Is the World Becoming a Riskier Place?

Economic Overview and New York Insurance Market Outlook for 2012 & Beyond

New York Insurance Association

Annual Meeting

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Presentation Outline

- Review of Recent Events
  - What in the World is Going On?
- Summary of P/C Financial Performance
- New York State P/C Insurance Market Overview
- NY No-Fault (PIP) Update
  - Fraud Tax Update
- Catastrophe Loss Developments & Trends
  - US, Global
- Will the Market Turn? Four Necessary Criteria:
  - Underwriting Loss Trends
  - Capital/Capacity
  - Reinsurance Markets
  - Pricing Discipline
- Other Contributing Factors to the Underwriting Cycle
  - Investment Environment
  - Tort/Casualty Environment
  - Inflation
  - Economic Environment

What in the World Is Going On?

Is the World Becoming a Riskier Place?

What Are the Implications for Insurance and Risk Management?

Uncertainty, Risk and Fear Abound

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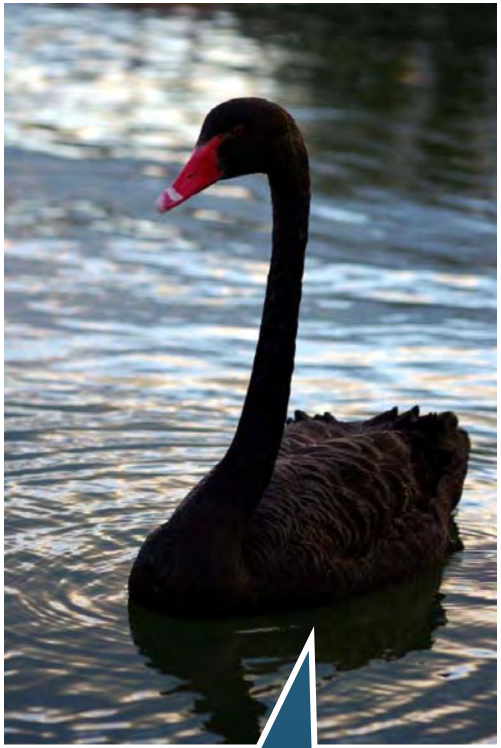
ECONOMIC & POLITICAL CONCERNS

- Global Economic Slowdown
- Echoes of the Financial Crisis
- European Sovereign Debt, Bank & Currency Crises
- Collapse of Major Financial Institutions
- US Debt and Budget Crisis, S&P Downgrade & Austerity
- Housing Crisis
- Persistently High Unemployment
- Inflation/Deflation
- Runaway Energy & Commodity Prices
- Political Upheaval in the Middle East
- Regulation
- China→Now the #2 Economy in the World
- 2012 Elections

CATASTROPHIC LOSS

- Japan, New Zealand, Turkey, Haiti, Chile Earthquakes
- Nuclear Fears
- US: Tornadoes, Flooding, Wildfires, Hurricanes, Winter Storms
- Manmade Disasters (e.g., Deepwater Horizon)
- Cyber Attacks
- Resurgent Terrorism Risk (e.g., Bin Laden, Gadhafi Killings)



Are "Black Swans" everywhere or does it just seem that way?

What is Going On in the US and Global Financial Markets?

1. **Need for a Binding, Comprehensive Solution to Europe's Debt Problems**
   - ***Big Fat Greek Debt Disaster*: On again, off again Greek debt agreement; New PM**
   - ***Roman Ruins*: Austerity measures now passed; New Prime Minister**
   - **Financial "Firewall" around Italy, Spain, Ireland, Portugal may be too small**
   - **Difficulties in managing multinational institutions and economic policies**
   - **ECB and individual member EU countries not all on same page**
   - **Solution: Unified strategy similar to TARP; Monetary easing**
   - **OUTCOME: Europeans will eventually stumble into a resolution**
2. **Realization that US Economic Growth Will Remain Lackluster**
   - **Q1 GDP just 0.4%; Q2 only 1.3%; Q3 still a subpar 2.5%; Acceleration unlikely**
   - **Job growth has been anemic for months and unemployment remains high at 9.1%**
   - **Markets remain extremely volatile and jittery; Housing/Debt hangover**
   - **OUTCOME: Tepid growth in the 2% - 2.5% range in 2012; Unemployment 8.5% - 9%**
3. **View that Washington is Dysfunctional and "Rudderless"**
   - **Lack of coherent, consistent medium and long term plan to deal with basic structural issues in the US economy (debt, taxes, employment, regulation, etc.)**
   - **No confidence that 2012 political cycle will resolve these problems**
4. **Economic Slowdown in Emerging Markets**
   - **China, other economies less able to stimulate global economy than in 2008**

Déjà Vu? Lehman II?
Is This 2008 All Over Again?

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Why Today is Not 2008 All Over Again

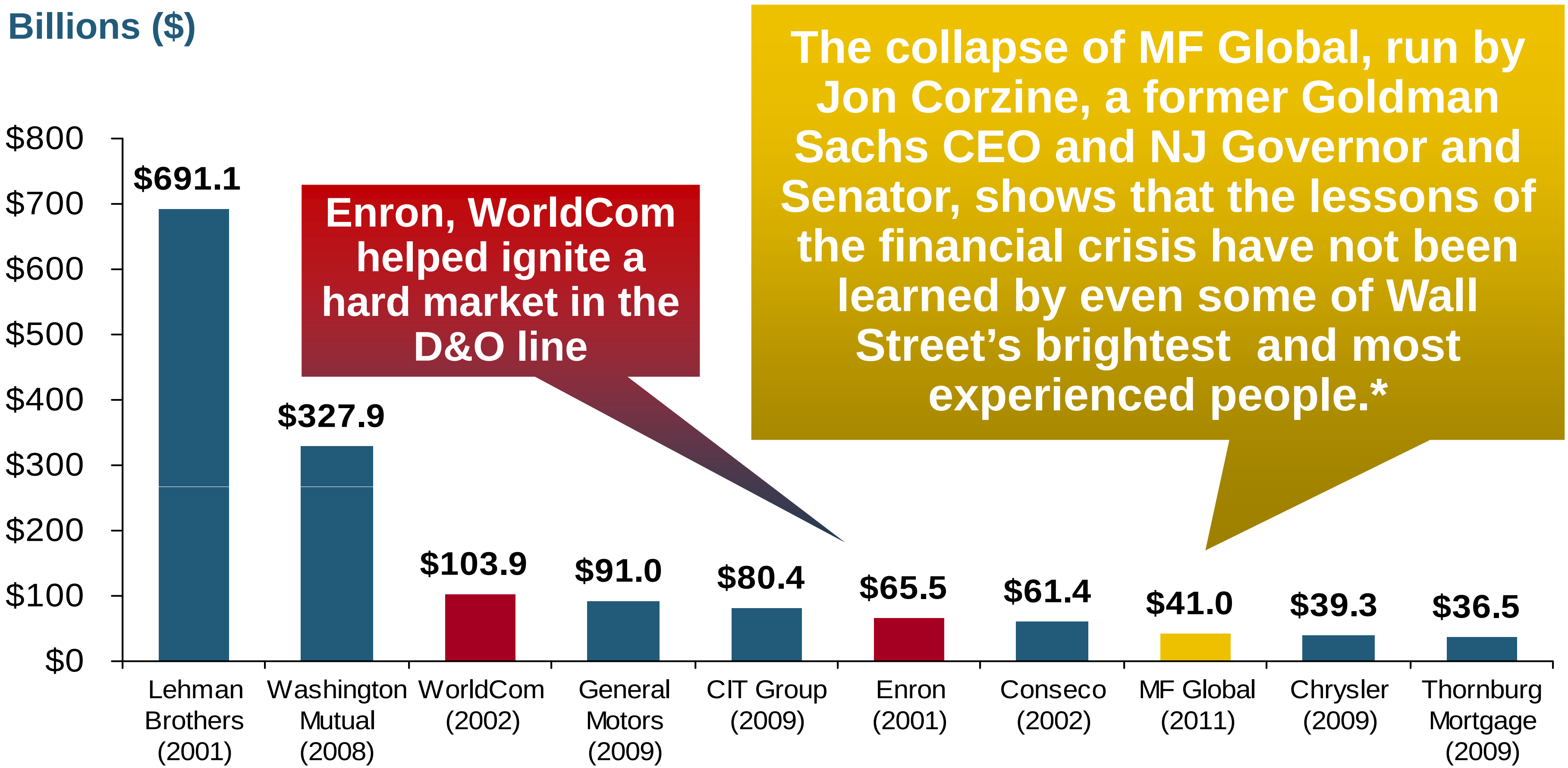
- **The Situation Today is Very, Very Different from 2008**
- **Credit Markets Are Not Seizing; Some Contraction in Europe**
- **Bank Balance Sheets Are in Much Stronger Shape**
  - **Capital up, charge offs falling**
- **We Will Not Experience the Mega-Collapses/Near Collapses Like in 2008**
  - **No repeat of Lehman, AIG, Washington Mutual, Wachovia…**
  - **MF Global is not a "Systemically Important Financial Institution"**
- **Some Additional Regulatory Controls Are Now Place**

What Would Be Helpful Now?

- **Solution to European Bank/Sovereign Debt Problem (Thought We Had One!)**
- **Long-Term Fiscal and Monetary Policy Direction**
- **Fed on Aug. 9 stated rates would remain low "*at least through mid-2013*"**
  - **This is not only a signal that borrowing costs will remain low over an extended period of time and that inflation will remain muted; Also tells investors that they'll need to take on risk in order to earn returns in the market.**
  - **Congress and the Administration need to remove regulatory and tax uncertainty ASAP and drive a pro-growth agenda**

Top 10 US Corporate Bankruptcies, by Asset Size

Billions ($)



All 10 of the Biggest Bankruptcies in US History Occurred Within the Past 10 Years With Varied Effects on D&O Market. MF Global Was the 8th Largest Bankruptcy in US History

*MF Global filed for bankruptcy on October 31, 2011.

Source: Council of Insurance Agents and Brokers; Insurance Information Institute.

P/C Insurance Industry Financial Overview

Profit Recovery Will Be Set Back by High CATs, Low Interest Rates, Diminishing Reserve Releases

P/C Net Income After Taxes 1991–2011:H1 ($ Millions)

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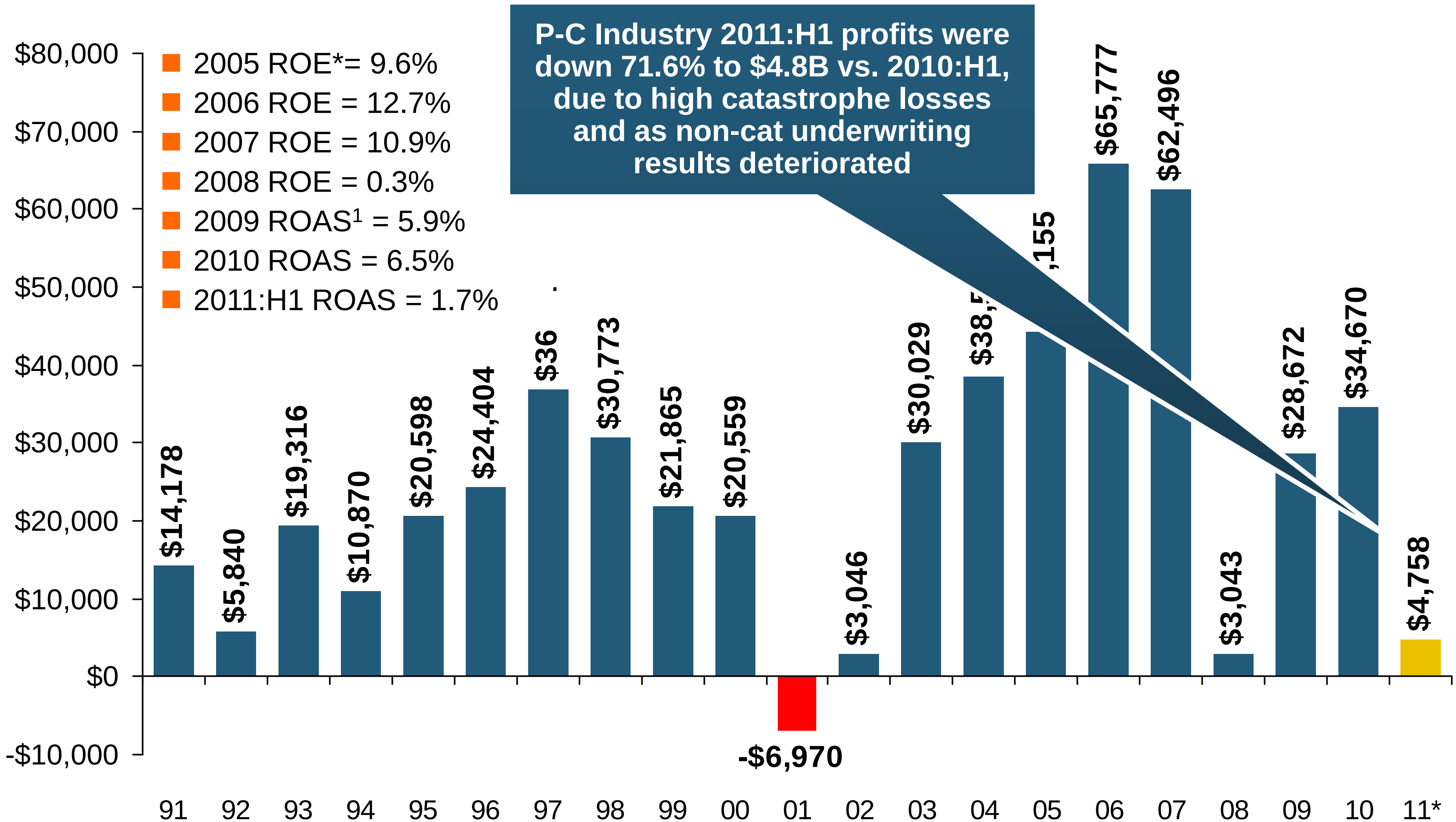

* ROE figures are GAAP; [1]Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 2.3% ROAS for 2011:H1, 7.5% for 2010 and 7.4% for 2009.

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

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

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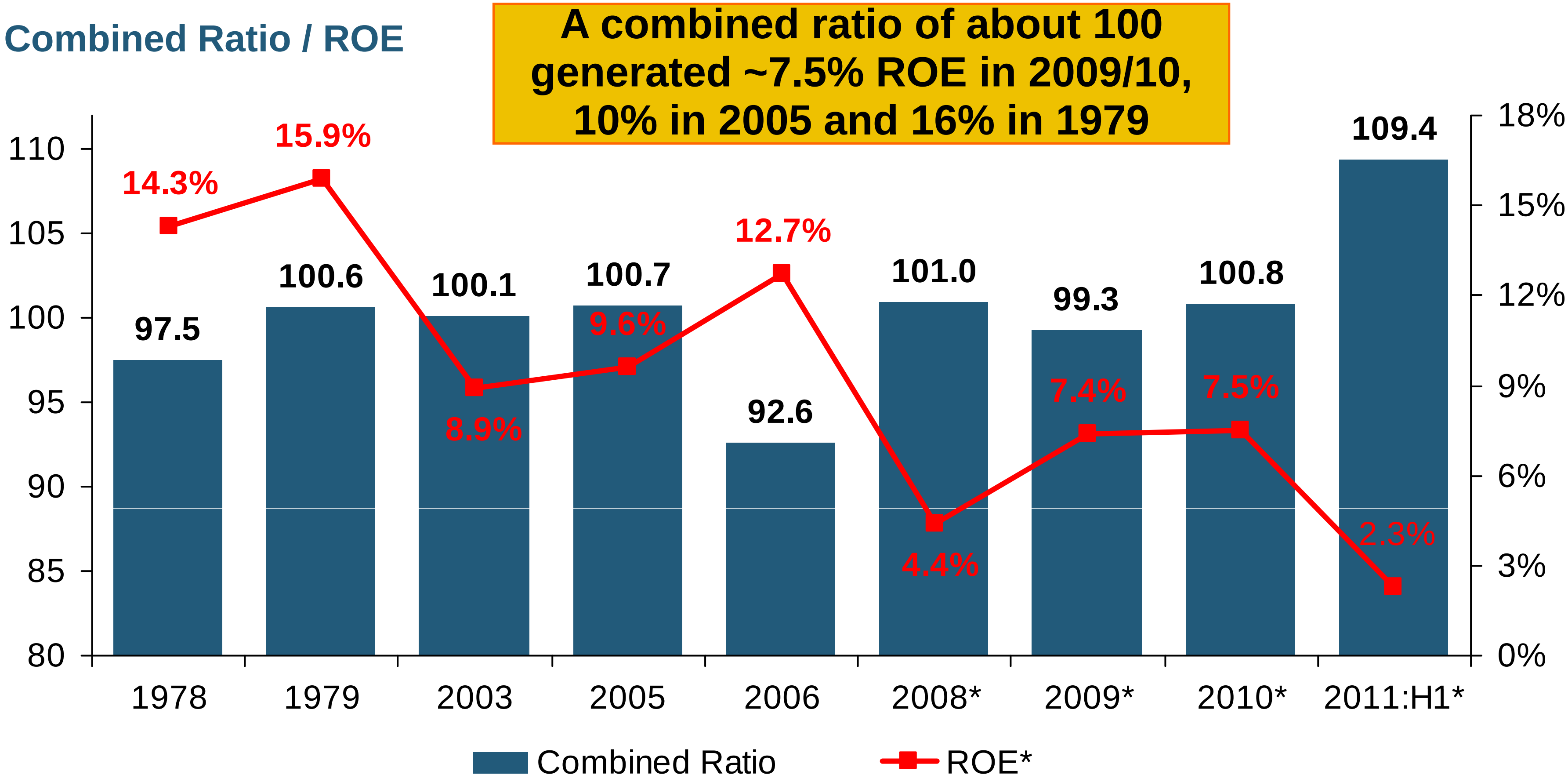
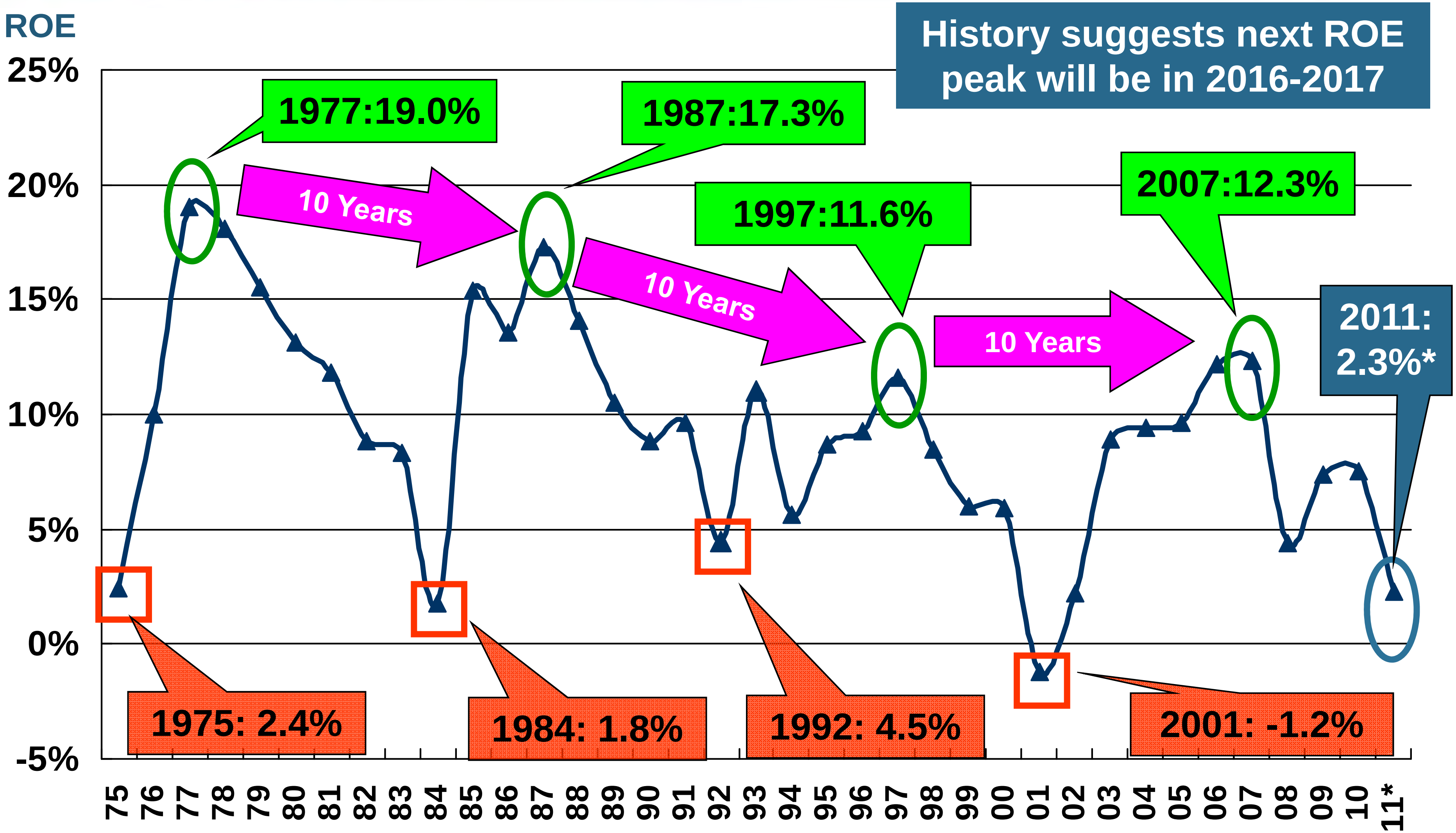


Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2009 and 2010 figures are return on average statutory surplus. 2008 -2011 figures exclude mortgage and financial guaranty insurers. 2011H1 combined ratio including M&FG insurers is 110.5 , ROAS = 2.3%.

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

Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2011*



*Profitability = P/C insurer ROEs are I.I.I. estimates. 2011 figure is an estimate based on annualized ROAS for H1 data.
Note: Data for 2008-2011 exclude mortgage and financial guaranty insurers. For 2011:H1 ROAS = 1.7% including M&FG.
Source: Insurance Information Institute; NAIC, ISO, A.M. Best.

P/C Insurance Industry ROE vs. Fortune 500, 1975 – 2011*

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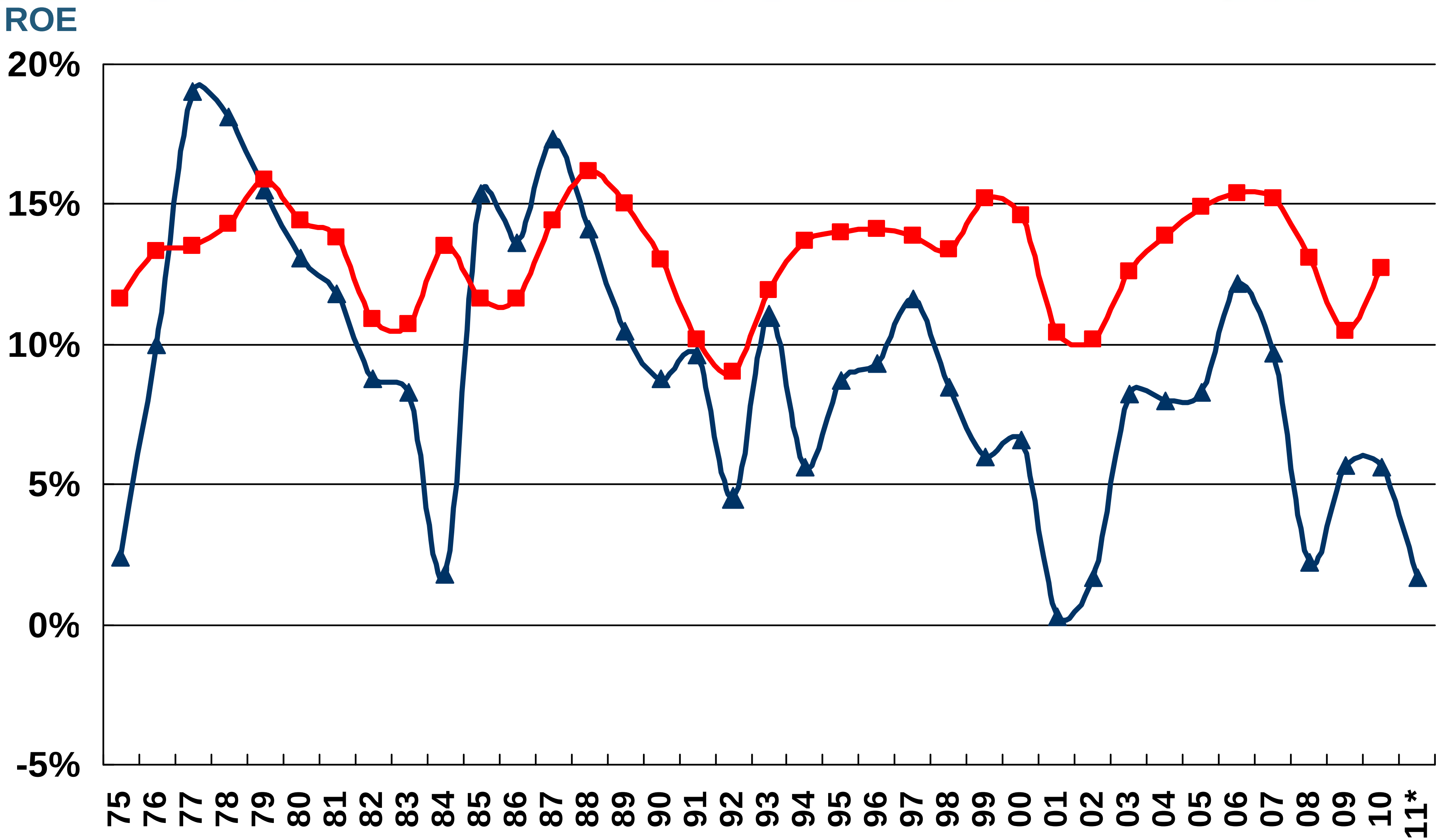


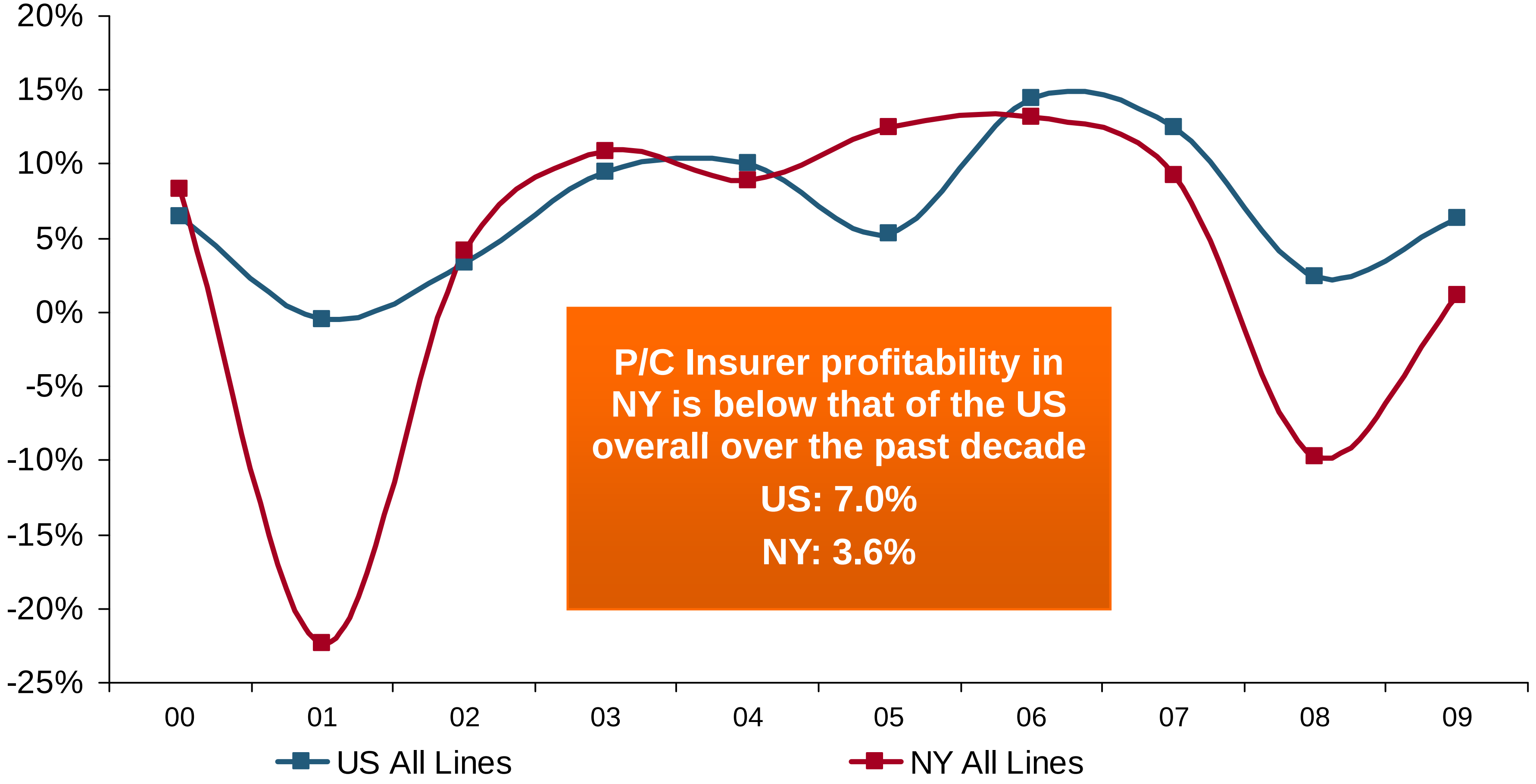
For 2011:H1 ROAS.
Source: Insurance Information Institute; NAIC, ISO.

Profitability and Growth in New York P/C Insurance Markets

Analysis by Line and Nearby State Comparisons

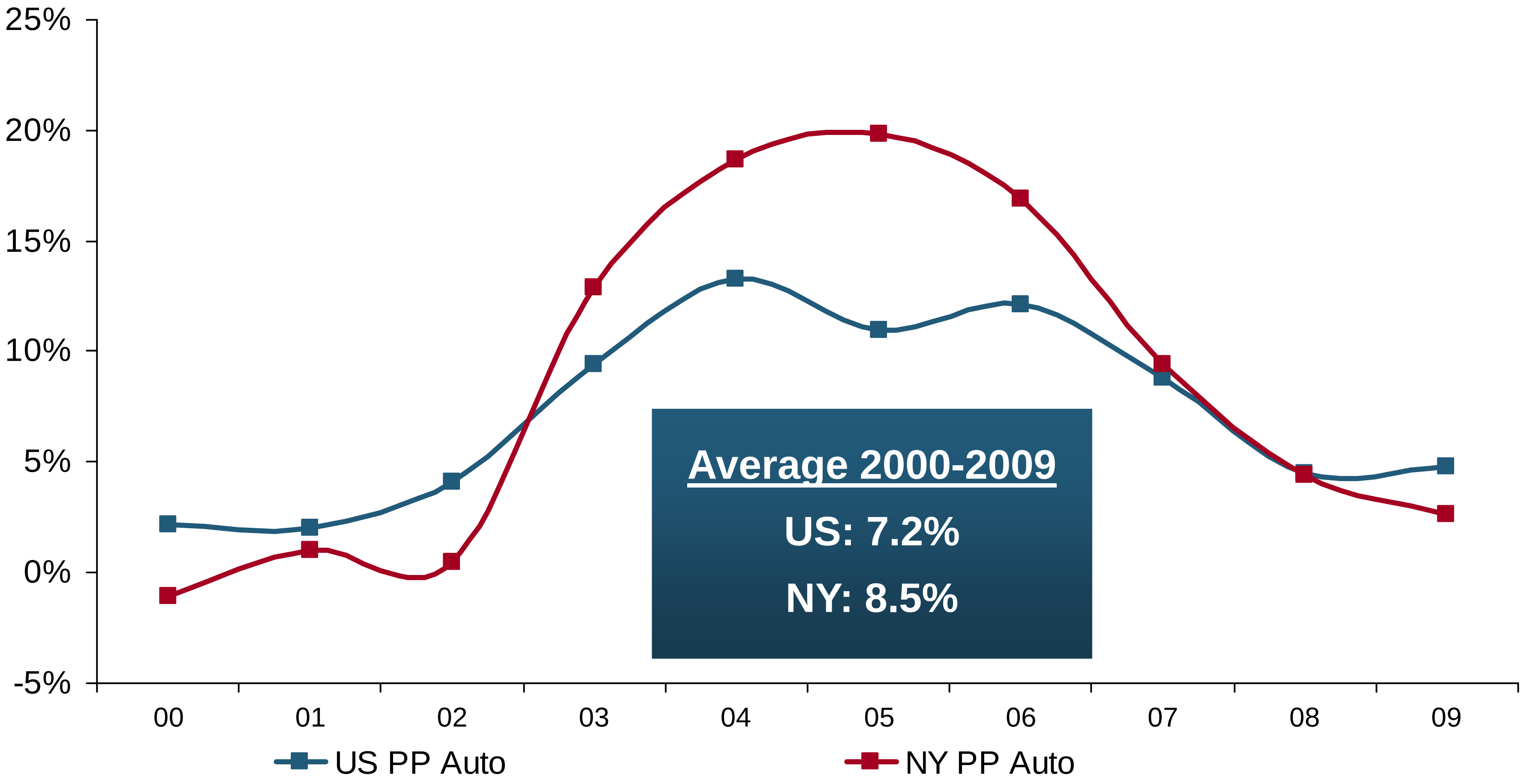
RNW All Lines: NY vs. U.S., 2000-2009

(Percent)



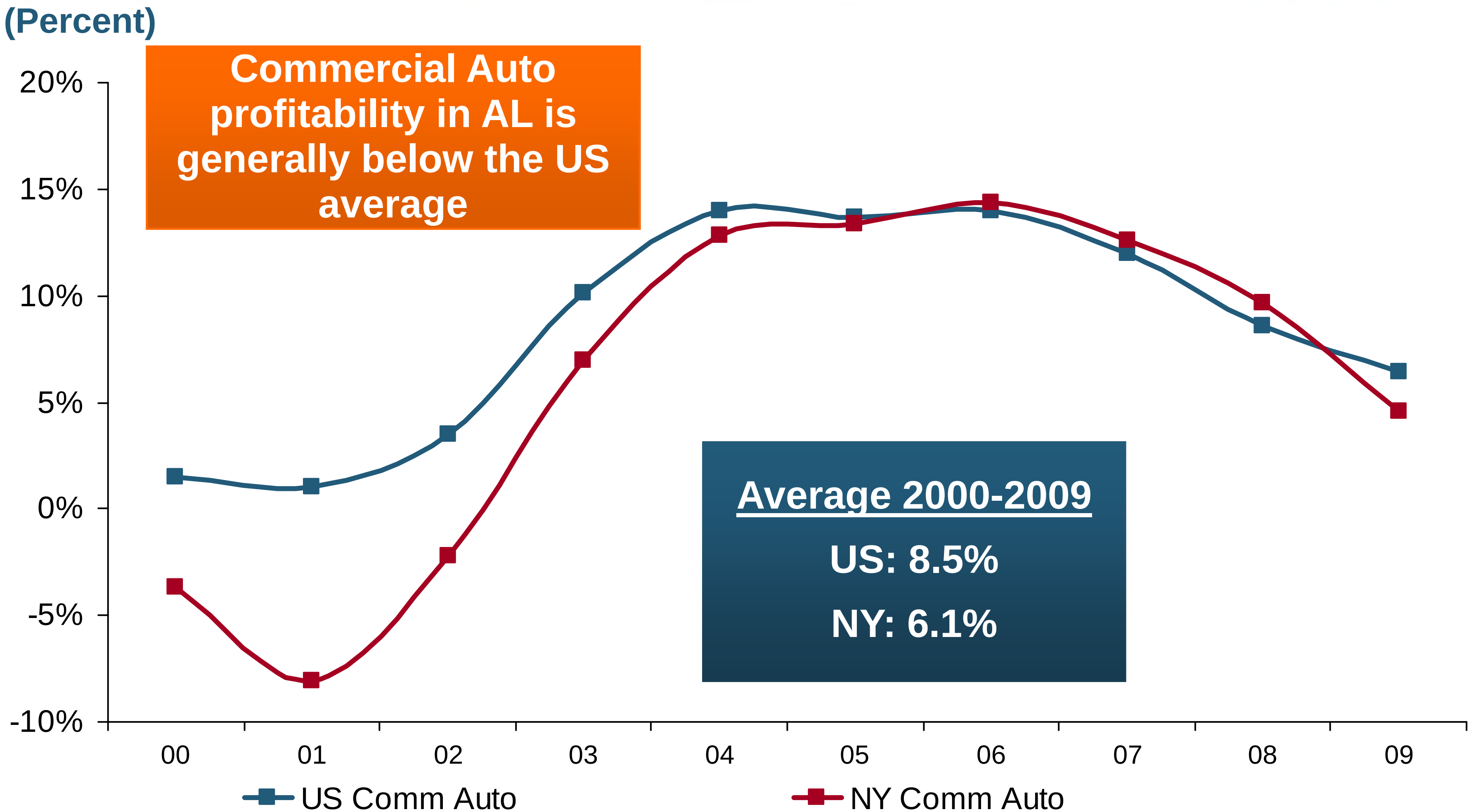
Sources: NAIC.

RNW PP Auto: NY vs. U.S., 2000-2009



Sources: NAIC.

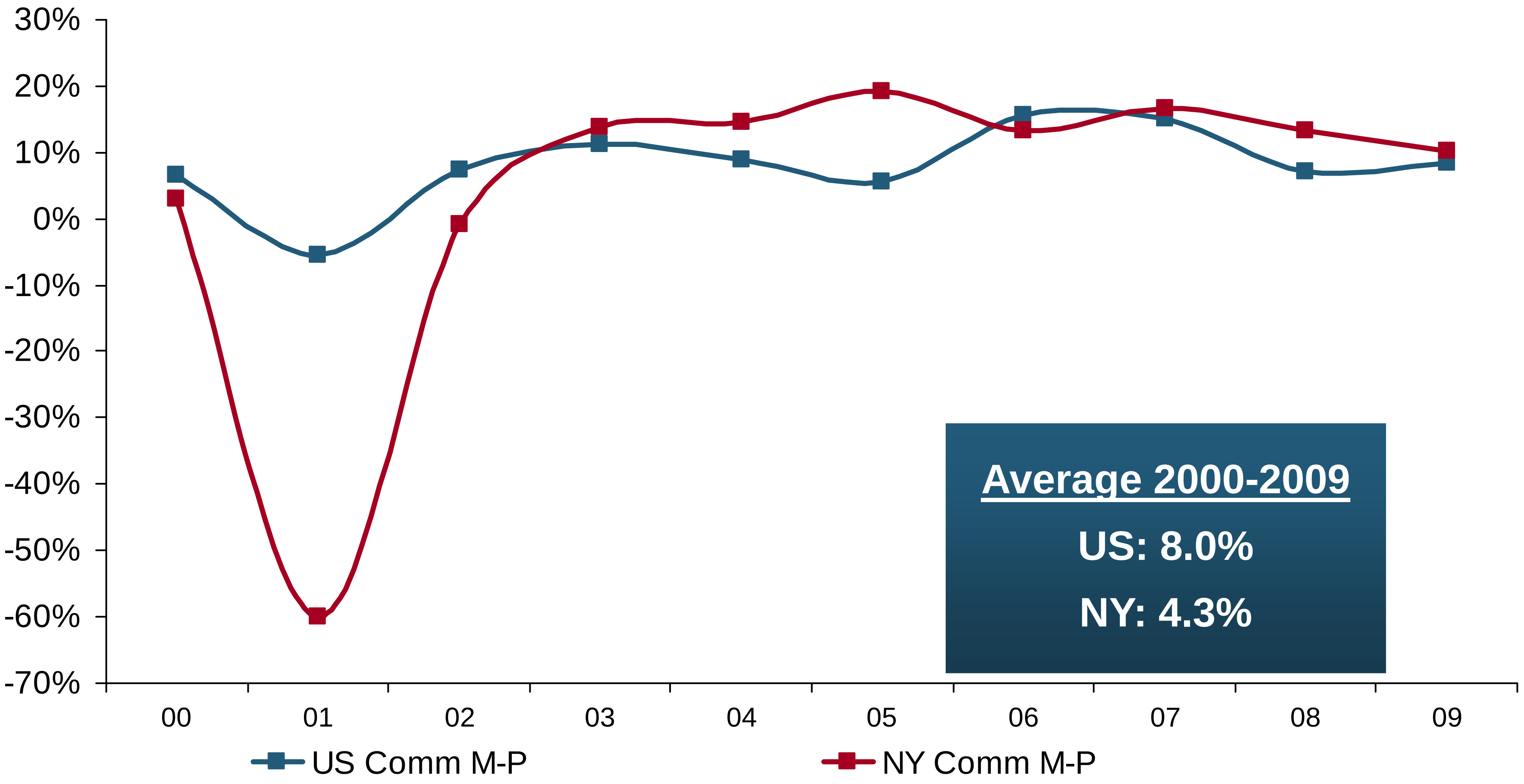
RNW Comm. Auto: NY vs. U.S., 2000-2009



Sources: NAIC.

RNW Comm. Multi-Peril: NY vs. U.S., 2000-2009

(Percent)



Sources: NAIC.

