Today's Uncertain Economy: Implications for Public Entities and P/C Insurance

April 10, 2013

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

Growth Will Expand the Insurer Exposure Base Across Most Lines

A Continued Weak Recovery is Forecast: Real GDP Growth, Yearly, 1970-2014F

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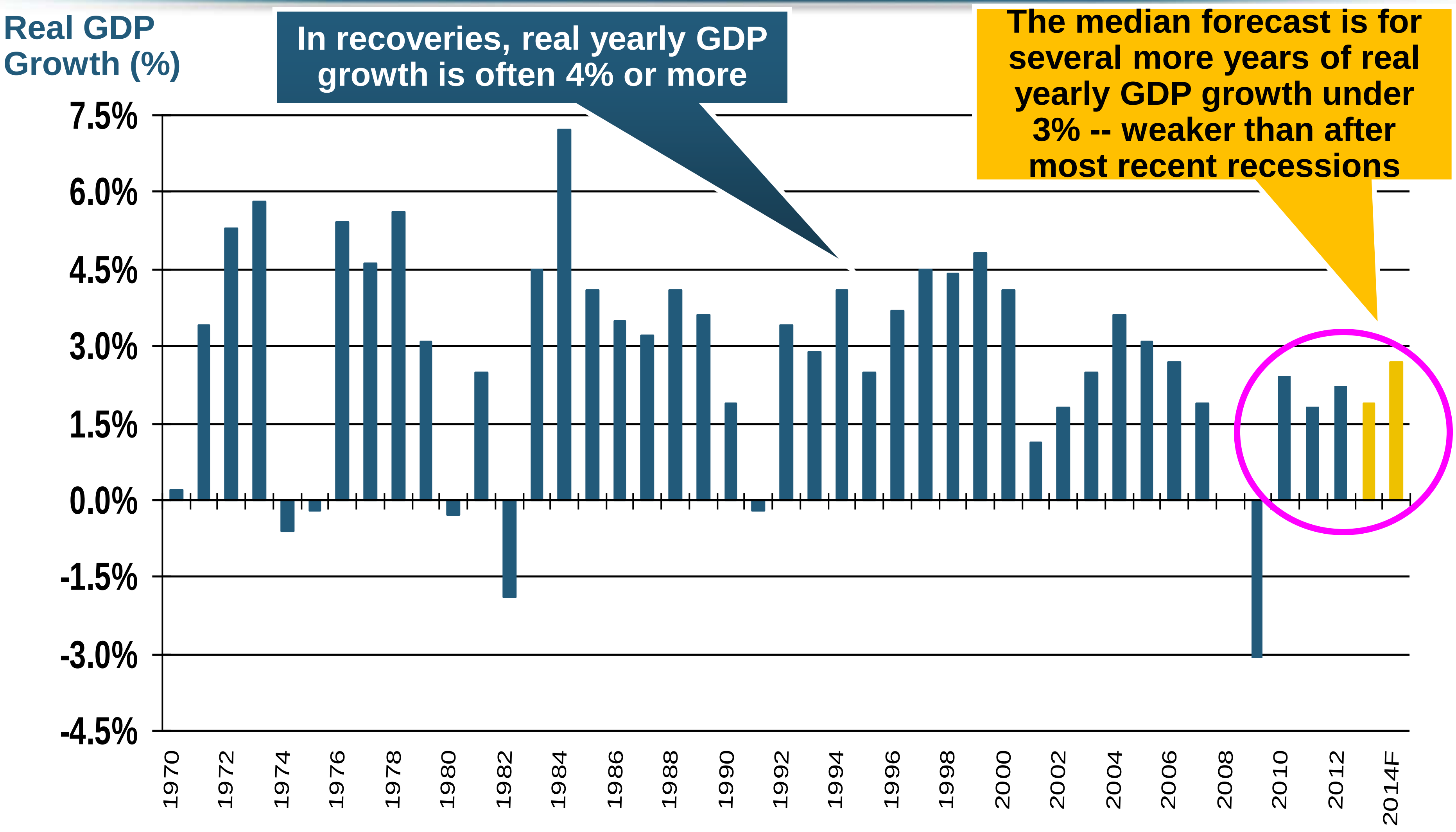
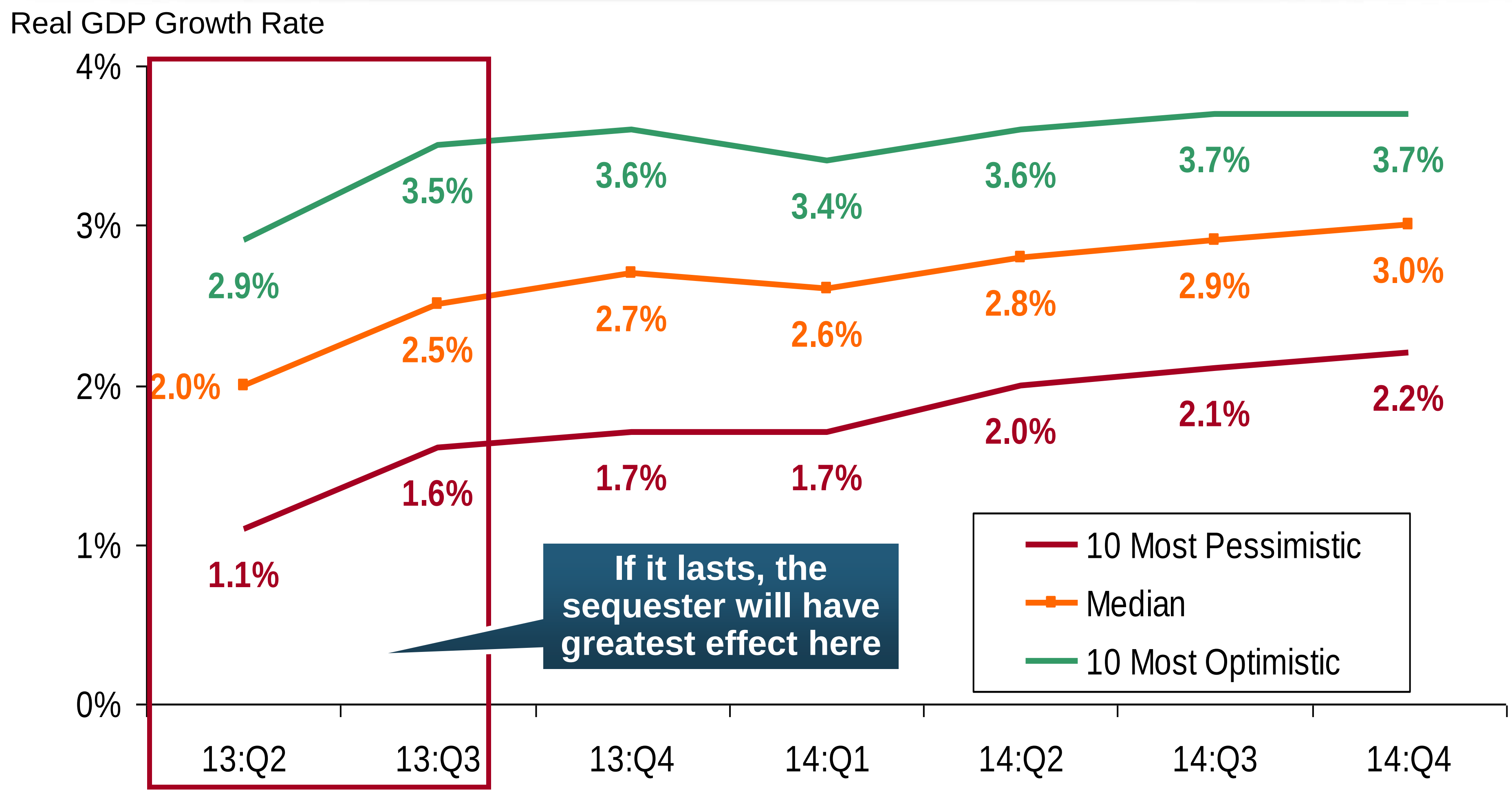


Forecasts from Blue Chip Economic Indicators, 3/2013 issue, median of range of 52 forecasts.
Sources: (GDP) U.S. Department of Commerce at http://www.bea.gov/national/xls/gdpchg.xls.

March 2013 Forecasts of Quarterly US Real GDP for 2013-14

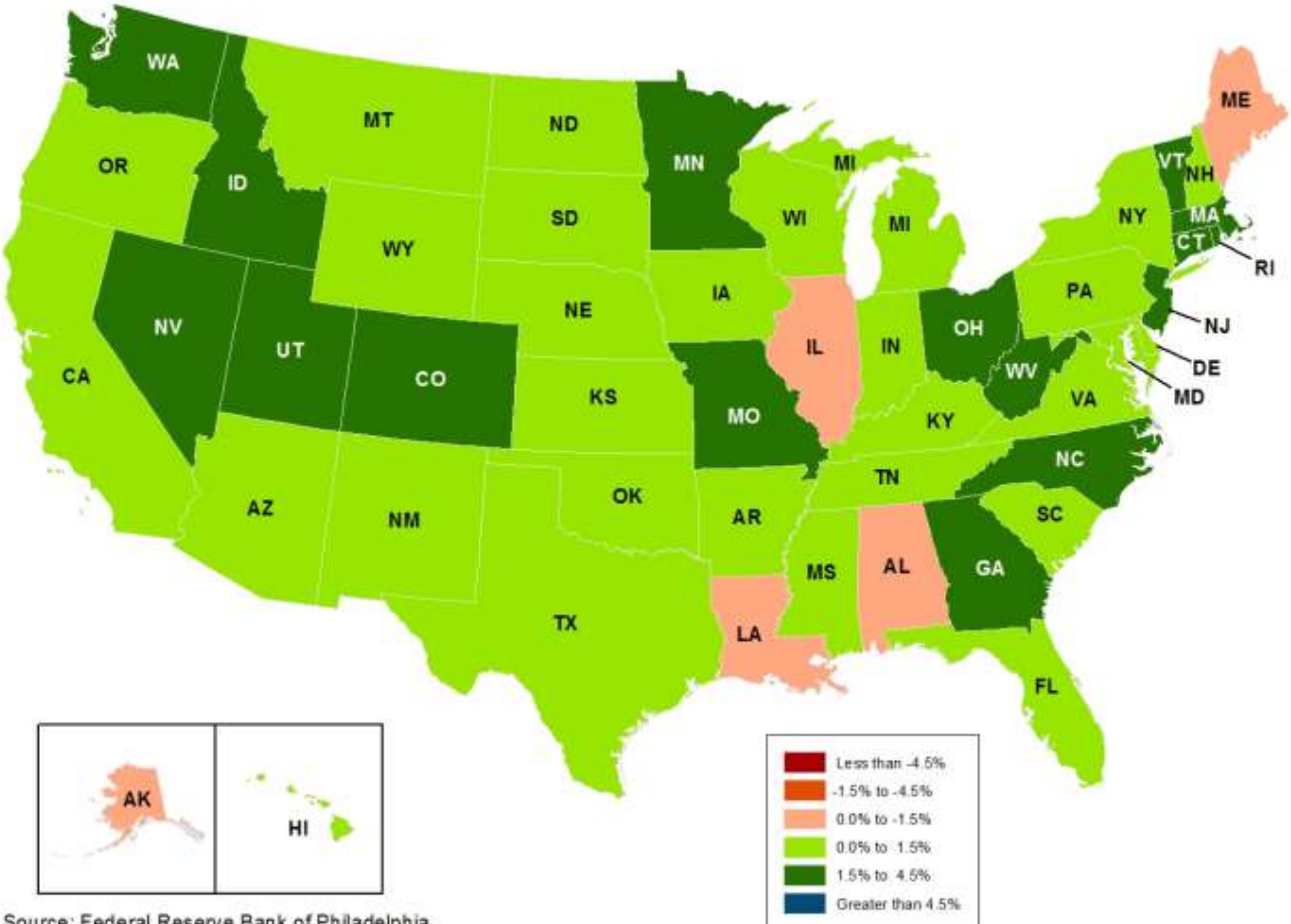


Despite the sequester and other challenges to the U.S. economy, virtually every forecast in the Blue Chip universe in early March sees improvement ahead

Sources: Blue Chip Economic Indicators (3/13); Insurance Information Institute

State-by-State Leading Indicators through 2013:Q2

January 2013 State Leading Indexes: 6-Month Forecast

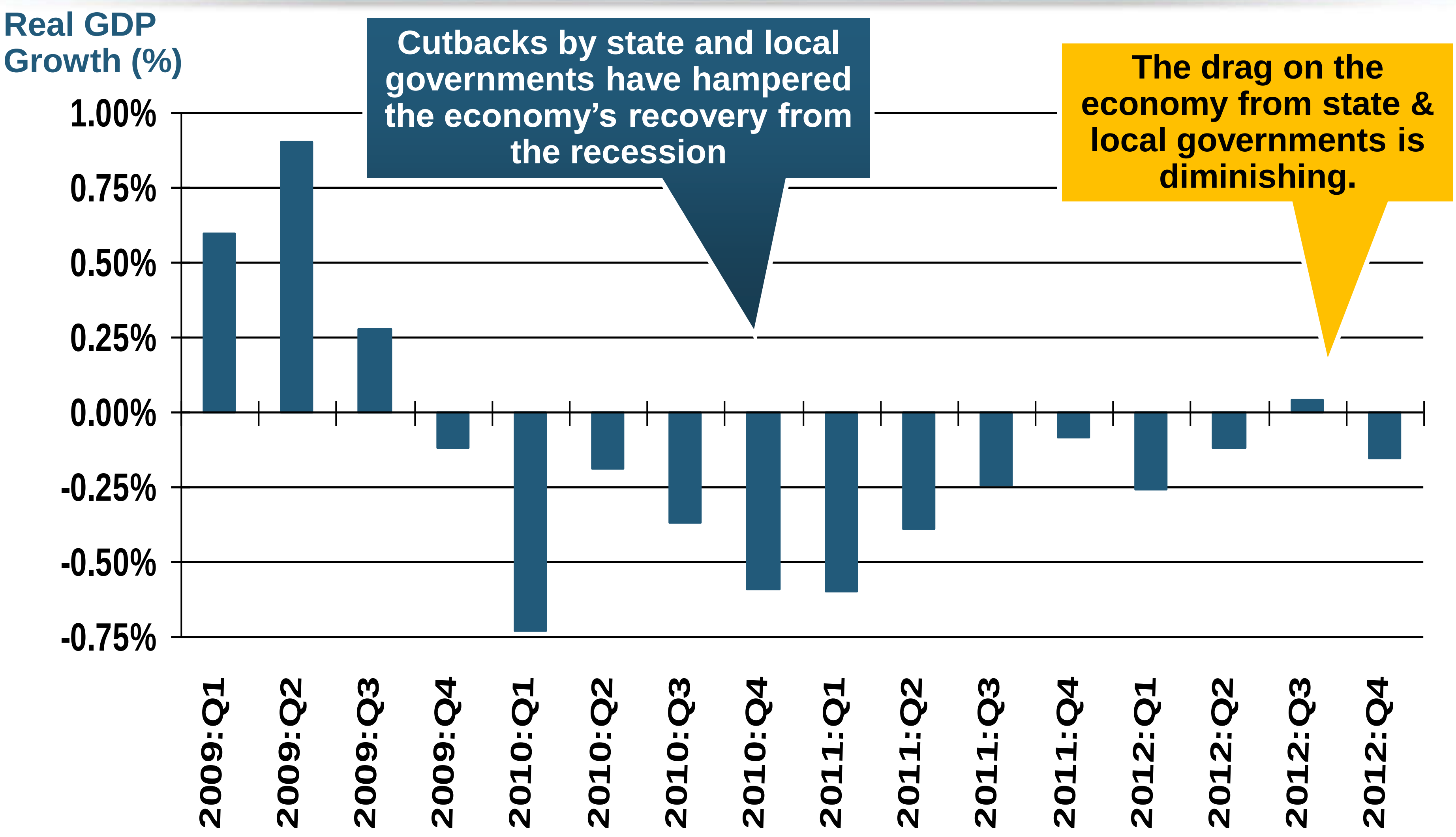


Source: Federal Reserve Bank of Philadelphia

Near-term growth forecasts vary widely by state. Strongest growth = dark green; weakest = beige

Sources: Federal Reserve Bank of Philadelphia at www.philadelphiafed.org/index.cfm; Insurance Information Institute.
Next release is April 4, 2013

State & Local Government Contribution to Change* in Real US GDP, Quarterly, 2009-2012



*seasonally adjusted at annual rates

Sources: (GDP) U.S. Department of Commerce at http://www.bea.gov/national/xls/gdpchg.xls.; I.I.I.

Households Are Still* Reducing Their Financial Obligations

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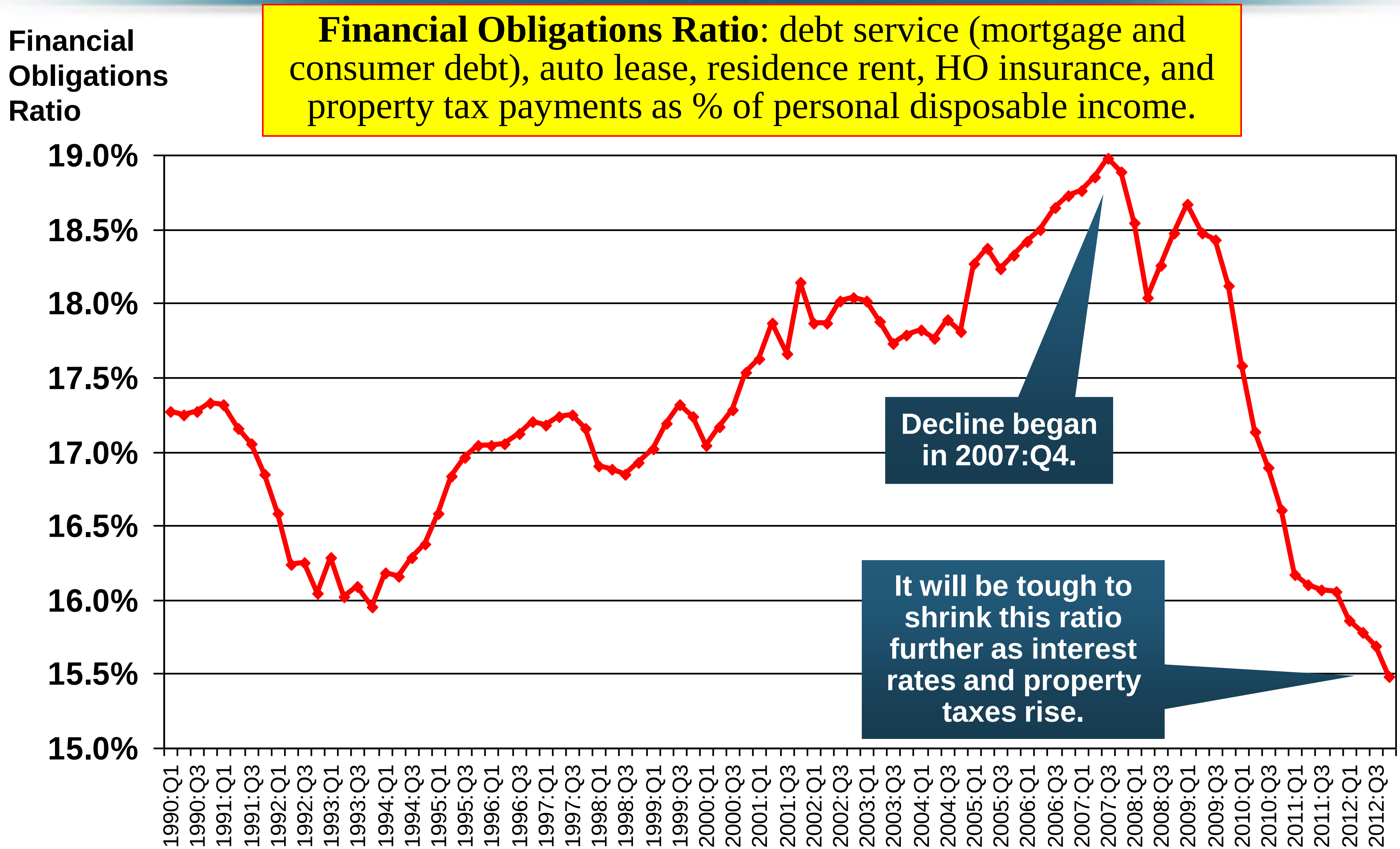

*Through 2012:Q4 (data posted on Mar 13, 2013).
Source: Federal Reserve Board, at www.federalreserve.gov/releases/housedebt.

Y-o-Y Percentage Change in the Value of Public Construction Put in Place, by Segment, Feb. 2013*

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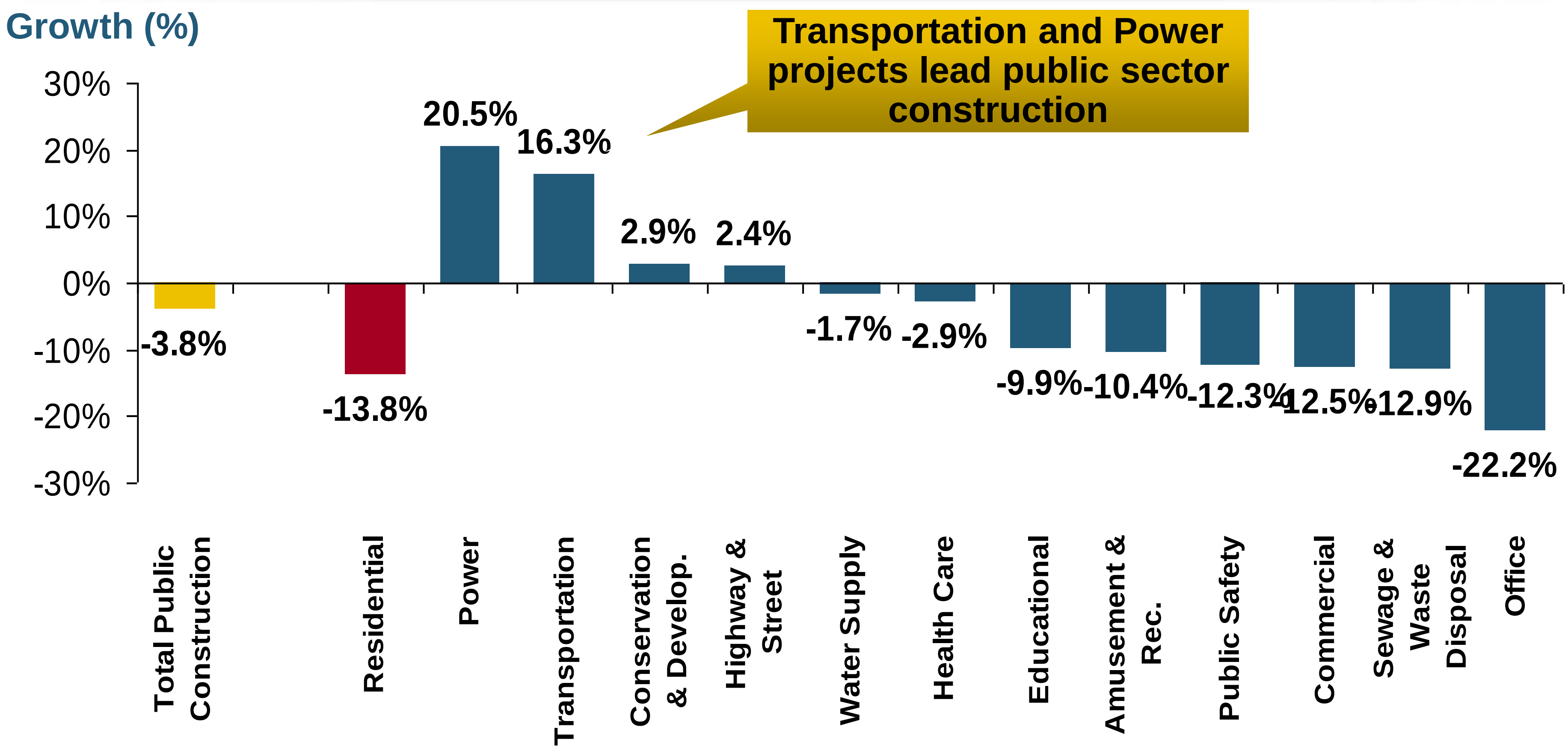

With strained state and local government budgets, public construction activity declined in many segments; will the sequester crimp 2013?

*seasonally adjusted; data published April 1, 2013
Source: U.S. Census Bureau, http://www.census.gov/construction/c30/c30index.html ; Insurance Information Institute.

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Labor Market Trends

Steady Job Gains in the Private Sector Offset Steady Job Losses in the Public Sector

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

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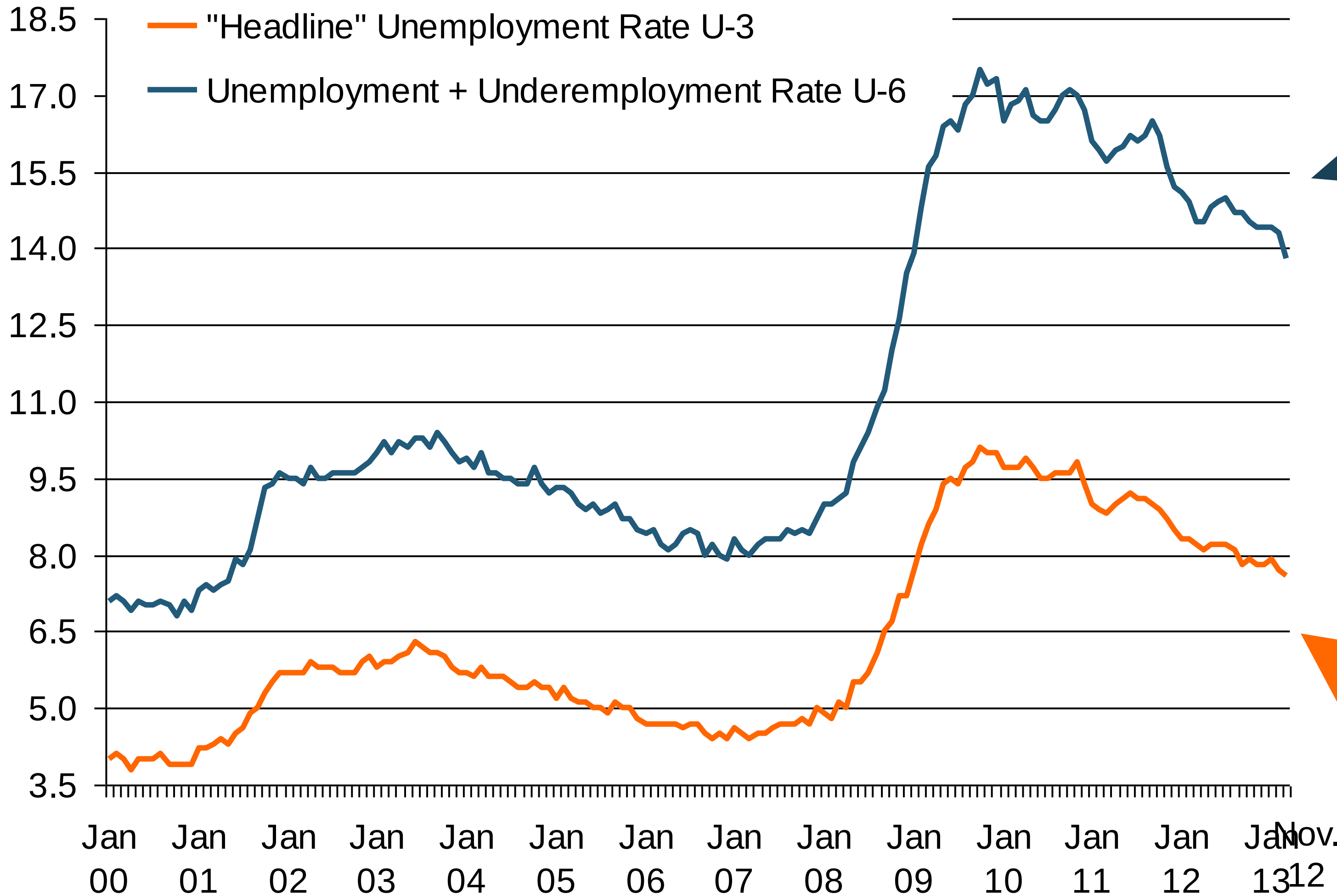
January 2000 through Mar. 2013, Seasonally Adjusted (%)



U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 13.8% in Mar. 2013

"Headline" unemployment stood at 7.6% in Mar. 2013.

