



Overview and Outlook for the P/C Insurance Industry: *Focus on Louisiana Markets*

Independent Insurance Agents of Louisiana
Destin, FL

June 26, 2013

Download at: www.iii.org/presentations

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

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

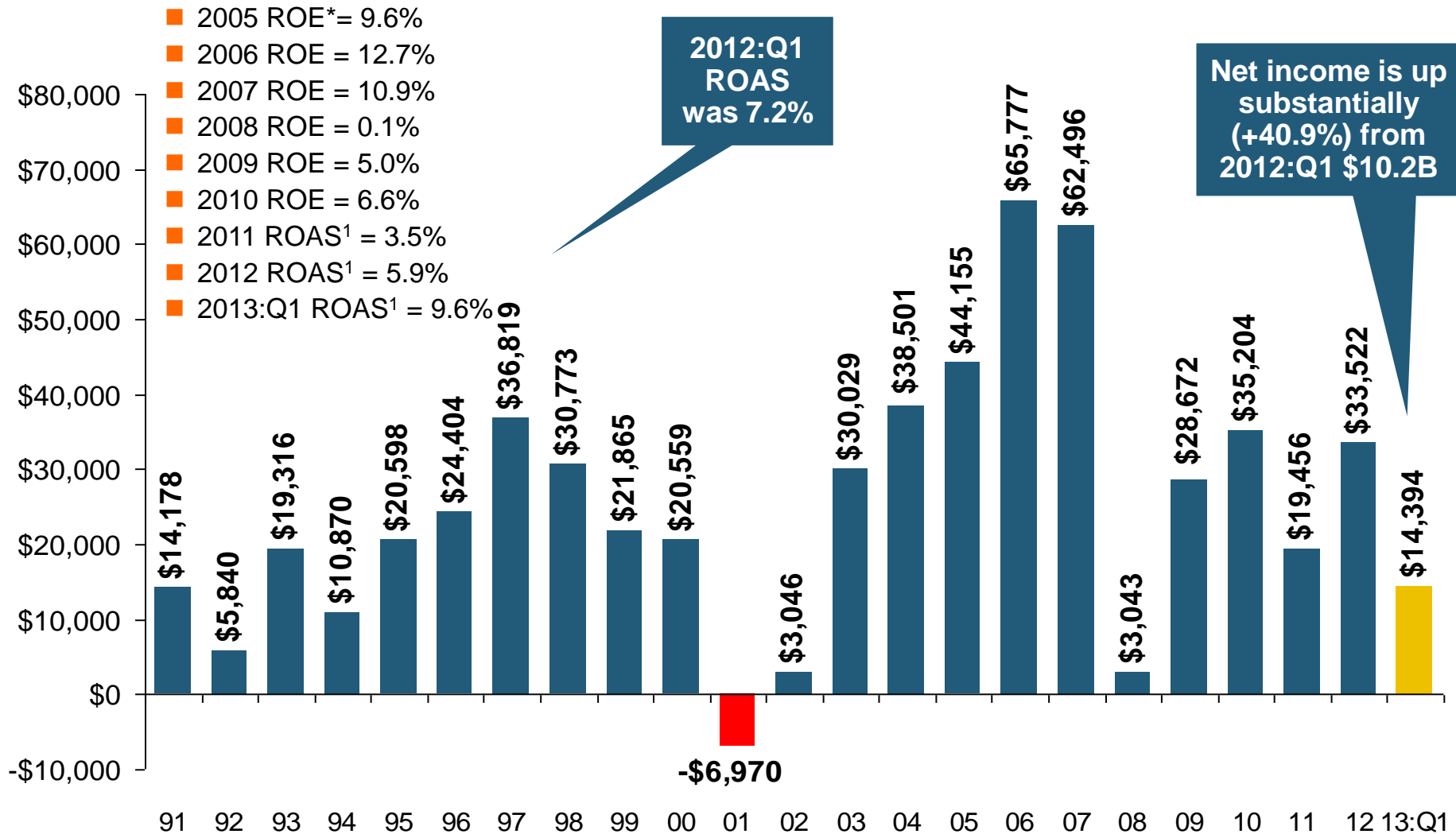
Tel: 212.346.5520 ♦ Cell: 917.453.1885 ♦ bobh@iii.org ♦ www.iii.org



P/C Insurance Industry Financial Overview

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

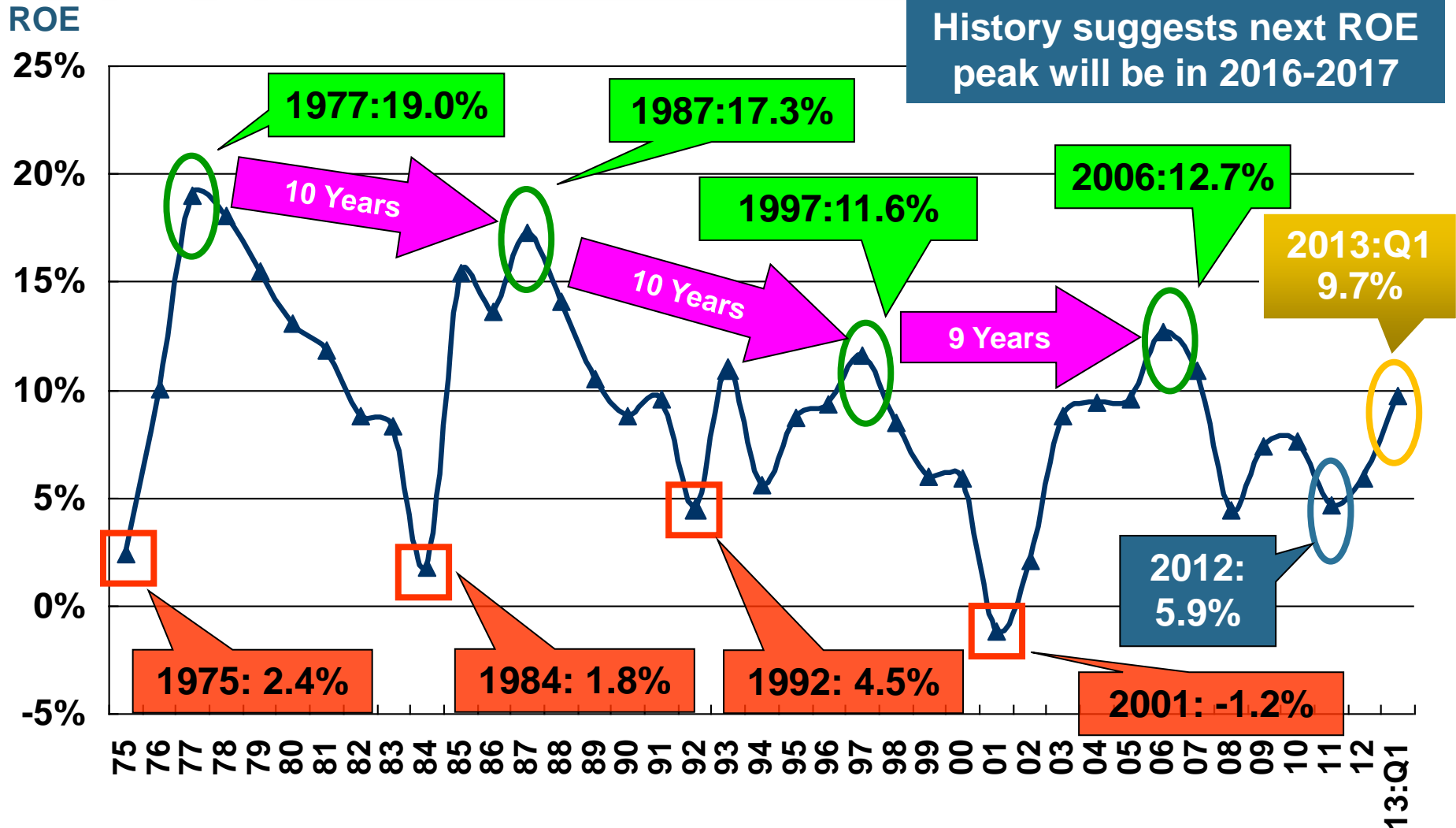
P/C Net Income After Taxes 1991–2013:Q1 (\$ Millions)



*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:Q1*



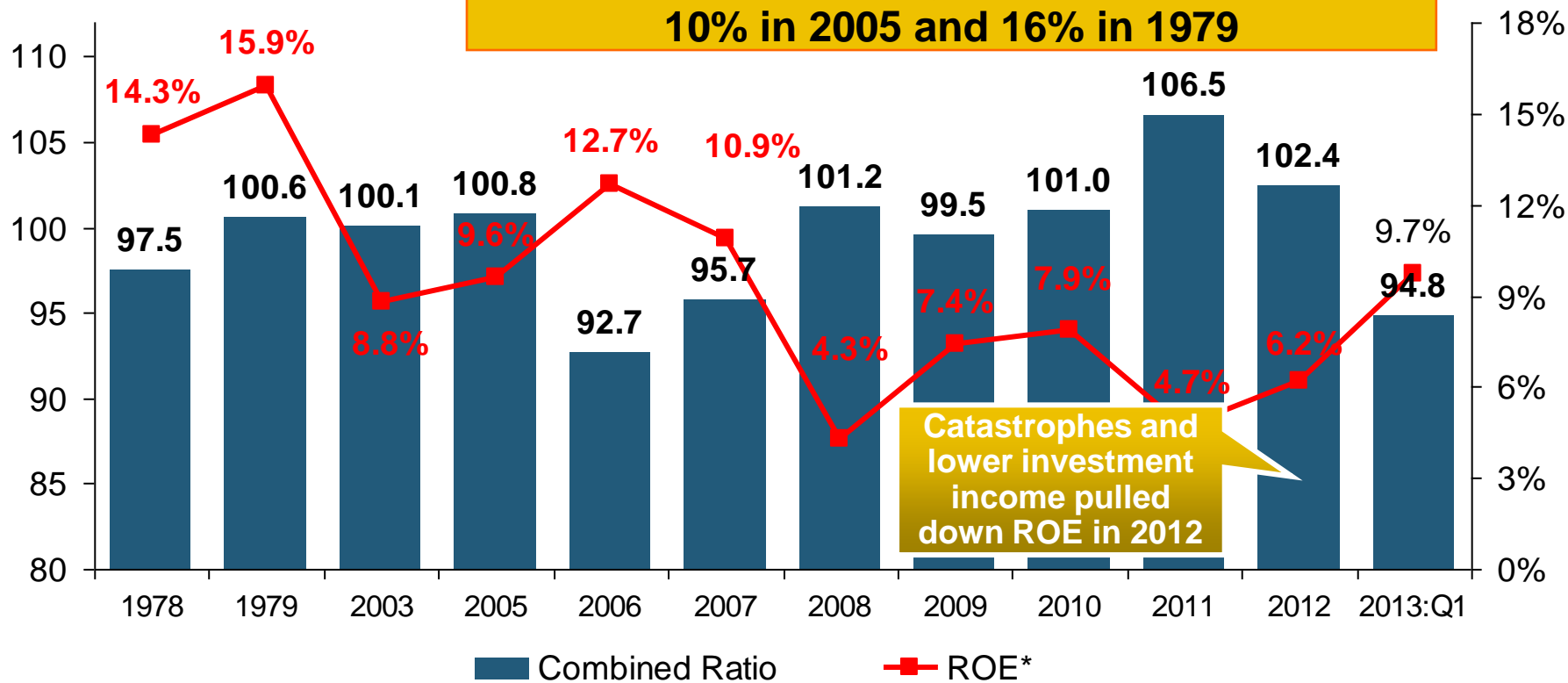
*Profitability = P/C insurer ROEs. 2011-13 figures are estimates based on ROAS data. Note: Data for 2008-2013 exclude mortgage and financial guaranty insurers.

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



Catastrophes and lower investment income pulled down ROE in 2012

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.

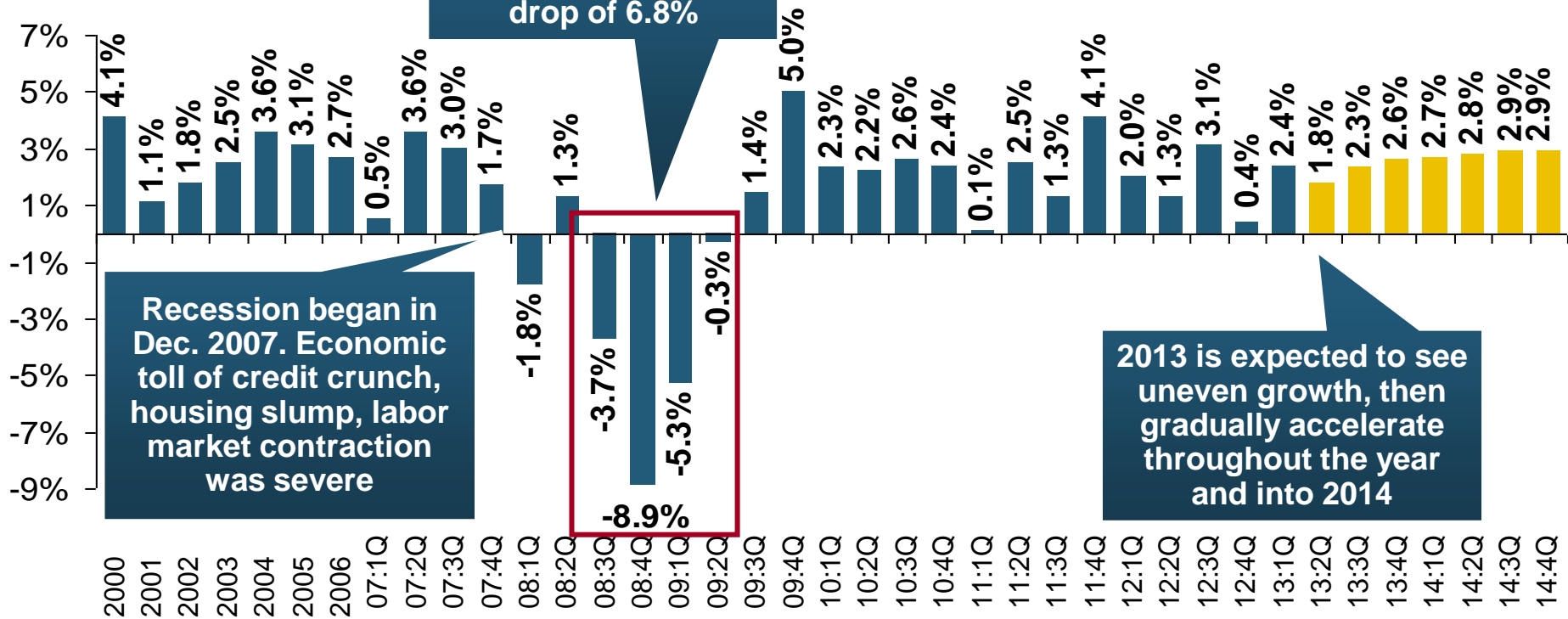


The Strength of the Economy Will Influence P/C Insurer Growth Opportunities

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

US Real GDP Growth*

Real GDP Growth (%)



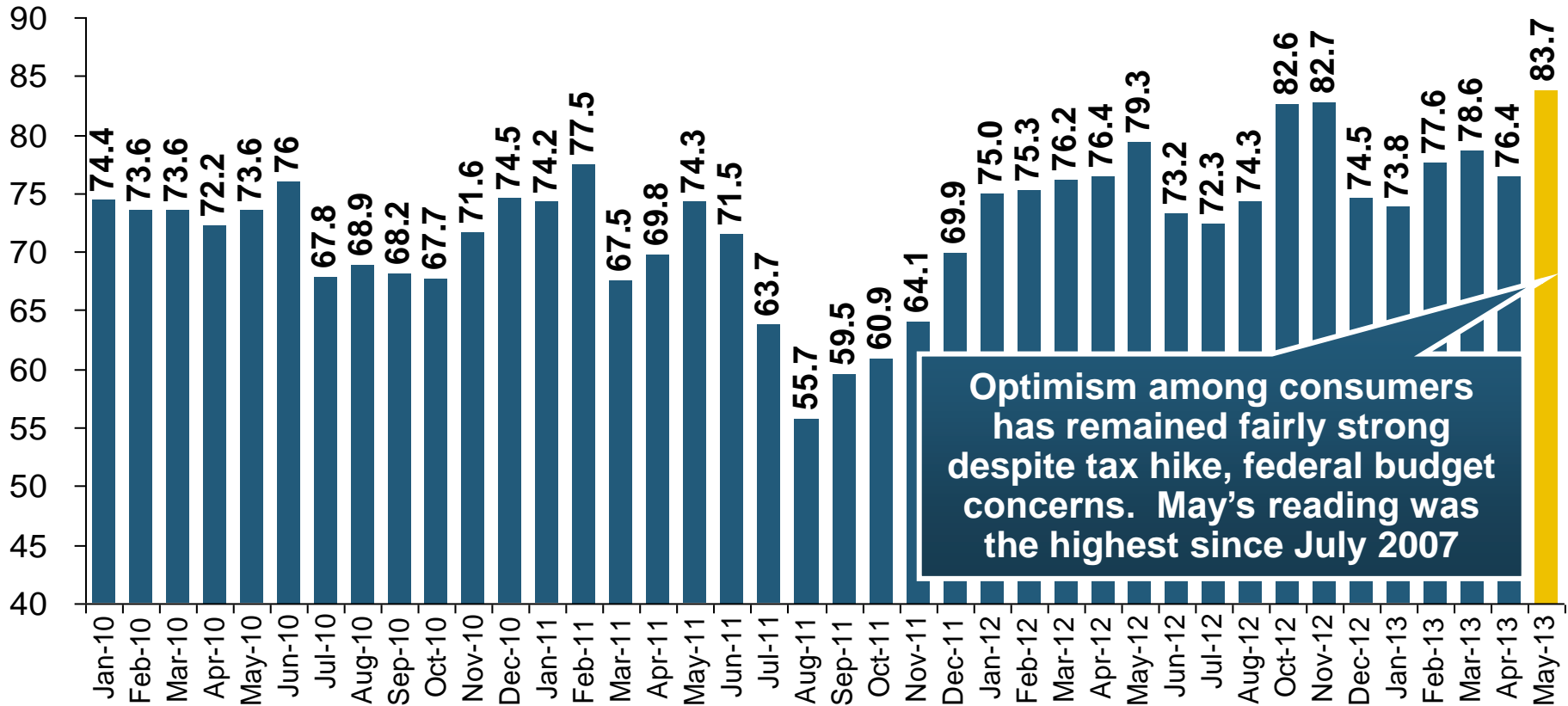
Demand for Insurance Continues To Be Impacted by Sluggish Economic Conditions, but the Benefits of Even Slow Growth Will Compound and Gradually Benefit the Economy Broadly

* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 6/13; Insurance Information Institute.

Consumer Sentiment Survey (1966 = 100)

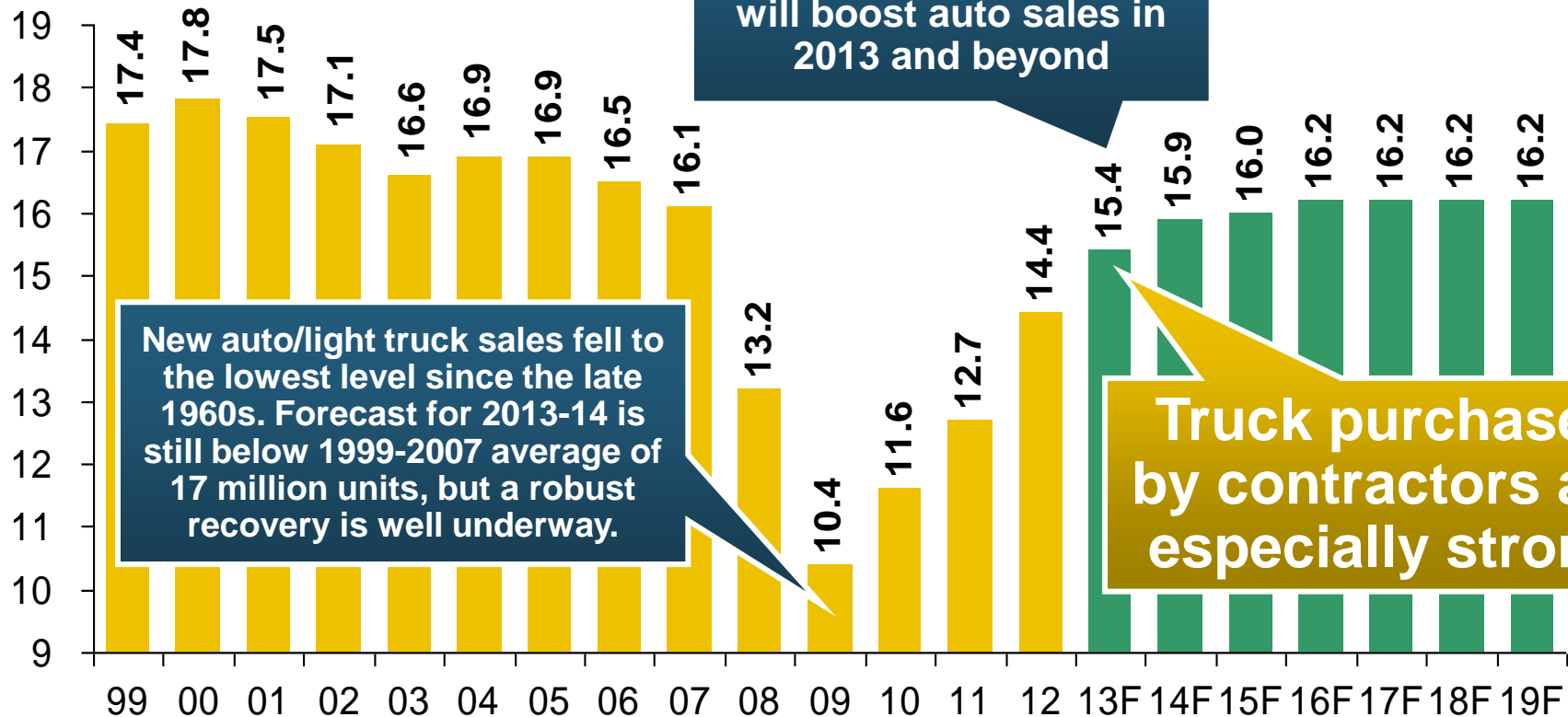
January 2010 through May 2013



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

Auto/Light Truck Sales, 1999-2019F

(Millions of Units)



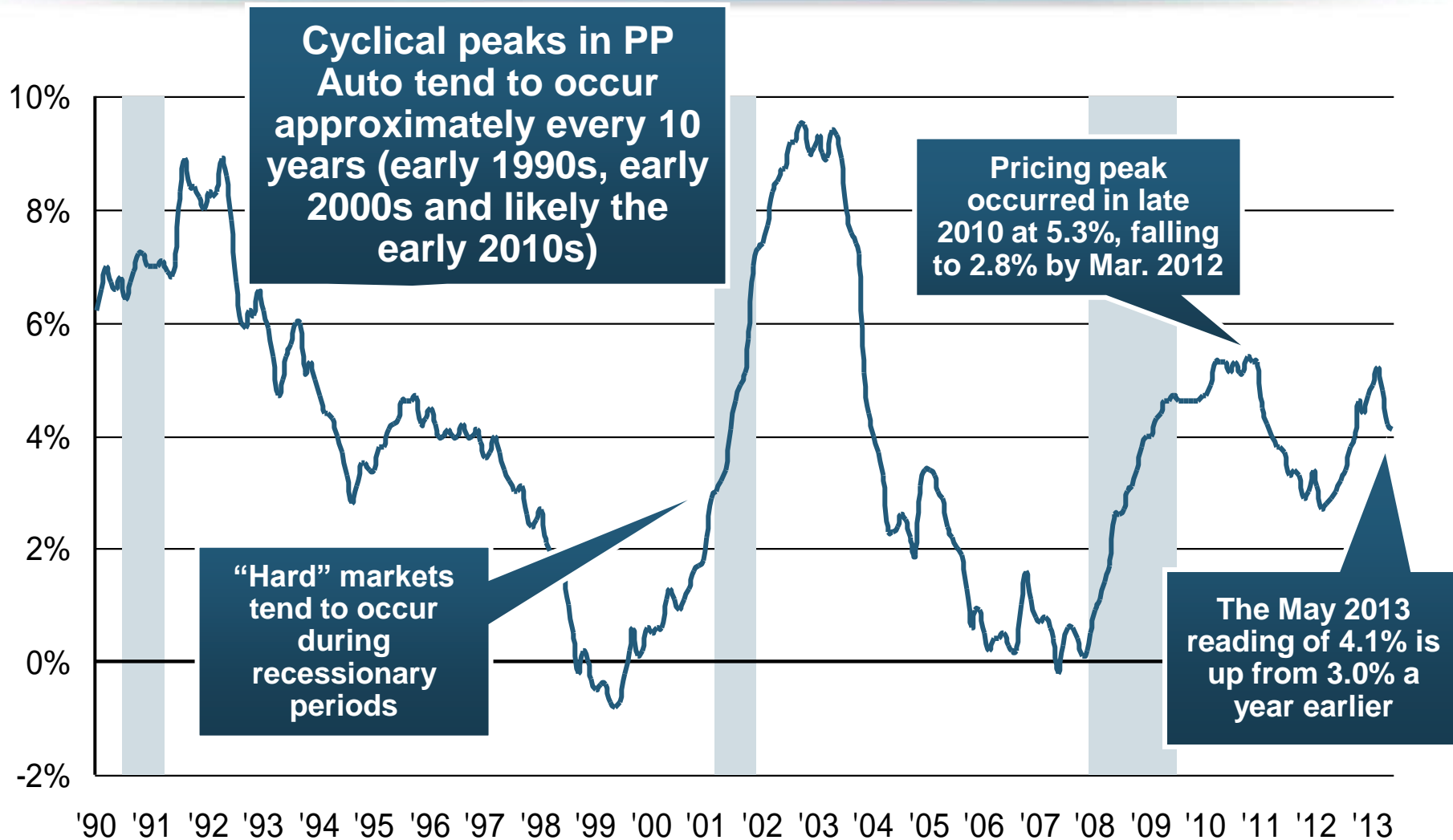
Job growth and improved credit market conditions will boost auto sales in 2013 and beyond

New auto/light truck sales fell to the lowest level since the late 1960s. Forecast for 2013-14 is still below 1999-2007 average of 17 million units, but a robust recovery is well underway.

Truck purchases by contractors are especially strong

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

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



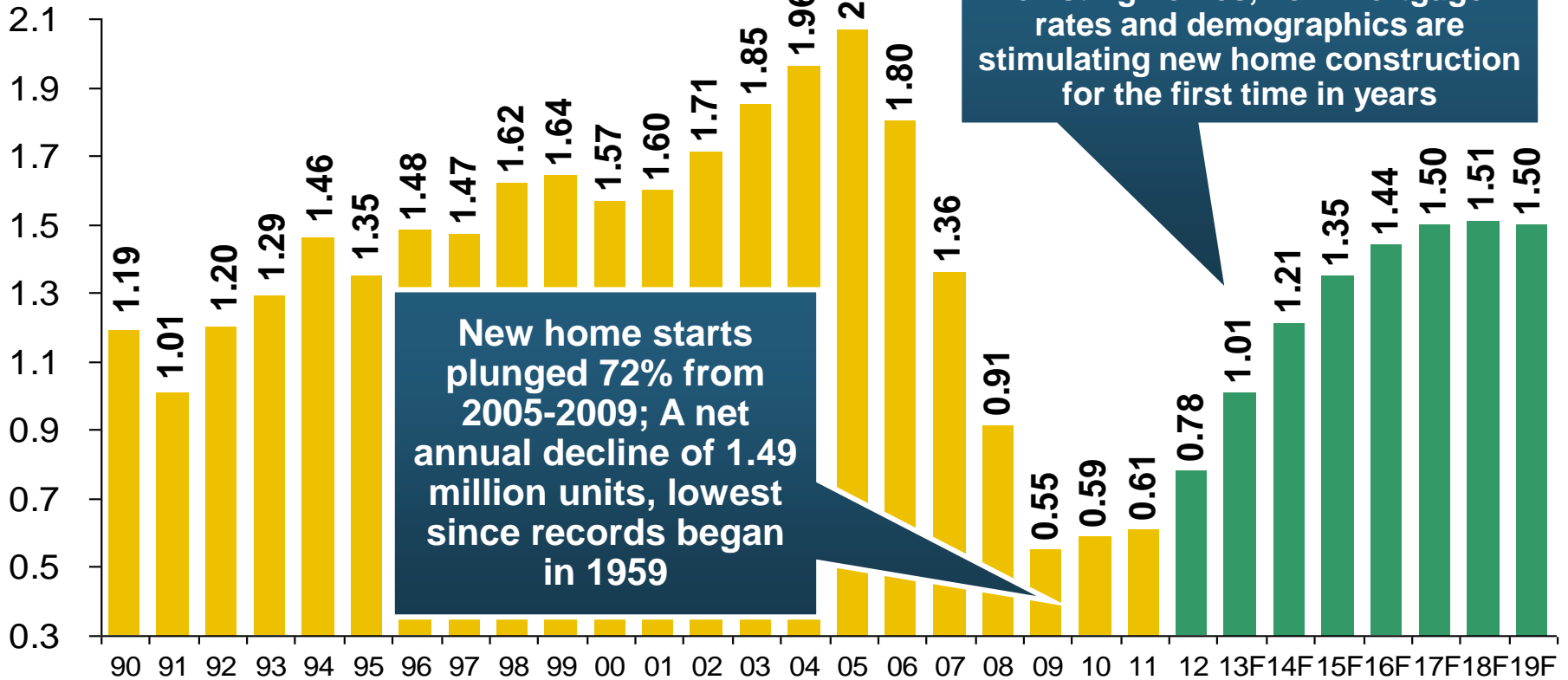
*Percentage change from same month in prior year; through May 2013; seasonally adjusted

Note: Recessions indicated by gray shaded columns.

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

New Private Housing Starts, 1990-2019F

(Millions of Units)



Job growth, low inventories of existing homes, low mortgage rates and demographics are stimulating new home construction for the first time in years

New home starts plunged 72% from 2005-2009; A net annual decline of 1.49 million units, lowest since records began in 1959

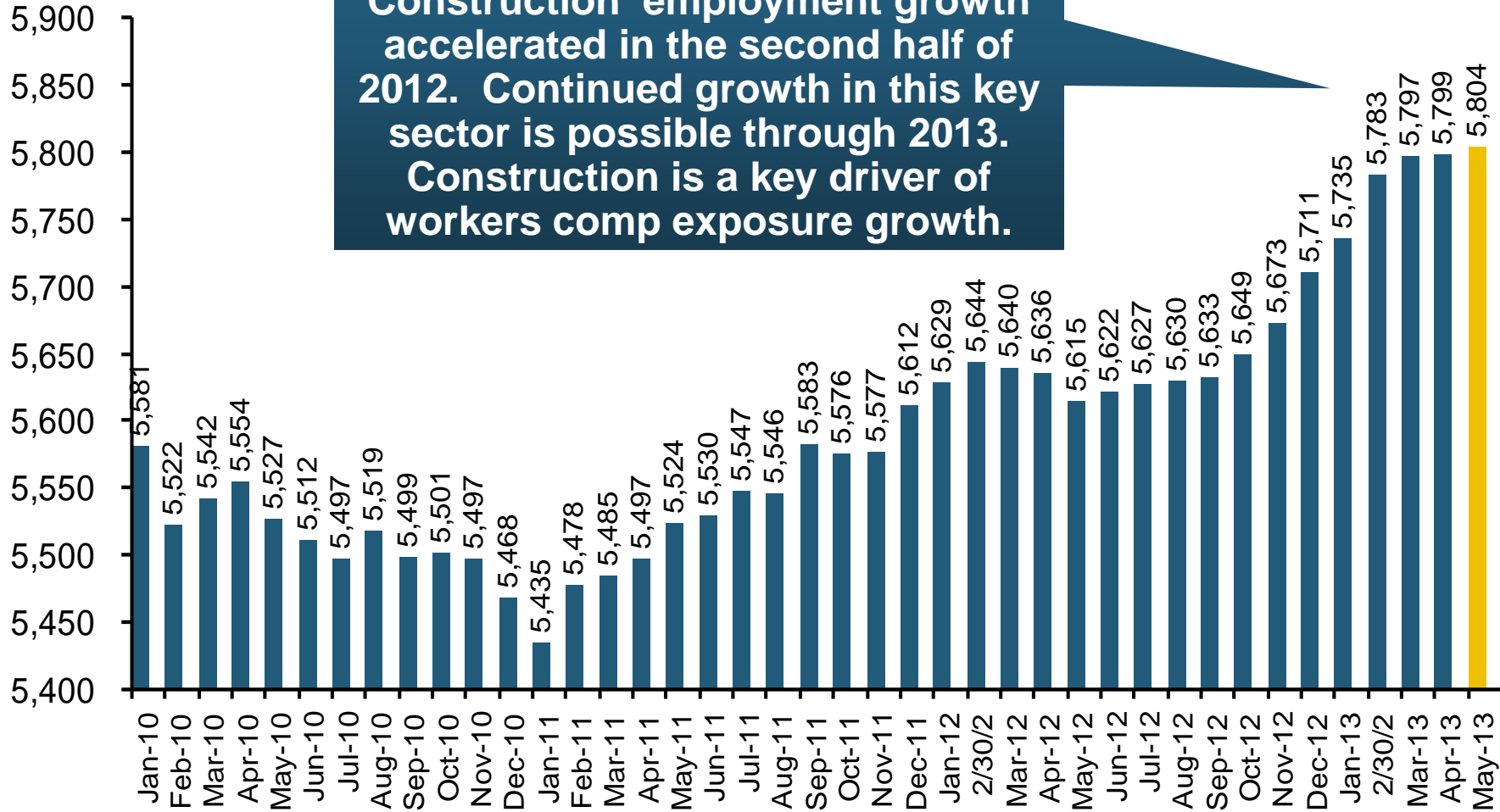
Insurers Are Starting to See Meaningful Exposure Growth for the First Time Since 2005 Associated with Home Construction: Construction Risk Exposure, Surety, Commercial Auto; Potent Driver of Workers Comp Exposure

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (6/13 and 3/13); Insurance Information Institute.

Construction Employment, Jan. 2010—May 2013*

(Thousands)

Construction employment growth accelerated in the second half of 2012. Continued growth in this key sector is possible through 2013. Construction is a key driver of workers comp exposure growth.

