



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

NAMIC Commercial Lines Seminar

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Download at www.iii.org/presentations

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■ **Economic Outlook & Exposure Analysis**

- ◆ **Exposure and premium growth depend critically on growth trajectory for the economy**

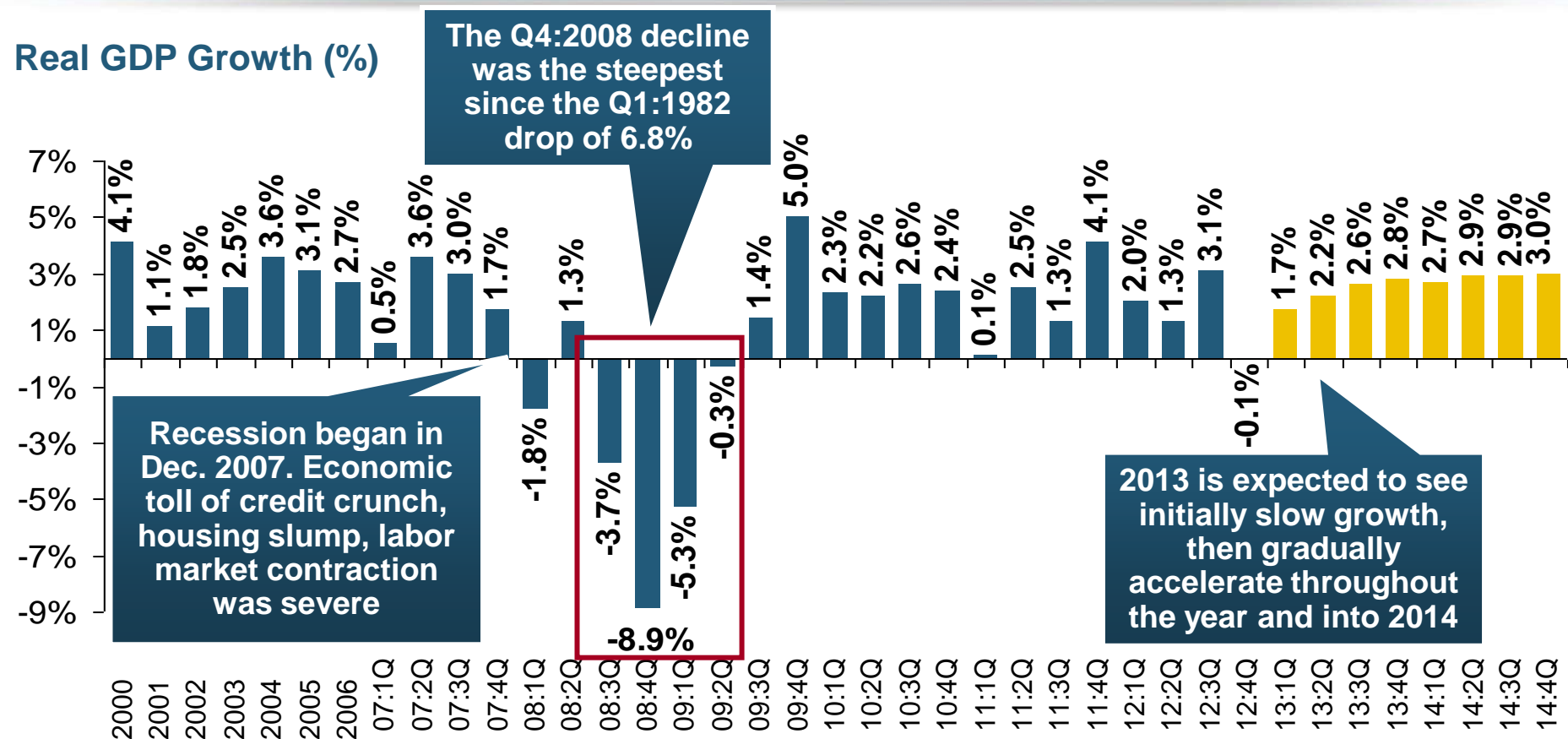
■ **P/C Industry Performance: Overview & Outlook**

- ◆ **Underwriting**
- ◆ **Catastrophe Losses**
- ◆ **Pricing**
- ◆ **Growth**
- ◆ **Capacity**
- ◆ **Investments**

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*



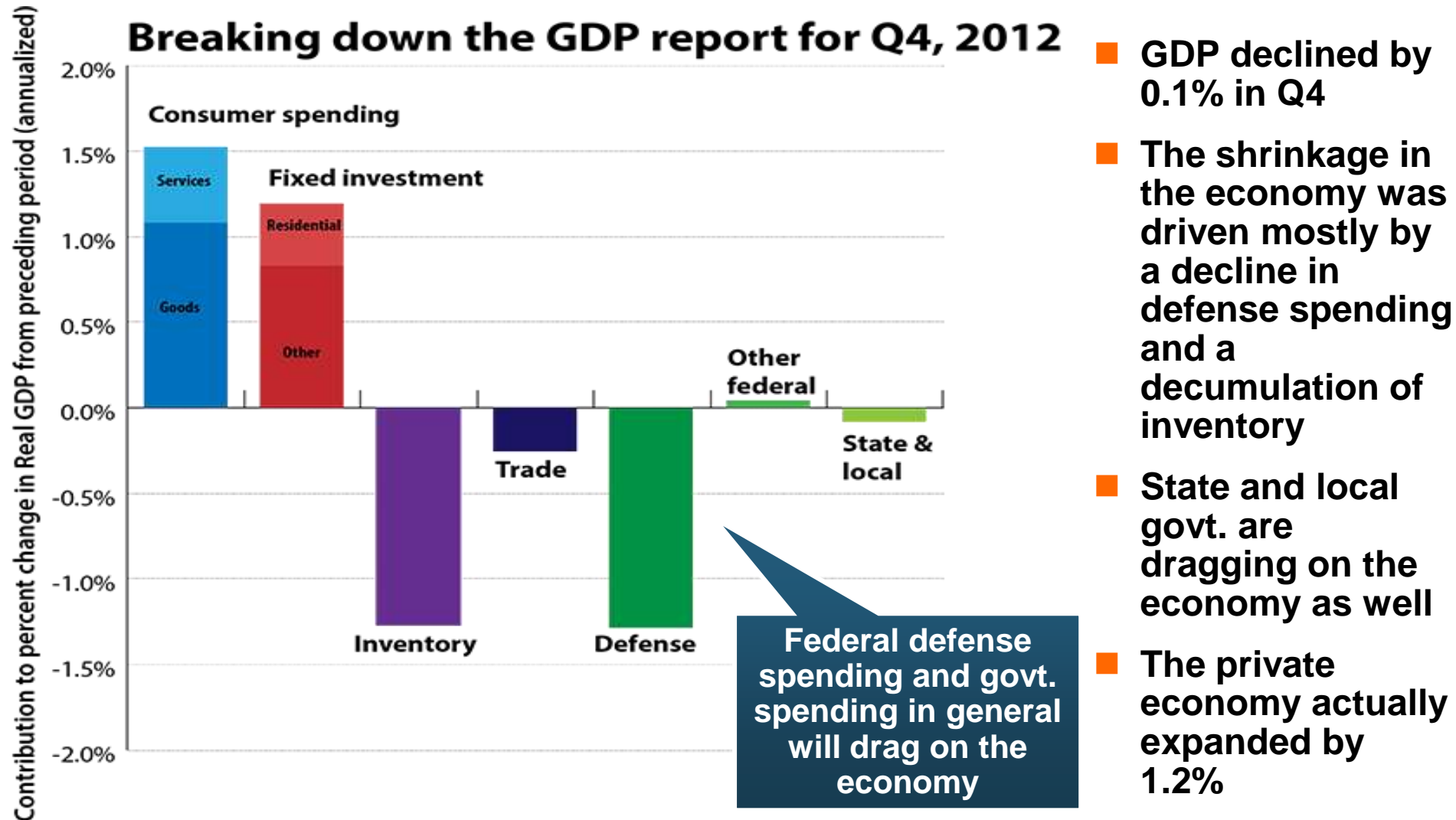
Demand for Insurance Continues To Be Impacted by Sluggish Economic Conditions, but the Benefits of Even Slow Growth Will Compound and Gradually Benefit the Economy Broadly

* ■ Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 2/13; Insurance Information Institute.

2012:Q4 GDP Number Was Not as Bad as the Headline Suggests

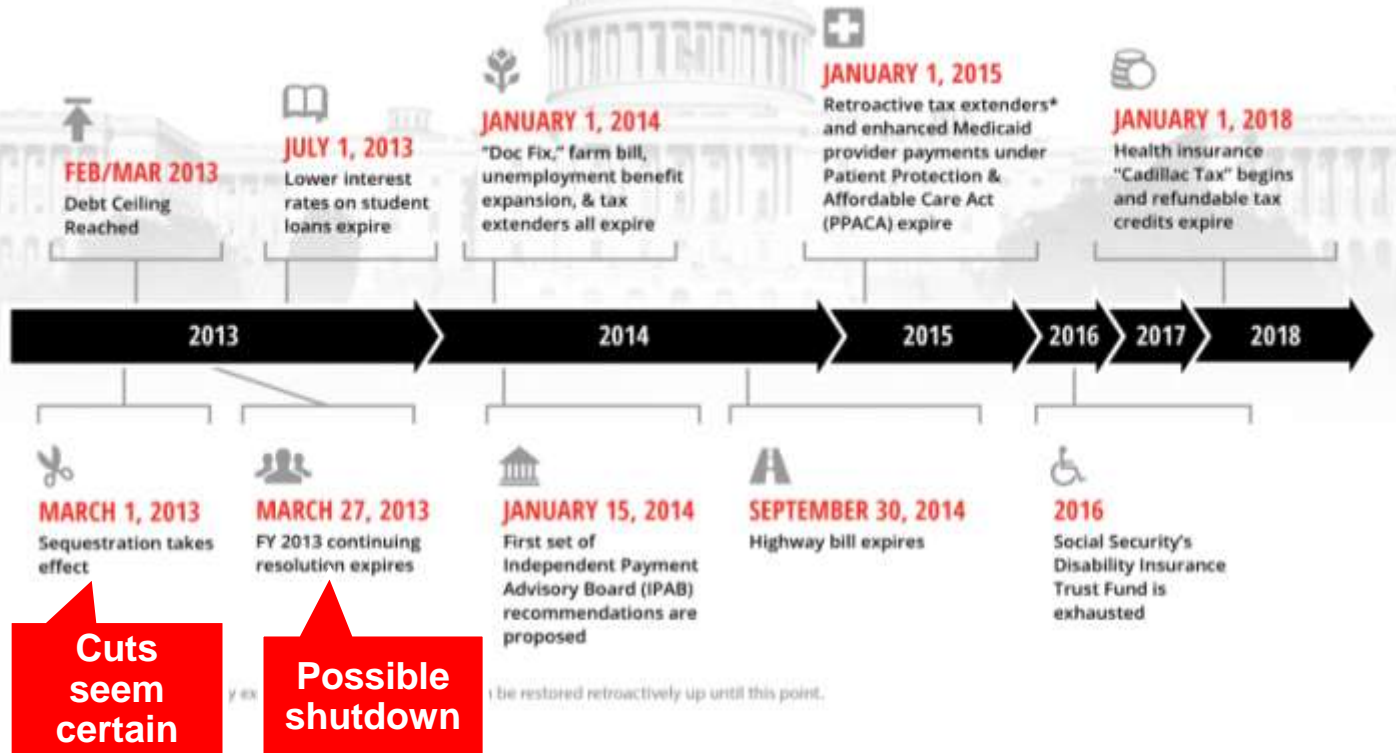
Breaking down the GDP report for Q4, 2012



The Fiscal Cliff Was Just the Beginning: Budget Battles for Years to Come?

*Poll: 94% of P/C insurance executives think looming budget battles in Washington will hurt the economy.**

Impending “Fiscal Speed Bumps” 2013–2018

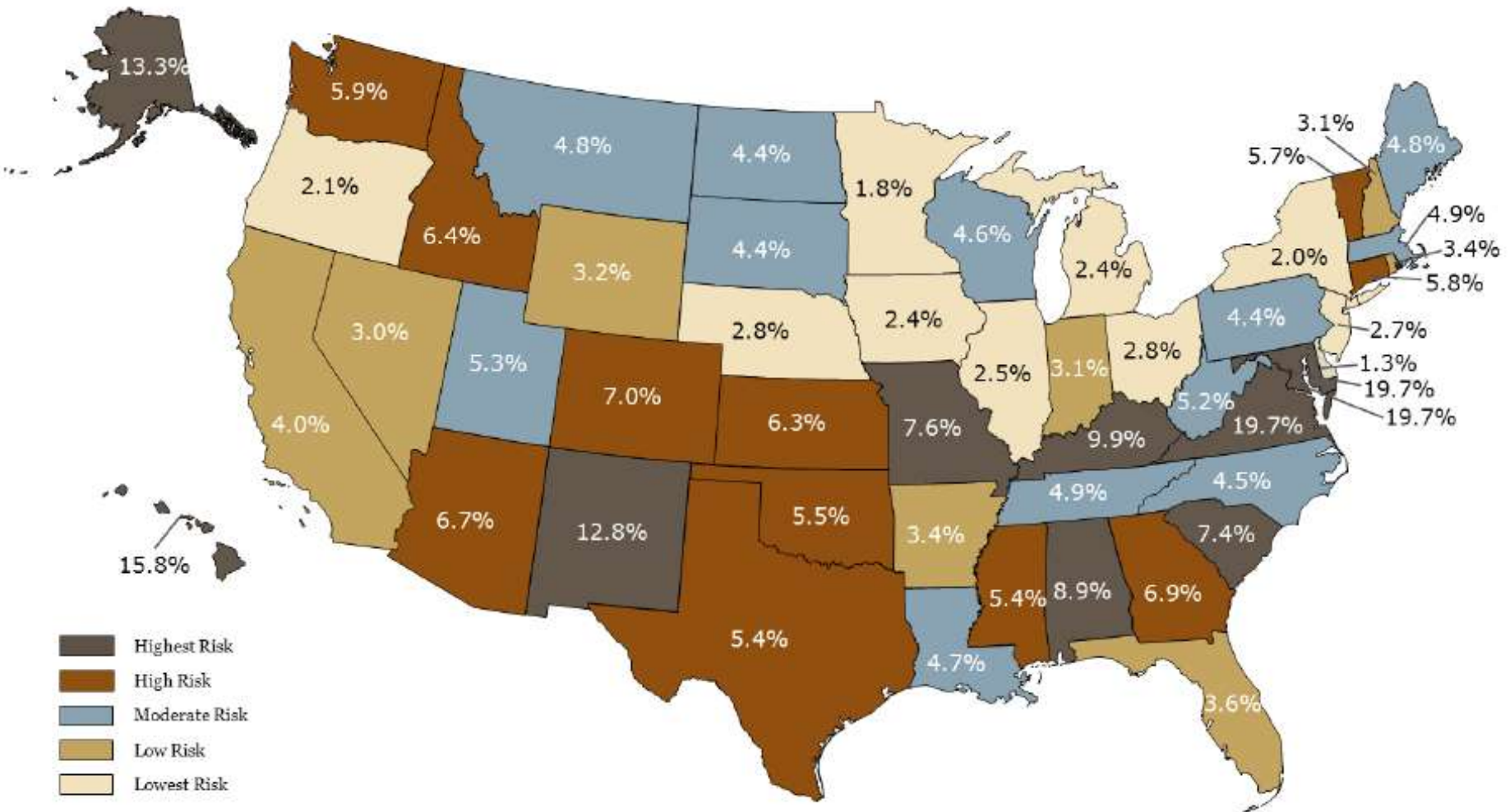


- The “Fiscal Cliff” was just the beginning
- There are 10+ “Fiscal Speed Bumps” over the next 5 years, setting up a potentially extended period of fiscal uncertainty
- Creates long-term uncertainty around federal spending, tax policy, entitlements
- Insurable exposures impacted

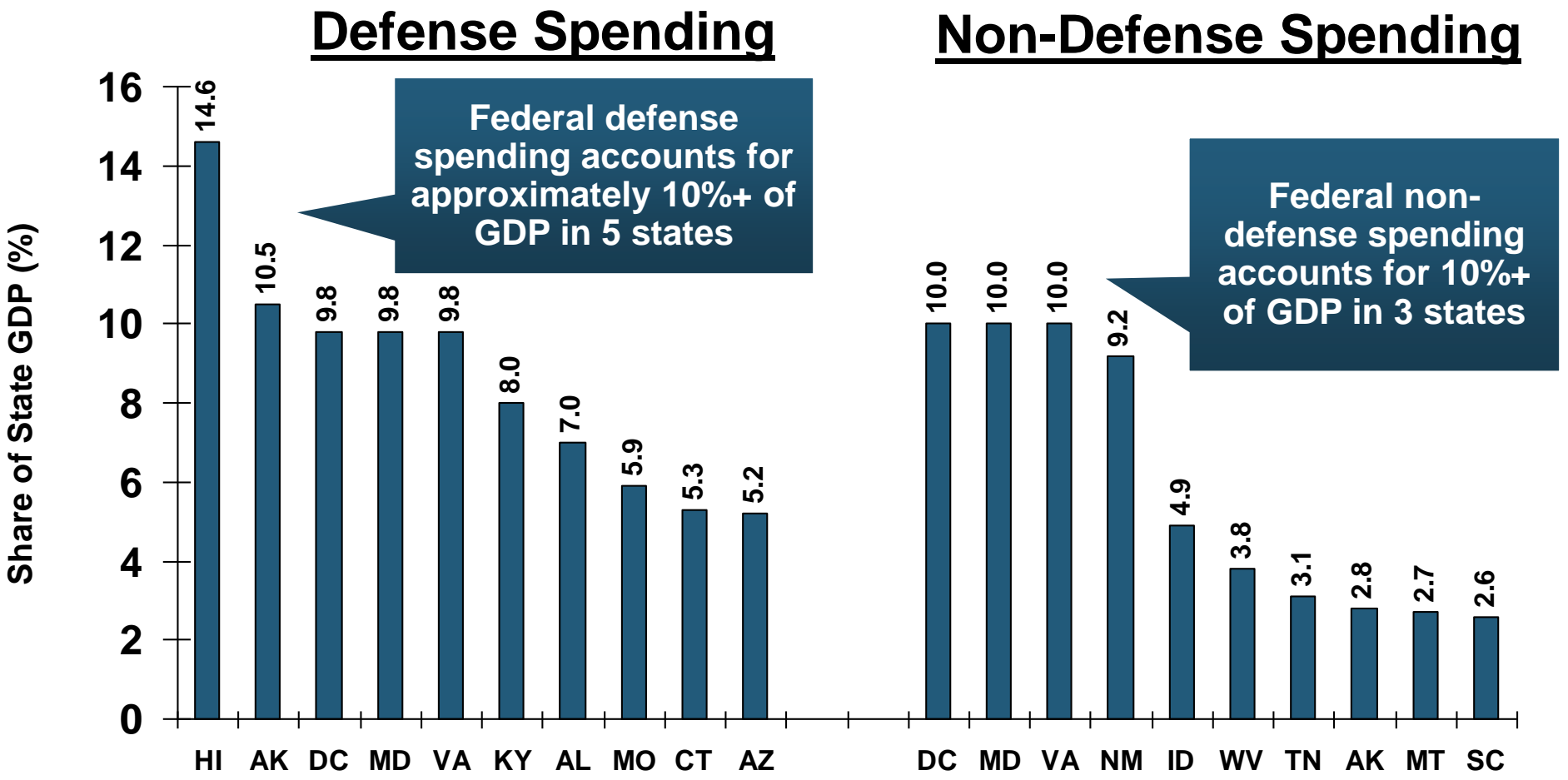
*P/C Insurance Joint Industry Forum press release (www.iii.org/press_releases), January 15, 2013.

Source: Fix the Debt Coalition, January 18, 2013; Insurance Information Institute

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



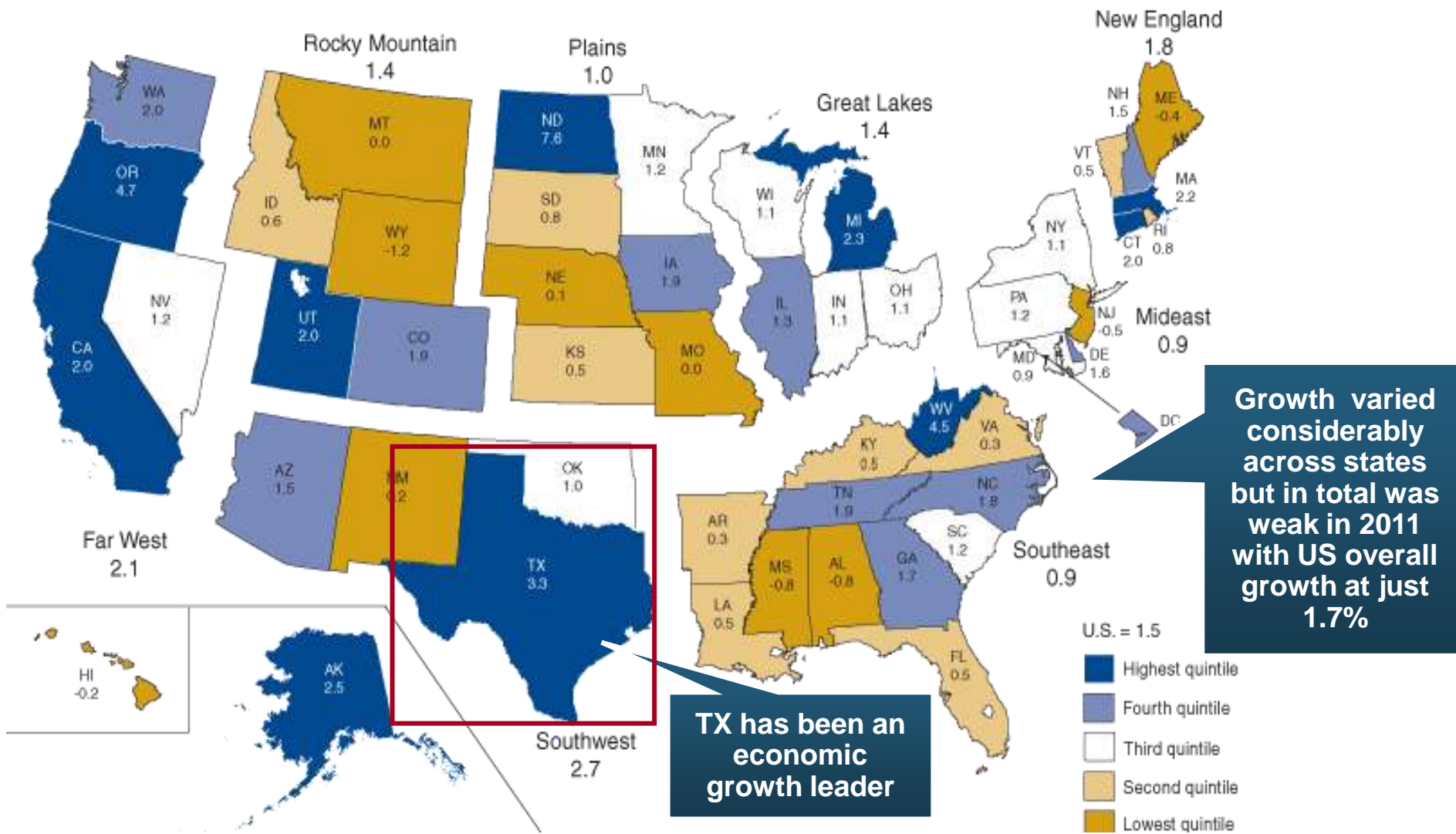
Defense and Non-Defense Federal Spending as a Share of State GDP: Top 10 States*



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

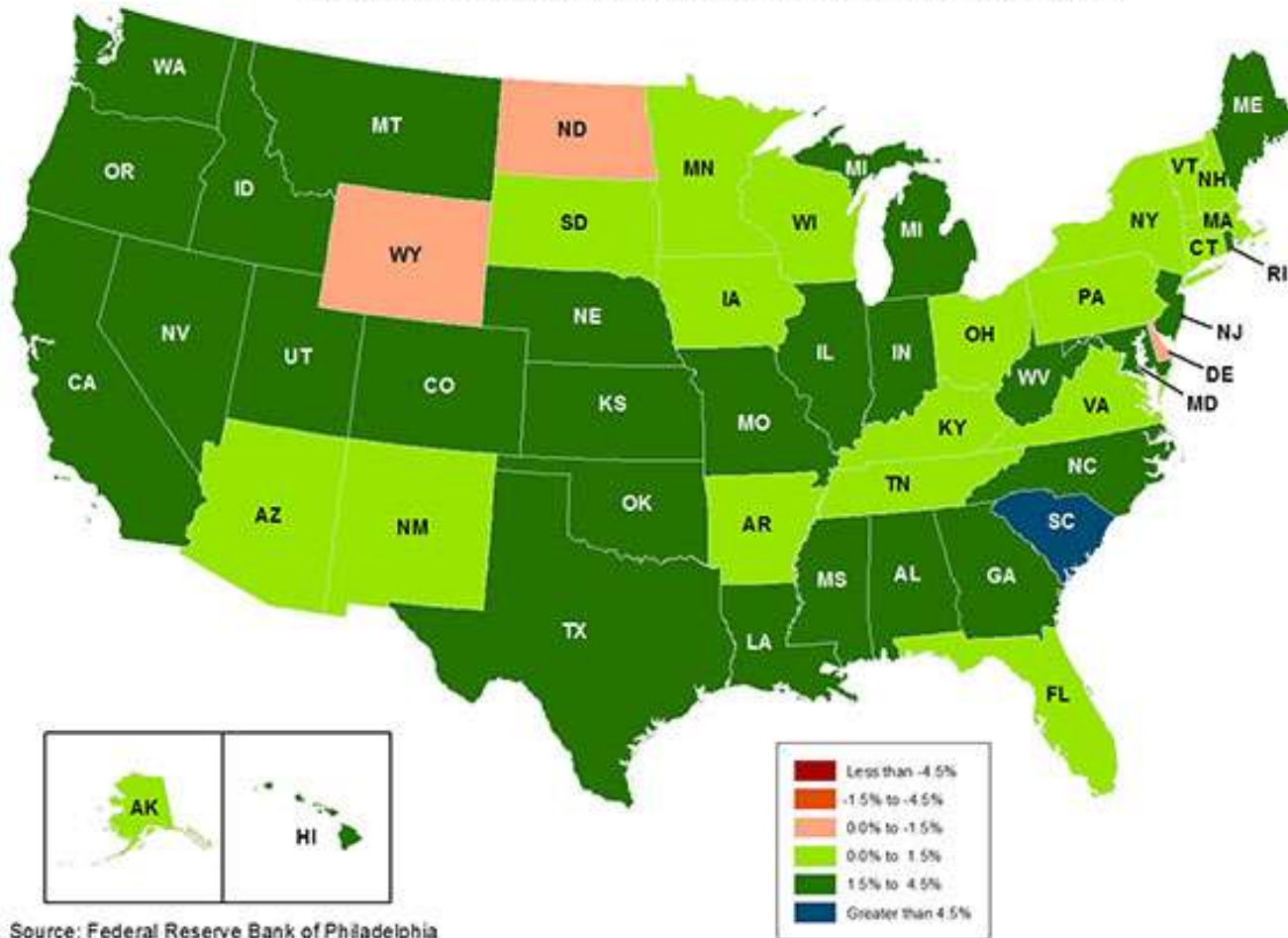
*As of 2010.
Sources: Pew Center on the States (2012) *Impact of the Fiscal Cliff on the States*; Wells Fargo Securities; Insurance Information Institute.

Percent Change in Real GDP by State, 2011



State-by-State Leading Indicators through 2013:Q1

October 2012 State Leading Indexes: 6-Month Forecast



Source: Federal Reserve Bank of Philadelphia

Near-term growth forecasts vary widely by state

5 Fastest Growing States

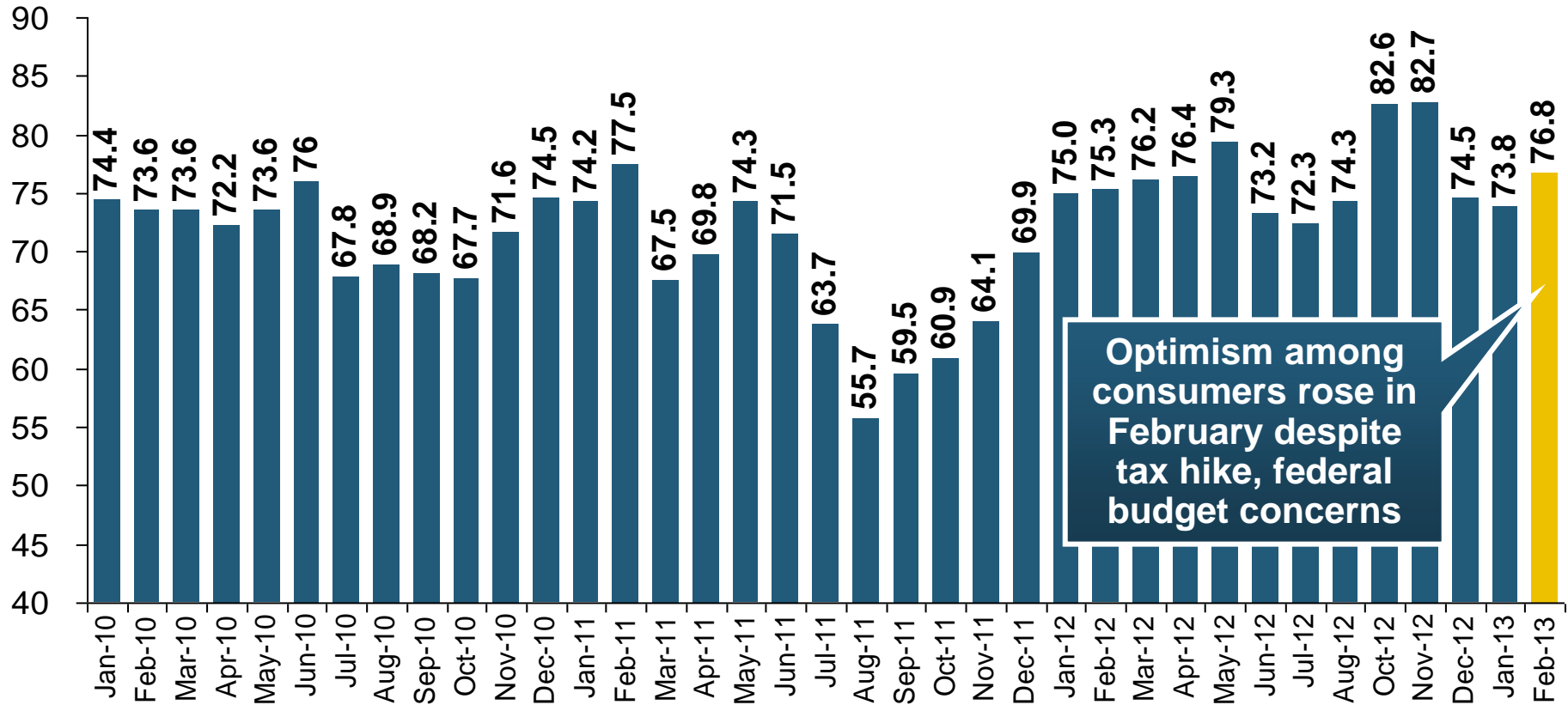
South Carolina	6.97%
Michigan	4.32%
West Virginia	3.59%
Idaho	3.14%
Georgia	3.04%

5 Slowest Growing States

Wyoming	-1.09%
Delaware	-0.24%
North Dakota	-0.19%
Vermont	0.09%
Minnesota	0.18%

Consumer Sentiment Survey (1966 = 100)

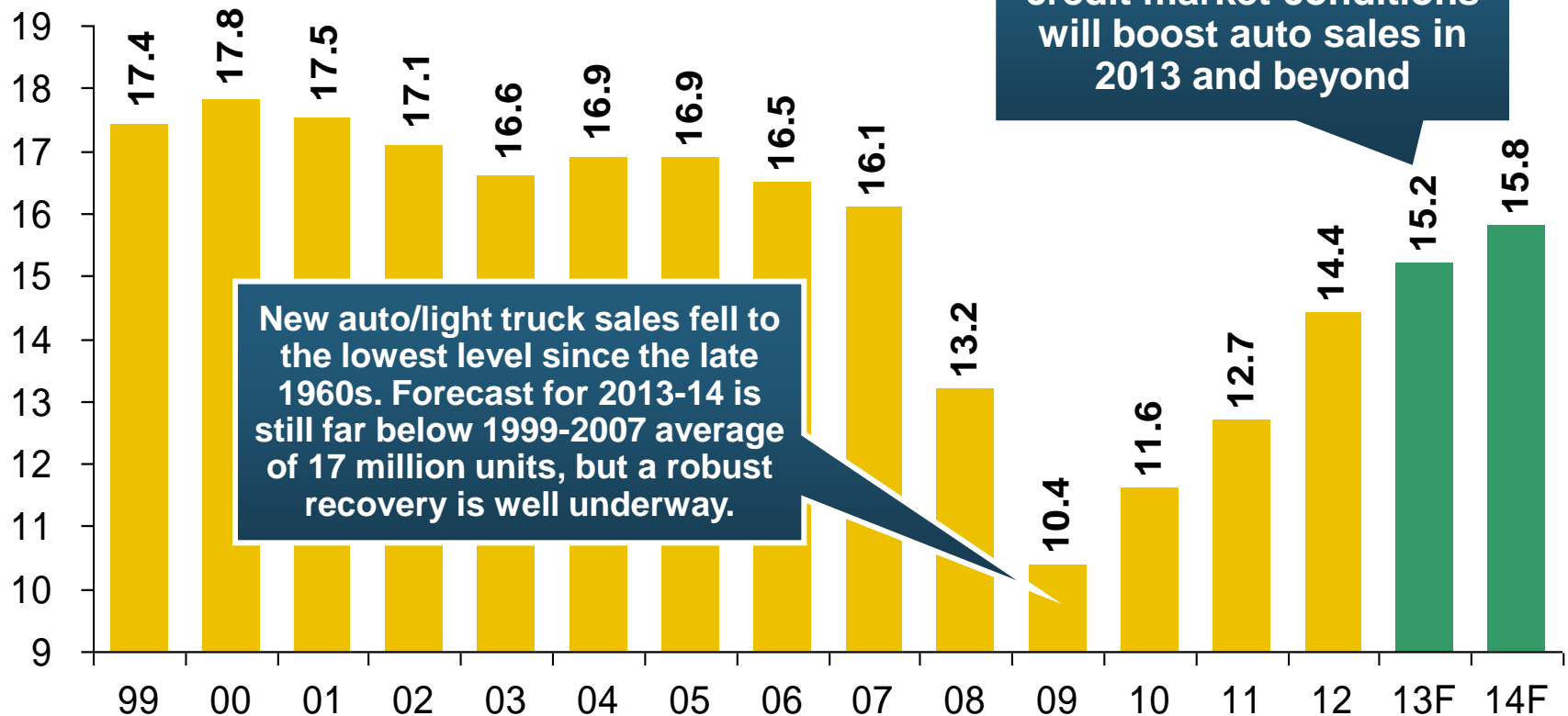
January 2010 through February 2013



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

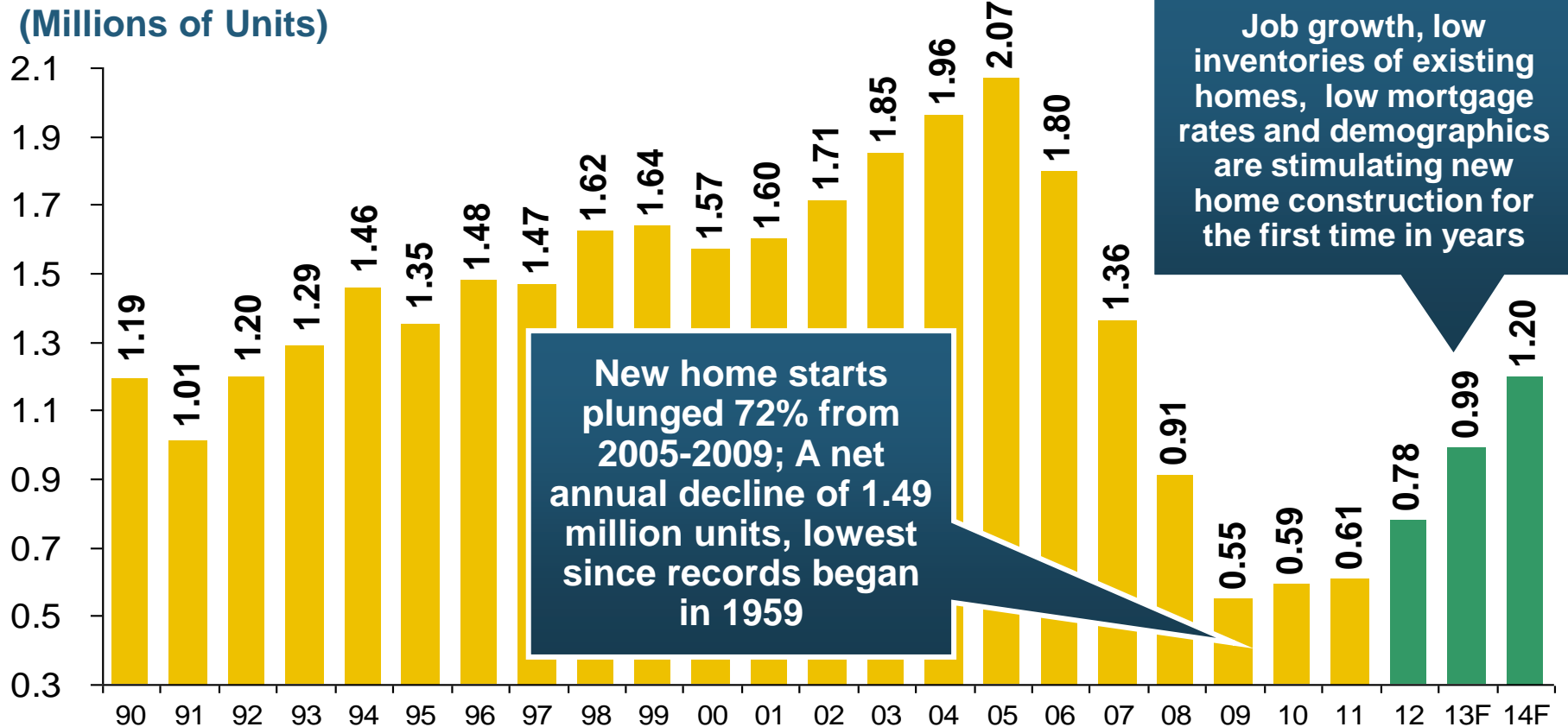
Auto/Light Truck Sales, 1999-2014F

(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.

New Private Housing Starts, 1990-2014F



Homeowners Insurers Are Starting to See Meaningful Exposure Growth for the First Time Since 2005. Commercial Insurers with Construction Risk Exposure, Surety Also Benefit

Construction Employment, Jan. 2010—January 2013*

(Thousands)

Construction employment growth accelerated in the second half of 2012. Stronger growth in this key sector is possible in 2013.



*Seasonally adjusted

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

Construction Employment, Jan. 2003–Jan. 2013

(Thousands)

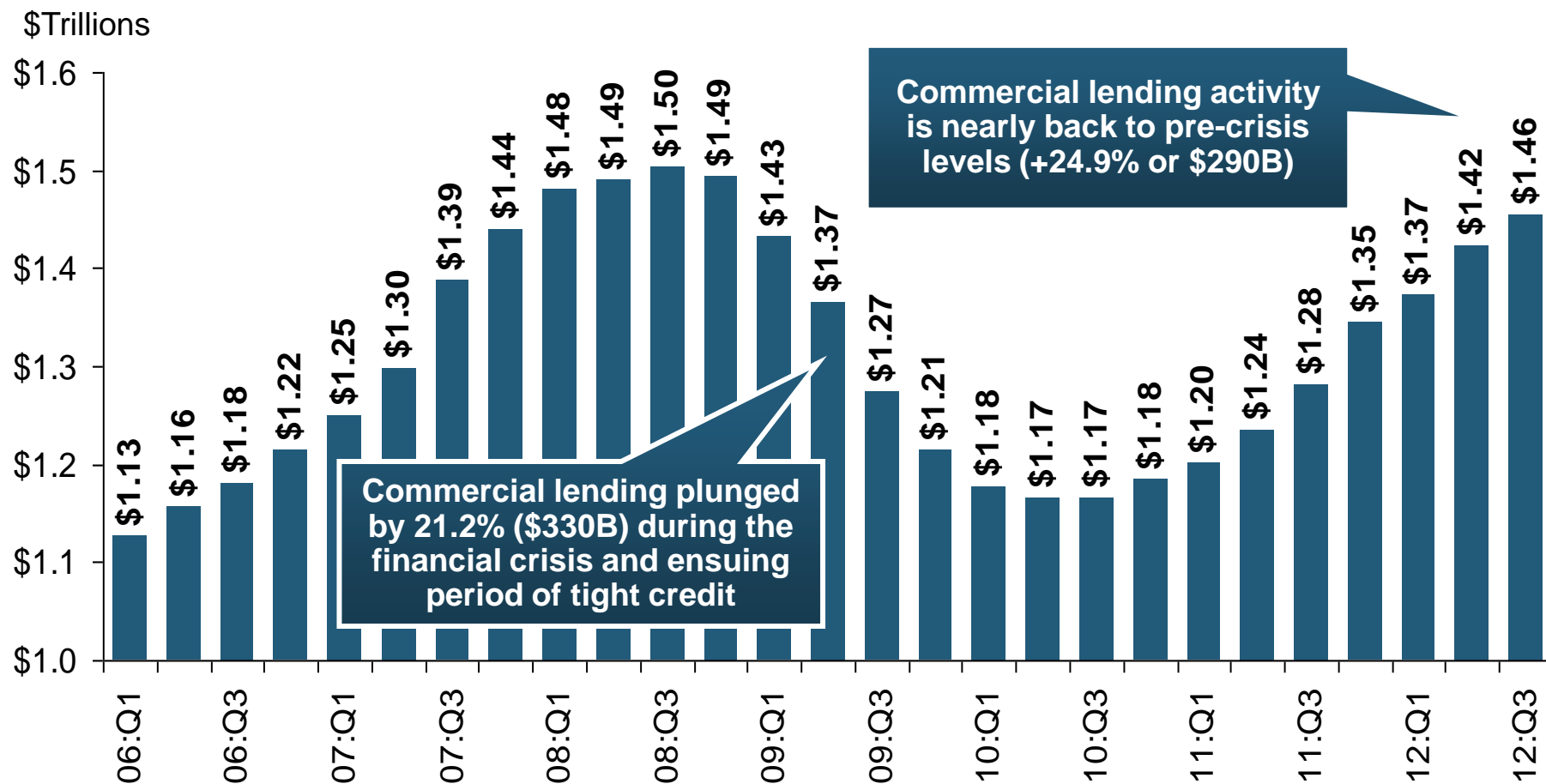


The Construction Sector Could Be a Growth Leader in 2013 and 2014 as the Housing Market and Private Investment Recover. Commercial Insurers Will Benefit.

Note: Recession indicated by gray shaded column.

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

Commercial & Industrial Loans Outstanding at FDIC-Insured Banks, Quarterly, 2006-2012:Q3*



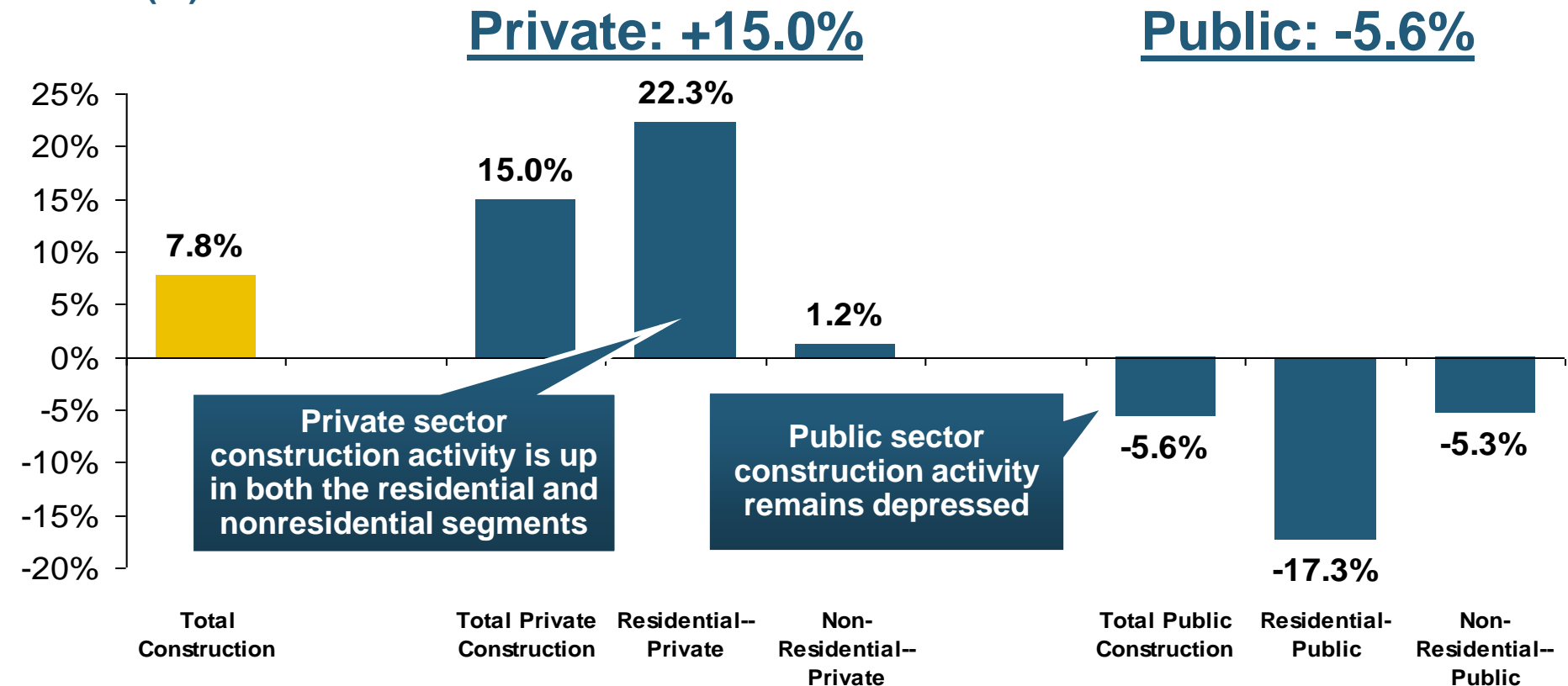
Outstanding Commercial Loan Volume Has Been Growing for Over Two Years and Is Now Nearly Back to Early Recession Levels. Bodes Very Well for the Creation of Current and Future Commercial Insurance Exposures

*Latest data as of 2/24/2013.

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

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

Growth (%)



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

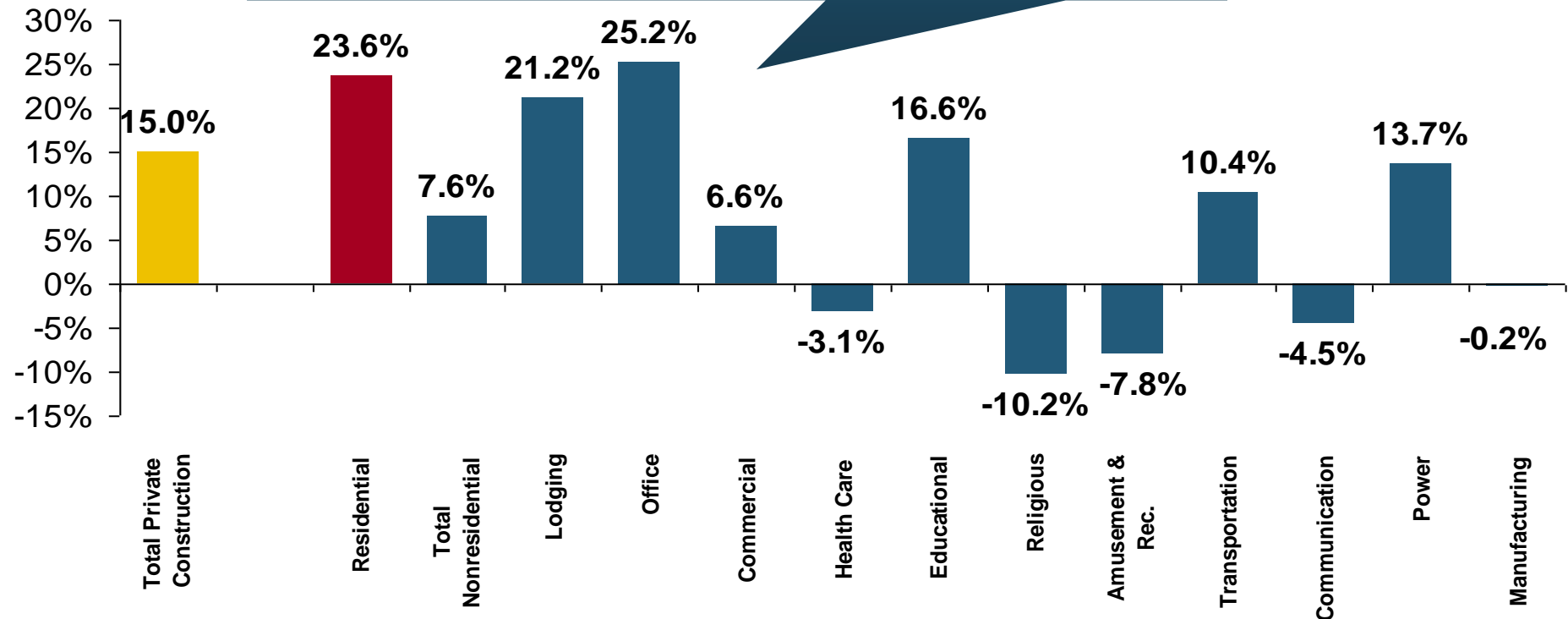
*seasonally adjusted

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, Dec. 2012 vs. Dec. 2011*

Growth (%)

Led by the Residential Construction, Lodging, Office, Transportation and Power industries, Private sector construction activity is up across many segments after plunging during the "Great Recession"



Private Construction Activity is Up in Most Segments, Including the Key Residential Construction Sector

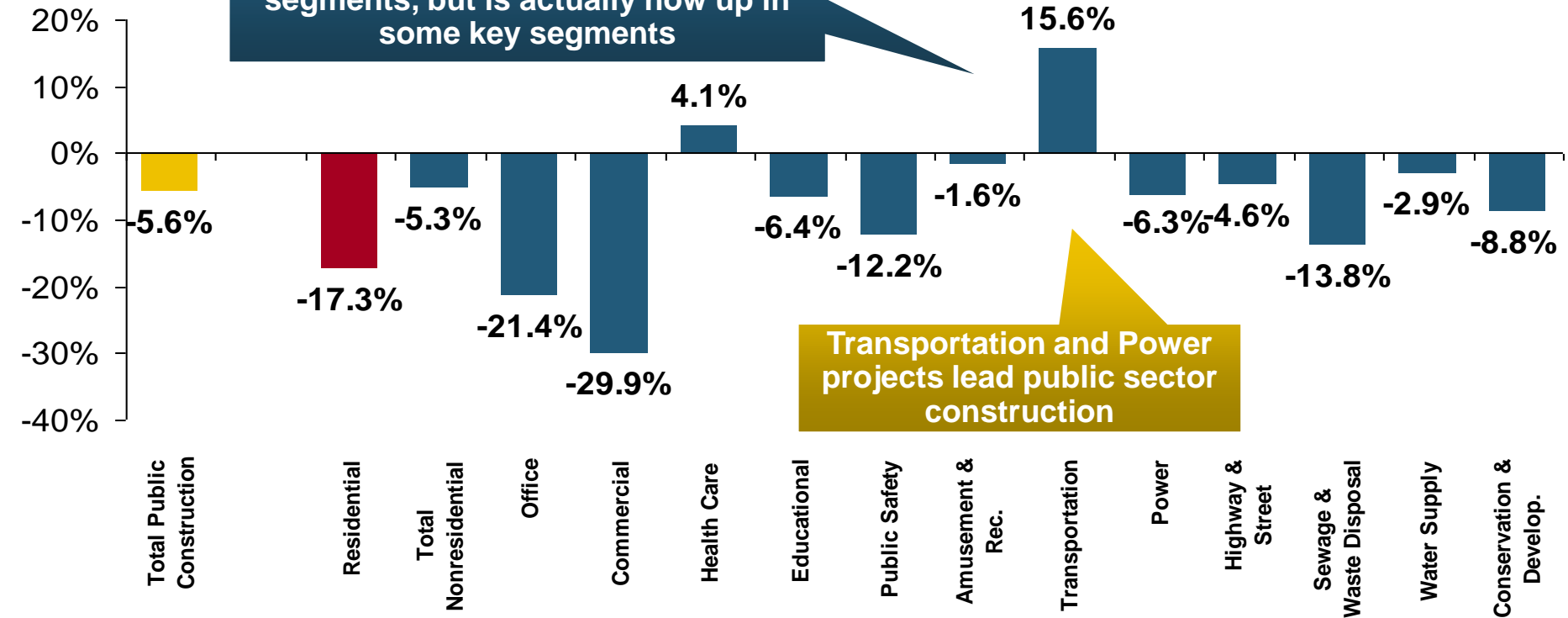
*seasonally adjusted

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, Dec. 2012 vs. Dec. 2011*

Growth (%)

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



Public Construction Activity is Down in Many Segments as State and Local Budgets Remain Under Stress; Improvement Possible in 2013.

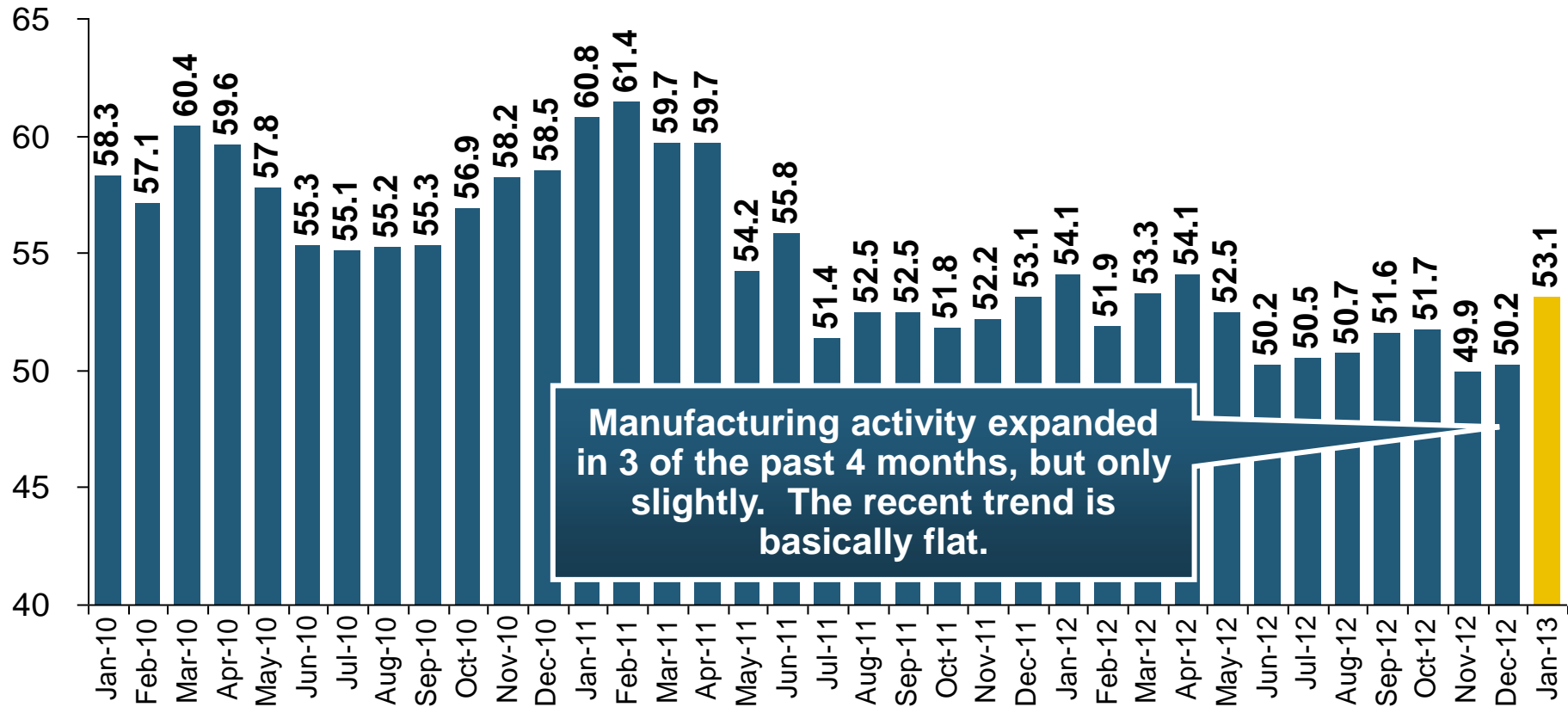
*seasonally adjusted

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 January 2013



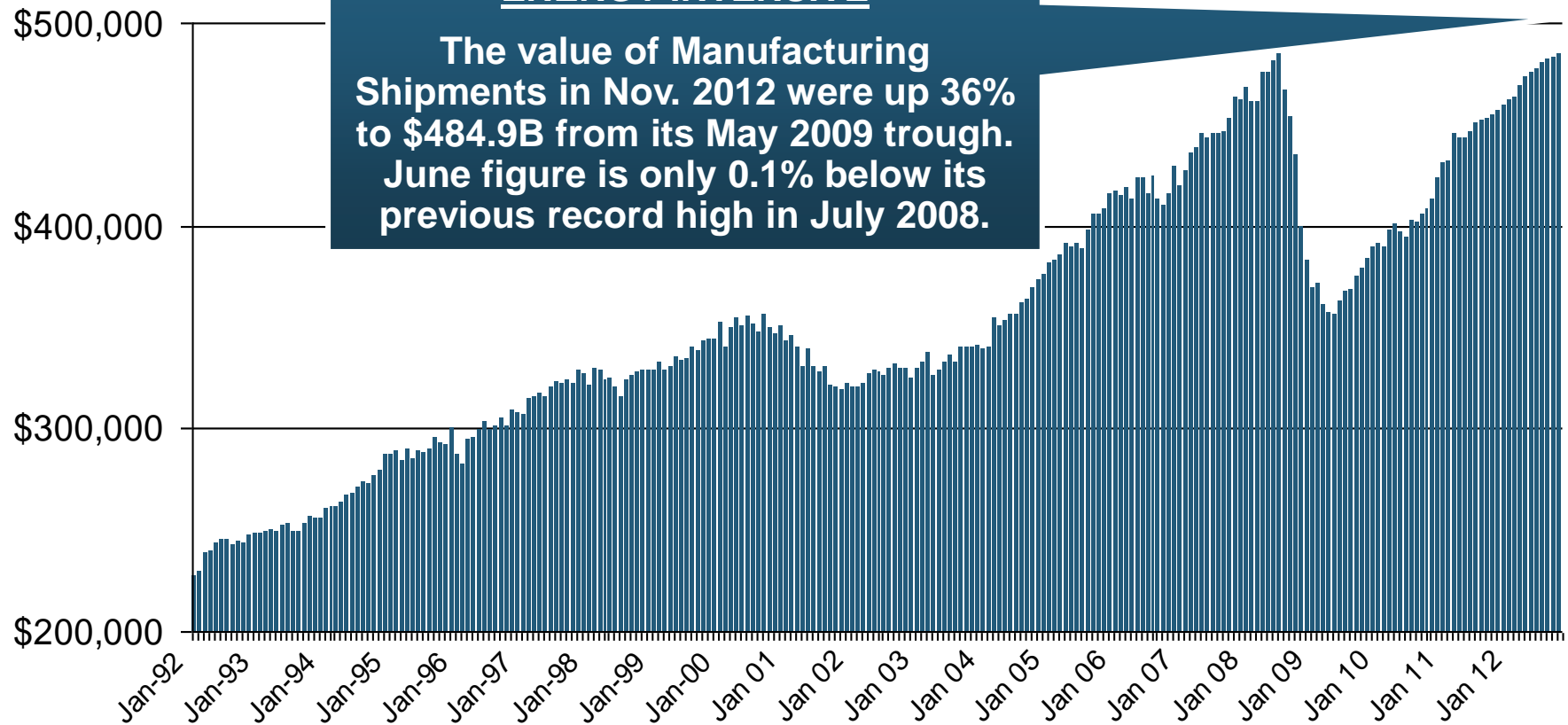
The manufacturing sector expanded for 33 of the 37 months from Jan. 2010 through Jan. 2013. The question is whether this will continue.

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

\$ Millions

ENERGY INTENSIVE

The value of Manufacturing Shipments in Nov. 2012 were up 36% to \$484.9B from its May 2009 trough. June figure is only 0.1% below its previous record high in July 2008.



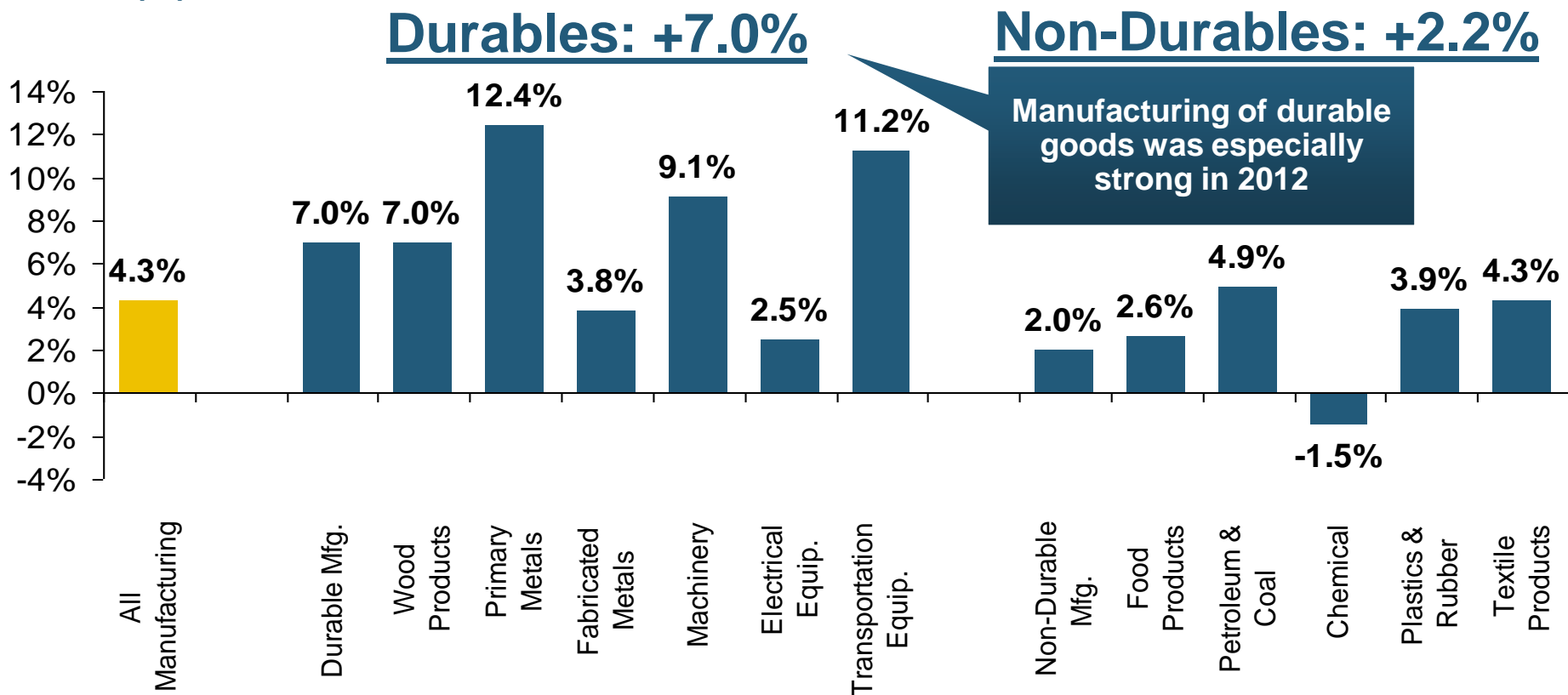
Monthly shipments are nearly back to peak (in July 2008, 8 months into the recession). Trough in May 2009. Growth from trough to Dec. 2012 was 36%. Manufacturing is an energy intensive activity and growth leads to gains in many commercial exposures: WC, Commercial Auto, Marine, Property and Various Liability Coverages

*seasonally adjusted

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

Manufacturing Growth for Selected Sectors, 2012 vs. 2011*

Growth (%)



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

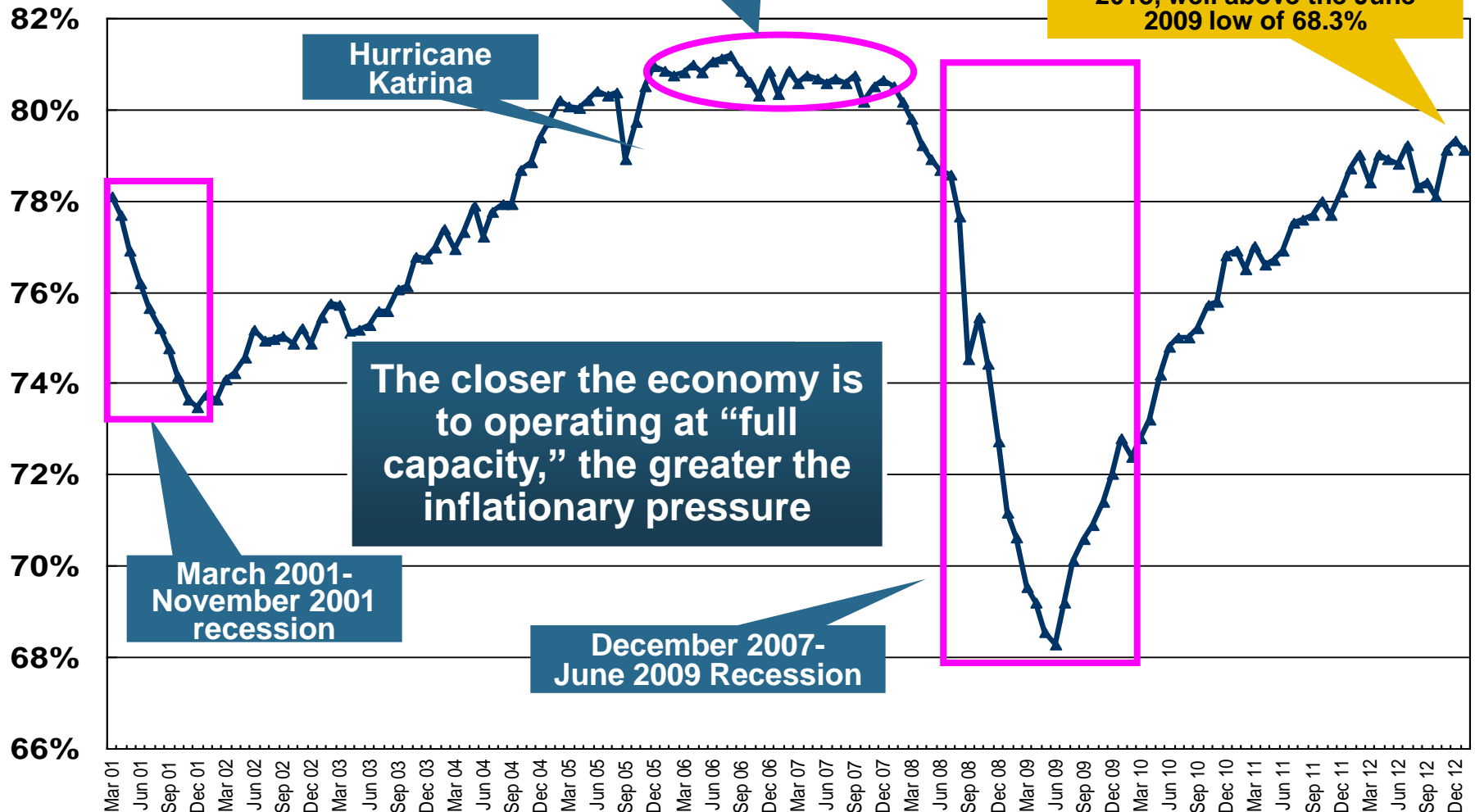
*Seasonally adjusted; Date are YTD comparing data through December 2012 to the same period in 2011.