RNW Homeowners: NY vs. U.S., 2000-2009

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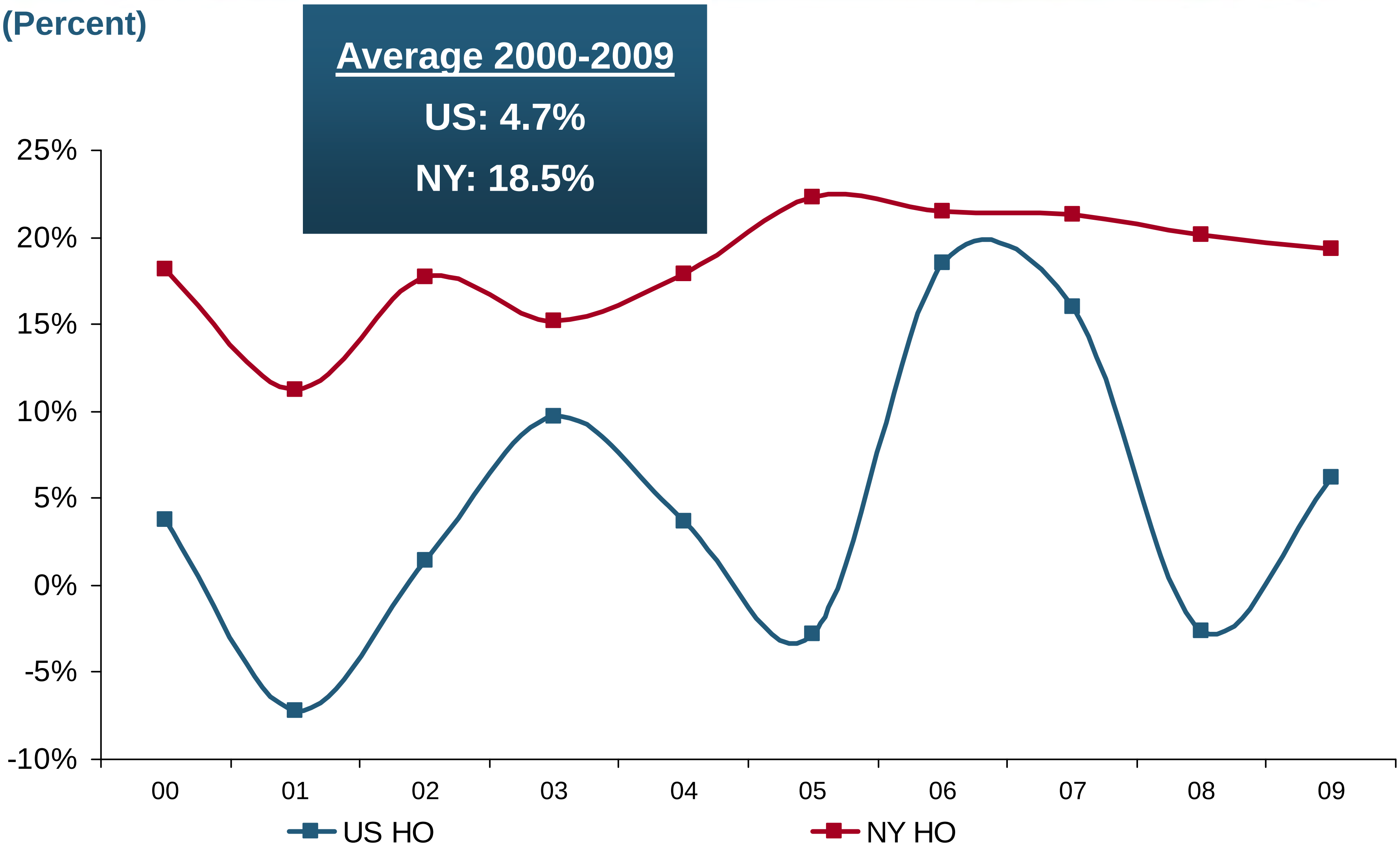
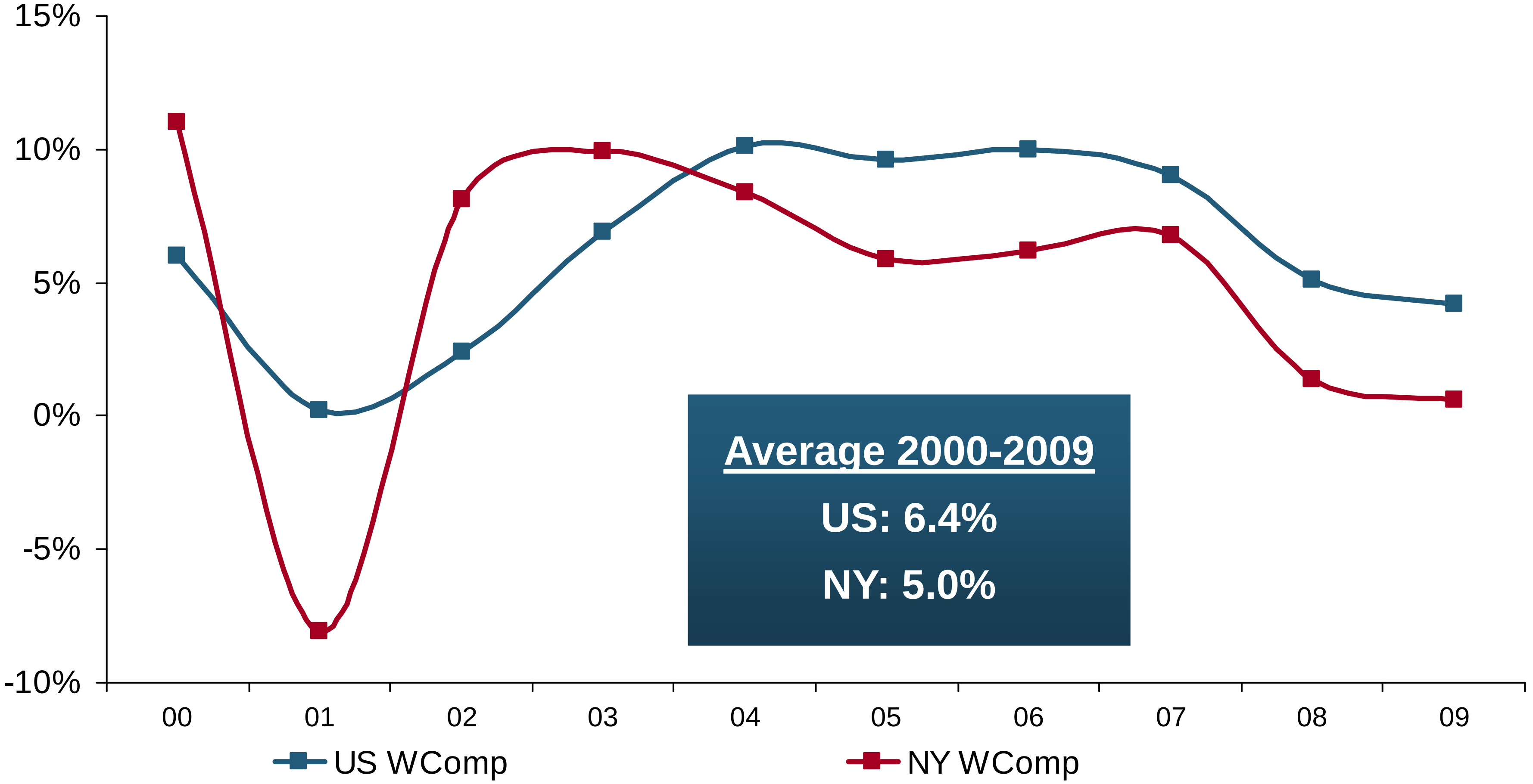
(Percent)



Sources: NAIC.

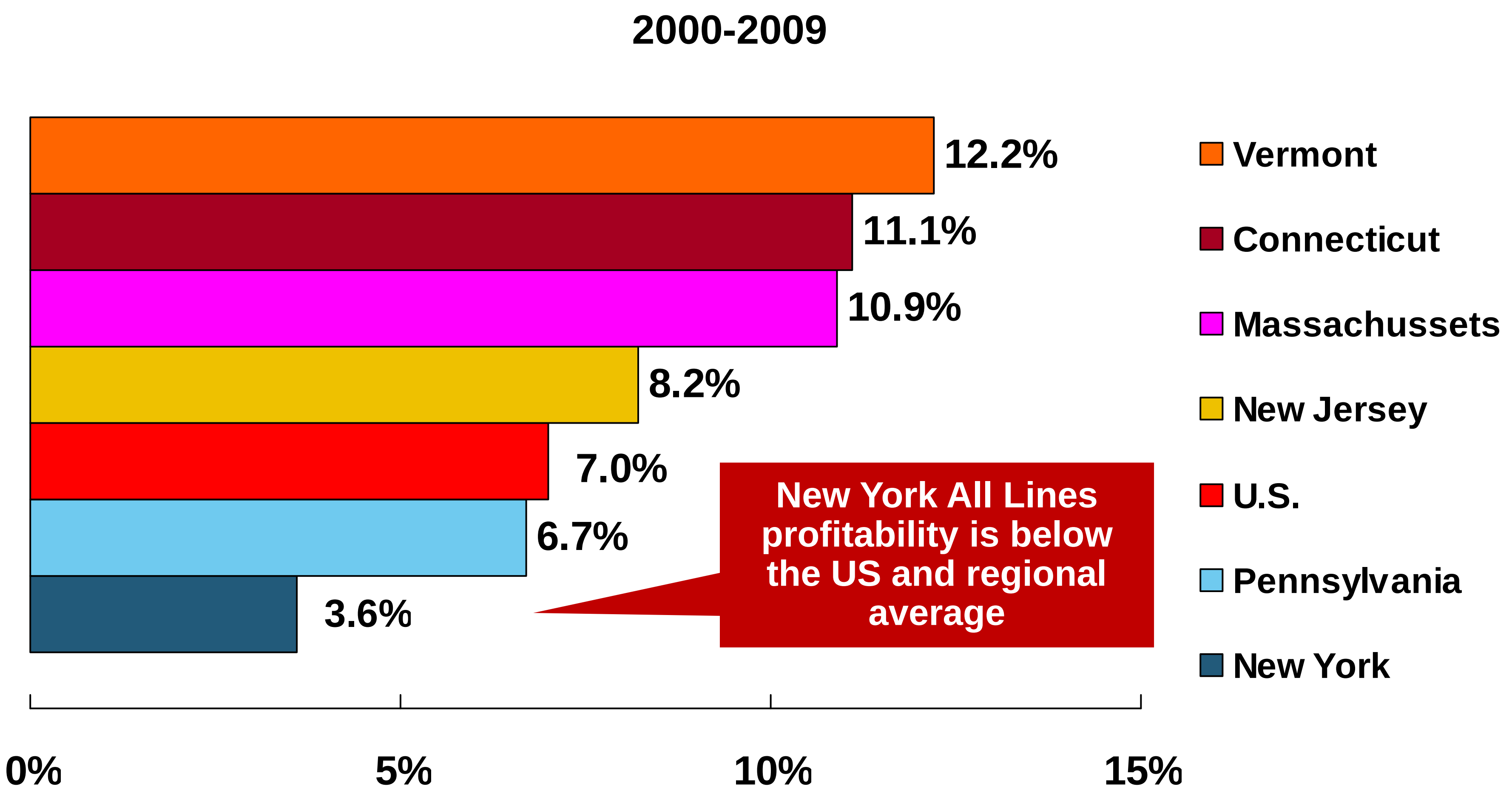
RNW Workers Comp: NY vs. U.S., 2000-2009

(Percent)



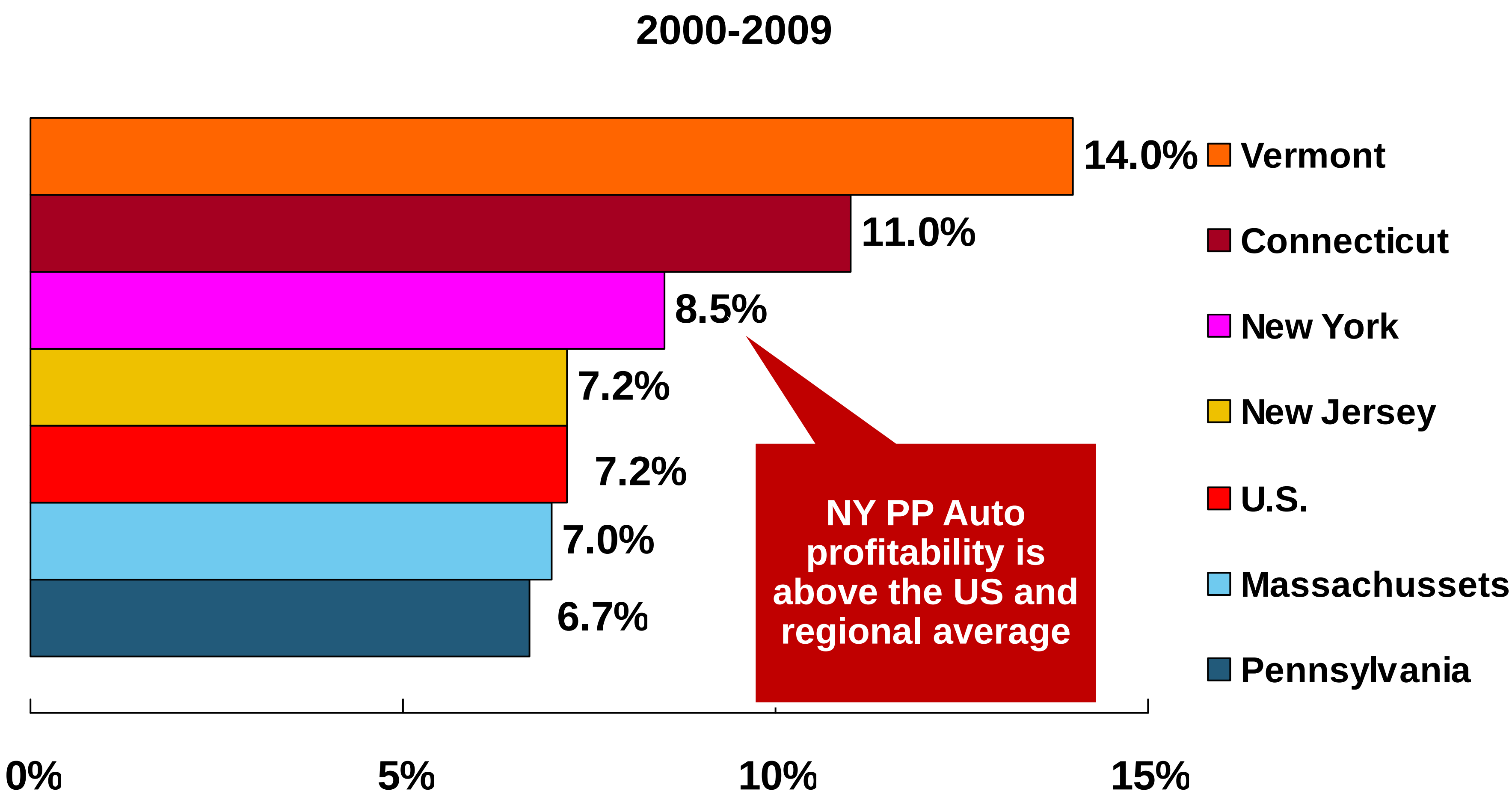
Sources: NAIC.

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



Source: NAIC, Insurance Information Institute

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



Source: NAIC, Insurance Information Institute

Top Ten Most Expensive And Least Expensive States For Automobile Insurance, 2008 (1)

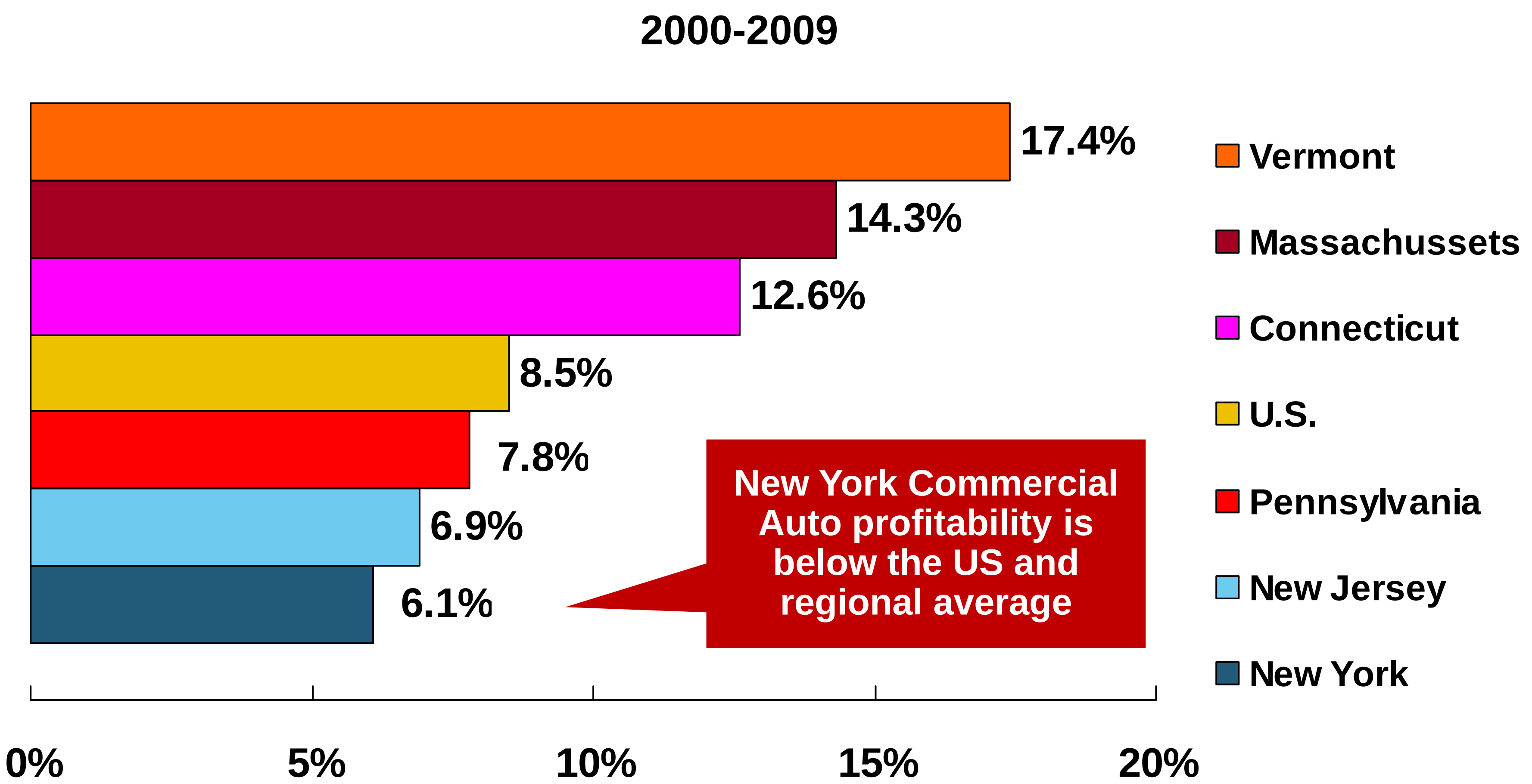
Rank	Most expensive states	Average expenditure	Rank	Least expensive states	Average expenditure
1	D.C.	$1,126	1	North Dakota	$503
2	Louisiana	1,105	2	Iowa	519
3	New Jersey	1,081	3	South Dakota	520
4	Florida	1,055	4	Nebraska	547
5	**New York**	1,044	5	Idaho	562
6	Delaware	1,007	6	Kansas	576
7	Rhode Island	986	7	Wisconsin	581
8	Nevada	970	8	North Carolina	595
9	Connecticut	950	9	Maine	600
10	Maryland	922	10	Indiana	612

New York ranked 5th in 2008, with an average expenditure for auto insurance of $1,007.

(1) Based on average automobile insurance expenditures.

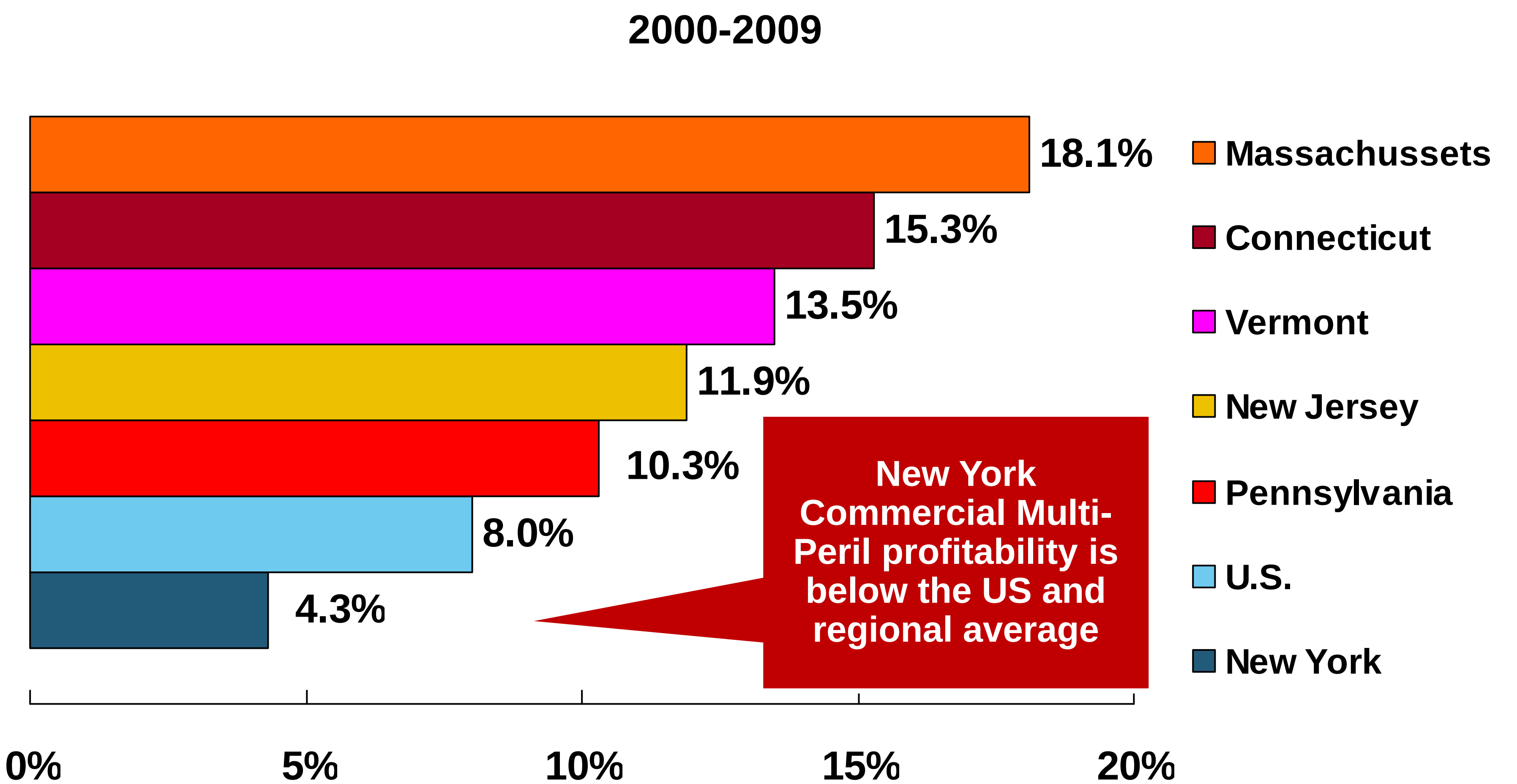
Source: © 2010 National Association of Insurance Commissioners.

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



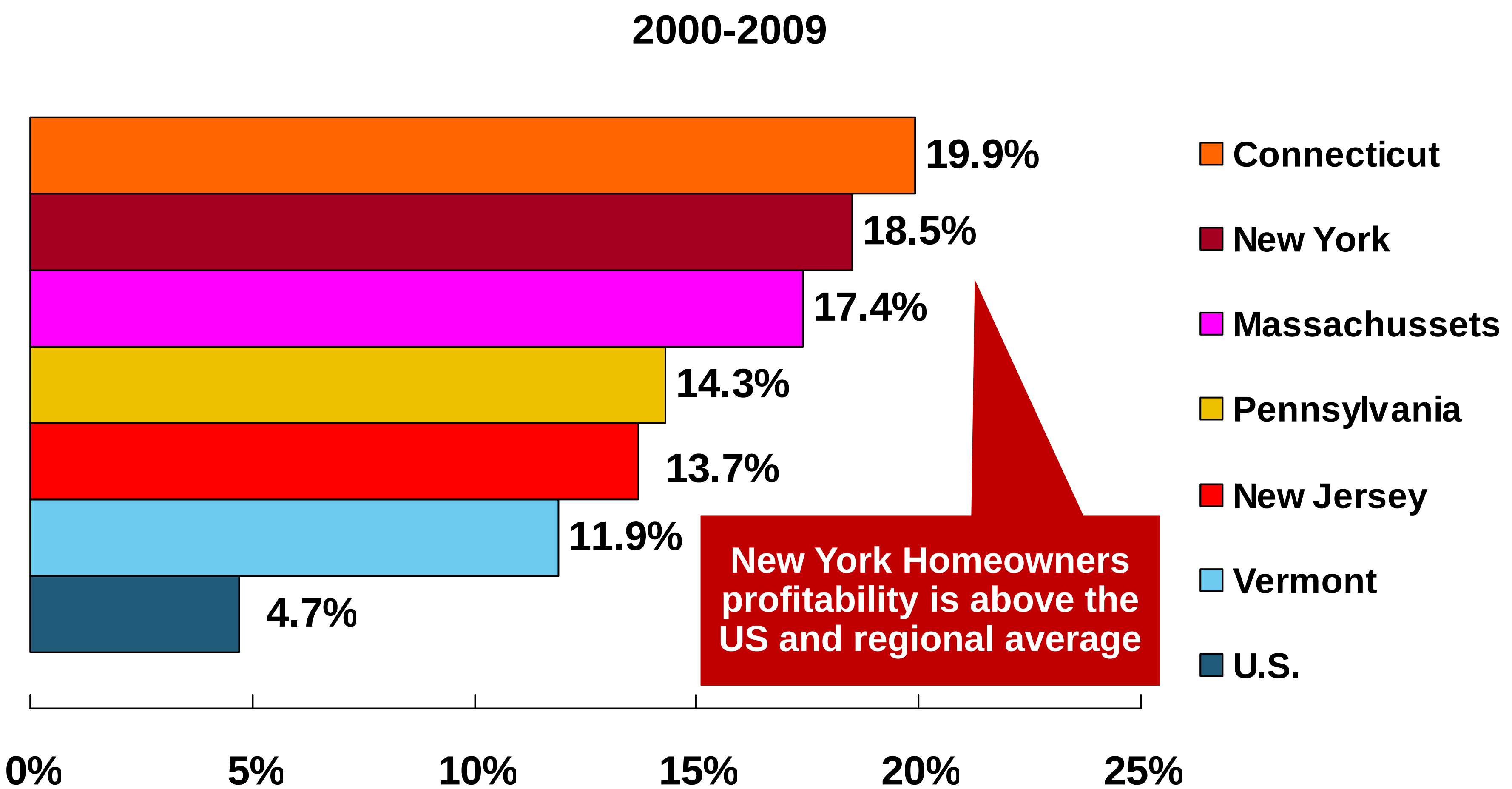
Source: NAIC, Insurance Information Institute

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



Source: NAIC, Insurance Information Institute

Homeowners: 10-Year Average RNW NY & Nearby States



Source: NAIC, Insurance Information Institute

Top Ten Most Expensive And Least Expensive States For Homeowners Insurance, 2008 (1)

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New York ranked as the 6th least expensive state for homeowners insurance in 2008, with an average expenditure of $983.

Rank	Most expensive states	Average expenditure	Rank	Least expensive states	Average expenditure
1	Texas (3)	$1,460	1	Idaho	$387
2	Florida (4)	1,390	2	Utah	432
3	Louisiana	1,155	3	Oregon	439
4	Oklahoma	1,048	4	Washington	471
5	Massachusetts	1,026	5	Wisconsin	503
6	New York	983	6	Delaware	535
7	Connecticut	980	7	Ohio	565
8	Mississippi	980	8	Maine	572
9	D.C.	926	9	Pennsylvania	586
10	Kansas	916	10	Kentucky	601

(1) States with the same premium receive the same rank.
(2) 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.
(3) The Texas Department of Insurance developed home insurance policy forms that are similar but not identical to the standard forms.
(4) Florida data excludes policies written by Citizen's Property Insurance Corporation, the state's insurer of last resort, and therefore are not directly comparable to other states.

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: © 2010 National Association of Insurance Commissioners (NAIC). Reprinted with permission. Further reprint or distribution strictly prohibited without written permission of NAIC.

Workers Comp: 10-Year Average RNW NY & Nearby States

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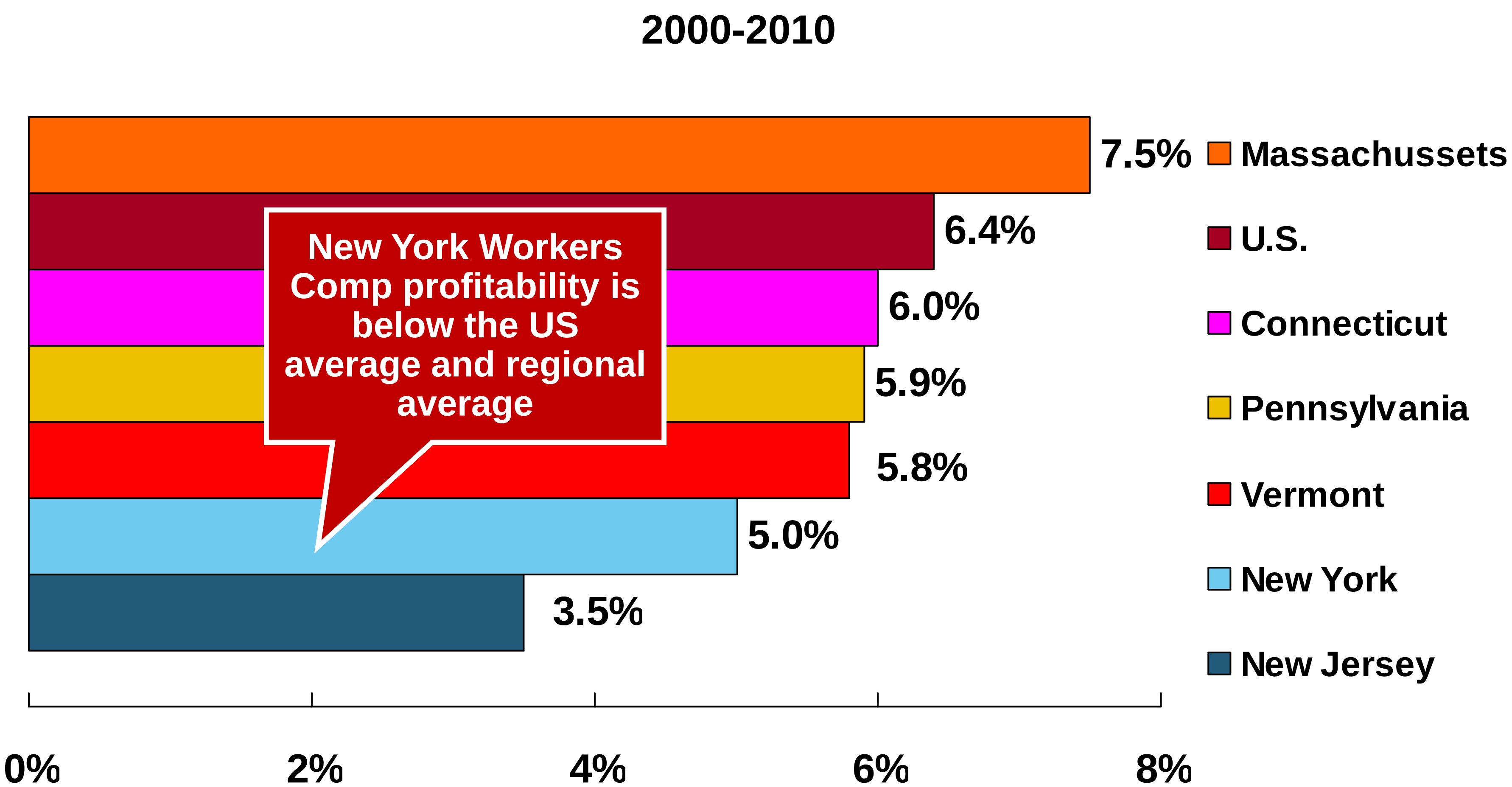

Source: NAIC, Insurance Information Institute

All Lines DWP Growth: NY vs. U.S., 2001-2010

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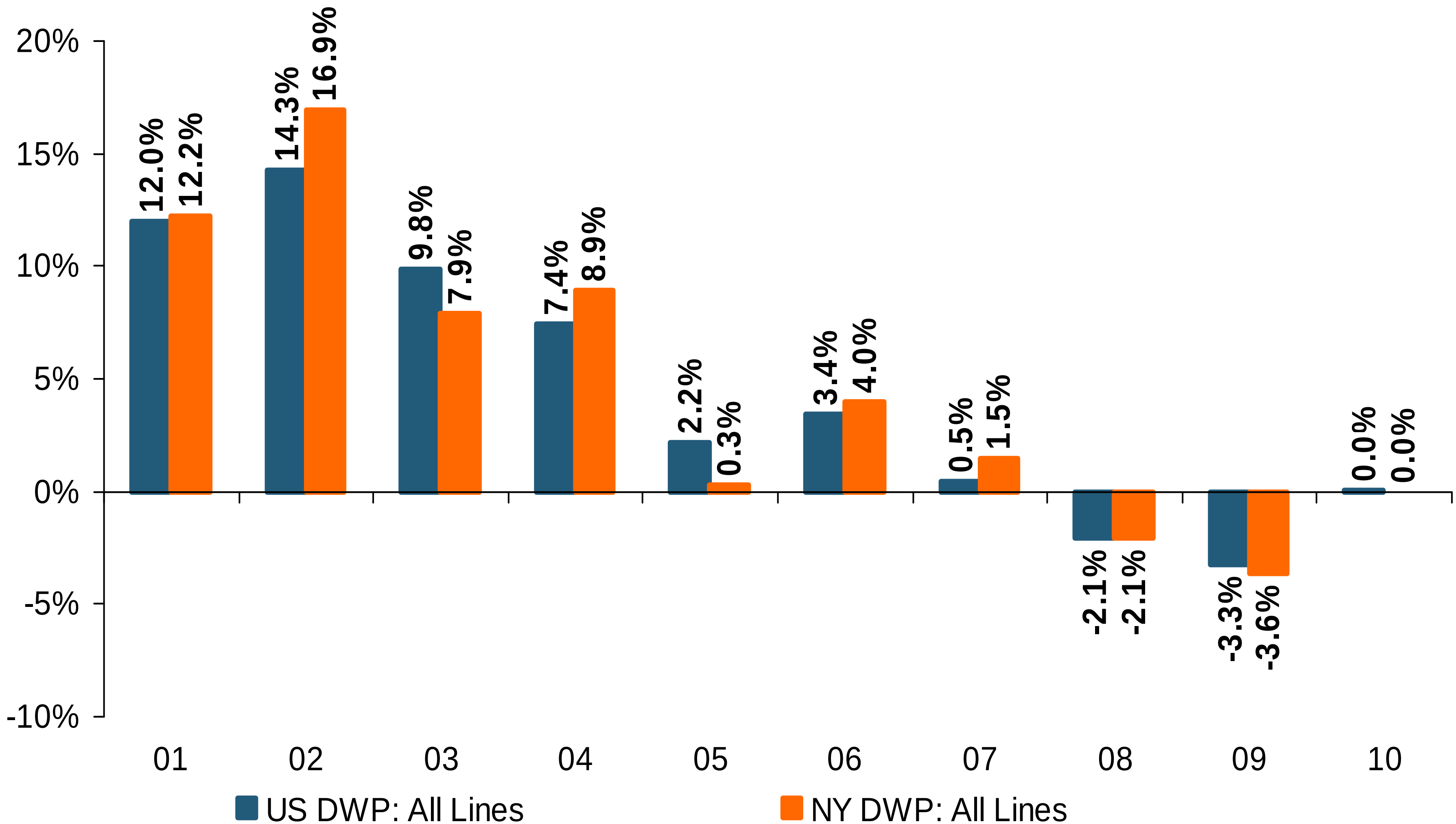
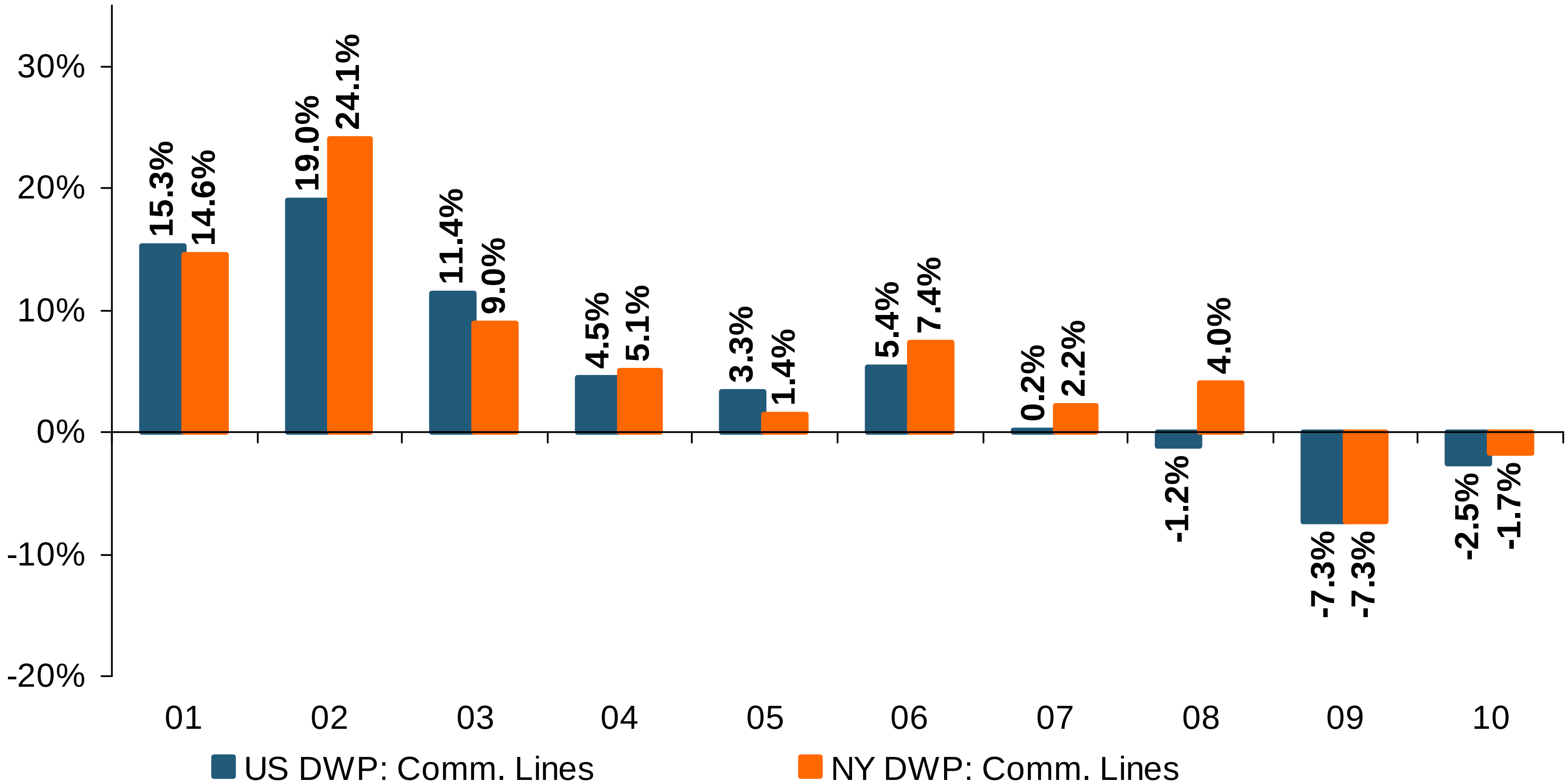
(Percent)



Source: SNL Financial.

Comm. Lines DWP Growth: NY vs. U.S., 2001-2010

(Percent)



Source: SNL Financial.

Personal Lines DWP Growth: NY vs. U.S., 2001-2010

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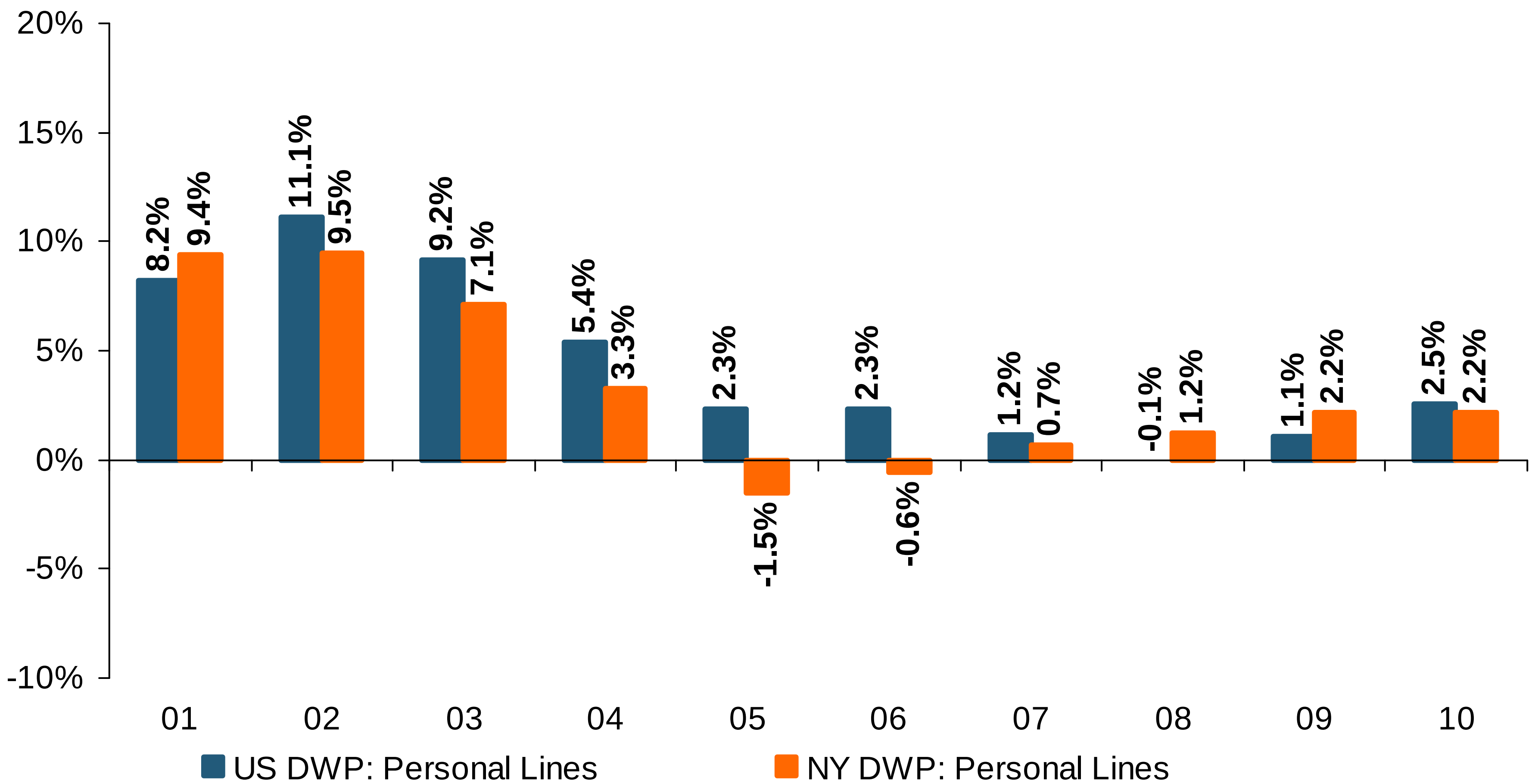
(Percent)



Source: SNL Financial.

