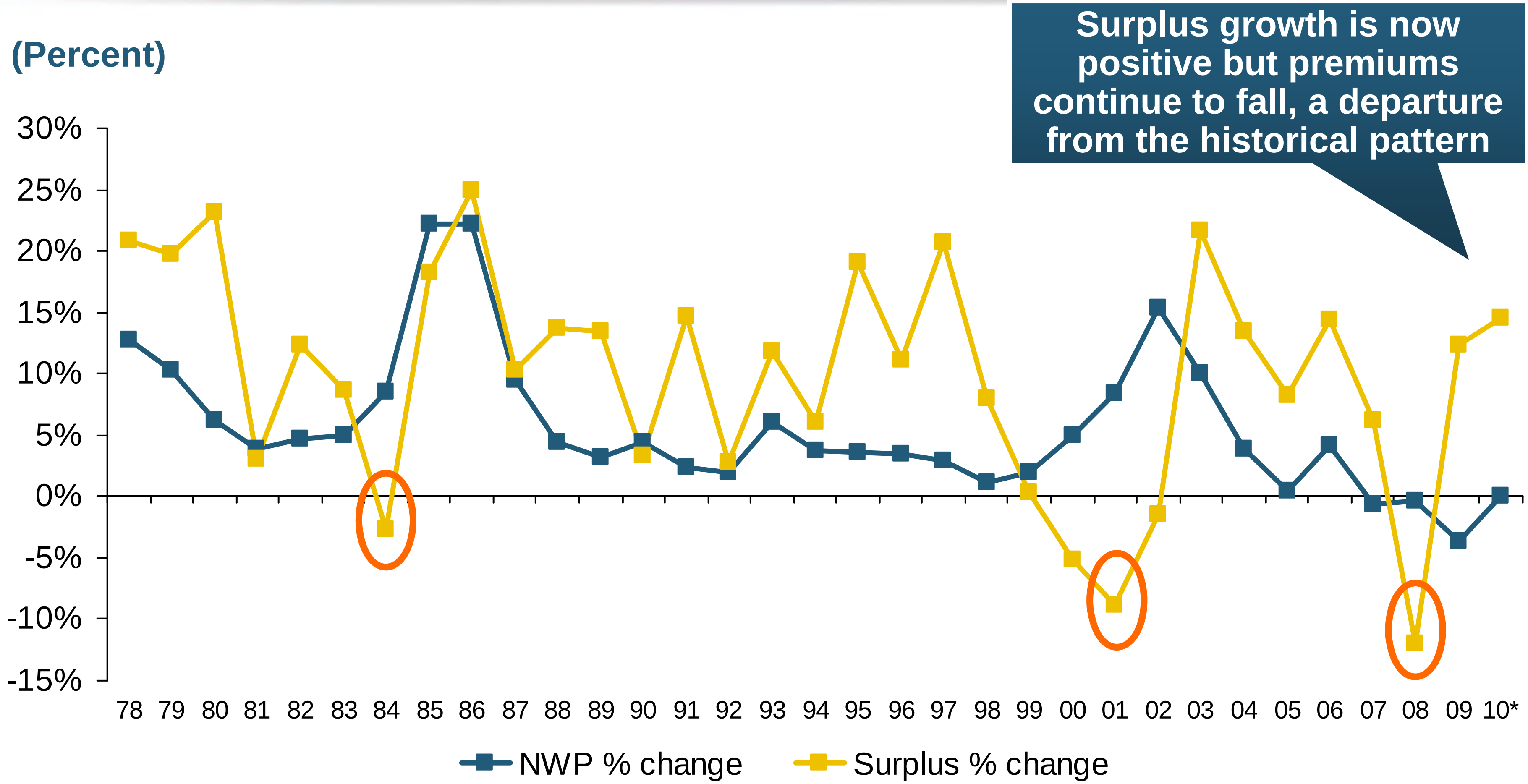


* Ratio is for end-of-quarter surplus immediately prior to event. Date shown is end of quarter prior to event

** Date of maximum capital erosion; As of 9/30/09 (latest available) ratio = 5.9%

Source: PCS; Insurance Information Institute

Historically, Hard Markets Follow When Surplus "Growth" is Negative*



Sharp Decline in Capacity is a Necessary but Not Sufficient Condition for a True Hard Market

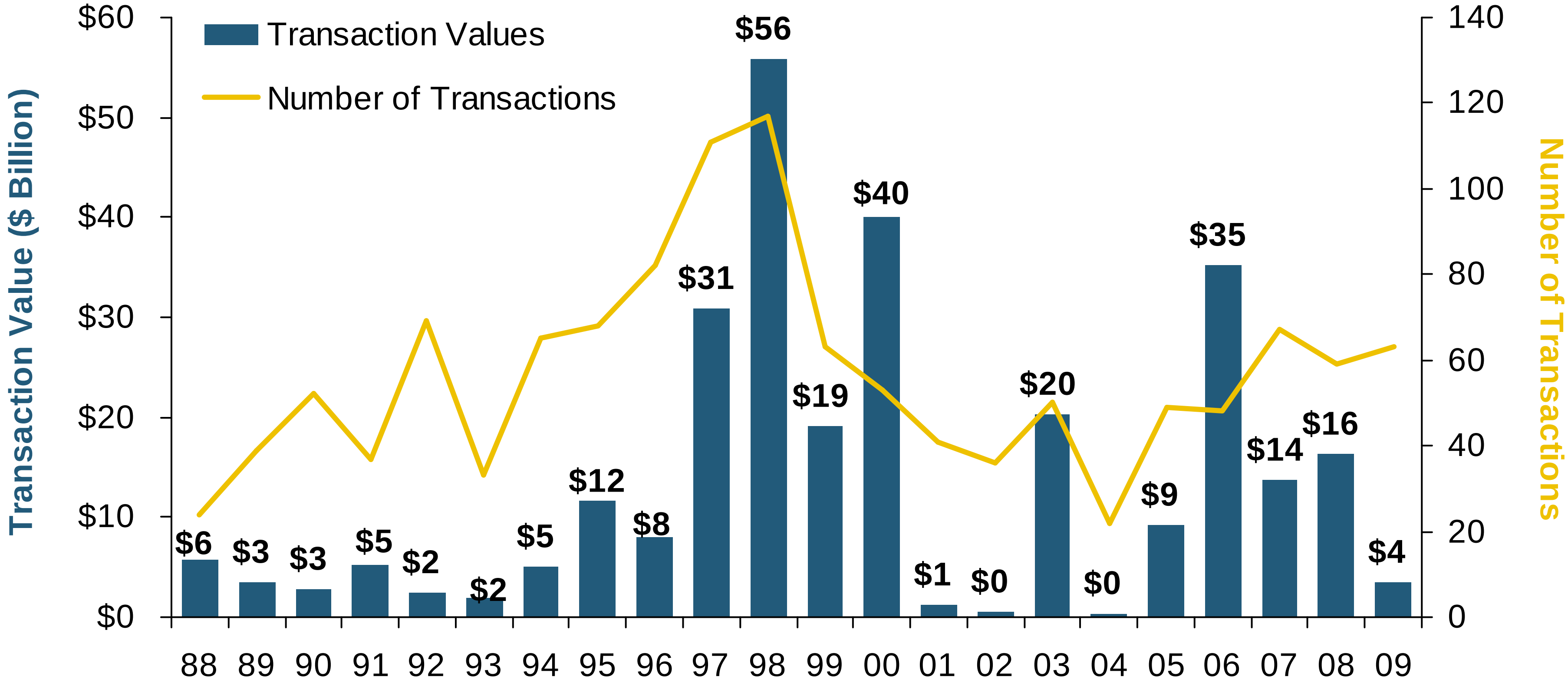
* 2010 NWP and Surplus figures are % changes as of H1:10 vs H1:09.

Sources: A.M. Best, ISO, Insurance Information Institute

Merger & Acquisition

Barriers to Consolidation Will Diminish in 2010

U.S. P/C Insurance-Related M&A Activity, 1988–2009



$ Value of Deals Down 78% in 2009, Volume Up 7%

2010: No Mega Deals So Far, Despite Record Capital, Slow Growth and Improved Financial Market Conditions

Note: U.S. Company was the acquirer and/or target.

Source: Conning Research & Consulting.

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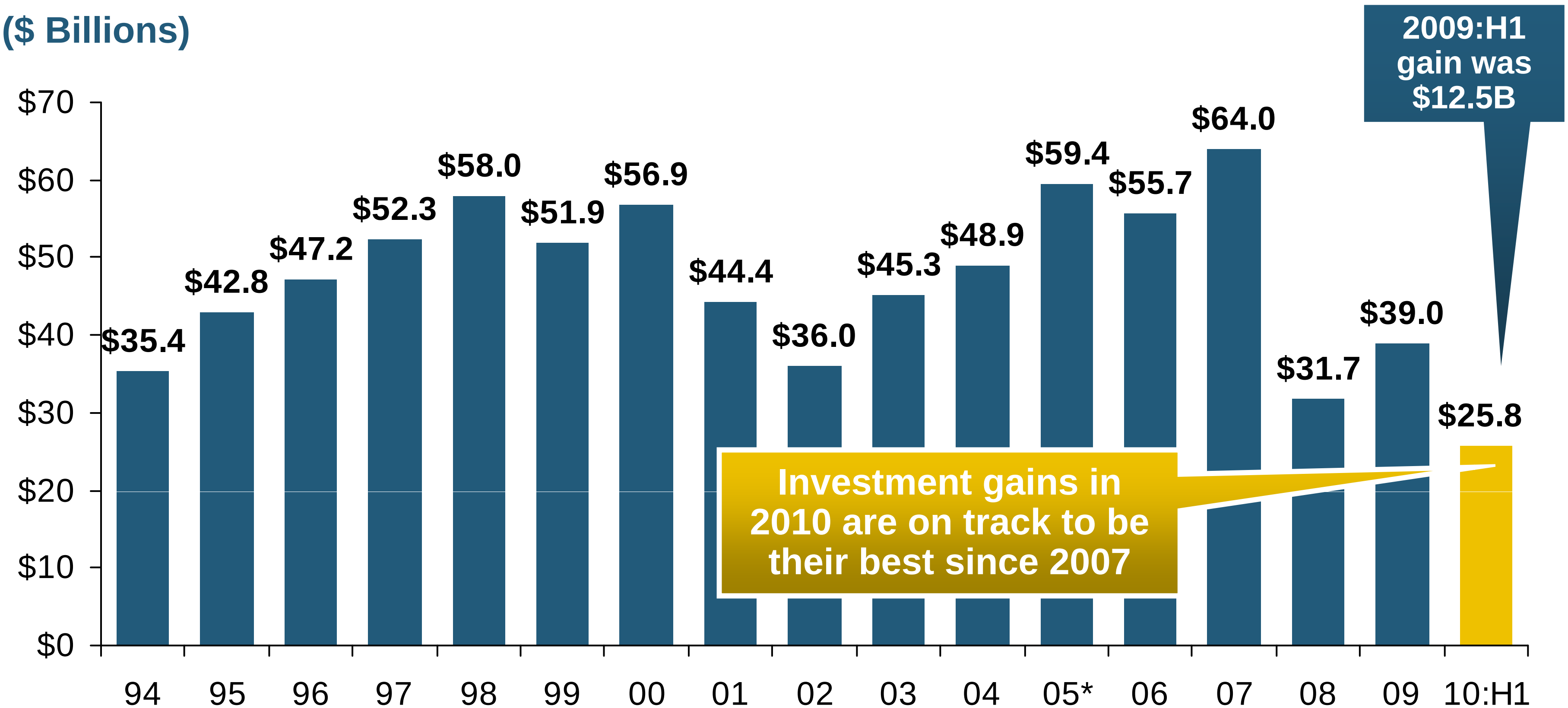
Investment Performance

Investments Are a Principle Source of Declining Profitability

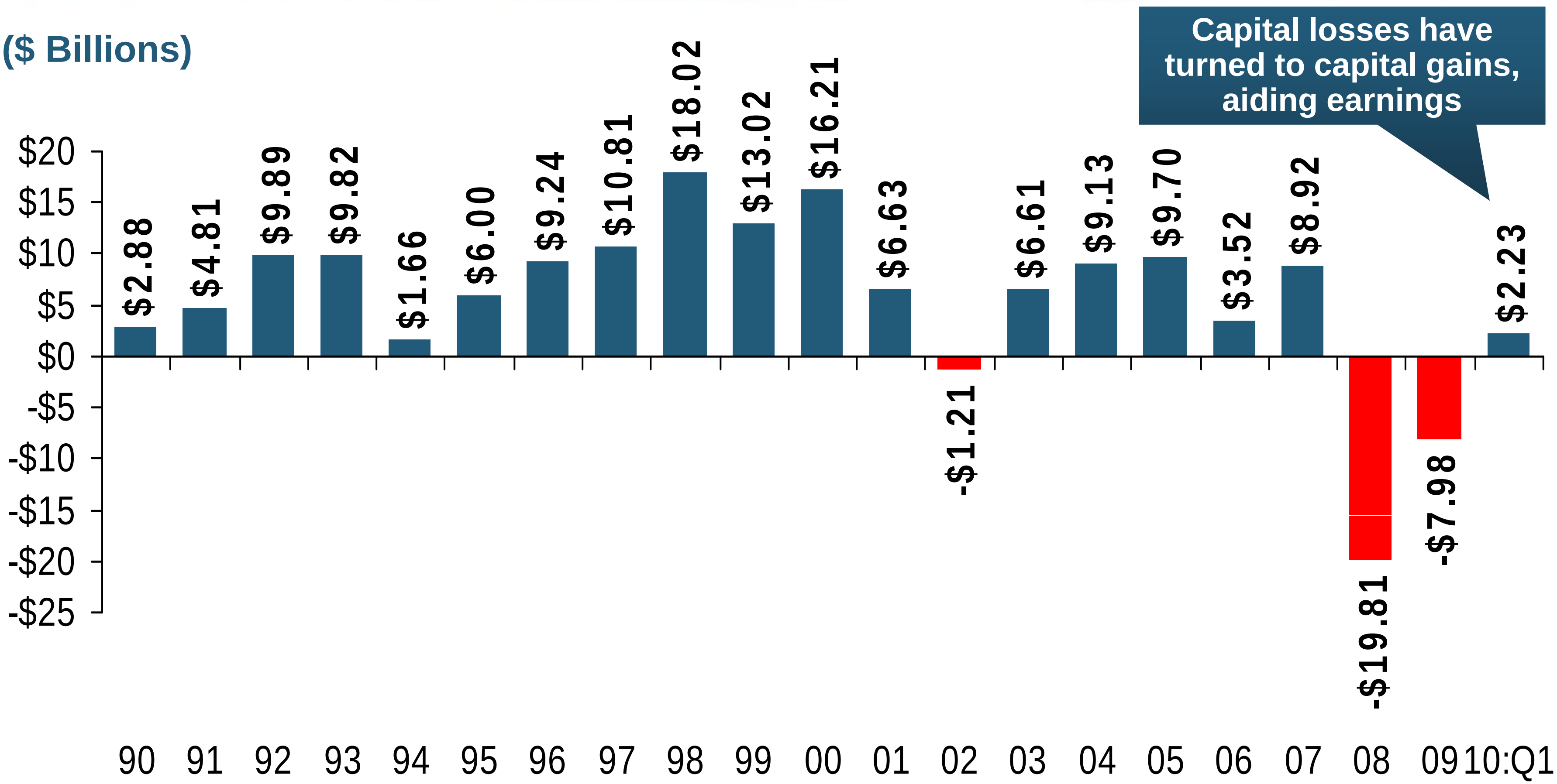
Property/Casualty Insurance Industry Investment Gain: 1994–2010:H1[1]



In 2008, Investment Gains Fell by 50% Due to Lower Yields and Nearly $20B of Realized Capital Losses
2009 Saw Smaller Realized Capital Losses But Declining Investment Income
Investment Gains Are Recovering So Far in 2010

[1] Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.
* 2005 figure includes special one-time dividend of $3.2B.
Sources: ISO; Insurance Information Institute.

P/C Insurer Net Realized Capital Gains, 1990-2010:H1



Realized Capital Losses Were the Primary Cause of 2008/2009's Large Drop in Profits and ROE

Sources: A.M. Best, ISO, Insurance Information Institute.

Treasury Yield Curves: Pre-Crisis (July 2007) vs. August 2010

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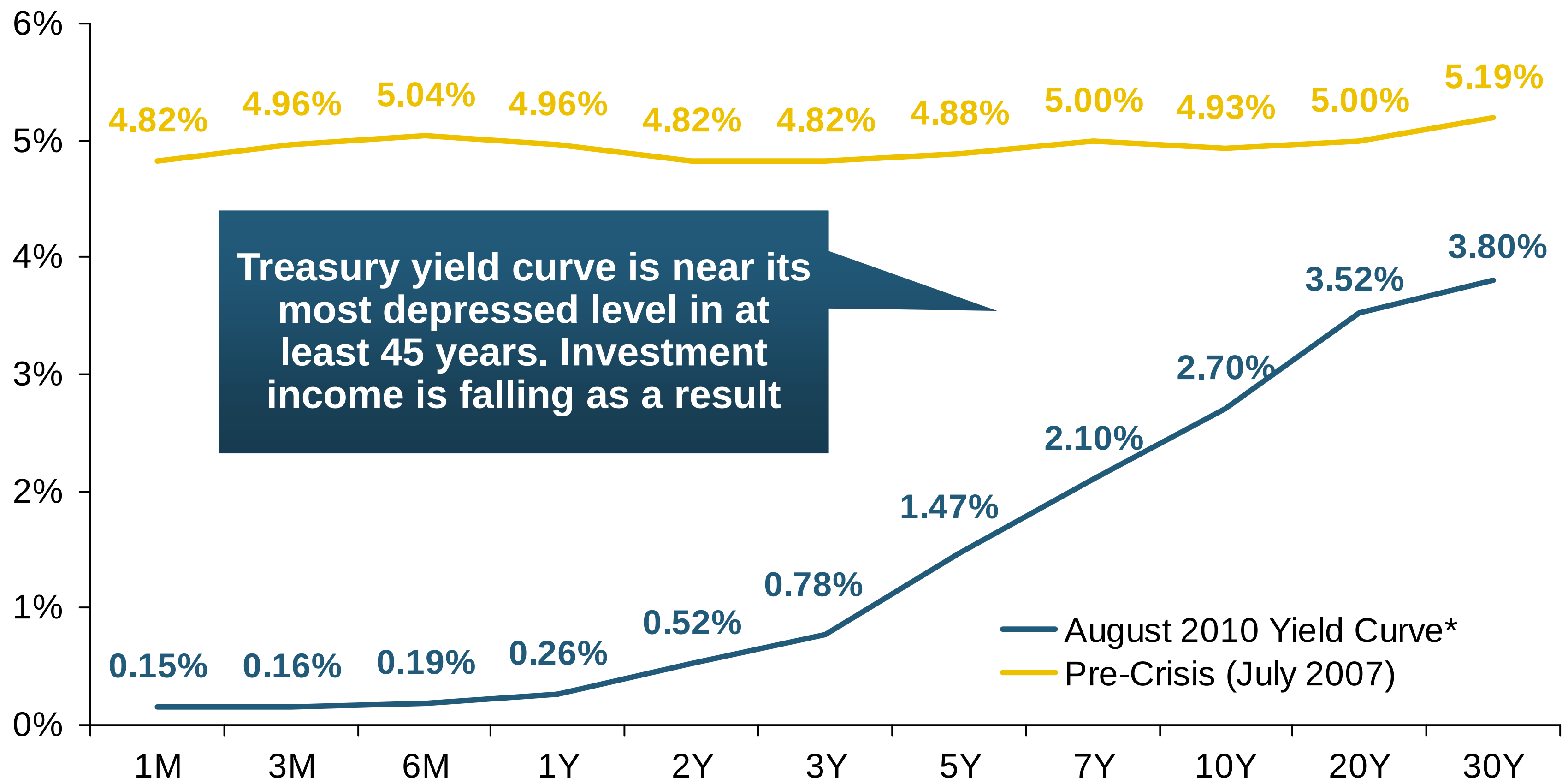
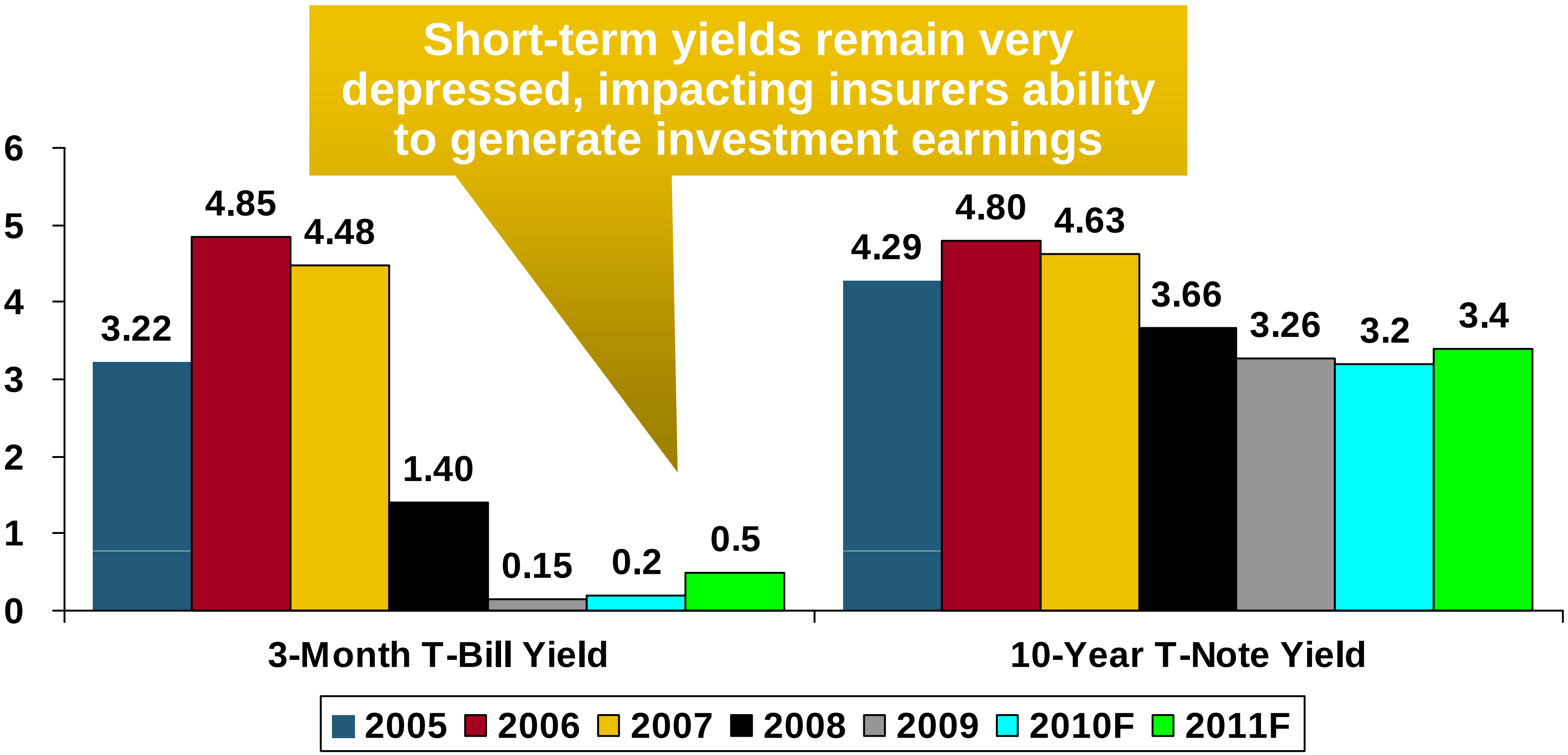


Stock Dividend Cuts Have Further Pressured Investment Income

Sources: Board of Governors of the United States Federal Reserve Bank; Insurance Information Institute.

Treasury Yields Are Low and Expected to Remain Low Through 2011



The ability of reserves releases to favorably impact calendar year results will diminish over time reserved redundancies fall

Sources: Board of Governors of the United States Federal Reserve Bank; Blue Chip Economic Indicators, 9/10; Insurance Information Institute.