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

Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures

March 2001 through January 2013

Percent of Industrial Capacity

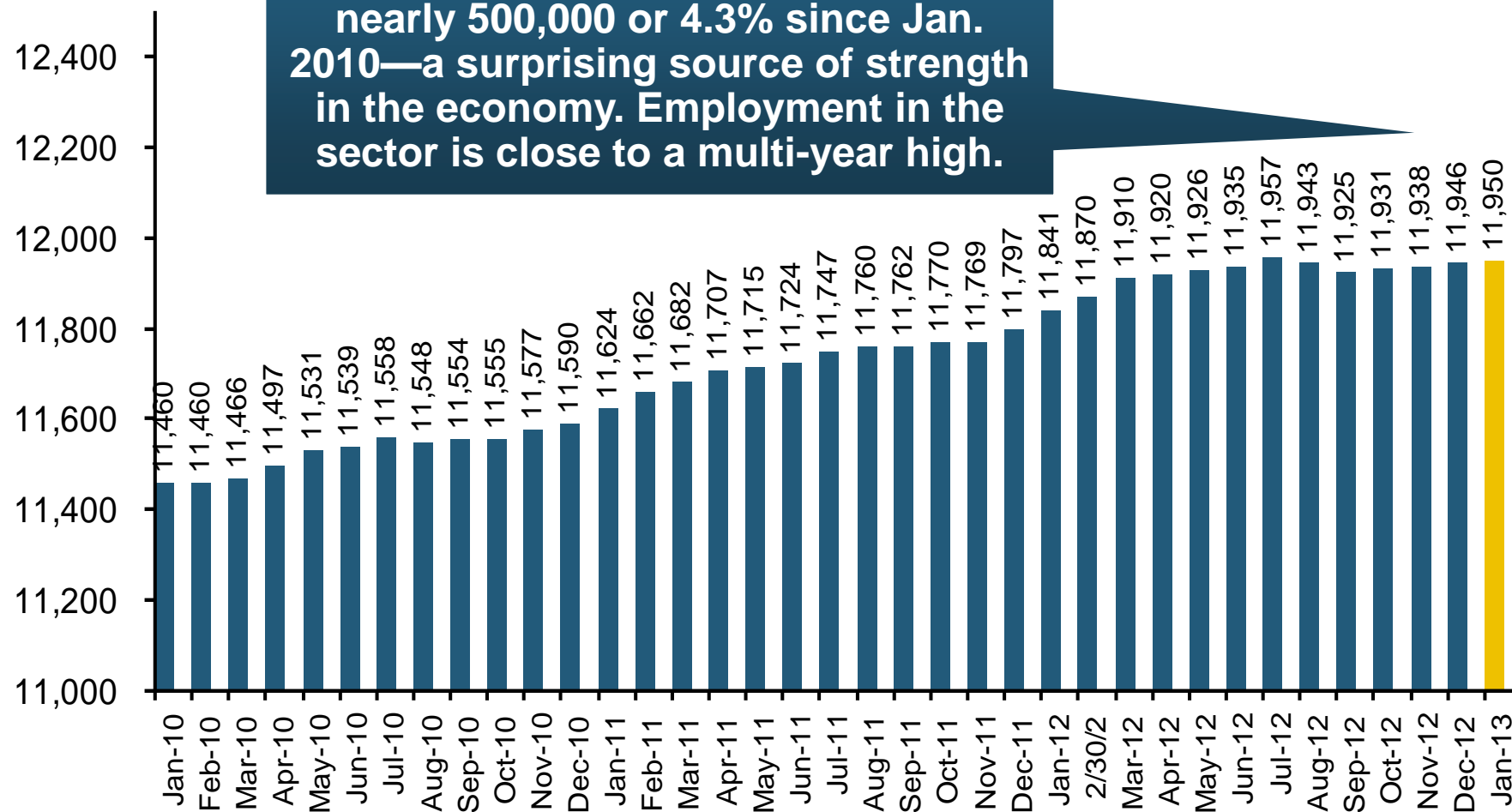


Source: Federal Reserve Board statistical releases at <http://www.federalreserve.gov/releases/g17/Current/default.htm>.

Manufacturing Employment, Jan. 2010—January 2013*

(Thousands)

Manufacturing employment is up by nearly 500,000 or 4.3% since Jan. 2010—a surprising source of strength in the economy. Employment in the sector is close to a multi-year high.

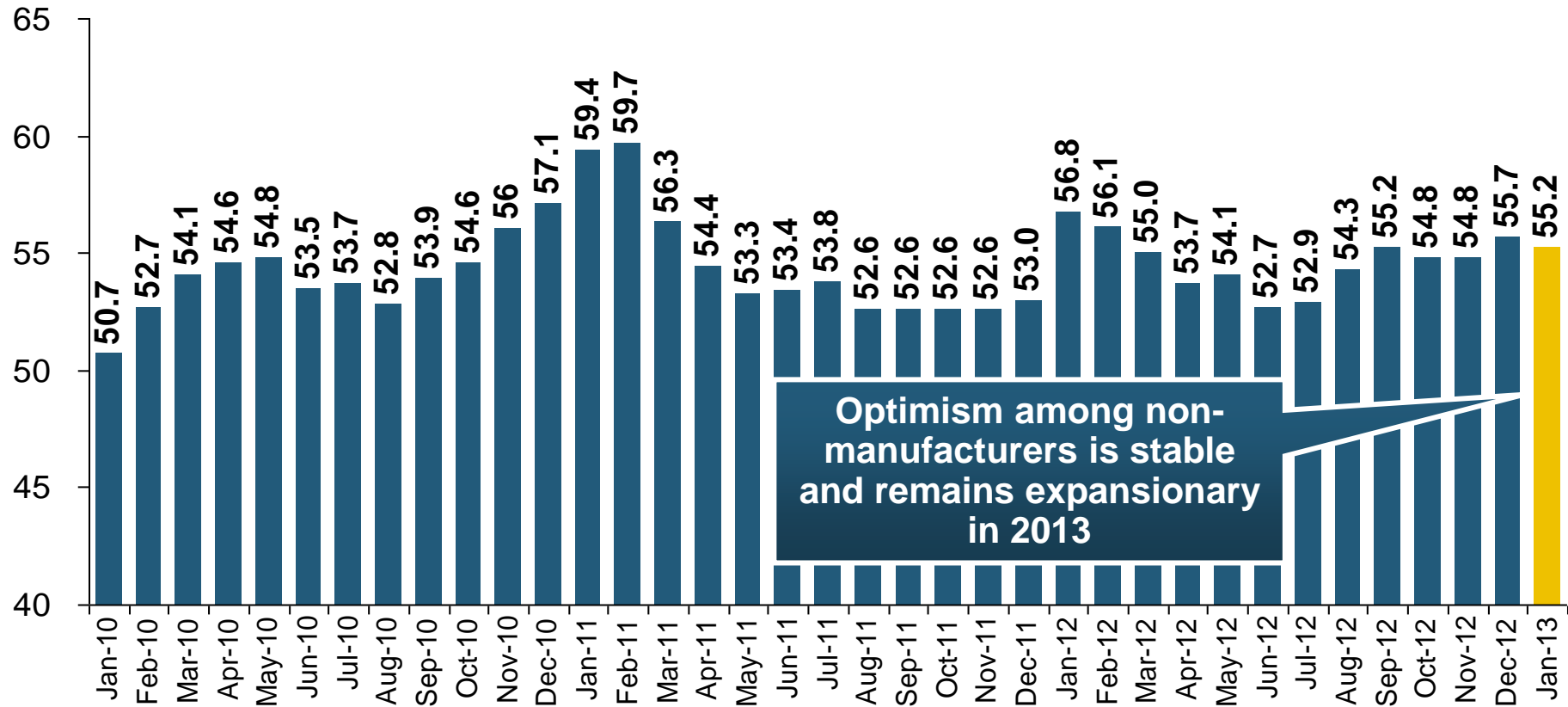


*Seasonally adjusted

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

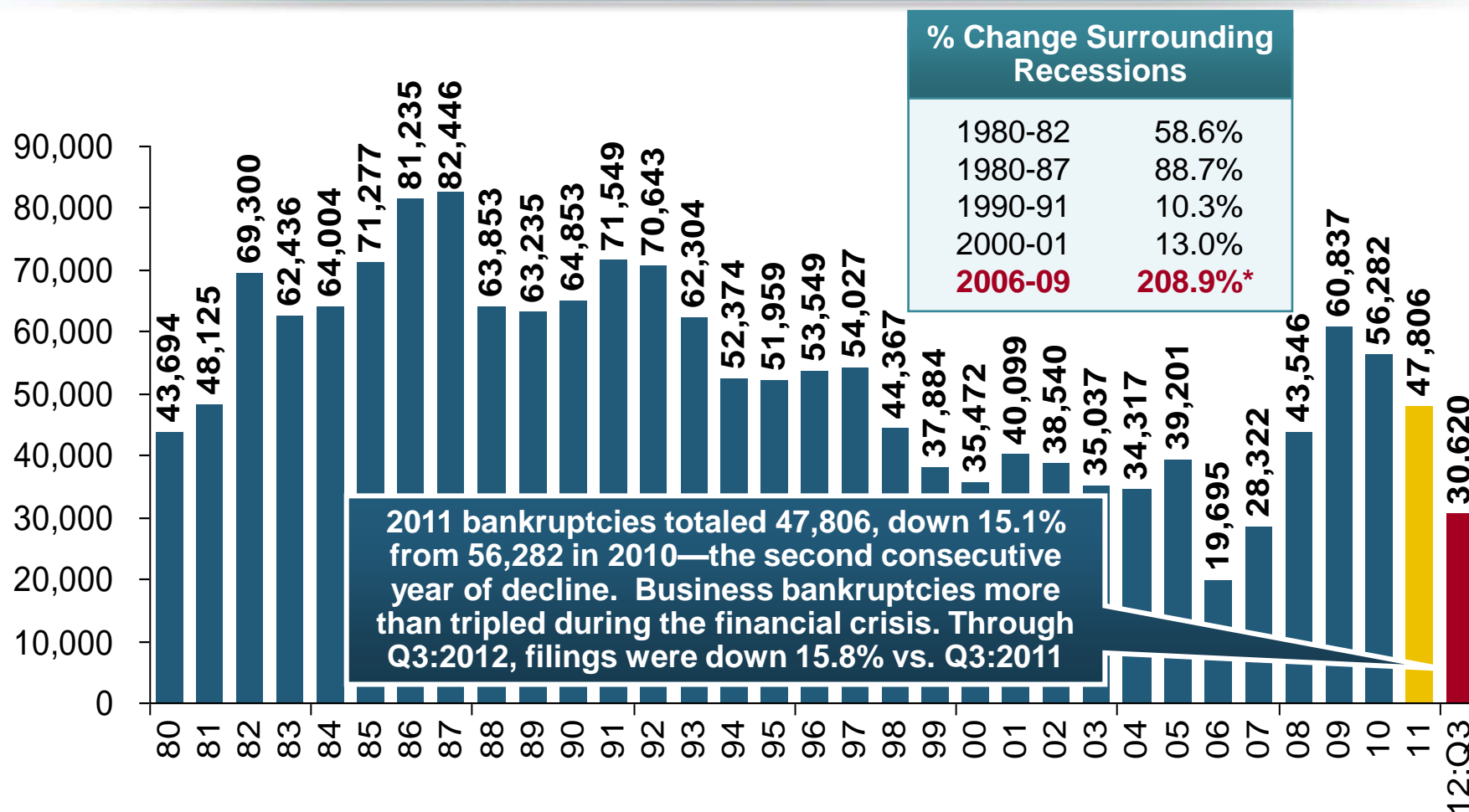
ISM Non-Manufacturing Index (Values > 50 Indicate Expansion)

January 2010 through January 2013



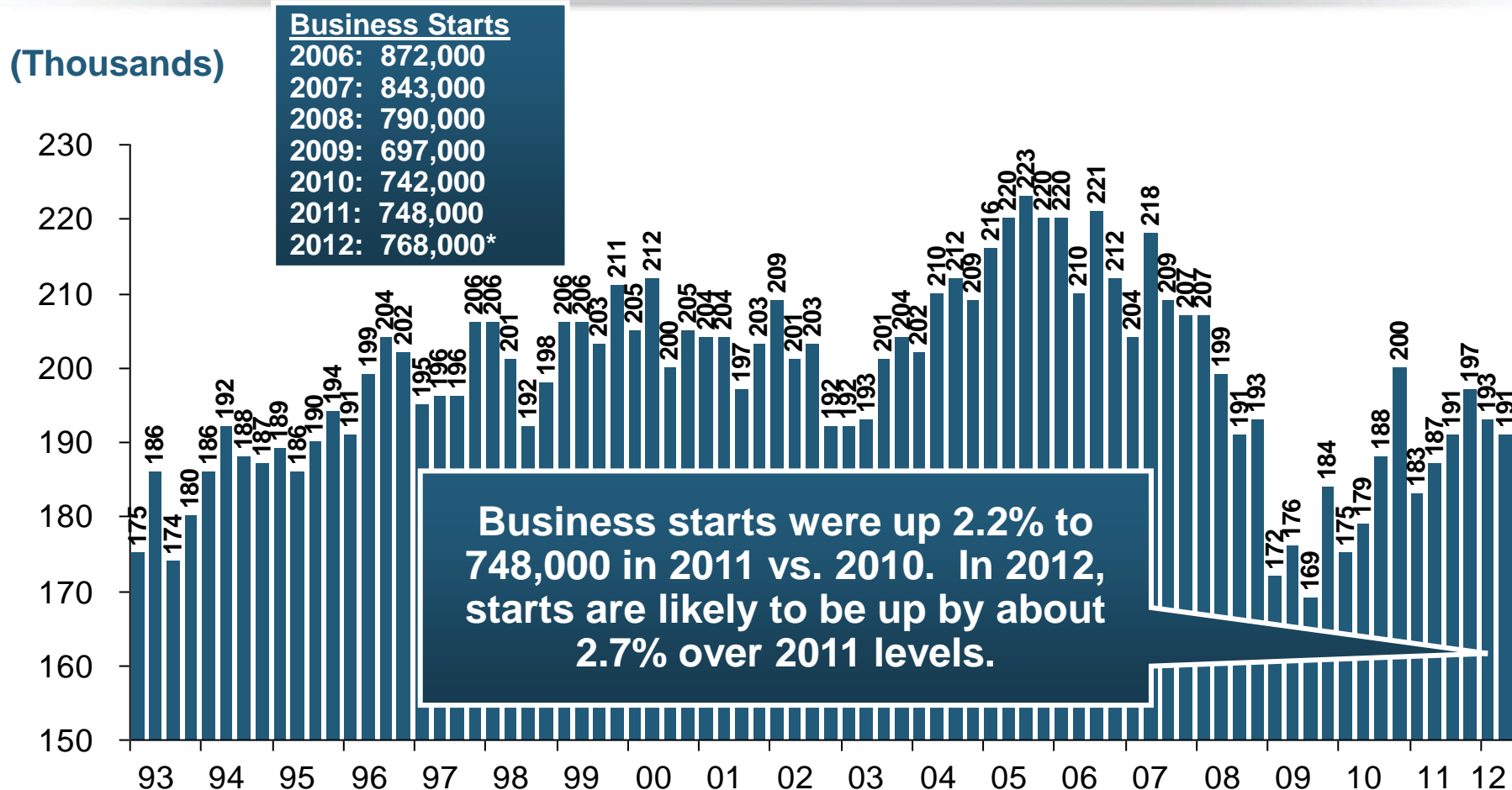
Non-manufacturing industries have been expanding and adding jobs. The question is whether this will continue.

Business Bankruptcy Filings, 1980-2012:Q3



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

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



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

* Annualized based on data through Jun. 30, 2012 (latest available as of Feb. 24, 2013); Seasonally adjusted.

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

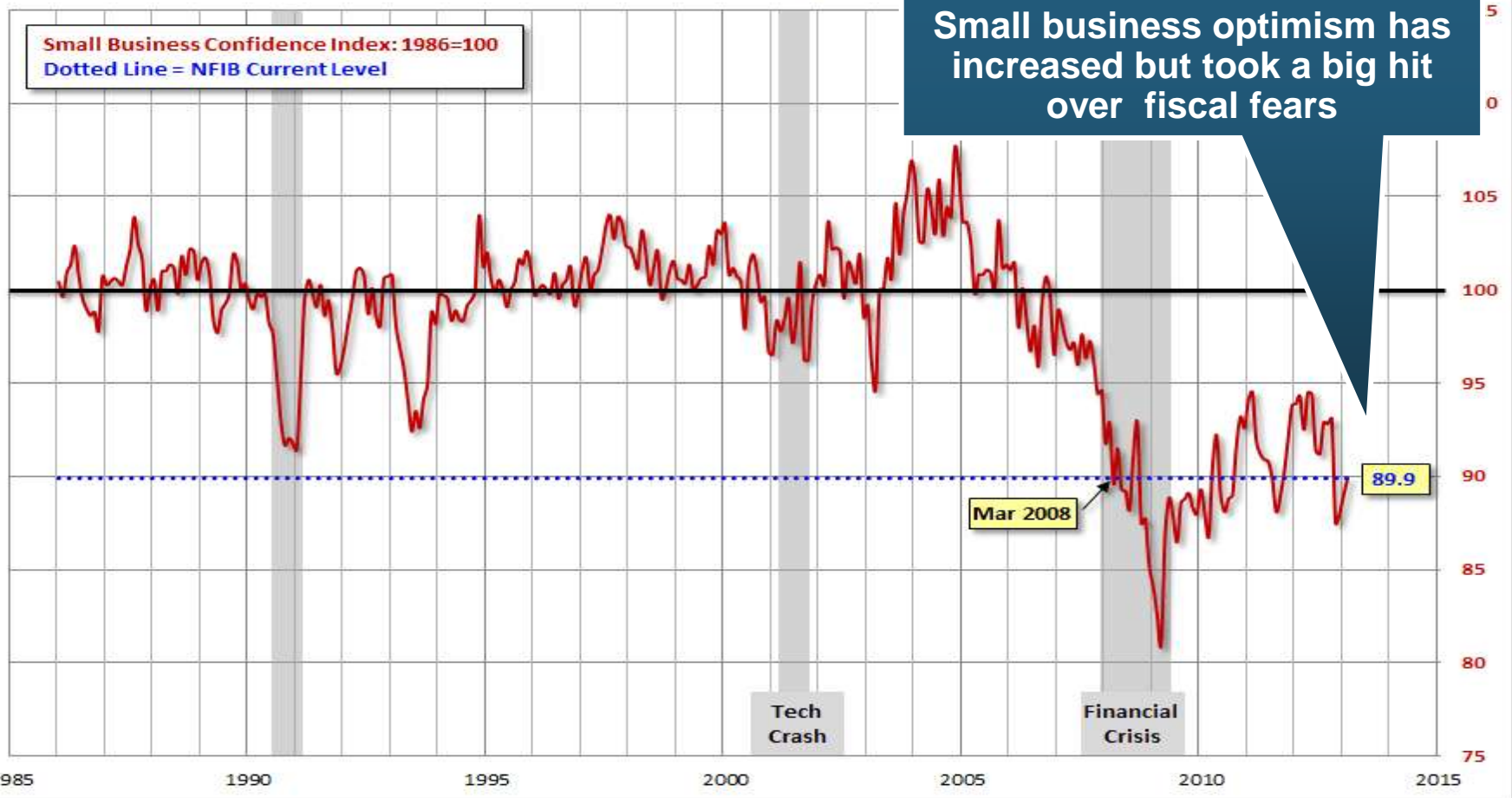
NFIB Small Business Optimism Index

January 1985 through January 2013

Data through
January 2013

NFIB Small Business Optimism Index with Recessions Highlighted

dshort.com
February 2013



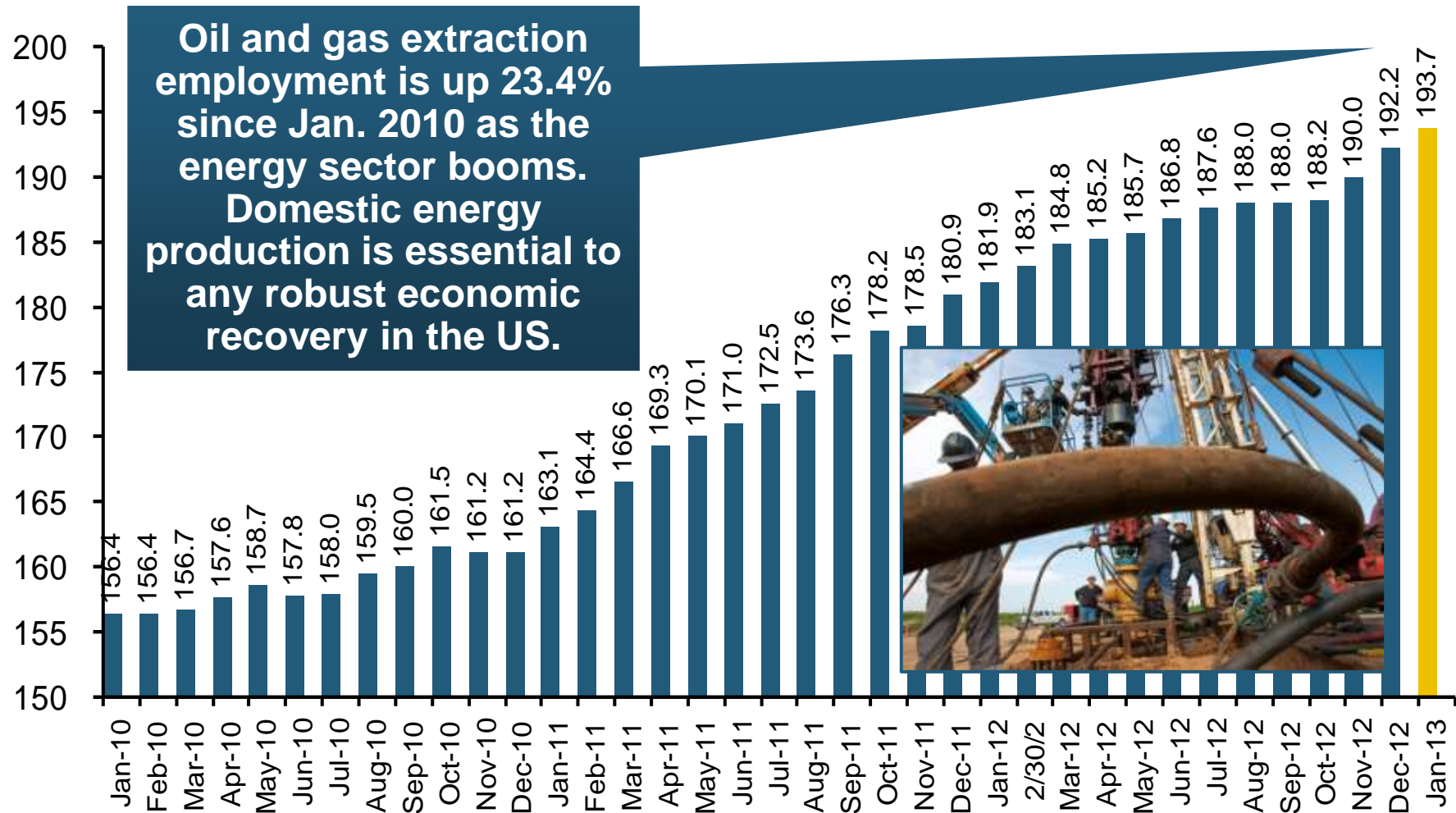
12 Industries for the Next 10 Years: Insurance Solutions Needed

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

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

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

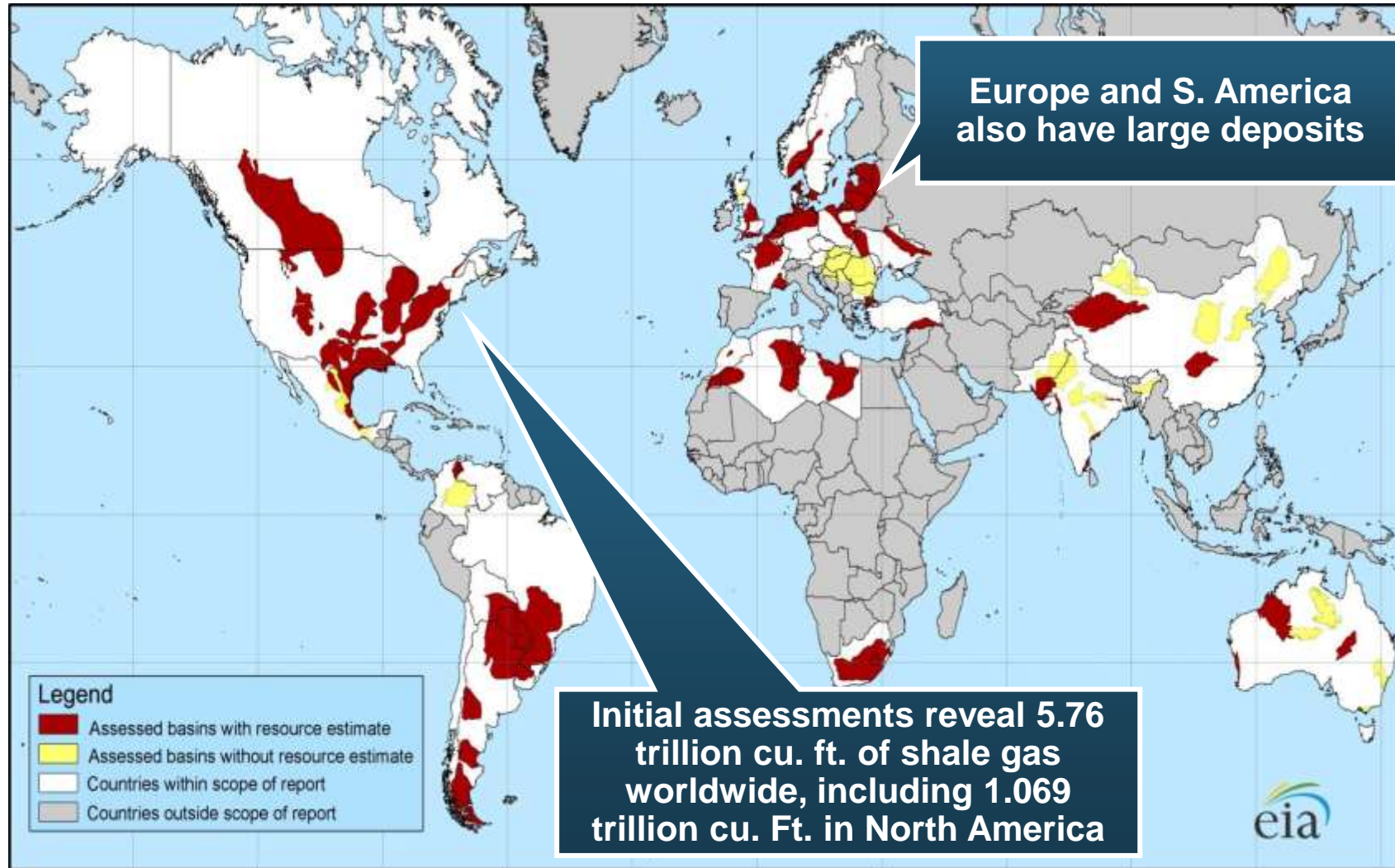
(Thousands)



*Seasonally adjusted

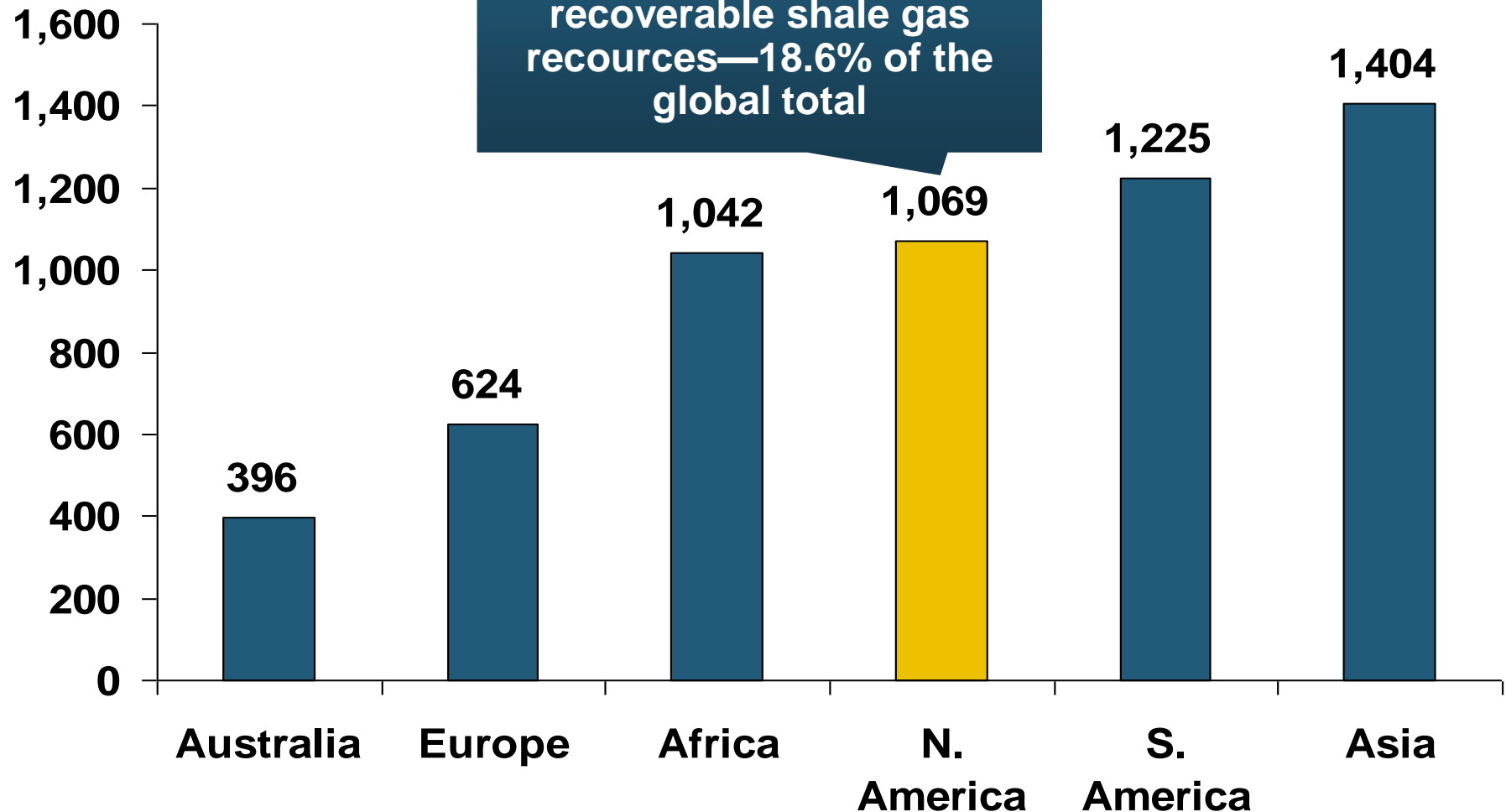
Sources: US Bureau of Labor Statistics at <http://data.bls.gov>; Insurance Information Institute.

Distribution of Major Shale Deposits: 5.76 Tr. Cu. Ft. in 48 Shale Basins in 32 Countries



Technically Recoverable Shale Gas Deposits, by Region

Trillion Cubic Ft.tts

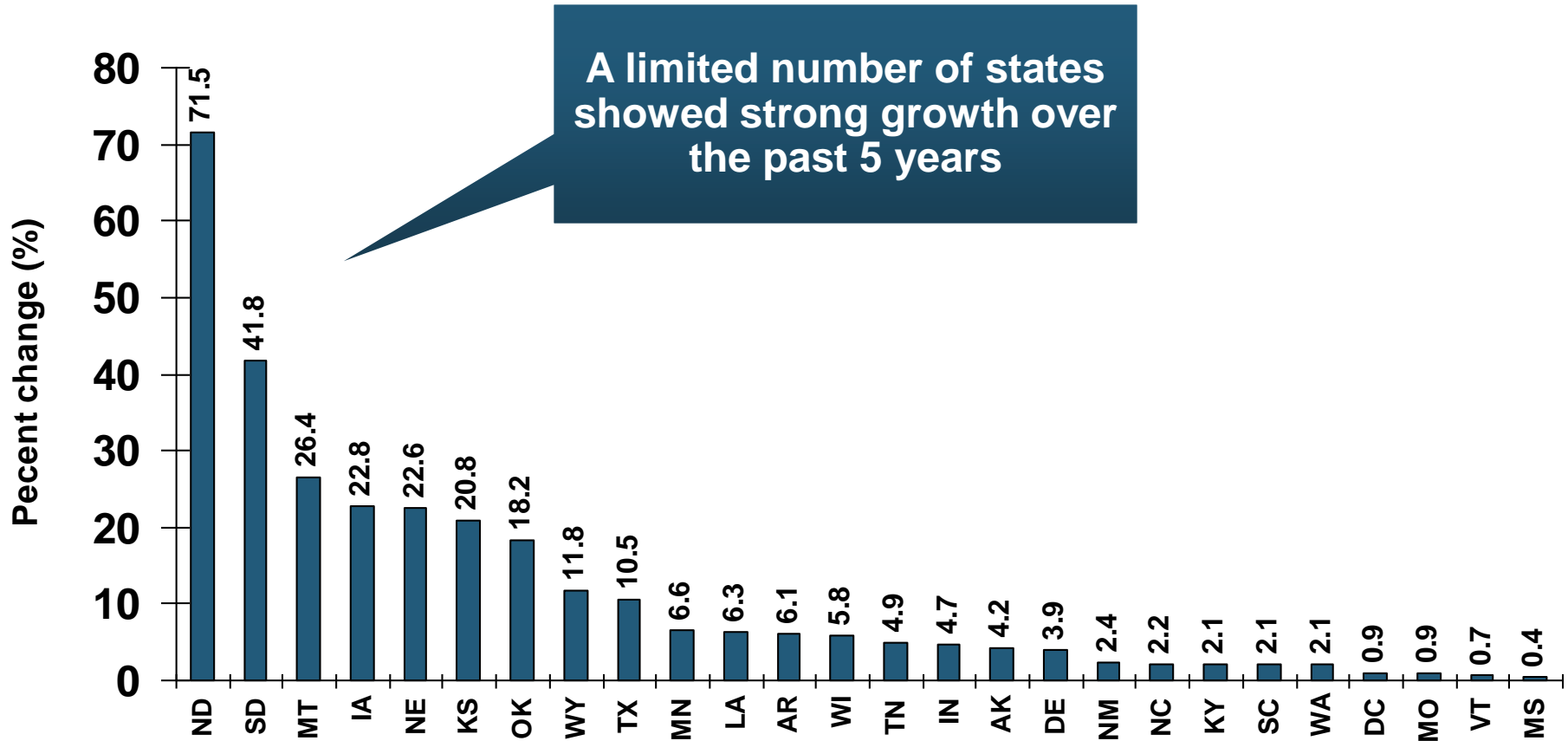


Growth Analysis by State and Business Segment

**Premium Growth Rates Vary
Tremendously by State**

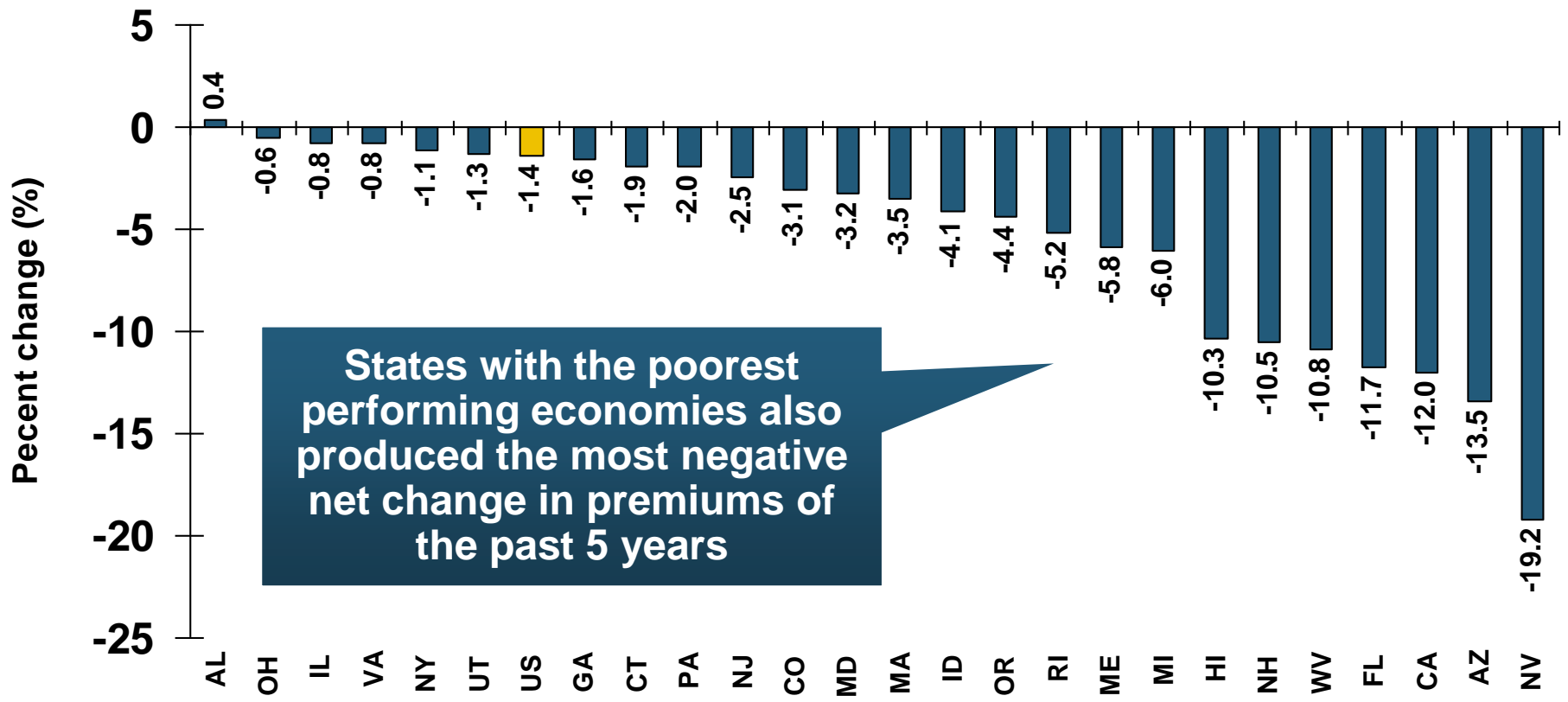
Direct Premiums Written: Total P/C Percent Change by State, 2006-2011*

Top 25 States



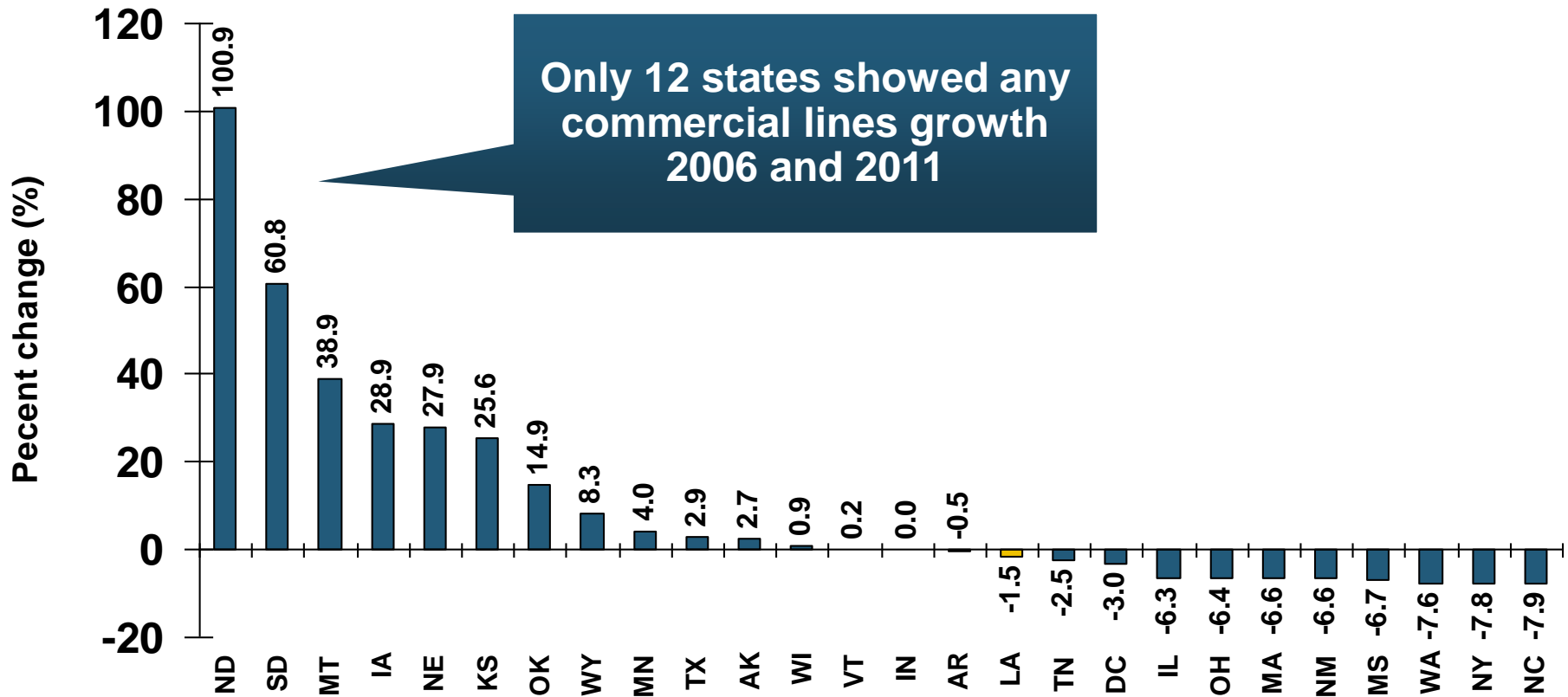
Direct Premiums Written: Total P/C Percent Change by State, 2006-2011*

Bottom 25 States



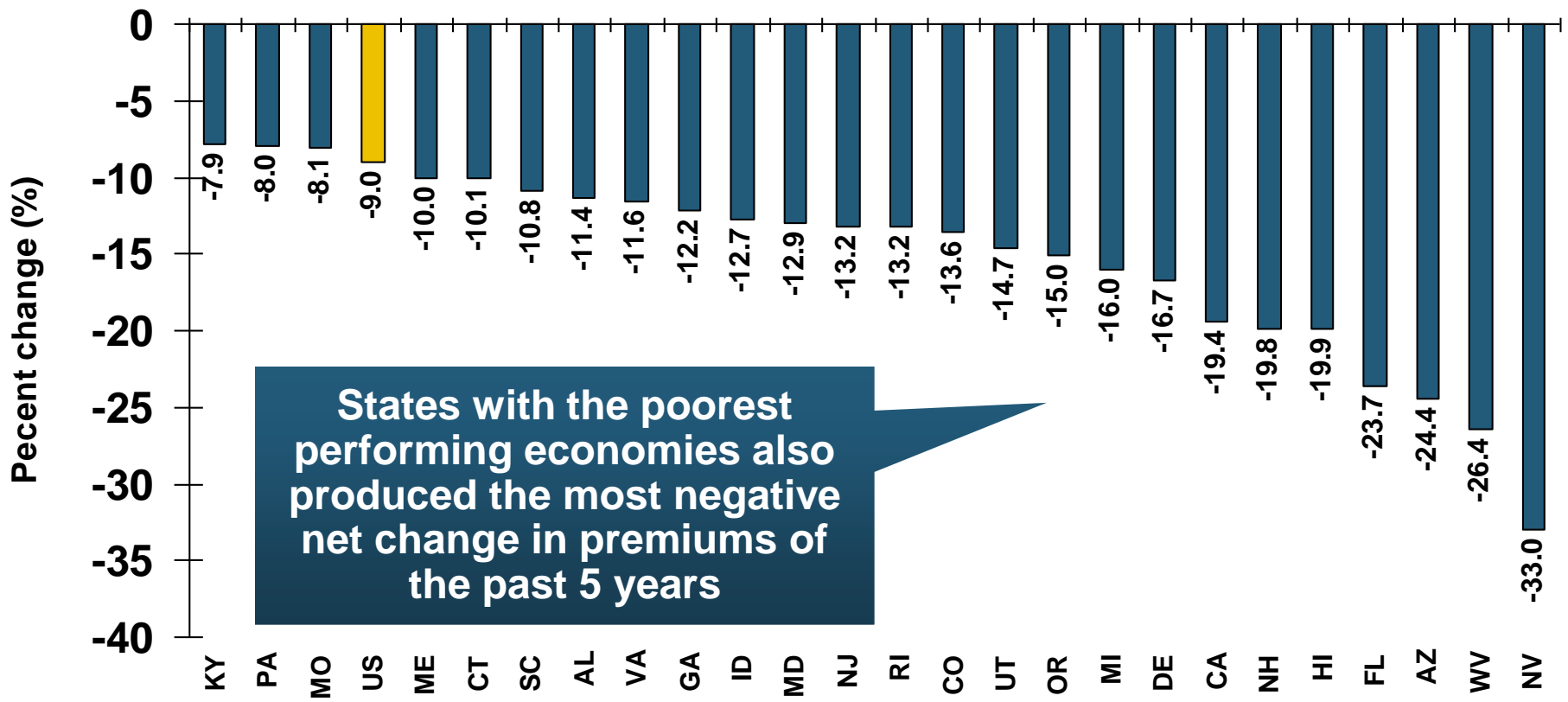
Direct Premiums Written: Comm. Lines Percent Change by State, 2006-2011*

Top 25 States



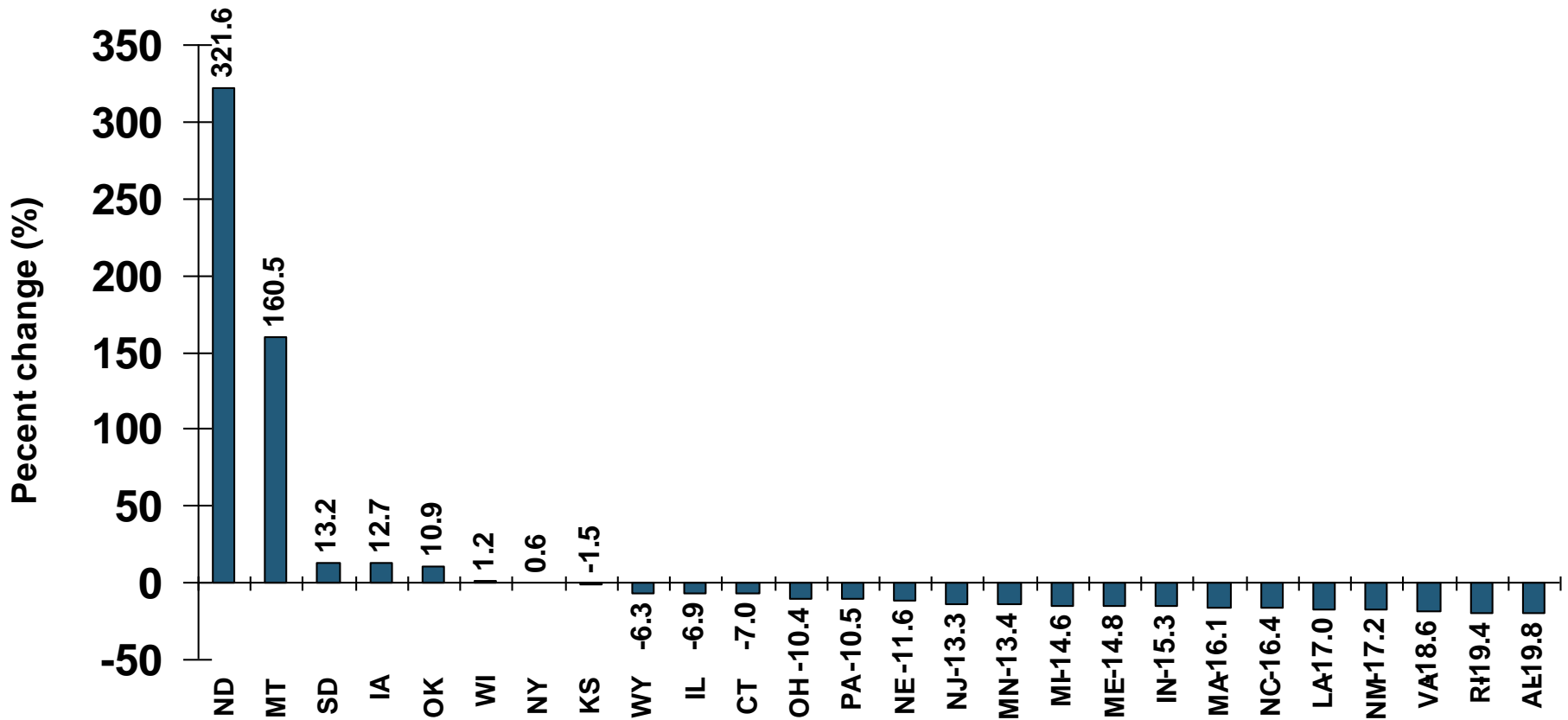
Direct Premiums Written: Comm. Lines Percent Change by State, 2006-2011*

Bottom 25 States



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

Top 25 States

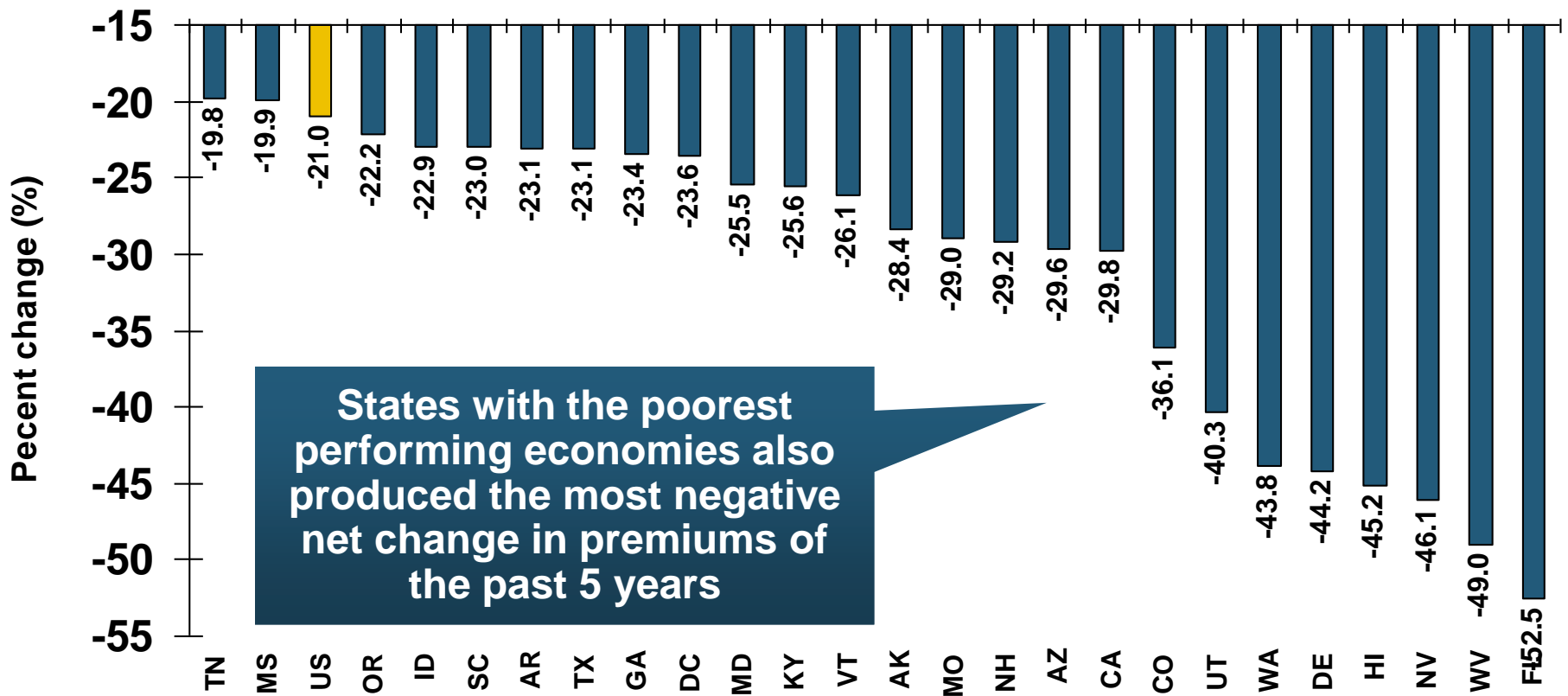


*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

Sources: SNL Financial LC.; Insurance Information Institute.

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

Bottom 25 States



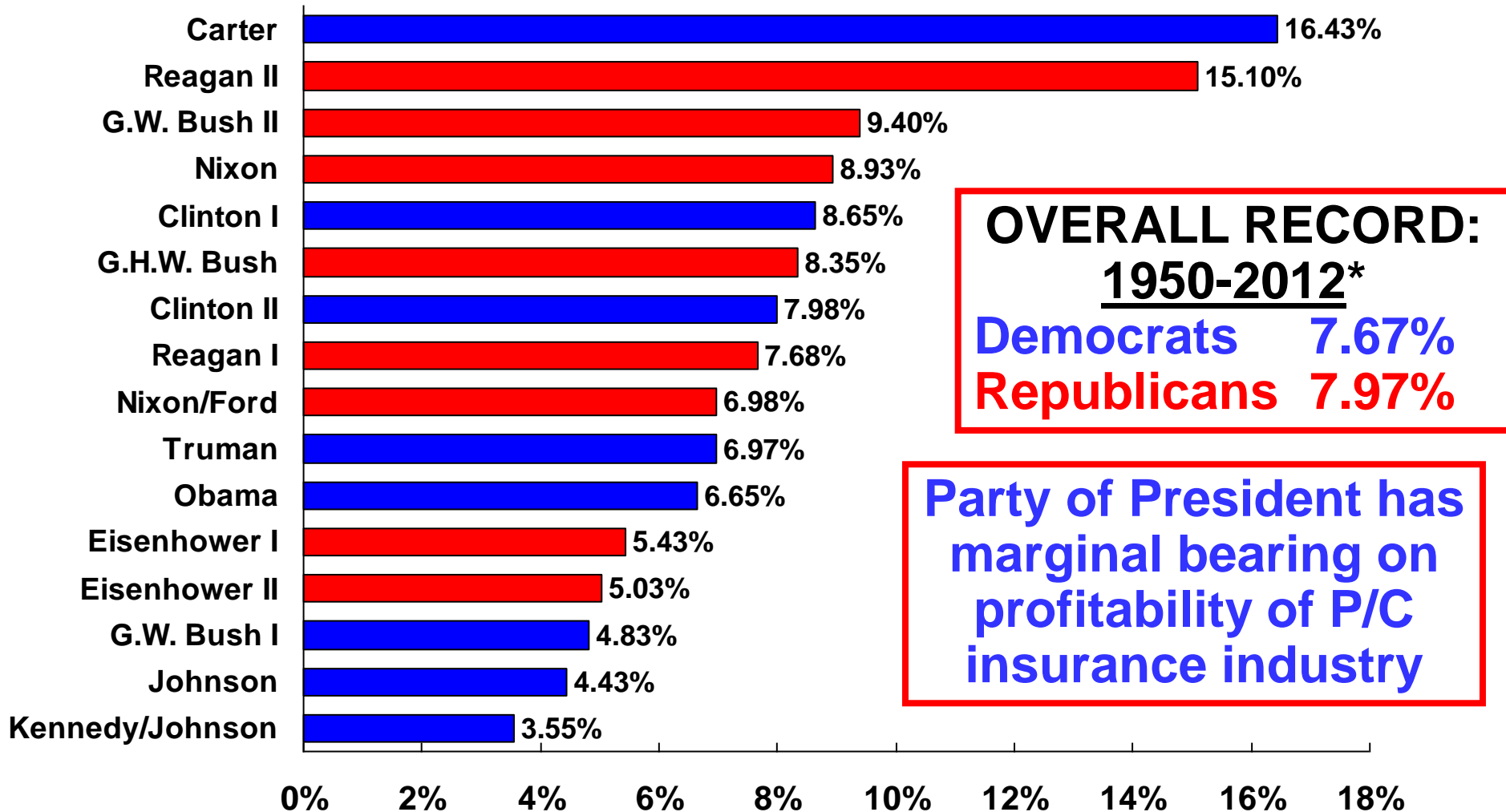
*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

Sources: SNL Financial LC.; Insurance Information Institute.

Presidential Politics & the P/C Insurance Industry

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

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



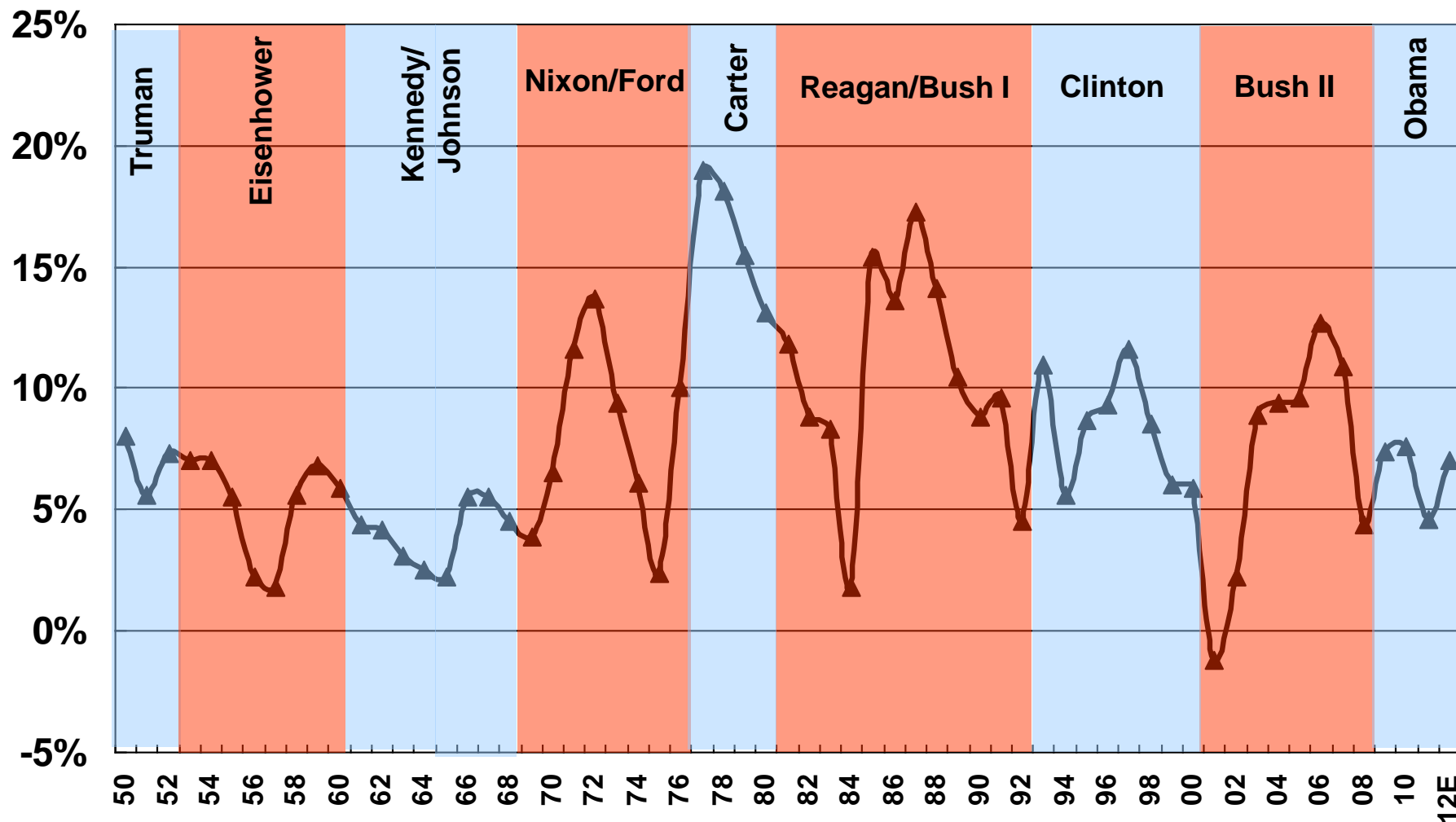
*Truman administration ROE of 6.97% based on 3 years only, 1950-52; ROEs for the years 2008 forward exclude mortgage and financial guaranty segments. Estimated ROE for 2012 = 7.0%.

Source: Insurance Information Institute

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

BLUE = Democratic President

RED = Republican President



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

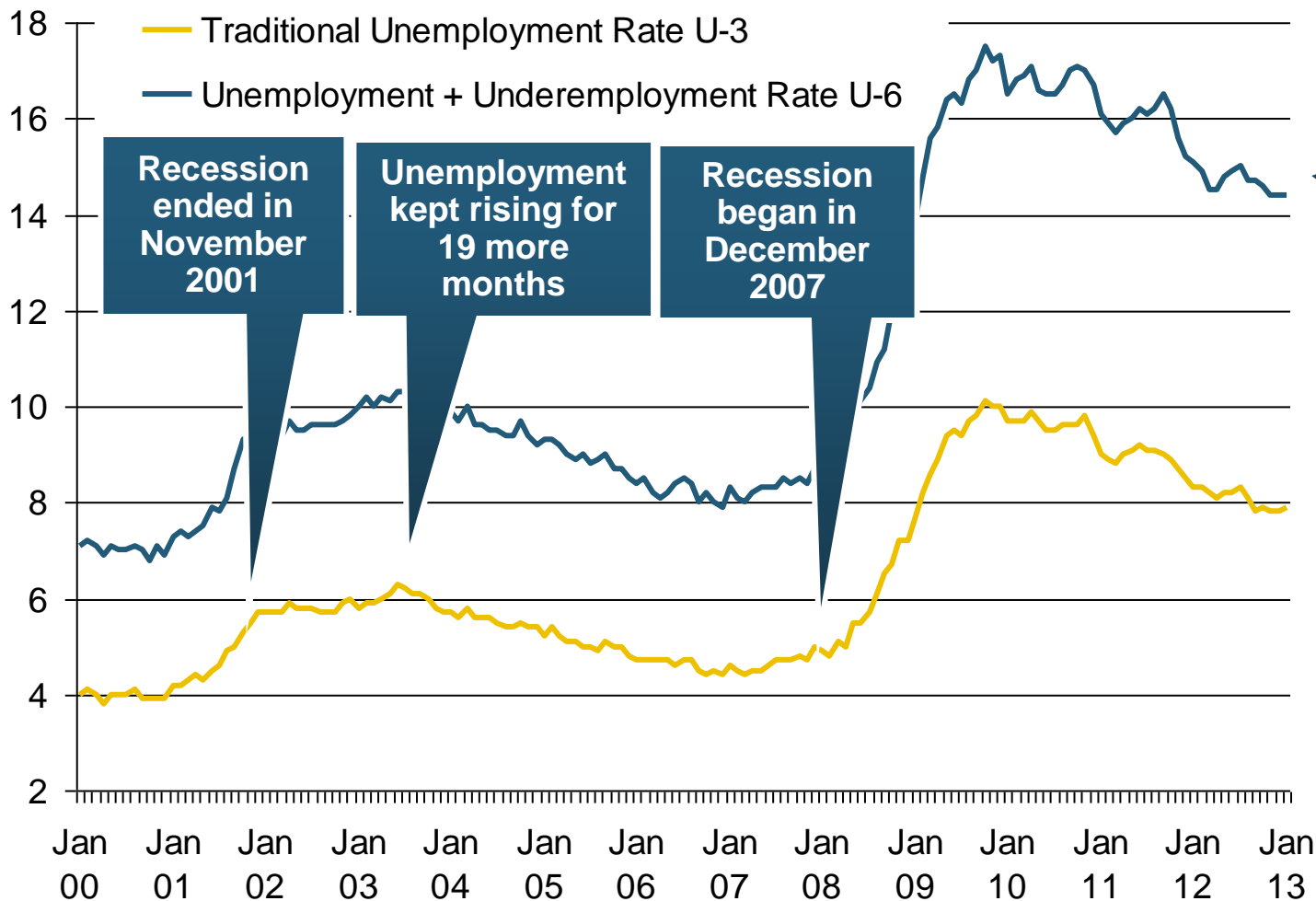
Source: Insurance Information Institute

Labor Market Trends

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

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

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



U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 14.4% in Jan. 2013

Unemployment stood at 7.9% in Jan. 2013—lowest in 4 years.