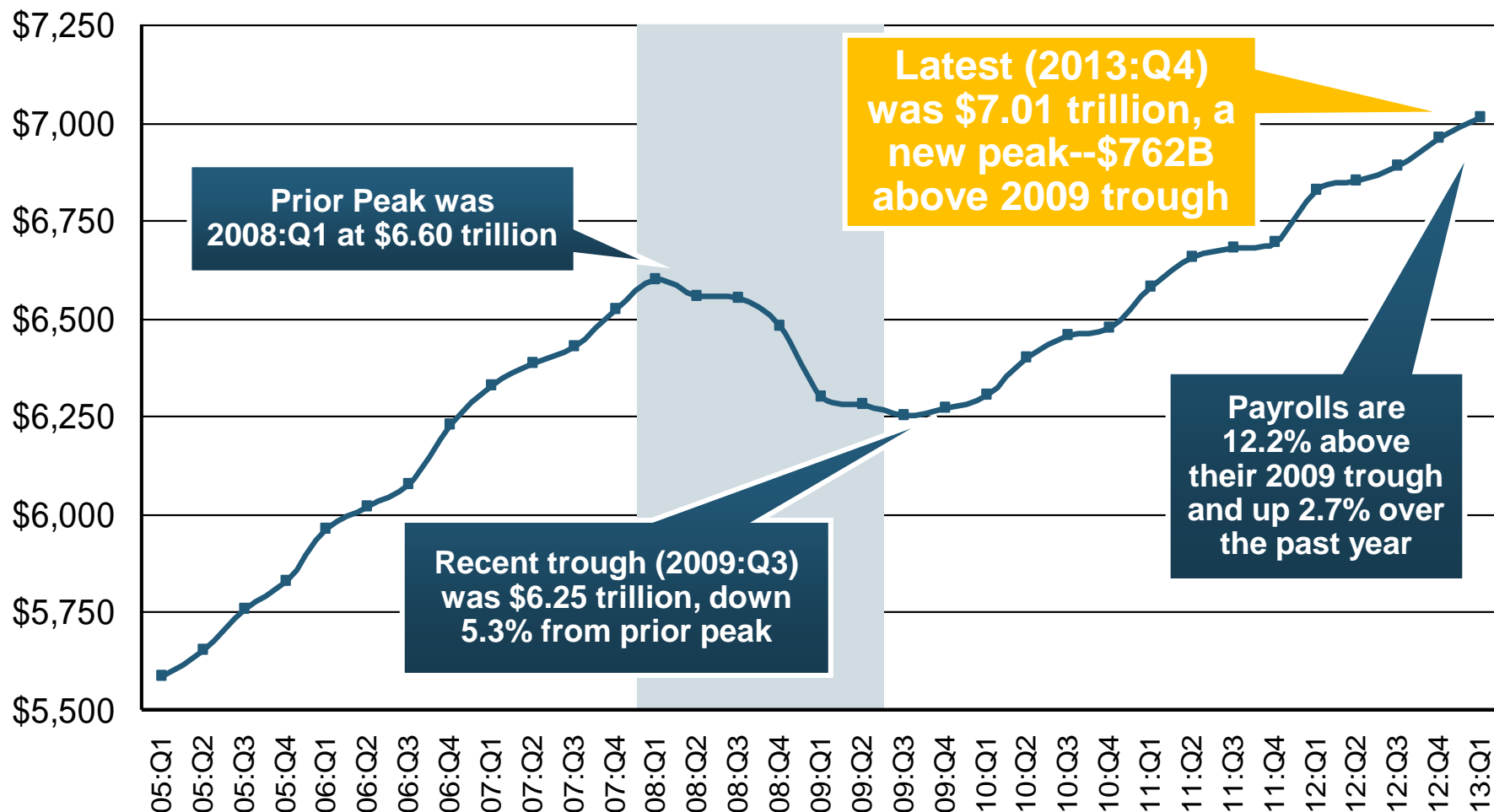


*Seasonally adjusted

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

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2013:Q1

Billions

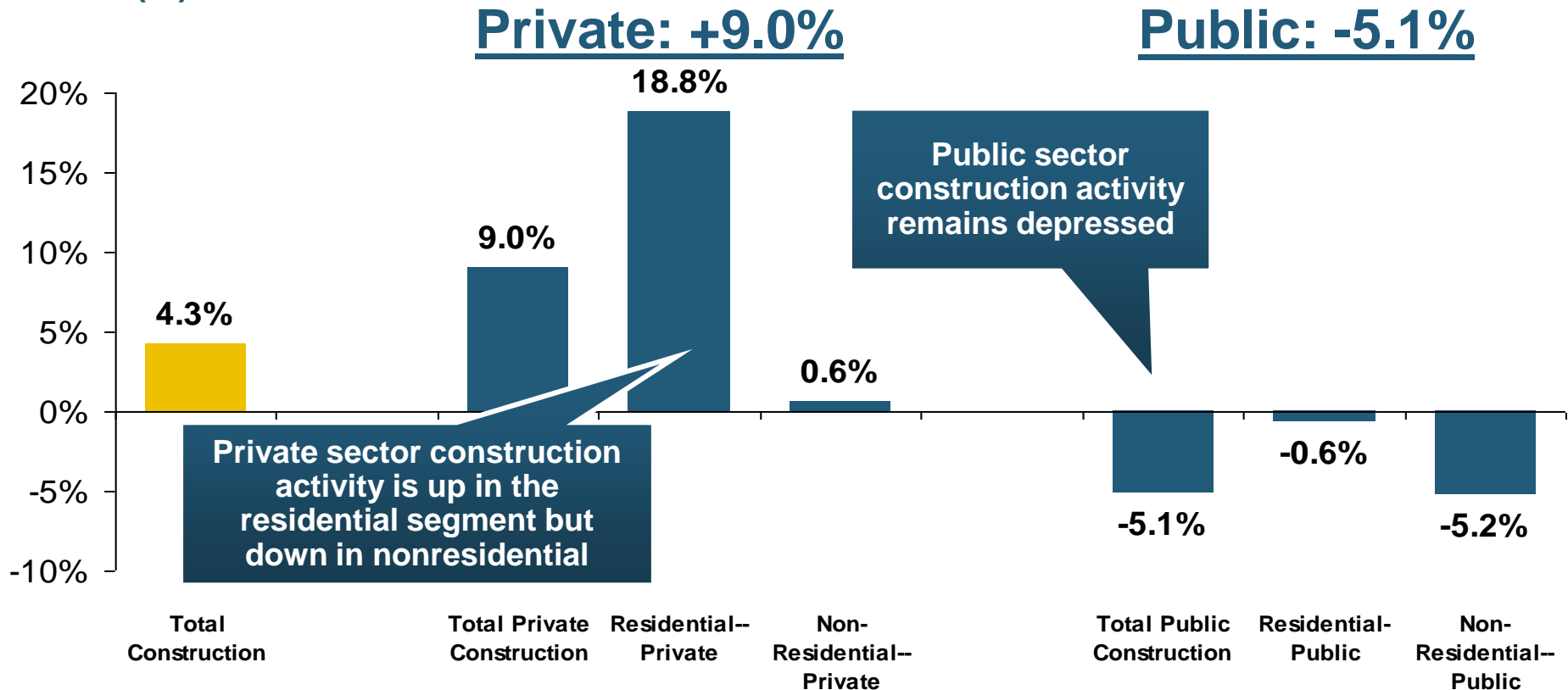


Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

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

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

Growth (%)



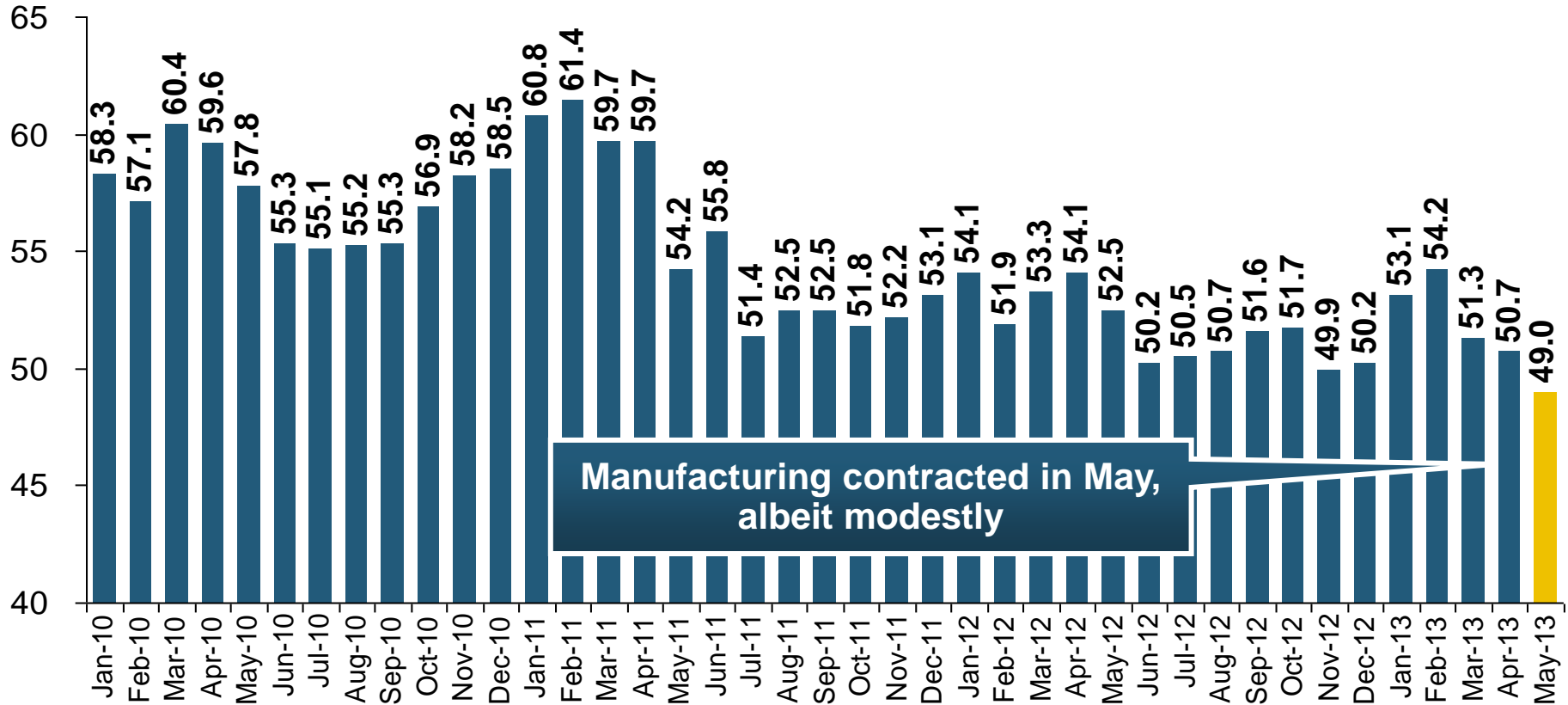
Overall Construction Activity is Up, But Growth Is Entirely in the Private Sector as State/Local Government Budget Woes Continue

*seasonally adjusted

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

ISM Manufacturing Index (Values > 50 Indicate Expansion)

January 2010 through May 2013

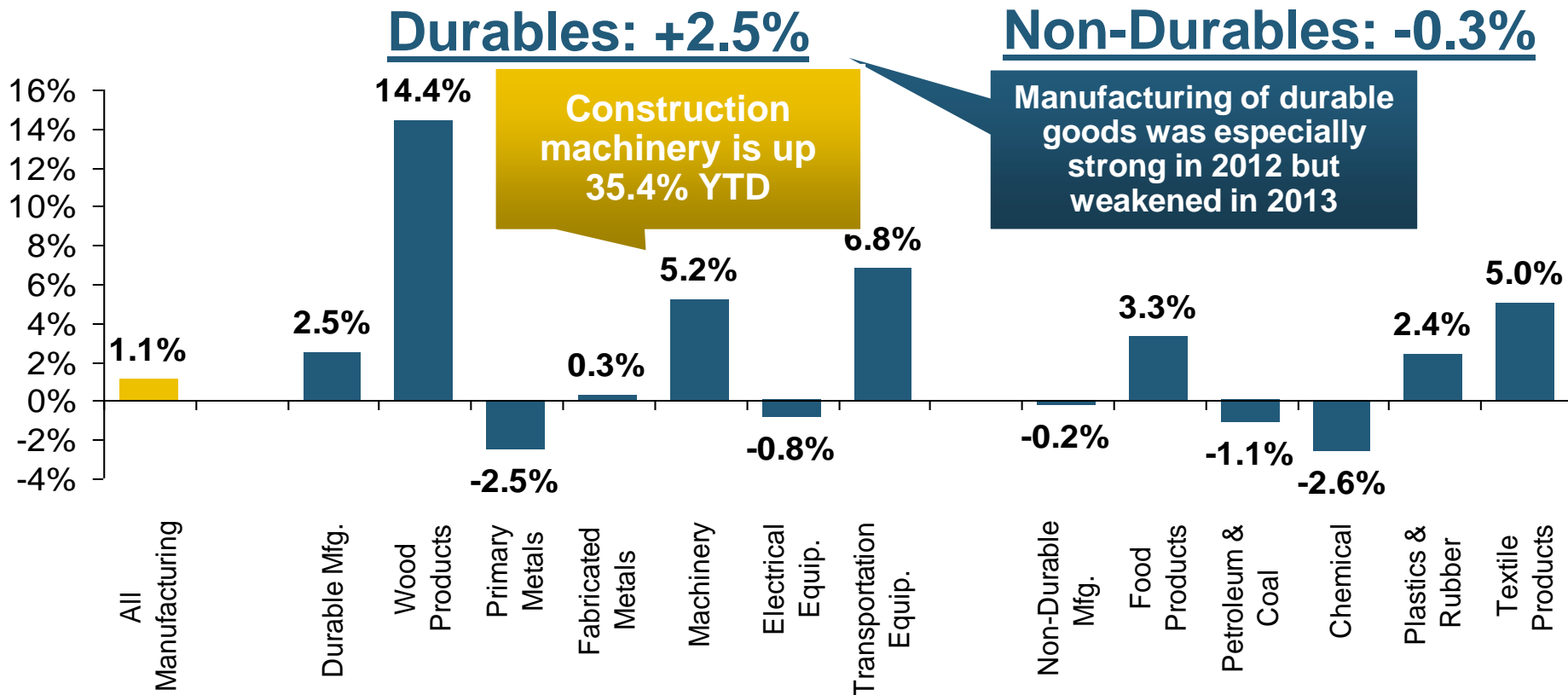


Manufacturing contracted in May, albeit modestly

The manufacturing sector expanded for 39 of the 41 months from Jan. 2010 through May 2013. Recent weakness stems largely from woes in Europe and a Slowdown in China.

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 April 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/>

Manufacturing Employment, Jan. 2010—May 2013*

(Thousands)

Manufacturing employment is up by more than 500,000 or 4.4% since Jan. 2010—a surprising source of strength in the economy. The sector has weakened recently as US corporations remains cautious and Europe, China slow.

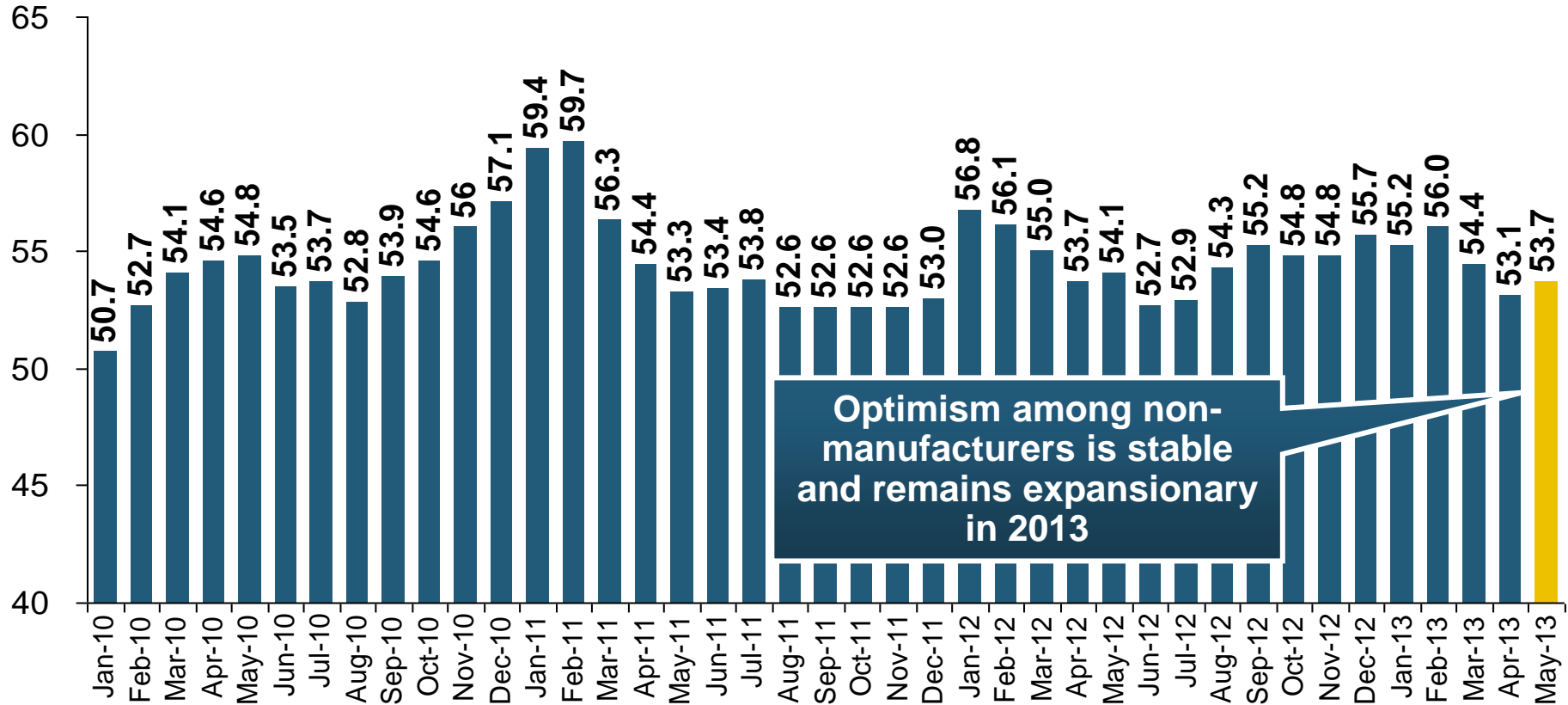


*Seasonally adjusted

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

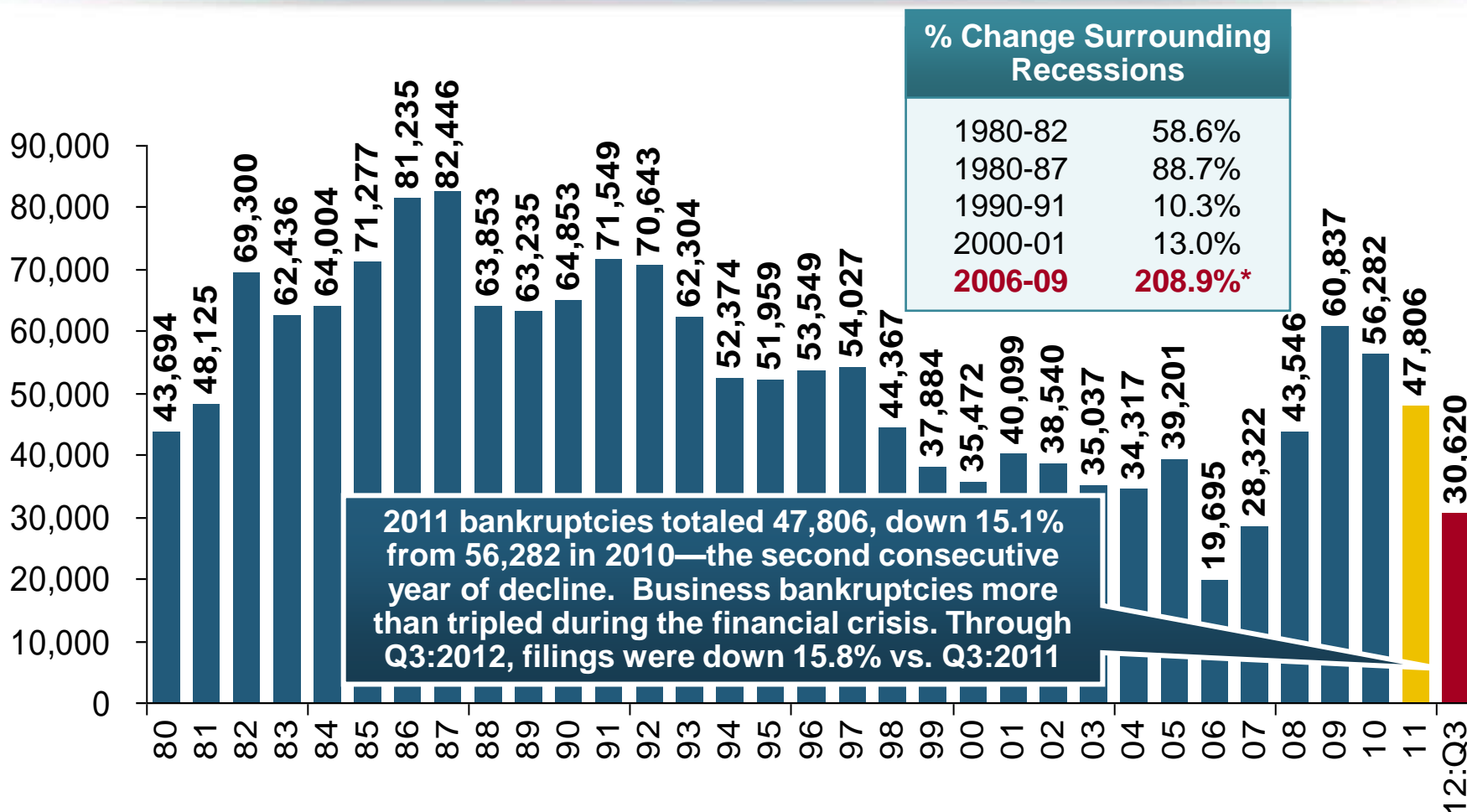
ISM Non-Manufacturing Index (Values > 50 Indicate Expansion)

January 2010 through May 2013



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

Business Bankruptcy Filings, 1980-2012:Q3

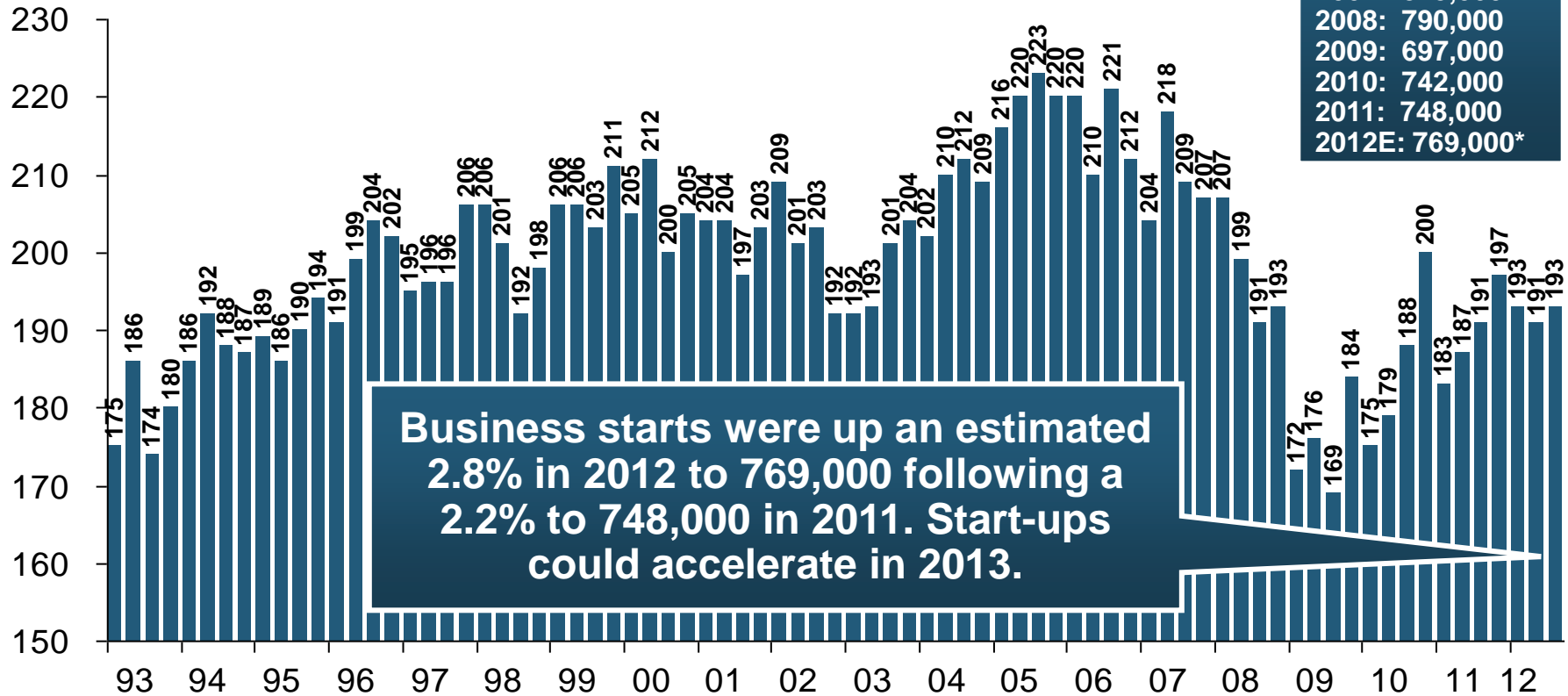


Significant Exposure Implications for All Commercial Lines as Business Bankruptcies Begin to Decline

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:Q3*

(Thousands)



Business Starts	
2006:	872,000
2007:	843,000
2008:	790,000
2009:	697,000
2010:	742,000
2011:	748,000
2012E:	769,000*

Business starts were up an estimated 2.8% in 2012 to 769,000 following a 2.2% to 748,000 in 2011. Start-ups could accelerate in 2013.

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

* Data through Sep. 30, 2012 are the latest available as of June 21, 2013; Seasonally adjusted.
Source: Bureau of Labor Statistics, <http://www.bls.gov/news.release/cewbd.t08.htm>.

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

Inourced 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

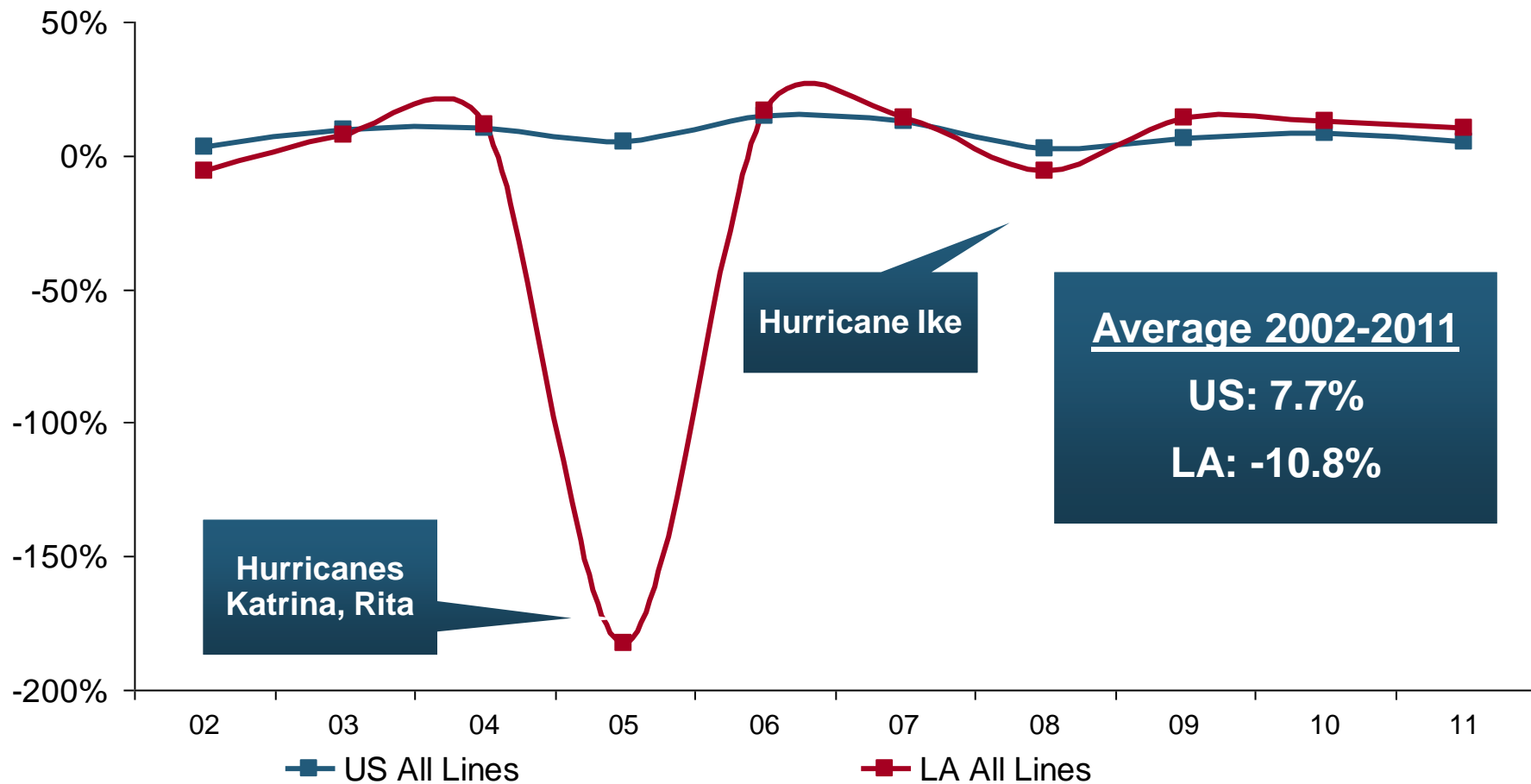


Profitability and Growth in Louisiana P/C Insurance Markets

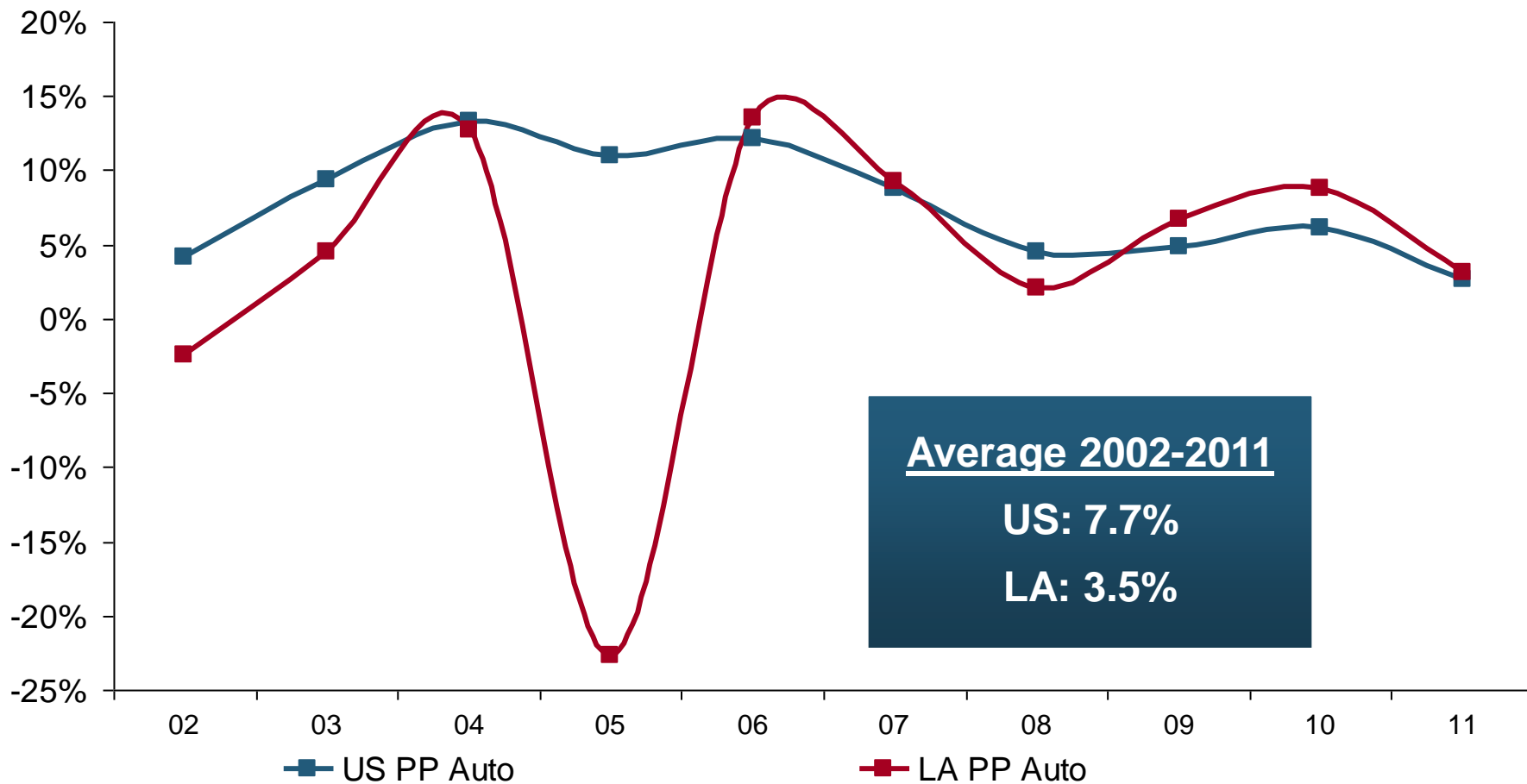
Analysis by Line and Nearby State Comparisons

RNW All Lines: LA vs. U.S., 2002-2011

(Percent)

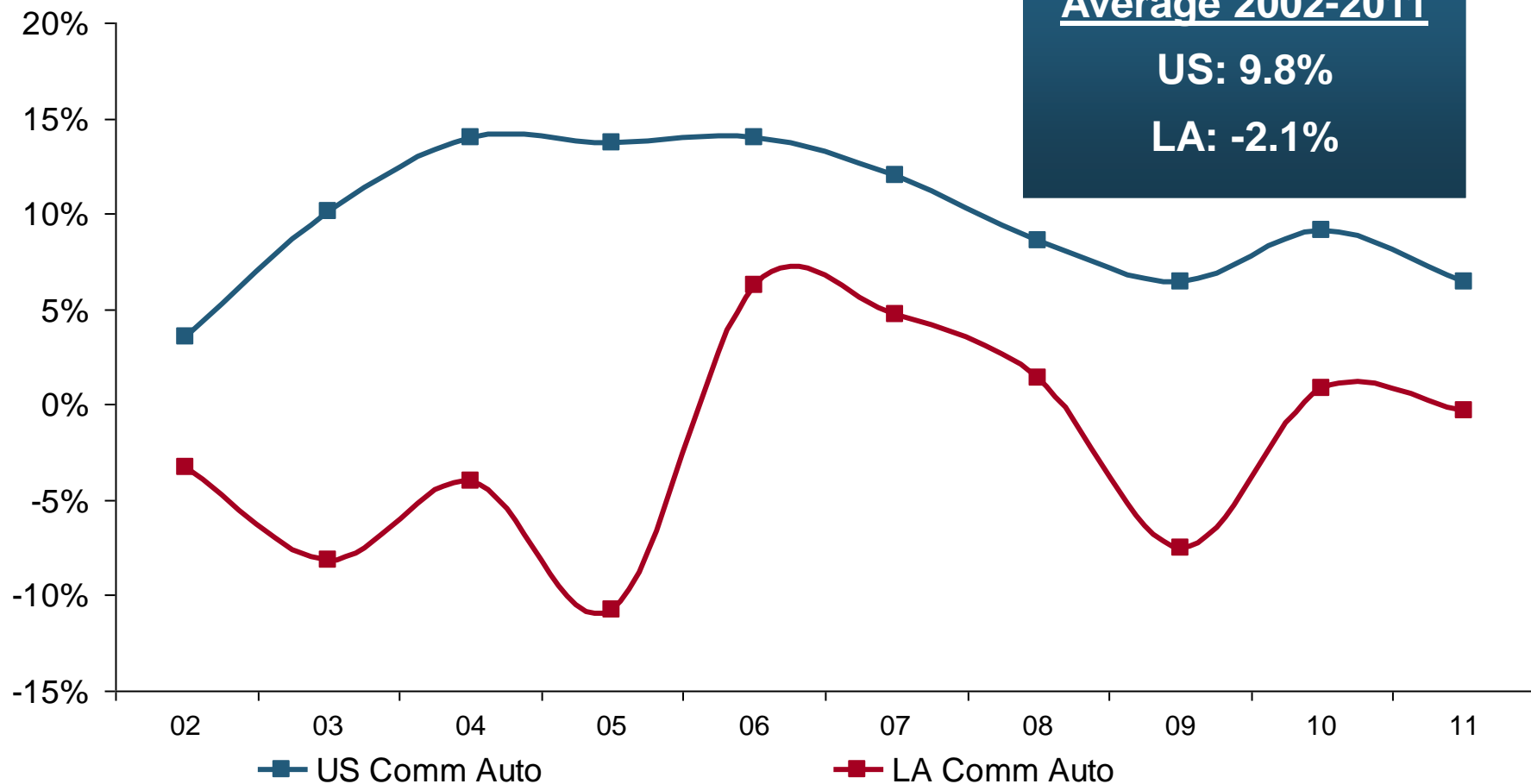


RNW PP Auto: LA vs. U.S., 2002-2011



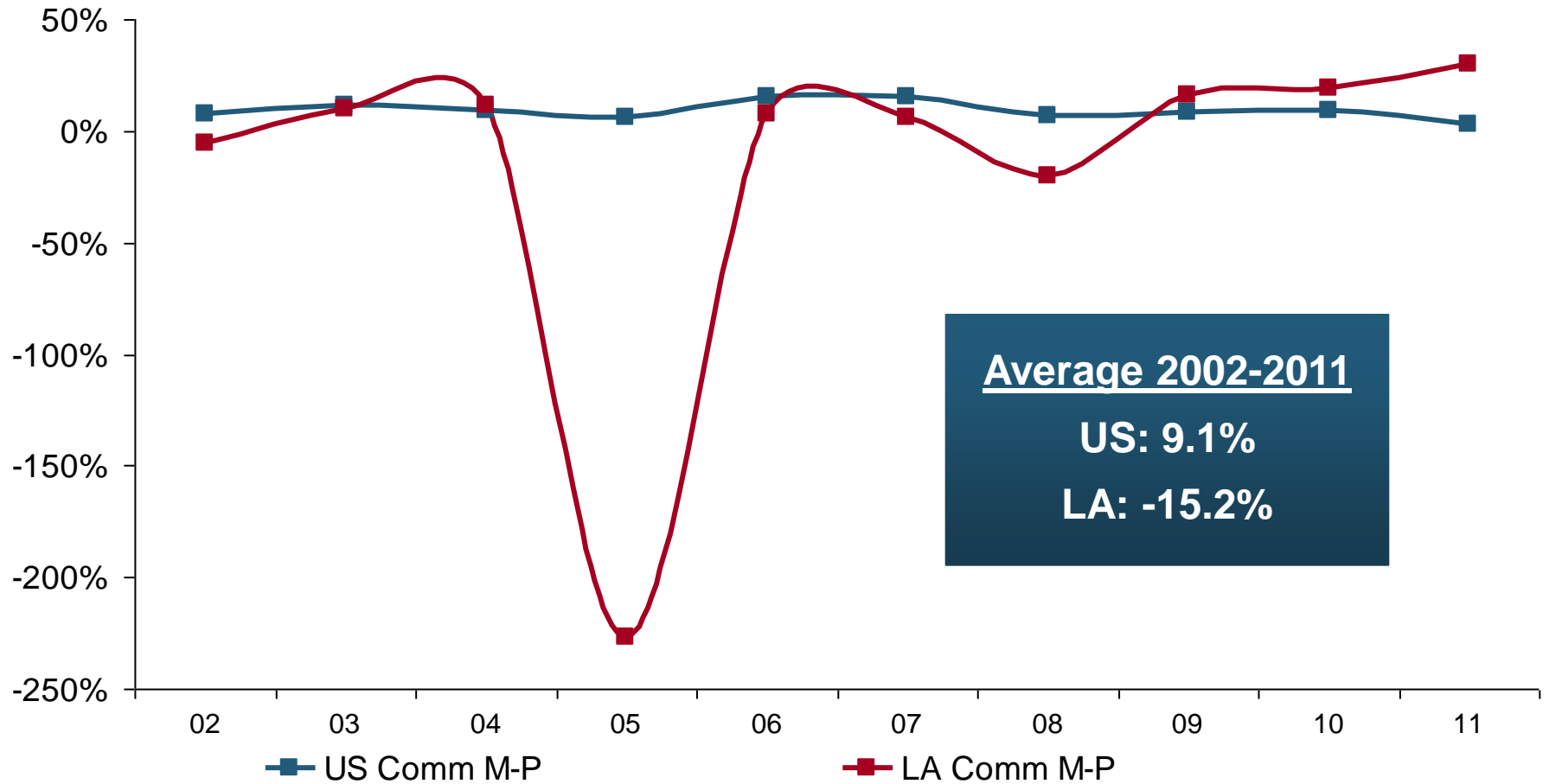
RNW Comm. Auto: LA vs. U.S., 2002-2011

(Percent)



