



Overview & Outlook for the P/C Insurance Industry: *Trends & Challenges for 2013 and Beyond*

**Casualty Actuaries of Greater New York
New York, NY**

December 6, 2012

Download at www.iii.org/presentations

Robert P. Hartwig, Ph.D., CPCU, President & Economist

Insurance Information Institute ♦ 110 William Street ♦ New York, NY 10038

Tel: 212.346.5520 ♦ Cell: 917.453.1885 ♦ bobh@iii.org ♦ www.iii.org

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

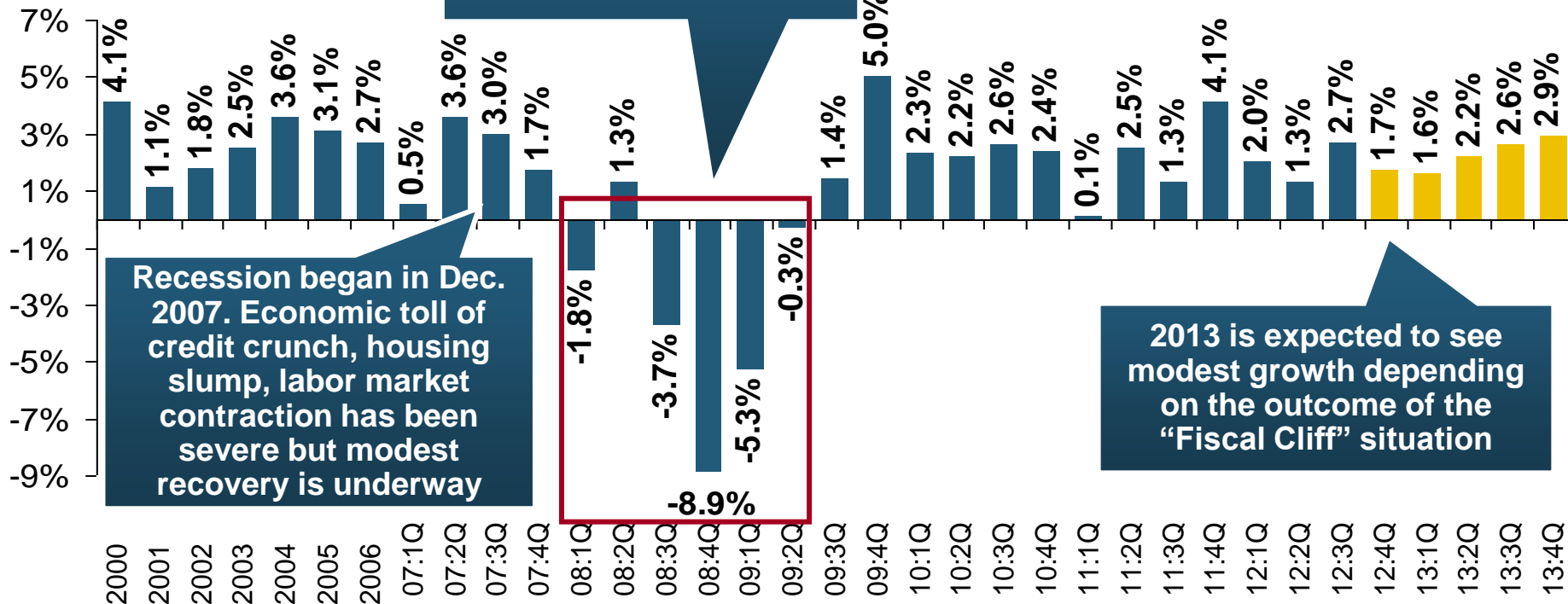
**Growth Will Expand Insurer Exposure
Base Across Most Lines**

***Will the “Fiscal Cliff” Adversely
Impact Insurers?***

US Real GDP Growth*

Real GDP Growth (%)

The Q4:2008 decline was the steepest since the Q1:1982 drop of 6.8%

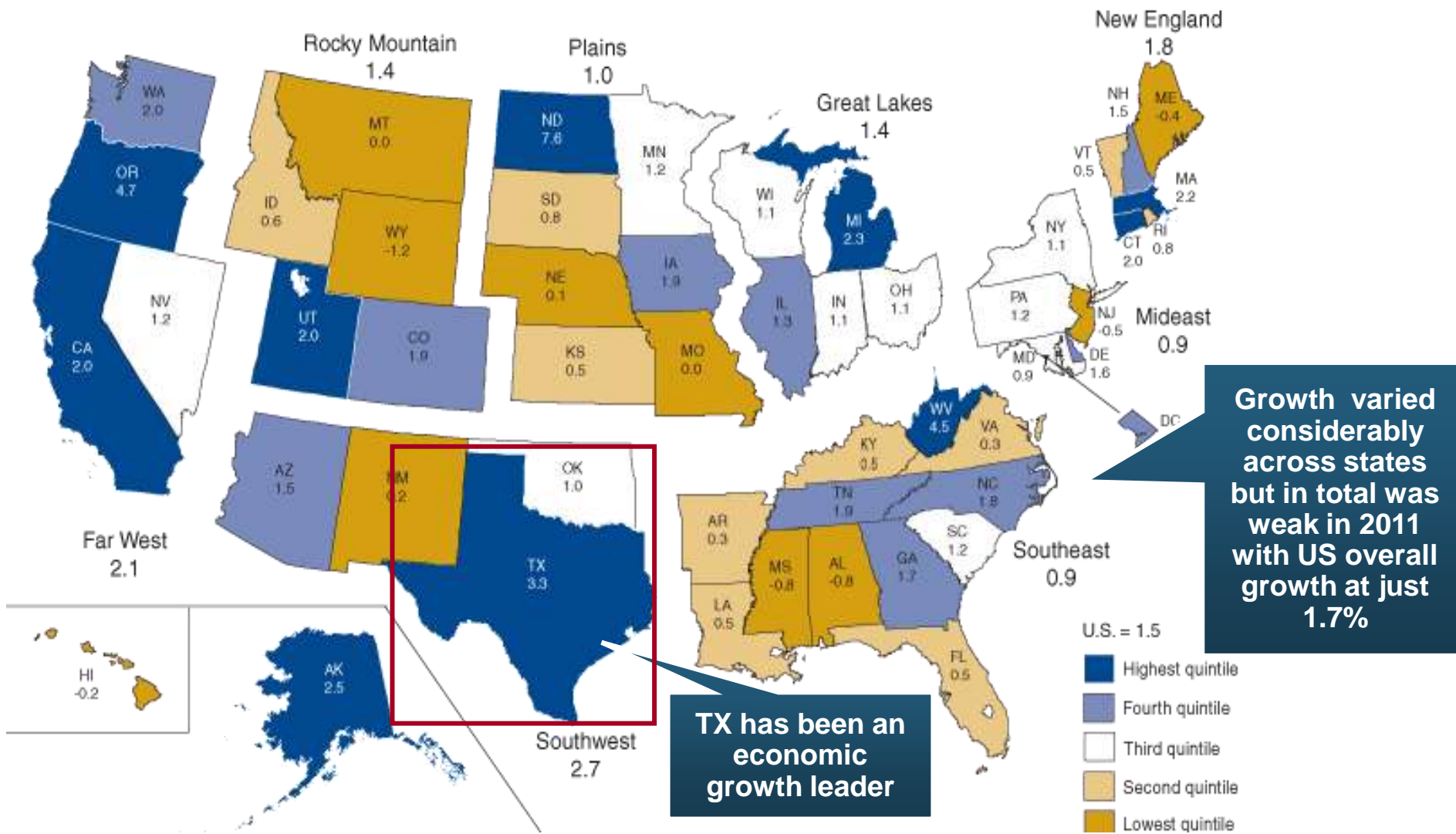


Demand for Insurance Continues To Be Impacted by Sluggish Economic Conditions, but the Benefits of Even Slow Growth Will Compound and Gradually Benefit the Economy Broadly

* Estimates/Forecasts from Blue Chip Economic Indicators.

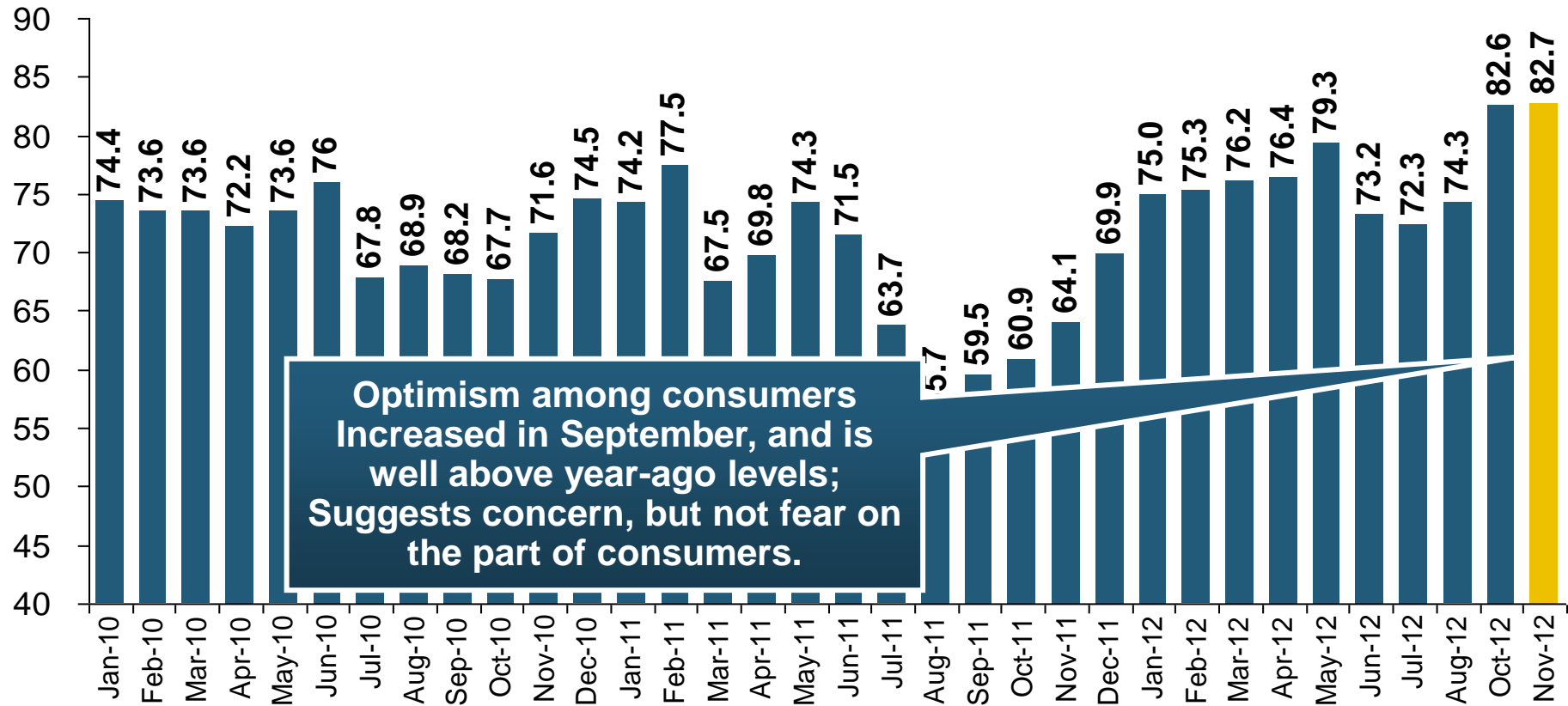
Source: US Department of Commerce, Blue Economic Indicators 11/12; Insurance Information Institute.

Percent Change in Real GDP by State, 2011



Consumer Sentiment Survey (1966 = 100)

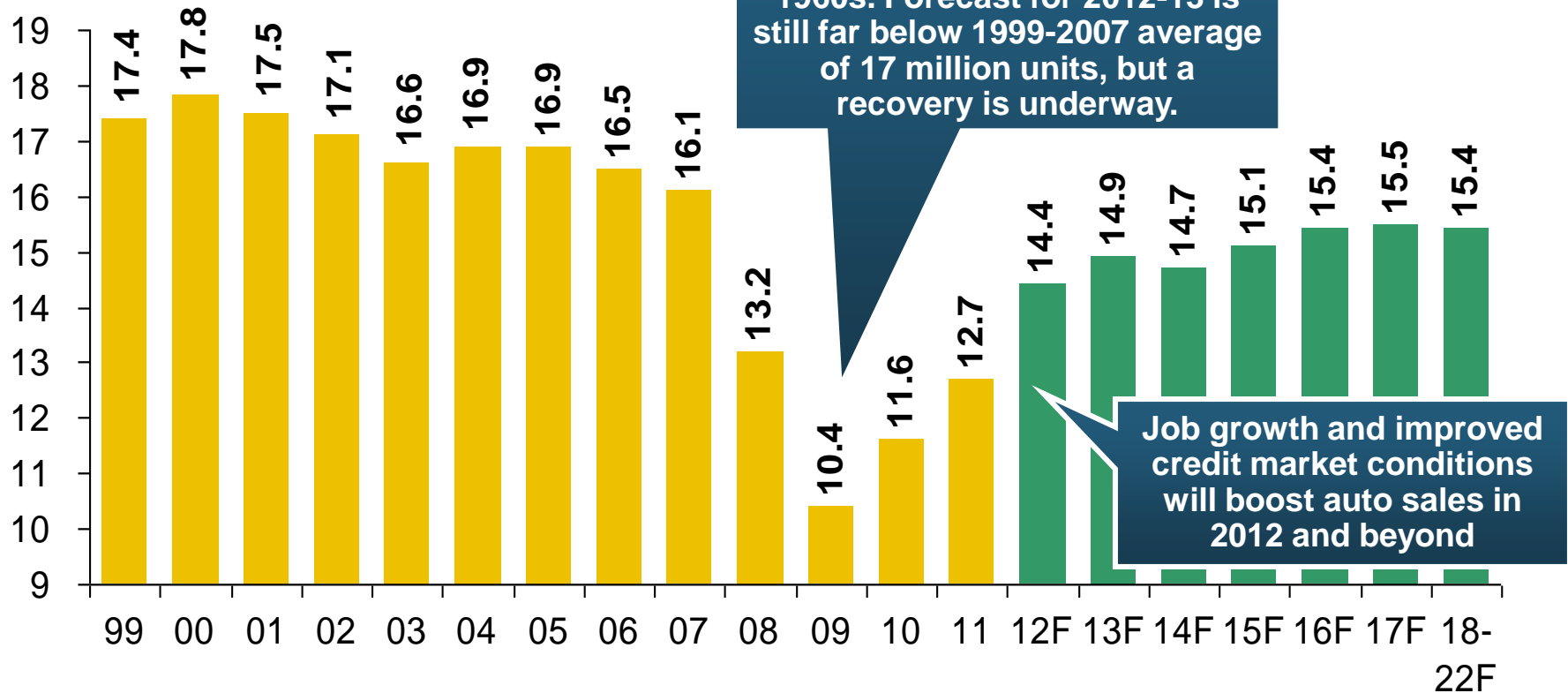
January 2010 through November 2012



Consumer confidence has been low for years amid high unemployment, falling home prices and other factors adversely impact consumers, but improved substantially in late 2011 and in 2012

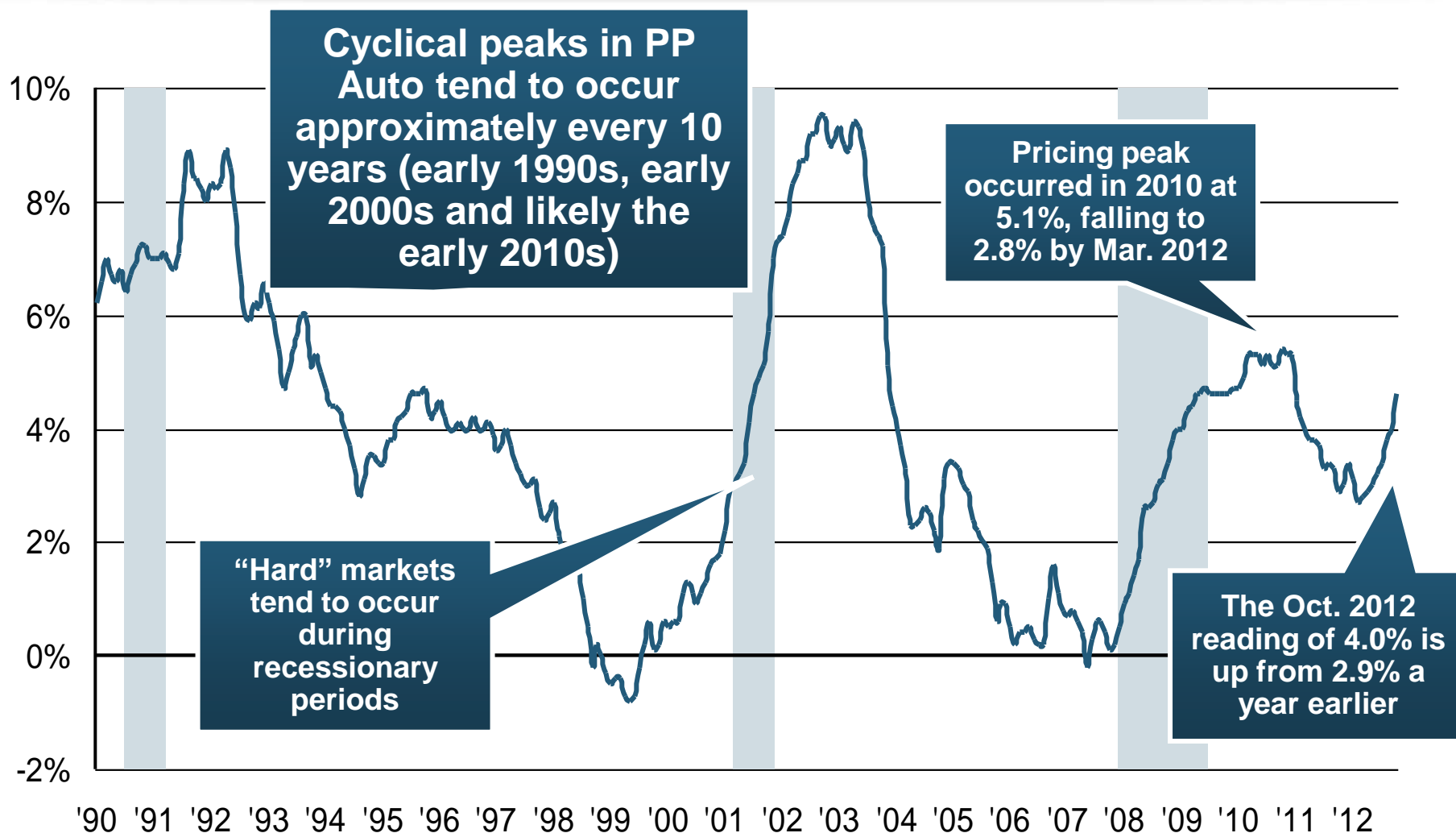
Auto/Light Truck Sales, 1999-2022F

(Millions of Units)



Car/Light Truck Sales Will Continue to Recover from the 2009 Low Point, Bolstering the Auto Insurer Growth and the Manufacturing Sector.

Monthly Change* in Auto Insurance Prices, 1991–2012*



*Percentage change from same month in prior year; through Oct. 2012; seasonally adjusted

Note: Recessions indicated by gray shaded columns.

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

Monthly Change* in Auto Insurance Prices, January 2005 - October 2012

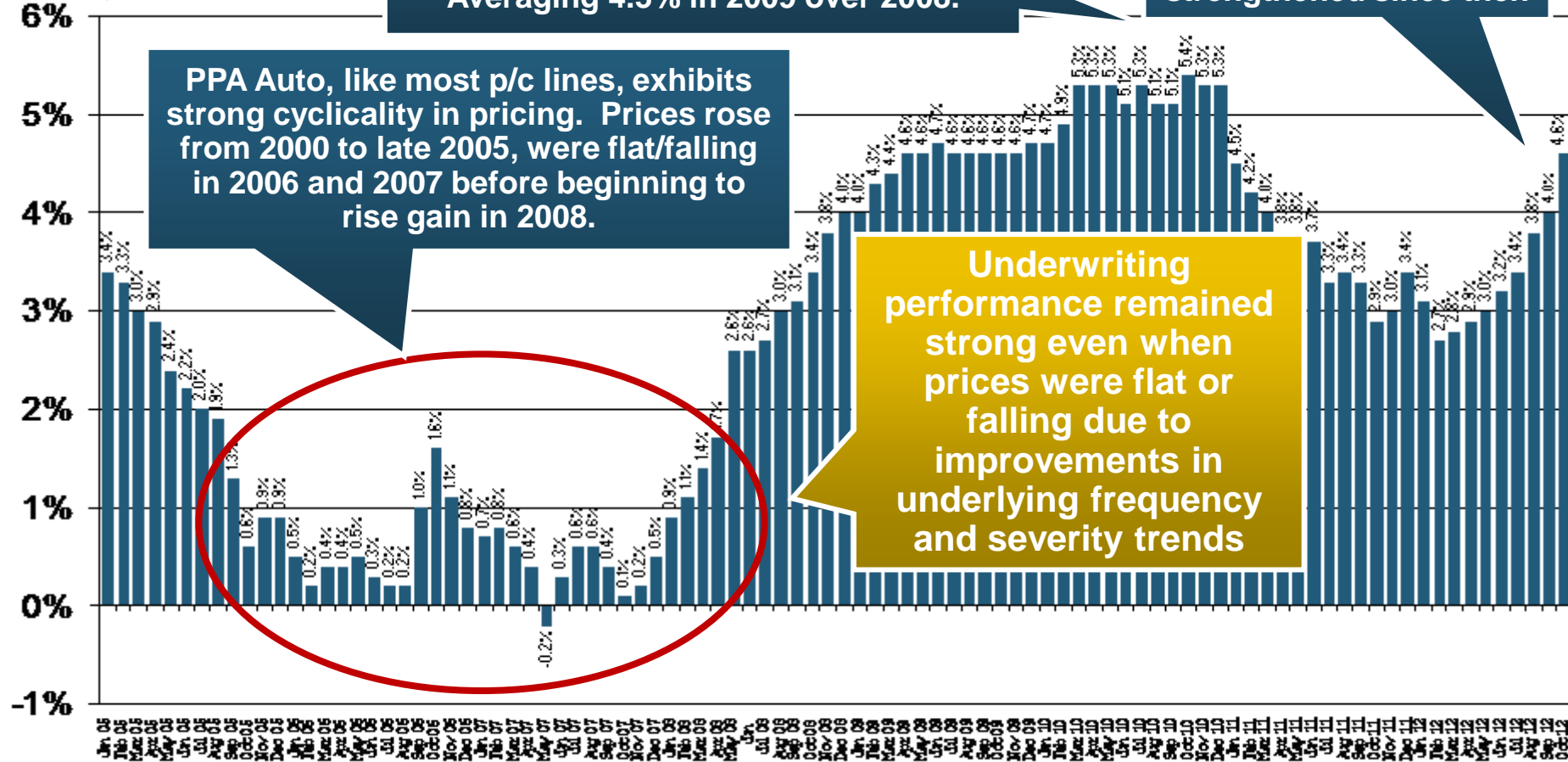
(Percent Change from same month, prior year)

Auto Insurance Price Increases Averaged 5.1% in 2010 over 2009, After Averaging 4.5% in 2009 over 2008.

Pricing weakened materially in 2011 and early 2012 but has strengthened since then

PPA Auto, like most p/c lines, exhibits strong cyclicity in pricing. Prices rose from 2000 to late 2005, were flat/falling in 2006 and 2007 before beginning to rise again in 2008.

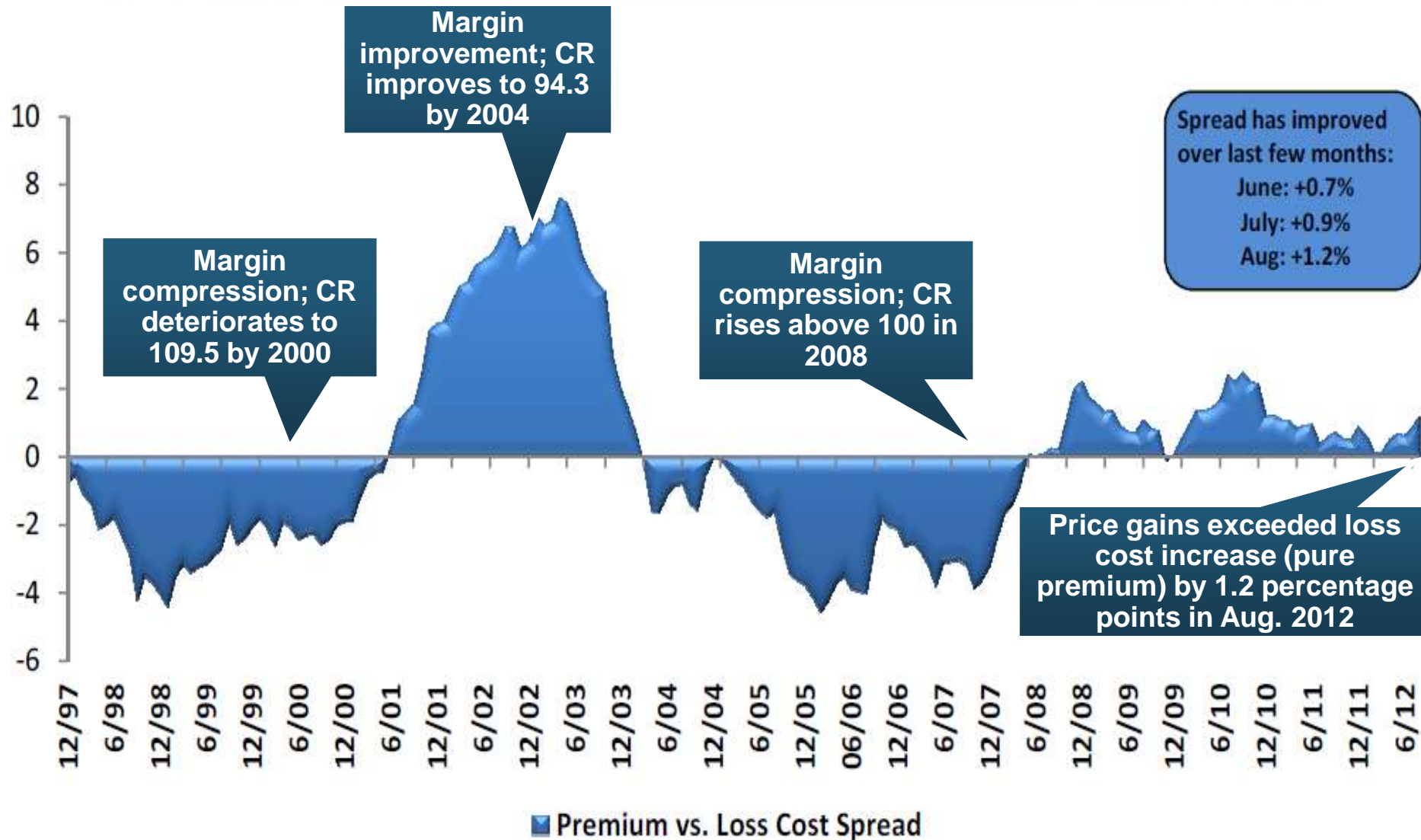
Underwriting performance remained strong even when prices were flat or falling due to improvements in underlying frequency and severity trends



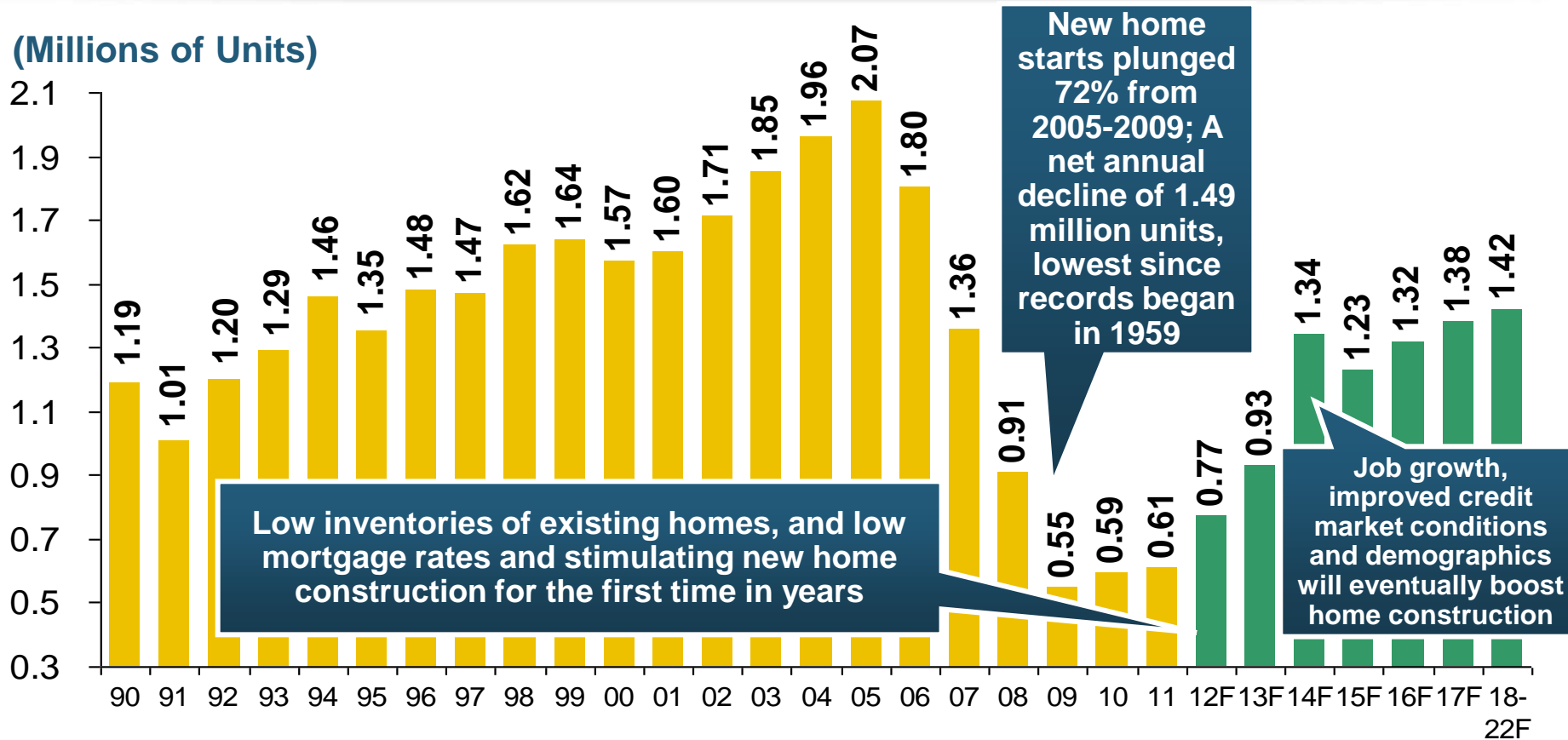
*Percentage change from same month in prior year, seasonally adjusted.

Sources: US Bureau of Labor Statistics; Insurance Information Institute

Personal Auto: Premiums vs. Loss Cost Spread, Dec. 1997- Aug. 2012



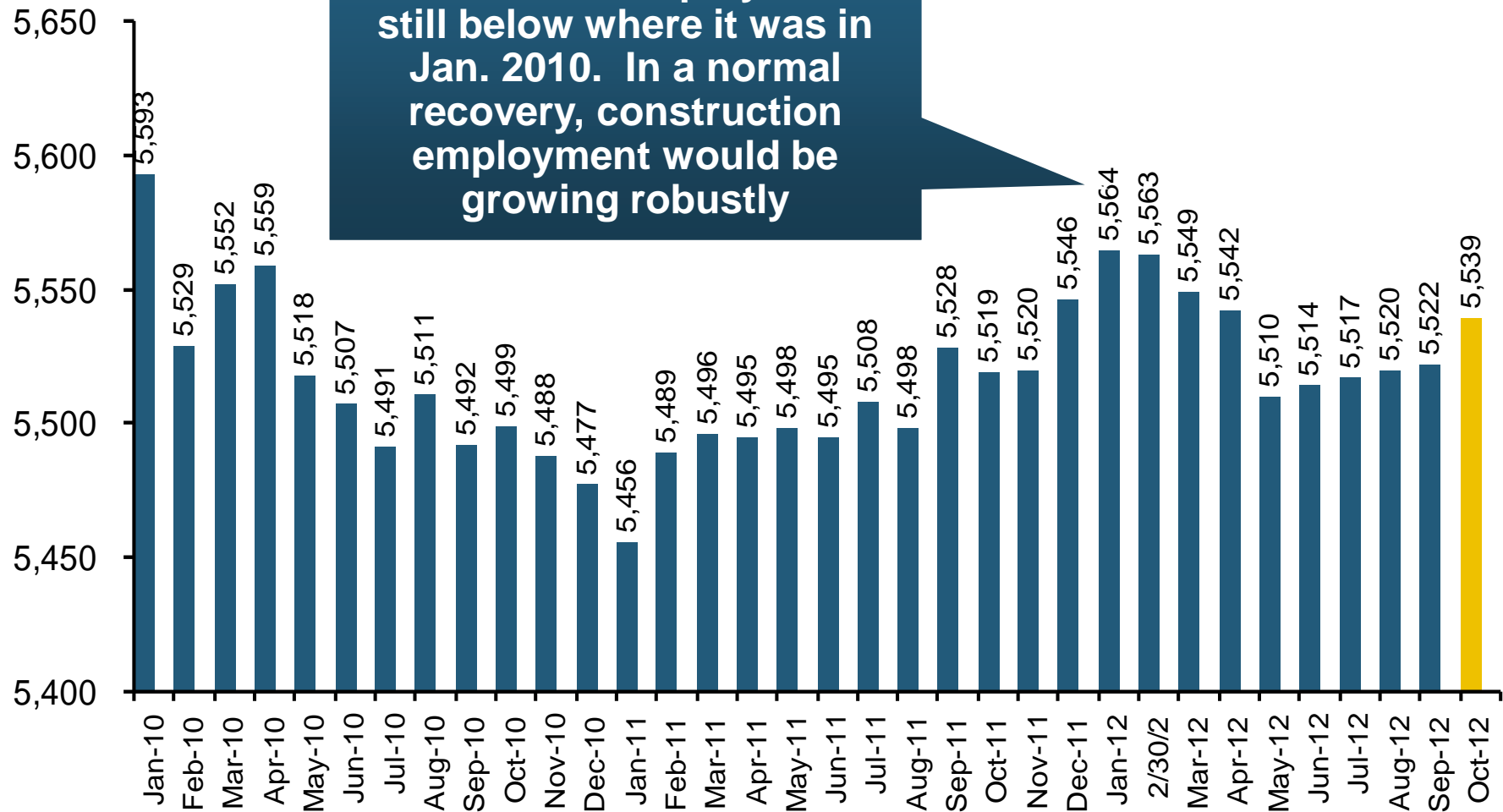
New Private Housing Starts, 1990-2022F



Little Exposure Growth Likely for Homeowners Insurers Until at least 2014. Also Affects Commercial Insurers with Construction Risk Exposure, Surety

Construction Employment, Jan. 2010—October 2012*

(Thousands)



*Seasonally adjusted

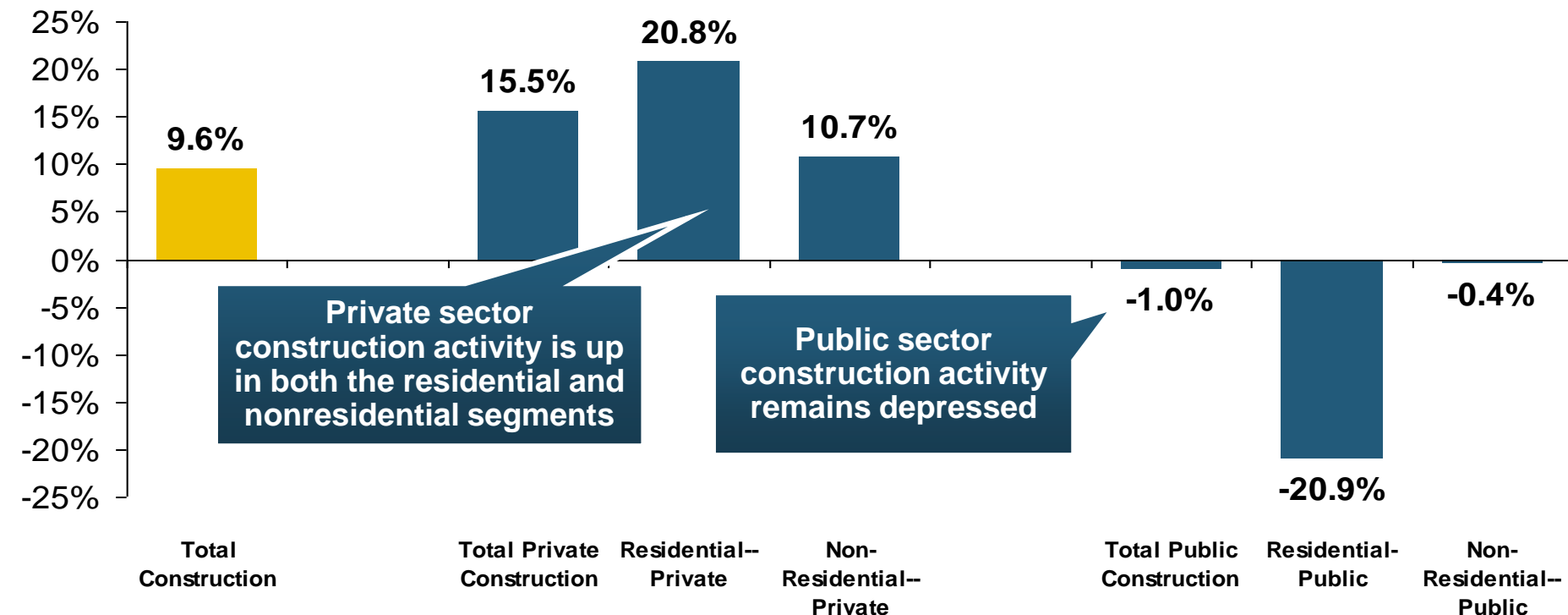
Sources: US Bureau of Labor Statistics at <http://data.bls.gov>; Insurance Information Institute.

Value of Construction Put in Place, October 2012 vs. October 2011*

Growth (%)

Private: +15.5%

Public: -1.0%



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

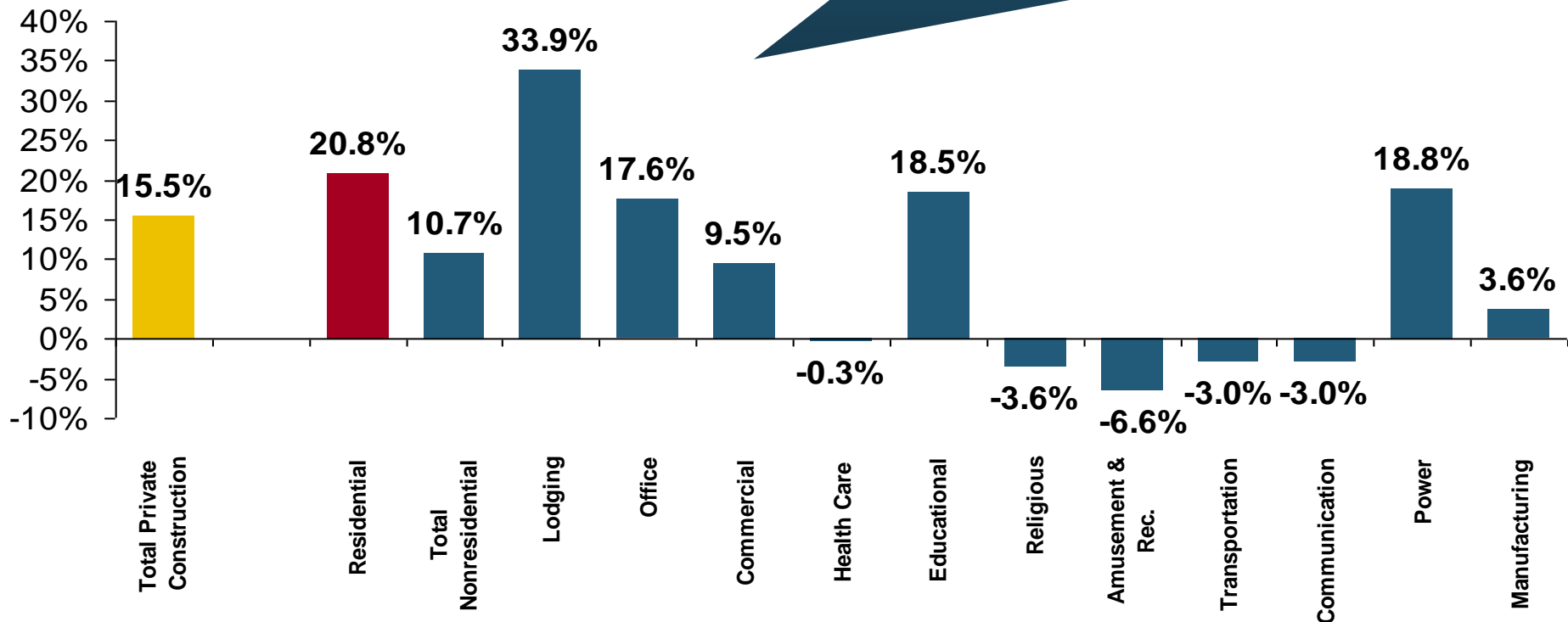
*seasonally adjusted

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, Oct. 2012 vs. Oct. 2011*

Growth (%)

Led by the Residential Construction, Lodging and Power industries, Private sector construction activity is up by double digits in many segments after plunging during the “Great Recession”



Private Construction Activity is Up in Most Segments, Including Residential Construction

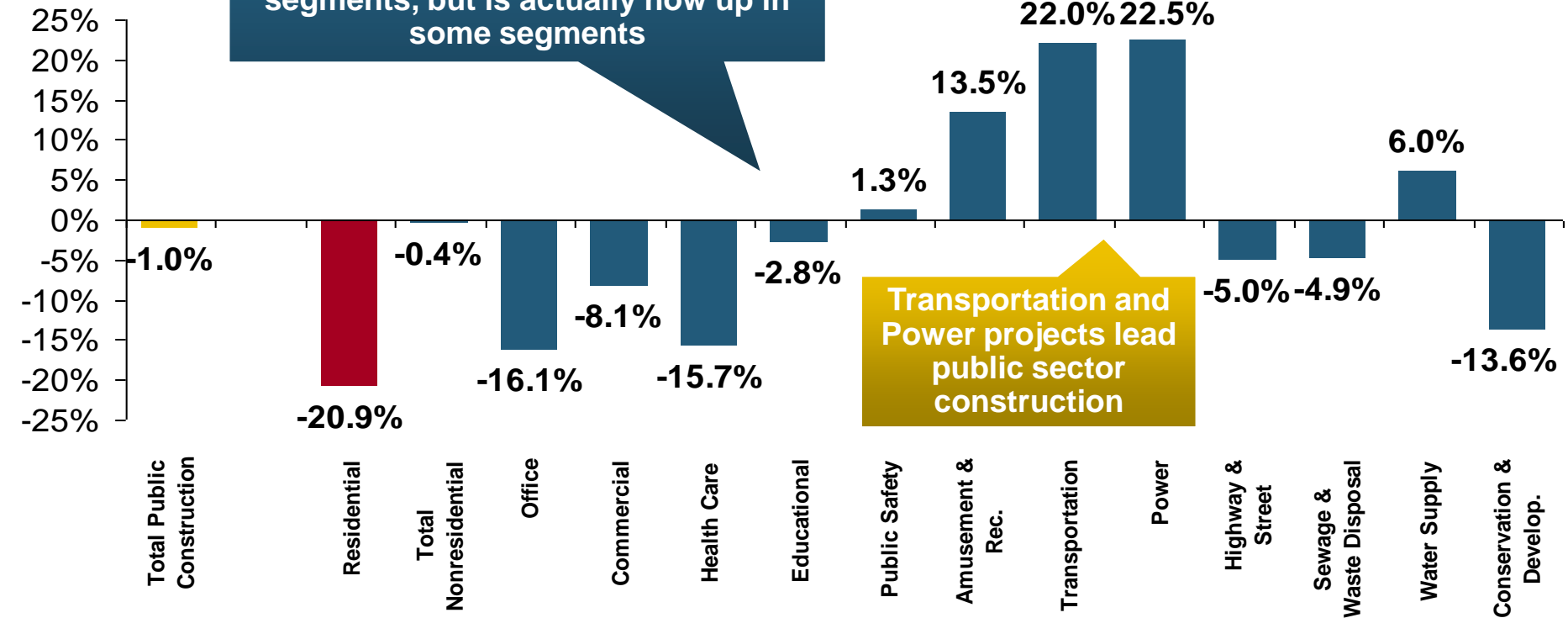
*seasonally adjusted

Source: U.S. Census Bureau, <http://www.census.gov/construction/c30/c30index.html> ; Insurance Information Institute.

Value of Public Construction Put in Place, by Segment, Oct. 2012 vs. Oct. 2011*

Growth (%)

Public sector construction activity is down substantially in many segments, but is actually now up in some segments



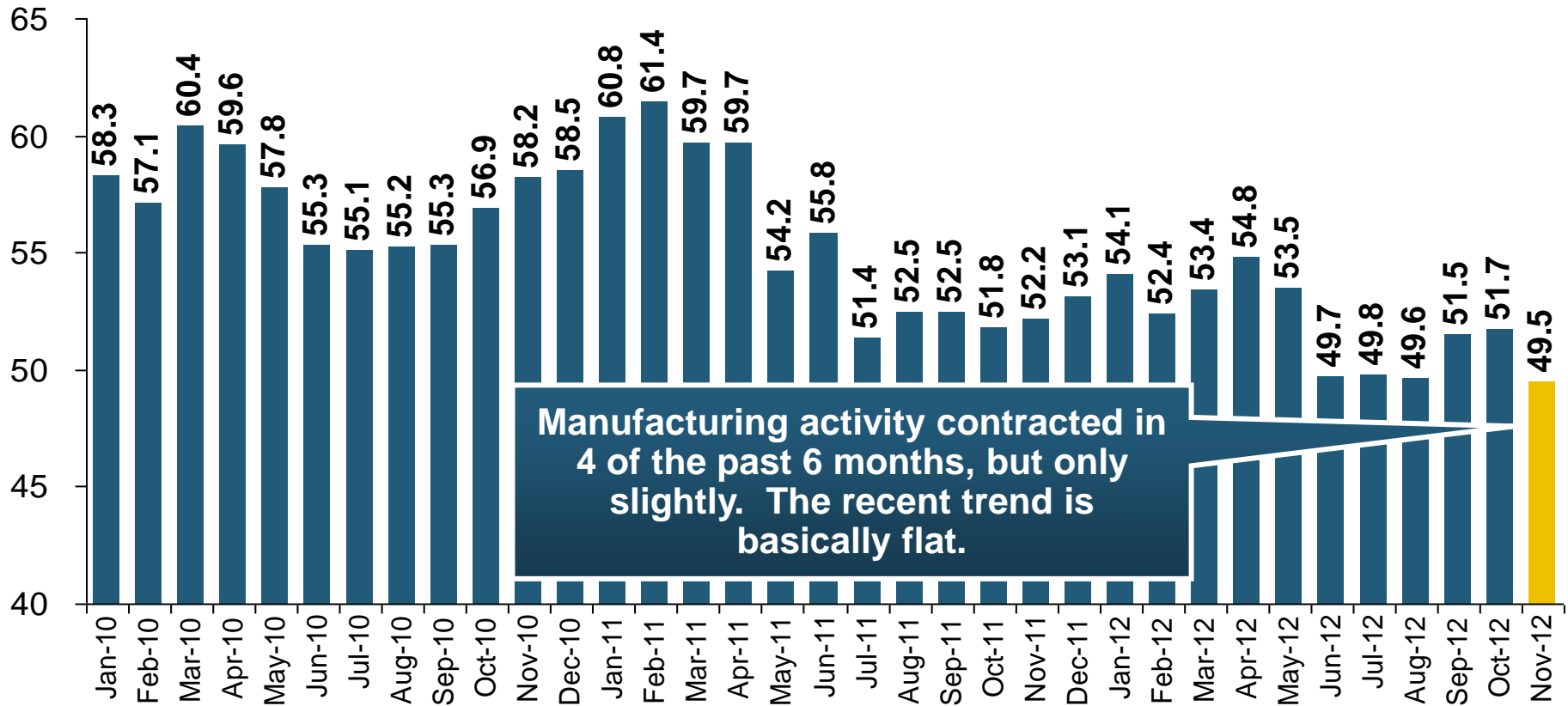
Public Construction Activity is Down in Many Segments as State, City and County Budgets Remain Under Stress

*seasonally adjusted

Source: U.S. Census Bureau, <http://www.census.gov/construction/c30/c30index.html> ; Insurance Information Institute.

ISM Manufacturing Index (Values > 50 Indicate Expansion)

January 2010 through November 2012



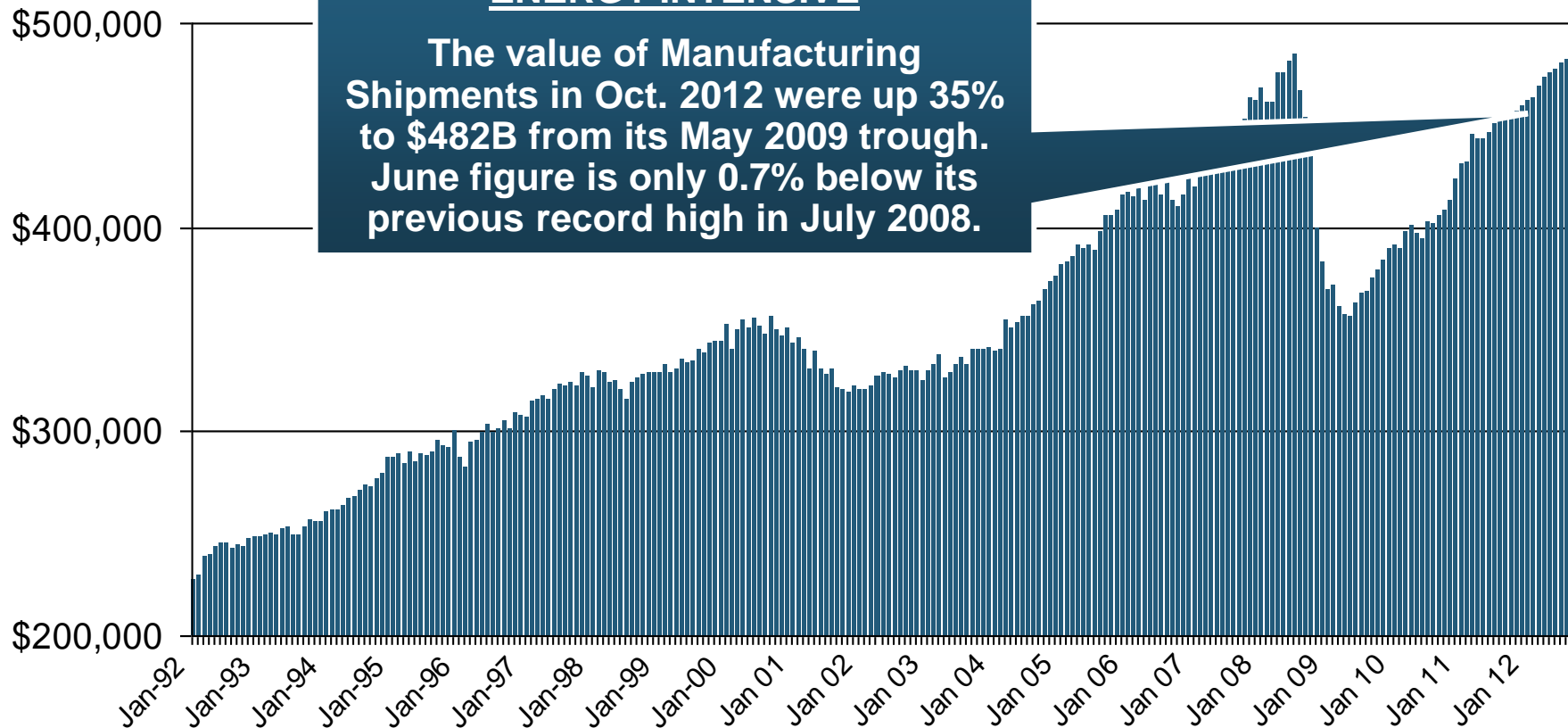
The manufacturing sector expanded for 33 of the 35 months from Jan. 2010 through Oct. 2012. The question is whether this will continue.

Dollar Value* of Manufacturers' Shipments Monthly, Jan. 1992—Oct. 2012

\$ Millions

ENERGY INTENSIVE

The value of Manufacturing Shipments in Oct. 2012 were up 35% to \$482B from its May 2009 trough. June figure is only 0.7% below its previous record high in July 2008.



Monthly shipments are nearly back to peak (in July 2008, 8 months into the recession). Trough in May 2009. Growth from trough to Oct. 2012 was 35%. Manufacturing is an energy intensive activity and growth leads to gains in many commercial exposures: WC, Commercial Auto, Marine, Property and Various Liability Coverages

*seasonally adjusted

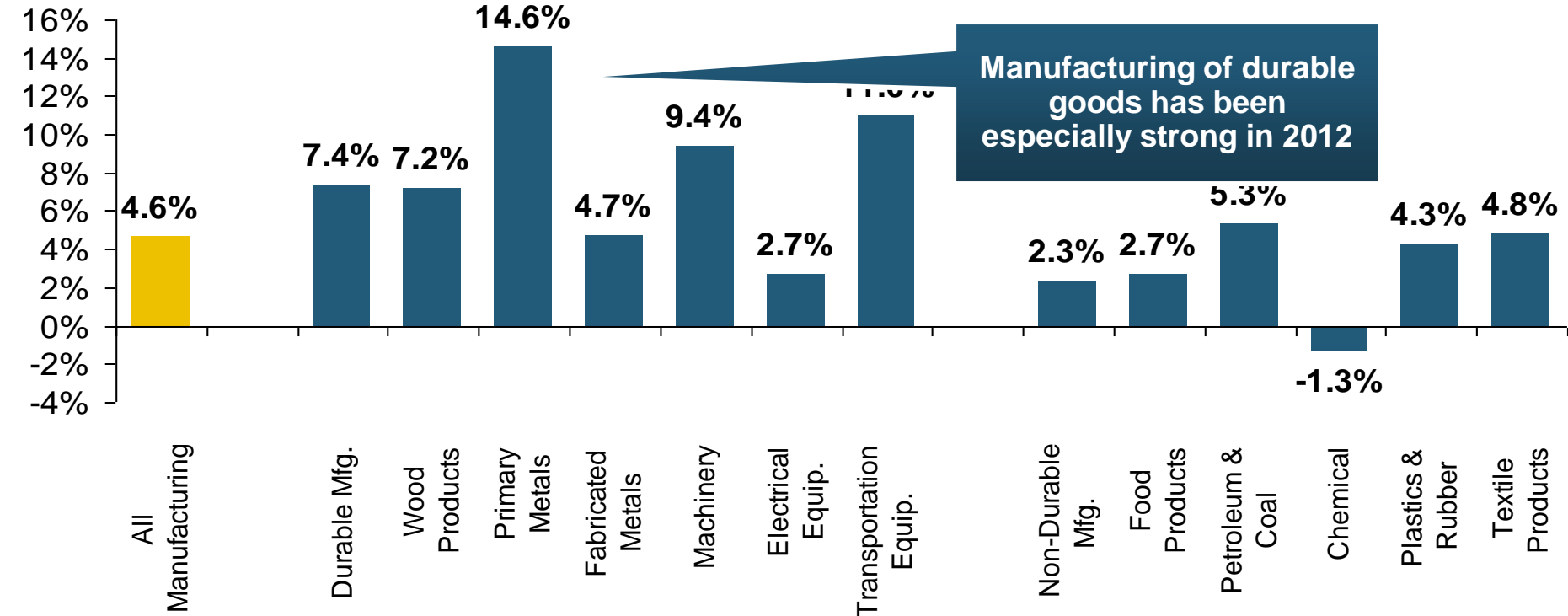
Source: U.S. Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders*, <http://www.census.gov/manufacturing/m3/>

Manufacturing Growth for Selected Sectors, 2012 vs. 2011*

Growth (%)

Durables: +7.4%

Non-Durables: +2.3%



Manufacturing Is Expanding Across a Wide Range of Sectors that Will Contribute to Growth in Energy Demand and Insurable Exposures Including: WC, Commercial Property, Commercial Auto and Many Liability Coverages

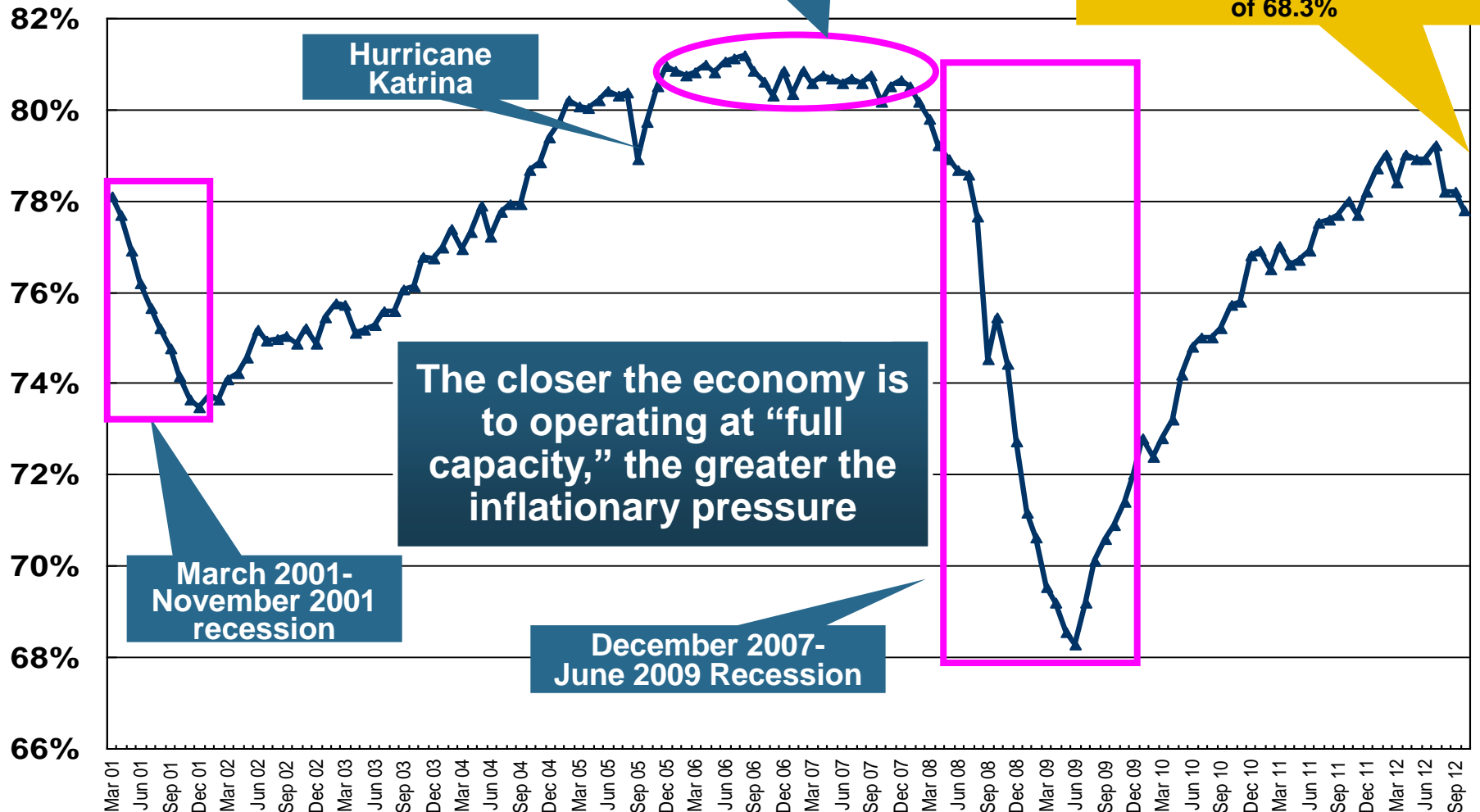
*Seasonally adjusted; Date are YTD comparing data through October 2012 to the same period in 2011.

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

March 2001 through October 2012

Percent of Industrial Capacity

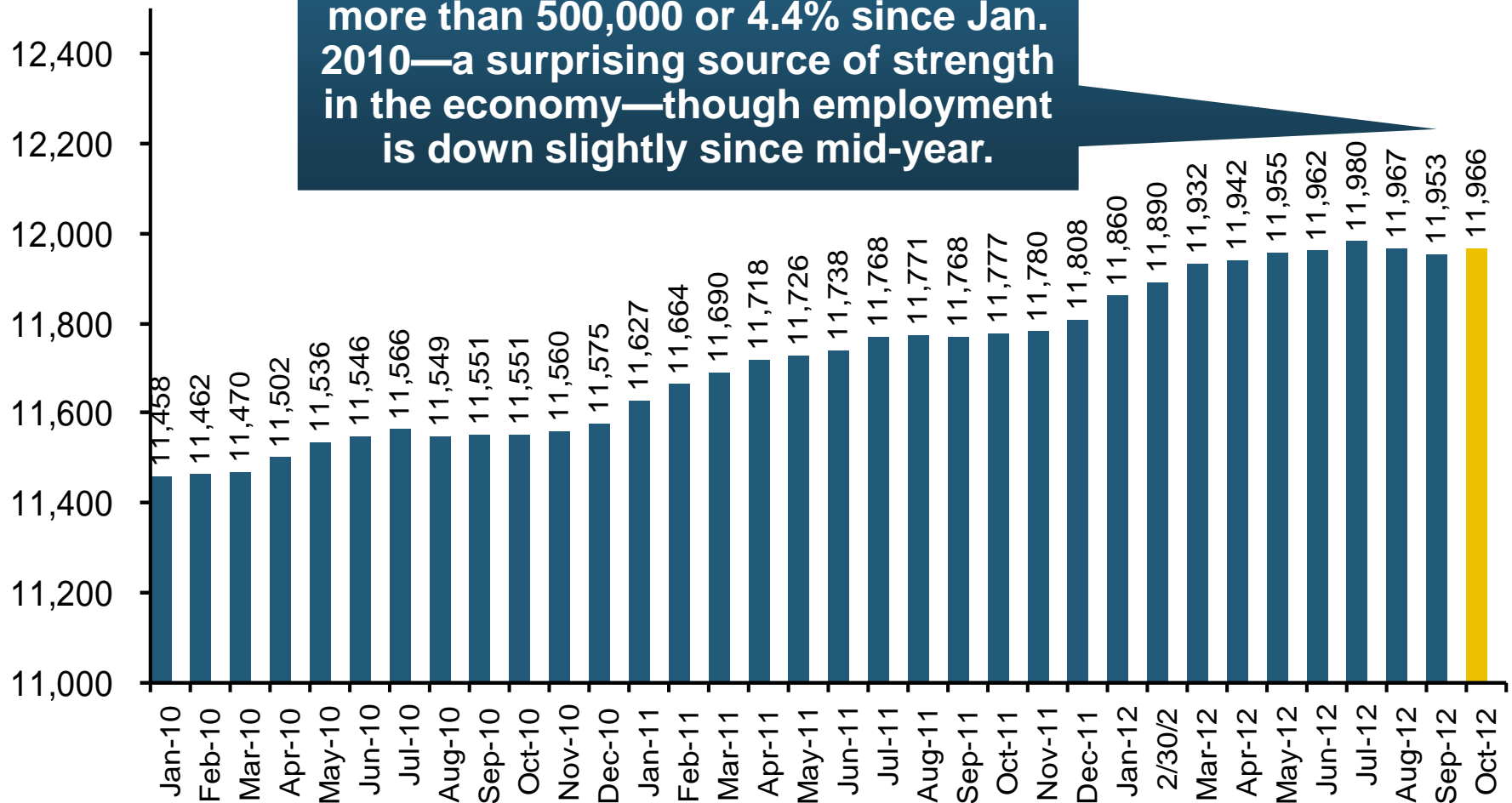


Source: Federal Reserve Board statistical releases at <http://www.federalreserve.gov/releases/q17/Current/default.htm>.

Manufacturing Employment, Jan. 2010—October 2012*

(Thousands)

Manufacturing employment is up by more than 500,000 or 4.4% since Jan. 2010—a surprising source of strength in the economy—though employment is down slightly since mid-year.

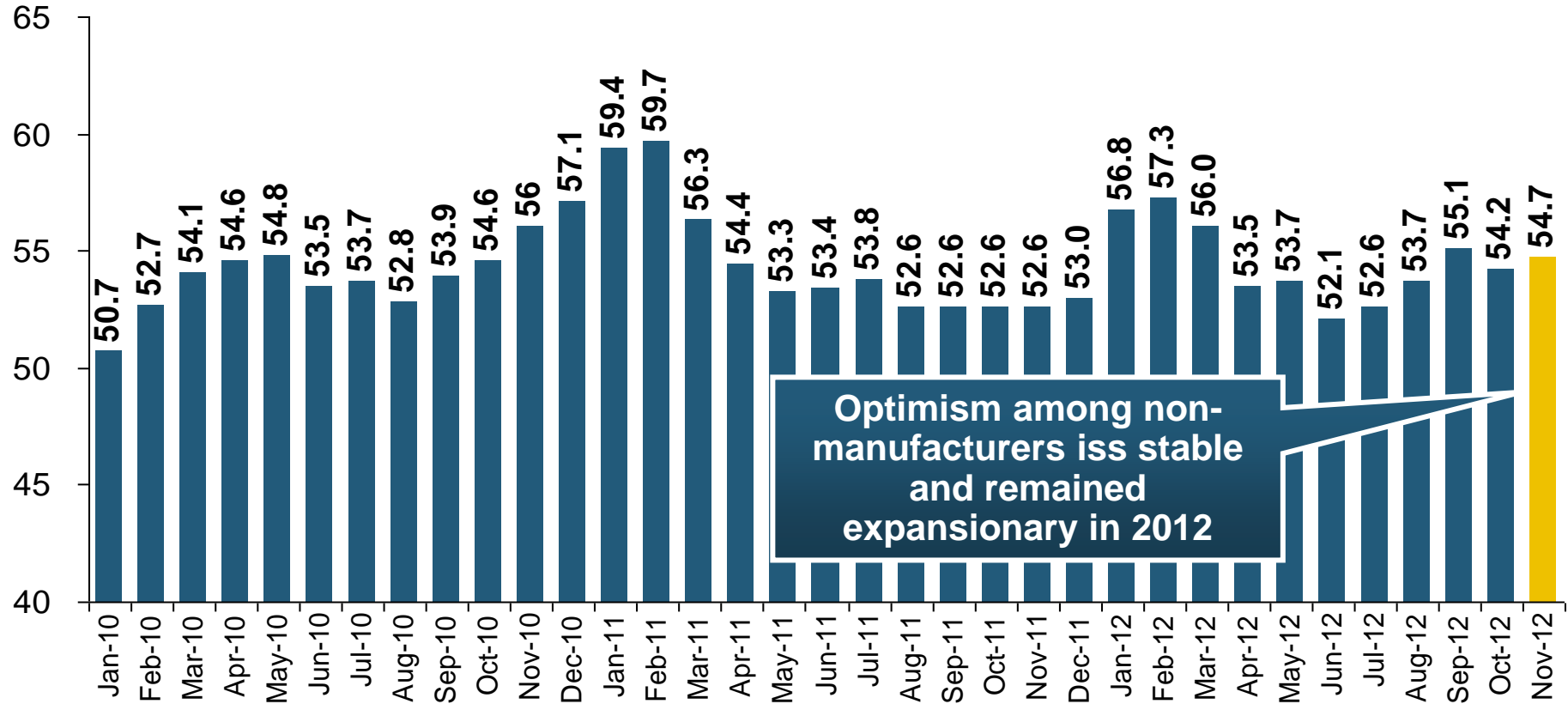


*Seasonally adjusted

Sources: US Bureau of Labor Statistics at <http://data.bls.gov>; Insurance Information Institute.