Reduction in Combined Ratio Necessary to Offset 1% Decline in Investment Yield to Maintain Constant ROE, by Line*

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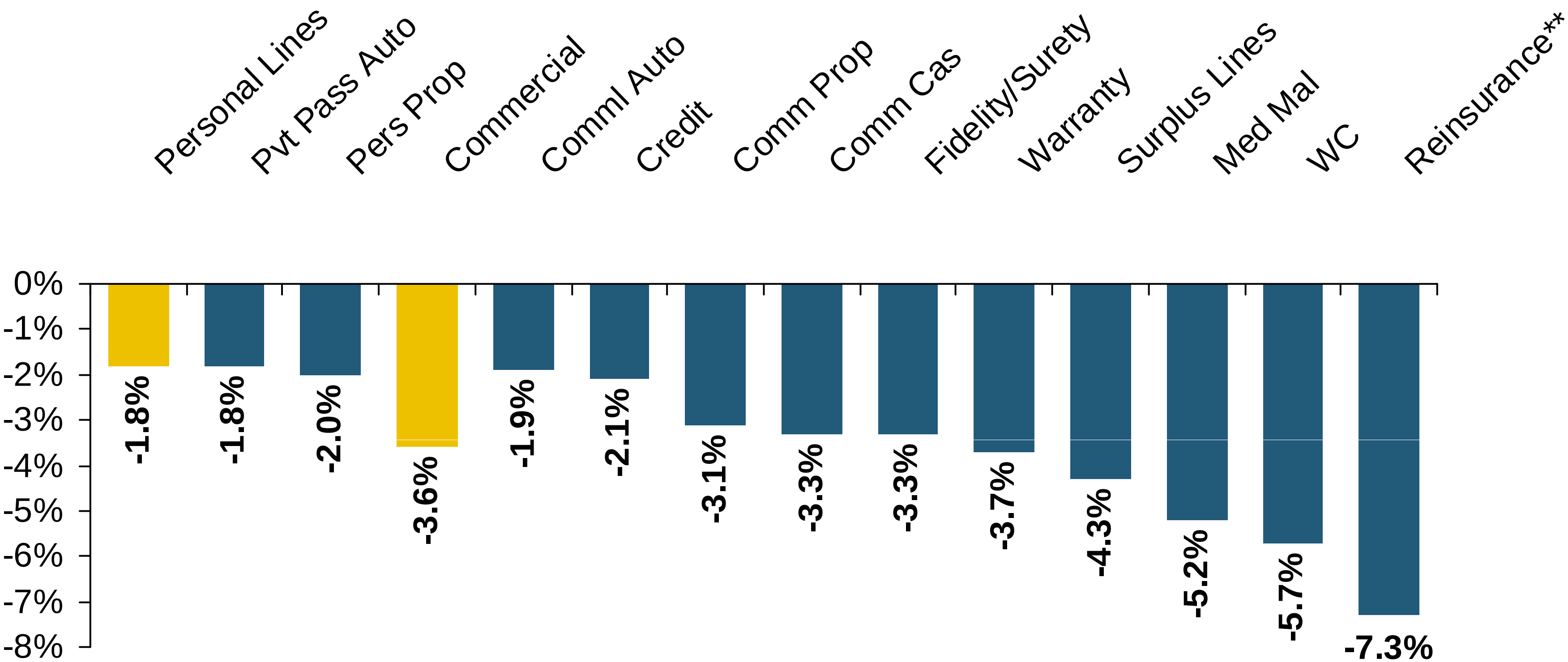


Lower Investment Earnings Place a Greater Burden on Underwriting and Pricing Discipline

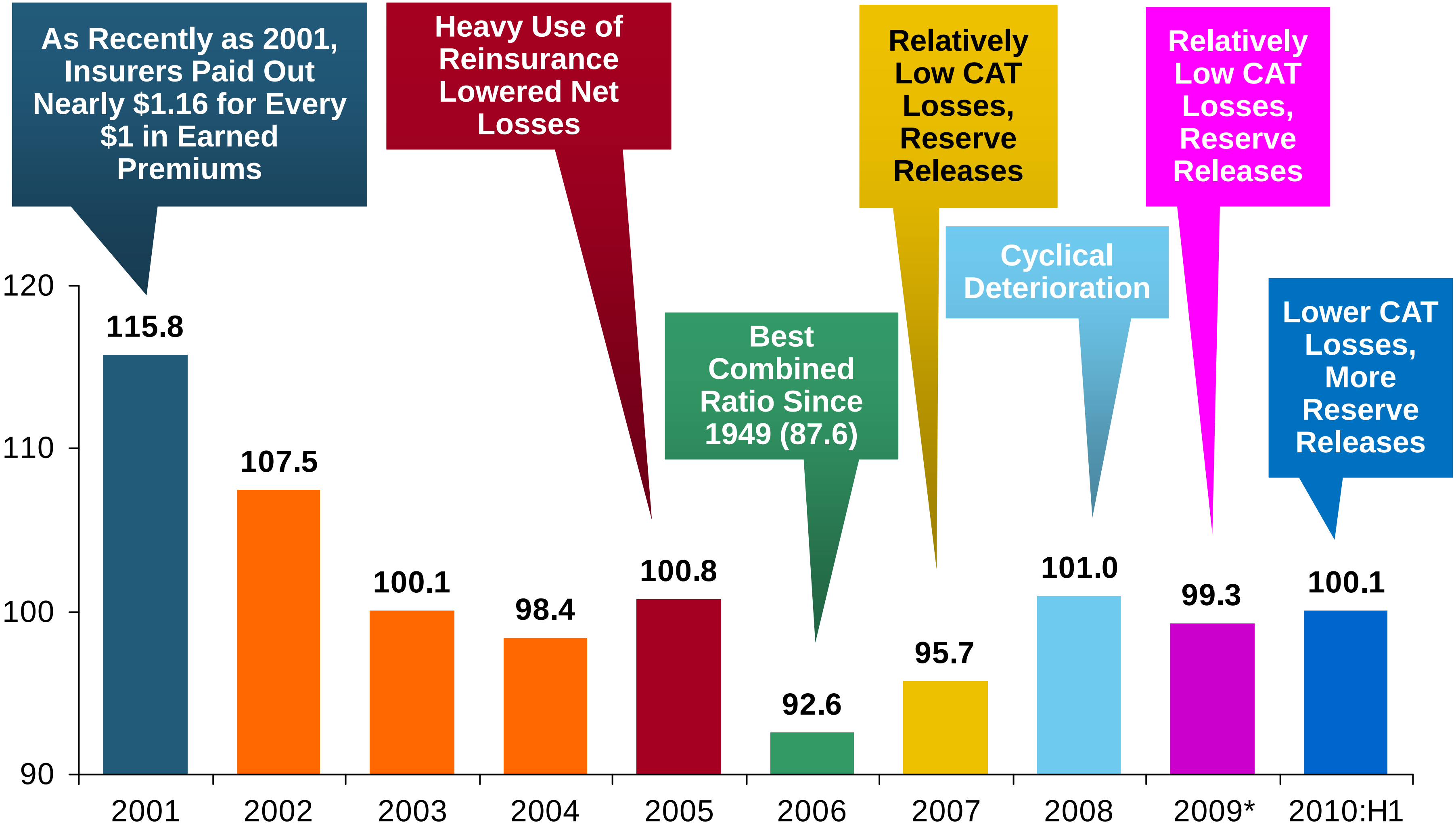
*Based on 2008 Invested Assets and Earned Premiums

**US domestic reinsurance only

Source: A.M. Best; Insurance Information Institute.

Underwriting Trends – Financial Crisis Does *Not* Directly Impact Underwriting Performance: Cycle, Catastrophes Were 2008's Drivers

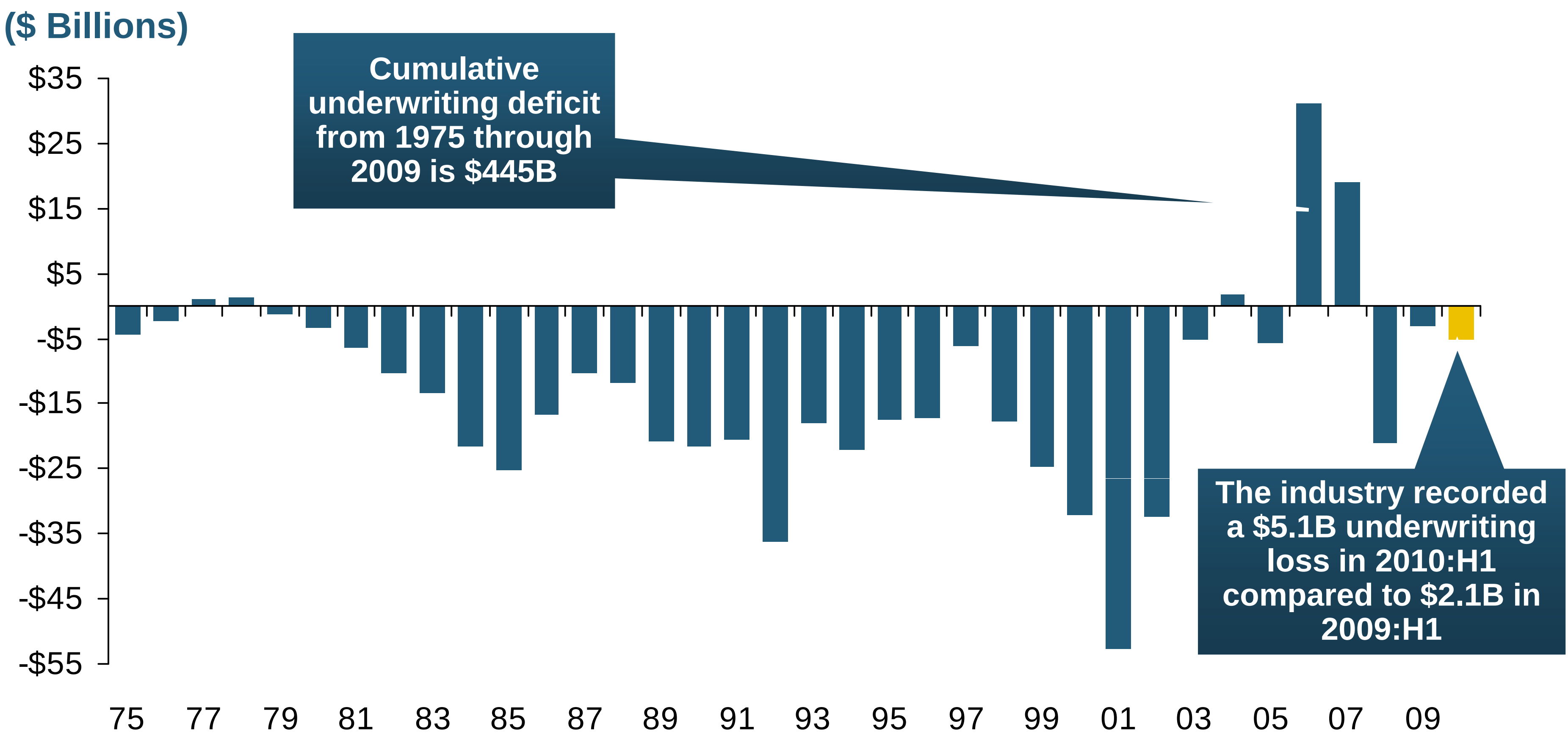
P/C Insurance Industry Combined Ratio, 2001–2010:H1*



* Excludes Mortgage & Financial Guaranty insurers in 2008, 2009 and 2010. Including M&FG, 2008=105.1, 2009=100.7, 2010:H1=101.7

Sources: A.M. Best, ISO.

Underwriting Gain (Loss) 1975–2010:H1*

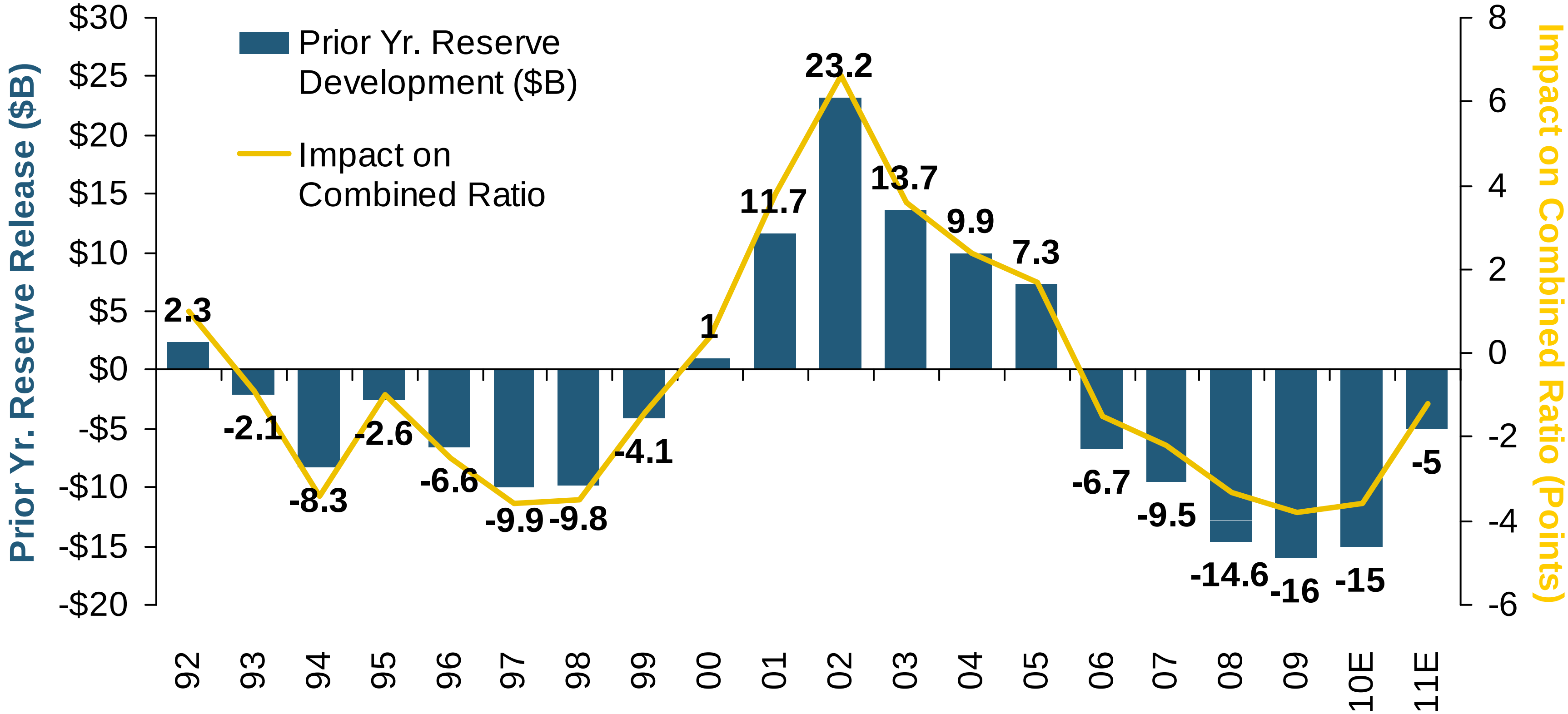


Large Underwriting Losses Are *NOT* Sustainable in Current Investment Environment

* Includes mortgage and financial guarantee insurers.

Sources: A.M. Best, ISO; Insurance Information Institute.

P/C Reserve Development, 1992–2011E



Reserve Releases Will Expected to Taper Off in 2010 and Drop Significantly in 2011

Note: 2005 reserve development excludes a $6 billion loss portfolio transfer between American Re and Munich Re. Including this transaction, total prior year adverse development in 2005 was $7 billion. The data from 2000 and subsequent years excludes development from financial guaranty and mortgage insurance.

Sources: Barclay's Capital; A.M. Best.

Calendar Year vs. Accident Year P/C Combined Ratio: 1992–2010E[1]

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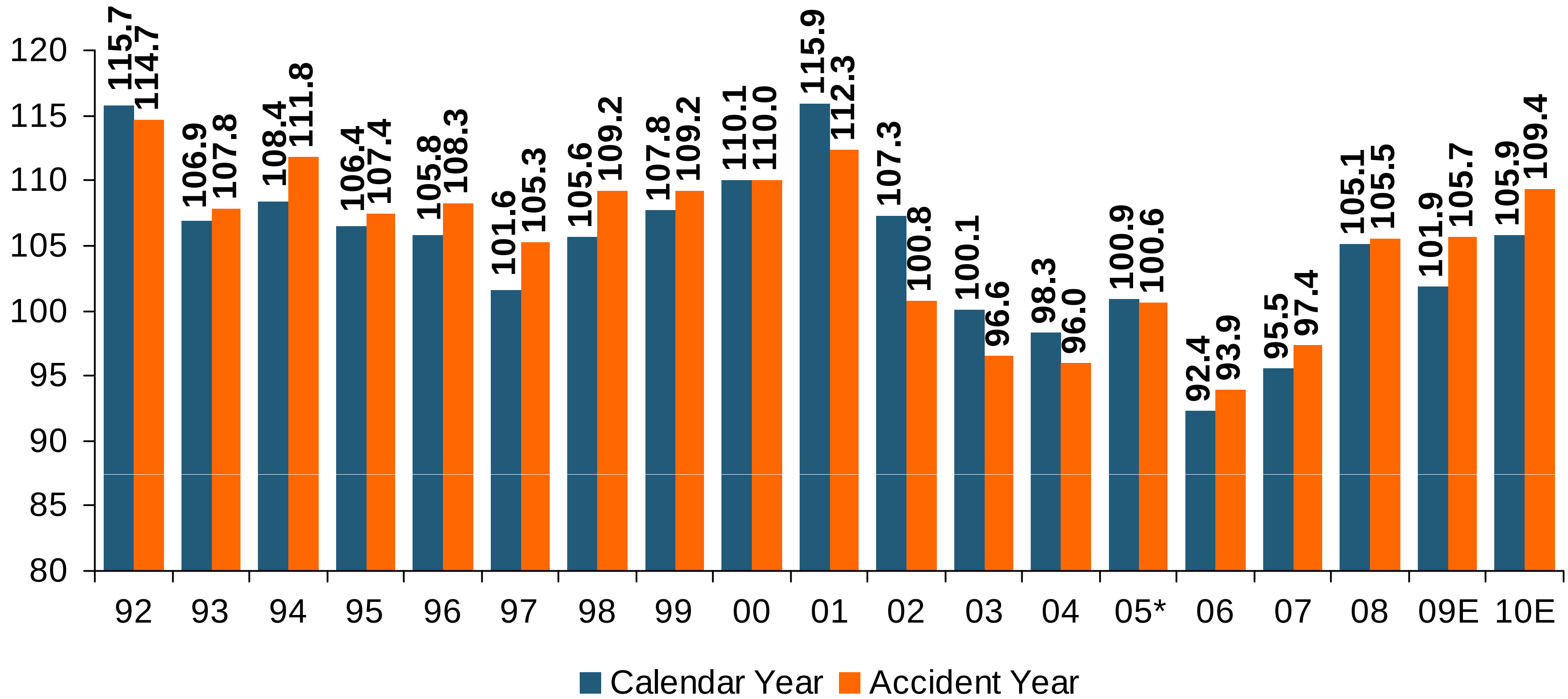
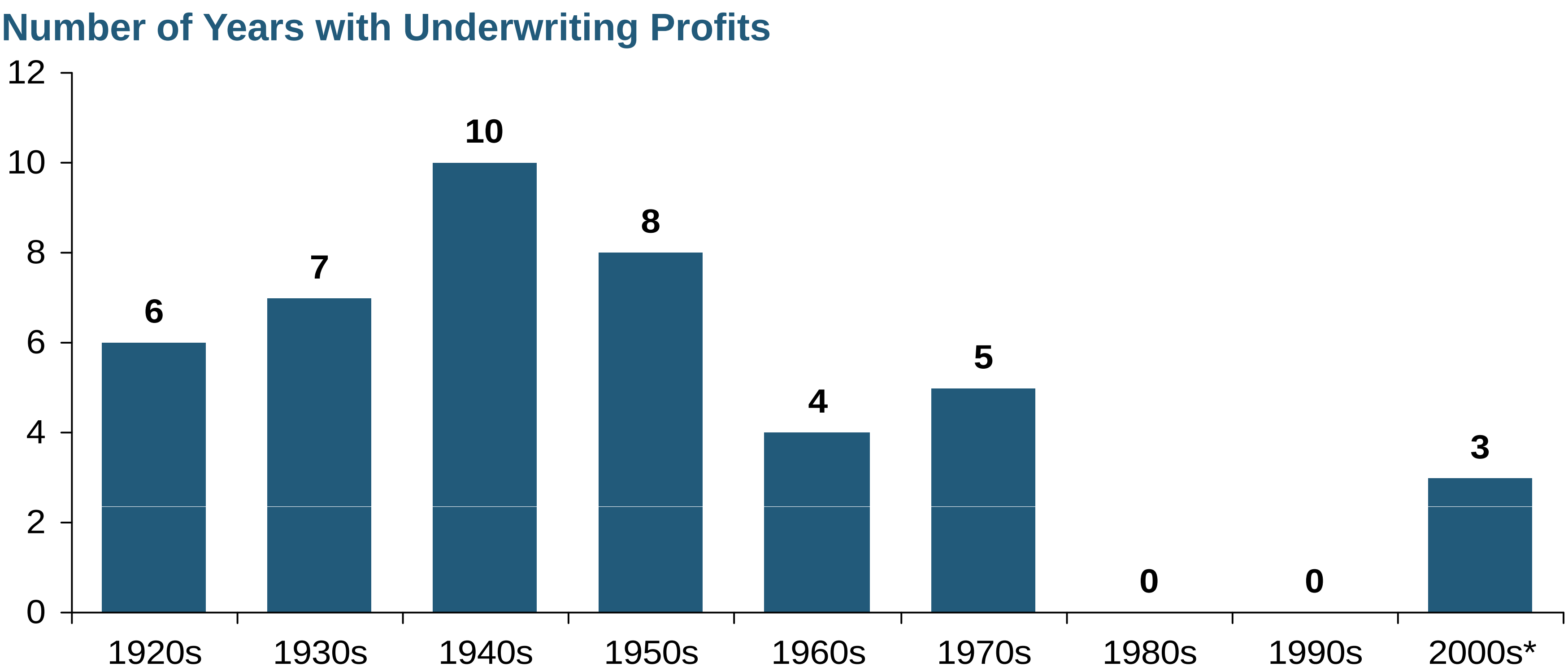


Accident Year Results Show a More Significant Deterioration in Underwriting Performance. Calendar Year Results Are Helped by Reserve Releases

Note: 2005 reserve development excludes a $6 billion loss portfolio transfer between American Re and Munich Re. Including this transaction, total prior year adverse development in 2005 was $7 billion. The data from 2000 and subsequent years excludes development from financial guaranty and mortgage insurance.

Sources: Barclay's Capital; A.M. Best.

Number of Years with Underwriting Profits by Decade, 1920s–2000s



Underwriting Profits Were Common Before the 1980s (40 of the 60 Years Before 1980 Had Combined Ratios Below 100) – But Then They Vanished. Not a Single Underwriting Profit Was Recorded in the 25 Years from 1979 Through 2003

* 2000 through 2009. 2009 combined ratio excluding mortgage and financial guaranty insurers was 99.3, which would bring the 2000s total to 4 years with an underwriting profit.

Note: Data for 1920–1934 based on stock companies only.

Sources: Insurance Information Institute research from A.M. Best Data.