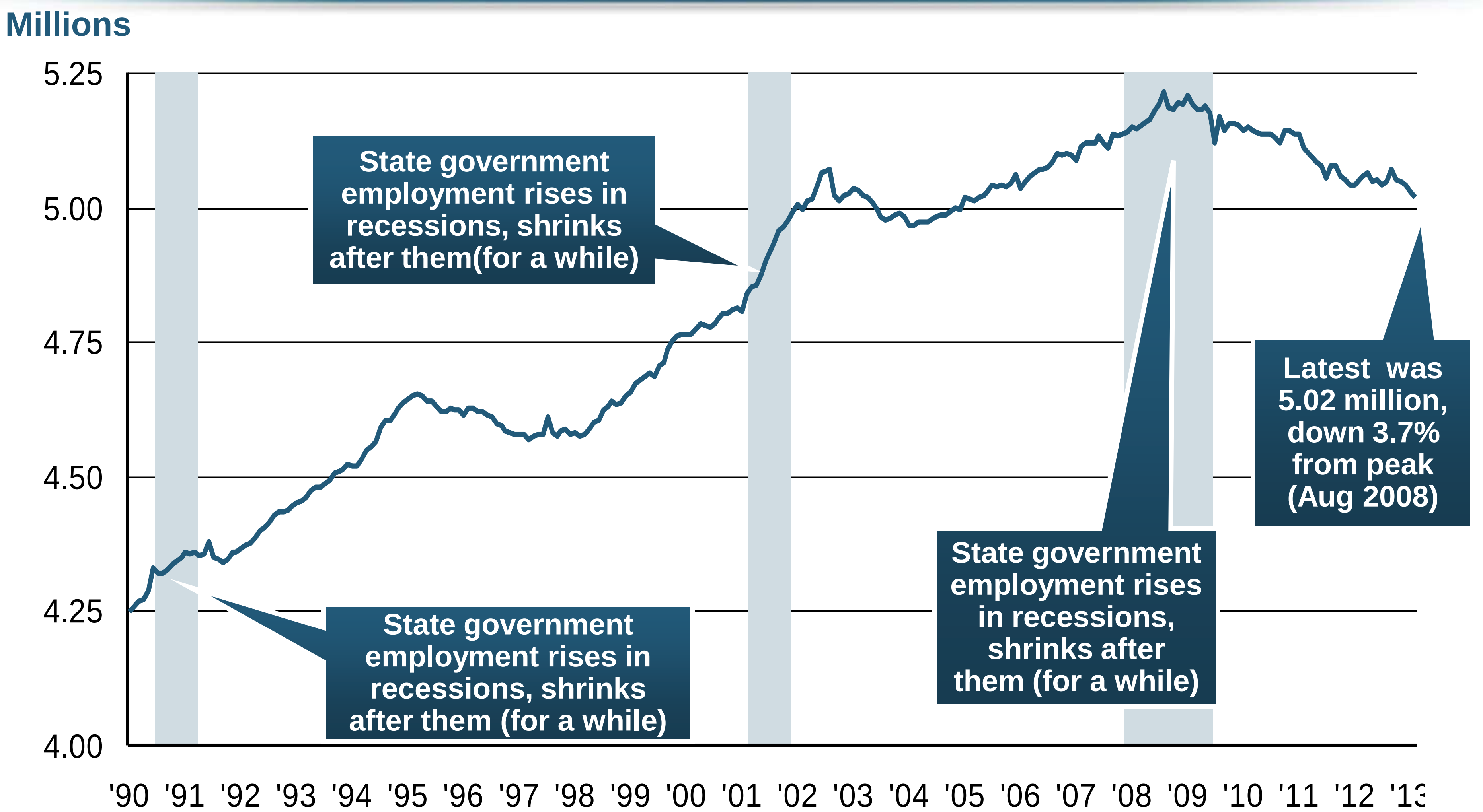
The Federal Reserve's target for ending "easy money" is 6.5% (assuming inflation remains within its 2% target).

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

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

State Government Employment

Monthly, 1990–2013*

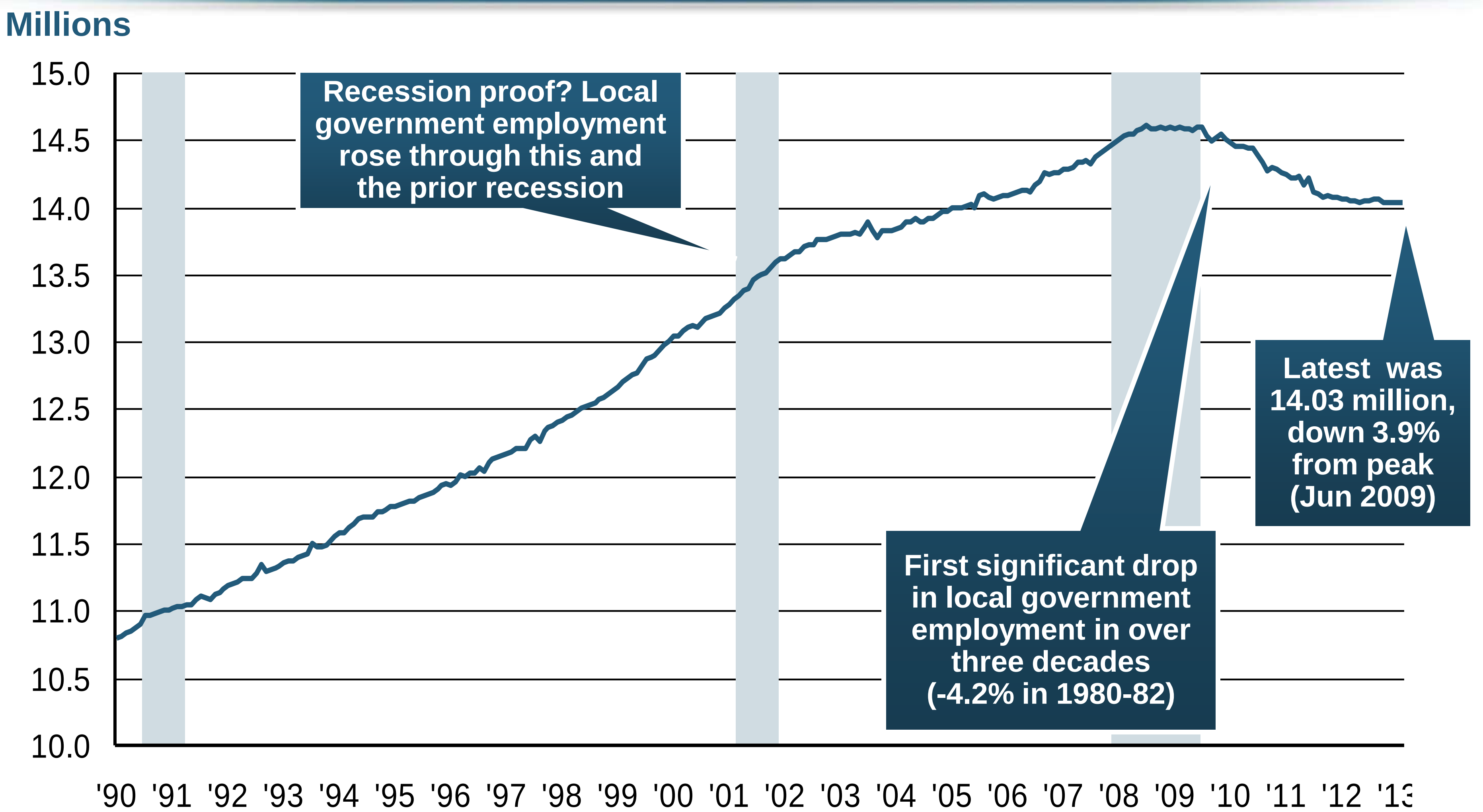


*As of February 2013 (Jan 2013 and Feb 2013 are preliminary); Seasonally adjusted

Note: Recessions indicated by gray shaded columns.

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

Local Government Employment
Monthly, 1990–2013*



*As of February 2013 (Jan 2013 and Feb 2013 are preliminary); Seasonally adjusted

Note: Recessions indicated by gray shaded columns.

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

Unemployment Rates Vary Widely by State and Region*

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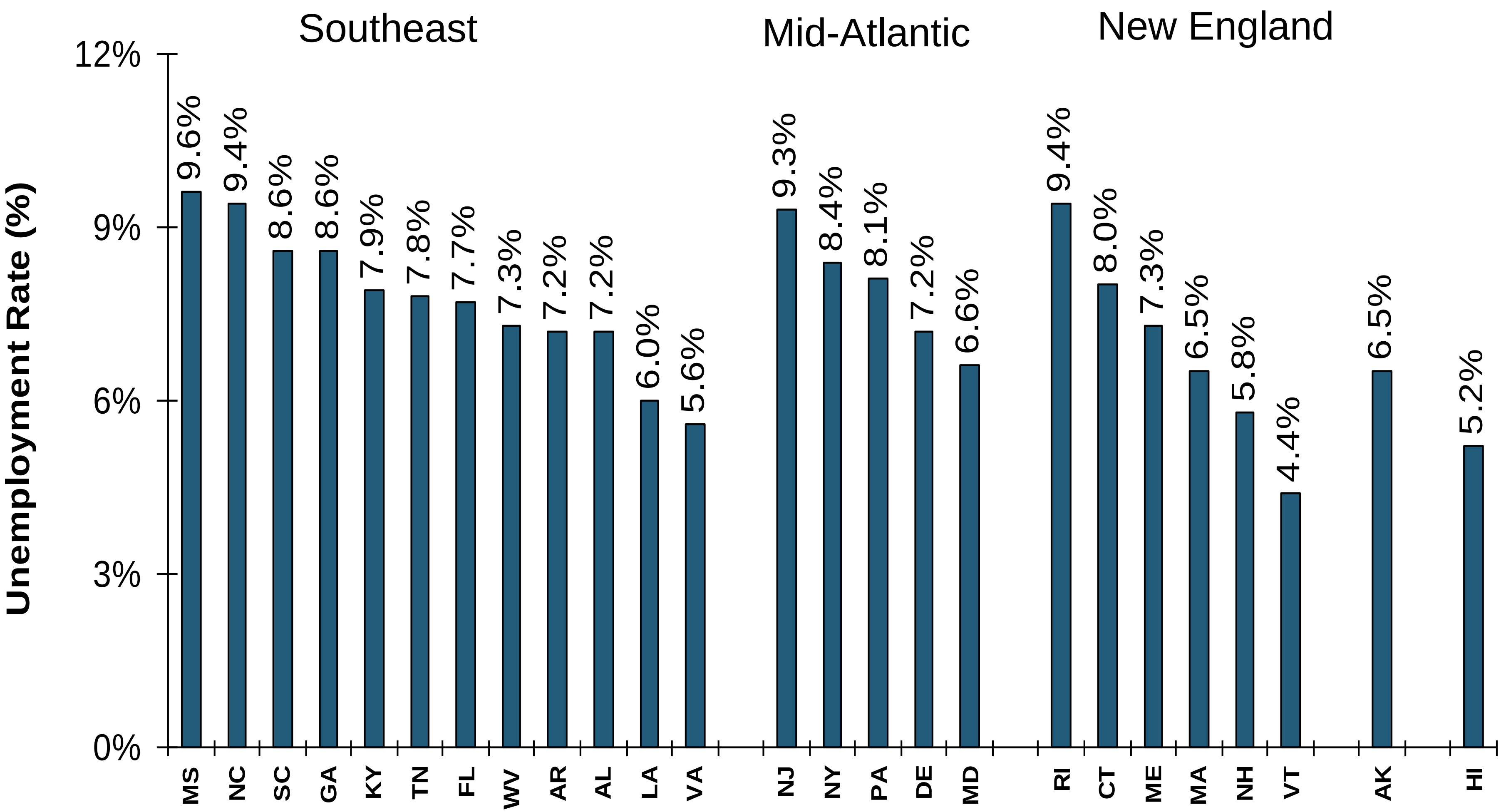

*Provisional figures for February 2013, seasonally adjusted.

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

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

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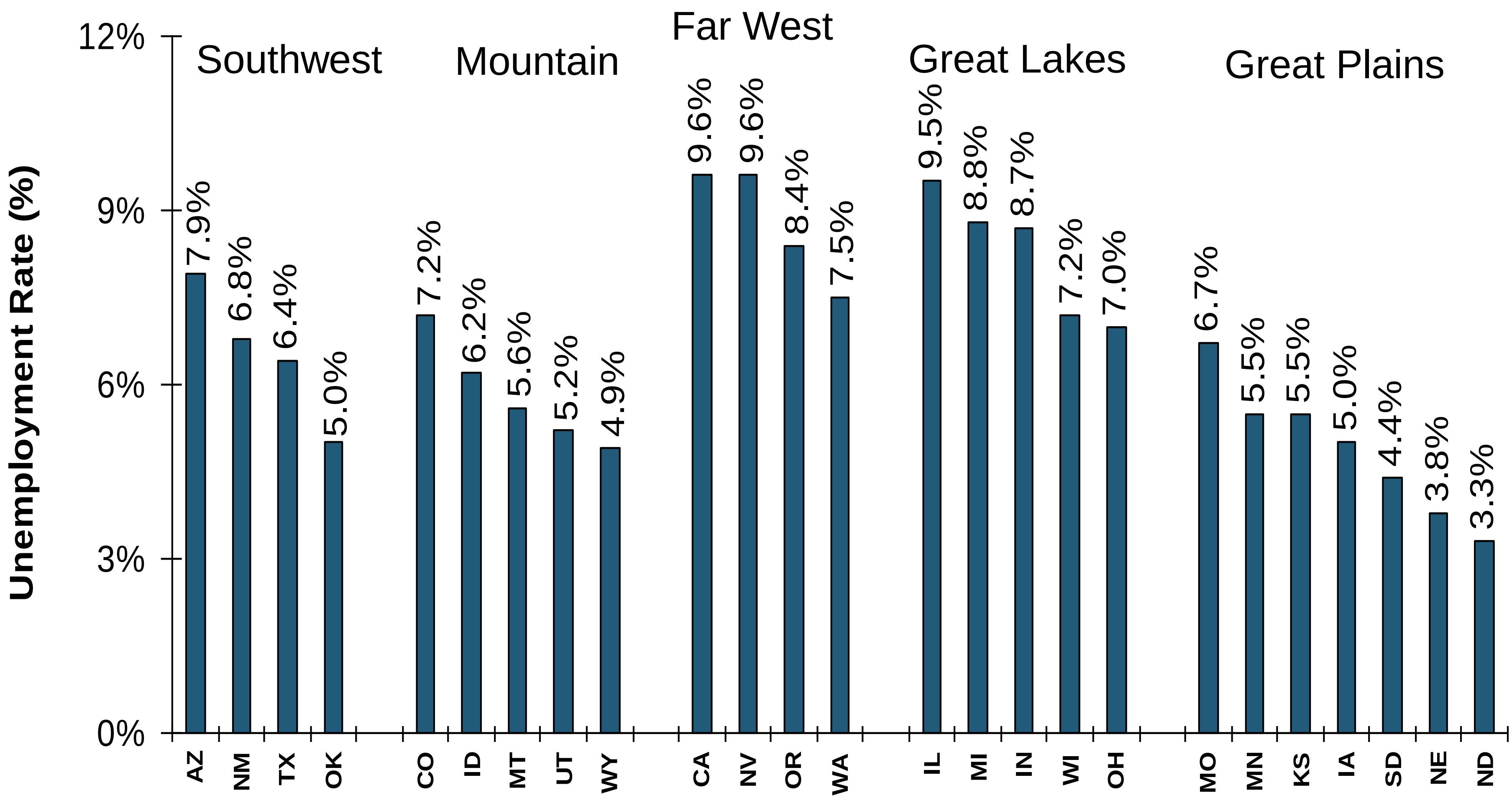

*Provisional figures for February 2013, seasonally adjusted.

Sources: US Bureau of Labor Statistics; Insurance Information Institute

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

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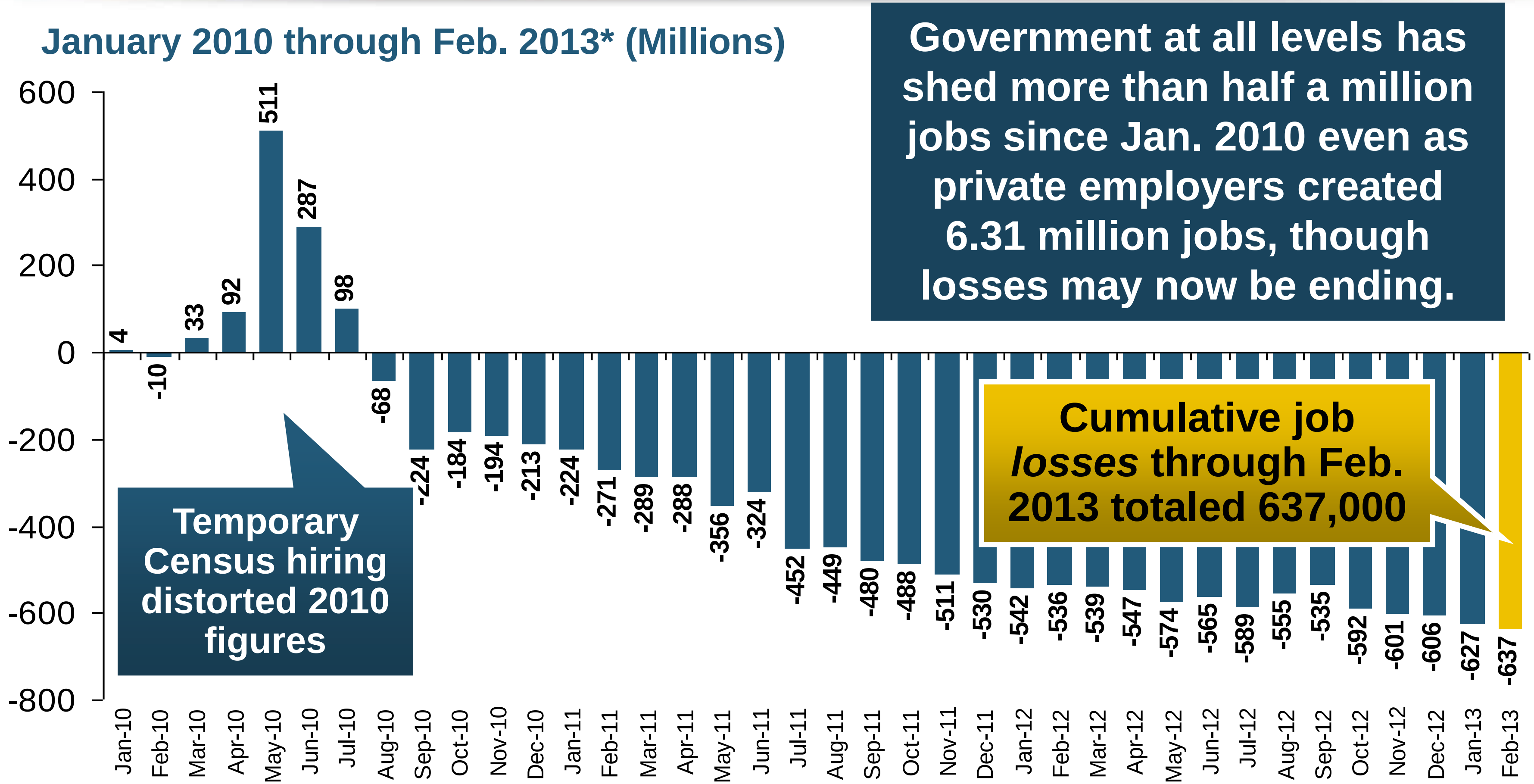
January 2010 through Feb. 2013* (Millions)



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

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

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

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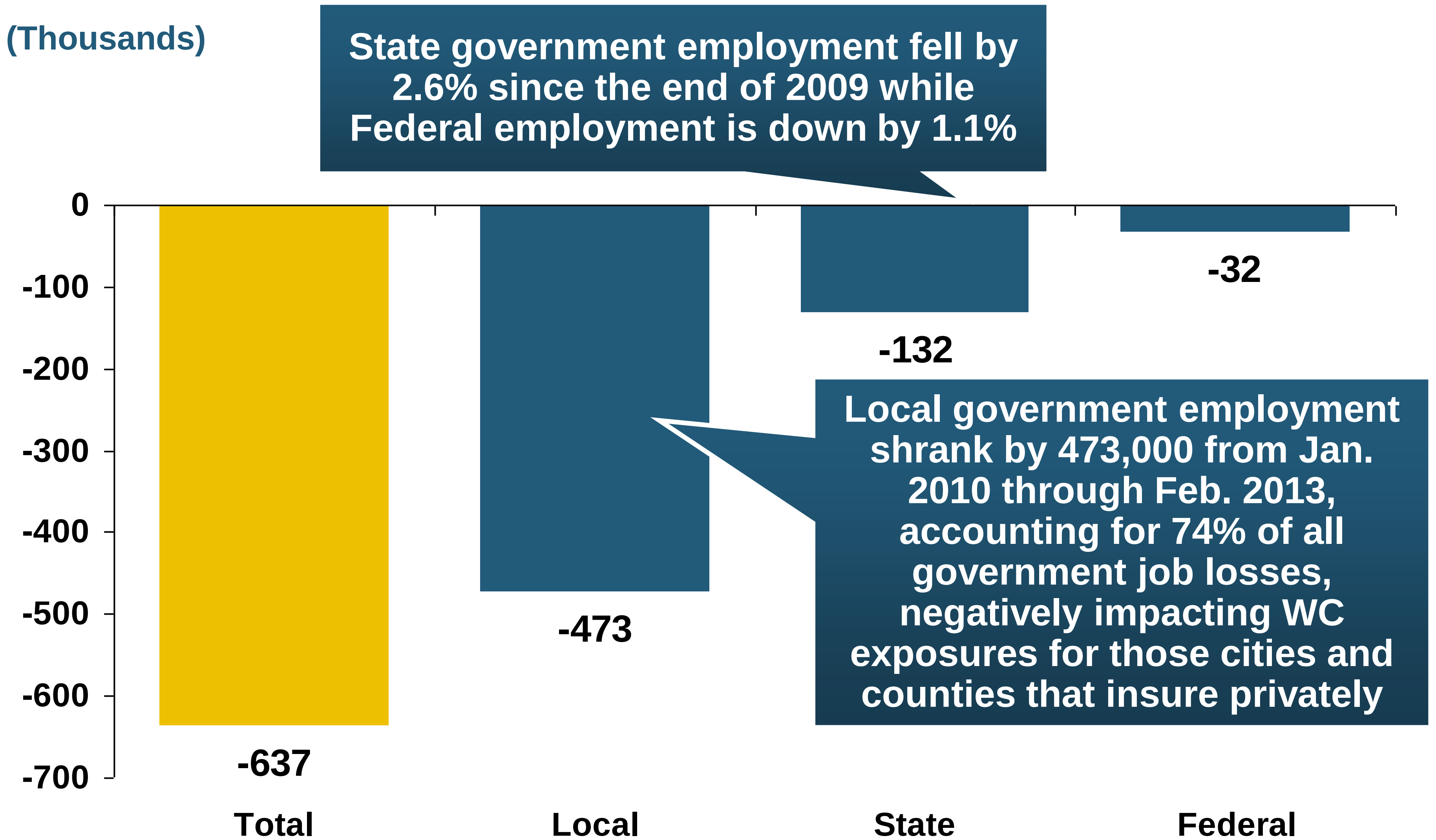
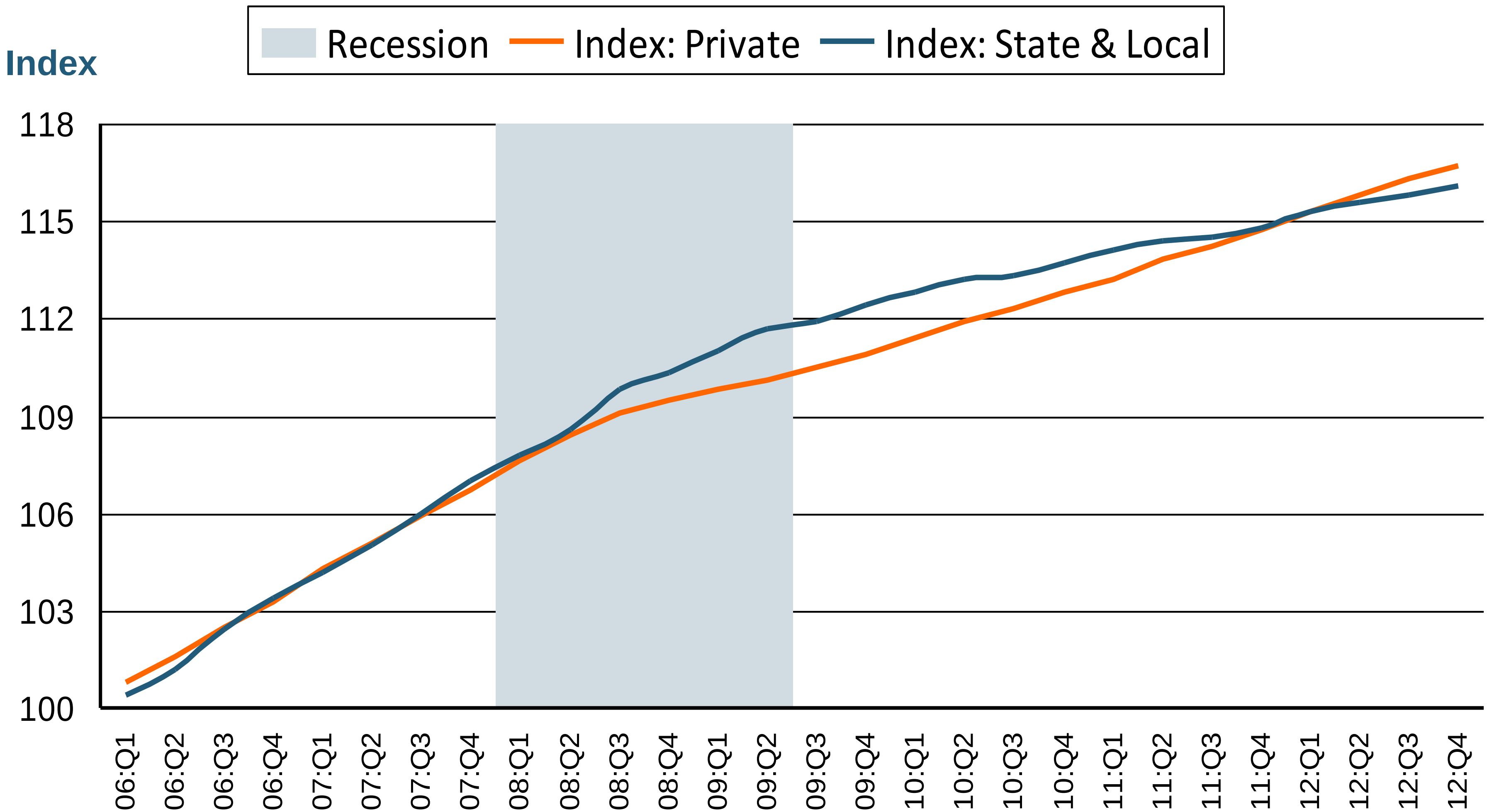


*Cumulative change from prior month; Base employment date is Dec. 2009.

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

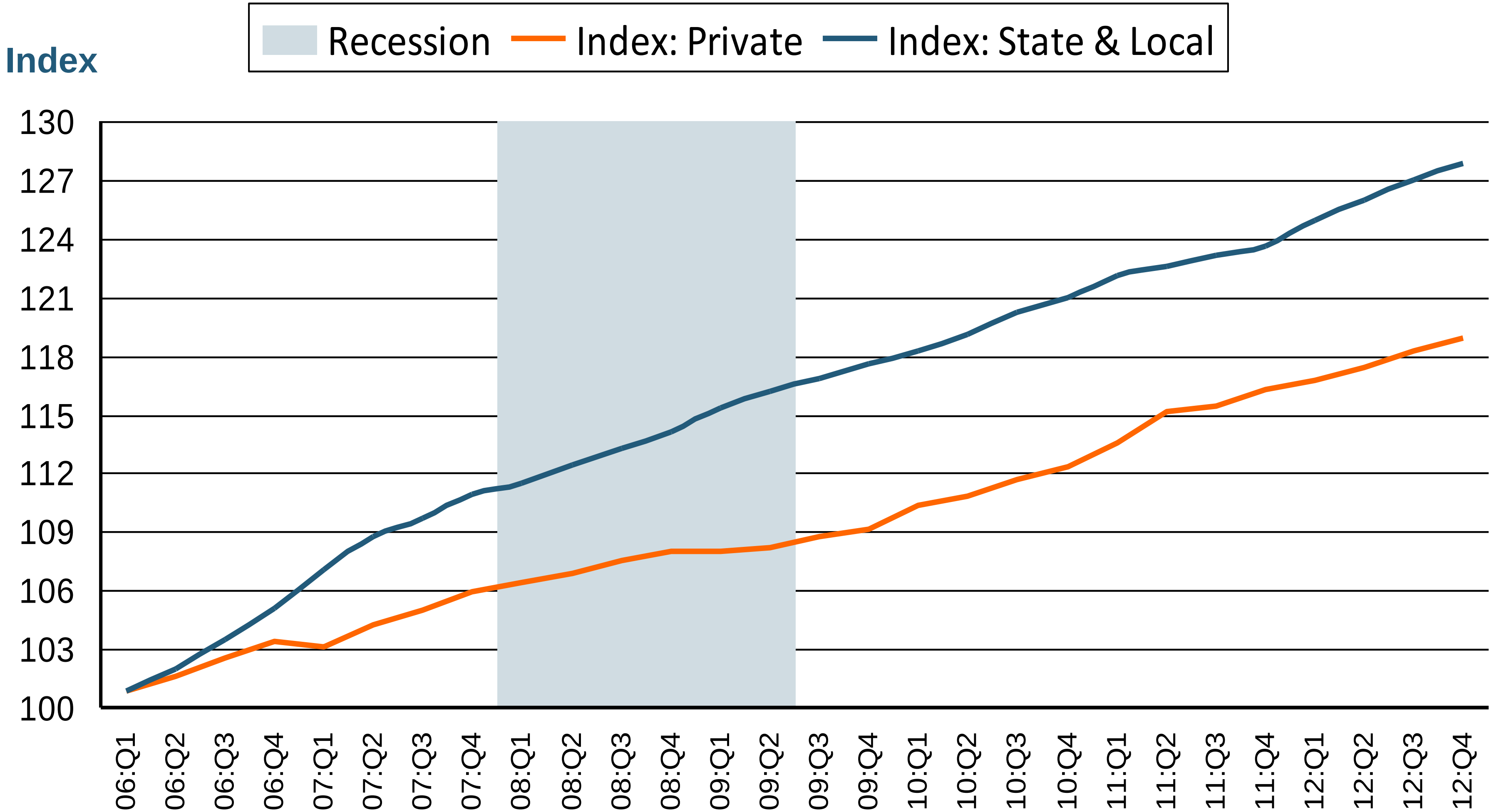
Wages/Salary Indexes, Private Industry vs. State & Local Government Quarterly, 2006–2012



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

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

Benefits Indexes, Private Industry vs. State & Local Government Quarterly, 2006–2012