Private Passenger Auto DWP Growth: NY vs. U.S., 2001-2010

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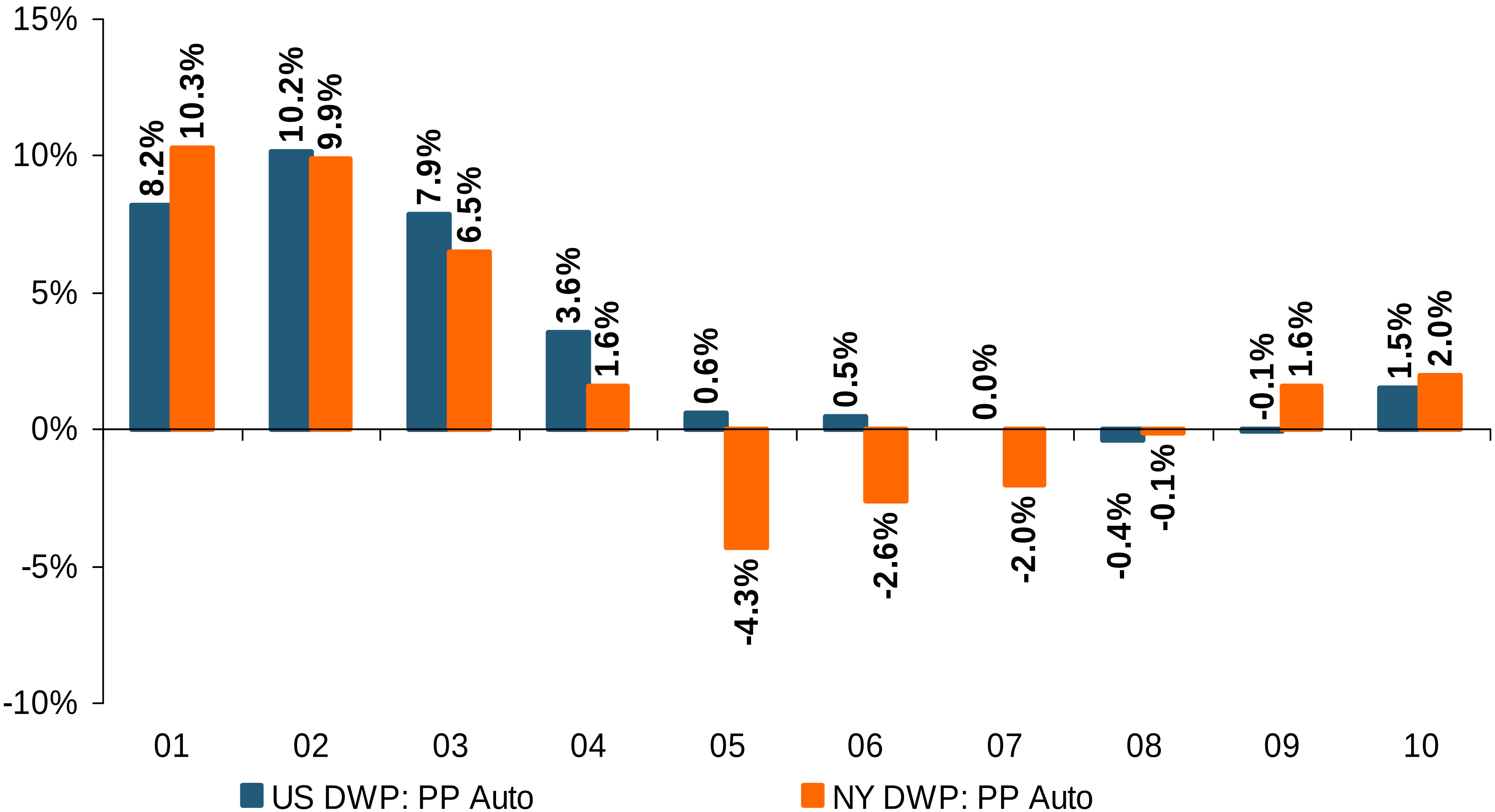
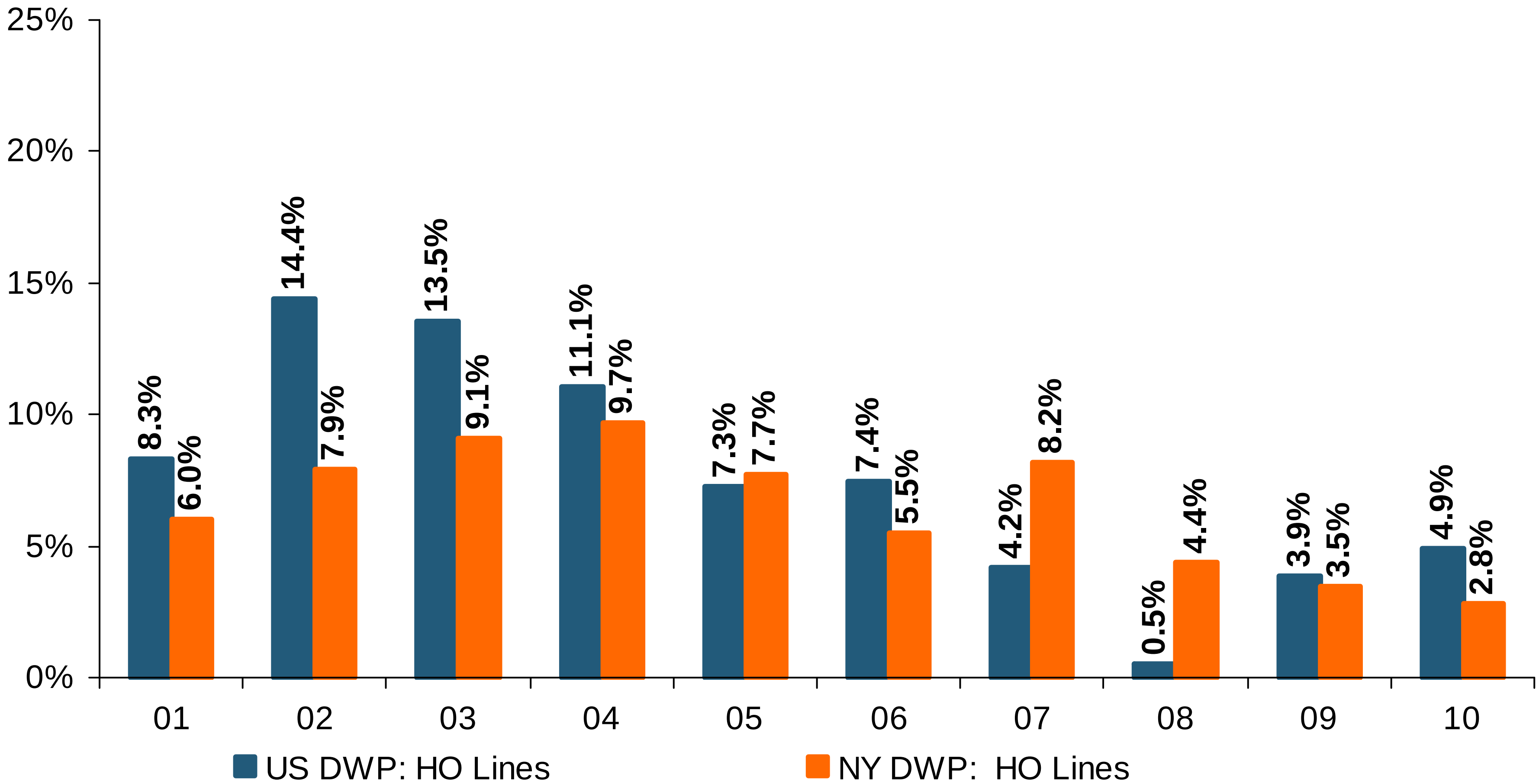
(Percent)



Source: SNL Financial.

Homeowner's MP DWP Growth: NY vs. U.S., 2001-2010

(Percent)



Source: SNL Financial.

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New York No-Fault Update

Fraud and Abuse Have Cost New Yorkers Nearly $1 Billion Since 2005

New York State: Most Suspected Fraud Reports Involve No-Fault Claims

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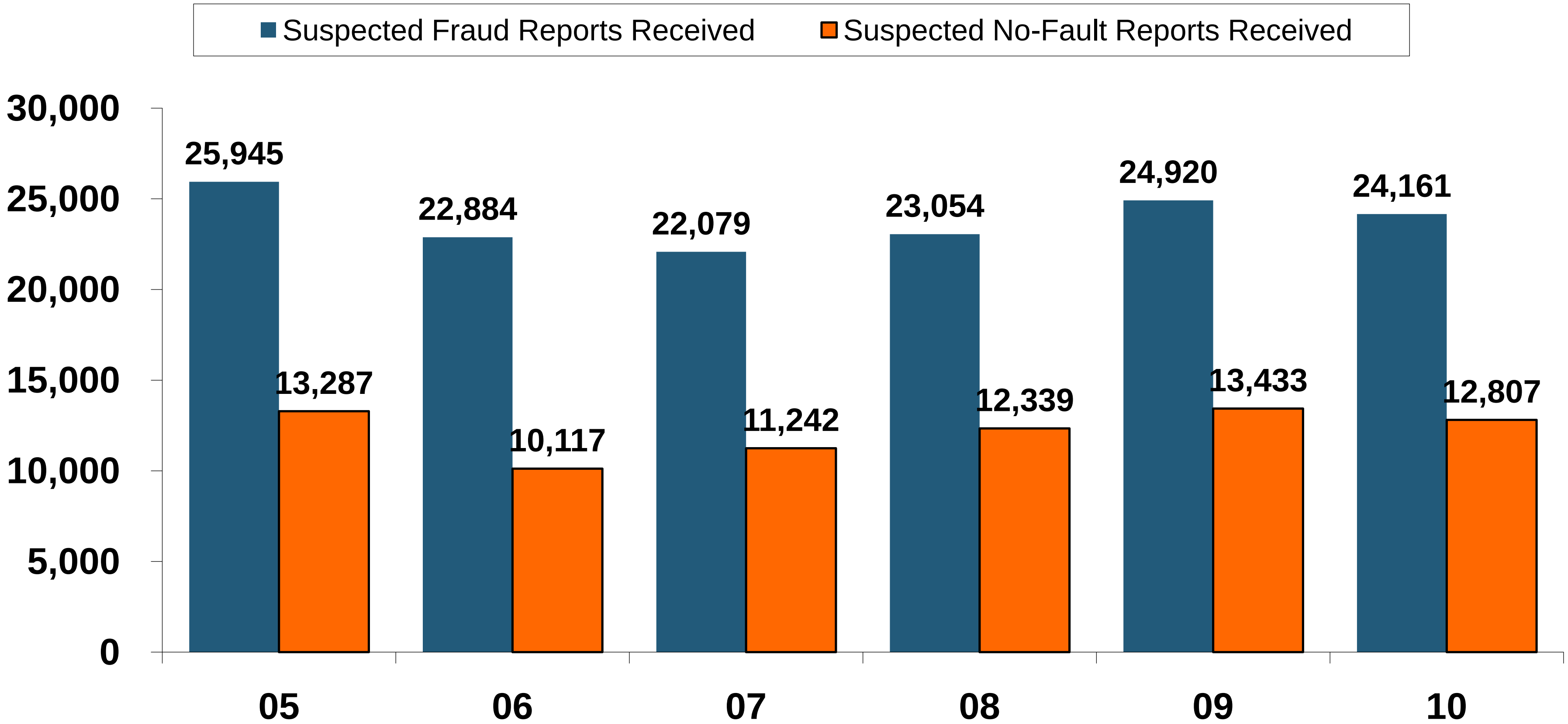
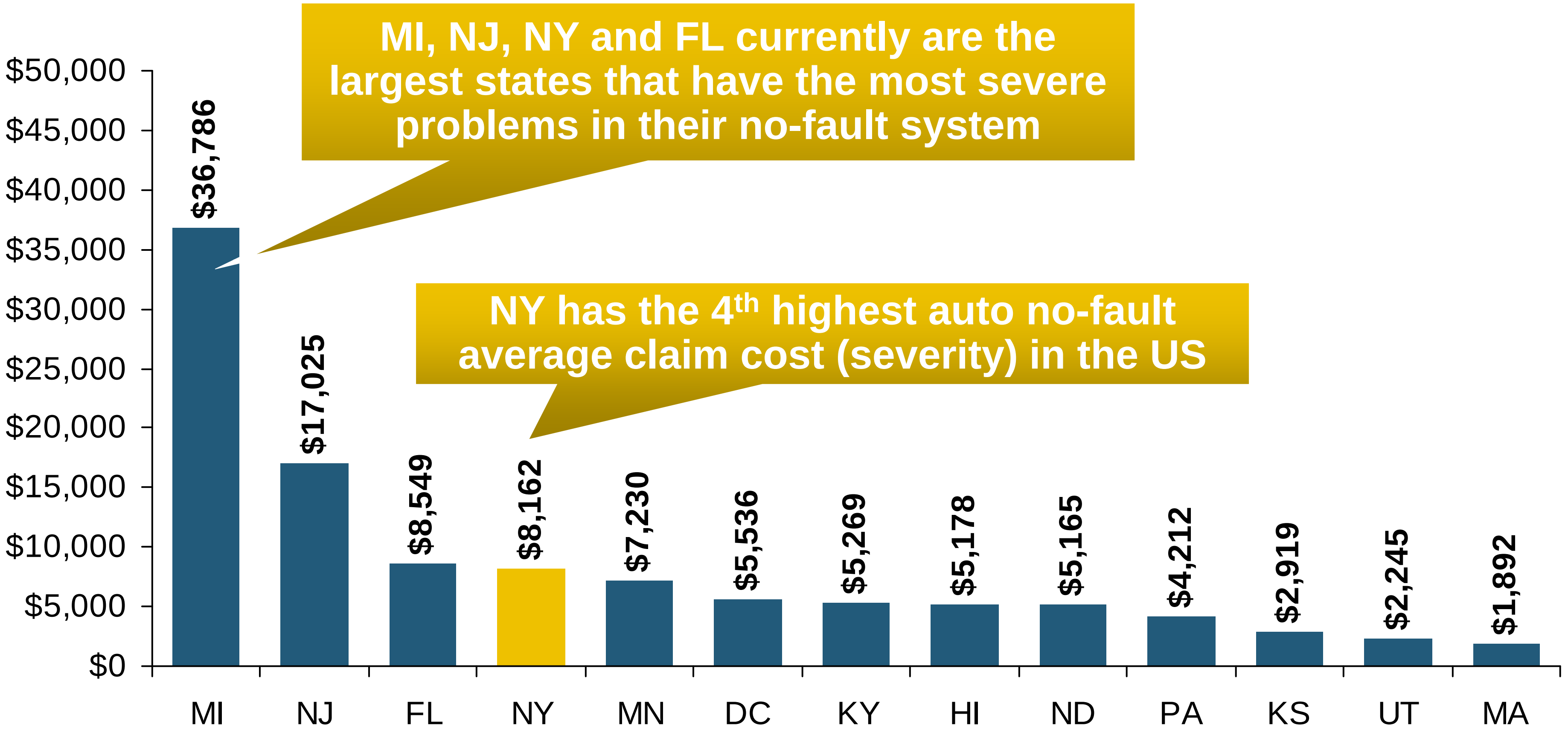


Sources: New York State Insurance Department, Insurance Frauds Bureau 2010 Annual Report; Insurance Information Institute.

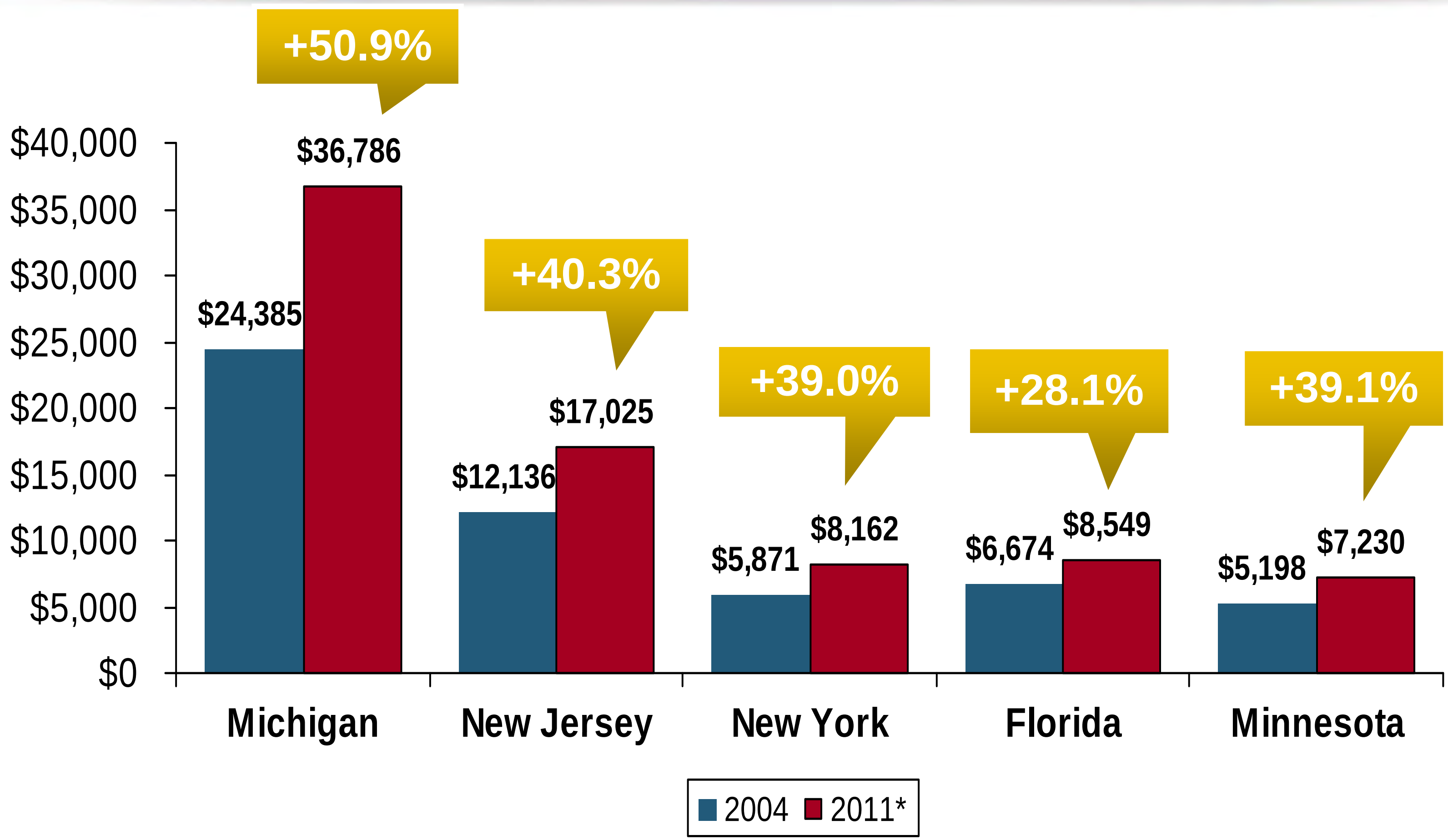
Average No-Fault Claim Severity, 2011:Q2*



Several States Including NY Have Severe and Growing Problems With Rampant Fraud and Abuse in their No-Fault Systems. Claim Severities Are Up Sharply.

*Average of the four quarters ending 2011:Q2.
Source: ISO/PCI *Fast Track* data; Insurance Information Institute.

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



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

*2011 figures are for the 4 quarters ending 2011:Q2.

Sources: Insurance Information Institute research from ISO/PCI *Fast Track* data.

NY No-Fault (PIP) Claim Severity Has Trended Up Sharply Upward, 2005-2011E*

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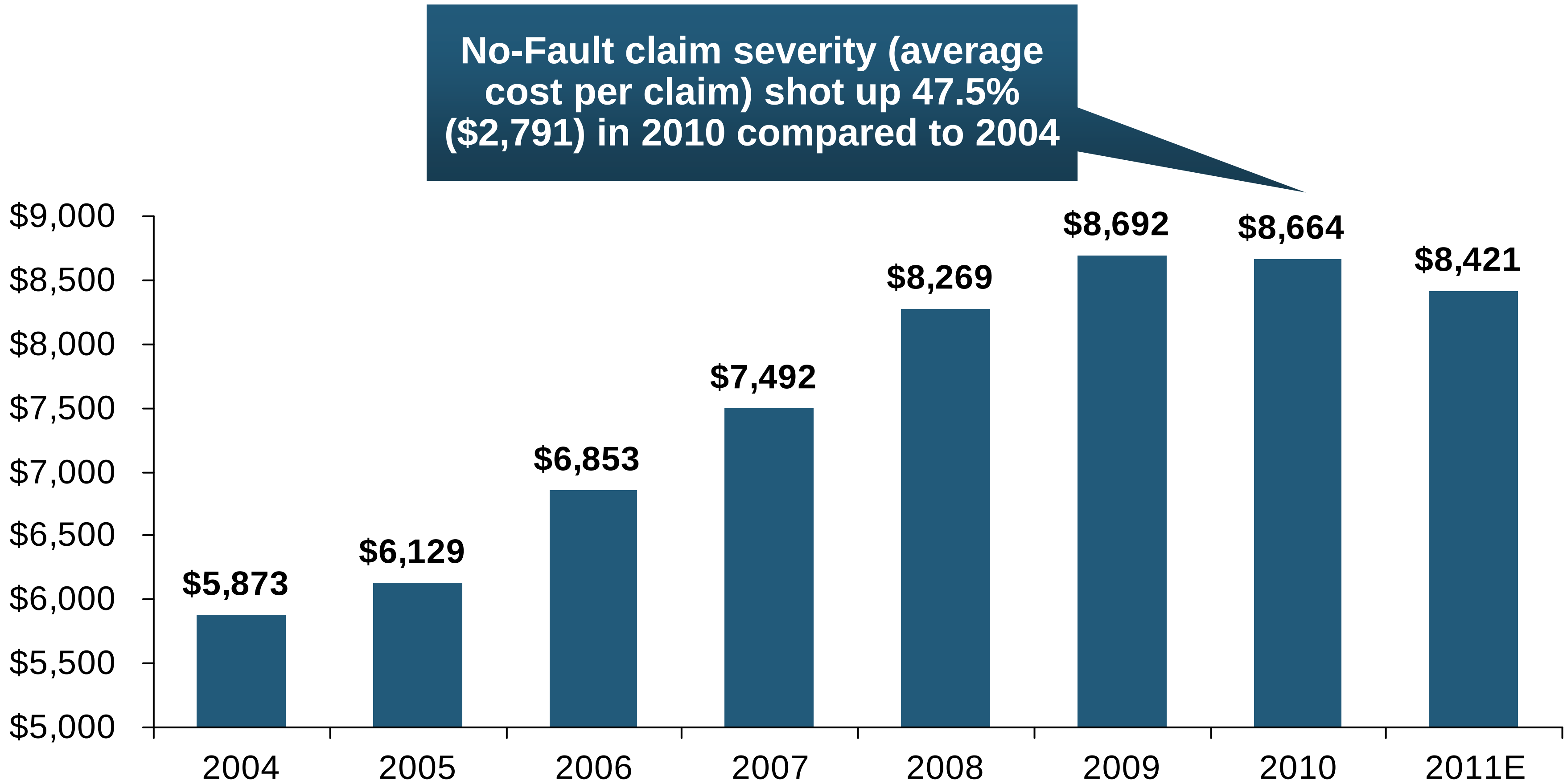

The Average Cost of New York No-Fault Claims Rose Rapidly in Recent Years

*2011 figure is based on data for the 4 quarters ending Q2:2011, adjusted by I.I.I. for 2011:Q1 data anomaly.
Source: Insurance Information Institute calculations and research from ISO/PCI Fast Track data.

New York No-Fault (PIP) Claim Frequency Is Trending Sharply Upward*

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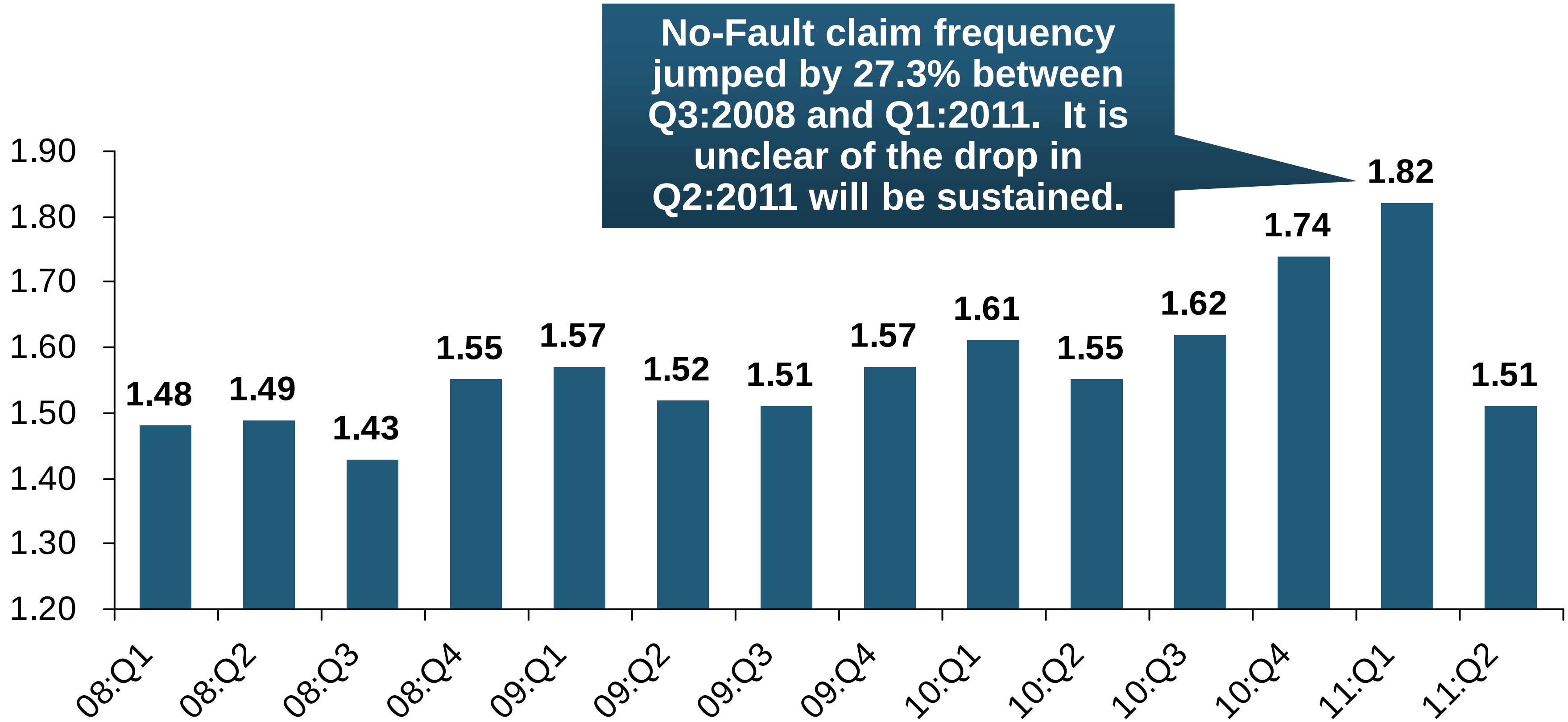
2008:Q1 through 2011:Q2

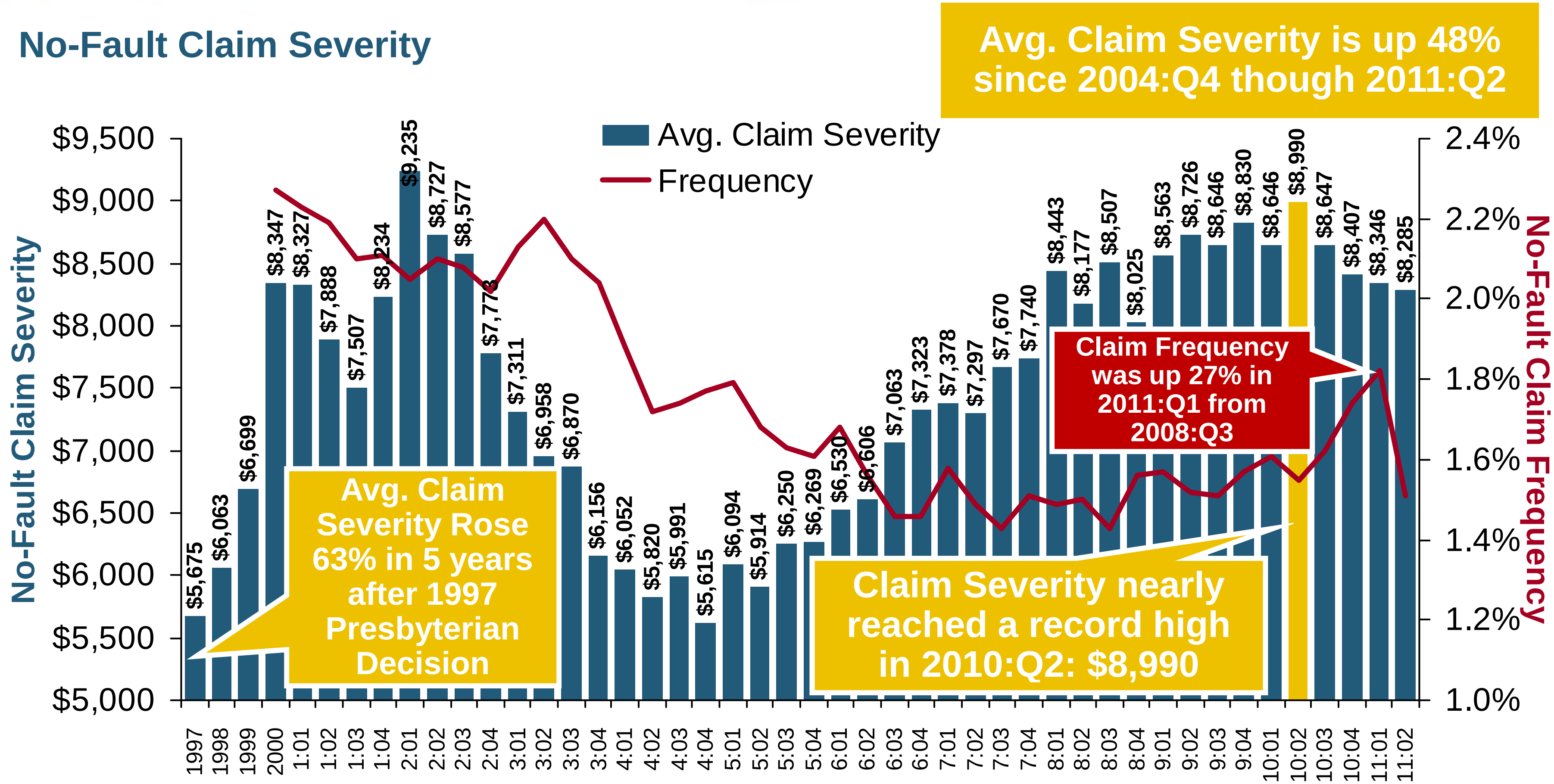


The Number and Average Cost of NY No-Fault Claims Have Been Generally Rising Since 2004

*Claim frequency is defined as the number of claims per 100 earned car years.

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

New York State No-Fault Claim Frequency and Severity, 1997–2011:Q2

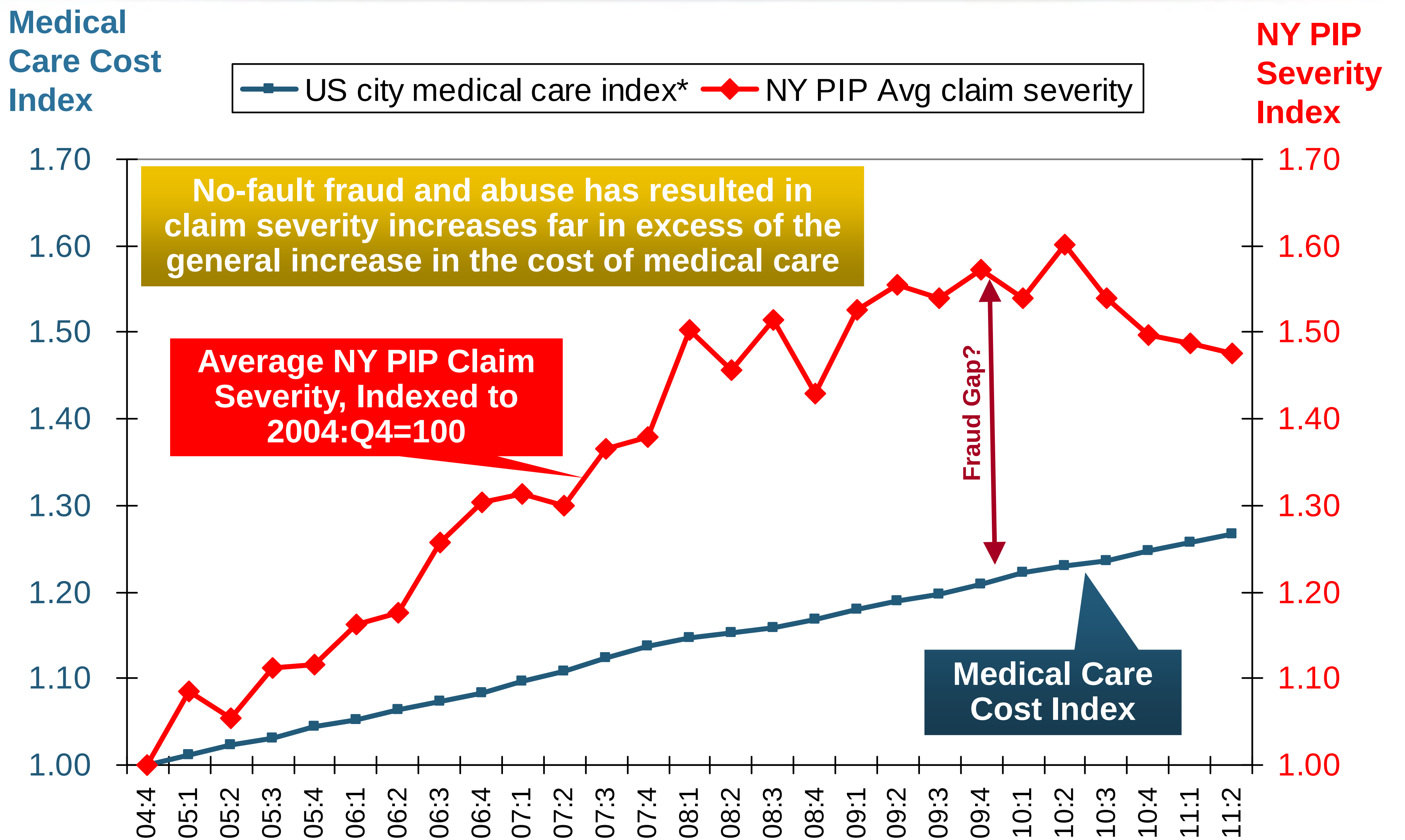


About 10% of No-Fault Claim Costs in 2011 Were Estimated to Be Attributable to Fraud and Abuse

*2011 figure is based on data for the 4 quarters ending Q2:2011, adjusted by I.I.I. for 2011:Q1 data anomaly.

Source: Insurance Information Institute calculations and research from ISO/PCI Fast Track data.

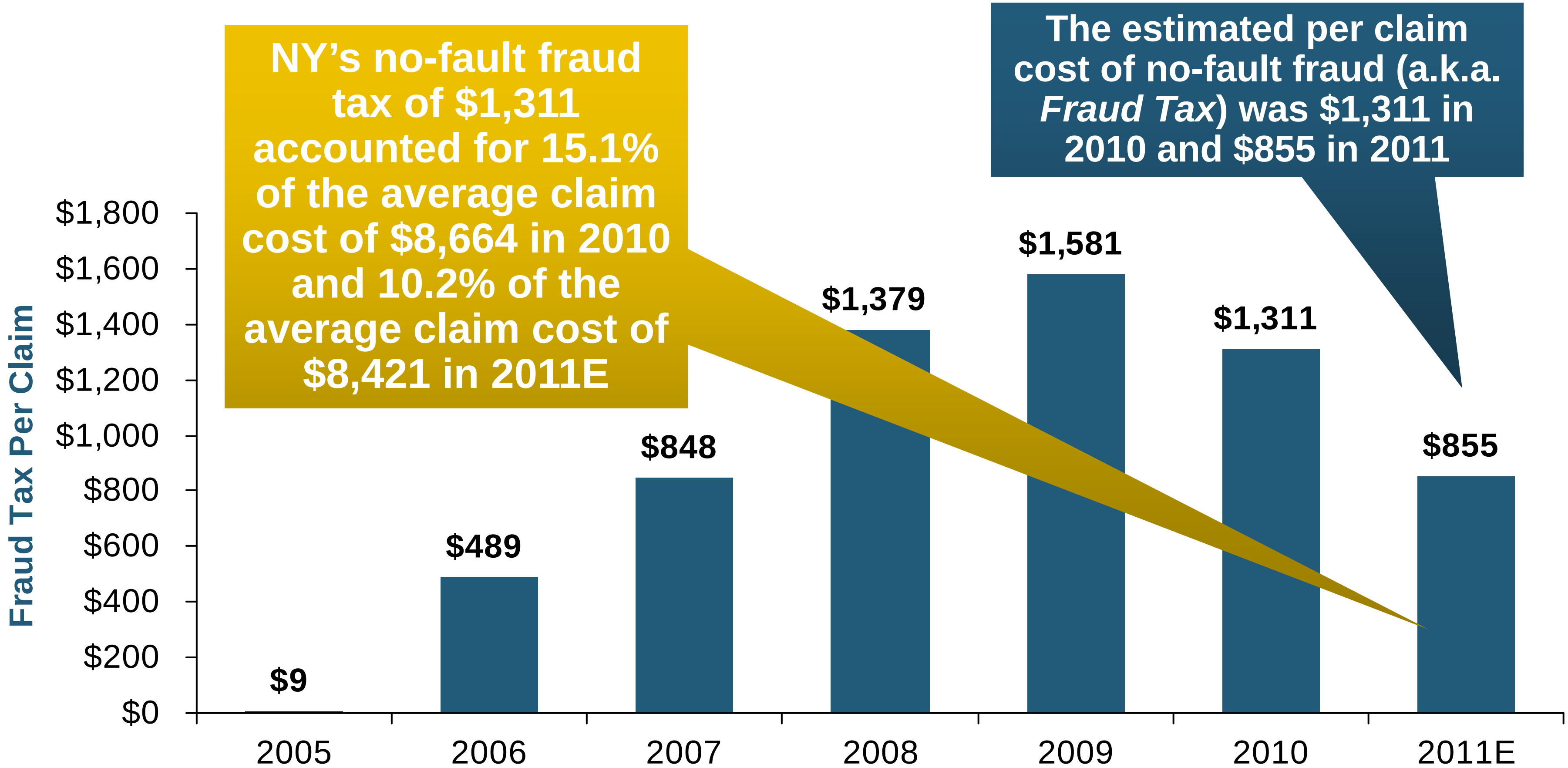
New York's No-Fault Fraud Problem, Paid Claims Severity**



*Middle month of quarter **For the four quarters ending in quarter indicated

Sources: Insurance Information Institute calculations based on ISO/PCI *Fast Track* Data and BLS Medical Care CPI

Estimated Per Claim Cost of No-Fault Fraud in New York State, 2005-2011E*



Fraud and Abuse Are Raising the Costs of Insurance in New York State

*2011 figure is based on data for the 4 quarters ending Q2:2011, adjusted by I.I.I. for 2011:Q1 data anomaly.
Source: Insurance Information Institute calculations and research from ISO/PCI Fast Track data.

New York's No-Fault Fraud Tax: Estimated Aggregate Annual Cost, 2005-2011E ($ Millions)*

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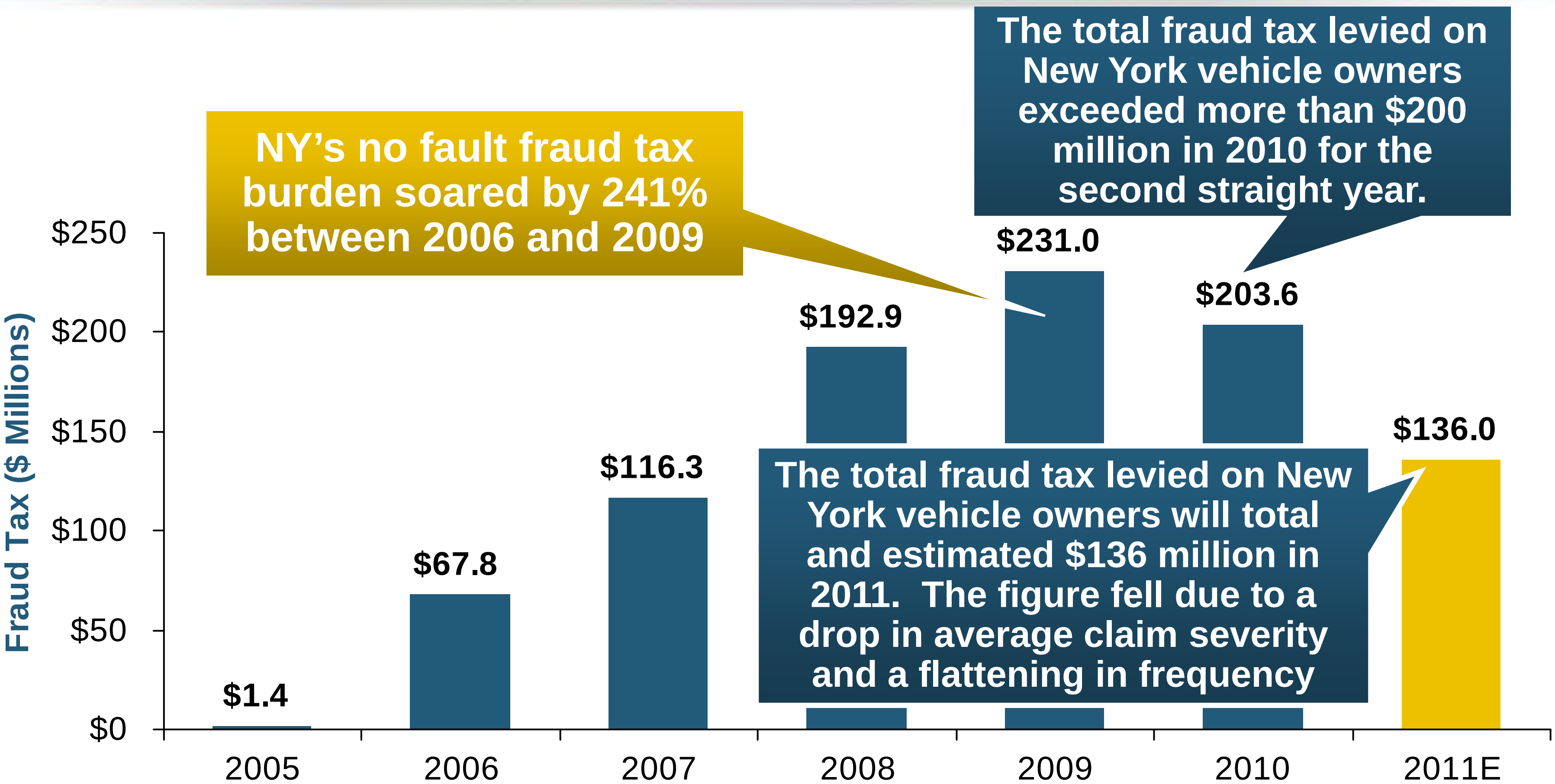

No-Fault Fraud Is Costing Honest New York State Drivers Hundreds of Millions of Dollars

*2011 figure is based on data for the 4 quarters ending Q2:2011, adjusted by I.I.I. for 2011:Q1 data anomaly.
Source: Insurance Information Institute calculations and research from ISO/PCI Fast Track data.

