

Overview & Outlook for the Commercial P/C Insurance Industry for 2014 and Beyond *Trends, Challenges & Opportunities*

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Observations on Growth: 2014 & Beyond Tills



- Modest Growth Continues into 2014
 - ~4.0% annual growth expected
 - Growth is very similar in both commercial, personal lines
 - Above trend growth in HO, WC, E&S, Mortgage, Cyber, Terror (?)
 - Energy, Health, Agriculture; Some mfg./const. segments
- ROE Growth: Rate Trends Allow for Margin Improvement
 - Some premium/profit growth driven by advanced data analytics
- Economic Growth → Exposure Formation = Wildcard
 - Upside potential
 - Enormous regional variations within the US
- Large-Scale, Untapped Reservoirs of Risk
 - Only 50-60% of US cat losses are insured
 - Property residual market depopulation
 - Flood post-NFIP reform (BW-12)
 - Business interruption/Supply chain disruption & similar products
- **■** Tapering of Prior-Year Reserve Releases
 - The well will eventually run dry—adding to pricing pressure
 - What do the woes of Tower tell us?



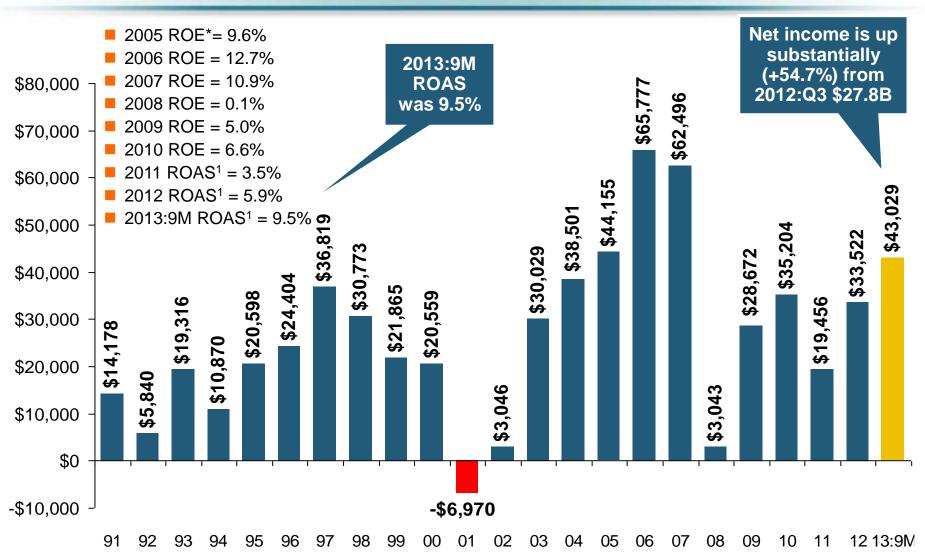
P/C Insurance Industry Financial Overview

2013: Best Year in the Post-Crisis Era

Performance Improved with Lower CATs, Strong Markets

P/C Net Income After Taxes 1991–2013:Q3 (\$ Millions)



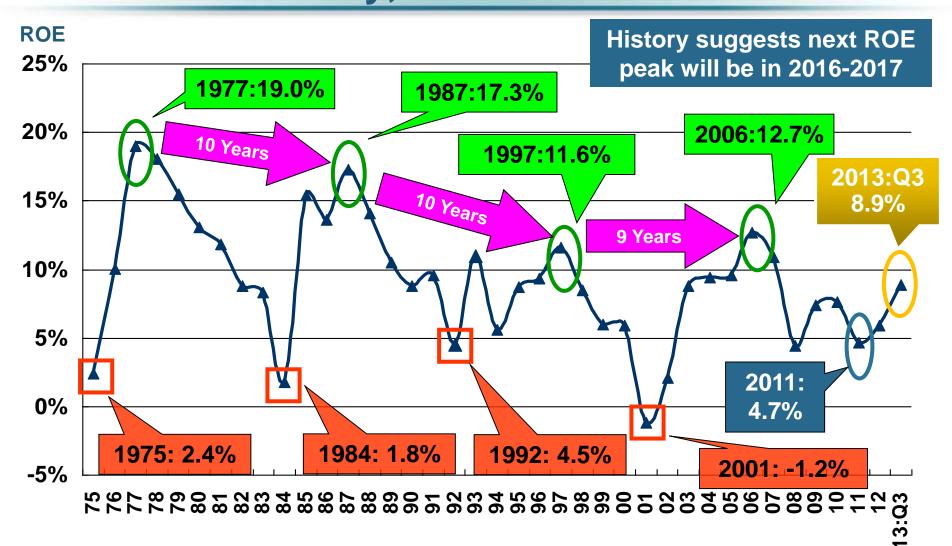


•ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 8.9% ROAS through 2013:Q3, 6.2% ROAS in 2012, 4.7% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009.

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

Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2013:Q3*



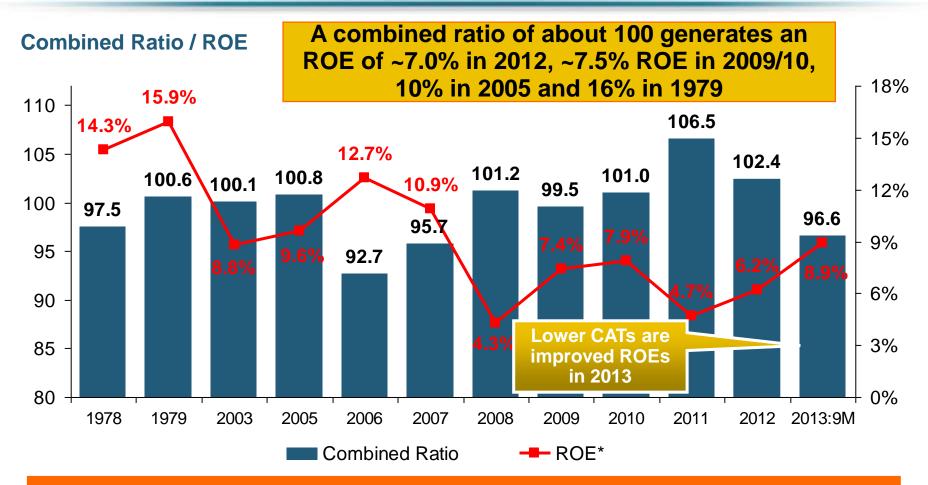


*Profitability = P/C insurer ROEs. 2011-13 figures are estimates based on ROAS data. Note: Data for 2008-2013 exclude mortgage and financial guaranty insurers.

Source: Insurance Information Institute; NAIC, ISO, A.M. Best.

A 100 Combined Ratio Isn't What It Once Was: Investment Impact on ROEs





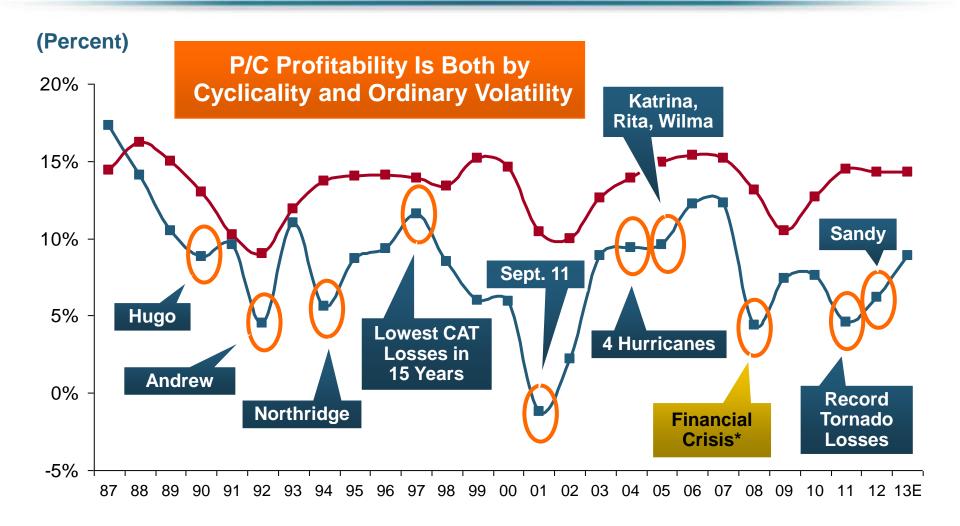
Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

^{* 2008 -2013} figures are return on average surplus and exclude mortgage and financial guaranty insurers. 2013:9M combined ratio including M&FG insurers is 95.8; 2012 =103.2, 2011 = 108.1, ROAS = 3.5%.

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

ROE: Property/Casualty Insurance vs. Fortune 500, 1987–2013E*

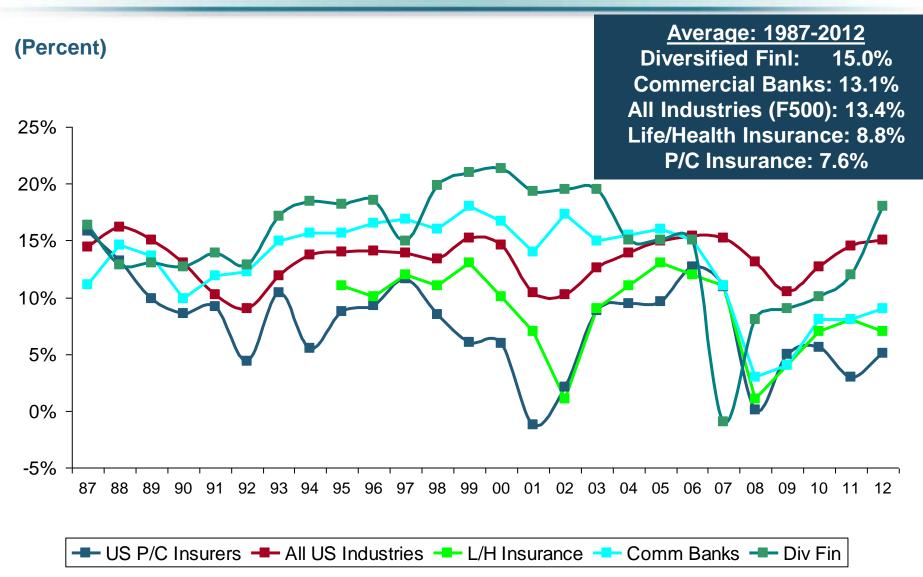




^{*} Excludes Mortgage & Financial Guarantee in 2008 – 2013E. 2013 P/C ROE is through 2013:Q3. Sources: ISO, *Fortune*; Insurance Information Institute.

ROE: ROEs by Industry vs. Fortune 500, 1987–2012*

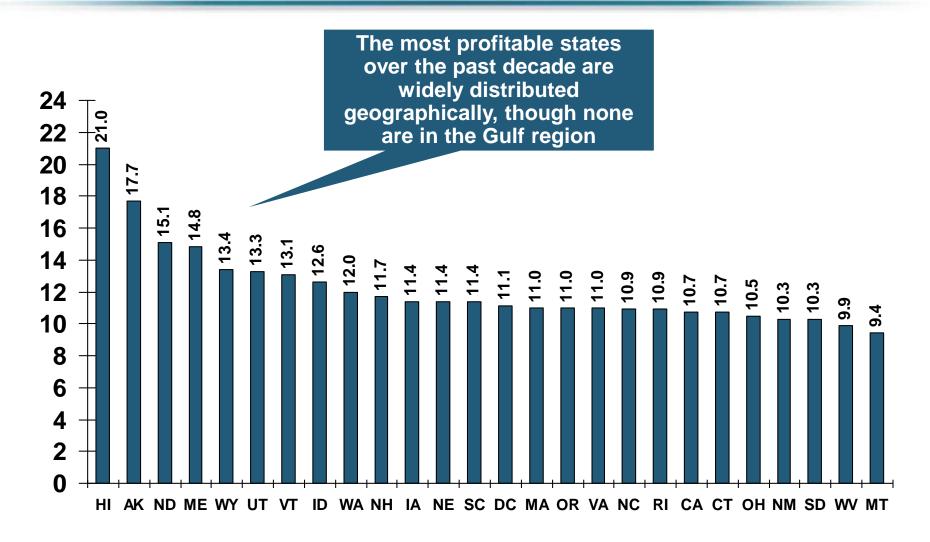




^{*} All figures are GAAP. Sources: ISO, *Fortune*; Insurance Information Institute.

RNW All Lines by State, 2003-2012 Average: Highest 25 States

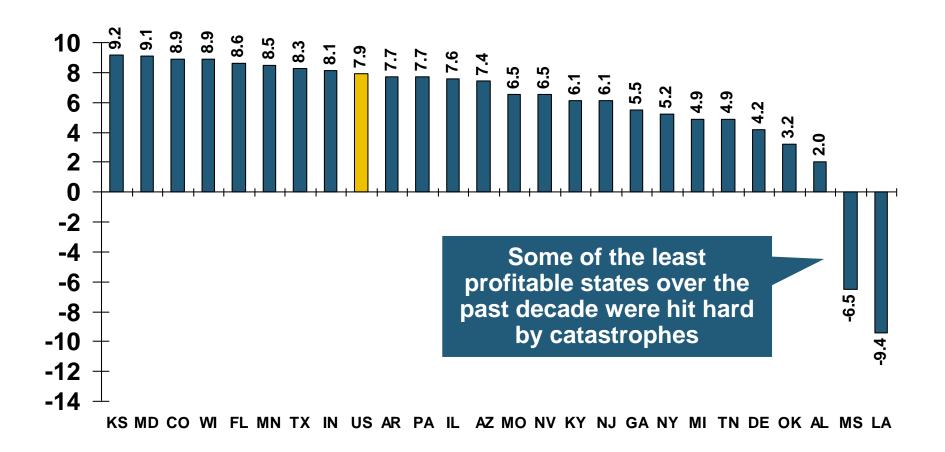




Source: NAIC.

RNW All Lines by State, 2003-2012 Average: Lowest 25 States





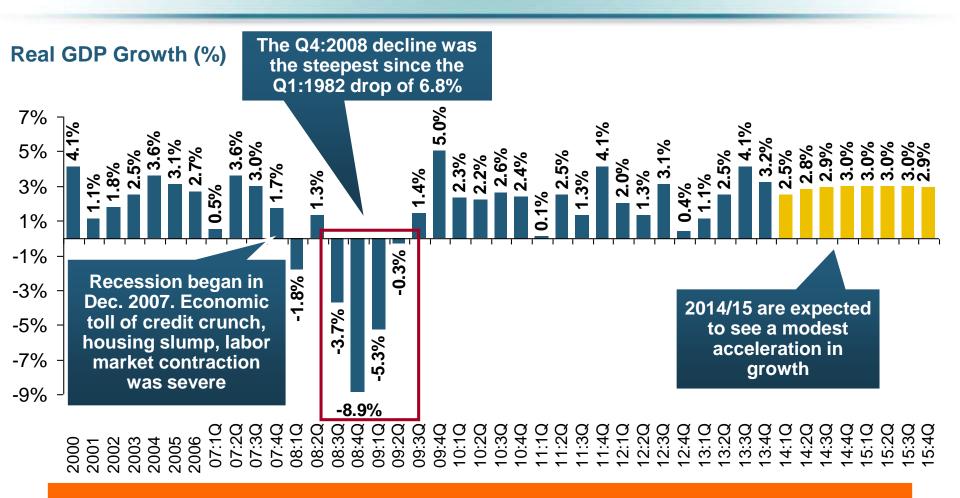


The Strength of the Economy Will Influence P/C Insurer Growth Opportunities

Growth Will Expand Insurer Exposure Base Across Most Lines

US Real GDP Growth*



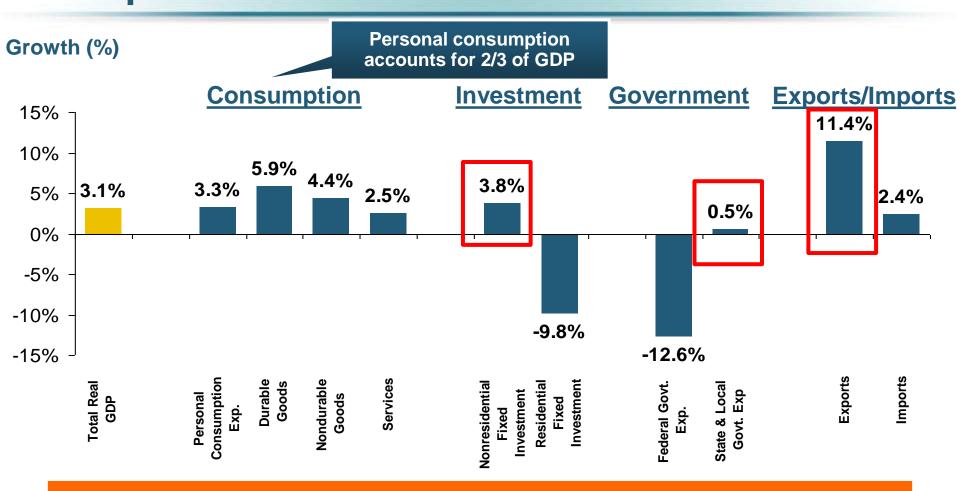


Demand for Insurance Should Increase in 2014/15 as GDP Growth Accelerates Modestly and Gradually Benefits the Economy Broadly

^{*} Estimates/Forecasts from Blue Chip Economic Indicators.

GDP: Q4 2013 Growth by Major Component*



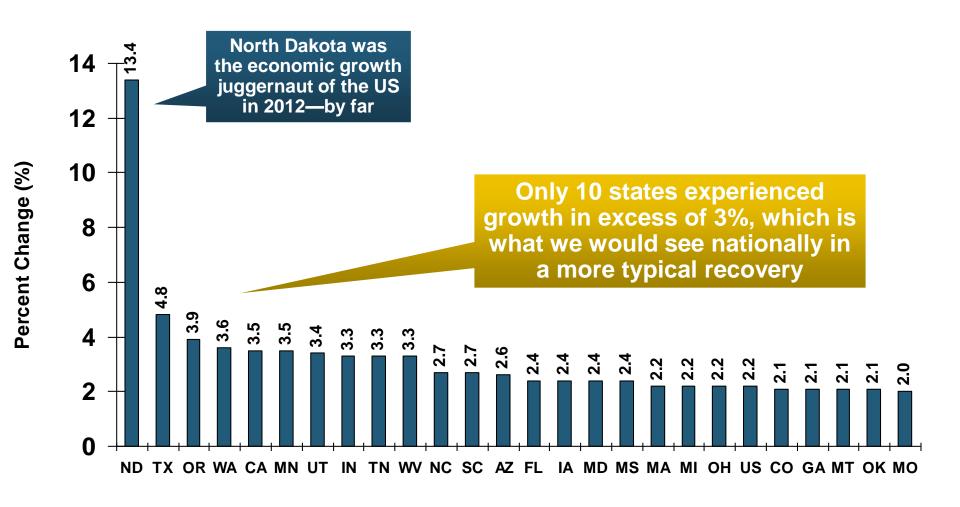


The U.S. economy showed broad-based growth across many sectors in Q4 2013, suggesting momentum heading into 2014

^{*}seasonally adjusted Source: U.S. Bureau of Economic Analysis, http://bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm; Insurance Information Institute.

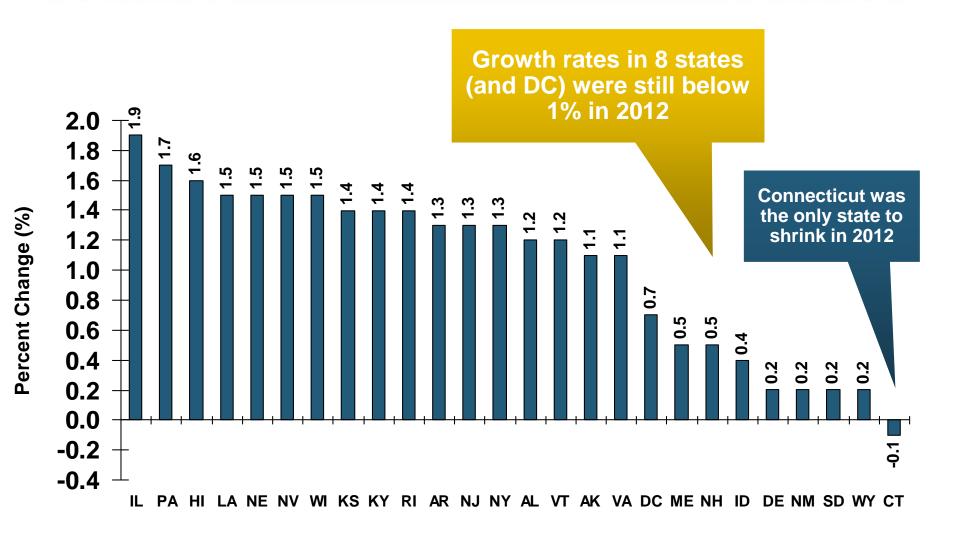
Real GDP by State Percent Change, 2012: Highest 25 States





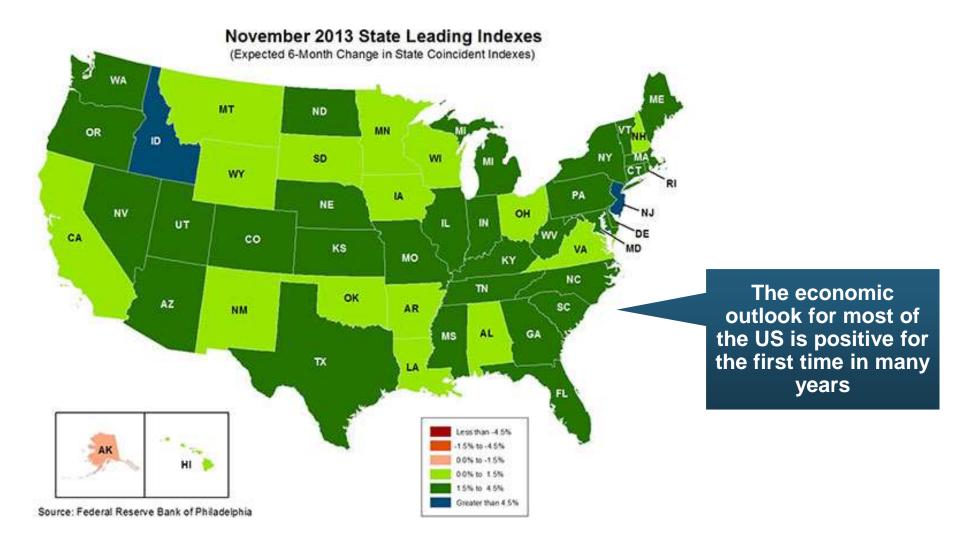
Real GDP by State Percent Change, 2012: Lowest 25 States





State-by-State Leading Indicators through 2014:Q2

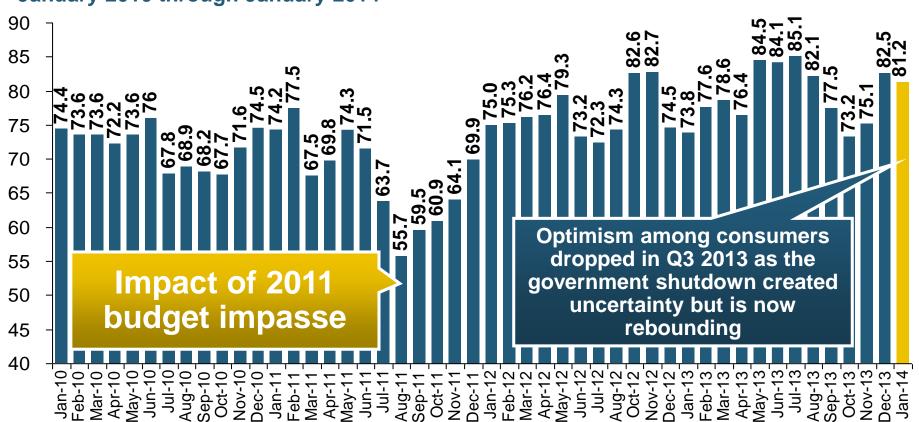




Consumer Sentiment Survey (1966 = 100)







Consumer confidence has been low for years amid high unemployment, falling home prices and other factors adversely impact consumers, but improved substantially over the past 2+ years, though uncertainty in Washington sometimes takes a toll.



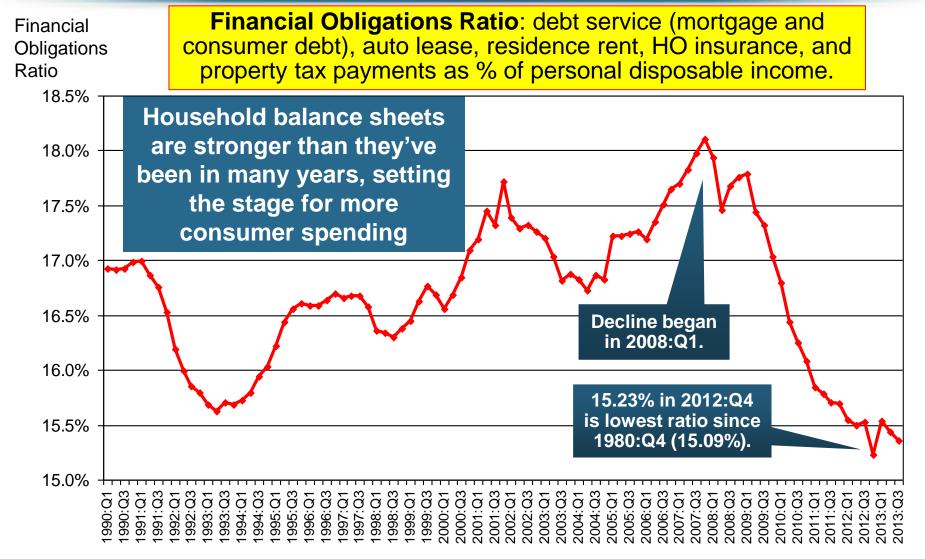




^{*}and nonprofit organizations. Data are as of year-end, except in 2013:Q3 (data posted on Dec 9, 2013). Next release March 6, 2014. Data not seasonally adjusted or inflation-adjusted Source: Federal Reserve Board

Household Financial Obligations Ratio Recently Hit A Historic Low



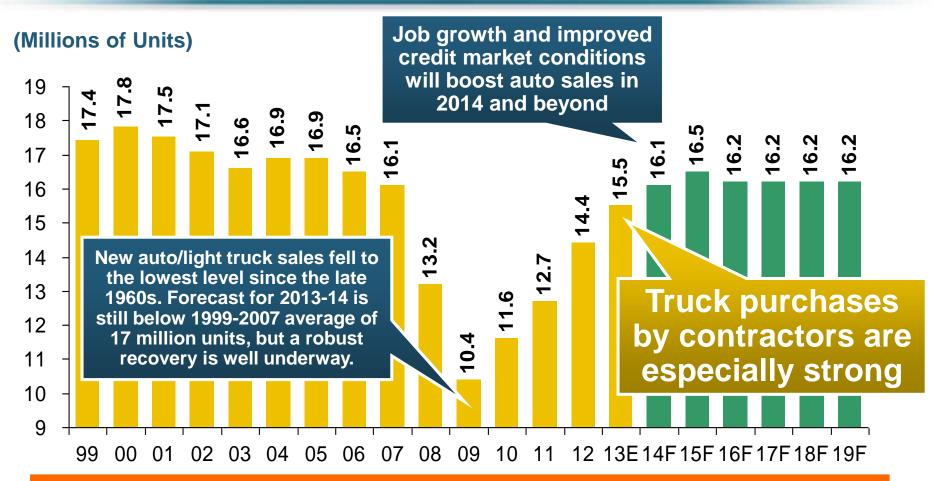


^{*}through 2013:Q3 (data posted on Dec 13, 2013)

Source: Federal Reserve Board, at http://www.federalreserve.gov/releases/housedebt

Auto/Light Truck Sales, 1999-2019F

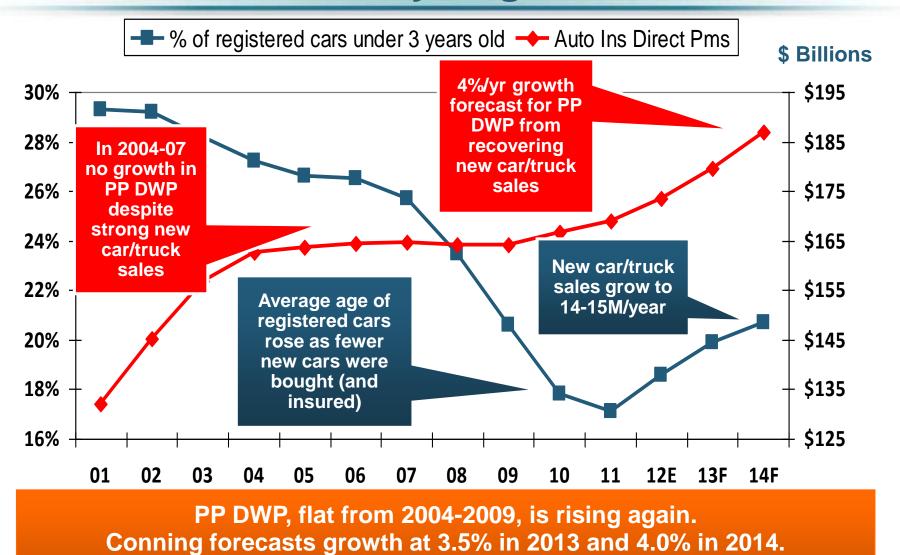




Car/Light Truck Sales Will Continue to Recover from the 2009 Low Point, Bolstering the Auto Insurer Growth and the Manufacturing Sector Along With Workers Comp Exposures

Personal Auto Insurance Direct Written Premiums vs. Recently-Registered Cars

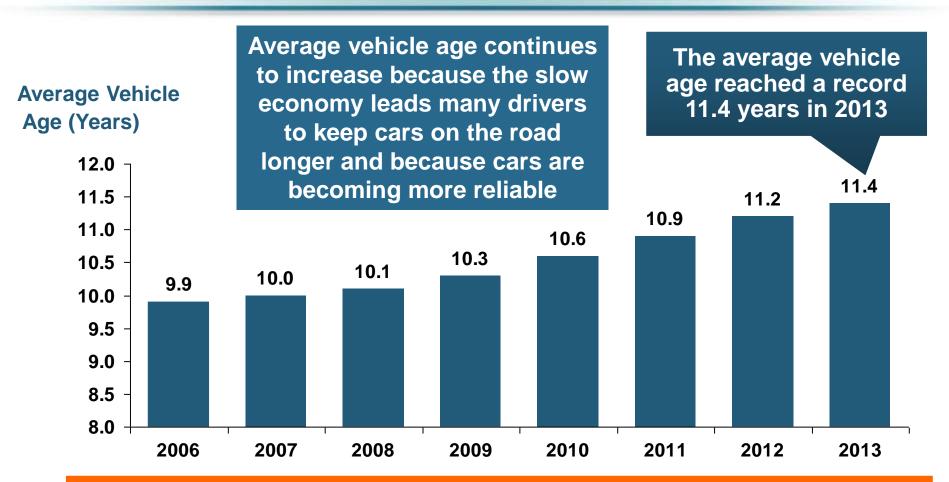




Sources: AIPSO Facts (various issues); SNL Financial; Conning Research & Consulting, *Property-Casualty Forecast and Analysis*, First Quarter 2012; Insurance Information Institute.

Average Age of Vehicles on the Road, 2006—2013

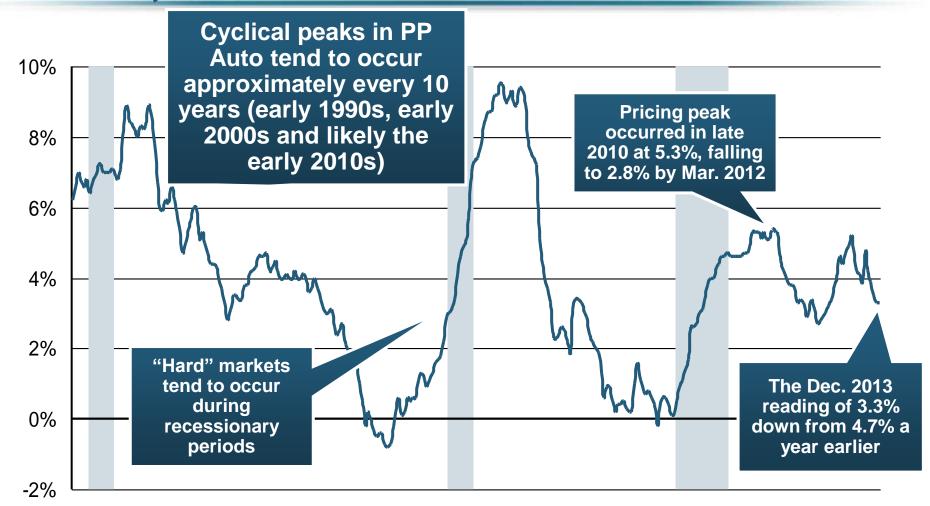




The average age of a vehicle on the road is is expected to continue to increase until 2018. By 2018, the number of vehicles 12+ years old is expected to rise 11.6% from 2013 and the number that are under 5 years old is expected to increase by 41%

Monthly Change* in Auto Insurance Prices, 1991–2013*





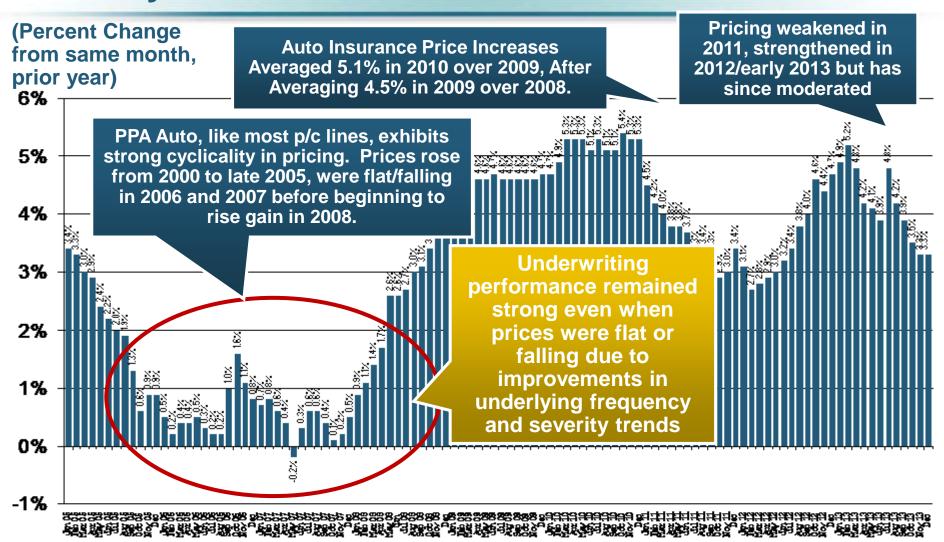
'90 '91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13

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

^{*}Percentage change from same month in prior year; through December 2013; seasonally adjusted Note: Recessions indicated by gray shaded columns.

Monthly Change* in Auto Insurance Prices, January 2005 - December 2013

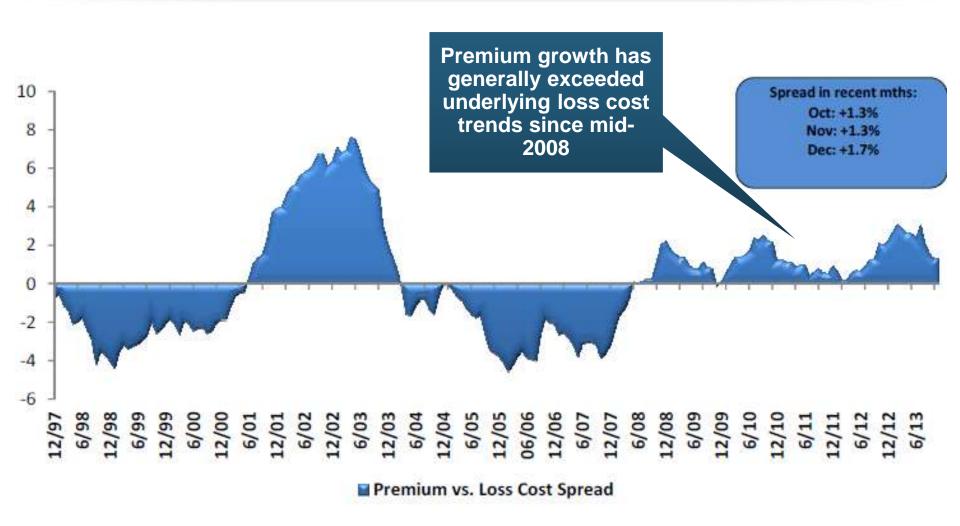




^{*}Percentage change from same month in prior year, seasonally adjusted. Sources: US Bureau of Labor Statistics; Insurance Information Institute

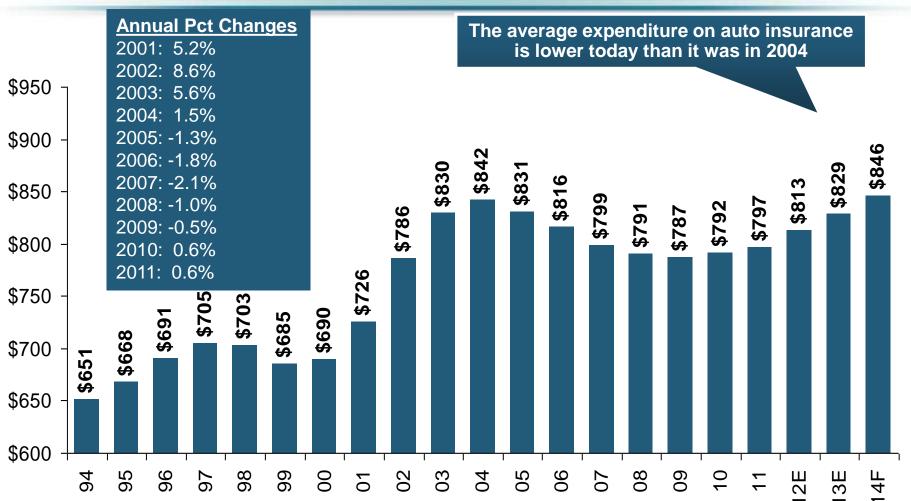
Private Passenger Auto: Premium Growth vs. Loss Cost Spread





Average Expenditures* on Auto Insurance, 1994-2014F





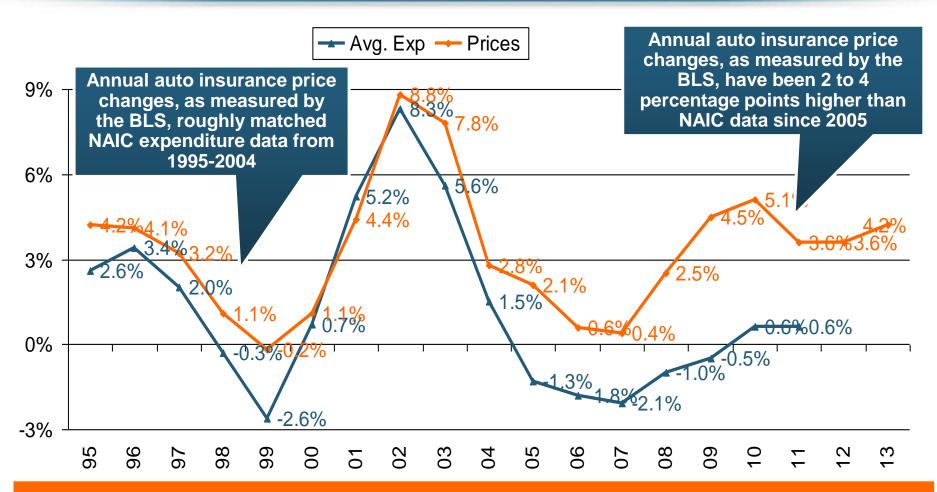
Across the U.S., auto insurance expenditures fell by 0.8% in 2008 and 0.5% in 2009 but rose 0.5% in 2010 and 0.8% in 2011.

I.I.I. estimates for 2012-2014 are each +2.0%.

^{*} The NAIC data are per-vehicle (actually, per car-year)
Sources: NAIC for 1994-2011; Insurance Information Institute estimates for 2012-2014 based on CPI and other data.

Annual Pct. Change in Avg. Expenditures on Auto Insurance, vs. Auto Insurance Prices, 1995-2011

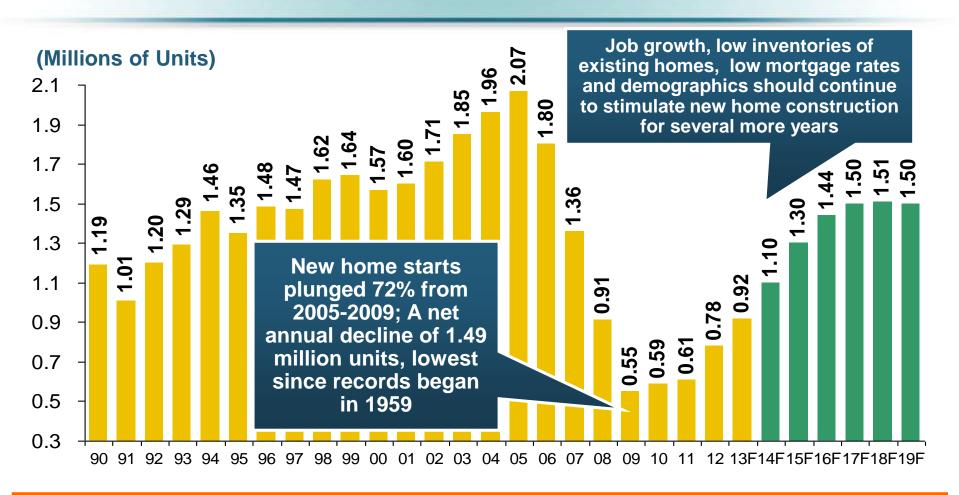




The gap since 2005 between price changes and expenditures on auto insurance might be due to buyers increasing deductibles, obtaining discounts, and other premium-reducing behavior.

New Private Housing Starts, 1990-2019F

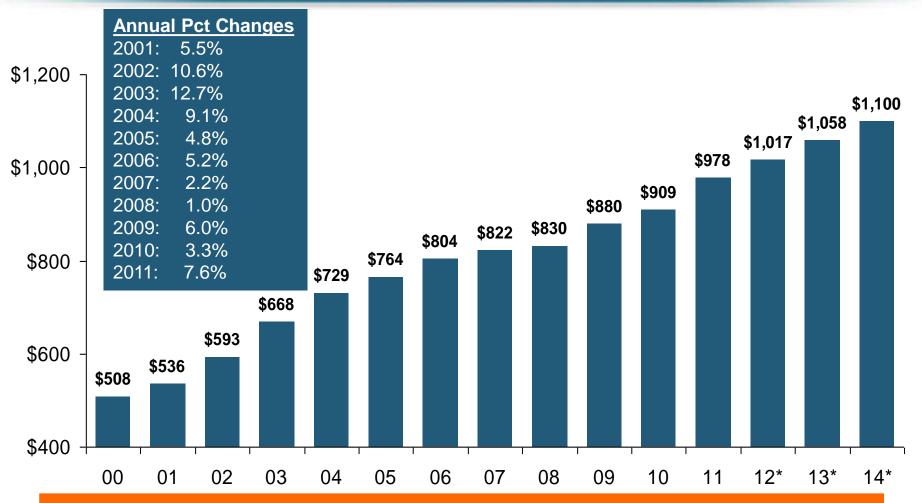




Insurers Are Continue to See Meaningful Exposure Growth in the Wake of the "Great Recession" Associated with Home Construction: Construction Risk Exposure, Surety, Commercial Auto; Potent Driver of Workers Comp Exposure

Average Premium for Home Insurance Policies**





Across the U.S., home insurance expenditures rose by an estimated 4.0% in 2012-2014

^{*} Insurance Information Institute Estimates/Forecasts **Excludes state-run insurers.
Sources: NAIC; Insurance Information Institute estimates for 2012-2014 based on CPI data and other data.

Interest Rate on Convention 30-Year Mortgages: Headed Back Up, 1990–2013*





'90 '91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13

Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

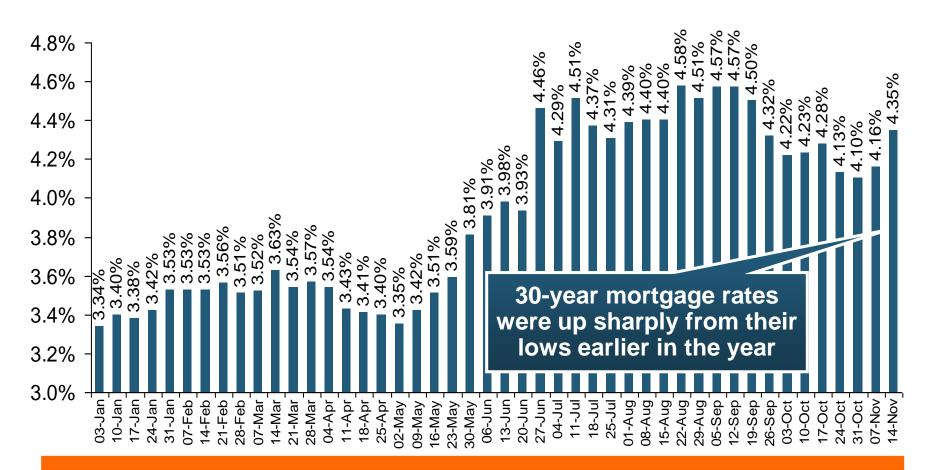
Note: Recessions indicated by gray shaded columns.

Sources: Federal Reserve Bank at http://www.federalreserve.gov/releases/h15/data.htm. National Bureau of Economic Research (recession dates); Insurance Information Institutes.

^{*}Monthly, through December 2013.

30-Year Mortgages in 2013 Are Rising: What Will Be the Impact on Construction?



