



Overview & Outlook for the U.S. Economy, Businessowners and the P/C Insurance Industry *Trends, Challenges and Opportunities*

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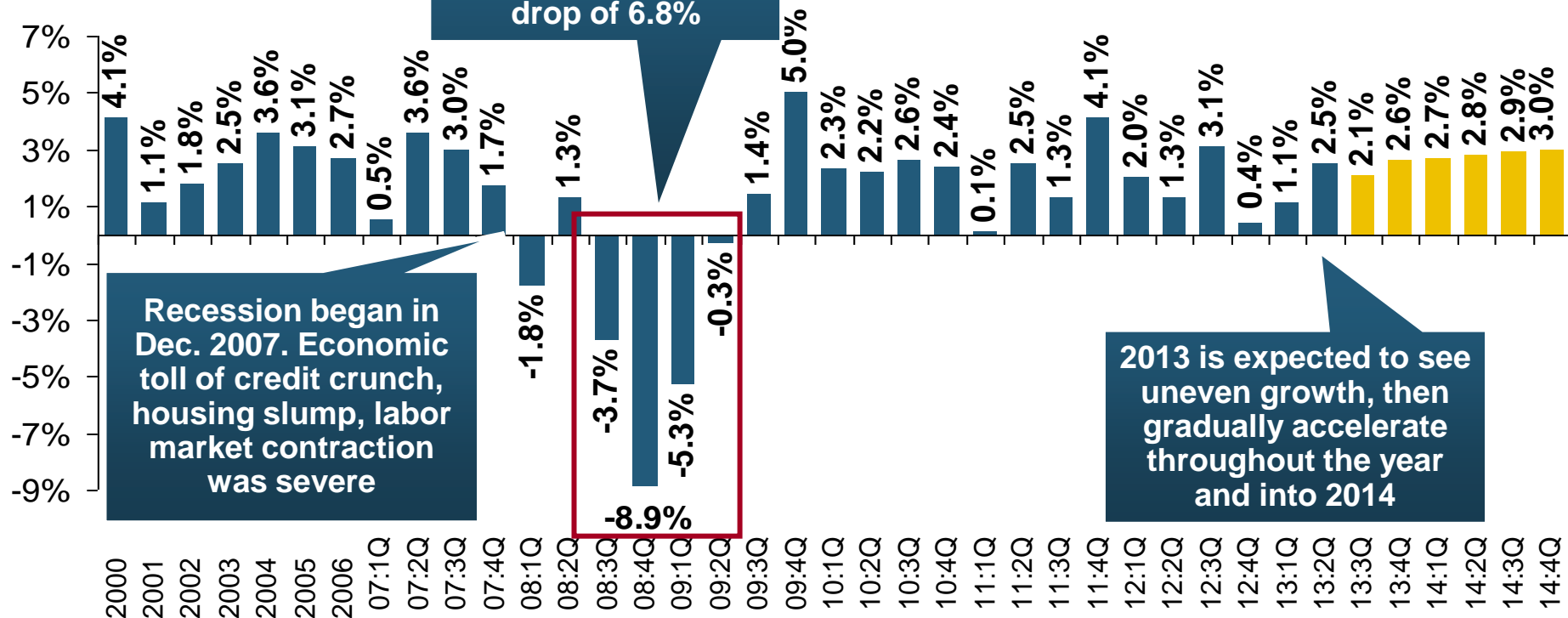
- **U.S. Economic Overview and Outlook**
 - ◆ Key Sector Analysis: Construction, Manufacturing, Service
- **Interest Rates, Credit Markets and Fed Reserve Policy**
- **Labor Market Outlook**
- **P/C Insurance Industry Overview and Outlook**
- **Economic Factors Impacting Growth**
 - ◆ Regional Analysis
 - ◆ By Line Impacts
- **Catastrophe Loss Trends**
- **P/C Performance Analysis**
 - ◆ Key Lines
- **The New Investment Reality**
 - ◆ The Challenge of Persistently Low Interest Rates

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

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

US Real GDP Growth*

Real GDP Growth (%)

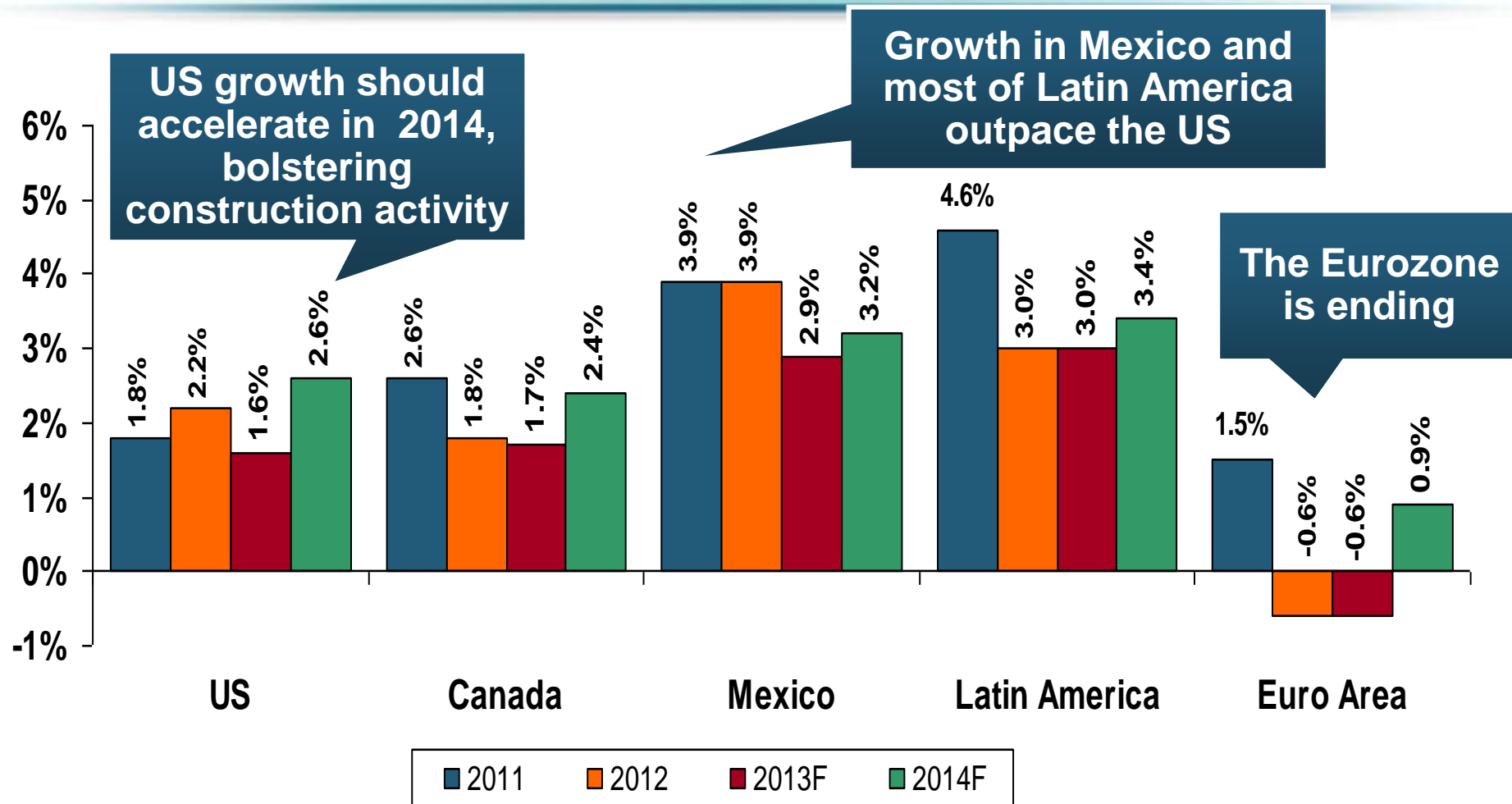


Demand for Insurance Continues To Be Impacted by Sluggish Economic Conditions, but the Benefits of Even Slow Growth Will Compound and Gradually Benefit the Economy Broadly

* ■ Estimates/Forecasts from Blue Chip Economic Indicators.

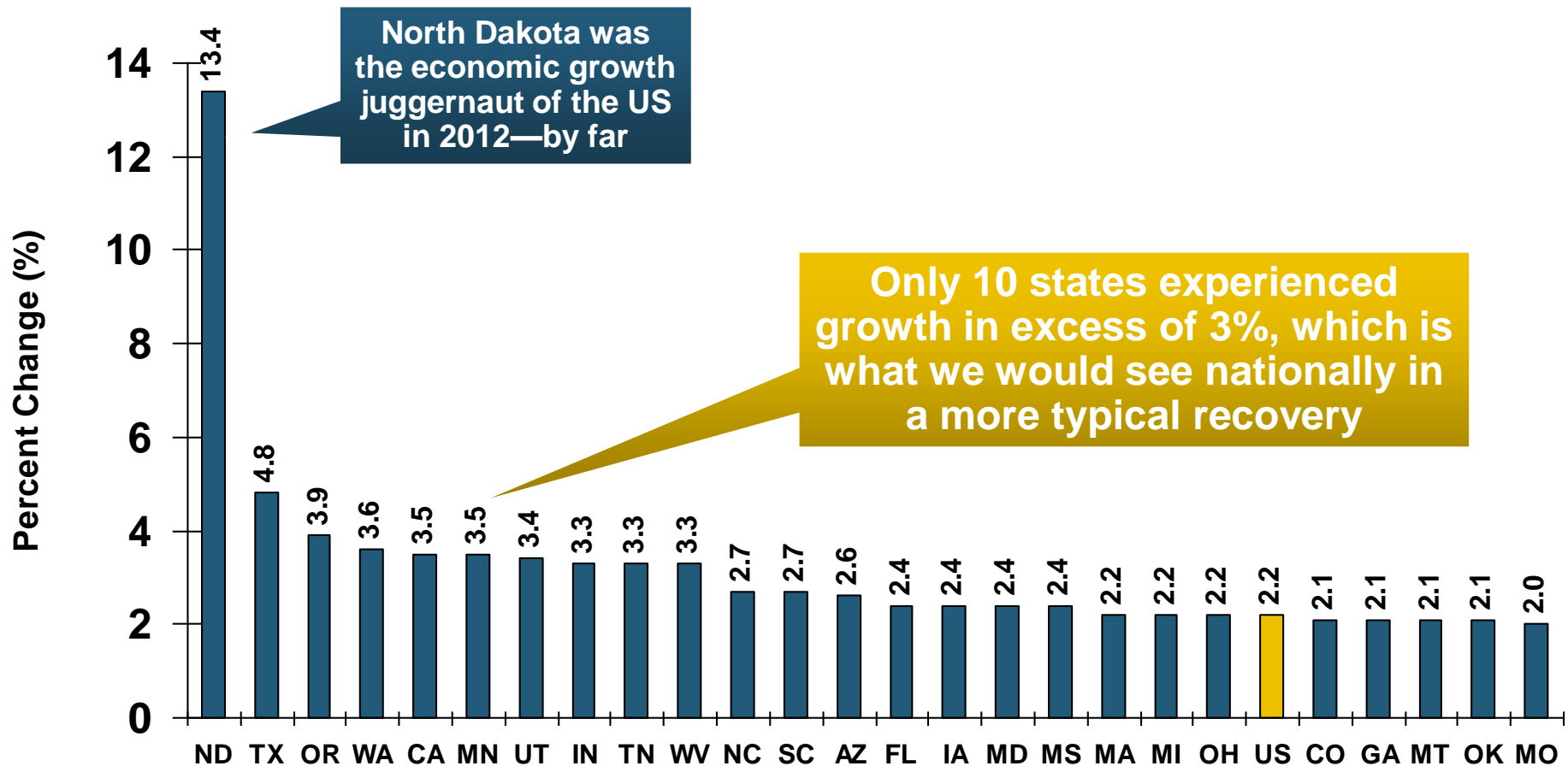
Source: US Department of Commerce, Blue Economic Indicators 9/13; Insurance Information Institute.

Real GDP Growth Forecasts: Major Economies: 2011 – 2014F

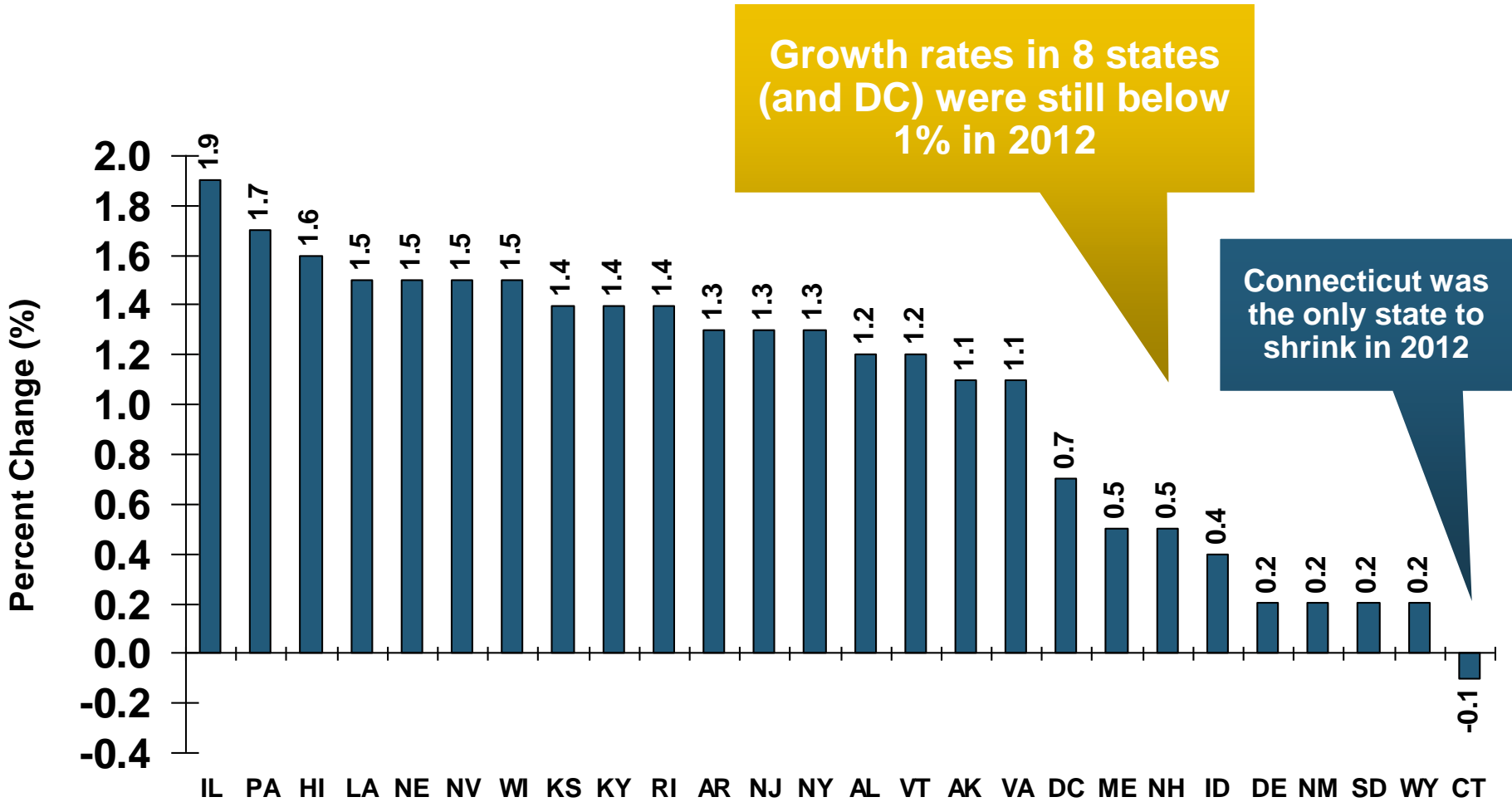


Growth Prospects Vary Widely by Region: Growth Returning in the US, Recession in the Eurozone, Some strengthening in Latin America

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

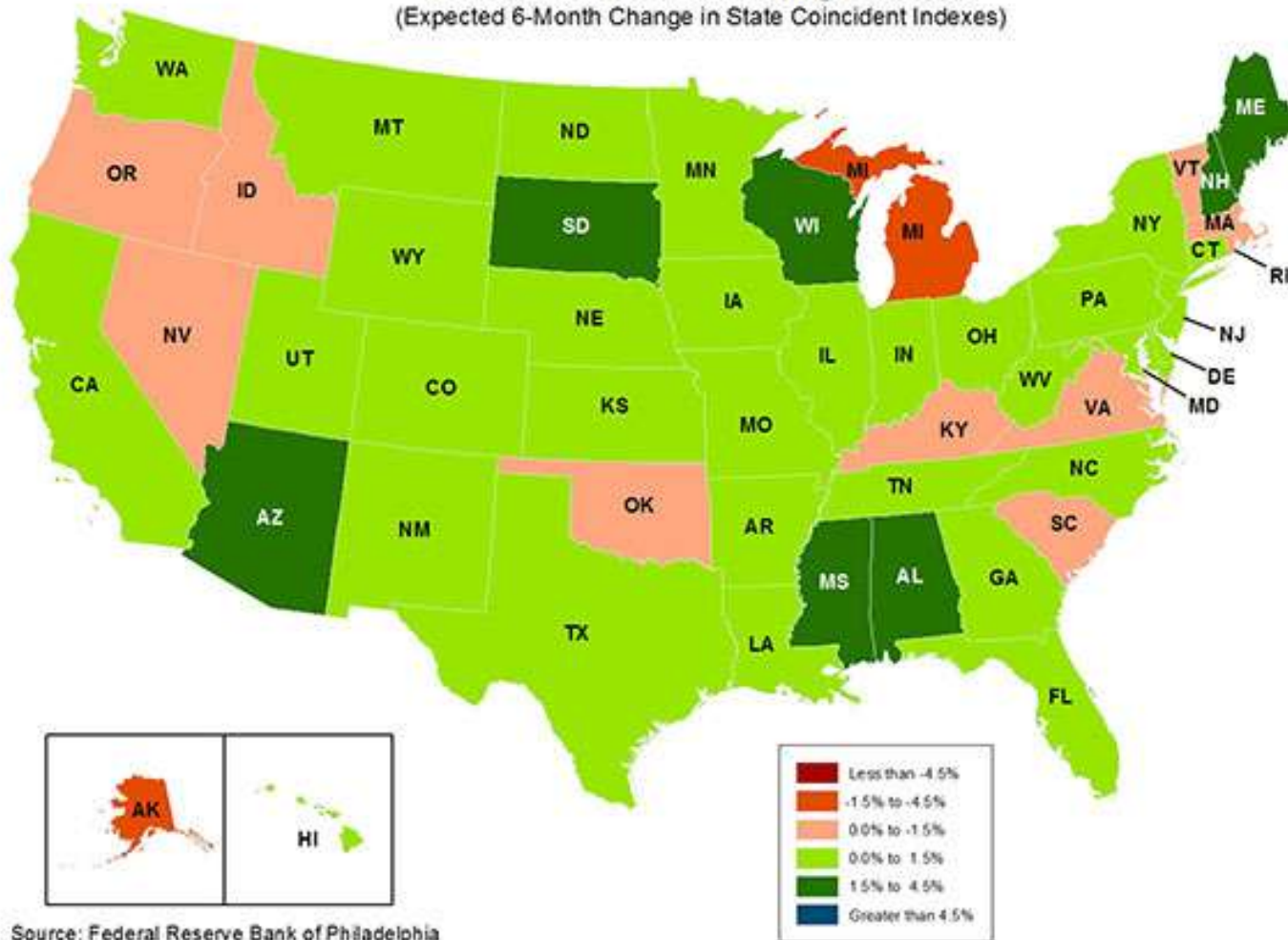


Real GDP by State Percent Change, 2012: Lowest 25 States



State-by-State Leading Indicators through 2013:Q4

June 2013 State Leading Indexes
(Expected 6-Month Change in State Coincident Indexes)

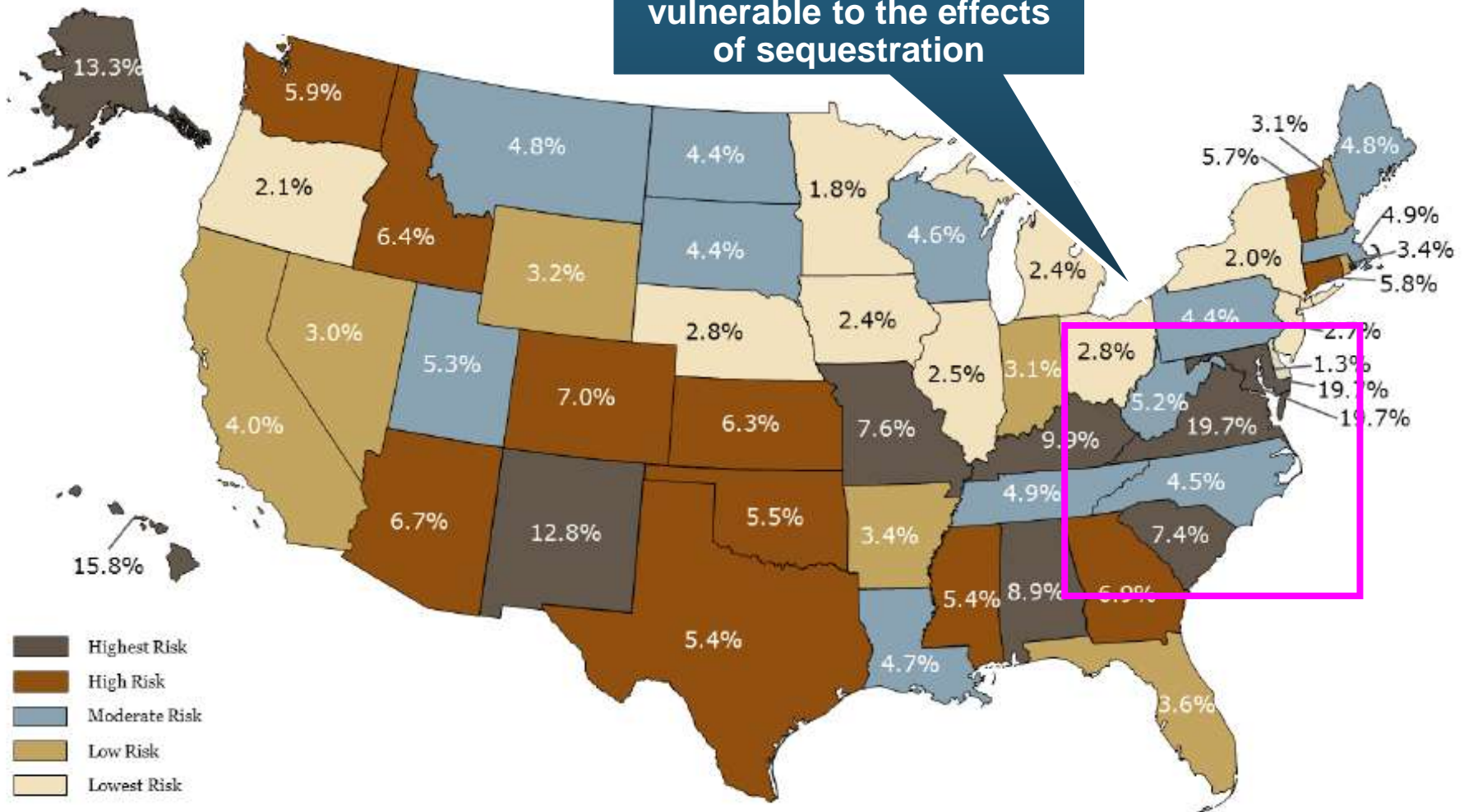


Source: Federal Reserve Bank of Philadelphia

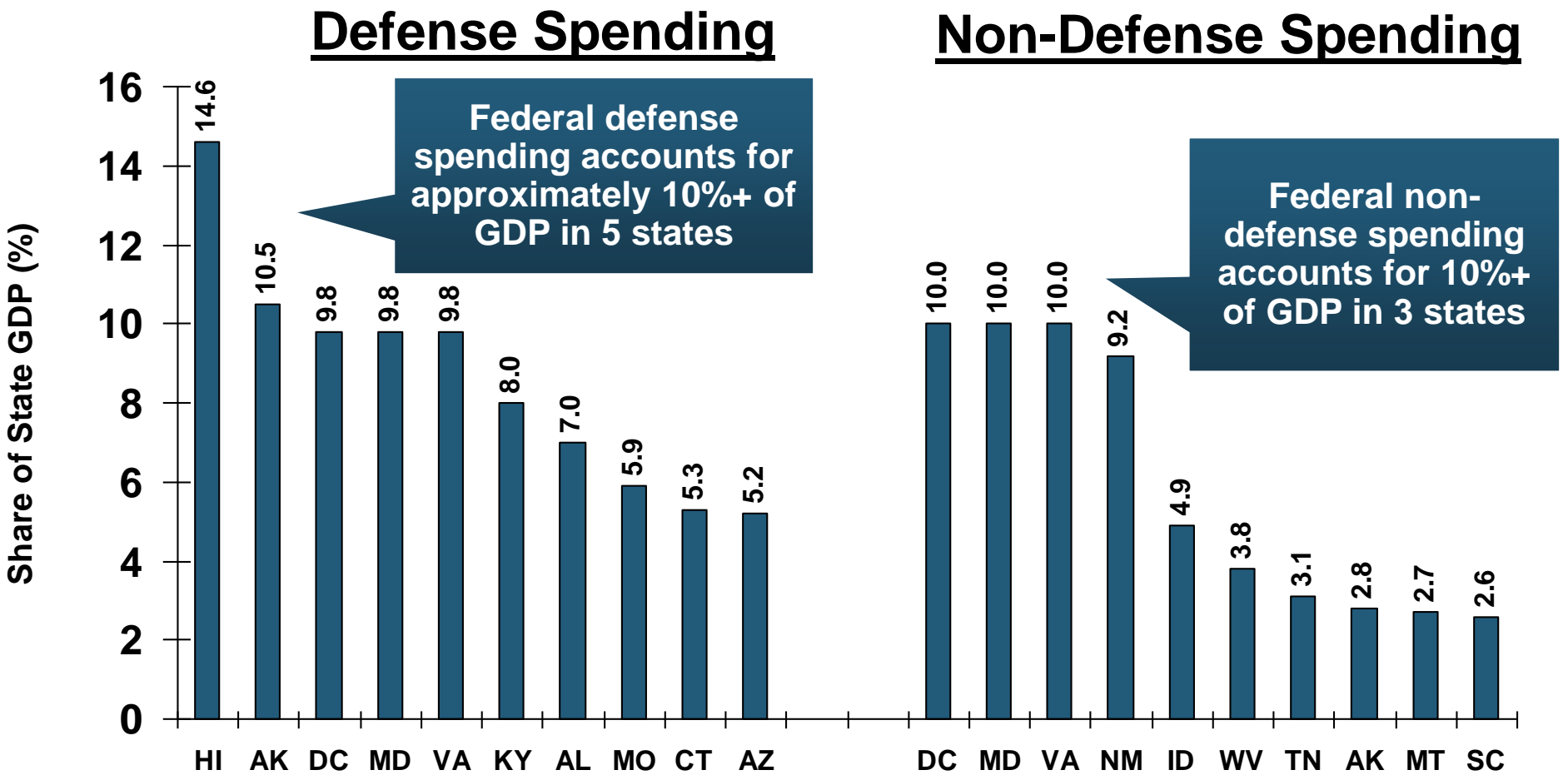
The economic outlook for Northeast and Mid-Atlantic regions is mixed but suggests growth in the creation of insurable exposures

Federal Spending as a Share of State GDP: Vulnerability to Sequestration Varies

Some Mid-Atlantic and Southern state are more vulnerable to the effects of sequestration



Defense and Non-Defense Federal Spending as a Share of State GDP: Top 10 States*

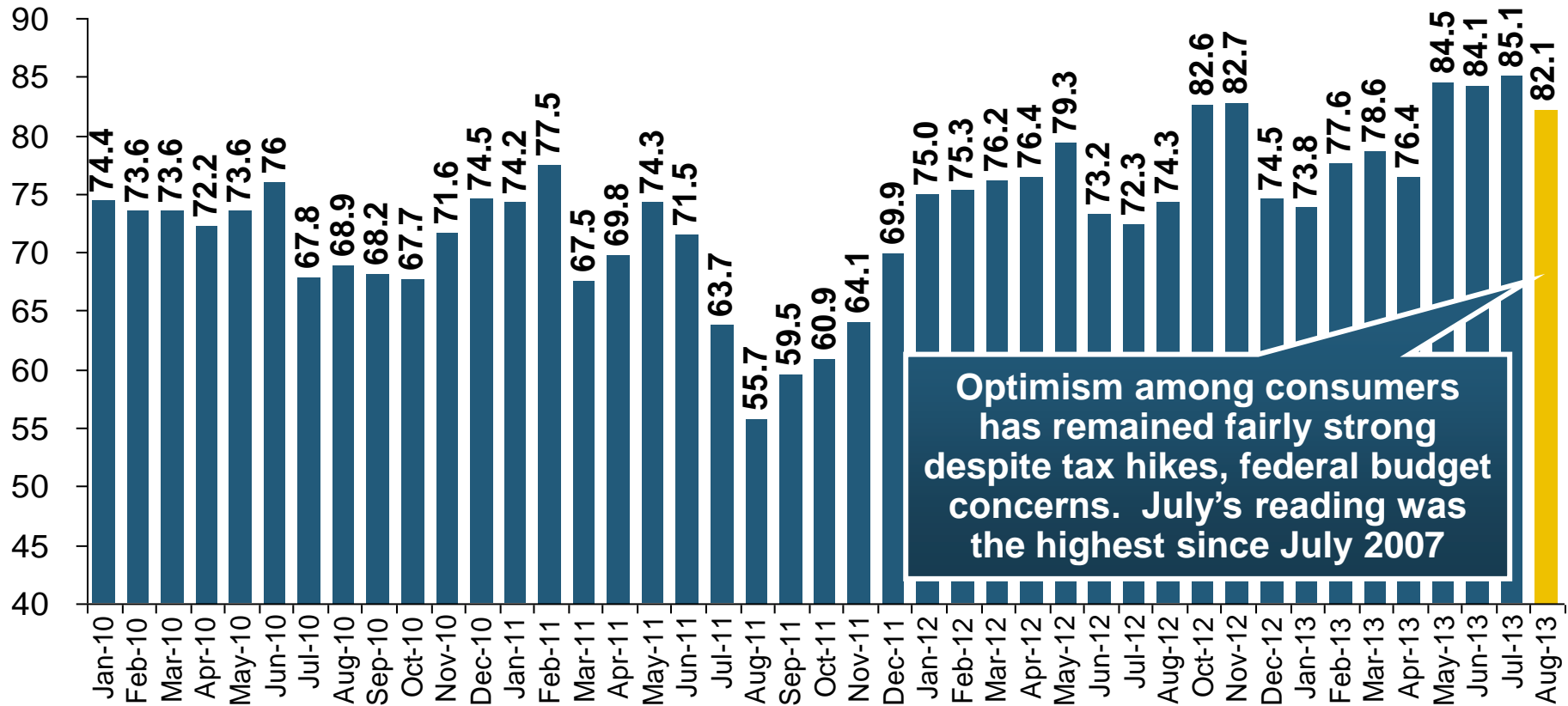


Sequestration Could Adversely Impact Commercial Insurance Exposures Directly at Defense Contractors and Indirectly in Impacted Communities

*As of 2010.
Sources: Pew Center on the States (2012) *Impact of the Fiscal Cliff on the States*; Wells Fargo Securities; Insurance Information Institute.

Consumer Sentiment Survey (1966 = 100)

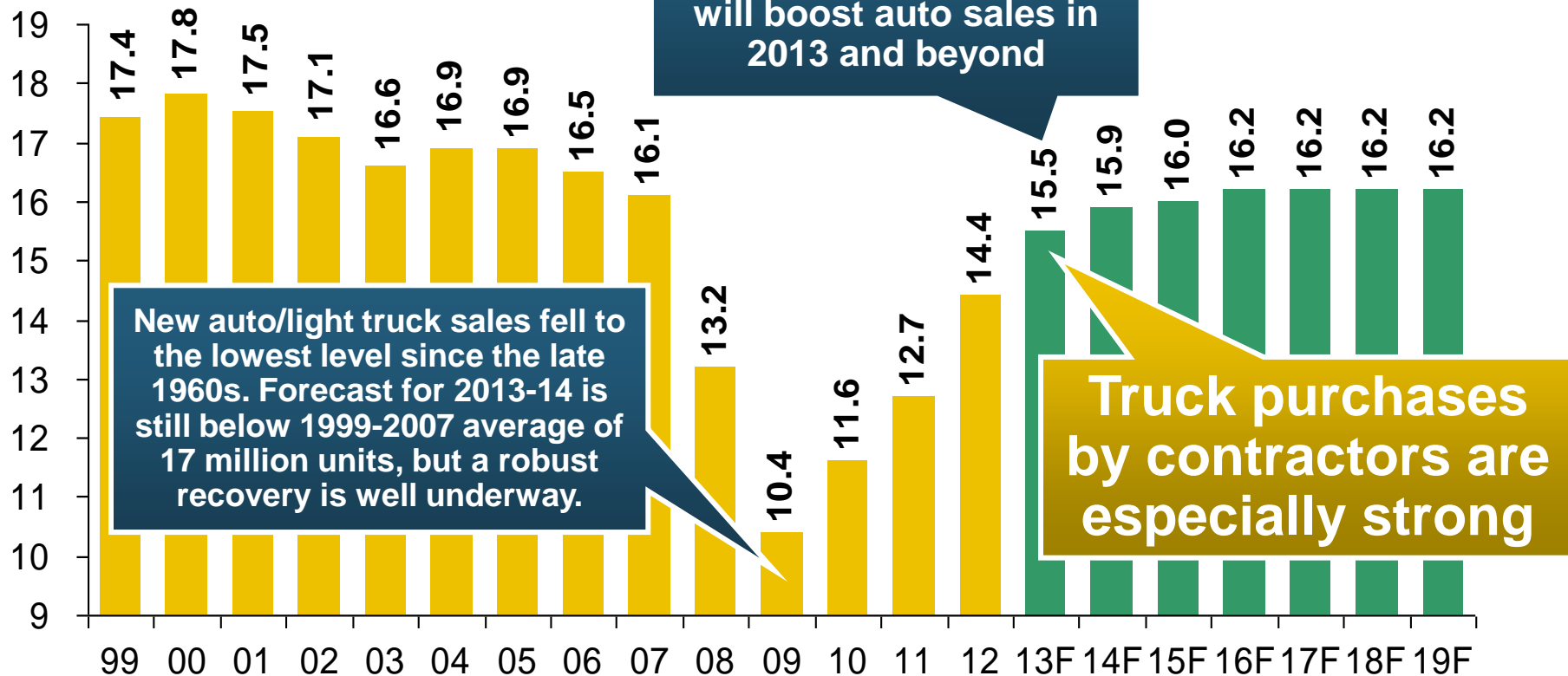
January 2010 through August 2013



Consumer confidence has been low for years amid high unemployment, falling home prices and other factors adversely impact consumers, but improved substantially over the past two years

Auto/Light Truck Sales, 1999-2019F

(Millions of Units)

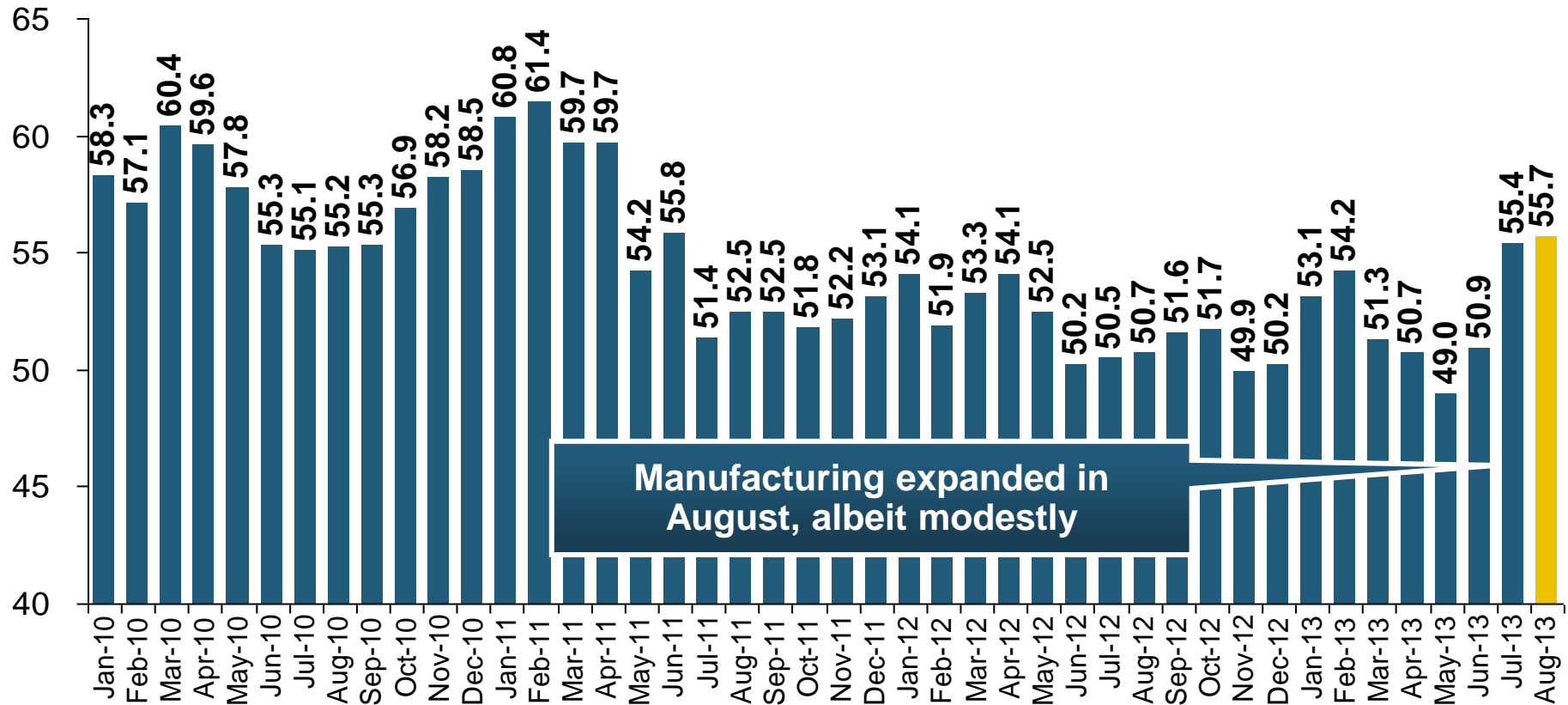


Car/Light Truck Sales Will Continue to Recover from the 2009 Low Point, Bolstering the Auto Insurer Growth and the Manufacturing Sector Along With Workers Comp Exposures

ISM Manufacturing Index

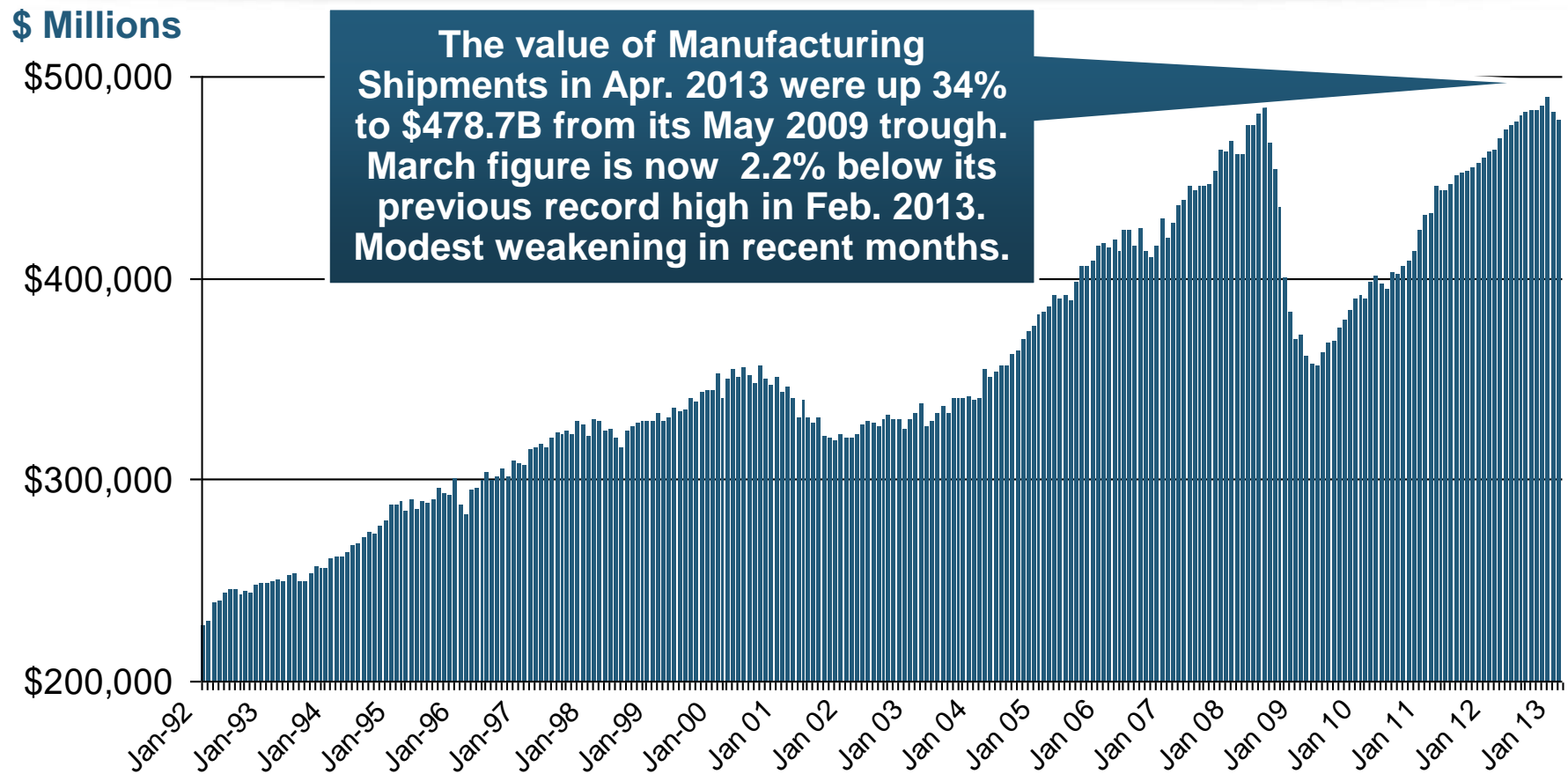
(Values > 50 Indicate Expansion)

January 2010 through August 2013



The manufacturing sector expanded for 42 of the 44 months from Jan. 2010 through June 2013. Recent weakness stems largely from woes in Europe and a Slowdown in China.

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



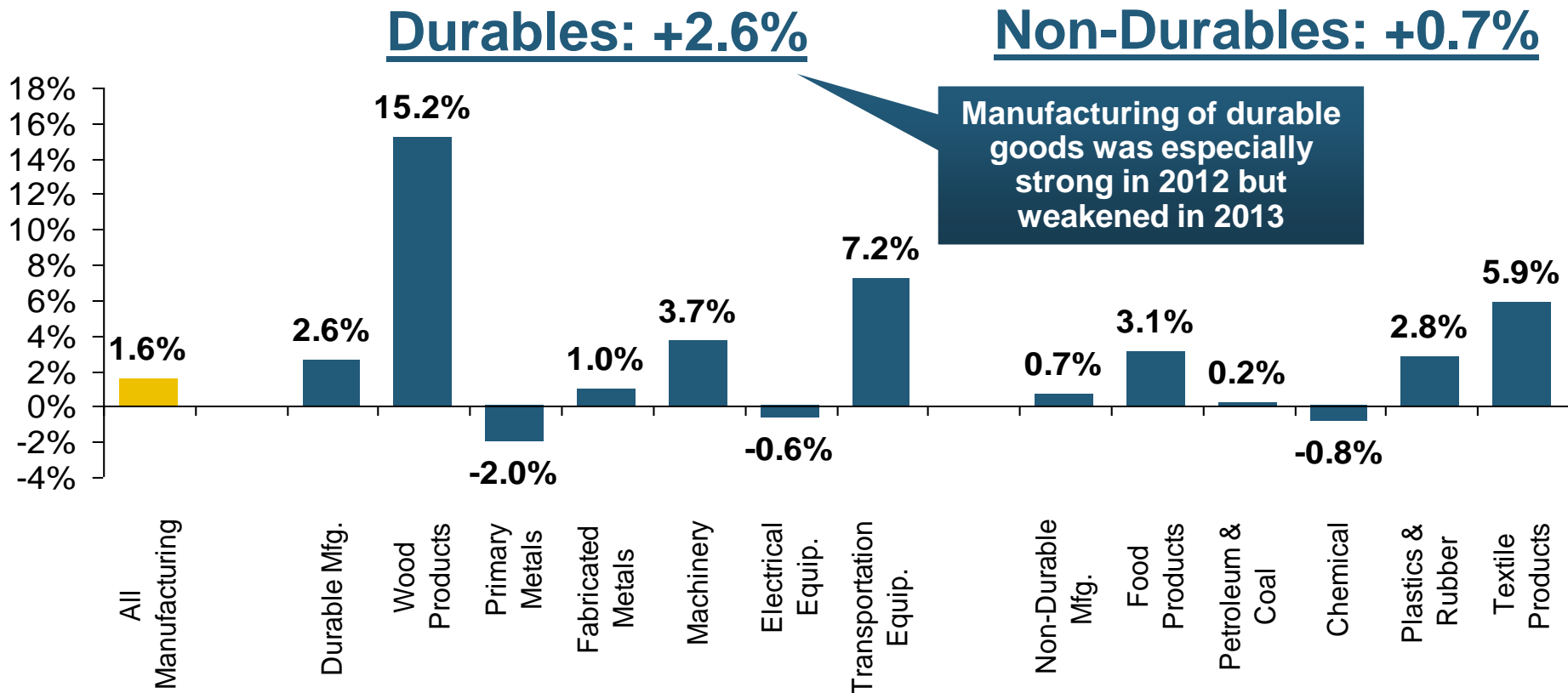
Monthly shipments in Feb. 2013 exceeded their pre-crisis (July 2008) peak. Trough in May 2009. Growth from trough to Apr. 2013 was 34%. Manufacturing is an energy intensive activity and growth leads to gains in many commercial exposures: WC, Commercial Auto, Marine, Property and Various Liability Coverages

*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, 2013 vs. 2013*

Growth (%)



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

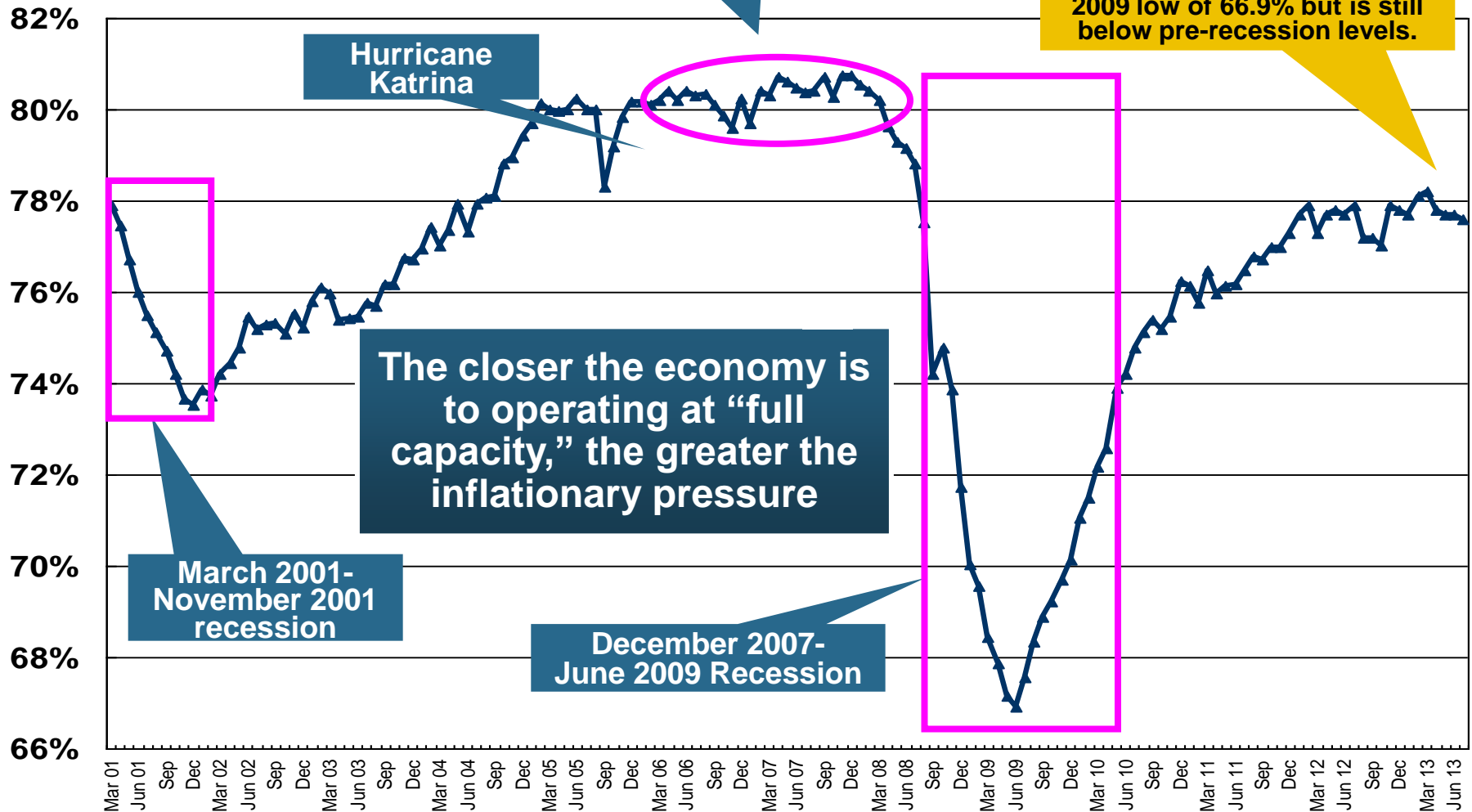
*Seasonally adjusted; Date are YTD comparing data through July 2013 to the same period in 2012.

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

Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures

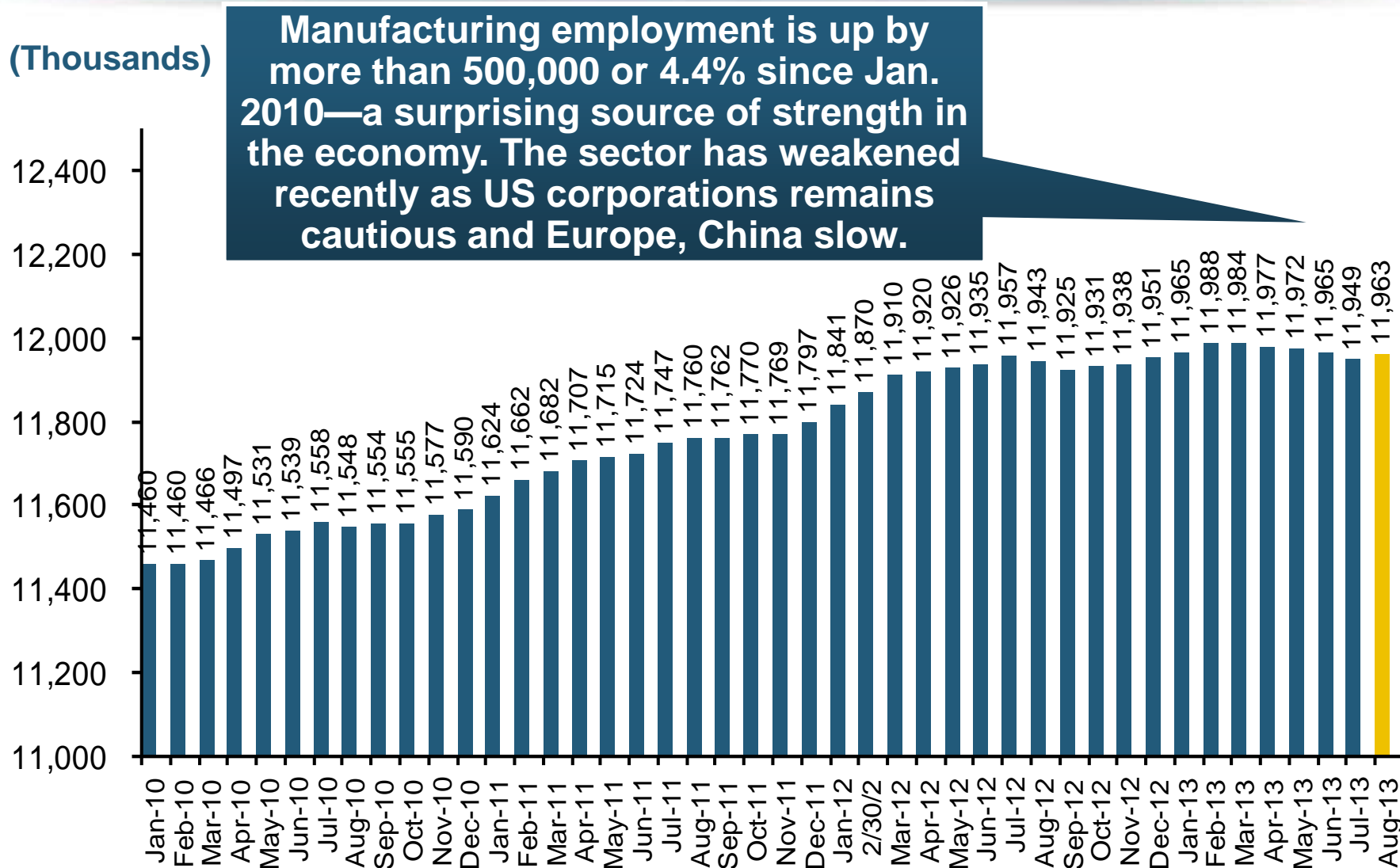
March 2001 through July 2013

Percent of Industrial Capacity



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

Manufacturing Employment, Jan. 2010—August 2013*

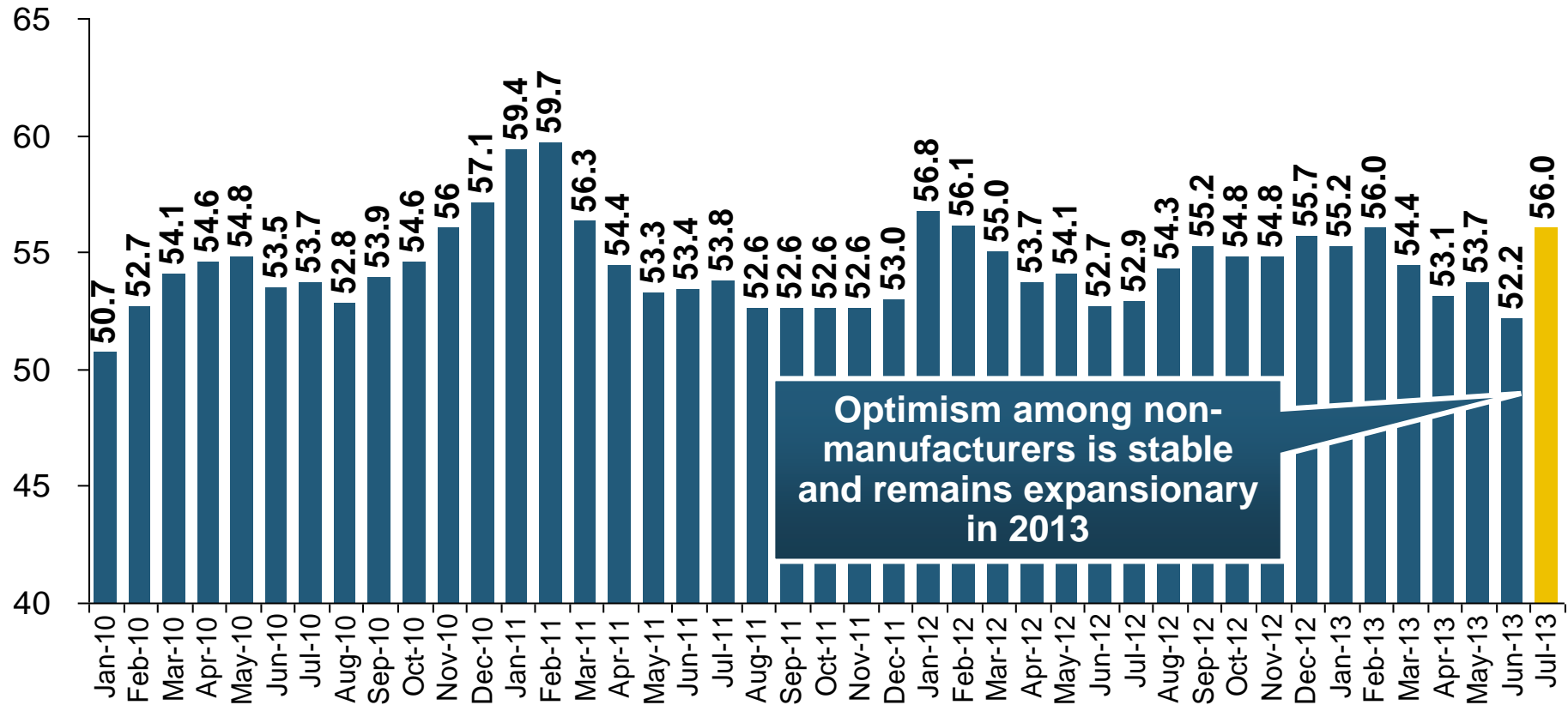


*Seasonally adjusted

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

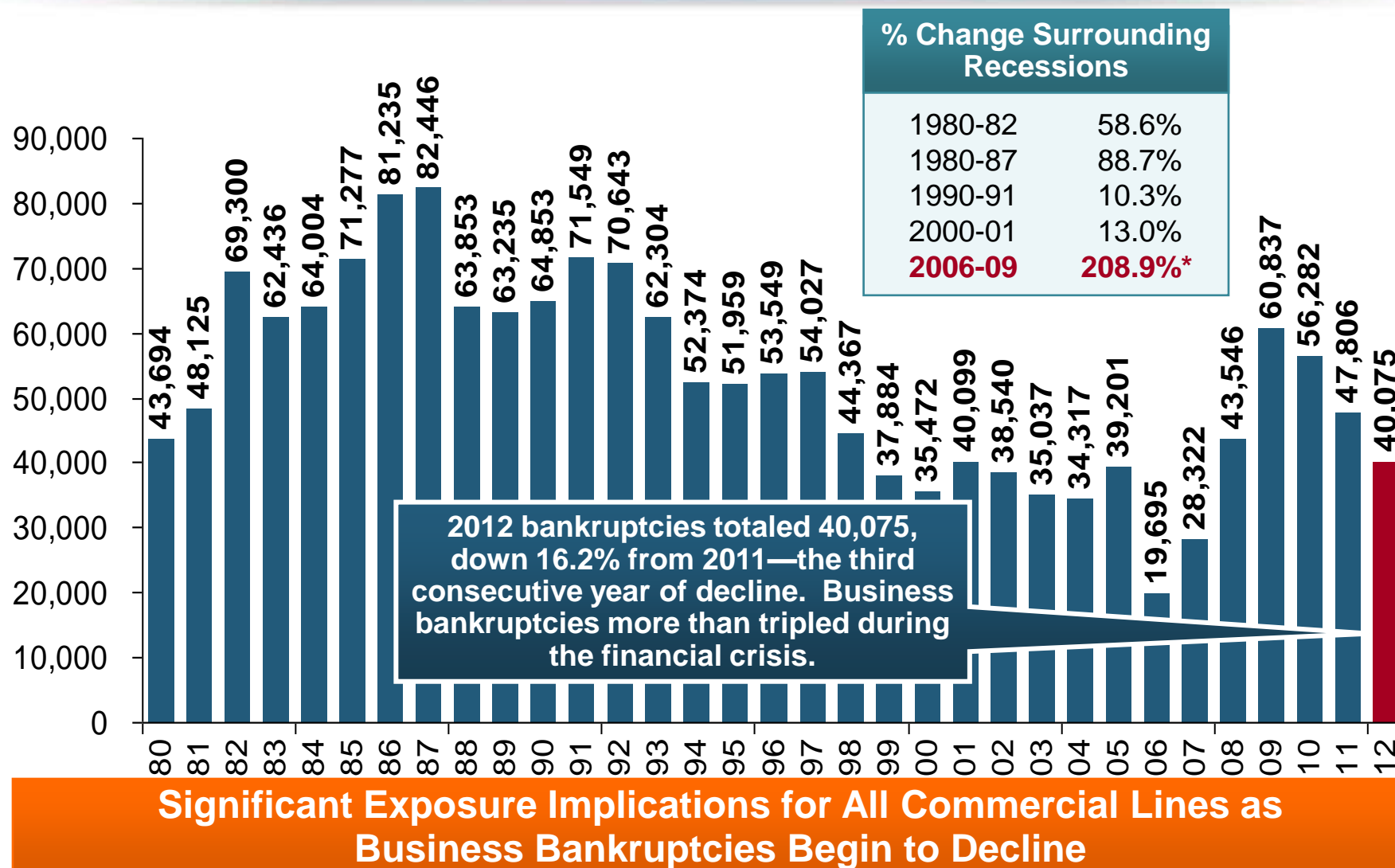
ISM Non-Manufacturing Index (Values > 50 Indicate Expansion)

January 2010 through July 2013



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

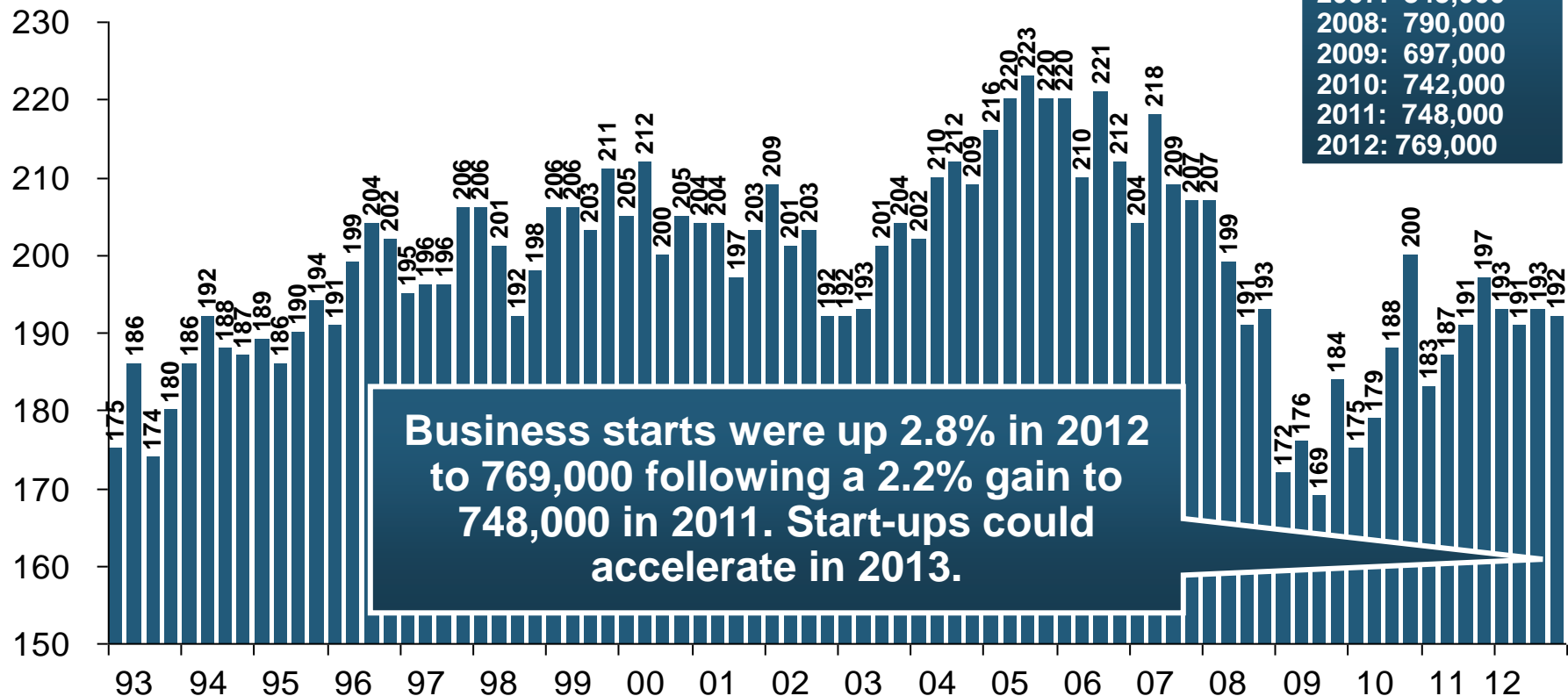
Business Bankruptcy Filings, 1980-2012



Sources: American Bankruptcy Institute at <http://www.abiworld.org/AM/AMTemplate.cfm?Section=Home&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=61633>; Insurance Information Institute

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

(Thousands)



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

* Data through Dec. 30, 2012 are the latest available as of Aug. 16, 2013; Seasonally adjusted.

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

NFIB Small Business Optimism Index

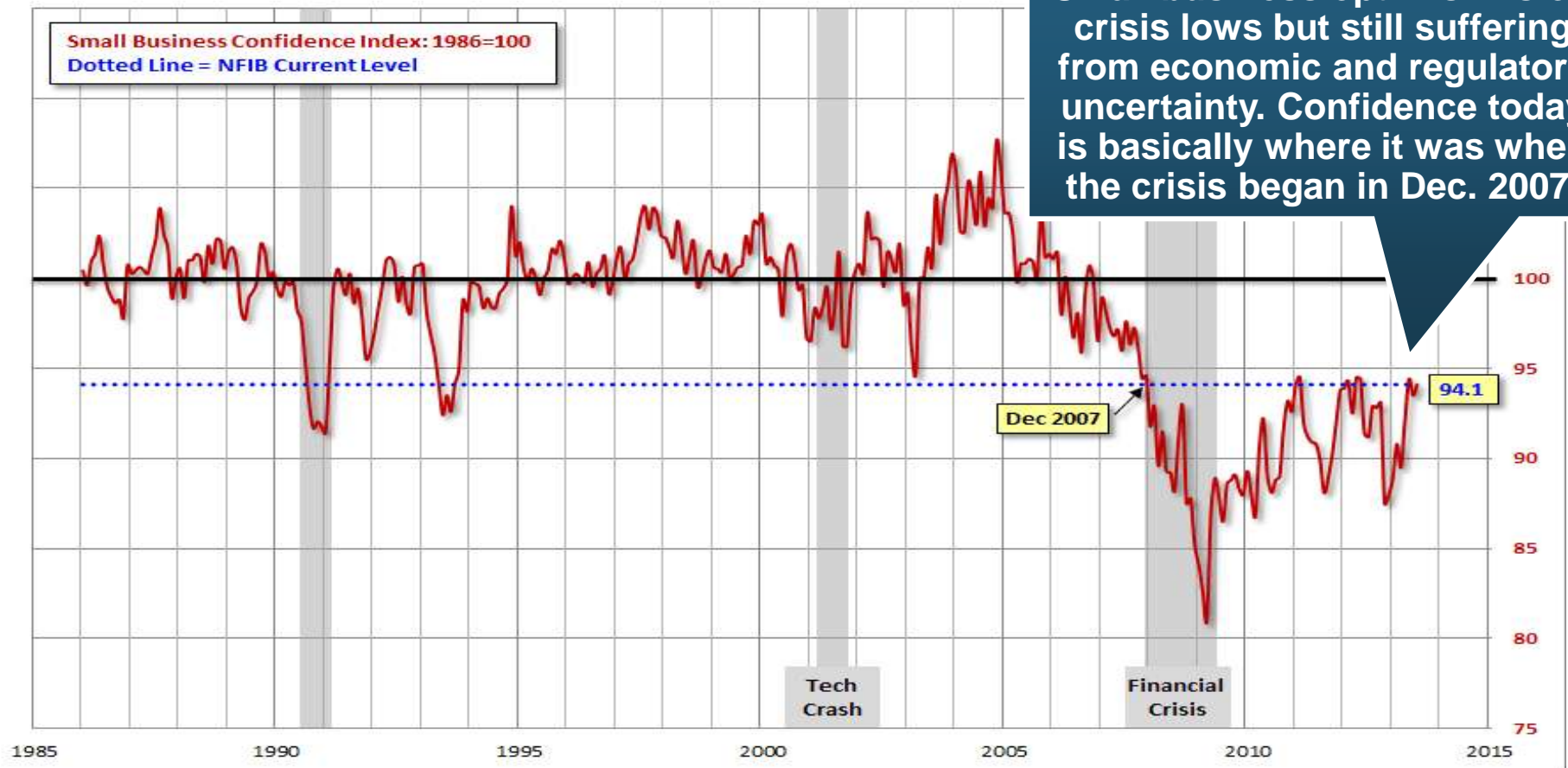
January 1985 through July 2013

Data through
July 2013

NFIB Small Business Optimism Index
with Recessions Highlighted

dshort.com
August 2013

Small business optimism is off crisis lows but still suffering from economic and regulatory uncertainty. Confidence today is basically where it was when the crisis began in Dec. 2007.



12 Industries for the Next 10 Years: Insurance Solutions Needed

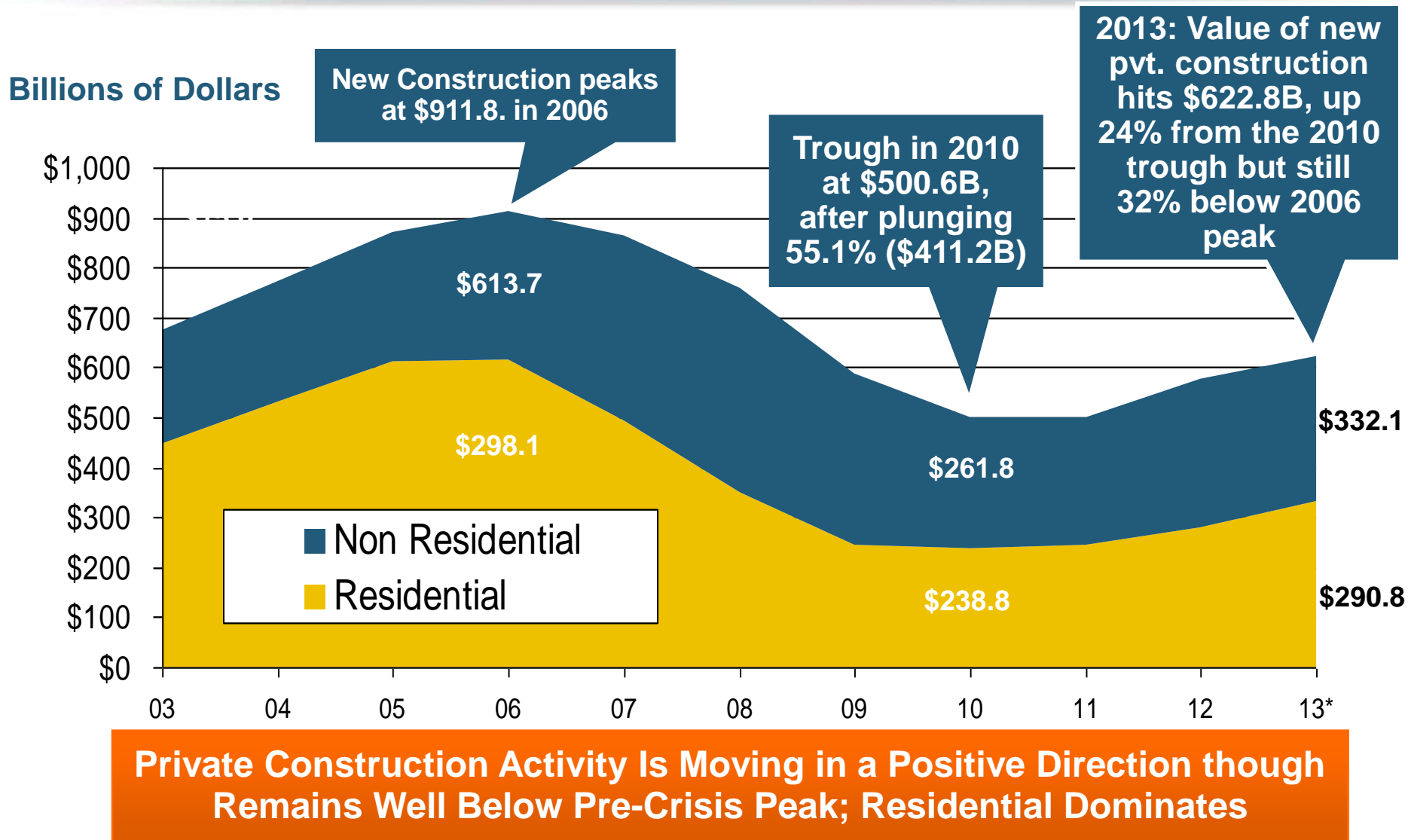
Health Care
Health Sciences
Energy (Traditional)
Alternative Energy
Petrochemical
Agriculture
Natural Resources
Technology (incl. Biotechnology)
Light Manufacturing
Insourced Manufacturing
Export-Oriented Industries
Shipping (Rail, Marine, Trucking, Pipelines)

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

CONSTRUCTION INDUSTRY OVERVIEW & OUTLOOK

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

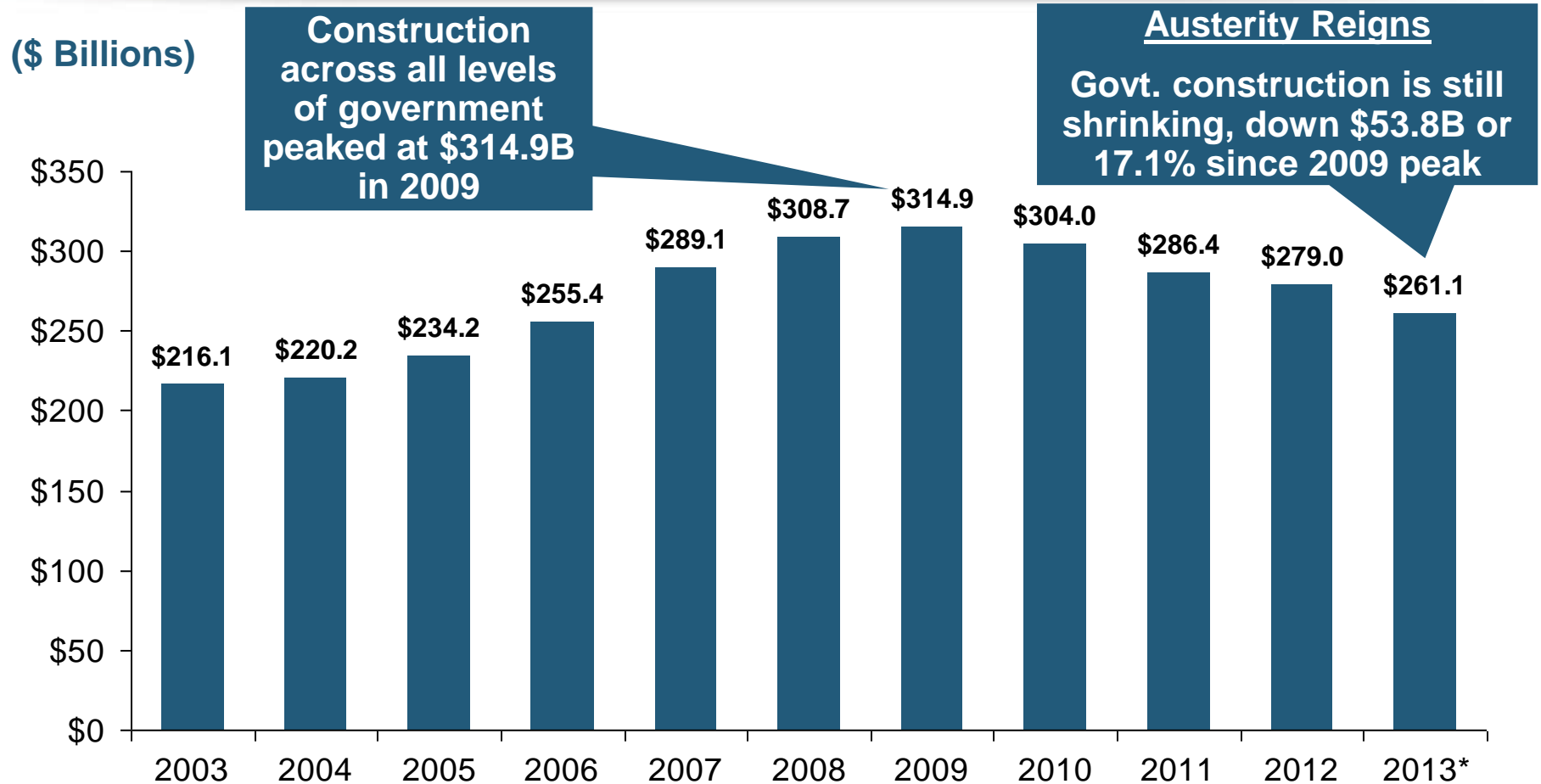
Value of New Private Construction: Residential & Nonresidential, 2003-2013*



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

Sources: US Department of Commerce; Insurance Information Institute.

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



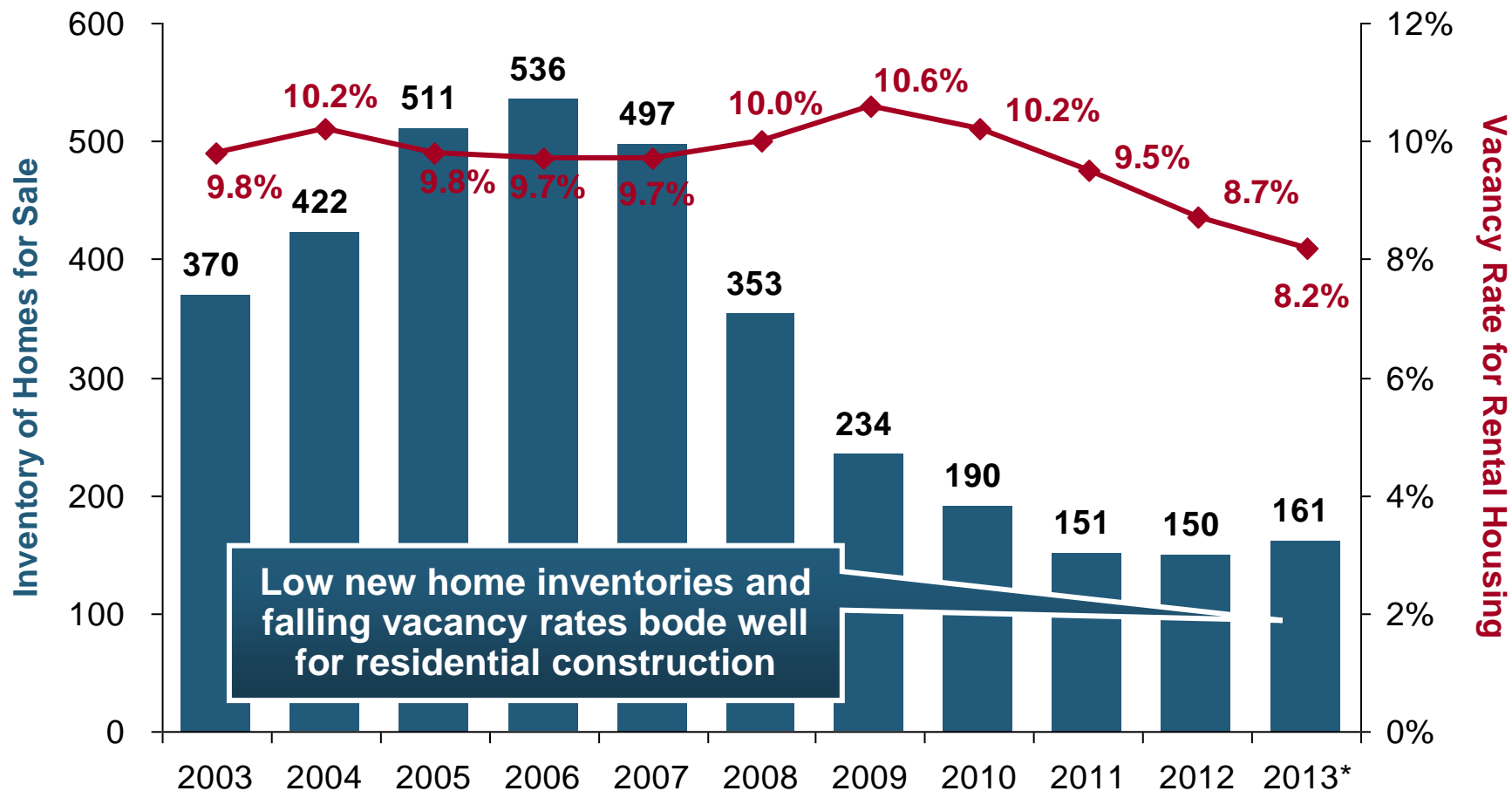
Government Construction Spending Peaked in 2009, Helped by Stimulus Spending, but Continues to Contract As State/Local Governments Grapple with Deficits and Federal Sequestration Takes Hold

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

Sources: US Department of Commerce; Insurance Information Institute.