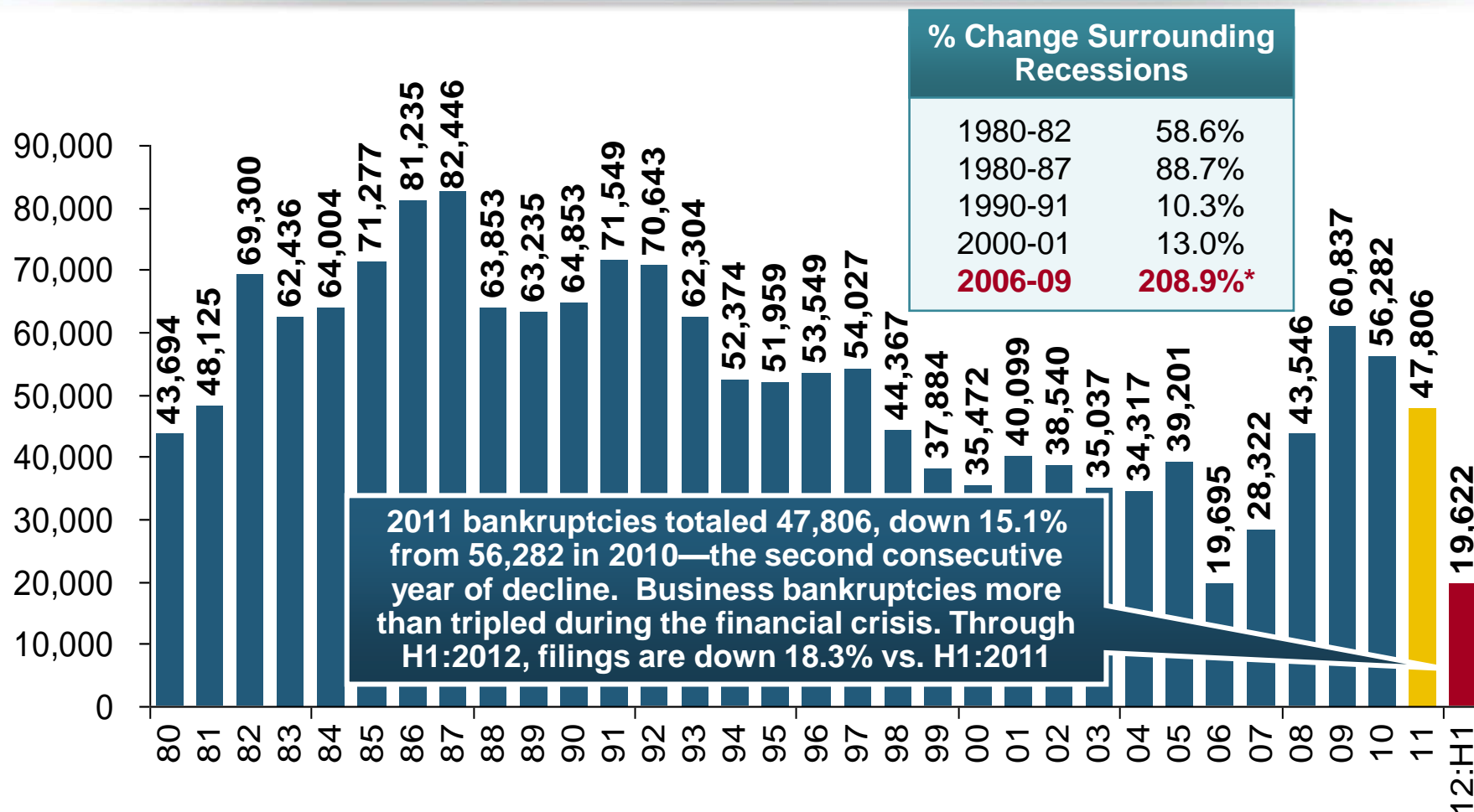
ISM Non-Manufacturing Index (Values > 50 Indicate Expansion)

January 2010 through November 2012



Non-manufacturing industries have been expanding and adding jobs. The question is whether this will continue.

Business Bankruptcy Filings, 1980-2012:H1



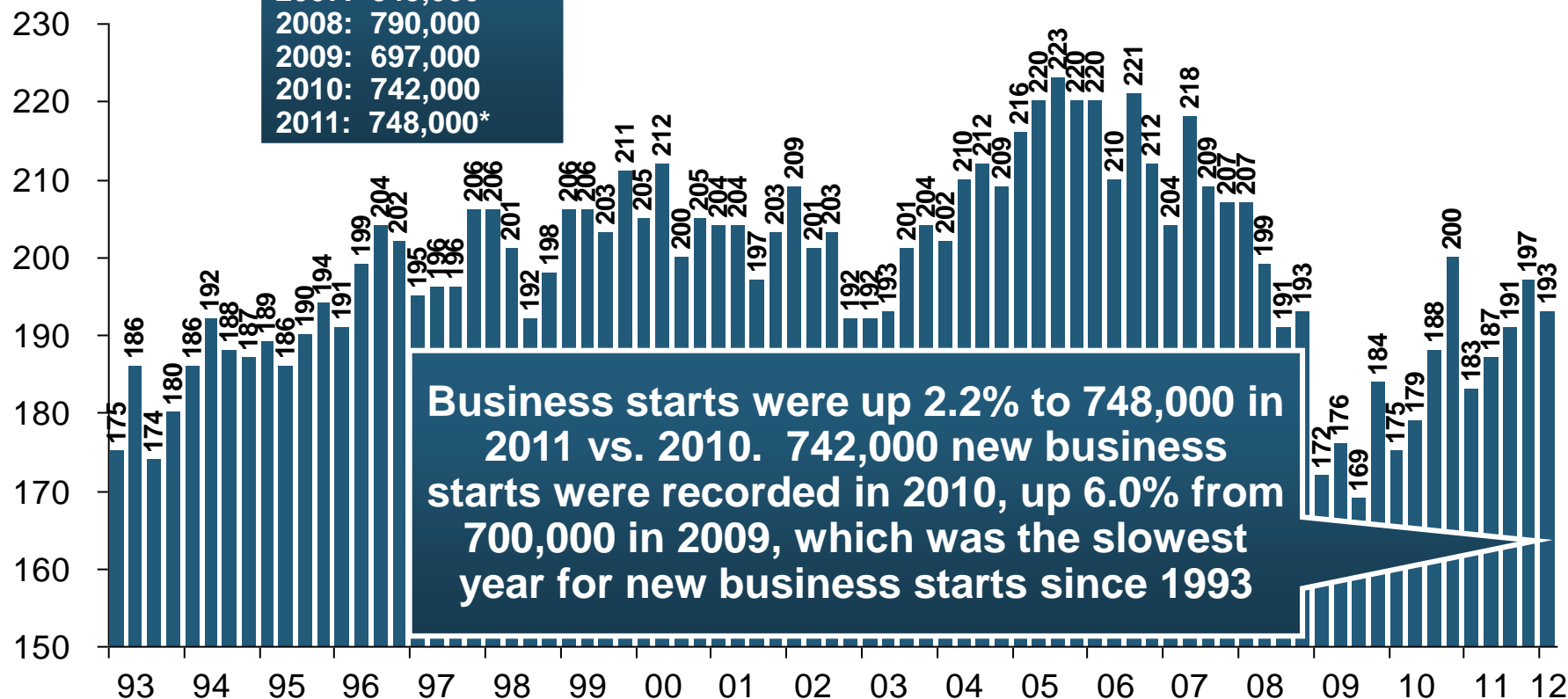
Significant Exposure Implications for All Commercial Lines as Business Bankruptcies Begin to Decline

Private Sector Business Starts, 1993:Q2 – 2012:Q1*

(Thousands)

Business Starts

2006: 872,000
2007: 843,000
2008: 790,000
2009: 697,000
2010: 742,000
2011: 748,000*



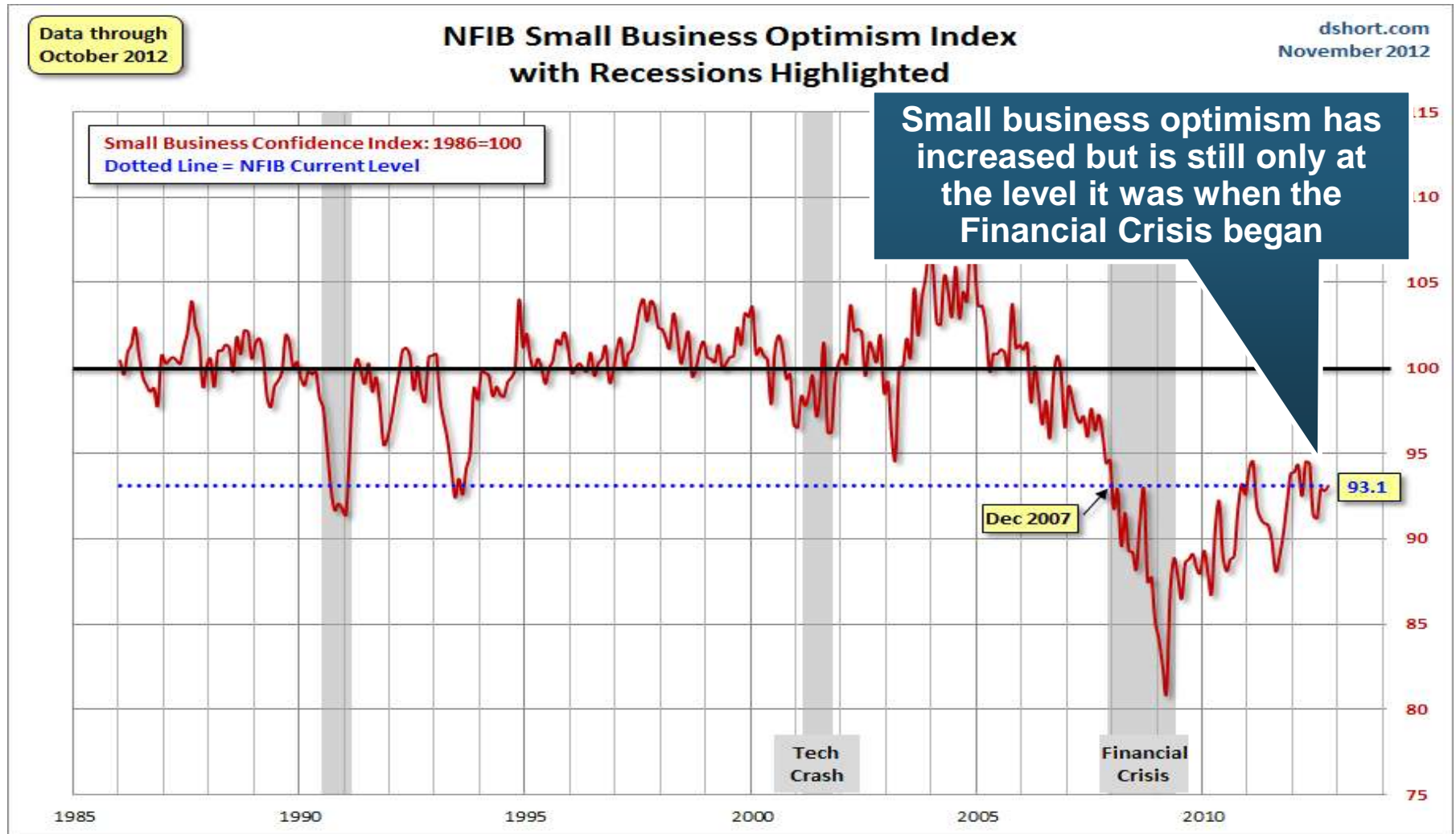
Business Starts Were Down Nearly 20% in the Recession, Holding Back Most Types of Commercial Insurance Exposure, But Are Recovering Slowly

* Data through Mar. 31, 2012 are the latest available as of Dec. 2, 2012; Seasonally adjusted.

Source: Bureau of Labor Statistics, <http://www.bls.gov/news.release/cewbd.t08.htm>.

NFIB Small Business Optimism Index

January 1985 through October 2012



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)

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



Fiscal Cliff: Implications for P/C Insurance Industry

**Premium Growth Rates Vary
Tremendously by State**

The Fiscal Cliff: Key Issues for the P/C Insurance Industry

- **Growth: P/C Insurance Industry Shares This Concern with All Industries**
 - ◆ Worried that the simultaneous combination of higher taxes and sharp spending cuts will slow the economy—even push it into recession—and hurt growth
 - ◆ Consumer/Business spending could be reduced and/or postponed
- **Investments: Markets Hate Uncertainty**
 - ◆ Will the uncertainty hurt stock markets?
 - ◆ Will the Fed have to redouble efforts to keep interest rates low (hurting inv. Inc.)?
- **Agent/Brokers: Higher Marginal Tax Rates & Capital Gain Tax Hikes**
 - ◆ Many agencies/small brokers are effectively small businesses, so higher marginal tax rates hurt owners and a higher capital gains tax rate reduces value in M&A
- **Tax Reform—After the Fiscal Cliff**
 - ◆ There is a general view that the US tax code is badly in need of reform
 - ◆ Part of the reform could mean casting a wider net for revenue
 - ◆ Deductibility of reserves, tax treatment of muni bonds are issues of future concern
- **Health Insurers Have the Most to Be Concerned About**

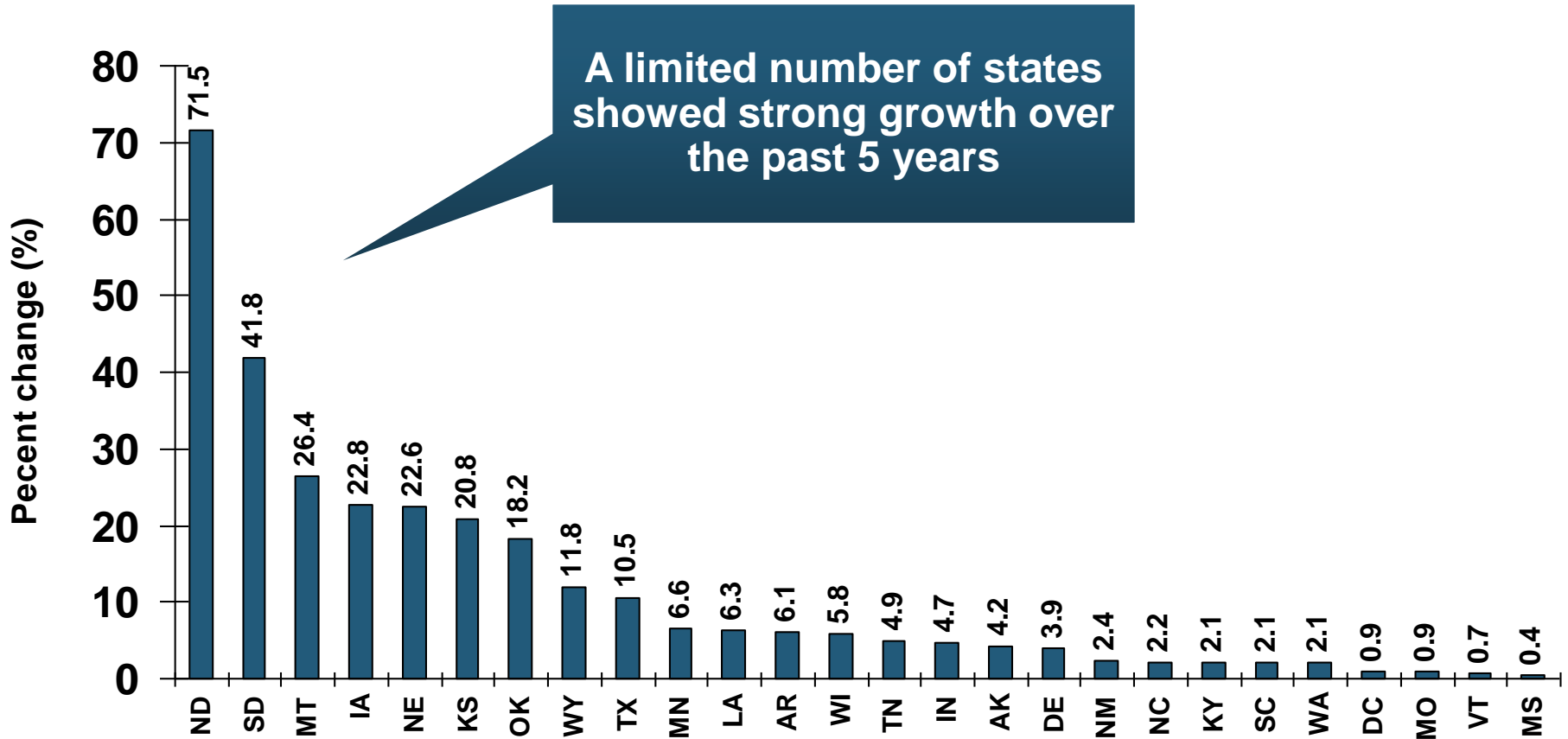


Growth Analysis by State and Business Segment

Premium Growth Rates Vary Tremendously by State

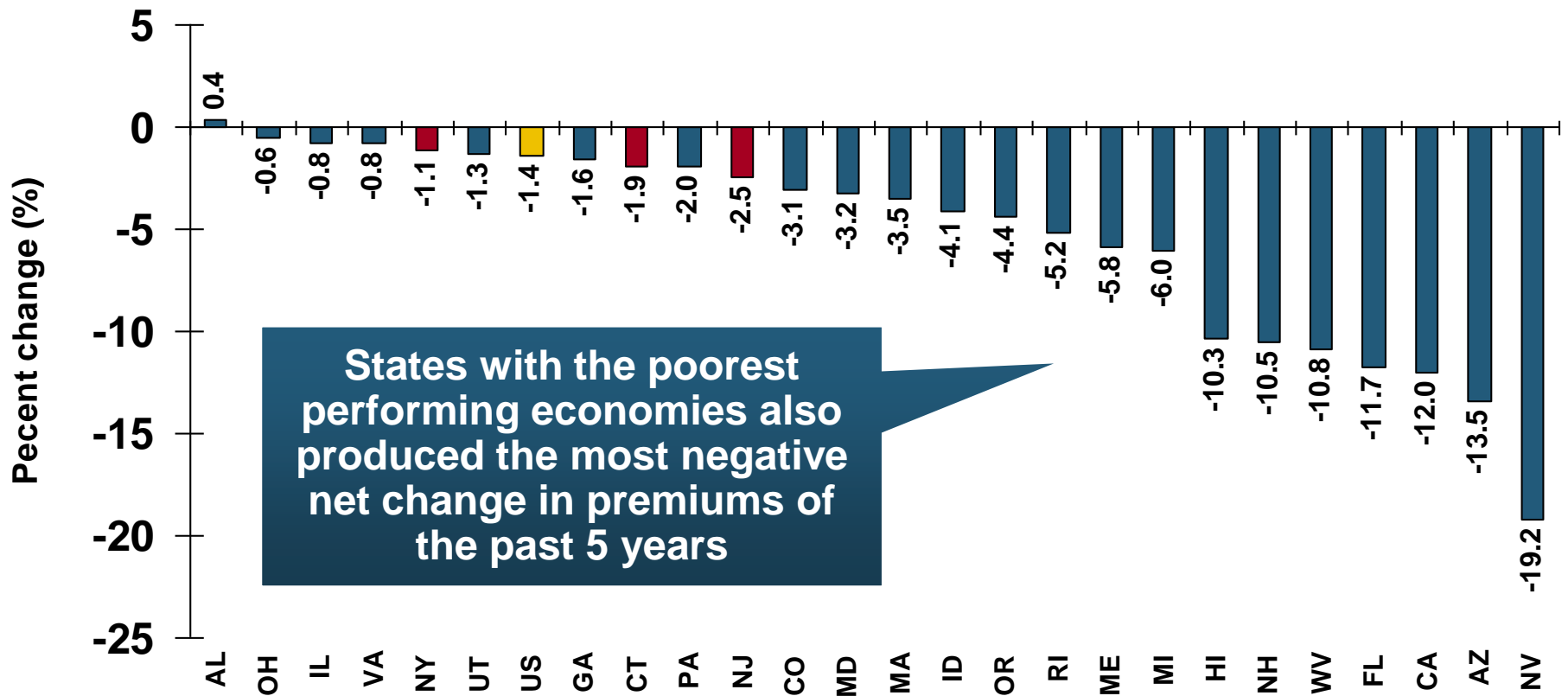
Direct Premiums Written: Total P/C Percent Change by State, 2006-2011*

Top 25 States



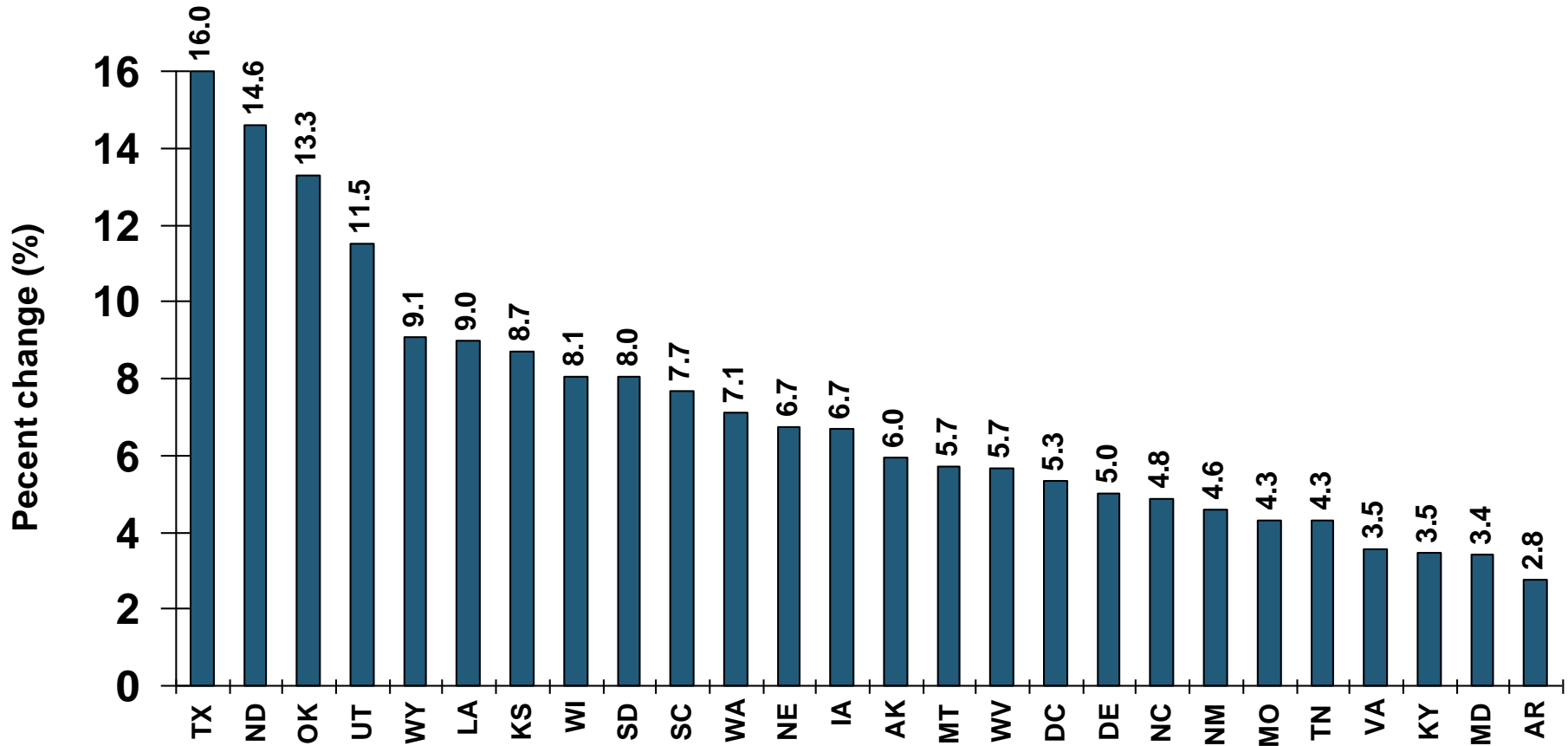
Direct Premiums Written: Total P/C Percent Change by State, 2006-2011*

Bottom 25 States



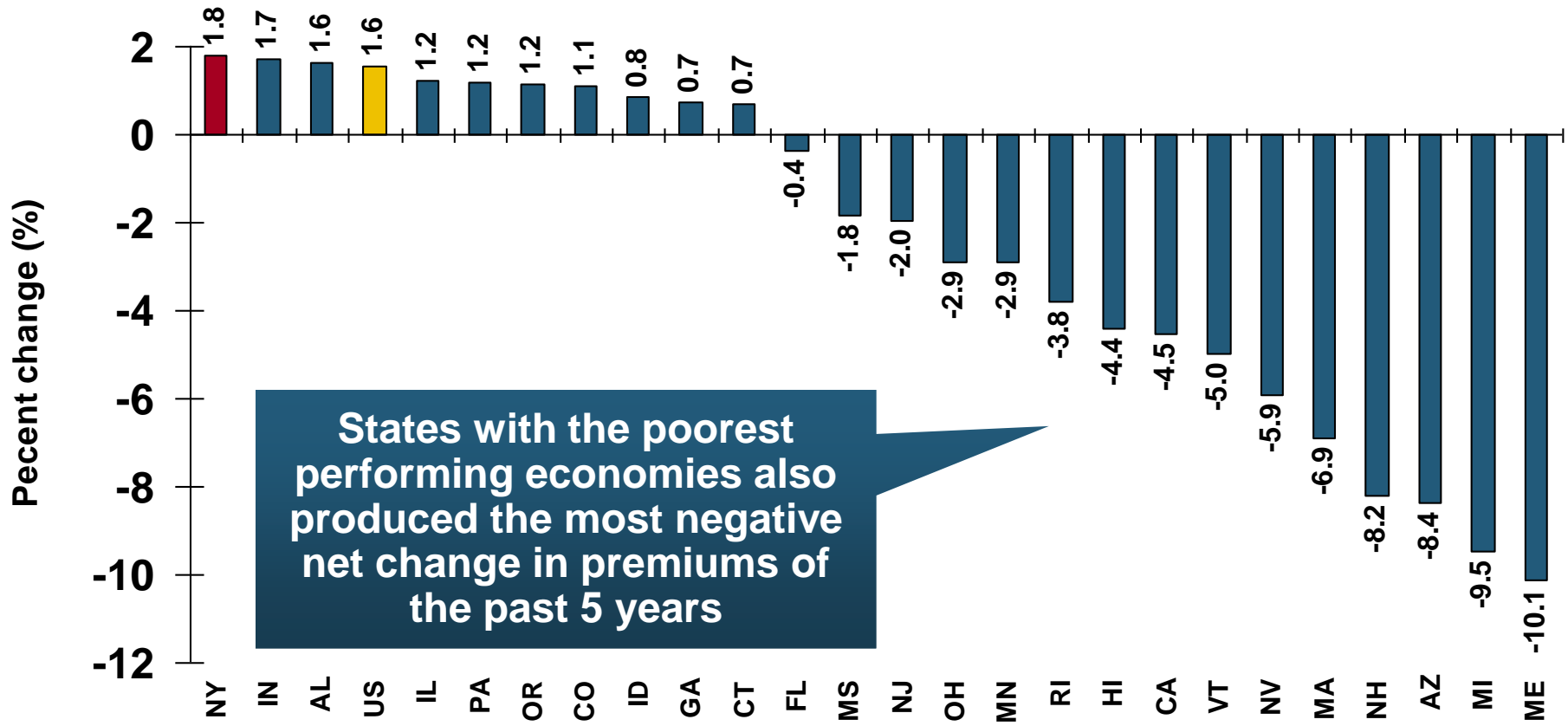
Direct Premiums Written: PP Auto Percent Change by State, 2006-2011*

Top 25 States



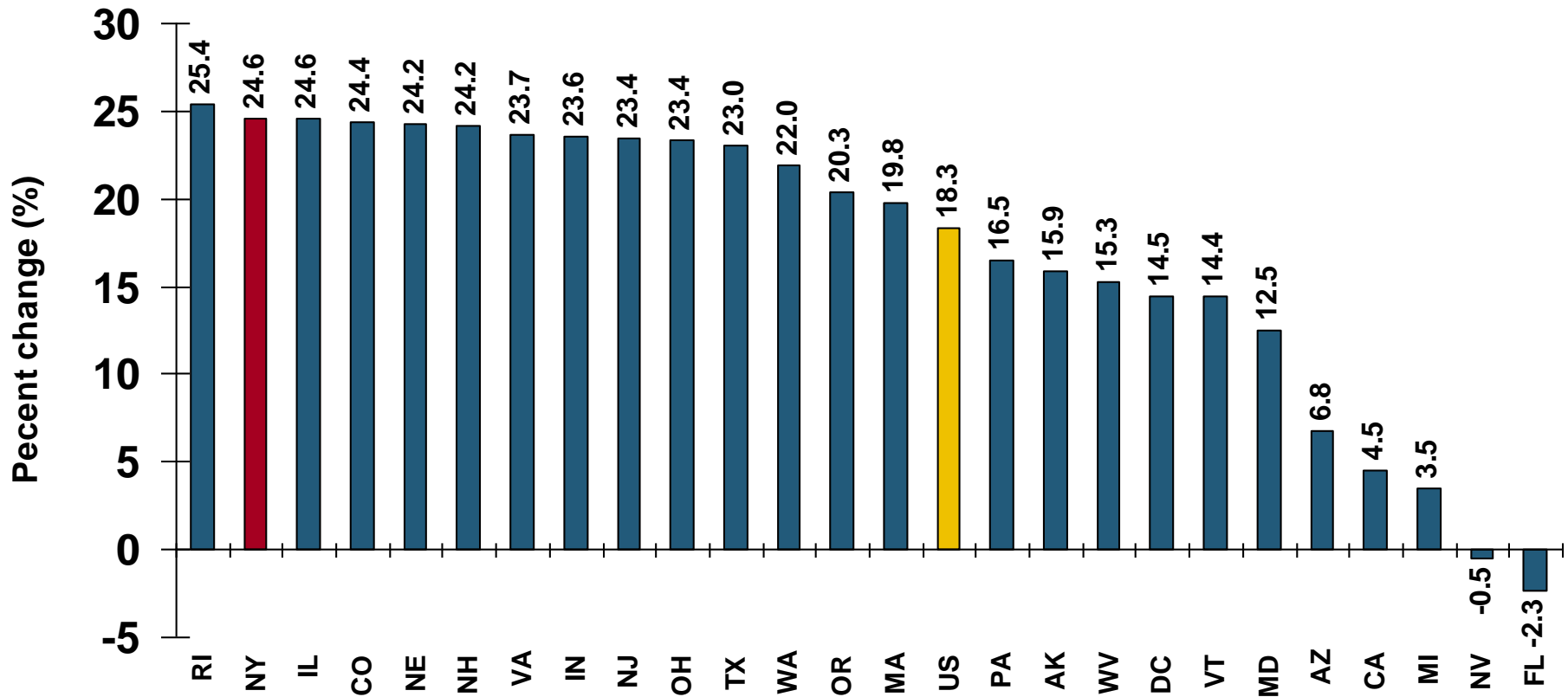
Direct Premiums Written: PP Auto Percent Change by State, 2006-2011*

Bottom 25 States



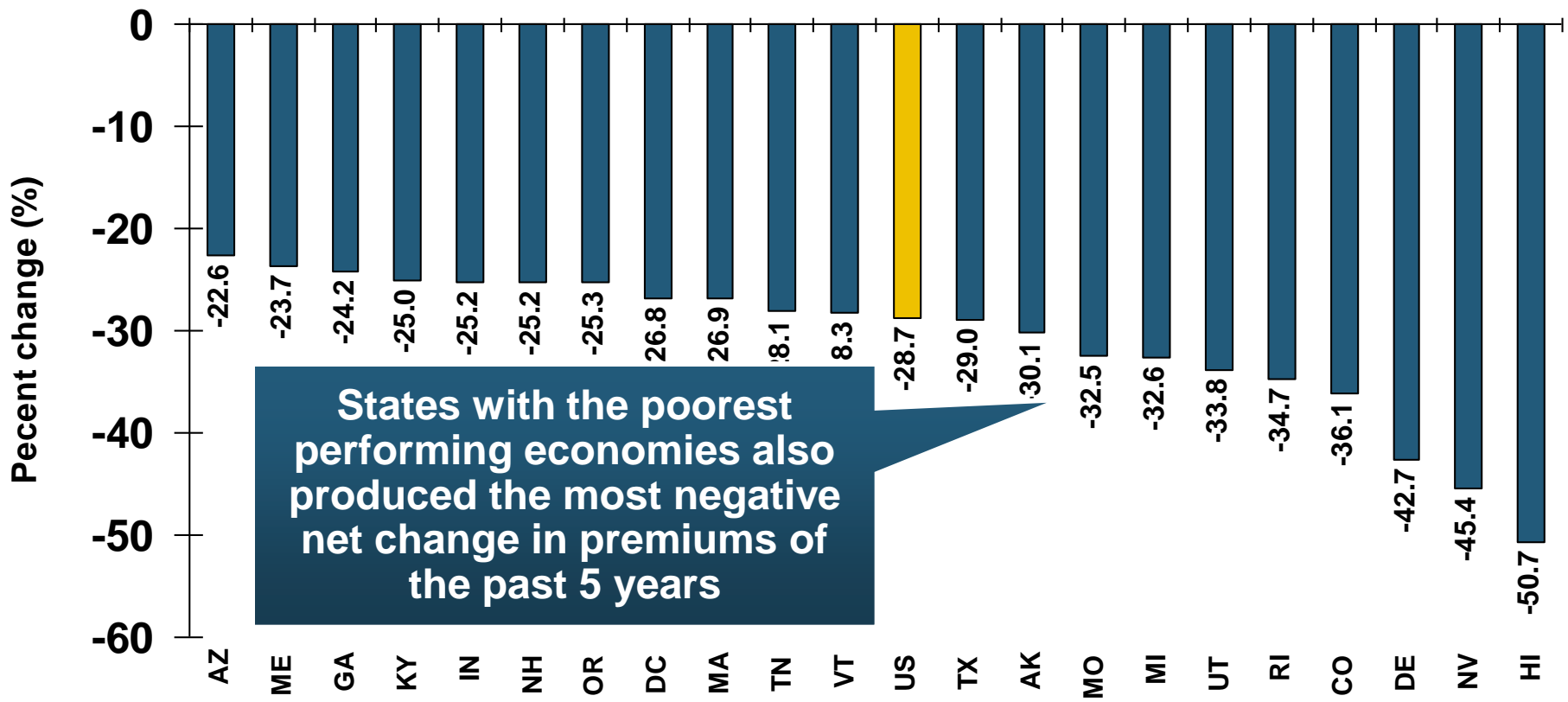
Direct Premiums Written: Homeowners Percent Change by State, 2006-2011*

Top 25 States



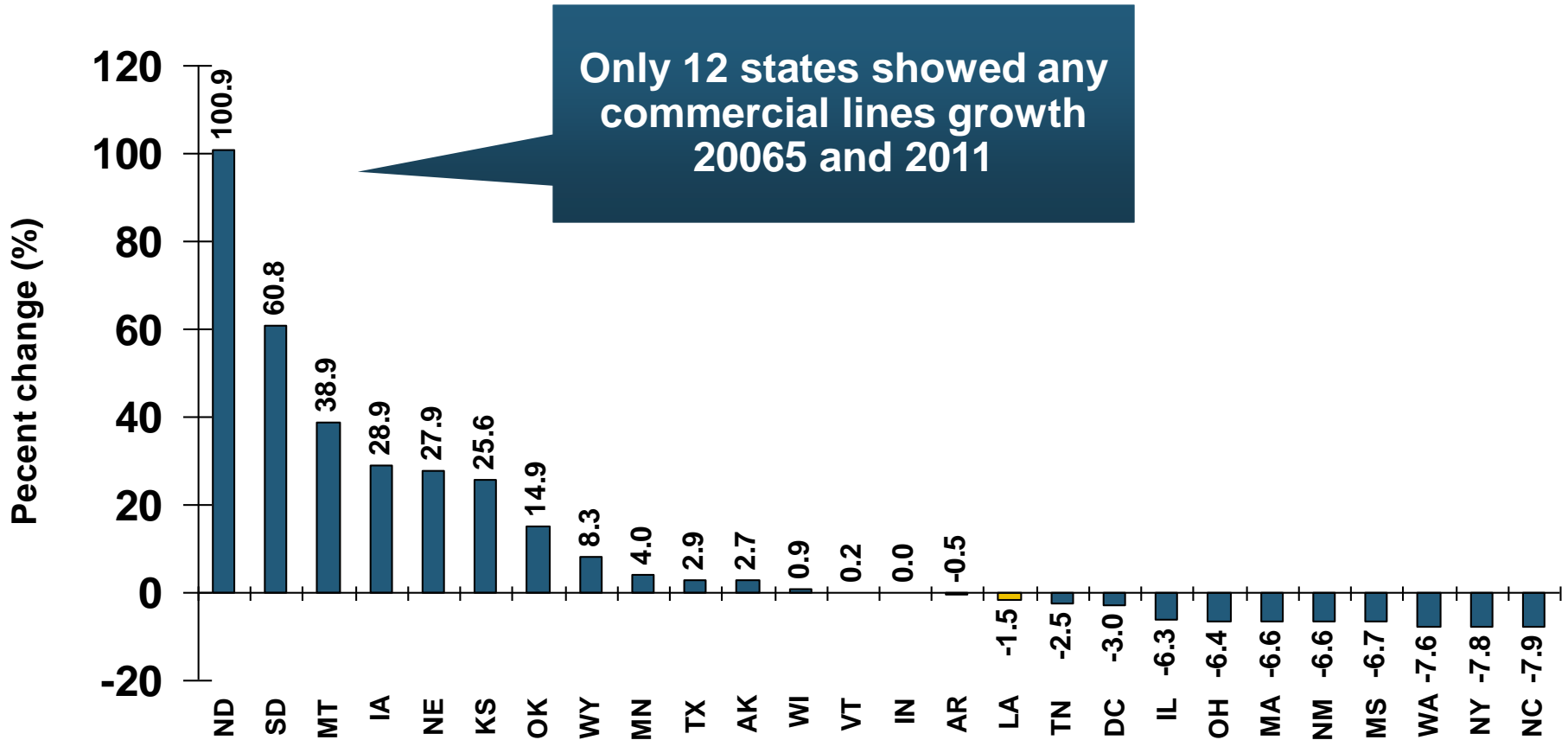
Direct Premiums Written: Homeowners Percent Change by State, 2006-2011*

Bottom 25 States



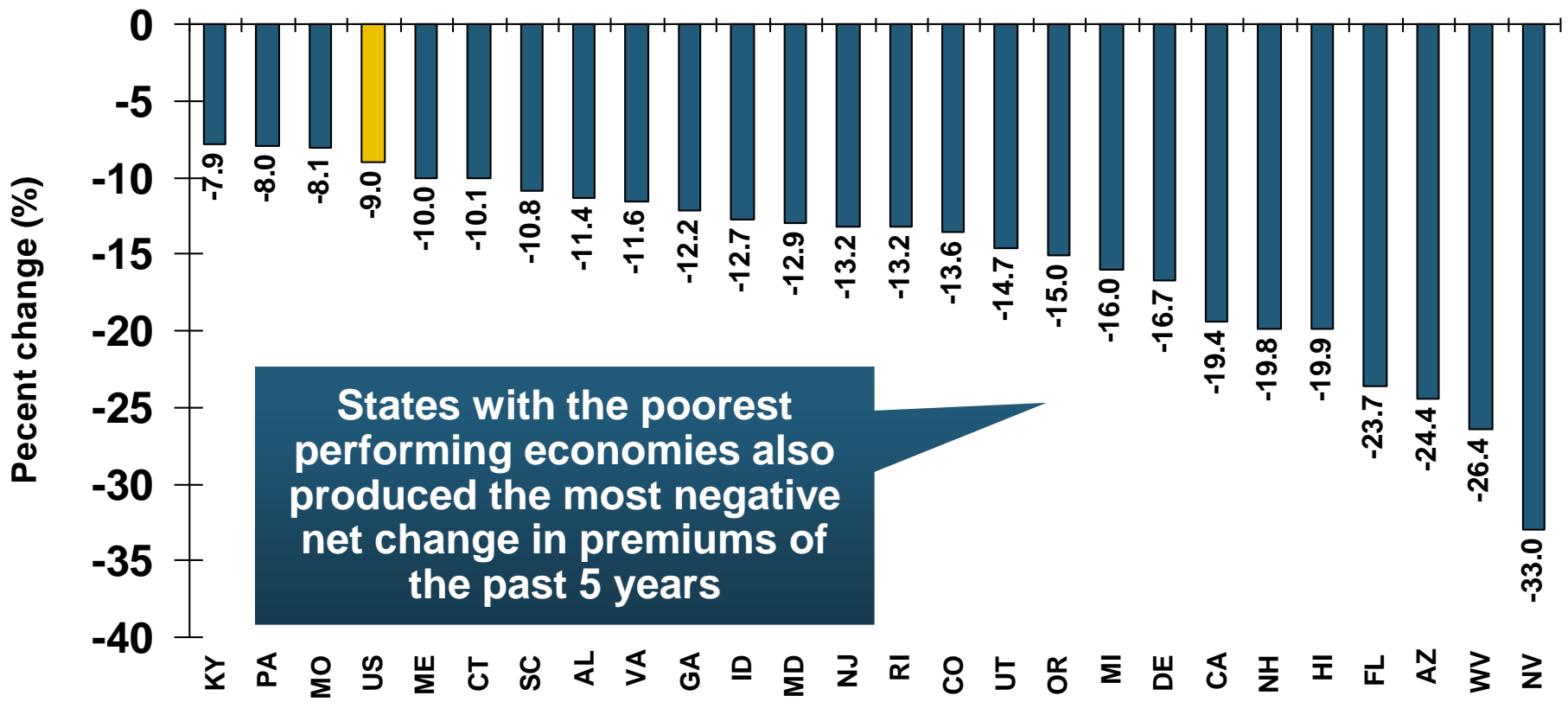
Direct Premiums Written: Comm. Lines Percent Change by State, 2006-2011*

Top 25 States



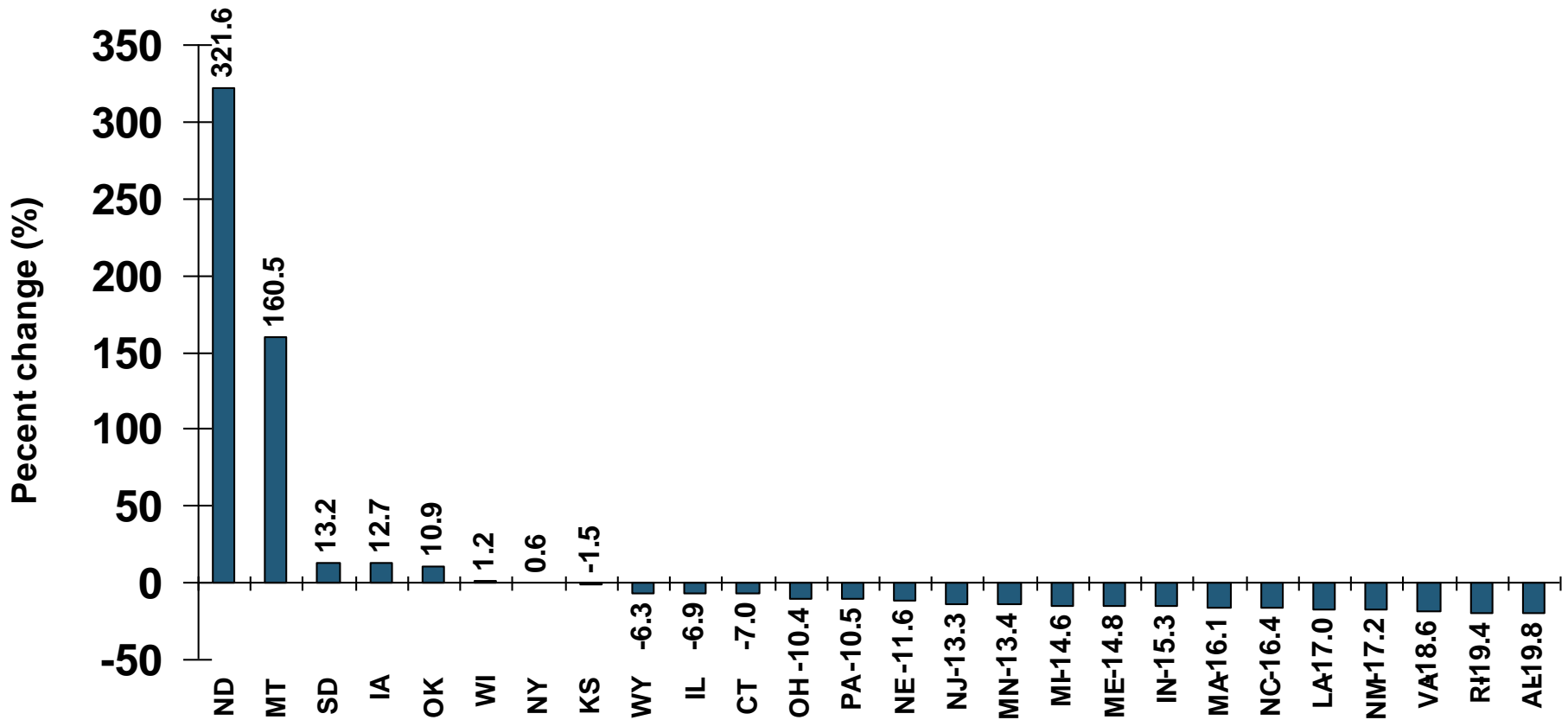
Direct Premiums Written: Comm. Lines Percent Change by State, 2006-2011*

Bottom 25 States



Direct Premiums Written: Workers' Comp Percent Change by State, 2006-2011*

Top 25 States

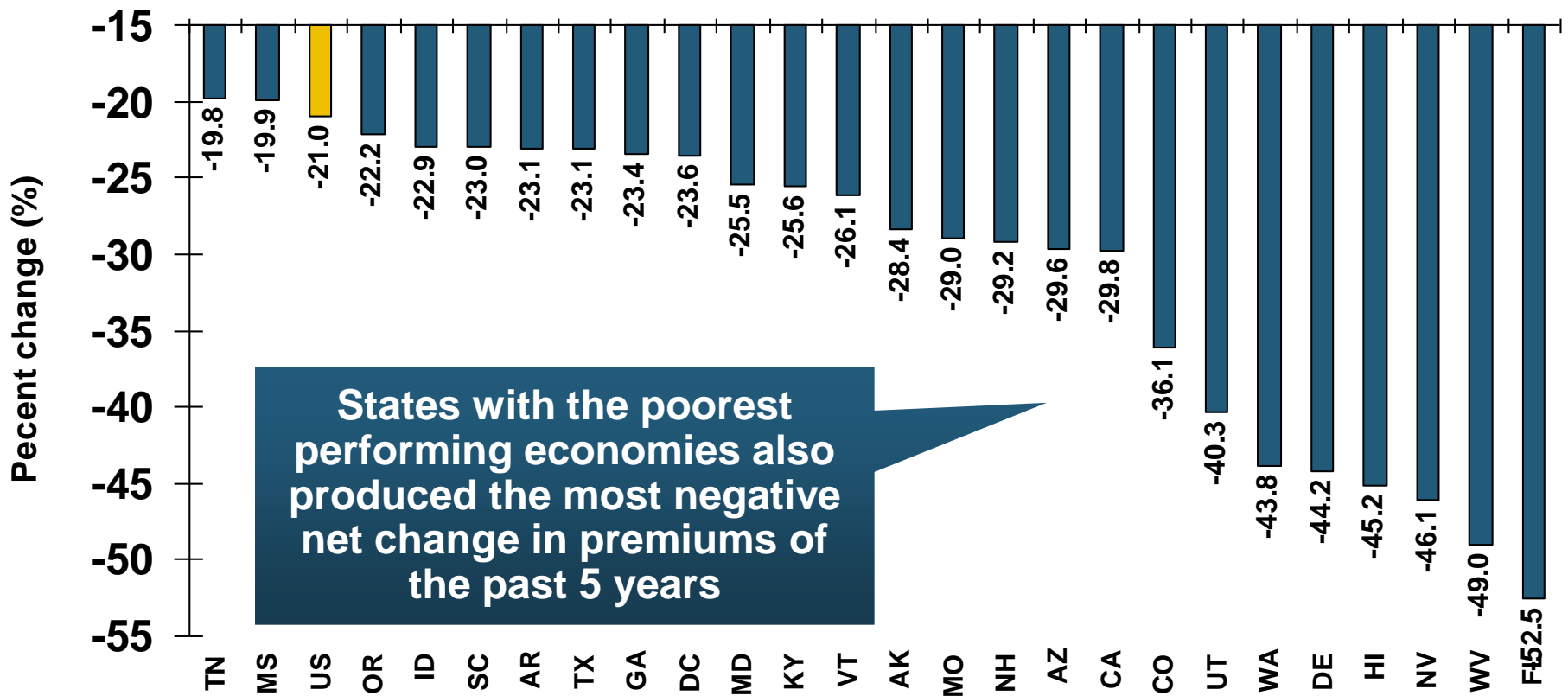


*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: Worker's Comp Percent Change by State, 2006-2011*

Bottom 25 States



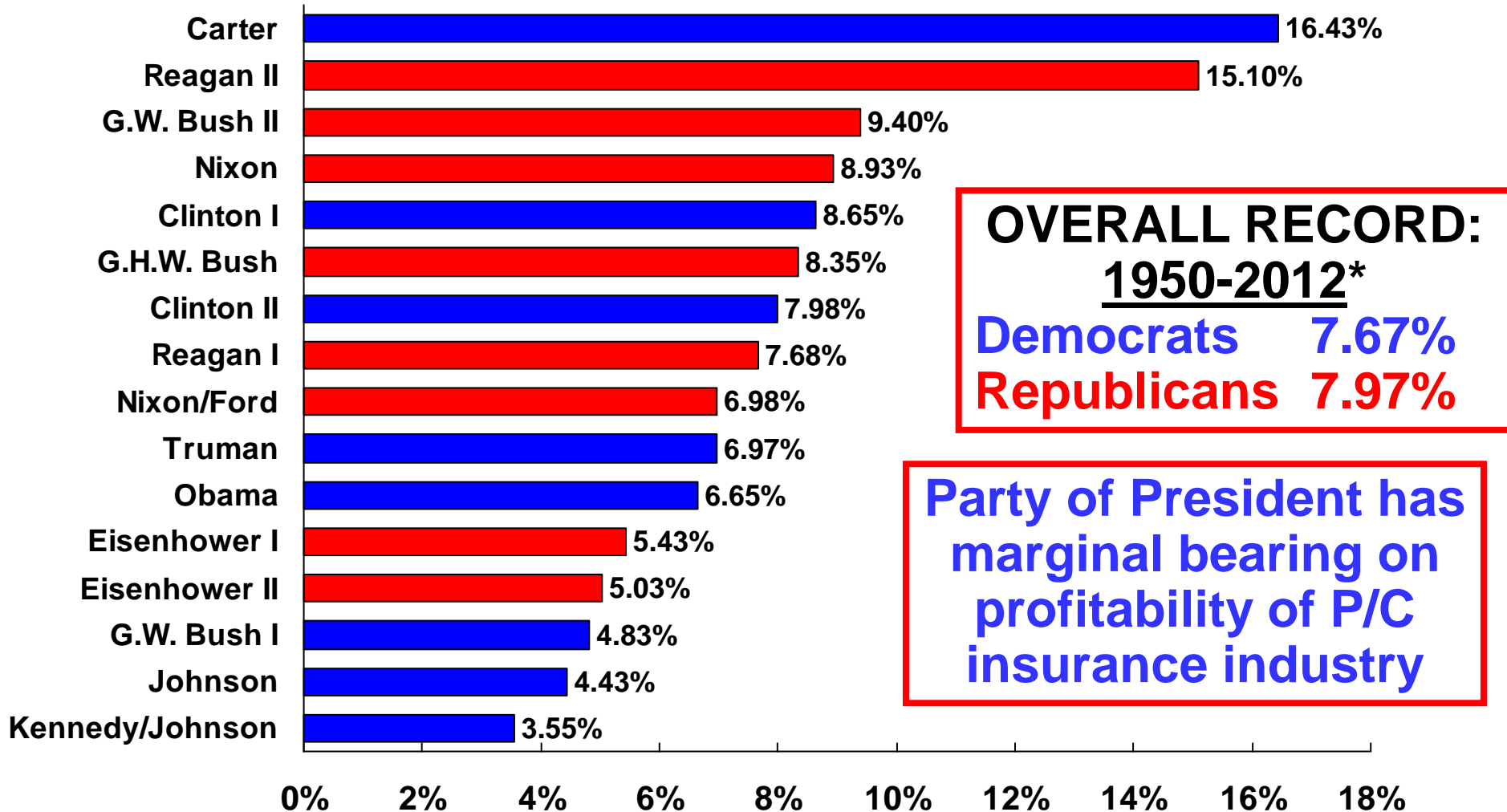
*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

Sources: SNL Financial LC.; Insurance Information Institute.

Presidential Politics & the P/C Insurance Industry

How Is Profitability Affected by the President's Political Party?

P/C Insurance Industry ROE by Presidential Administration, 1950- 2012*



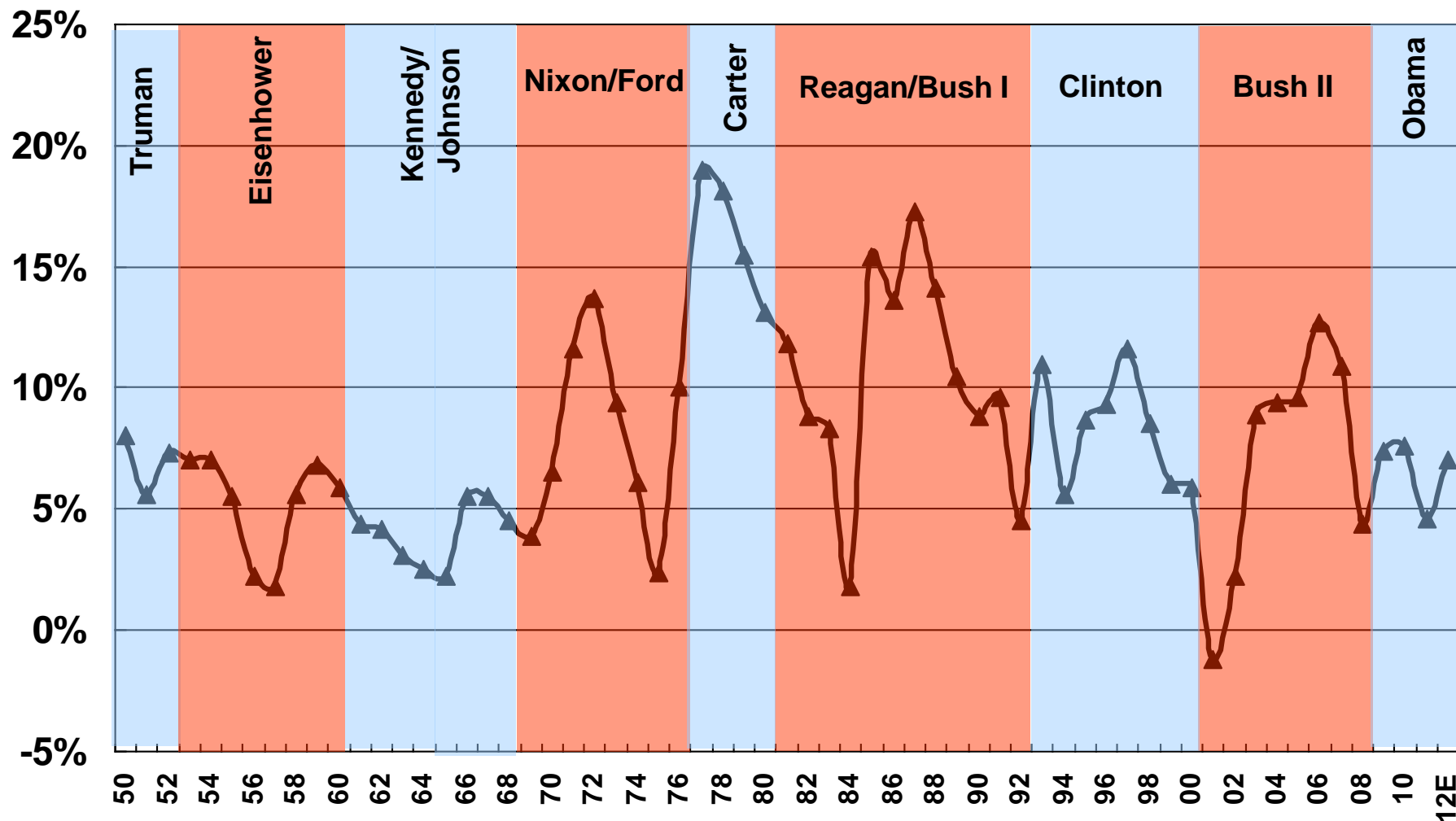
*Truman administration ROE of 6.97% based on 3 years only, 1950-52; ROEs for the years 2008 forward exclude mortgage and financial guaranty segments. Estimated ROE for 2012 = 7.0%.

Source: Insurance Information Institute

P/C Insurance Industry ROE by Presidential Party Affiliation, 1950- 2012*

BLUE = Democratic President

RED = Republican President



*ROEs for the years 2008 forward exclude mortgage and financial guaranty segments; Estimated 2012 ROE = 7.0%

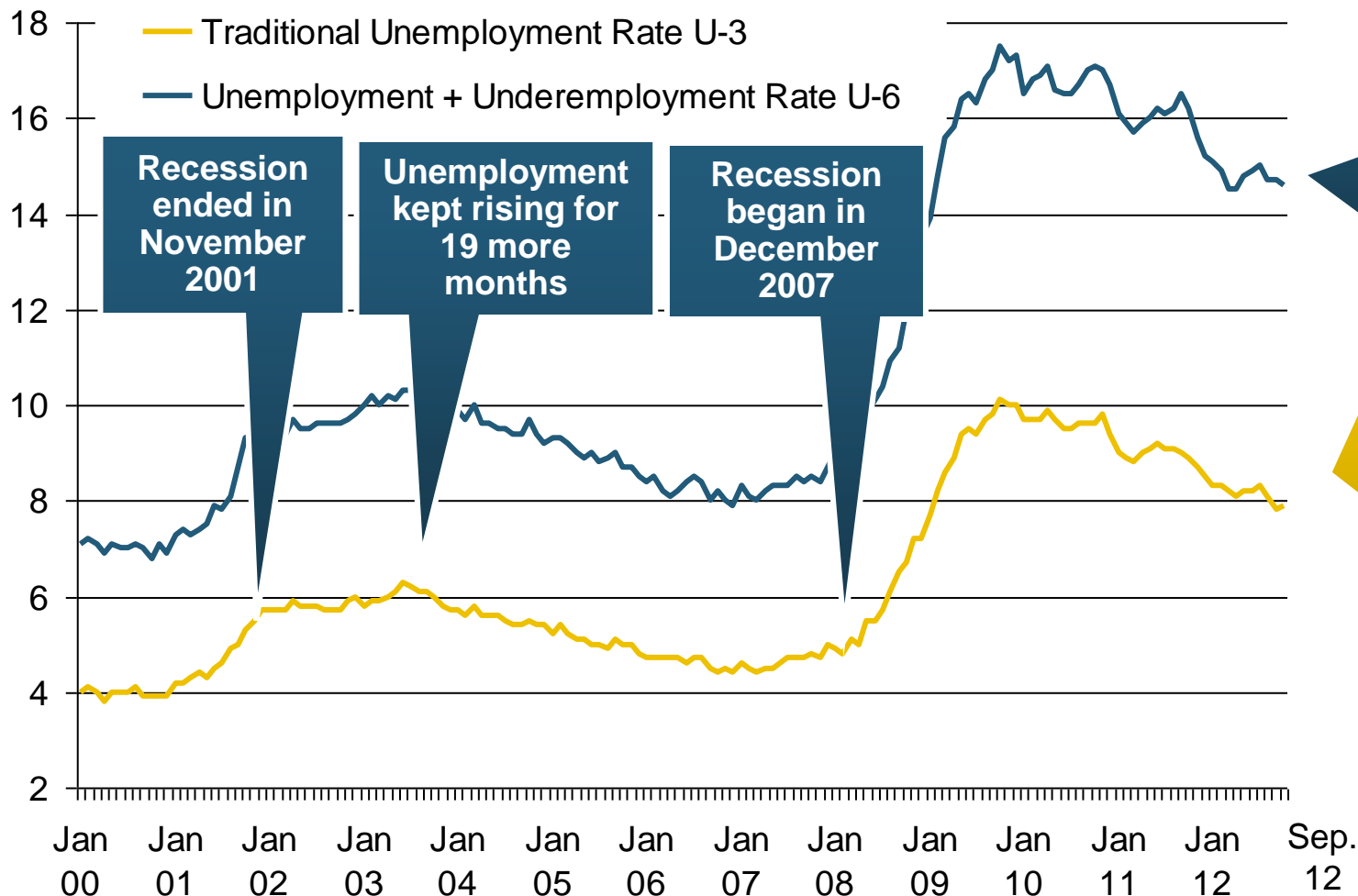
Source: Insurance Information Institute

Labor Market Trends

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

Unemployment and Underemployment Rates: Stubbornly High in 2012, But Falling

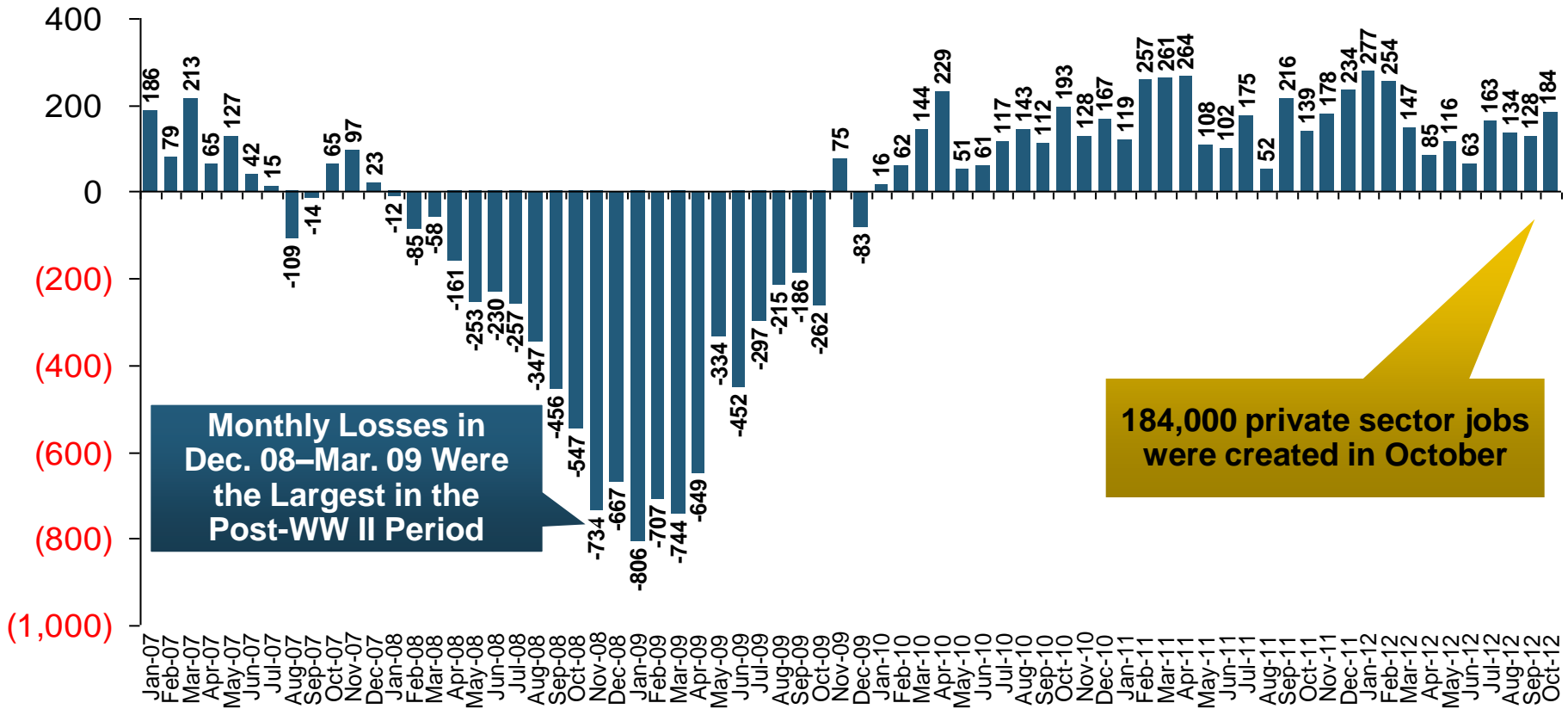
January 2000 through Oct. 2012, Seasonally Adjusted (%)



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

Monthly Change in Private Employment

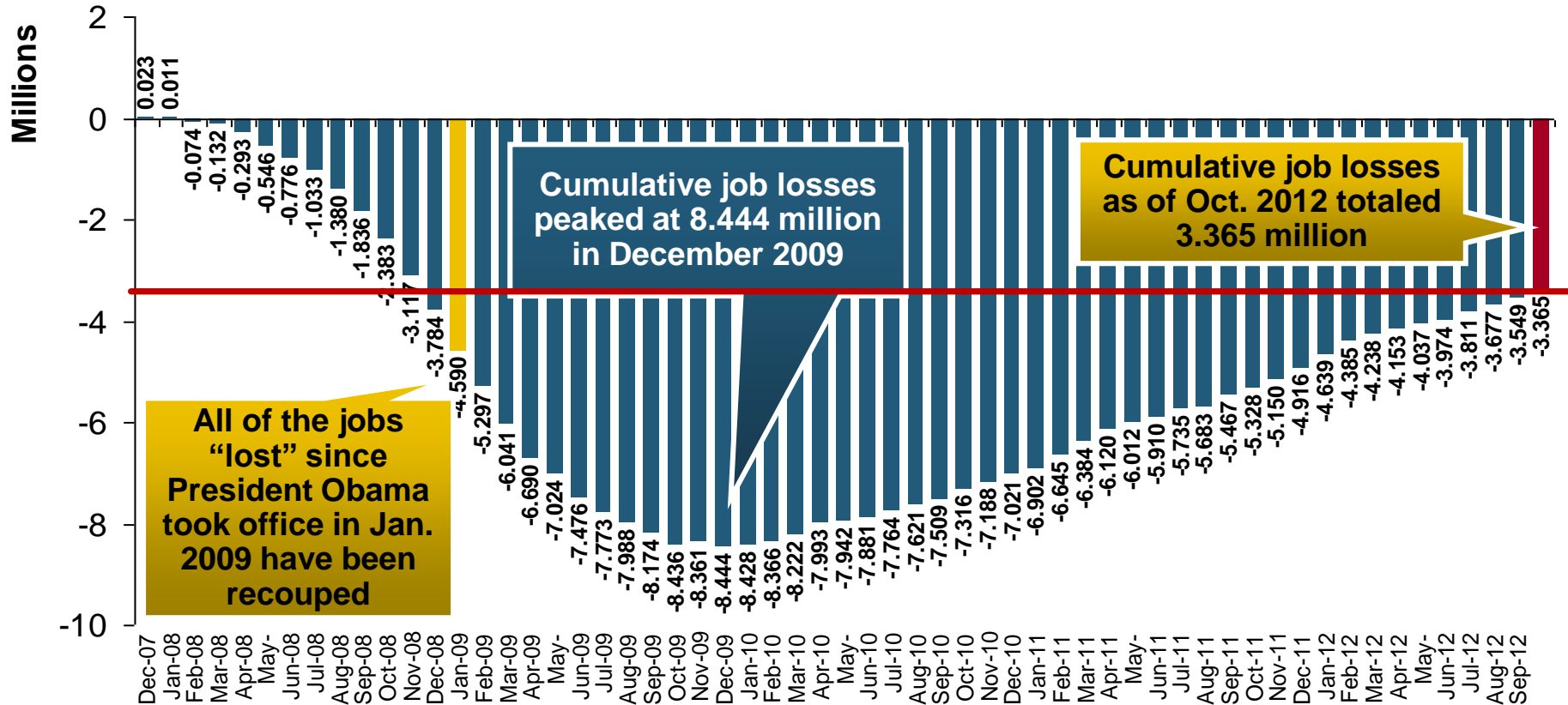
January 2008 through Oct. 2012 (Thousands)



Private Employers Added 5.08 million Jobs Since Jan. 2010 After Having Shed 4.66 Million Jobs in 2009 and 3.81 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

Cumulative Change in Private Employment: Dec. 2007—Oct. 2012

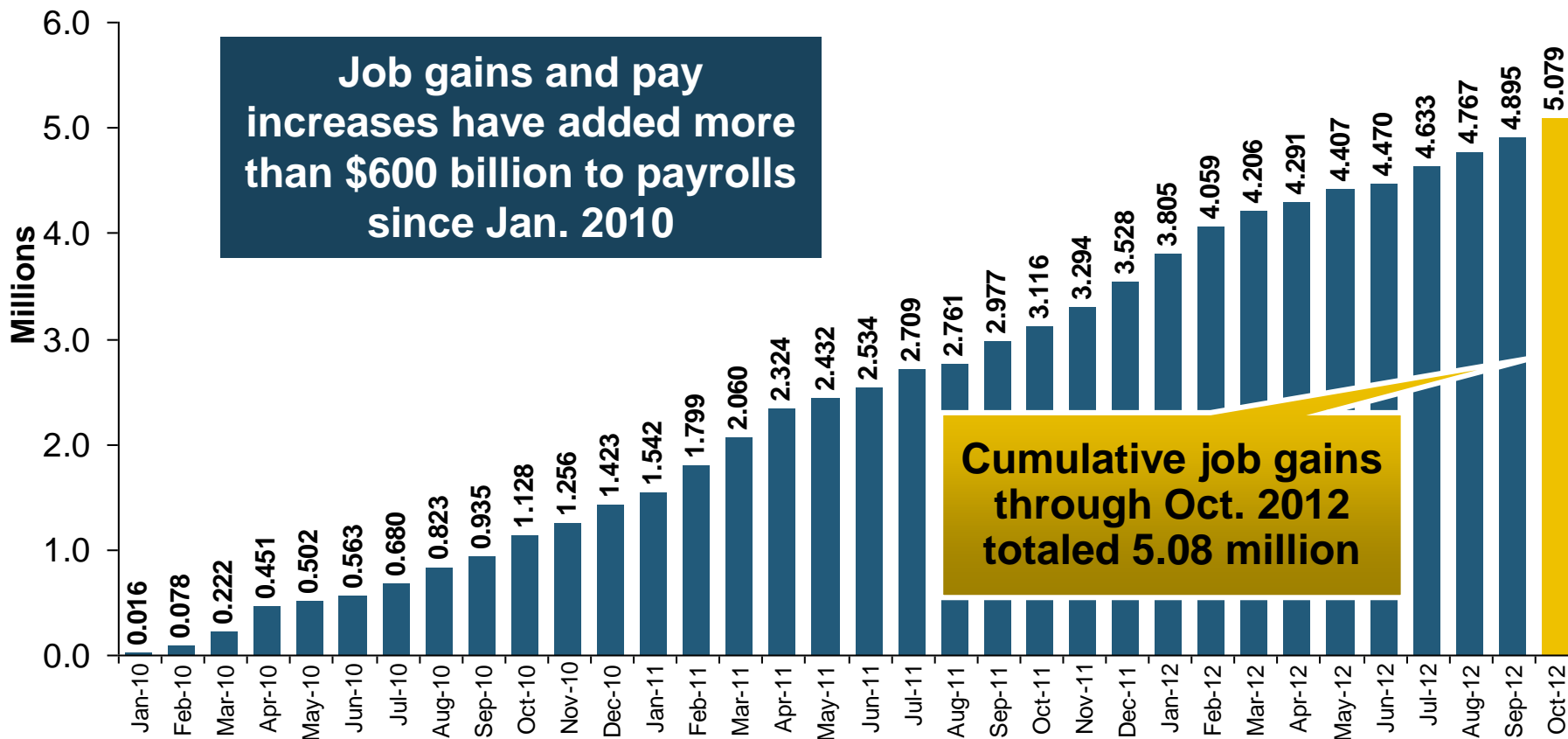
December 2007 through October 2012 (Millions)



