



After the Crisis: Workers Compensation Overview and Outlook for 2011 & Beyond

**Business Insurance Virtual
Workers Compensation Conference
Keynote Presentation**

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■ Workers Compensation and the Economy

- ◆ Regional Differences in Recession and Recovery
- ◆ Labor Markets: Overview & Outlook
- ◆ Payroll/Employment Exposure Trends

■ Workers Compensation Operating Environment

- ◆ Premium & Rate Trends
- ◆ Profitability
- ◆ Underwriting Performance
- ◆ Medical & Indemnity Claim Cost Trends
- ◆ Residual Market and State Fund Market Share and Performance
- ◆ Investment Market Impacts

■ P/C Insurance Industry Overview

■ The Global Economic Storm: Financial Crisis & Recession

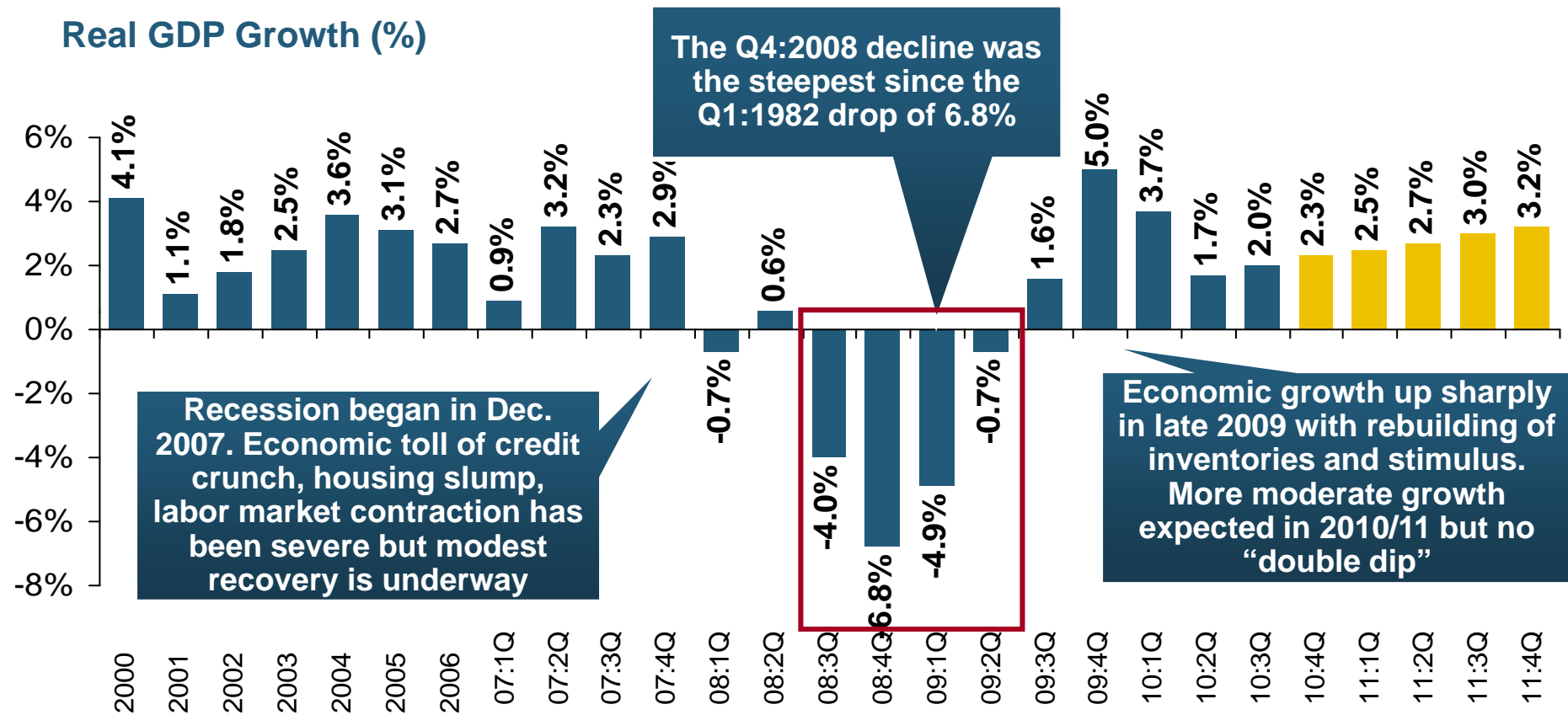
- ◆ Crisis-Driven Exposure Issues: Commercial Lines
- ◆ Exposure, Growth & Profitability

Workers Compensation and the Economy

**Workers Comp Exposure and
Performance is Intimately Linked to
the Economy and Labor Market**

US Real GDP Growth*

Real GDP Growth (%)



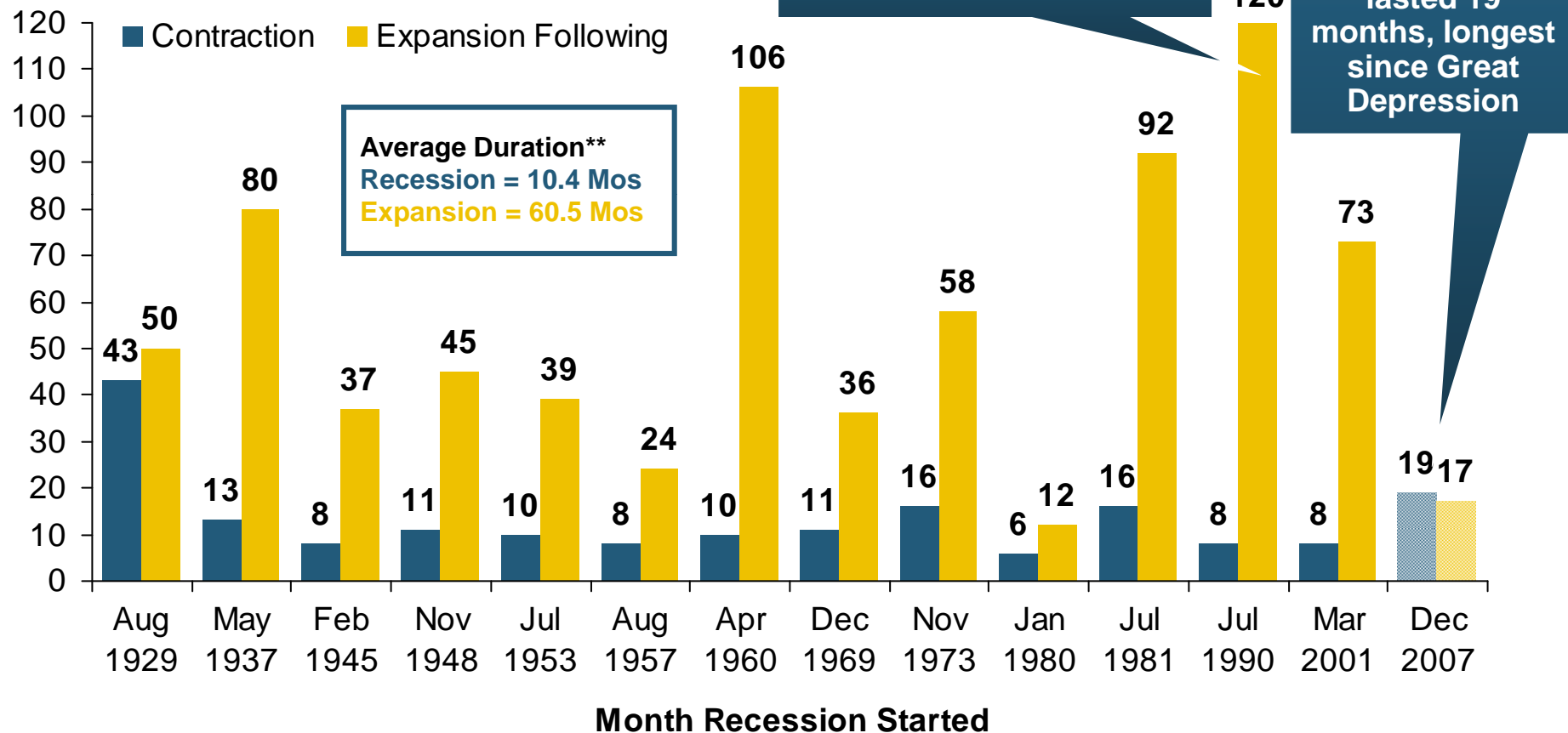
Demand Commercial Insurance Continues To Be Impacted by Sluggish Economic Conditions, but the Benefits of Even Slow Growth Will Compound and Gradually Benefit the Economy Broadly

* Estimates/Forecasts from Blue Chip Economic Indicators.

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

Length of US Business Cycles, 1929–Present*

Duration (Months)



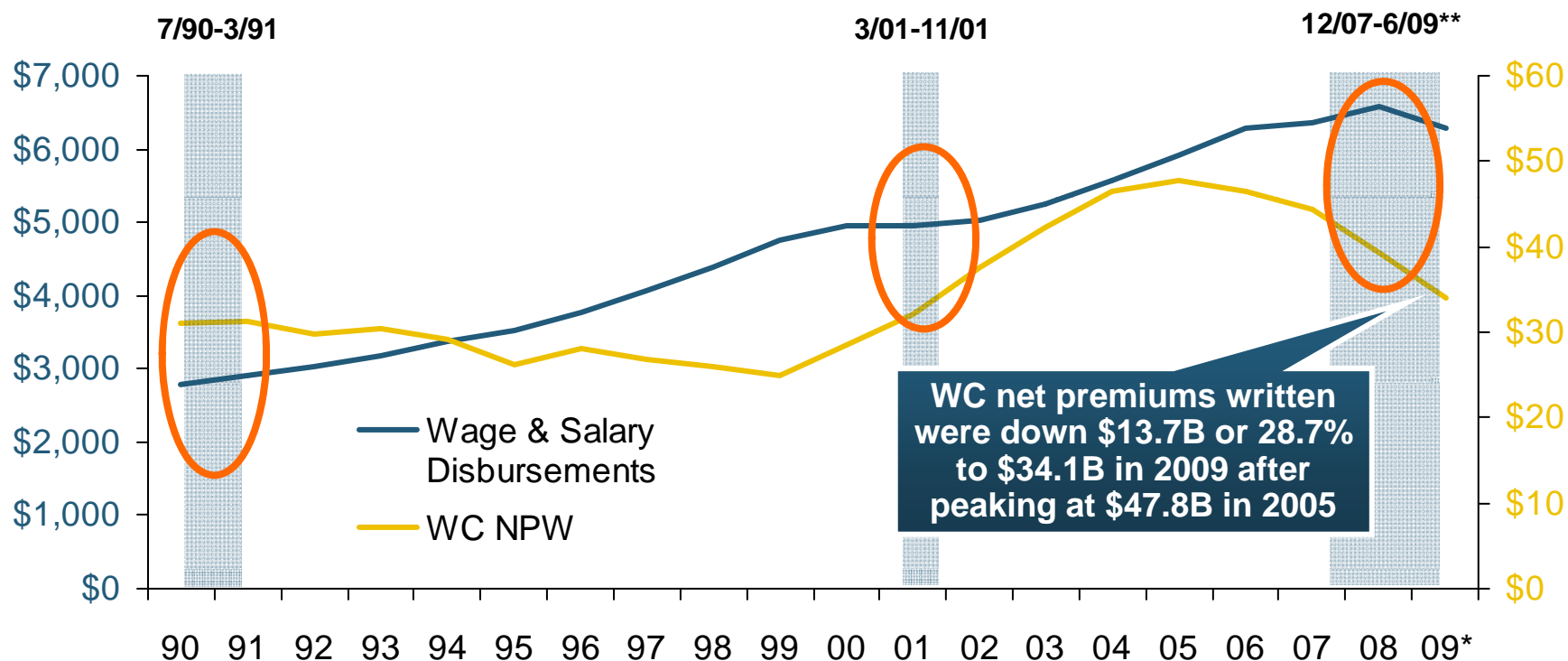
*Through Nov. 2010. Most recent recession began Dec. 2007 and ended June 2009.

** Post-WW II period through end of most recent expansion.

Sources: National Bureau of Economic Research; Insurance Information Institute.

Wage & Salary Disbursements (Payroll Base) vs. Workers Comp Net Written Premiums

Wage & Salary Disbursement (Private Employment) vs. WC NWP (\$ Billions)



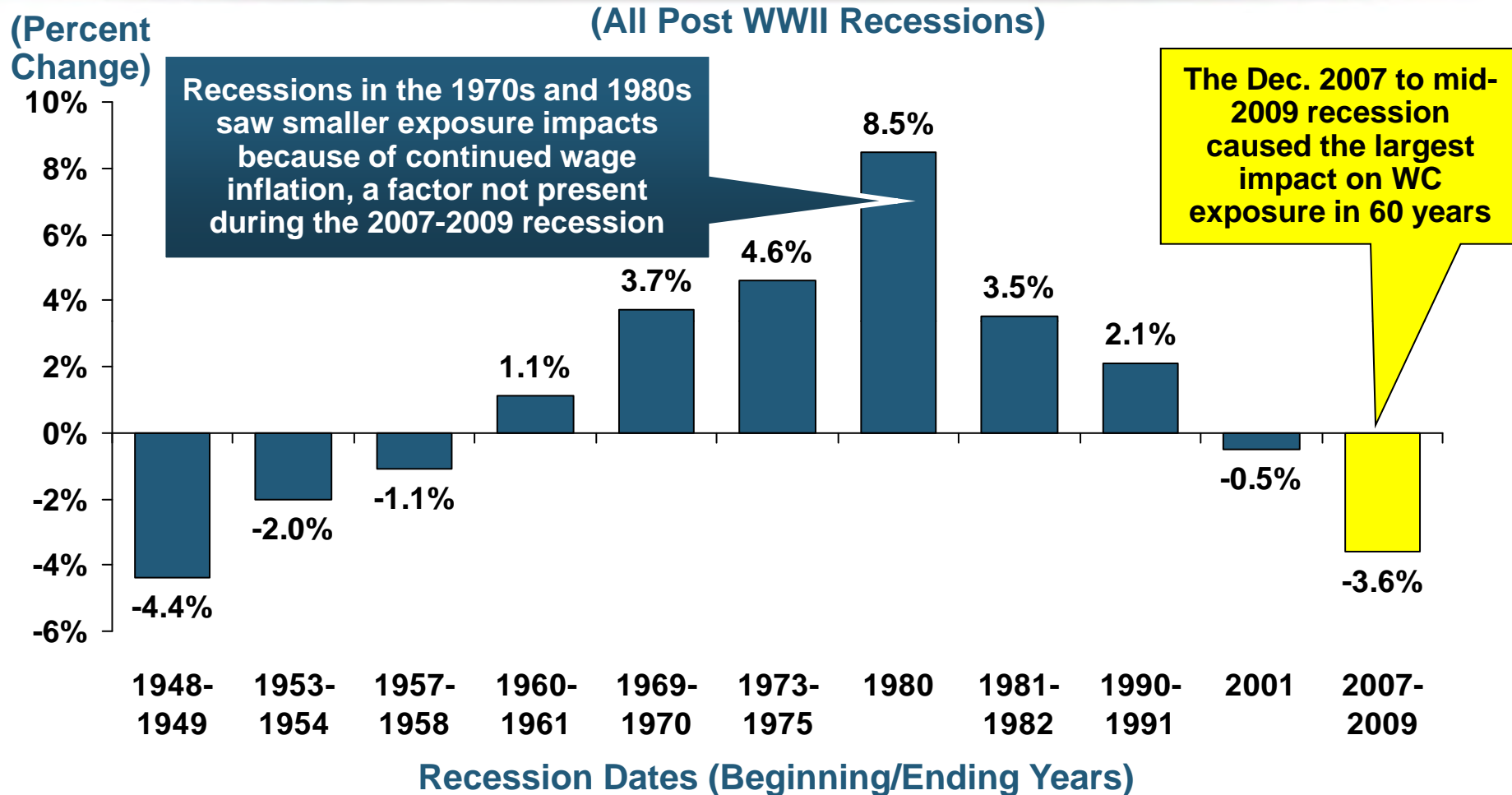
Weakening Payrolls Have Eroded \$2B+ in Workers Comp Premiums; Nearly 29% of NPW Has Been Eroded Away by the Soft Market and Weak Economy

* Average Wage and Salary data as of 10/1/2009. Shaded areas indicate recessions.

**Estimated "official" end of recession June 2009.

Source: US Bureau of Economic Analysis; Federal Reserve Bank of St. Louis at <http://research.stlouisfed.org/fred2/series/WASCUR> ; I.I.I. Fact Books

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



*Data represent maximum recorded decline over 12-month period using annualized quarterly wage and salary accrual data
Source: Insurance Information Institute research; Federal Reserve Bank of St. Louis (wage and salary data); National Bureau of Economic Research (recession dates).

Contributions to WC Net Written Premium Decline

Calendar Years 2007–2009

2-Year Change in Countrywide NWP

-23%

Known Pricing Impacts

Change in Bureau Rates and Loss Costs **-7%**

Change in Carrier Pricing **-4%**

Economic Impacts

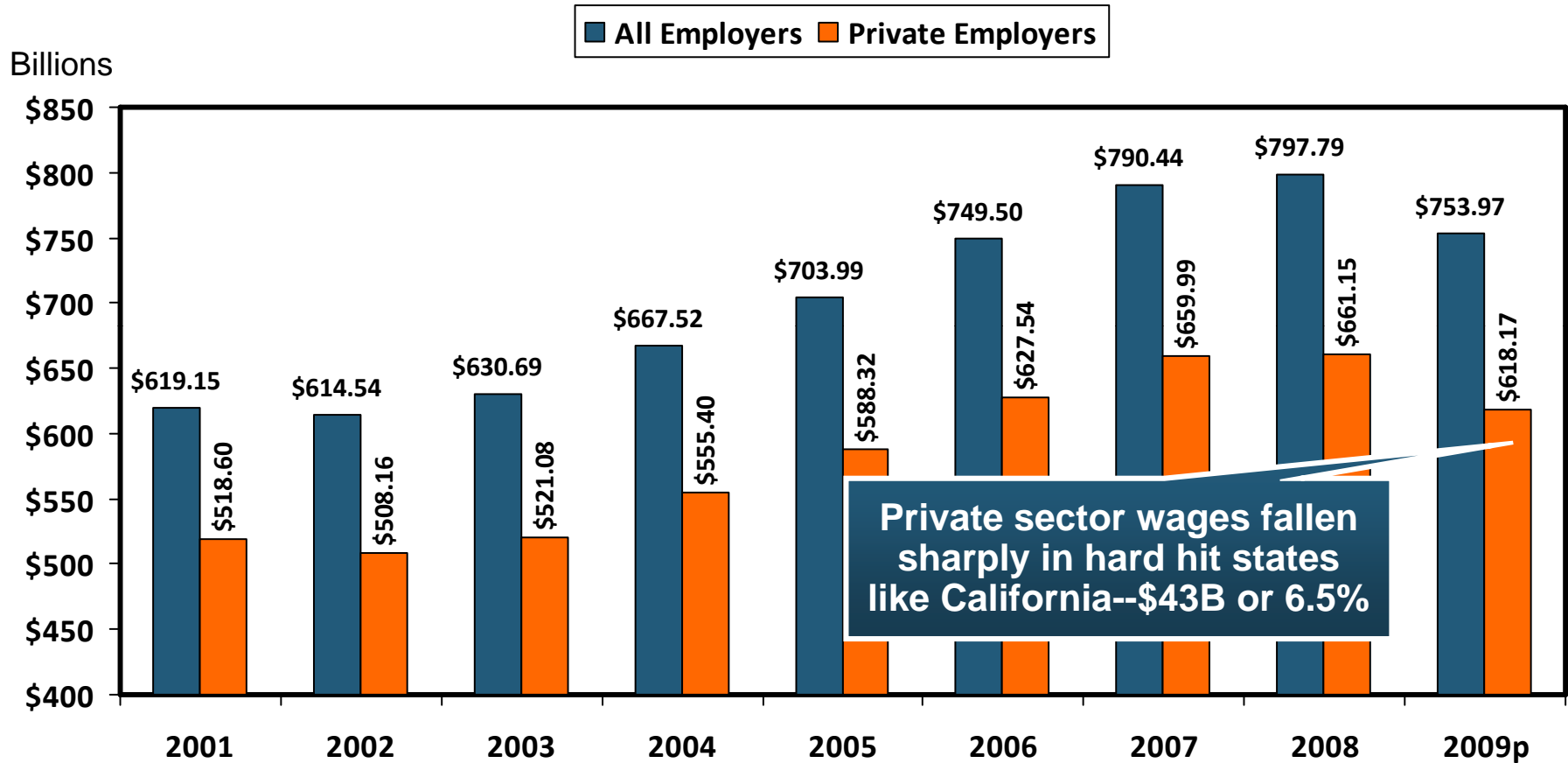
Change in Total Payroll **-4%**

Impact of Recession on Industry Group Mix **-4% to -6%**

Impact of Recession by Firm Size **-4% to -6%**

Other Impacts **+1% to -2%**

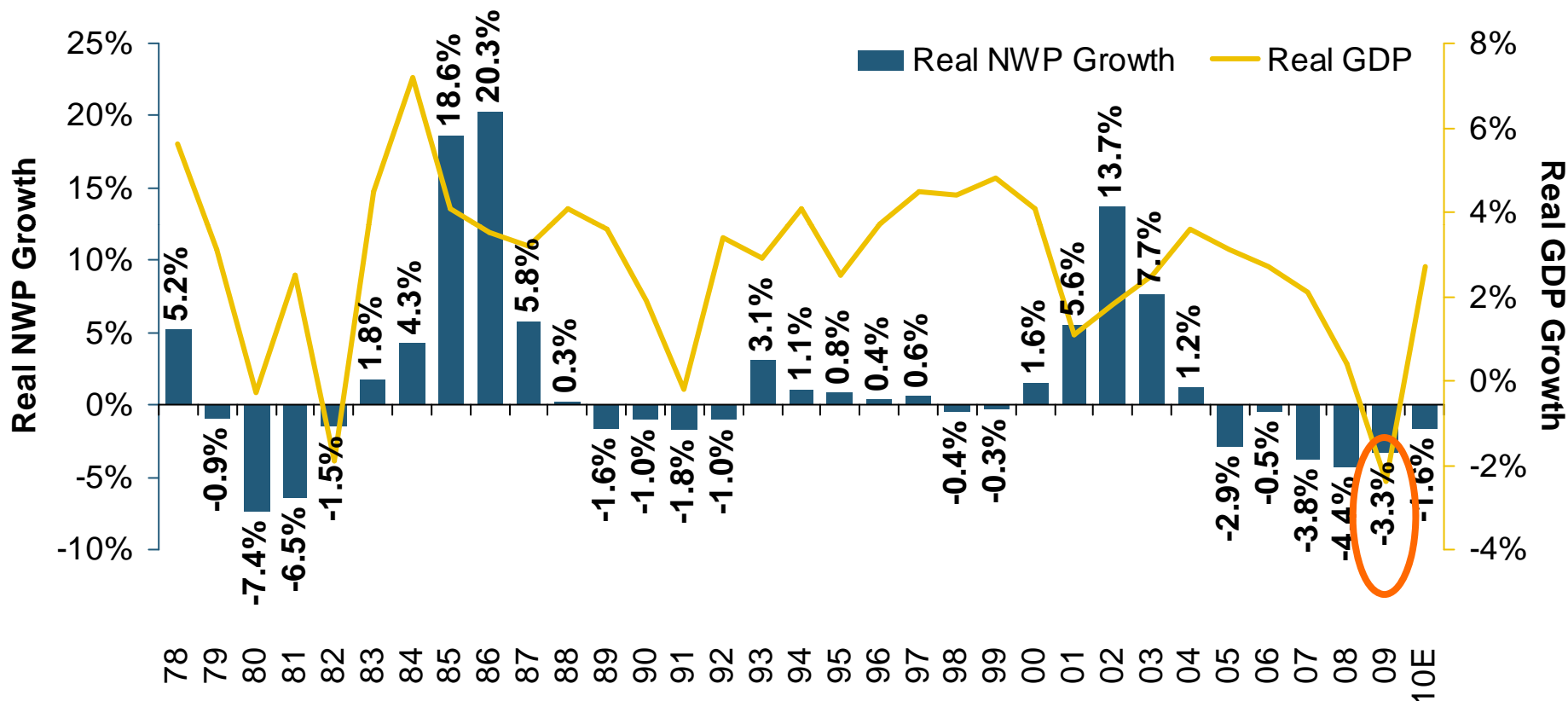
Total Wages, California 2001-2009



Recessions Cause Payrolls to Shrink. The 2001 Recession Saw a 2.0% Decline in Private Wages; the 2008-09 Dropoff was 6.3%.

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

Real GDP Growth vs. Real P/C (%)



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

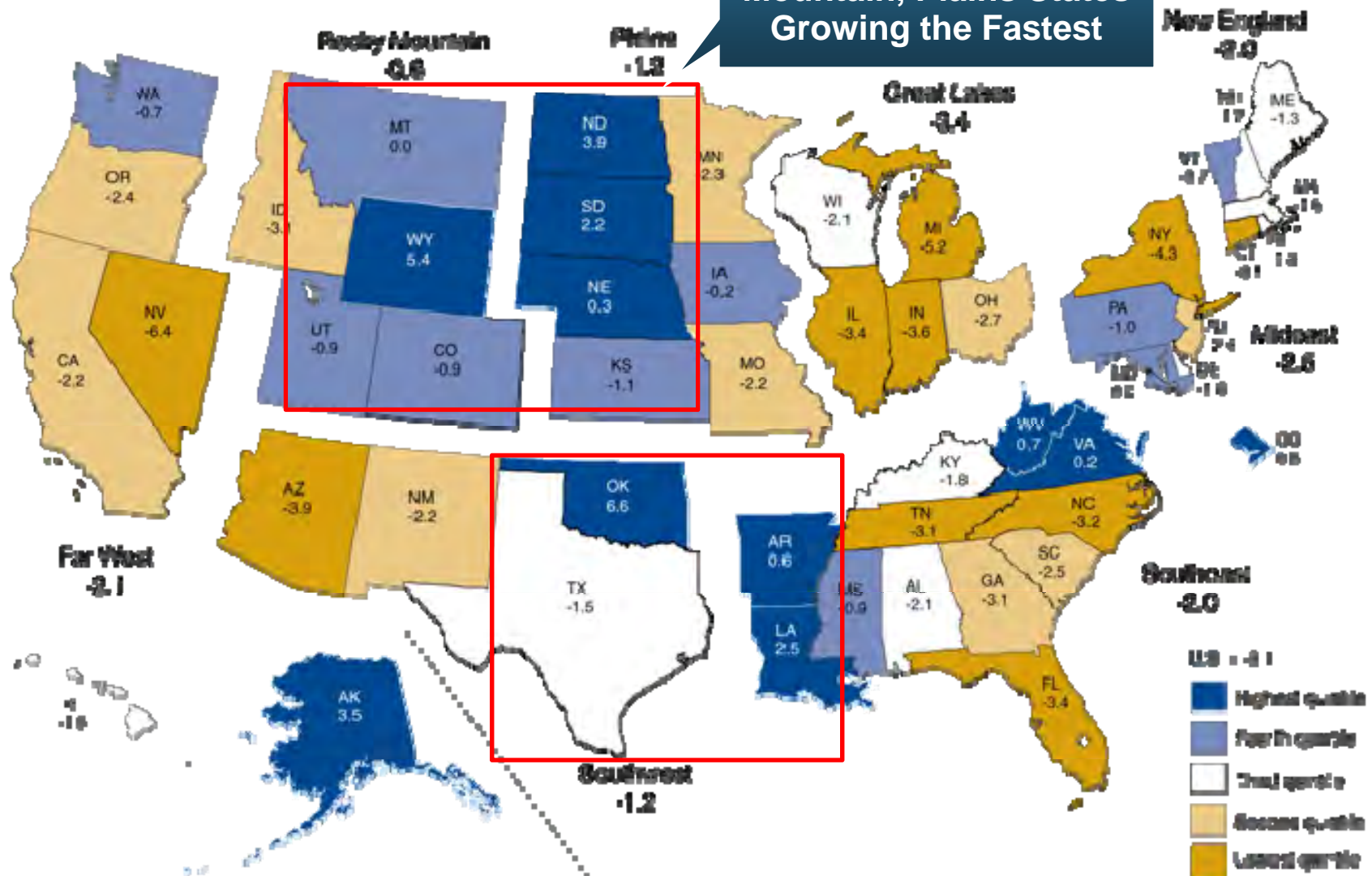
Regional Differences Will Significantly Impact P/C Markets

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

Fastest Growing States in 2009: Plains, Mountain States Lead

Real State GDP Growth (%)

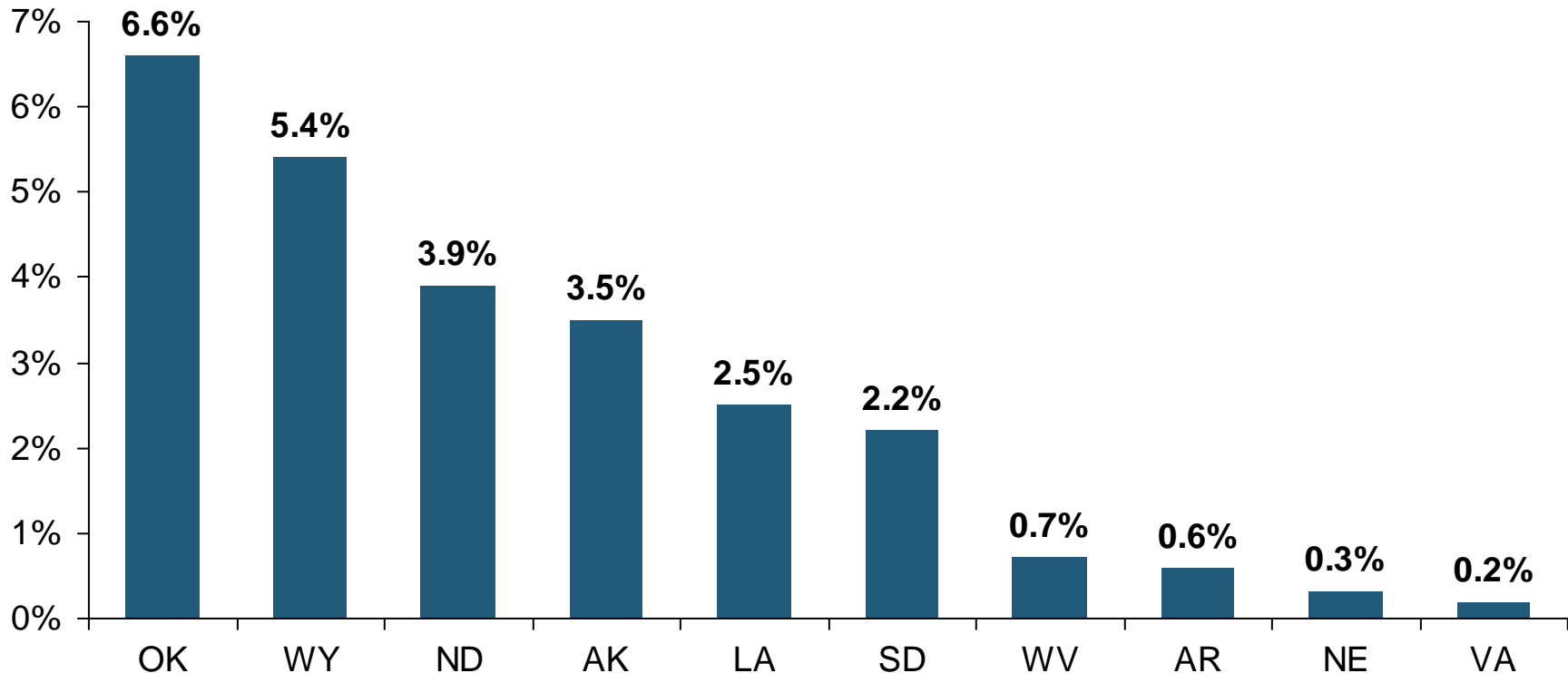
Mountain, Plains States
Growing the Fastest