New York's No-Fault Fraud Tax: Estimated Cumulative Cost, 2005-2011E ($ Millions)*

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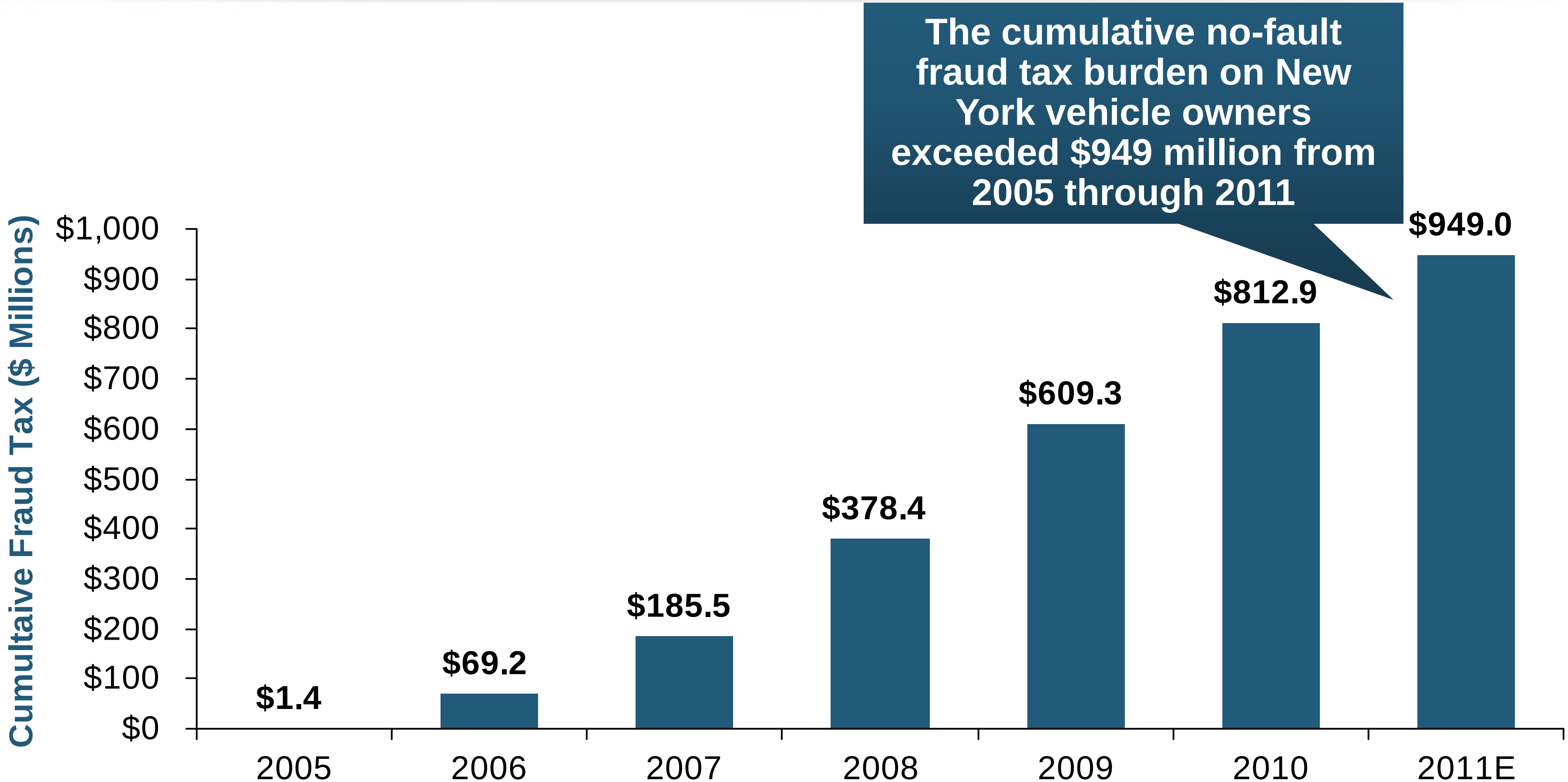
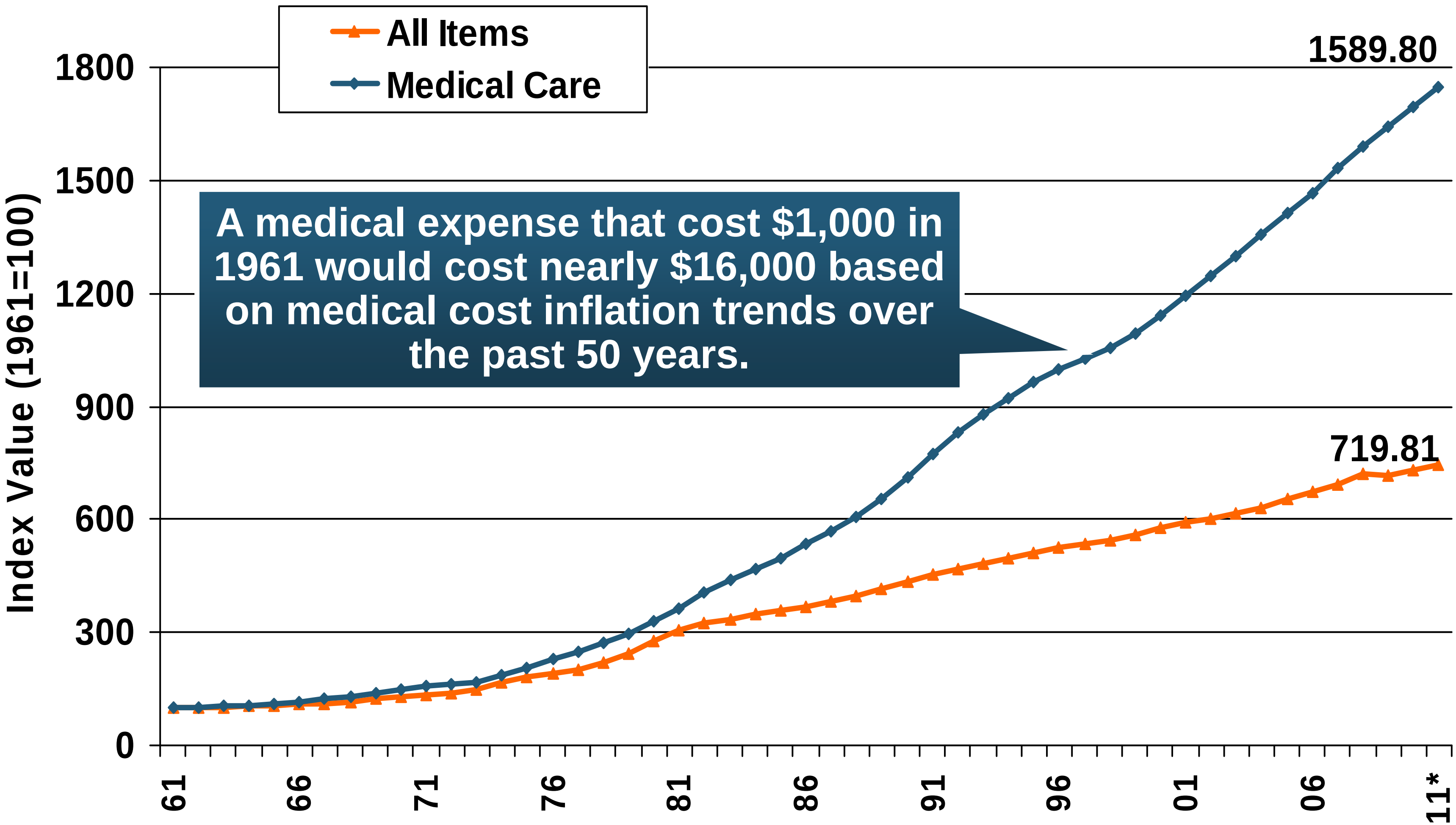


Cumulative No-Fault Fraud Has Cost Honest New York State Drivers and Their Insurers Nearly $1 Billion Since 2005

*2011 figure is based on data for the 4 quarters ending Q2:2011, adjusted by I.I.I. for 2011:Q1 data anomaly.

Source: Insurance Information Institute calculations and research from ISO/PCI Fast Track data.

Medical Cost Inflation Has Outpaced Overall Inflation Over 50 Years



*Based on change from Feb. 2010 to Feb. 2011.
Source: Department of Labor (Bureau of Labor Statistics)

Figure 9.

No-Fault Fraud Was Front Page News a Decade Ago in 2001

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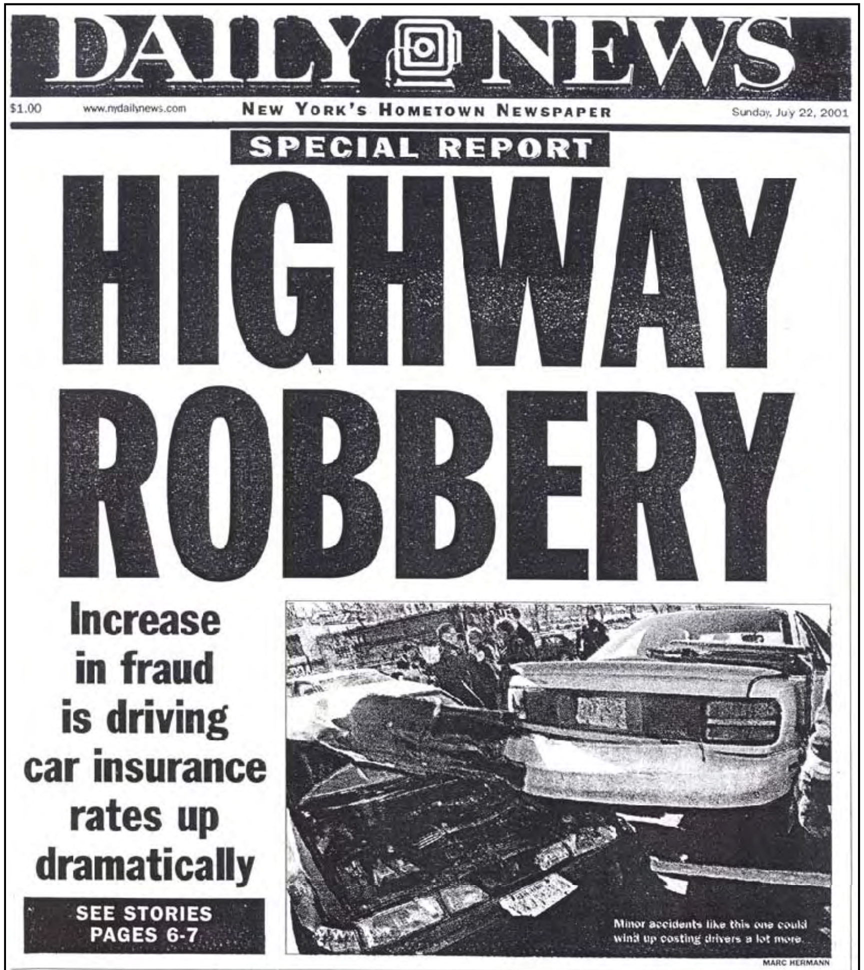


DAILY NEWS

$1.00 www.nydailynews.com NEW YORK'S HOMETOWN NEWSPAPER Sunday, July 22, 2001

SPECIAL REPORT

HIGHWAY ROBBERY

Increase in fraud is driving car insurance rates up dramatically

SEE STORIES PAGES 6-7

Minor accidents like this one could wind up costing drivers a lot more.

MARC HERMANN

DAILY NEWS SPECIAL REPORT

FRAUD IS DRIVING AUTO INSURANCE SKY-HIGH

Firms say medical scams squeeze city motorists

DAILY NEWS
THURSDAY, MARCH 29, 2001
PAGE 2 OF 2

Fraud soaking drivers

Doc scams have state insurance rates on road to No. 1

By WILLIAM SHERMAN
DAILY NEWS STAFF WRITER

Crooked doctors working through mob-backed medical mills are costing New York drivers $1 billion a year in insurance premiums and spiking no-fault rates to the highest in the nation.

Consumer automobile insurance costs are soon expected to surpass New Jersey's, as accident scams and fraudulent medical bills deliver ever increasing payoffs, according to law en-

sions are among those treatments; the tests include everything from audiology to X-rays in abundance.

For example, one Brooklyn

state between $75 and $115 a year, according to Bob Hartwig, an economist for the Insurance Information Institute.

Brooklyn has the highest fraudulent claim rate, with the Bronx second, Queens third and Manhattan fourth, according to studies by the institute.

Because of the fraud, Brooklyn drivers pay the highest overall premiums in the city, according to Hartwig.

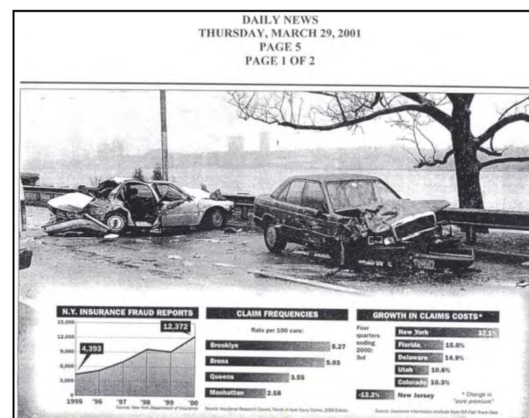
"As of March 1, a 'clean' adult

just under the six-month time limit, said Greg Serio, deputy superintendent of the state Insurance Department. "How do you review and track hundreds of tests and treatments six months after the fact, and do it in 30 days?" he asked.

Under state law, physicians must prescribe tests and treatment and own the clinics. But medical mills involved in the scams are owned by criminals who pay off doctors for their

dead for two years was involved in three separate accidents with a dozen accident 'victims,'" said Tom Sullivan, chief of Geico's special investigations unit. "In another case, we found a woman who had run up thousands of dollars of claims because of an accident, and she told us she was never in any accident and had never been to the clinic in question."

Once the policy numbers are



DAILY NEWS
THURSDAY, MARCH 29, 2001
PAGE 5
PAGE 1 OF 2

Figure 10.

Sparking Interest in Action…

INSURANCE
INFORMATION
INSTITUTE

DAILY NEWS
FRIDAY, MARCH 30, 2001
PAGE 46

Slam brakes on auto scams

As reported yesterday in the Daily News' front-page story, "Highway Robbery," auto insurance scams are adding $1 billion a year to drivers' premiums in New York. That's an extra $75 to $115 on every auto policy in the state — no matter how good, and honest, a motorist you are. Unless there is legislative reform, these bogus claims will drive rates even higher. The state Senate has acted. Now it's up to the Assembly.

Last year, New York's claim costs jumped by 32%. In New Jersey — long the butt of bad-driver jokes — they *dropped* by 12%, primarily because Trenton passed auto insurance reforms in 1998. Who's laughing now? While Jersey limits claims for certain exotic "medical" treatments, claimants in New York can milk insurance companies for such suspect treatments as aromatherapy and biofeedback. Because of this, the average bodily injury accident claim in New York is an astonishing 64% higher than in any other state.

The Brooklyn district attorney's office says Russian mobsters are behind many of the scams, setting up phony accidents and medical mills that rip off insurers. The gangs employ "runners" who recruit

NEW YORK POST
THURSDAY, MARCH 29, 2001
PAGE 30

Driving NYers Mad

Auto insurance is about to drive New Yorkers crazy.

Or, maybe, out of state.

As The Post's Kenneth Lovett reported this week, New Yorkers are about to get socked with rate hikes as high as 26 percent.

Already, the Empire State boasts the second-highest rates in the nation. But Albany, it seems, won't be happy until New York is No. 1.

Why? Because lawmakers refuse to clamp down on the abuses that drive up rates in the first place.

As Manhattan Institute Senior Fellow Steve Malanga outlines in detail on the previous page, an entire industry of scam artists — con men, disreputable doctors, unscrupulous lawyers — thrives in New York, bilking insurance carriers with fraudulent claims.

Insurers who pay those claims pass their costs right back to — you guessed it — New York motorists.

Which sends premiums soaring.

And this kind of fraud is higher here than in other states, thanks largely to New York's no-fault insurance laws.

And, of course, to lawmakers who prefer not to fix those laws, which would risk the loss of political donations from the doctors and lawyers who milk the system and would be put out of business were it fixed.

Indeed, reform would be a cinch, were lawmakers inclined to act.

For example:

■ They could reduce the number of days claimants have to file claims, which now

THE ECONOMIST
JANUARY 27th, 2001
PAGE 73

The scent of a scam

NEW YORK

DRIVING in New York is war, casualties frequent. What better recovery for a car accident's unfortunate victim than to lie in a darkened room, inhaling the sweet smells of pungent lotions? And what better still than to get somebody else to pay for it?

In recent months, the claims department at a large property-casualty company has been getting a growing stream of claims for these services, known as aromatherapy. "It is a new, creative out-

larly those around the neck, are notoriously hard to diagnose and repair with any precision. With great gaps in knowledge still remaining, medicine remains part-art. Do insurance companies really know where to draw the line between scam and need?

Suffice to say that they would like to try. What angers the insurers about the legal status of treatment in New York is that many claims must be paid, no questions asked. Far from being pre-approved, bills

Figure 11.

…And Urgent Calls for Reform

INSURANCE INFORMATION INSTITUTE

NEW YORK POST
THURSDAY, FEBRUARY 28, 2001
PAGE 31

POSTOPINION

Coming To N.Y.: America's Costliest Car Insurance

NEW York car owners are facing a stiff hike in insurance premiums because of soaring fraud and a surge in payments in accident cases. With other states enacting reforms to restrain the growth of lawsuits and cut down on insurance scams, New York drivers will almost certainly soon be paying the highest premiums in the country. And they've got lawyers, rip-off artists and legislators to thank for that.

Here's why.

The state's no-fault law requires a driver's insurance company to pay the first $50,000 in medical bills for an accident, regardless of v·ho's at fault. But it's virtually impossible for insurers to investigate fraudulent claims — because the law lets drivers wait up to six months after an accident to file medical claims.

Scam artists are having a field day with fake accidents, and payments from accident claims are going through the roof in the state. Fake auto-insurance claims uncovered by regulators nearly tripled in New York to 12,372 last year, from 4,393

tute recently warned that New York is on the verge of surpassing New Jersey as the state with the nation's highest average auto-insurance premium. In 1998, the Garden State passed reforms that studies estimate have cut the average annual cost of a premium by more than $200, to belo

$1,000. New York's average rate, mea

while, was about $1,110 in 1999, the last full year for which data are available, but is now clearly heading upward.

In the Empire State, insurers can raise rates

up to 7 percent without asking permissi

from the state Insurance Department, a

that could mean increases of more th

$100 on premiums this year, especially

New York City, where the average p

mium is already close to $2,000 a year.

The Insurance Department has tried to put the breaks on fraud by adopting regulations to shorten the time required to file a medical claim, but trial lawyers successfully defeated the measure in court. They

NEW YORK POST
THURSDAY, MARCH 29, 2001
PAGE 14

No-fault drives up rates

By KENNETH LOVETT
Post Correspondent

ALBANY — New York's no-fault

ce system — consid-

ctor behind the state's

saw payments for ac-

s jump a nation-lead-

nt last year, the Post

companies paid out

o-fault medical claim,

419 in 1999, according

lata set to be released

nce tomorrow by the

nformation Institute,

roup.

percent above the av-

ent nationally, said

twig, the institute's

ist.

The state's no-fault system pays up to $50,000 for medical bills and lost wages due to automobile accidents, regardless of who is at fault.

The frequency of claims and the number of no-fault fraud reports received by the state also were on the rise last year, according to the new numbers.

State officials and industry experts blame widespread and organized no-fault fraud and abuse as a major reason New York's overall auto insurance rates are the second highest in the nation, after New Jersey, and rising.

The Post reported earlier this week that rates for the 500,000 in the state assigned risk program are about to jump 18 percent.

NEW YORK POST
THURSDAY, MARCH 29, 2001
PAGE 29
PAGE 1 OF 2

Albany's War on Drivers

Fraud's making car insurance soar — but the Legislature won't crack down

STEVEN MALANGA

THANKS to an epidemic of fraud, auto-insurance prices are soaring statewide. Prosecutors, regulators and insurance investigators say they know how to stop this fraud — but they need the help of Albany legislators in the form of

is probably responsible for a tidal wave of personal-injury claims — especially in the five boroughs of New York City.

Nationally, personal-injury costs have risen 33 percent in five years — but in the Empire State costs rose by nearly double that rate.

When they have to pay out more in claims, insurers must raise premiums (or abandon the New York market altogether). Rates have been climbing for several years now, and will soar this year.

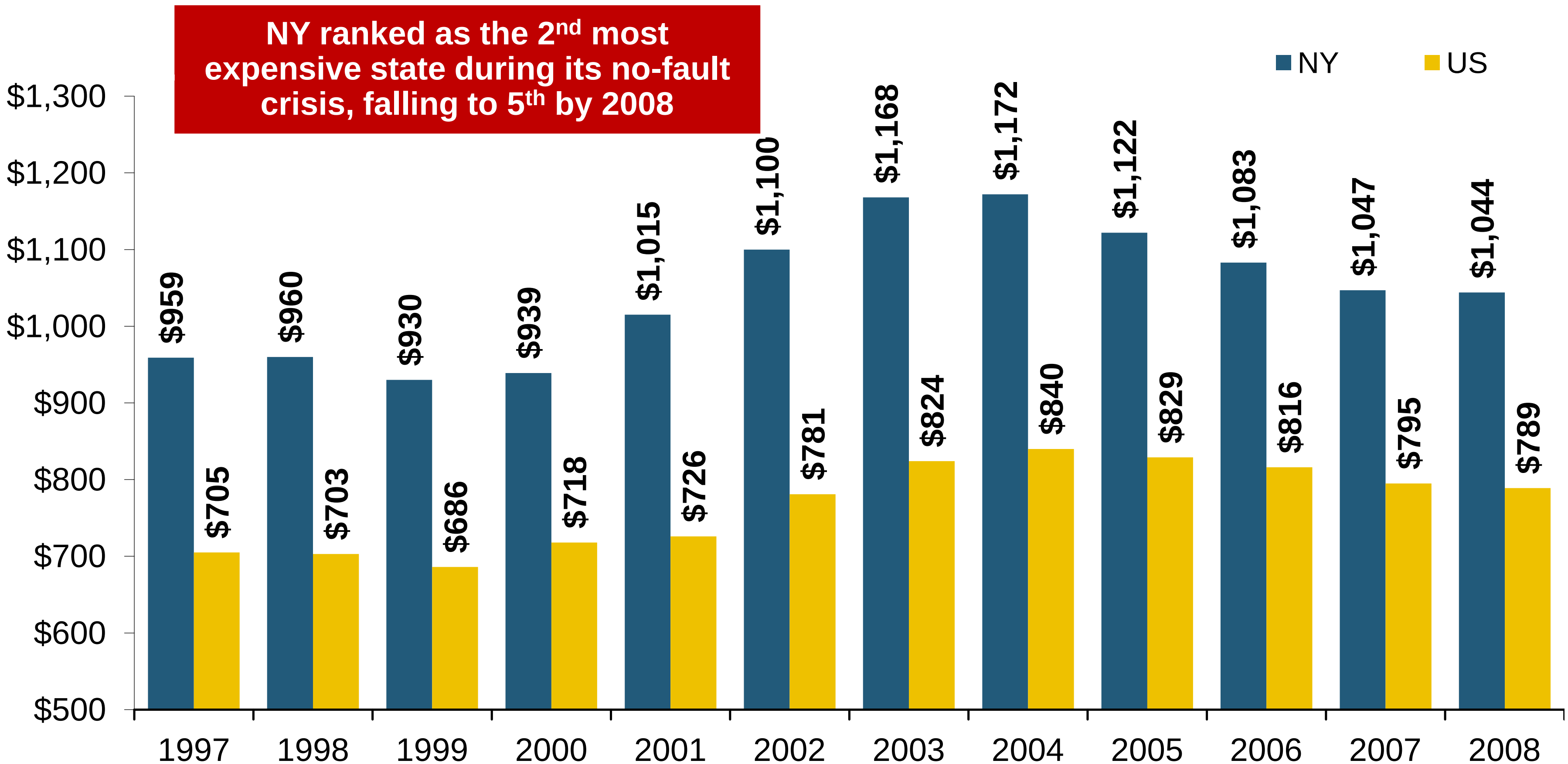
within 45 days of an accident that they have begun medical treatments and intend to seek reimbursement for the care.

Present law lets those making a claim wait 180 days, and many scam artists use the law to dump months of bills all at once on an insurer. Since the company must pay up within 30 days, that gives it little time to sort through and investigate a mountain of bills received all at once.

"If an insurance company can make a credible case that a claim is suspicious, then it should be

Average Expenditure on Auto Insurance In NY State, 1997-2008*

INSURANCE INFORMATION INSTITUTE



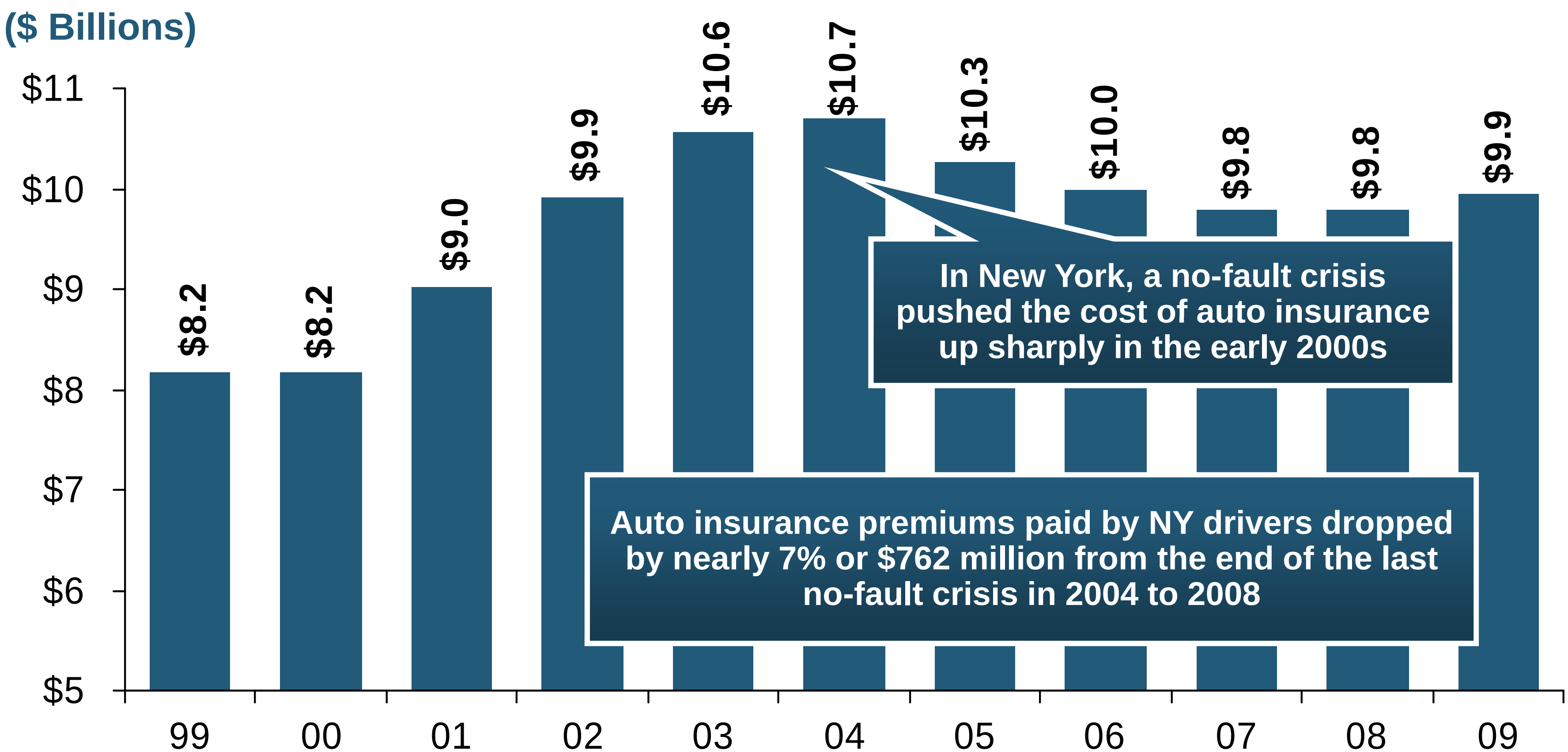
In the wake of NY's first no-fault crisis, the average expenditure on auto insurance fell by $125 or 10.7% between 2004 and 2007, twice the 5.4% drop in the US overall

*Latest available.

Sources: NAIC; Insurance Information Institute.

NY Direct Pvt. Passenger Auto Premiums Written, 1999-2009

INSURANCE INFORMATION INSTITUTE

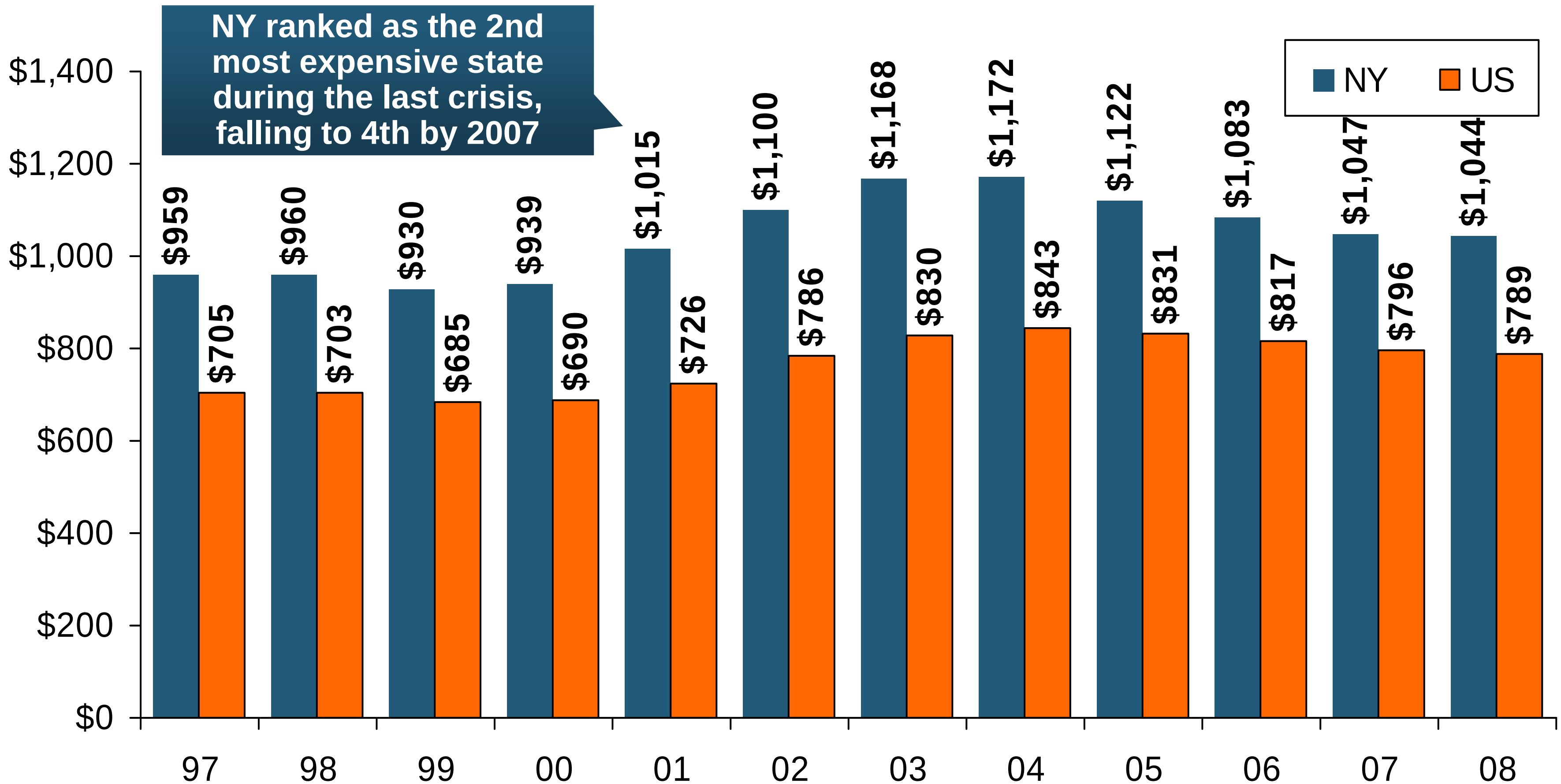


Savings achieved in New York's fraud crackdown were quickly passed along to drivers.

Source: NAIC; Insurance Information Institute.

Average Expenditure on Auto Insurance, NY State vs. US: 1997-2008*

INSURANCE INFORMATION INSTITUTE



In the wake of NY's first no-fault crisis, the average expenditure on auto insurance in NY state fell by $128 or 10.9% between 2004 and 2008, much more than the 6.4% drop in the US overall.

*Latest available.

Source: National Association of Insurance Commissioners.

Global Catastrophe Loss Developments and Trends

2011 Will Rewrite Catastrophe Loss and Insurance History

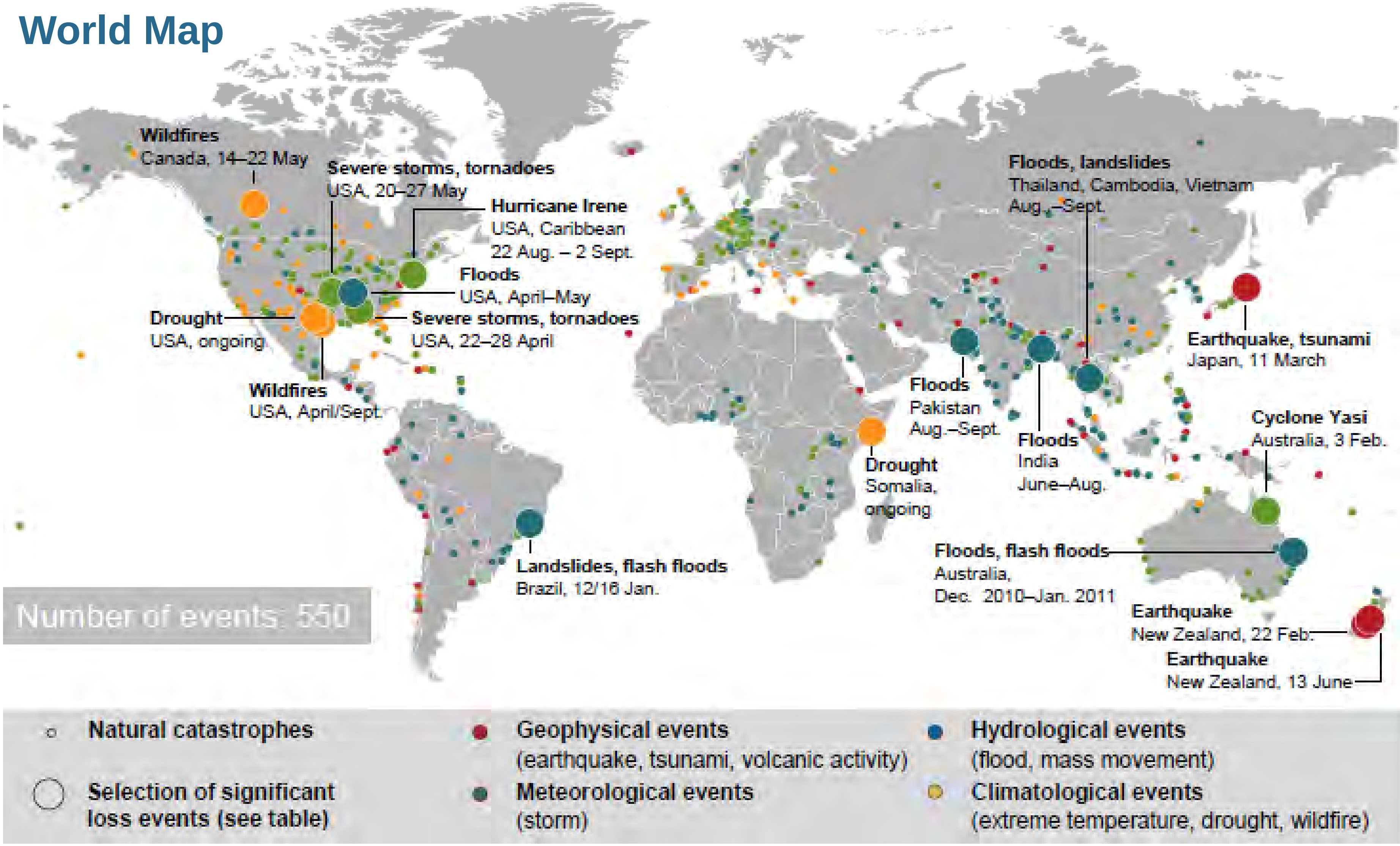
But Will Losses Turn the Market?