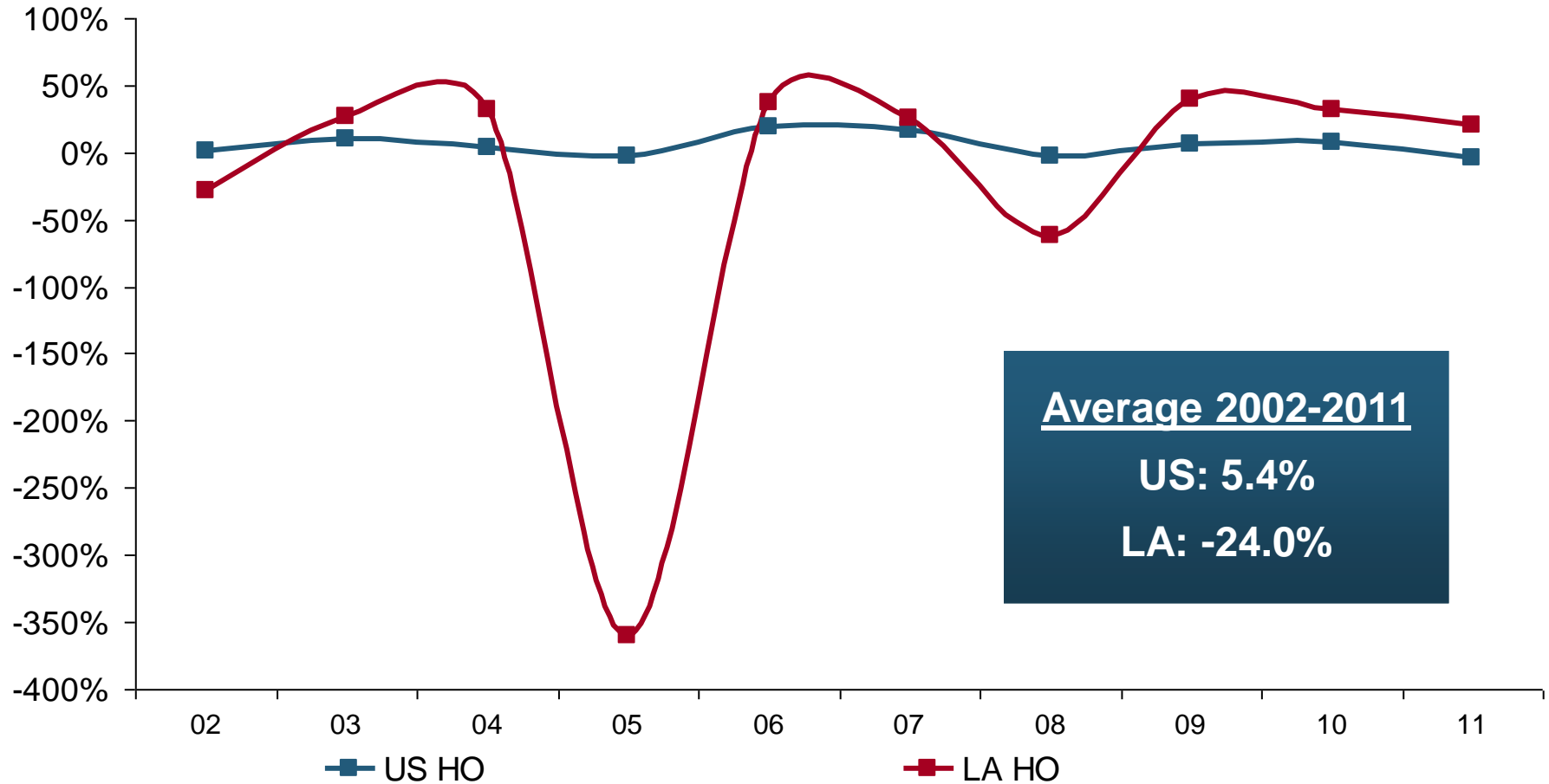
RNW Comm. Multi-Peril: LA vs. U.S., 2002-2011

(Percent)



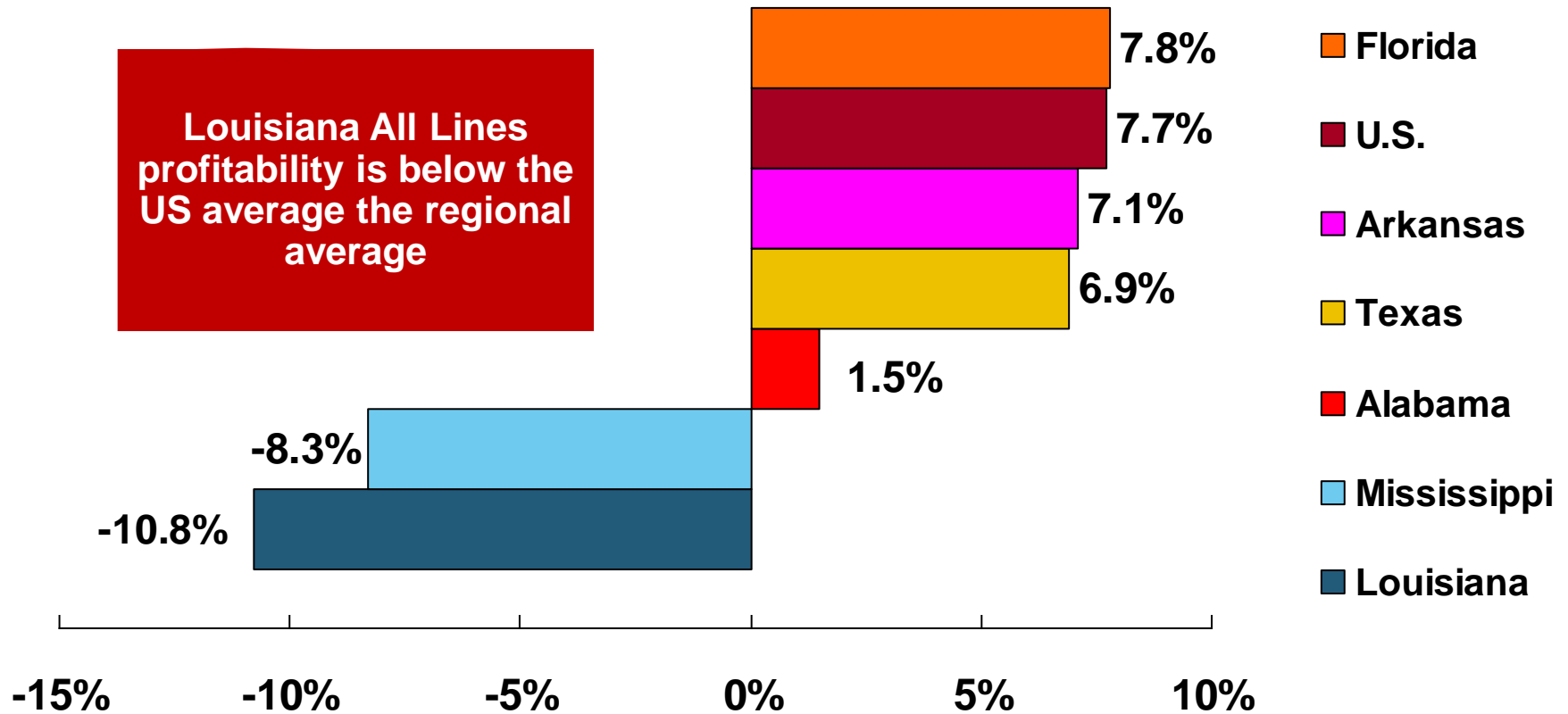
RNW Homeowners: LA vs. U.S., 2002-2011

(Percent)



All Lines: 10-Year Average RNW LA & Nearby States

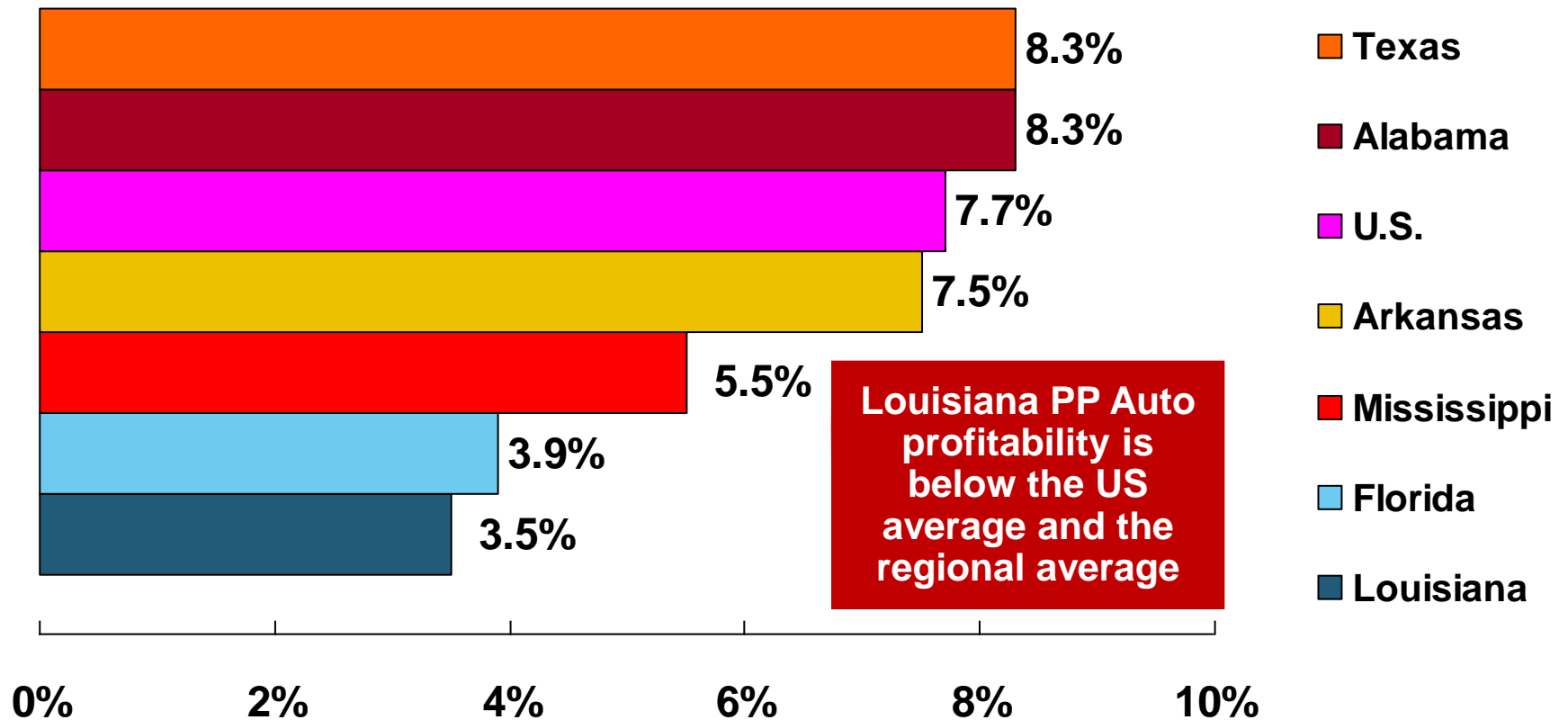
2002-2011



Source: NAIC, Insurance Information Institute

PP Auto: 10-Year Average RNW LA & Nearby States

2002-2011



Source: NAIC, Insurance Information Institute

Top Ten Most Expensive And Least Expensive States For Automobile Insurance, 2010 (1)

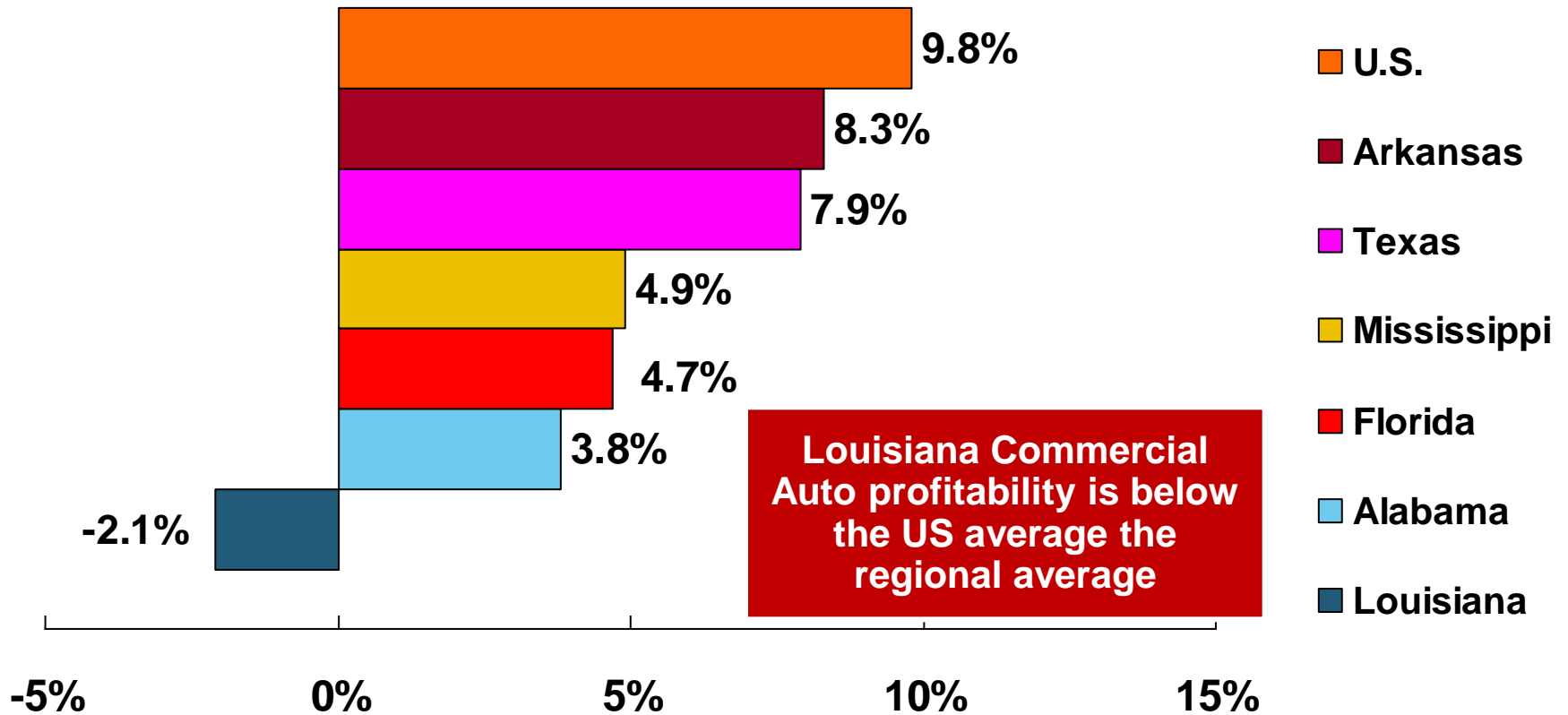
Rank	Most expensive states	Average expenditure	Rank	Least expensive states	Average expenditure
1	New Jersey	\$1,157.30	1	South Dakota	\$525.16
2	District of Columbia	1,133.87	2	North Dakota	528.81
3	Louisiana	1,121.46	3	Iowa	546.59
4	New York	1,078.88	4	Idaho	547.78
5	Florida	1,036.76	5	Maine	582.29
6	Delaware	1,030.98	6	Nebraska	592.69
7	Rhode Island	984.95	7	North Carolina	599.90
8	Connecticut	965.22	8	Wisconsin	613.37
9	Maryland	947.70	9	Ohio	619.46
10	Michigan	934.60	10	Wyoming	621.08

Louisiana ranked 3rd most expensive state in 2010, with an average expenditure for auto insurance of \$1,121.46.

(1) Based on average automobile insurance expenditures.

Comm. Auto: 10-Year Average RNW LA & Nearby States

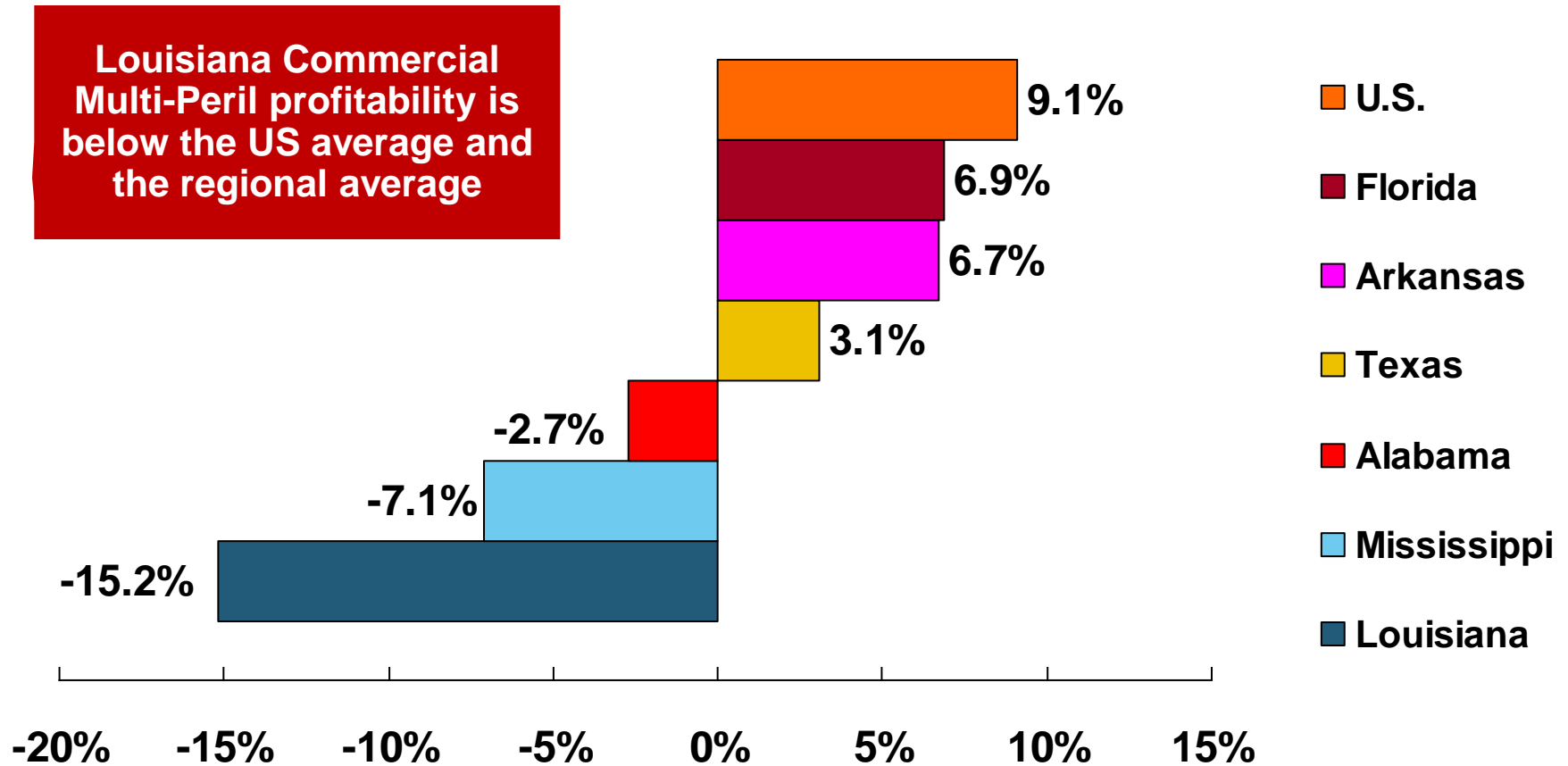
2002-2011



Source: NAIC, Insurance Information Institute

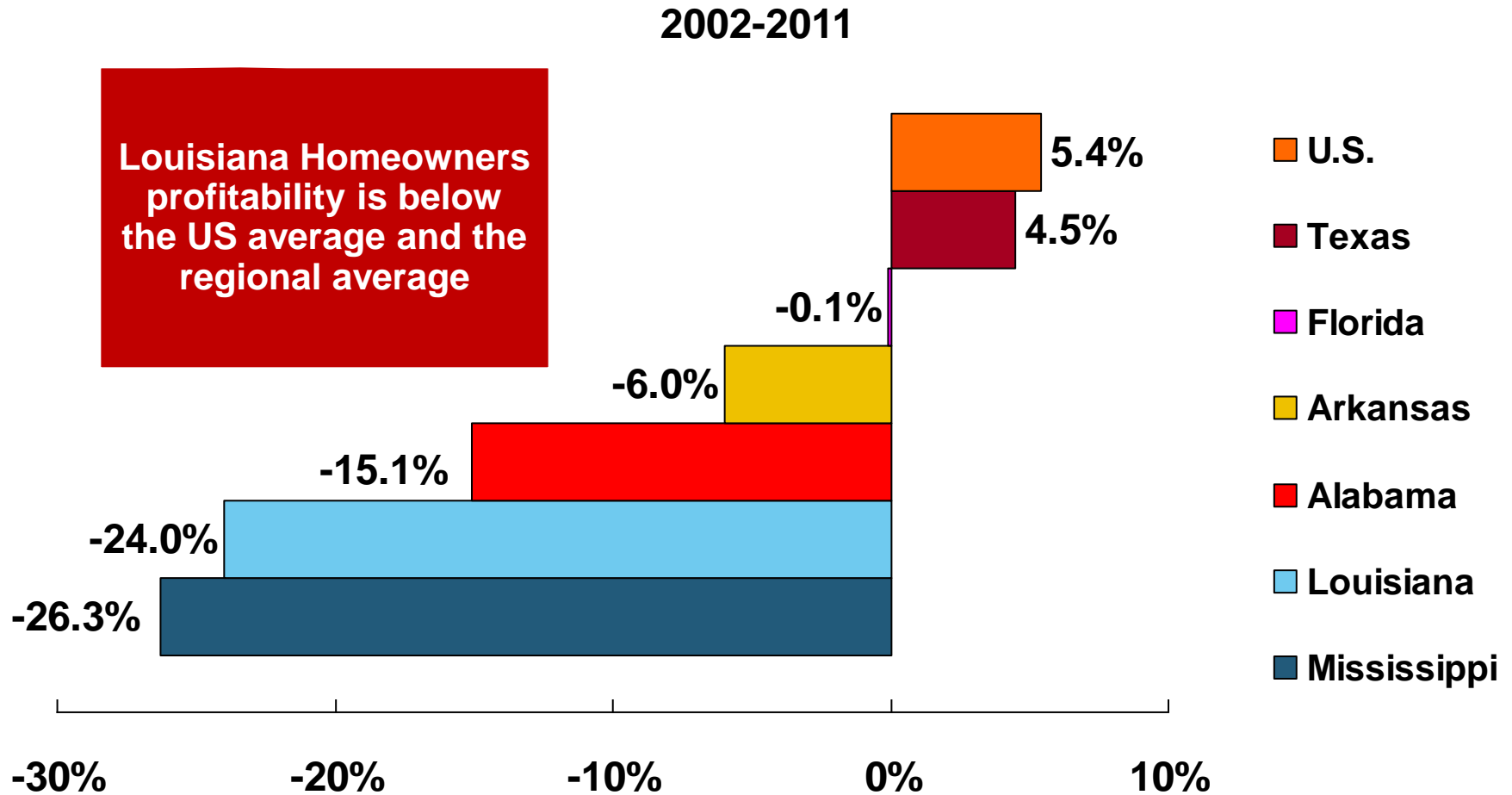
Comm. M-P: 10-Year Average RNW LA & Nearby States

2002-2011



Source: NAIC, Insurance Information Institute

Homeowners: 10-Year Average RNW LA & Nearby States



Source: NAIC, Insurance Information Institute

Top Ten Most Expensive And Least Expensive States For Homeowners Insurance, 2010 (1)

Louisiana ranked as the 2nd most expensive state for homeowners insurance in 2010, with an average expenditure of \$1,546.

Rank	Most expensive states	Average expenditure	Rank	Least expensive states	Average expenditure
1	Texas (2)	\$1,560	1	Idaho	\$500
2	Louisiana (3)	1,546	2	Oregon	535
3	Florida (4)	1,544	3	Utah	558
4	Oklahoma	1,246	4	Wisconsin	563
5	Mississippi	1,217	5	Washington	595
6	Rhode Island	1,092	6	Ohio	614
7	Kansas	1,066	7	Delaware	636
8	District Of Columbia	1,065	8	Arizona	666
9	Connecticut	1,052	9	Maine	676
10	Alabama	1,050	10	South Dakota	678

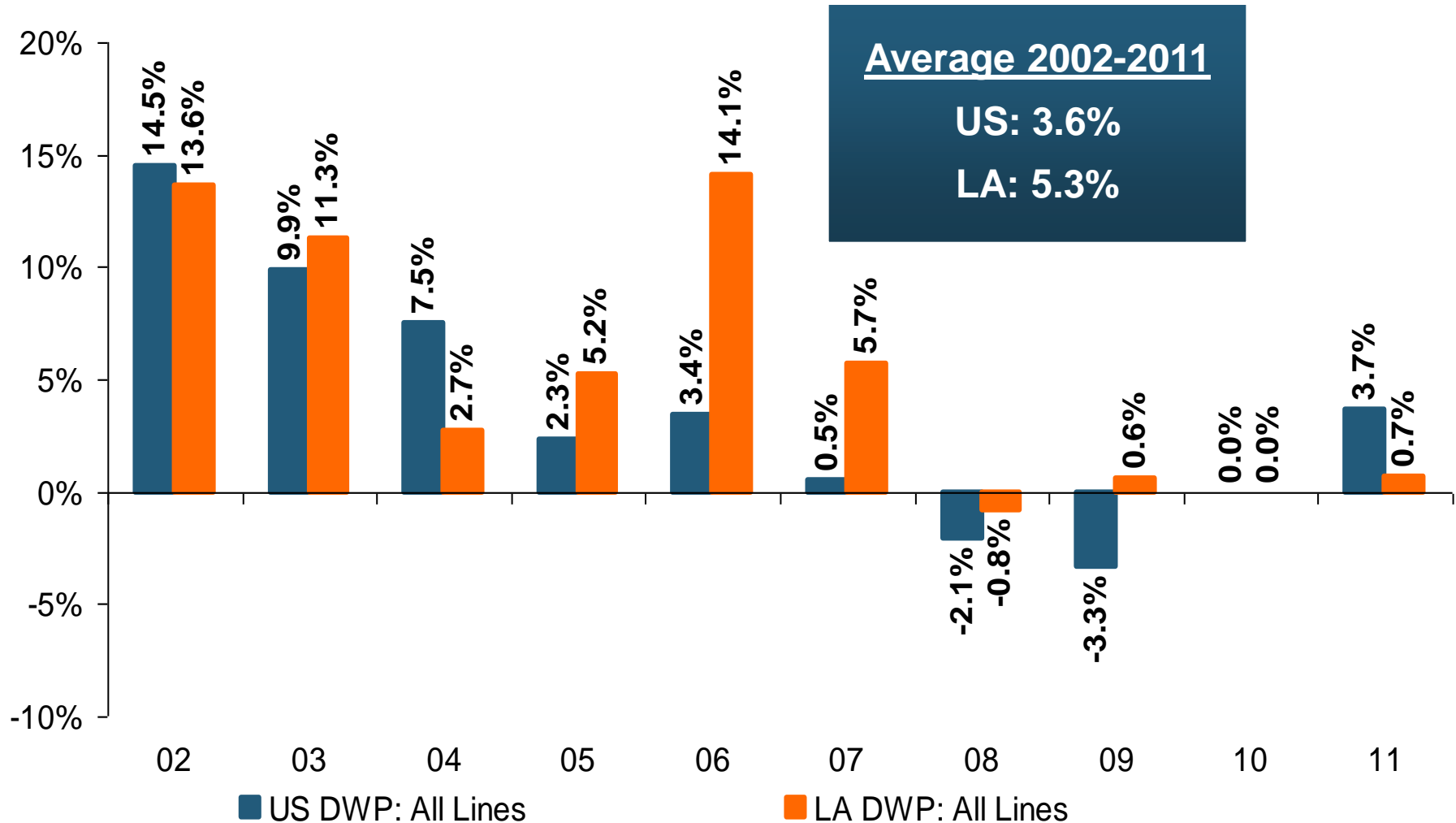
- (1) Based on the HO-3 homeowner package policy for owner-occupied dwellings, 1 to 4 family units. Provides “all risks” coverage (except those specifically excluded in the policy) on buildings and broad named-peril coverage on personal property, and is the most common package written.
- (2) The Texas Department of Insurance developed home insurance policy forms that are similar but not identical to the standard forms. Note: Average premium=Premiums/exposure per house years. A house year is equal to 365 days of insured coverage for a single dwelling. The NAIC does not rank State Average Expenditures and does not endorse any conclusions drawn from this data.
- (3) Policies written by Citizens Property Insurance (Louisiana), are not included.
- (4) Policies written by Citizens Property Insurance (Florida), are not included.

Note: Average premium=Premiums/exposure per house years. A house year is equal to 365 days of insured coverage for a single dwelling. The NAIC does not rank state average expenditures and does not endorse any conclusions drawn from this data.

Source: © 2012 National Association of Insurance Commissioners (NAIC). Reprinted with permission. Further reprint or distribution strictly prohibited without written permission of NAIC.

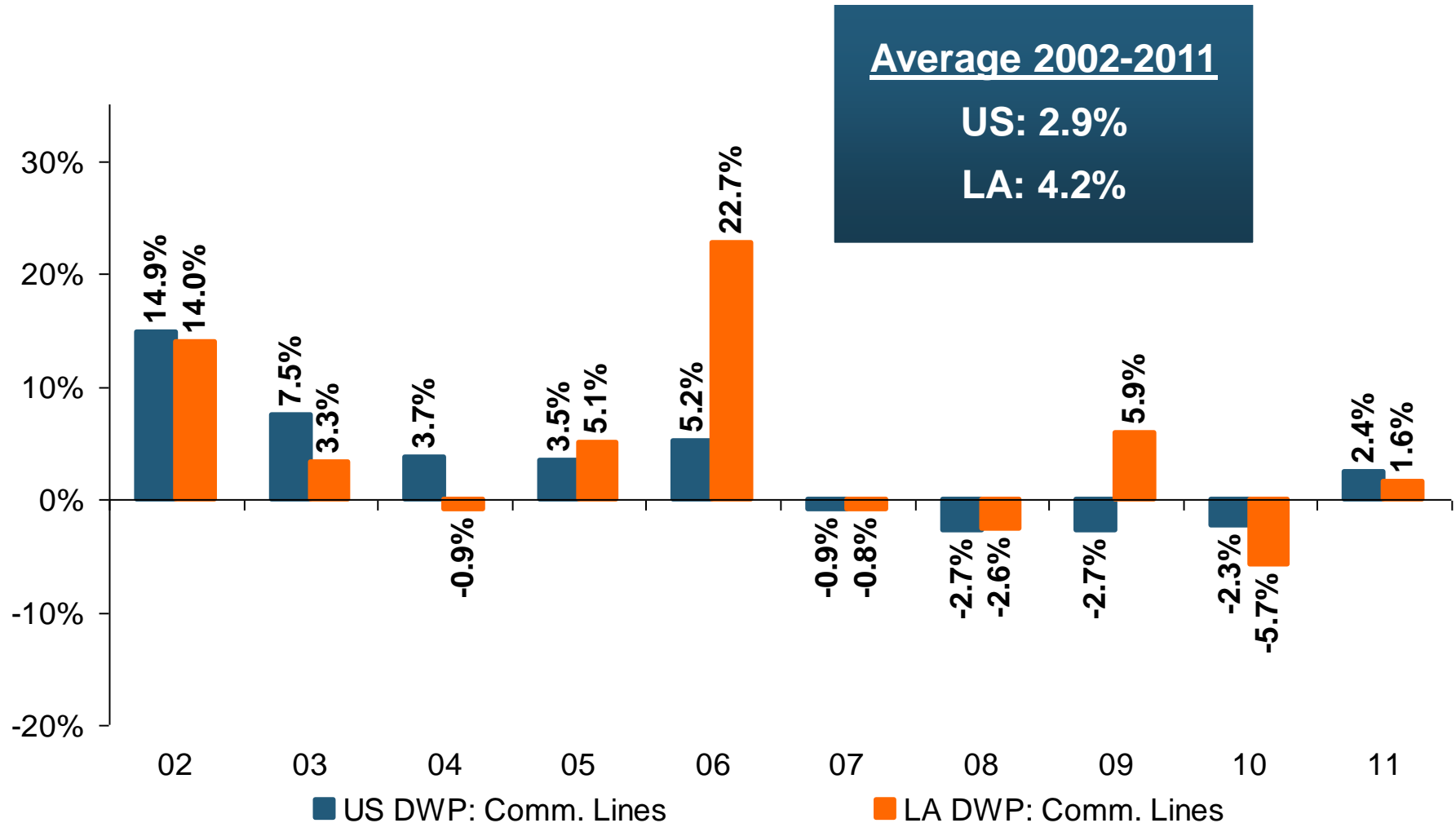
All Lines DWP Growth: LA vs. U.S., 2002-2011

(Percent)



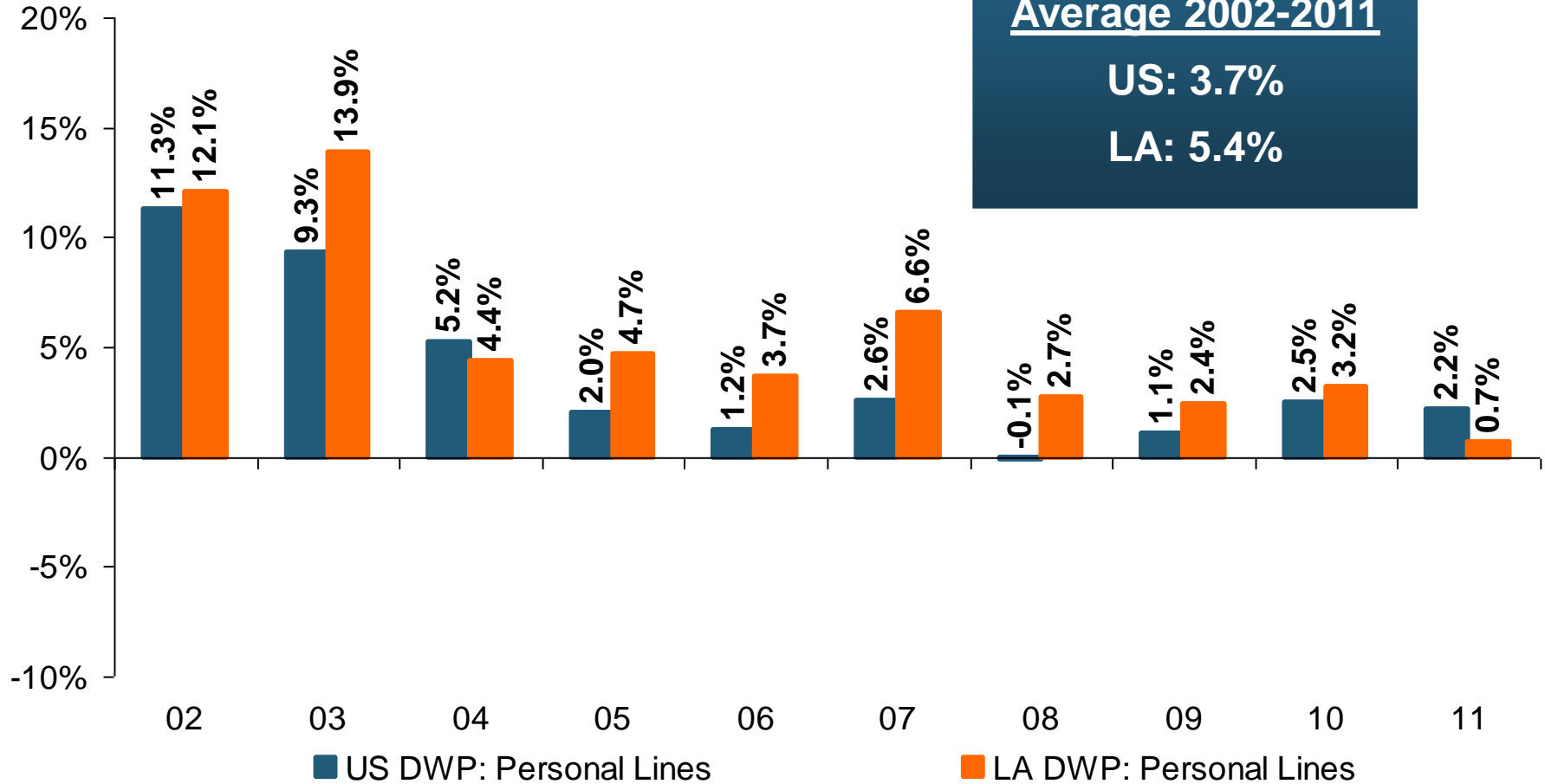
Comm. Lines DWP Growth: LA vs. U.S., 2002-2011

(Percent)