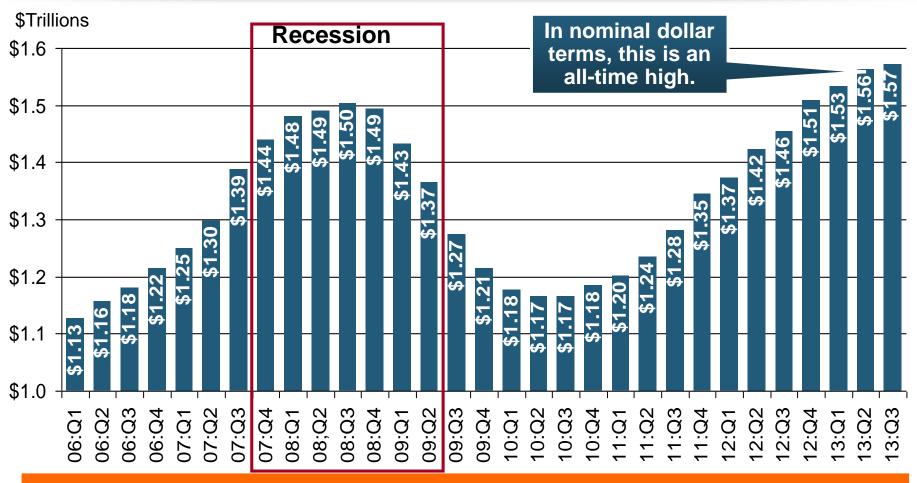


Mortgage Interest Rates Will Rise as Expectations Over the Fed's Tapering of QE3 Persist; Still Low by Historical Standards

^{*}Weekly through November 14, 2013.

Commercial & Industrial Loans Outstanding at FDIC-Insured Banks, Quarterly, 2006-2013*





Outstanding loan volume has been growing for over two years and (as of year-end 2012) surpassed previous peak levels.

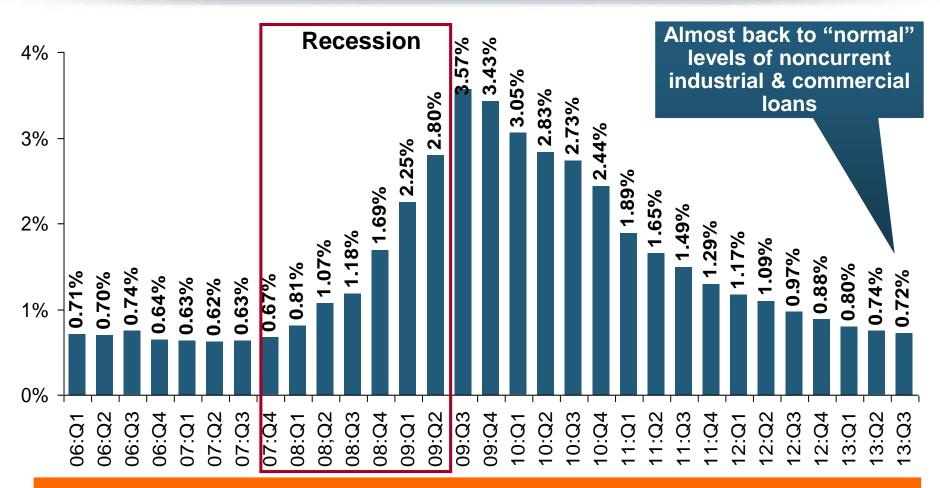
Source: FDIC at http://www2.fdic.gov/qbp/ (Loan Performance spreadsheet); Insurance Information Institute.

^{*}Latest data as of 2/2/2014.

Percent of Non-Current Commercial & Industrial Loans Outstanding at FDIC-Insured Banks,



Quarterly, 2006-2013:Q3*



Non-current loans (those past due 90 days or more or in nonaccrual status) are nearly back to early-recession levels, fueling bank willingness to lend.

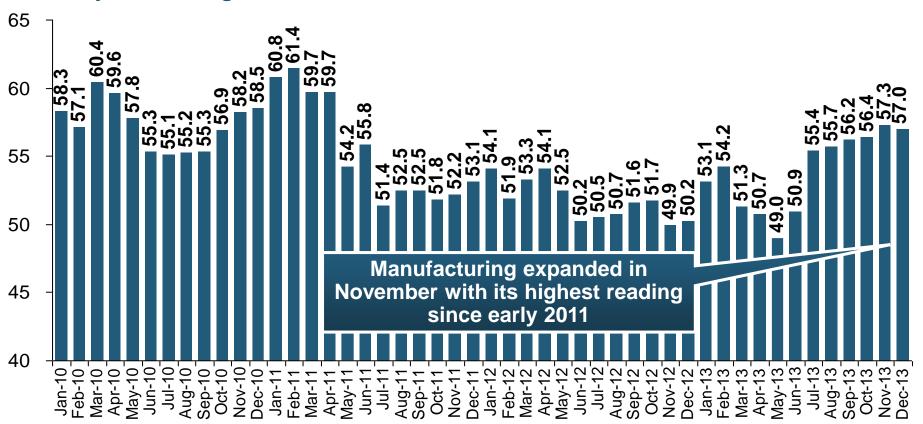
Source: FDIC at http://www2.fdic.gov/qbp/ (Loan Performance spreadsheet); Insurance Information Institute.

^{*}Latest data as of 2/2/2014.

ISM Manufacturing Index (Values > 50 Indicate Expansion)



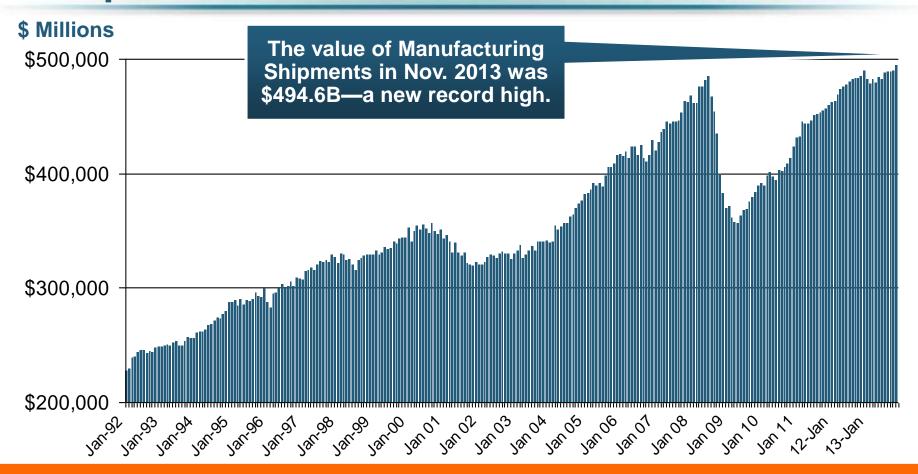
January 2010 through December 2013



The manufacturing sector expanded for 45 of the 47 months from Jan. 2010 through November 2013. Recovery second half of 2013 stems largely from better economic outlooks for Europe China.

Dollar Value* of Manufacturers' Shipments Monthly, Jan. 1992—Nov. 2013

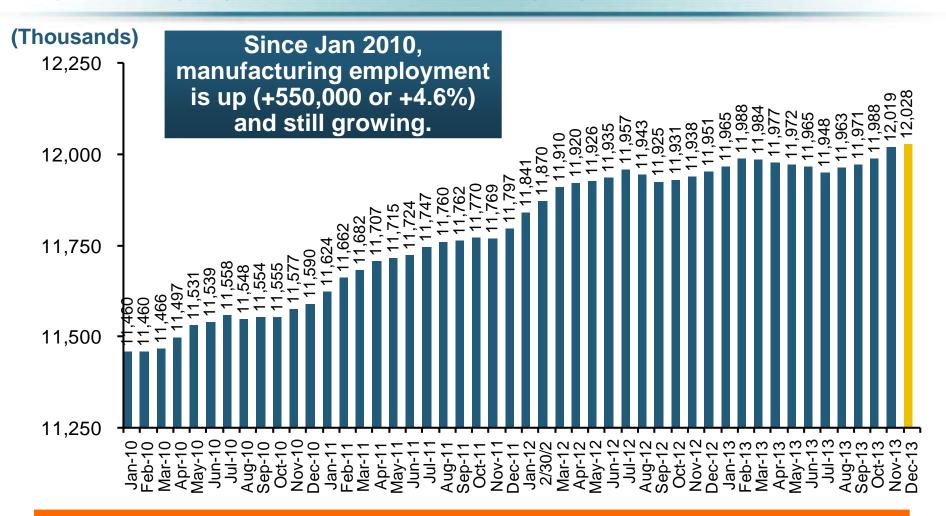




Monthly shipments in Nov. 2013 exceeded the pre-crisis (July 2008) peak. Manufacturing is energy-intensive and growth leads to gains in many commercial exposures: WC, Commercial Auto, Marine, Property, and various Liability Coverages.

Manufacturing Employment, Jan. 2010—December 2013*



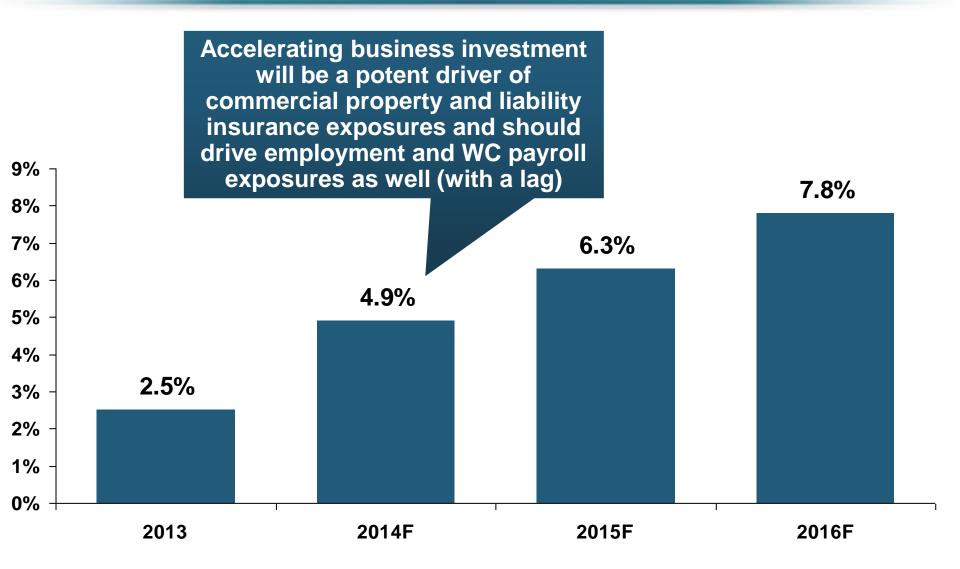


Manufacturing employment is a surprising source of strength in the economy. Employment in the sector is at a multi-year high.

^{*}Seasonally adjusted; Dec and Nov 2013 are preliminary
Sources: US Bureau of Labor Statistics at http://data.bls.gov; Insurance Information Institute.

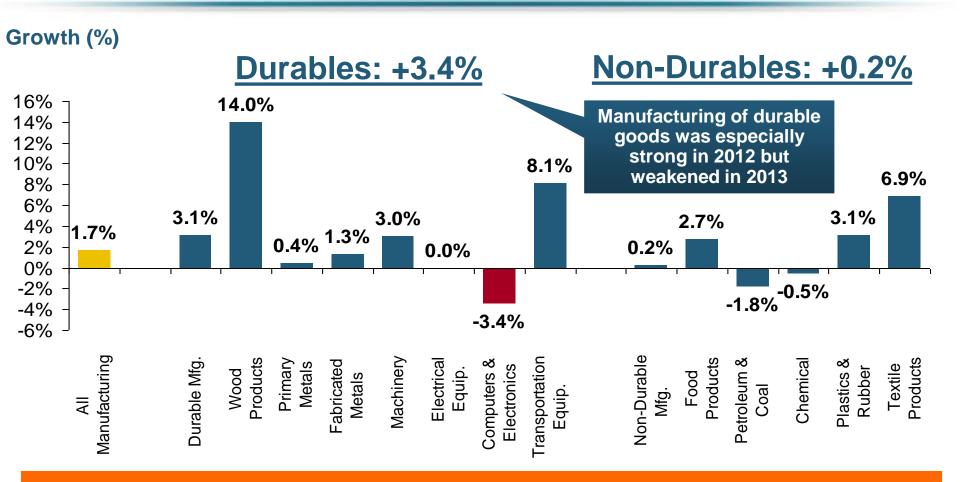
Business Investment: Expected to Accelerate, Fueling Commercial Exposure Growth





Manufacturing Growth for Selected Sectors, 2013 vs. 2013*



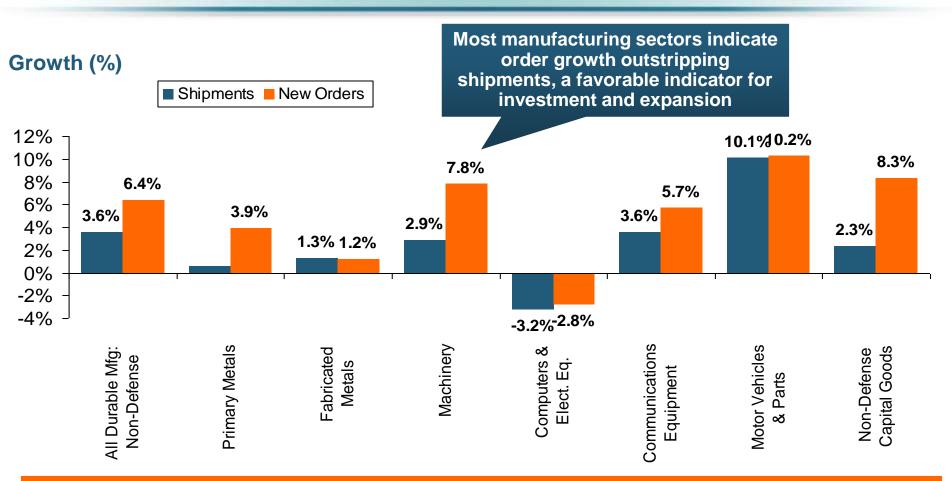


Manufacturing Is Expanding—Albeit Slowly—Across a Number of Sectors that Will Contribute to Growth in Insurable Exposures Including: WC, Commercial Property, Commercial Auto and Many Liability Coverages

^{*}Seasonally adjusted; Date are YTD comparing data through November 2013 to the same period in 2012. Source: U.S. Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders*, http://www.census.gov/manufacturing/m3/

Durable Manufacturing: New Order Growth and Shipments, 2013



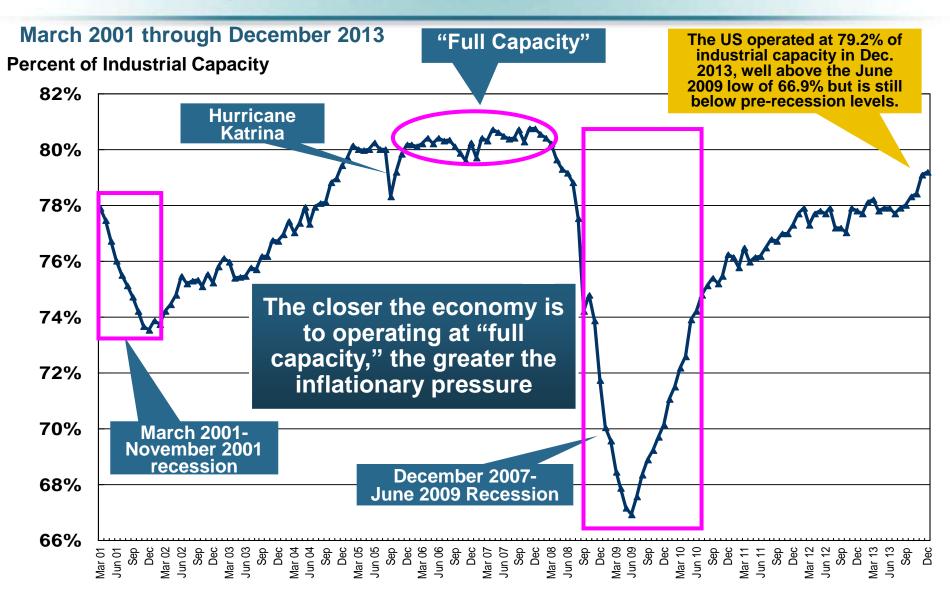


Manufacturing Is Expanding: New orders exceed shipments which suggests the industry is in an expansionary phase

^{*}Seasonally adjusted; Date are advance report YTD data comparing data through December 2013 to the same period in 2012. Source: U.S. Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders,* http://www.census.gov/manufacturing/m3/

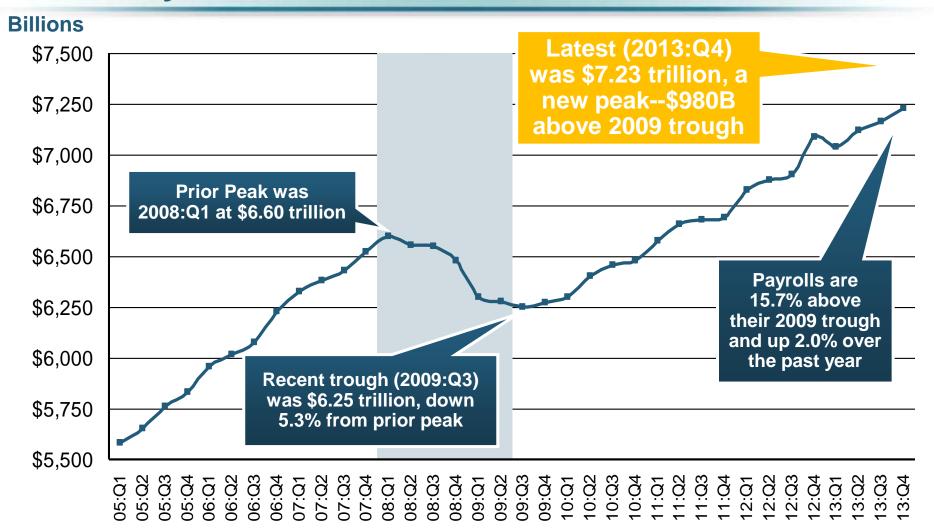
Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures





Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2013:Q4





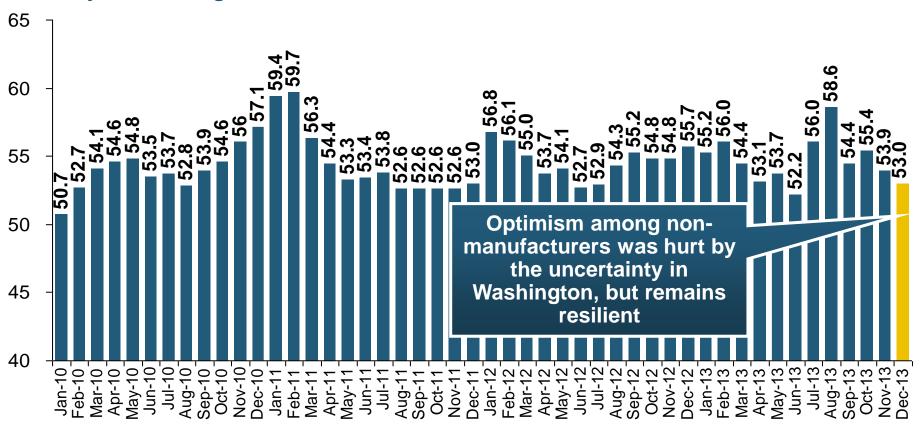
Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

Sources: http://research.stlouisfed.org/fred2/series/WASCUR; National Bureau of Economic Research (recession dates); Insurance Information Institute.

ISM Non-Manufacturing Index (Values > 50 Indicate Expansion)



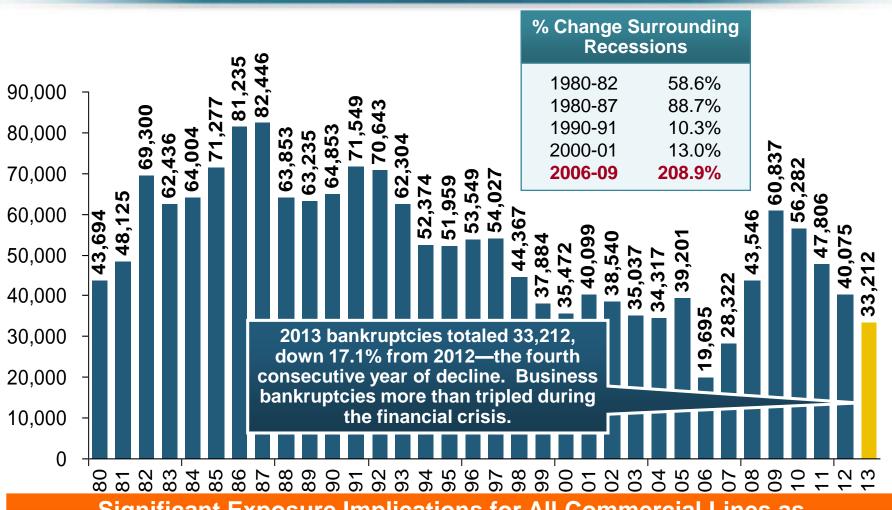
January 2010 through December 2013



Non-manufacturing industries have been expanding and adding jobs. This trend is likely to continue in 2014.

Business Bankruptcy Filings, 1980-2013



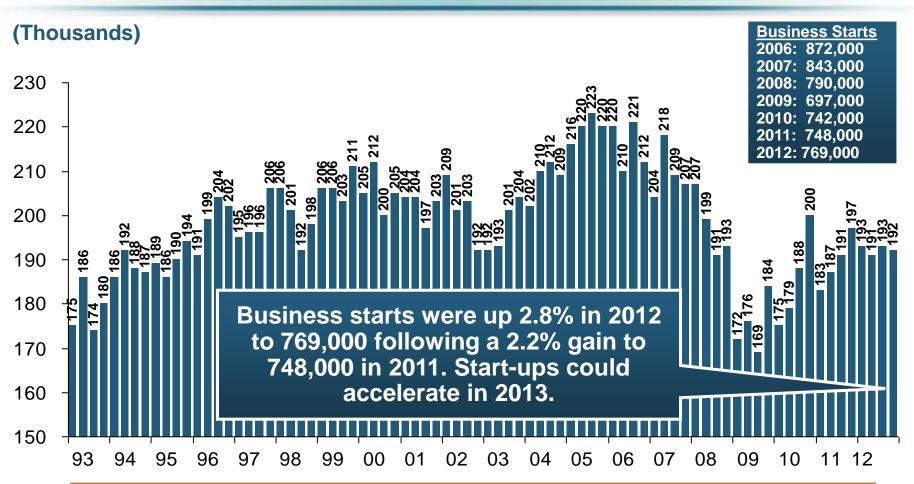


Significant Exposure Implications for All Commercial Lines as Business Bankruptcies Begin to Decline

Sources: American Bankruptcy Institute (1980-2012) at http://www.abiworld.org/AM/AMTemplate.cfm?Section=Home&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=61633; 2013 data from United States Courts at http://news.uscourts.gov; Insurance Information Institute.

Private Sector Business Starts, 1993:Q2 – 2012:Q4*





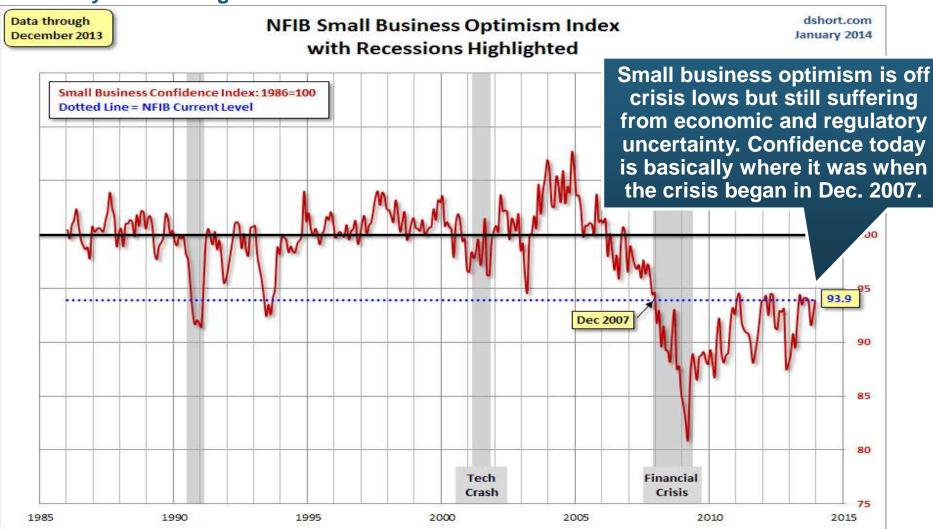
Business Starts Were Down Nearly 20% in the Recession, Holding Back Most Types of Commercial Insurance Exposure, But Are Recovering Slowly

^{*} Data through Dec. 30, 2012 are the latest available as of Nov. 21, 2013; Seasonally adjusted. Source: Bureau of Labor Statistics, http://www.bls.gov/news.release/cewbd.t08.htm.

NFIB Small Business Optimism Index



January 1985 through December 2013



Source: National Federation of Independent Business at http://www.advisorperspectives.com/dshort/charts/indicators/Sentiment.html?NFIB-optimism-index.gif; Insurance Information Institute.

12 Industries for the Next 10 Years: Insurance Solutions Needed



Health Care

Health Sciences

Energy (Traditional)

Alternative Energy

Petrochemical

Agriculture

Natural Resources

Technology (incl. Biotechnology)

Light Manufacturing

Insourced Manufacturing

Export-Oriented Industries

Shipping (Rail, Marine, Trucking, Pipelines)

Many
industries are
poised for
growth,
though
insurers'
ability to
capitalize on
these
industries
varies widely

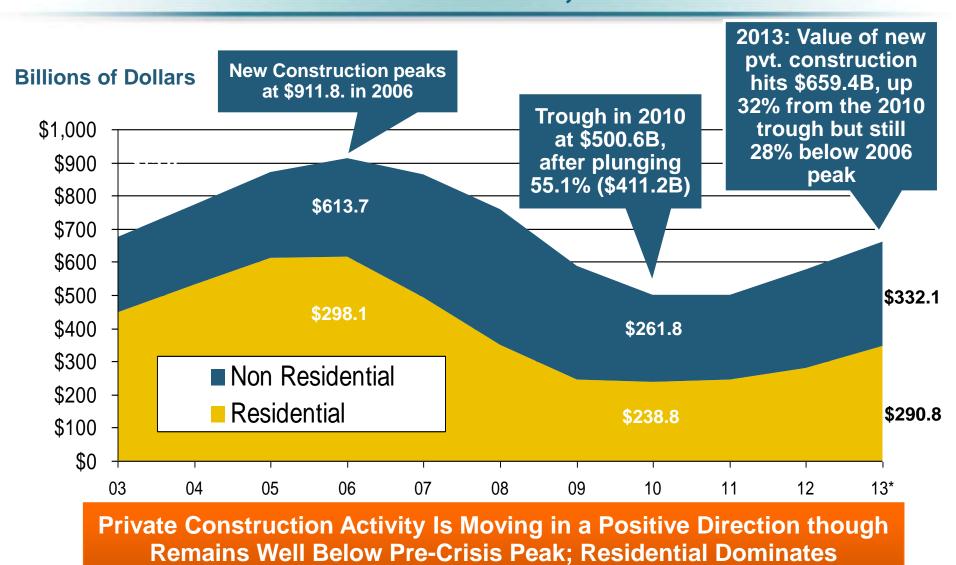


CONSTRUCTION INDUSTRY OVERVIEW & OUTLOOK

The Construction Sector Is Critical to the Economy and the P/C Insurance Industry

Value of New Private Construction: Residential & Nonresidential, 2003-2013*



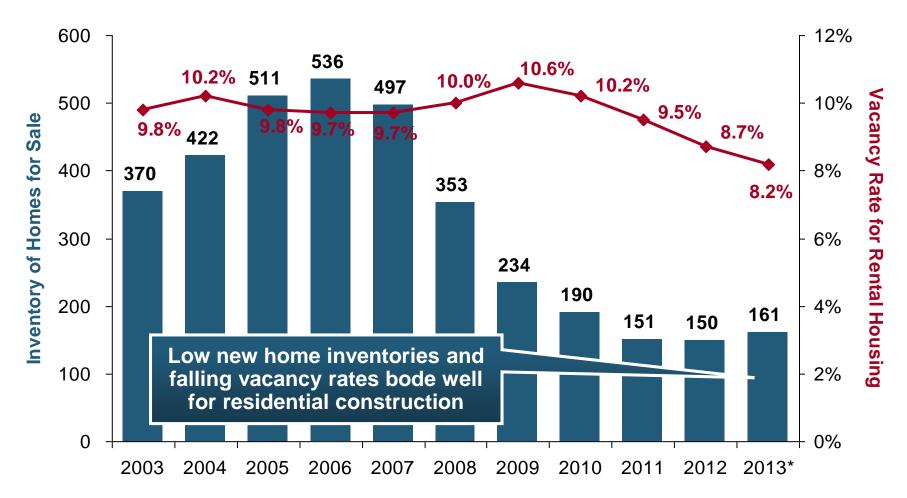


^{*2013} figure is a seasonally adjusted annual rate as of November. Sources: US Department of Commerce; Insurance Information Institute.

New Home Inventories and Rental Vacancy Rates, 2003-2013*



(Thousands)

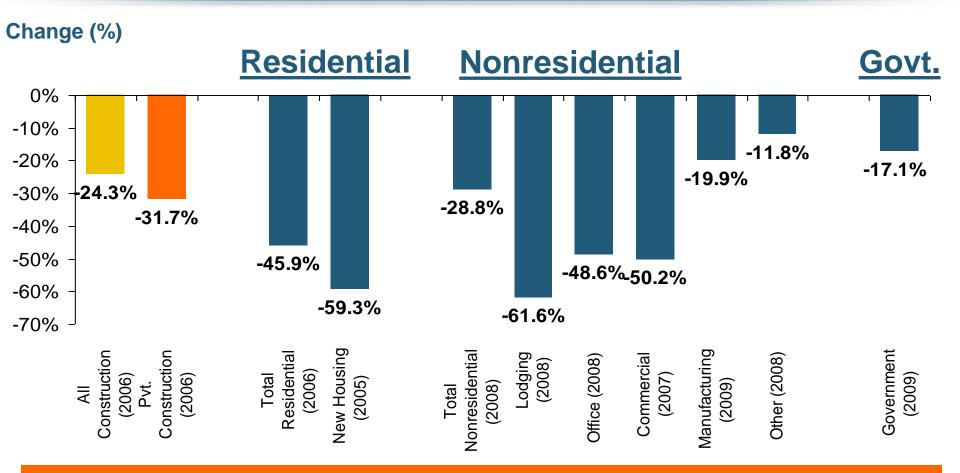


^{*2013} figure is a seasonally adjusted annual rate as of June.

Sources: US Department of Commerce; Insurance Information Institute.

Change from Peak in New Construction Expenditures to 2013*





Despite Recent Improvements, Construction Activity (and Employment)
Remains Far Below Pre-Crisis Peaks

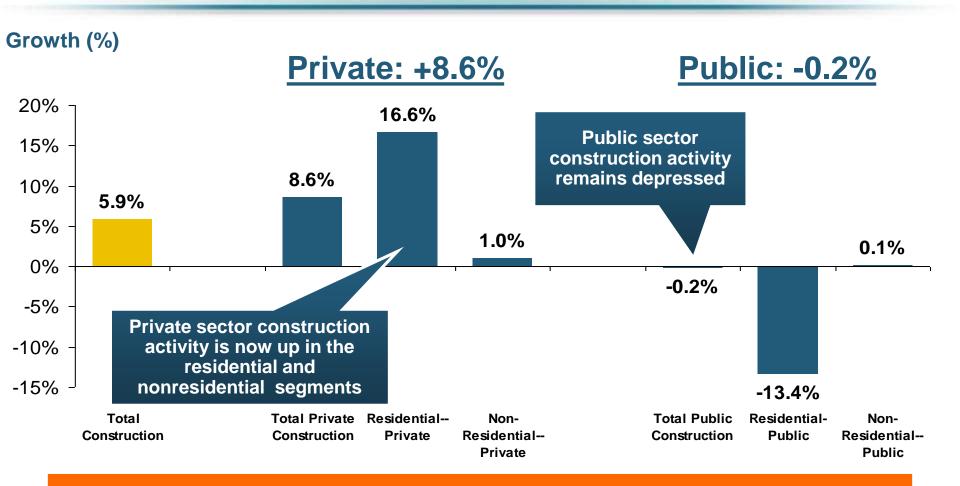
Note: Year in parentheses is the year of peak expenditure.

Sources: US Department of Commerce; Insurance Information Institute.

^{*2013} figure is a seasonally adjusted annual rate as of June.

Value of Construction Put in Place, November 2013 vs. November 2012*



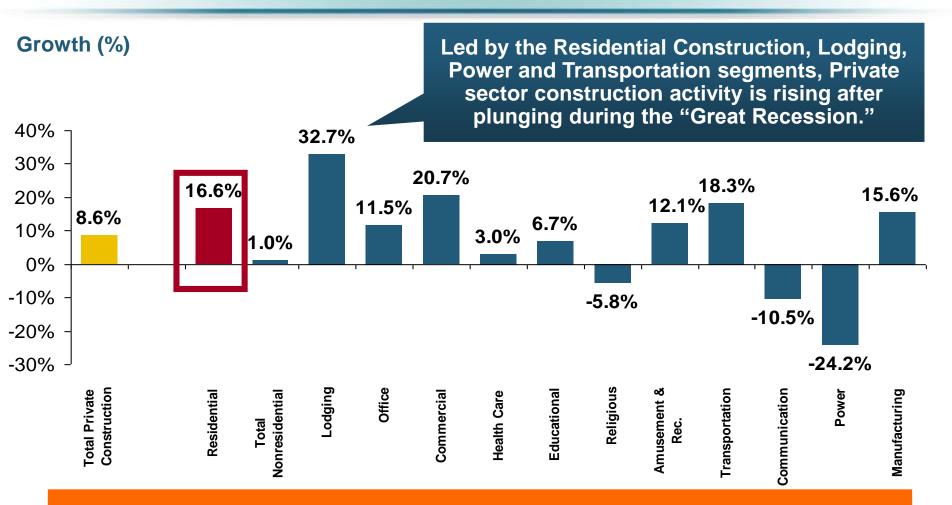


Overall Construction Activity is Up, But Growth Is Entirely in the Private Sector as State/Local Government Budget Woes Continue

^{*}seasonally adjusted Source: U.S. Census Bureau, http://www.census.gov/construction/c30/c30index.html; Insurance Information Institute.

Value of Private Construction Put in Place, by Segment, Nov. 2013 vs. Nov. 2012*



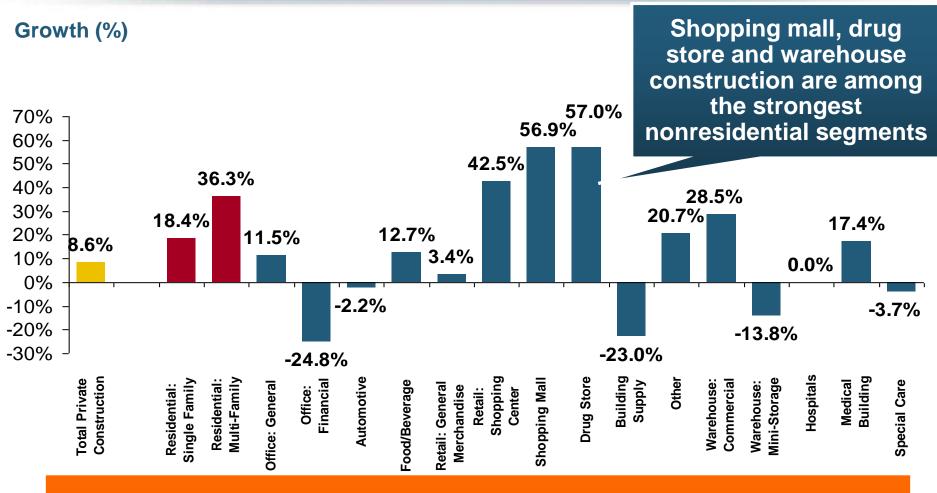


Private Construction Activity is Up in Most Segments, Including the Key Residential Construction Sector; Bodes Well for Early 2014

^{*}seasonally adjusted Source: U.S. Census Bureau, http://www.census.gov/construction/c30/c30index.html; Insurance Information Institute.

Private Construction by Segment/Project Type, Nov. 2013 vs. Nov. 2012*





Private Construction Activity is Up in Most Segments, Including the Key Residential Construction Sector, But Down in a Few

^{*}seasonally adjusted Source: U.S. Census Bureau, http://www.census.gov/construction/c30/c30index.html; Insurance Information Institute.

Value of New Federal, State and Local Government Construction: 2003-2013*



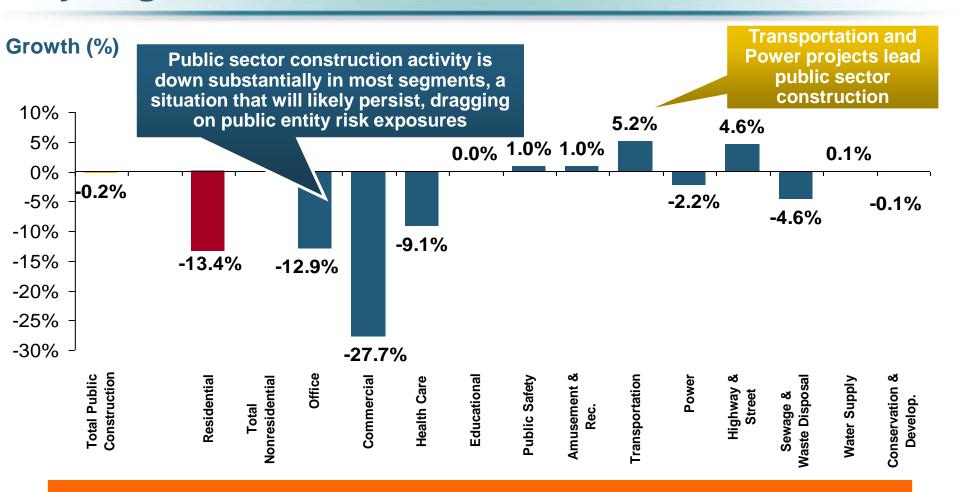


Government Construction Spending Peaked in 2009, Helped by Stimulus Spending, but Continues to Contract As State/Local Governments Grapple with Deficits and Federal Sequestration Takes Hold

^{*2013} figure is a seasonally adjusted annual rate as of November. Sources: US Department of Commerce; Insurance Information Institute.

Value of Public Construction Put in Place, by Segment, Nov. 2013 vs. Nov. 2012*



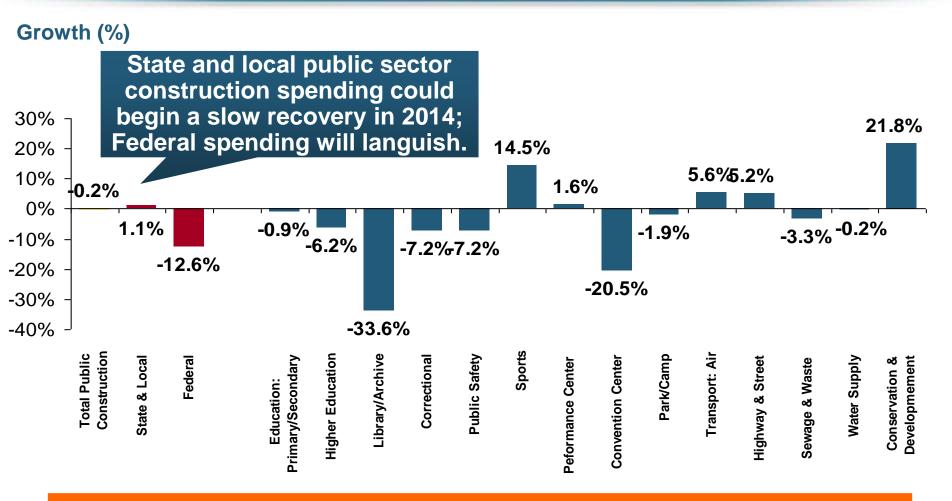


Public Construction Activity is Down in Many Segments as State and Local Budgets Remain Under Stress; Improvement Possible in 2014.

^{*}seasonally adjusted Source: U.S. Census Bureau, http://www.census.gov/construction/c30/c30index.html; Insurance Information Institute.

Public Construction by Segment/Project Type, Nov. 2013 vs. Nov. 2012*



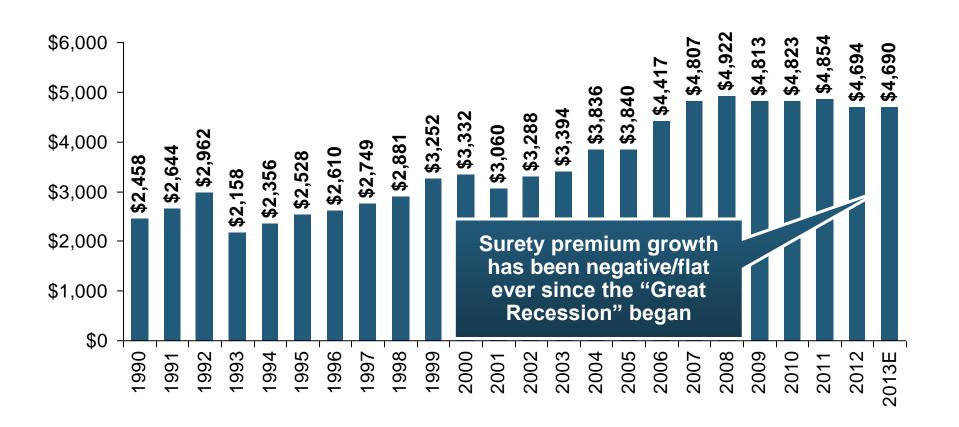


Public Construction Activity is Down in Most Segments as Governments
Grapple with Budget Deficits and Pension Shortfalls

^{*}seasonally adjusted Source: U.S. Census Bureau, http://www.census.gov/construction/c30/c30index.html; Insurance Information Institute.

Surety, Net Premiums Written, 1990-2013E, (\$ millions)

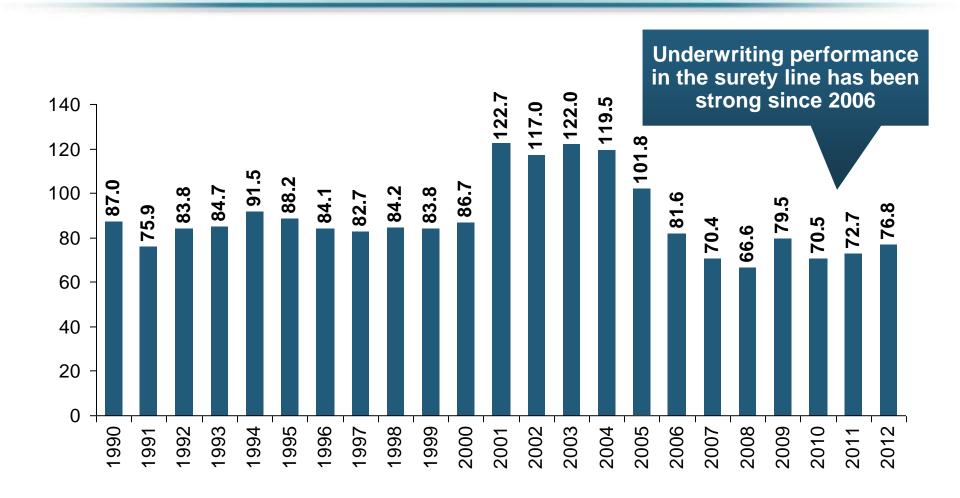




Note: 1990-1992 includes Financial Guaranty.

Surety Combined Ratio, 1990-2012*





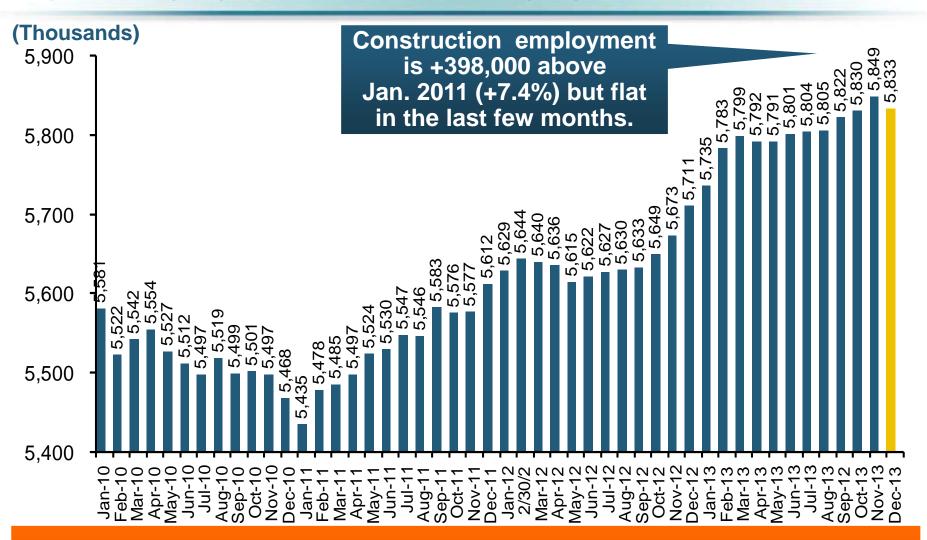
*Net basis.

Note: 1990-1992 includes Financial Guaranty.

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

Construction Employment, Jan. 2010—December 2013*





Construction and manufacturing employment constitute 1/3 of all payroll exposure.

^{*}Seasonally adjusted; Dec and Nov 2013 are preliminary

Construction Employment, Jan. 2003–December 2013





Private Investment and Govt. Spending Recover. WC Insurers Will Benefit.

Note: Recession indicated by gray shaded column.

Sources: U.S. Bureau of Labor Statistics; Insurance Information Institute.