Private Employers Added 5.08 million Jobs Since Jan. 2010 After Having Shed 4.66 Million Jobs in 2009 and 3.81 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

Cumulative Change in Private Sector Employment: Jan. 2010—Oct. 2012

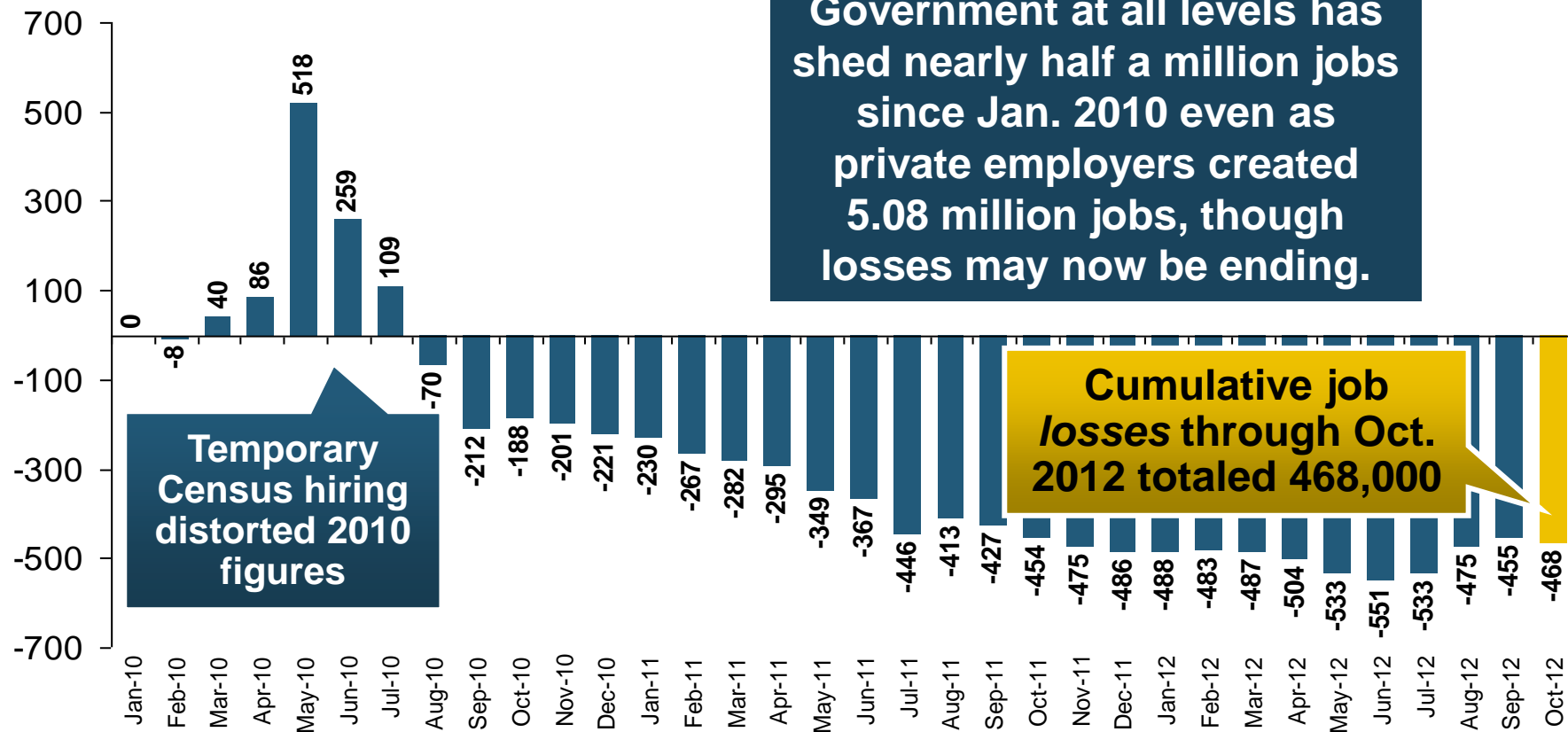
January 2010 through October 2012* (Millions)



Private Employers Added 5.08 million Jobs Since Jan. 2010 After Having Shed 4.66 Million Jobs in 2009 and 3.81 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

Cumulative Change in Government Employment: Jan. 2010—Oct. 2012

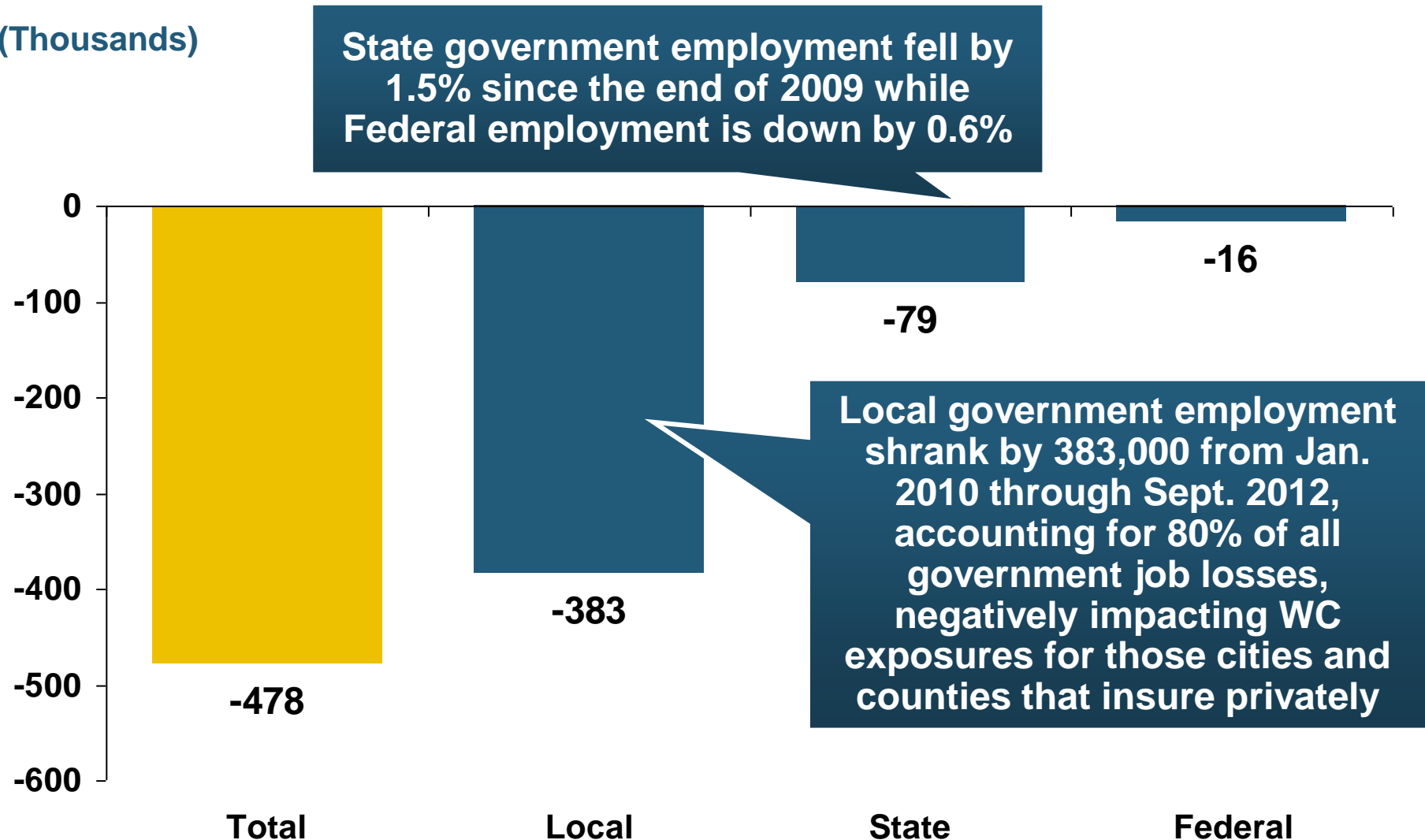
January 2010 through Oct. 2012* (Millions)



Governments at All Levels are Under Severe Fiscal Strain As Tax Receipts Plunged and Pension Obligations Soared During the Financial Crisis, Causing Them to Reduce Staff

Net Change in Government Employment: Jan. 2010—Sept. 2012*

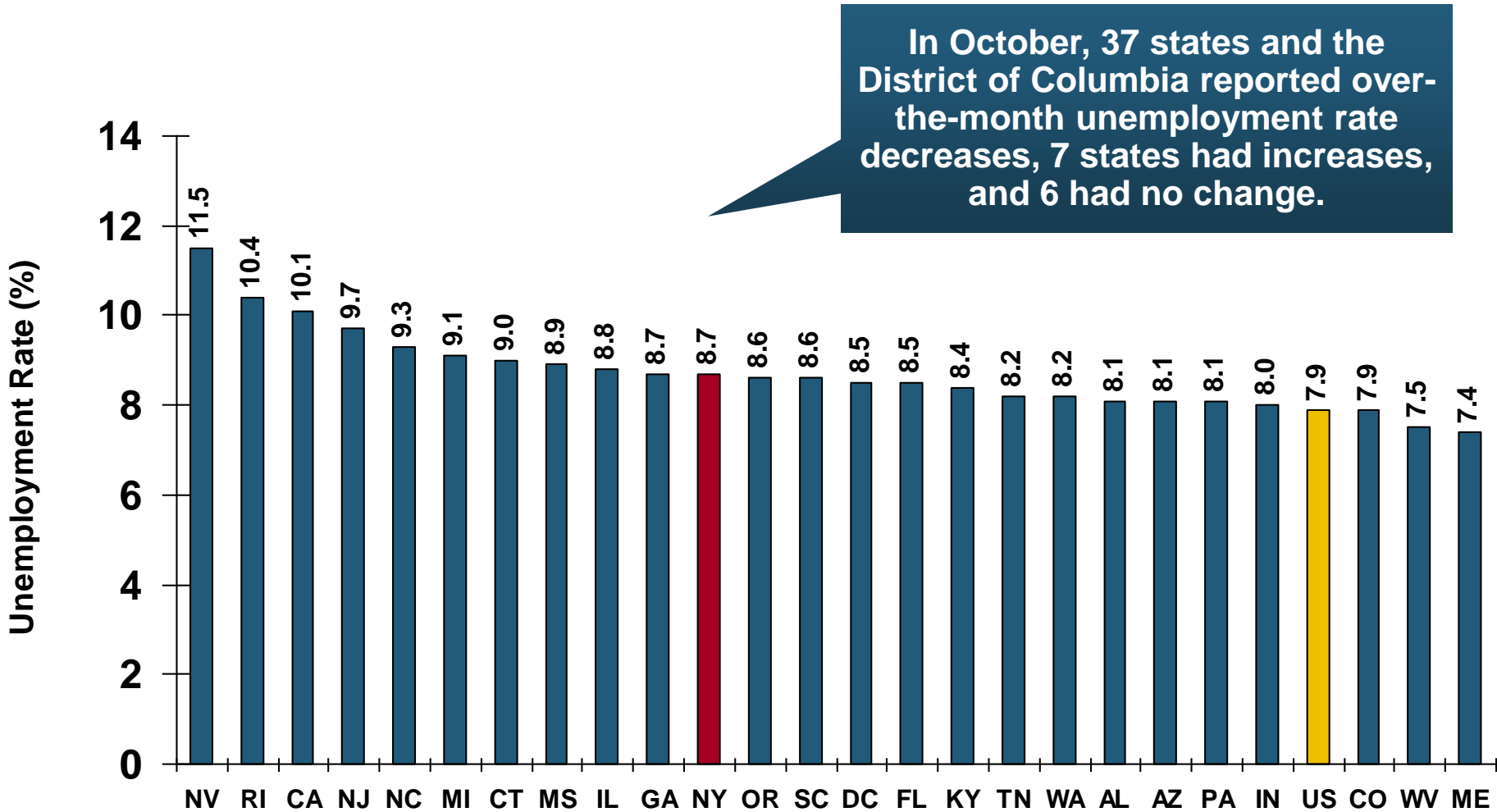
(Thousands)



*Cumulative change from prior month; Base employment date is Dec. 2009.

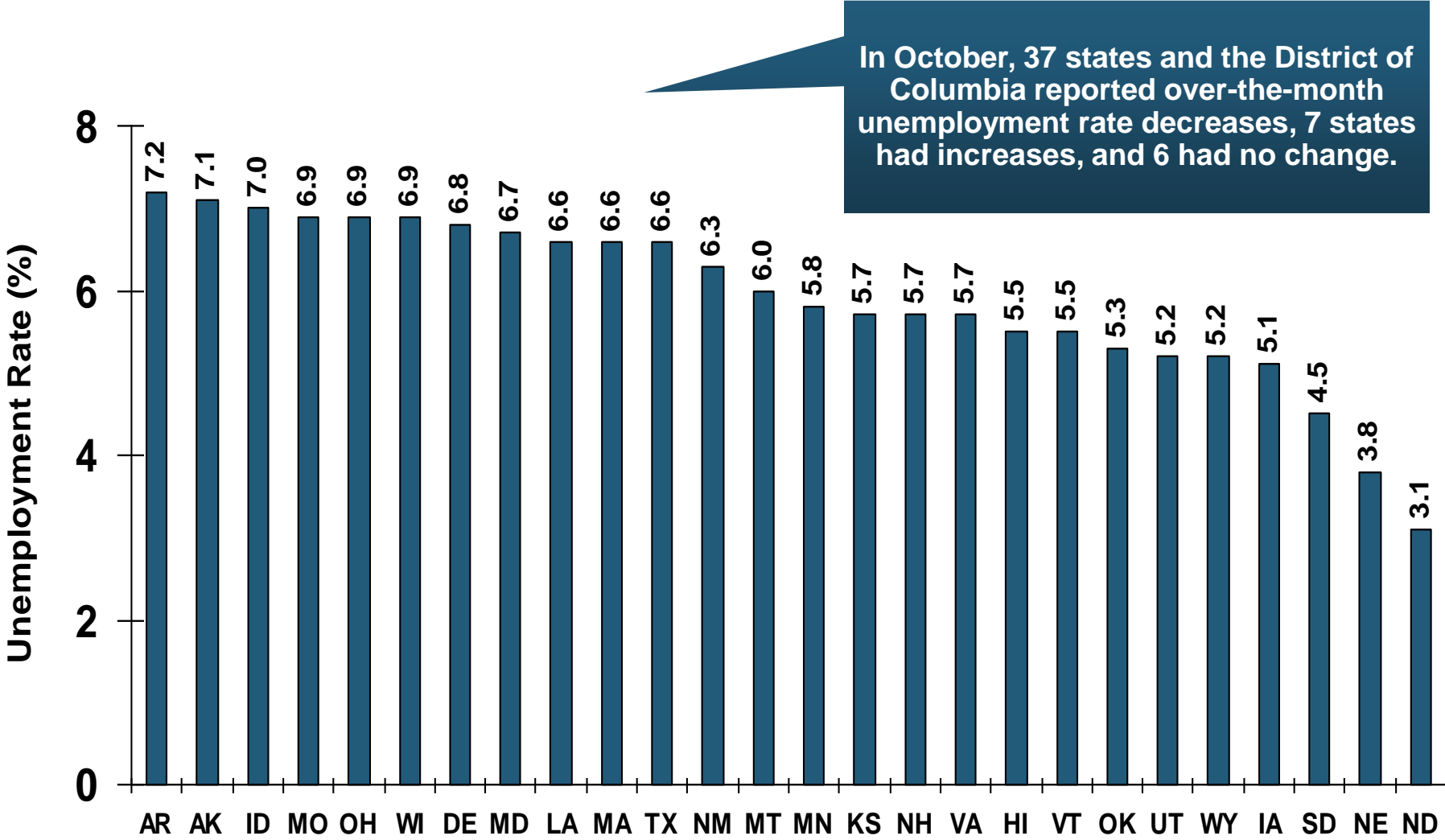
Source: US Bureau of Labor Statistics <http://www.bls.gov/data/#employment>; Insurance Information Institute

Unemployment Rates by State, October 2012: Highest 25 States*



*Provisional figures for October 2012, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

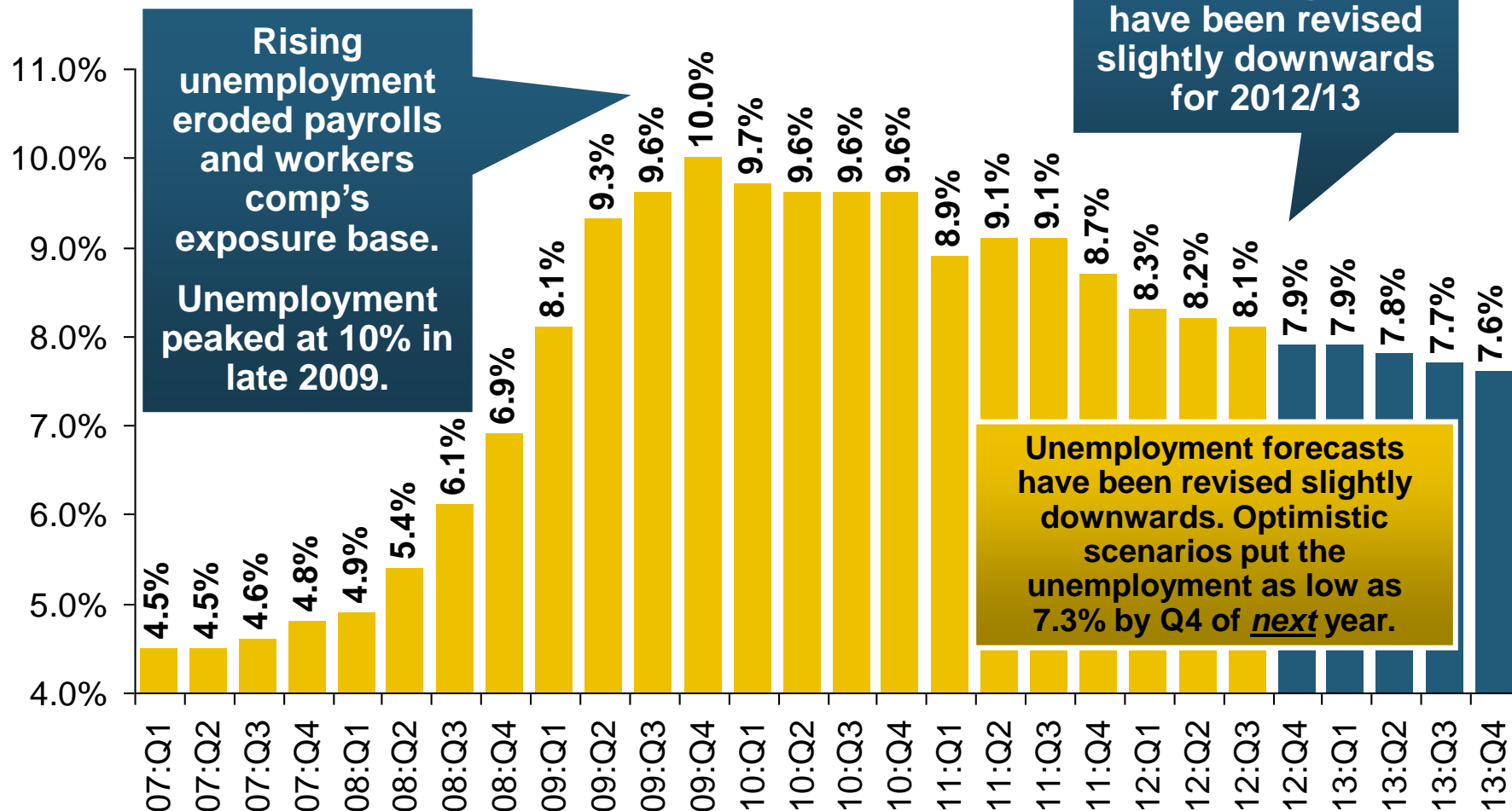
Unemployment Rates by State, October 2012: Lowest 25 States*



*Provisional figures for October 2012, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

US Unemployment Rate Forecast

2007:Q1 to 2013:Q4F*

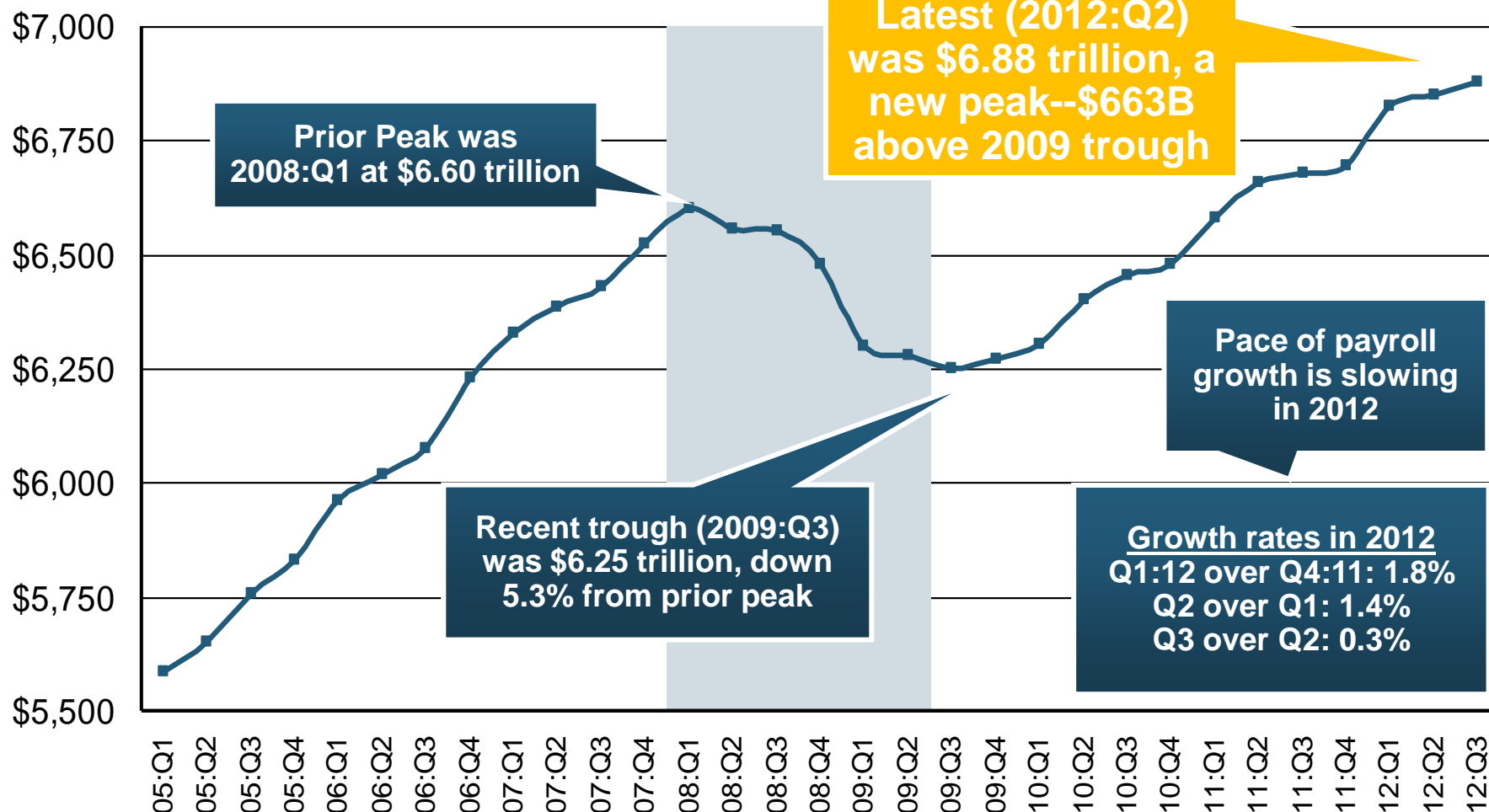


* ■ = actual; ■ = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (11/12 edition); Insurance Information Institute.

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2012:Q3

Billions



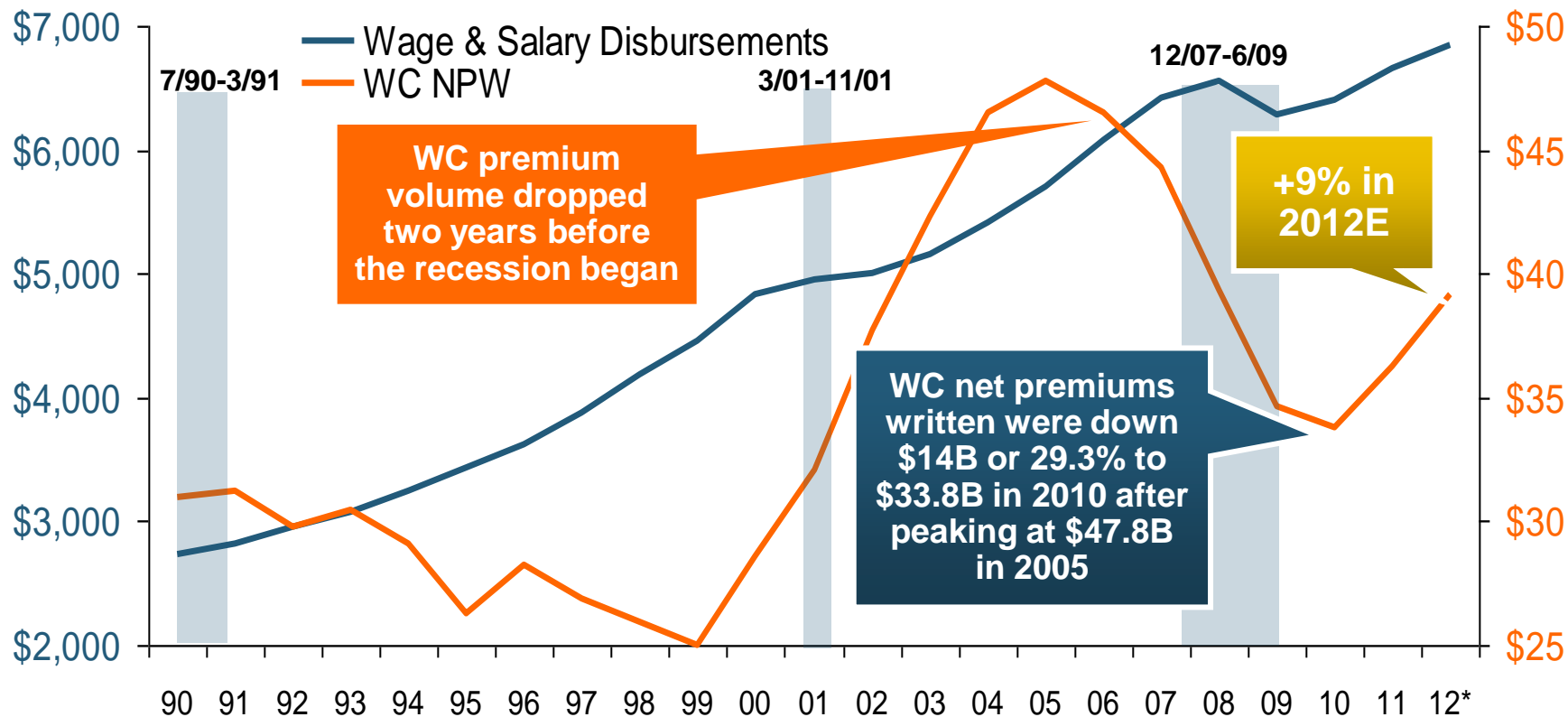
Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

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, 1990-2012E

Payroll Base*
\$Billions

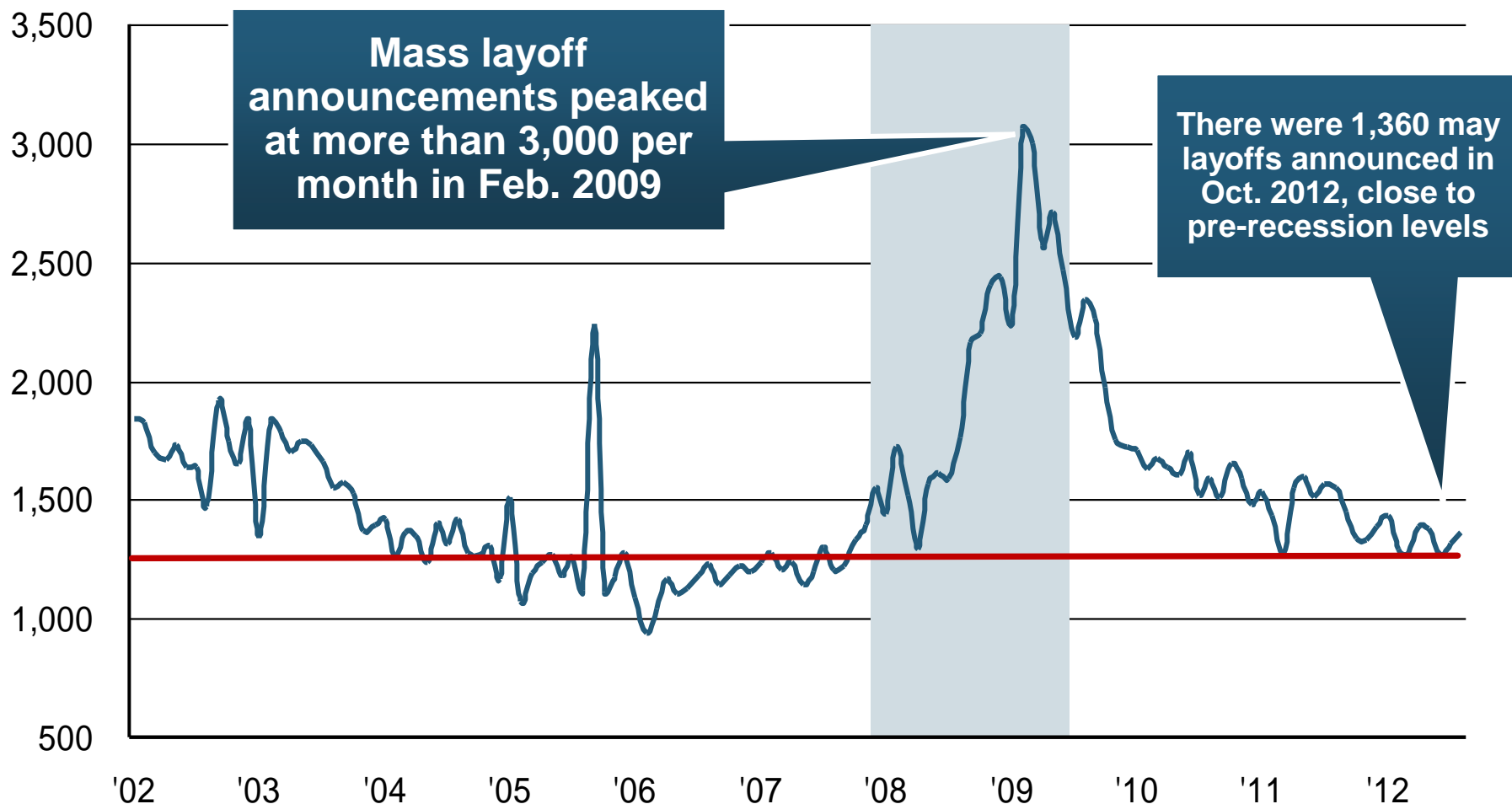
WC NWP
\$Billions



Continued Payroll Growth and Rate Increases Suggest WC NWP Will Grow Again in 2012; +7.9% Growth in 2011 Was the First Gain Since 2005

*Private employment; Shaded areas indicate recessions. Payroll and WC premiums for 2012 is I.I.I. estimate based YTD 2012 actuals. Sources: NBER (recessions); Federal Reserve Bank of St. Louis at <http://research.stlouisfed.org/fred2/series/WASCUR> ; NCCI; I.I.I.

Mass Layoff Announcements, Jan. 2002—October 2012*



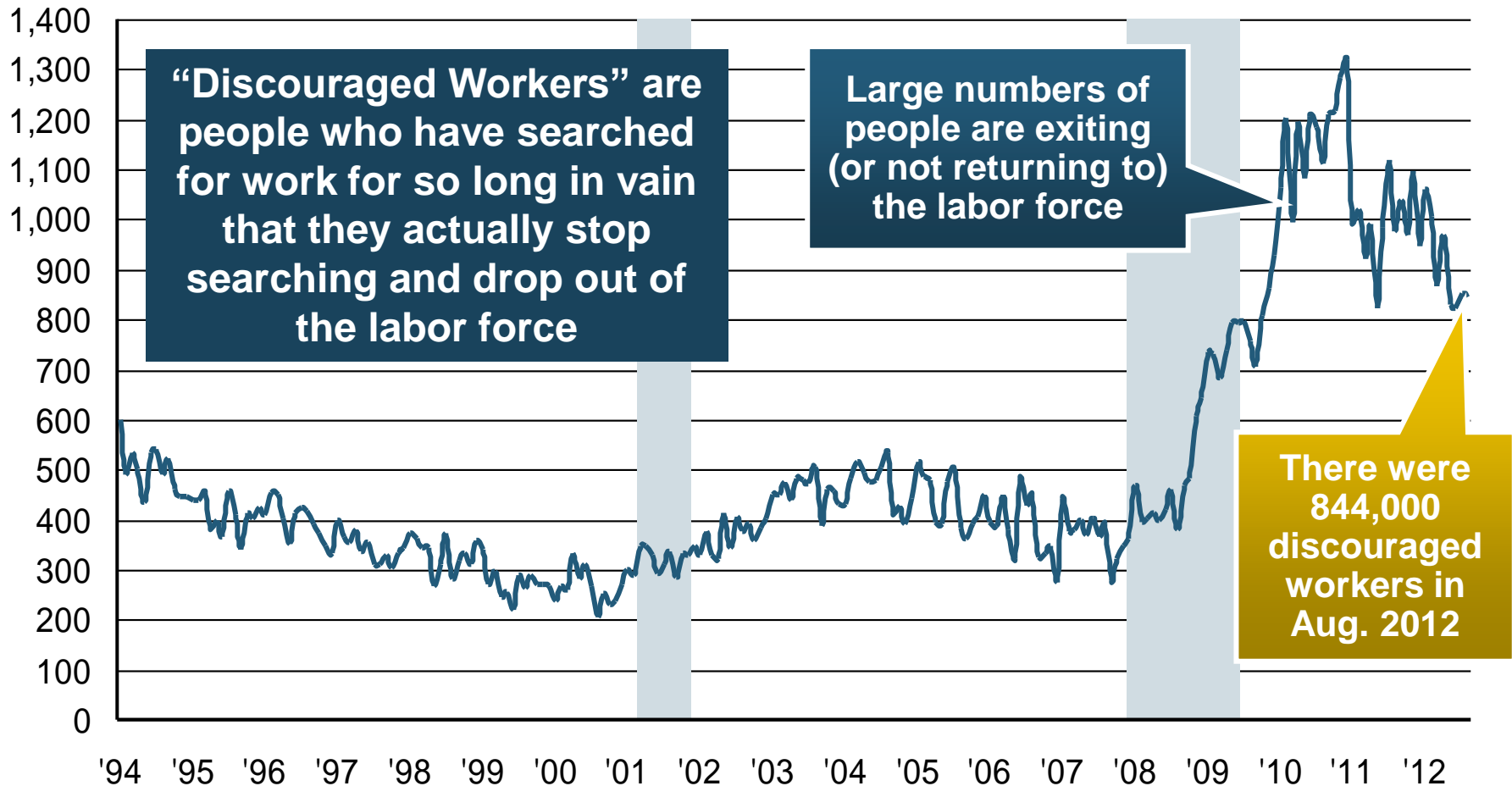
*Seasonally adjusted.

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics at <http://www.bls.gov/mls/>; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Number of “Discouraged Workers,” Jan. 2002—August 2012

Thousands



In recent good times, the number of discouraged workers ranged from 200,000-400,000 (1995-2000) or from 300,000-500,000 (2002-2007).

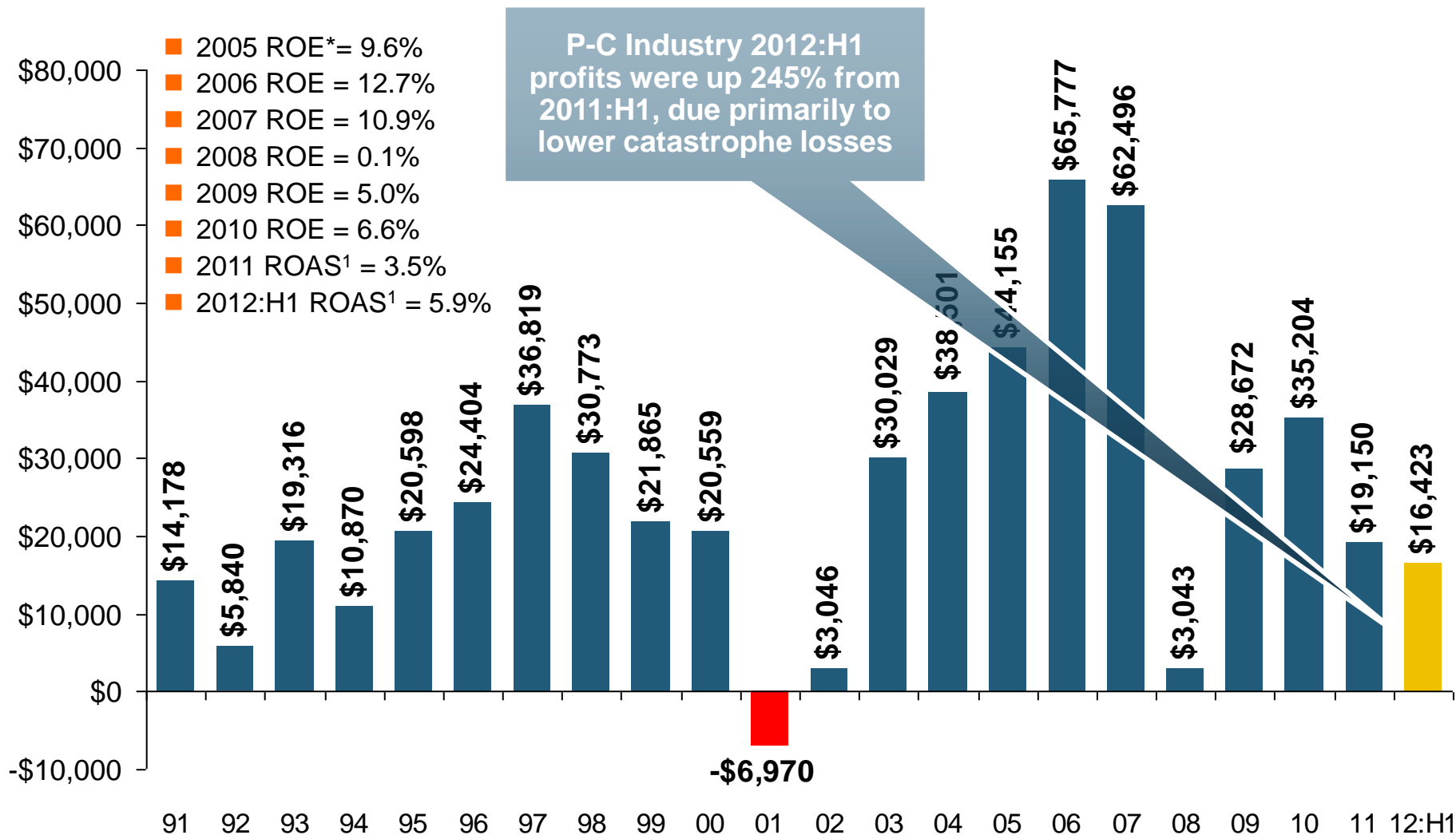
Notes: Recessions indicated by gray shaded columns. Data are seasonally adjusted.

Sources: Bureau of Labor Statistics <http://www.bls.gov/news.release/empsit.a.htm>; NBER (recession dates); Ins. Info. Inst.

P/C Insurance Industry Financial Overview

**Profit Recovery in 2012 After
High CAT Losses; Ultimate
Impact of Sandy Still Unclear**

P/C Net Income After Taxes 1991–2012:Q2 (\$ Millions)



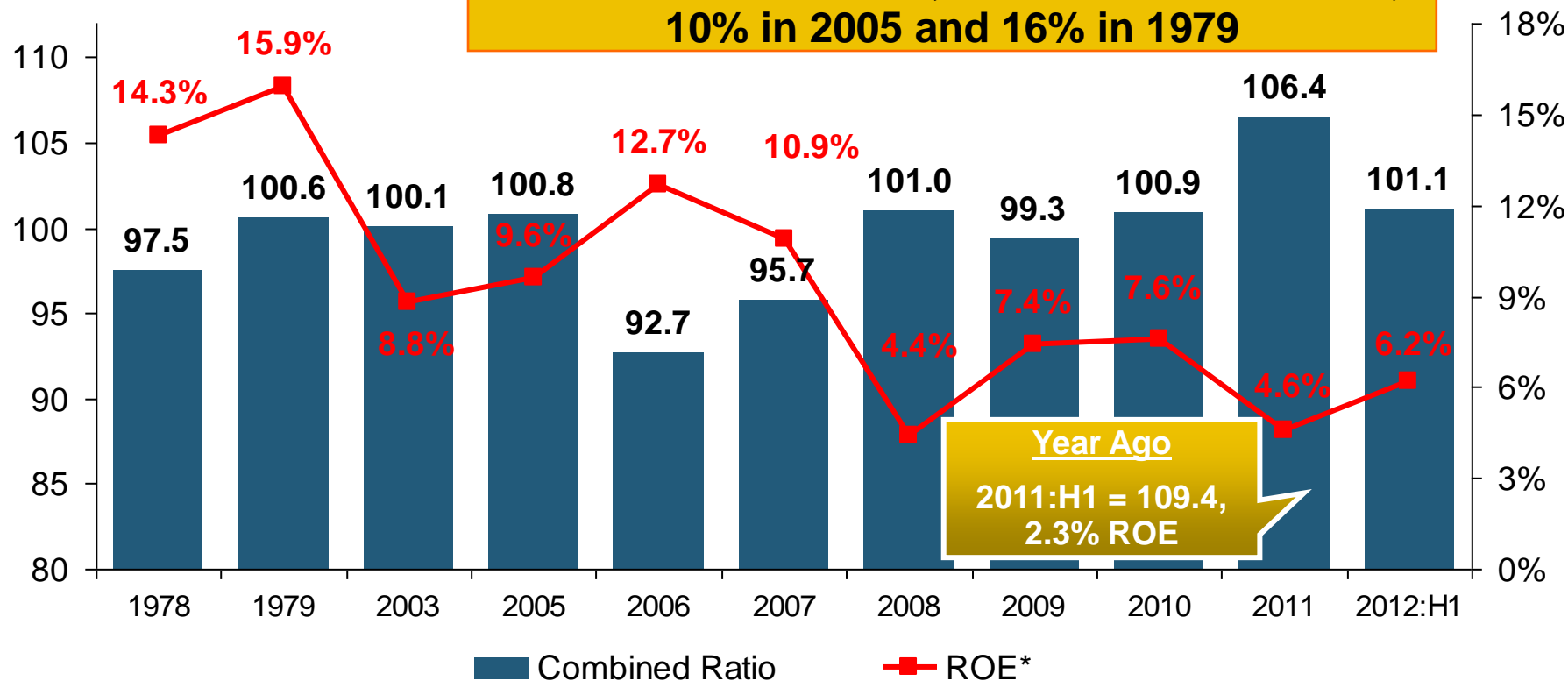
* ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 6.2% ROAS for 2012:H1, 4.6% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009.

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

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

Combined Ratio / ROE

A combined ratio of about 100 generates an ROE of ~7.0% in 2012, ~7.5% ROE in 2009/10, 10% in 2005 and 16% in 1979

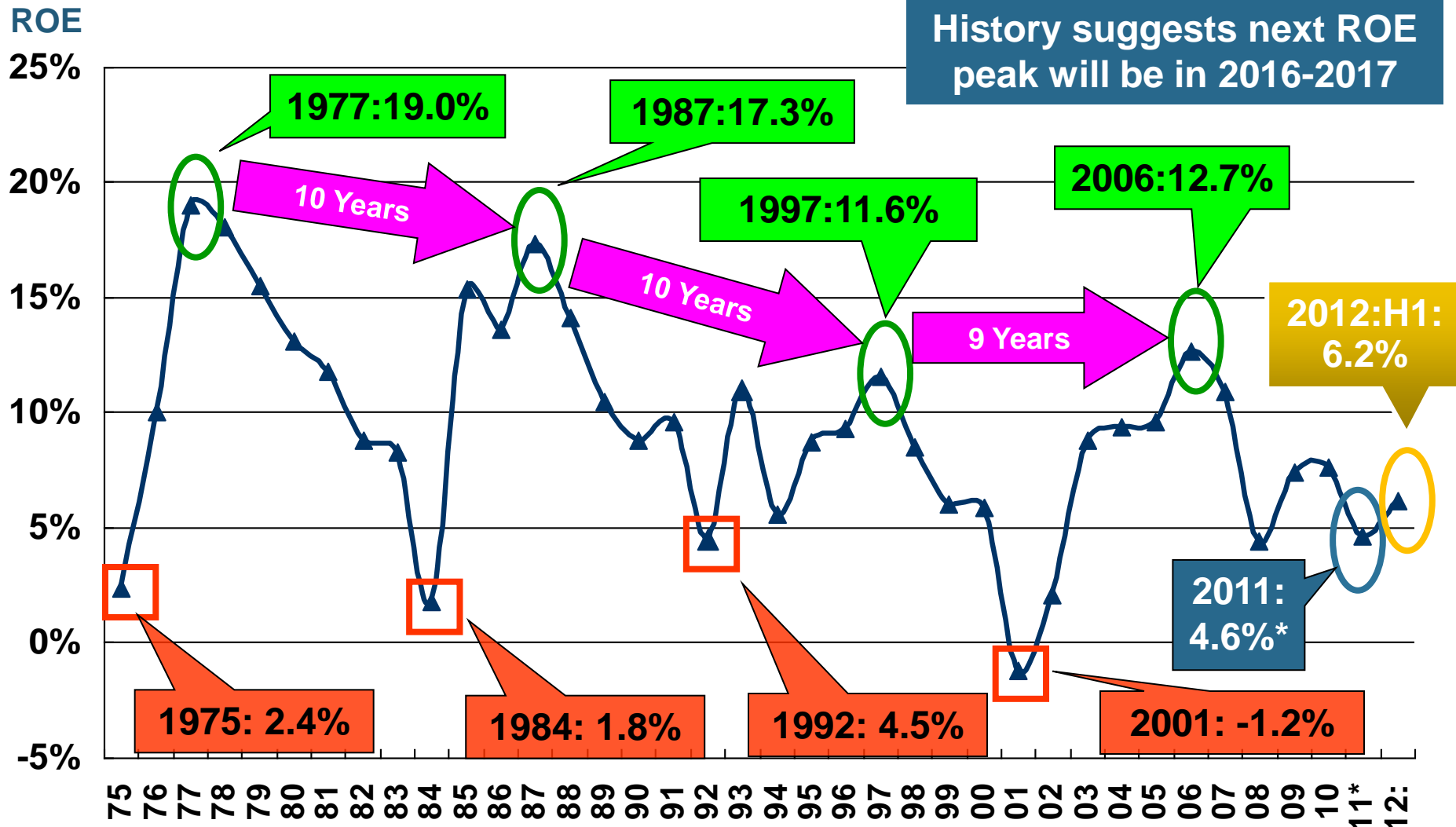


Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2008 -2012 figures are return on average surplus and exclude mortgage and financial guaranty insurers. 2012:H1 combined ratio including M&FG insurers is 102.2, ROAS = 5.9%; 2011 combined ratio including M&FG insurers is 108.2, ROAS = 3.5%.

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

Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2012:H1*

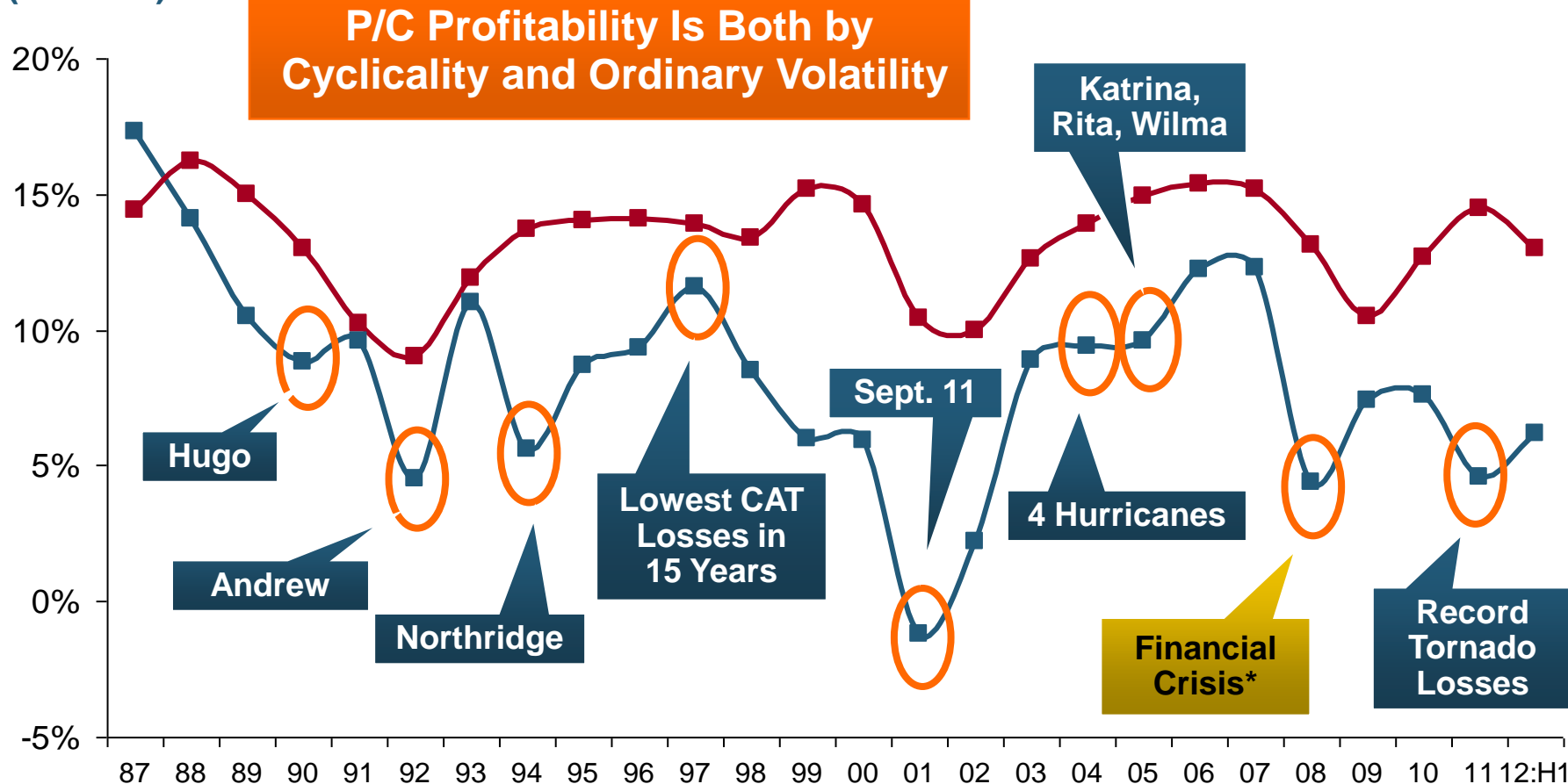


*Profitability = P/C insurer ROEs. 2011 figure is an estimate based on ROAS data. Note: Data for 2008-2012 exclude mortgage and financial guaranty insurers. 2012:H1 ROAS = 5.9% including M&FG.

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

ROE: Property/Casualty Insurance vs. Fortune 500, 1987–2012:H1*

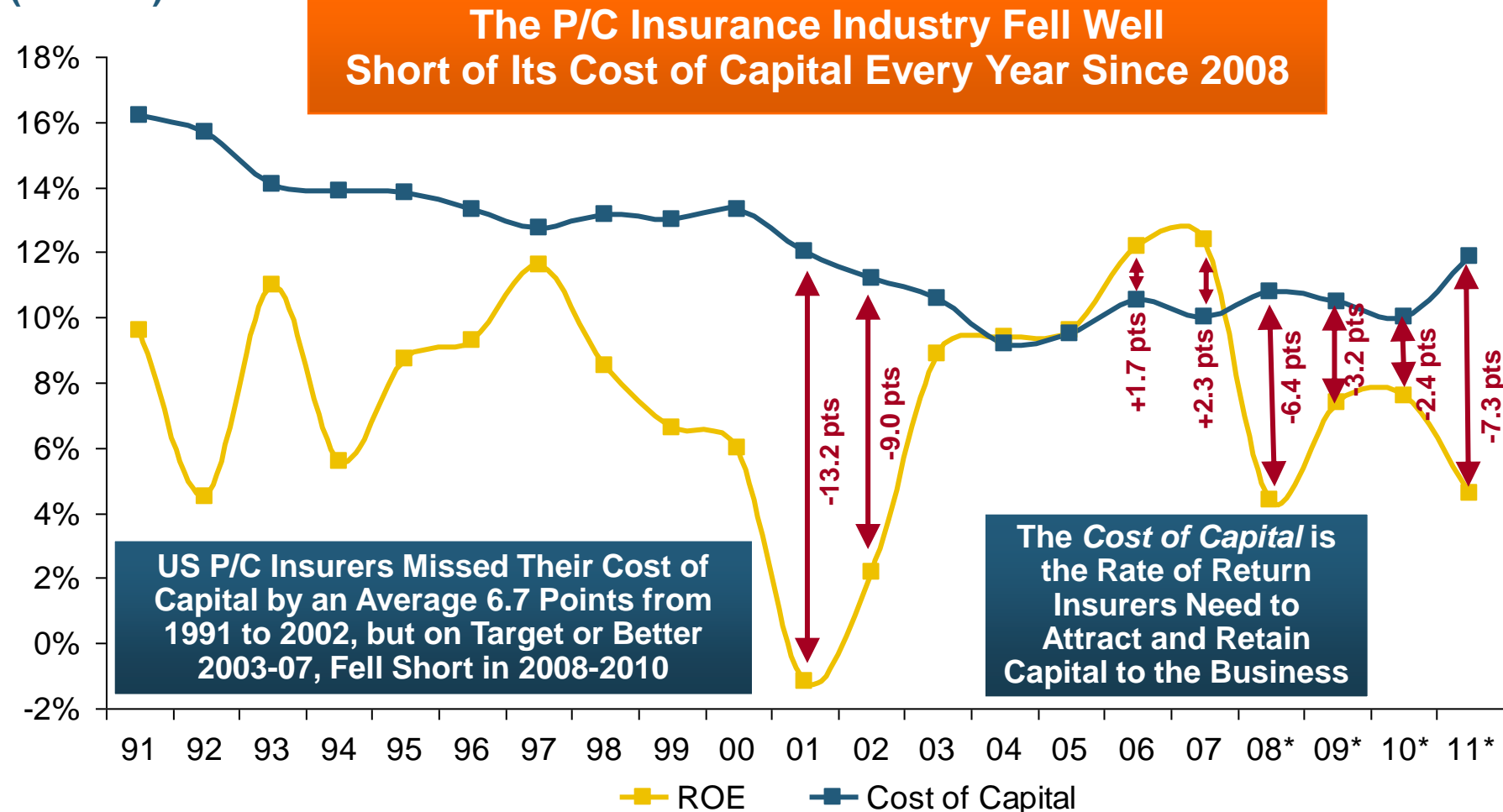
(Percent)



* Excludes Mortgage & Financial Guarantee in 2008 – 2012. 2012 Fortune 500 figure is III estimate.
Sources: ISO, *Fortune*; Insurance Information Institute.

ROE vs. Equity Cost of Capital: U.S. P/C Insurance:1991-2011*

(Percent)



* Return on average surplus in 2008-2011 excluding mortgage and financial guaranty insurers.

Source: The Geneva Association, Insurance Information Institute

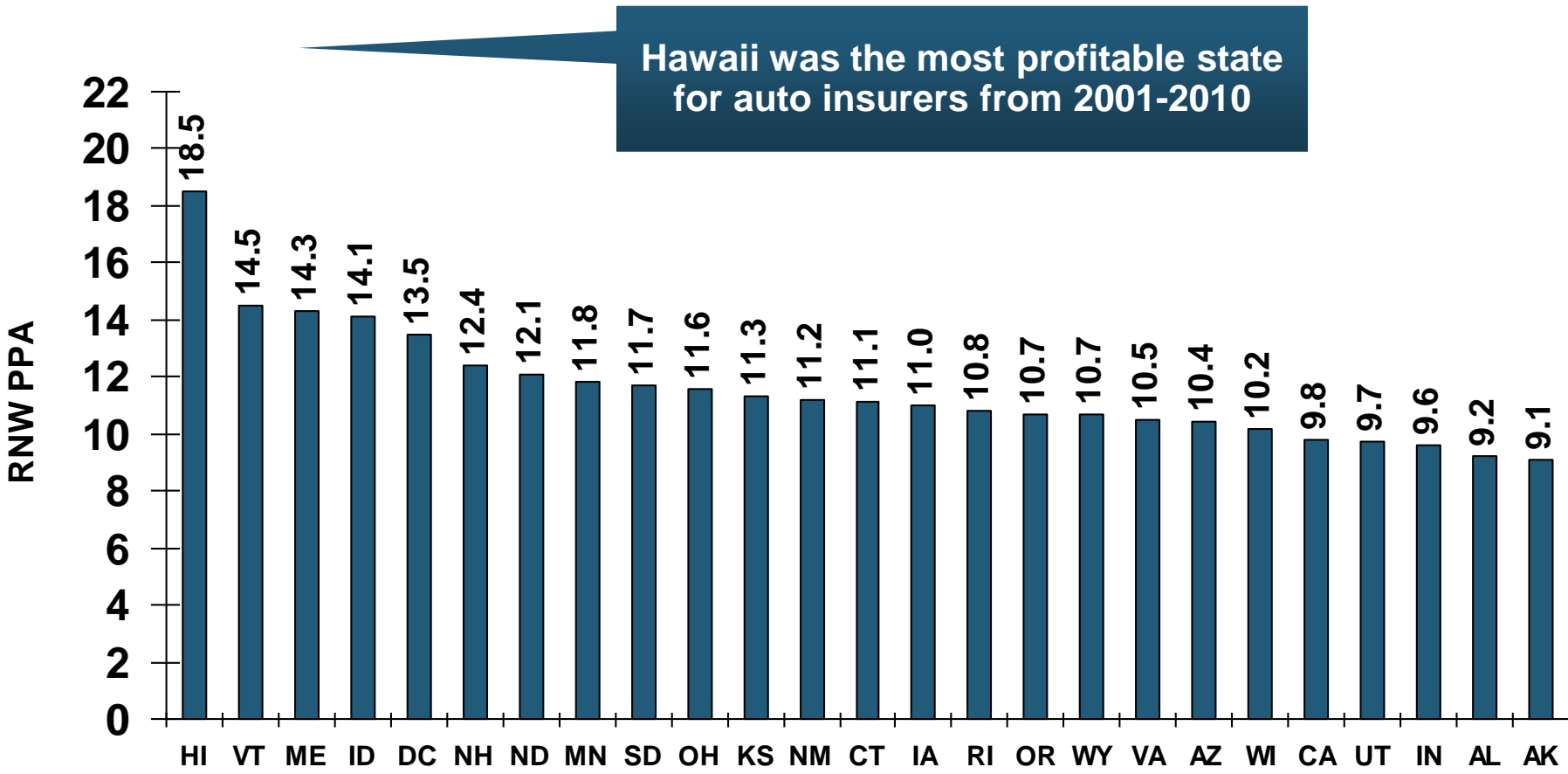
Personal Lines Profitability Analysis

**Significant Variability Over
Time and Across States**

Return on Net Worth: Pvt. Passenger Auto, 10-Year Average (2001-2010*)

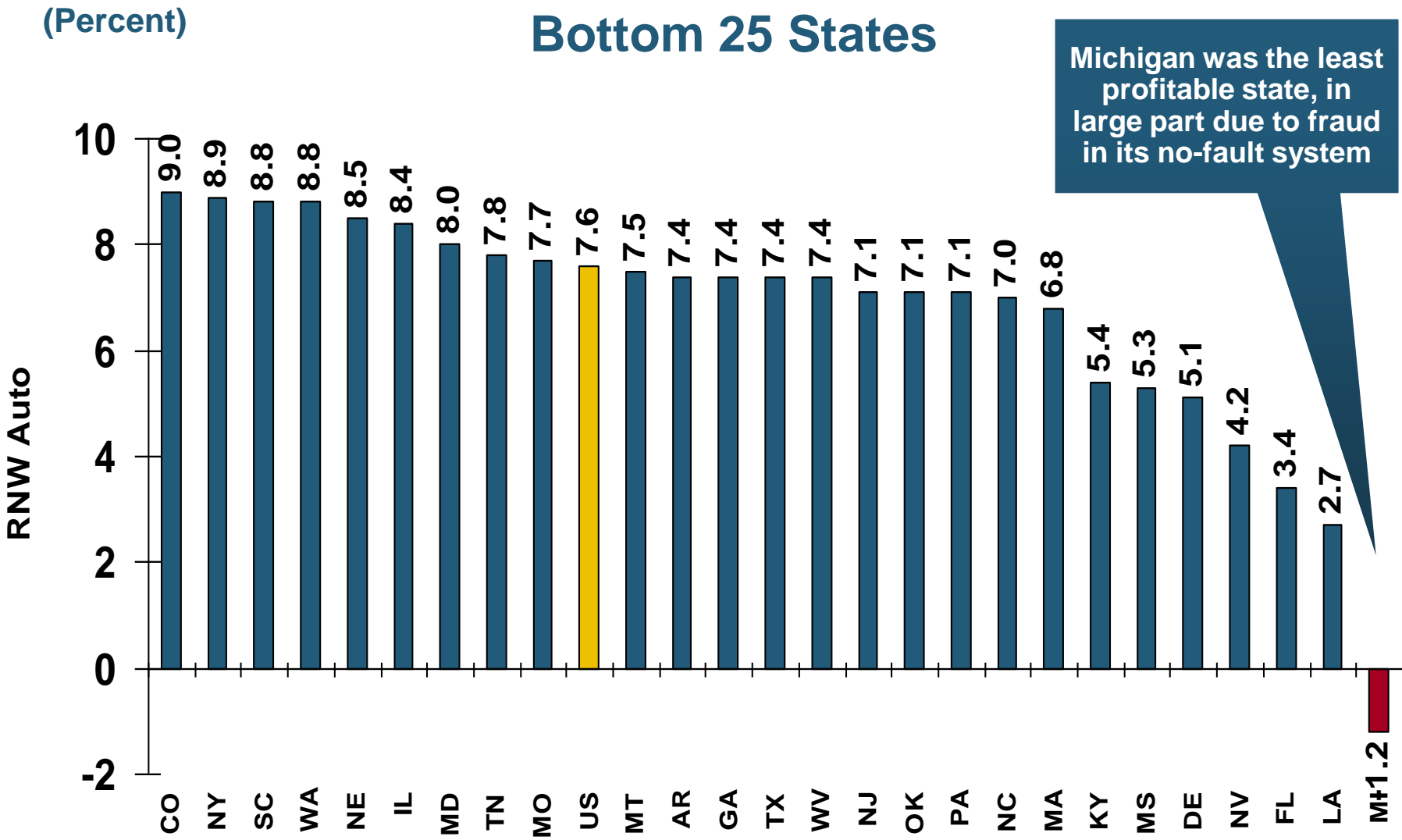
(Percent)

Top 25 States



*Latest available.
Sources: NAIC.

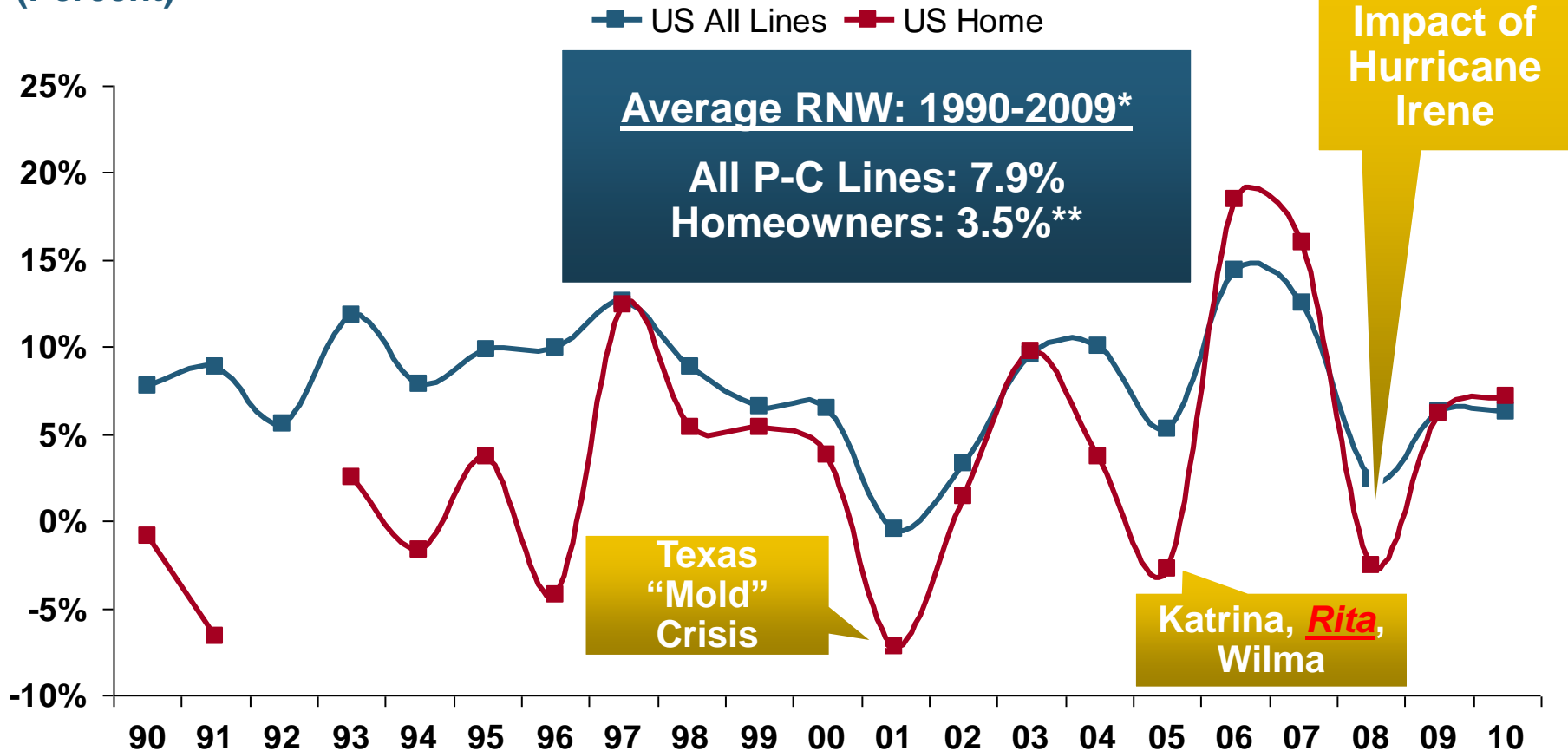
Return on Net Worth: Pvt. Passenger Auto, 10-Year Average (2001-2010*)



*Latest available.
Sources: NAIC

Return on Net Worth: All P-C Lines vs. Homeowners, 1990-2010*

(Percent)



Homeowners Insurance Is Considerably More Volatile than the Market Overall Due to Coastal Exposure and Interior Wind/Hail Events

*Latest available.