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

(Thousands)

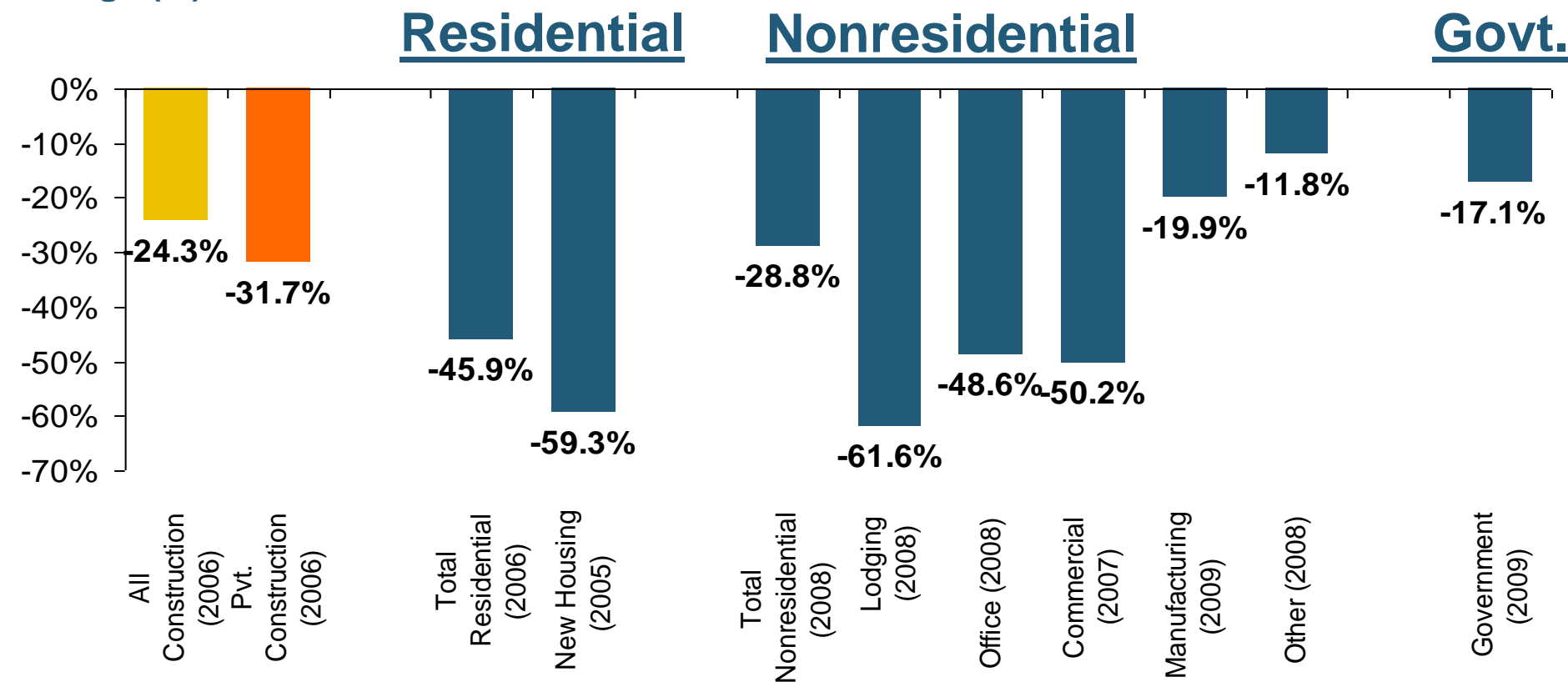


*2013 figure is a seasonally adjusted annual rate as of June.

Sources: US Department of Commerce; Insurance Information Institute.

Change from Peak in New Construction Expenditures to 2013*

Change (%)



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

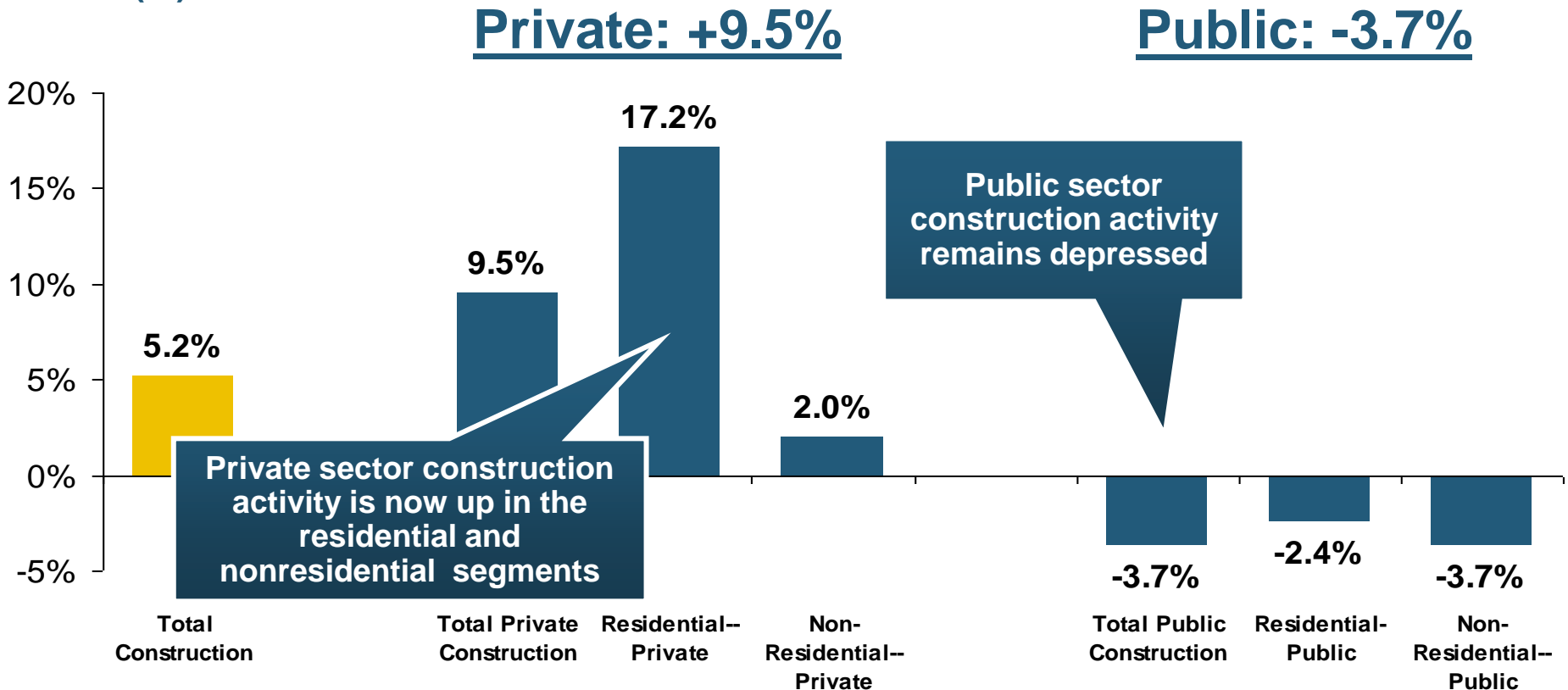
Note: Year in parentheses is the year of peak expenditure.

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

Sources: US Department of Commerce; Insurance Information Institute.

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

Growth (%)



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

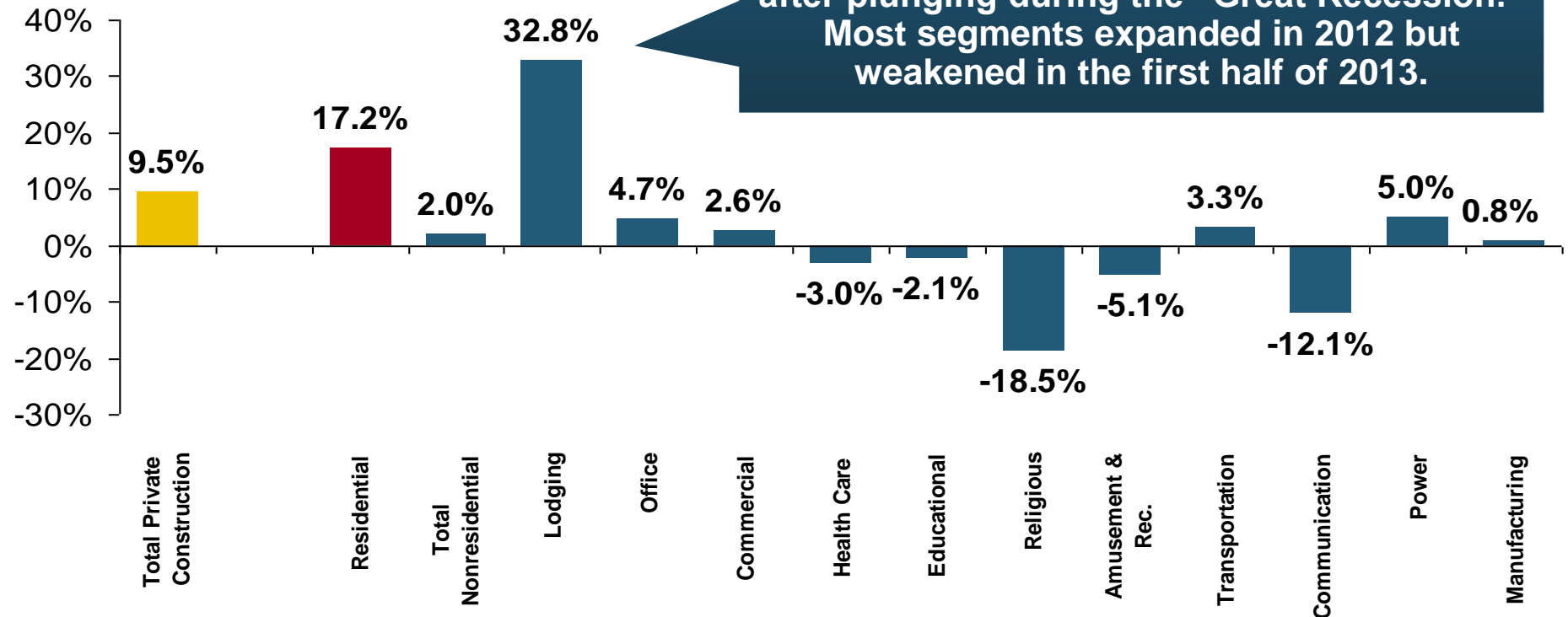
*seasonally adjusted

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, July 2013 vs. July 2012*

Growth (%)

Led by the Residential Construction, Lodging, Power and Office segments, Private sector construction activity remains mixed after plunging during the “Great Recession.” Most segments expanded in 2012 but weakened in the first half of 2013.



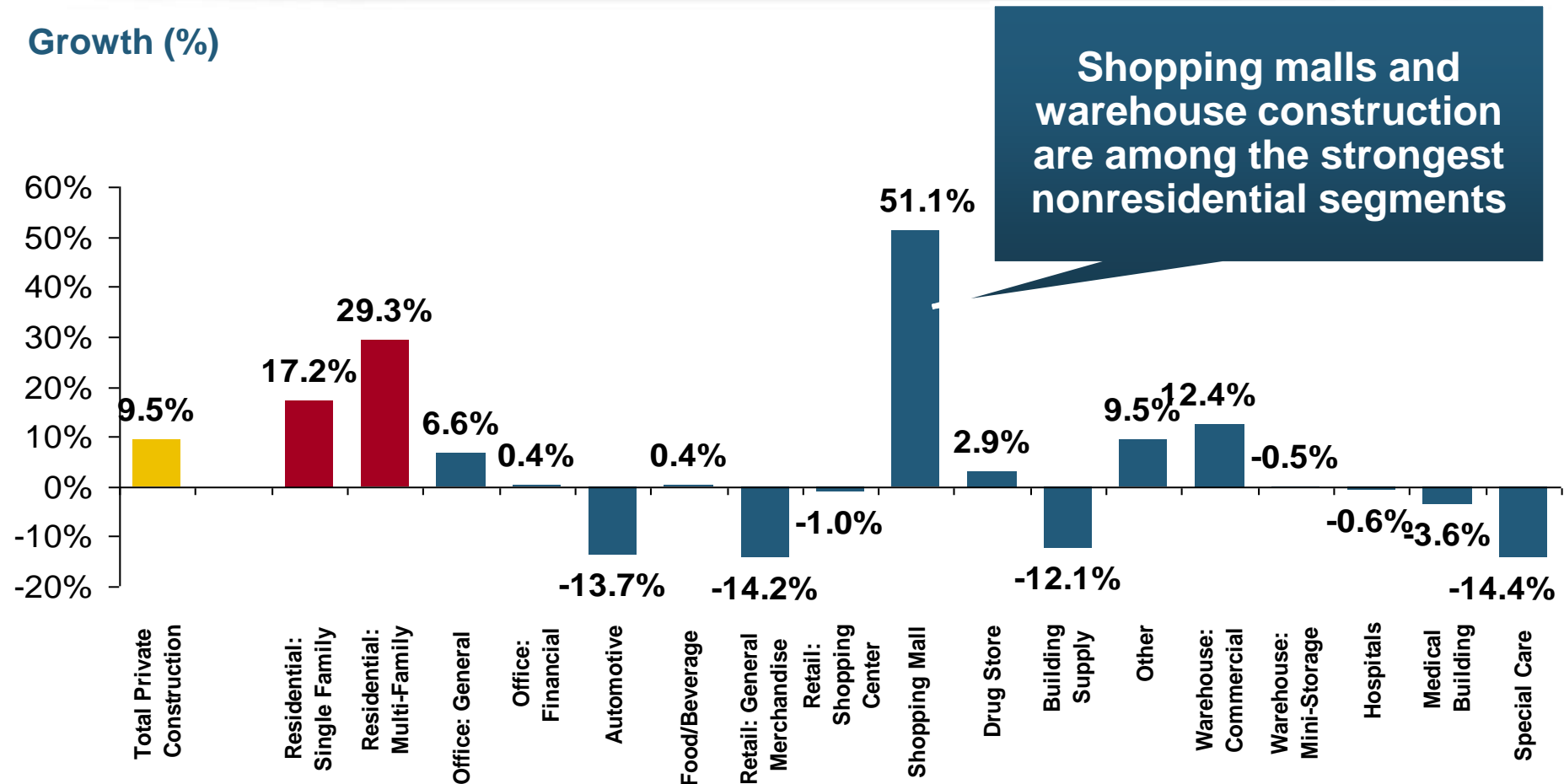
Private Construction Activity is Up in Some Segments, Including the Key Residential Construction Sector, But Weakened in the First Half of 2013

*seasonally adjusted

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

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

Growth (%)



Private Construction Activity is Up in Some Segments, Including the Key Residential Construction Sector, But Down in Others

*seasonally adjusted

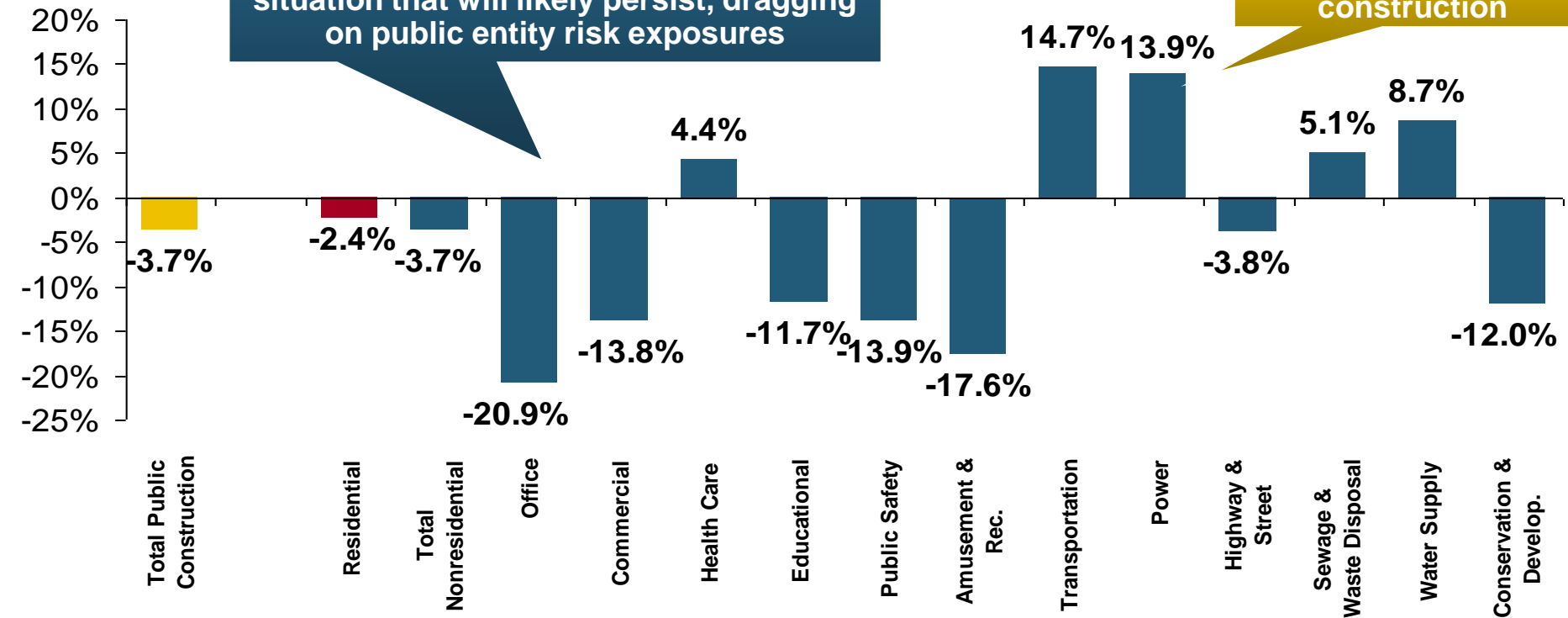
Source: U.S. Census Bureau, <http://www.census.gov/construction/c30/c30index.html> ; Insurance Information Institute.

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

Growth (%)

Public sector construction activity is down substantially in most segments, a situation that will likely persist, dragging on public entity risk exposures

Transportation and Power projects lead public sector construction



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

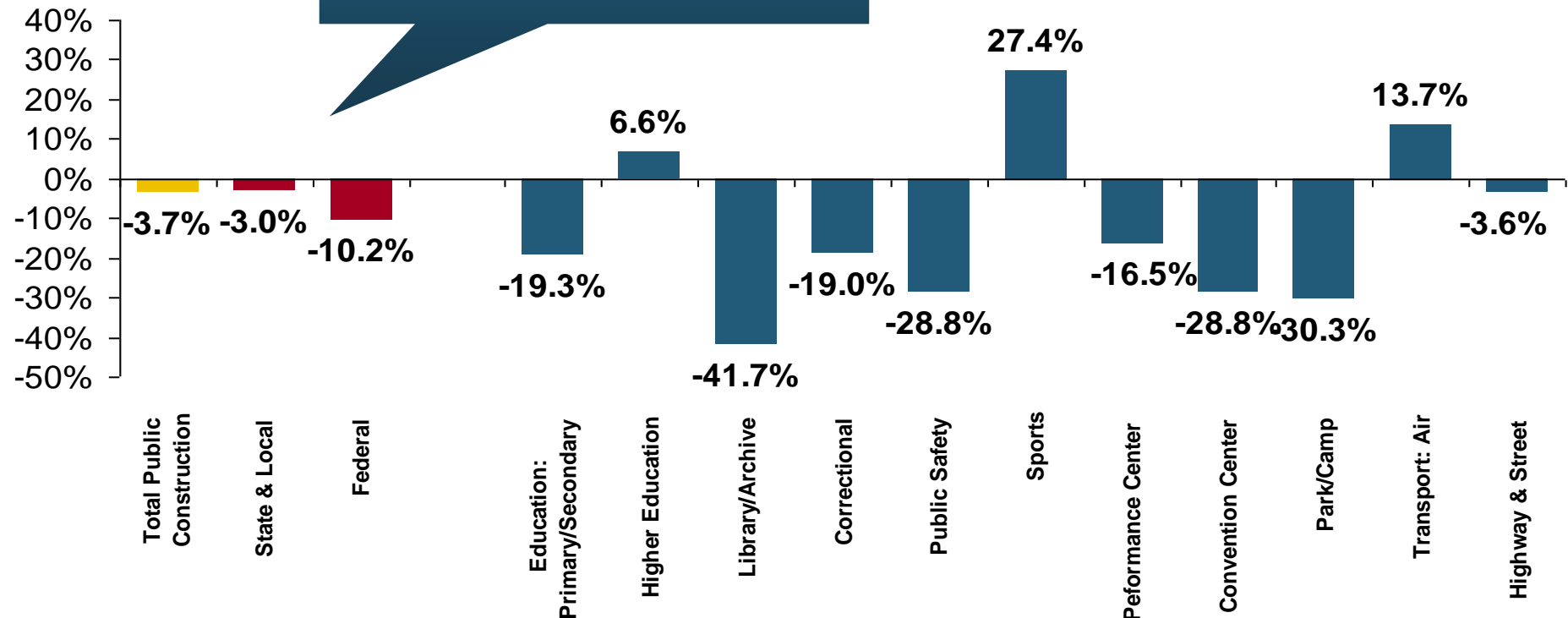
*seasonally adjusted

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

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

Growth (%)

It could be years before
public sector construction
activity recovers

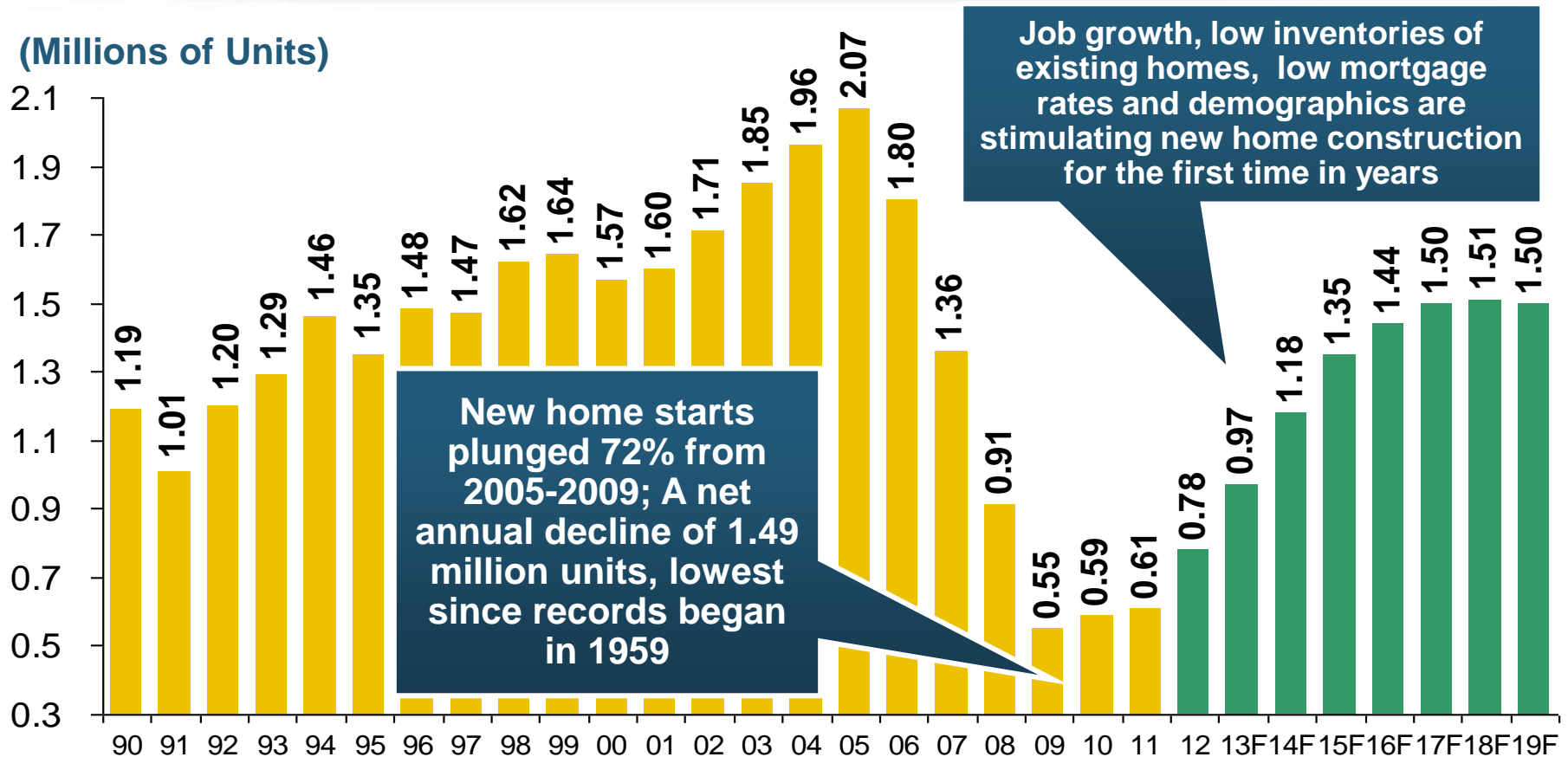


Public Construction Activity is Down in Most Segements as Governments Grapple with Budget Deficits and Pension Shortfalls

*seasonally adjusted

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

New Private Housing Starts, 1990-2019F

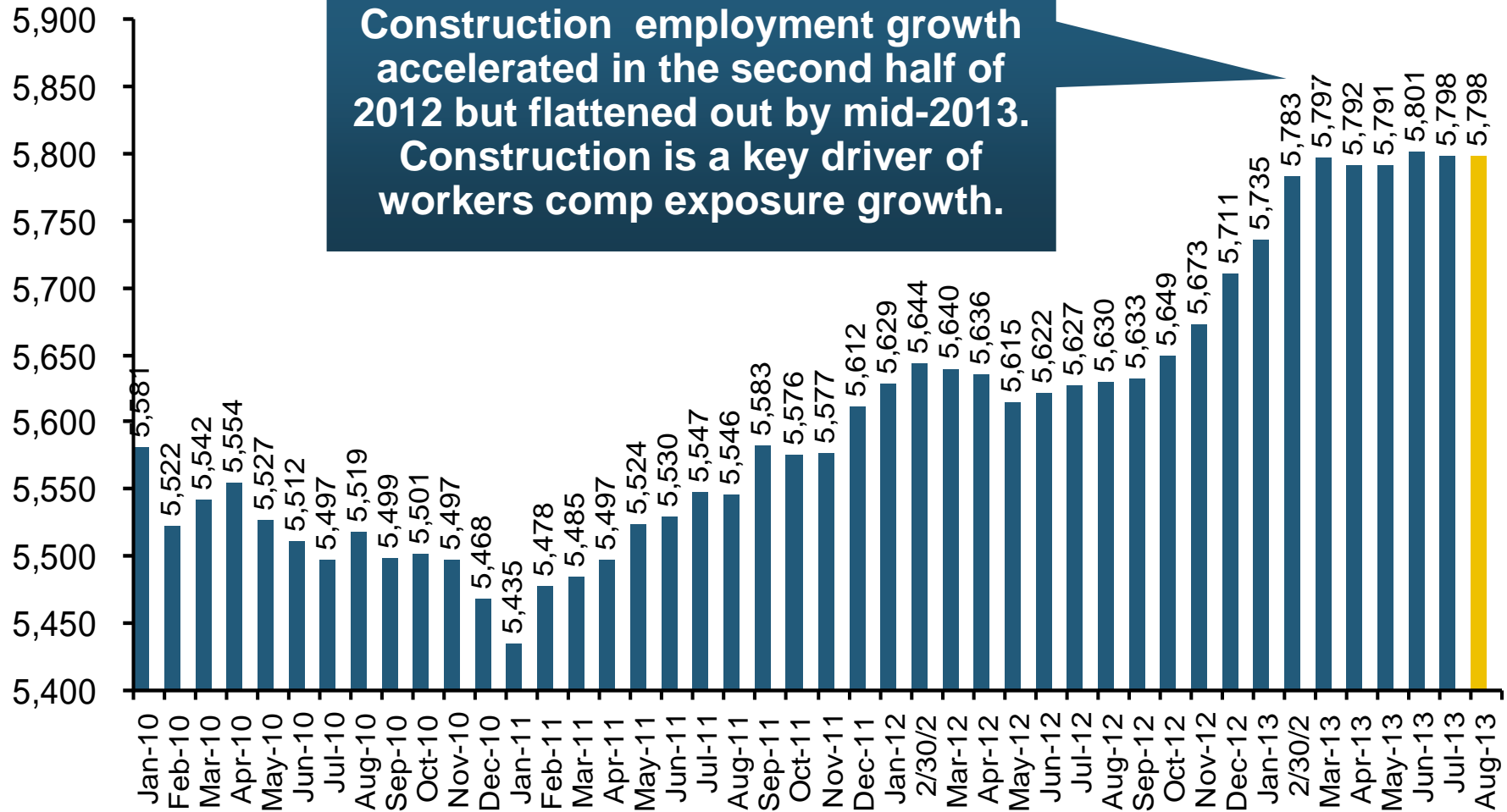


Insurers Are Starting to See Meaningful Exposure Growth for the First Time Since 2005 Associated with Home Construction: Construction Risk Exposure, Surety, Commercial Auto; Potent Driver of Workers Comp Exposure

Construction Employment, Jan. 2010—August 2013*

(Thousands)

Construction employment growth accelerated in the second half of 2012 but flattened out by mid-2013. Construction is a key driver of workers comp exposure growth.



*Seasonally adjusted

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

Construction Employment, Jan. 2003–August 2013

(Thousands)



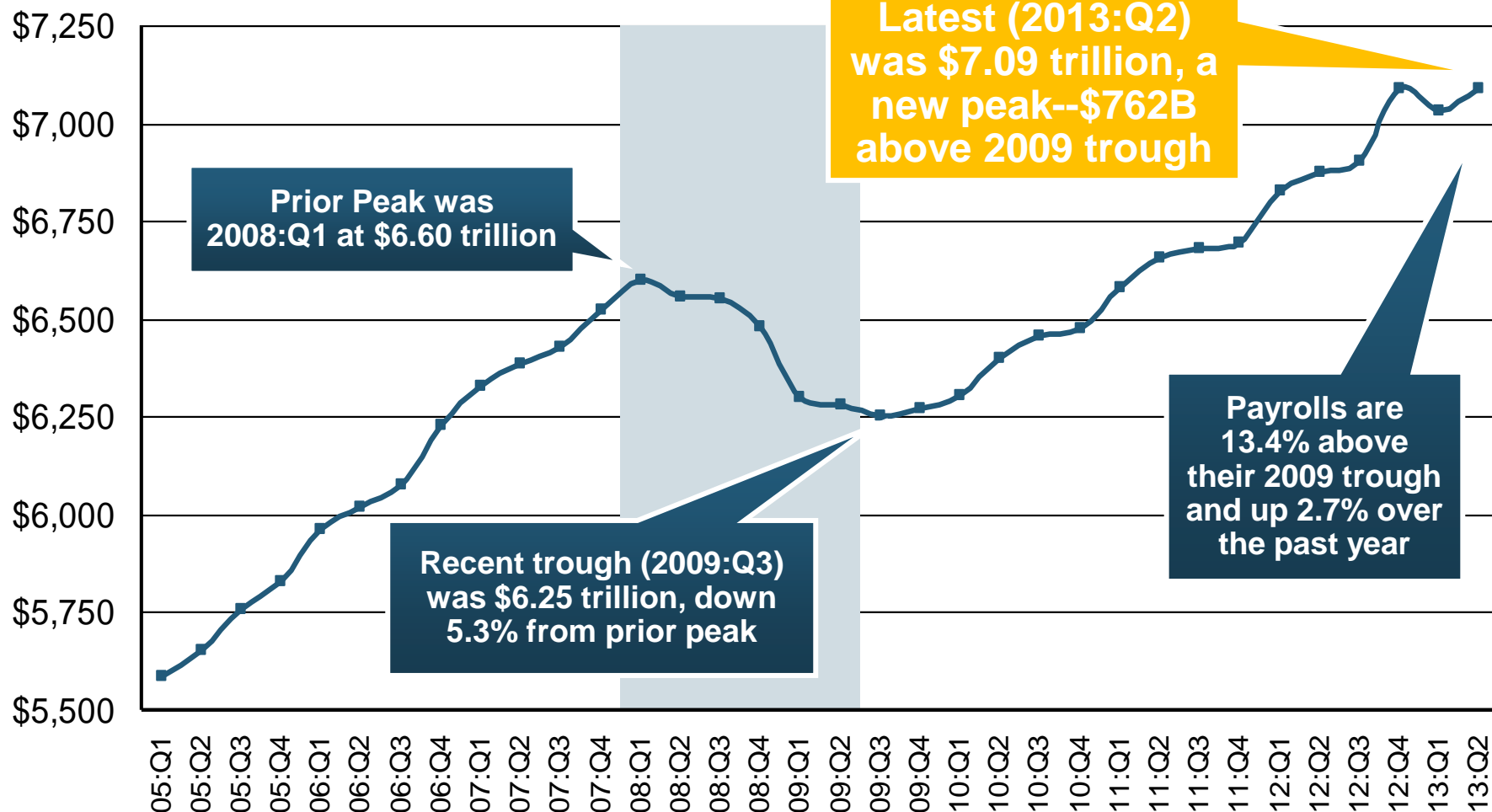
The Construction Sector Could Be a Growth Leader in 2013 and 2014 as the Housing Market and Private Investment Recover. WC Insurers Will Benefit.

Note: Recession indicated by gray shaded column.

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

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2013:Q2

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.

Credit Markets and Lending

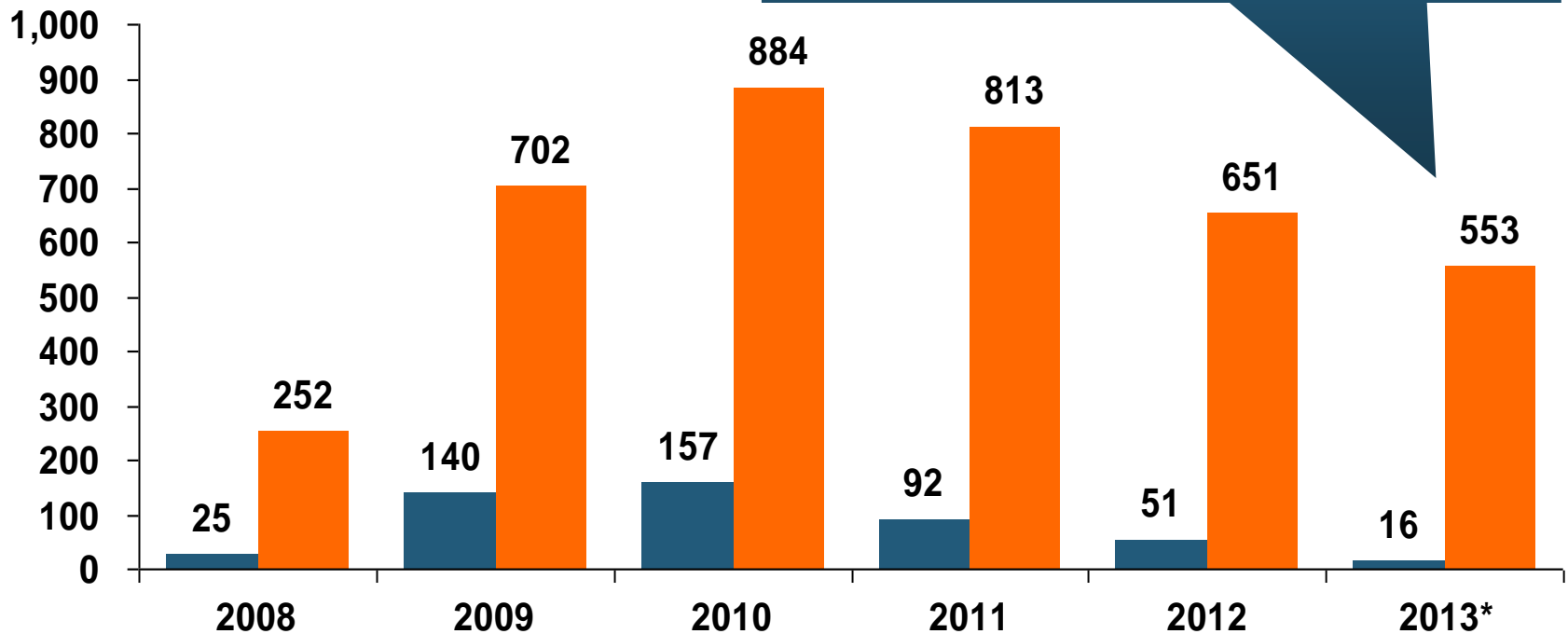
**Credit Market Conditions Have
Vastly Improved**

Mortgage Interest Rates Are Rising

What Will the Fed Do Next?

Number of Failed and Troubled Banks*

Number of Institutions

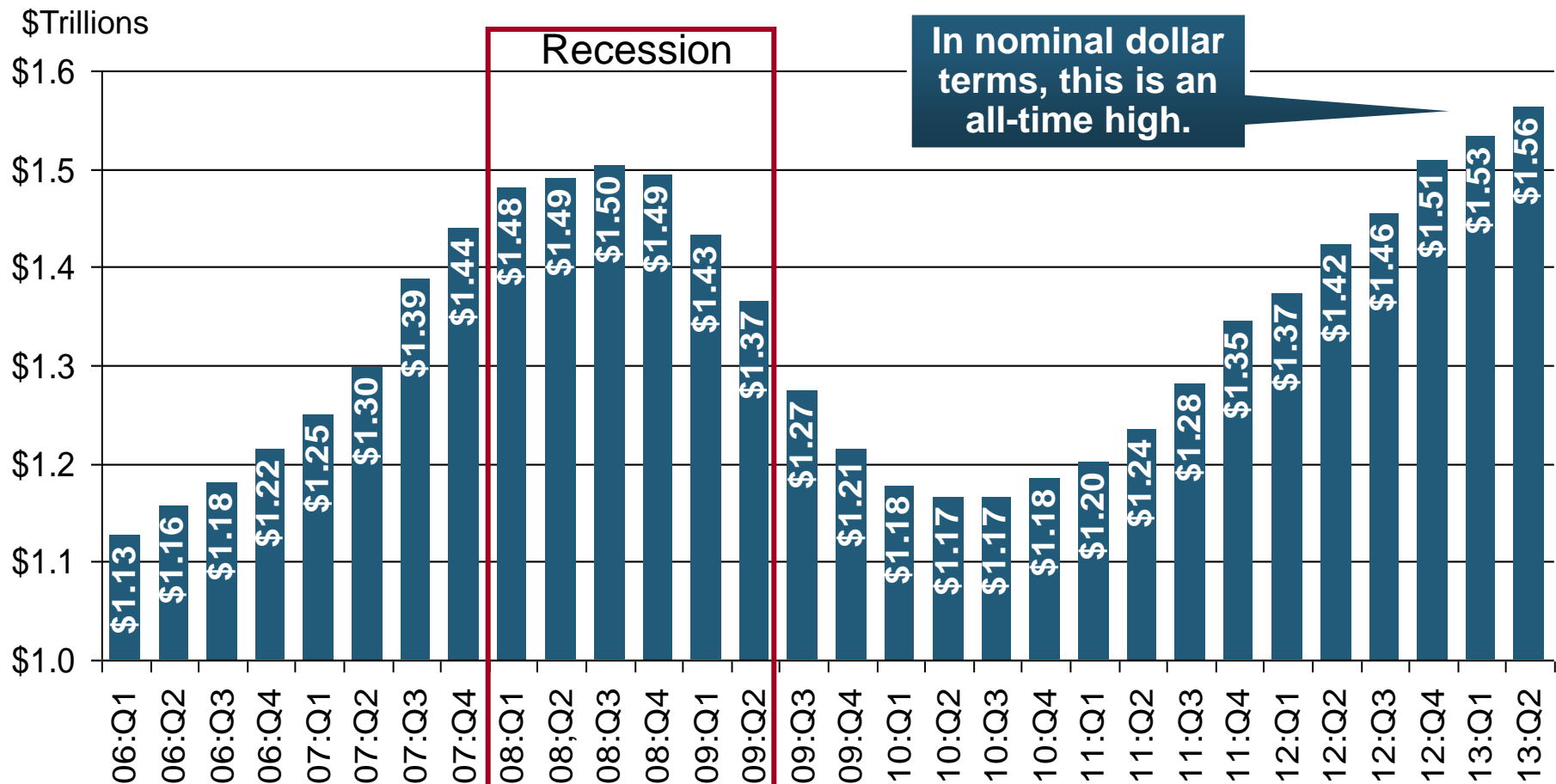


US Banks Are Getting Healthier—Fewer Are Failing or Considered to Be “Troubled” by the FDIC. This is Critical for the Construction Sector.

*As of June 30. FDIC insured institutions only.

Sources: FDIC at <http://www2.fdic.gov/qbp/2013jun/qbp.pdf>; Insurance Information Institute.

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

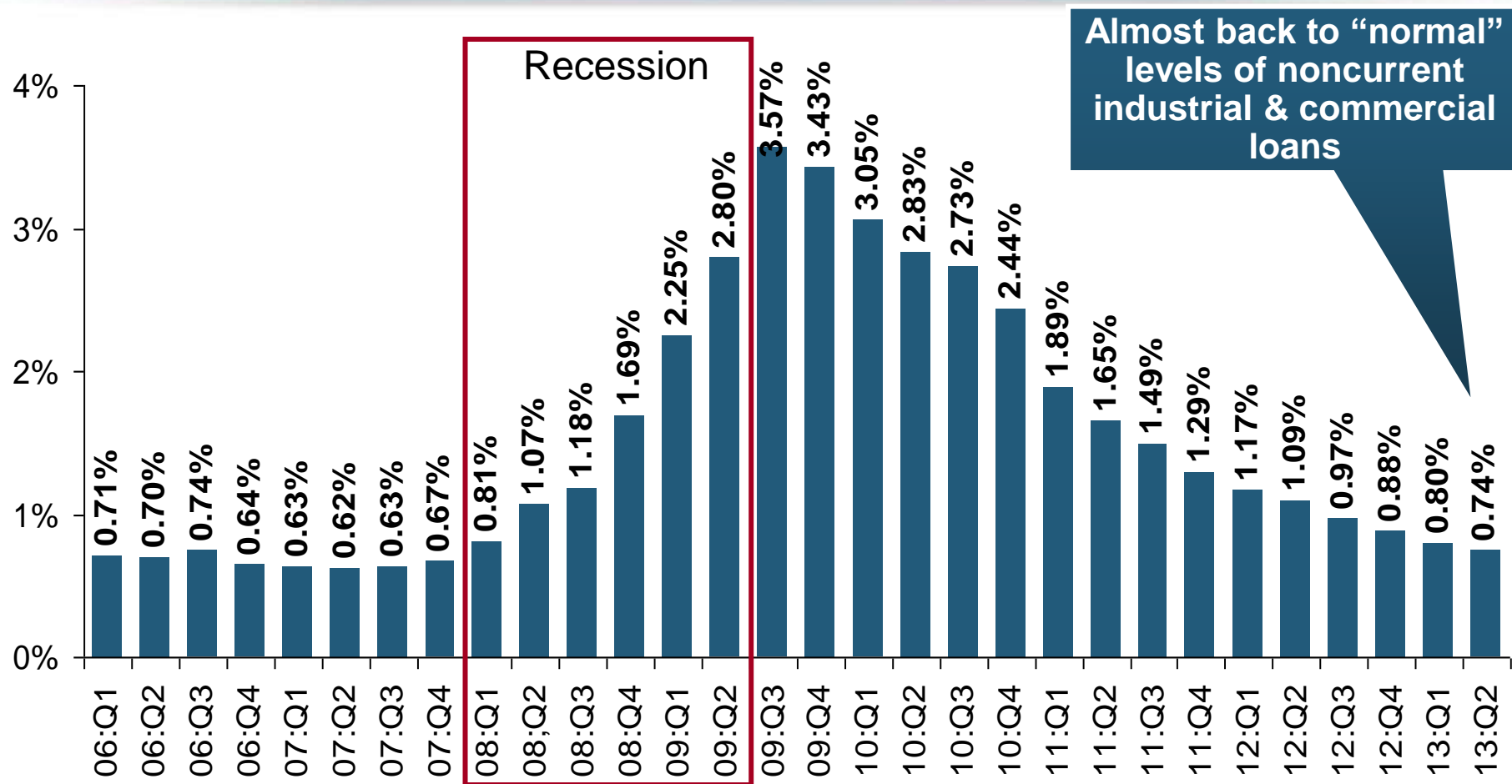


Outstanding loan volume has been growing for over two years and (as of year-end 2012) surpassed previous peak levels.

*Latest data as of 9/8/2013.

Source: FDIC at <http://www2.fdic.gov/qbp/>; Insurance Information Institute.

Percent of Non-Current Commercial & Industrial Loans Outstanding at FDIC-Insured Banks, Quarterly, 2006:1Q-2013:Q2*

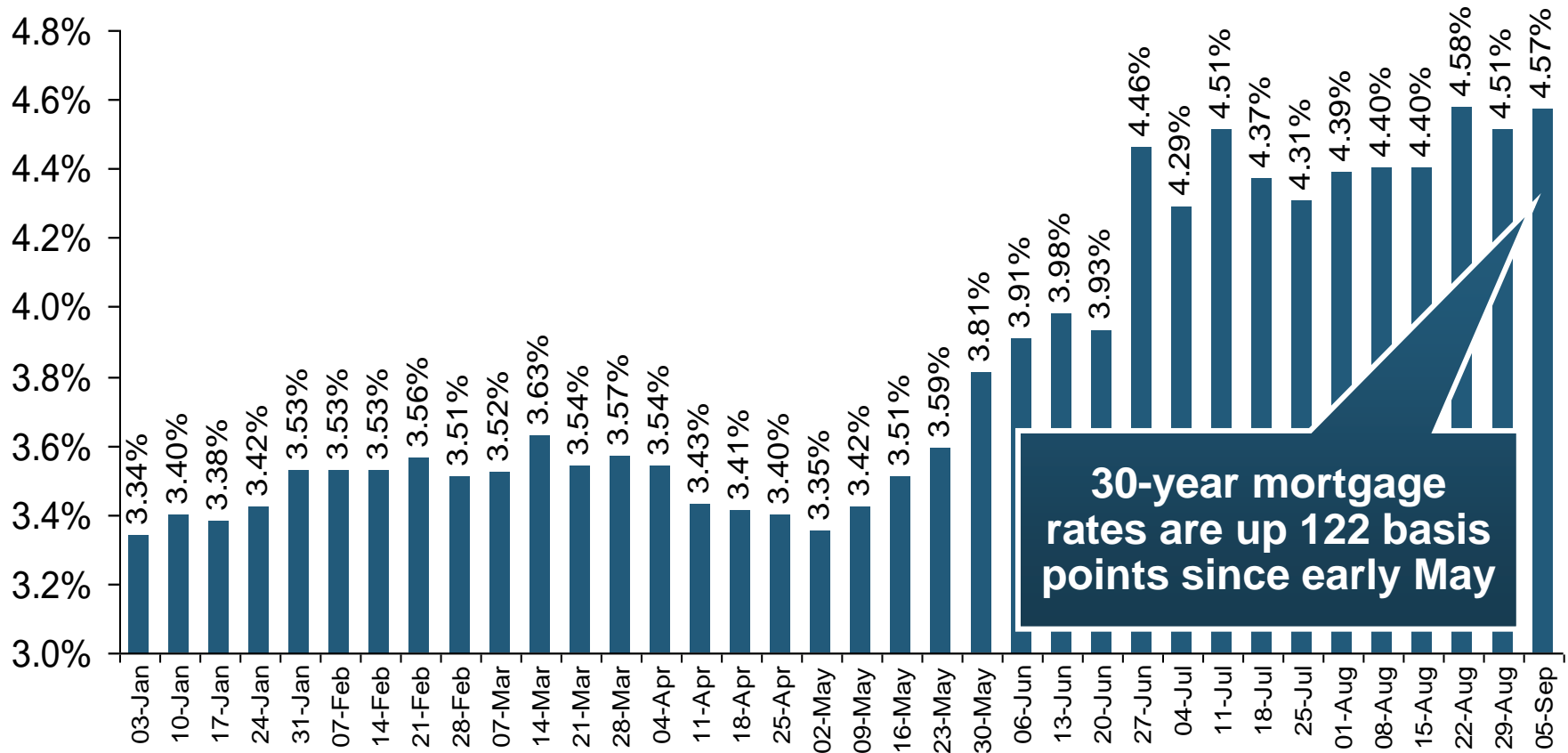


Non-current loans (those past due 90 days or more or in nonaccrual status) are nearly back to early-recession levels, fueling bank willingness to lend.

*Latest data as of 9/8/2013.

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

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

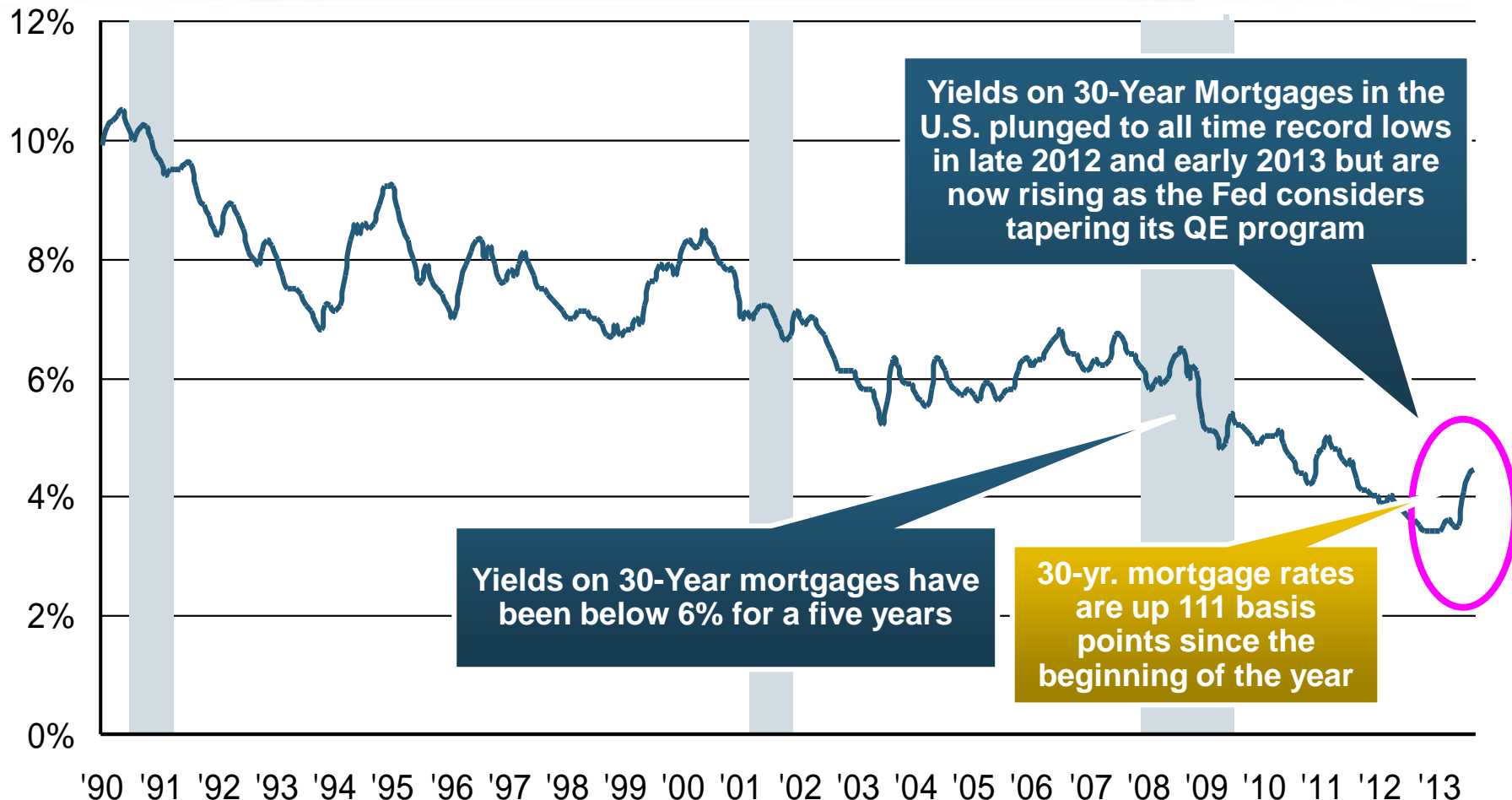


Mortgage Interest Rates Will Rise as Expectations Over the Fed's Tapering of QE3 Persist; Still Low by Historical Standards

*Weekly through September 5, 2013.

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

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



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

*Monthly, through August 2013.

Note: Recessions indicated by gray shaded columns.

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

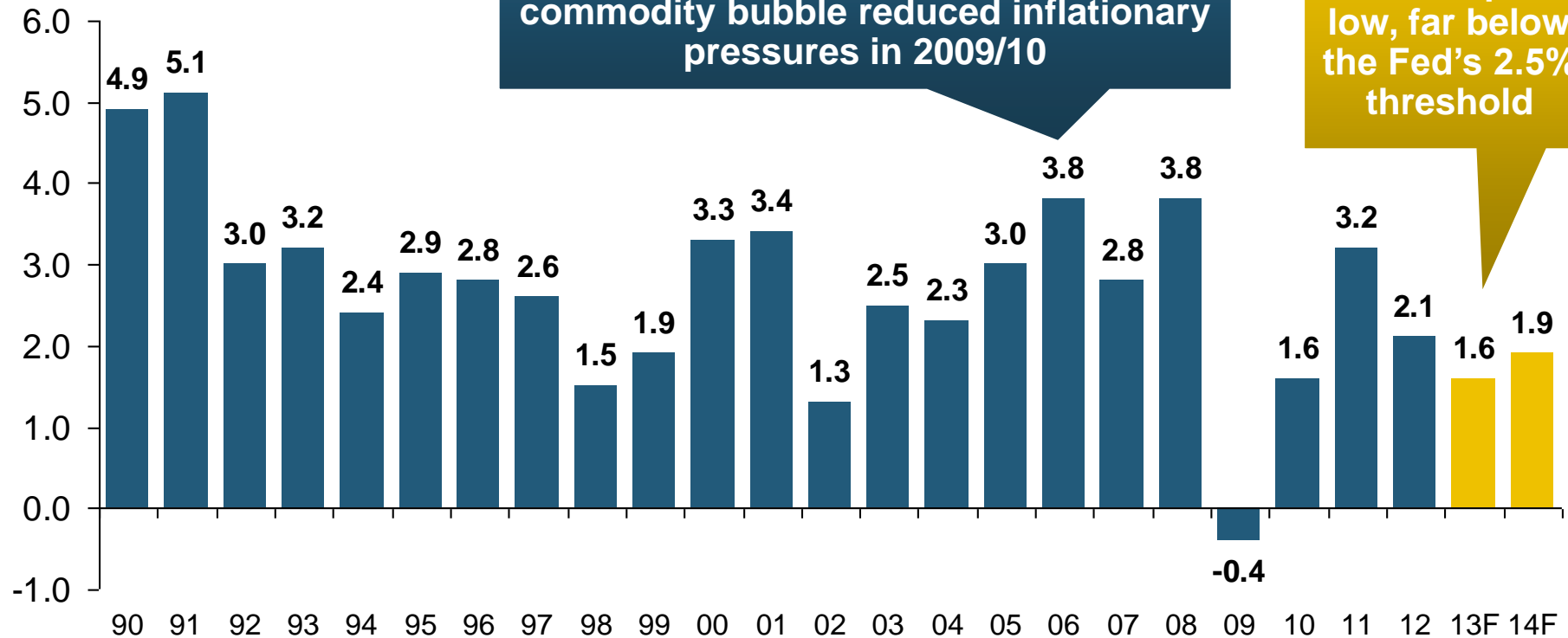
National Bureau of Economic Research (recession dates); Insurance Information Institutes.

Where Are Interest Rates Headed?

- **Longer Term Interest Rates Headed Up as Fed Begins to “Taper” its \$85B/month Quantitative Easing (QE) Prog.**
 - ◆ 10-Year Treasury already up to 2.92% from less than 2% in early 2013; Could see 3.4% by year-end 2014
- **Shorter-Term Rates Will Remain Low**
 - ◆ Fed will keep rates low until the unemployment rates falls to 6.5% and/or inflation spikes beyond 2.5%
 - ◆ Neither is immediately likely (Late 2014? Early 2015?)
 - ◆ Holders of cash and short-term securities still starved for yield
- **Lending Standards Will Remain Tighter**
 - ◆ But credit markets are thawing
 - ◆ Banks will want to lend as spread increases
- **Equity Markets Can Withstand Unwinding of QE**

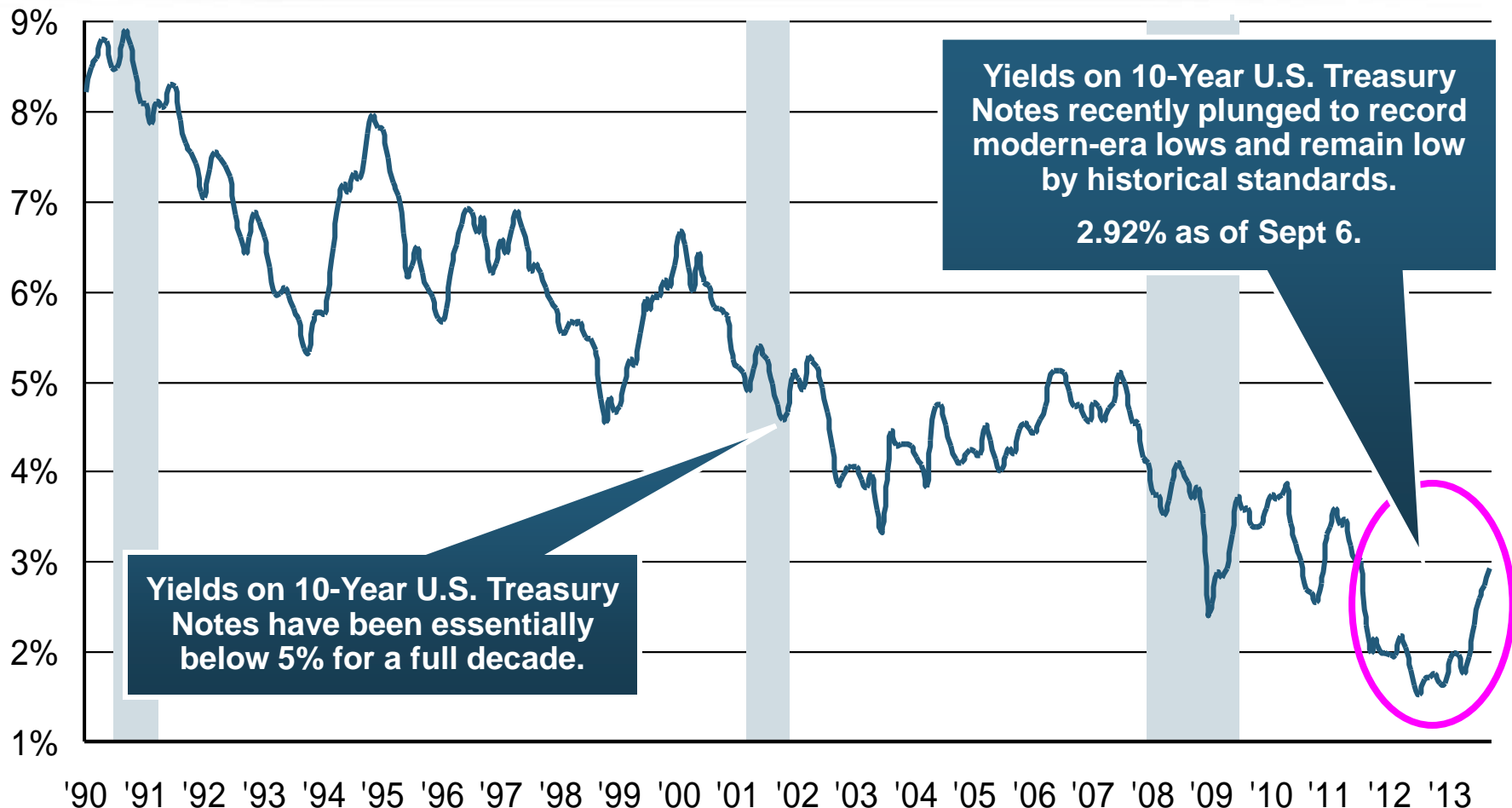
Annual Inflation Rates, (CPI-U, %), 1990–2014F

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

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



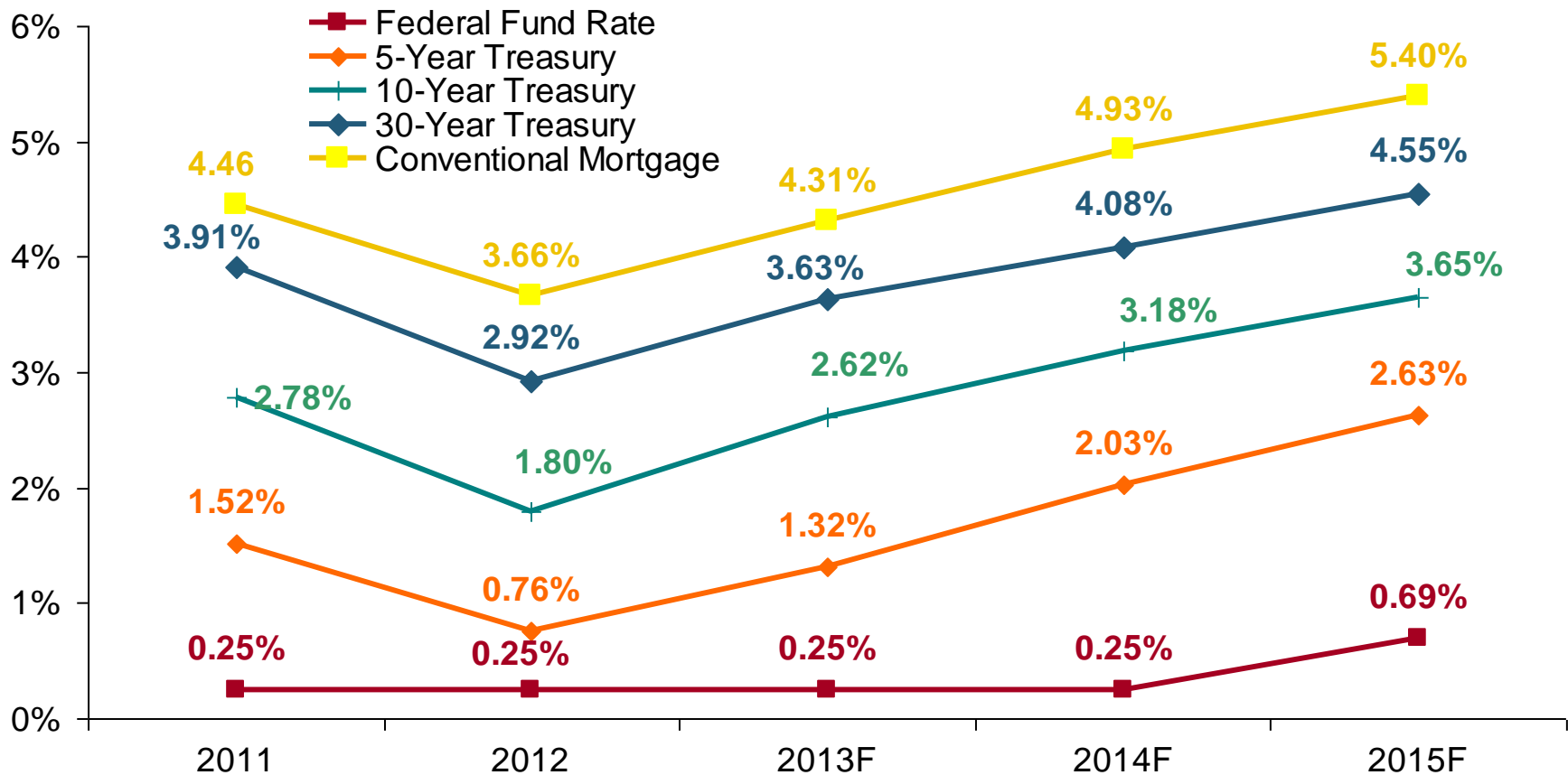
Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, except Sept. figure of 2.92% is as of Sept. 6, 2013.

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.

Trajectory of Interest Rates as Fed's Monetary Stimulus Programs Unwind



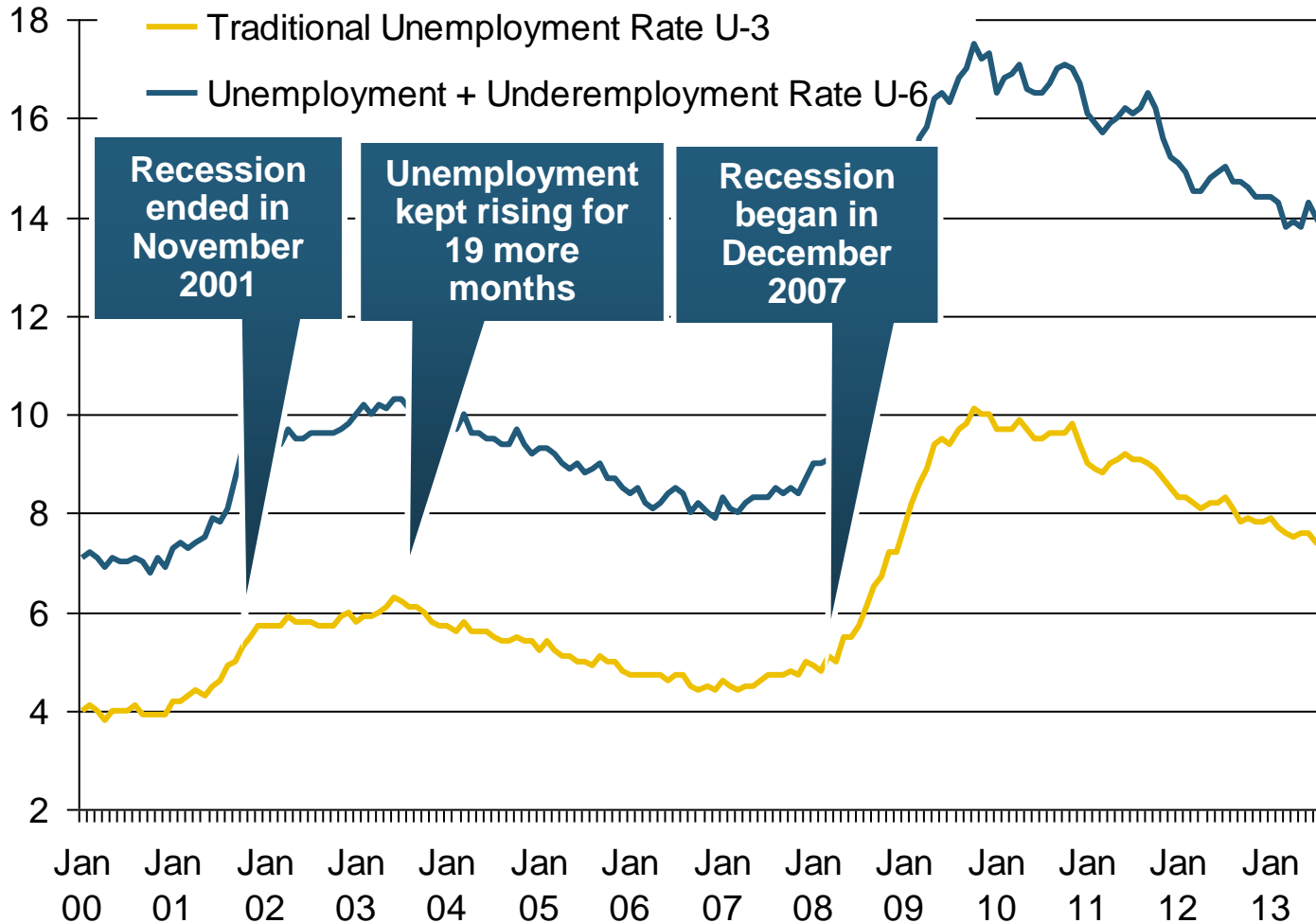
The End of the Fed's Quantitative Easing Program and Economic Growth Will Send Intermediate and Longer Term Rates Higher While Short Term Rates Are Held Low Until Unemployment Drops Below 6.5% or Until Inflation Expectations Exceed 2.5%

Labor Market Trends

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

Unemployment and Underemployment Rates: Stubbornly High, But Falling

January 2000 through August 2013, Seasonally Adjusted (%)



U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 13.7% in August 2013

Unemployment stood at 7.3% in Aug. 2013—its lowest level since Dec. 2008.

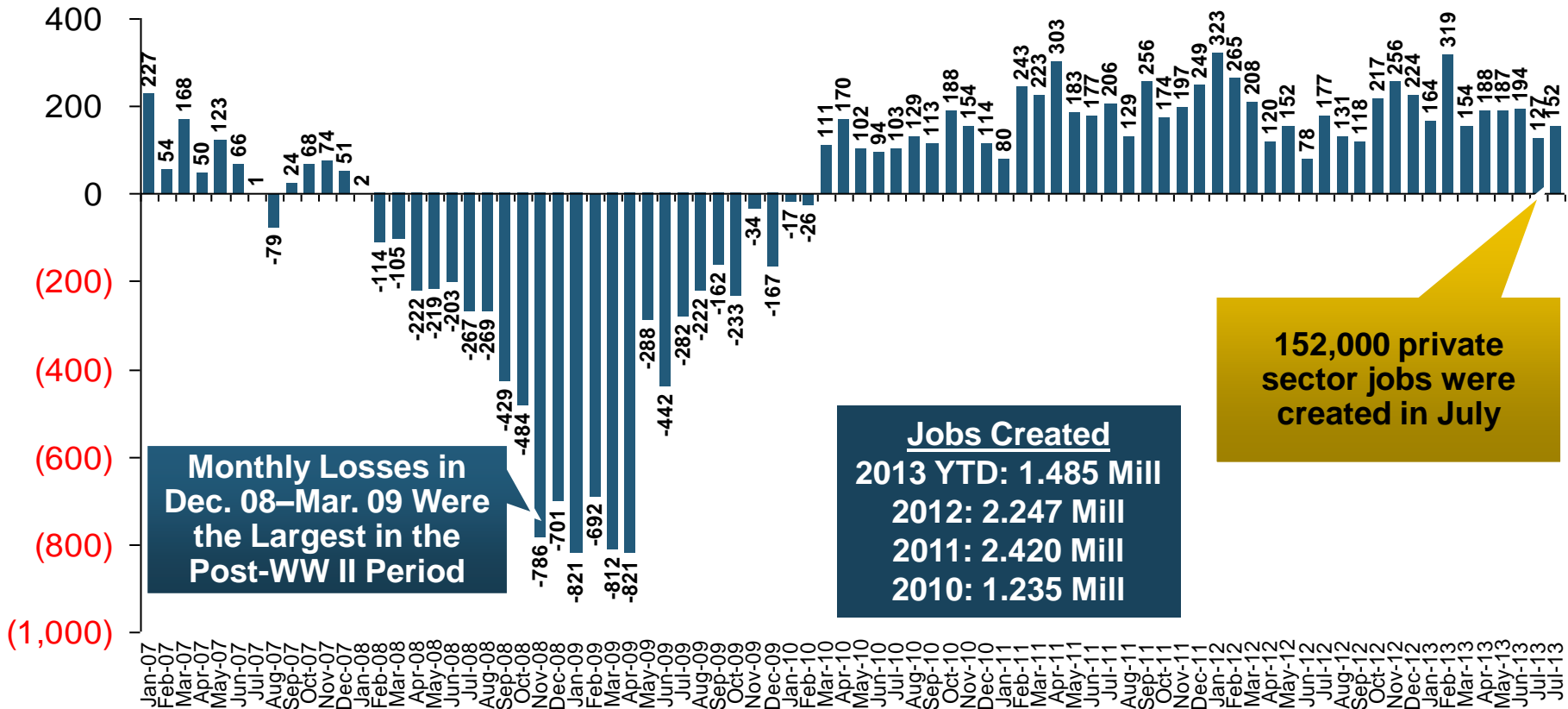
Unemployment peaked at 10.1% in October 2009, highest monthly rate since 1983.

Peak rate in the last 30 years: 10.8% in November - December 1982

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

Monthly Change in Private Employment

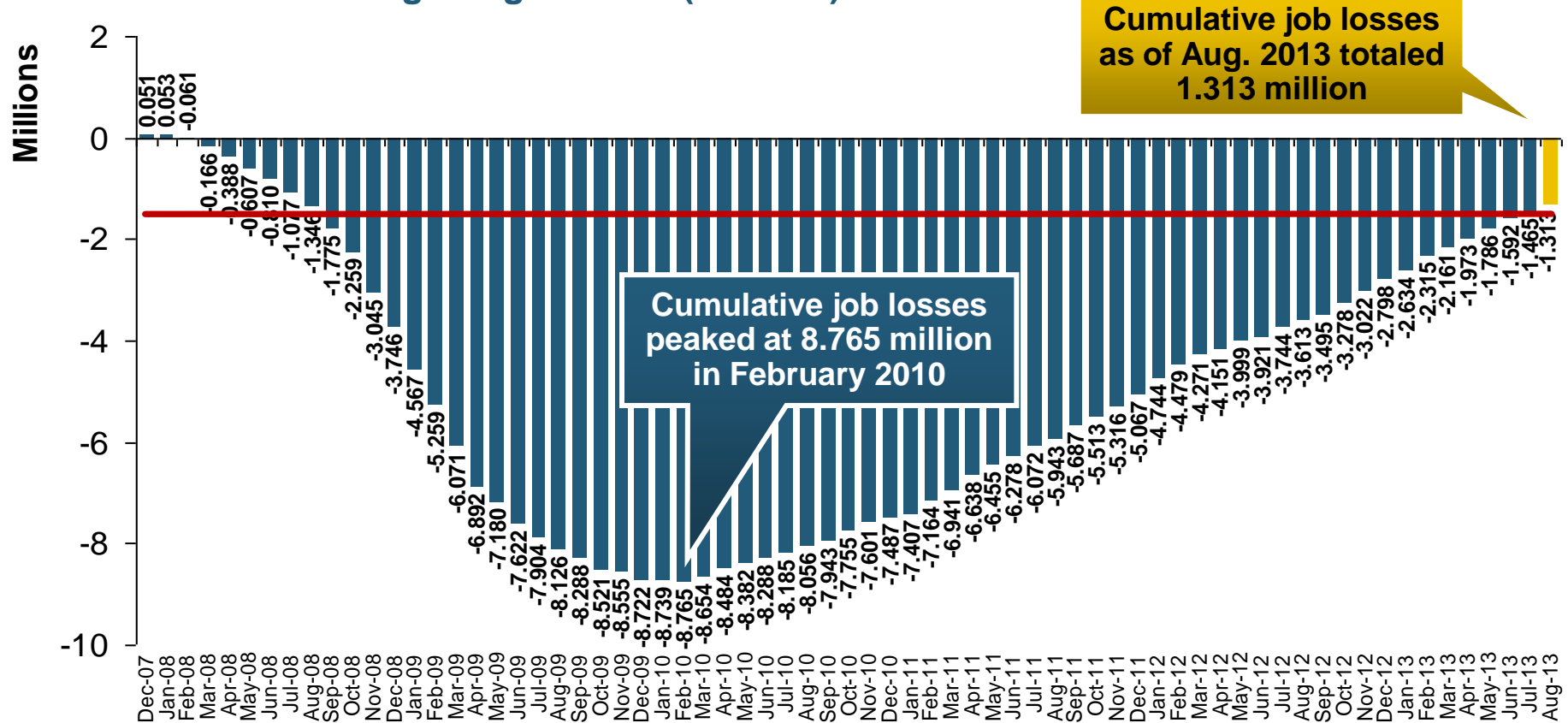
January 2007 through August 2013 (Thousands, Seasonally Adjusted)



Private Employers Added 7.41 million Jobs Since Jan. 2010 After Having Shed 4.98 Million Jobs in 2009 and 3.80 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

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

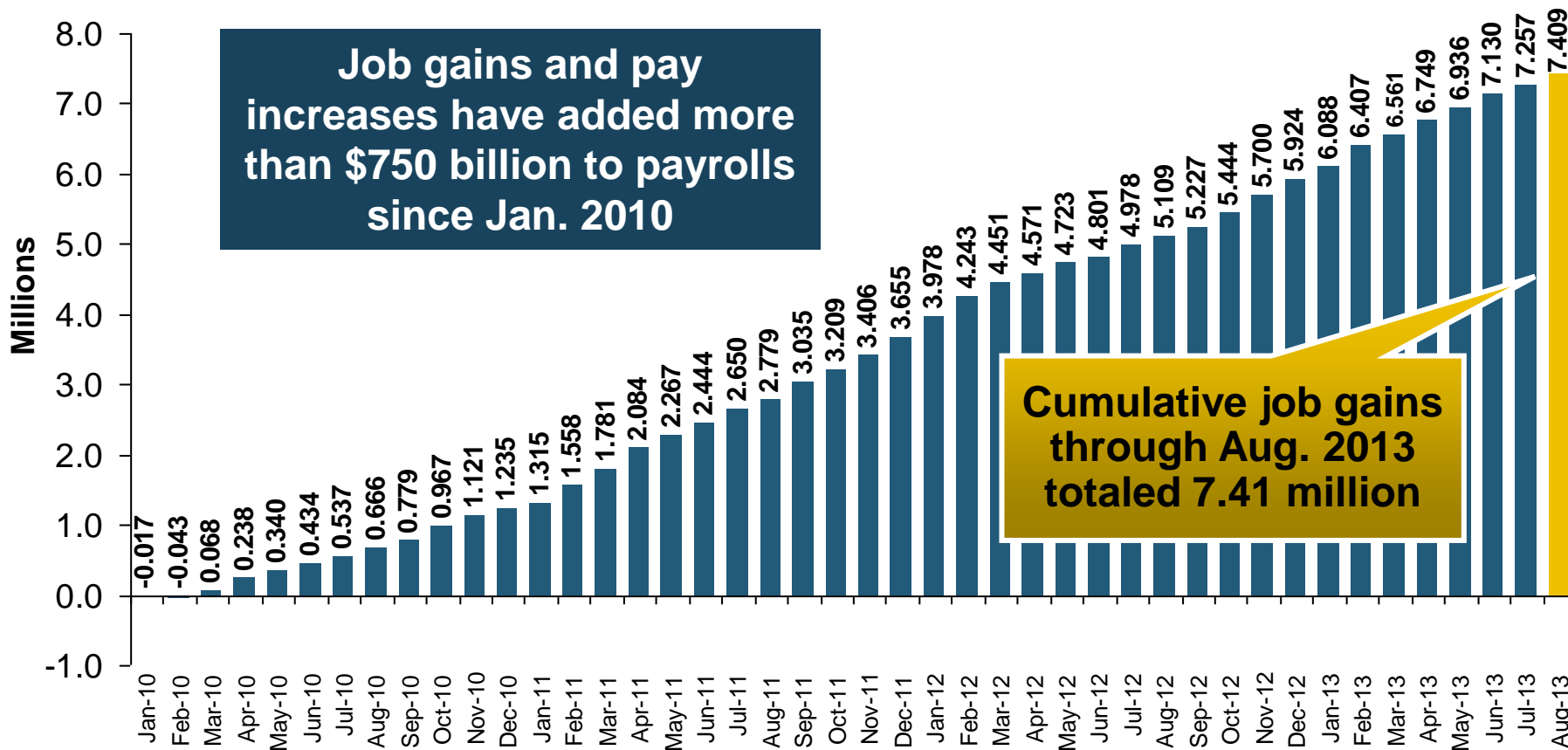
December 2007 through August 2013 (Millions)



Private Employers Added 7.29 million Jobs Since Jan. 2010 After Having Shed 4.98 Million Jobs in 2009 and 3.80 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

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

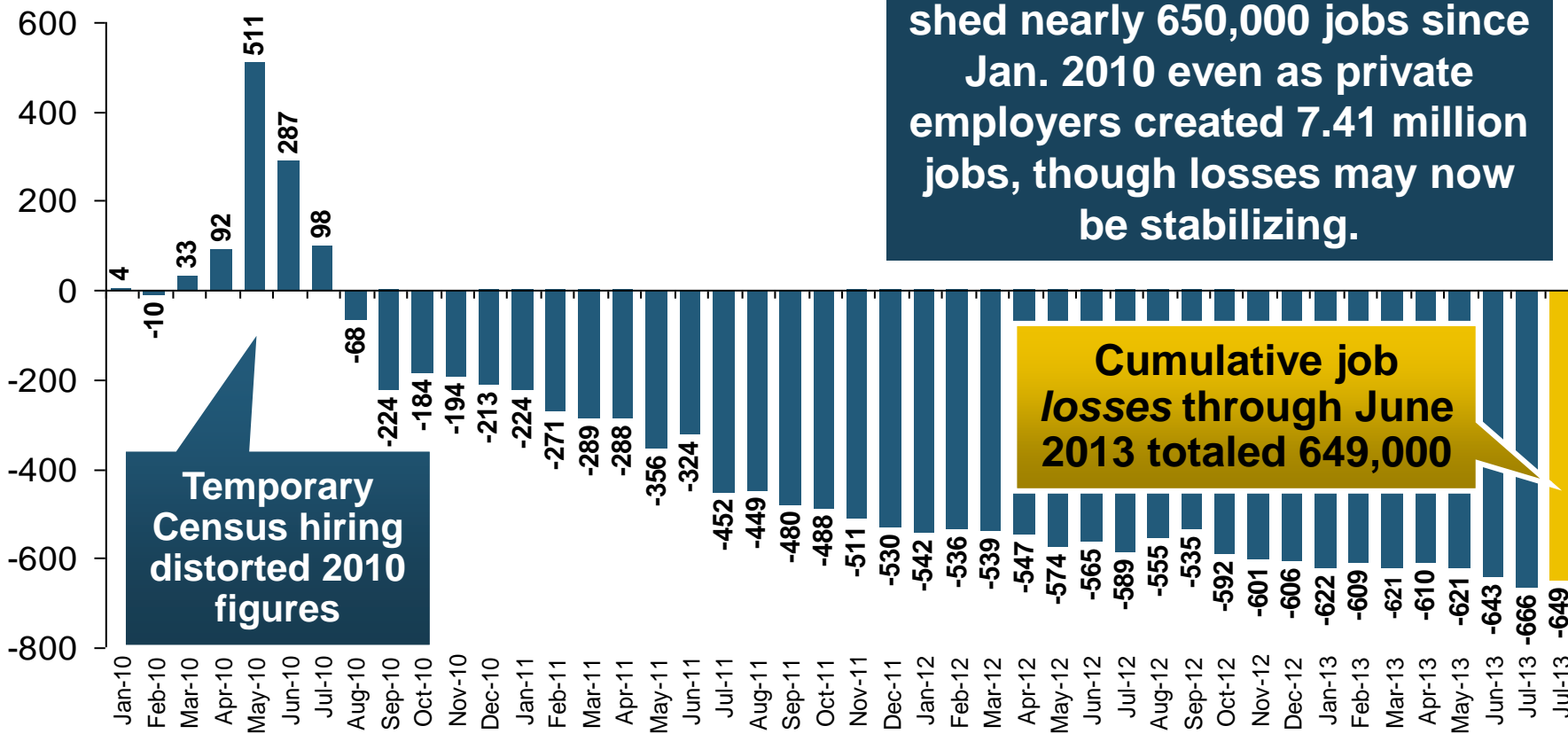
January 2010 through August 2013* (Millions)



Private Employers Added 7.41 million Jobs Since Jan. 2010 After Having Shed 4.98 Million Jobs in 2009 and 3.80 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

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

January 2010 through August 2013* (Millions)

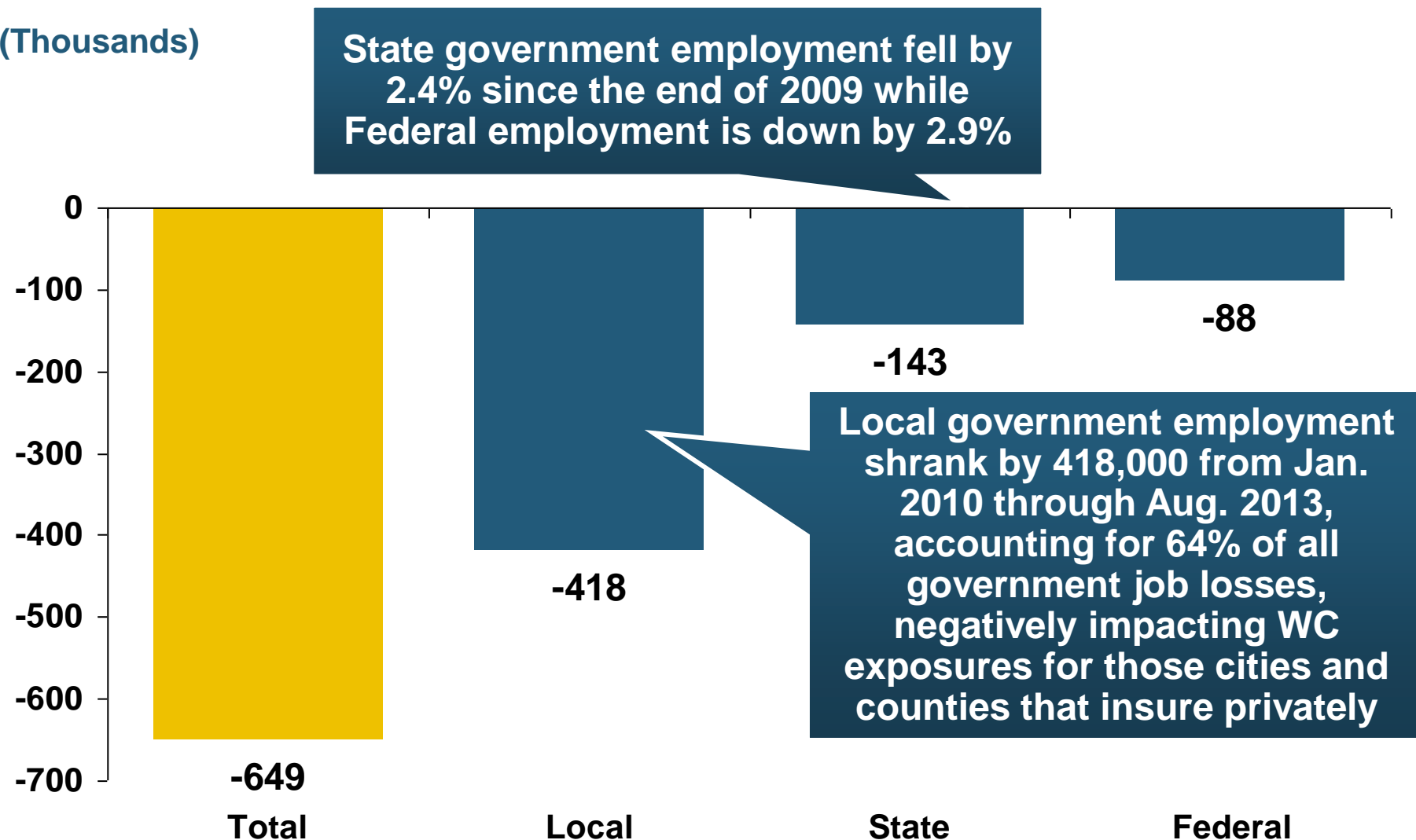


Government at all levels has shed nearly 650,000 jobs since Jan. 2010 even as private employers created 7.41 million jobs, though losses may now be stabilizing.