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

Fastest Growing States in 2009: Plains, Oil States Lead

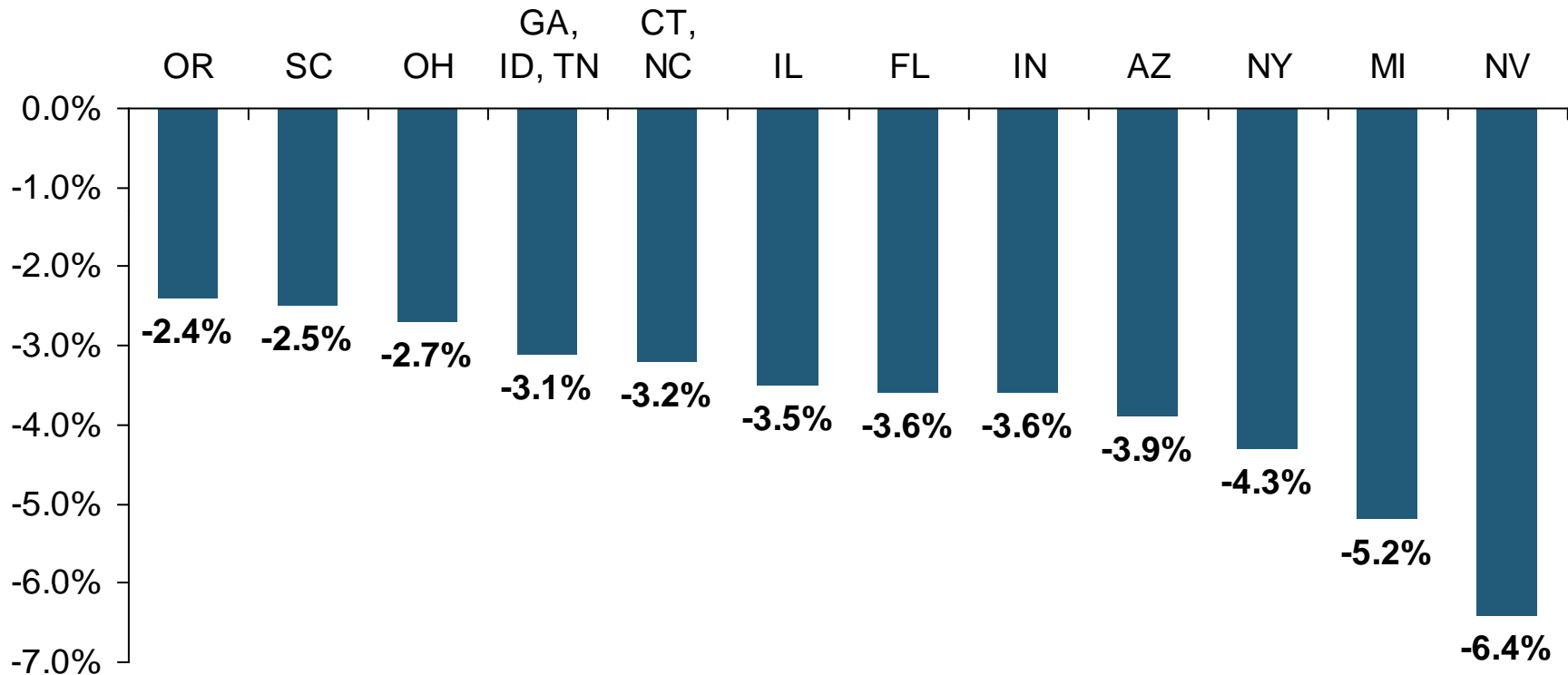
Real State GDP Growth (%)



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

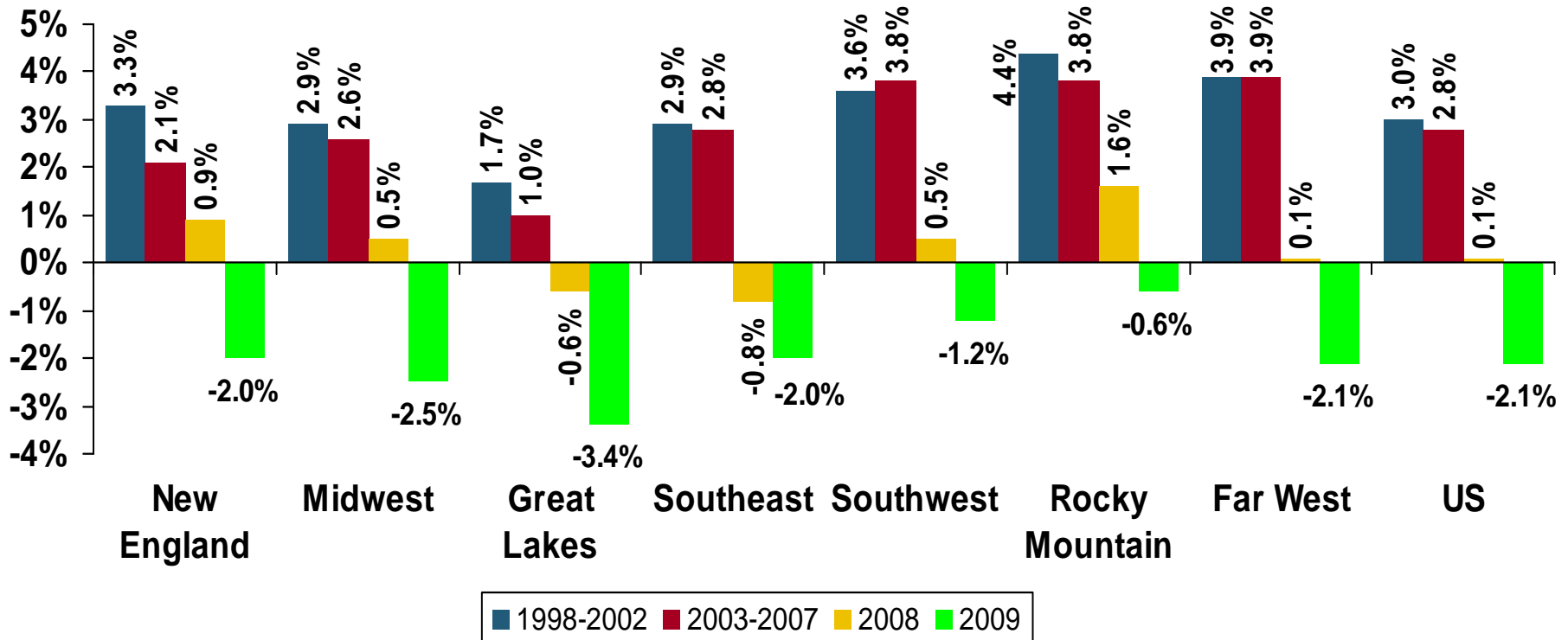
Slowest Growing States in 2009: Diversity of States Suffering

Real State GDP Growth (%)



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

Real GDP Growth by Region: 1998 - 2009



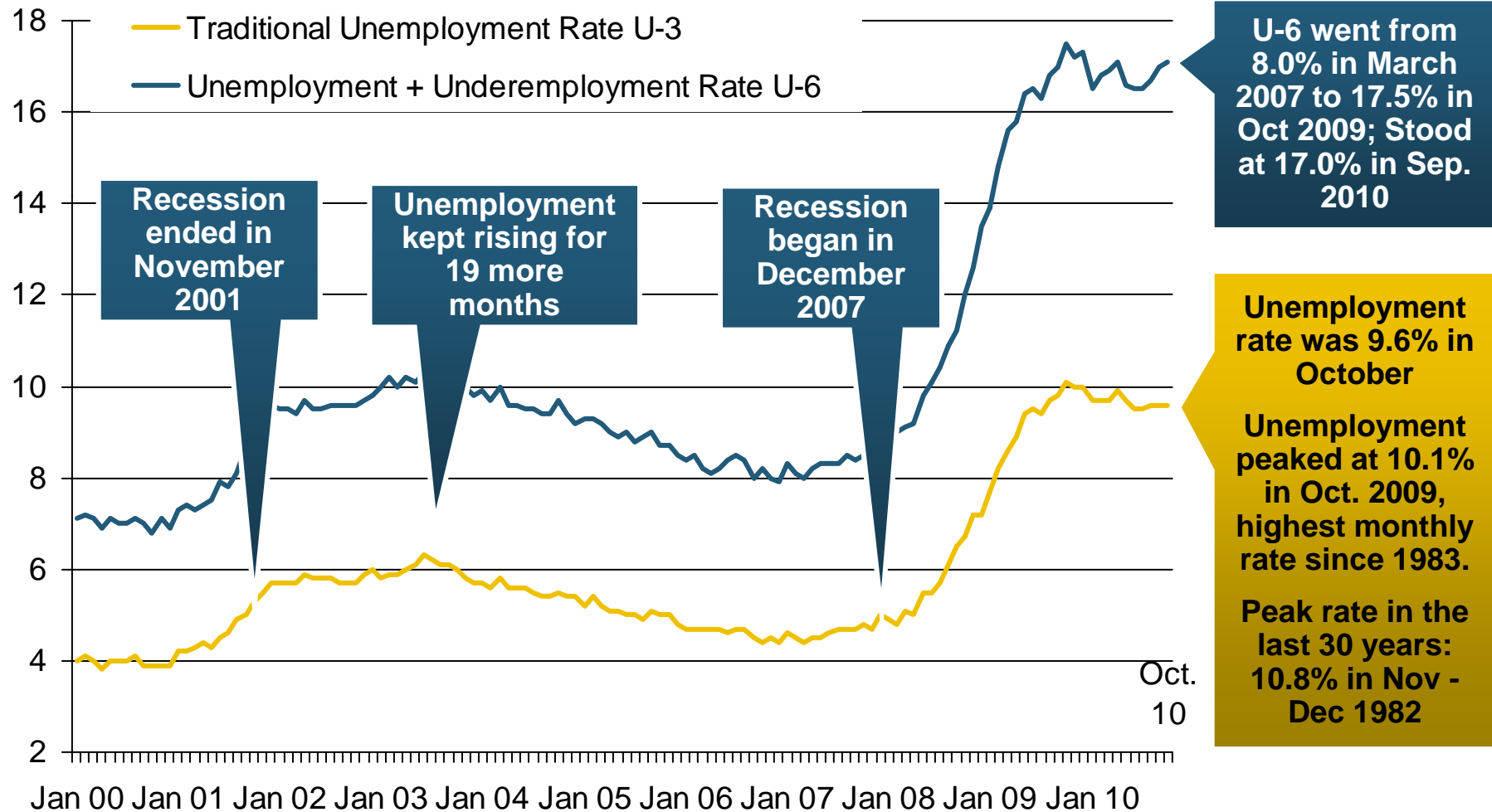
The intensity and duration of the “Great Recession” affected each region of the country differently, impacting the demand for insurance. The Great Lakes region suffered the most whereas the Mountain states fared the best.

Labor Market Trends

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

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

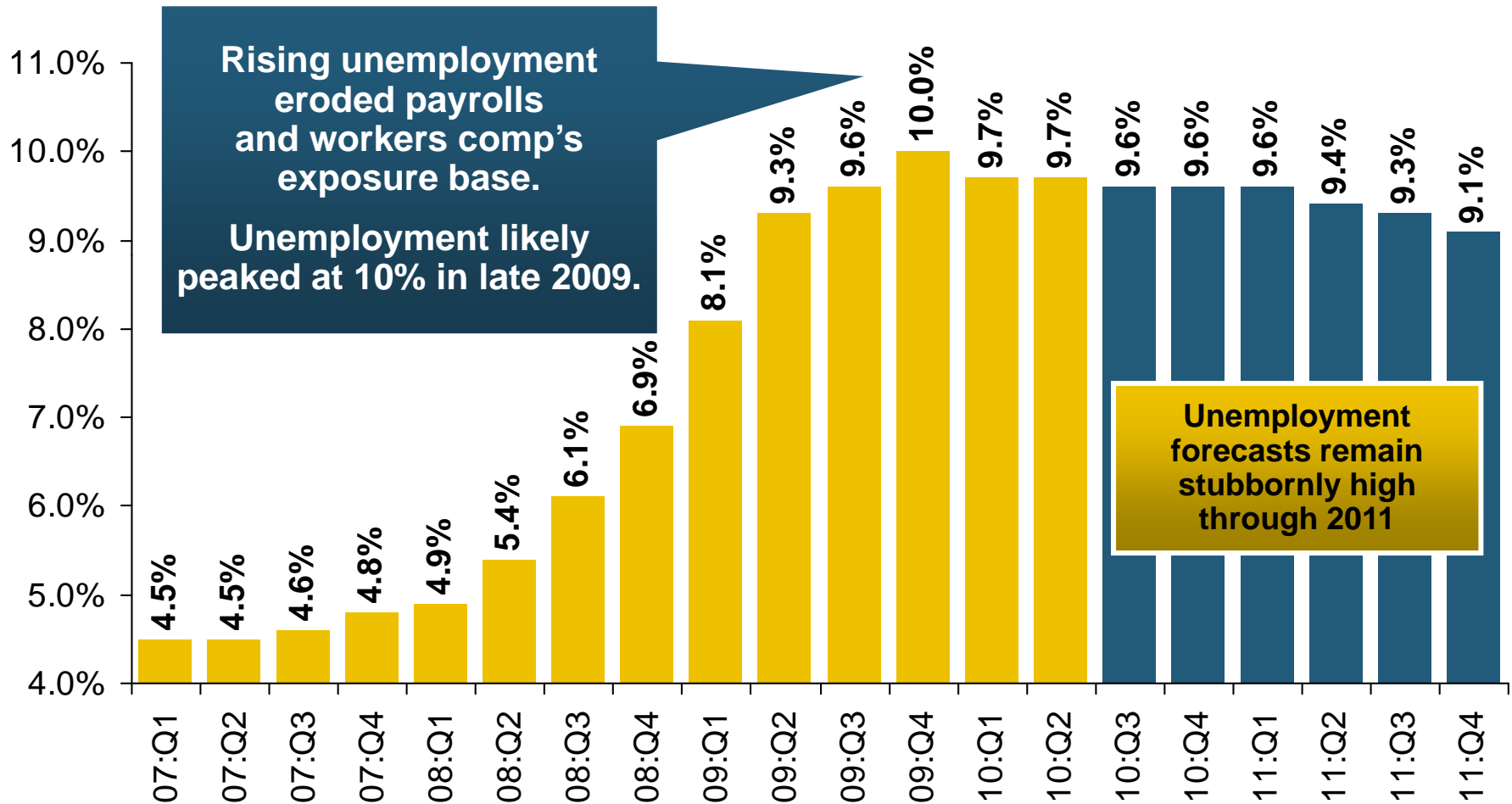
January 2000 through October 2010, Seasonally Adjusted (%)



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

US Unemployment Rate

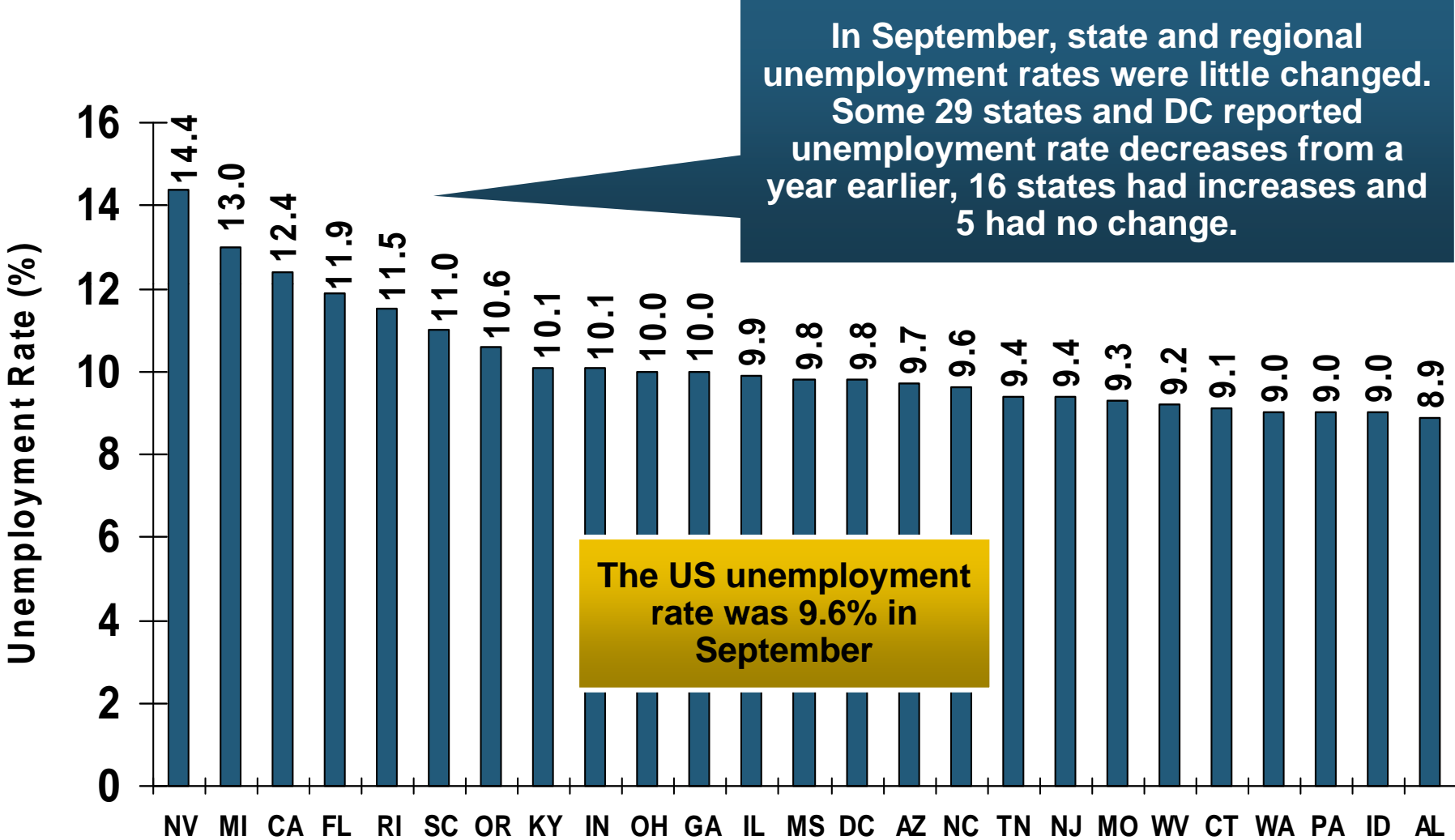
2007:Q1 to 2011:Q4F*



* ■ = actual; ■ = forecasts

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

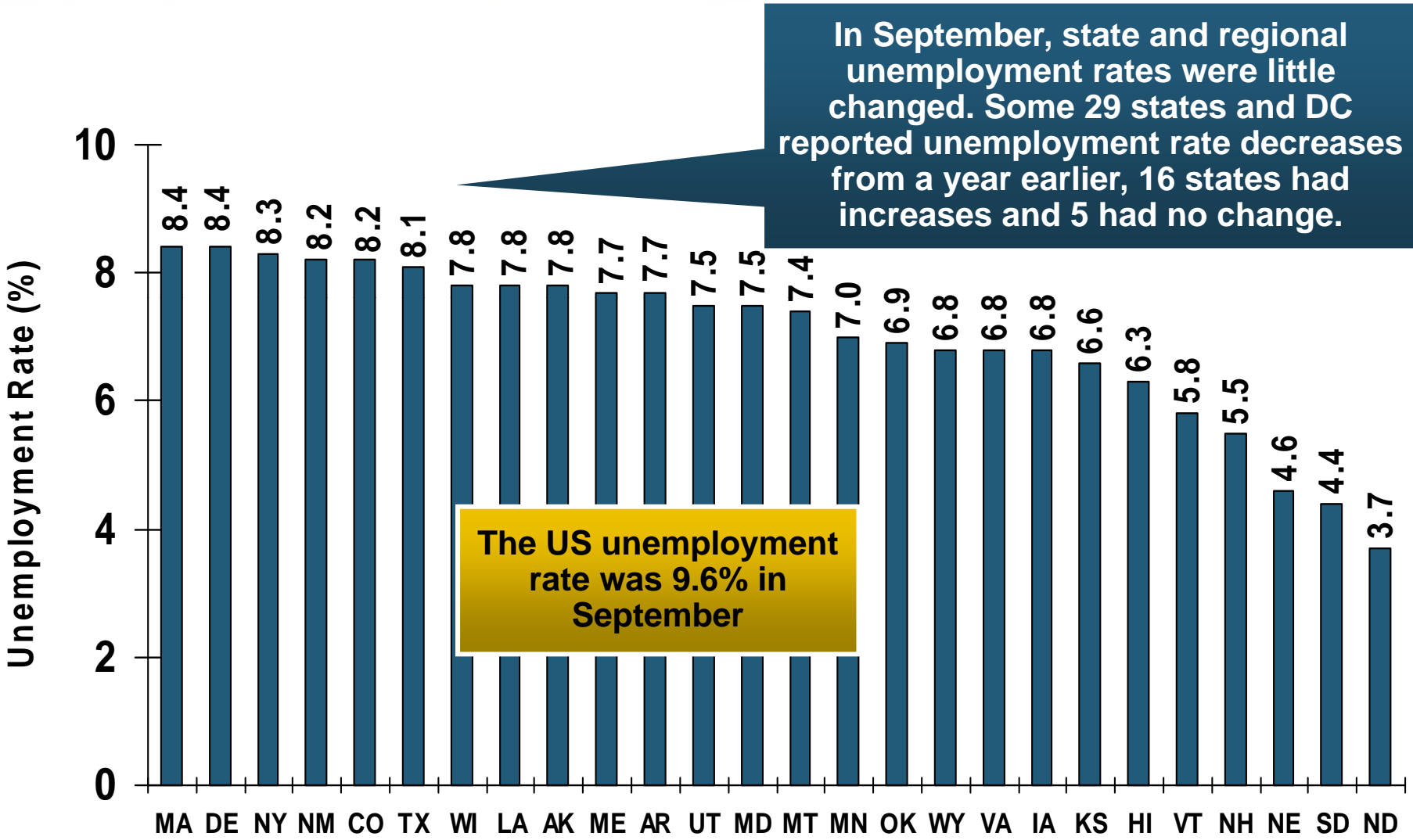
Unemployment Rates by State, September 2010: Highest 25 States*



*Provisional figures for September 2010, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

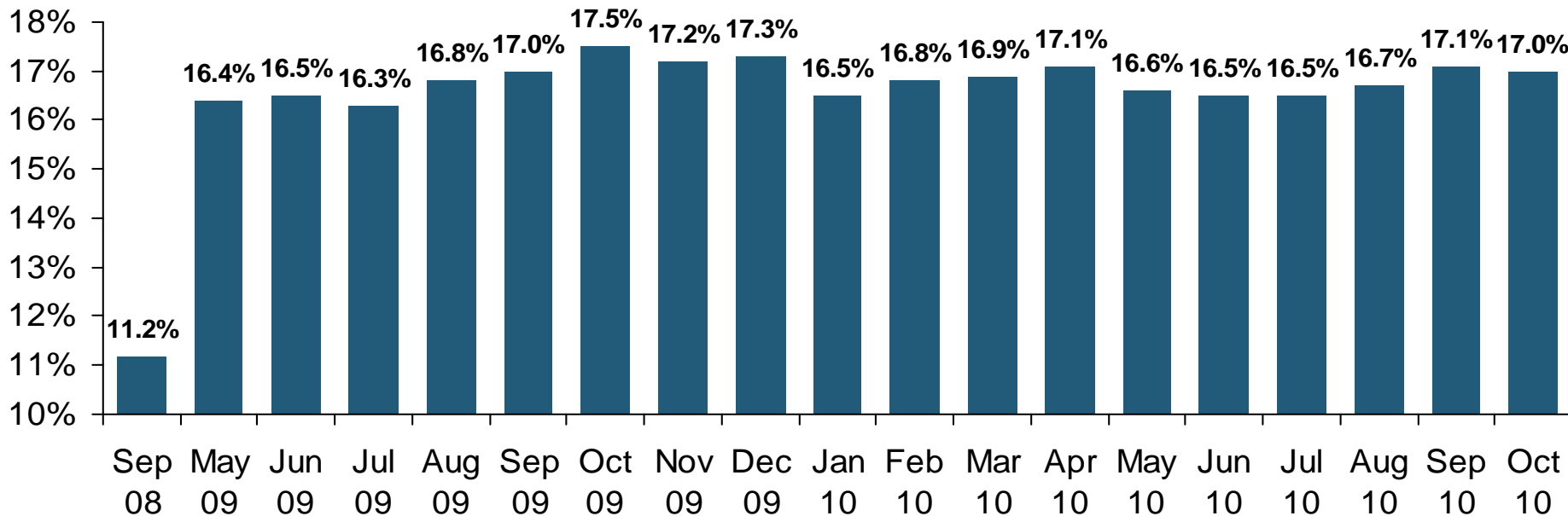
Unemployment Rates By State, September 2010: Insurance Information Institute

Lowest 25 States*



Labor Underutilization: Broader than Just Unemployment

% of Labor Force



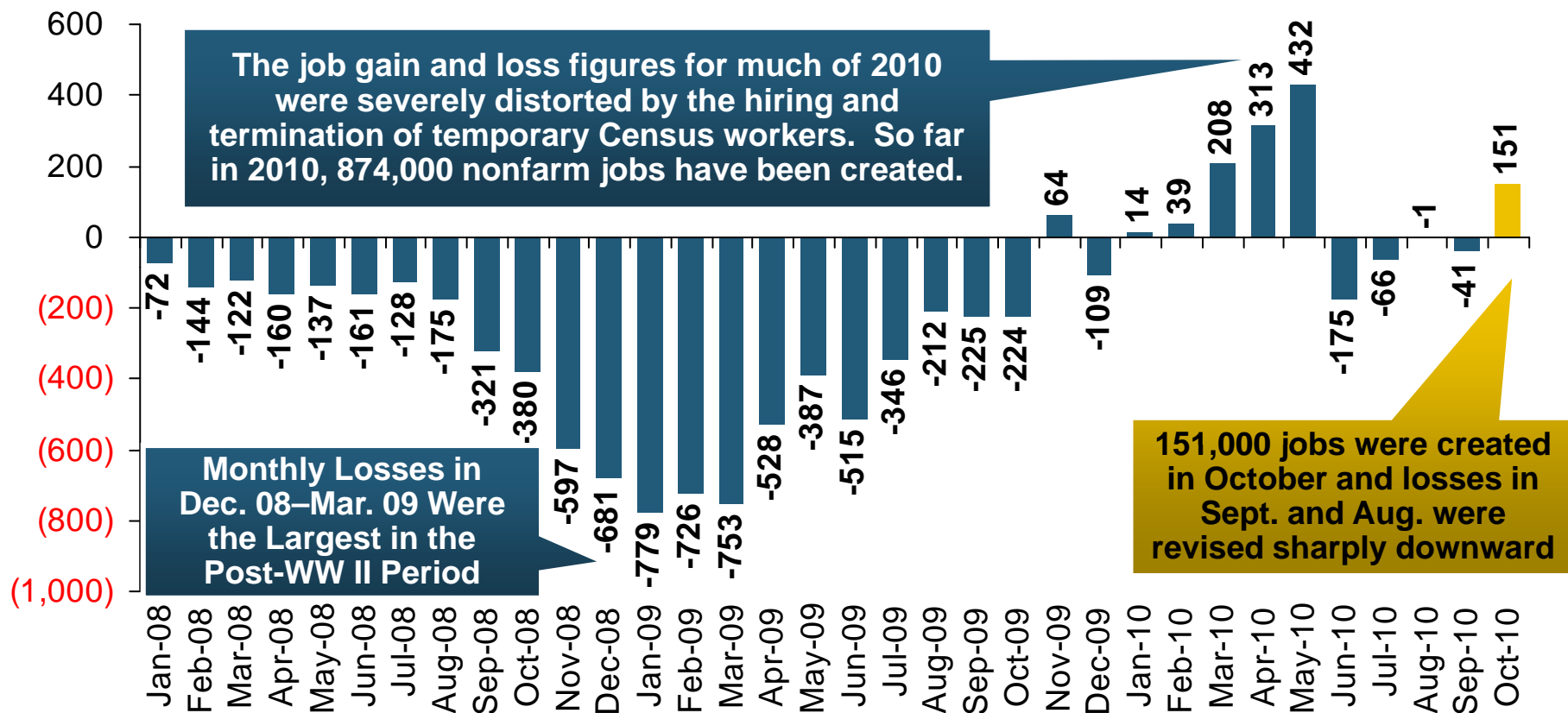
Marginally Attached and Unemployed Persons Account for 17.0% of the Labor Force in October 2010 (1 Out 6 People). Unemployment Rate Alone was 9.6%. Underutilization Shows a Broader Impact on WC and Other Commercial Exposures

NOTE: Marginally attached workers are persons who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the recent past. Discouraged workers, a subset of the marginally attached, have given a job-market related reason for not looking currently for a job. Persons employed part time for economic reasons are those who want and are available for full-time work but have had to settle for a part-time schedule.

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

Monthly Change in Employment

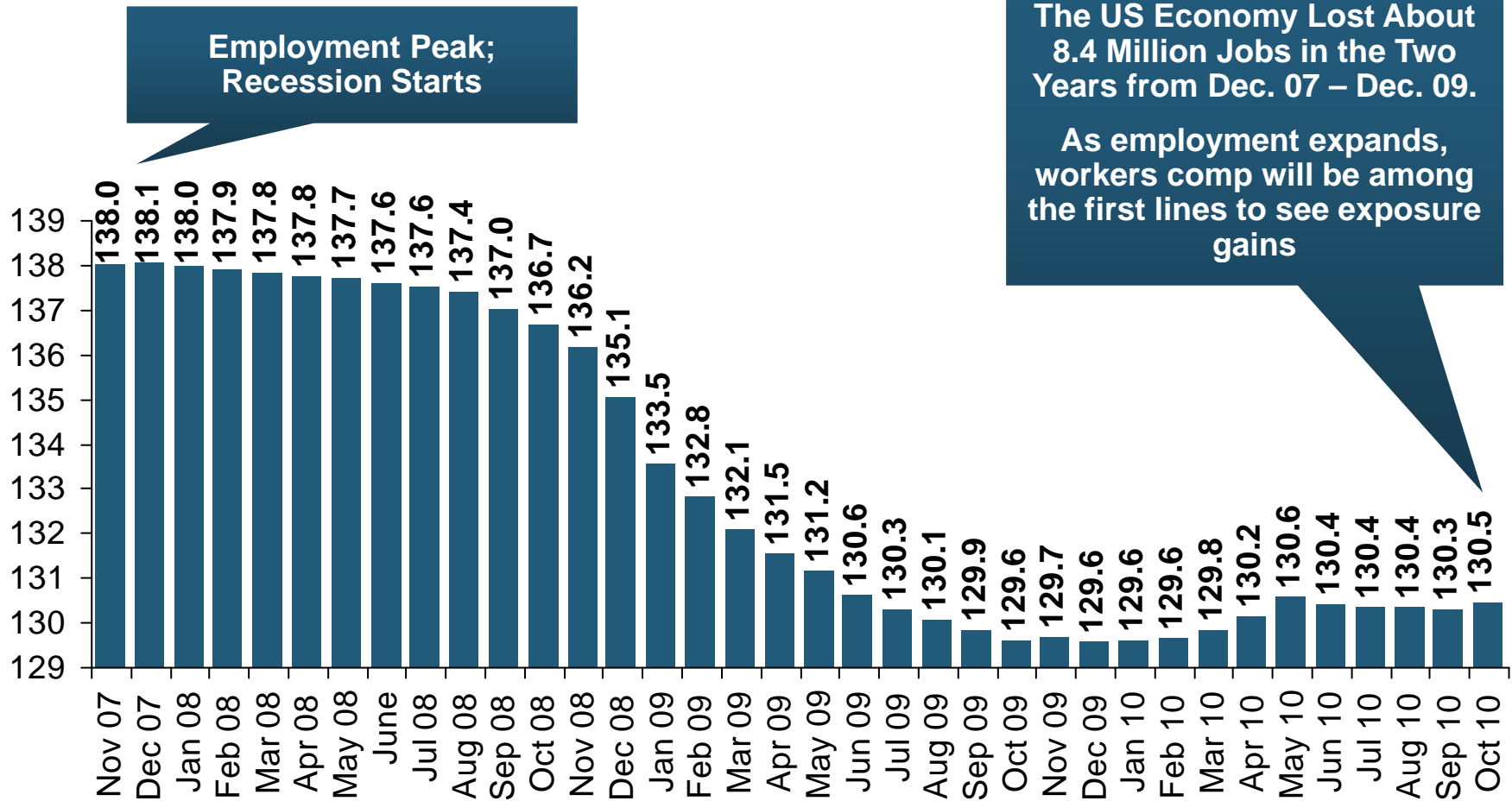
January 2008 through October 2010* (Thousands)



Job Losses Since the Recession Began in Dec. 2007 Peaked at 8.4 Mill in Dec. 09; Stands at 7.5 Million Through October 2010; 14.8 Million People are Now Defined as Unemployed

US Nonfarm Private Employment

Monthly, Nov 2007 – October 2010 (Millions)

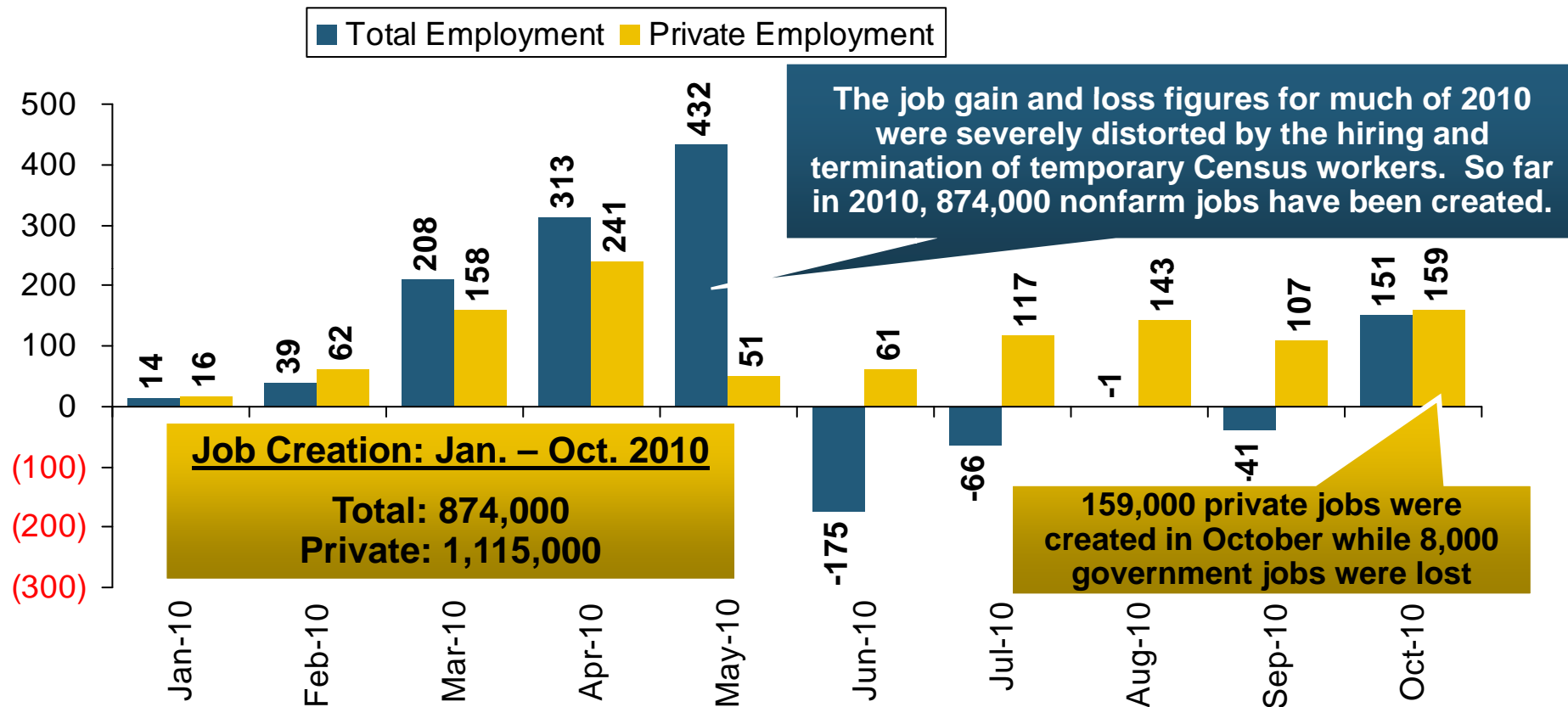


Seasonally adjusted.