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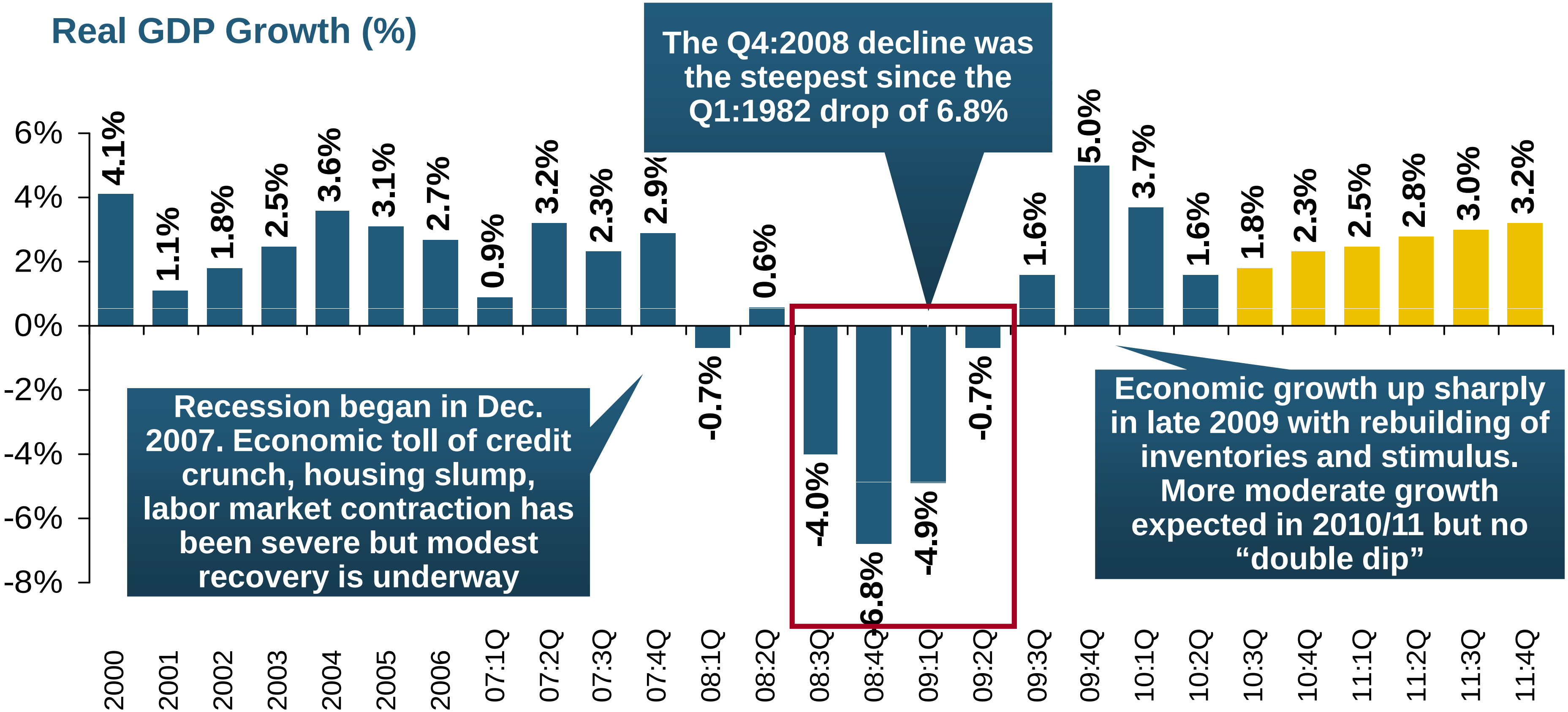
The Economic Storm

What the Financial Crisis and Recession Mean for the Industry's Exposure Base, Growth and Profitability

US Real GDP Growth*



Demand Commercial Insurance Continues To Be Impacted by Sluggish Economic Conditions

* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 7/10; Insurance Information Institute.

Real GDP Growth vs. Real P/C Premium Growth: Modest Association

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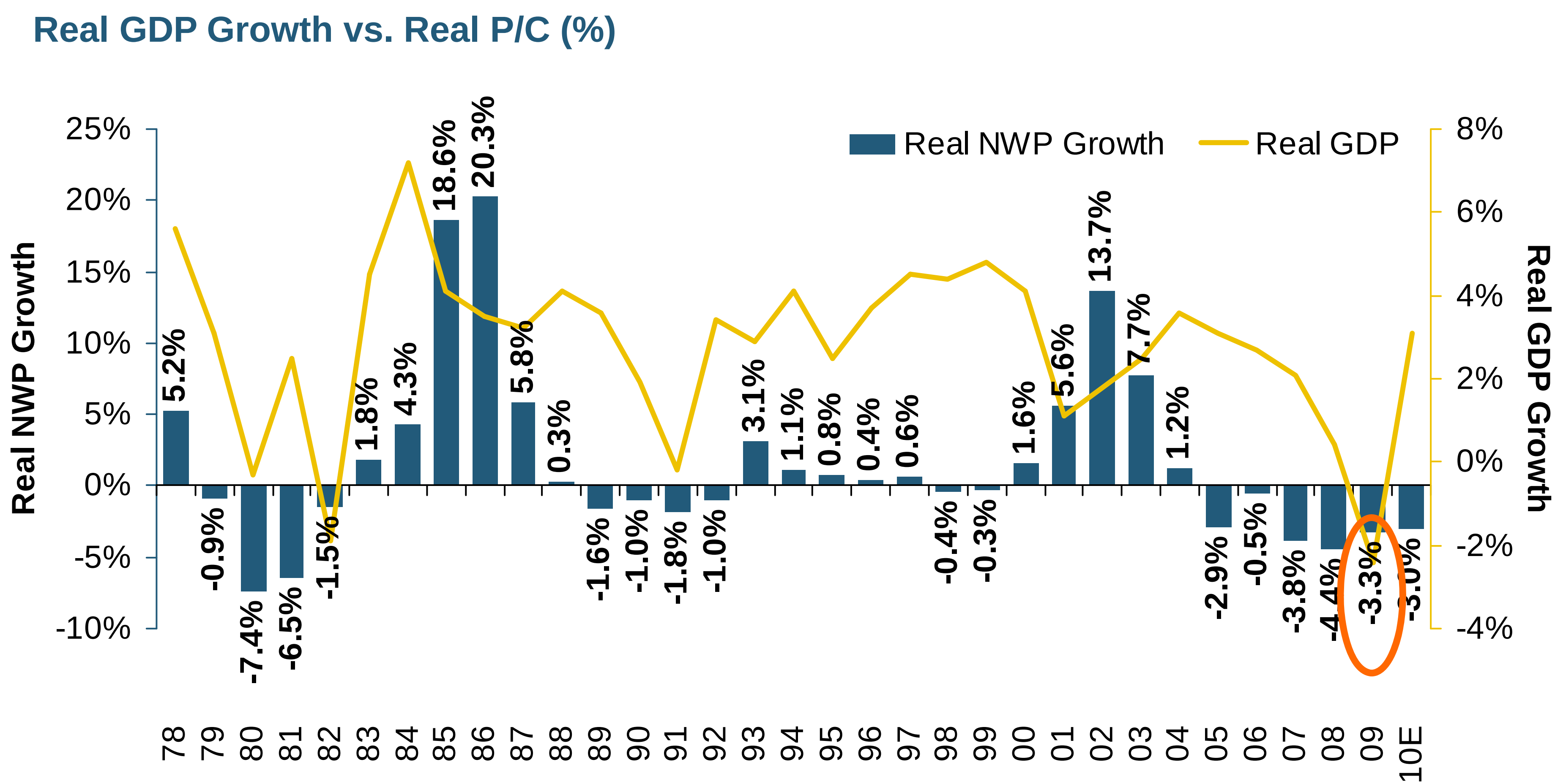

P/C Insurance Industry's Growth is Influenced Modestly by Growth in the Overall Economy

Sources: A.M. Best, US Bureau of Economic Analysis, Blue Chip Economic Indicators, 7/10; Insurance Information Institute

Will Future Tax Policy Impact P/C Insurance Industry Exposure and Growth?

Various Tax Proposals for 2011 Could Have Significant Impacts on the P/C Insurance Industry for Years to Come

Potential Impacts of Current Federal Tax Proposals on P/C Insurance Industry

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Proposal	Potential P/C Insurance Industry Impact	P/C Lines that Benefit
100% Expensing of New Investment in Plant & Equipment in 2011 and Continuation of Bonus Depreciation	Could produce a 5-10% surge in investment in physical plant and equipment in 2011 which will need to be insured immediately. Although the proposal only "steals" investment from the future, this provides a permanent benefit to commercial insurers since insurance coverage must be purchased sooner and be maintained. New construction activity boosts WC and surety.	•Commercial Property •Construction •Commercial Liability •Commercial Auto •Specialty Lines •Excess & Surplus •Workers Comp •Surety •Reinsurance
Reinstate 36% and 39.6% Rates for High Income Taxpayers >$250K	Potential damage to new/small business formation and growth. Weakness in these areas has hurt p/c insurance exposure and tax hikes could depress insurance exposure in this segment	•None
Continue 2001 and 2003 Tax Cuts for All Taxpayers	Should produce an environment that more beneficial to recovery in small business segment & associate insurance exposures	•Small Business Commercial Lines •Personal Lines

Sources: Proposals from Tax Policy Center; P/C discussion is Insurance Information Institute research.

Potential Impacts of Current Federal Tax Proposals on P/C Insurance Industry (cont'd)

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Proposal	Potential P/C Insurance Industry Impact	P/C Lines that Benefit
Impose 20% Tax Rate for Capital Gains and Dividends for High Income Taxpayers	The increase in dividends and capital gains taxes makes private investment less attractive. Under current law the rate is 15%. Additional taxes on investment would presumably result in a marginal but negative impact on p/c insurance exposure.	•None
Payroll Tax Holiday	Reducing the cost of hiring workers would theoretically reduce the cost of employment and should spark hiring, increasing overall employment and payrolls	•Workers comp
Limit Value of Itemized Deductions to 28% for High Income Taxpayers	Will have an unambiguously negative impact on charitable giving. Nonprofit sector will be negatively impacted.	•None (Commercial lines products Designed for NPOs would be negatively impacted; This is a large p/c market.)

Sources: Proposals (except Payroll Tax Holiday) from Tax Policy Center; P/C discussion is Insurance Information Institute research.

Regional Differences Will Significantly Impact P/C Markets

Recovery in Some Areas Will Begin Years Ahead of Others and Speed of Recovery Will Differ by Orders of Magnitude

State Economic Growth Varied Tremendously in 2008

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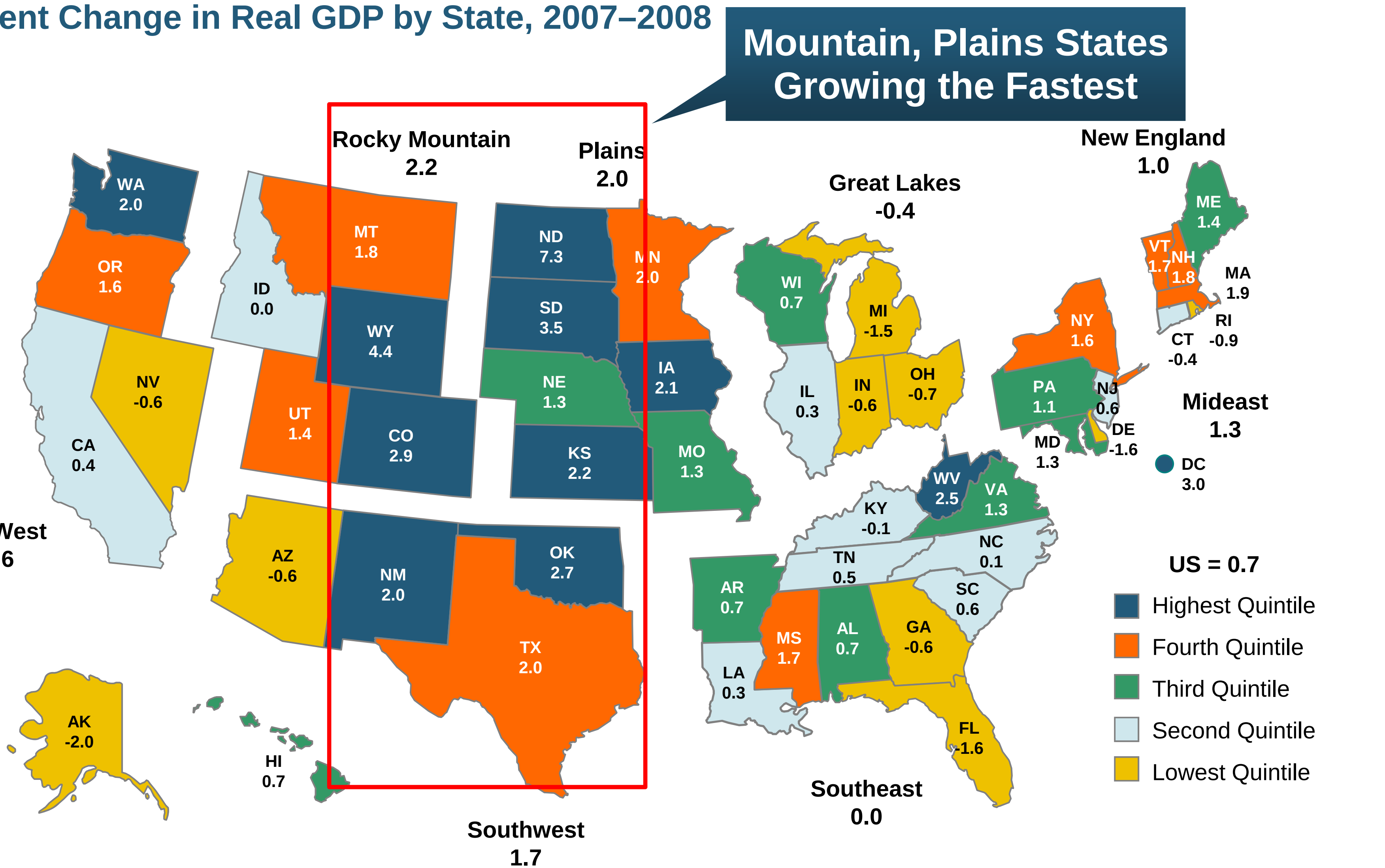
Percent Change in Real GDP by State, 2007–2008



US Bureau of Economic Analysis

Fastest Growing States in 2008: Plains, Mountain States Lead

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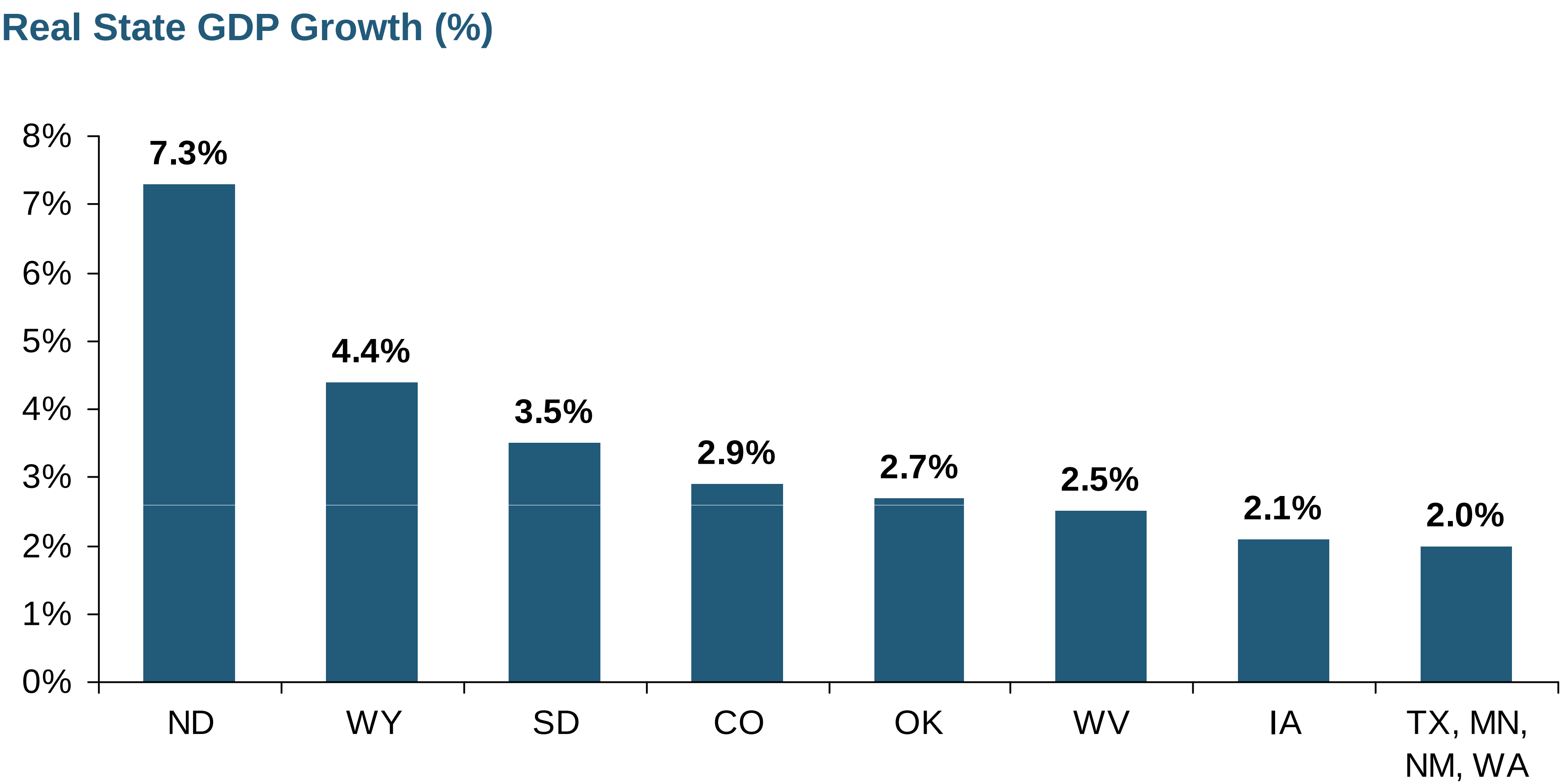

Natural Resource and Agricultural States Have Done Better Than Most Others Recently, Helping Insurance Exposure in Those Areas

Source: US Bureau of Economic Analysis; Insurance Information Institute.

Slowest Growing States in 2008: Diversity of States Suffering

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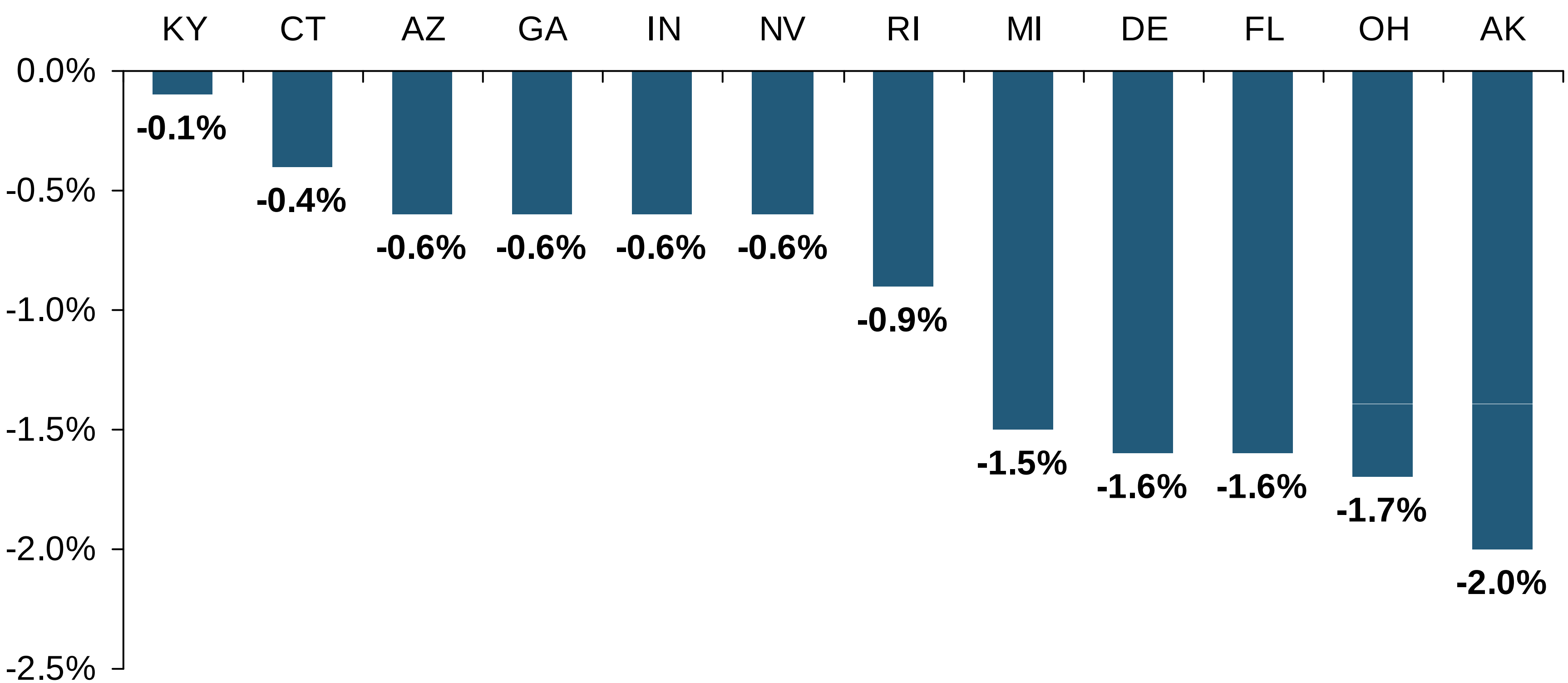
Real State GDP Growth (%)



States in the North, South, East and West All Represented Among Hardest Hit, But for Differing Reasons

Source: US Bureau of Economic Analysis; Insurance Information Institute.

Labor Market Trends

Massive Job Losses Sapped the Economy and Commercial/Personal Lines Exposure, But Trend is Improving

Unemployment and Underemployment Rates: Rocketed Up in 2008-09; Stabilizing in 2010?

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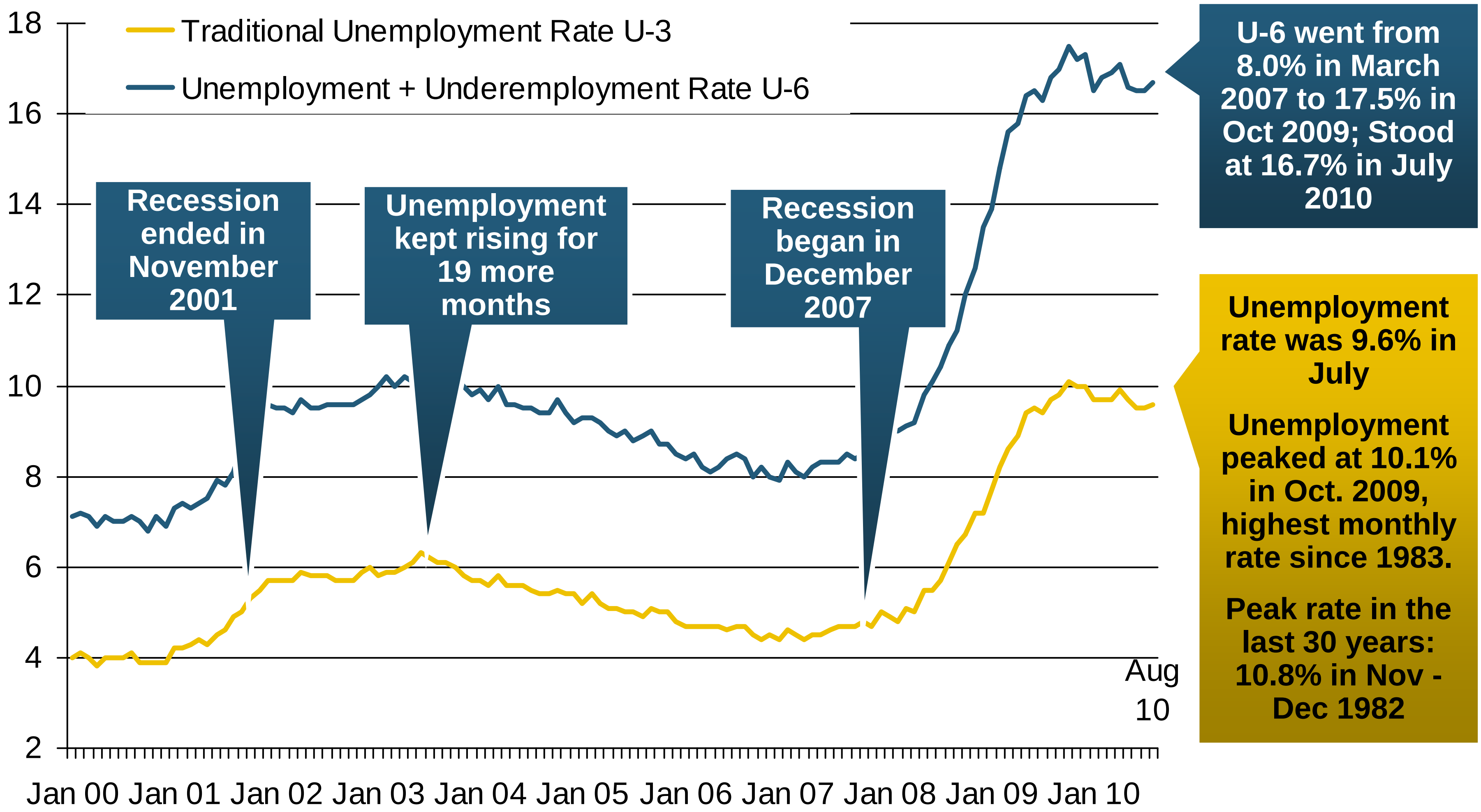
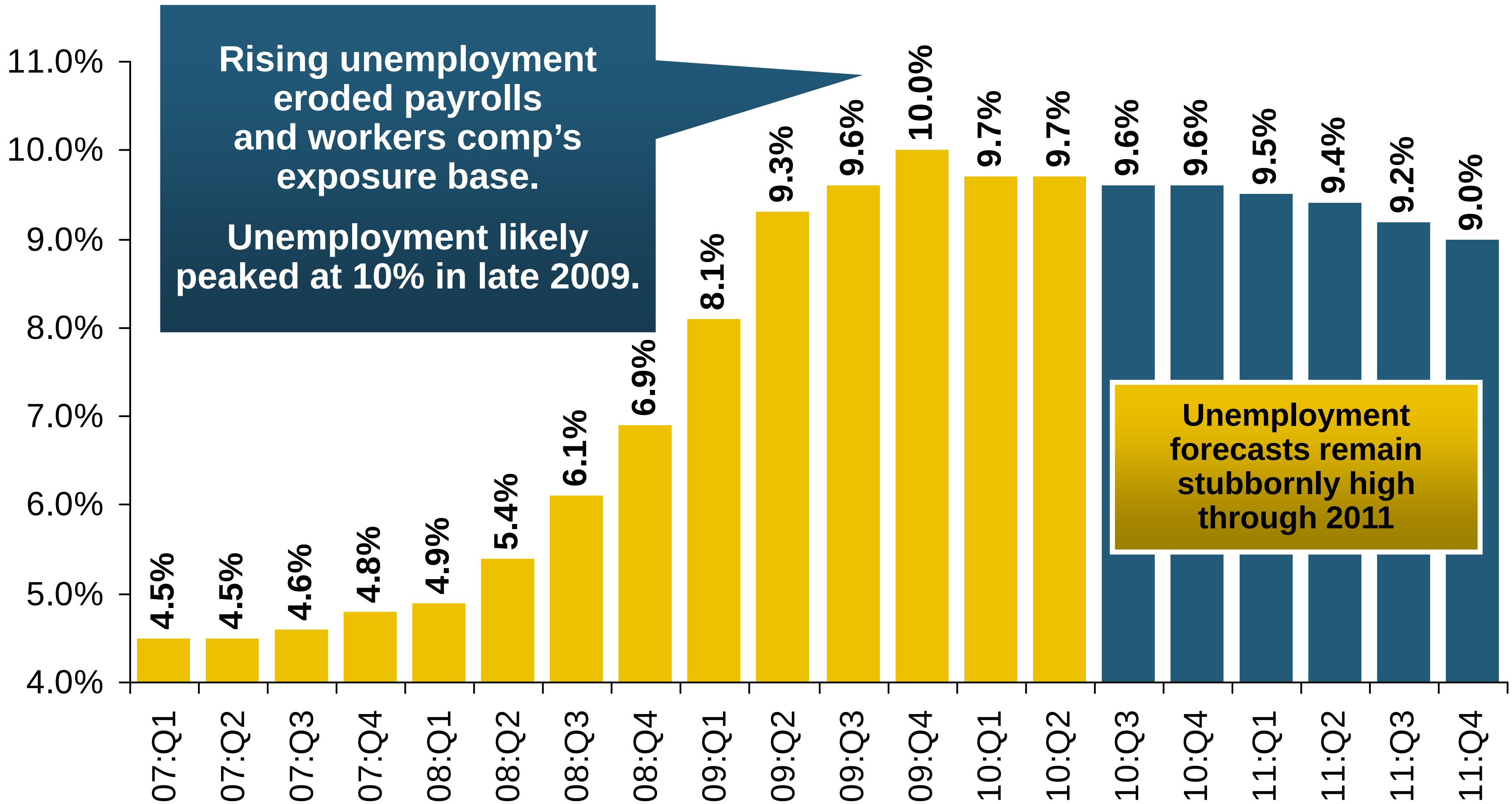
January 2000 through August 2010, Seasonally Adjusted (%)



Source: US Bureau of Labor Statistics; Insurance Information Institute.