Global Catastrophe Loss Summary: First Half 2011

- **2011 Is Already (as of June 30) the *Highest* Loss Year on Record Globally**
  - Extraordinary accumulation of severe natural catastrophe: Earthquakes, tsunami, floods and tornadoes are the primary causes of loss
- **$260 Billion in *Economic* Losses Globally**
  - New record for the first six months, exceeding the previous record of $220B in 2005
  - Economy is more resilient than most pundits presume
- **$55 Billion in *Insured* Losses Globally**
  - More than double the first half 2010 amount
  - Over 4 times the 10-year average
- **$27 Billion in *Economic* Losses in the US**
  - Represents a 129% increase over the $11.8 billion amount through the first half of 2010
- **$17.3 Billion in *Insured* Losses in the US Arising from 100 CAT Events**
  - Represents a 162% increase over the $6.6 billion amount through the first half of 2010

Natural Loss Events, January – September 2011

World Map



Source: MR NatCat*SERVICE*

Worldwide Natural Disasters 2011

Significant Natural Disasters (January – September only)

INSURANCE INFORMATION INSTITUTE

Period	Loss event	Affected area	Overall losses*	Insured losses*	Fatalities*
			US$m, original values		
Dec 2010–Jan 2011	Floods, flash floods	Australia (Queensland)	7,300	2,550	29
12/16 Jan.	Landslides, flash floods	Brazil (State of Rio de Janeiro)	**	**	1,350
3 Feb.	Cyclone Yasi	Australia (Queensland)	2,000	1,000	1
22 Feb.	Earthquake	New Zealand (Christchurch)	25,000	13,000	181
11 March	Earthquake, tsunami	Japan (esp. northeastern Honshu)	210,000	~30,000	15,800 (3,800 missing)
22–28 April	Severe storms, tornadoes	USA (esp. AL, Tuscaloosa)	12,000	7,300	350
April–May	Floods	USA (esp. Ohio River, Mississippi River, Missouri River)	2,600	**	9
April/Sept.	Wildfires	USA (TX)	1,500	680	4
14–22 May	Wildfires	Canada (Alberta, Slave Lake)	>1,500	720	1
20–27 May	Severe storms, tornadoes	USA (esp. MO, Joplin)	9,000	5,900	176
13 June	Earthquake	New Zealand (Christchurch)	**	**	1
Aug.–Sept.	Floods, landslides	Thailand, Cambodia, Vietnam	**	**	370
Aug.–Sept.	Floods	Pakistan	**	**	445
22 Aug.–2 Sept.	Hurricane Irene	USA, Caribbean	15,000	7,000	54

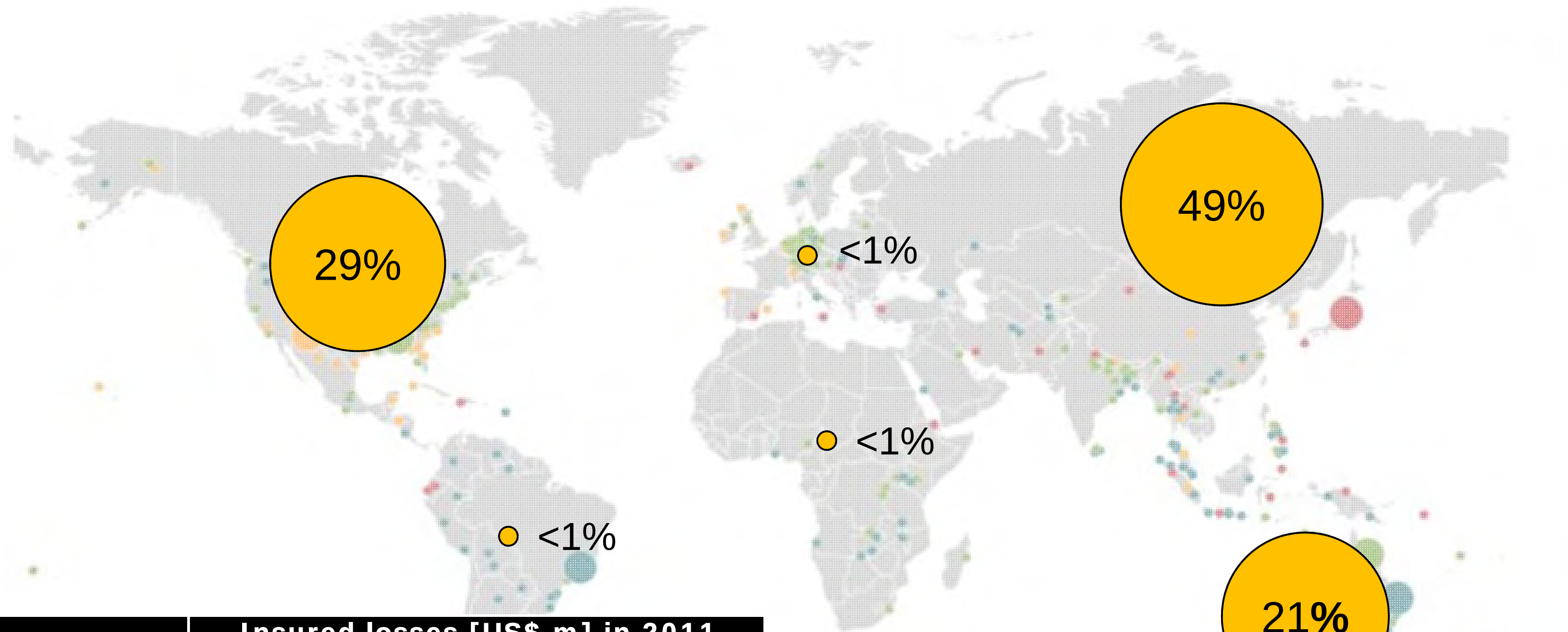
*As at October 2011
**Loss assessment still in progress

Source: MR NatCat*SERVICE*

Worldwide Natural Disasters 2011

% Distribution of Insured Losses Per Continent (January – June only)

Insured losses 2011 (January – June only): US$ 60bn



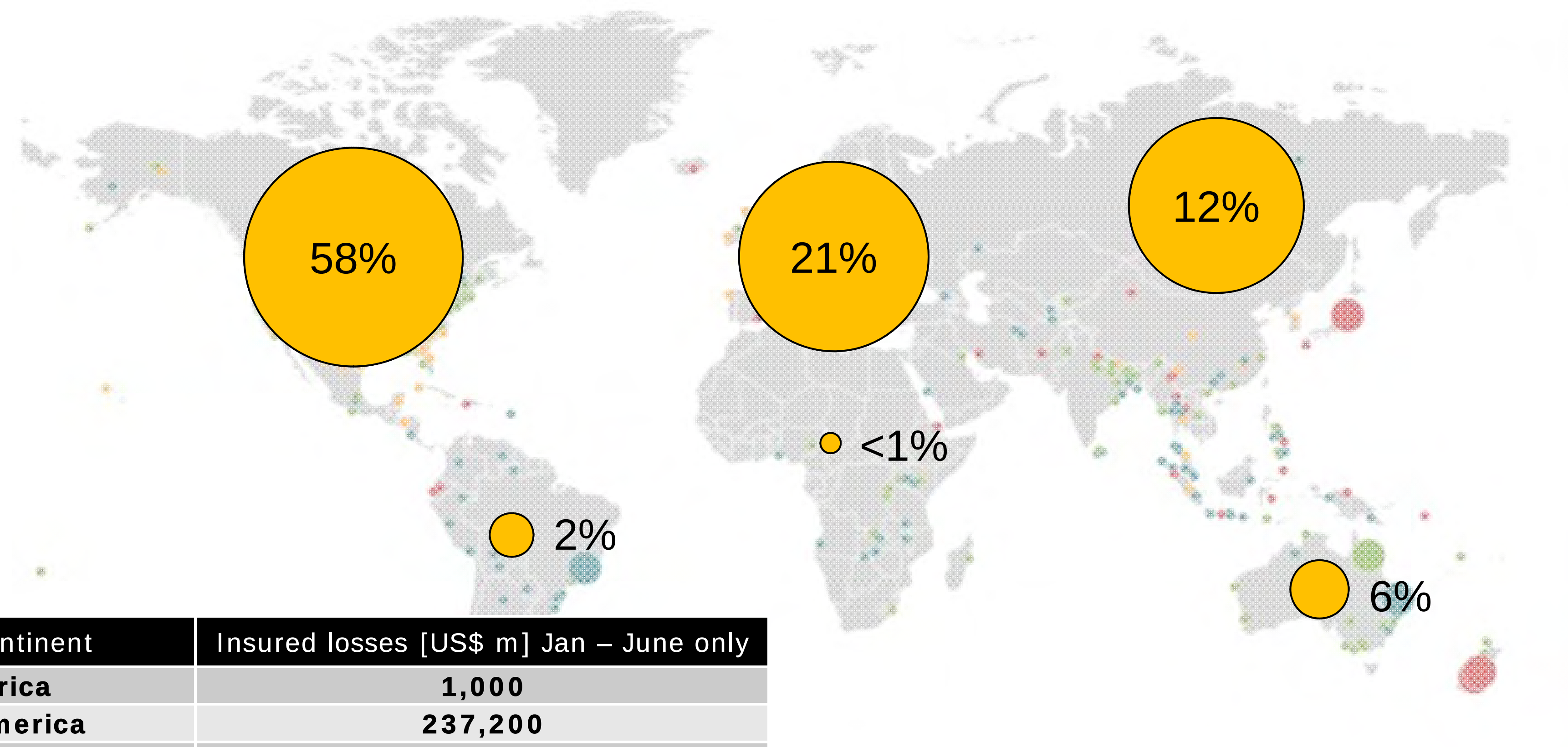
Continent	Insured losses [US$ m] in 2011 Jan - June
Africa	minor
America	17,800
Asia	30,080
Australia / Oceania	12,900
Europe	100

Source: MR NatCat*SERVICE*

Worldwide Natural Disasters, 1980-2011

% Distribution of Insured Losses Per Continent (January – June only)

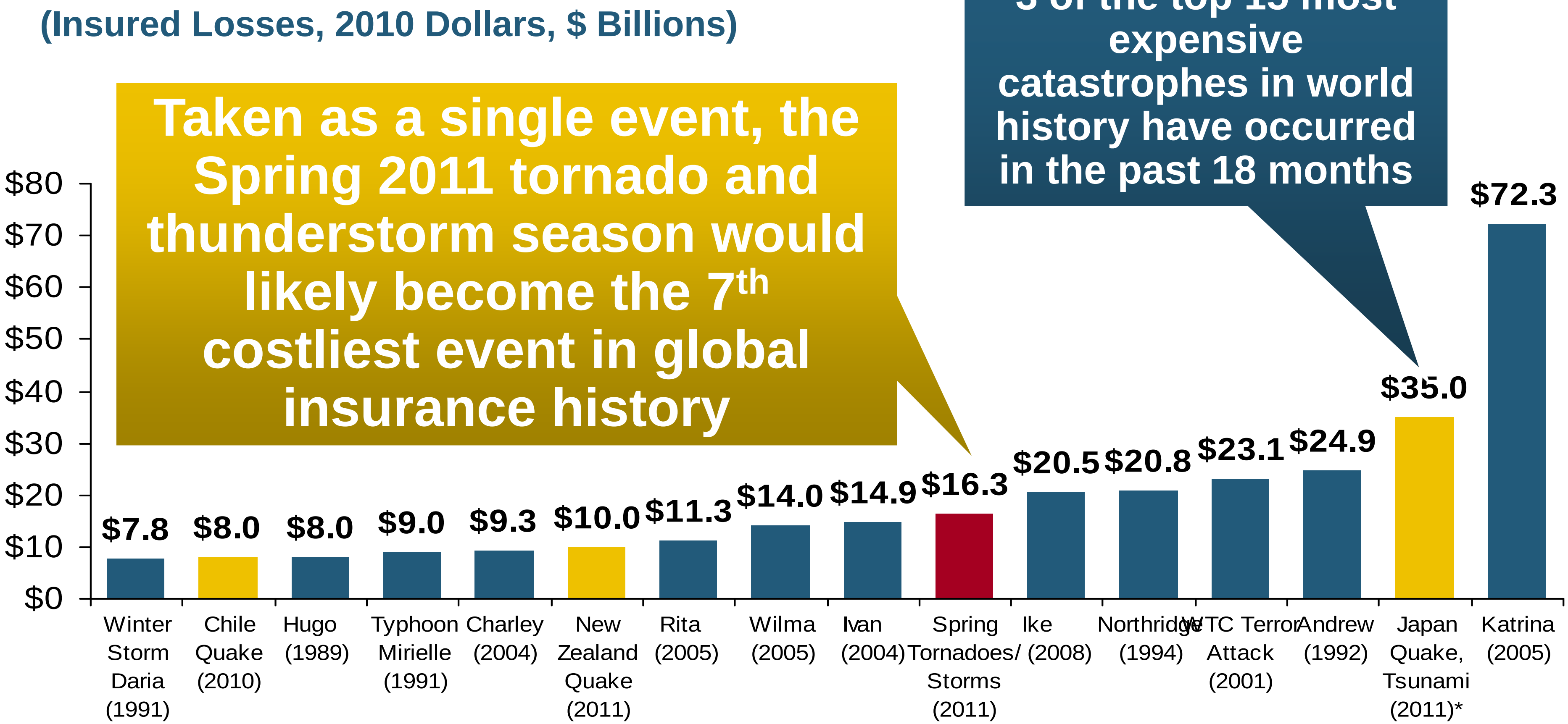
Insured losses 1980 - 2011 (January – June only): US$ 389bn



Continent	Insured losses [US$ m] Jan – June only
Africa	**1,000**
America	**237,200**
Asia	**45,100**
Australia / Oceania	**25,100**
Europe	**80,900**

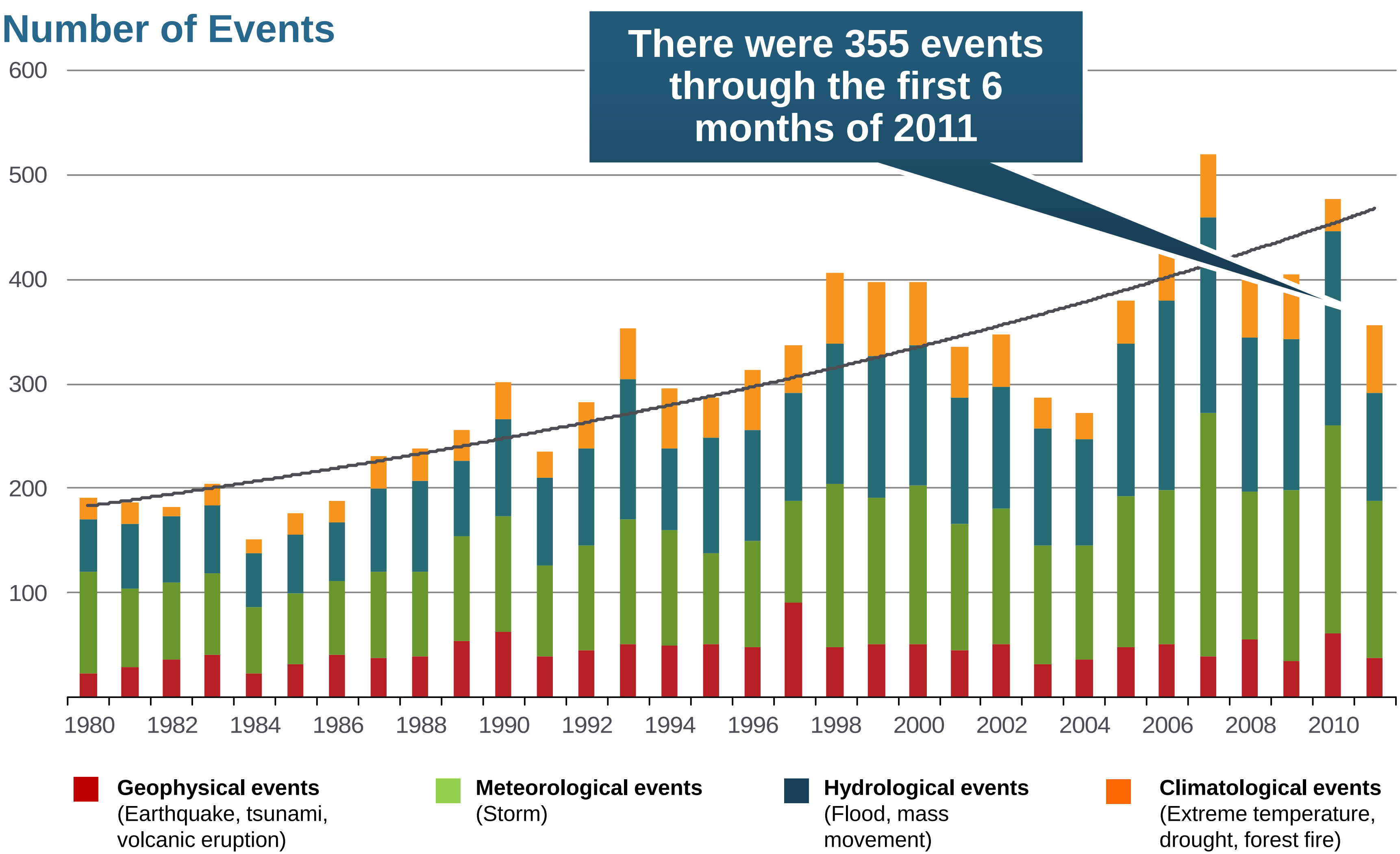
Source: MR NatCat*SERVICE*

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



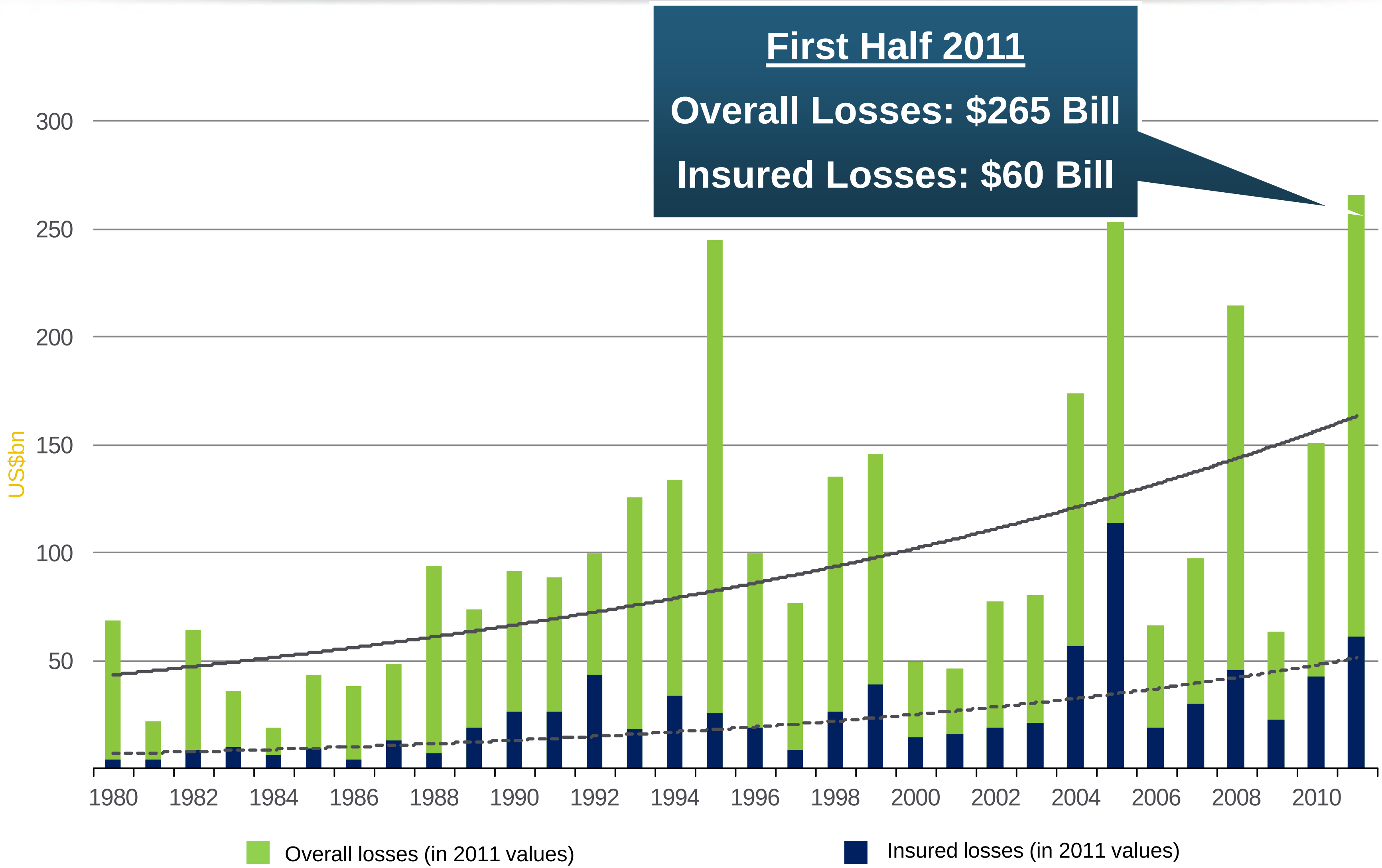
*Through June 20, 2011. 2011 disaster figures are estimates; Figures include federally insured flood losses, where applicable.
Sources: Swiss Re *sigma 1/2011*; AIR Worldwide, RMS, Eqecat; Insurance Information Institute.

Worldwide Natural Disasters, 1980 – 2011*



*2011 figure is through June 30.
Source: MR NatCat*SERVICE*

Worldwide Natural Disasters 1980–2011, Overall and Insured Losses*

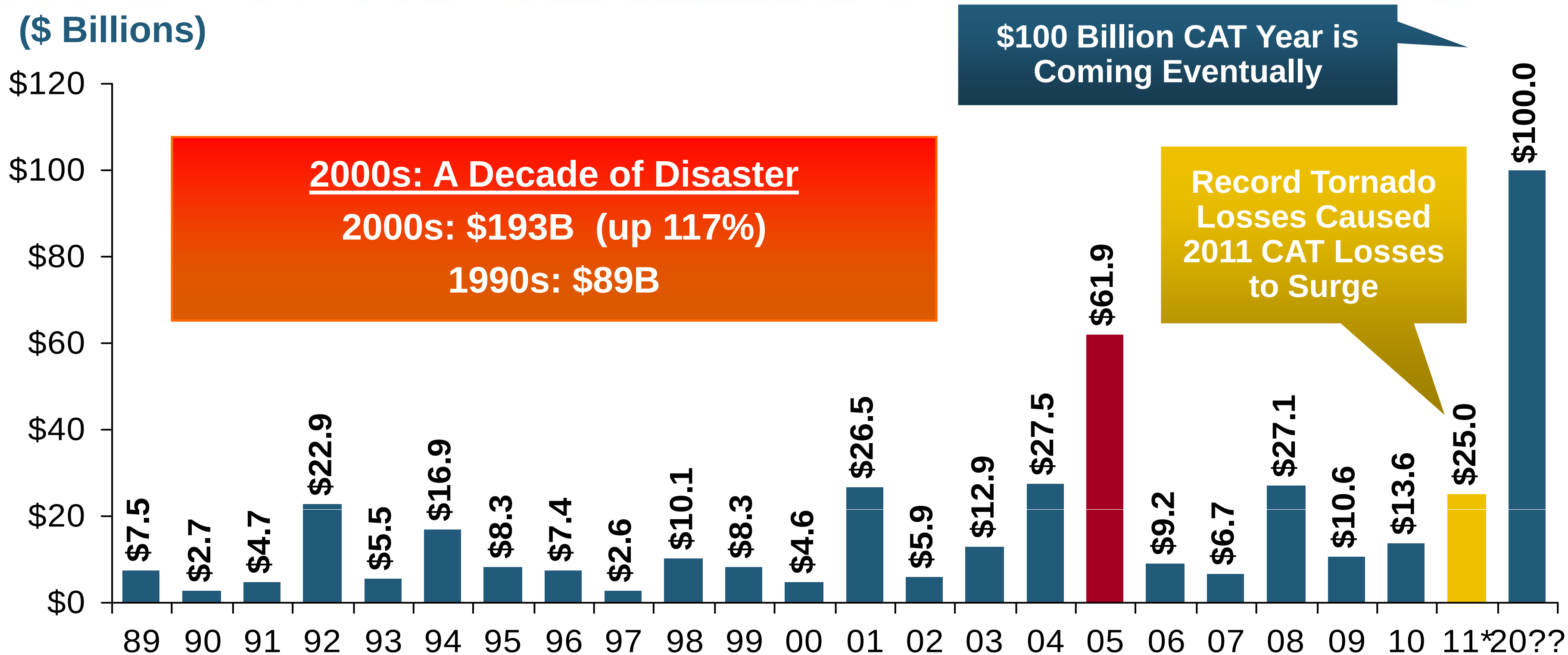


*2011 figure is through June 30.
Source: MR NatCat*SERVICE*

U.S. Insured Catastrophe Loss Update

2011 CAT Losses Already Greatly Exceed All of 2010 and Will Become One of the Most Expensive Years on Record

US Insured Catastrophe Losses



2011 Will Become the 5th or 6th Most Expensive Year in History for Insured Catastrophe Losses in the US

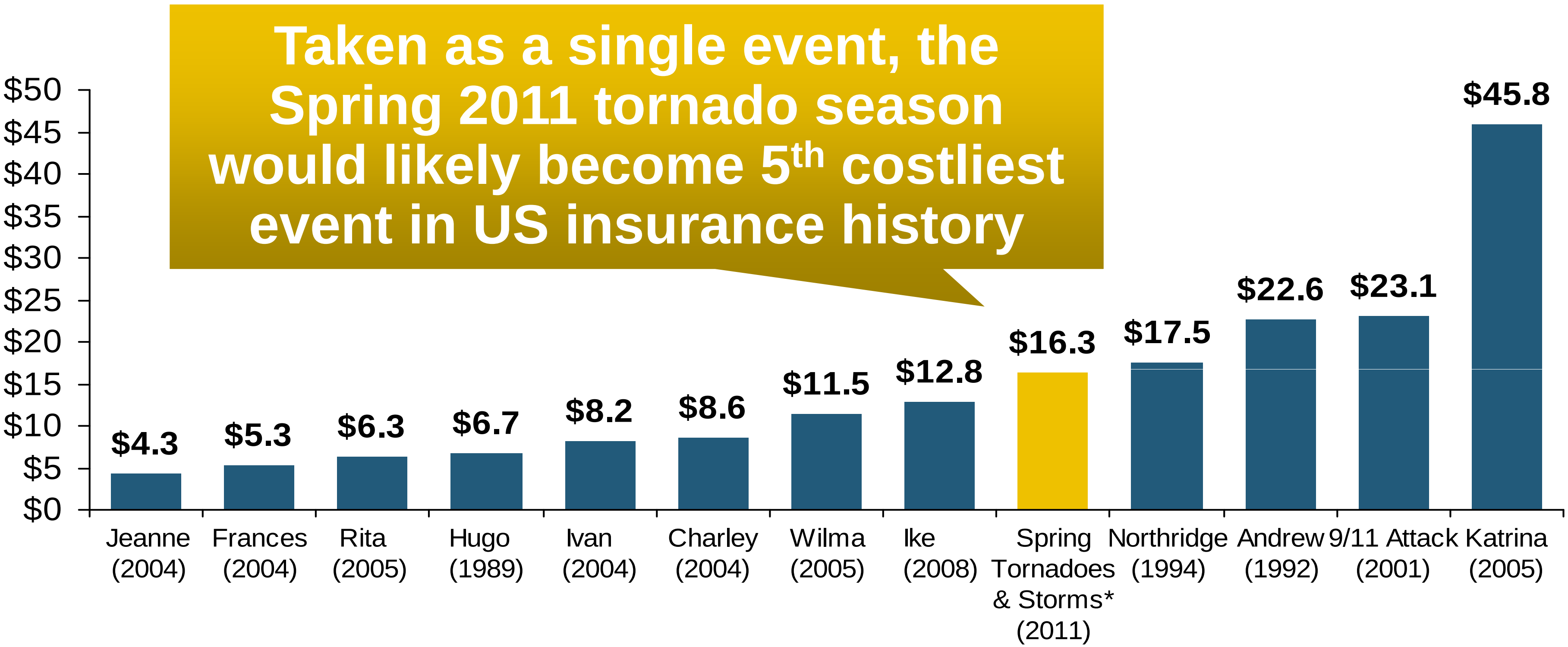
*Estimate through Oct. 31, 2011.

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

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

Top 12 (13?) Most Costly Disasters in U.S. History

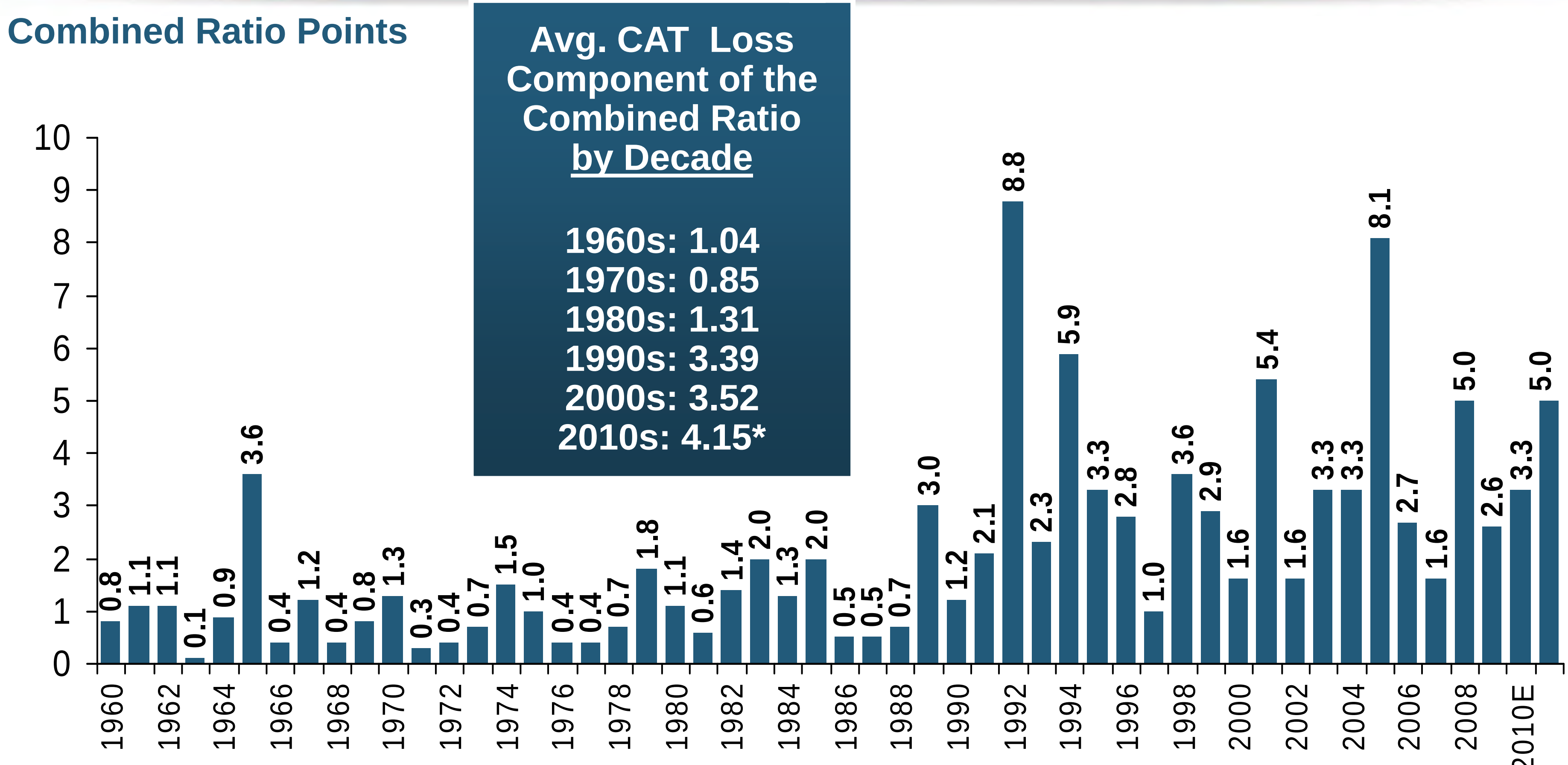
(Insured Losses, 2010 Dollars, $ Billions)



*IncludLosses will actually be broken down into several “events” as determined by PCS.

Sources: PCS; Insurance Information Institute inflation adjustments.

Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2011:H1*



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

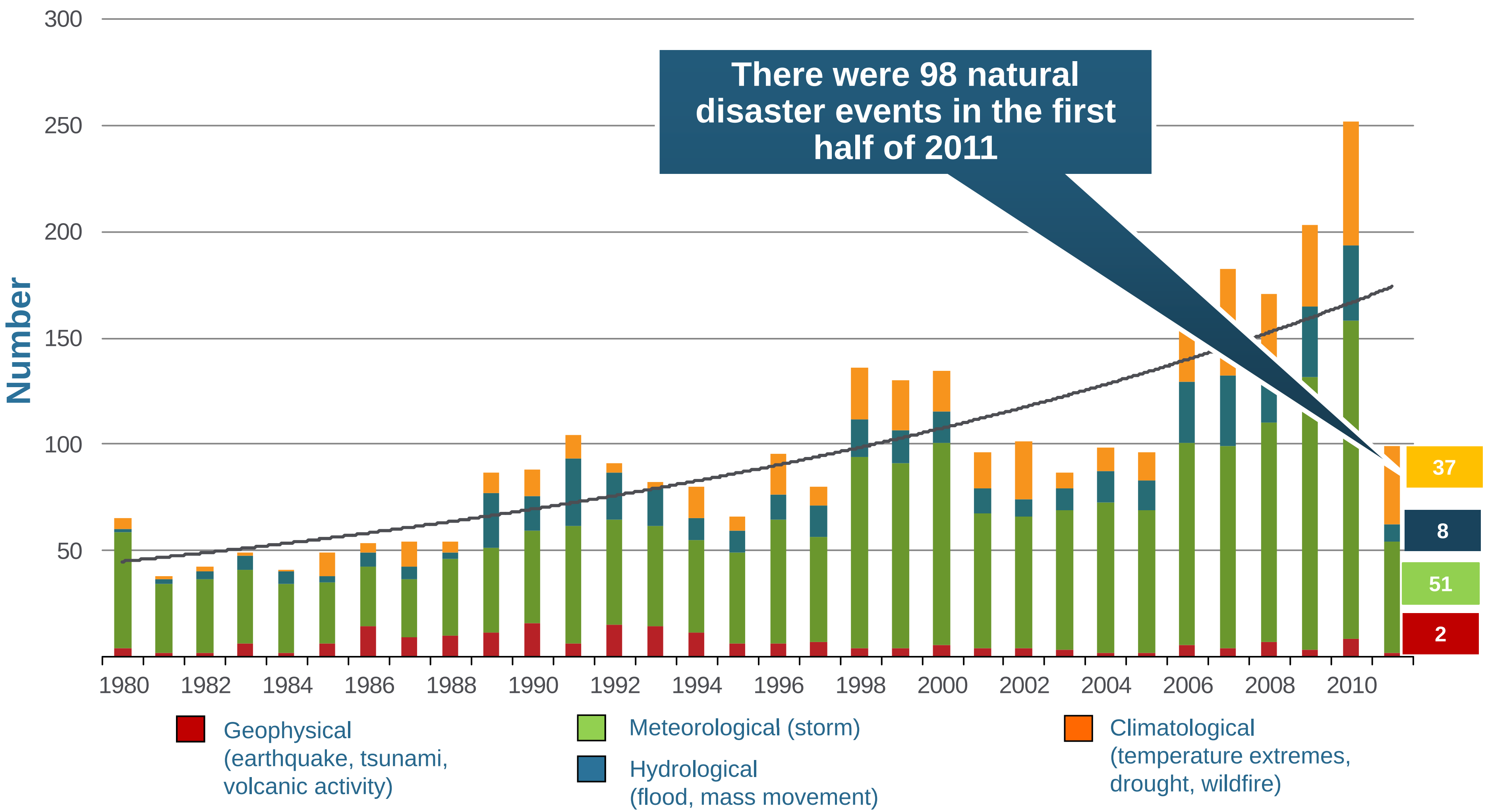
*Insurance Information Institute estimates for 2010 and 2011:H1

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

Source: ISO; Insurance Information Institute.

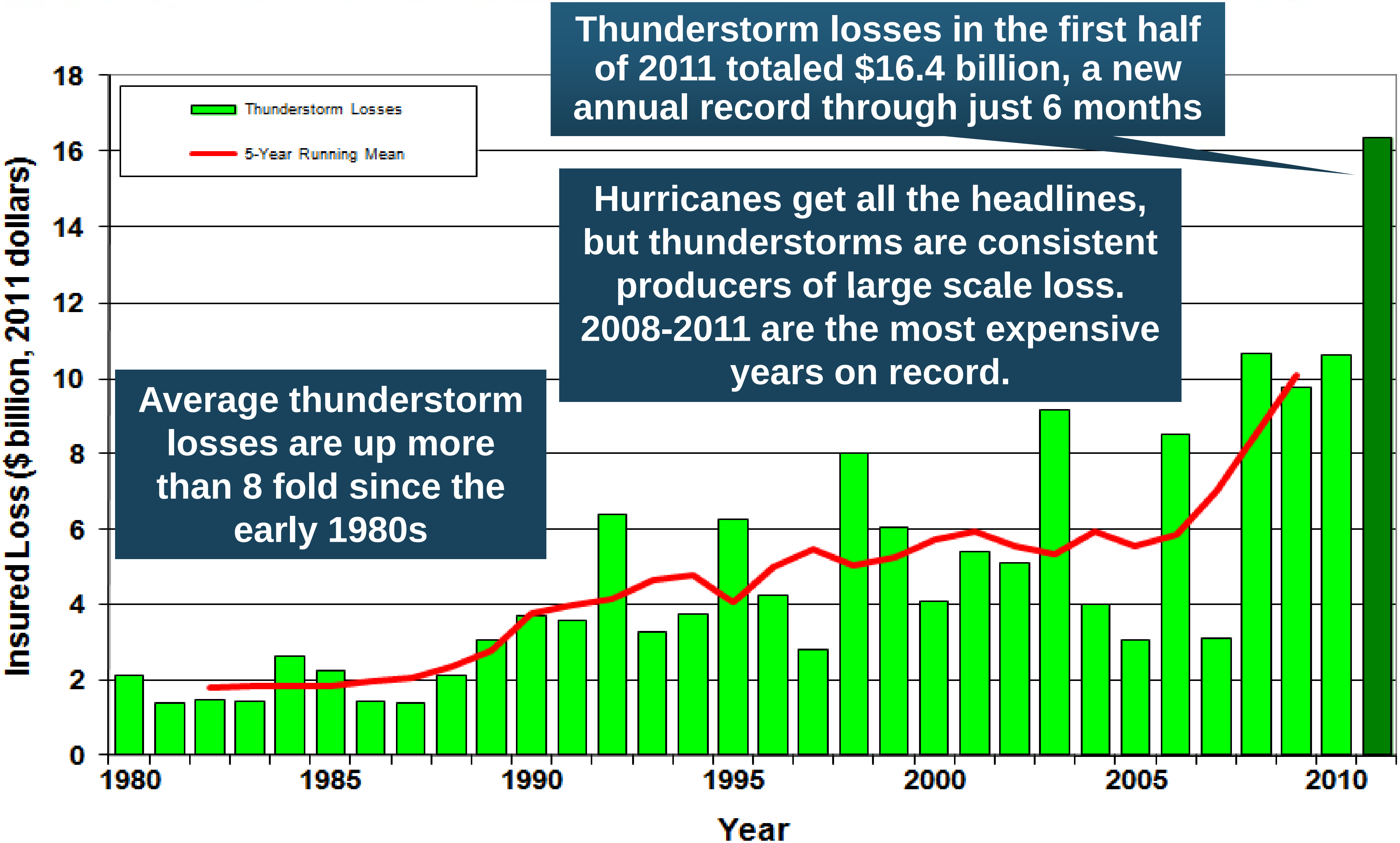
Natural Disasters in the United States, 1980 – 2011*

Number of Events (Annual Totals 1980 – 2010 and First Half 2011)



*Through June 30.
Source: MR NatCat*SERVICE*

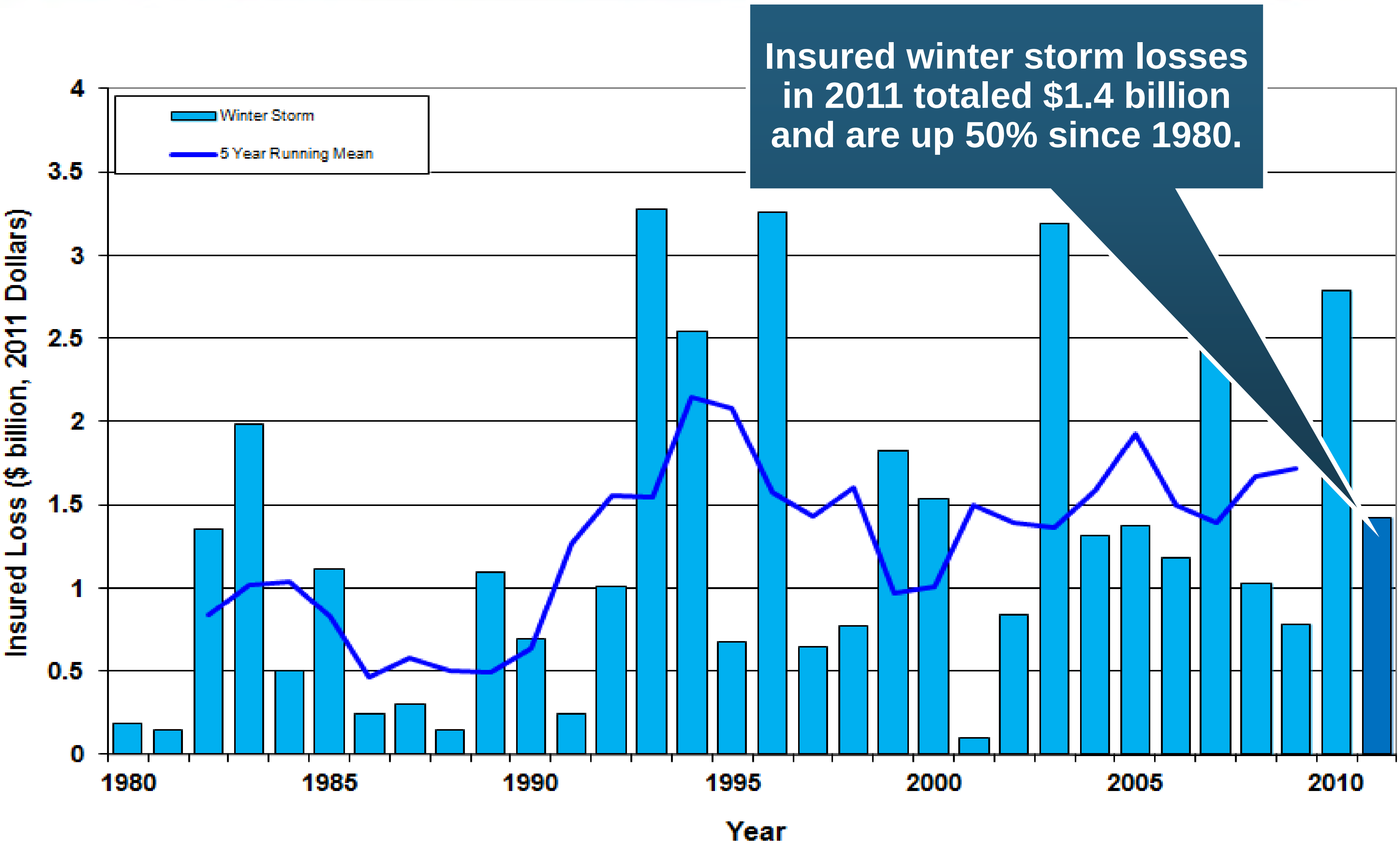
U.S. Thunderstorm Loss Trends, 1980 – 2011*



*Through June 30, 2011.
Source: Property Claims Service, MR NatCat*SERVICE*

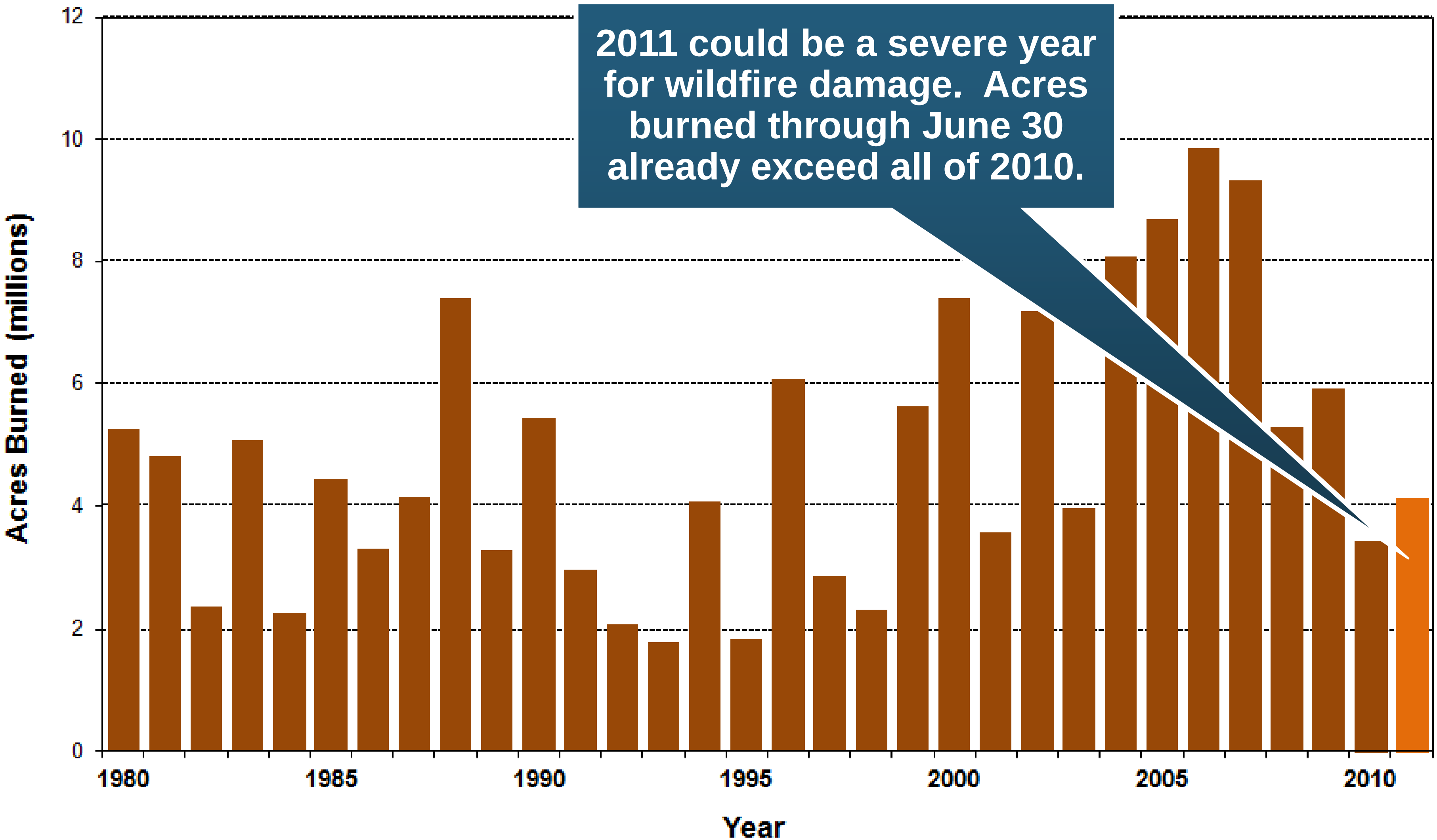
U.S. Winter Storm Loss Trends, 1980 – 2010 (Annual Totals) vs. First Half 2011

INSURANCE INFORMATION INSTITUTE



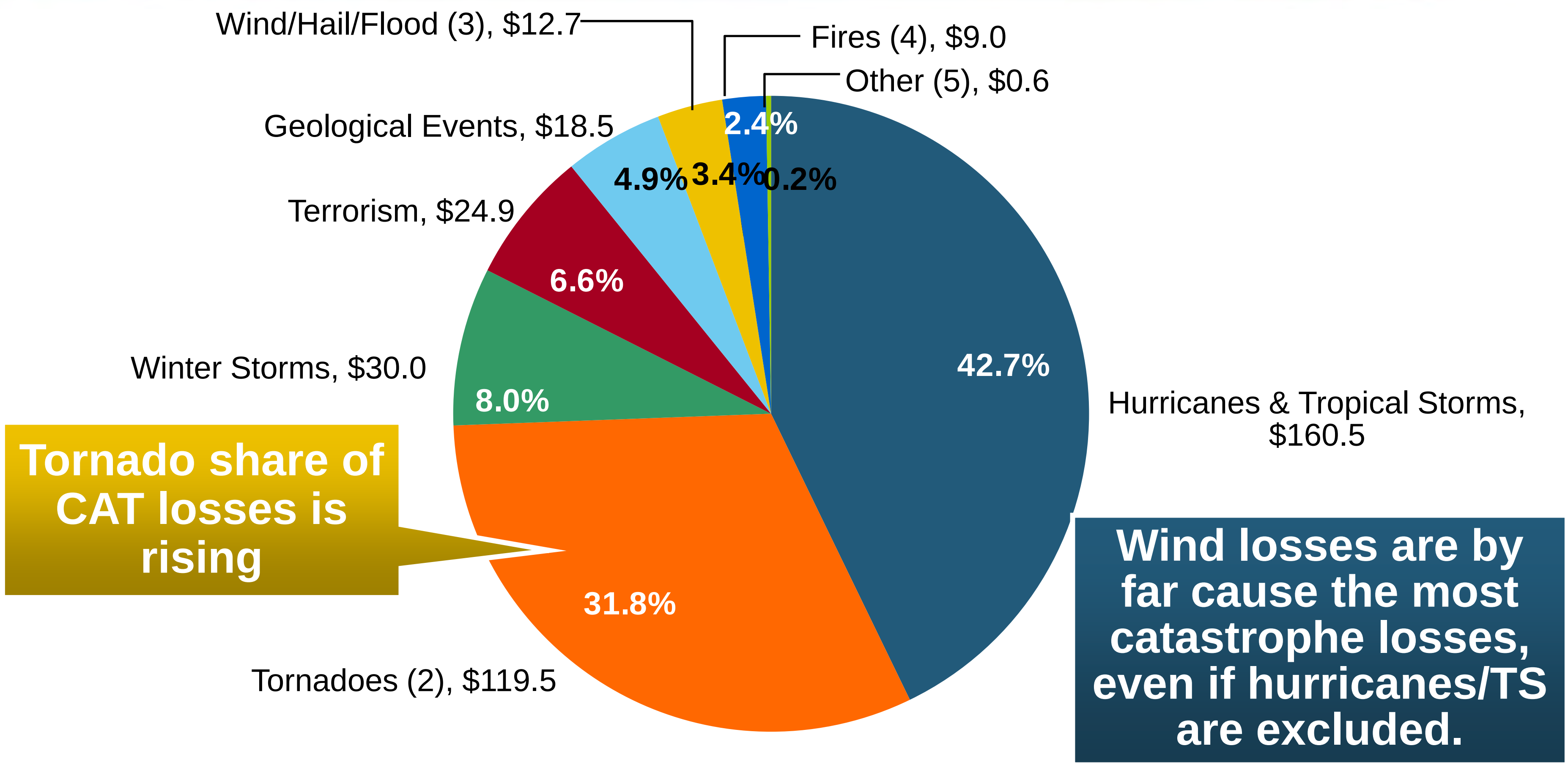
Source: Property Claims Service, MR NatCat*SERVICE*

U.S. Acreage Burned by Wildfires, 1980 – 2010 (Annual Totals) vs. First Half 2011



Source: National Forest Service, MR NatCat*SERVICE*

Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1990–2011:H1[1]



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.