Source: US Bureau of Labor Statistics

Monthly Change in Employment: Total vs. Private Employment

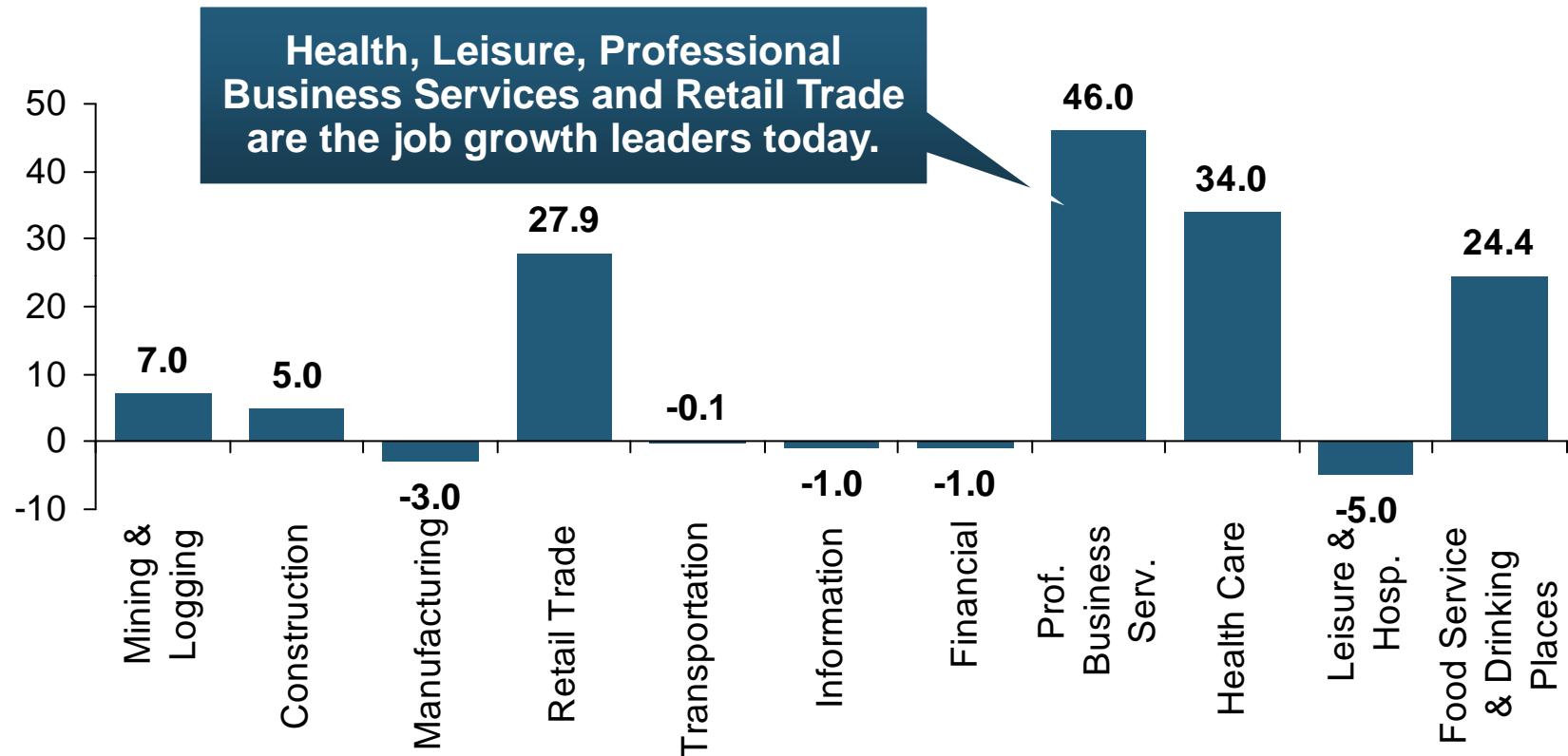
January 2010 through October 2010* (Thousands)



**The Private Sector Posted Job Gains Every Month in 2010—
Totaling 1.115 Million through October. The Government
Sector Continues to Lose Jobs.**

Change in Employment Level for Select Industries, Oct. 2010 vs. Sept. 2010

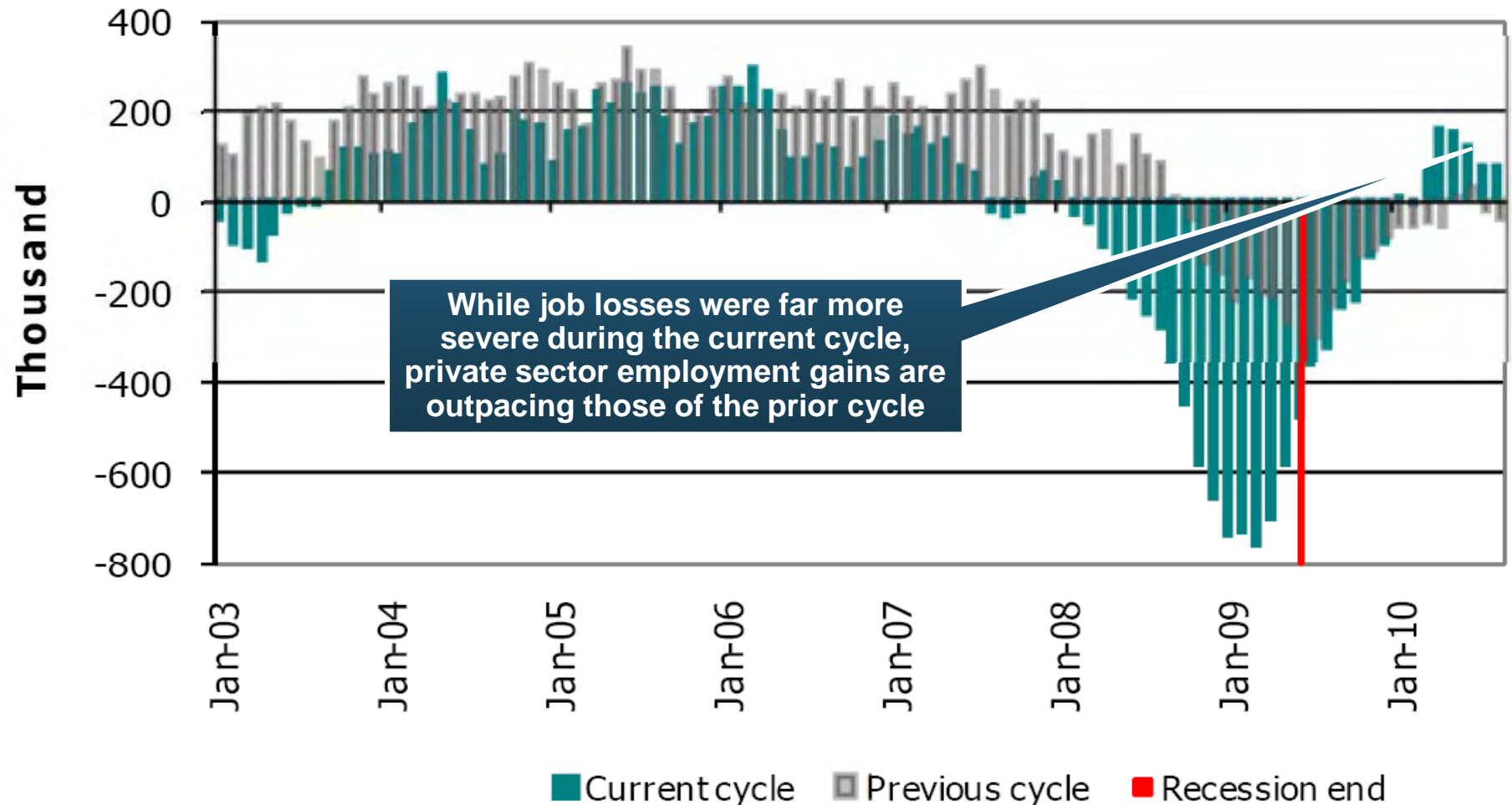
Change in Thousands



There is a great deal of variation in employment growth by industry, indicating a very uneven and slow recovery

Private Employment Gains Are Actually Outpacing Gains in Previous Cycle

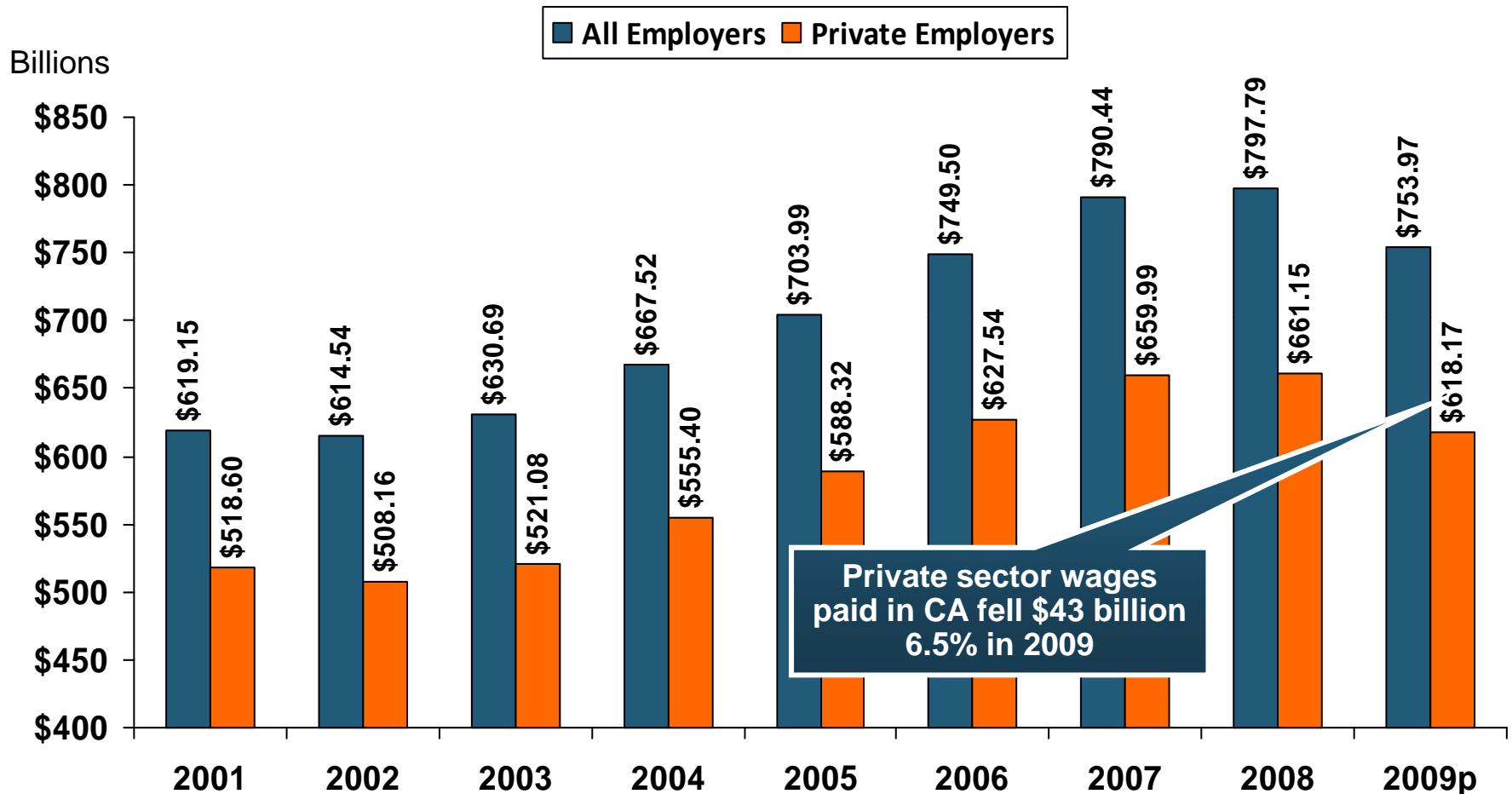
Private Sector Jobs Gained/Lost



Note: End of previous cycle, Nov. 2001, is lined up with end of current cycle, June 2009.

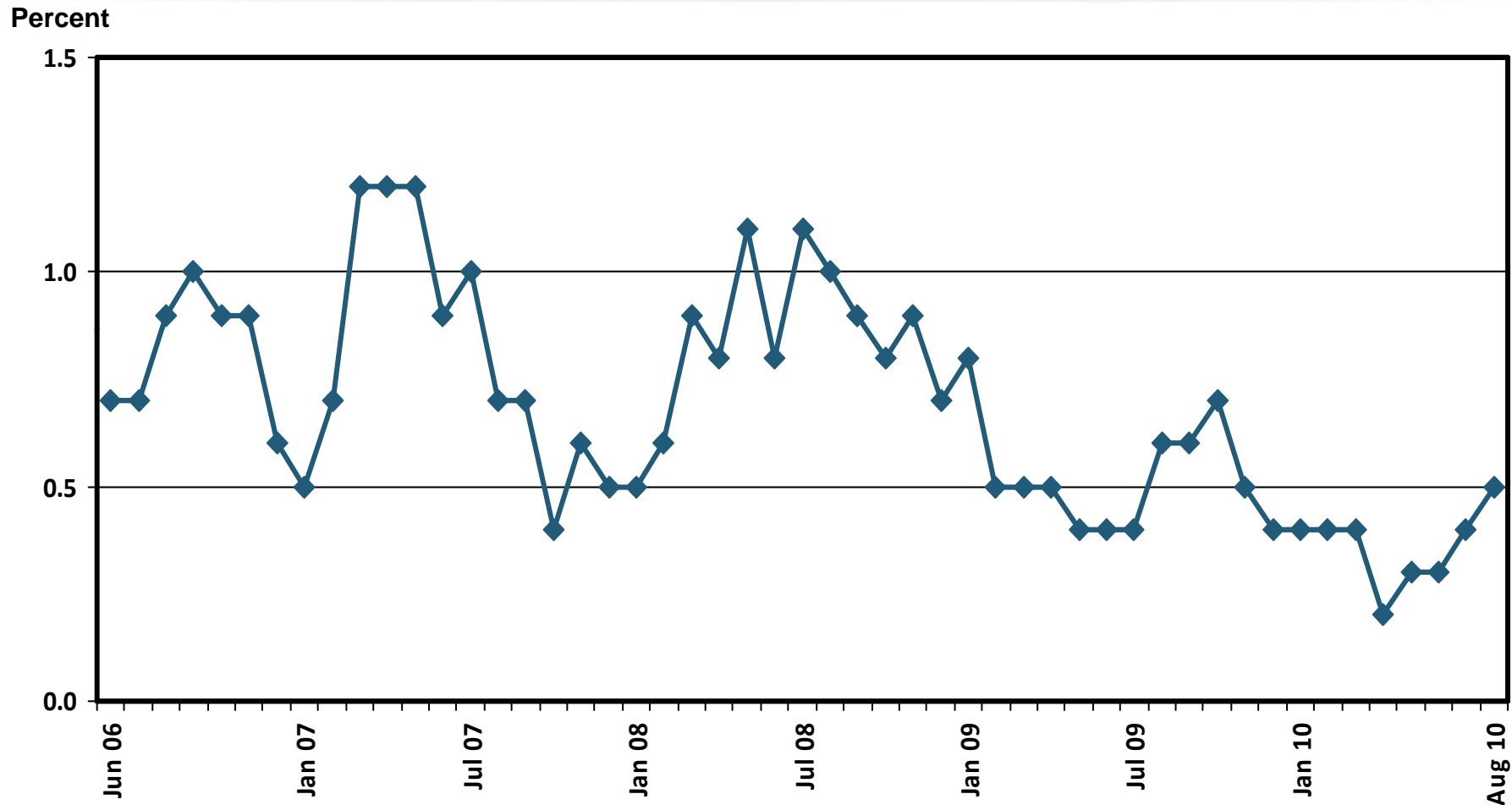
Sources: US Bureau of Labor Statistics from Swiss Re Economic Research & Consulting

Total Wages, California 2001-2009



Recessions Cause Payrolls to Shrink. The 2001 Recession Saw a 2.0% Decline in Private Wages; the 2008-09 Dropoff was 6.3%.

2006-2010: 3-Month Percent Change in Average Hourly Earnings*

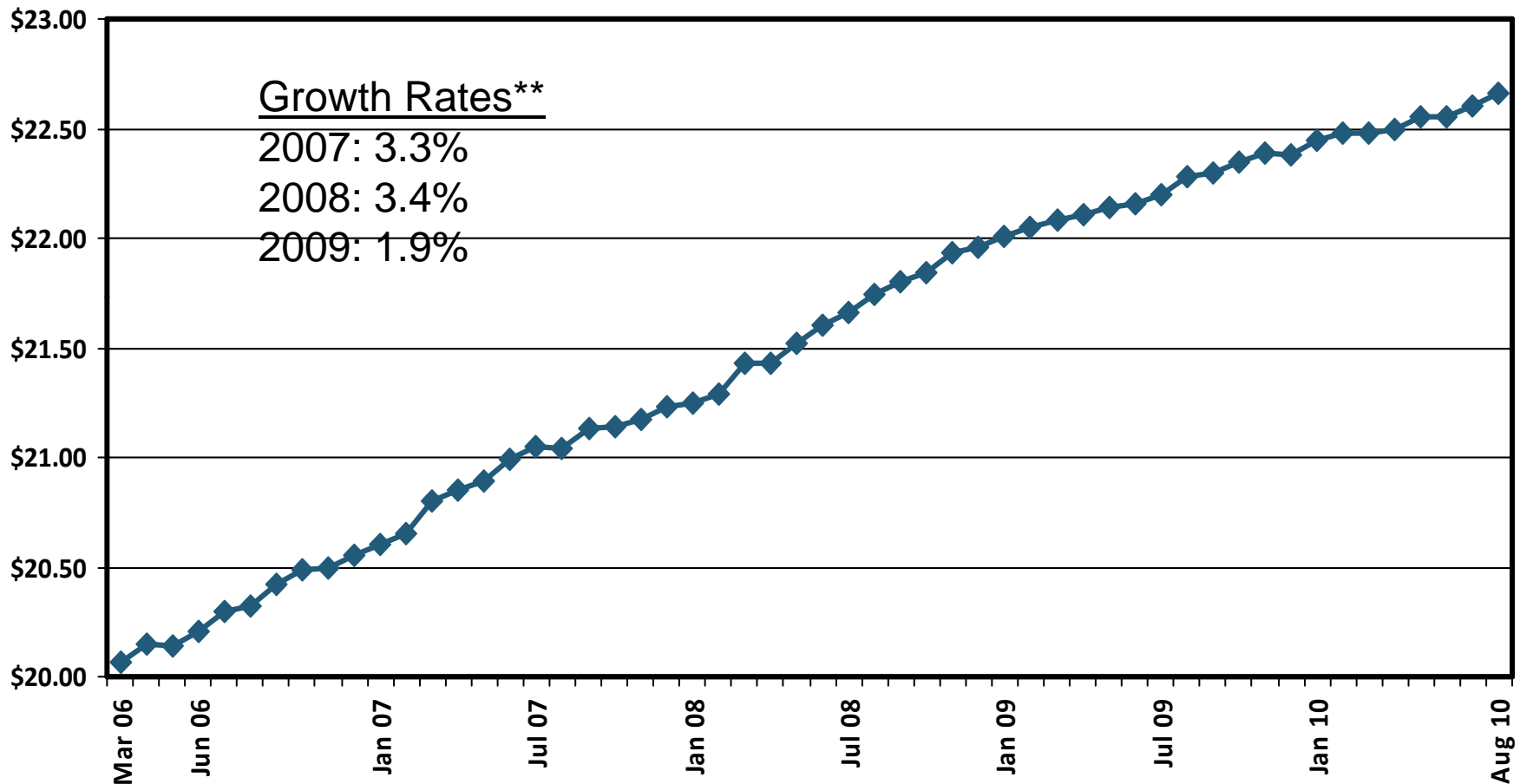


Average Hourly Earnings* Grew Every Month Throughout the Recession. Weakest Growth Was April-June 2010, But That Weakness Appears to be Over.

*3-month net change, seasonally adjusted

Source: <http://data.bls.gov/PDQ/servlet/SurveyOutputServlet>

Average Hourly Earnings* of All Employees, Mar 2006- August 2010

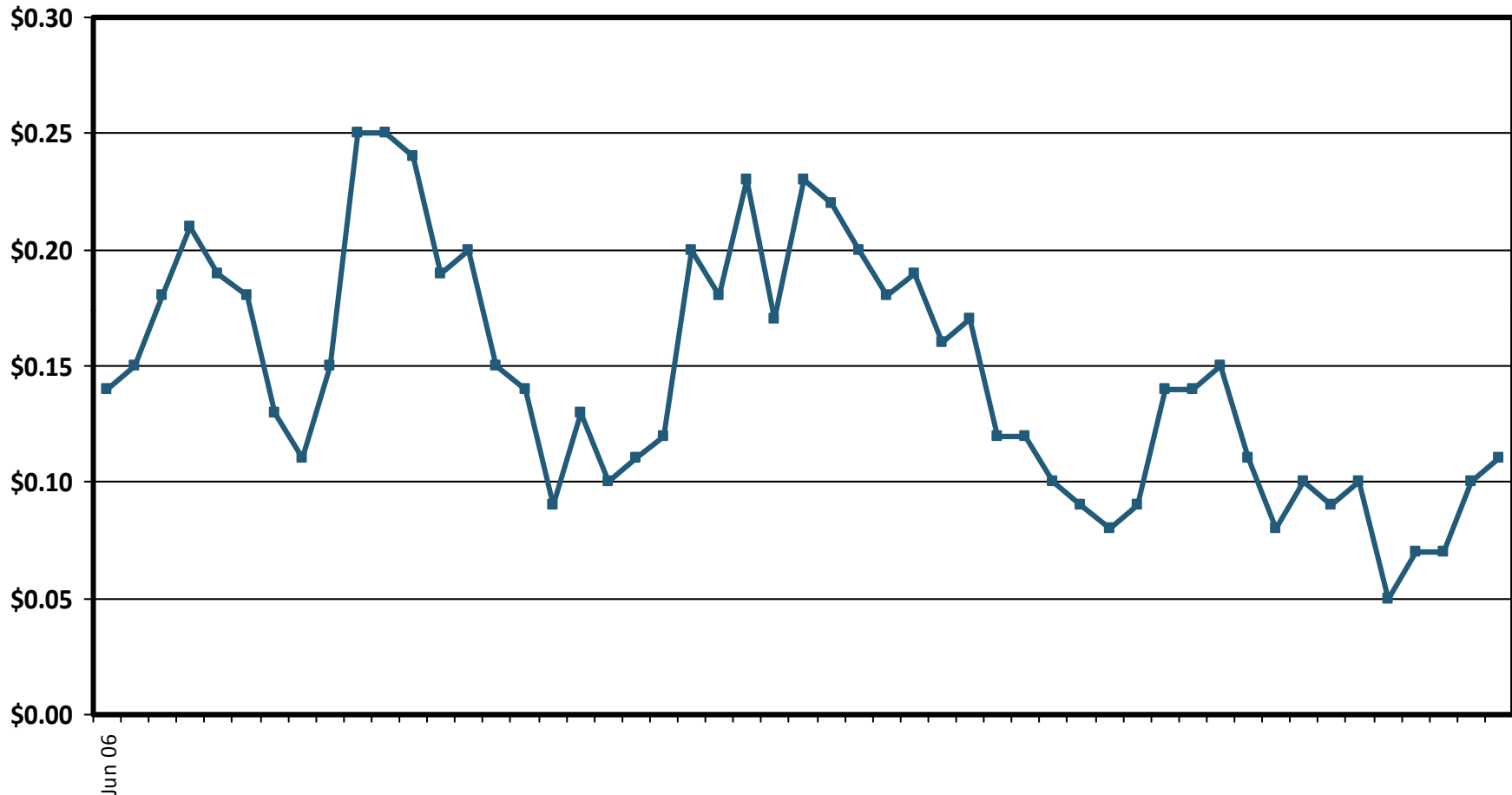


**Since December 2007, Average Hourly Earnings Grew in All But 3 Months.
In 2010, Growth (Through August) Was 1.3%.**

*seasonally adjusted
Source: <http://data.bls.gov>

**December of specified year vs. December of prior year.

Dollar Change* in Average Hourly Earnings, June 2006 – August 2010



**Average Hourly Earnings Grew at Least \$0.05
in Every 3-Month Period Since June 2006.**

*3-month net change, seasonally adjusted

Source: <http://data.bls.gov/PDQ/servlet/SurveyOutputServlet>

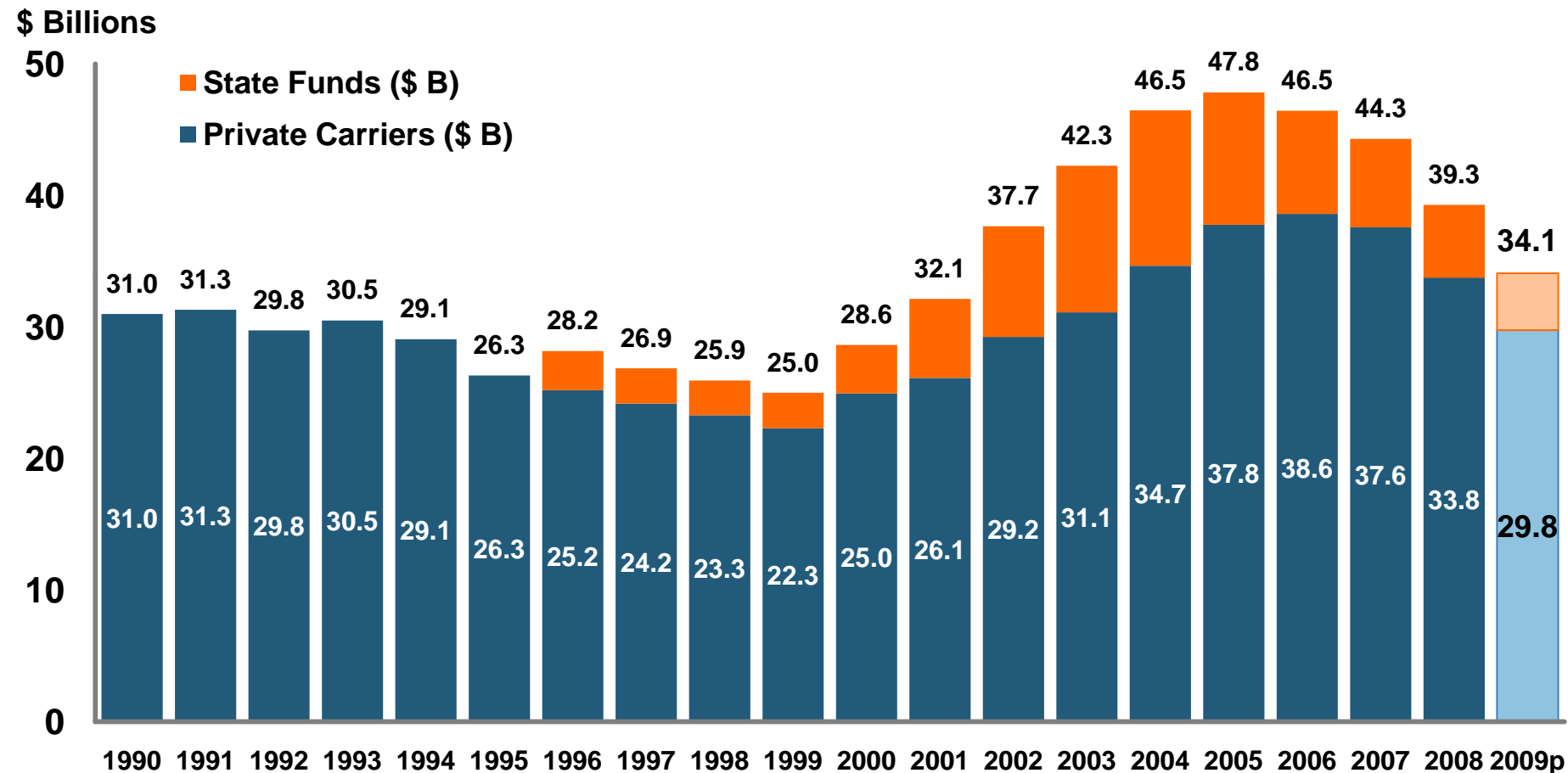


Workers Compensation Operating Environment

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

Workers Compensation Premium Continues Its Sharp Decline

Net Written Premium



p Preliminary

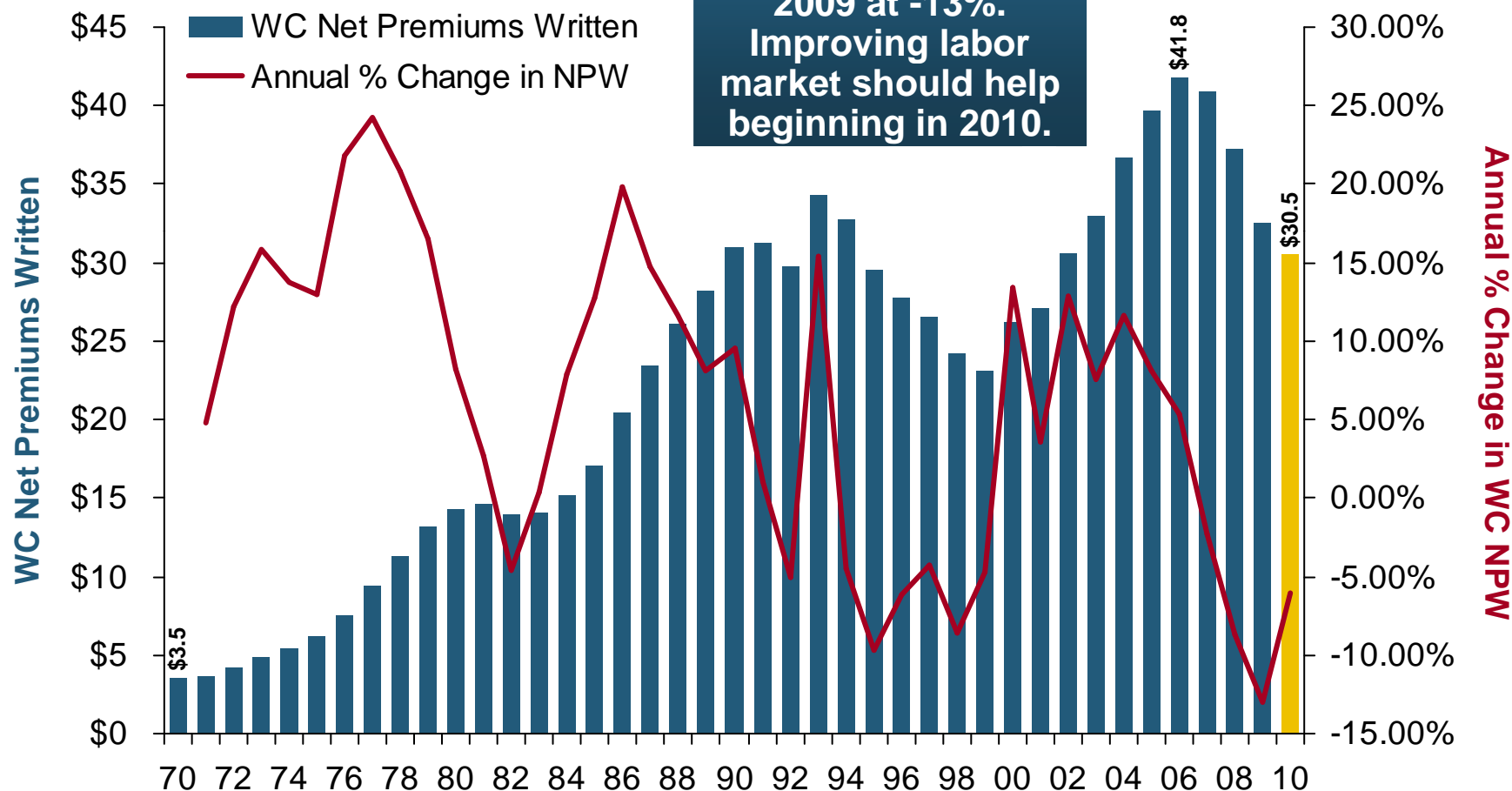
Source: 1990–2008 Private Carriers, *Best's Aggregates & Averages*; 2009p, NCCI