US Unemployment Rate

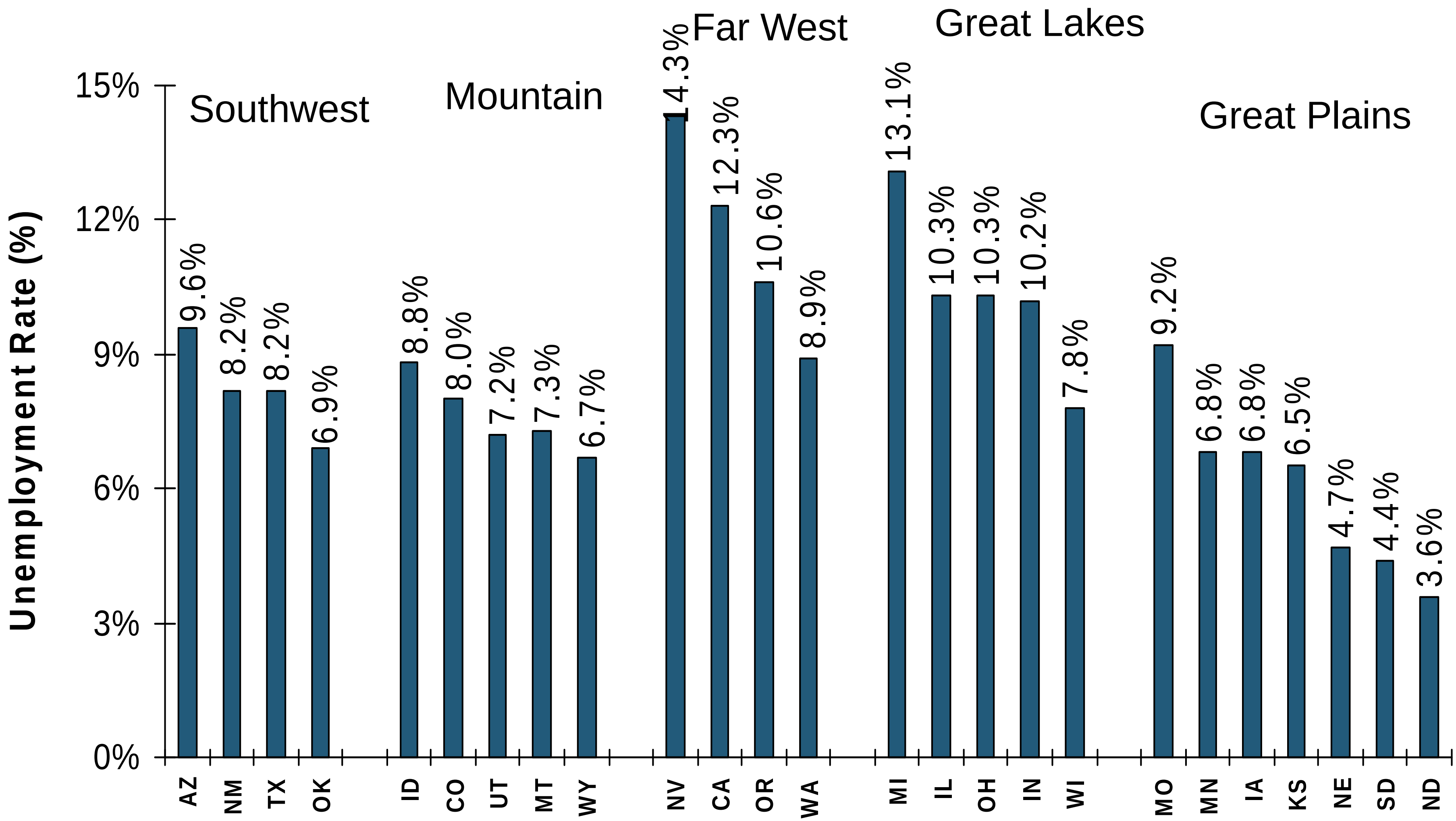
2007:Q1 to 2011:Q4F*



* = actual; = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (9/10); Insurance Information Institute

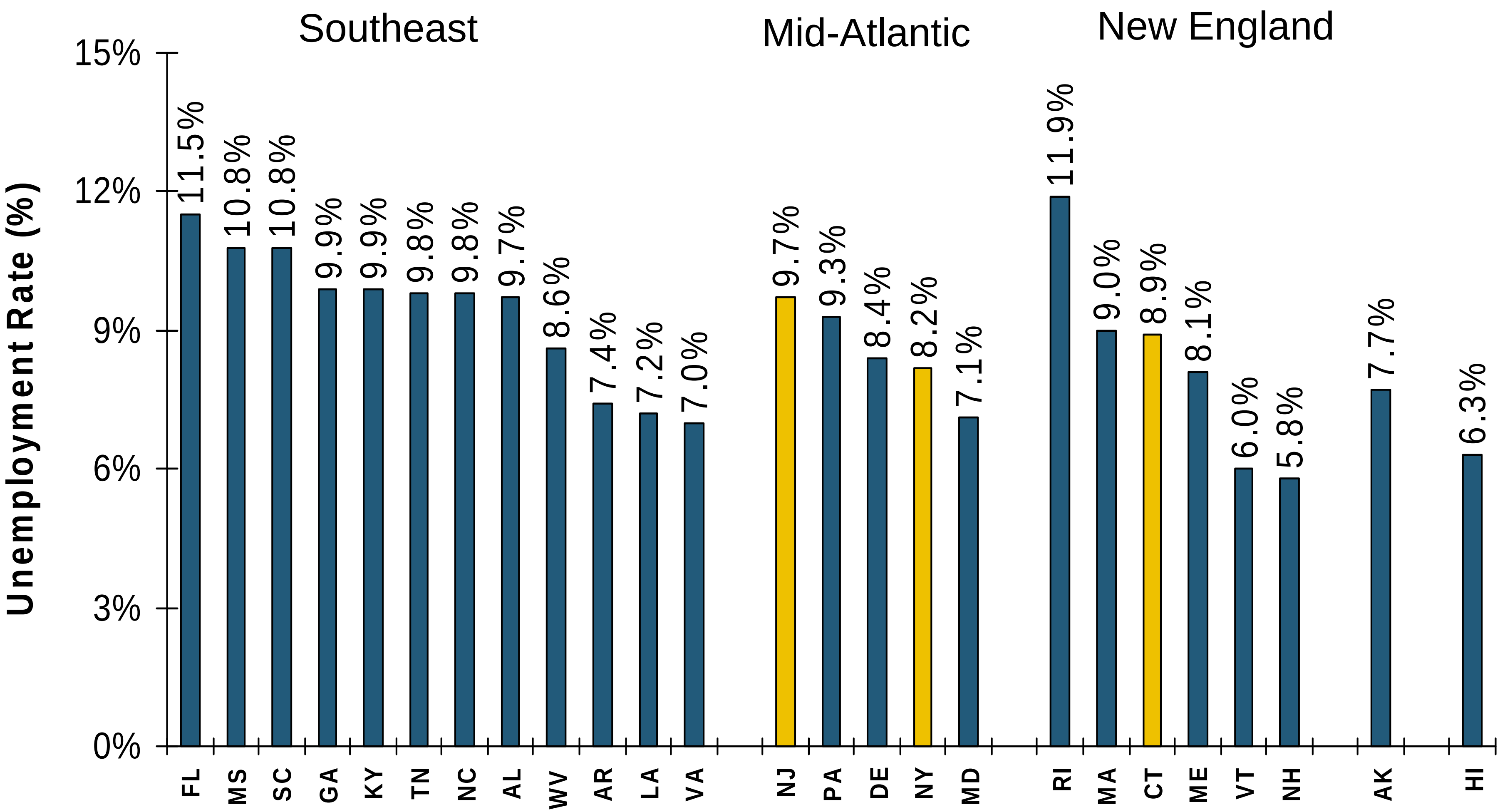
Unemployment Rates Vary Widely by State and Region*



*Provisional figures for July 2010, seasonally adjusted.

Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Unemployment Rates Vary Widely by State and Region* (cont'd)



*Provisional figures for July 2010, seasonally adjusted.

Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Monthly Change Employment*

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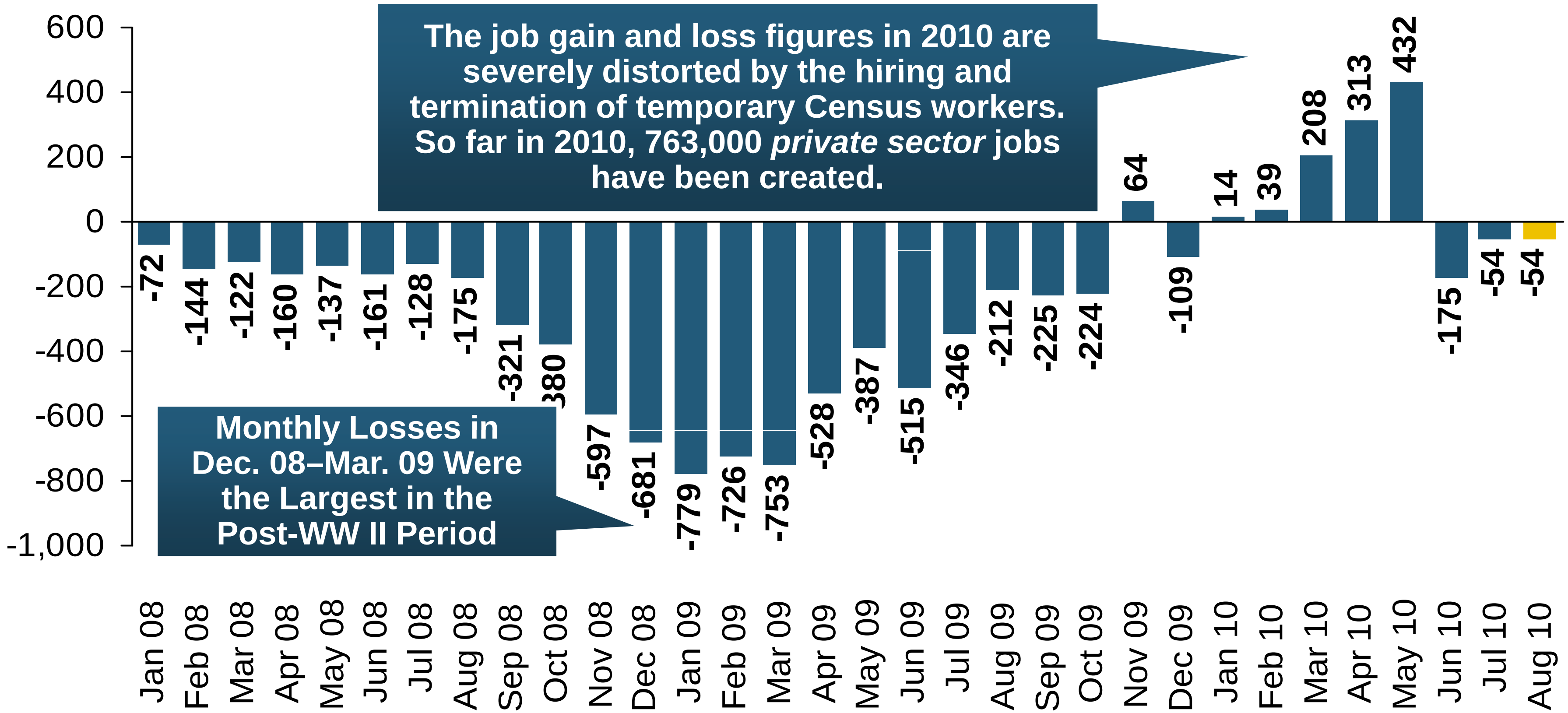
January 2008 through August 2010* (Thousands)



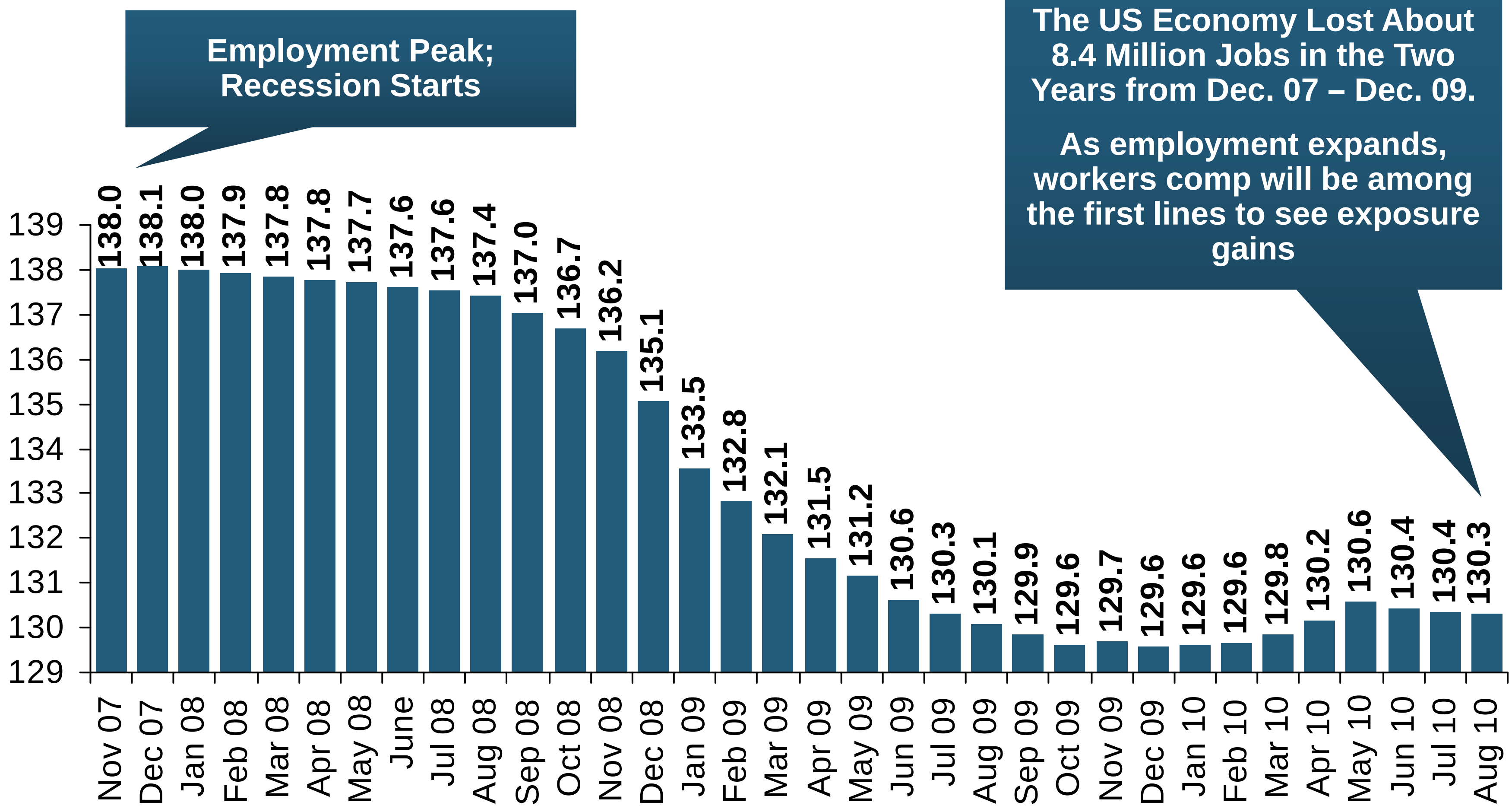
Job Losses Since the Recession Began in Dec. 2007 Peaked at 8.4 Mill in Dec. 09; Stands at 7.7 Million Through August 2010; 14.9 Million People are Now Defined as Unemployed

*Estimate based on Reuters poll of economists.

Source: US Bureau of Labor Statistics: http://www.bls.gov/ces/home.htm; Insurance Information Institute

US Nonfarm Private Employment

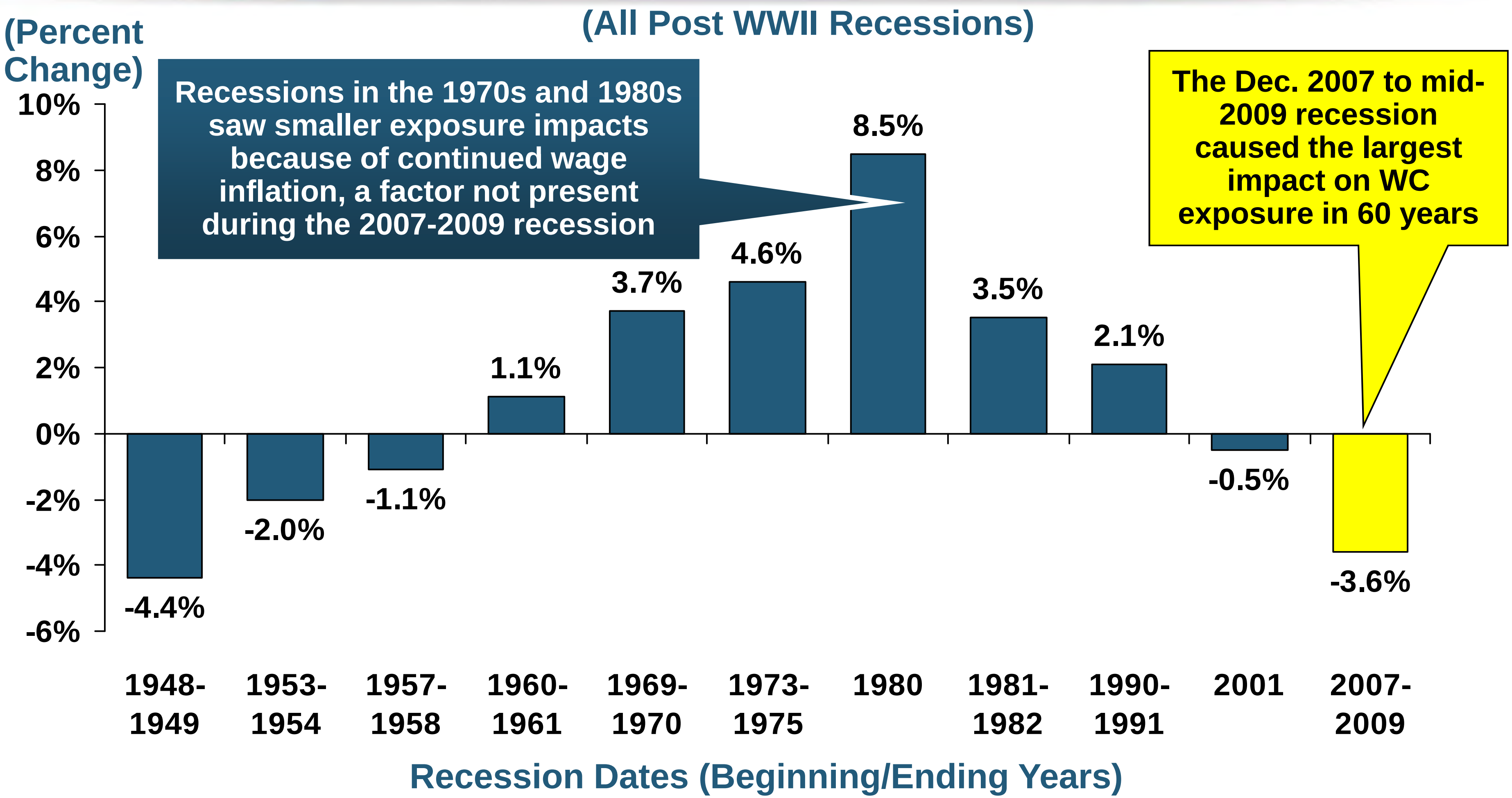
Monthly, Nov 2007 – August 2010 (Millions)



Seasonally adjusted.

Source: US Bureau of Labor Statistics

Estimated Effect of Recessions* on Payroll (Workers Comp Exposure)



*Data represent maximum recorded decline over 12-month period using annualized quarterly wage and salary accrual data

Source: Insurance Information Institute research; Federal Reserve Bank of St. Louis (wage and salary data); National Bureau of Economic Research (recession dates).