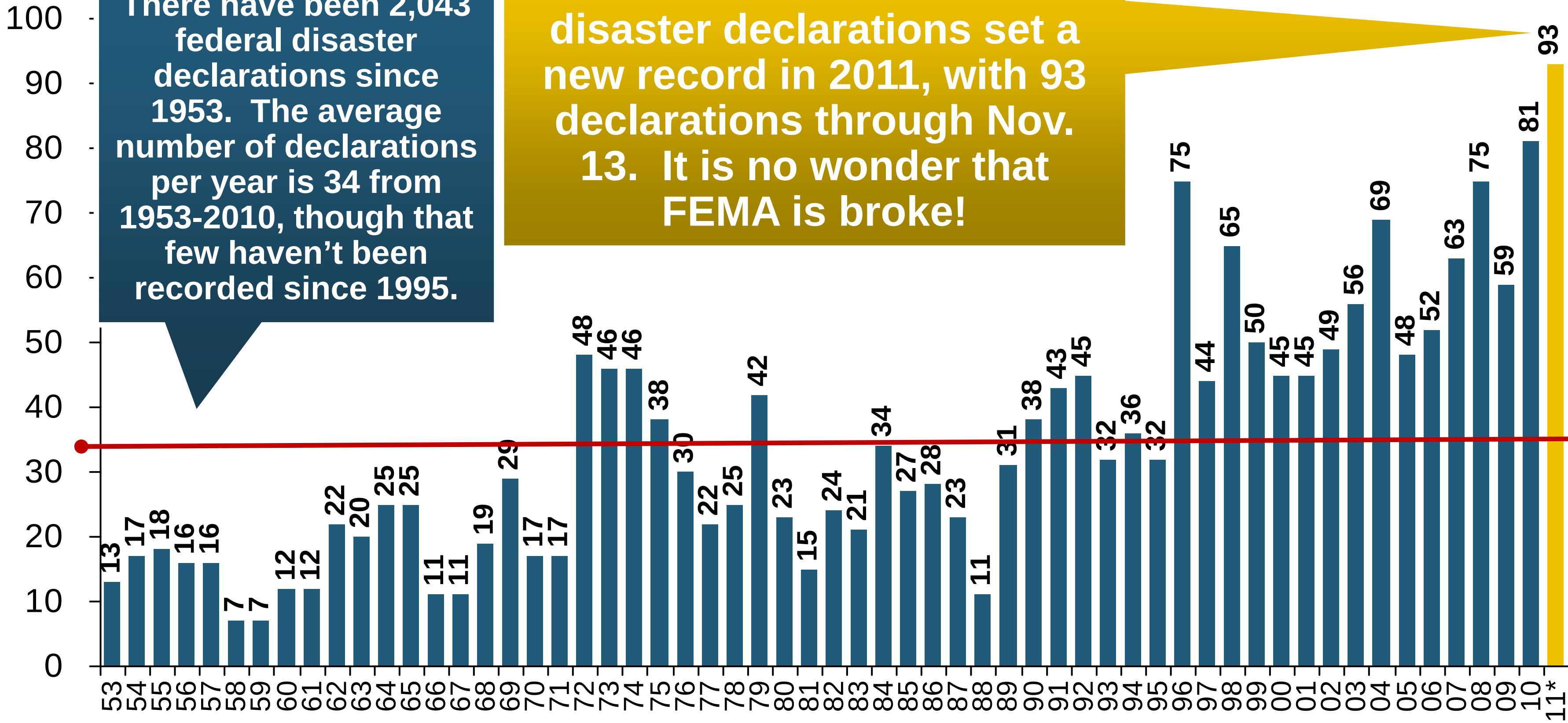
Source: ISO's Property Claim Services Unit.

Number of Federal Disaster Declarations, 1953-2011*

INSURANCE INFORMATION INSTITUTE

There have been 2,043 federal disaster declarations since 1953. The average number of declarations per year is 34 from 1953-2010, though that few haven't been recorded since 1995.

The number of federal disaster declarations set a new record in 2011, with 93 declarations through Nov. 13. It is no wonder that FEMA is broke!



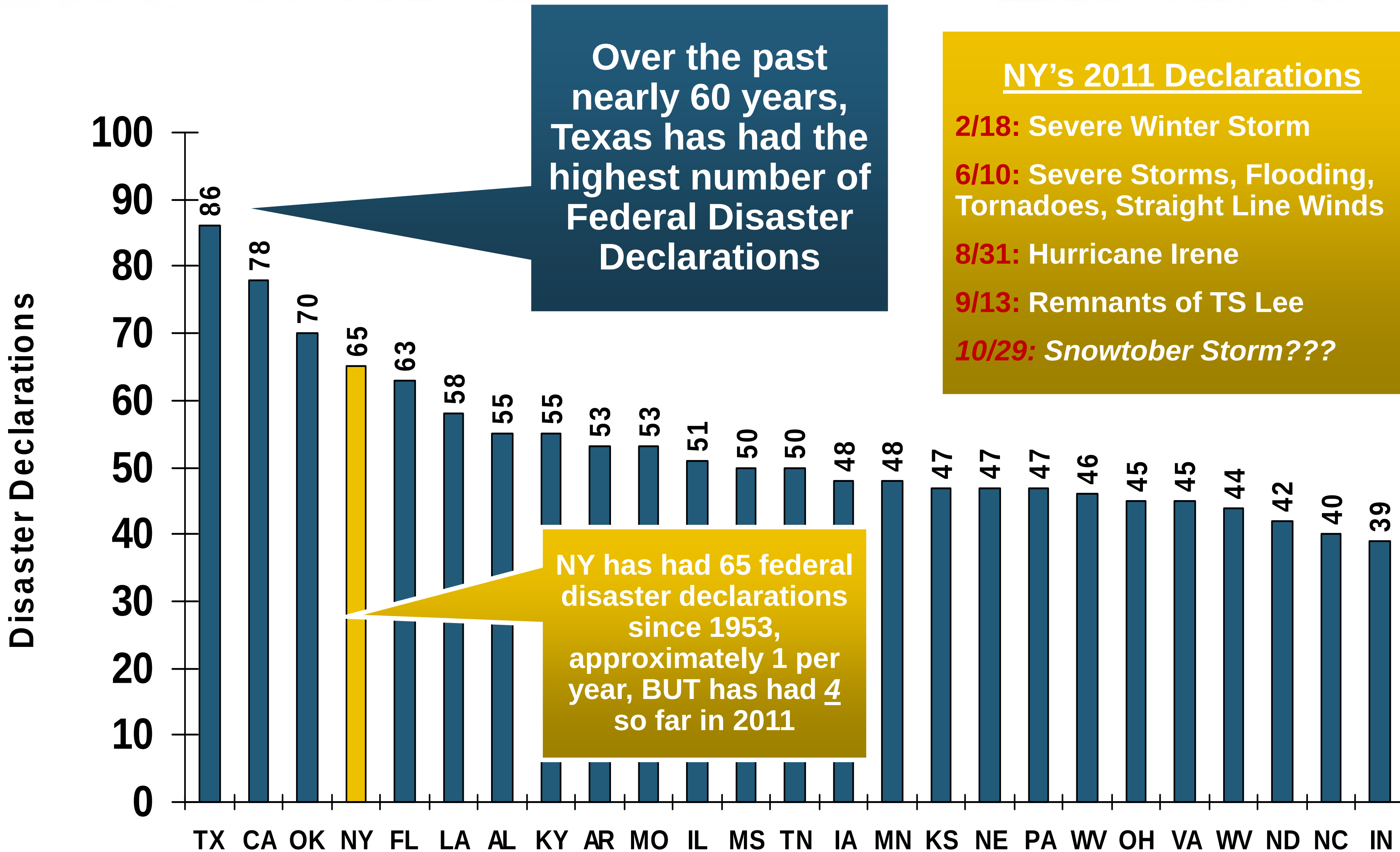
The Number of Federal Disaster Declarations Is Rising and Set a New Record in 2011

*Through November 13, 2011.

Source: Federal Emergency Management Administration: http://www.fema.gov/news/disaster_totals_annual.fema ; Insurance Information Institute.

Federal Disasters Declarations by State, 1953 – Nov. 13, 2011: Highest 25 States

INSURANCE INFORMATION INSTITUTE



NY's 2011 Declarations

2/18: Severe Winter Storm

6/10: Severe Storms, Flooding, Tornadoes, Straight Line Winds

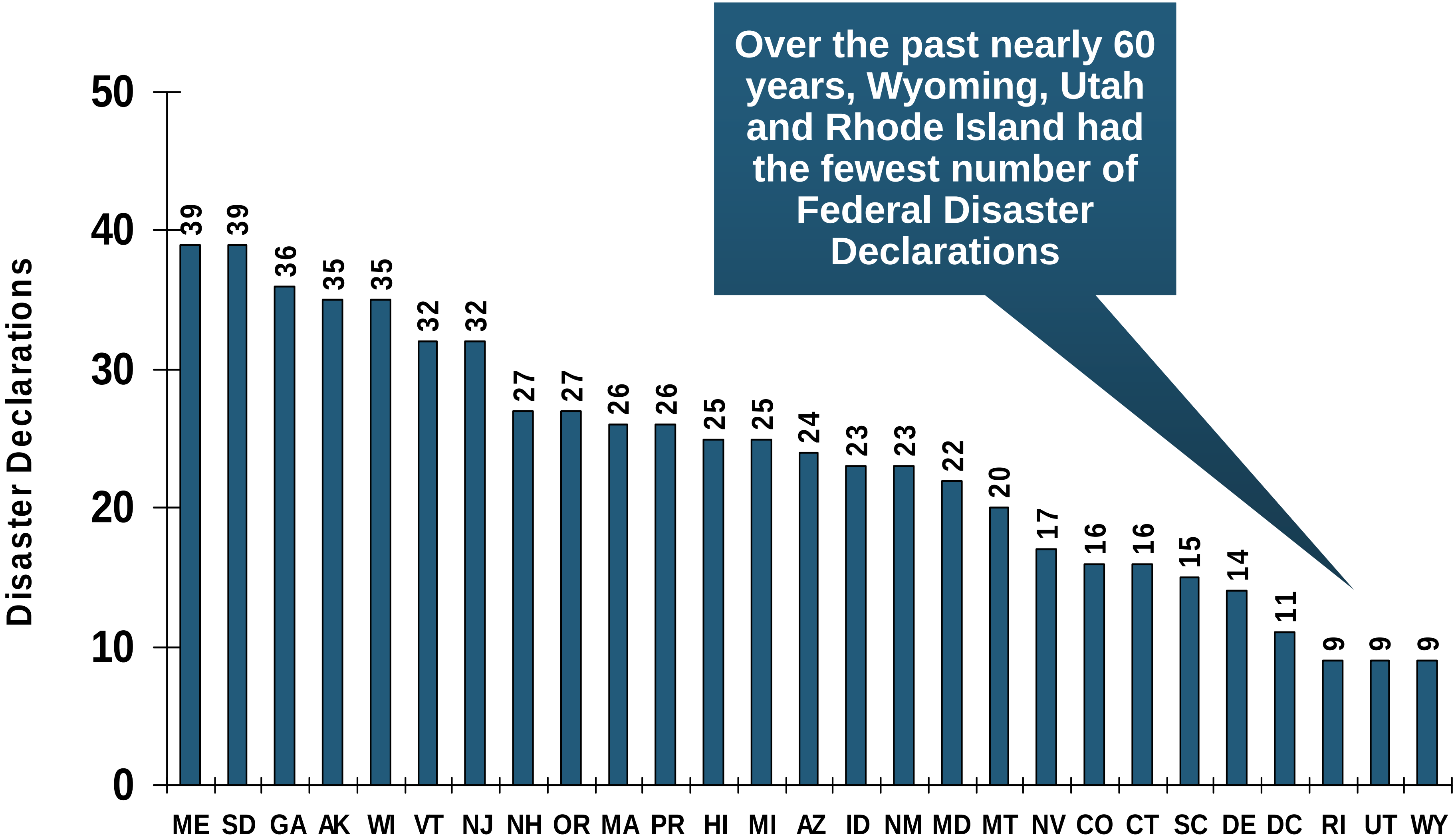
8/31: Hurricane Irene

9/13: Remnants of TS Lee

***10/29:* Snowtober Storm???**

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

Federal Disasters Declarations by State, 1953 – Nov. 13, 2011: Lowest 25 States*



*Includes Puerto Rico and the District of Columbia.

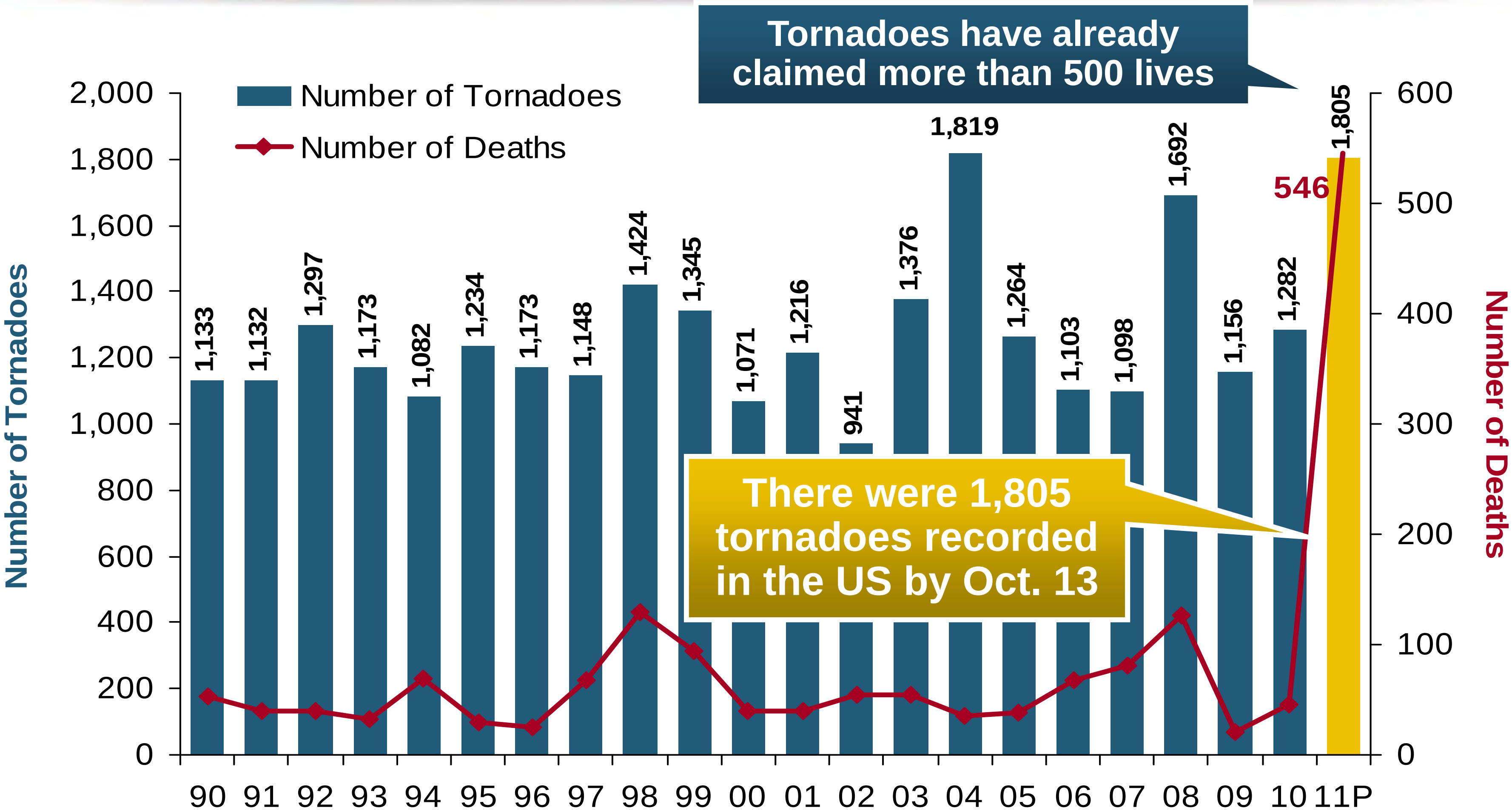
Source: FEMA: http://www.fema.gov/news/disaster_totals_annual.fema; Insurance Information Institute.

INSURANCE INFORMATION INSTITUTE

SPRING 2011 TORNADO & SEVERE STORM OUTBREAK

2011 Losses Are Putting Pressure on US P/C Insurance Markets

Number of Tornadoes and Related Deaths, 1990 – 2011*

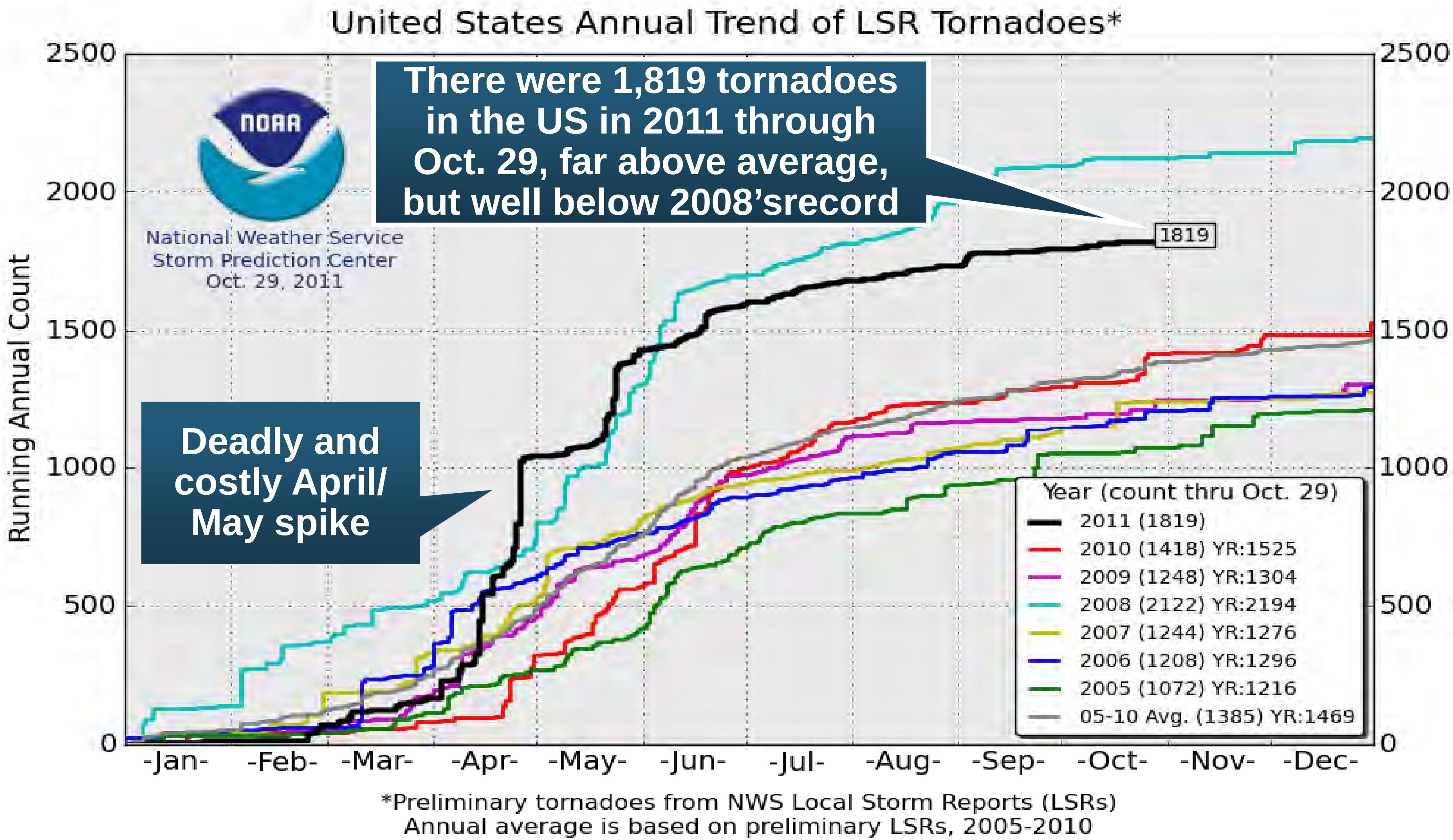


Insurers Expect to Pay at Least $2 Billion Each for the April 2011 Tornadoes in Alabama and a Similar Amount for the May Storms in Joplin

*2011 is preliminary data through October 13.

Source: U.S. Department of Commerce, Storm Prediction Center, National Weather Service.

U.S. Tornado Count, 2005-2011*



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

*Through October 29.

Insurers Making a Difference in Impacted Communities

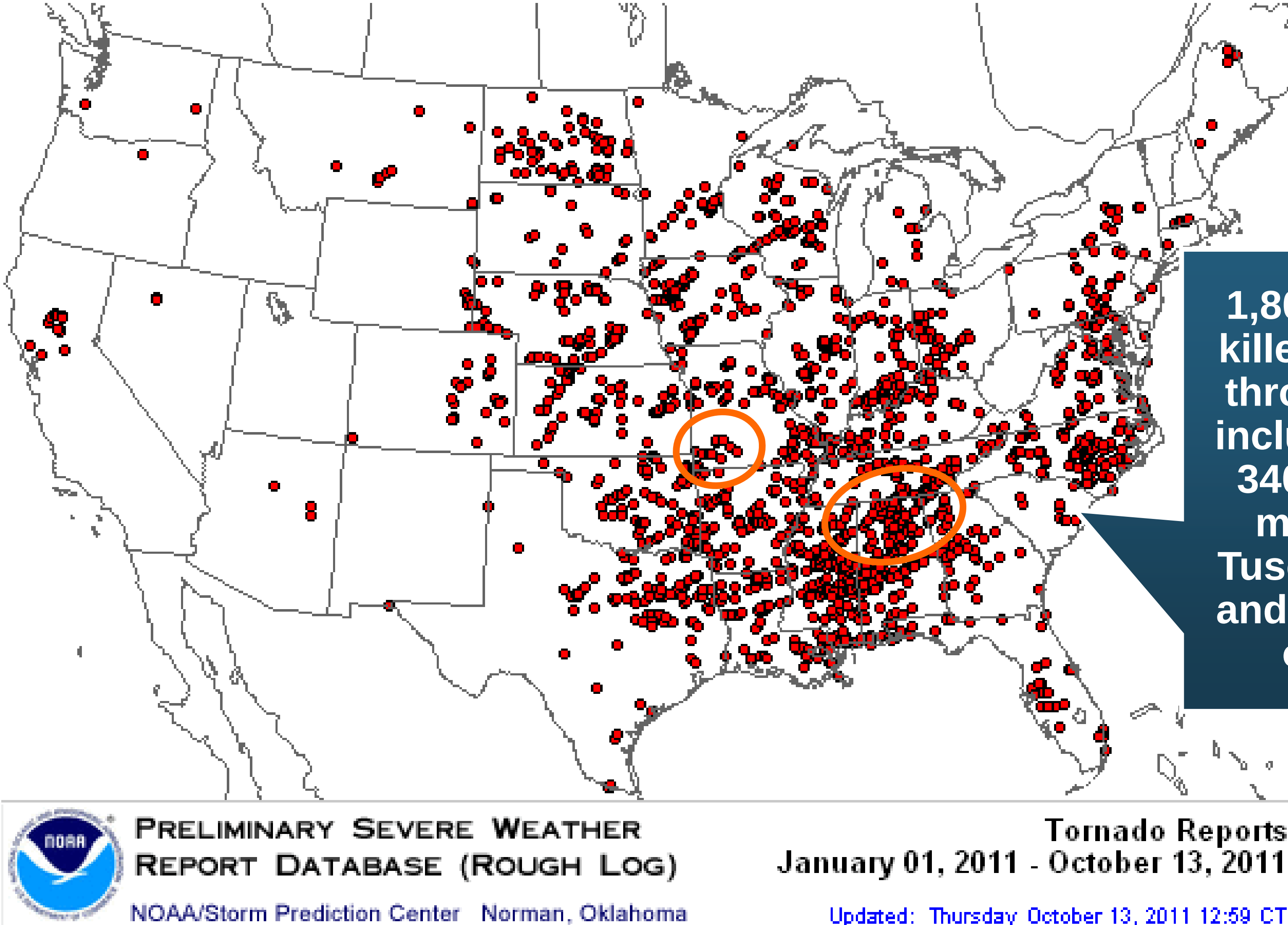
Destroyed home in Tuscaloosa. Insurers will pay some 165,000 claims totaling $2 billion in the Tuscaloosa/ Birmingham areas alone.

Presentation of a check to Tuscaloosa Mayor Walt Maddox to the Tuscaloosa Storm Recovery Fund

Source: Insurance Information Institute

Location of Tornadoes in the US, January 1—October 13, 2011

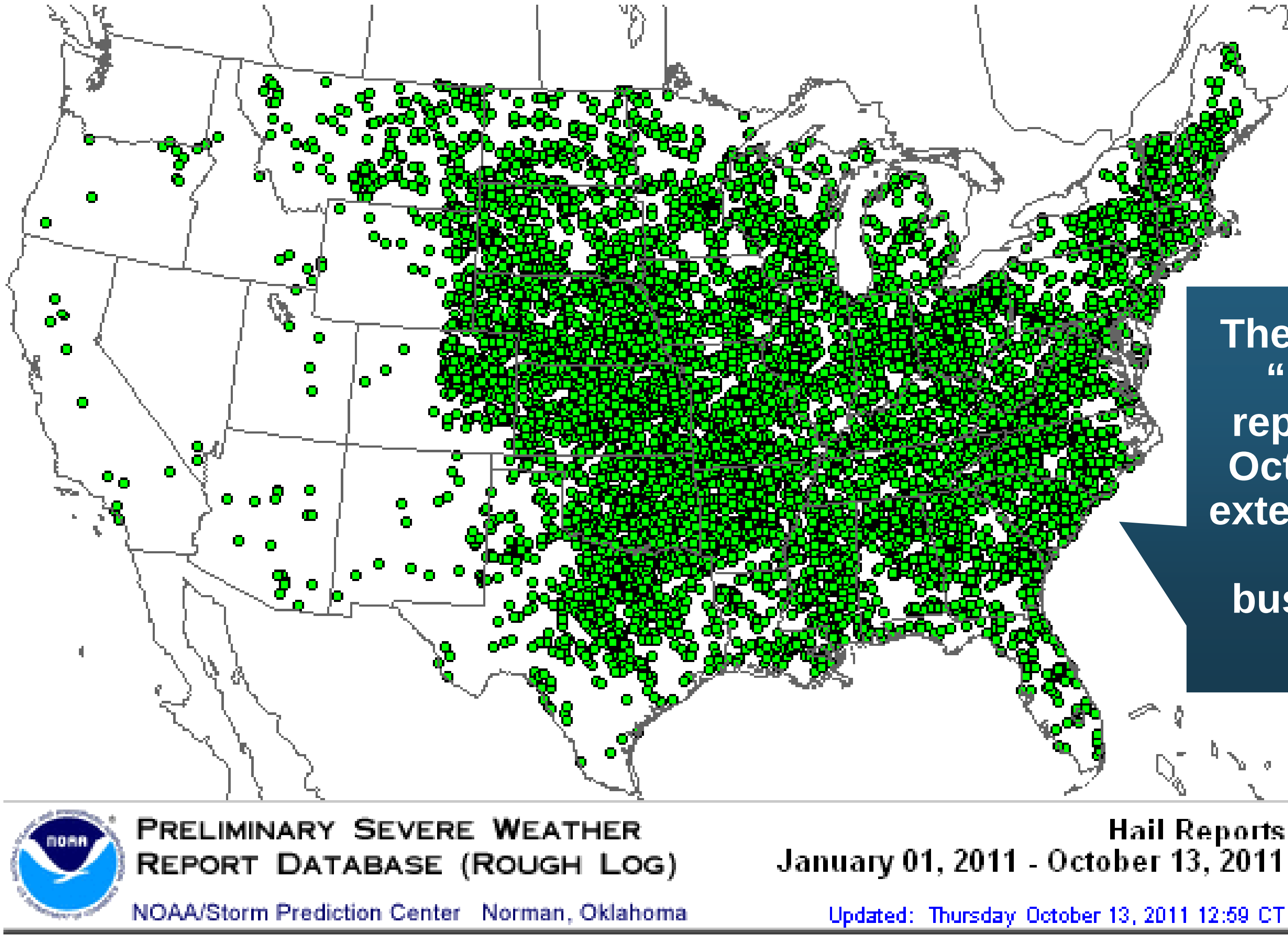
INSURANCE INFORMATION INSTITUTE



1,805 tornadoes killed 546 people through Oct. 13, including at least 340 on April 26 mostly in the Tuscaloosa area, and 130 in Joplin on May 22

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2011_annual_summary.html#

Location of Large Hail Reports in the US, January 1—October 13, 2011

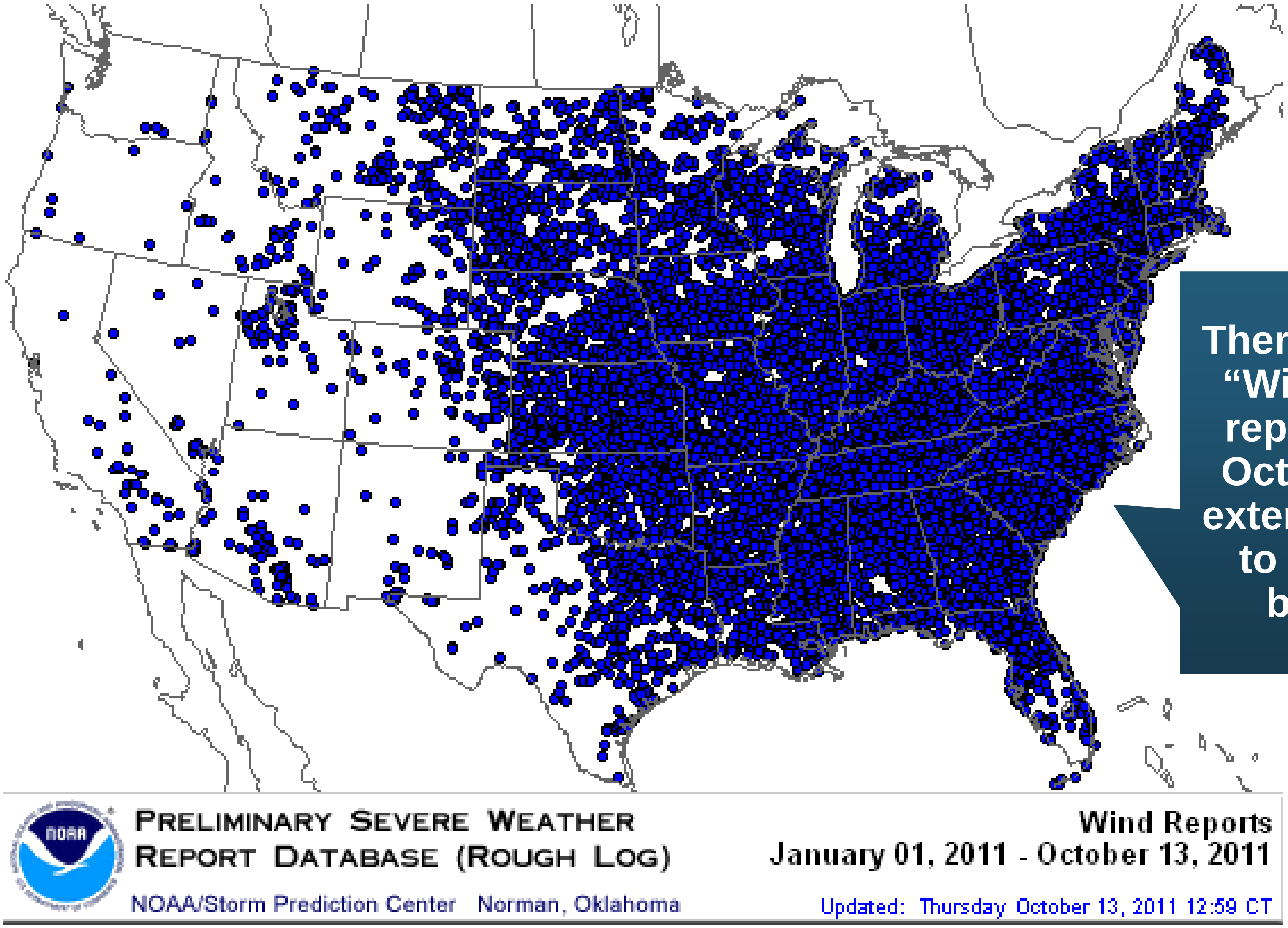


There were 9,287 "Large Hail" reports through Oct. 13, causing extensive damage to homes, businesses and vehicles

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2011_annual_summary.html#

Location of Wind Damage Reports in the US, January 1—Oct. 13, 2011

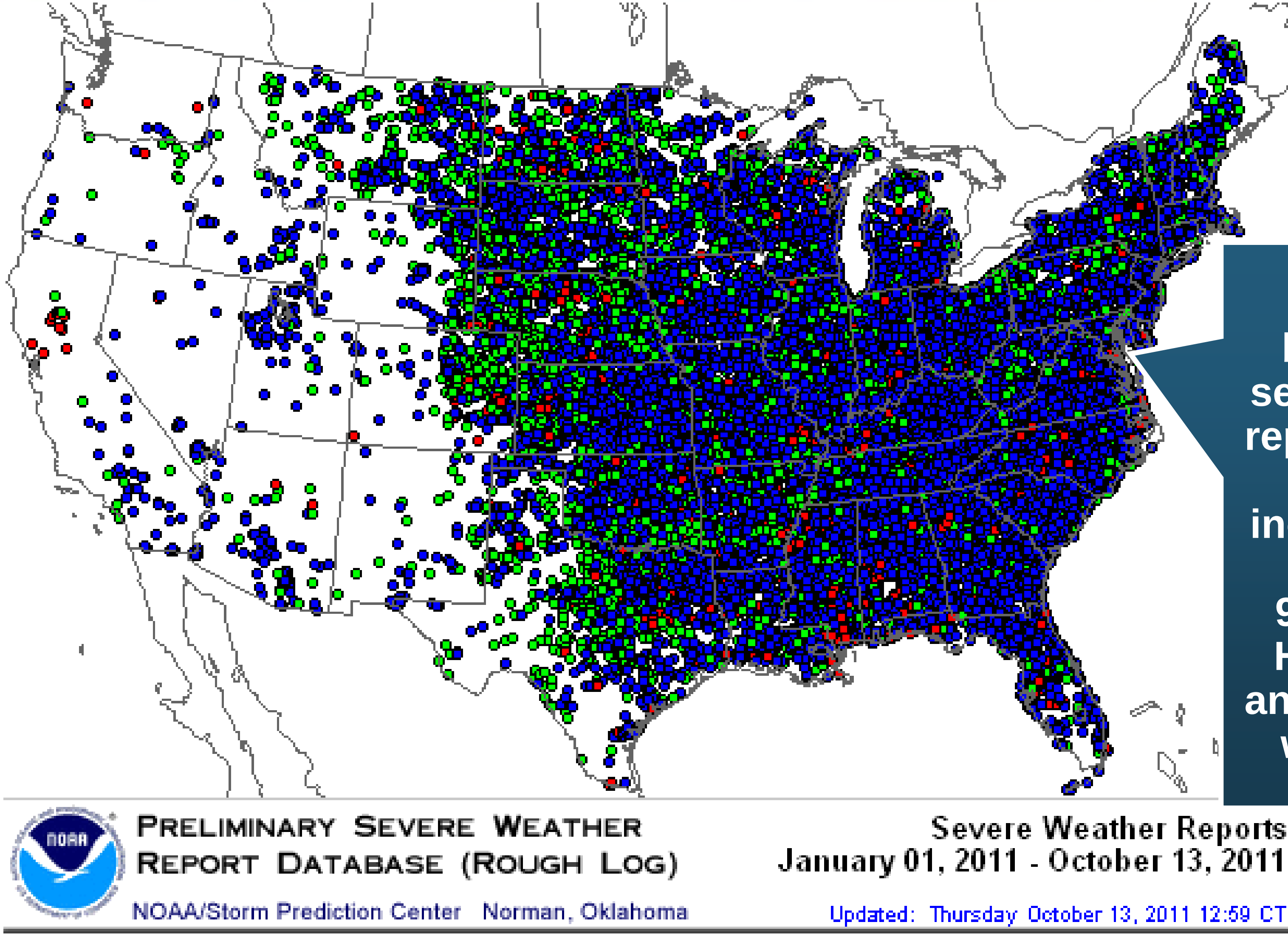
INSURANCE INFORMATION INSTITUTE



There were 18,293 "Wind Damage" reports through Oct. 13, causing extensive damage to homes and, businesses

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2011_annual_summary.html#

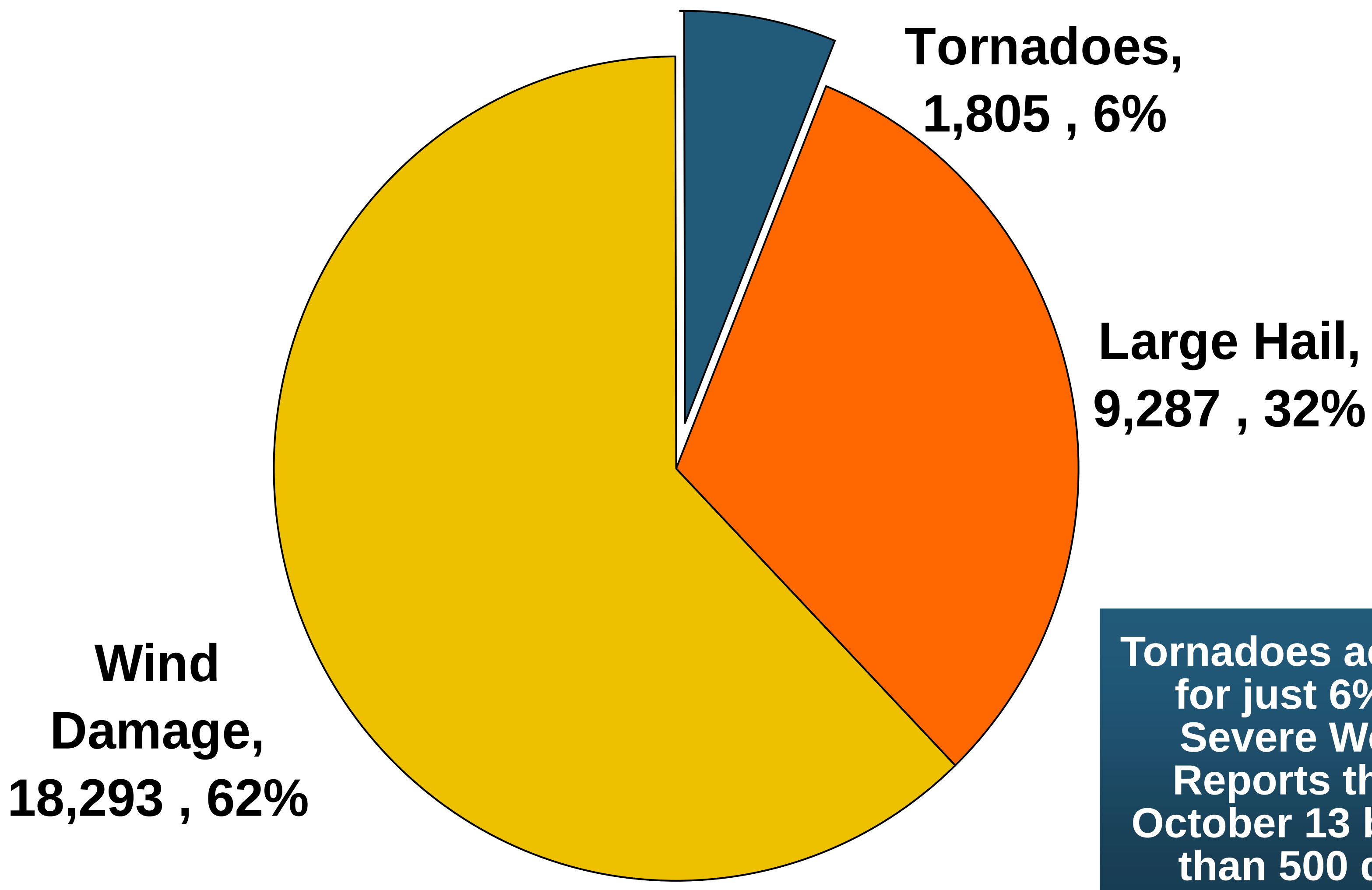
Severe Weather Reports, January 1—October 13, 2011



There have been 29,385 severe weather reports through Oct. 13; including 1,805 tornadoes; 9,287 "Large Hail" reports and 18,293 high wind events

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2011_annual_summary.html#

Number of Severe Weather Reports in US, by Type: January 1—October 13, 2011



Tornadoes accounted for just 6% of all Severe Weather Reports through October 13 but more than 500 deaths

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2011_annual_summary.html#

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New York's Catastrophe Loss History: 2011

NY May Not Be a Gulf Coastal State, but It is No Stranger to Catastrophe

Severe Weather Reports in New York, January 1—November 9, 2011

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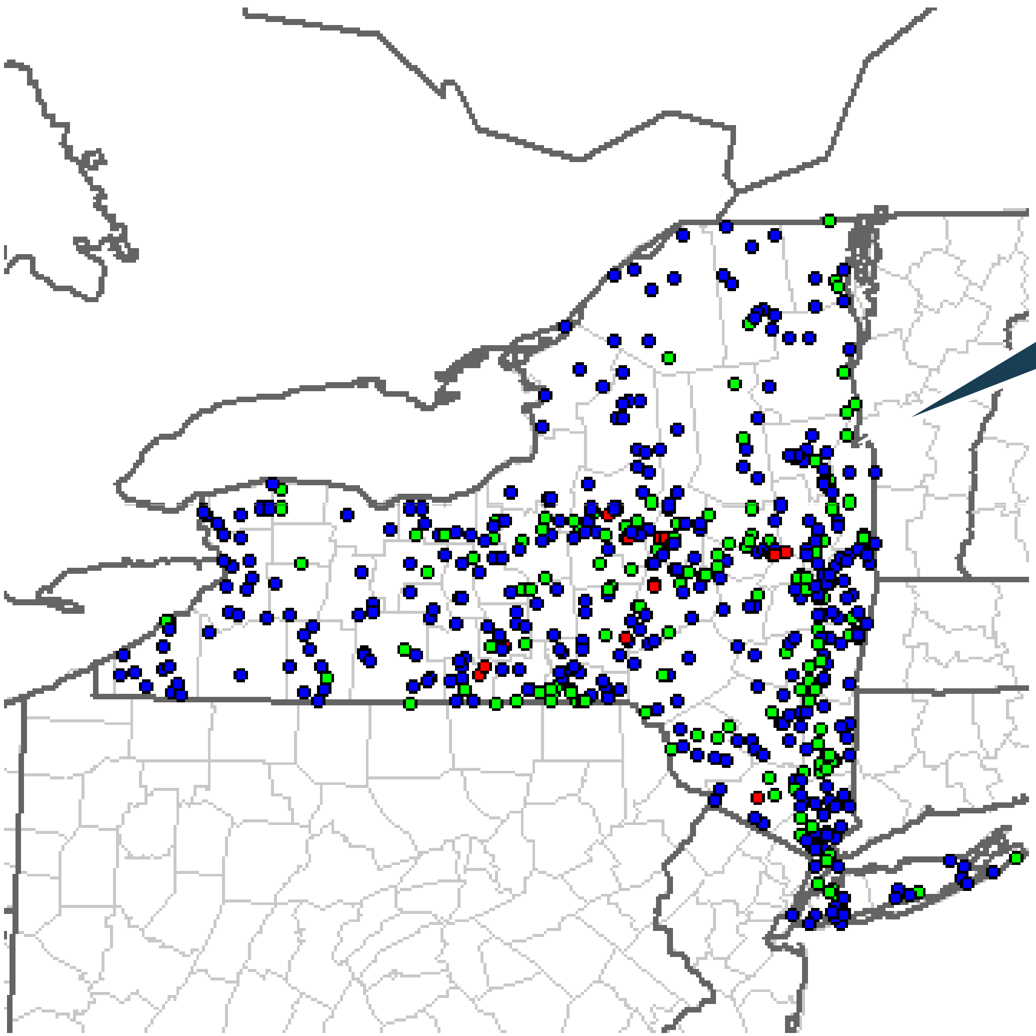

There were 639 severe weather reports in NY through Nov. 9

MN

Total Reports = 639

Tornadoes = 15 (Red)

Hail Reports = 197 (Green)

Wind Reports = 427 (Blue)

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2011_annual_summary.html#

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The BIG Question: When Will the Market Turn?