1996–2009p 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

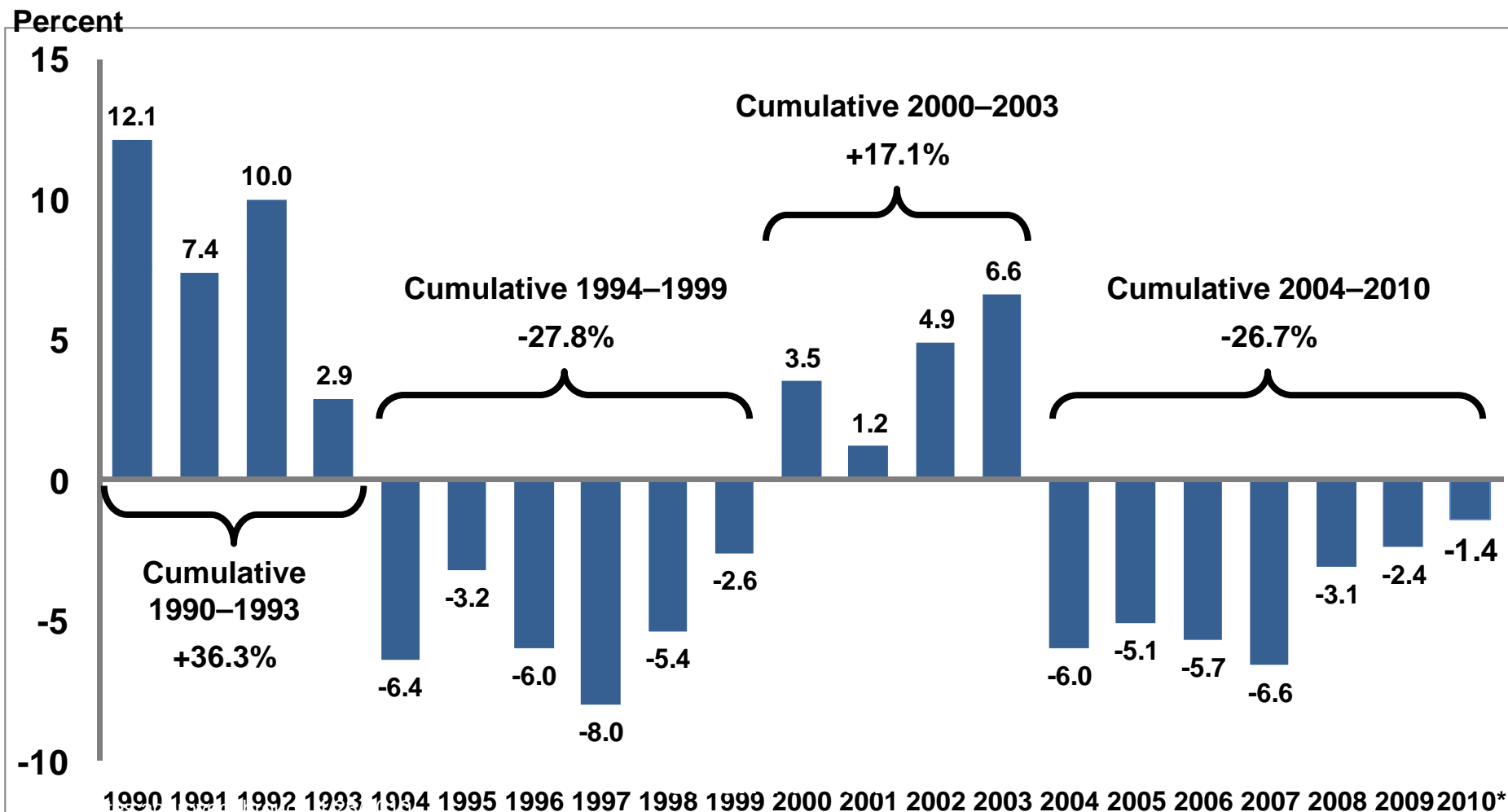
Workers Compensation Net Premiums Written and Annual Growth Rates: 1970-2010P

(\$ Billions)



Average Approved Bureau Rates/Loss Costs

History of Average WC Bureau Rate/Loss Cost Level Changes



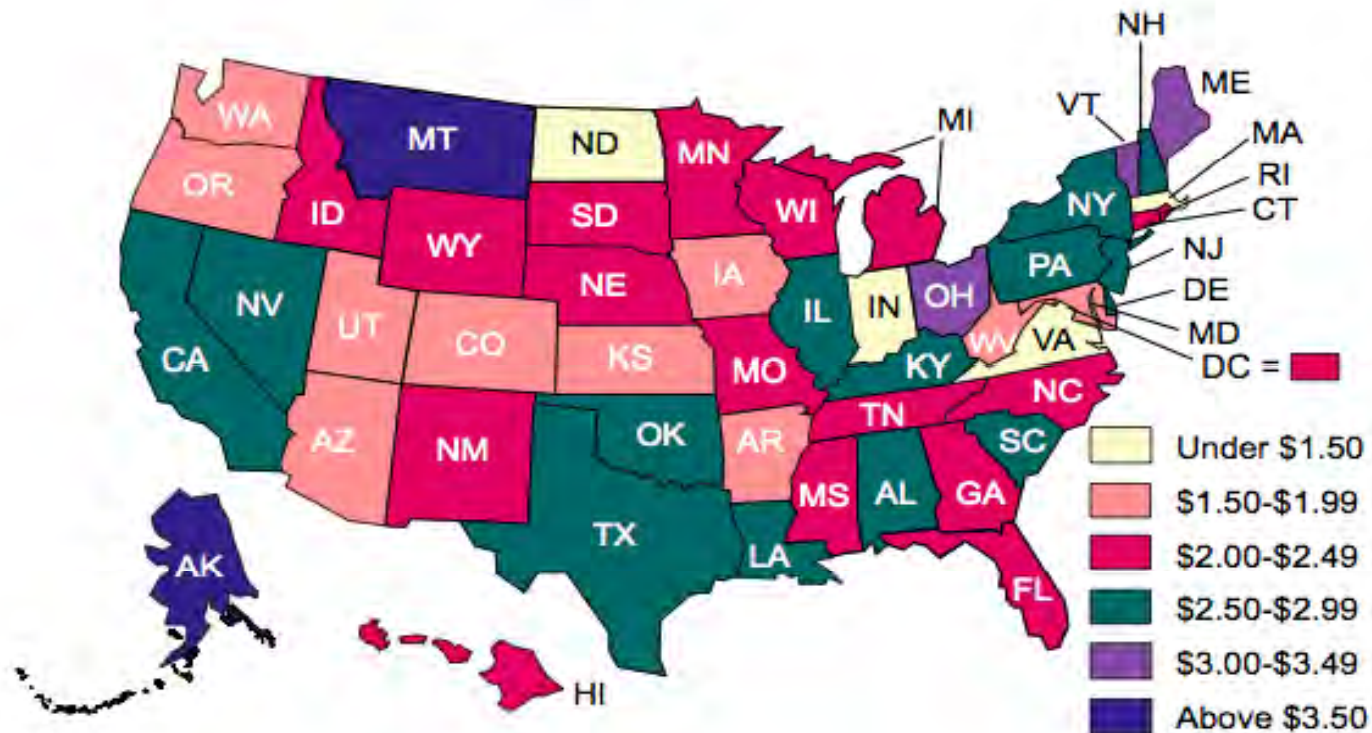
*States approved through 4/23/10.

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

Source: NCCI.

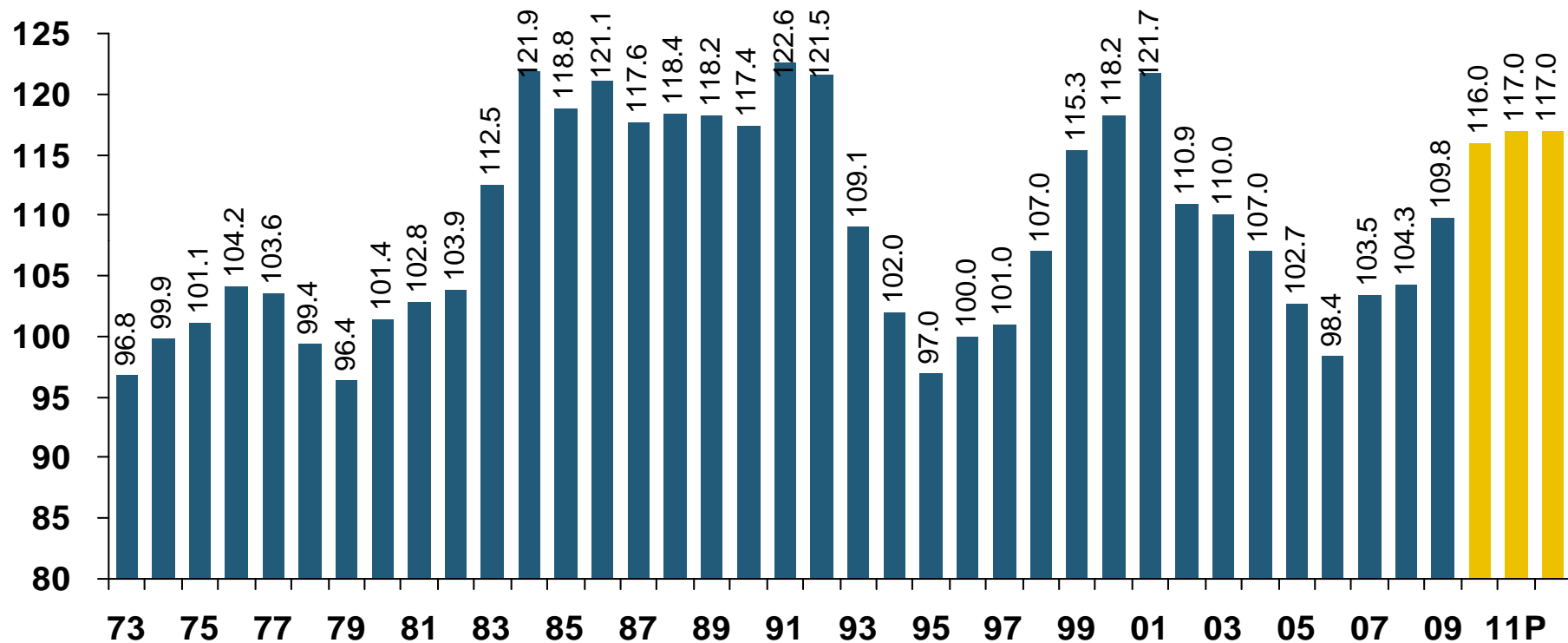
Comparison of State WC rates

WC rates, on average, do not appear to be significantly higher or lower in states with workers comp state funds



California's WC rates are about average

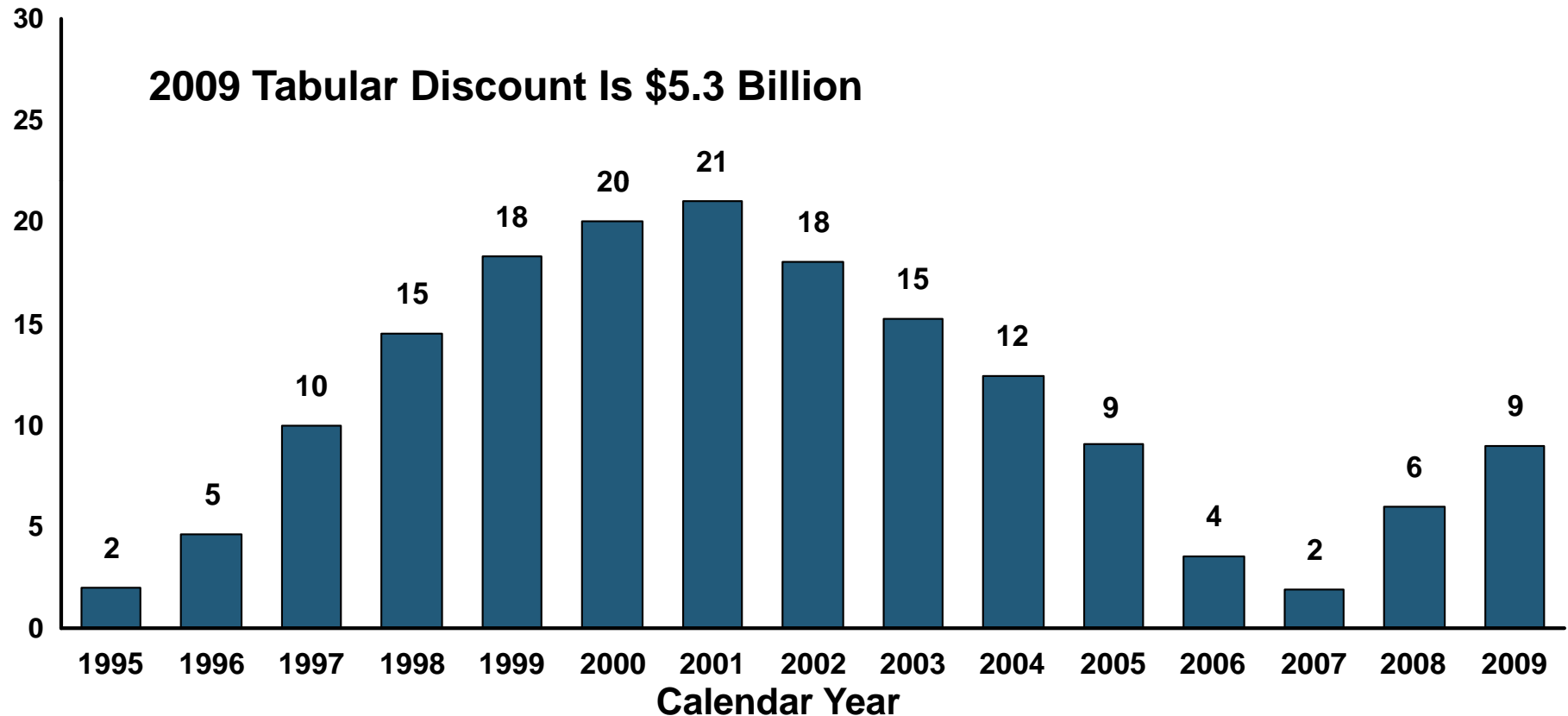
Workers Compensation Combined Ratio: 1973–2012P



Workers Comp Underwriting Results Are Deteriorating Markedly

Calendar Year Reserve Deficiency Increased in 2009

\$ Billions WC Loss and LAE Reserve Deficiency: Private Carriers



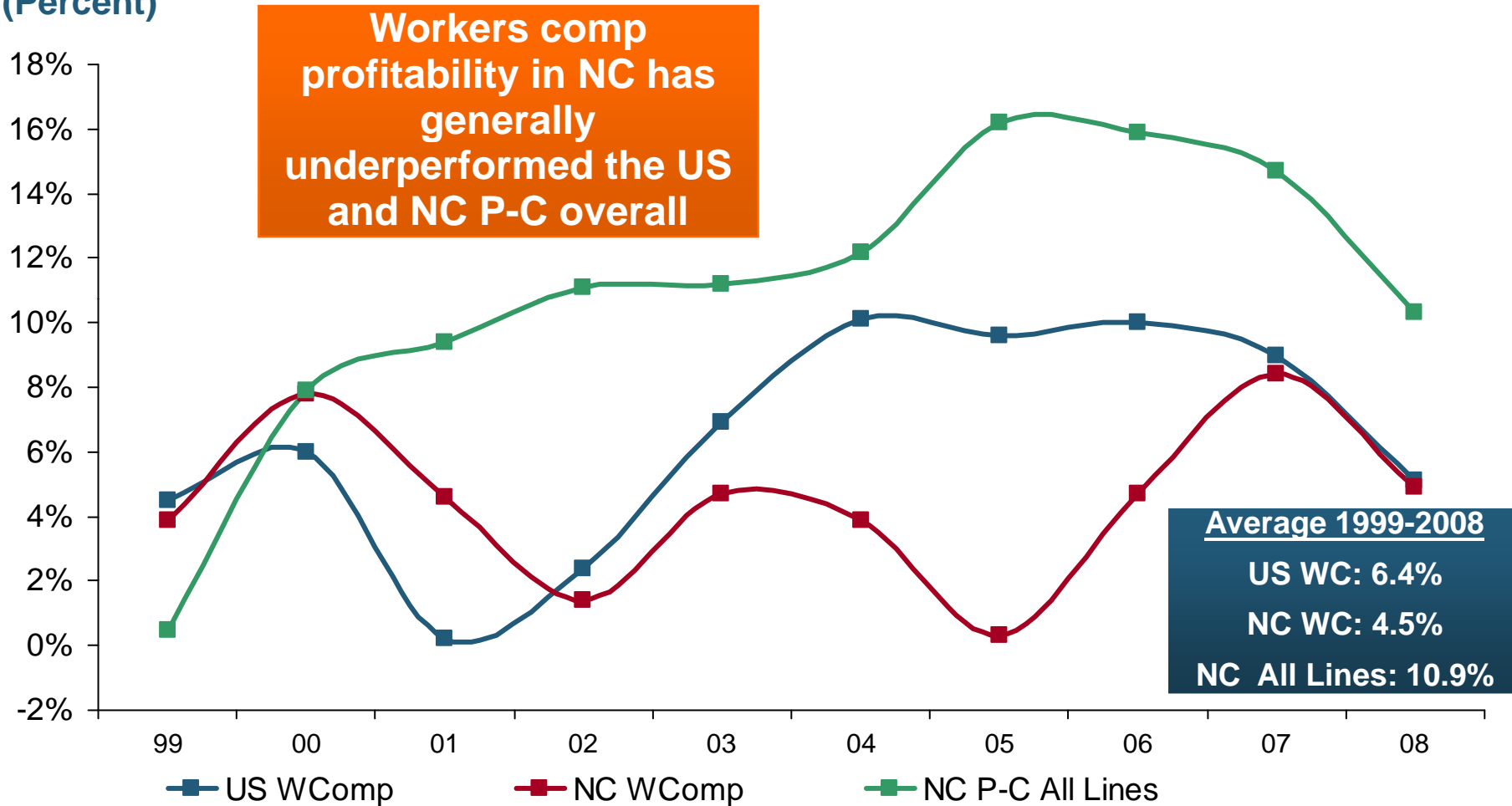
Considers all reserve discounts as deficiencies

Loss and LAE figures are based on NAIC Annual Statement data for each valuation date and NCCI latest selections

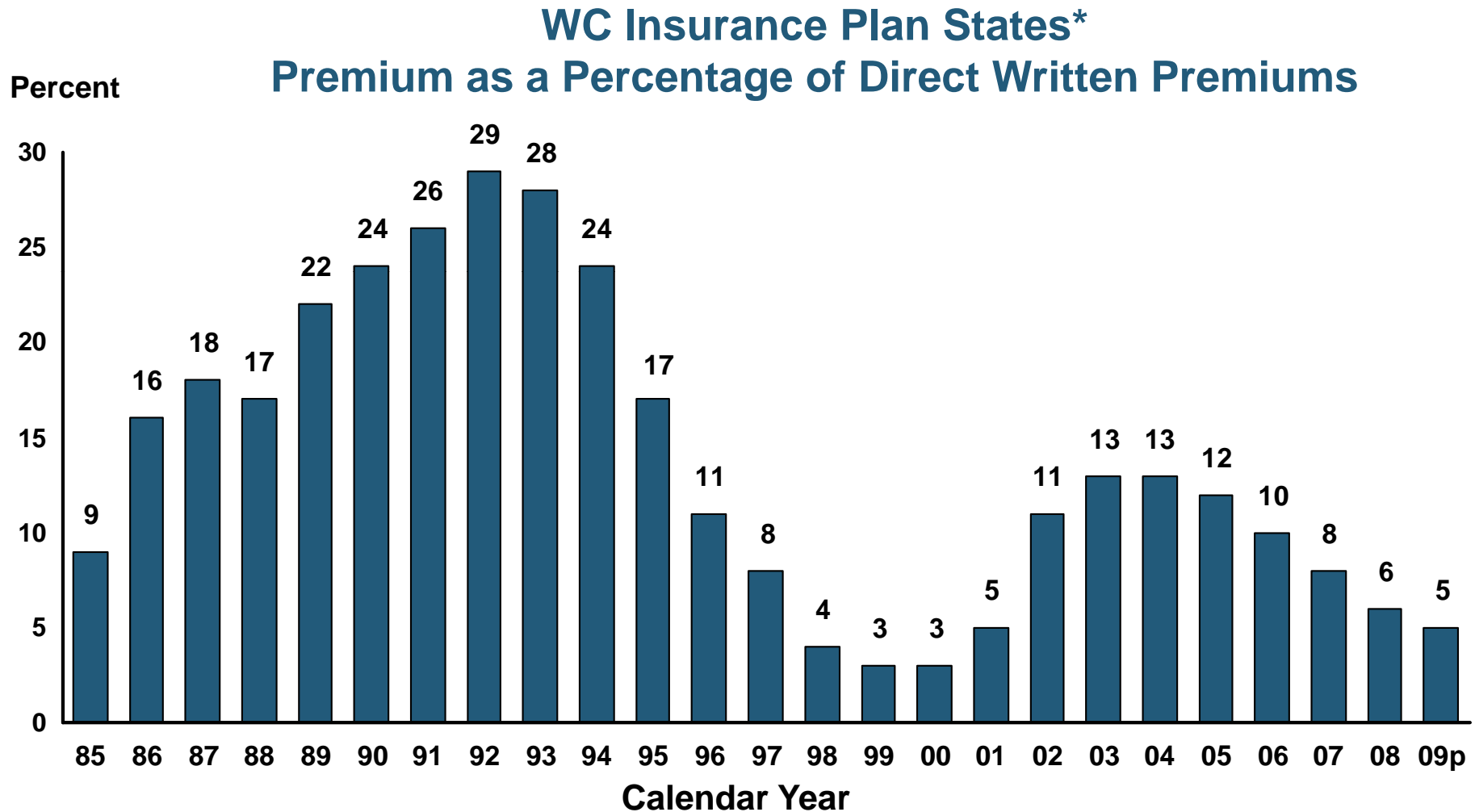
Source: NCCI analysis

Return on Net Worth for Workers Comp: NC vs. US and NC All P-C Lines, 1999-2008

(Percent)



WC Residual Market Shares Continue to Decline



*NCCI Plan states plus DE, IN, MA MI, NJ, NC

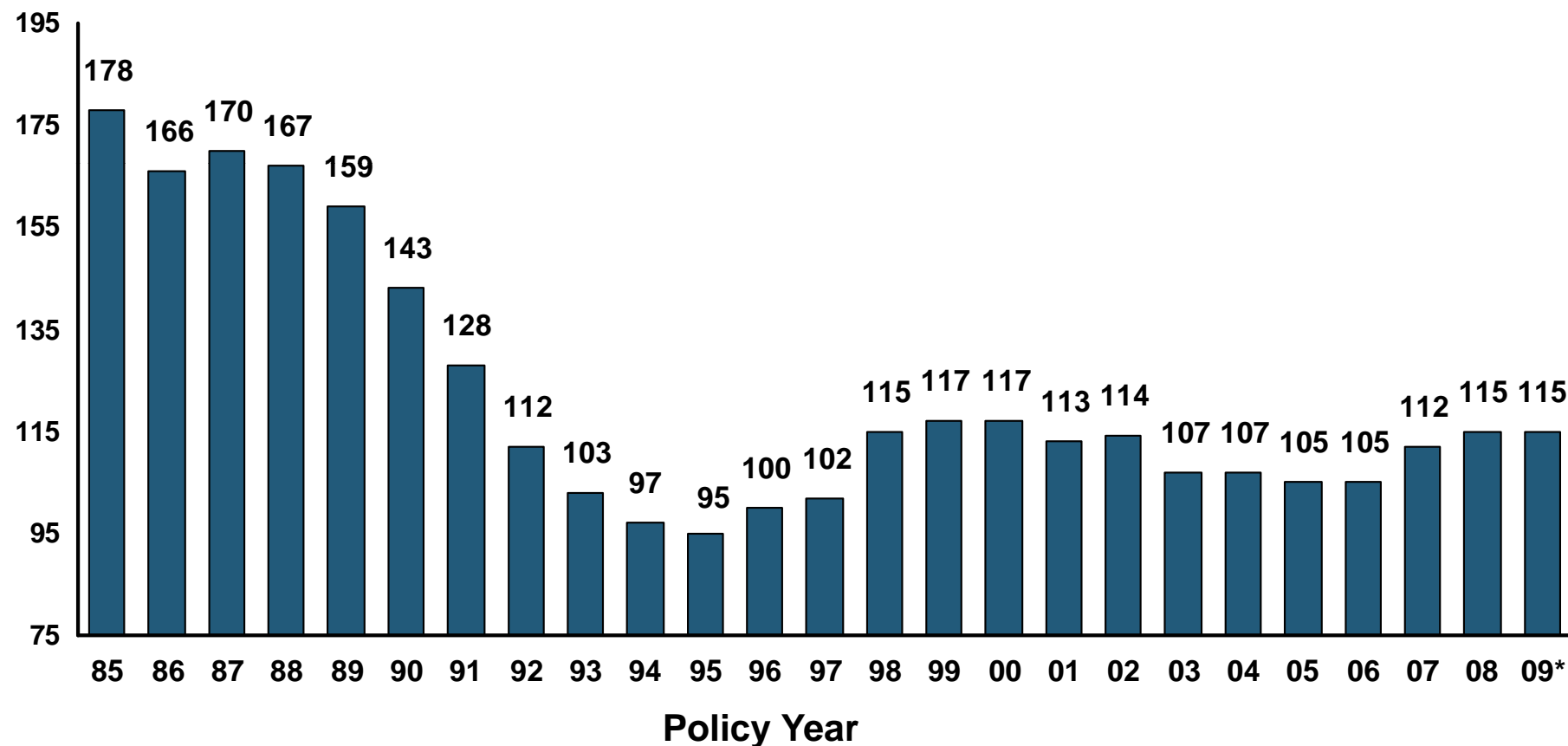
p: Preliminary

Source: NCCI.

WC Residual Market Combined Ratio

NCCI-Serviced WC Residual Market Plans as of December 31, 2009

Percent



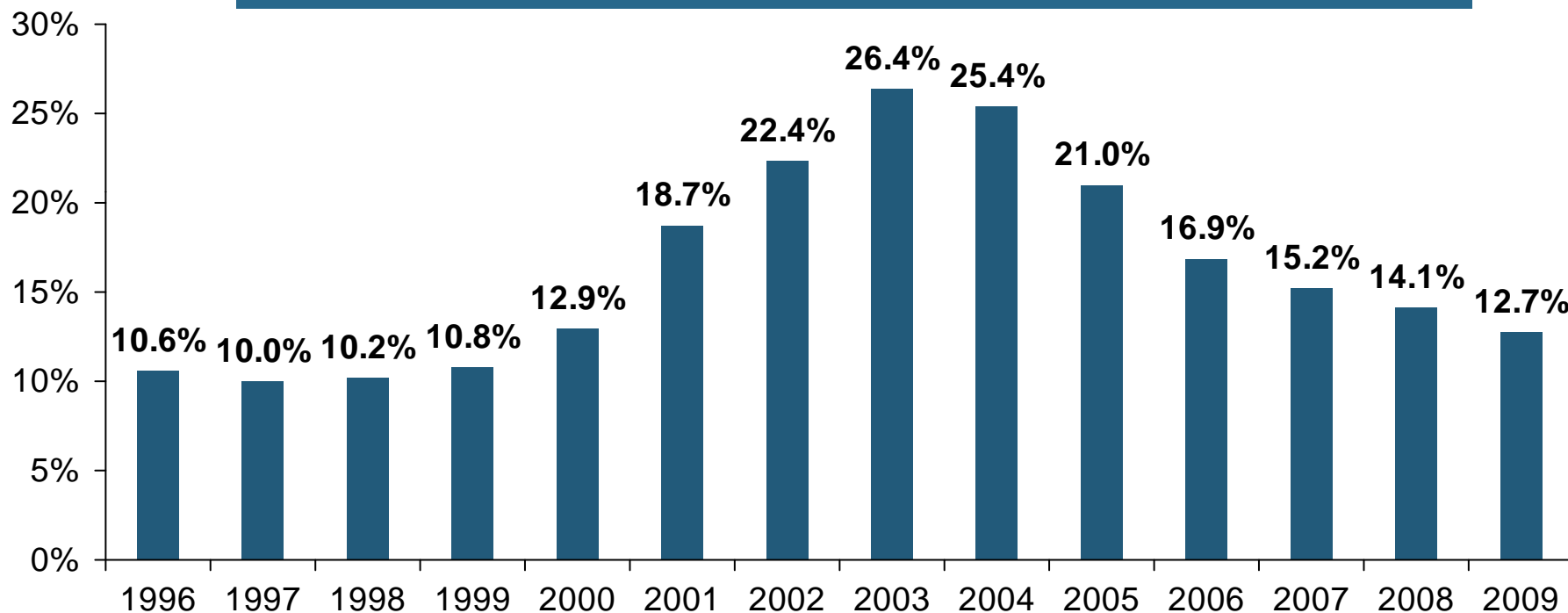
*Incomplete policy year projected to ultimate.

Source: NCCI.

WC Competitive State Fund Market Share, 1996 – 2009p

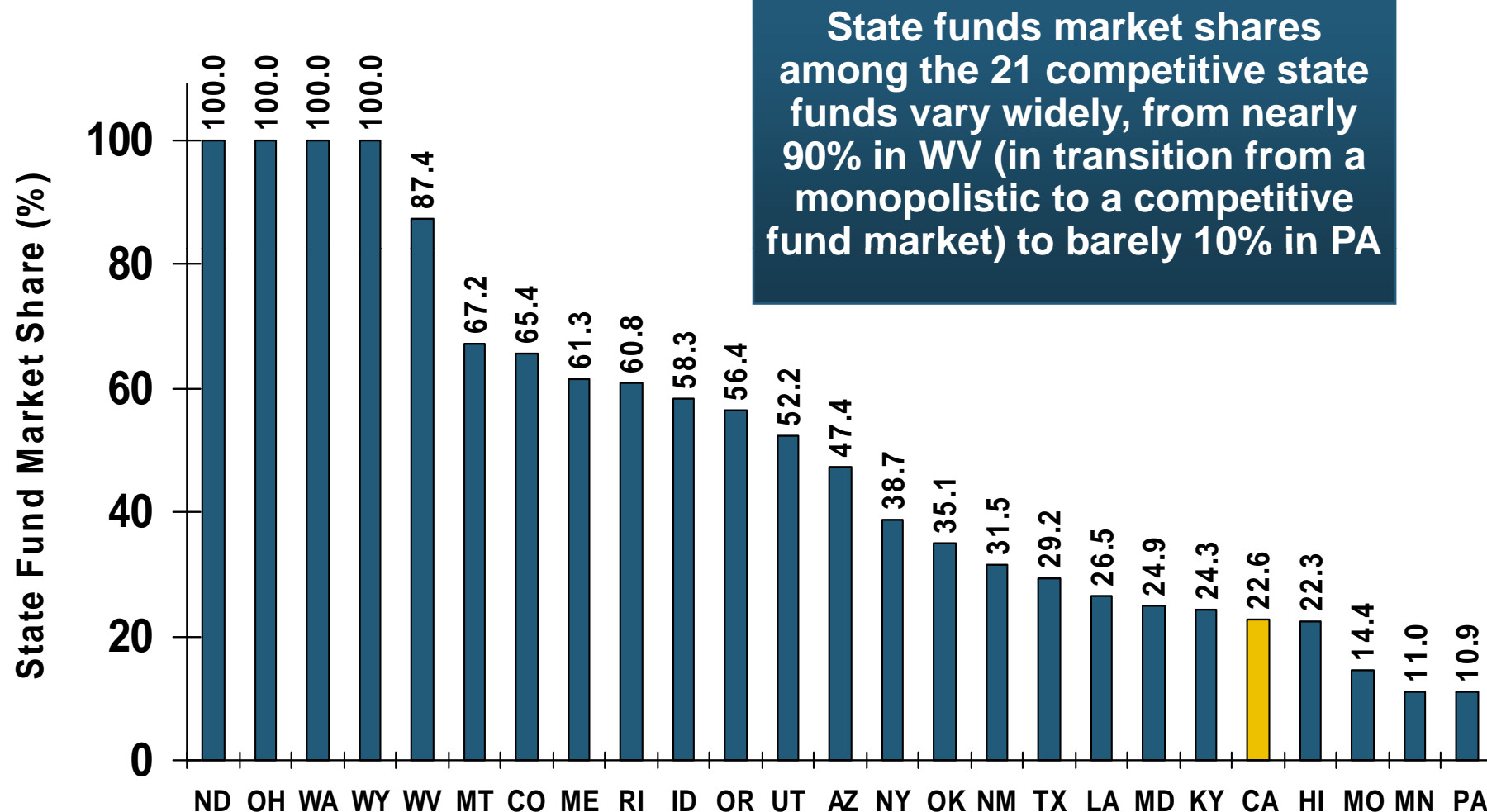
Market
Share (%)

Private insurance markets are highly competitive. State fund market shares have been falling steadily since 2003.