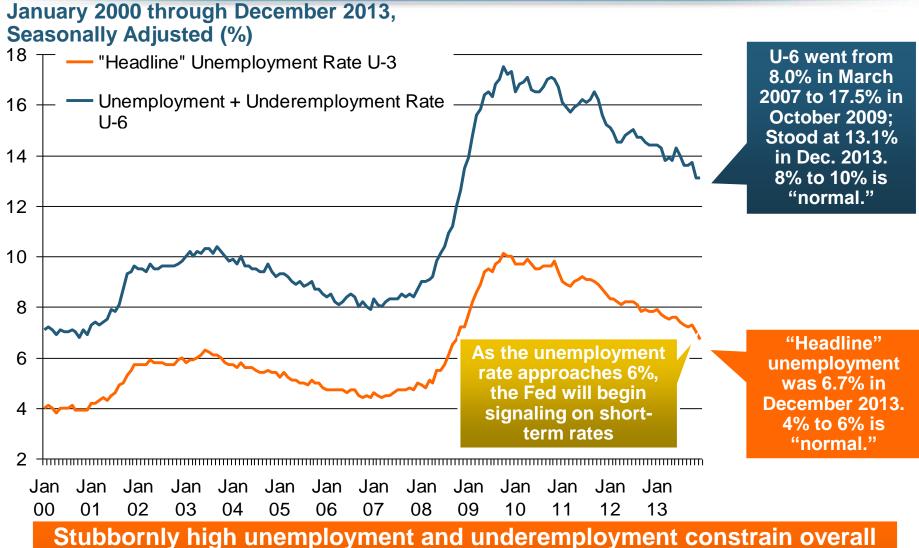


Labor Market Trends

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

Unemployment and Underemployment Rates: Still Too High, But Falling

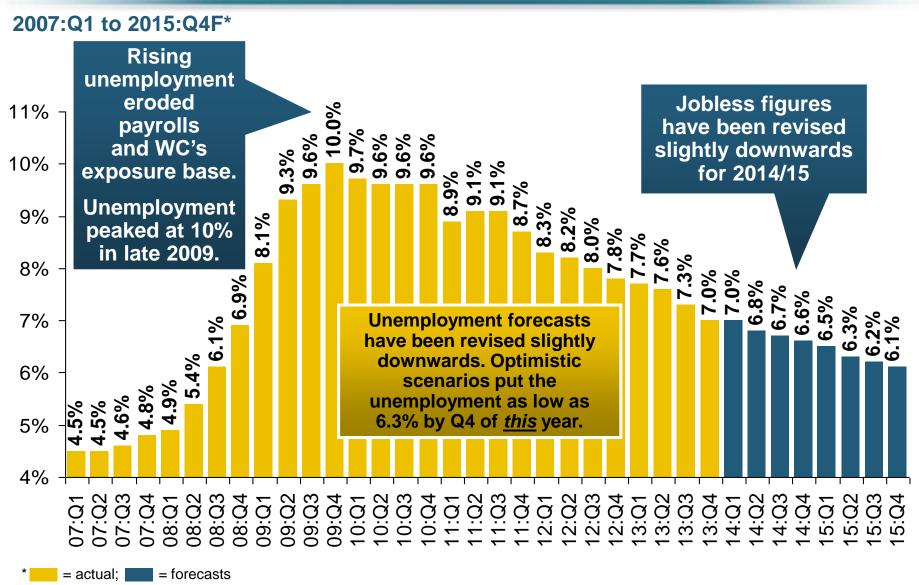




Stubbornly high unemployment and underemployment constrain overall economic growth, but the job market is now clearly improving.

US Unemployment Rate Forecast

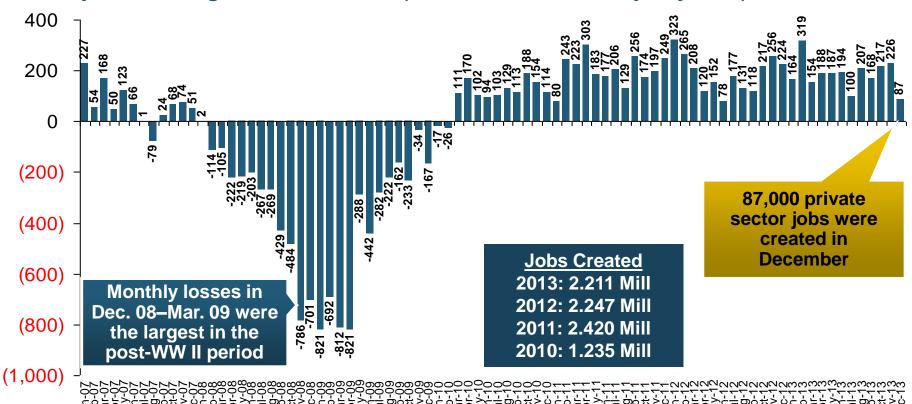




Monthly Change in Private Employment



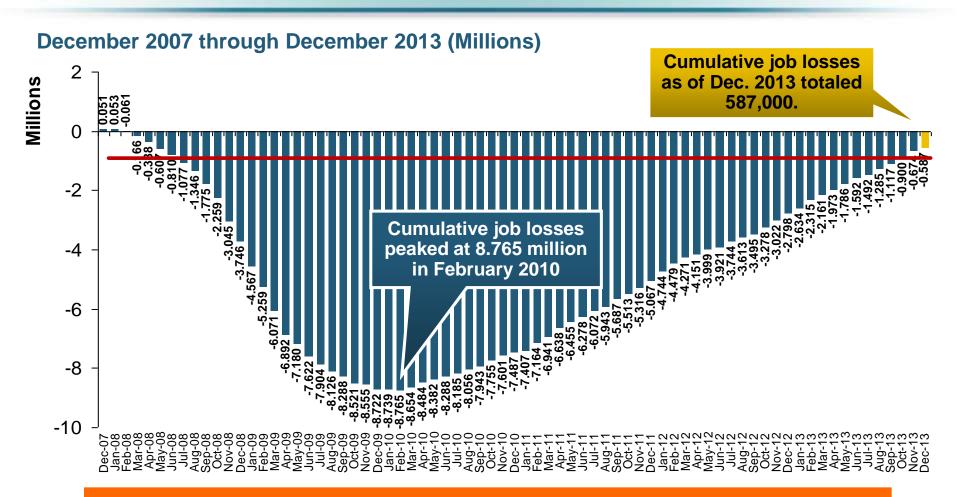




Private Employers Added 8.14 million Jobs Since Jan. 2010 After Having Shed 4.98 Million Jobs in 2009 and 3.80 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

Cumulative Change in Private Employment: Dec. 2007—Dec. 2013



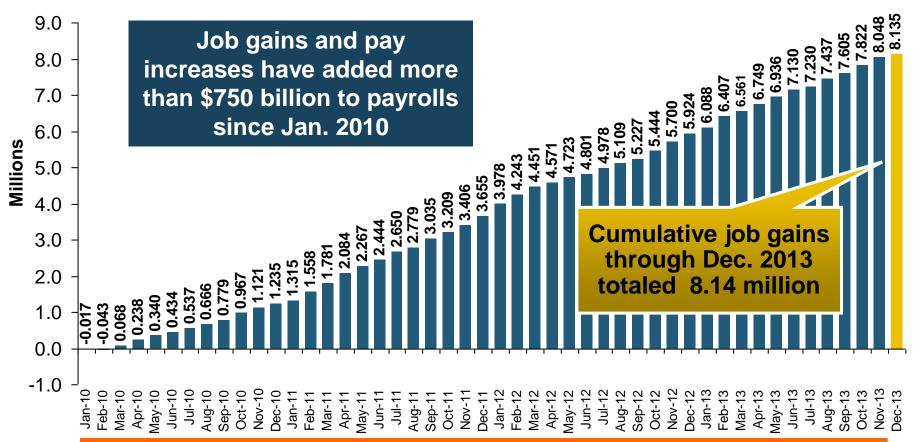


Private Employers Added 8.14 million Jobs Since Jan. 2010 After Having Shed 4.98 Million Jobs in 2009 and 3.80 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

Cumulative Change in Private Sector Employment: Jan. 2010—Dec. 2013



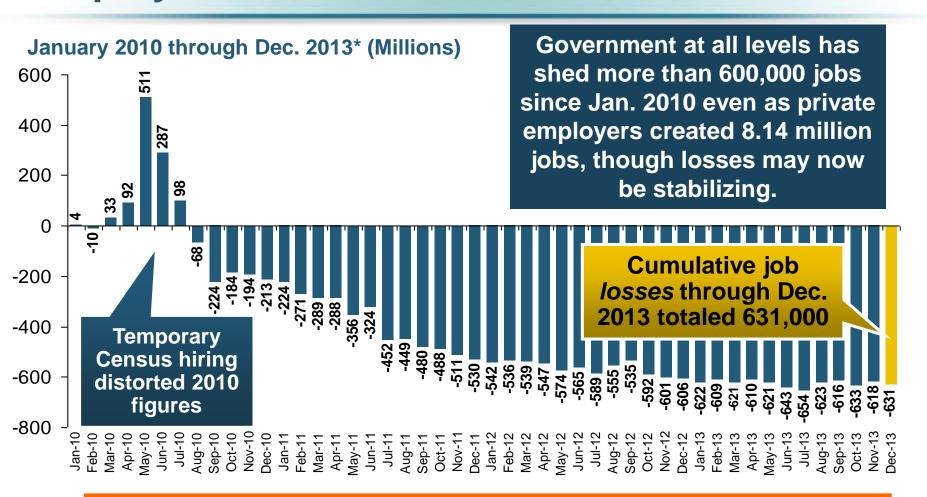
January 2010 through December 2013* (Millions)



Private Employers Added 8.14 million Jobs Since Jan. 2010 After Having Shed 4.98 Million Jobs in 2009 and 3.80 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

Cumulative Change in Government Employment: Jan. 2010—Dec. 2013

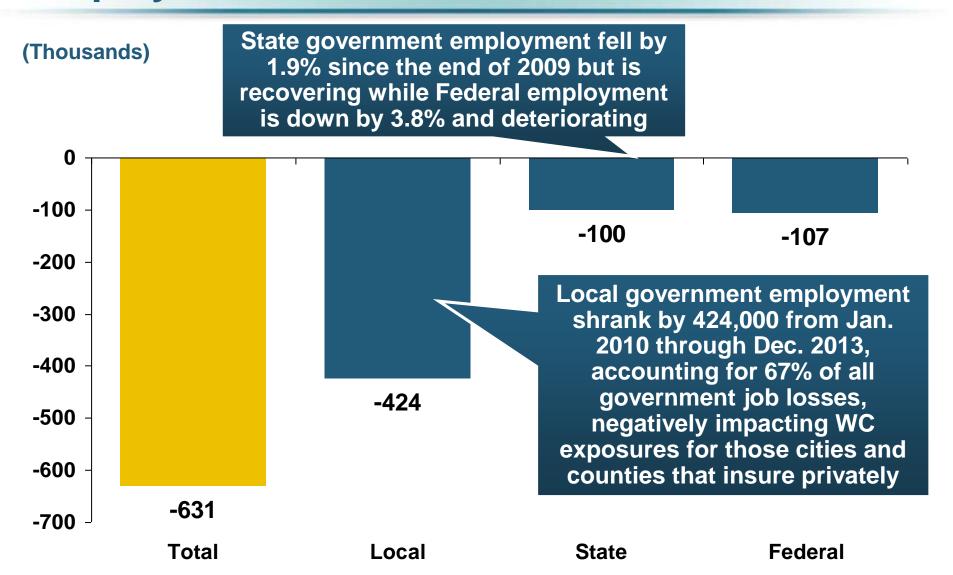




Governments at All Levels are Under Severe Fiscal Strain As Tax Receipts Plunged and Pension Obligations Soared During the Financial Crisis: Sequestration Will Add to this Toll

Net Change in Government Employment: Jan. 2010—Dec. 2013*

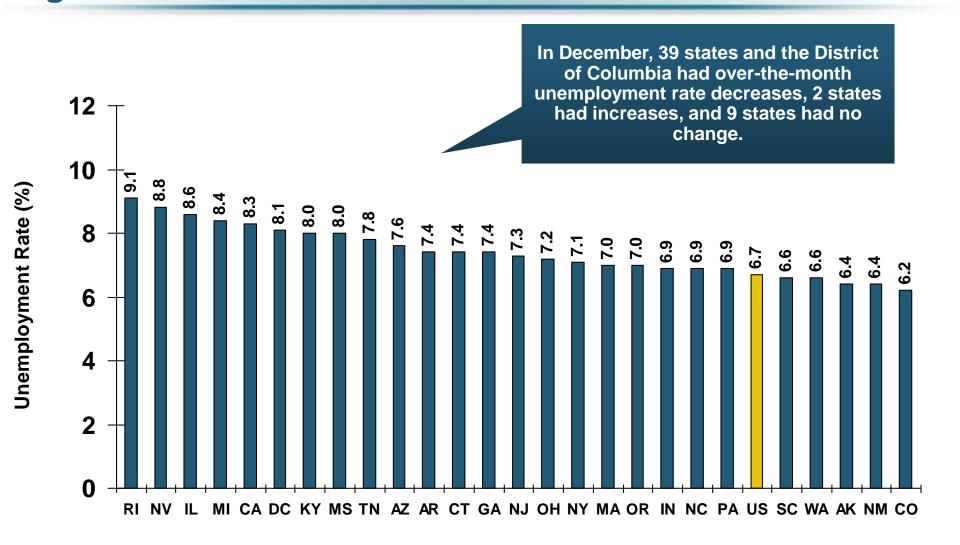




^{*}Cumulative change from prior month: Base employment date is Dec. 2009.

Unemployment Rates by State, December 2013: Highest 25 States*



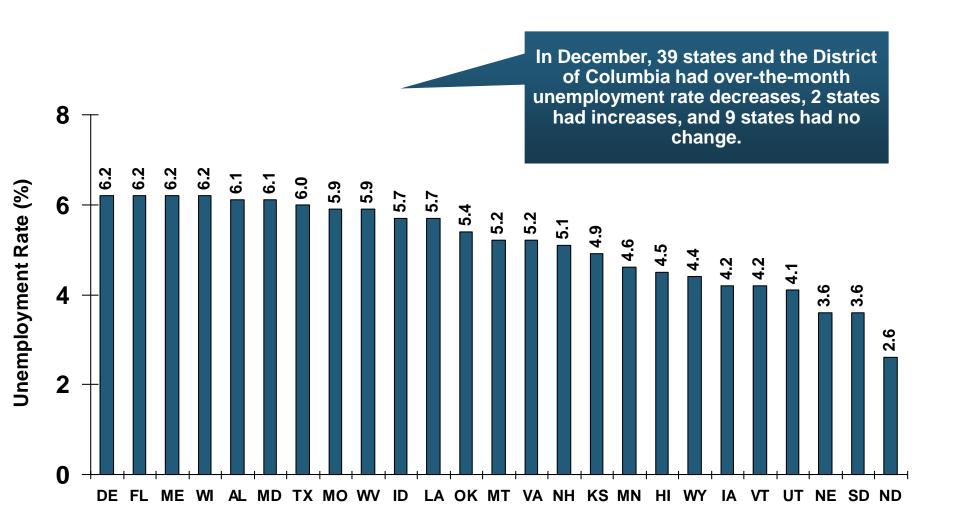


^{*}Provisional figures for December 2013, seasonally adjusted.

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

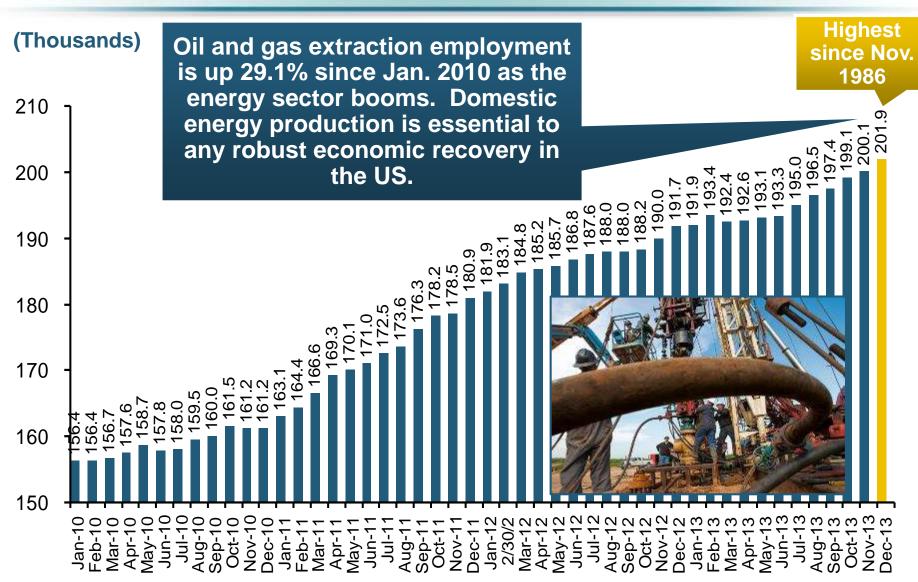
Unemployment Rates by State, December 2013: Lowest 25 States*





Oil & Gas Extraction Employment, Jan. 2010—Dec. 2013*



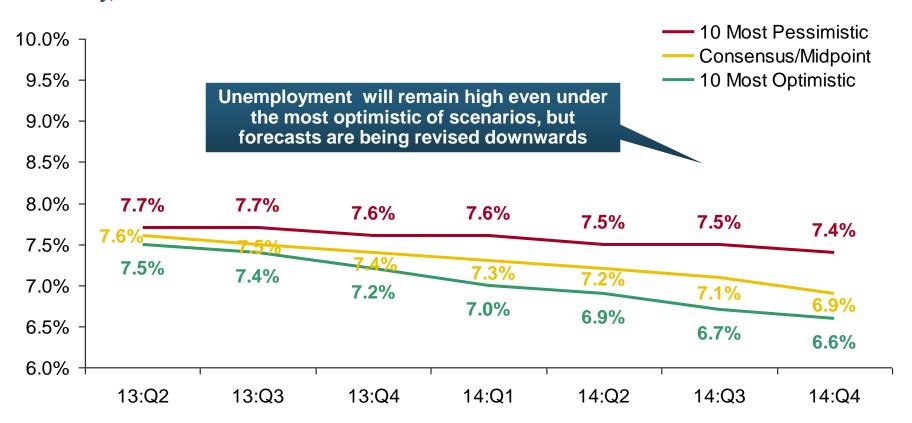


^{*}Seasonally adjusted

US Unemployment Rate Forecasts

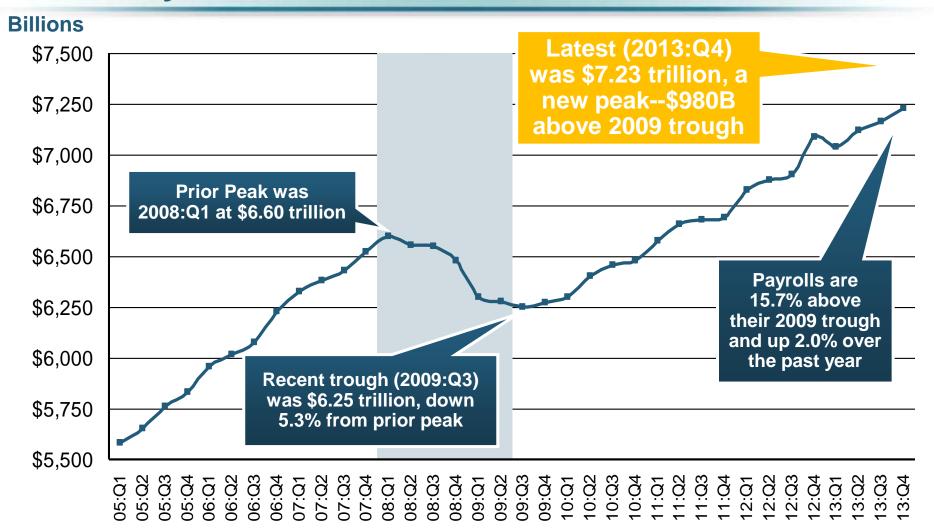


Quarterly, 2013:Q1 to 2014:Q4



Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2013:Q4



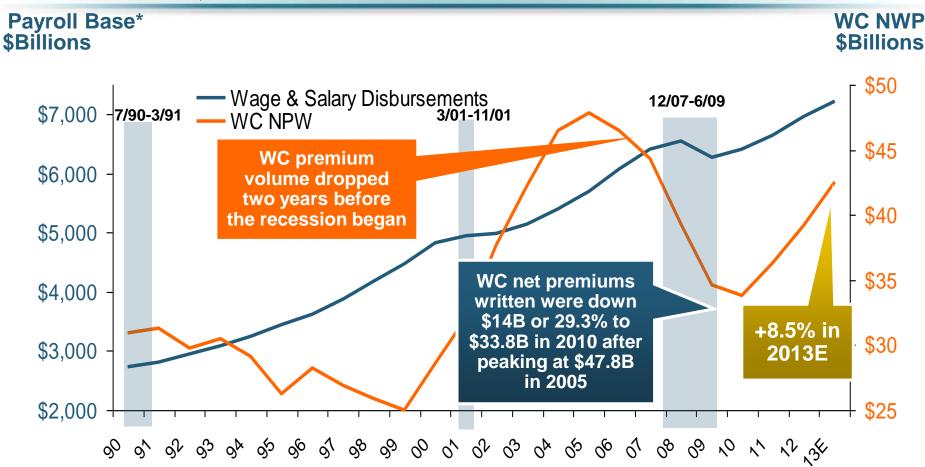


Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

Sources: http://research.stlouisfed.org/fred2/series/WASCUR; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Payroll vs. Workers Comp Net Written Premiums, 1990-2013E





Continued Payroll Growth and Rate Increases Suggest WC NWP Will Grow Again in 2014; +8.6% Growth Estimated for 2013

^{*}Private employment; Shaded areas indicate recessions. WC premiums for 2012 are I.I.I. estimate based YTD 2013 actuals. Sources: NBER (recessions); Federal Reserve Bank of St. Louis at http://research.stlouisfed.org/fred2/series/WASCUR; NCCI; I.I.I.

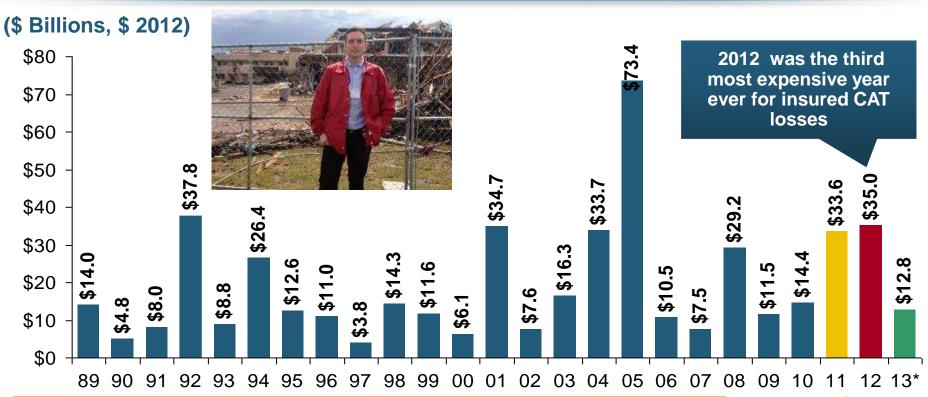


U.S. Insured Catastrophe Loss Update

2013 Was a Welcome Respite from the High Catastrophe Losses in Recent Years

U.S. Insured Catastrophe Losses





2012 Was the 3rd Highest Year on Record for Insured Losses in U.S. History on an Inflation-Adj. Basis. 2011 Losses Were the 6th Highest. YTD 2013 Running Well Below 2011 and 2012 YTD Totals.

Record tornado losses caused 2011 CAT losses to surge

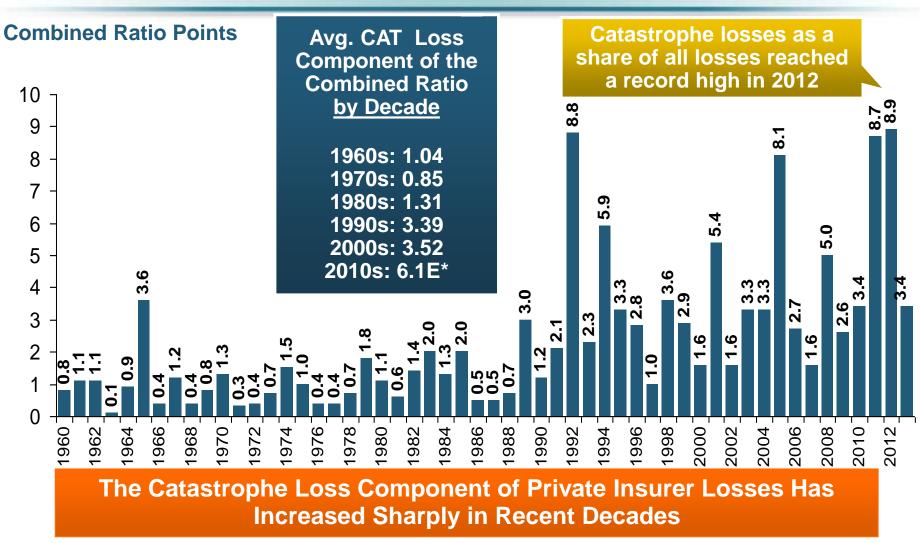
Note: 2001 figure includes \$20.3B for 9/11 losses reported through 12/31/01 (\$25.9B 2011 dollars). Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = \$12.2B (\$15.6B in 2011 dollars.)

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

^{*}Through 12/31/13.

Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2013*





^{*2010}s represent 2010-2013.

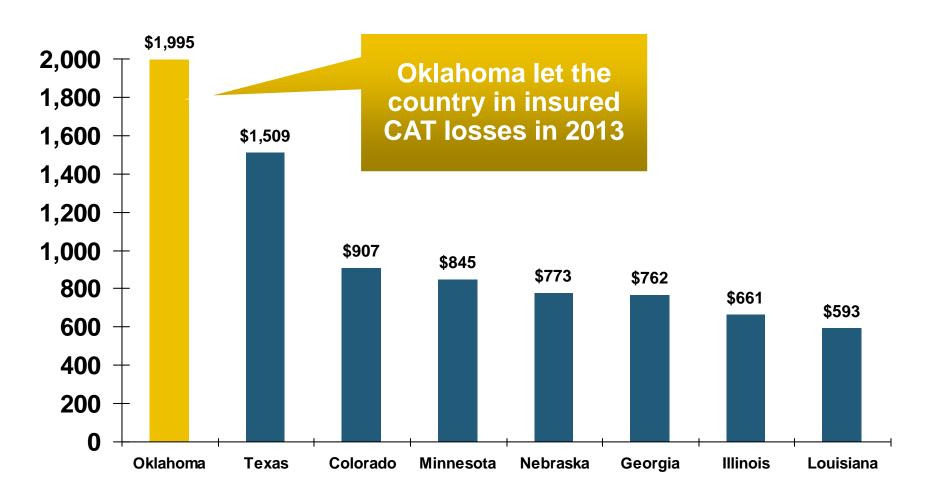
Notes: Private carrier losses only. Excludes loss adjustment expenses and reinsurance reinstatement premiums. Figures are adjusted for losses ultimately paid by foreign insurers and reinsurers.

Source: ISO (1960-2011); A.M. Best (2012E) Insurance Information Institute.

Top 8 States for Insured Catastrophe Losses, 2013



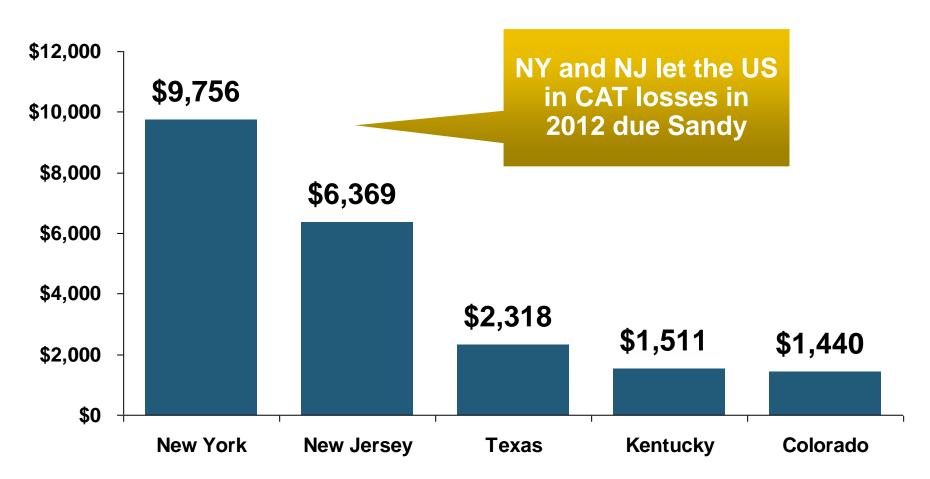
\$ Millions



Top 5 States by Insured Catastrophe Losses in 2012*







^{*}Includes catastrophe losses of at least \$25 million. Sources: PCS unit of ISO; Insurance Information Institute.

Natural Disaster Losses in the United States, by Type, 2013



As of December 31, 2013	Number of Events	Fatalities	Estimated Overall Losses (US \$m)	Estimated Insured Losses (US \$m)
Severe Thunderstorm	69	110	16,341	10,274
Winter Storm	11	43	2,935	1,895
Flood	19	23	1,929	240
Earthquake & Geophysical	6	1	Minor	Minor
Tropical Cyclone	1	1	Minor	Minor
Wildfire, Heat, & Drought	22	29	620	385
Totals	128	207	21,825	12,794

Source: Munich Re NatCatSERVICE

Significant Natural Catastrophes, 2013



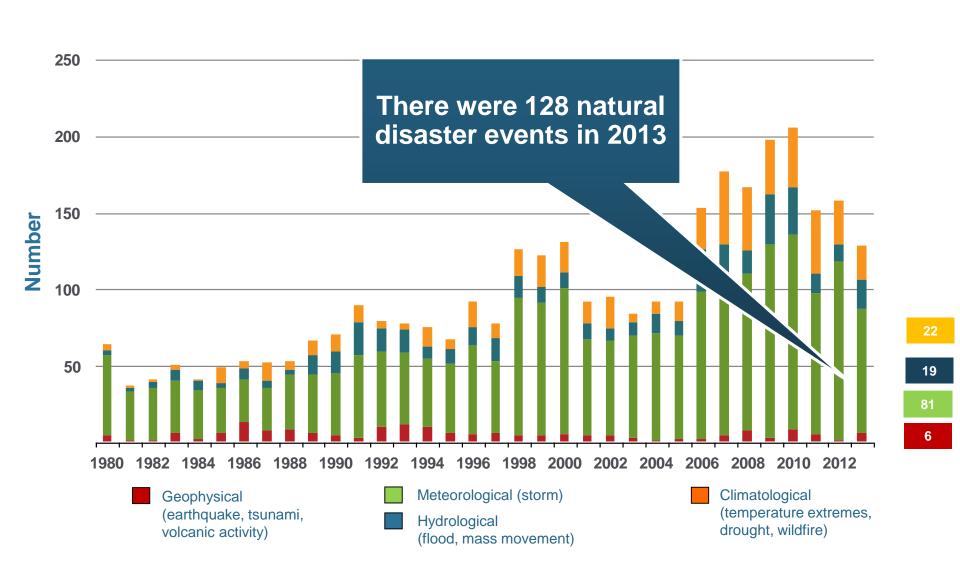
(Events with \$1 billion economic loss and/or 50 fatalities)

Date	Event	Estimated Economic Losses (US \$m)	Estimated Insured Losses (US \$m)
February 24 – 25	Winter Storm	1,300	690
March 18 – 19	Thunderstorms	2,200	1,600
April 7 – 11	Winter Storm	1,600	1,200
April 16 – 18	Thunderstorms	1,100	560
May 18 – 20	Thunderstorms	3,100	1,800
May 28 – 31	Thunderstorms	2,800	1,400
August 6 – 7	Thunderstorms	1,300	740
September 9 – 16	Flooding	1,500	160
November 17 - 18	Thunderstorms	1,300	931

Natural Disasters in the United States, 1980 – 2013



Number of Events (Annual Totals 1980 – 2013)

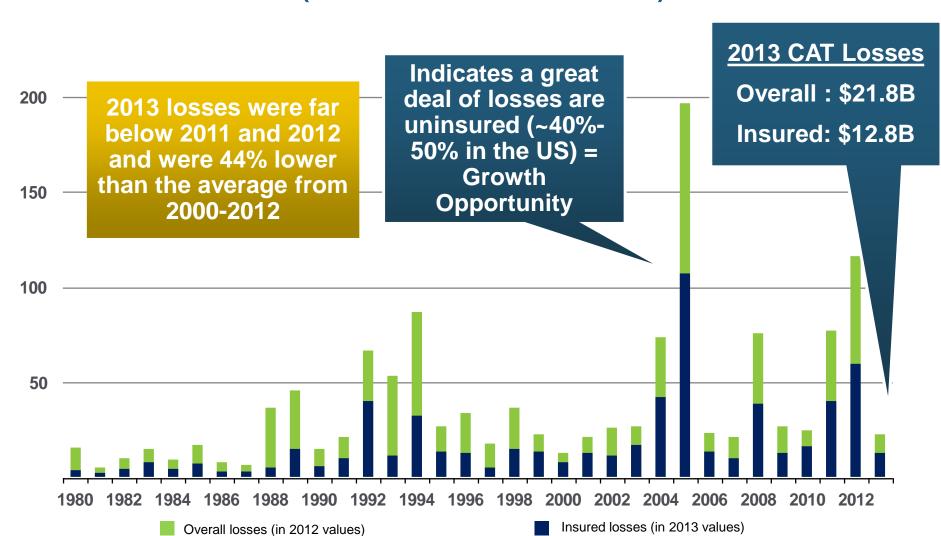


Source: MR NatCatSERVICE

Losses Due to Natural Disasters in the US, 1980–2013



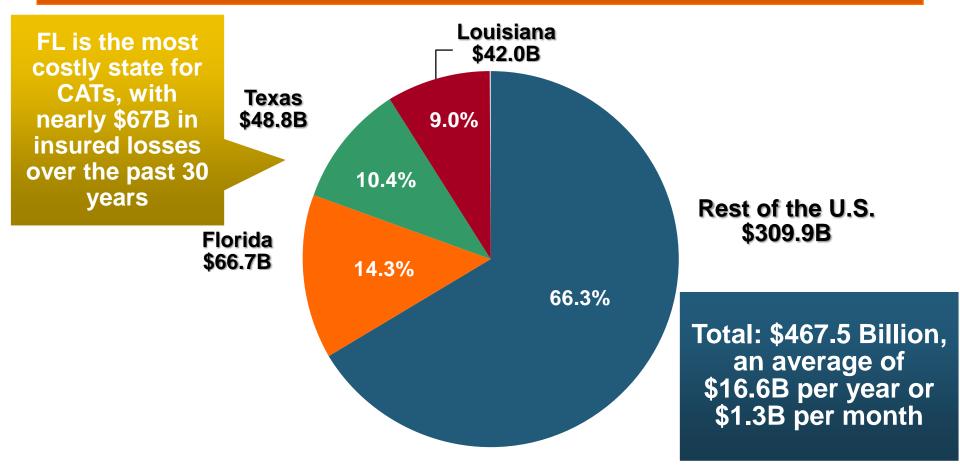
(2013 Dollars, \$ Billions) (Overall and Insured Losses)



Top States by Inflation-Adjusted Insured Catastrophe Losses, 1983–2012

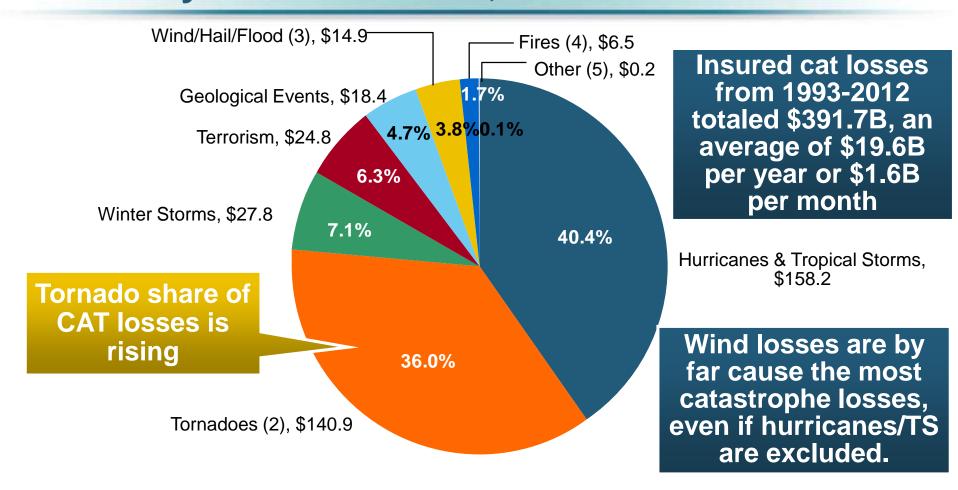


Over the Past 30 Years Florida Has Accounted for the Largest Share of Catastrophe Losses in the U.S., Followed by Texas and Louisiana



Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1993–2012¹





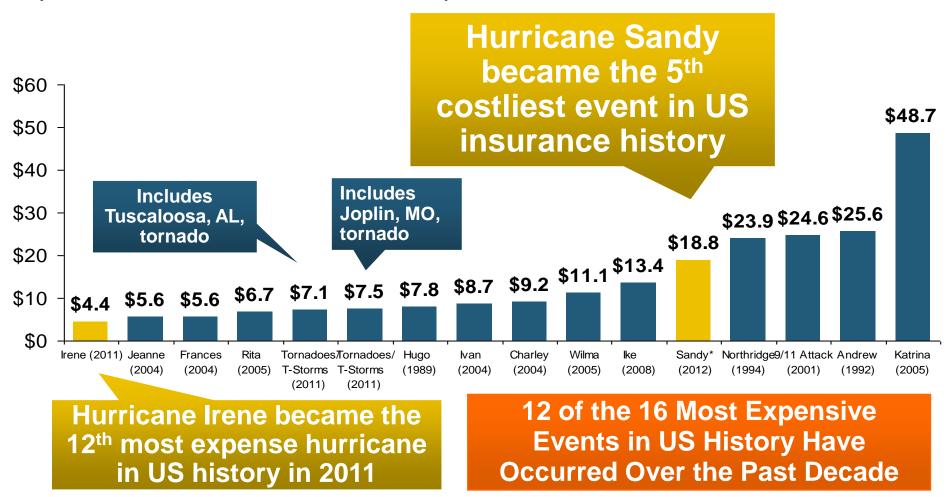
- 1. Catastrophes are defined as events causing direct insured losses to property of \$25 million or more in 2012 dollars.
- Excludes snow.
- 3. Does not include NFIP flood losses
- Includes wildland fires
- 5. Includes civil disorders, water damage, utility disruptions and non-property losses such as those covered by workers compensation.

Source: ISO's Property Claim Services Unit.

Top 16 Most Costly Disasters in U.S. History



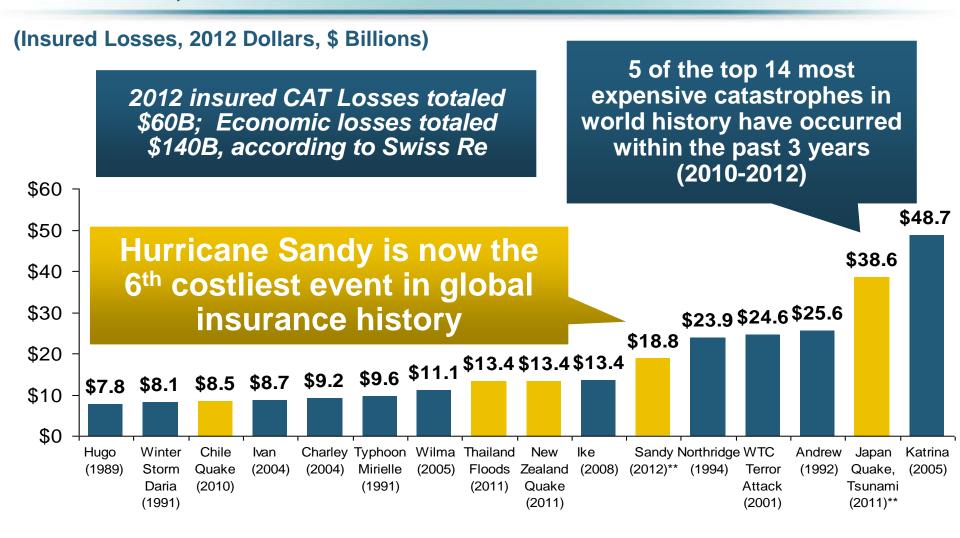
(Insured Losses, 2012 Dollars, \$ Billions)



^{*}PCS estimate as of 4/12/13.

Top 16 Most Costly World Insurance Losses, 1970-2013*





^{*}Figures do not include federally insured flood losses.

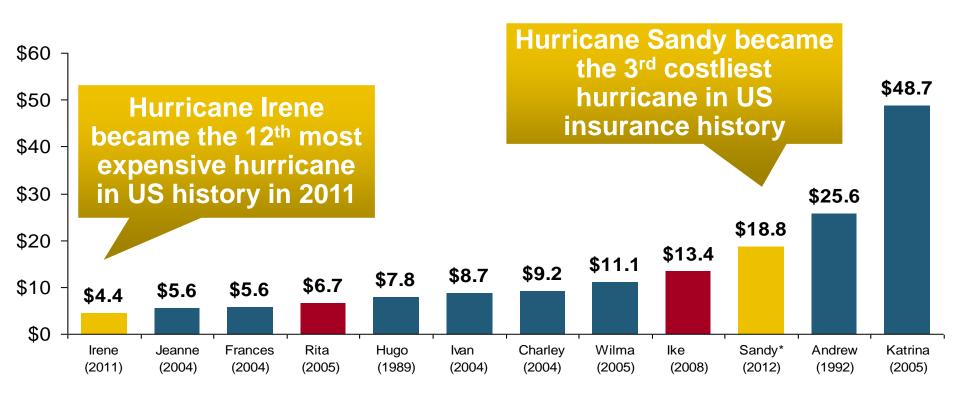
^{**}Estimate based on PCS value of \$18.75B as of 4/12/13.
Sources: Munich Re; Swiss Re; Insurance Information Institute research.

Top 12 Most Costly Hurricanes in U.S. History



(Insured Losses, 2012 Dollars, \$ Billions)

10 of the 12 most costly hurricanes in insurance history occurred over the past 9 years (2004—2012)



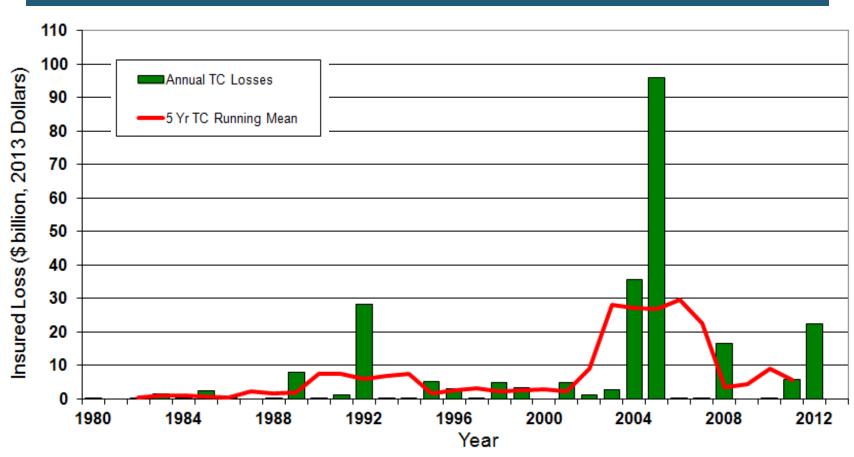
*PCS estimate as of 4/12/13.

Sources: PCS; Insurance Information Institute inflation adjustments to 2012 dollars using the CPI.

Insured US Tropical Cyclone Losses, 1980 - 2013



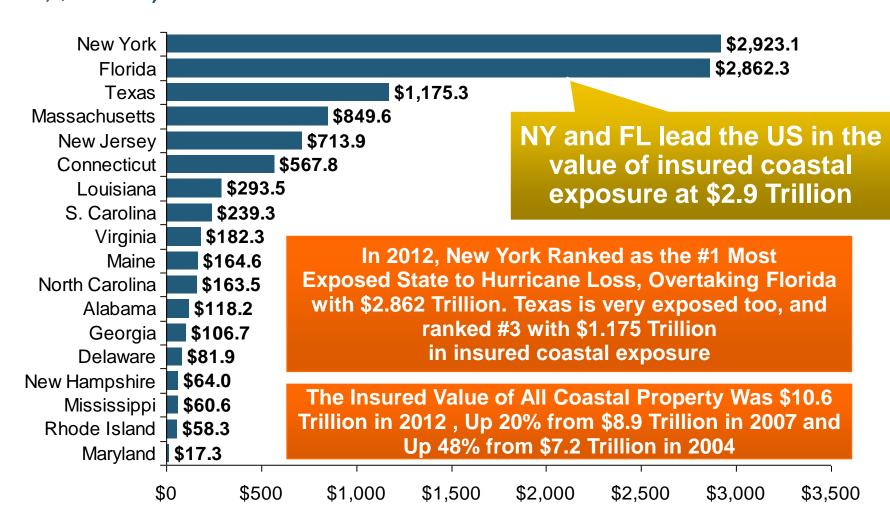
The current 5-year average (2008 - 2013) insured tropical cyclone loss is \$5.6 billion per year.



Total Value of Insured Coastal Exposure in 2012



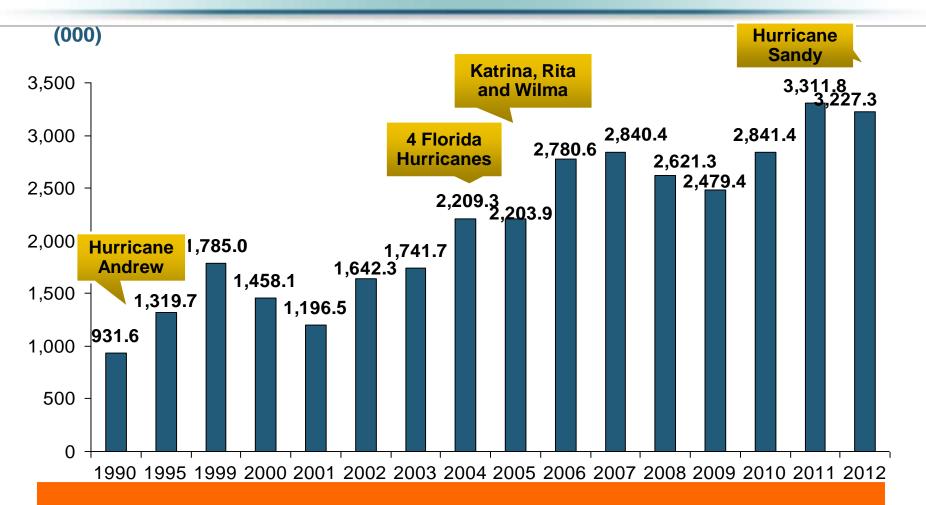
(2012, \$ Billions)



Source: AIR Worldwide

U.S. Residual Market: Total Policies In-Force (1990-2012) (000)

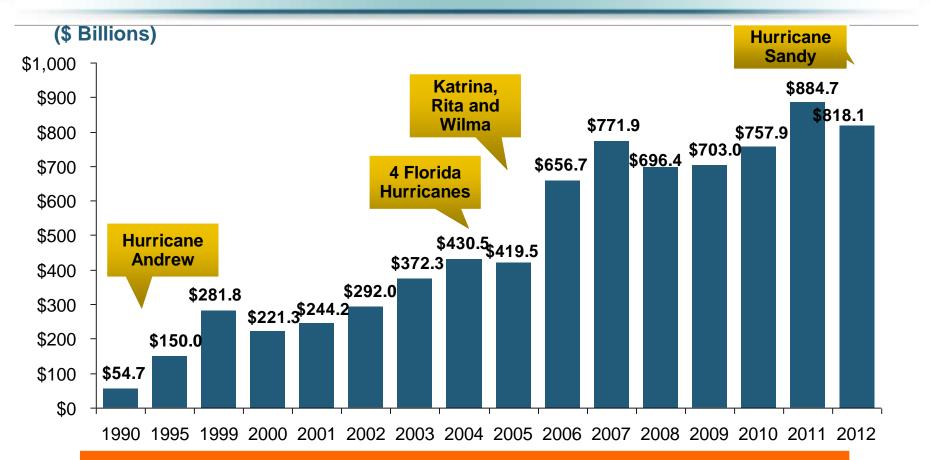




In the 23-year period between 1990 and 2012, the total number of policies in-force in the residual market (FAIR & Beach/Windstorm) Plans has more than tripled.