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Insurance Industry Employment Trends

Soft Market, Difficult Economy, Outsourcing, Productivity Enhancements and Consolidation Have Contributed to Industry's Job Losses

U.S. Employment in the Direct P/C Insurance Industry: 1990–2010*

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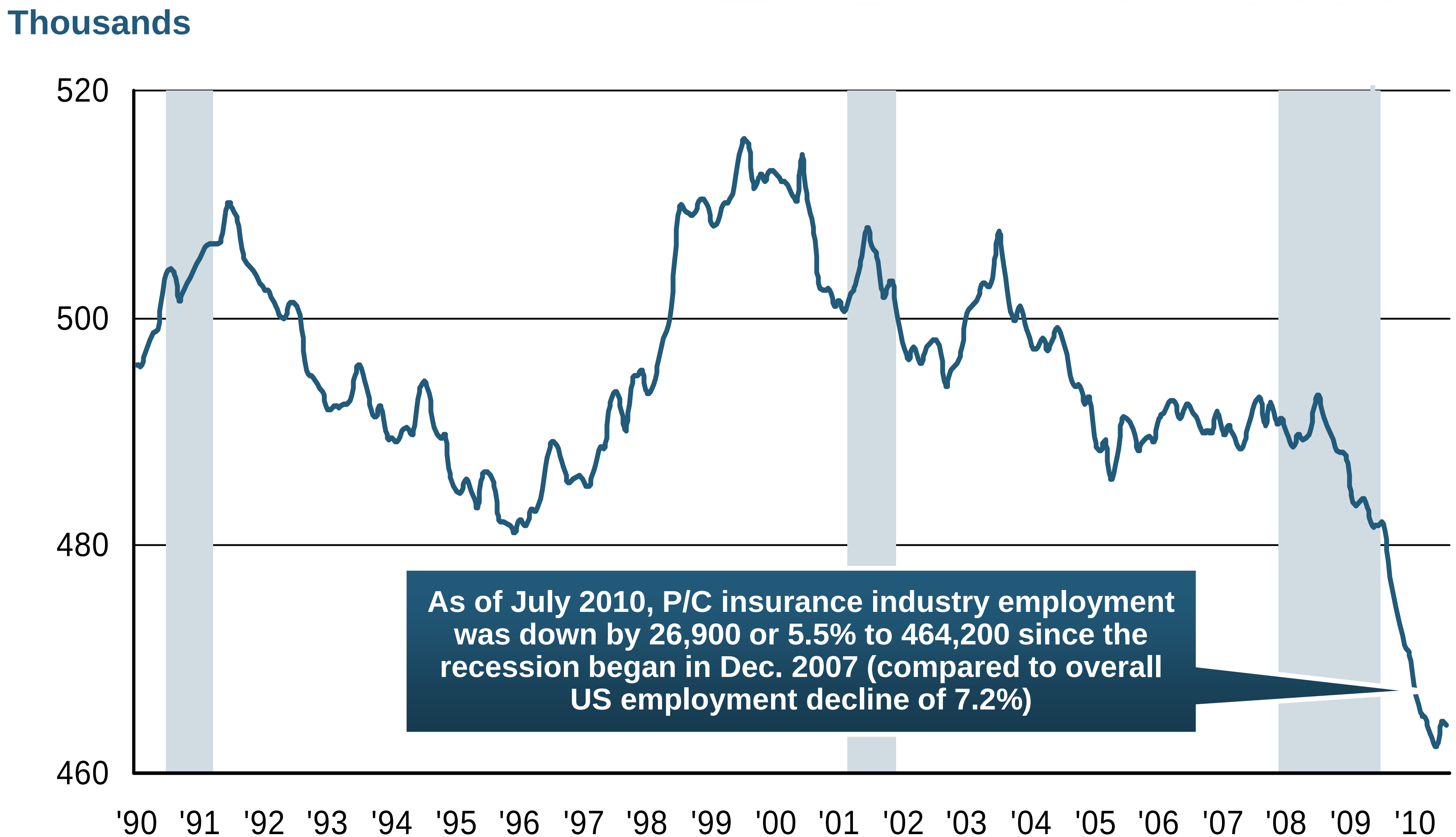


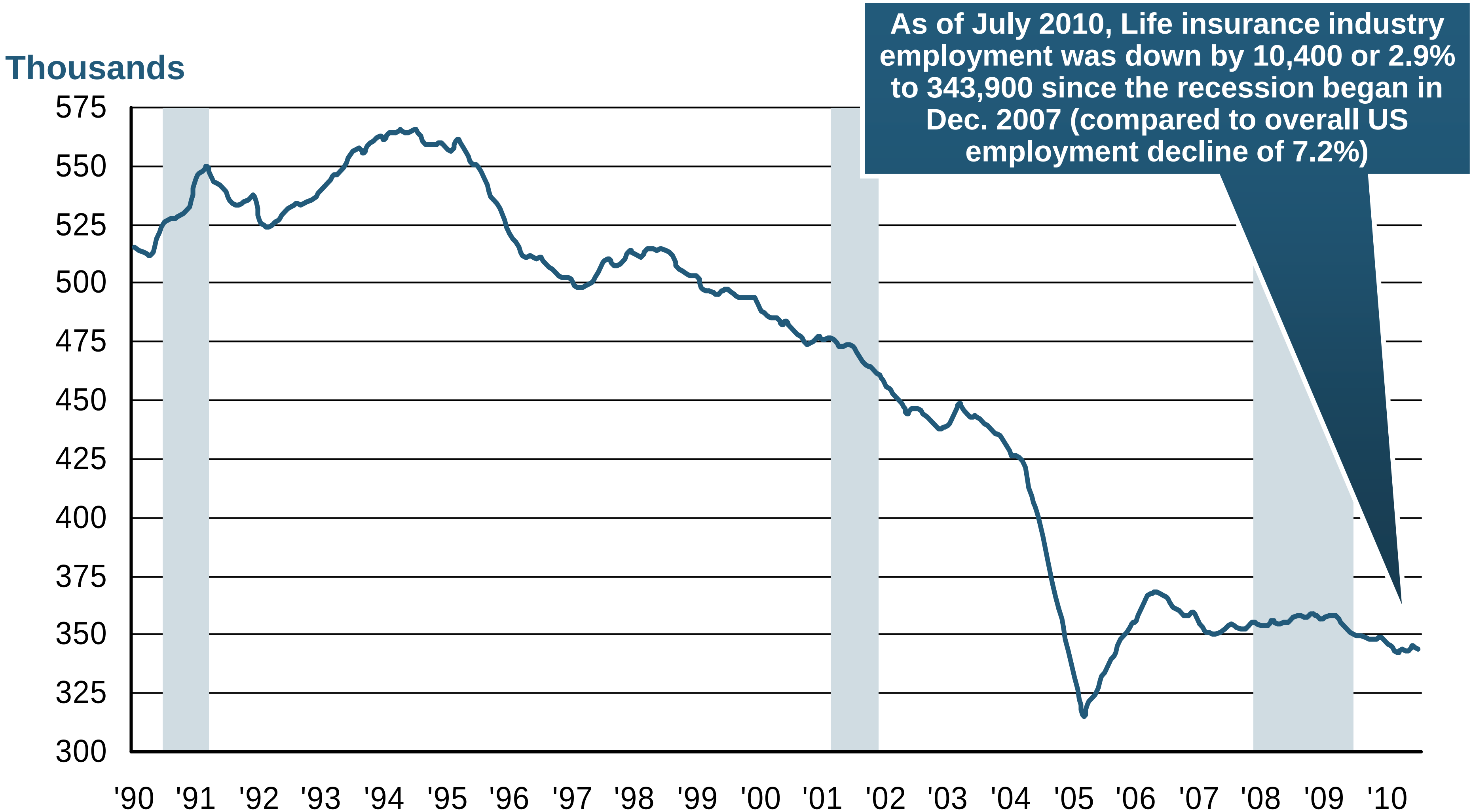
*As of July 2010; Not seasonally adjusted; Does not including agents & brokers

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

U.S. Employment in the Direct Life Insurance Industry: 1990–2010*

INSURANCE INFORMATION INSTITUTE

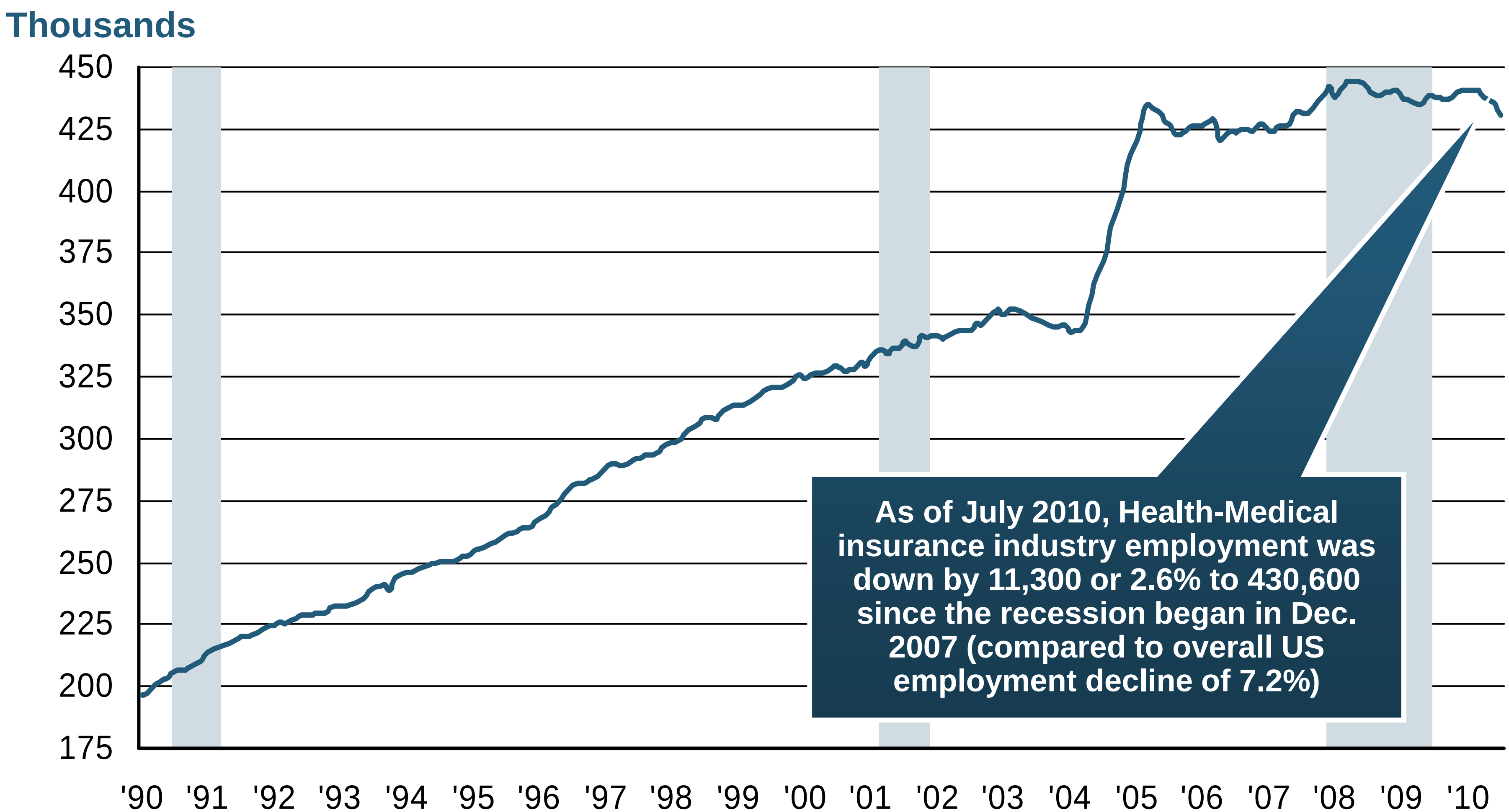


*As of July 2010; Not seasonally adjusted; Does not including agents & brokers

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

U.S. Employment in the Direct Health-Medical Insurance Industry: 1990–2010*

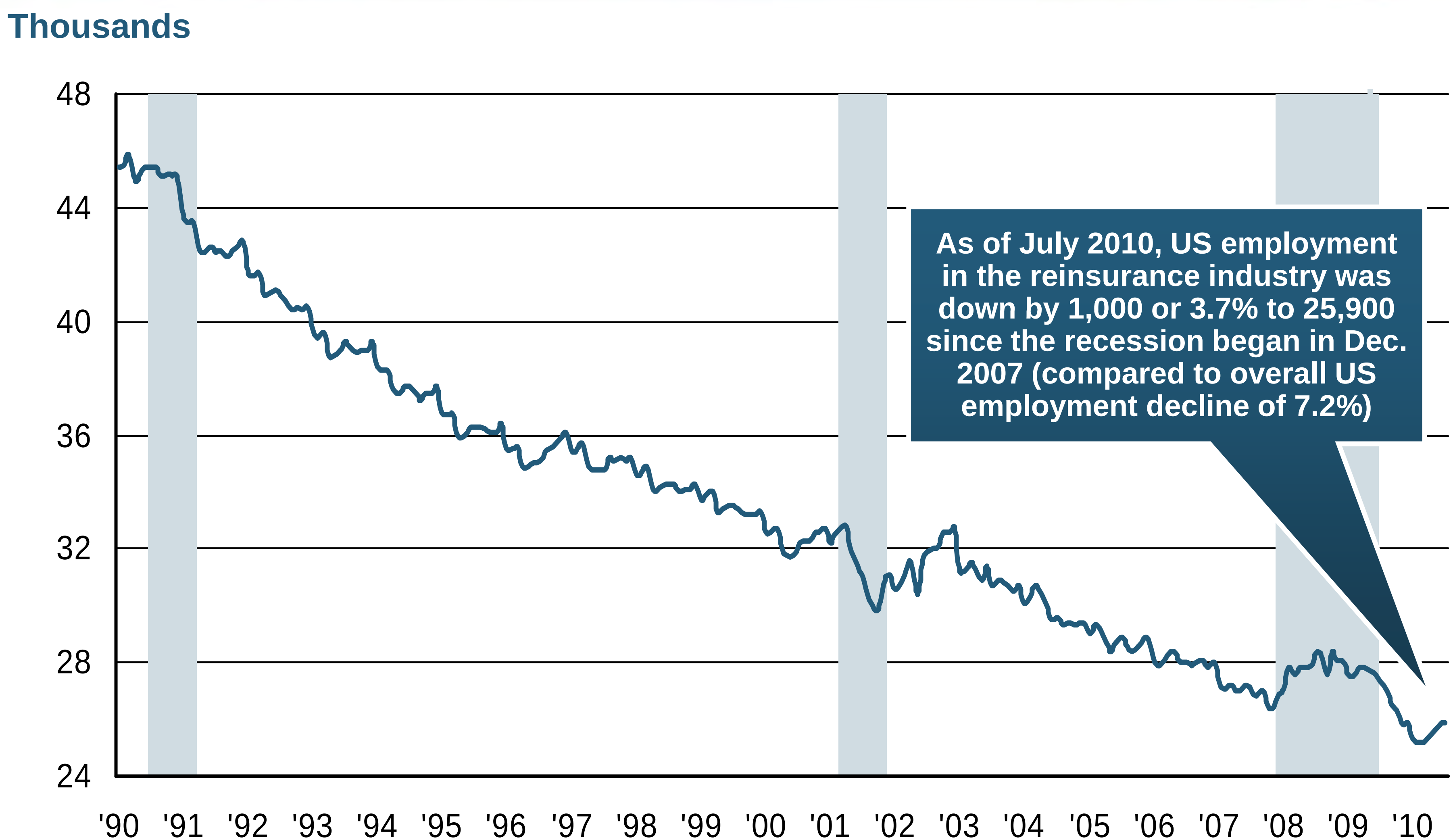


*As of July 2010; Not seasonally adjusted; Does not including agents & brokers

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

U.S. Employment in the Reinsurance Industry: 1990–2010*



*As of July 2010; Not seasonally adjusted; Does not including agents & brokers

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

U.S. Employment in Insurance Agencies & Brokerages: 1990–2010*

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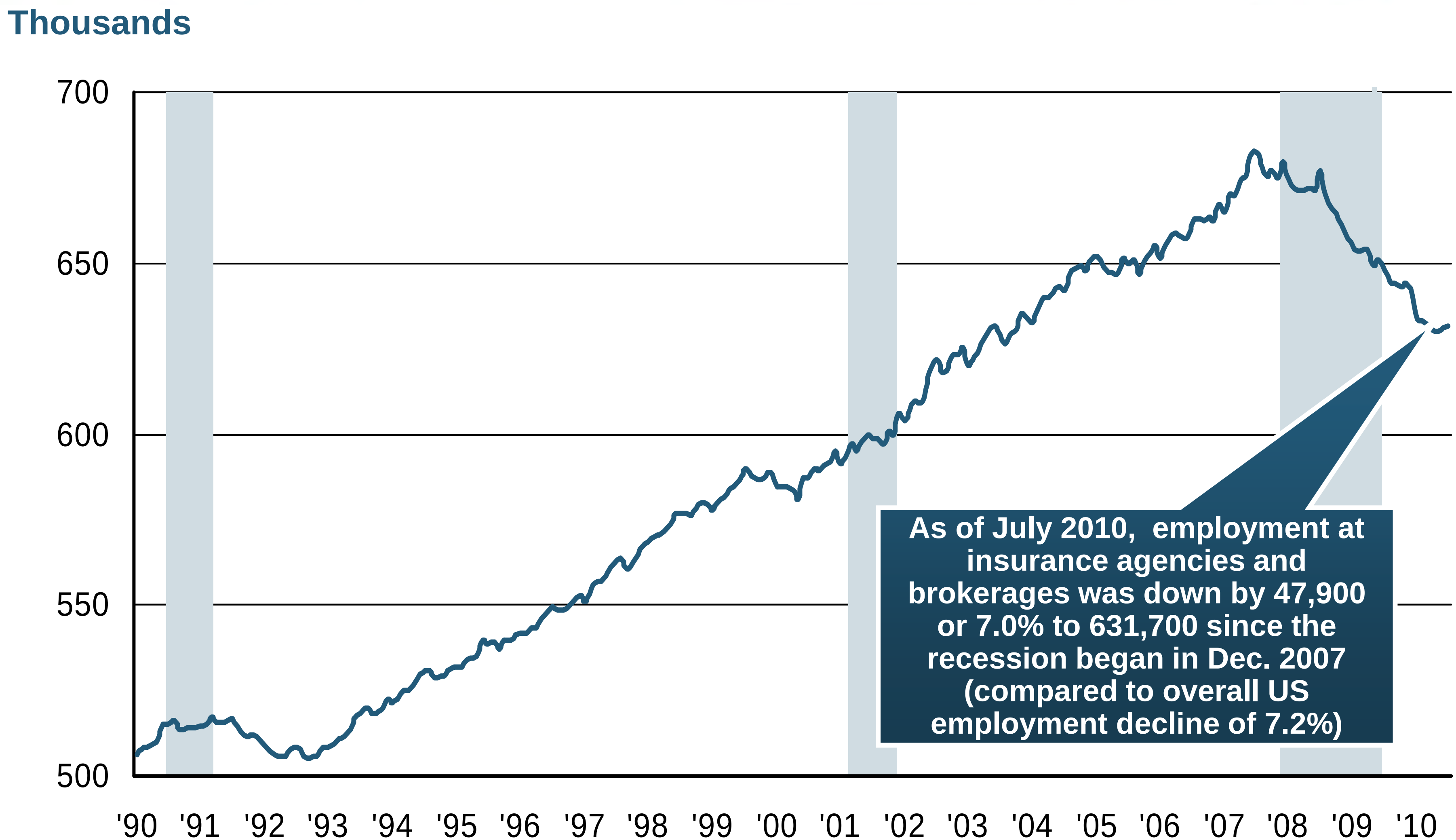
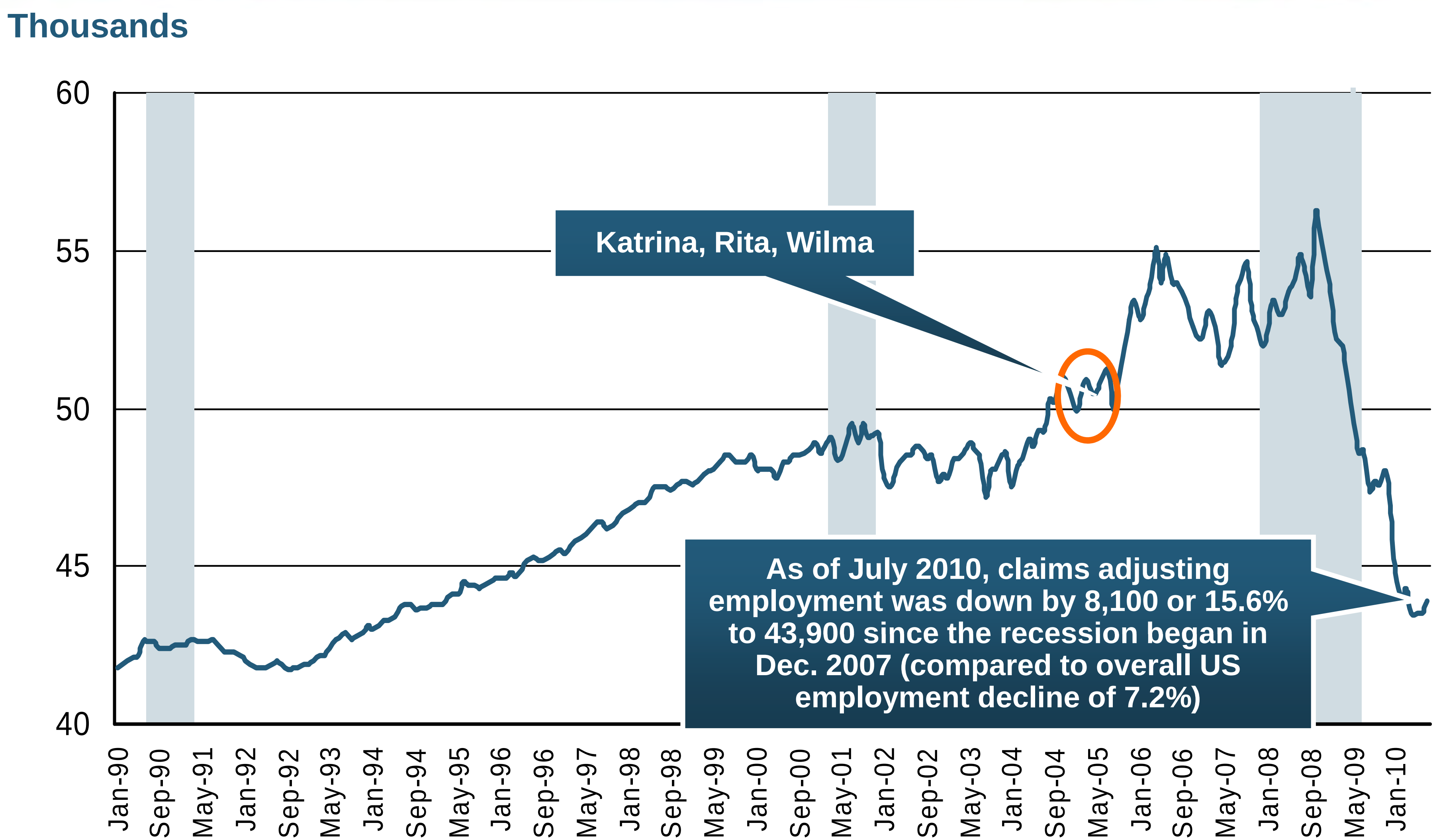


*As of July 2010; Not seasonally adjusted. Includes all types of insurance.

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

U.S. Employment in Insurance Claims Adjusting: 1990–2010*



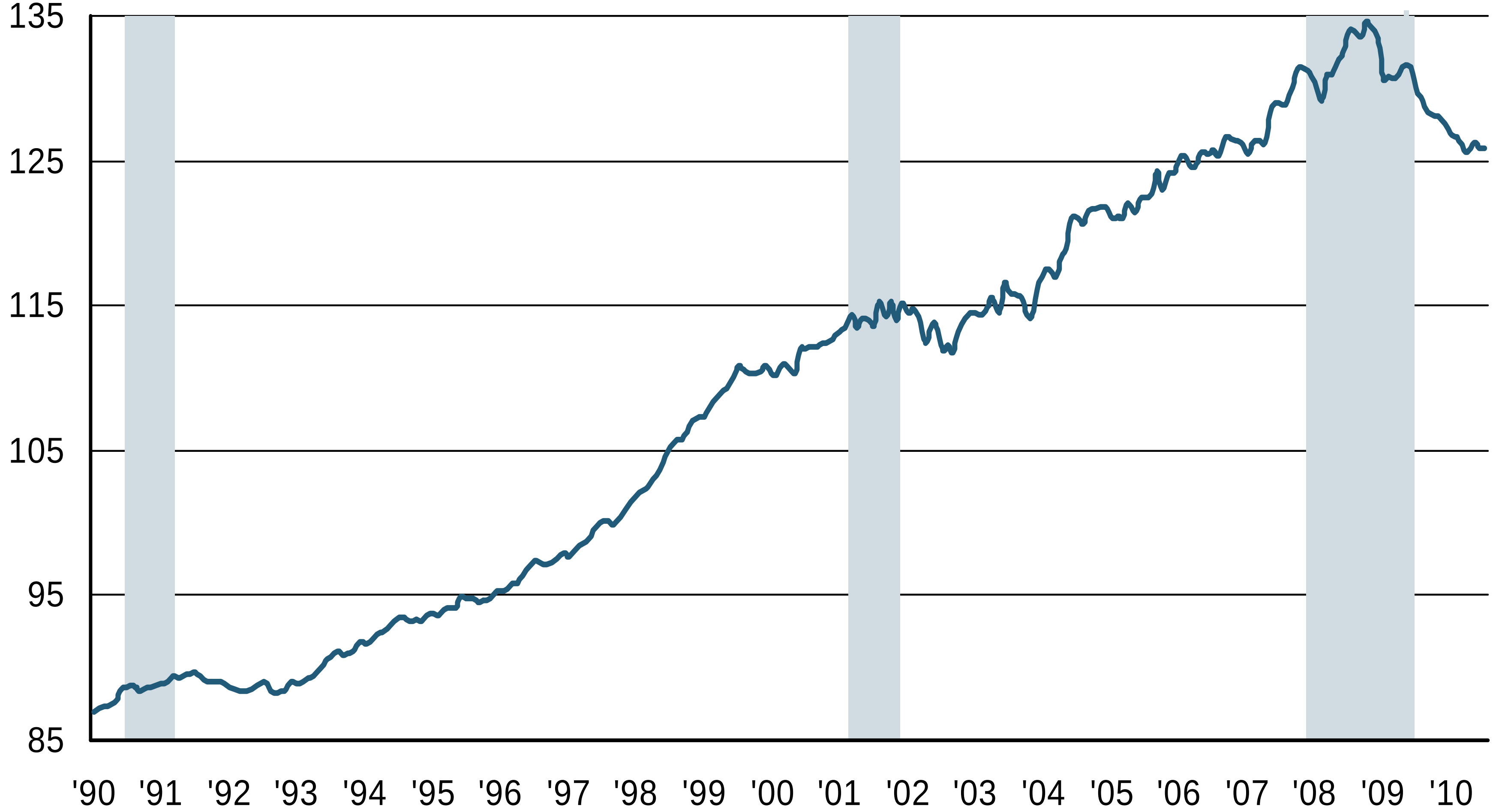
*As of July 2010; Not seasonally adjusted.