Are Catastrophes and Other Factors Pressuring Insurance Markets?

Criteria Necessary for a "Market Turn": *All Four Criteria Must Be Met*

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Criteria	Status	Comments
Sustained Period of Large Underwriting Losses	*Early Stage, Inevitable*	•Apart from Q2:2011, overall p/c underwriting losses remain modest •Combined ratios (ex-Q2 CATs) still in low 100s (vs. 110+ at onset of last hard market) •Prior-year reserve releases continue reduce u/w losses, boost ROEs
Material Decline in Surplus/ Capacity	*Entered 2011 At Record High; Since Fallen*	•Surplus hit a record $565B as of 3/31/11 •Fell by 1% in Q2 2011 •Little excess capacity remains in reinsurance markets •Weak growth in demand for insurance is insufficient to absorb much excess capacity
Tight Reinsurance Market	*Somewhat in Place*	•Much of the global "excess capacity" was eroded by cats •Higher prices in Asia/Pacific •Modestly higher pricing for US risks
Renewed Underwriting & Pricing Discipline	*Some Firming in Property, WC*	•Commercial lines pricing trends turning from negative to flat or up in some lines (property, WC) •Competition remains intense as many seek to maintain market share

Sources: Barclays Capital; Insurance Information Institute.

Do the Property Catastrophe Events of 2011 Impact Casualty Markets?

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- Unlikely that Record 2011 Property CAT Loss Will Impact Casualty Markets in Any Material Way, Including Professional Liability Lines
- Global P/C & Reinsurance Industries Entered 2011 w/ Record Capital
  - Events so far in 2011 are earnings events, rather than capital events
- Natural Catastrophe and Casualty Risks Are Largely Uncorrelated
  - Risks are different
  - Geographically, mostly distinct primary carriers: Japan-Australia-NZ-US
  - Casualty markets generally don’t influence property markets
- Property and Casualty Risks Are Largely Siloed
- Record Property Losses in 2004/2005 Did Not Impact Casualty Mkts.
- Casualty Markets Have Their Own Issues
  - Tort environment
  - Inflation
  - Public policy

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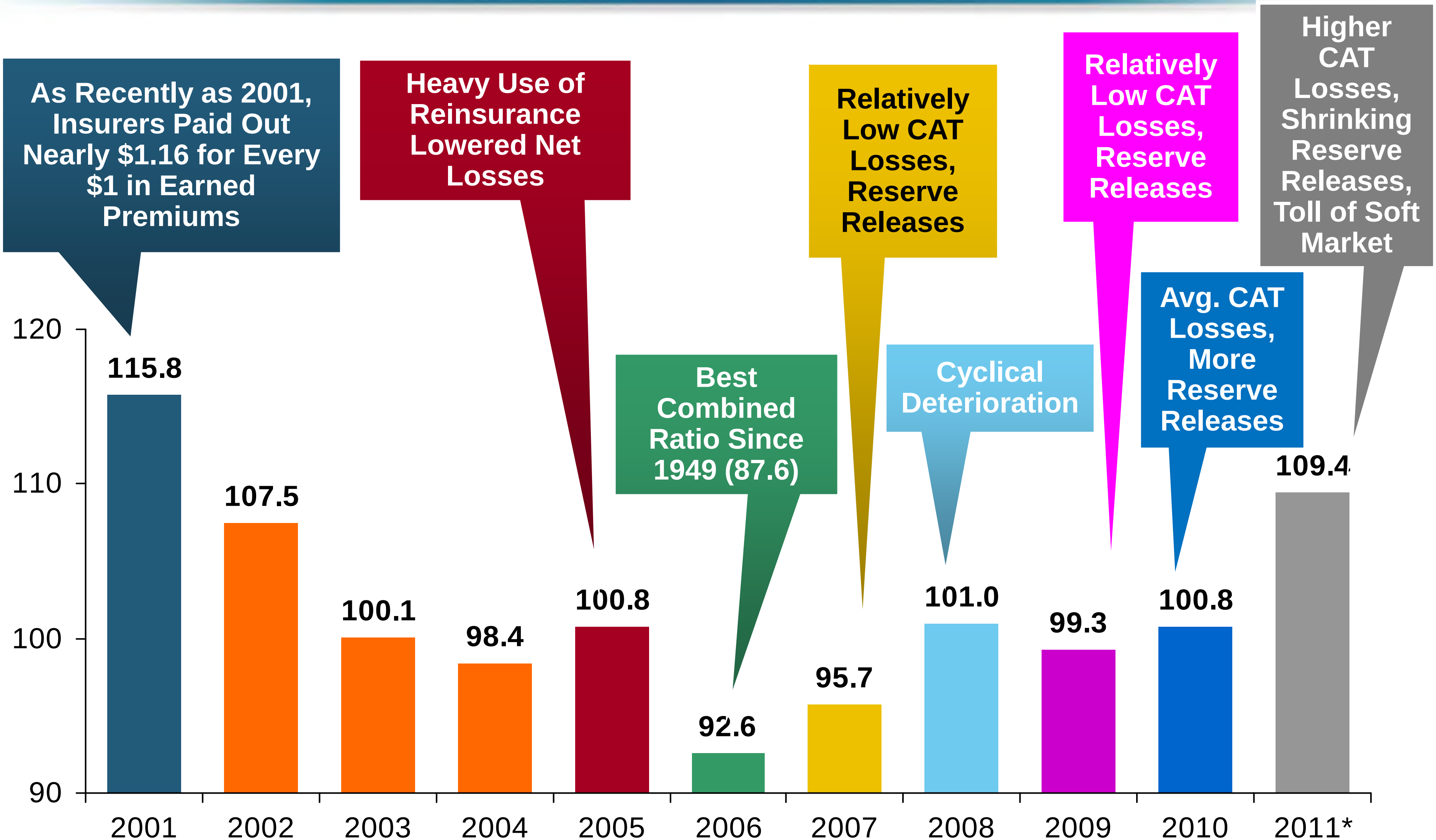
1. UNDERWRITING

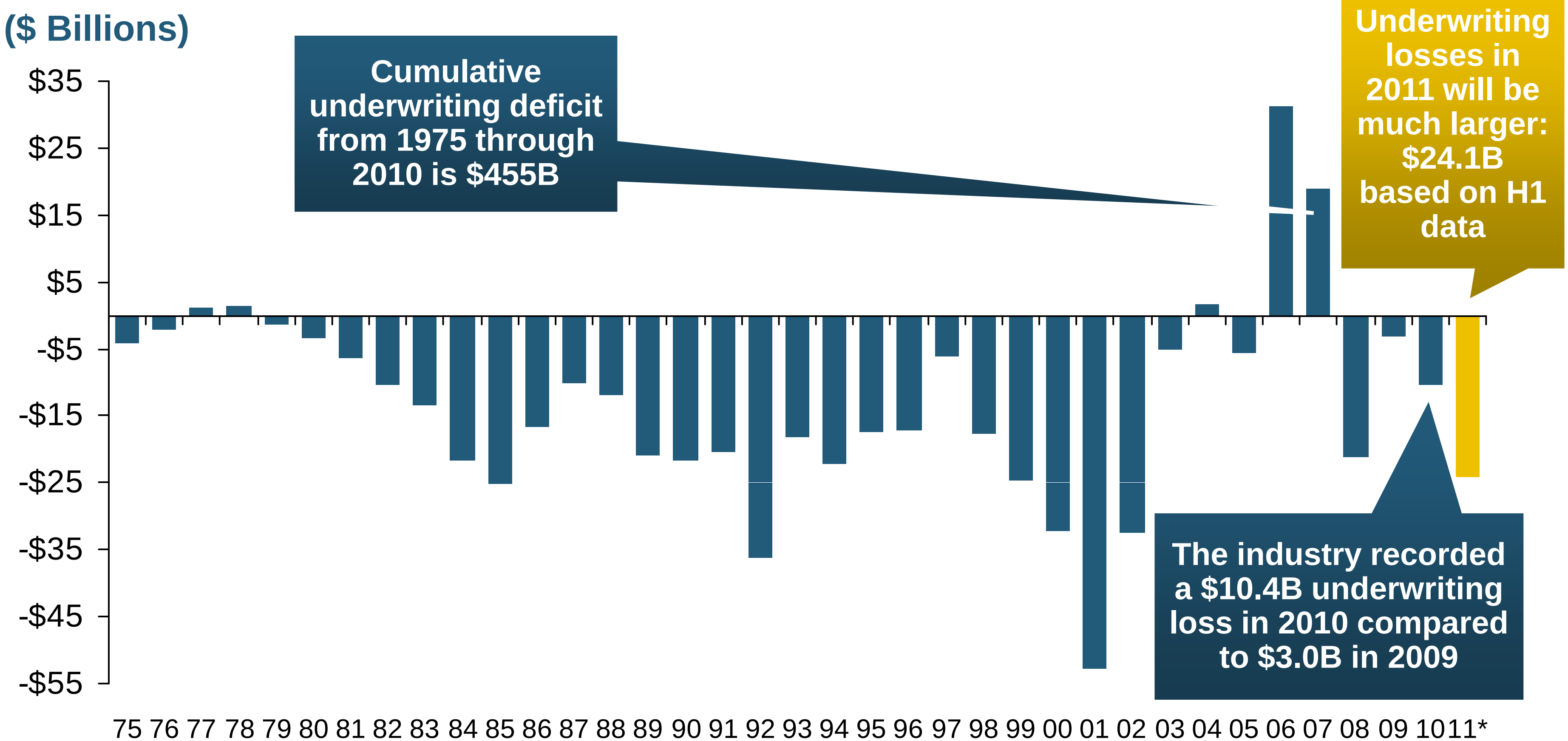
Have Underwriting Losses Been Large Enough for Long Enough to Turn the Market?

P/C Insurance Industry Combined Ratio, 2001–2011:H1*



* Excludes Mortgage & Financial Guaranty insurers 2008--2011. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=110.5
Sources: A.M. Best, ISO.; III Estimated for 2011:H1 (Q1 actual ex-M&FG was 102.2).

Underwriting Gain (Loss) 1975–2011*



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

* Includes mortgage and financial guaranty insurers in all years. 2011 figure is actual H1 underwriting losses of $24.098 billion.

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

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

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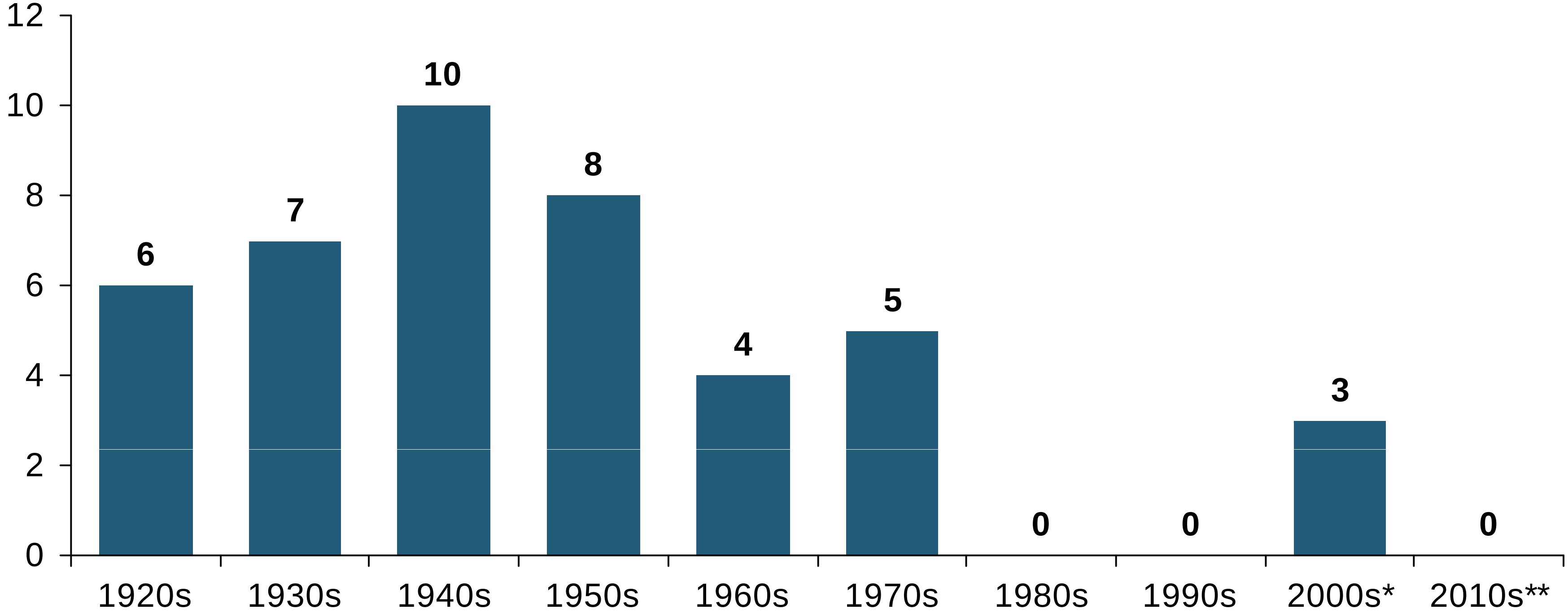
Number of Years with Underwriting Profits



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

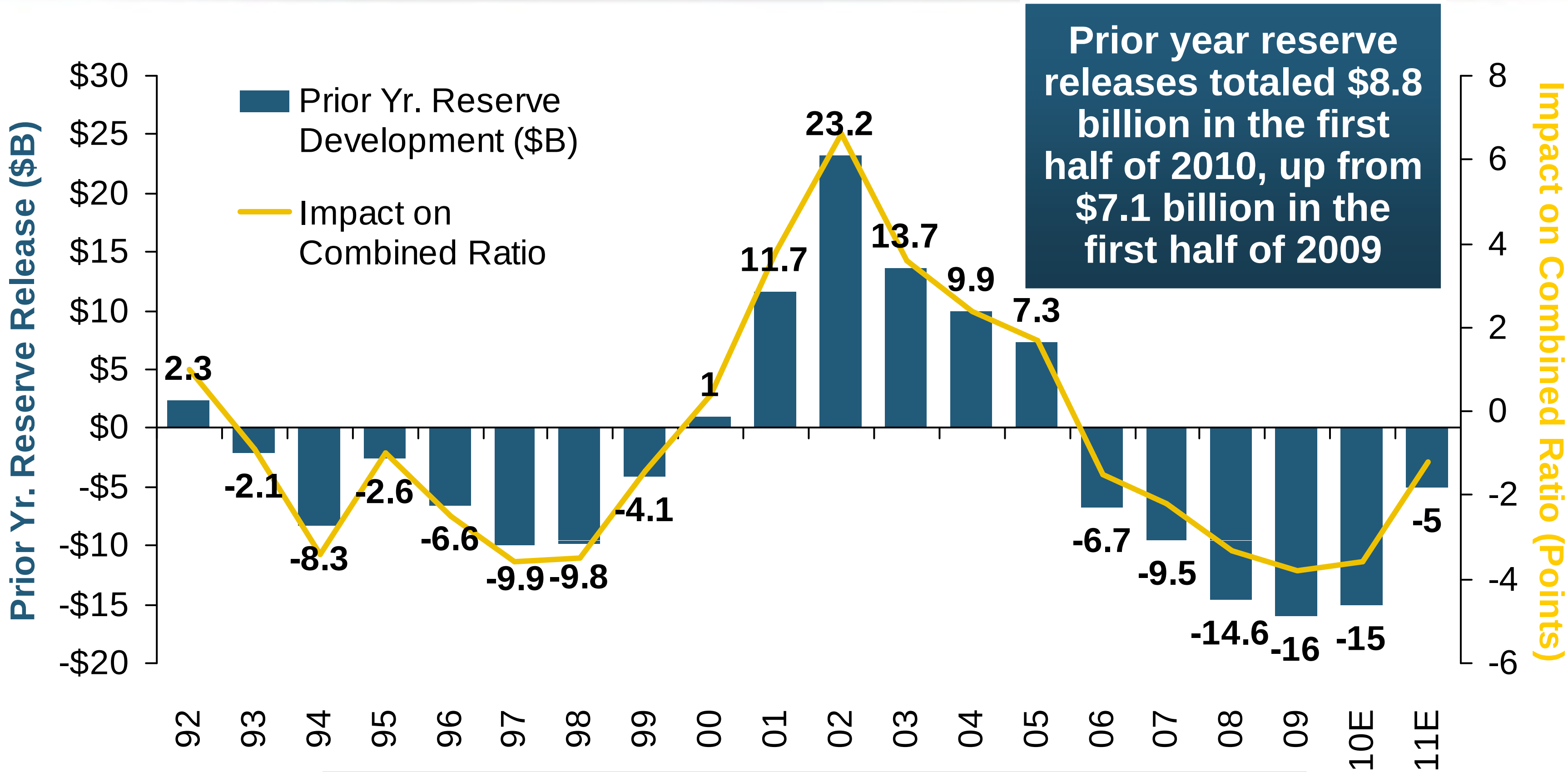
total to 4 years with an underwriting profit.

**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.

P/C Reserve Development, 1992–2011E



Reserve Releases Are Remained Strong in 2010 But Should Begin to Taper Off in 2011

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: Barclay's Capital; A.M. Best.

Financial Strength & Underwriting

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

P/C Insurer Impairments, 1969–2010

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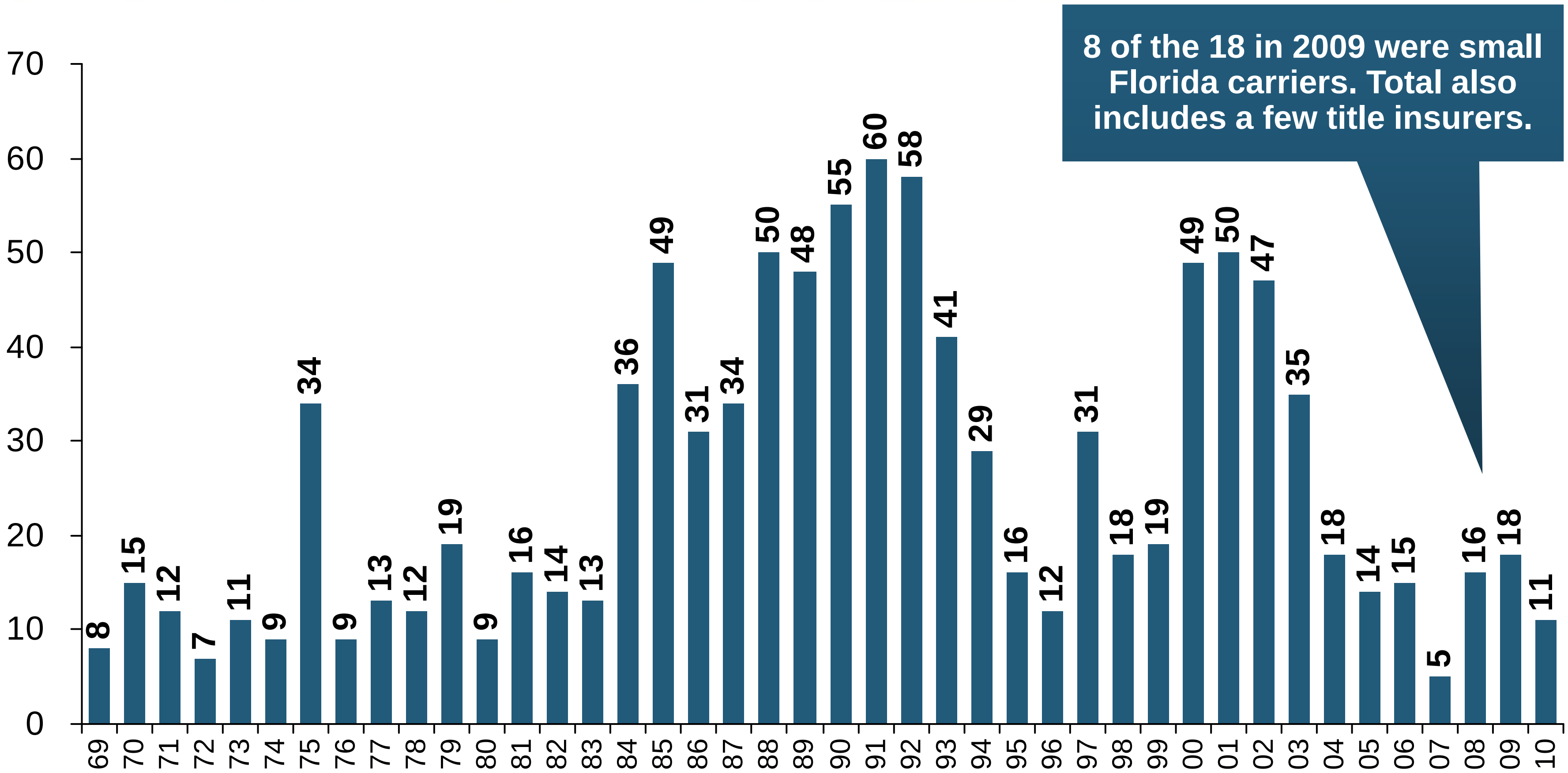
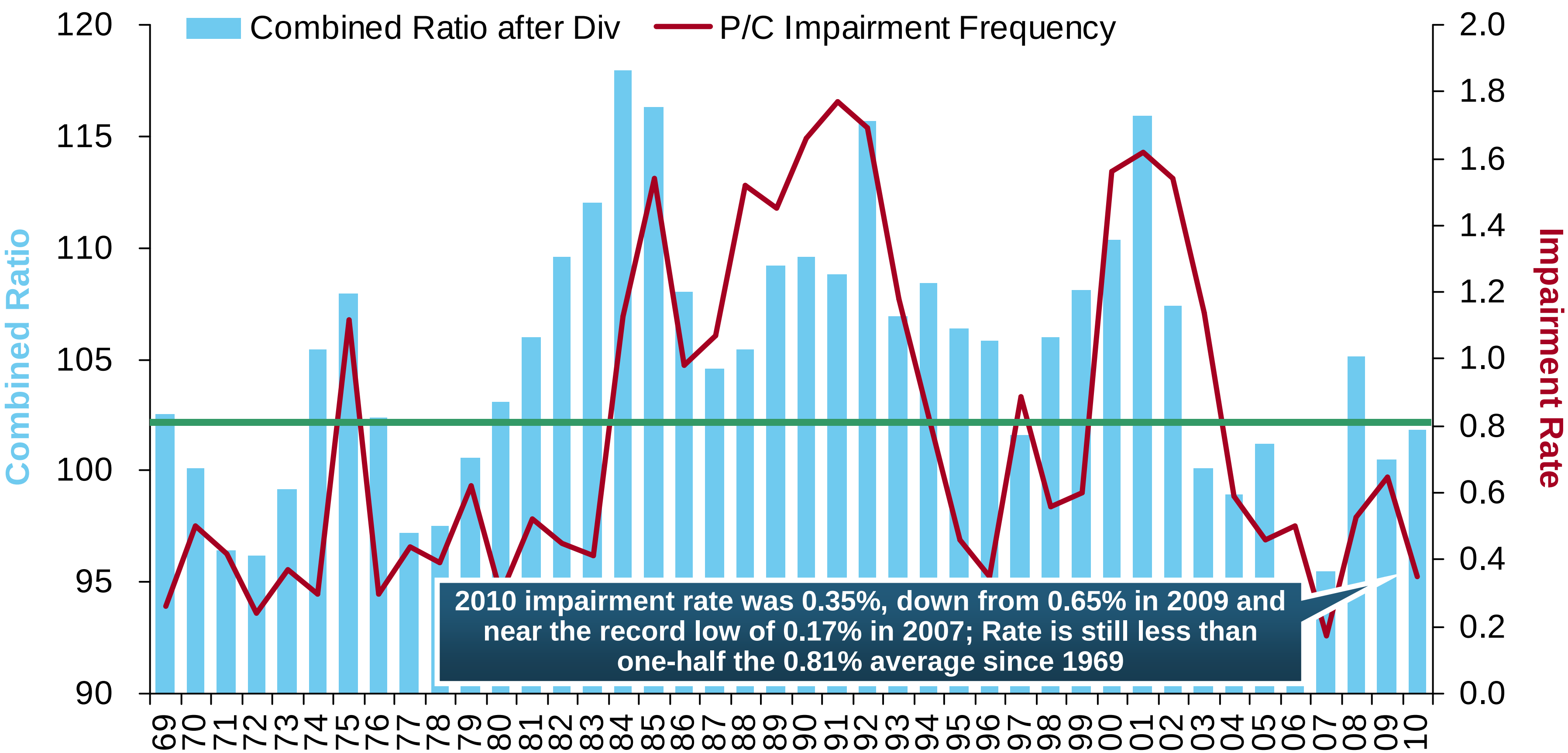


The Number of Impairments Varies Significantly Over the P/C Insurance Cycle, With Peaks Occurring Well into Hard Markets

Source: A.M. Best Special Report "1969-2010 Impairment Review," June 21, 2010; Insurance Information Institute.

P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2010



Impairment Rates Are Highly Correlated With Underwriting Performance and Reached Record Lows in 2007

Source: A.M. Best; Insurance Information Institute

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

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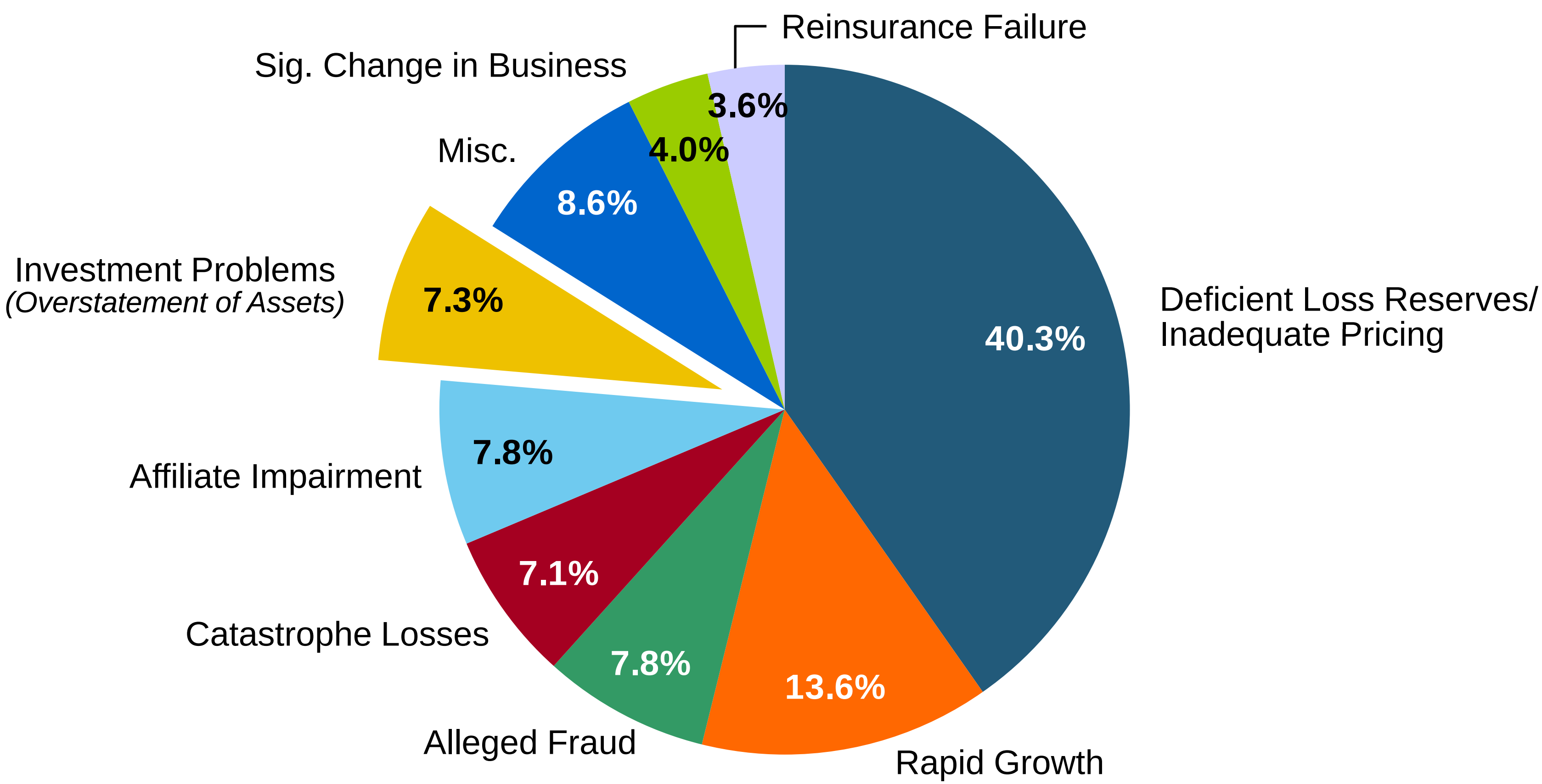
Historically, Deficient Loss Reserves and Inadequate Pricing Are By Far the Leading Cause of P-C Insurer Impairments. Investment and Catastrophe Losses Play a Much Smaller Role



Source: A.M. Best: *1969-2010 Impairment Review*, Special Report, April 2011.

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

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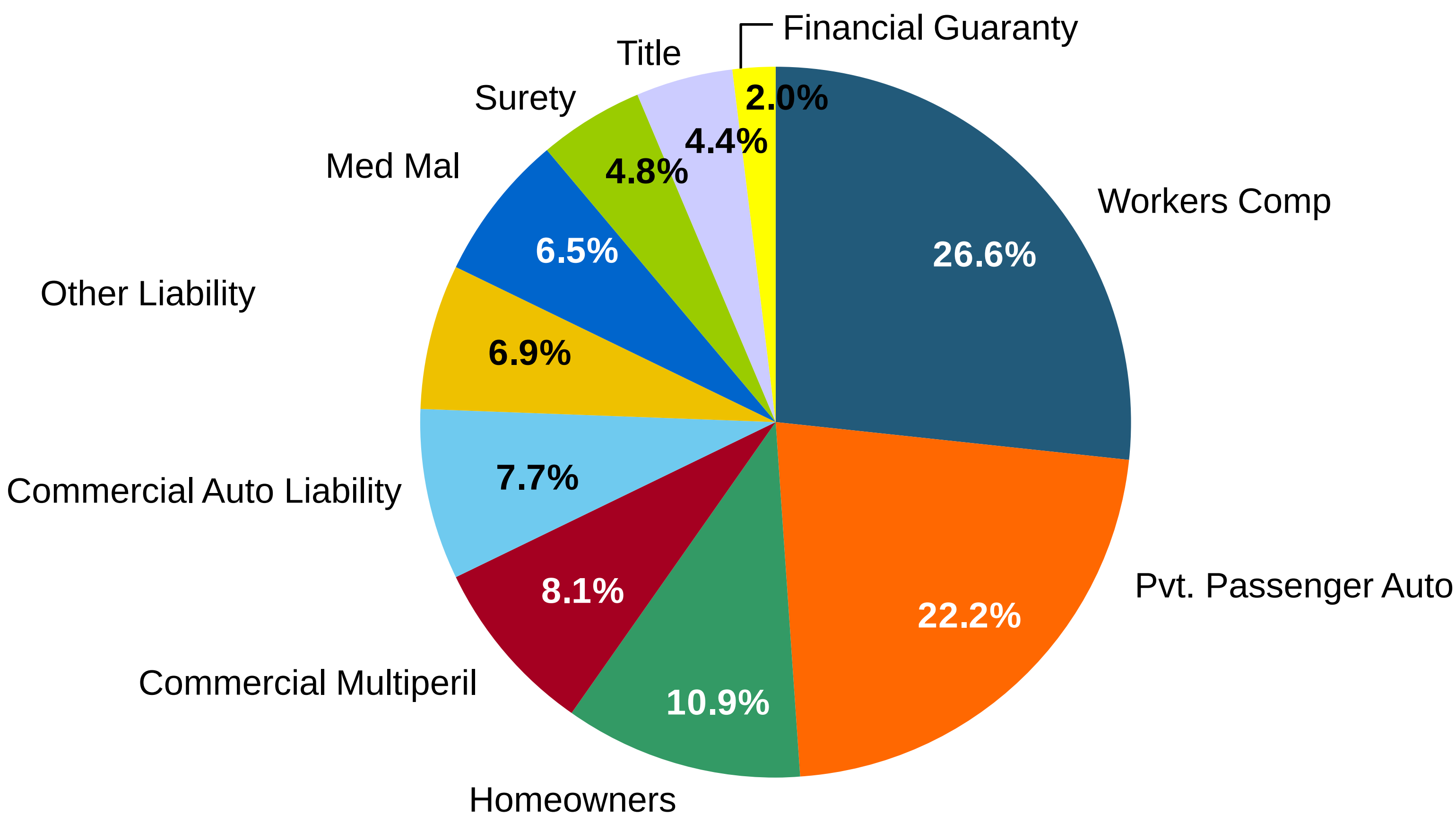
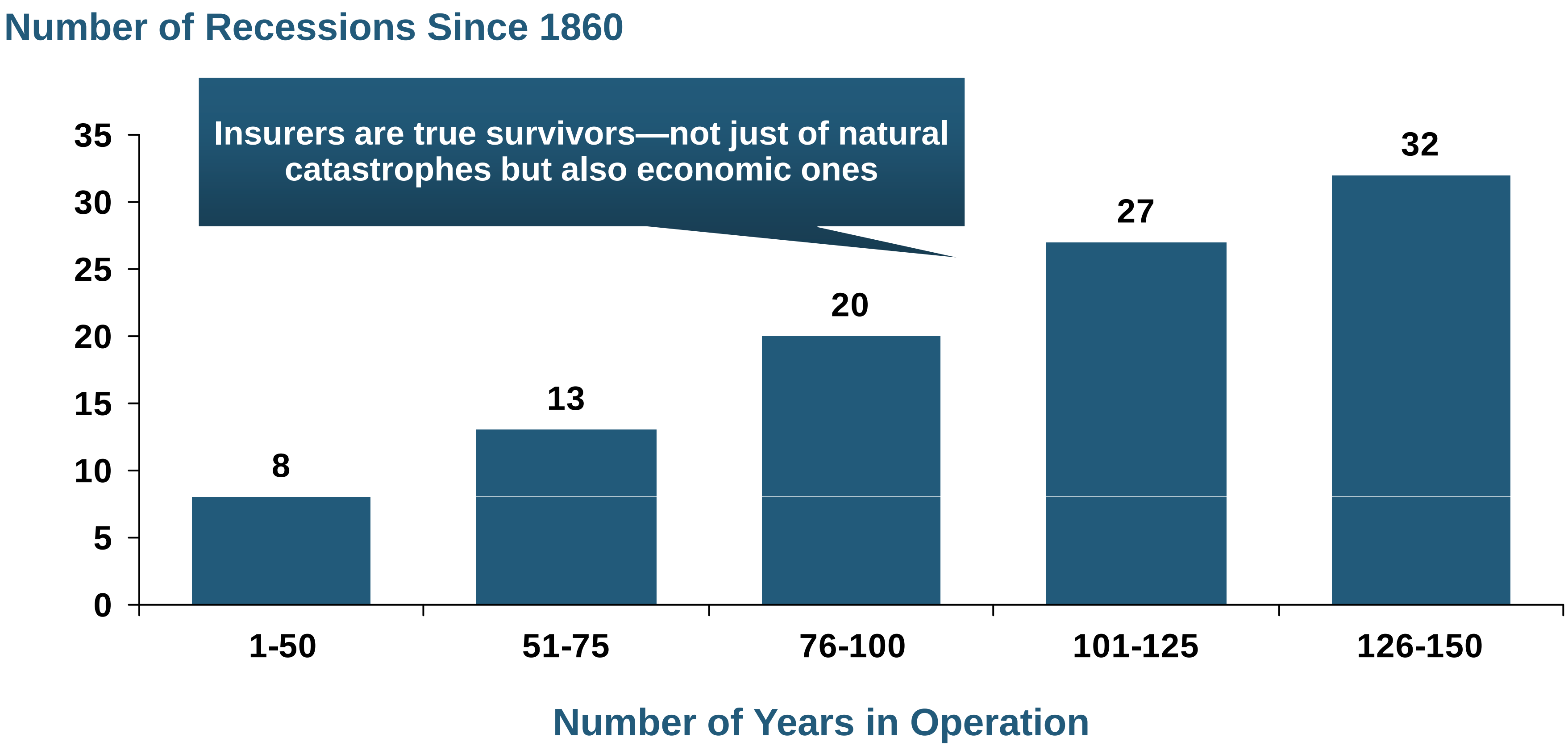
Workers Comp and Pvt. Passenger Auto Account for Nearly Half of the Premium Volume of Impaired Insurers Over the Past Decade



Source: A.M. Best: *1969-2010 Impairment Review*, Special Report, April 2011.