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

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

The Aging Workforce

Number of Workers Age 65-69, 70-74, and 75+, Quarterly, 1998-2012

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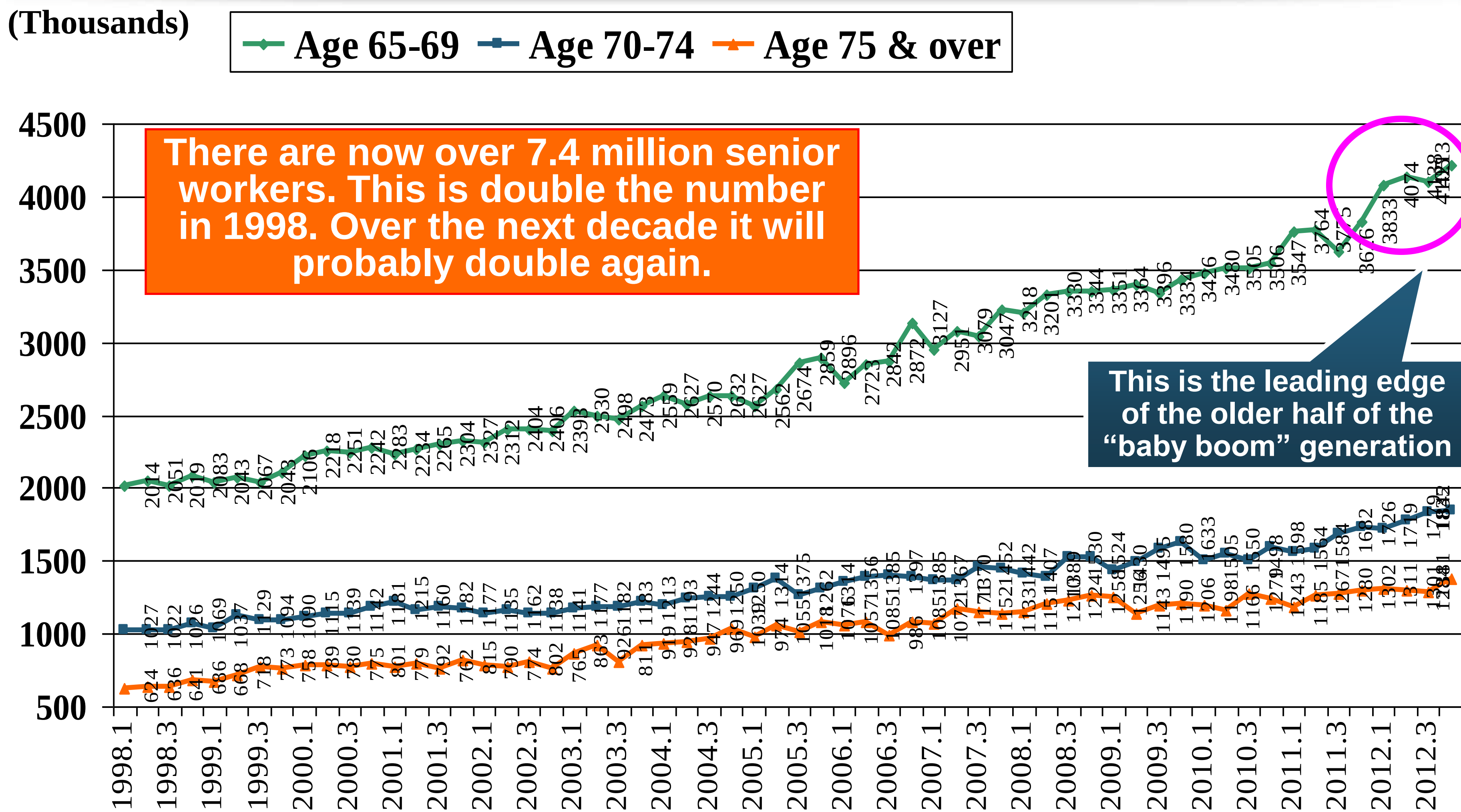
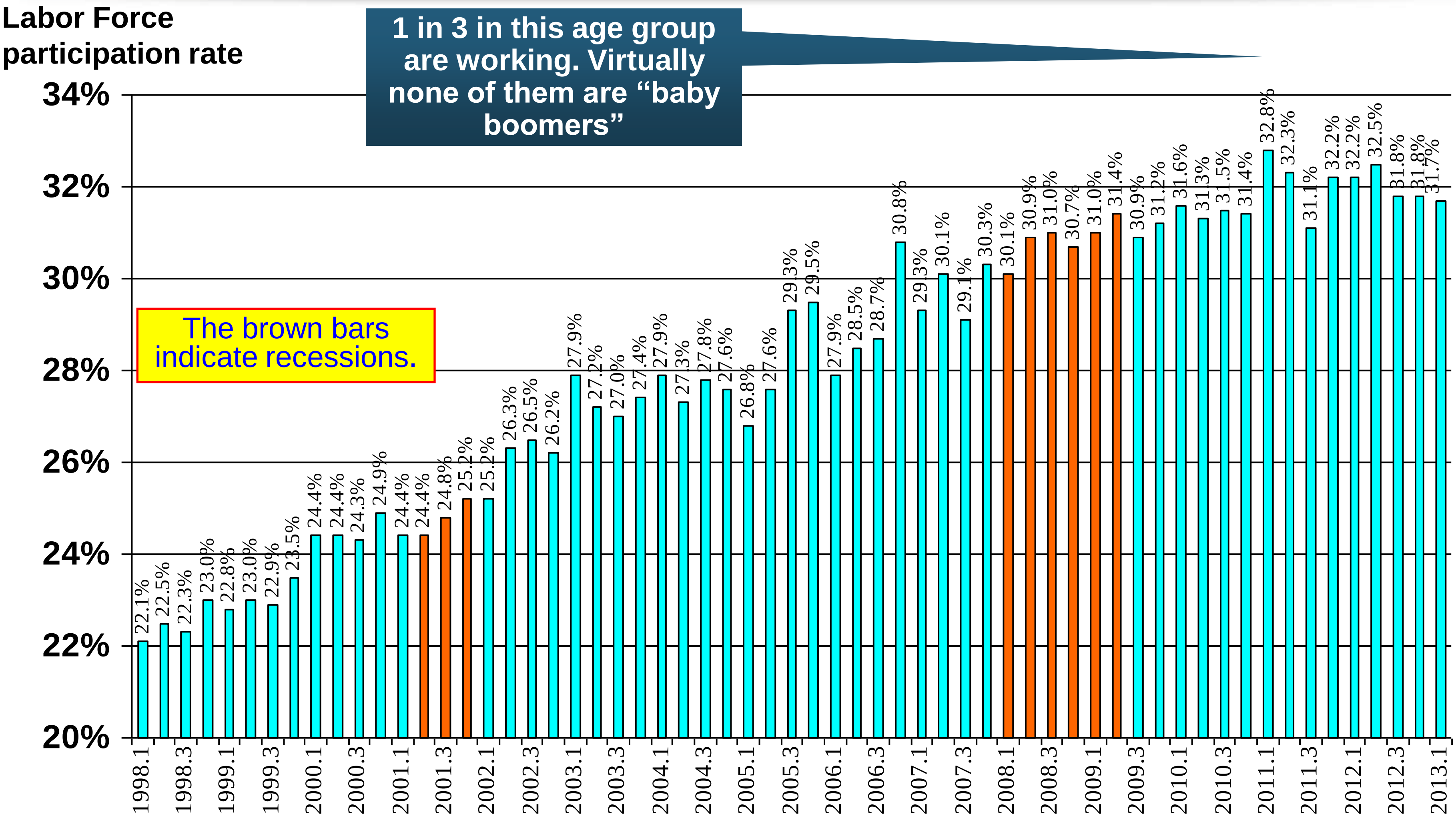


Source: US Bureau of Labor Statistics, US Department of Labor; Insurance Information Institute.

Labor Force Participation Rate, Ages 65-69, Quarterly, 1998:Q1-2013:Q1



The switch from DB pension plans (with early-retirement incentives) to DC plans (with, in effect, later-retirement incentives) might be partly responsible for raising this rate.

Not seasonally adjusted. Sources: US Bureau of Labor Statistics, US Department of Labor; Insurance Information Institute.

Labor Force Participation Rate, Ages 70-74, Quarterly, 1998:Q1-2013:Q1

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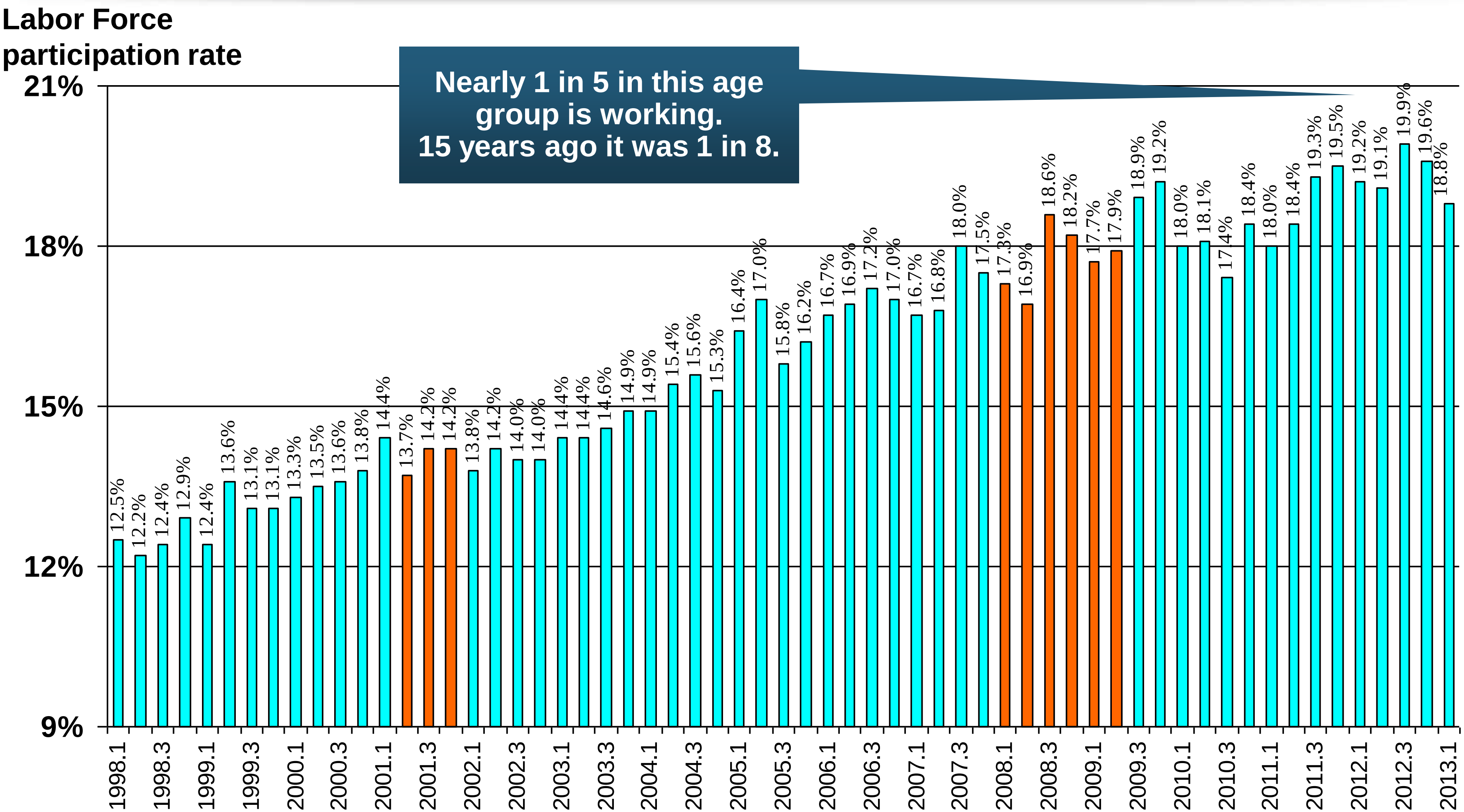
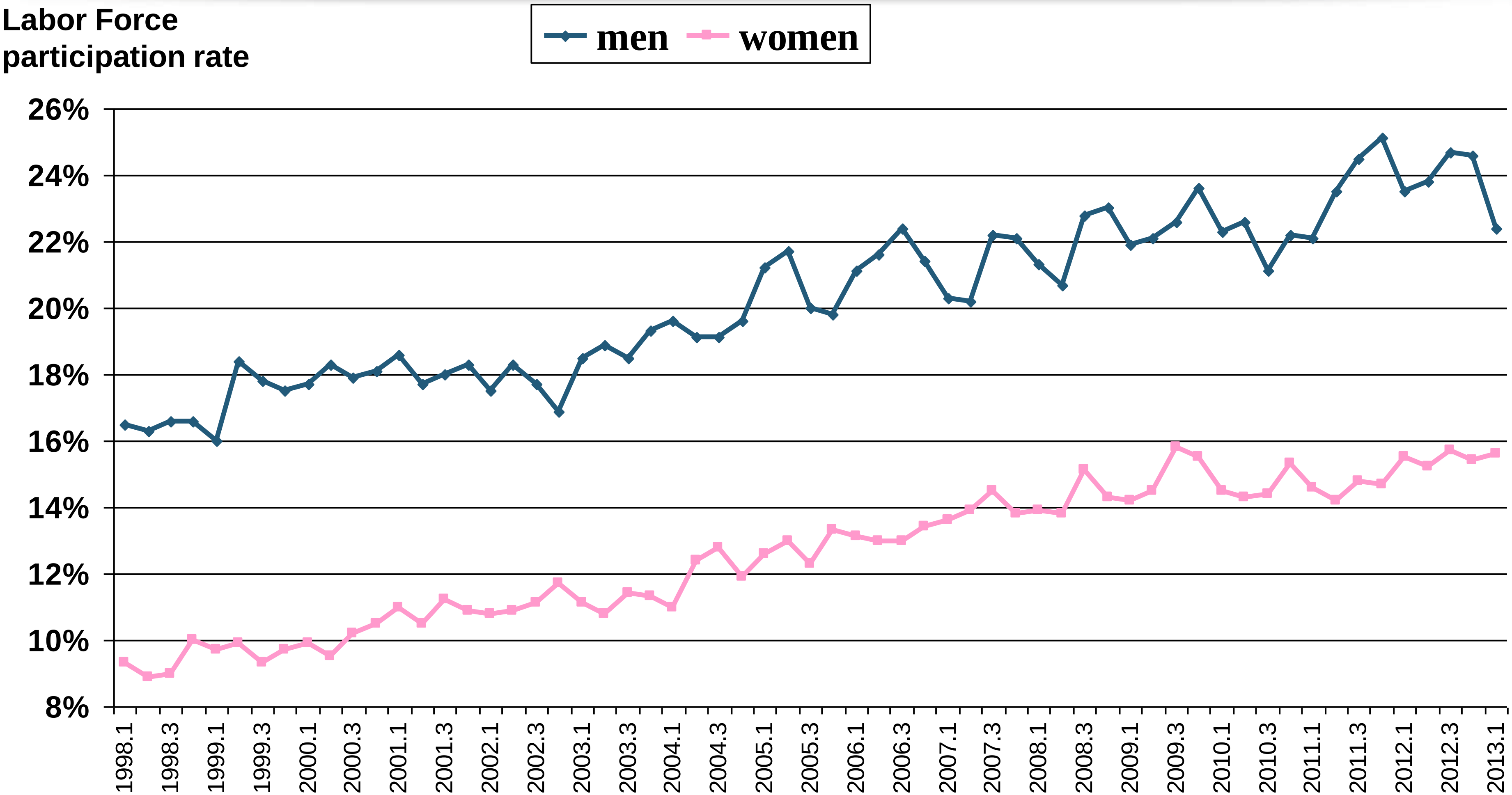


The labor force participation rate for workers 70-74 grew by about 50% since 1998. Growth stalled during and after the Great Recession but has since resumed.

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

Labor Force Participation Rate, Ages 70-74, Quarterly, 1998:Q1-2013:Q1



The labor force participation rate for men 70-74 grew by about 50% since 1998, but for women 70-74 it nearly doubled (from about 9% to about 15.5%).

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

Labor Force Participation Rate, Quarterly Ages 75 and over, 1998-2013:Q1

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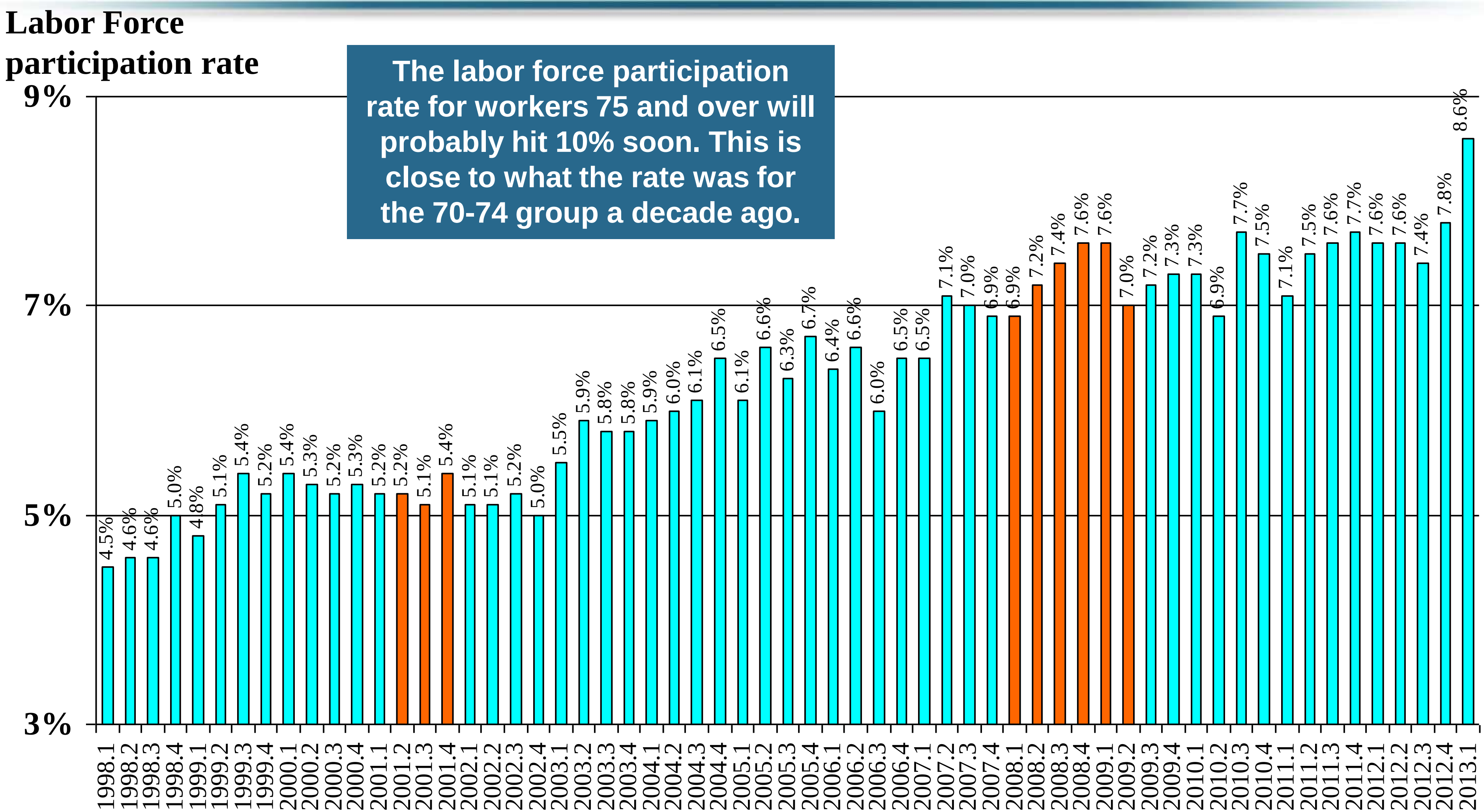

In the last 14 years, the labor force participation rate for workers 75 and over grew from 4.5% to 8.6%. So 91.4% of these people are retired.

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

Labor Force Participation Rate, Quarterly Ages 75 and over, 1998-2013:Q1

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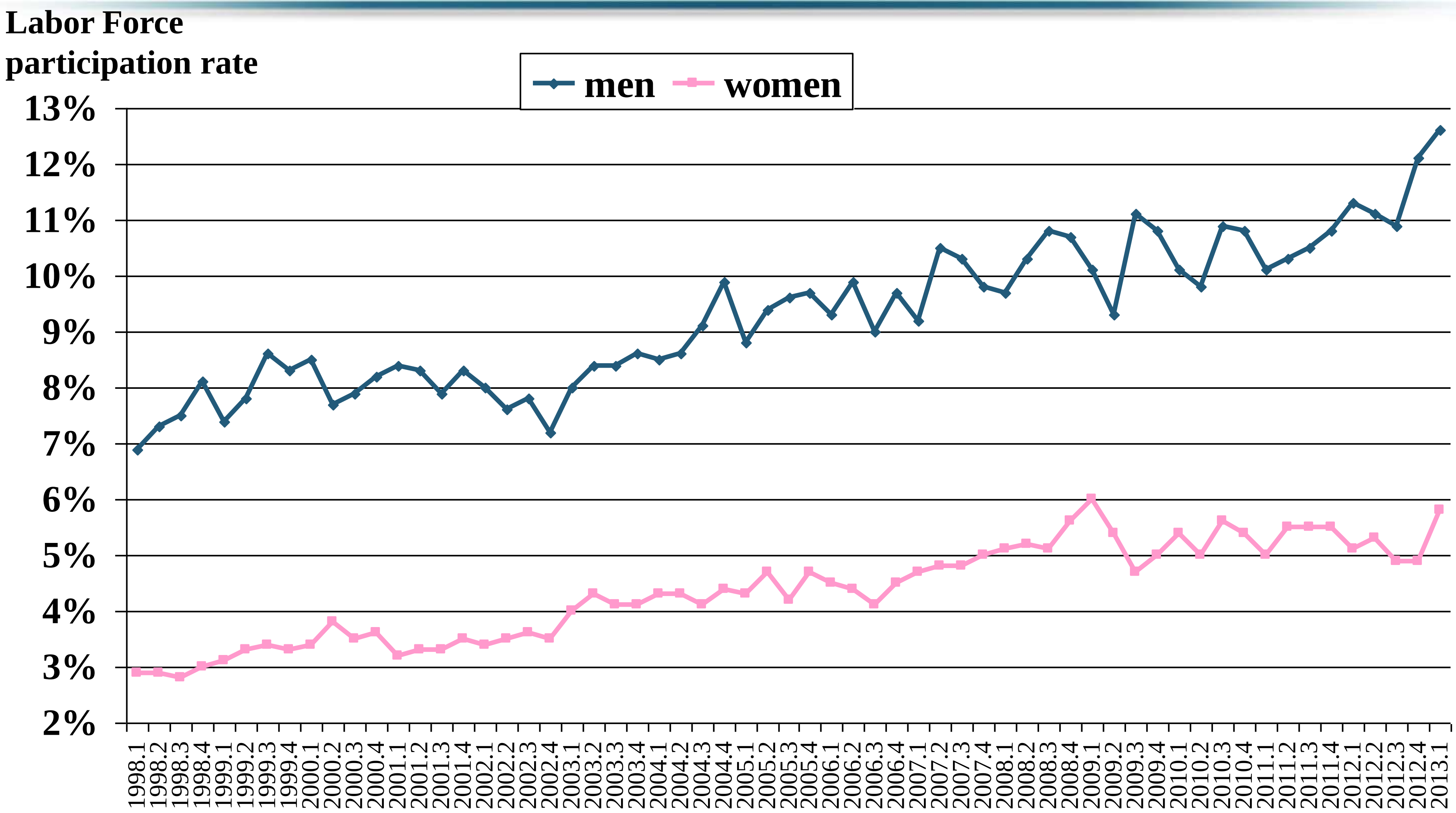
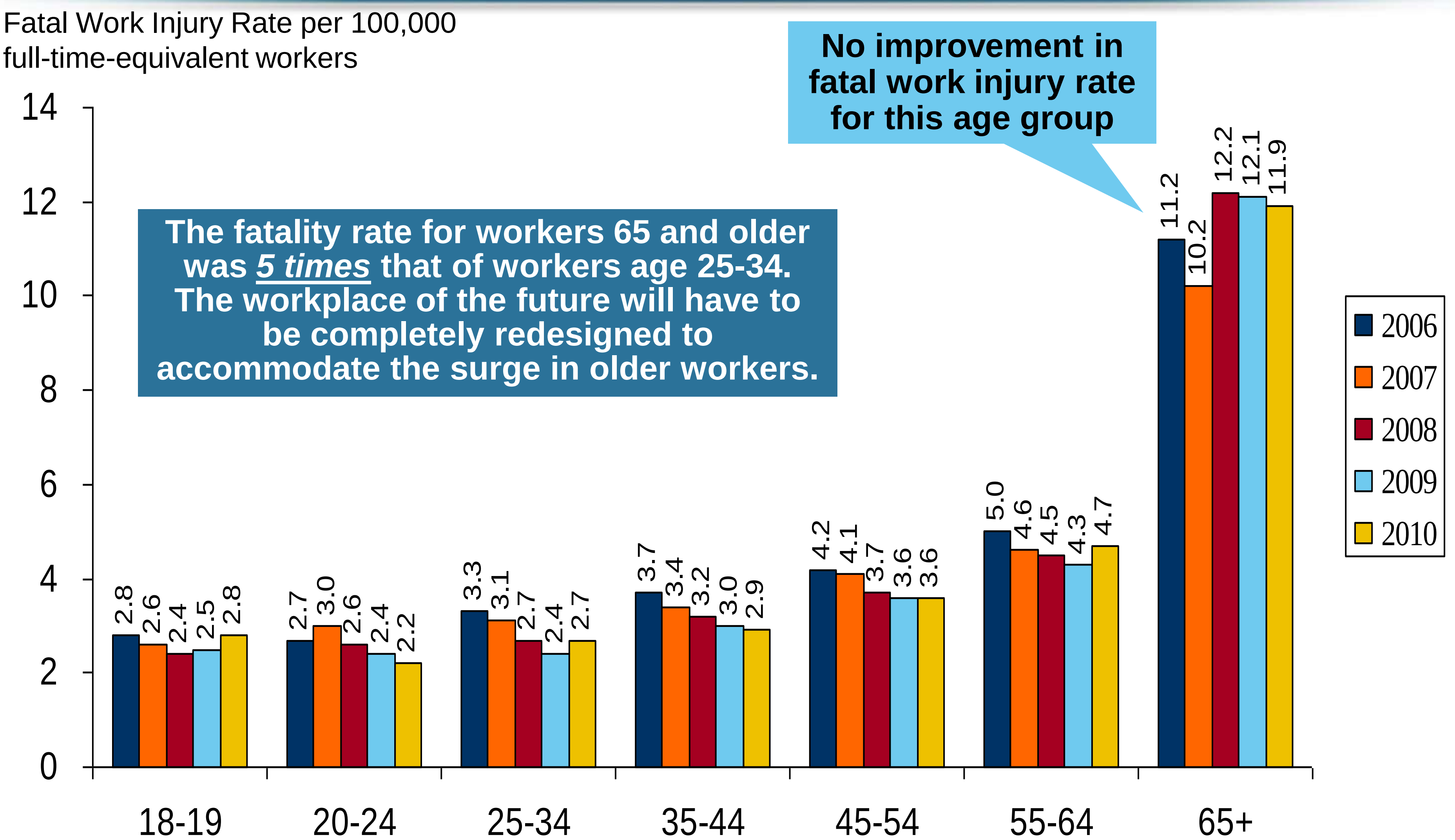


In the last 15 years, the labor force participation rate for men 75 and over grew from 6.9% to 12.6% and for women doubled (from 2.9% to 5.8%).