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

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

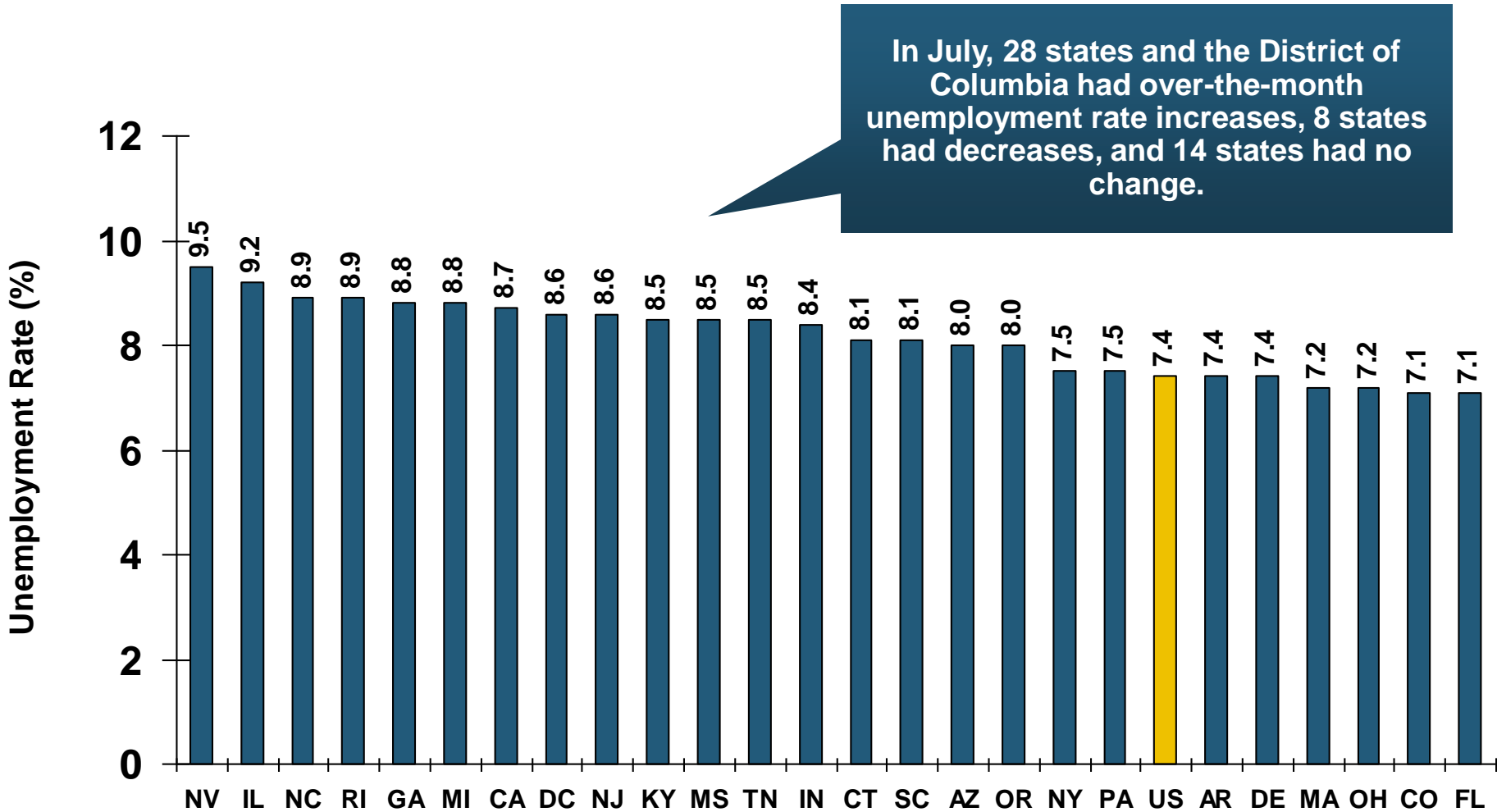
(Thousands)



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

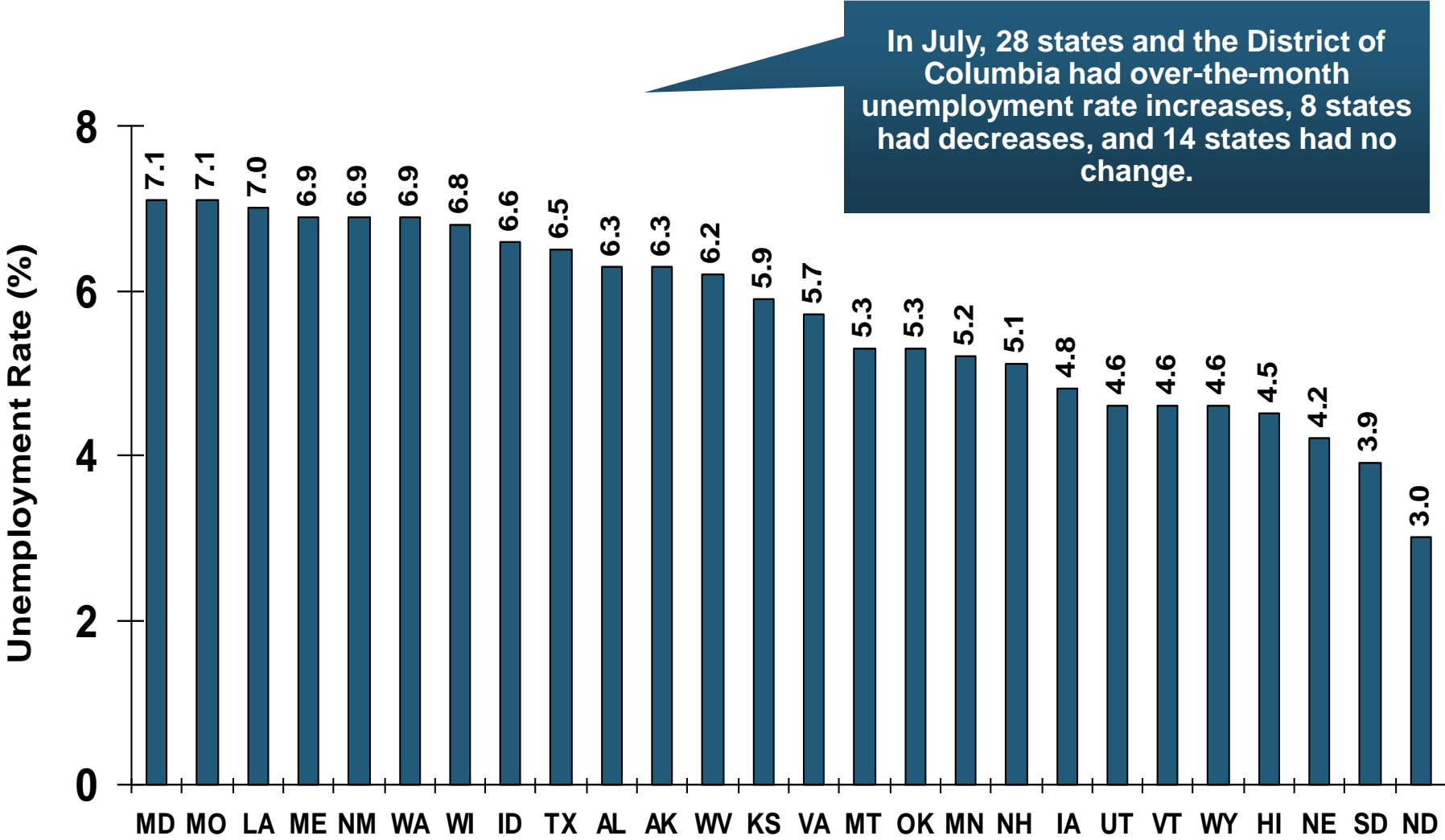
Source: US Bureau of Labor Statistics <http://www.bls.gov/data/#employment>; Insurance Information Institute

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



*Provisional figures for July 2013, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

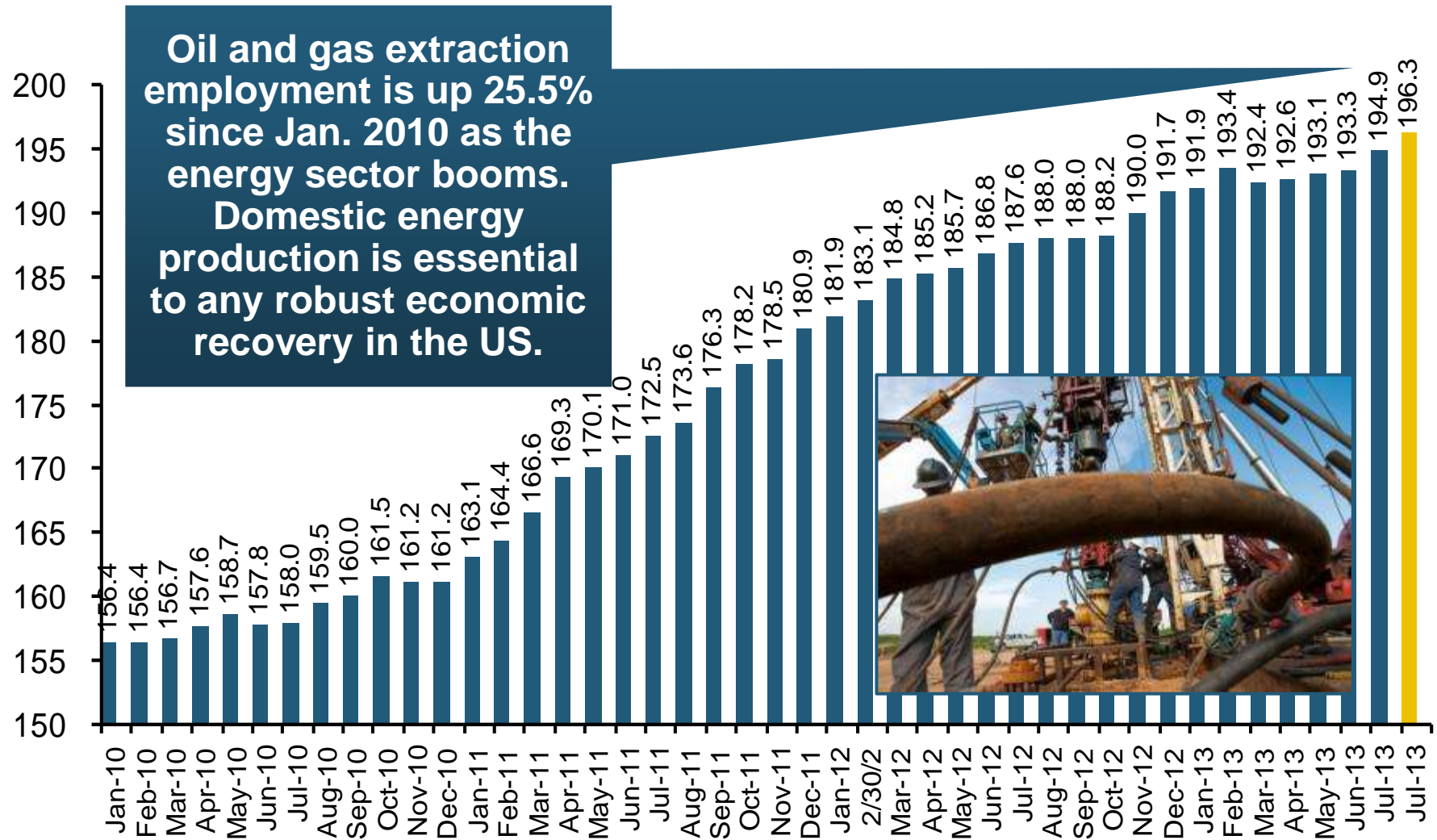
Unemployment Rates by State, July 2013: Lowest 25 States*



*Provisional figures for July 2013, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

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

(Thousands)

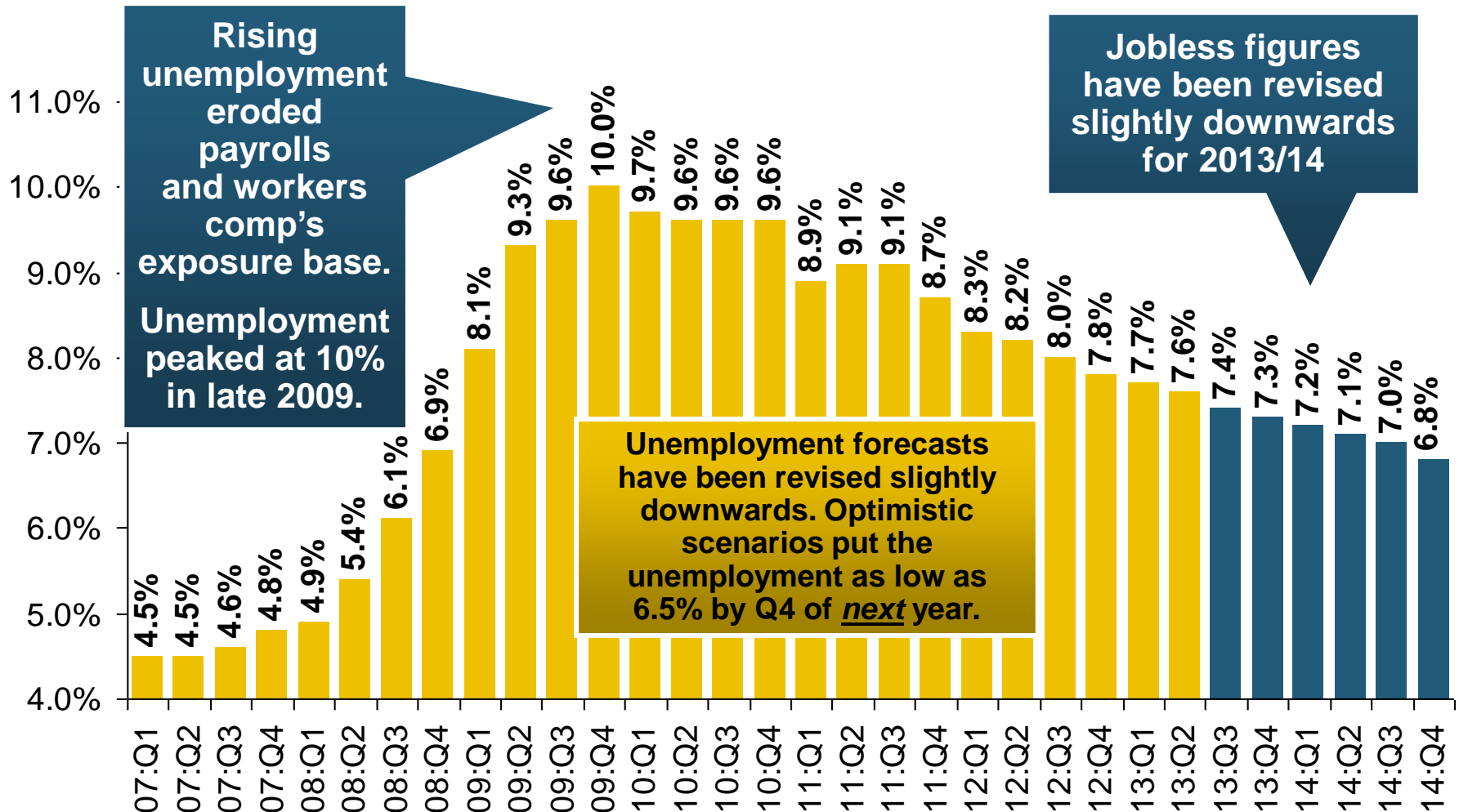


*Seasonally adjusted

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

US Unemployment Rate Forecast

2007:Q1 to 2014:Q4F*

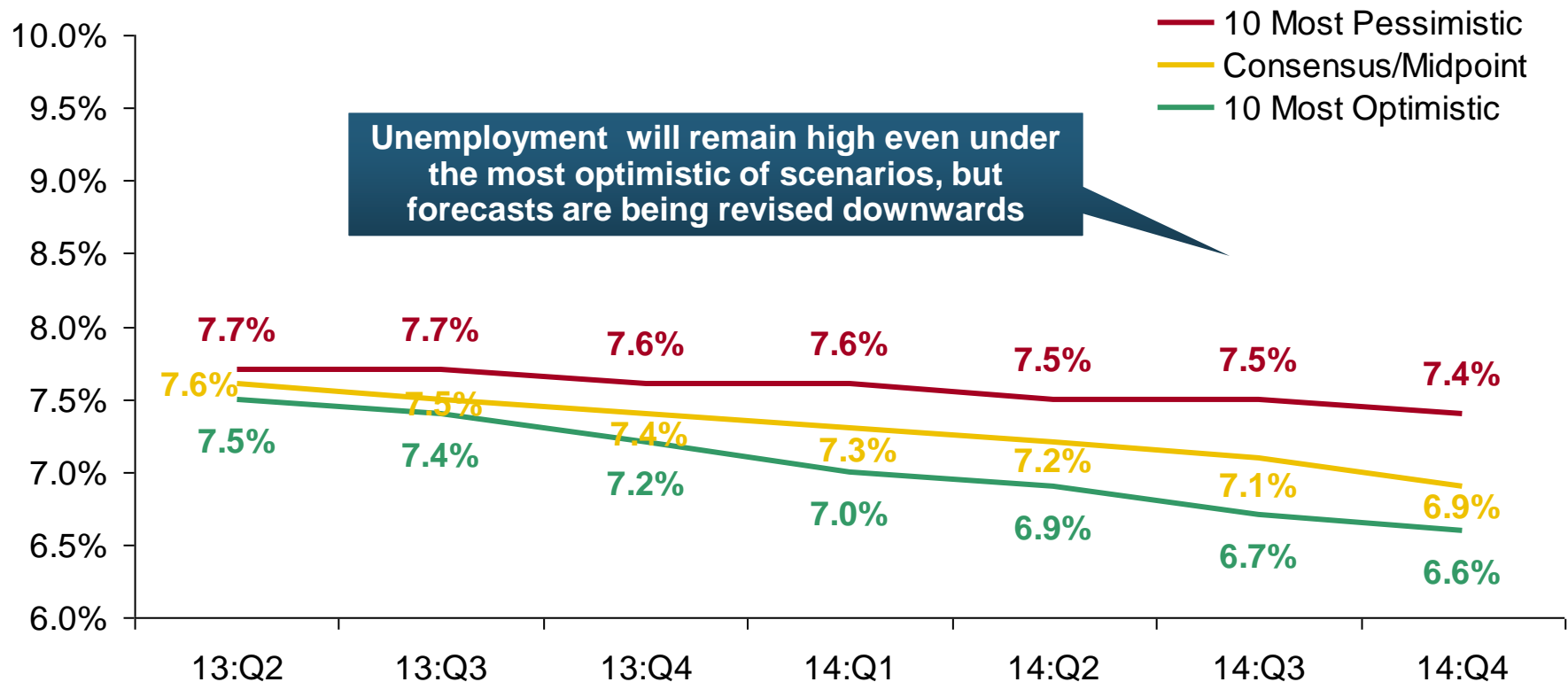


* ■ = actual; ■ = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (9/13 edition); Insurance Information Institute.

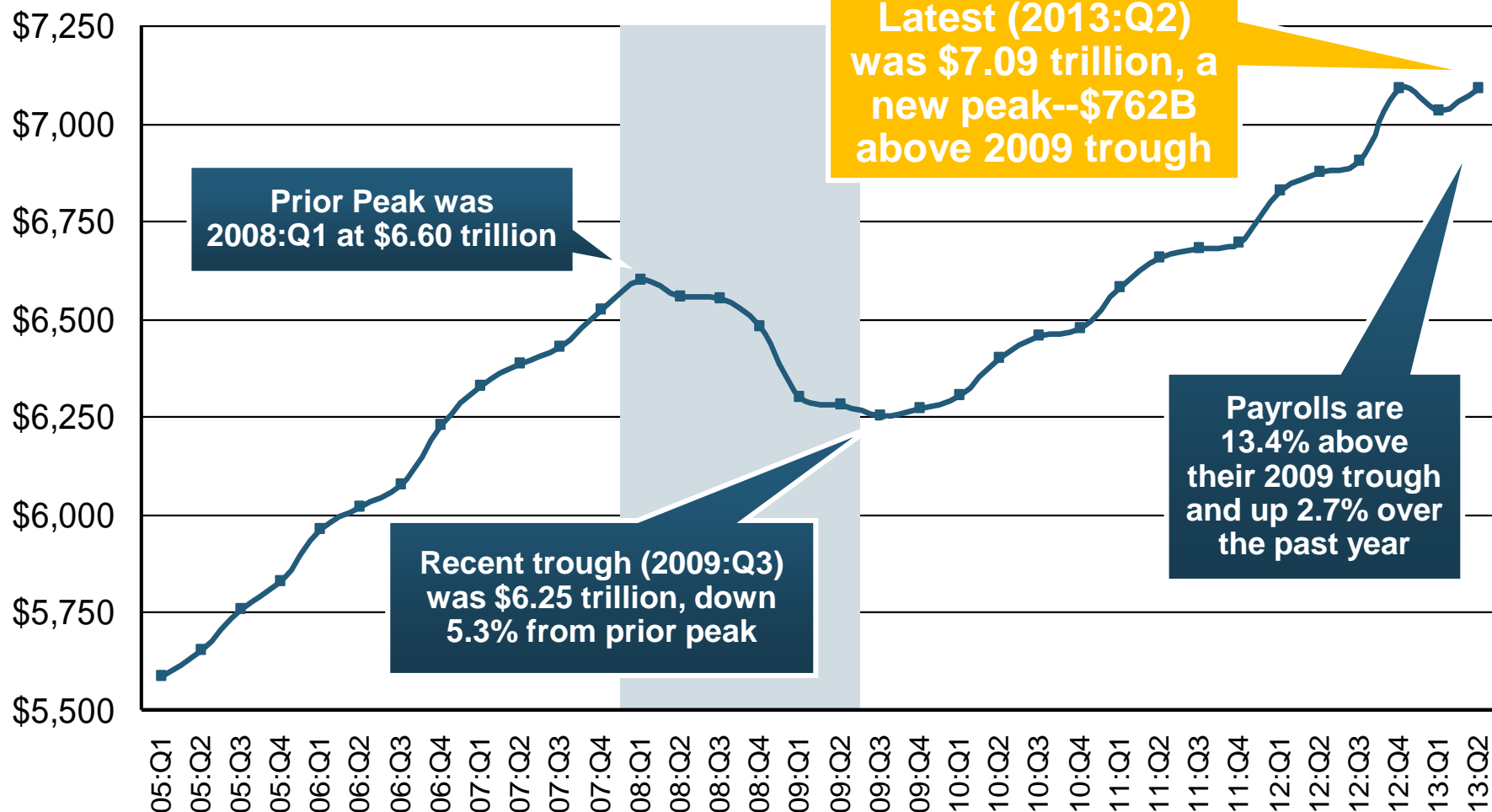
US Unemployment Rate Forecasts

Quarterly, 2013:Q1 to 2014:Q4



Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2013:Q2

Billions



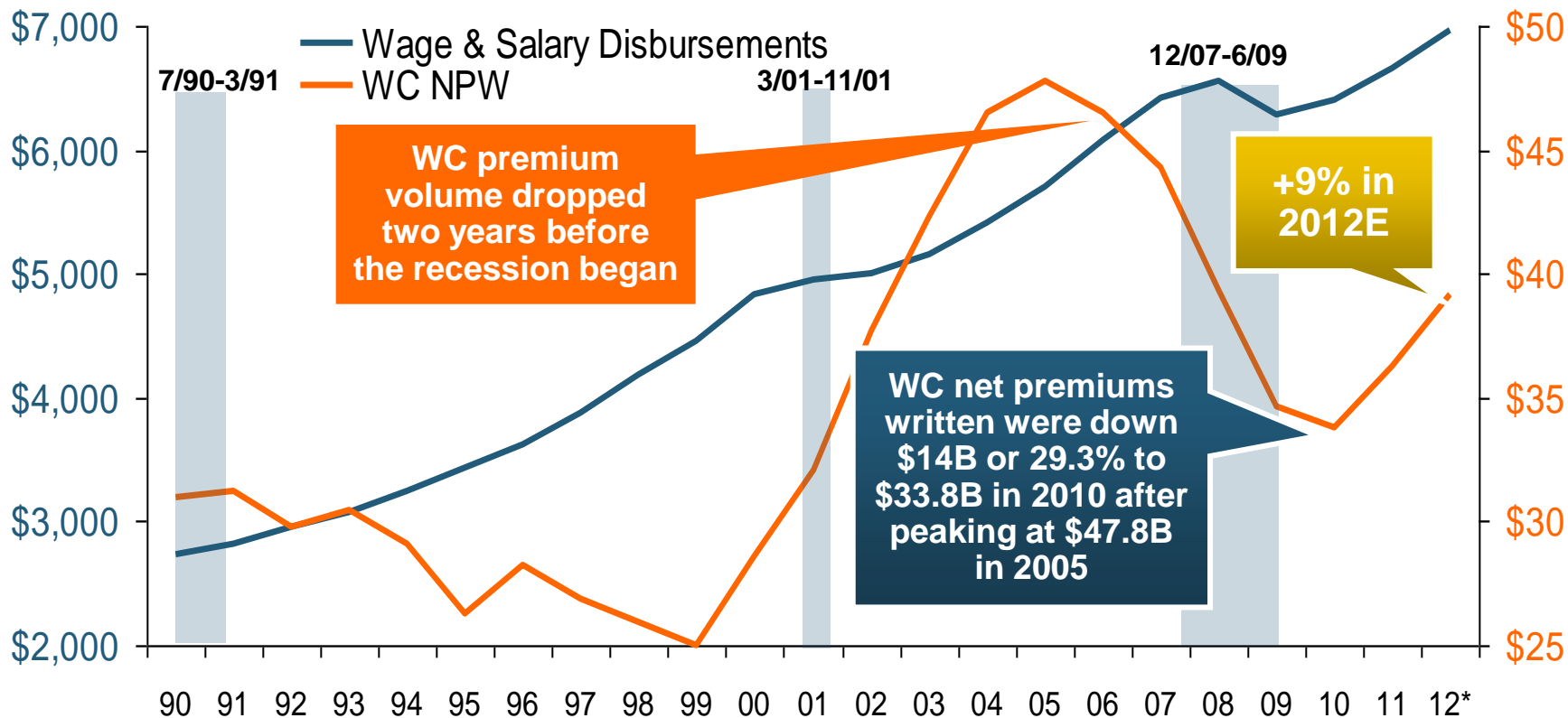
Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

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

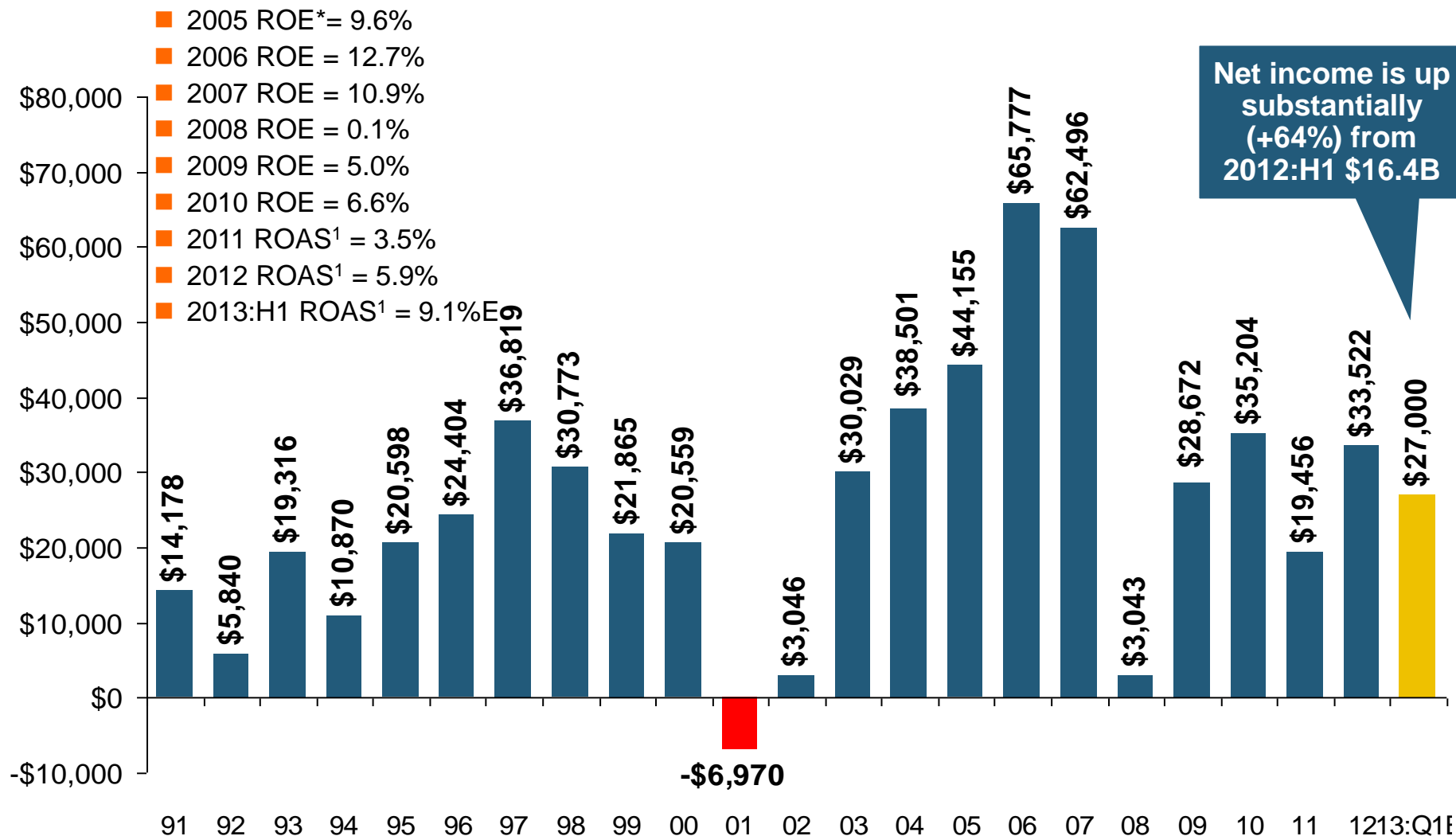
*Private employment; Shaded areas indicate recessions. WC premiums for 2012 are I.I.I. estimate based YTD 2012 actuals.

Sources: NBER (recessions); Federal Reserve Bank of St. Louis at <http://research.stlouisfed.org/fred2/series/WASCUR> ; NCCI; I.I.I.

P/C Insurance Industry Financial Overview

**So Far, So Good:
Profit Recovery in 2013 After
High CAT Losses in 2011-12**

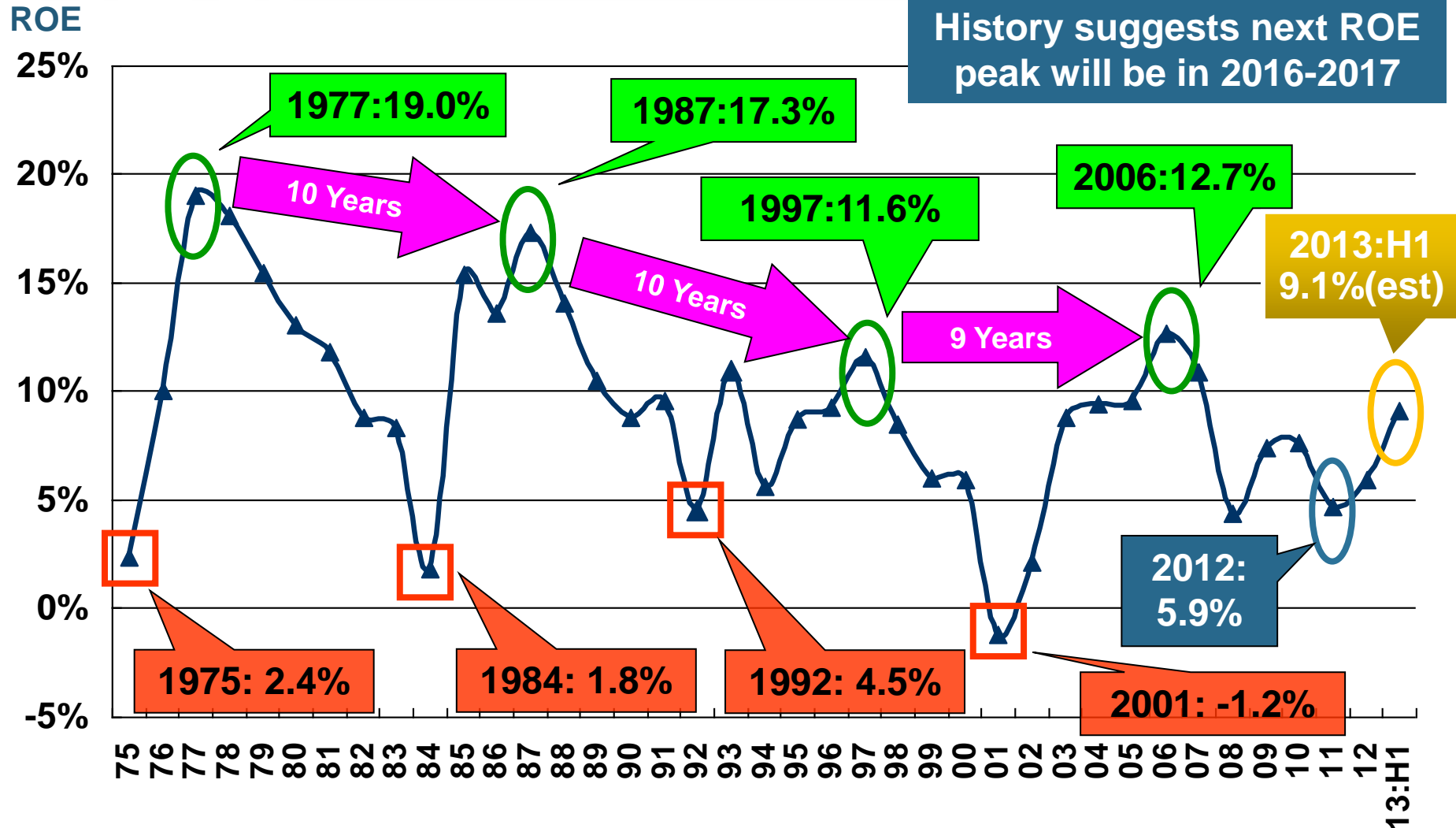
P/C Net Income After Taxes 1991–2013:H1 (\$ Millions)



• ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 9.7% ROAS in 2013:Q1, 6.2% ROAS in 2012, 4.7% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009.

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

Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2013:H1*



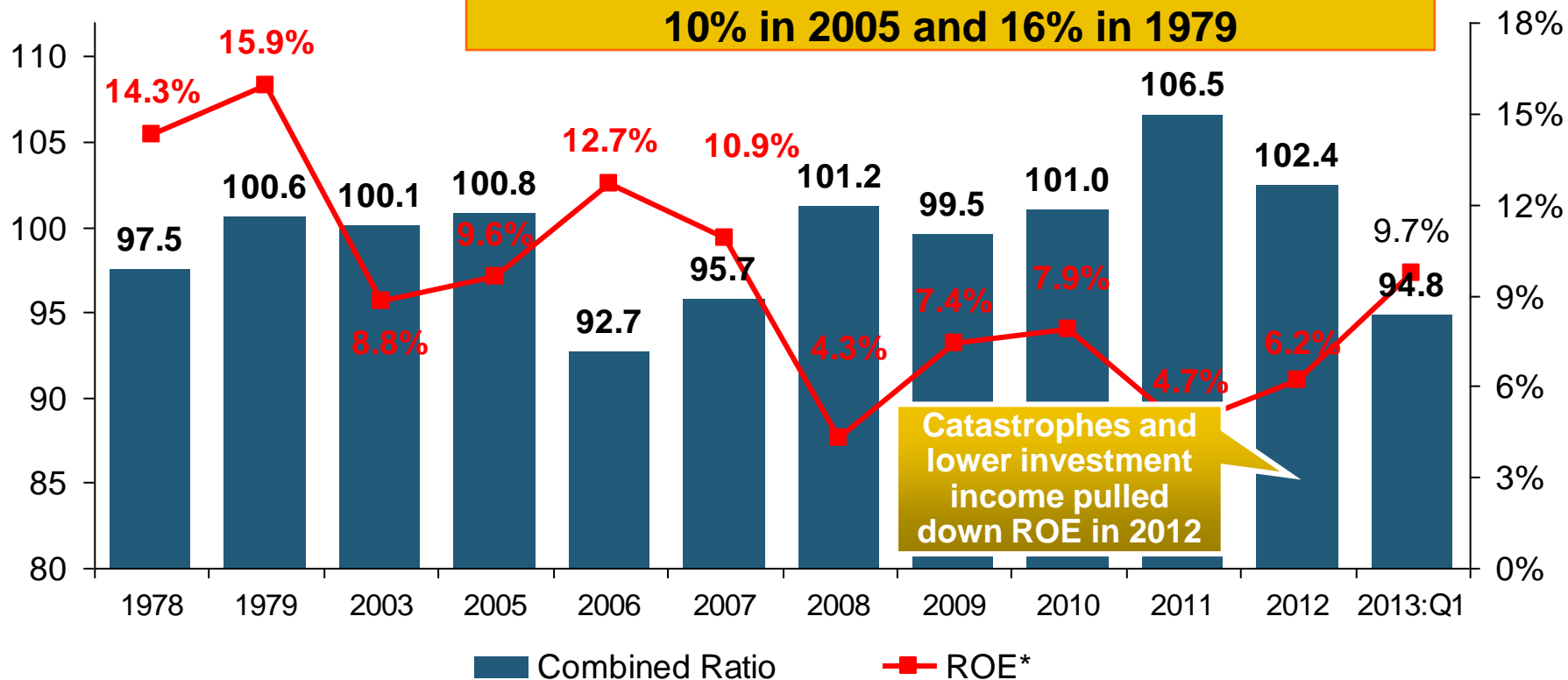
*Profitability = P/C insurer ROEs. 2011-13 figures are estimates based on ROAS data. Note: Data for 2008-2013 exclude mortgage and financial guaranty insurers.

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

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

Combined 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

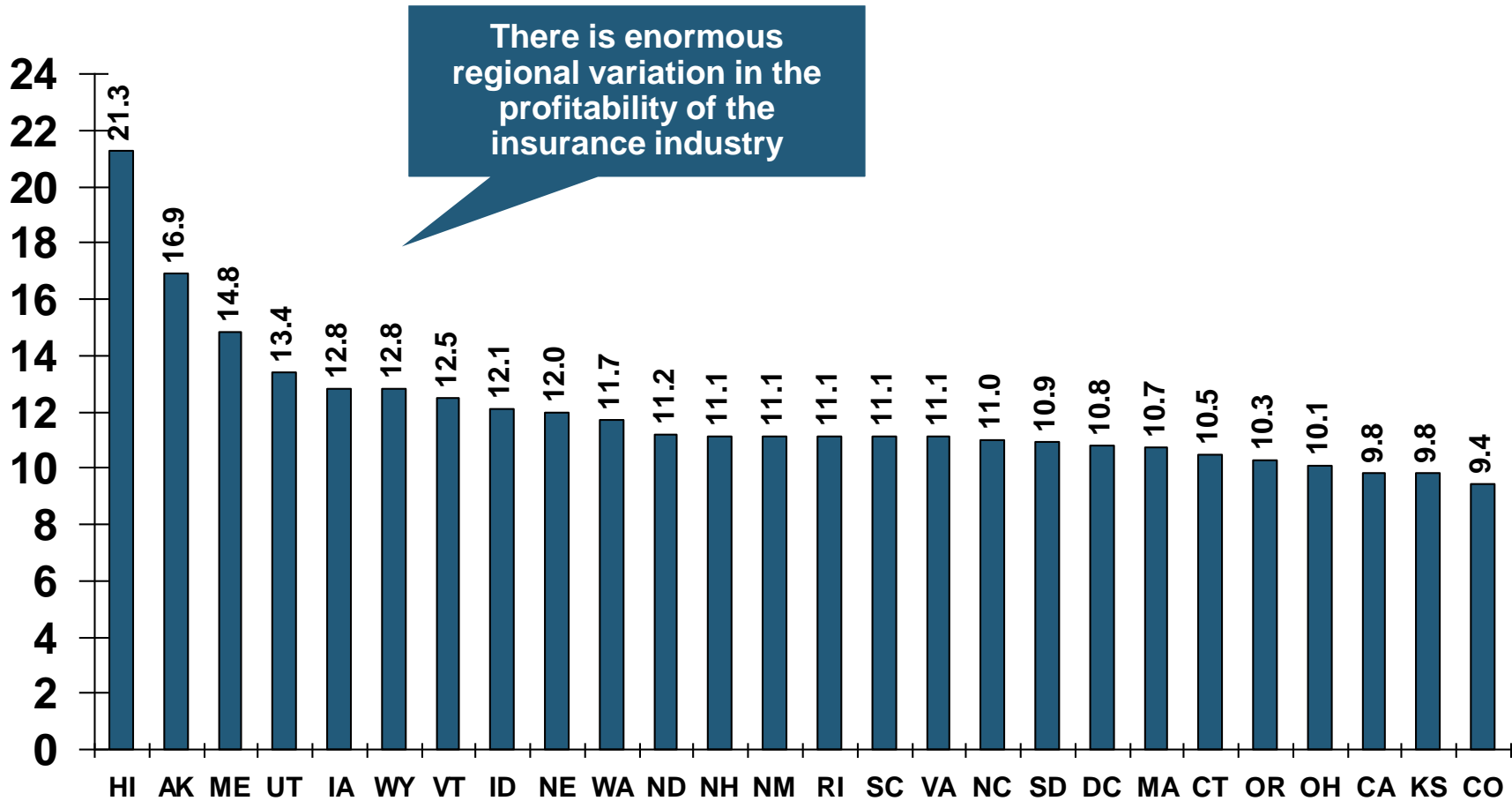


Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

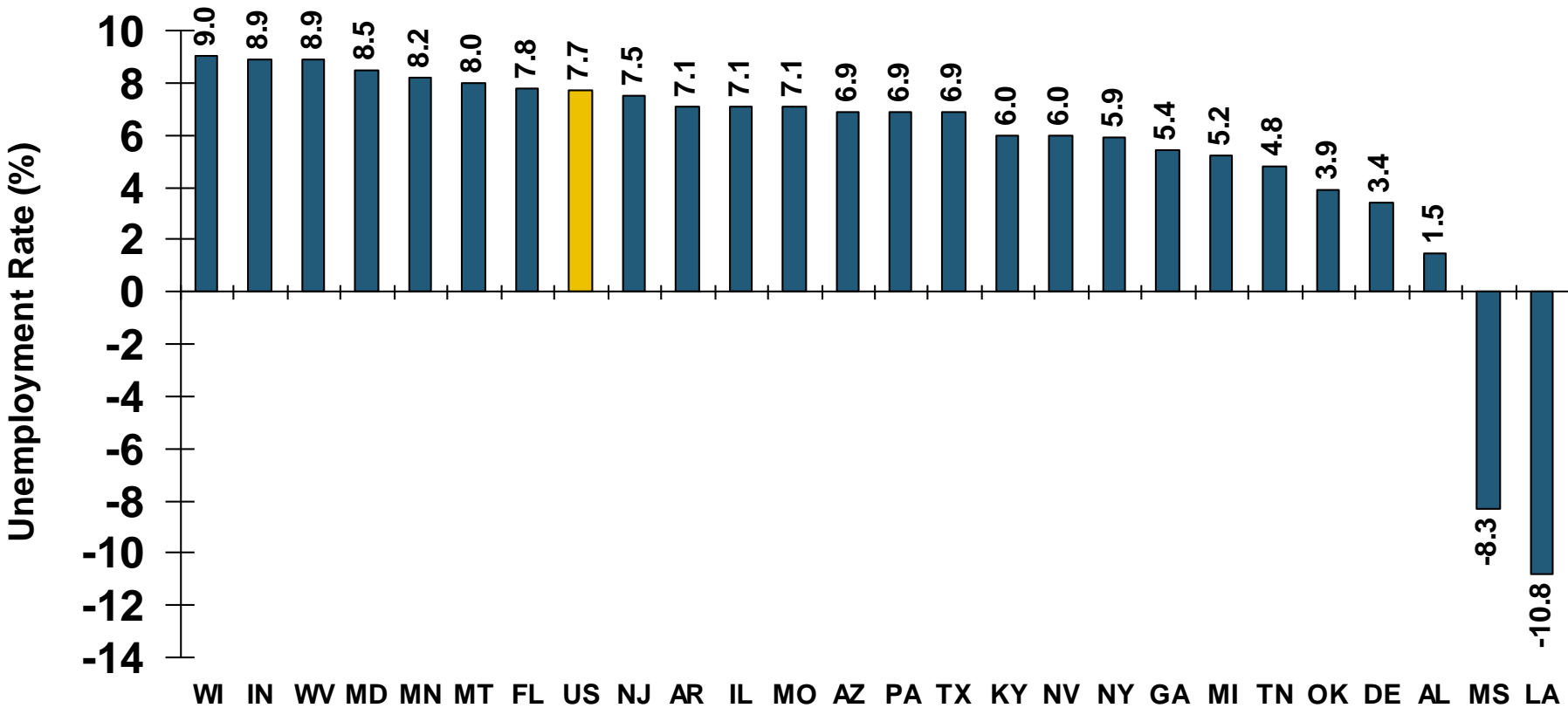
* 2008 -2012 figures are return on average surplus and exclude mortgage and financial guaranty insurers. 2012 combined ratio including M&FG insurers is 103.2, 2011 combined ratio including M&FG insurers is 108.1, ROAS = 3.5%.

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

RNW All Lines by State, 2002-2011 Average: Highest 25 States



RNW All Lines by State, 2002-2011 Average: Lowest 25 States



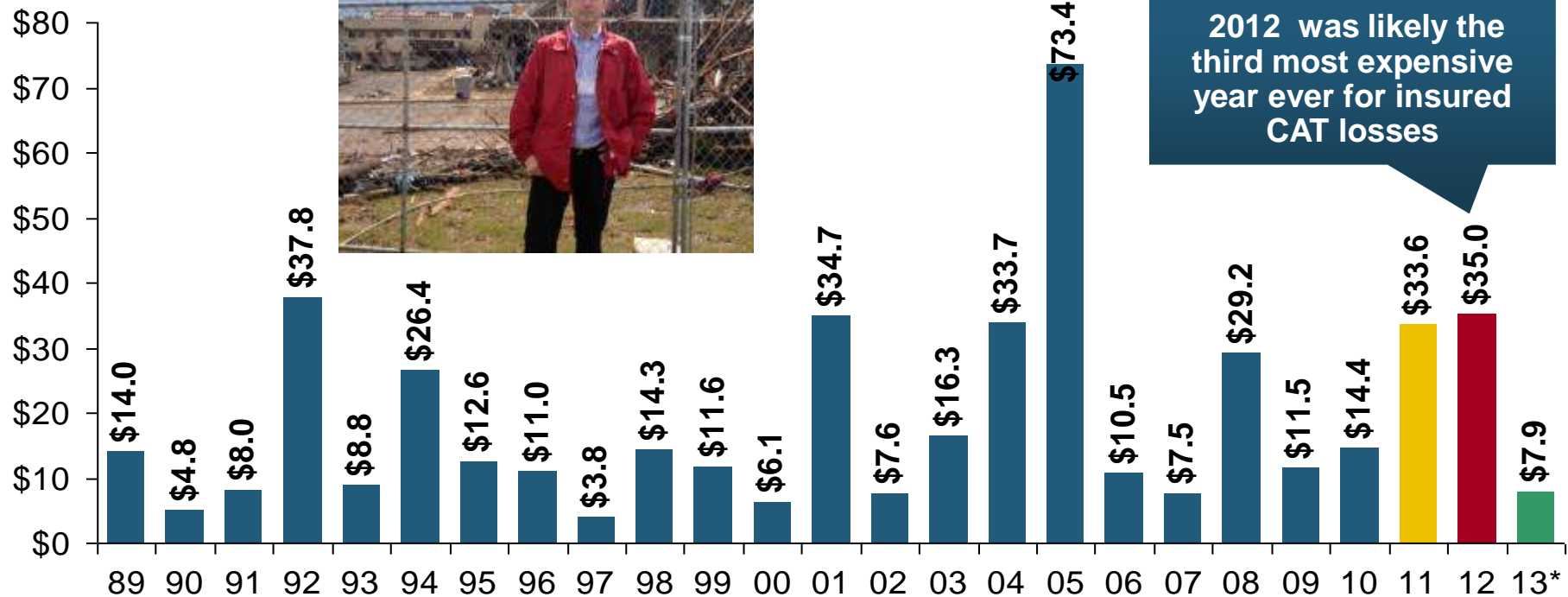
U.S. Insured Catastrophe Loss Update

**Catastrophe Losses in Recent Years
Have Been Very High**

***Billions in Claims for Repair/Rebuilding
and Rebuilding Have Been Paid***

U.S. Insured Catastrophe Losses

(\$ Billions, \$ 2012)



2012 was likely the third most expensive year ever for insured CAT losses

2012 Was the 3rd Highest Year on Record for Insured Losses in U.S. History on an Inflation-Adj. Basis. 2011 Losses Were the 6th Highest. YTD 2013 Running Below Average But Q3 Is Typically the Costliest Quarter.

Record tornado losses caused 2011 CAT losses to surge

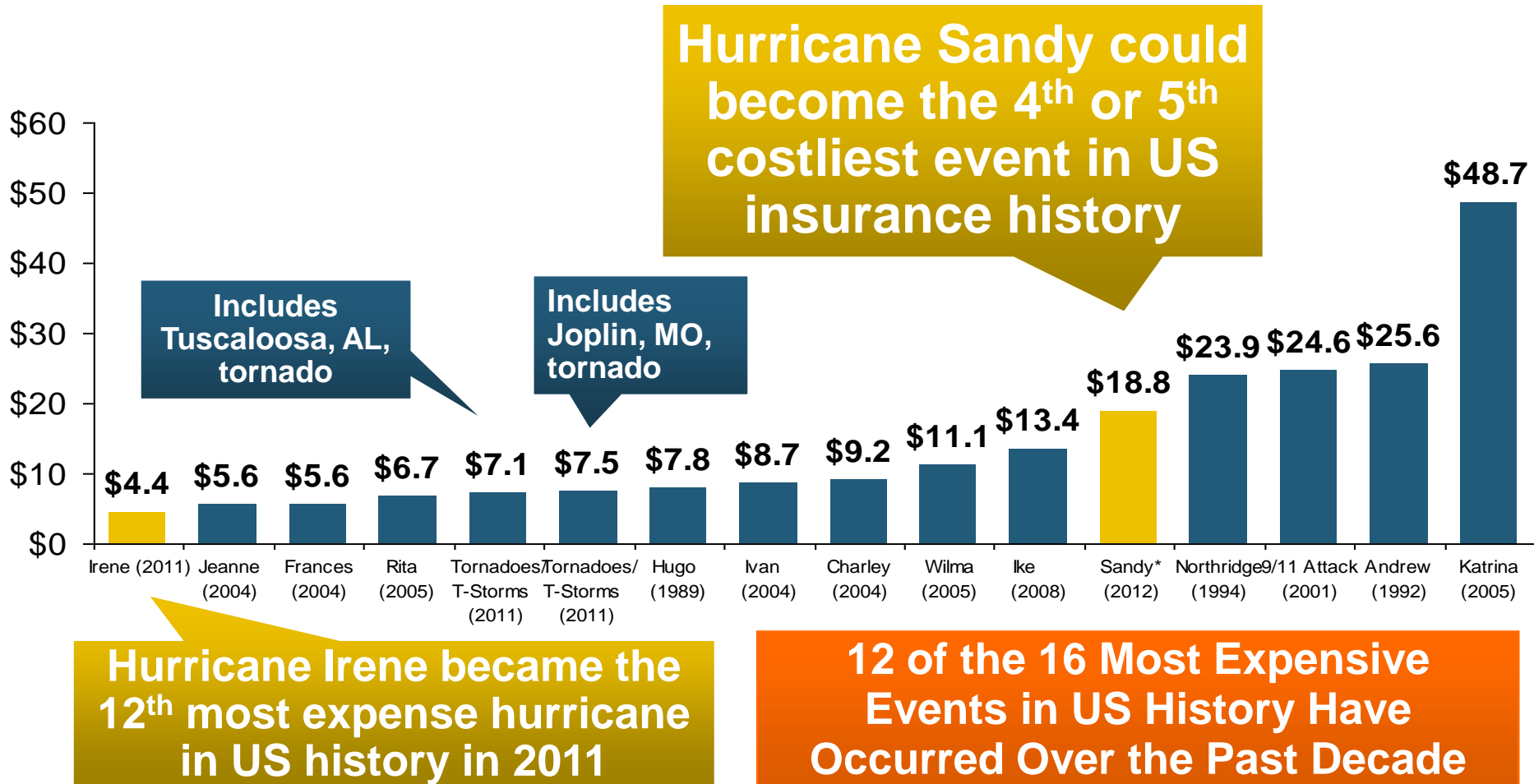
*Through 6/2/13. Includes \$2.6B for 2013:Q1 (PCS) and \$5.32B for the period 4/1 – 6/2/13 (Aon Benfield Monthly Global Catastrophe Recap).

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, 2012 Dollars, \$ Billions)



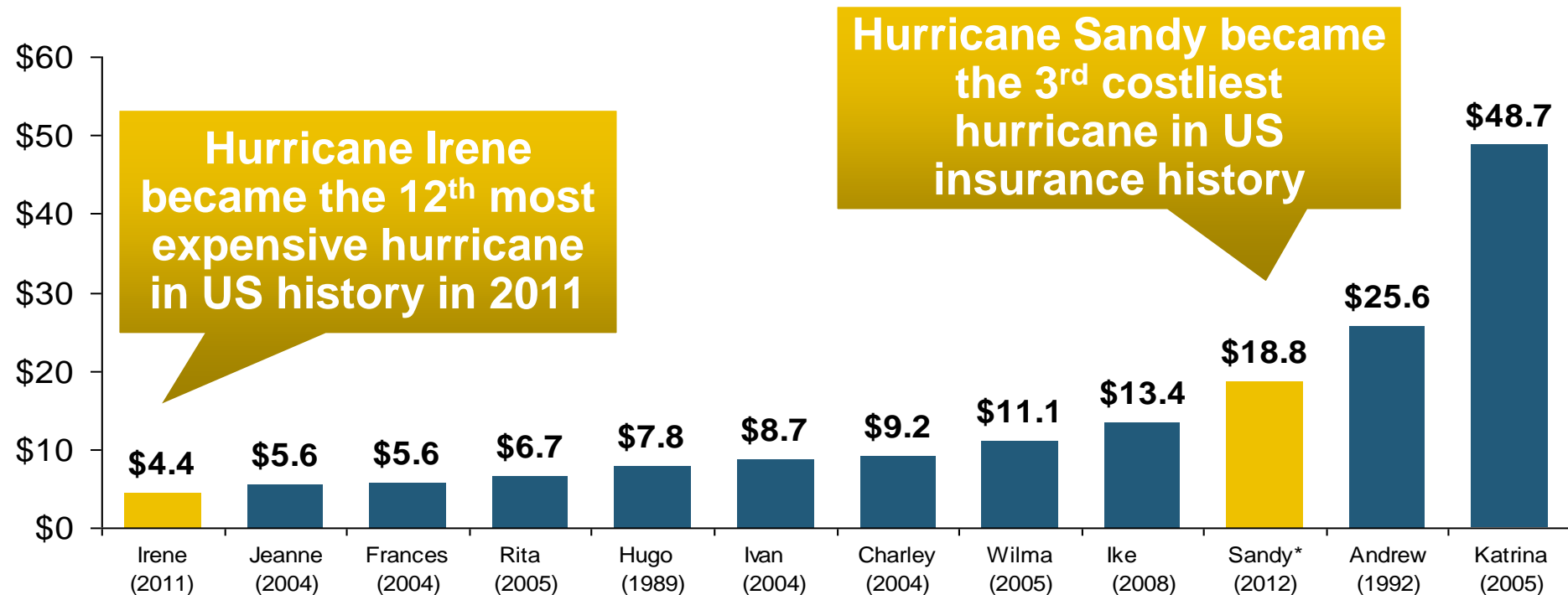
*PCS estimate as of 4/12/13.

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

Top 12 Most Costly Hurricanes in U.S. History

(Insured Losses, 2012 Dollars, \$ Billions)

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



*PCS estimate as of 4/12/13.

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

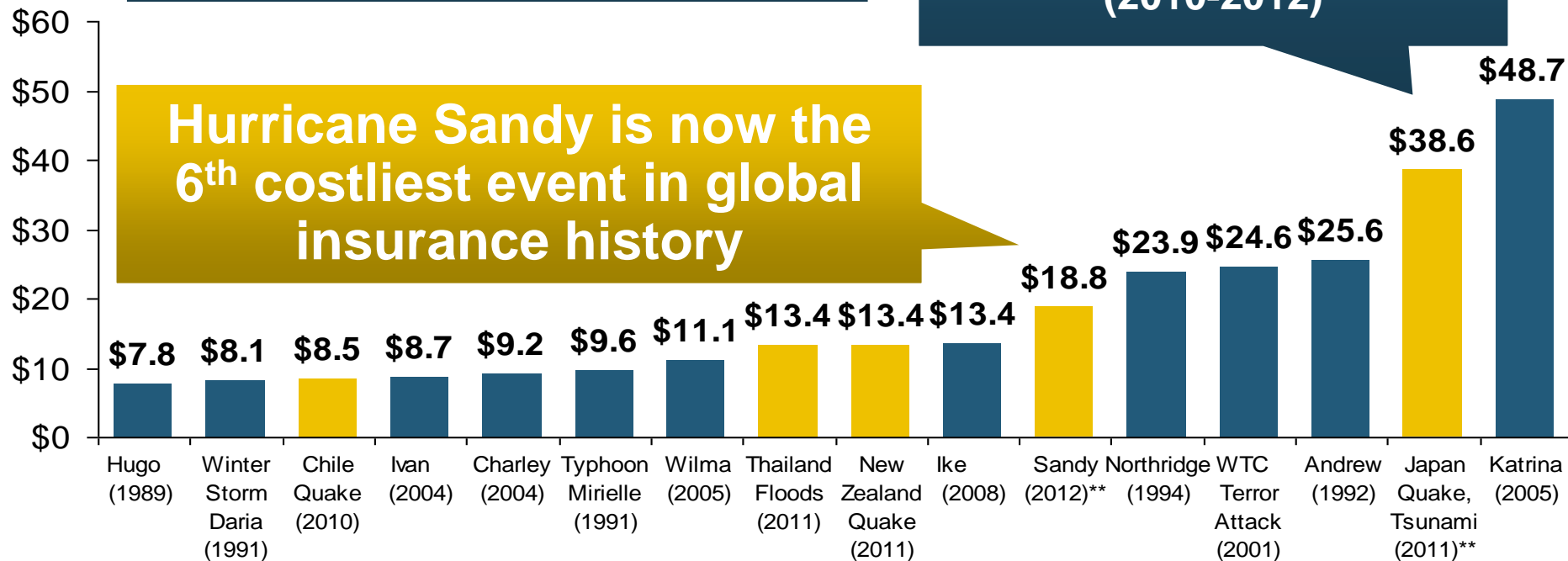
Top 16 Most Costly World Insurance Losses, 1970-2012*

(Insured Losses, 2012 Dollars, \$ Billions)

2012 insured CAT Losses totaled \$60B; Economic losses totaled \$140B, according to Swiss Re

5 of the top 14 most expensive catastrophes in world history have occurred within the past 3 years (2010-2012)

Hurricane Sandy is now the 6th costliest event in global insurance history



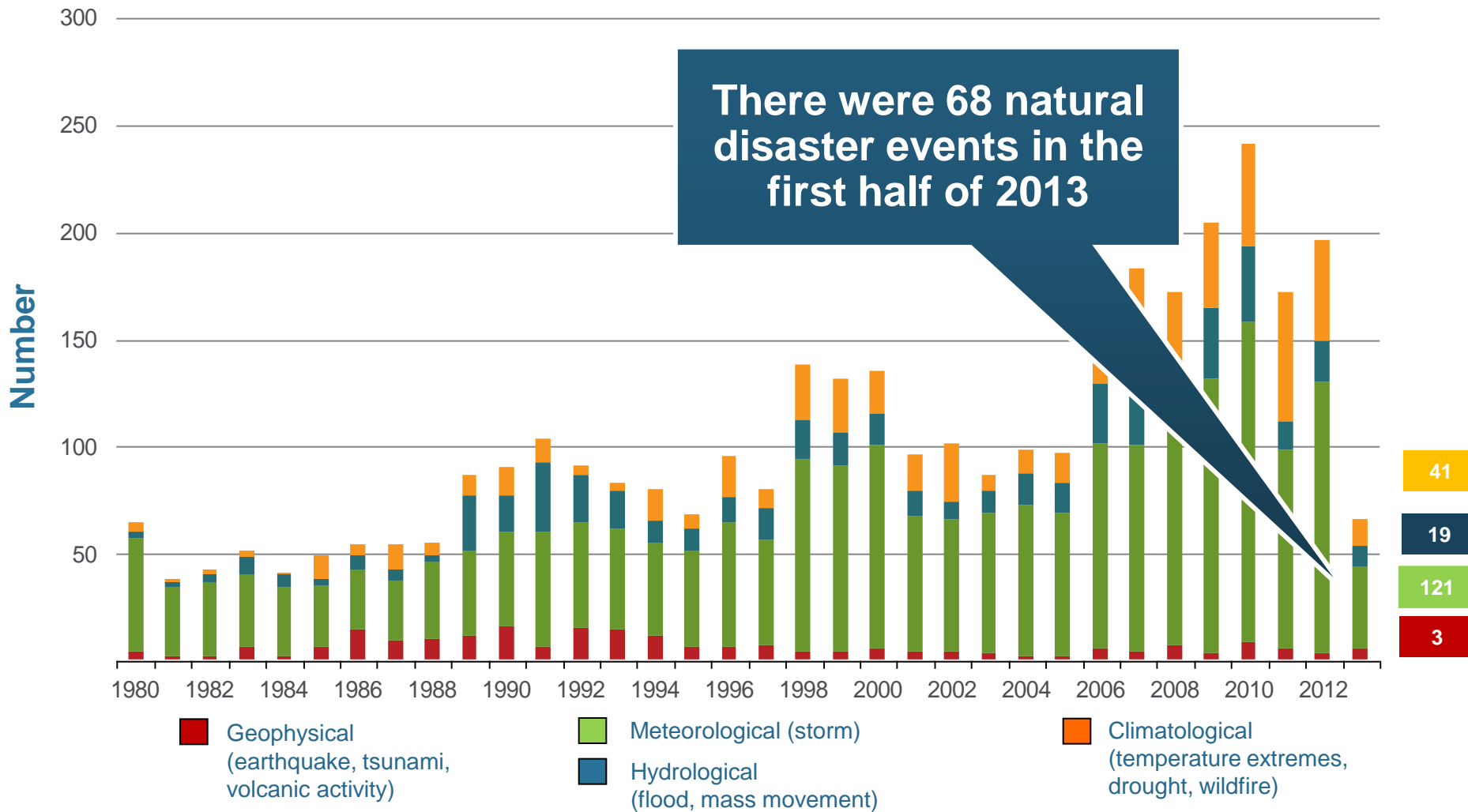
*Figures do not include federally insured flood losses.

**Estimate based on PCS value of \$18.75B as of 4/12/13.

Sources: Munich Re; Swiss Re; Insurance Information Institute research.

Natural Disasters in the United States, 1980 – June 2013*

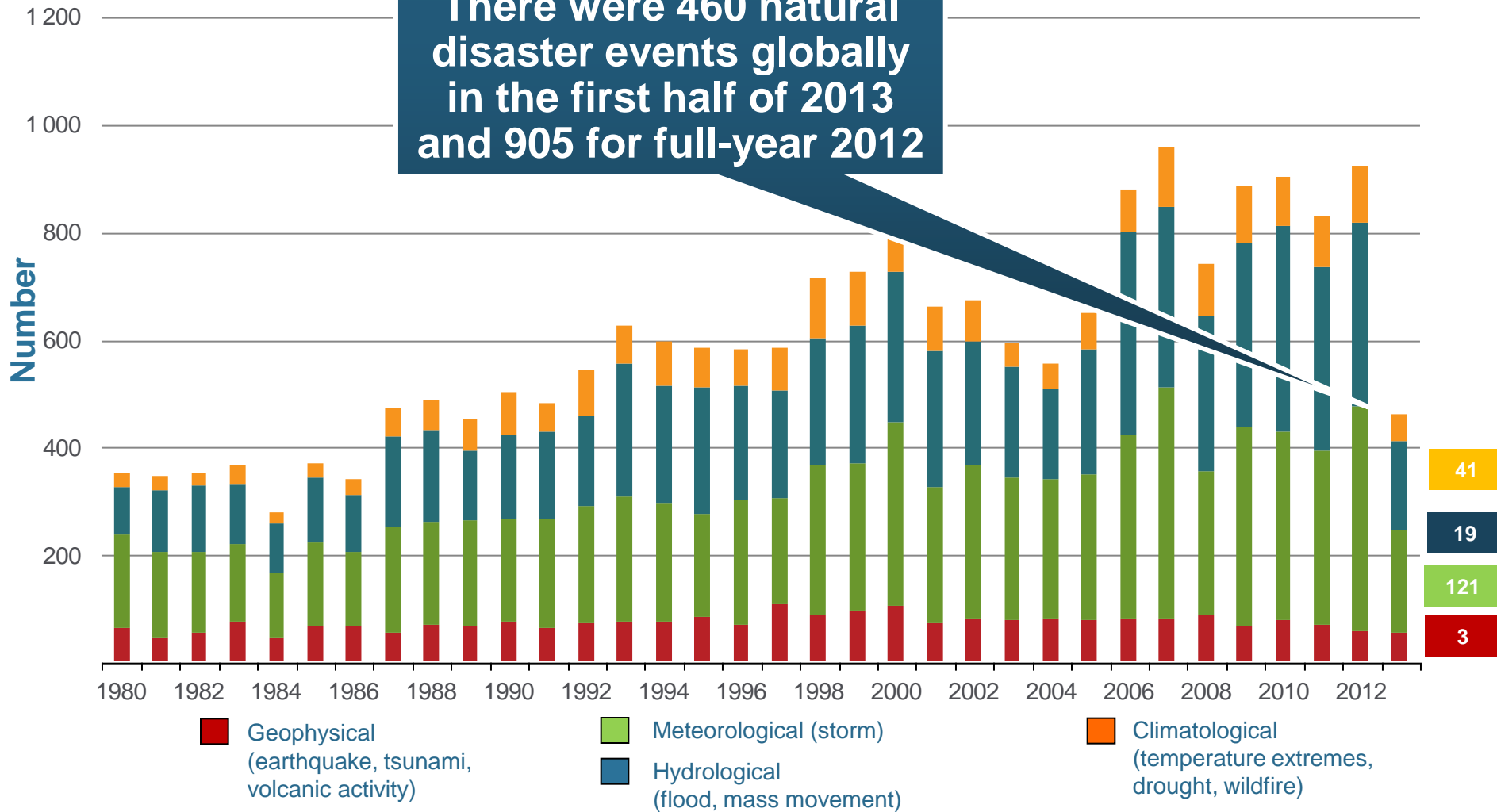
Number of Events (Annual Totals 1980 – June 2013*)



*Through June 30, 2013.
Source: MR NatCatSERVICE

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

**There were 460 natural
disaster events globally
in the first half of 2013
and 905 for full-year 2012**

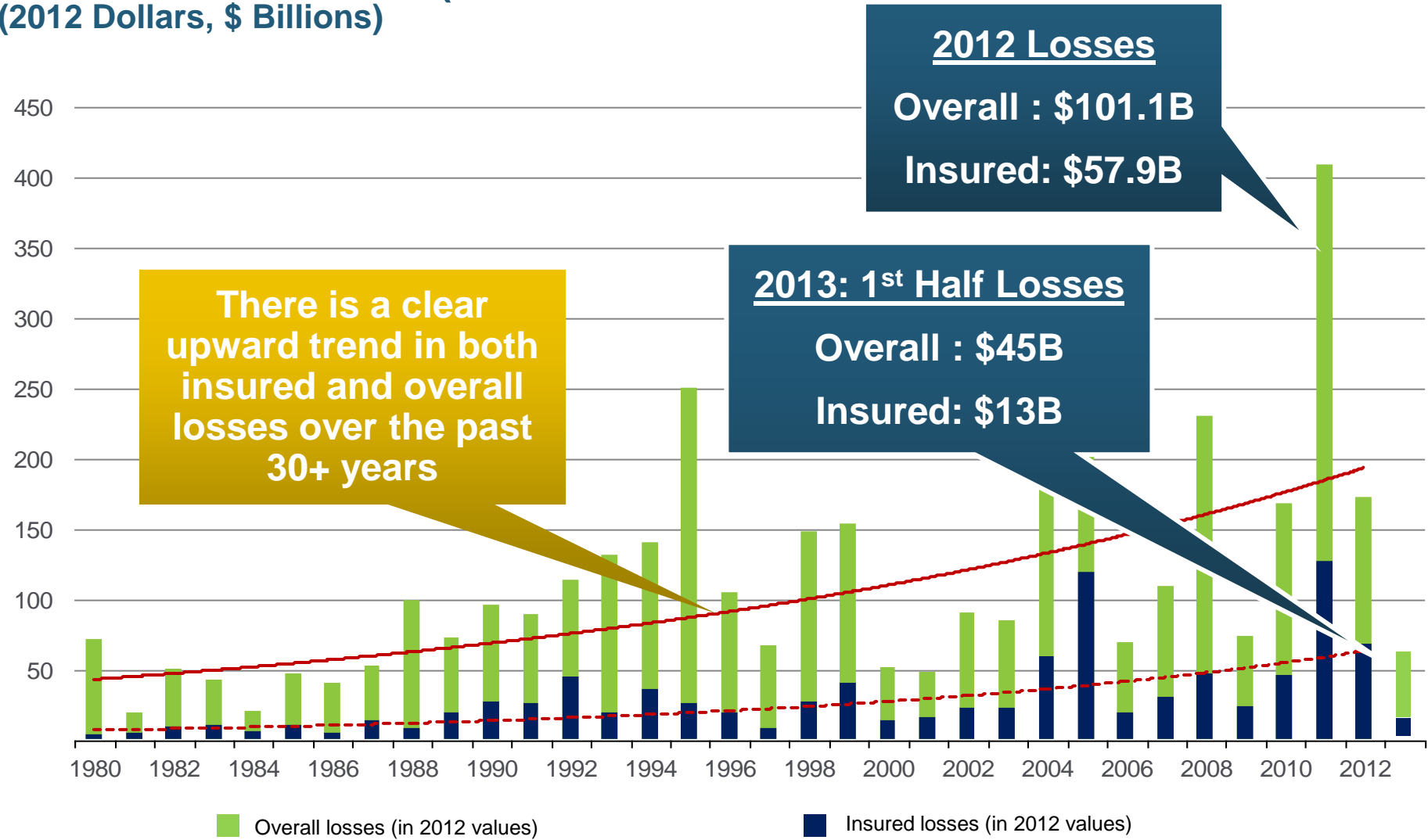


Losses Due to Natural Disasters Worldwide, 1980–2013* (Overall & Insured Losses)



(Overall and Insured Losses)

(2012 Dollars, \$ Billions)

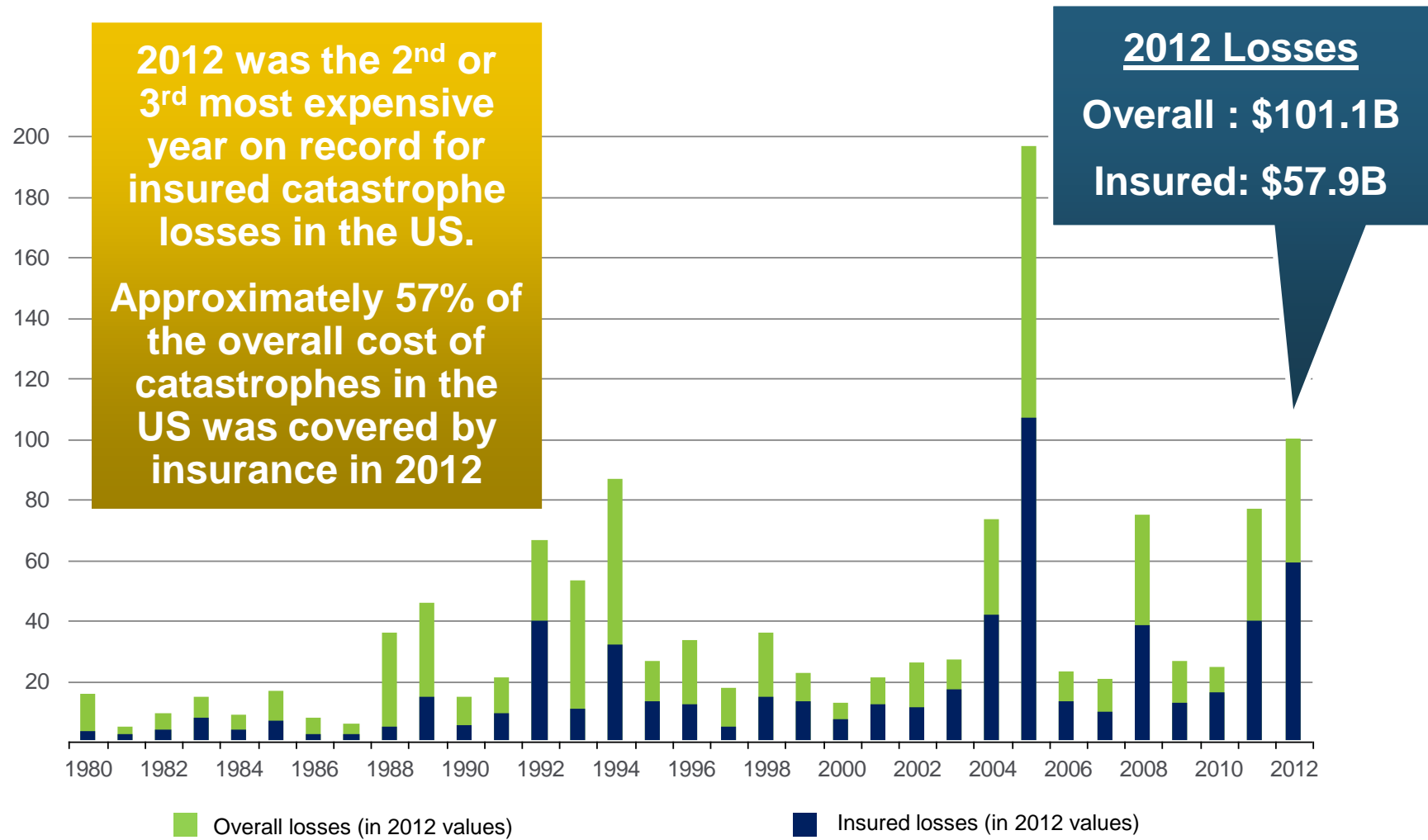


*Through June 30, 2013.
Source: MR NatCatSERVICE

Losses Due to Natural Disasters in the US, 1980–2012 (Overall & Insured Losses)

(Overall and Insured Losses)

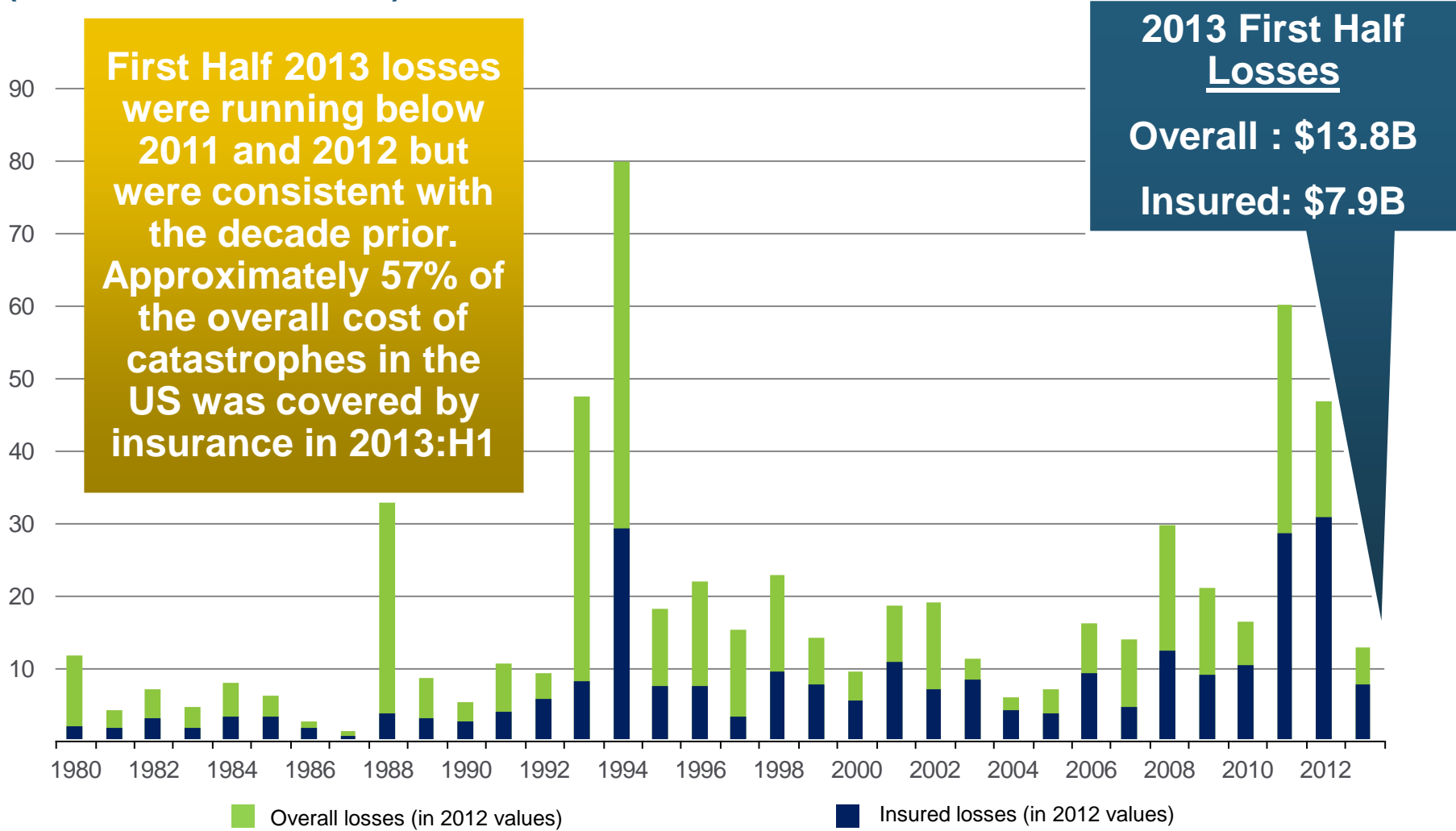
(2012 Dollars, \$ Billions)



Losses Due to Natural Disasters in the US, 1980–2013 (Jan.-June Only)

(Overall and Insured Losses)

(2012 Dollars, \$ Billions)



Natural Disaster Losses in the United States: 2012

As of January 1, 2013	Number of Events	Fatalities	Estimated Overall Losses (US \$m)	Estimated Insured Losses (US \$m)
Tropical Cyclone	4	143	52,240	26,360
Severe Thunderstorm	115	118	27,688	14,914
Drought	2	0	20,000	16,000[†]
Wildfire	38	13	1,112	595
Winter Storm	2	7	81	38
Flood	19	3	13	0^{††}
TOTALS	184	284	\$101,134	\$57,907

Source: MR NatCatSERVICE

† - Includes Federal Crop Insurance Losses. †† - Excludes federal flood.