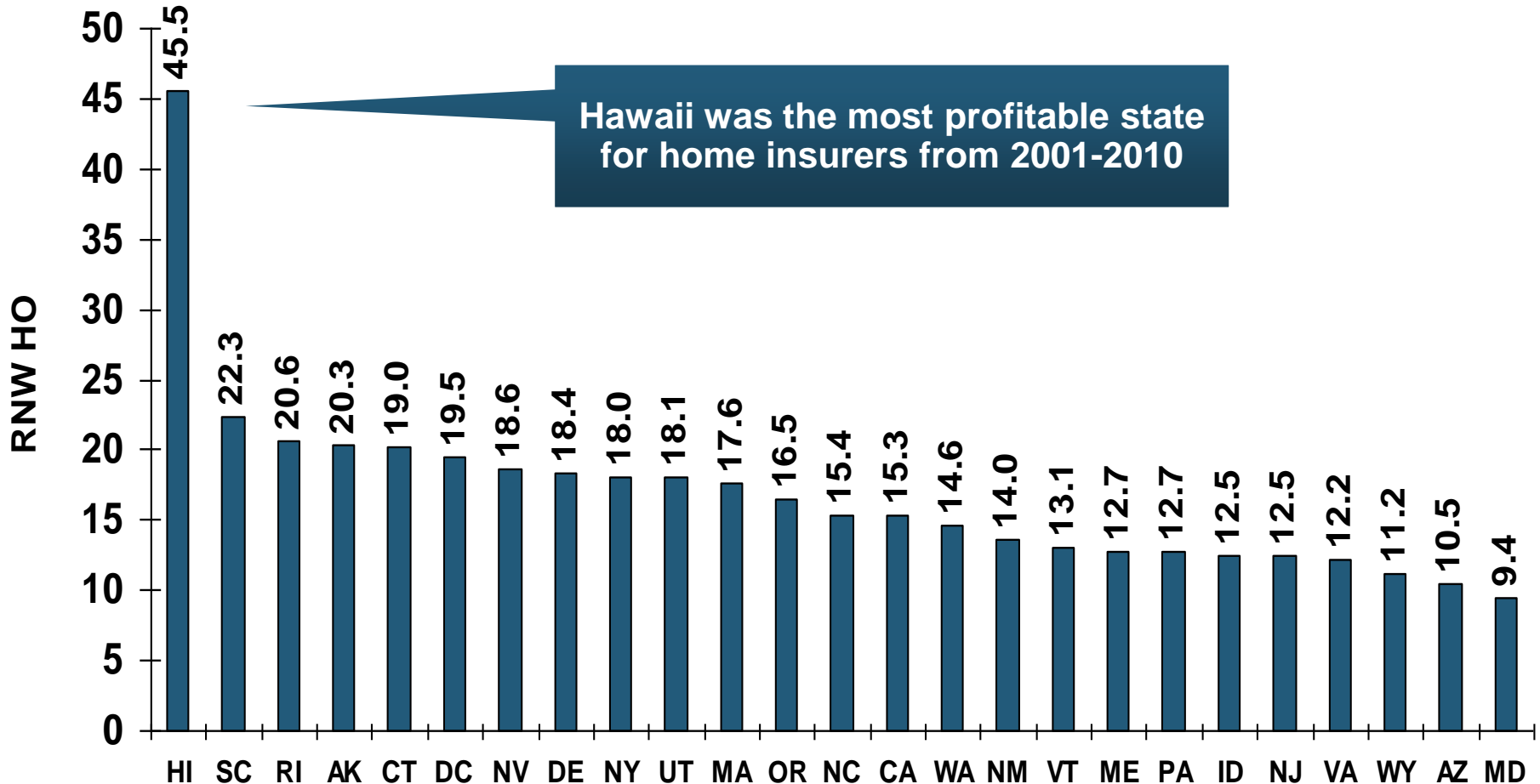
**Excluding Hurricane Andrew (1992); including 1992 produces an average homeowners RNW of 0.7%.

Sources: NAIC.

Return on Net Worth: Homeowners Insurance, 10-Year Average (2001-2010*)

Top 25 States

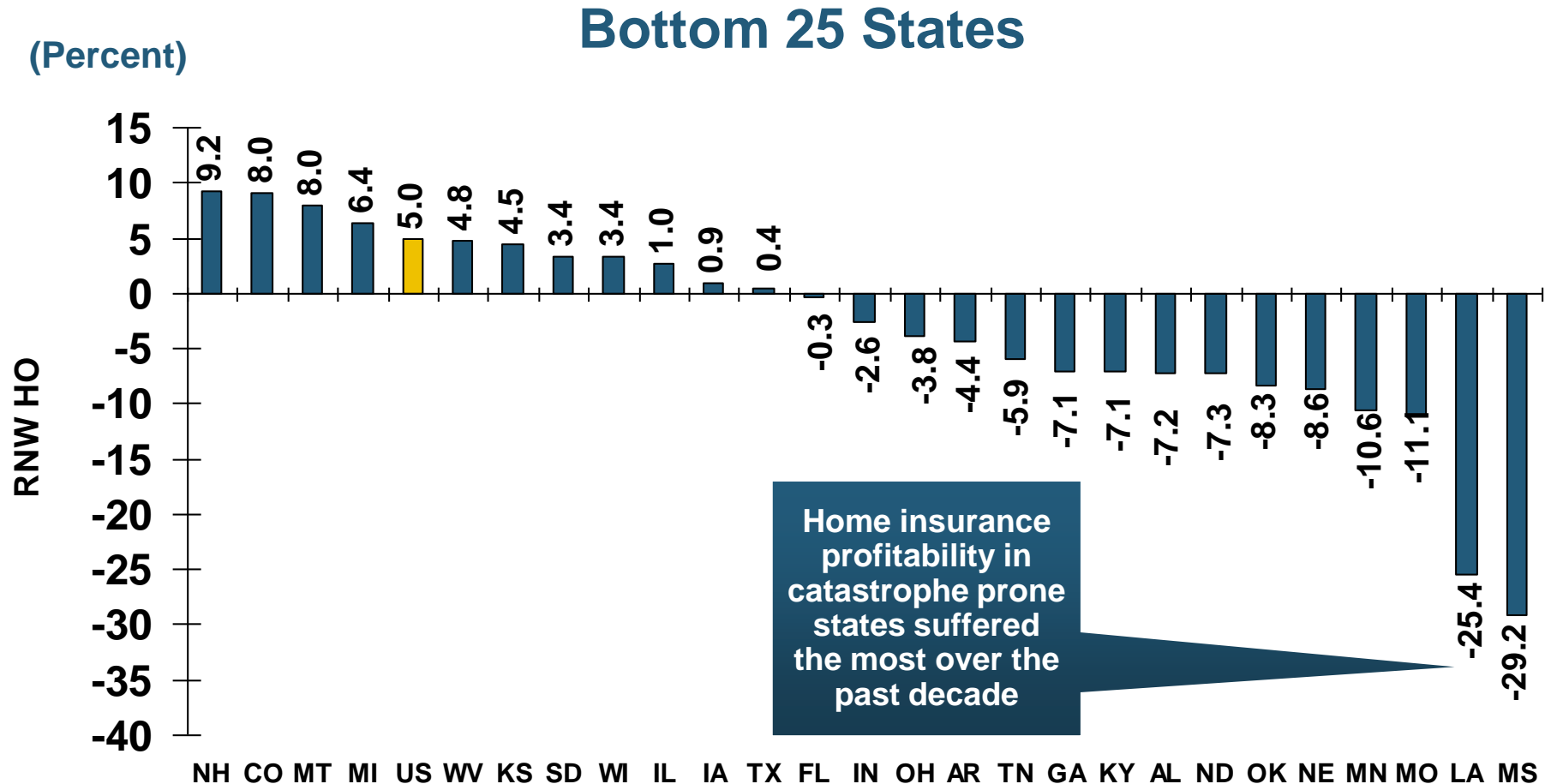
(Percent)



*Latest available.

Sources: NAIC.

Return on Net Worth: Homeowners Insurance, 10-Year Average (2001-2010*)



Hurricane Sandy Summary

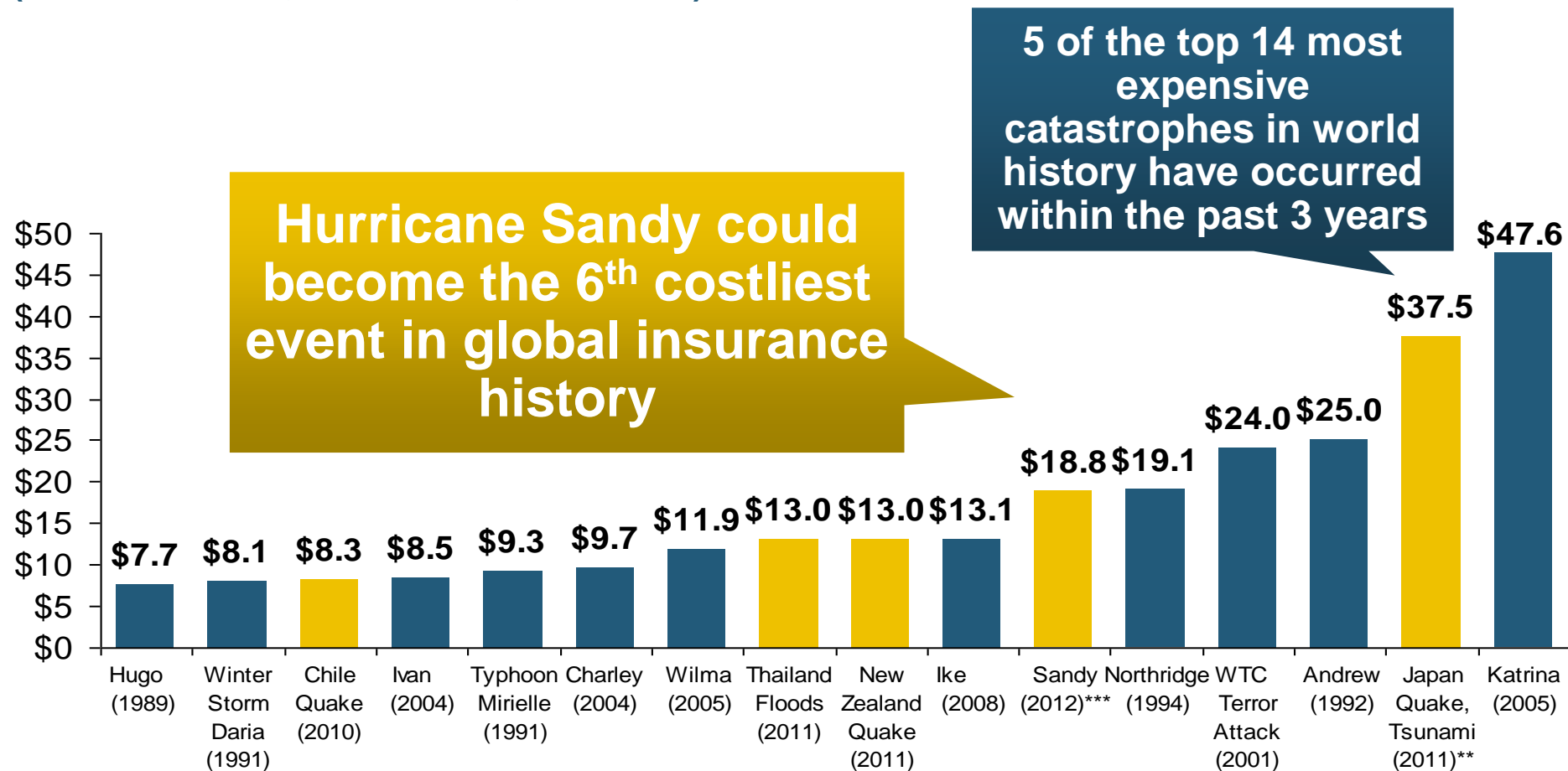
**Sandy Will Become One of the
Most Expensive Events in
Insurance History**

Summary of Key Financial Issues Related to Hurricane Sandy

- **Sandy Will Likely Become the 3rd Most Expensive Hurricane in US History in Terms of Insured Losses—With Insured Losses of Up to \$25 Billion**
 - ◆ Ranks behind 2005's Katrina (\$47.6B) and 1992's Andrew (\$25.0B) *[in 2011 \$]*
- **Total Claim Count is Estimated at Approximately 1.38 million**
 - ◆ Hurricane Katrina produced 1.743 million claims
- **2012 Could Become the 3rd Costliest Year in US History in Terms of Insured Losses—Totaling Approximately \$34-\$35 Billion as of Late 2012**
 - ◆ Ranking behind 2005 (\$71.7B) and 1992 (\$36.9B) *[both stated in 2011 dollars]*
- **2012 Will Likely Be the 2nd Costliest Year for the NFIP (~\$7B+), Likely Exhausting the Flood Program's Remaining Borrowing Authority**
 - ◆ Record was \$17.74B in 2005 (original dollars), the year of Hurricane Katrina
- **Too Soon to Determine Impact on P/C Insurance Industry Financials**
 - ◆ Impact of US insurers' combined ratio and ROEs will be influenced by the degree to which reinsurance coverage is triggered
 - ◆ US Cat losses had been running 40% - 50% below 2011 levels prior to Sandy
- **P/C Insurance Industry Entered 2012 Hurricane Very Strong Financially**
 - ◆ Industry remains very strong in the wake of Sandy, despite high losses

Top 16 Most Costly World Insurance Losses, 1970-2011**

(Insured Losses, 2011 Dollars, \$ Billions)



*Figures do not include federally insured flood losses.

**Average of range estimates of \$35B - \$40B as of 1/4/12; Privately insured losses only.

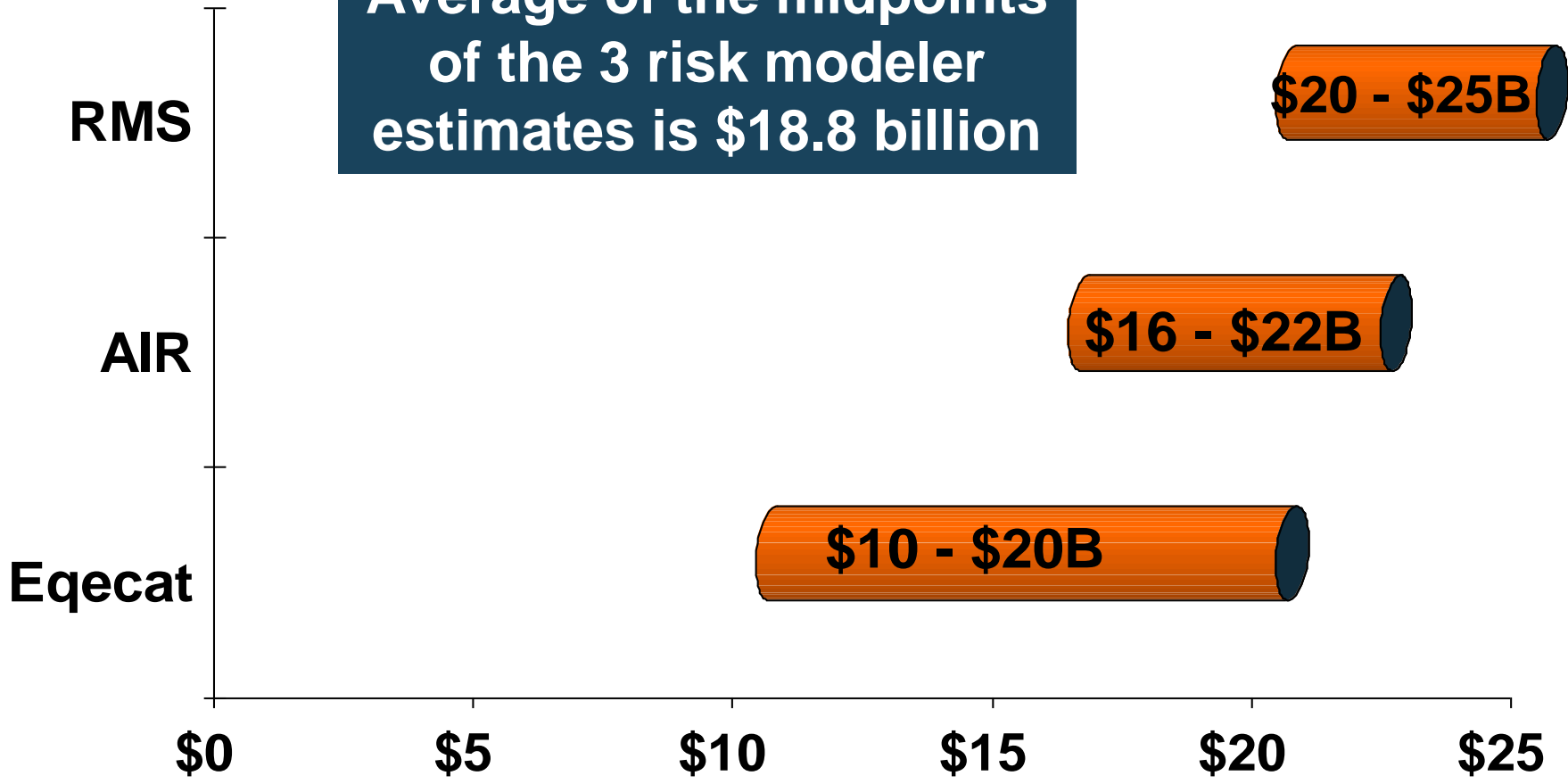
***Estimate as of 11/26/12, stated in 2012 dollars based on average of midpoints from range estimates from AIR, RMS and Egecat.

Sources: Swiss Re *sigma* 1/2011; Munich Re; Insurance Information Institute research.

Hurricane Sandy Insured Loss Estimates: Late Season Large Loss* (\$ Billions)



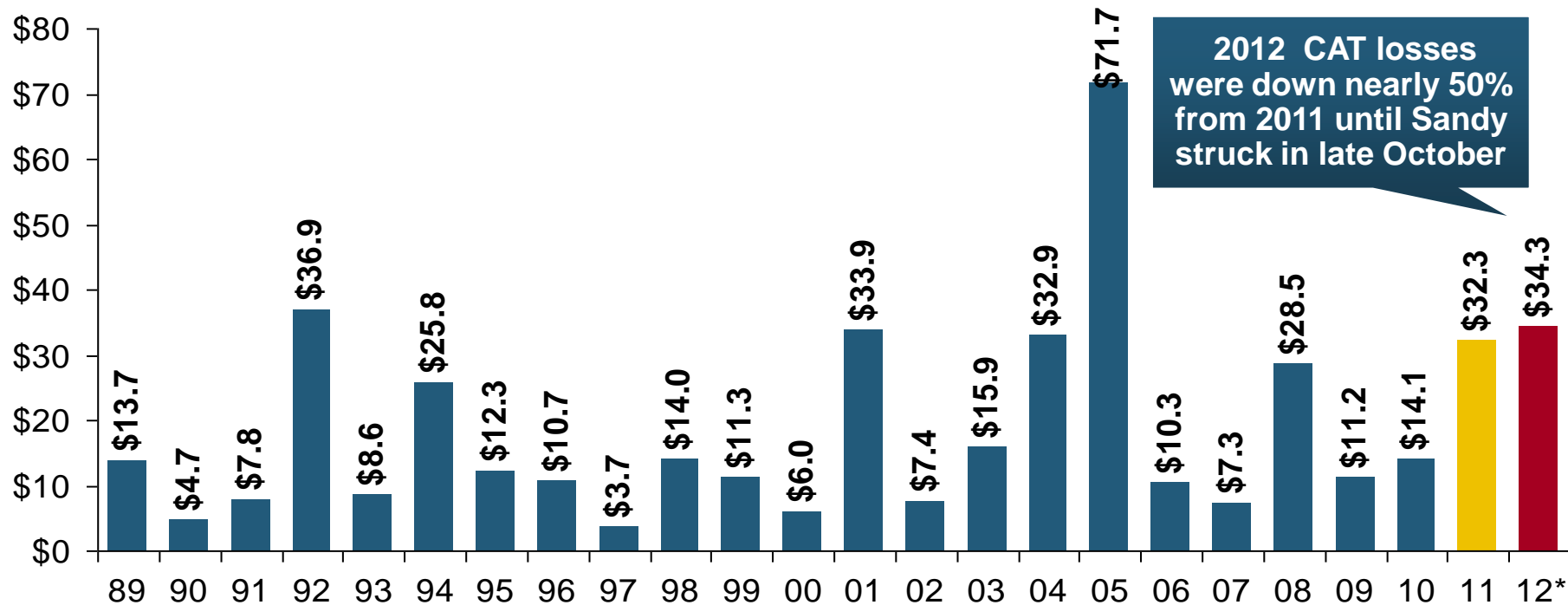
Average of the midpoints
of the 3 risk modeler
estimates is \$18.8 billion



*US insured property and business interruption losses only. Sandy's landfall in the northeast US occurred Oct. 29, 2012.
Sources: RMS (11/14/12 est.), AIR (11/26/12 est.), Eqecat (11/1/12 est.); Compiled by the Insurance Information Institute.

US Insured Catastrophe Losses

(\$ Billions, 2011 Dollars)



2012 CAT losses were down nearly 50% from 2011 until Sandy struck in late October

US CAT Losses in 2012 Could Become the 3rd Highest in US History on An Inflation-Adjusted Basis. 2011 Losses Were the 5th Highest

Record Tornado Losses Caused 2011 CAT Losses to Surge

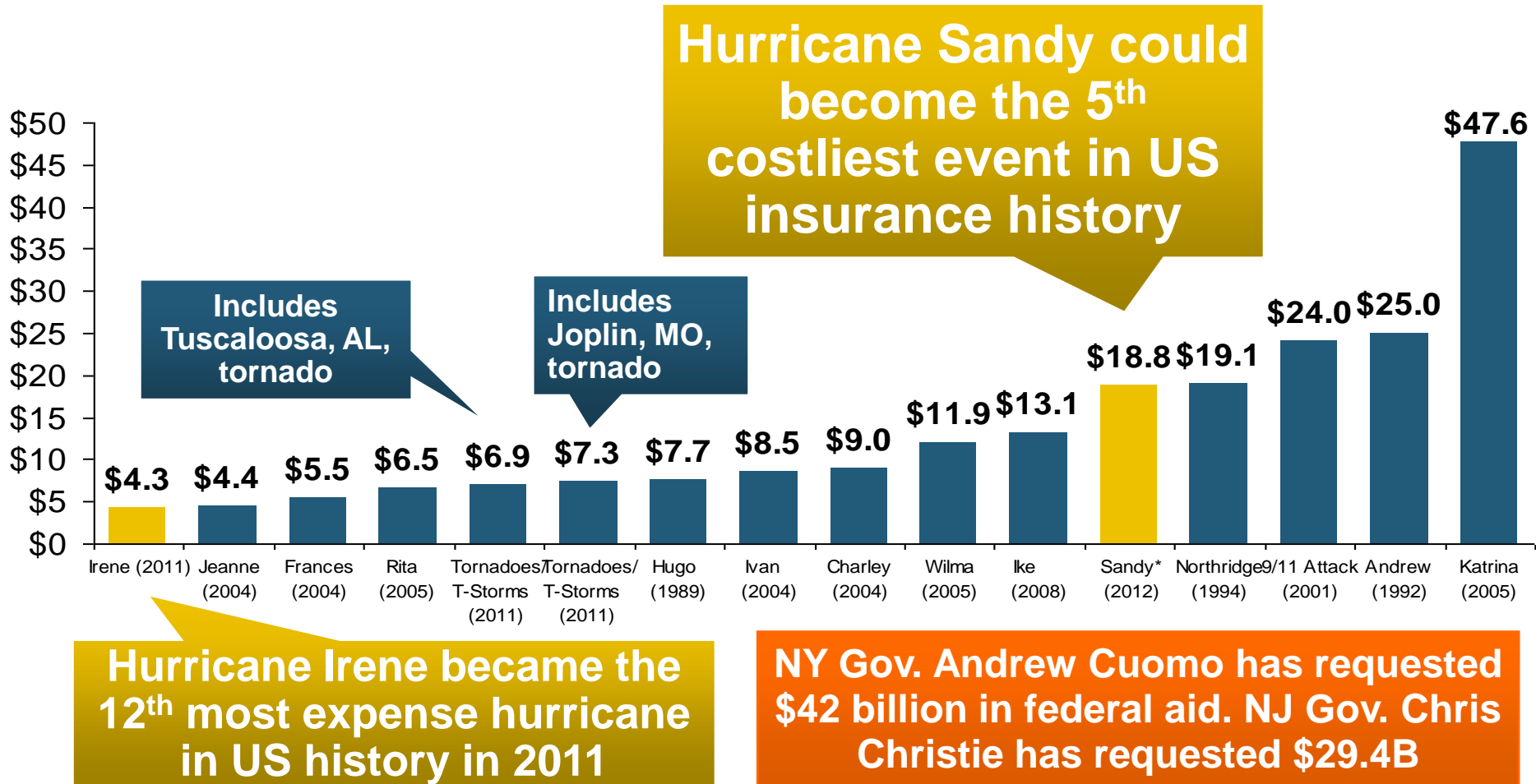
*As of 11/26/12 in 2012 dollars. Includes \$18.8B gross loss estimate for Hurricane Sandy.

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.

Top 16 Most Costly Disasters in U.S. History

(Insured Losses, 2011 Dollars, \$ Billions)



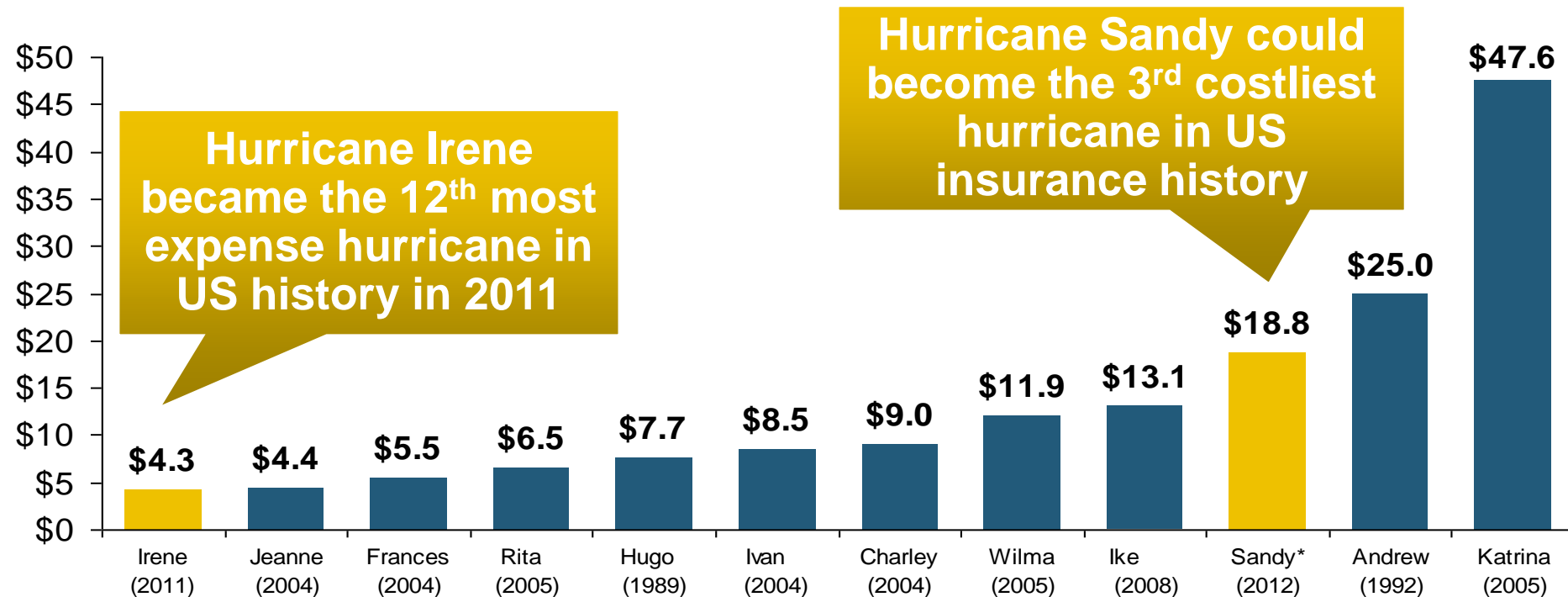
*Estimate as of 11/26/12 based on average of range midpoints from AIR, RMS and Eqecat..

Sources: PCS; Insurance Information Institute inflation adjustments.

Top 12 Most Costly Hurricanes in U.S. History

(Insured Losses, 2011 Dollars, \$ Billions)

10 of the 12 most costly hurricanes in insurance history occurred over the past 8 years (2004—2012)

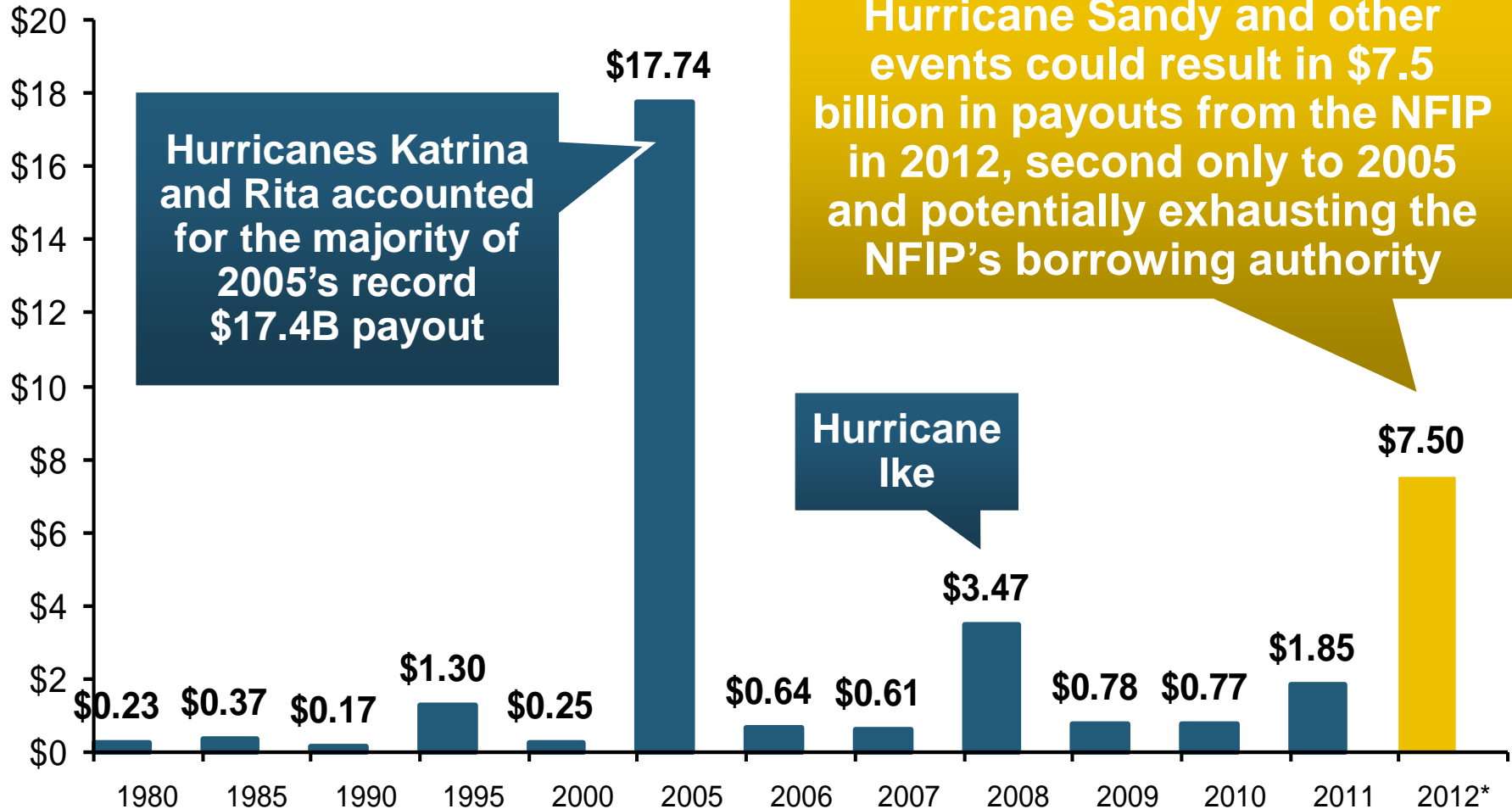


*Estimate as of 11/26/12 based on average of range estimate midpoints from AIR, Egecat and RMS..

Sources: PCS; Insurance Information Institute inflation adjustments.

Flood Loss Paid by the National Flood Insurance Program, 1980-2012E

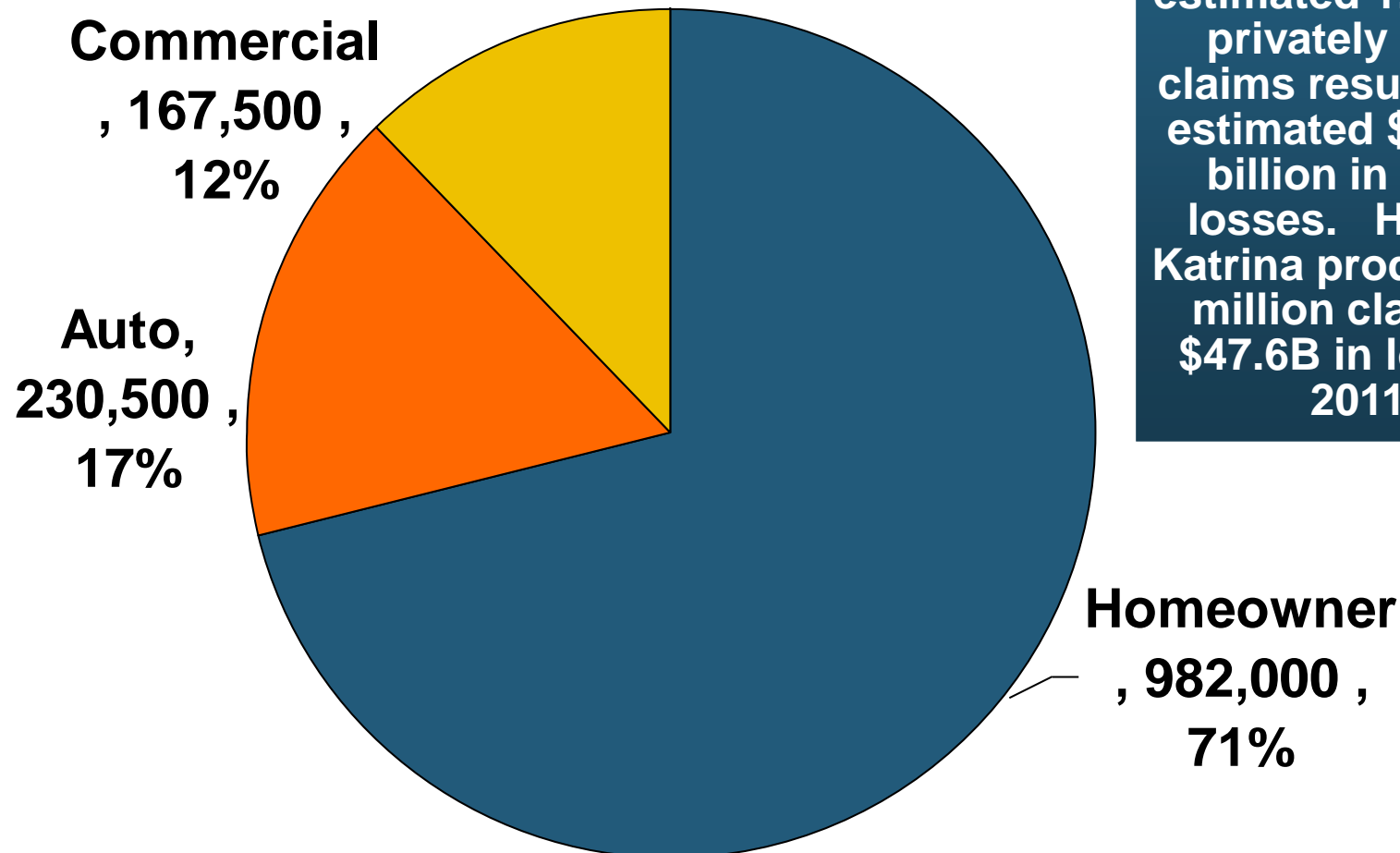
Billions (Original Values)



*Estimate as of 11/25/12.

Sources: Department of Homeland Security, Federal Emergency Management Agency, NFIP; Insurance Information Institute.

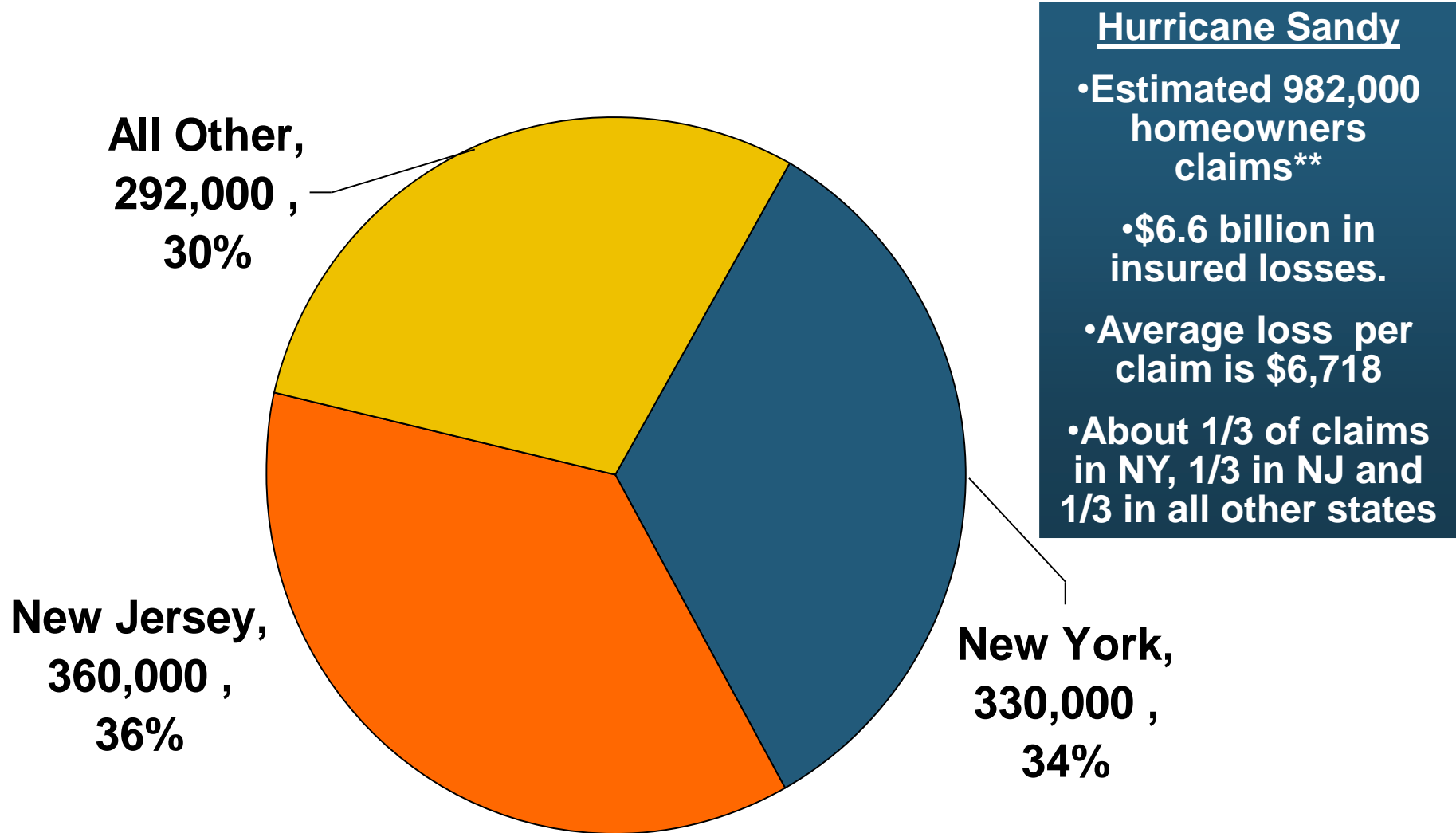
Hurricane Sandy: Number of Claims by Type*



Hurricane Sandy resulted in an estimated 1.38 million privately insured claims resulting in an estimated \$10 to \$25 billion in insured losses. Hurricane Katrina produced 1.74 million claims and \$47.6B in losses (in 2011 \$)

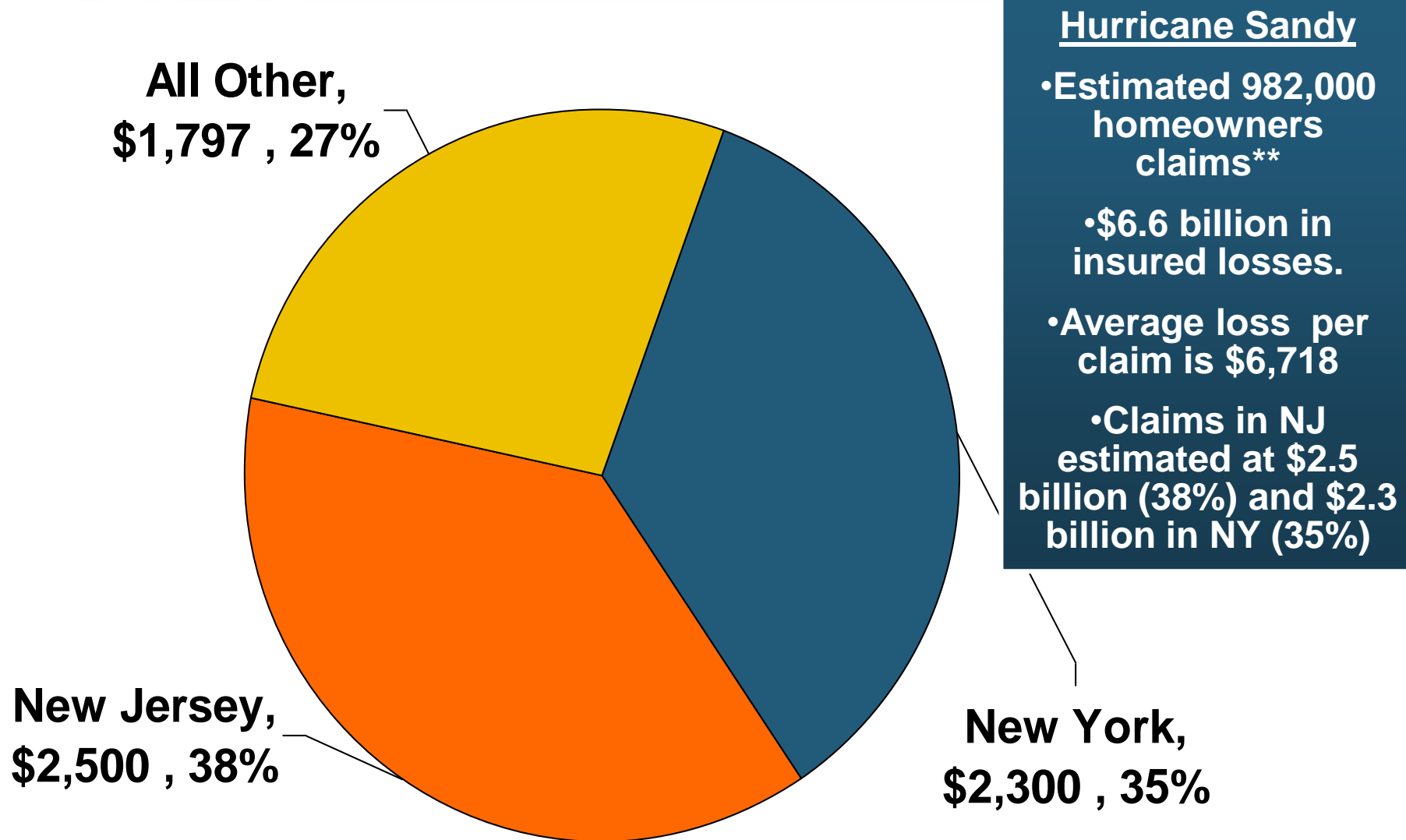
*PCS claim count estimate as of 11/26/12. Loss estimate represents high and low end estimates by risk modelers RMS, Eqecat and AIR. PCS estimate of insured losses as of 11/26/12 \$11 billion. All figures exclude losses paid by the NFIP.
Source: PCS; AIR, Eqecat, AIR Worldwide; Insurance Information Institute.

Hurricane Sandy: Number of Homeowners Claims by State*



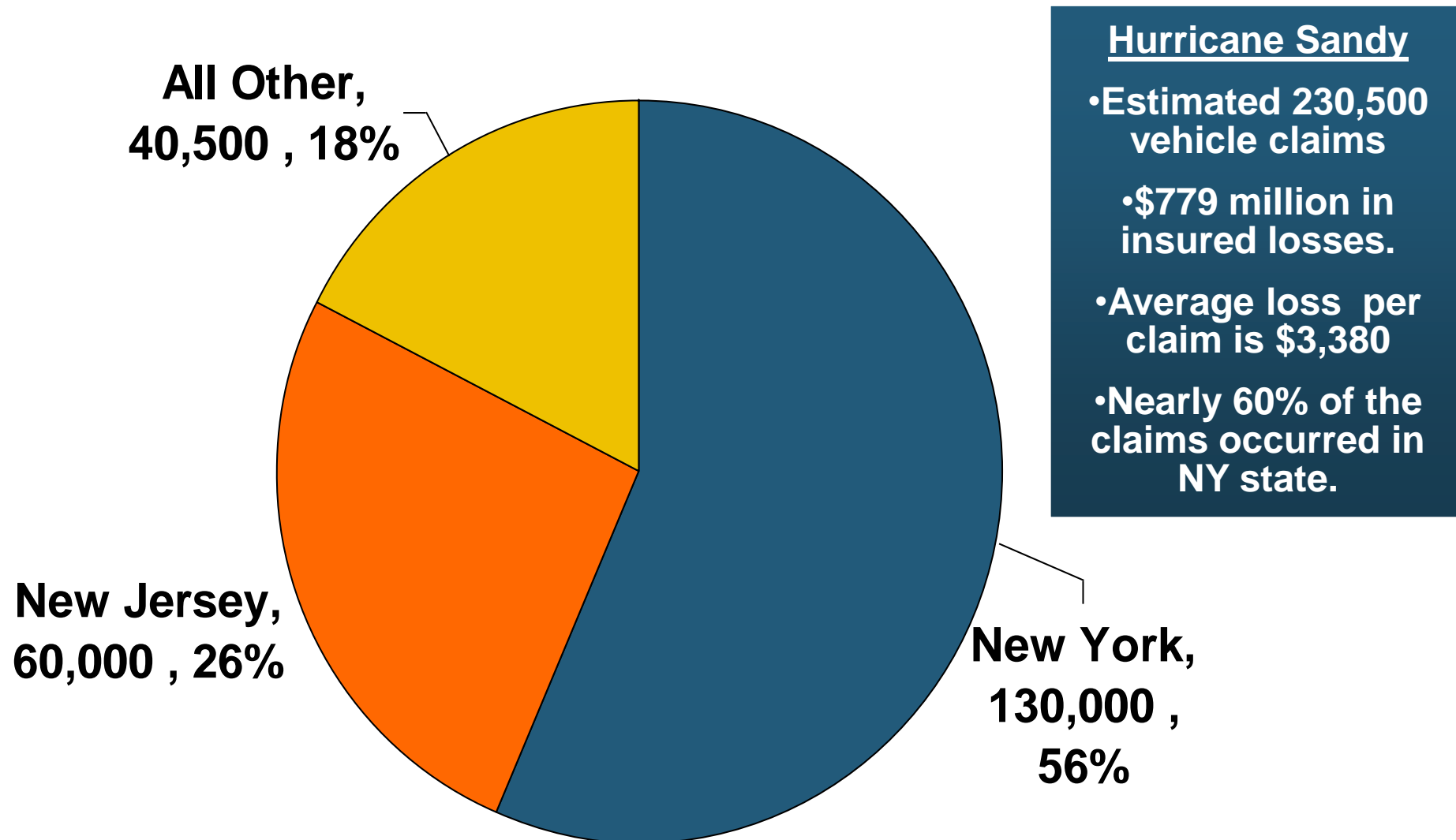
*Preliminary as of 11/26/12.
Source: PCS.

Hurricane Sandy: Value of Homeowners Claims Paid, by State* (\$ Millions)



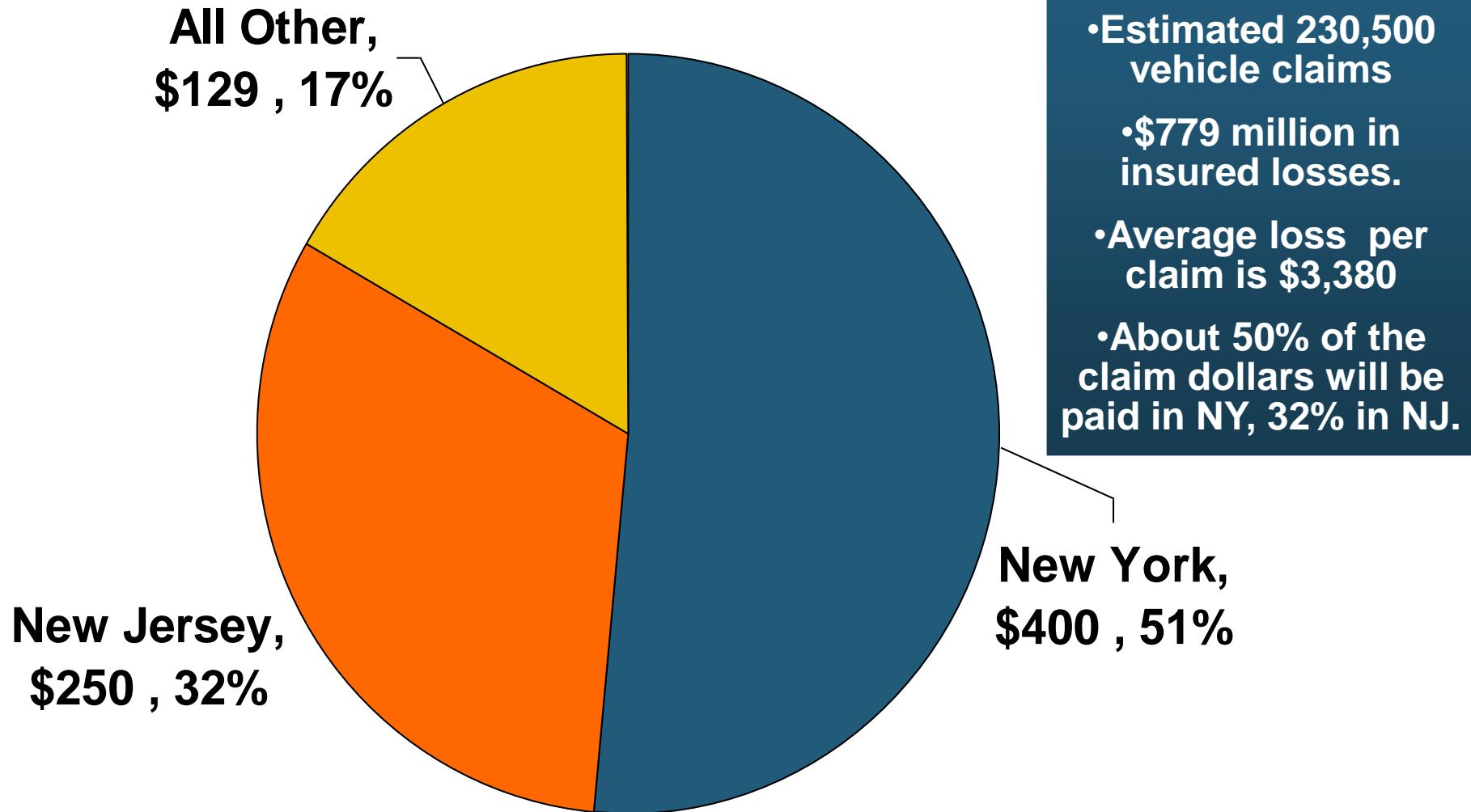
*Preliminary as of 11/26/12.
Source: PCS.

Hurricane Sandy: Number of Auto Claims by State*



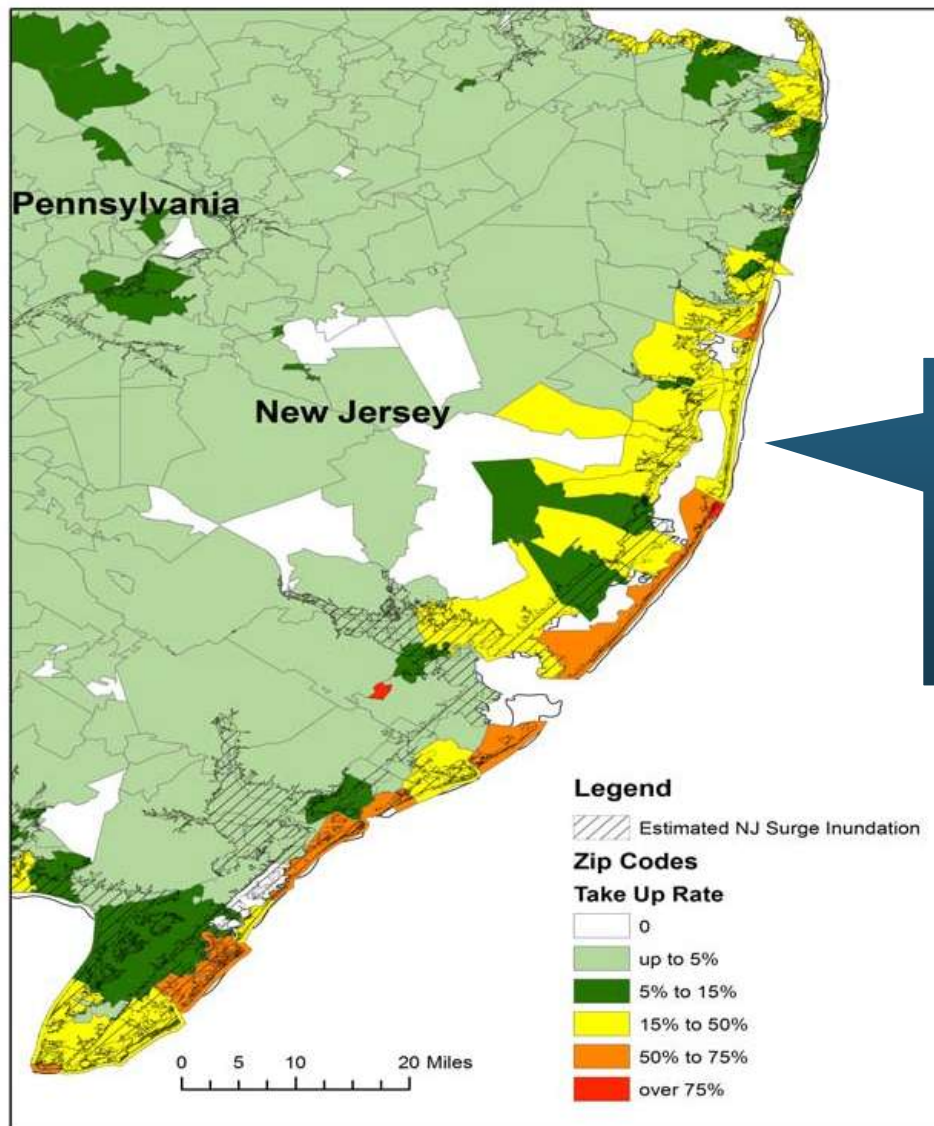
*Preliminary as of 11/26/12.
Source: PCS.

Hurricane Sandy: Value of Auto Claims Paid, by State* (\$ Millions)



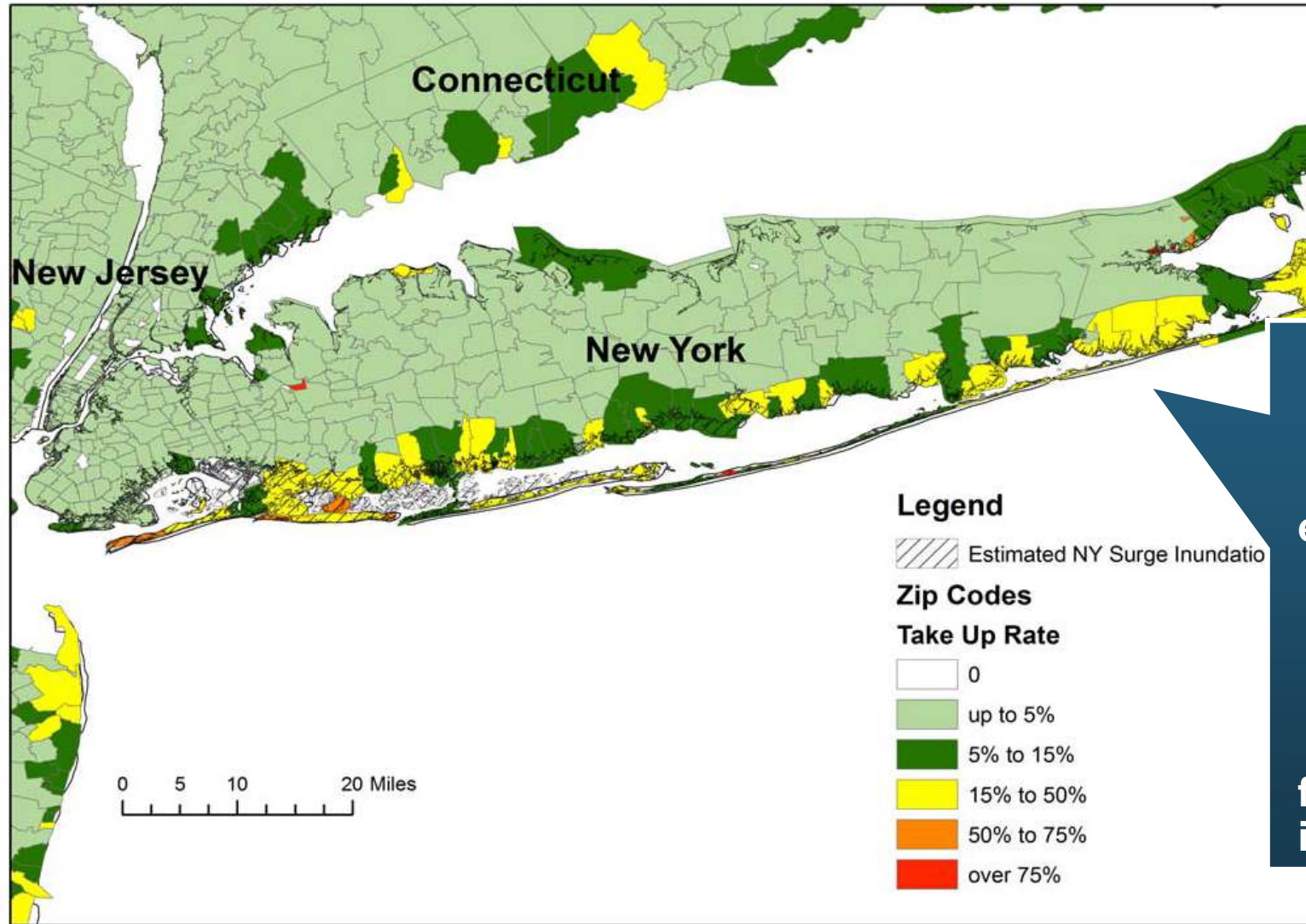
*Preliminary as of 11/26/12.
Source: PCS.

Residential NFIP Flood Take-Up Rates in NJ (2010) & Sandy Storm Surge



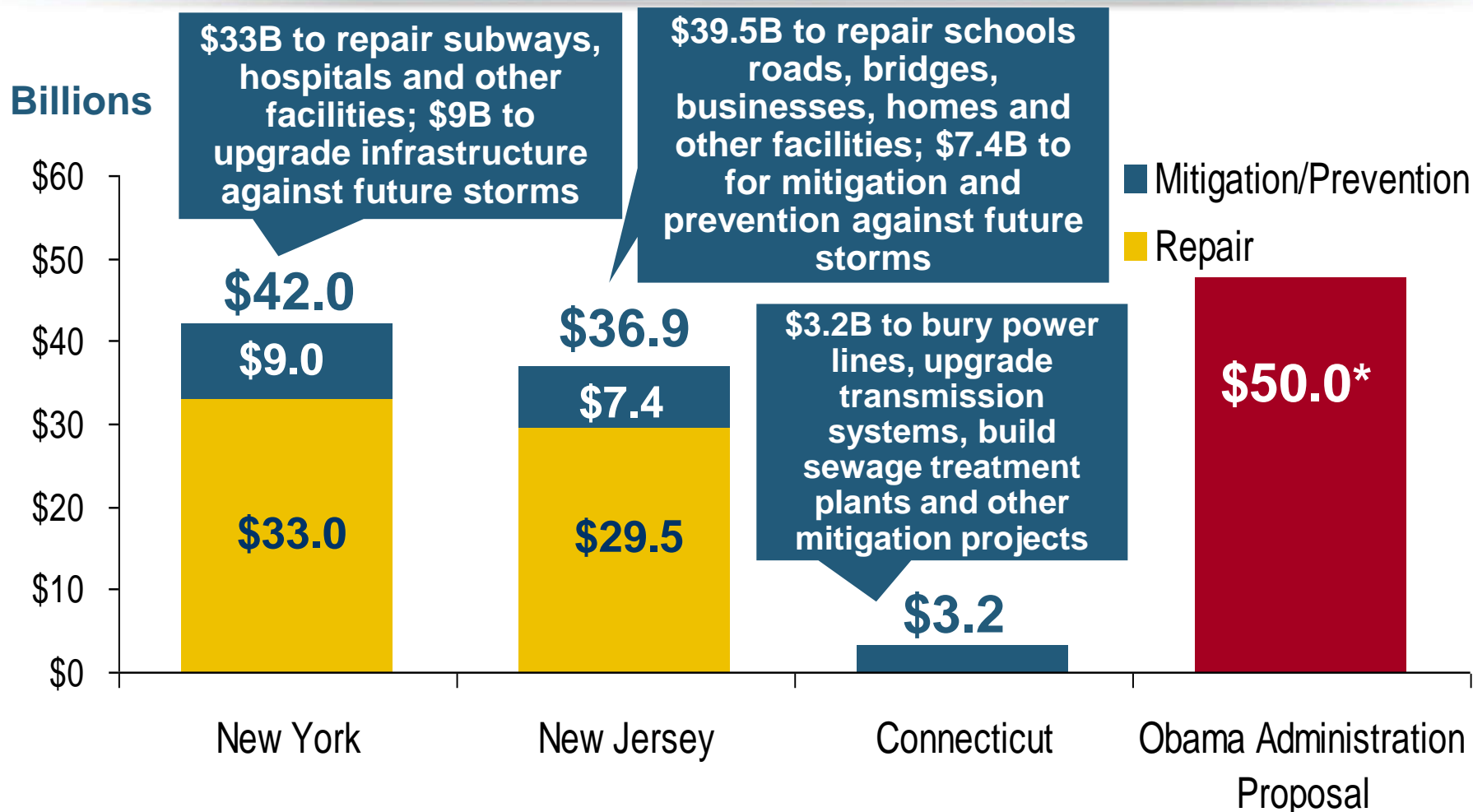
Flood coverage penetration rates were extremely low in many very vulnerable areas in NJ, with take-up rates far below 50% in many areas

Residential NFIP Flood Take-Up Rates in NY, CT (2010) & Sandy Storm Surge



Flood coverage penetration rates were extremely low in many very vulnerable areas of NY and CT, with take-up rates far below 50% in many areas

Federal Aid Requests by States With Greatest Sandy Impact (as of 12/6/12)



States Are Requesting Enormous Sums in Sandy Aid in the Middle of a Massive Budget Struggle at the Edge of the “Fiscal Cliff”

*Midpoint of \$45B to \$55B range currently under consideration.

Source: *New York Times*, Dec. 6, 2012; Insurance Information Institute.

Global Catastrophe Loss Developments and Trends

**2011 Rewrote Catastrophe Loss and
Insurance History, But 2012 Cats
Are Down Substantially**

Global Catastrophe Loss Summary: First Half 2012

- **\$12B in *Insured* Losses Globally (Down from 85% from \$81.7B in 2011:H1)**
 - ◆ Few extraordinarily severe natural catastrophe events experienced in 2011: Earthquakes, tsunami, floods and tornadoes
 - ◆ Despite drop from 2011, total is still 18% above 30-yr. average (in 2011 \$) of \$10.2B
 - ◆ There were 450 nat cat events globally and 3,500 fatalities
- **\$26B in *Economic* Losses Globally (Down from Record \$302B in 2011:H1)**
 - ◆ Represents a 91% decline; Also 40% below 30-yr. average (in 2011 \$) of \$43.3B
- **\$9.3 Billion in *Insured* Losses in the US Arising from 90 CAT Events**
 - ◆ Down 62% from \$24.4B in 2011:H1; Loss is close to long-term average
 - ◆ Represents 80%+ of global total
 - ◆ Mild winter helped keep first half losses down
 - ◆ Thunderstorm (includes tornado, hail and wind damage) accounted for \$8.8B or 95% of first half insured losses and represent the third most expensive spring thunderstorm ever
- **\$14.6 Billion in *Economic* Losses in the US**
 - ◆ Down from approximately \$75B in 2011:H1

Top 16 Most Costly World Insurance Losses, 1970-2011**

(Insured Losses, 2011 Dollars, \$ Billions)

Taken as a single event, the Spring 2011 tornado and thunderstorm season would likely become the 5th costliest event in global insurance history

5 of the top 14 most expensive catastrophes in world history have occurred within the past 2 years



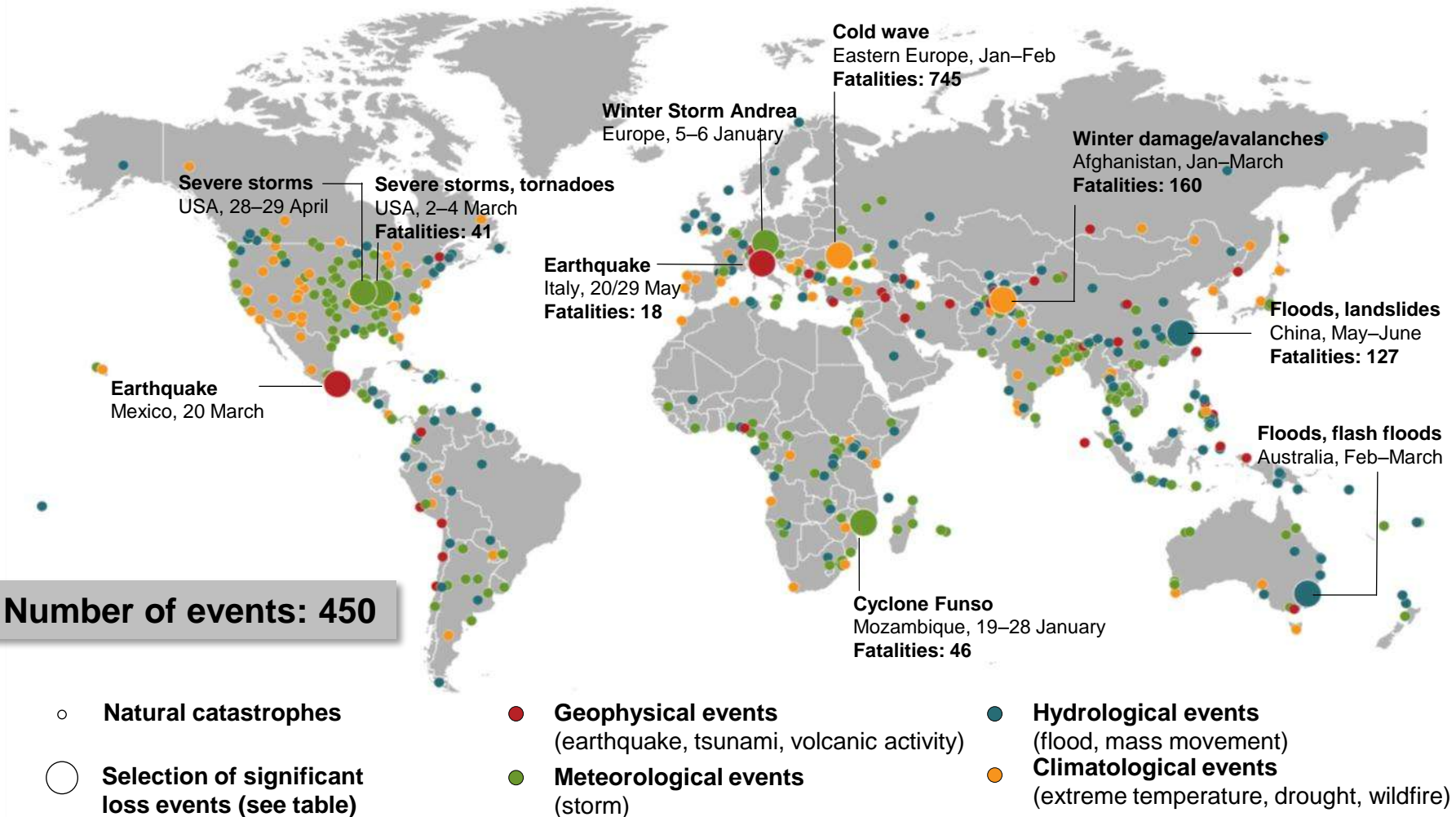
*Average of range estimates of \$35B - \$40B as of 1/4/12; Privately insured losses only.

**Figures do not include federally insured flood losses.

Sources: Swiss Re *sigma* 1/2011; Munich Re; Insurance Information Institute research.