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

Fatal Work Injury Rates Improved Slightly Since 2006 but Still Climb Sharply With Age



Source: US Bureau of Labor Statistics, *at* http://www.bls.gov/iif/oshcfoi1.htm/#2010

Older Workers Lose More Days from Work Due to Injury or Illness

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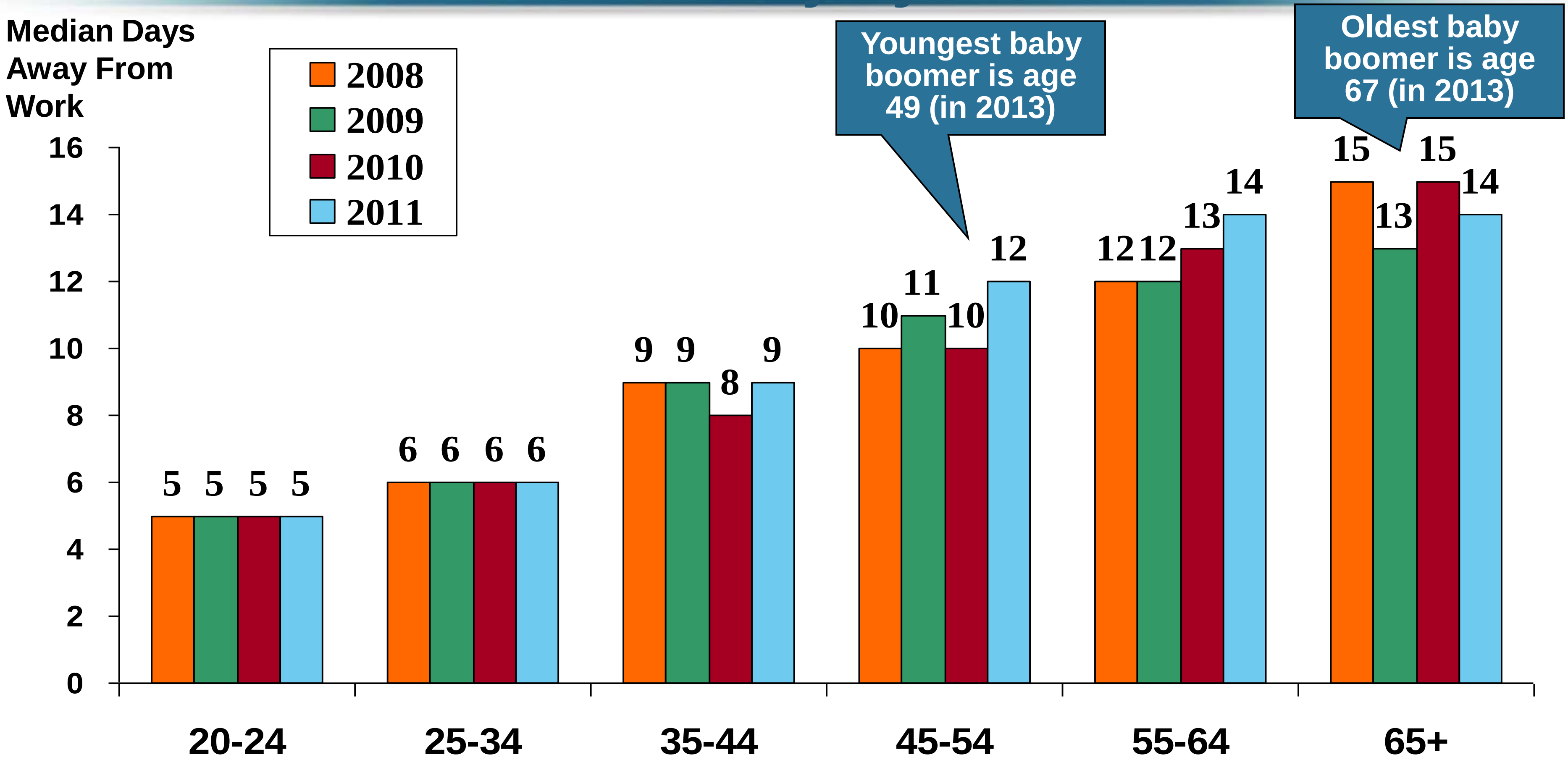
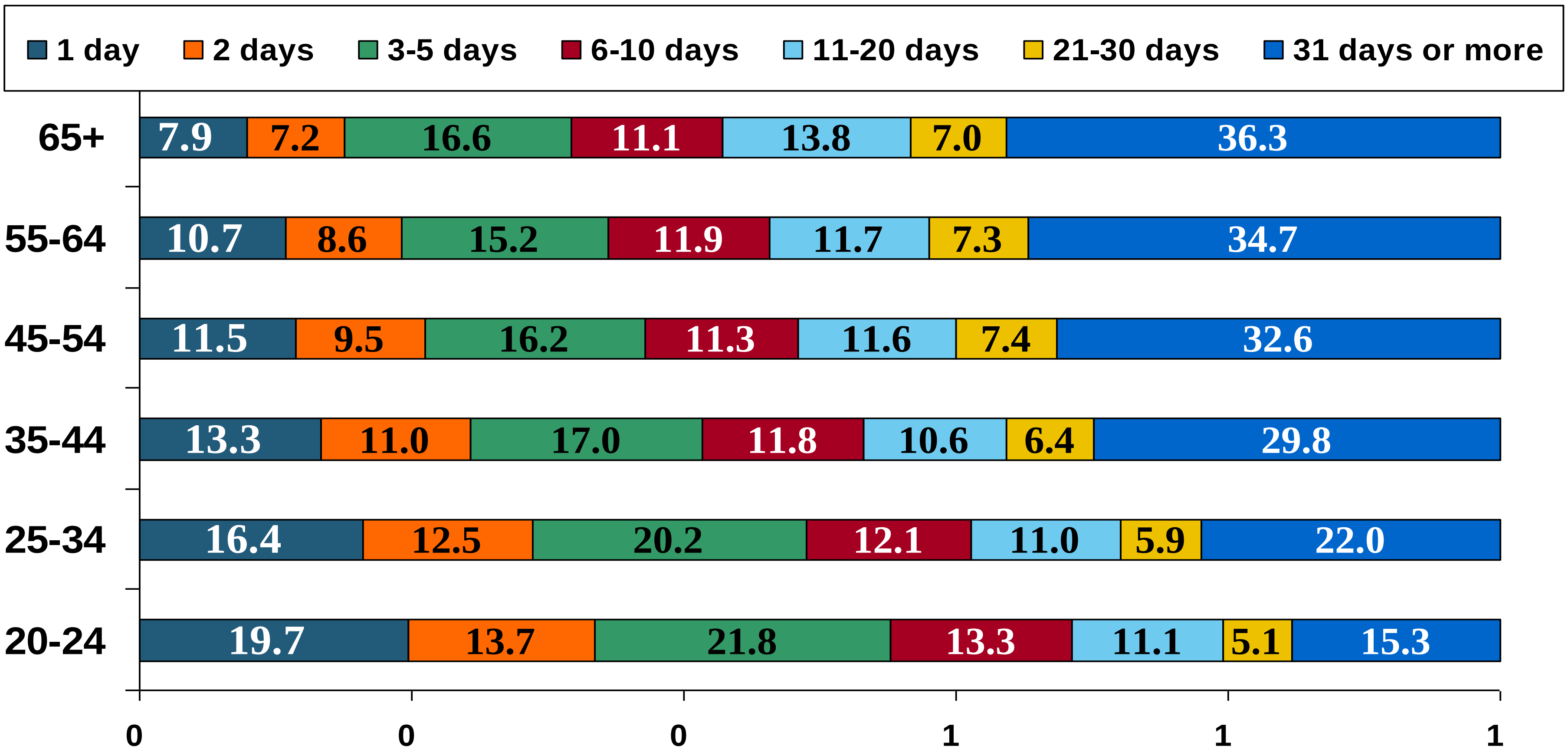


Median lost time of workers age 65+ is 2-3X that of workers age 25-34. These numbers are pretty stable—they haven't changed much since 2008.

Source: US Bureau of Labor Statistics, *Nonfatal Occupational Injuries and Illnesses Requiring Days Away From Work, 2011* (Table 10), released November 8, 2012.

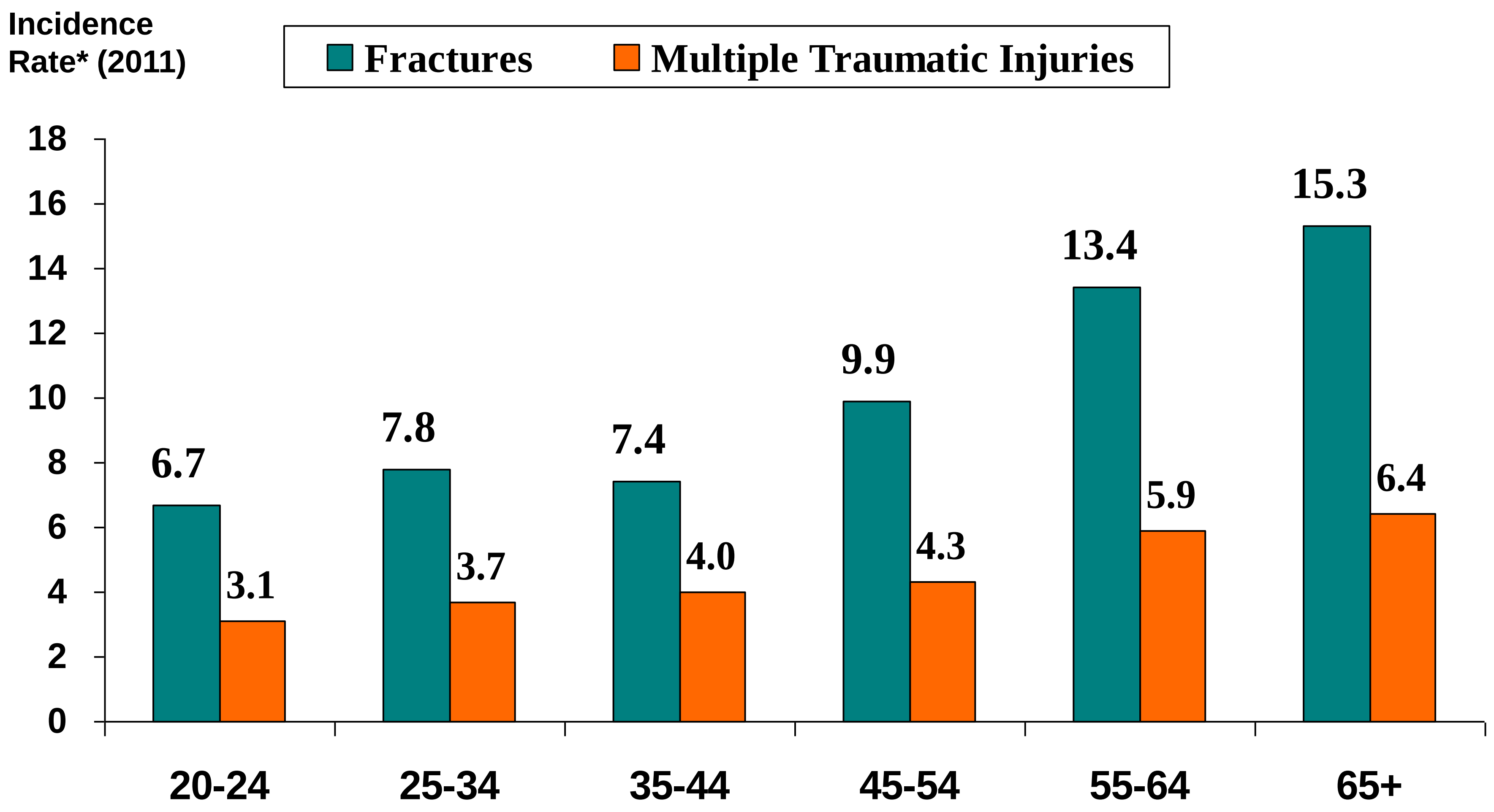
Percent of Days-Away-from-Work Cases, by Days Lost and Age Group, 2011



Over one-third of days-lost cases of older workers involved a month or more away from work. And virtually 9 of 10 cases were for at least two days, compared to 8 of 10 for the youngest workers.

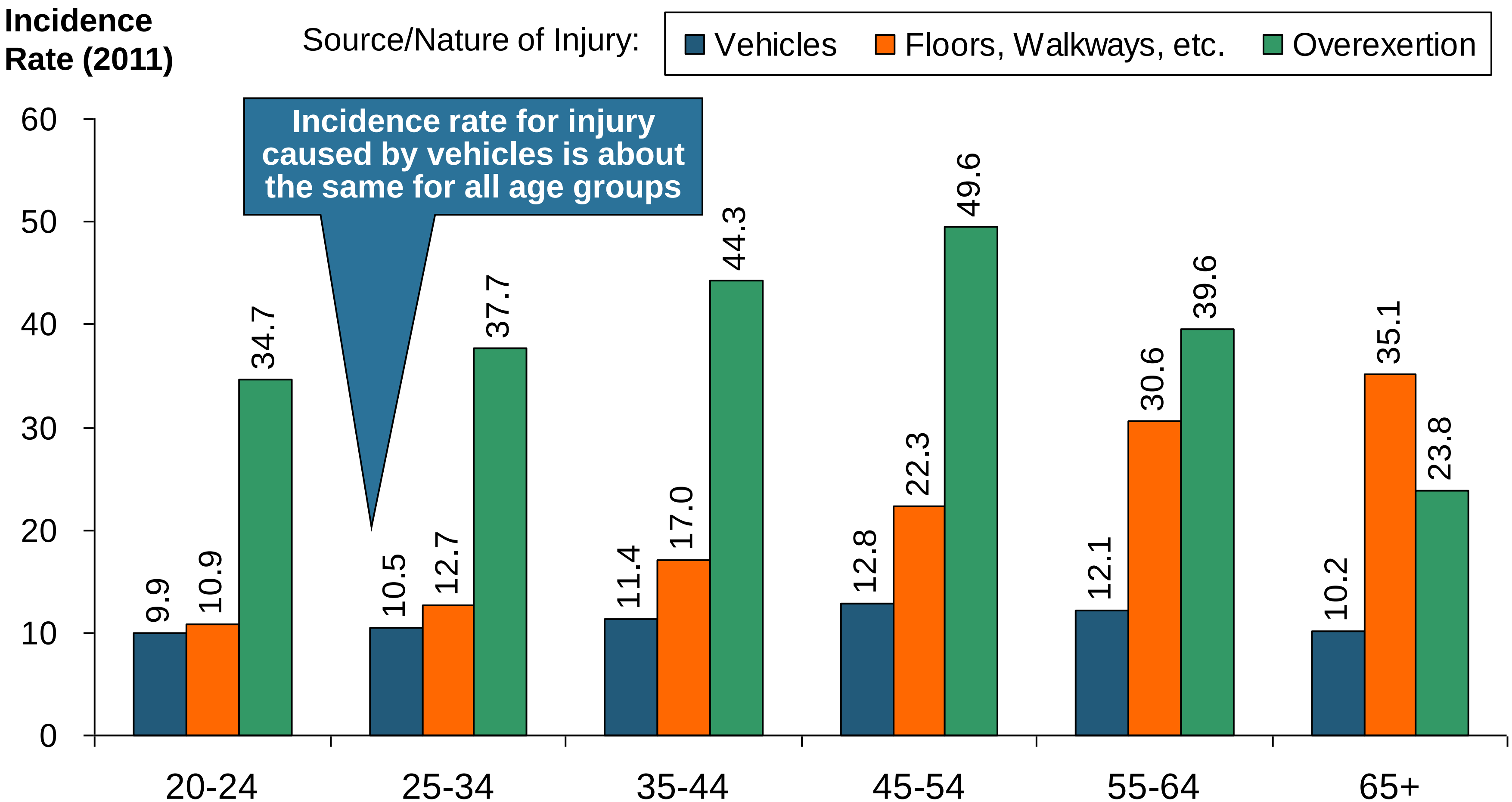
Source: US Bureau of Labor Statistics, *Nonfatal Occupational Injuries and Illnesses Requiring Days Away From Work, 2011* (Table 11), released November 8, 2012.

Older Workers Are Much More Likely to Break a Bone



*per 10,000 full-time-equivalent workers
Source: US Bureau of Labor Statistics, US Department of Labor at http://www.bls.gov/news.release/pdf/osh2.pdf Table 14

Older Workers Are More Likely to Slip When Walking, but Less Likely to Overexert Themselves



Source: US Bureau of Labor Statistics, US Department of Labor at http://www.bls.gov/news.release/pdf/osh2.pdf Table 14

Investments: The New Reality

Investment Performance is a Key Driver of Profitability

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

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- **They Didn't Expect Rates to be**
  - **Pushed to Such Low Levels**
  - **Pushed Down so Rapidly**
  - **Held to Such Low Levels for So Long**
  - **Suppressed via Unprecedented Aggressiveness of the Federal Reserve**
- **Ability to Release Prior Reserves Eased Urgency**

OFFSETTING FACTORS

- **Capitalization Still Solid**
- **Emergence of Sophisticated Price Monitoring and Underwriting Tools**

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

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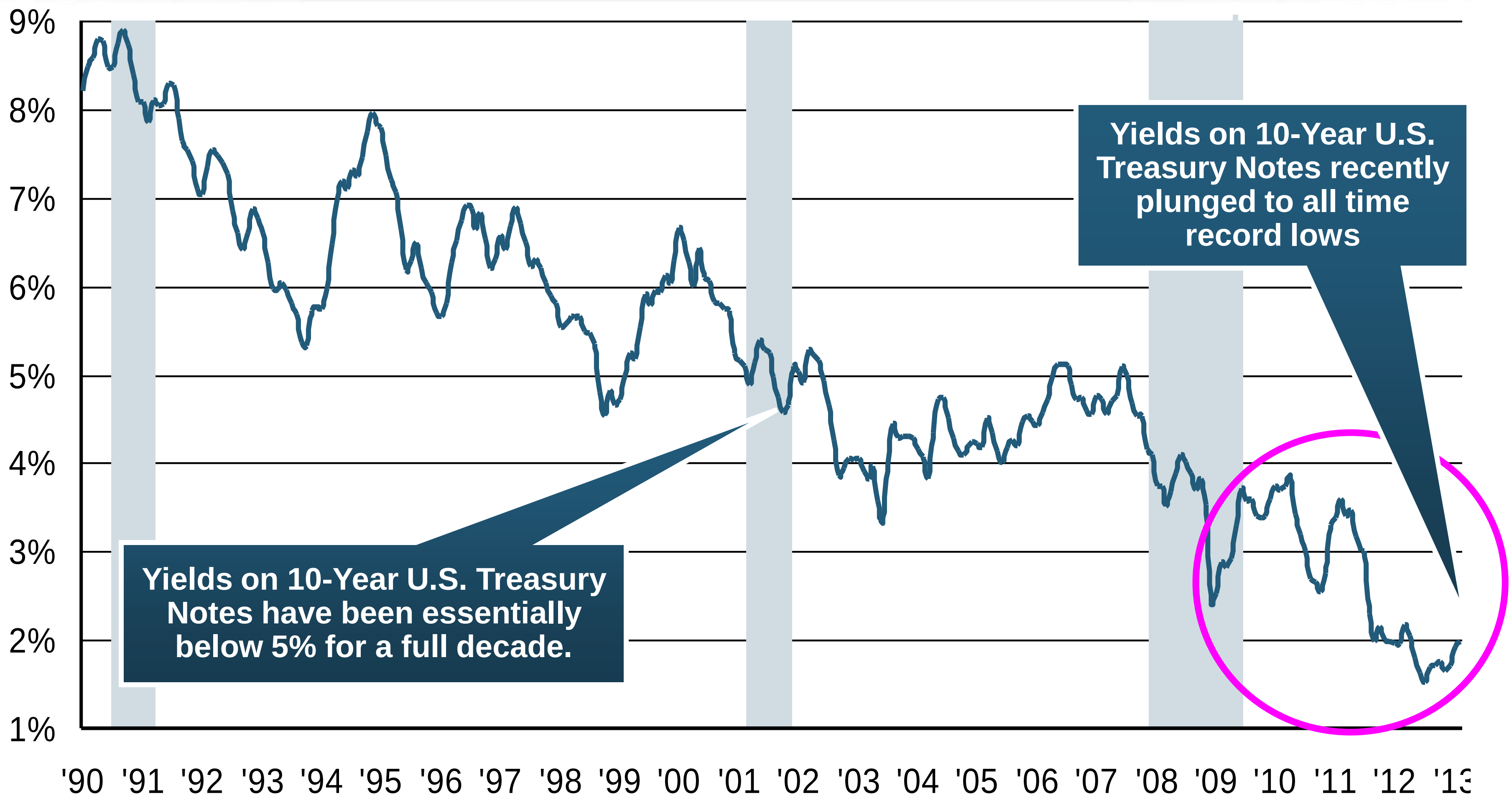

Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

Note: Recessions indicated by gray shaded columns.

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

Distribution of Bond Maturities, P/C Insurance Industry, 2003-2011

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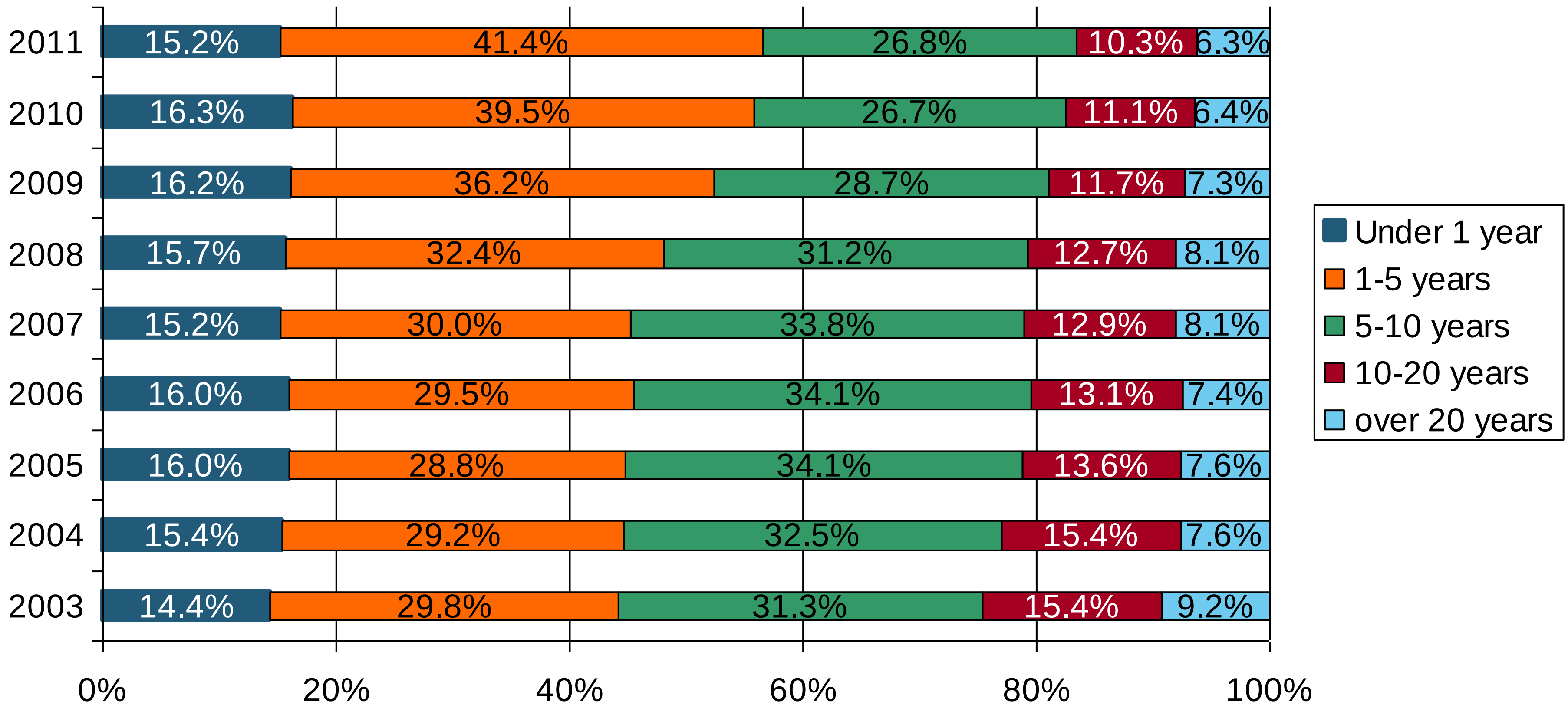

The main shift over these years has been from bonds with longer maturities to bonds with shorter maturities. The industry first trimmed its holdings of over-10-year bonds (from 24.6% in 2003 to 16.9% in 2011) and then trimmed bonds in the 5-10-year category. Falling average maturity of the P/C industry's bond portfolio is contributing to a drop in investment income along with lower yields.

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

Property/Casualty Insurance Industry Investment Gain: 1994–2012F[1]

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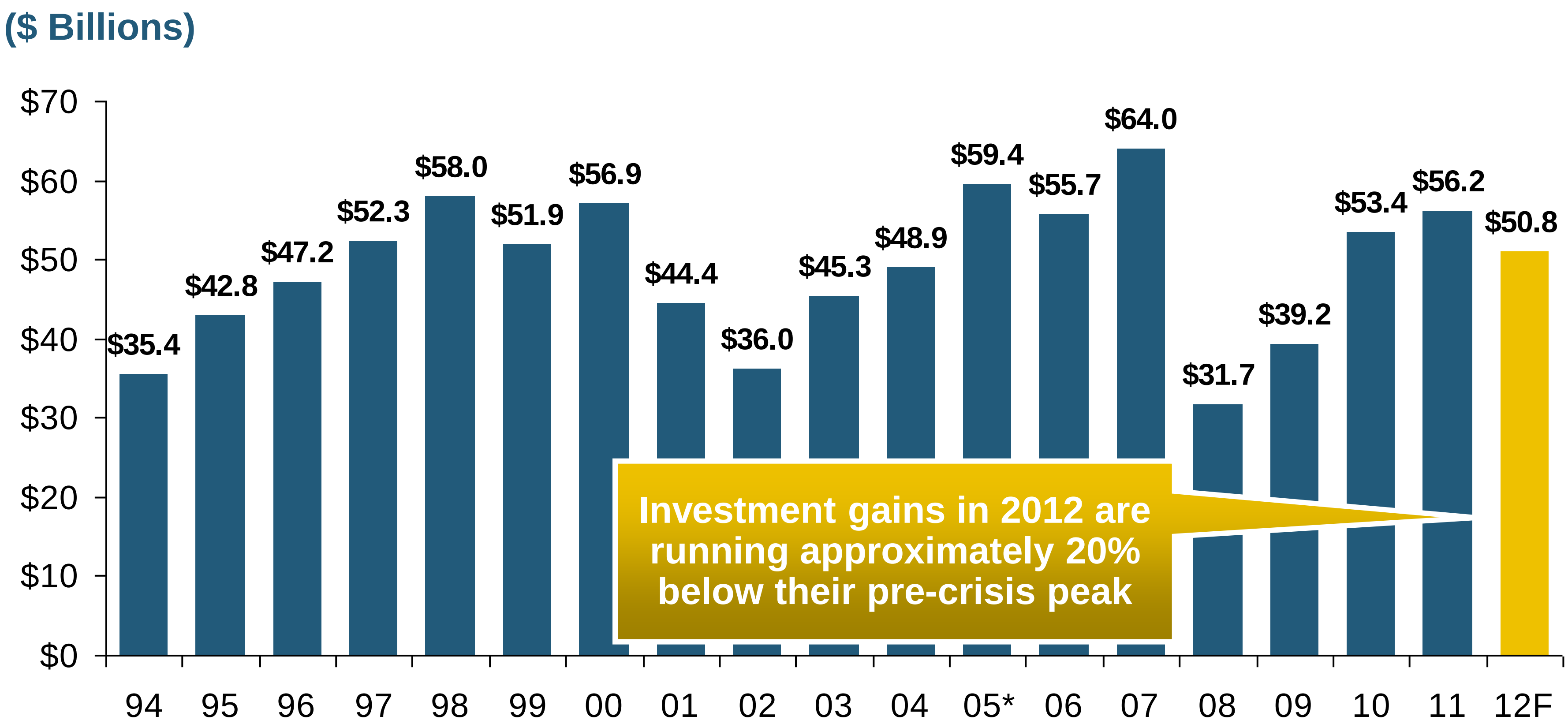

In 2012 (1st three quarters) both investment income and realized capital gains were lower than in the comparable period in 2011. And because the Federal Reserve Board aims to keep interest rates exceptionally low through mid-2015, maturing bonds will be re-invested at even lower rates.

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

*2005 figure includes special one-time dividend of $3.2B; 2012F figure is I.I.I. estimate based on annualized actual 2012:Q3 result of $38.089B. Sources: ISO; Insurance Information Institute.

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

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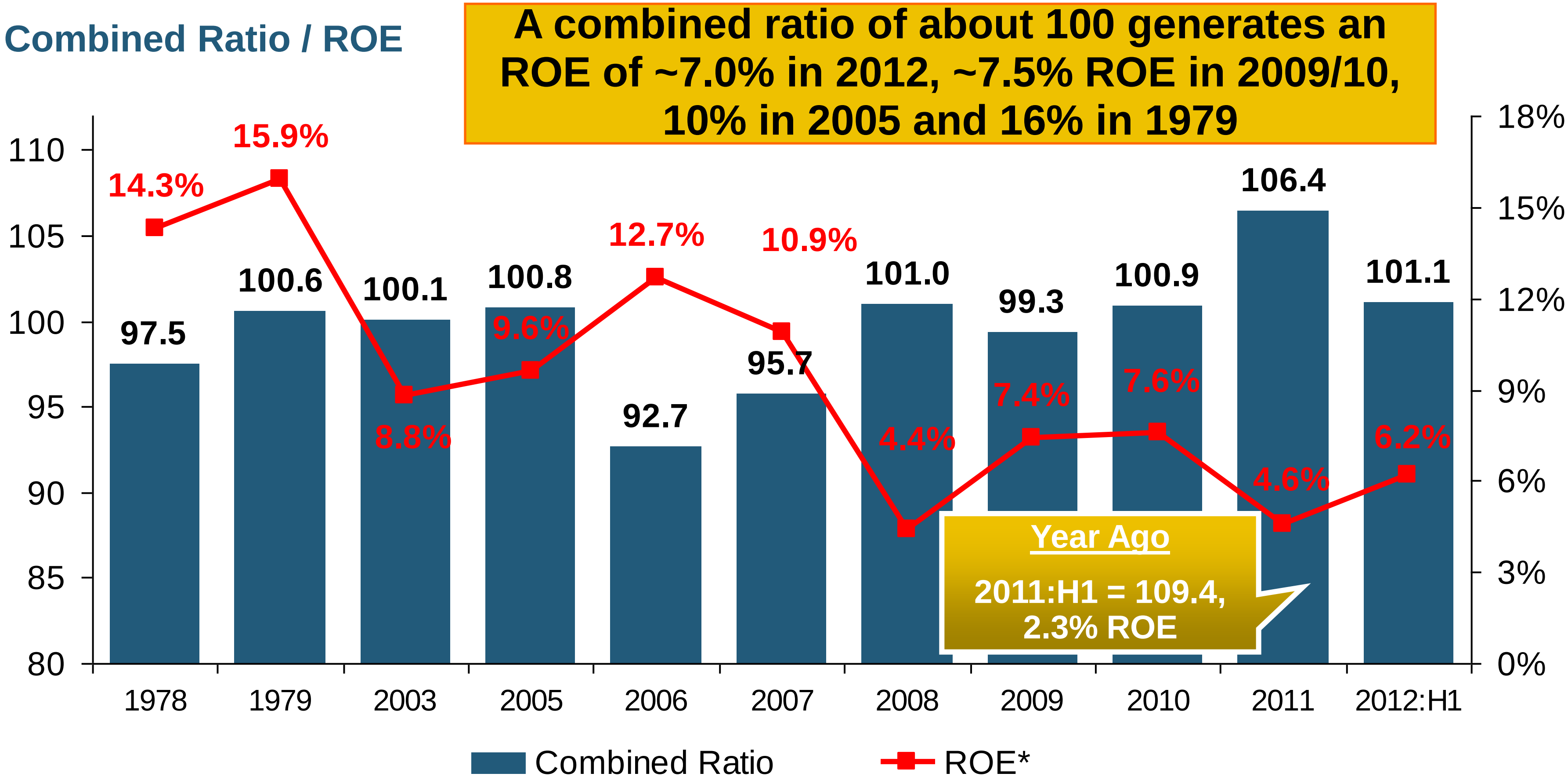

Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

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

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

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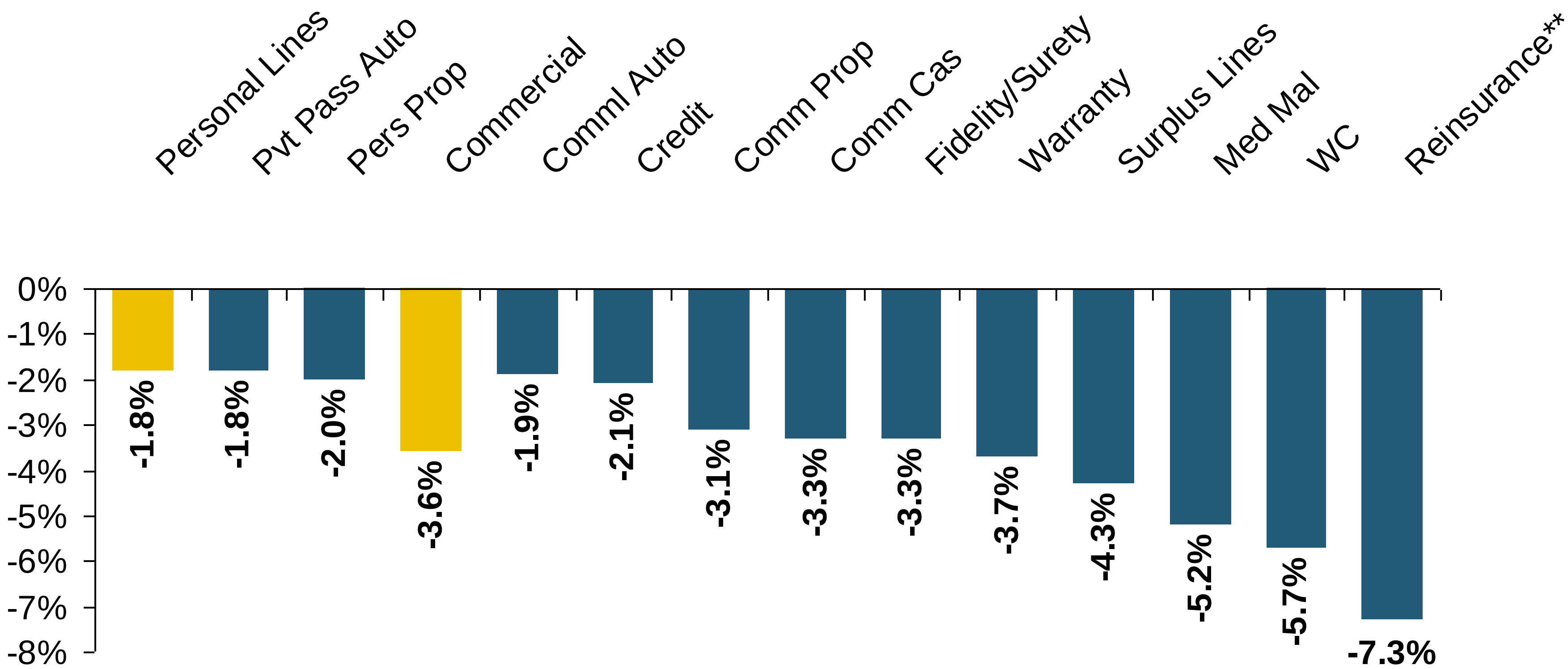


Lower Investment Earnings Place a Greater Burden on Underwriting and Pricing Discipline

*Based on 2008 Invested Assets and Earned Premiums

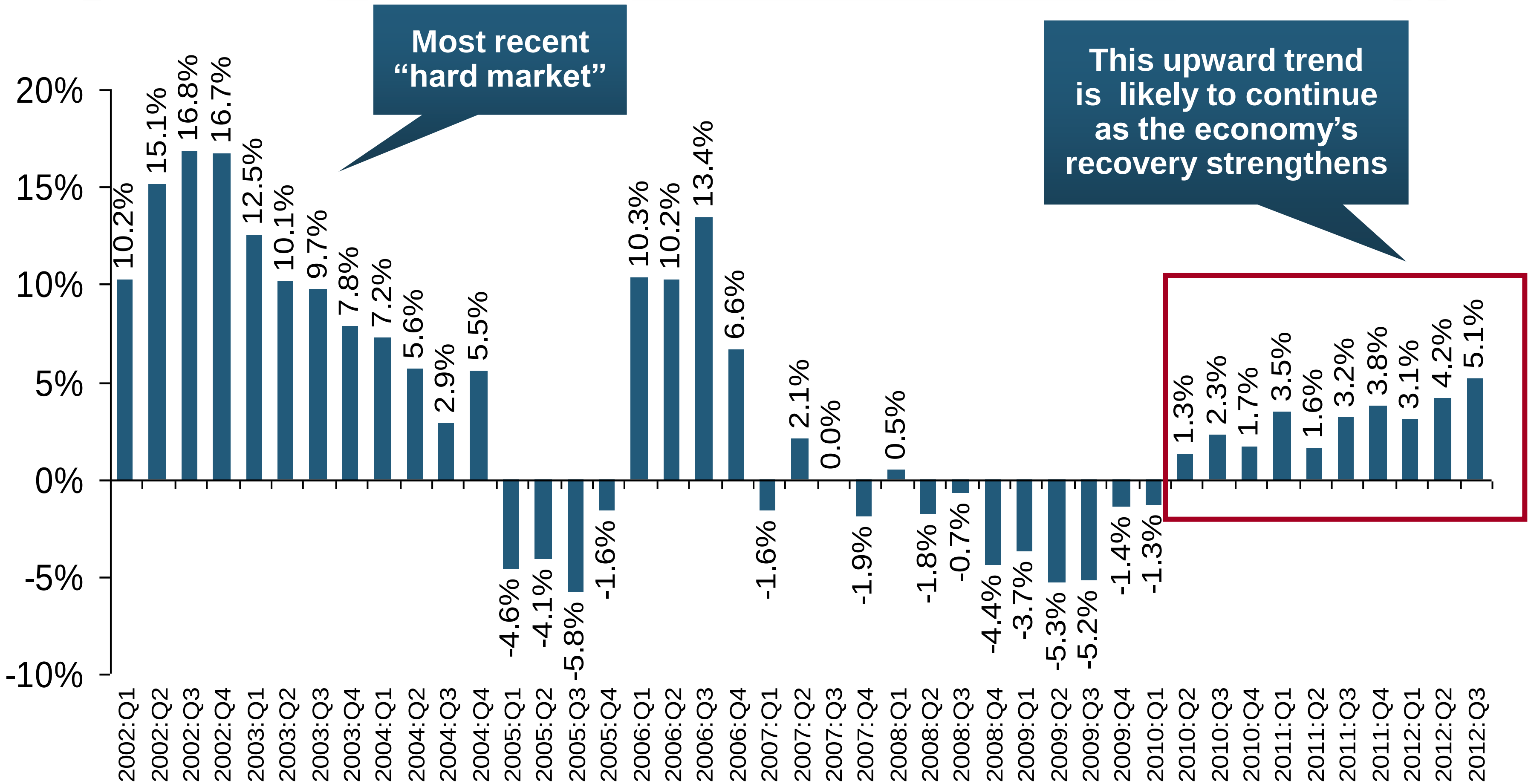
**US domestic reinsurance only

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

P/C Insurance Industry Financial Overview

Profit Recovery Was Set Back in 2011 and 2012 by High Catastrophe Losses & Other Factors

P/C Net Premiums Written: % Change, Quarter vs. Year-Prior Quarter, 2002–2012

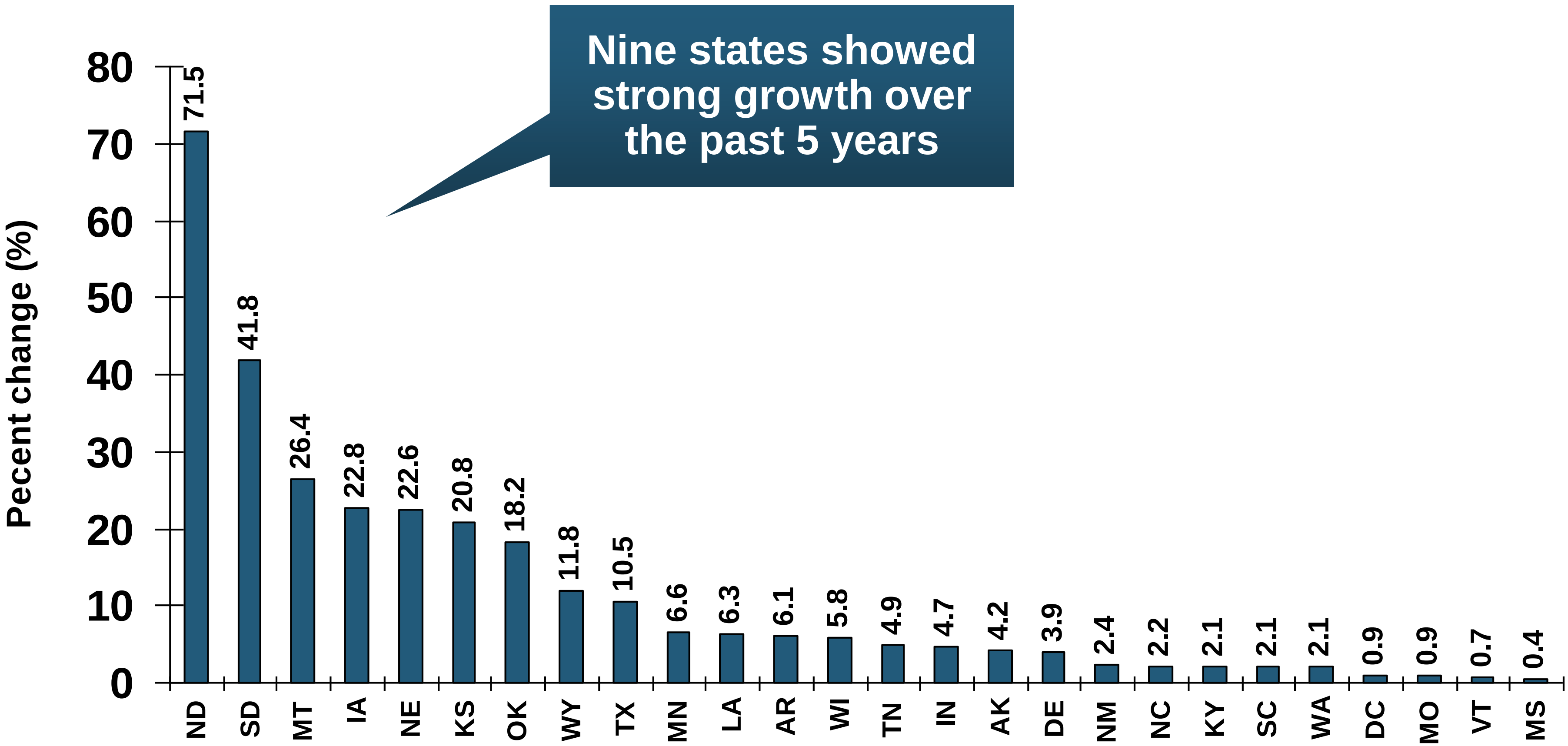


Finally! A sustained period (10 quarters) of growth in net premiums written (vs. same quarter, prior year), and strengthening.

Sources: ISO; Insurance Information Institute.

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

Top 25 States



Sources: SNL Financial, LLC.; Insurance Information Institute.

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

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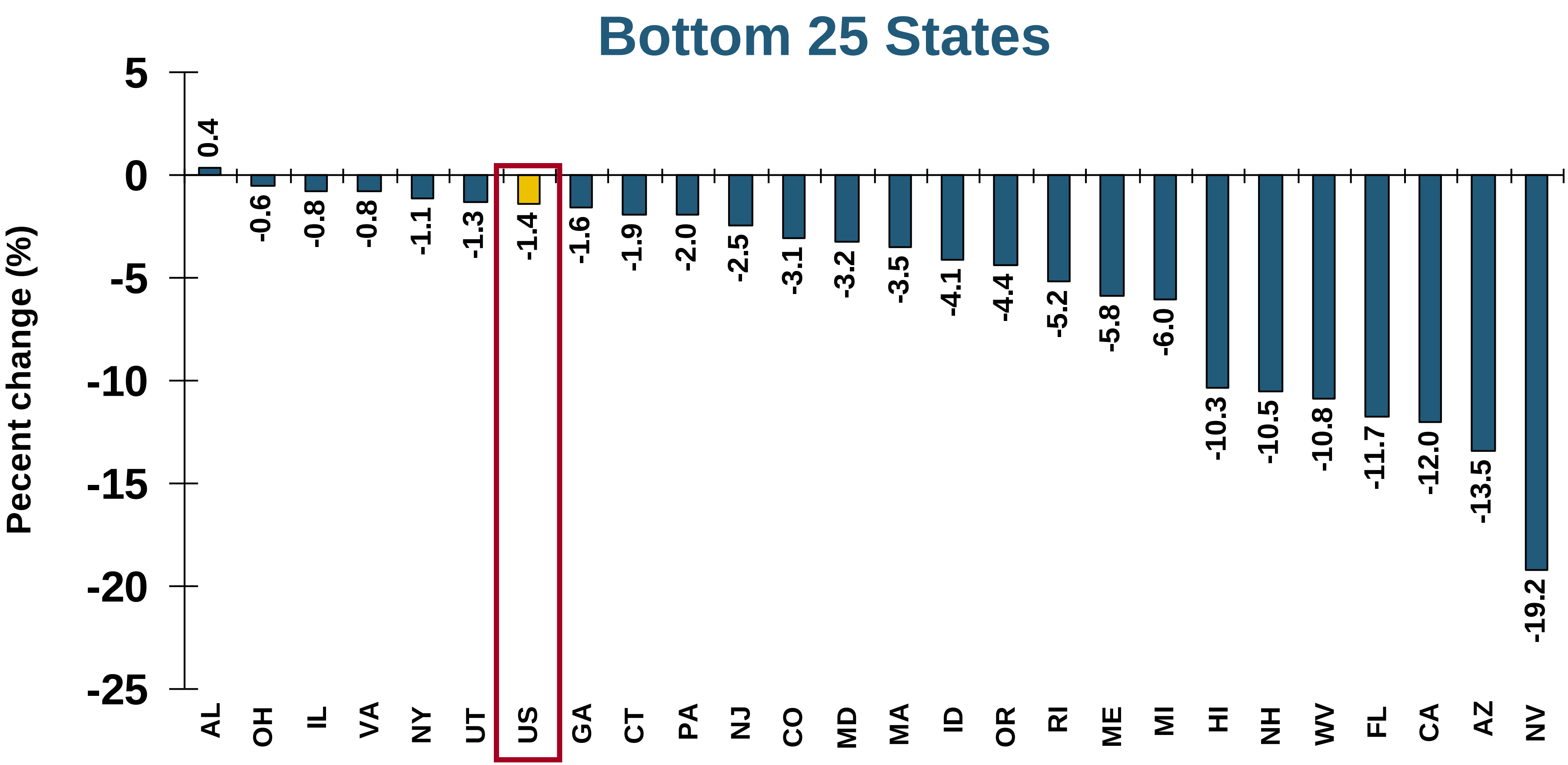
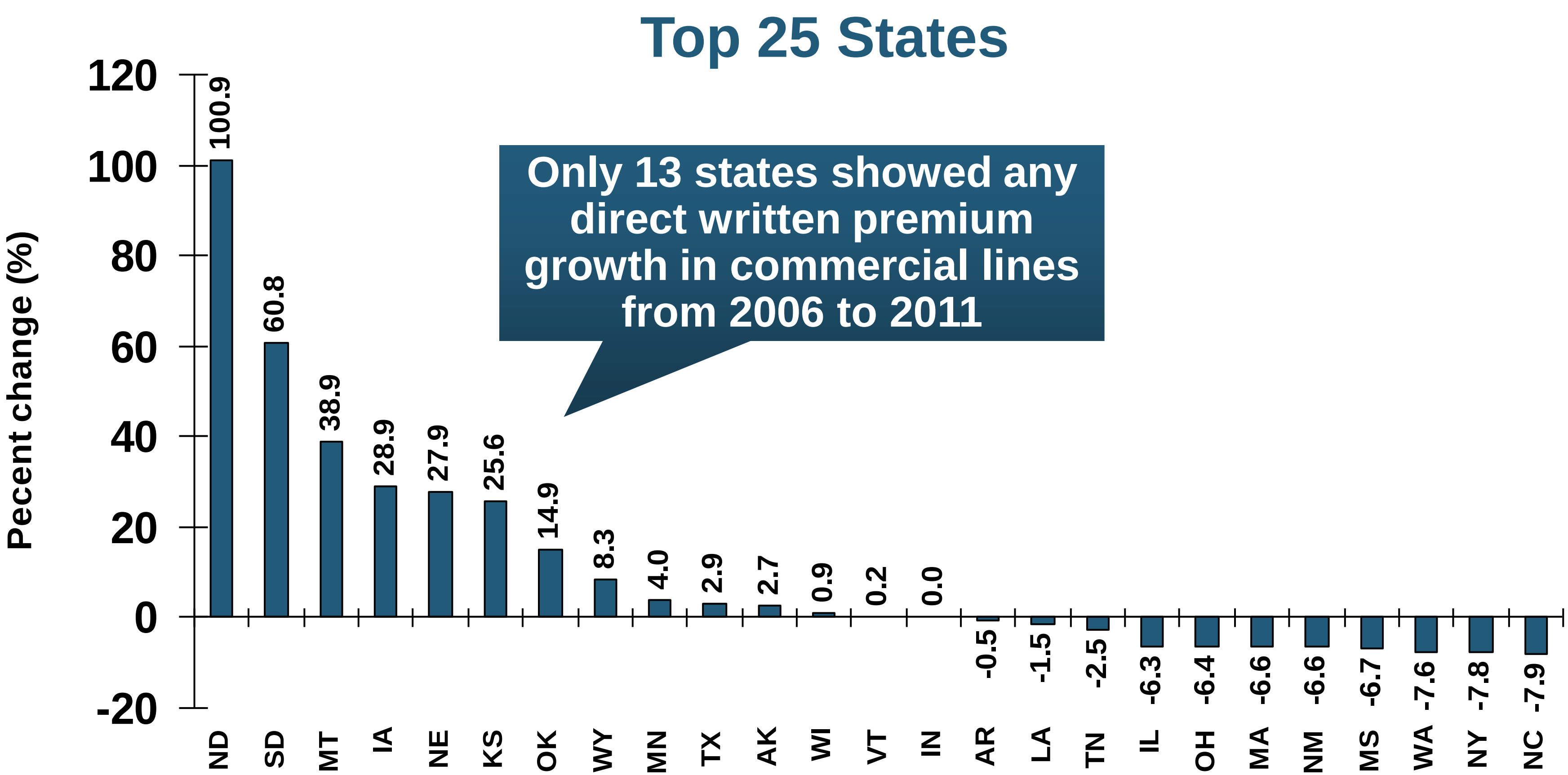


States with the poorest-performing economies also produced the most negative net change in direct premiums written from 2006 to 2011

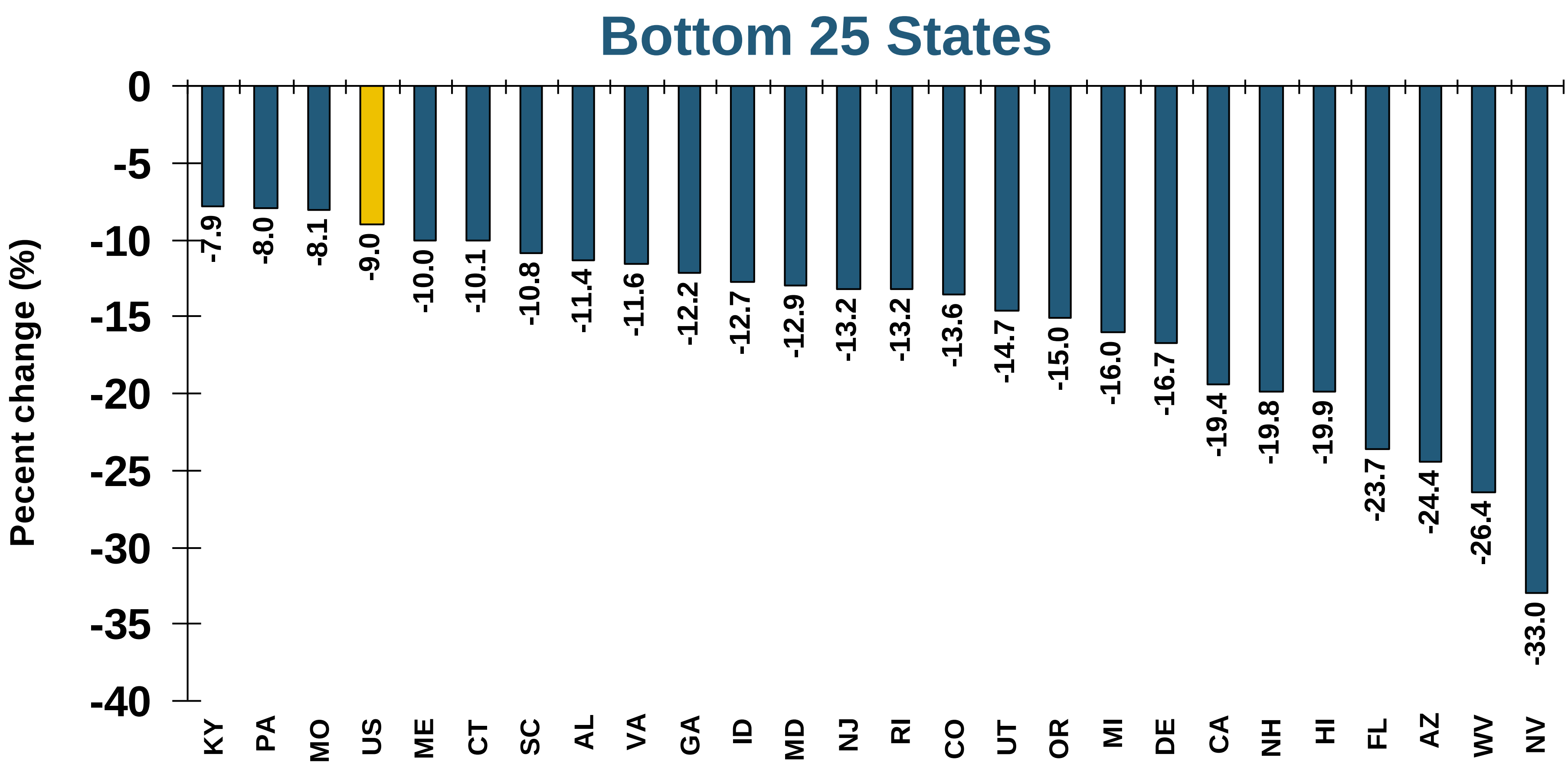
Sources: SNL Financial, LLC.; Insurance Information Institute.

Commercial Lines Direct Premiums Written: Pct. Change by State, 2006-2011*



Sources: SNL Financial LC.; Insurance Information Institute.

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



States with the poorest performing economies also produced the most negative net change in premiums of the past 5 years

Sources: SNL Financial LC.; Insurance Information Institute.

Growth in Net Written Premium by Segment, 2012:9 Mos. vs. 2011:9 Mos.*

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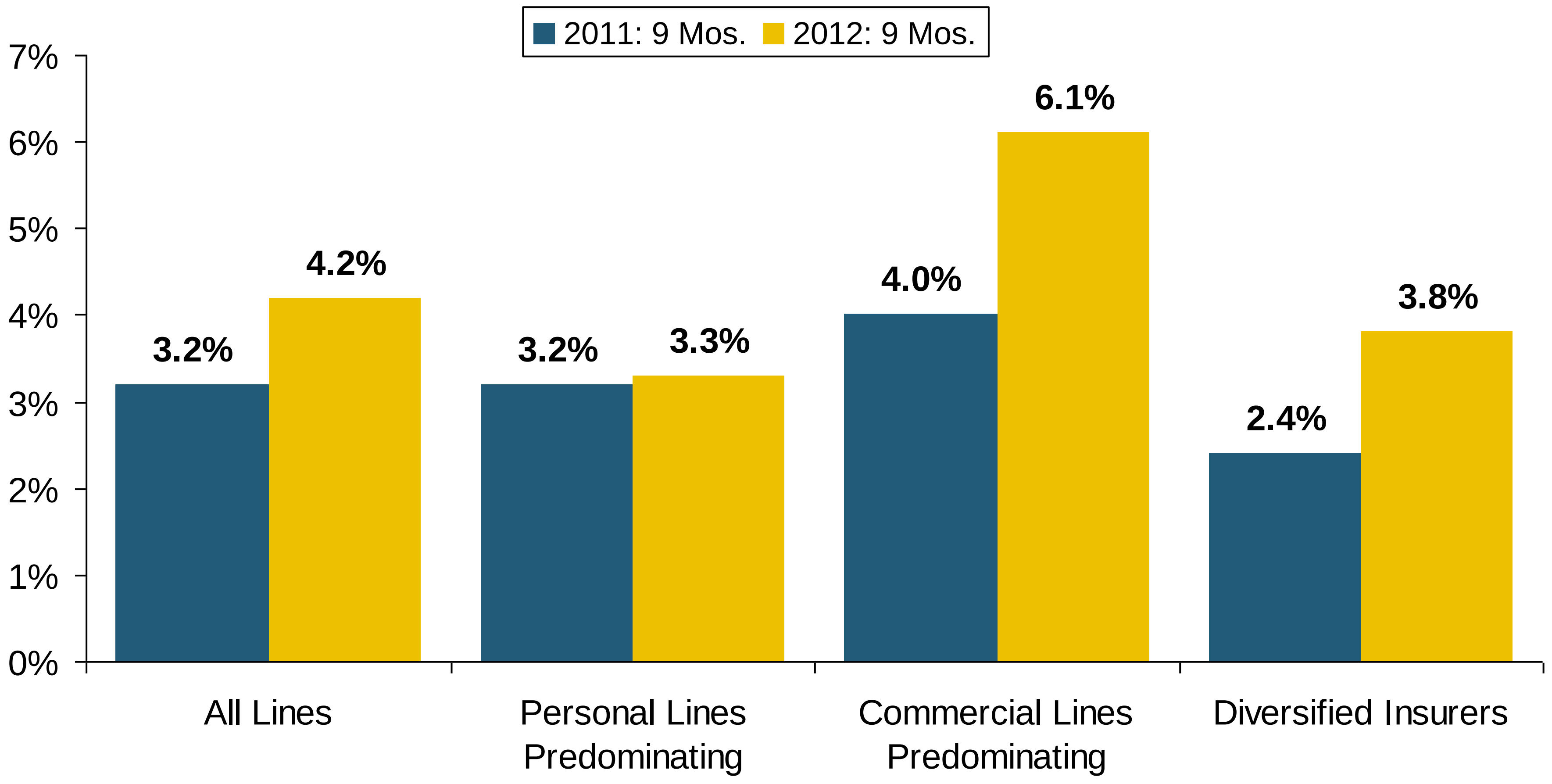
(Percent)



*Excludes mortgage and financial guaranty insurers.

Source: ISO/PCI; Insurance Information Institute.

Underwriting Gain (Loss) 1975–2012:Q3**

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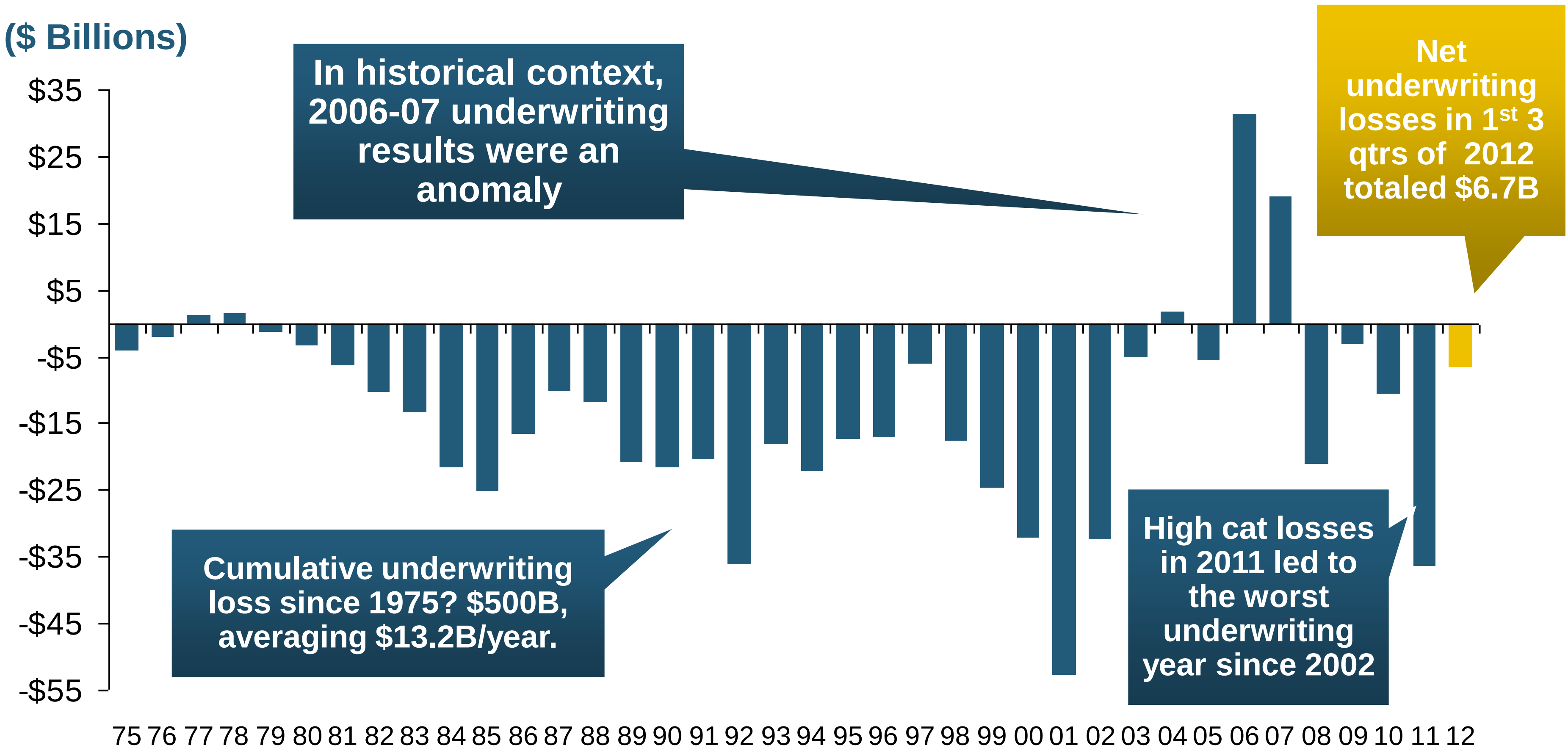
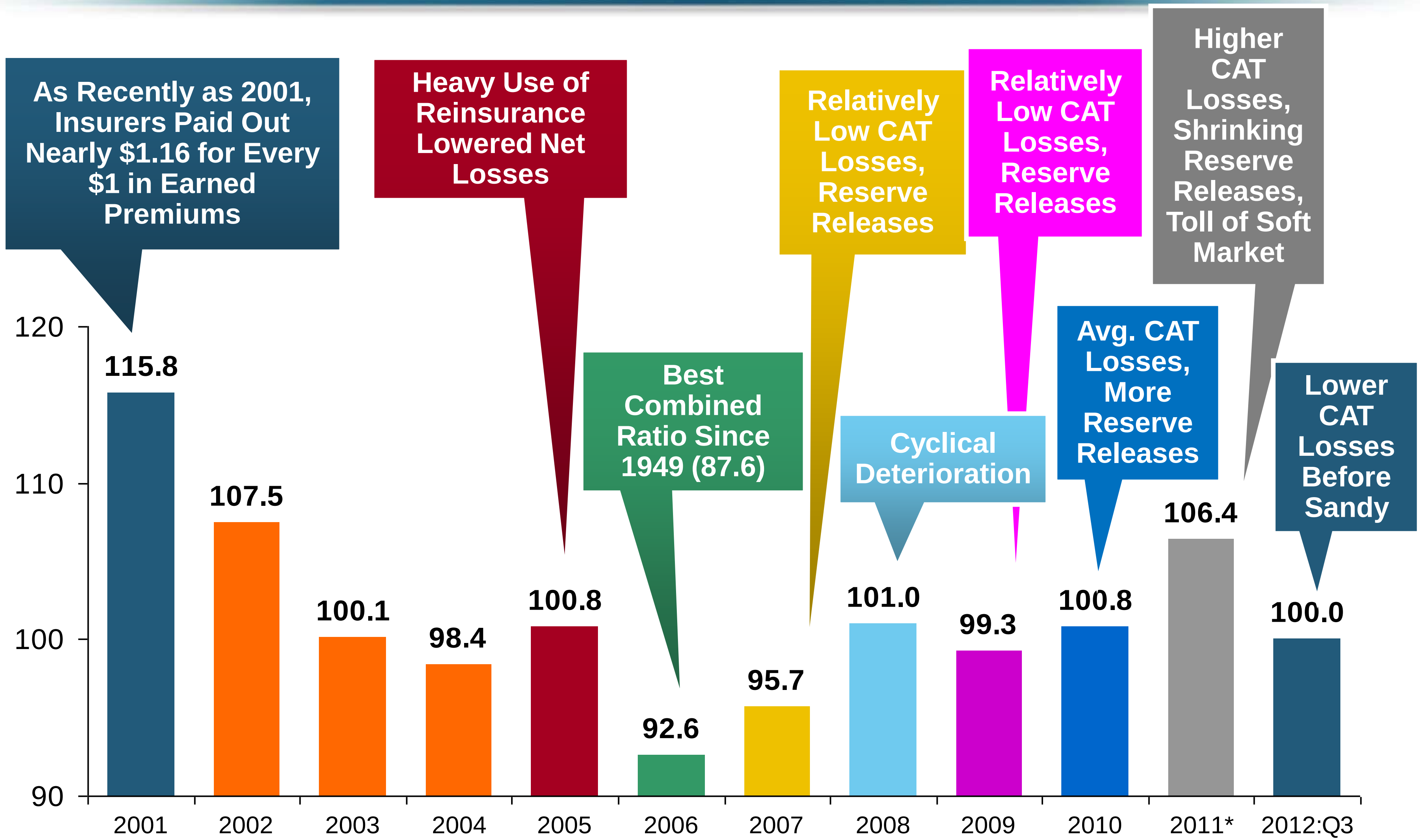


Average yearly underwriting loss in the 2008-2011 low-interest-rate environment? $17.8B. With interest rates this low, large persistent underwriting losses are not a recipe for success.