Natural Disaster Losses in the United States: First Half 2013

As of July 1, 2013	Number of Events	Fatalities	Estimated Overall Losses (US \$m)	Estimated Insured Losses (US \$m)
Severe Thunderstorm	29	66	10,180	6,325
Winter Storm	13	17	2,434	1,255
Flood	10	9	500	Minor
Earthquake & Geophysical	5	0	Minor	Minor
Tropical Cyclone	1	1	Minor	Minor
Wildfire, Heat, & Drought	11	23	700	365
Totals	68	116	13,814	7,945

Significant Natural Catastrophes, 2012

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

Date	Event	Estimated Economic Losses (US \$m)	Estimated Insured Losses (US \$m)
June – Sept 2012	Central US Drought	20,000	16,000 [†]
March 2 - 3	Thunderstorms	5,000	2,500
April 2 – 4	Thunderstorms	1,550	775
April 13- 15	Thunderstorms	1,800	910
April 28 – 29	Thunderstorms	4,500	2,500
May 25 – 30	Thunderstorms	3,400	1,700
June 6 – 7	Thunderstorms	1,400	1,000
June 11 – 13	Thunderstorms	1,900	950
June 28 – July 2	Thunderstorms	4,000	2,000
August 26 - 30	Hurricane Isaac	2,000	1,220
October 28 - 30	Hurricane Sandy	50,000	25,000 ^{††}

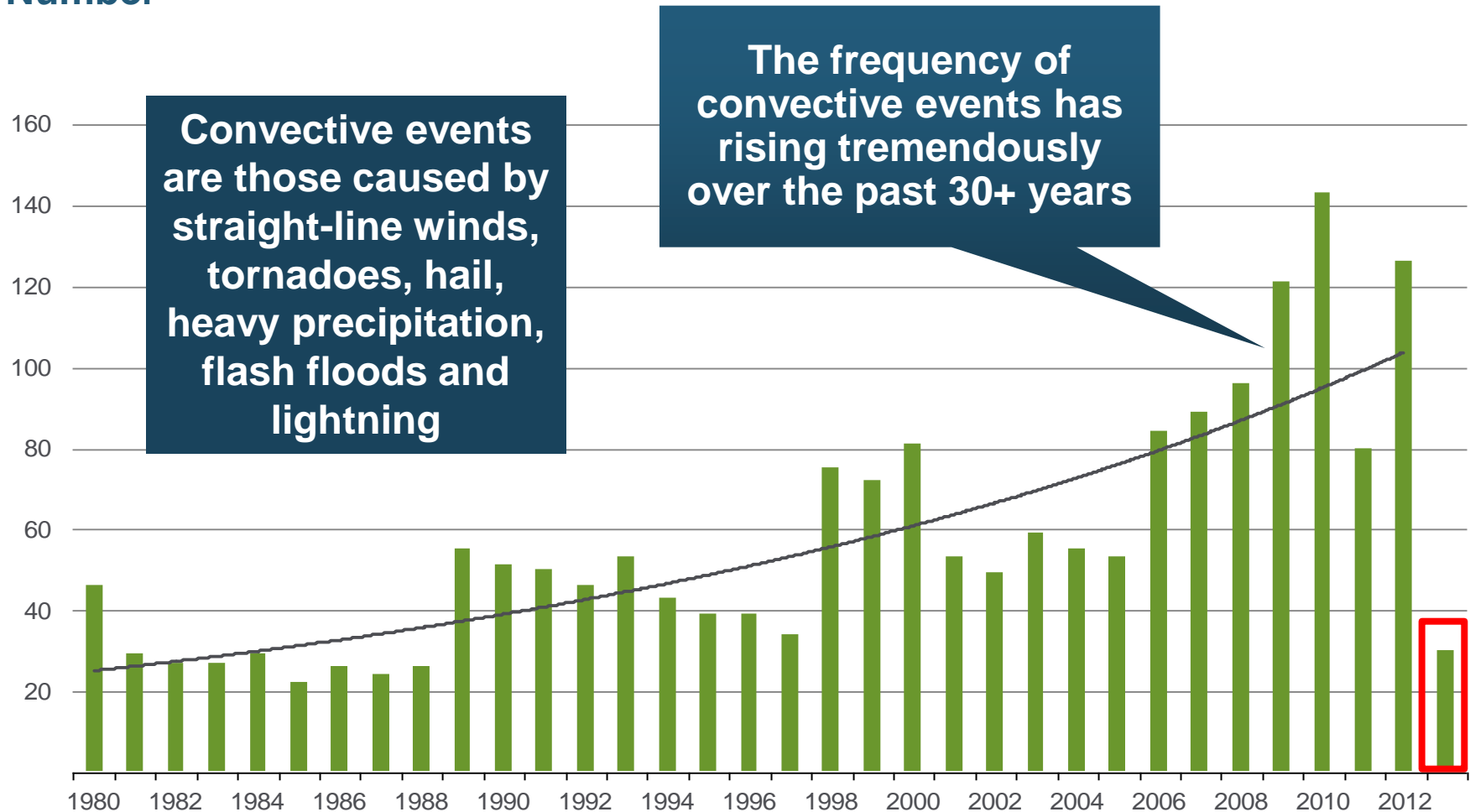
Source: MR NatCatSERVICE

[†] - Includes Federal Crop Insurance Losses.; ^{††} - Excludes NFIP losses.

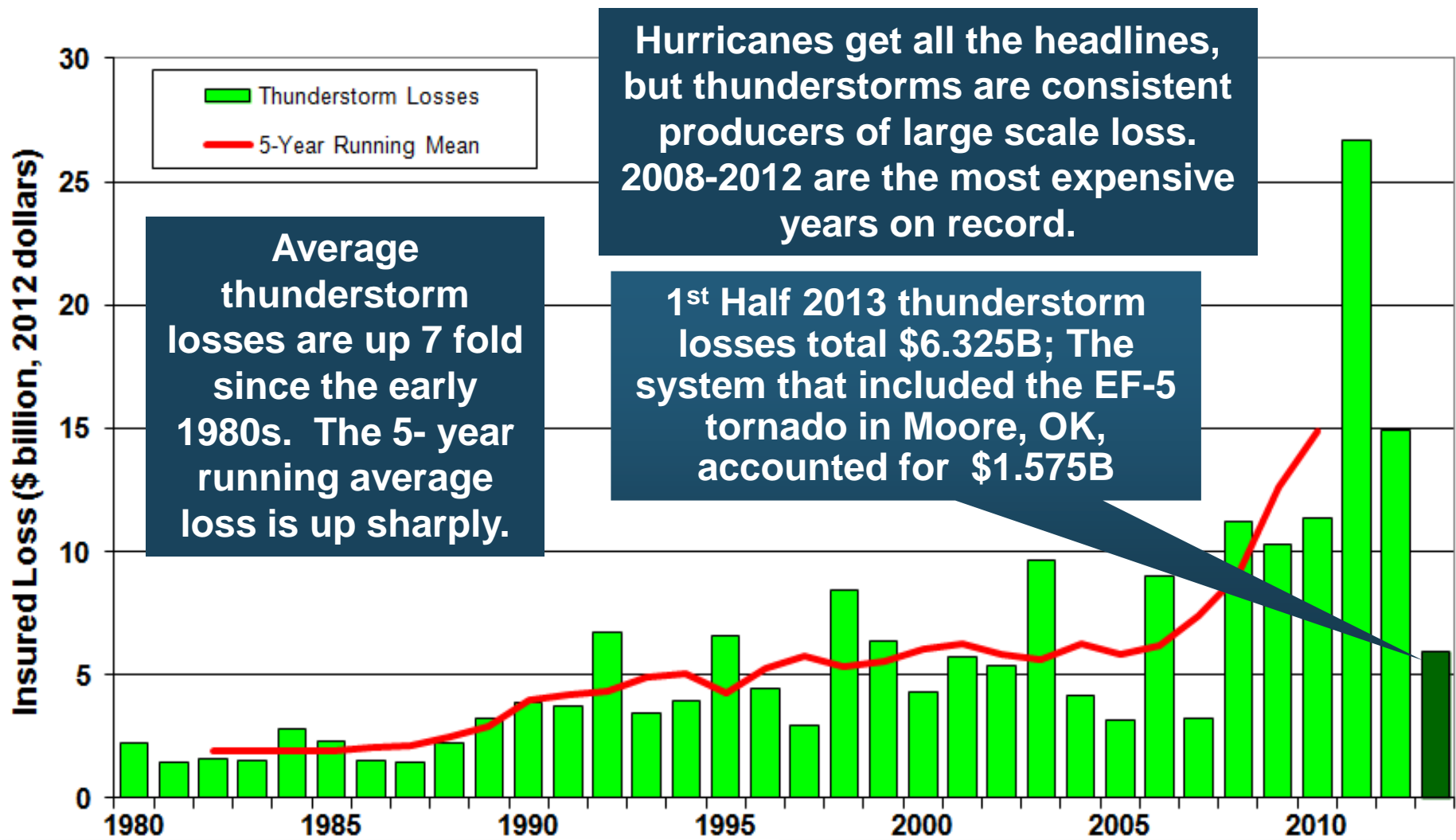
Convective Loss Events in the U.S.

Number of events 1980 – 2012 and First Half 2013

Number



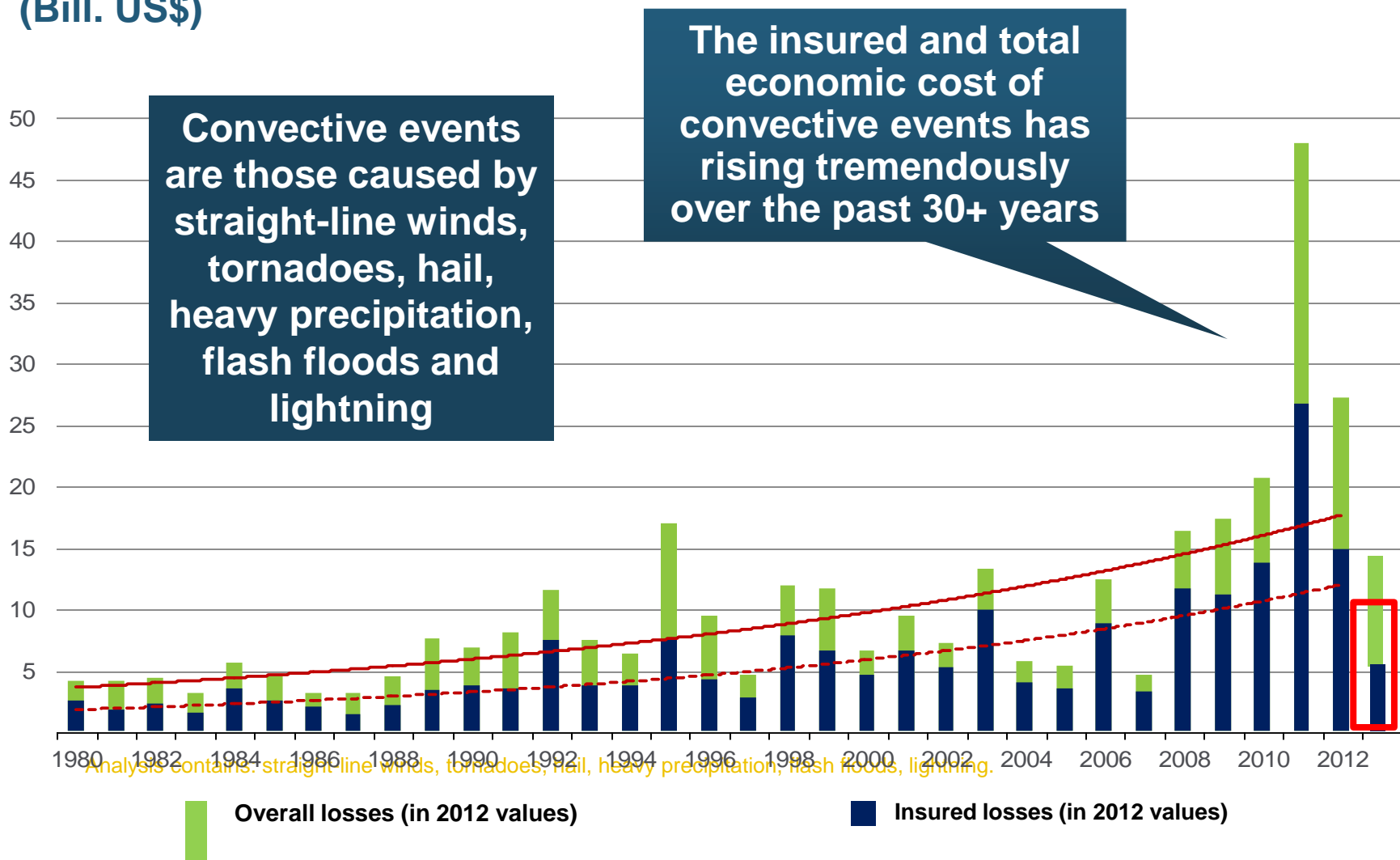
U.S. Thunderstorm Loss Trends, 1980 – June 30, 2013



Convective Loss Events in the U.S.

Overall and insured losses 1980 – 2012 and First Half 2013

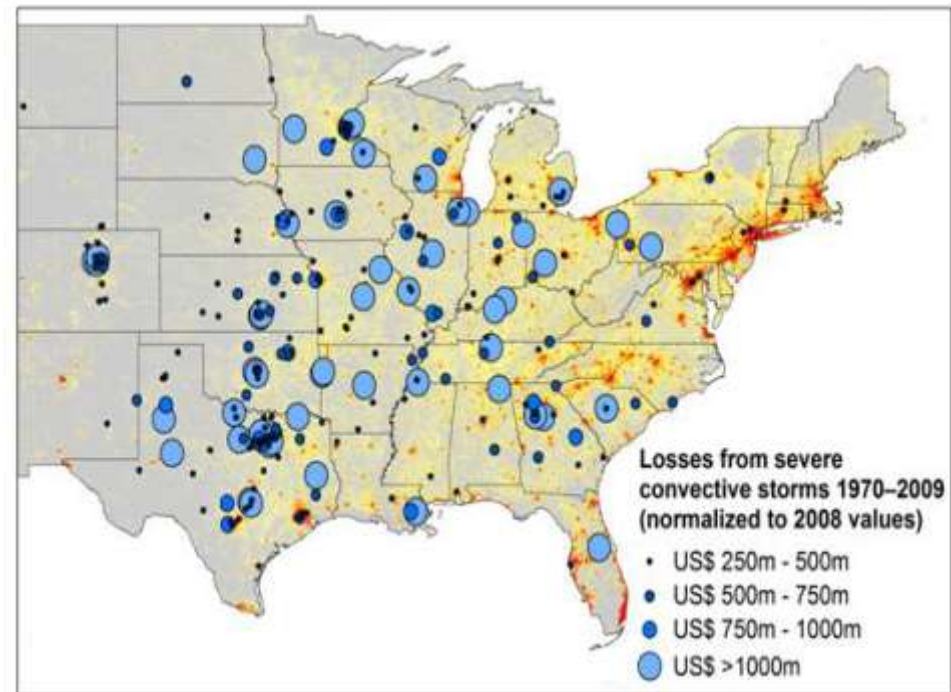
(Bill. US\$)



New Research Suggests Increase in Convective Activity Is Costly for Insurers

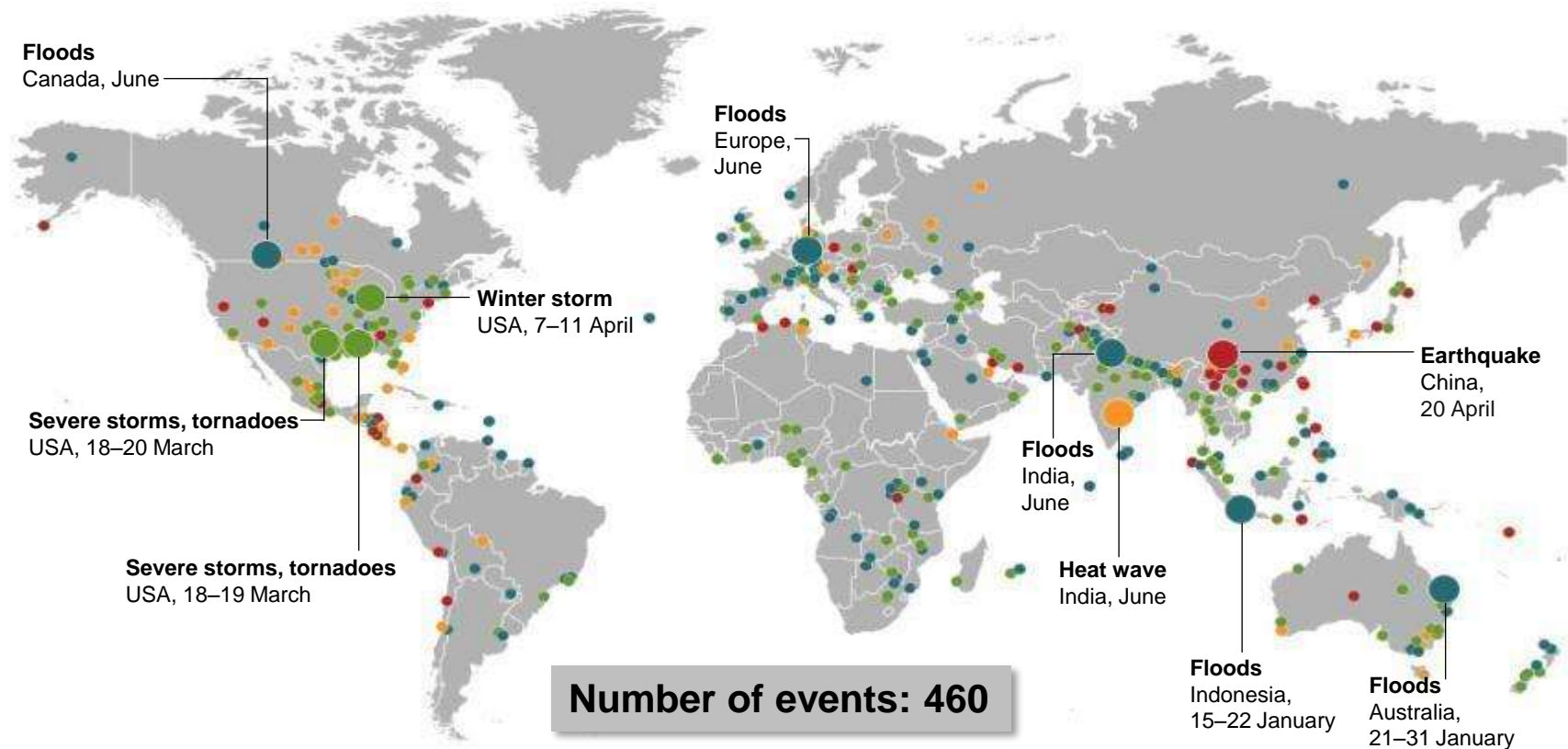
- Study examines convective (hail, tornado, thundersquall and heavy rainfall) events in the US with losses exceeding US\$ 250m in the period 1970–2009 (80% of all losses)
- Past losses are normalized (i.e., adjusted) to currently exposed values
- After normalization there are still increases of losses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

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



Natural Catastrophes January – June 2013

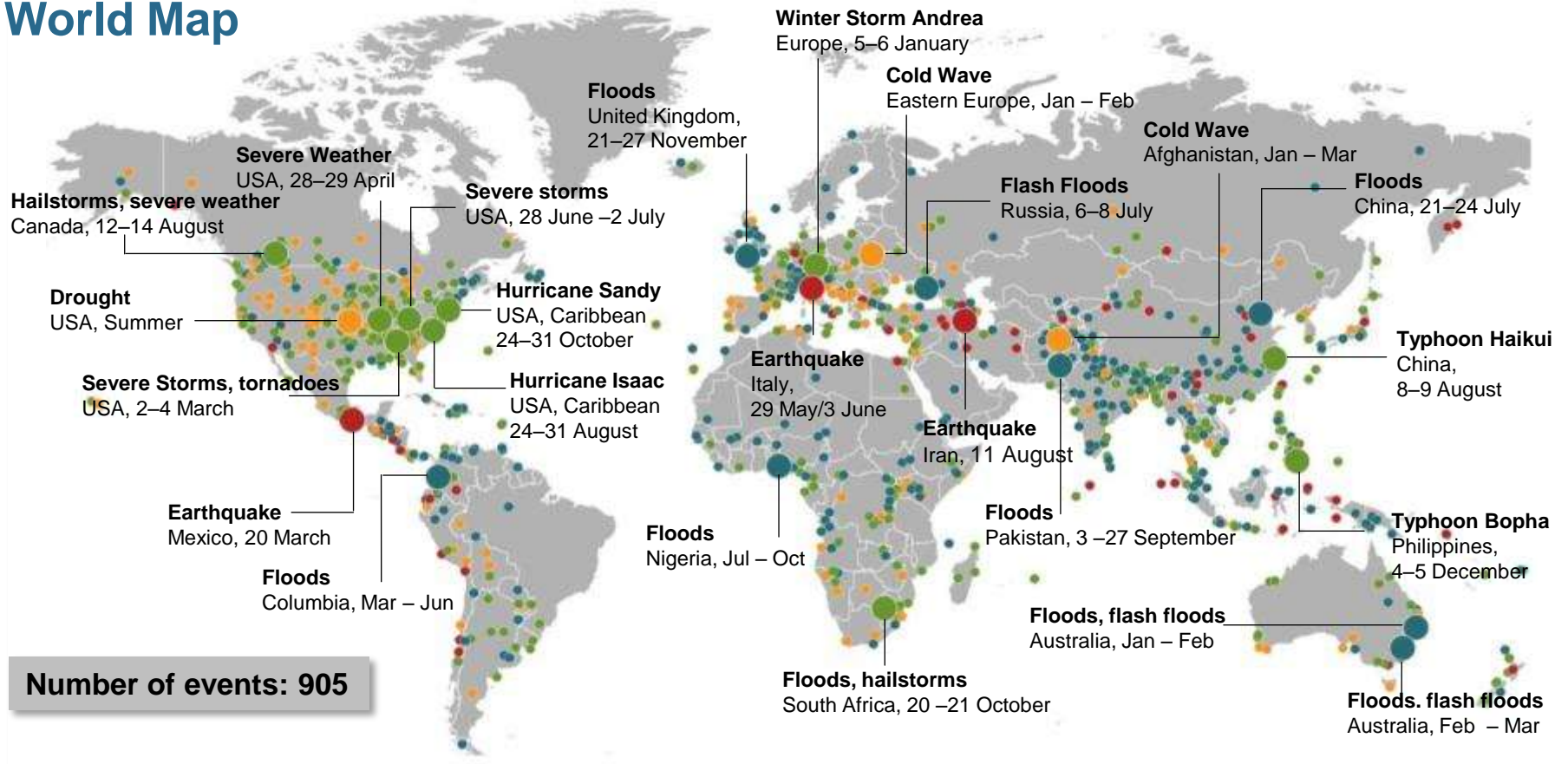
World map with significant events



- **Natural catastrophes**
- **Selection of significant loss events**
- **Geophysical events**
(earthquake, tsunami, volcanic activity)
- **Meteorological events**
(storm)
- **Hydrological events**
(flood, mass movement)
- **Climatological events**
(extreme temperature, drought, wildfire)

Natural Loss Events: Full Year 2012

World Map

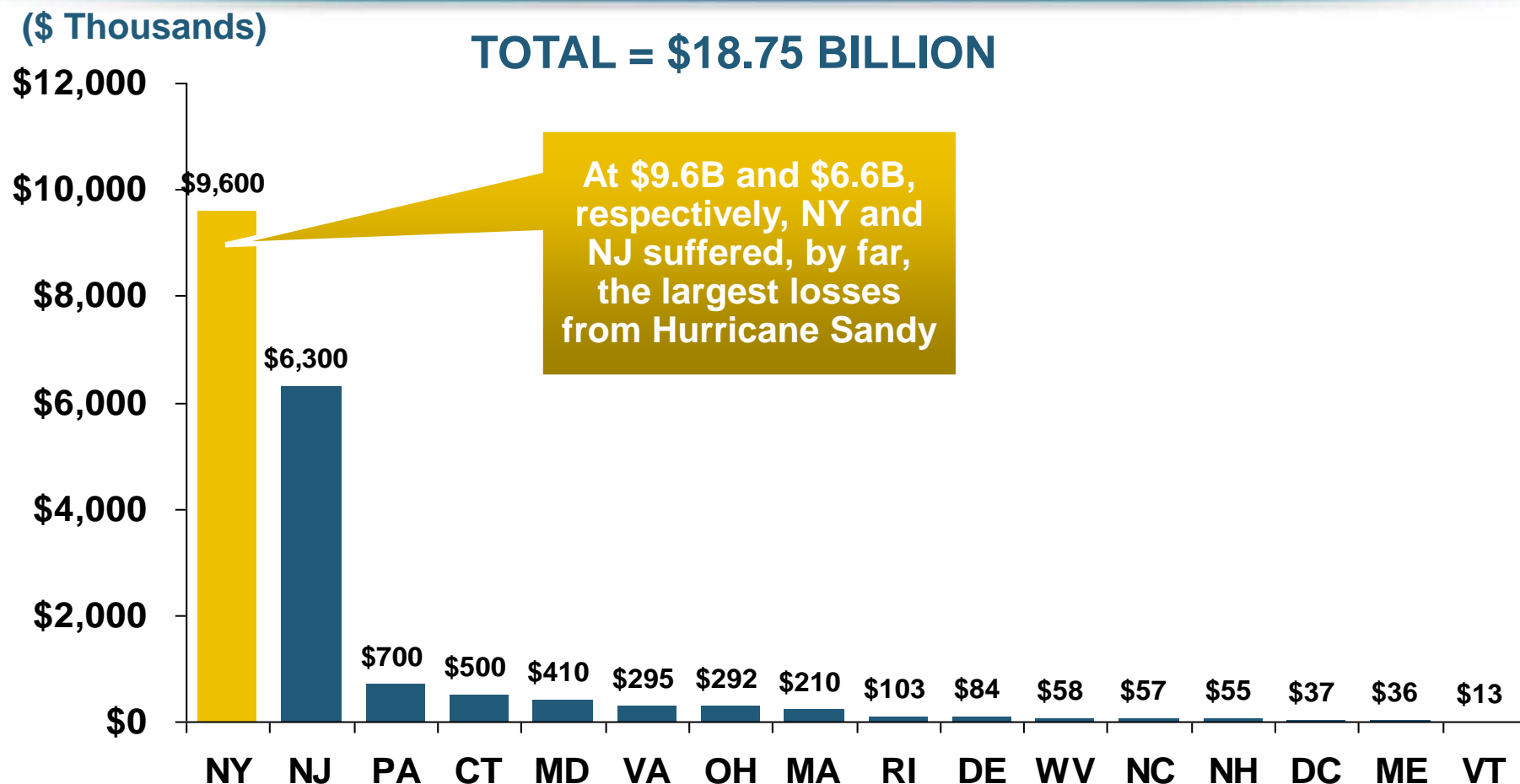


- | | | |
|--|---|--|
| ○ Natural catastrophes | ● Geophysical events
(earthquake, tsunami, volcanic activity) | ● Hydrological events
(flood, mass movement) |
| ○ Selection of significant
Natural catastrophes | ● Meteorological events
(storm) | ● Climatological events
(extreme temperature, drought, wildfire) |

Hurricane Sandy Summary

**Sandy Became One of the
Most Expensive Events in
Insurance History**

Hurricane Sandy: Claim Payments to Policyholders, by State

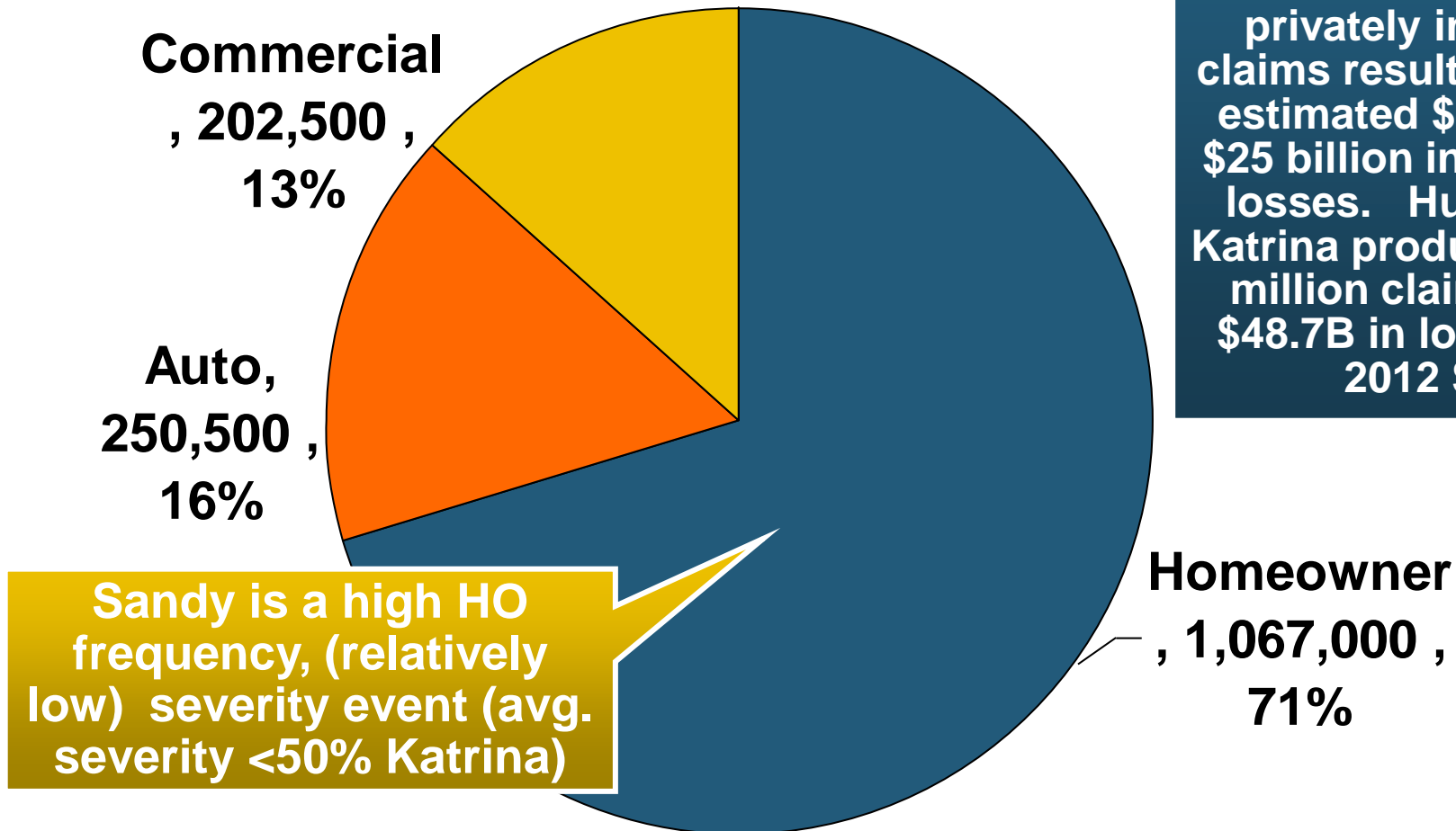


Insurers Will Pay at Least \$18.75 Billion to 1.52 Million Policyholders Across 15 States and DC in the Wake of Hurricane Sandy

Hurricane Sandy: Number of Claims by Type*

Total Claims = 1.52 Million*

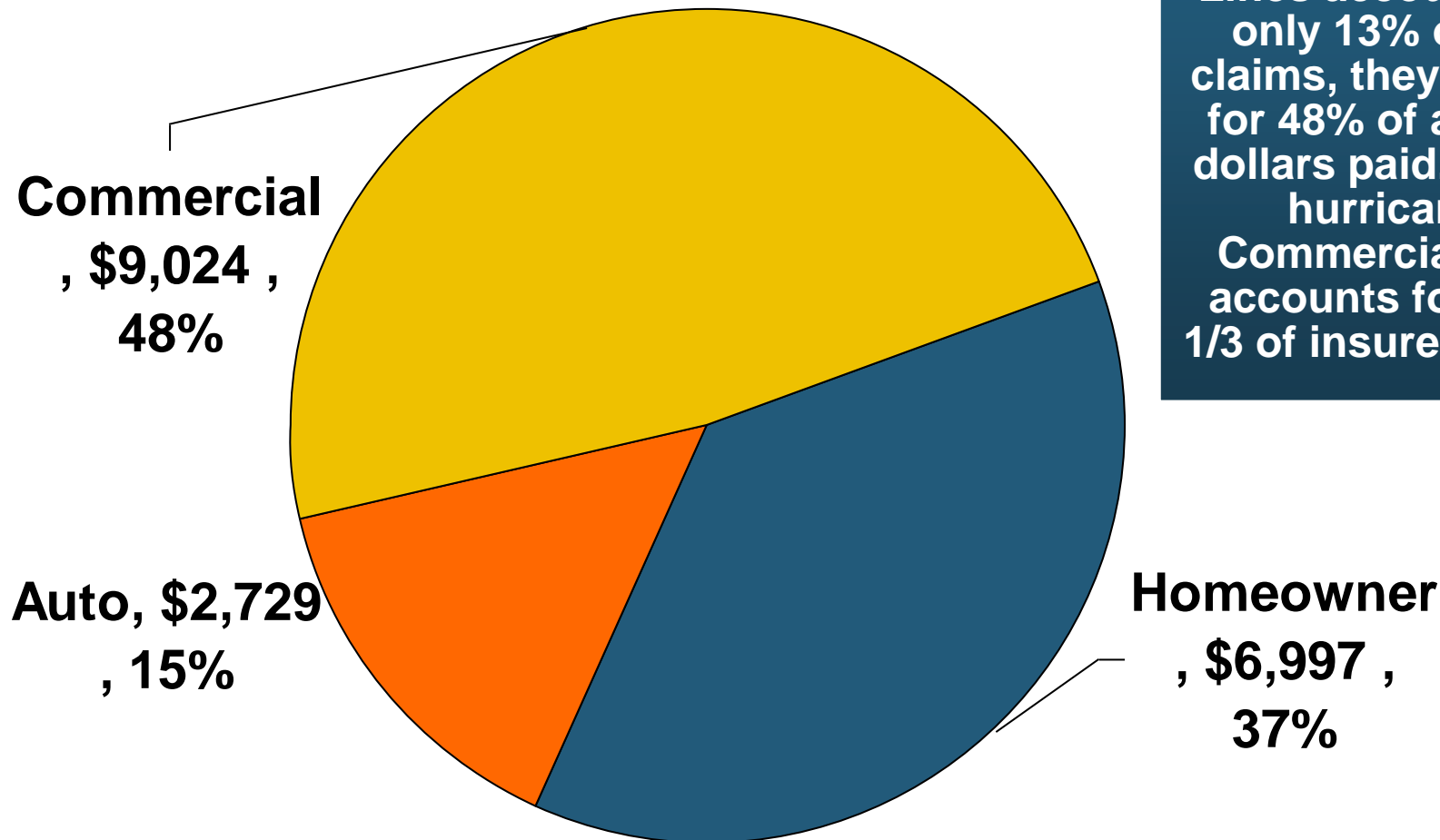
Hurricane Sandy resulted in an estimated 1.52 million privately insured claims resulting in an estimated \$18.75 to \$25 billion in insured losses. Hurricane Katrina produced 1.74 million claims and \$48.7B in losses (in 2012 \$)



*PCS claim count estimate s as of 1/18/13. Loss estimate represents PCS total (\$18.75B) and upper end of range estimates by risk modelers RMS, Eqecat and AIR. All figures exclude losses paid by the NFIP.
Source: PCS; AIR, Eqecat, AIR Worldwide; Insurance Information Institute.

Hurricane Sandy: Insured Loss by Claim Type* (\$ Millions)

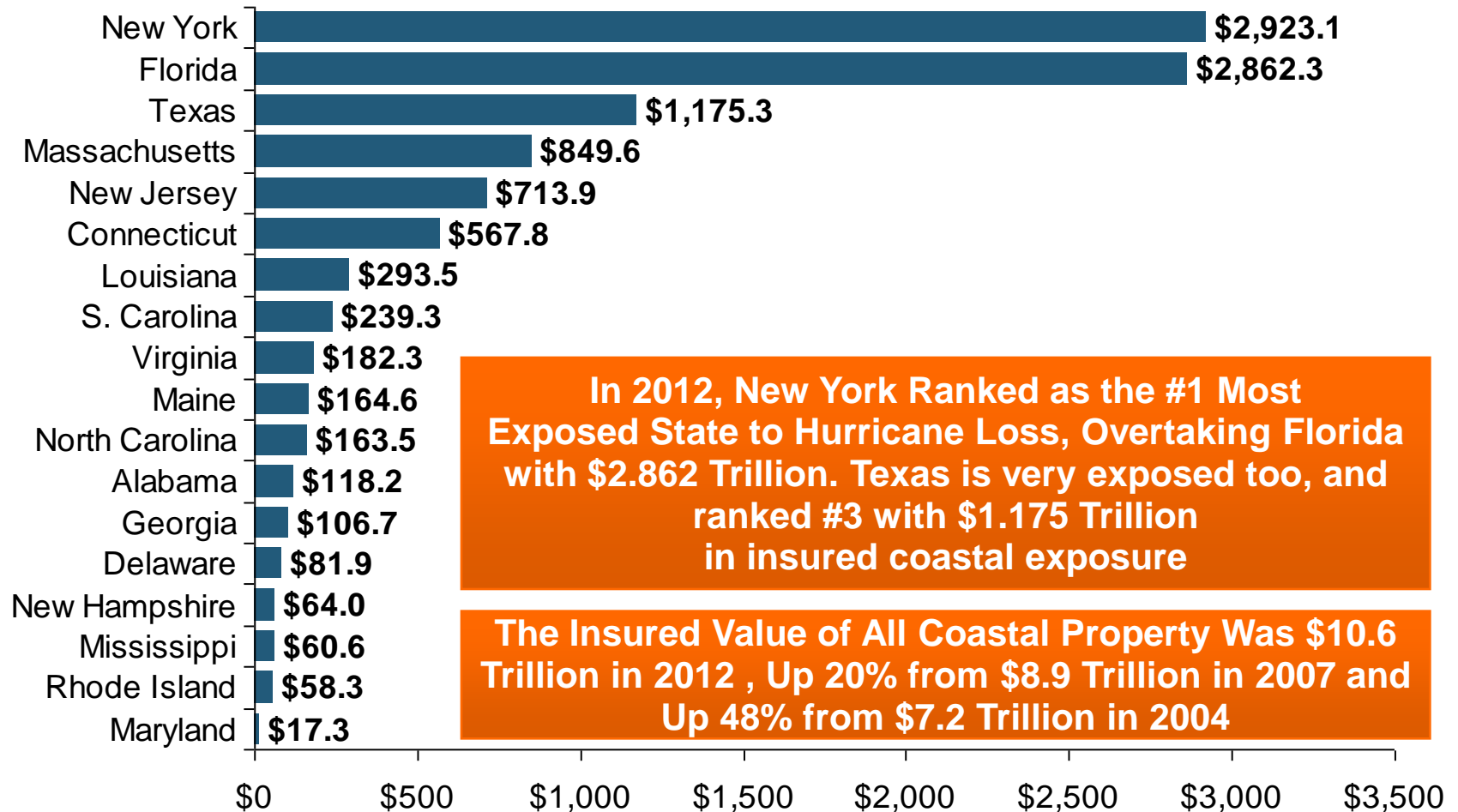
Total Claim Value = \$18.75 Billion*



Although Commercial Lines accounted for only 13% of total claims, they account for 48% of all claim dollars paid. In most hurricanes, Commercial Lines accounts for about 1/3 of insured losses.

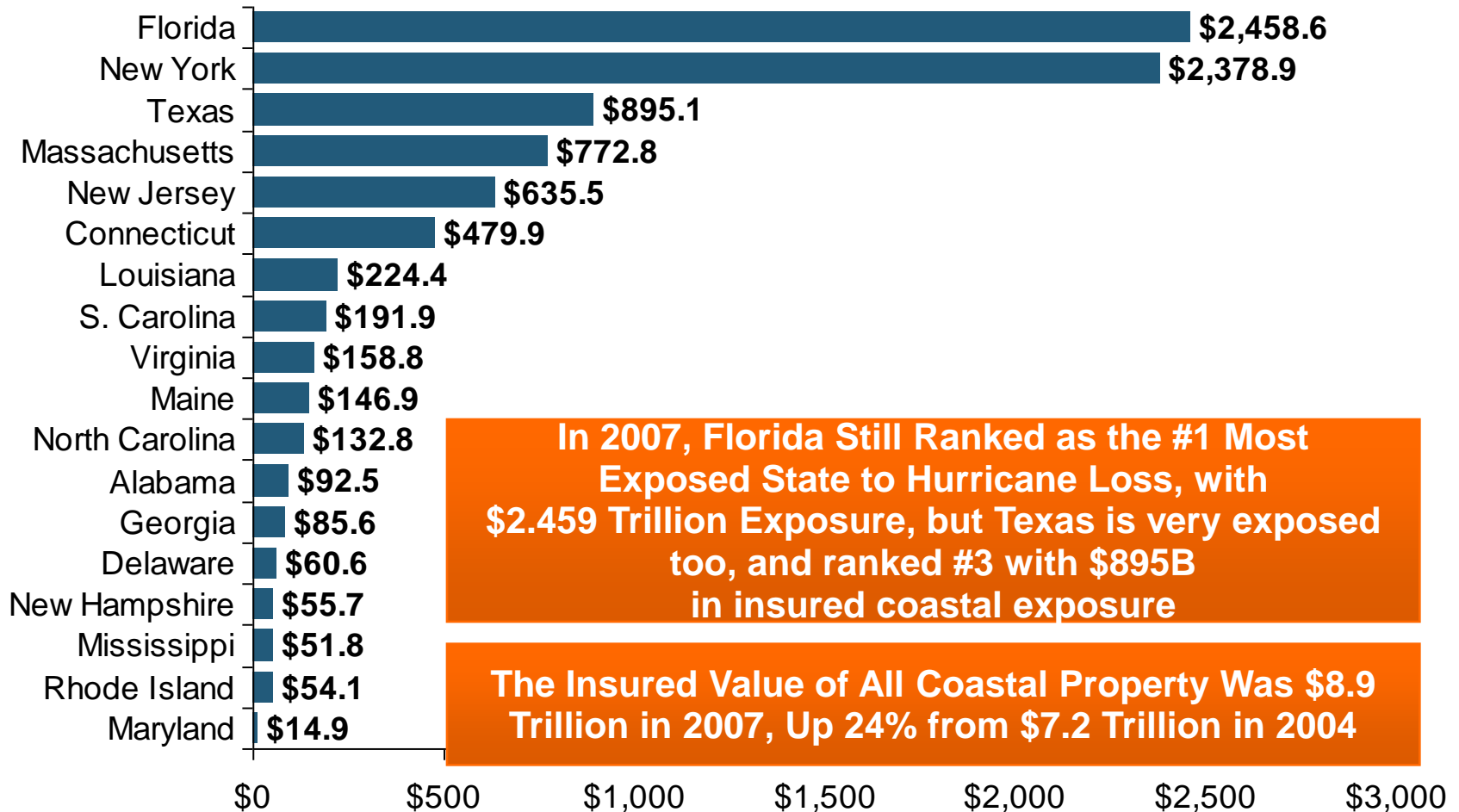
Total Value of Insured Coastal Exposure in 2012

(2012, \$ Billions)



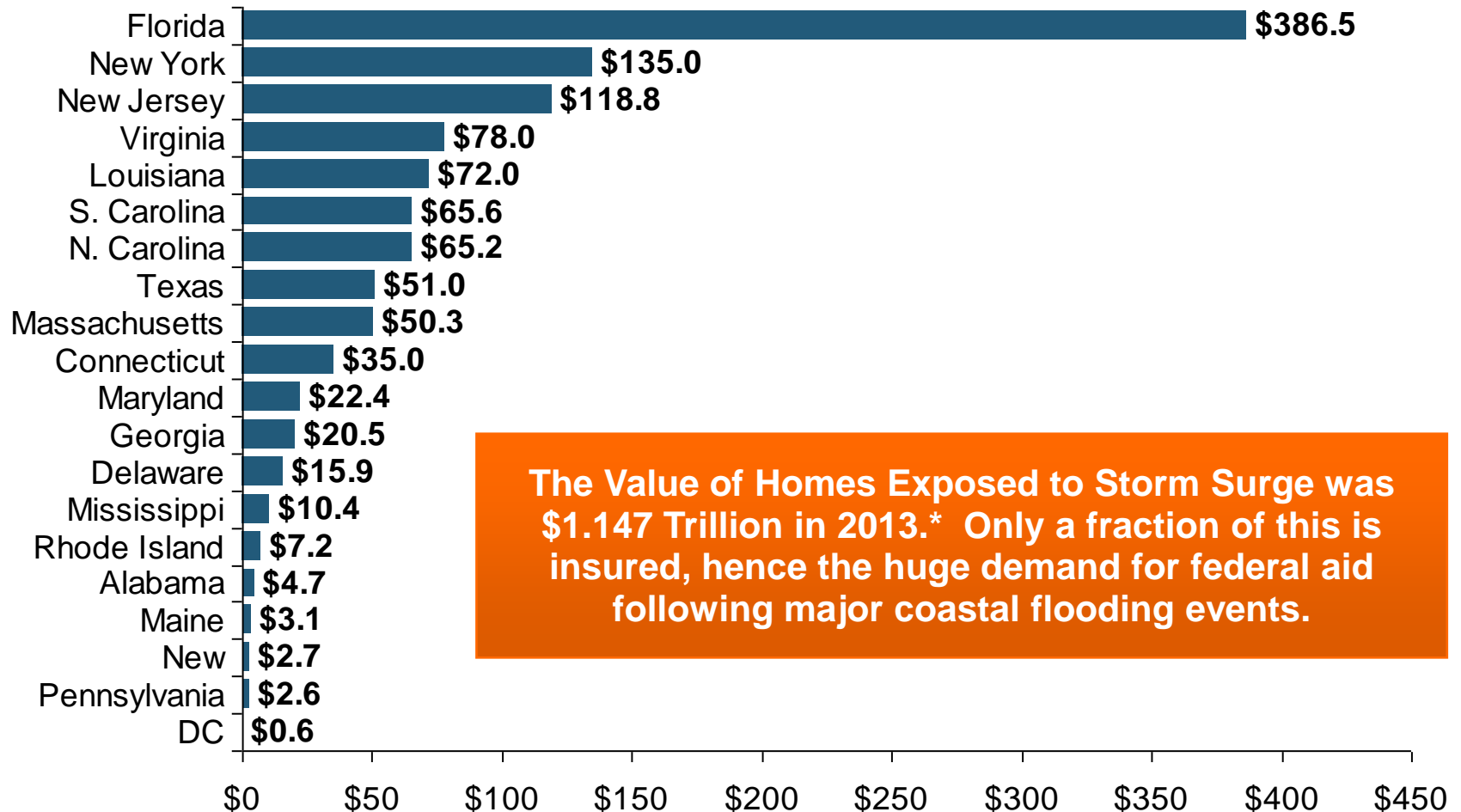
Total Value of Insured Coastal Exposure in 2007

(2007, \$ Billions)



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

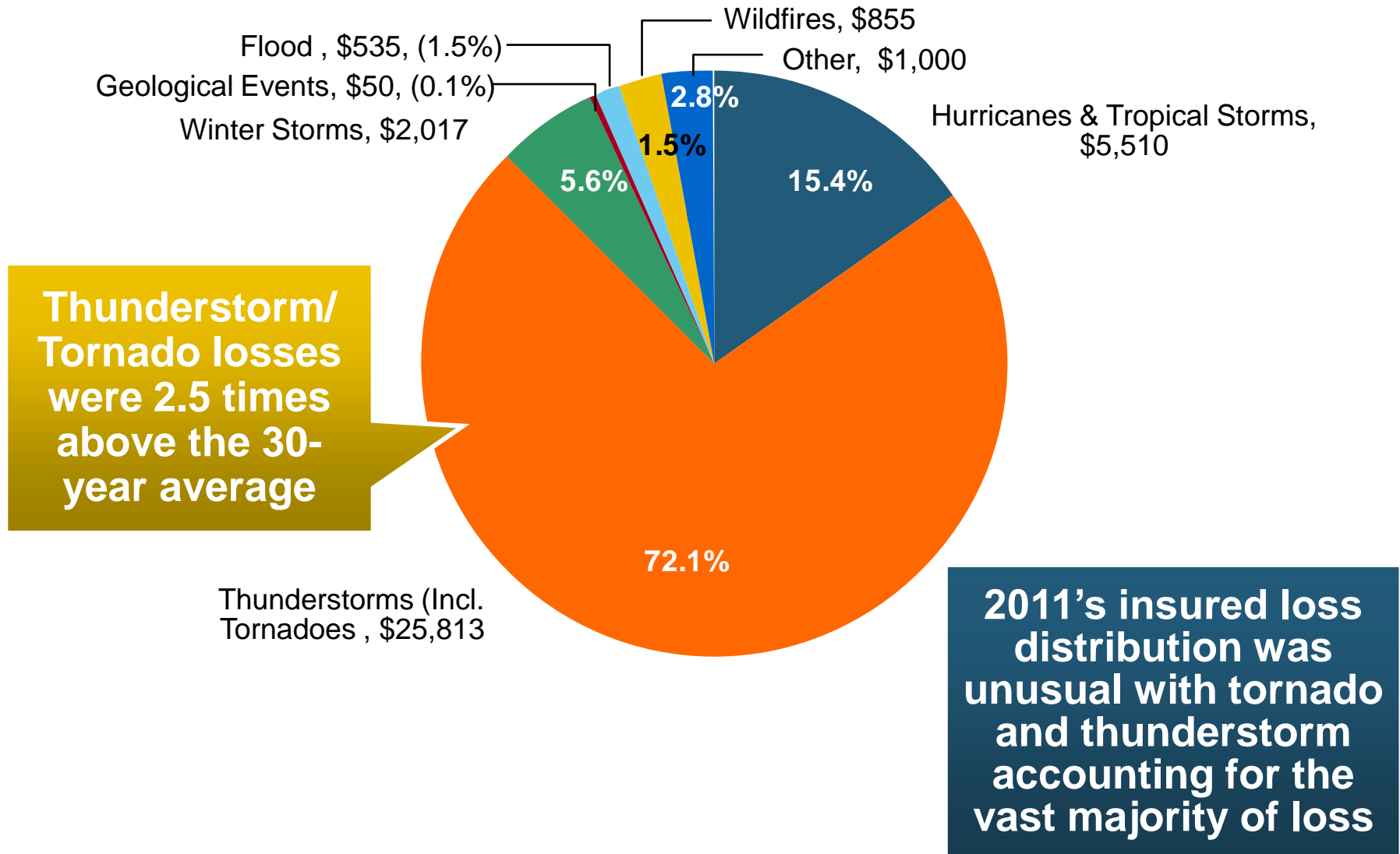
(\$ Billions)



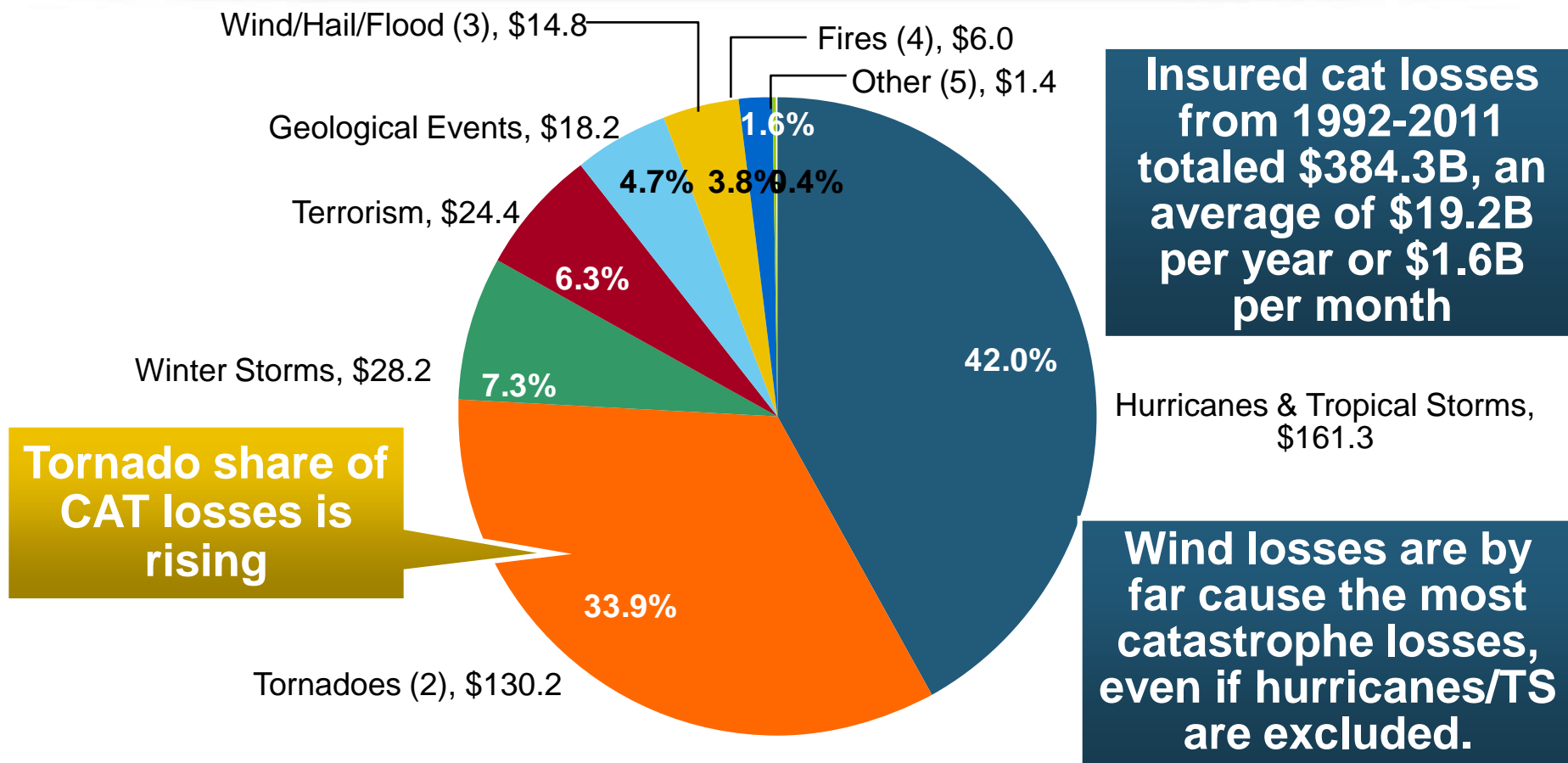
*Insured and uninsured property. Based on estimated property values as of April 2013.

Source: *Storm Surge Report 2013*, CoreLogic.

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



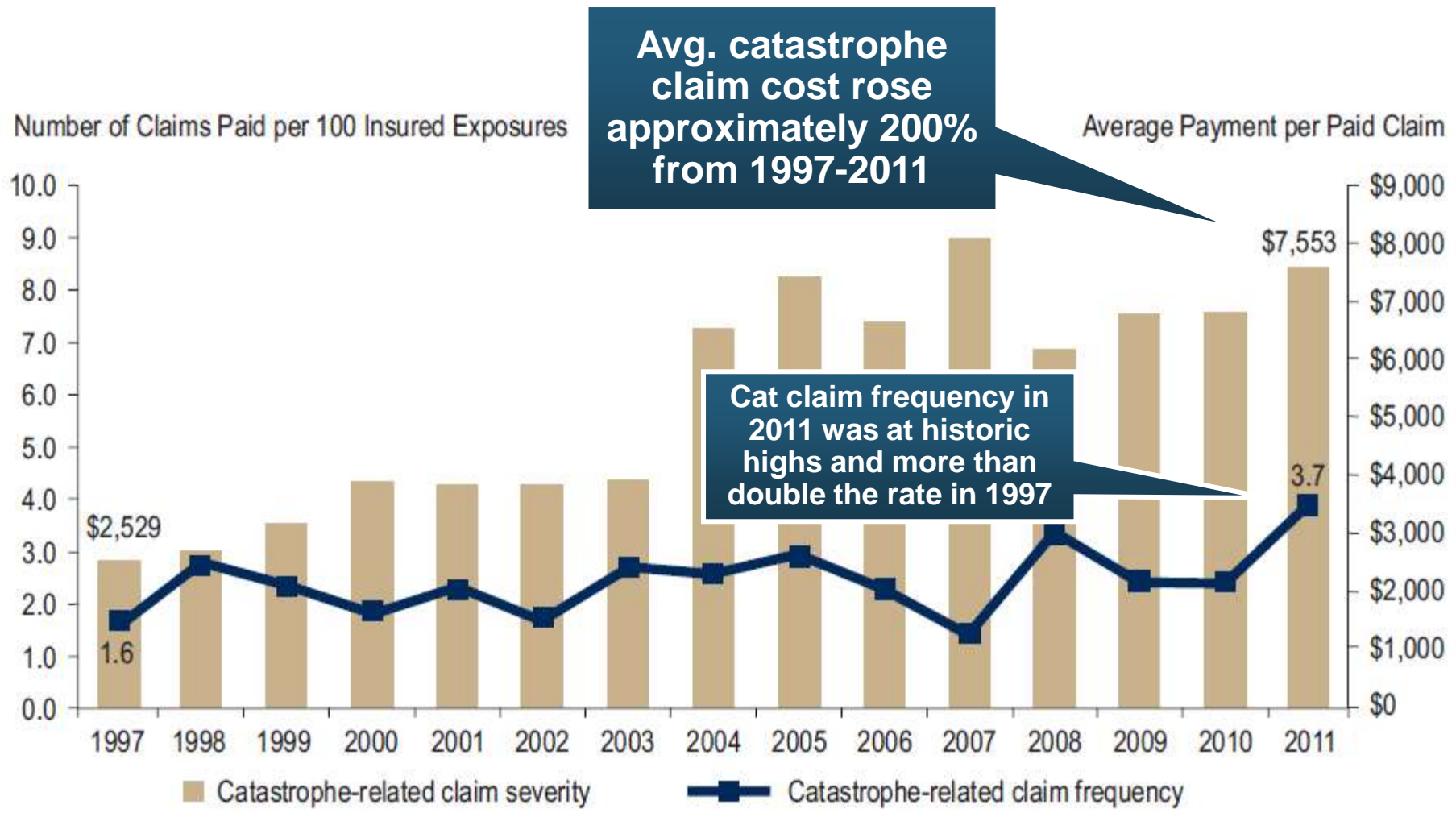
Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1992–2011¹



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.

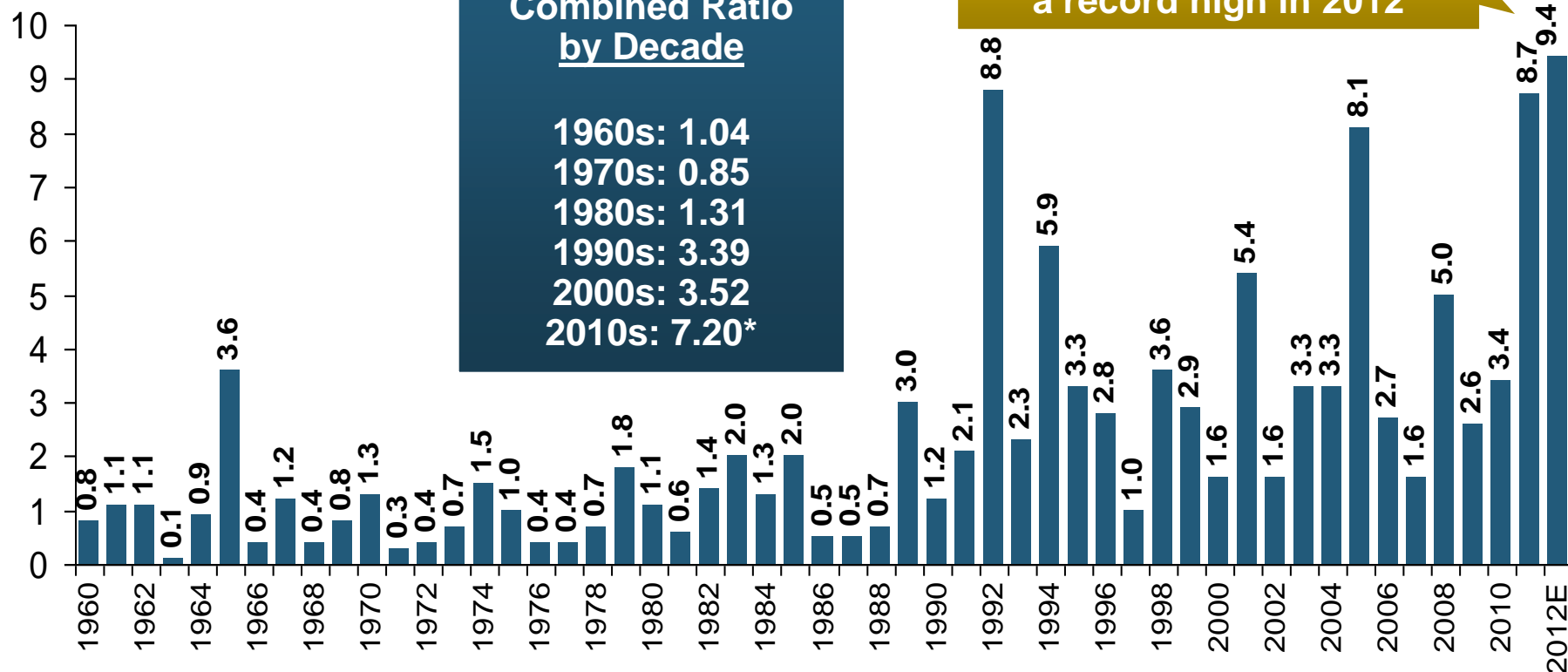
Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2012*

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: 7.20*

**Catastrophe losses as a
share of all losses reached
a record high in 2012**

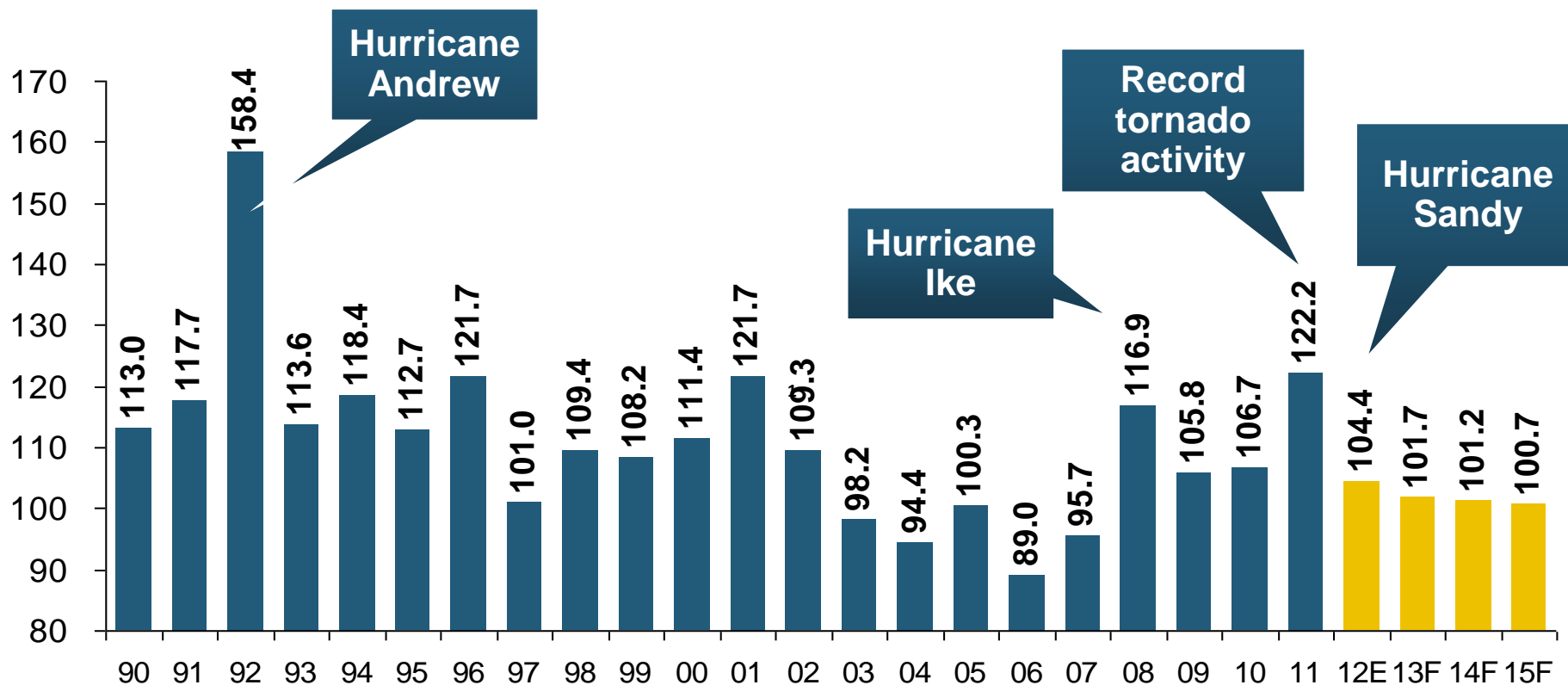


The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades

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

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

Homeowners Insurance Combined Ratio: 1990–2015F



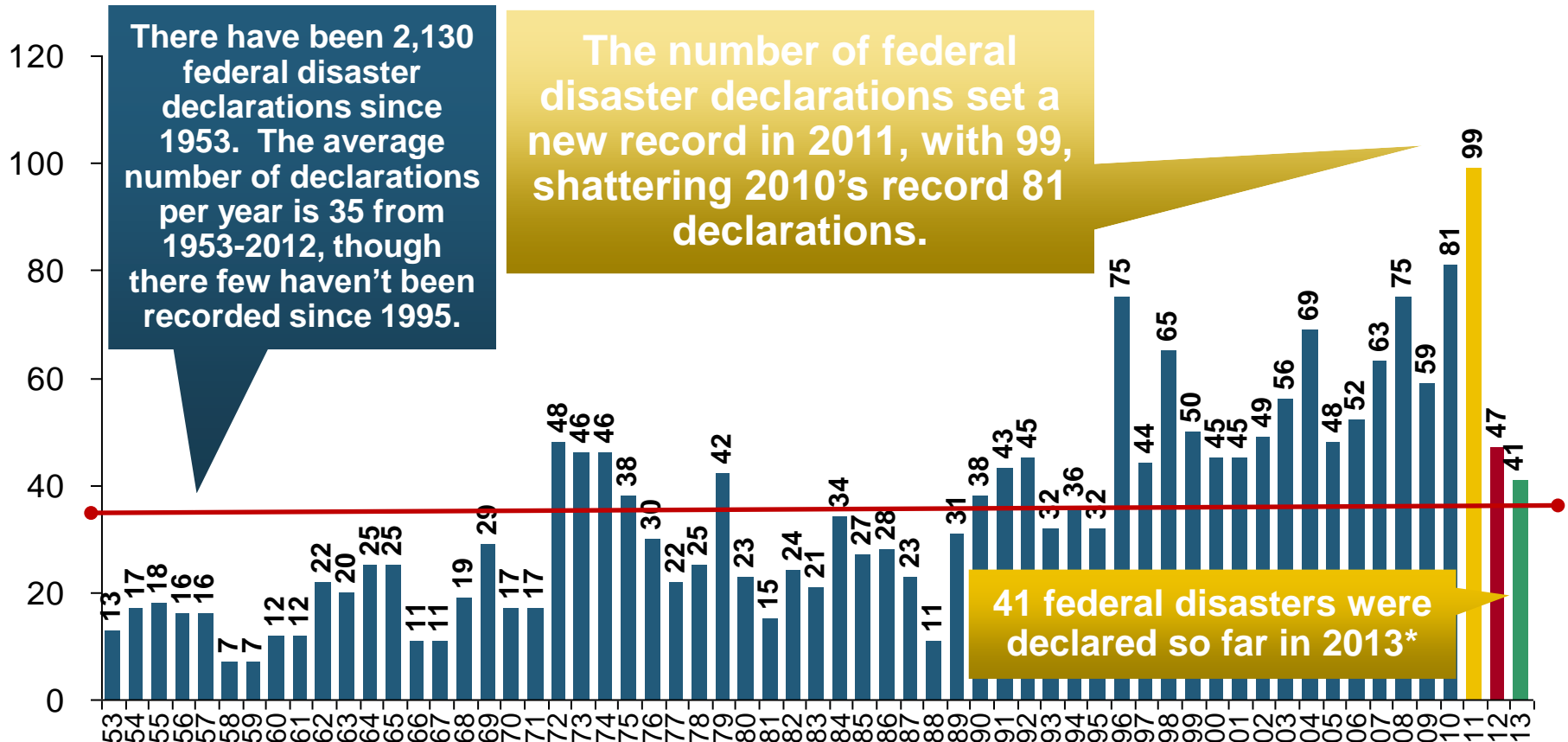
Homeowners Performance in 2011/12 Impacted by Large Cat Losses. Extreme Regional Variation Can Be Expected Due to Local Catastrophe Loss Activity



Federal Disaster Declarations Patterns: 1953-2013

**Disaster Declarations Set New
Records in Recent Years**

Number of Federal Disaster Declarations, 1953-2013*

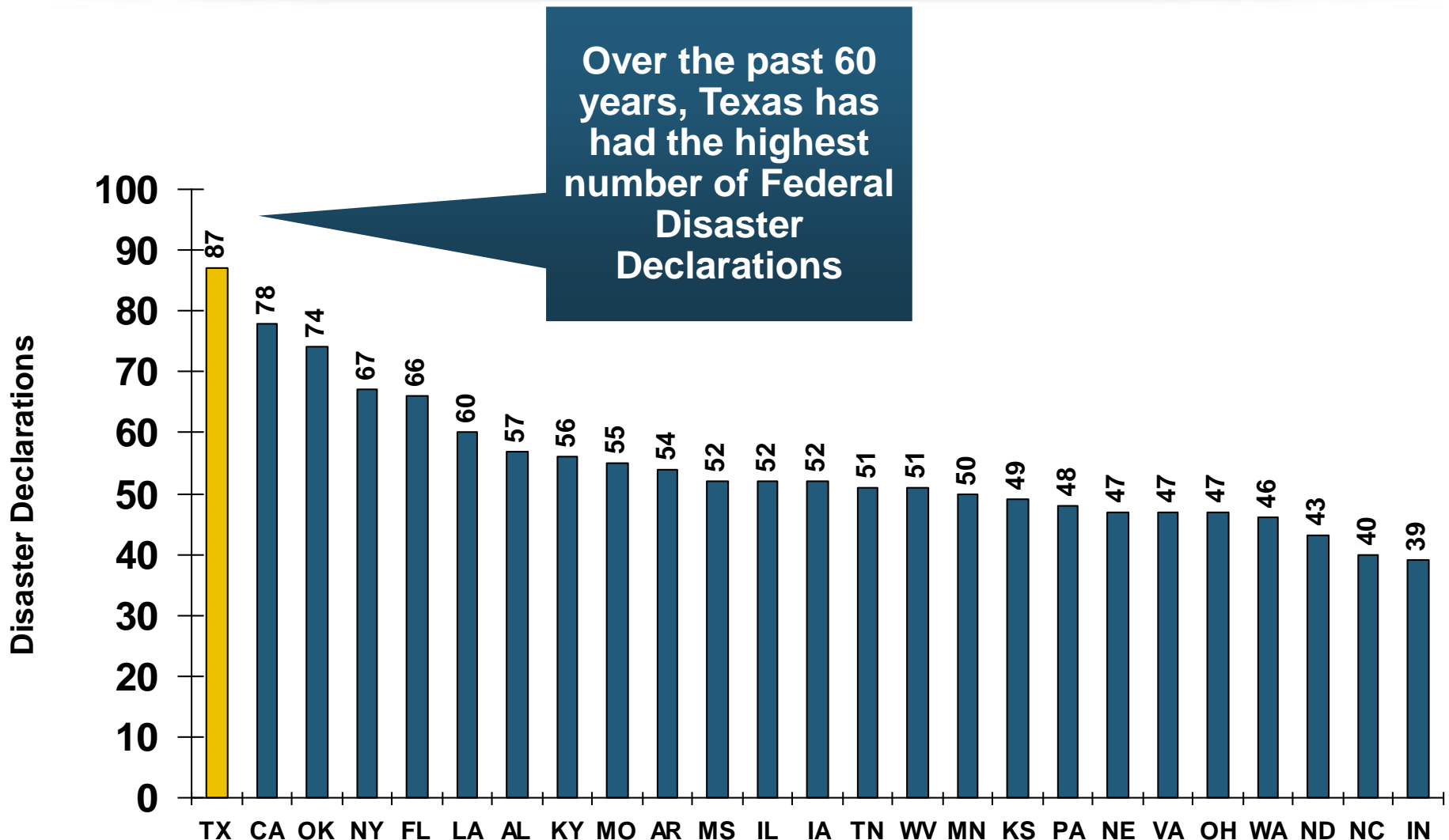


The Number of Federal Disaster Declarations Is Rising and Set New Records in 2010 *and* 2011. Hurricane Sandy Produced 13 Declarations in 2012/13.

*Through September 8, 2013.

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

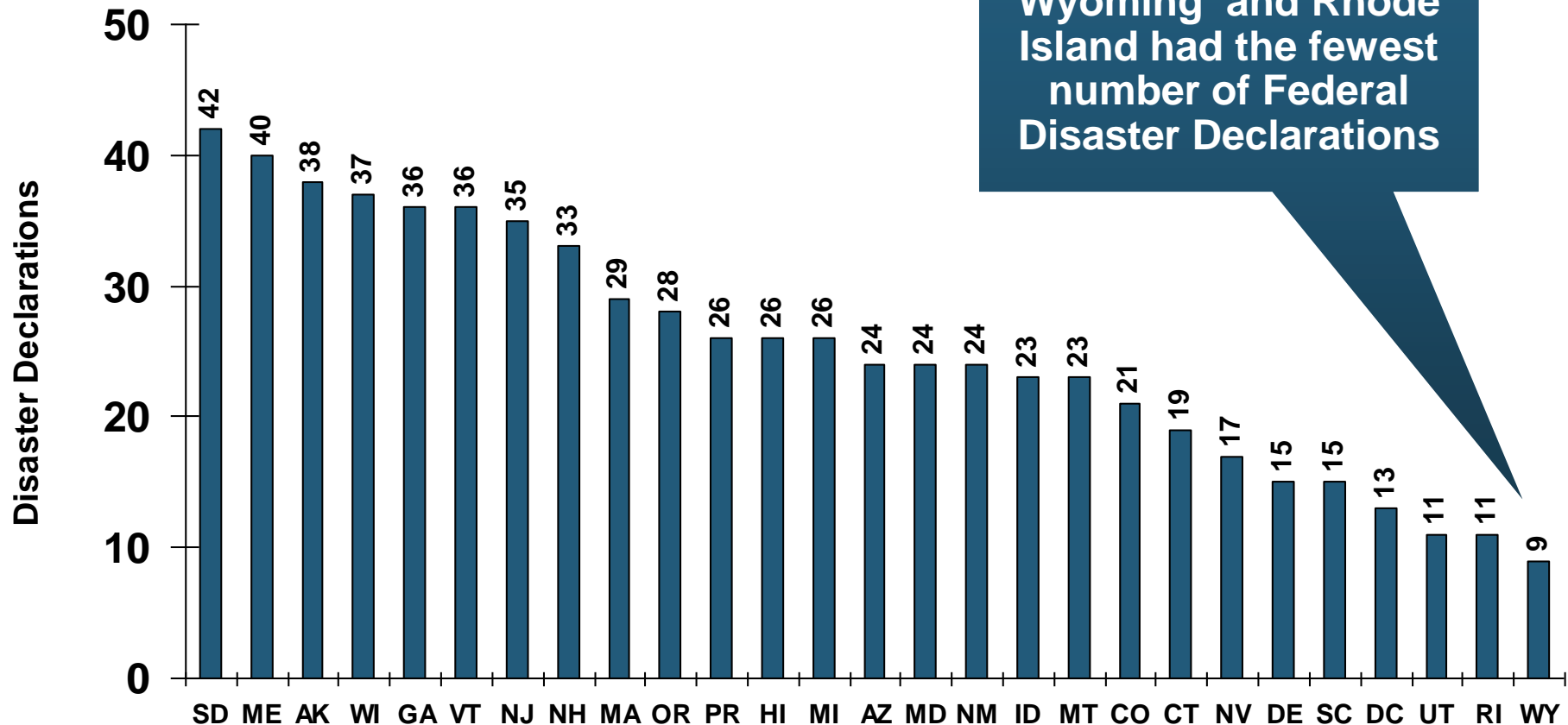
Federal Disasters Declarations by State, 1953 – 2013: Highest 25 States*



*Through Sept. 8, 2013. 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 – 2013: Lowest 25 States*



*Through Sept. 8, 2013. Includes Puerto Rico and the District of Columbia.