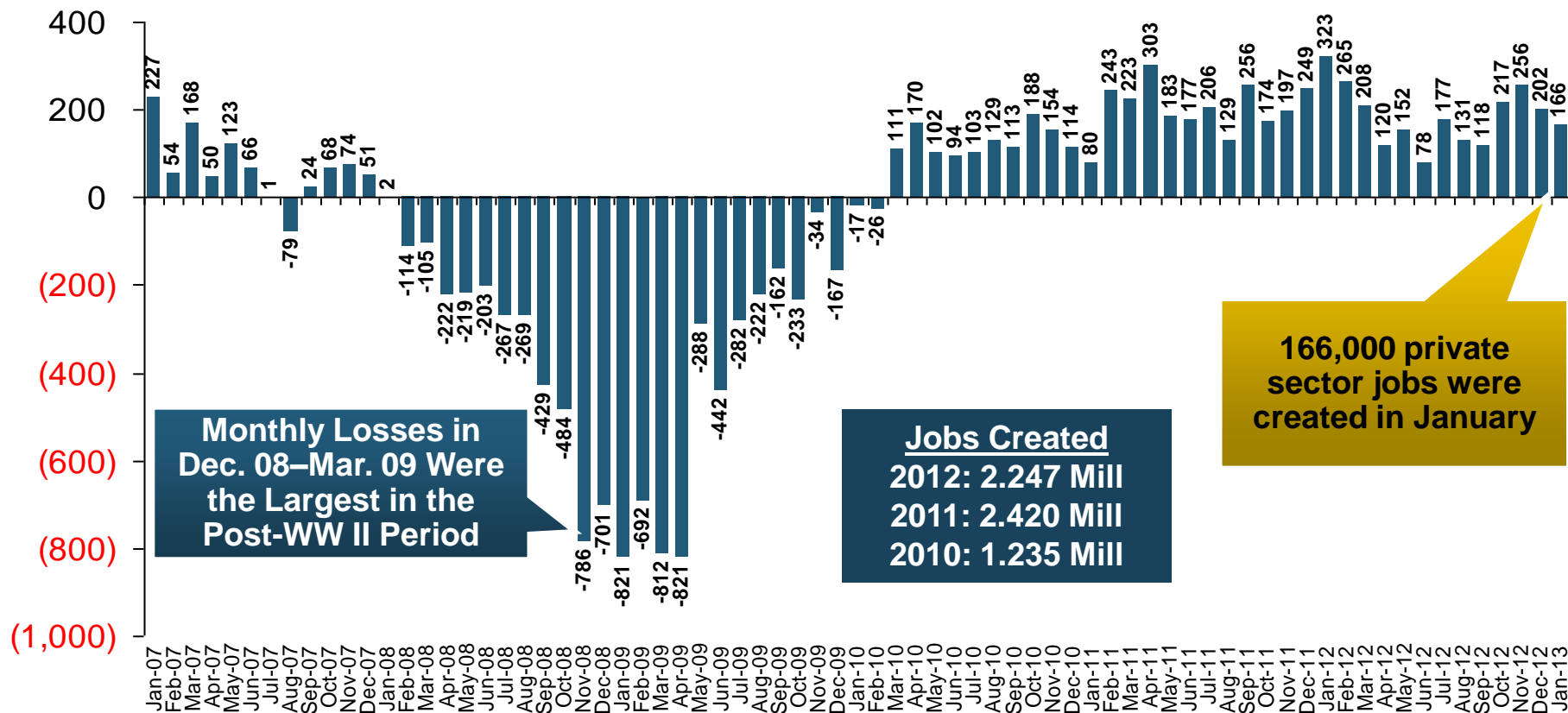
Unemployment peaked at 10.1% in October 2009, highest monthly rate since 1983.

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

Monthly Change in Private Employment

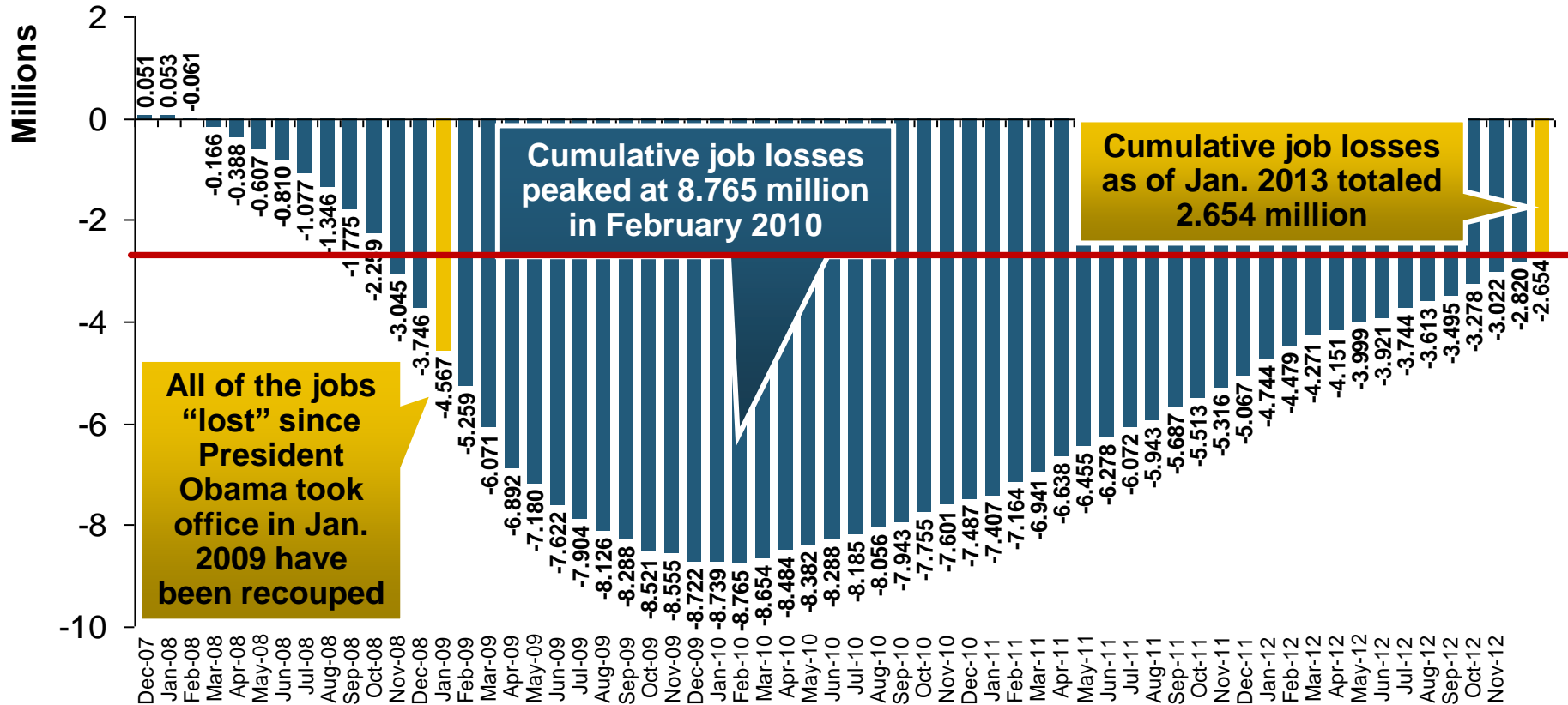
January 2008 through Jan. 2013 (Thousands)



Private Employers Added 6.07million 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—Jan. 2013

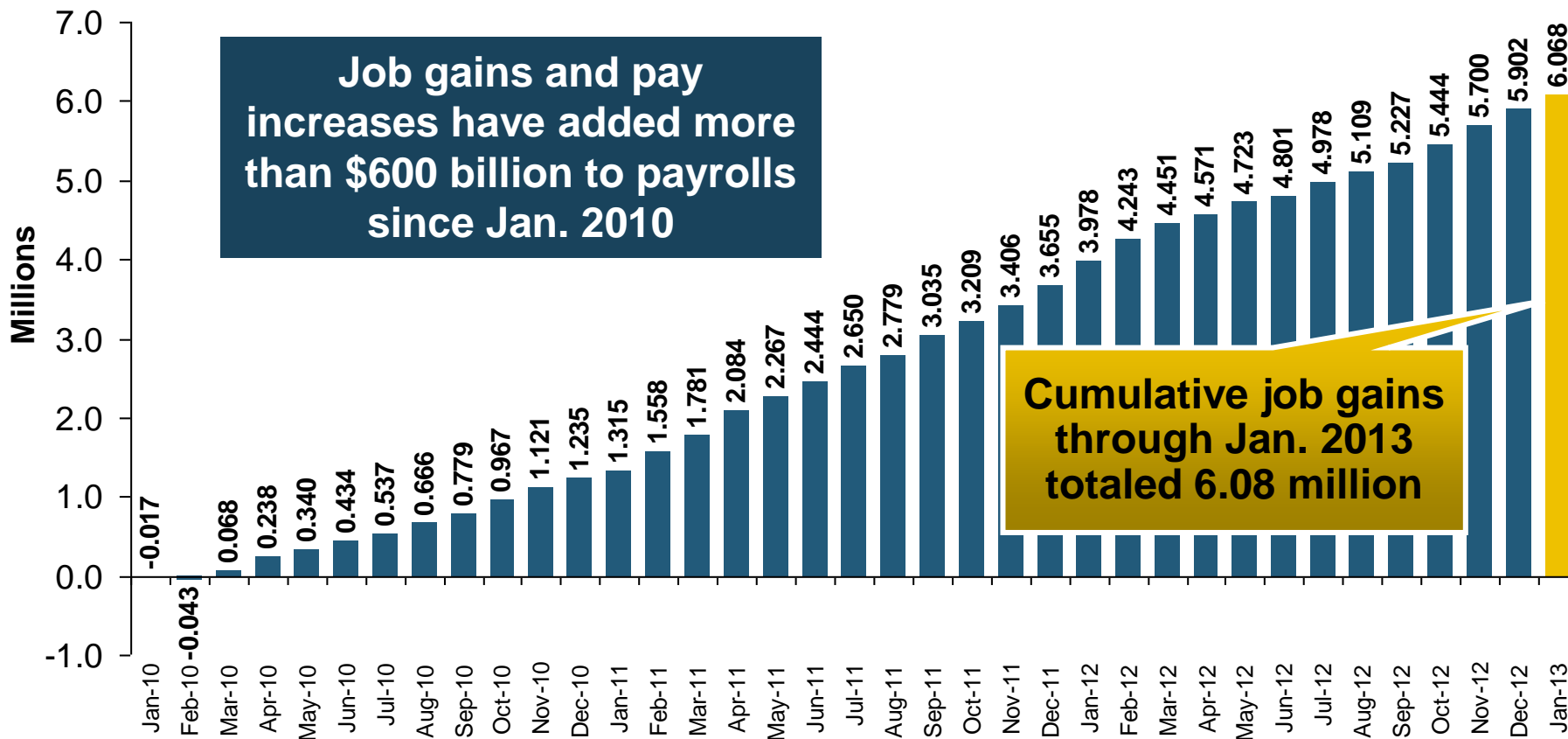
December 2007 through January 2013 (Millions)



Private Employers Added 6.07million 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—Jan. 2013

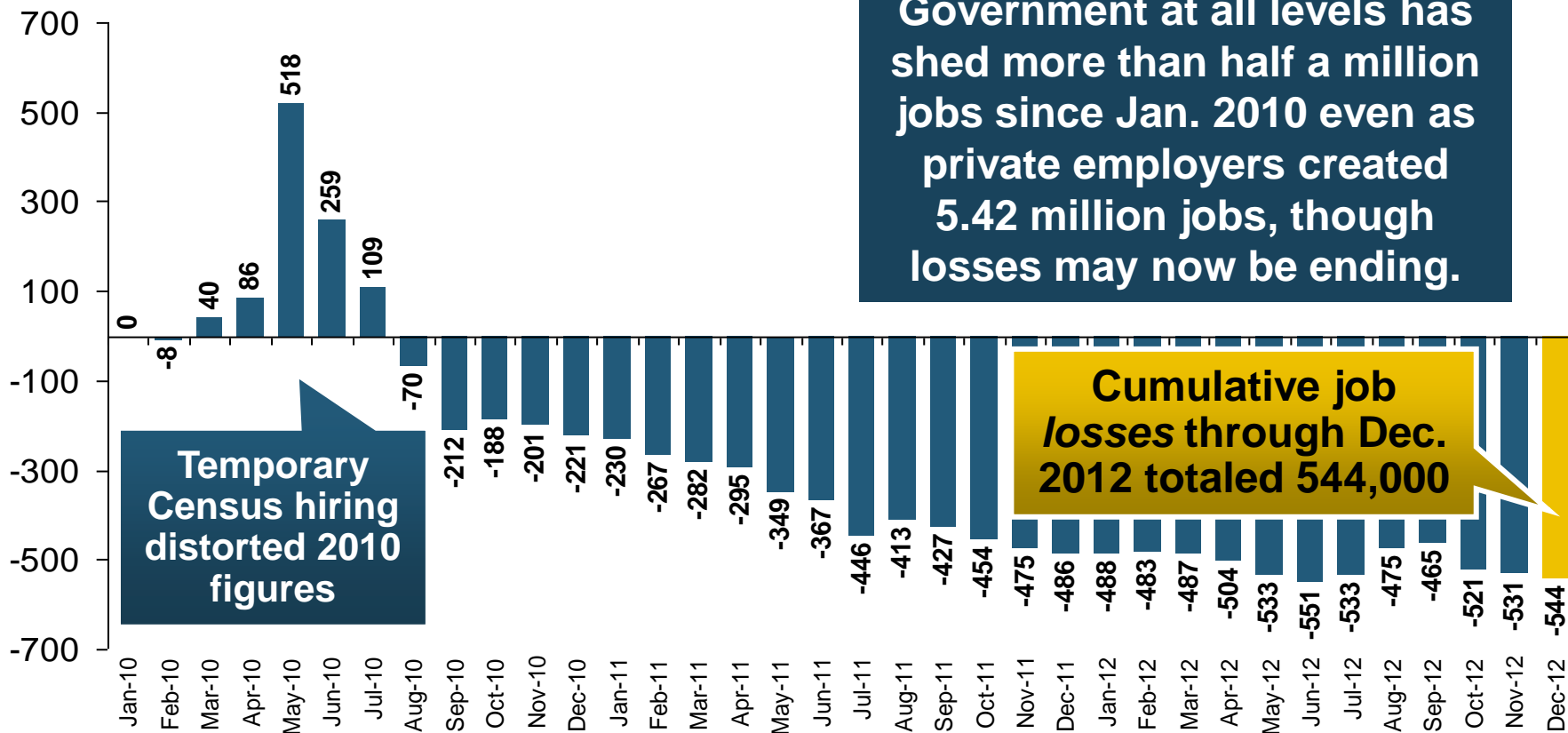
January 2010 through January 2013* (Millions)



Private Employers Added 6.07million 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—Dec. 2012

January 2010 through Dec. 2012* (Millions)

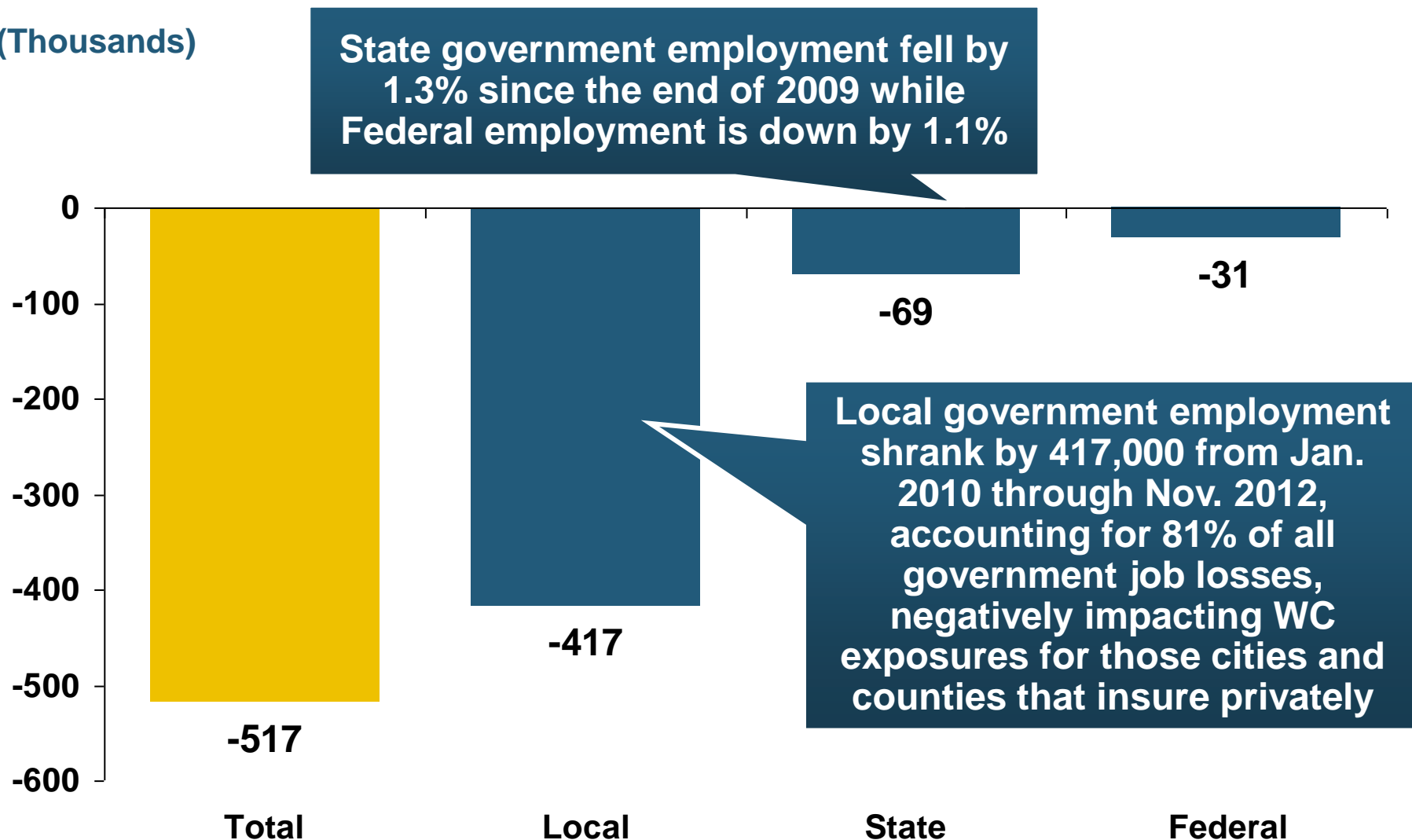


Government at all levels has shed more than half a million jobs since Jan. 2010 even as private employers created 5.42 million jobs, though losses may now be ending.

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

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

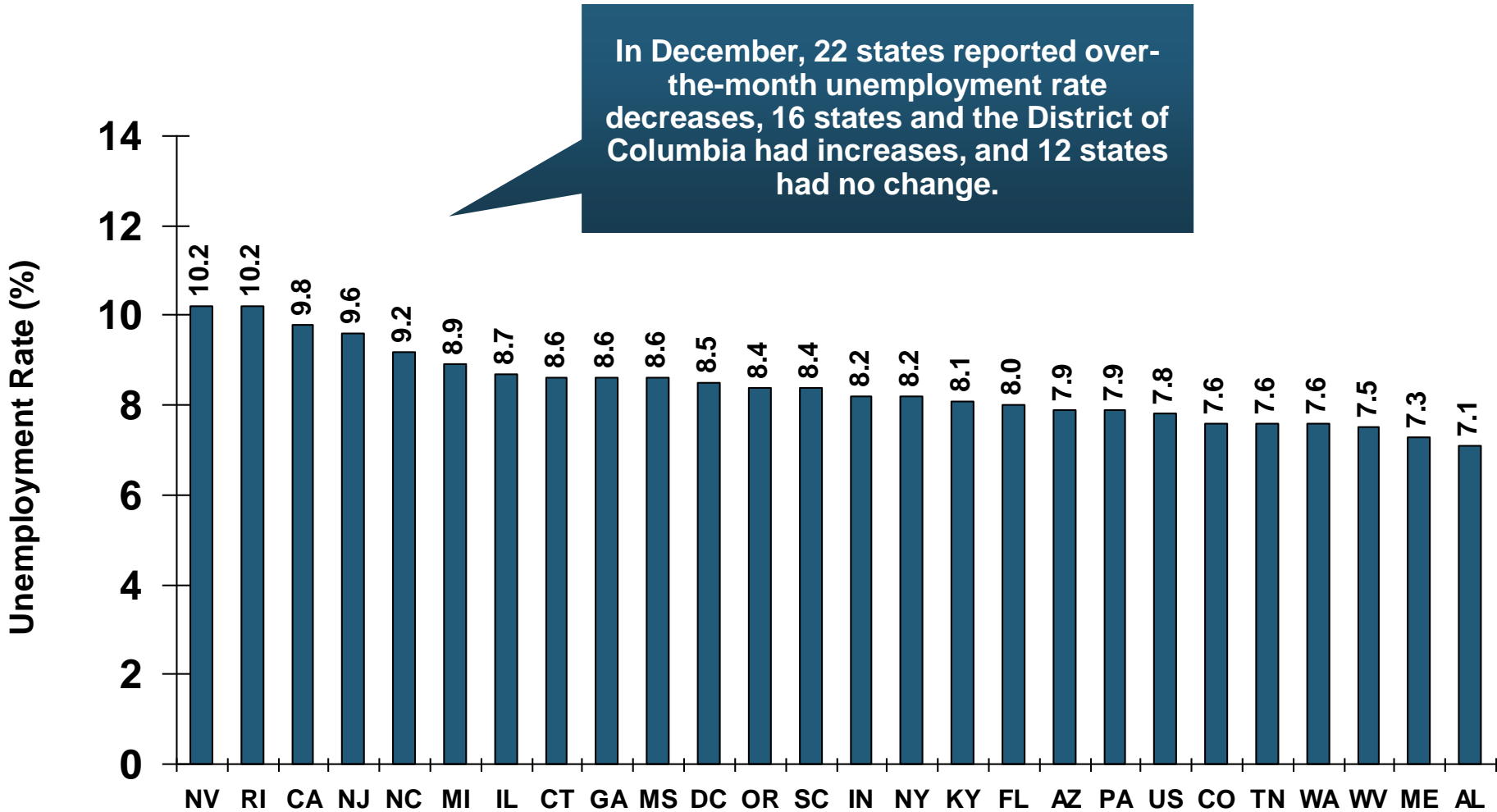
(Thousands)



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

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

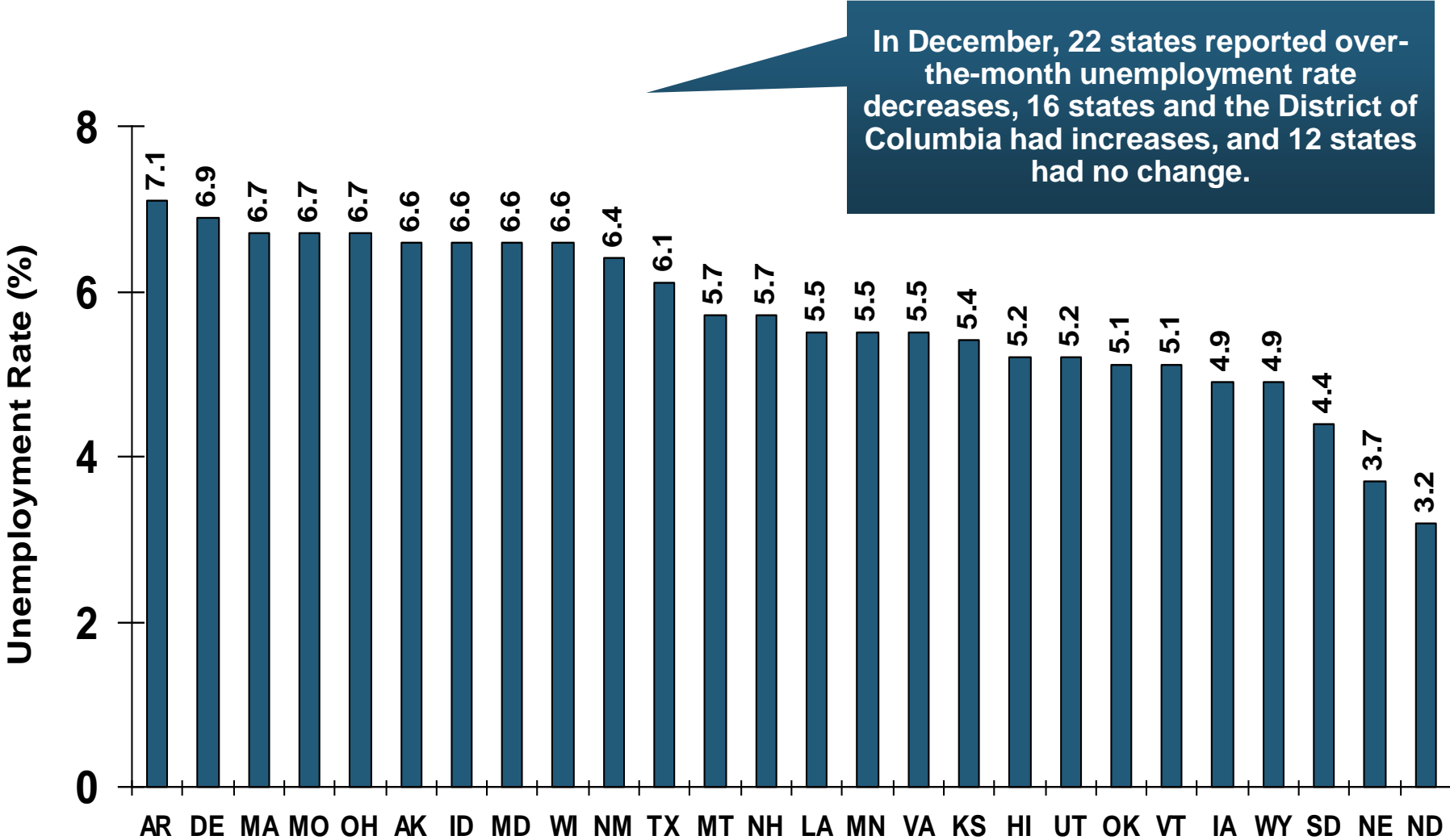
Unemployment Rates by State, December 2012: Highest 25 States*



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

Unemployment Rates by State, December 2012:

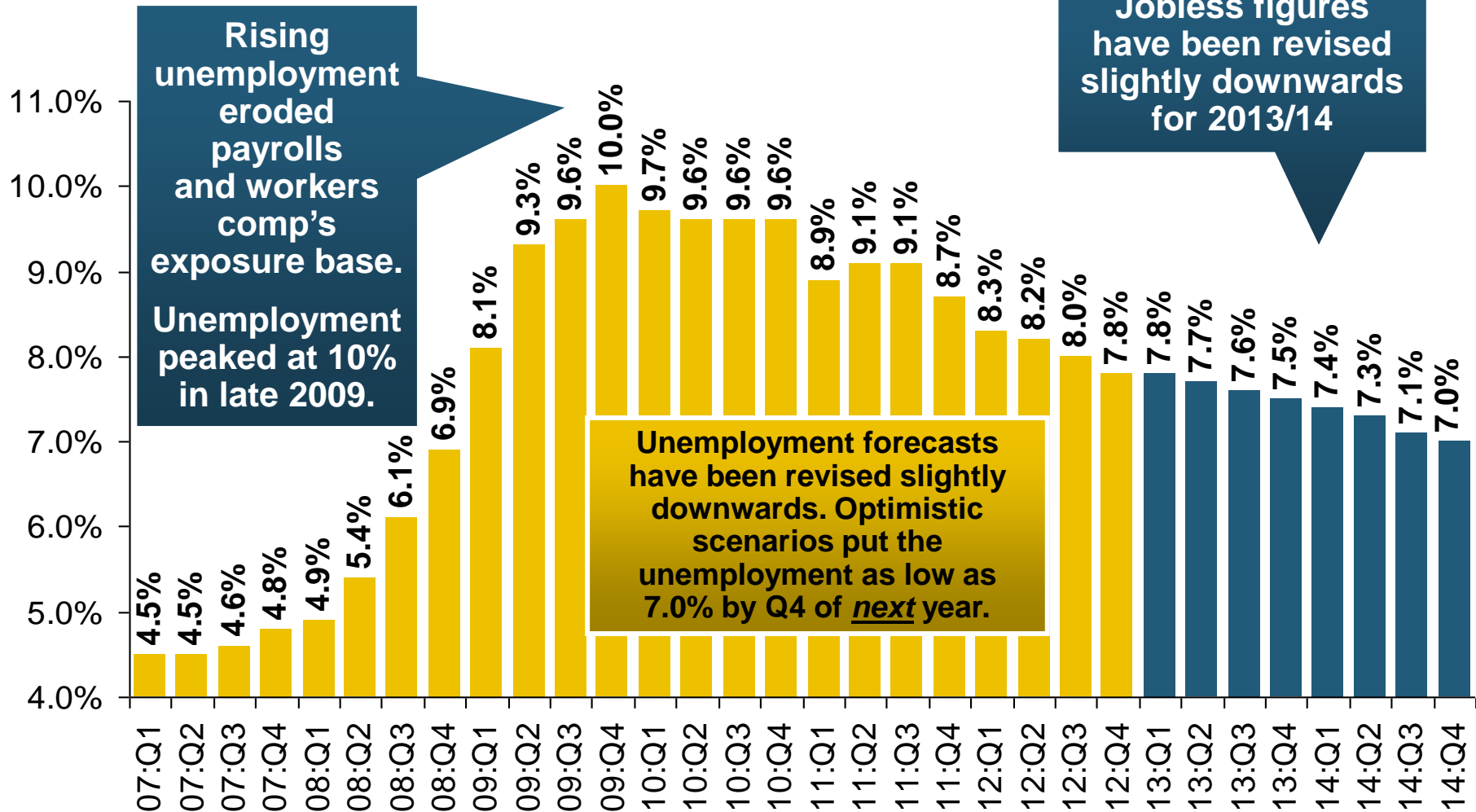
Lowest 25 States*



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

US Unemployment Rate Forecast

2007:Q1 to 2014:Q4F*

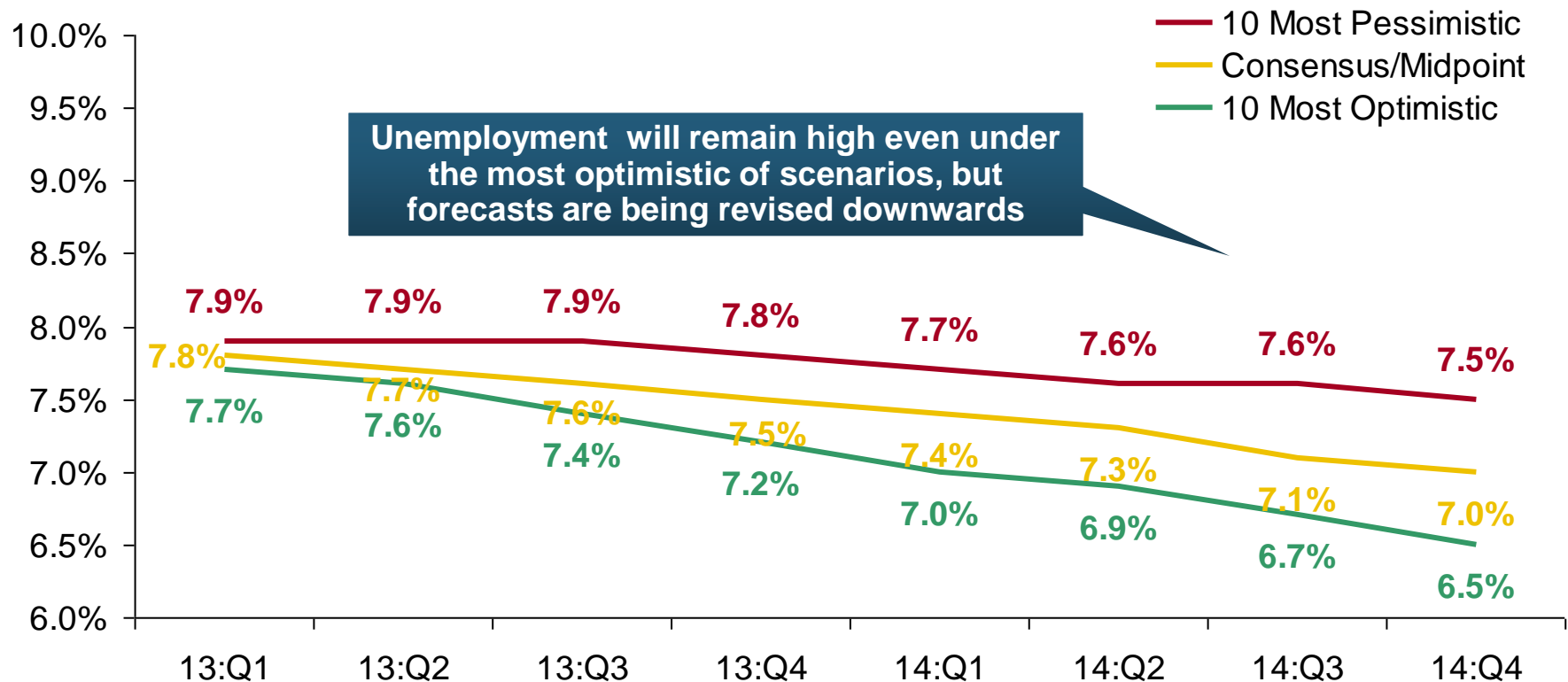


* ■ = actual; ■ = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (2/13 edition); Insurance Information Institute.

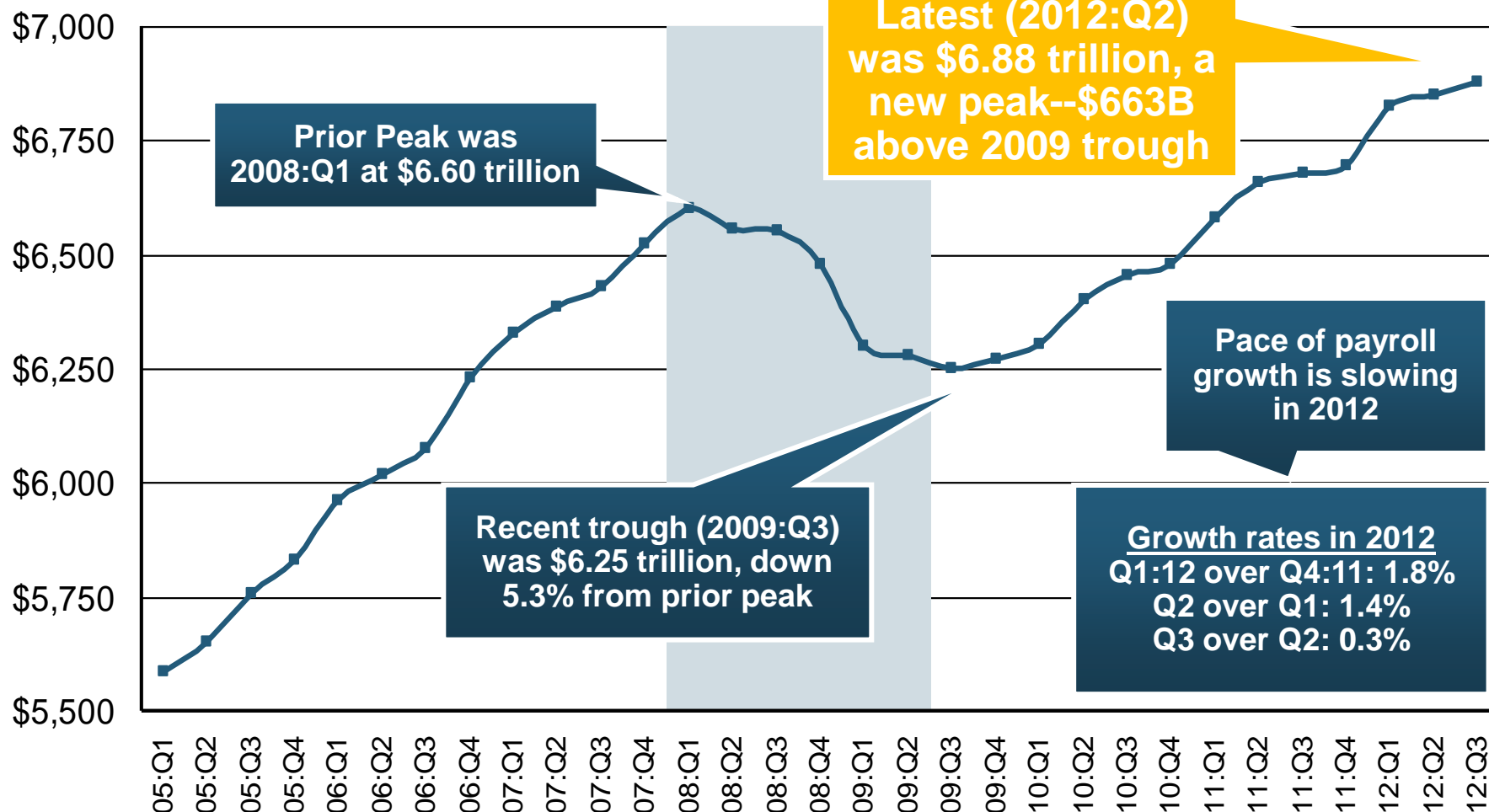
US Unemployment Rate Forecasts

Quarterly, 2013:Q1 to 2014:Q4



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

Billions



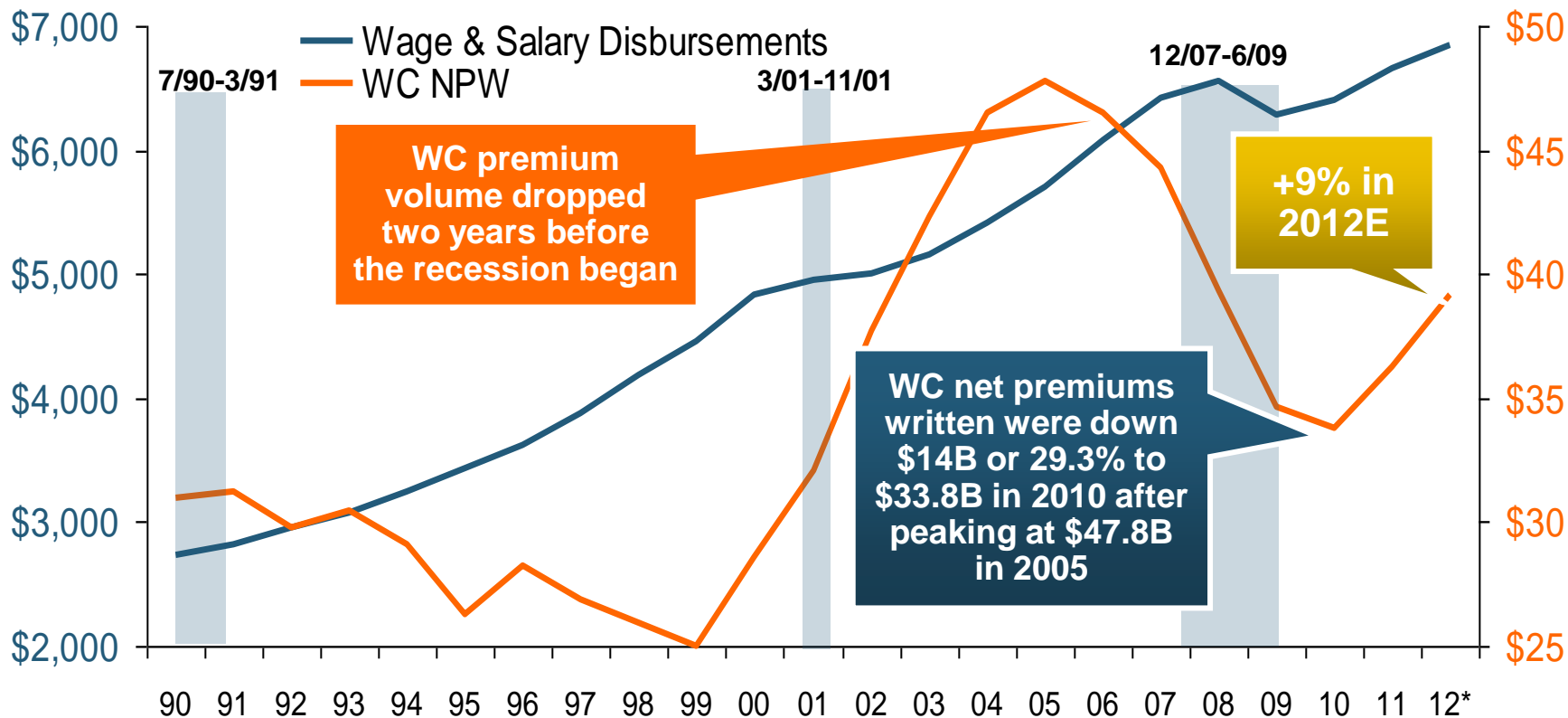
Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

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

Payroll vs. Workers Comp Net Written Premiums, 1990-2012E

Payroll Base*
\$Billions

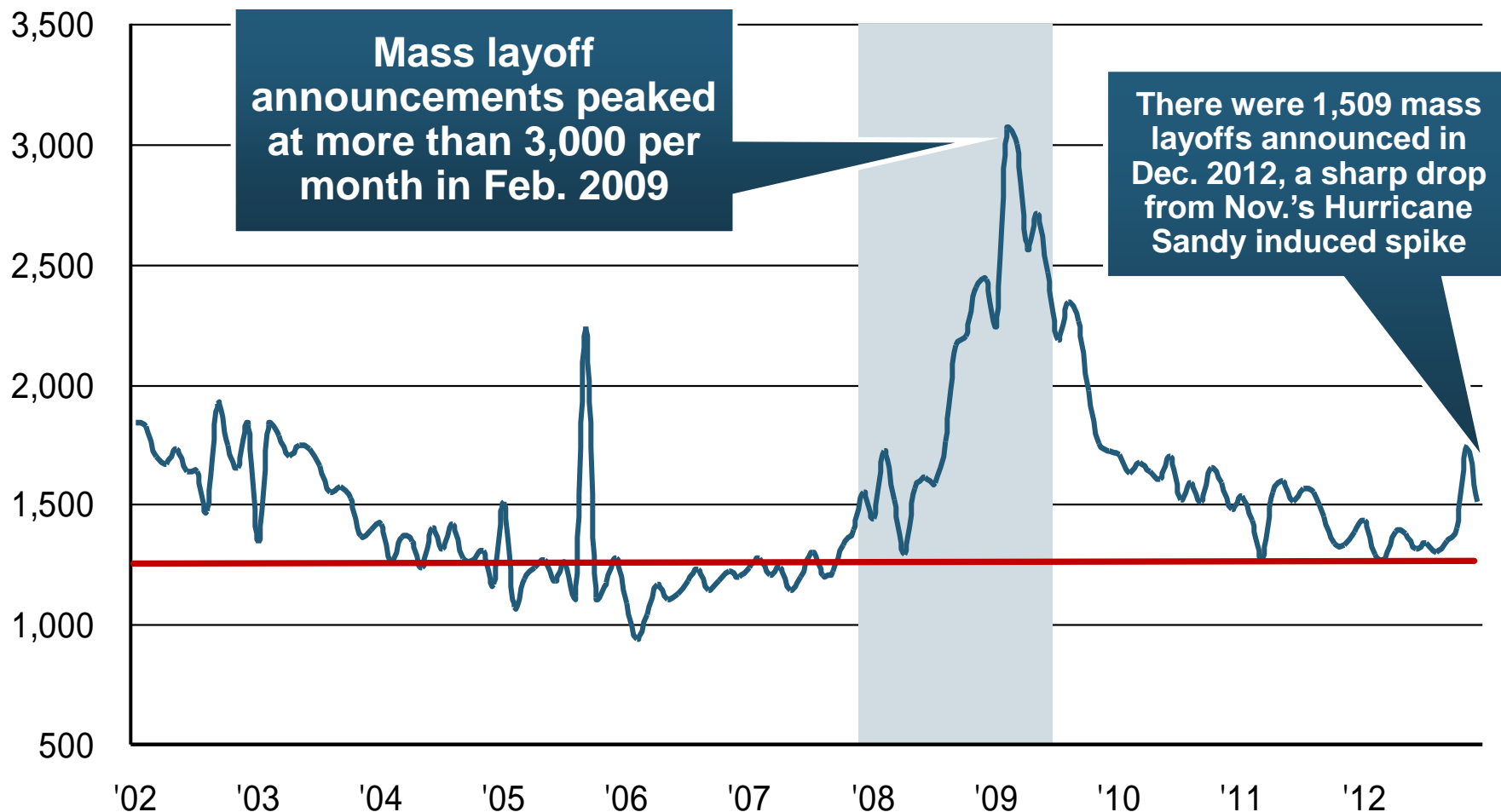
WC NWP
\$Billions



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

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

Mass Layoff Announcements, Jan. 2002—December 2012*



*Seasonally adjusted.

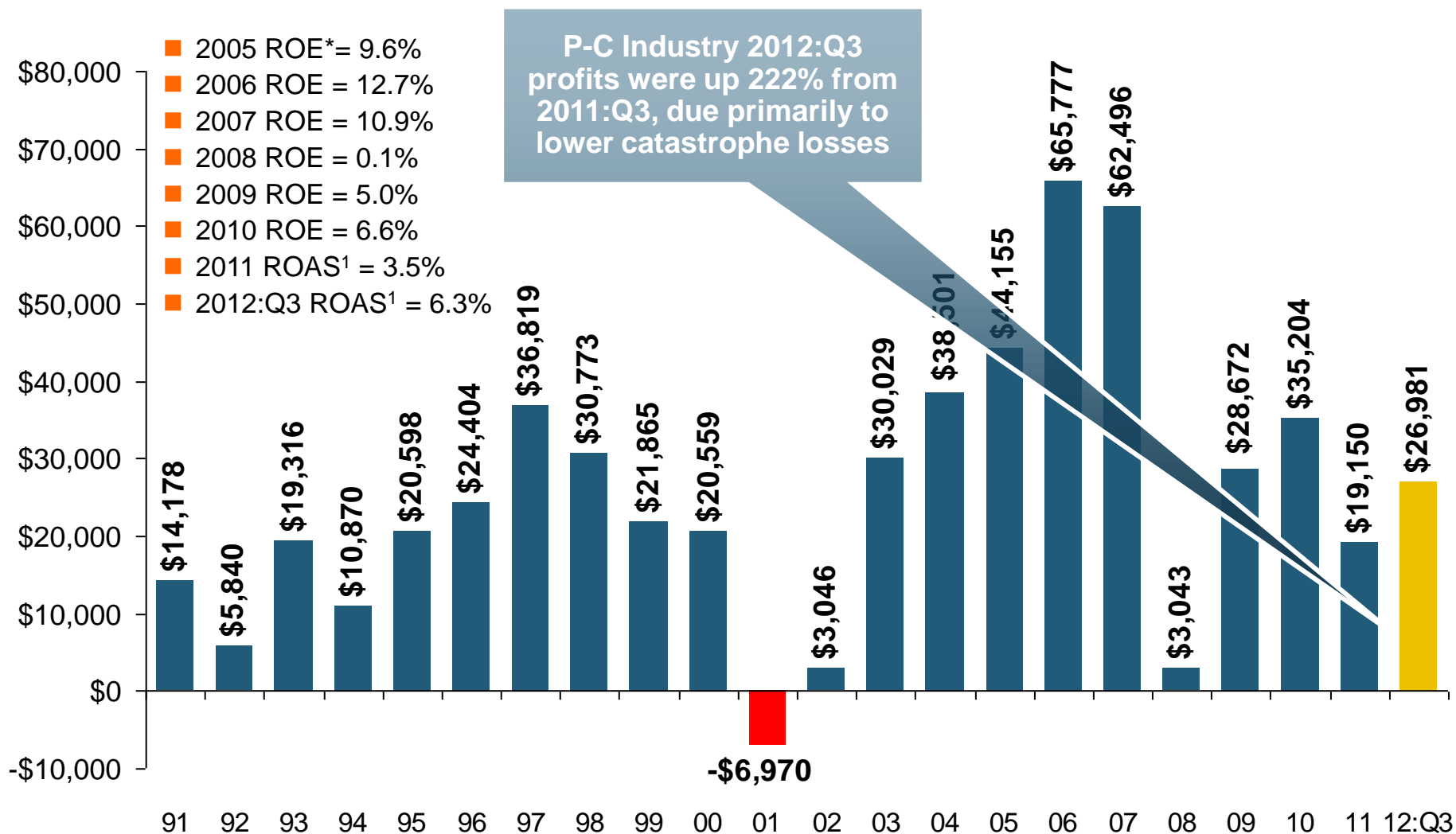
Note: Recessions indicated by gray shaded columns.

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

P/C Insurance Industry Financial Overview

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

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



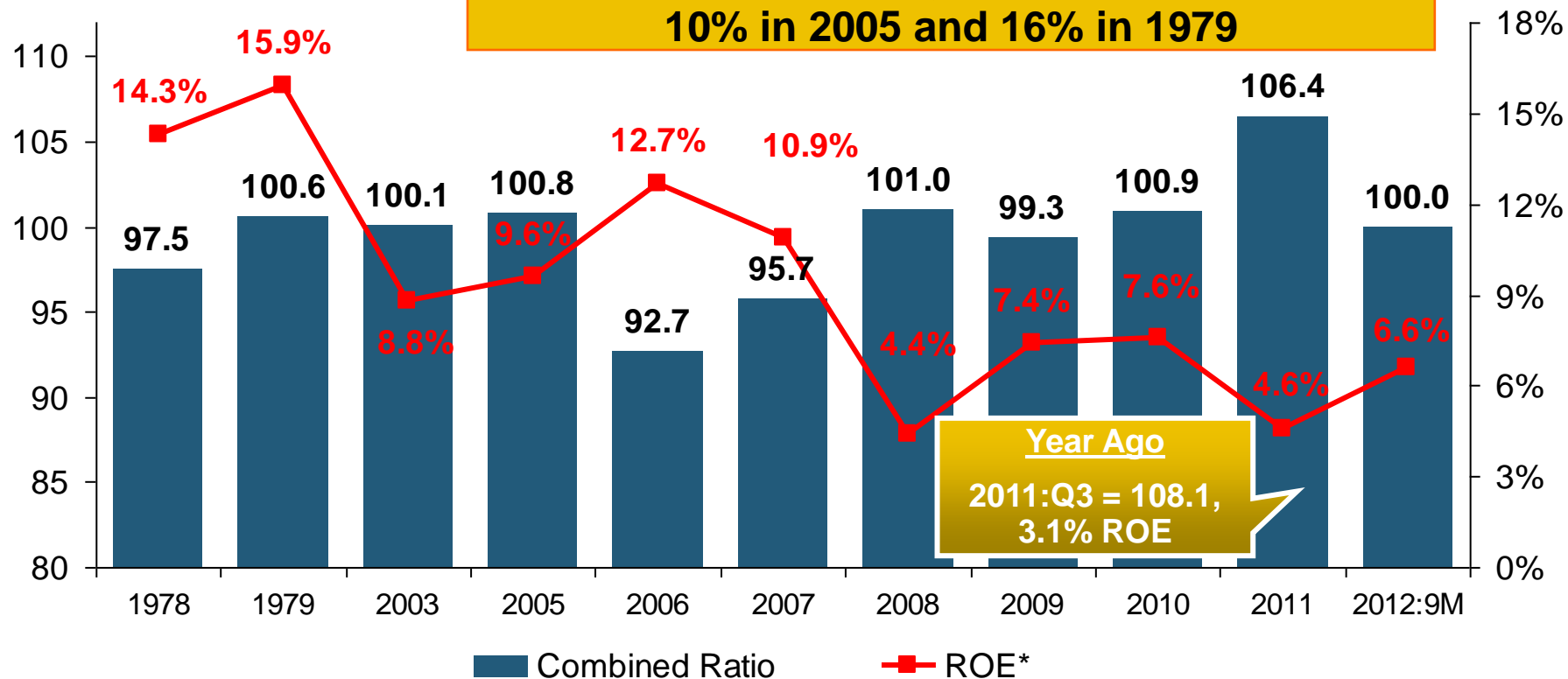
* ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 6.6% ROAS through 2012:Q3, 4.6% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009.

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

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

Combined Ratio / ROE

A combined ratio of about 100 generates an ROE of ~6.6% in 2012, ~7.5% ROE in 2009/10, 10% in 2005 and 16% in 1979

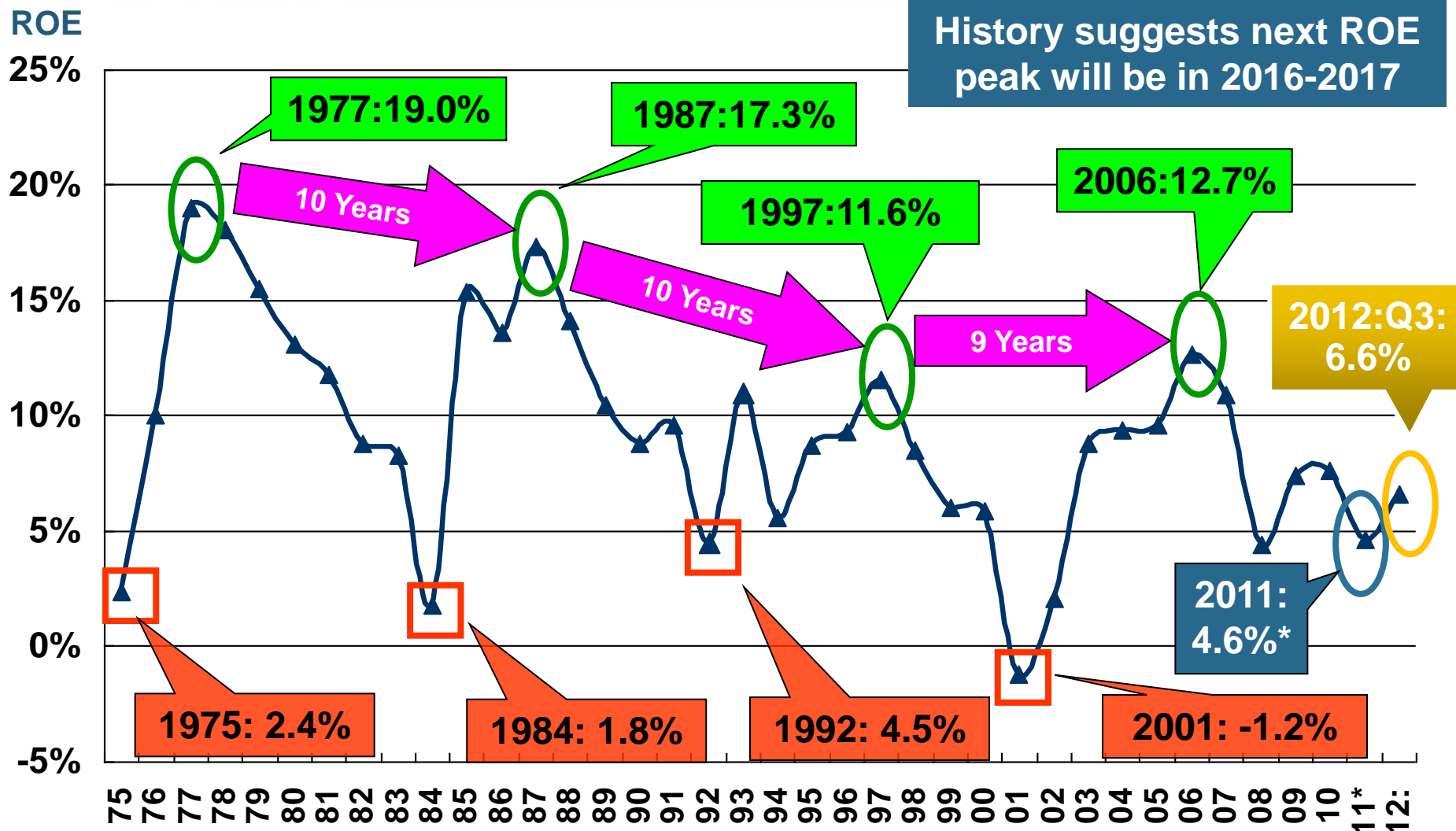


Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2008 -2012 figures are return on average surplus and exclude mortgage and financial guaranty insurers. 2012:Q3 combined ratio including M&FG insurers is 100.9, ROAS = 6.3%; 2011 combined ratio including M&FG insurers is 108.2, ROAS = 3.5%.

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

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

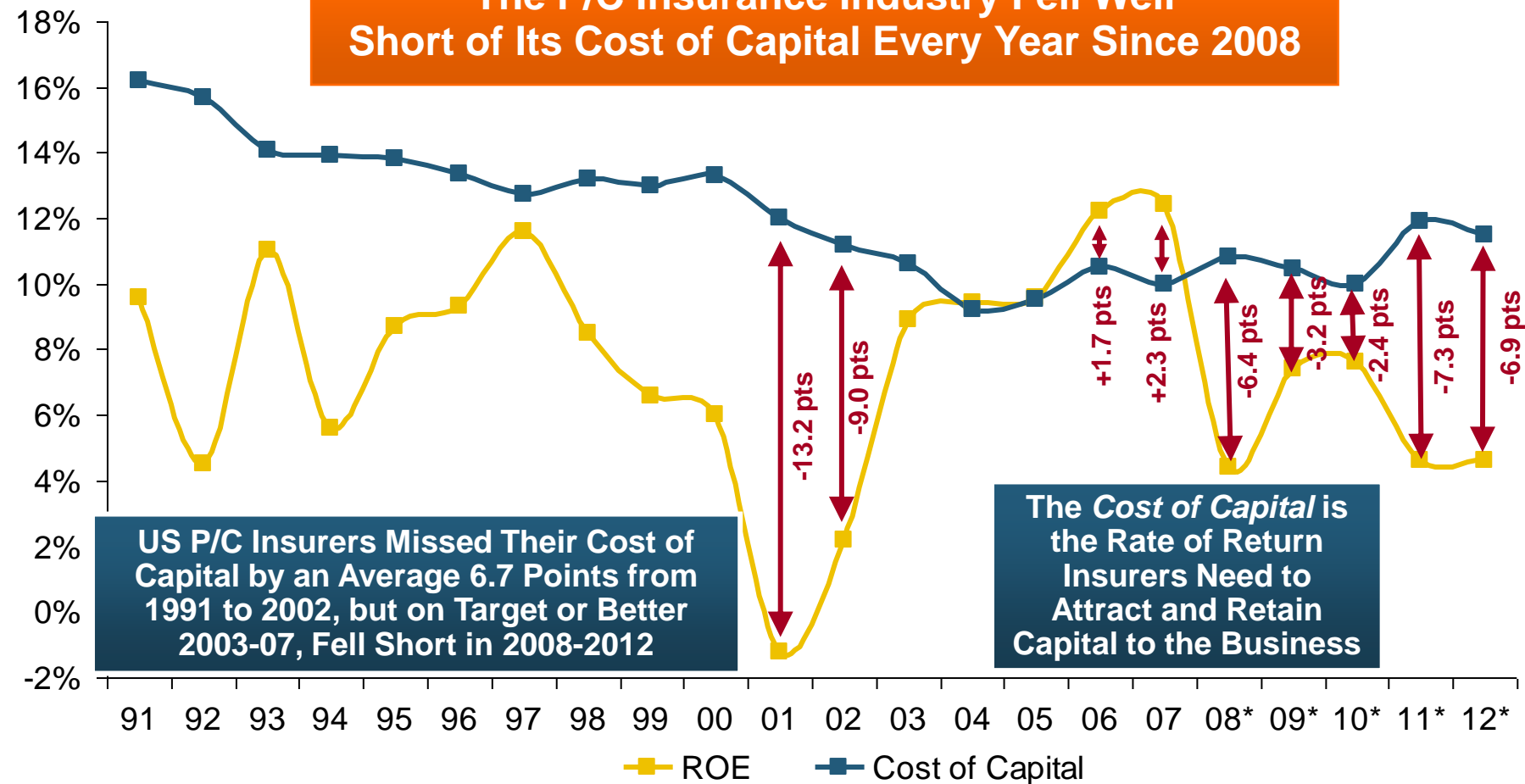


*Profitability = P/C insurer ROEs. 2011 figure is an estimate based on ROAS data. Note: Data for 2008-2012 exclude mortgage and financial guaranty insurers. 2012:Q3 ROAS = 6.2% including M&FG.

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

ROE vs. Equity Cost of Capital: U.S. P/C Insurance:1991-2012*

(Percent)



* Return on average surplus in 2008-2012 excluding mortgage and financial guaranty insurers. 2012 figures are III estimates.
Source: The Geneva Association, Insurance Information Institute

U.S. Insured Catastrophe Loss Update

**2012 Catastrophe Losses Were Close to
“Average” Until Sandy Hit
*2011 Was the 5th Most Expensive
Year on Record***

■ Catastrophe Communications: US & Global

- **U.S. Focus:** ~\$37-\$42B = 2nd Most Costliest Year Ever for Insured Catastrophe Loss (Behind 2005)
 - Economic Losses = \$101B
 - Crop = Additional ~\$16B (\$7B-\$8B privately insured)
 - NFIP Flood = Additional \$9B+
 - Flood losses/NFIP/FEMA has been the #1 communications “issue” in the wake of Sandy
- **Global Focus:** \$65B in Insured Losses → Well Below \$105B in 2011 but Above 10-Yr. Avg. of \$50B
 - Cats abroad did not drive media cycle in 2012, save ongoing Fukushima issues; Climate change
- **Market Consequences:** Primary & Reinsurance
 - Impacts on price, availability

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.

Significant Natural Catastrophes, 2012

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

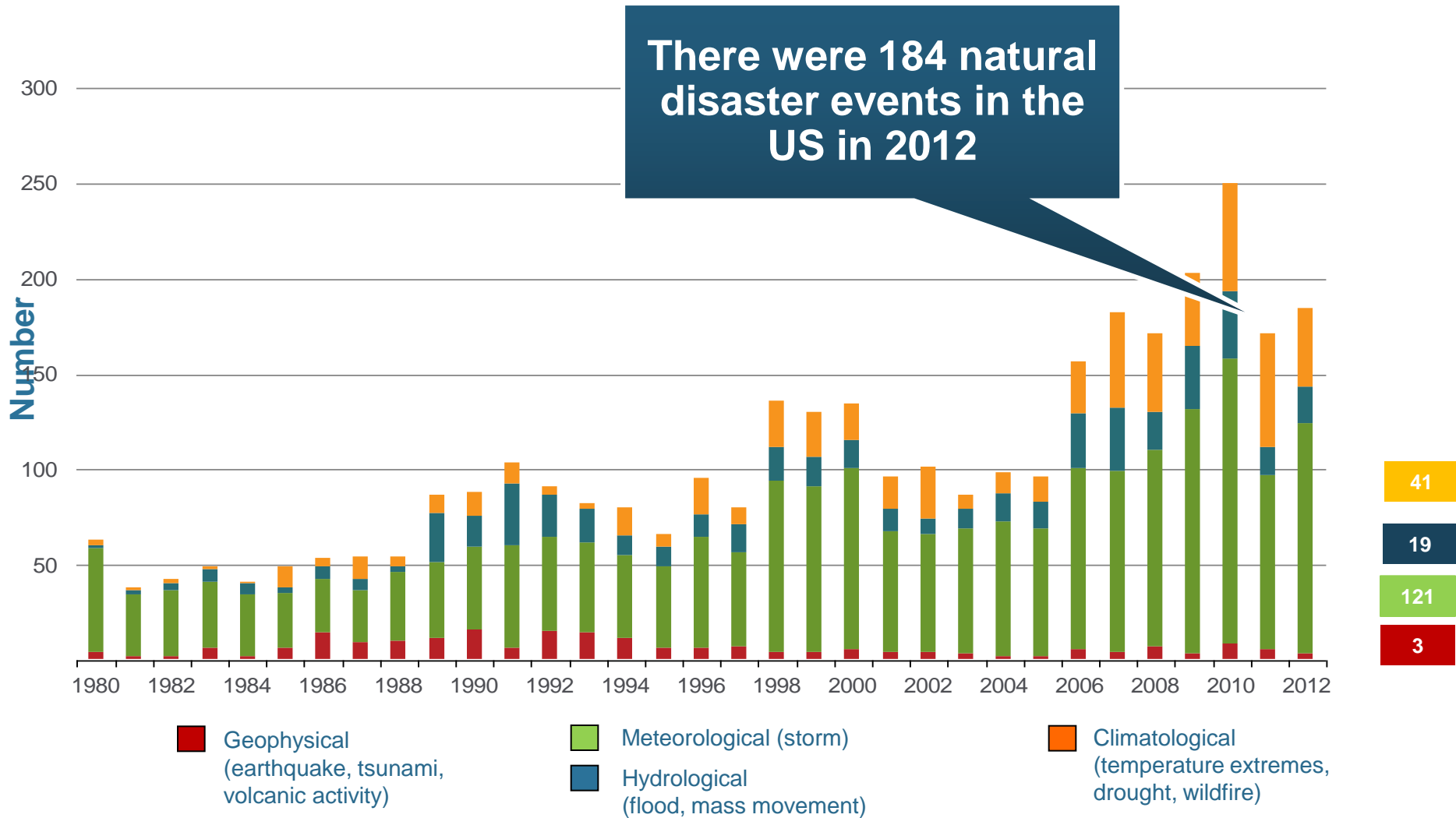
Date	Event	Estimated Economic Losses (US \$m)	Estimated Insured Losses (US \$m)
June – Sept 2012	Central US Drought	20,000	16,000 [†]
March 2 - 3	Thunderstorms	5,000	2,500
April 2 – 4	Thunderstorms	1,550	775
April 13- 15	Thunderstorms	1,800	910
April 28 – 29	Thunderstorms	4,500	2,500
May 25 – 30	Thunderstorms	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.