U.S. Residual Market Exposure to Loss (1990-2012) (\$ Billions)





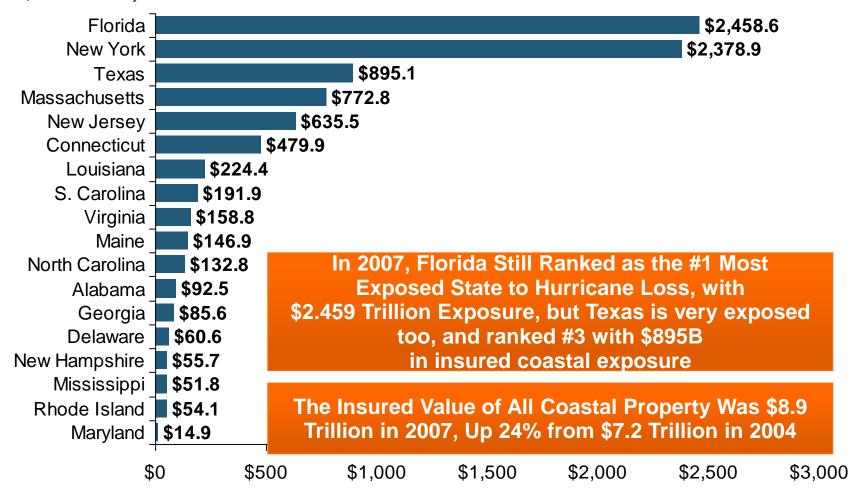
In the 23-year period between 1990 and 2012, total exposure to loss in the residual market (FAIR & Beach/Windstorm) Plans has surged from \$54.7 billion in 1990 to \$818.1 billion in 2012.

Source: PIPSO; Insurance Information Institute (I.I.I.).

Total Value of Insured Coastal Exposure in 2007



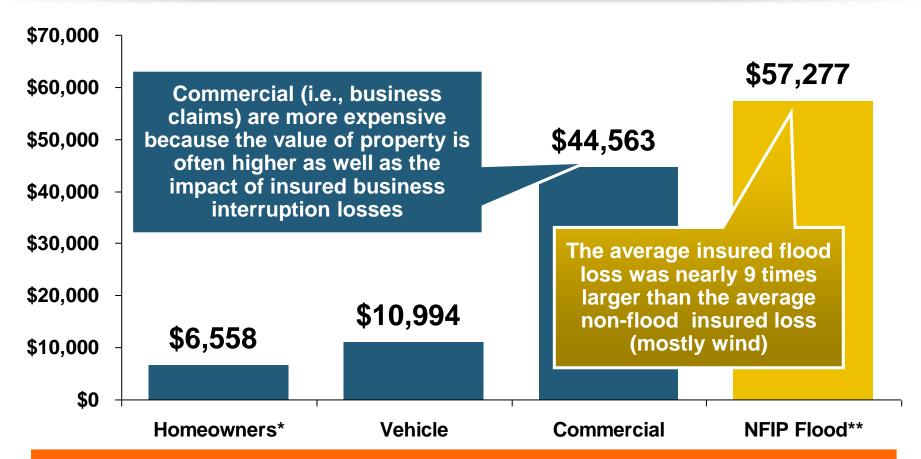
(2007, \$ Billions)



Source: AIR Worldwide

Hurricane Sandy: Average Claim Payment by Type of Claim





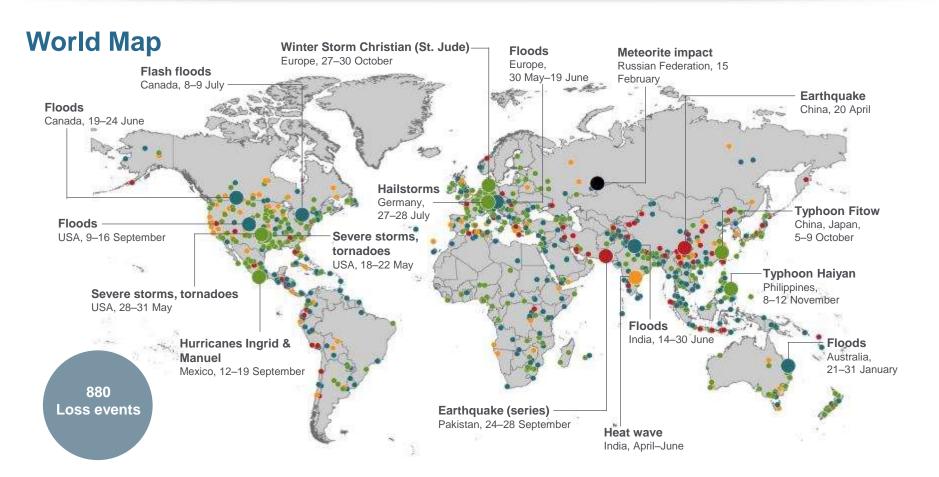
Post-Sandy, the I.I.I. worked very hard to make help media, consumers and regulators understand the distinction between a flood claim and a standard homeowners claim. *NFIP* is \$24B in debt.

^{*}Includes rental and condo policies (excludes NFIP flood). **As of Oct. 31, 2013.

Sources: Catastrophe loss data is for Catastrophe Serial No. 90 (Oct. 28 – 31, 2012) from PCS as of March 2013; Insurance Information Institute.

Natural Loss Events: Full Year 2013





- Natural catastrophes
- Selection of significant Natural catastrophes

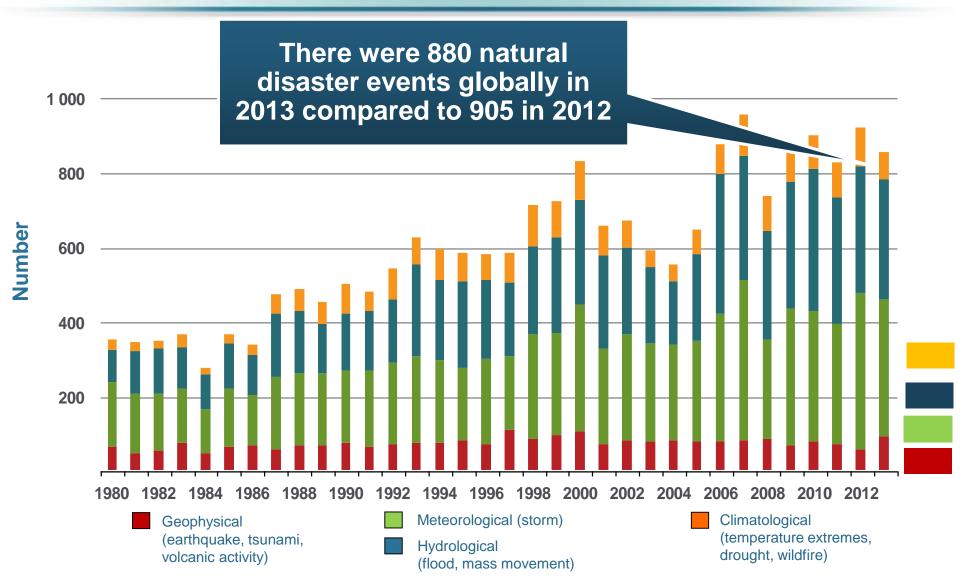
- Geophysical events
 (earthquake, tsunami, volcanic activity)
- Meteorological events (storm)

- Hydrological events (flood, mass movement)
- Climatological events

 (extreme temperature, drought, wildfire)
- Extraterrestrial events (Meteorite impact)

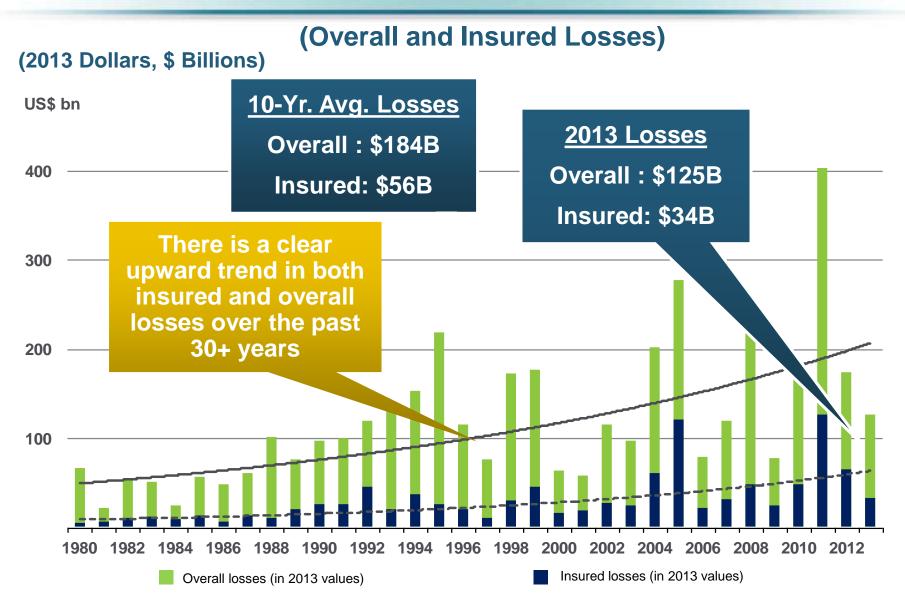
Natural Disasters Worldwide, 1980 – 2013 (Number of Events)





Losses Due to Natural Disasters Worldwide, 1980–2013 (Overall & Insured Losses)





Source: MR NatCatSERVICE



Flood Insurance

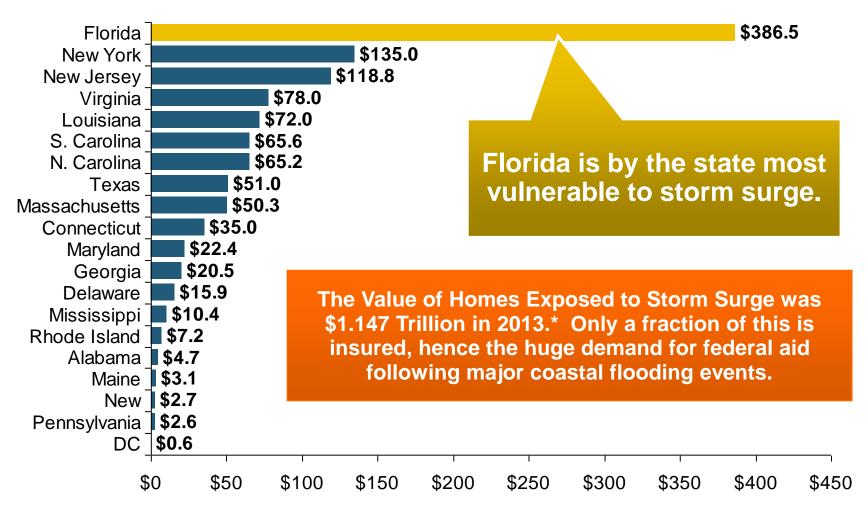
Flood Exposure: Reforms in Danger?

- Flood Should Reflect True Risk
 - Keep the Subsidies
- Would Prefer to Purchase from Private Insurers

Total Potential Home Value Exposure to Storm Surge Risk in 2013*



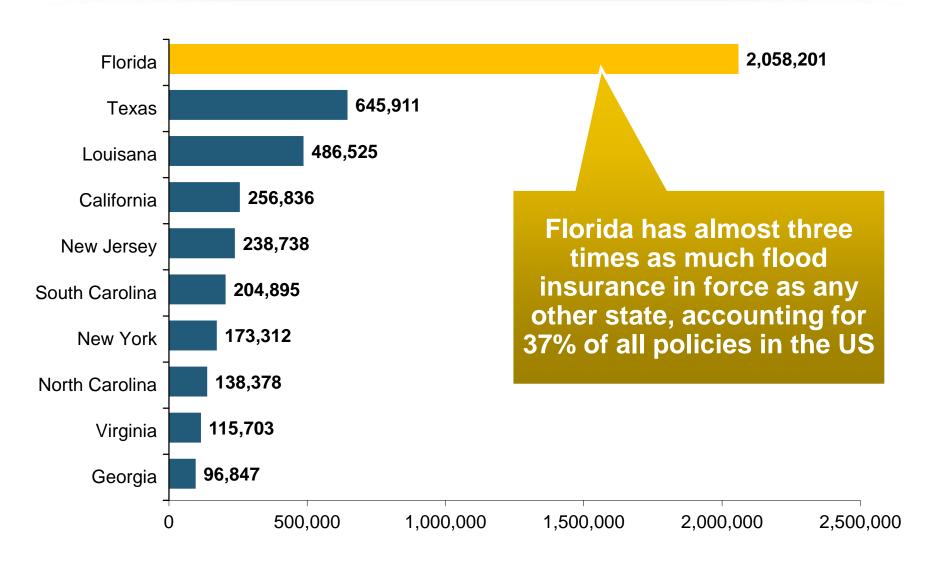
(\$ Billions)



^{*}Insured and uninsured property. Based on estimated property values as of April 2013. Source: *Storm Surge Report 2013*, CoreLogic.

Total NFIP Policies in Force, 2012

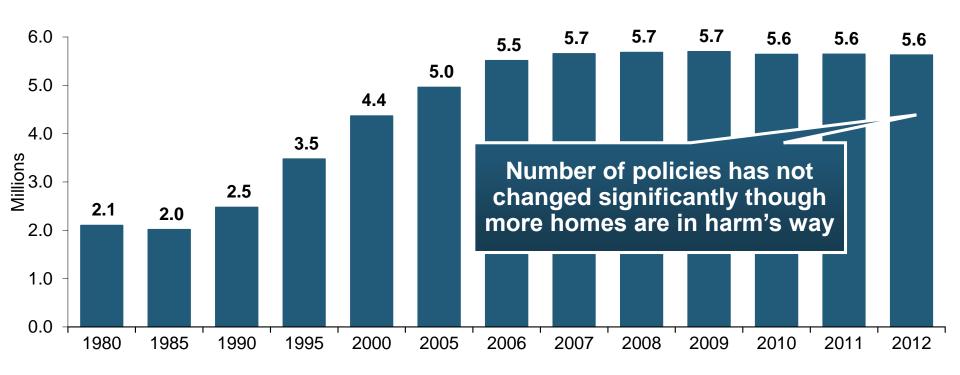




Growth of NFIP program



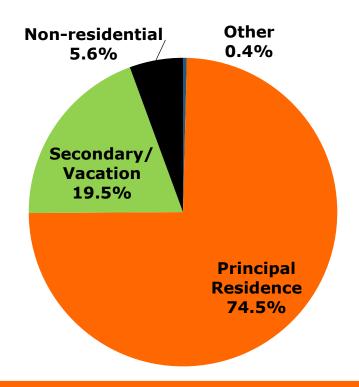
Policies in Force at Year-End



Despite the growth of the program, approximately half of all properties in a flood zone lack flood insurance.

What kind of Buildings Does Flood Insurance Protect?



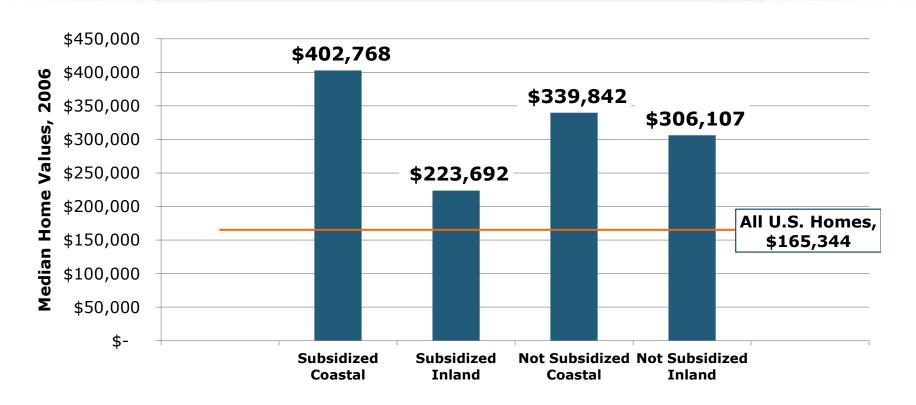


One-fourth of all flood policies are written on commercial (non-residential) risks or on secondary homes.

Sources: Congressional Budget Office (2007), Insurance Information Institute.

Median Value of Flood Properties



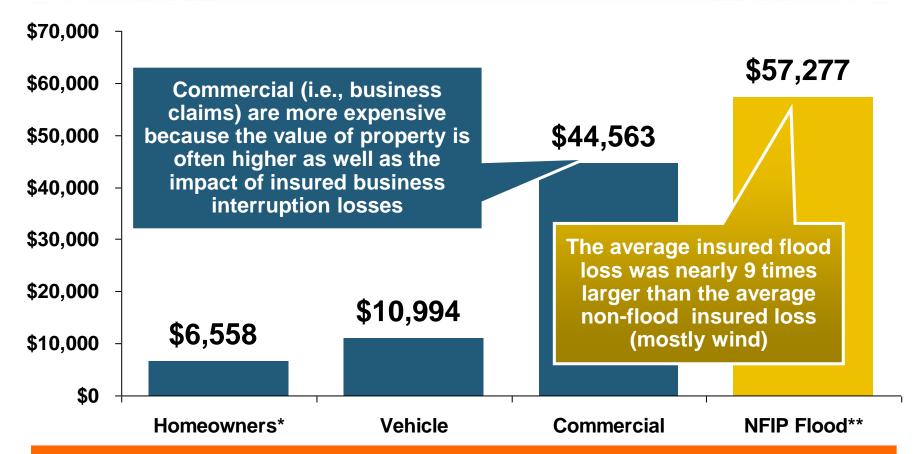


A CBO survey indicated the typical home with flood insurance is worth significantly more than the typical home. The typical subsidized coastal risk was worth more than unsubsidized risks.

Congressional Budget Office 2007 survey of coastal risks, with U.S. owner-occupied home median from Bureau of Census, 2005 American Housing Survey; Insurance Information Institute.

Hurricane Sandy: Average Claim Payment by Type of Claim





Post-Sandy, the I.I.I. worked very hard to make help media, consumers and regulators understand the distinction between a flood claim and a standard homeowners claim. *NFIP* is \$24B in debt.

^{*}Includes rental and condo policies (excludes NFIP flood). **As of Oct. 31, 2013.

Sources: Catastrophe loss data is for Catastrophe Serial No. 90 (Oct. 28 – 31, 2012) from PCS as of March 2013; Insurance Information Institute.

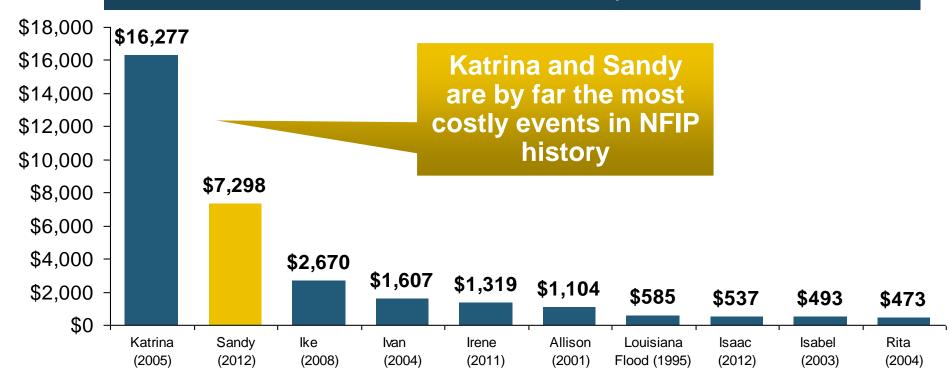
Top 12 Most Costly Flood Events by NFIP Payout*



(NFIP Insured Losses, \$ Millions)

8 of the 10 most costly events in NFIP history occurred over the past decade (2004–2013);

NFIP deficit now totals \$24 billion



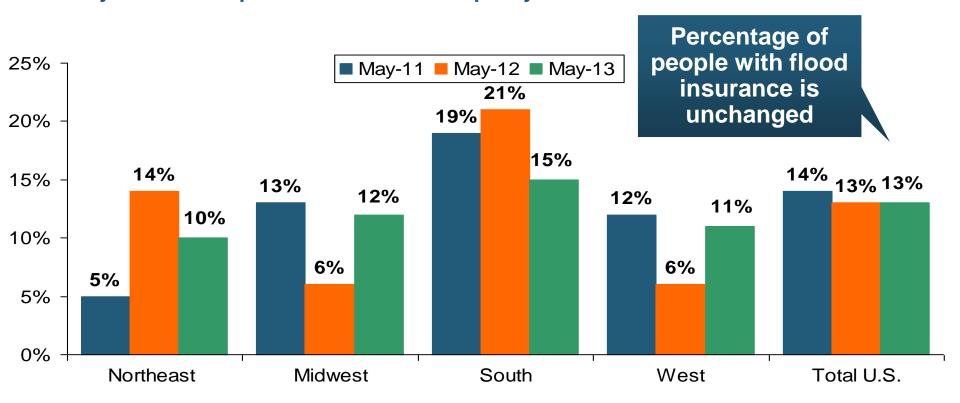
^{*}Expressed in original dollars (not inflation-adjusted).

Sources: PCS; Insurance Information Institute inflation adjustments to 2012 dollars using the CPI.

I.I.I. Poll: Disaster Preparedness



Q. Do you have a separate flood insurance policy?¹



Only 13 percent of American homeowners say they have a flood insurance policy; the percentage is lowest in the Northeast at 10 percent.

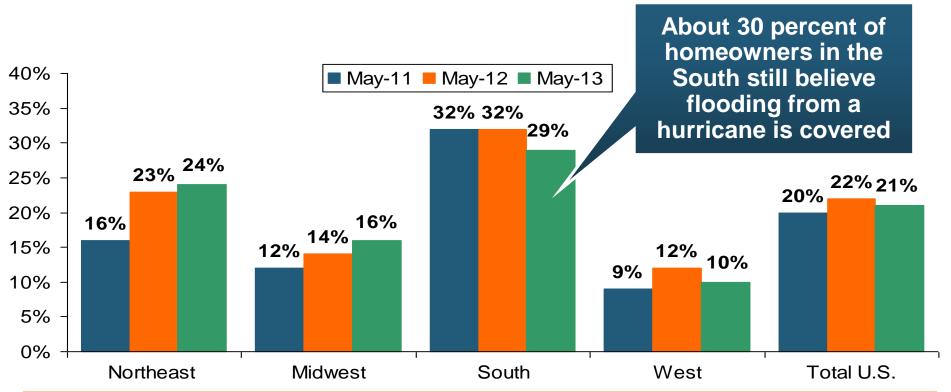
¹Asked of those who have homeowners insurance and who responded "yes".

Source: Insurance Information Institute Annual *Pulse* Survey.

I.I.I. Poll: Disaster Preparedness



Q. Does your homeowners policy cover damage from flooding during a hurricane?¹



The proportion of homeowners who believe their homeowners policy covers damage from flooding during a hurricane stands at 21 percent. This proportion rises eight percentage points in the South, to 29 percent.

Source: Insurance Information Institute Annual *Pulse* Survey.

¹Asked of those who have homeowners insurance and who responded "yes".

Biggert-Waters: Media and Congressional Maelstrom

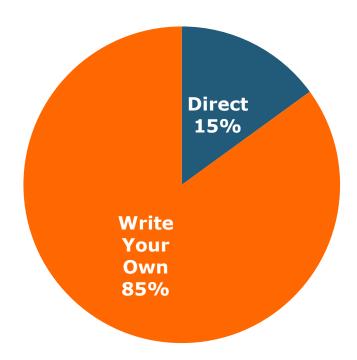


- BW-12 Rate Increases to Phase Out Subsidies Began in 2013
 - Note: Only 20% of NFIP policies are subsidized
- Jan. 1, 2013: Non-Primary/Secondary Residences
 - Increases of 25% per year until full-risk rate achieved
 - Reaction: Very muted; Vacation homes/wealthier owners
- Oct. 1, 2013: Subsidized Severe or Repetitive Loss Policies and Owners of Business/Non-Residential Properties
 - Increases of 25% per year until full-risk rate achieved
 - Reaction: Huge consumer backlash, intense media coverage leading to a Congressional effort to delay BW-12 by 4 years (effectively killing it). Even Maxine Waters supports delay...
- Subsidy Lost if Policy Lapses, Severe Repeated, New Policy
- I.I.I. Is Explaining the Risks Associated with BW-12 Delay
- Future Pvt. Insurer Flood Participation Impacted by BW-12 Debate
- I.I.I. Research Report on Issue Due Soon Under BW-12 Section 236 Study Requirement (National Academy of Sciences)

Success of Write Your Own Program



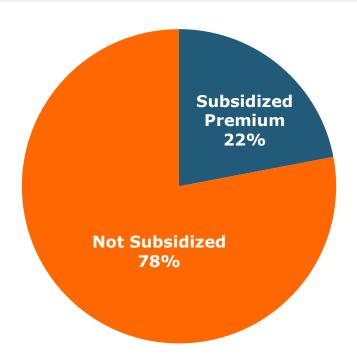
Write Your Own Policies vs. Written Directly by NFIP



More than 80% of flood policies in the NFIP are written through the Write Your Own program, a public-private partnership.

Extent of Flood Insurance Subsidy



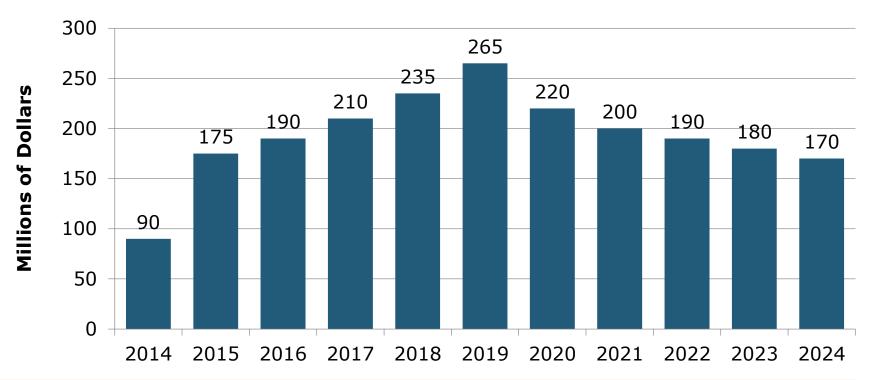


The average subsidized policy pays about 40 percent of the full actuarial rate. Eliminating the subsidy would increase program premium by more than 50 percent.

Sources: NFIP 2011 Actuarial Rate Review, Insurance Information Institute.

Cost of Reinstituting Subsidies



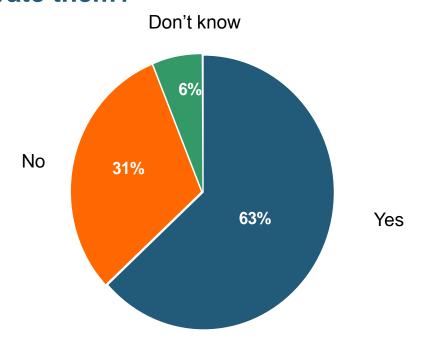


Proposals to reduce rates will create a \$2.1B shortfall in the NFIP over 10 years, would cause the NFIP to borrow more from the Treasury and could force a slowdown in claims payments.

Sources: Congressional Budget Office, Insurance Information Institute.



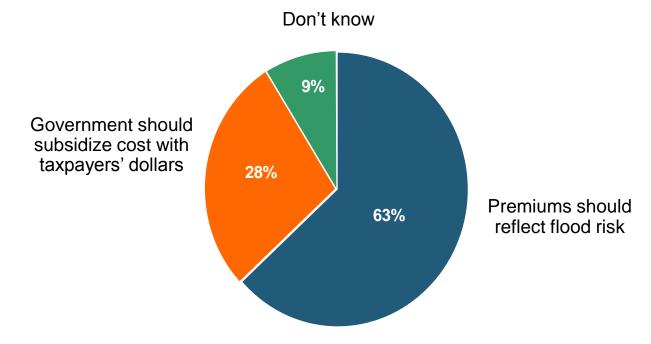
Q. Do you think it is fair that flood insurance premium increases are higher if people who live in high flood risk areas and rebuild their homes do not elevate them?



Almost two-thirds of Americans think that it is fair that flood insurance premiums be raised for people who live in high flood risk areas and rebuild their homes after a flood but do not elevate them.



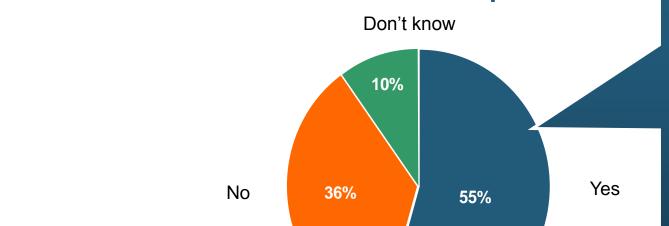
Q. Do you think flood insurance premiums should reflect the risk of flooding no matter what the cost or do you think the government should subsidize the cost of flood insurance with taxpayers' dollars?



Almost two-thirds of Americans think flood insurance premiums should be raised to reflect the risk of flooding.



Q. The federal government provides insurance coverage at taxpayersubsidized rates for damage from floods through the National Flood Insurance Plan. A new law eliminates the subsidy and raises rates. Do you think the rate increase should be repealed?

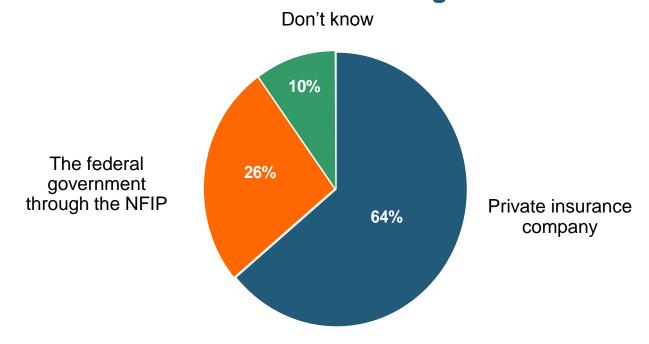


It is inconsistent for the public to support full-risk rates but maintain subsidies, but this exactly mirrors Congressional sentiments, with supporters of BW-12 and even Tea Party conservatives supporting continuation of the subsidies

More than half of Americans polled for the November 2013
Pulse thought that hikes in National Flood Insurance premiums should be repealed.



Q. If the costs were similar, would you prefer to buy flood insurance from a private insurance company or from the federal government through the National Flood Insurance Program?



Six out of 10 Americans would prefer to buy flood insurance from a private insurance company as opposed to the federal government, if costs were similar.

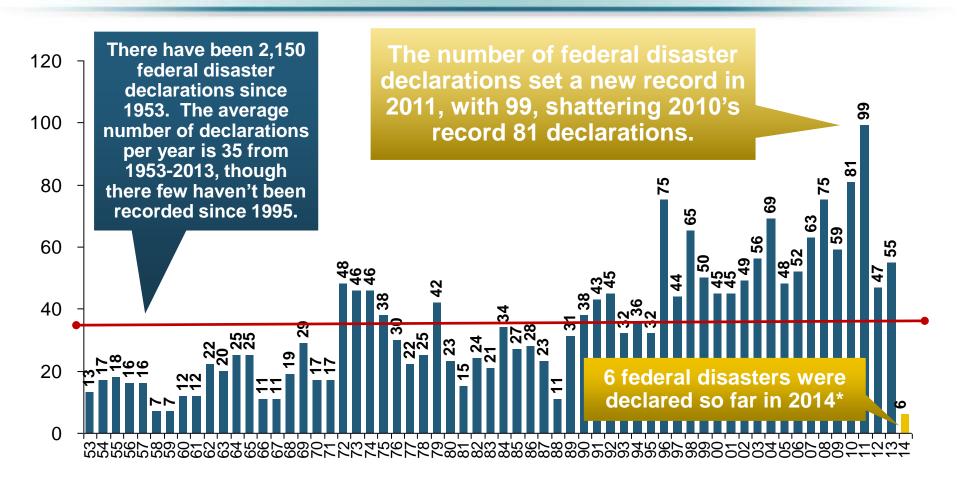


Federal Disaster Declarations Patterns: 1953-2013

Disaster Declarations Set New Records in Recent Years

Number of Federal Major Disaster Declarations, 1953-2014*



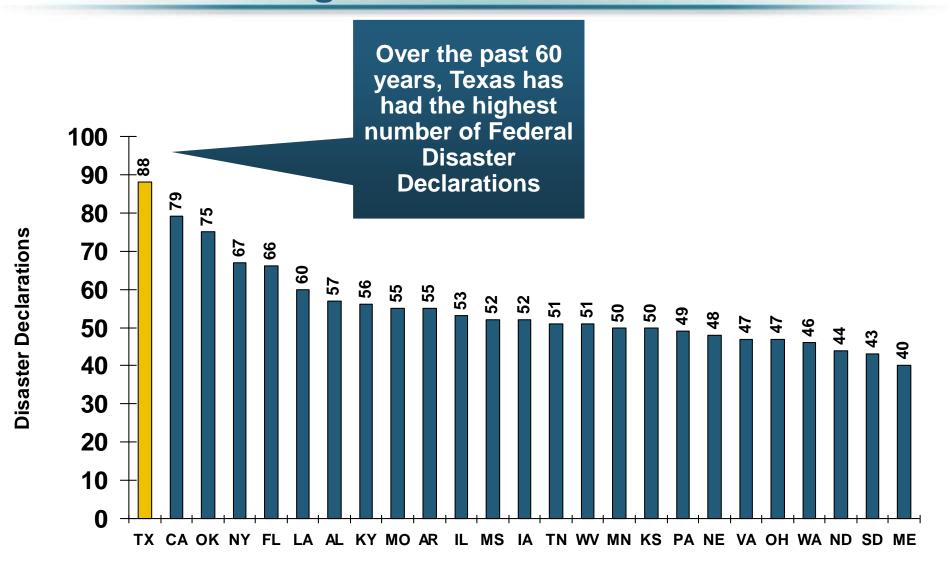


The Number of Federal Disaster Declarations Is Rising and Set New Records in 2010 and 2011 Before Dropping in 2012/13

^{*}Through February 2, 2014.

Federal Disasters Declarations by State, 1953 – 2014: Highest 25 States*



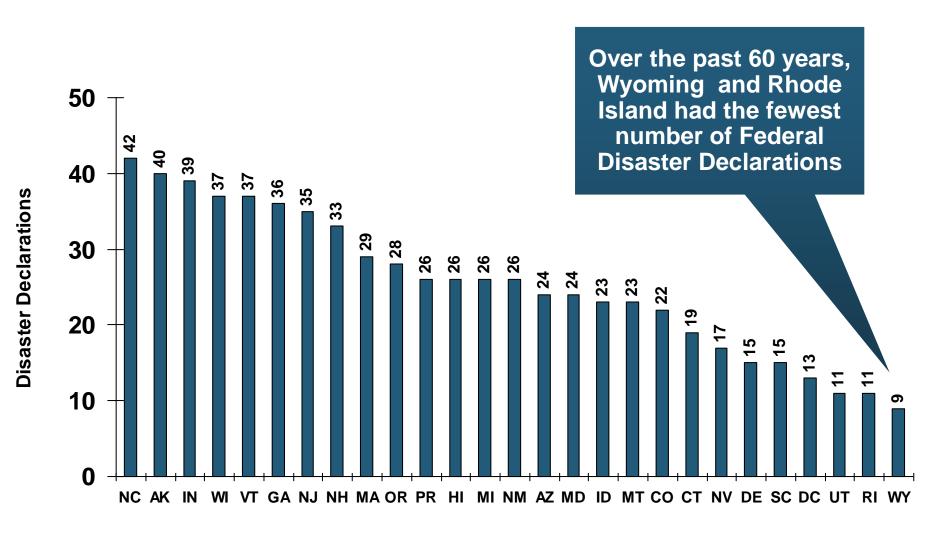


^{*}Through Feb. 2, 2014. Includes Puerto Rico and the District of Columbia.

Source: FEMA: http://www.fema.gov/news/disaster_totals_annual.fema; Insurance Information Institute.

Federal Disasters Declarations by State, 1953 – 2014: Lowest 25 States*





^{*}Through Feb. 2, 2014. Includes Puerto Rico and the District of Columbia.

Source: FEMA: http://www.fema.gov/news/disaster_totals_annual.fema; Insurance Information Institute.

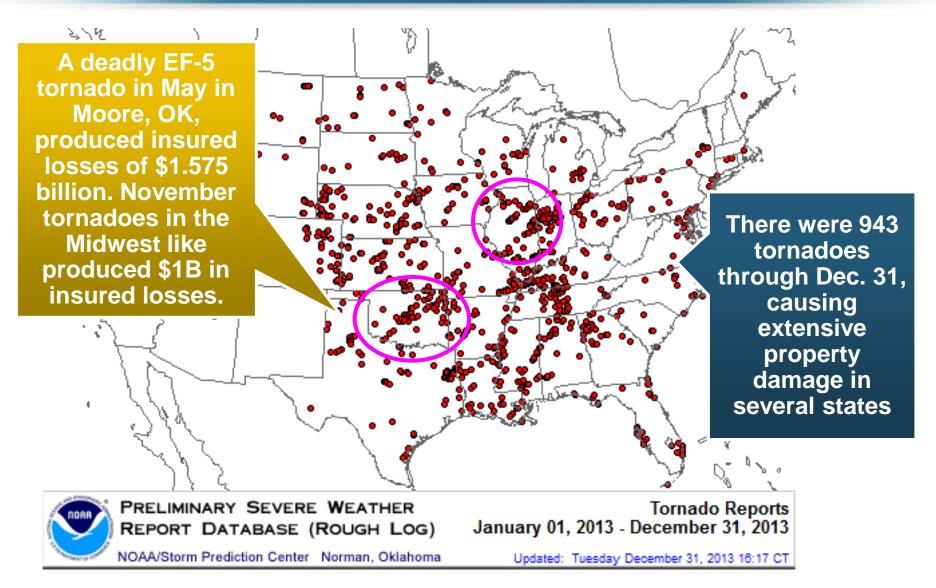


SEVERE WEATHER REPORT UPDATE: 2013

Damage from Tornadoes, Large Hail and High Winds Keep Insurers Busy

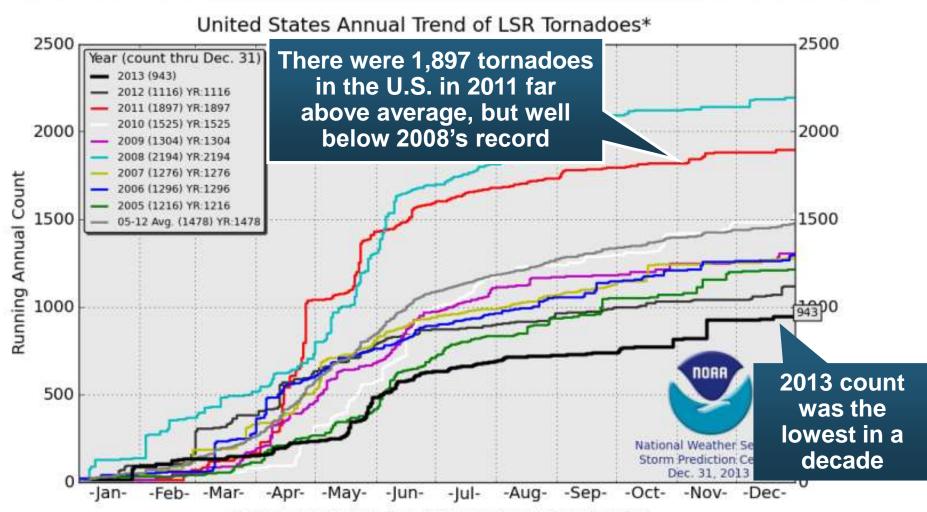
Location of Tornado Reports in 2013





U.S. Tornado Count, 2005-2013*





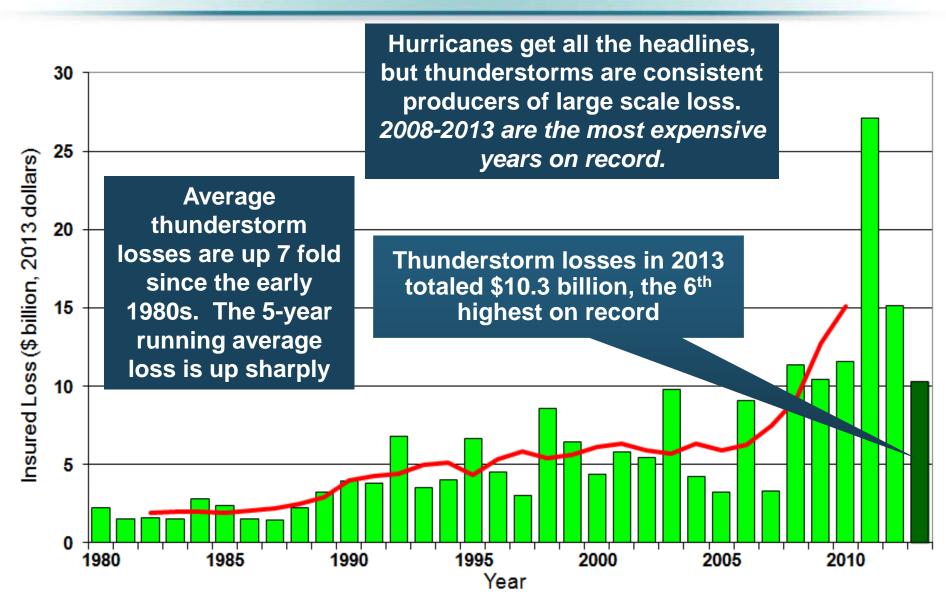
*Preliminary tornadoes from NWS Local Storm Reports (LSRs) Annual average is based on preliminary LSRs, 2005-2012

*Through Dec. 31, 2013.

Source: http://www.spc.noaa.gov/wcm/.

U.S. Thunderstorm Insured Loss Trends, 1980 – 2013

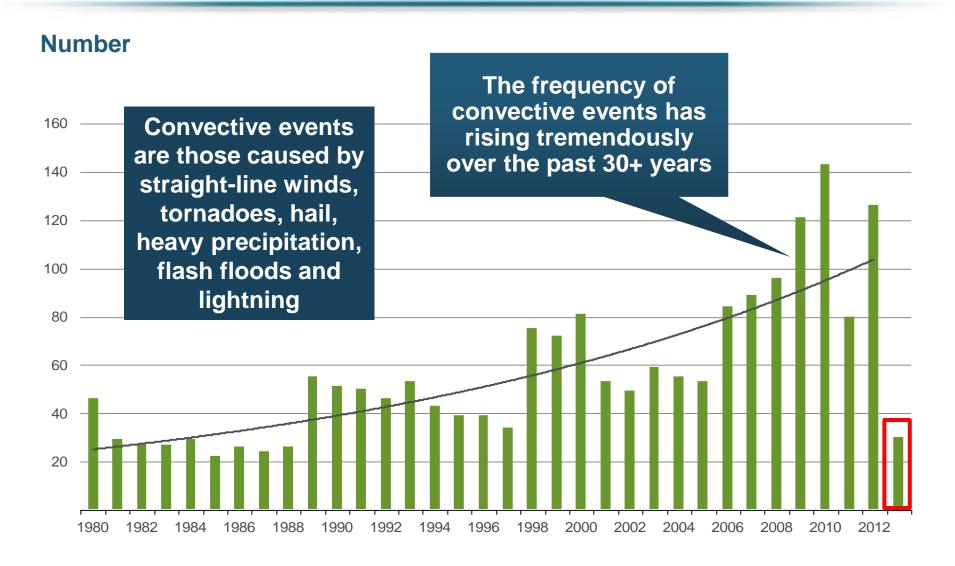




Convective Loss Events in the U.S.



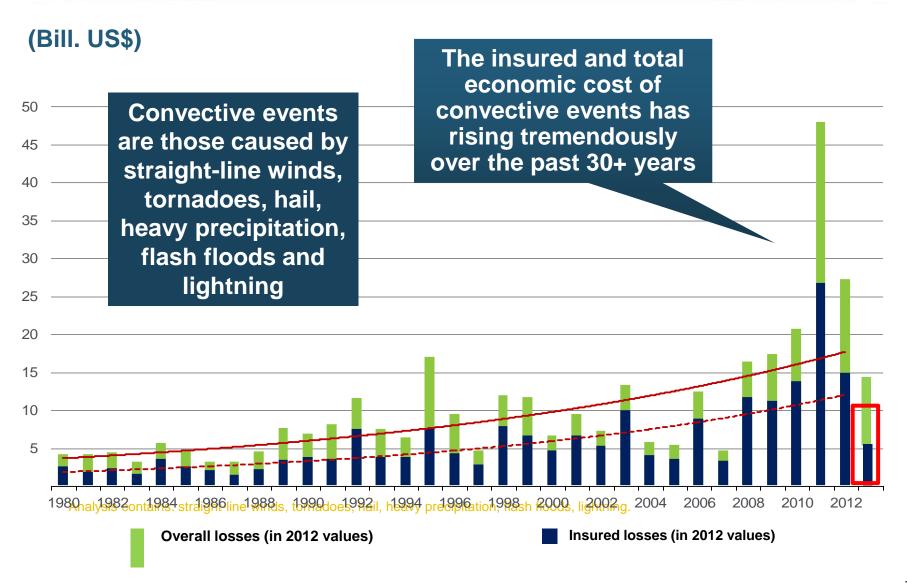
Number of events 1980 – 2012 and First Half 2013



Convective Loss Events in the U.S.