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



SEVERE WEATHER REPORT UPDATE: 2013

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

Location of Tornado Reports: Through August 30, 2013

The storm system that spawned the deadly EF-5 tornado on May 19 in Moore, OK, produced insured losses of \$1.575 billion

There were 720 tornadoes through Aug. 30, causing extensive property damage in several states



PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

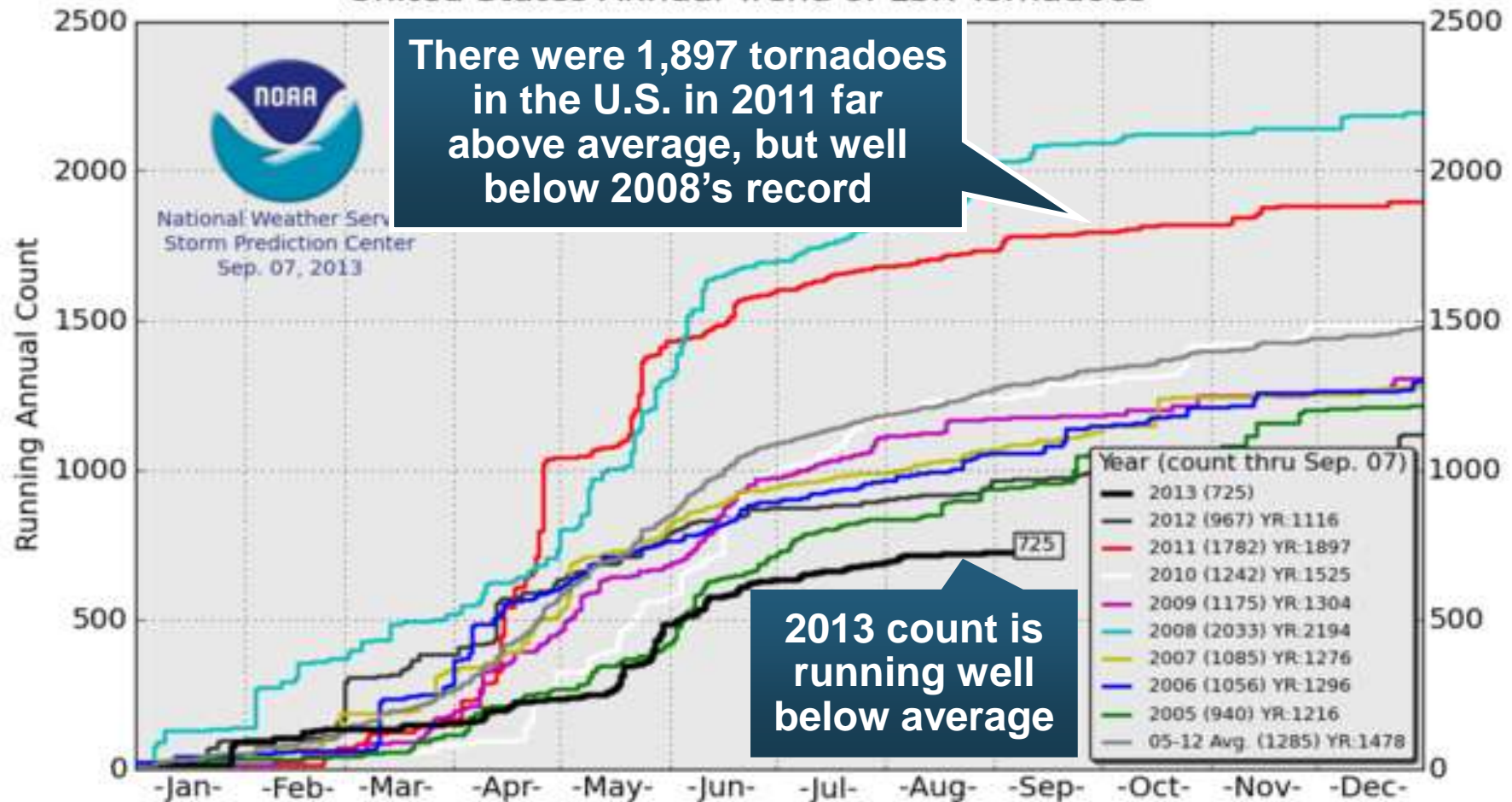
NOAA/Storm Prediction Center Norman, Oklahoma

Tornado Reports
January 01, 2013 - August 30, 2013

Updated: Friday August 30, 2013 08:50 CT

U.S. Tornado Count, 2005-2013*

United States Annual Trend of LSR Tornadoes*

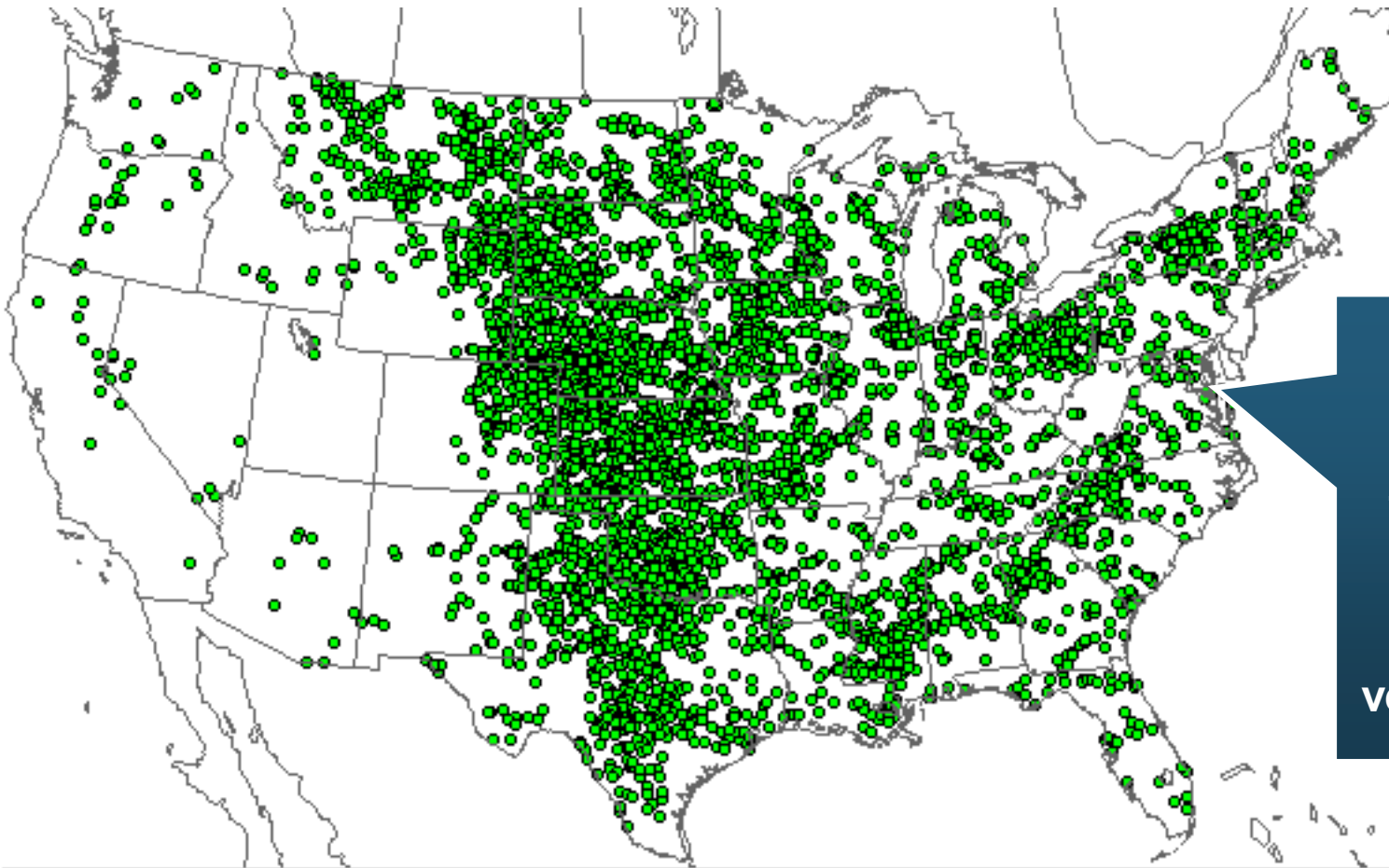


*Preliminary tornadoes from NWS Local Storm Reports (LSRs)
Annual average is based on preliminary LSRs, 2005-2012

*Through September 7, 2013.

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

Location of Large Hail Reports: Through August 30, 2013



There were
5,003 “Large
Hail” reports
through Aug.
30, causing
extensive
property and
vehicle damage



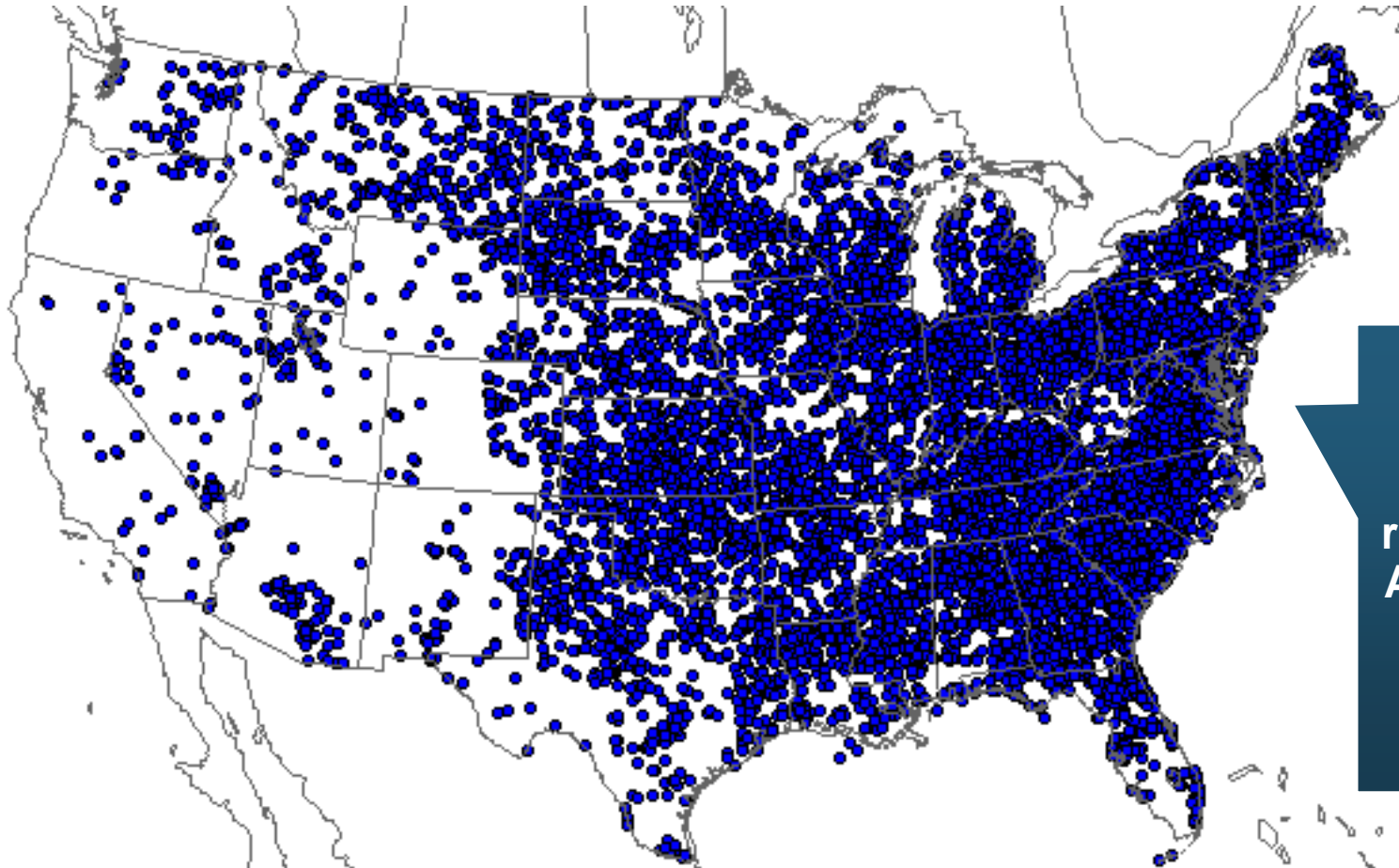
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Hail Reports
January 01, 2013 - August 30, 2013

Updated: Friday August 30, 2013 08:50 CT

Location of High Wind Reports: Through August 30, 2013



There were
10,572 “Wind
Damage”
reports through
Aug. 4, causing
extensive
property
damage



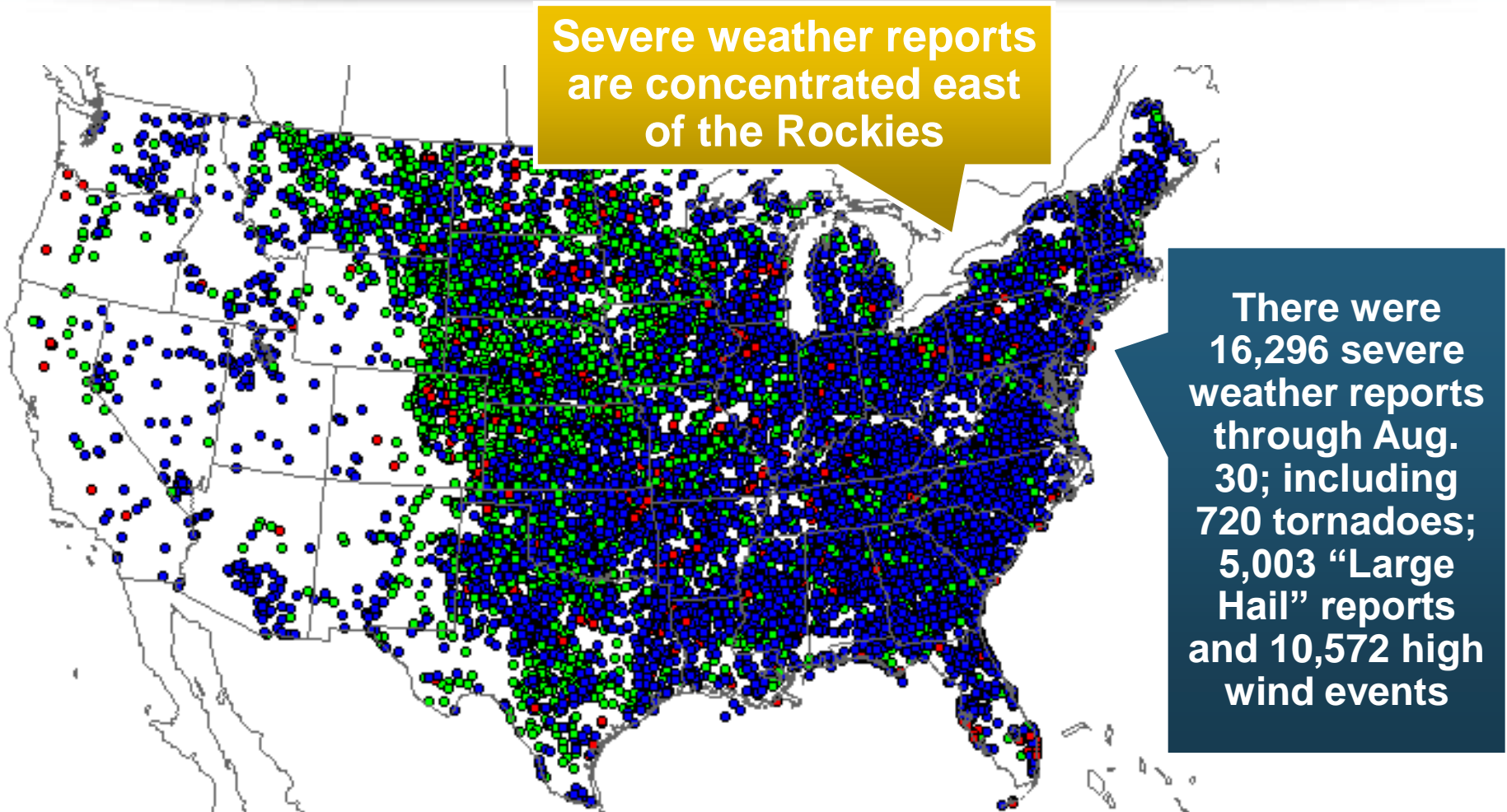
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Wind Reports
January 01, 2013 - August 30, 2013

Updated: Friday August 30, 2013 08:50 CT

Severe Weather Reports: Through August 30, 2013



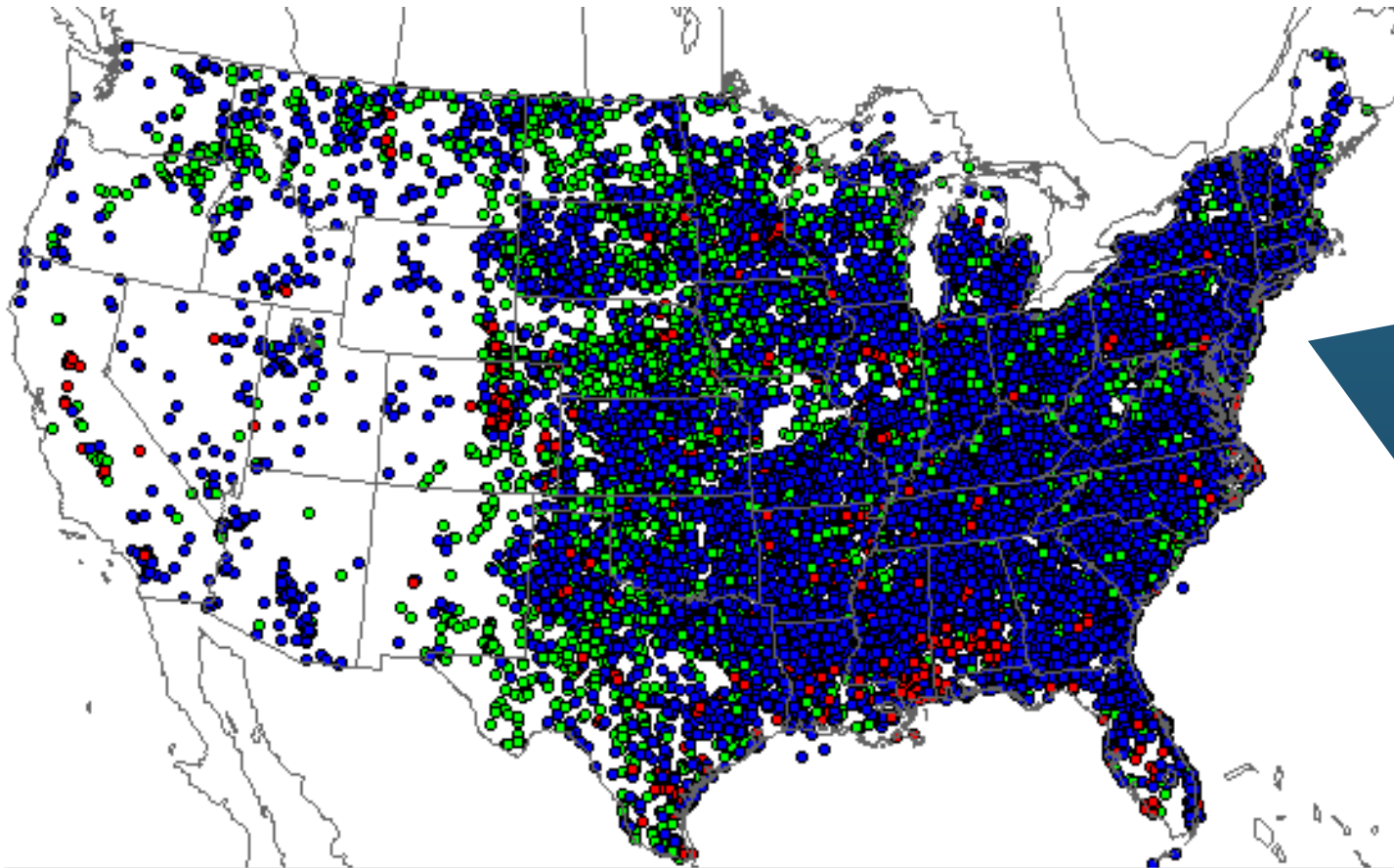
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Severe Weather Reports
January 01, 2013 - August 30, 2013

Updated: Friday August 30, 2013 08:50 CT

Severe Weather Reports, 2012



There were 22,503 severe weather reports in 2011; including 1,119 tornadoes; 7,033 “Large Hail” reports and 14,351 high wind events



PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Severe Weather Reports
January 01, 2012 - December 31, 2012

Updated: Sunday January 06, 2013 02:10 CT

Terrorism Update

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

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

Terrorism Risk Insurance Program

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



Terrorism Risk Insurance Program

■ Boston Marathon Bombing Has Helped Focus Attention in Congress on TRIPRA and its Looming Expiration

- ◆ Act expires 12/31/14
- ◆ Exclusionary language will likely be inserted for post-1/1/2014 renewals and will likely lead to significant media interest (educational opportunity)
- ◆ Numerous headwinds; not a priority issue in 2013 in Congress
- ◆ 3 extension bills introduced in 2013—2 since Boston

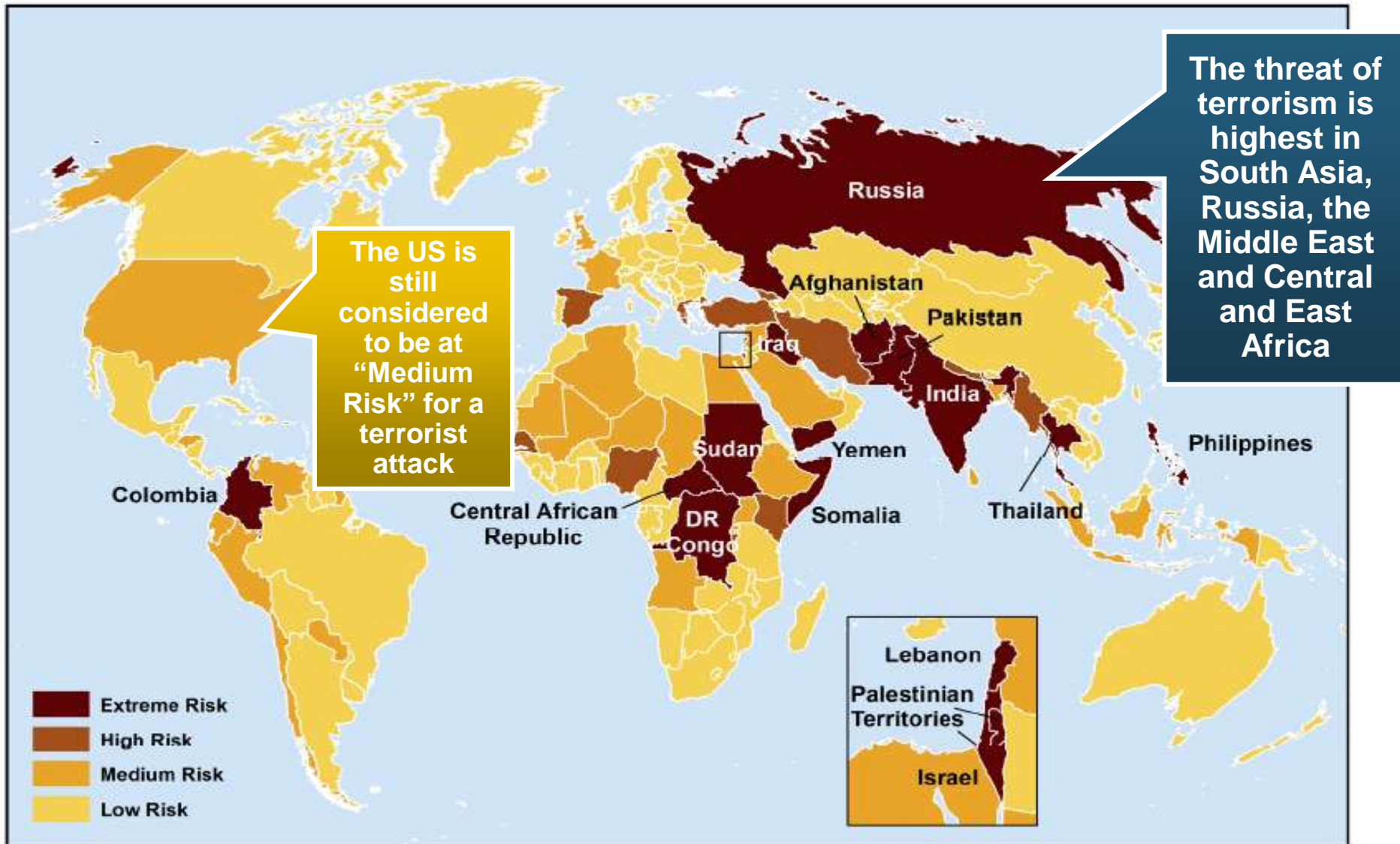
■ Media Interest Soared

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

Summary of Terrorism Risk Insurance Program Extension Bills Introduced in 2013

Bill	Summary
<p>•H.R. 508: “<i>Terrorism Risk Insurance Act of 2002 Reauthorization Act of 2013</i>”</p> <p>•Introduced Feb. 5 by Rep. Michael Grimm (D-NY)</p>	<ul style="list-style-type: none"> •5-Year Extension (through 2019) •Extend recoupment period for any TRIA assistance from 2017 to 2019
<p>•H.R. 2146: “<i>Terrorism Risk Insurance Program Reauthorization Act of 2013</i>”</p> <p>•Introduced May 23 by Rep. Michael Capuano (D-MA)</p>	<ul style="list-style-type: none"> •10-Year Extension (through 2024) •Extend recoupment period for any TRIA assistance from 2017 to 2024 •Requires President’s Working Group on Financial Markets (PWGFM) to issue reports on long-term availability and affordability of terrorism insurance in 2017, 2020 and 2023 •Reports to be drafted with consultation from NAIC and representatives of the insurance and securities industries and policyholders
<p>•H.R. 1945: “<i>Fostering Resilience to Terrorism Act of 2013</i>”</p> <p>•Introduced May 9 by Rep. Benny Thompson (D-MS)</p>	<ul style="list-style-type: none"> •10-Year Extension (through 2024) •Recoupment period changed to 2024 •Would transfer responsibility for certification of a “act of terrorism” to the Secretary of Homeland Security from Secretary of Treasury. •PWGFM to issue reports in 2017, 2020 and 2023 •Requires Sec. of DHS to provide insureds with “timely homeland security information, including terrorism risk information, at the appropriate level of classification and information on best practices to foster resilience to an act of terrorism.”

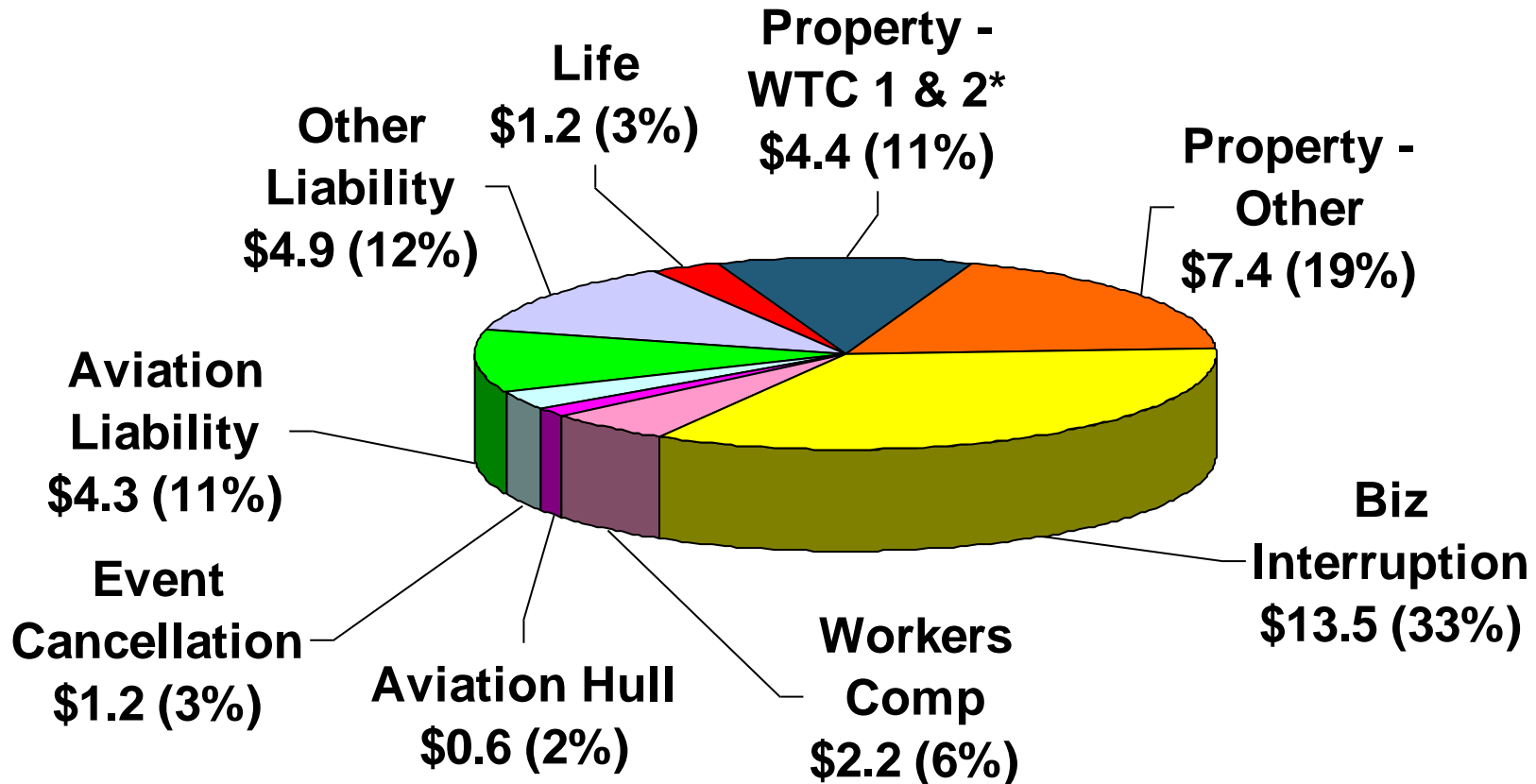
Terrorist Risk Index



Sources: Maplecroft Terrorism Risk Index; (2011); Guy Carpenter; Insurance Information Institute.

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

(\$ Billions)



Total Insured Losses Estimate: \$40.0B**

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

**\$32.5 billion in 2001 dollars.

Source: Insurance Information Institute.

Terrorism Violates Traditional Requirements for Insurability

Requirement	Definition	Violation
Estimable Frequency	<ul style="list-style-type: none">• Insurance requires large number of observations to develop predictive rate-making models (an actuarial concept known as credibility)	<ul style="list-style-type: none">• Very few data points• Terror modeling still in infancy, untested.• Inconsistent assessment of threat
Estimable Severity	<ul style="list-style-type: none">• Maximum possible/ probable loss must be at least estimable in order to minimize “risk of ruin” (insurer cannot run an unreasonable risk of insolvency though assumption of the risk)	<ul style="list-style-type: none">• Potential loss is virtually unbounded.• Losses can easily exceed insurer capital resources for paying claims.• Extreme risk in workers compensation and statute forbids exclusions.

Terrorism Violates Traditional Requirements for Insurability (cont'd)

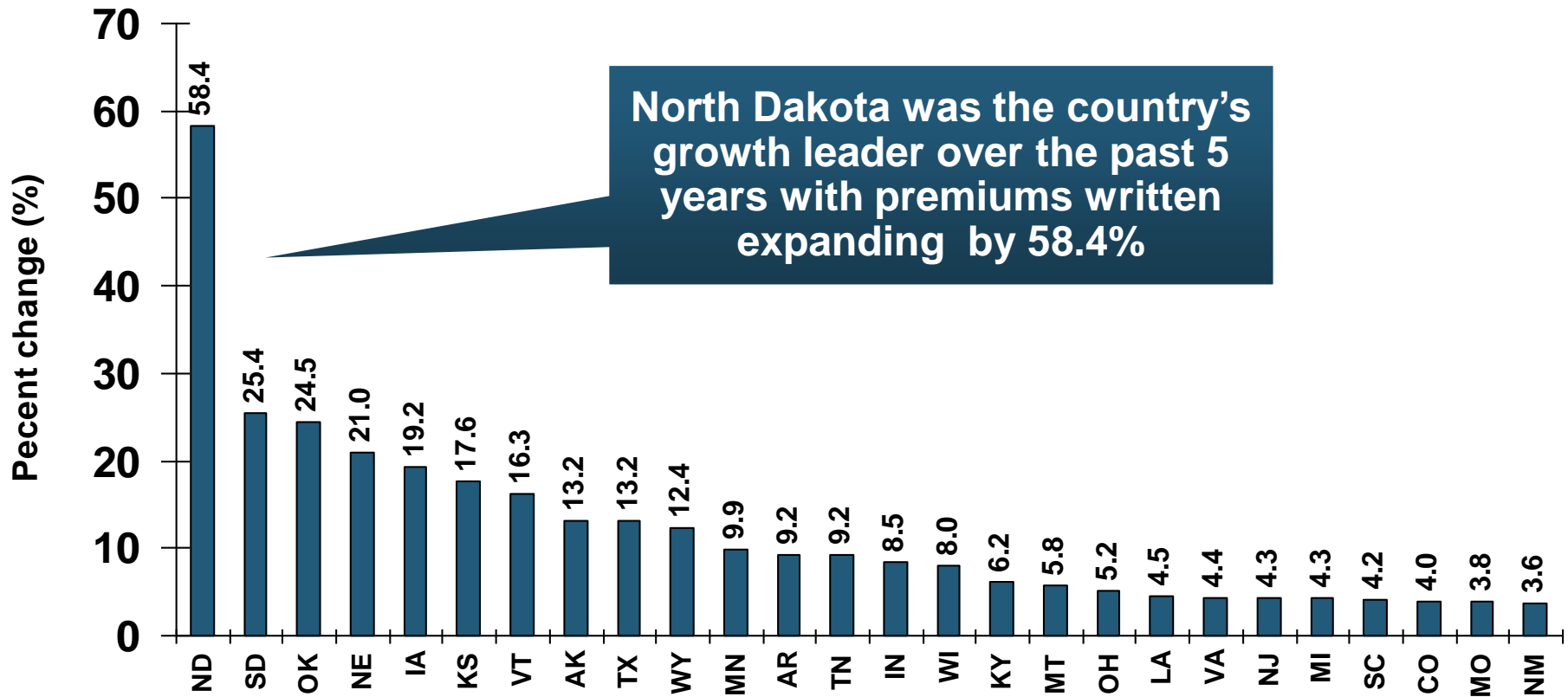
Requirement	Definition	Violation
Diversifiable Risk	<ul style="list-style-type: none"> •Must be able to spread/distribute risk across large number of risks •“Law of Large Numbers” helps makes losses manageable and less volatile 	<ul style="list-style-type: none"> •Losses likely highly concentrated geographically or by industry (e.g., WTC, power plants)
Random Loss Distribution/ Fortuity	<ul style="list-style-type: none"> •Probability of loss occurring must be purely random and fortuitous •Events are individually unpredictable in terms of time, location and magnitude 	<ul style="list-style-type: none"> •Terrorism attacks are planned, coordinated and deliberate acts of destruction •Dynamic target shifting from “hardened targets” to “soft targets” •Terrorist adjust tactics to circumvent new security measures •Actions of US and foreign govts. may affect likelihood, nature and timing of attack

Growth Analysis by State and Business Segment

**Premium Growth Rates Vary
Tremendously by State**

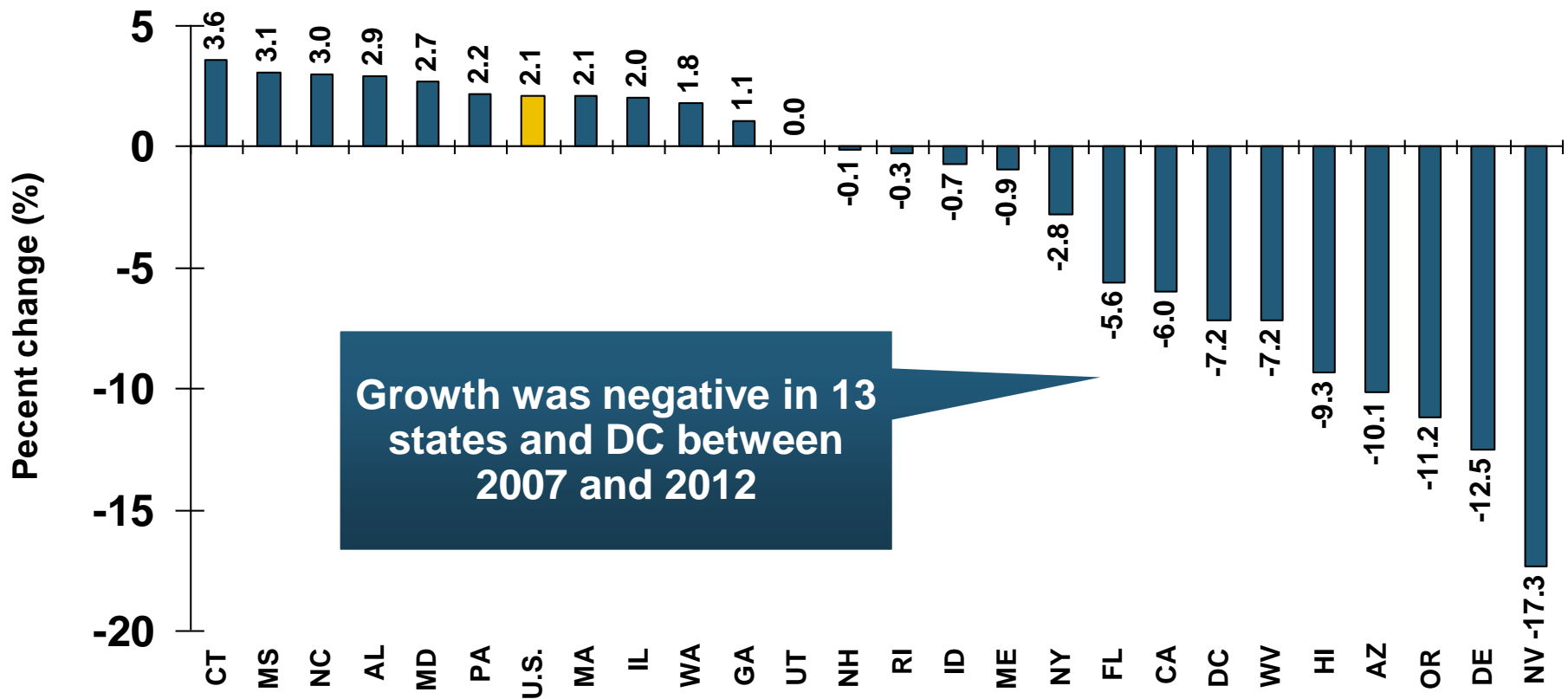
Direct Premiums Written: Total P/C Percent Change by State, 2007-2012*

Top 25 States



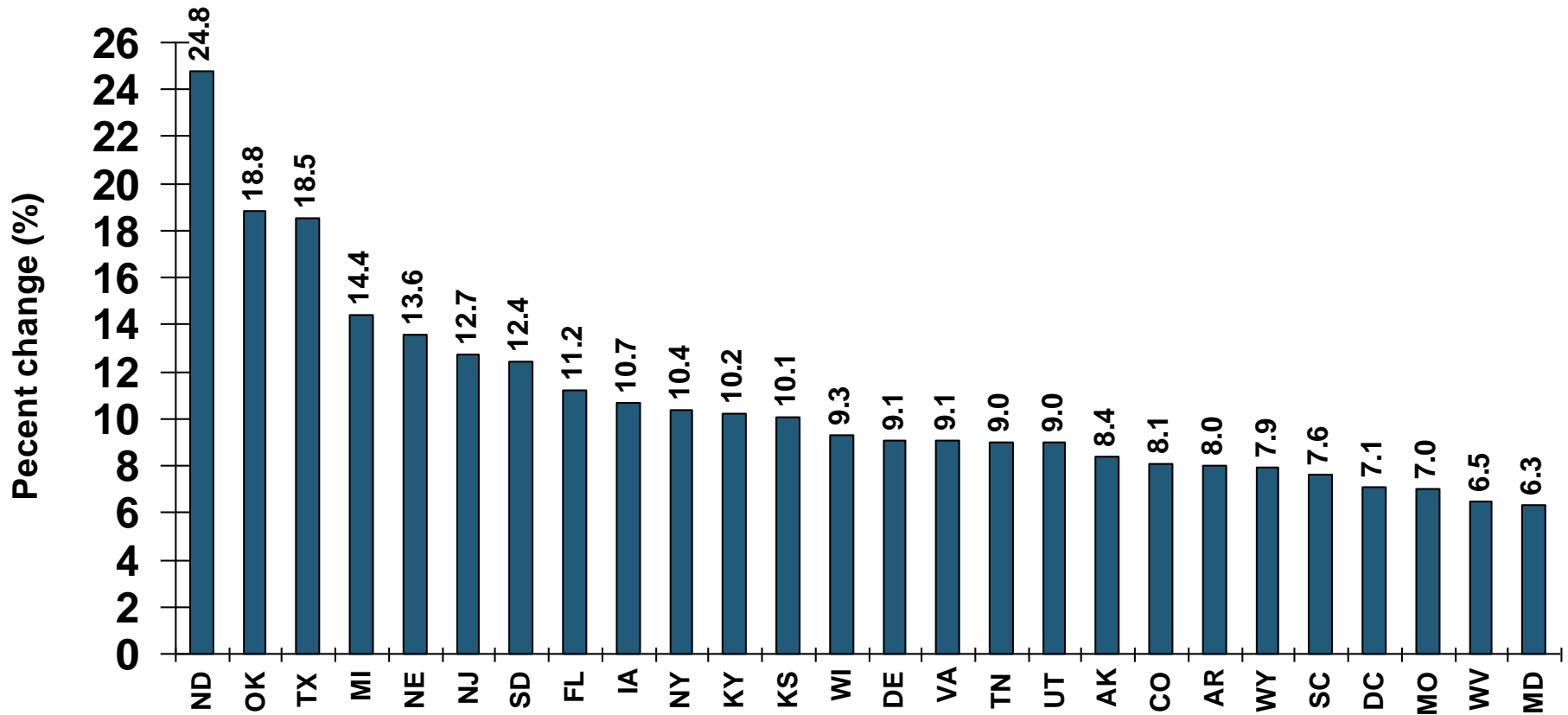
Direct Premiums Written: Total P/C Percent Change by State, 2007-2012*

Bottom 25 States



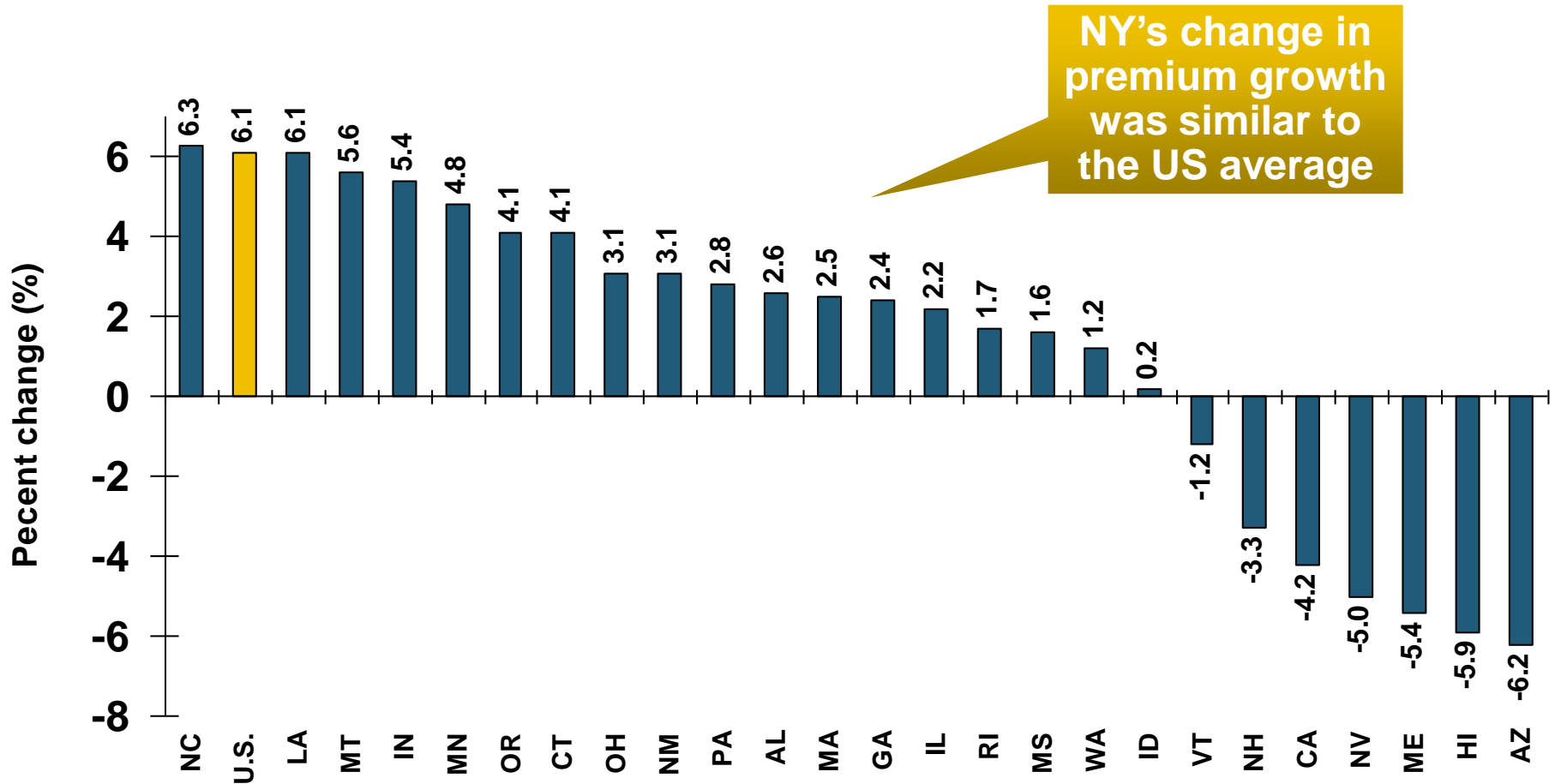
Direct Premiums Written: PP Auto Percent Change by State, 2007-2012*

Top 25 States



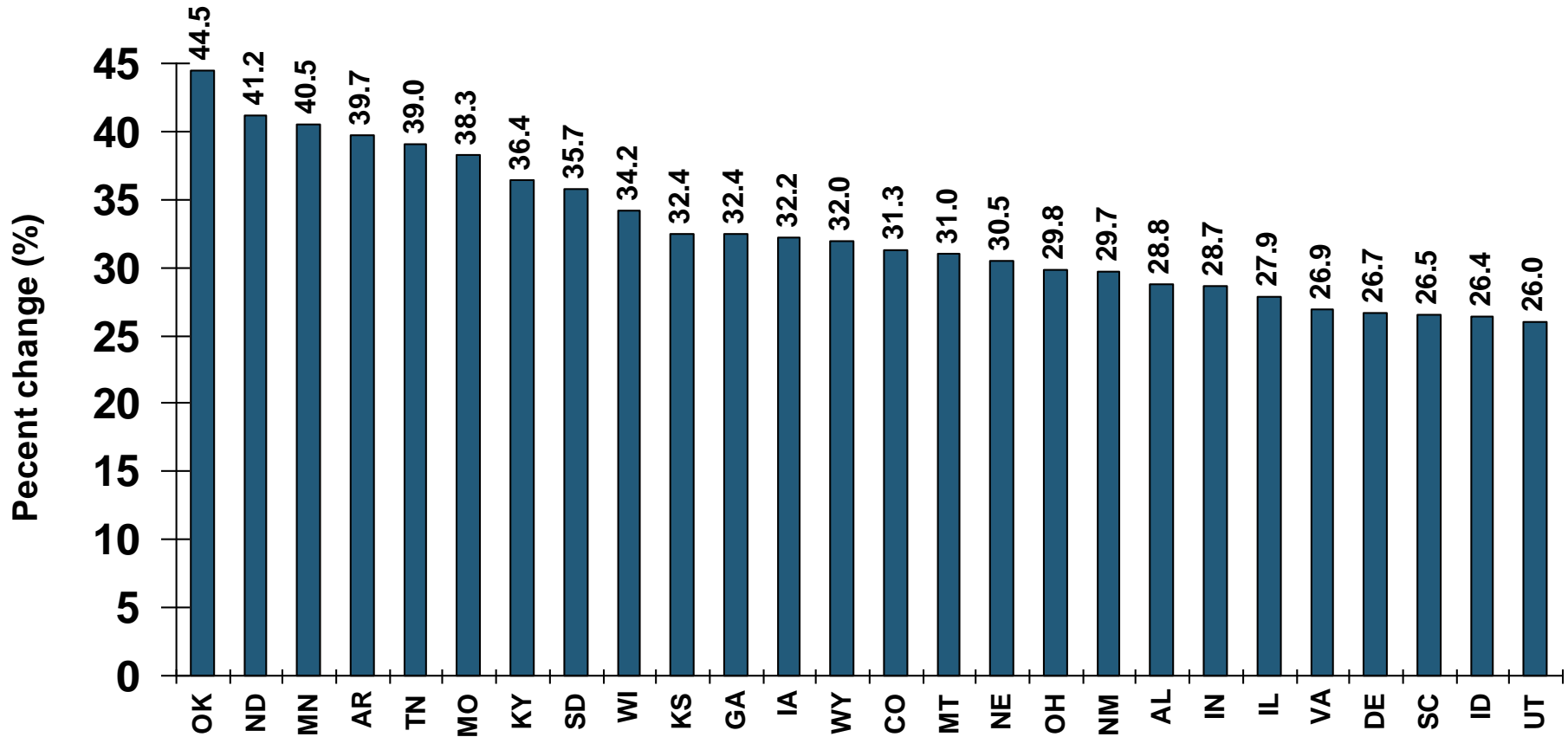
Direct Premiums Written: PP Auto Percent Change by State, 2007-2012*

Bottom 25 States



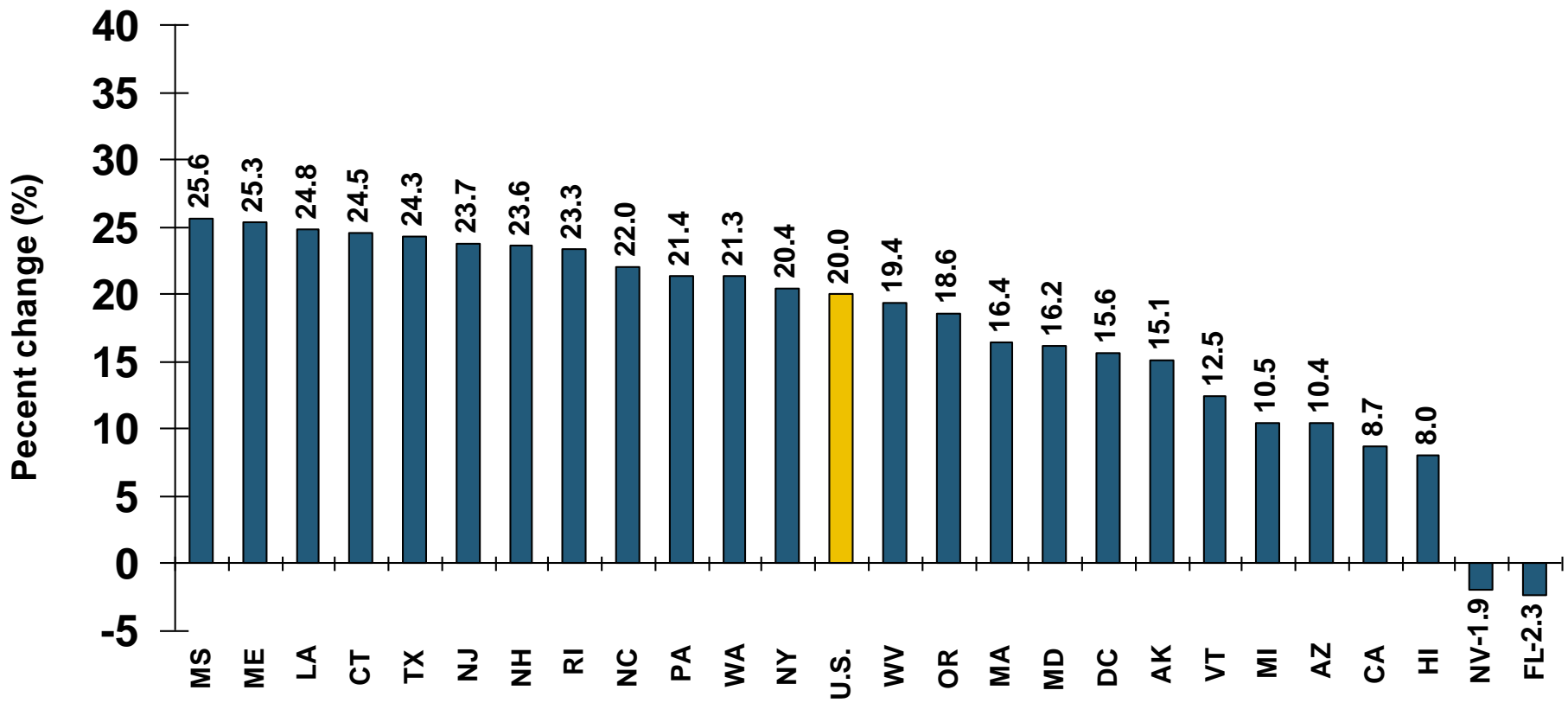
Direct Premiums Written: Homeowners Percent Change by State, 2007-2012*

Top 25 States



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

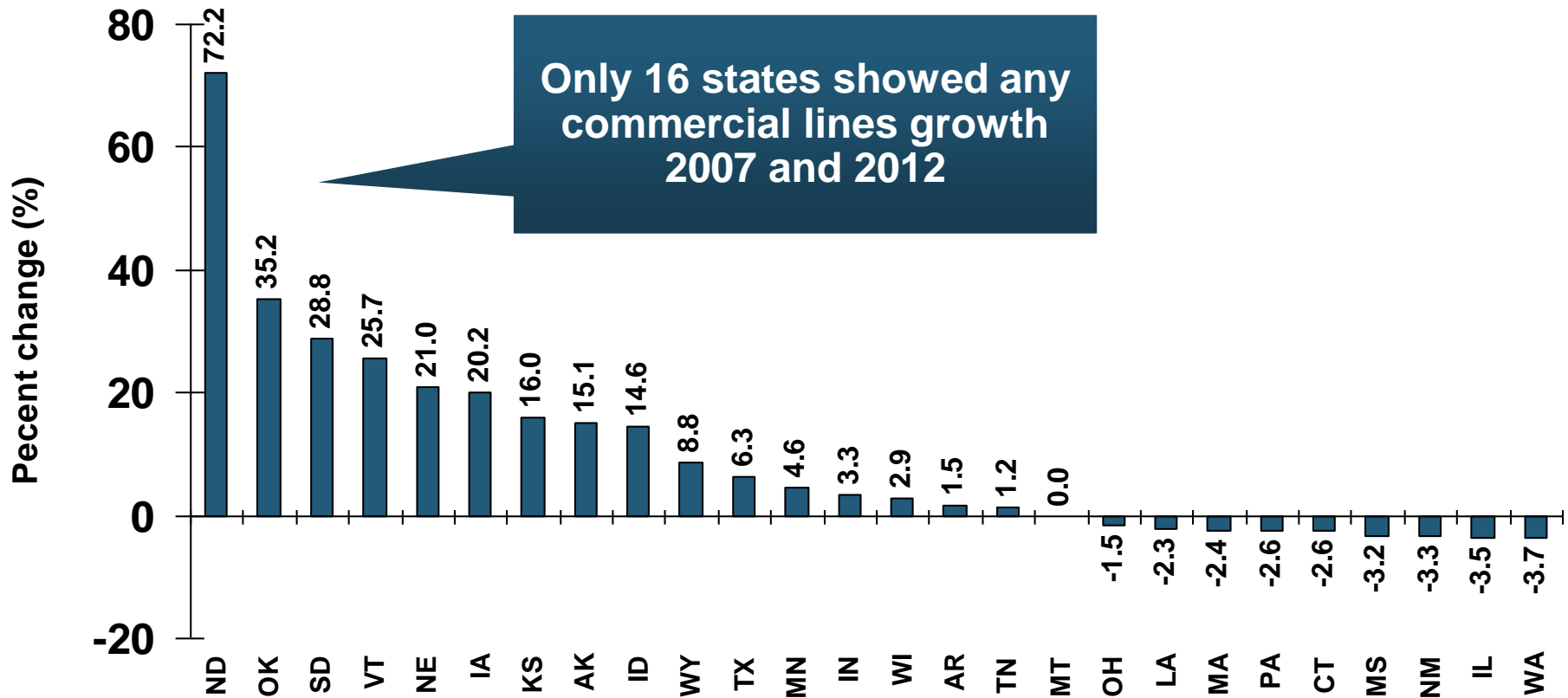
Bottom 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

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

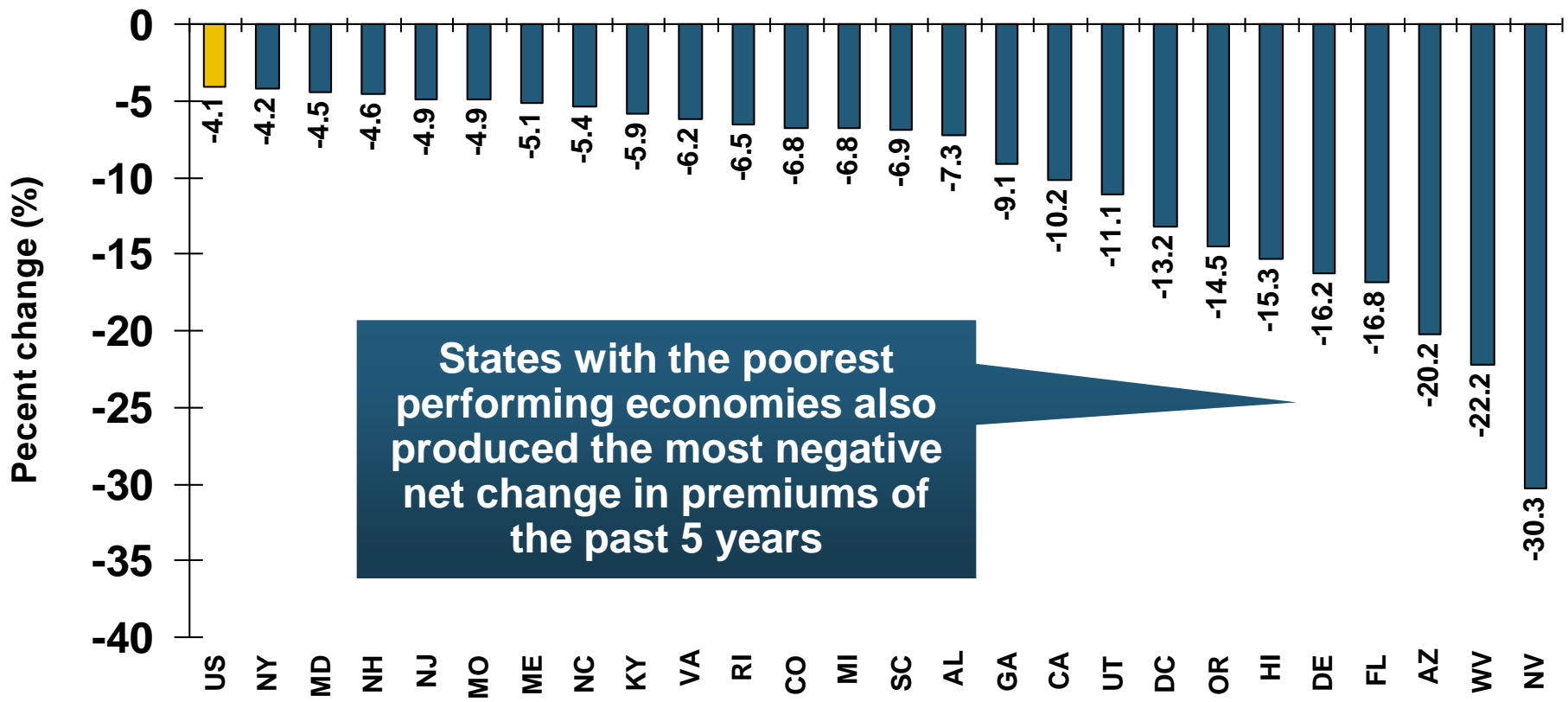
Top 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

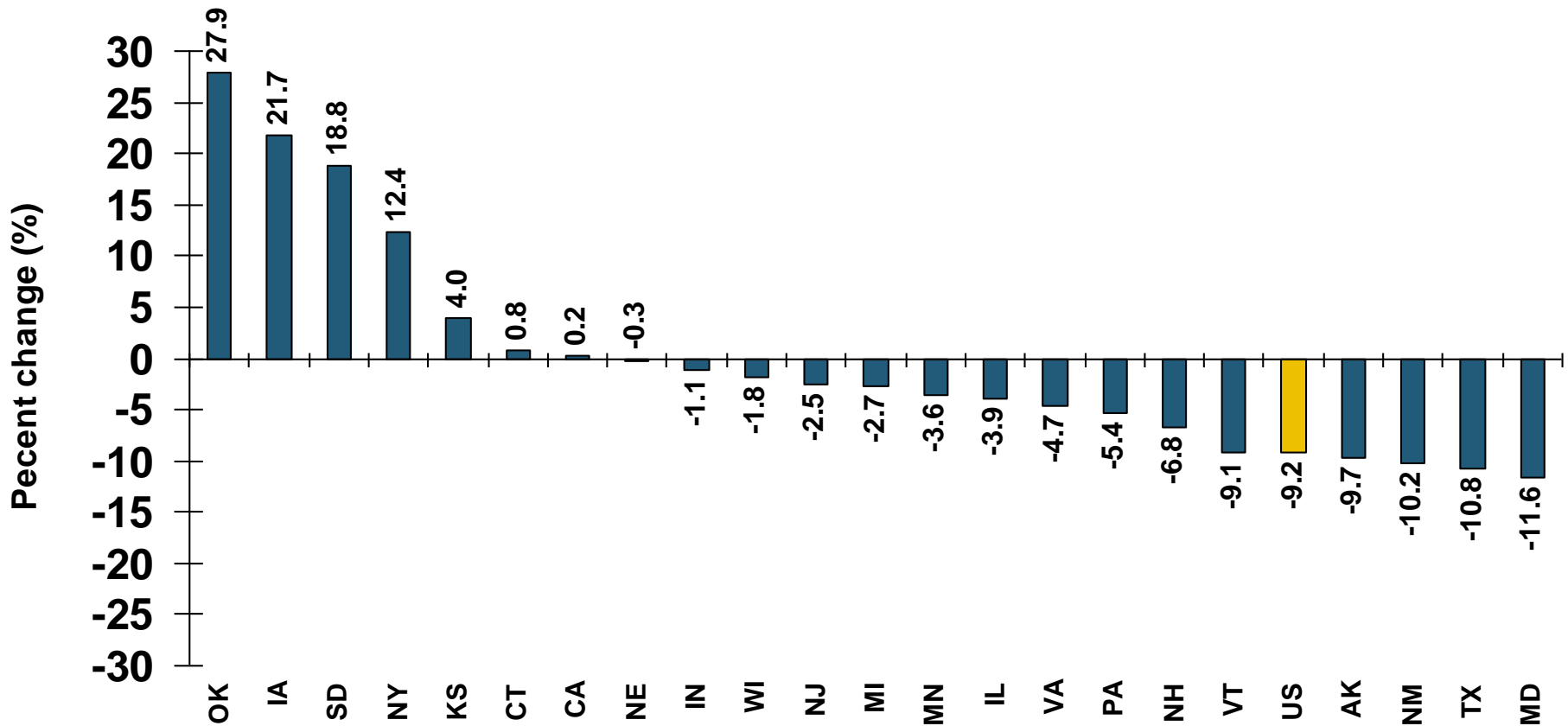
Direct Premiums Written: Comm. Lines Percent Change by State, 2007-2012*

Bottom 25 States



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

Top 25 States

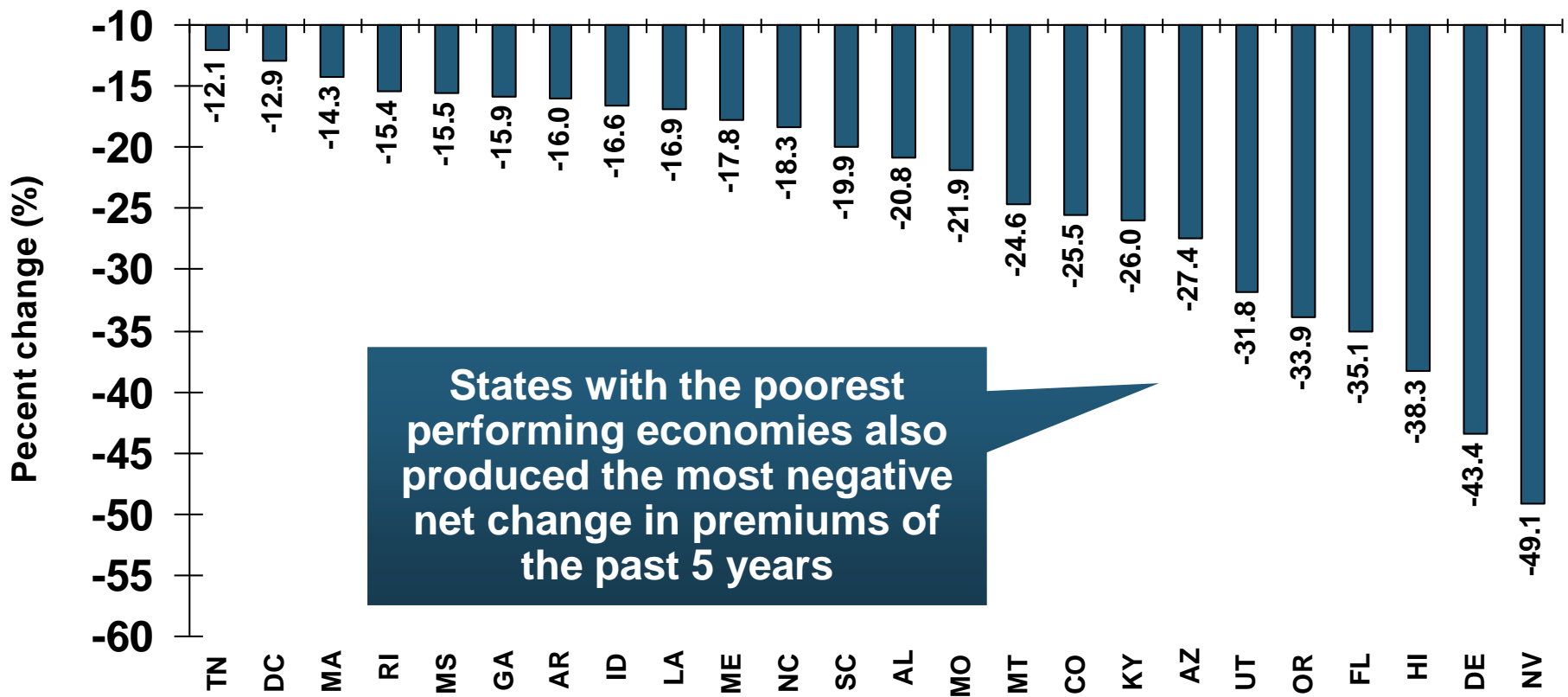


*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

Sources: SNL Financial LC.; Insurance Information Institute.

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

Bottom 25 States



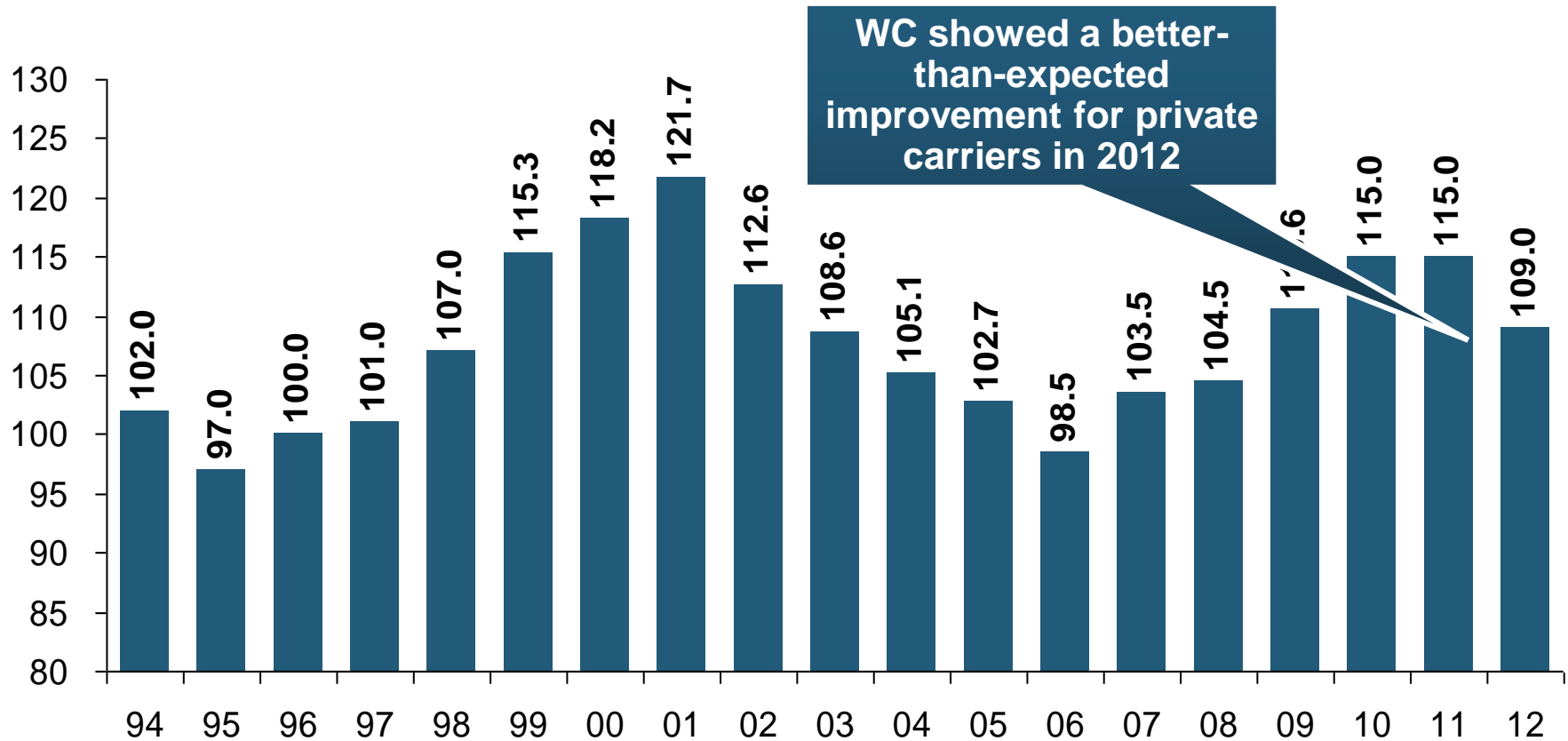
*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

Sources: SNL Financial LC.; Insurance Information Institute.

Workers Compensation Operating Environment

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

Workers Compensation Combined Ratio: 1994–2012P

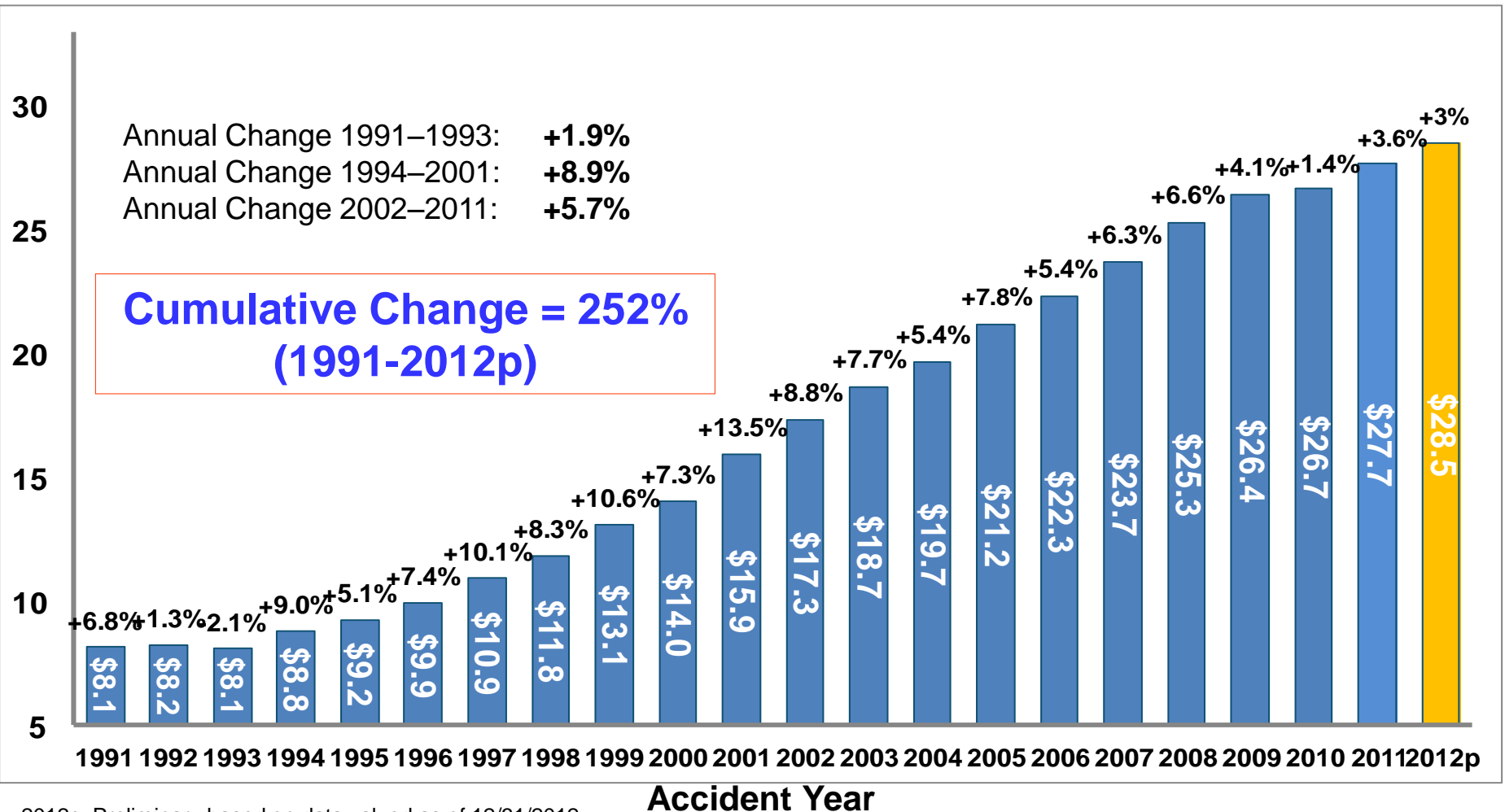


Workers Comp Results Began to Improve in 2012. Underwriting Results Deteriorated Markedly from 2007-2010/11 and Were the Worst They Had Been in a Decade.

Workers Compensation Medical Severity Moderate Increase in 2012

Medical
Claim Cost (\$000s)

Average Medical Cost per Lost-Time Claim

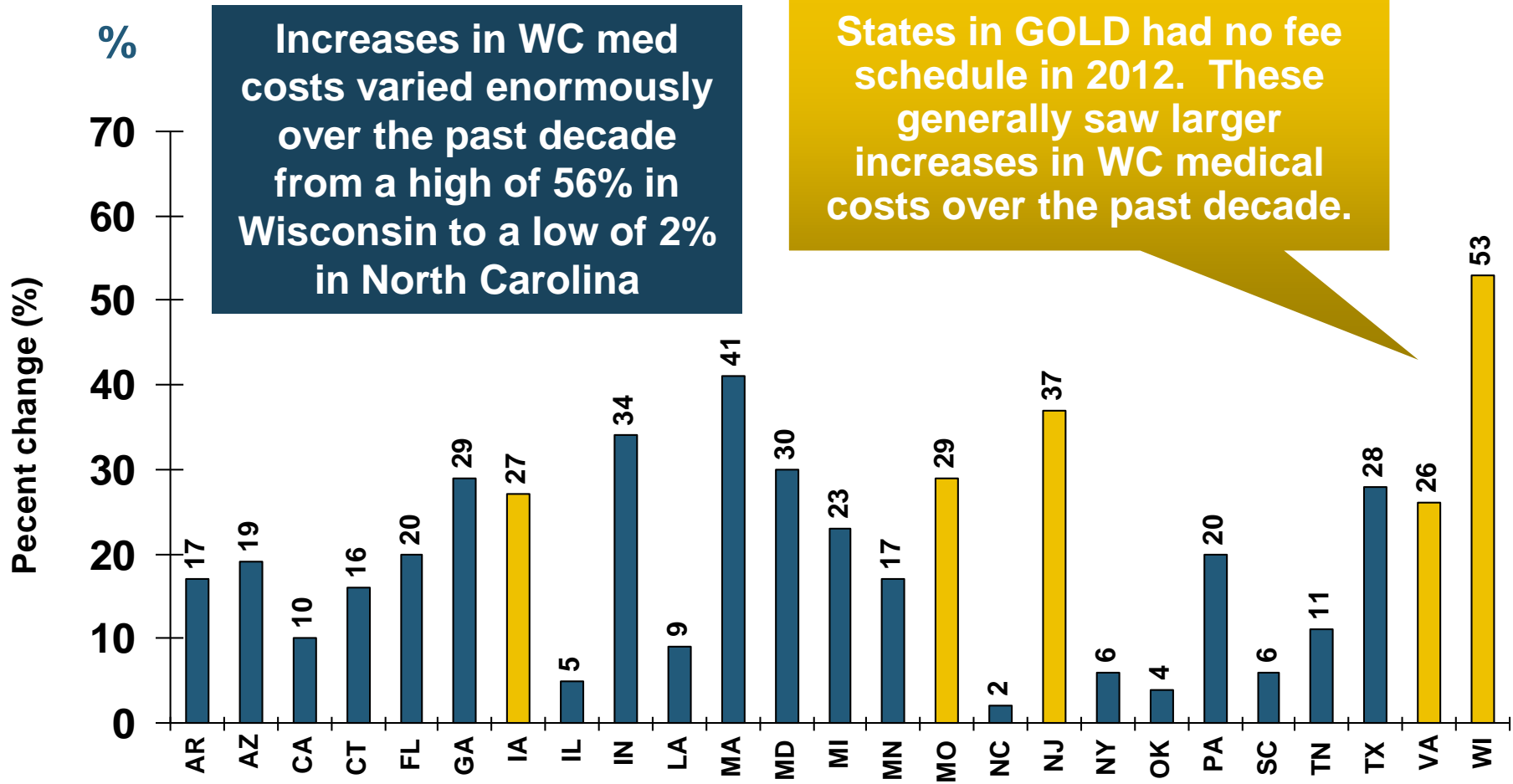


2012p: Preliminary based on data valued as of 12/31/2012.