Competition, favorable underwriting trends, coverage options, private insurer innovations in risk management have all helped to make the private sector WC insurance the most attractive option in most cases

Workers Compensation State Fund Market Shares, 2008

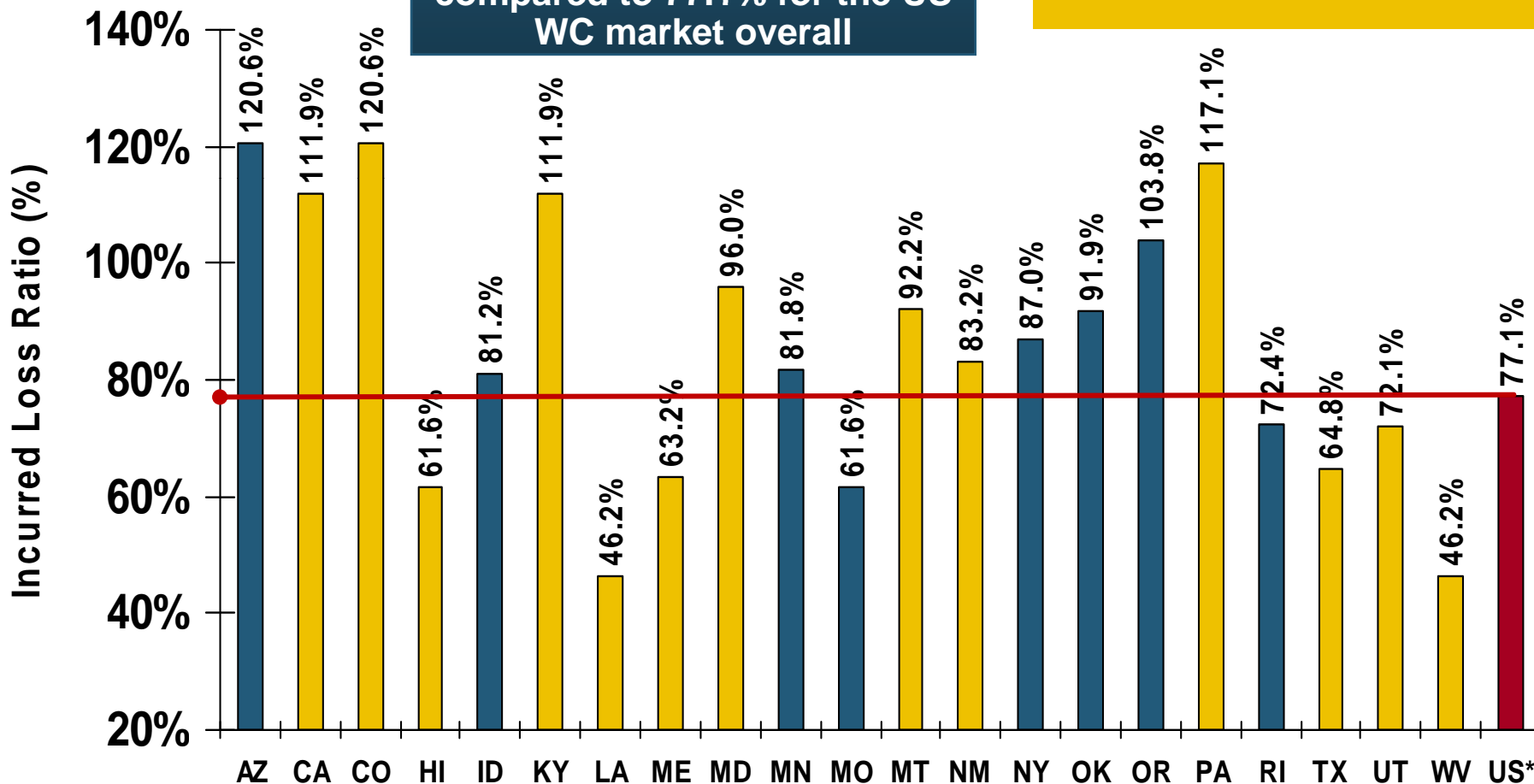


Source: Conning; Insurance Information Institute.

Workers Compensation State Fund Incurred Loss Ratio, 2008

The average competitive workers comp state fund ran a loss ratio of 84.2% in 2008 compared to 77.1% for the US WC market overall

13 of the 21 competitive state funds also serve as the market of last resort



Yellow bars = states where the state fund is also the market of last resort

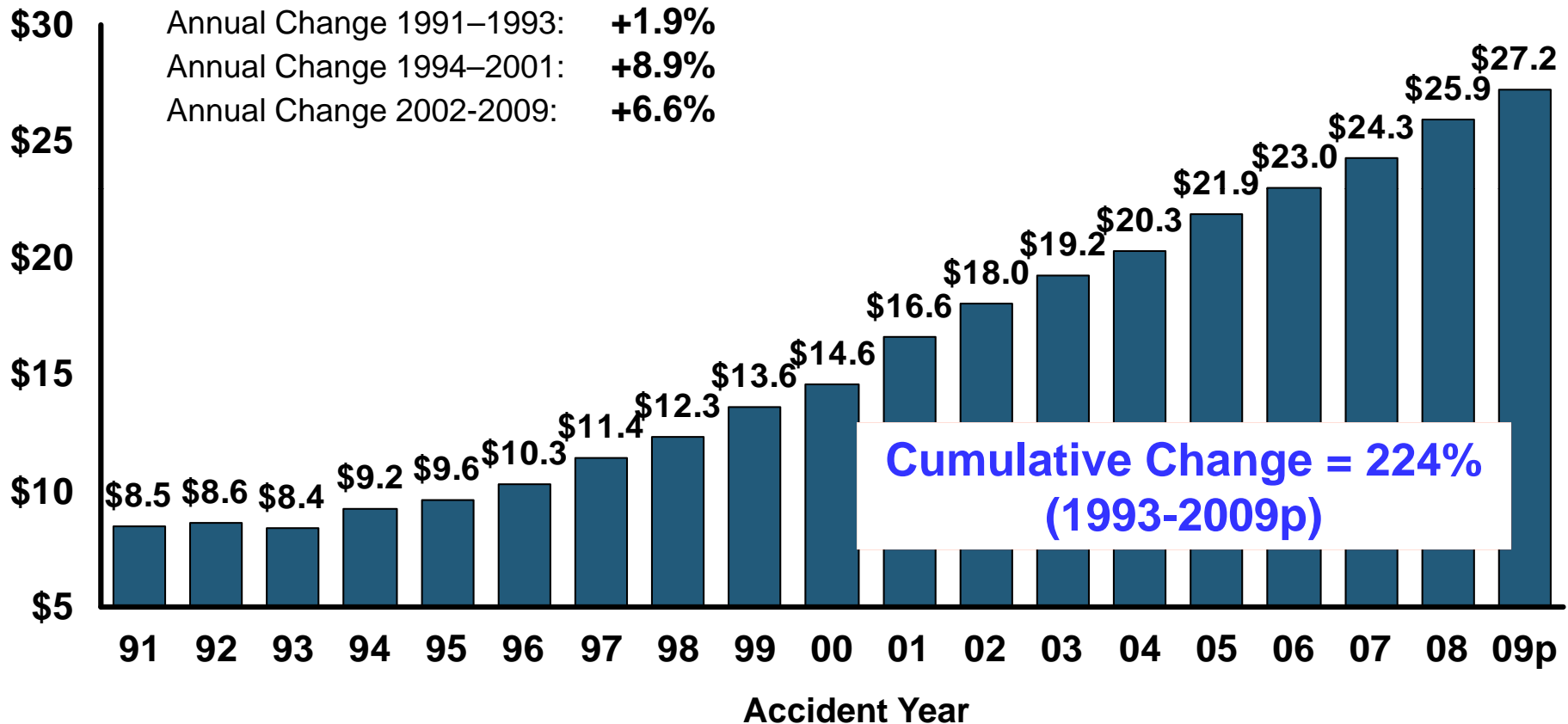
Source: Conning; A.M. Best; Insurance Information Institute.

Workers Compensation Medical & Indemnity Claim Cost Trends

Rising Medical Costs Exert Pressure While Indemnity Costs Rise Well Ahead of Wage Inflation

Workers Comp Medical Claim Costs Continue to Rise

Medical
Claim Cost (\$000s)

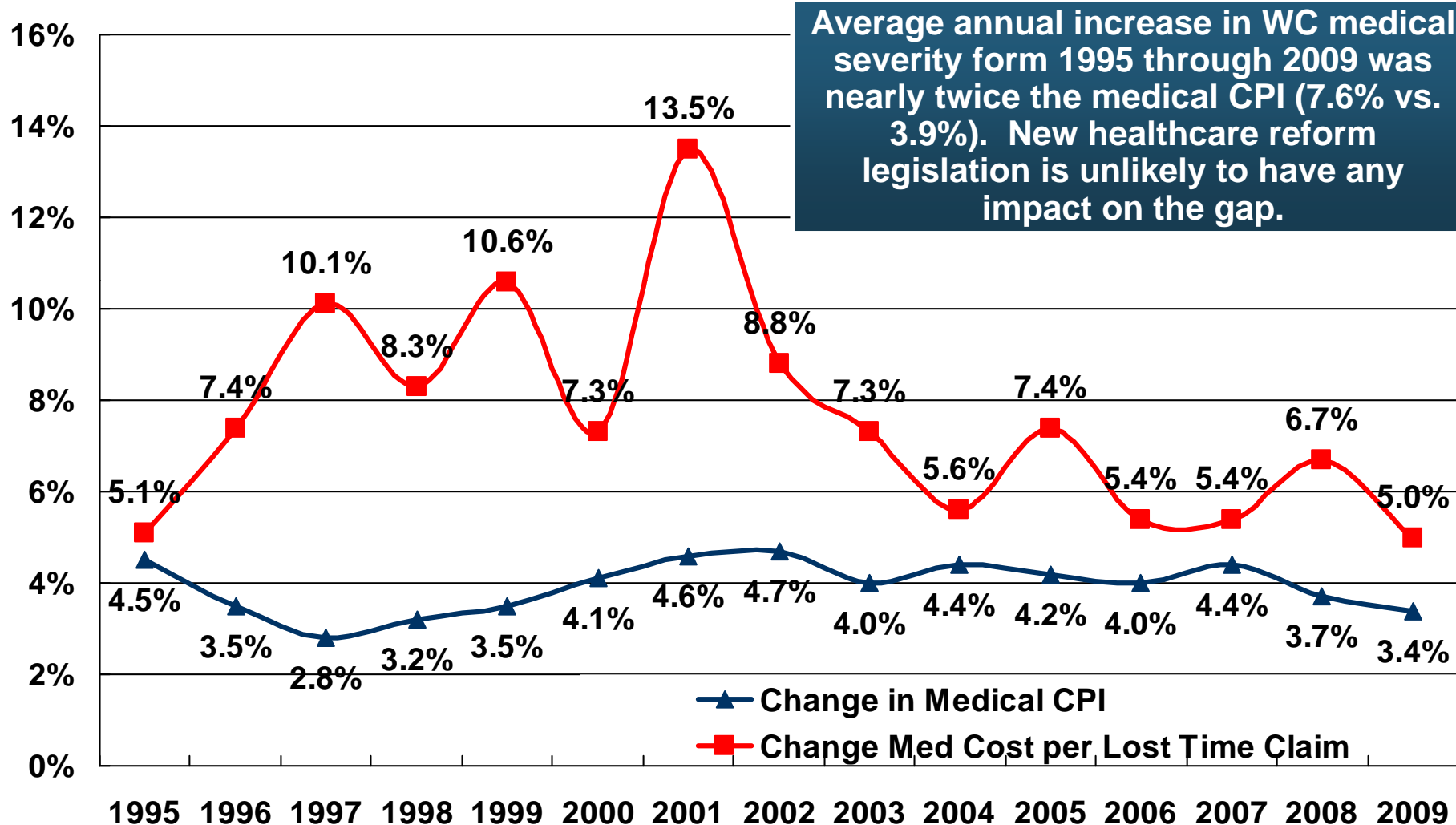


2009p: Preliminary based on data valued as of 12/31/2009

1991-2008: Based on data through 12/31/2008, developed to ultimate

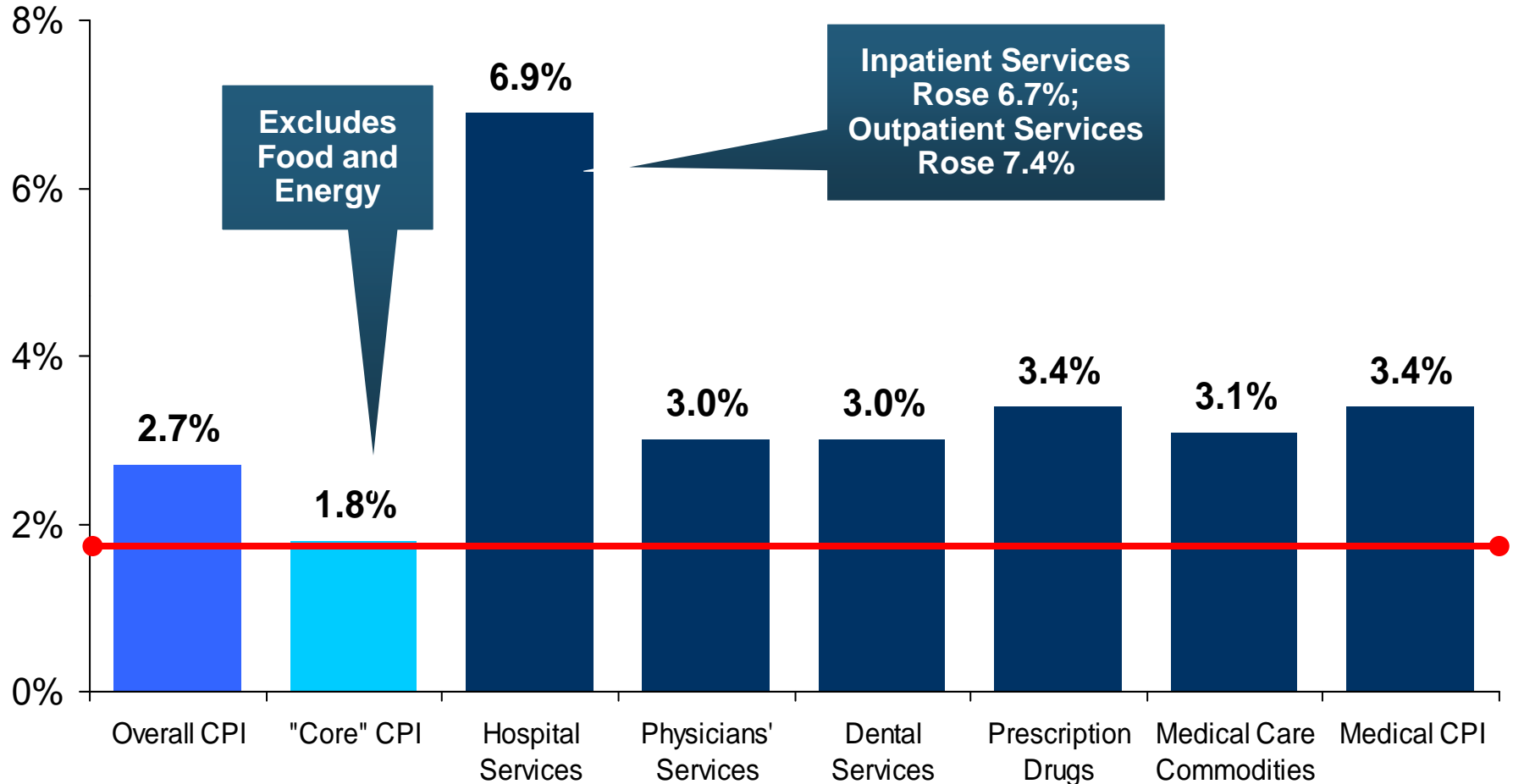
Based on the states where NCCI provides ratemaking services; Excludes the effects of deductible policies

WC Medical Severity Rising at Twice the Medical CPI Rate



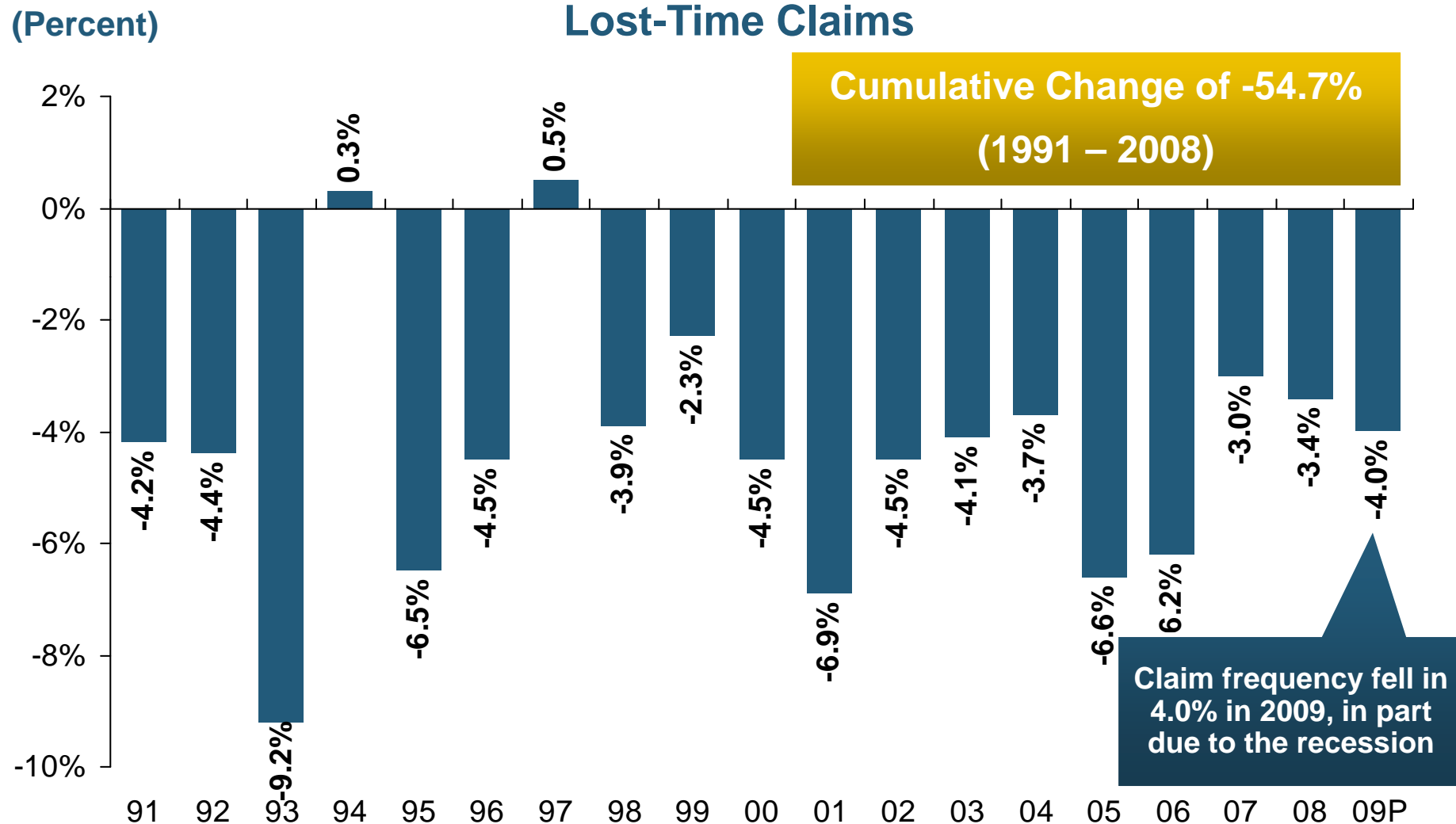
WC Insurers Experience Inflation More Intensely than 2009 CPI Suggests

(Percent increase Dec 08 to Dec 09)



Healthcare Costs Are a Major WC Insurance Cost Driver. They Are Likely to Increase Faster than the CPI for the Next Few Years, at Least

Workers Compensation Lost-Time Claim Frequency Continues to Decline*



2009p: Preliminary based on data valued as of 12/31/2009;
1991-2008: Based on data through 12/31/2008, developed to ultimate

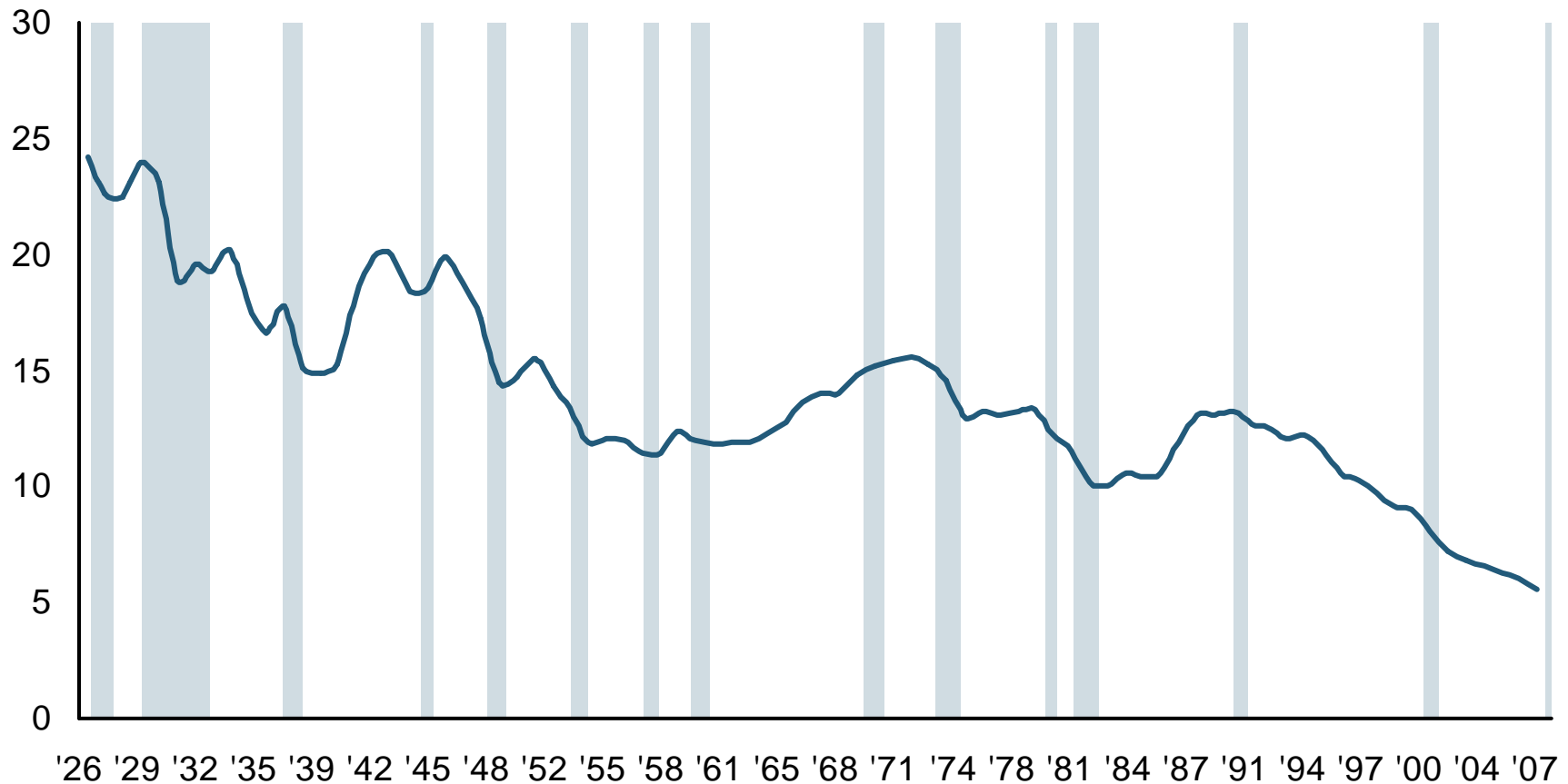
*Frequency is defined as the number of lost-time claims per 100,000 workers.

Based on the states where NCCI provides ratemaking services including state funds; Excludes the effects of deductible policies

Frequency: 1926–2008

A Long-Term Drift Downward

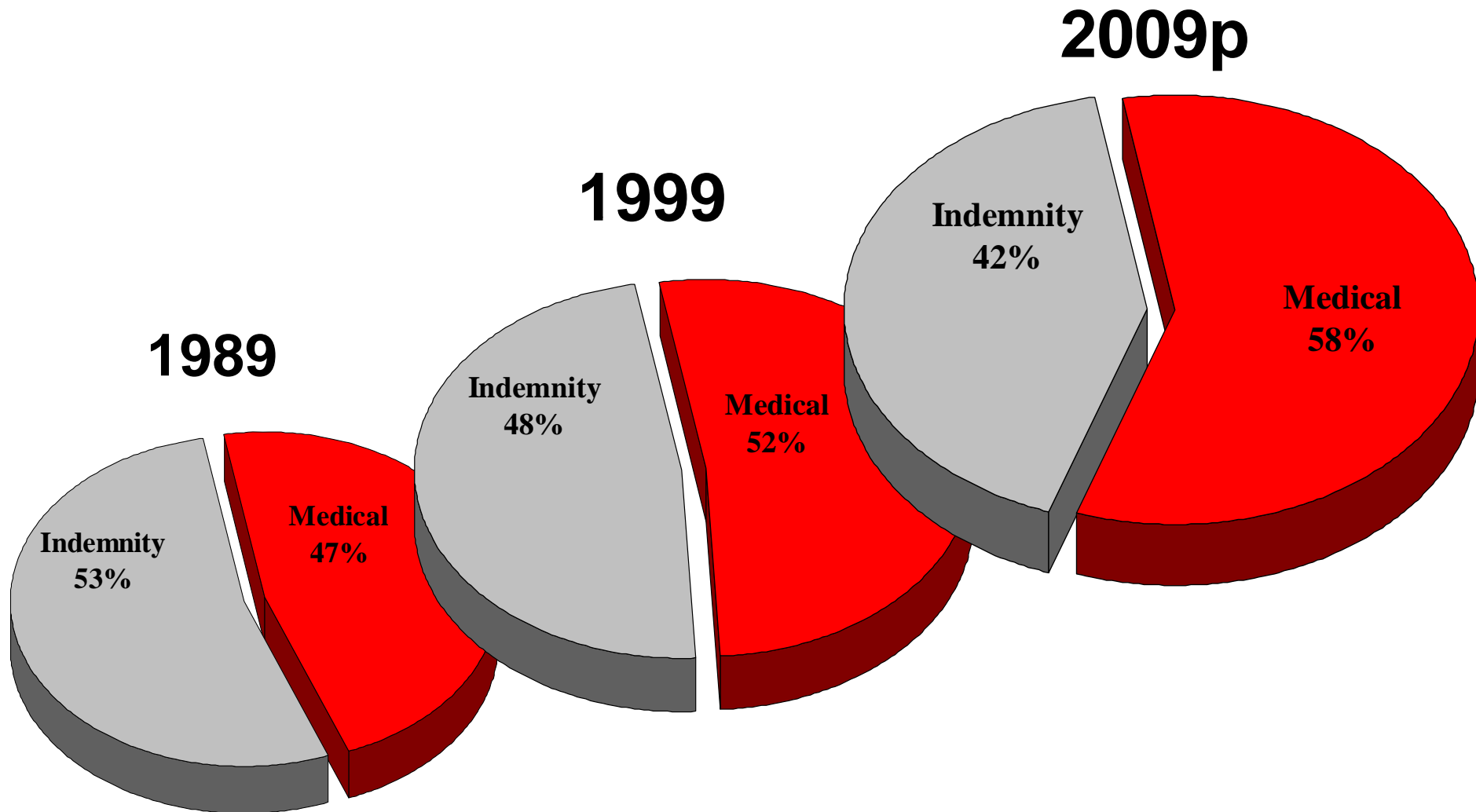
Manufacturing – Total Recordable Cases
Rate of Injury and Illness Cases per 100 Full-Time Workers



Note: Recessions indicated by gray bars.

Sources: NCCI from US Bureau of Labor Statistics; National Bureau of Economic Research

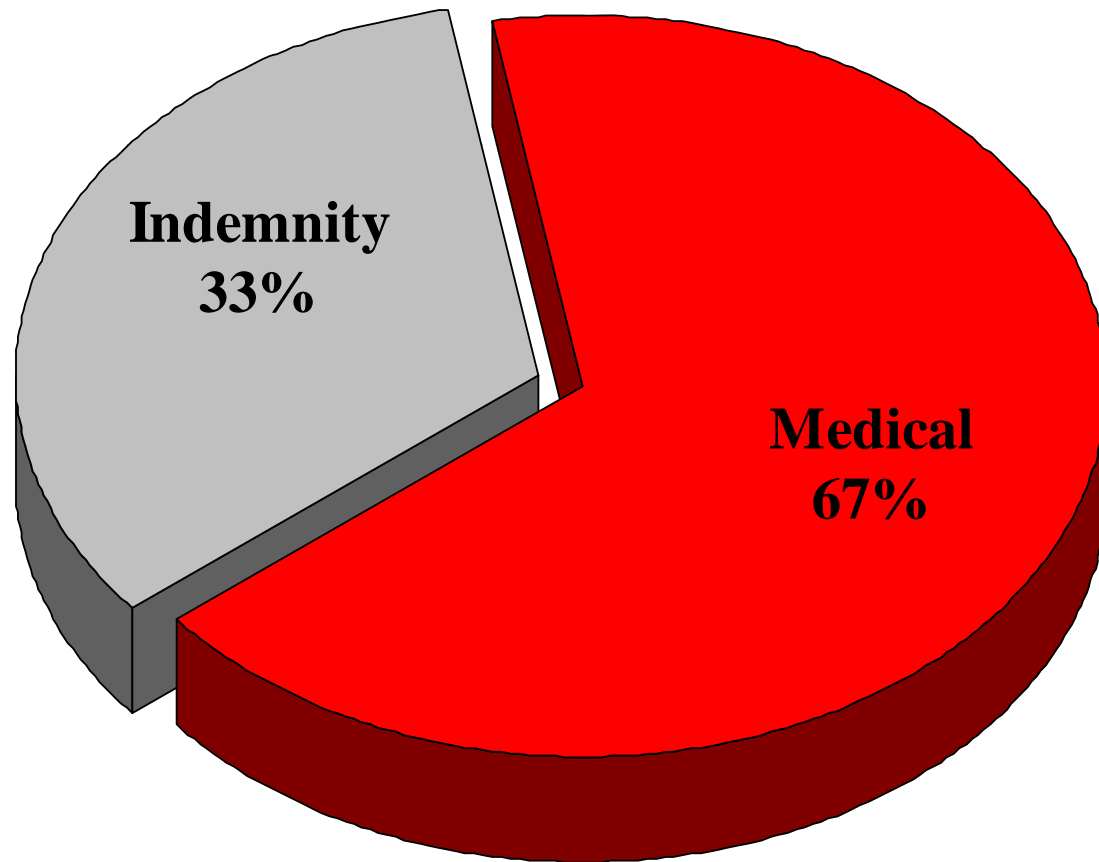
Med Costs Share of Total Costs is Increasing Steadily



Source: NCCI (based on states where NCCI provides ratemaking services).

WC Med Cost Will Equal 2/3 of Total by 2019 if Trends Hold

2019 Estimate



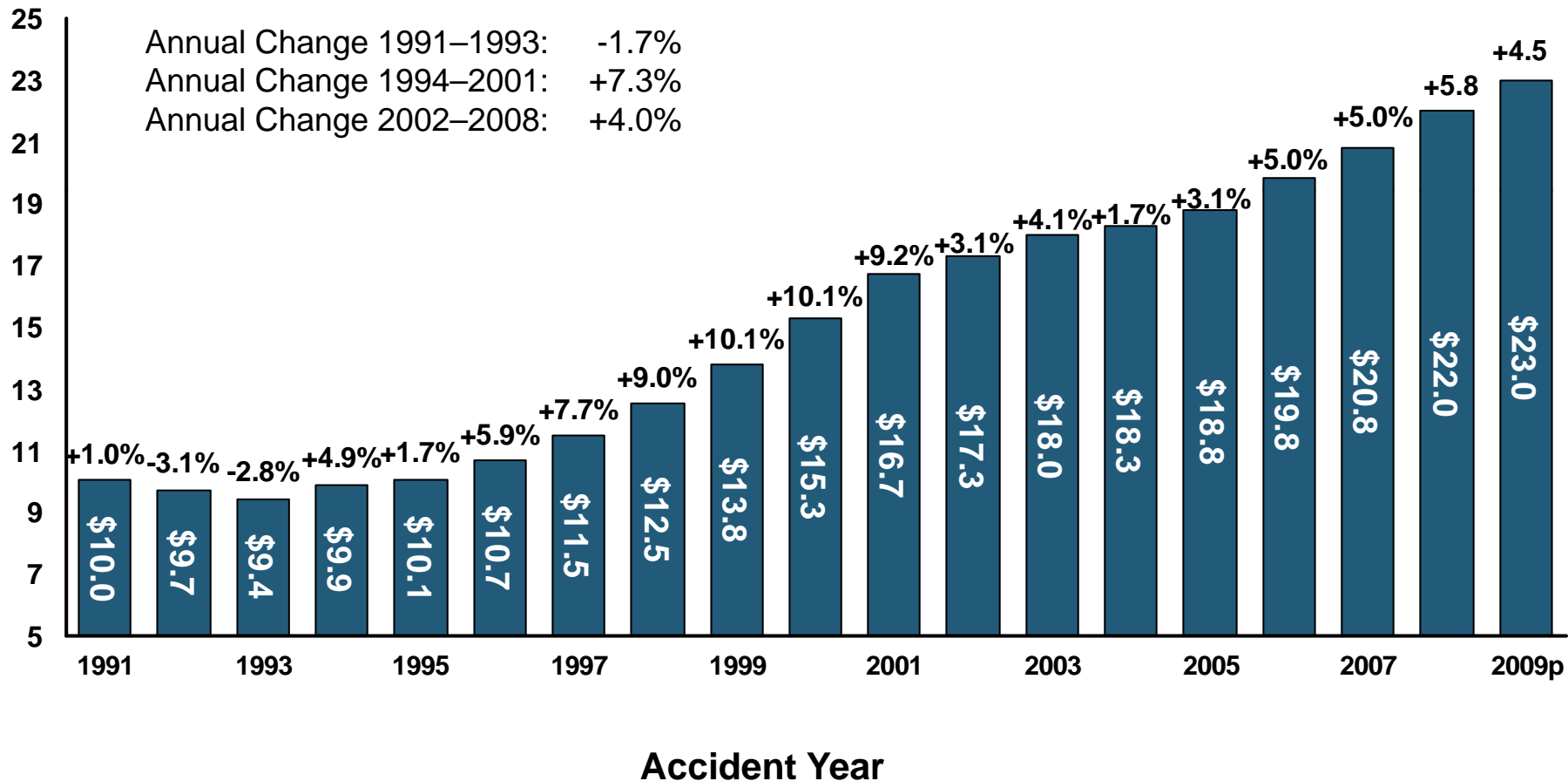
This trend will likely be supported by the increased labor force participation of workers age 55 and older.