*Includes mortgage and financial guaranty insurers in all years. **through first three quarters of 2012

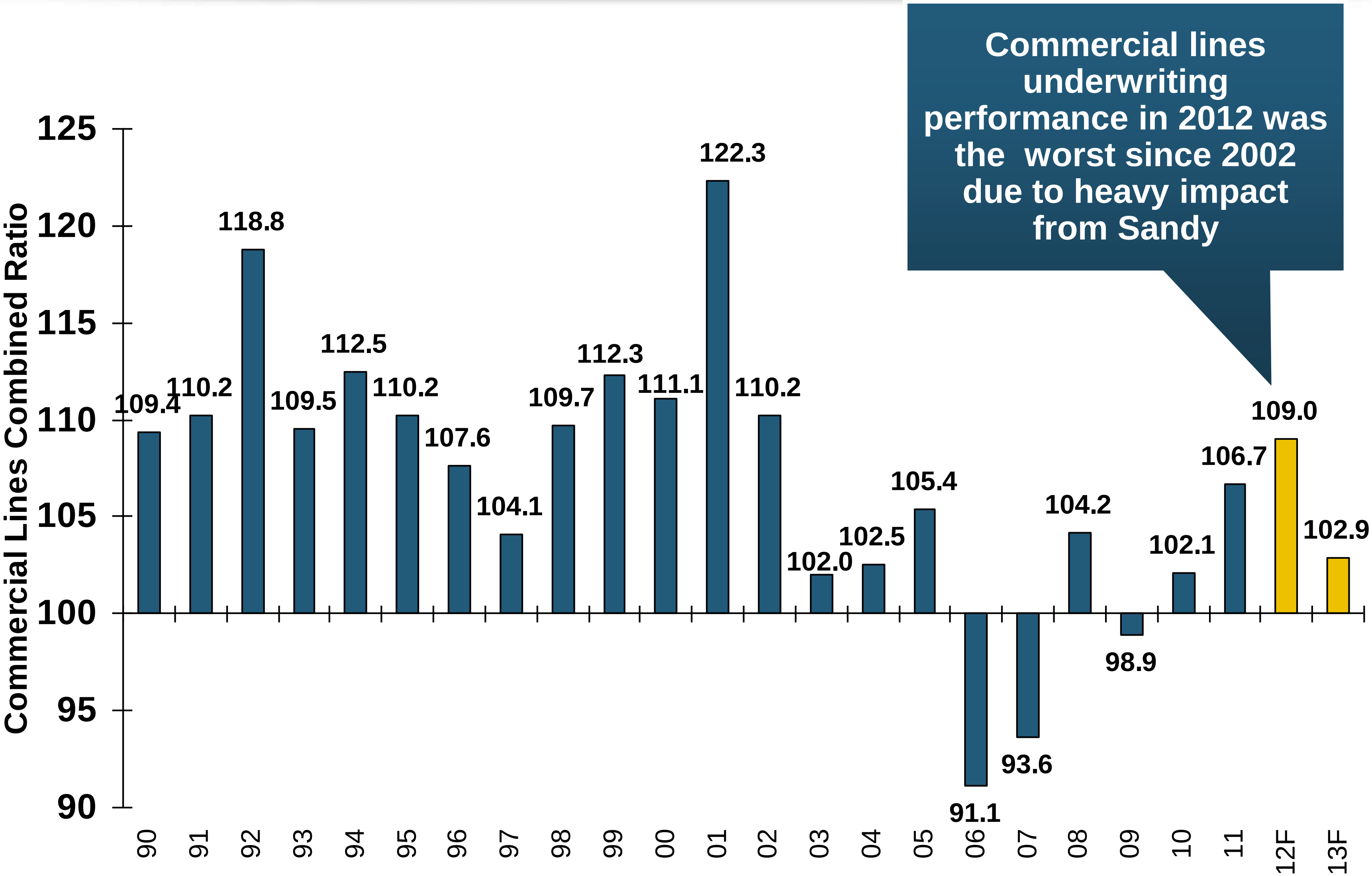
Sources: A.M. Best; ISO; Insurance Information Institute.

P/C Insurance Industry Combined Ratio, 2001–2012:Q3*



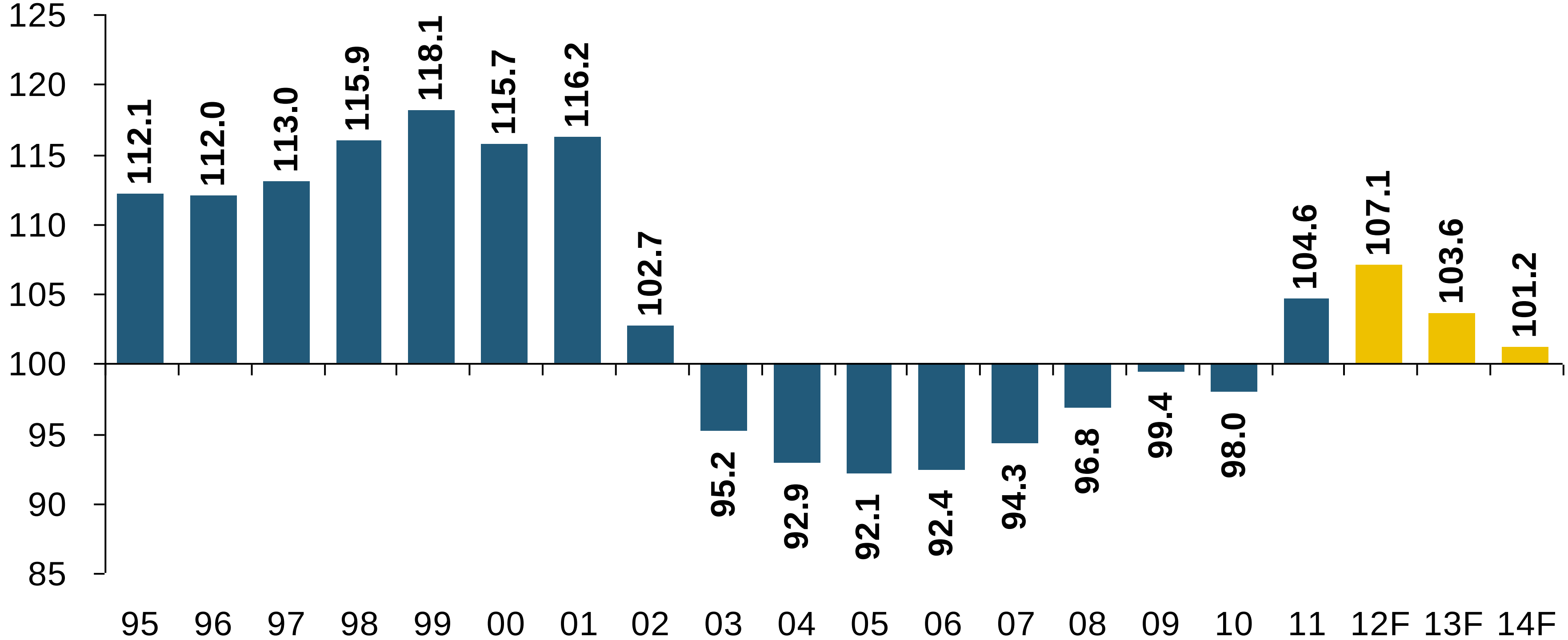
* Excludes Mortgage & Financial Guaranty insurers 2008--2012. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.2; 2012:Q3=100.9.
Sources: A.M. Best; ISO.

Commercial Lines Combined Ratio, 1990-2013F*



*2007-2013F figures exclude mortgage and financial guaranty segments.
Sources: A.M. Best; Insurance Information Institute

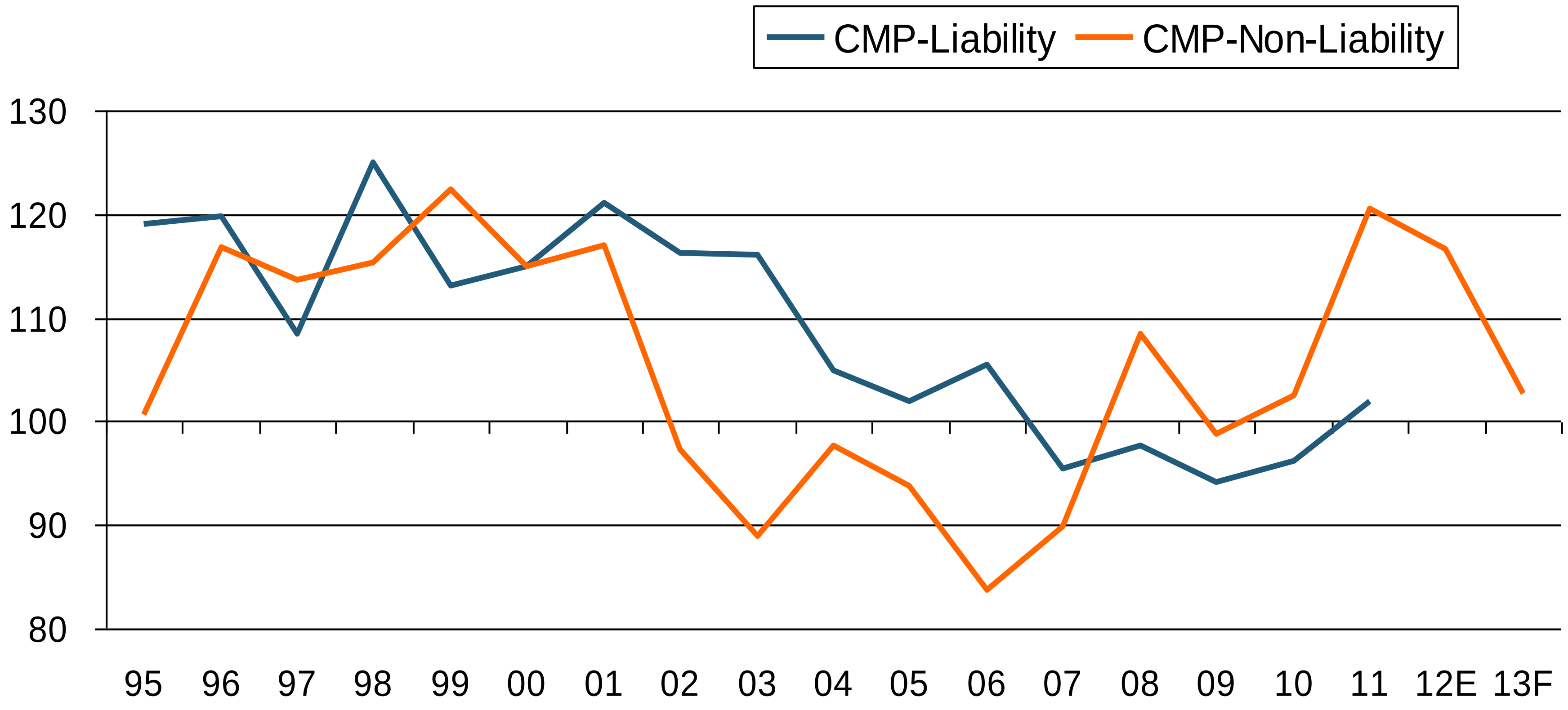
Commercial Auto Combined Ratio: 1993–2014F



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

Sources: A.M. Best (1990-2013F);Conning (2014F); Insurance Information Institute.

Commercial Multi-Peril Combined Ratio: 1995–2013F



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

General Liability Combined Ratio: 2005–2014F

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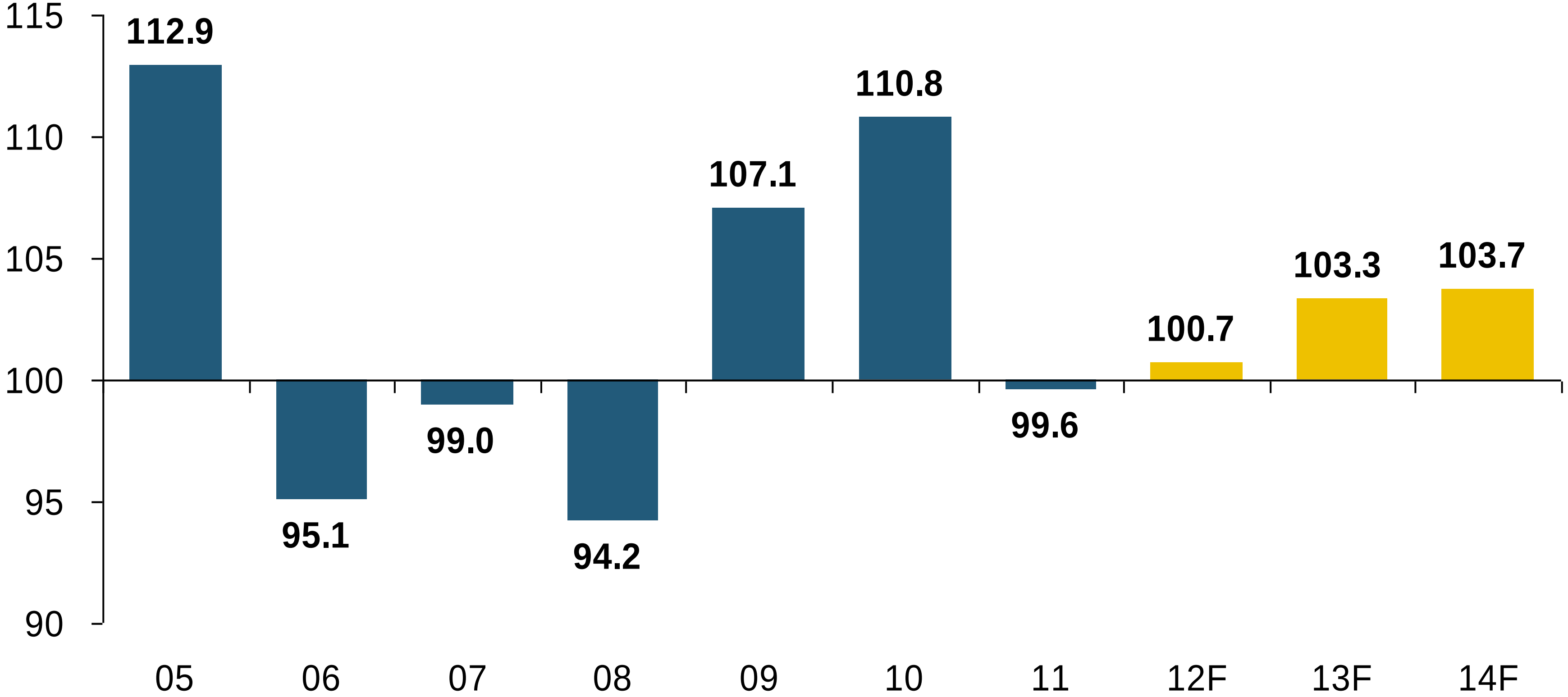

Commercial General Liability Underwriting Performance Has Been Volatile in Recent Years

Source: Conning Research and Consulting.

Inland Marine Combined Ratio: 1999–2014F

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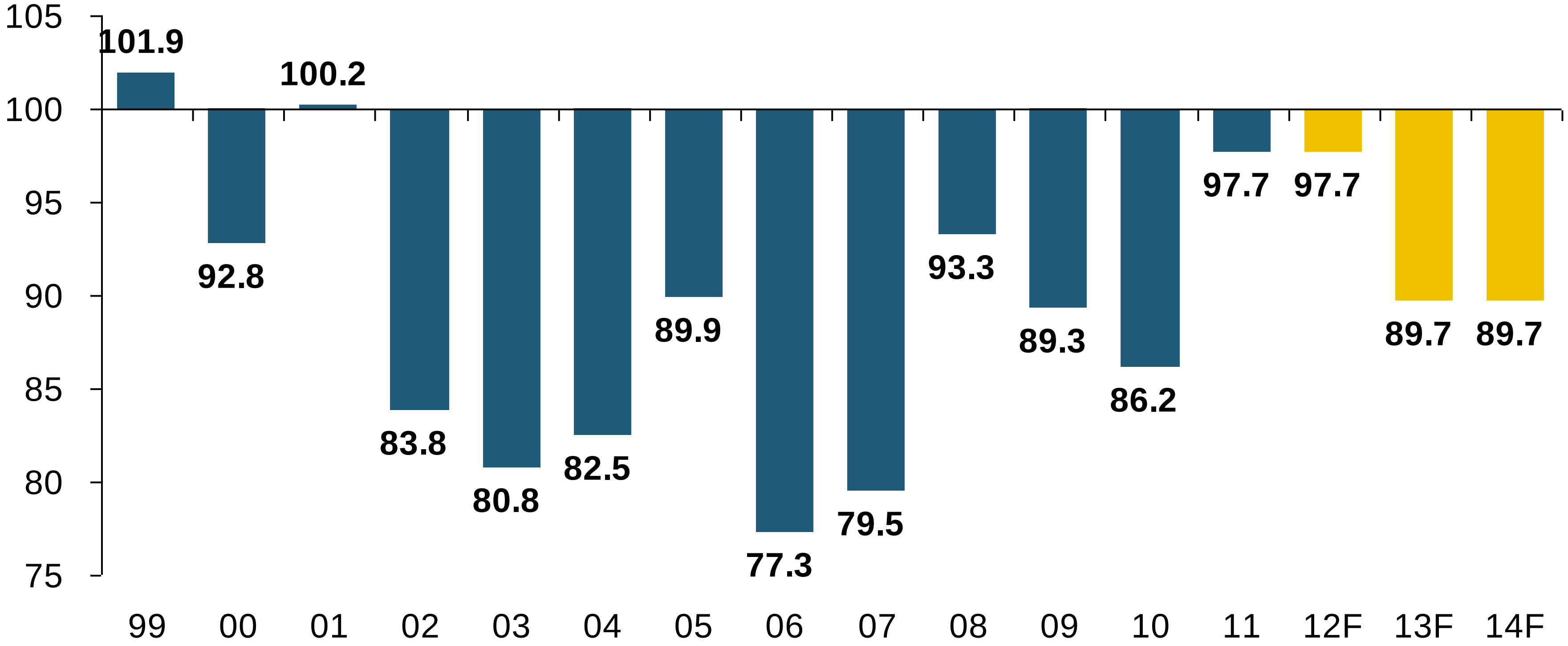
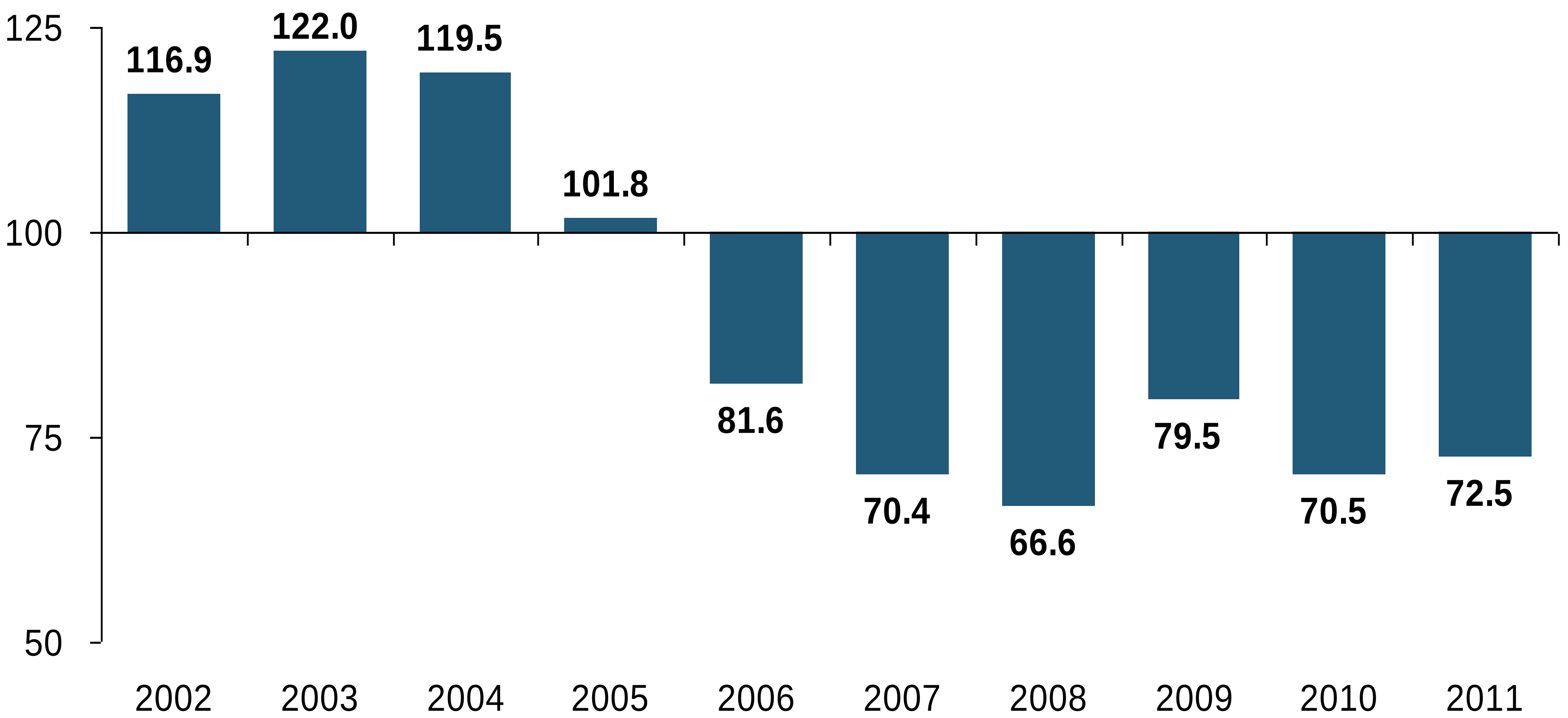


Inland Marine is Expected to Remain Among the Most Profitable of All Lines

Sources: A.M. Best (1999-2011); Insurance Information Institute (2012F); Conning (2013F-2014F)

Surety Bonds Combined Ratio, 2002–2011



Source: A.M. Best *Aggregates & Averages*, 2012, p. 376.

Workers Compensation Combined Ratio: 1994–2014F

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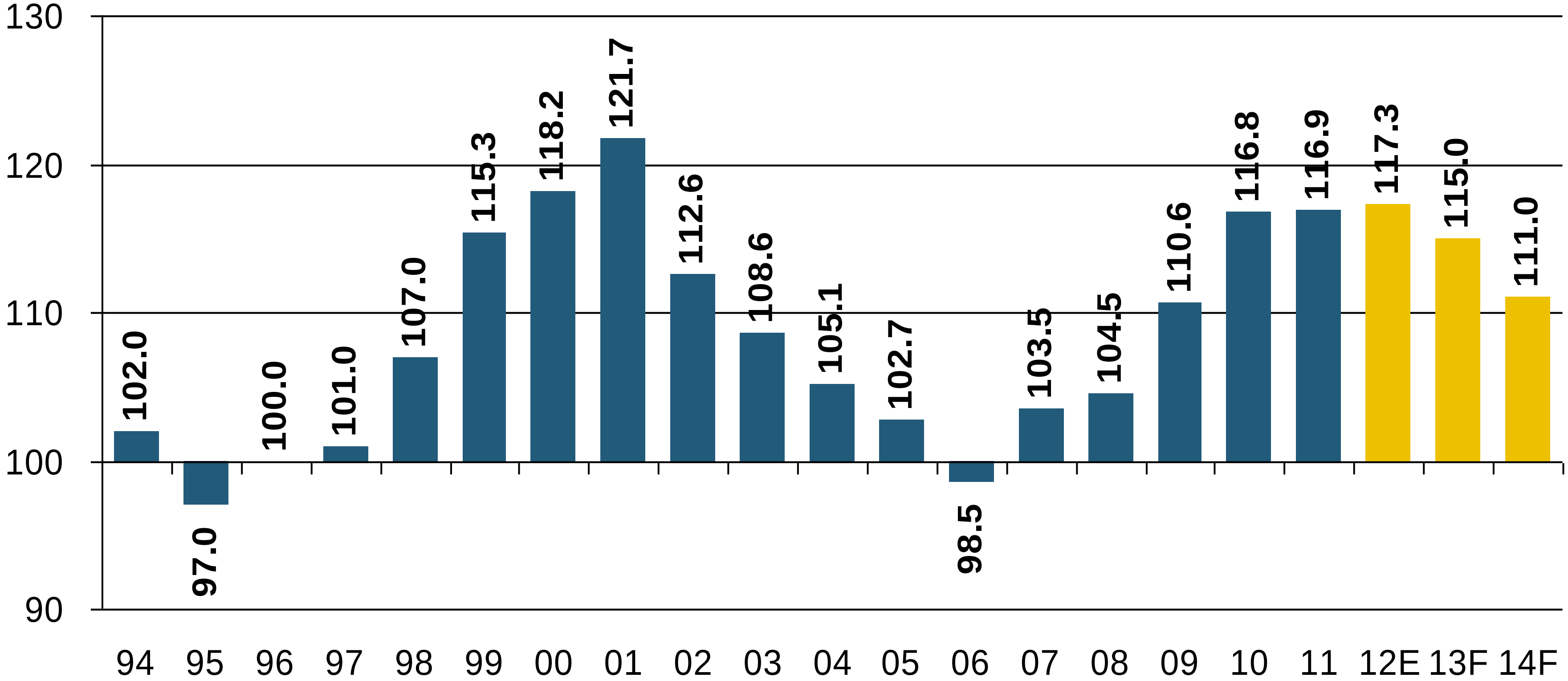

Workers Comp underwriting results are expected to begin improving in 2013. They deteriorated markedly since 2007 and in 2012 are estimated to have hit their worst level in a decade.

Sources: A.M. Best (1994-2013F); Insurance Information Institute (2014F).