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

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

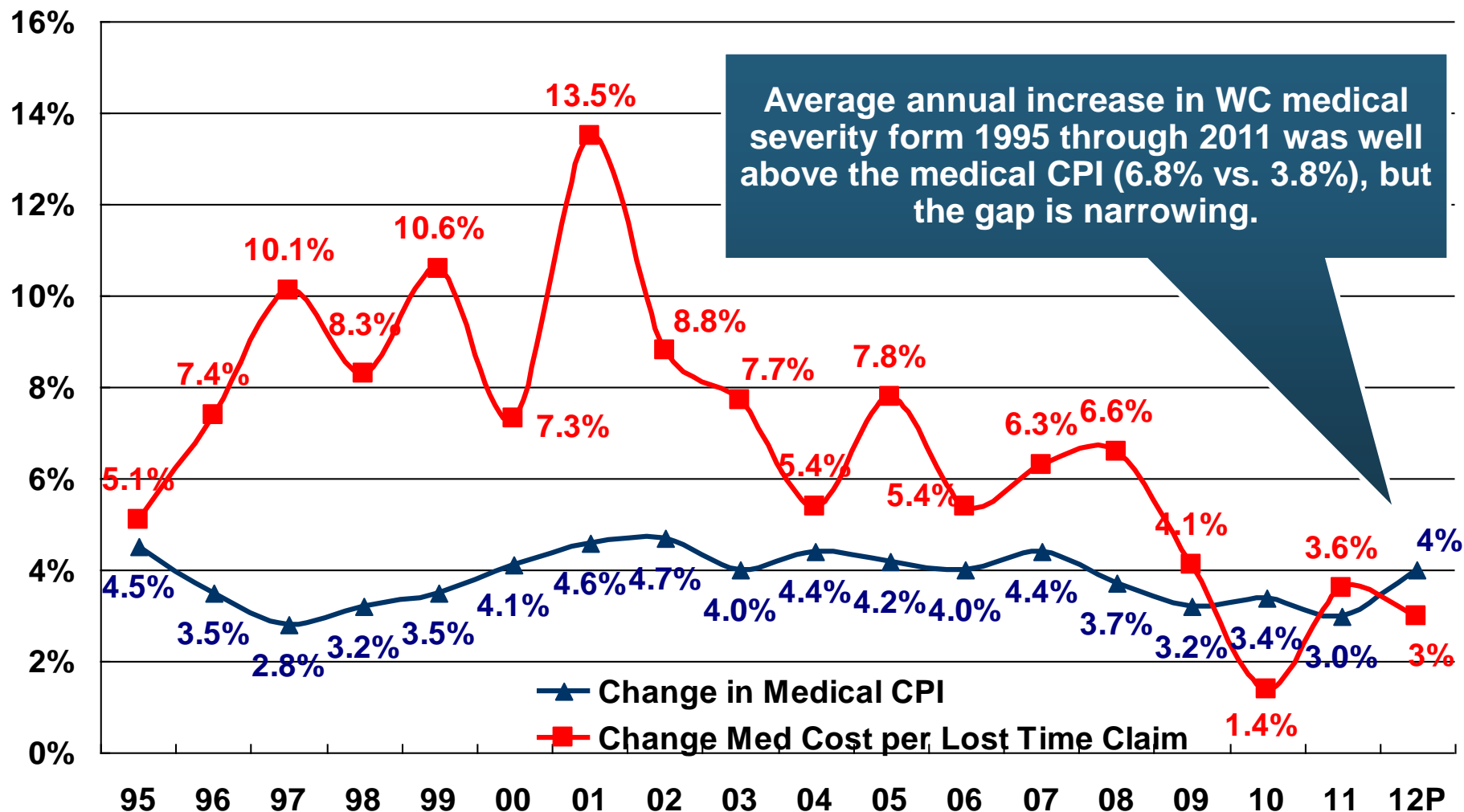
Change in Price Paid for Medical Professional Services in WC, 2002-2012*



*Data are preliminary as of 6/30/12.

Sources: Workers Compensation Research Institute, *WCRI Medical Price Index for Workers Compensation, 5th Edition*; Ins. Info. Institute. 131

WC Medical Severity Generally Outpaces the Medical CPI Rate

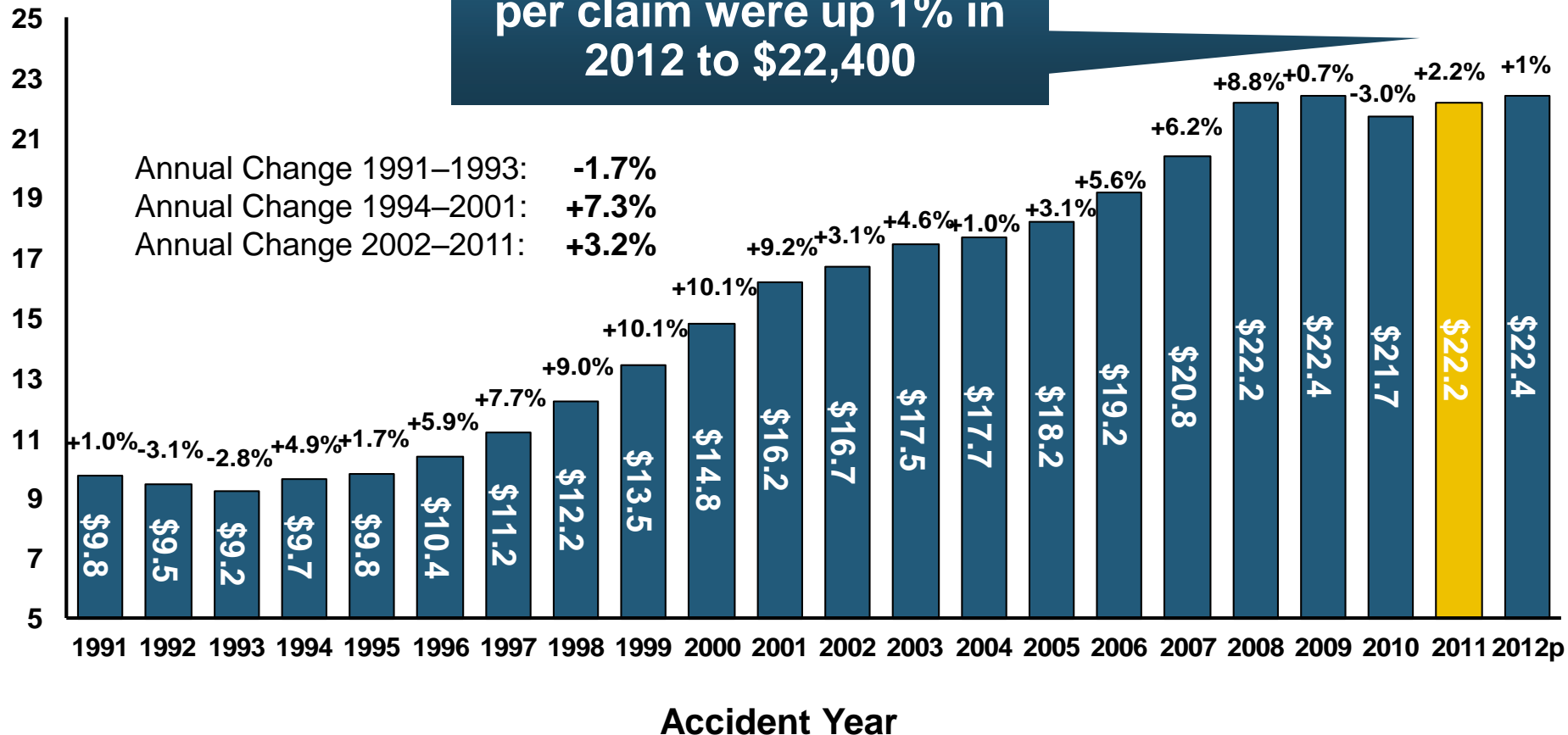


Workers Comp Indemnity Claim Costs: Small Increase in 2012

Average Indemnity Cost per Lost-Time Claim

Indemnity
Claim Cost (\$ 000s)

Average indemnity costs
per claim were up 1% in
2012 to \$22,400



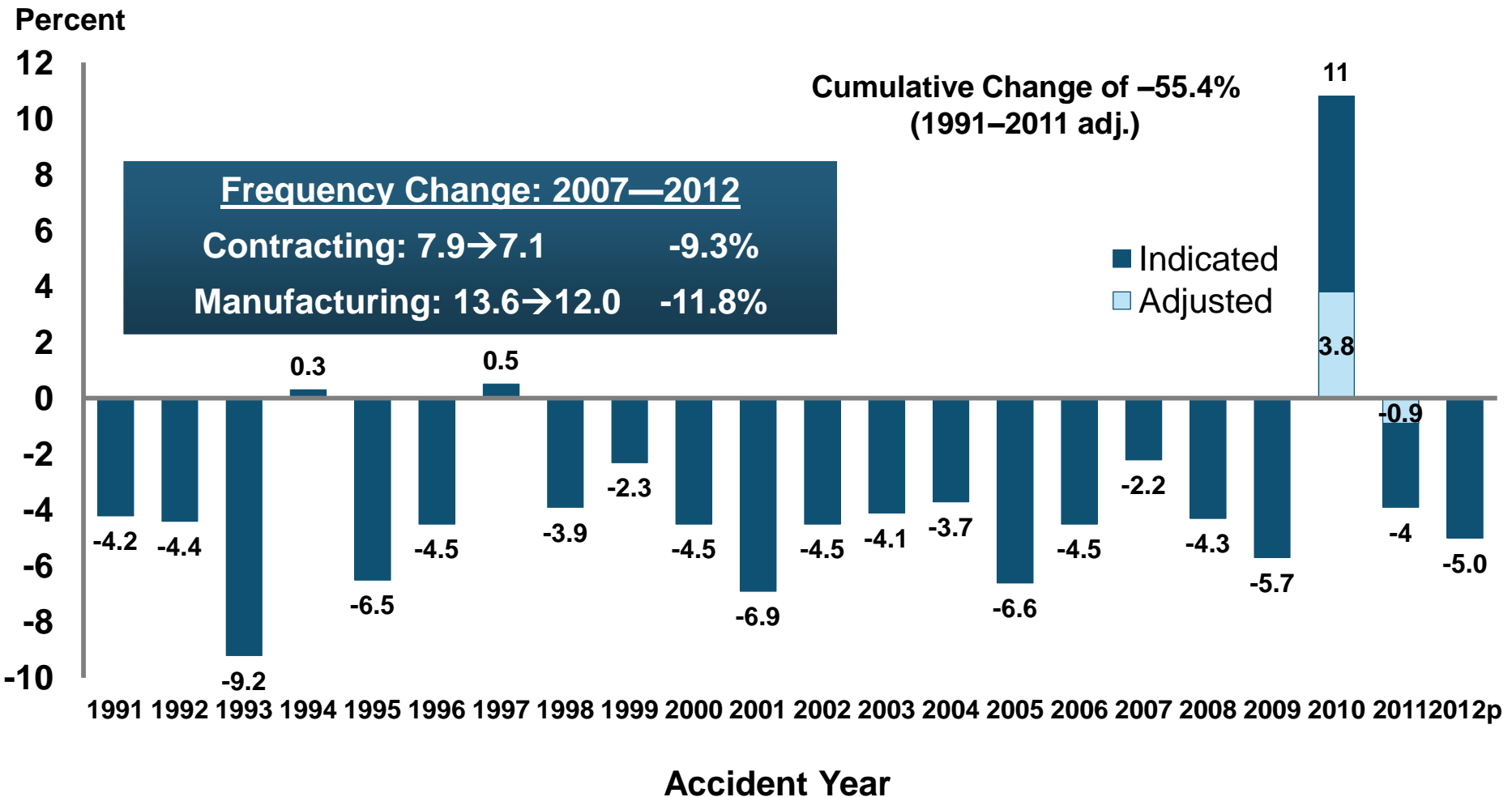
2012p: Preliminary based on data valued as of 12/31/2012.

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

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

Workers Compensation Lost-Time Claim Frequency Declined in 2012

Lost-Time Claims



*Adjustments primarily due to significant audit activity.

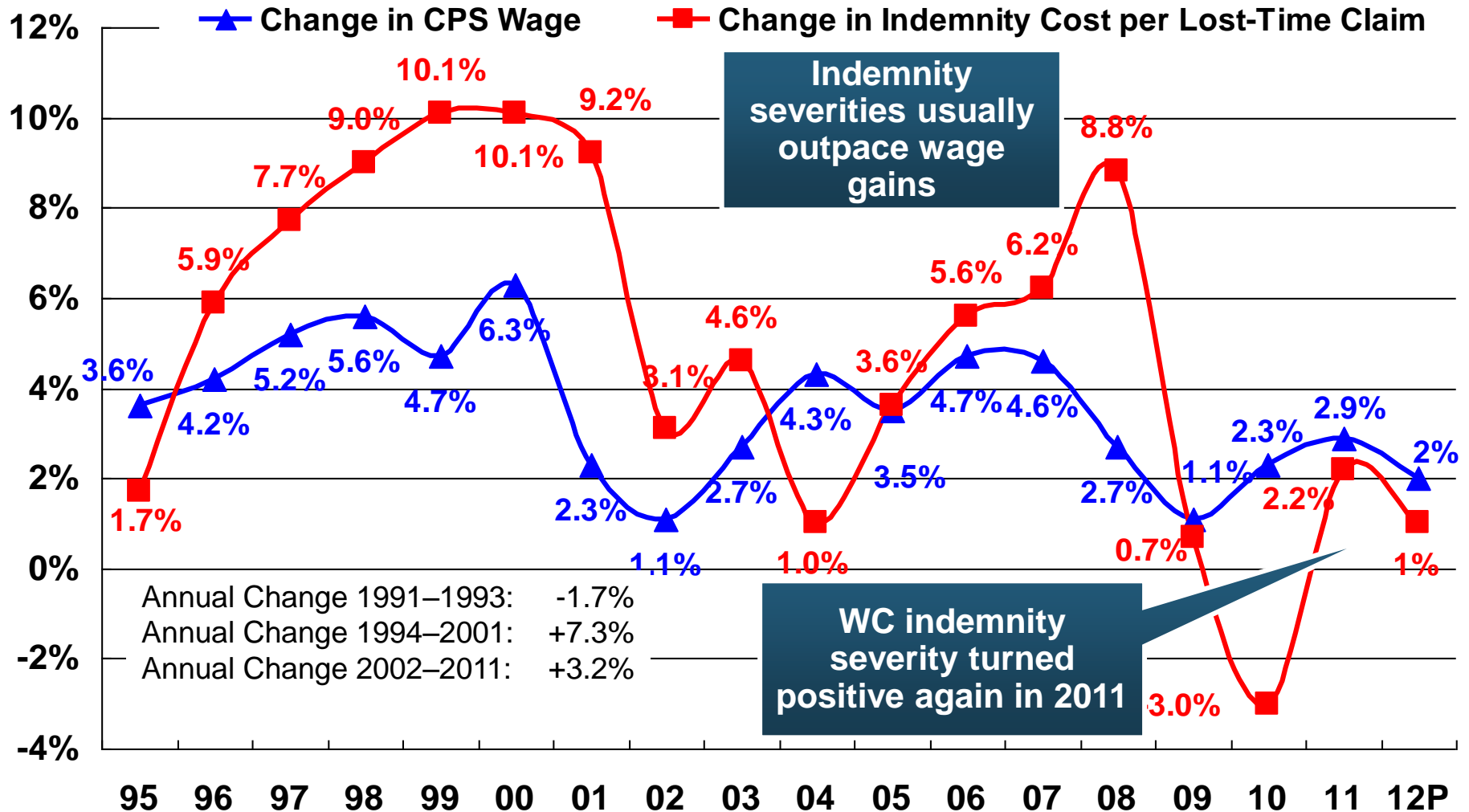
2012p: Preliminary based on data valued as of 12/31/2012

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

Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies

Frequency is the number of lost-time claims per \$1M pure premium at current wage and voluntary loss cost level

WC Indemnity Severity vs. Wage Inflation, 1995 -2012p



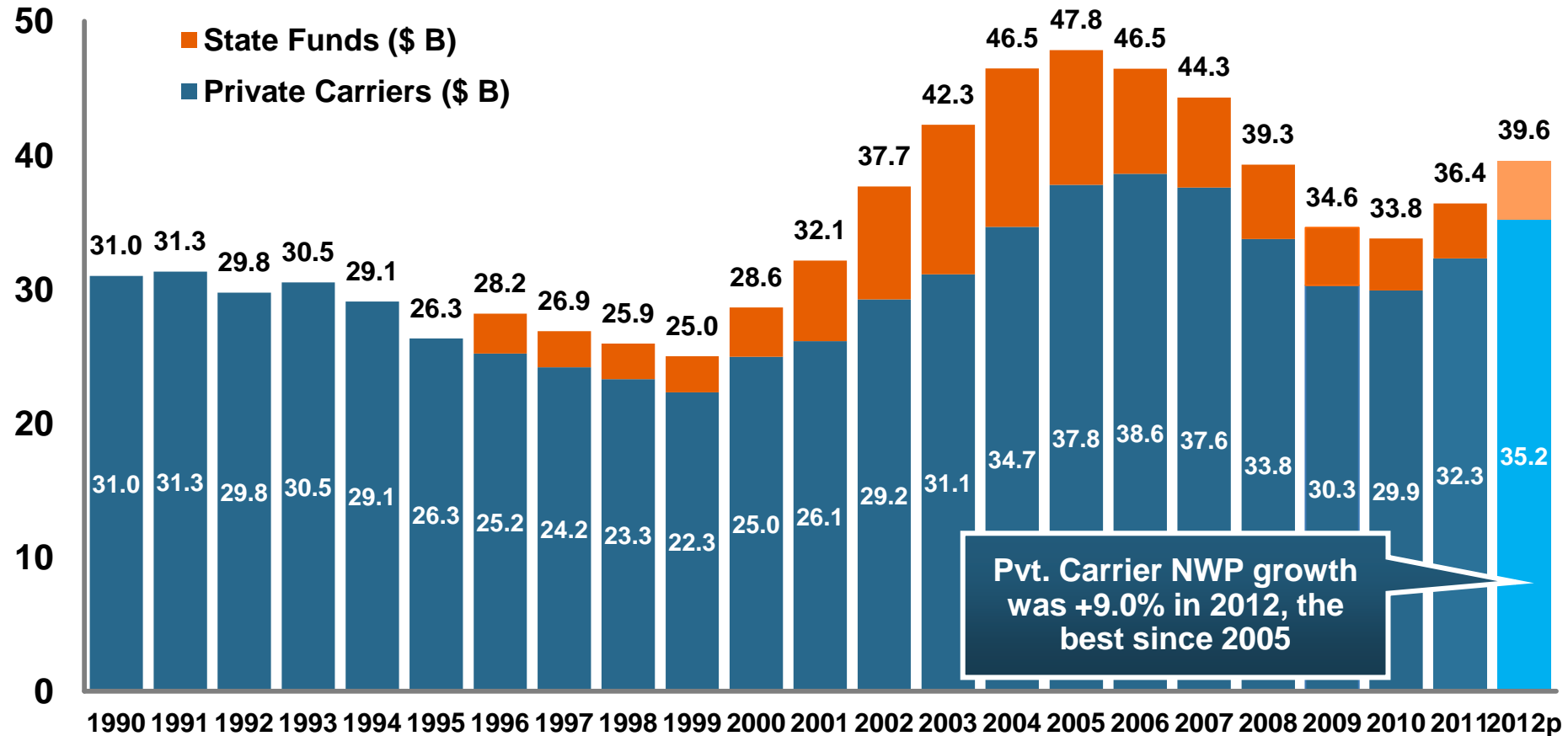
2011p: Preliminary based on data valued as of 12/31/2011; 1991-2010: Based on data through 12/31/2010, developed to ultimate. Based on the states where NCCI provides ratemaking services. Excludes the effects of deductible policies. CPS = Current Population Survey.

Source: NCCI

Workers Compensation Premium: Second Consecutive Year of Increase

Net Written Premium

\$ Billions



p Preliminary

Source: 1990–20102p Private Carriers, Annual Statement Data, NCCI.

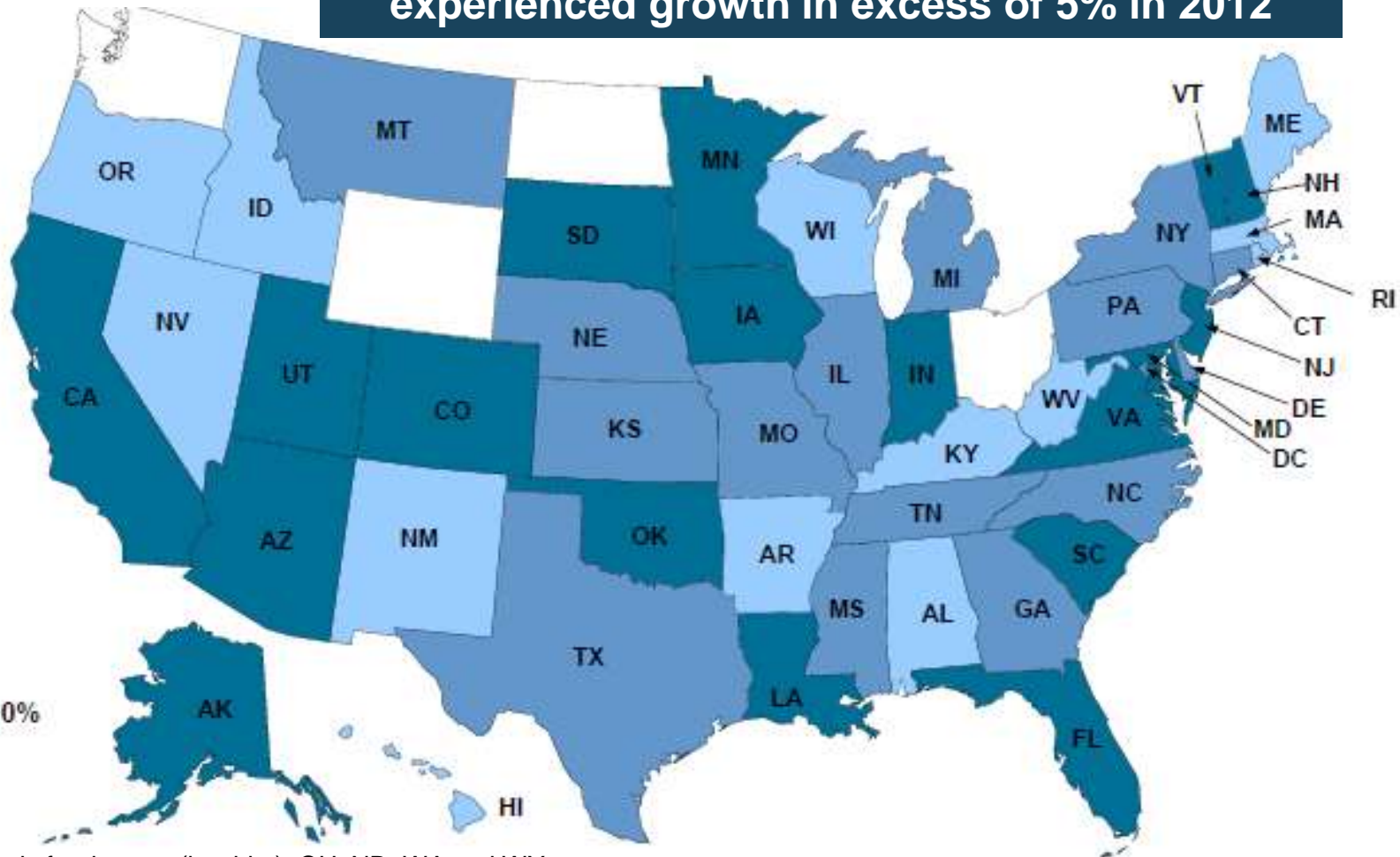
1996–2012p State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

State Funds available for 1996 and subsequent

2012 Workers Compensation Direct Written Premium Growth, by State*

PRIVATE CARRIERS: Overall 2012 Growth = +9%

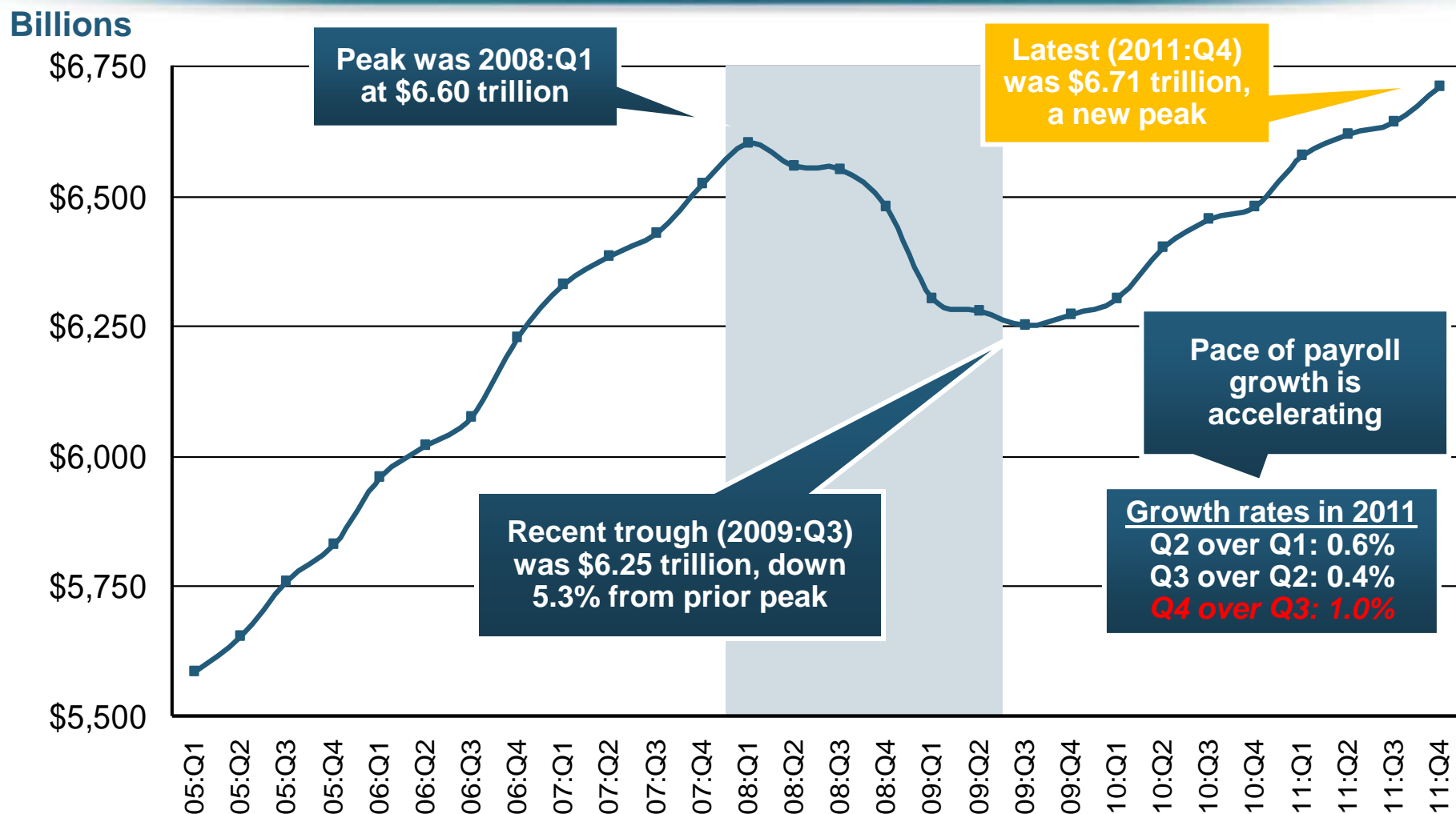
While growth rates varied widely, all states experienced growth in excess of 5% in 2012



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

Source: NCCI.

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



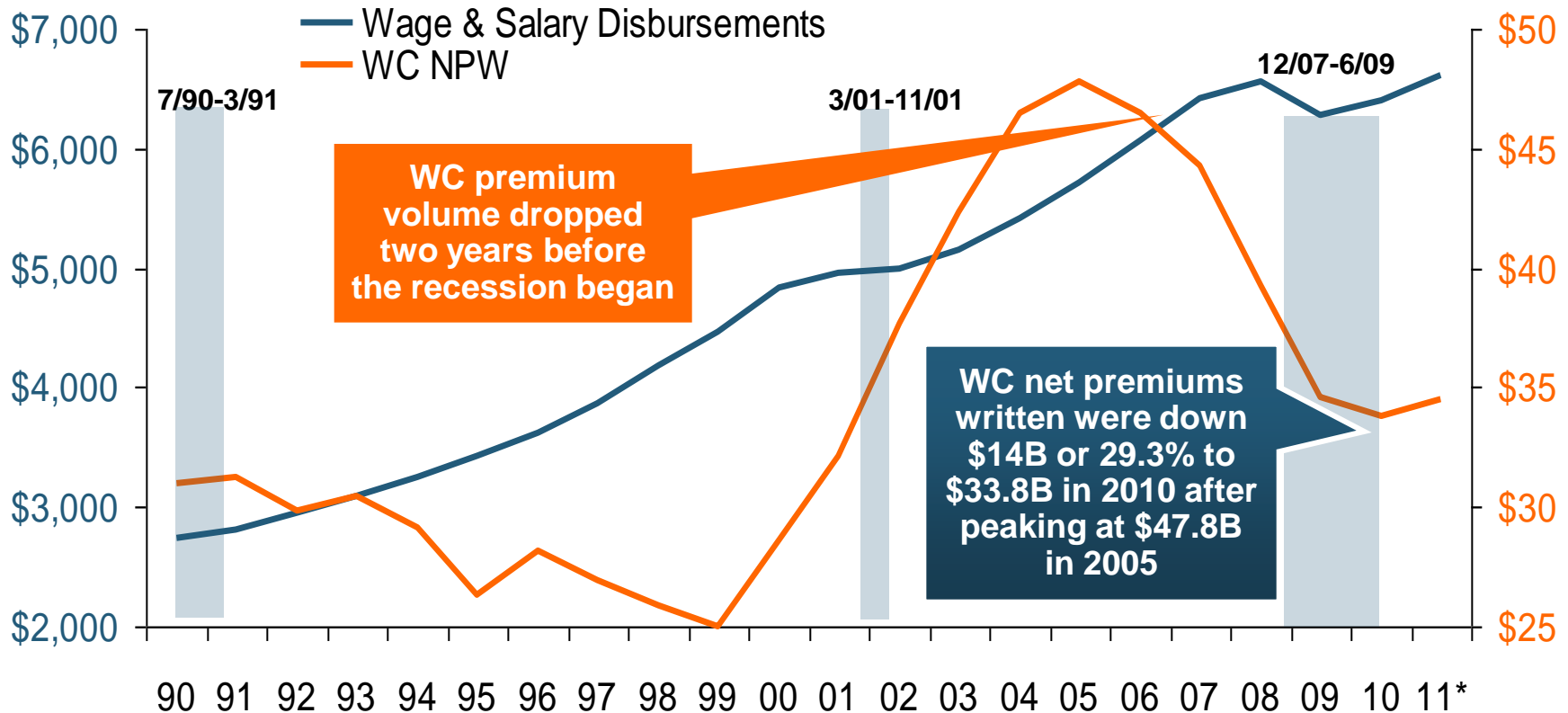
Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

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

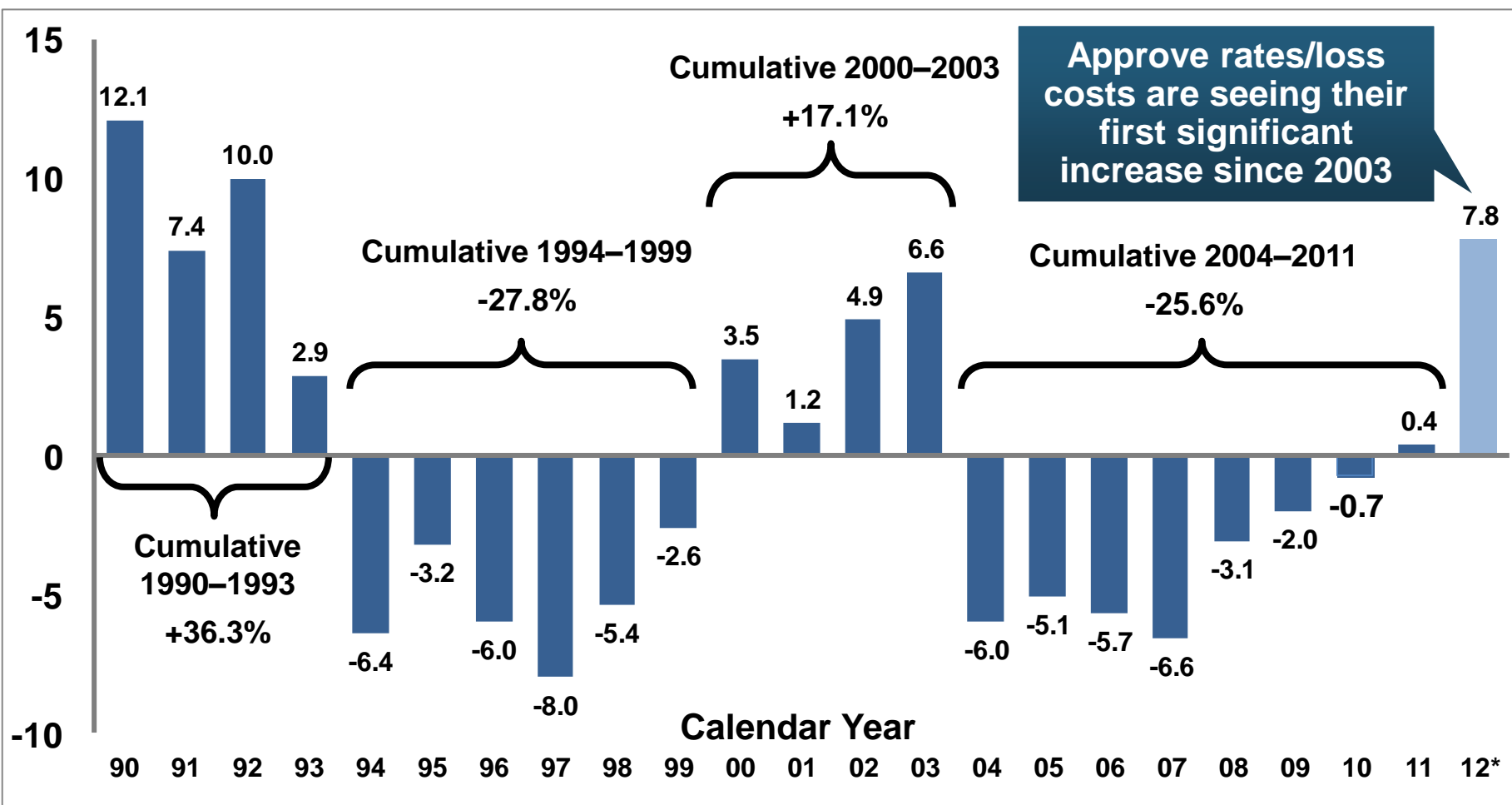
*Private employment; Shaded areas indicate recessions. Payroll and WC premiums for 2011 is I.I.I. estimate

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



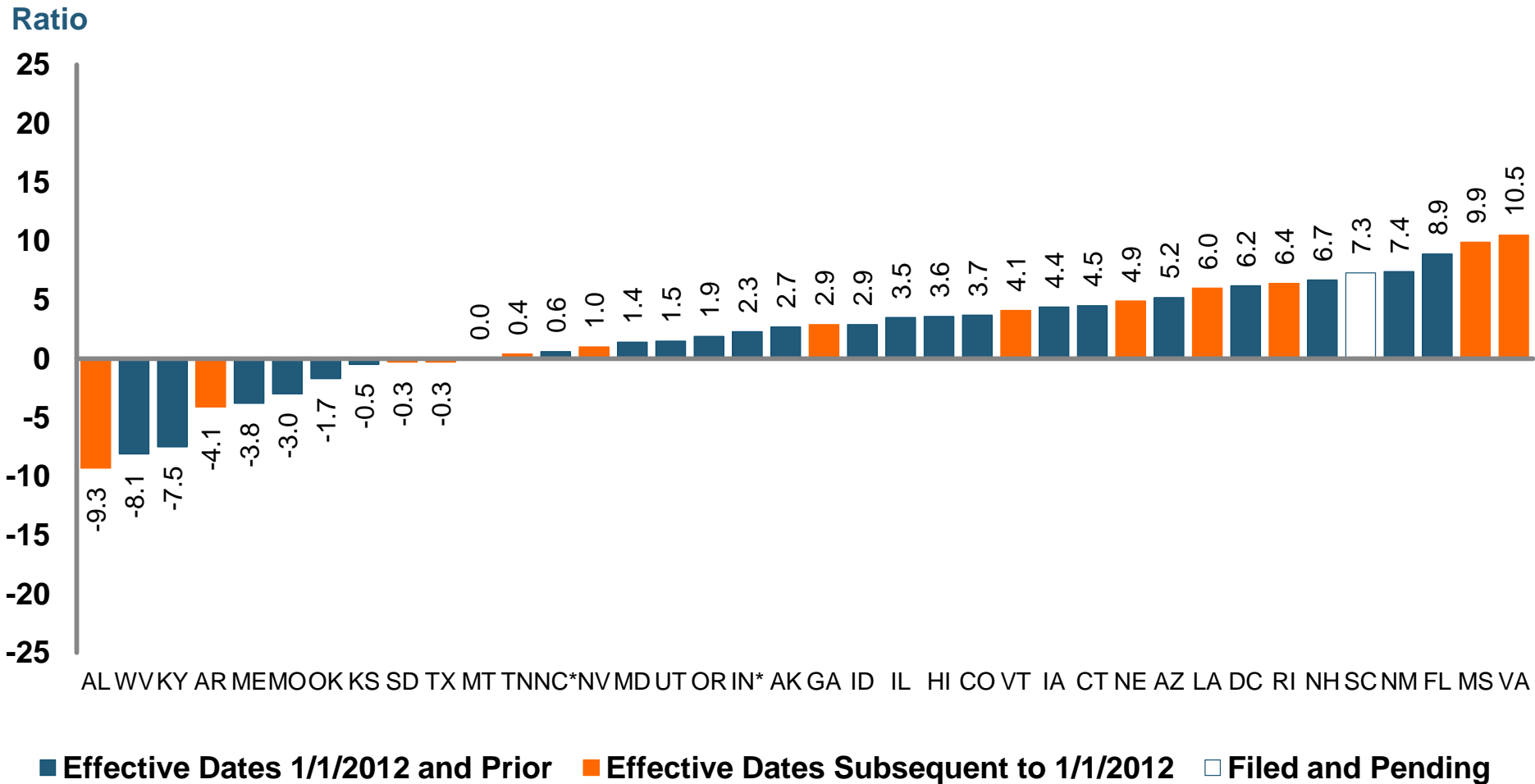
*States approved through 7/31/12.

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

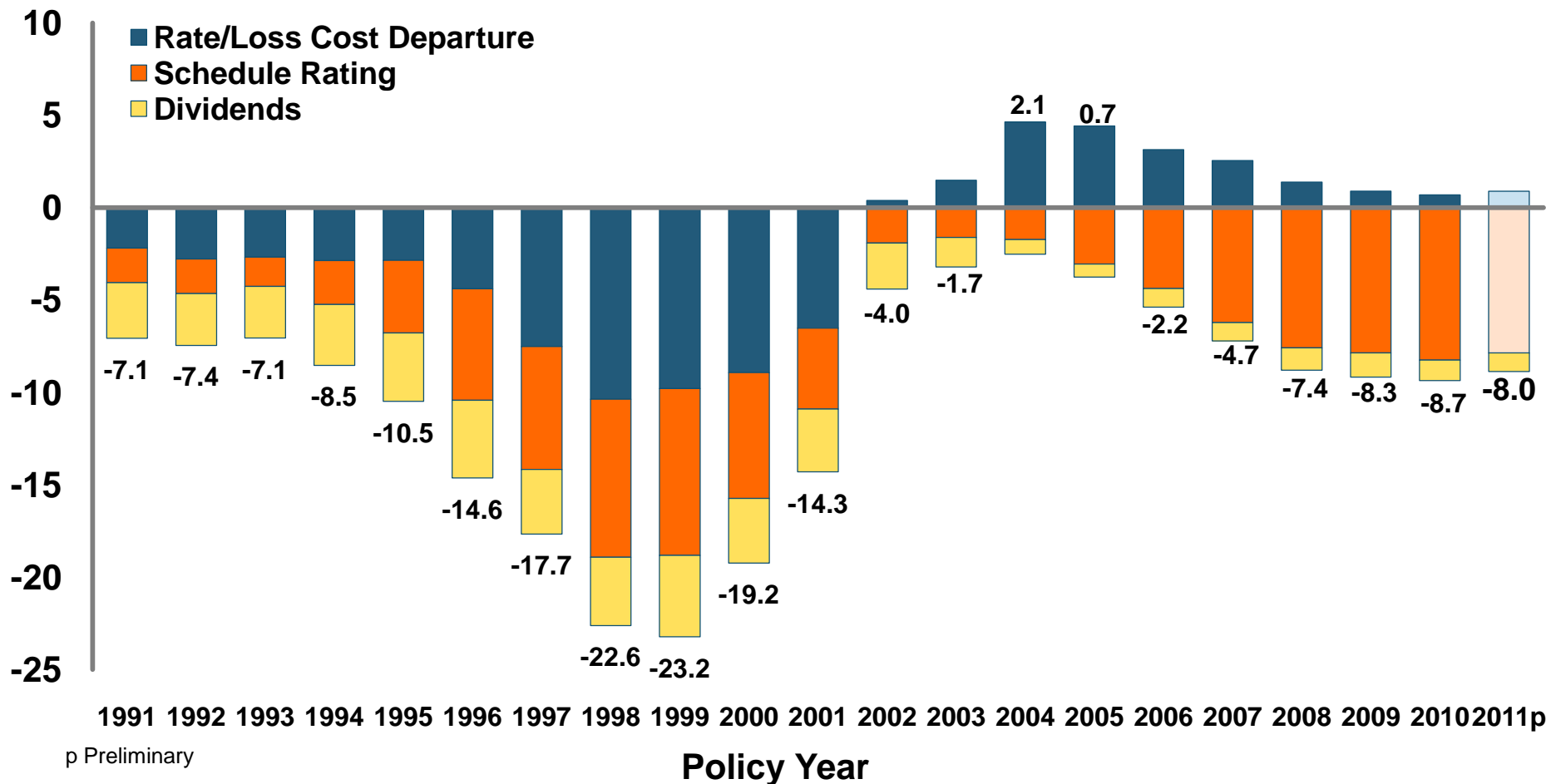
(Excludes Law-Only Filings)



Impact of Discounting on Workers Compensation Premium

NCCI States—Private Carriers

Percent



p Preliminary

Dividend ratios are based on calendar year statistics

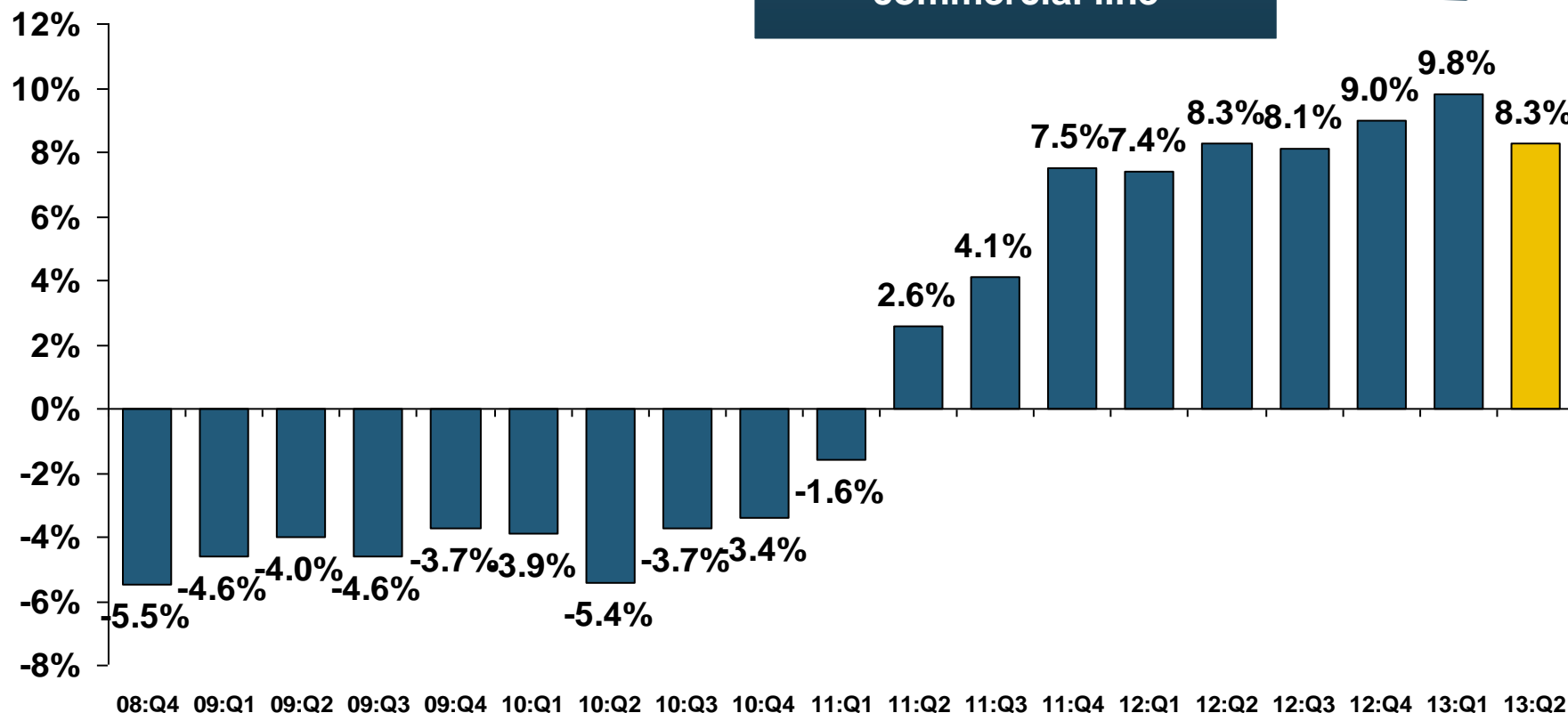
NCCI benchmark level does not include an underwriting contingency provision

Based on data through 12/31/2011 for the states where NCCI provides ratemaking services

Source: NCCI.

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

(Percent
Change)



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

The BIG Question: Where Is the Market Heading?

**Catastrophes and Other Factors Are
Pressuring Insurance Markets**

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

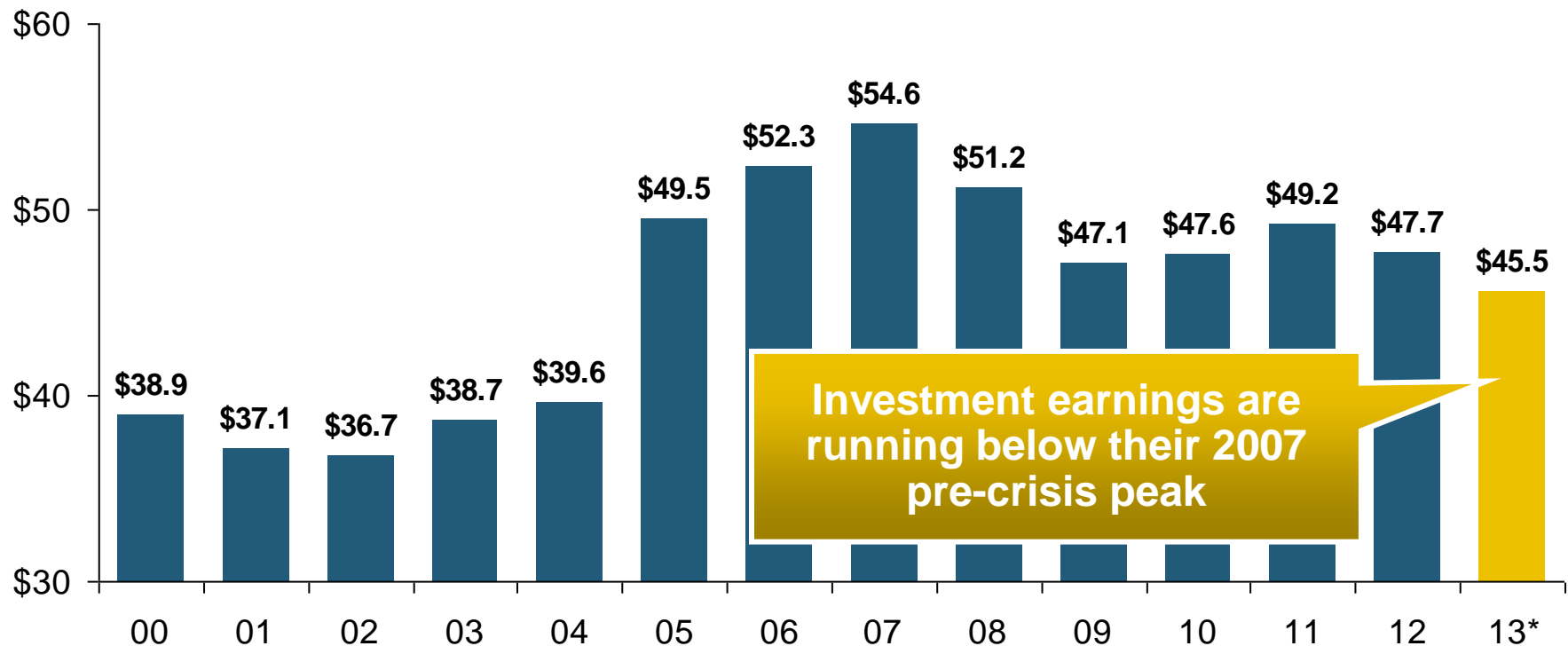
INVESTMENTS: THE NEW REALITY

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

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

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

(\$ Billions)



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

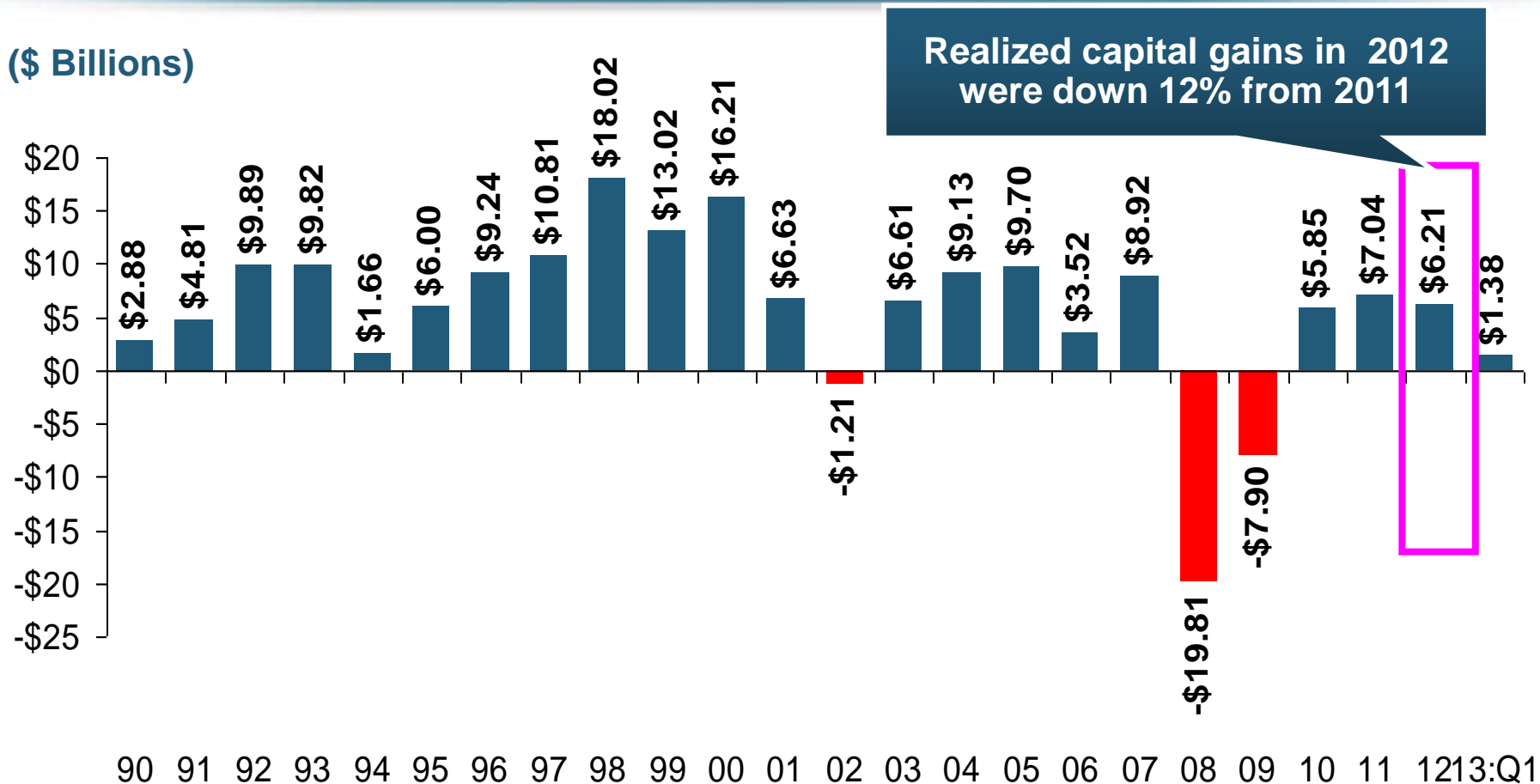
¹ Investment gains consist primarily of interest and stock dividends..

*Estimate based on annualized actual Q1:2013 investment income of \$11.385B.

Sources: ISO; Insurance Information Institute.

P/C Insurer Net Realized Capital Gains/Losses, 1990-2013:Q1

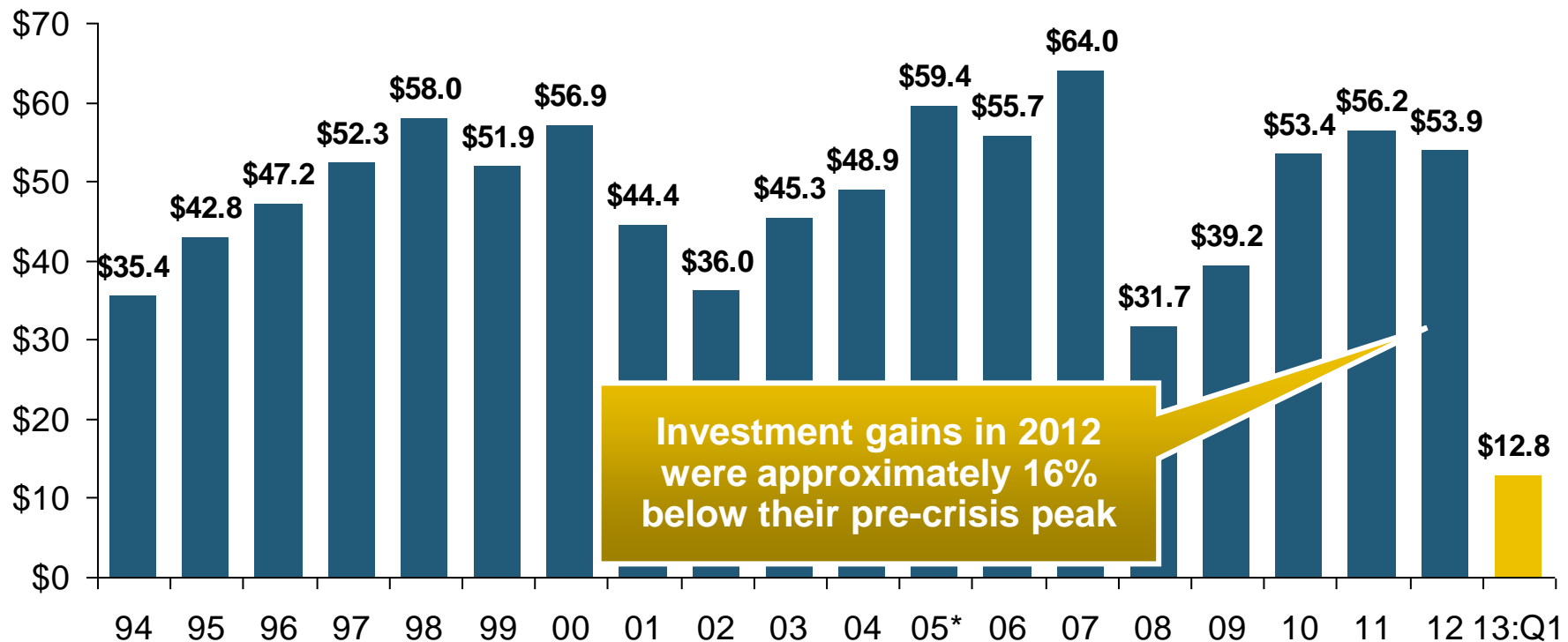
(\$ Billions)



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

Property/Casualty Insurance Industry Investment Gain: 1994–2013:Q1¹

(\$ 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

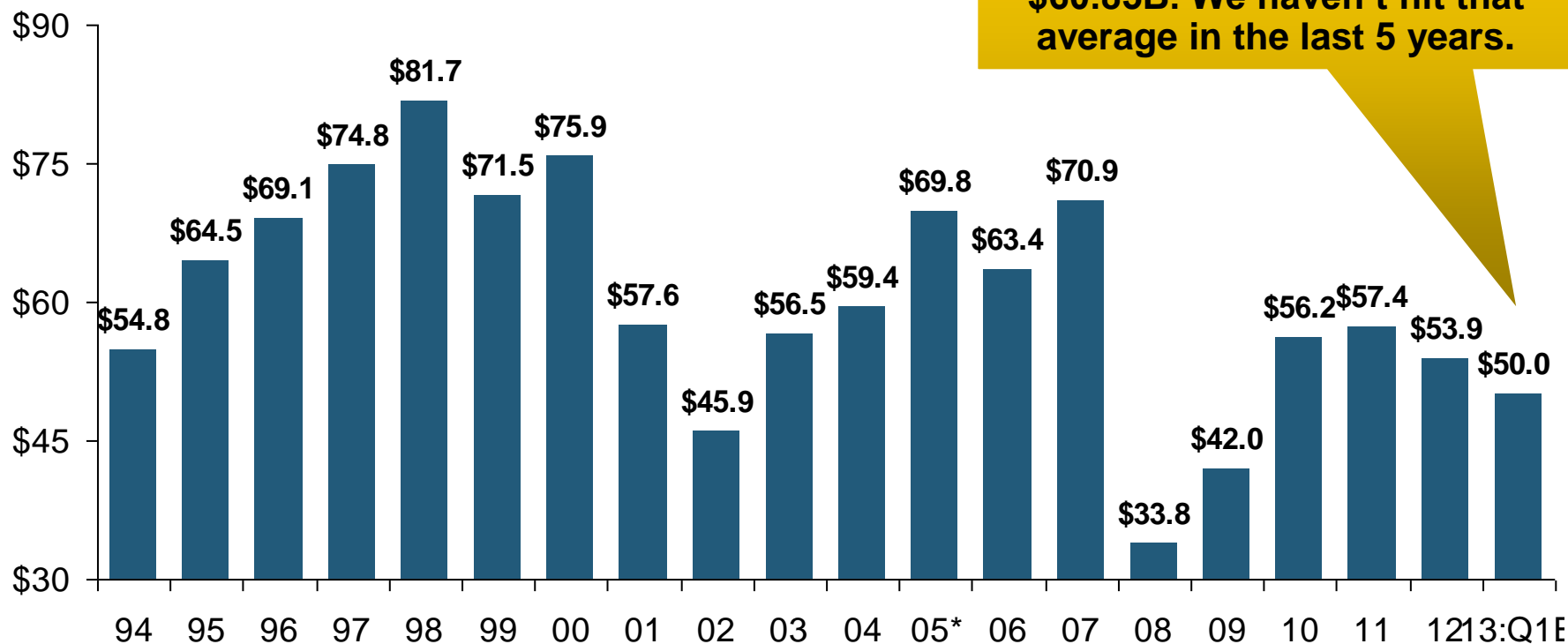
¹ Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.

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

Sources: ISO; Insurance Information Institute.

P/C Industry Investment Gains, Inflation-Adjusted: 1994–2012¹

(\$ Billions,
2012 dollars)



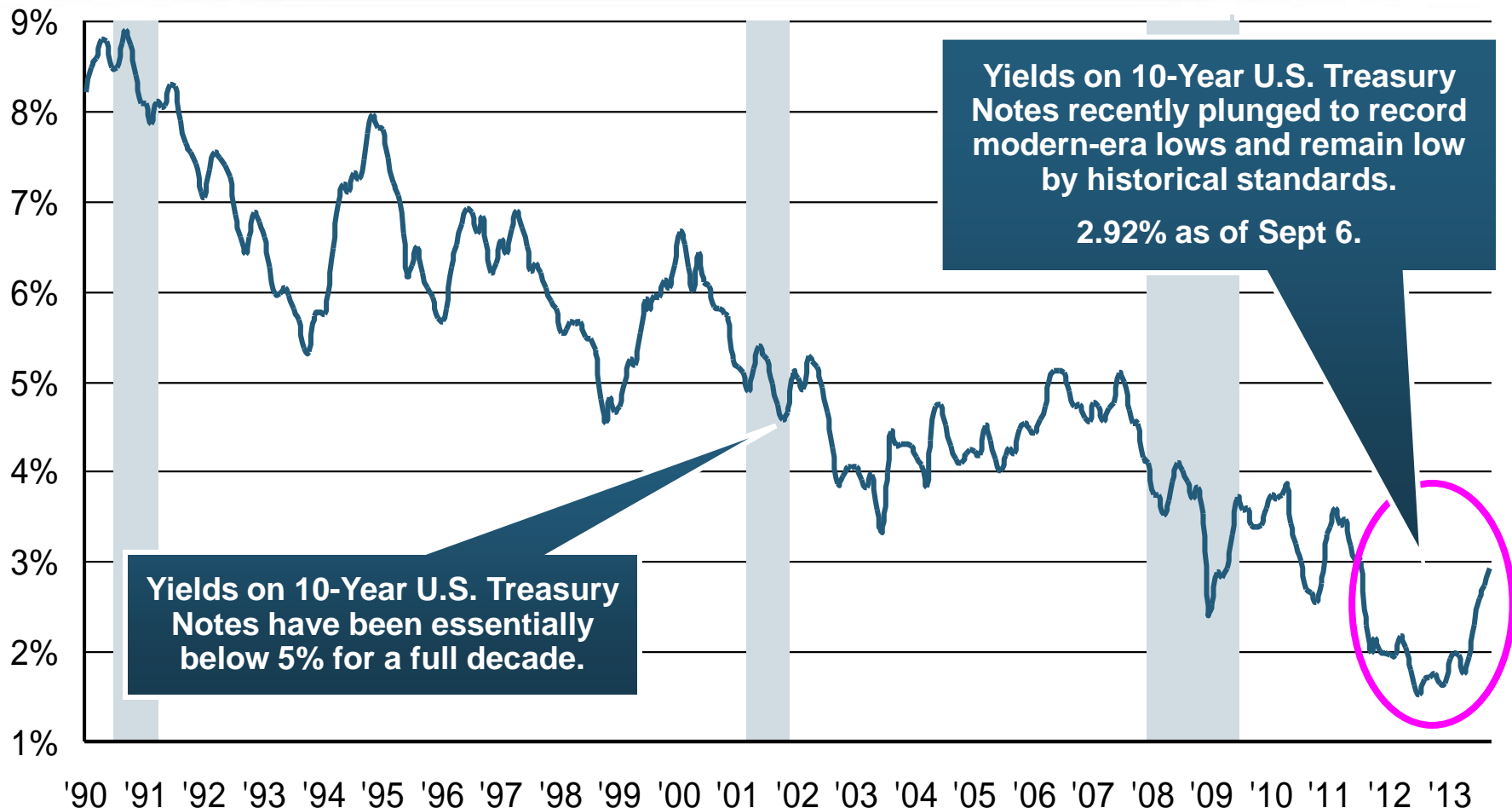
Because the Federal Reserve Board aims to keep interest rates exceptionally low until the unemployment rate hits 6.5%—likely at least another year off—maturing bonds will be re-invested at even lower rates.

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

*2005 figure includes special one-time dividend of \$3.2B; 2013F figure is I.I.I. estimate for 2013:Q1, annualized.

Sources: ISO; Insurance Information Institute.

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



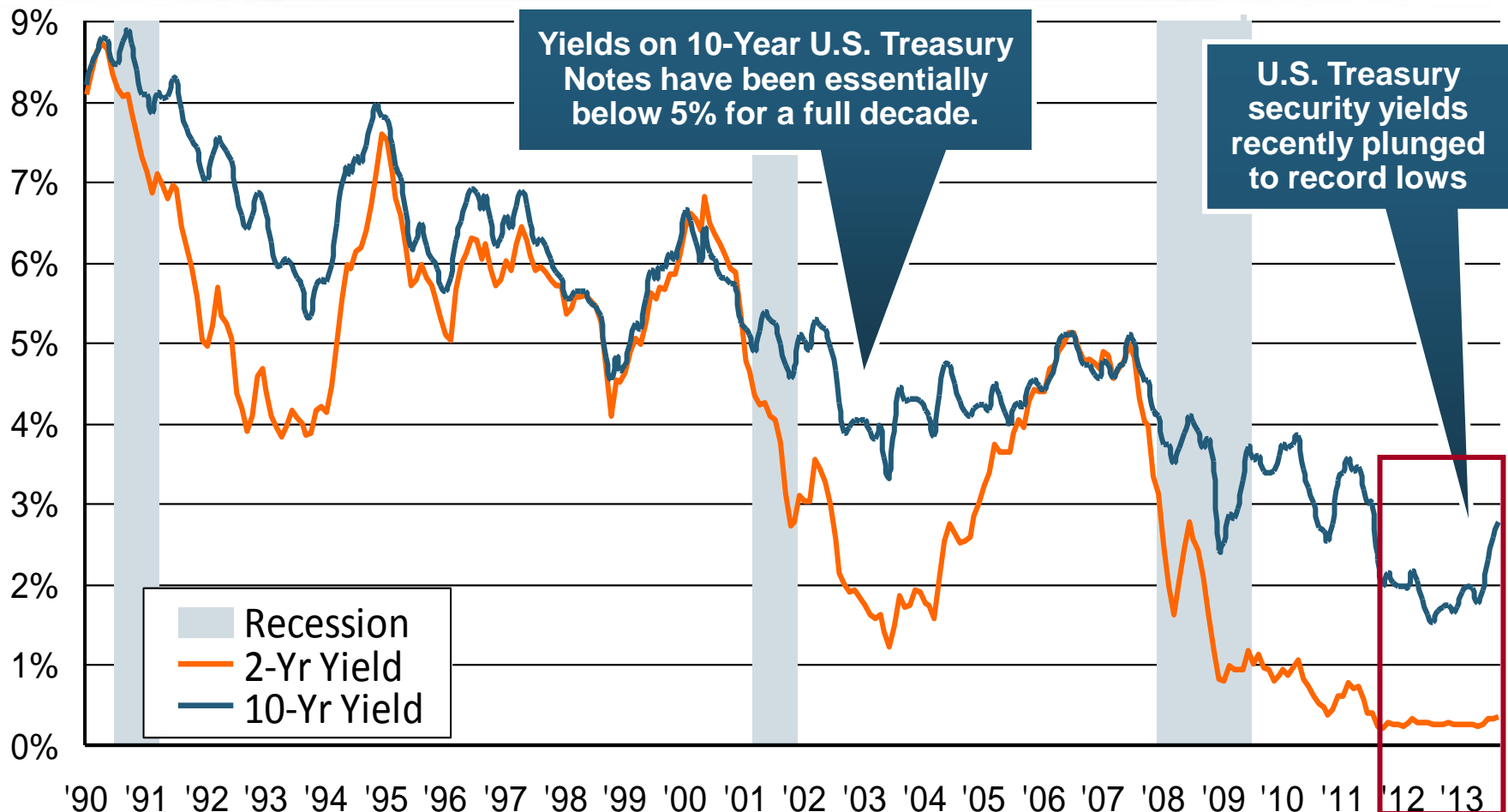
Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, except Sept. figure of 2.92% is as of Sept. 6, 2013.

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.

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

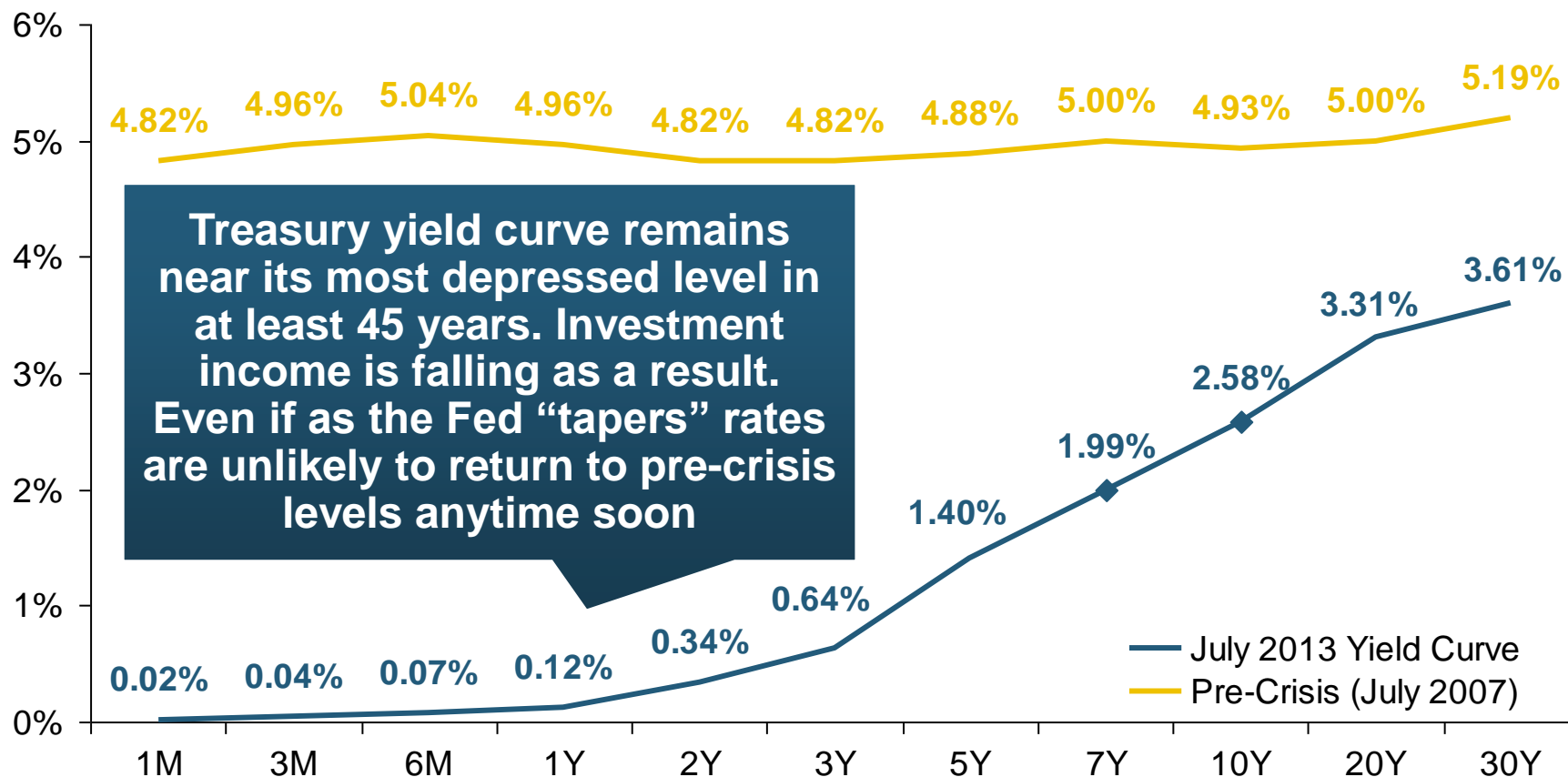


Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, constant maturity, nominal rates, through August 2013.

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

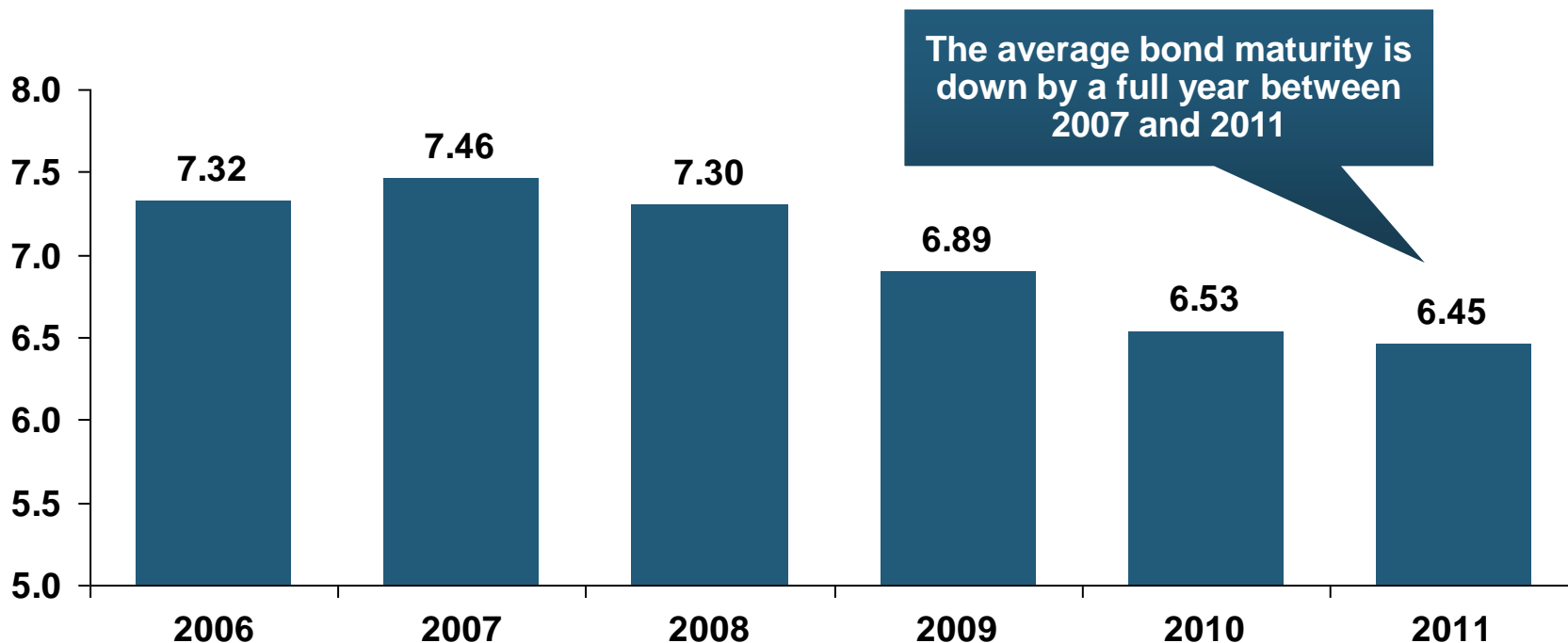
Treasury Yield Curves: Pre-Crisis (July 2007) vs. July 2013



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

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

Average Maturity (Years)

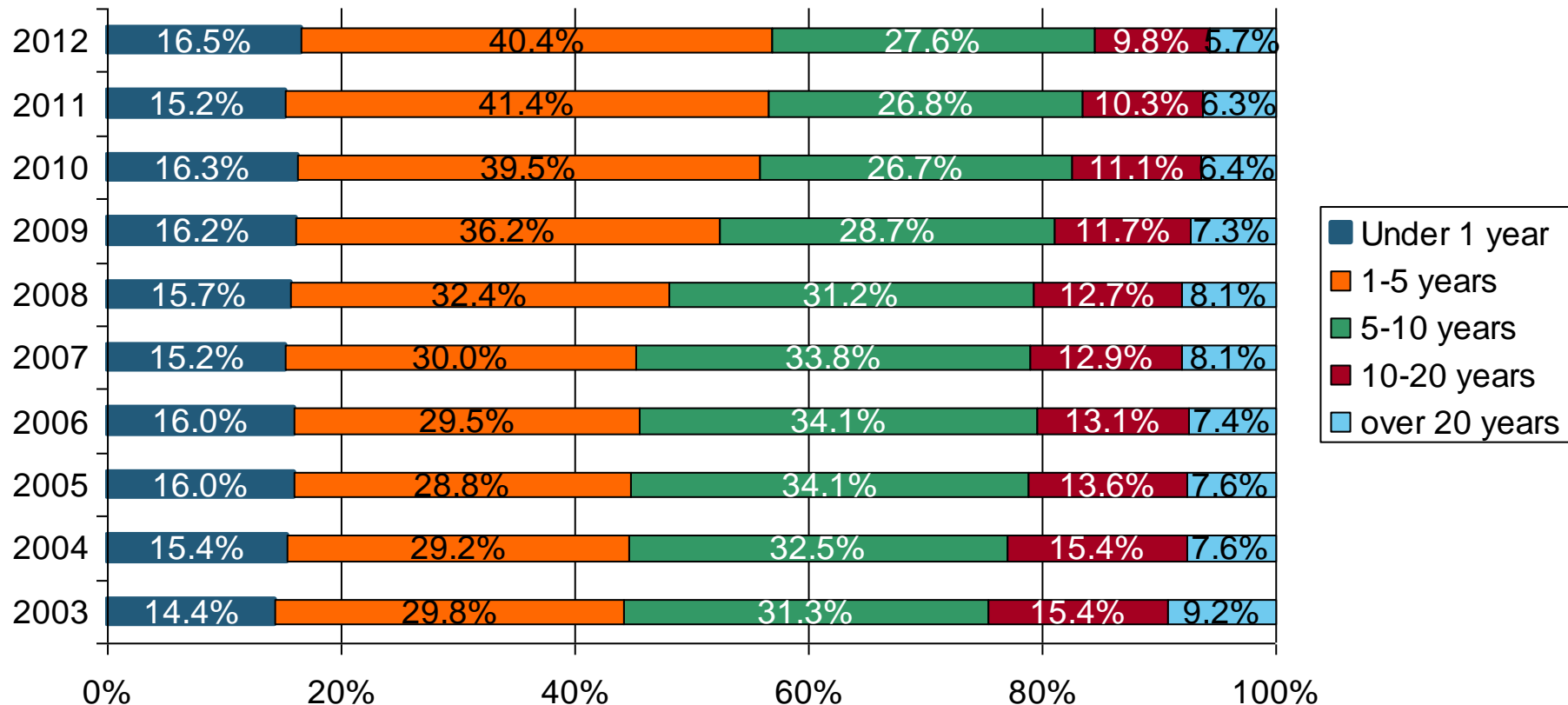


Falling Average Maturity (and Duration) of the P/C Industry's Bond Portfolio is Contributing to the Drop in Investment Income Along With Lower Yields

*Year-end figures. Latest available.

Sources: Insurance Information Institute calculations based on A.M. Best data.