Overall and insured losses 1980 - 2012 and First Half 2013

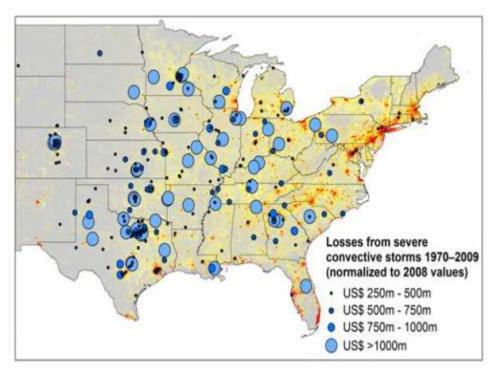


New Research Suggests Increase in Convective Activity Is Costly for Insurers



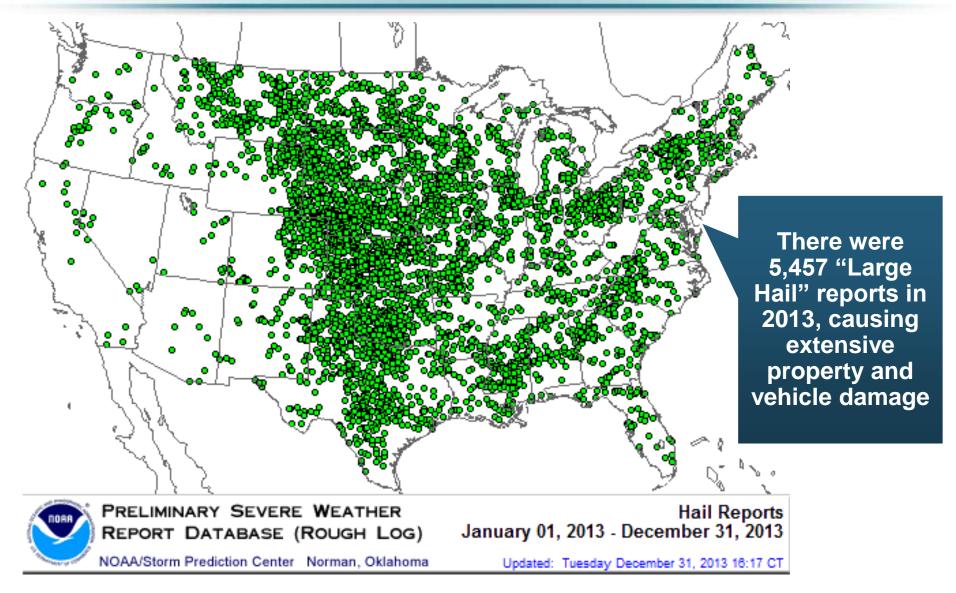
- Study examines convective (hail, tornado, thundersquall and heavy rainfall) events in the US with losses exceeding US\$ 250m in the period 1970–2009 (80% of all losses)
- Past losses are normalized (i.e., adjusted) to currently exposed values
- After normalization there are still increases of losses
- Increases are correlated with the increase in the meteorological potential for severe thunderstorms and its variability

For the first time research shows that climatic changes have already influenced US thunderstorm losses



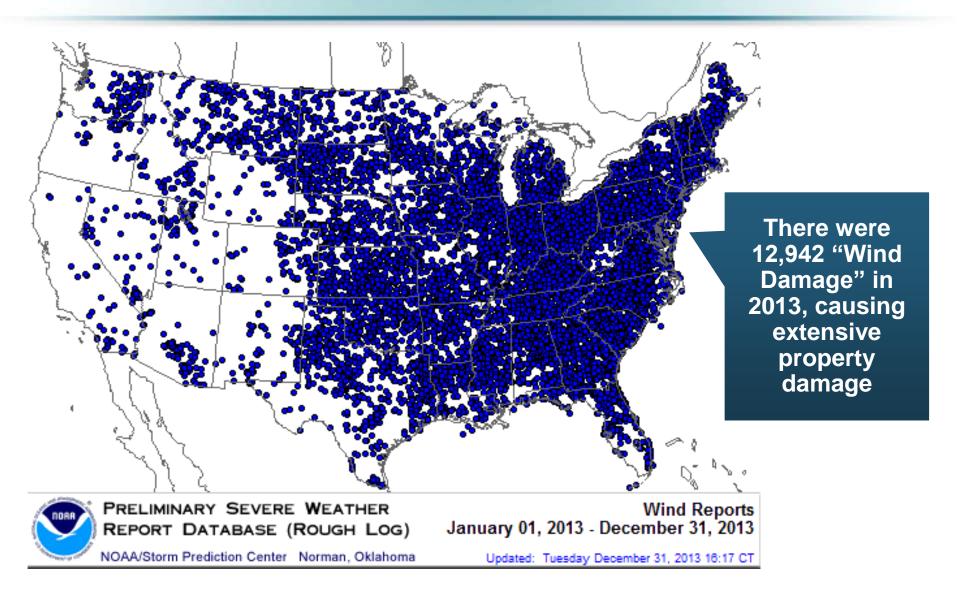
Location of Large Hail Reports: 2013





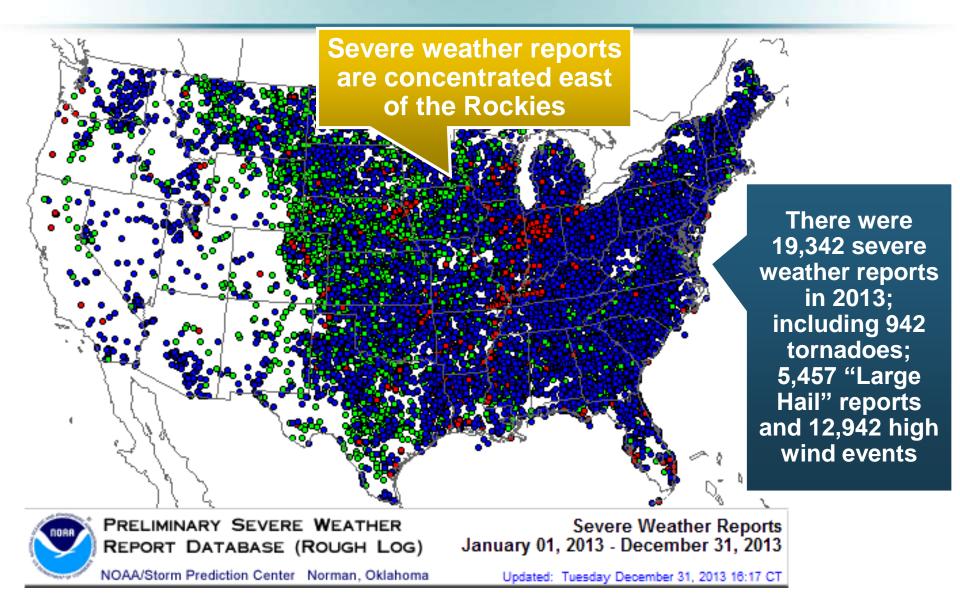
Location of High Wind Reports: 2013





Severe Weather Reports: 2013







Terrorism Update

Boston Marathon Bombings Underscore the Need for Extension of the Terrorism Risk Insurance Program

Download III's Terrorism Insurance Report at: http://www.iii.org/white_papers/terrorism-risk-a-constant-threat-2013.html

Terrorism Risk Insurance Program



- Reauthorization Was a Major Industry Initiative for 2013 Even Before Boston
- I.I.I. Testified at First Congressional Hearing on 9/11/12
 - Provided testimony at NYC hearing on 6/17/13
- I.I.I. Accelerated Planned Study on Terrorism Risk and Insurance in the Wake of Boston and Was Well Received
 - Terrorism: A Constant Threat issued in June 2013







Terrorism Risk Insurance Program



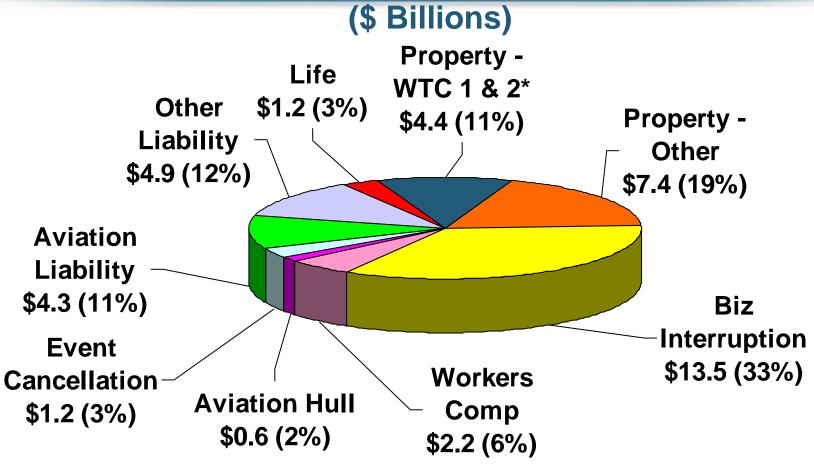
- Boston Marathon Bombing Has Helped Focus Attention in Congress on TRIPRA and its Looming Expiration
 - Act expires 12/31/14
 - Exclusionary language will likely be inserted for post-1/1/2014 renewals and will likely lead to significant media interest (educational opportunity)
 - Numerous headwinds; not a priority issue in 2013 in Congress
 - 3 extension bills introduced in 2013—2 since Boston

Media Interest Soared

- I.I.I. was conducting its first interviews within minutes after live-tweeting (nearly) from the scene; TV interest was high
- Local, national and international media focused on this topic for the first time in any significant way since TRIA's inception in late 2002
- Inquiries revealed very little/no understanding (or even awareness) outside insurance industry and business owners
- Certification process caused confusion

Loss Distribution by Type of Insurance from Sept. 11 Terrorist Attack (\$ 2011)





Total Insured Losses Estimate: \$40.0B**

*Loss total does not include March 2010 New York City settlement of up to \$657.5 million to compensate approximately 10,000 Ground Zero workers or any subsequent settlements.

Source: Insurance Information Institute.

^{**\$32.5} billion in 2001 dollars.

TRIA Outlook



- Difficult Reauthorization Battle Ahead
 - Very difficult to overcome antigovernment/small government, Tea
 Party forces in the House
 - Most Committee members in both houses weren't around in 2007
- House Hearings in 2012; House and Senate in Sept. 2013
- If Reauthorized, Insurer Participation Likely Increased
- Some Have Attacked TRIA as "Corporate Welfare"
 - In reality the taxpayer is 100% protected
 - NFIP, Crop programs have led to miscomprehensions
- Emphasizing Benefits to Employees Under WC is Key
- Misperception by Some that Terrorism is Urban Issue
- Growth Opportunity: Standalone Cover if No Reauthorization
 - Though limited capacity will not be sufficient to meet need

Terrorism Risk Insurance Program



- Testified before Senate Banking Cmte. in Sept. 2013
- Testified before House Financial Services Nov. 2013
- Provided testimony at NYC hearing on June 2013
- I.I.I. Accelerated Planned Study on Terrorism Risk and Insurance in the Wake of Boston and Hearings; Was Well Received and Widely Circulated

Working with Trades, Congressional Staff, GAO & Others



Senate Banking Committee, 9/25/13



House Financial Services Subcommittee, 11/13/13

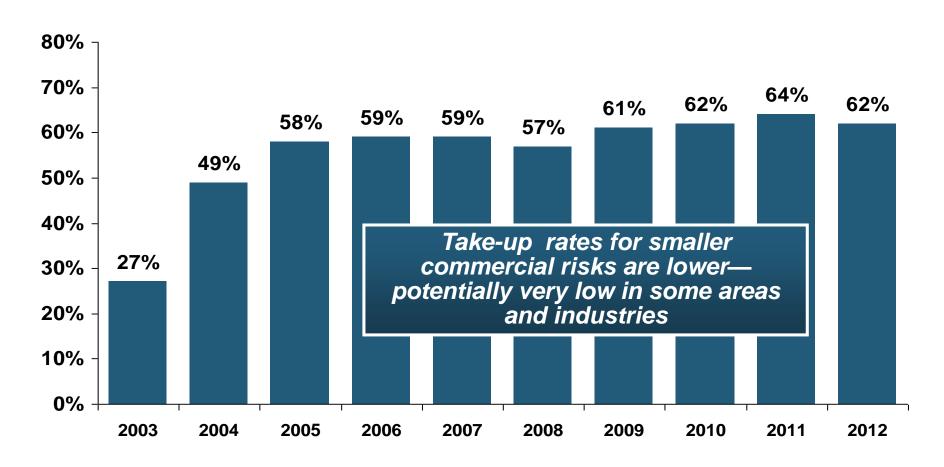
TRIA Outlook



- 3 TRIA Reauthorization Bills Introduced in 2013
- Bumpy Road to Reauthorization Ahead
 - Senate: Generally supportive based on 9/25 hearing
 - House: Democrats supportive; Republicans skeptical but some seem willing to support reauthorization based on 11/13 hearing
 - Analogies to Affordable Care Act often mentioned by Republicans
- House Committee Proposals Likely to Involve:
 - Increase in trigger (from current \$100 million)
 - Increasing individual comp. retentions (from current 20% of DPE)
 - Also possible: Simple industry aggregate or NBCR only proposal
- I.I.I.: Success of Current Structure & Taxpayer Protections
- Also Focused on Importance of Small/Medium Insurers
- Limitations of Capacity in the Absence of TRIA
- Media in 2014 Wants Stories of Economic Disruption

Terrorism Insurance Take-up Rates, By Year, 2003-2012





In 2003, the first year TRIA was in effect, the terrorism take-up rate was 27 percent. Since then, it has increased steadily, remaining in the low 60 percent range since 2009.

Pyramid of Taxpayer Protection: Strong, Stable, Sound and Secure



Hard Cap \$100 Bill

Government Recoupment

Industry Aggregate Retention: \$27.5 Bill

Insurer Co-Payments
15% Above Retention

Individual Insurer Retention 20% of Premiums Earned

Program Dollar Threshold \$100 Million

Certification Dollar Threshold \$5 Million

Certification of Terrorist Act: Definition Must Be Met

If TRIA is reauthorized, it is highly likely insurer retentions will be increased

Summary of Terrorism Risk Insurance Program Extension Bills Introduced in 2013

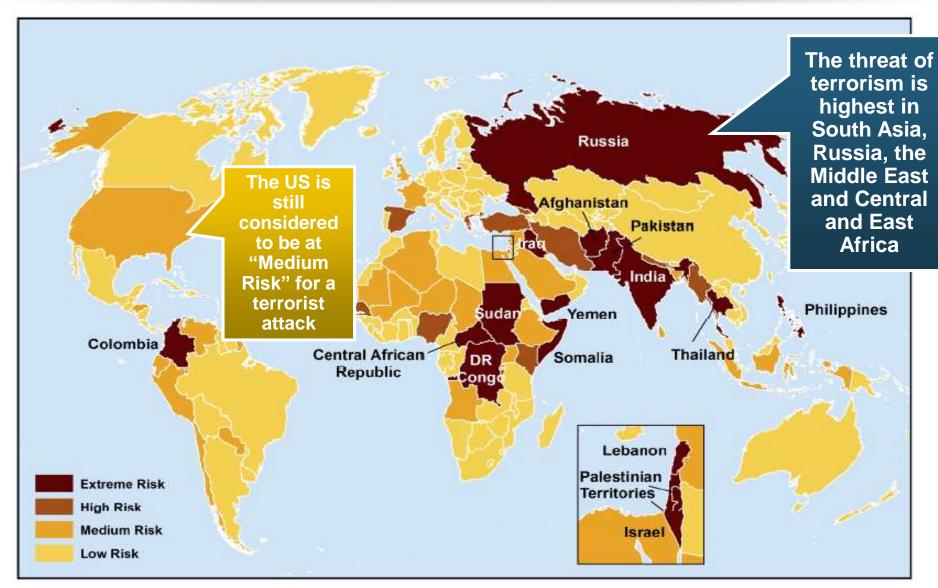


Bill	Summary
•H.R. 508: "Terrorism Risk Insurance Act of 2002 Reauthorization Act of 2013" •Introduced Feb. 5 by Rep. Michael Grimm (D-NY)	 ◆5-Year Extension (through 2019) ◆Extend recoupment period for any TRIA assistance from 2017 to 2019
•H.R. 2146: "Terrorism Risk Insurance Program Reauthorization Act of 2013" •Introduced May 23 by Rep. Michael Capuano (D-MA)	 10-Year Extension (through 2024) Extend recoupment period for any TRIA assistance from 2017 to 2024 Requires President's Working Group on Financial Markets (PWGFM) to issue reports on long-term availability and affordability of terrorism insurance in 2017, 2020 and 2023 Reports to be drafted with consultation from NAIC and representatives of the insurance and securities industries and policyholders
•H.R. 1945: "Fostering Resilience to Terrorism Act of 2013" •Introduced May 9 by Rep. Benny Thompson (D-MS)	 10-Year Extension (through 2024) Recoupment period changed to 2024 Would transfer responsibility for certification of a "act of terrorism" to the Secretary of Homeland Security from Secretary of Treasury. PWGFM to issue reports in 2017, 2020 and 2023 Requires Sec. of DHS to provide insureds with "timely homeland security information, including terrorism risk information, at the appropriate level of classification and information on best practices to foster resilience to an act of terrorism."

Source: Nelson, Levine, de Luca & Hamilton, FIO Focus, June 10, 2013; Insurance Information Institute.

Terrorist Risk Index





Terrorism Violates Traditional Requirements for Insurability



Requirement	Definition	Violation
Estimable Frequency	•Insurance requires large number of observations to develop predictive rate- making models (an actuarial concept known as credibility)	 Very few data points Terror modeling still in infancy, untested. Inconsistent assessment of threat
Estimable Severity	•Maximum possible/ probable loss must be at least estimable in order to minimize "risk of ruin" (insurer cannot run an unreasonable risk of insolvency though assumption of the risk)	 Potential loss is virtually unbounded. Losses can easily exceed insurer capital resources for paying claims. Extreme risk in workers compensation and statute forbids exclusions.

Source: Insurance Information Institute

Terrorism Violates Traditional Requirements for Insurability (cont'd)



Requirement	Definition	Violation
Diversifiable Risk	 •Must be able to spread/distribute risk across large number of risks •"Law of Large Numbers" helps makes losses manageable and less volatile 	concentrated geographically or
Random Loss Distribution/ Fortuity Source: Insurance Information Institute	 Probability of loss occurring must be purely random and fortuitous Events are individually unpredictable in terms of time, location and magnitude 	



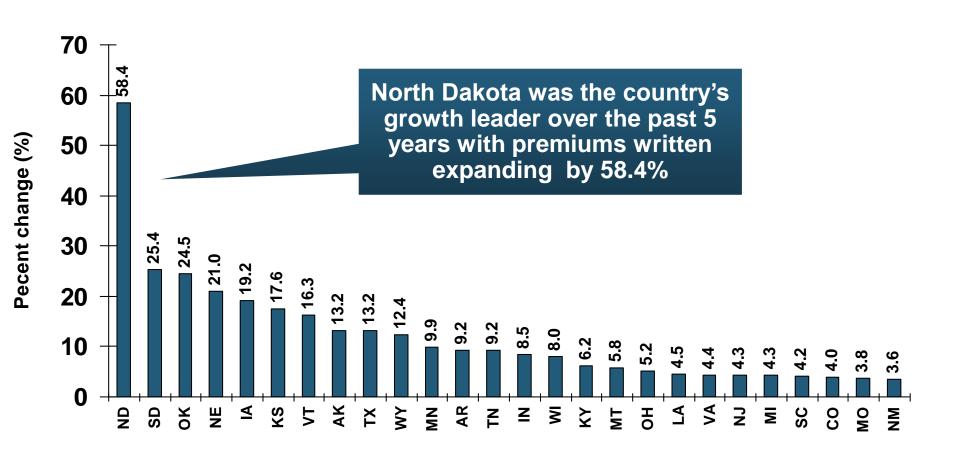
Growth Analysis by State and Business Segment

Premium Growth Rates Vary Tremendously by State

Direct Premiums Written: Total P/C Percent Change by State, 2007-2012*



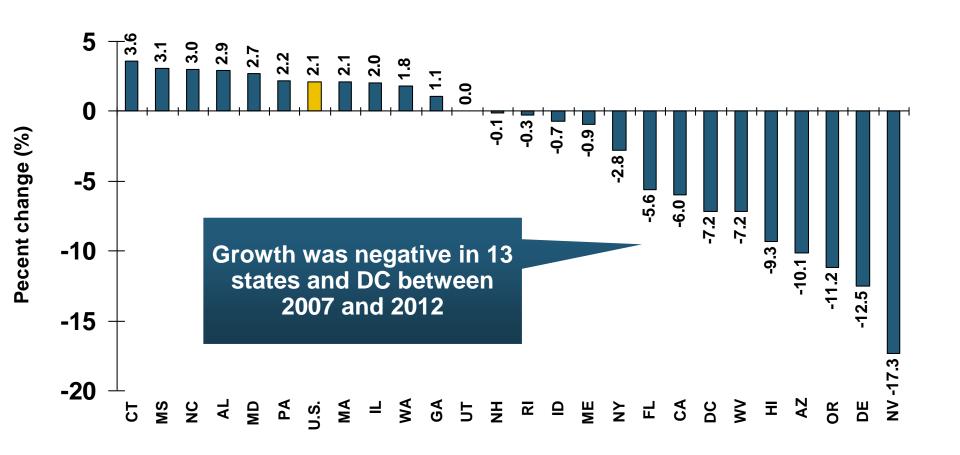
Top 25 States



Direct Premiums Written: Total P/C Percent Change by State, 2007-2012*



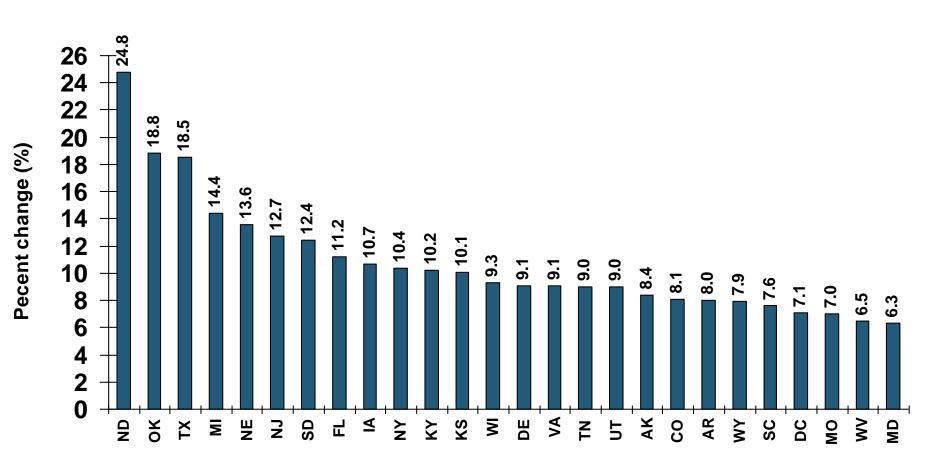
Bottom 25 States



Direct Premiums Written: PP Auto Percent Change by State, 2007-2012*



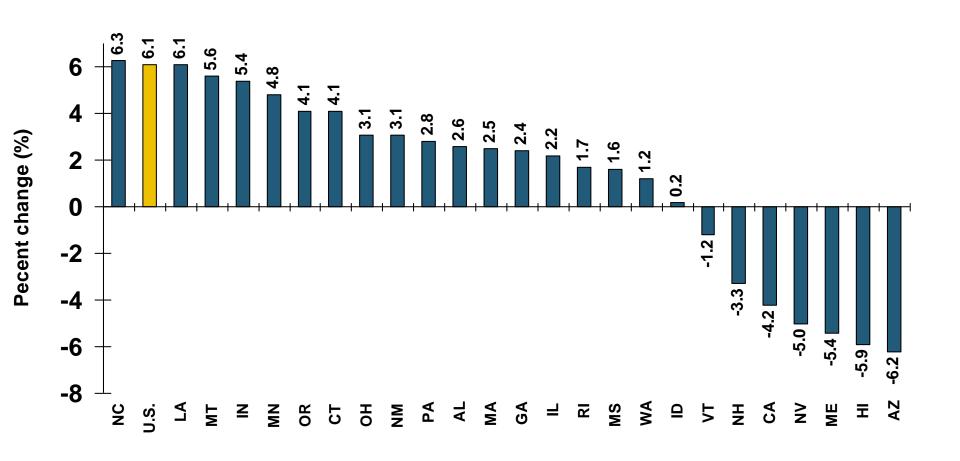
Top 25 States



Direct Premiums Written: PP Auto Percent Change by State, 2007-2012*

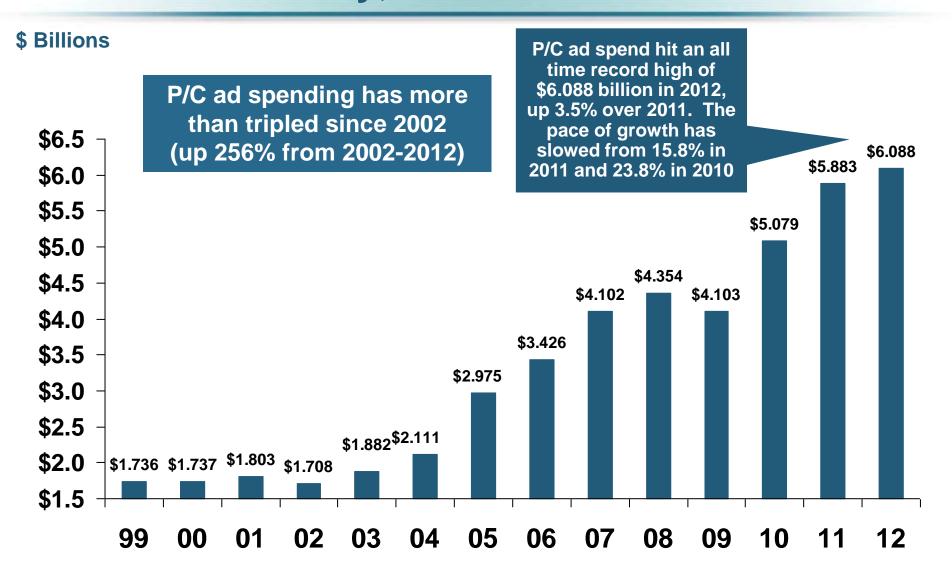


Bottom 25 States



Advertising Expenditures by P/C Insurance Industry, 1999-2012

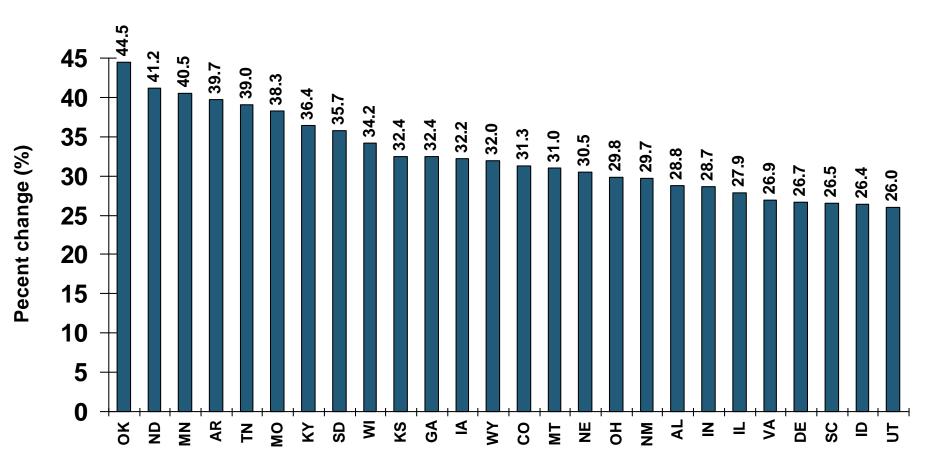




Direct Premiums Written: Homeowners Percent Change by State, 2007-2012*



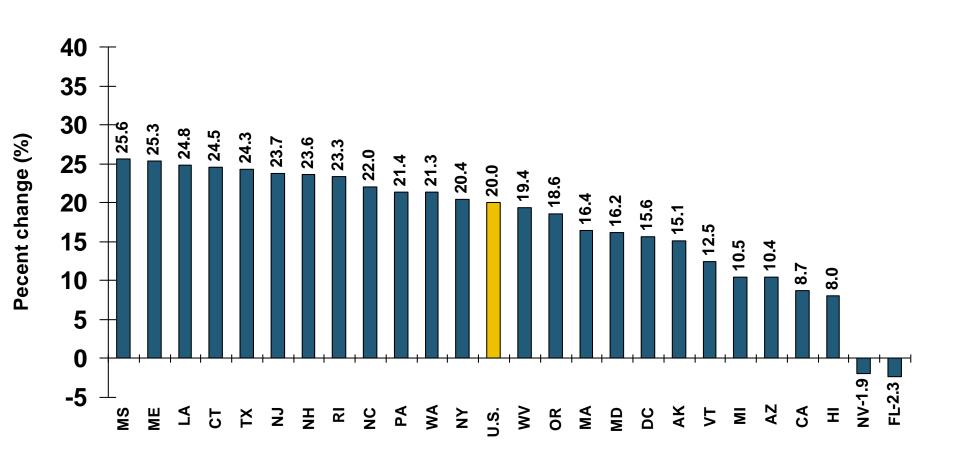
Top 25 States



Direct Premiums Written: Homeowners Percent Change by State, 2007-2012*



Bottom 25 States

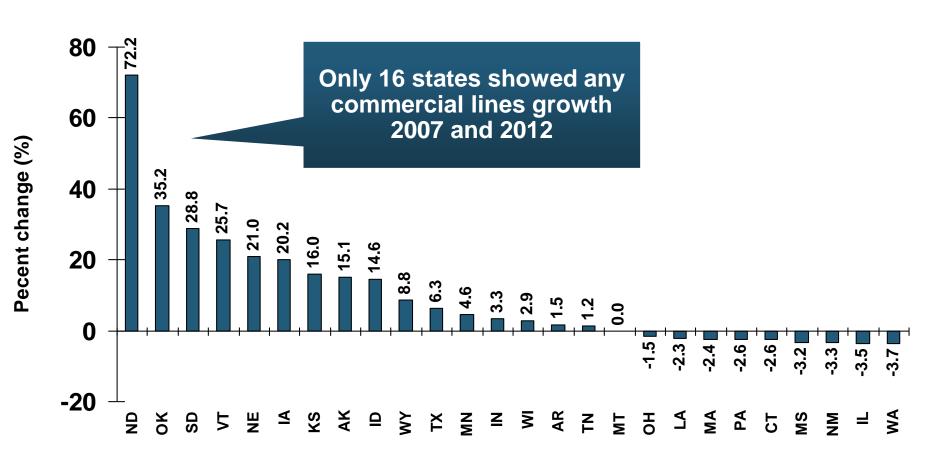


Sources: SNL Financial LLC.; Insurance Information Institute.

Direct Premiums Written: Comm. Lines Percent Change by State, 2007-2012*



Top 25 States

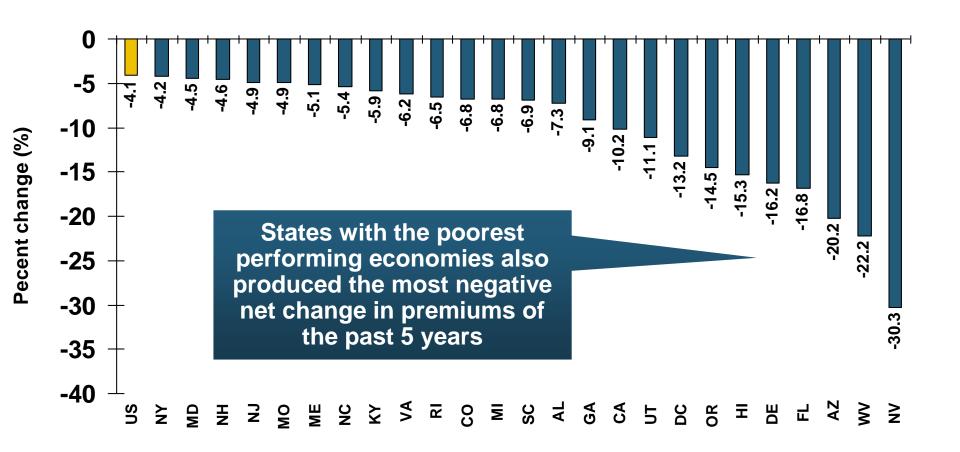


Sources: SNL Financial LLC.; Insurance Information Institute.

Direct Premiums Written: Comm. Lines Percent Change by State, 2007-2012*



Bottom 25 States

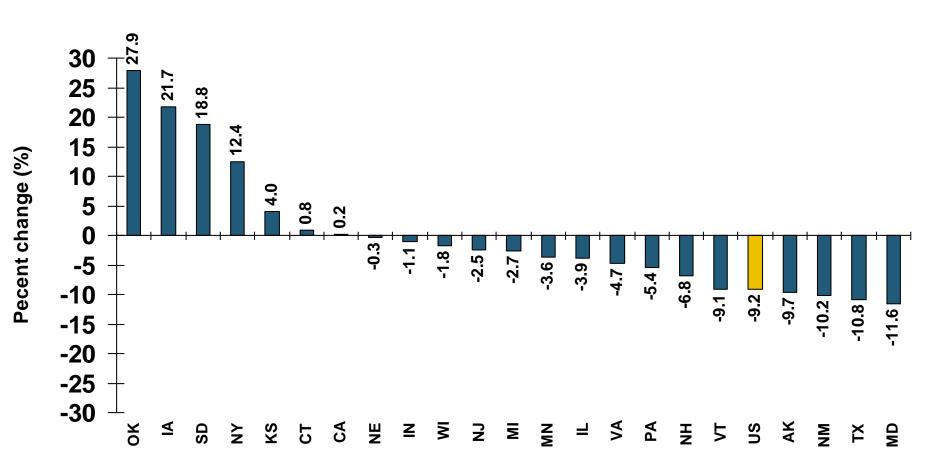


Sources: SNL Financial LLC.; Insurance Information Institute.

Direct Premiums Written: Workers' Comp Percent Change by State, 2007-2012*



Top 25 States

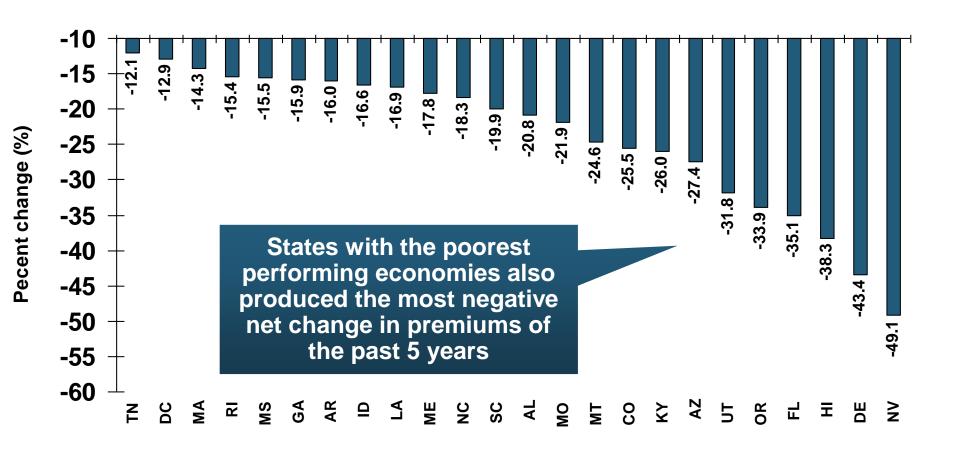


^{*}Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period. Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: Worker's Comp Percent Change by State, 2007-2012*



Bottom 25 States



^{*}Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period. Sources: SNL Financial LC.; Insurance Information Institute.

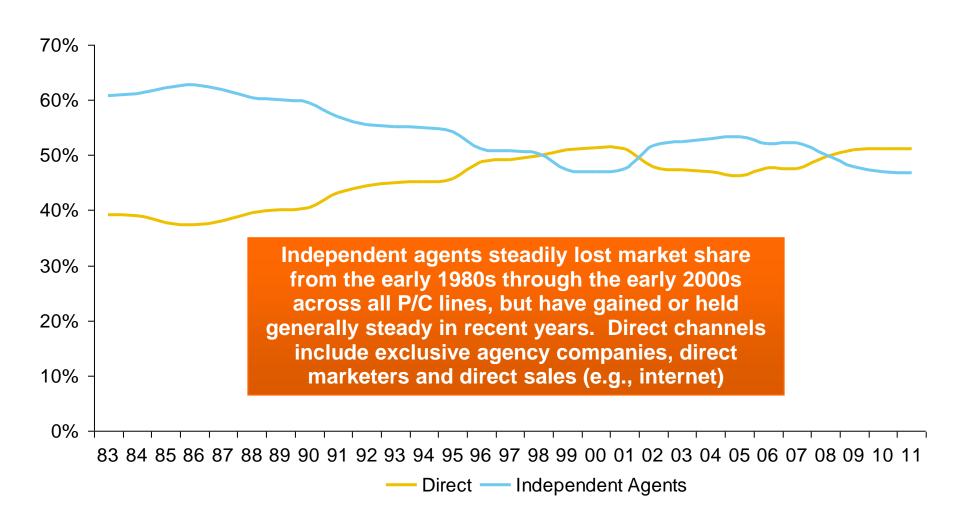


Distribution Trends

Distribution by Channel Type Continues to Evolve Around the World

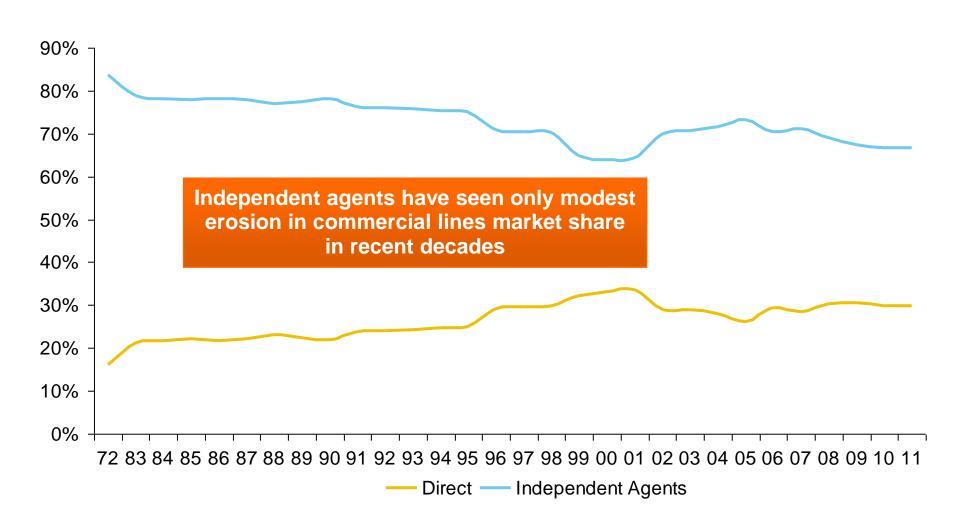
All P/C Lines Distribution Channels, Direct vs. Independent Agents





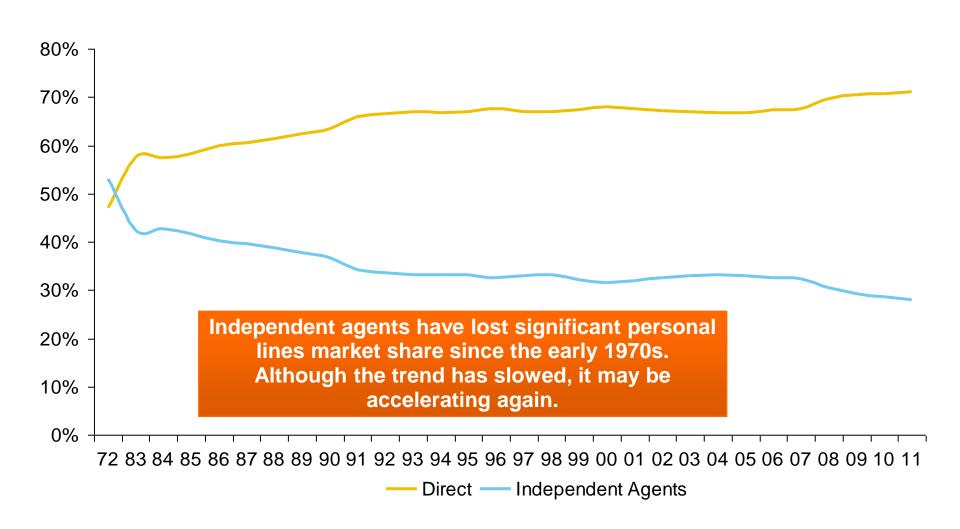
Commercial P/C Distribution Channels, Direct vs. Independent Agents





Personal Lines Distribution Channels, Direct vs. Independent Agents







The BIG Question: Where Is the Market Heading?

Catastrophes and Other Factors Are Pressuring Insurance Markets

New Factor: Record Low Interest Rates Are Contributing to Underwriting and Pricing Pressures



INVESTMENTS: THE NEW REALITY

Investment Performance is a Key Driver of Profitability

Depressed Yields Will Necessarily Influence Underwriting & Pricing

Property/Casualty Insurance Industry Investment Income: 2000–2013*1







Investment Income Fell in 2012 and is Falling in 2013 Due to Persistently Low Interest Rates, Putting Additional Pressure on (Re) Insurance Pricing

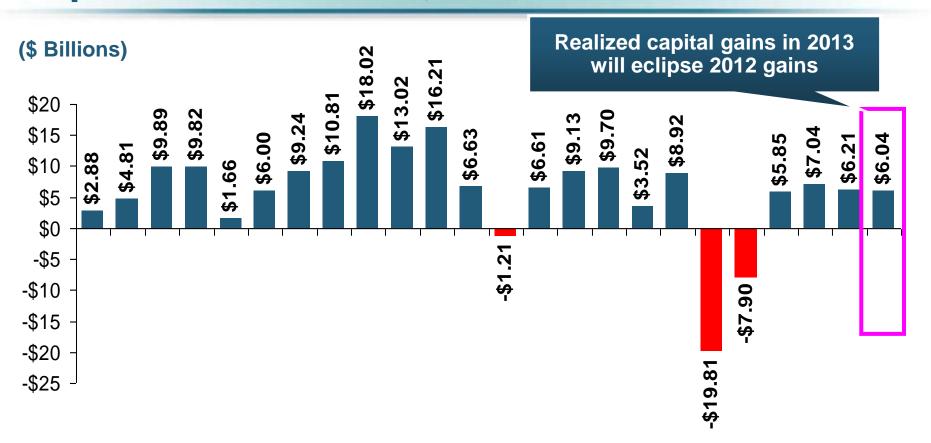
Sources: ISO; Insurance Information Institute.

¹ Investment gains consist primarily of interest and stock dividends...

^{*}Estimate based on annualized actual 9M:2013 investment income of \$34.338B.

P/C Insurer Net Realized Capital Gains/Losses, 1990-2013:Q3





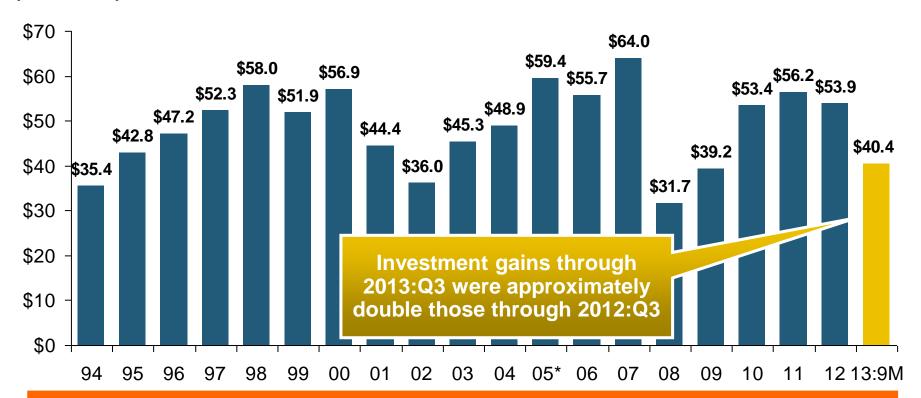
90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 1213:9M

Insurers Posted Net Realized Capital Gains in 2010, 2011 and 2012 Following Two Years of Realized Losses During the Financial Crisis. Realized Capital Losses Were the Primary Cause of 2008/2009's Large Drop in Profits and ROE

Property/Casualty Insurance Industry Investment Gain: 1994–2013:Q3¹



(\$ Billions)



Investment Income Continued to Fall in 2013 Due to Low Interest Rates but Realized Investment Gains Were Up Sharply; The Financial Crisis Caused Investment Gains to Fall by 50% in 2008

Sources: ISO; Insurance Information Institute.

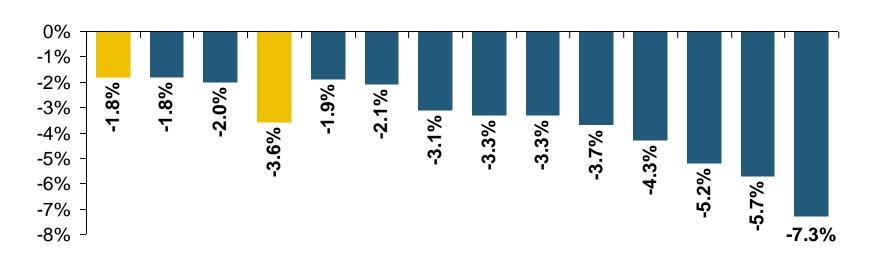
¹ Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.

^{* 2005} figure includes special one-time dividend of \$3.2B;

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







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

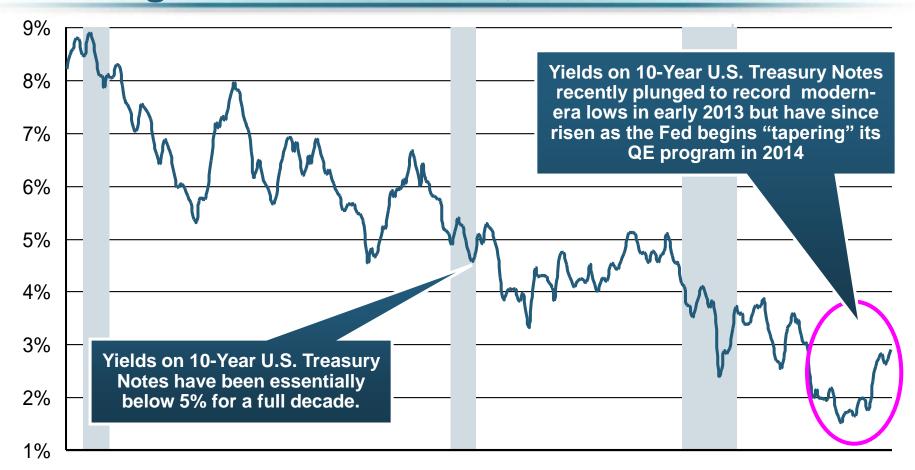
Source: A.M. Best; Insurance Information Institute.