Natural Disasters in the United States, 1980 – 2012

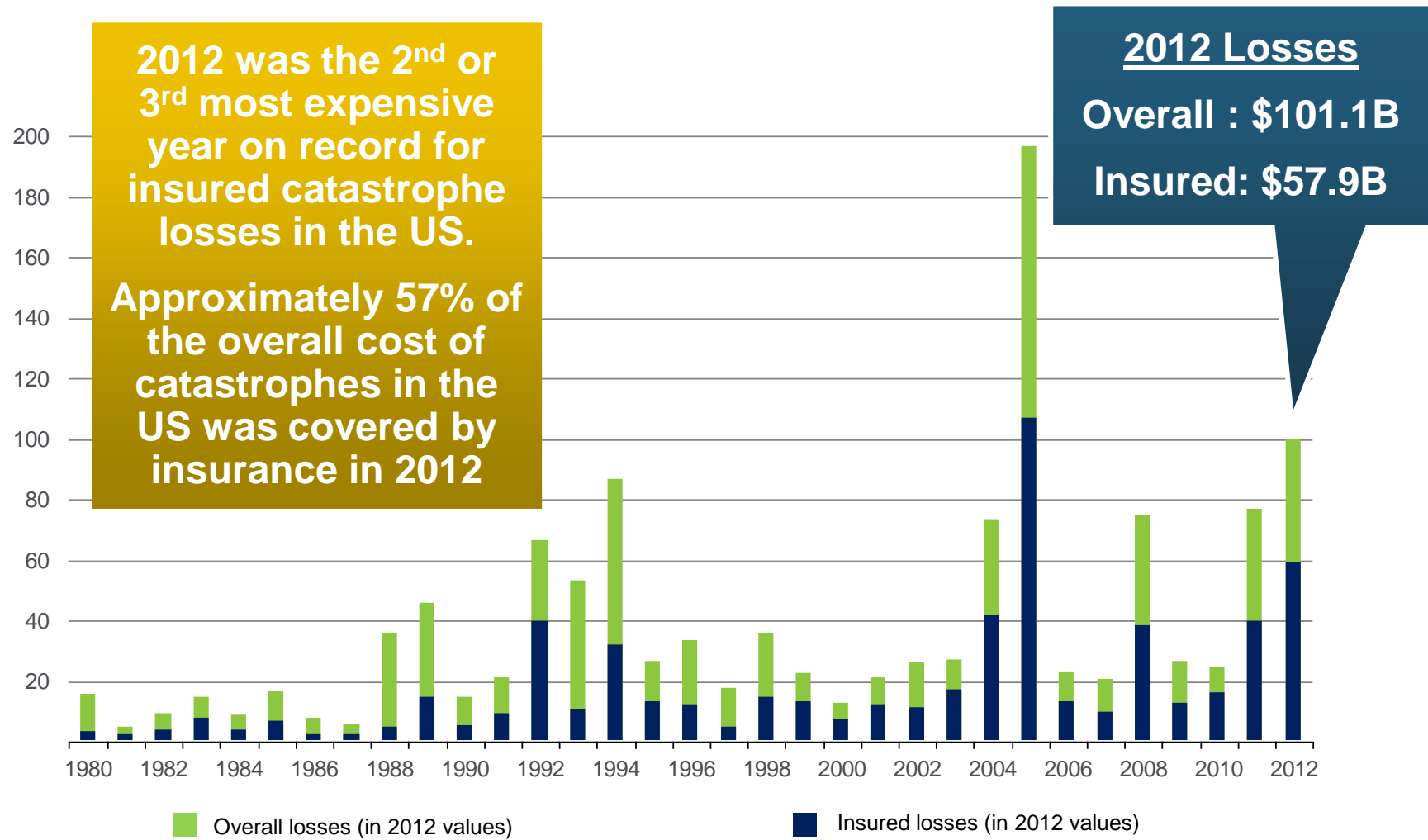
Number of Events (Annual Totals 1980 – 2012)



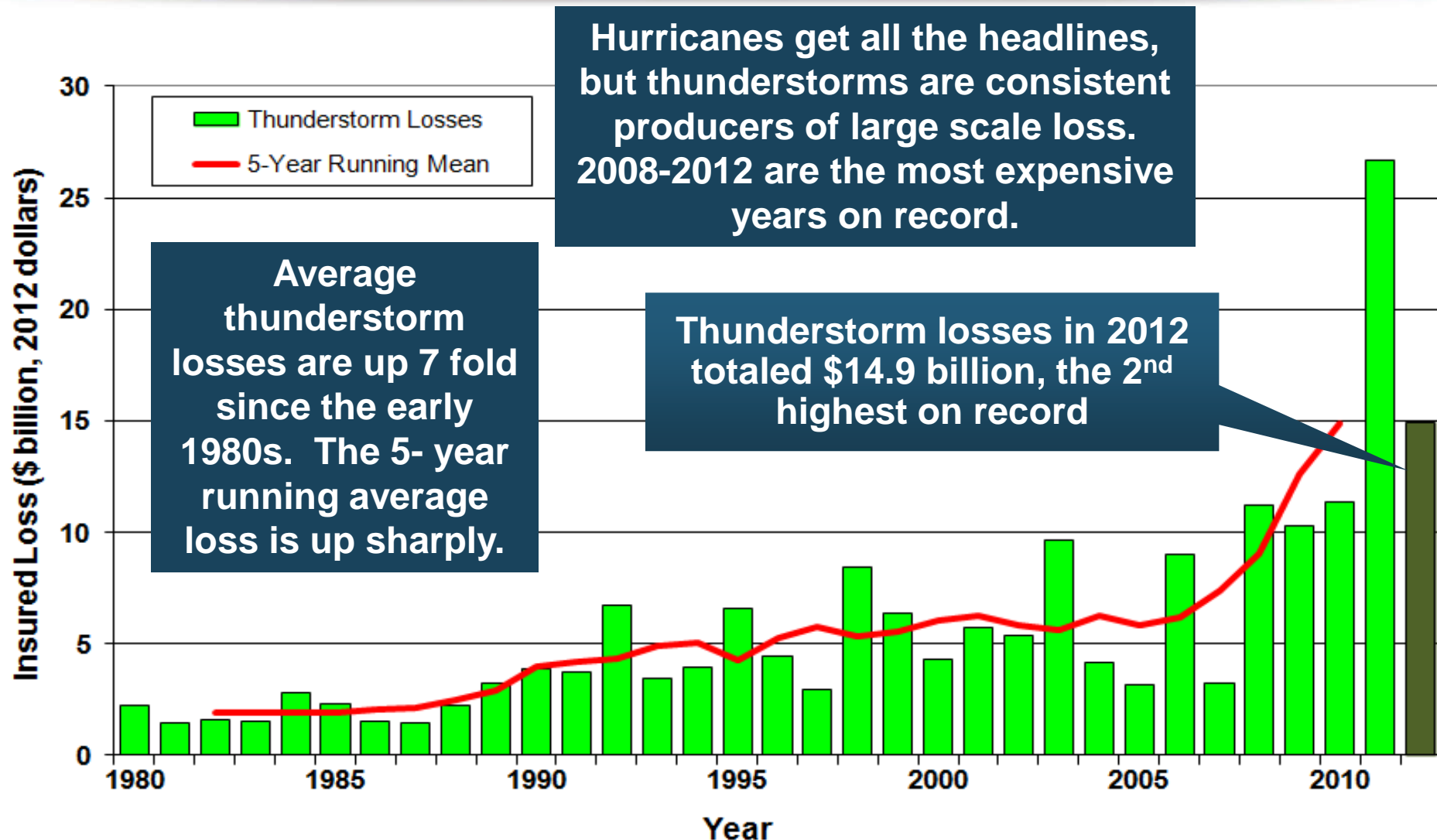
Losses Due to Natural Disasters in the US, 1980–2012 (Overall & Insured Losses)

(Overall and Insured Losses)

(2012 Dollars, \$ Billions)

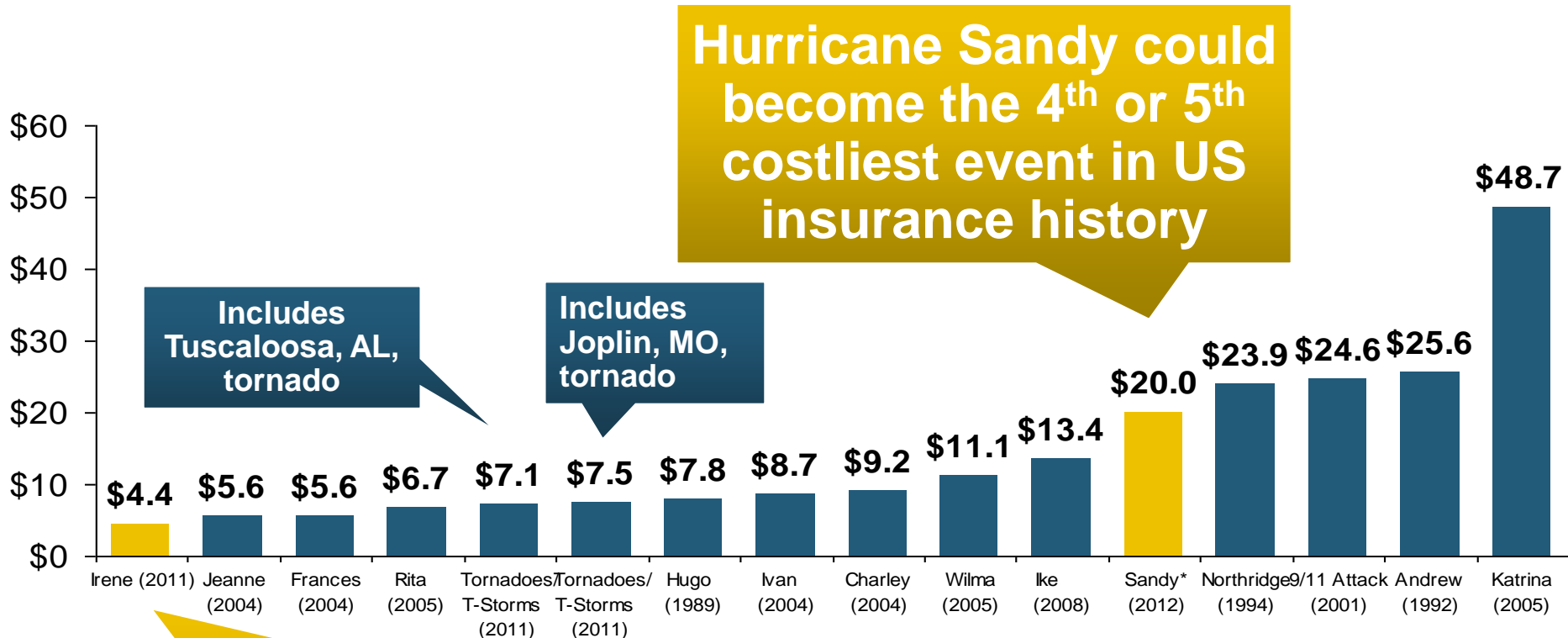


U.S. Thunderstorm Loss Trends, 1980 – 2012



Top 16 Most Costly Disasters in U.S. History

(Insured Losses, 2012 Dollars, \$ Billions)



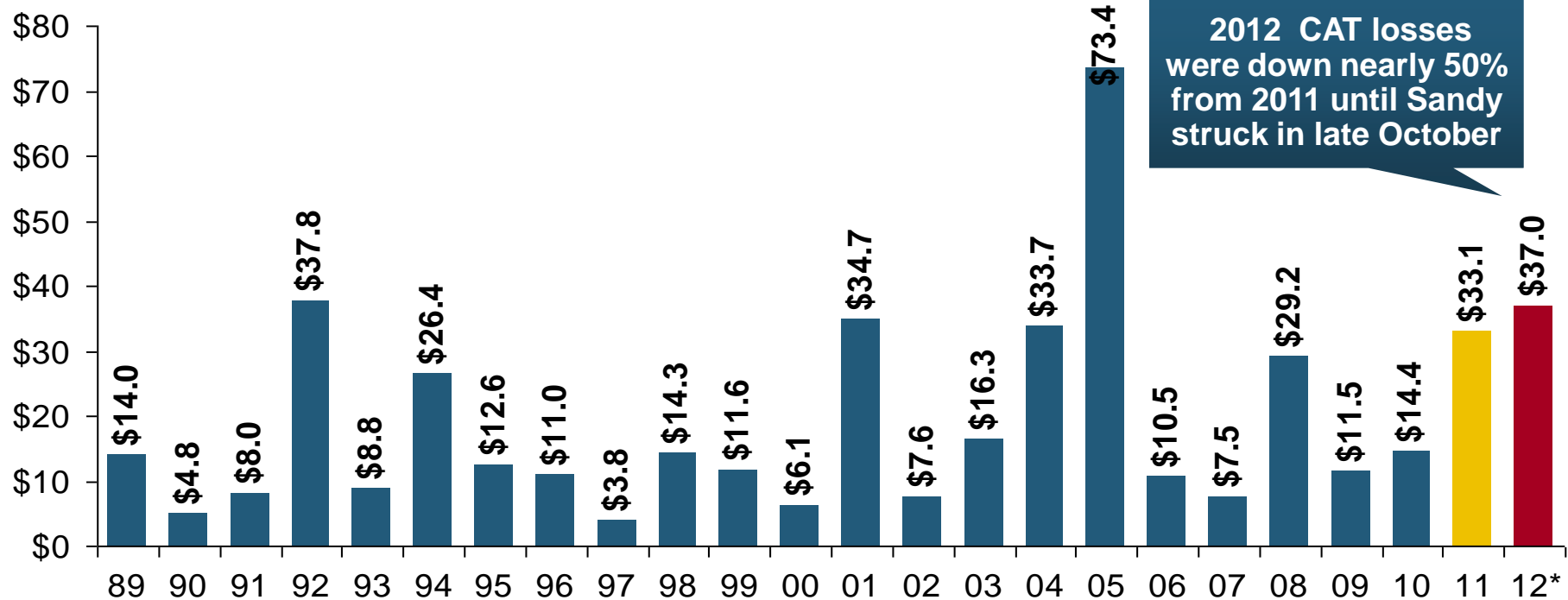
Hurricane Irene became the 12th most expensive hurricane in US history in 2011

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

*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.

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.

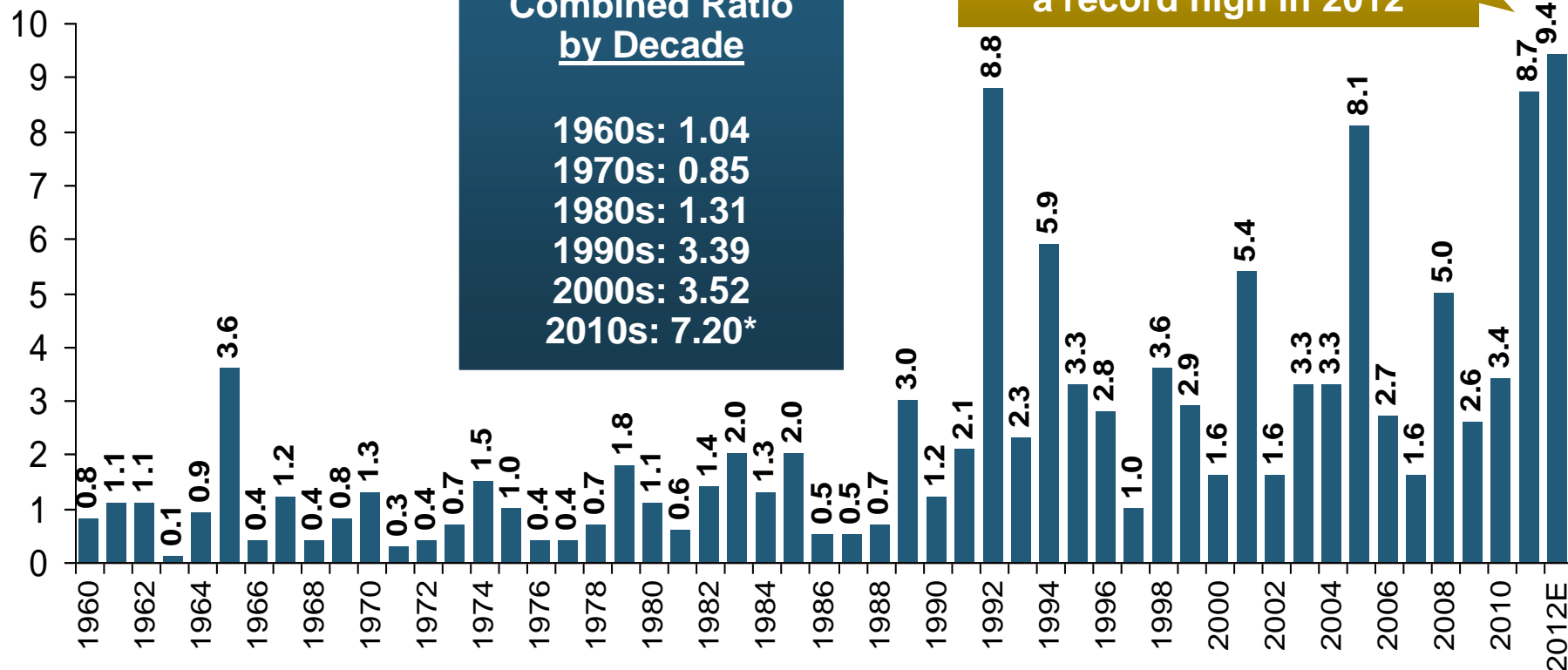
Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2012*

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**



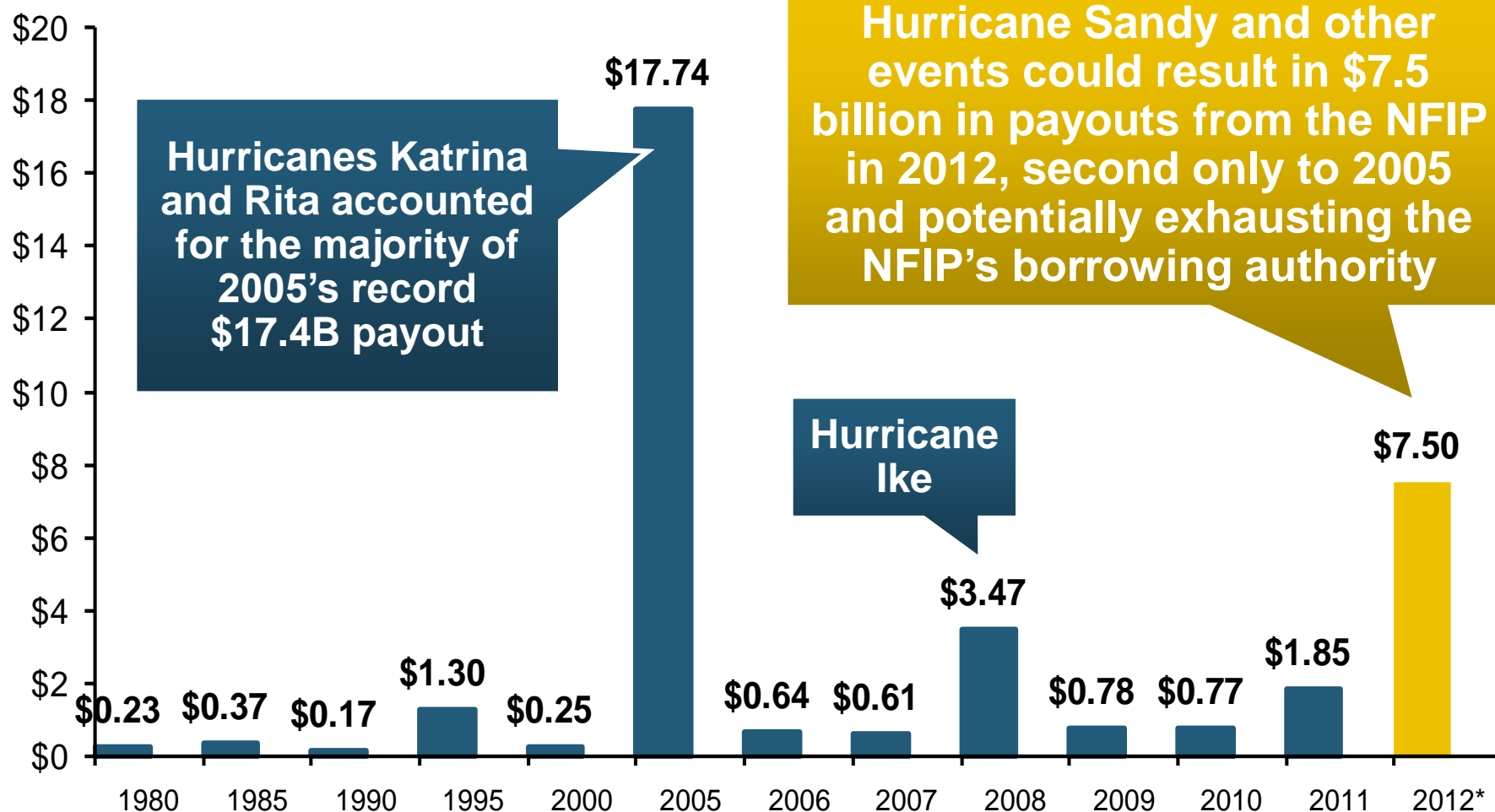
The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades

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.

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

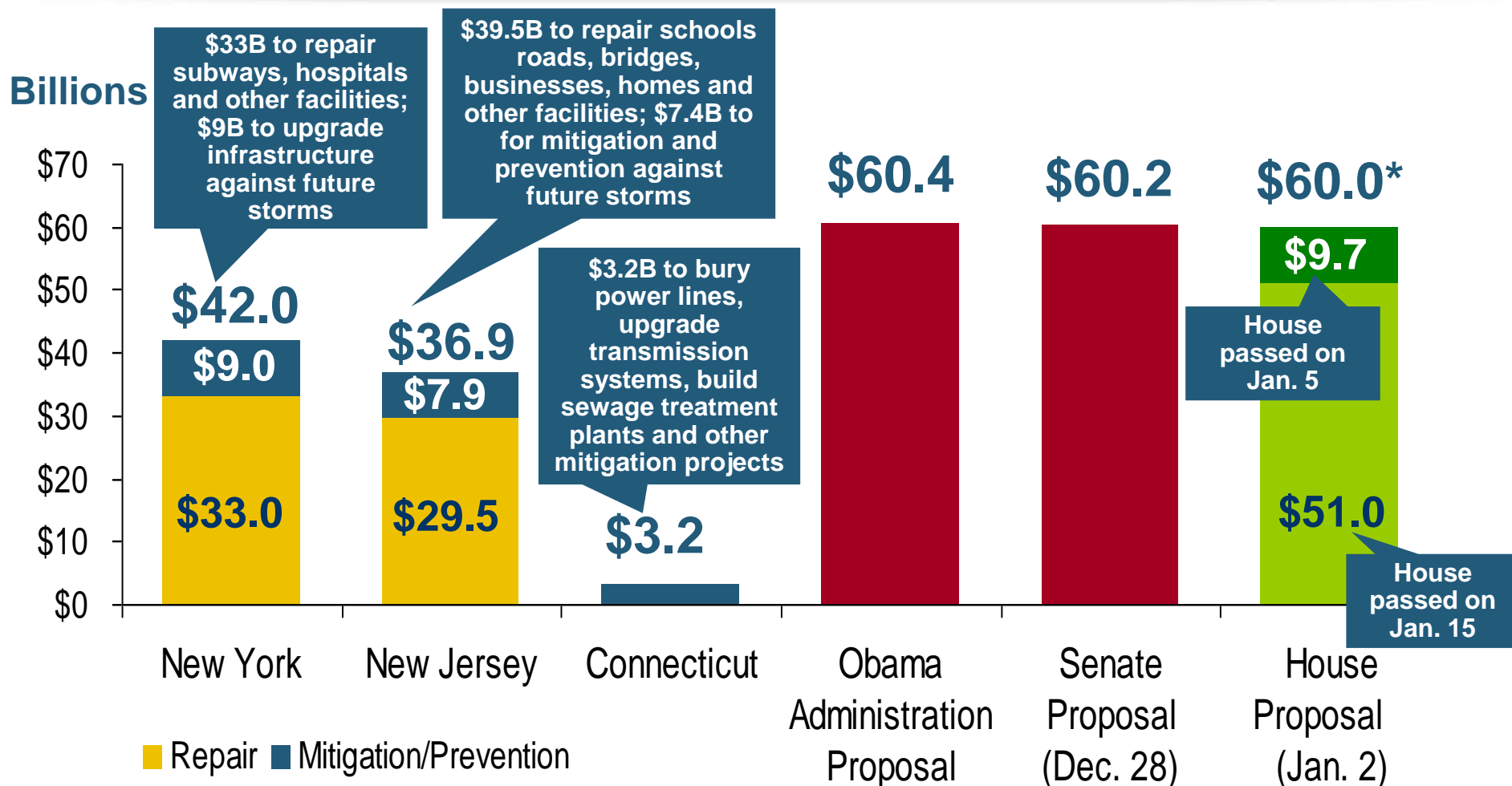
Billions (Original Values)



*Estimate as of 11/25/12.

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

Federal Aid Requests for States With Greatest Sandy Impact & Federal Aid Proposals (as of 1/6/13)



States Requested Enormous Sums in Sandy Aid in the Middle of the “Fiscal Cliff” Debate, Causing Delays

*As of Jan. 2, 2013.

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

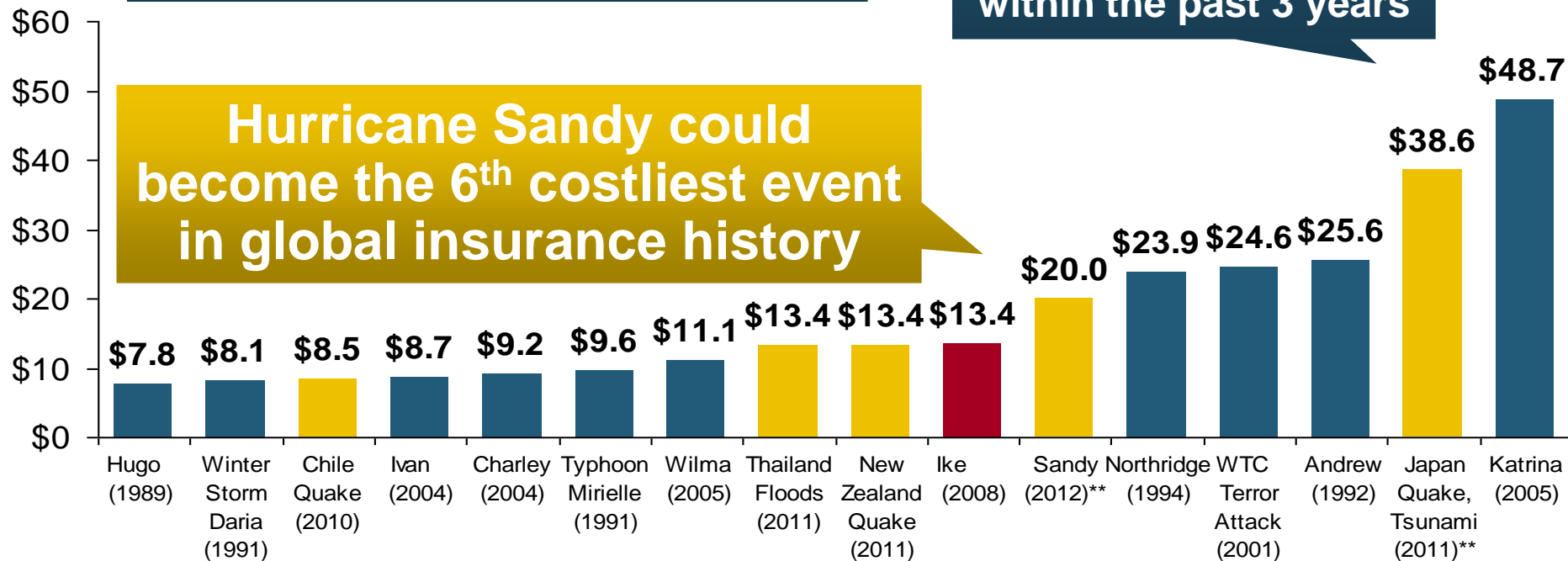
Top 16 Most Costly World Insurance Losses, 1970-2012*

(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

Hurricane Sandy could become the 6th costliest event in global insurance history

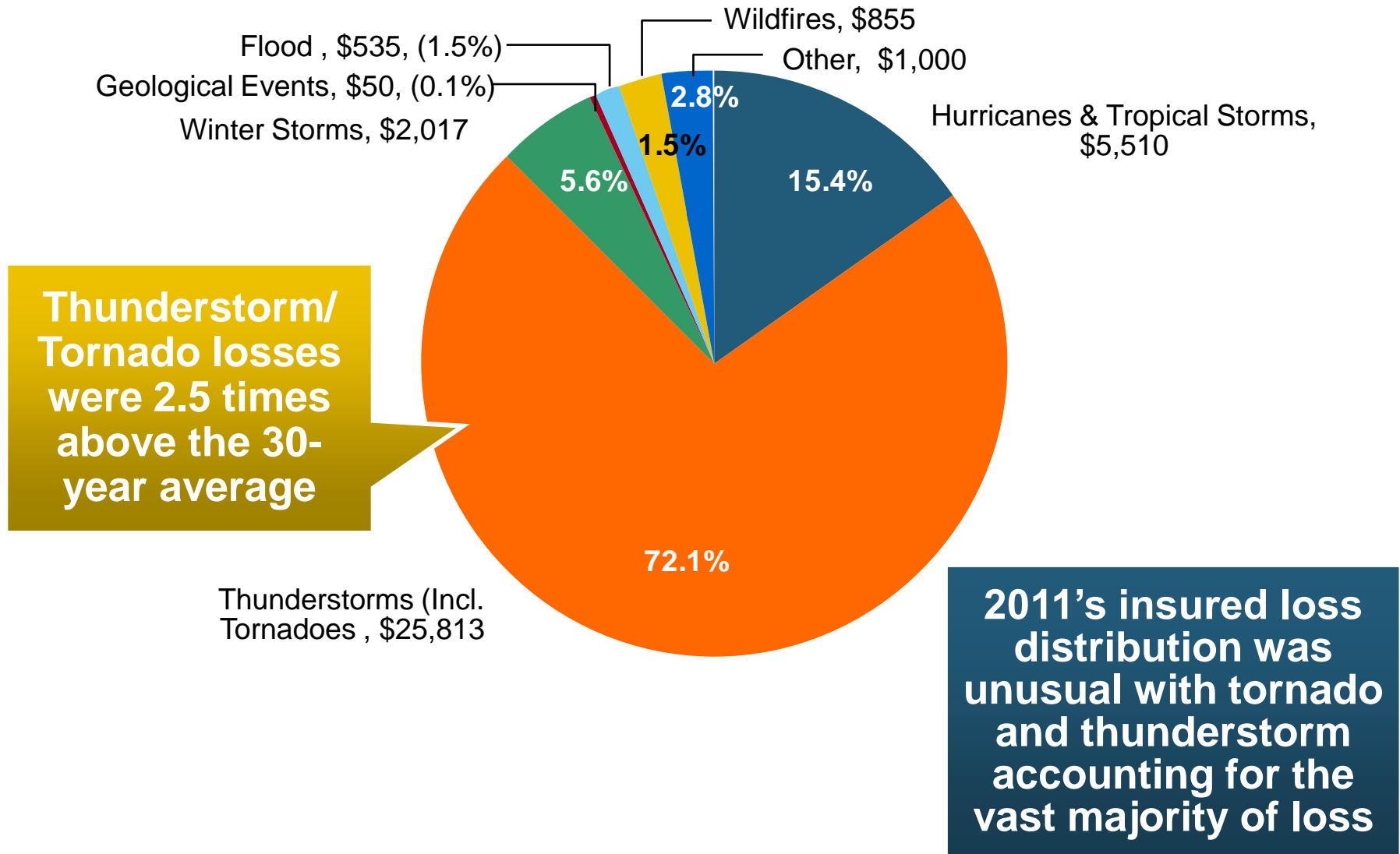


*Figures do not include federally insured flood losses.

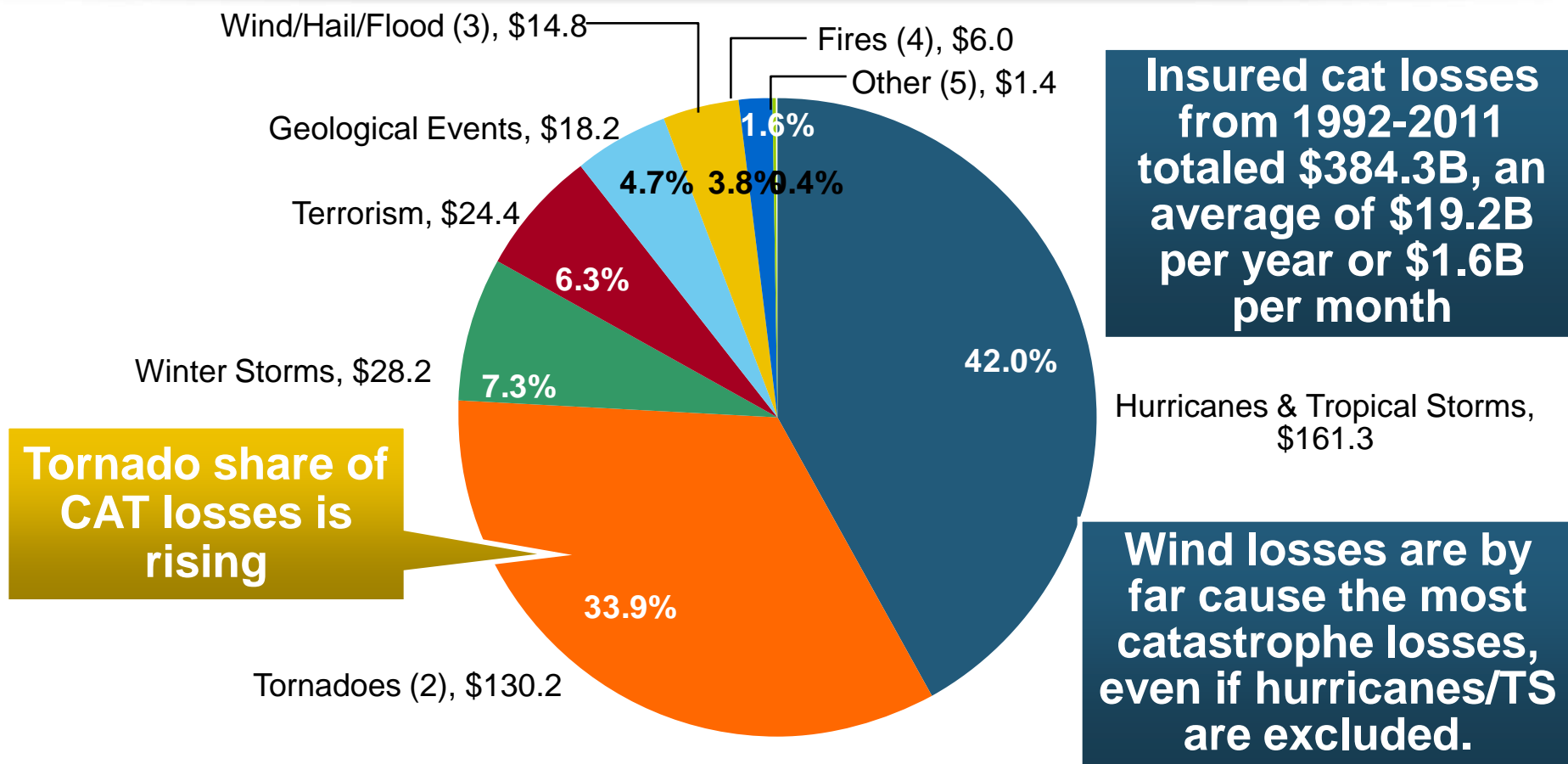
**Estimate based on PCS value of \$18.75B as of 1/18/13 and assumption of upward development based on catastrophe modeler estimates ranging as high as \$25B.

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

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



Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1990–2011¹



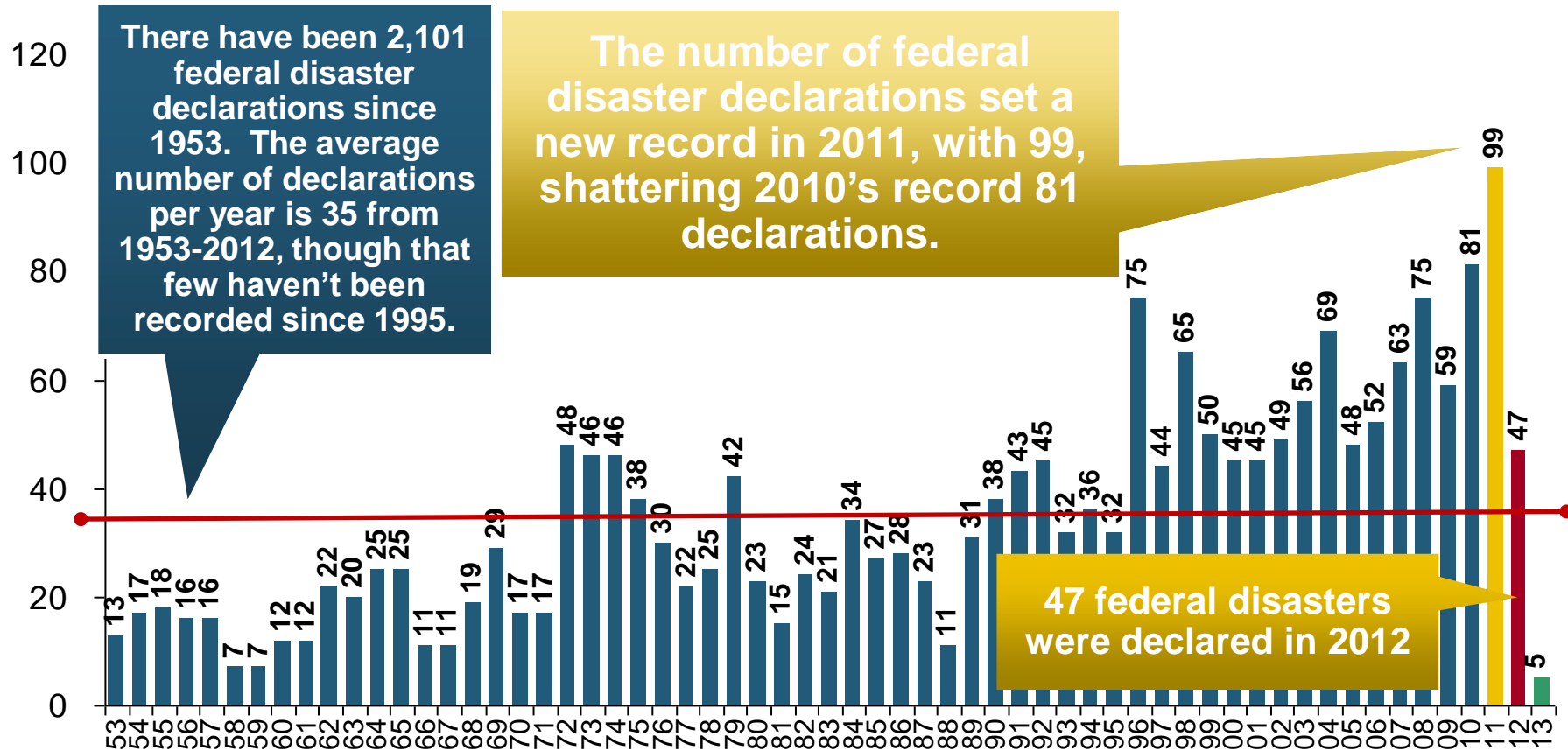
1. Catastrophes are defined as events causing direct insured losses to property of \$25 million or more in 2009 dollars.
2. Excludes snow.
3. Does not include NFIP flood losses
4. Includes wildland fires
5. Includes civil disorders, water damage, utility disruptions and non-property losses such as those covered by workers compensation.

Source: ISO's Property Claim Services Unit.

Federal Disaster Declarations Patterns: 1953-2012

**Despite 11 Sandy Declarations,
Fewer Disasters Were Declared in
2012 than the Record Number of
Declarations in 2010 and 2011**

Number of Federal Disaster Declarations, 1953-2013*

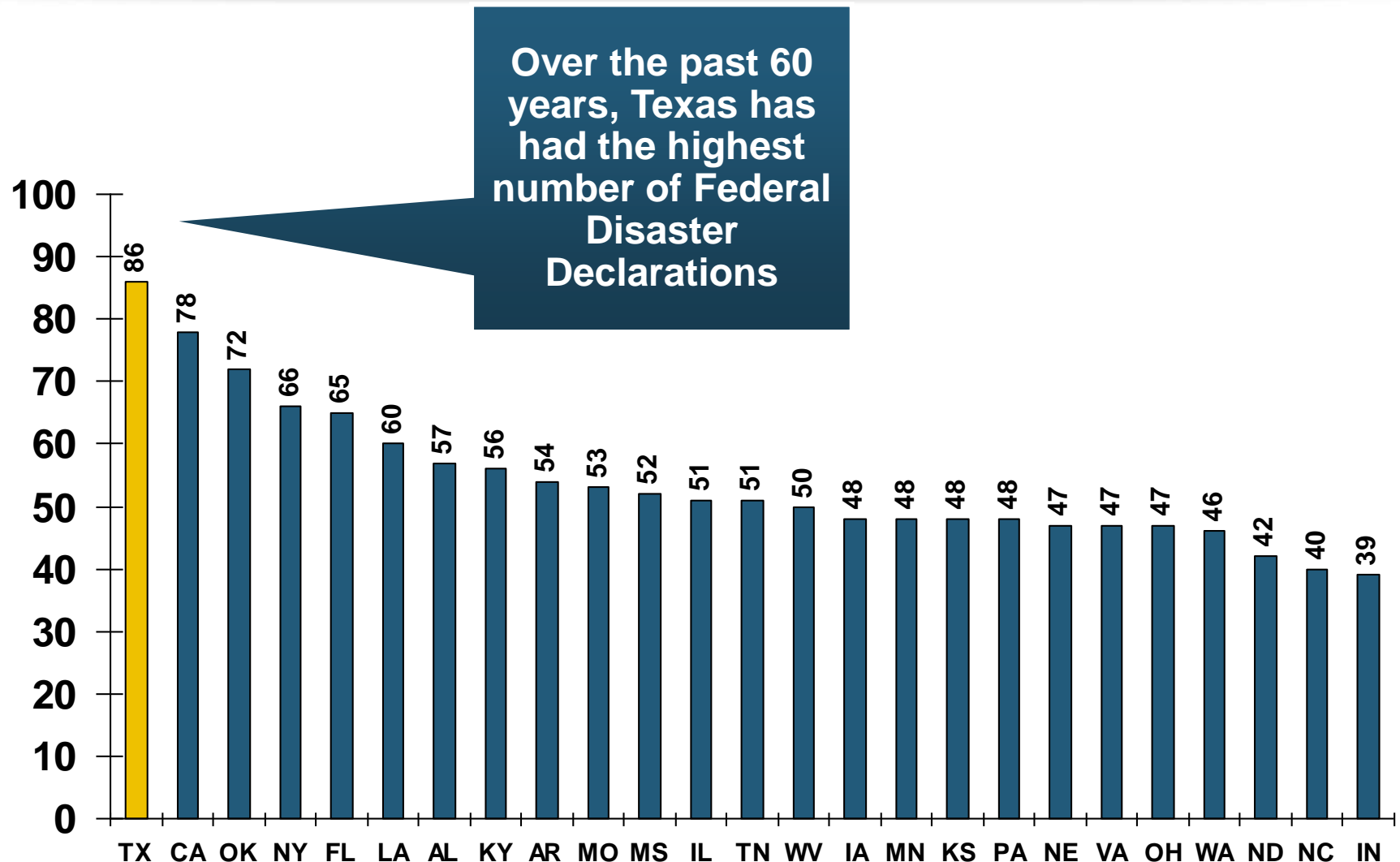


The Number of Federal Disaster Declarations Is Rising and Set New Records in 2010 *and* 2011. Hurricane Sandy Produced 13 Declarations in 2012/13.

*Through Feb. 24, 2013.

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

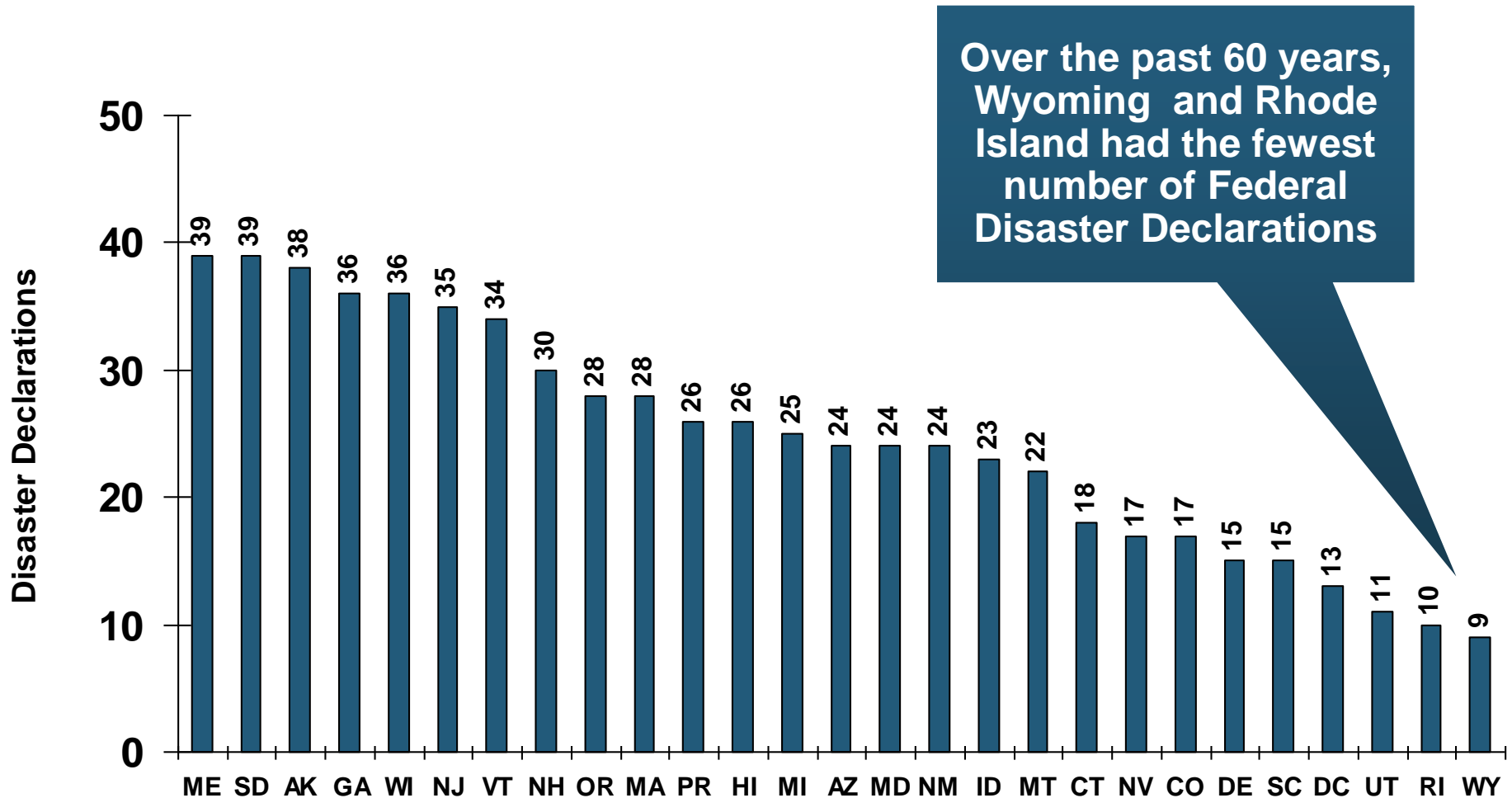
Federal Disasters Declarations by State, 1953 – 2013: Highest 25 States*



*Through Feb. 24, 2012. Includes Puerto Rico and the District of Columbia.

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

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

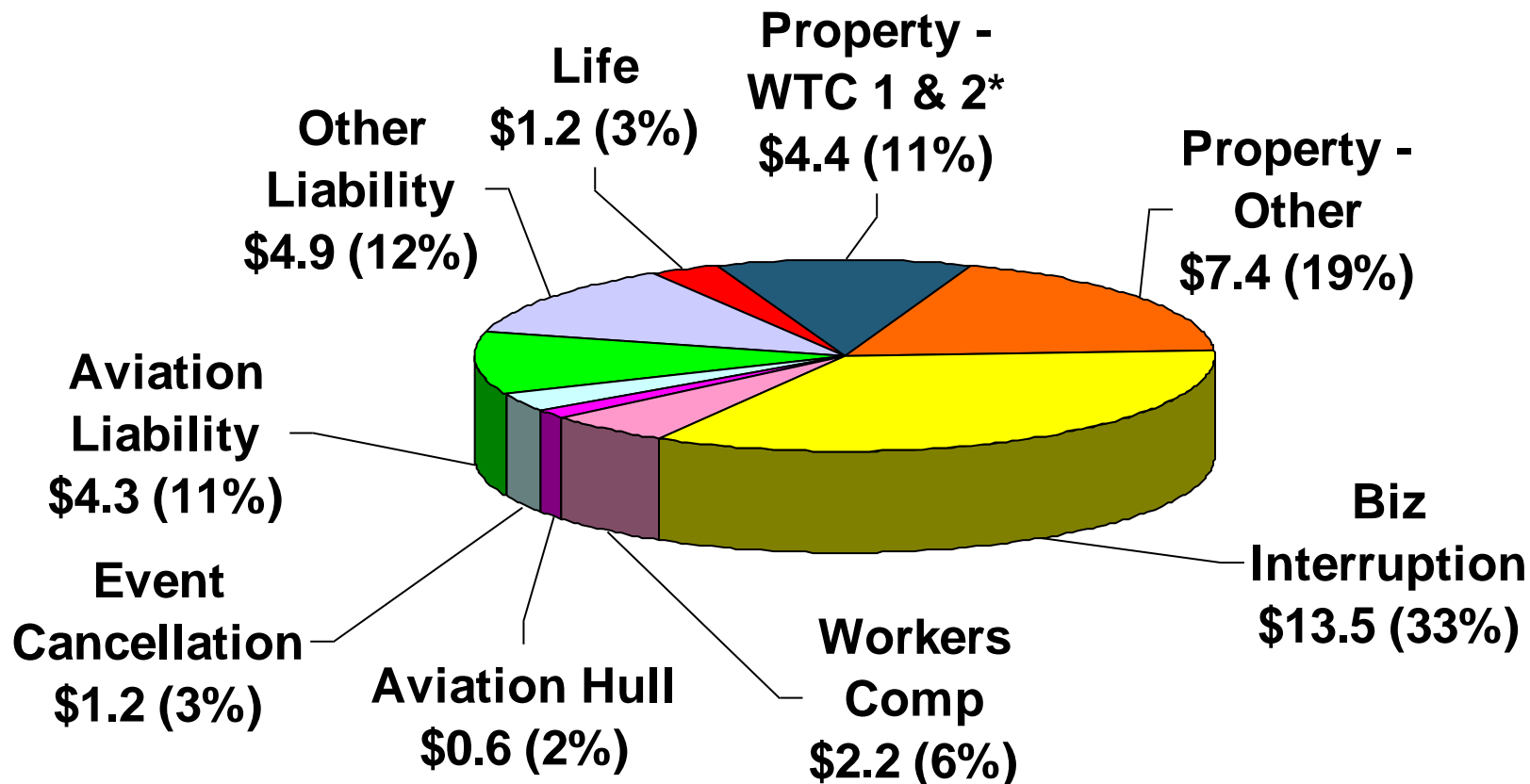


*Through Feb. 24, 2013. Includes Puerto Rico and the District of Columbia.

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

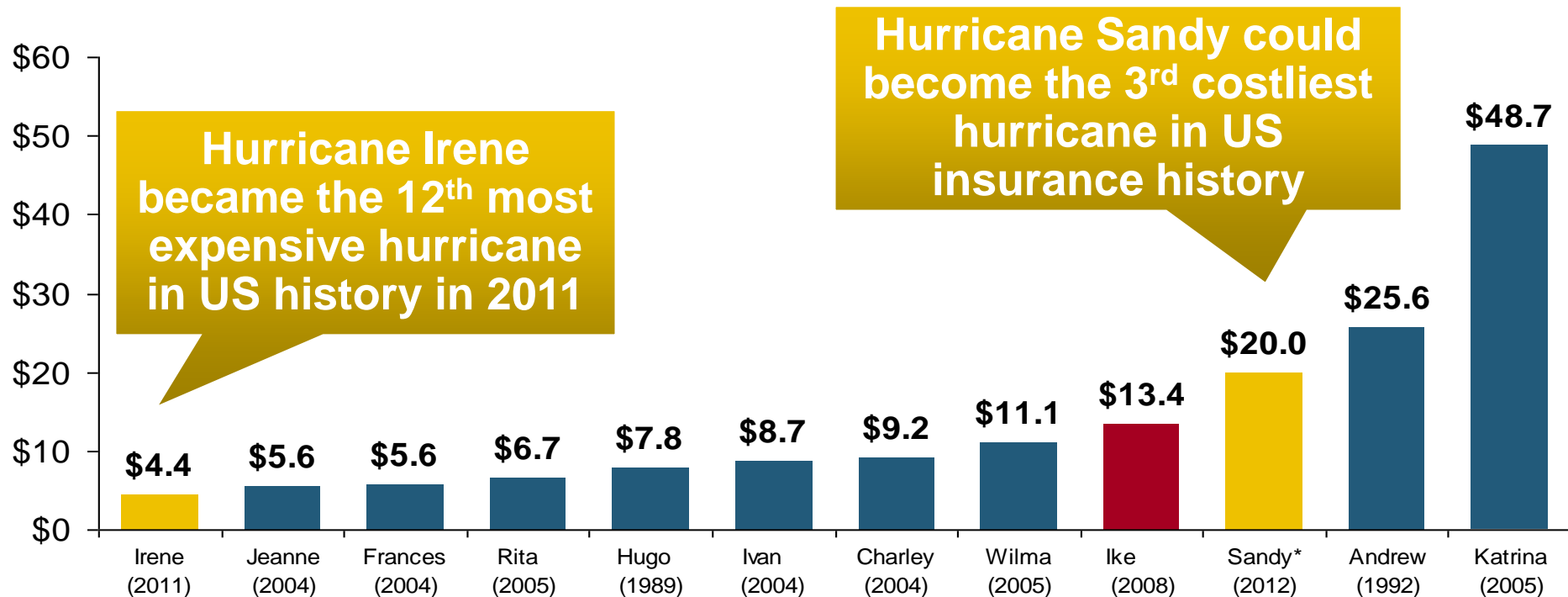
Hurricane Sandy Summary

**Sandy Will Become One of the
Most Expensive Events in Global
Insurance History, But Insurance
Opportunities Await**

Top 12 Most Costly Hurricanes in U.S. History

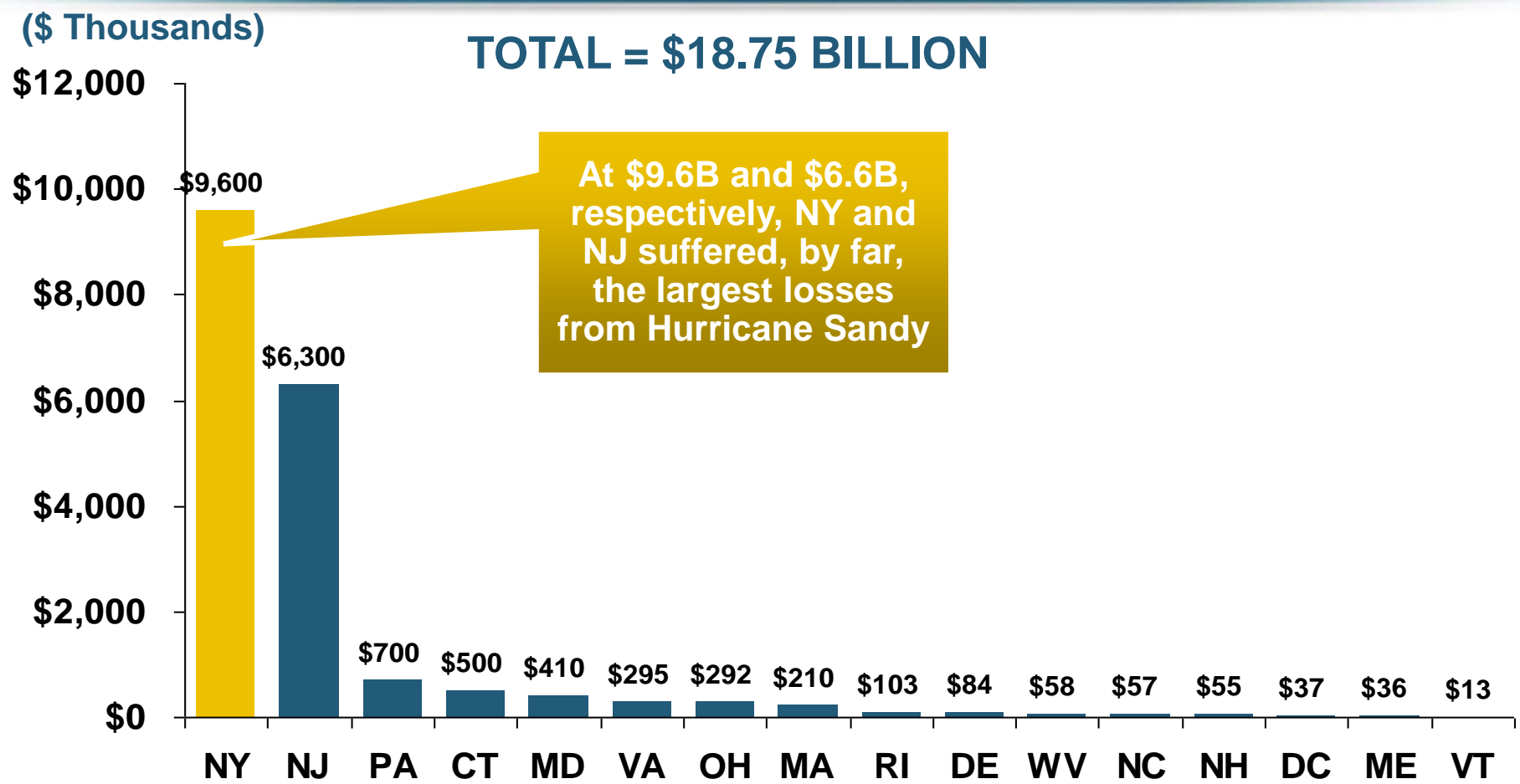
(Insured Losses, 2012 Dollars, \$ Billions)

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



*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.

Hurricane Sandy: Claim Payments to Policyholders, by State

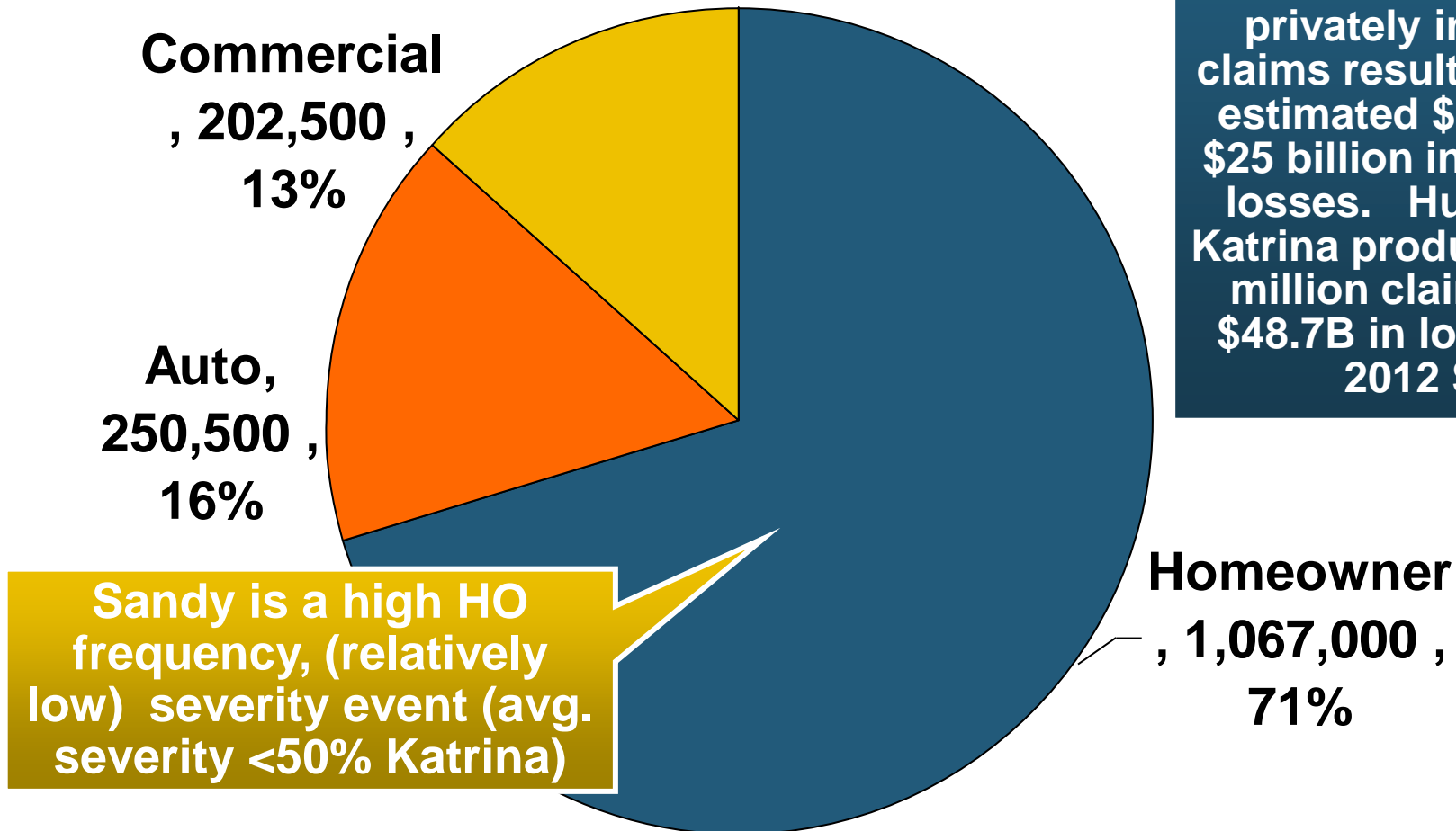


Insurers Will Pay at Least \$18.75 Billion to 1.52 Million Policyholders Across 15 States and DC in the Wake of Hurricane Sandy

Hurricane Sandy: Number of Claims by Type*

Total Claims = 1.52 Million*

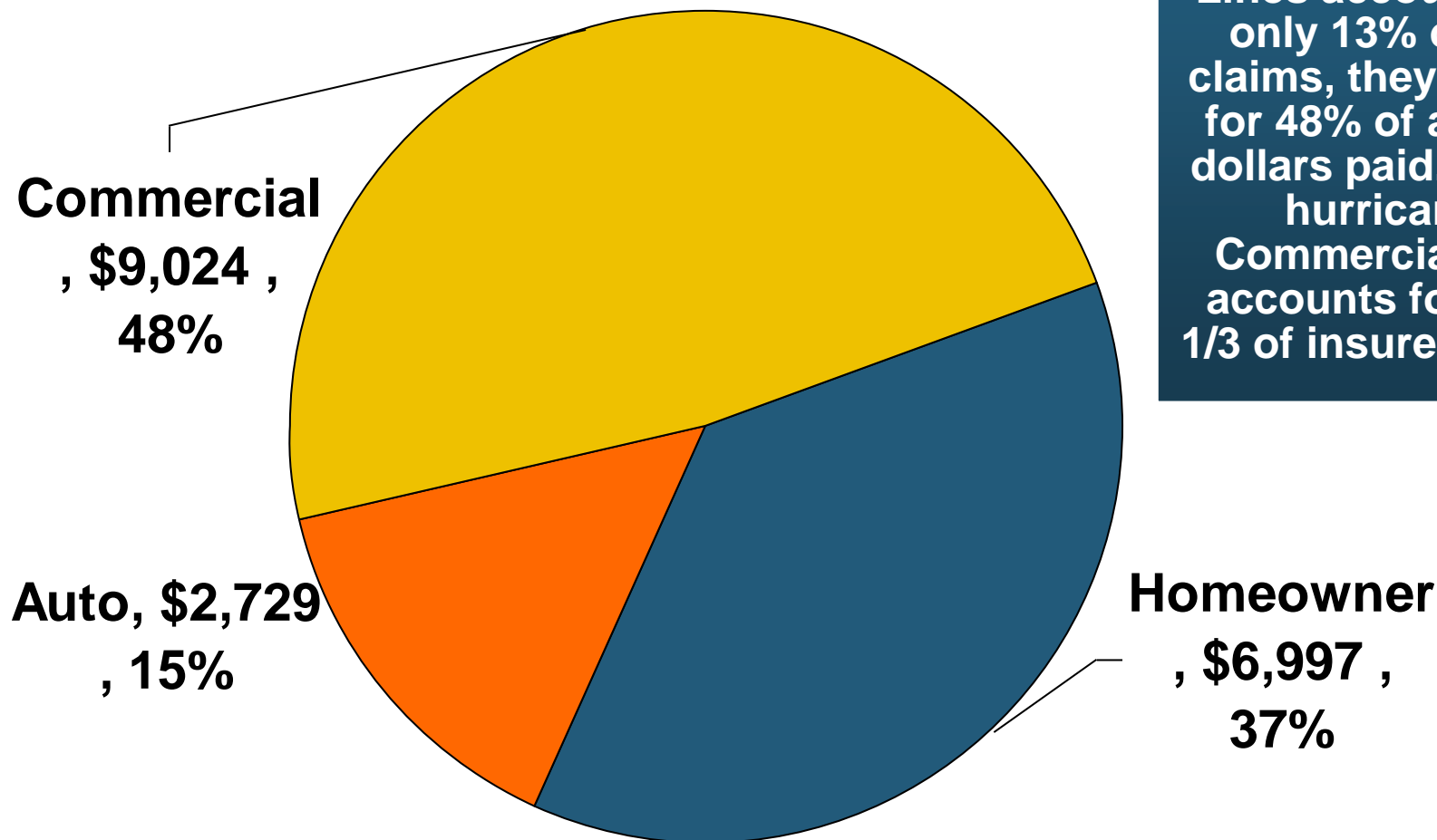
Hurricane Sandy resulted in an estimated 1.52 million privately insured claims resulting in an estimated \$18.75 to \$25 billion in insured losses. Hurricane Katrina produced 1.74 million claims and \$48.7B in losses (in 2012 \$)



*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)

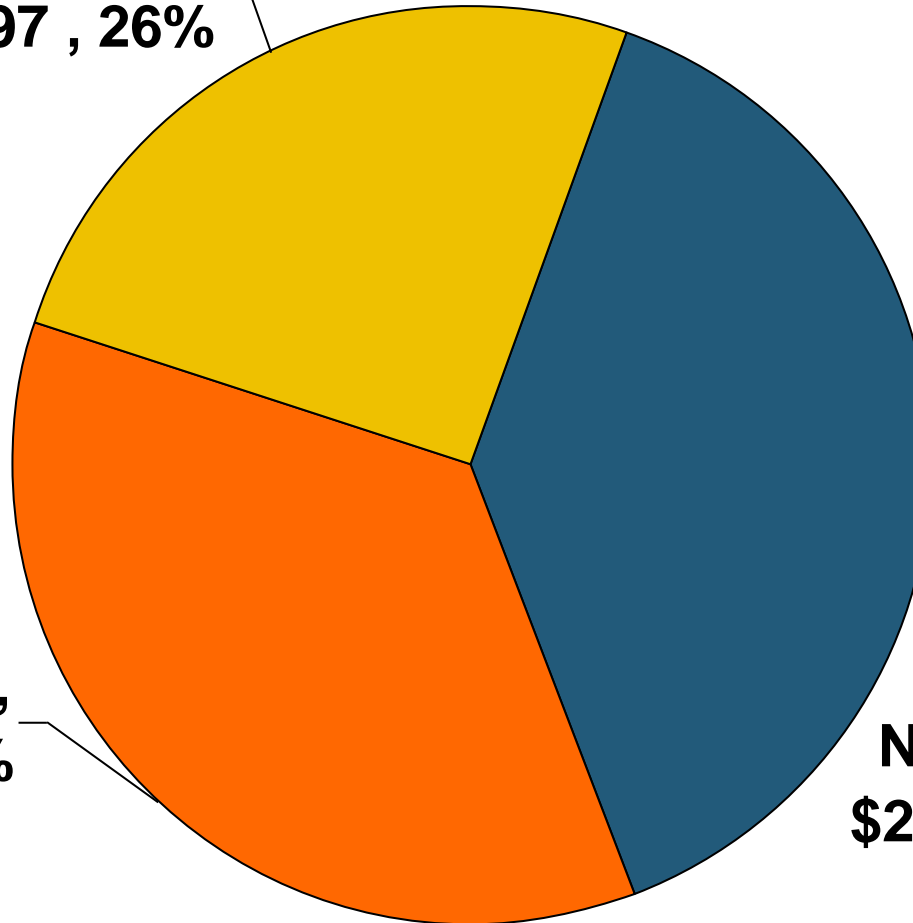
Total Claim Value = \$18.75 Billion*



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.