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

U.S. Employment in Third-Party Administration of Insurance Funds: 1990–2010*

Thousands



*As of July 2010; Not seasonally adjusted. Includes all types of insurance.

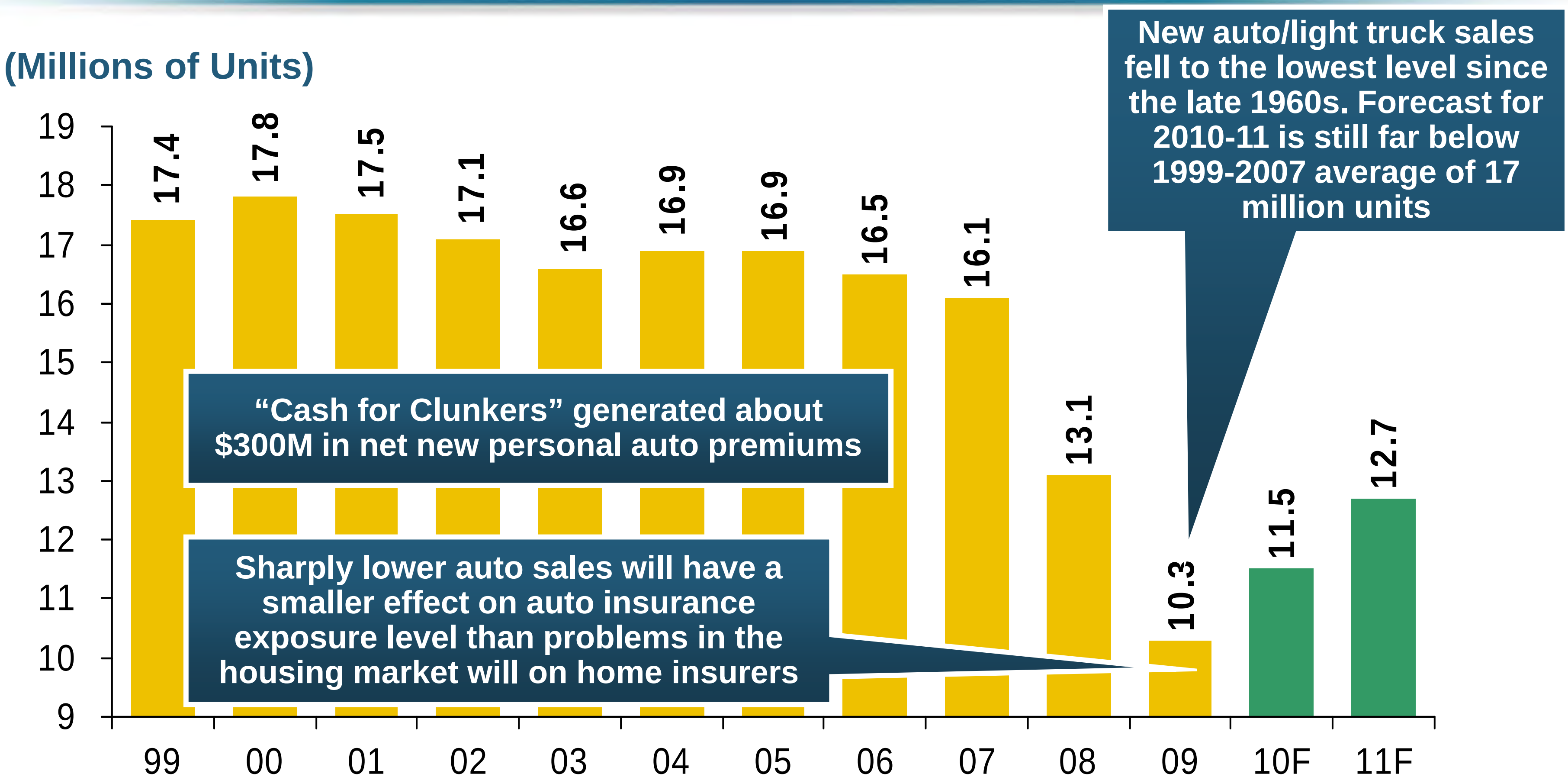
Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

Crisis-Driven Exposure Drivers

Economic Obstacles to Growth in P/C Insurance

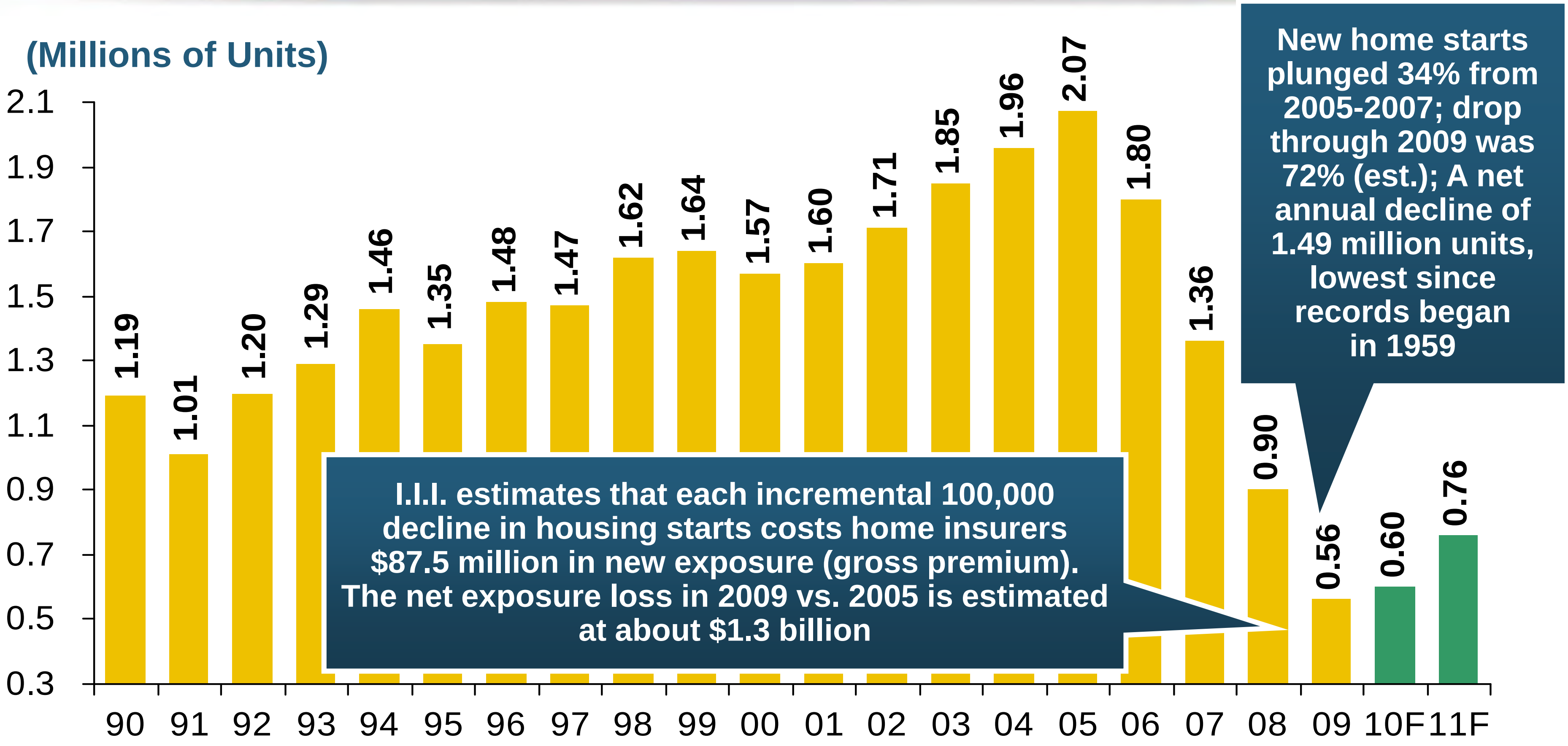
Auto/Light Truck Sales, 1999-2011F



Car/Light Truck Sales Will Recover from the 2009 Low Point, but High Unemployment, Tight Credit Are Still Restraining Sales

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (9/10); Insurance Information Institute.

New Private Housing Starts, 1990-2011F



Little Exposure Growth Likely for Homeowners Insurers Due to Weak Home Construction Forecast for 2010-2011. Also Affects Commercial Insurers with Construction Risk Exposure, Surety

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (9/10); Insurance Information Institute.

Business Bankruptcy Filings, 1980-2010:H1

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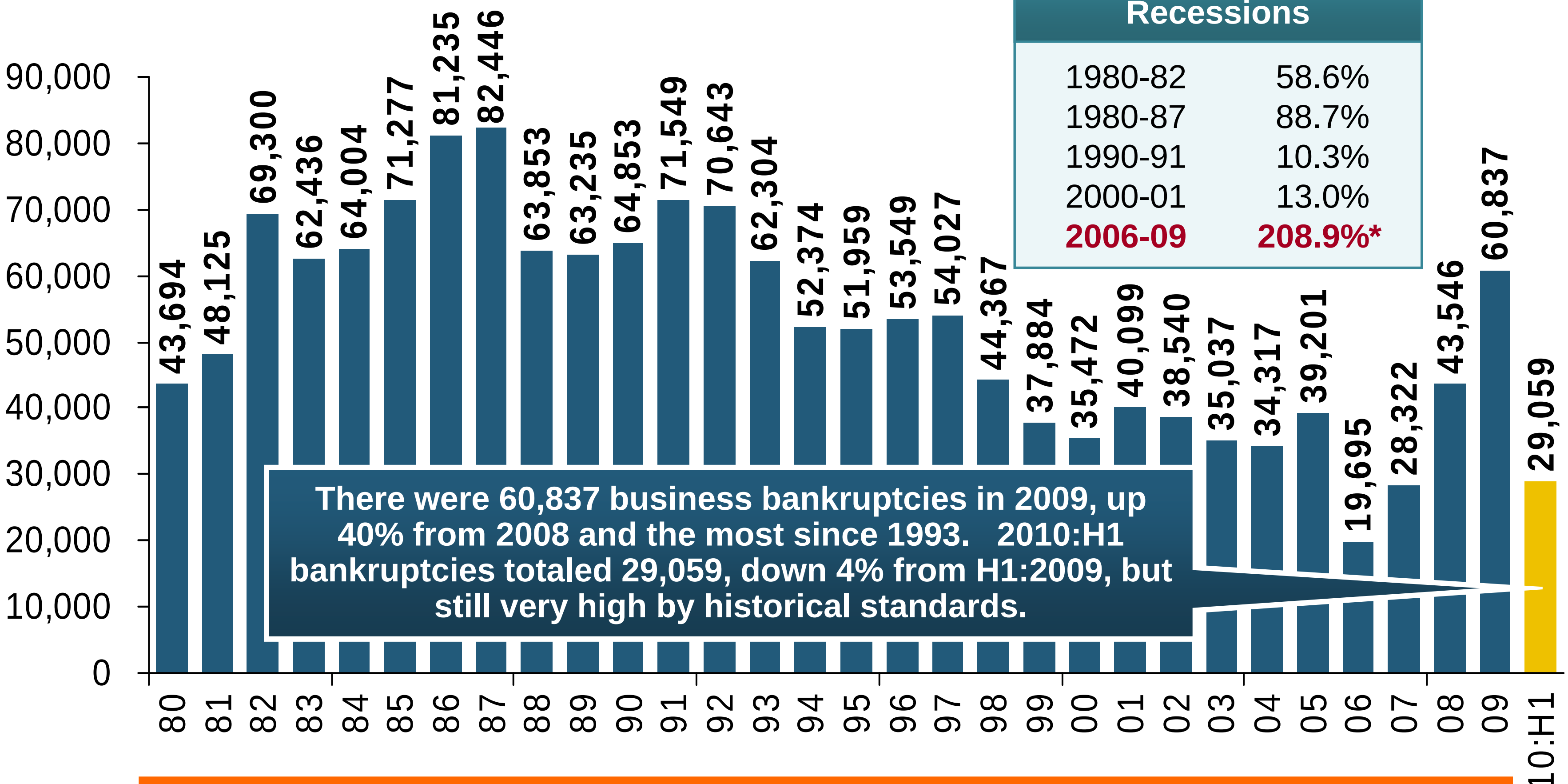

% Change Surrounding Recessions	
1980-82	58.6%
1980-87	88.7%
1990-91	10.3%
2000-01	13.0%
2006-09	**208.9%***

Significant Exposure Implications for All Commercial Lines. There Are Some Preliminary Indications that Business Bankruptcies Are Beginning to Decline.

Source: American Bankruptcy Institute; Insurance Information Institute

Private Sector Business Starts, 1993:Q2 – 2009:Q4*

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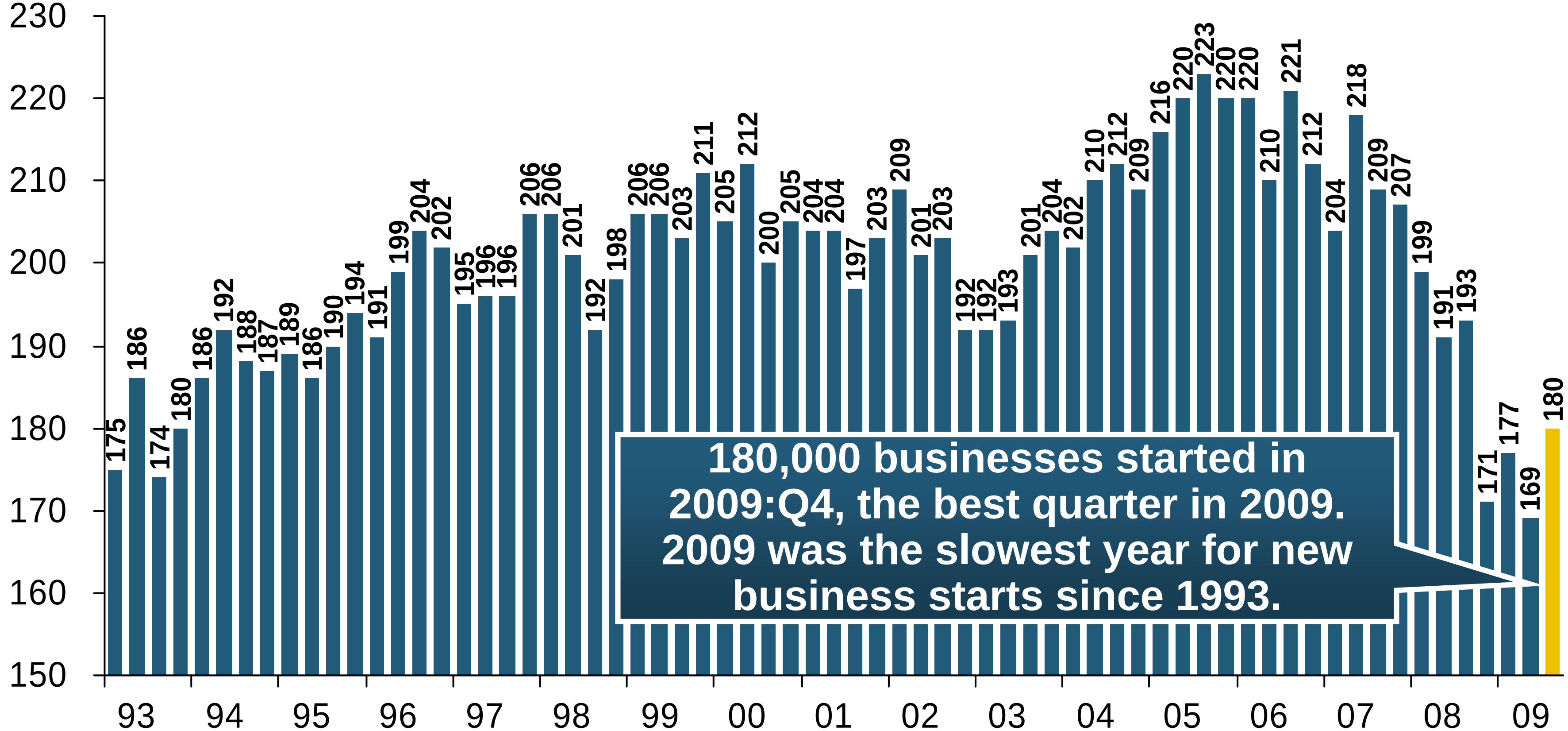
(Thousands)



Business Starts Are Down Nearly 20% in the Current Downturn, Holding Back Most Types of Commercial Insurance Exposure

*Latest available as of September 12, 2010, seasonally adjusted

Source: Bureau of Labor Statistics, http://www.bls.gov/news.release/cewbd.t07.htm.

Recovery in Capacity Utilization is a Positive Sign for Insurance Exposure

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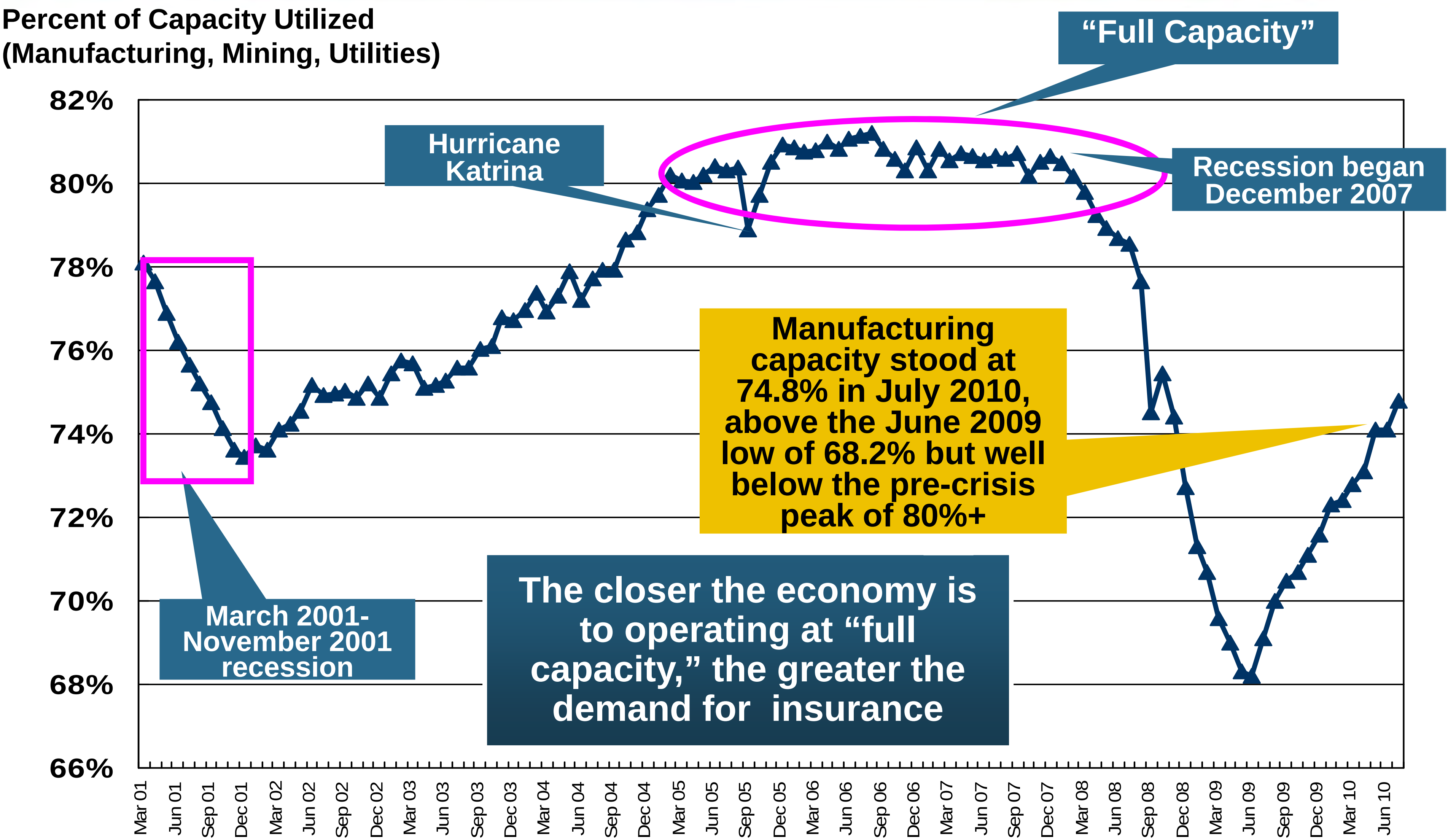

Source: Federal Reserve Board statistical releases at http://www.federalreserve.gov/releases/g17/Current/default.htm.

Year-Over-Year Change in Quarterly US State Tax Revenues, Inflation Adjusted

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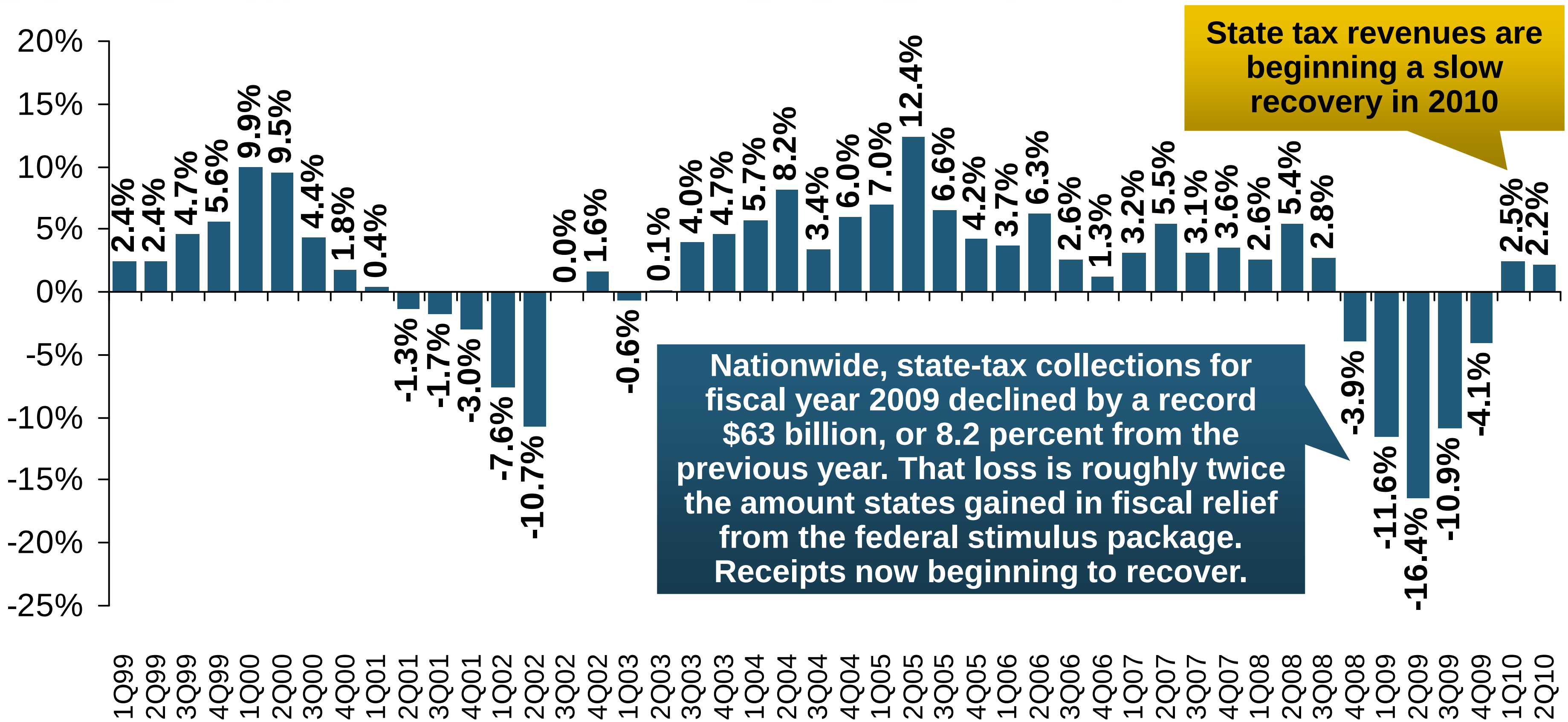

States Revenues Were Up 2.2% in Q2 2010, the 2nd Consecutive Quarter of Revenue Increase. Public Infrastructure Spending is Still Likely to Remain Depressed, Dampening Related Insurance Exposures and Demand.