Natural Loss Events: First Half 2012

World Map



U.S. Insured Catastrophe Loss Update

**2012 Catastrophe Losses Were Close to
“Average” in the First Half of 2012
*2011 Was the 5th Most Expensive
Year on Record***

US Catastrophe Loss Summary: First Half 2012

■ \$13.8 Billion in *Insured* Losses in the US Arising from ~90 CAT Events

- ◆ Down 51% from \$25.7B in 2011:H1; But loss is still 44% above average over past 10 yrs.
- ◆ Represents 80%+ of global total
- ◆ Mild winter helped keep first half losses down
- ◆ T-storm (includes tornado, hail and wind damage) accounted for est. \$11.9B or 95% of first half insured losses and represent the 3rd most expensive spring t-storm season ever

■ ~\$19.6 Billion in *Economic* Losses in the US

- ◆ Down from approximately \$75B in 2011:H1

■ Mild Winter Helped Keep First Half Insured Losses Down

- ◆ Lack of heavy precipitation limited spring flood but exacerbated drought conditions

■ Severe Droughts Now Impacting Central and Southwest Parts of US

- ◆ Two major wildfires in Colorado in June caused record \$500 mill damage in the state
- ◆ Largest wildfire in New Mexico history occurred in May
- ◆ Insured crop losses could be high in 2012

■ Mild Hurricane Season

- ◆ Season got off to an early start, but insured losses are not large by historical standards

**Isaac likely in the lower
end of modeled loss
range of \$600M to \$2B**

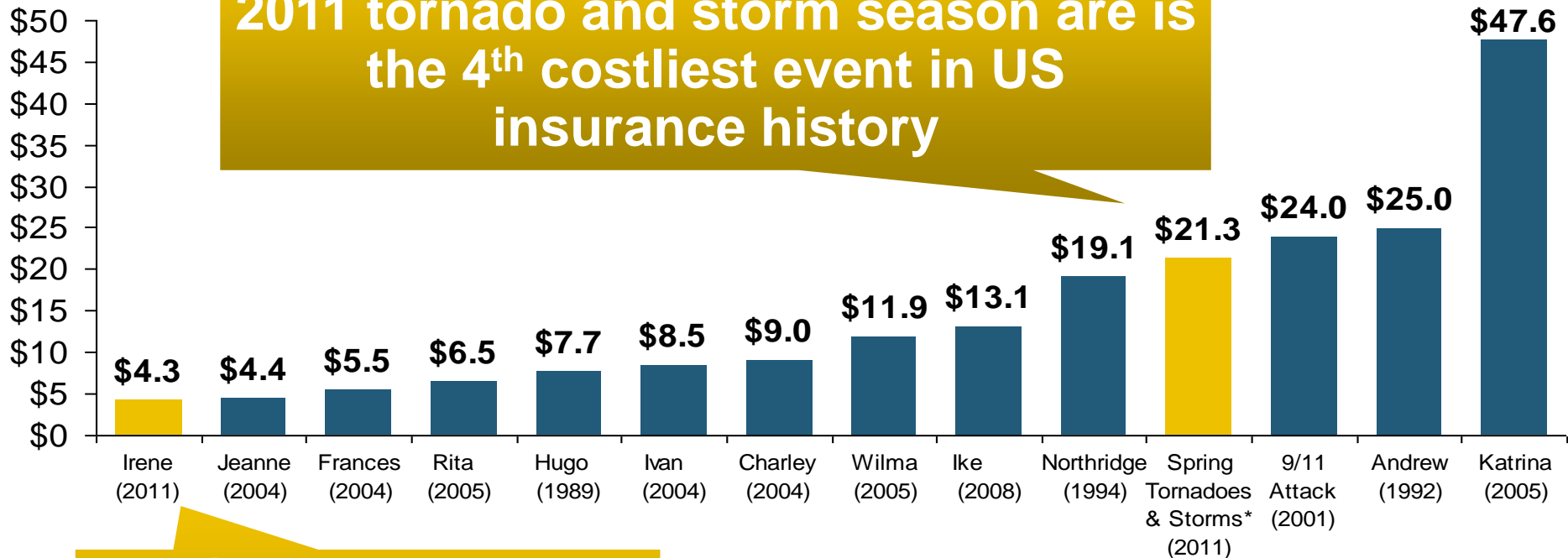
Natural Disaster Losses in the United States: First Half 2012

As of July 1, 2012	Number of Events	Fatalities	Estimated Overall Losses (US \$m)	Estimated Insured Losses (US \$m)
Severe Thunderstorm	56	69	13,550	8,760
Winter Storm	3	3	80	38
Flood	6	0	12	Minor
Earthquake	1	0	0	0
Tropical Cyclone	2	1	100	50
Wildfire	22	6	875	500
Totals	90	79	14,617	9,348

Top 14 Most Costly Disasters in U.S. History

(Insured Losses, 2011 Dollars, \$ Billions)

Taken as a single event, the Spring 2011 tornado and storm season are is the 4th costliest event in US insurance history



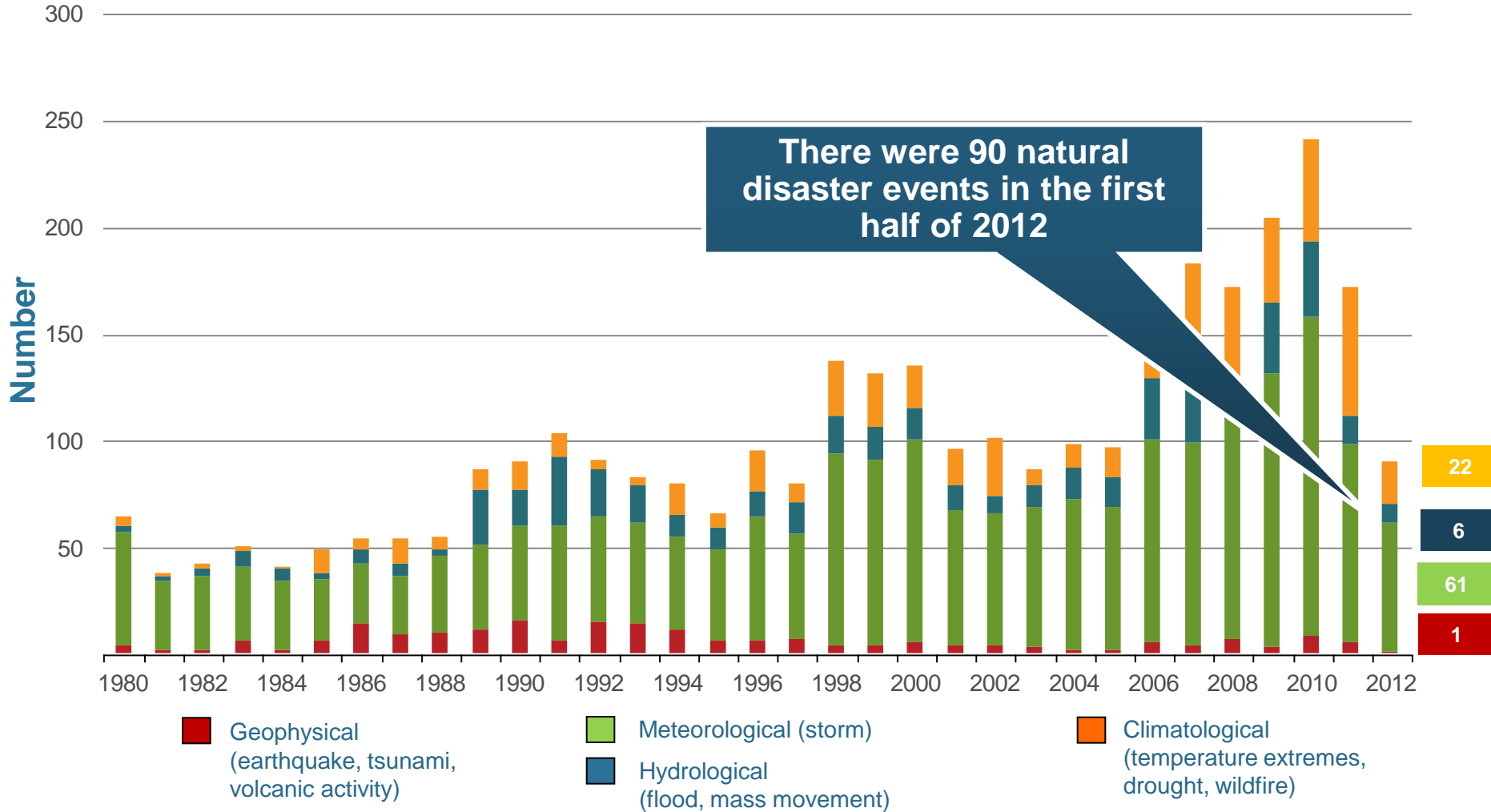
Hurricane Irene became the 11th most expensive hurricane in US history

*Losses will actually be broken down into several "events" as determined by PCS. Includes losses for the period April 1 – June 30.

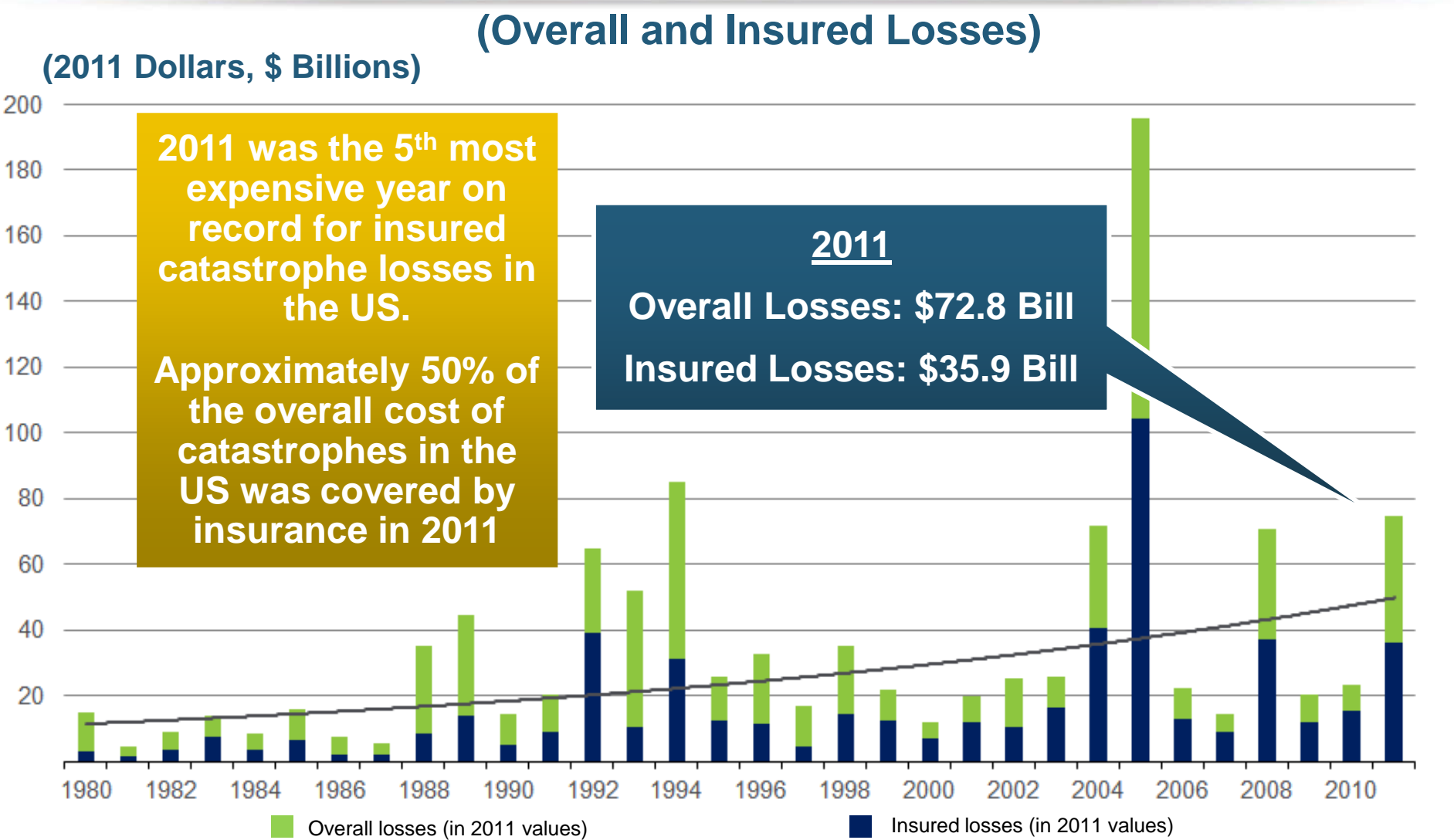
Sources: PCS; Insurance Information Institute inflation adjustments.

Natural Disasters in the United States, 1980 – 2012:H1

Number of Events (Annual Totals 1980 – 2011 and First Half 2012)

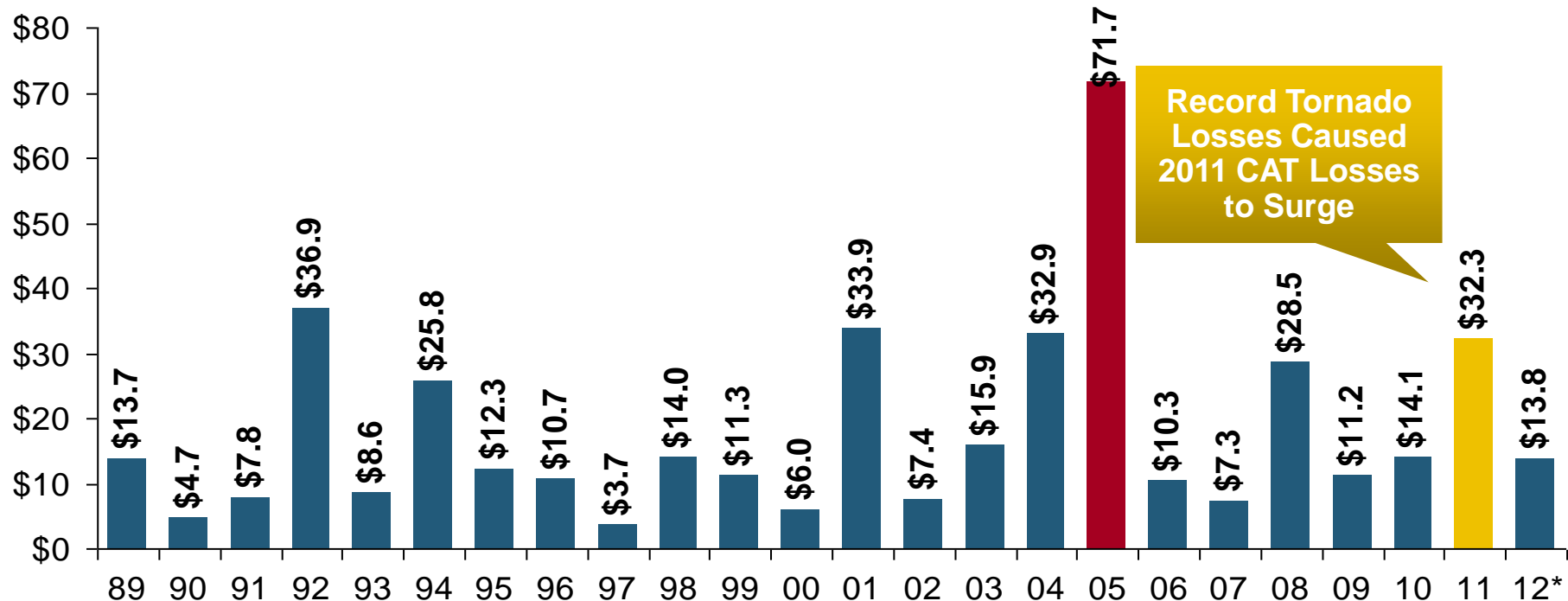


Losses Due to Natural Disasters in the US, 1980–2011 (Overall & Insured Losses)



US Insured Catastrophe Losses

(\$ Billions, 2011 Dollars)



US CAT Losses in 2011 Were the 5th Highest in US History on An Inflation-Adjusted Basis

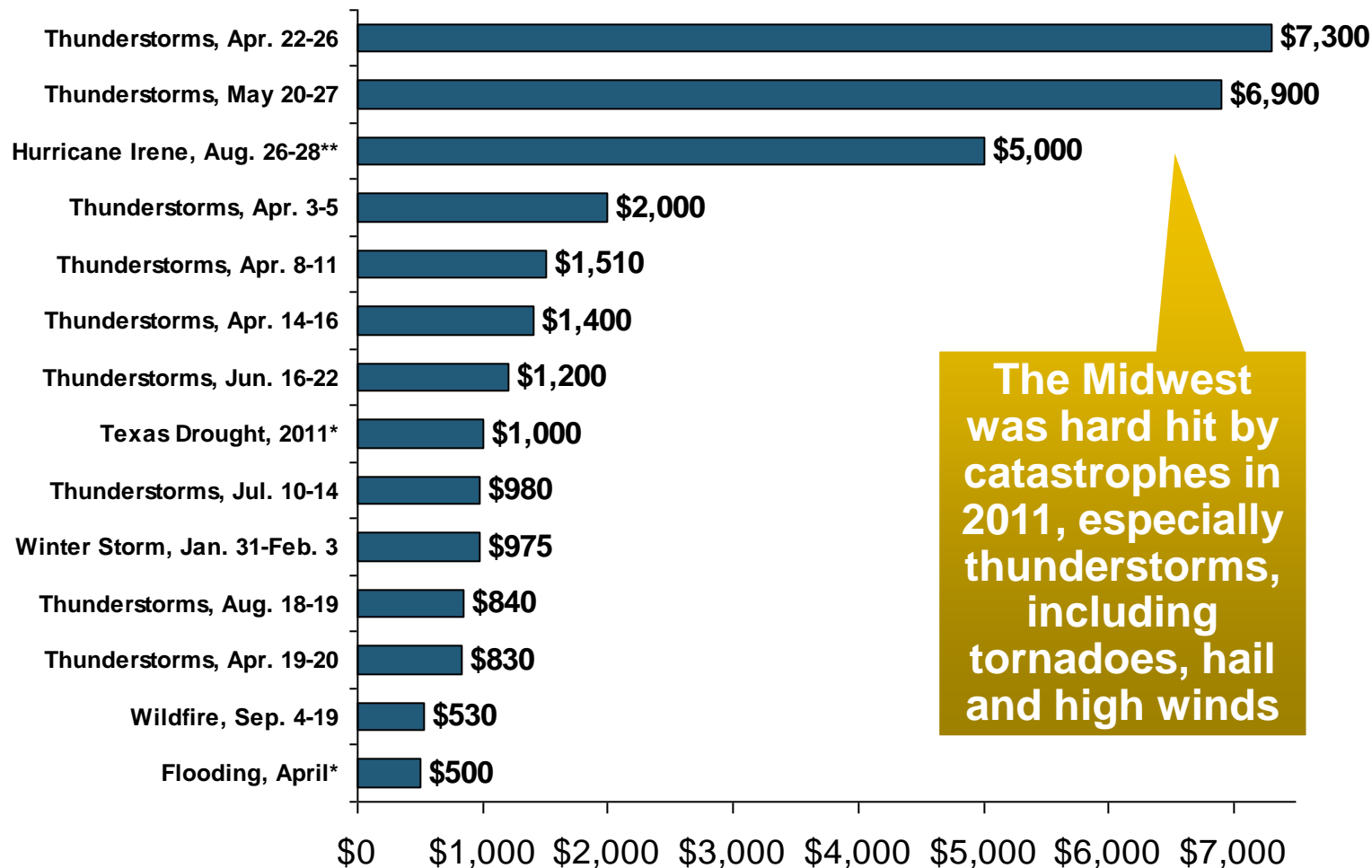
H1 2012 CAT losses were down \$11.9B or 49% from \$24.4B in H1 2011

*PCS figure for H1 2012 (stated in 2012 dollars).

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.

2011's Most Expensive Catastrophes, Insured Losses

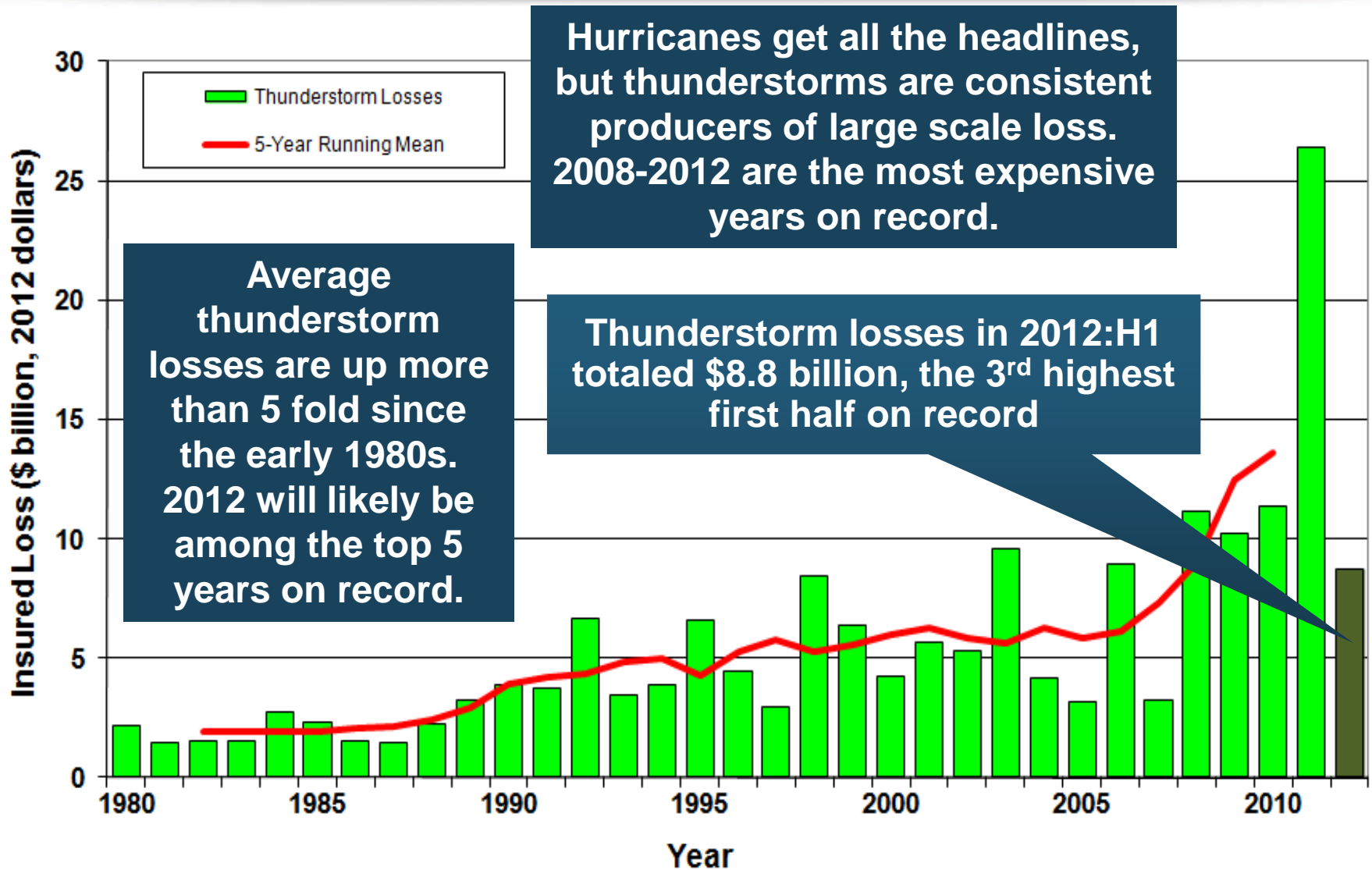


**The Midwest
was hard hit by
catastrophes in
2011, especially
thunderstorms,
including
tornadoes, hail
and high winds**

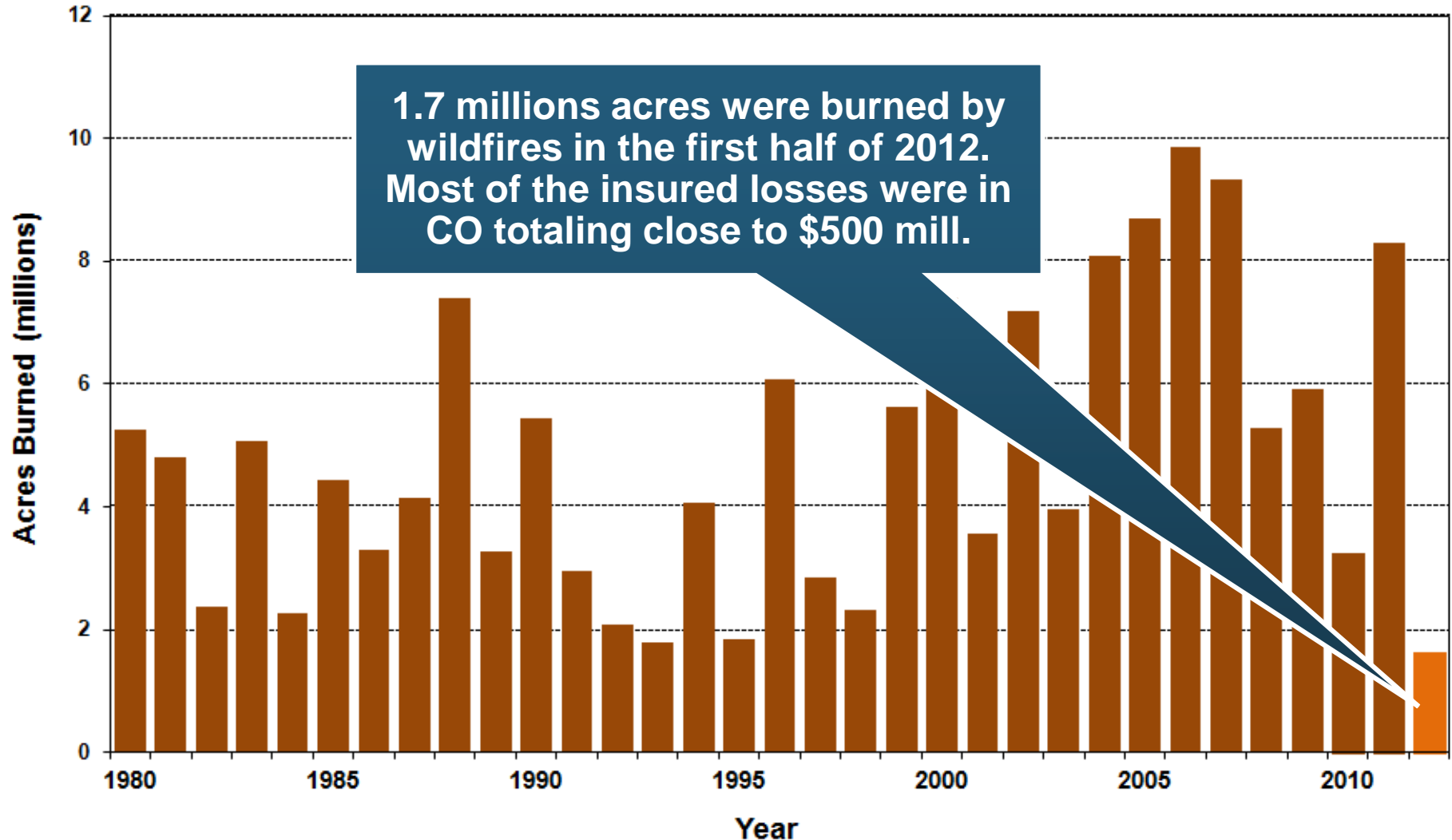
**Includes \$700 million in flood losses insured through the National Flood Insurance Program.

Source: PCS except as noted by "*" which are sourced to Munich Re; Insurance Information Institute.

U.S. Thunderstorm Loss Trends, 1980 – 2012:H1



U.S. Acreage Burned by Wildfires, 1980 – 2012*



*Through June 30.

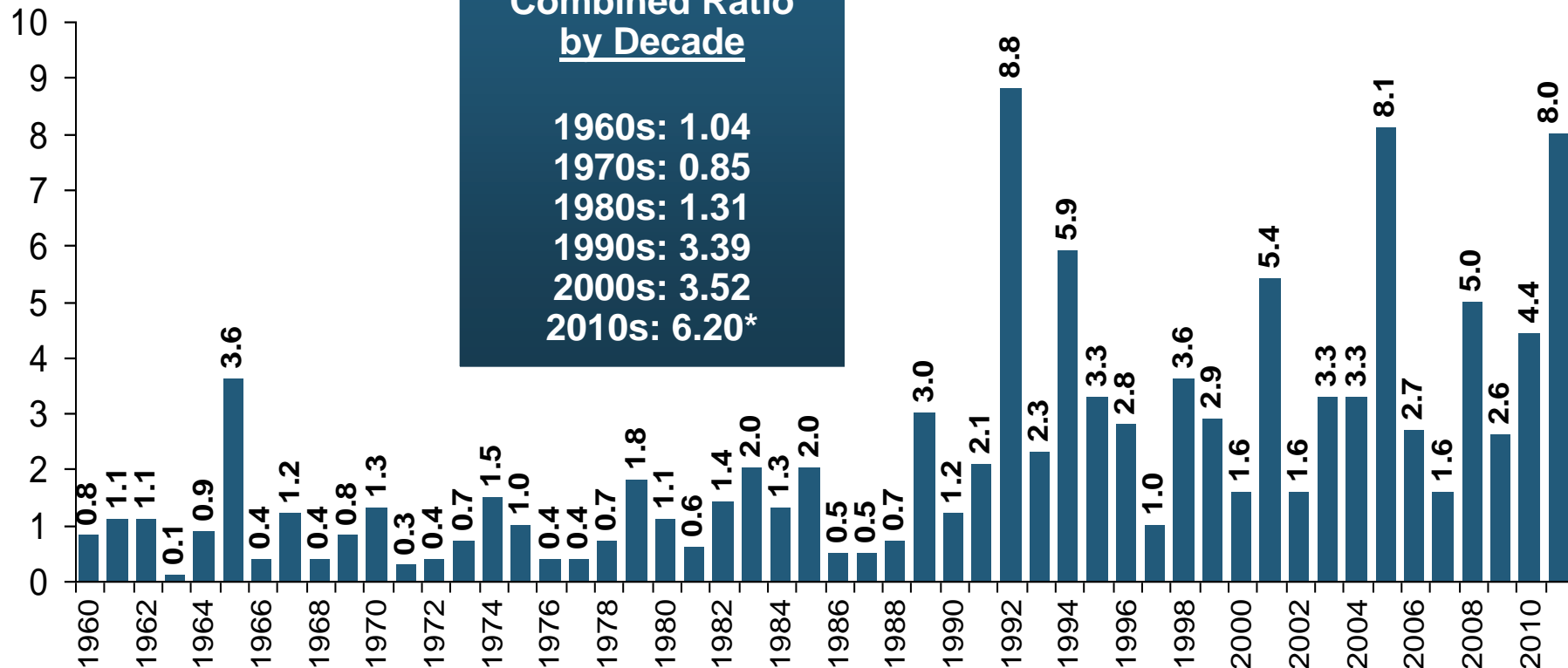
Source: National Forest Service, MR NatCatSERVICE

Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2011*

Combined Ratio Points

Avg. CAT Loss Component of the Combined Ratio by Decade

1960s: 1.04
1970s: 0.85
1980s: 1.31
1990s: 3.39
2000s: 3.52
2010s: 6.20*



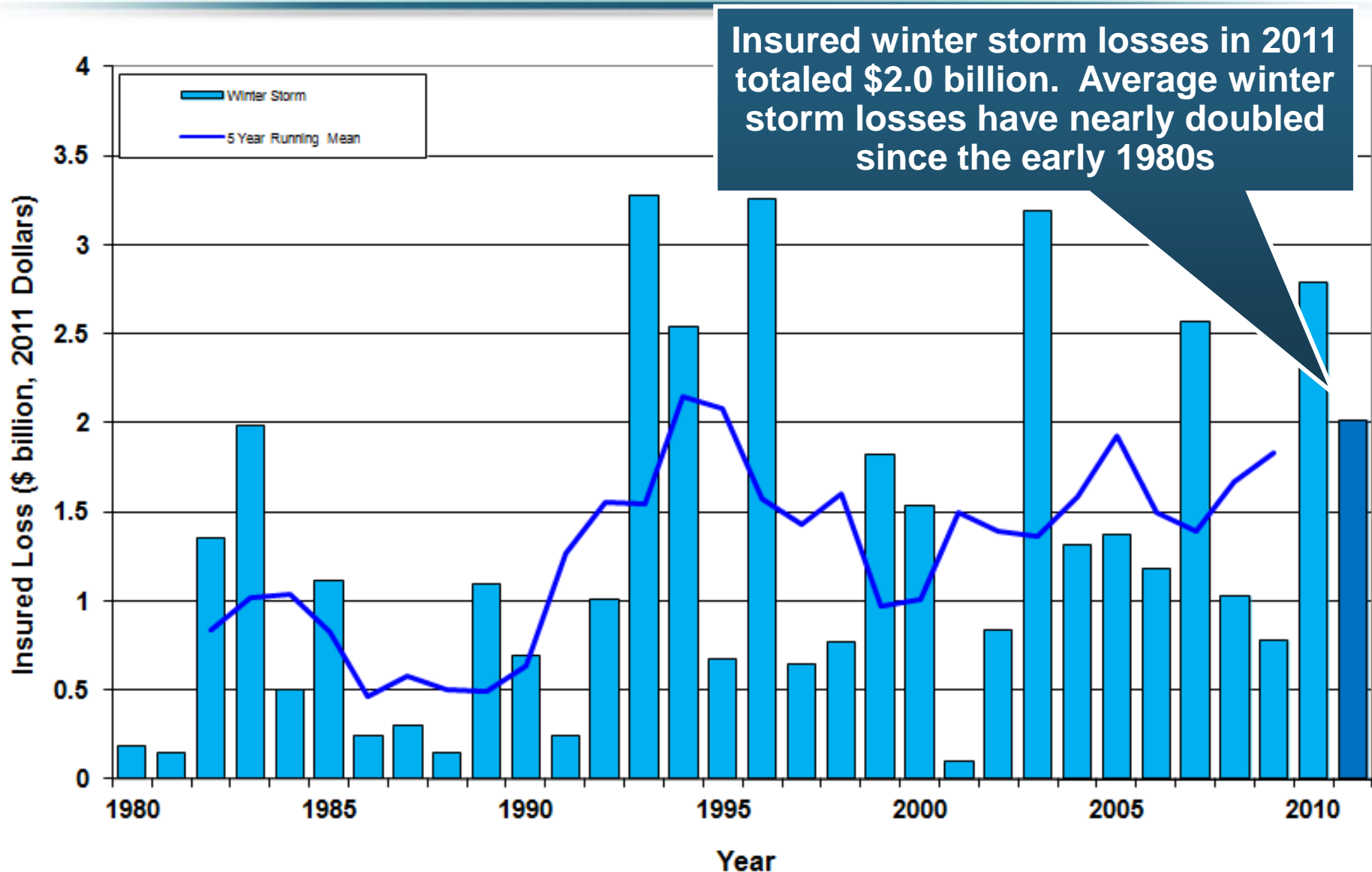
The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades

*Insurance Information Institute estimates for 2010 and 2011 based on A.M. Best data.

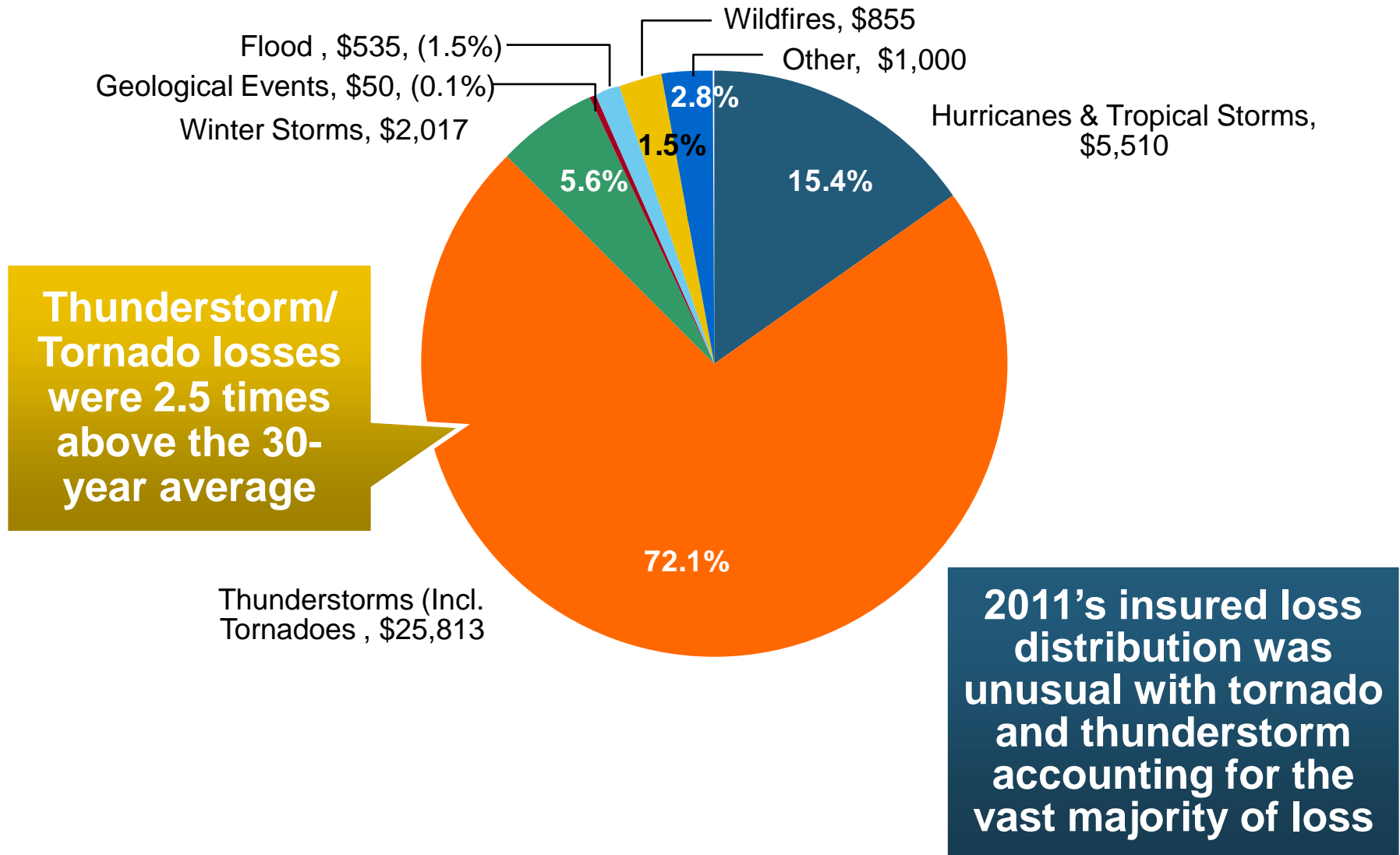
Notes: Private carrier losses only. Excludes loss adjustment expenses and reinsurance reinstatement premiums. Figures are adjusted for losses ultimately paid by foreign insurers and reinsurers.

Source: ISO; Insurance Information Institute.

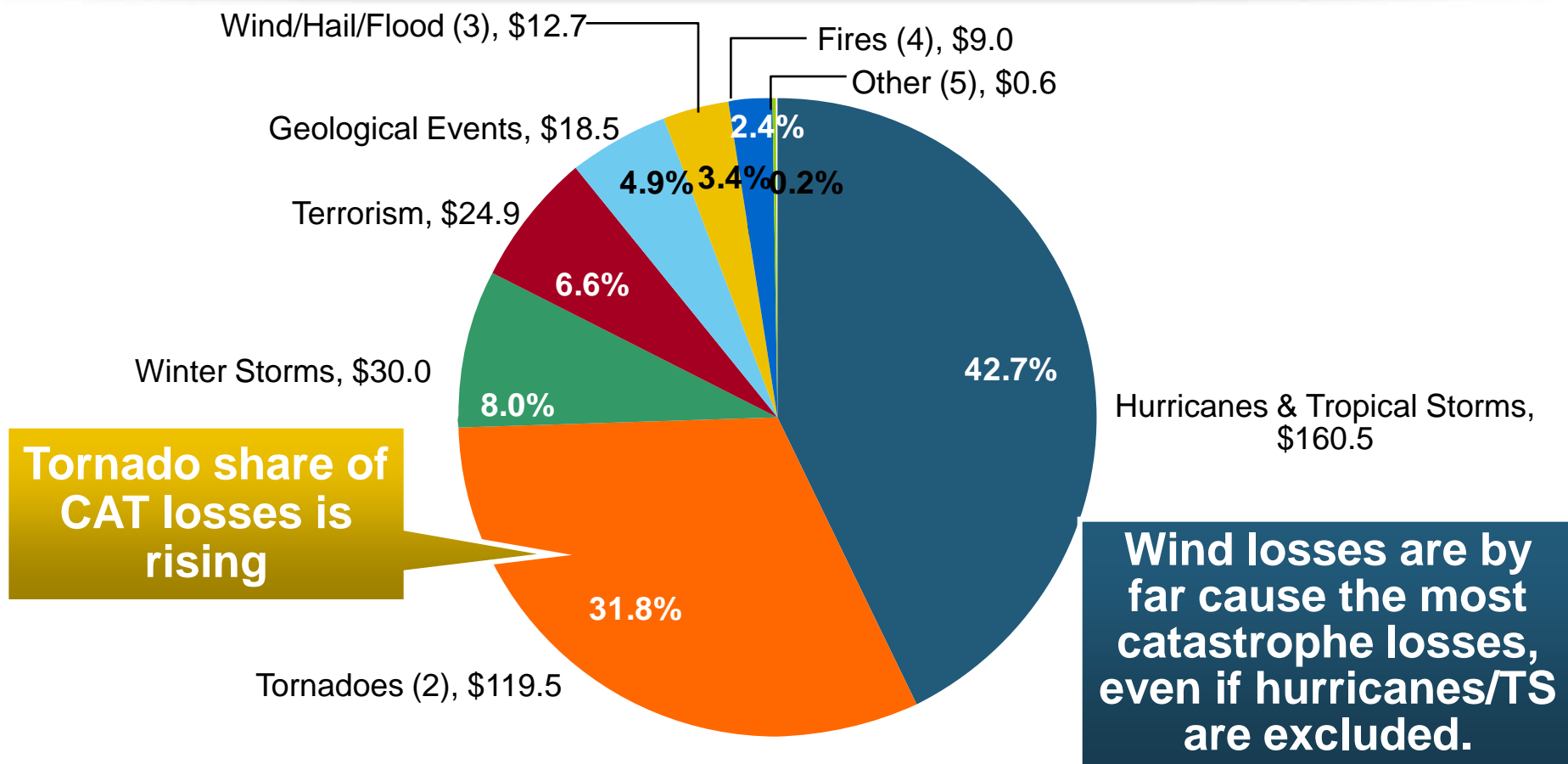
U.S. Winter Storm Loss Trends, 1980 – 2011



U.S. Insured Catastrophe Losses by Cause of Loss, 2011 (\$ Millions)



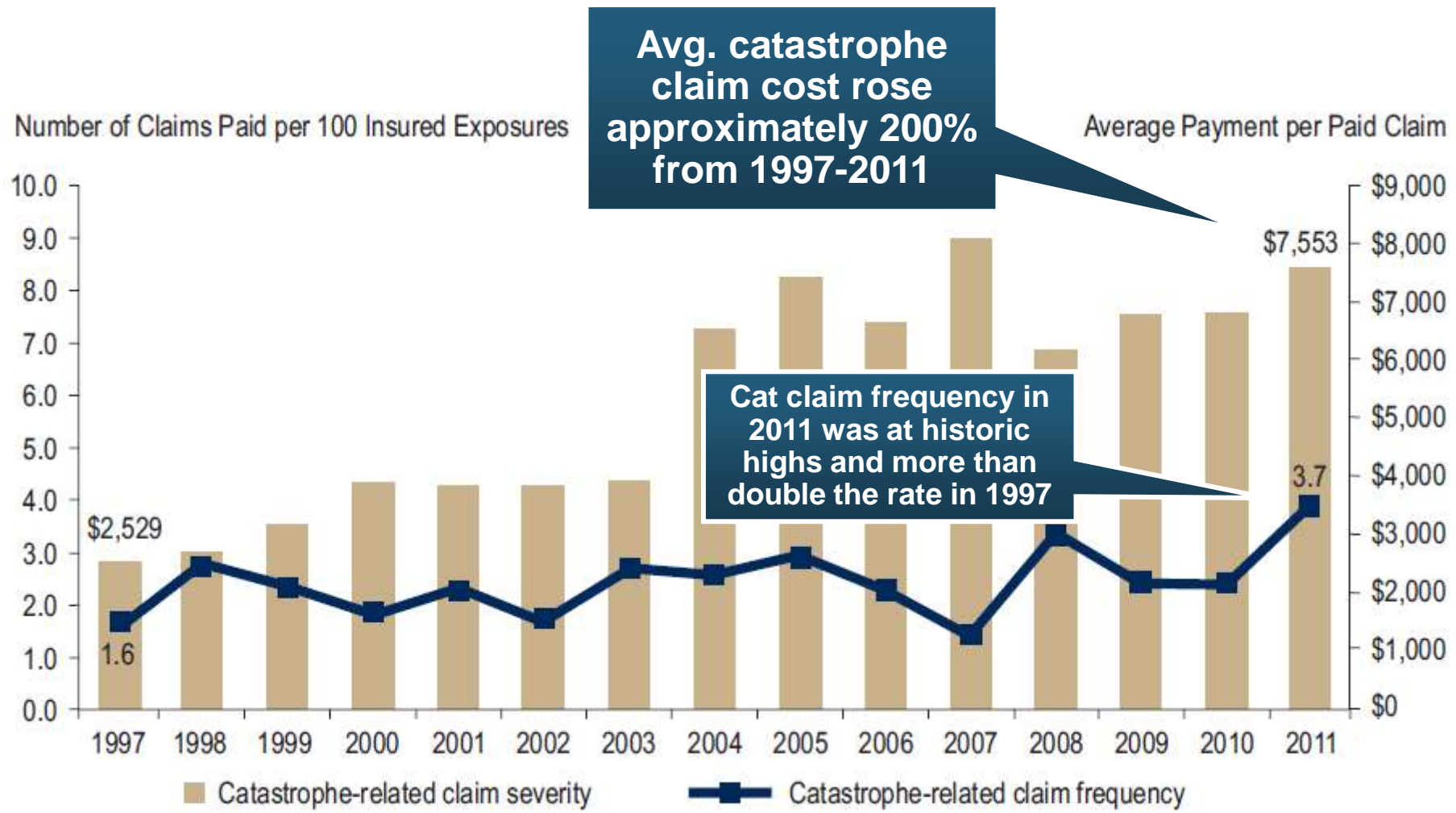
Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1990–2011:H1¹



1. Catastrophes are defined as events causing direct insured losses to property of \$25 million or more in 2009 dollars.
2. Excludes snow.
3. Does not include NFIP flood losses
4. 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.

Homeowners Insurance Catastrophe-Related Claim Frequency and Severity, 1997—2012*

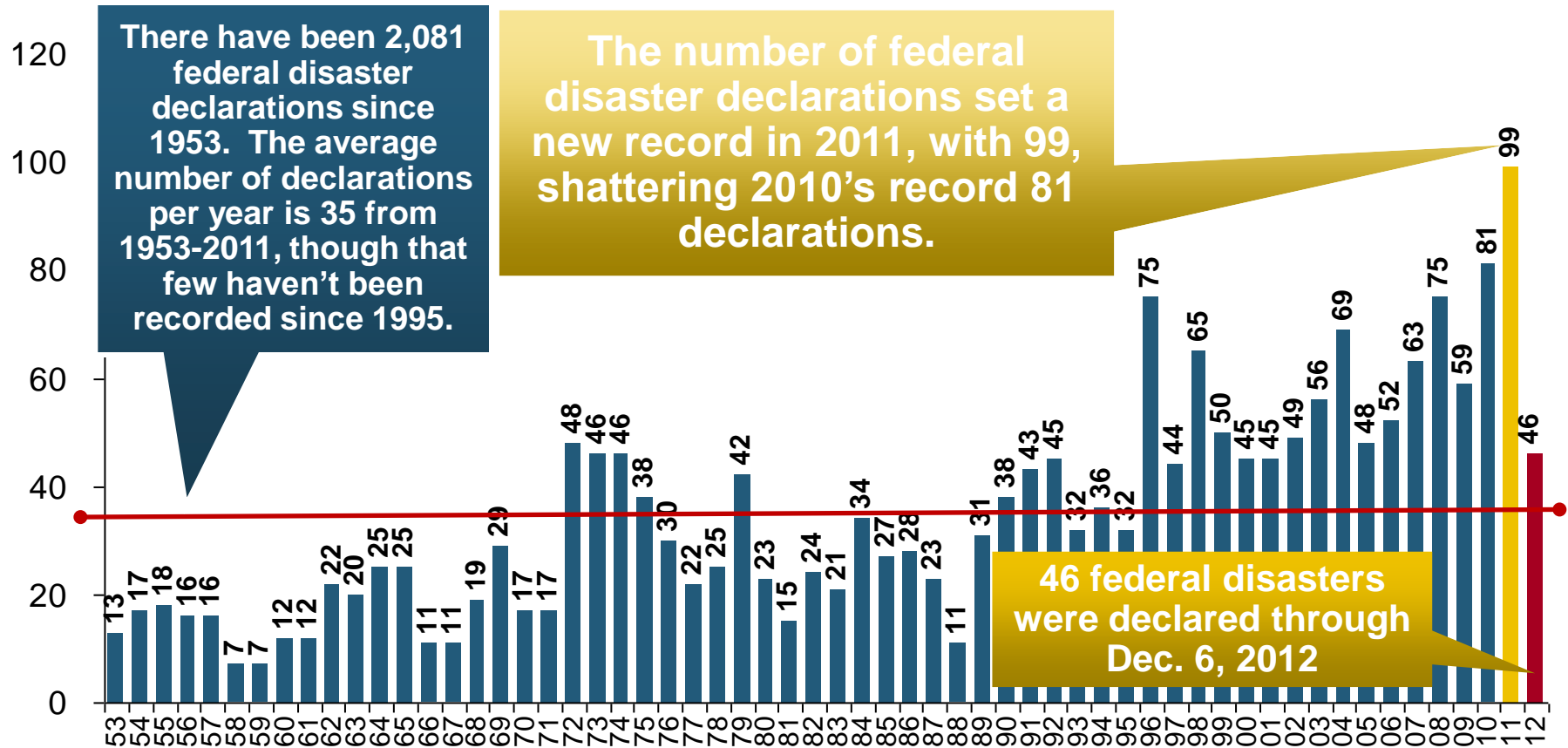


*All policy forms combined, countrywide.
Source: Insurance Research Council, *Trends in Homeowners Insurance Claims*, Sept. 2012 from ISO Fast Track data.

Federal Disaster Declarations Patterns: 1953-2012

**Despite Sandy, Fewer Disasters
Were Declared in 2012 than the
Record Number of Declarations in
2010 and 2011**

Number of Federal Disaster Declarations, 1953-2012*

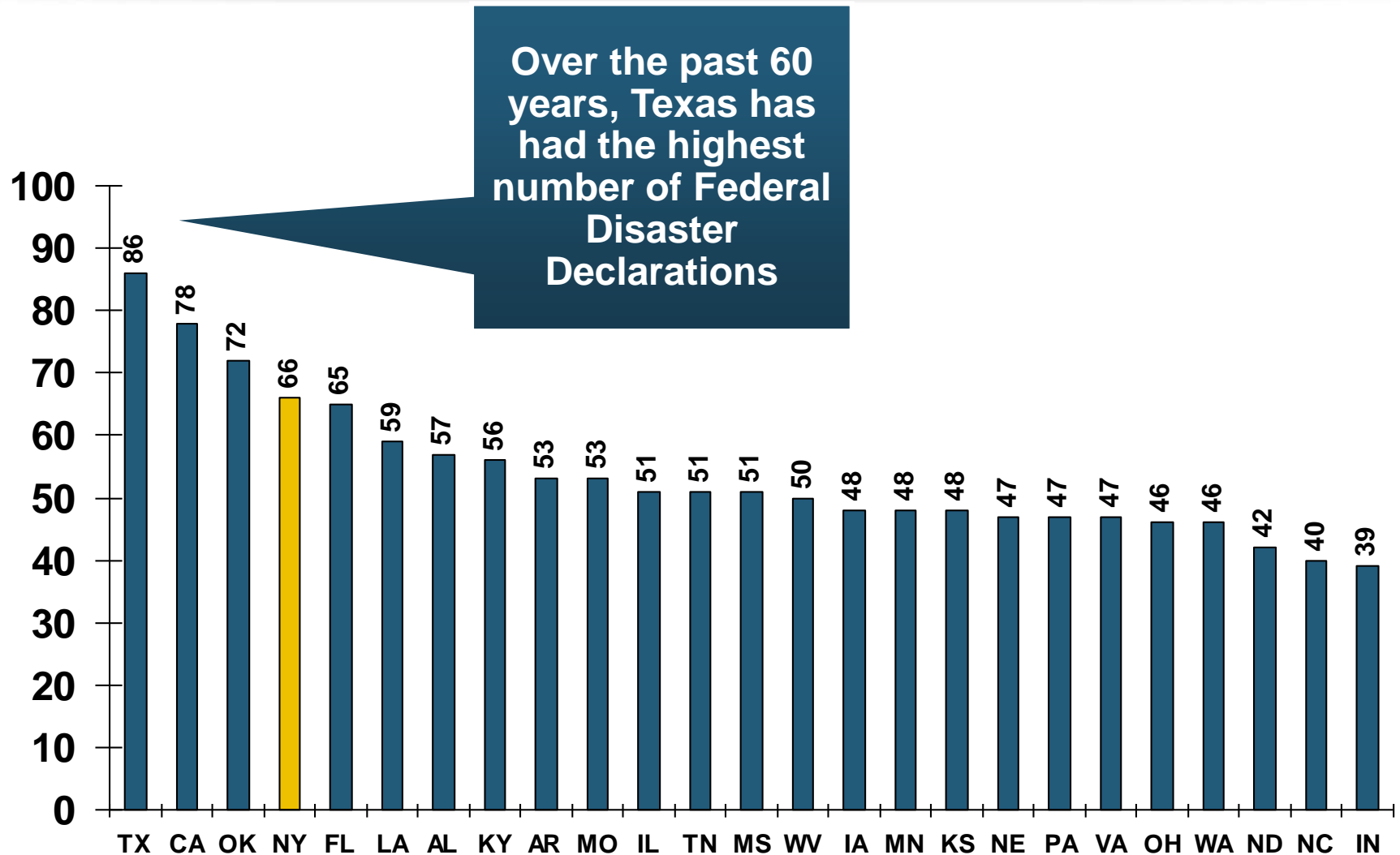


The Number of Federal Disaster Declarations Is Rising and Set New Records in 2010 *and* 2011. Hurricane Sandy Produced 9 Declarations in 2012.

*Through Dec. 6, 2012.

Source: Federal Emergency Management Administration; <http://www.fema.gov/disasters>; Insurance Information Institute.

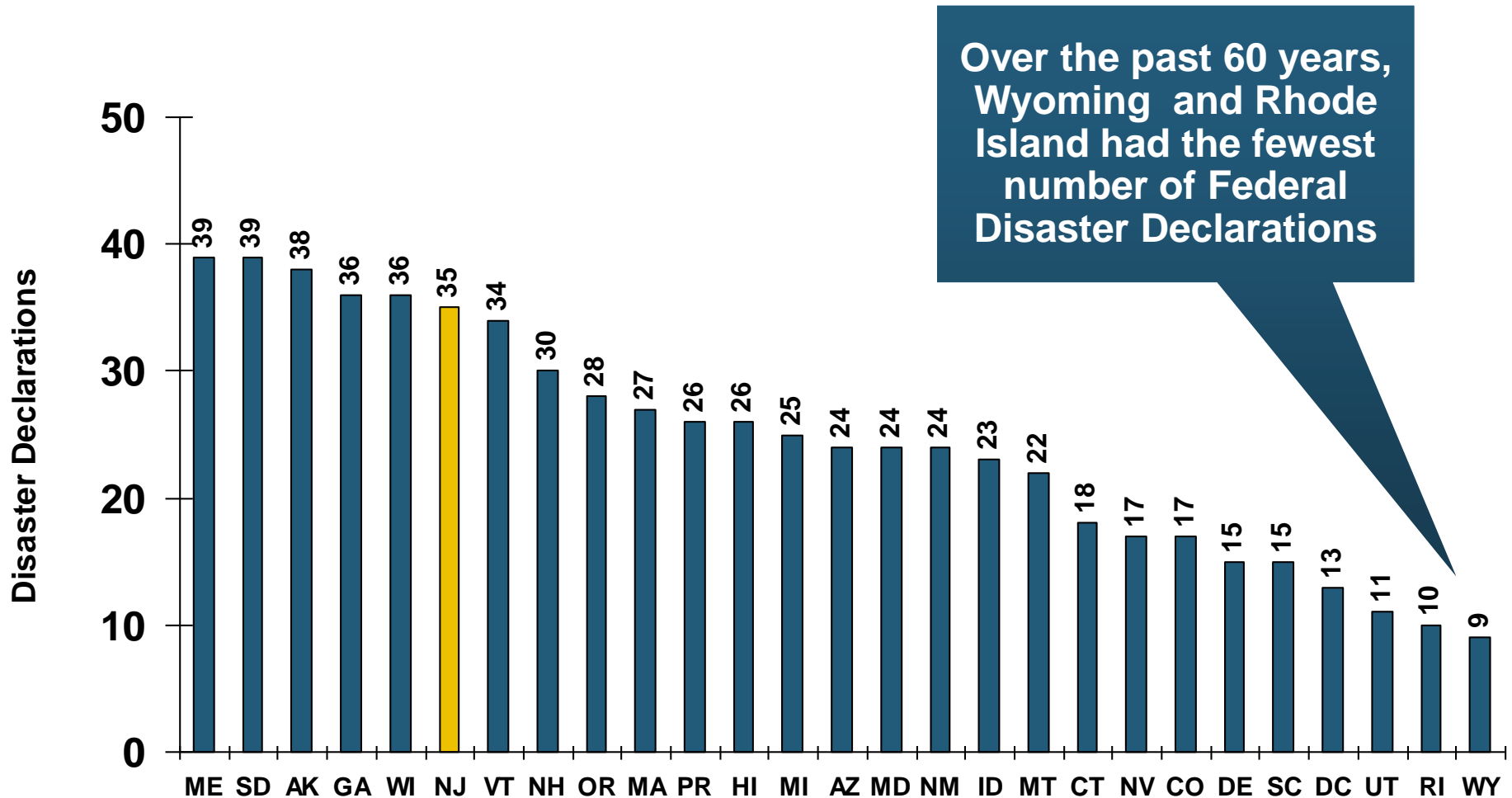
Federal Disasters Declarations by State, 1953 – 2012: Highest 25 States*



*Through Dec. 5, 2012. 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 – 2012: Lowest 25 States*



*Through Dec. 6, 2012. Includes Puerto Rico and the District of Columbia.

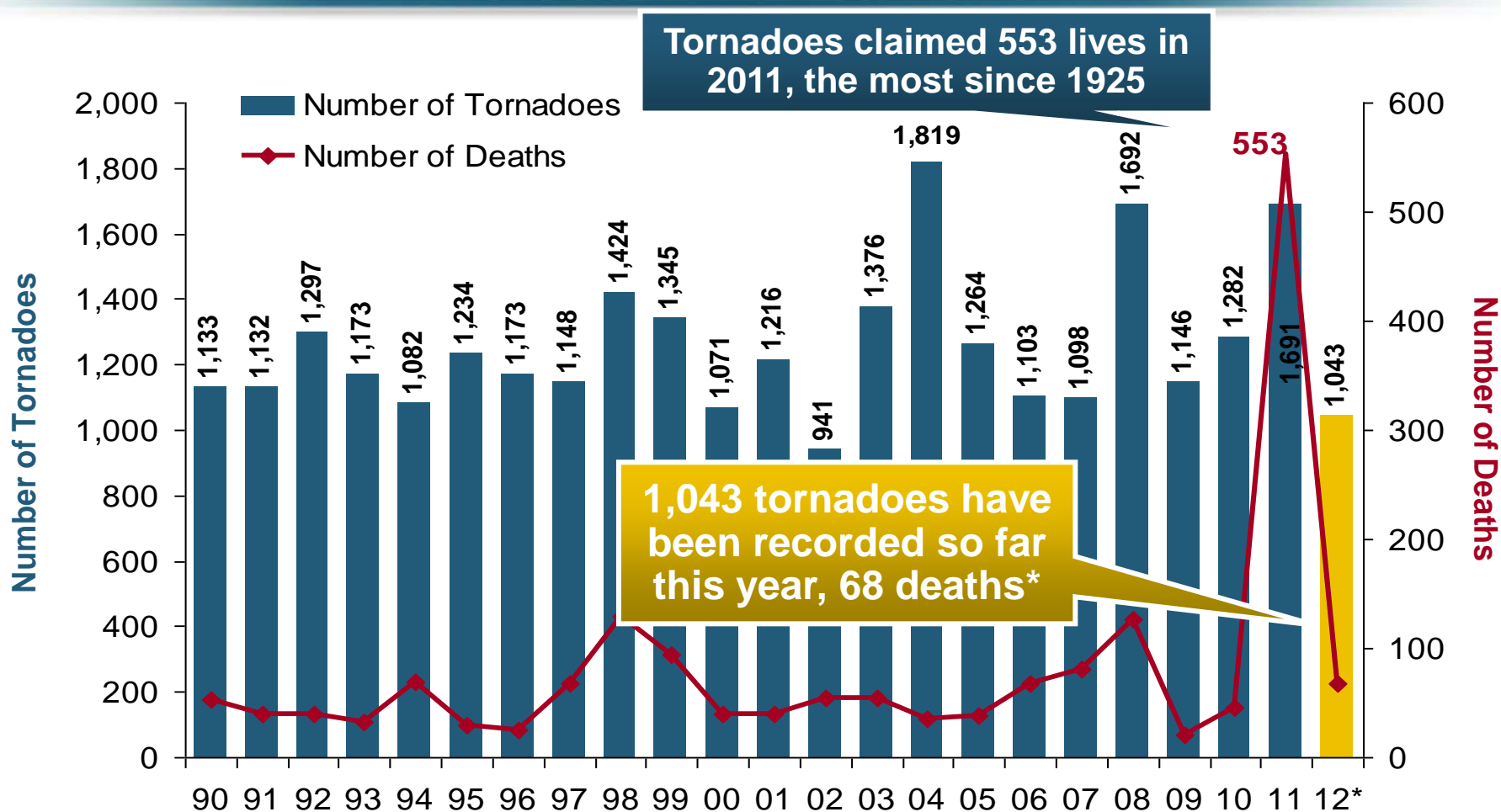
Source: FEMA: http://www.fema.gov/news/disaster_totals_annual.fema; Insurance Information Institute.



2012 TORNADO & SEVERE STORM SUMMARY

**2012 Got Off to a Worrisome Start,
But Is No Repeat of 2011**

Number of Tornadoes and Related Deaths, 1990 – 2012*

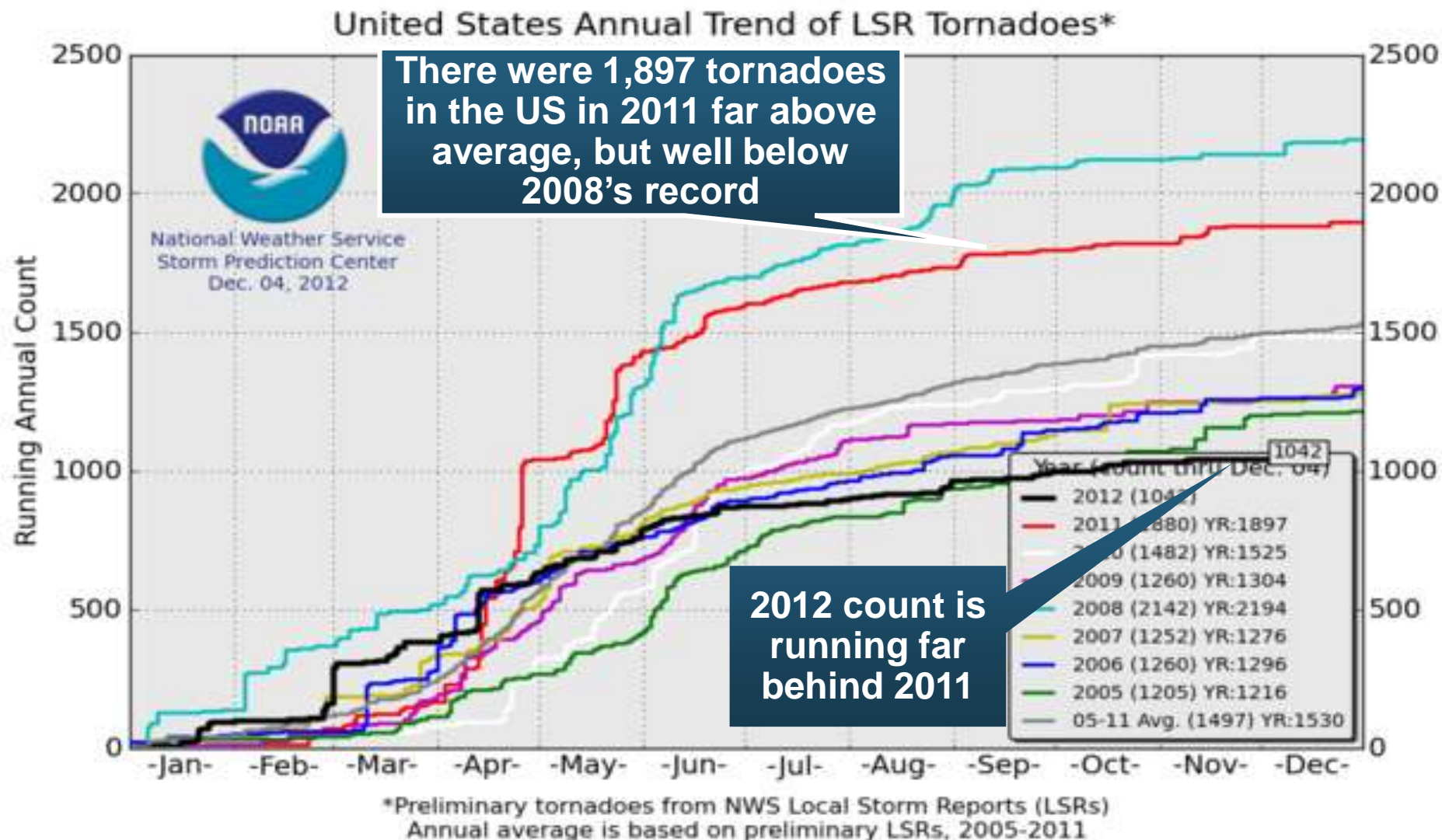


2012 Tornado Losses Got Off to an Ominous Beginning, but Slowed. First Half 2012 Insured Losses from Tornadoes and Thunderstorms Totaled \$8.8B.

*Through Nov. 30, 2012.

Source: U.S. Department of Commerce, Storm Prediction Center, National Weather Service at <http://www.spc.noaa.gov/climo/online/monthly/newm.html>

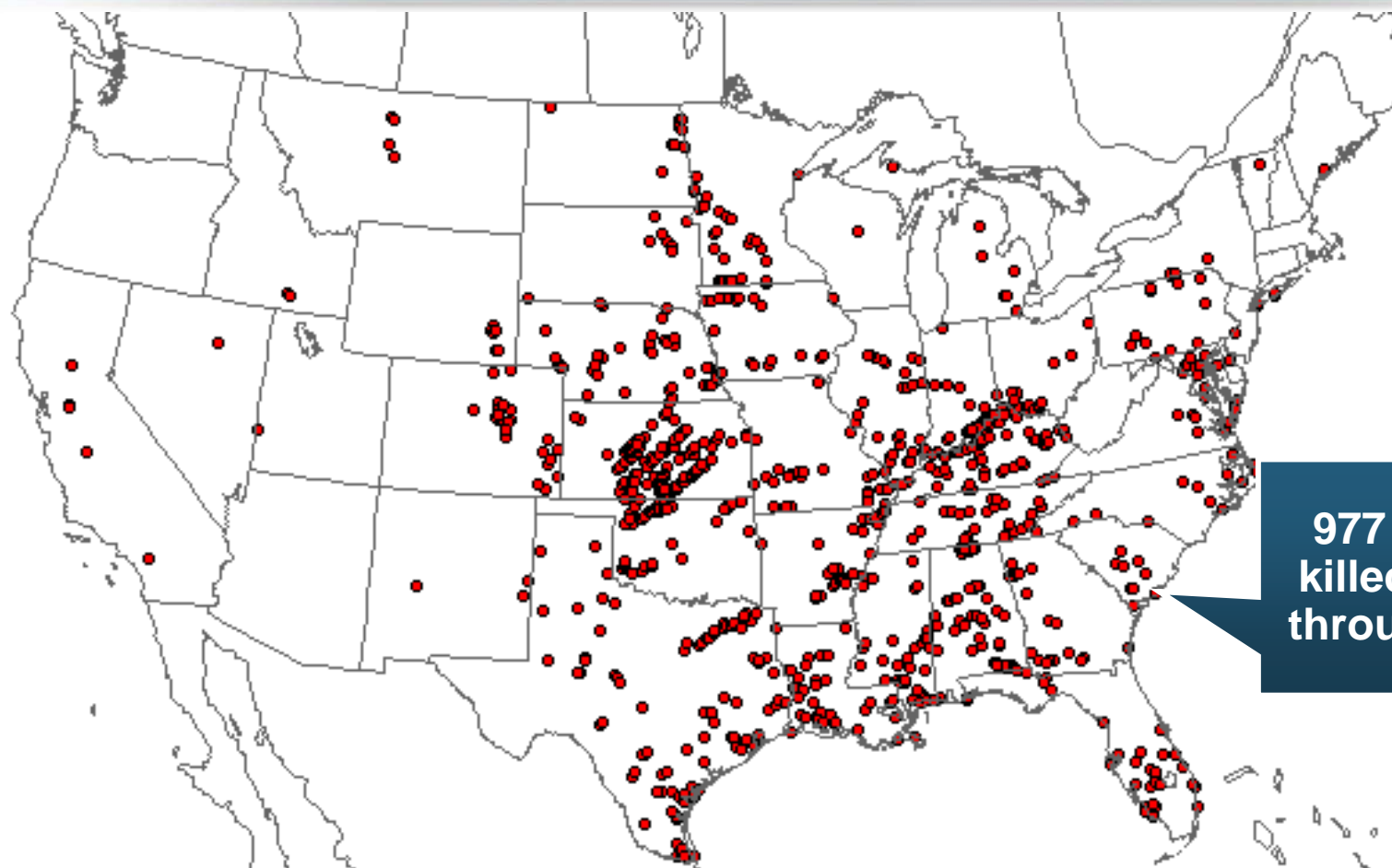
U.S. Tornado Count, 2005-2012*



*Through Dec. 4, 2012.