P/C Industry Net Income, Quarterly, 2009:Q1-2012:Q3

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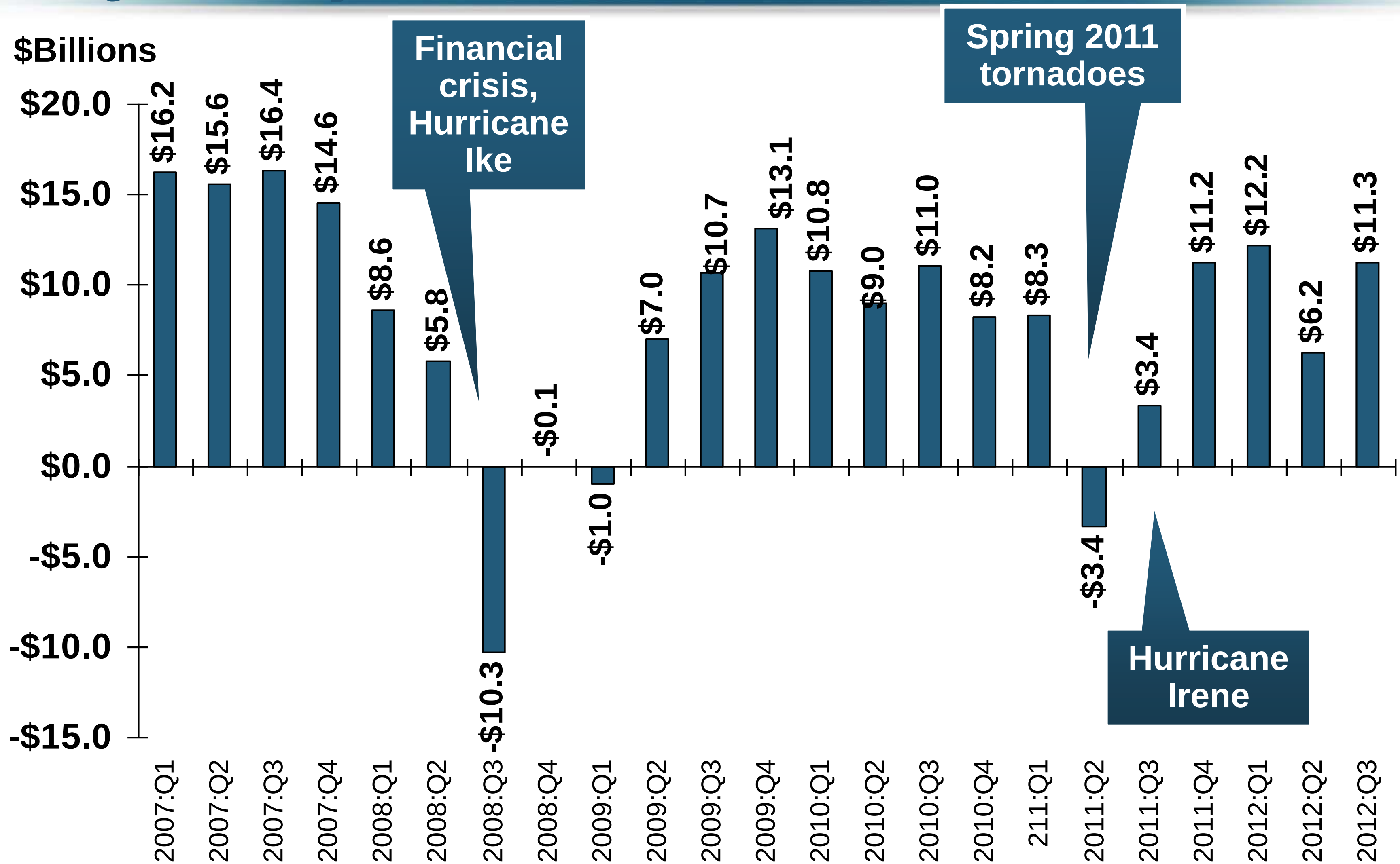

Sources: SNL Financial; Insurance Information Institute

P/C Net Income After Taxes 1991–2012:Q3 ($ Millions)

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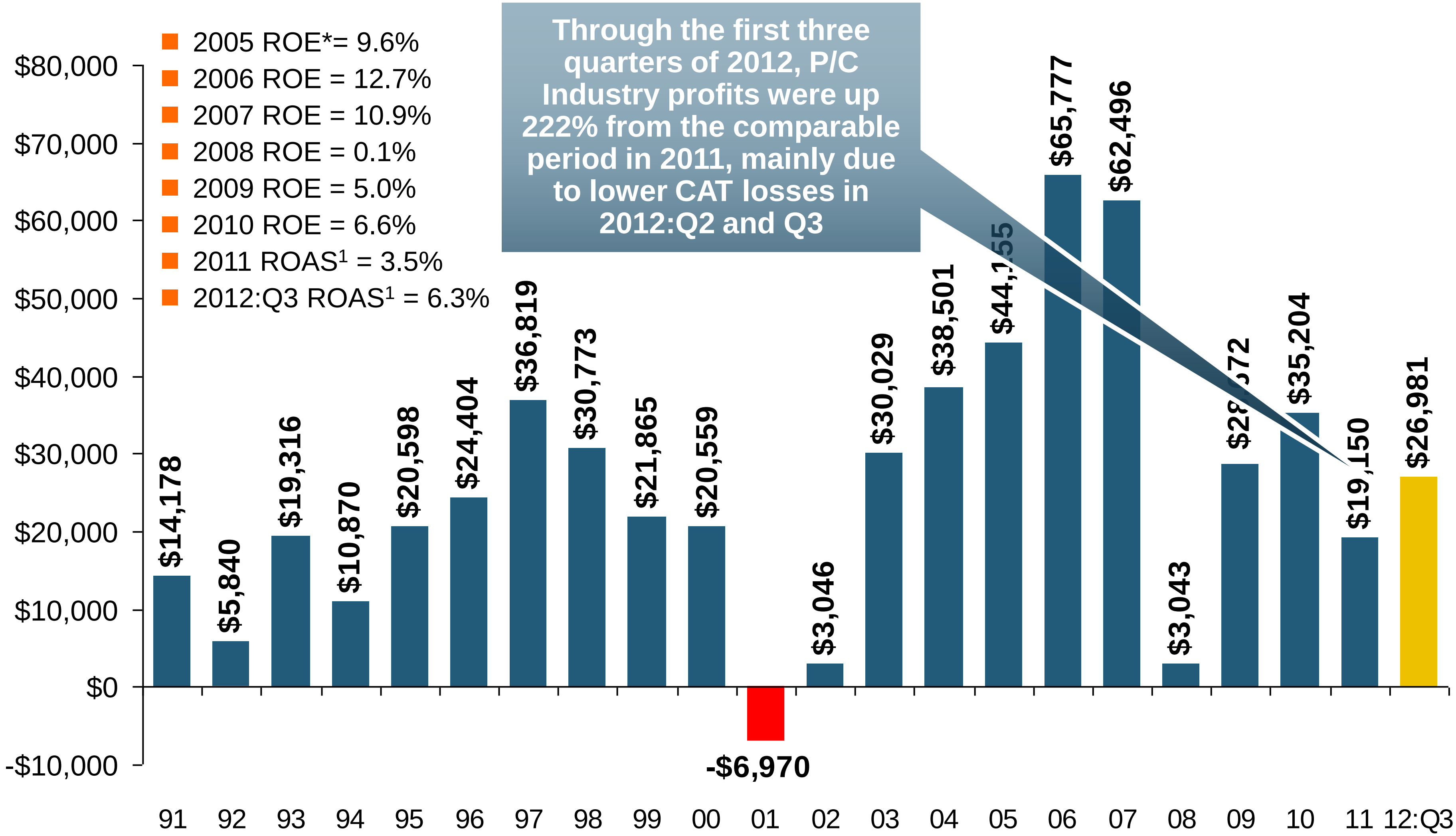
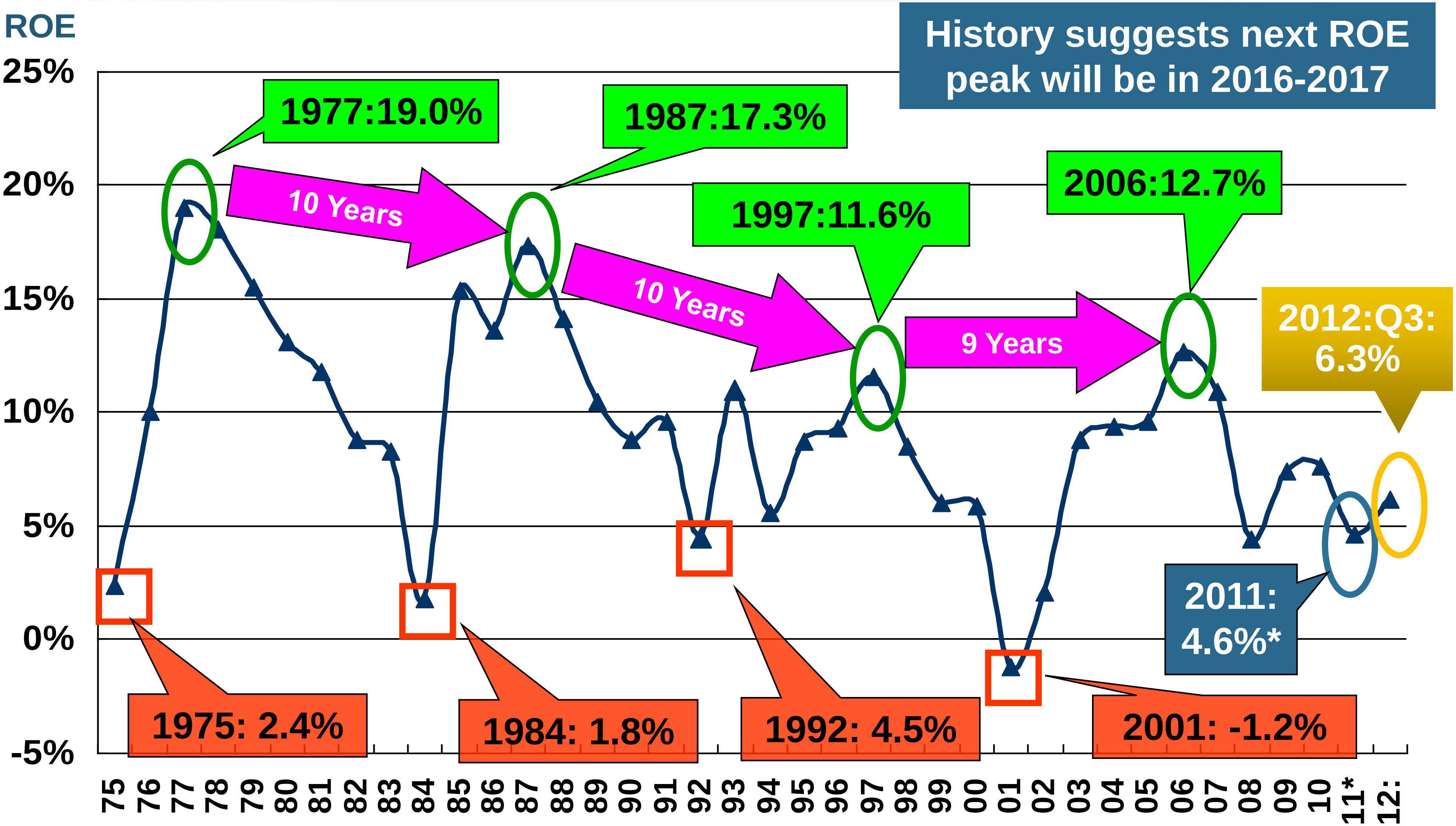


* ROE figures are GAAP; [1]Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 6.2% ROAS for 2012:H1, 4.6% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009.

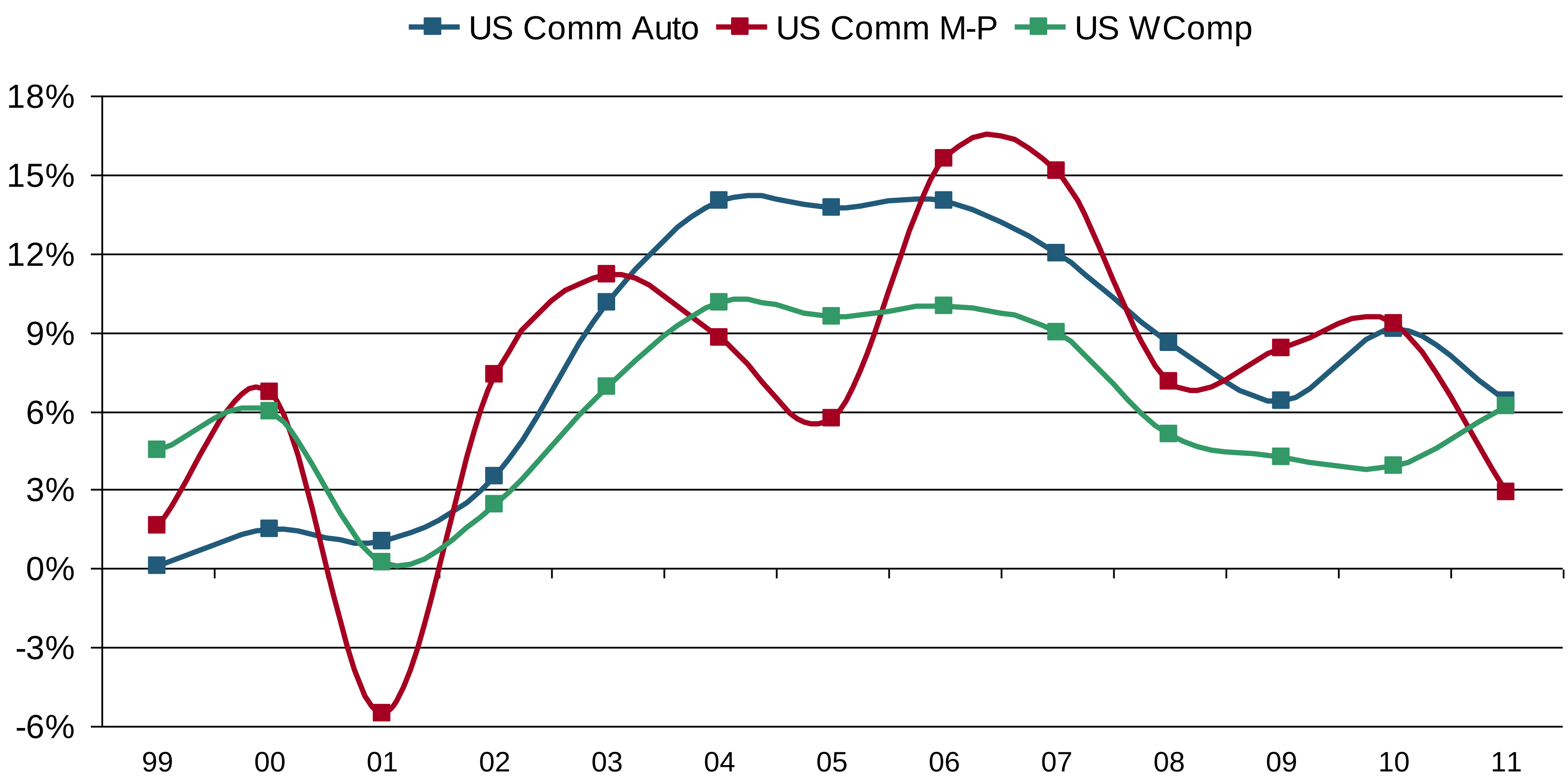
Sources: A.M. Best; ISO; Insurance Information Institute.

Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2012:Q3*



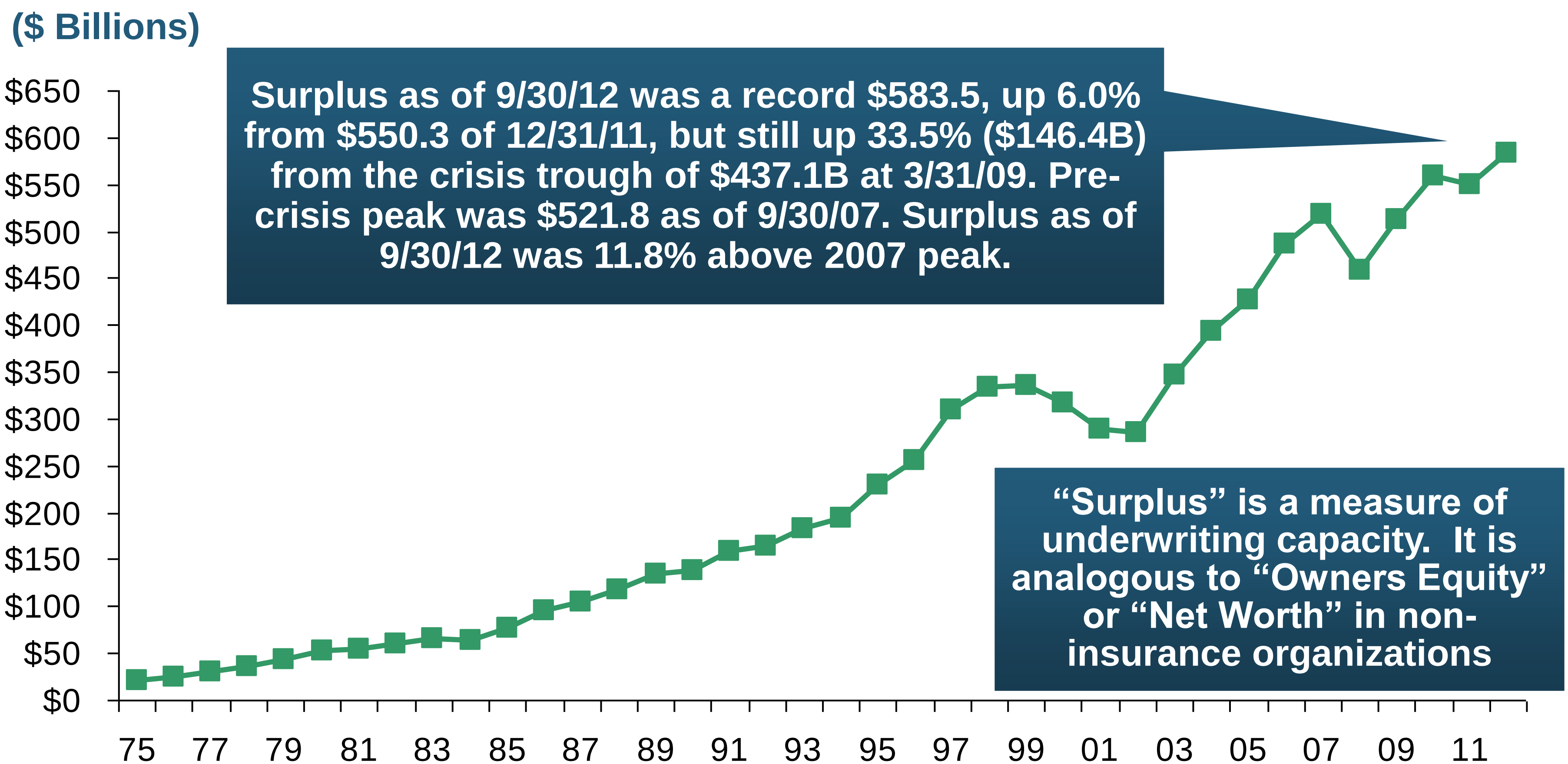
*Profitability = P/C insurer ROEs. 2012 is an estimate based on ROAS data. Note: Data for 2008-2012 exclude mortgage and financial guaranty insurers. 2012:H1 ROAS = 5.9% including M&FG.
Sources: Insurance Information Institute; NAIC; ISO; A.M. Best.

Return on Net Worth: Workers Comp, Commercial Auto, & CMP, 2002-2011



Sources: NAIC.

US Policyholder Surplus: 1975–2012*

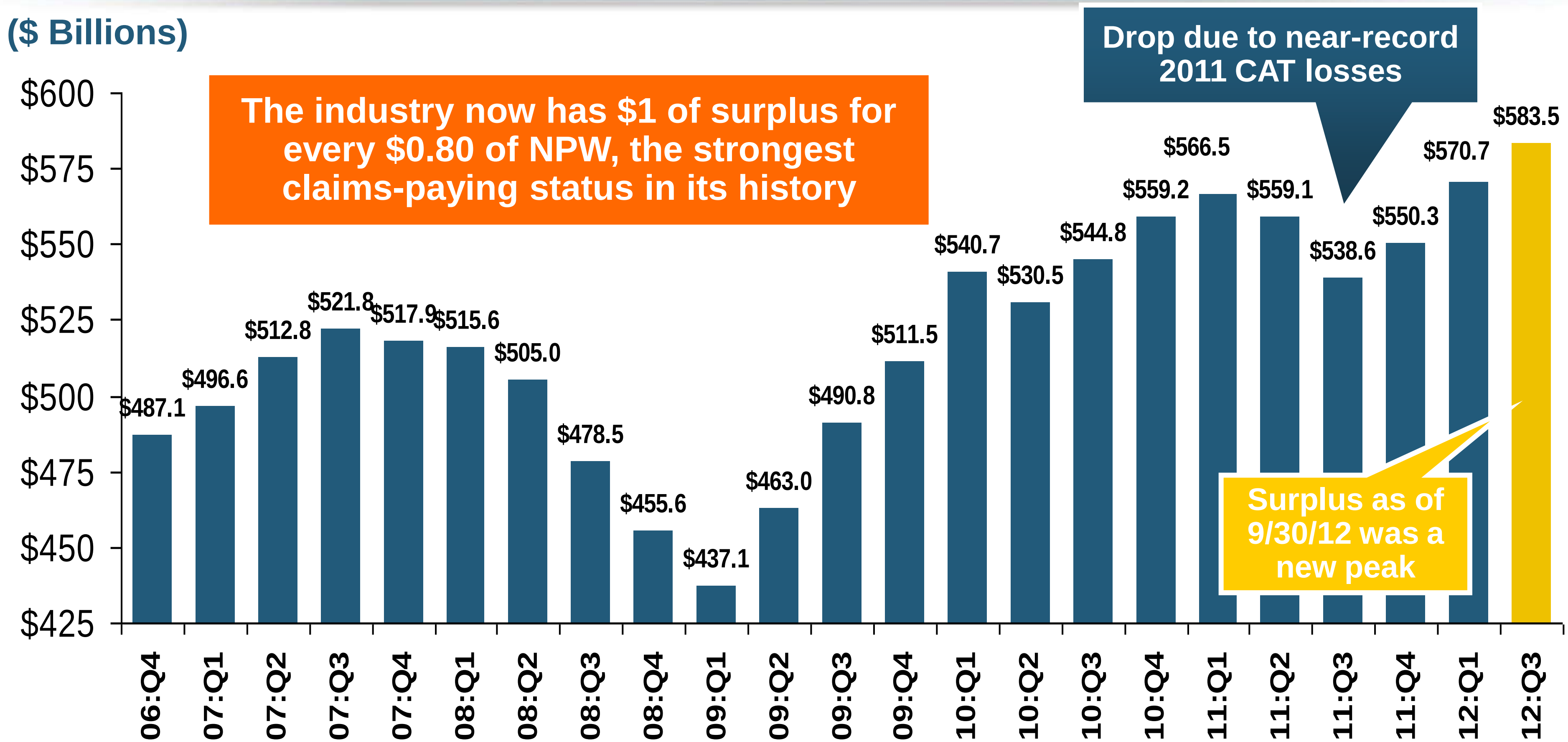


The Industry's Claims Paying Resources Reached an All-Time Record High as of Q3 2012, Just Before Sandy Struck, A Vivid Demonstration of the Strength

* As of 9/30/12.

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

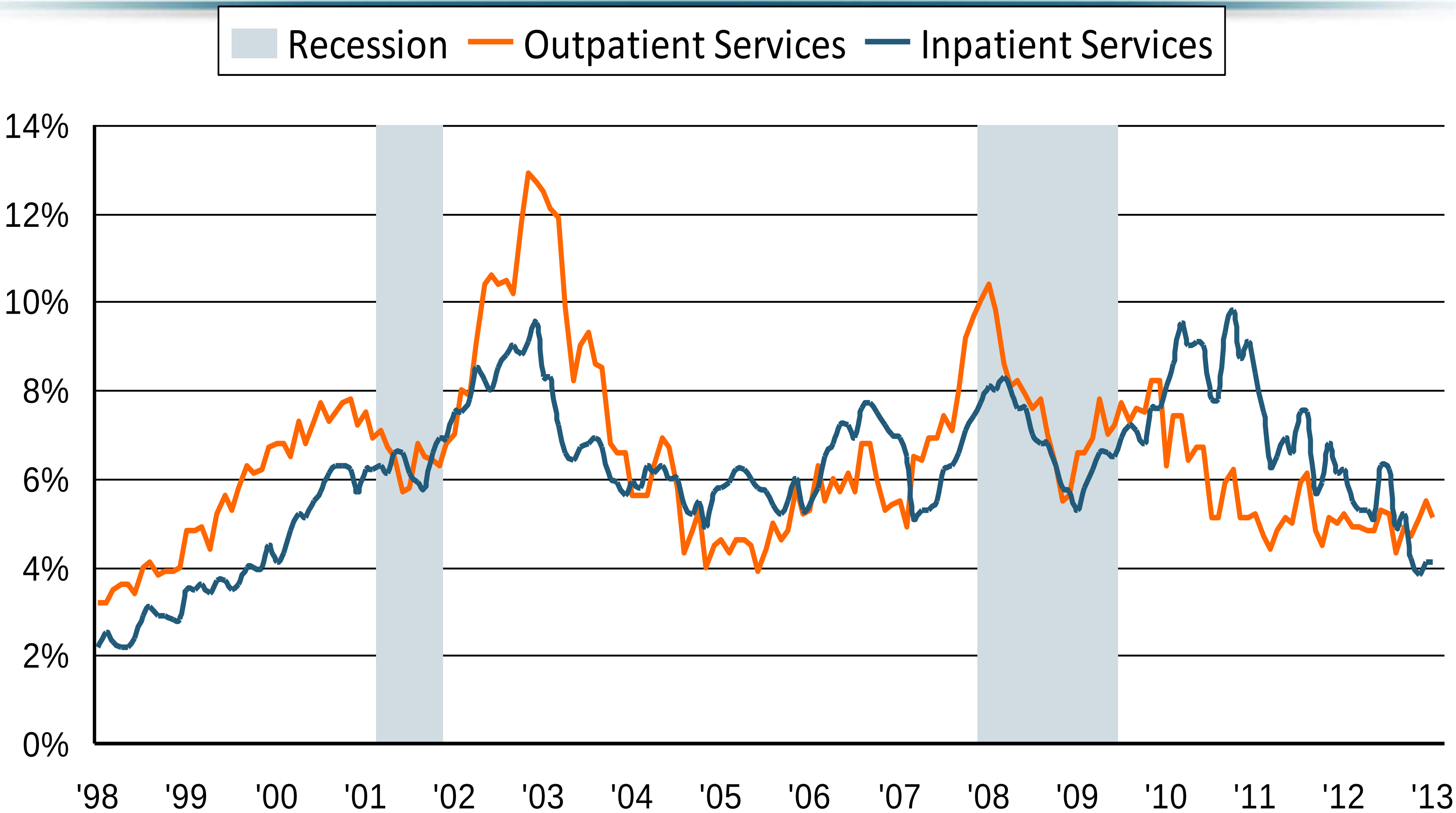
Policyholder Surplus, 2006:Q4–2012:Q3



Sources: ISO; A.M .Best.