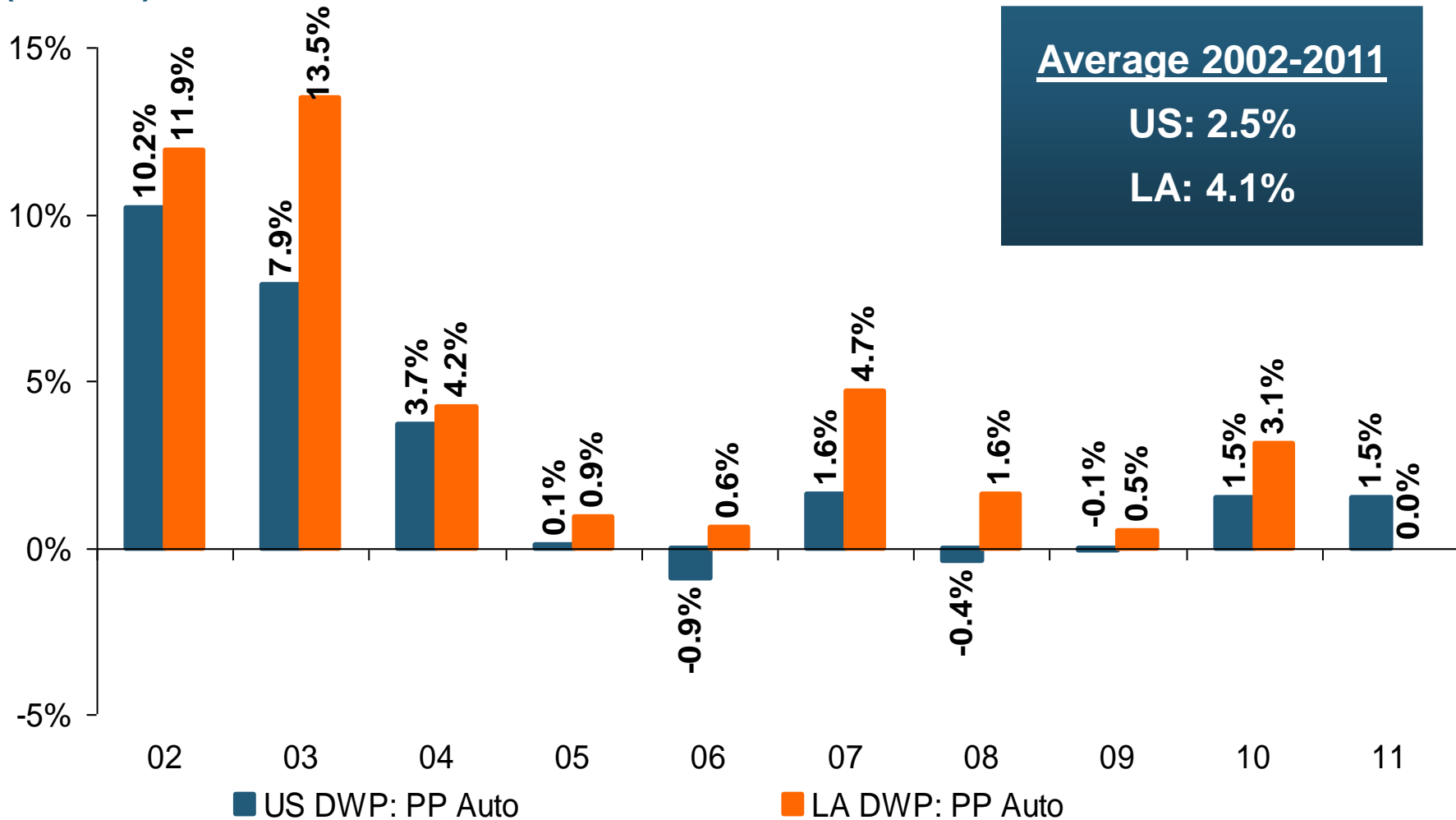
Personal Lines DWP Growth: LA vs. U.S. 2002-2011

(Percent)



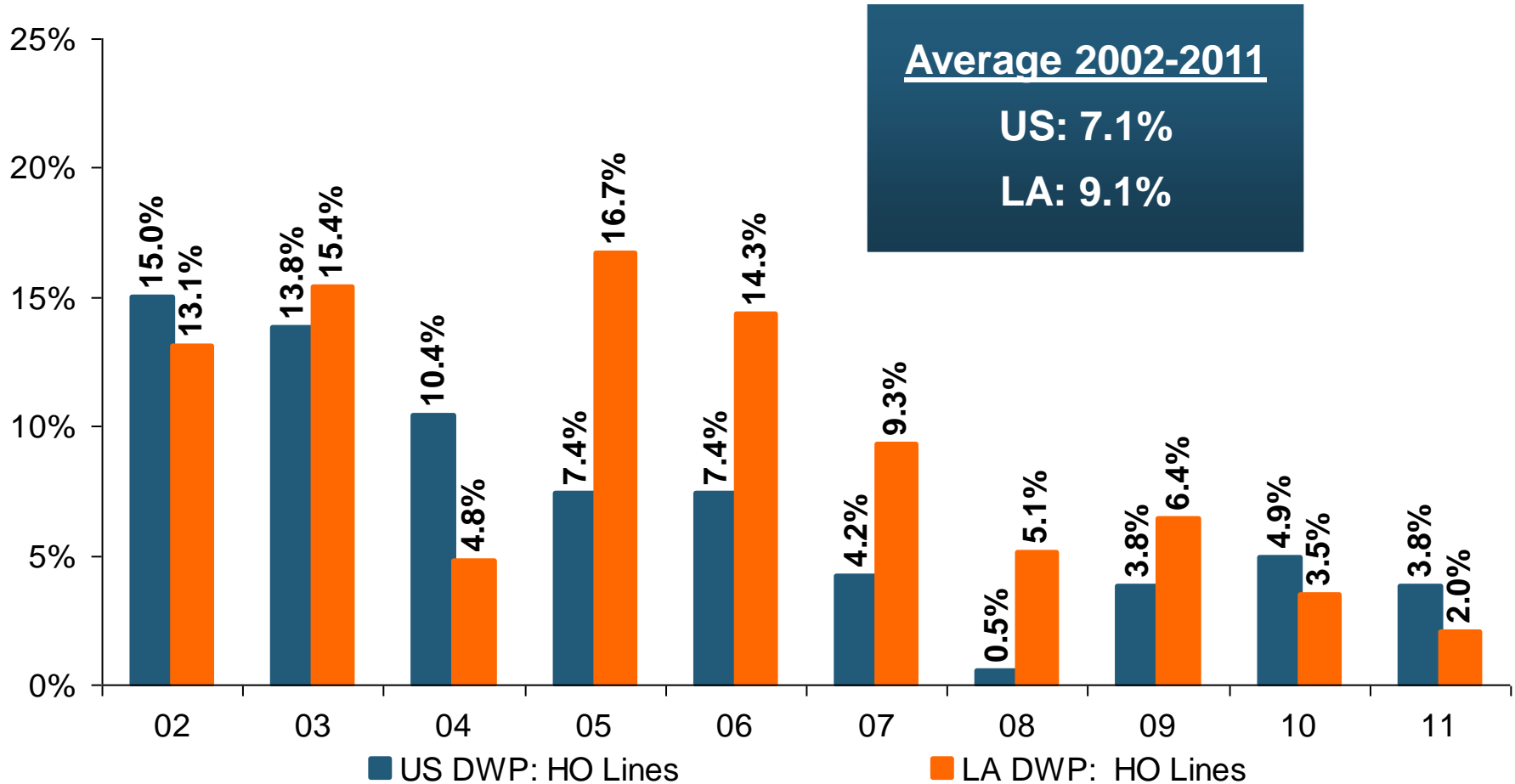
Private Passenger Auto DWP Growth: LA vs. U.S., 2002-2011

(Percent)



Homeowner's MP DWP Growth: LA vs. U.S., 2002-2011

(Percent)



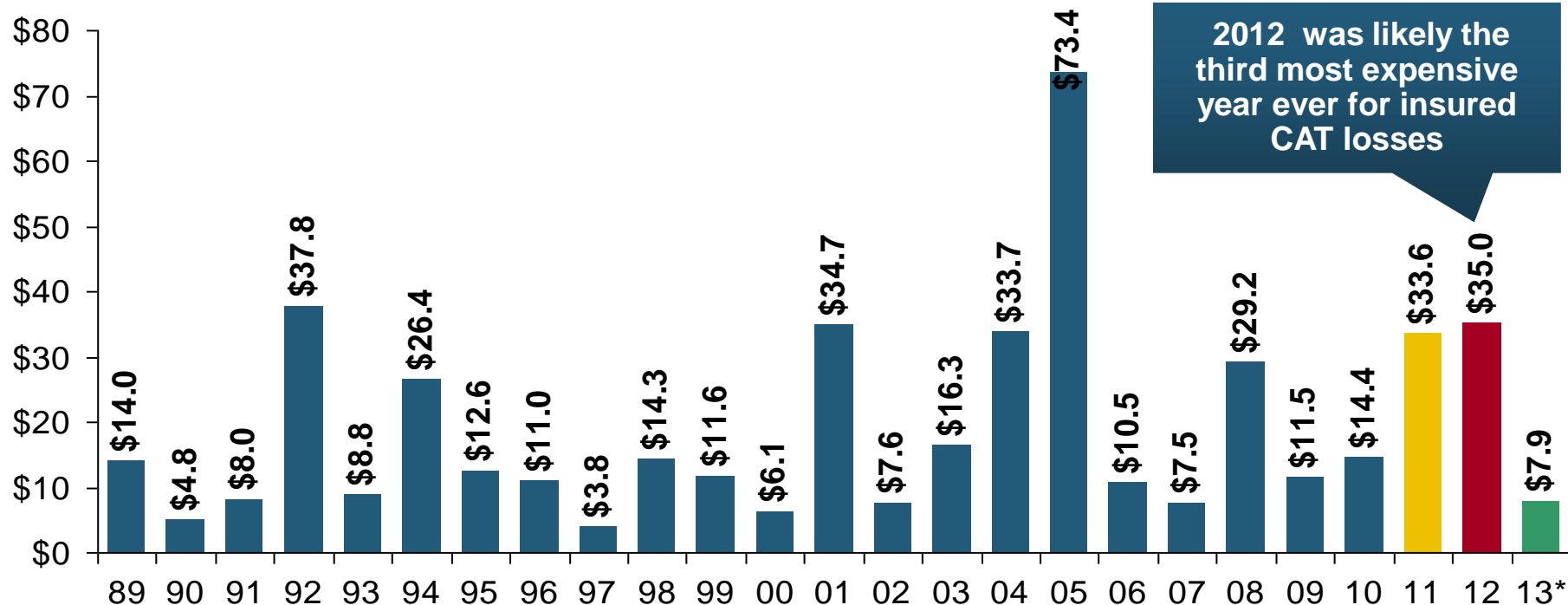


U.S. Insured Catastrophe Loss Update

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

U.S. Insured Catastrophe Losses

(\$ Billions, 2012 Dollars)



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

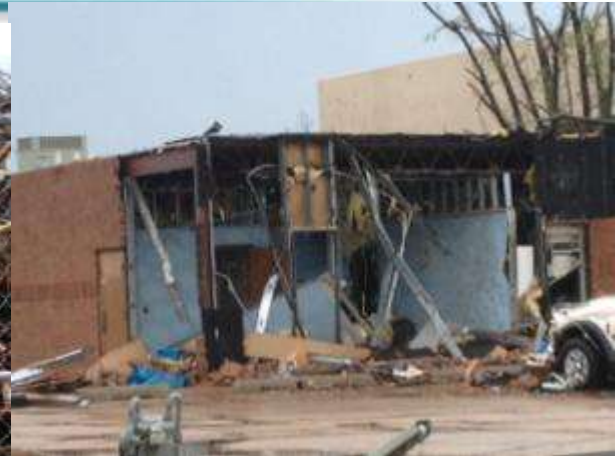
*Through 6/2/13. Includes \$2.6B for 2013:Q1 (PCS) and \$5.32B for the period 4/1 – 6/2/13 (Aon Benfield Monthly Global Catastrophe Recap).

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.

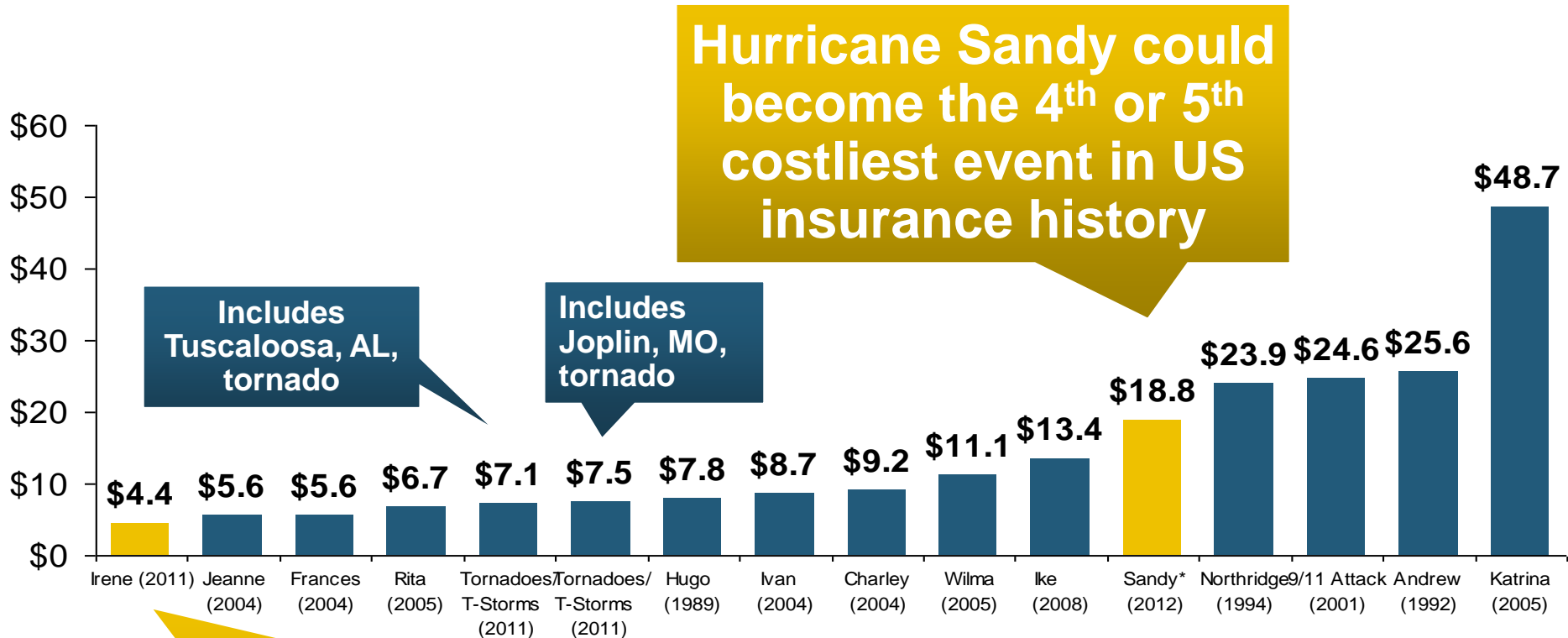
Scenes from my Visit to Moore, OK, Tornado: High Claim Severity

MOORE



Top 16 Most Costly Disasters in U.S. History

(Insured Losses, 2012 Dollars, \$ Billions)



Hurricane Irene became the 12th most expensive hurricane in US history in 2011

12 of the 16 Most Expensive Events in US History Have Occurred Over the Past Decade

*PCS estimate as of 4/12/13.

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

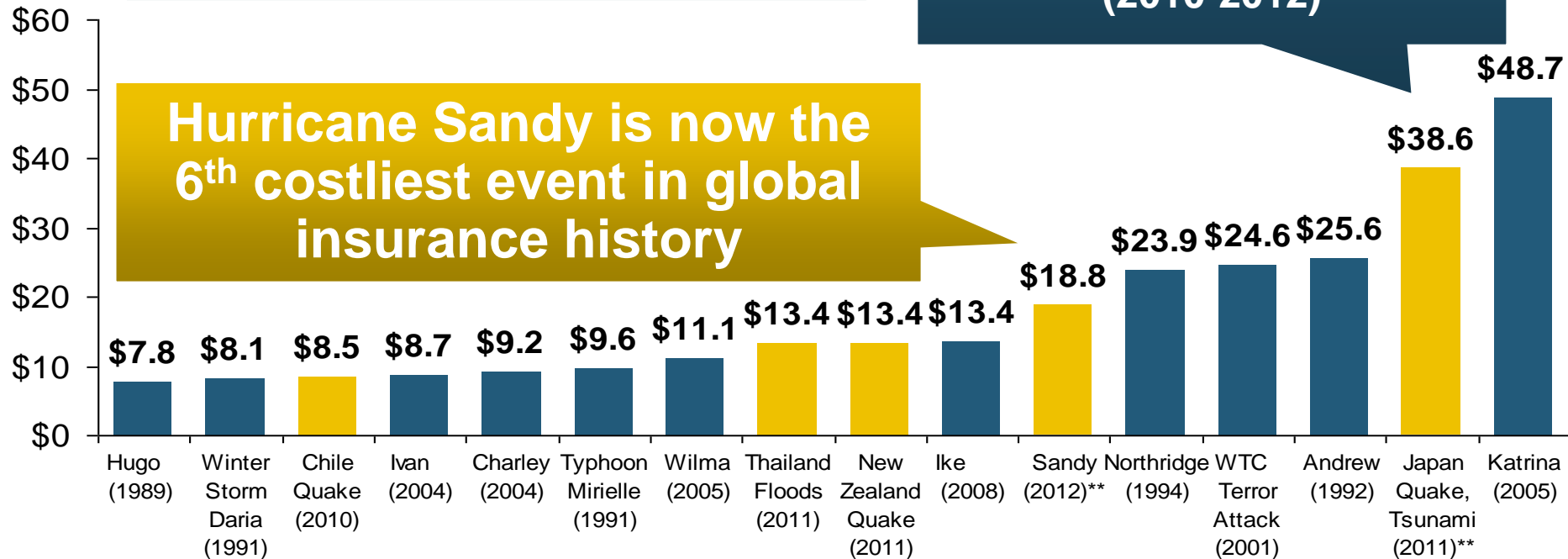
Top 16 Most Costly World Insurance Losses, 1970-2012*

(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.

Outlook for 2013 Hurricane Season: 75% Worse Than Average

Forecast Parameter	Median (1981-2010)	2013F
Named Storms	12.0	18
Named Storm Days	60.1	95
Hurricanes	6.5	9
Hurricane Days	21.3	40
Major Hurricanes	2.0	4
Major Hurricane Days	3.9	9
Accumulated Cyclone Energy	92.0	165
Net Tropical Cyclone Activity	103%	175%

Landfall Probabilities for 2013 Hurricane Season: Above Average

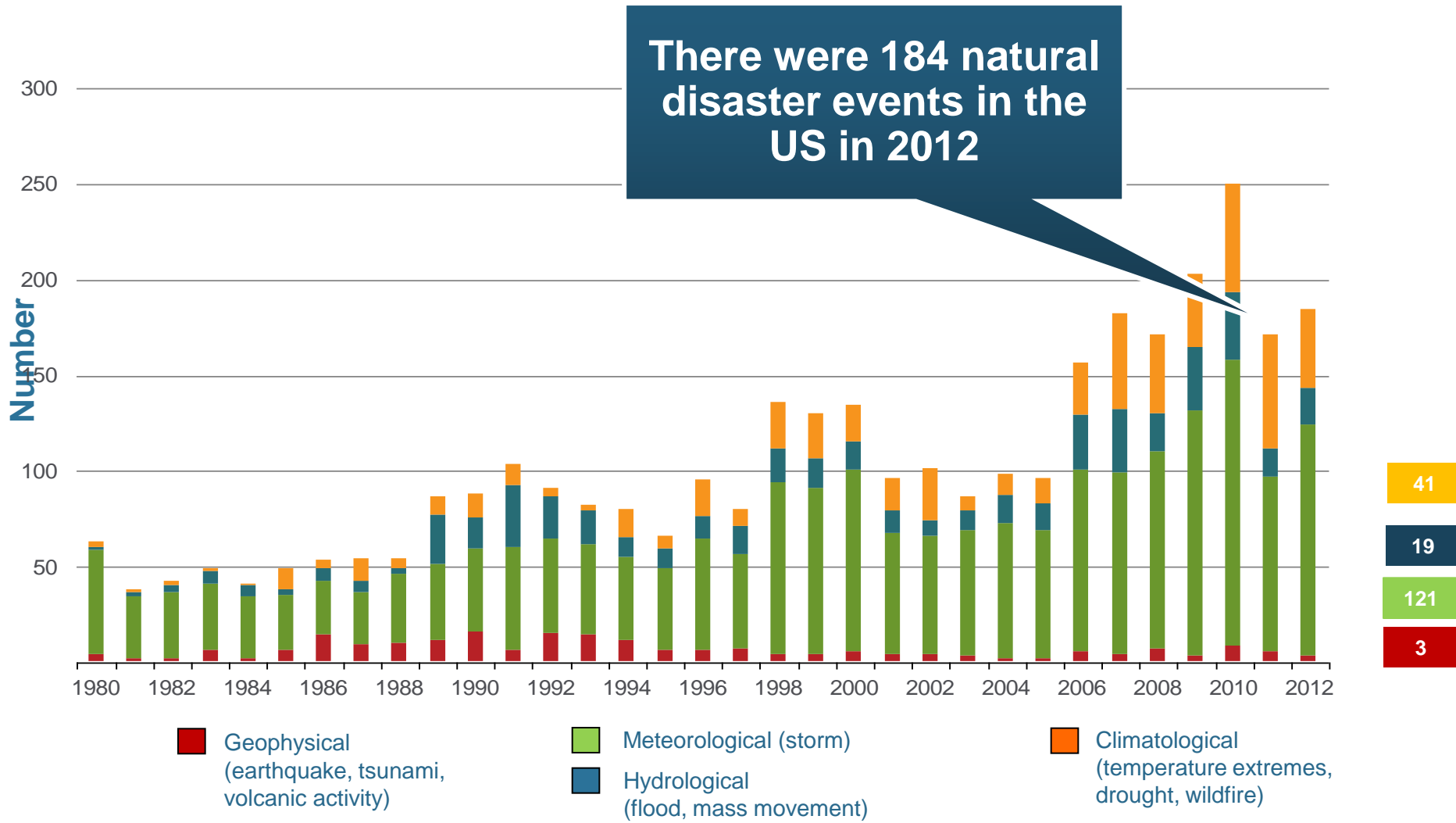
	Average*	2013F
Entire US East & Gulf Coasts	52%	72%
US East Coast Including Florida Peninsula	31%	48%
Gulf Coast from Florida Panhandle to Brownsville	30%	47%
Caribbean	42%	61%

*Average over the past century.

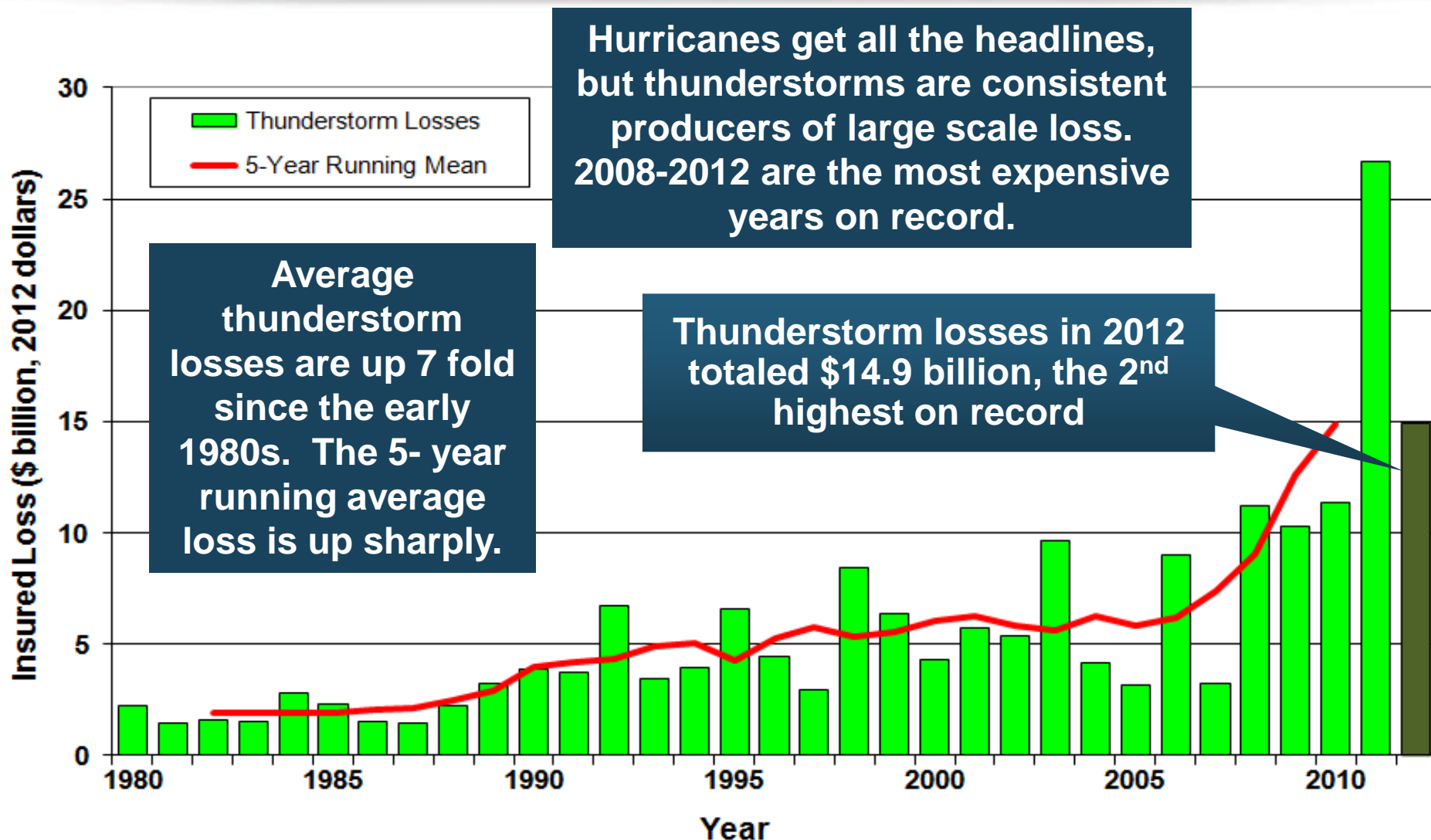
Source: Philip Klotzbach and Dr. William Gray, Colorado State University, April 10, 2013.

Natural Disasters in the United States, 1980 – 2012

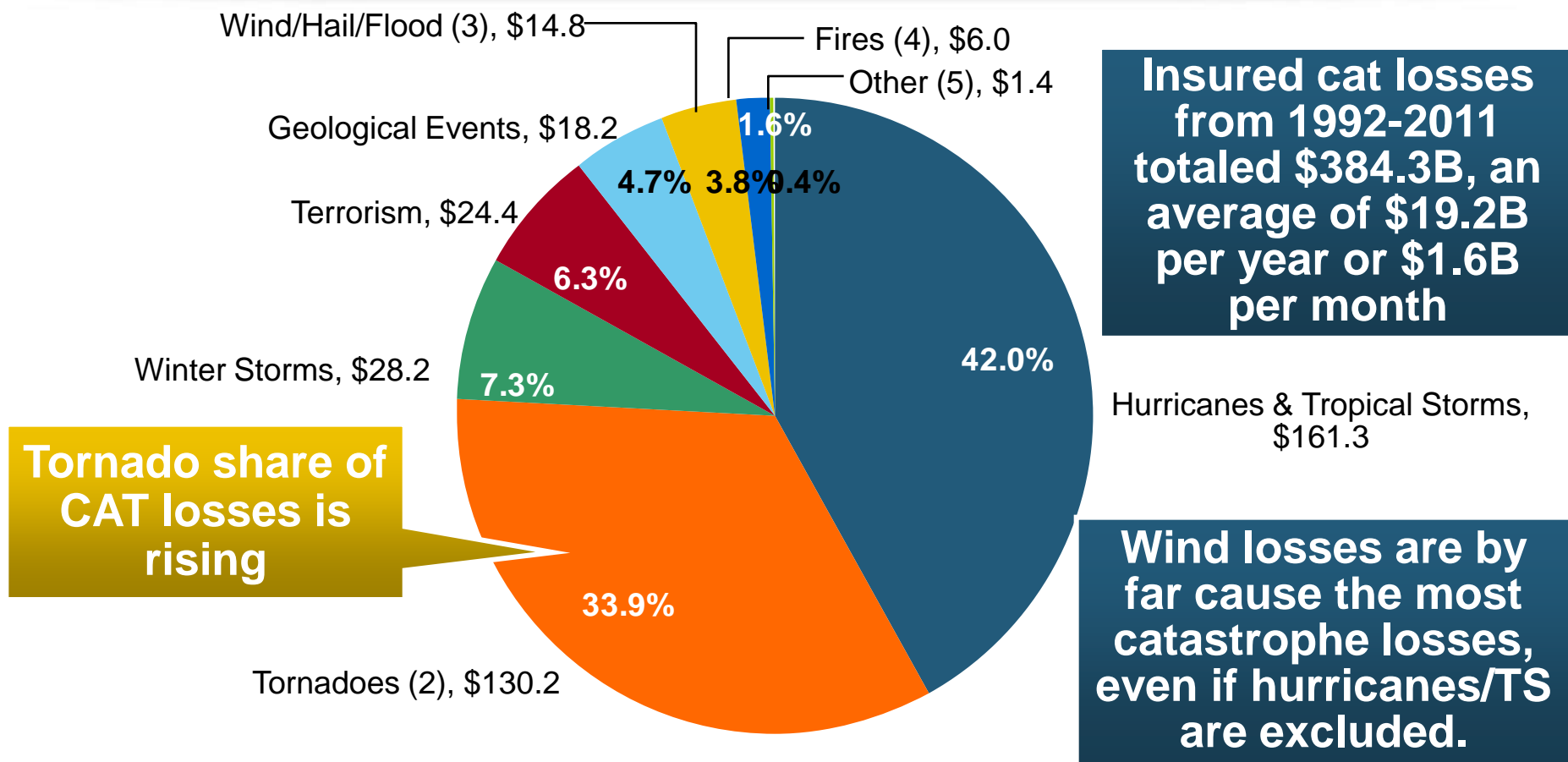
Number of Events (Annual Totals 1980 – 2012)



U.S. Thunderstorm Loss Trends, 1980 – 2012



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



Insured cat losses from 1992-2011 totaled \$384.3B, an average of \$19.2B per year or \$1.6B per month

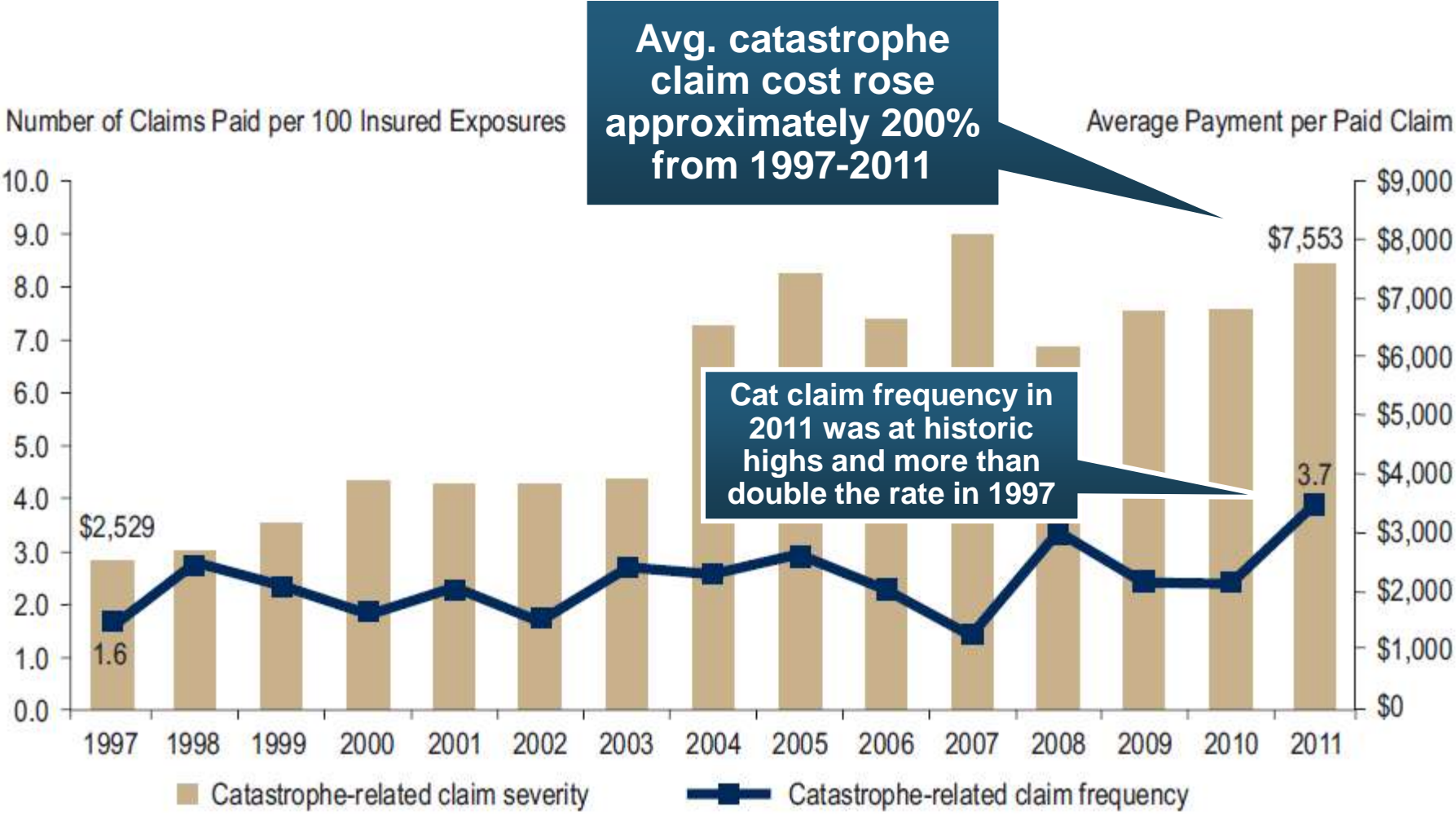
Tornado share of CAT losses is rising

Wind losses are by far cause the most catastrophe losses, even if hurricanes/TS are excluded.

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.