Indemnity Claim Cost Trends

**Indemnity Costs Continue to Rise at a
Pace Above Wage Inflation**

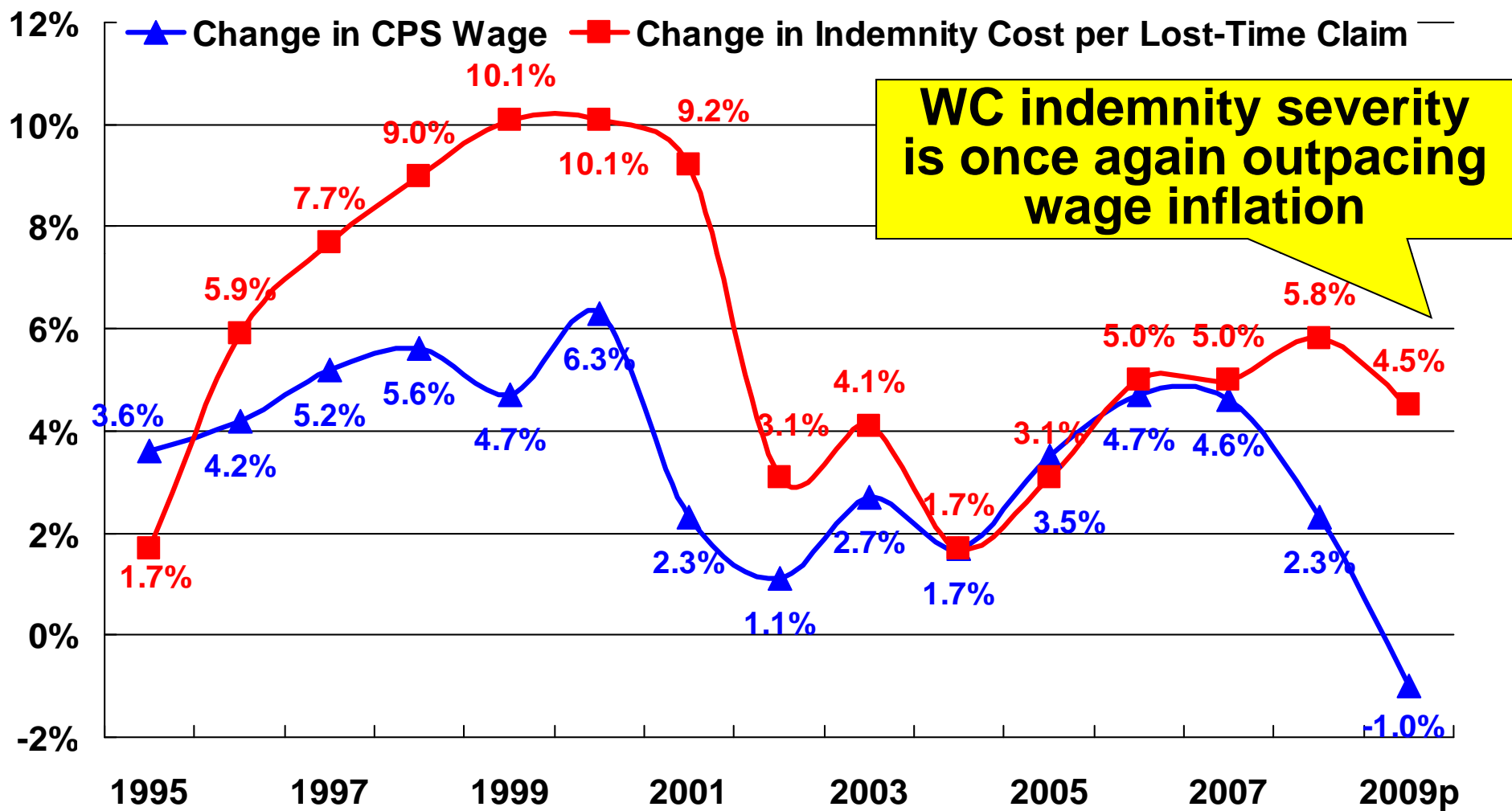
Workers Comp Indemnity Claim Costs Continue to Grow

Indemnity
Claim Cost (\$ 000s)



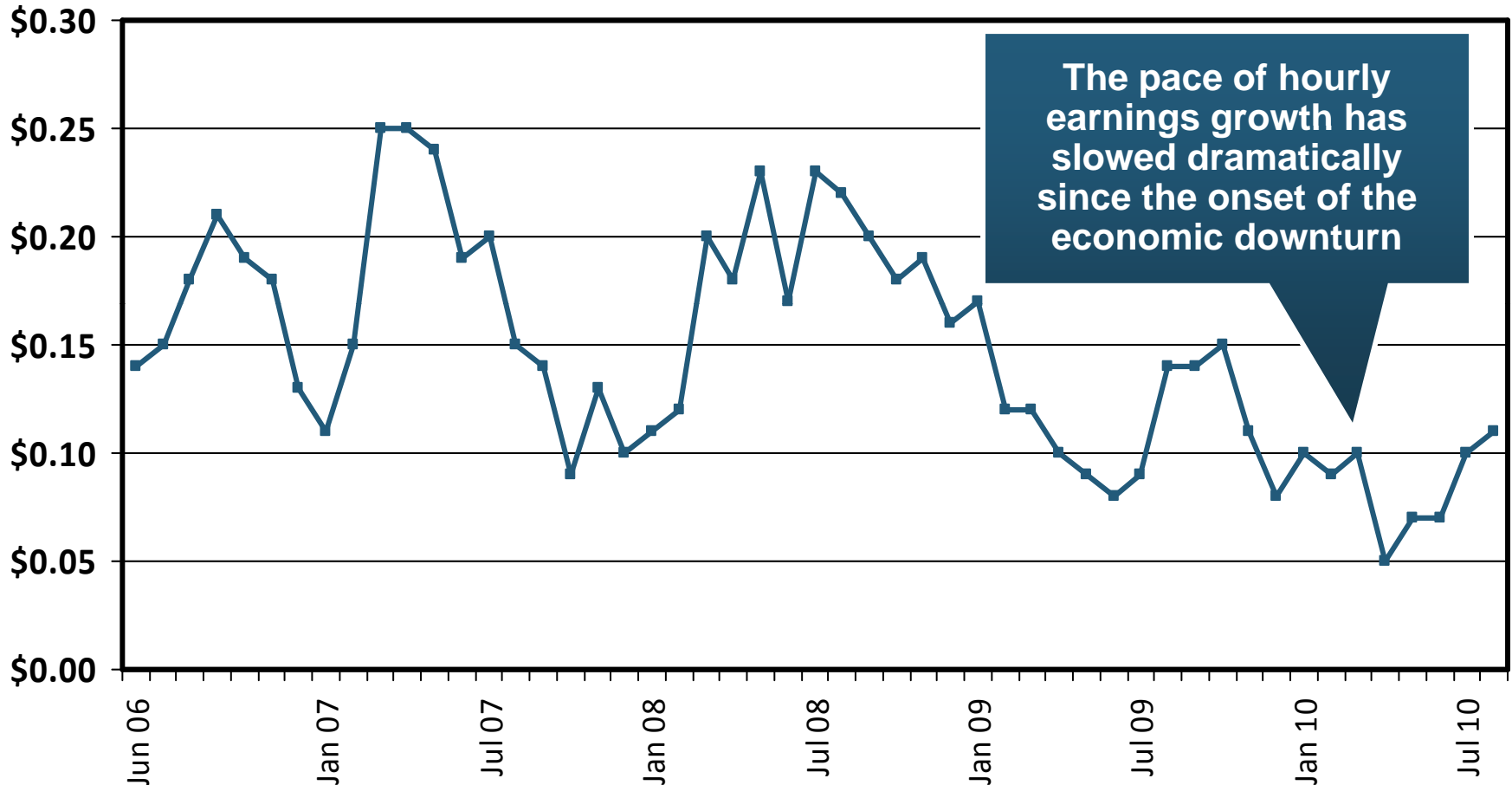
2009p: Preliminary based on data valued as of 12/31/2009
1991–2008: Based on data through 12/31/2008, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies

WC Indemnity Severity vs. Wage Inflation



2009p: Preliminary based on data valued as of 12/31/2009; 1991-2008: Based on data through 12/31/2008, developed to ultimate. Based on the states where NCCI provides ratemaking services. Excludes the effects of deductible policies. CPS = Current Population Survey.
Source: NCCI

Dollar Change* in Average Hourly Earnings, June 2006 – August 2010



**Average Hourly Earnings Grew at Least \$0.05
in Every 3-Month Period Since June 2006.**

*3-month net change, seasonally adjusted

Source: <http://data.bls.gov/PDQ/servlet/SurveyOutputServlet>

Where Will the Growth in WC Exposure Come From?

Industry and Occupation Growth Analysis

11 Industries for the Next 10 Years: Insurance Solutions Needed

Health Care

Health Sciences

Energy (Traditional)

Alternative Energy

Agriculture

Natural Resources

Environmental

Technology (incl. Biotechnology)

Light Manufacturing

Export-Oriented Industries

Shipping (Rail, Marine)

Fastest Growing Occupations, 2008–2018:

Health/Science/Tech Dominate

WC exposure growth the fastest in the health, science and tech areas

Occupations	Percent change	Number of new jobs (in thousands)	Wages (May 2008 median)	Education/training category
Biomedical engineers	72	11.6	\$ 77,400	Bachelor's degree
Network systems and data communications analysts	53	155.8	71,100	Bachelor's degree
Home health aides	50	460.9	20,460	Short-term on-the-job training
Personal and home care aides	46	375.8	19,180	Short-term on-the-job training
Financial examiners	41	11.1	70,930	Bachelor's degree
Medical scientists, except epidemiologists	40	44.2	72,590	Doctoral degree
Physician assistants	39	29.2	81,230	Master's degree
Skin care specialists	38	14.7	28,730	Postsecondary vocational award
Biochemists and biophysicists	37	8.7	82,840	Doctoral degree
Athletic trainers	37	6.0	39,640	Bachelor's degree
Physical therapist aides	36	16.7	23,760	Short-term on-the-job training
Dental hygienists	36	62.9	66,570	Associate degree
Veterinary technologists and technicians	36	28.5	28,900	Associate degree
Dental assistants	36	105.6	32,380	Moderate-term on-the-job training
Computer software engineers, applications	34	175.1	85,430	Bachelor's degree
Medical assistants	34	163.9	28,300	Moderate-term on-the-job training
Physical therapist assistants	33	21.2	46,140	Associate degree
Veterinarians	33	19.7	79,050	First professional degree
Self-enrichment education teachers	32	81.3	35,720	Work experience in a related occupation
Compliance officers, except agriculture, construction, health and safety, and transportation	31	80.8	48,890	Long-term on-the-job training

SOURCE: BLS Occupational Employment Statistics and Division of Occupational Outlook

Occupations with Largest Numerical Growth, 2008–2018: *Health, Services Dominate*

Dollar growth in WC exposures should grow the most (at current rate levels) in the health and services industries

Occupations	Number of new jobs (in thousands)	Percent change	Wages (May 2008 median)	Education/training category
Registered nurses	581.5	22	\$ 62,450	Associate degree
Home health aides	460.9	50	20,460	Short-term on-the-job training
Customer service representatives	399.5	18	29,860	Moderate-term on-the-job training
Combined food preparation and serving workers, including fast food	394.3	15	16,430	Short-term on-the-job training
Personal and home care aides	375.8	46	19,180	Short-term on-the-job training
Retail salespersons	374.7	8	20,510	Short-term on-the-job training
Office clerks, general	358.7	12	25,320	Short-term on-the-job training
Accountants and auditors	279.4	22	59,430	Bachelor's degree
Nursing aides, orderlies, and attendants	276.0	19	23,850	Postsecondary vocational award
Postsecondary teachers	256.9	15	58,830	Doctoral degree
Construction laborers	255.9	20	28,520	Moderate-term on-the-job training
Elementary school teachers, except special education	244.2	16	49,330	Bachelor's degree
Truck drivers, heavy and tractor-trailer	232.9	13	37,270	Short-term on-the-job training
Landscaping and groundskeeping workers	217.1	18	23,150	Short-term on-the-job training
Bookkeeping, accounting, and auditing clerks	212.4	10	32,510	Moderate-term on-the-job training
Executive secretaries and administrative assistants	204.4	13	40,030	Work experience in a related occupation
Management analysts	178.3	24	73,570	Bachelor's or higher degree, plus work experience
Computer software engineers, applications	175.1	34	85,430	Bachelor's degree
Receptionists and information clerks	172.9	15	24,550	Short-term on-the-job training
Carpenters	165.4	13	38,940	Long-term on-the-job training

SOURCE: BLS Occupational Employment Statistics and Division of Occupational Outlook

Occupations With Largest Numerical Growth Across the States, 2006–2016

State	Occupations	Number of new jobs	Percent Change
California	Retail salespersons	109,300	22
Texas	Combined food preparation and serving workers, incl. fast food	88,520	33
Texas	Retail salespersons	78,600	24
California	Personal and home care aides	76,900	27
Texas	Personal and home care aides	74,800	56
Texas	Customer service representatives	65,630	31
California	Office clerks, general	63,100	15
Texas	Elementary school teachers, except special education	62,280	43
California	Registered nurses	59,600	25
Texas	Registered nurses	59,590	38
Florida	Retail salespersons	55,930	20
California	Customer service representatives	55,600	28
Texas	Waiters and waitresses	53,650	31
California	Combined food preparation and serving workers, incl. fast food	53,200	25
California	Waiters and waitresses	52,800	23
New York	Home health aides	52,320	38
Florida	Customer service representatives	51,830	32
California	Postsecondary teachers	51,300	30
California	Elementary school teachers, except special education	51,300	27
Texas	Child care workers	44,230	30

Texas and California will see the most job growth through 2016, much of it in health and retail occupations

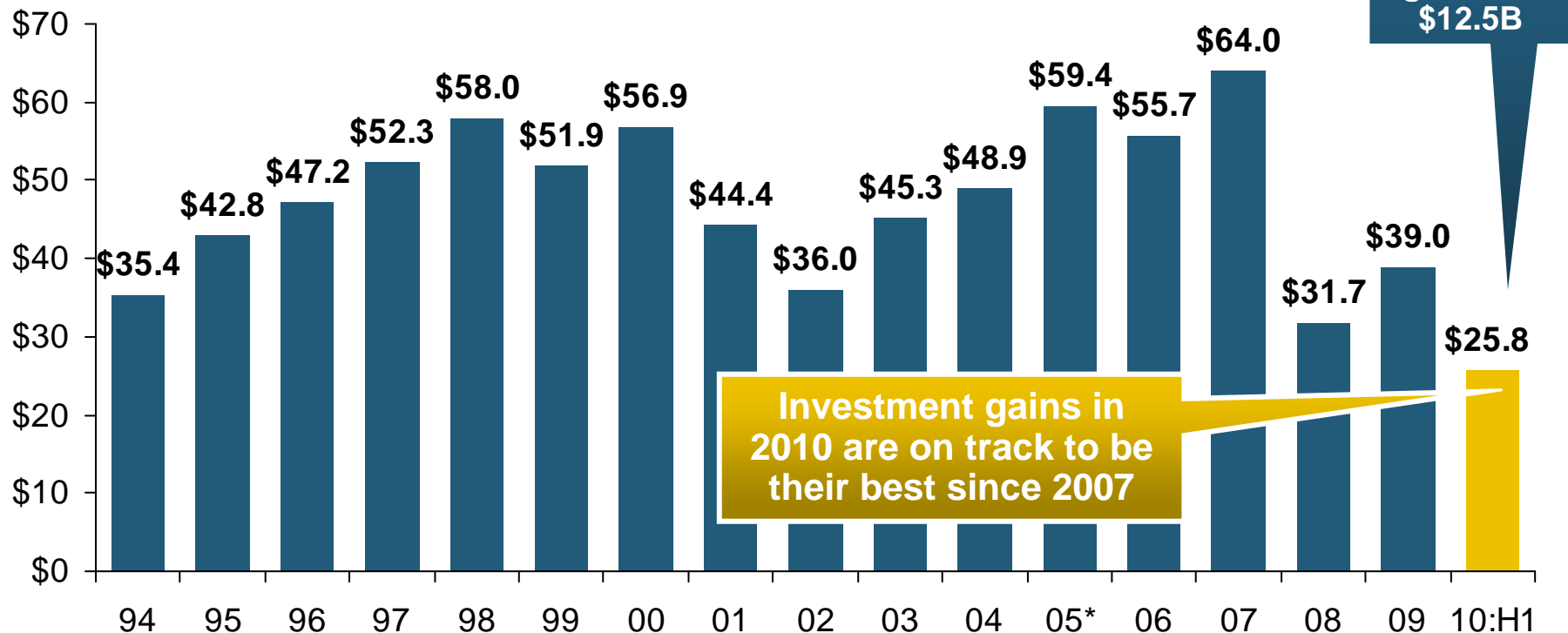
Investment Performance

**Investments Are a Principle
Source of Declining Profitability**

Property/Casualty Insurance Industry Investment Gain: 1994–2010:H1¹



(\$ Billions)



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

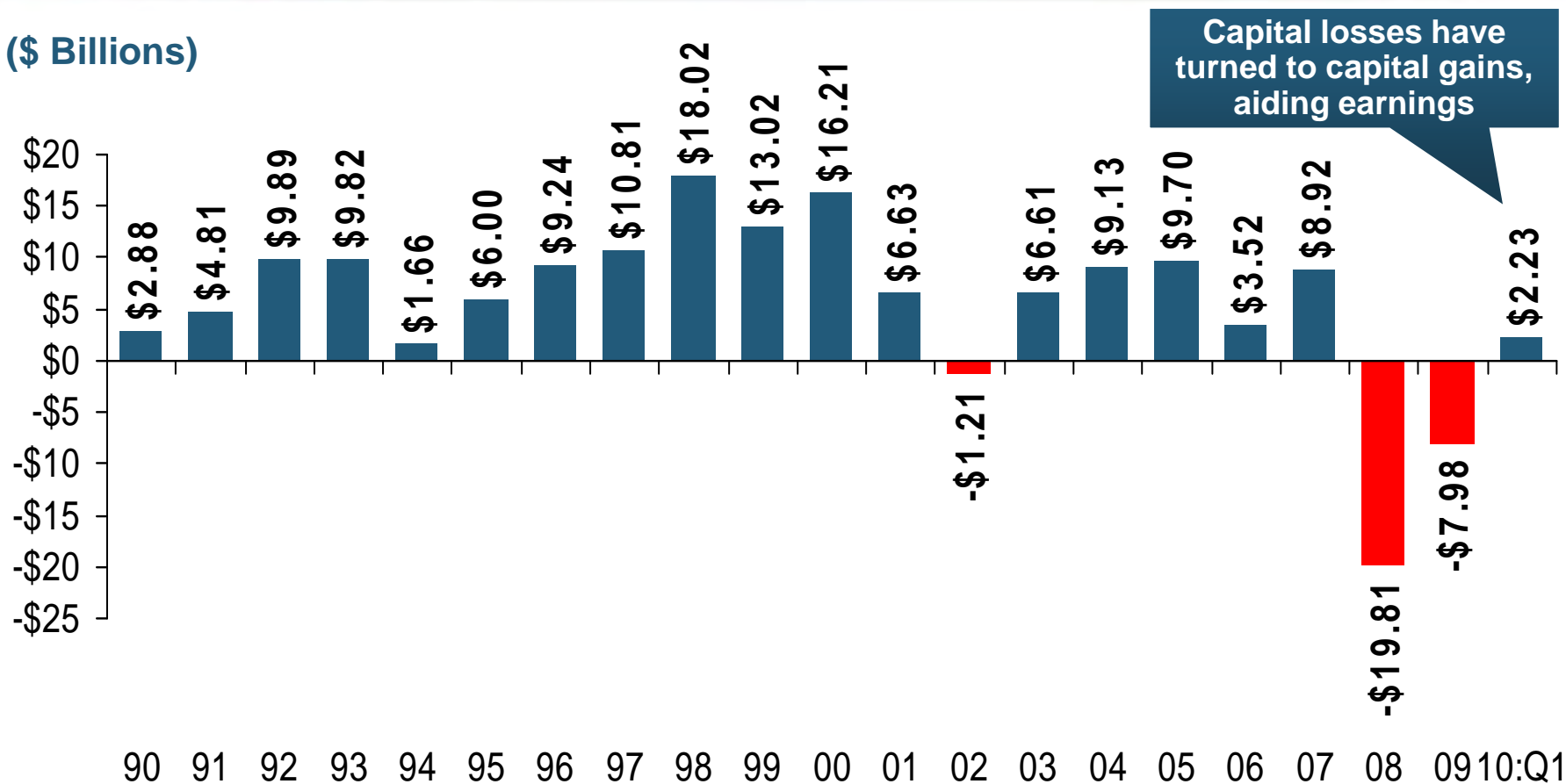
¹ Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.

* 2005 figure includes special one-time dividend of \$3.2B.

Sources: ISO; Insurance Information Institute.

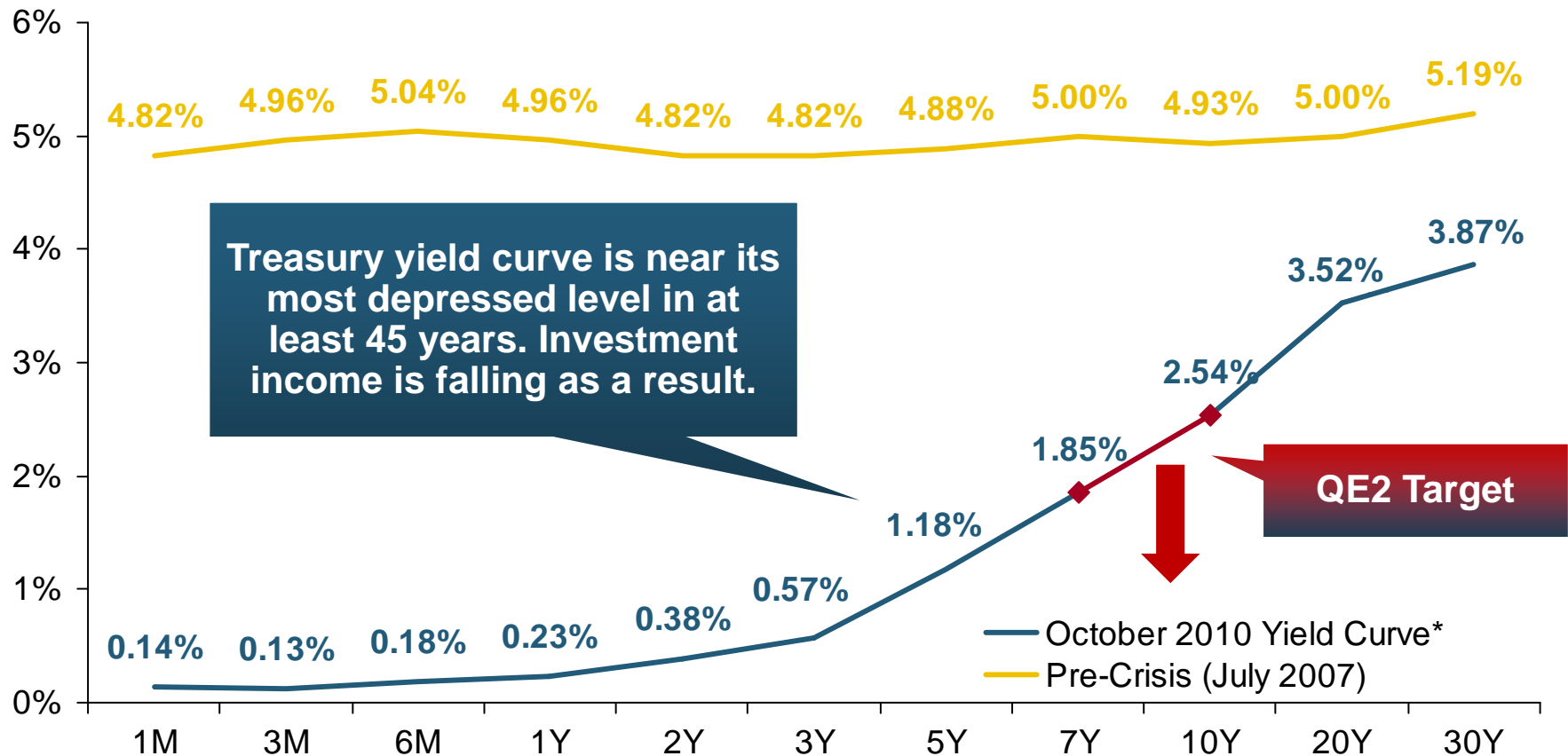
P/C Insurer Net Realized Capital Gains, 1990-2010:H1

(\$ Billions)



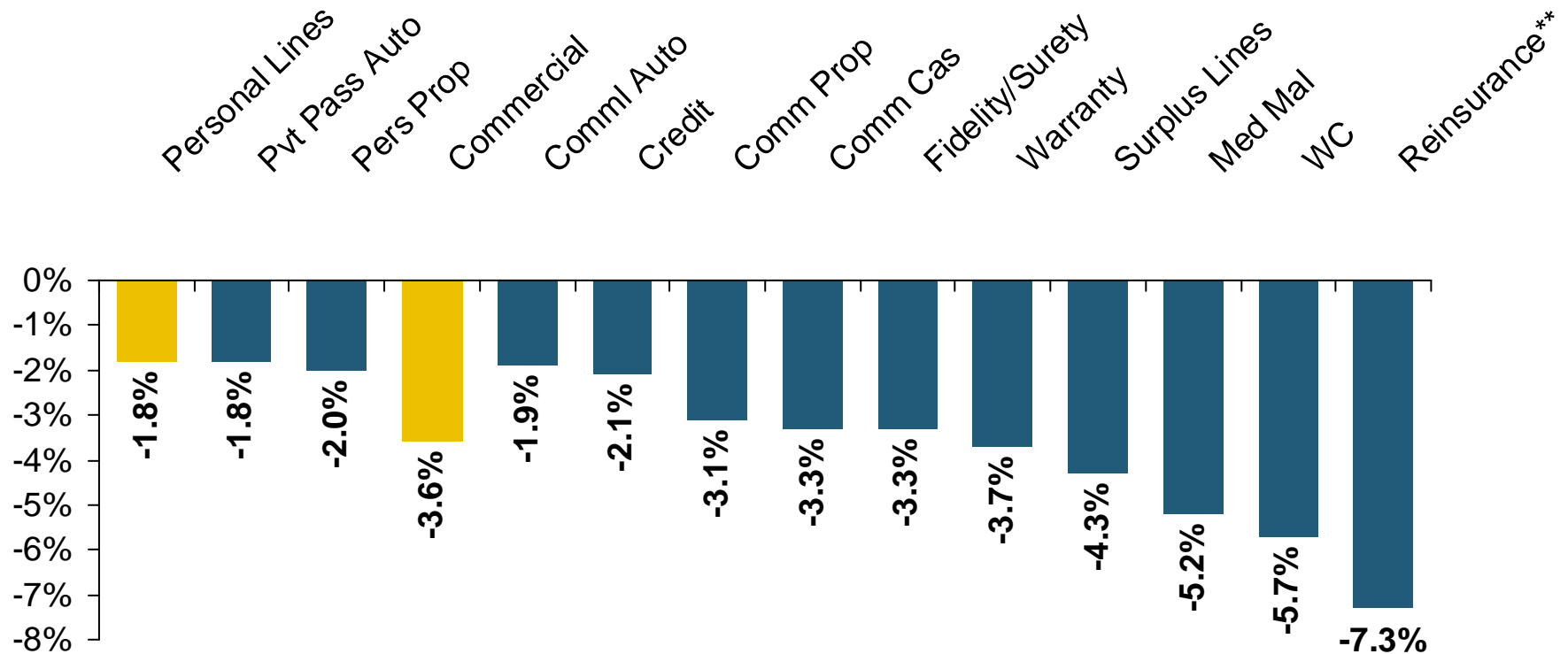
**Realized Capital Losses Were the Primary Cause
of 2008/2009's Large Drop in Profits and ROE**

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



The Fed's Announced Intention to Pursue Additional Quantitative Easing Could Further Depress Rates in the 7 to 10-Year Maturity Range

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

*Based on 2008 Invested Assets and Earned Premiums

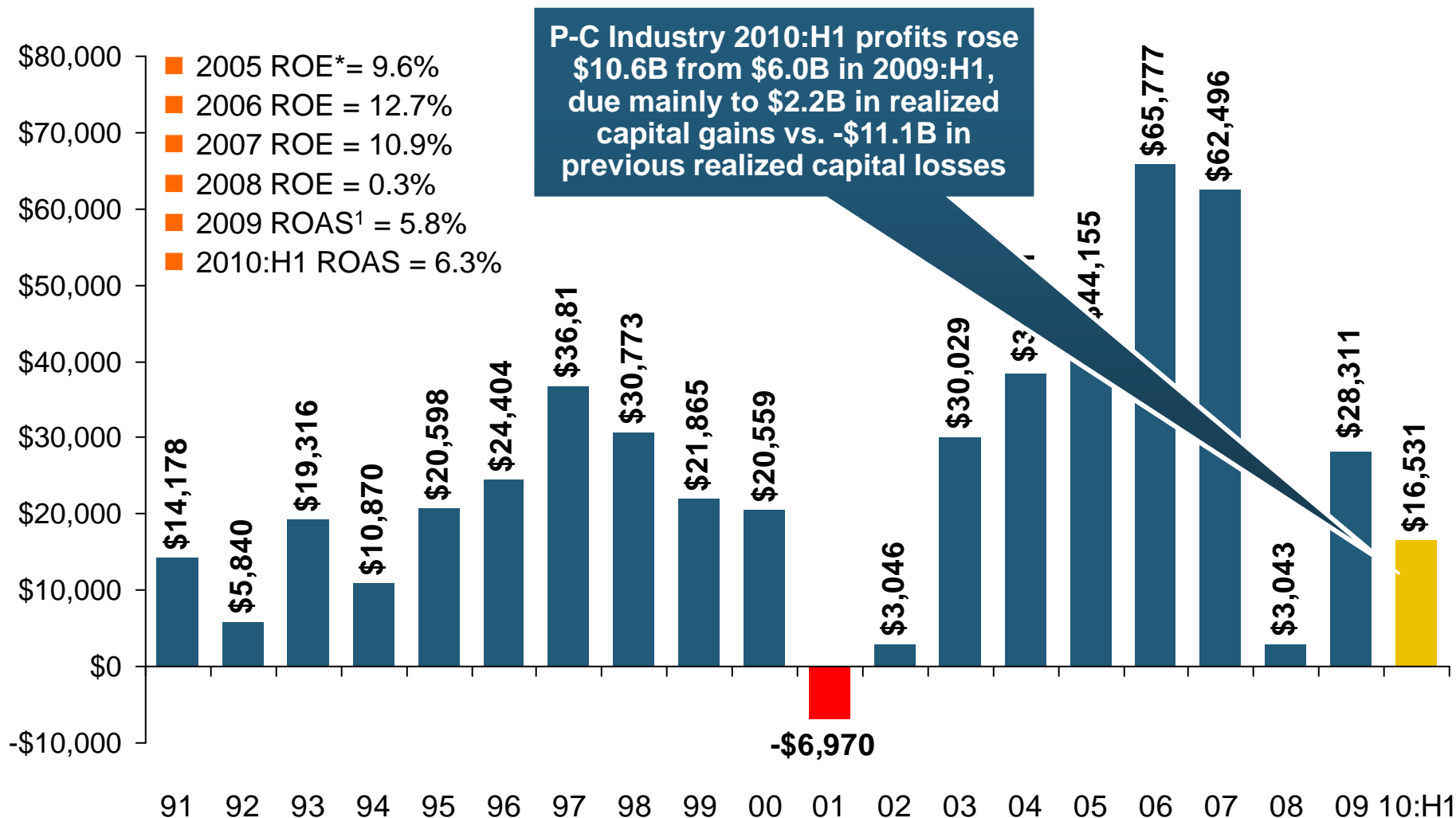
**US domestic reinsurance only

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

Profitability

Historically Volatile

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

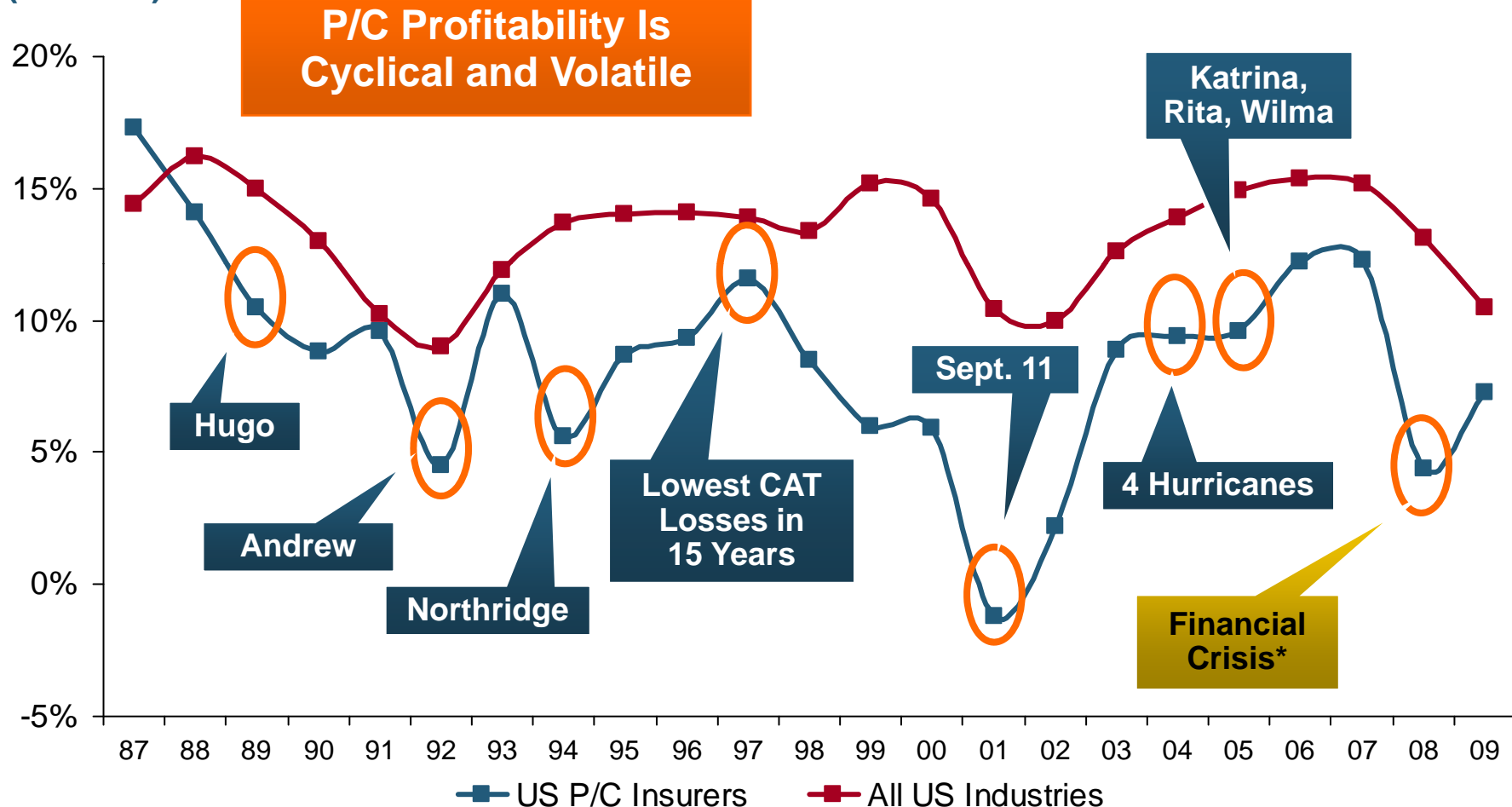


* ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 7.5% ROAS for 2010:H1 and 4.6% for 2009. 2009:H1 net income was \$19.2 billion and \$10.2 billion in 2008:H1 excluding M&FG.