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

Location of Tornadoes in the US, 2012*



**PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)**

NOAA/Storm Prediction Center Norman, Oklahoma

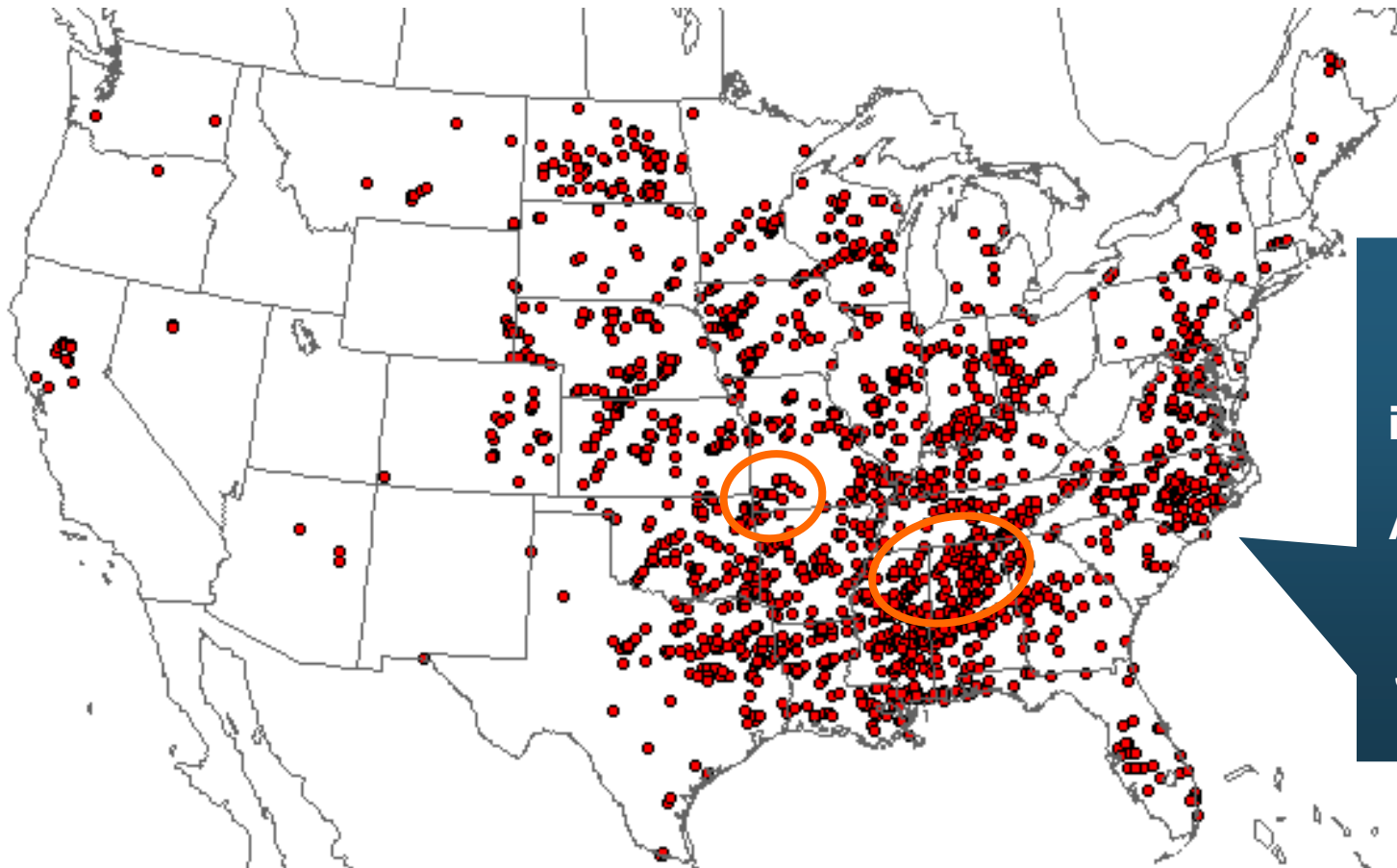
**Tornado Reports
January 01, 2012 - September 23, 2012**

Updated: Sunday September 23, 2012 07:41 CT

*Through Sept. 23, 2012.

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2012_annual_summary.html#

Location of Tornadoes in the US, 2011



1,894 tornadoes killed 553 people in 2011, including at least 340 on April 26 mostly in the Tuscaloosa area, and 130 in Joplin on May 22



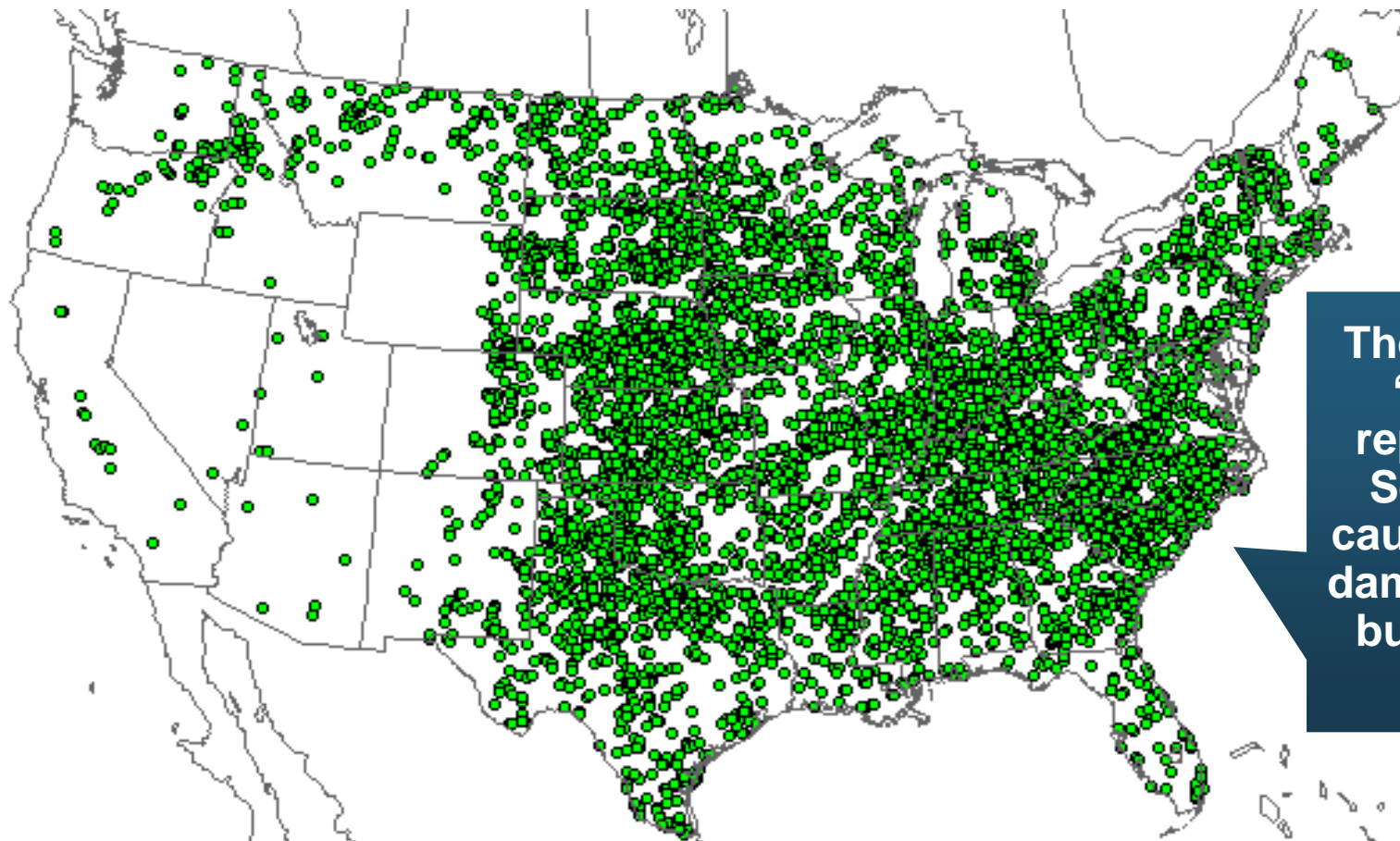
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Tornado Reports
January 01, 2011 - December 27, 2011

Updated: Tuesday December 27, 2011 16:35 CT

Location of Large Hail Reports in the US, 2012*



There were 6,781
“Large Hail”
reports through
Sept. 23, 2012,
causing extensive
damage to homes,
businesses and
vehicles



PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

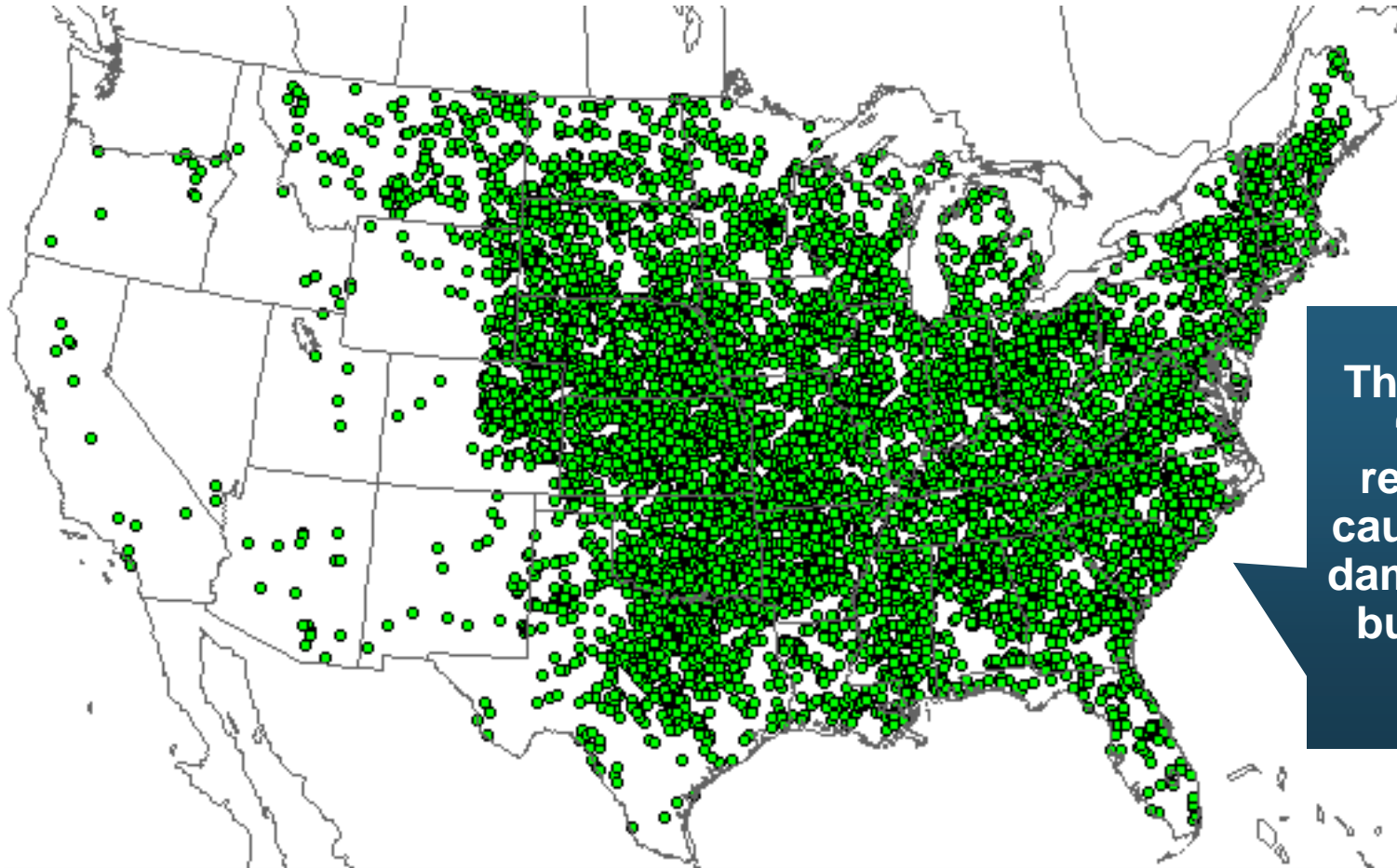
Hail Reports
January 01, 2012 - September 23, 2012

Updated: Sunday September 23, 2012 07:41 CT

*Through Sept. 23, 2012.

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2012_annual_summary.html#

Location of Large Hail Reports in the US, 2011



There were 9,417
“Large Hail”
reports in 2011,
causing extensive
damage to homes,
businesses and
vehicles



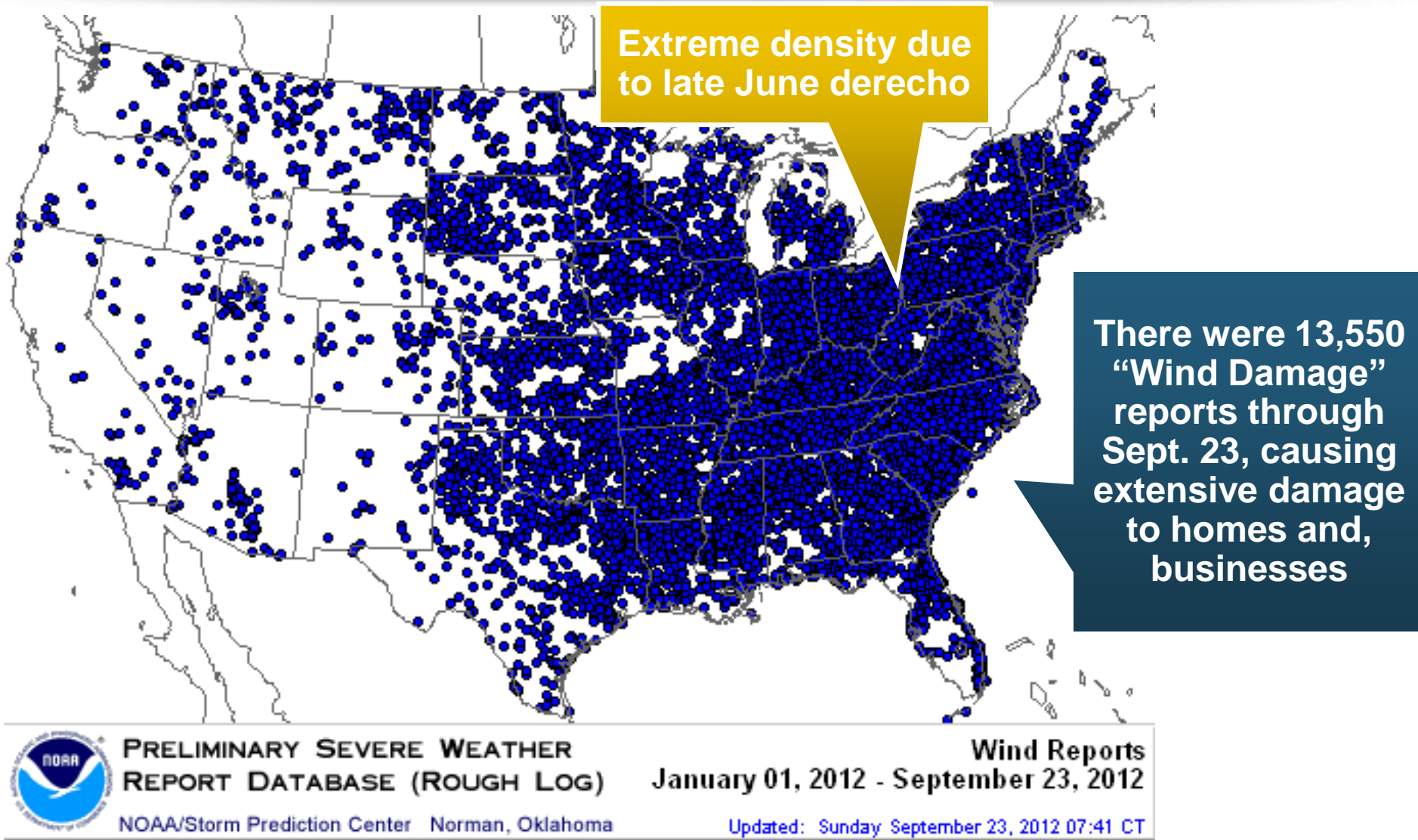
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Hail Reports
January 01, 2011 - December 27, 2011

Updated: Tuesday December 27, 2011 16:35 CT

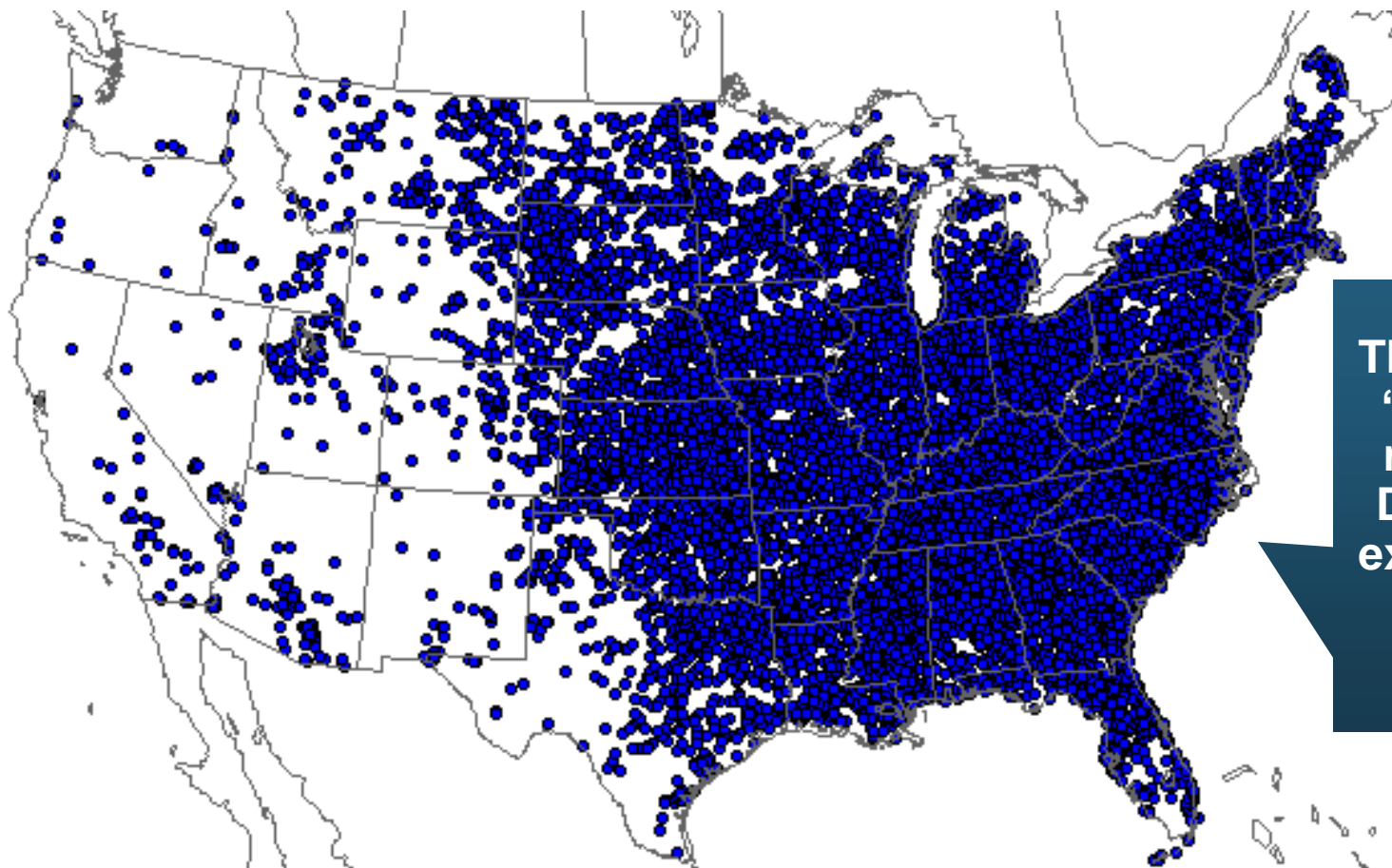
Location of Wind Damage Reports in the US, 2012*



*Through Sept. 23, 2012.

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2012_annual_summary.html#

Location of Wind Damage Reports in the US, 2011



There were 18,685
“Wind Damage”
reports through
Dec. 27, causing
extensive damage
to homes and,
businesses



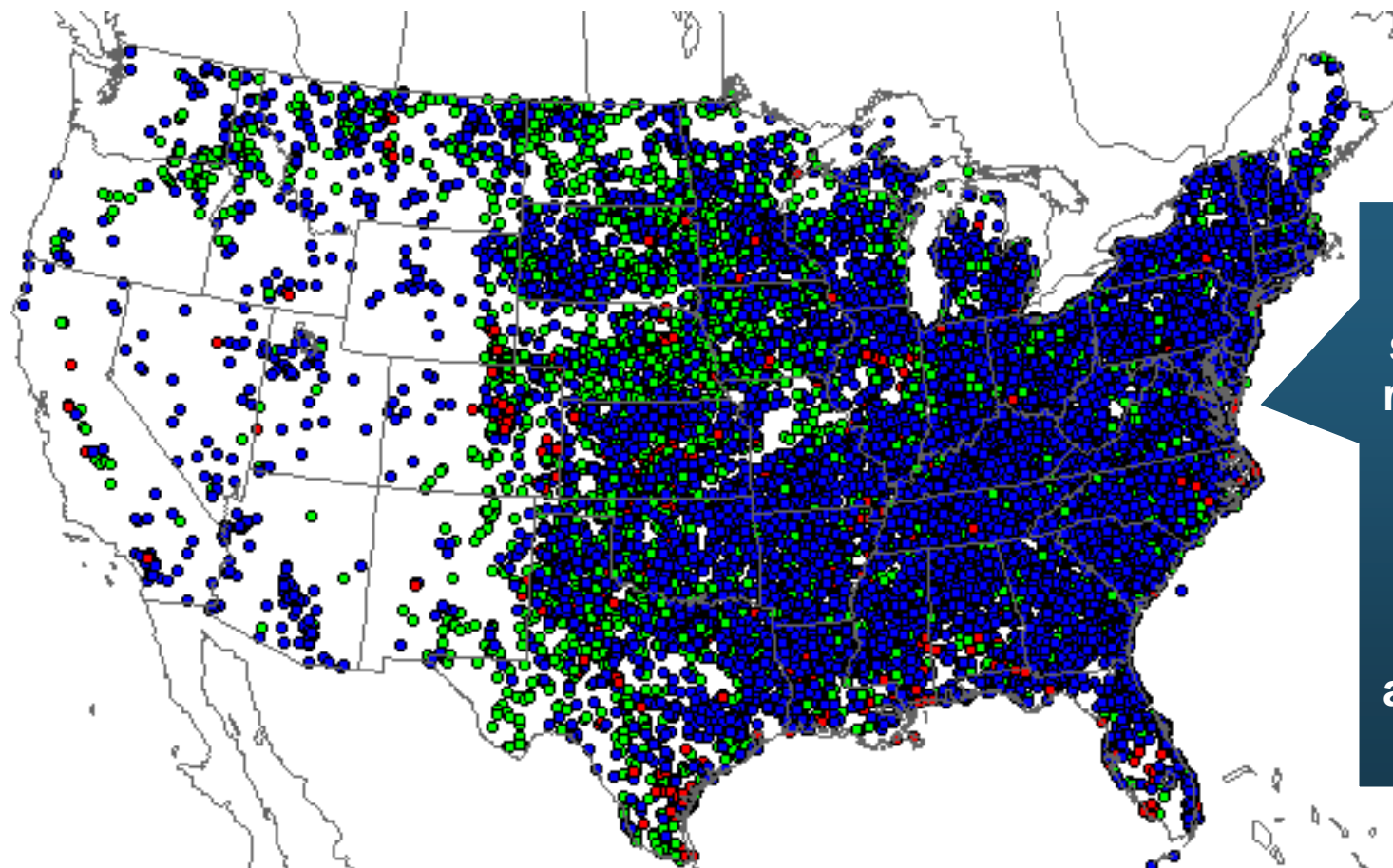
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Wind Reports
January 01, 2011 - December 27, 2011

Updated: Tuesday December 27, 2011 16:35 CT

Severe Weather Reports, 2012*



There were already 21,310 severe weather reports through Sept. 23; including 977 tornadoes; 6,781 “Large Hail” reports and 13,550 high wind events



PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

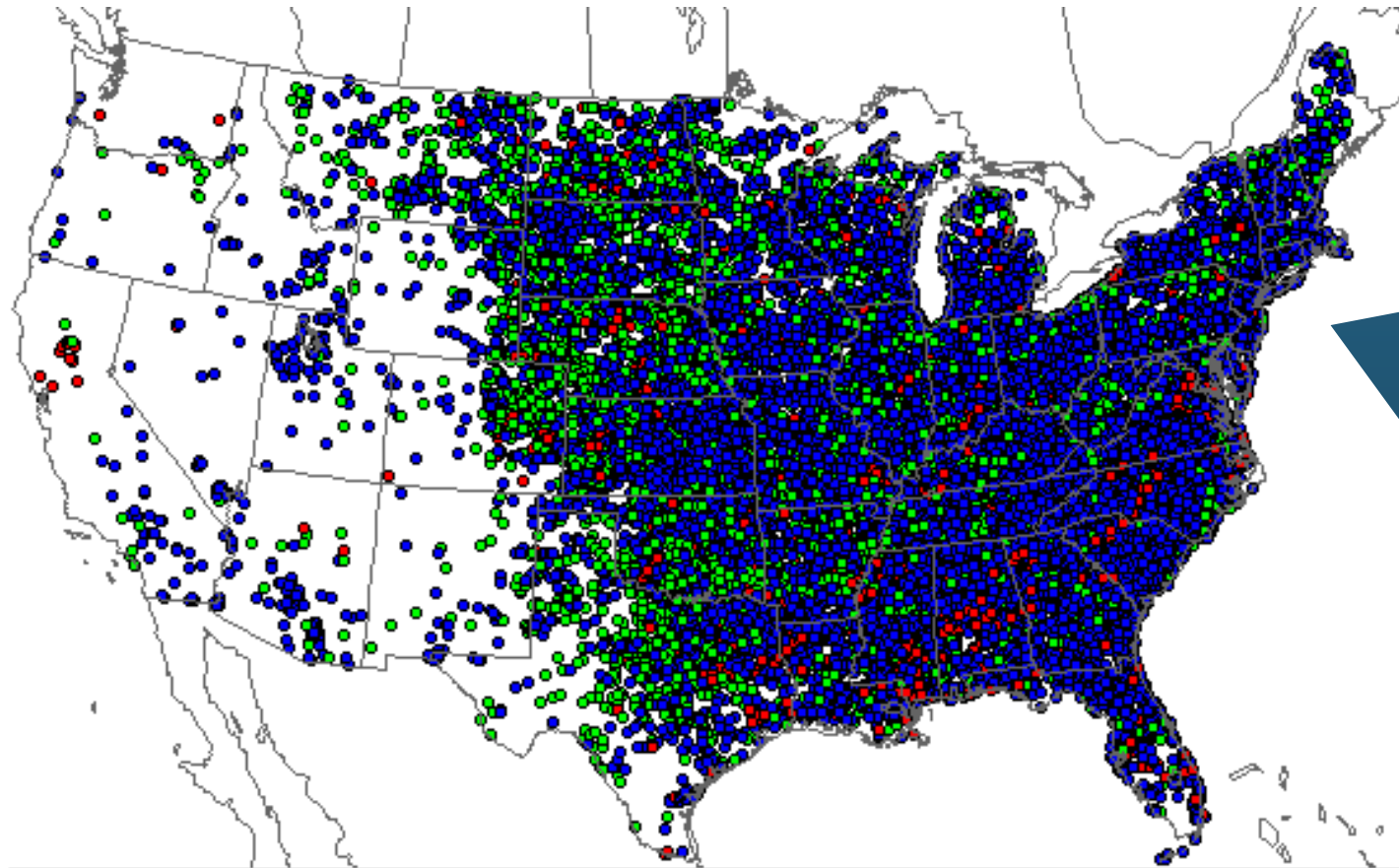
Severe Weather Reports
January 01, 2012 - September 23, 2012

Updated: Sunday September 23, 2012 07:41 CT

*Through Sept. 23, 2012.

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2012_annual_summary.html#

Severe Weather Reports, 2011



There were
29,996 severe
weather reports
in 2011;
including 1,894
tornadoes;
9,417 “Large
Hail” reports
and 18,685 high
wind events



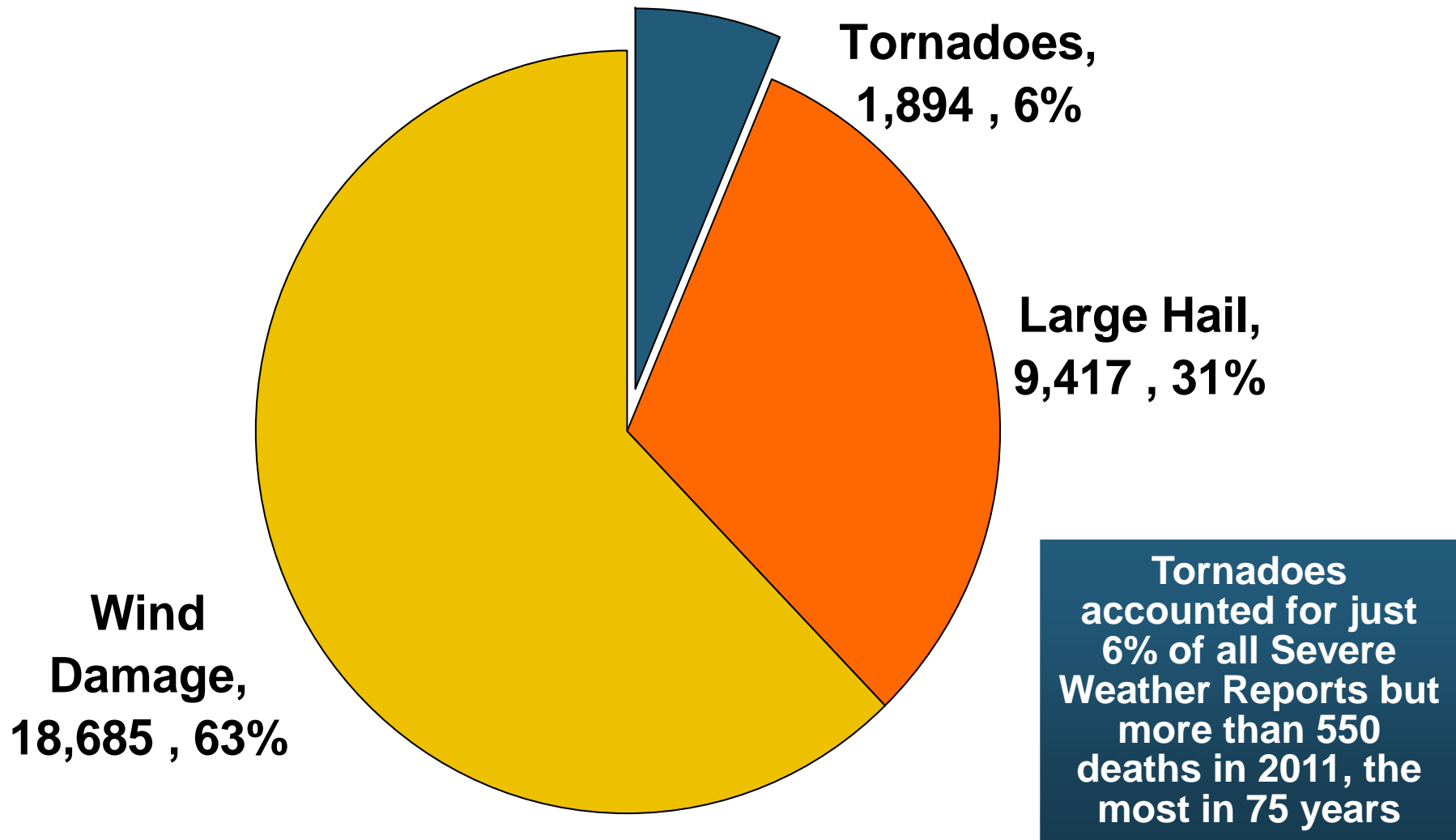
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Severe Weather Reports
January 01, 2011 - December 27, 2011

Updated: Tuesday December 27, 2011 16:35 CT

Number of Severe Weather Reports in US, by Type, 2011



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***

Historical Criteria for a “Market Turn”: Low Interest Rates Add New Pressure

Criteria	Status	Comments
Sustained Period of Large Underwriting Losses	<i>Large CAT Losses in 2011/12 Pushed Up Combined</i>	<ul style="list-style-type: none"> •CAT Losses contributing to higher underwriting losses •Apart from CAT losses, overall p/c underwriting losses remain modest •Combined ratios (ex-CATs) still in low 100s (vs. 110+ at onset of last hard market); CR= 101.1 in H1:2012 (ex-M&FG) •Prior-year reserve releases continue to reduce u/w losses, boost ROEs, though more modestly
Material Decline in Surplus/ Capacity	<i>Small Decline Due to 2011 Cats; Could drop in 2012</i>	<ul style="list-style-type: none"> •Surplus fell 0.5% as of 6/30/12 from 3/31 record \$570.7B •Fell 1.6% in 2011 due to CATs •Little excess capacity remains in reinsurance markets •Modest growth in demand for insurance should begin to absorb some capacity
Tight Reinsurance Market	<i>Somewhat in Place</i>	<ul style="list-style-type: none"> •Much of the global “excess capacity” was eroded by cats •Higher prices in Asia/Pacific •Modestly higher pricing for US risks
Renewed Underwriting & Pricing Discipline	<i>Firming Broad, Sustained, esp. in Property, WC</i>	<ul style="list-style-type: none"> •Commercial lines pricing trends have turned from negative to flat and now positive, esp. Property & WC; •Markets remain competitive in most segments

INVESTMENTS: THE NEW REALITY

**Investment Performance is a Key
Driver of Profitability**

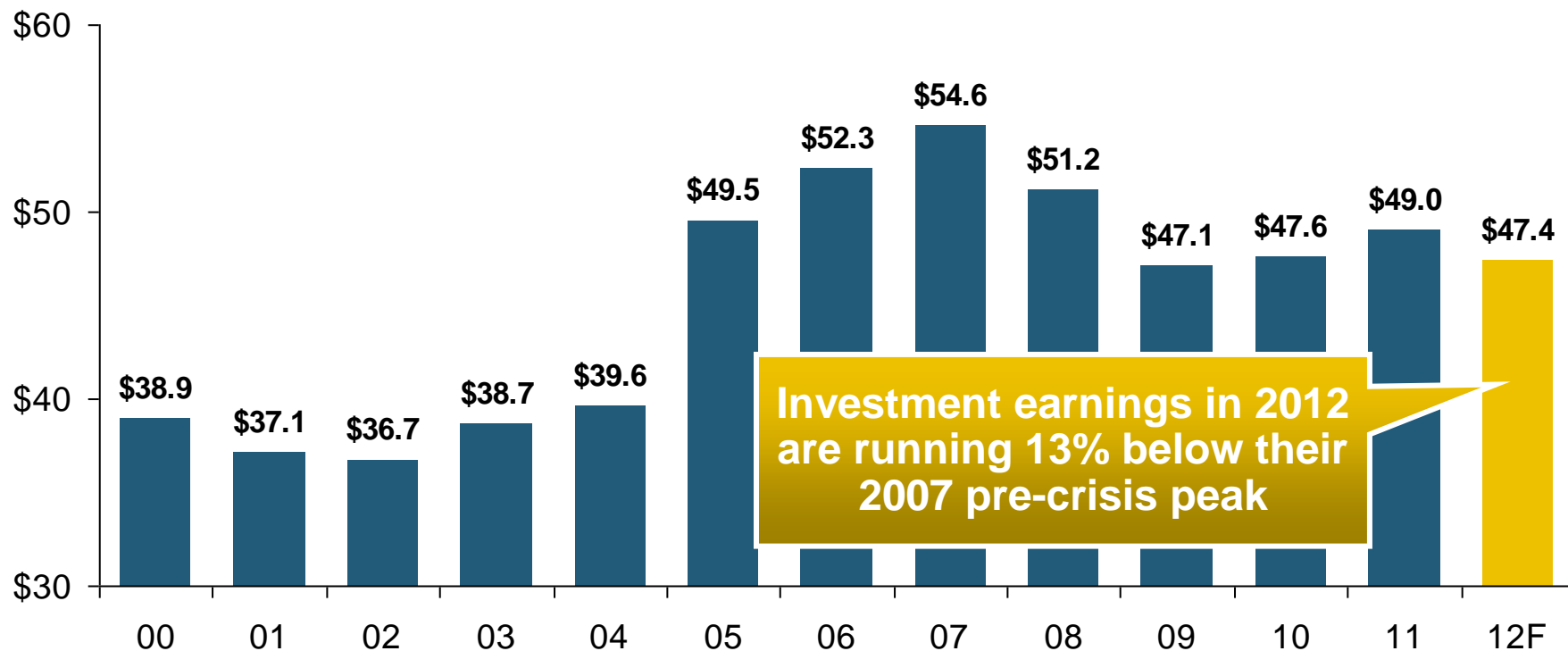
***Depressed Yields Will Necessarily
Influence Underwriting & Pricing***

Insurers Have Not Yet Fully Adapted to a Persistently Low Interest Rate Environment

- **No Expectation that Rates Would Be:**
 - ◆ **Pushed to Such Low Levels**
 - ◆ **Pushed Down so Rapidly**
 - ◆ **Held to Such Low Levels for So Long**
 - ◆ **Suppressed via Unprecedented Aggressiveness of the Federal Reserve**
 - **Use of traditional and unconventional tools (QE)**
 - **Unconventional 's policies couldn't be anticipated, esp. QE1, 2 (3?)**
- **Competitive Pressure → Protracted Soft Market**
- **Ability to Release Prior Reserves Eases Urgency**
- **Realization of Capital Gains**

Property/Casualty Insurance Industry Investment Income: 2000–2012F¹

(\$ Billions)



Investment Income in 2011 Was Surprisingly Strong, Though Investment Income Is Likely to Weaken in 2012 Due to Persistently Low Interest Rates

¹ Investment gains consist primarily of interest and stock dividends.

*2012F is based on annualized H1:2012 actual figure of \$23.718B.

Sources: ISO; Conning Research & Consulting; Insurance Information Institute.

Property/Casualty Insurance Industry Investment Gain: 1994–2012F¹

(\$ Billions)



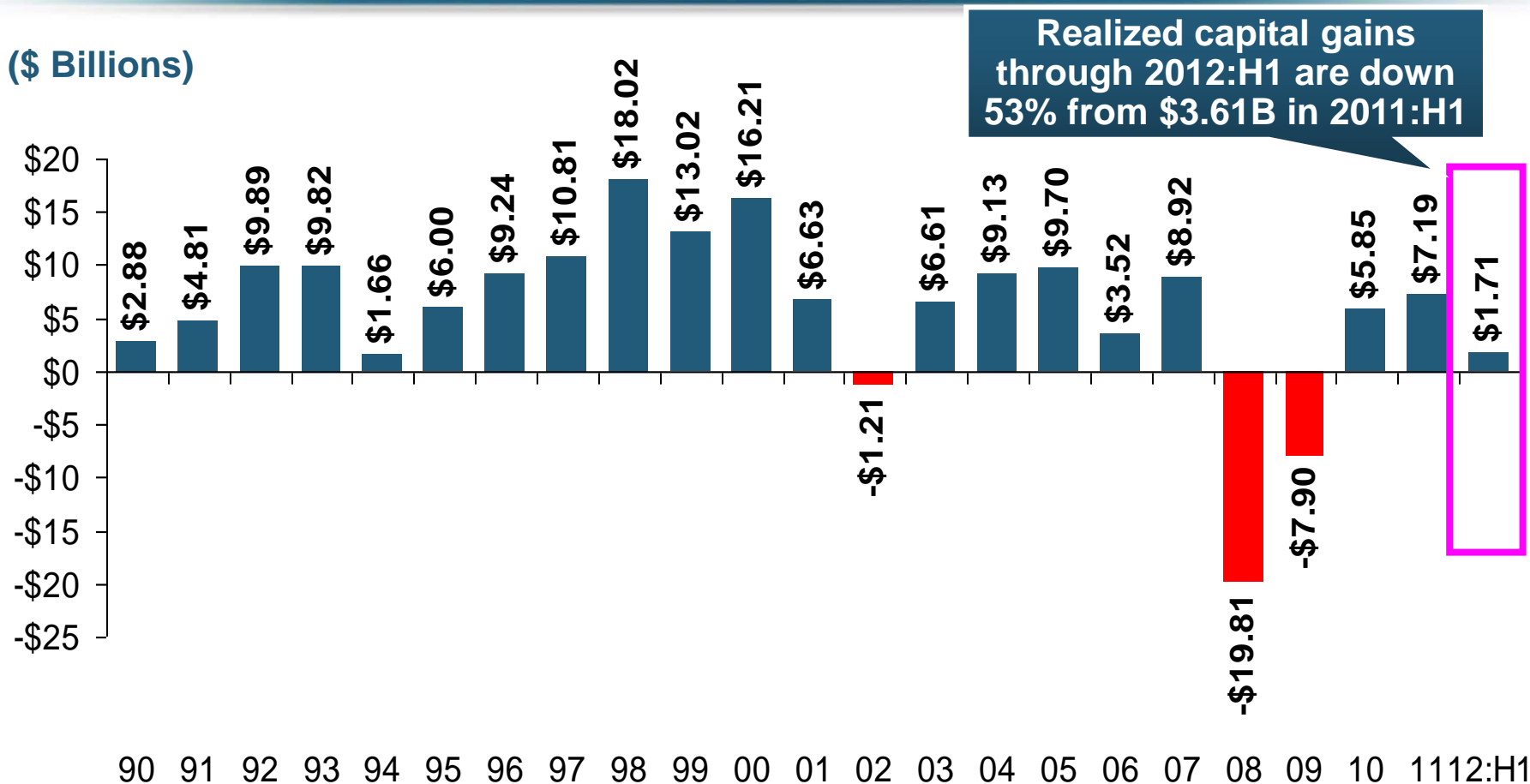
Investment Gains Are Slipping in 2012 as Low Interest Rates Reduce Investment Income and Lower Realized Investment Gains; The Financial Crisis Caused Investment Gains to Fall by 50% in 2008

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; 2012F figure is III estimate based on annualized actual H1:2012 result of \$25.424B.
Sources: ISO; Insurance Information Institute.

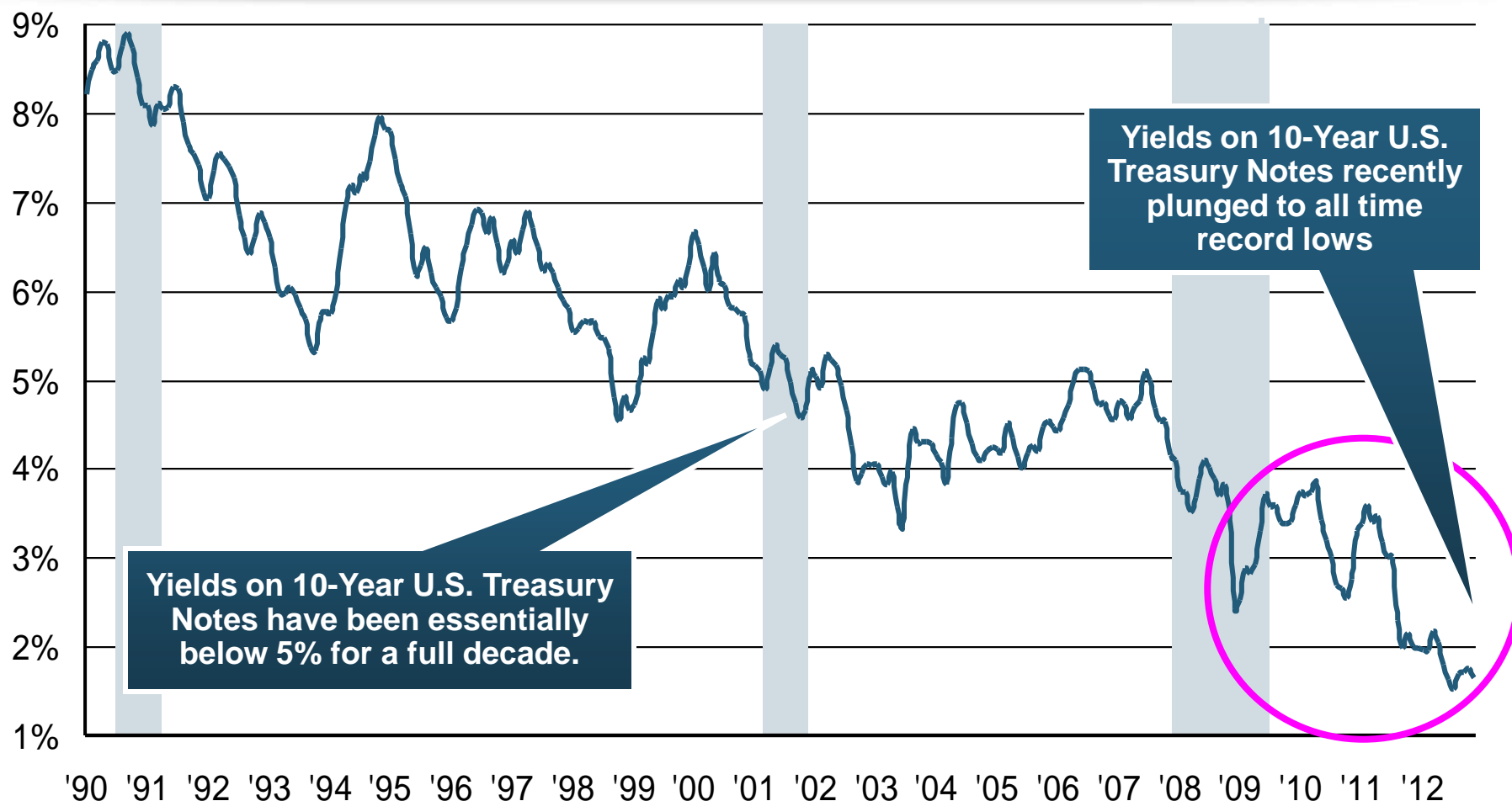
P/C Insurer Net Realized Capital Gains/Losses, 1990-2012:H1

(\$ Billions)



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

U.S. 10-Year Treasury Note Yields: A Long Downward Trend, 1990–2012*



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.

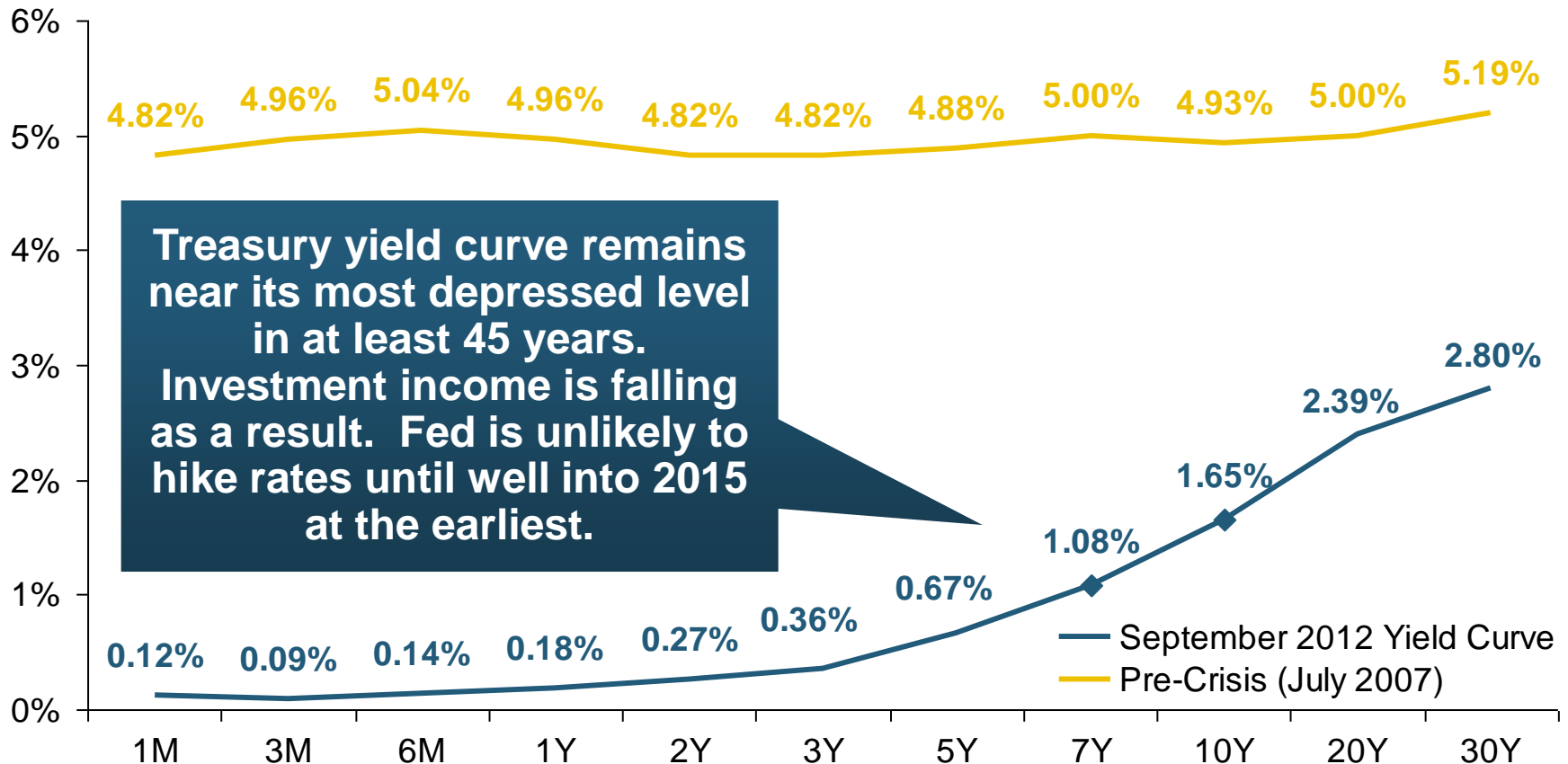
*Monthly, through Nov. 2012.

Note: Recessions indicated by gray shaded columns.

Sources: Federal Reserve Bank at <http://www.federalreserve.gov/releases/h15/data.htm>.

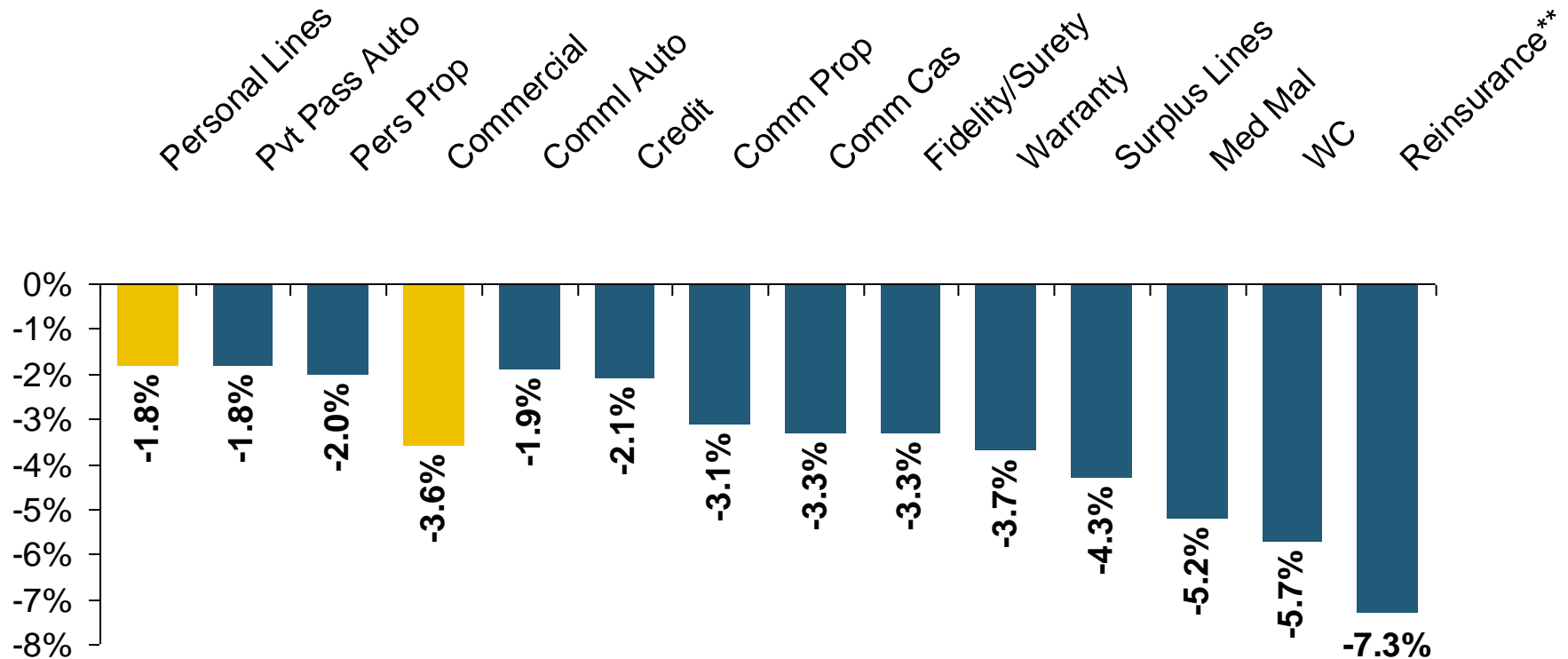
National Bureau of Economic Research (recession dates); Insurance Information Institutes.

Treasury Yield Curves: Pre-Crisis (July 2007) vs. Nov. 2012



The Fed Is Actively Signaling that it Is Determined to Keep Rates Low Through Mid-2015; This Adds to Pricing Pressure for Insurers.

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

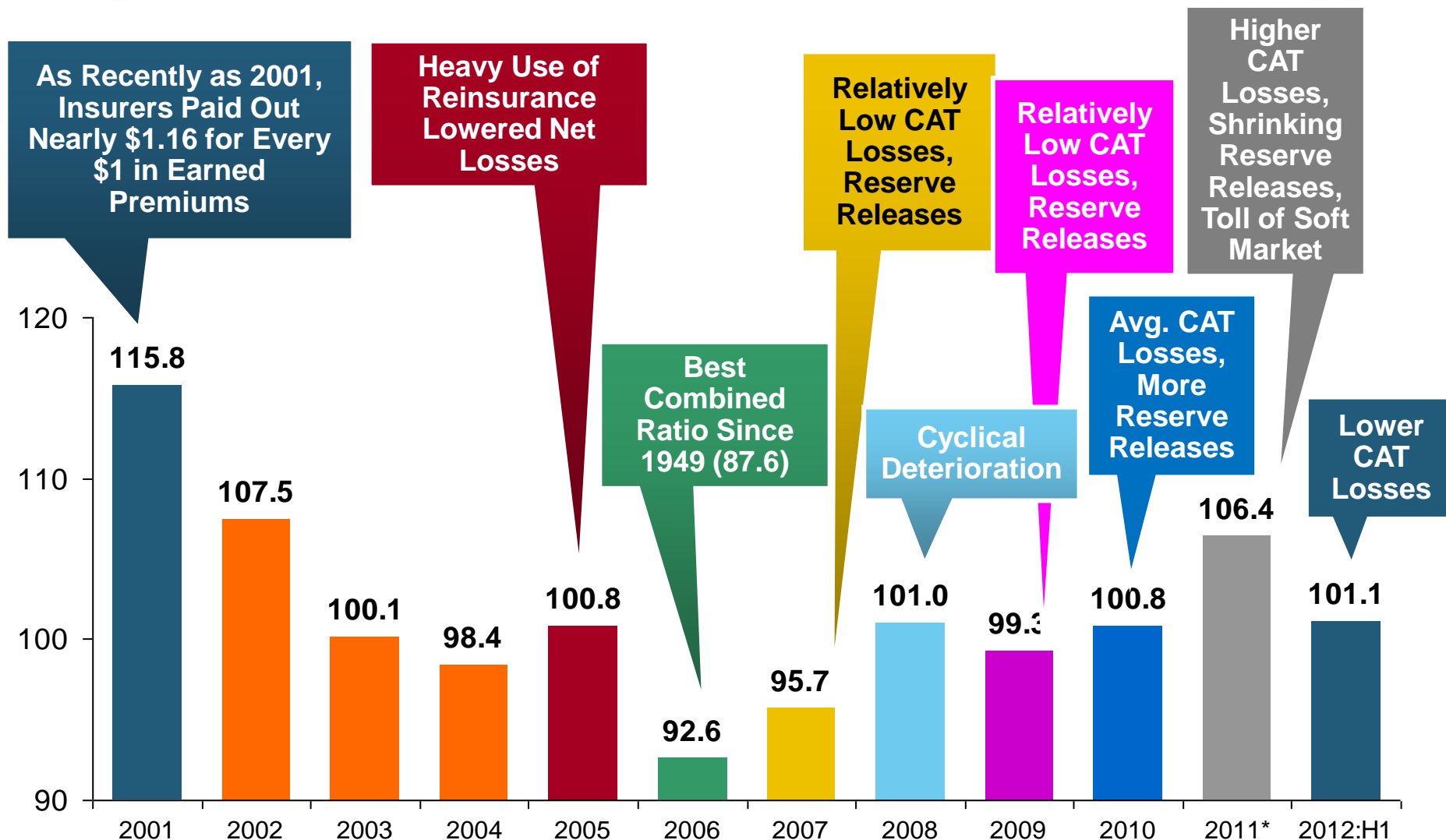
**US domestic reinsurance only

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

1. UNDERWRITING

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

P/C Insurance Industry Combined Ratio, 2001–2012:H1*

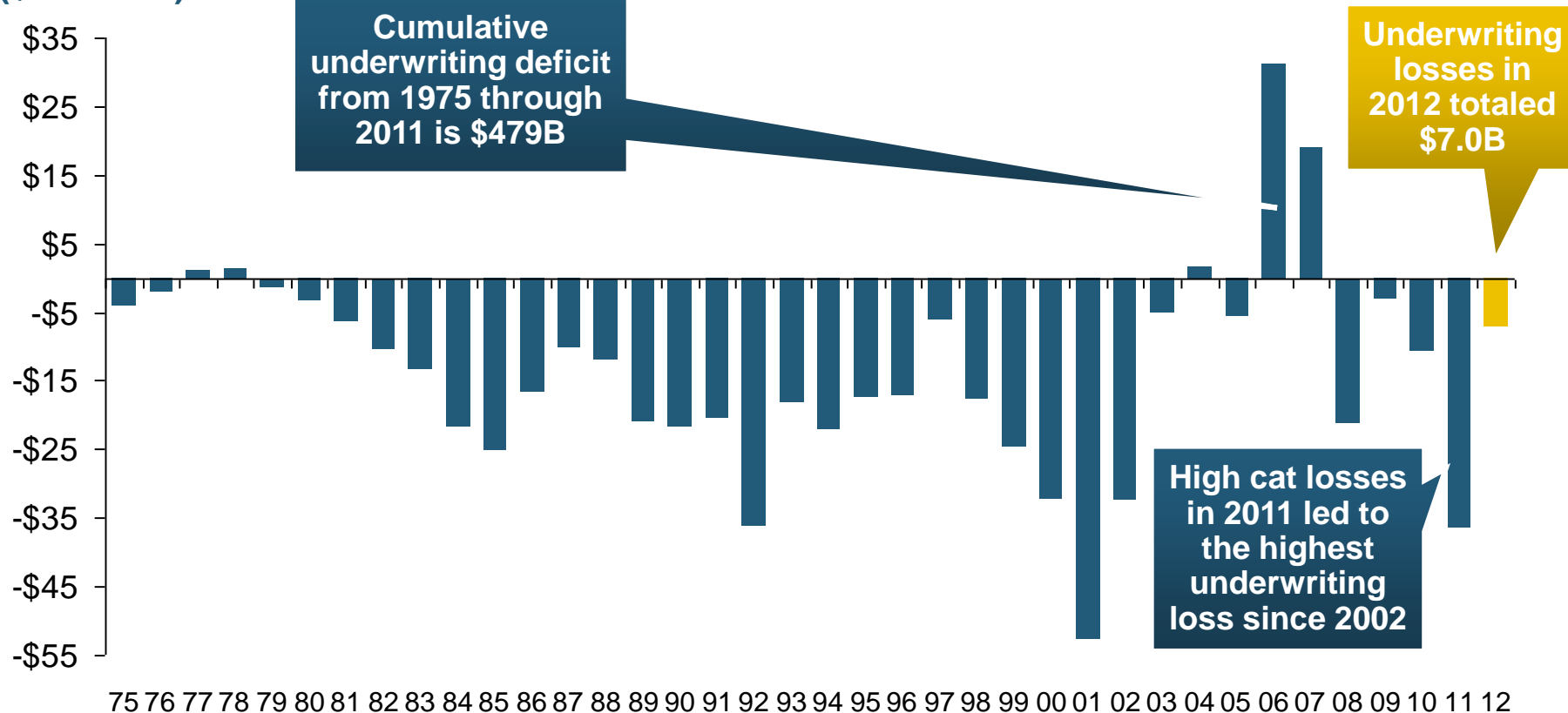


* Excludes Mortgage & Financial Guaranty insurers 2008--2012. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.2; 2012:H1=102.2.

Sources: A.M. Best, ISO.

Underwriting Gain (Loss) 1975–2012:H1*

(\$ Billions)

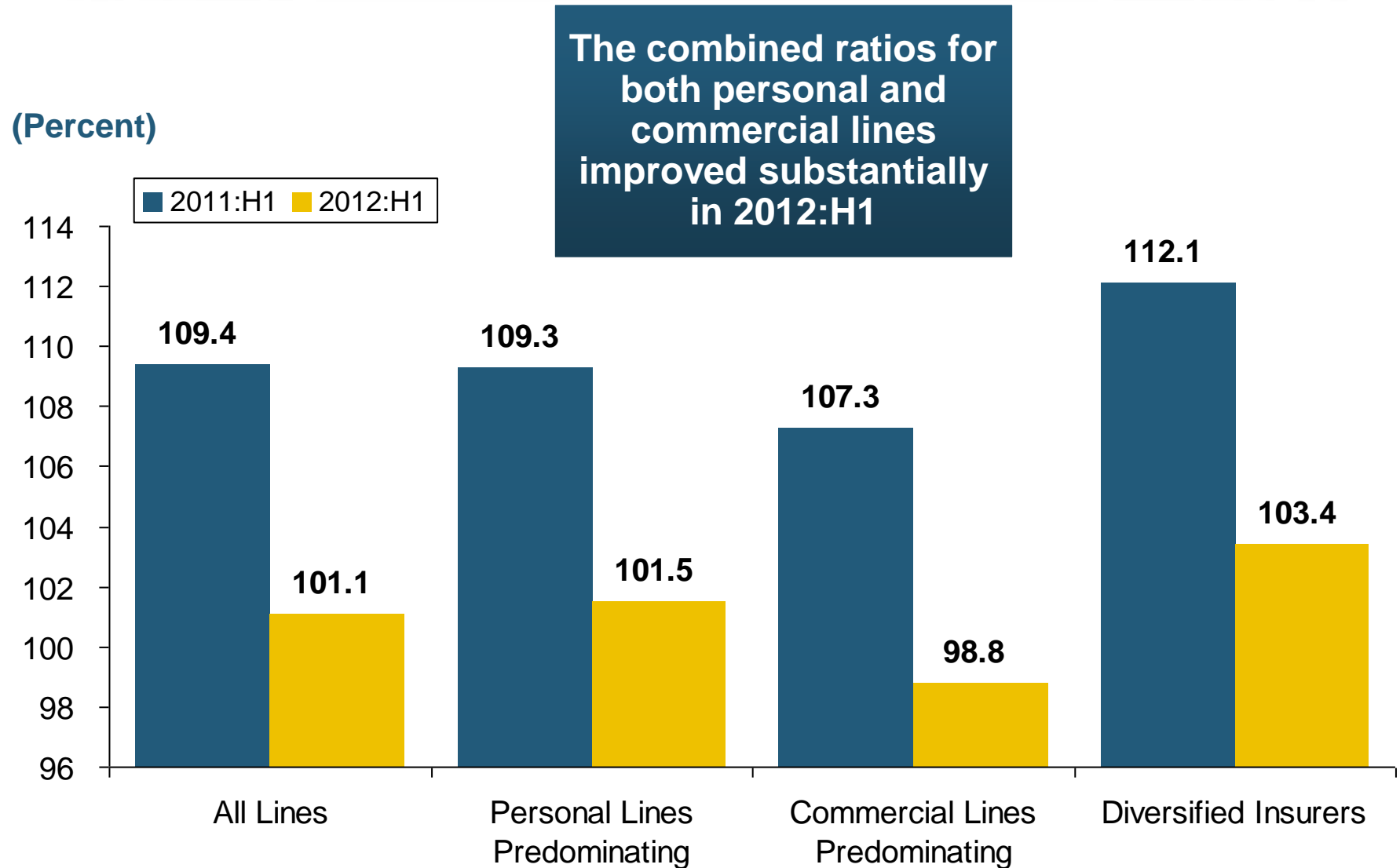


**Large Underwriting Losses Are *NOT* Sustainable
in Current Investment Environment**

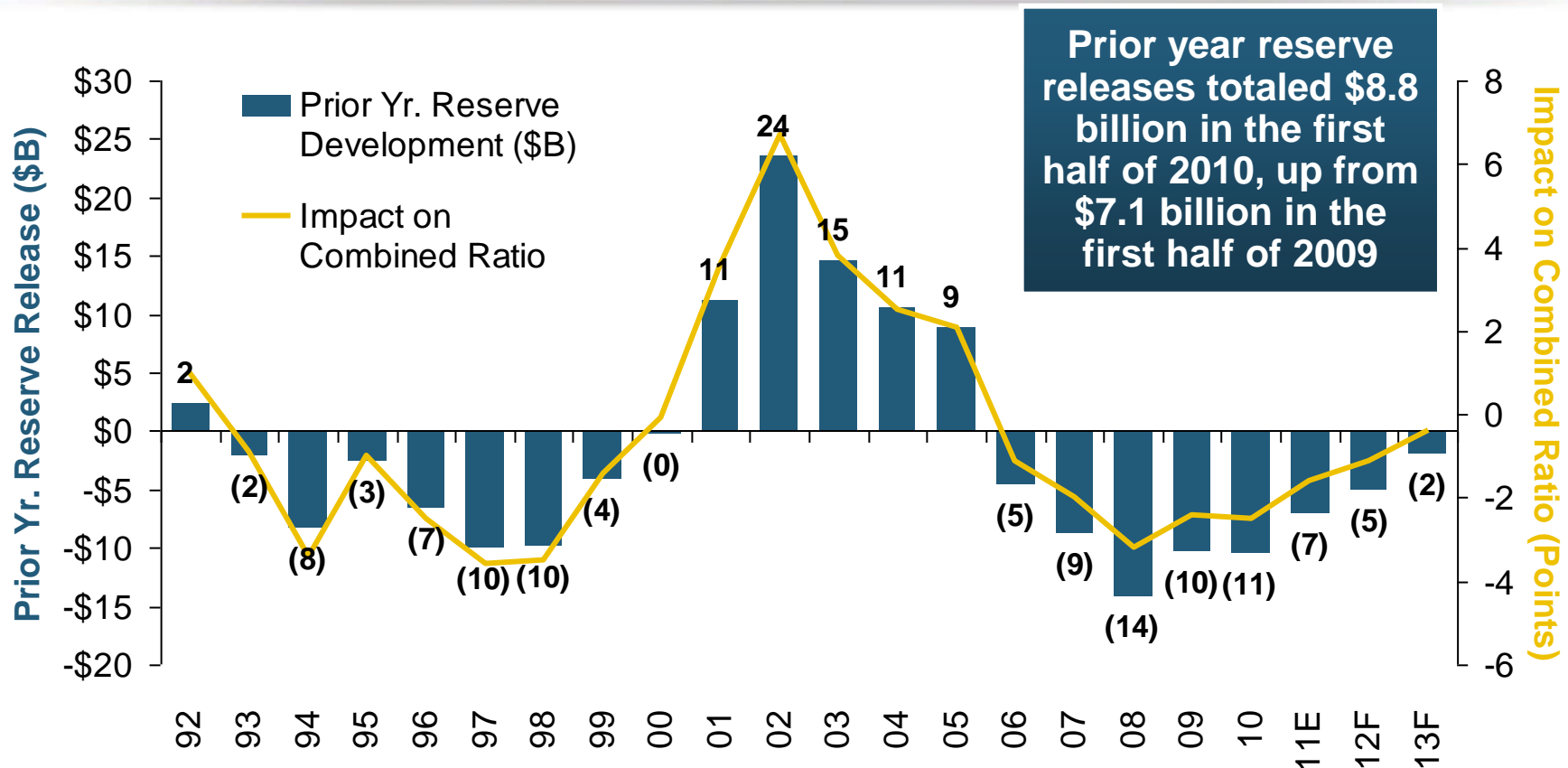
* Includes mortgage and financial guaranty insurers in all years.