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

**All Other,
\$1,797 , 26%**



**New Jersey,
\$2,500 , 36%**

**New York,
\$2,700 , 38%**

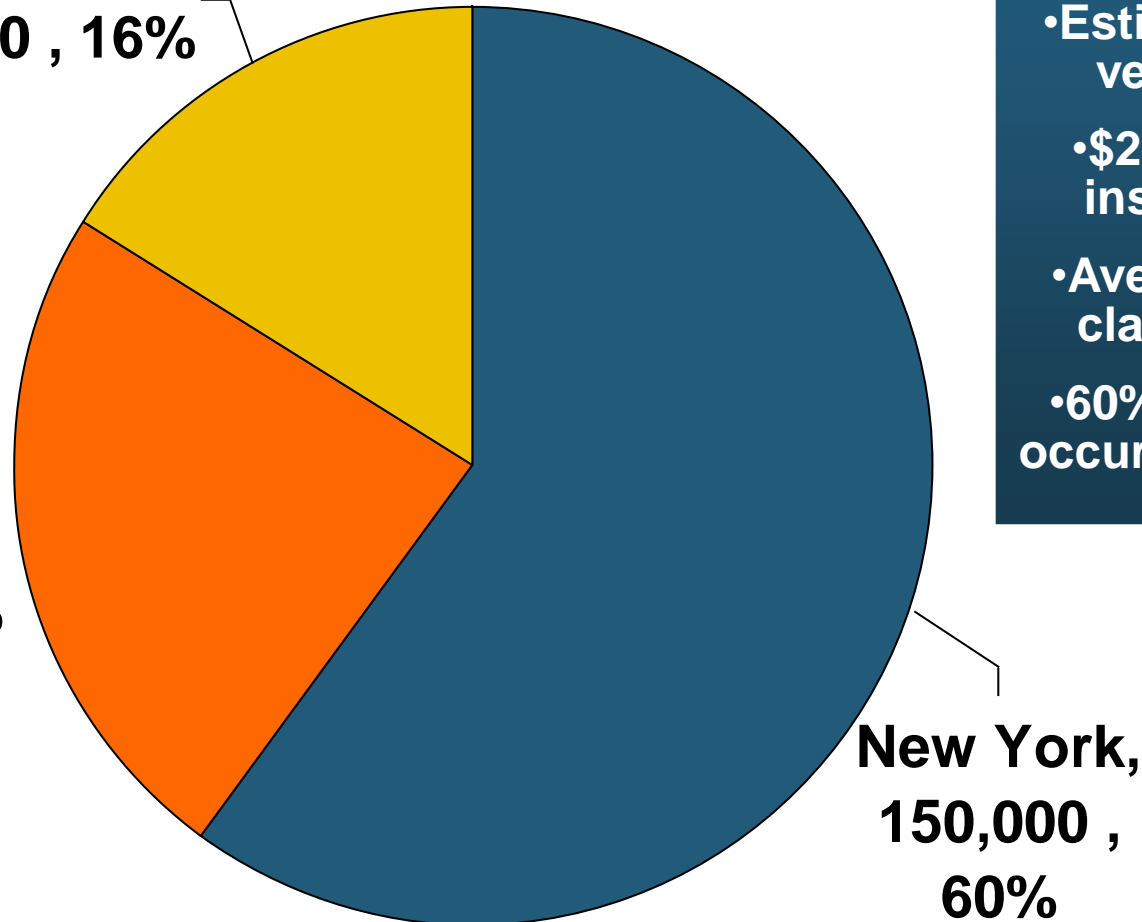
Hurricane Sandy

- Estimated 1,067,000 homeowners claims**
- \$7.0 billion in insured losses.
- Average loss per claim is \$6,558
- Claims in NJ estimated at \$2.5 billion (36%) and \$2.7 billion in NY (38%)

Hurricane Sandy: Number of Auto Claims by State*

**All Other,
40,500 , 16%**

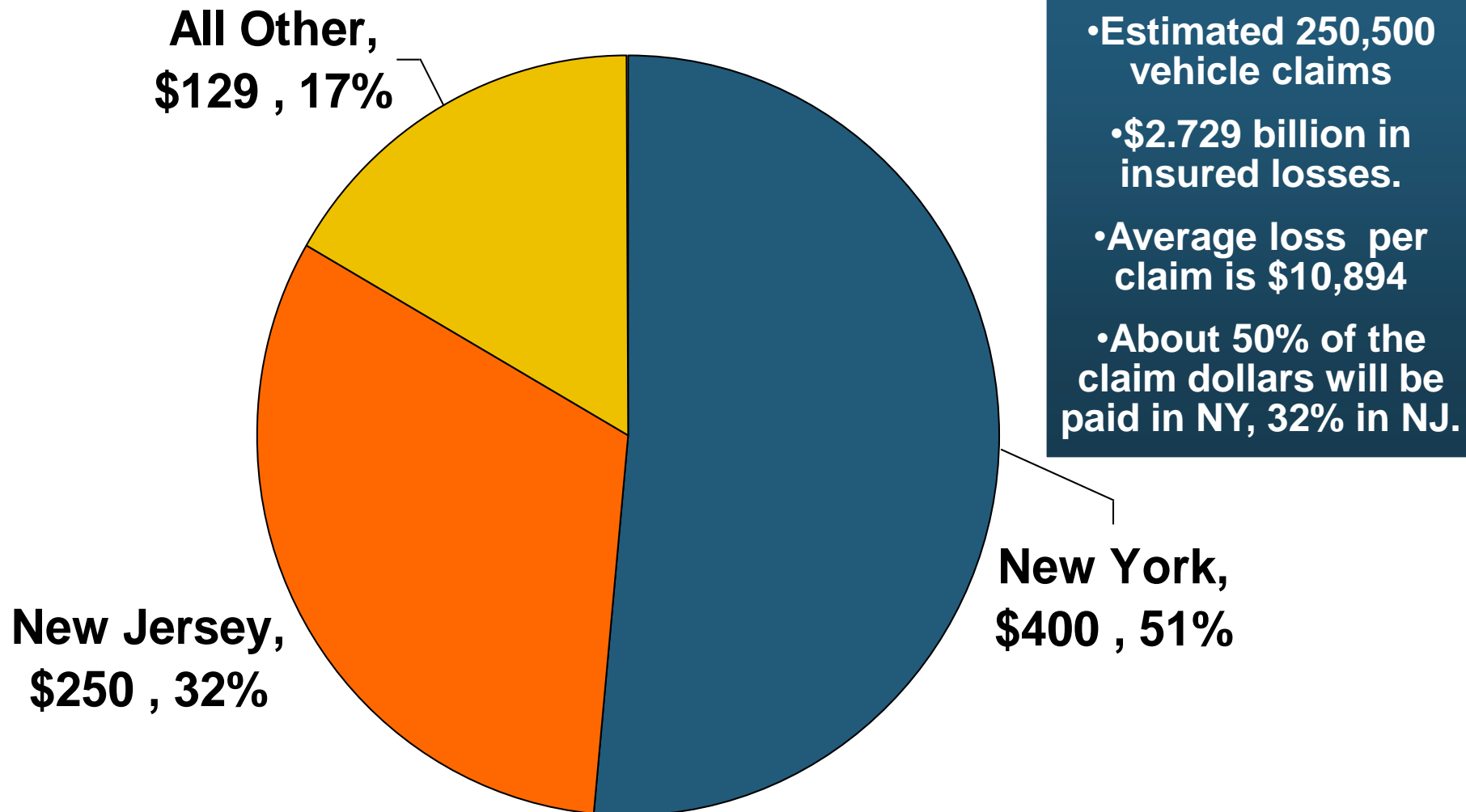
**New Jersey,
60,000 , 24%**



Hurricane Sandy

- Estimated 250,500 vehicle claims
- \$2.729 billion in insured losses.
- Average loss per claim is \$10,894
- 60% of the claims occurred in NY state.

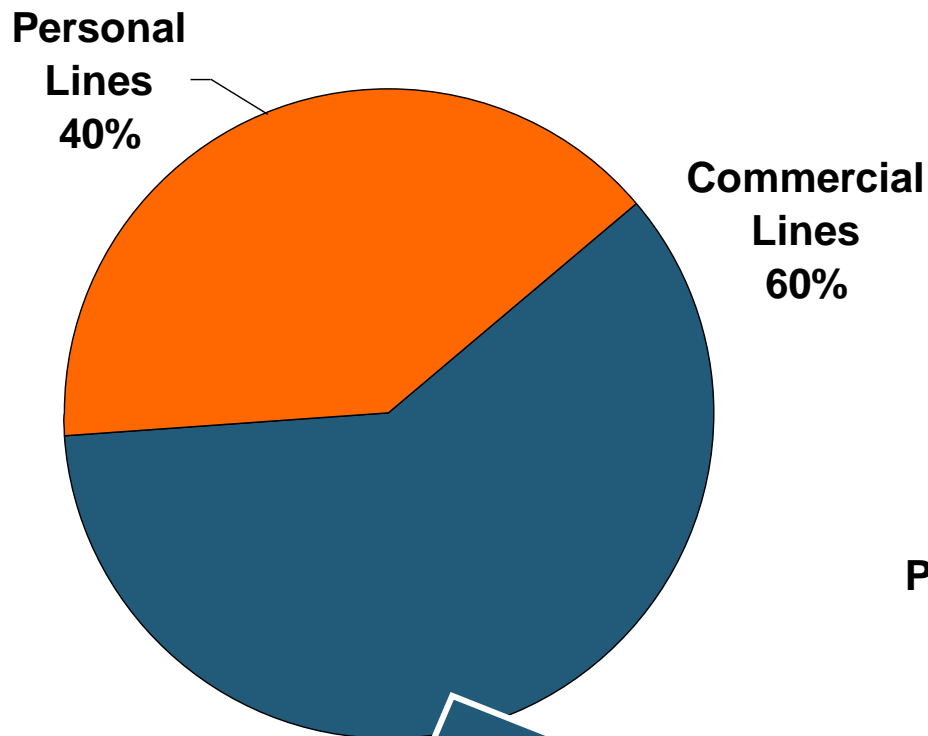
Hurricane Sandy: Value of Auto Claims Paid, by State* (\$ Millions)



*Preliminary as of 1/18/13.
Source: PCS.

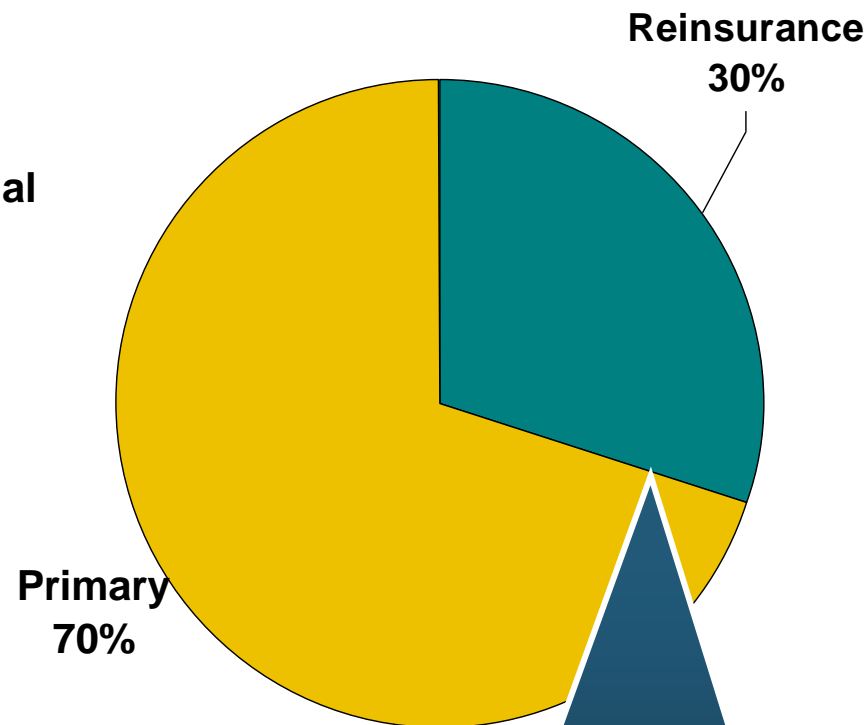
Hurricane Sandy: Loss Distribution by Commercial/Personal Lines and Reinsurance vs. Primary Insurer

Personal vs. Commercial Lines*



~60-65% of Sandy losses appear to be commercial lines, and 35-40% personal, the opposite of the norm for hurricane losses

Primary vs. Reinsurer Share**

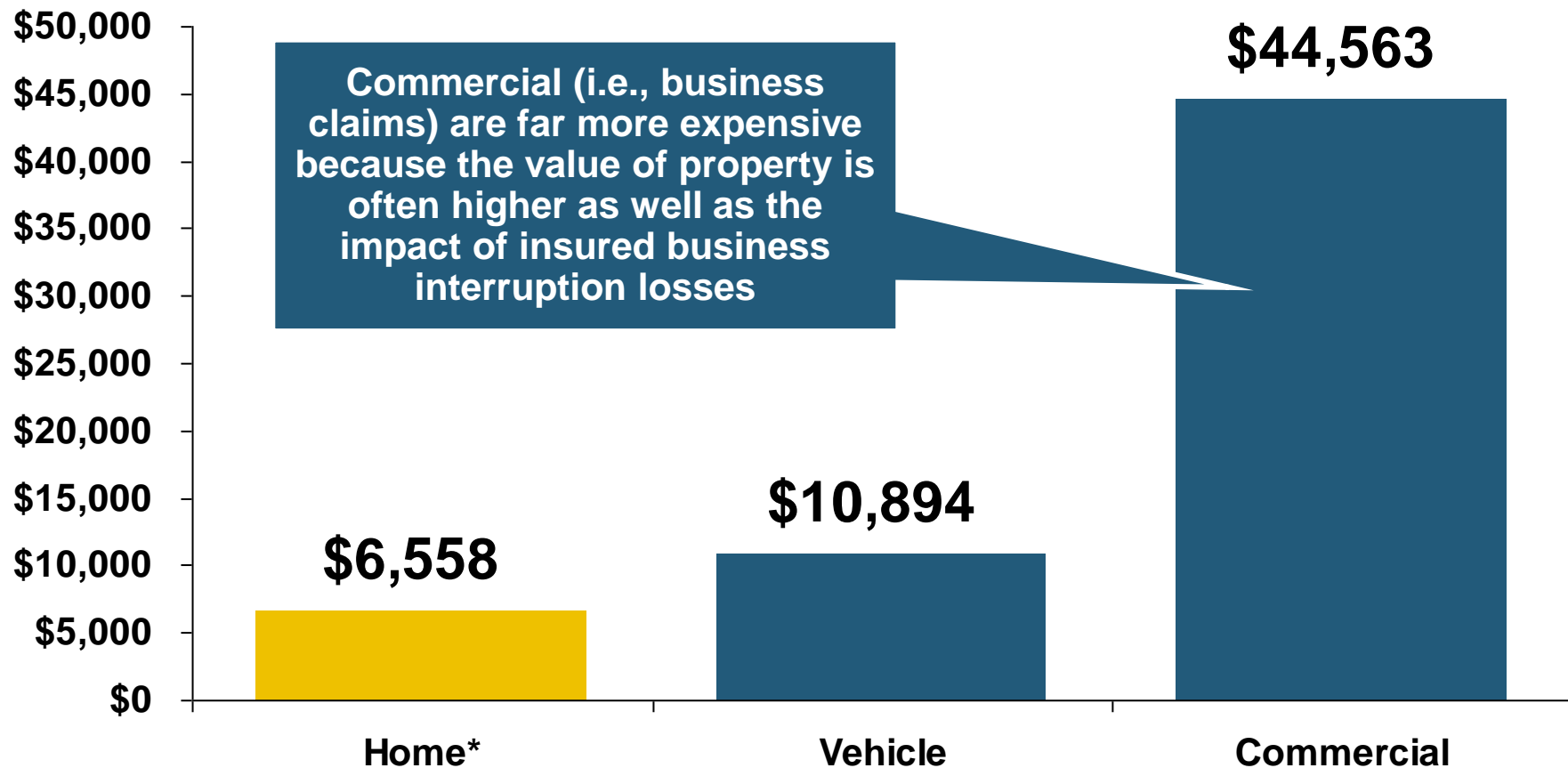


Reinsurers' share of Sandy losses appears to be in the 30% range, though this is highly preliminary

*Fitch Ratings assigns a range of 60-65% commercial and 35-40% personal lines., *Hurricane Sandy Update*, January 8, 2013.

**Source: Insurance Information Institute rough estimate based on company reports as of January 13, 2013. Actual number will vary.

Hurricane Sandy: Average Claim Payment by Type of Claim



Commercial (Business) Claims Were Nearly Seven Times More Expensive than Homeowners Claims; Vehicle Claims Were Unusually Expensive Due to Extensive Flooding

*Includes rental and condo policies.

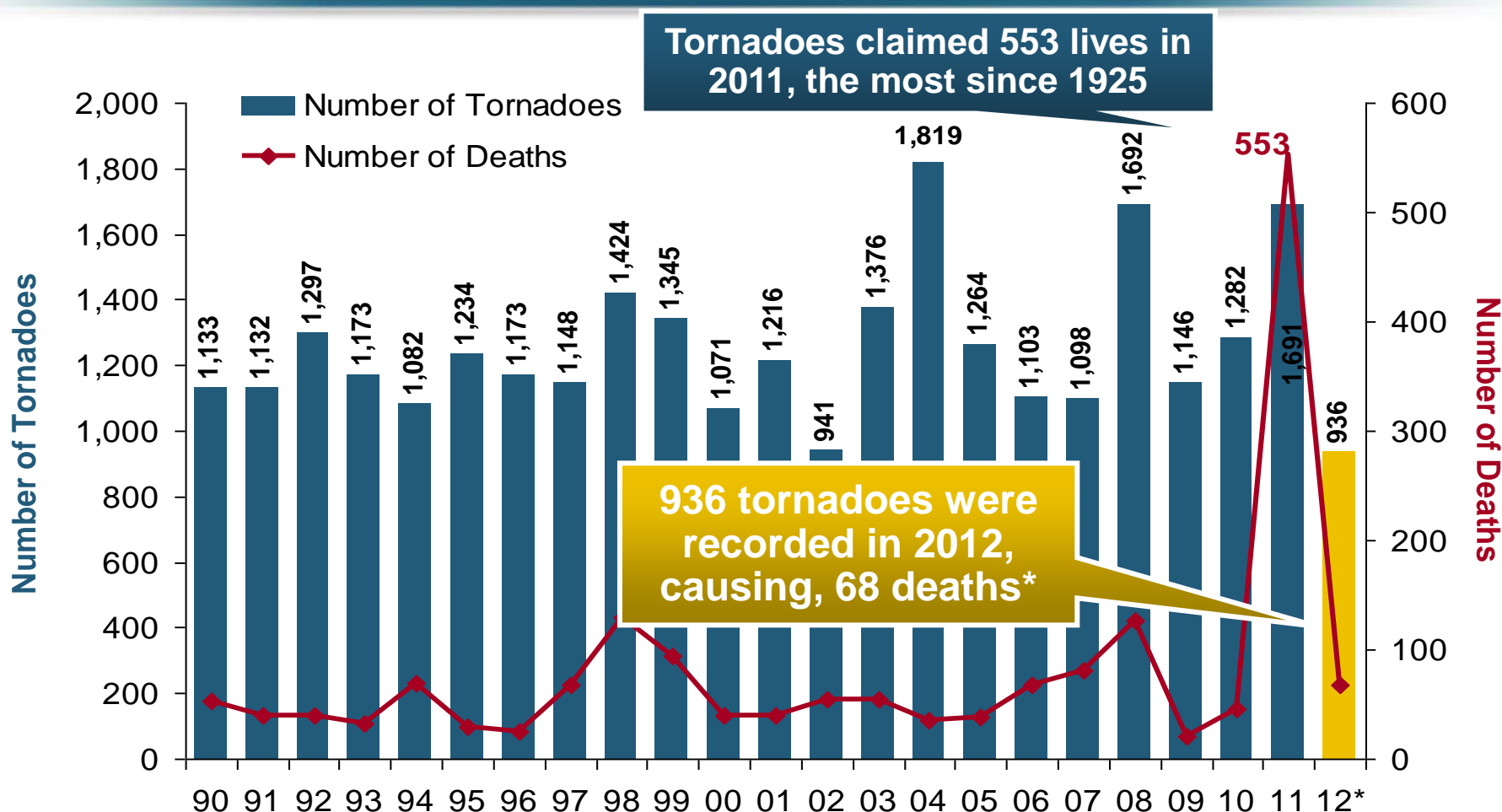
Sources: Catastrophe loss data is for Catastrophe Serial No. 90 (Oct. 28 – 31, 2012) from PCS as of Jan. 18, 2013; Insurance Information Institute.



2012 TORNADO & SEVERE STORM SUMMARY

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

Number of Tornadoes and Related Deaths, 1990 – 2012*

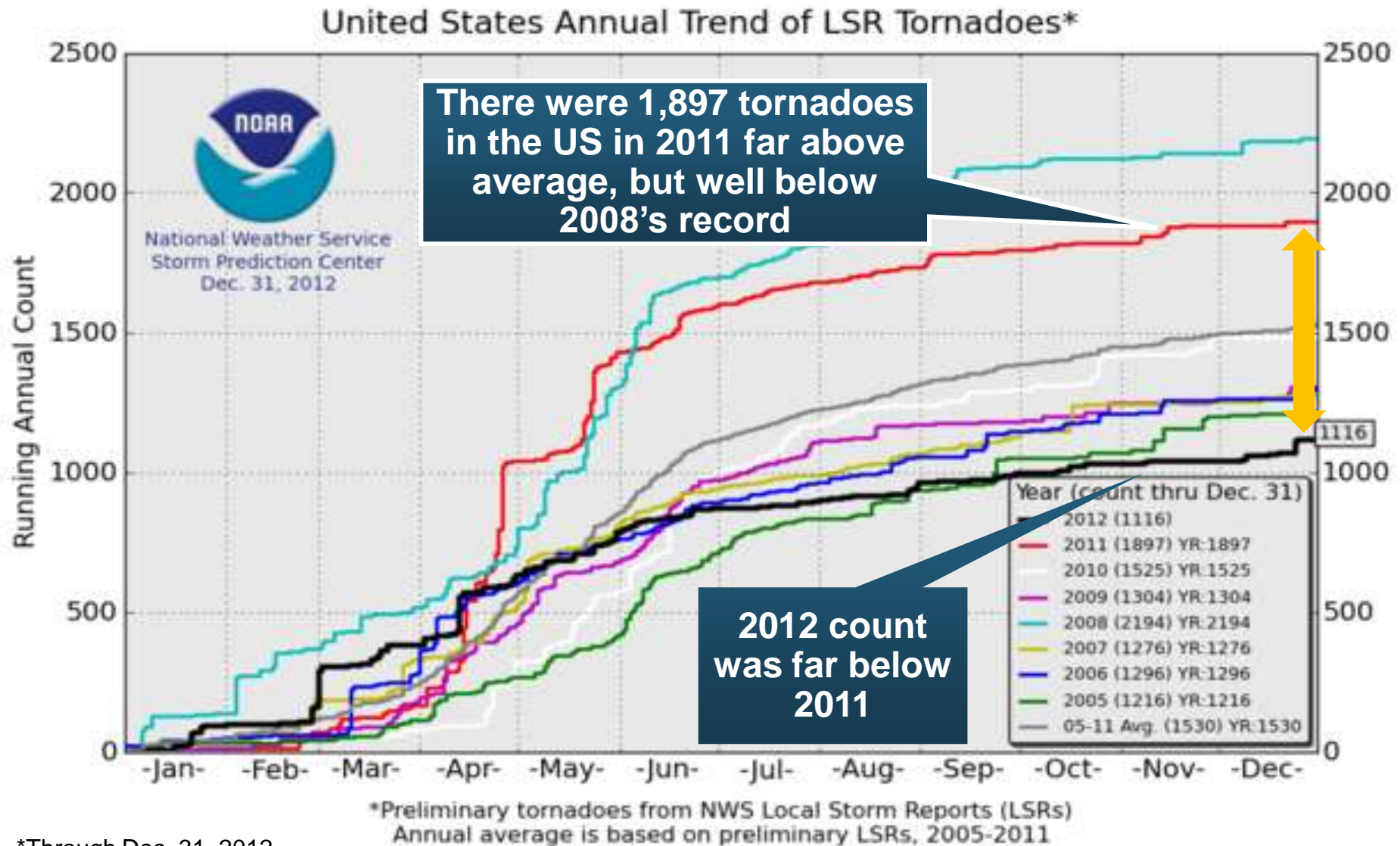


2012 Tornado Losses Got Off to an Ominous Beginning, but Slowed. Yet Despite Fewer Tornadoes, Overall Insured Losses from Thunderstorms Totaled \$14.9B, the 2nd Highest on Record.

*Through Dec. 31, 2012.

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

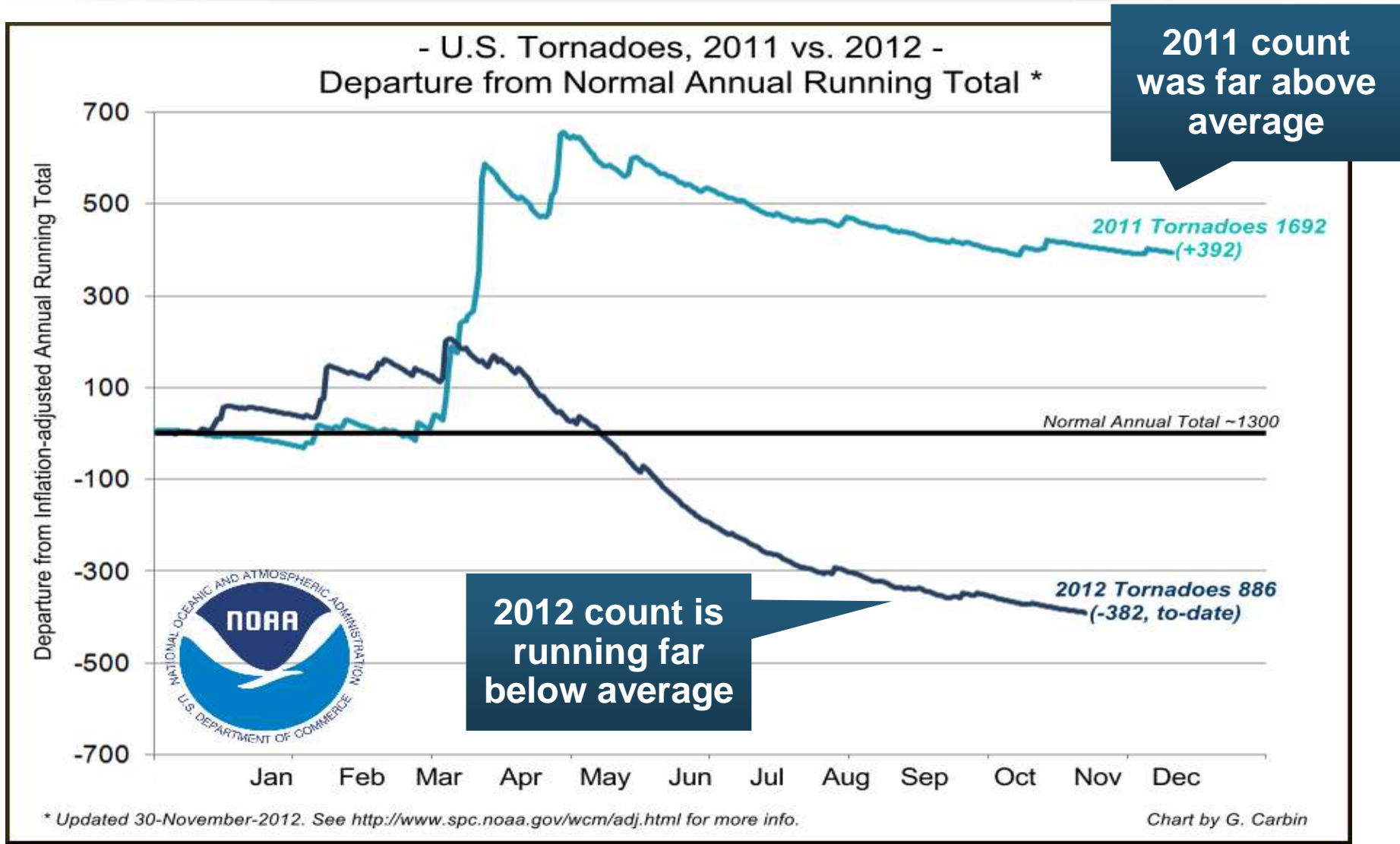
U.S. Tornado Count, 2005-2012*



*Through Dec. 31, 2012.

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

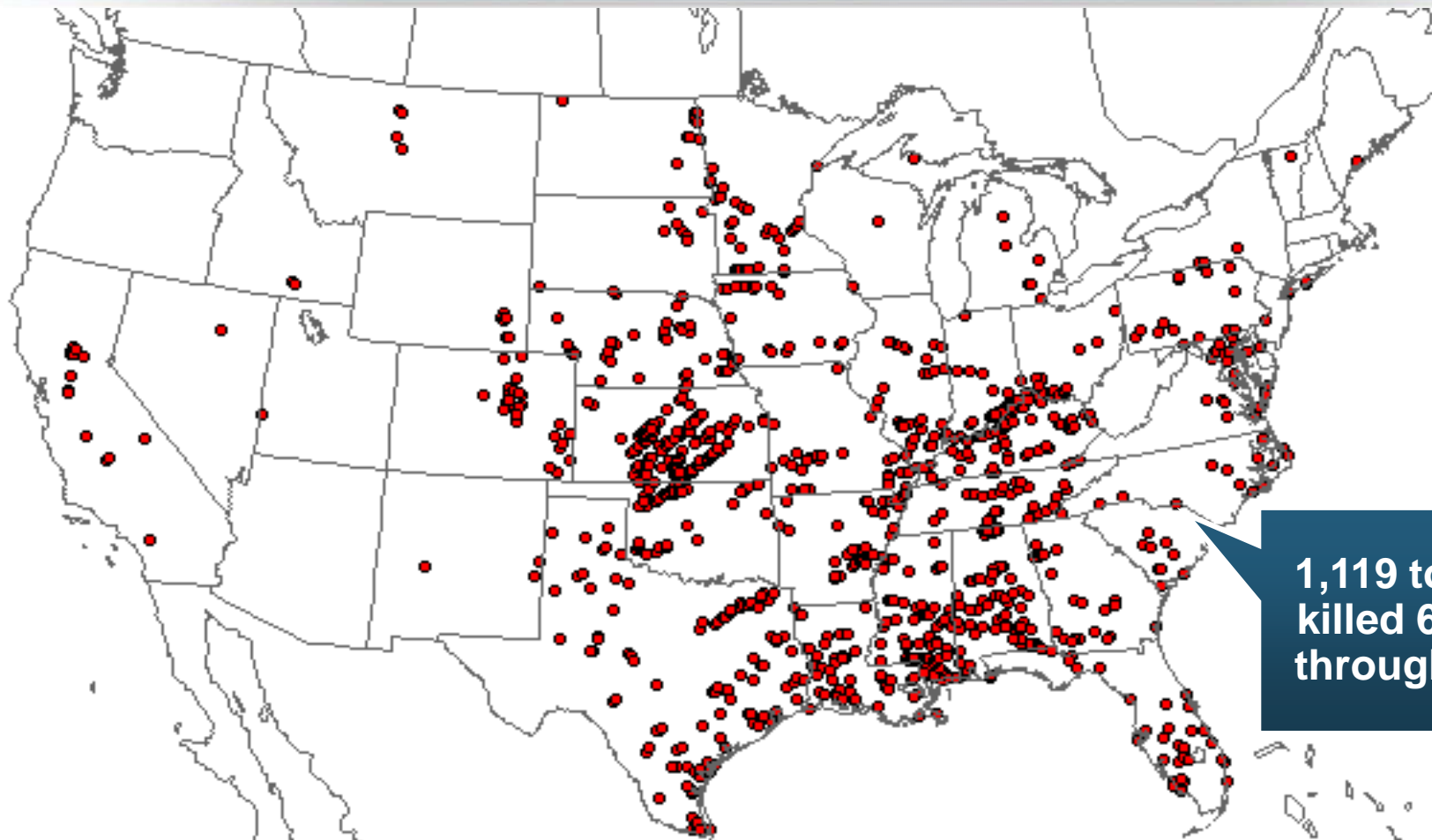
U.S. Tornado Count, Departure from Inflation-Adjusted Running Total, 2011 vs. 2012*



*Through Nov. 30, 2012.

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

Location of Tornadoes in the US, 2012*



1,119 tornadoes
killed 68 people
through Dec. 31



PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

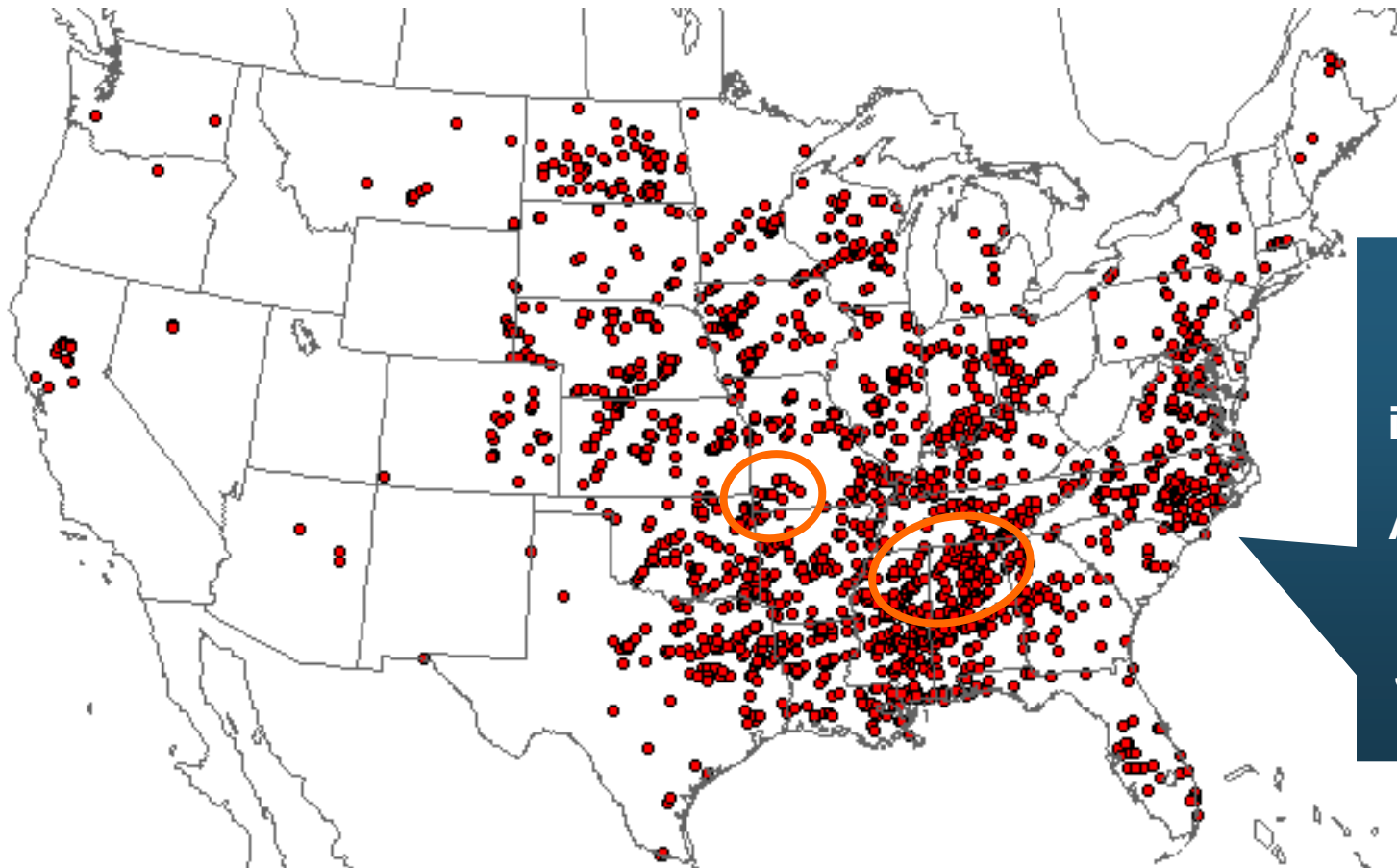
Tornado Reports
January 01, 2012 - December 31, 2012

Updated: Sunday January 06, 2013 02:10 CT

*Through Dec. 31, 2012.

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

Location of Tornadoes in the US, 2011



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



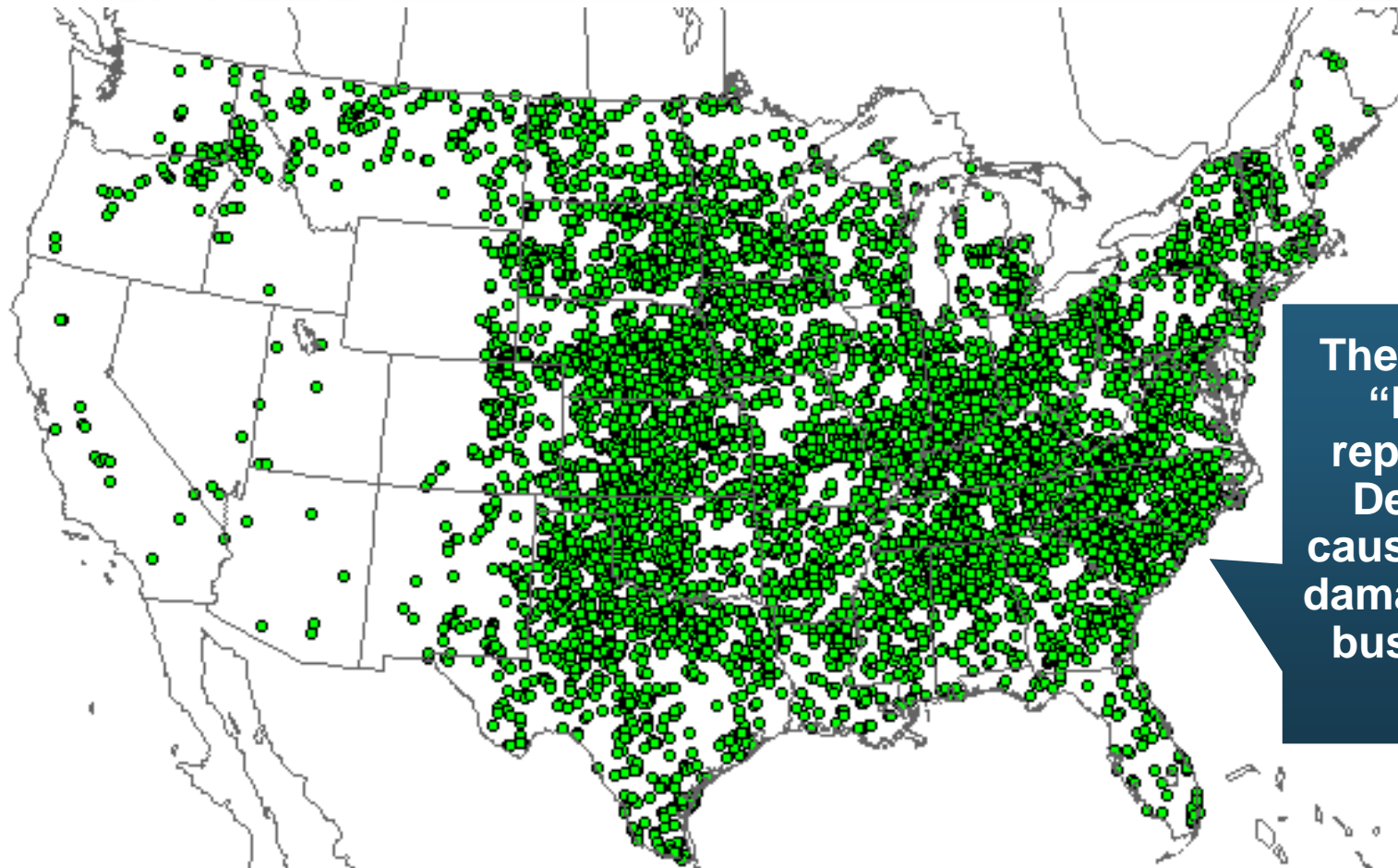
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Tornado Reports
January 01, 2011 - December 27, 2011

Updated: Tuesday December 27, 2011 16:35 CT

Location of Large Hail Reports in the US, 2012*



There were 7,033
“Large Hail”
reports through
Dec. 31, 2012,
causing extensive
damage to homes,
businesses and
vehicles



PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

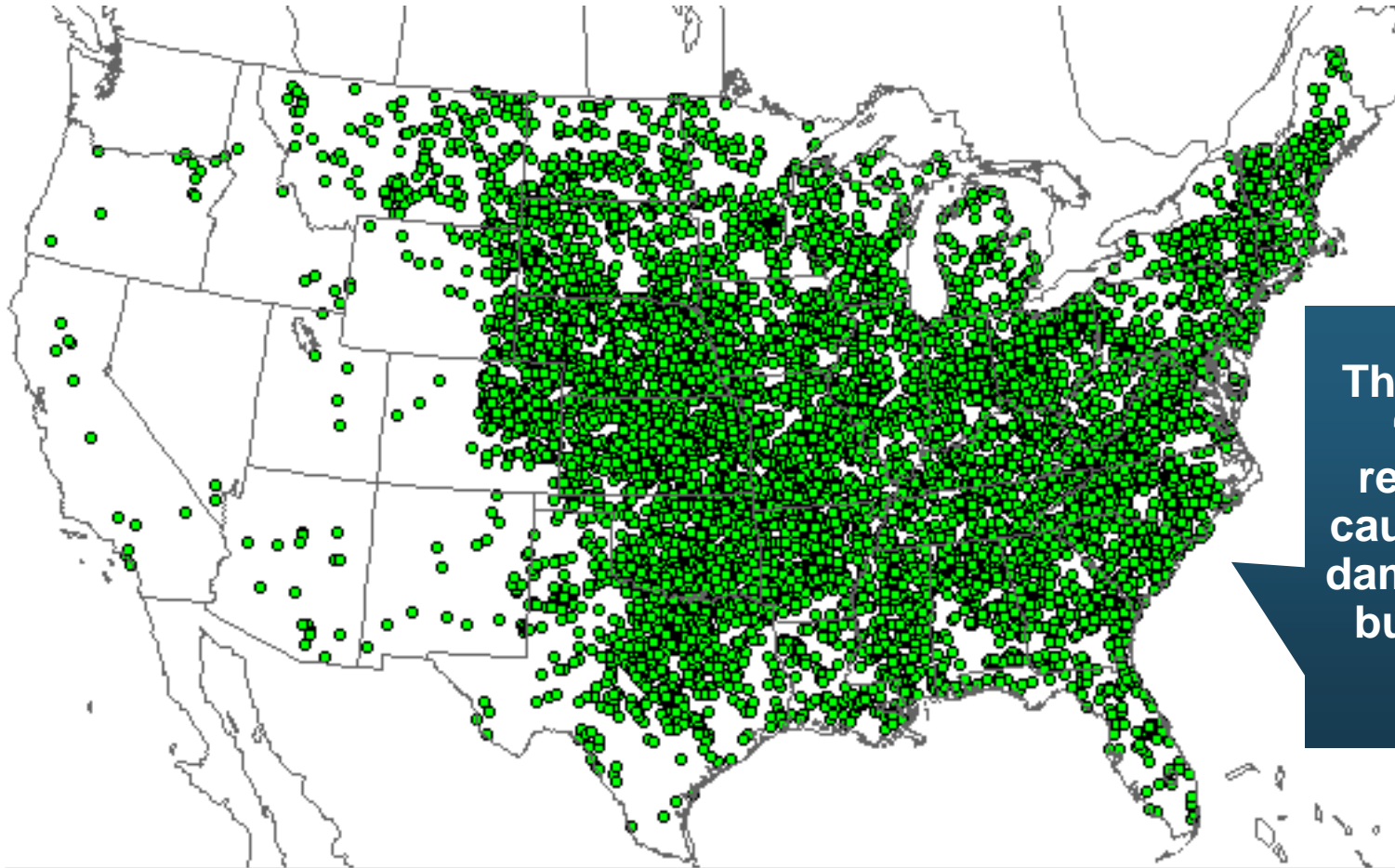
Hail Reports
January 01, 2012 - December 31, 2012

Updated: Sunday January 06, 2013 02:10 CT

*Through Dec. 31, 2012.

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

Location of Large Hail Reports in the US, 2011



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



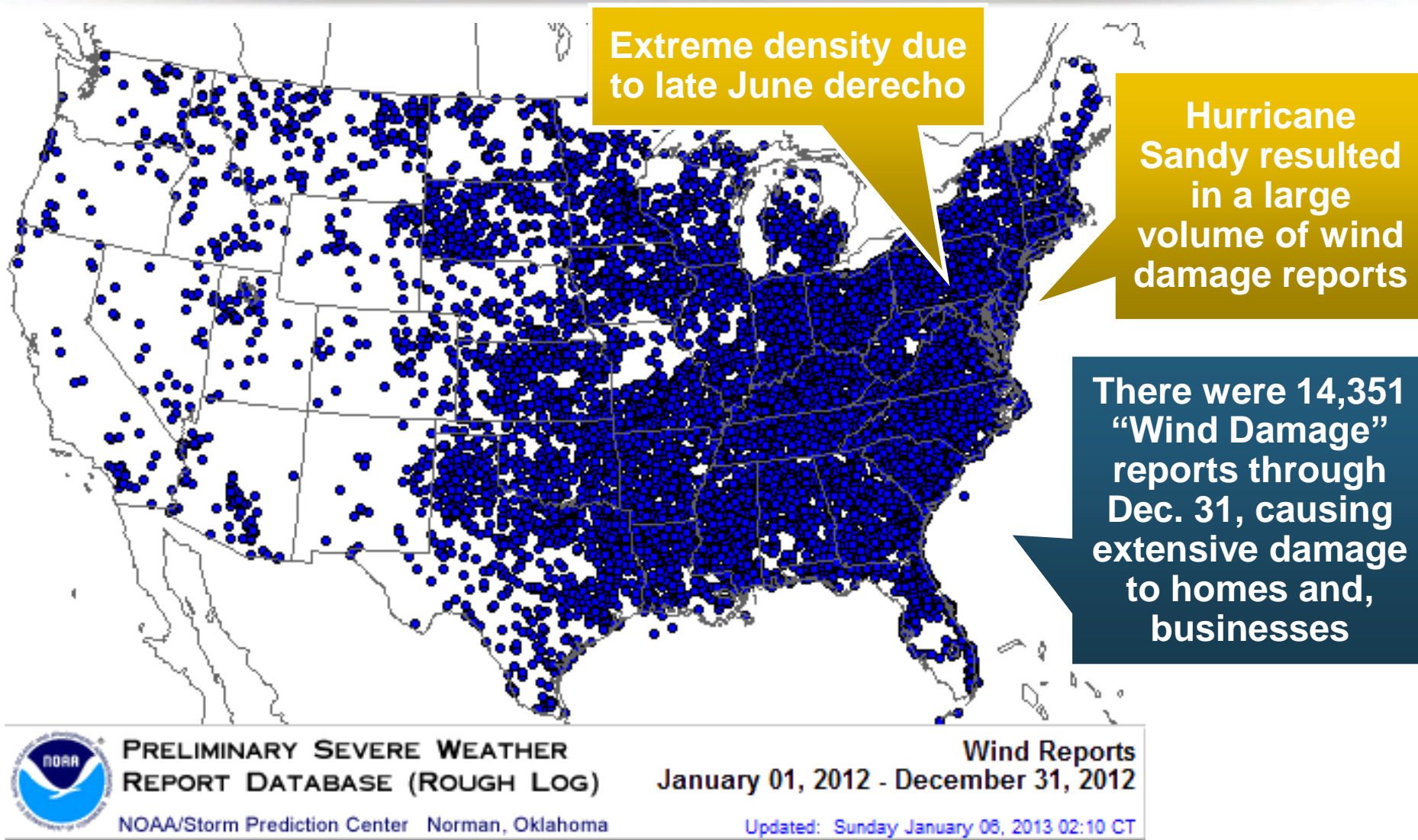
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Hail Reports
January 01, 2011 - December 27, 2011

Updated: Tuesday December 27, 2011 16:35 CT

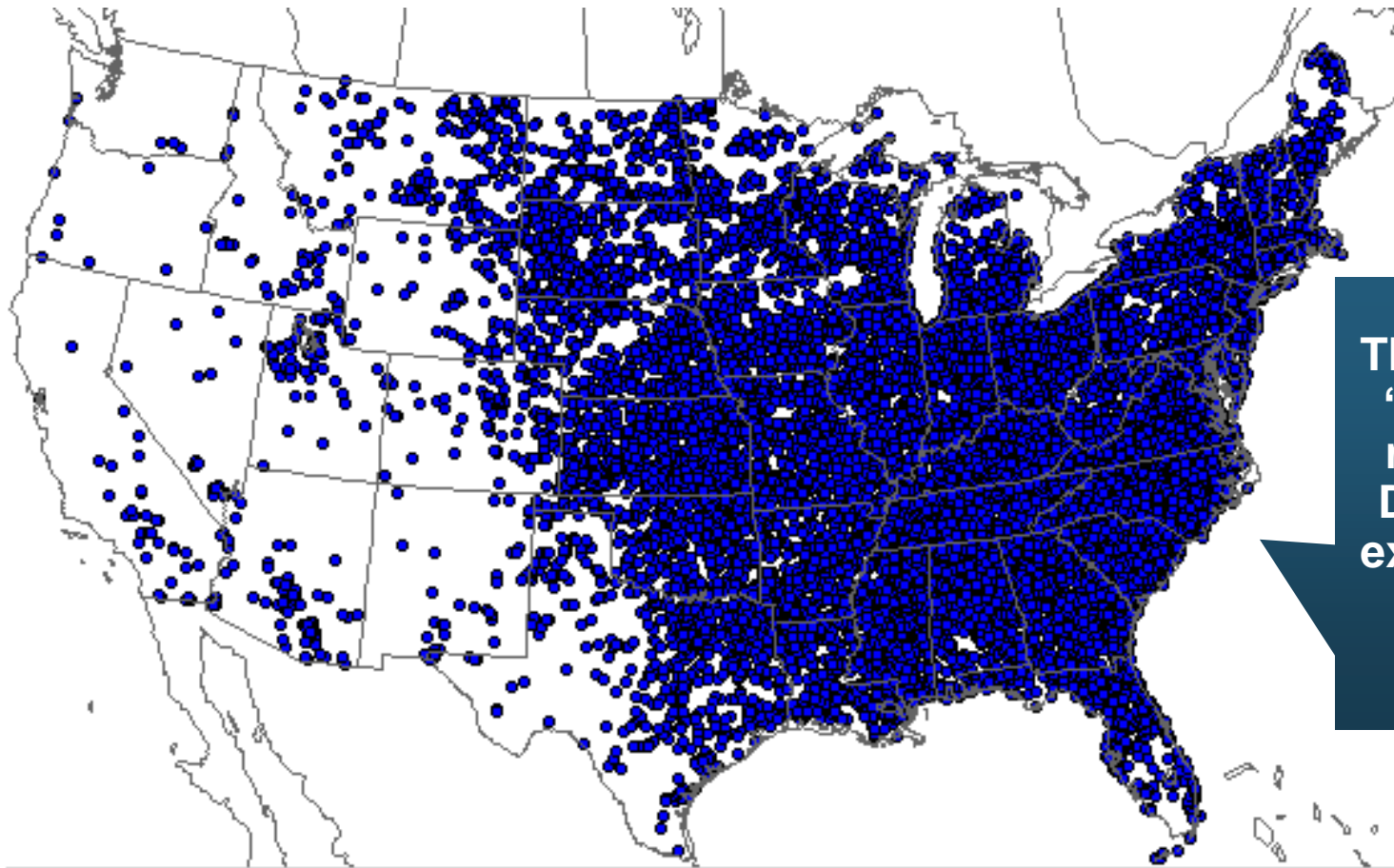
Location of Wind Damage Reports in the US, 2012*



*Through Dec. 31, 2012.

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

Location of Wind Damage Reports in the US, 2011



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



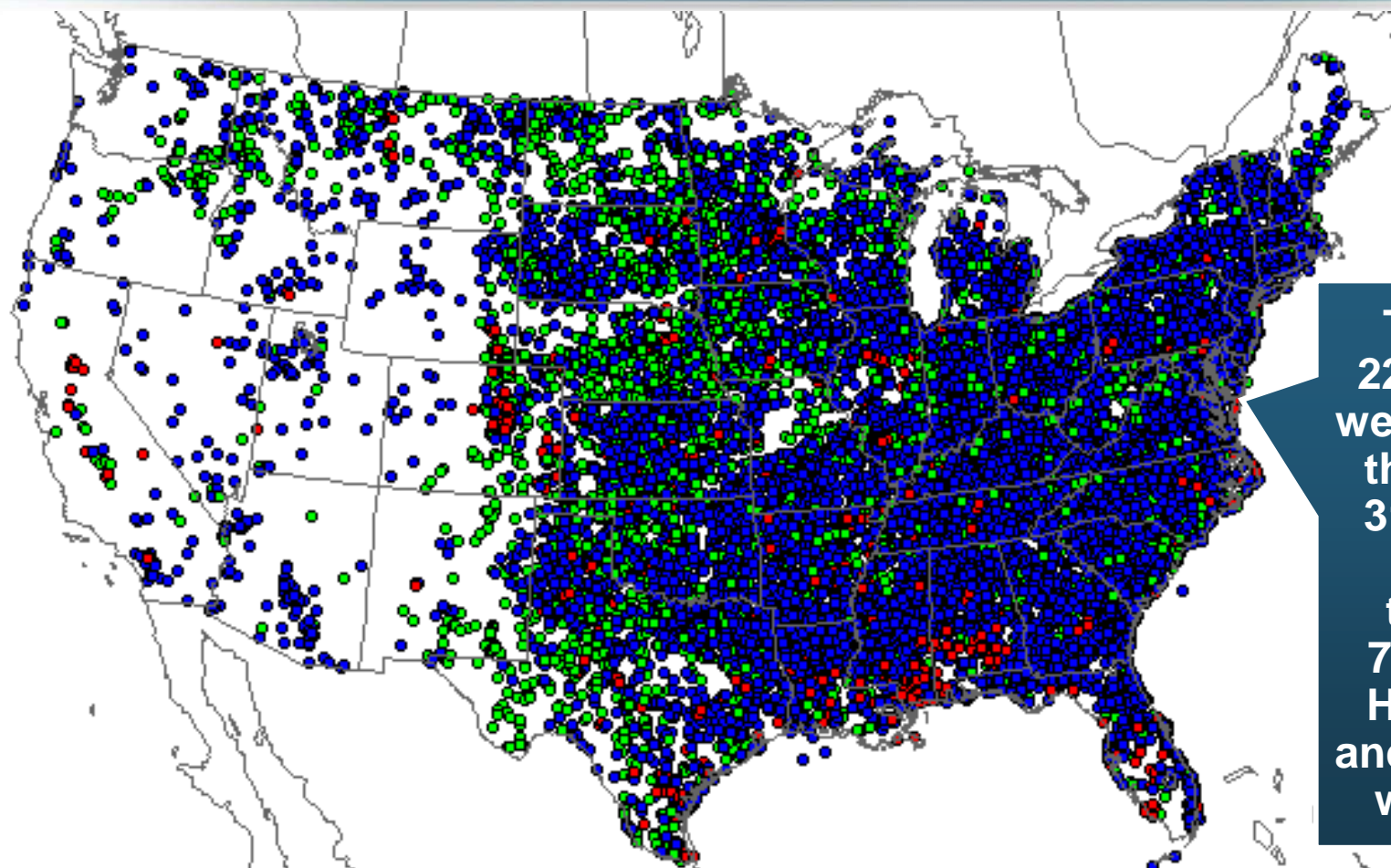
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Wind Reports
January 01, 2011 - December 27, 2011

Updated: Tuesday December 27, 2011 16:35 CT

Severe Weather Reports, 2012*



There were
22,503 severe
weather reports
through Dec.
31; 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

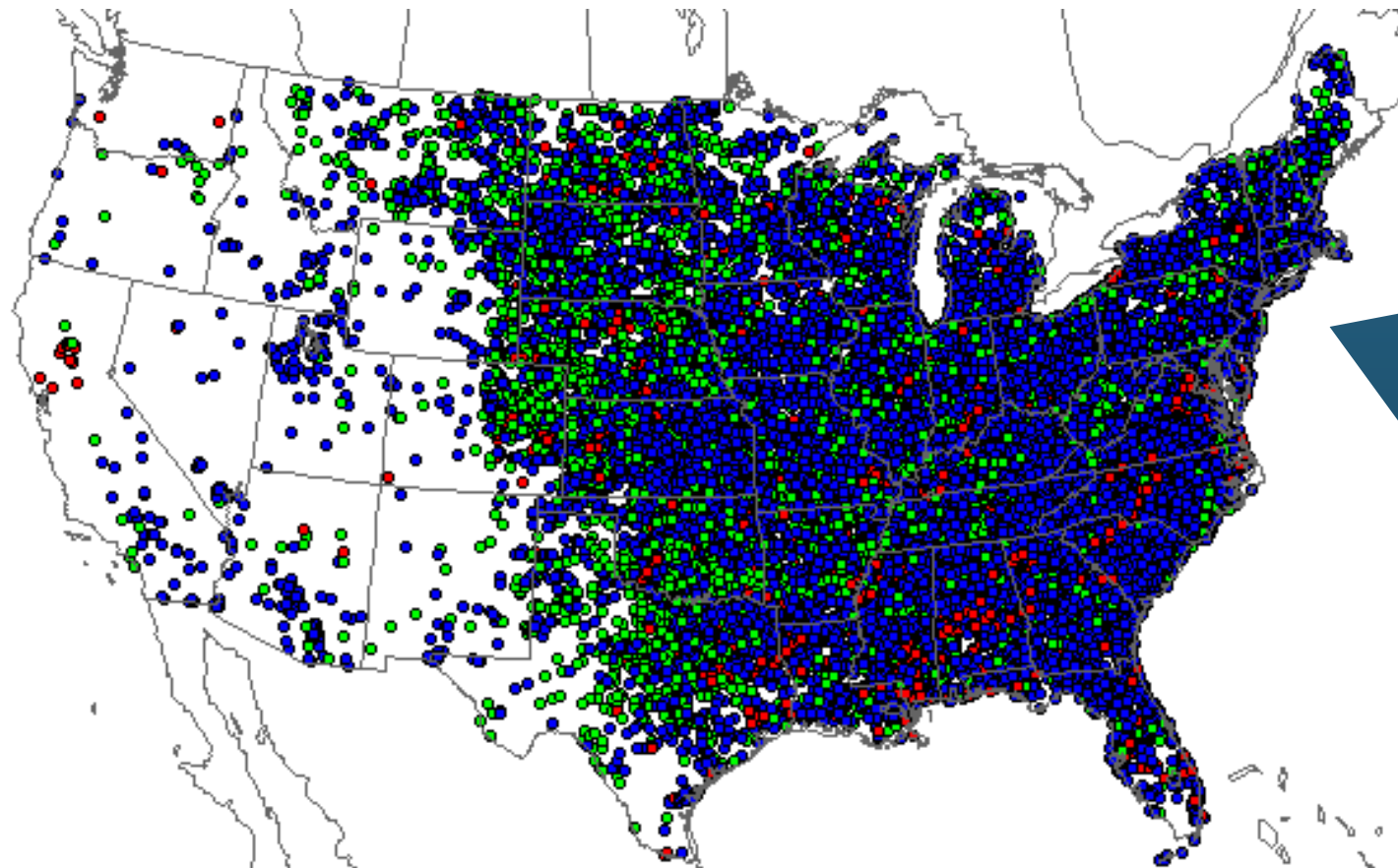
Severe Weather Reports
January 01, 2012 - December 31, 2012

Updated: Sunday January 06, 2013 02:10 CT

*Through Dec. 31, 2012.