Source: US Census Bureau; Nelson A. Rockefeller Institute of Government: http://www.rockinst.org/.

Inflation Trends: *Concerns Over Stimulus Spending and Monetary Policy*

Mounting Pressure on Claim Cost Severities?

Annual Inflation Rates (CPI-U, %), 1990–2011F

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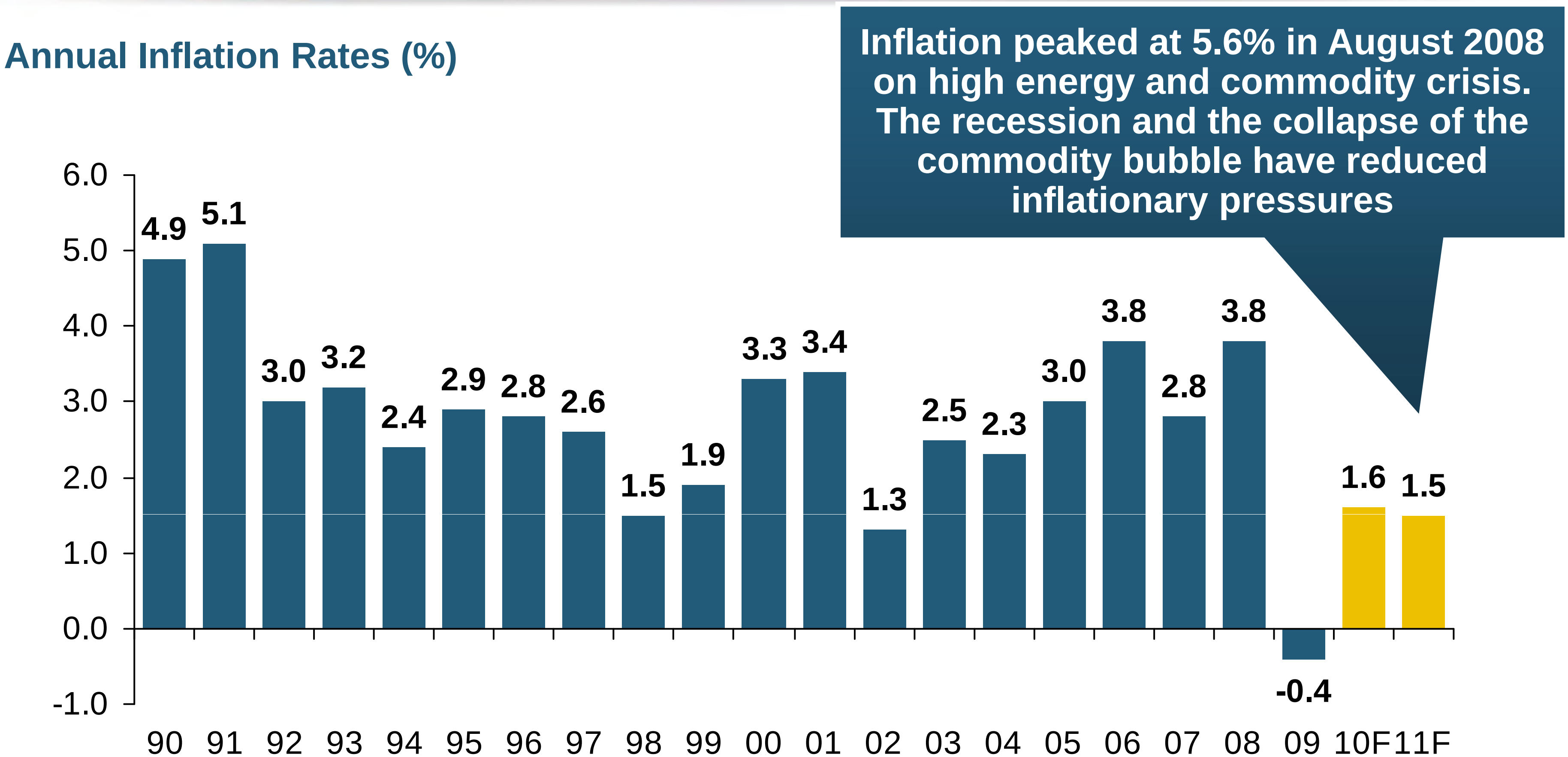

There is So Much Slack in the US Economy Inflation Should Not Be a Concern Through 2010/11, but Deficits and Monetary Policy Remain Longer Run Concerns

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators, 9/10 (forecasts).

P/C Insurers Experience Inflation More Intensely than 2009 CPI Suggests

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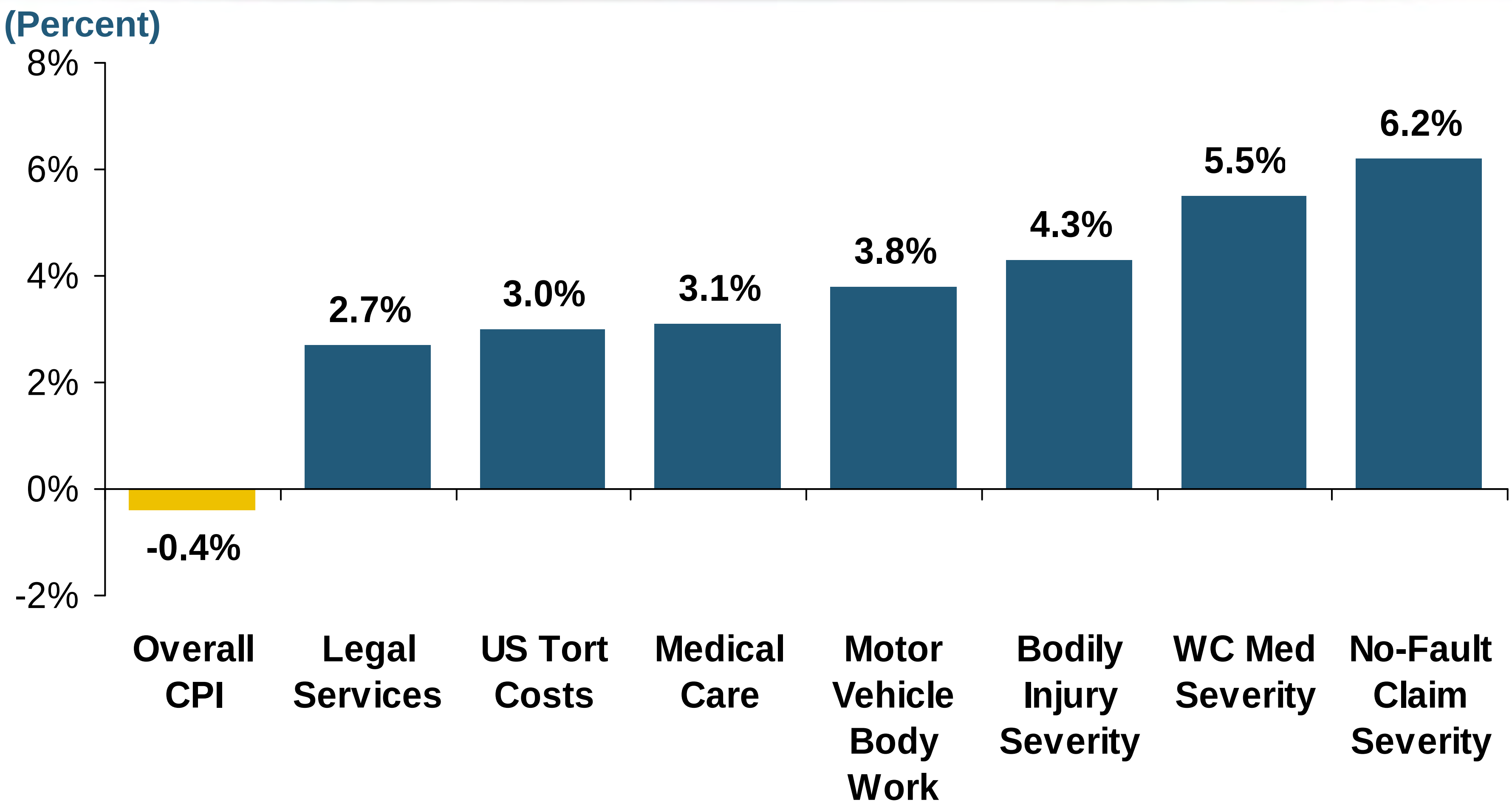

Healthcare and Legal/Tort Costs Are a Major P/C Insurance Cost Driver. These Are Expected to Increase Above the Overall Inflation Rate (CPI) Indefinitely

Source: CPI is Blue Chip Economic Indicator 2009 estimate, 12/09; Legal services, medical care and motor vehicle body work are avg. monthly year-over-year change from BLS; BI and no-fault figures from ISO Fast Track data for 4 quarters ending 09:Q3. Tort costs is 2009 Towers-Perrin estimate. WC figure is I.I.I. estimate based on historical NCCI data.

Top Concerns/Risks for Insurers if Inflation Is Reignited

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Concerns	The Federal Reserve Has Flooded Financial System with Cash (Turned on the Printing Presses), the Federal Gov't Has Approved a $787B Stimulus and the Deficit is Expected to Mushroom to $1.8 Trillion. All Are Potentially Inflationary.

- What are the potential impacts for insurers?
- What can/should insurers do to protect themselves from the risks of inflation?

Key Risks	From Sustained/Accelerating Inflation

- **Rising Claim Severities**
  - Cost of claims settlement rises across the board (property and liability)
- **Rate Inadequacy**
  - Rates inadequate due to low trend assumptions arising from use of historical data
- **Reserve Inadequacy**
  - Reserves may develop adversely and become inadequate (deficient)
- **Burn Through on Retentions**
  - Retentions, deductibles burned through more quickly
- **Reinsurance Penetration/Exhaustion**
  - Higher costs ➔ risks burn through their retentions more quickly, tapping into reinsurance more quickly and potentially exhausting their reinsurance more quickly

Source: Insurance Information Institute.

Top Concerns/Risks for Insurers if Deflation Becomes a Reality

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Concerns	Deflation is defined as a sustained decline in the general price level. It can result from the reduction in the supply of money or credit or reductions in government, personal or investment spending. When deflation takes hold, the incentive is to defer purchases until prices decline further. This depresses aggregate demand, increases unemployment and triggers recessions.

- What are the potential impacts for insurers?
- What can/should insurers do to protect themselves from the risks of deflation?

Key Risks	From Sustained Deflation Inflation

- **Reduced Exposures**
  - Deflation is likely accompanied (potentially severe) recession, depressing insurance demand
- **Reduced Investment Earnings**
  - Deflationary periods that interest rates drop to very low levels. Stock markets may fall as the economy struggles with recessions and reduced corporate earnings.
- **Underwriting Profitability**
  - Lack of investment earnings makes sustained underwriting profitability a necessity
  - **Rates**
    - Regulatory, buyer and market pressure will be biased strongly toward rate reduction
  - **Lost Costs**
    - Even with a general decline in price levels insurers may experience rising costs in coverages vulnerable to medical claim costs, tort inflation and demand surge

Source: Insurance Information Institute.

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Deflation Basics

Primary Causes and Major Bouts of Deflation

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■Deflation is

- A falling general price level
  - Note: this is different from
    - A fall in *the rate of increase* of the general price level;
      - This is called **disinflation**
    - A fall in the prices of some items or category of items
- For a prolonged period
- That is expected to continue indefinitely

■Deflation results from some or all of

- A surge in productivity, generally from technological innovation
- A steep and prolonged drop in the money supply
- A steep and prolonged recession
  - Note: this is different from a fall in *the rate of increase* of the price level

■Major US Bouts of Deflation

- 1920-22
- 1930-33

Sources: http://www-personal.umich.edu/~alandear/glossary/d.html; http://en.wikipedia.org/wiki/Deflation; I.I.I.

Broad Impact of Deflation

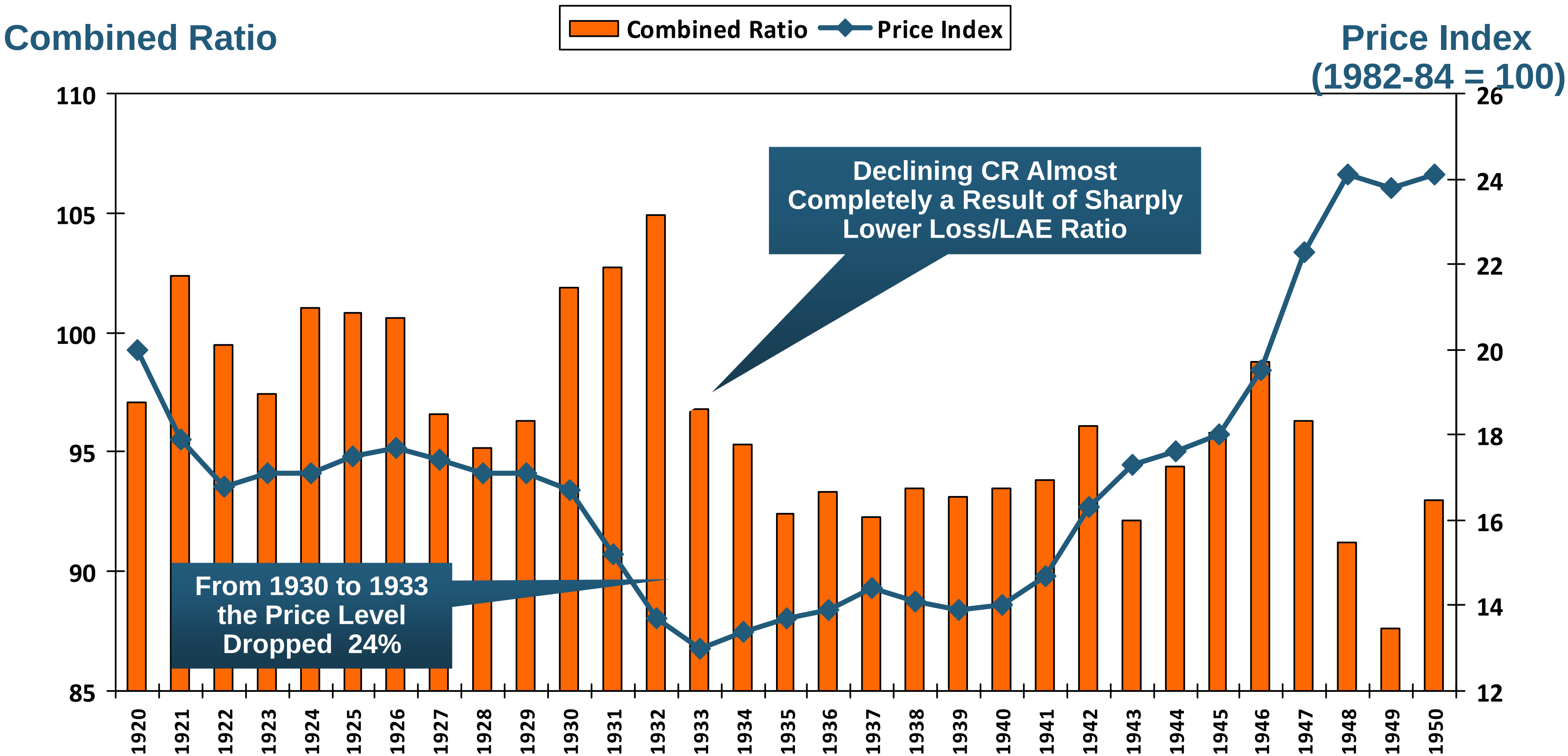
■Deflation causes…

- Consumers to delay buying things
  - They expect to buy those things later at lower prices
- A drop in the level of aggregate demand, from the delay in consumption
- A transfer of wealth
  - From borrowers and holders of illiquid assets
  - To savers/lenders and holders of liquid assets and currency
- A drop in the level of business investment
  - Following the drop in aggregate demand
  - Slack in capacity if the economy is in recession
  - Increased likelihood of lower profits or losses as selling prices drop below costs

Sources: http://en.wikipedia.org/wiki/Deflation; I.I.I.

What History Teaches Us About Deflation and the P-C Industry

1920-1950: Inflation, Deflation and the P-C Industry's Combined Ratio*

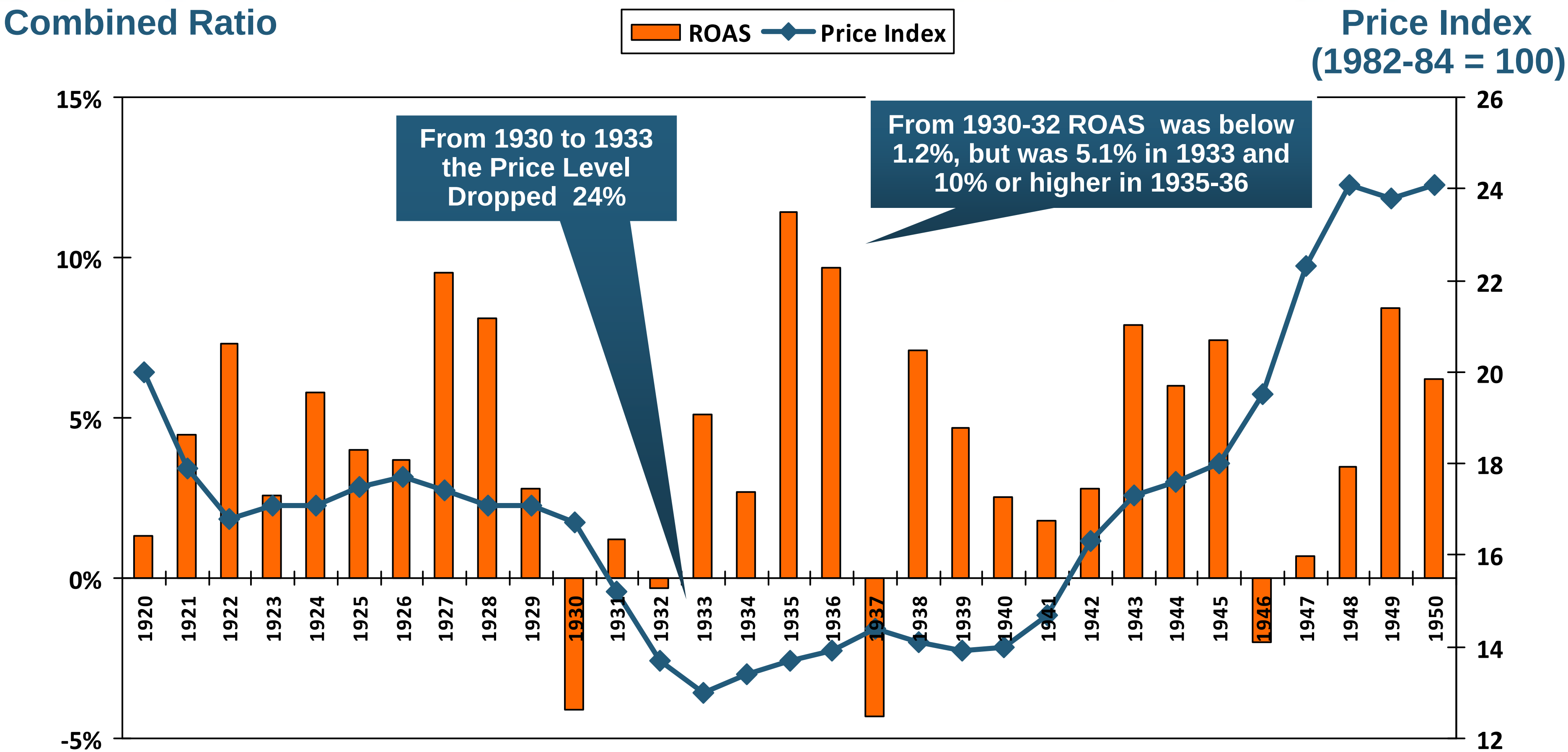


From Year-end 1929 Through 1932, the Industry's Combined Ratio Rose from 96.3 to 104.9 as the CPI Dropped. But from 1933 into the 1950s, the Combined Ratio Remained Below 100 Even as Prices Slowly Rose, Then Shot Up after WWII.

*From 1920-1934, stock companies only

Sources: Best's Aggregates & Averages; http://www.rateinflation.com/consumer-price-index/usa-historical-cpi.php?form=usacpi

1920-1950: Inflation, Deflation and P-C Industry Profitability*



The Significant Deflation from 1930-32 Punished the Industry's ROAS, But an Improving Economy (and Slight Inflation) Helped Achieve ROAS in Double Digits in 1935-36.

*stock companies only
Sources: Best's Aggregates & Averages; I.I.I.; ; http://www.rateinflation.com/consumer-price-index/usa-historical-cpi.php?form=usacpi

Deflation's Effects on the P-C Insurance Industry

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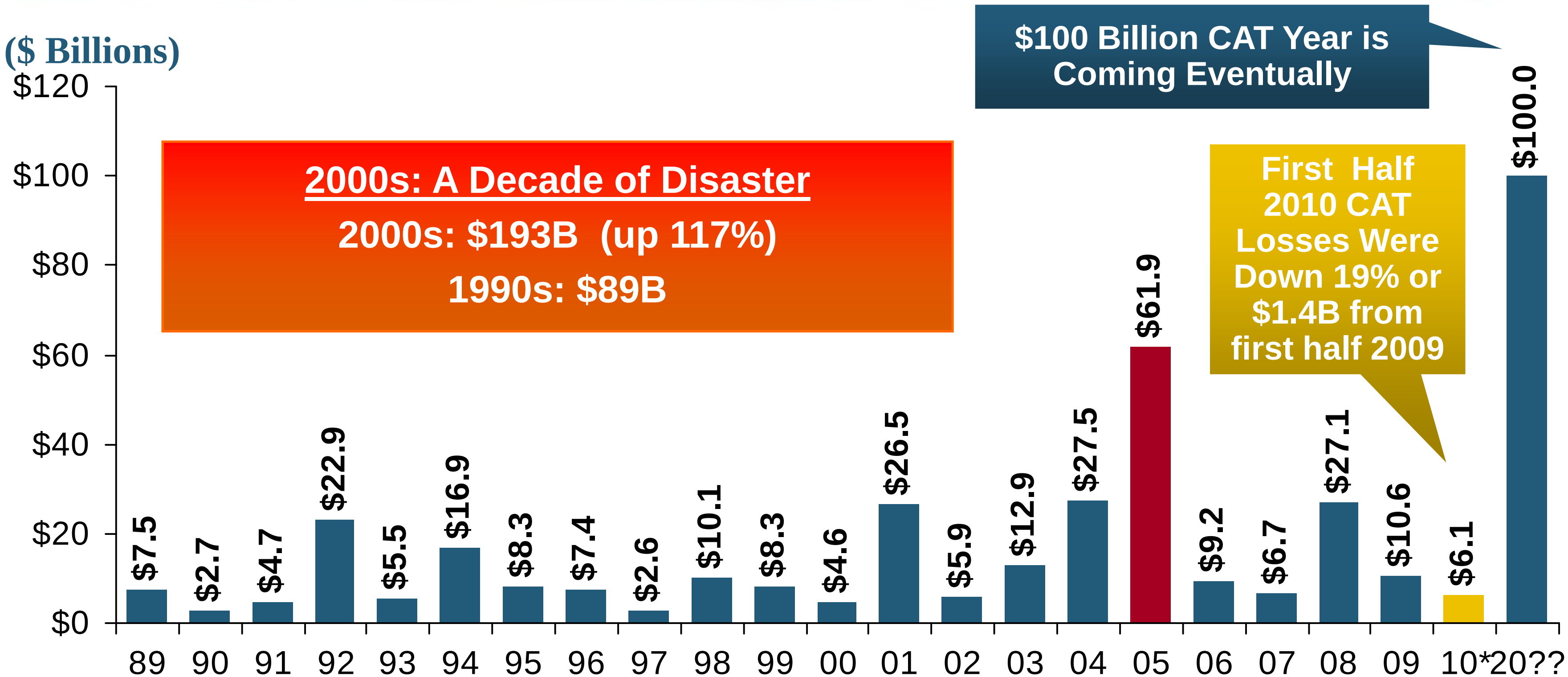
- **Lower Claim Severities**
  - Particularly for property claims, severity drops for many items that insurers pay for
- **Rate contingency margins increase**
  - At least until rate construction reflects persistently declining claims severity, margins will be higher than otherwise due to high trend assumptions arising from use of historical data
- **Reserve Releases?**
  - Reserves may develop beneficially to become "redundant"
- **Lower Claim Frequency as Fewer Claims Reach Deductible, Retention Levels**
- **Less Use of Reinsurance**
  - Lower costs → risks burn through their retentions less quickly, reaching policy limits less quickly

Catastrophic Loss – Catastrophe Losses Trends Are Trending Adversely

US Insured Catastrophe Losses



2010 CAT Losses Are Running Below 2009, *So Far*
Figures Do Not Include an Estimate of Deepwater Horizon Loss

*Through June 30, 2010.