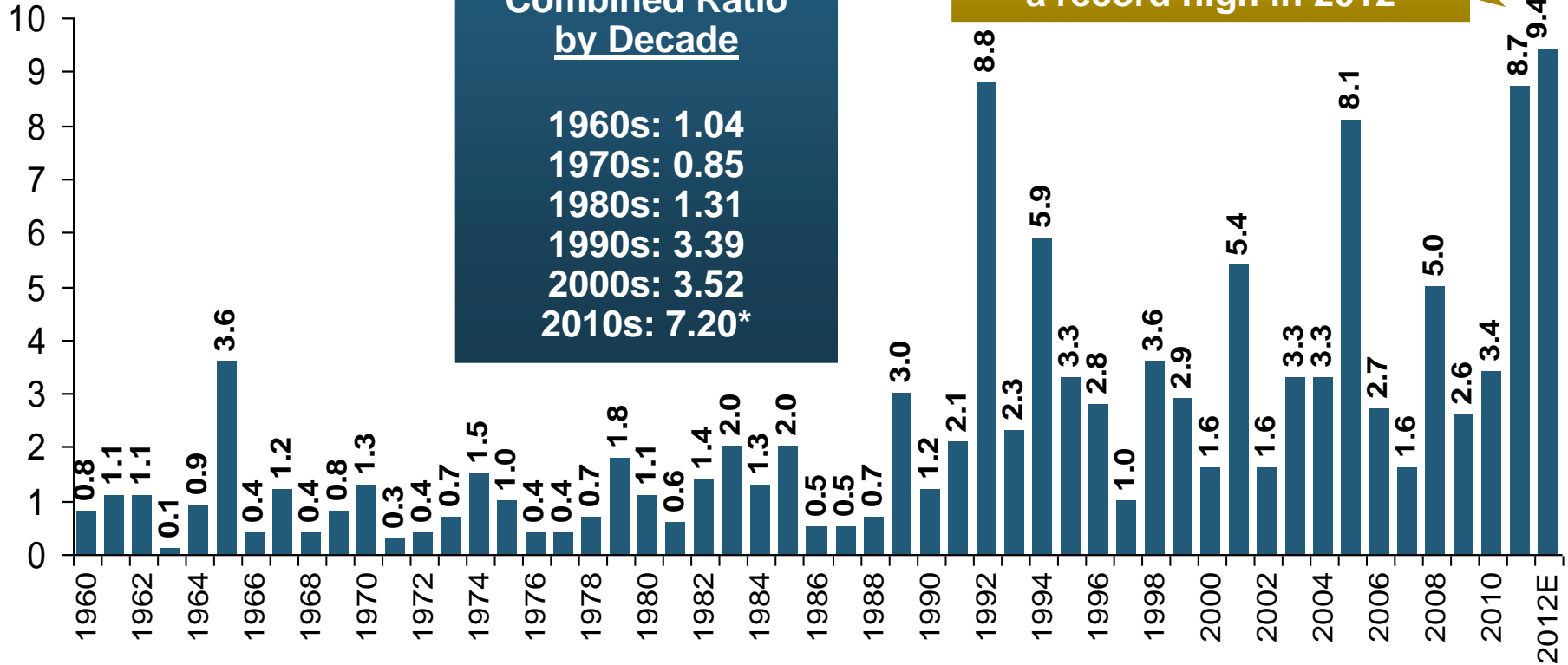
Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2012*

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

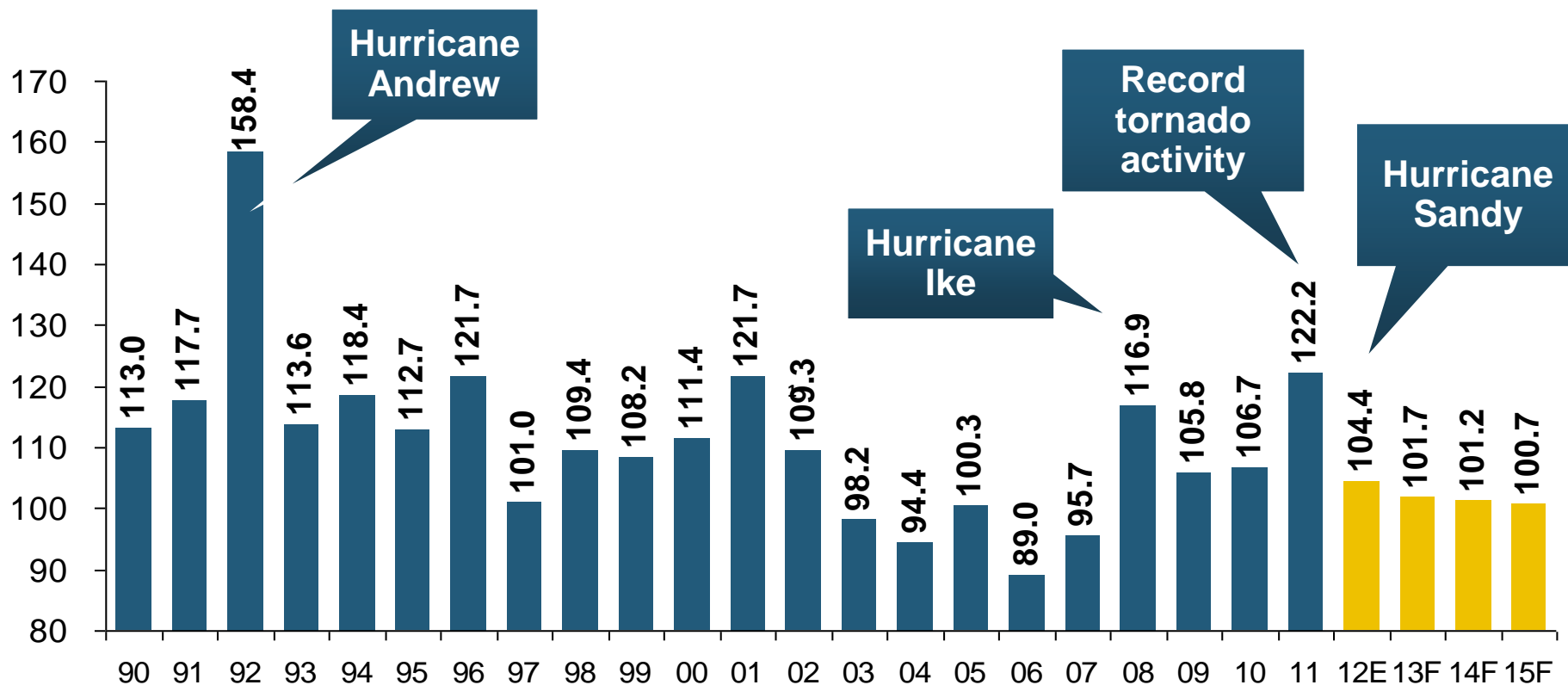


The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades

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



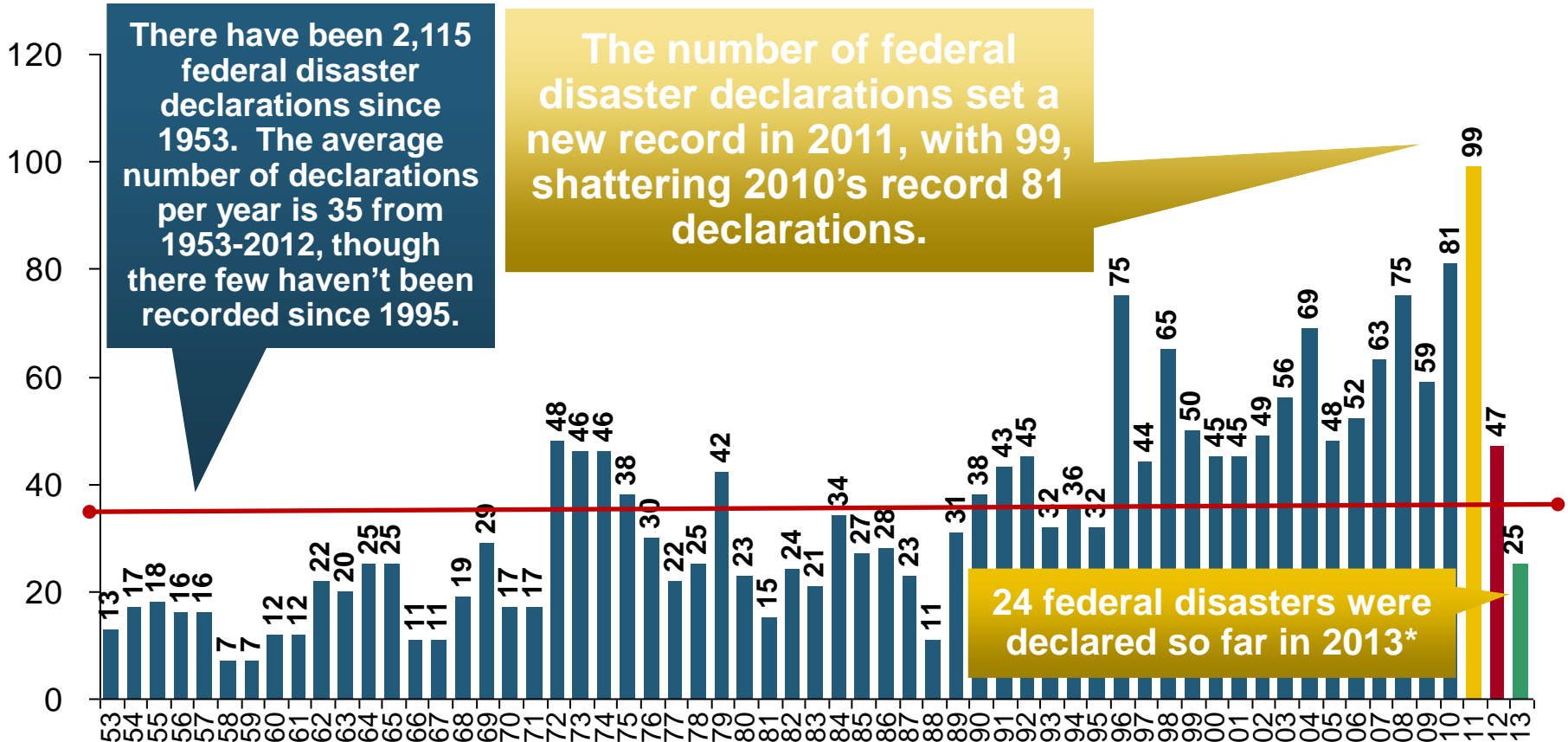
Homeowners Performance in 2011/12 Impacted by Large Cat Losses. Extreme Regional Variation Can Be Expected Due to Local Catastrophe Loss Activity



Federal Disaster Declarations Patterns: 1953-2013

**Disaster Declarations YTD in 2013
Are Running Below Recent
Record Highs**

Number of Federal Disaster Declarations, 1953-2013*

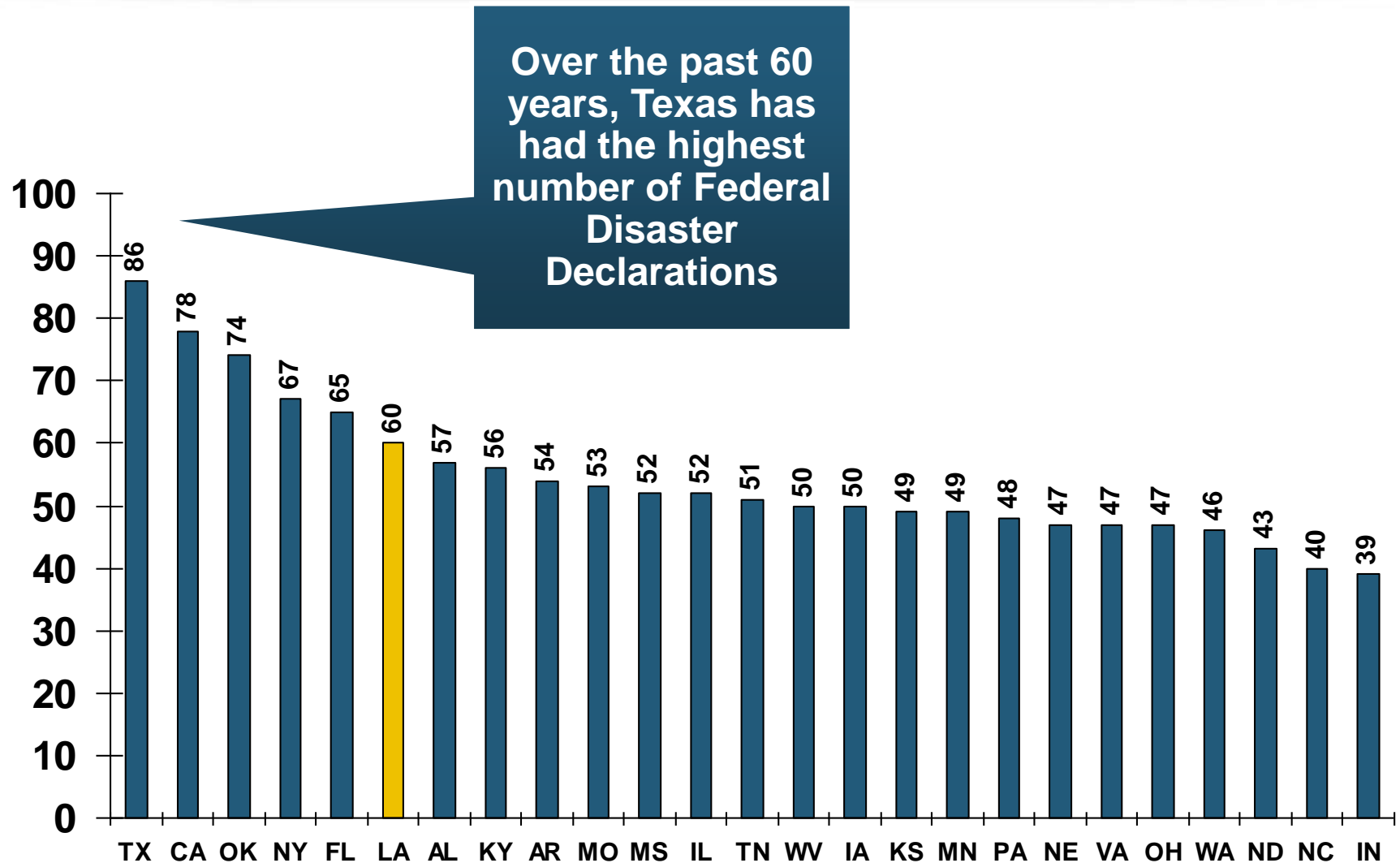


The Number of Federal Disaster Declarations Is Rising and Set New Records in 2010 and 2011. Hurricane Sandy Produced 13 Declarations in 2012/13.

*Through June 23, 2013.

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

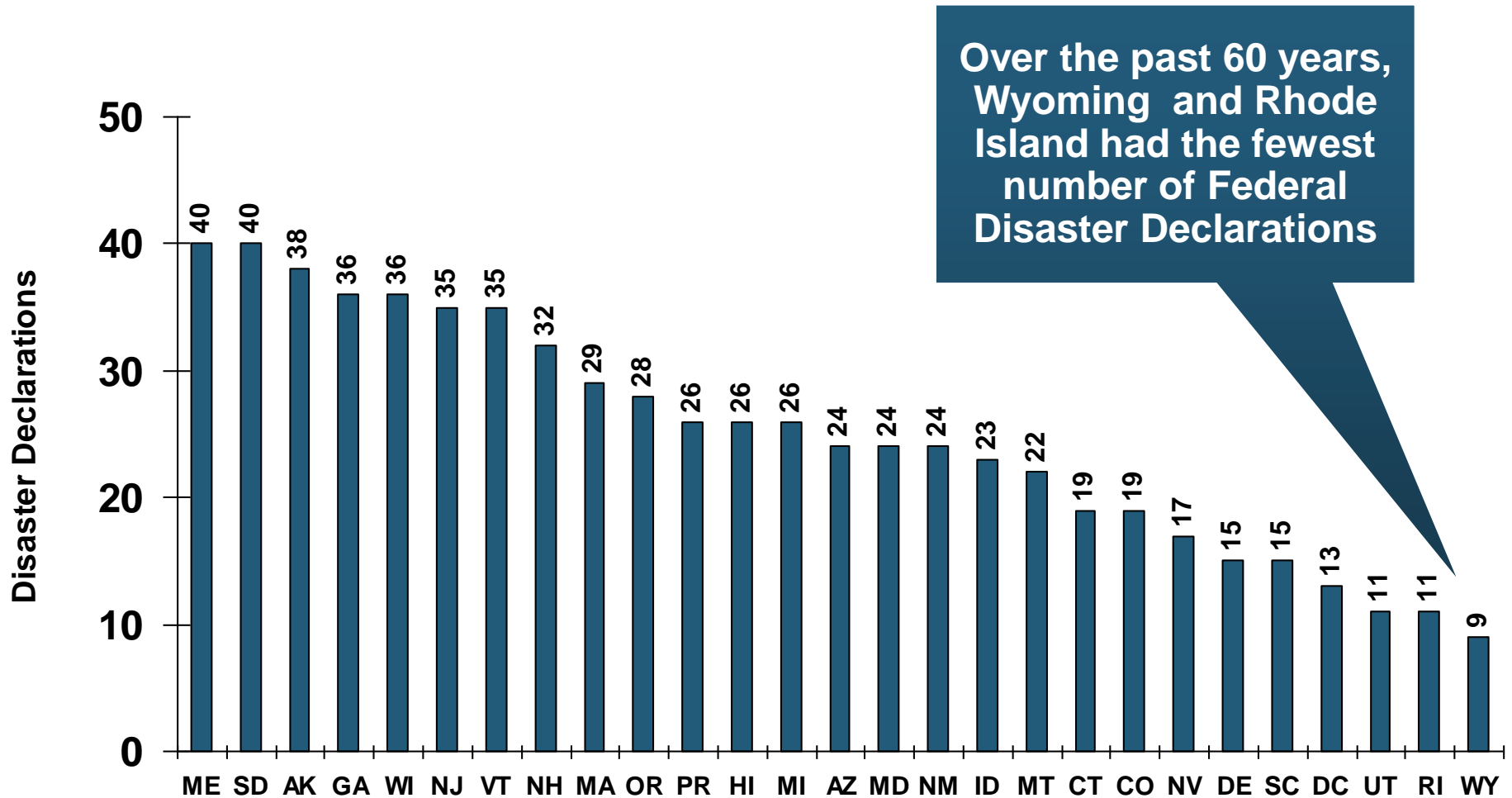
Federal Disasters Declarations by State, 1953 – 2013: Highest 25 States*



*Through June 23, 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 June 23, 2013. Includes Puerto Rico and the District of Columbia.

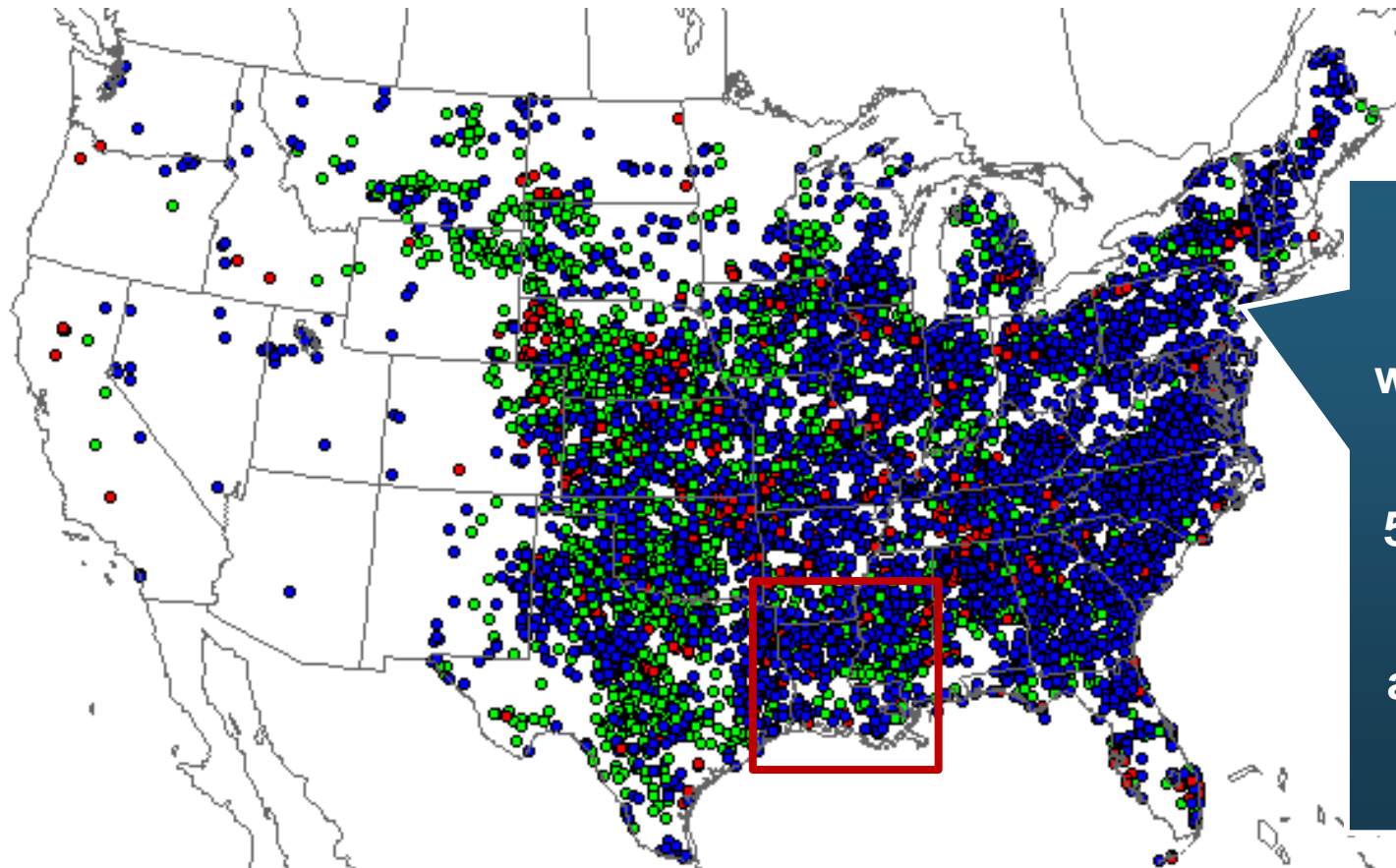
Source: FEMA: http://www.fema.gov/news/disaster_totals_annual.fema; Insurance Information Institute.



SEVERE WEATHER REPORT UPDATE: 2013

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

Severe Weather Reports: Through June 17, 2013



There were 8,976 severe weather reports through June 17; including 573 tornadoes; 3,002 “Large Hail” reports and 5,401 high wind events



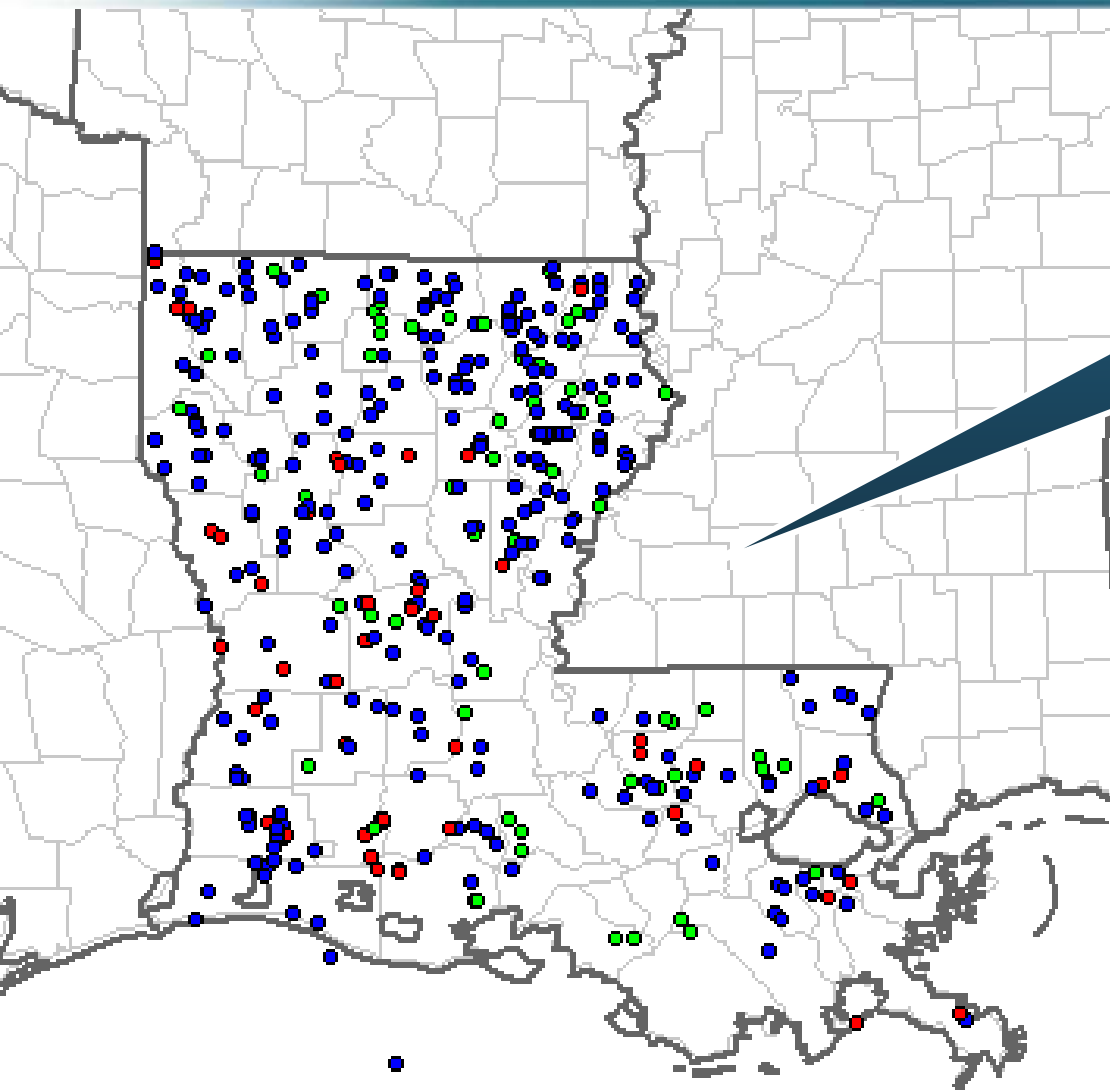
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Severe Weather Reports
January 01, 2013 - June 17, 2013

Updated: Monday June 17, 2013 08:45 CT

Severe Weather Reports in WA, OR & ID: January 1—December 31, 2012



There have been a combined 492 severe weather reports in 2013 in LA,

LOUISIANA

Total Reports = 492

Tornadoes = 53 (Red)

Hail Reports = 91 (Green)

Wind Reports = 348 (Blue)



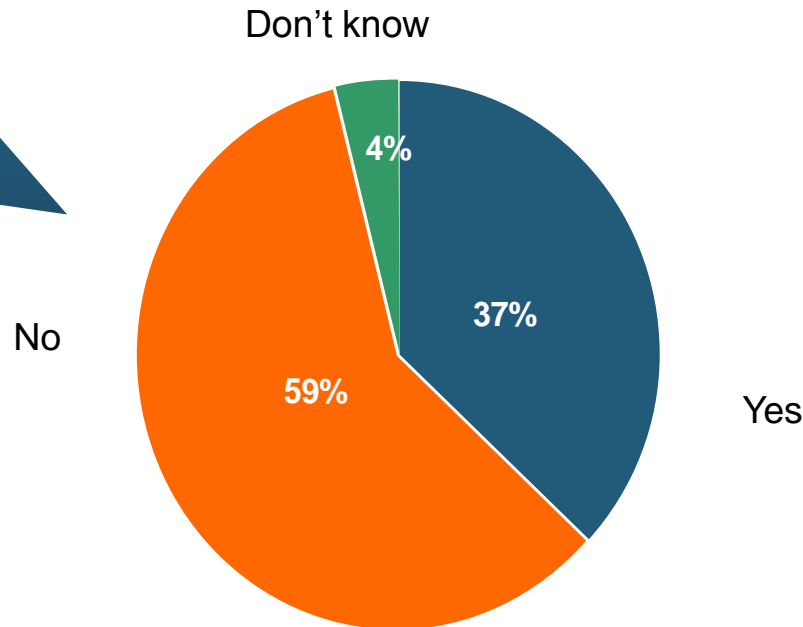
Public Opinion Survey

Industry Favorability Ratings
Policy Forms & Disclosure
Disaster Preparedness

I.I.I. Poll: Homeowners Insurance

Q. Do you think that it is fair that people who live in areas affected by record storms in 2011 and 2012 should pay more for their homeowners insurance in the future?

Public believes it is not fair to raise premiums of homeowners due to events they cannot control

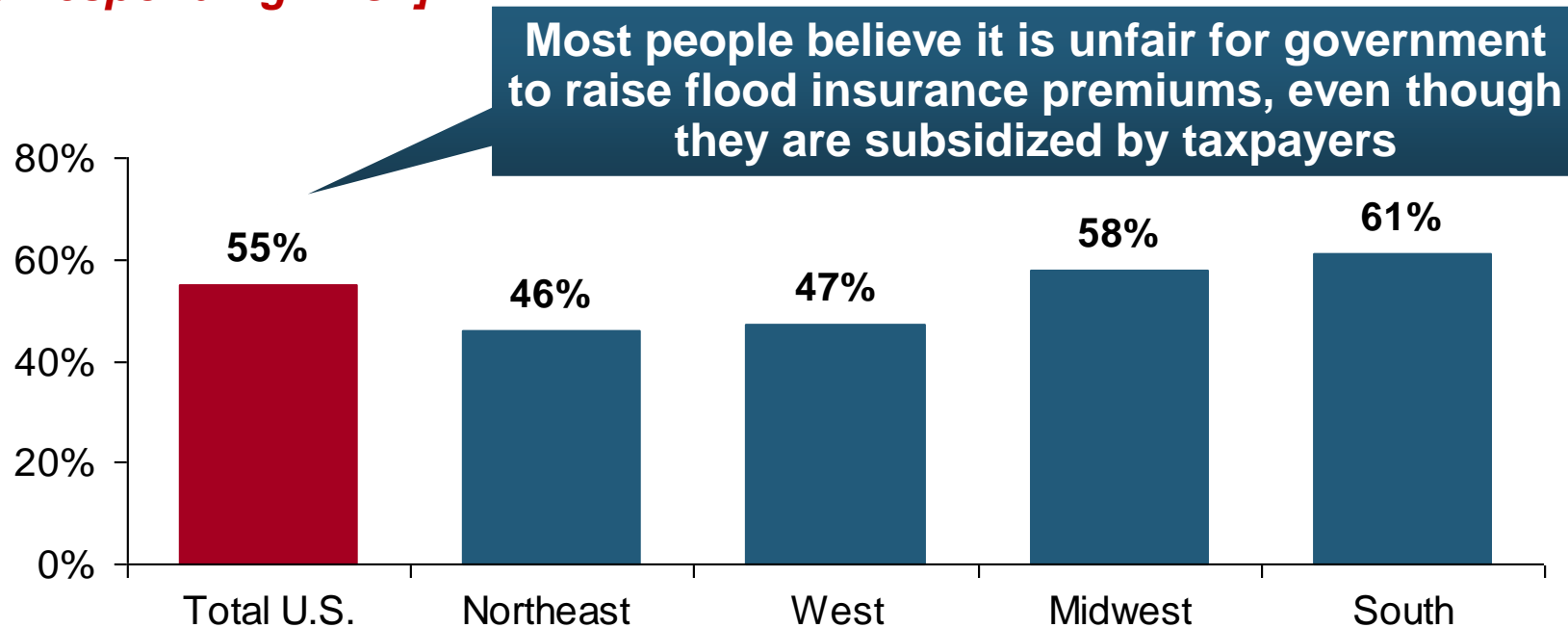


Nearly 60 percent of Americans believe that homeowners insurance premiums should not be raised as a result of recent storms in their areas.

I.I.I. Poll: Flood Insurance

Q. The federal government plans to raise the price of flood insurance so it reflects the costs of paying claims. Do you believe this is fair?

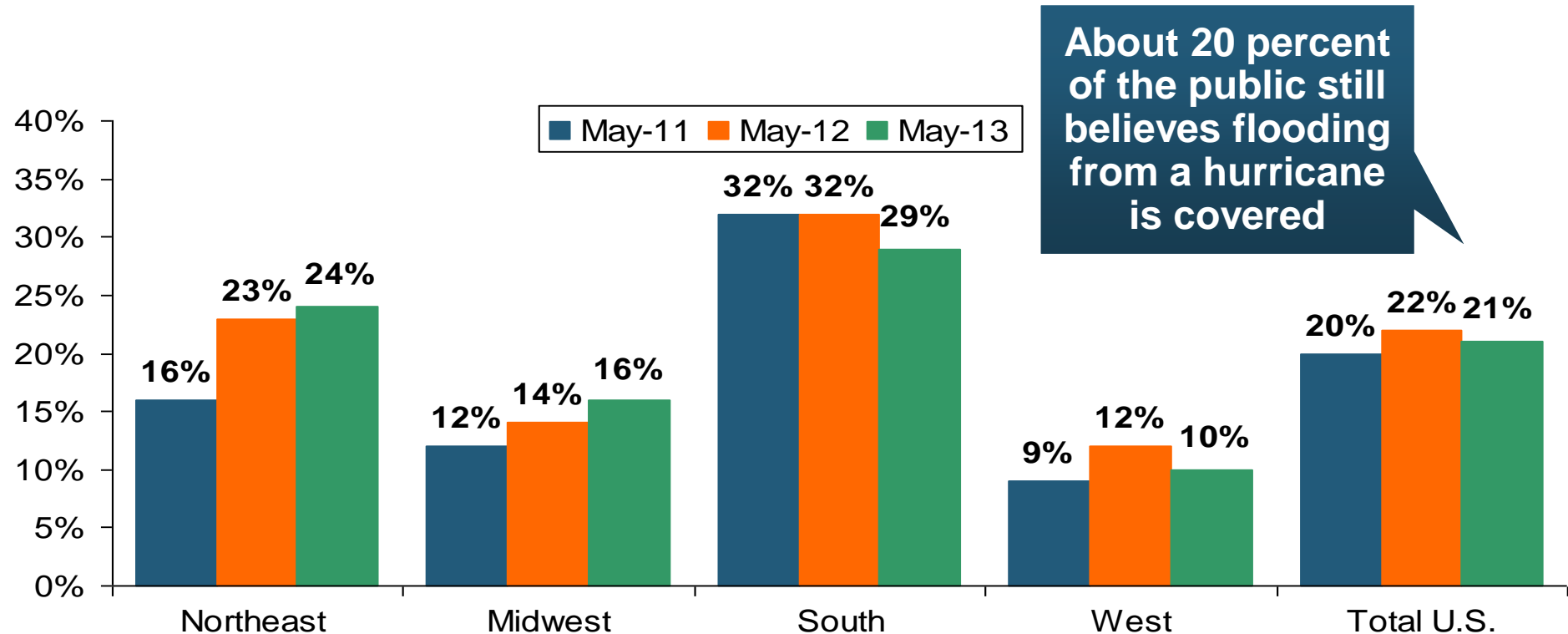
[% Responding "NO"]



More than one-half of Americans do not think it is fair for the federal government to raise its flood insurance premiums to better reflect claims payouts.

I.I.I. Poll: Disaster Preparedness

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

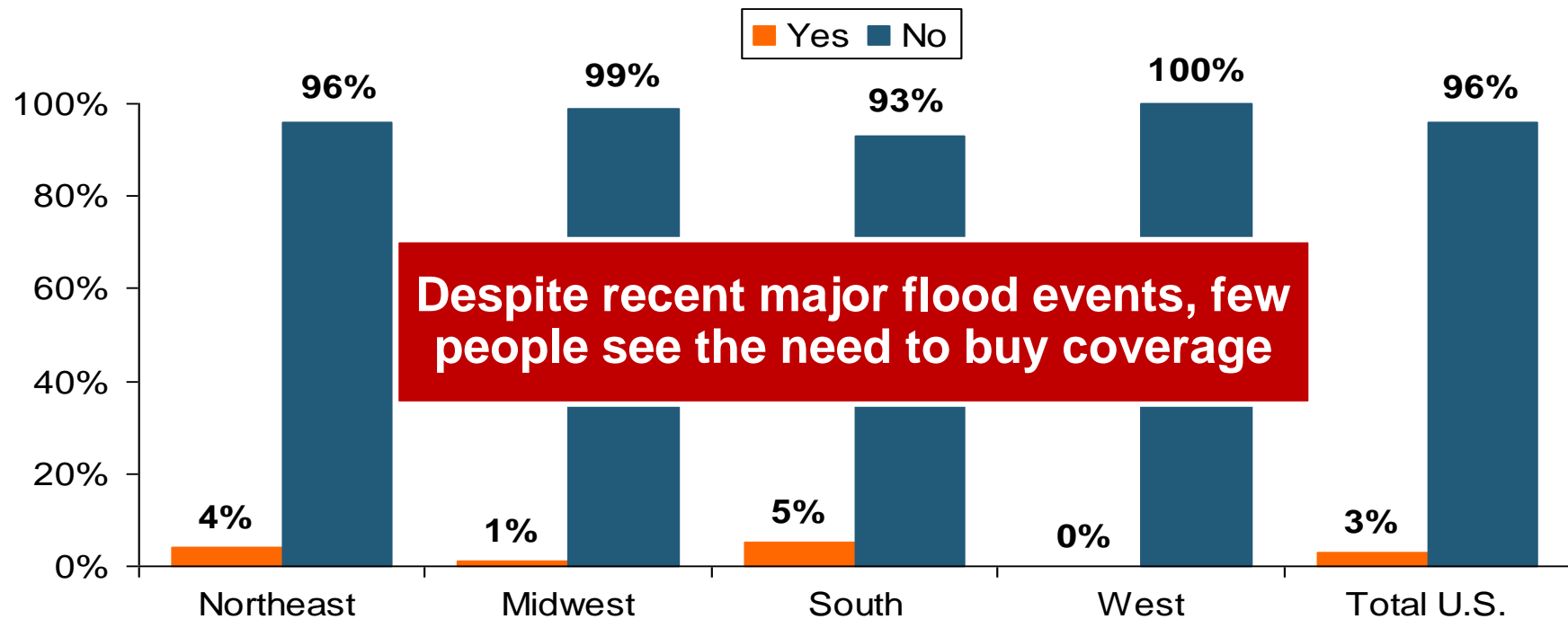


The proportion of homeowners who believe their homeowners policy covers damage from flooding during a hurricane stands at 21 percent. This proportion rises eight percentage points in the South, to 29 percent.

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

I.I.I. Poll: Disaster Preparedness

Q. Have recent flooding events such as Hurricane Sandy or Hurricane Irene motivated you to buy flood coverage?¹

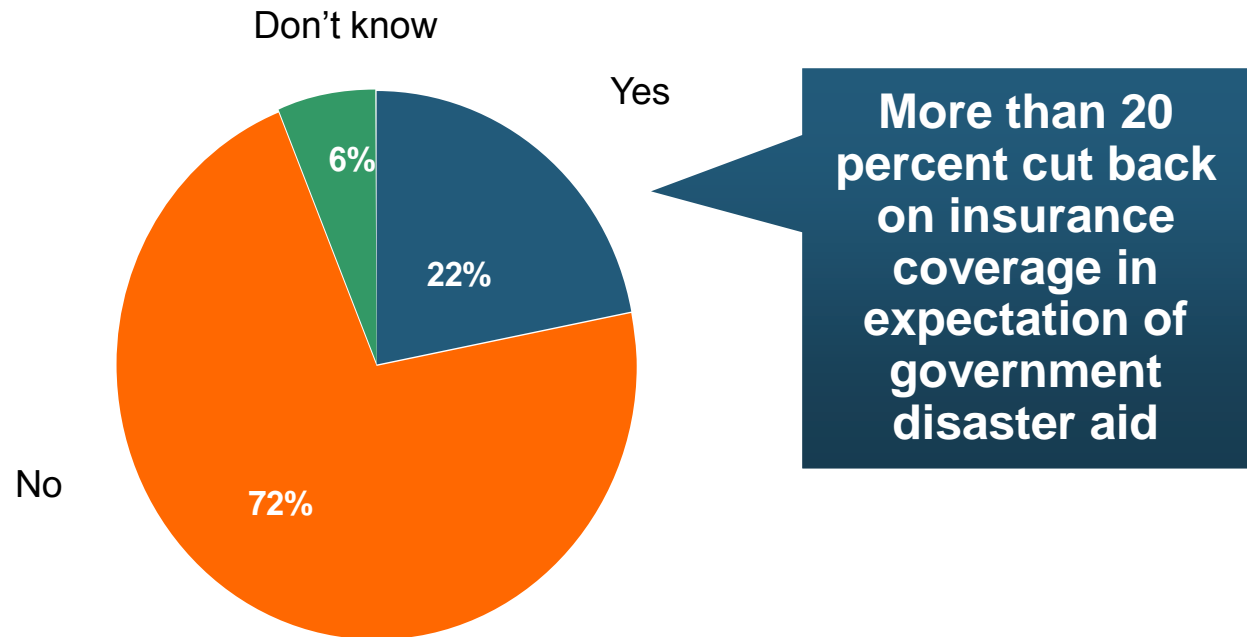


Recent storms have not motivated people to buy flood insurance coverage

¹Asked of those who have homeowners insurance but not flood insurance.

I.I.I. Poll: Disaster Preparedness

Q. If you expect some relief from the government, do you purchase less insurance coverage against these natural disasters than you would have otherwise?



Seventy-two percent of Americans would not purchase less insurance if they expect some relief from the government—but 22% would.