Inflation and Claims Trends

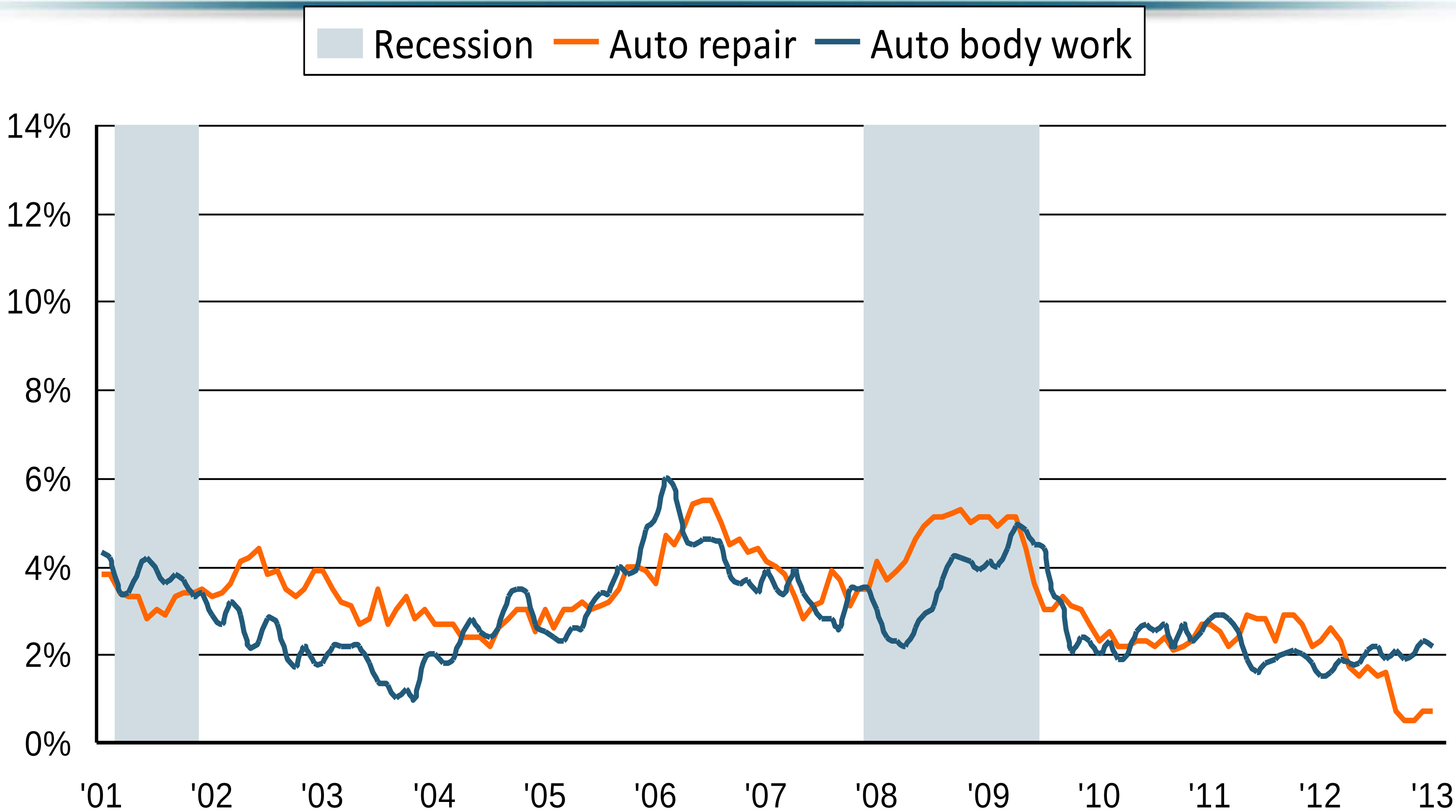
Prices for Hospital Services:
12-Month Change,* 1998–2013



Cyclical peaks in PP Auto tend to occur approximately every 10 years (early 1990s, early 2000s, and possibly the early 2010s)

*Percentage change from same month in prior year; through January 2013; seasonally adjusted
Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Forces that Drive Car Repair Costs:
12-Month Change,* 2001–2013



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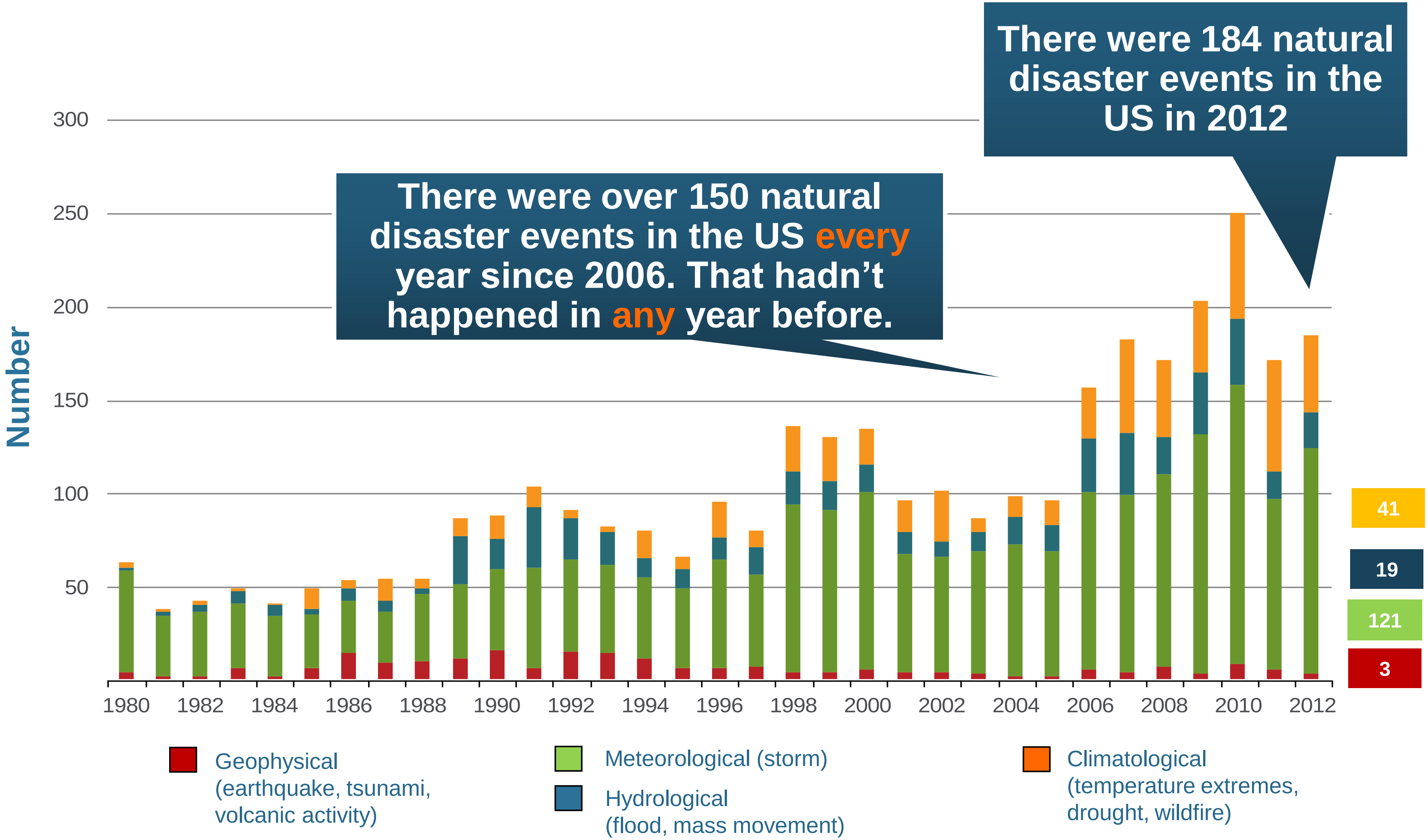
*Percentage change from same month in prior year; through January 2013; seasonally adjusted
Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Catastrophes

Natural Disasters in the United States, 1980 – 2012

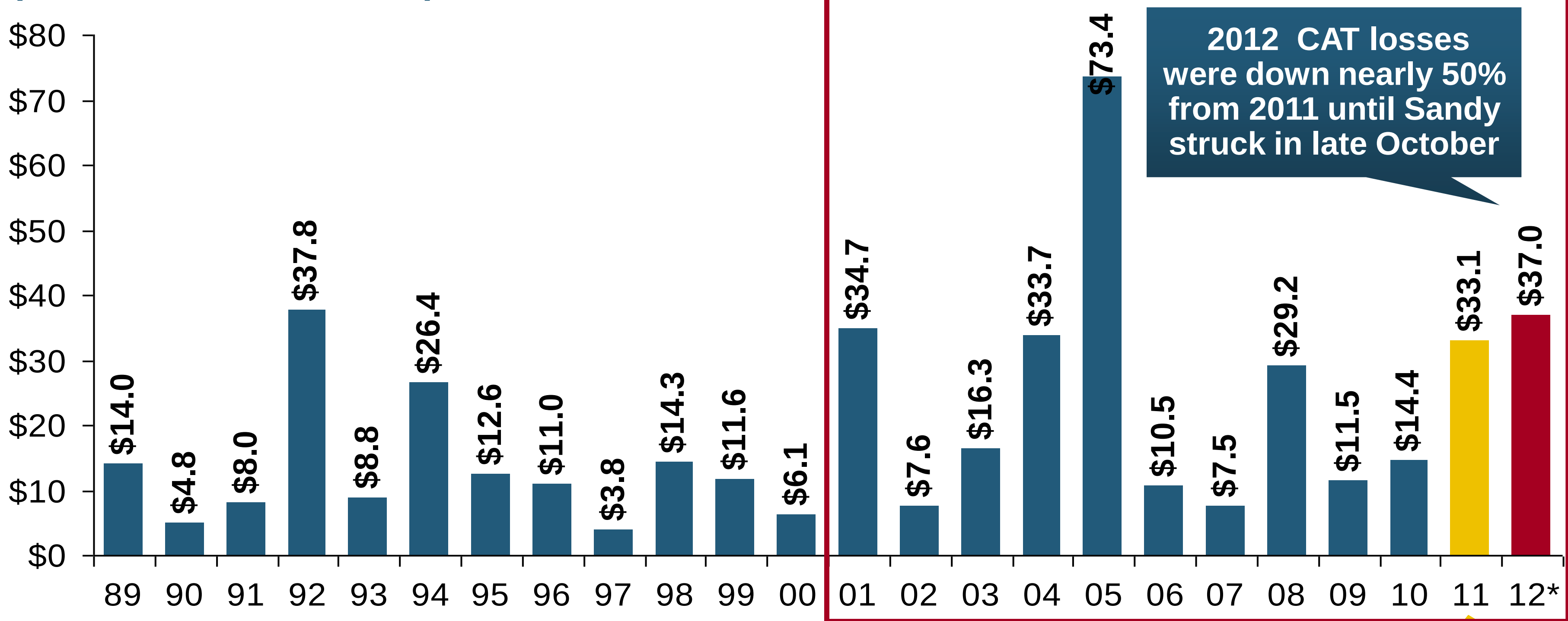
Number of Events (Annual Totals 1980 – 2012)



Source: MR NatCat*SERVICE*

US Insured Catastrophe Losses

($ Billions, 2012 Dollars)



US CAT Losses in 2012 Will Likely Become the 2nd or 3rd Highest in US History on An Inflation-Adjusted Basis (Pvt Insured). 2011 Losses Were the 5th Highest

Record Tornado Losses Caused 2011 CAT Losses to Surge

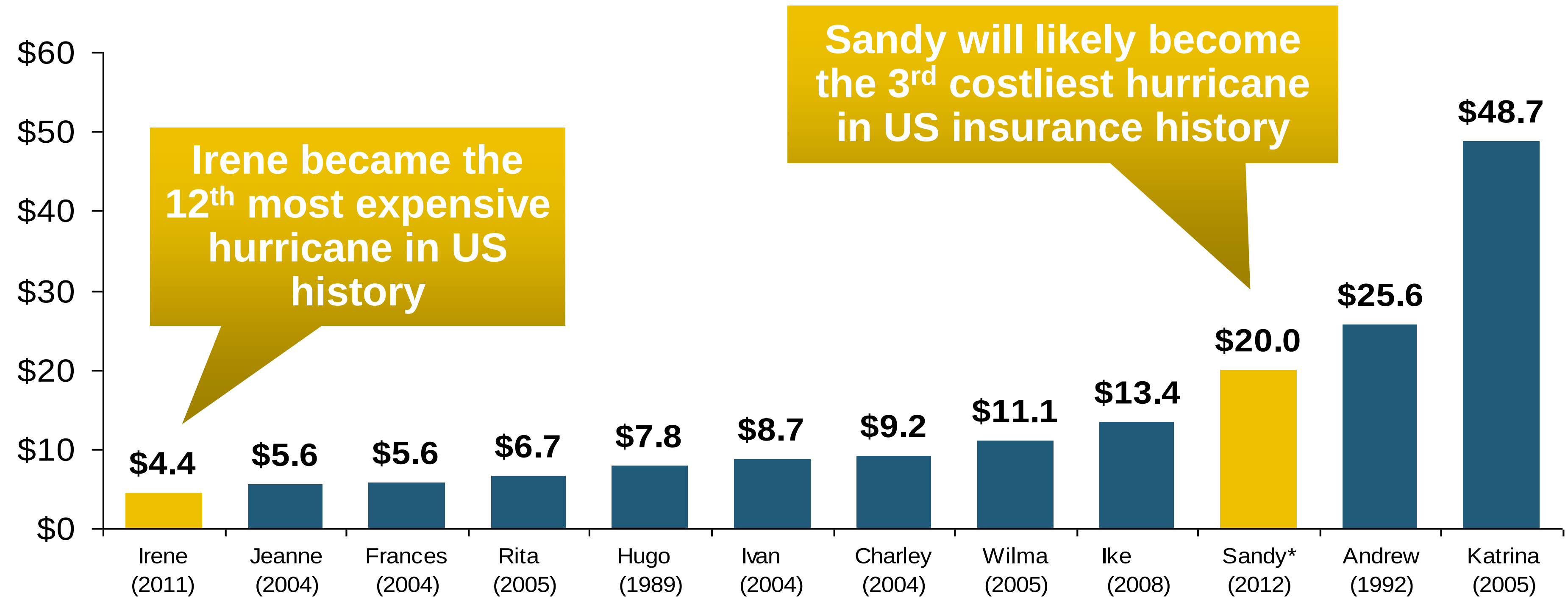
*As of 1/2/13. Includes $20B gross loss estimate for Hurricane Sandy.

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

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

The Dozen Most Costly Hurricanes in U.S. History

Insured Losses, 2012 Dollars, $ Billions

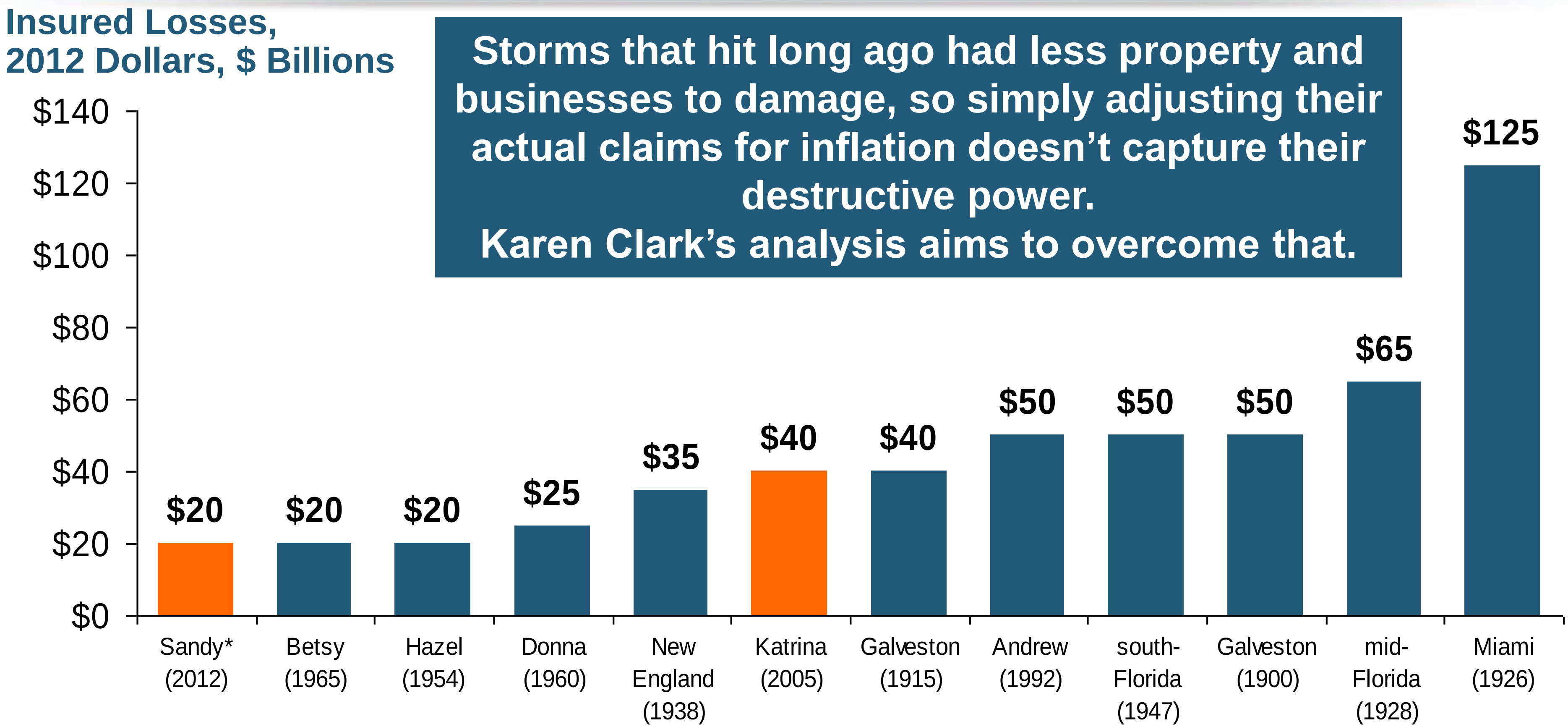


10 of the 12 most costly hurricanes in insurance history occurred in the past 9 years (2004—2012)

*Estimate as of 12/09/12 based on estimates of catastrophe modeling firms and reported losses as of 1/12/13. Estimates range up to $25B.
Sources: PCS; Insurance Information Institute inflation adjustments to 2012 dollars using the CPI.

If They Hit Today, the Dozen Costliest (to Insurers) Hurricanes in U.S. History

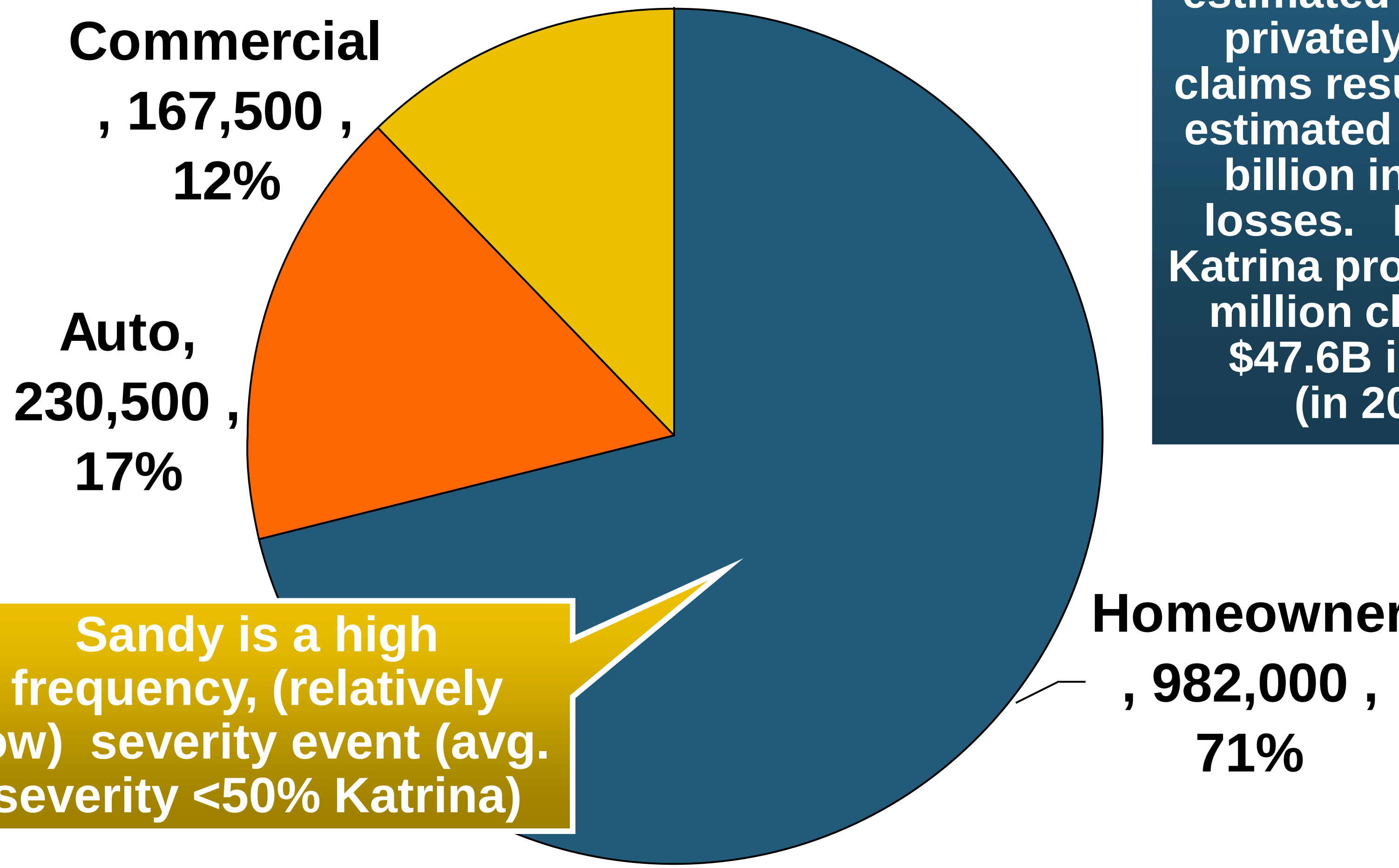
Storms that hit long ago had less property and businesses to damage, so simply adjusting their actual claims for inflation doesn't capture their destructive power.
Karen Clark's analysis aims to overcome that.



When you adjust for the damage prior storms could have done if they occurred today, Hurricane Katrina slips to a tie for 6th among the most devastating storms.

*Estimate as of 12/09/12 based on estimates of catastrophe modeling firms and reported losses as of 1/12/13. Estimates range up to $25B.
Sources: Karen Clark & Company, *Historical Hurricanes that Would Cause $10 Billion or More of Insured LossesToday*, August 2012; I.I.I.

Superstorm Sandy: Number of Claims by Type*



Hurricane Sandy resulted in an estimated 1.4 million privately insured claims resulting in an estimated $15 to $25 billion in insured losses. Hurricane Katrina produced 1.74 million claims and $47.6B in losses (in 2011 $)

Sandy is a high frequency, (relatively low) severity event (avg. severity <50% Katrina)

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

Source: PCS; AIR, Eqecat, AIR Worldwide; Insurance Information Institute.

Long Island (NY) Flood-Damaged Structures with & w/o Flood Insurance

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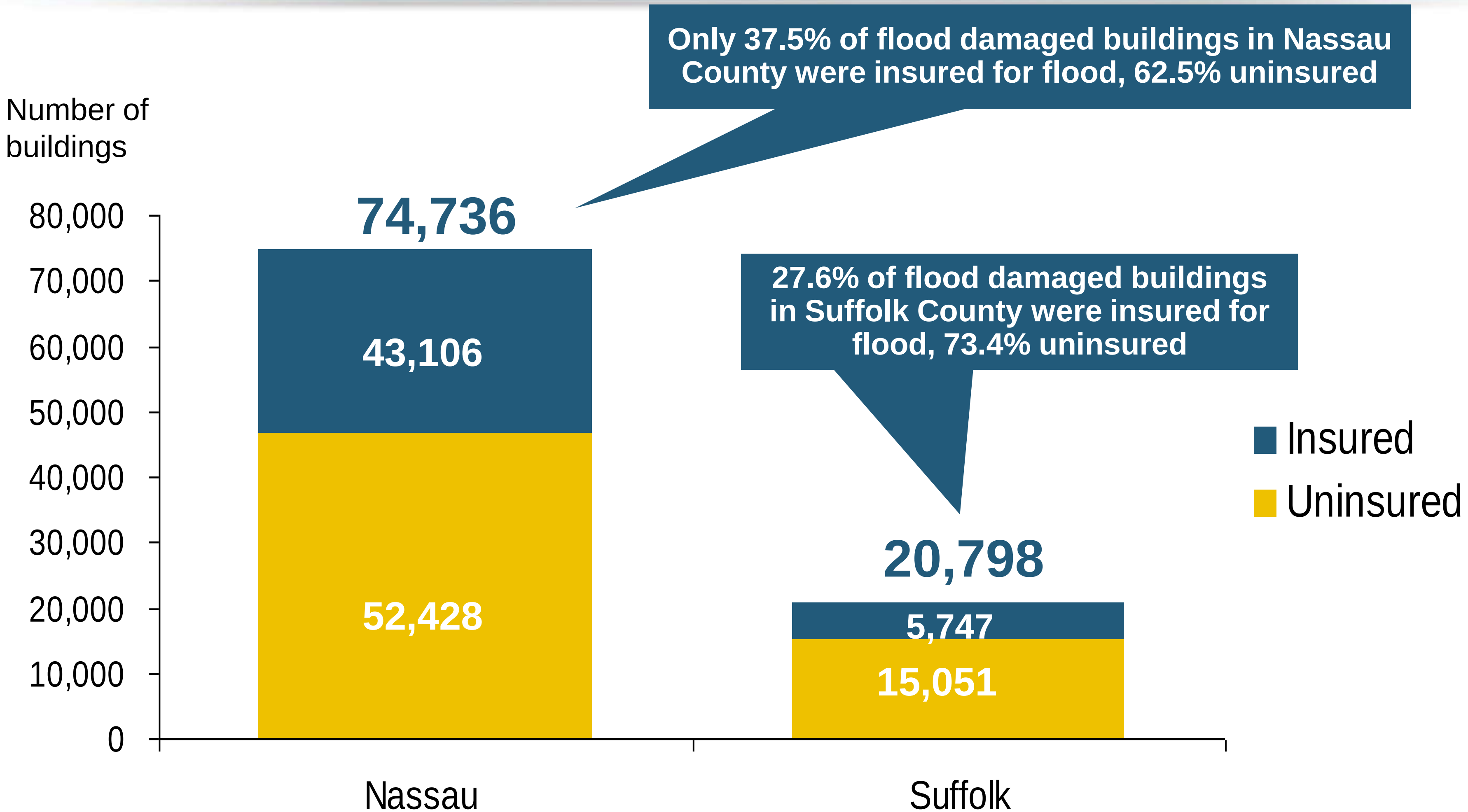
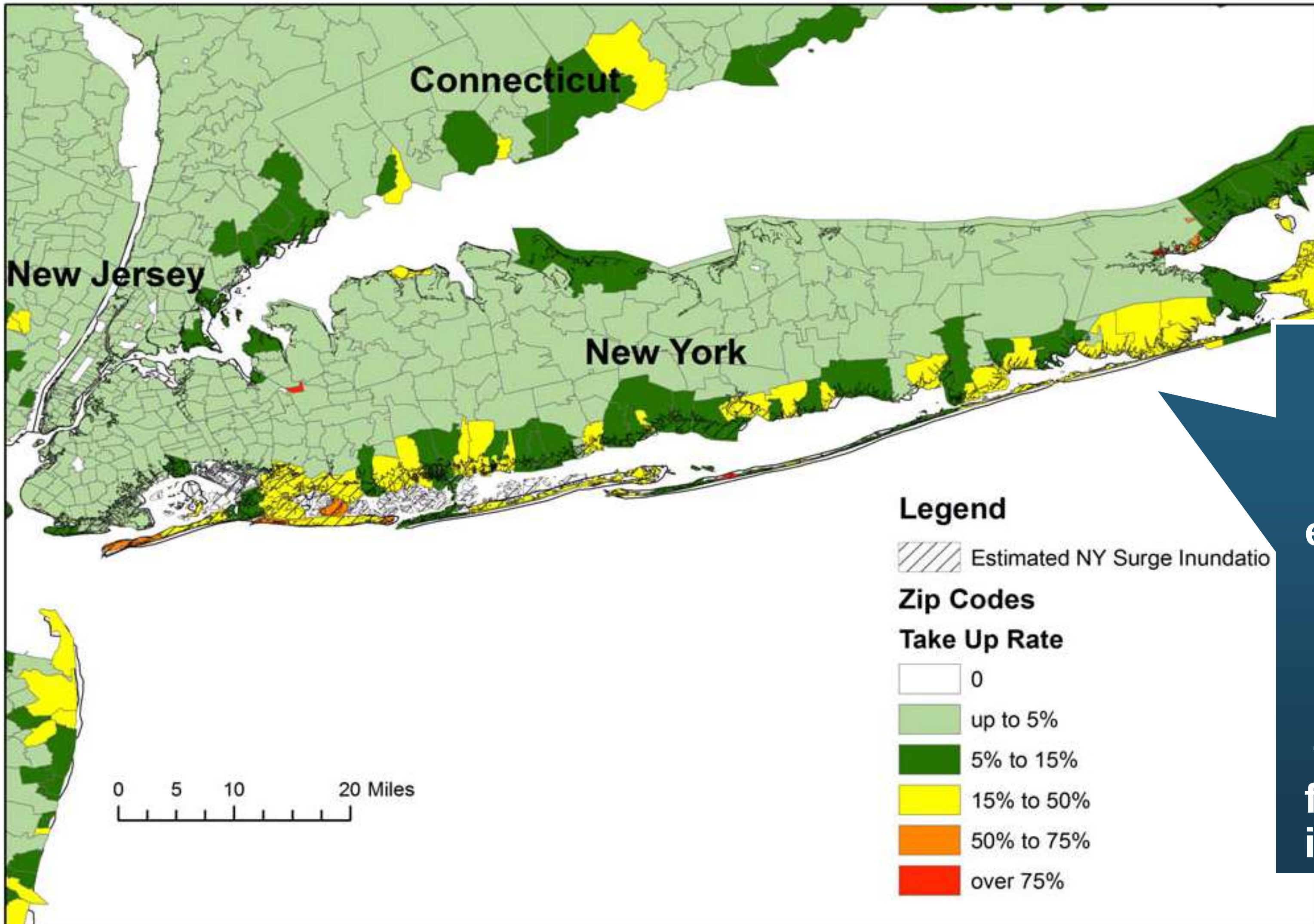


The Maximum FEMA Grant is $31,900. The Average Grant Award to Homeowners and Renters on Long Island is About $7,300

Source: *Newsday*, 1/14/13 from FEMA and Small Business Administration.

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



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

Source: Wharton Center for Risk Management and Decision Processes, *Issue Brief,* Nov. 2012; Insurance Information Institute.

TERRORISM RISK

The Countdown to TRIA Expiration Begins

Reauthorization Faces an Uphill Battle in Congress

I.I.I. Congressional Testimony on the Future of the Terrorism Risk Insurance Program

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TRIA at Ten Years:

The Future of the Terrorism Risk Insurance Program

House Financial Services Subcommittee on Insurance, Housing and Community Opportunity

Testimony of
Robert P. Hartwig, Ph.D., CPCU
President & Economist
Insurance Information Institute
New York, NY

September 11, 2012

Washington, DC

INSURANCE INFORMATION INSTITUTE

- **Issue:** Act expires 12/31/14. Insurers still generally regard large-scale terror attacks as fundamentally uninsurable
- **I.I.I. Input:** Testified at first hearing on the issue in DC (on 9/11/12) on trends in terrorist activity in the US and abroad, difficulties in underwriting terror risk; Noted that bin Laden may be dead but war on terror is far from over
- **Status:** New House FS Committee Chair Jeb Hensarling has opposed TRIA in the past; Obama Administration does not seem to support extension; Little institutional memory on insurance subcommittee
- **Media:** Virtually no media coverage yet apart form trade press; WSJ will likely editorialize against it.
- **Objective:** Work with trades, risk management community and others to help build support

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

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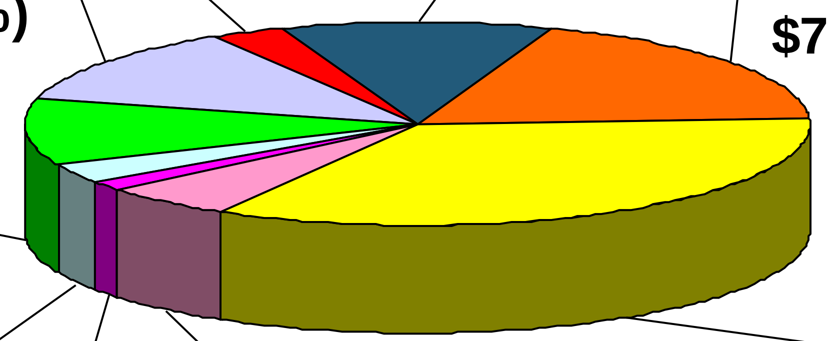
($ Billions)



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

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

Source: Insurance Information Institute

Terrorism Violates Traditional Requirements for Insurability (cont'd)

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

Key Takaways

Takeaways:
Insurance Industry Predictions for 2013

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- **P/C Insurance Exposures Will Grow With the U.S. Economy**
  - Personal and commercial exposure growth is likely in 2013
    - But restoration of destroyed exposure will take until mid-decade
  - Wage growth is also positive and could modestly accelerate
- **P/C Industry Growth in 2013 Will Be Strongest Since 2004**
  - Growth likely to exceed A.M. Best projection of +3.8% for 2012
  - No traditional "hard market" emerges in 2013
- **Underwriting Fundamentals Deteriorate Modestly**
  - Some pressure from claim frequency, severity in some key lines
  - But WC will be tough to fix
- **Industry Capacity Hits a New Record by Year-End 2013 (Barring Meg-CAT)**
- **Investment Environment Is/Remains Challenging**
  - Interest rates remain low

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Thank you for your time and your attention!