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

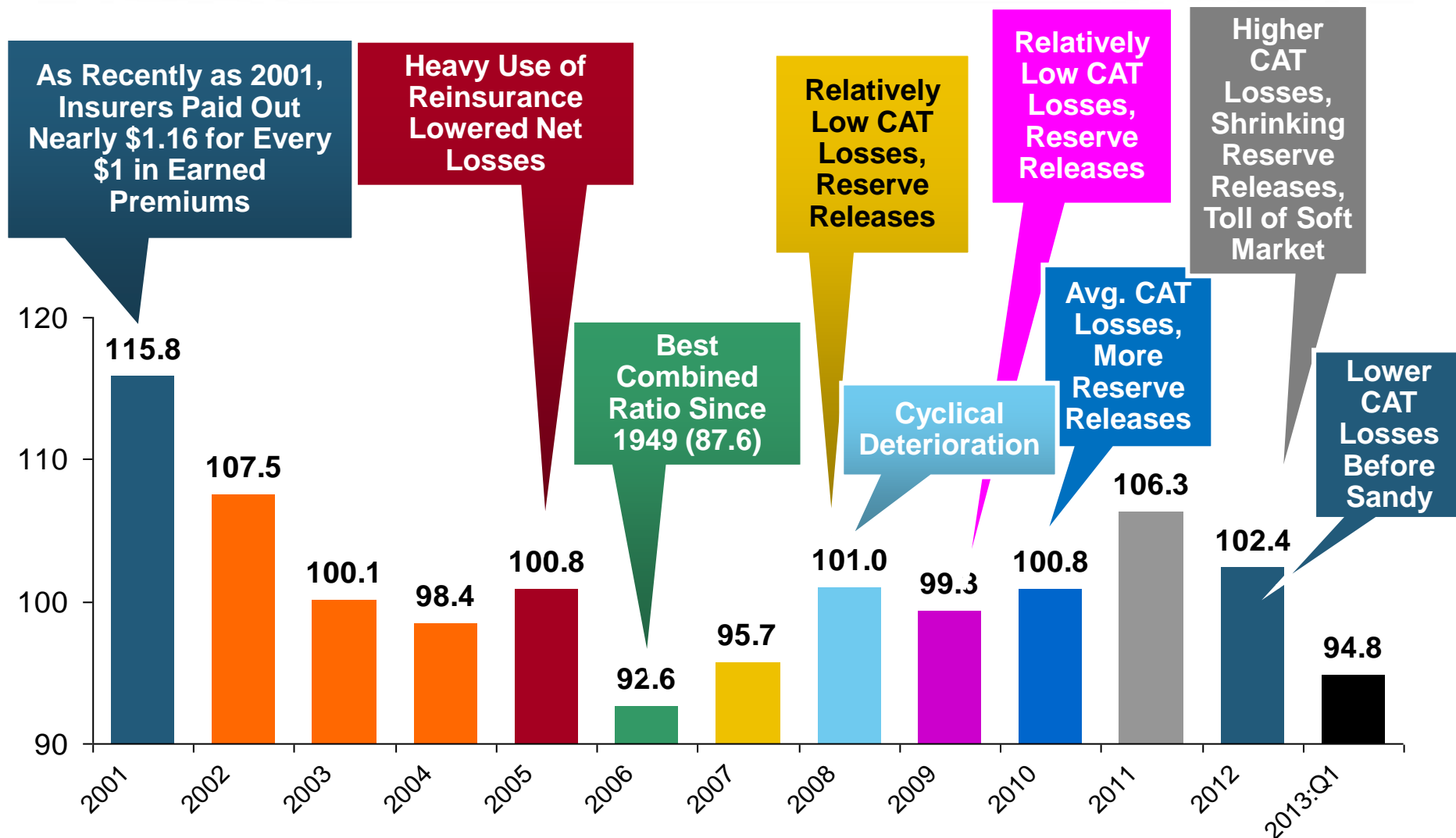


The main shift over these years has been from bonds with longer maturities to bonds with shorter maturities. The industry first trimmed its holdings of over-10-year bonds (from 24.6% in 2003 to 15.5% in 2012) and then trimmed bonds in the 5-10-year category (from 31.3% in 2003 to 27.6% in 2012). Falling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

1. UNDERWRITING

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

P/C Insurance Industry Combined Ratio, 2001–2013:Q1*

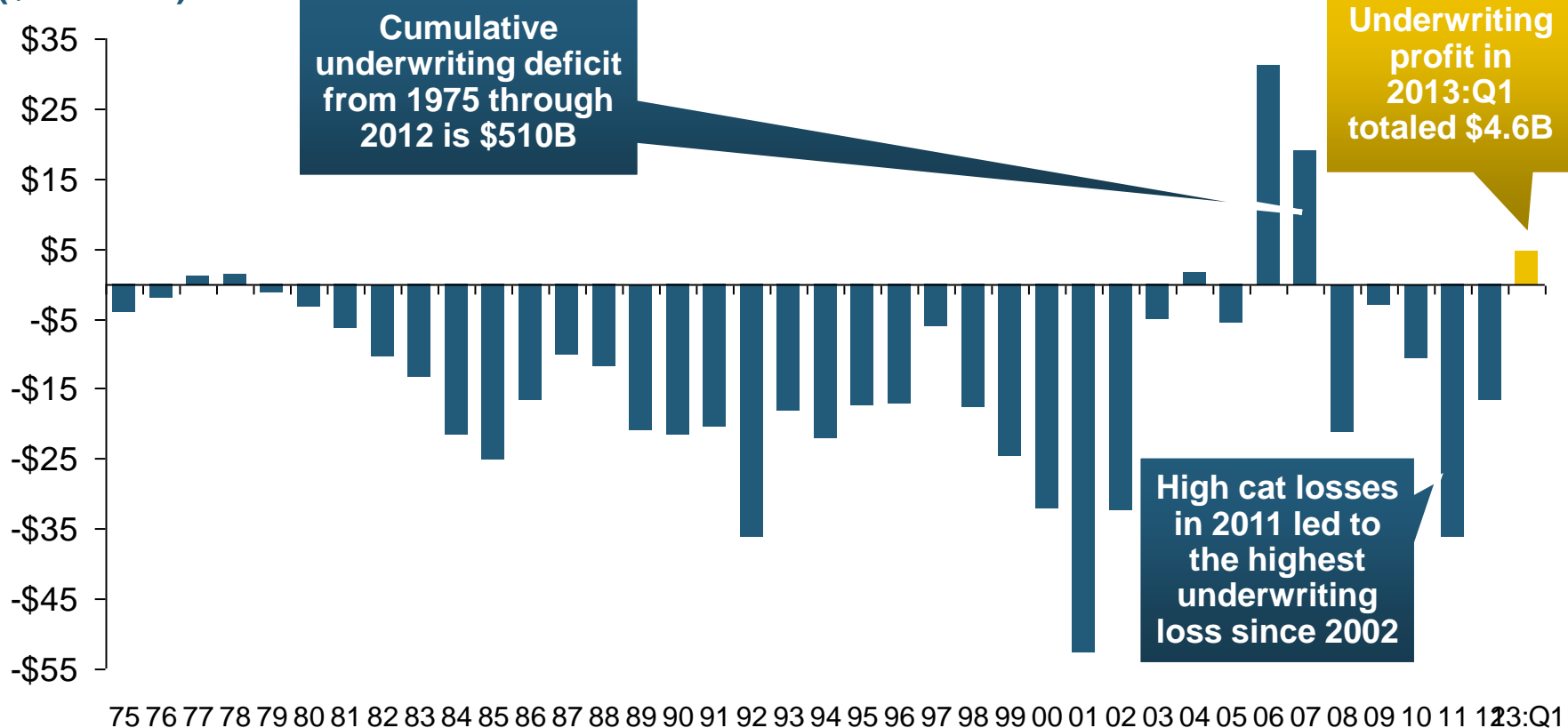


* Excludes Mortgage & Financial Guaranty insurers 2008--2012. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.1; 2012:=103.2.

Sources: A.M. Best, ISO.

Underwriting Gain (Loss) 1975–2013:Q1*

(\$ Billions)



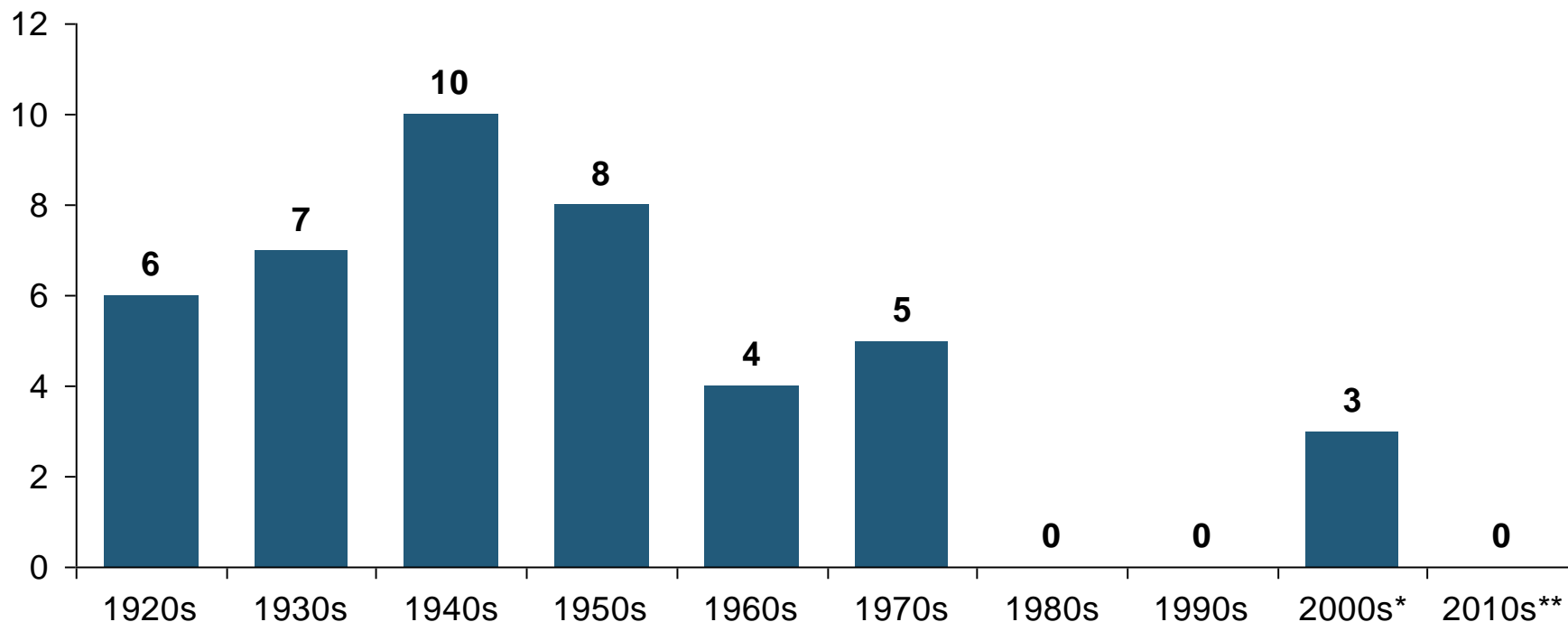
**Large Underwriting Losses Are *NOT* Sustainable
in Current Investment Environment**

* Includes mortgage and financial guaranty insurers in all years.

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

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

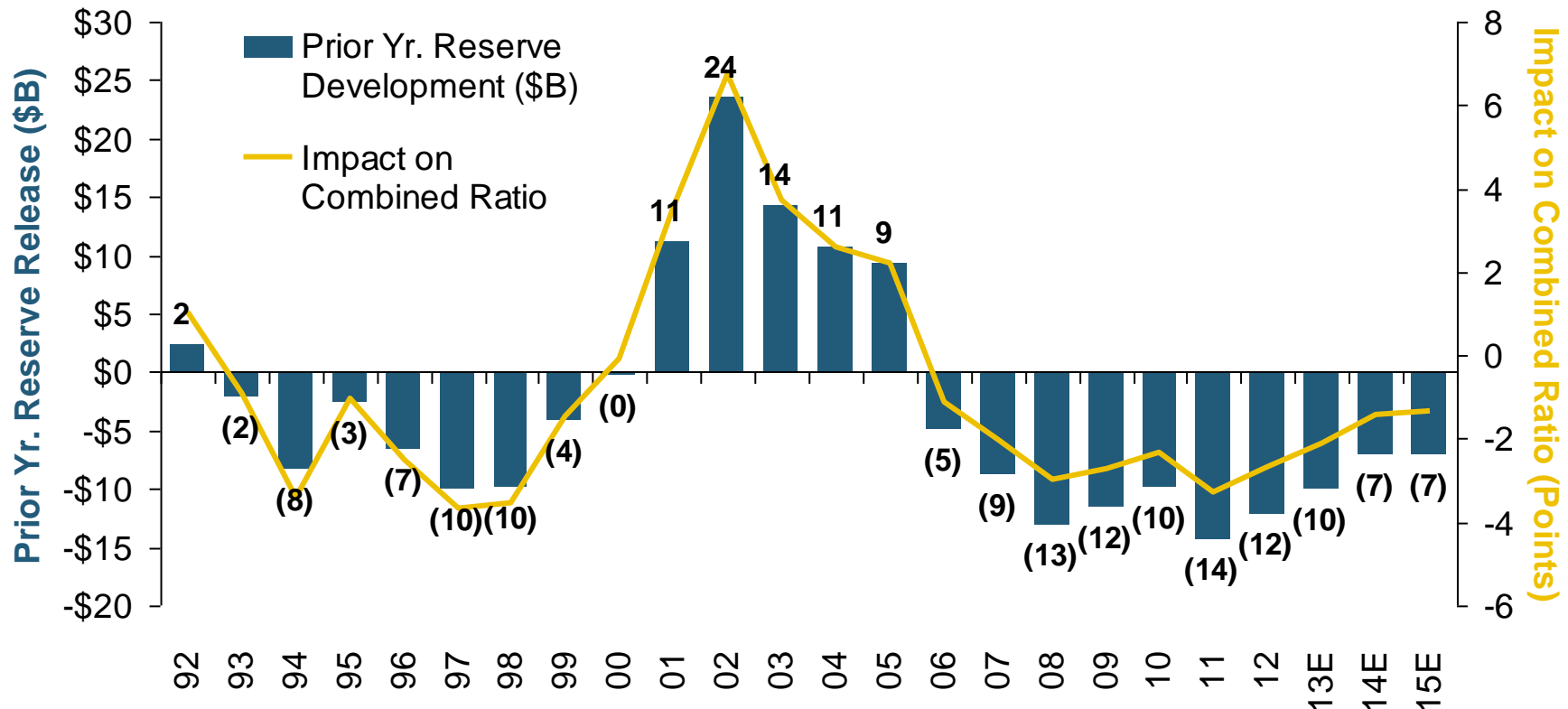
* 2009 combined ratio excl. mort. and finl. guaranty insurers was 99.3, which would bring the 2000s total to 4 years with an u/w profit.

**Data for the 2010s is for the period 2010 through 2012.

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

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

P/C Reserve Development, 1992–2015E



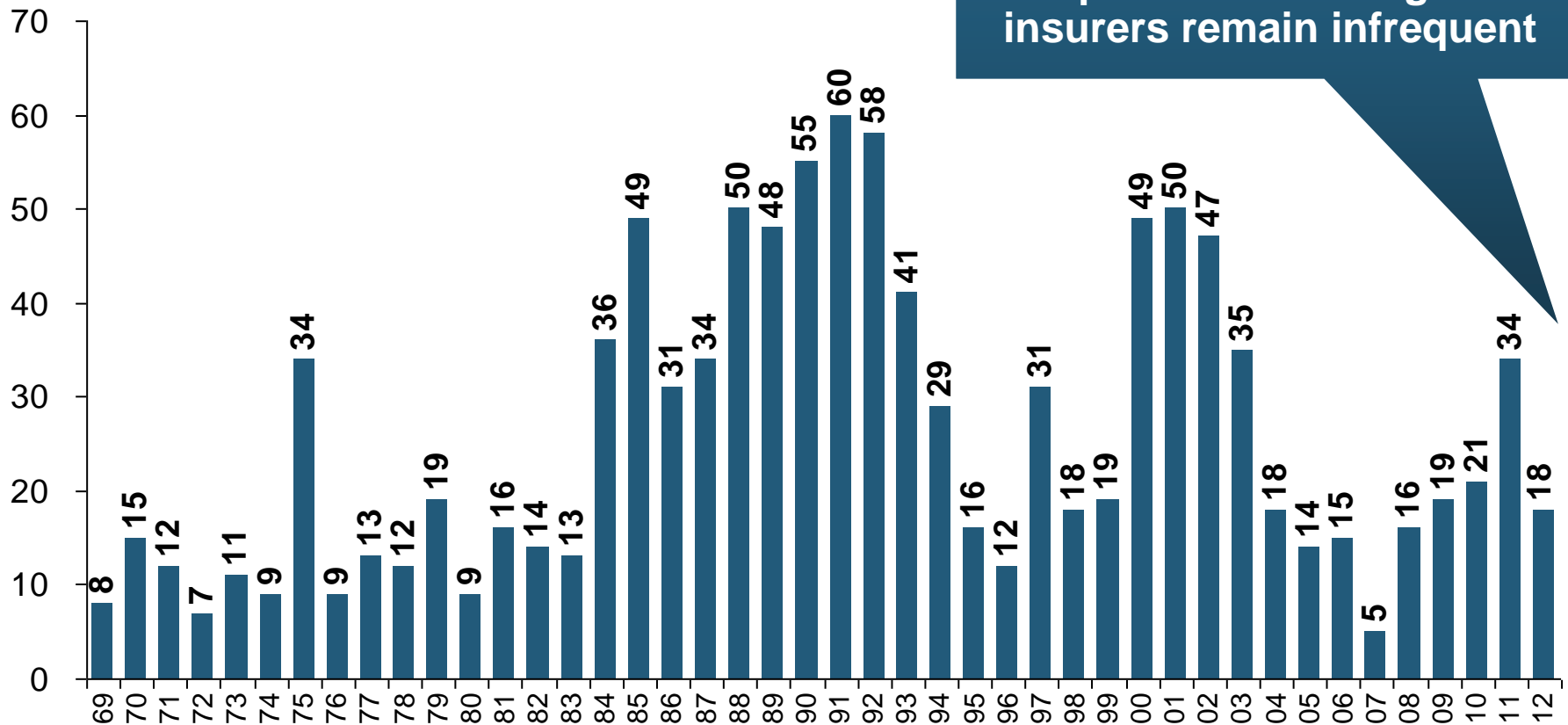
Note: 2005 reserve development excludes a \$6 billion loss portfolio transfer between American Re and Munich Re. Including this transaction, total prior year adverse development in 2005 was \$7 billion. The data from 2000 and subsequent years excludes development from financial guaranty and mortgage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

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

Financial Strength & Underwriting

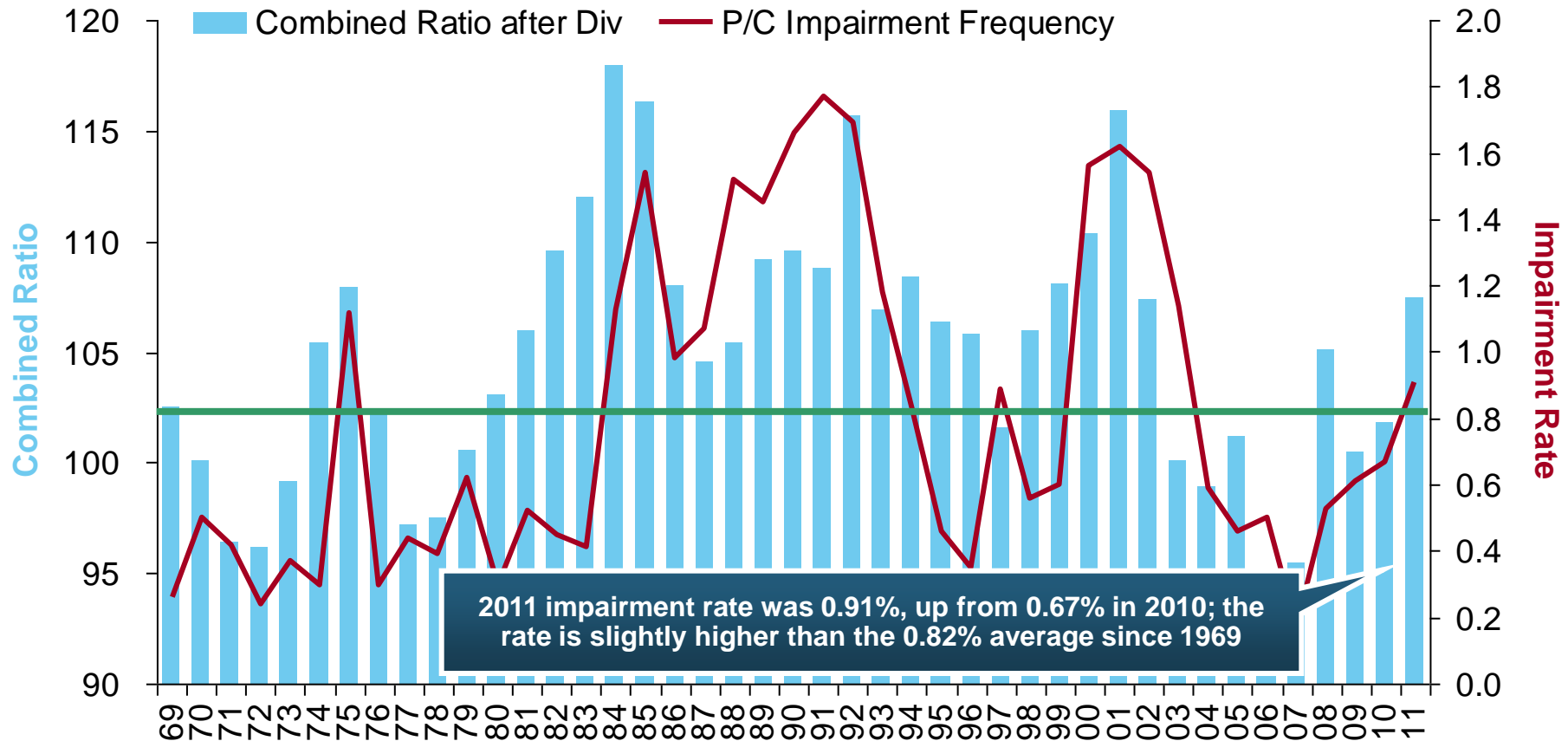
**Cyclical Pattern is P-C Impairment
History is Directly Tied to
Underwriting, Reserving & Pricing**

P/C Insurer Impairments, 1969–2012



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

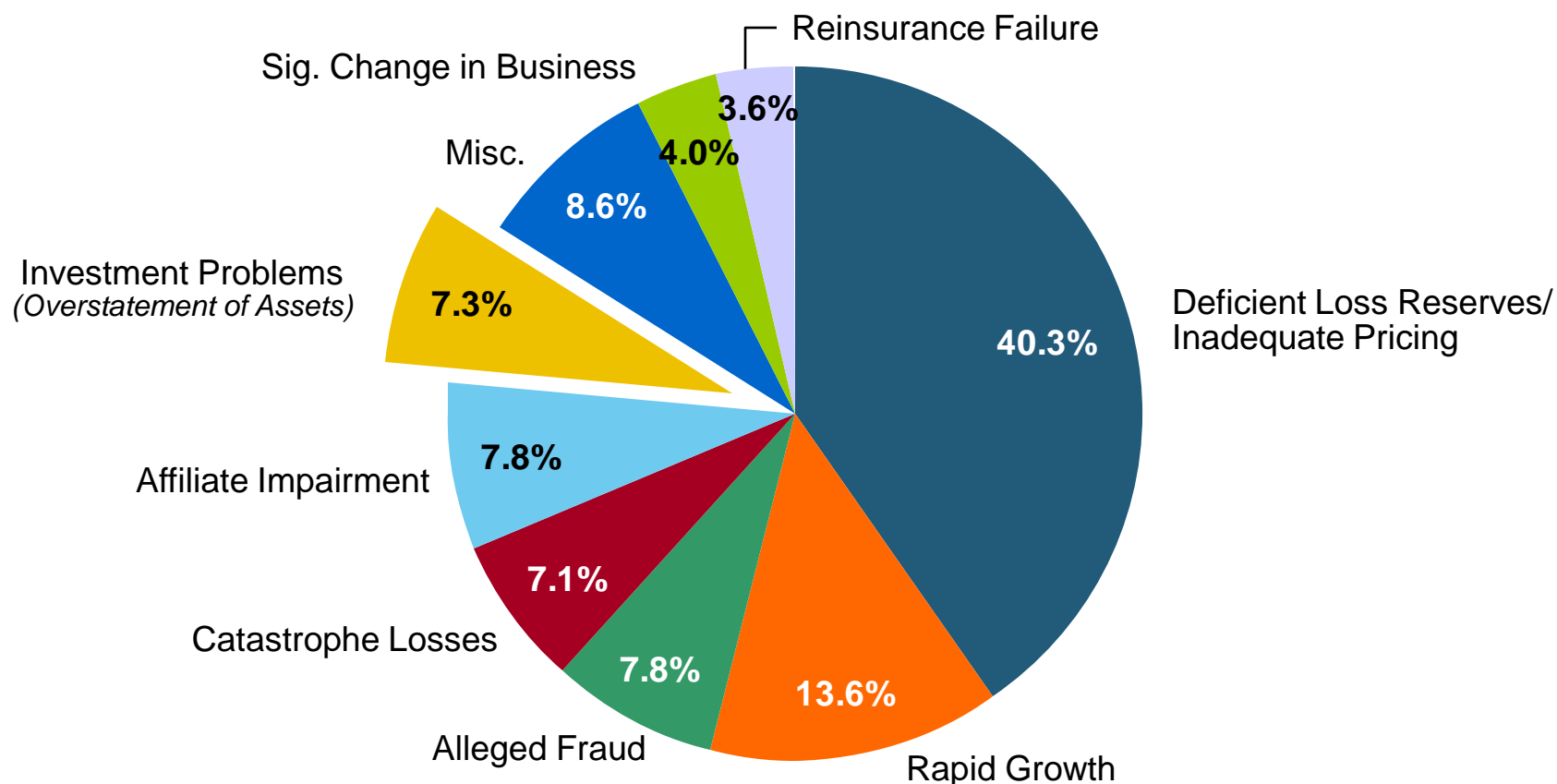
P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2011



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

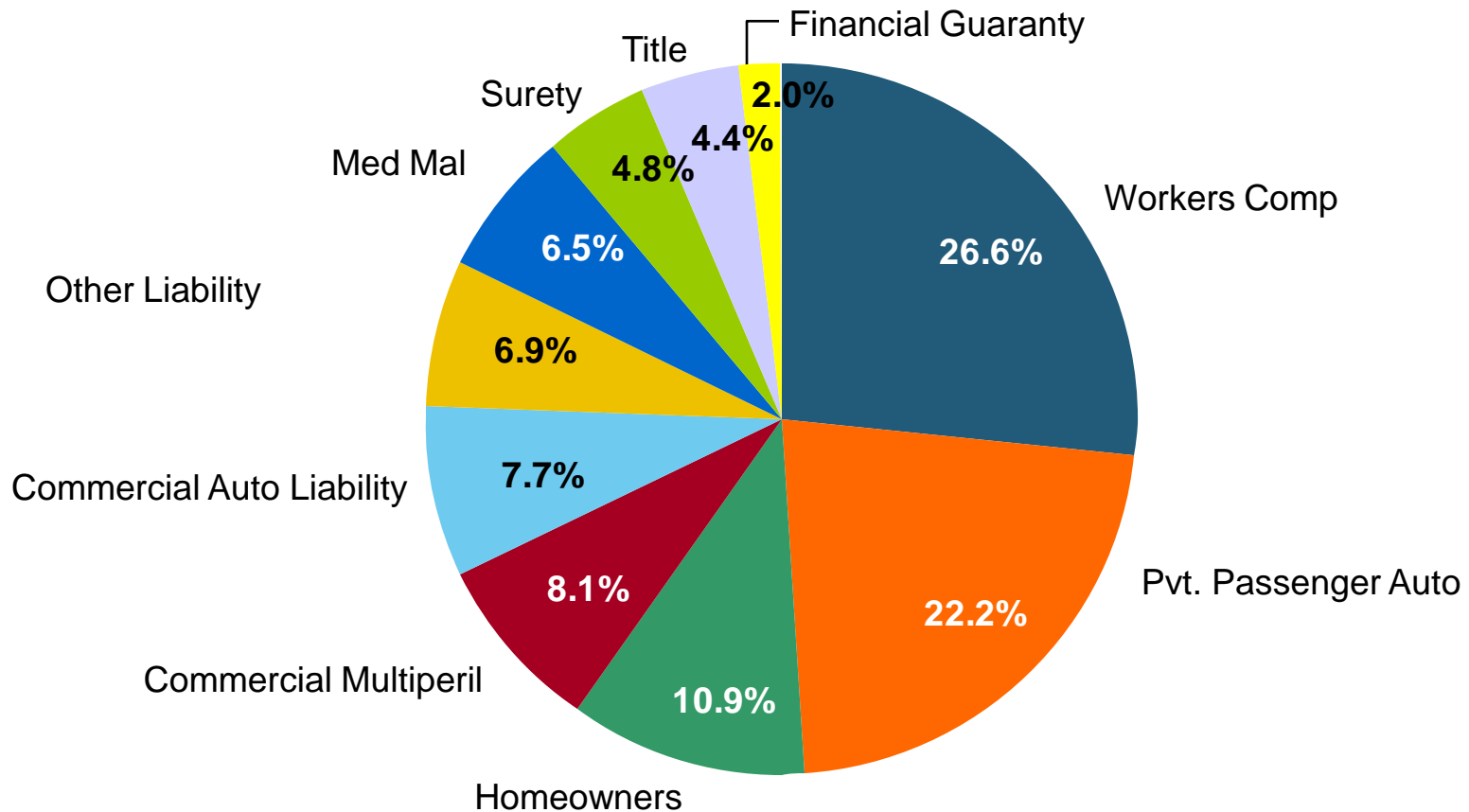
Reasons for US P/C Insurer Impairments, 1969–2010

Historically, Deficient Loss Reserves and Inadequate Pricing Are By Far the Leading Cause of P-C Insurer Impairments. Investment and Catastrophe Losses Play a Much Smaller Role



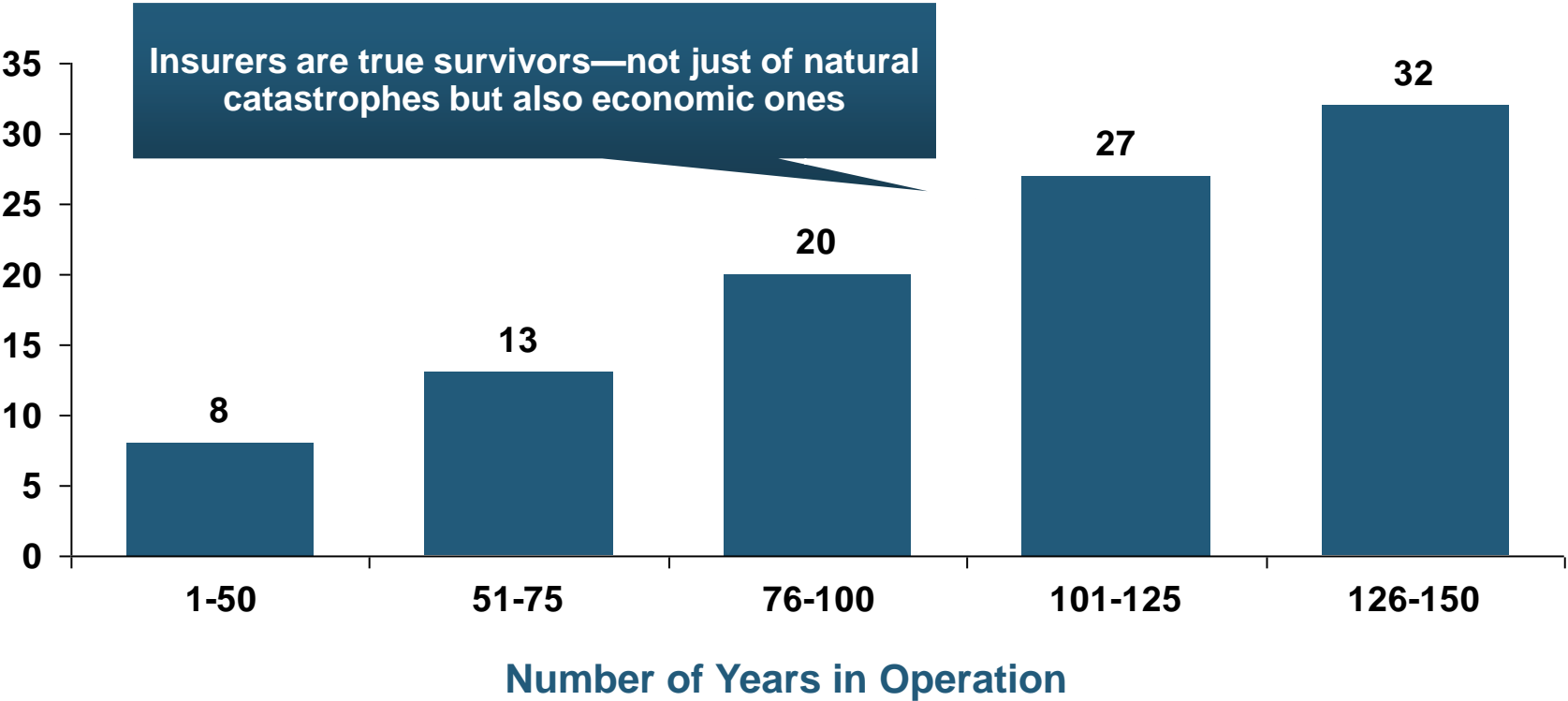
Top 10 Lines of Business for US P/C Impaired Insurers, 2000–2010

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



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

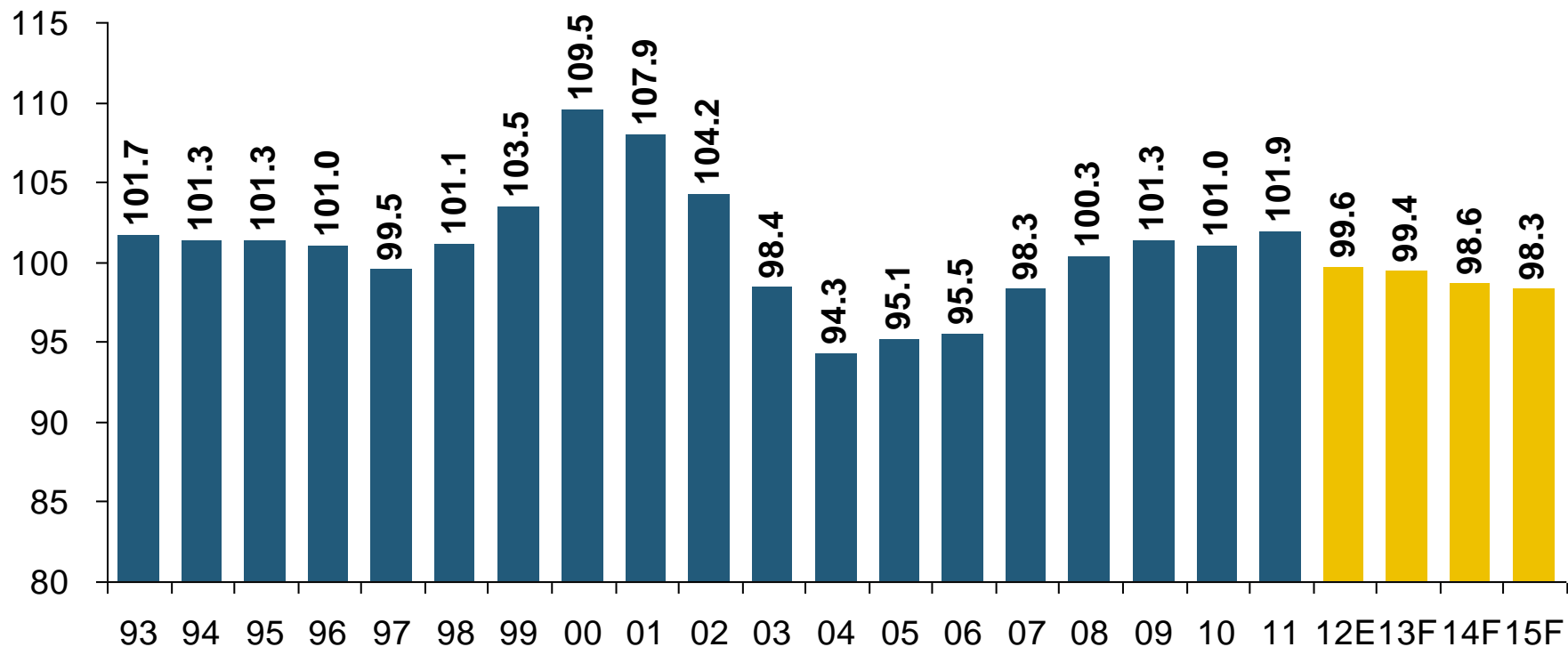
Number of Recessions Since 1860



Many US Insurers Are Close to a Century Old or Older

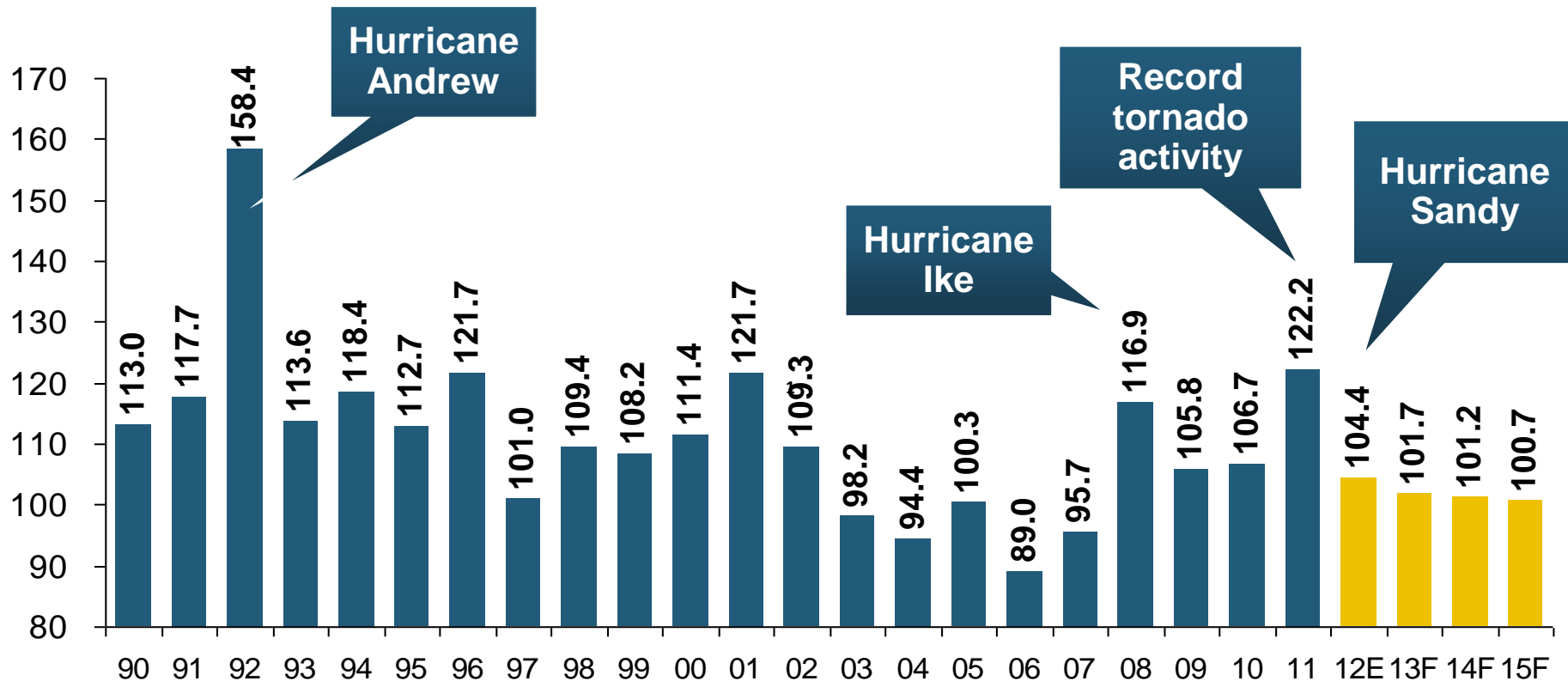
Performance by Segment

Private Passenger Auto Combined Ratio: 1993–2015F



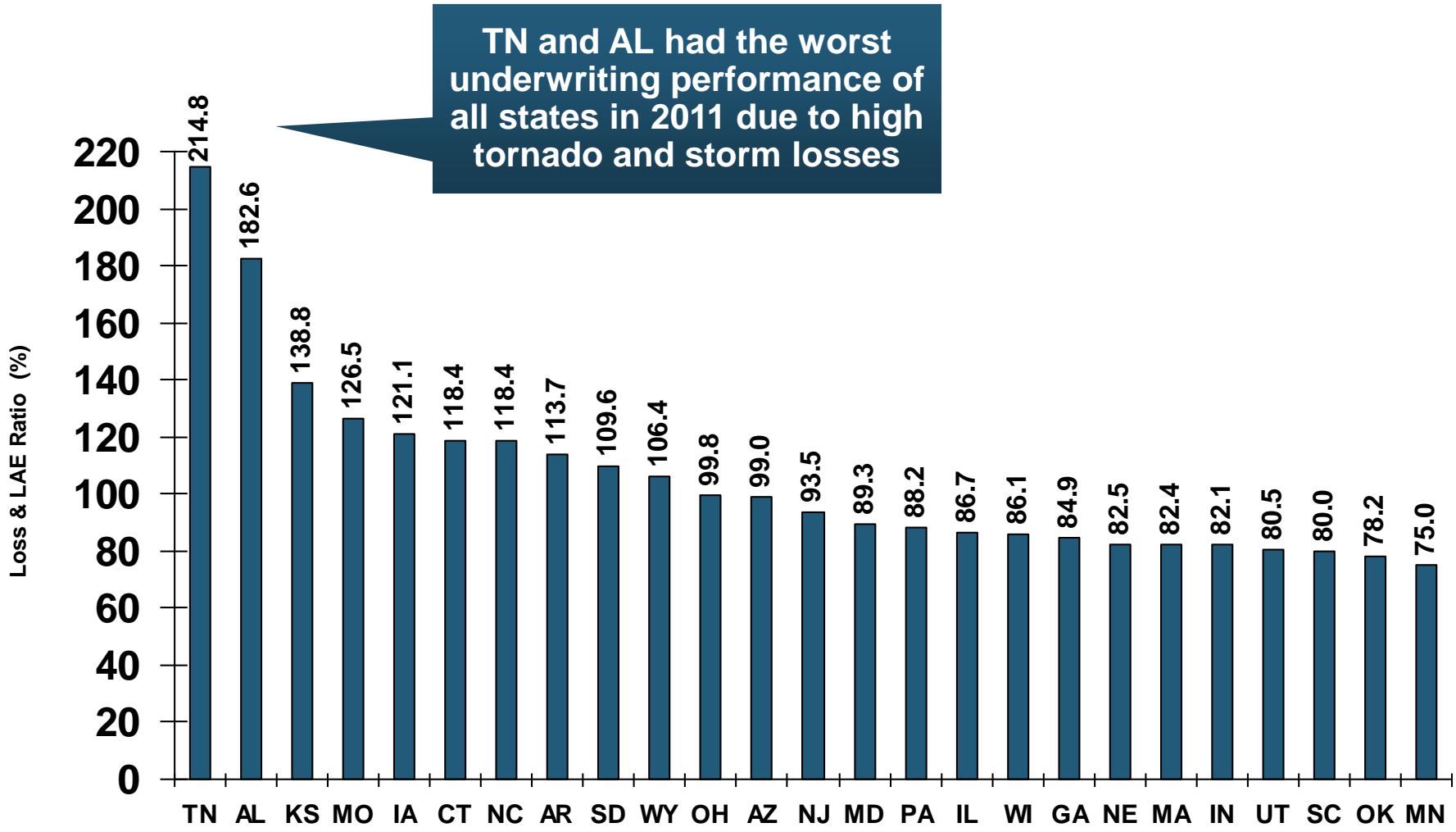
Private Passenger Auto Accounts for 34% of Industry Premiums and Remains the Profit Juggernaut of the P/C Insurance Industry

Homeowners Insurance Combined Ratio: 1990–2015F

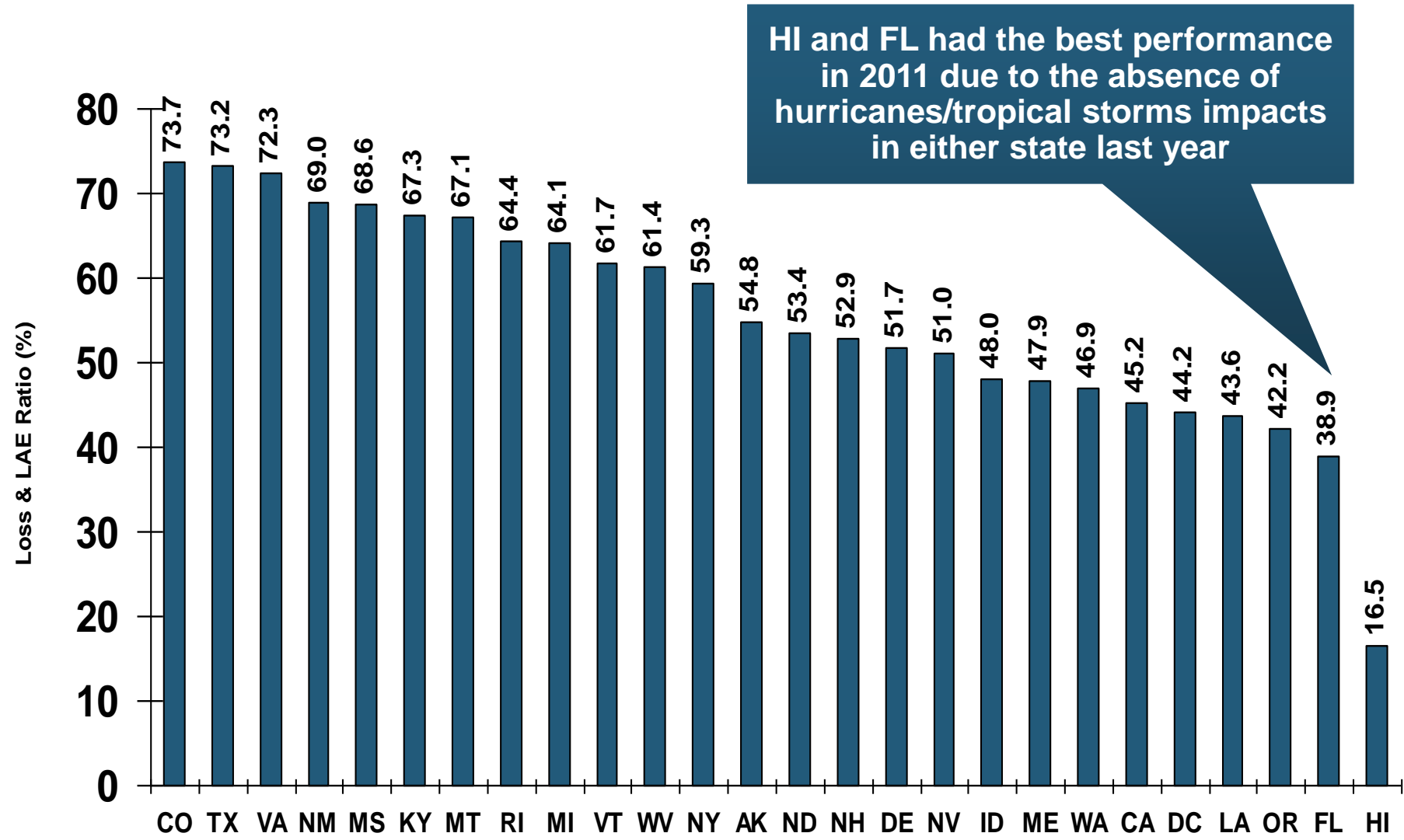


Homeowners Performance in 2011/12 Impacted by Large Cat Losses. Extreme Regional Variation Can Be Expected Due to Local Catastrophe Loss Activity

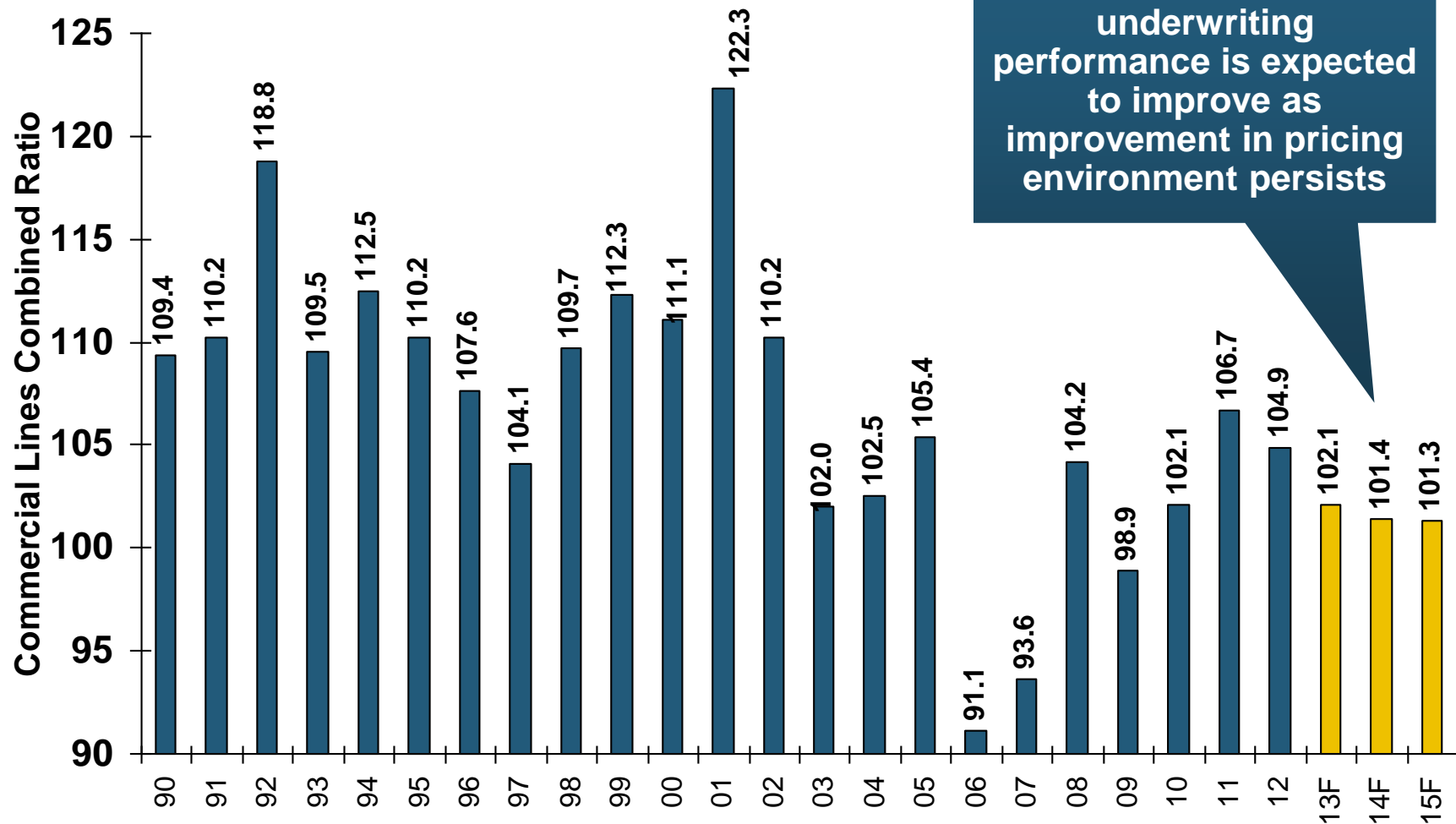
Homeowners Multi-Peril Loss & LAE Ratio, 2011: Highest 25 States



Homeowners Multi-Peril Loss & LAE Ratio, 2011: Lowest 25 States



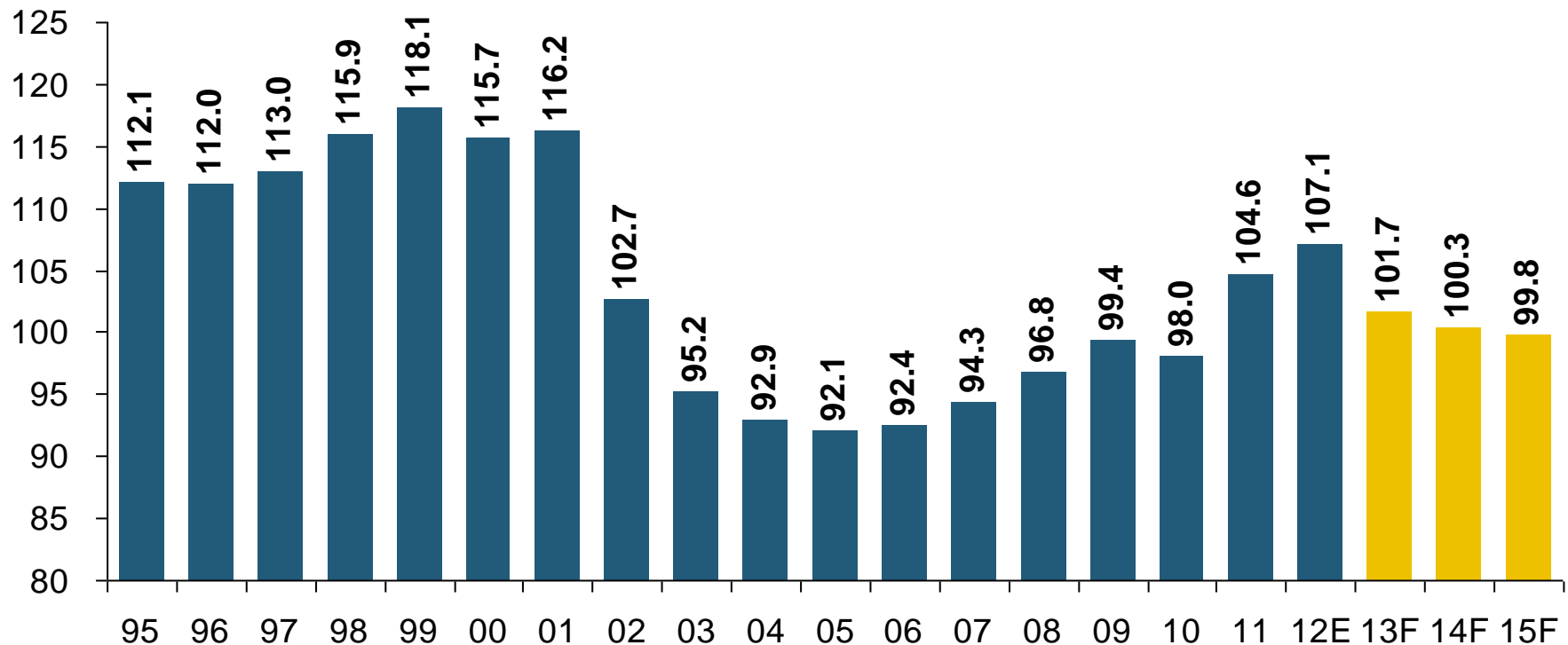
Commercial Lines Combined Ratio, 1990-2015F*



*2007-2012 figures exclude mortgage and financial guaranty segments.

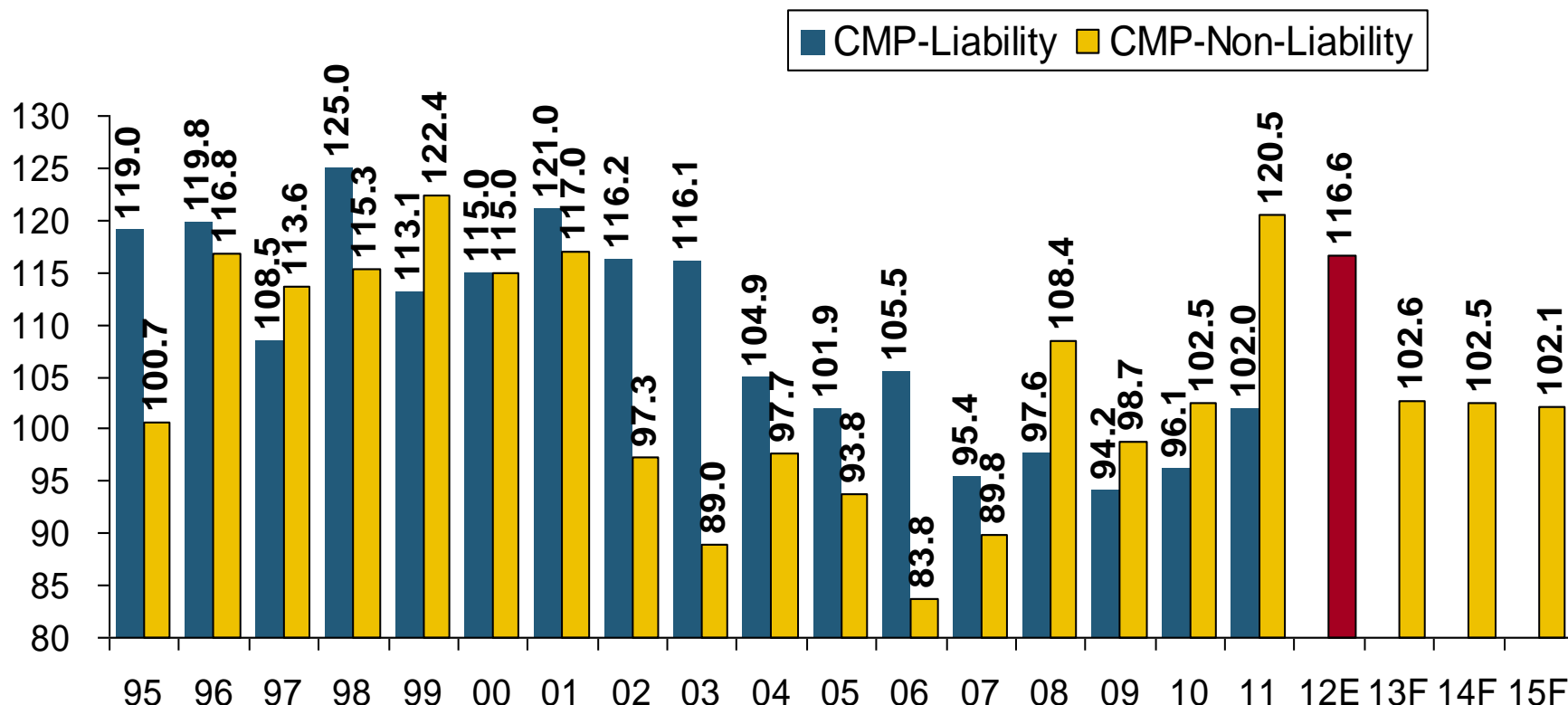
Source: A.M. Best (1990-2011); Conning (2012-2015F) Insurance Information Institute

Commercial Auto Combined Ratio: 1993–2015F



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

Commercial Multi-Peril Combined Ratio: 1995–2015F

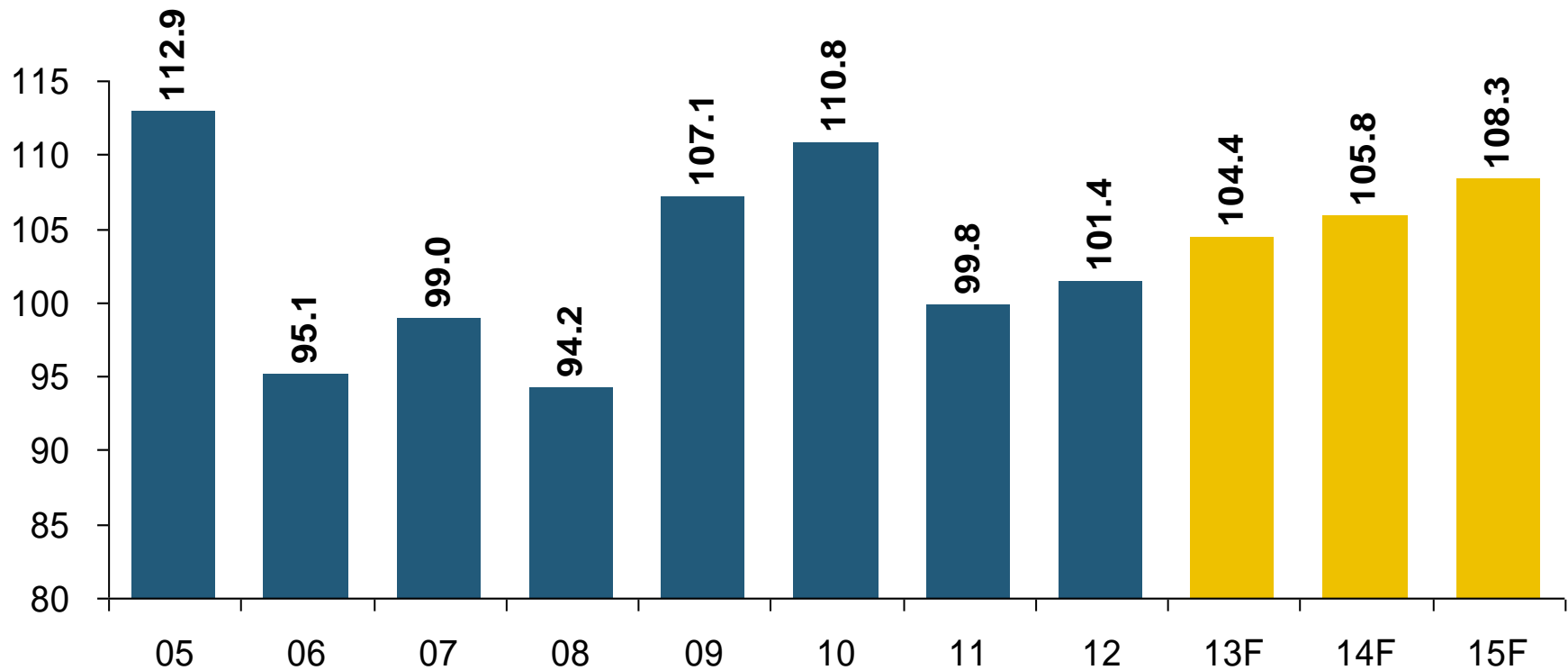


Commercial Multi-Peril Underwriting Performance is Expected to Improve in 2013 Assuming Normal Catastrophe Loss Activity

*2012-2013 figures are A.M. Best estimate/forecast for the combined liability and non-liability components. Same for Conning 2014-2015F figures.

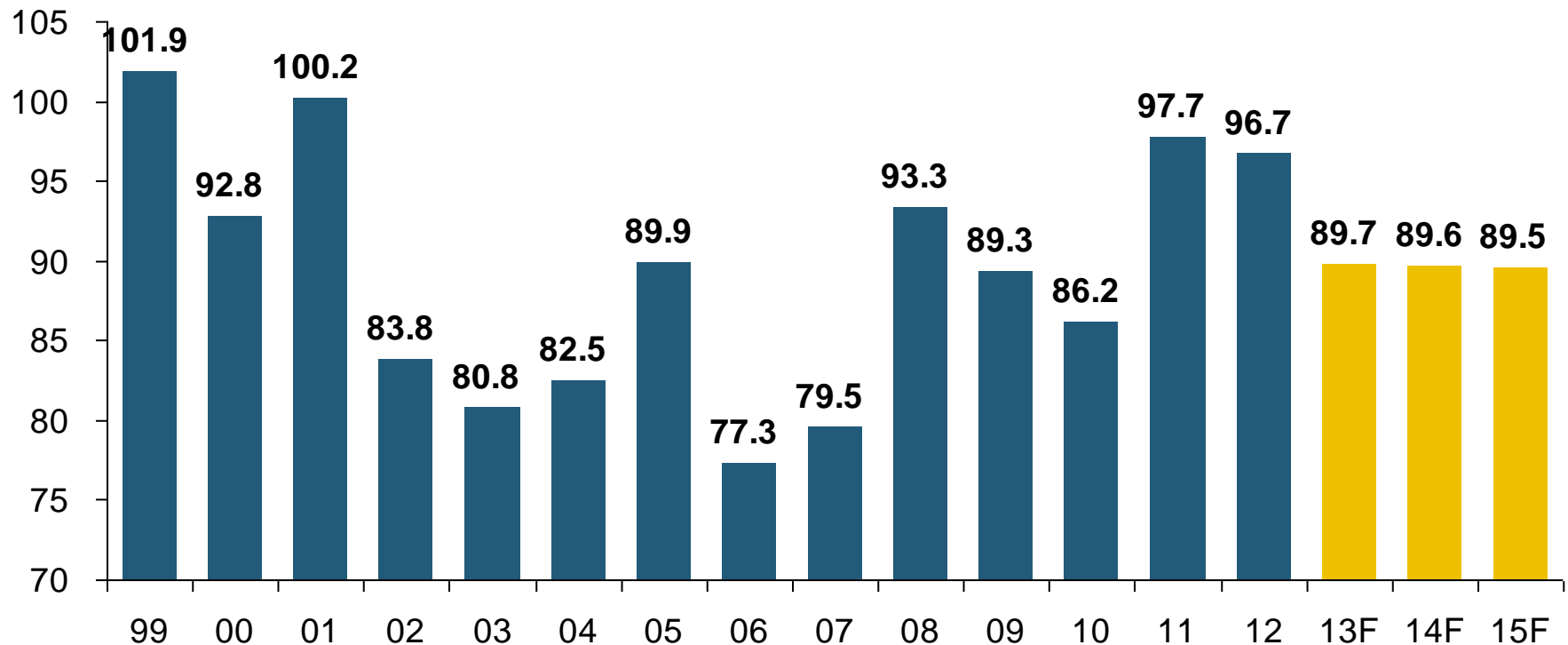
Sources: A.M. Best; Conning; Insurance Information Institute.

General Liability Combined Ratio: 2005–2015F



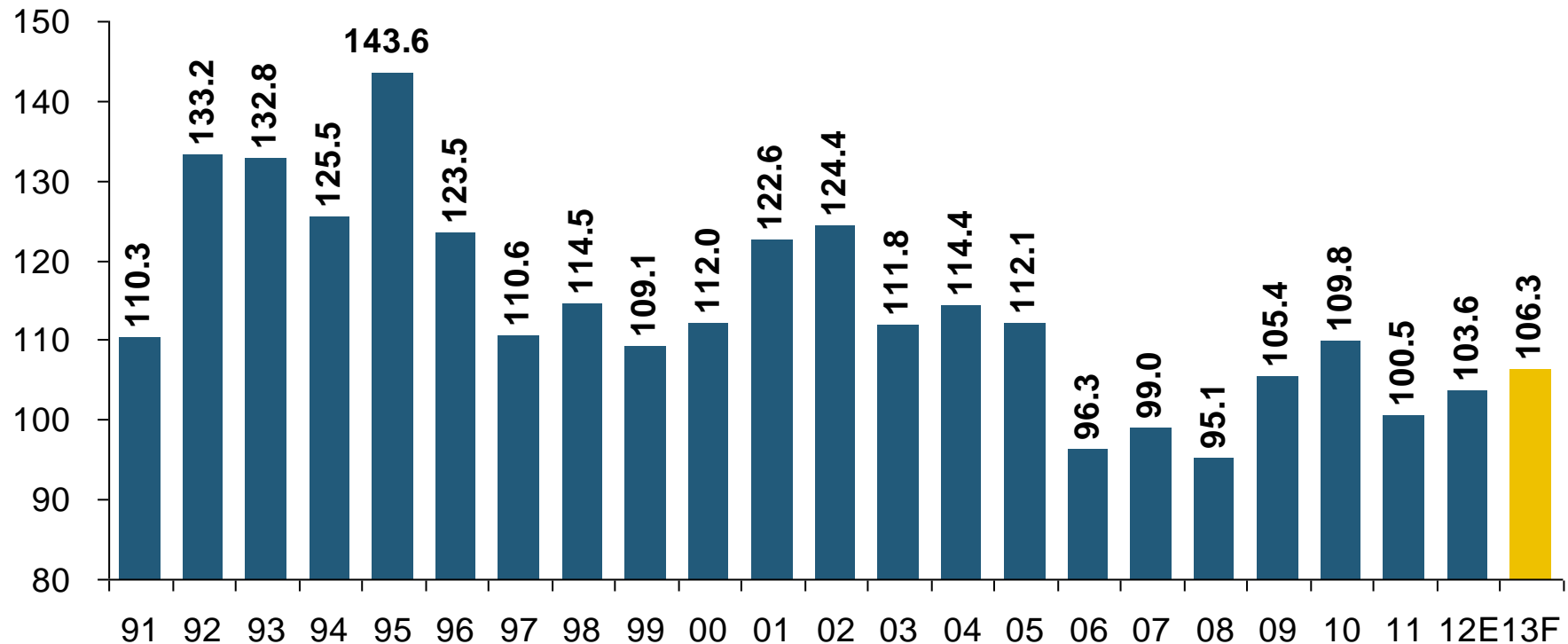
**Commercial General Liability Underwriting
Performance Has Been Volatile in Recent Years**

Inland Marine Combined Ratio: 1999–2015F



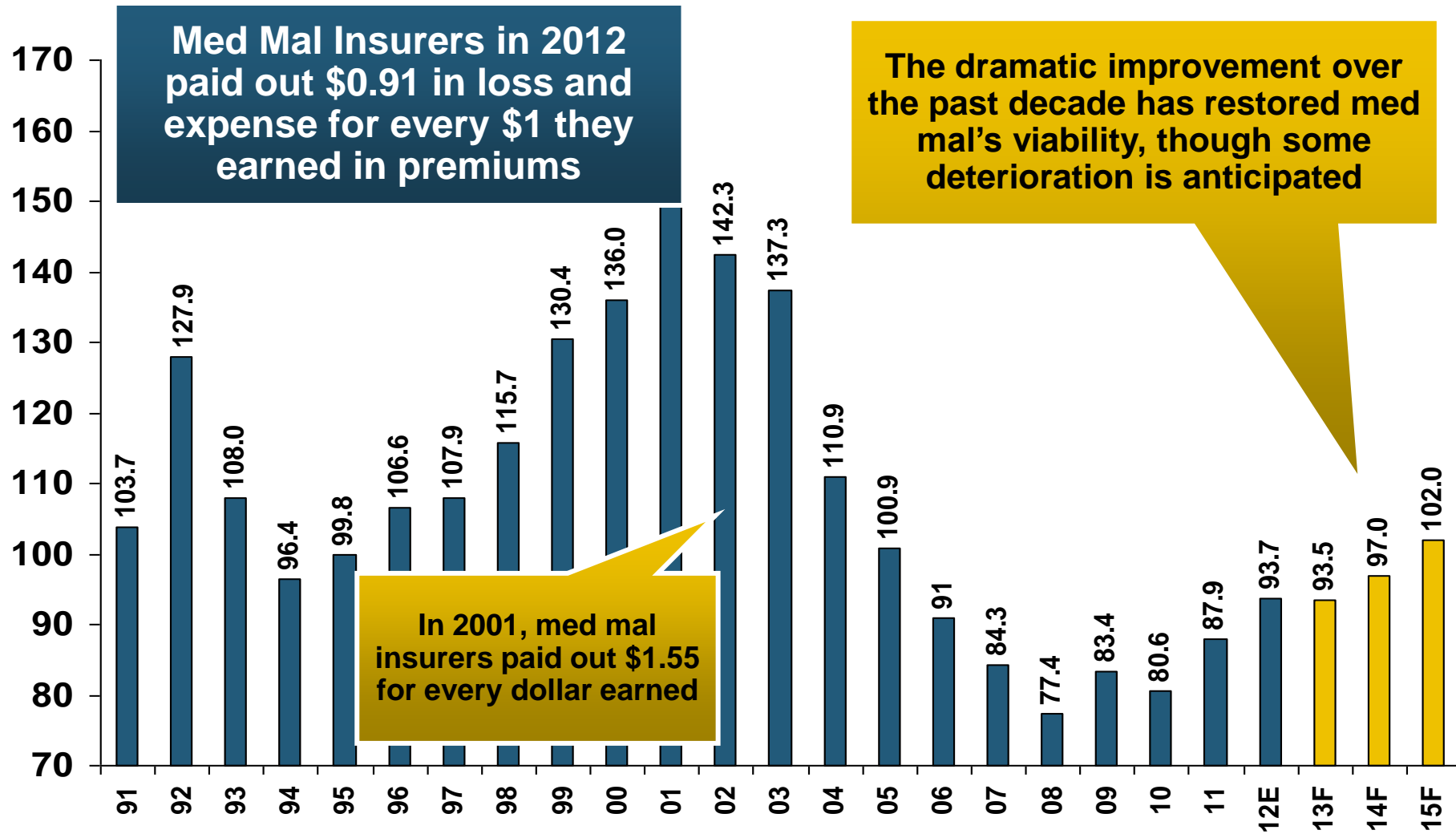
Inland Marine is Expected to Remain Among the Most Profitable of All Lines

Other & Products Liability Combined Ratio: 1991–2013F



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

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

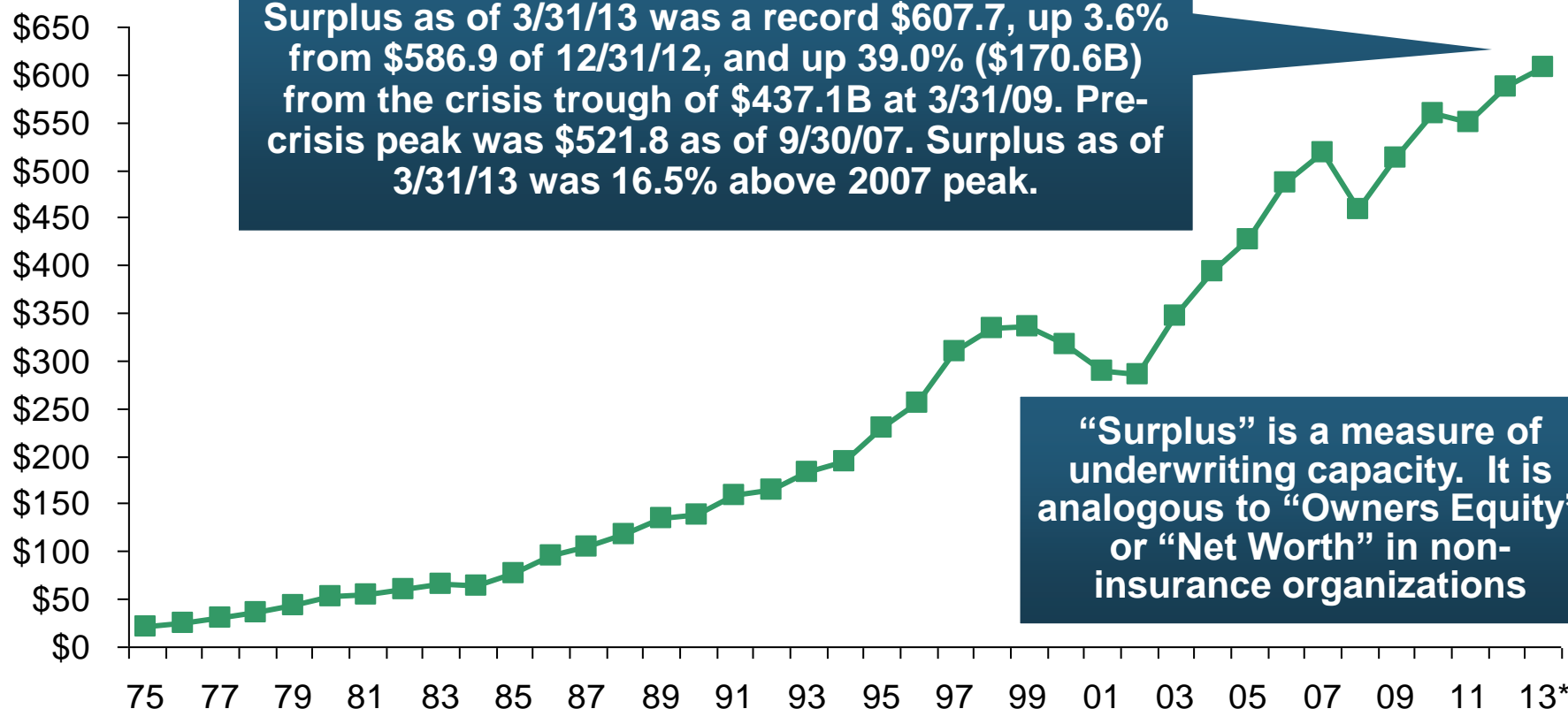


2. SURPLUS/CAPITAL/CAPACITY

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

US Policyholder Surplus: 1975–2013*

(\$ Billions)



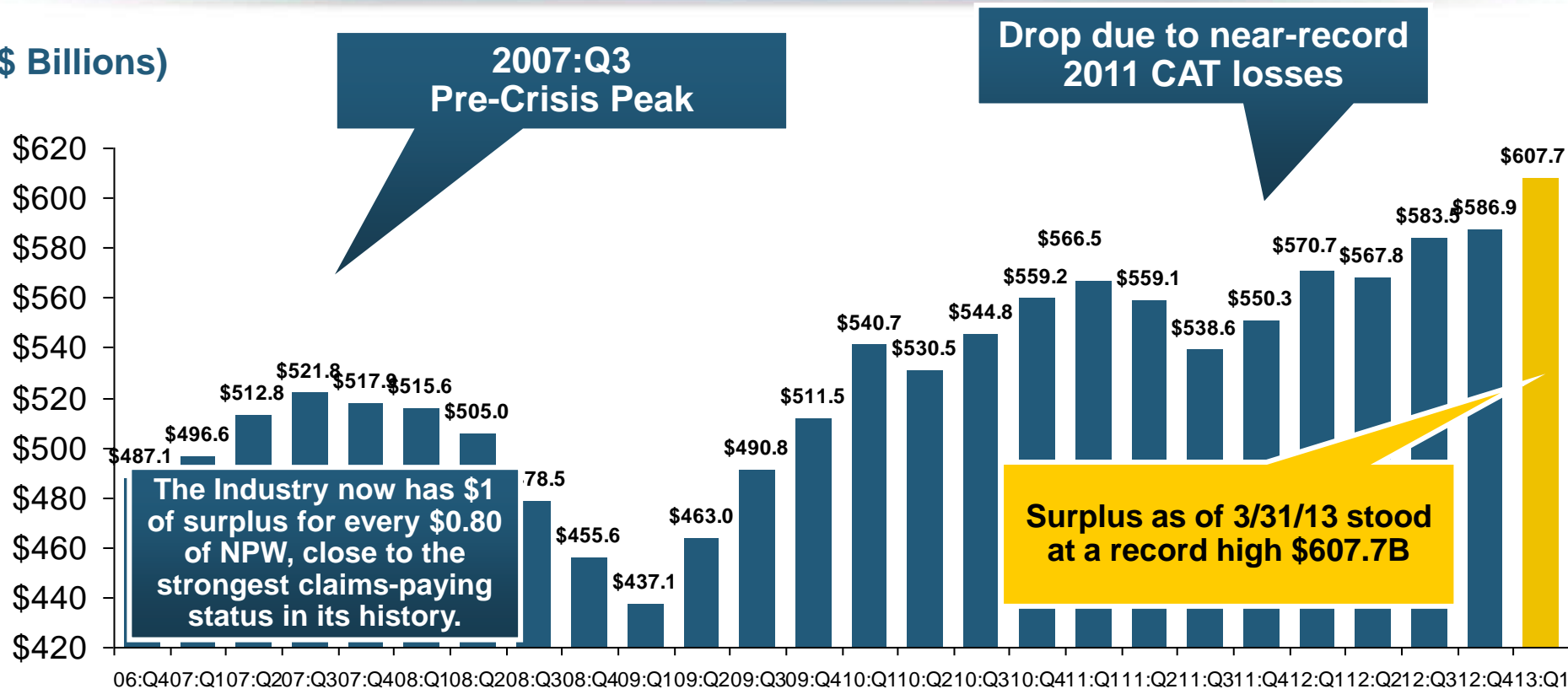
The Premium-to-Surplus Ratio Stood at \$0.77:\$1 as of 3/31/13, A Near Record Low (at Least in Recent History)*

* As of 3/31/13.

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

Policyholder Surplus, 2006:Q4–2013:Q1

(\$ Billions)

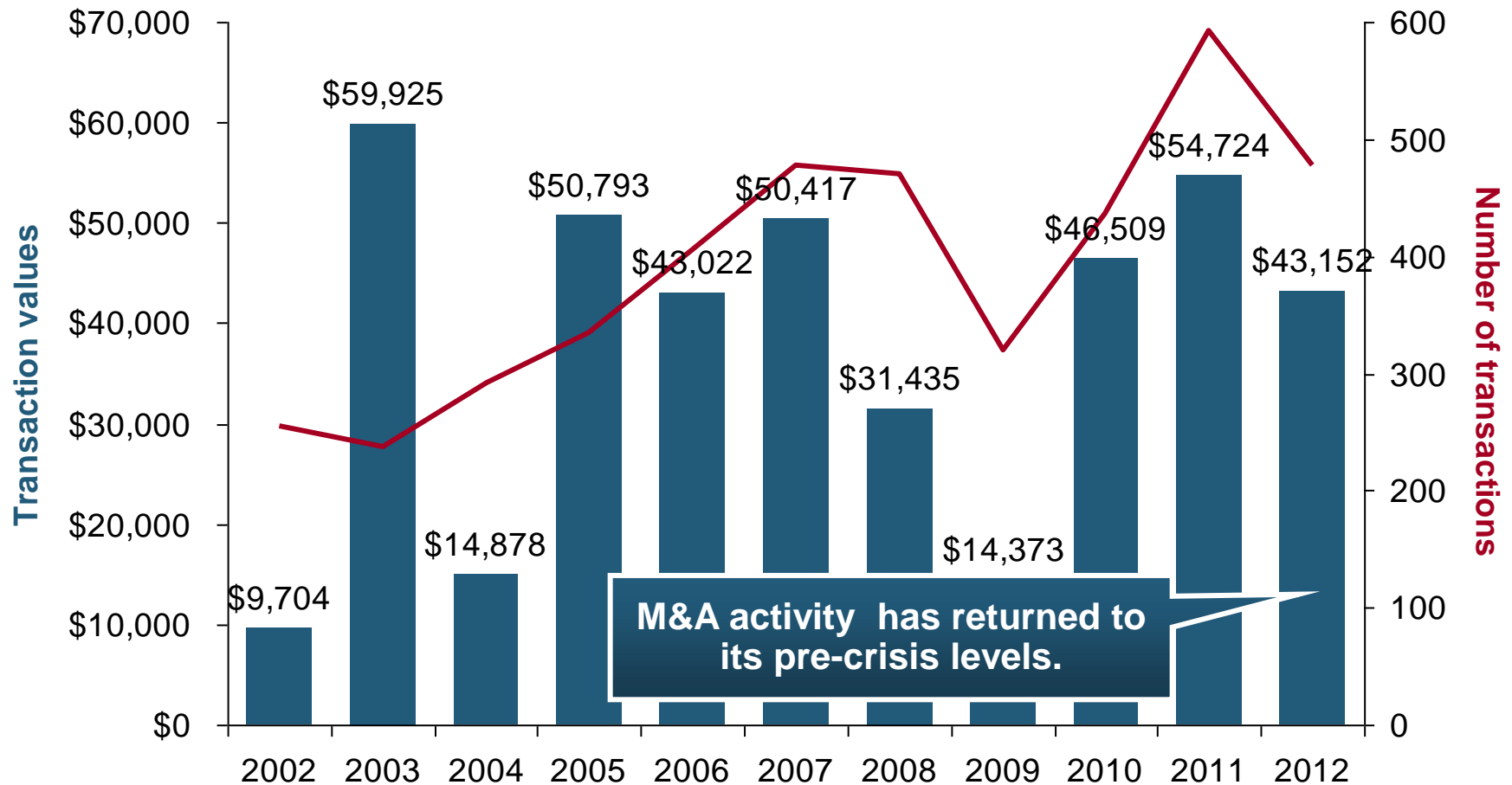


*Includes \$22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business in early 2010.