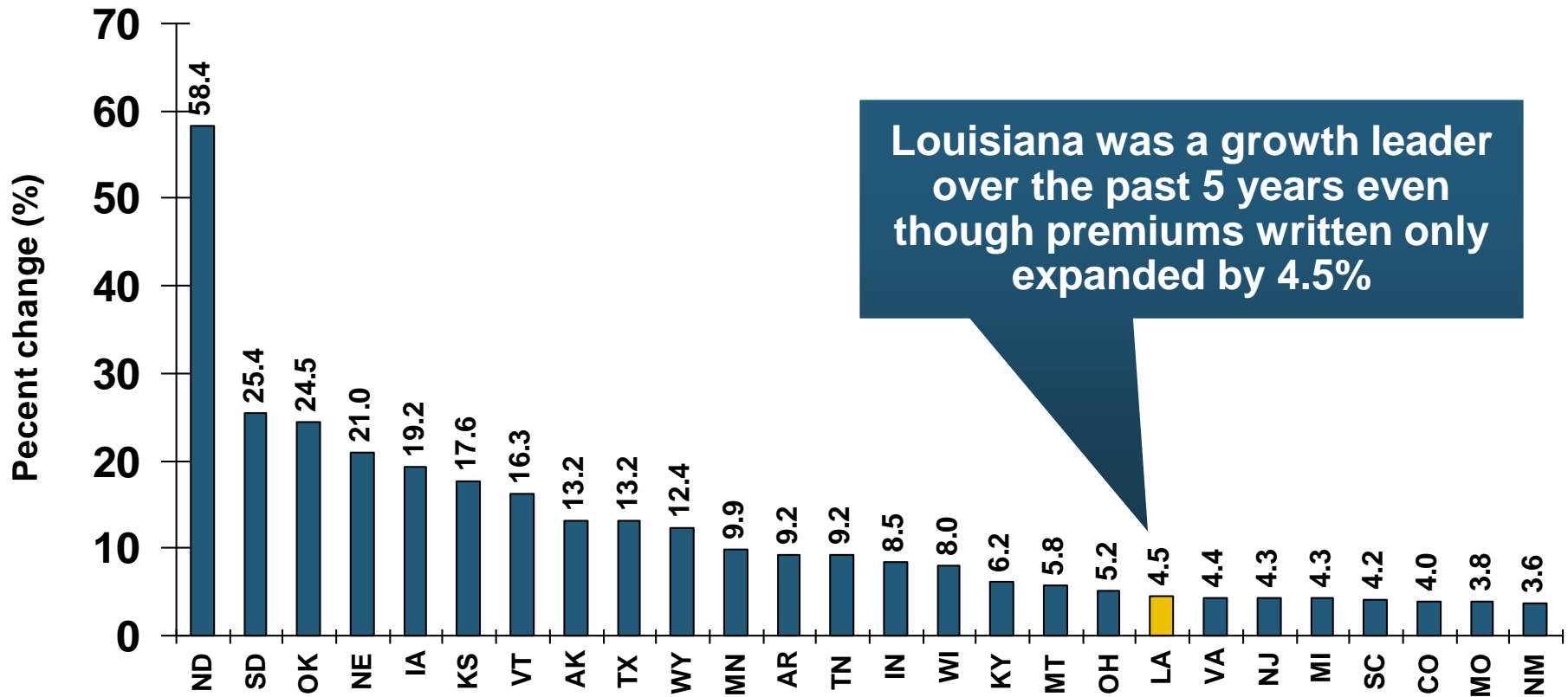


Growth Analysis by State and Business Segment

Premium Growth Rates Vary Tremendously by State

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

Top 25 States

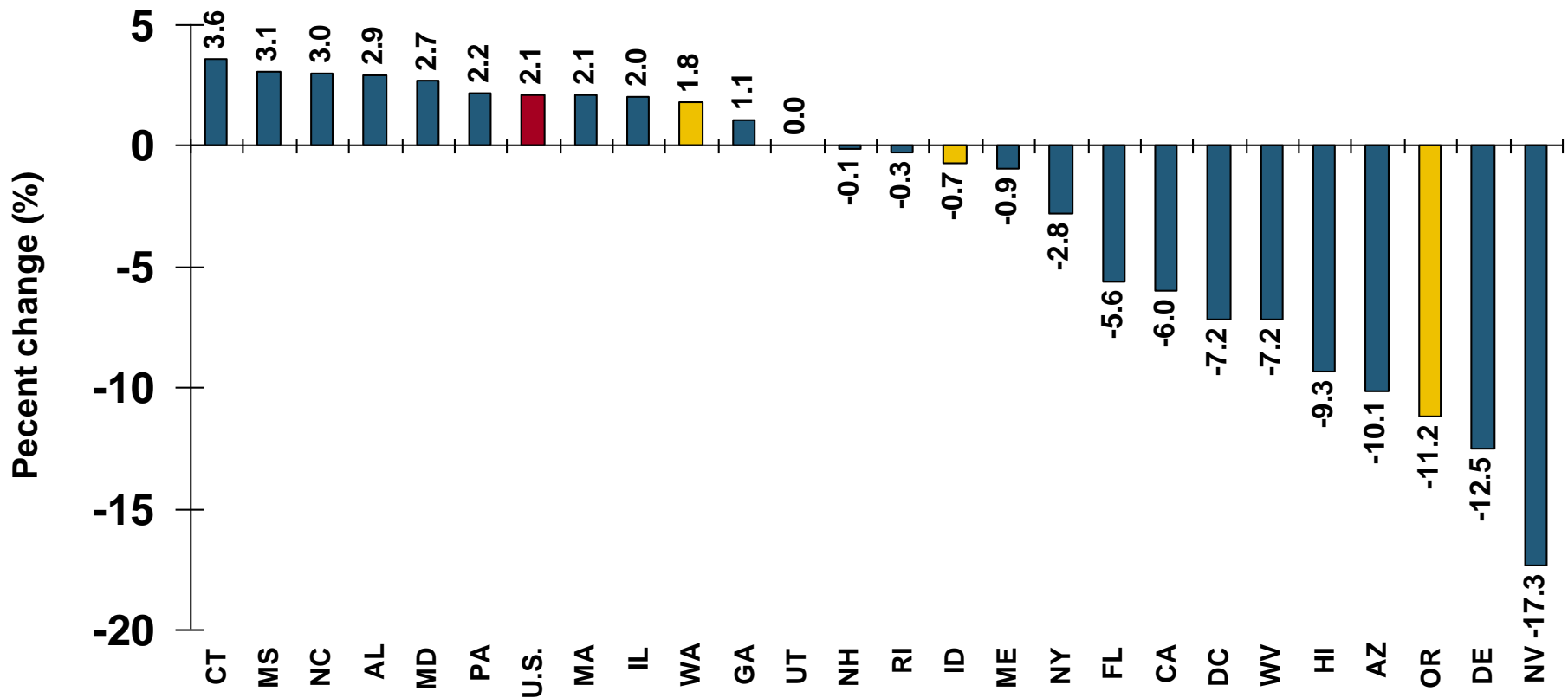


*Data are preliminary as of 5/1/13 and do not yet fully reflect the impact of state-run pools and plans.

Sources: SNL Financial LC.; Insurance Information Institute.

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

Bottom 25 States



*Data are preliminary as of 5/1/13 and do not yet fully reflect the impact of state-run pools and plans.

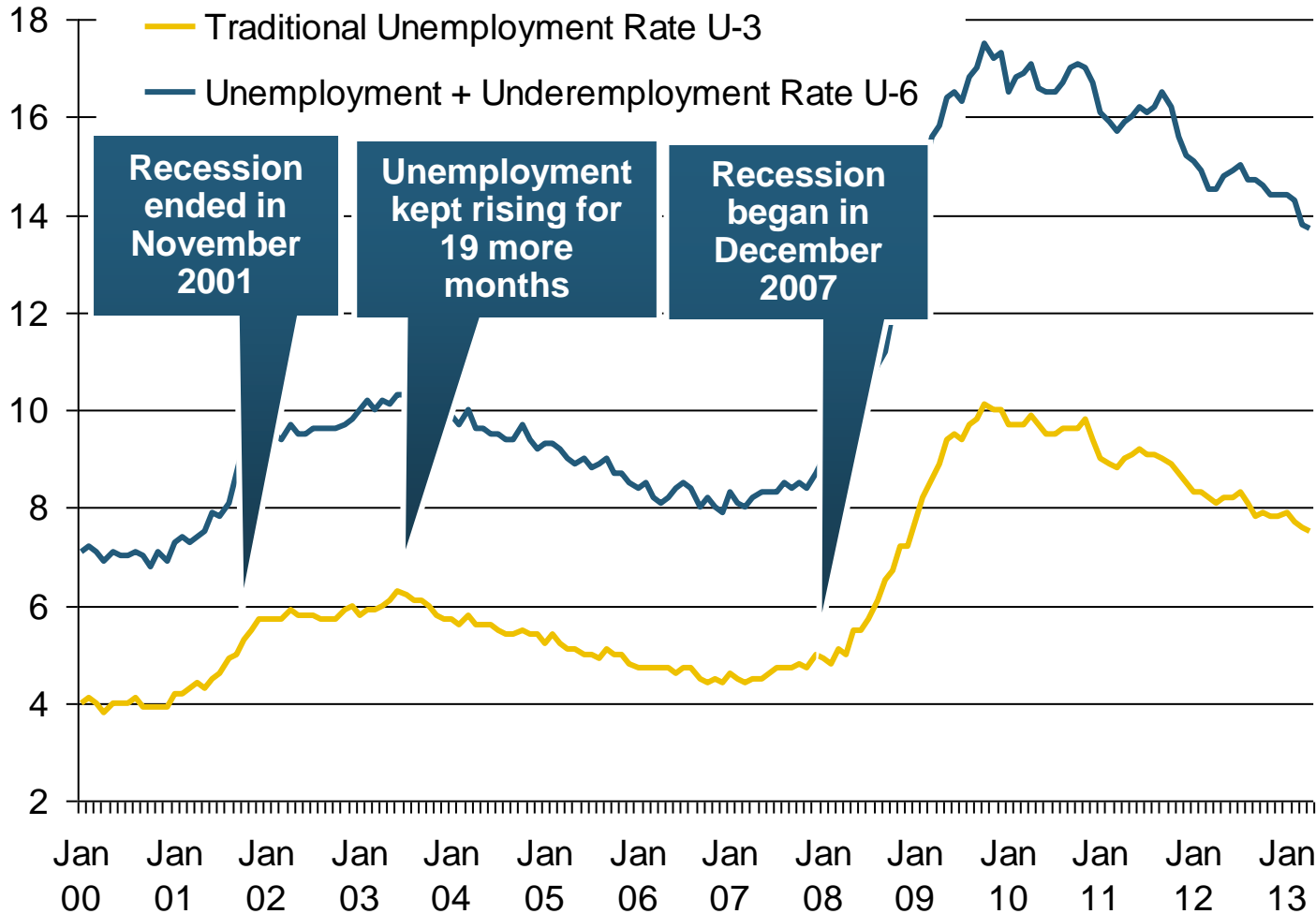
Sources: SNL Financial LC.; Insurance Information Institute.

Labor Market Trends

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

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

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



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

Unemployment stood at 7.5% in Apr. 2013—lowest in 4 years.

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

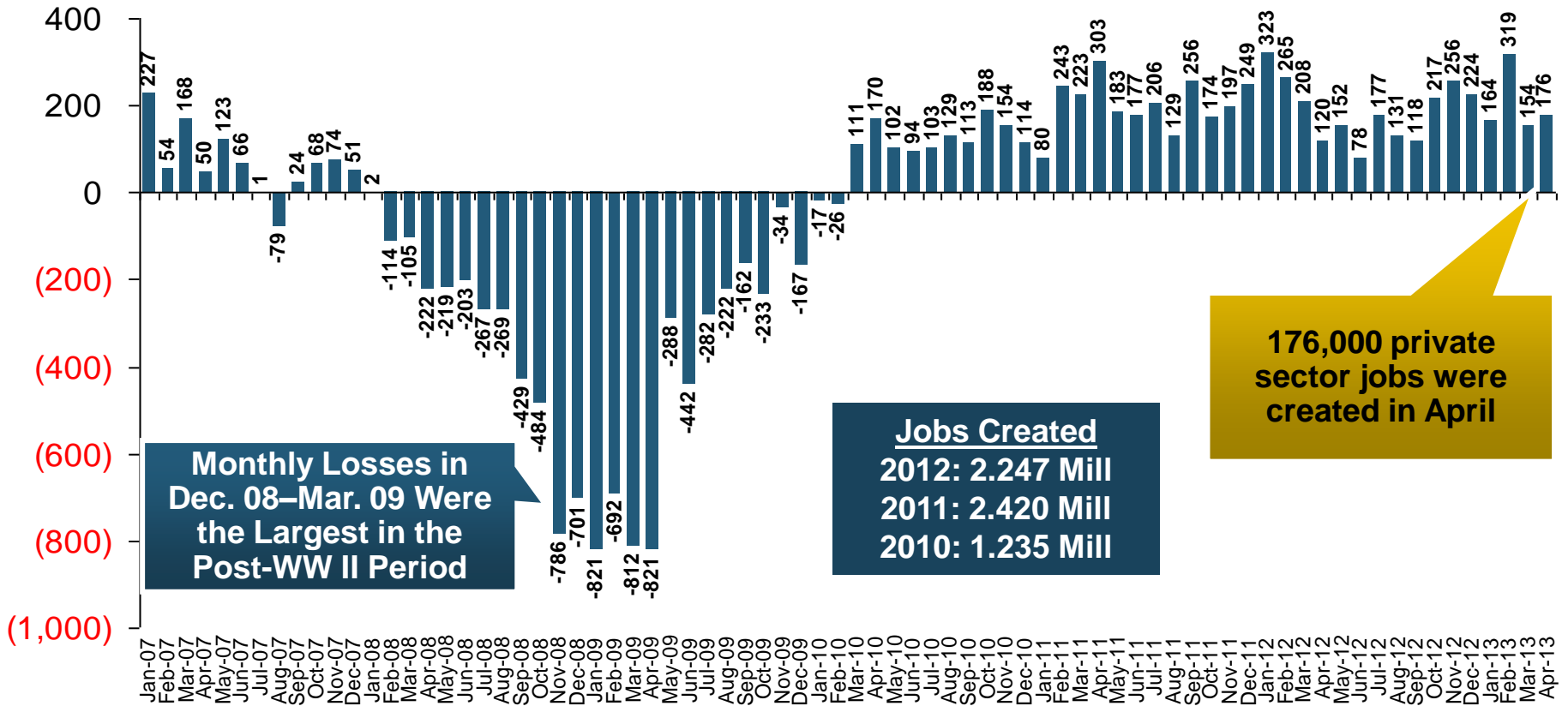
Peak rate in the last 30 years: 10.8% in November - December 1982

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

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

Monthly Change in Private Employment

January 2007 through Apr. 2013 (Thousands)



Monthly Losses in Dec. 08–Mar. 09 Were the Largest in the Post-WW II Period

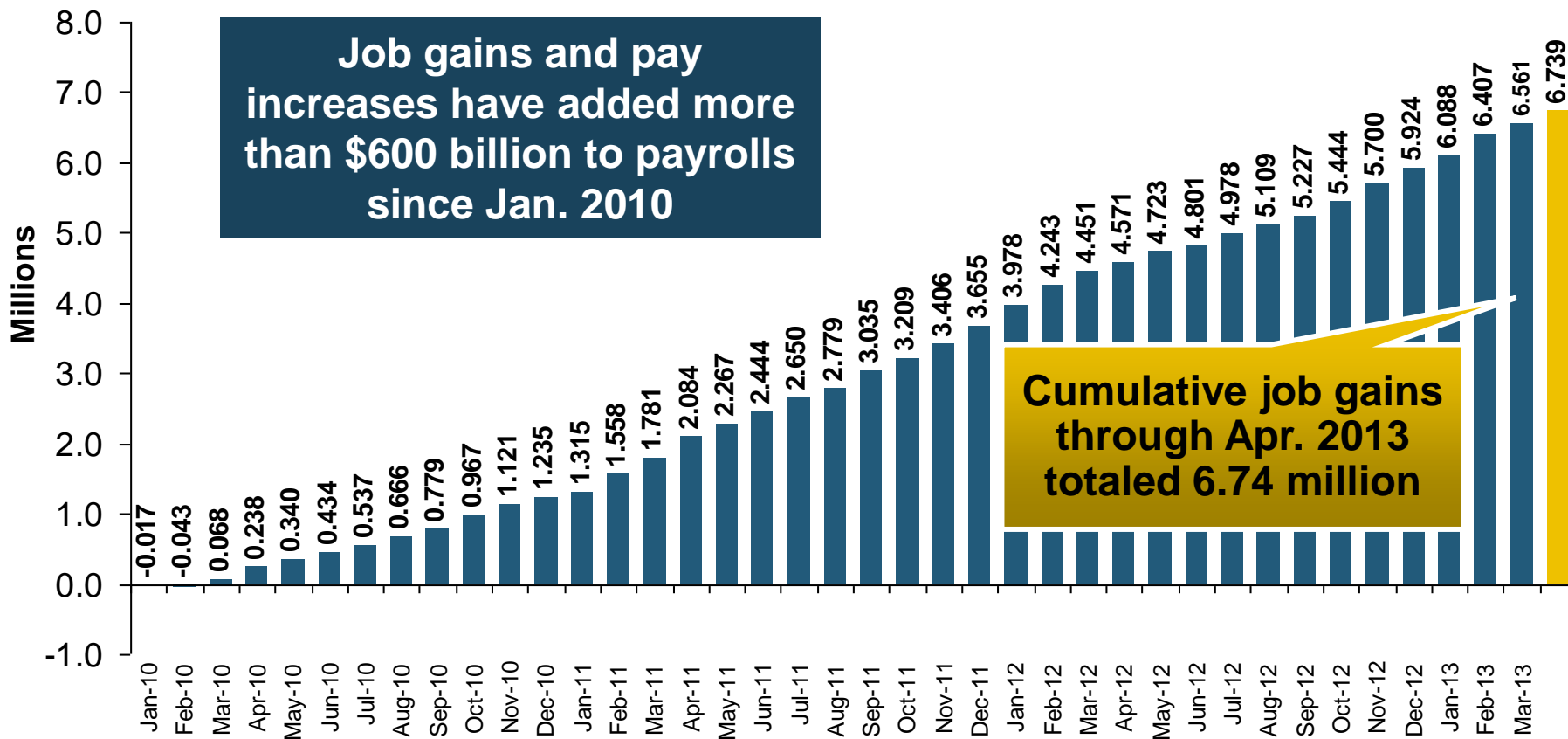
Jobs Created
 2012: 2.247 Mill
 2011: 2.420 Mill
 2010: 1.235 Mill

176,000 private sector jobs were created in April

Private Employers Added 6.74 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—Apr. 2013

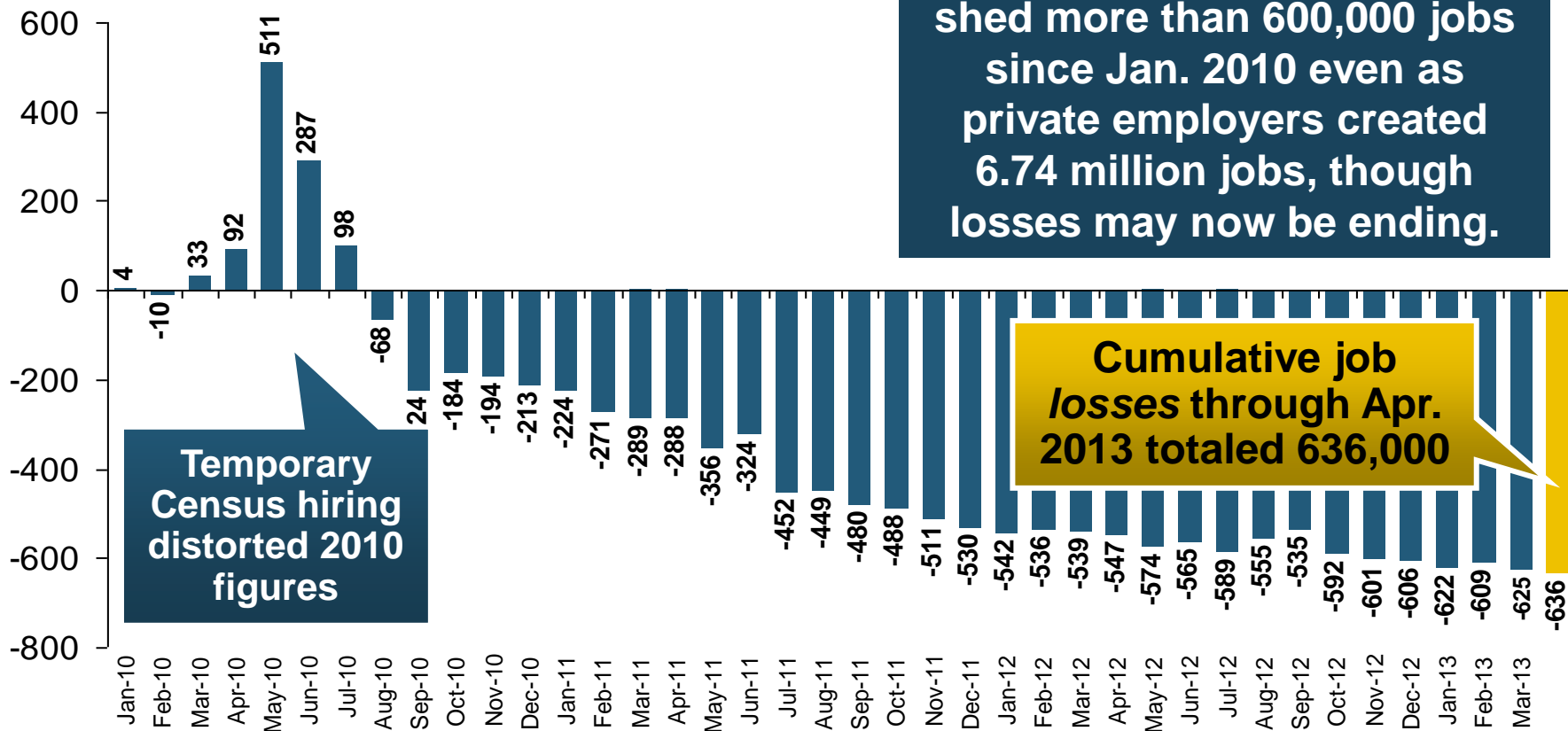
January 2010 through April 2013* (Millions)



Private Employers Added 6.74 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—Apr. 2013

January 2010 through Apr. 2013* (Millions)



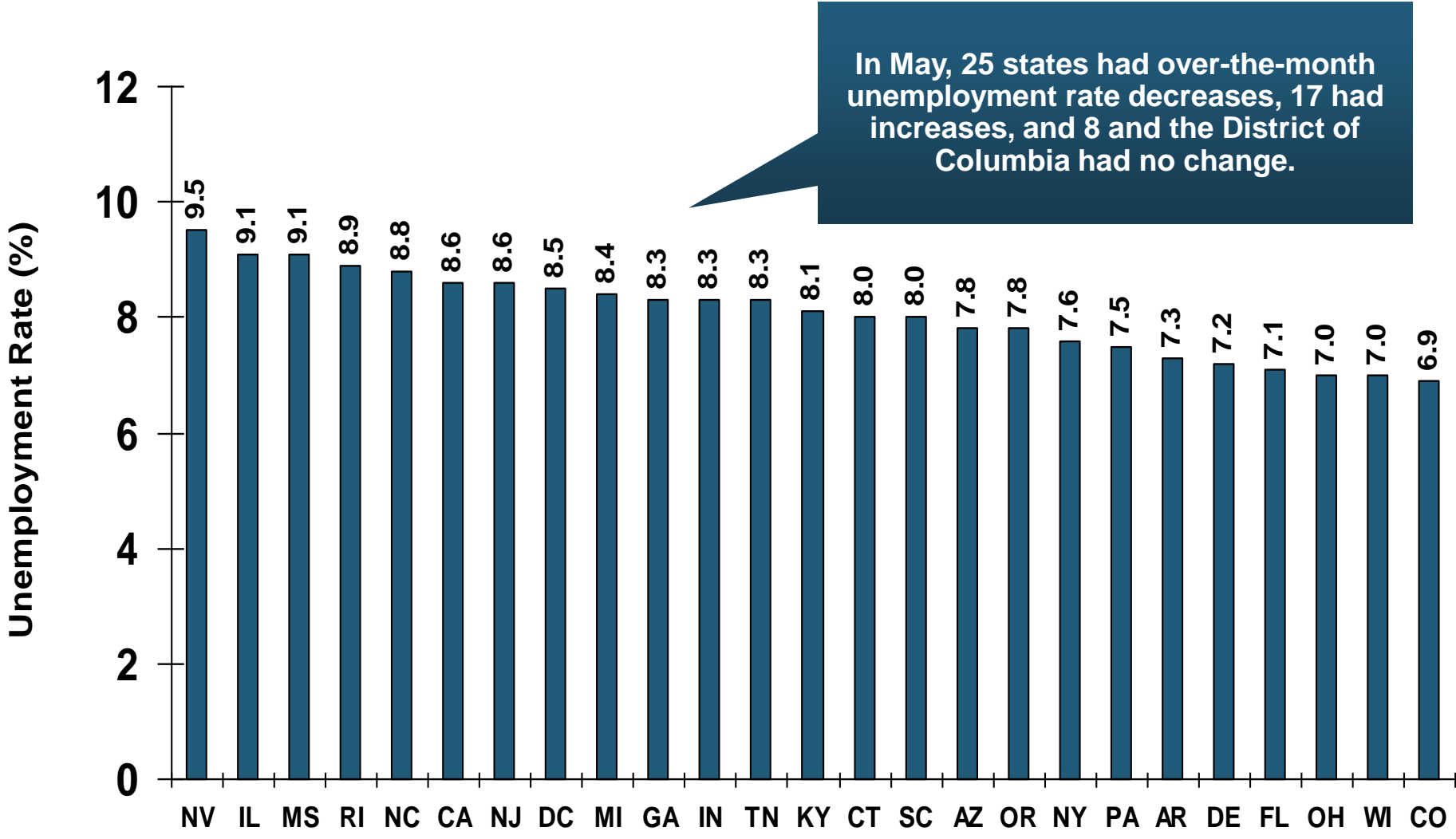
Government at all levels has shed more than 600,000 jobs since Jan. 2010 even as private employers created 6.74 million jobs, though losses may now be ending.

Cumulative job losses through Apr. 2013 totaled 636,000

Temporary Census hiring distorted 2010 figures

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

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

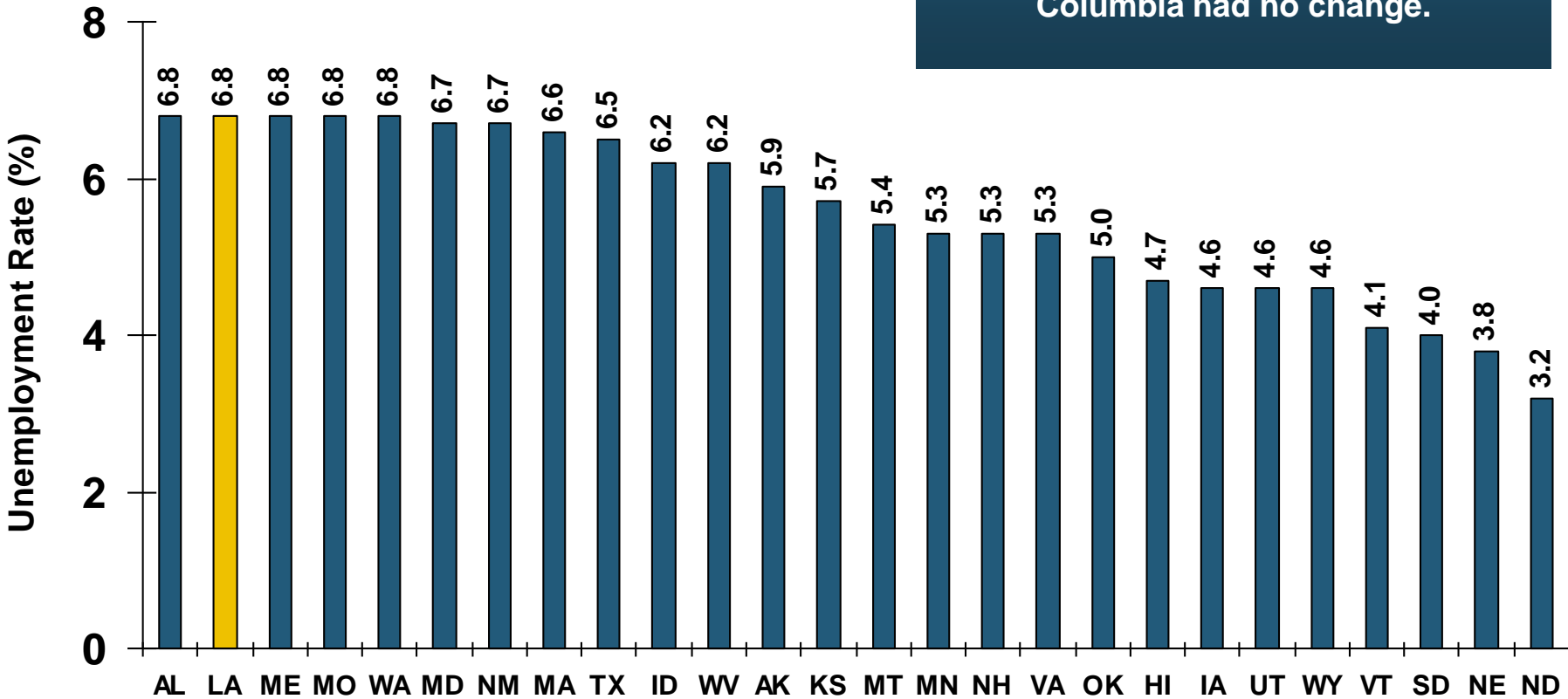


In May, 25 states had over-the-month unemployment rate decreases, 17 had increases, and 8 and the District of Columbia had no change.

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

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

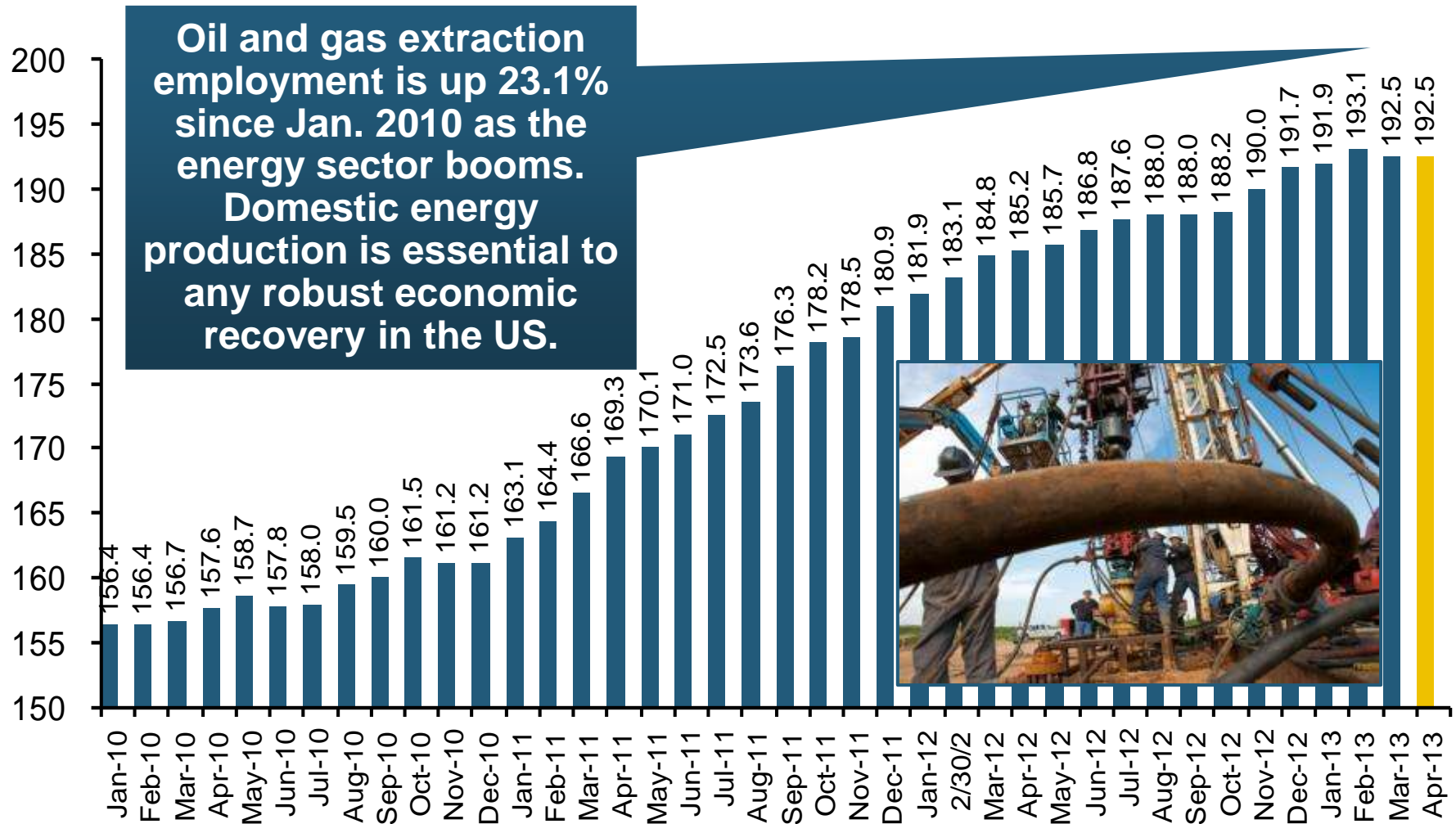
In May, 25 states had over-the-month unemployment rate decreases, 17 had increases, and 8 and the District of Columbia had no change.



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

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

(Thousands)

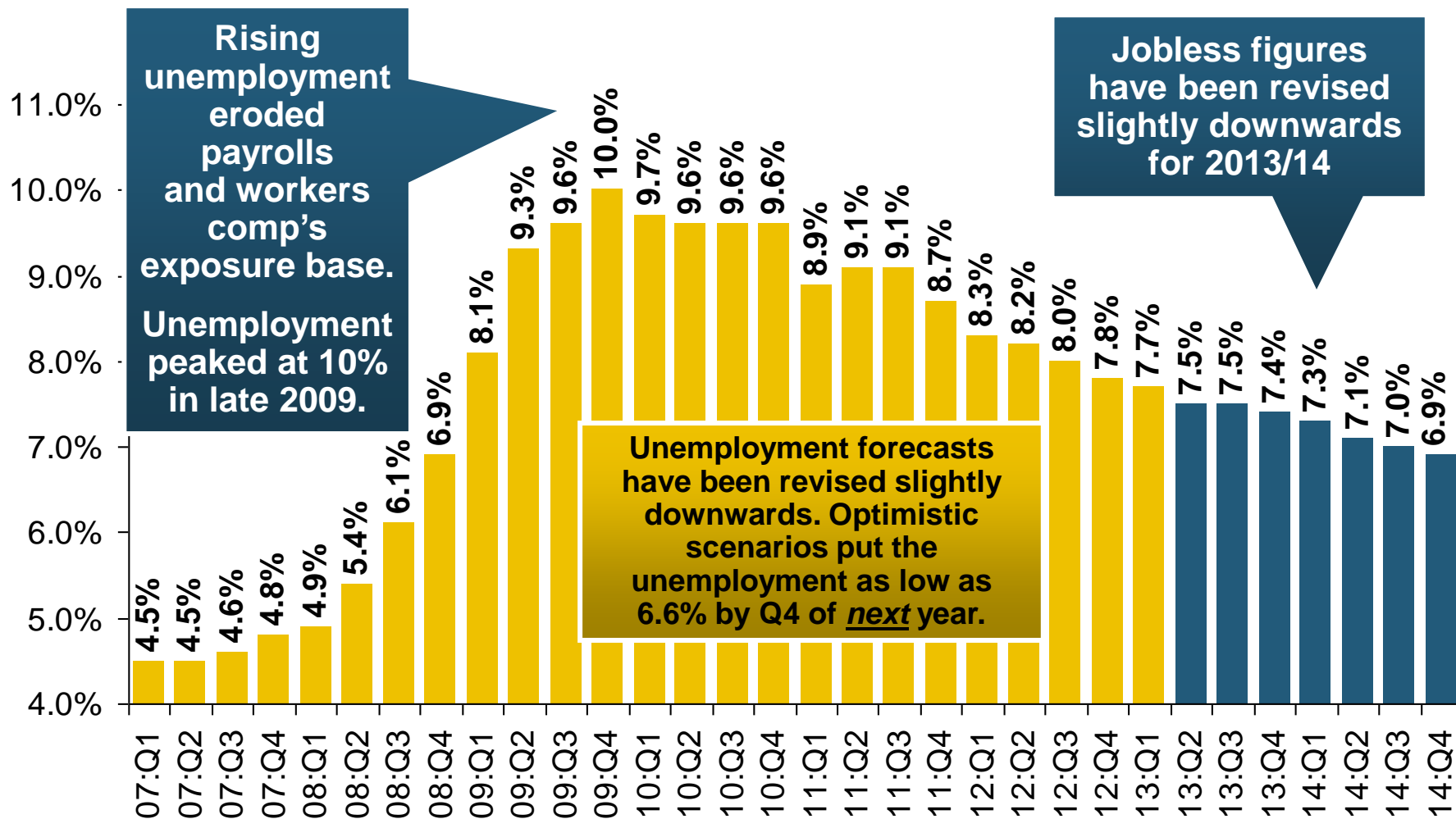


*Seasonally adjusted

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

US Unemployment Rate Forecast

2007:Q1 to 2014:Q4F*



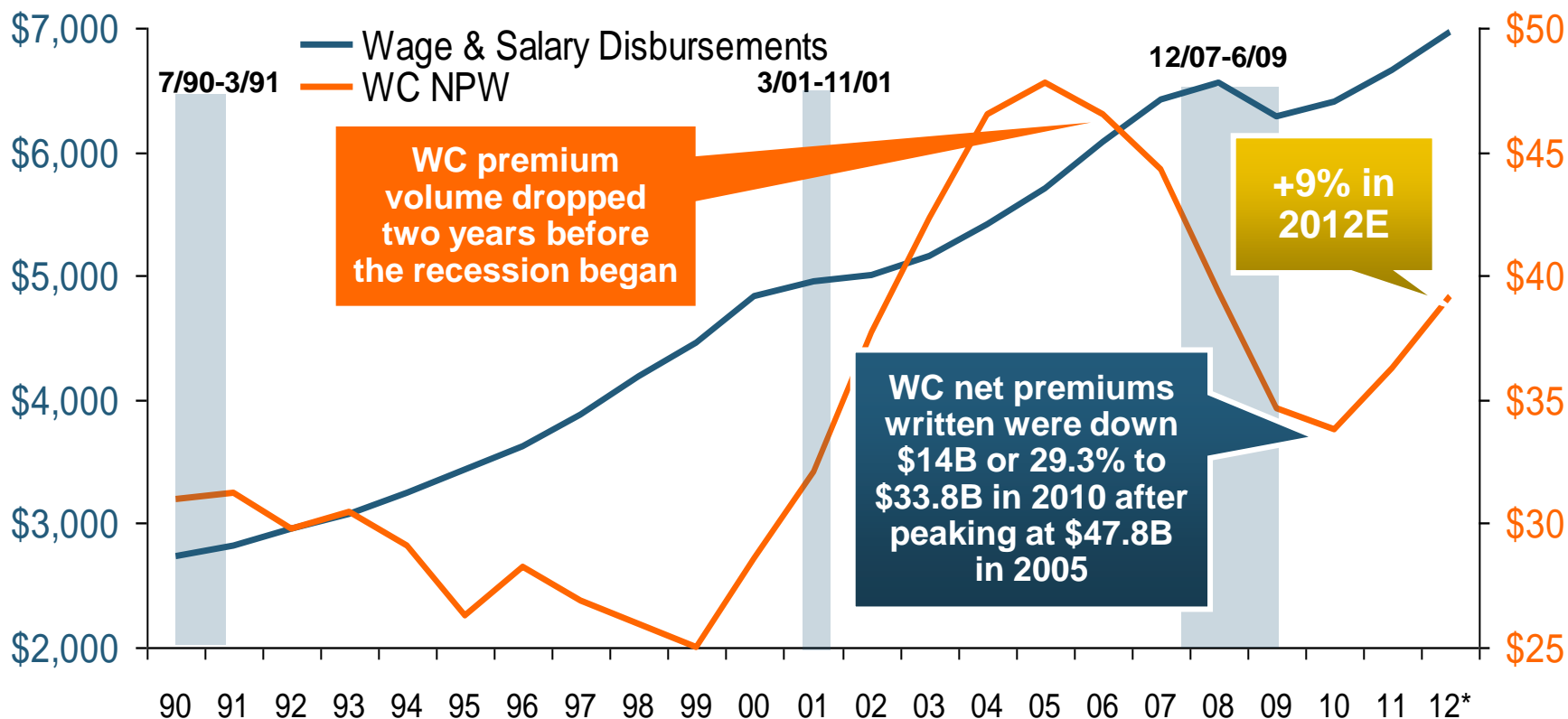
* = actual; = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (6/13 edition); 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.