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

Severe Weather Reports, 2011



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



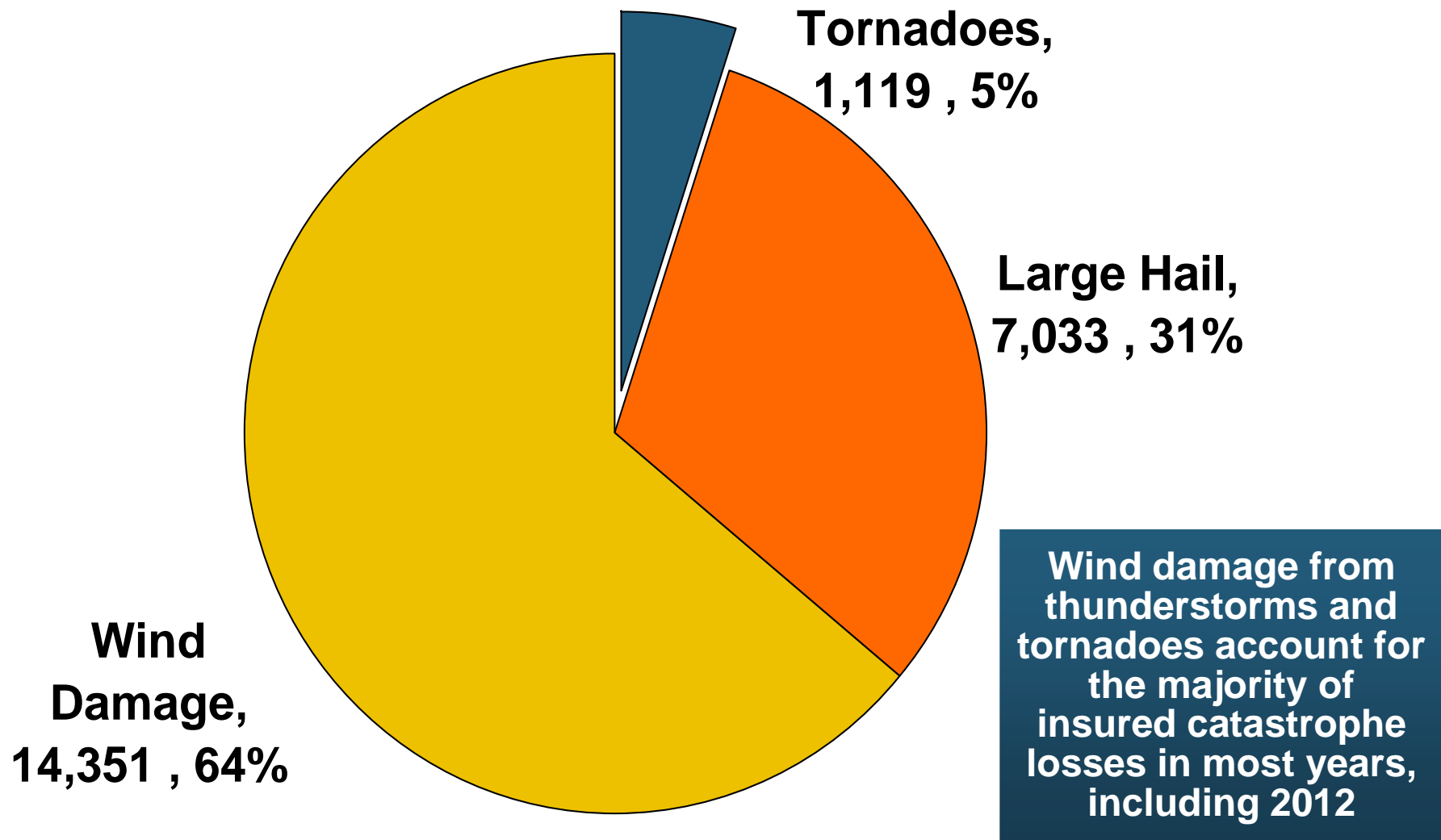
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

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

Updated: Tuesday December 27, 2011 16:35 CT

Number of Severe Weather Reports in US, by Type, 2012



The BIG Question: Where Is the Market Heading?

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

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

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

Criteria	Status	Comments
Sustained Period of Large Underwriting Losses	<i>Large CAT Losses in 2011/12 Pushed Up Combined</i>	<ul style="list-style-type: none"> •CAT Losses contributing to higher underwriting losses •Apart from CAT losses, overall p/c underwriting losses remain modest •Combined ratios (ex-CATs) still in low 100s (vs. 110+ at onset of last hard market); CR= 101.1 in H1:2012 (ex-M&FG) •Prior-year reserve releases continue to reduce u/w losses, boost ROEs, though more modestly
Material Decline in Surplus/ Capacity	<i>Small Decline Due to 2011 Cats; Could drop in 2012</i>	<ul style="list-style-type: none"> •Fell 1.6% in 2011 due to CATs •Surplus reached record as of 9/30/12 record \$583.5B •Likely drop as of 12/31/12 due to Sandy impact •Modest growth in demand for insurance should begin to absorb some capacity
Tight Reinsurance Market	<i>Somewhat in Place</i>	<ul style="list-style-type: none"> •Ample capacity •Market is generally flat except up for cat-impacted accounts •Lower prices in Europe
Renewed Underwriting & Pricing Discipline	<i>Firming Broad, Sustained, esp. in Property, WC</i>	<ul style="list-style-type: none"> •Commercial lines pricing is consistently and uniformly across all major lines, esp. Property & WC; •Markets remain competitive in most segments

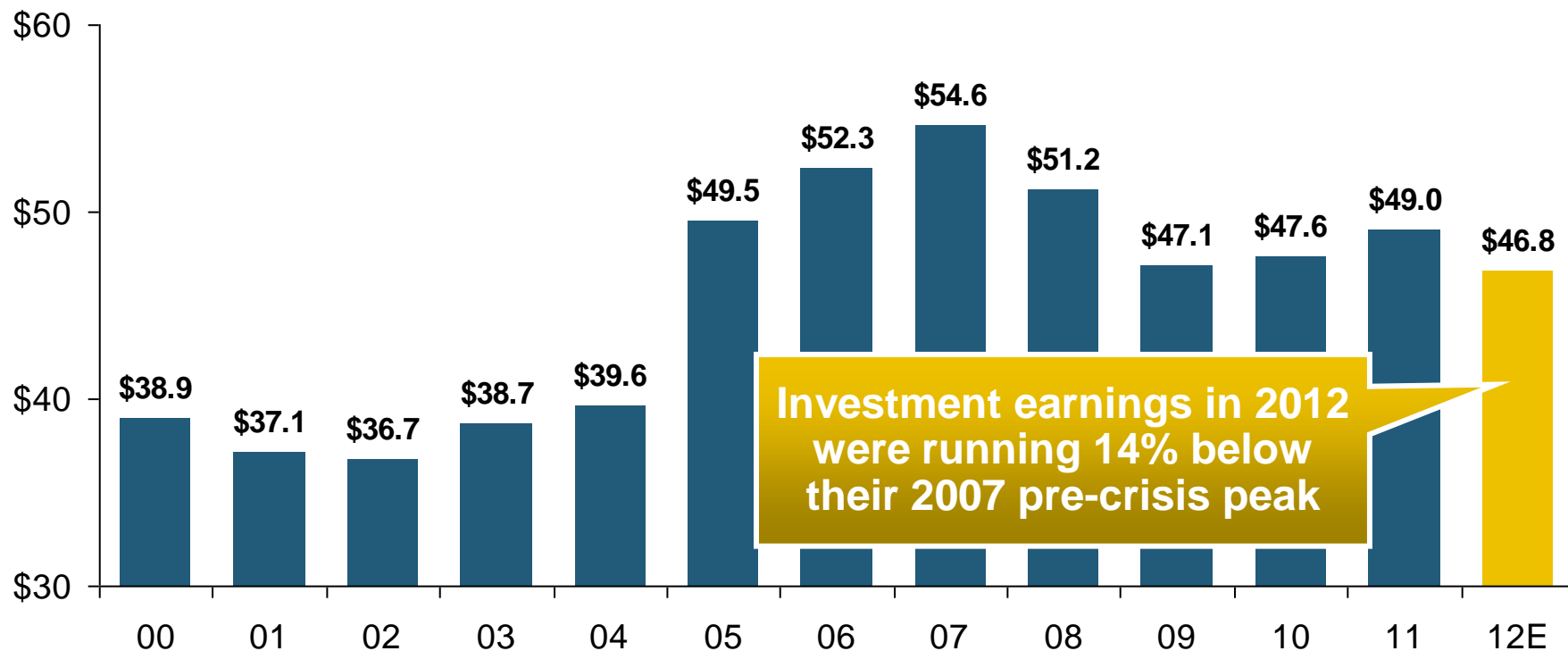
INVESTMENTS: THE NEW REALITY

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

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

Property/Casualty Insurance Industry Investment Income: 2000–2012E¹

(\$ Billions)



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

¹ Investment gains consist primarily of interest and stock dividends.

*2012F is based on annualized 9M:2012 actual figure of \$35.131B.

Sources: ISO; Insurance Information Institute.

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

(\$ Billions)



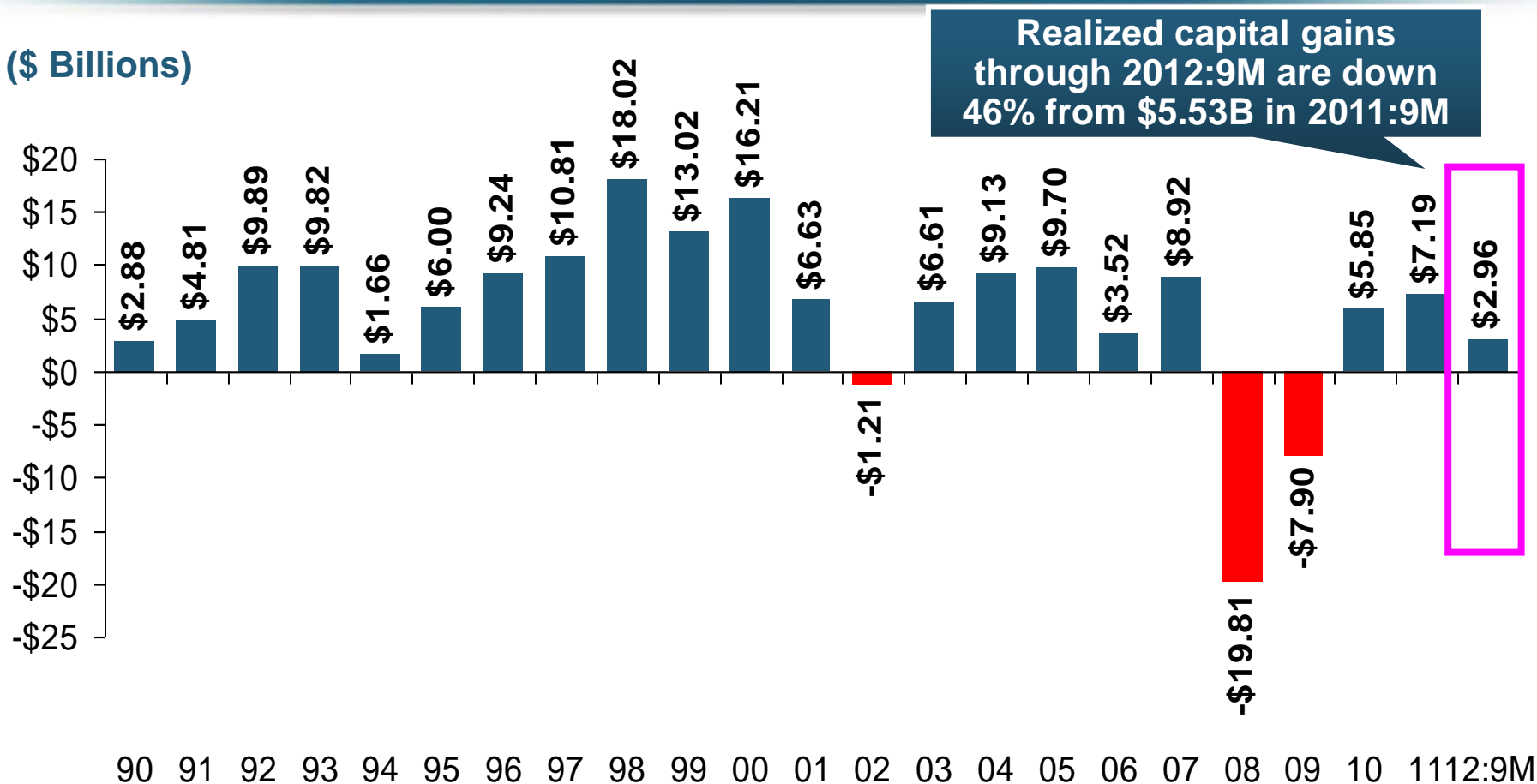
Investment Gains Are Slipping in 2012 as Low Interest Rates Reduce Investment Income and Lower Realized Investment Gains; The Financial Crisis Caused Investment Gains to Fall by 50% in 2008

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

* 2005 figure includes special one-time dividend of \$3.2B; 2012F figure is III estimate based on annualized actual 9M:2012 result of \$38.089B.
Sources: ISO; Insurance Information Institute.

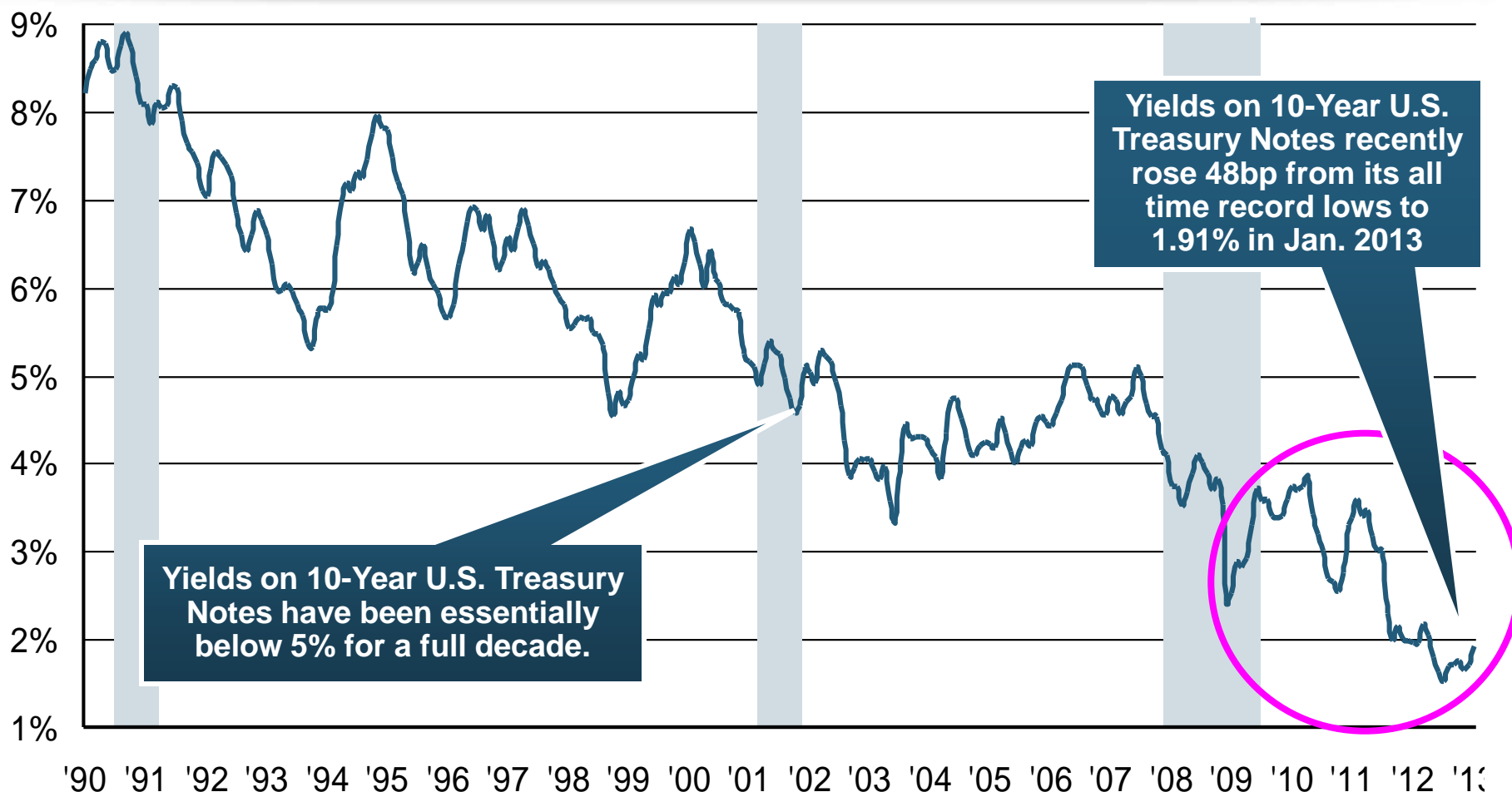
P/C Insurer Net Realized Capital Gains/Losses, 1990-2012:Q3

(\$ Billions)



Insurers Posted Net Realized Capital Gains in 2010, 2011 and 2012 Following Two Years of Realized Losses During the Financial Crisis. Realized Capital Losses Were the Primary Cause of 2008/2009's Large Drop in Profits and ROE

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



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.

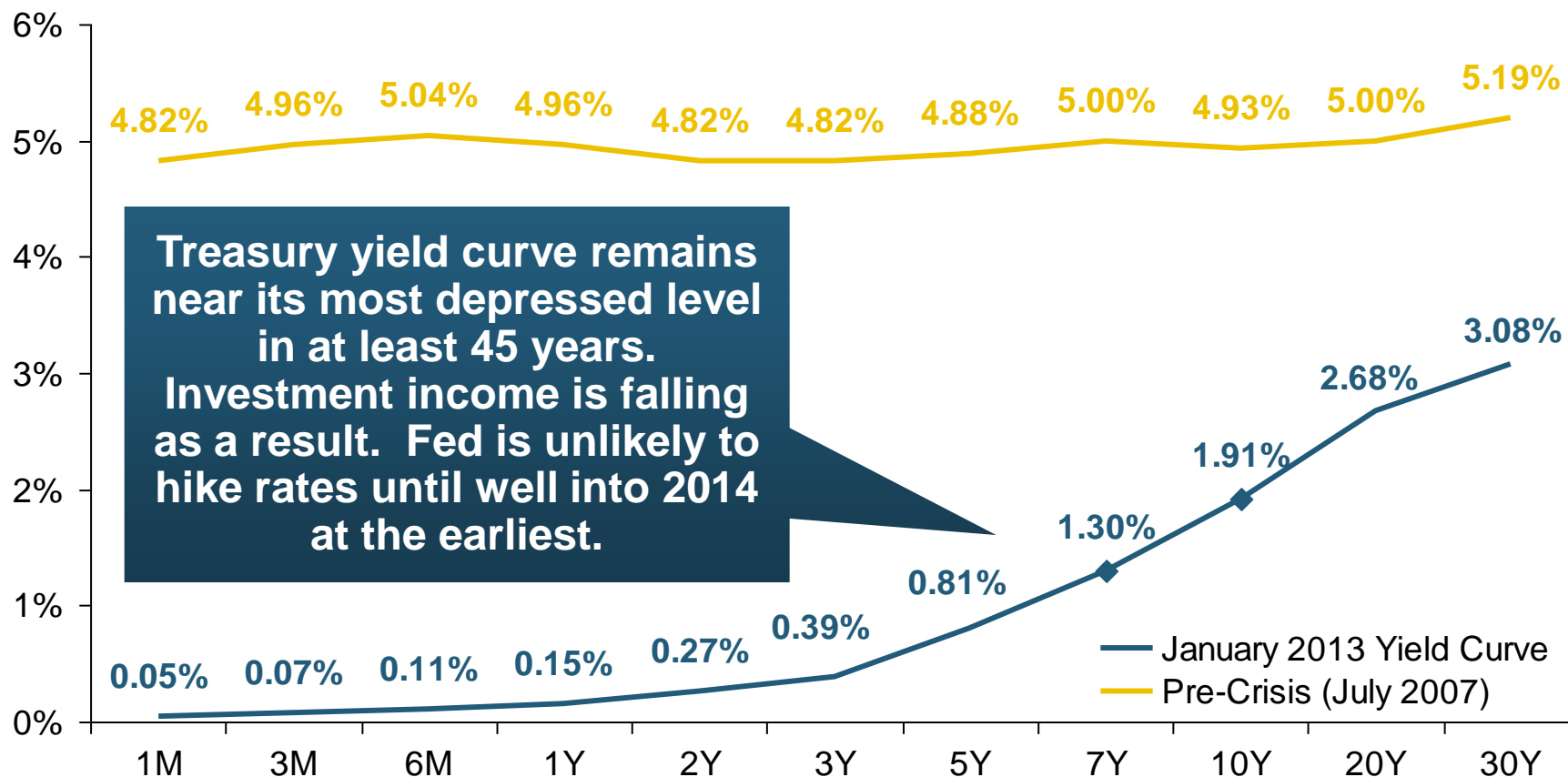
*Monthly, through Jan. 2013.

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.

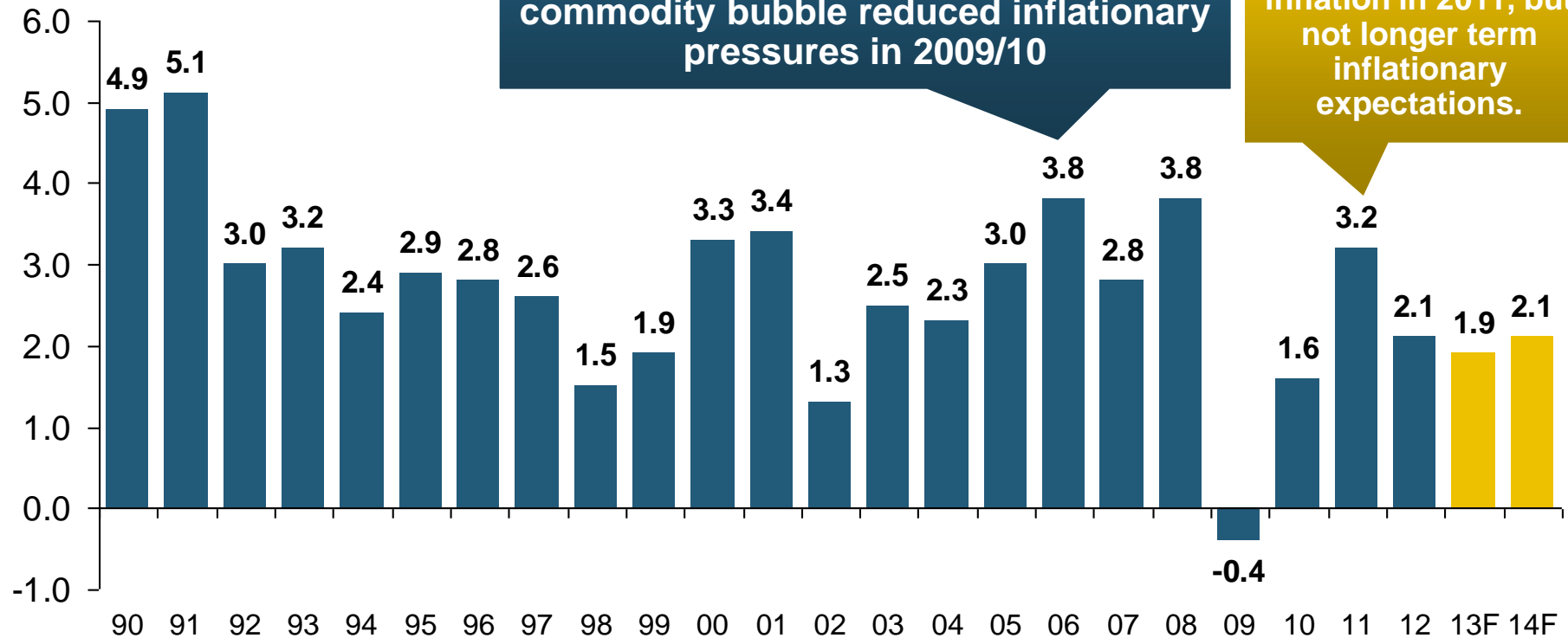
Treasury Yield Curves: Pre-Crisis (July 2007) vs. Jan. 2013



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.

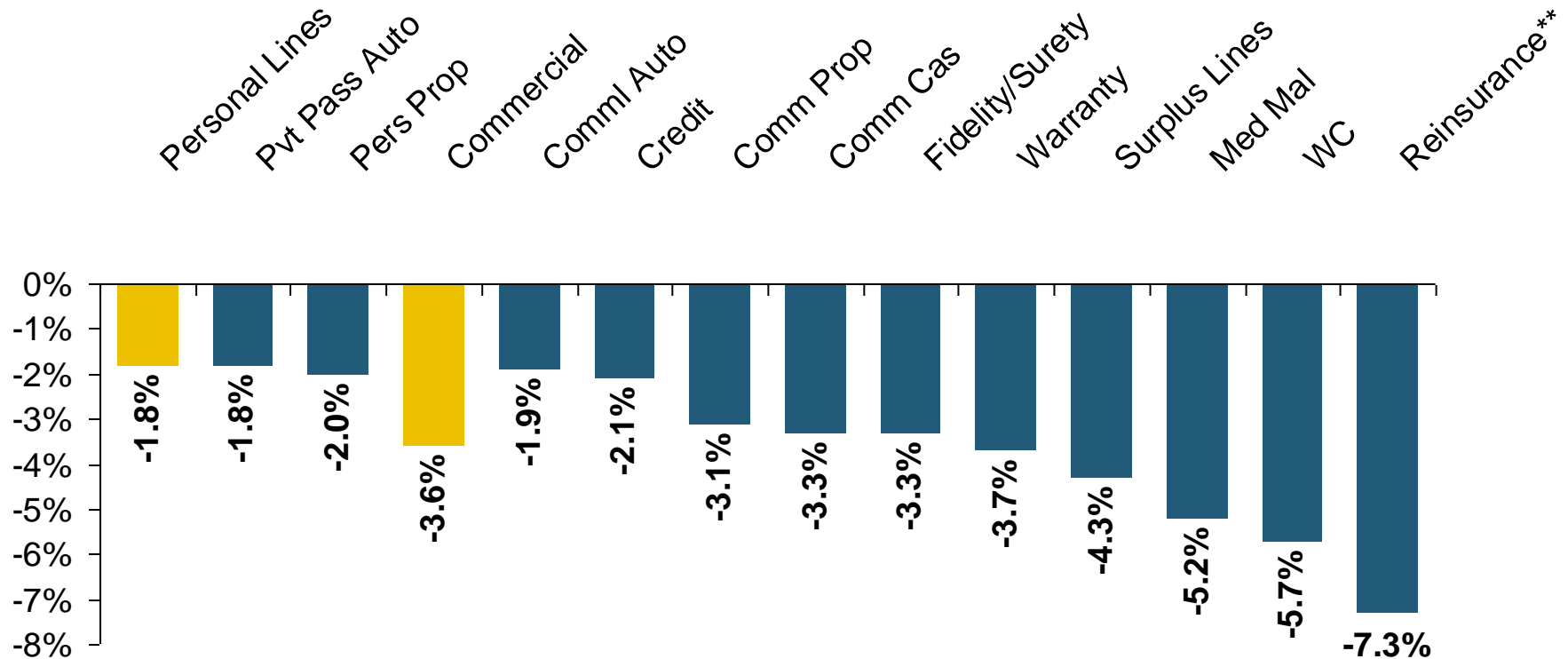
Annual Inflation Rates, (CPI-U, %), 1990–2014F

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

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



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

*Based on 2008 Invested Assets and Earned Premiums

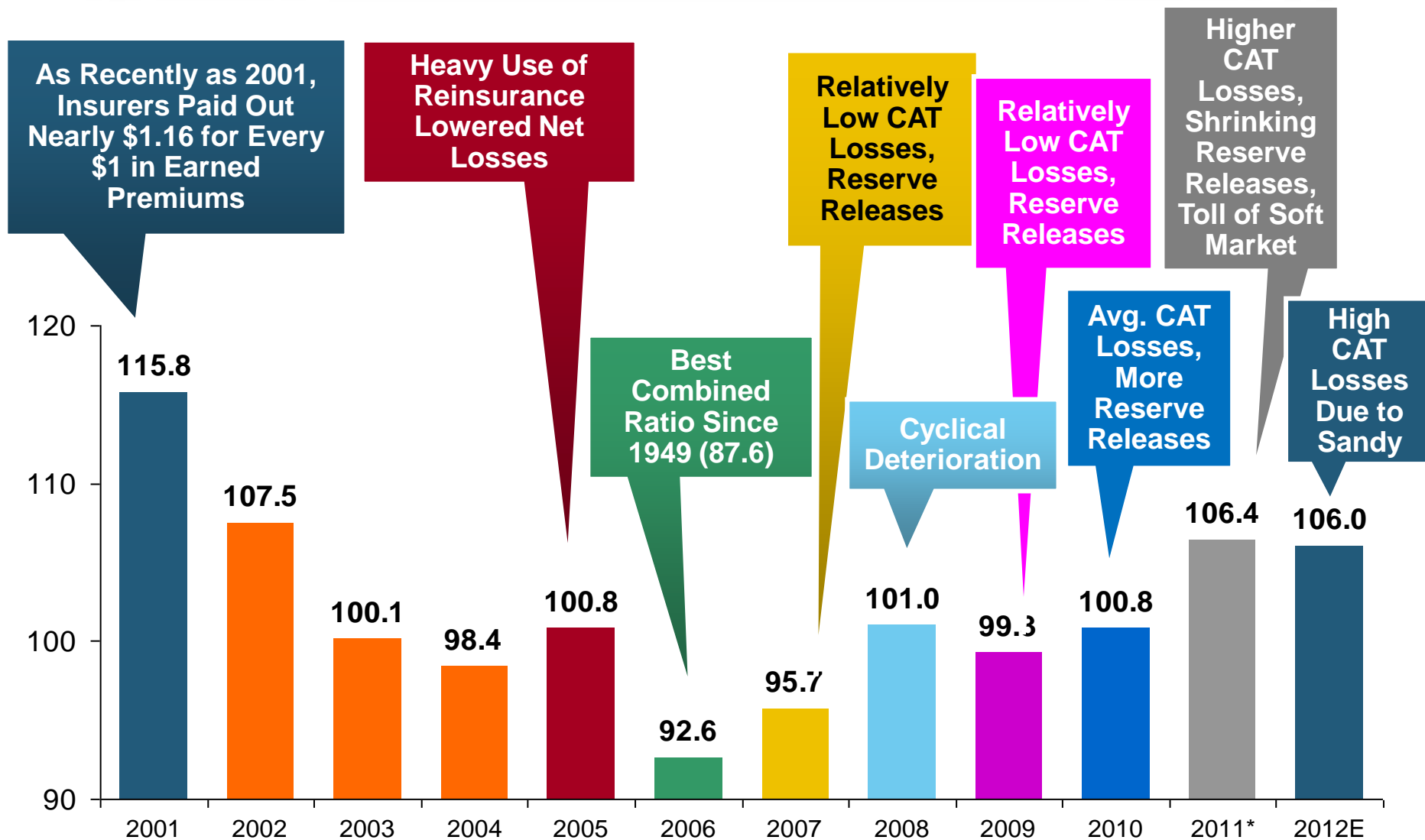
**US domestic reinsurance only

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

1. UNDERWRITING

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

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

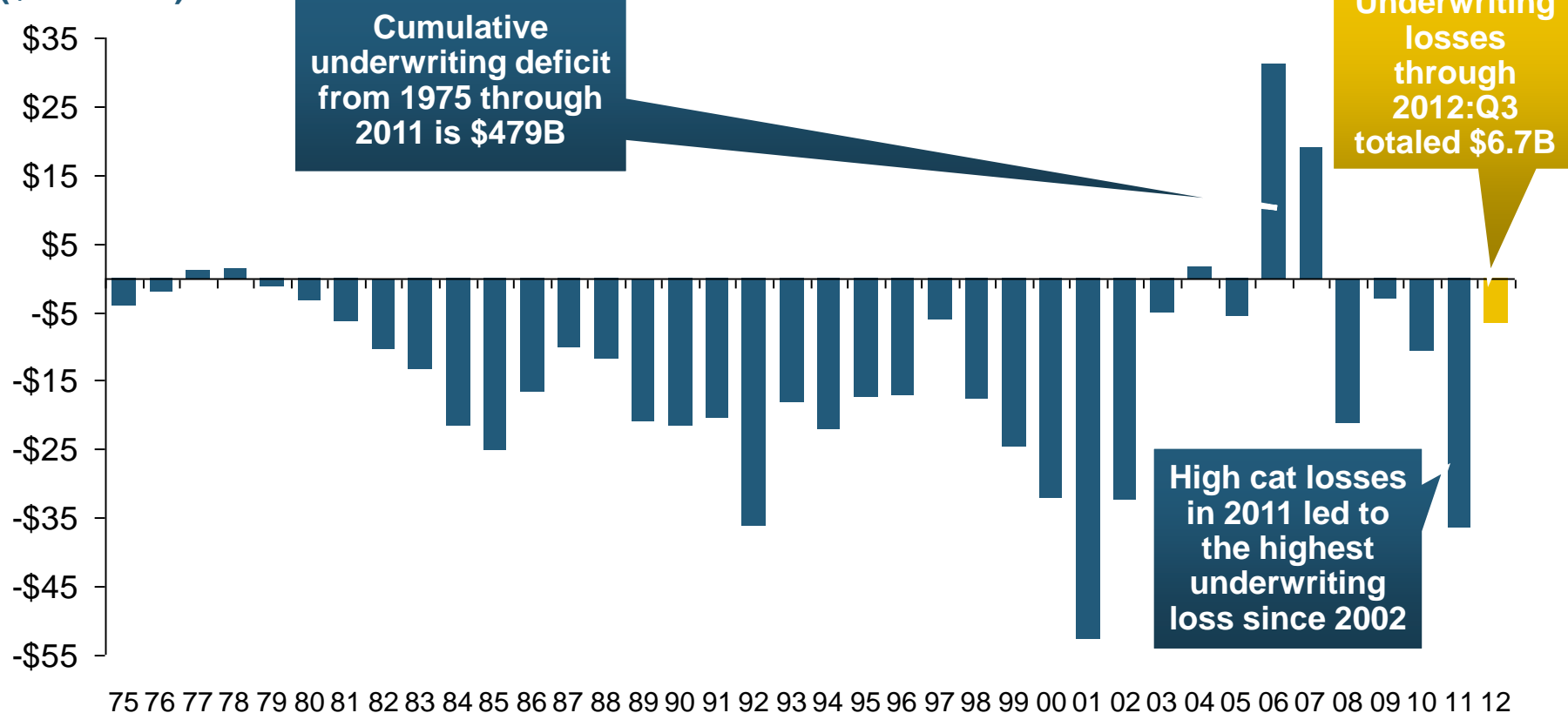


* Excludes Mortgage & Financial Guaranty insurers 2008--2012. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.2; 2012:Q3=100.0.

Sources: A.M. Best, ISO.

Underwriting Gain (Loss) 1975–2012:Q3*

(\$ Billions)

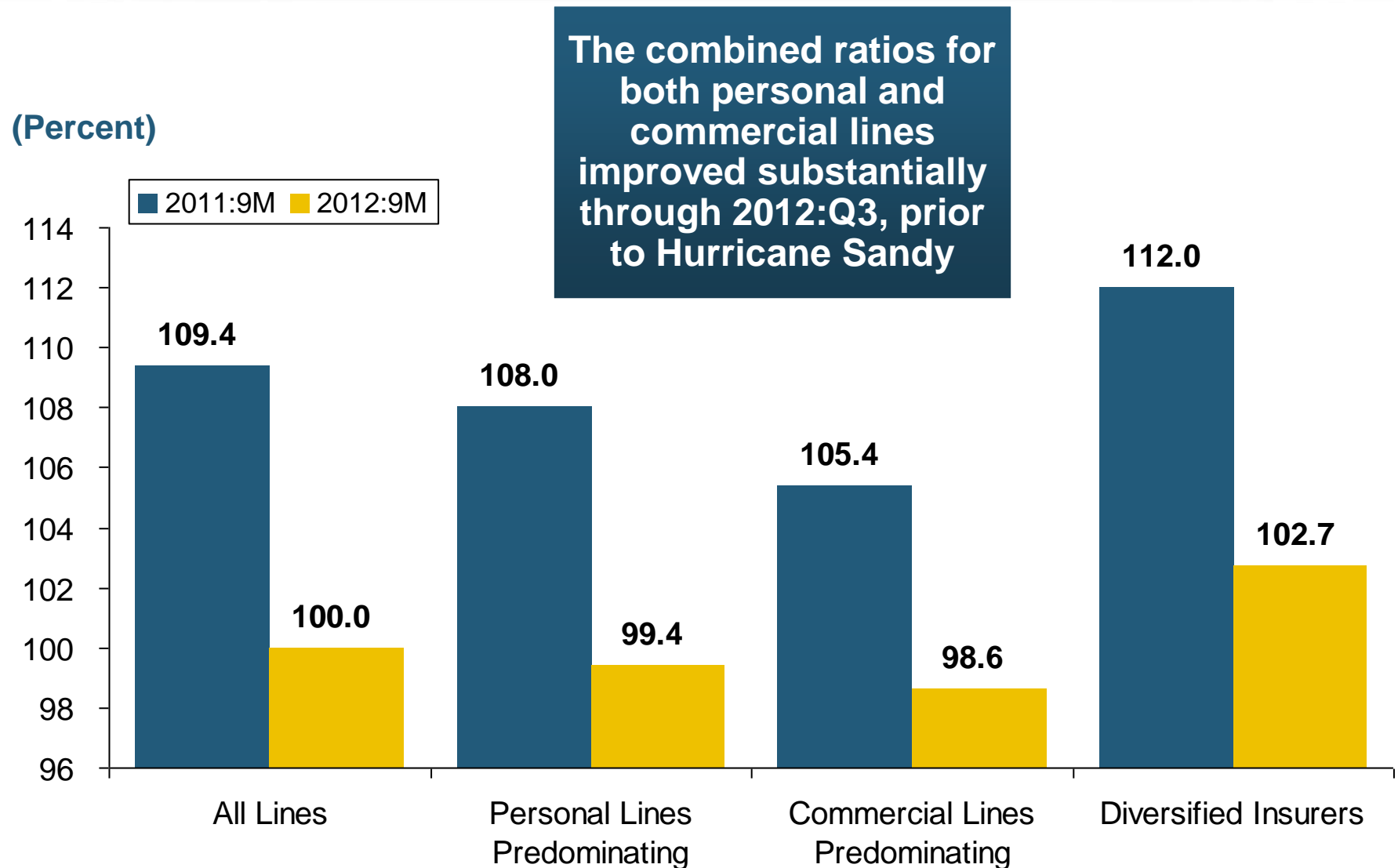


**Large Underwriting Losses Are *NOT* Sustainable
in Current Investment Environment**

* Includes mortgage and financial guaranty insurers in all years.

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

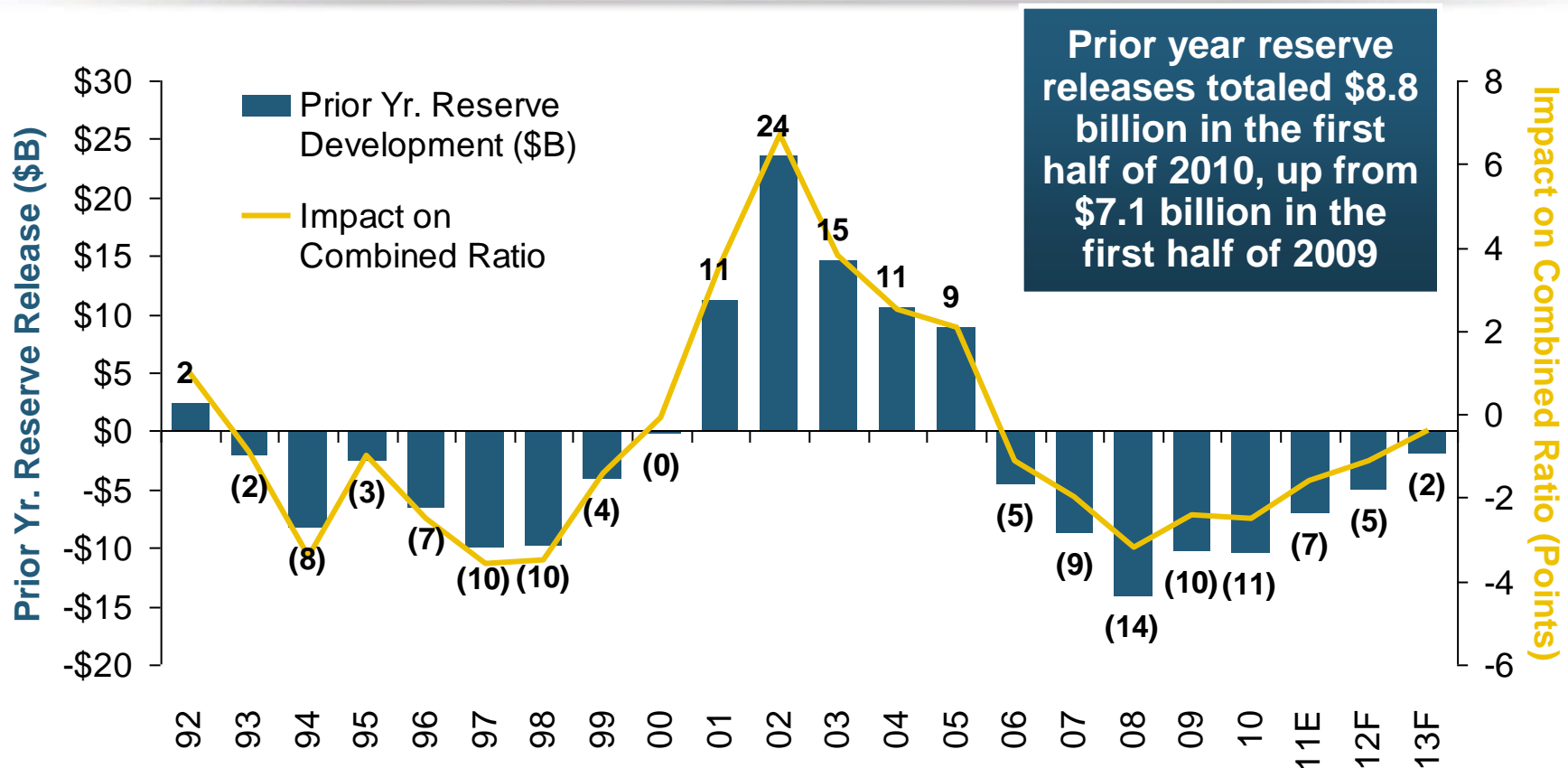
Combined Ratios by Predominant Business Segment, 2012:9 Mos. vs. 2011:9 Mos.*



*Excludes mortgage and financial guaranty insurers.

Source: ISO/PCI; Insurance Information Institute

P/C Reserve Development, 1992–2013F



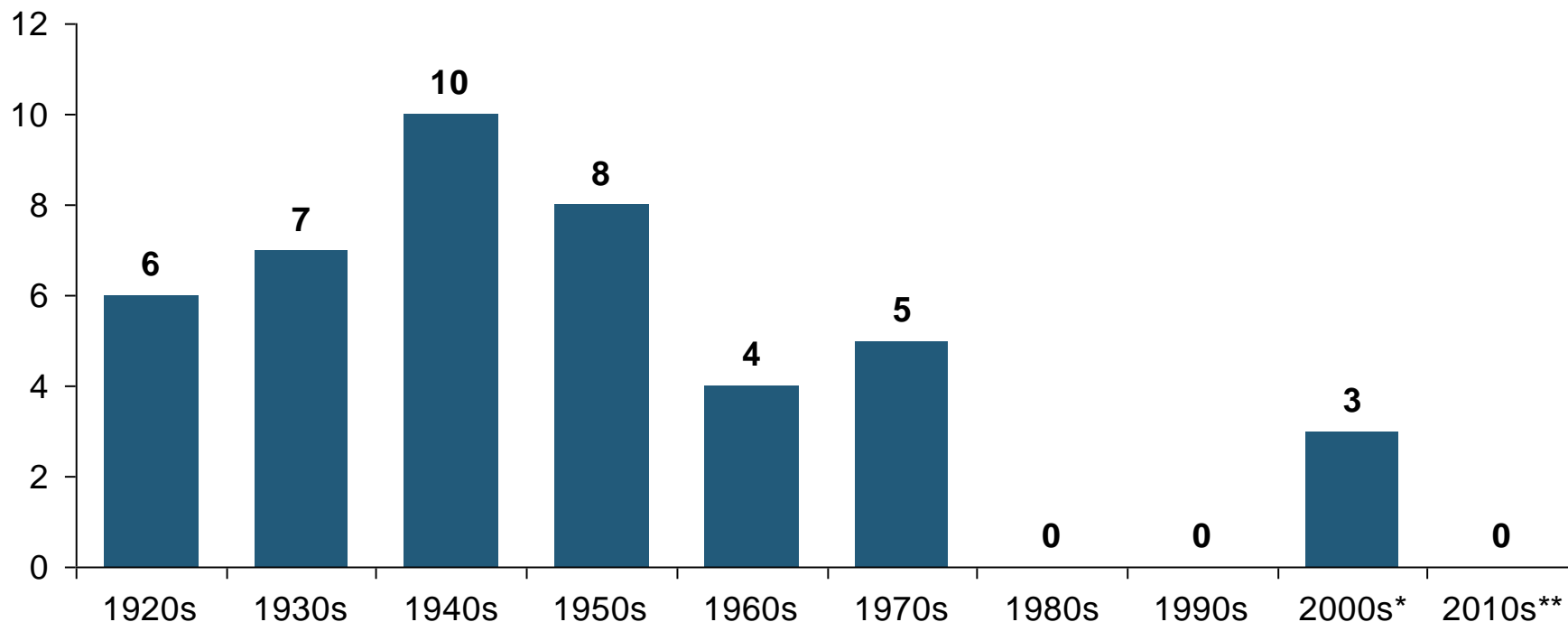
Reserve Releases Remained Strong in 2010 But Tapered Off in 2011. Releases Are Expected to Further Diminish in 2012 and 2103

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

Sources: Barclays Capital; A.M. Best.

Number of Years with Underwriting Profits by Decade, 1920s–2010s

Number of Years with Underwriting Profits



Underwriting Profits Were Common Before the 1980s (40 of the 60 Years Before 1980 Had Combined Ratios Below 100) – But Then They Vanished. Not a Single Underwriting Profit Was Recorded in the 25 Years from 1979 Through 2003

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

**Data for the 2010s includes 2010 and 2011.

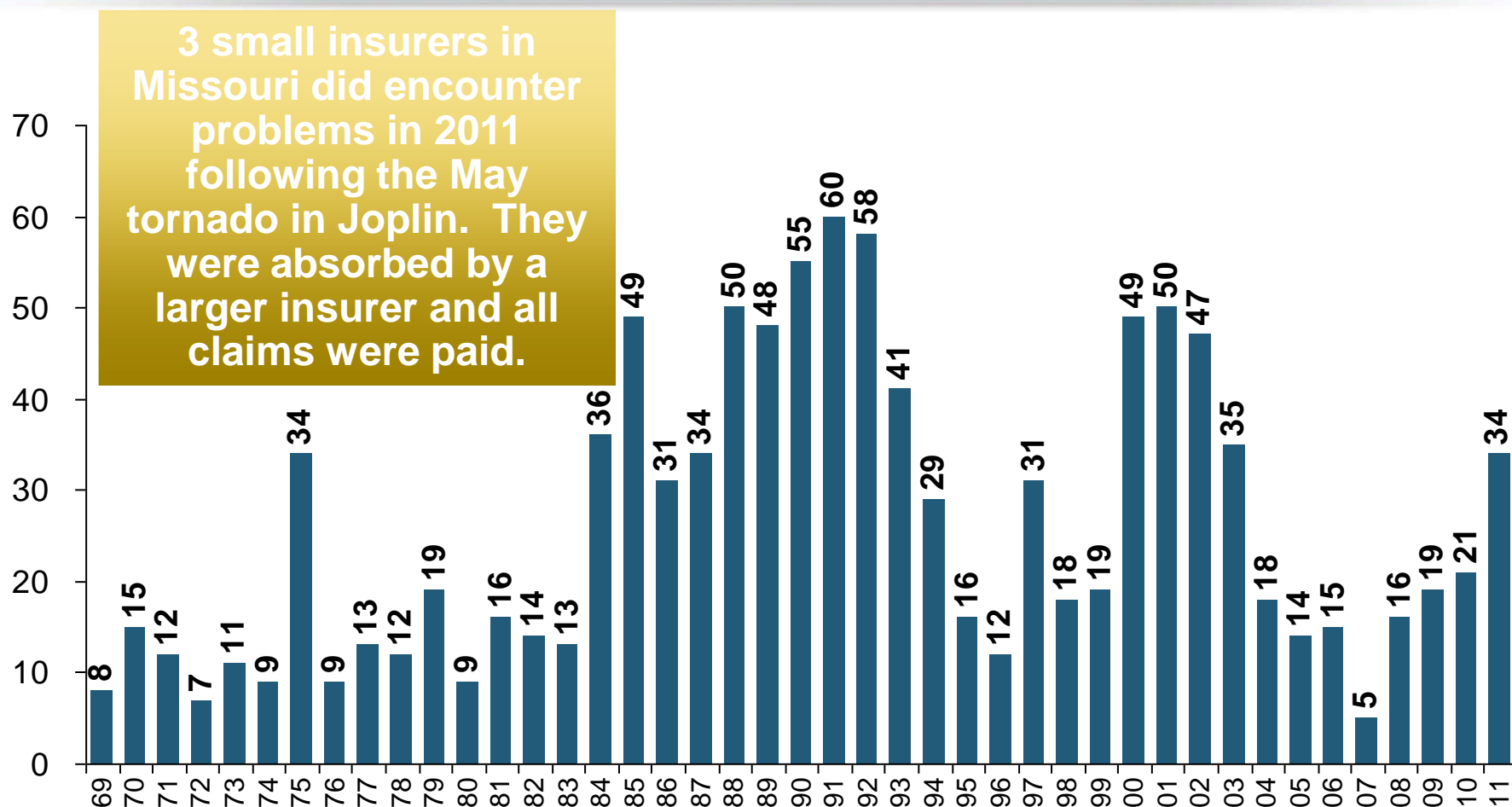
Note: Data for 1920–1934 based on stock companies only.

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

Financial Strength & Underwriting

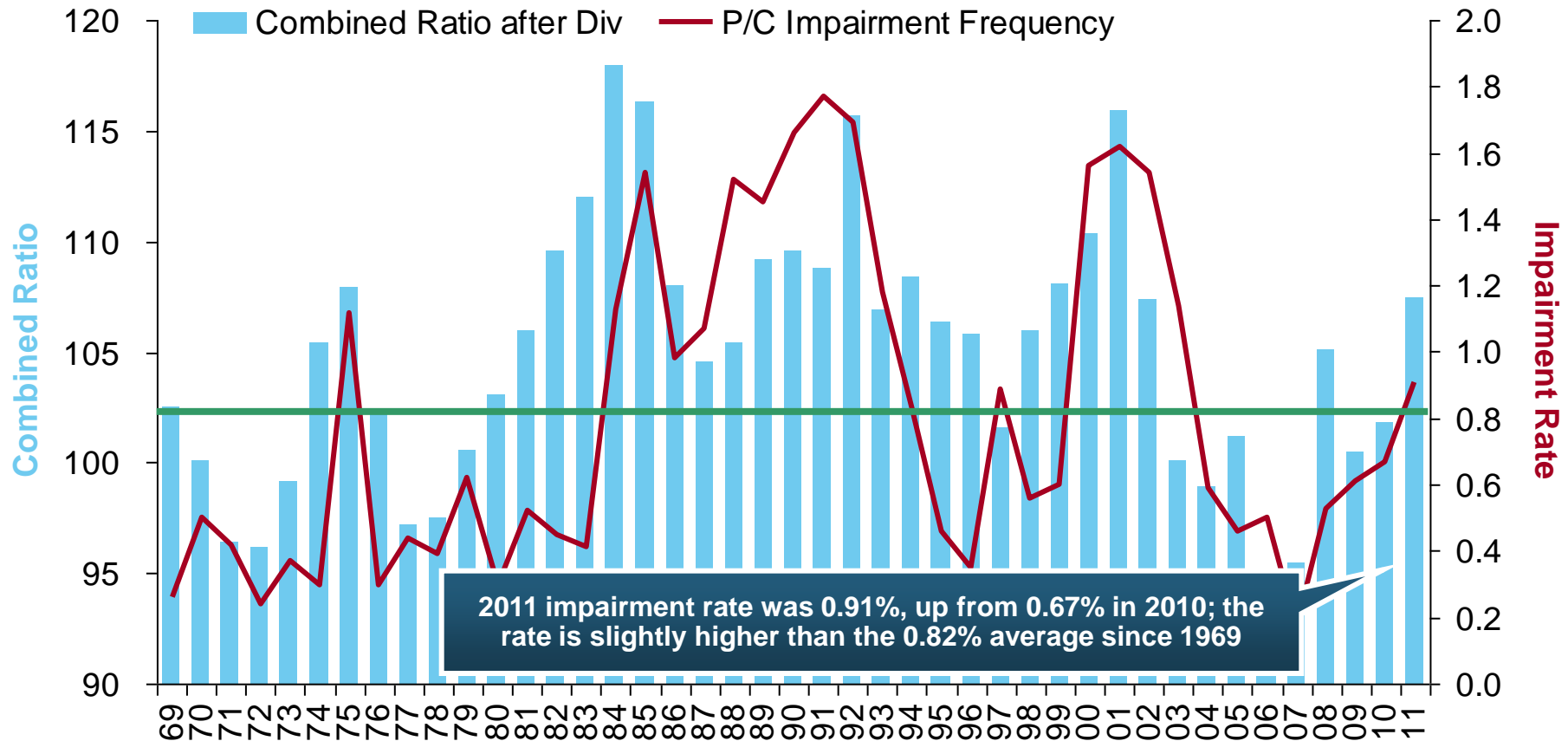
**Cyclical Pattern is P-C Impairment
History is Directly Tied to
Underwriting, Reserving & Pricing**

P/C Insurer Impairments, 1969–2011



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

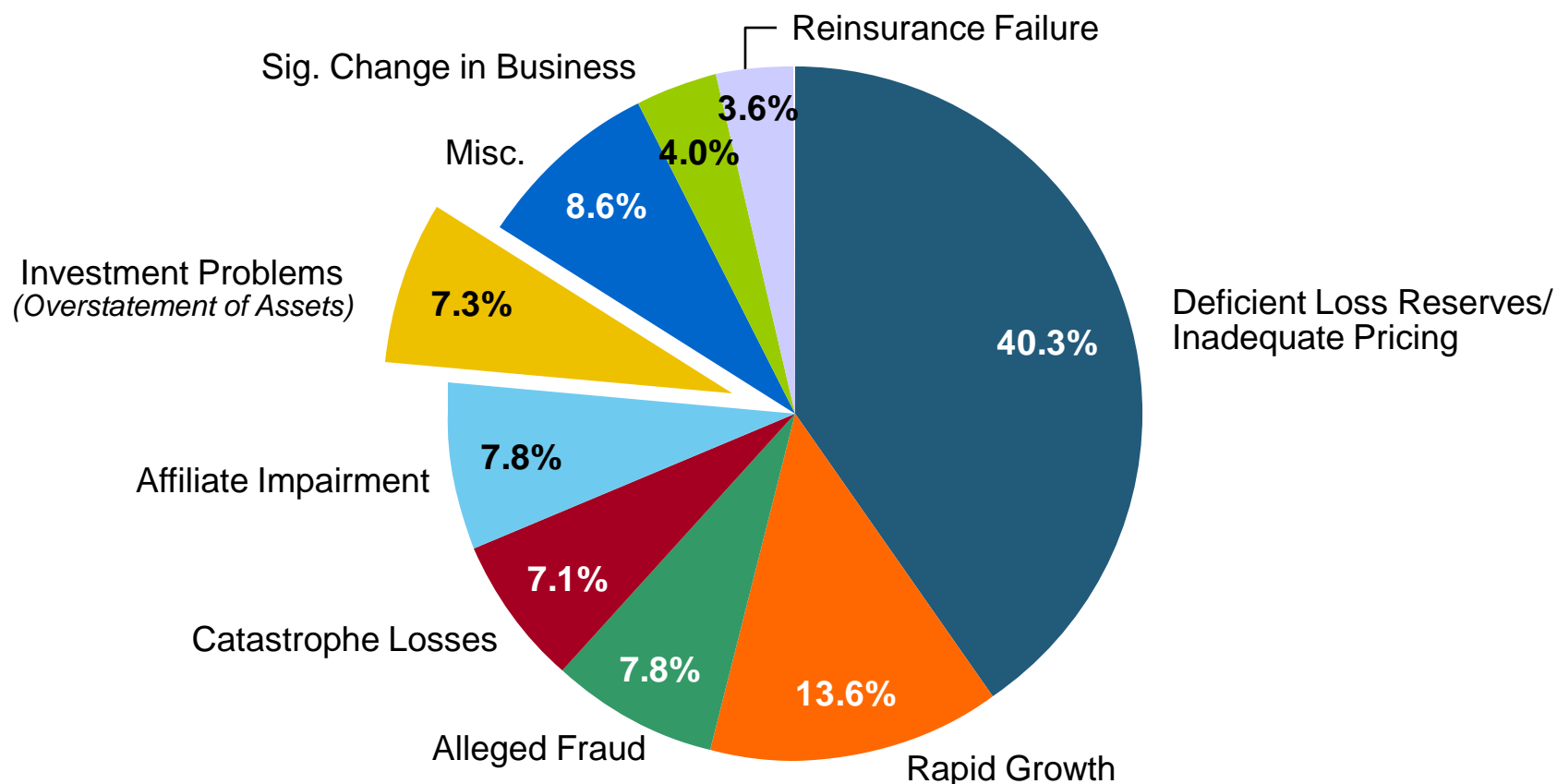
P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2011



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

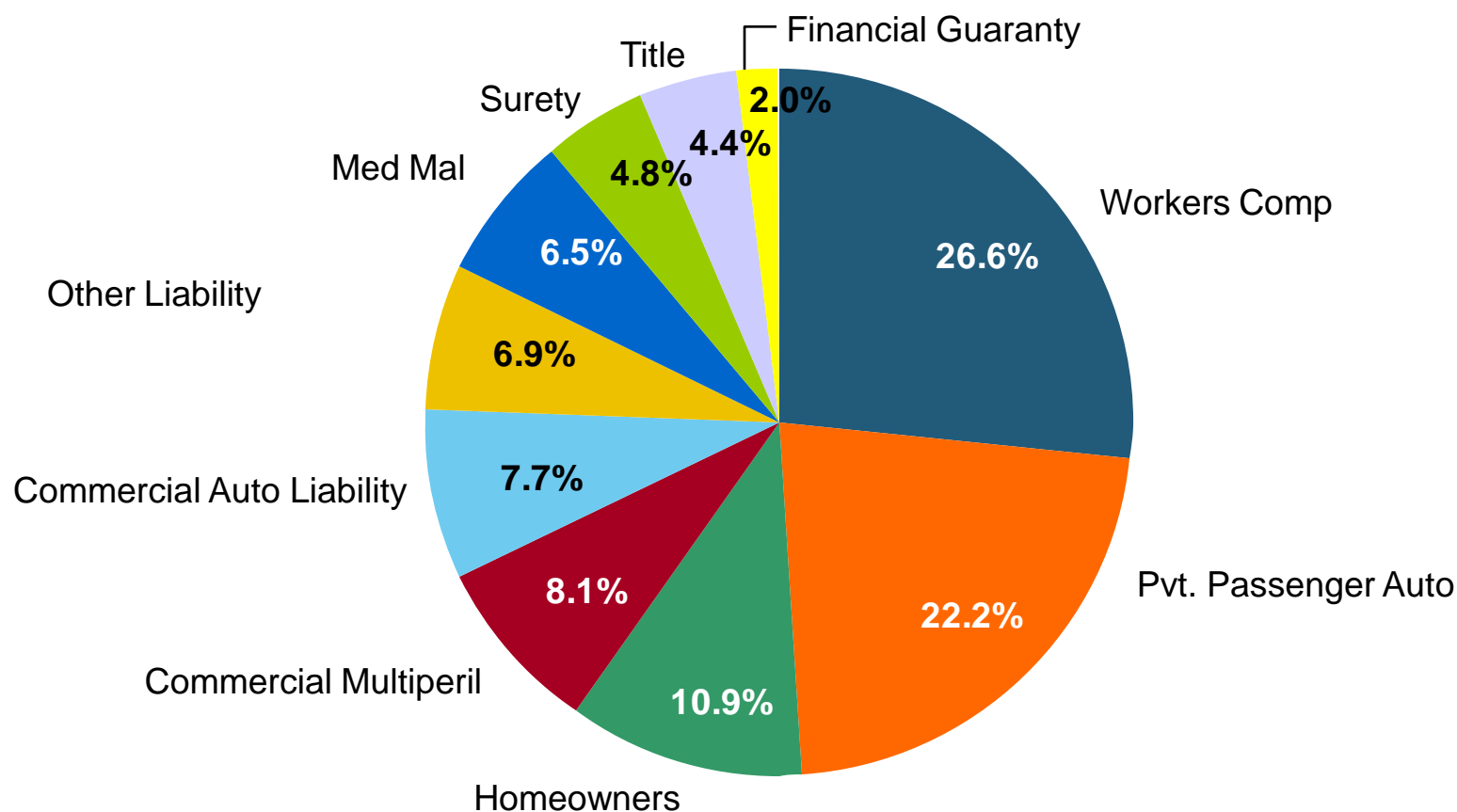
Reasons for US P/C Insurer Impairments, 1969–2010

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



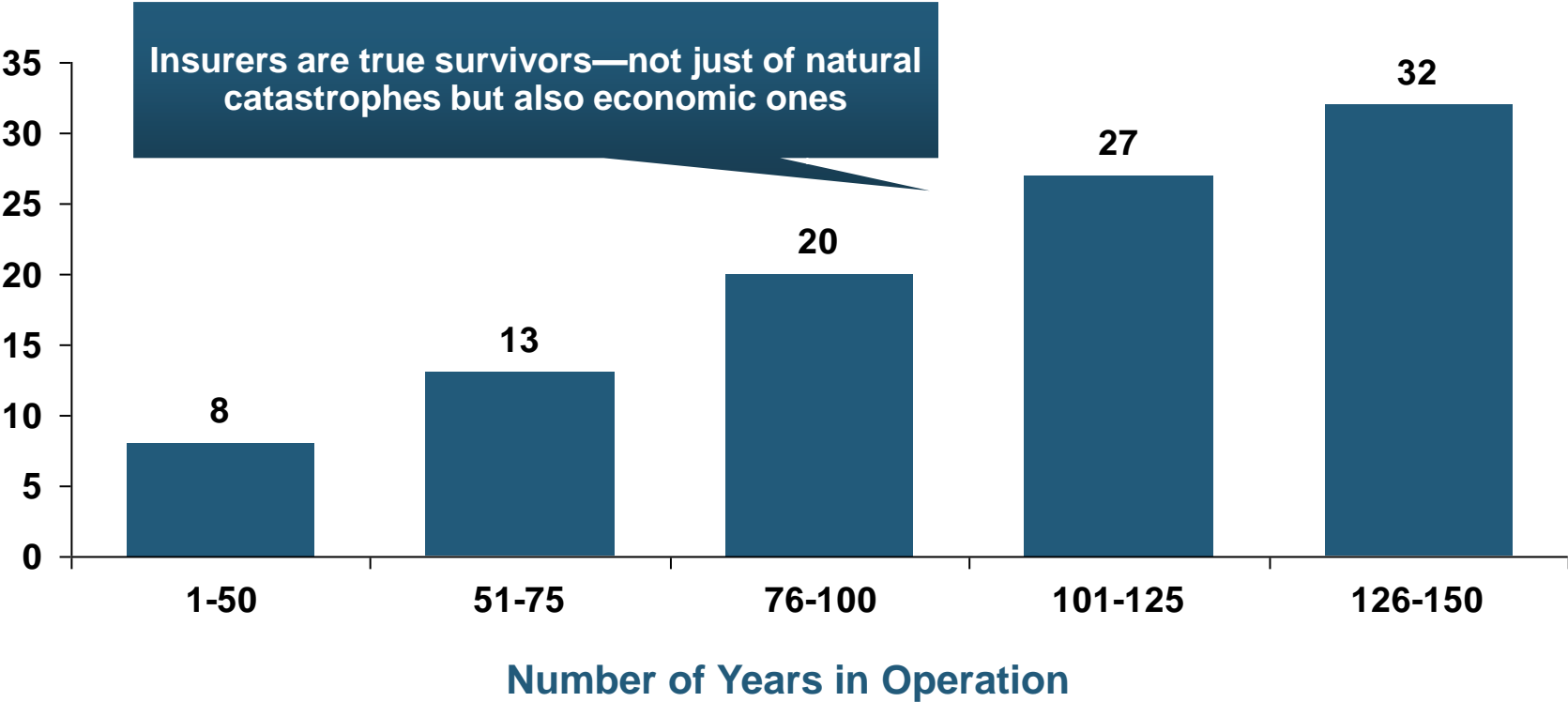
Top 10 Lines of Business for US P/C Impaired Insurers, 2000–2010

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



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

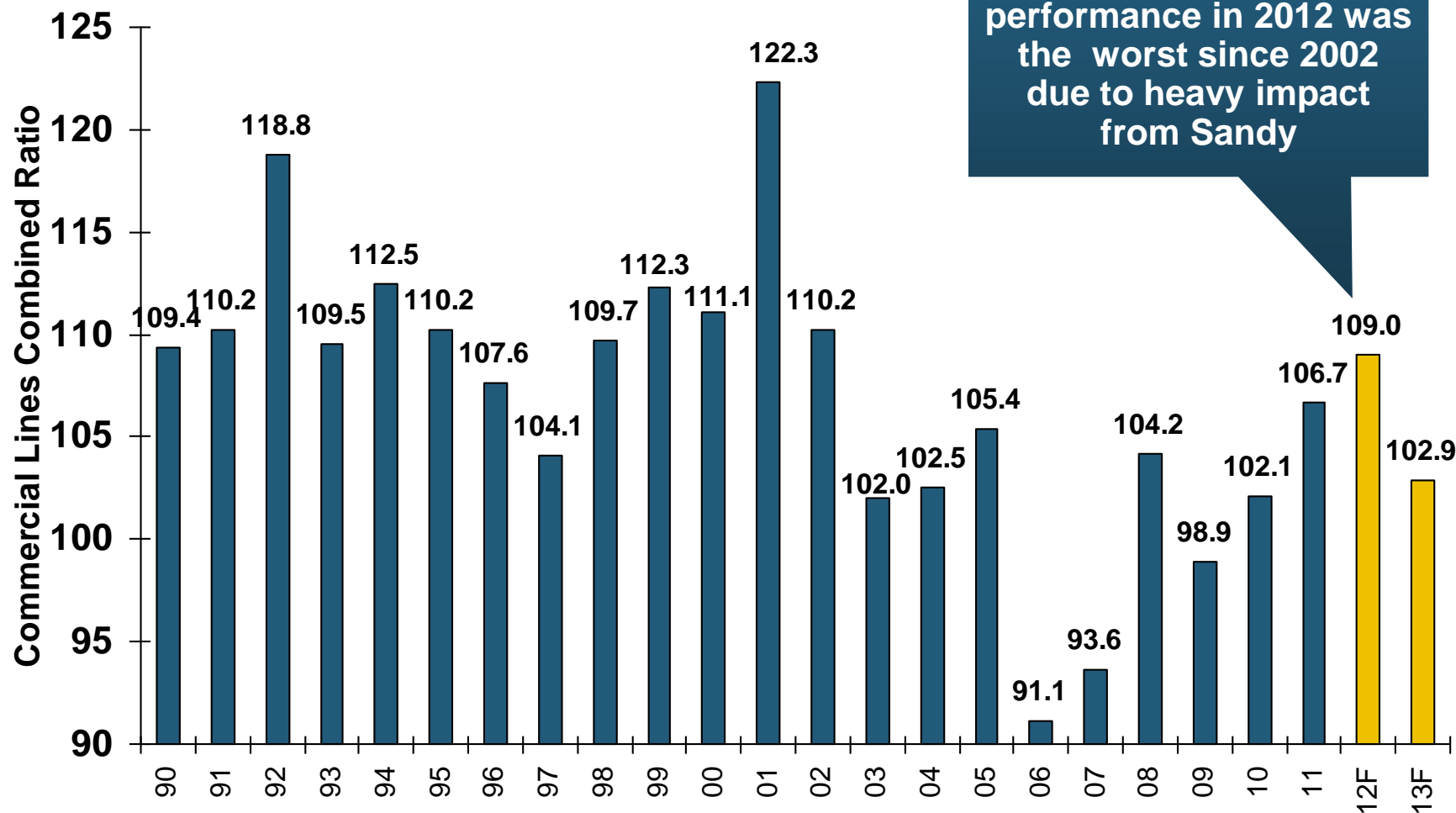
Number of Recessions Since 1860



Many US Insurers Are Close to a Century Old or Older

Performance by Segment

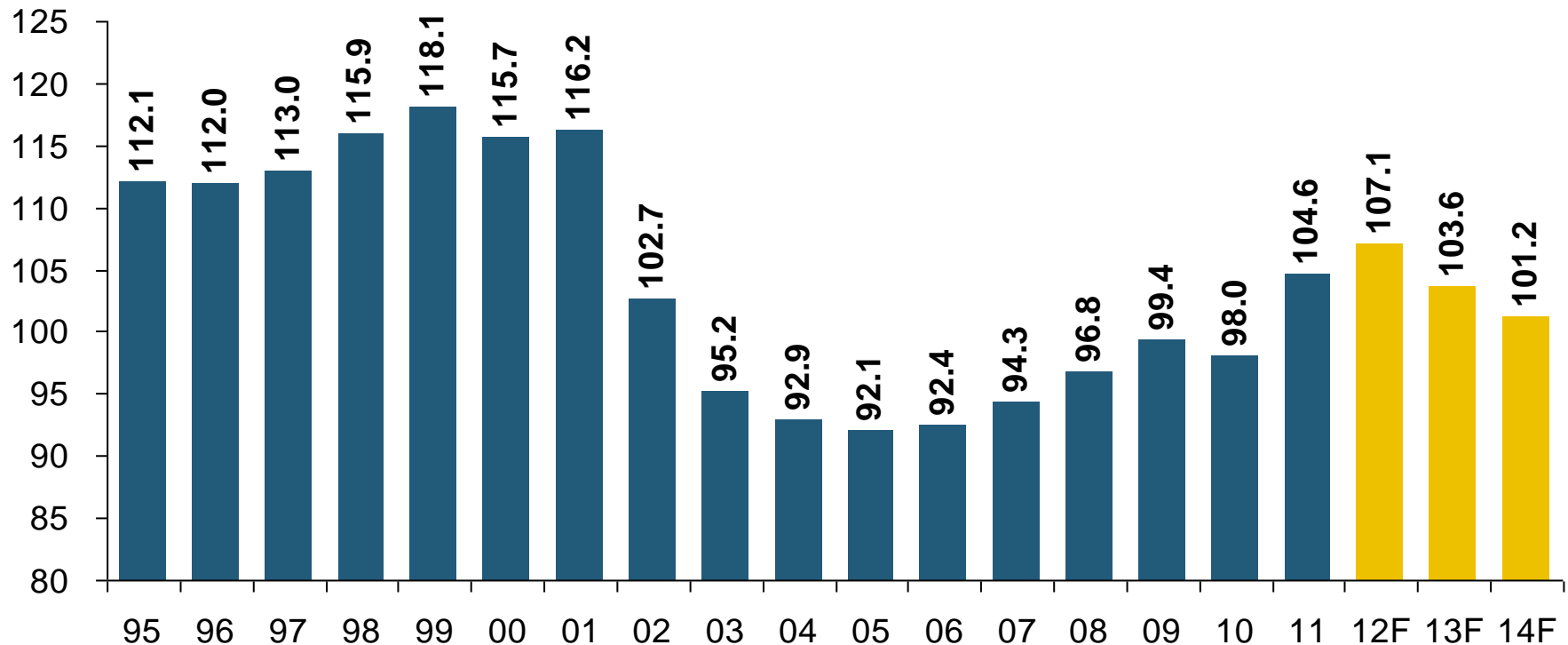
Commercial Lines Combined Ratio, 1990-2013F*



*2007-2013F figures exclude mortgage and financial guaranty segments.