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

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

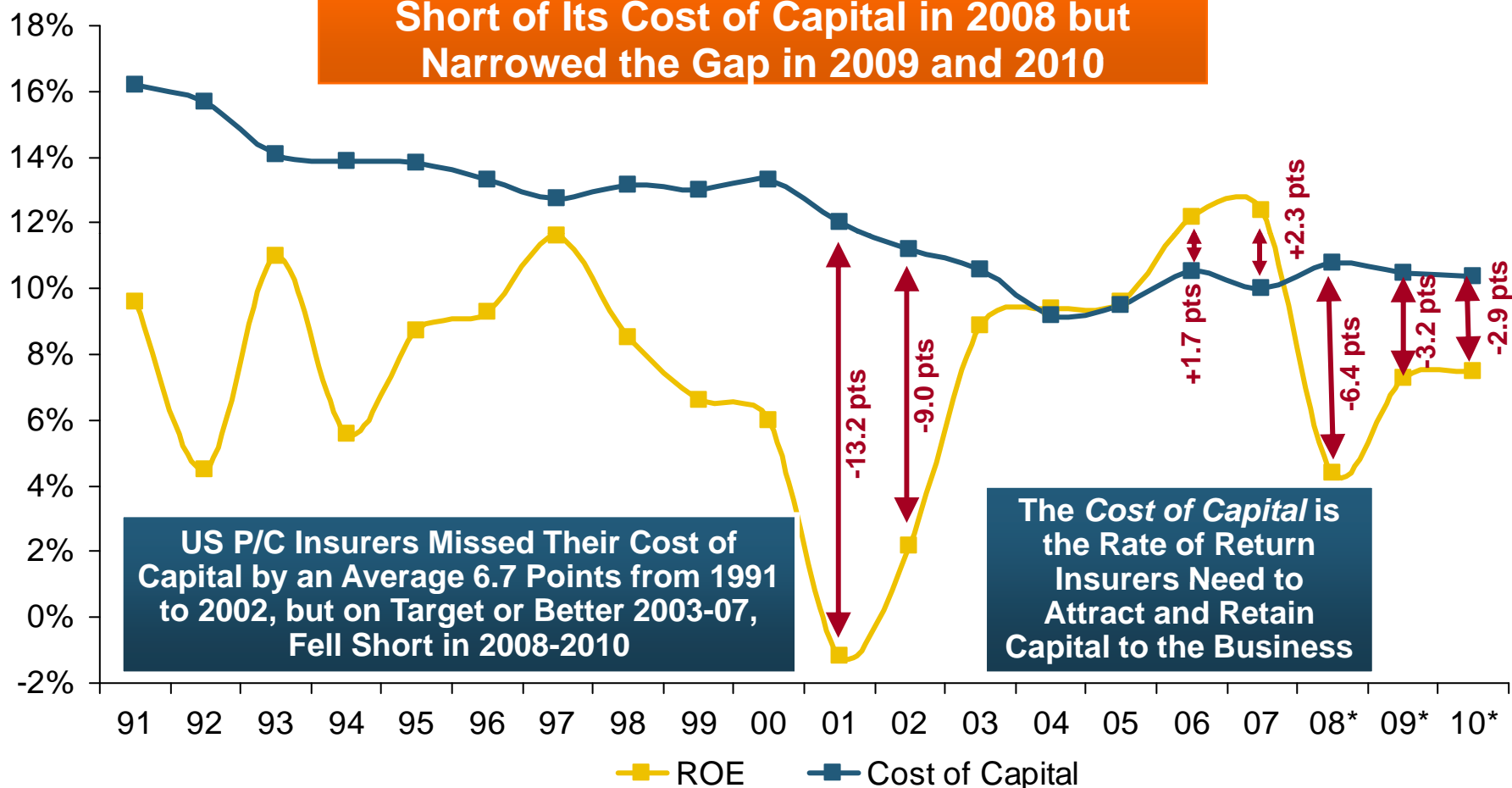
(Percent)



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

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

(Percent)

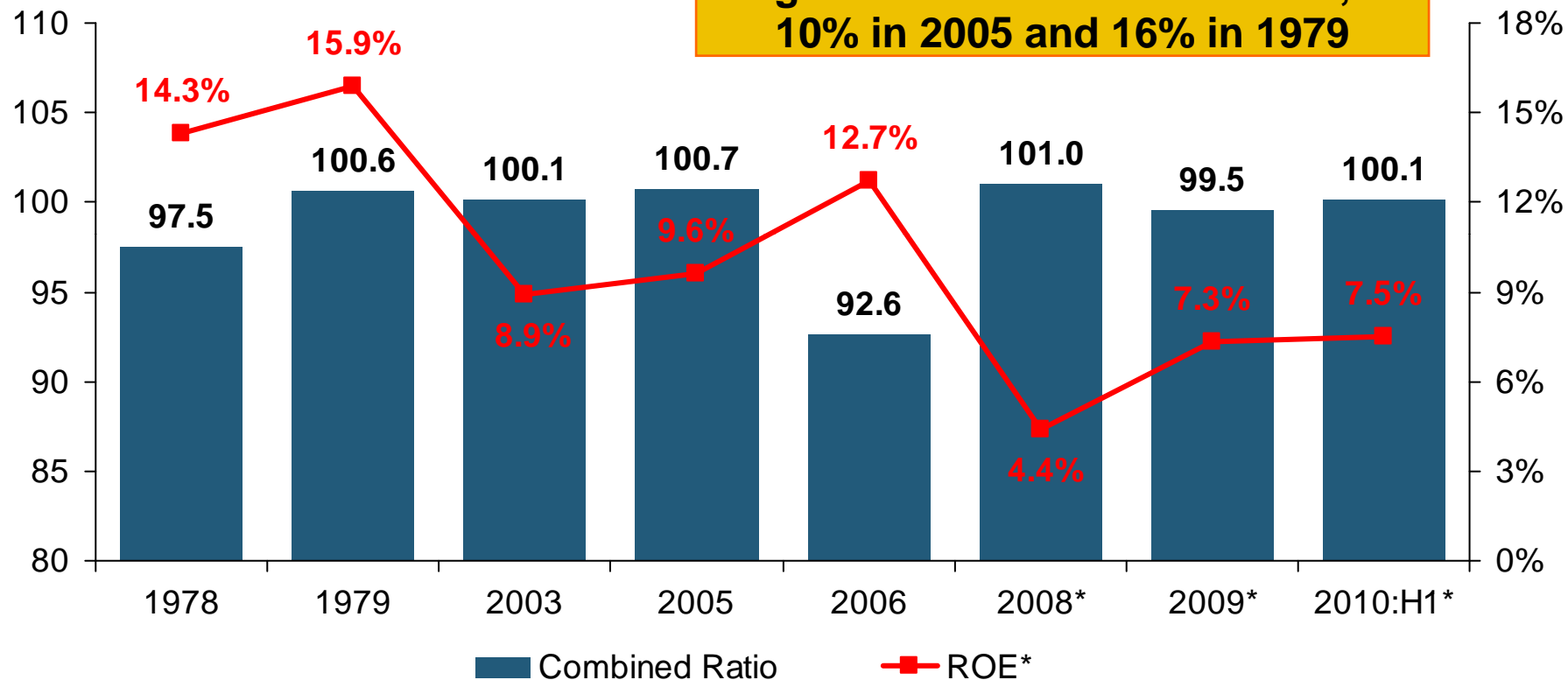


* Return on average surplus in 2008-2010 excluding mortgage and financial guaranty insurers.

Source: The Geneva Association, Insurance Information Institute

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

Combined Ratio / ROE



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

* 2009 and 2010:Q1 figures are return on average statutory surplus. 2008, 2009 and 2010:H1 figures exclude mortgage and financial guaranty insurers

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

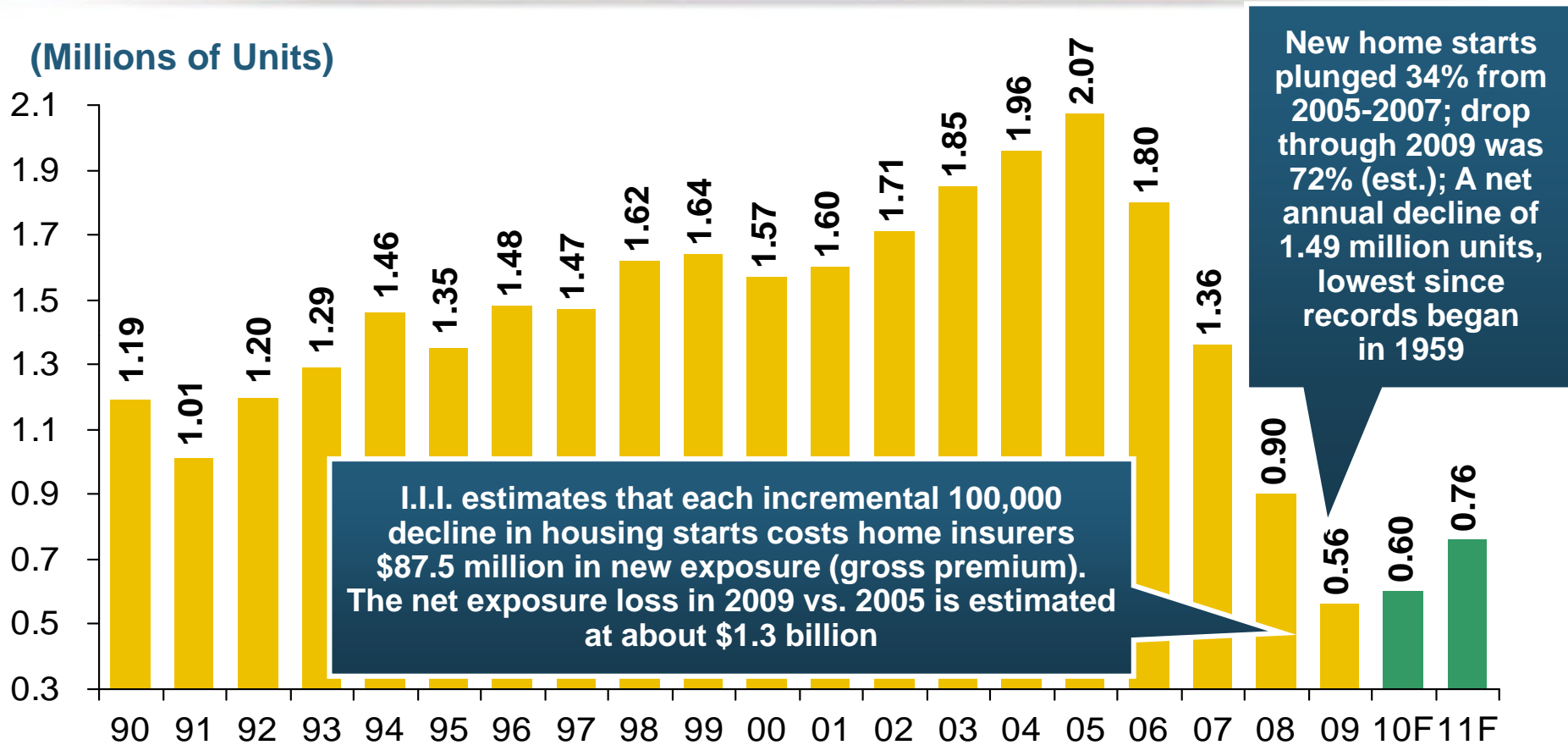
The Economic Storm

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

Crisis-Driven Exposure Drivers

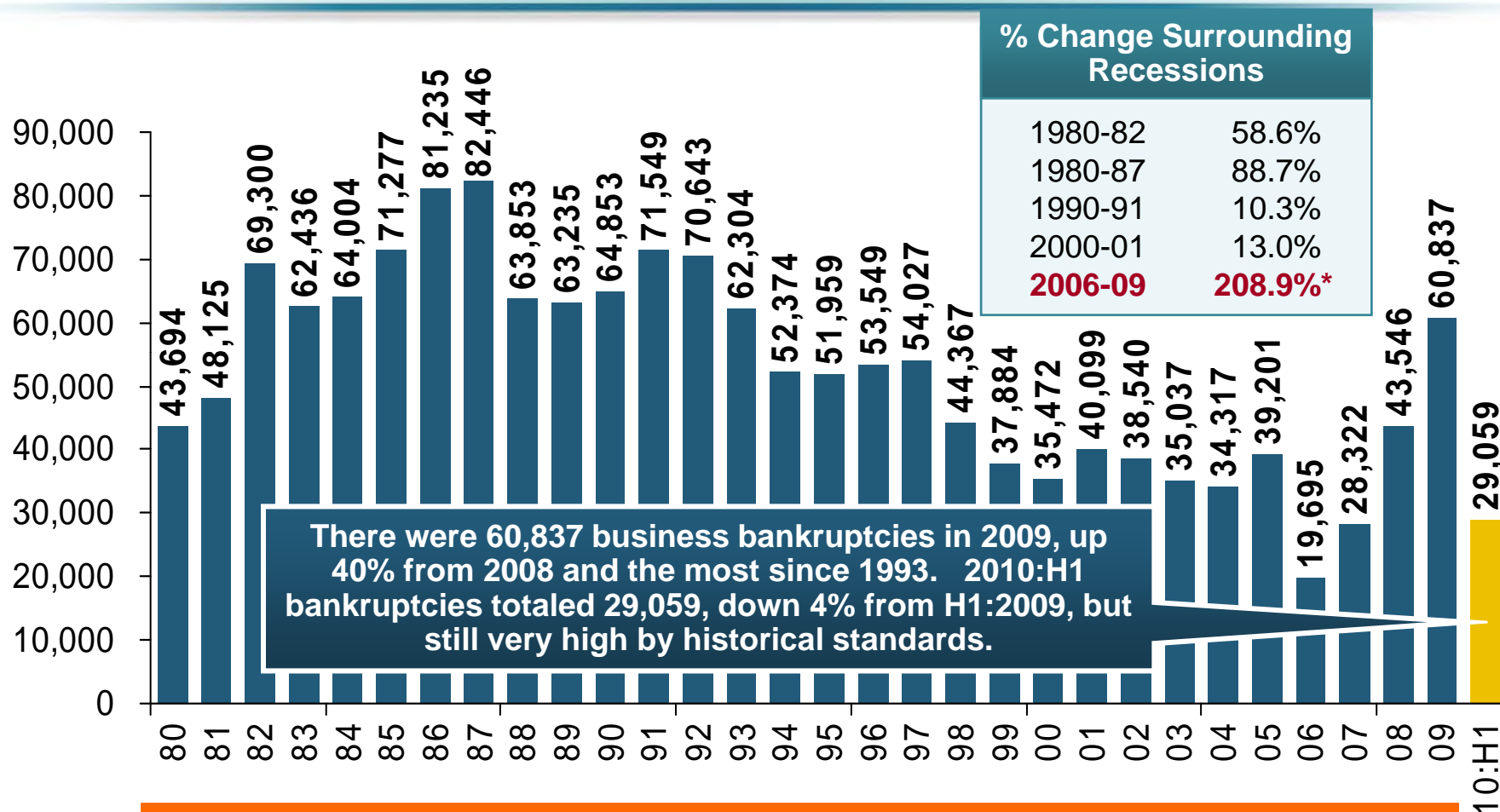
**Economic Obstacles
to Growth in P/C Insurance**

New Private Housing Starts, 1990-2011F



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

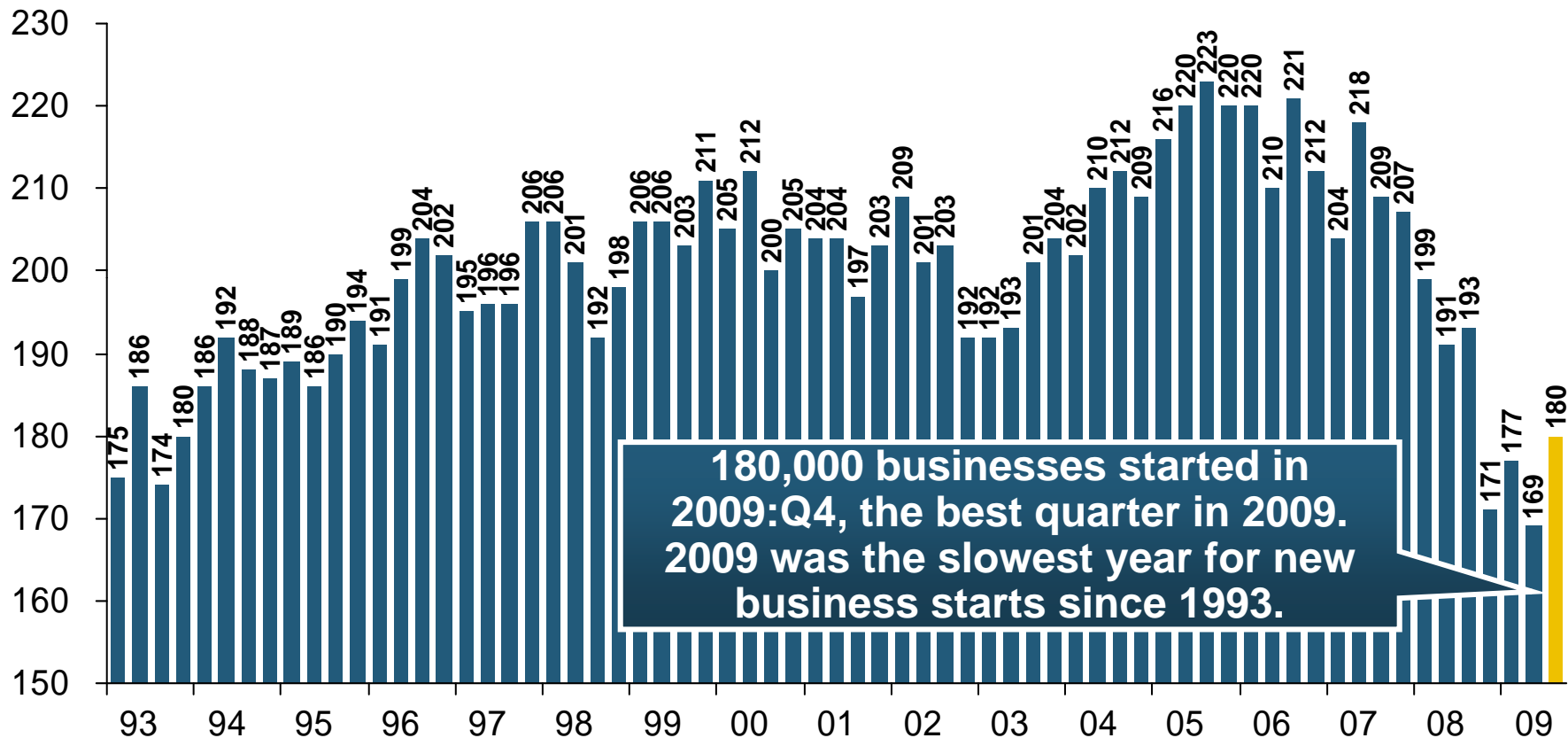
Business Bankruptcy Filings, 1980-2010:H1



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

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

(Thousands)



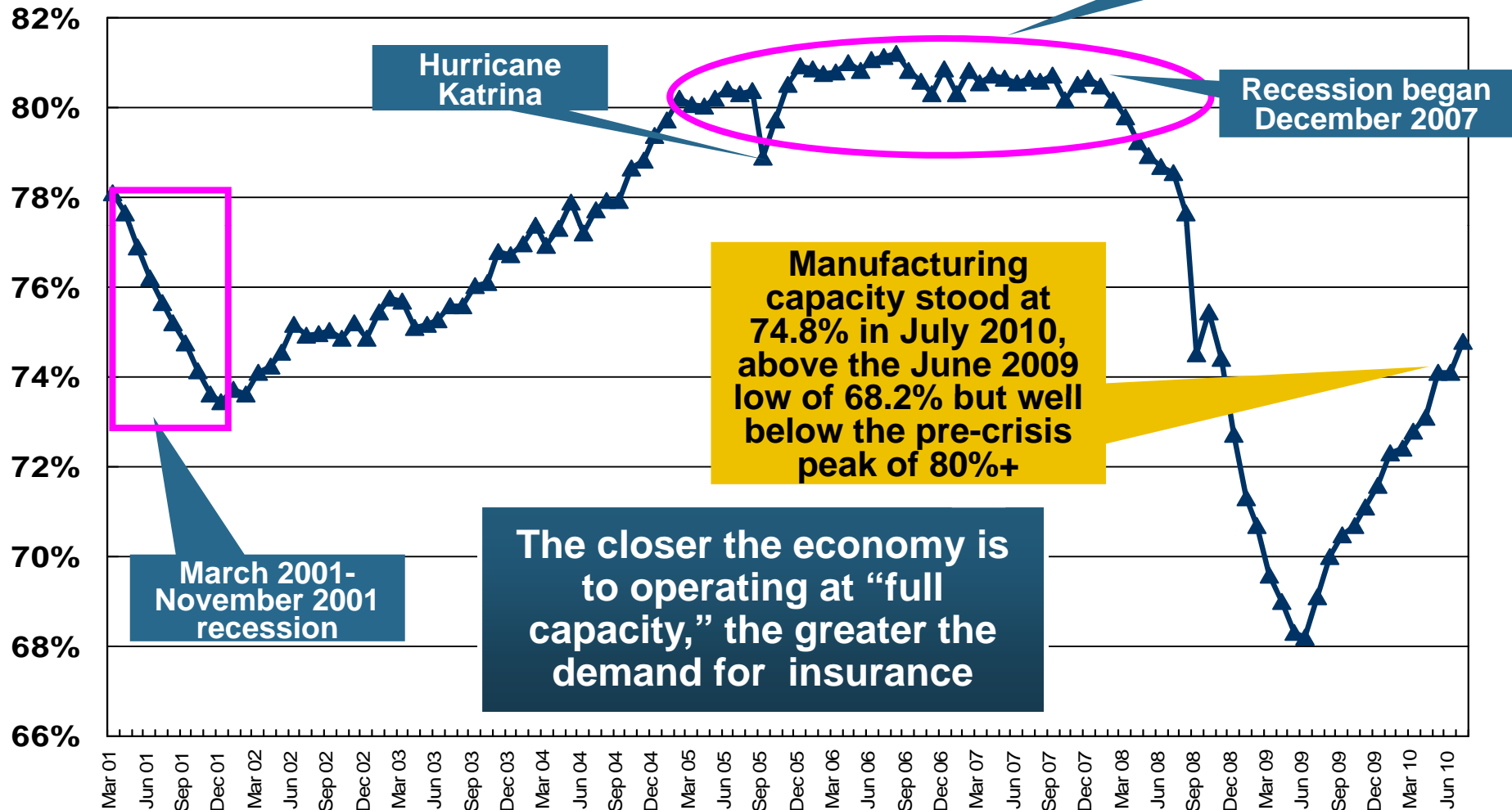
**Business Starts Are Down Nearly 20% in the Current Downturn,
Holding Back Most Types of Commercial Insurance Exposure**

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

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

Recovery in Capacity Utilization is a Positive Sign for Insurance Exposure

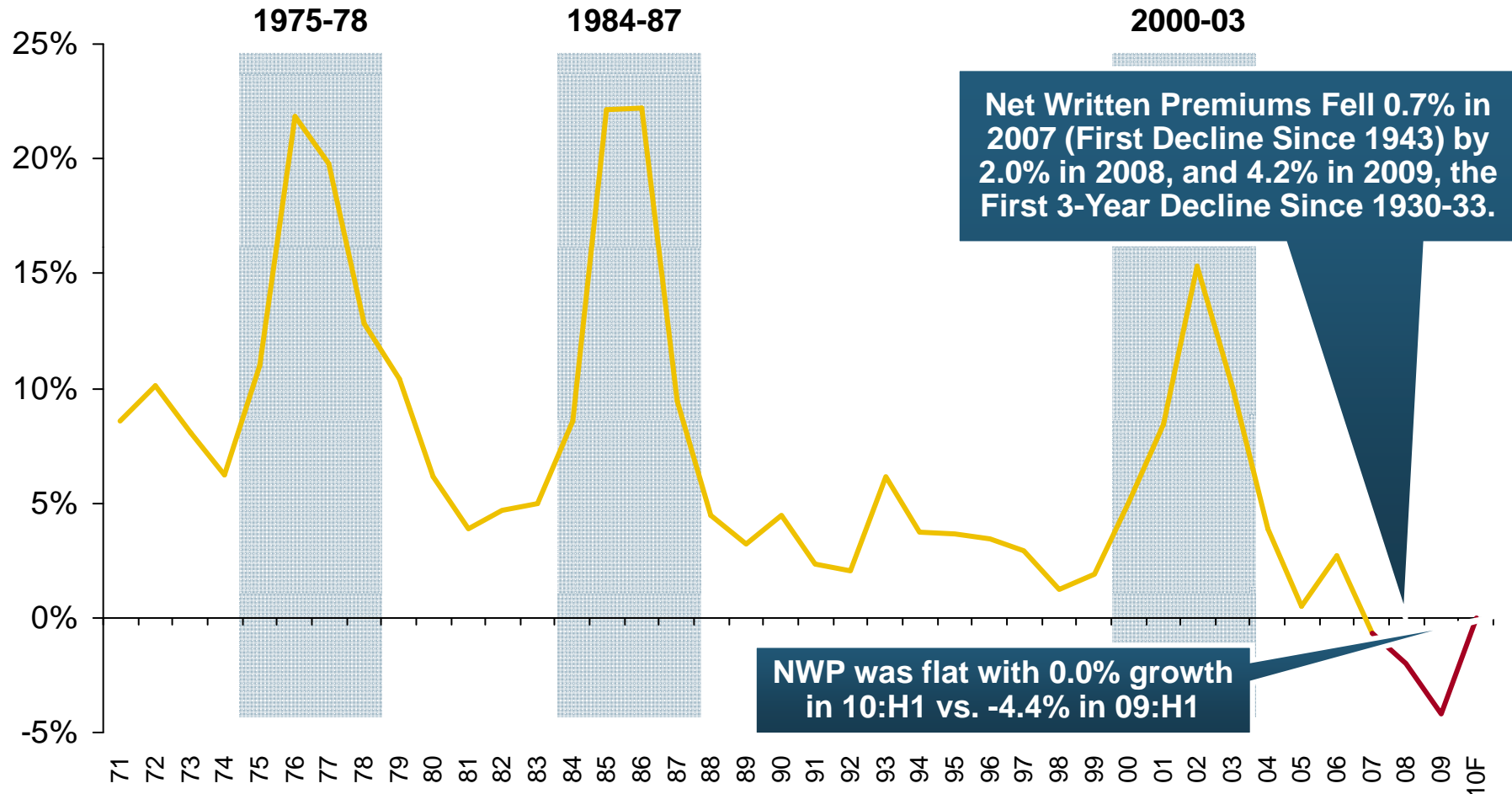
**Percent of Capacity Utilized
(Manufacturing, Mining, Utilities)**



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

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

(Percent)

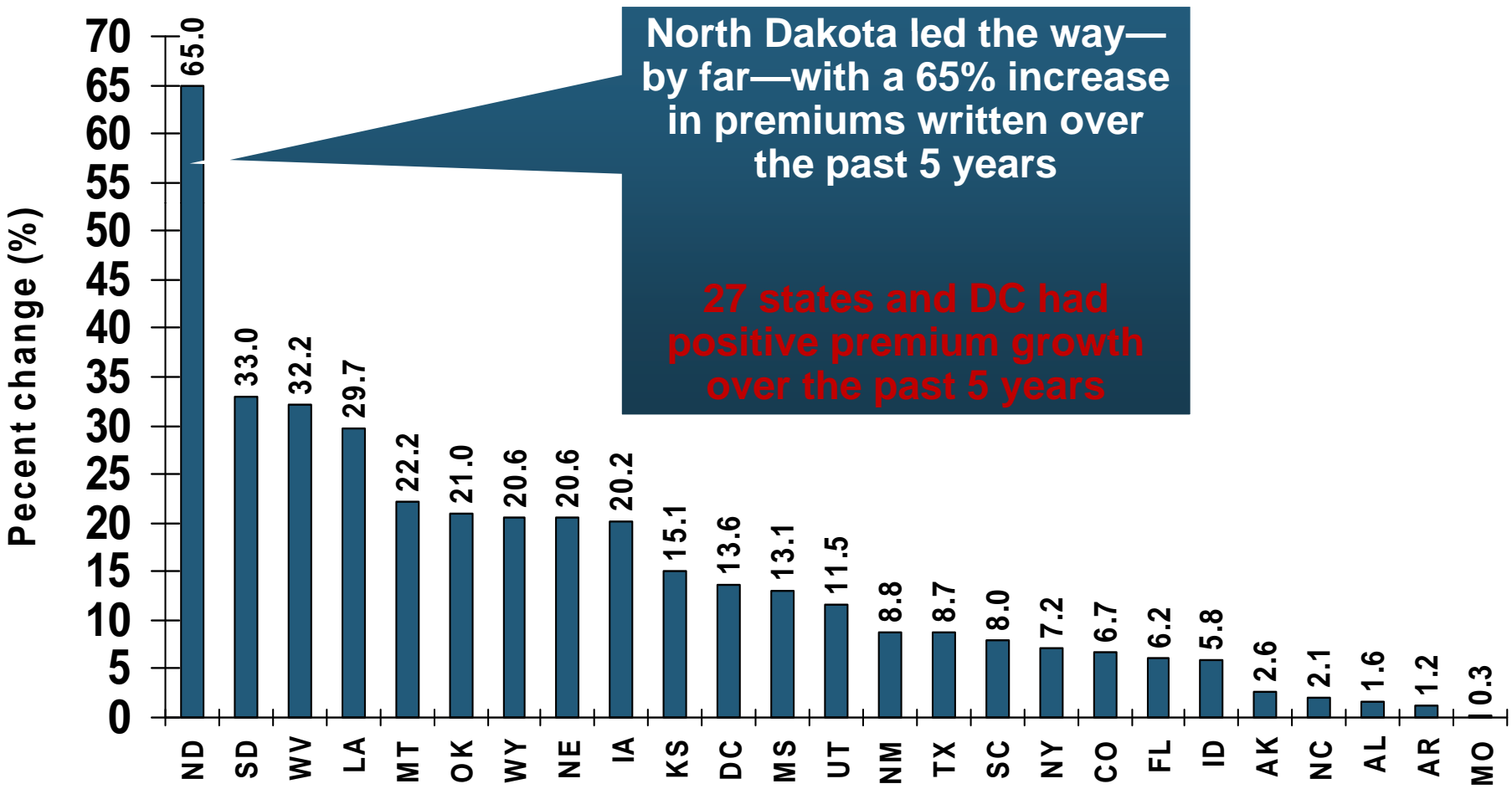


Shaded areas denote "hard market" periods

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

Direct Premiums Written: Commercial Lines Percent Change by State, 2004-2009

Top 25 States

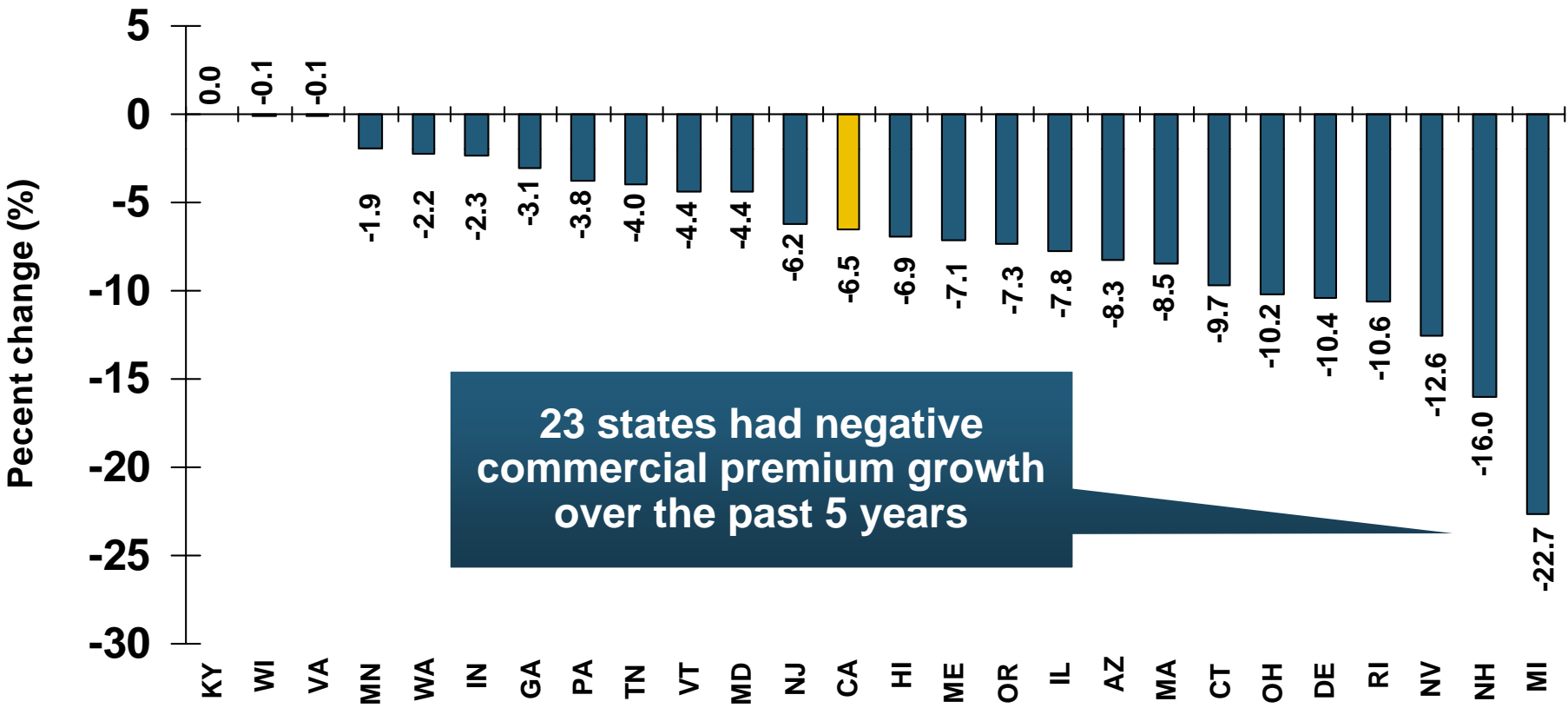


Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: Commercial Lines Percent Change by State, 2004-2009