^{*}Based on 2008 Invested Assets and Earned Premiums

^{**}US domestic reinsurance only

U.S. 10-Year Treasury Note Yields: A Long Downward Trend, 1990–2013*





'90 '91 '92 '93 '94 '95 '96 '97 '98 '99 '00 '01 '02 '03 '04 '05 '06 '07 '08 '09 '10 '11 '12 '13

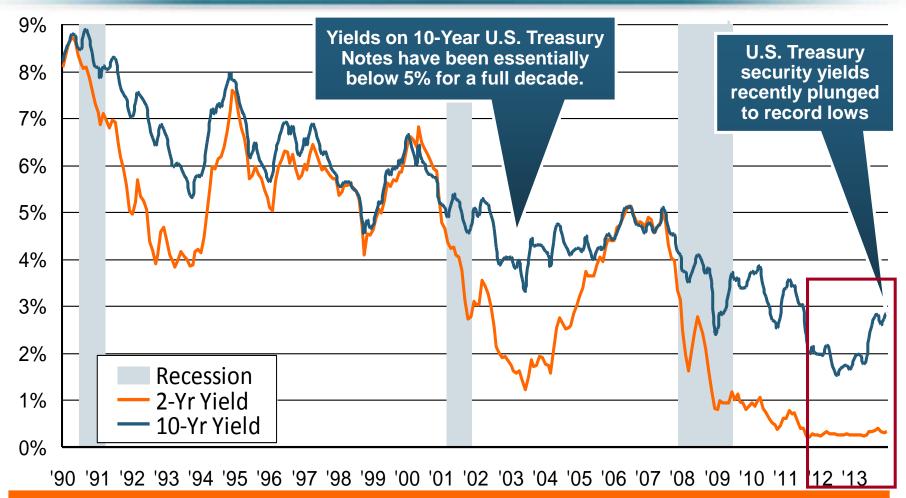
Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

^{*}Monthly, through December 2013.

Note: Recessions indicated by gray shaded columns.

U.S. Treasury Security Yields: A Long Downward Trend, 1990–2013*



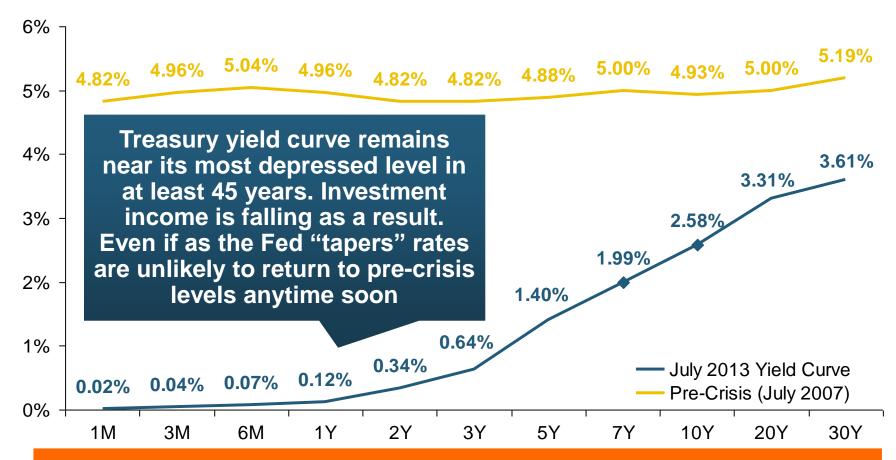


Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

^{*}Monthly, constant maturity, nominal rates, through December 2013.

Treasury Yield Curves: Pre-Crisis (July 2007) vs. July 2013



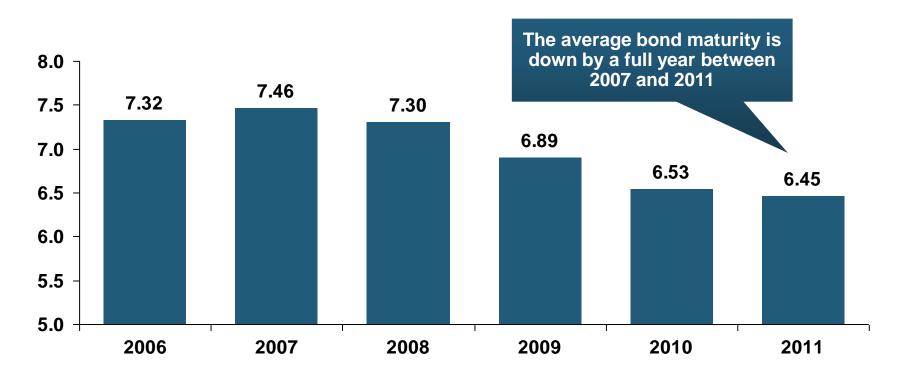


The Fed Is Actively Signaling that it Is Determined to Keep Rates Low Until Unemployment Drops Below 6.5% or Until Inflation Expectations Exceed 2.5%; Low Rates Add to Pricing Pressure for Insurers.

Average Maturity of Bonds Held by US P/C Insurers, 2006—2011*



Average Maturity (Years)

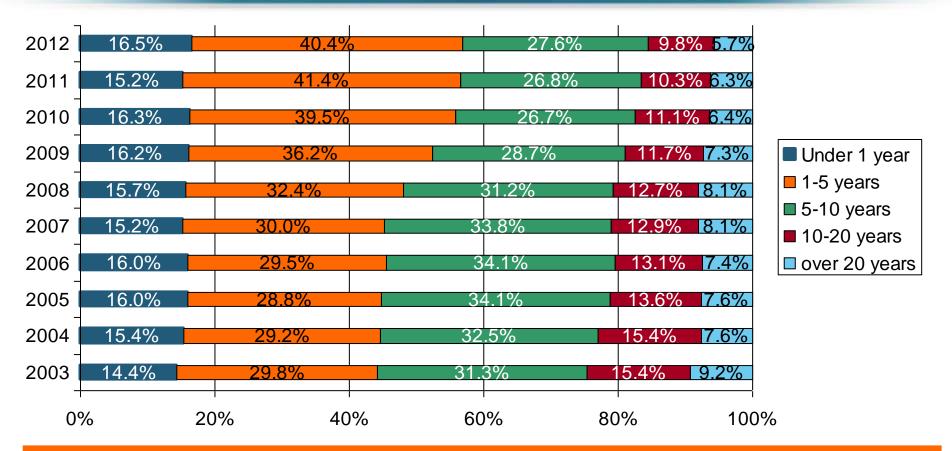


Falling Average Maturity (and Duration) of the P/C Industry's Bond Portfolio is Contributing to the Drop in Investment Income Along With Lower Yields

^{*}Year-end figures. Latest available.

Distribution of Bond Maturities, P/C Insurance Industry, 2003-2012

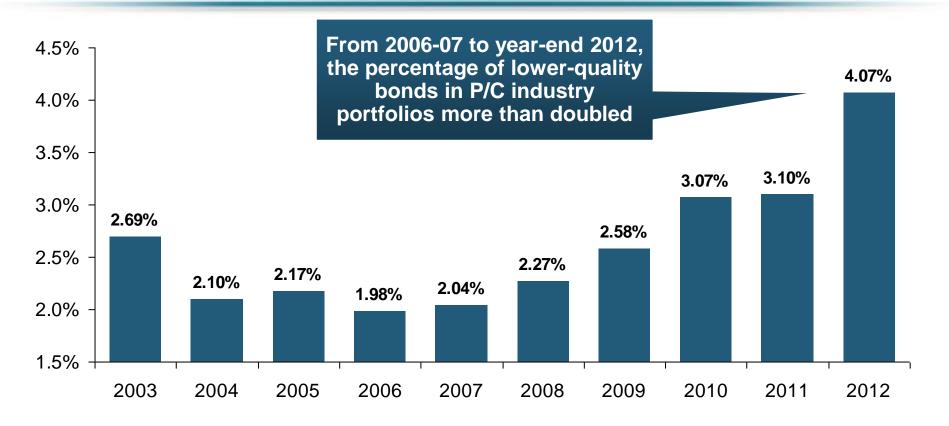




The main shift over these years has been from bonds with longer maturities to bonds with shorter maturities. The industry first trimmed its holdings of over-10-year bonds (from 24.6% in 2003 to 15.5% in 2012) and then trimmed bonds in the 5-10-year category (from 31.3% in 2003 to 27.6% in 2012). Falling average maturity of the P/C industry's bond portfolio is contributing to a drop in investment income along with lower yields.

Bonds Rated NAIC Quality Category 3-6 as a Percent of Total Bonds, 2003–2012





There are many ways to capture higher yields on bond portfolios. One is to accept greater risk, as measured by NAIC bond ratings. The ratings range from 1 to 6, with the highest quality rated 1. Even in 2012, over 95% of the industry's bonds were rated 1 or 2.

Sources: SNL Financial; Insurance Information Institute.

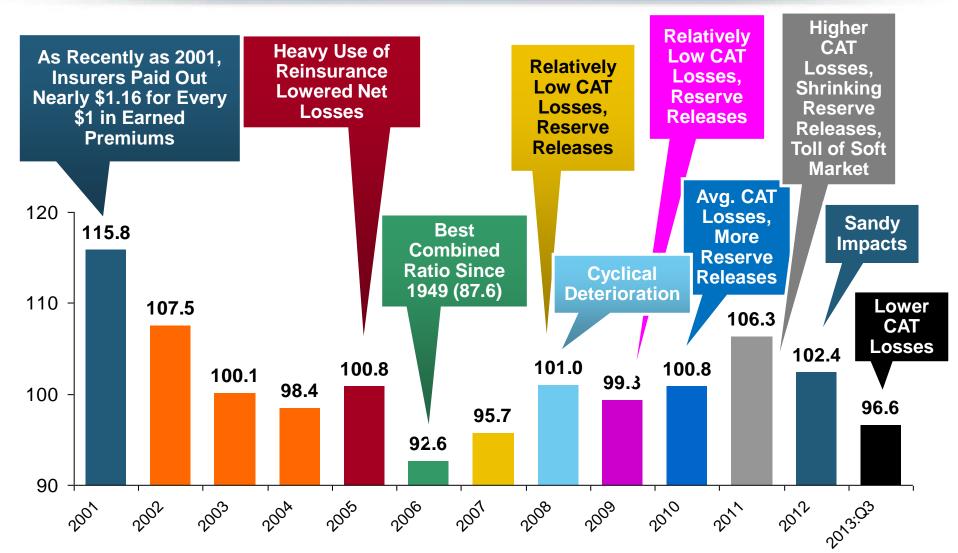


1. UNDERWRITING

Underwriting Losses in 2011 and 2012 Are Elevated by High Catastrophe Losses

P/C Insurance Industry Combined Ratio, 2001–2013:Q3*





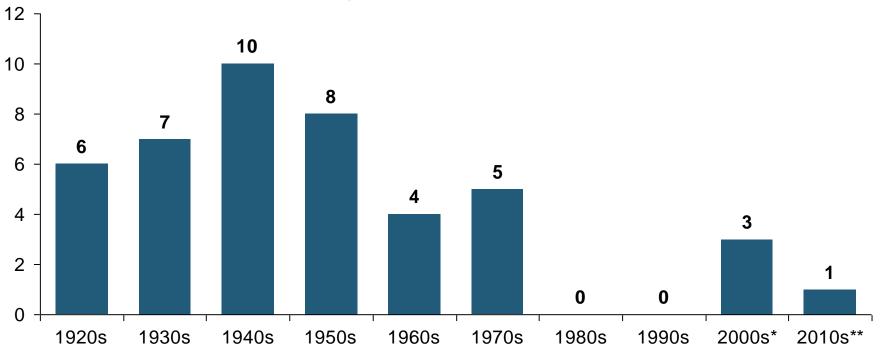
^{*} Excludes Mortgage & Financial Guaranty insurers 2008--2012. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.1; 2012:=103.2; 2013:Q3 = 95.8.

Sources: A.M. Best, ISO.

Number of Years with Underwriting Profits by Decade, 1920s–2010s



Number of Years with Underwriting Profits



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

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

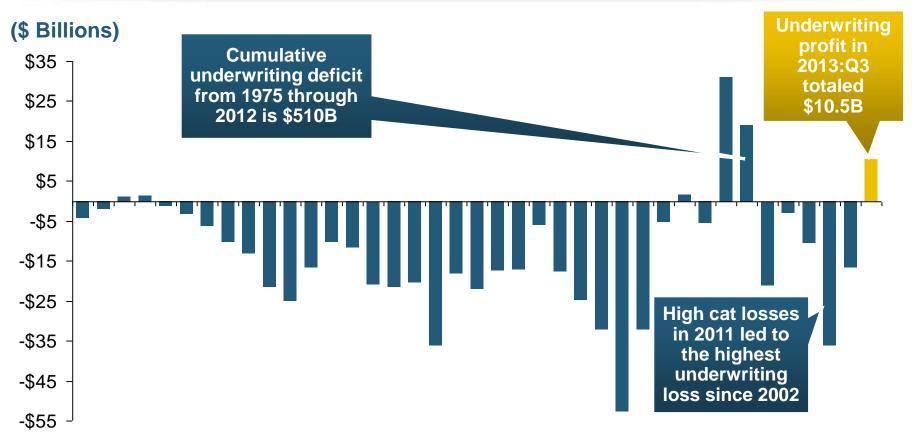
Sources: Insurance Information Institute research from A.M. Best Data.

^{* 2009} combined ratio excl. mort. and finl. guaranty insurers was 99.3, which would bring the 2000s total to 4 years with an u/w profit.

^{**}Data for the 2010s is for the period 2010 through 2013.

Underwriting Gain (Loss) 1975–2013:Q3*





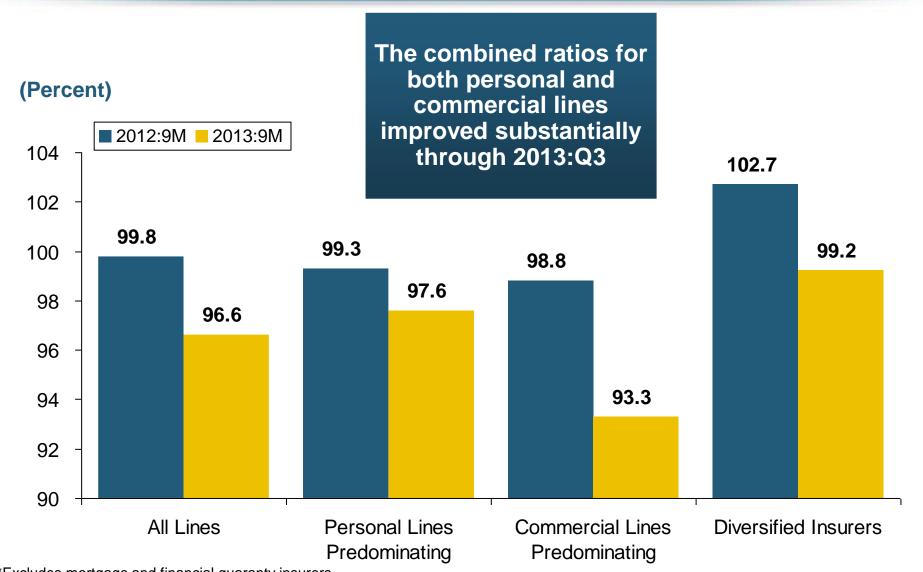
75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 1**2**3:Q3

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

^{*} Includes mortgage and financial guaranty insurers in all years. Sources: A.M. Best, ISO: Insurance Information Institute.

Combined Ratios by Predominant Business Segment, 2013:9M vs. 2012:9M*

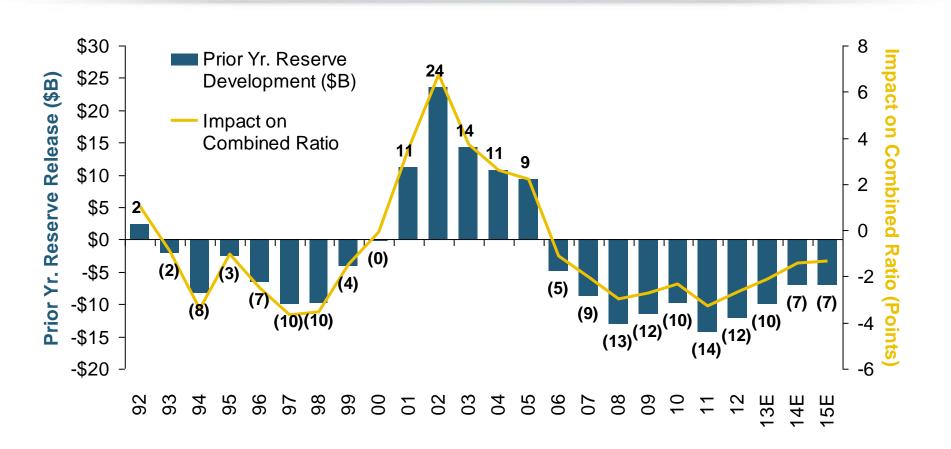




^{*}Excludes mortgage and financial guaranty insurers. Source: ISO/PCI; Insurance Information Institute

P/C Reserve Development, 1992–2015E





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: A.M. Best, ISO, Barclays Research (estimates).

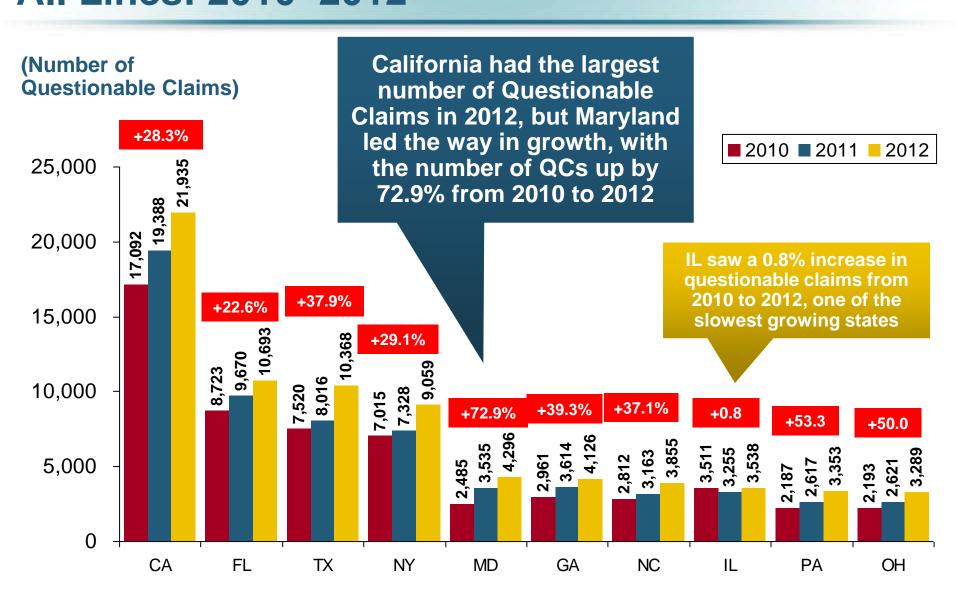


Questionable Claims: On the Rise

Fraud Concerns: More Questionable Claims in Most State and Across Most Lines of Insurance

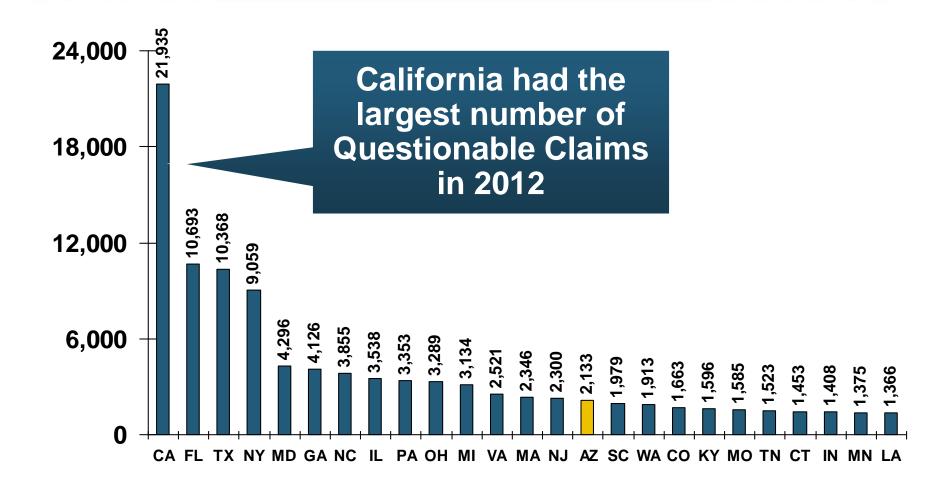
Questionable Claims, Top 10 Loss States, All Lines: 2010–2012





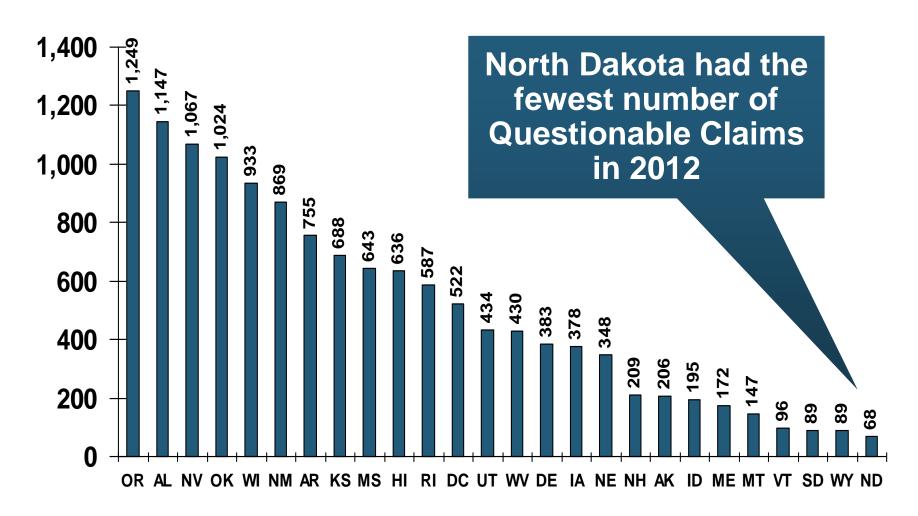
Total Number of Questionable Claims by State, 2012: Highest 25 States





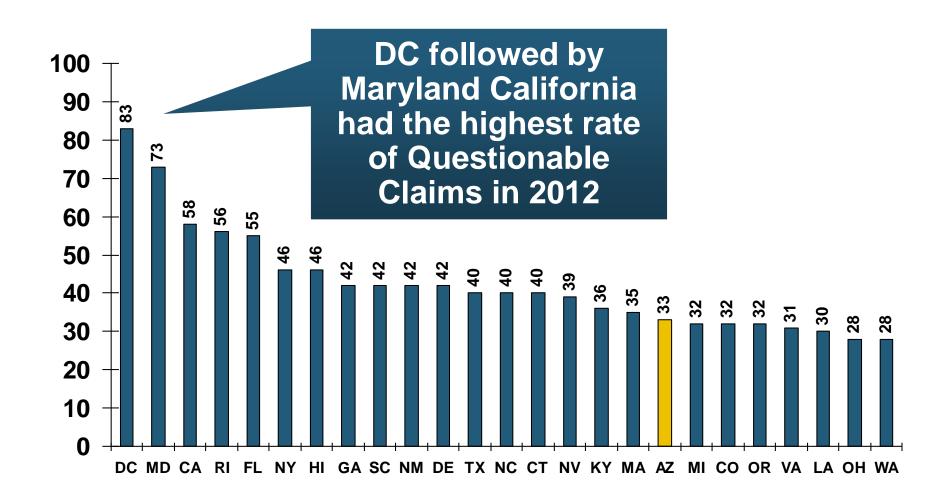
Total Number of Questionable Claims by State, 2012: Highest 25 States





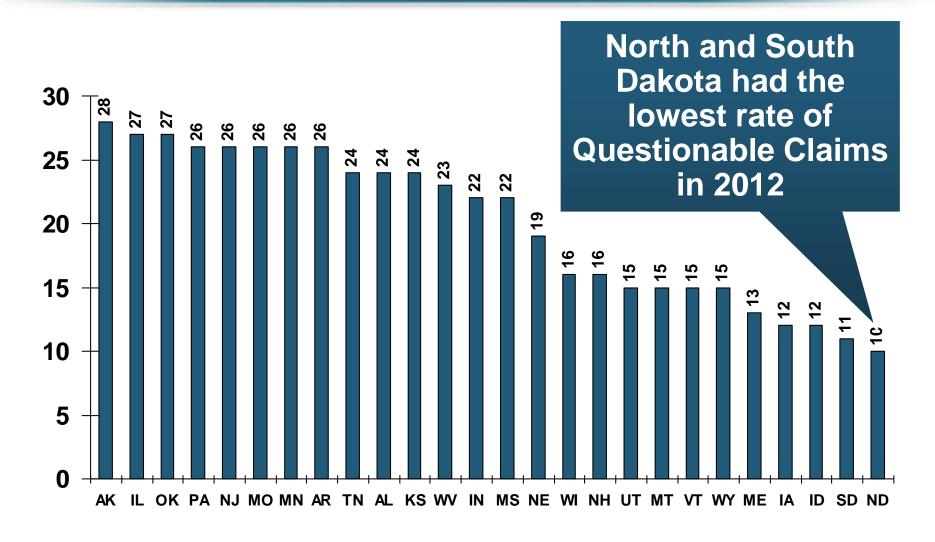
Total Number of Questionable Claims by State, per 100K Persons, 2012: Highest 25 States





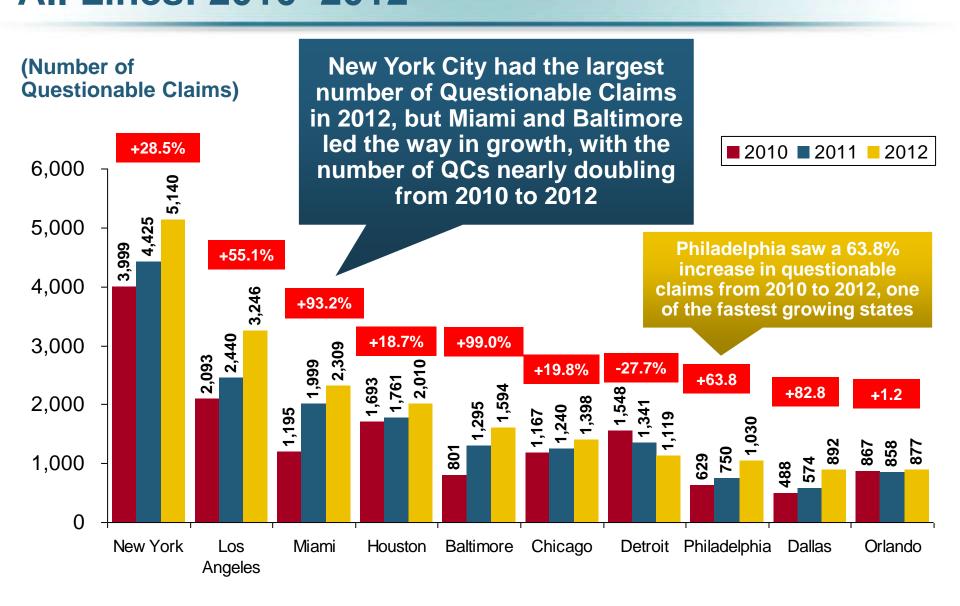
Total Number of Questionable Claims by State, per 100K Persons, 2012: Lowest 25 States





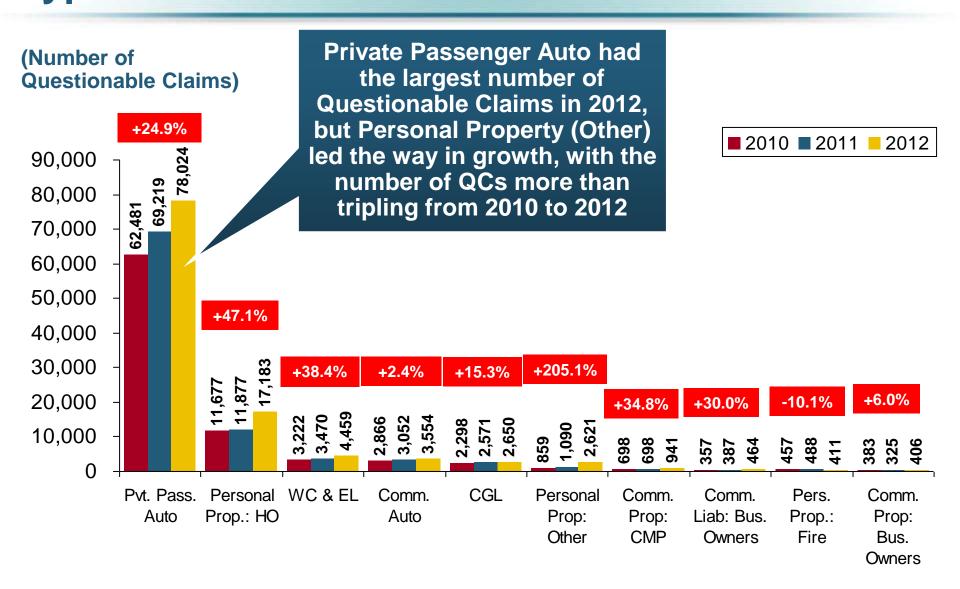
Questionable Claims, Top 10 Loss Cities, All Lines: 2010–2012





Questionable Claims, Top 10 Policy Types: 2010–2012





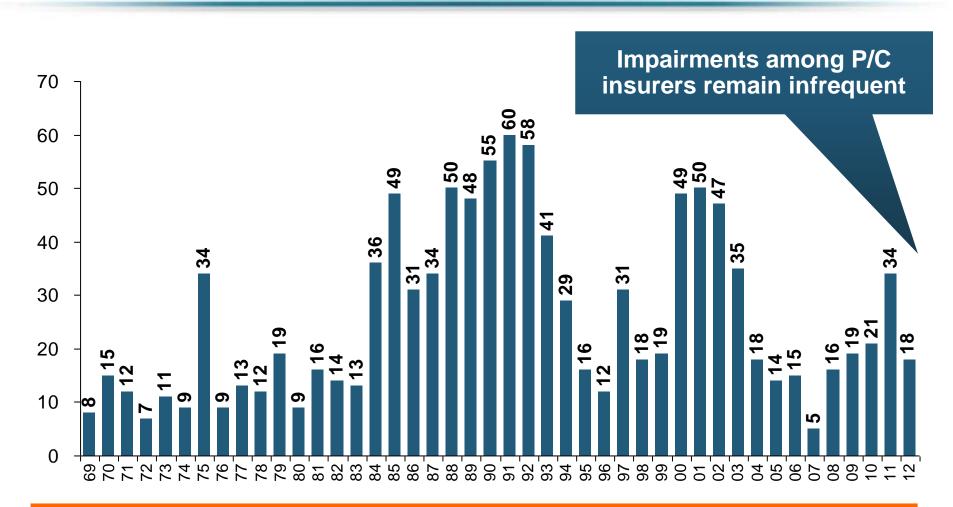


Financial Strength & Underwriting

Cyclical Pattern is P-C Impairment
History is Directly Tied to
Underwriting, Reserving & Pricing

P/C Insurer Impairments, 1969–2012

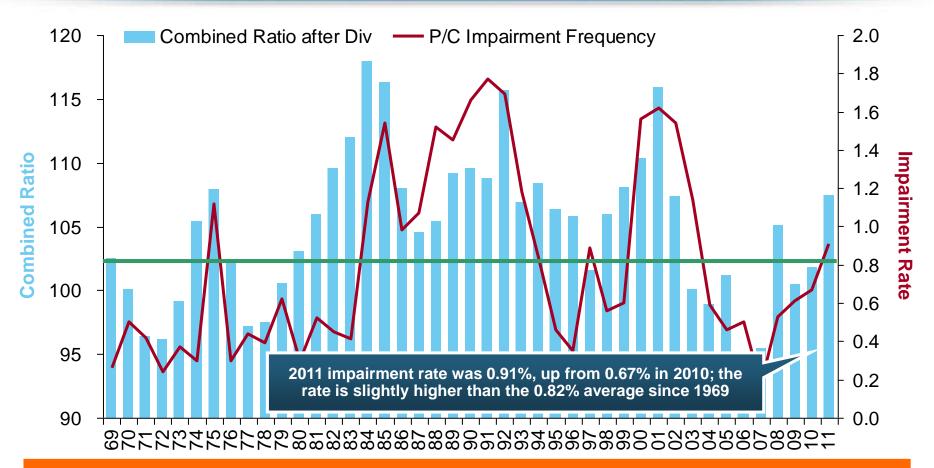




The Number of Impairments Varies Significantly Over the P/C Insurance Cycle, With Peaks Occurring Well into Hard Markets

P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2011





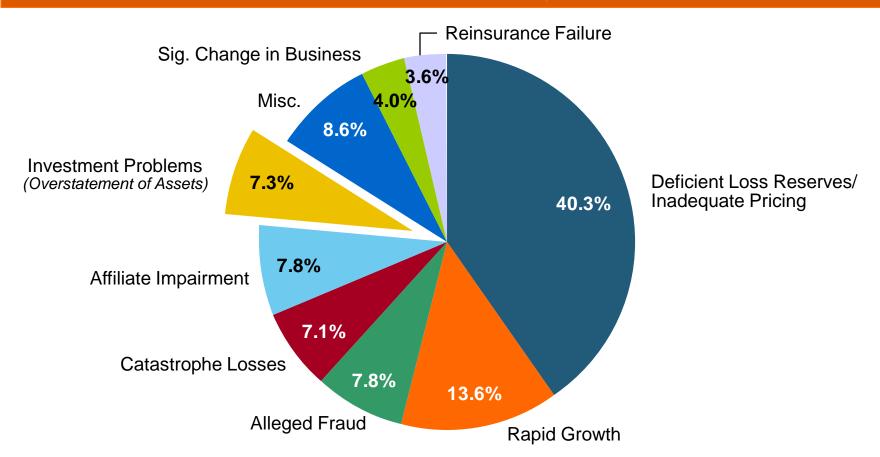
Impairment Rates Are Highly Correlated With Underwriting Performance and Reached Record Lows in 2007; Recent Increase Was Associated Primarily With Mortgage and Financial Guaranty Insurers and Not Representative of the Industry Overall

Reasons for US P/C Insurer Impairments, 1969–2010



Historically, Deficient Loss Reserves and Inadequate Pricing Are By Far the Leading Cause of P-C Insurer Impairments.

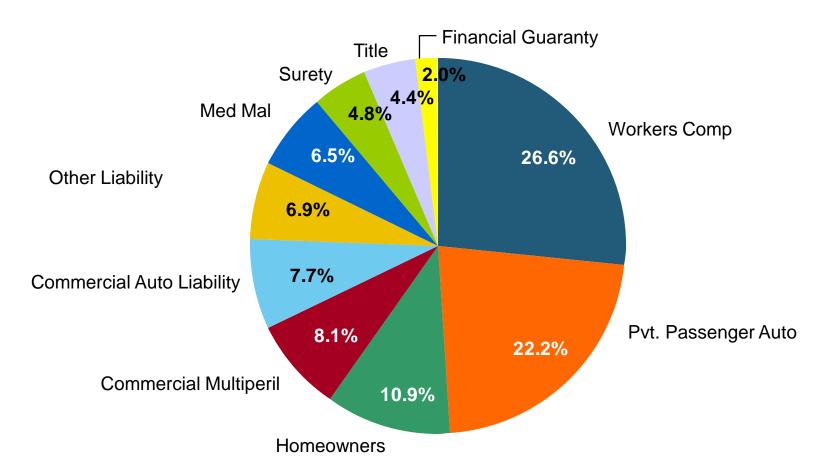
Investment and Catastrophe Losses Play a Much Smaller Role



Top 10 Lines of Business for US P/C Impaired Insurers, 2000–2010



Workers Comp and Pvt. Passenger Auto Account for Nearly Half of the Premium Volume of Impaired Insurers Over the Past Decade

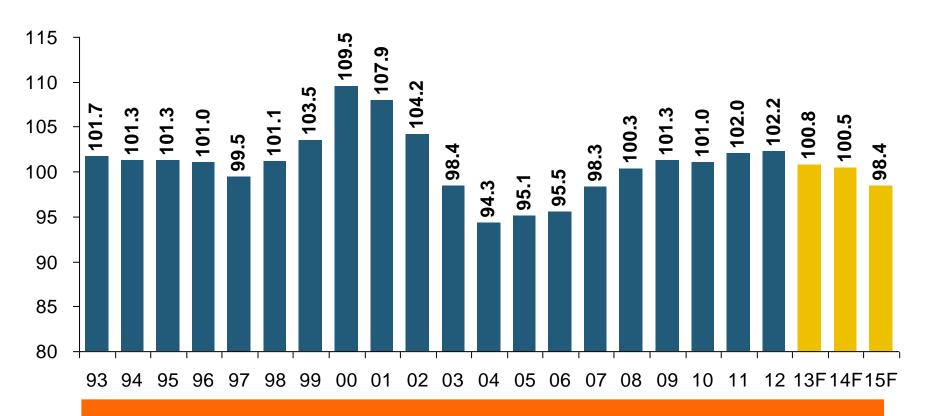




Performance by Segment

Private Passenger Auto Combined Ratio: 1993–2015F

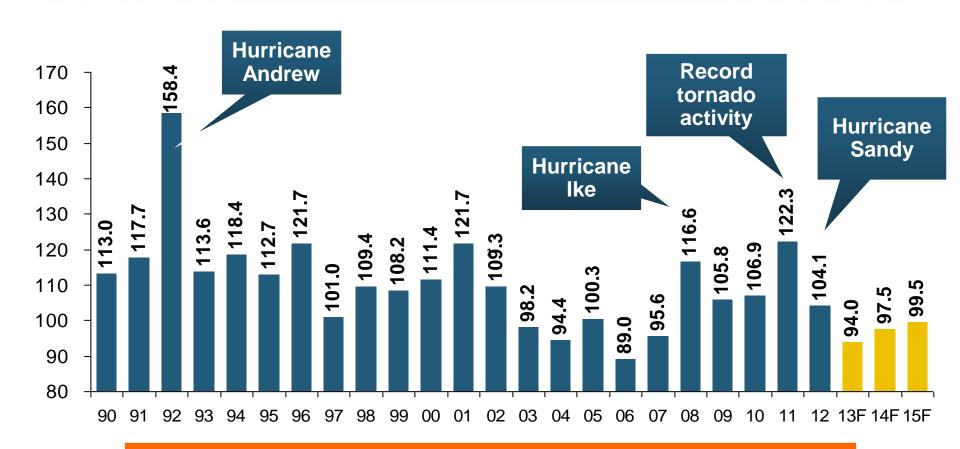




Private Passenger Auto Accounts for 34% of Industry Premiums and Remains the Profit Juggernaut of the P/C Insurance Industry

Homeowners Insurance Combined Ratio: 1990–2015F

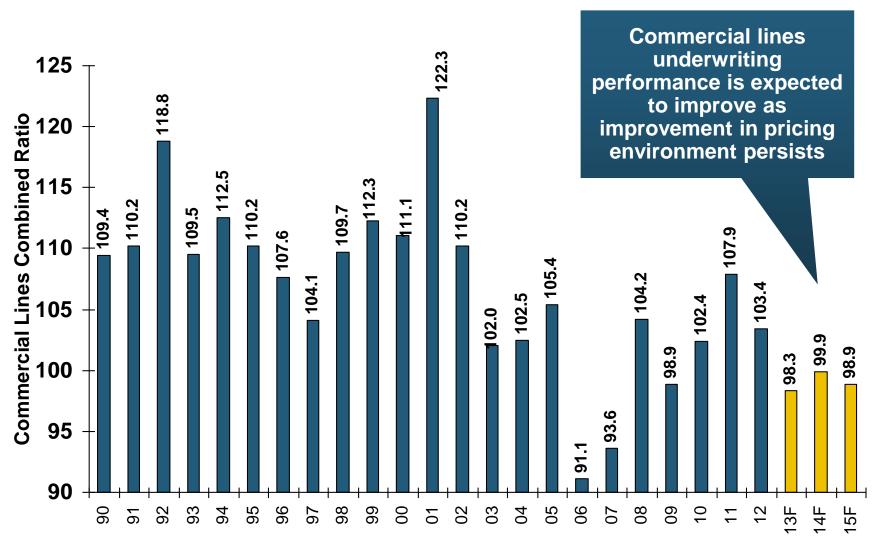




Homeowners Performance in 2011/12 Impacted by Large Cat Losses. Extreme Regional Variation Can Be Expected Due to Local Catastrophe Loss Activity

Commercial Lines Combined Ratio, 1990-2015F*

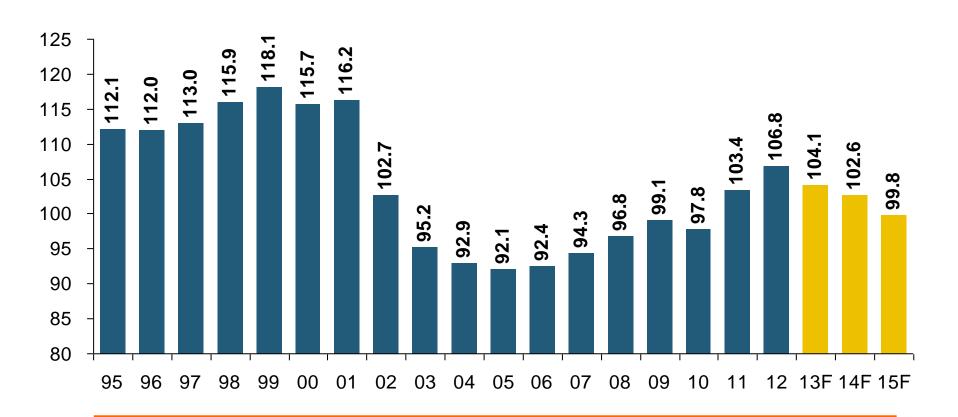




*2007-2012 figures exclude mortgage and financial guaranty segments. Source: A.M. Best (1990-2014F); Conning (2015F) Insurance Information Institute.

Commercial Auto Combined Ratio: 1993–2015F

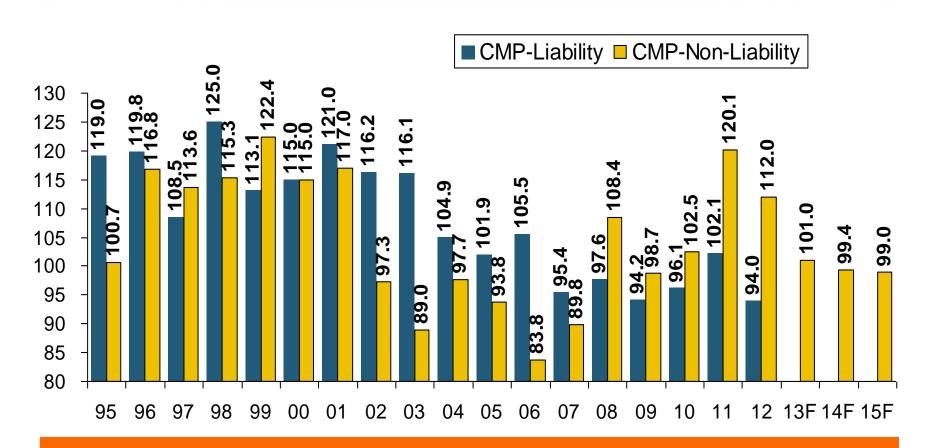




Commercial Auto is Expected to Improve as Rate Gains
Outpace Any Adverse Frequency and Severity Trends

Commercial Multi-Peril Combined Ratio: 1995–2015F



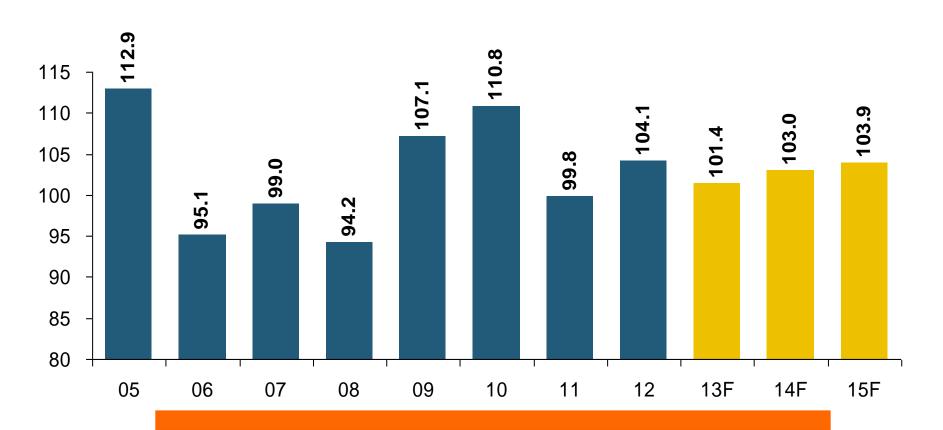


Commercial Multi-Peril Underwriting Performance is Expected to Improve in 2013 Assuming Normal Catastrophe Loss Activity

^{*2013}F-2012F figures are Conning figures for the combined liability and non-liability components.. Sources: A.M. Best; Conning; Insurance Information Institute.