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***

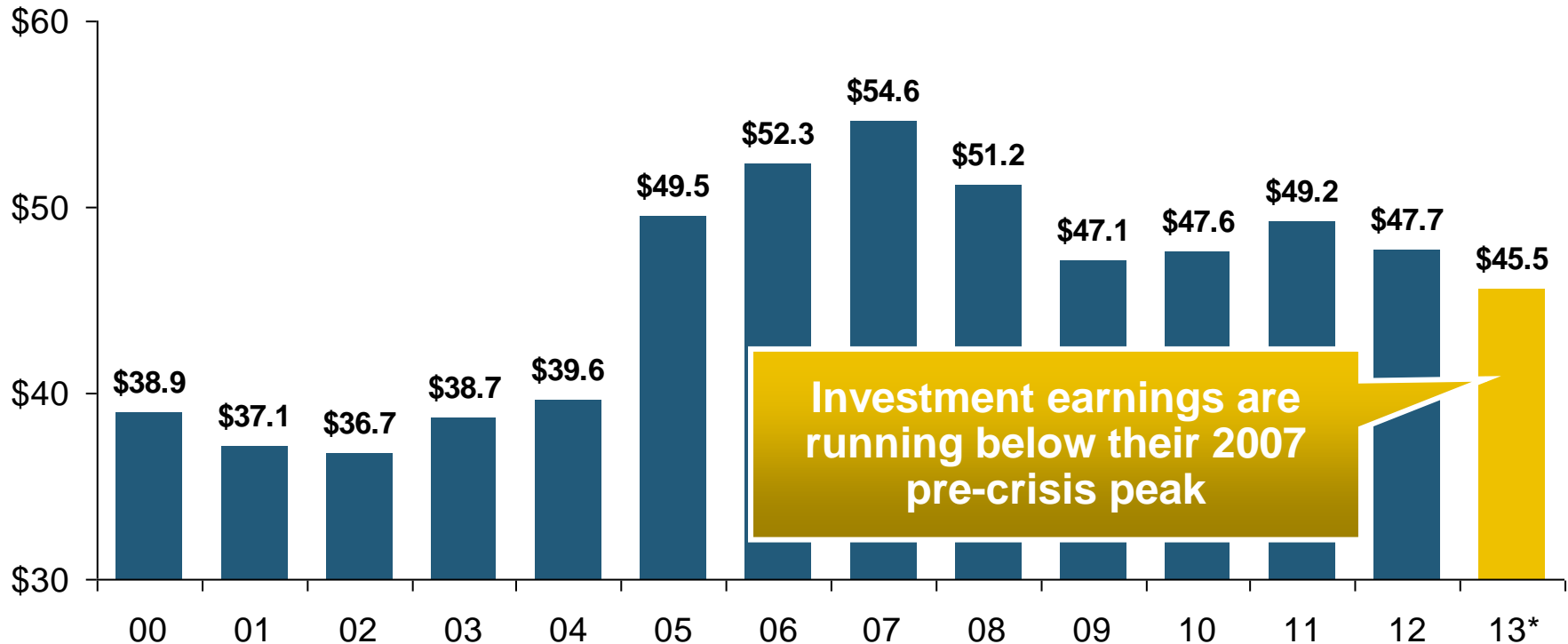
INVESTMENTS: THE NEW REALITY

**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

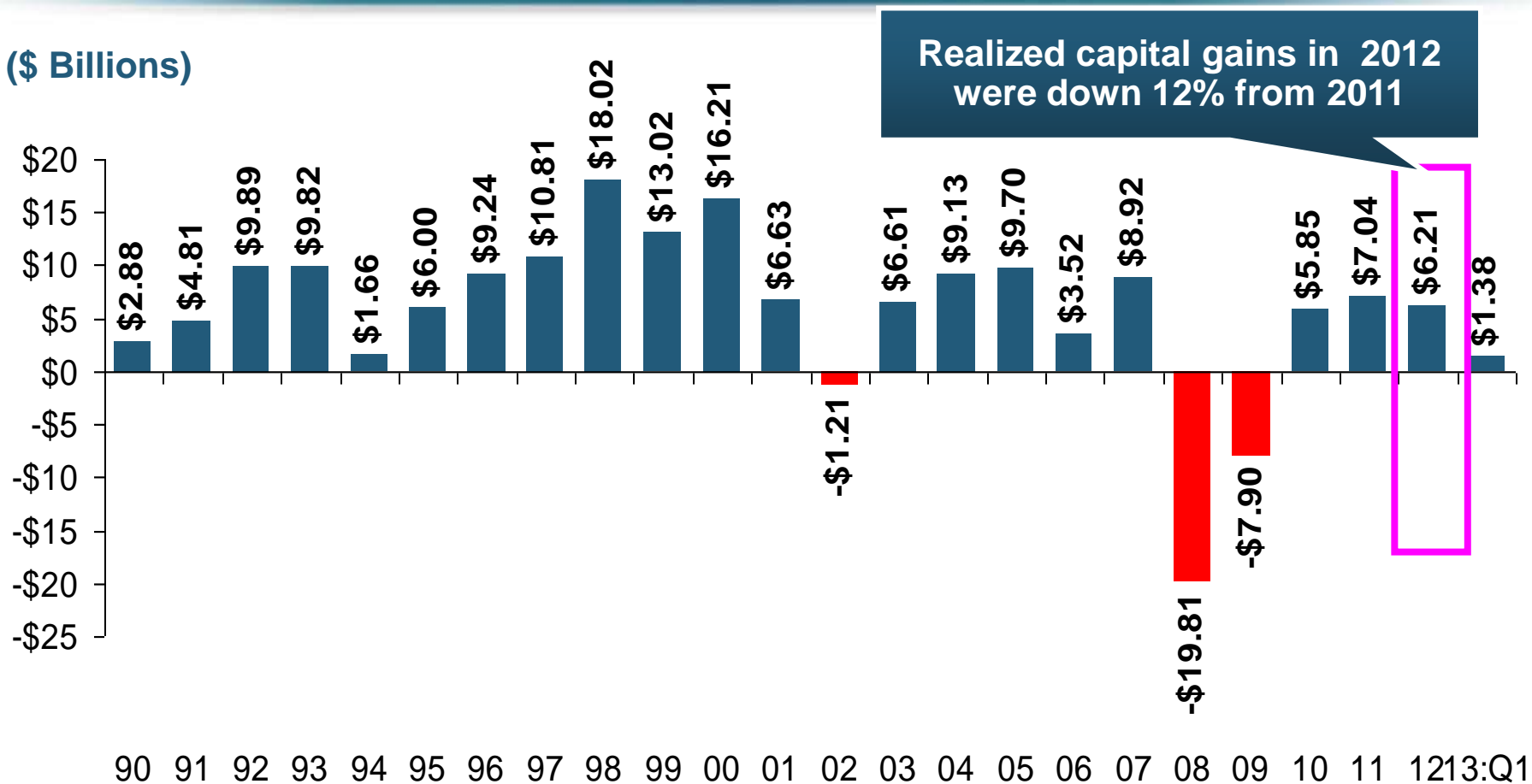
¹ Investment gains consist primarily of interest and stock dividends..

*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

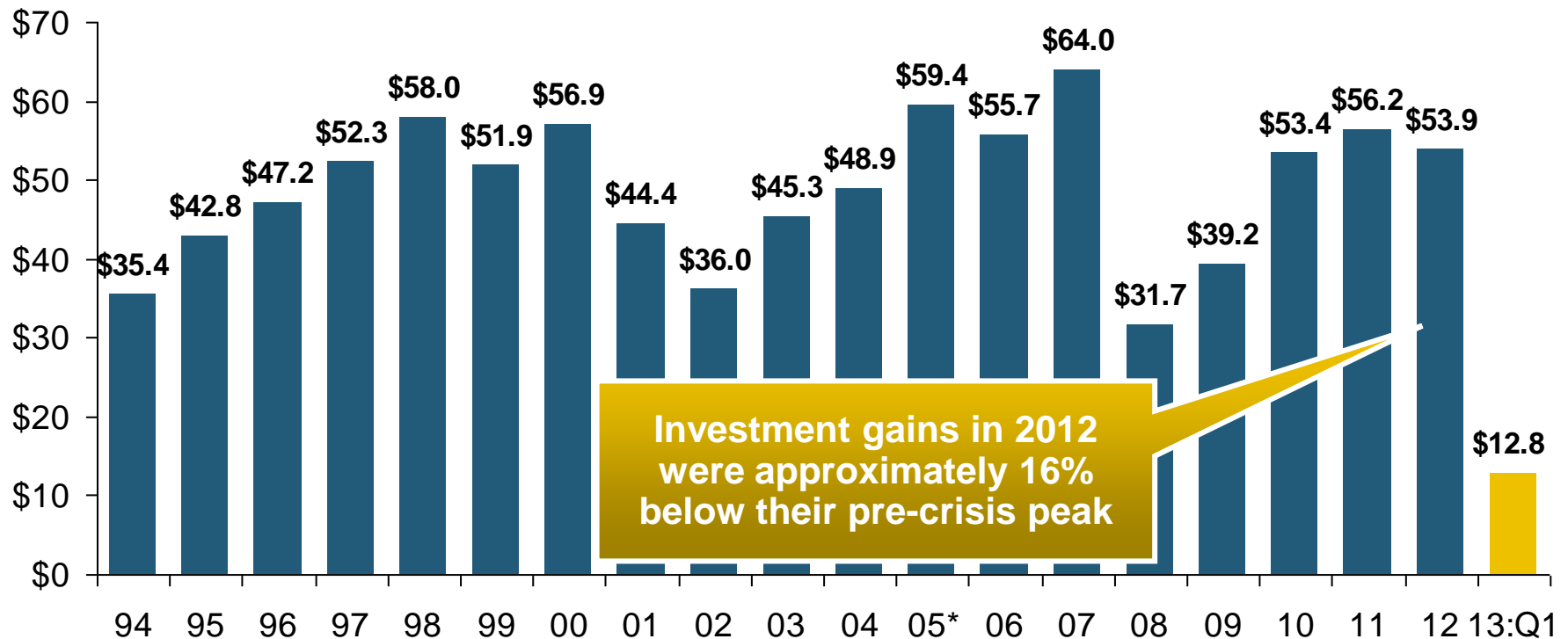
(\$ Billions)



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)



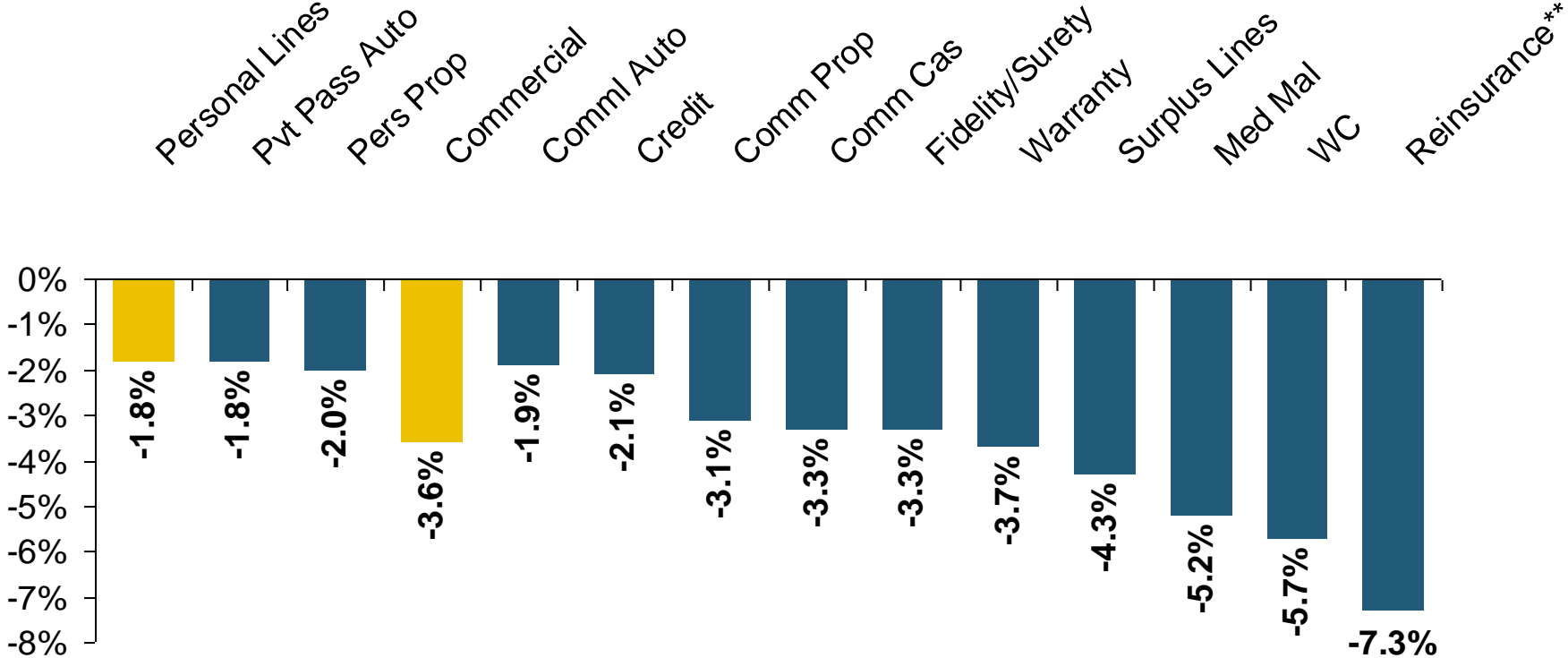
Investment Gains Are Slipping in 2012 as Low Interest Rates Reduce Investment Income and Lower Realized Investment Gains; The Financial Crisis Caused Investment Gains to Fall by 50% in 2008

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.

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



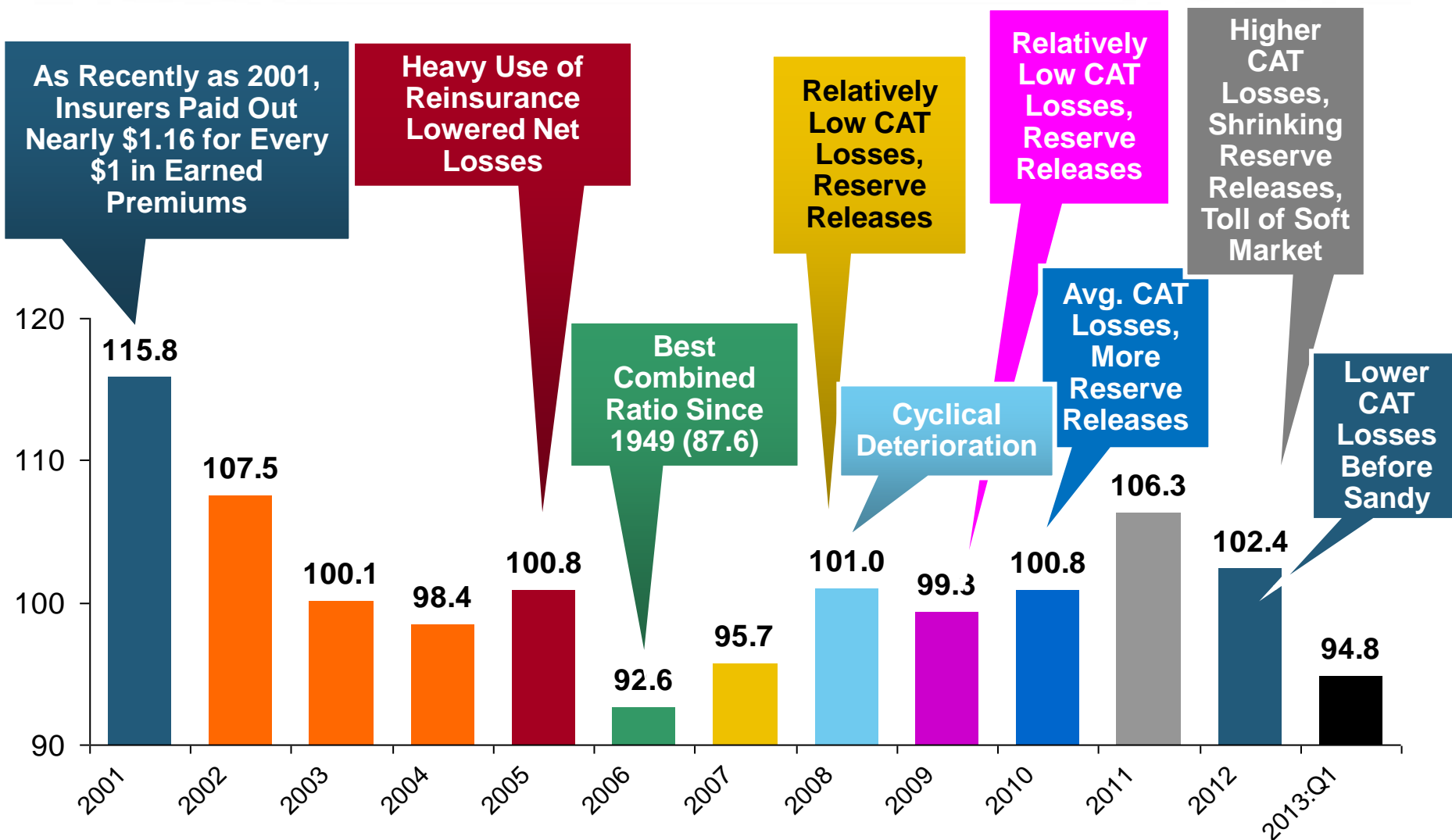
Lower Investment Earnings Place a Greater Burden on Underwriting and Pricing Discipline

*Based on 2008 Invested Assets and Earned Premiums

**US domestic reinsurance only

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

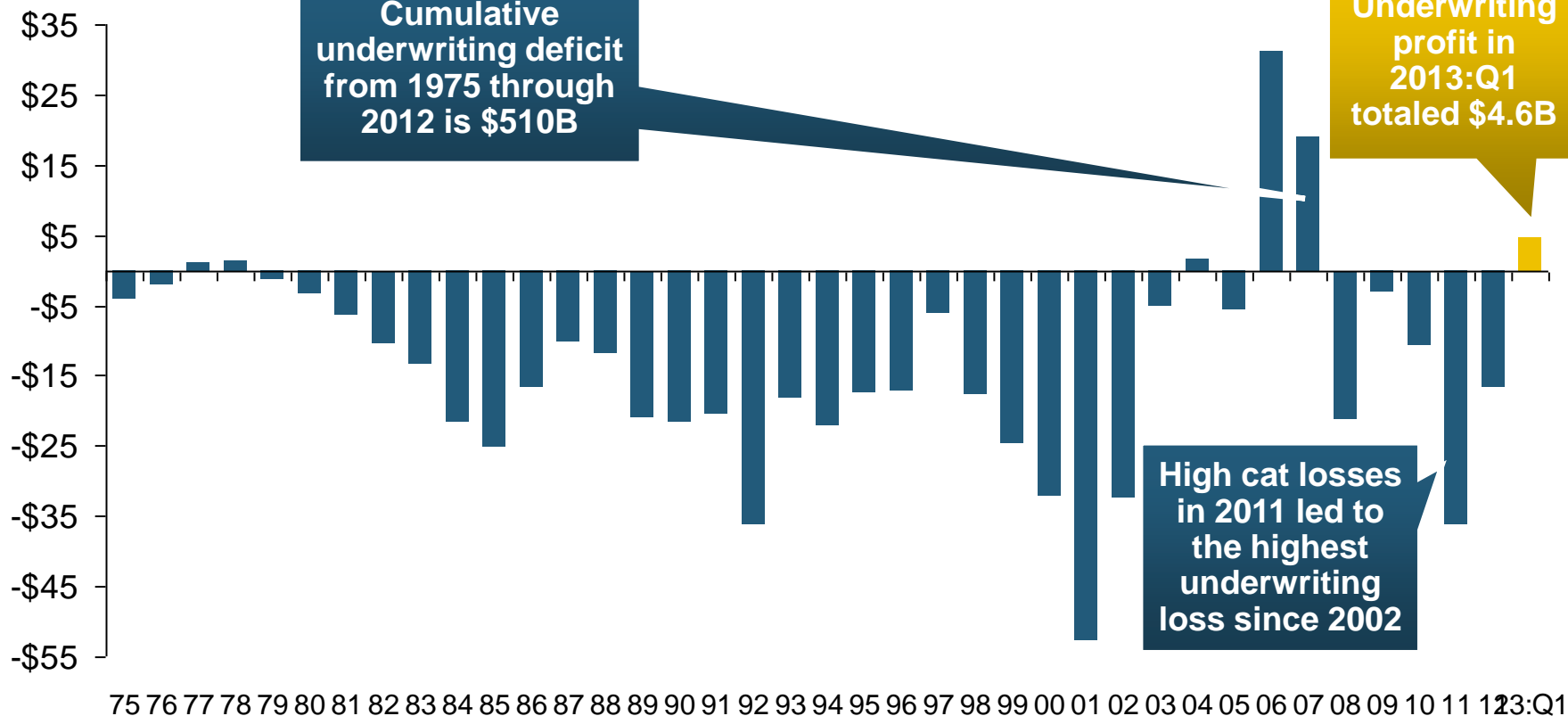
P/C Insurance Industry Combined Ratio, 2001–2013:Q1*



* 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)



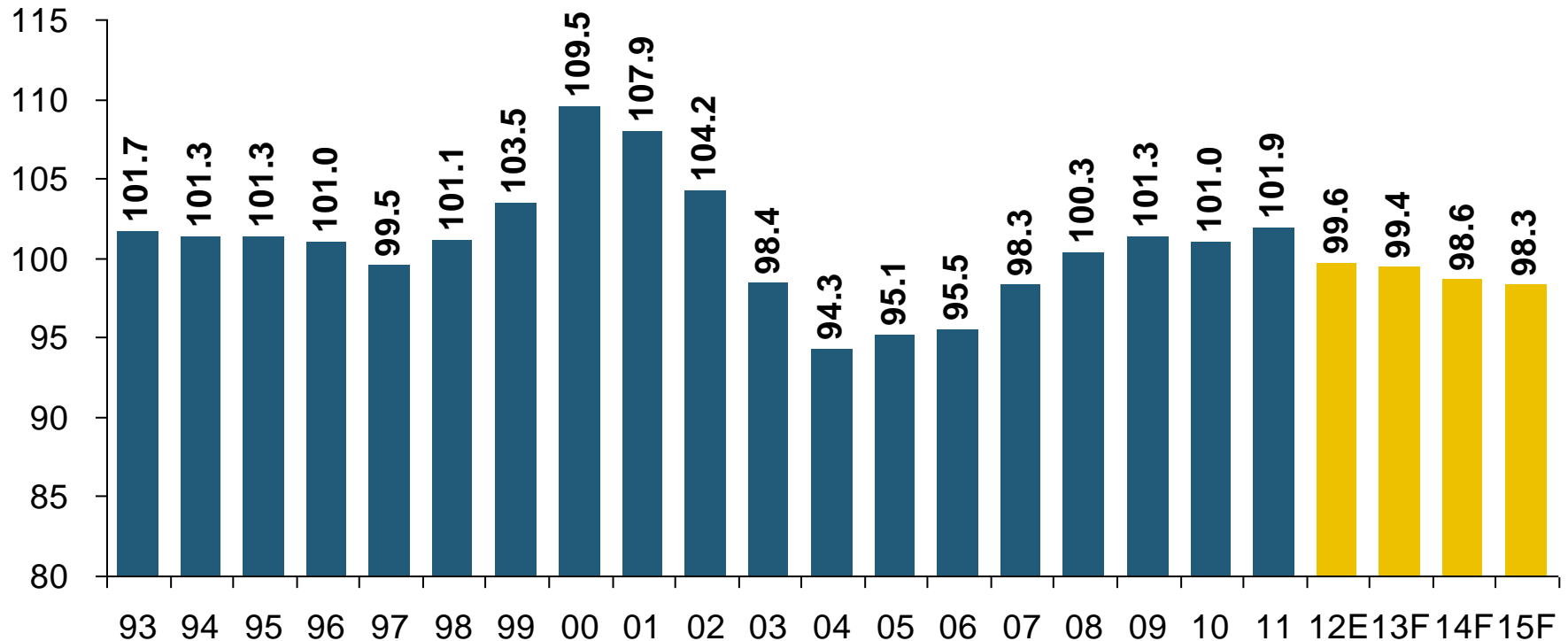
**Large Underwriting Losses Are *NOT* Sustainable
in Current Investment Environment**

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



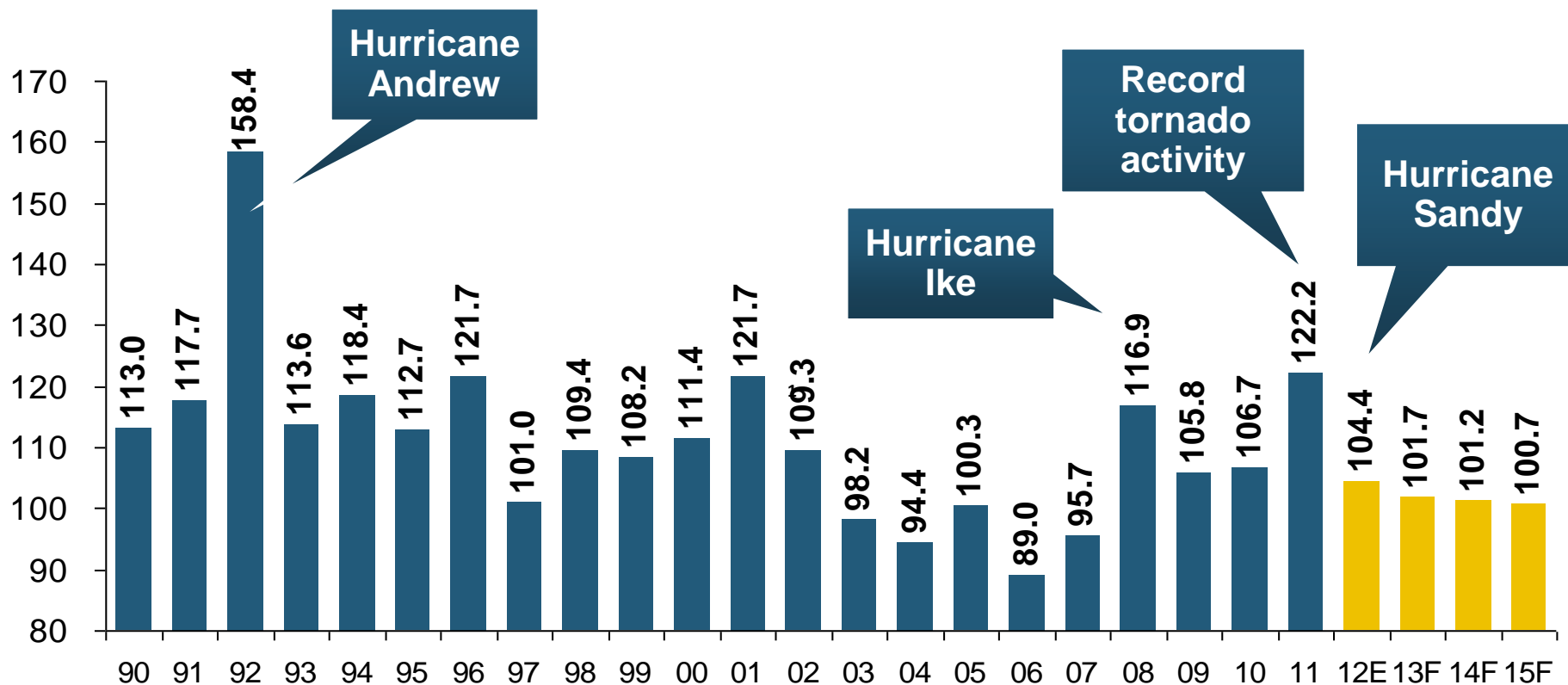
Performance by Segment

Private Passenger Auto Combined Ratio: 1993–2015F



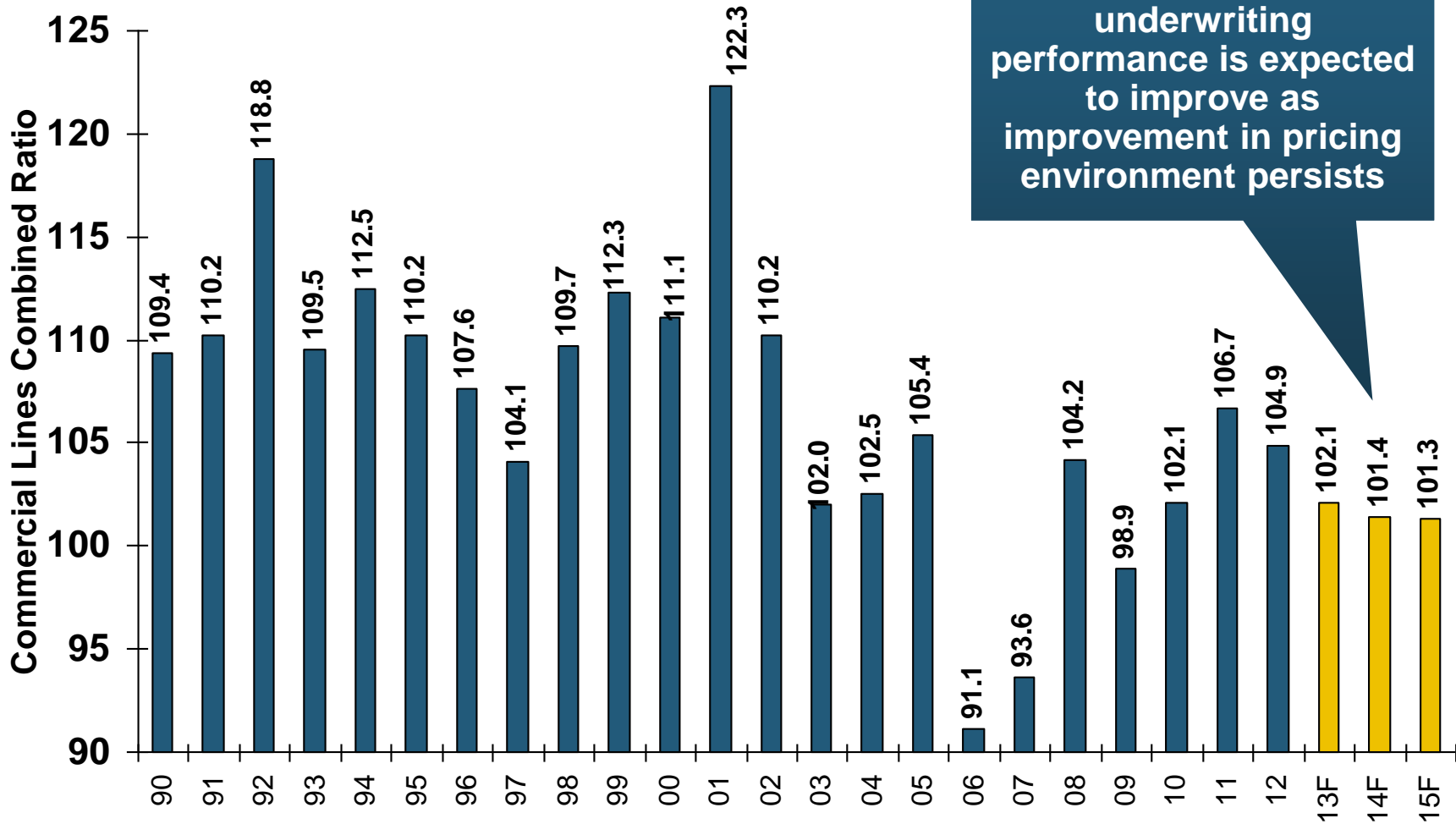
Private Passenger Auto Accounts for 34% of Industry Premiums and Remains the Profit Juggernaut of the P/C Insurance Industry

Homeowners Insurance Combined Ratio: 1990–2015F



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

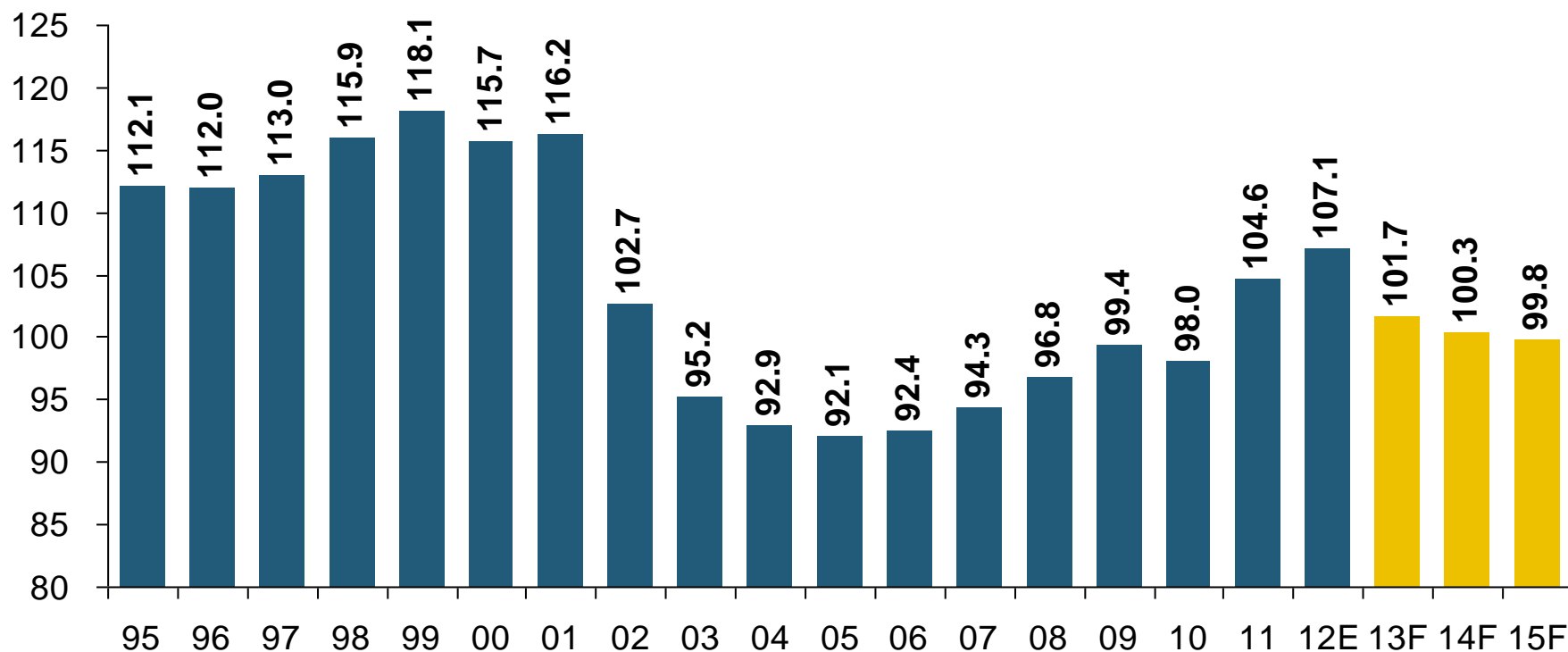
Commercial Lines Combined Ratio, 1990-2015F*