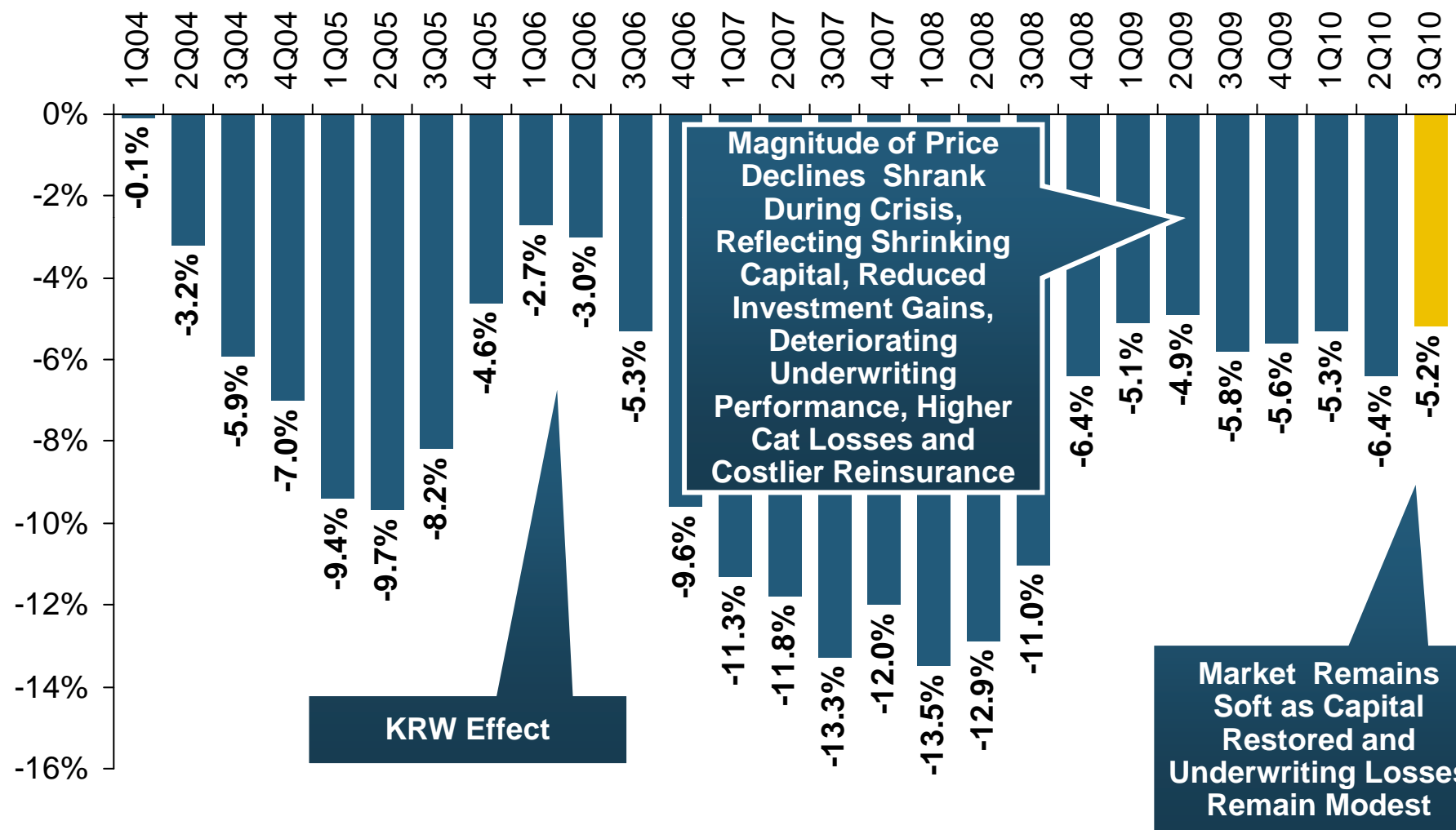
Bottom 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

Average Commercial Rate Change, All Lines, (1Q:2004–3Q:2010)

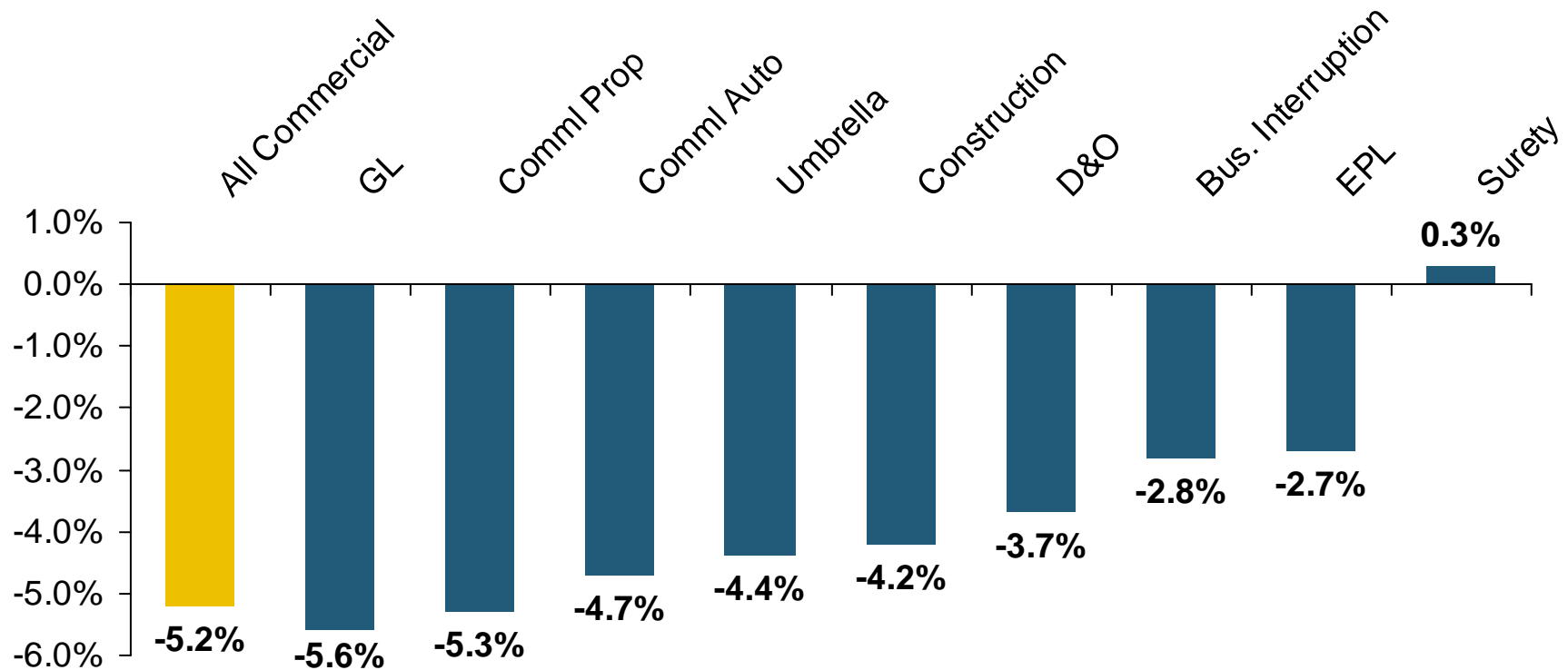
(Percent)



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

Change in Commercial Rate Renewals, by Line: 2010:Q3

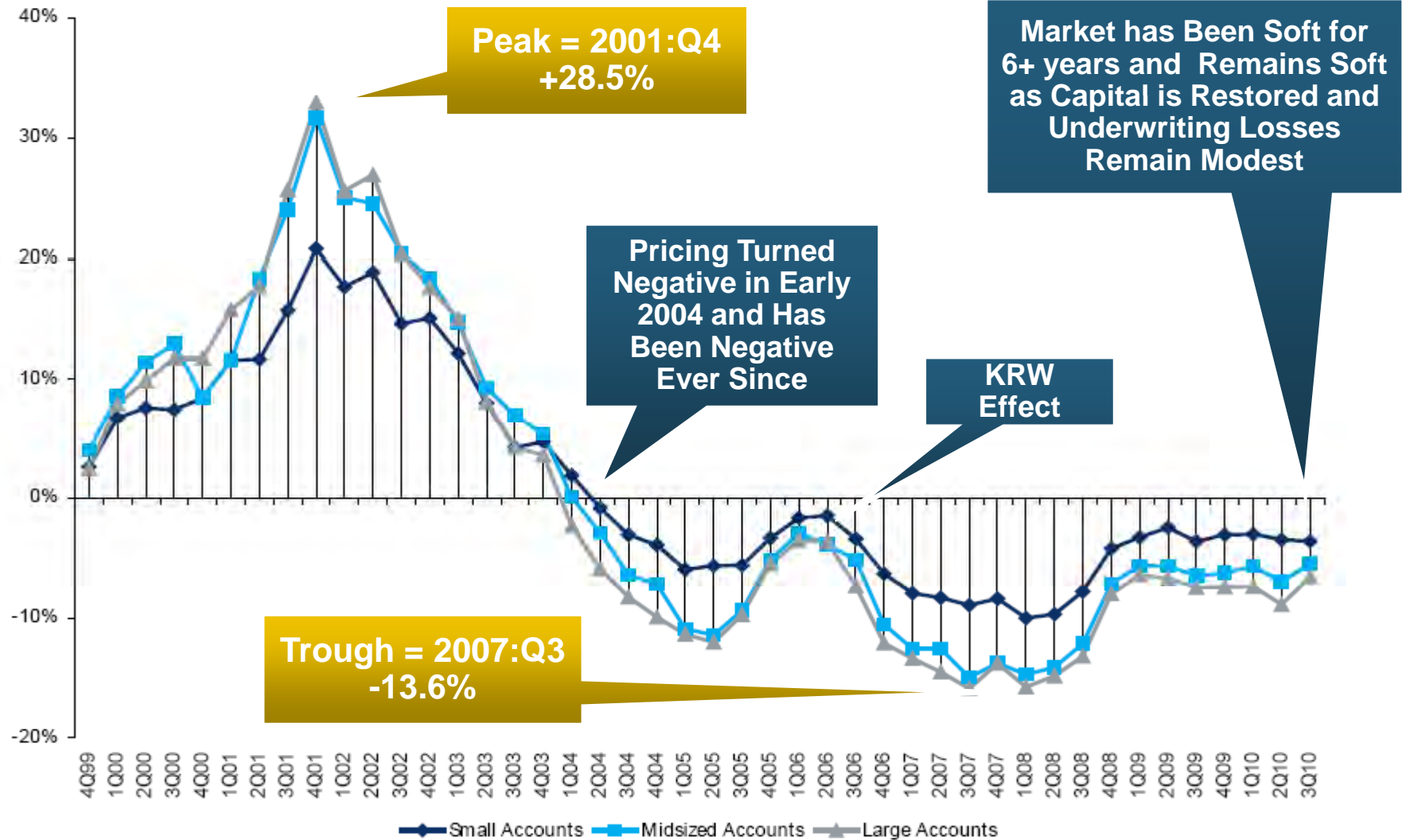
Percentage Change (%)



Most Major Commercial Lines Renewed Down in Q3:2010 at a Pace Similar to that of a Year Earlier

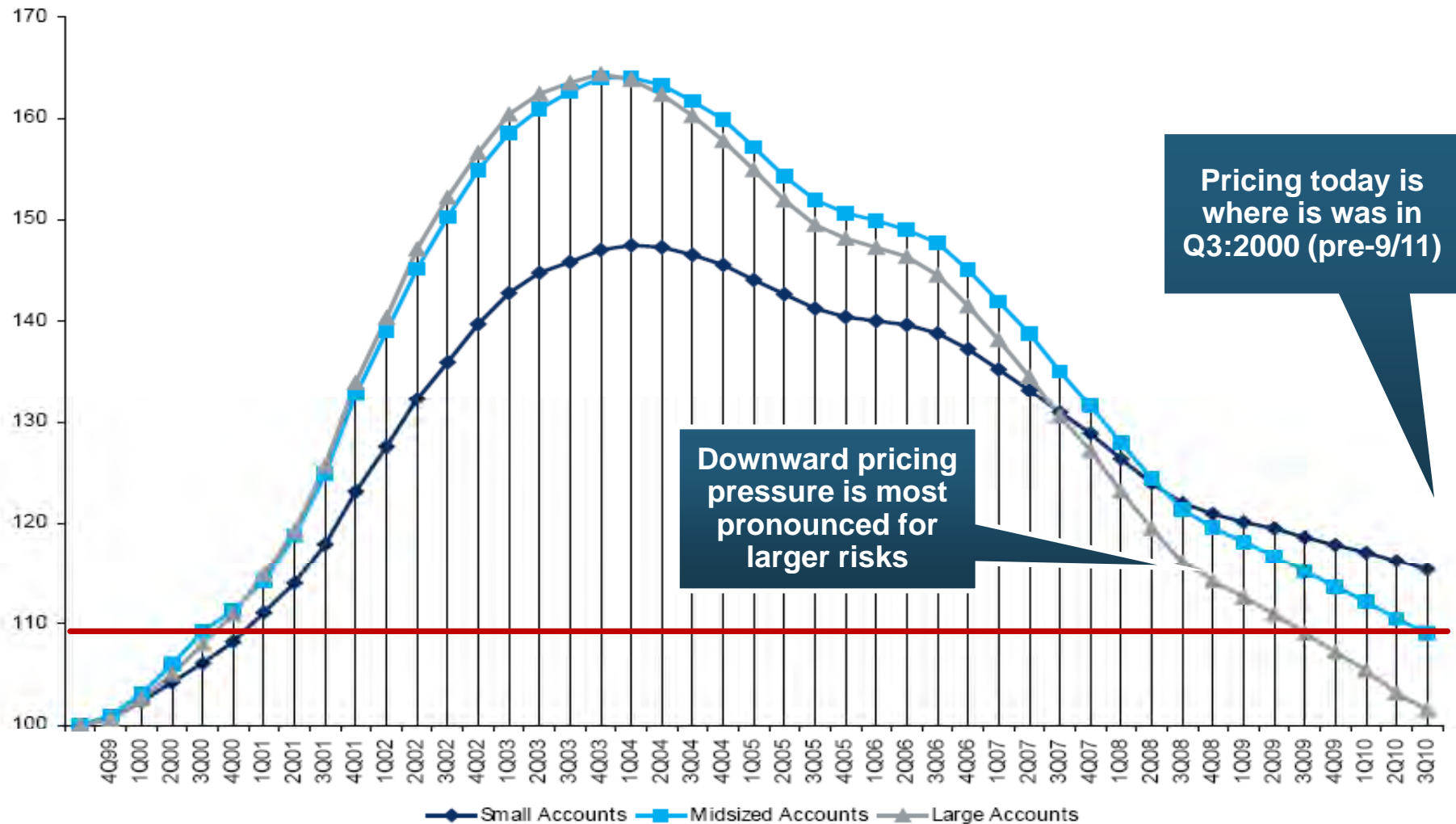
Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2010:Q3

Percentage Change (%)



Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2010:Q3

1999:Q4 = 100

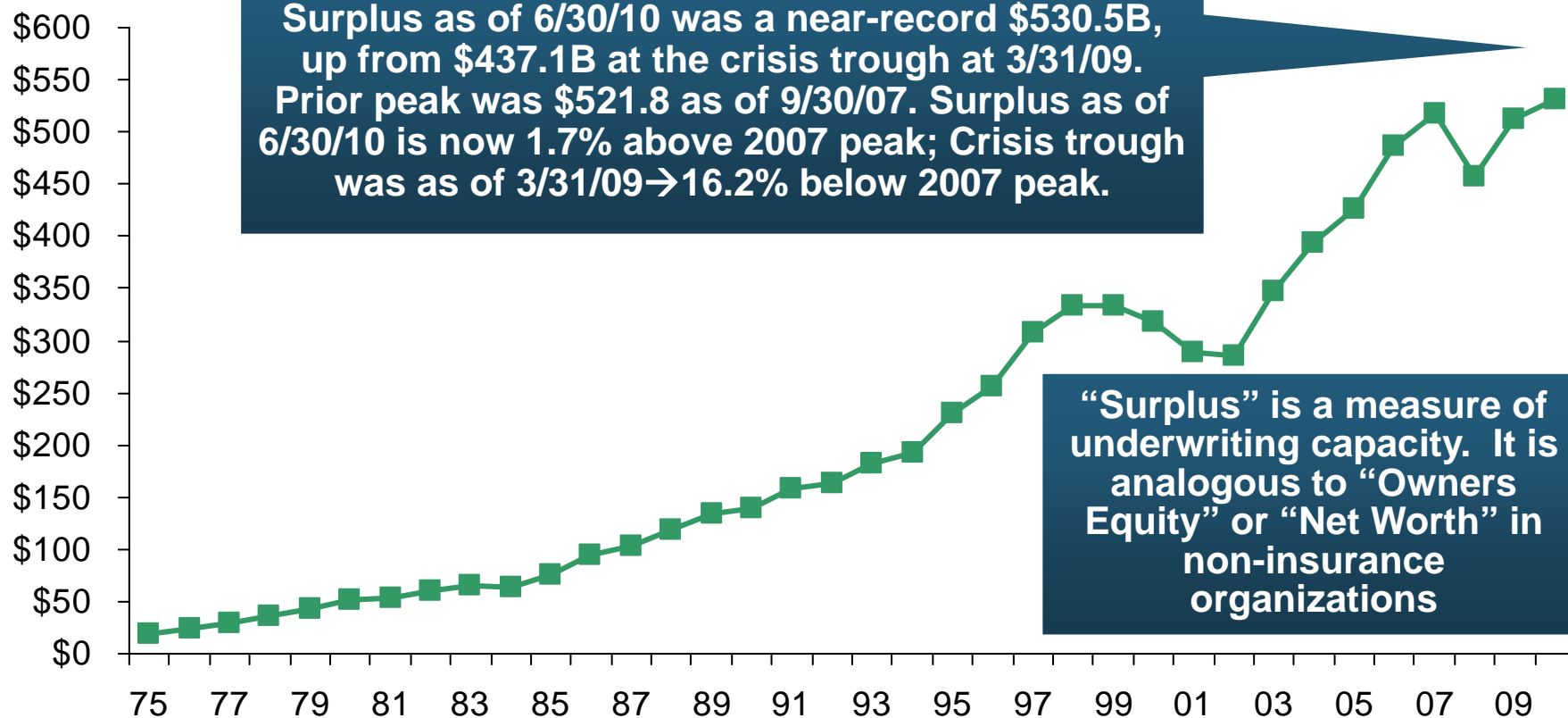


Capital/Policyholder Surplus (US)

**Shrinkage, but Not Enough
to Trigger Hard Market**

US Policyholder Surplus: 1975–2010*

(\$ Billions)

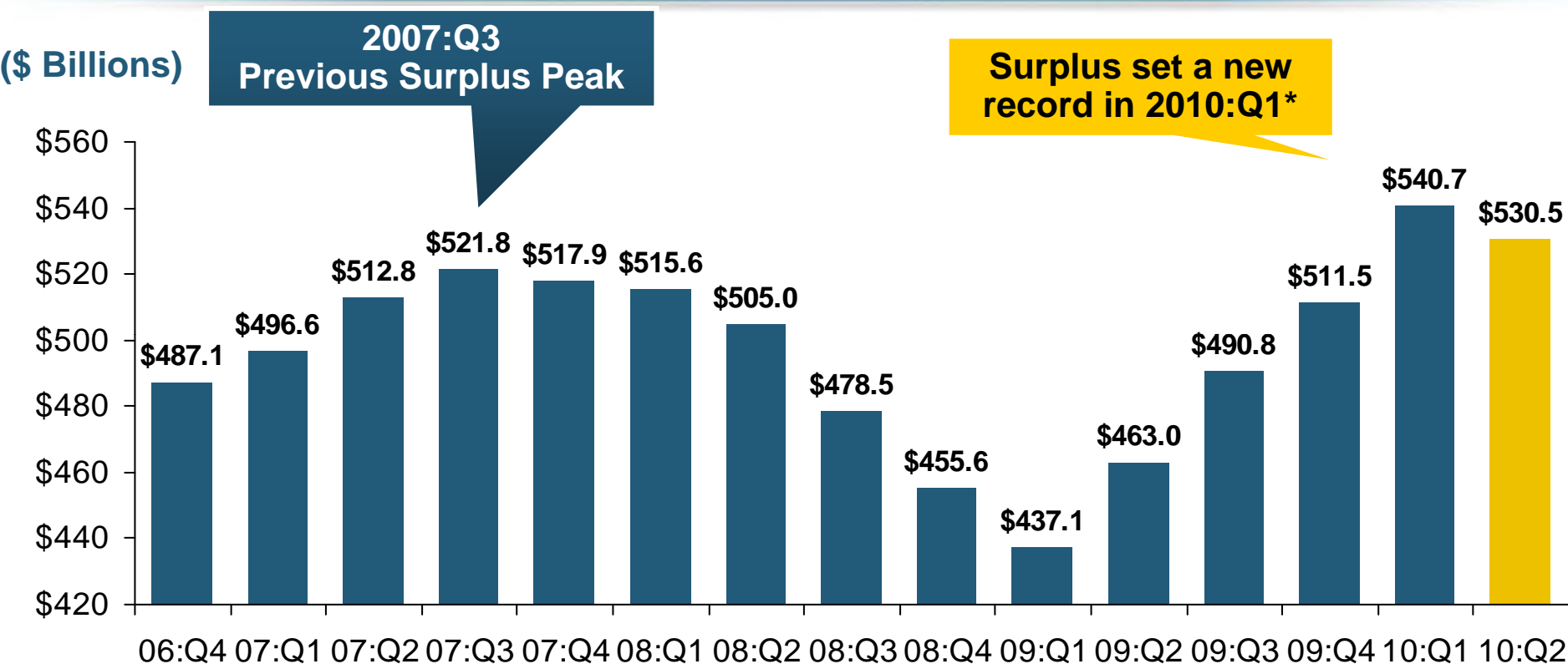


The Premium-to-Surplus Ratio Stood at \$0.80:\$1 as of 6/30/10, A Record Low (at Least in Recent History)**

* As of 6/30/10; **Calculated using annualized net premiums written based on H1 2010 data.

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

Policyholder Surplus, 2006:Q4–2010:Q2



Quarterly Surplus Changes Since 2009:Q1 Trough

09:Q1: -\$84.7B (-16.2%)

10:Q1: +\$18.9B (+3.6%)

09:Q2: -\$58.8B (-11.2%)

10:Q2: -\$10.2B (-1.9%)

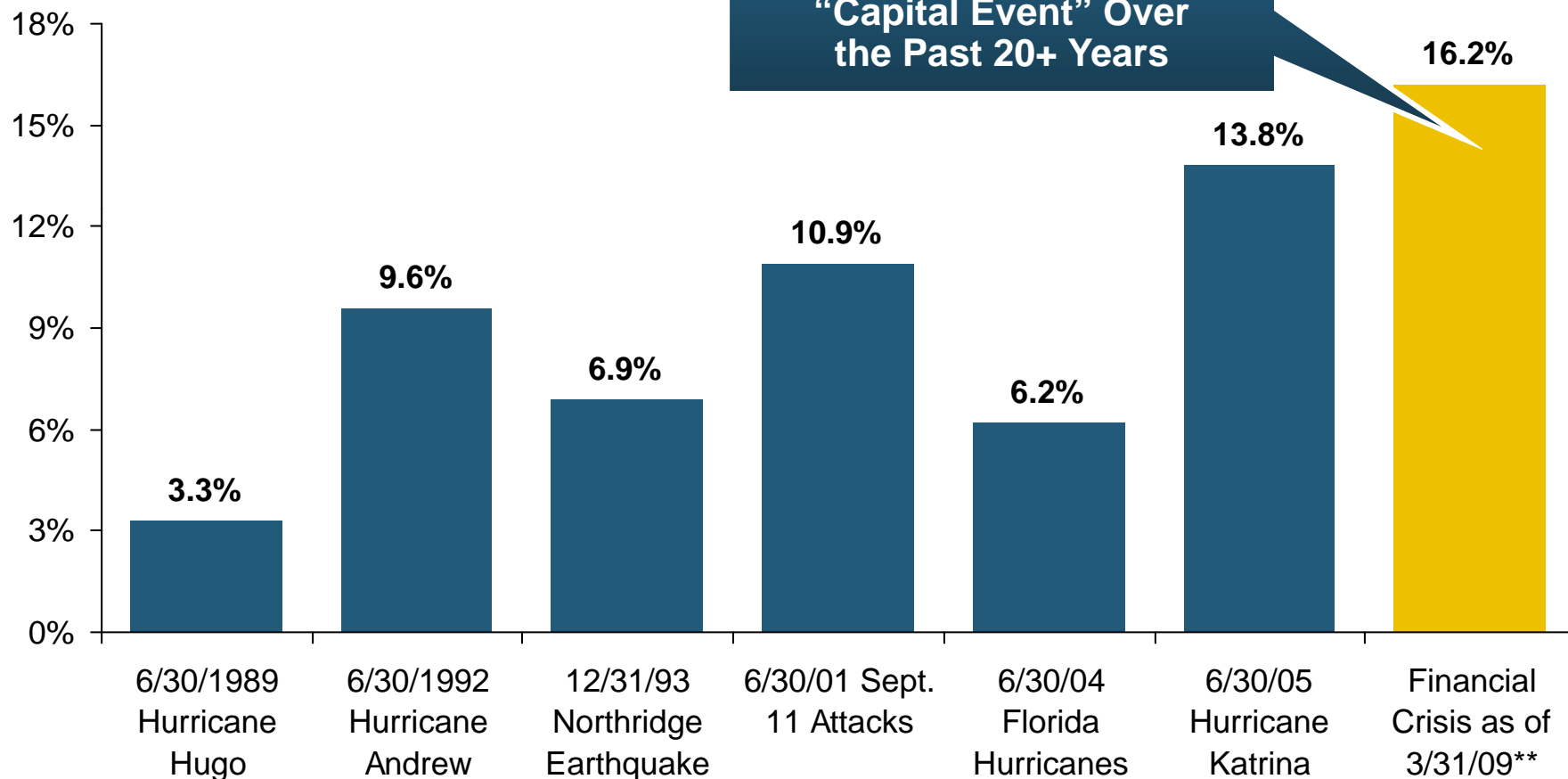
09:Q3: -\$31.8B (-5.9%)

09:Q4: -\$10.3B (-2.0%)

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

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

(Percent)



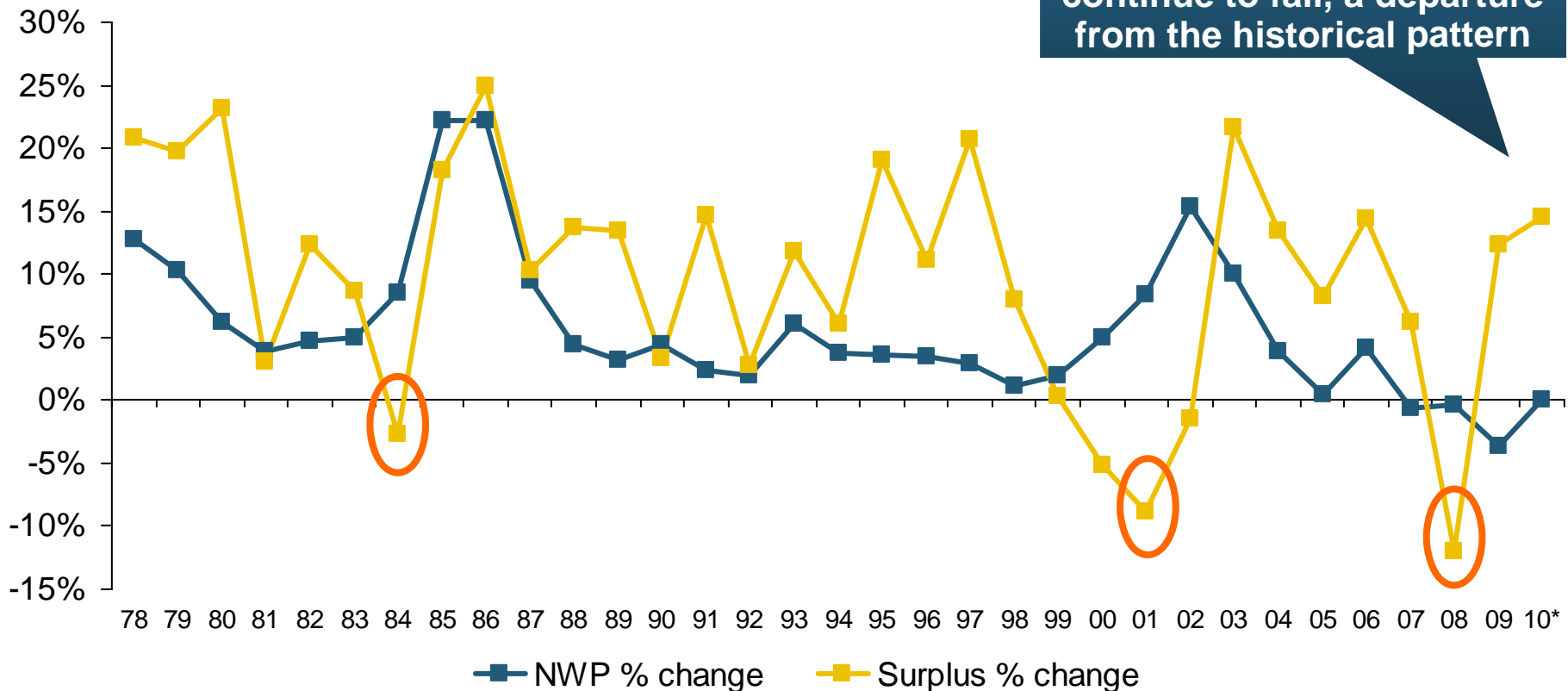
* Ratio is for end-of-quarter surplus immediately prior to event. Date shown is end of quarter prior to event

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

Source: PCS; Insurance Information Institute

Historically, Hard Markets Follow When Surplus “Growth” is Negative*

(Percent)



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

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

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

Insurance Information Institute Online:

www.iii.org

*Thank you for your time
and your attention!*

Twitter: twitter.com/bob_hartwig