The P/C Insurance Industry Both Entered and Emerged from the 2012 Hurricane Season Very Strong Financially.

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

(\$ Millions)



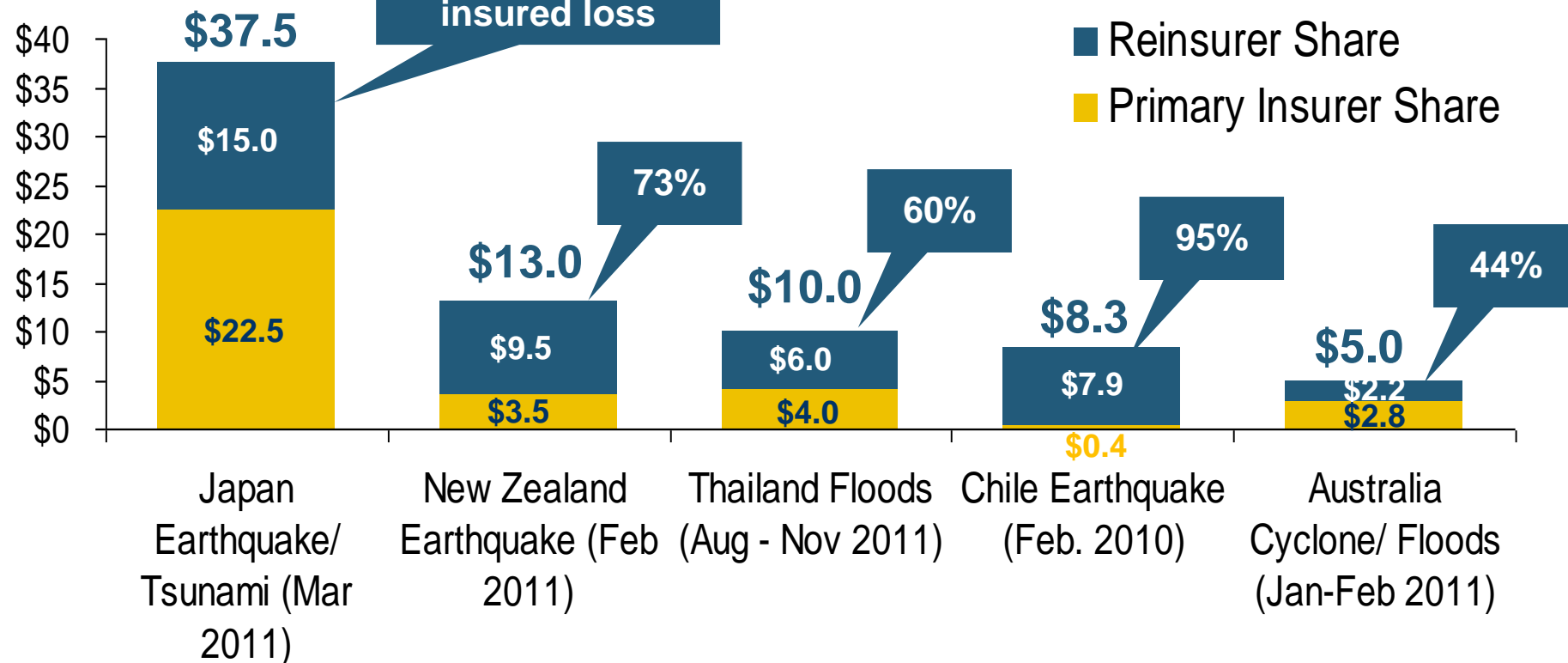
(1) Includes transactions where a U.S. company was the acquirer and/or the target.

3. REINSURANCE MARKET CONDITIONS

**Ample Capacity Despite
Heavy Global
Catastrophe Activity in
Recent Years**

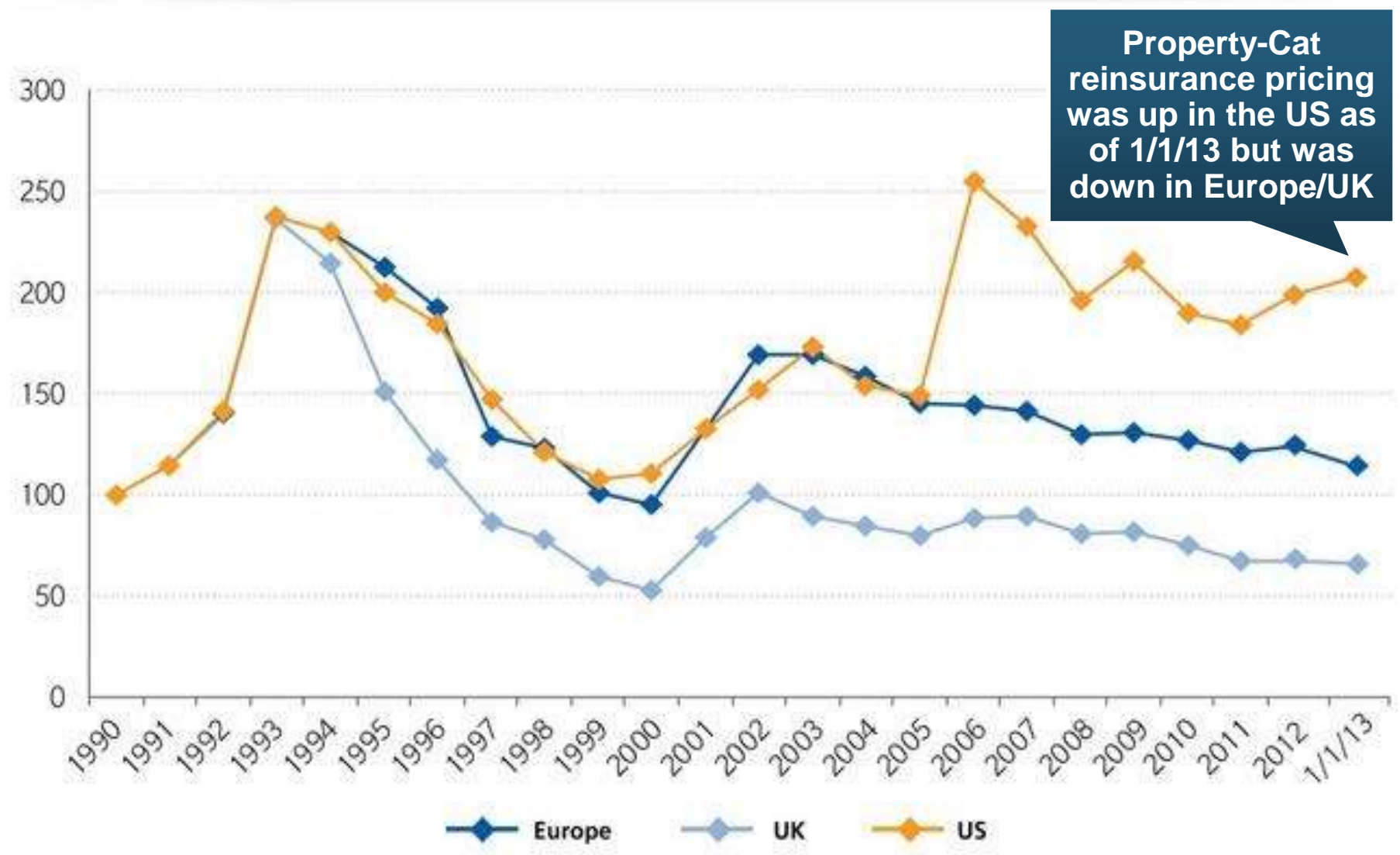
Reinsurer Share of Recent Significant Market Losses

Billions of 2011
Dollars



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

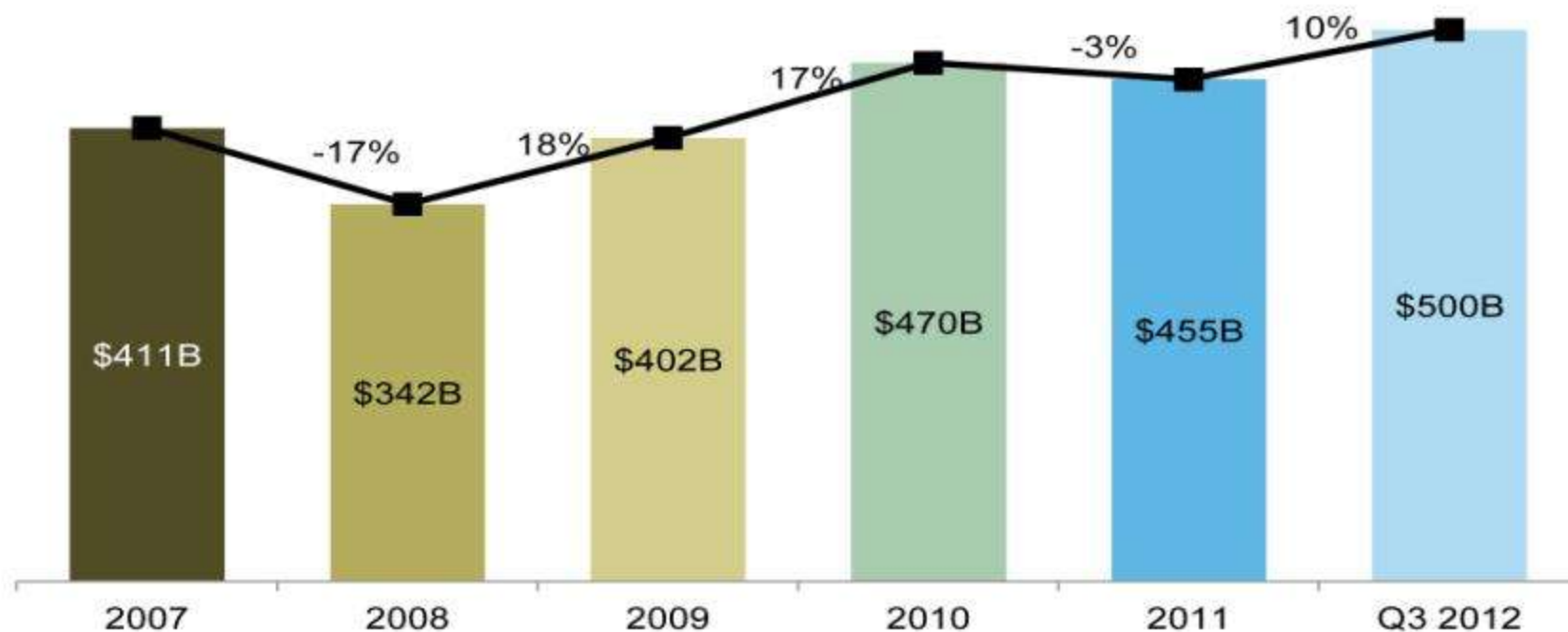
Regional Property Catastrophe Rate on Line Index, 1990—2013 (as of January 1)



Sources: Guy Carpenter; Insurance Information Institute.

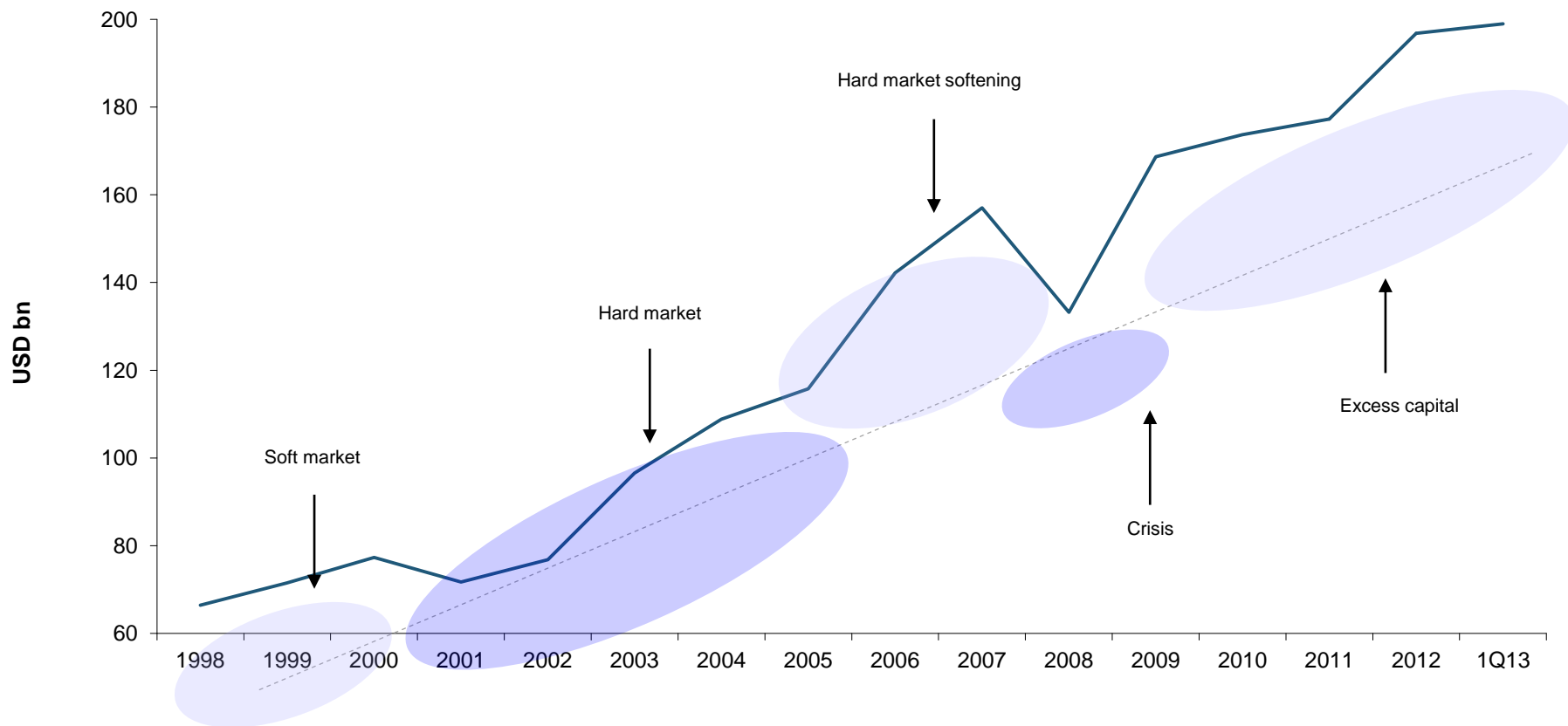
Reinsurance Capital Is at a Record High

Change in Global Reinsurer Capital



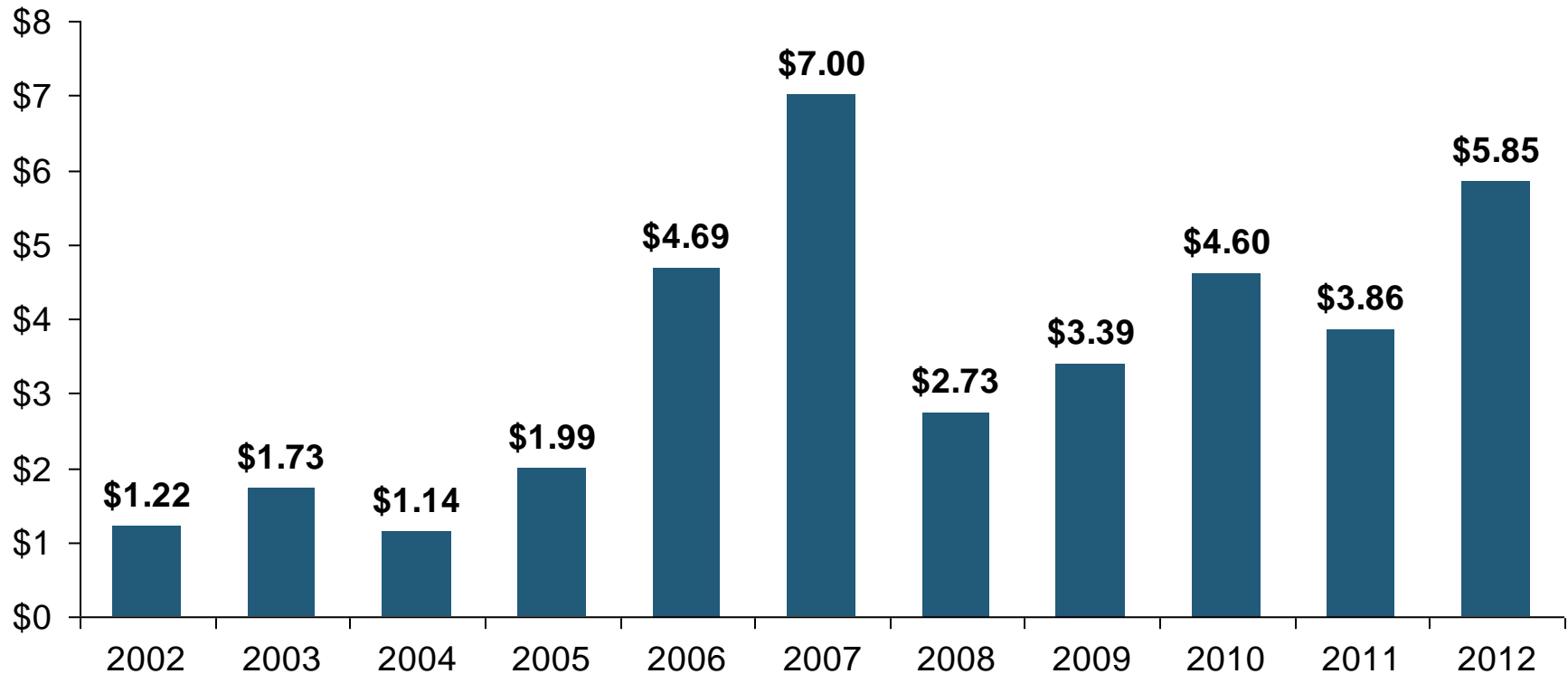
Source: Individual company reports, Aon Benfield Analytics

Long-Term Evolution of Shareholders' Funds for the Guy Carpenter Global Reinsurance Composite



CATASTROPHE BONDS, ANNUAL RISK CAPITAL ISSUED, 2002-2012

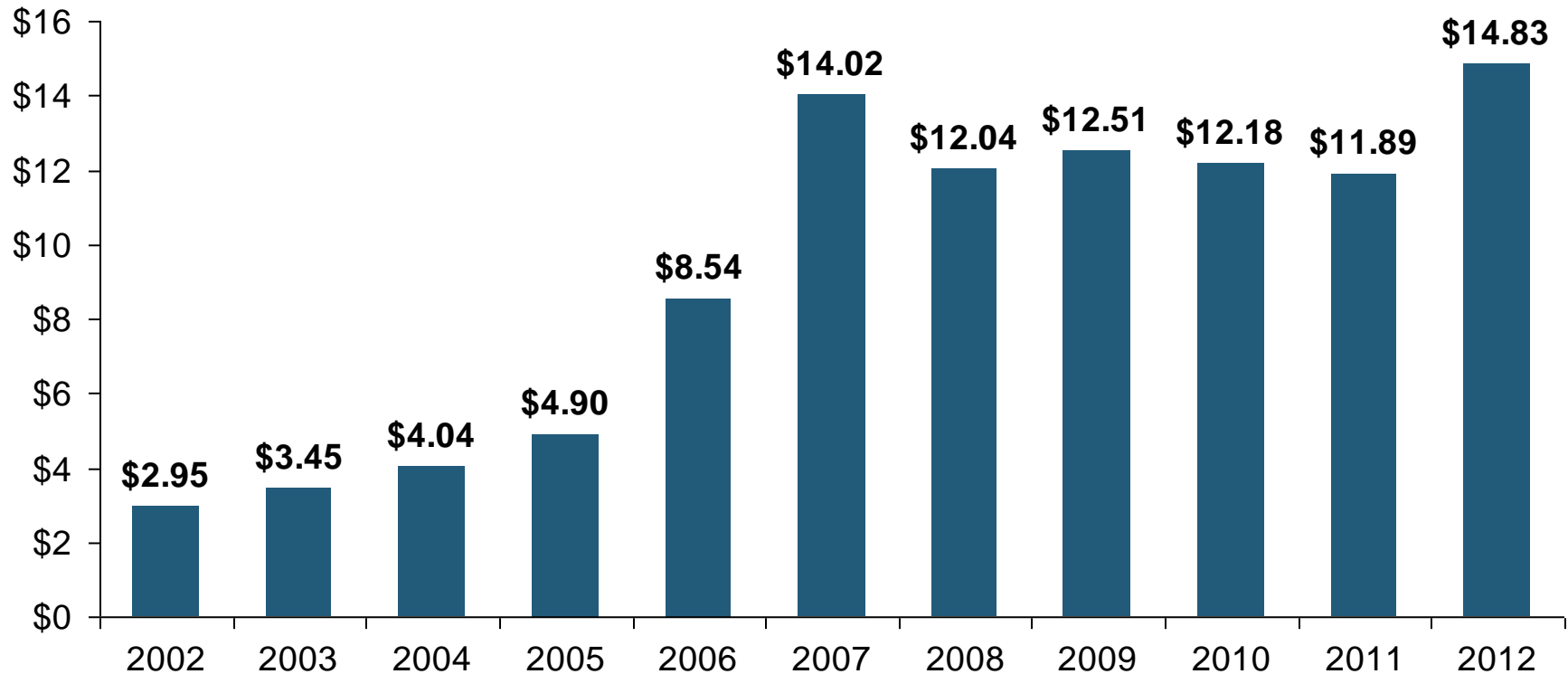
(\$ Billions)



Note

CATASTROPHE BONDS, RISK CAPITAL OUTSTANDING, 2002-2012

(\$ Billions)



Note

4. RENEWED PRICING DISCIPLINE

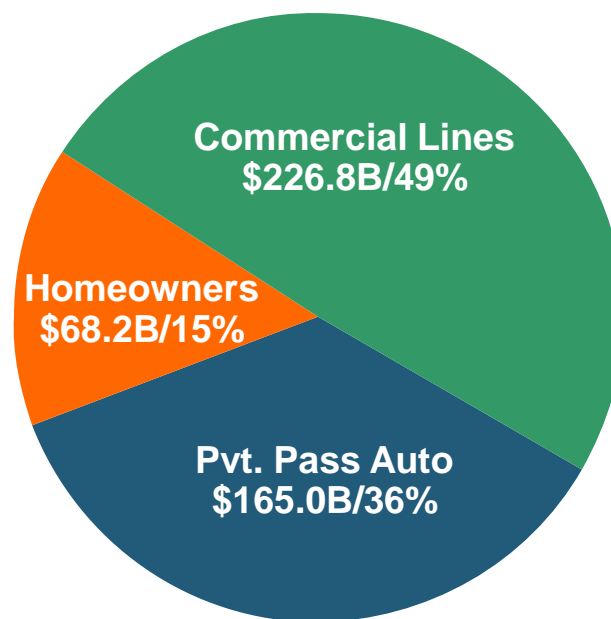
**Evidence of a Broad and
Sustained Shift in Pricing**

Distribution of Direct Premiums Written by Segment/Line, 2010

Distribution Facts

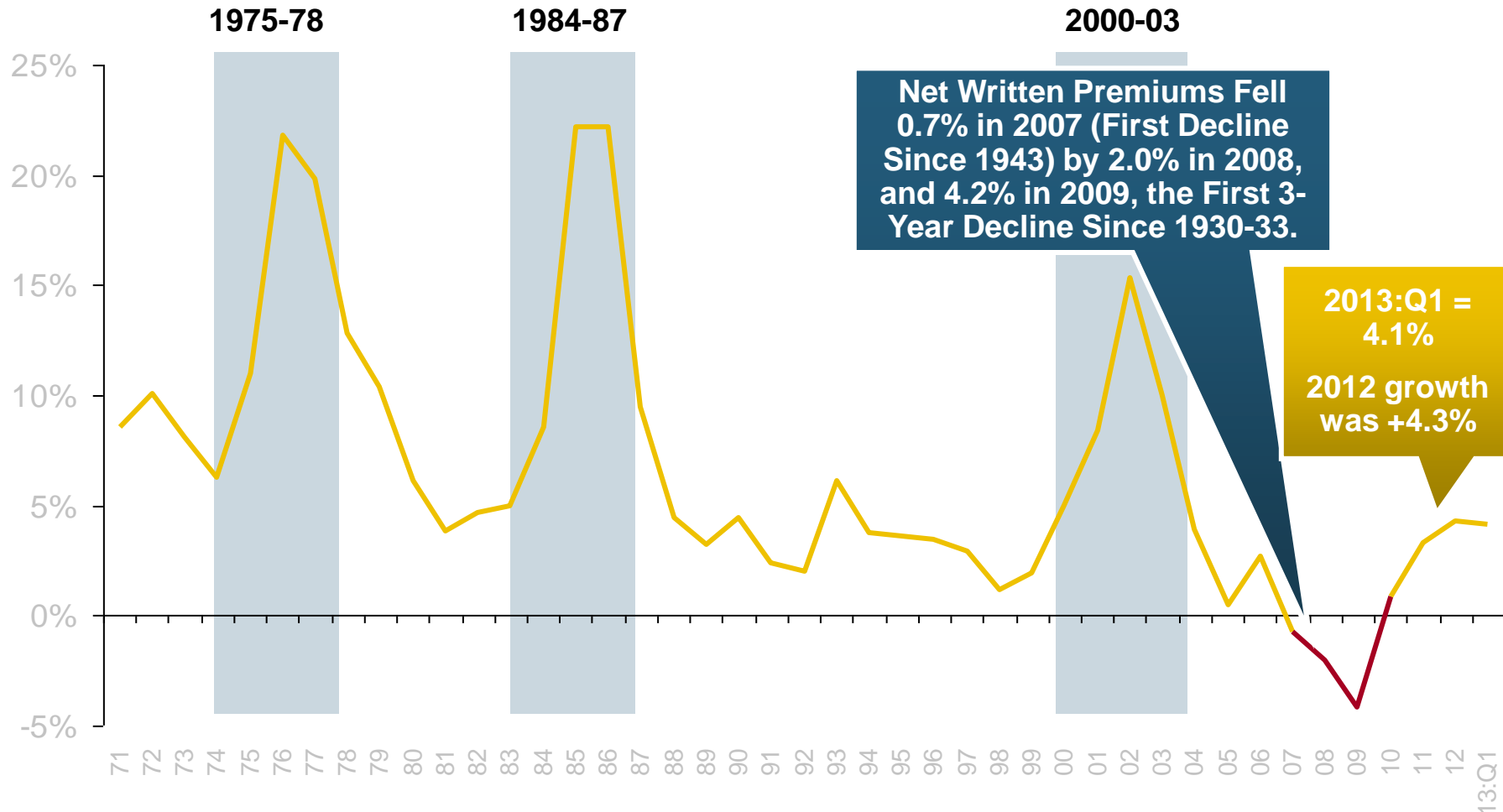
- Personal/Commercial lines split has been about 50/50 for many years; Personal Lines overtook Commercial Lines in 2010
- Pvt. Passenger Auto is by far the largest line of insurance and is currently the most important source of industry profits
- Billions of additional dollars in homeowners insurance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

2010



Net Premium Growth: Annual Change, 1971—2013:Q1

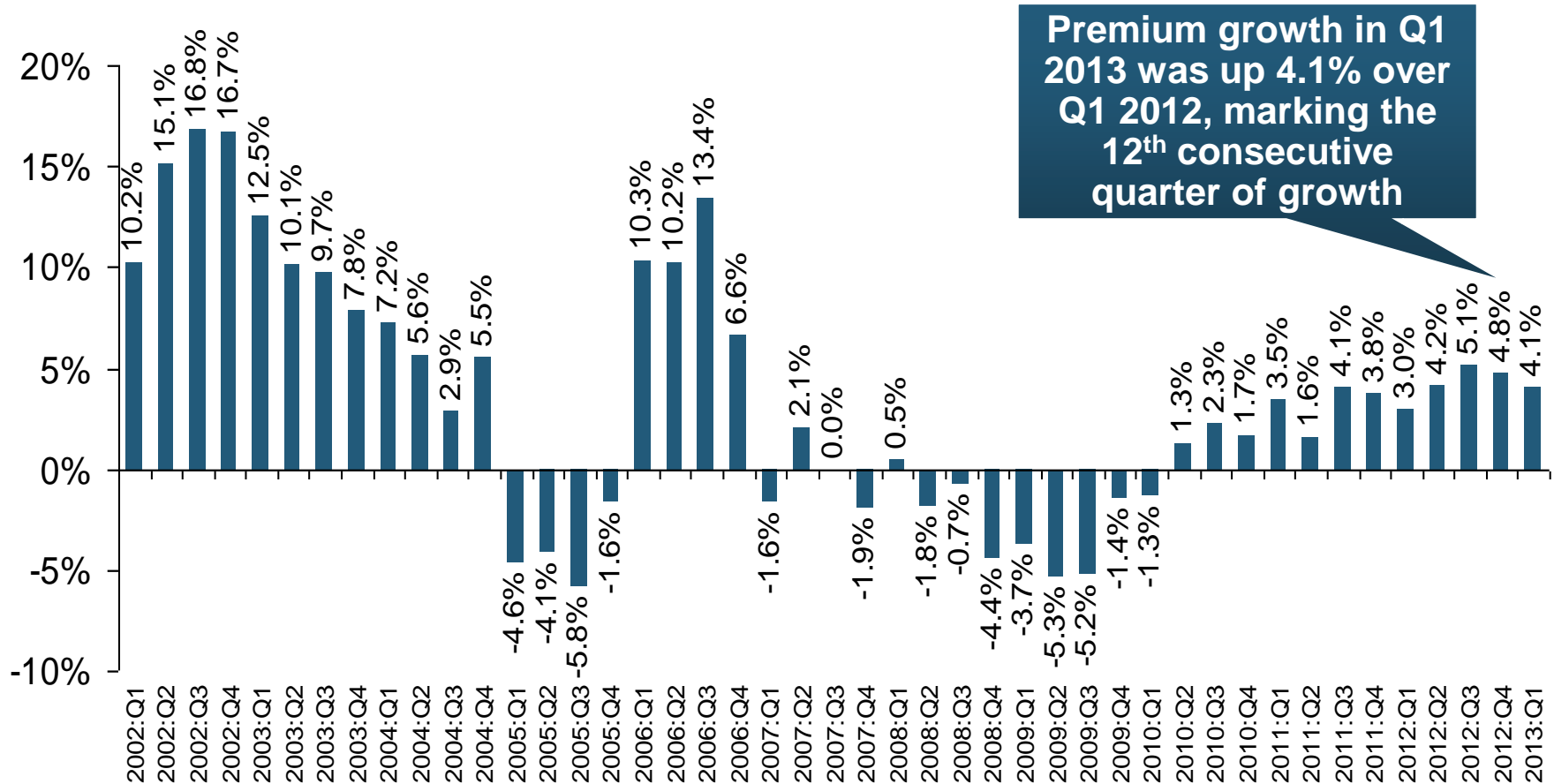
(Percent)



Shaded areas denote "hard market" periods

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

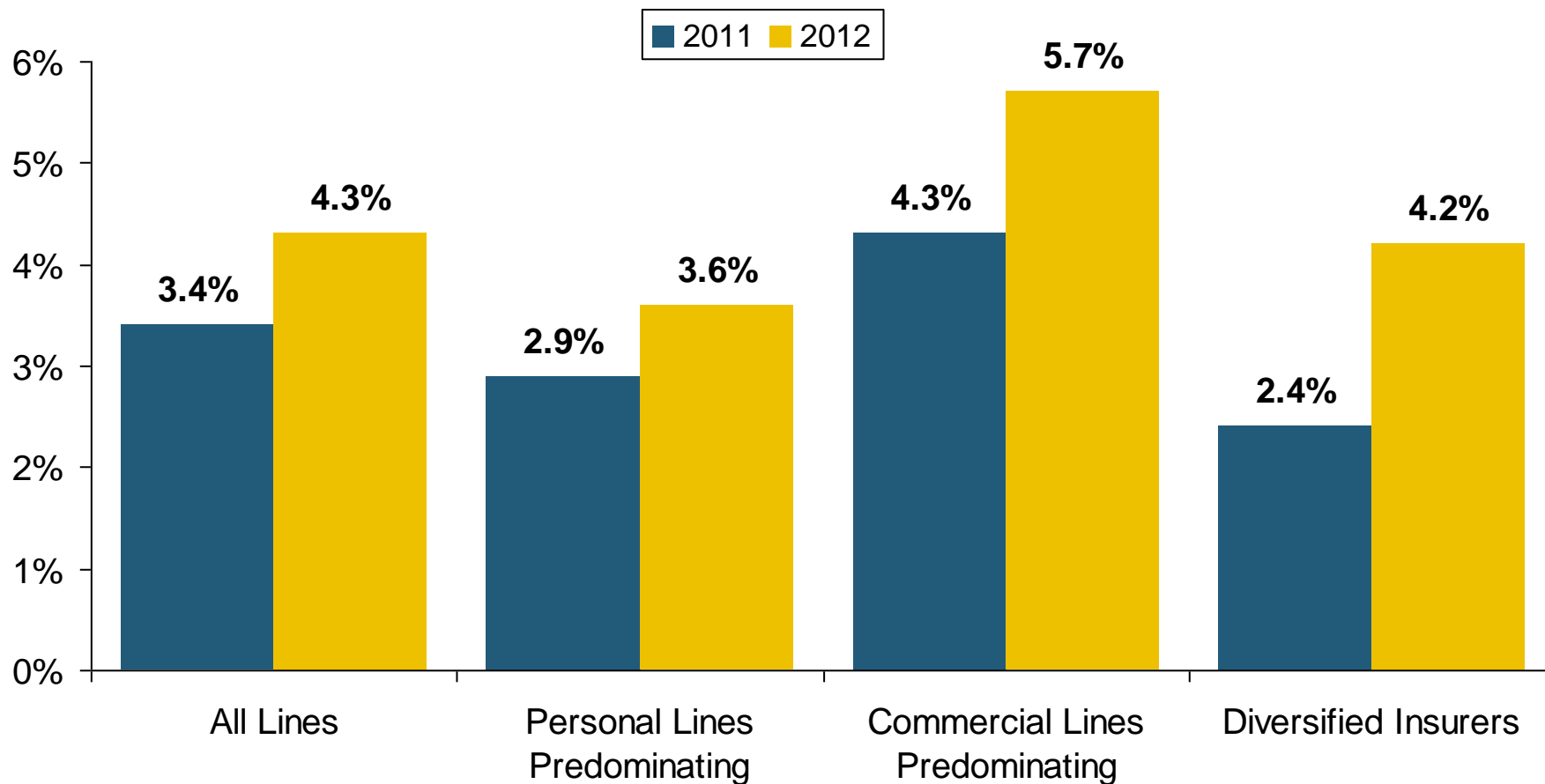
P/C Net Premiums Written: % Change, Quarter vs. Year-Prior Quarter



**Sustained Growth in Written Premiums
(vs. the same quarter, prior year) Will Continue through 2013**

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

(Percent)

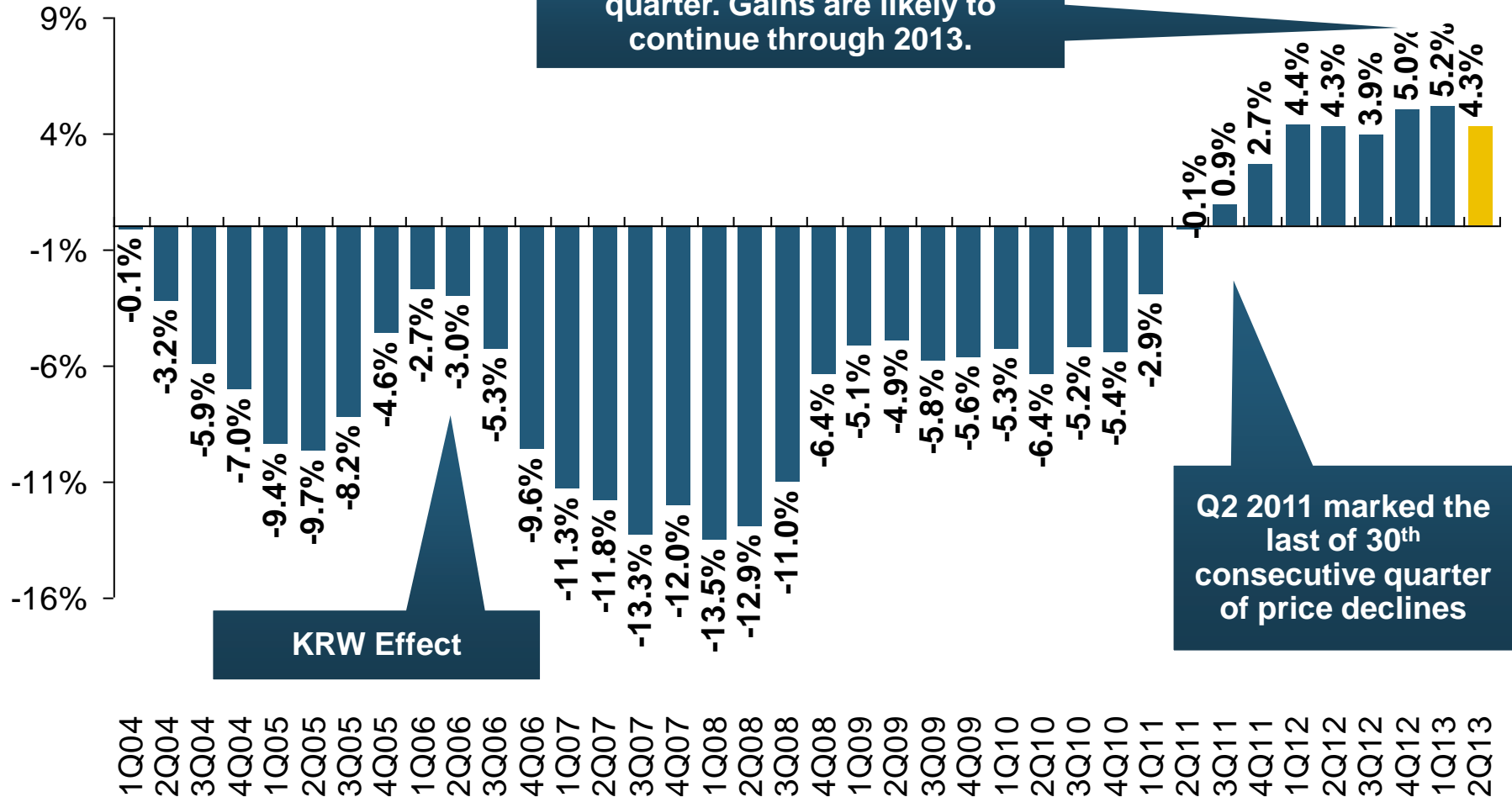


*Excludes mortgage and financial guaranty insurers.

Source: ISO/PCI; Insurance Information Institute

Average Commercial Rate Change, All Lines, (1Q:2004–2Q:2013)

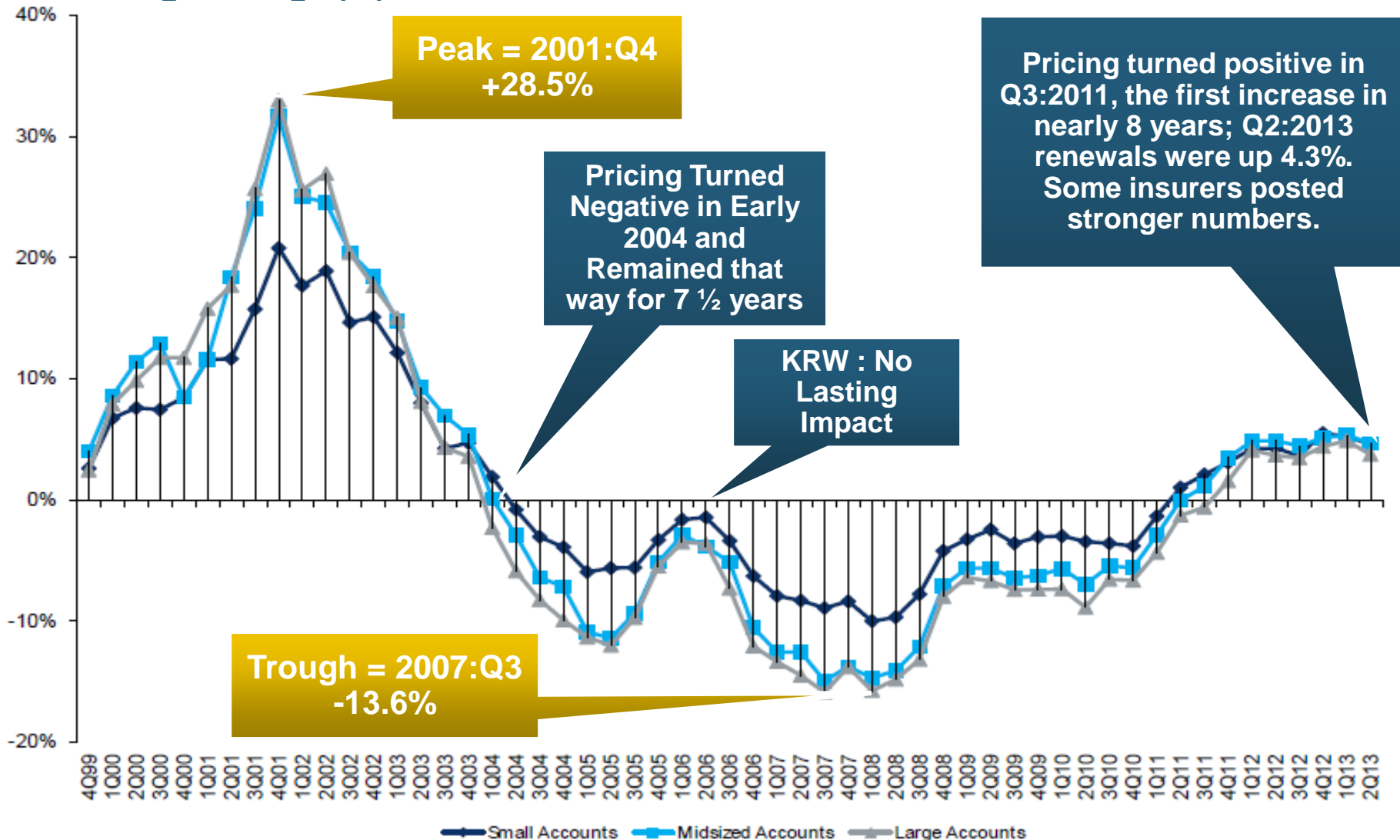
(Percent)



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

Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2013:Q2

Percentage Change (%)

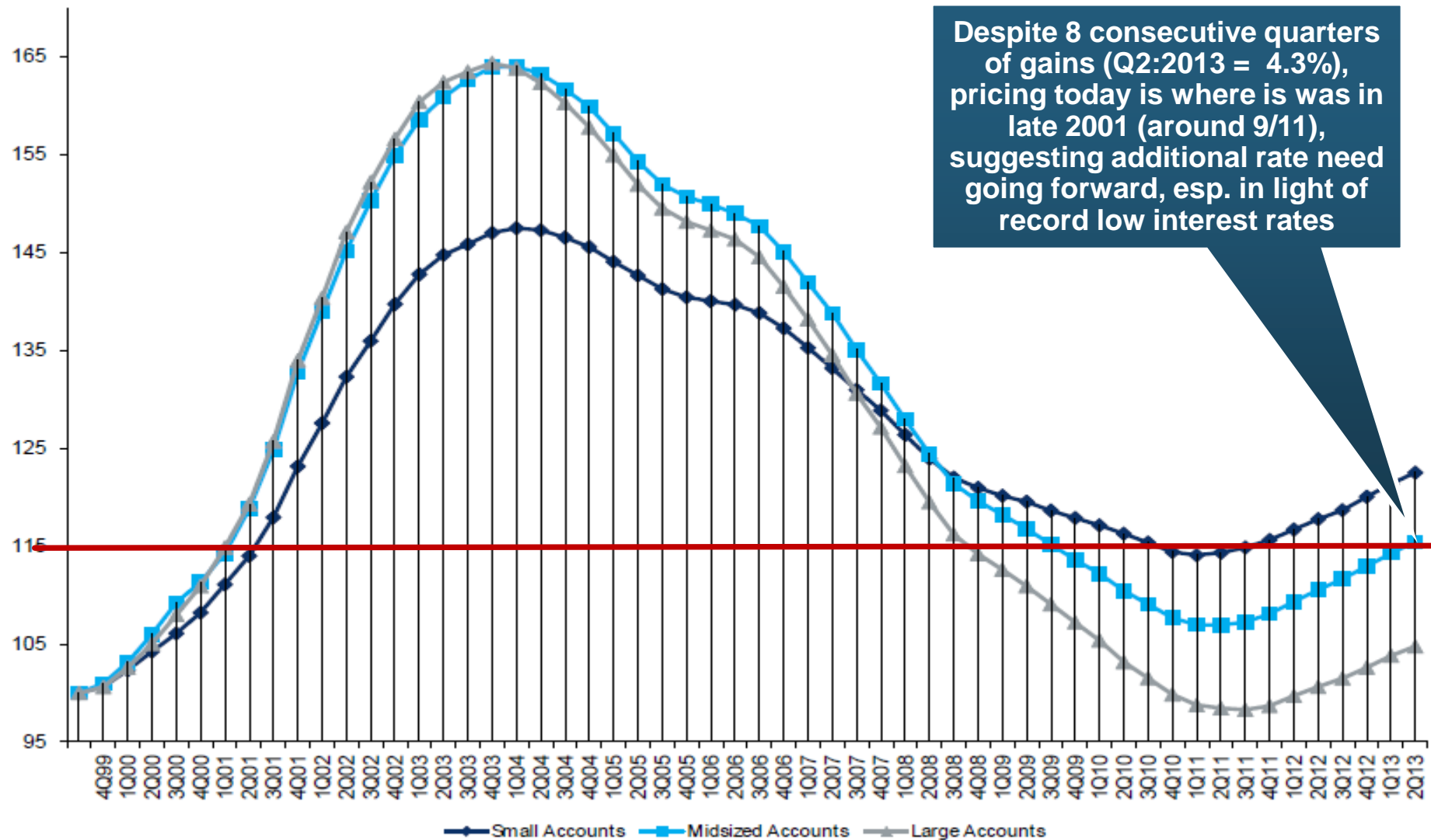


Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.

Source: Council of Insurance Agents and Brokers; Barclay's Capital; Insurance Information Institute.

Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2013:Q2

1999:Q4 = 100

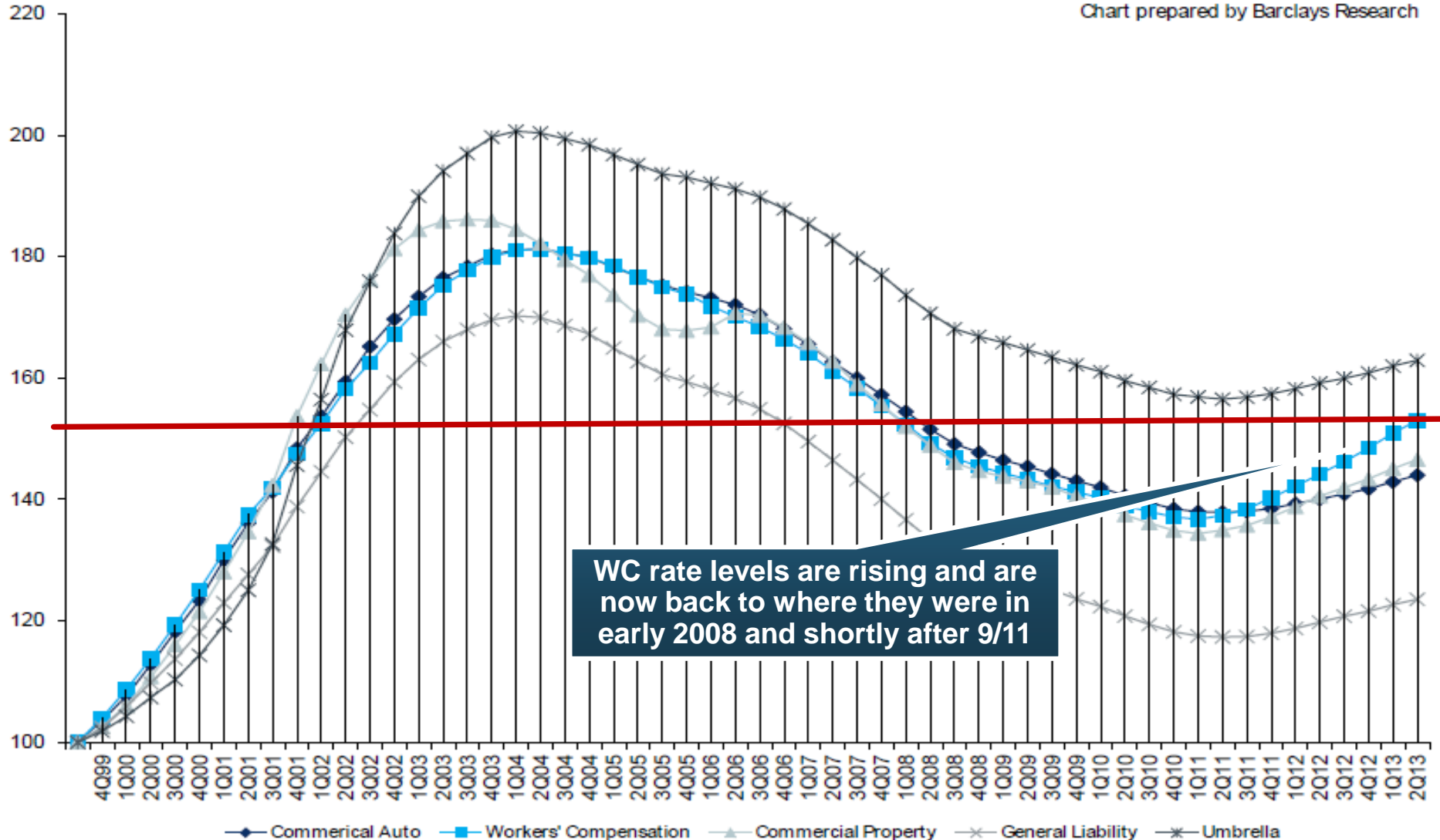


Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents and Brokers; Barclay's Capital; Insurance Information Institute.

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

1999:Q4 = 100

Chart prepared by Barclays Research

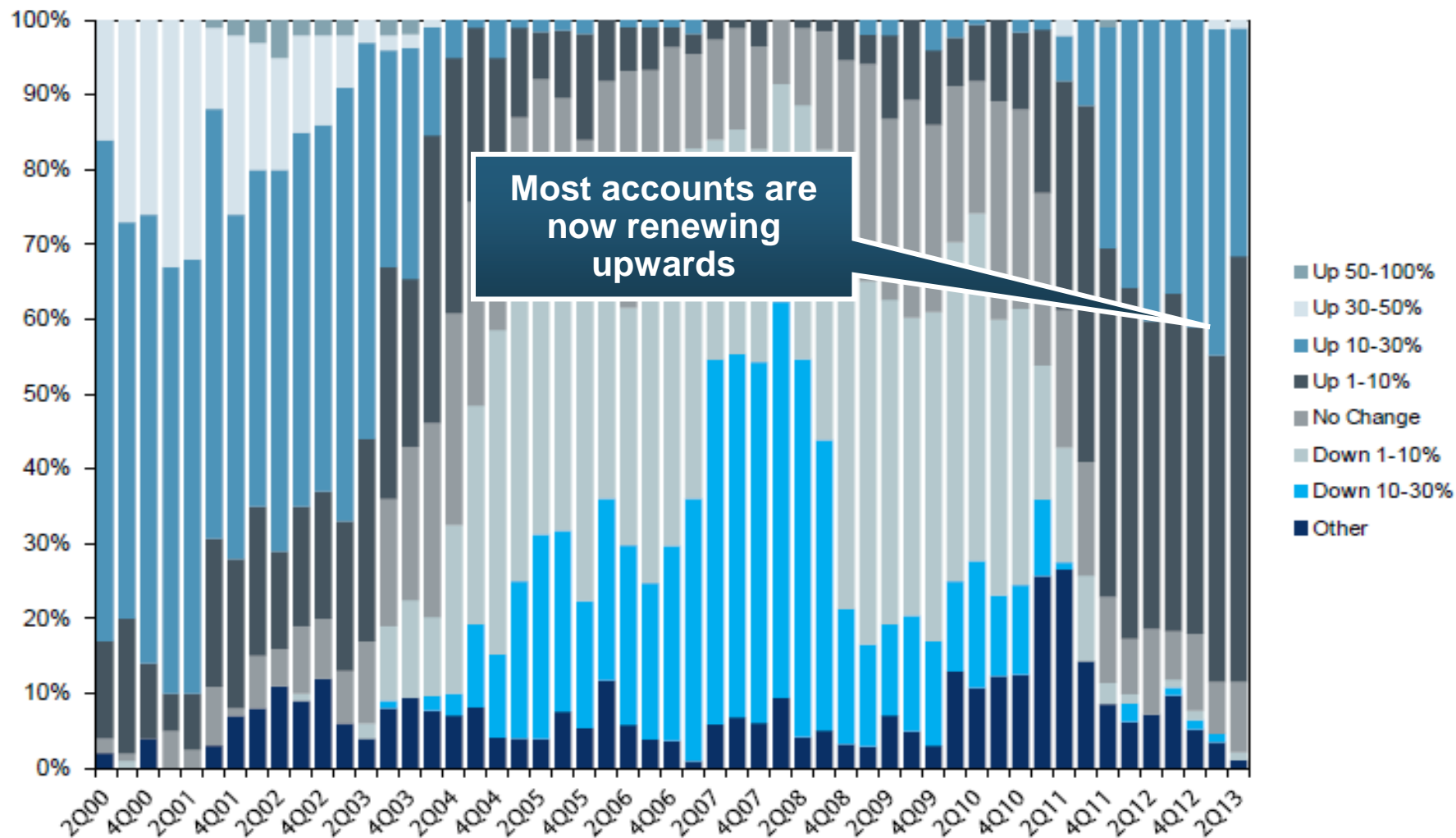


WC rate levels are rising and are now back to where they were in early 2008 and shortly after 9/11

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

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

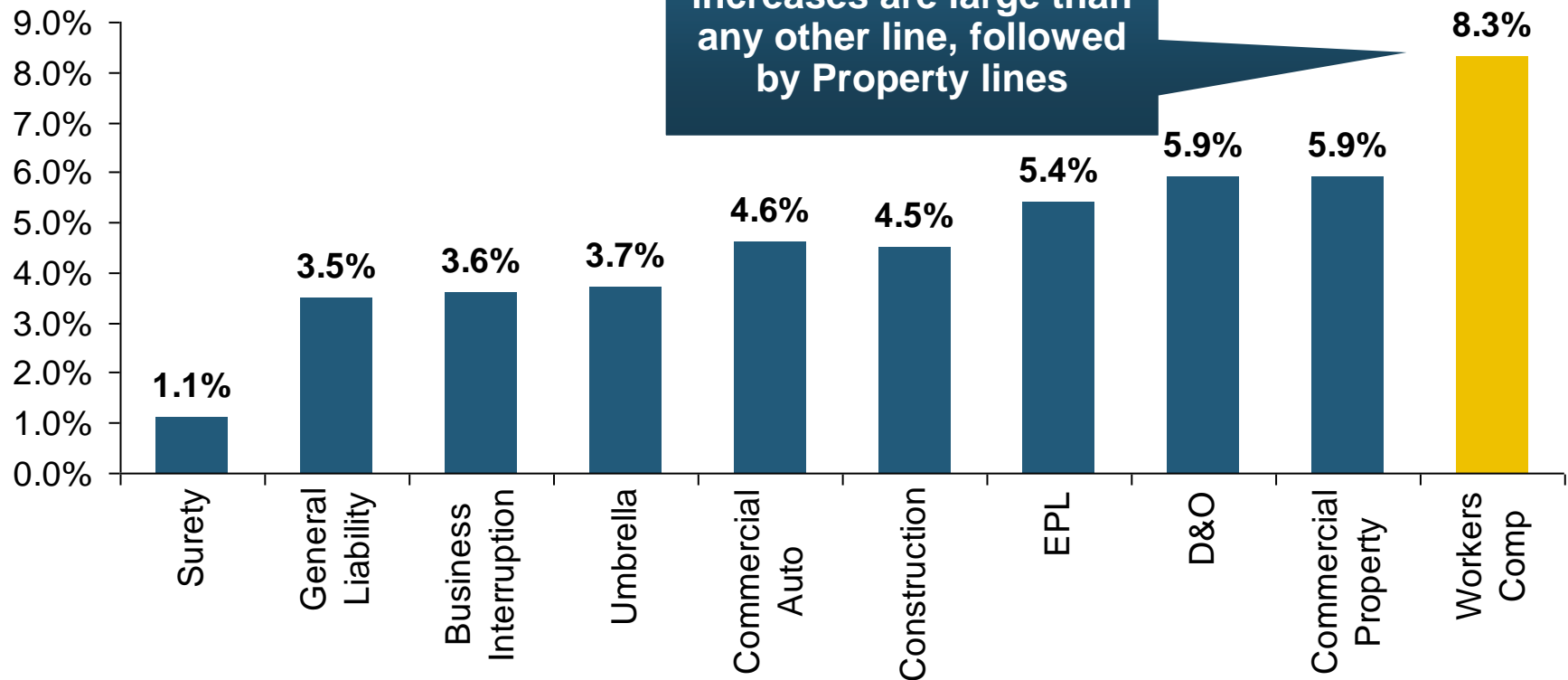
1999:Q4 = 100



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

Change in Commercial Rate Renewals, by Line: 2013:Q2

Percentage Change (%)

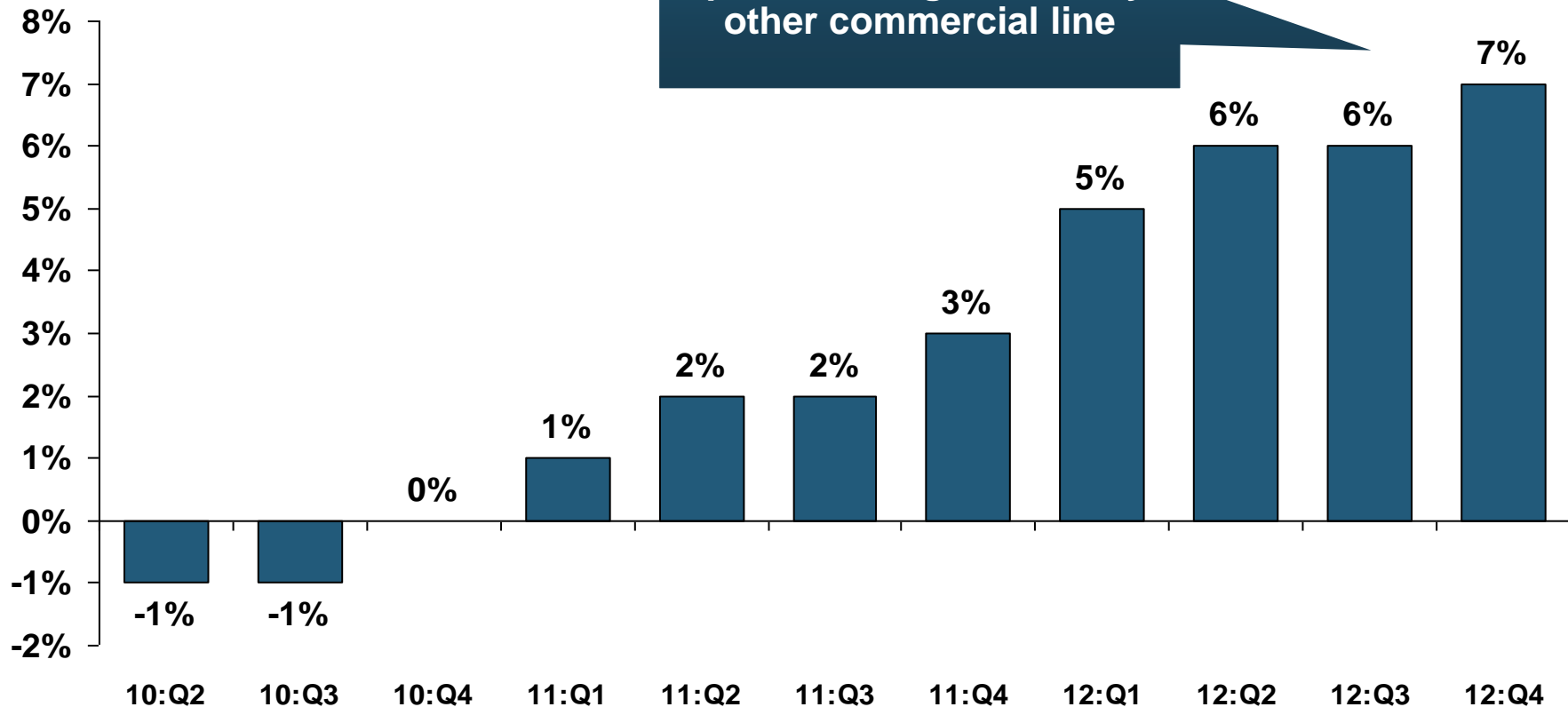


Major Commercial Lines Renewed Uniformly Upward in Q2:2013 for the 8th Consecutive Quarter; Property Lines & Workers Comp Leading the Way; Cat Losses and Low Interest Rates Provide Momentum Going Forward

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

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

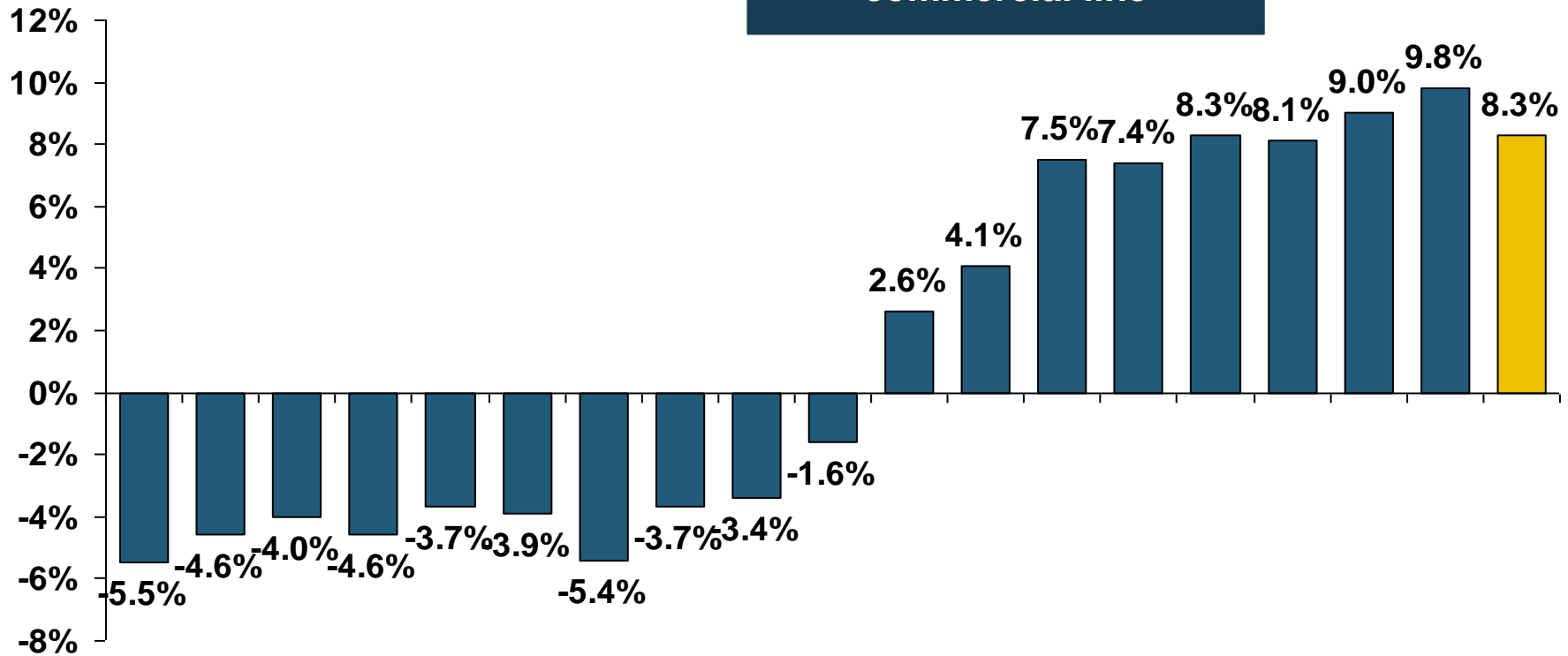
(Percent
Change)



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

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

(Percent
Change)



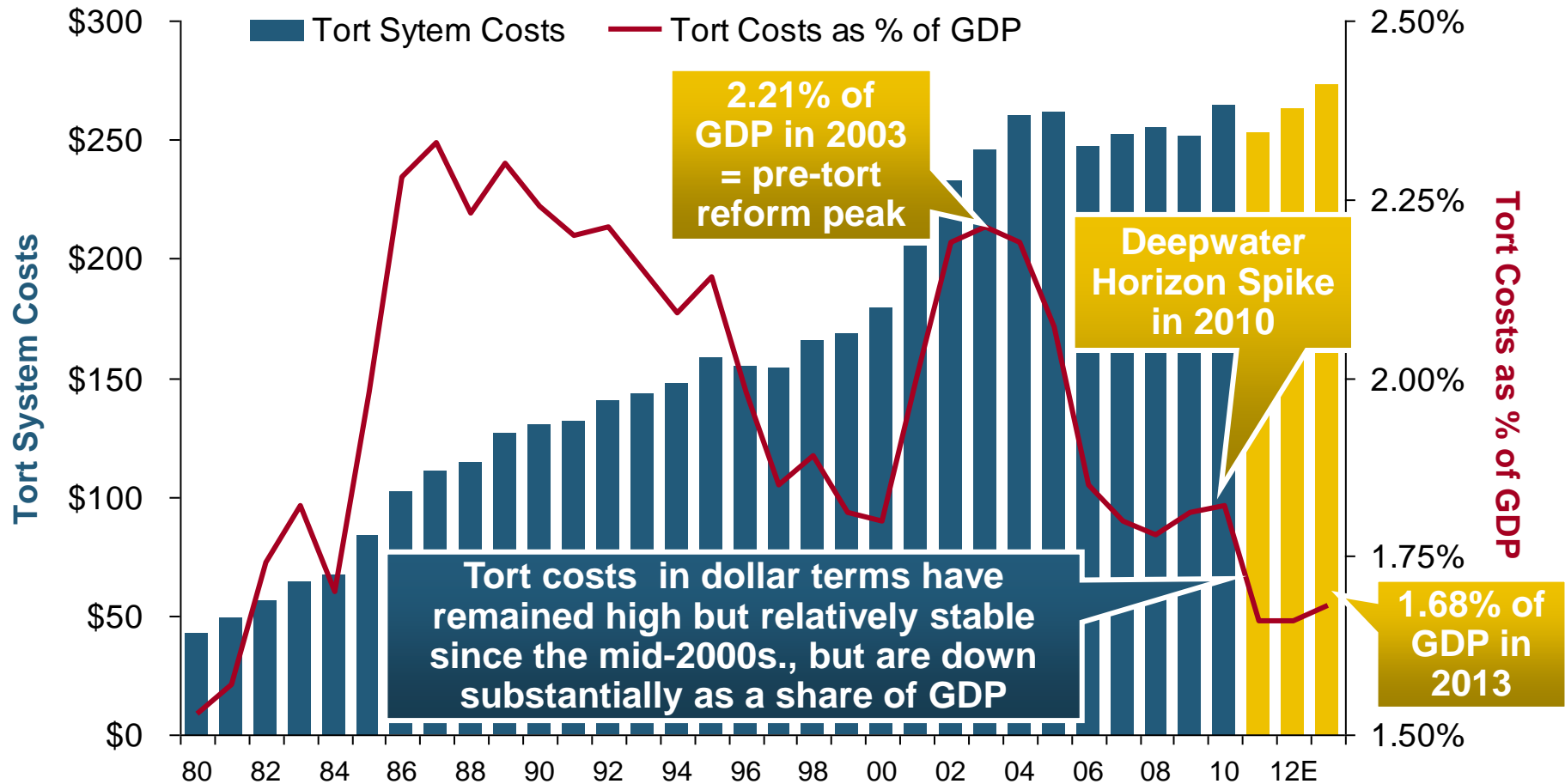
08:Q4 09:Q1 09:Q2 09:Q3 09:Q4 10:Q1 10:Q2 10:Q3 10:Q4 11:Q1 11:Q2 11:Q3 11:Q4 12:Q1 12:Q2 12:Q3 12:Q4 13:Q1 13:Q2

Shifting Legal Liability & Tort Environment

Is the Tort Pendulum Swinging Against Insurers?

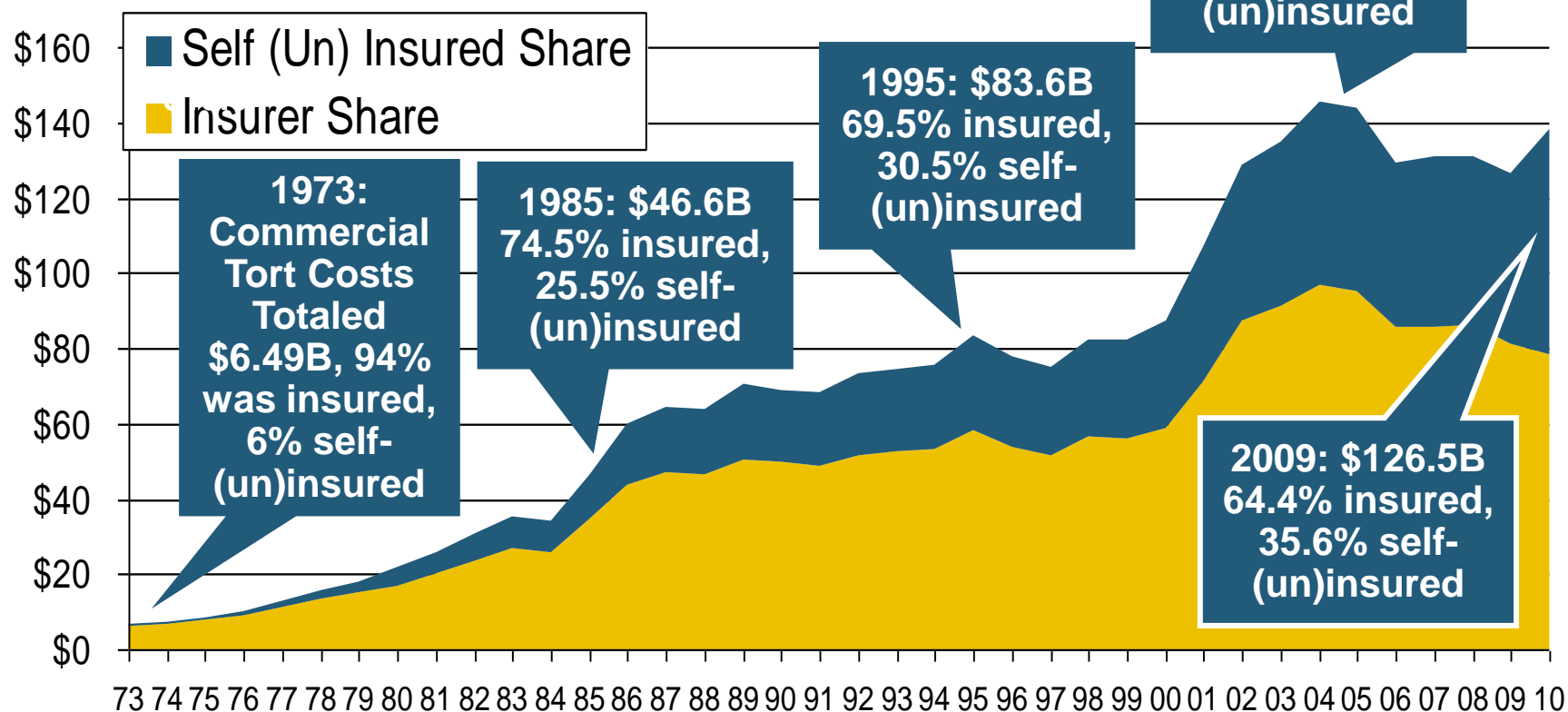
Over the Last Three Decades, Total Tort Costs as a % of GDP Appear Somewhat Cyclical, 1980-2013E

(\$ Billions)



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

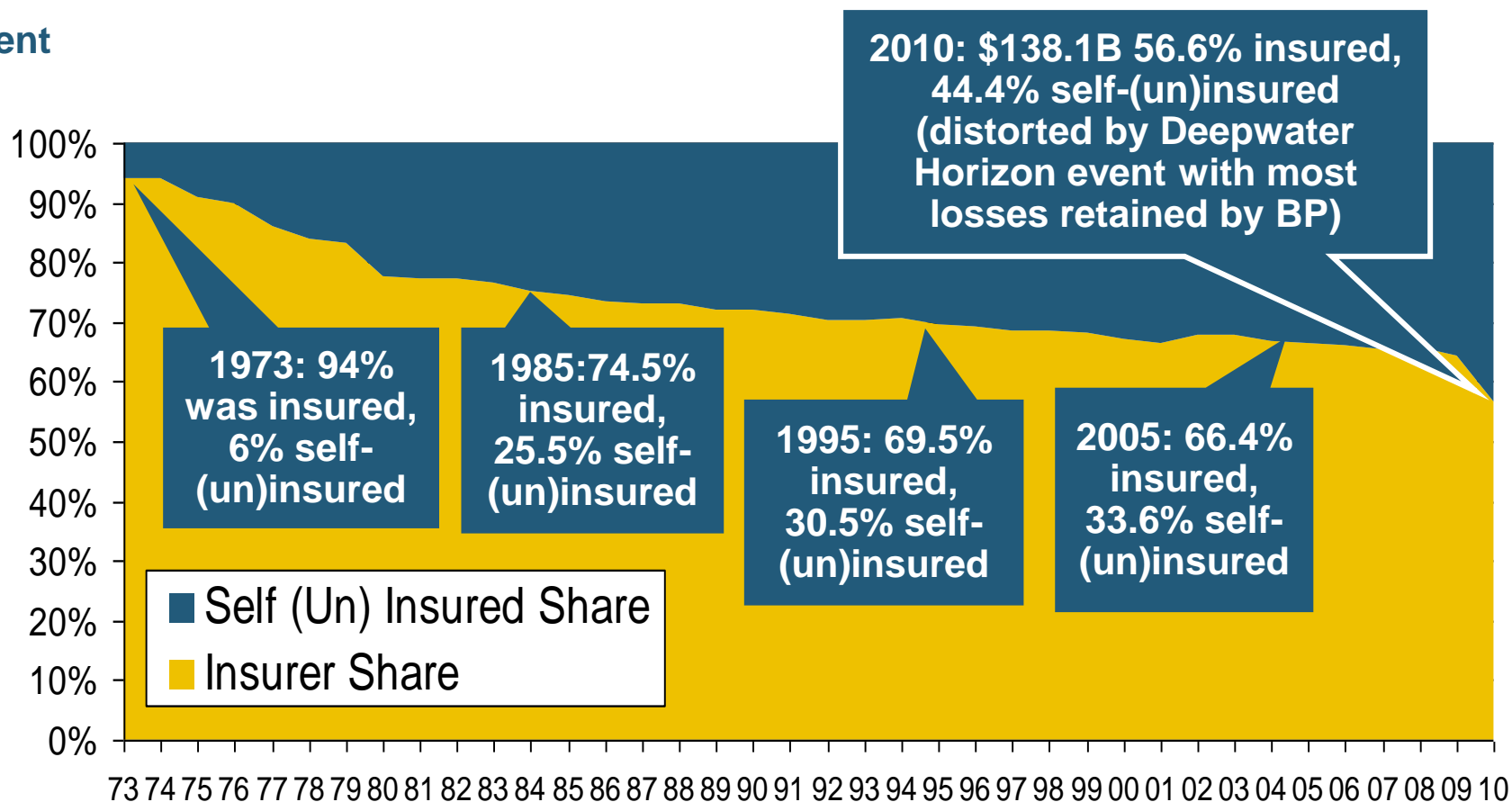
Billions of Dollars



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
10. Iowa

New in 2012

- Wyoming
- Minnesota
- Kansas
- Idaho

Drop-offs

- Indiana
- Colorado
- Massachusetts
- South Dakota

■ Worst States

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

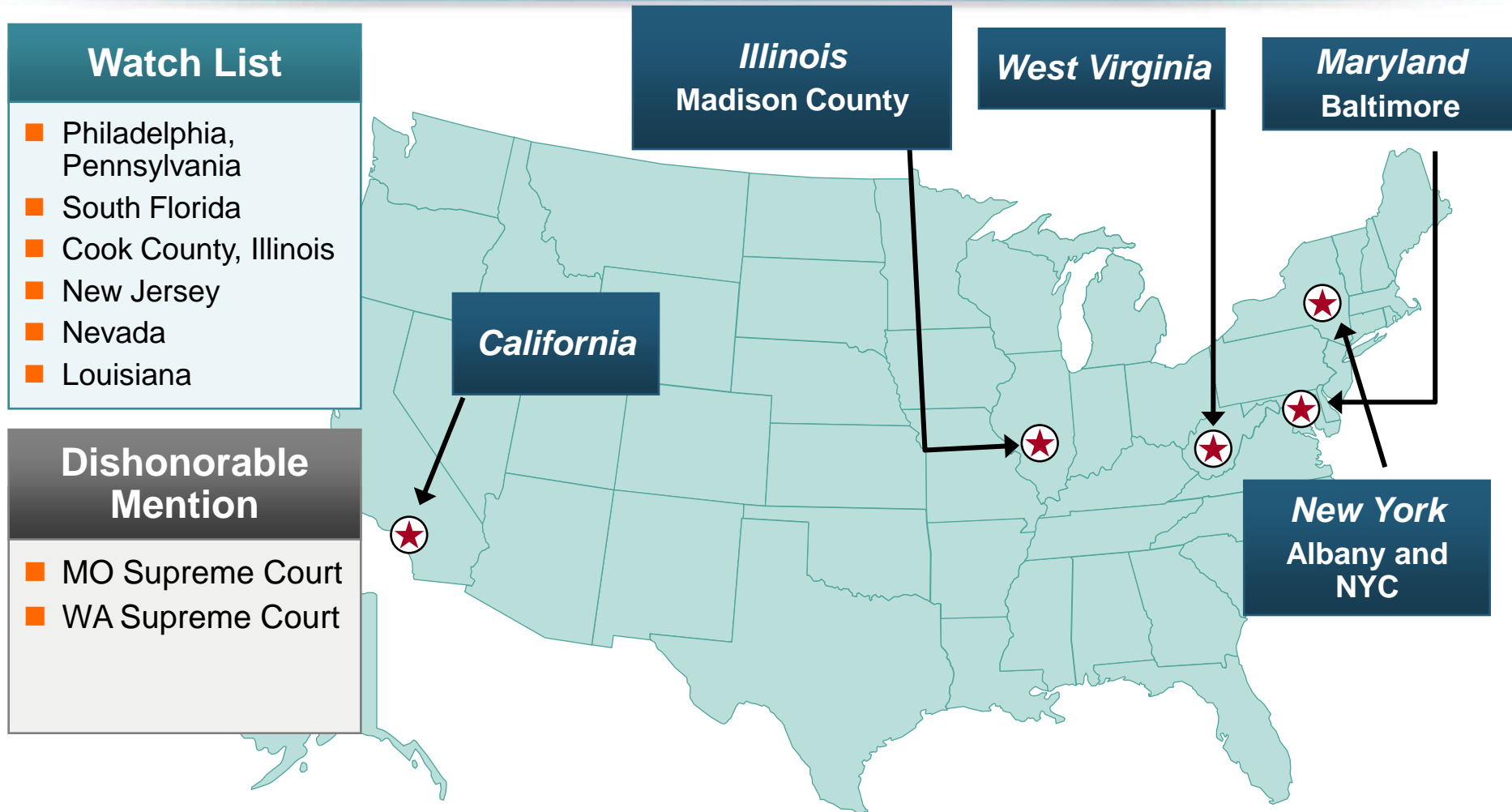
Newly Notorious

- Oklahoma

Rising Above

- Arkansas

The Nation's Judicial Hellholes: 2012/2013



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www.iii.org

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