Note: 2001 figure includes $20.3B for 9/11 losses reported through 12/31/01. Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = $12.2B.

Sources: Property Claims Service/ISO; Munich Re; Insurance Information Institute.

Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2009

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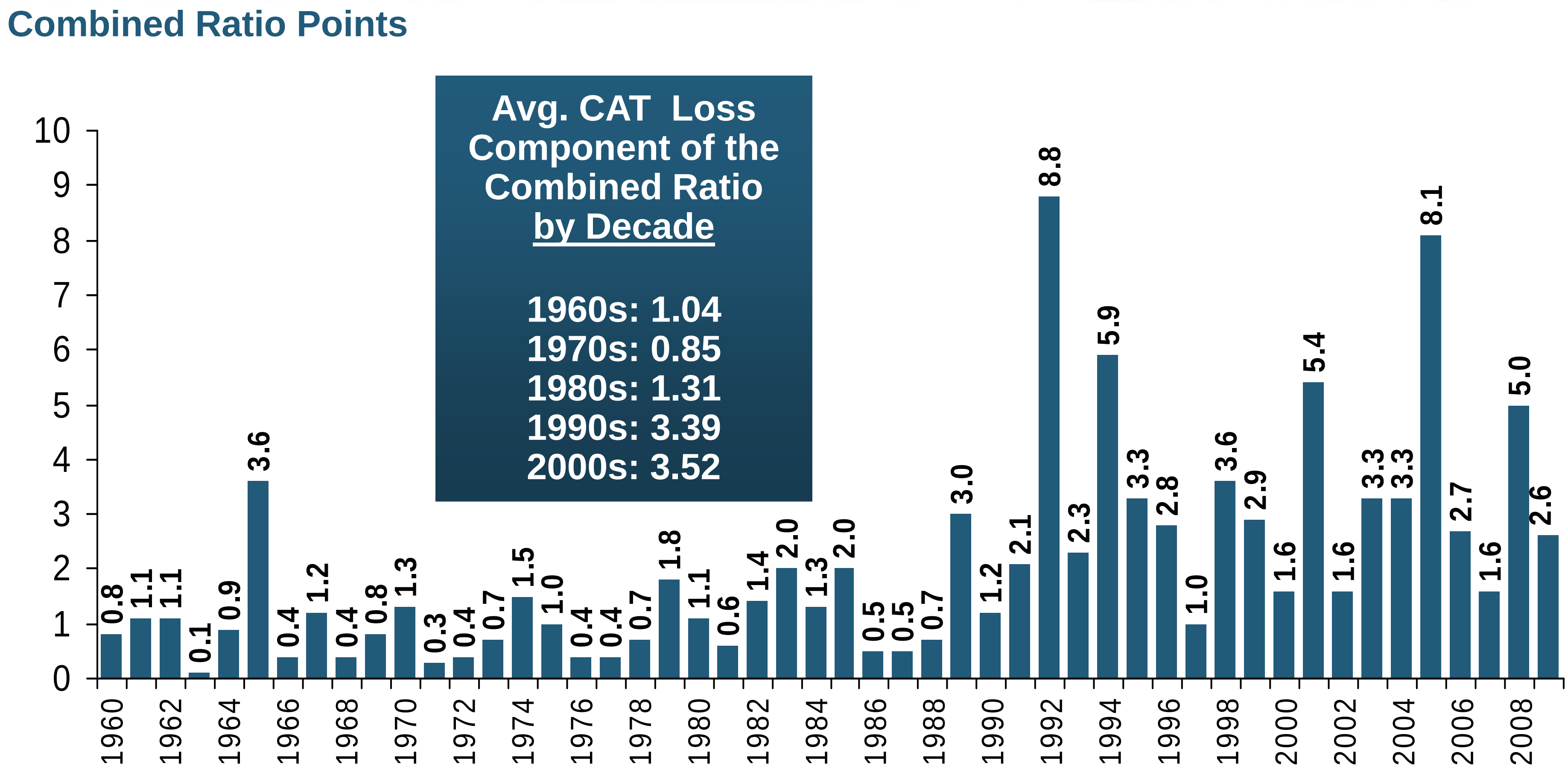

The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades

Notes: Private carrier losses only. Excludes loss adjustment expenses and reinsurance reinstatement premiums. Figures are adjusted for losses ultimately paid by foreign insurers and reinsurers.

Source: ISO; Insurance Information Institute.

Global Natural Catastrophes: January – June 2010

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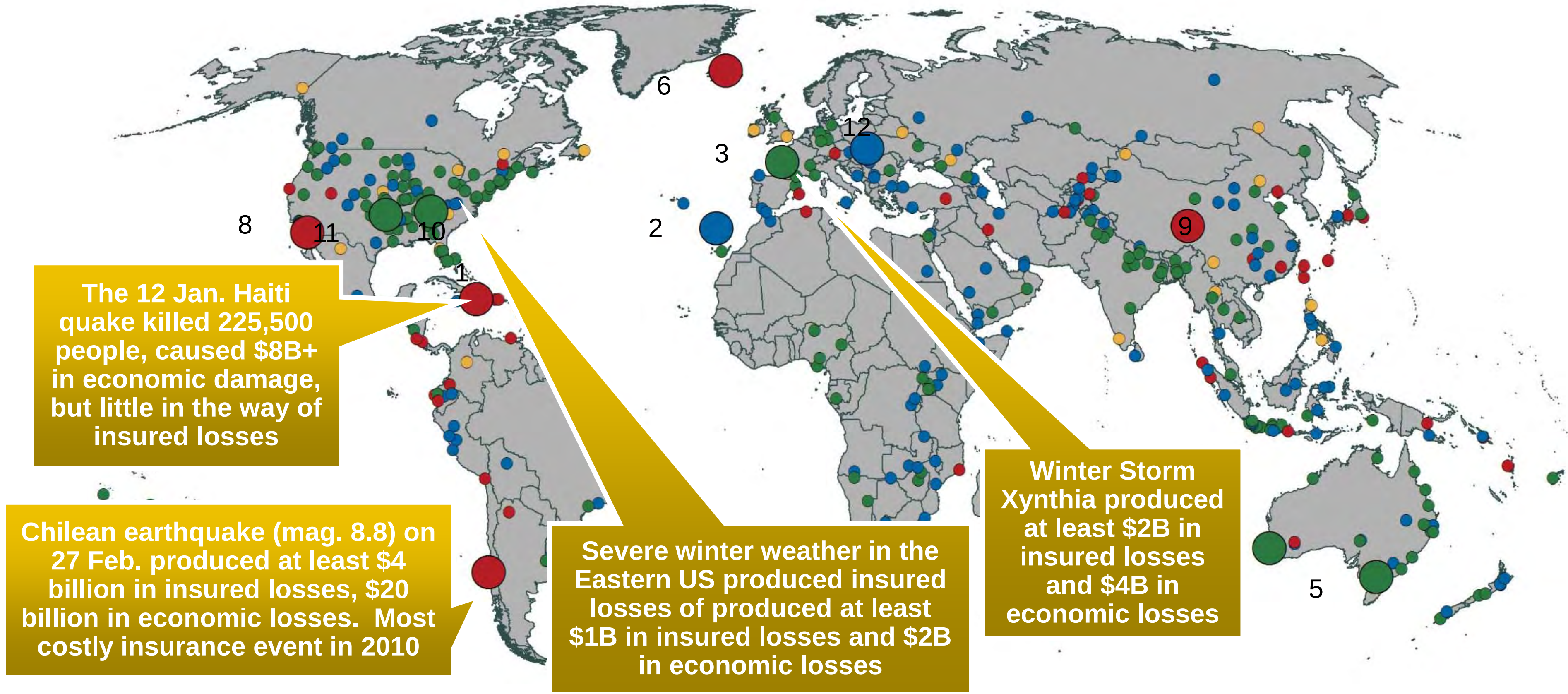


○ **Global natural catastrophes**

◯ **Selection of significant natural catastrophes (see table)**

● **Geophysical events** (earthquake, tsunami, volcanic activity)

● **Meteorological events** (storm)

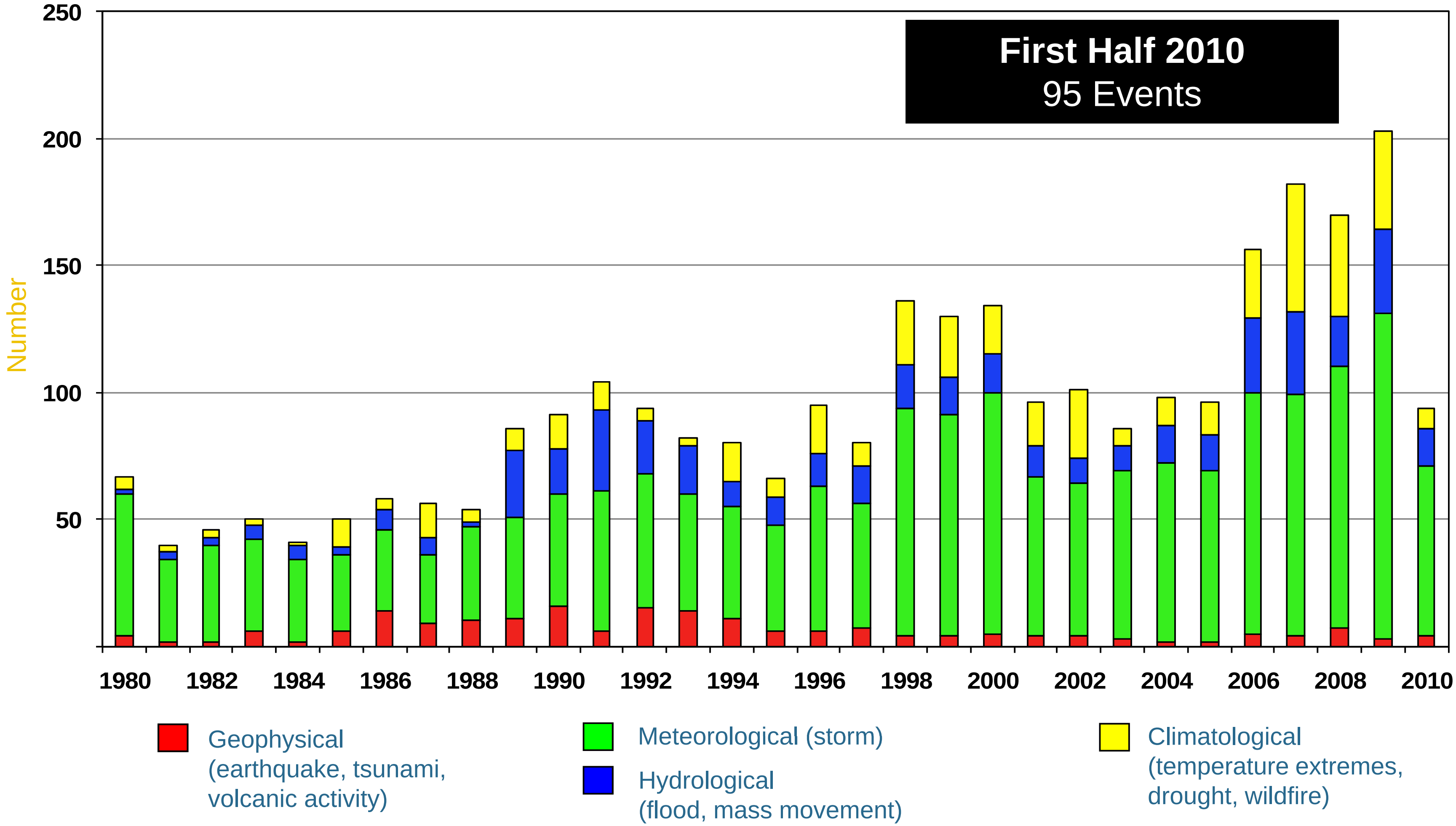
● **Hydrological events** (flood, mass movement)

● **Climatological events** (extreme temperature, drought, wildfire)

Natural Disasters in the United States, 1980 – 2010

Number of Events (Annual Totals 1980 – 2009 vs. First Half 2010)

Number of events in first half of 2010 is close to the annual totals from five of past ten years.



Source: MR NatCat*SERVICE*

Top 12 Most Costly Disasters in US History

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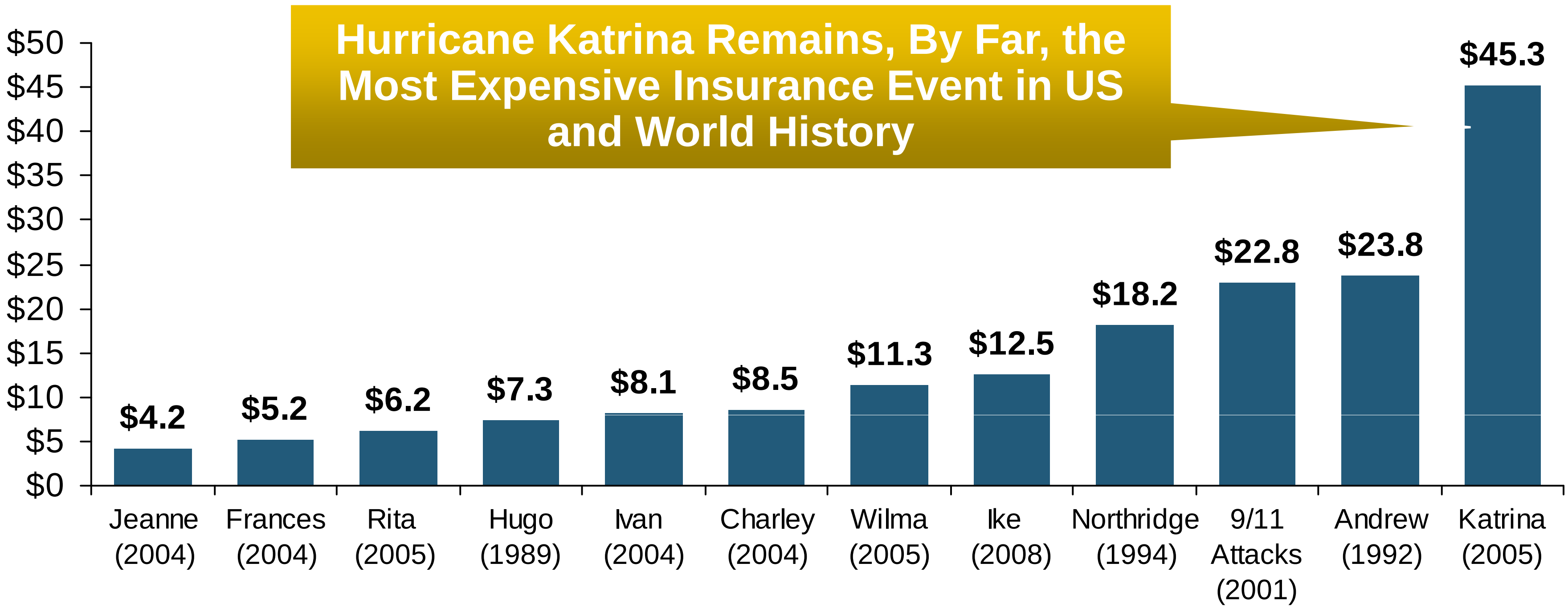
(Insured Losses, 2009, $ Billions)



8 of the 12 Most Expensive Disasters in US History Have Occurred Since 2004;
8 of the Top 12 Disasters Affected FL

Sources: PCS; Insurance Information Institute inflation adjustments.

Share of Losses Paid by Reinsurers for Major Catastrophic Events

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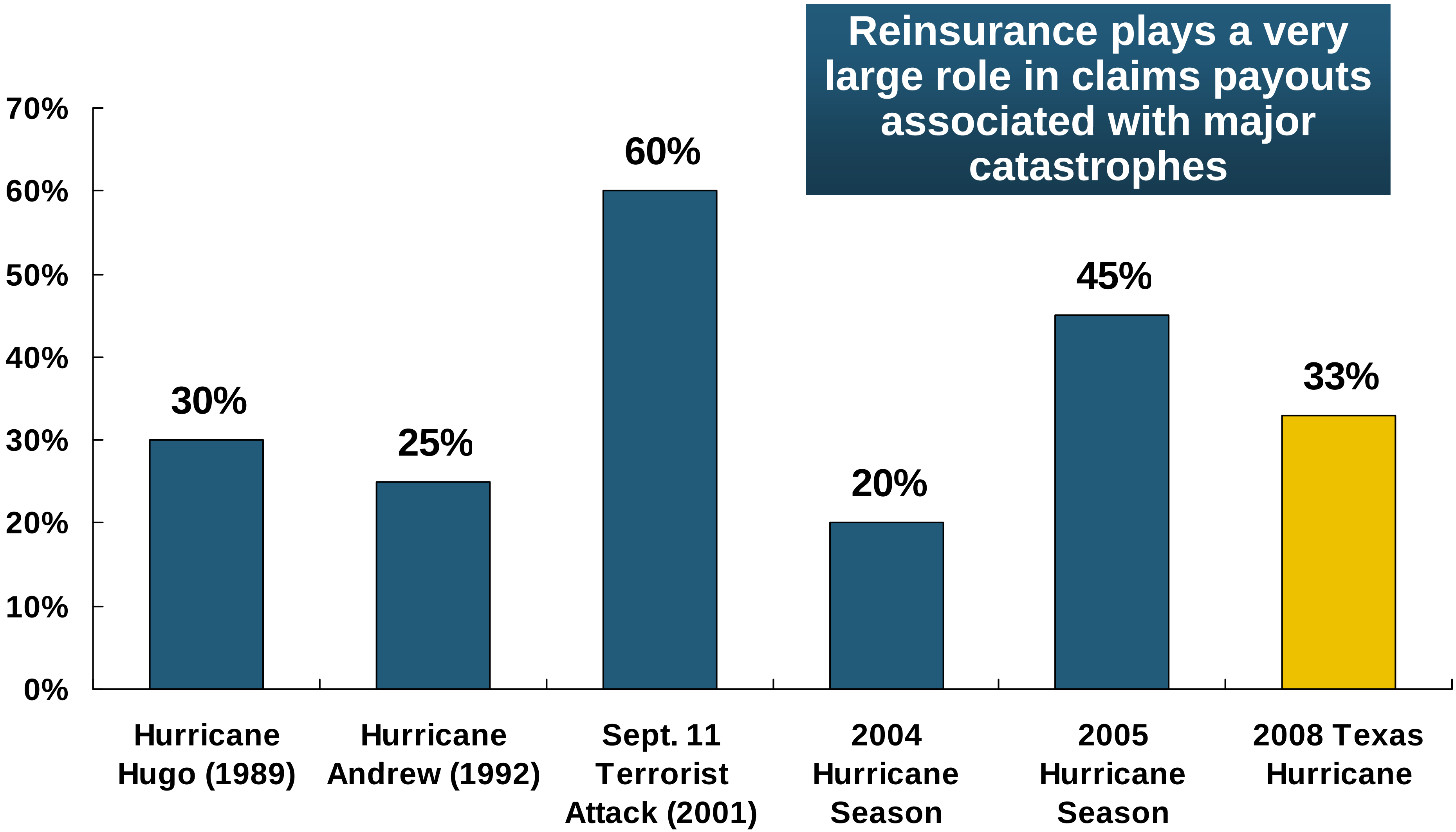

Source: Wharton Risk Center, Disaster Insurance Project, Renaissance Re, Insurance Information Institute.

Total Value of Insured Coastal Exposure

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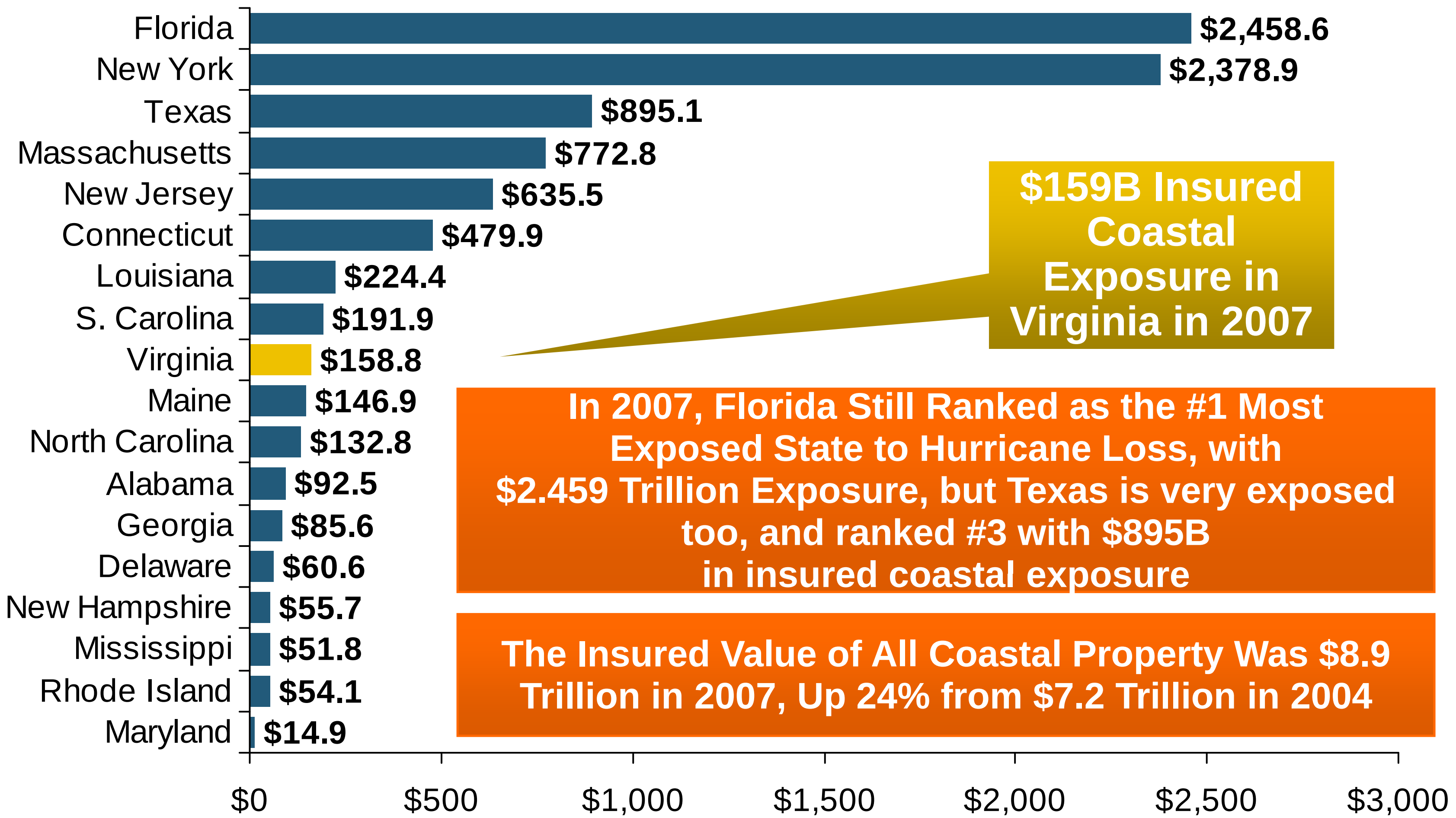
(2007, $ Billions)



Source: AIR Worldwide

Insurance Information Institute Online:

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