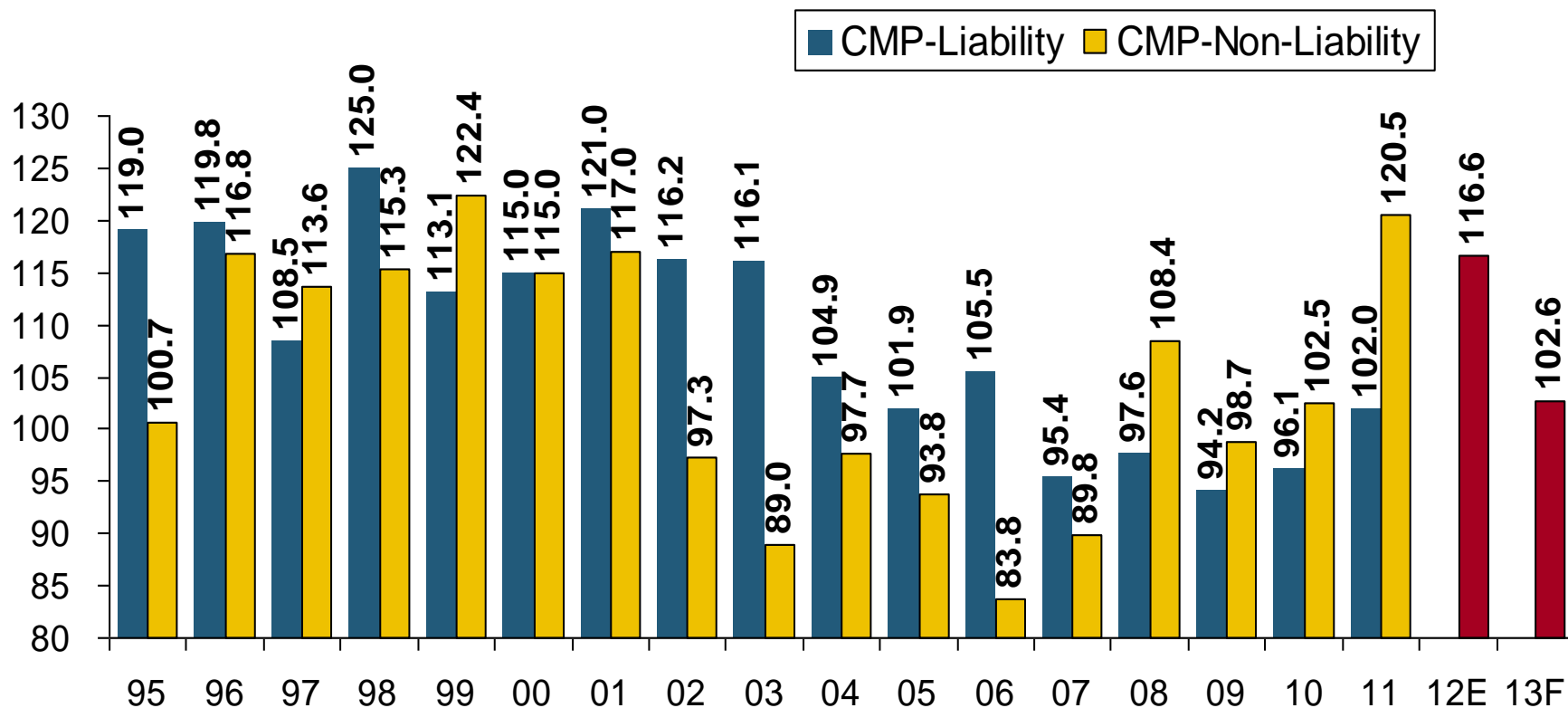
Source: A.M. Best; Insurance Information Institute

Commercial Auto Combined Ratio: 1993–2014F



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

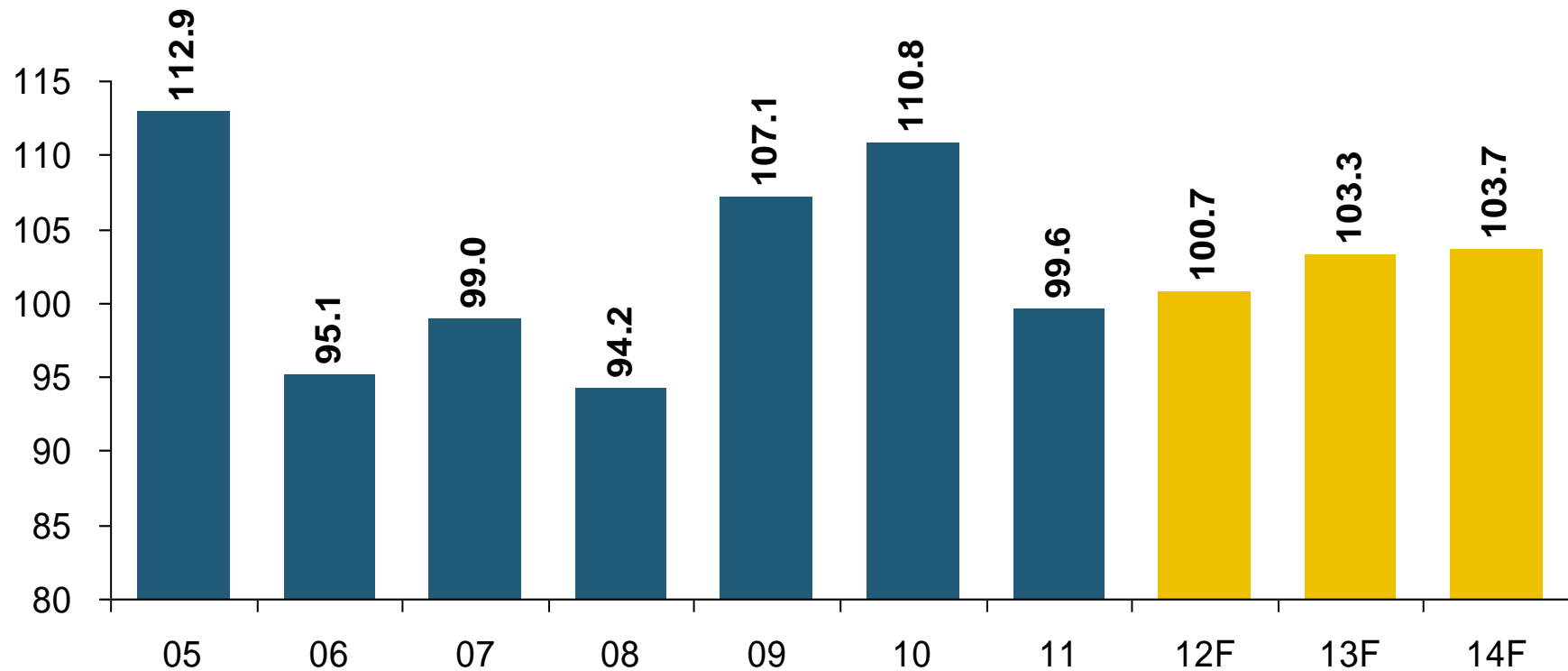
Commercial Multi-Peril Combined Ratio: 1995–2013F



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

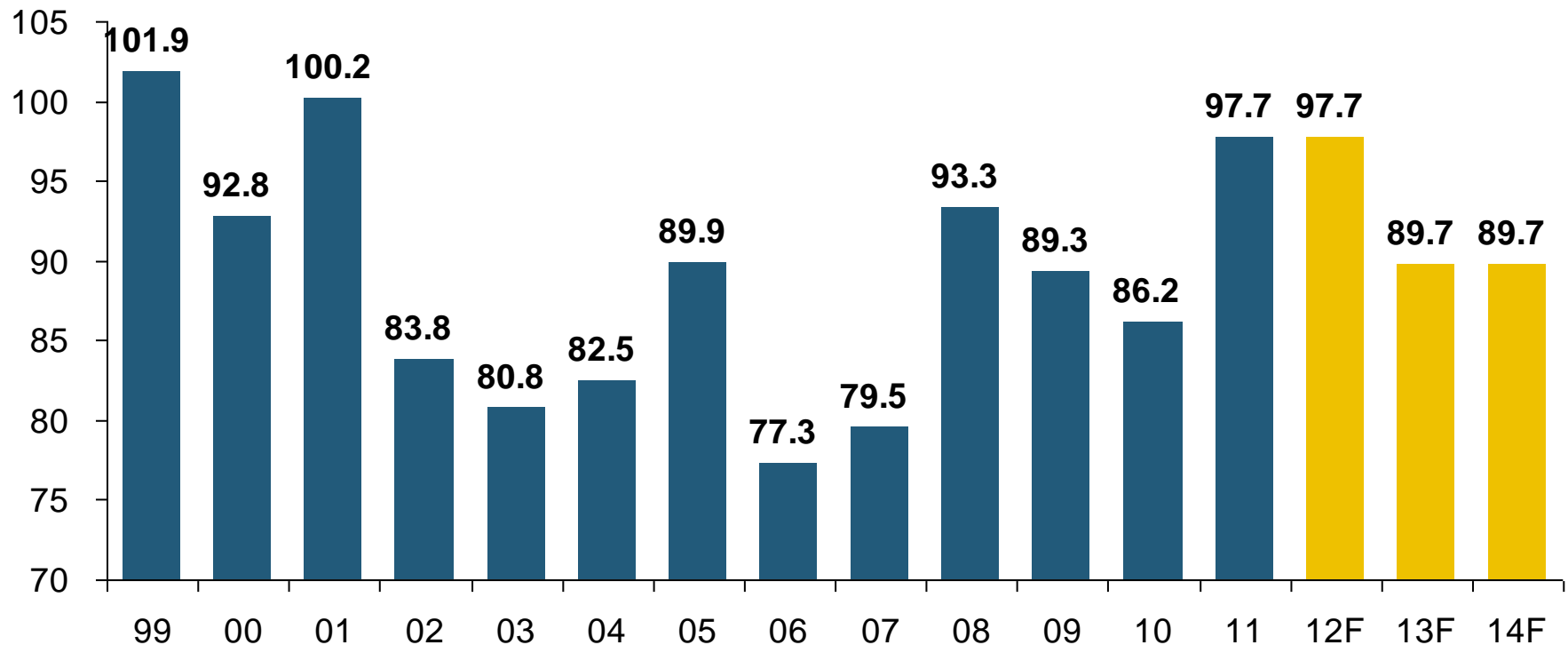
*2012-2013 figures are A.M. Best estimate/forecast for the combined liability and non-liability components.
Sources: A.M. Best; Insurance Information Institute.

General Liability Combined Ratio: 2005–2014F



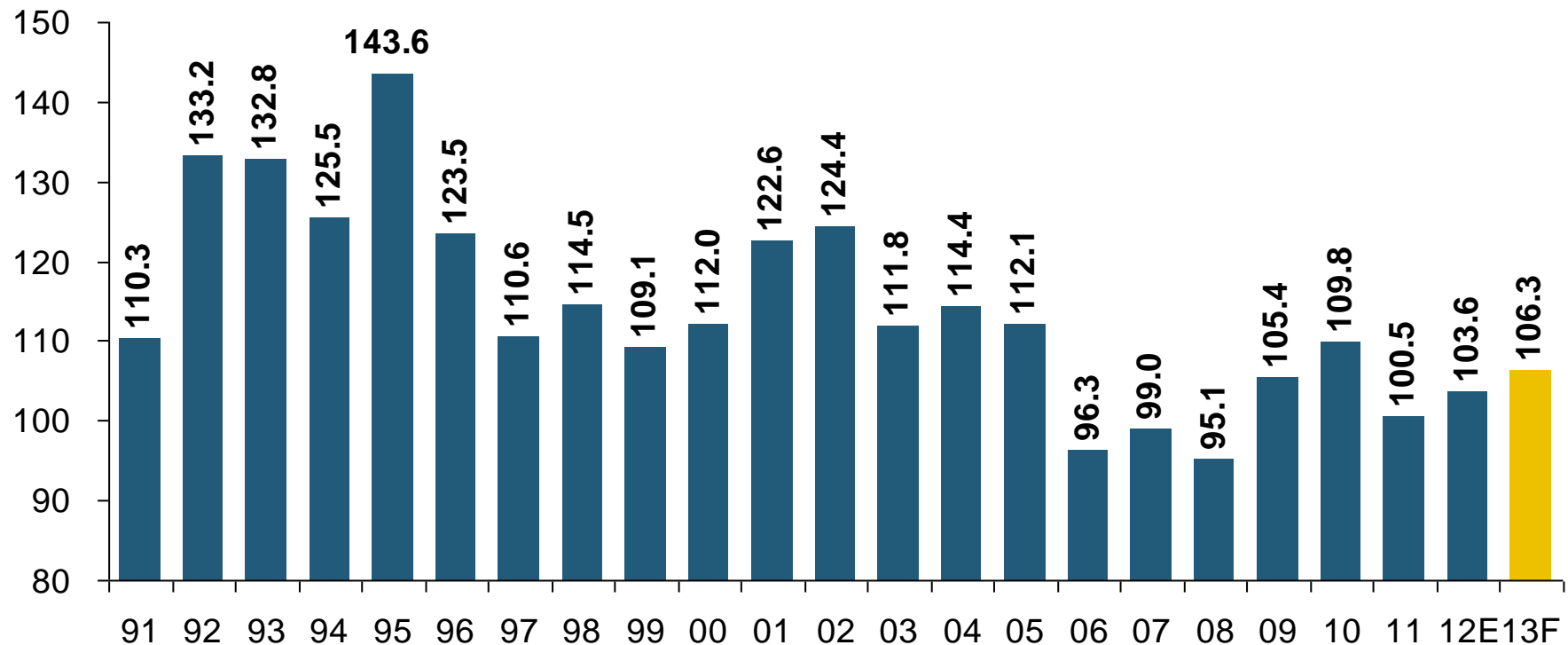
**Commercial General Liability Underwriting
Performance Has Been Volatile in Recent Years**

Inland Marine Combined Ratio: 1999–2014F



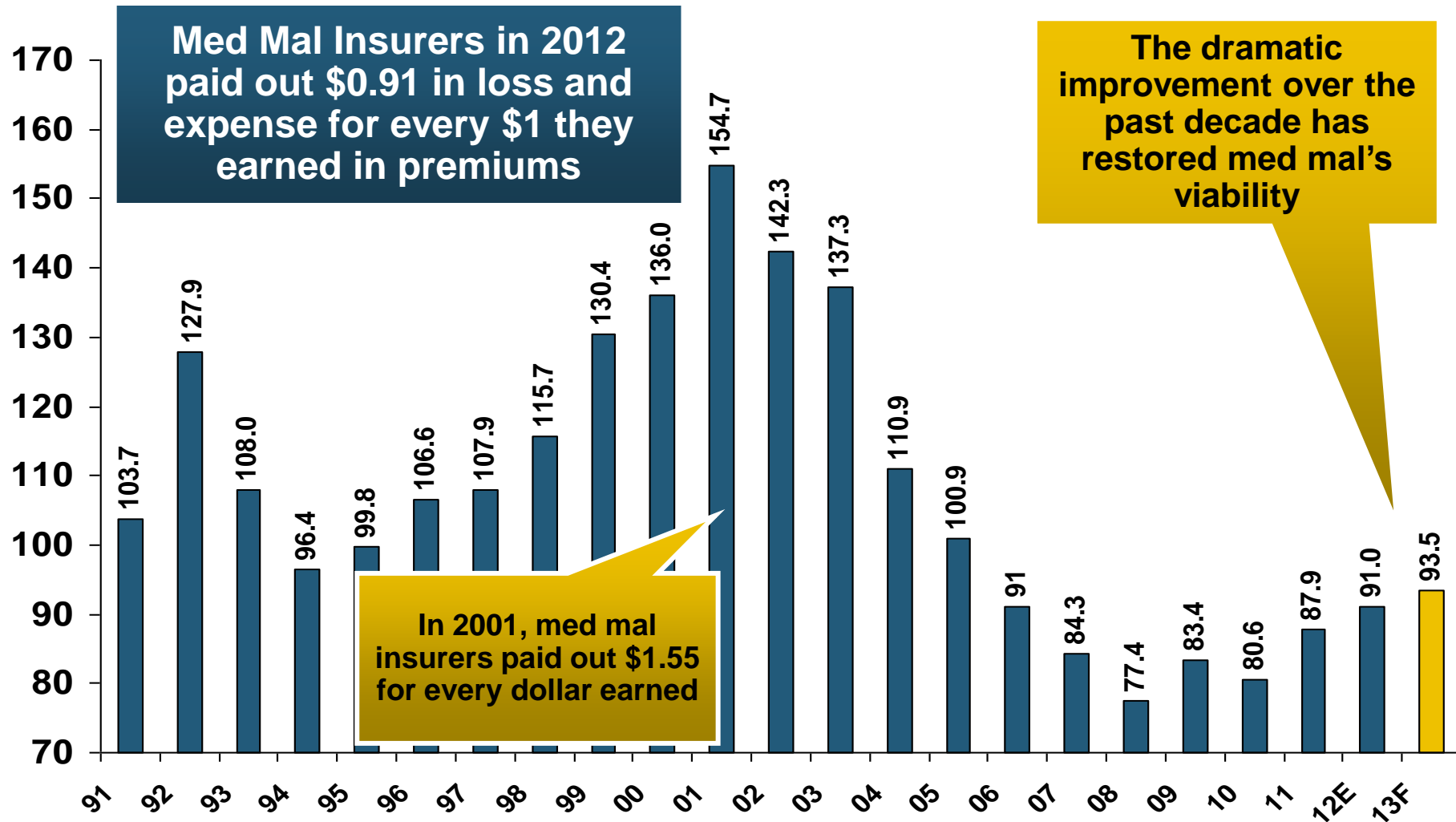
Inland Marine is Expected to Remain Among the Most Profitable of All Lines

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

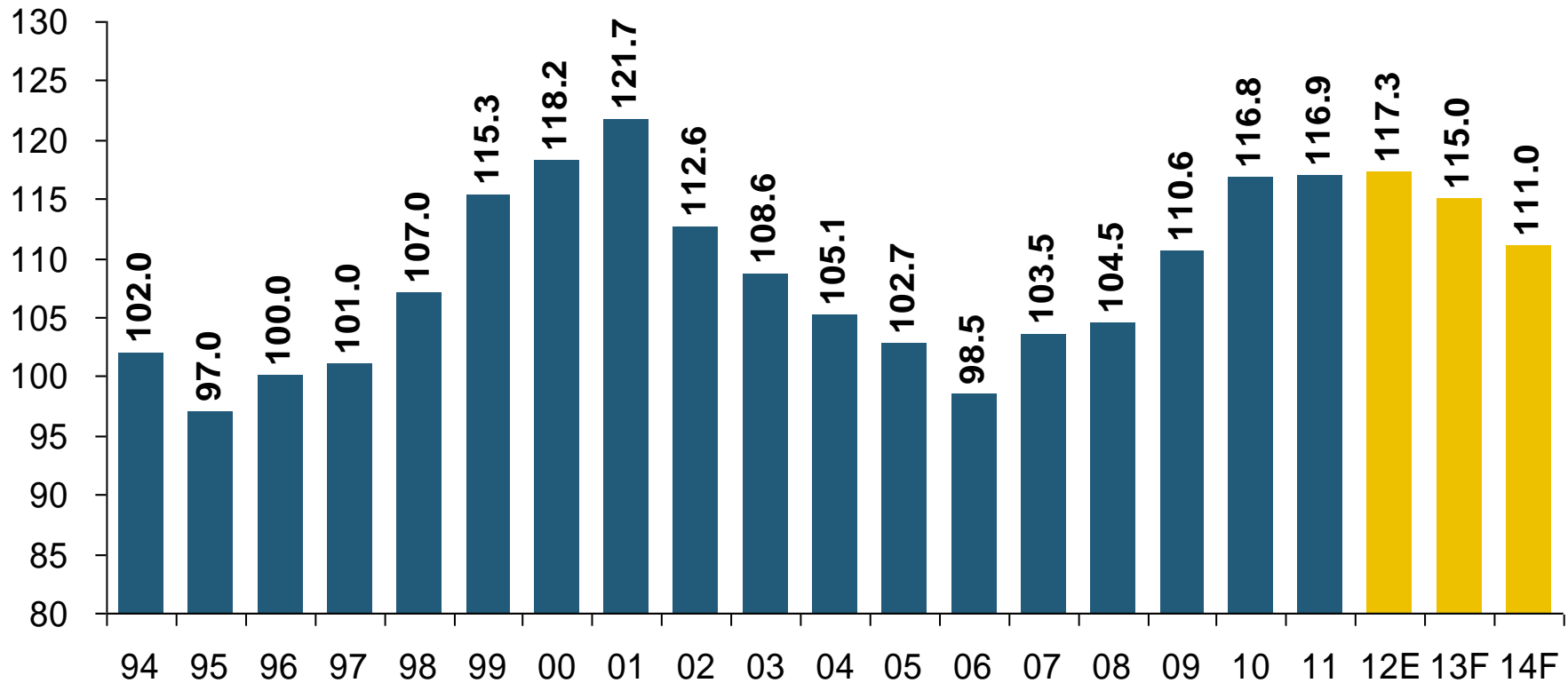
Medical Malpractice Combined Ratio vs. All Lines Combined Ratio, 1991-2013F



Workers Compensation Operating Environment

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

Workers Compensation Combined Ratio: 1994–2014F

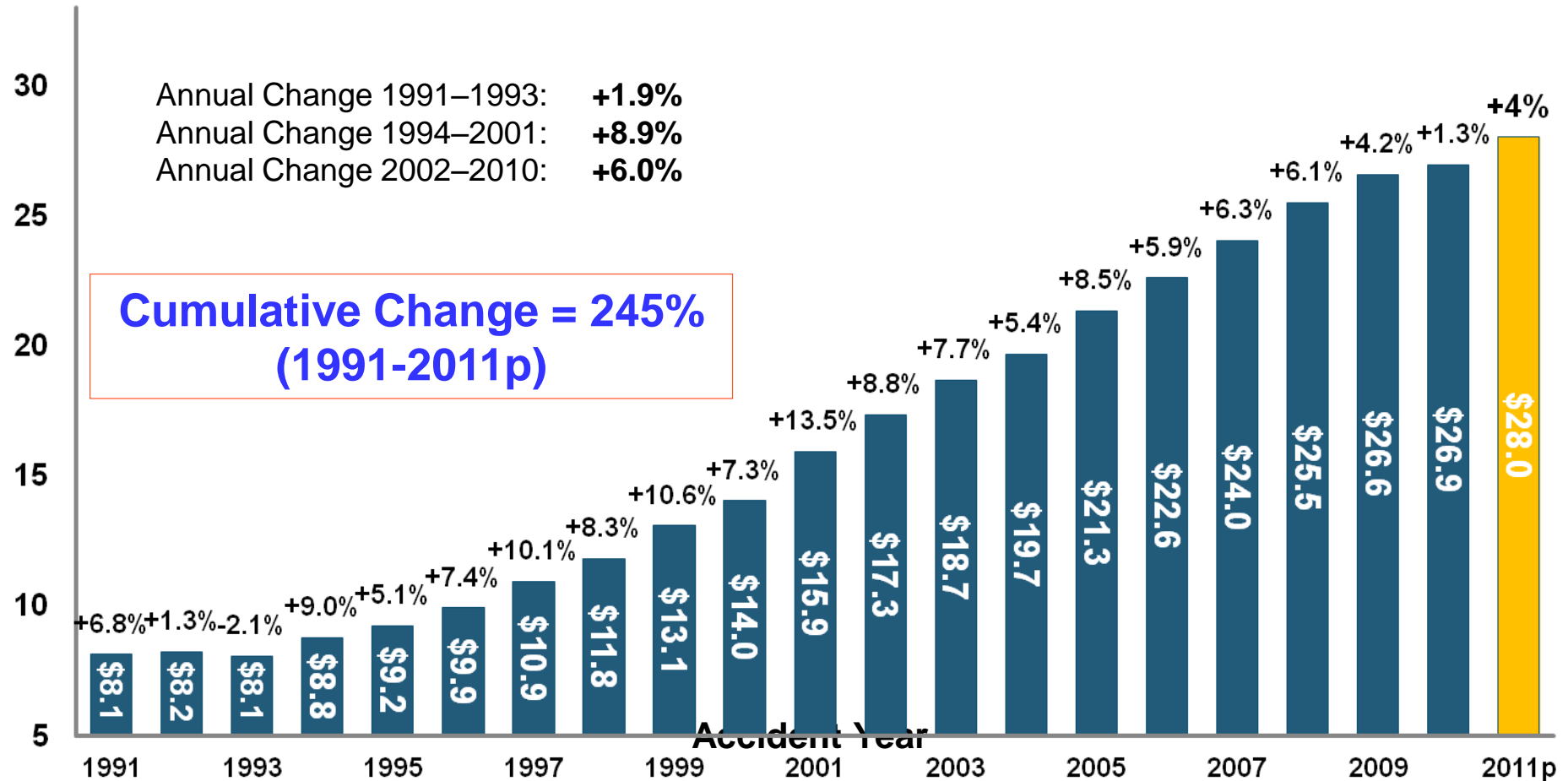


Workers Comp Results Should Begin to Improve in 2013. Underwriting Results Deteriorated Markedly from 2007-2012 and Were the Worst They Had Been in a Decade.

Workers Compensation Medical Severity Moderate Increase in 2011

Average Medical Cost per Lost-Time Claim

Medical
Claim Cost (\$000s)



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

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

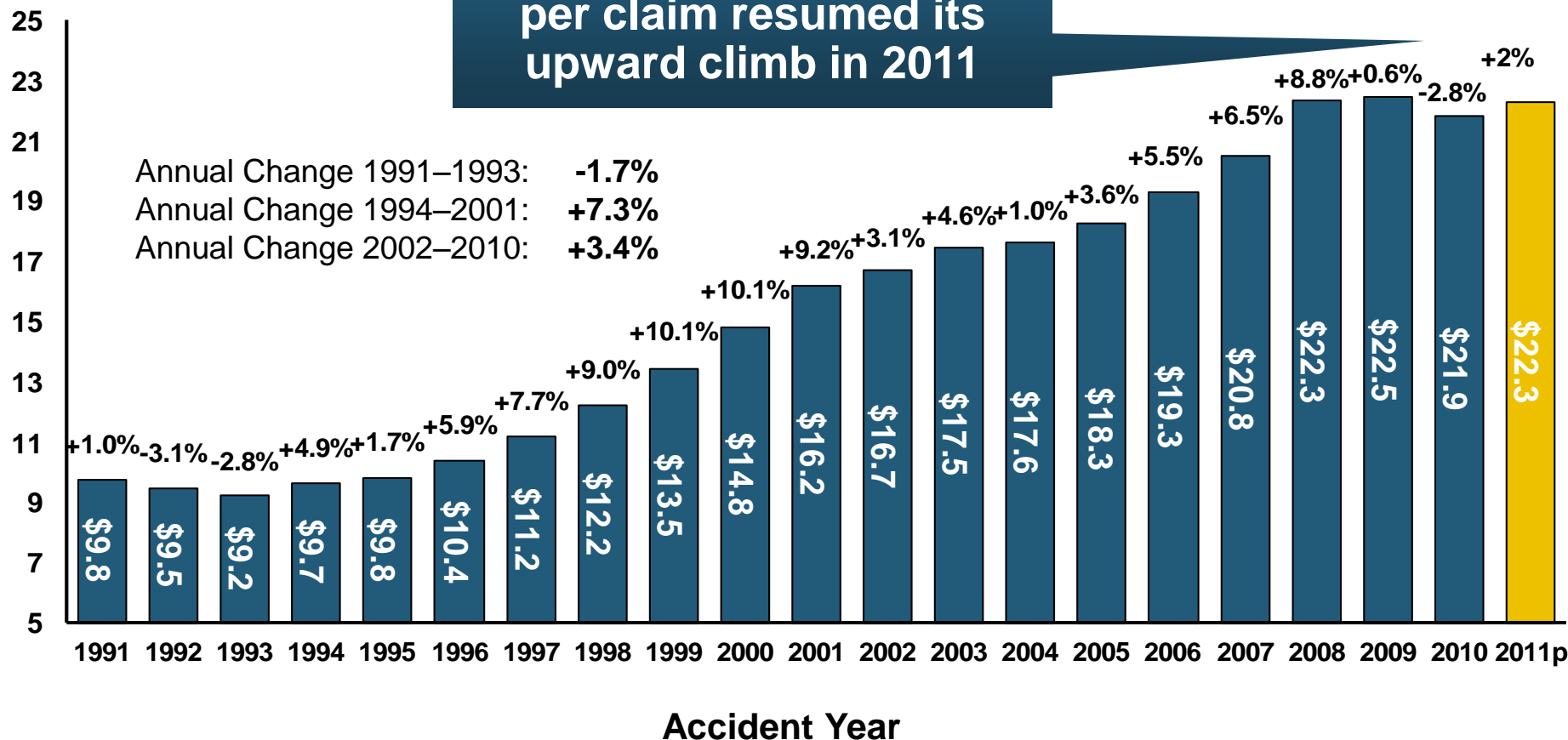
Based on the states where NCCI provides ratemaking services; Excludes high deductible policies

Workers Comp Indemnity Claim Costs: Modest Increase in 2011

Average Indemnity Cost per Lost-Time Claim

Indemnity
Claim Cost (\$ 000s)

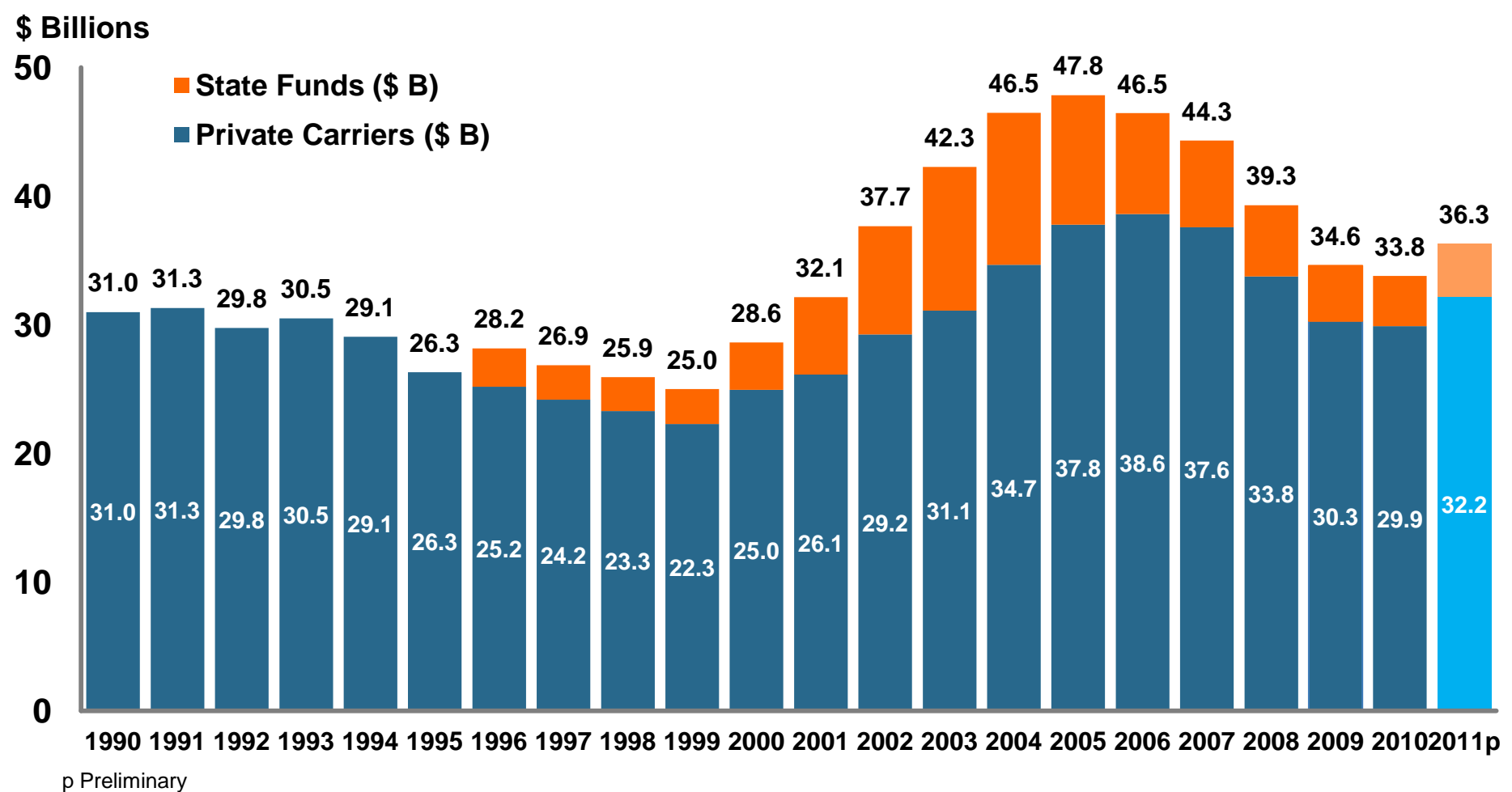
Average indemnity costs
per claim resumed its
upward climb in 2011



2010p: Preliminary based on data valued as of 12/31/2011
1991–2010: Based on data through 12/31/2010, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes high deductible policies

Workers Compensation Premium: First Increase in Years

Net Written Premium



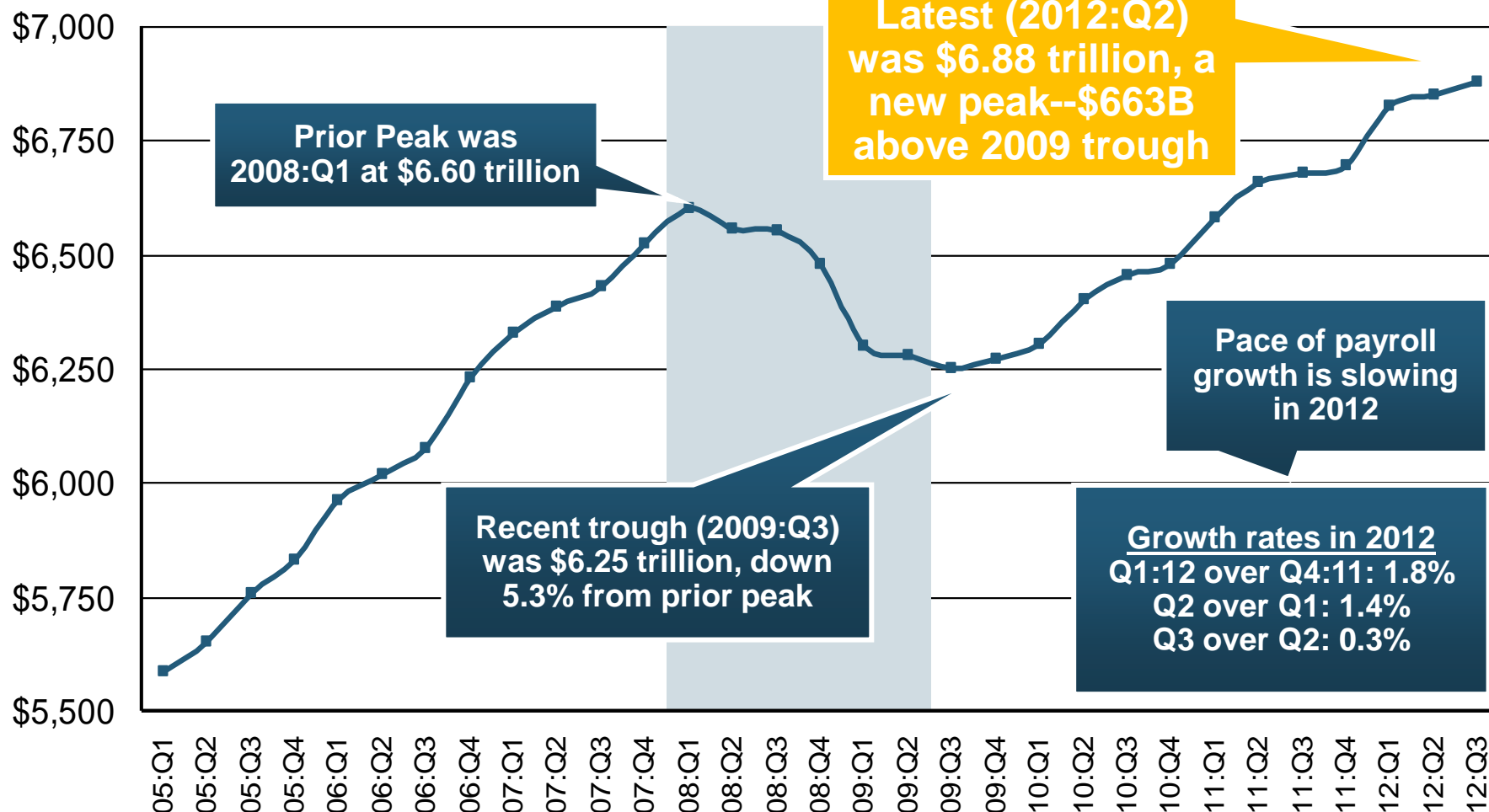
Source: 1990–2010 Private Carriers, *Best's Aggregates & Averages*; 2011p, NCCI

1996–2011p State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

State Funds available for 1996 and subsequent

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

Billions



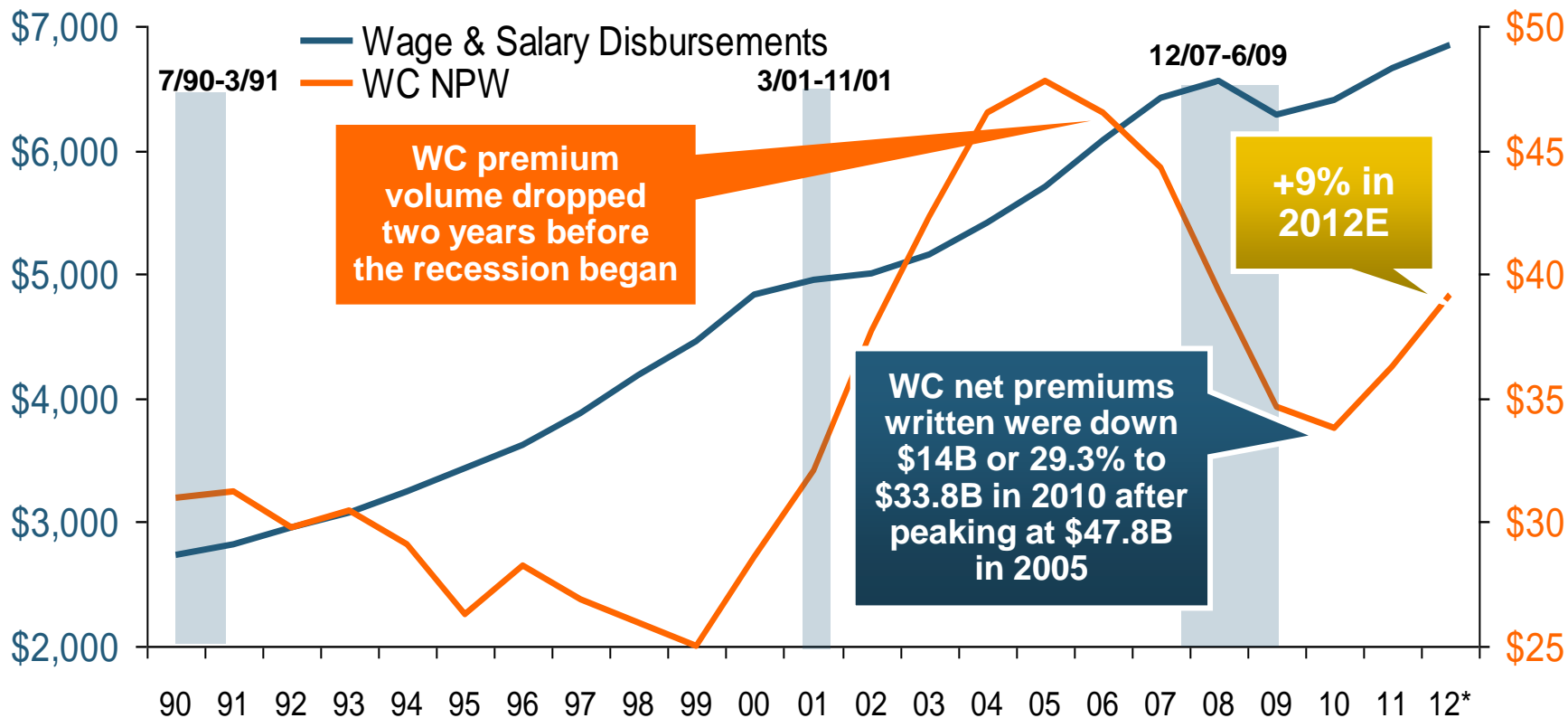
Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

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

Payroll vs. Workers Comp Net Written Premiums, 1990-2012E

Payroll Base*
\$Billions

WC NWP
\$Billions



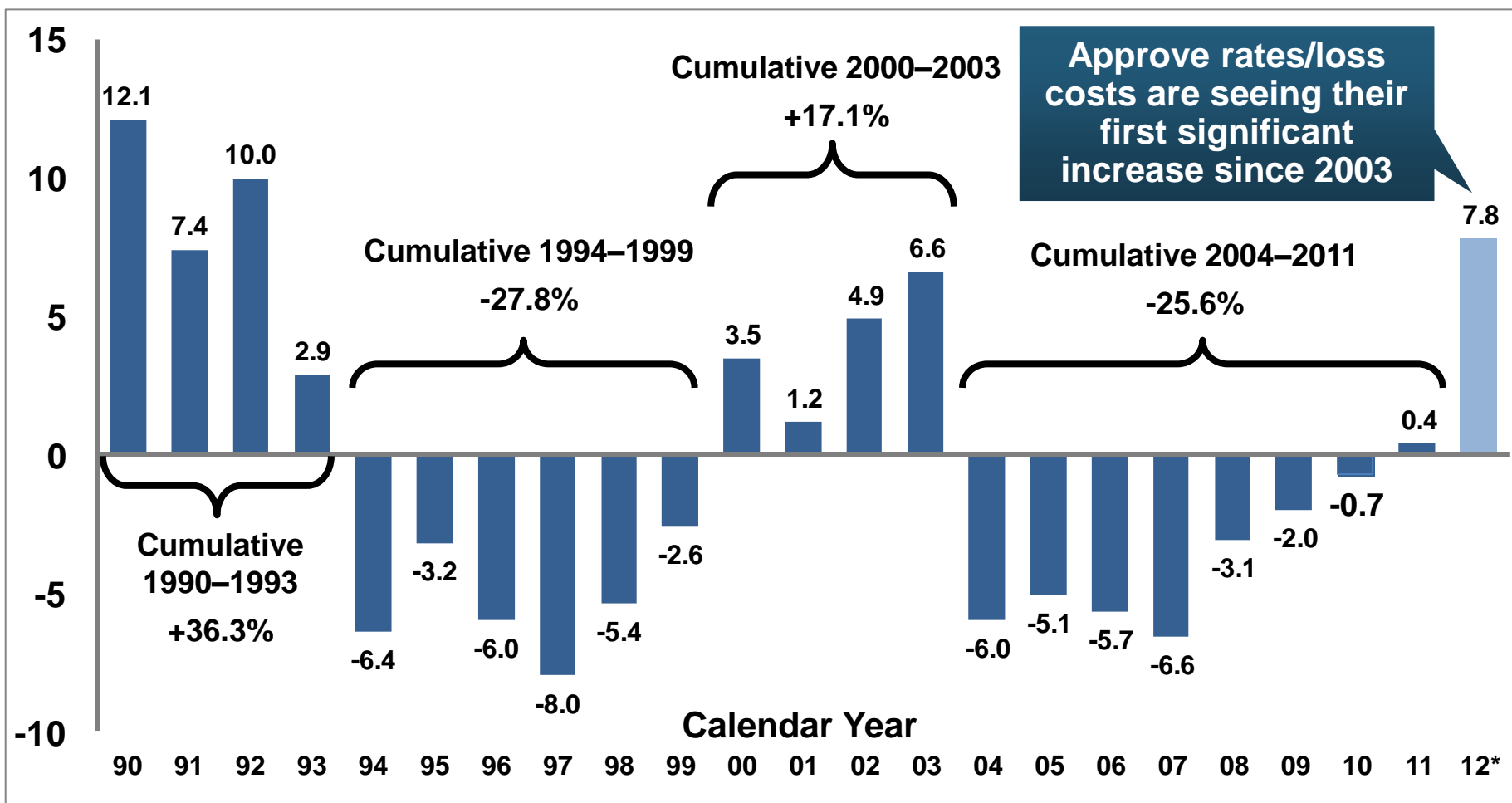
Continued Payroll Growth and Rate Increases Suggest WC NWP Will Grow Again in 2012; +7.9% Growth in 2011 Was the First Gain Since 2005

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

Average Approved Bureau Rates/Loss Costs

History of Average WC Bureau Rate/Loss Cost Level Changes

Percent



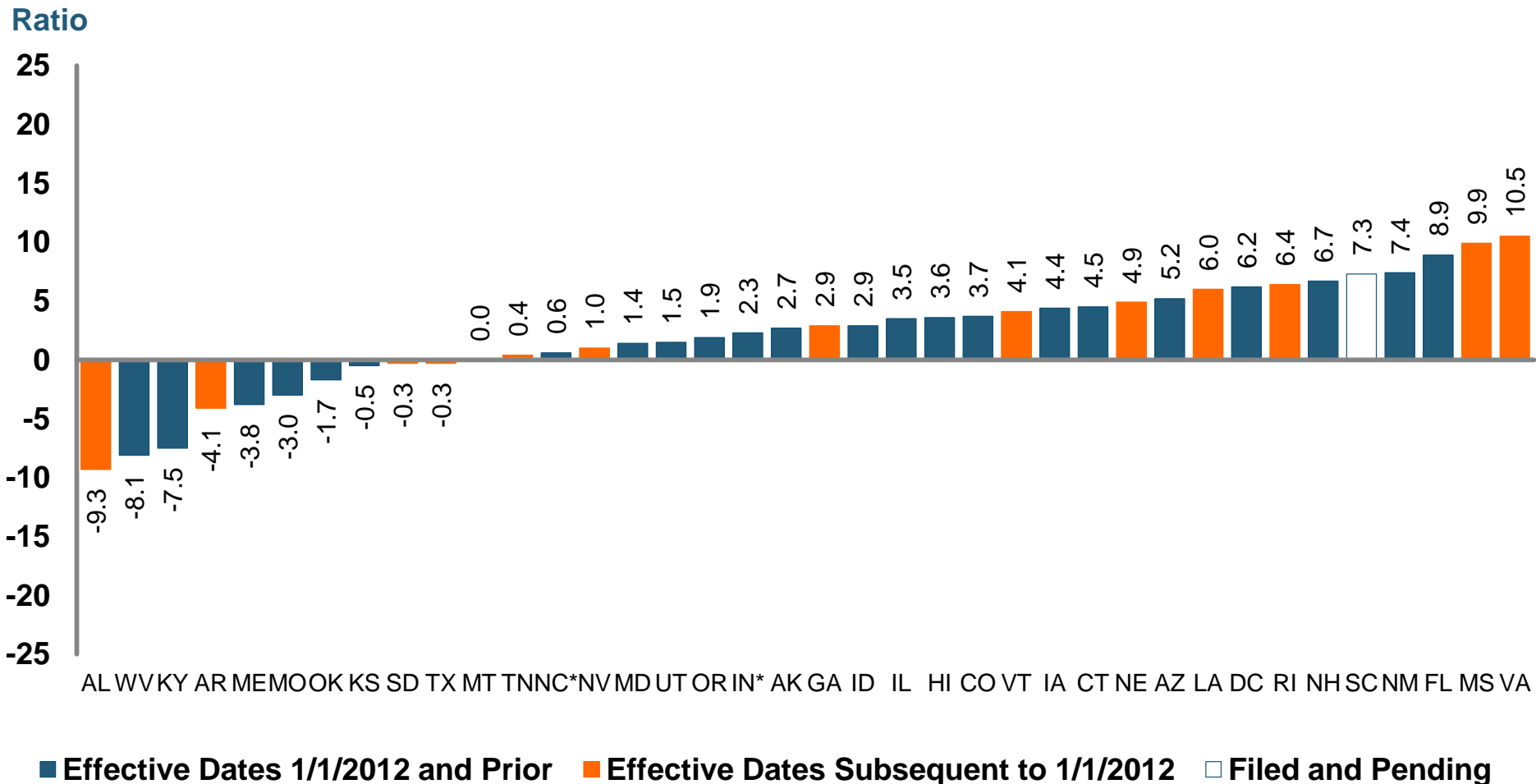
*States approved through 7/31/12.

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

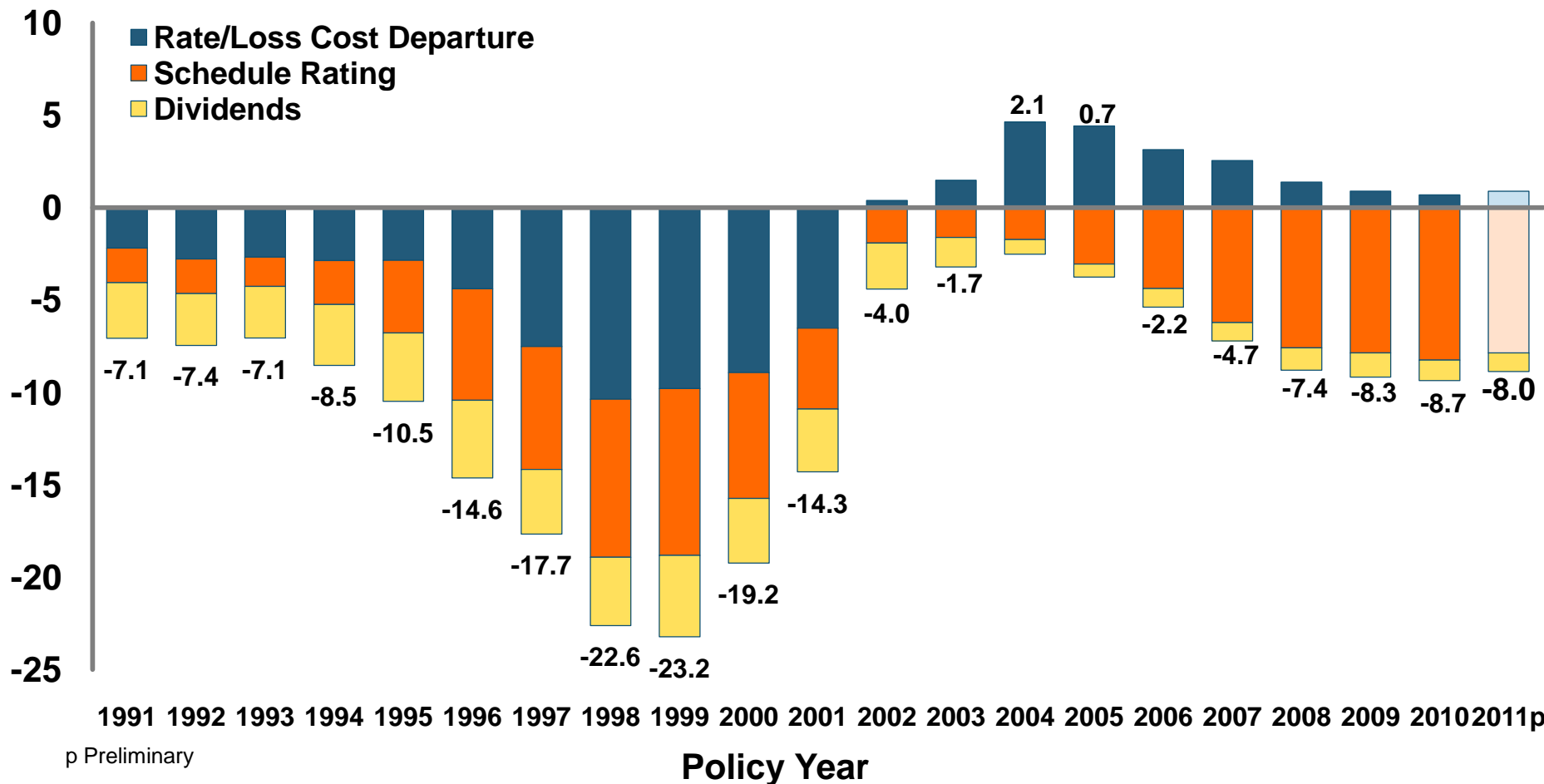
(Excludes Law-Only Filings)



Impact of Discounting on Workers Compensation Premium

NCCI States—Private Carriers

Percent



p Preliminary

Dividend ratios are based on calendar year statistics

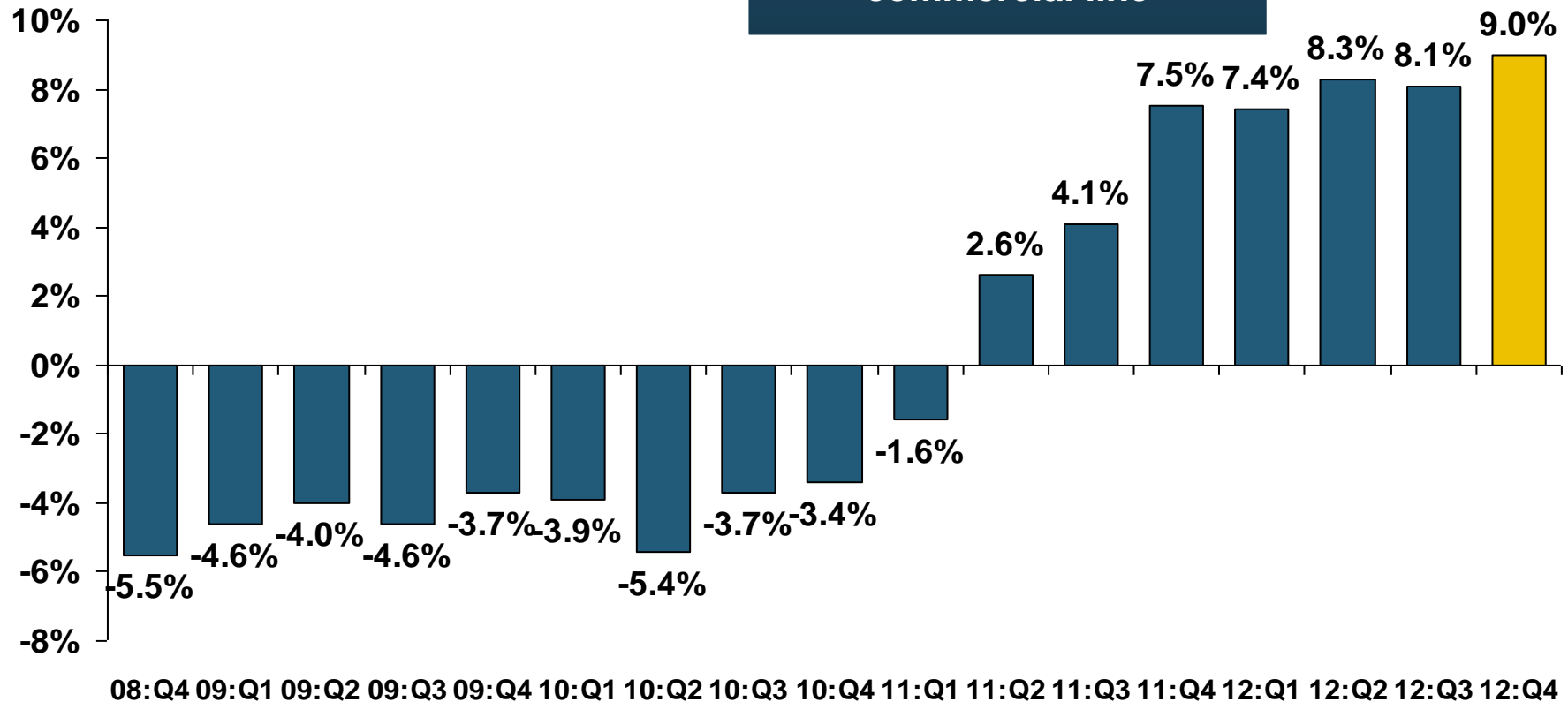
NCCI benchmark level does not include an underwriting contingency provision

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

Source: NCCI.

Workers Comp Rate Changes, 2008:Q4 – 2012:Q4

(Percent
Change)



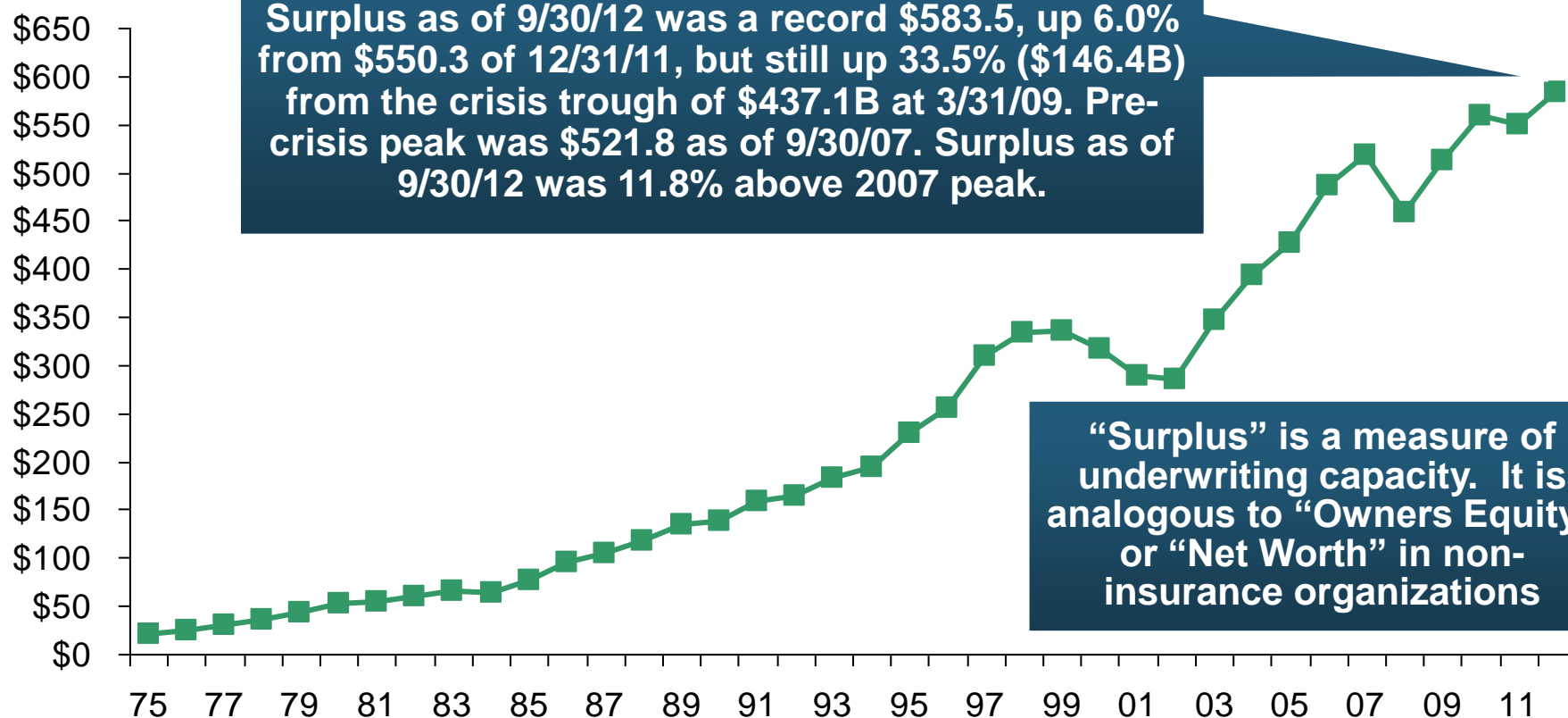
Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents and Brokers; Information Institute.