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

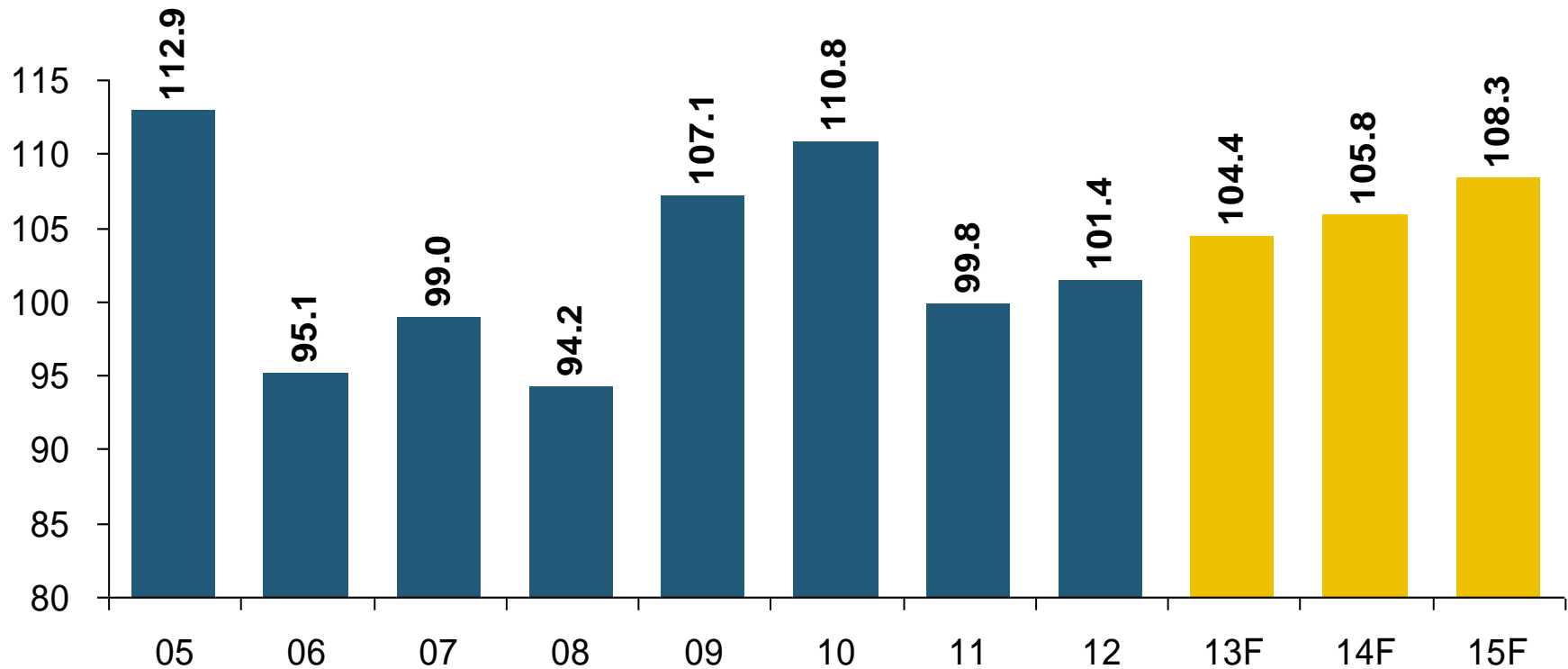
Source: A.M. Best (1990-2011); Conning (2012-2015F) Insurance Information Institute

Commercial Auto Combined Ratio: 1993–2015F



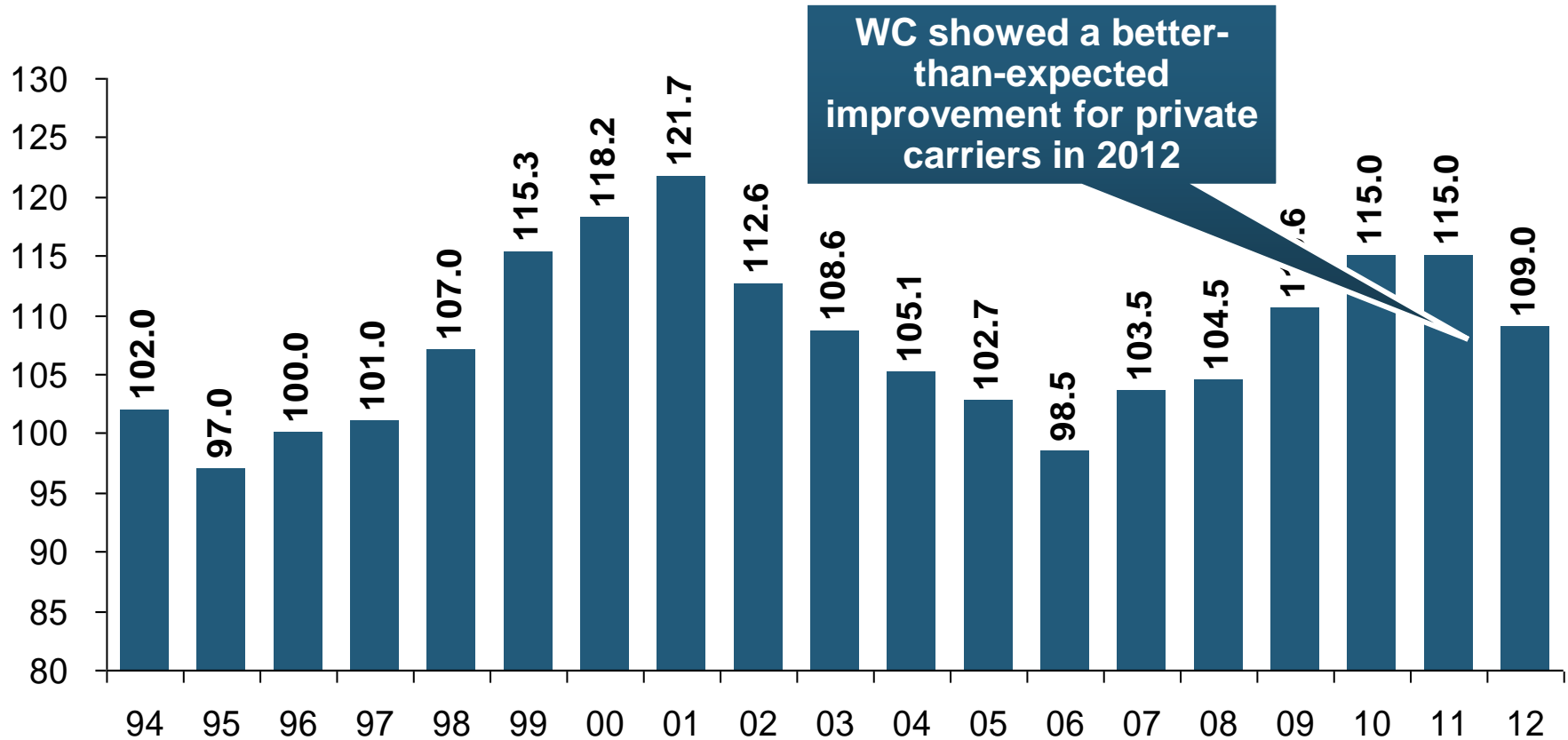
Commercial Auto is Expected to Improve as Rate Gains Outpace Any Adverse Frequency and Severity Trends

General Liability Combined Ratio: 2005–2015F



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

Workers Compensation Combined Ratio: 1994–2012P



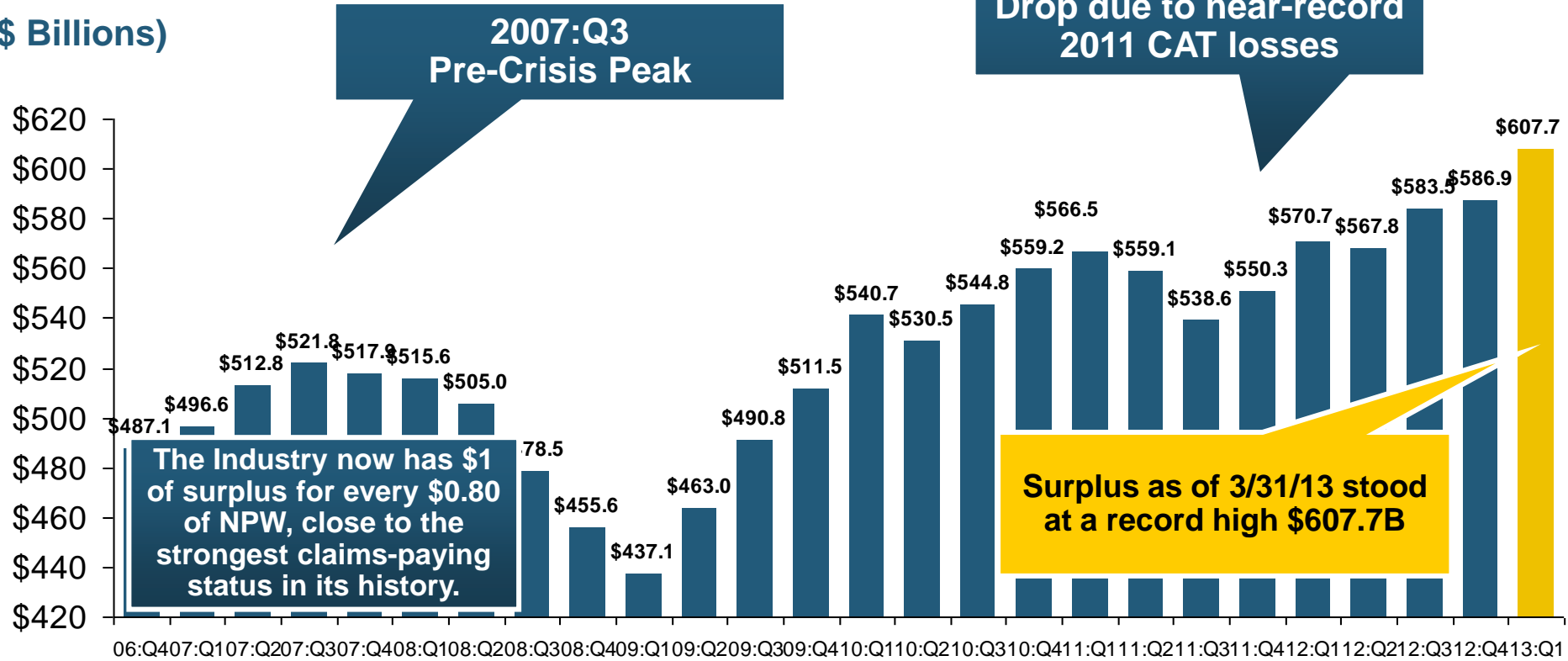
Workers Comp Results Began to Improve in 2012. Underwriting Results Deteriorated Markedly from 2007-2010/11 and Were the Worst They Had Been in a Decade.

2. SURPLUS/CAPITAL/CAPACITY

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

Policyholder Surplus, 2006:Q4–2013:Q1

(\$ Billions)

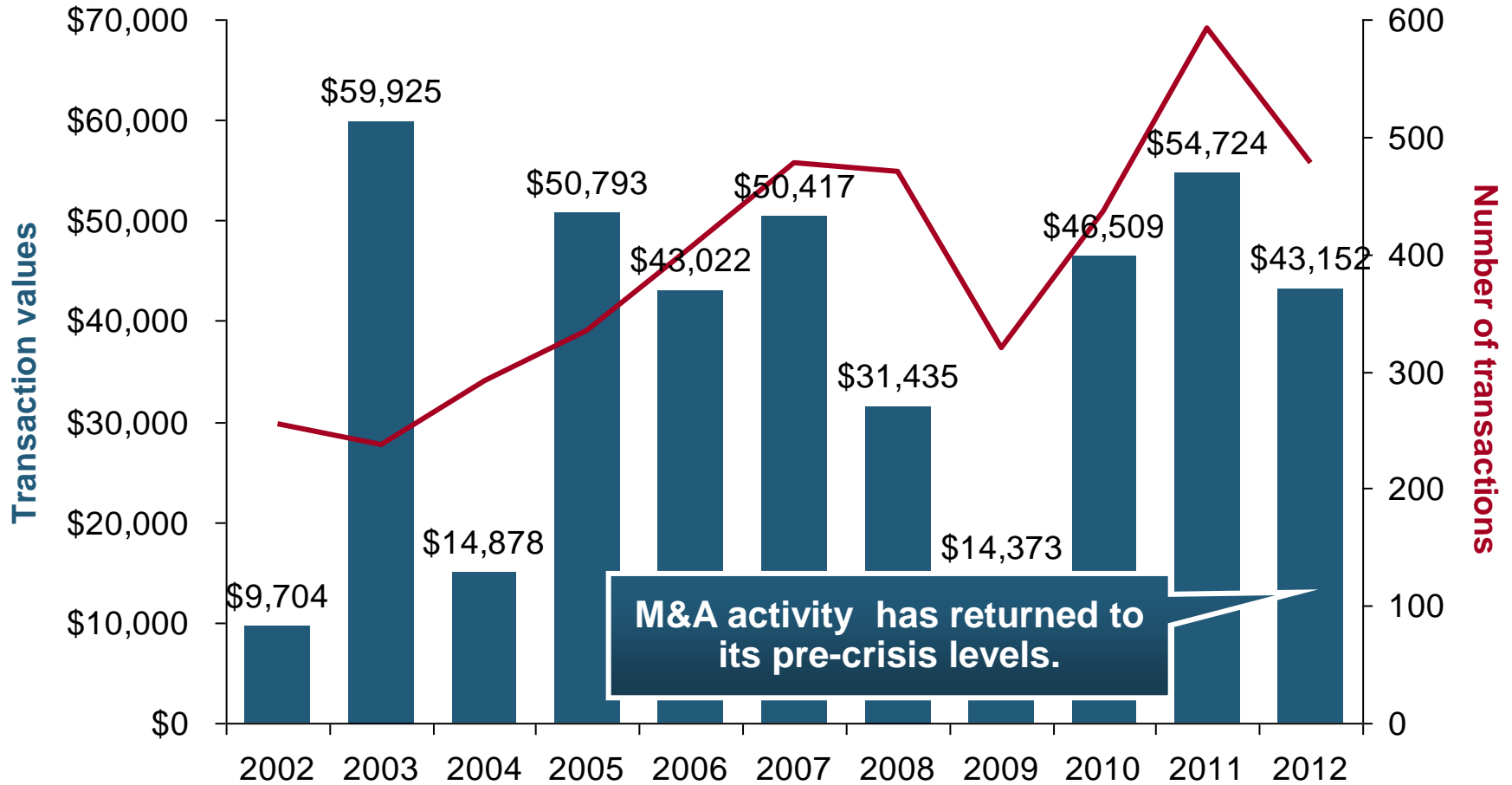


*Includes \$22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business in early 2010.

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)



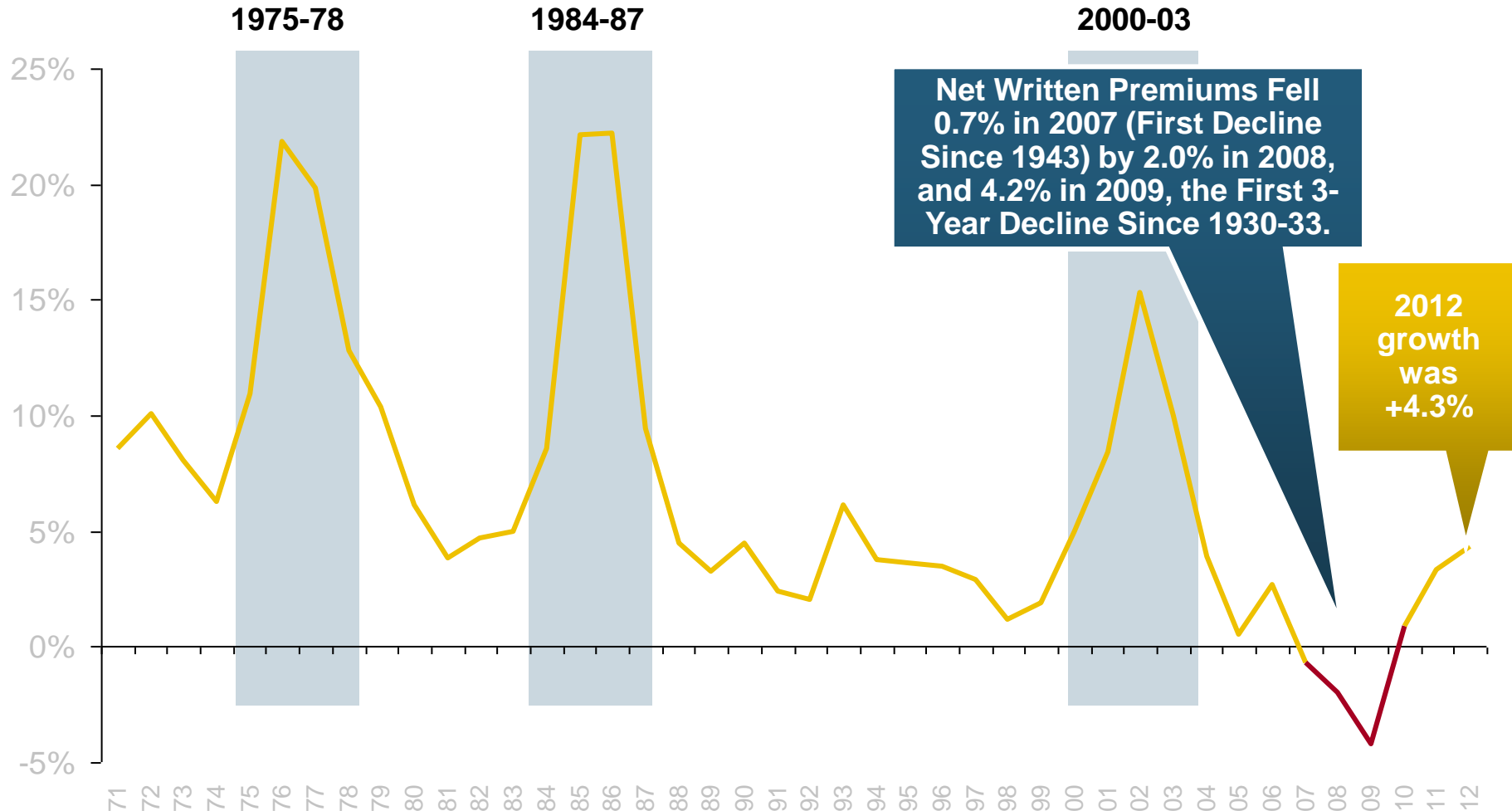
(1) Includes transactions where a U.S. company was the acquirer and/or the target.

4. RENEWED PRICING DISCIPLINE

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

Net Premium Growth: Annual Change, 1971—2012

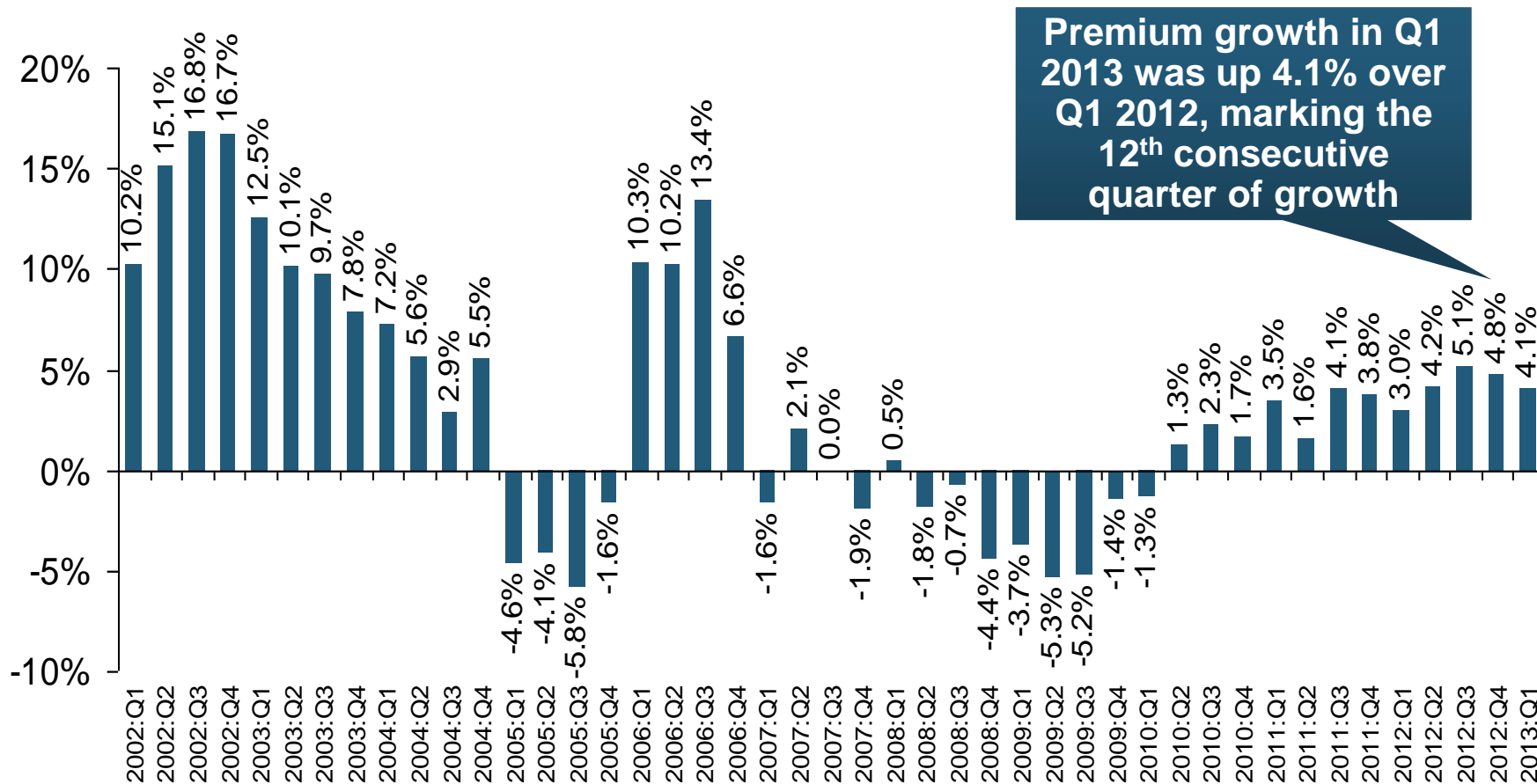
(Percent)



Shaded areas denote “hard market” periods

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

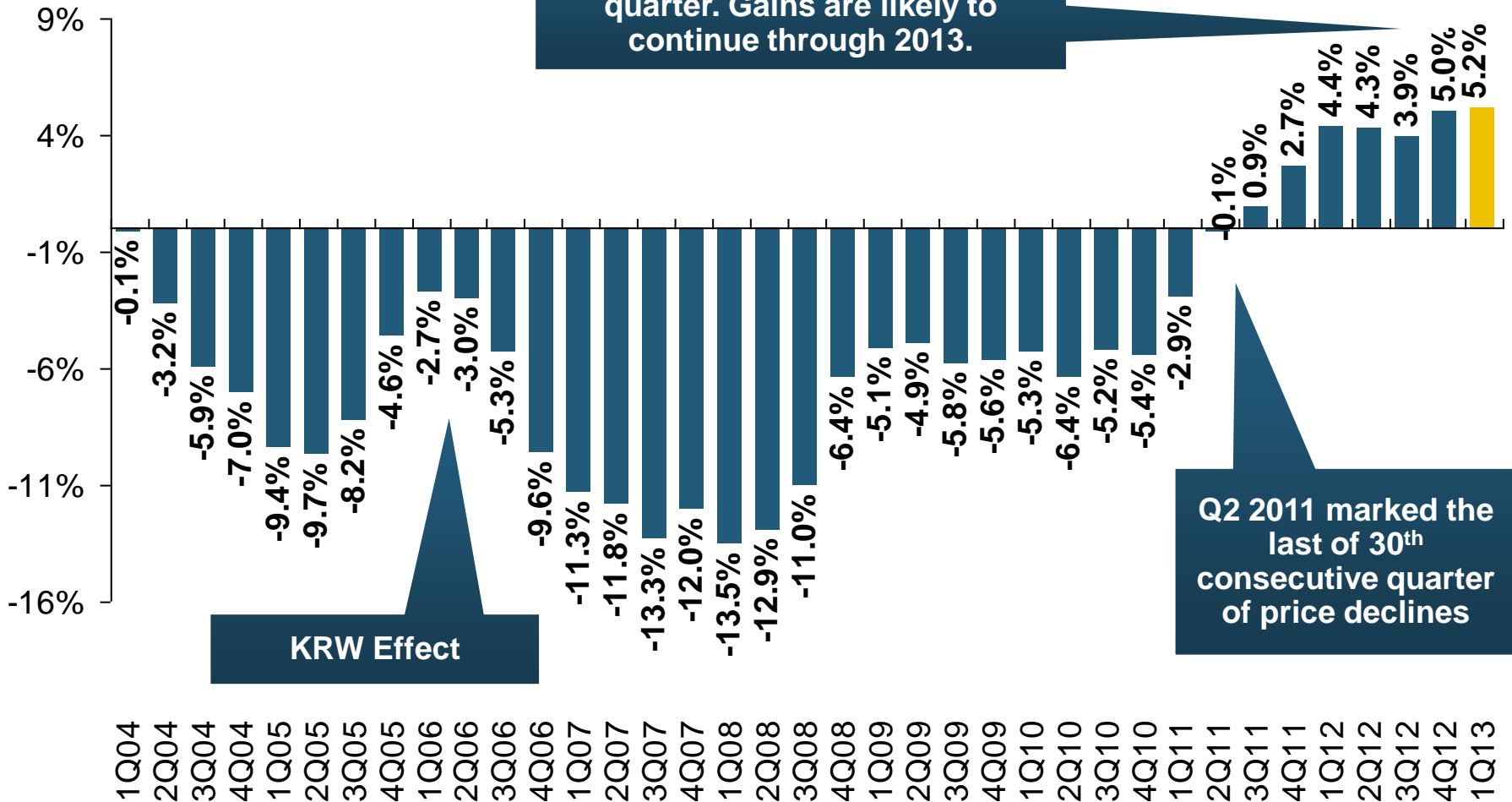
P/C Net Premiums Written: % Change, Quarter vs. Year-Prior Quarter



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

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

(Percent)



Pricing as of Q1:2013 was positive for the 8th consecutive quarter. Gains are likely to continue through 2013.

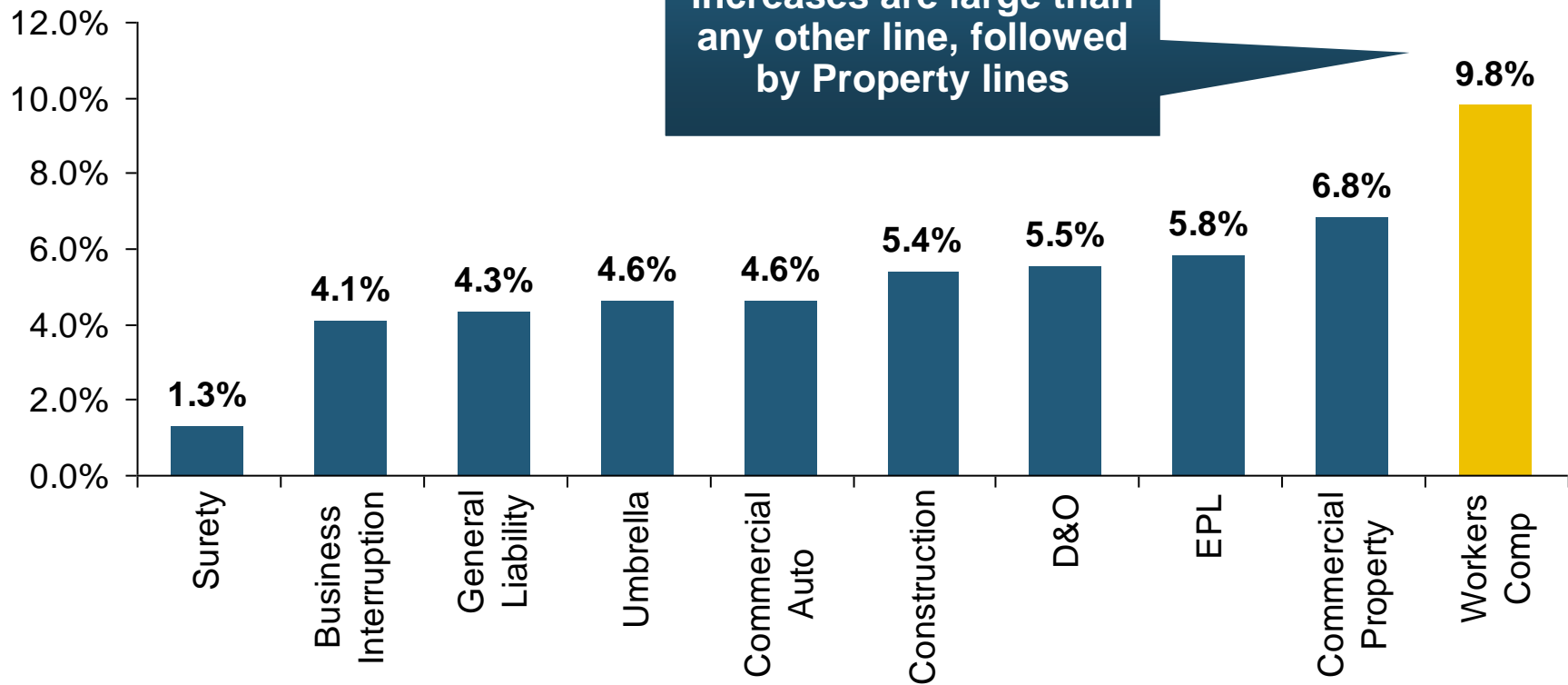
KRW Effect

Q2 2011 marked the last of 30th consecutive quarter of price declines

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 Line: 2013:Q1

Percentage Change (%)



Major Commercial Lines Renewed Uniformly Upward in Q1:2013 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.

CYBER RISK

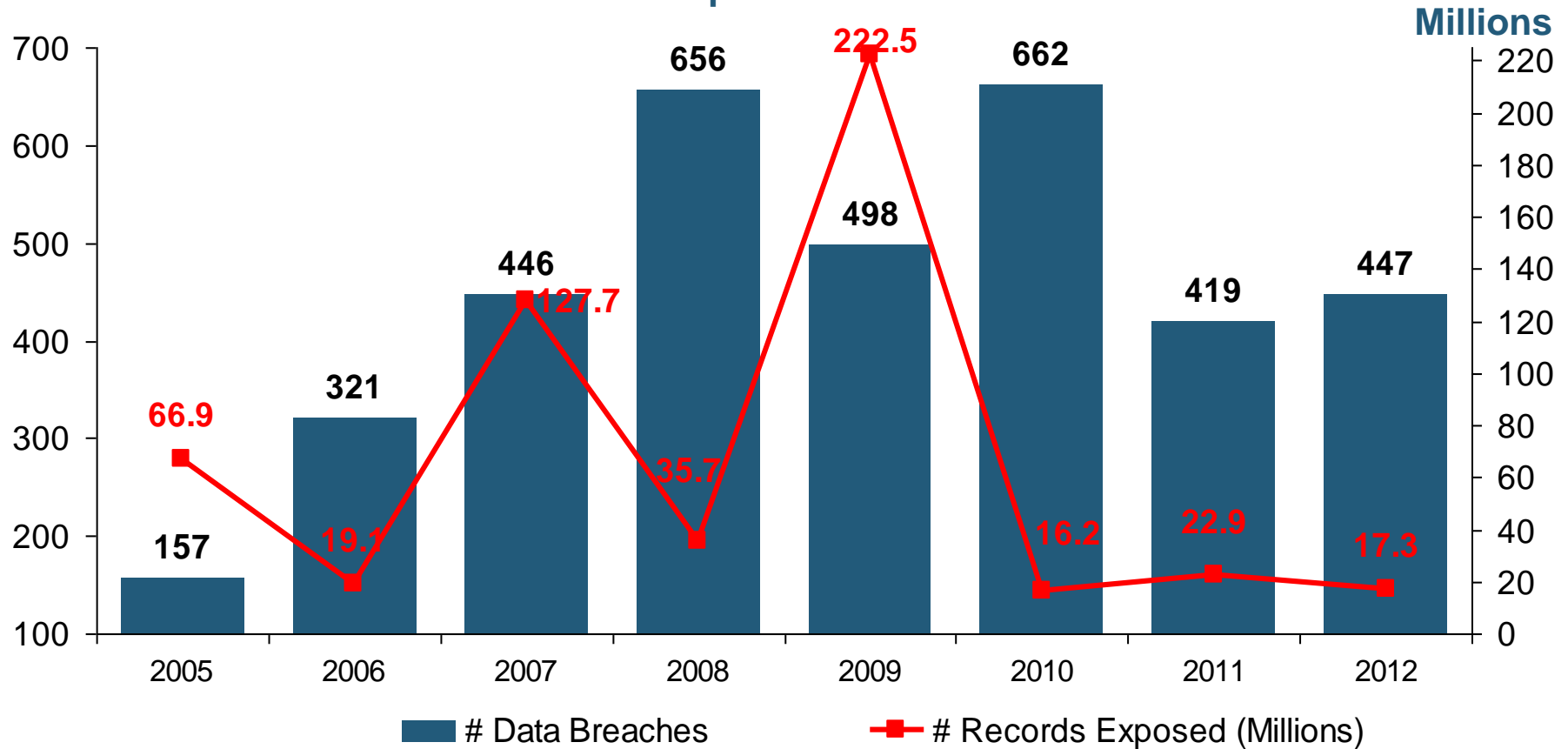
**Cyber Risk is a Rapidly Emerging
Exposure for Businesses Large
and Small in Every Industry**

NEW III White Paper:

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

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

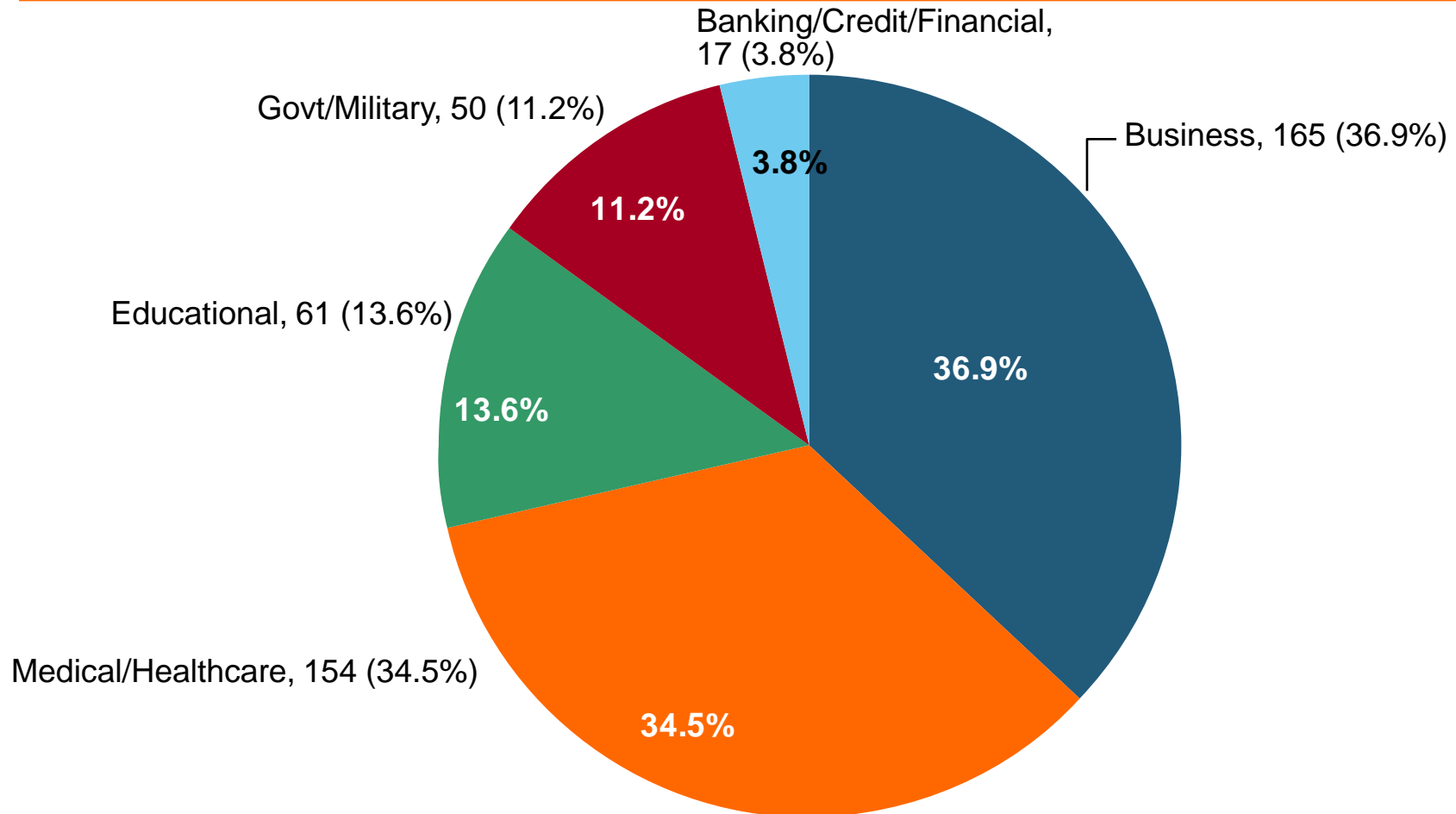
Data Breaches/Millions of Records Exposed



The total number of data breaches and number of records exposed fluctuates from year to year and over time.

2012 Data Breaches By Business Category, By Number of Breaches

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



Insurance Information Institute Online:

www.iii.org

*Thank you for your time
and your attention!*

Twitter: twitter.com/bob_hartwig

Download at www.iii.org/presentations