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

Combined Ratios by Predominant Business Segment, 2012:H1 vs. 2011:H1



P/C Reserve Development, 1992–2013F



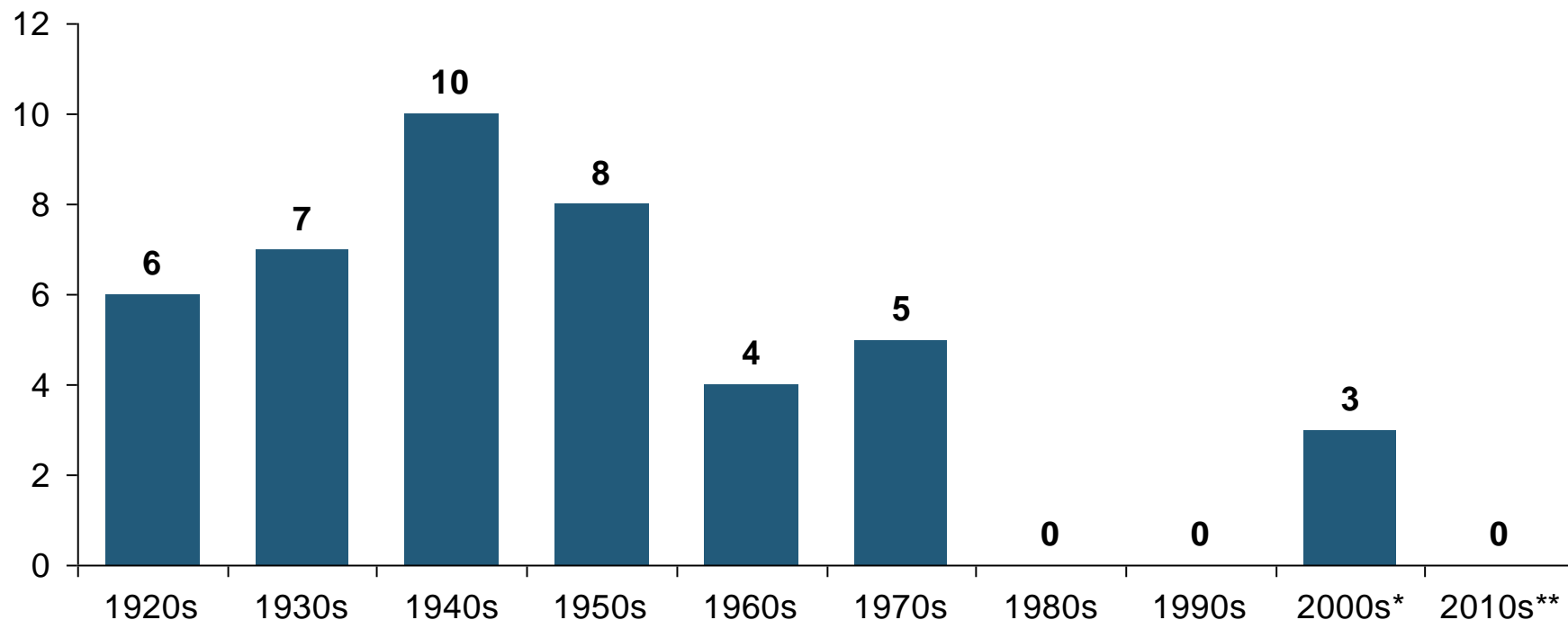
Reserve Releases Remained Strong in 2010 But Tapered Off in 2011. Releases Are Expected to Further Diminish in 2012 and 2103

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: Barclays Capital; A.M. Best.

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

* 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 includes 2010 and 2011.

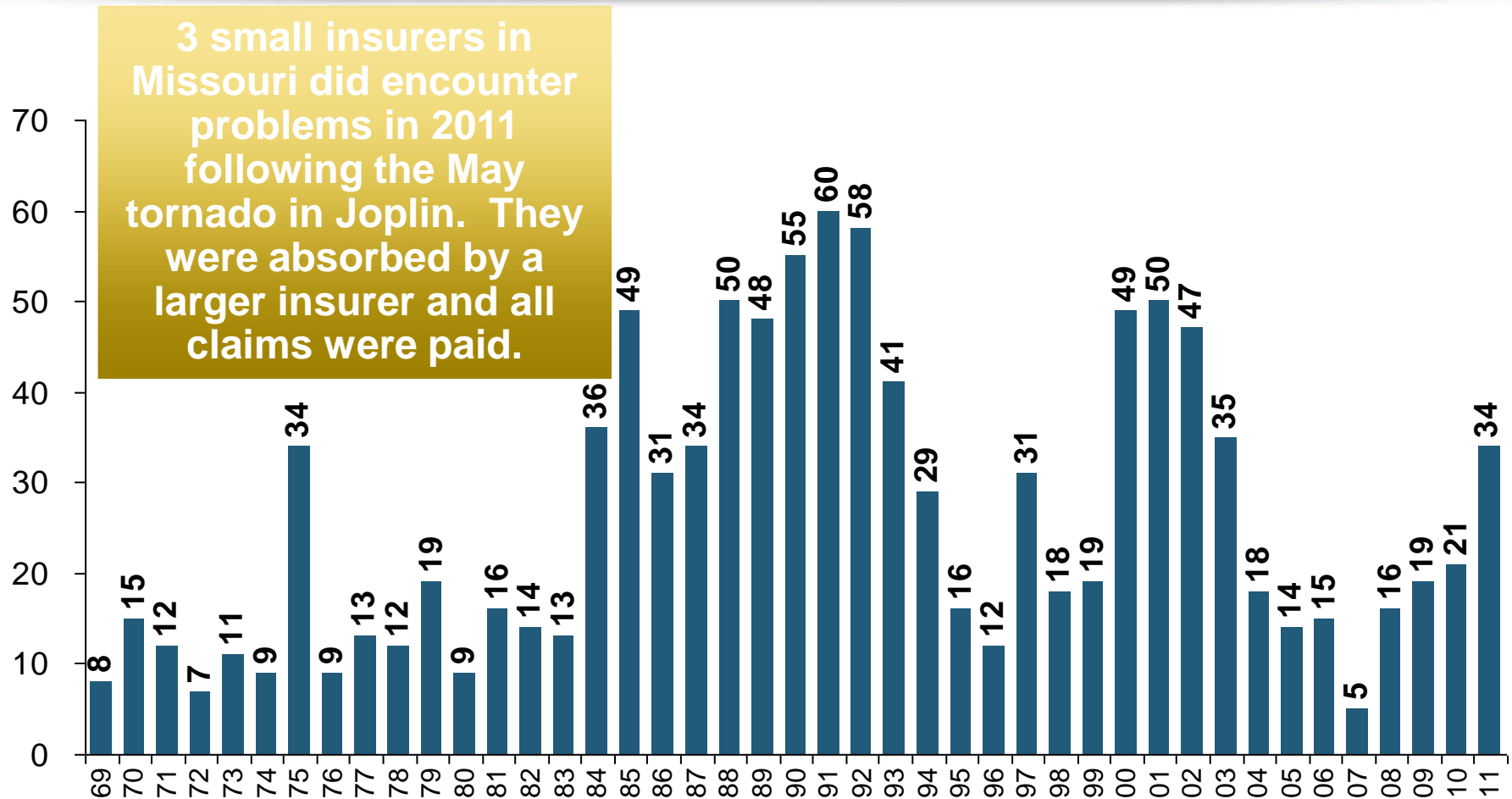
Note: Data for 1920–1934 based on stock companies only.

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

Financial Strength & Underwriting

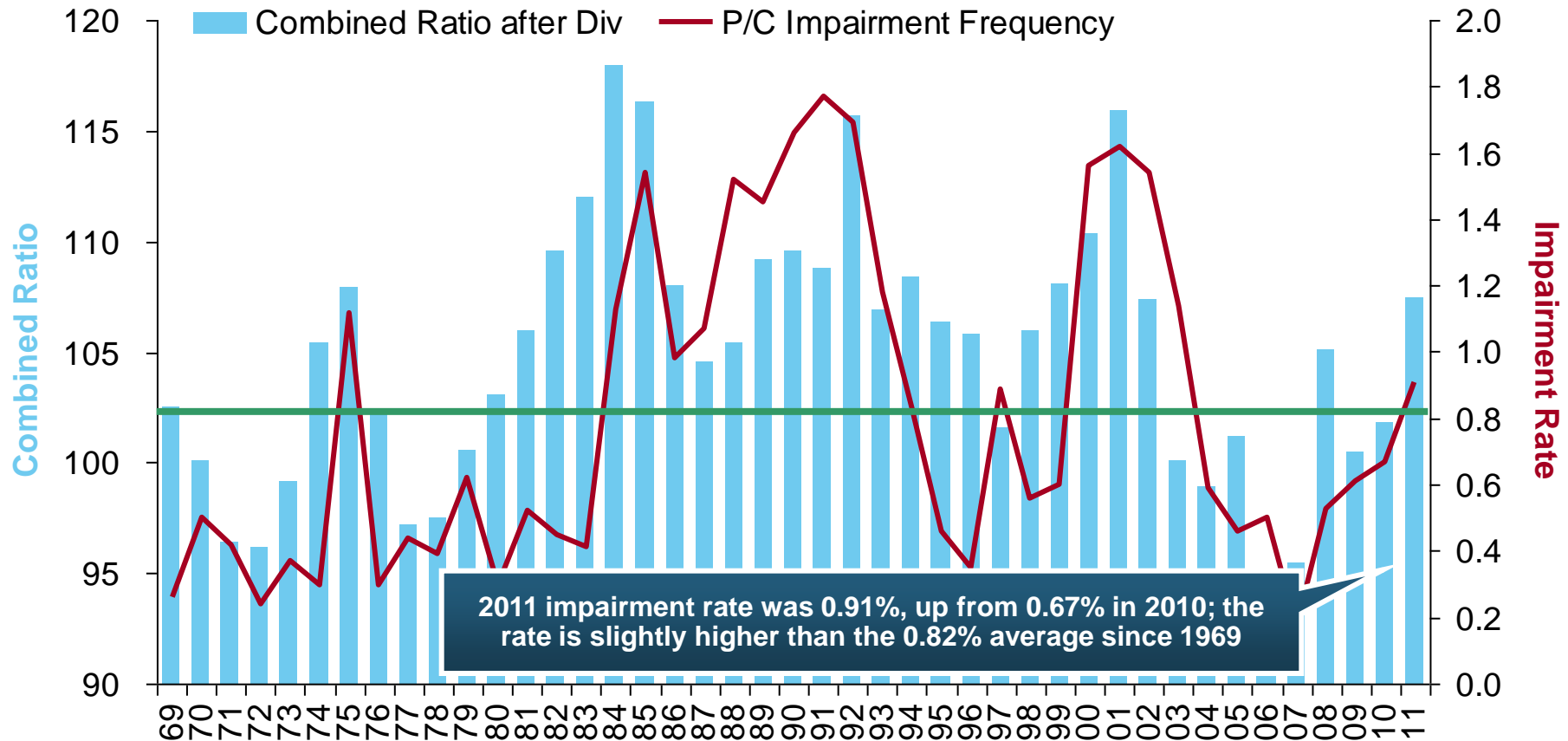
**Cyclical Pattern is P-C Impairment
History is Directly Tied to
Underwriting, Reserving & Pricing**

P/C Insurer Impairments, 1969–2011



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

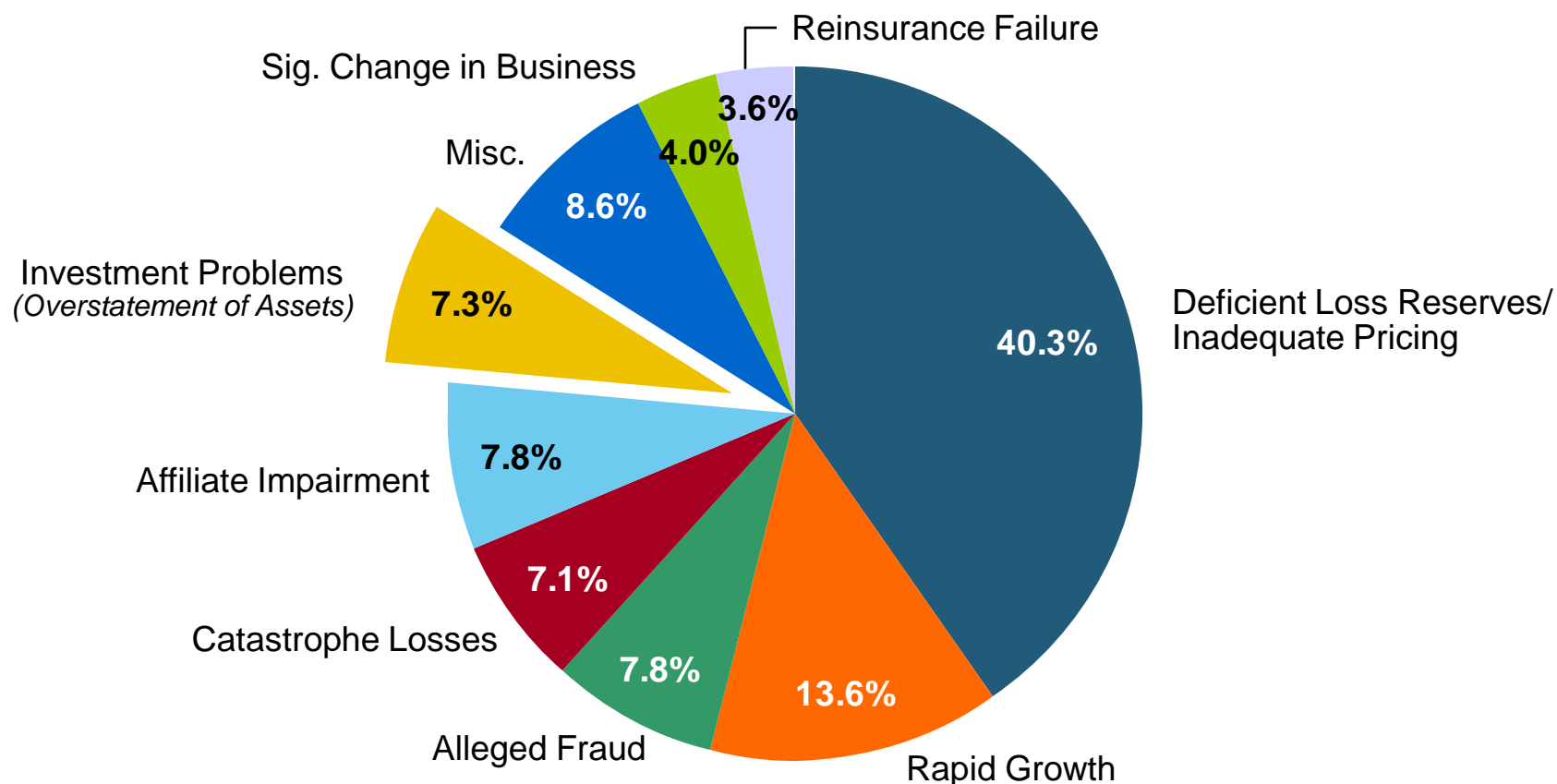
P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2011



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

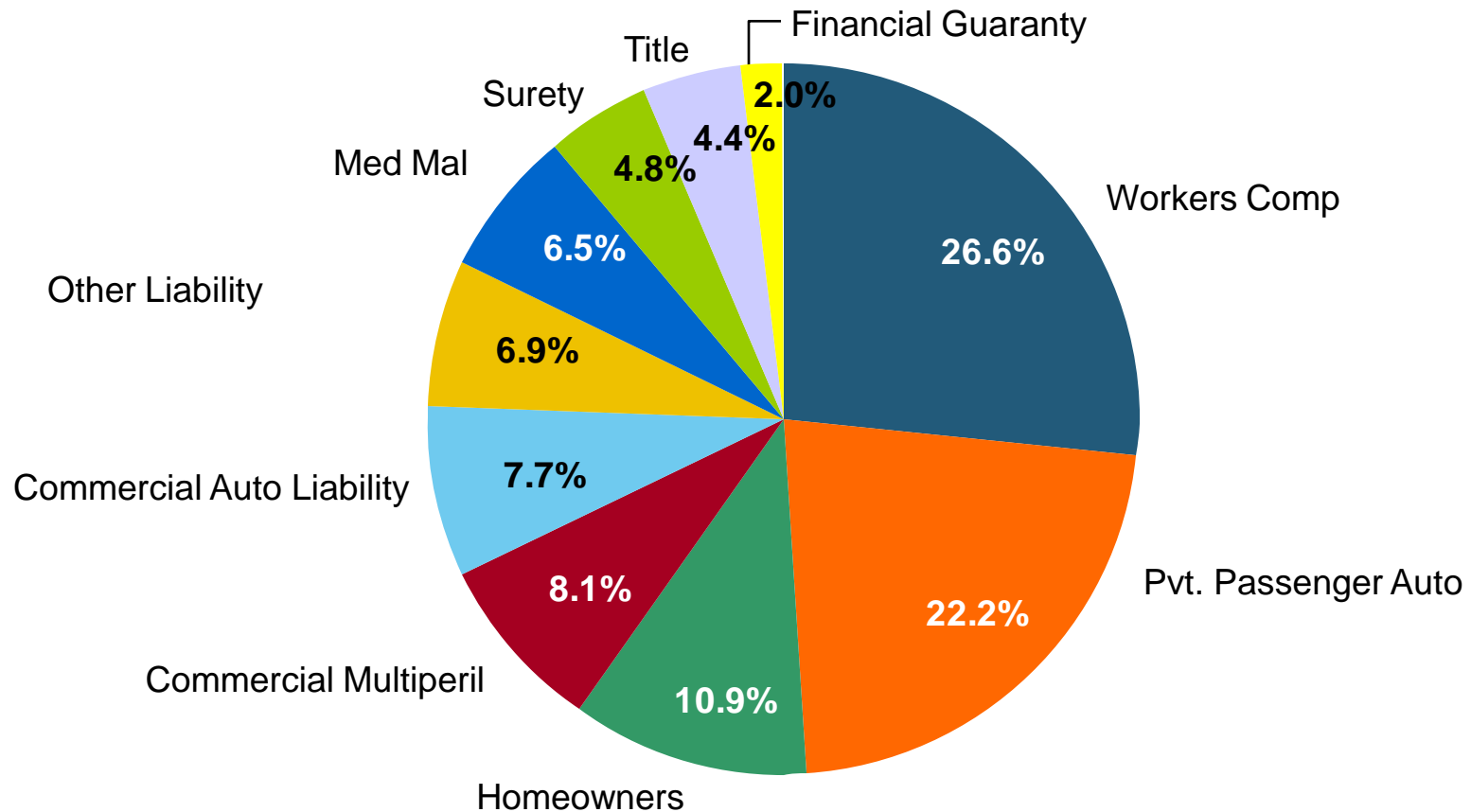
Reasons for US P/C Insurer Impairments, 1969–2010

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



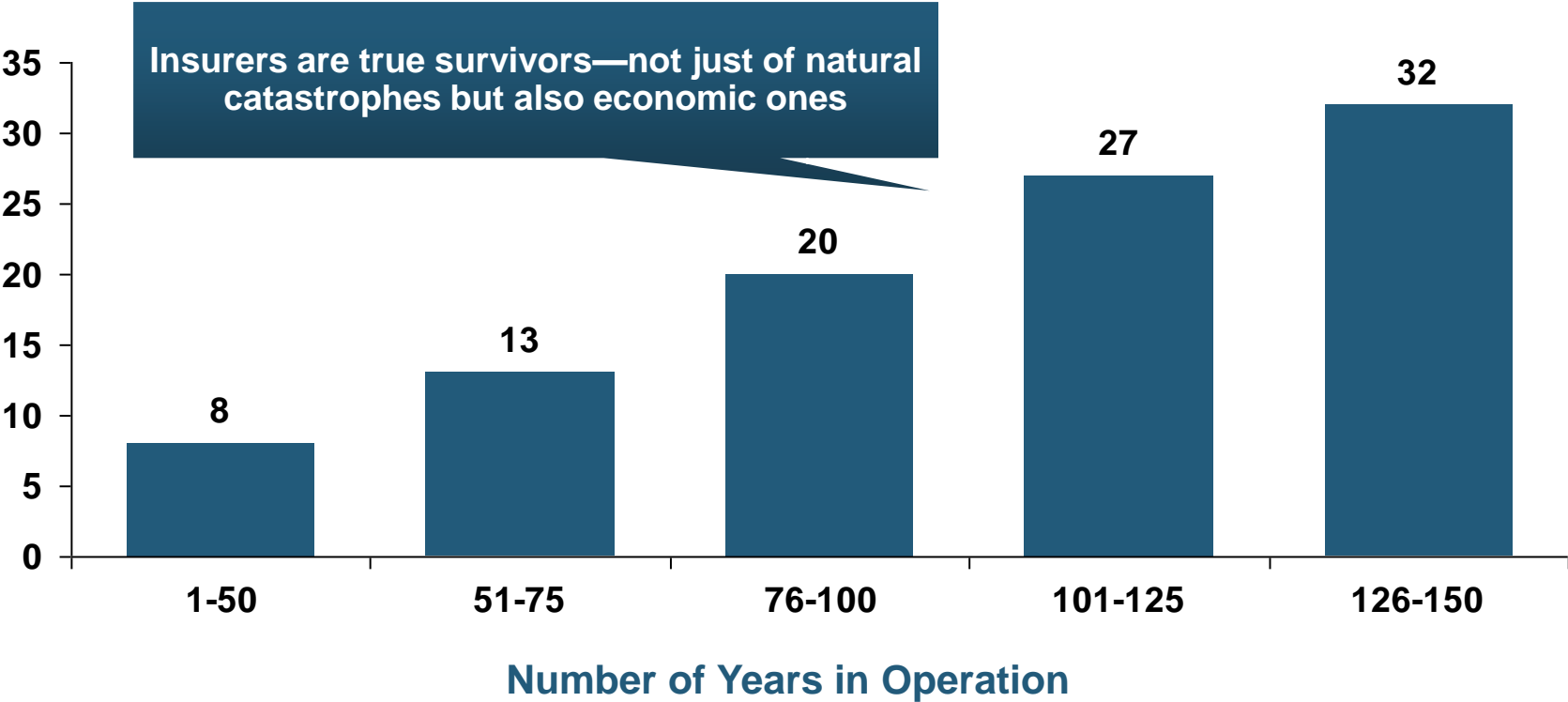
Top 10 Lines of Business for US P/C Impaired Insurers, 2000–2010

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



Number of Recessions Endured by P/C Insurers, by Number of Years in Operation

Number of Recessions Since 1860

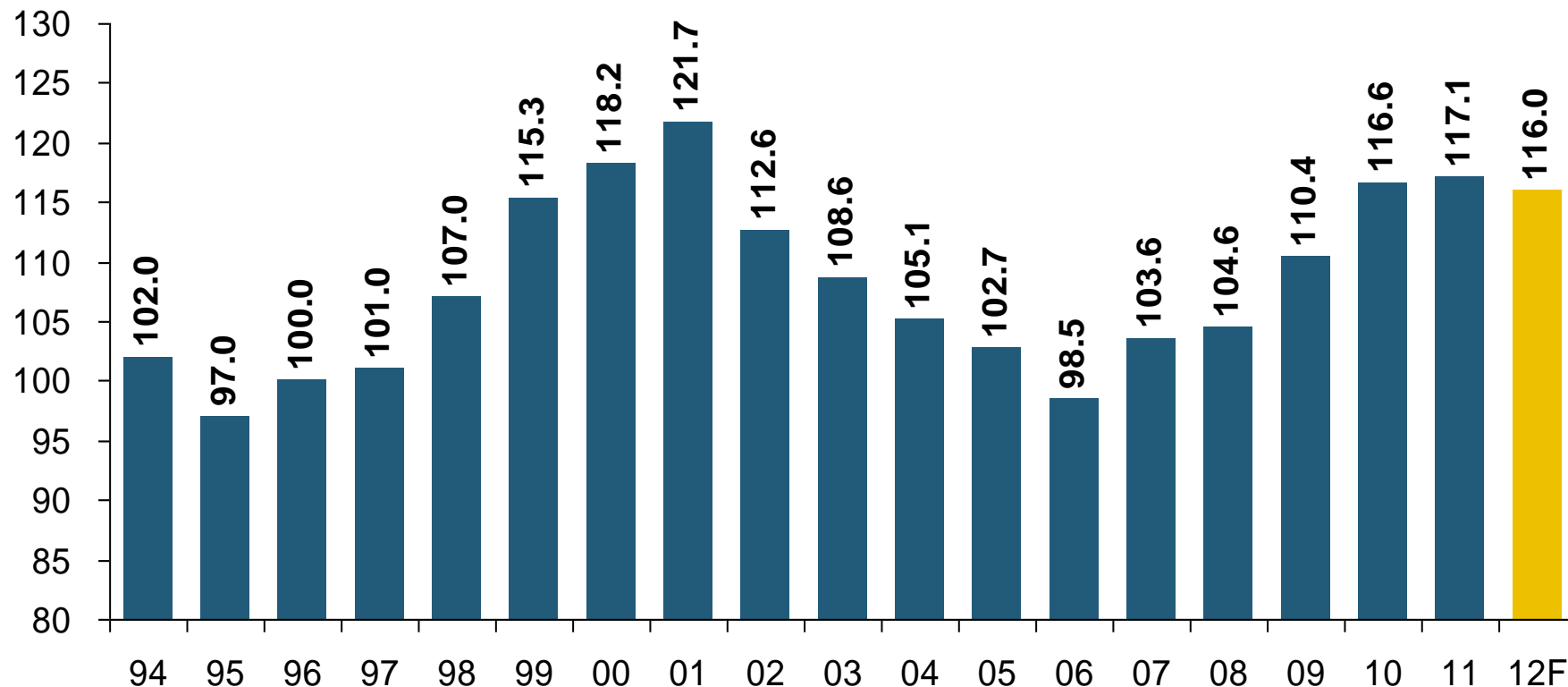


Many US Insurers Are Close to a Century Old or Older

Workers Compensation Operating Environment

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

Workers Compensation Combined Ratio: 1994–2012F

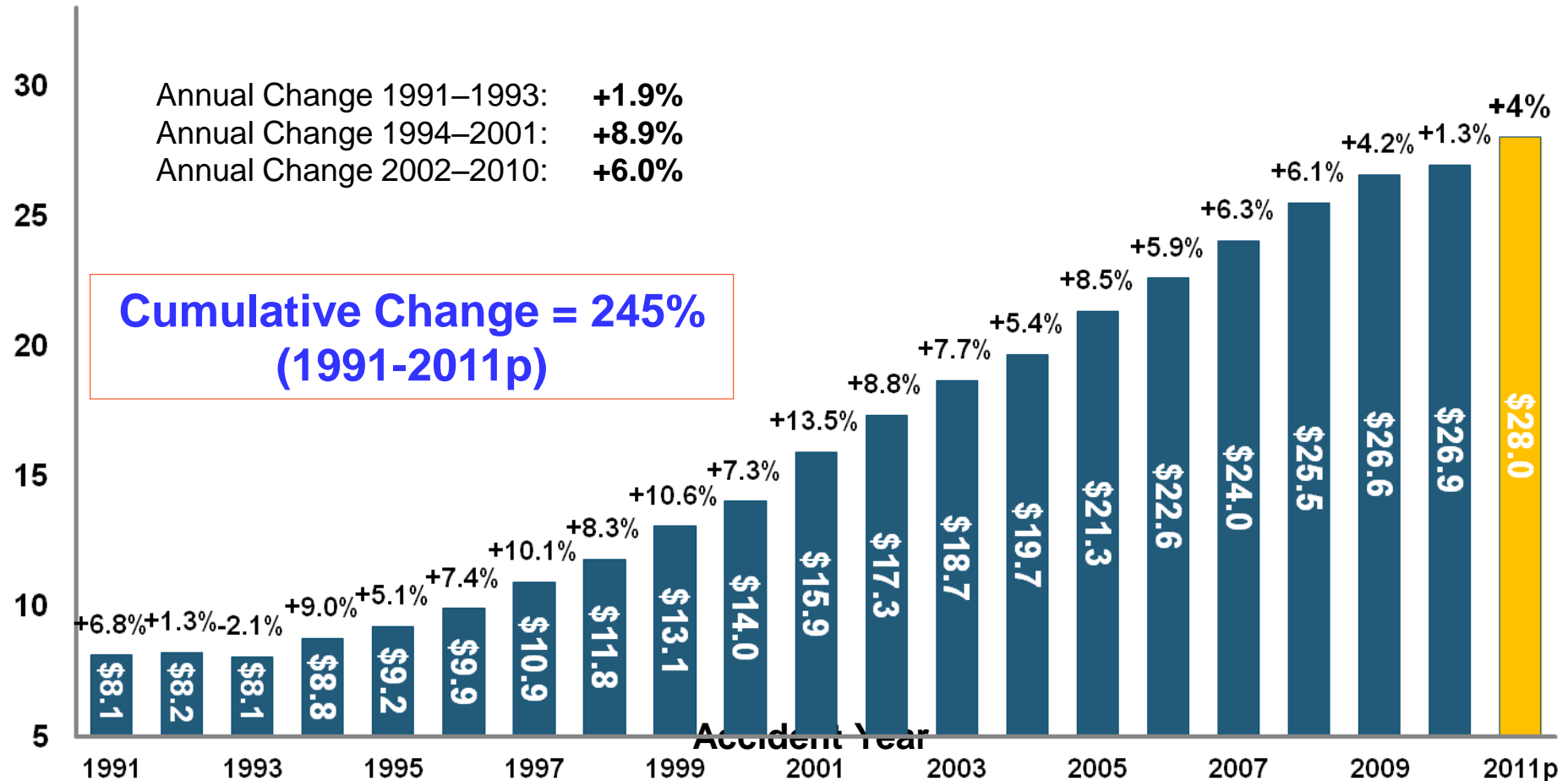


Workers Comp Underwriting Results Are Deteriorating Markedly and the Worst They Have Been in a Decade

Workers Compensation Medical Severity Moderate Increase in 2011

Average Medical Cost per Lost-Time Claim

Medical
Claim Cost (\$000s)



2011p: Preliminary based on data valued as of 12/31/2011

1991-2010: Based on data through 12/31/2010, developed to ultimate

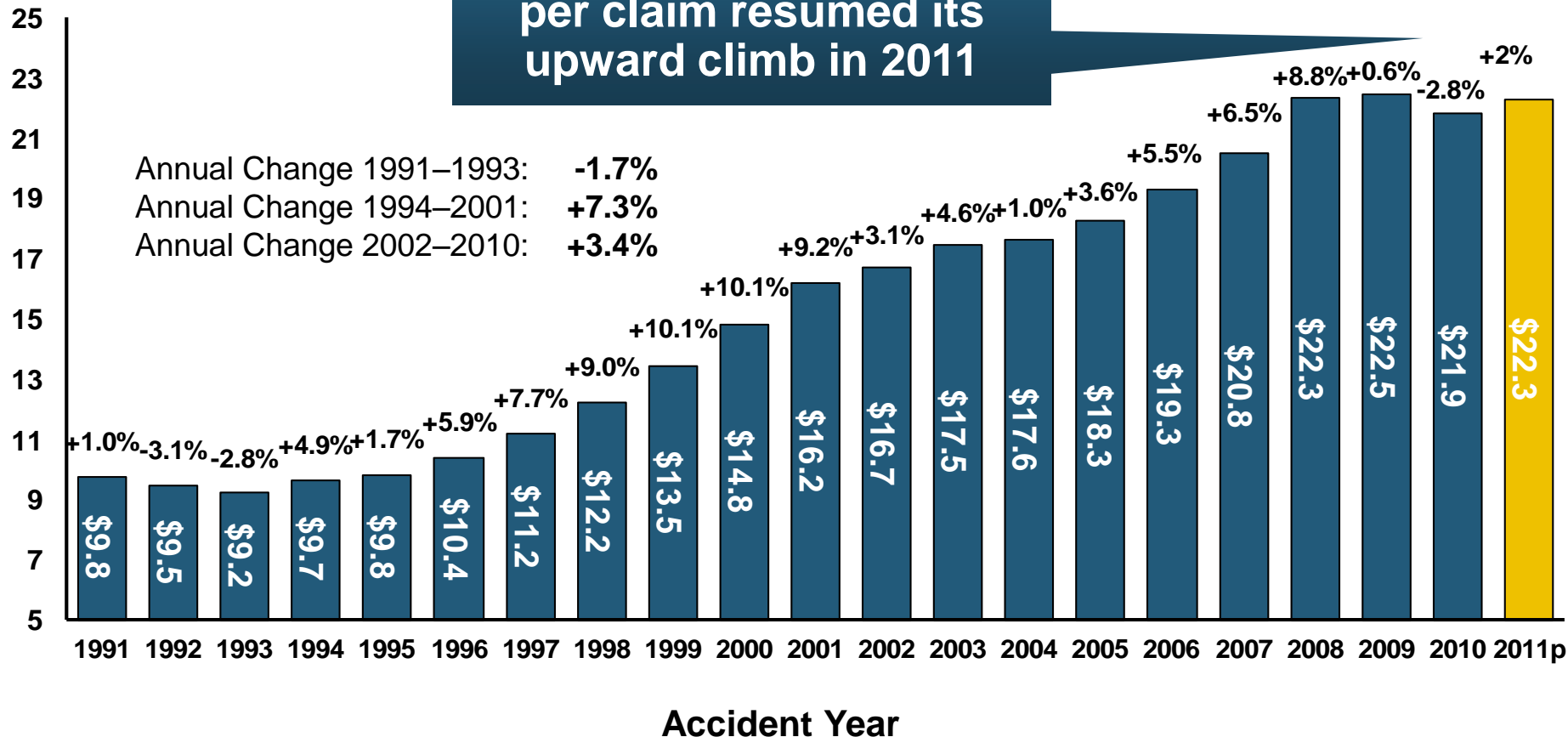
Based on the states where NCCI provides ratemaking services; Excludes high deductible policies

Workers Comp Indemnity Claim Costs: Modest Increase in 2011

Average Indemnity Cost per Lost-Time Claim

Indemnity
Claim Cost (\$ 000s)

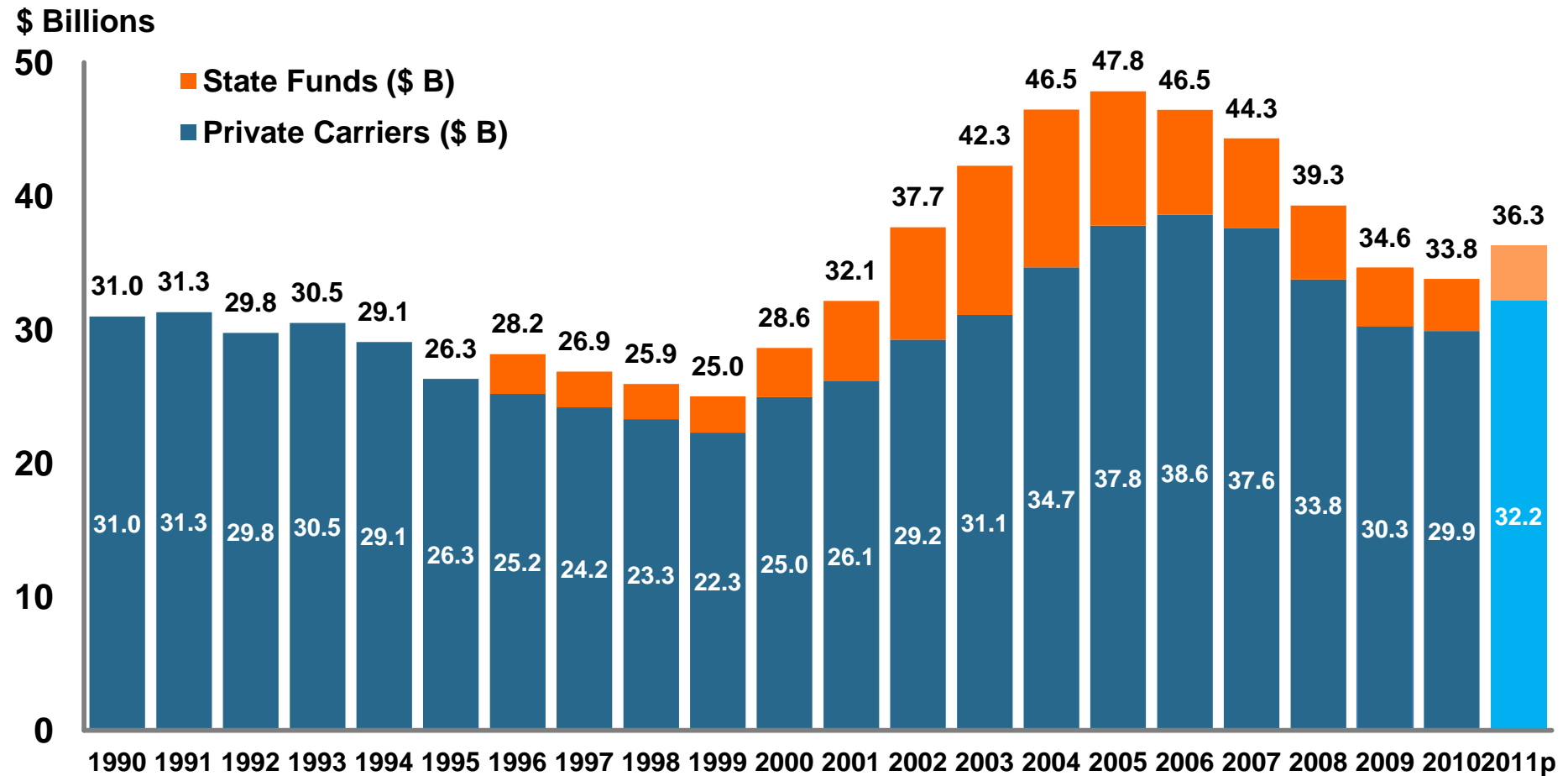
Average indemnity costs
per claim resumed its
upward climb in 2011



2010p: 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 high deductible policies

Workers Compensation Premium: First Increase in Years

Net Written Premium



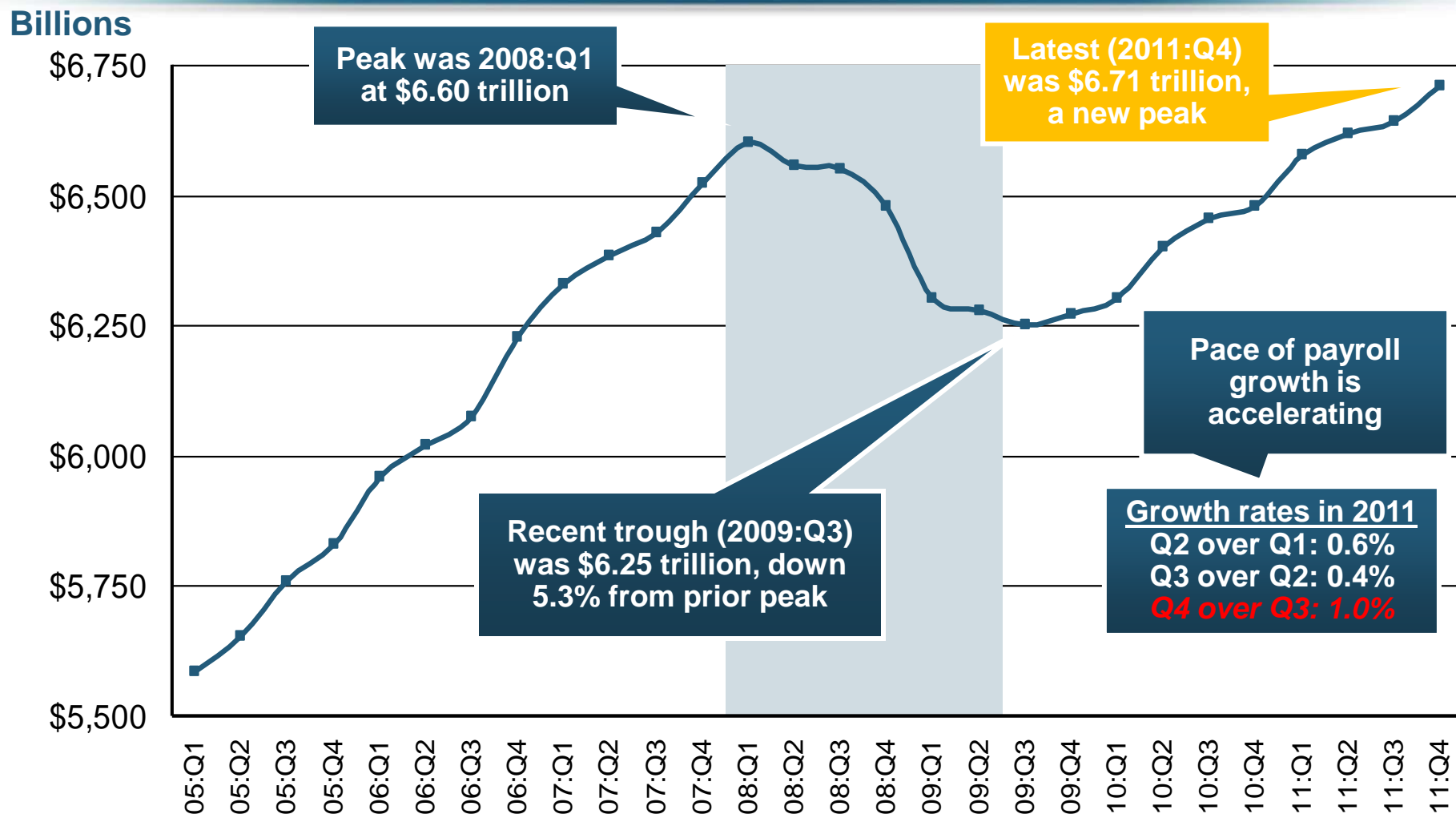
p Preliminary

Source: 1990–2010 Private Carriers, *Best's Aggregates & Averages*; 2011p, NCCI

1996–2011p 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

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2011:Q4



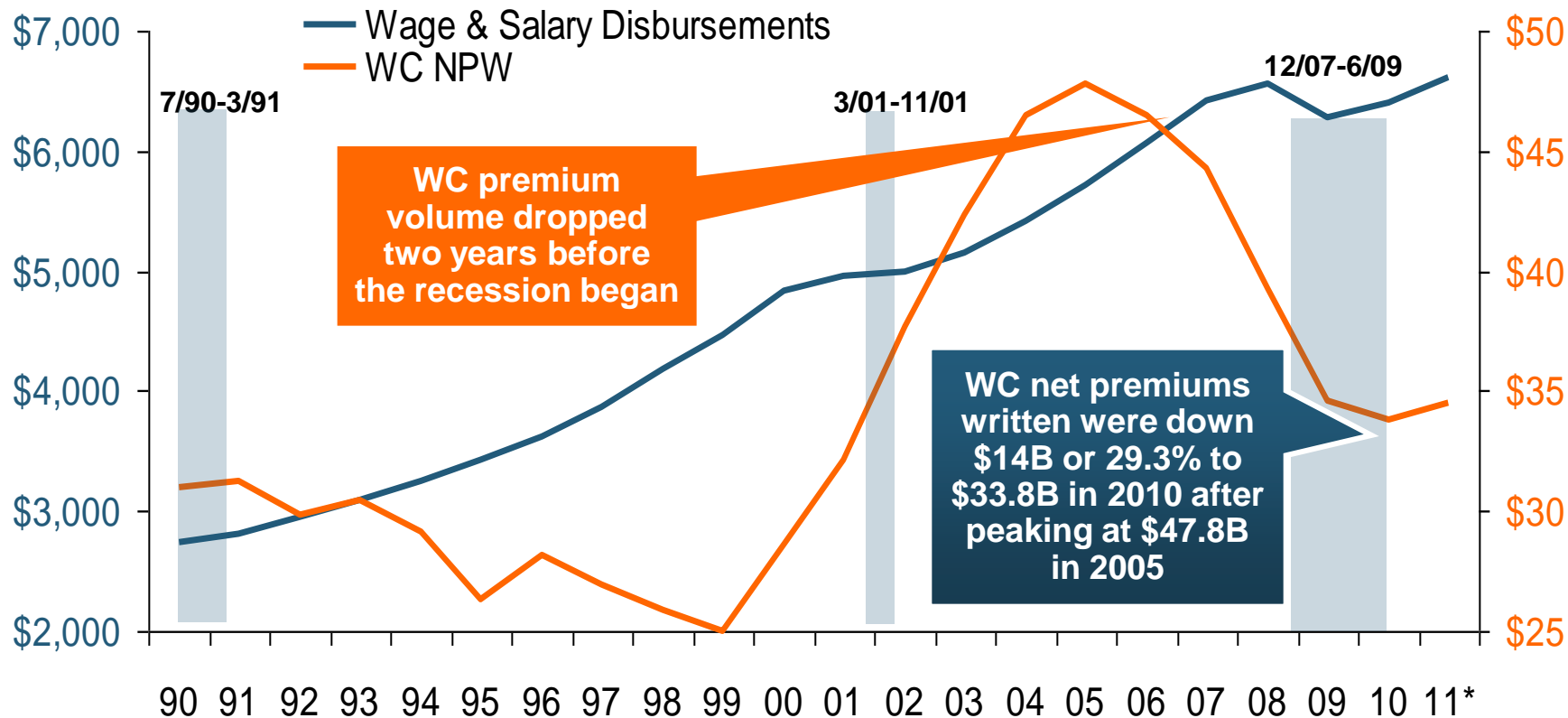
Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

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, 1990-2011

Payroll Base*
\$Billions

WC NWP
\$Billions



Resumption of payroll growth and rate increases suggests WC NWP will grow again in 2012

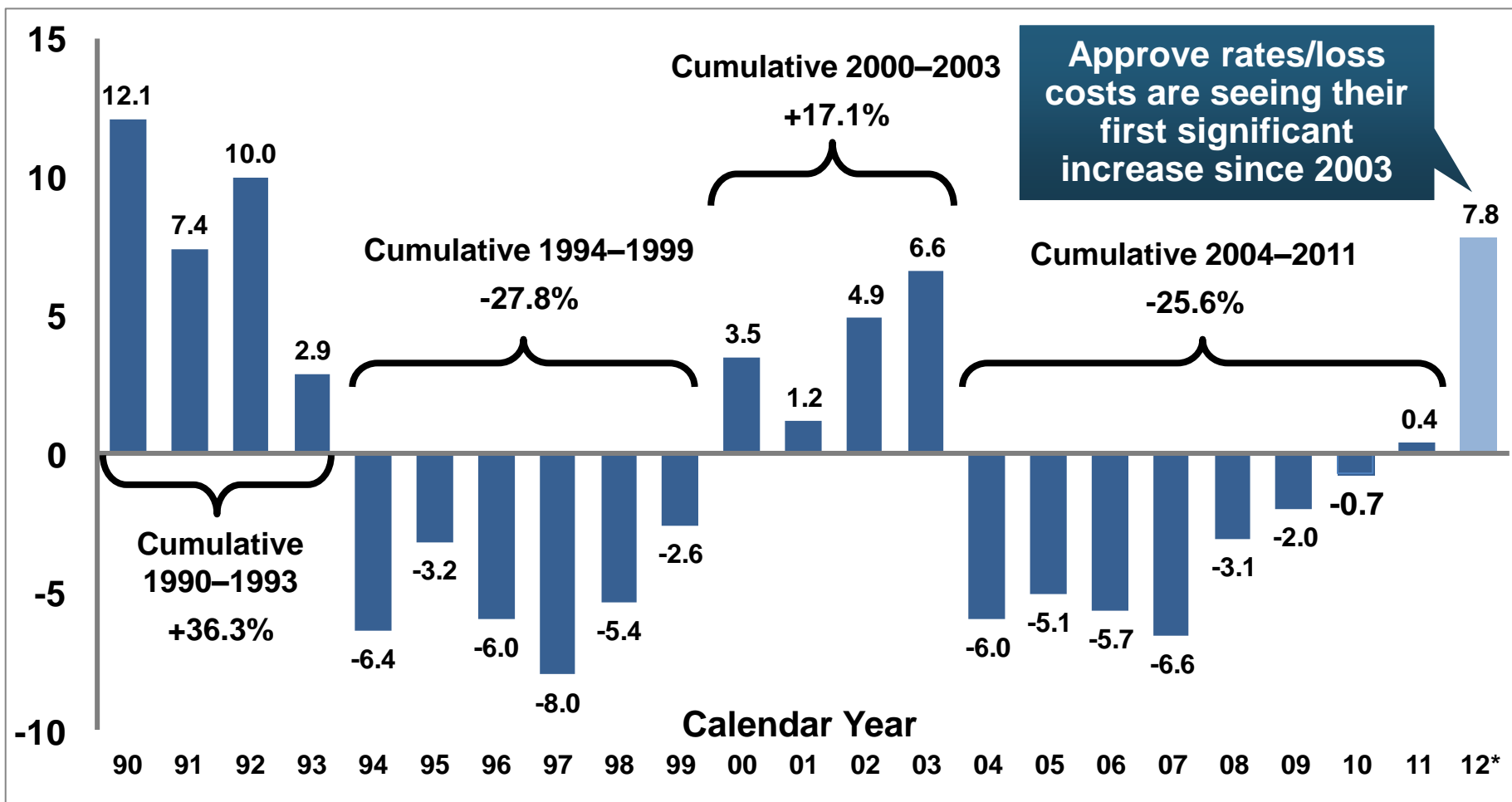
*Private employment; Shaded areas indicate recessions. Payroll and WC premiums for 2011 is I.I.I. estimate

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

History of Average WC Bureau Rate/Loss Cost Level Changes

Percent



*States approved through 7/31/12.

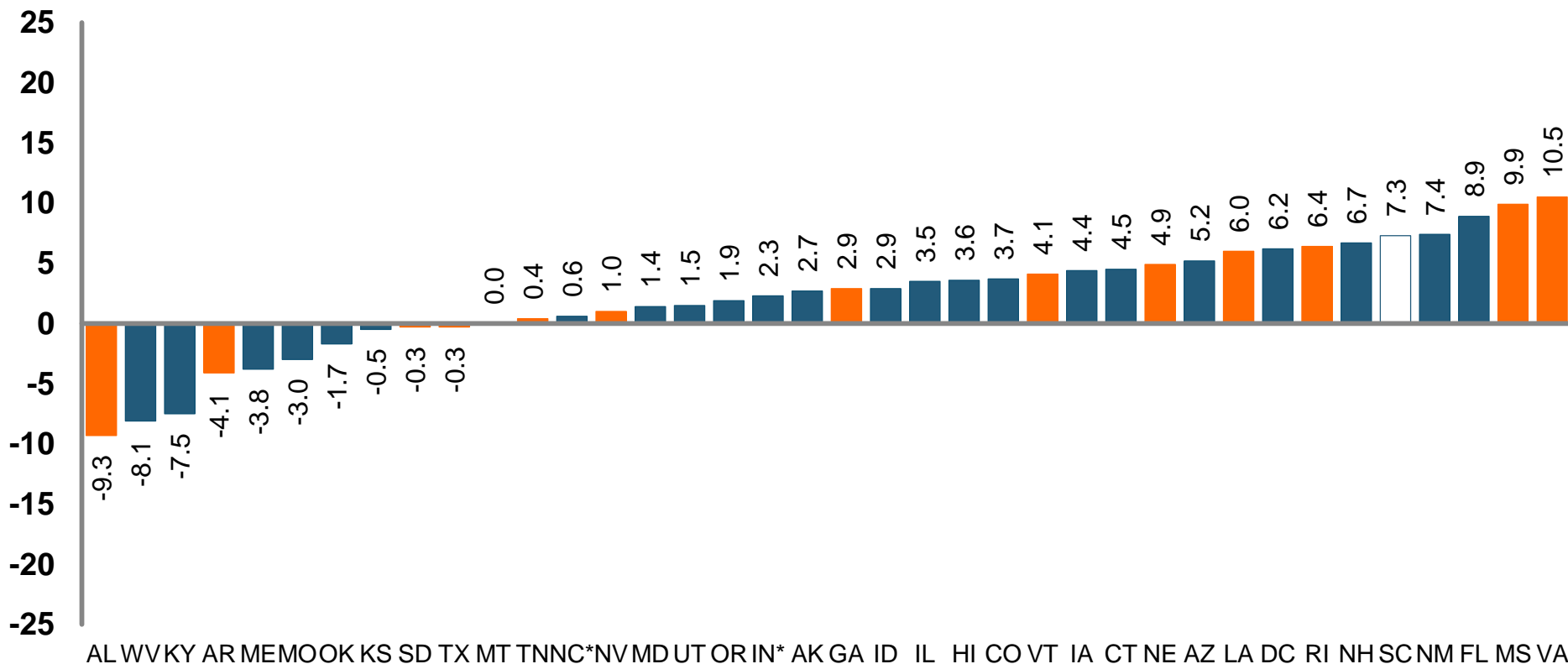
Note: Countrywide approved changes in advisory rates, loss costs and assigned risk rates as filed by applicable rating organization.

Source: NCCI.

Current NCCI Voluntary Market Filed Rate/Loss Cost Changes

(Excludes Law-Only Filings)

Ratio

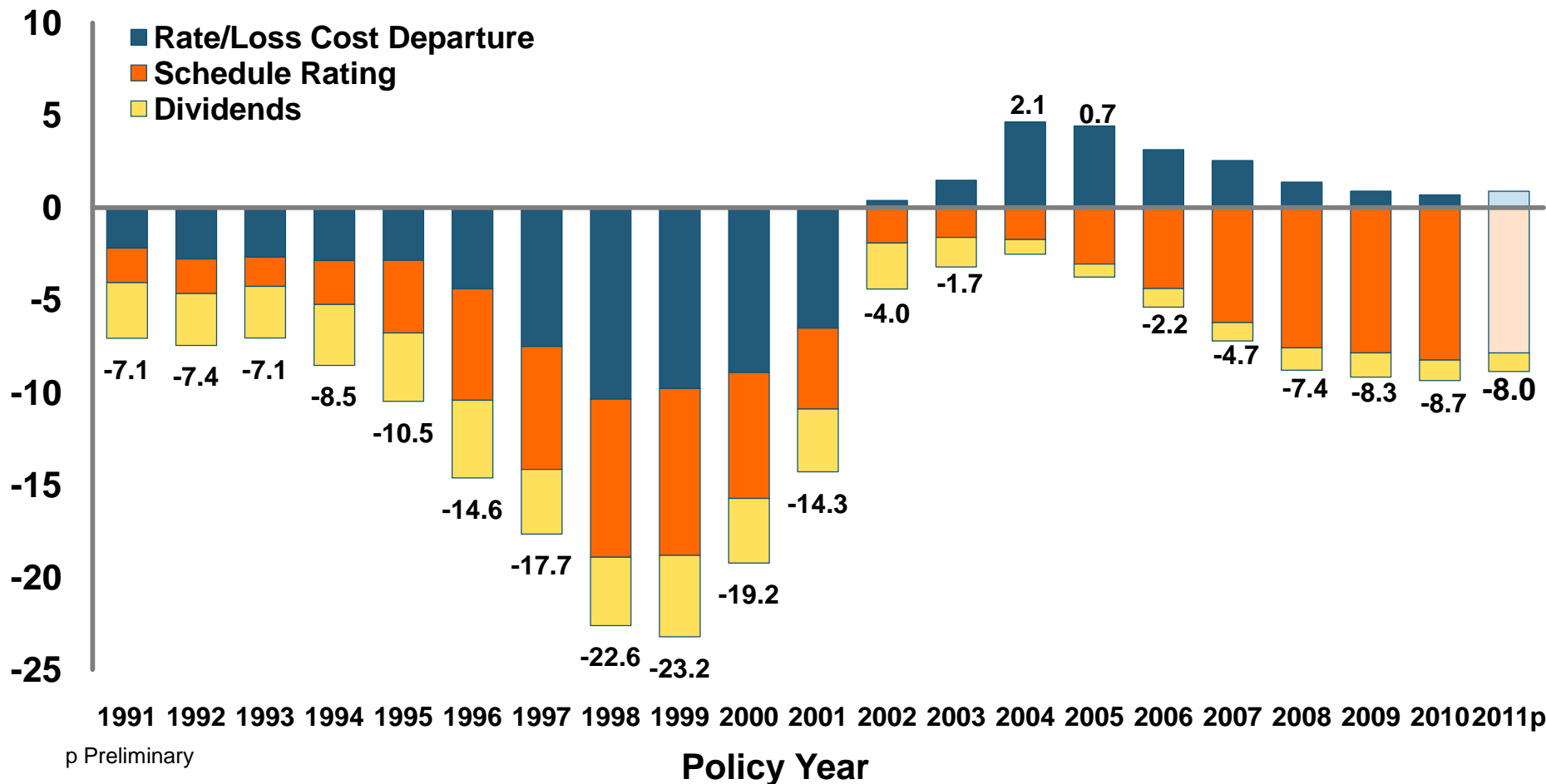


■ Effective Dates 1/1/2012 and Prior ■ Effective Dates Subsequent to 1/1/2012 □ Filed and Pending

Impact of Discounting on Workers Compensation Premium

NCCI States—Private Carriers

Percent



p Preliminary

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

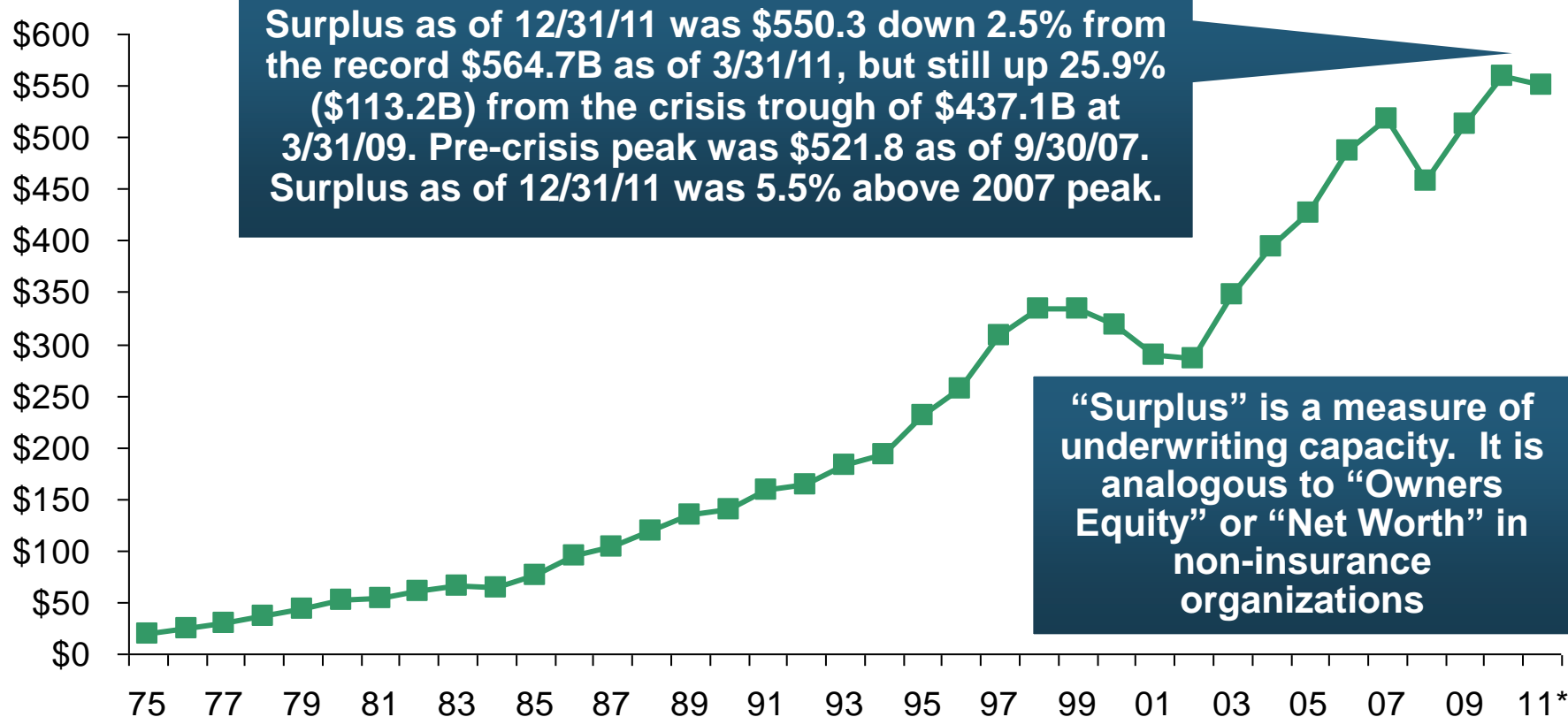
Source: NCCI.

2. SURPLUS/CAPITAL/CAPACITY

**How Will Large Catastrophe Losses
Impact Capacity?**

US Policyholder Surplus: 1975–2011*

(\$ Billions)



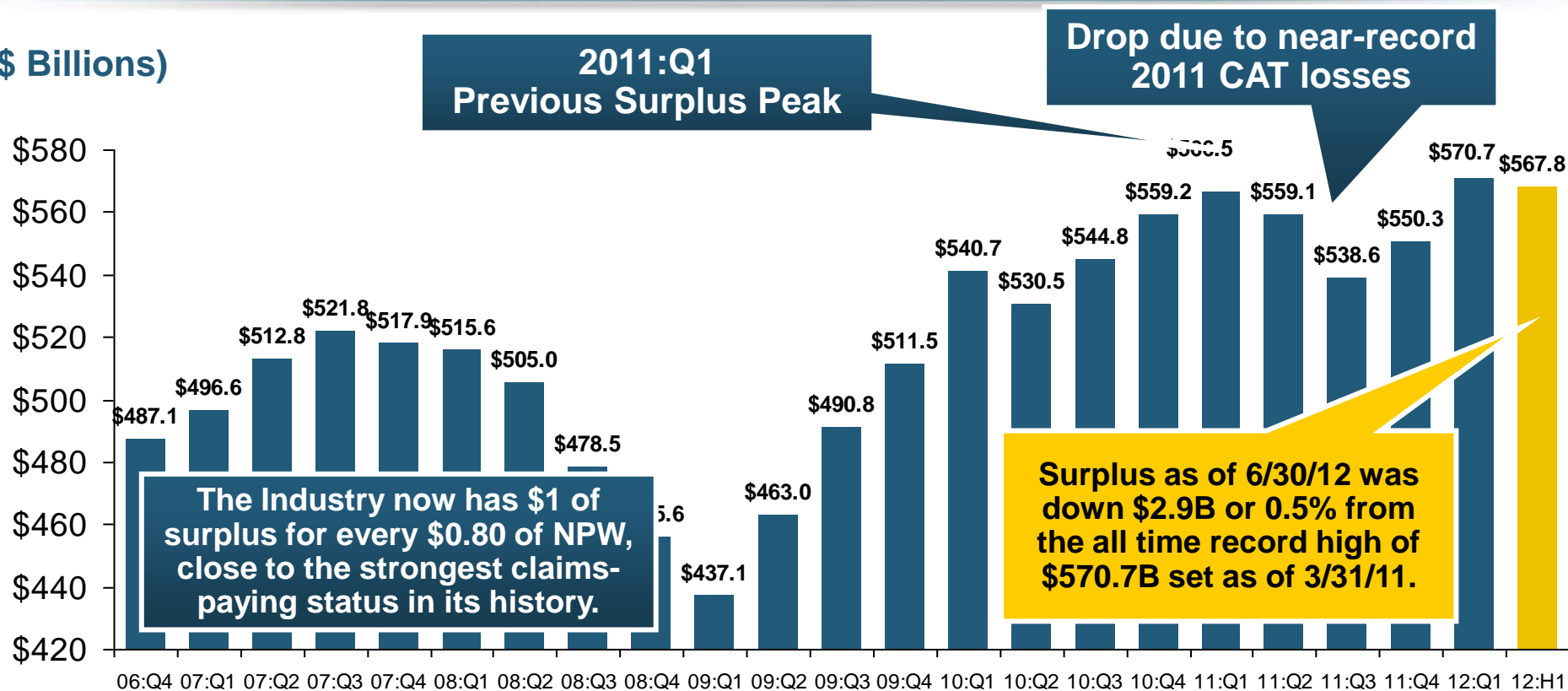
The Premium-to-Surplus Ratio Stood at \$0.80:\$1 as of 12/31/11, A Near Record Low (at Least in Recent History)*

* As of 12/31/11.

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

Policyholder Surplus, 2006:Q4–2012:H1

(\$ Billions)



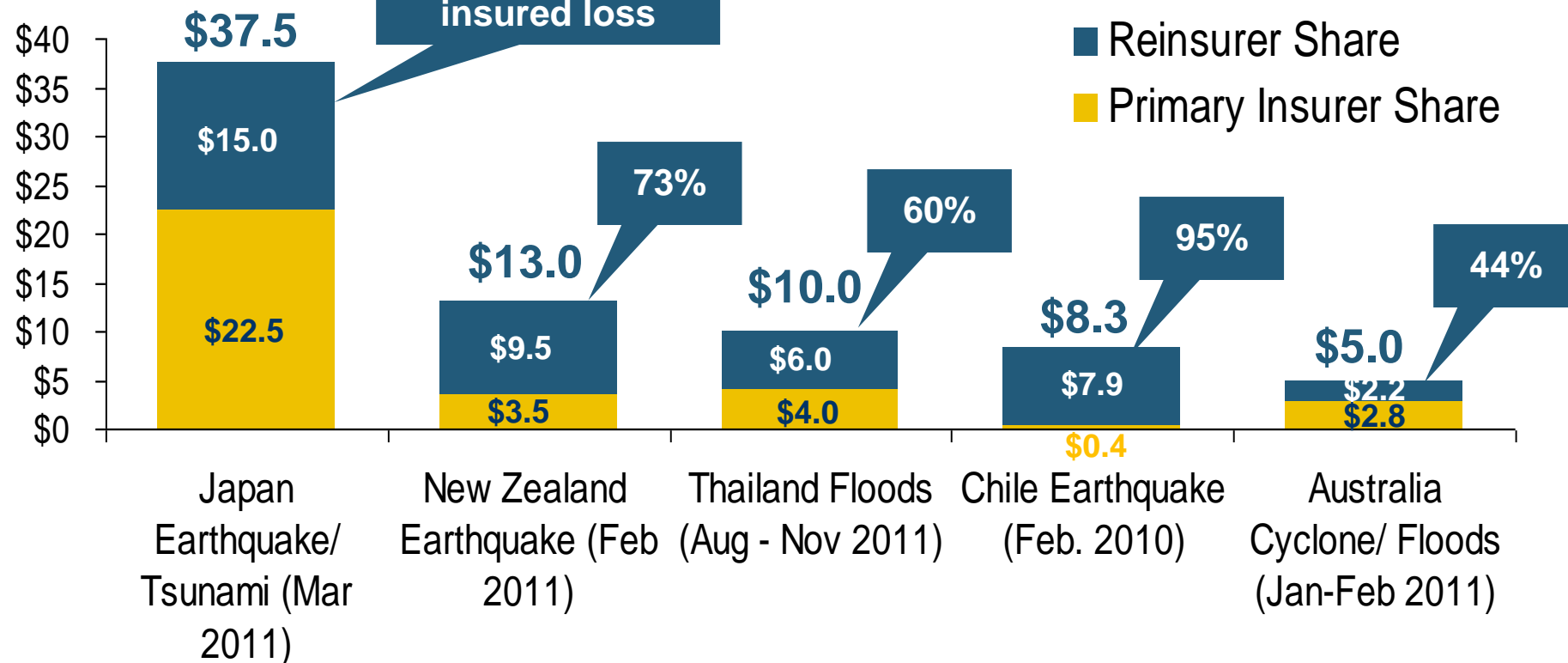
*Includes \$22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business in early 2010.