General Liability Combined Ratio: 2005–2015F

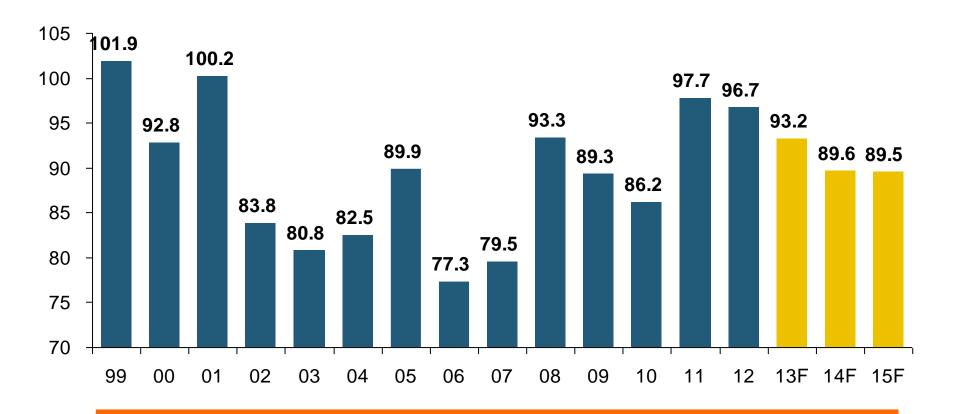




Commercial General Liability Underwriting Performance Has Been Volatile in Recent Years

Inland Marine Combined Ratio: 1999–2015F

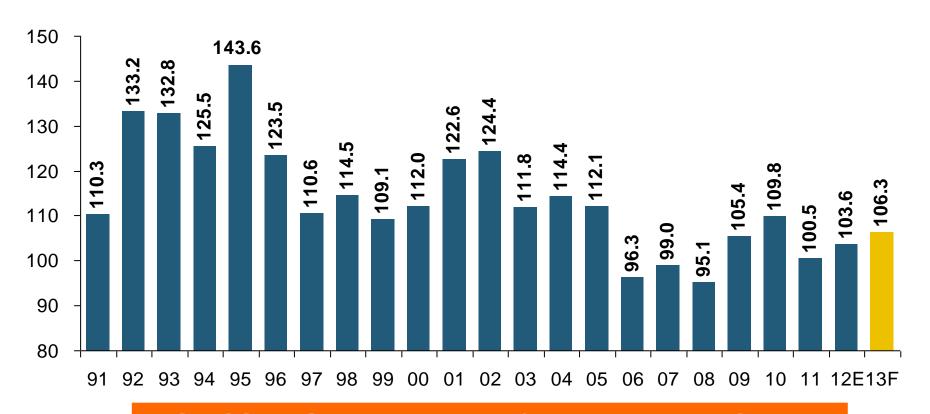




Inland Marine is Expected to Remain Among the Most Profitable of All Lines

Other & Products Liability Combined Ratio: 1991–2013F

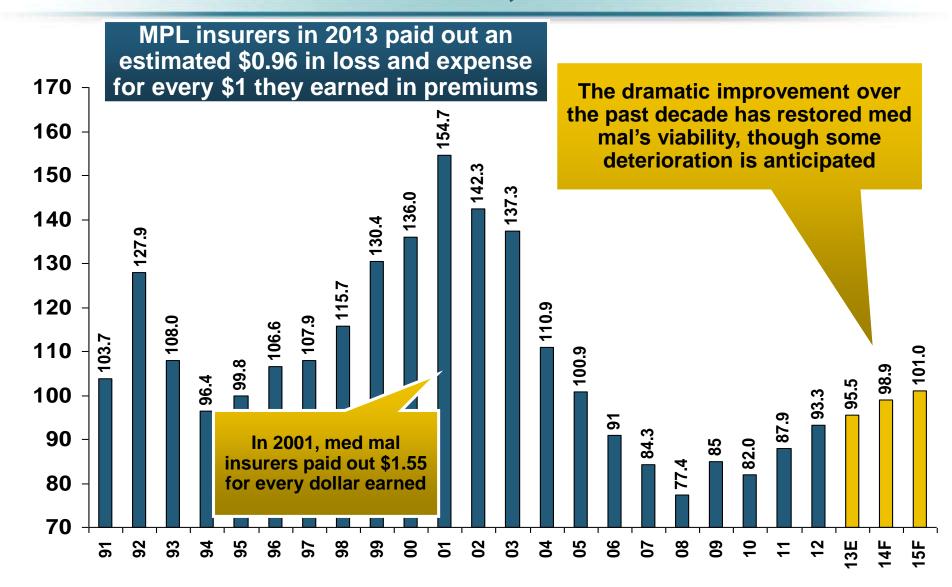




Liability Lines Have Performed Better in the Post-Tort Reform Era (~2005), but There Has Been Some Deterioration in Recent Years

Medical Malpractice Combined Ratio vs. All Lines Combined Ratio, 1991-2015F





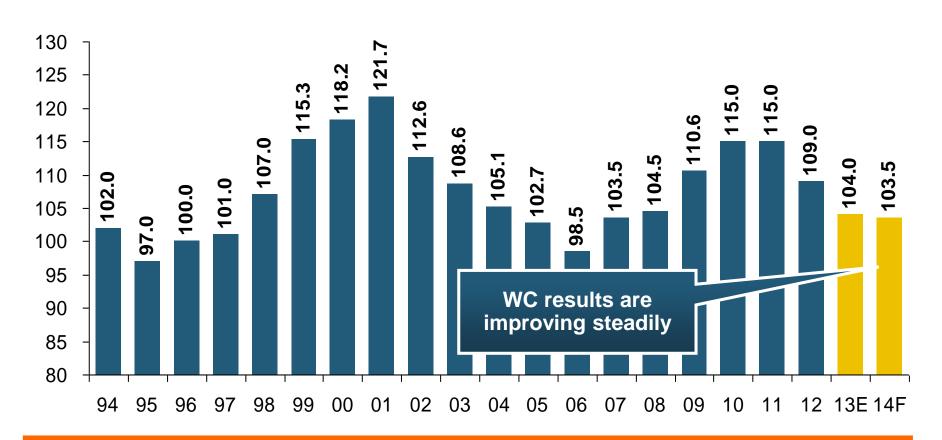


Workers Compensation Operating Environment

The Weak Economy and Soft Market Have Made the Workers Comp Operating Increasingly Challenging

Workers Compensation Combined Ratio: 1994–2014F





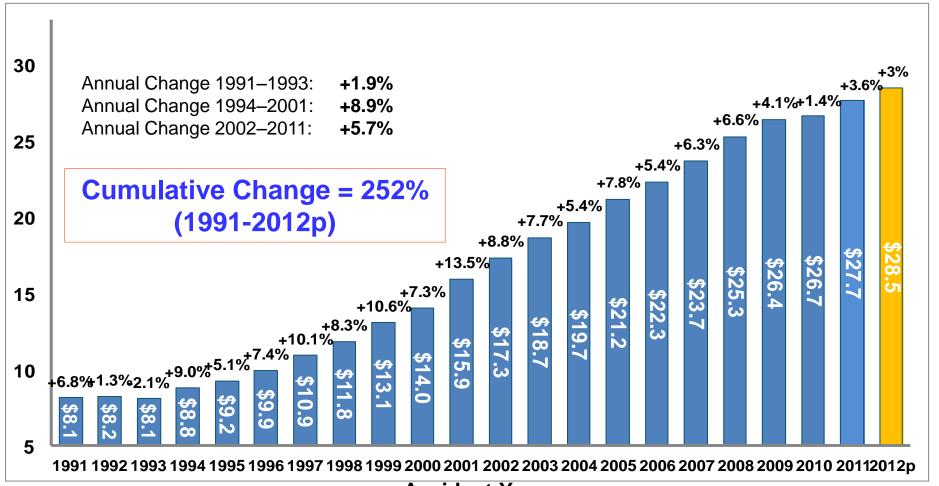
Workers Comp Results Began to Improve in 2012. Underwriting Results Deteriorated Markedly from 2007-2010/11 and Were the Worst They Had Been in a Decade.

Workers Compensation Medical Severity Moderate Increase in 2012



Medical Claim Cost (\$000s)

Average Medical Cost per Lost-Time Claim



Accident Year

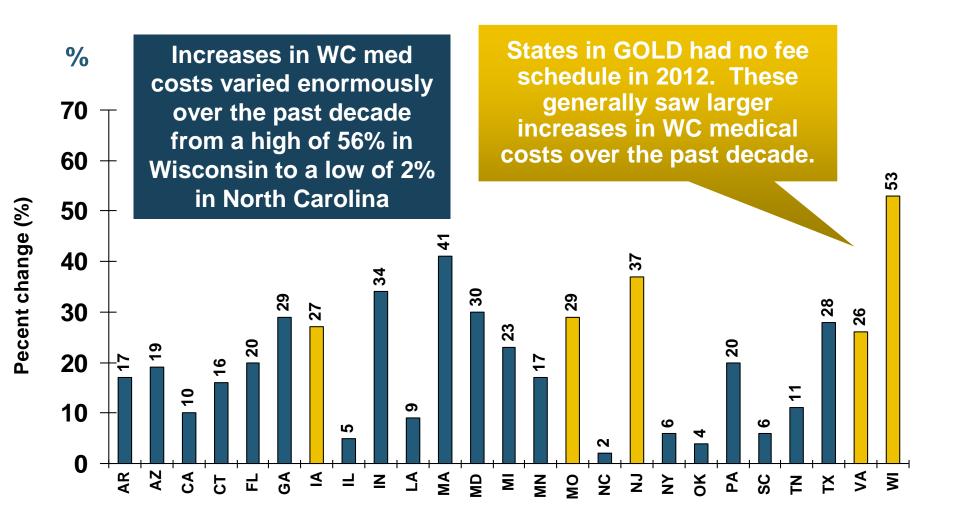
2012p: Preliminary based on data valued as of 12/31/2012.

1991-2011: Based on data through 12/31/2011, developed to ultimate

Based on the states where NCCI provides ratemaking services including state funds, excluding WV; Excludes high deductible policies.

Change in Price Paid for Medical Professional Services in WC, 2002-2012*

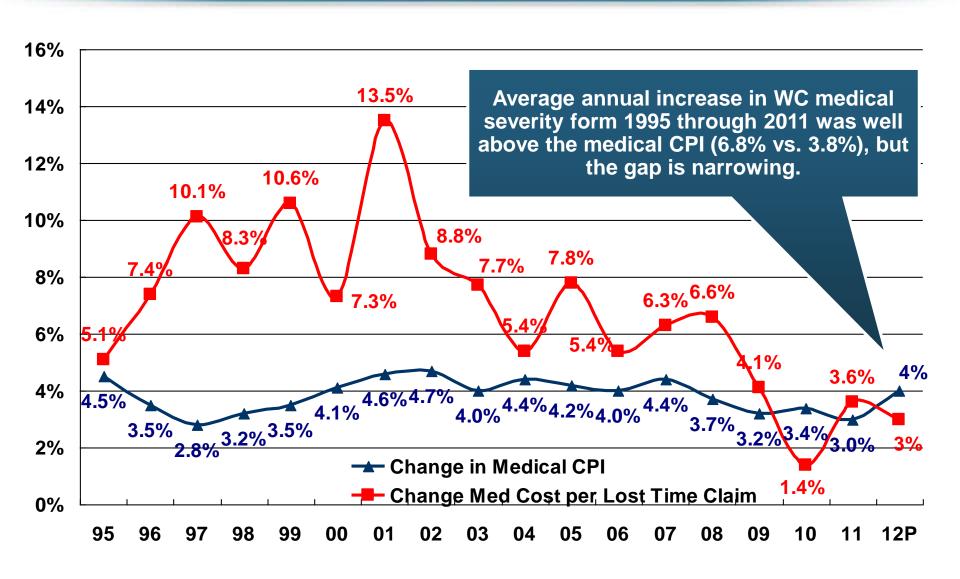




^{*}Data are preliminary as of 6/30/12.

WC Medical Severity Generally Outpaces the Medical CPI Rate

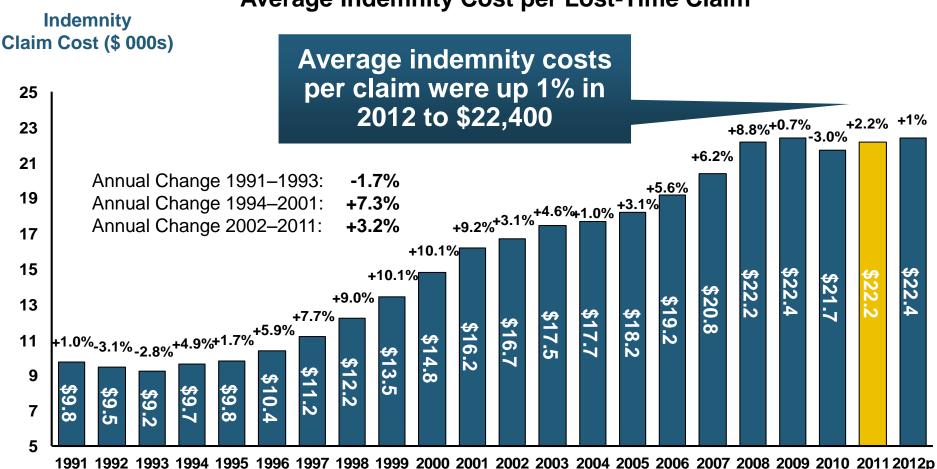




Workers Comp Indemnity Claim Costs: Small Increase in 2012



Average Indemnity Cost per Lost-Time Claim



Accident Year

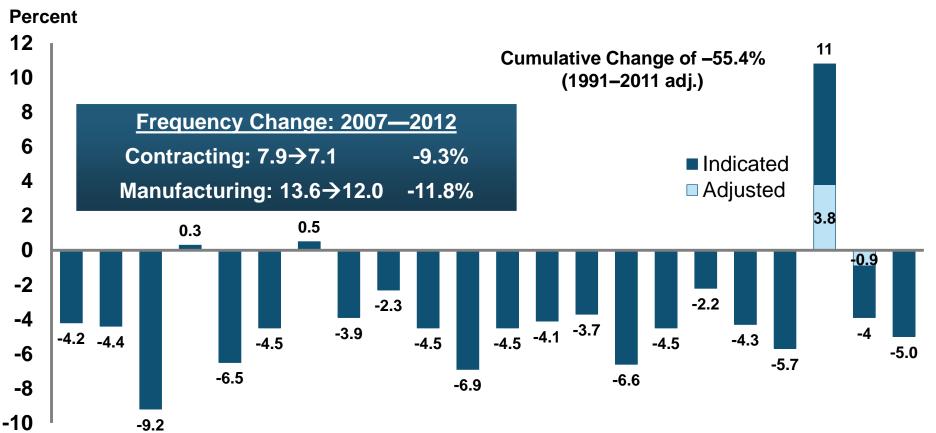
2012p: Preliminary based on data valued as of 12/31/2012. 1991-2011: Based on data through 12/31/2011, developed to ultimate

Based on the states where NCCI provides ratemaking services including state funds, excluding WV; Excludes high deductible policies.

Workers Compensation Lost-Time Claim Frequency Declined in 2012







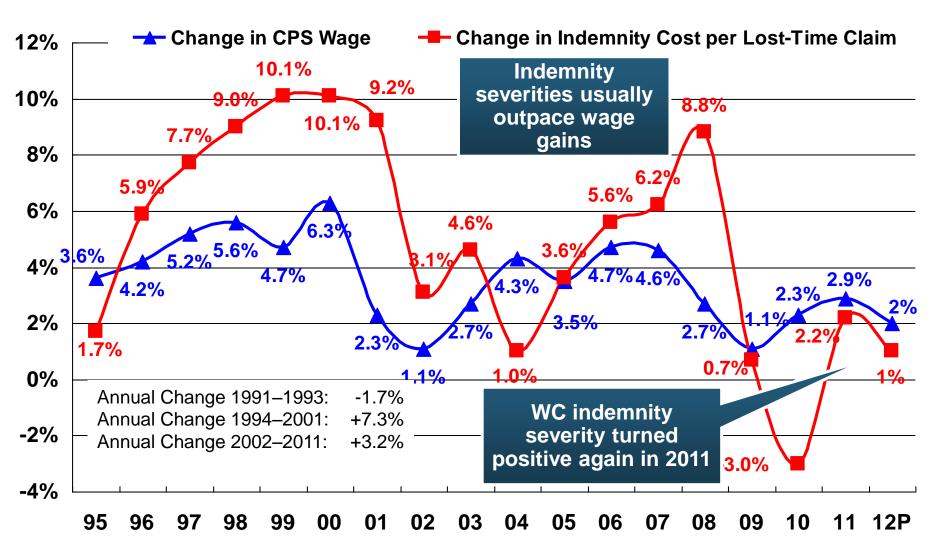
1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 20112012p

Accident Year

^{*}Adjustments primarily due to significant audit activity.
2012p: Preliminary based on data valued as of 12/31/2012
1991–2011: Based on data through 12/31/2011, developed to ultimate

WC Indemnity Severity vs. Wage Inflation, 77



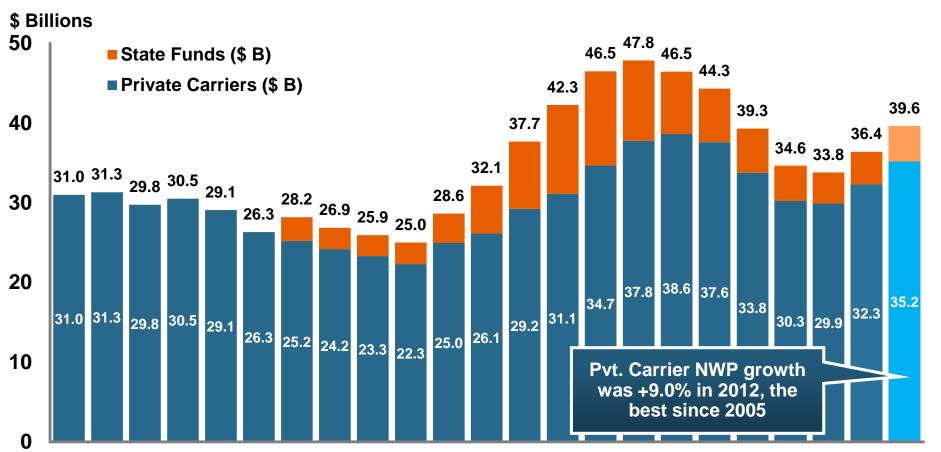


2011p: Preliminary based on data valued as of 12/31/2011; 1991-2010: Based on data through 12/31/2010, developed to ultimate. Based on the states where NCCI provides ratemaking services. Excludes the effects of deductible policies. CPS = Current Population Survey. Source: NCCI

Workers Compensation Premium: Second Consecutive Year of Increase



Net Written Premium



1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 20112012p

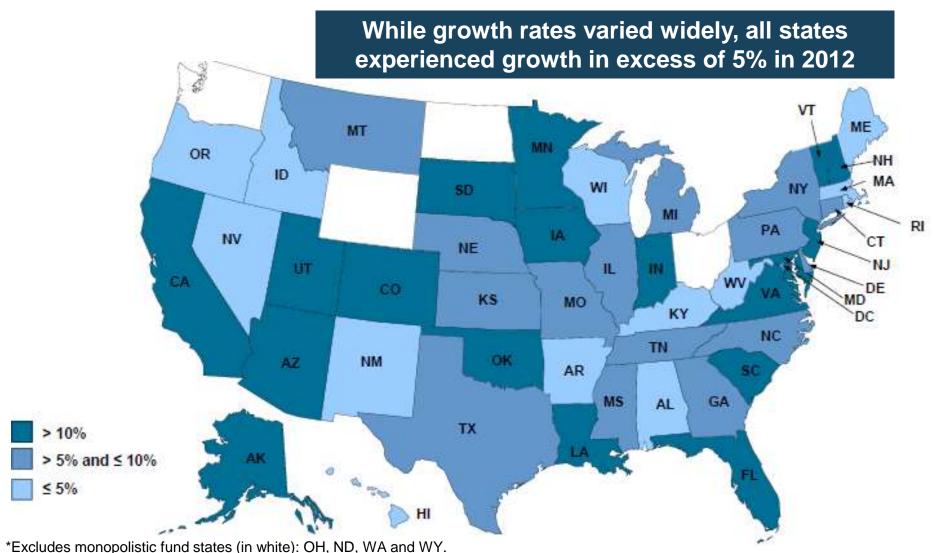
p Preliminary

Source: 1990–20102p Private Carriers, Annual Statement Data, NCCI.
1996–2012p State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements
State Funds available for 1996 and subsequent

2012 Workers Compensation Direct Written Premium Growth, by State*



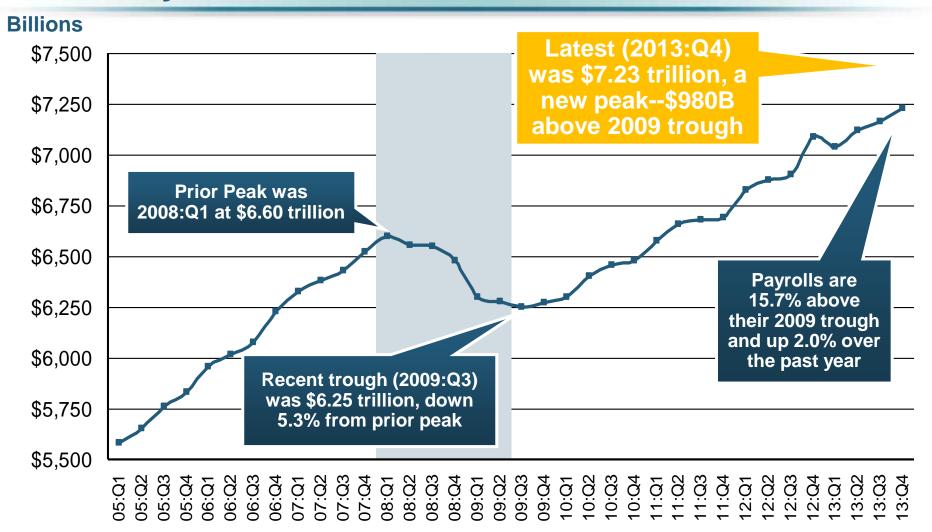
PRIVATE CARRIERS: Overall 2012 Growth = +9%



*Excludes monopolistic fund states (in white): OH, ND, WA and W Source: NCCI.

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2013:Q4



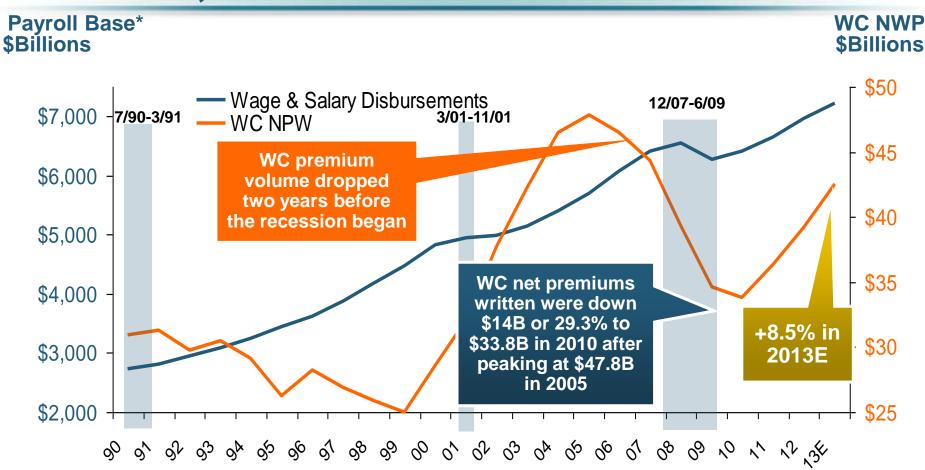


Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

Sources: http://research.stlouisfed.org/fred2/series/WASCUR; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Payroll vs. Workers Comp Net Written Premiums, 1990-2013E





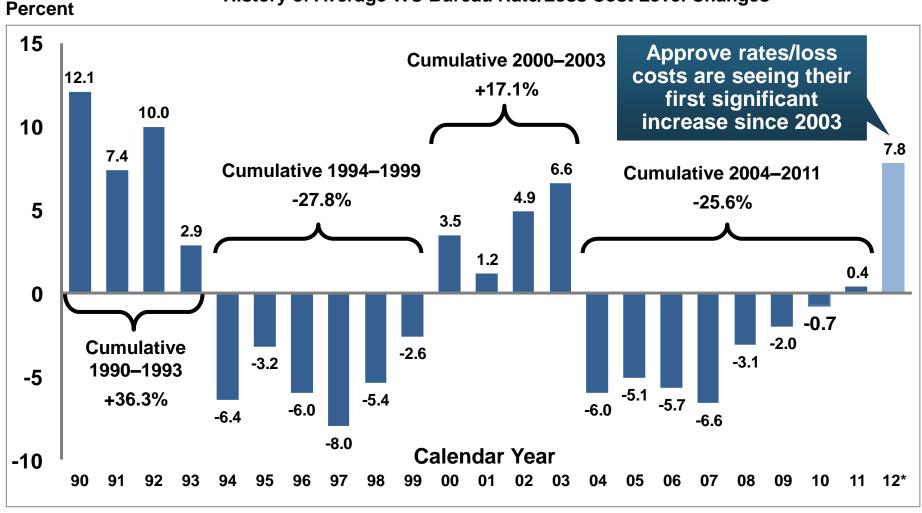
Continued Payroll Growth and Rate Increases Suggest WC NWP Will Grow Again in 2014; +8.6% Growth Estimated for 2013

^{*}Private employment; Shaded areas indicate recessions. WC premiums for 2012 are I.I.I. estimate based YTD 2013 actuals. Sources: NBER (recessions); Federal Reserve Bank of St. Louis at http://research.stlouisfed.org/fred2/series/WASCUR; NCCI; I.I.I.

Average Approved Bureau Rates/Loss Costs







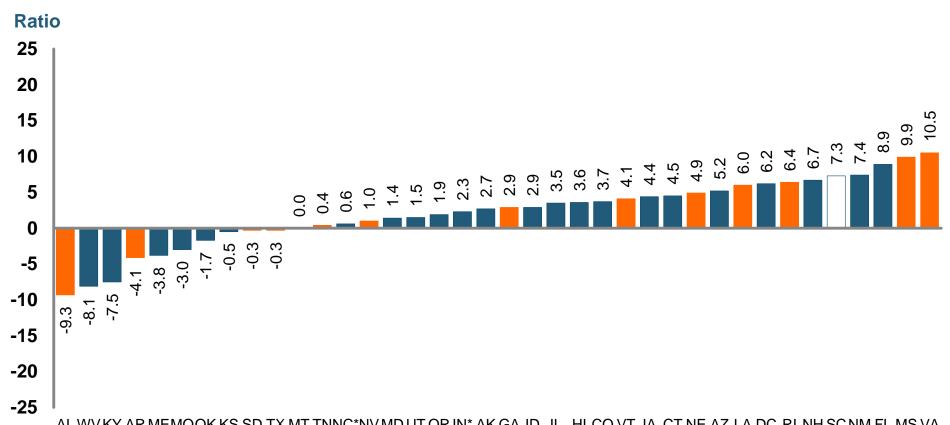
^{*}States approved through 7/31/12.

Note: Countrywide approved changes in advisory rates, loss costs and assigned risk rates as filed by applicable rating organization. Source: NCCI.

Current NCCI Voluntary Market Filed Rate/Loss Cost Changes



(Excludes Law-Only Filings)



ALWVKY AR MEMOOK KS SD TX MT TNNC*NV MD UT OR IN* AK GA ID IL HI CO VT IA CT NE AZ LA DC RI NH SC NM FL MS VA

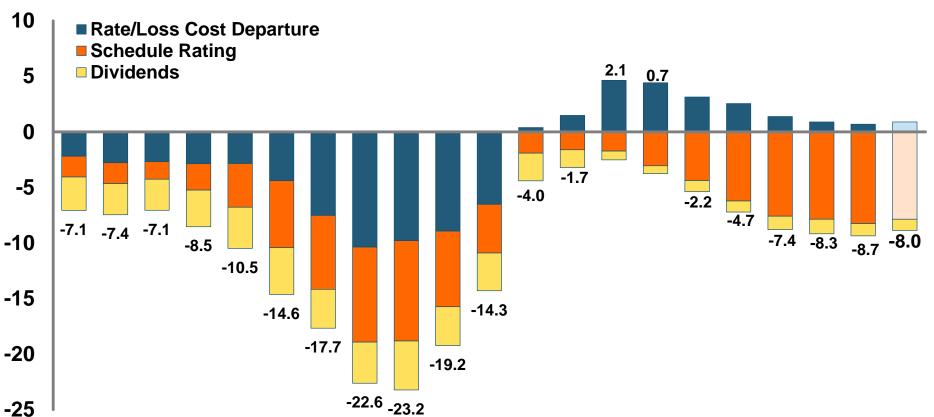
■ Effective Dates 1/1/2012 and Prior ■ Effective Dates Subsequent to 1/1/2012 □ Filed and Pending

Impact of Discounting on Workers Compensation Premium



NCCI States—Private Carriers

Percent



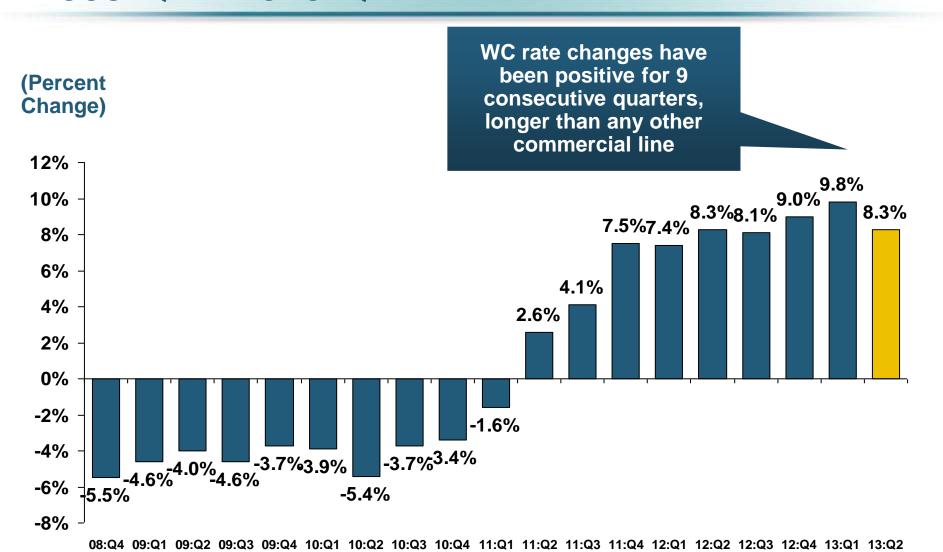
1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 p

Policy Year

Dividend ratios are based on calendar year statistics NCCI benchmark level does not include an underwriting contingency provision Based on data through 12/31/2011 for the states where NCCI provides ratemaking services Source: NCCI.

Workers Comp Rate Changes, 2008:Q4 – 2013:Q2





Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially. Source: Council of Insurance Agents and Brokers; Information Institute.

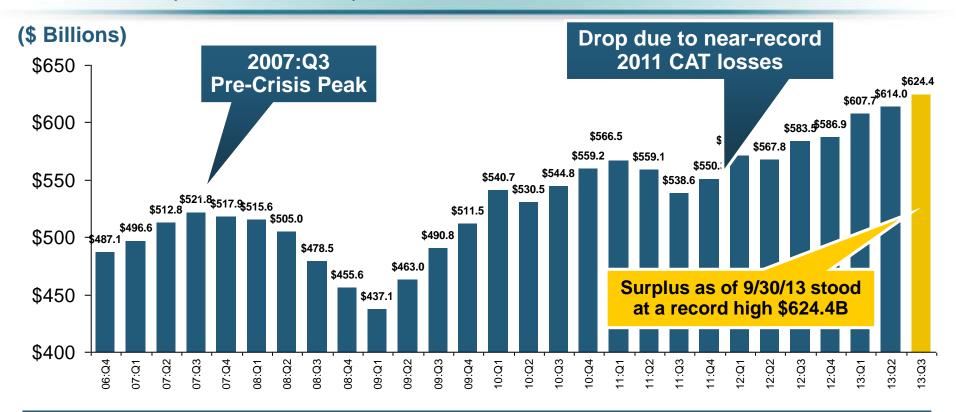


2. SURPLUS/CAPITAL/CAPACITY

2013 Recorded Yet Another Record High

Policyholder Surplus, 2006:Q4–2013:Q3





The industry now has \$1 of surplus for every \$0.78 of NPW, close to the strongest claims-paying status in its history.

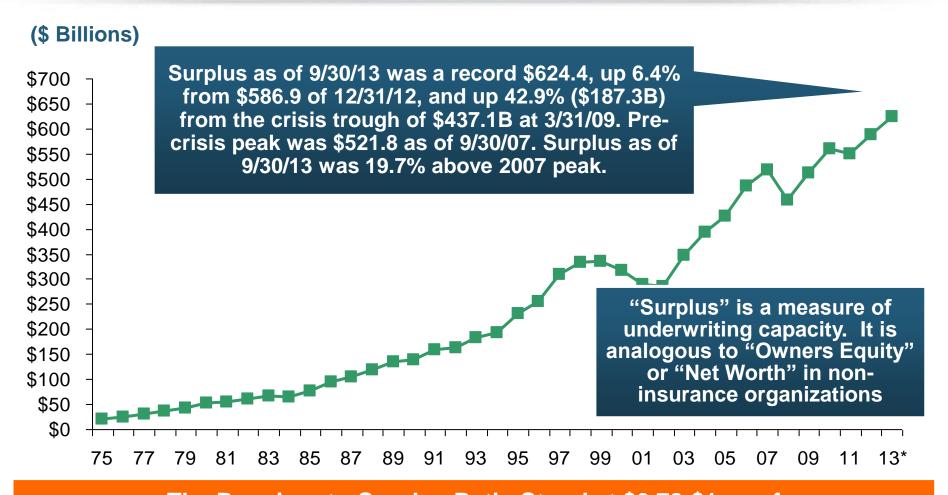
2010:Q1 data includes \$22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business.

The P/C insurance industry entered 2014 in very strong financial condition.

Sources: ISO, A.M .Best.

US Policyholder Surplus: 1975–2013*





The Premium-to-Surplus Ratio Stood at \$0.78:\$1 as of 9/30/13, a Near Record Low (at Least in Recent History)*

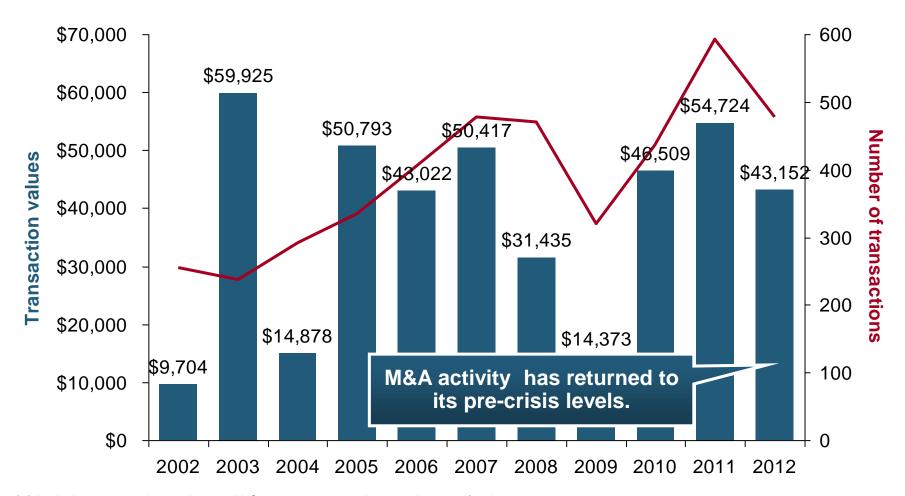
Source: A.M. Best, ISO, Insurance Information Institute.

^{*} As of 9/30/13.

U.S. INSURANCE MERGERS AND ACQUISITIONS, 2002-2012 (1)



(\$ Millions)



(1) Includes transactions where a U.S. company was the acquirer and/or the target.

Source: Conning proprietary database.



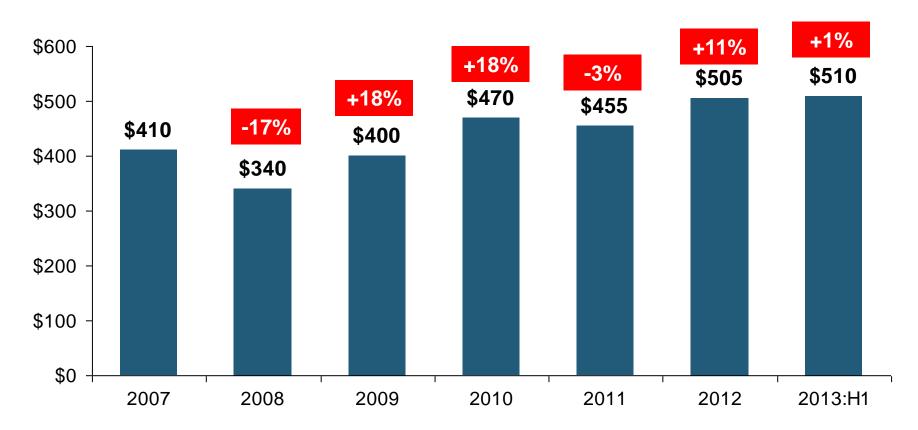
3. REINSURANCE MARKET CONDITIONS

Ample Capacity as
Alternative Capital is
Transforming the Market

Global Reinsurer Capital, 2007-2013:H1*



(\$ Billions)



Global Reinsurance Capital Has Been Trending Generally Upward Since the Global Financial Crisis, a Trend that Seems Likely to Continue

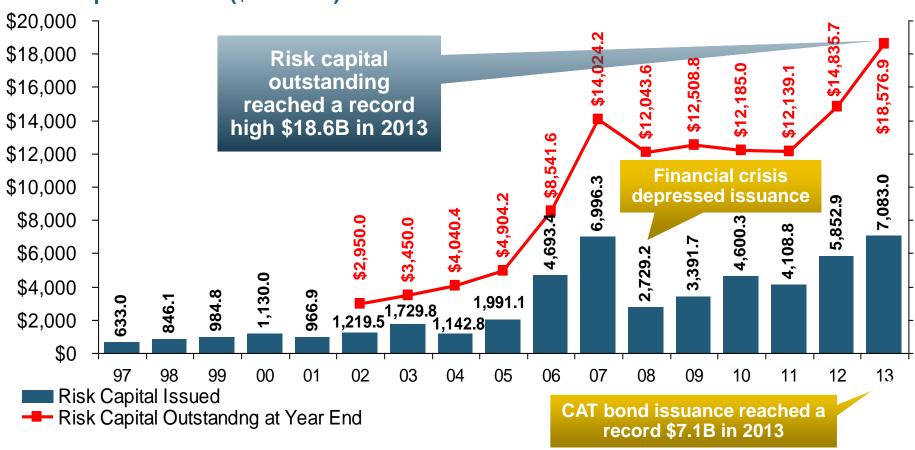
^{*}Includes both traditional and non-traditional forms of reinsurance capital.

Source: Aon Benfield Aggregate study for the 6 months ending June 2013; Insurance Information Institute.

Catastrophe Bonds: Issuance and Outstanding, 1997- 2013*







Catastrophe Bond Issuance and Risk Capital Outstanding Reached All-Time Record Highs in 2013

*Through Dec. 31, 2013.

Source: Guy Carpenter; Insurance Information Institute.

CATASTROPHE BONDS, ANNUAL RISK CAPITAL ISSUED, 2002-2012



(\$ Billions)

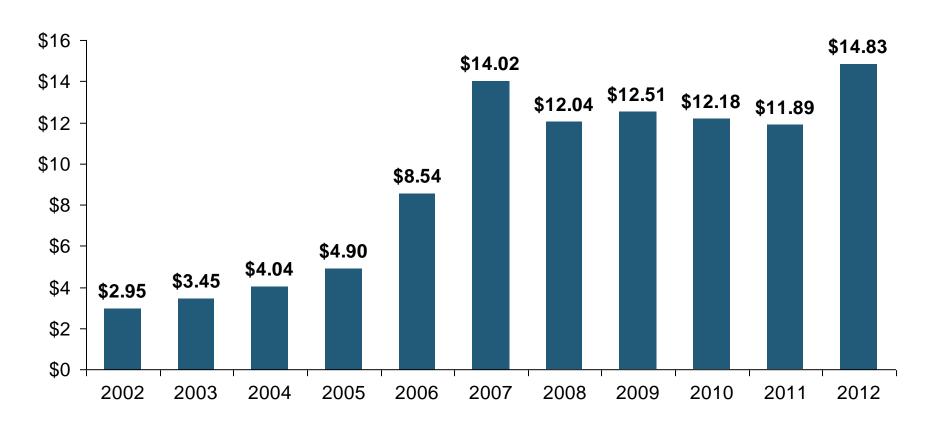


Note

CATASTROPHE BONDS, RISK CAPITAL OUTSTANDING, 2002-2012



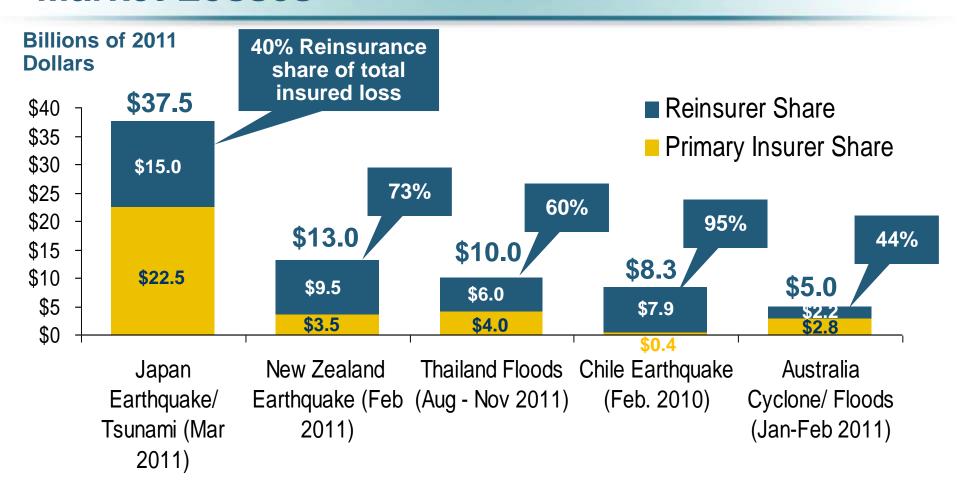
(\$ Billions)



Note

Reinsurer Share of Recent Significant Market Losses





Reinsurers Paid a High Proportion of Insured Losses Arising from Major Catastrophic Events Around the World in Recent Years

Alternative Capital: Important Definitions Insurance Information Institute



Alternative Reinsurance Market

Alternative reinsurance is effectively any form of managing and transferring (re)insurance risk through the use of the capital markets rather than the traditional reinsurance market. These nontraditional structures commonly include catastrophe bonds (cat bonds), collateralized quota-share reinsurance vehicles (sidecars) and industry loss warranties (ILWs).

Alternatives to traditional reinsurance essentially began following Hurricane Andrew, with the introduction of exchange traded insurance options in 1992, the first cat bond in 1994, and later sidecars in 2001, following the events of Sept. 11, 2001. However, the market began to grow significantly following Hurricane Katrina in 2005, as (re)insurers were essentially forced to increase issuances of catastrophe bonds and expand the use of sidecars in order to absorb underwriting capacity as retrocession availability became more scarce and expensive.

Catastrophe Bonds

Cat bonds are bonds issued by an insurer with a condition that if the issuer suffers a catastrophe loss greater than a specified amount, the obligation to pay interest/principal is deferred or forgiven, thus effectively prompting a default on the bond. Cat bonds allow sponsors (most often a (re)insurer) to transfer a portion of its catastrophe risk to the capital markets through securities purchased by investors and actively traded in the secondary market.

Favorably for the sponsor, cat bonds offer collateralized (most often invested in U.S. Treasury Money Market Funds) protection that is locked in at a fixed cost over multiple years (typically two to four years). This allows the (re)insurer to be less subject to changing reinsurance market conditions. For the investor, cat bonds offer a comparatively high yield and an opportunity to diversify their portfolios. This is due to the lack of correlation between catastrophe losses and returns on other major asset classes that are tied to more macroeconomic and financial market conditions.

Sidecars

Sidecars are special-purpose reinsurers that provide dedicated collateralized quota-share reinsurance, often for a single ceding company that transfers a portion of its underwriting risk (and related capital investment), and in turn receives a ceding commission. They also can be a source of fee income for the reinsurers that underwrite or provide management services to such third-party risk vehicles.

Sidecar vehicles are often established by traditional reinsurers as a means to tap into the external capacity offered by the capital markets from hedge funds, investment banks, private equity and other opportunistic investors and increase the efficiency and diversification of the company's reinsurance program. They typically have a limited life expectancy and are often wound up when market conditions deteriorate, after which any remaining capital funds are returned to investors and the sponsor.

Industry Loss Warranties

ILWs are a type of private reinsurance or derivative contract through which one party (often an insurer) will purchase protection based on the total loss arising from an event to the entire insurance industry rather than their own losses. The buyer pays a premium to the company that writes the ILW cover (often a reinsurer or hedge fund) and in return receives coverage for a specified limit if industry losses exceed the predefined amount under the ILW trigger.

Sources: Fitch Ratings: Insurance Information Institute.