2. SURPLUS/CAPITAL/CAPACITY

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

US Policyholder Surplus: 1975–2012*

(\$ Billions)



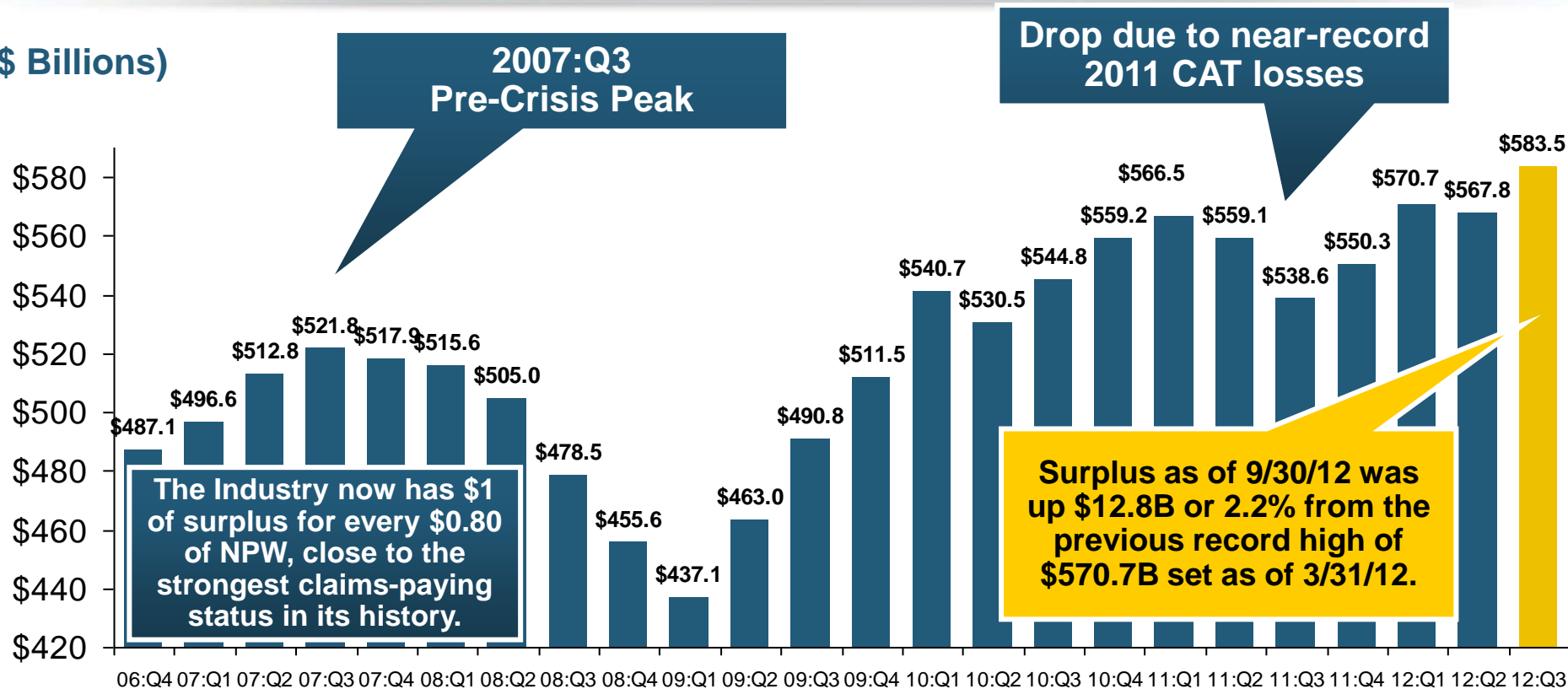
The Premium-to-Surplus Ratio Stood at \$0.80:\$1 as of 9/30/12, A Near Record Low (at Least in Recent History)*

* As of 9/30/12.

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

Policyholder Surplus, 2006:Q4–2012:Q3

(\$ 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.

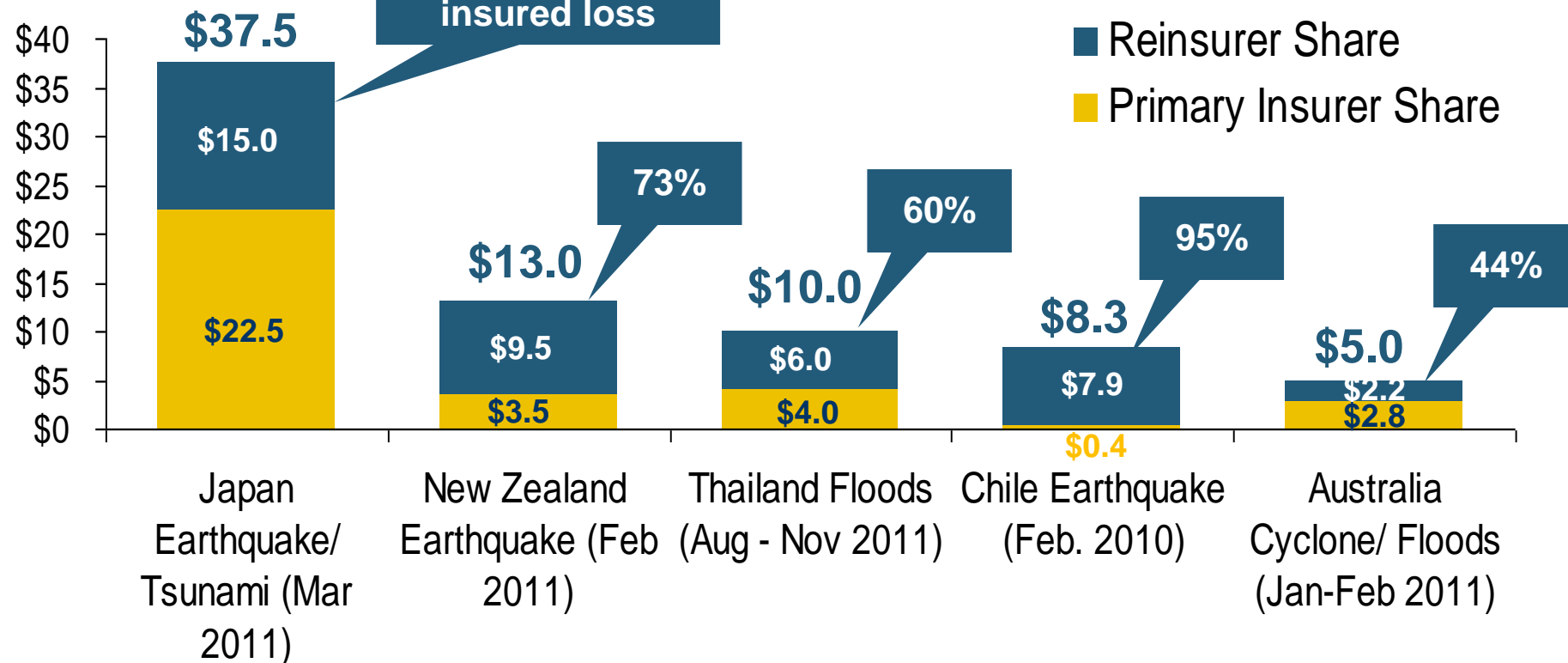
The P/C Insurance Industry Both Entered and Emerged from the 2012 Hurricane Season Very Strong Financially. There is No Insurance Industry "Fiscal Cliff"

3. REINSURANCE MARKET CONDITIONS

**Record Global
Catastrophes Activity is
Pressuring Pricing**

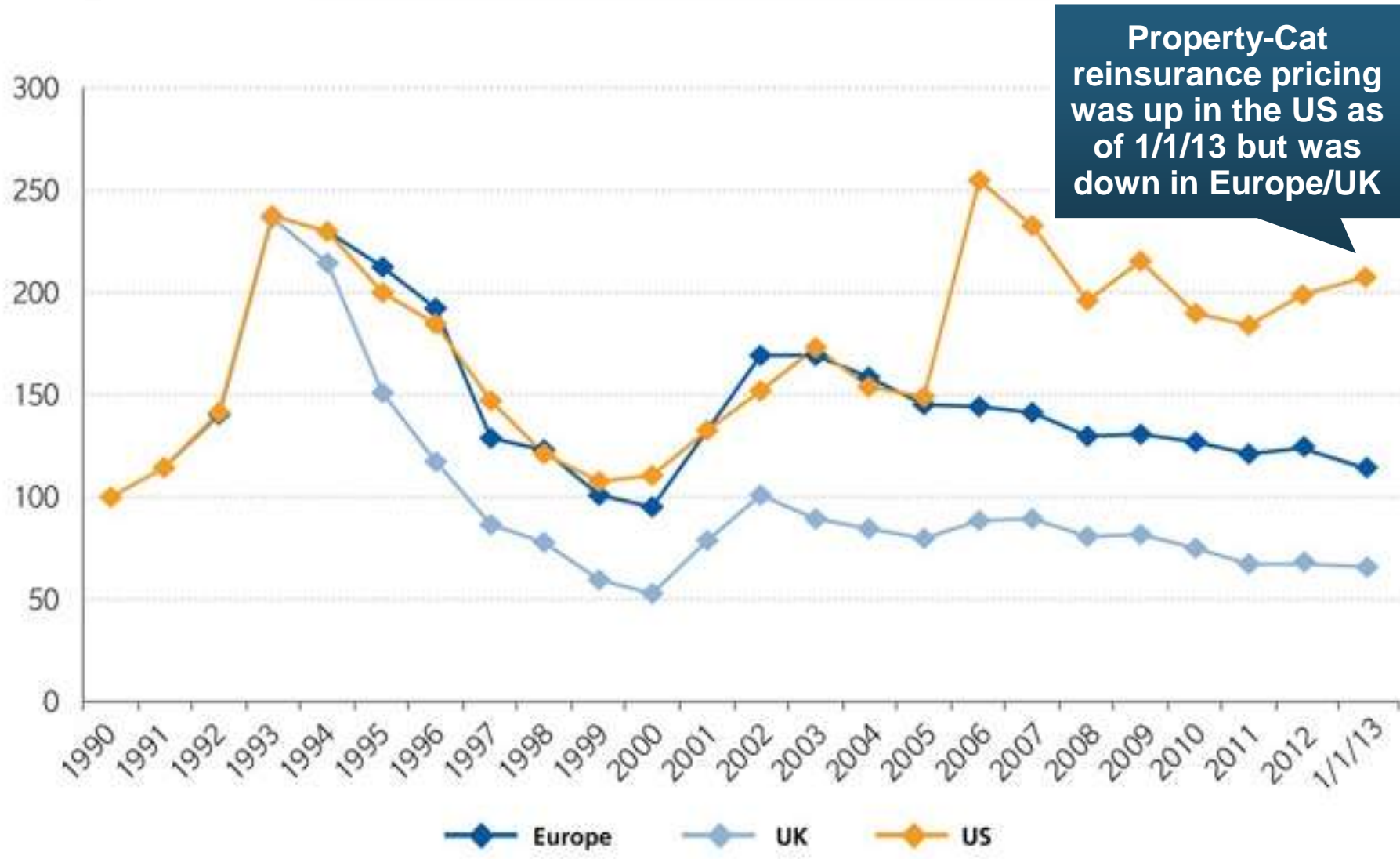
Reinsurer Share of Recent Significant Market Losses

Billions of 2011
Dollars



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

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



Sources: Guy Carpenter; Insurance Information Institute.

4. RENEWED PRICING DISCIPLINE

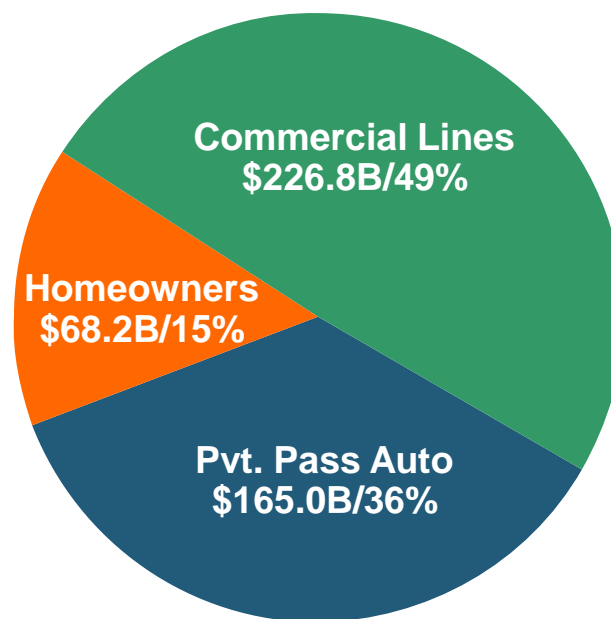
**Evidence of a Broad and
Sustained Shift in Pricing**

Distribution of Direct Premiums Written by Segment/Line, 2010

Distribution Facts

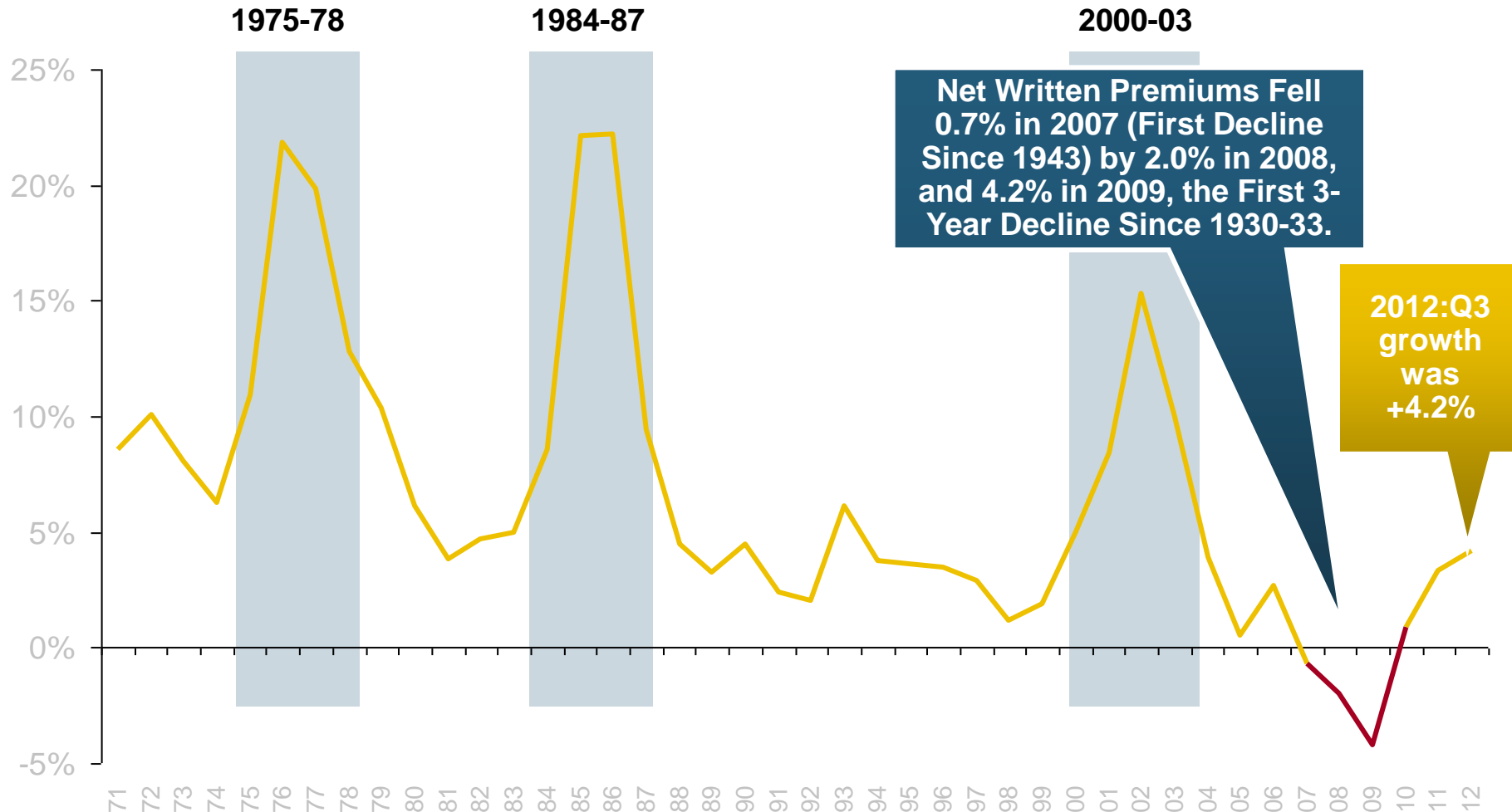
- Personal/Commercial lines split has been about 50/50 for many years; Personal Lines overtook Commercial Lines in 2010
- Pvt. Passenger Auto is by far the largest line of insurance and is currently the most important source of industry profits
- Billions of additional dollars in homeowners insurance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

2010



Net Premium Growth: Annual Change, 1971—2012:Q3

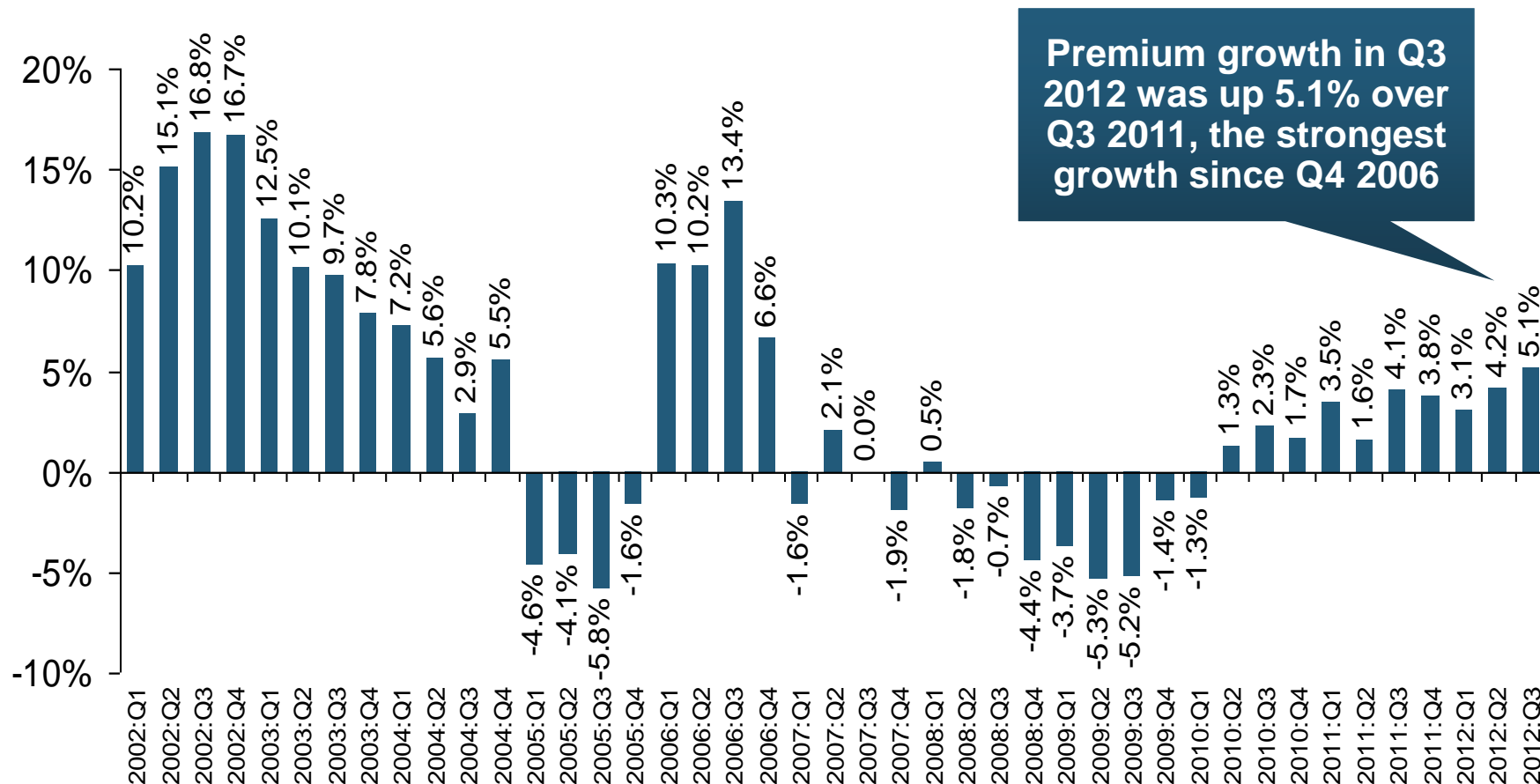
(Percent)



Shaded areas denote "hard market" periods

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

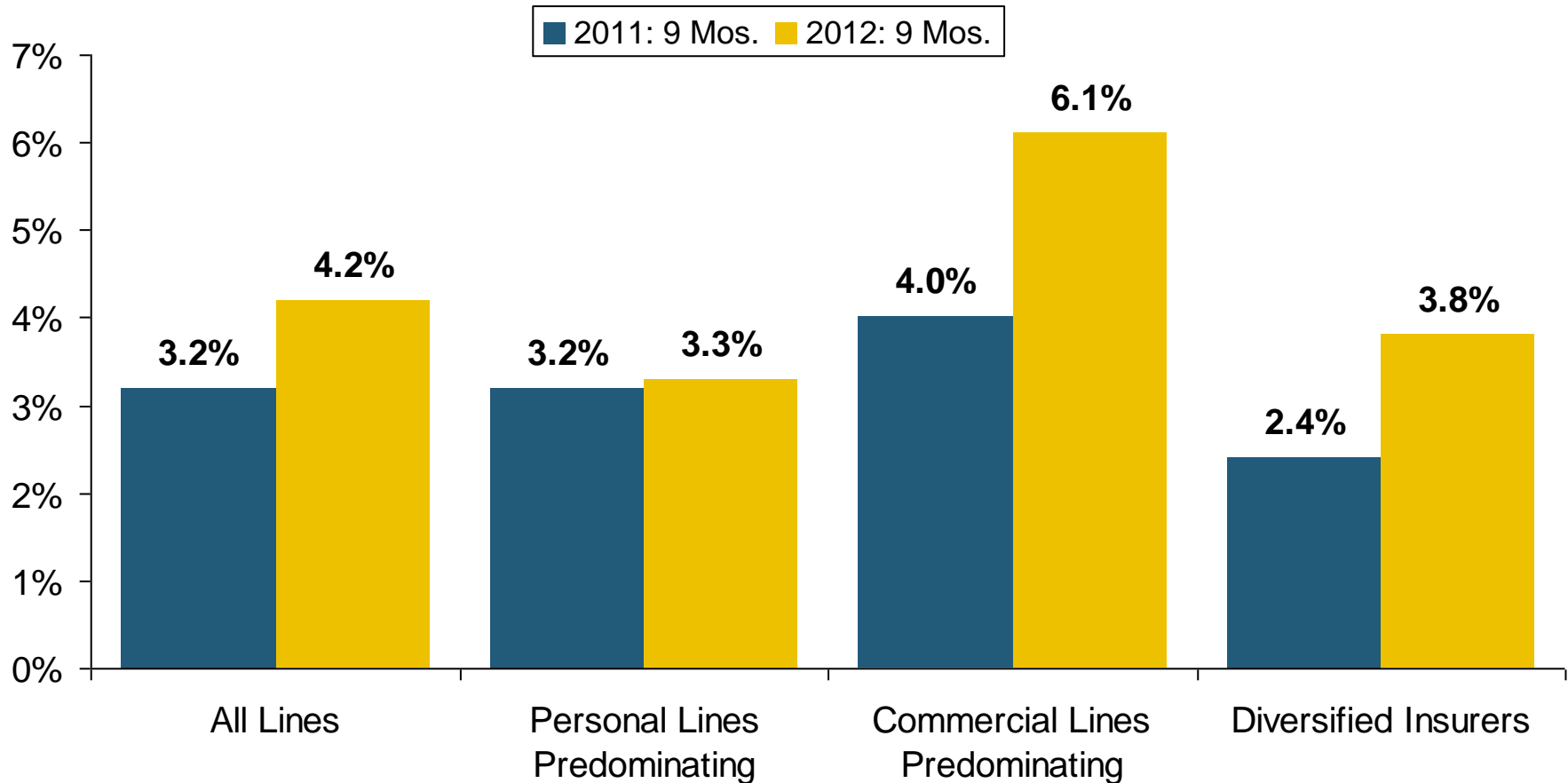
P/C Net Premiums Written: % Change, Quarter vs. Year-Prior Quarter



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

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

(Percent)

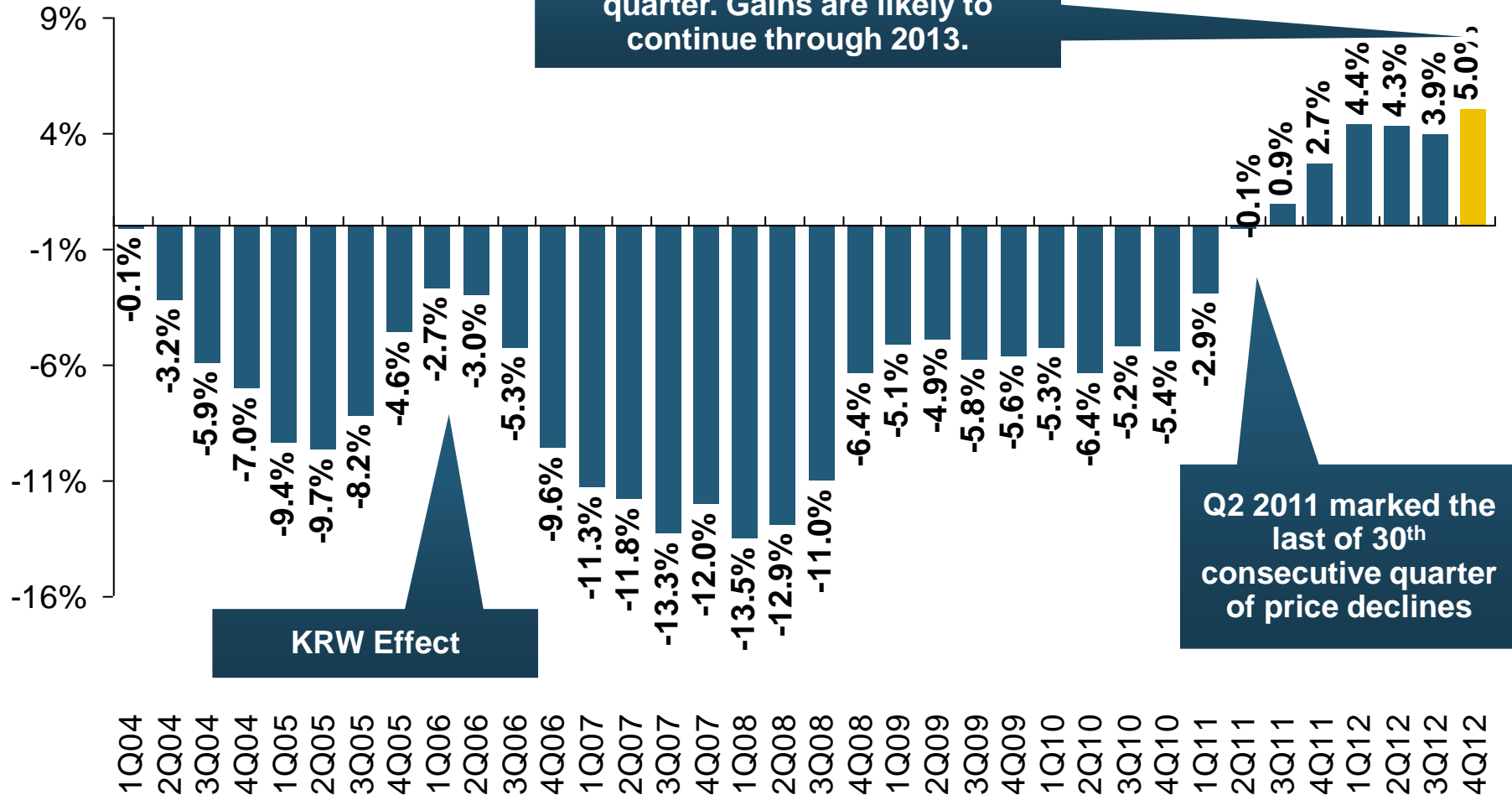


*Excludes mortgage and financial guaranty insurers.

Source: ISO/PCI; Insurance Information Institute

Average Commercial Rate Change, All Lines, (1Q:2004–4Q:2012)

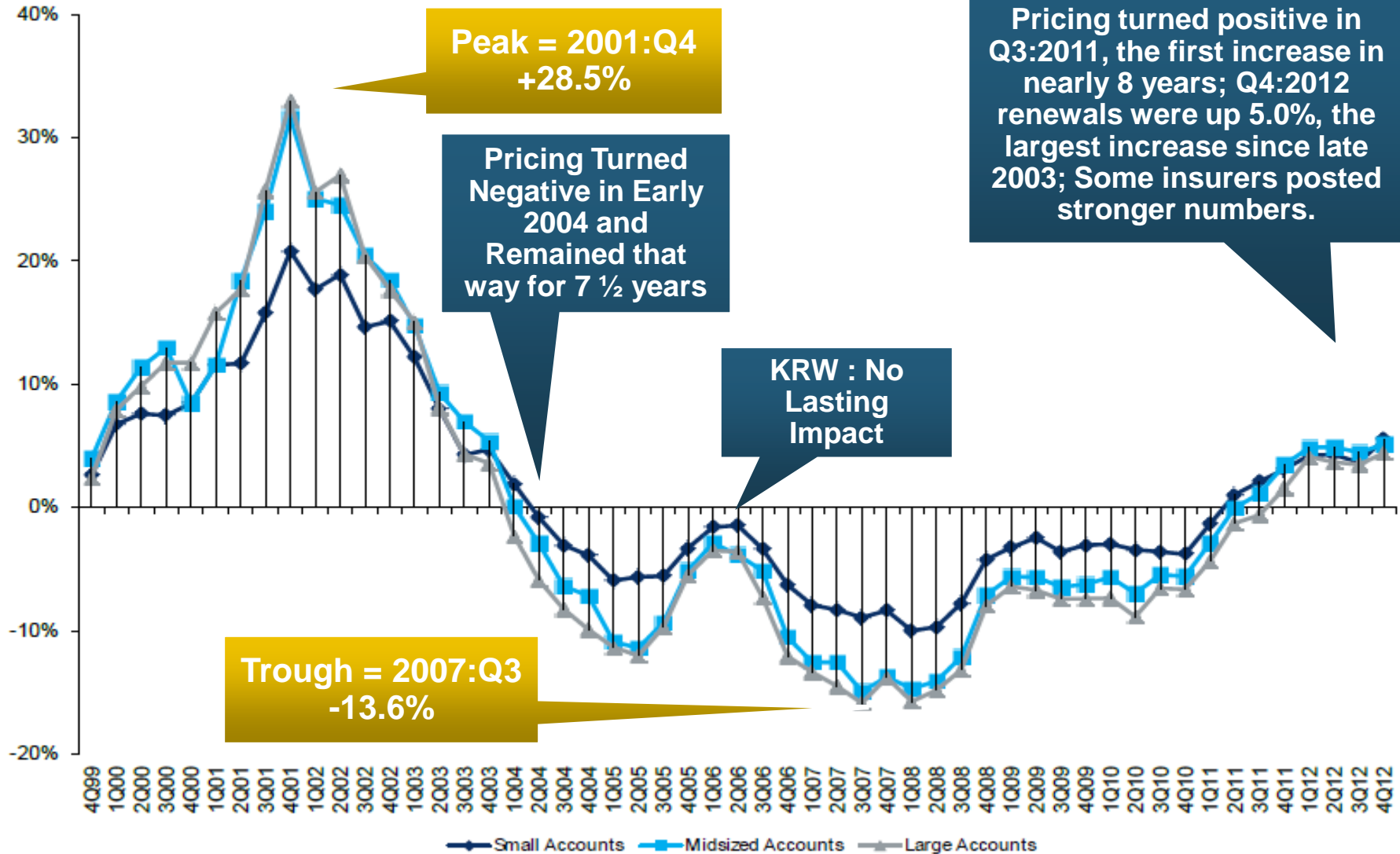
(Percent)



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 2012:Q4

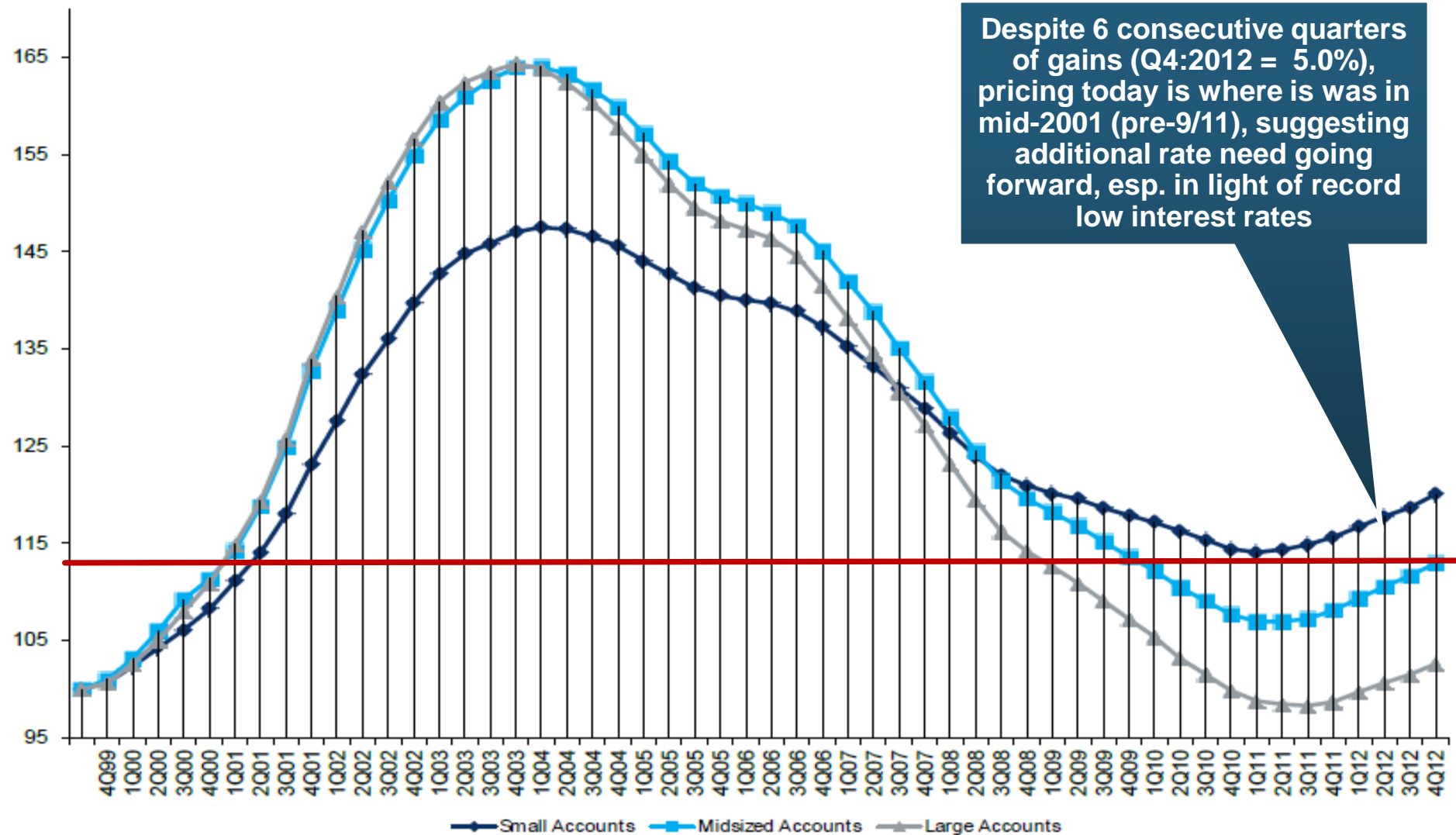
Percentage Change (%)



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 2012:Q4

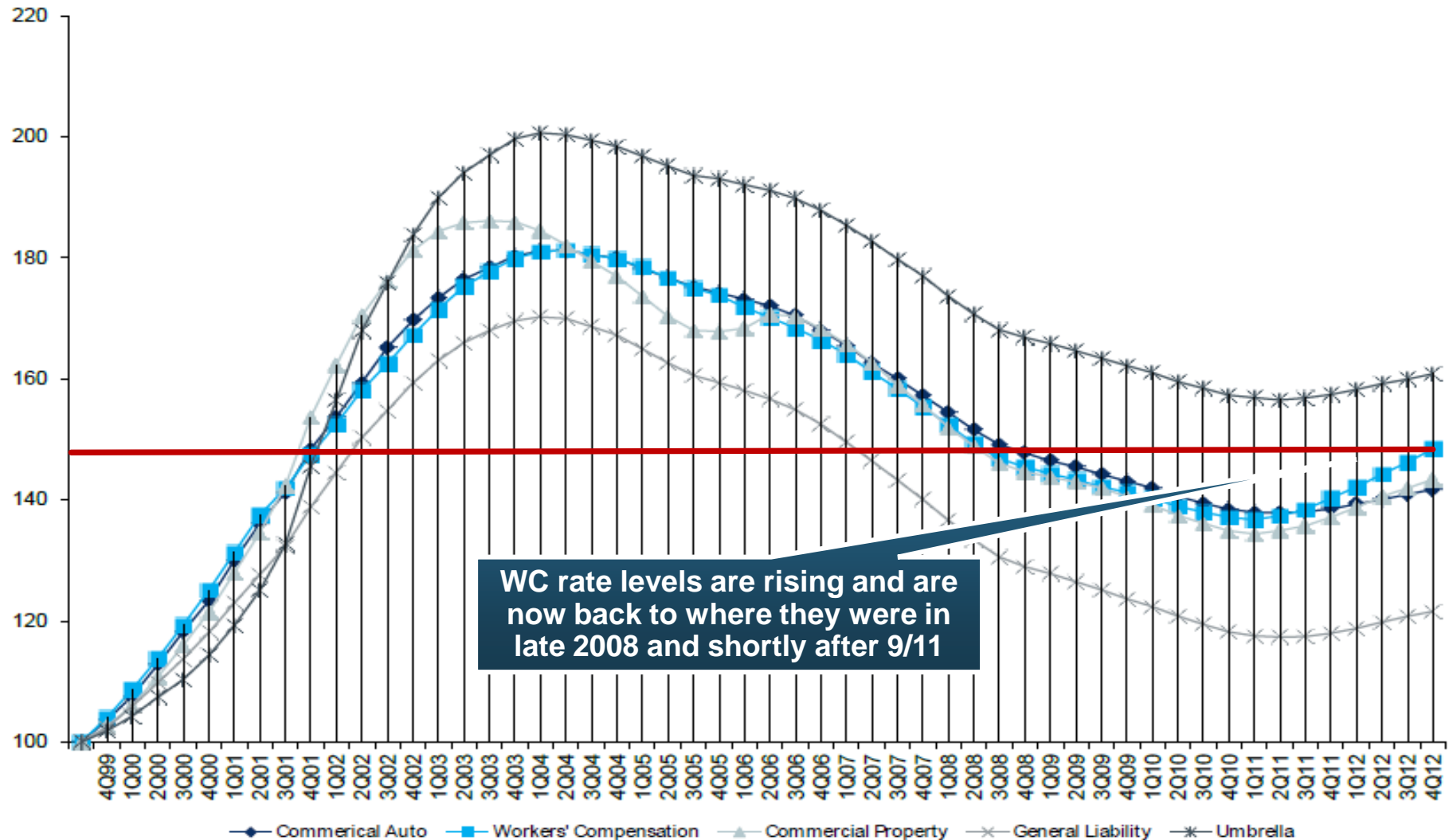
1999:Q4 = 100



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 2012:Q4

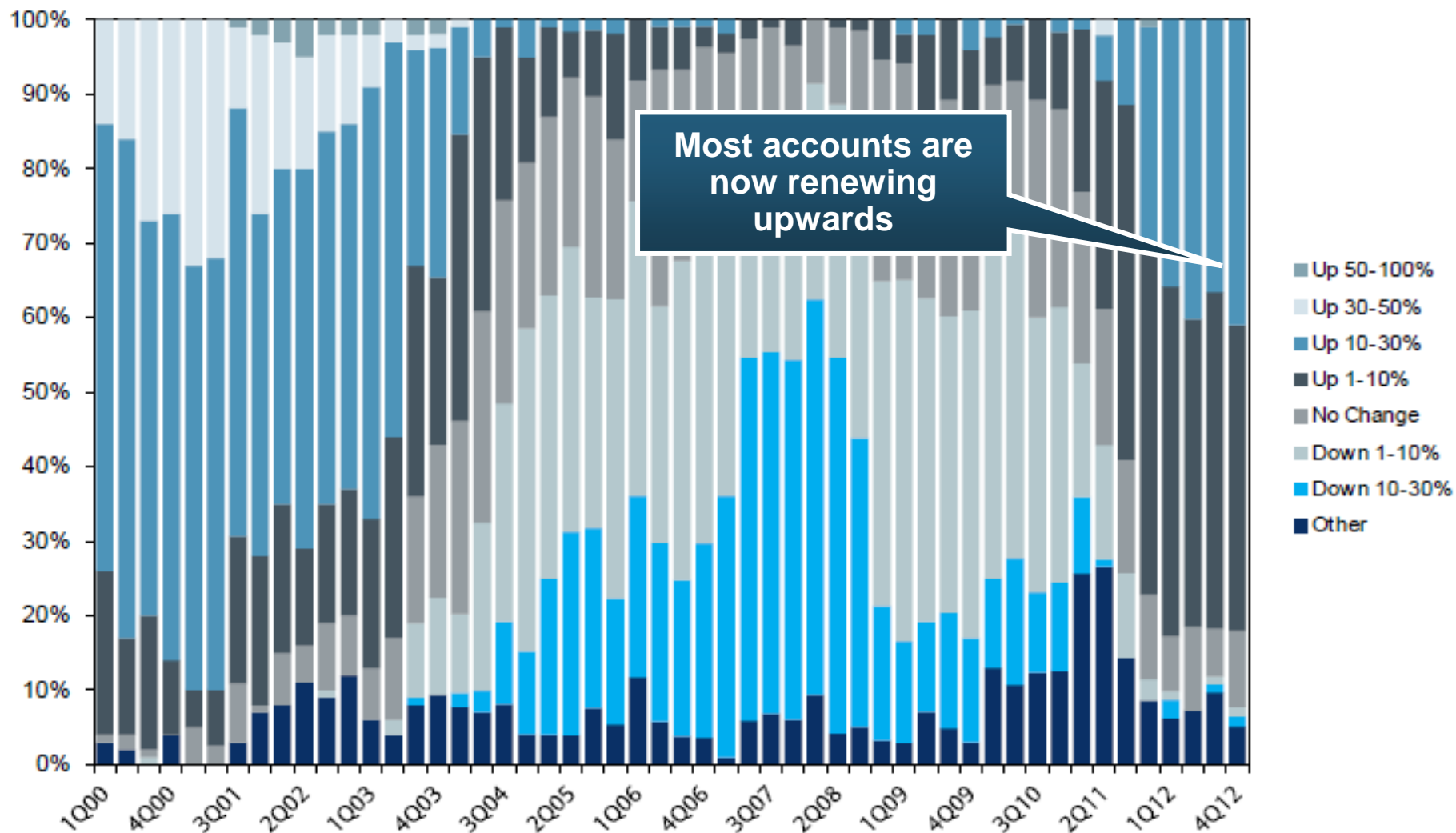
1999:Q4 = 100



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.

Workers Comp. Quarterly Rate Changes, by Line: 2000:Q1 to 2012:Q4

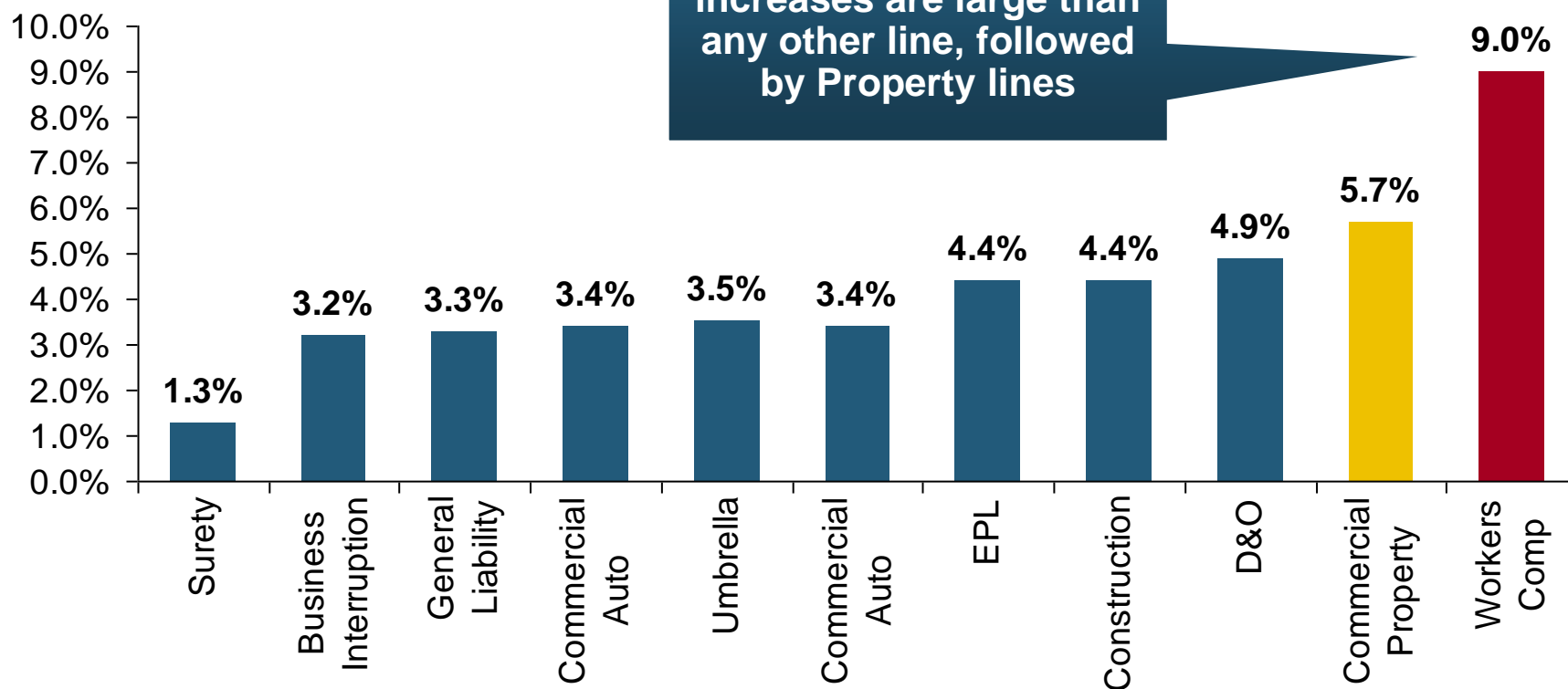
1999:Q4 = 100



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: 2012:Q4

Percentage Change (%)

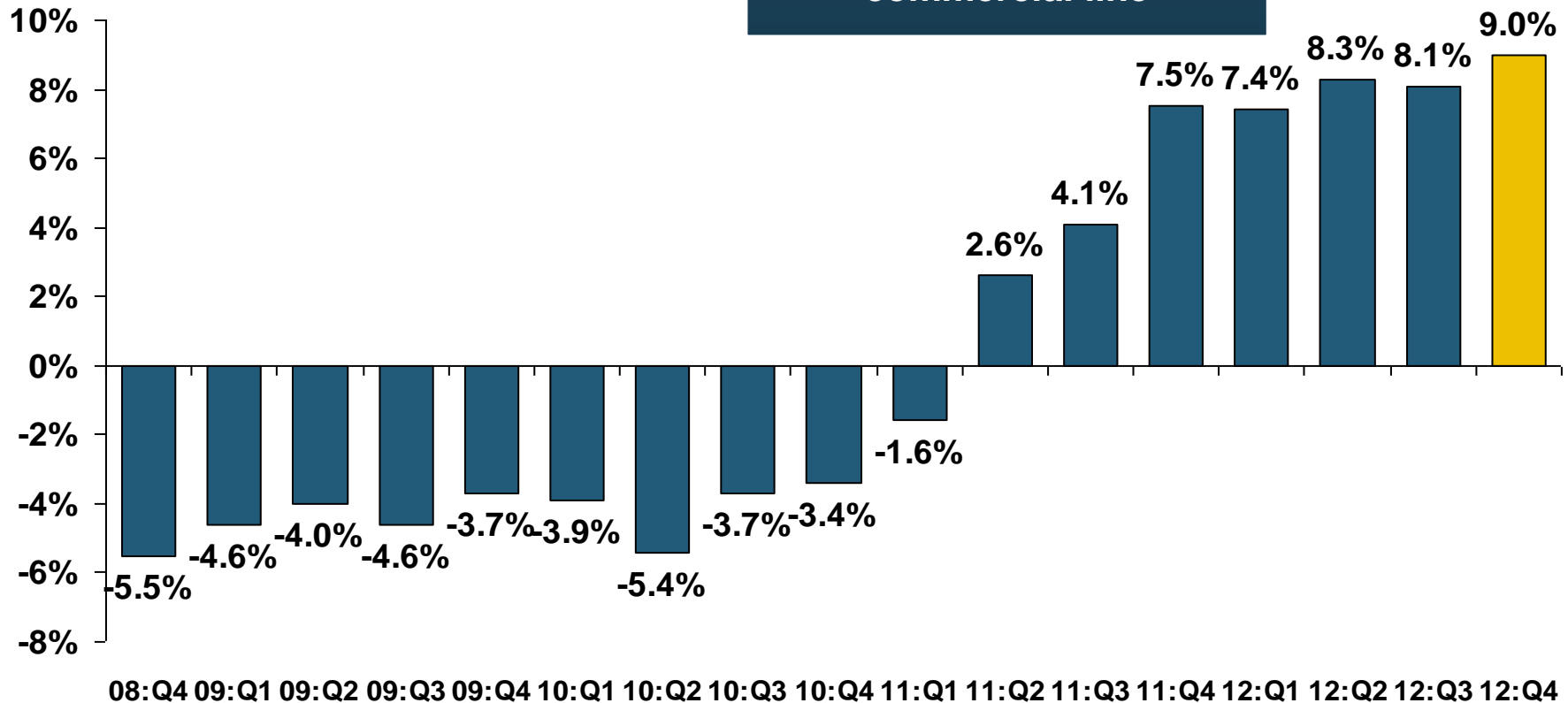


Major Commercial Lines Renewed Uniformly Upward in Q4:2012 for the Sixth Consecutive Quarter; Property Lines & Workers Comp Leading the Way; Cat Losses and Low Interest Rates Provide Momentum Going Forward

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.

Workers Comp Rate Changes, 2008:Q4 – 2012:Q4

(Percent
Change)



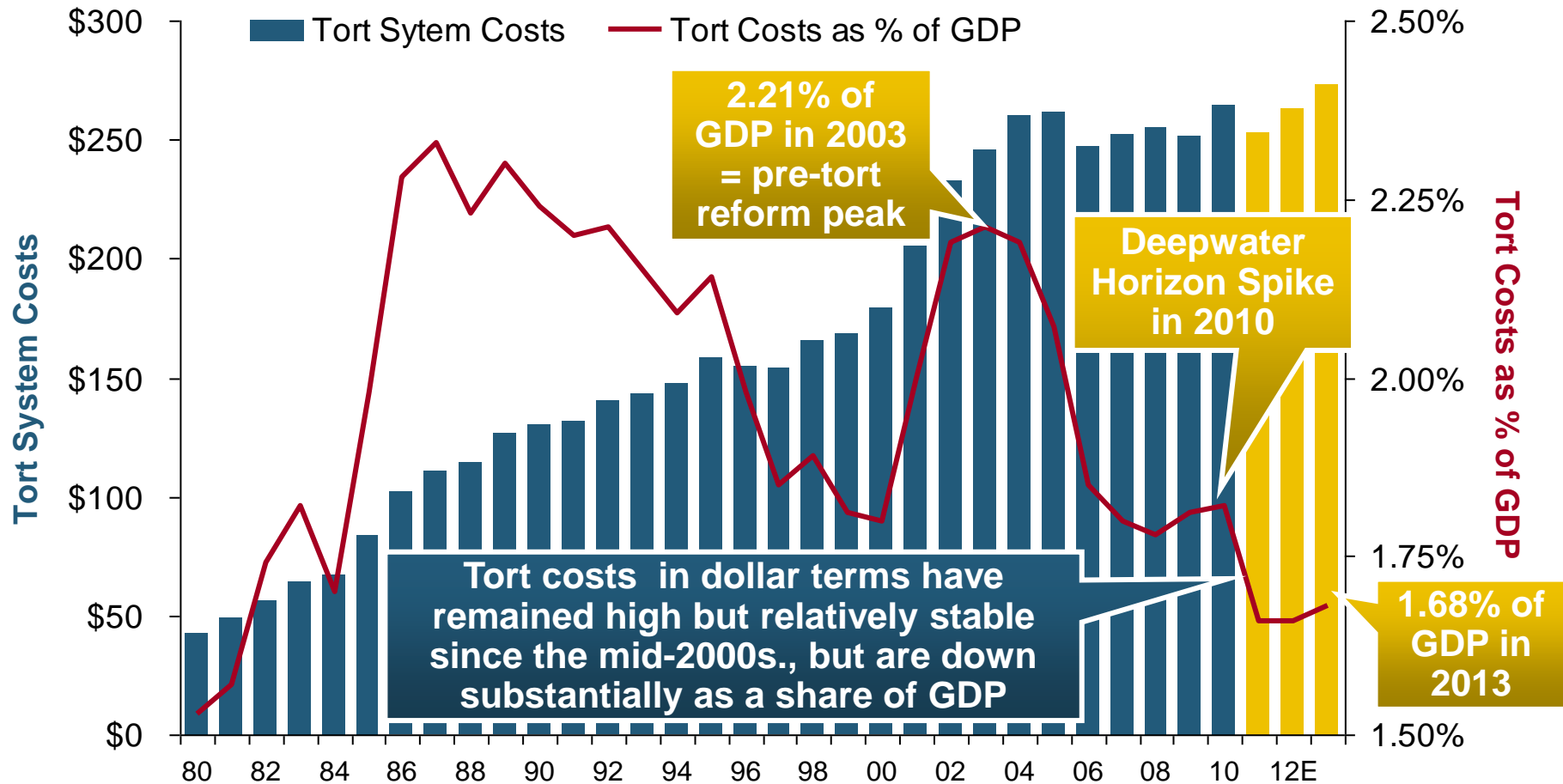
Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents and Brokers; Information Institute.

Shifting Legal Liability & Tort Environment

Is the Tort Pendulum Swinging Against Insurers?

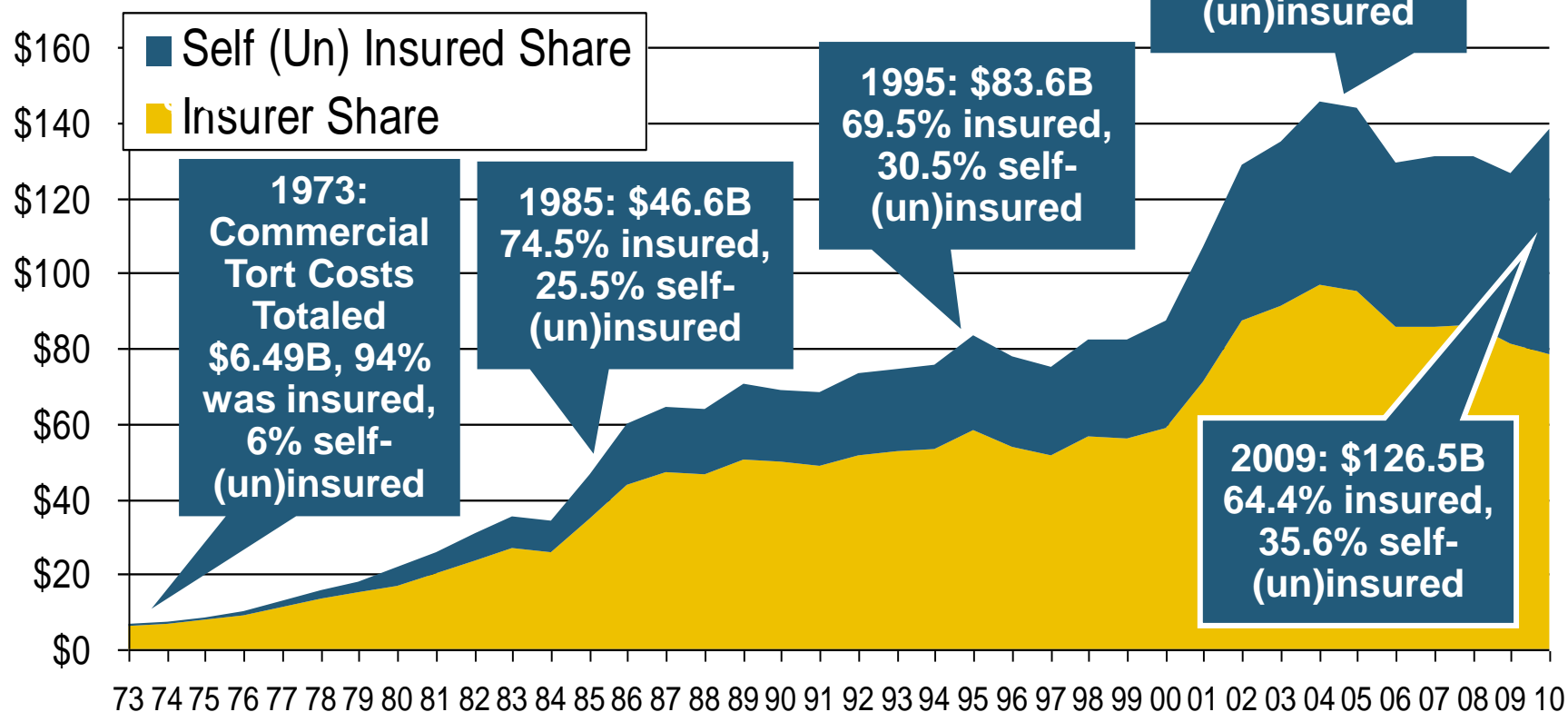
Over the Last Three Decades, Total Tort Costs as a % of GDP Appear Somewhat Cyclical, 1980-2013E

(\$ Billions)



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

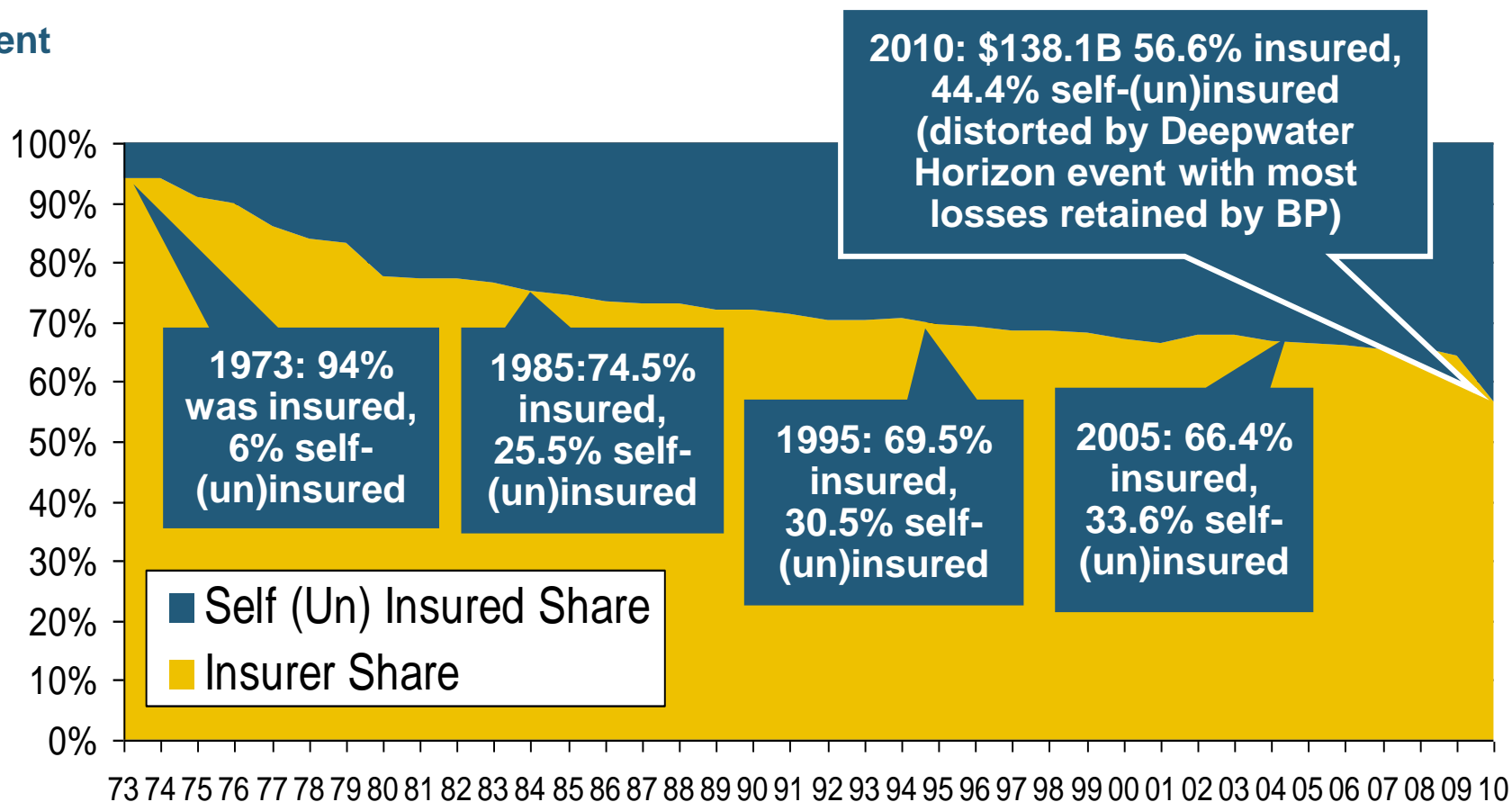
Billions of Dollars



Tort Costs and the Share Retained by Risks Both Grew Rapidly from the mid-1970s to mid-2000s, When Tort Costs Began to Fall But Self-Insurance Shares Continued to Rise

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

Percent



The Share of Tort Costs Retained by Risks Has Been Steadily Increasing for Nearly 40 Years. This Trend Contributes Has Left Insurers With Less Control Over Pricing.

Business Leaders Ranking of Liability Systems in 2012

■ Best States

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

New in 2012

- Wyoming
- Minnesota
- Kansas
- Idaho

Drop-offs

- Indiana
- Colorado
- Massachusetts
- South Dakota

10. Iowa

■ Worst States

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

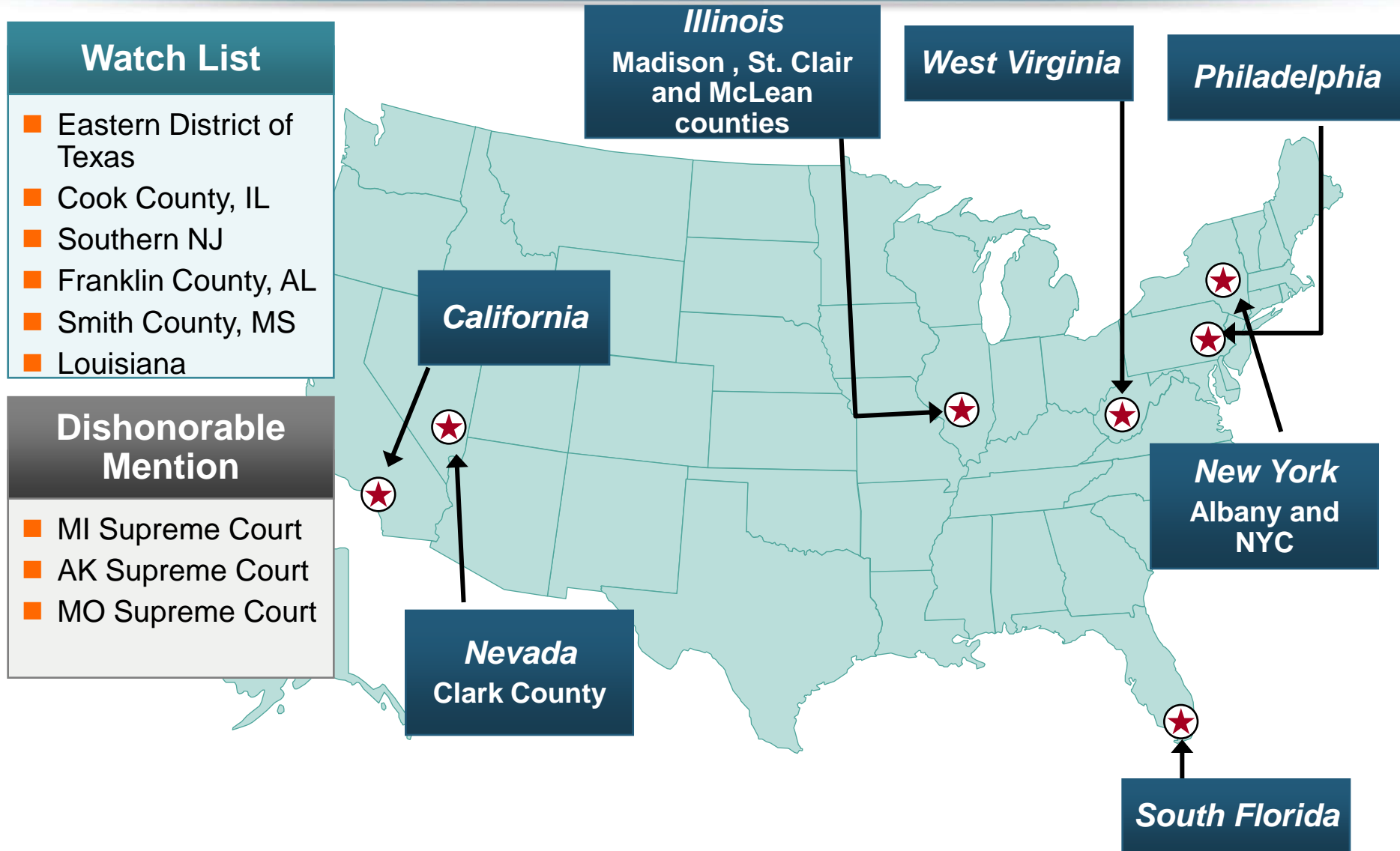
Newly Notorious

- Oklahoma

Rising Above

- Arkansas

The Nation's Judicial Hellholes: 2011



Insurance Information Institute Online:

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*Thank you for your time
and your attention!*

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