3. REINSURANCE MARKET CONDITIONS

**Record Global
Catastrophes Activity is
Pressuring Pricing**

Reinsurer Share of Recent Significant Market Losses

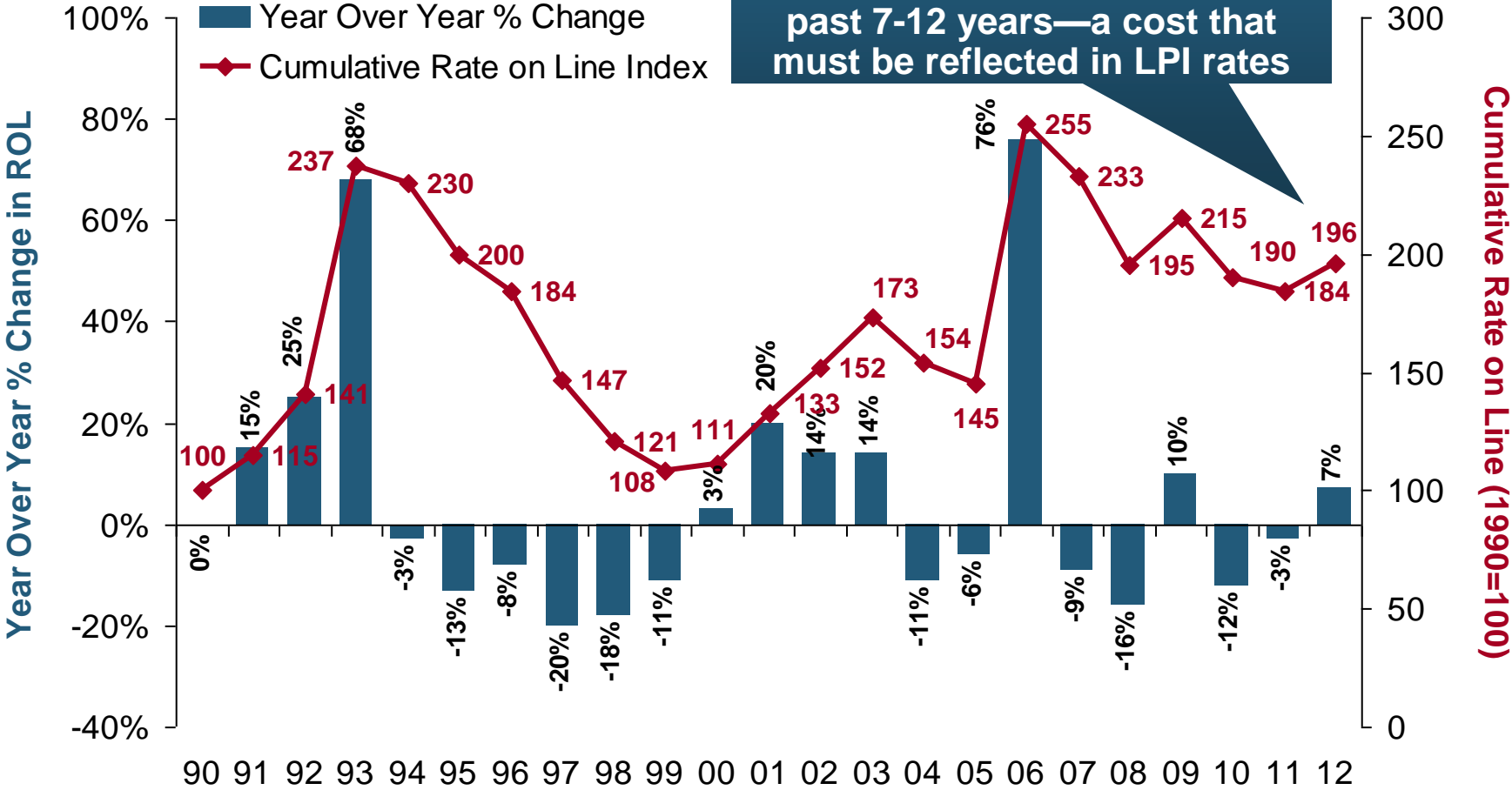
Billions of 2011
Dollars



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

Global Property Catastrophe Rate on Line Index, 1990—2012 (as of July 1)

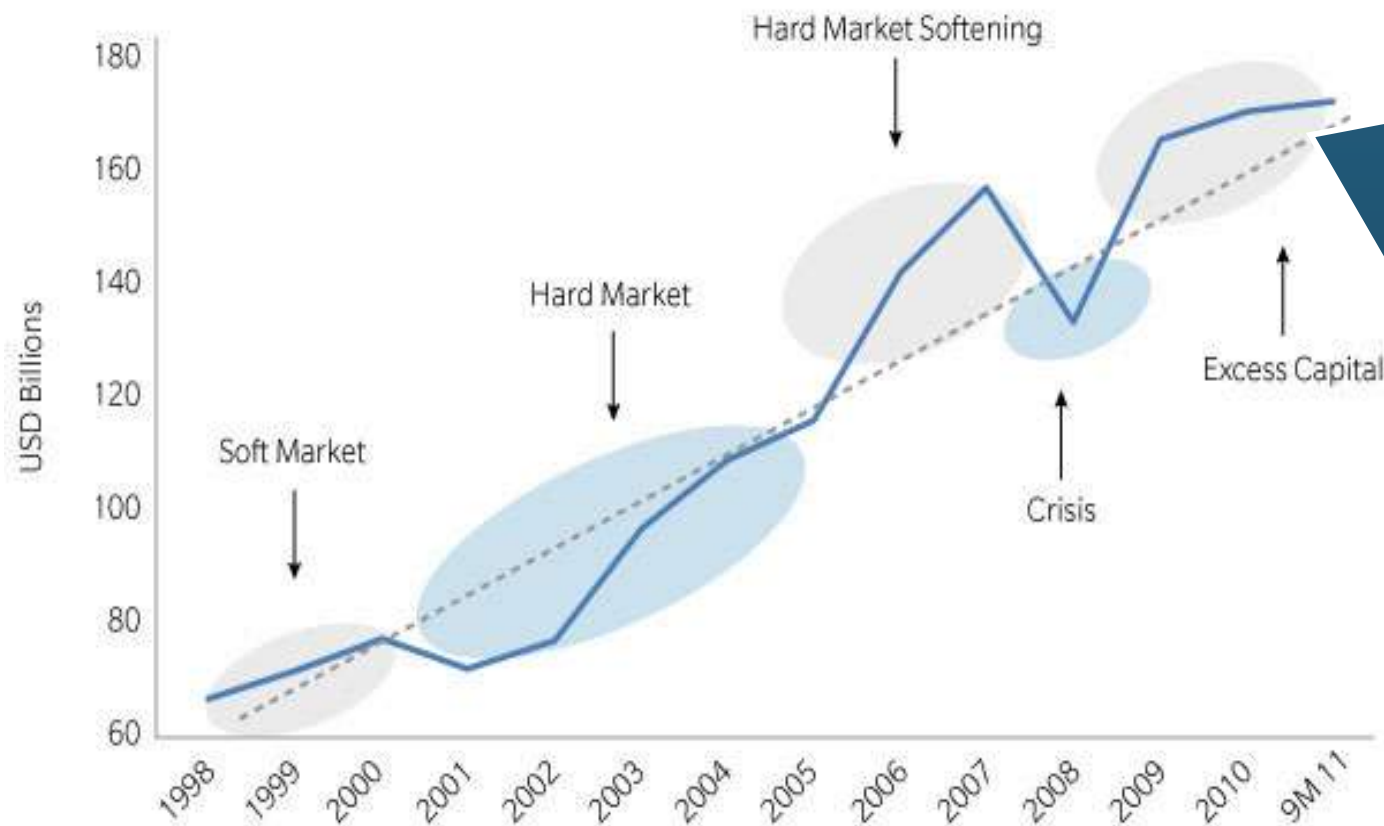
Property-Cat reinsurance pricing is up about 7% as of 7/1/12 but much more over the past 7-12 years—a cost that must be reflected in LPI rates



Sources: Guy Carpenter; Insurance Information Institute.

Historical Capital Levels of Guy Carpenter Reinsurance Composite, 1998—3Q11

LONG-TERM EVOLUTION OF SHAREHOLDERS' FUNDS
FOR THE GUY CARPENTER GLOBAL REINSURANCE COMPOSITE



Source: Guy Carpenter & Company, LLC

Most excess reinsurance capacity was removed from the market in 2011, but there does not appear to be a shortage, leading to modest increases in 2012 reinsurance renewals except in areas hit hard by CATs.

4. RENEWED PRICING DISCIPLINE

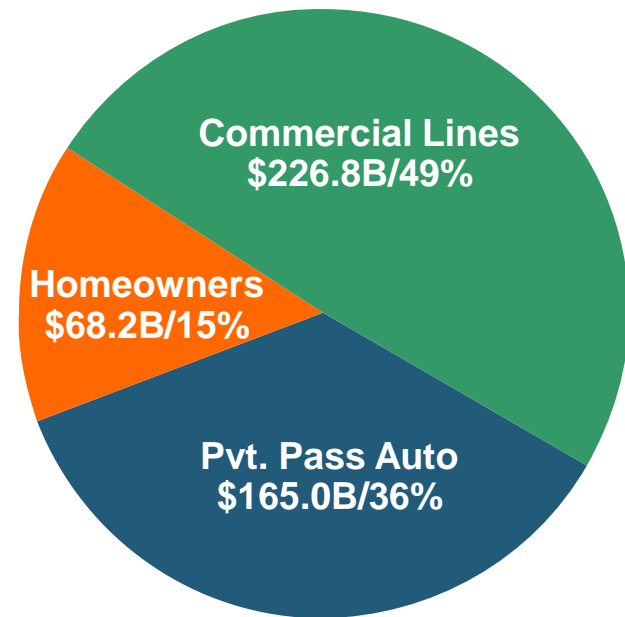
**Evidence of a Broad and
Sustained Shift in Pricing**

Distribution of Direct Premiums Written by Segment/Line, 2010

Distribution Facts

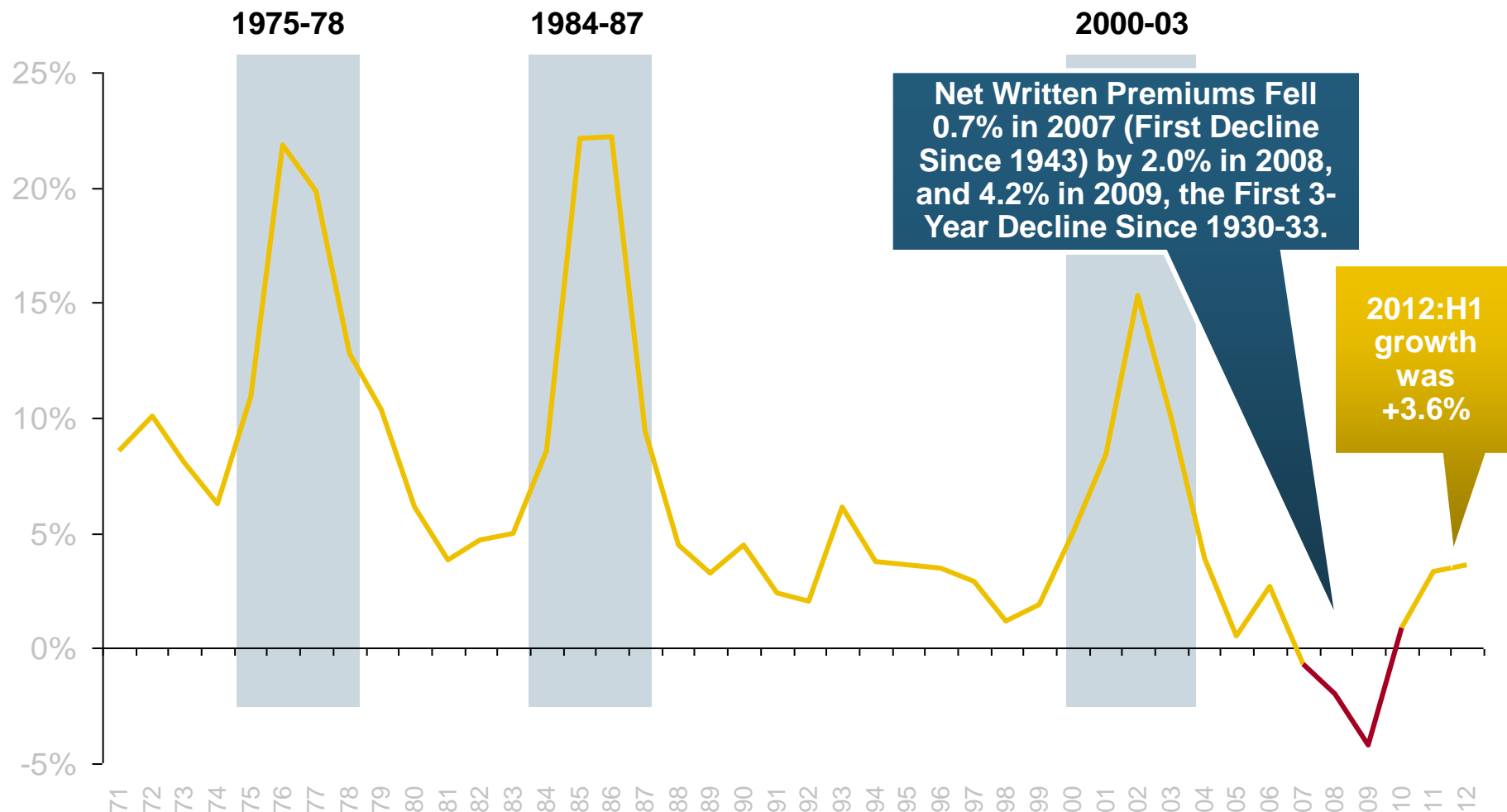
- Personal/Commercial lines split has been about 50/50 for many years; Personal Lines overtook Commercial Lines in 2010
- Pvt. Passenger Auto is by far the largest line of insurance and is currently the most important source of industry profits
- Billions of additional dollars in homeowners insurance premiums are written by state-run residual market plans

2010



Net Premium Growth: Annual Change, 1971—2012:H1

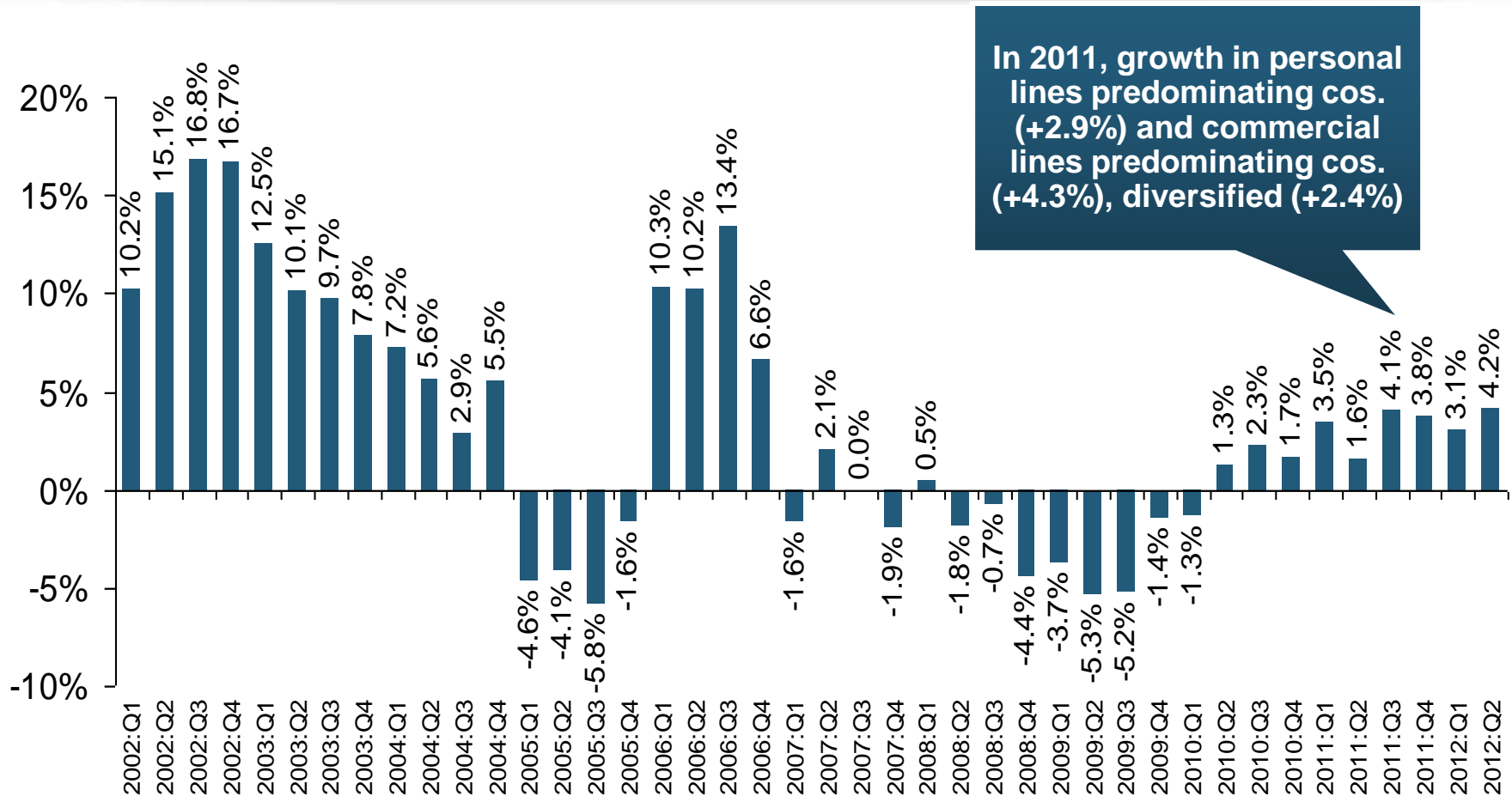
(Percent)



Shaded areas denote "hard market" periods

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

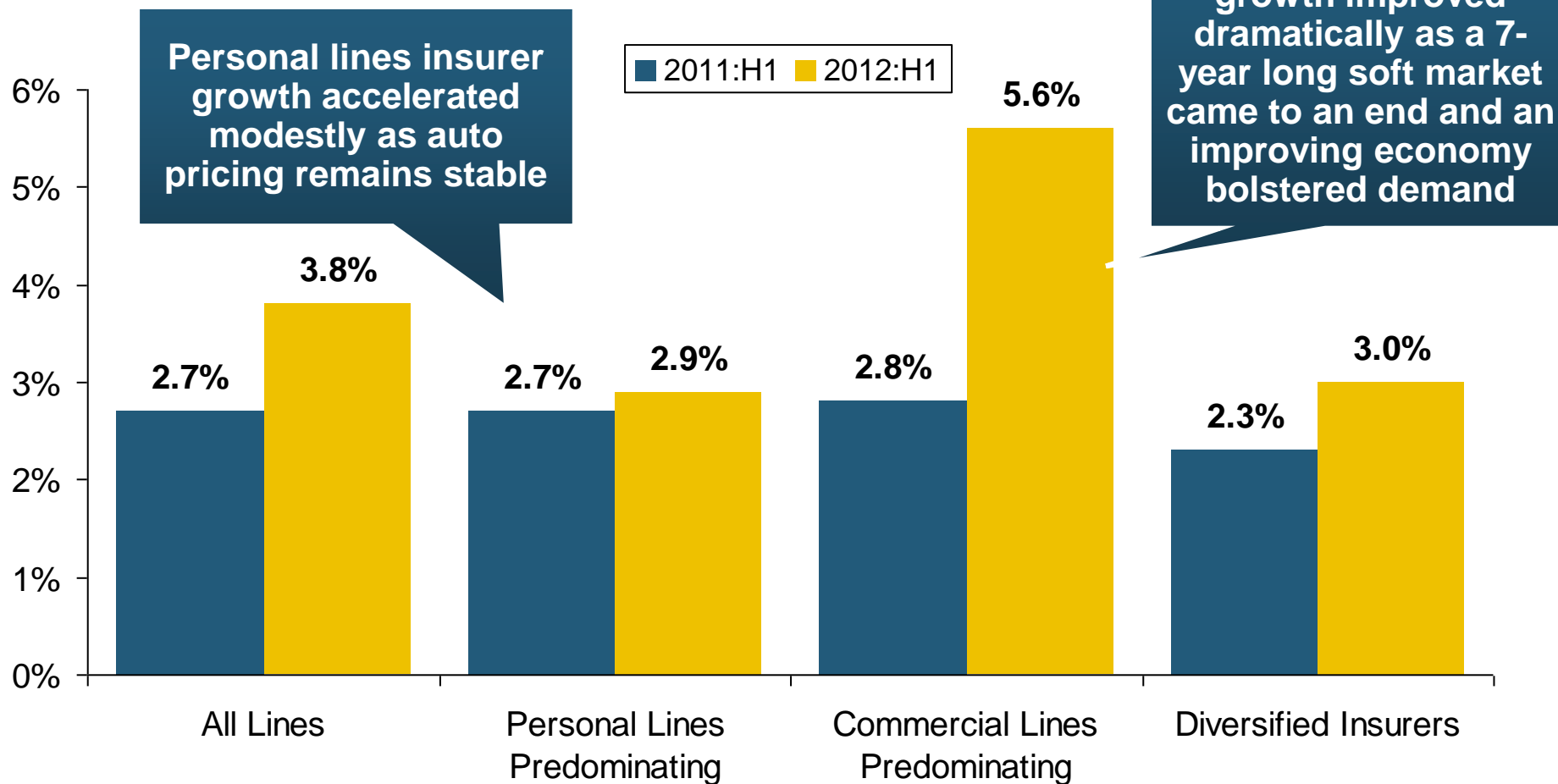
P/C Net Premiums Written: % Change, Quarter vs. Year-Prior Quarter



Finally! A sustained period of growth in written premium growth (vs. the same quarter, prior year)

Growth in Net Written Premium by Segment, 2012:H1 vs. 2011:H1*

(Percent)



*Excludes mortgage and financial guaranty insurers.

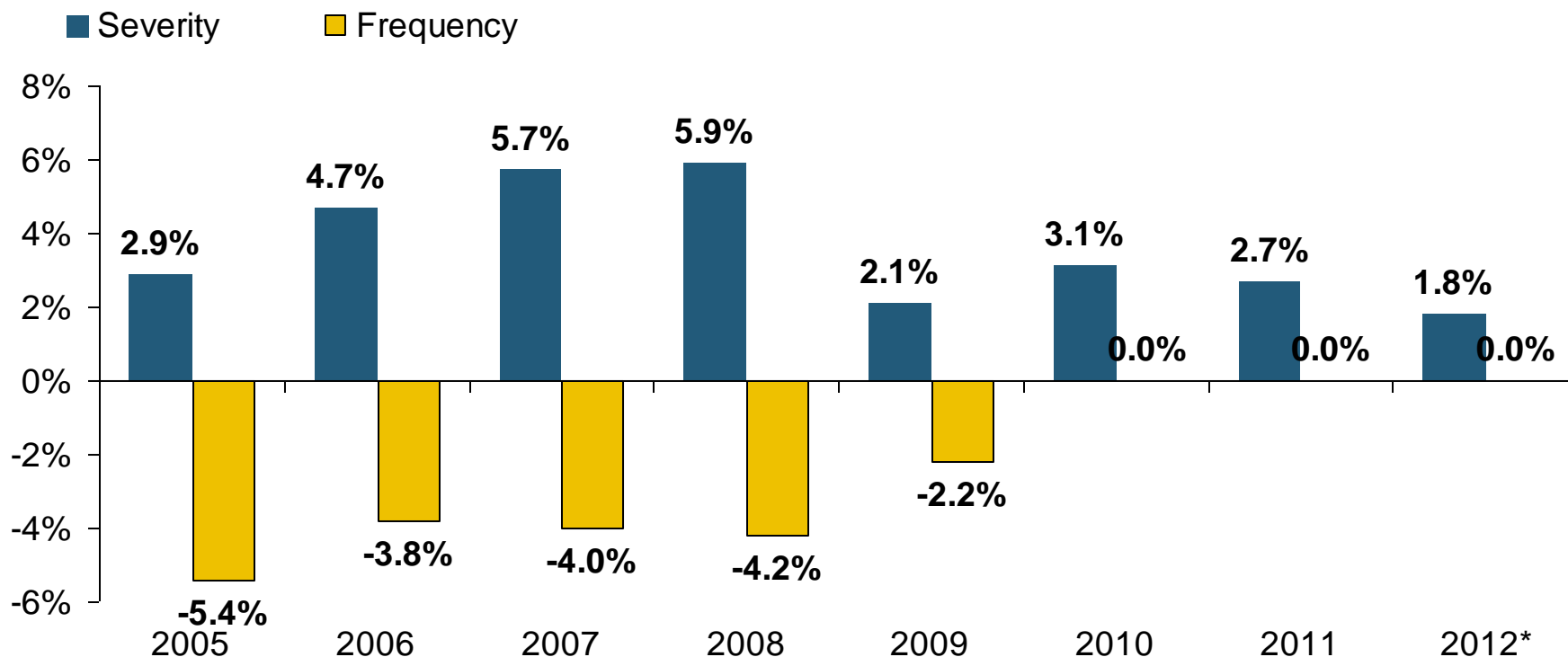
Source: ISO/PCI; Insurance Information Institute

Claim Trends in Auto Insurance

**Rising Costs Held in Check by
Falling Frequency:
Can That Pattern Be Sustained?**

Bodily Injury: Severity Trend Is Up, Frequency Decline Ended and Is Now Flat

Annual Change, 2005 through 2012*



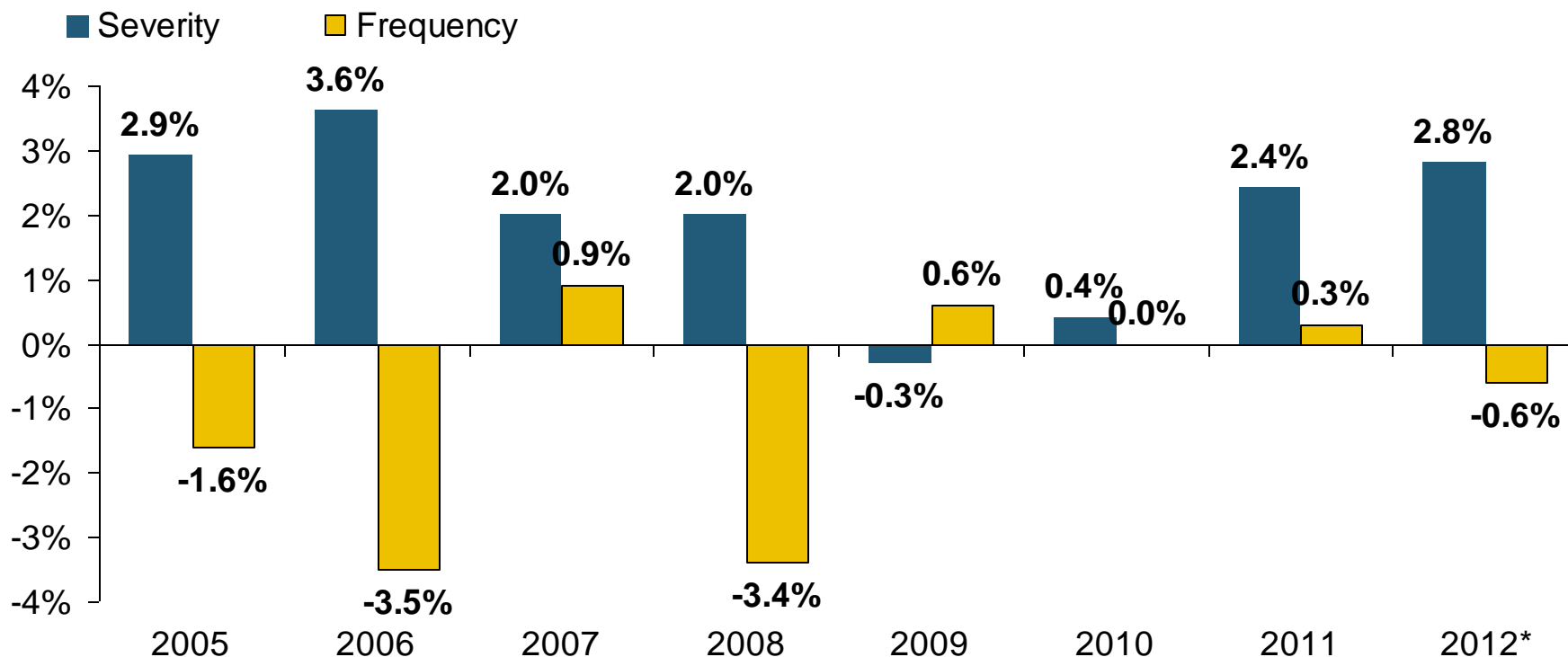
Cost Pressures Will Increase if BI Severity Increases Continue or Frequency Ticks Up

*2012 figure is for the 4 quarters ending with 2012:Q1.

Source: ISO/PCI *Fast Track* data; Insurance Information Institute

Property Damage Liability: Severity is Up, Frequency Nearly Flat Since 2009

Annual Change, 2005 through 2012*



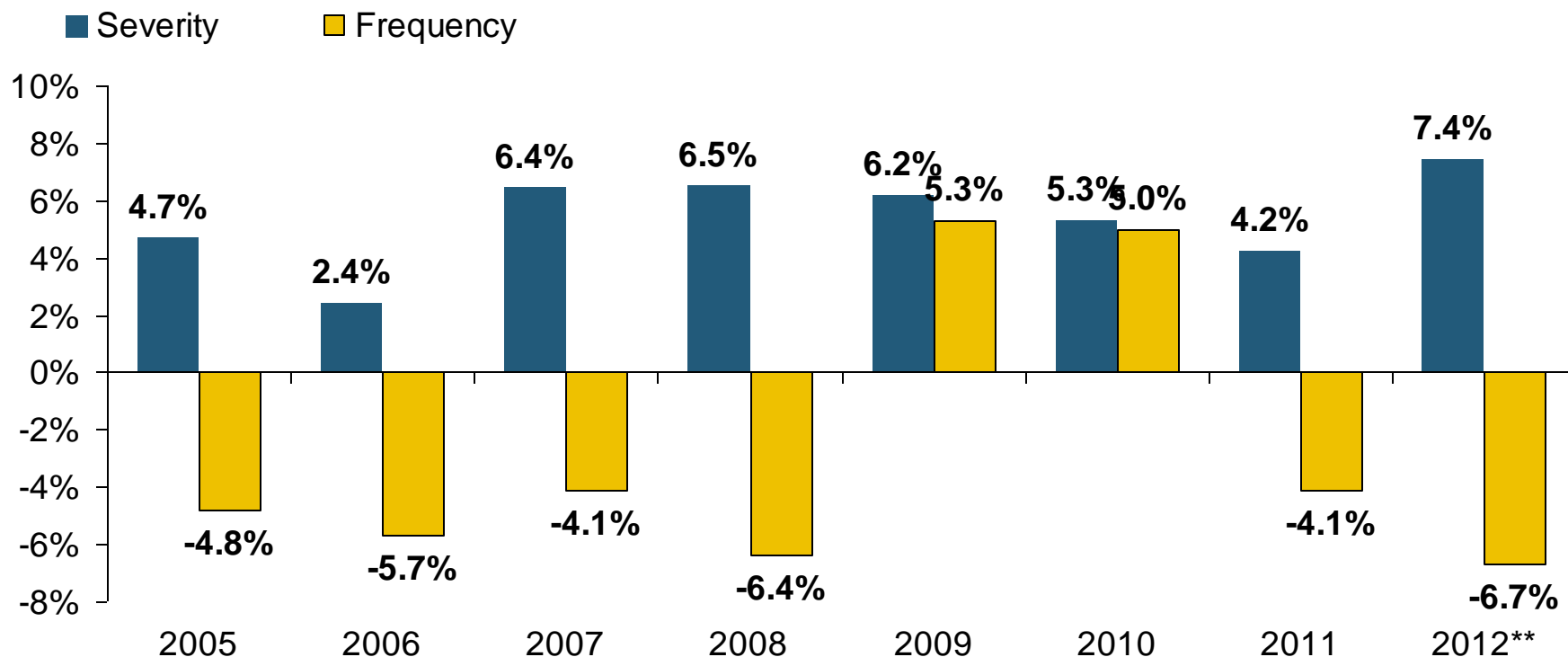
Severity/Frequency Trends Have Been Volatile, But Rising Severity in 2011 Is a Concern

*2012 figure is for the 4 quarters ending with 2012:Q1.

Source: ISO/PCI *Fast Track* data; Insurance Information Institute

No-Fault (PIP) Liability: Severity Trend Remains Adverse*

Annual Change, 2005 through 2012**



Multiple States Are Experiencing Severe Fraud and Abuse Problems in their No-Fault Systems, Especially FL, MI, NY and NJ

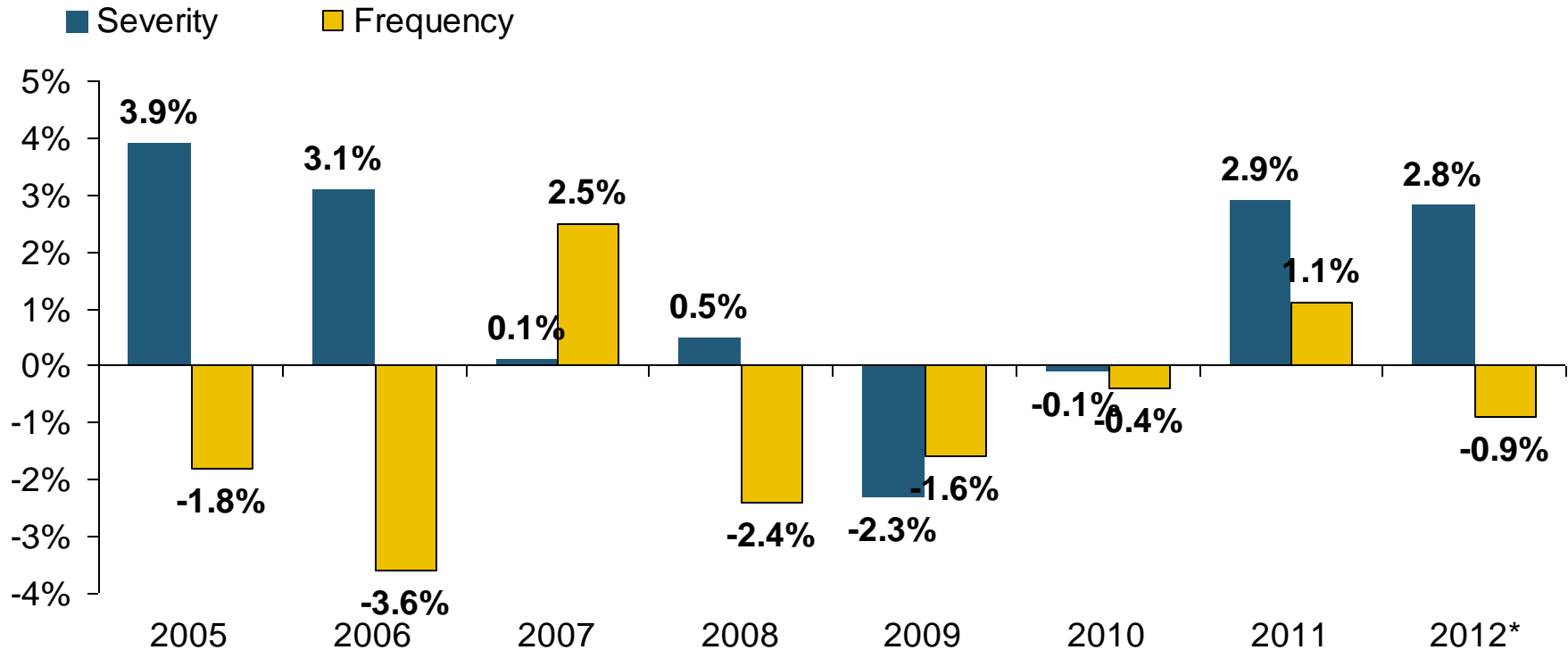
*No-fault states included are: FL, HI, KS, KY, MA, MI, MN, NY, ND and UT.

**2012 figure is for the 4 quarters ending in 2012:Q1.

Source: ISO/PCI *Fast Track* data; Insurance Information Institute

Collision Coverage: Severity Trend Is Up While Frequency Is Down in 2012*

Annual Change, 2005 through 2012*



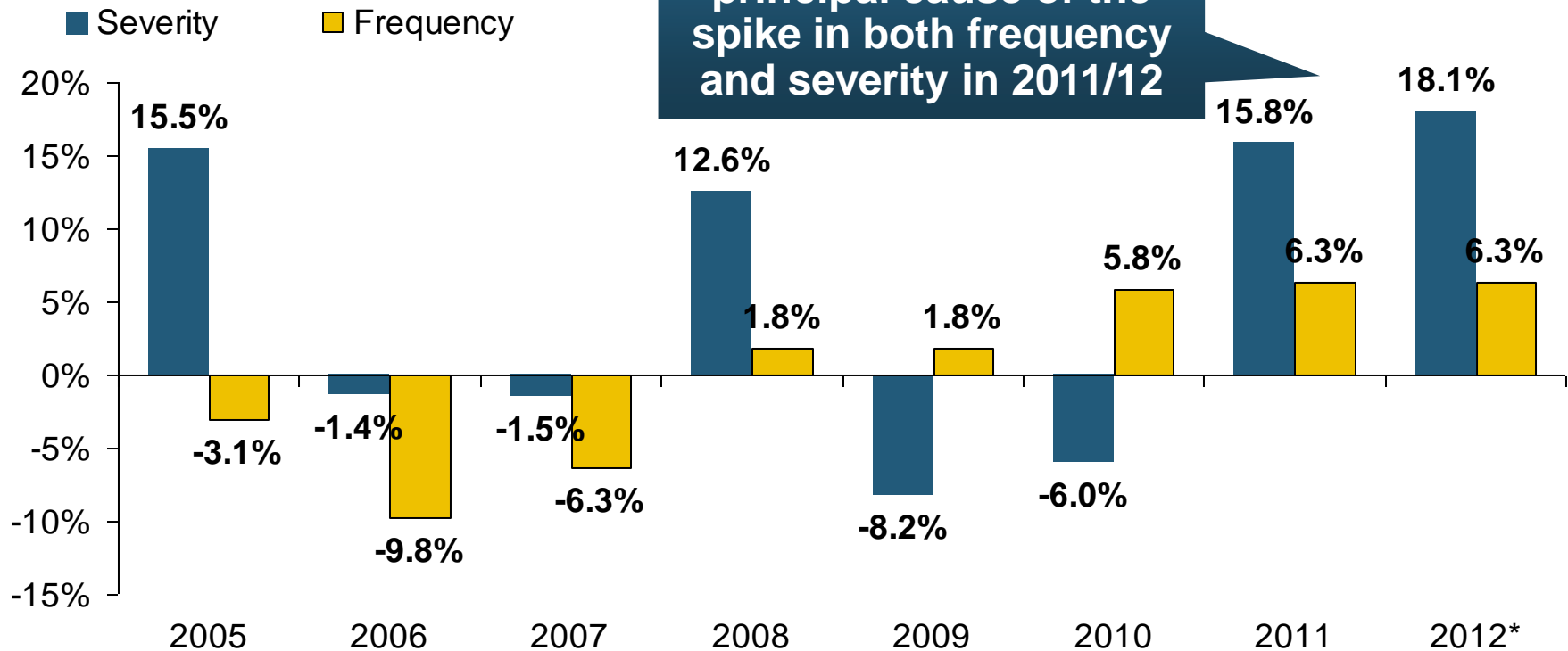
The Recession, High Fuel Prices Have Helped Temper Frequency and Severity, But this Trend Will Likely Be Reversed Based on Evidence from Past Recoveries

*2012 figure is for the 4 quarters ending with 2012:Q1.

Source: ISO/PCI *Fast Track* data; Insurance Information Institute

Comprehensive Coverage: Frequency and Severity Trends in Are Unfavorable

Annual Change, 2005 through 2012*

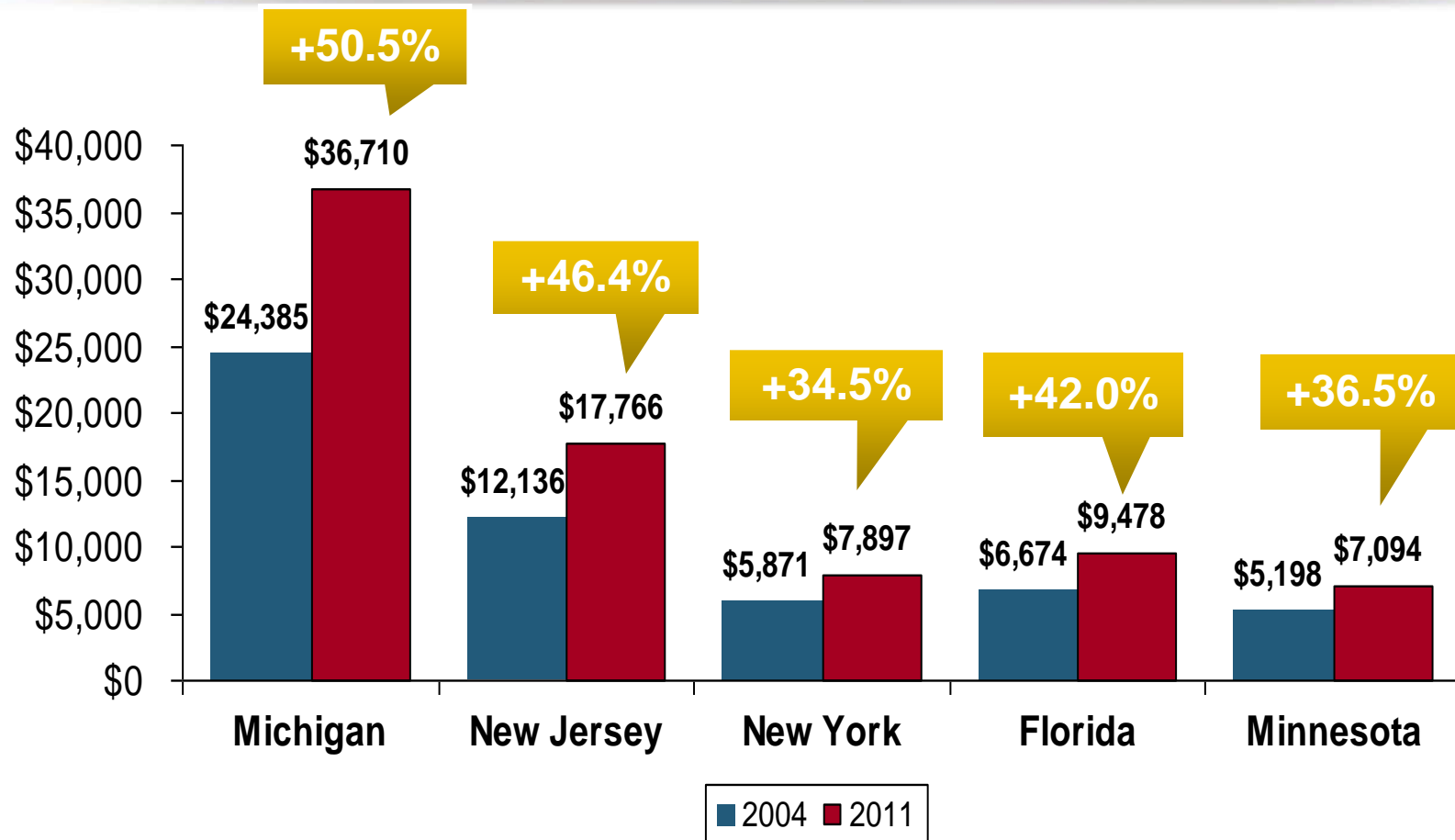


Weather Creates Volatility for Comprehensive Coverage; Recession Has Helped Push Down Frequency and Temper Severity, But This Factor Will Weaken as Economy Recovers

*2012 figure is for the 4 quarters ending with 2012:Q1.

Source: ISO/PCI *Fast Track* data; Insurance Information Institute

Increase in No-Fault Claim Severity: Selected States, 2004-2011



The no-fault systems in MI, NJ, NY, FL, and MN are under stress due to rising fraud and abuse, which leads to higher premiums for honest drivers.

Other Cycle-Influencing Factors

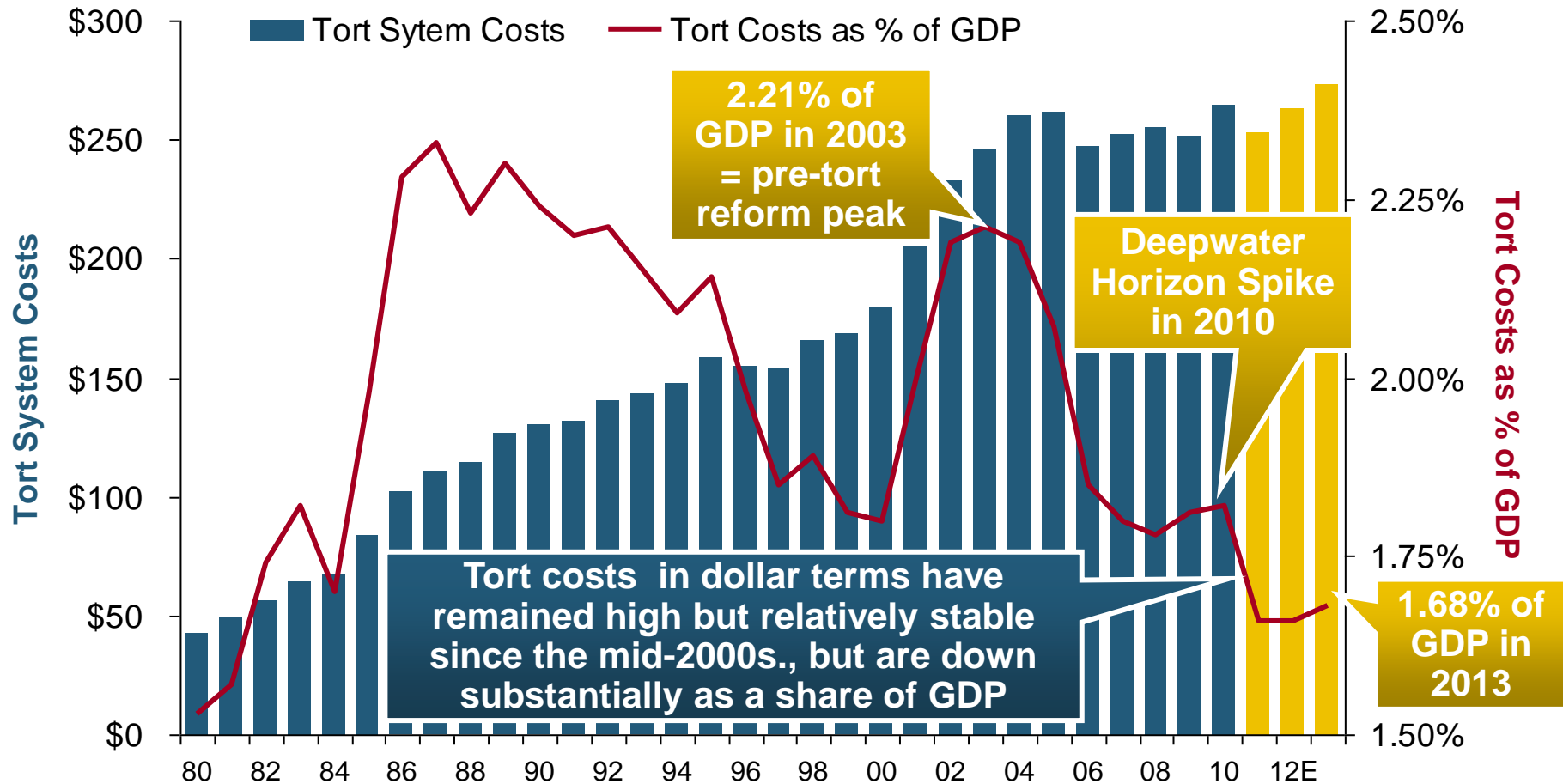
**Could Other Factors Act as
a Catalyst to Turn the
Market?**

Shifting Legal Liability & Tort Environment

Is the Tort Pendulum Swinging Against Insurers?

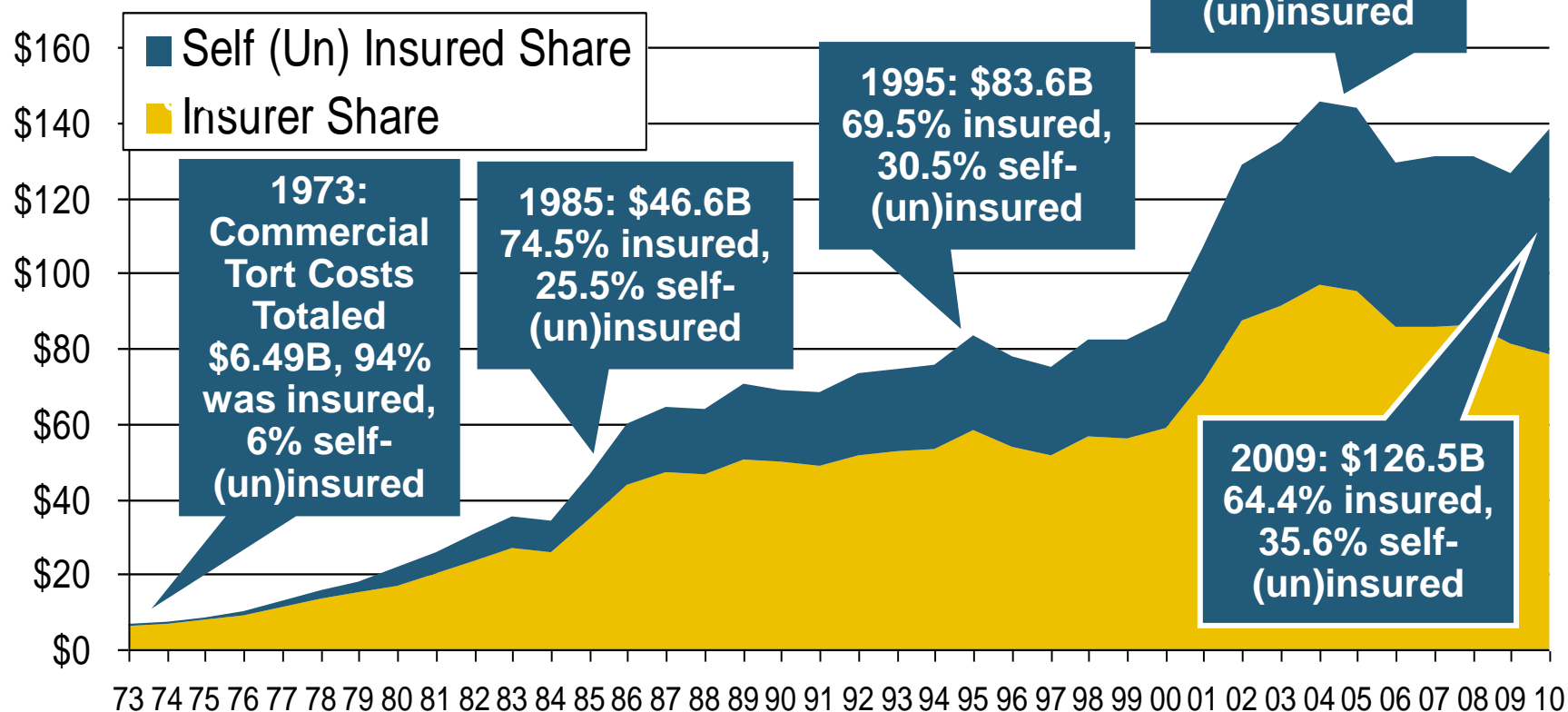
Over the Last Three Decades, Total Tort Costs as a % of GDP Appear Somewhat Cyclical, 1980-2013E

(\$ Billions)



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

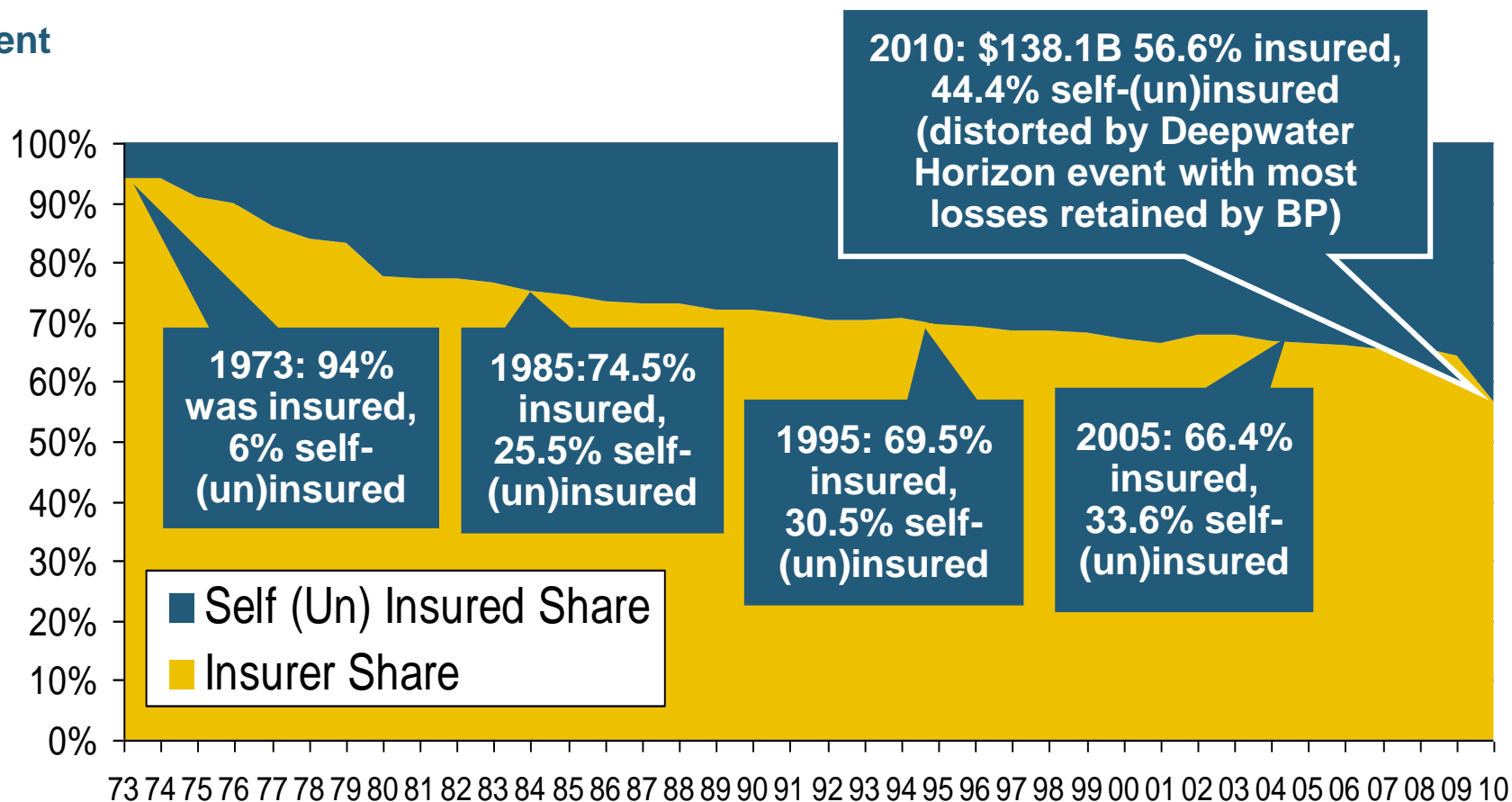
Billions of Dollars



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

Percent



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

1. Delaware
2. Nebraska
3. Wyoming
4. Minnesota
5. Kansas
6. Idaho
7. Virginia
8. North Dakota
9. Utah

New in 2012

- Wyoming
- Minnesota
- Kansas
- Idaho

Drop-offs

- Indiana
- Colorado
- Massachusetts
- South Dakota

10. Iowa

■ Worst States

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

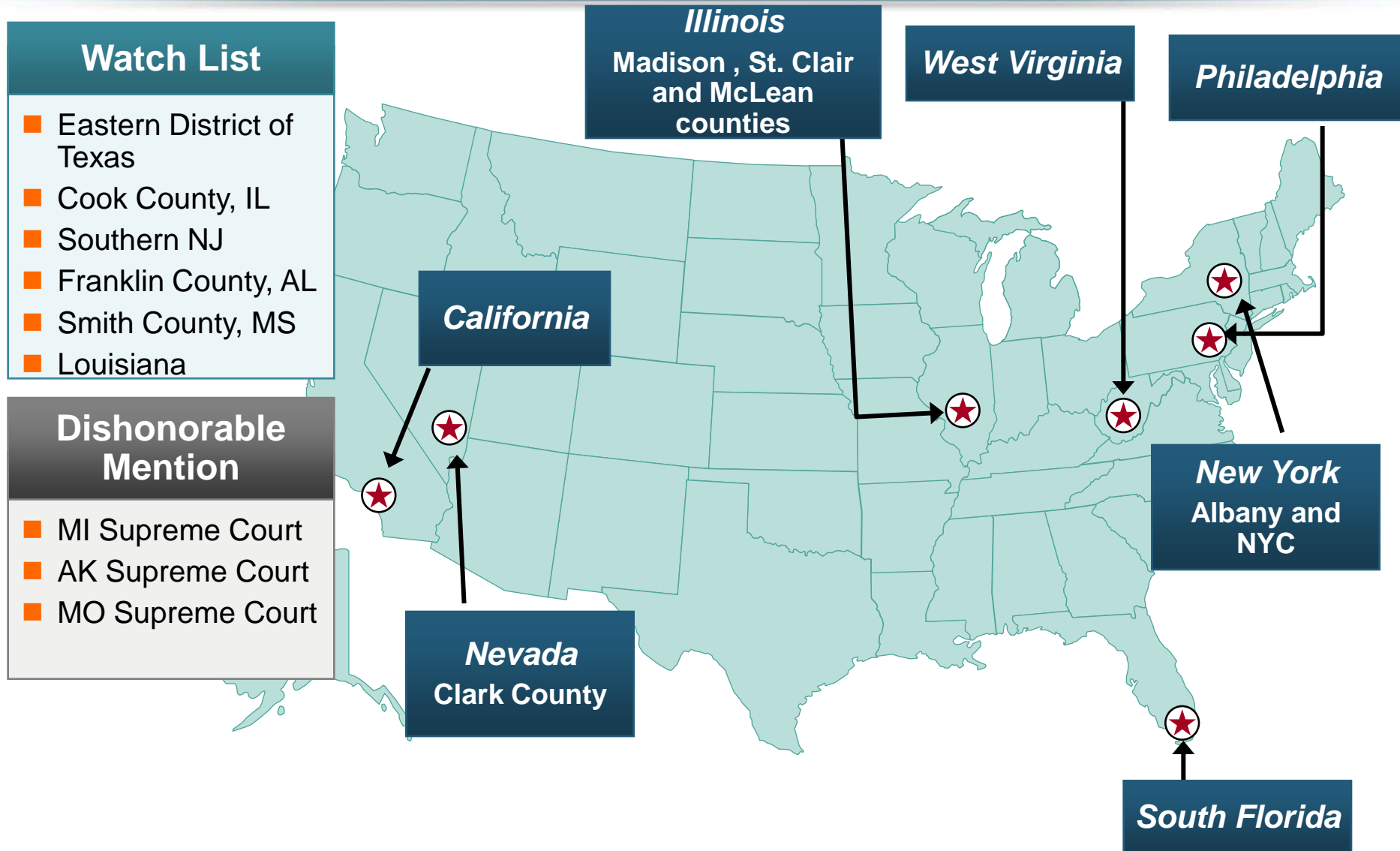
Newly Notorious

- Oklahoma

Rising Above

- Arkansas

The Nation's Judicial Hellholes: 2011



Inflation

**Is it a Threat to Claim Cost
Severities**

Annual Inflation Rates, (CPI-U, %), 1990–2017F

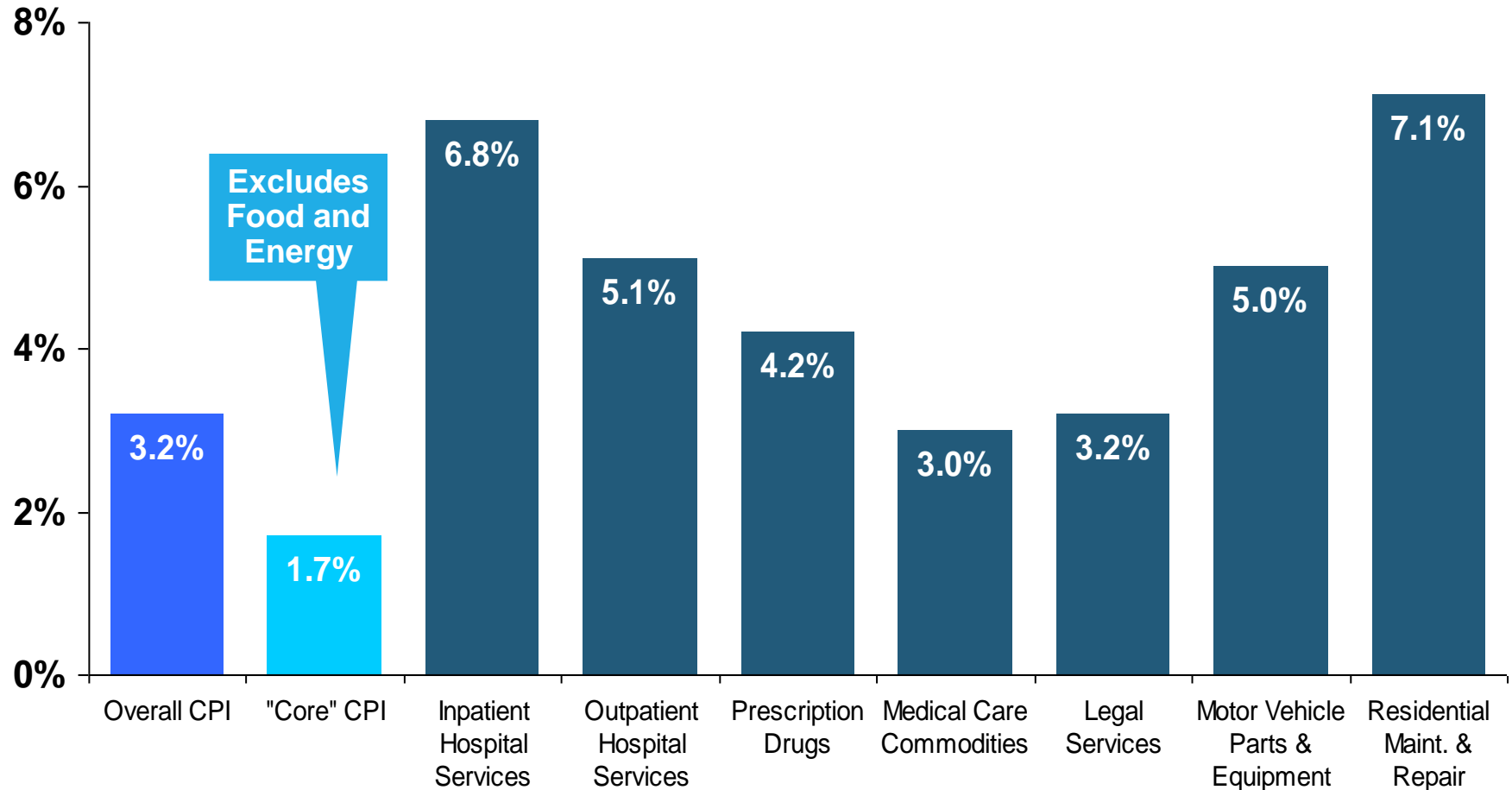
Annual Inflation Rates (%)



The slack in the U.S. economy suggests that inflationary pressures should remain subdued for an extended period of times. Energy, health care and commodity prices, plus U.S. debt burden, remain longer-run concerns

P/C Personal Insurance Claim Cost Drivers Grow Faster Than the Core CPI Suggests

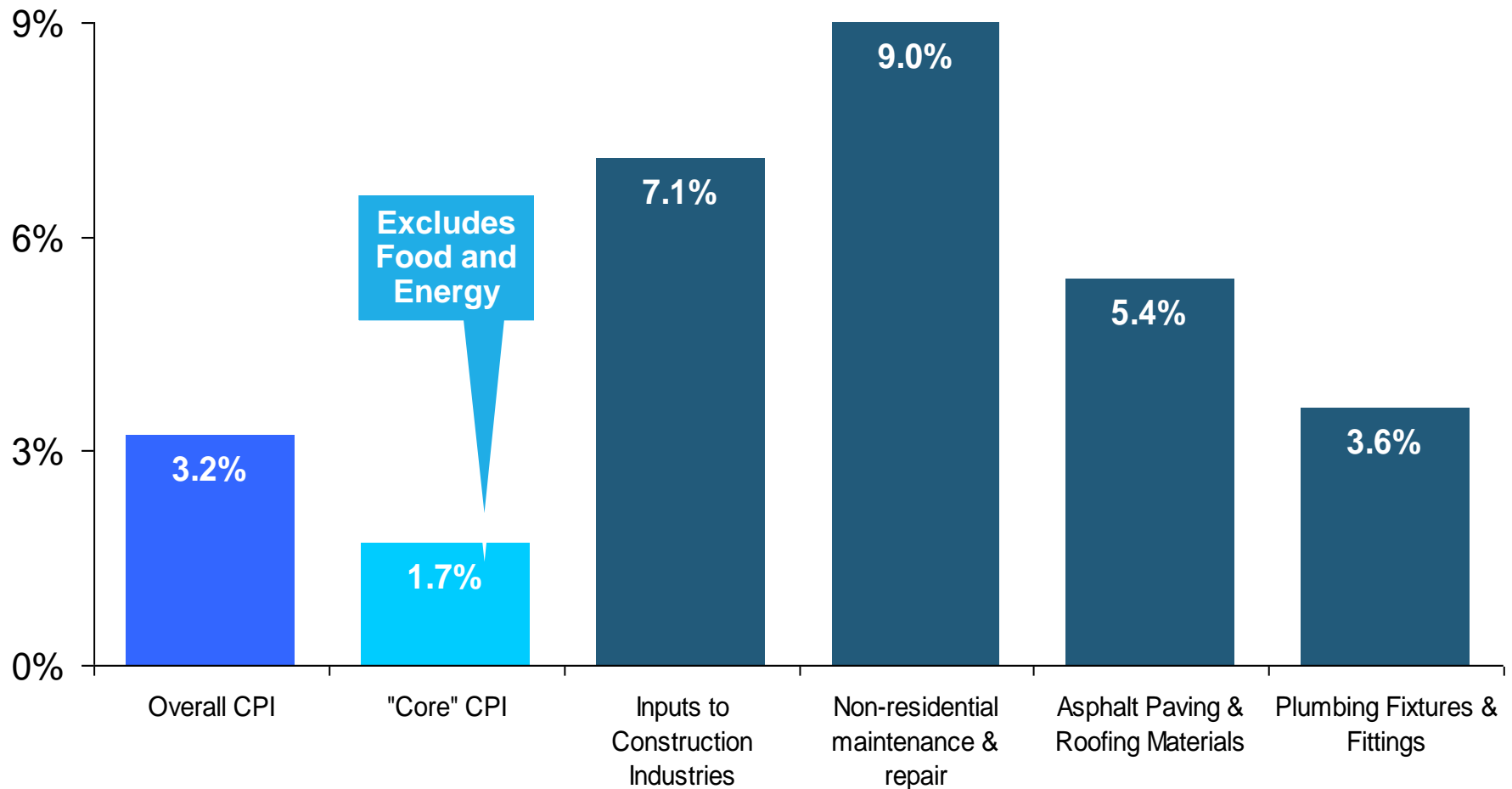
Price Level Change: 2011 vs. 2010



Healthcare costs are a major liability, med pay, and PIP claim cost driver. They are likely to grow faster than the CPI for the next few years, at least

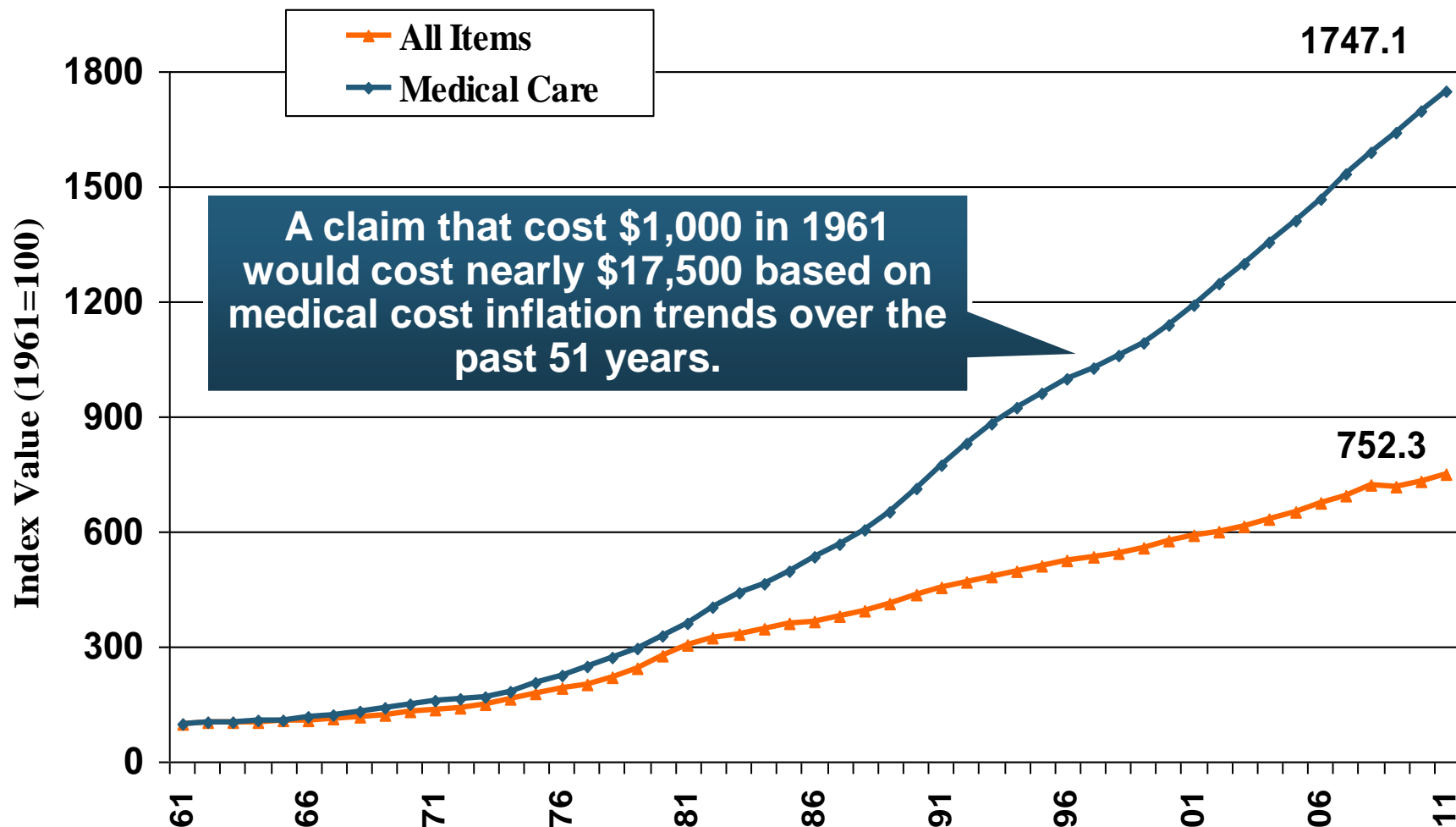
P/C Commercial Property Insurance Claim Cost Drivers Grow Faster than the Overall CPI Suggests

Price Level Change: 2011 vs. 2010



Copper prices spiked and retreated in 2011. In July its price was 33% higher than a year earlier; by November it cost 8% less than in November 2010.

Medical Cost Inflation Has Outpaced Overall Inflation For Over 50 Years



Source: Department of Labor (Bureau of Labor Statistics)

Insurance Information Institute Online:

www.iii.org

***Thank you for your time
and your attention!***

Twitter: twitter.com/bob_hartwig