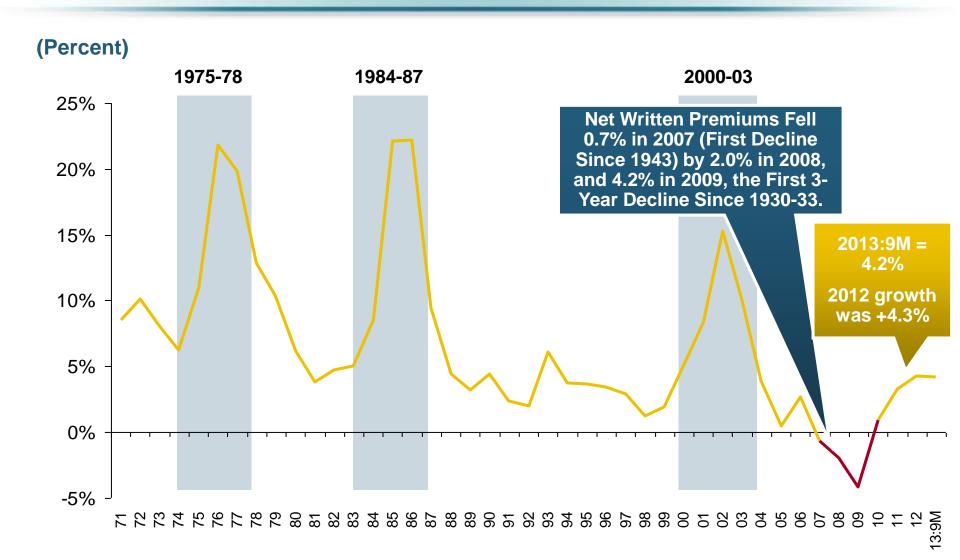


4. RENEWED PRICING DISCIPLINE

Evidence of a Broad and Sustained Shift in Pricing

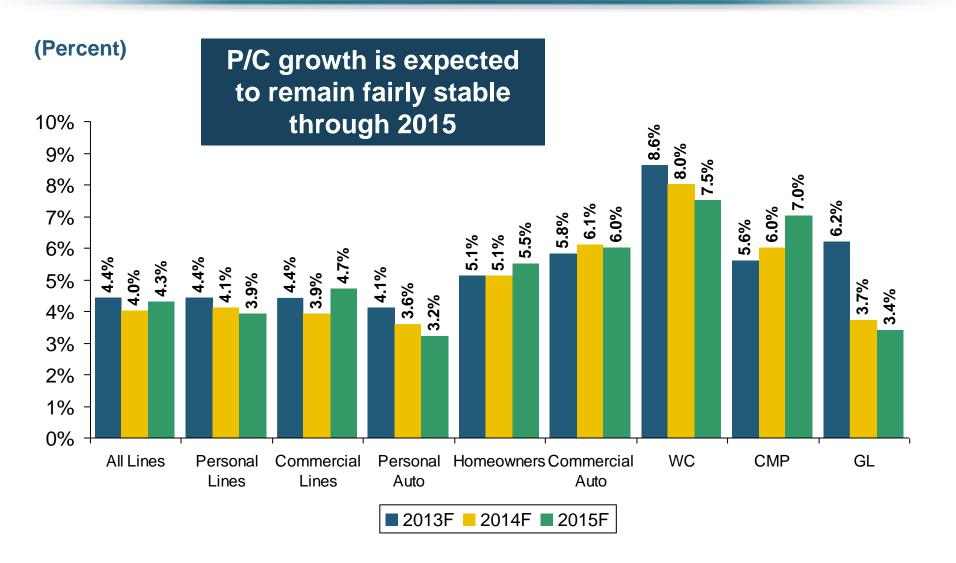
Net Premium Growth: Annual Change, 1971—2013:Q3





Growth in Direct Written Premium by Line, 2013-2015F*





P/C Net Premiums Written: % Change, Quarter vs. Year-Prior Quarter



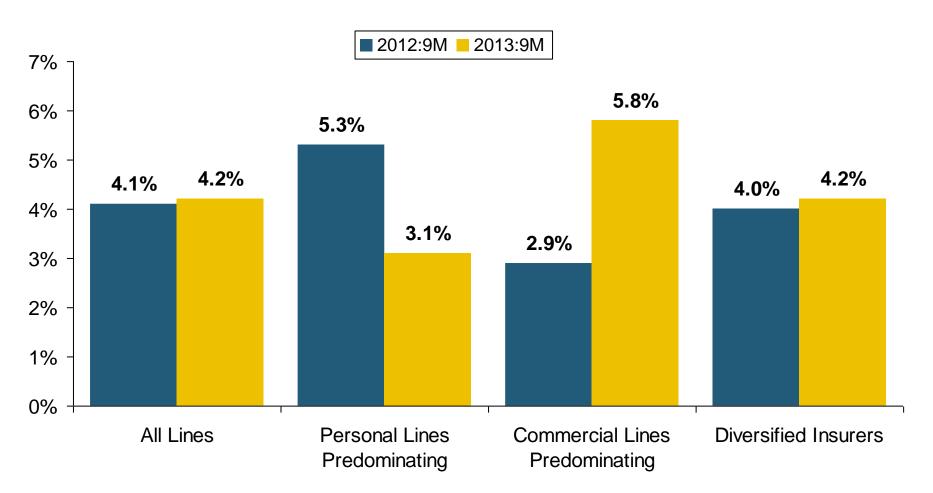


Sustained Growth in Written Premiums (vs. the same quarter, prior year) Will Continue into 2014

Growth in Net Written Premium by Segment, 2013:9M vs. 2012:9M*



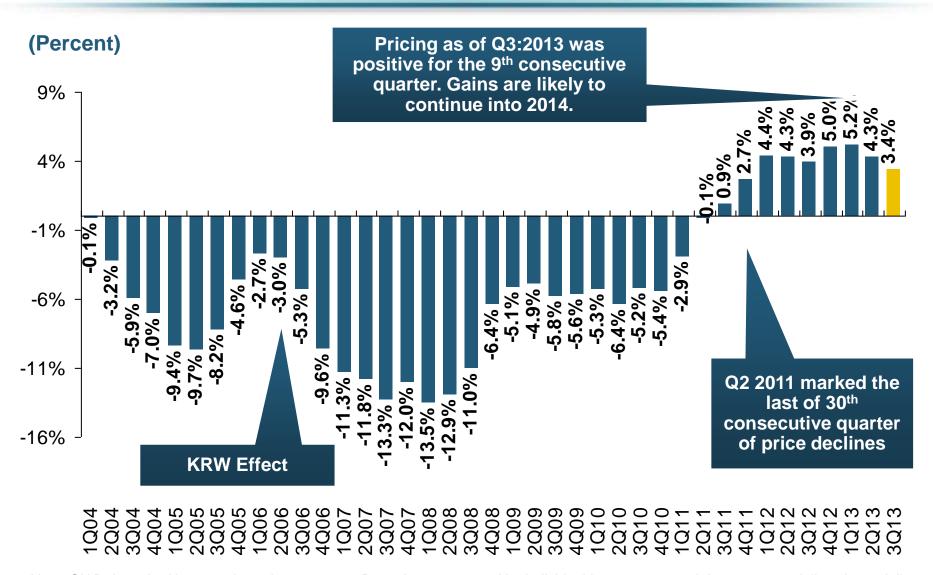
(Percent)



^{*}Excludes mortgage and financial guaranty insurers. Source: ISO/PCI; Insurance Information Institute

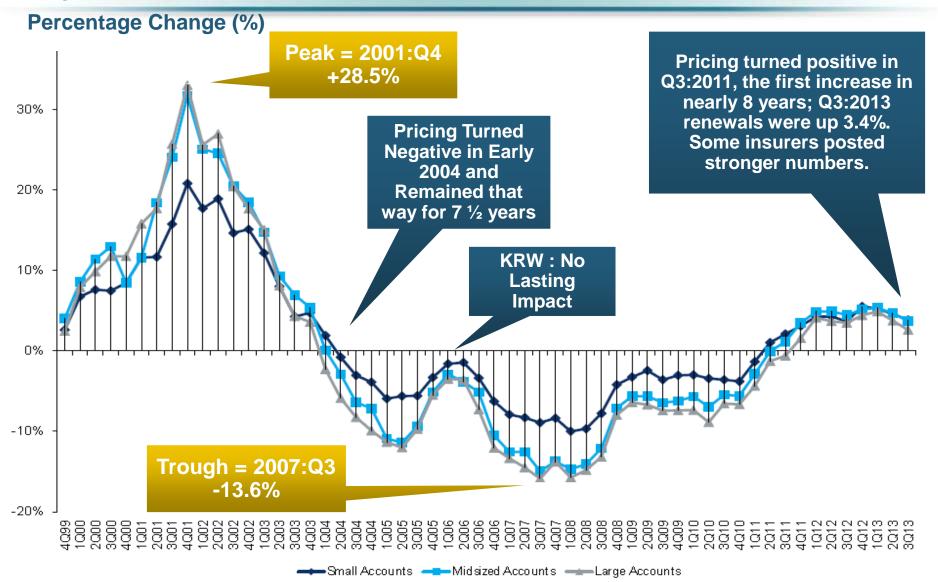
Average Commercial Rate Change, All Lines, (1Q:2004–3Q:2013)





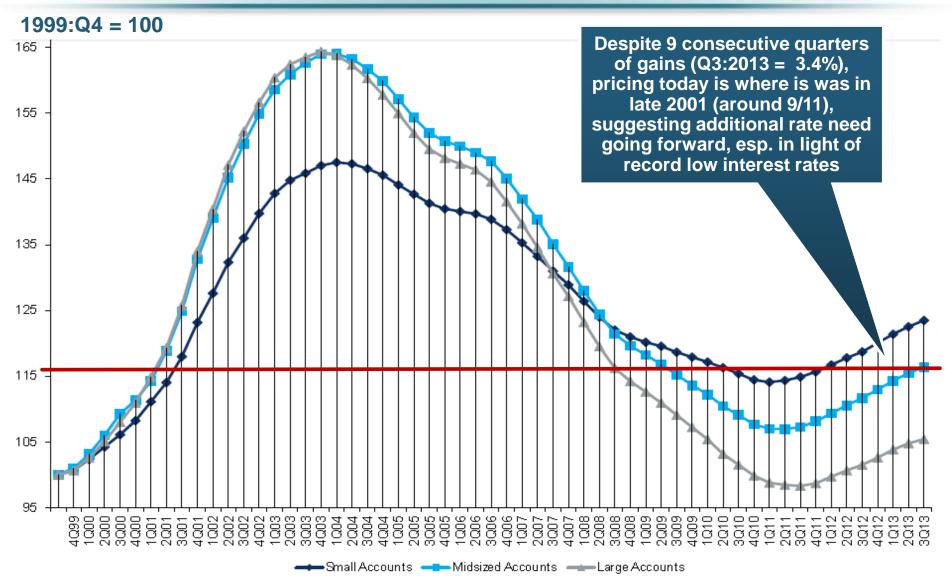
Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2013:Q3





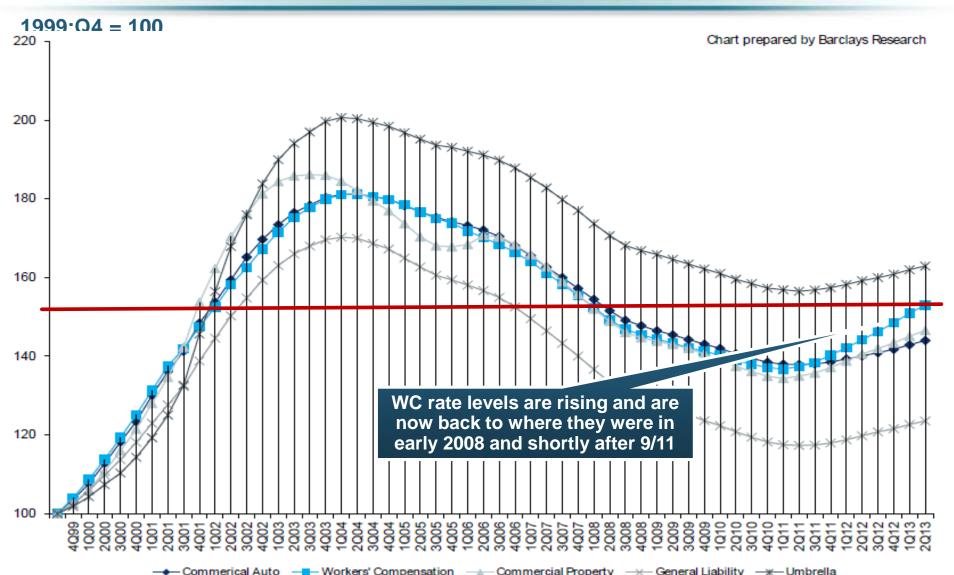
Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2013:Q3





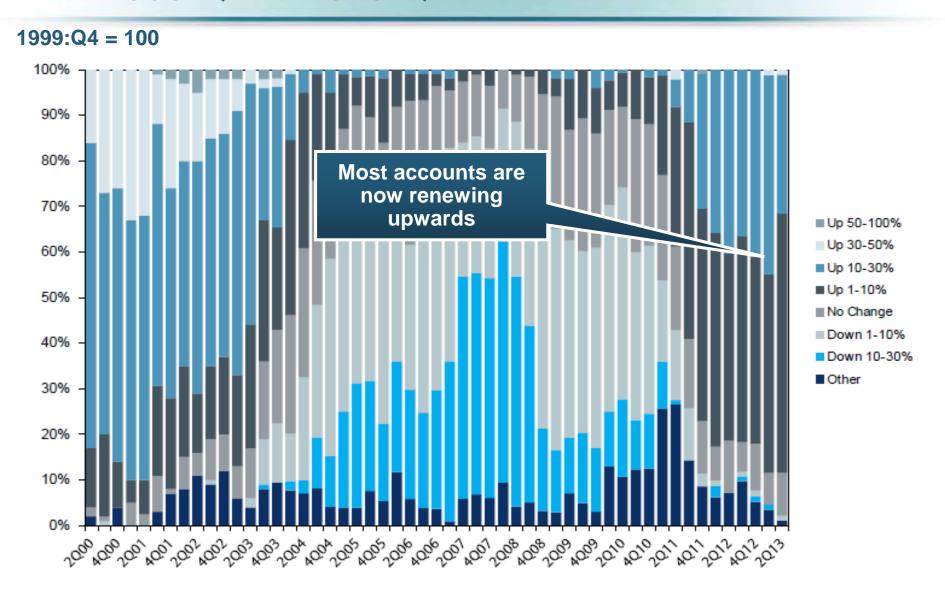
Cumulative Qtrly. Commercial Rate Changes, triby Line: 1999:Q4 to 2013:Q2





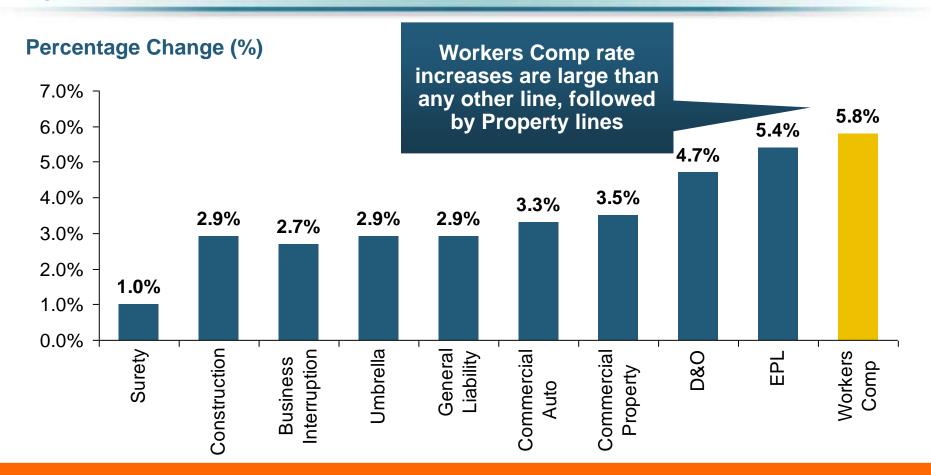
Workers Comp. Quarterly Rate Changes, by Line: 2000:Q1 to 2013:Q2





Change in Commercial Rate Renewals, by Line: 2013:Q3

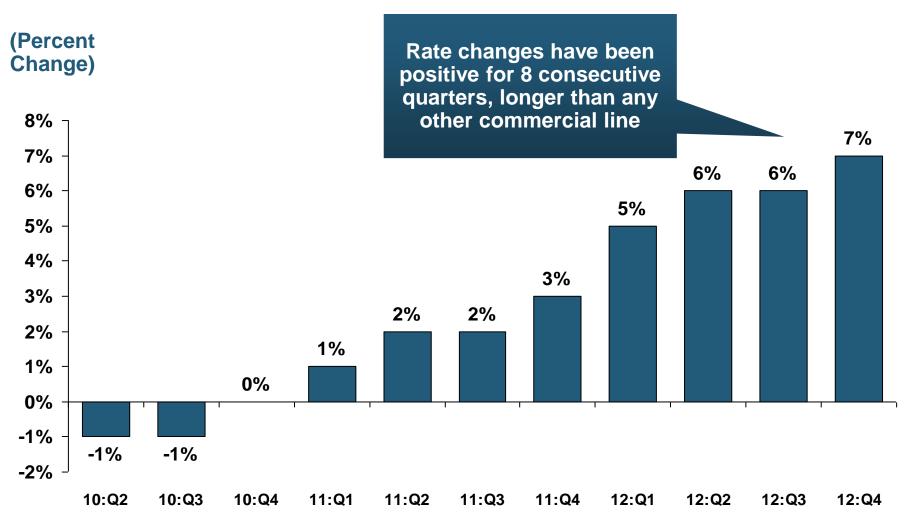




Major Commercial Lines Renewed Uniformly Upward in Q3:2013 for the 9th Consecutive Quarter; Property Lines & Workers Comp Leading the Way; Cat Losses and Low Interest Rates Provide Momentum Going Forward

CLIPS: Change in Written Price Level: All Lines, 2010:Q2 – 2012:Q4



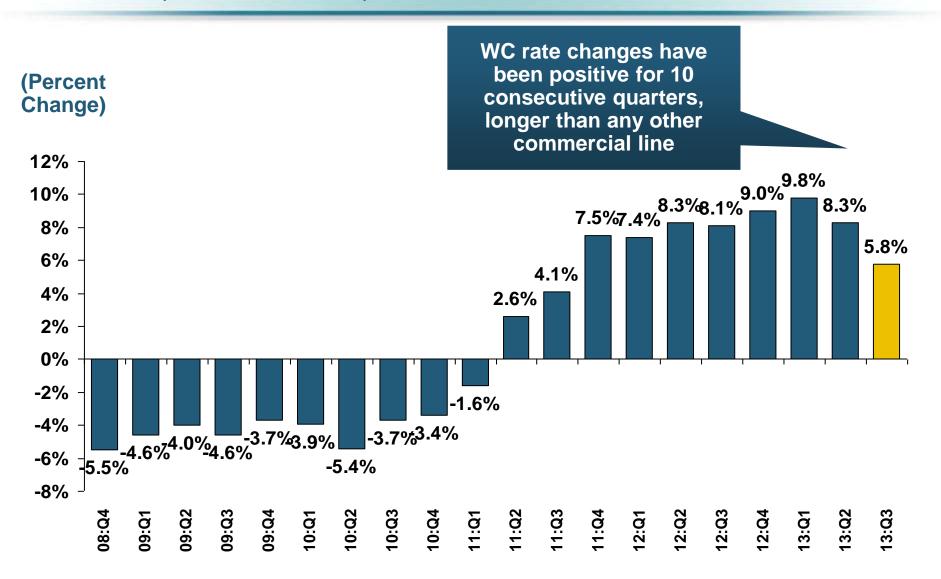


Note: Towers Watson data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.

Source: Towers Watson; Information Institute.

Workers Comp Rate Changes, 2008:Q4 – 2013:Q3





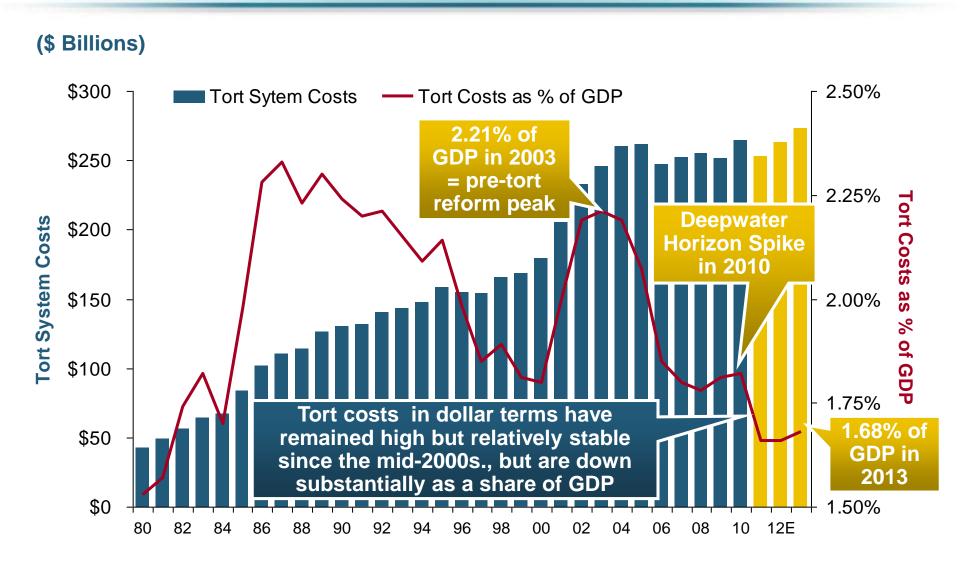


Shifting Legal Liability & Tort Environment

Is the Tort Pendulum Swinging Against Insurers?

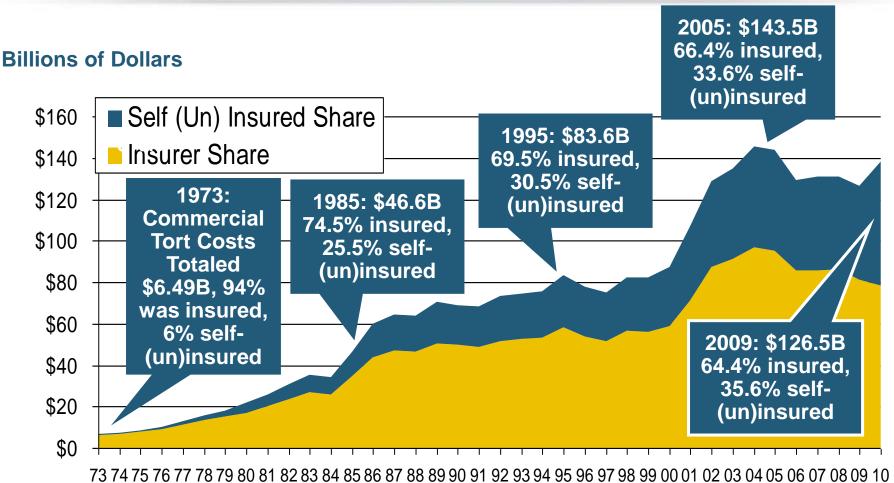
Over the Last Three Decades, Total Tort Costs as a % of GDP Appear Somewhat Cyclical, 1980-2013E





Commercial Lines Tort Costs: Insured vs. Self-(Un)Insured Shares, 1973-2010



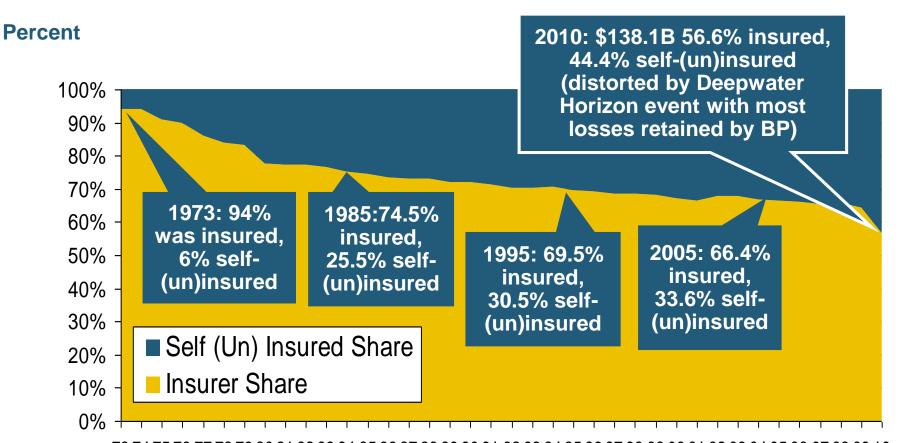


73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10

Tort Costs and the Share Retained by Risks Both Grew Rapidly from the mid-1970s to mid-2000s, When Tort Costs Began to Fall But Self-Insurance Shares Continued to Rise

Commercial Lines Tort Costs: Insured vs. Self-(Un)Insured Shares, 1973-2010





73 74 75 76 77 78 79 80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07 08 09 10

The Share of Tort Costs Retained by Risks Has Been Steadily Increasing for Nearly 40 Years. This Trend Contributes Has Left Insurers With Less Control Over Pricing.

Business Leaders Ranking of Liability Systems in 2012



Best States

- Delaware
- Nebraska
- 3. Wyoming
- 4. Minnesota
- 5. Kansas
- 6. Idaho
- 7. Virginia
- 8. North Dakota

9. Utah

10. Iowa

New in 2012

- Wyoming
- Minnesota
- Kansas
- Idaho

Drop-offs

- Indiana
- Colorado
- Massachusetts
- South Dakota

Worst States

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

Newly Notorious

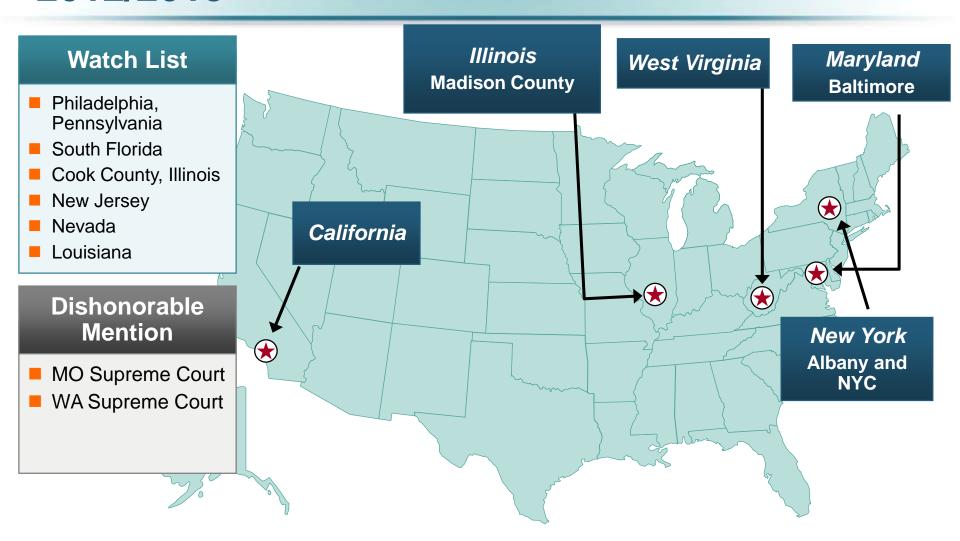
Oklahoma

Rising Above

Arkansas

The Nation's Judicial Hellholes: 2012/2013







CYBER RISK

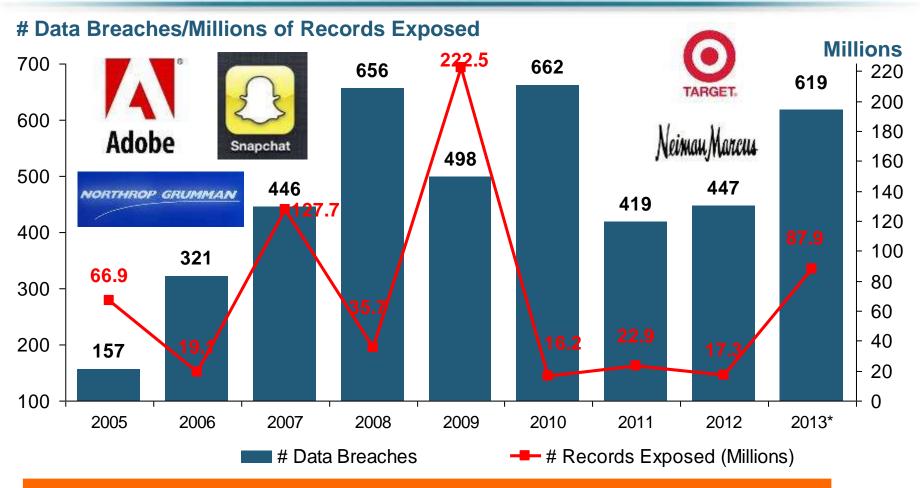
Cyber Risk is a Rapidly Emerging Exposure for Businesses Large and Small in Every Industry

NEW III White Paper:

http://www.iii.org/assets/docs/pdf/paper_CyberRisk_2013.pdf

Data Breaches 2005-2013, by Number of Breaches and Records Exposed





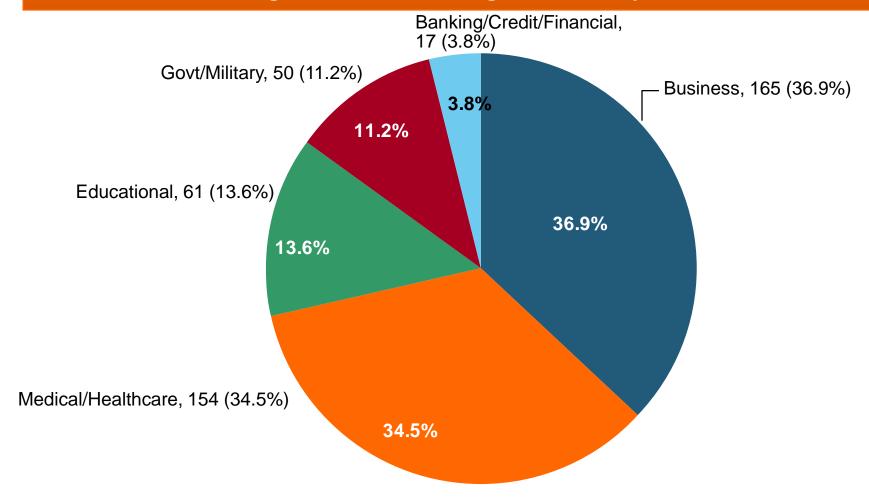
The Total Number of Data Breaches (+38%) and Number of Records Exposed (+408%) in 2013 Soared

^{* 2013} figures as of Jan. 1, 2014 from the ITRC updated to an additional 30 million records breached (Target) as disclosed in Jan. 2014. Source: Identity Theft Resource Center.

2012 Data Breaches By Business Category, By Number of Breaches



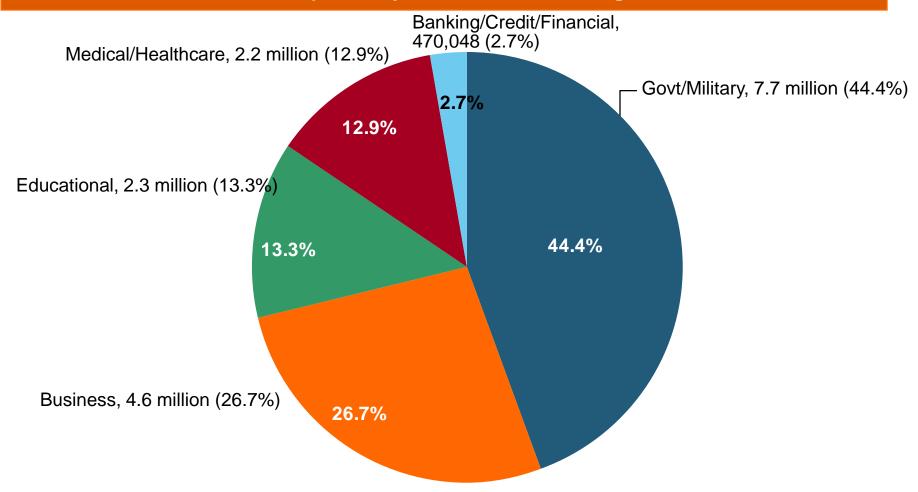
The majority of the 447 data breaches in 2012 affected business and medical/healthcare organizations, according to the Identity Theft Resource Center.



2012 Data Breaches By Category, By Number of Records Exposed



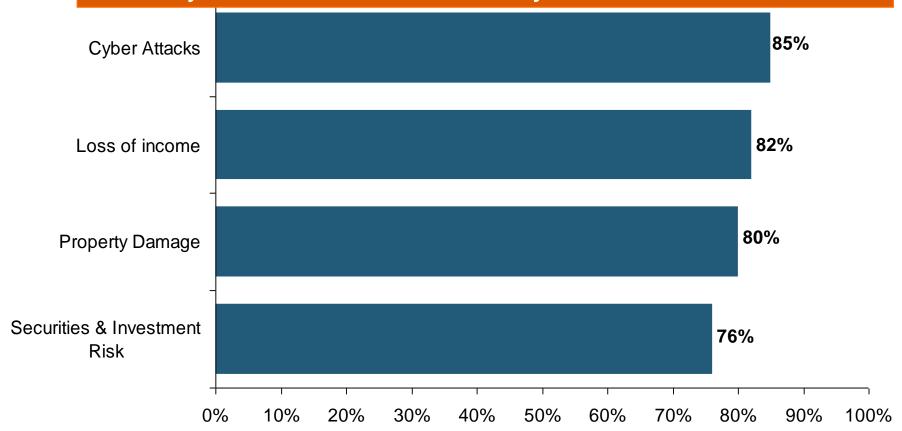
Government/Military and Business organizations accounted for the majority of records exposed by data breaches during 2012.



AIG Survey: Cyber Attacks Top Concern Among Execs



While companies are focused on managing a variety of business risks, cyber attacks are a top concern. Some 85% of 258 executives surveyed said they were very or somewhat concerned about cyber attacks on their businesses.

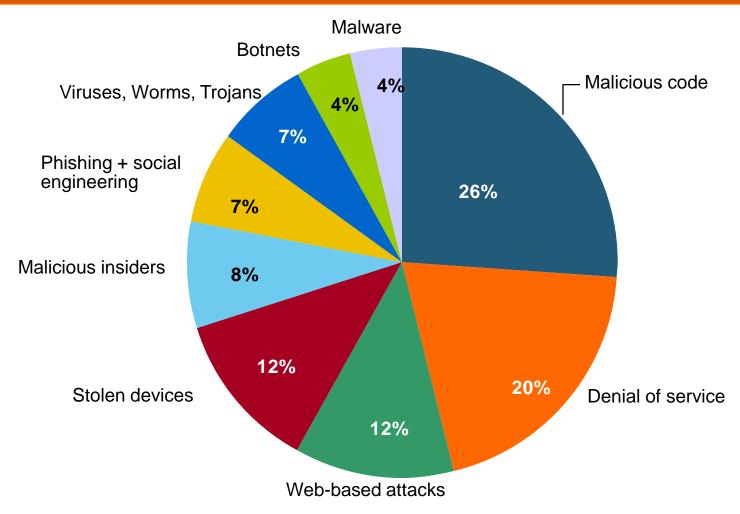


Source: Penn Schoen Berland on behalf of American International Group.

The Most Costly Cyber Crimes, Fiscal Year 2012



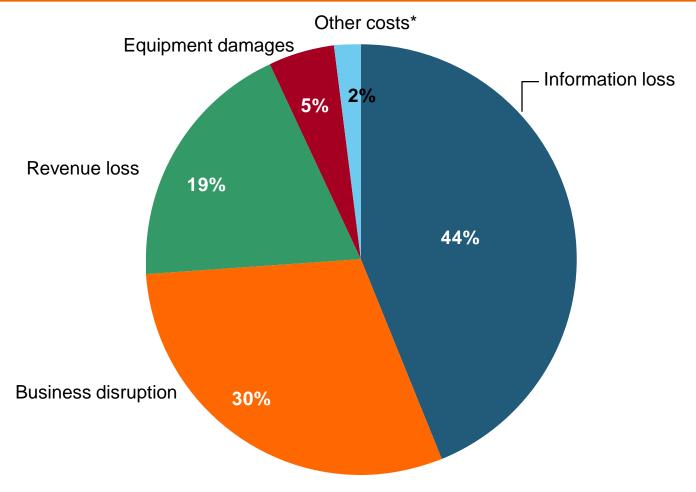
Malicious code, denial of service and web-based attacks account for more than 58 percent of the total annualized cost of cyber crime experienced by 56 companies.



External Cyber Crime Costs: Fiscal Year 2012



Information loss (44%) and business disruption or lost productivity (30%) account for the majority of external costs due to cyber crime.



^{*} Other costs include direct and indirect costs that could not be allocated to a main external cost category Source: 2012 Cost of Cyber Crime: United States, Ponemon Institute.

High Profile Data Breaches, 2012-2013



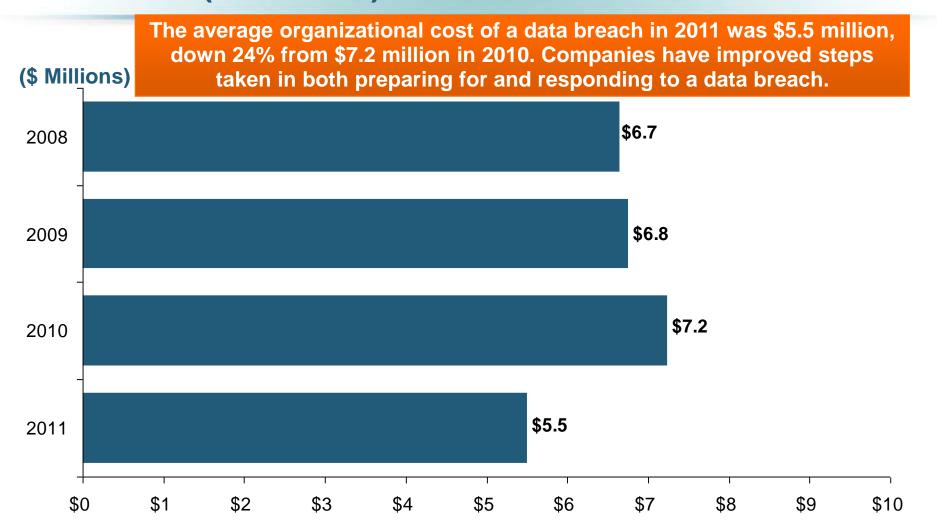
Date	Company	Description of Breach
Mar 2013*	South Korean banks, media cos	Cyber attack causes computers to crash at South Korean banks and media companies, paralyzing bank machines across the country. No immediate reports of records compromised.
July 2012	Yahoo	Security breach at Yahoo in which some 450,000 passwords lifted and posted to the Internet.
July 2012	eHarmony	Online dating site eHarmony confirms security breach in which some 1.5 million user names and passwords compromised.
July 2012	LinkedIn	Social networking site LinkedIn reportedly targeted in hacker attack that saw 6.5 million hashed passwords posted to the Internet.
April 2012	Utah Dept of Technology Services	Utah Department of Technology notifies of a March 30 breach of a server containing personal data including social security numbers for about 780,000 Medicaid patient claims. Breach traced to Eastern Europe hackers.
Mar 2012	Global Payments	Credit card processor Global Payments confirms hacker attack has compromised the payment card numbers of around 1.5 million cardholders.
Mar 2012	CA Dept of Child Support Services	Officials announce that four computer storage devices containing personal information for about 800,000 adults and children in California's child support system were lost by IBM and Iron Mountain Inc.
Jan 2012	Zappos	Online shoe retailer Zappos announces that information, such as names, addresses and passwords on as many as 24 million customers illegally accessed.
Jan 2012	NY State Electric + Gas Co	Security breach at NYSEG that allowed unauthorized access to NYSEG customer data, containing social security numbers, dates of birth and bank account numbers, exposing 1.8 million records.

^{*}March 2013 attack is not part of ITRC research.

Sources: Identity Theft Resource Center, http://www.idtheftcenter.org/ITRC%20Breach%20Report%202012.pdf; Insurance Information Institute (I.I.I.) research.

Average Organizational Cost of a Data Breach, 2008-2011* (\$ Millions)





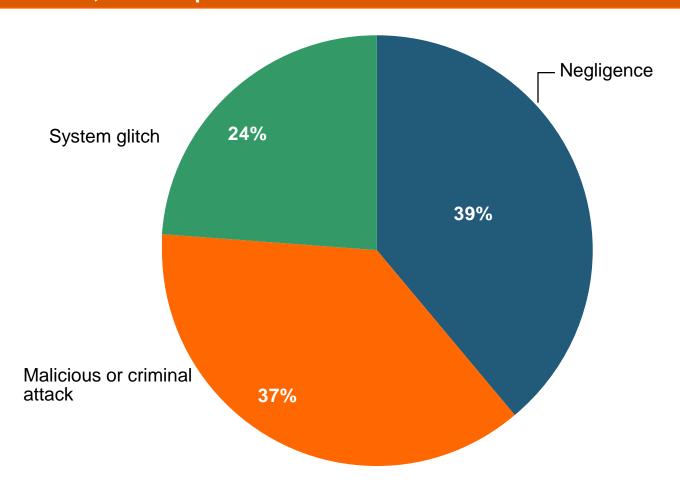
^{*}Findings of this benchmark study pertain to the actual data breach experiences of 49 U.S. companies from 14 different industry sectors, all of which participated in the 2011 study. Total breach costs include: lost business resulting from diminished trust or confidence of customers; costs related to detection, escalation, and notification of the breach; and ex-post response activities, such as credit report monitoring.

Source: 2011 Annual Study: U.S. Cost of a Data Breach, the Ponemon Institute.

Main Causes of Data Breach



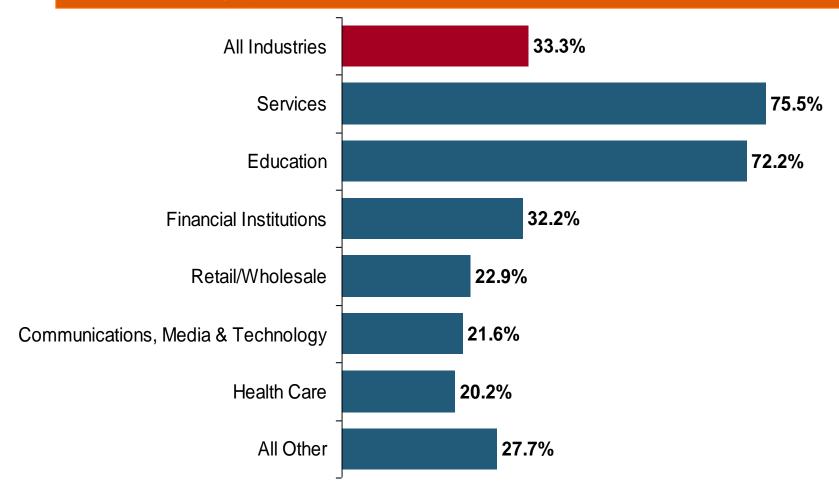
Negligent employees and malicious attacks are most often the cause of the data breach. Some 39 percent of incidents involve a negligent employee or contractor, while 37 percent concern a malicious or criminal attack.



Marsh: Increase in Purchase of Cyber Insurance Among U.S. Companies, 2012



Interest in cyber insurance continues to climb. The number of companies purchasing cyber insurance increased 33 percent from 2011 to 2012.

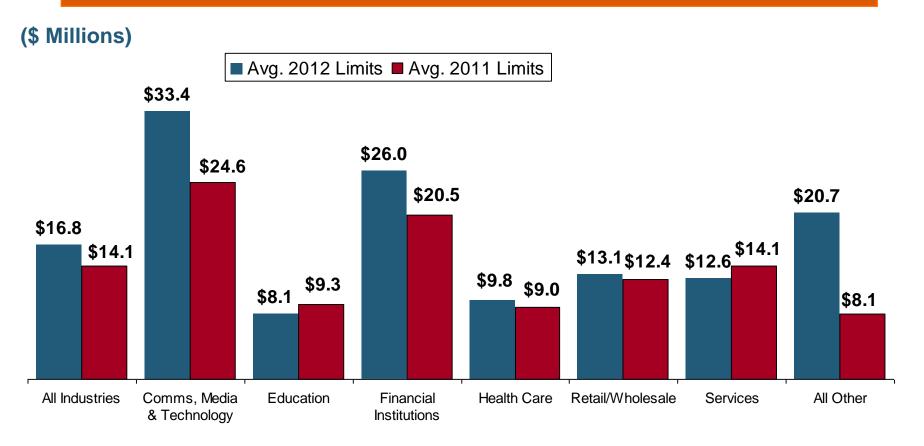


Source: Marsh Global Analytics, Marsh Risk Management Research Briefing, March 2013

Marsh: Total Limits Purchased, By Industry – Cyber Liability, All Revenue Size



Cyber insurance limits purchased in 2012 averaged \$16.8 million across all industries, an increase of nearly 20% over 2011.

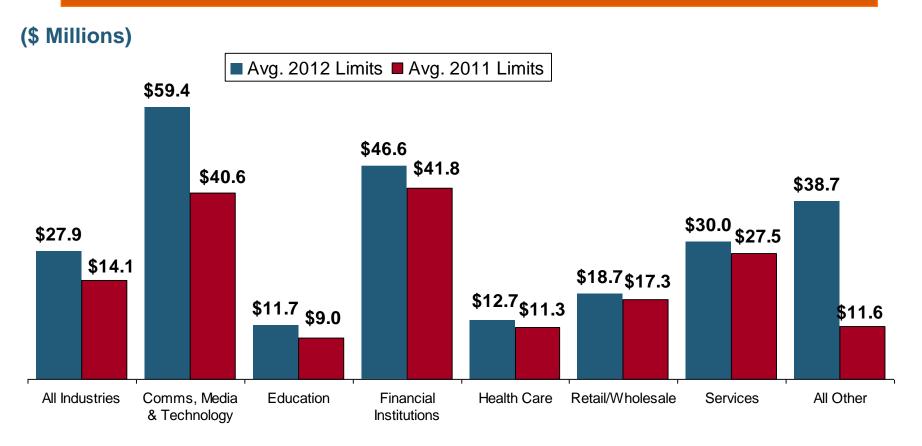


Source: Marsh Global Analytics, Marsh Risk Management Research Briefing, March 2013

Marsh: Total Limits Purchased, By Industry – Cyber Liability, Revenue \$1 Billion+



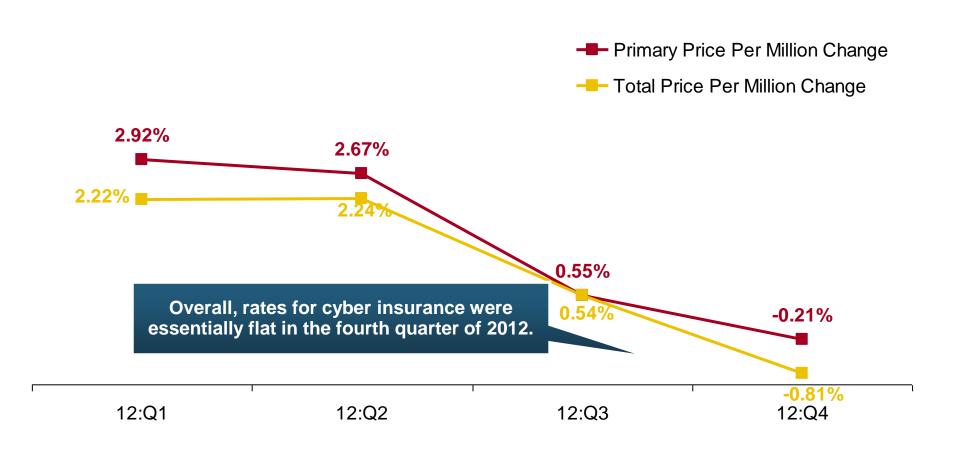
Among larger companies, average cyber insurance limits purchased in 2012 increased nearly 30% over 2011.



Source: Marsh Global Analytics, Marsh Risk Management Research Briefing, March 2013

Cyber Liability: Historical Rate (price per million) Changes







Insurance Information Institute Online:

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