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



Many US Insurers Are Close to a Century Old or Older

Sources: Insurance Information Institute research from National Bureau of Economic Research data.

Performance by Segment: Commercial Lines

Homeowners Insurance Combined Ratio: 1990–2011P

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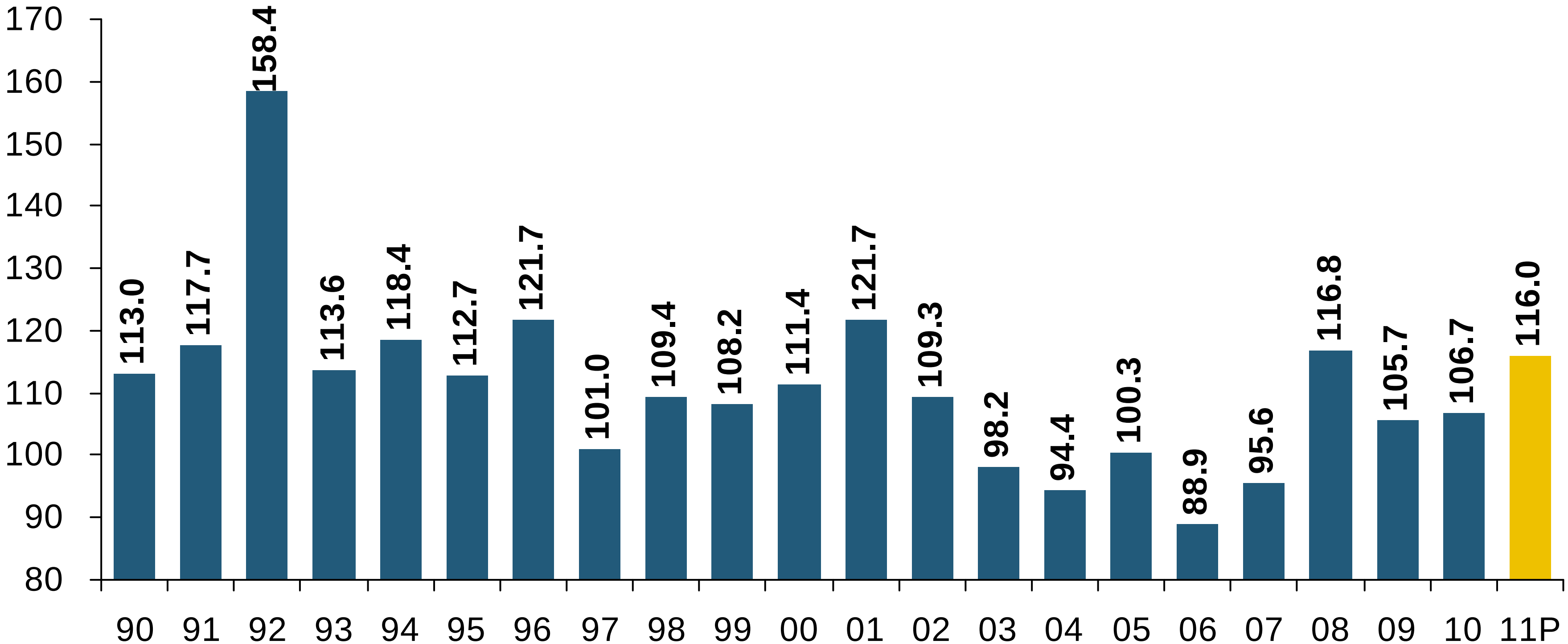

Homeowners Line Could Deteriorate in 2011 Due to Large Cat Losses. Extreme Regional Variation Can Be Expected Due to Local Catastrophe Loss Activity

Sources: A.M. Best (1990-2010); Insurance Information Institute (2011P).

Private Passenger Auto Combined Ratio: 1993–2011P

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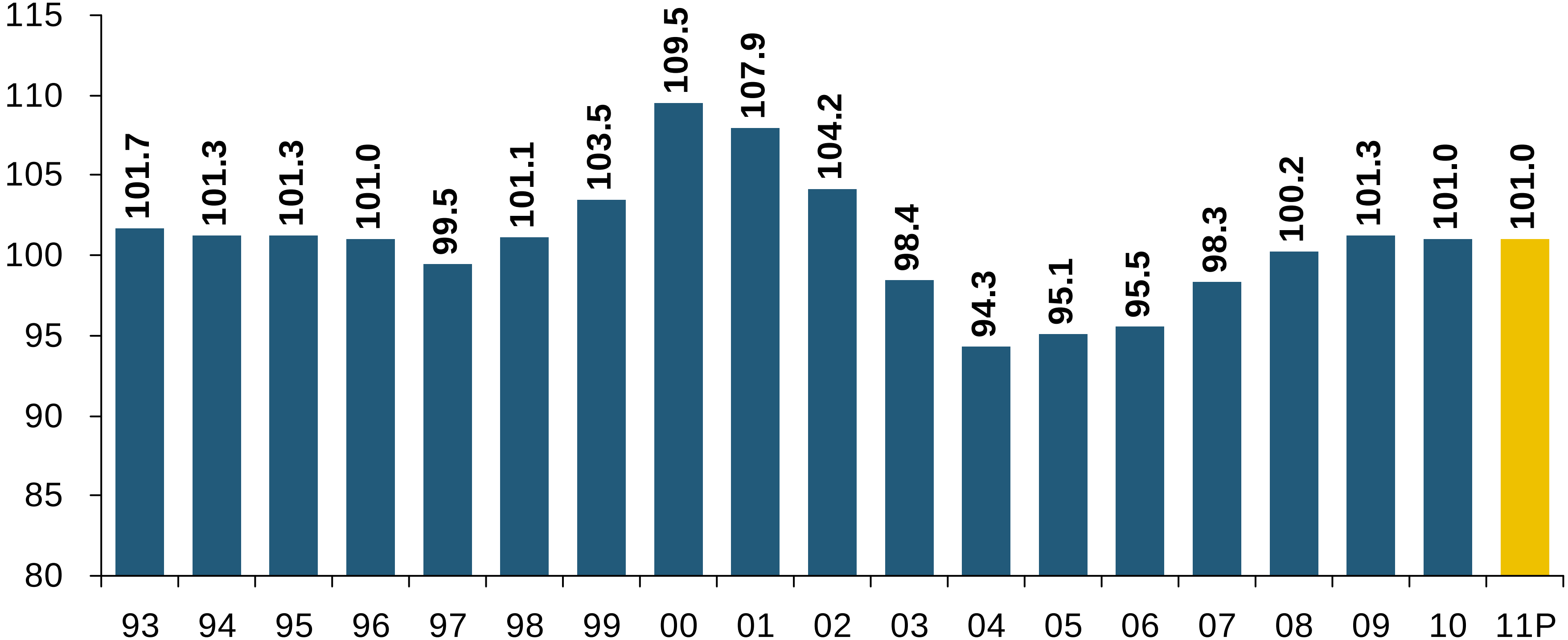
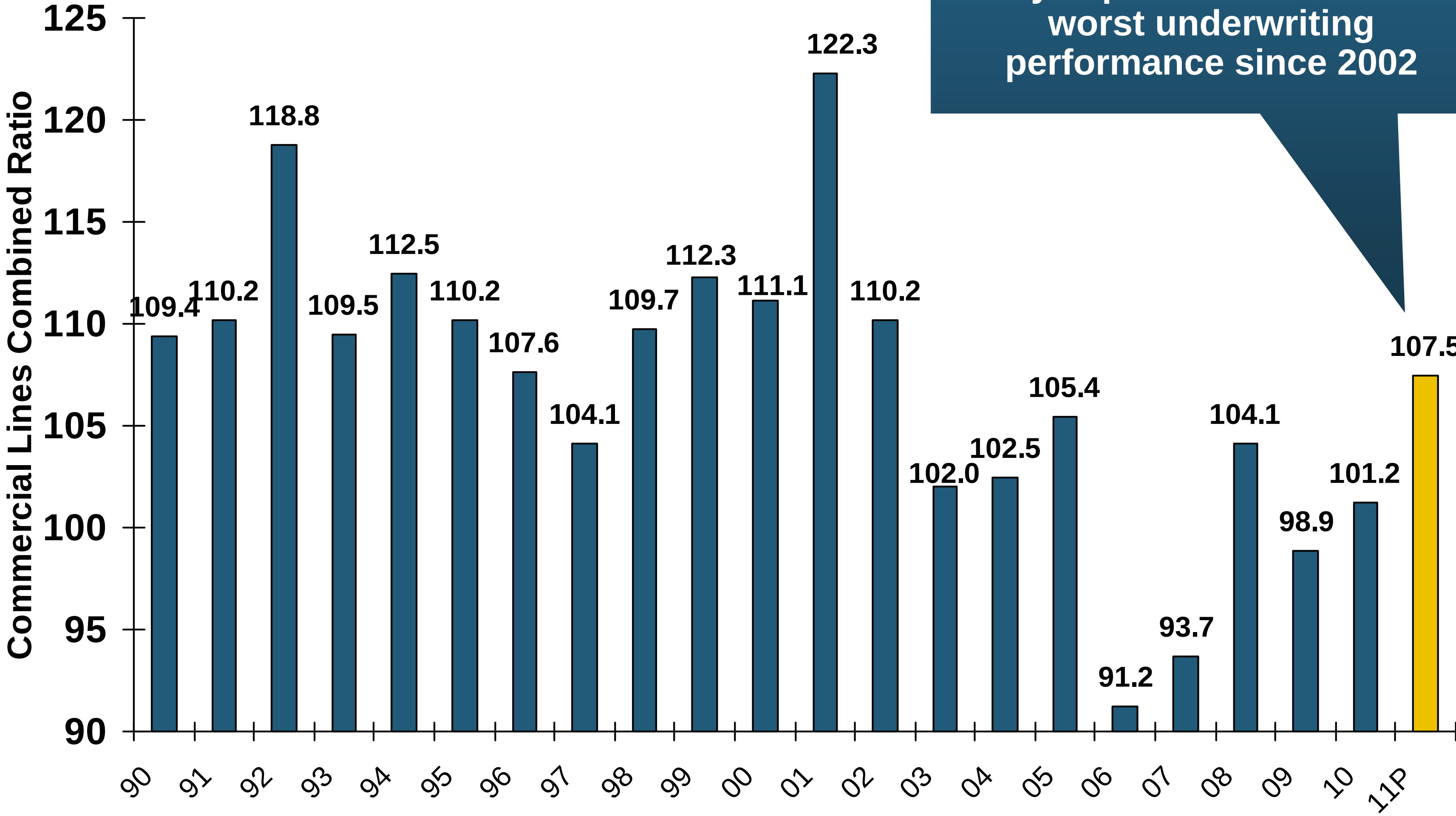


Private Passenger Auto Accounts for 34% of Industry Premiums and Remains the Profit Juggernaut of the P/C Insurance Industry

Sources: A.M. Best (1990-2010); Insurance Information Institute (2011P).

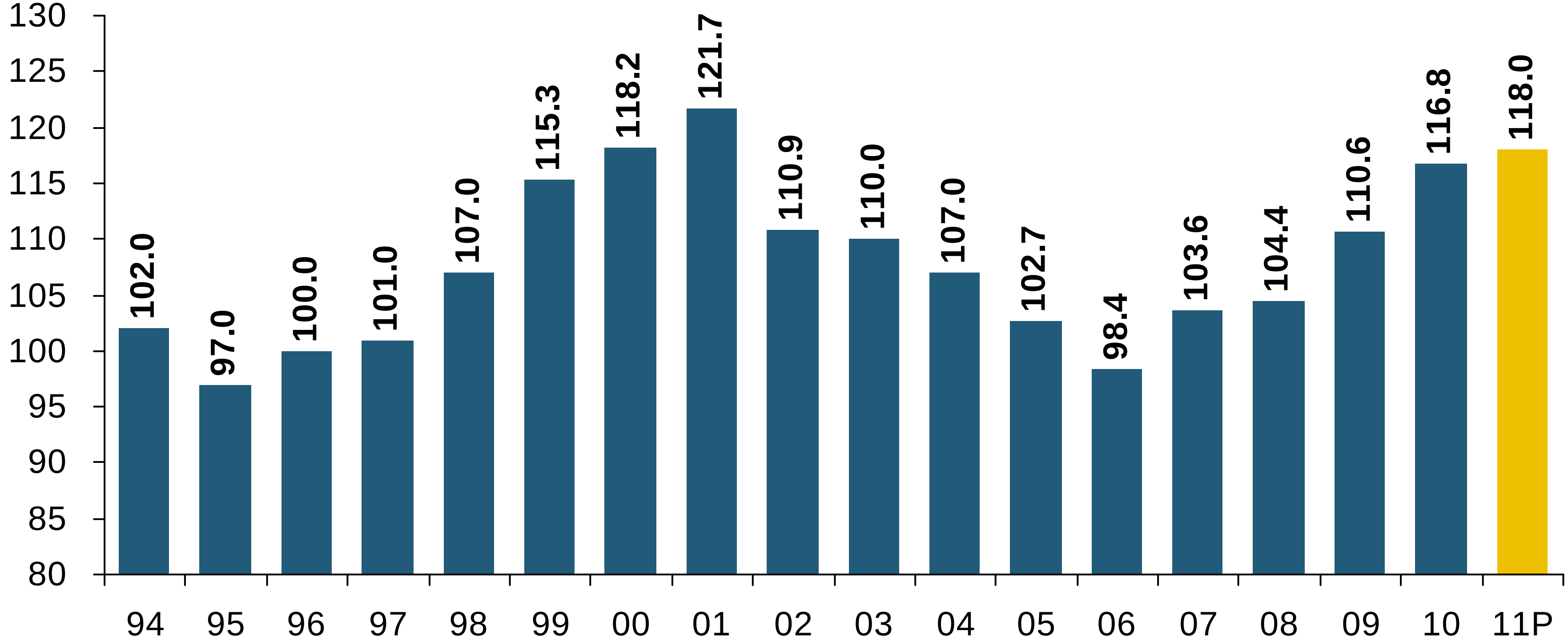
Commercial Lines Combined Ratio, 1990-2011P

Commercial lines in 2011 will likely experience record their worst underwriting performance since 2002



Source: 2011 RIMS Benchmark Survey; A.M. Best; Insurance Information Institute

Workers Compensation Combined Ratio: 1994–2011P



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

Sources: A.M. Best (1994-2010); Insurance Information Institute (2011P).

2. SURPLUS/CAPITAL/CAPACITY

Have Large Global Losses Reduced Capacity in the Industry, Setting the Stage for a Market Turn?

US Policyholder Surplus: 1975–2011*

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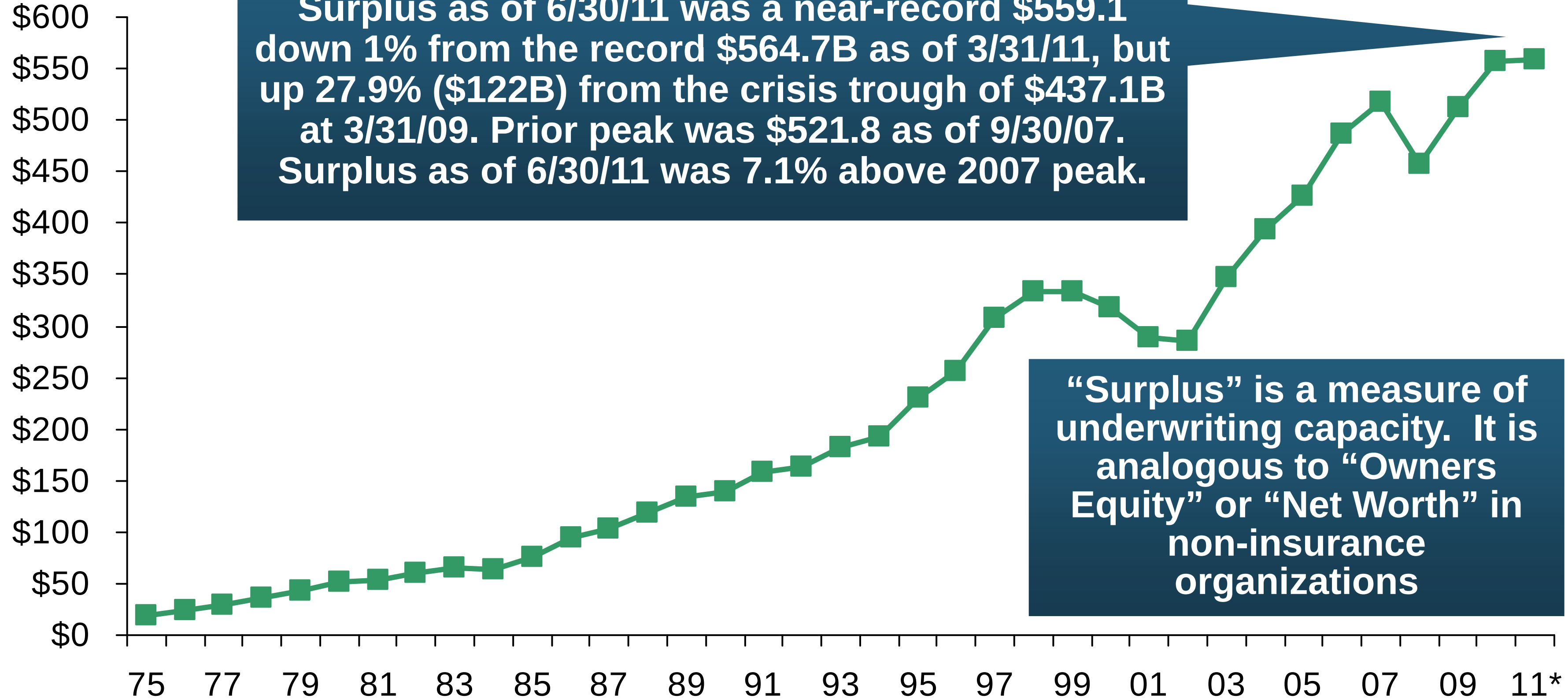
($ Billions)



Surplus as of 6/30/11 was a near-record $559.1 down 1% from the record $564.7B as of 3/31/11, but up 27.9% ($122B) from the crisis trough of $437.1B at 3/31/09. Prior peak was $521.8 as of 9/30/07. Surplus as of 6/30/11 was 7.1% above 2007 peak.

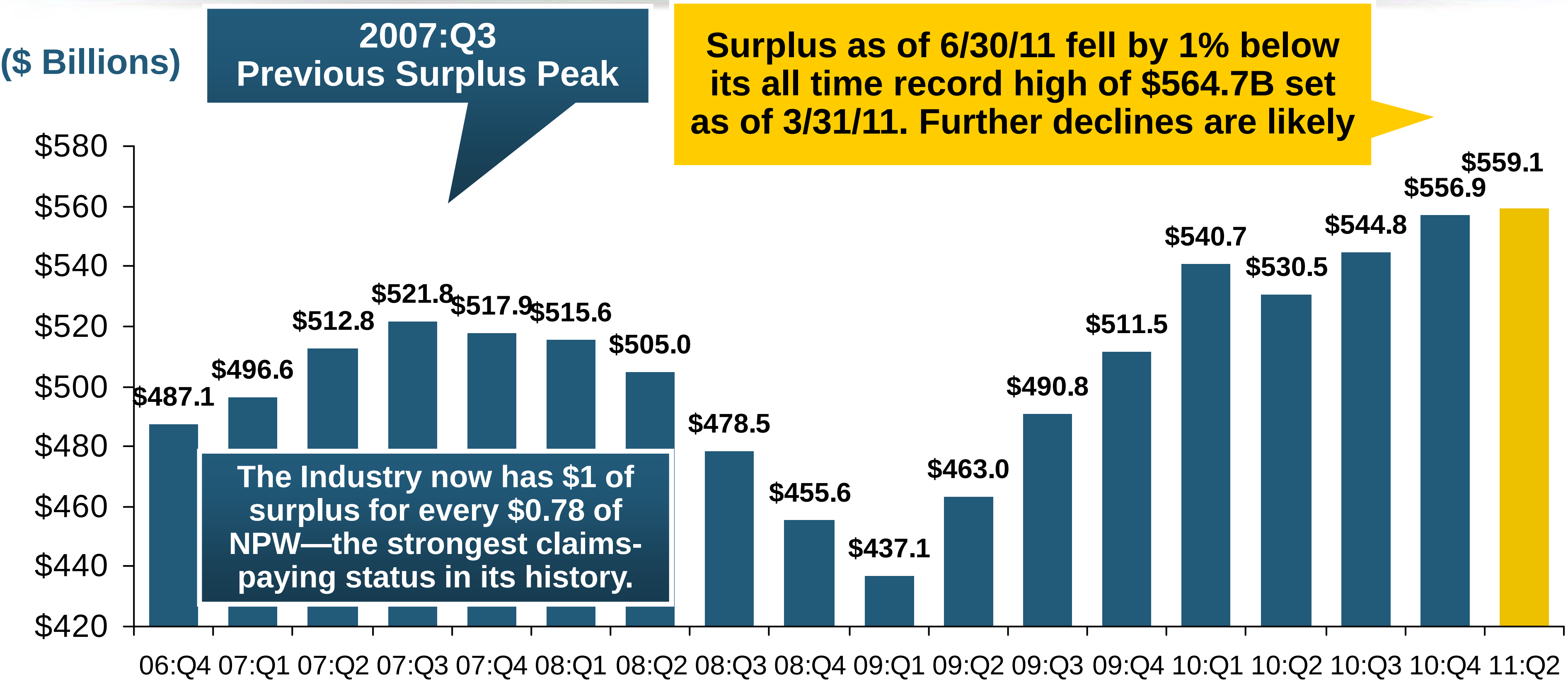
"Surplus" is a measure of underwriting capacity. It is analogous to "Owners Equity" or "Net Worth" in non-insurance organizations

The Premium-to-Surplus Ratio Stood at $0.78:$1 as of 6/30/11, A Near Record Low (at Least in Recent History)**

* As of 6/30/11.

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

Policyholder Surplus, 2006:Q4–2011:Q2

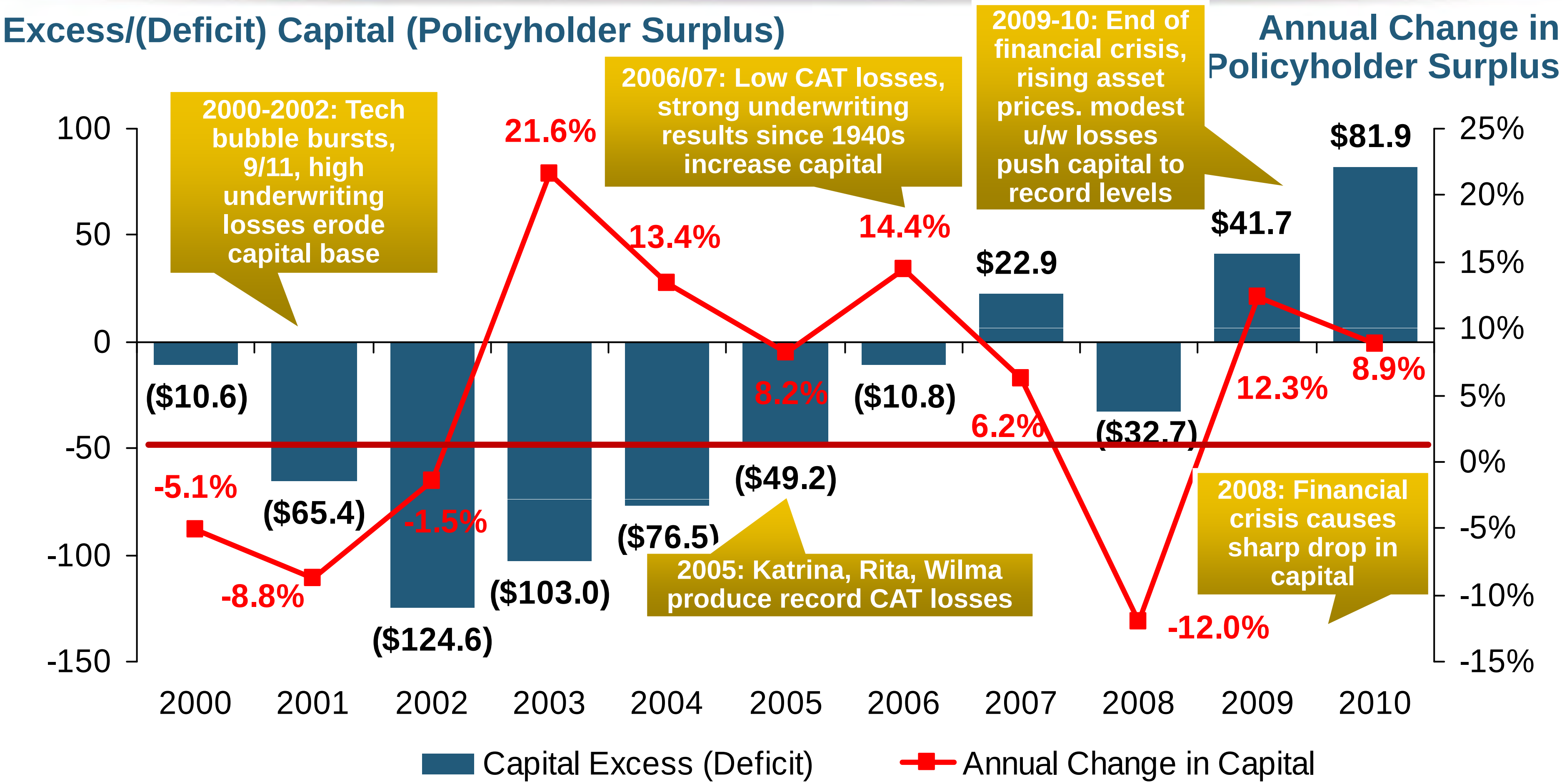


*Includes $22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business in early 2010.

Quarterly Surplus Changes Since 2007:Q3 Peak	
09:Q1: -$84.7B (-16.2%)	10:Q2: +$8.7B (+1.7%)
09:Q2: -$58.8B (-11.2%)	10:Q3: +$23.0B (+4.4%)
09:Q3: -$31.0B (-5.9%)	10:Q4: +$35.1B (+6.7%)
09:Q4: -$10.3B (-2.0%)	11:Q1: +$42.9B (+8.2%)
10:Q1: +$18.9B (+3.6%)	11:Q2: +37.3B (+7.1%)

Sources: ISO, A.M .Best.

Implied Excess (Deficit) Capital Assuming Premium/Surplus Ratio = 0.9:1

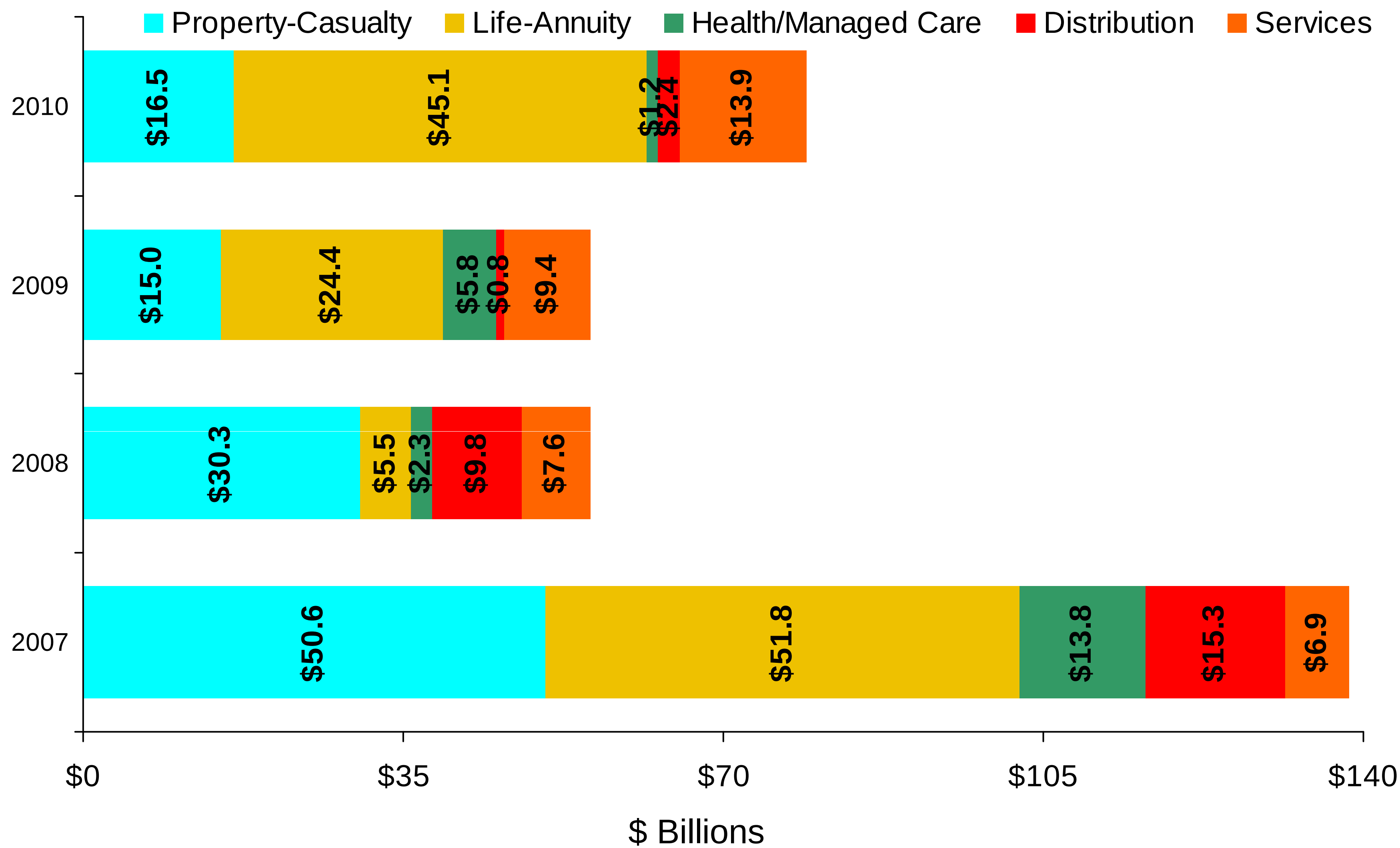


Record Policyholder Surplus (Capital) Has Resulted Significant Excess Capital in the P/C Insurance Sector As of Year End 2010. Deteriorating Underwriting Losses, Higher CAT Activity, More Modest Market Returns Will Likely Shrink Excess Capital in 2011.

Note: The assumption of a 0.9:1 P/S ratio is derived from a Feb. 2011 announcement by Advisen, Ltd., that the US P/C insurance industry has $74 billion in excess capital. The implied P/S ratio (calculated by III) is 0.88:1, which was rounded to 0.9:1.
Source: Insurance Information Institute calculations from A.M. Best and ISO data.

* Net Premiums Written

M&A Activity Globally Among P/C Insurers Remains Subdued: Little Capacity Leaving



Sources: Conning Research; Insurance Information Institute.

Paid-in Capital, 2005–2010

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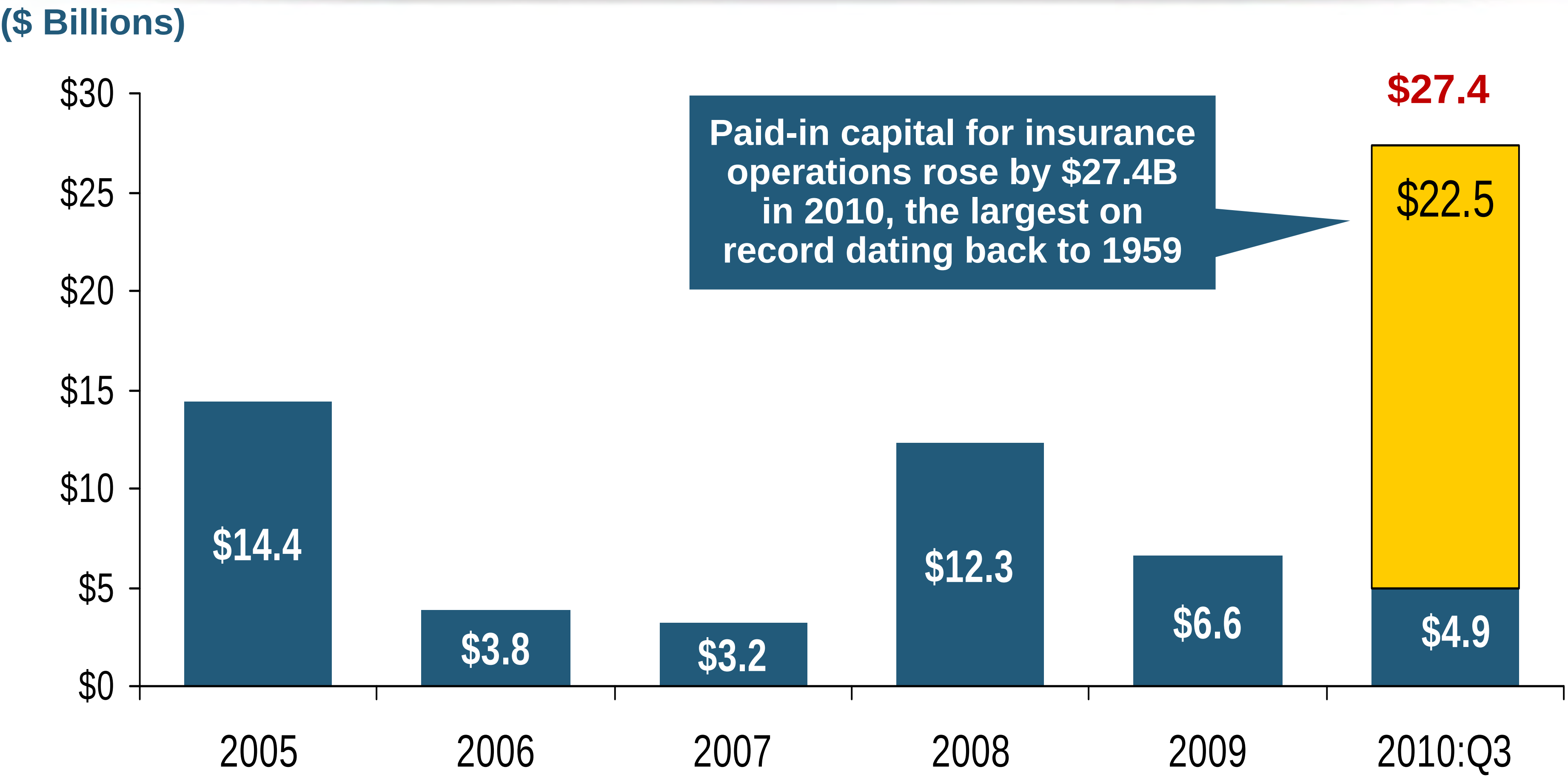
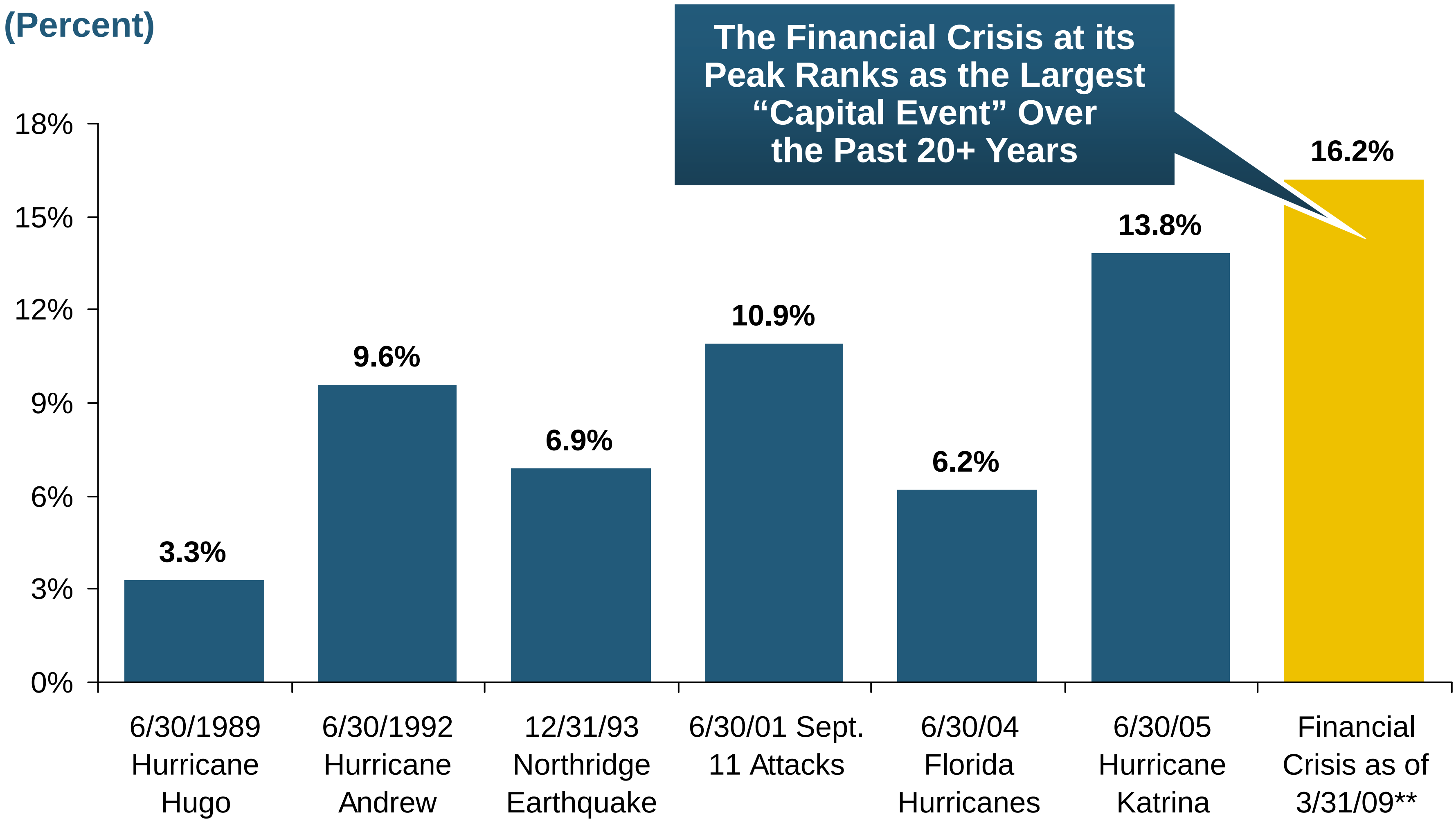


In 2010 One Insurer's Paid-in Capital Rose by $22.5B as Part of an Investment in a Non-insurance Business

Source: ISO; Insurance Information Institute.

Ratio of Insured Loss to Surplus for Largest Capital Events Since 1989*



* Ratio is for end-of-quarter surplus immediately prior to event. Date shown is end of quarter prior to event

** Date of maximum capital erosion; As of 9/30/09 (latest available) ratio = 5.9%

Source: PCS; Insurance Information Institute

Historically, Hard Markets Follow When Surplus "Growth" is Negative*

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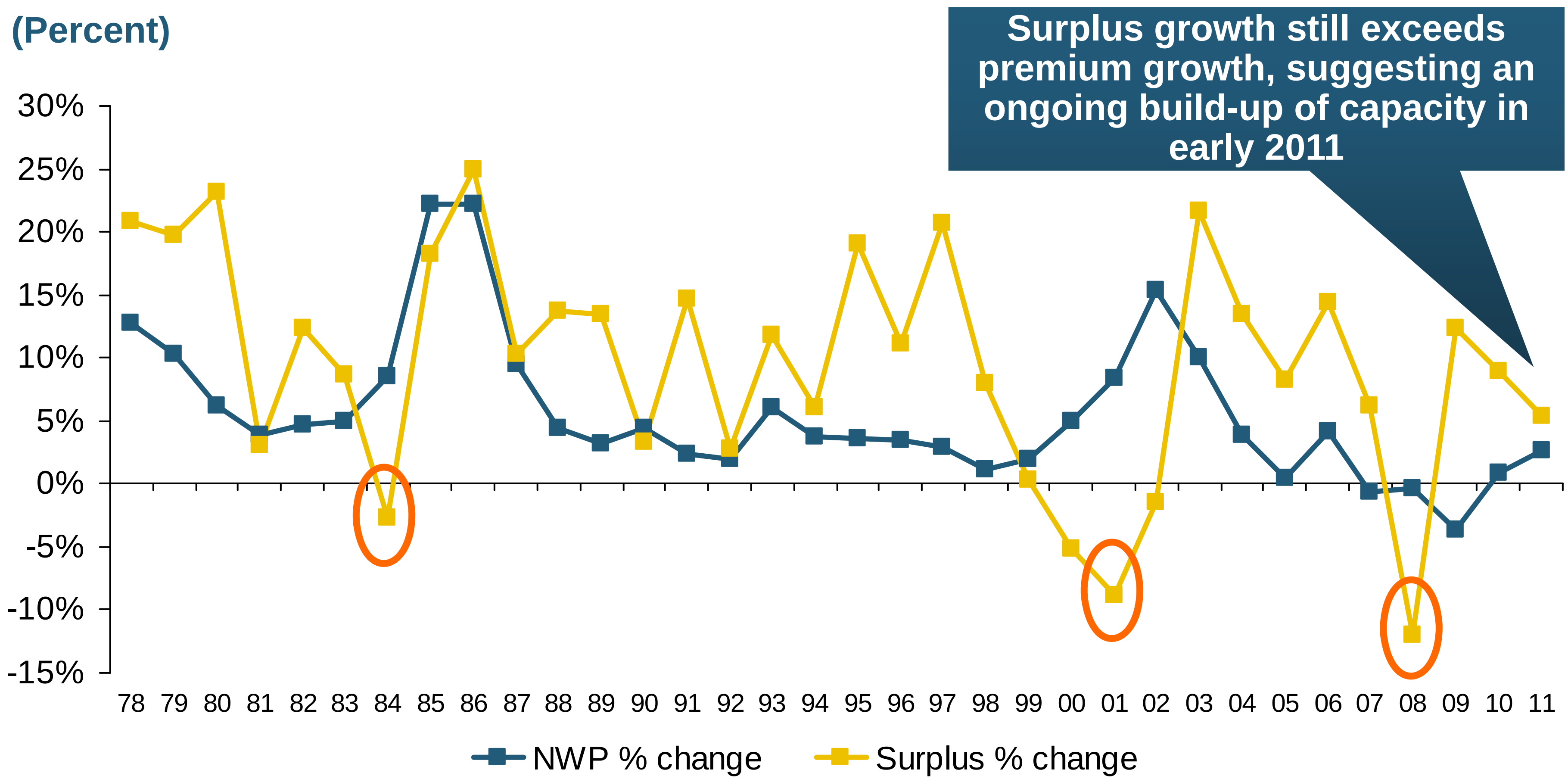
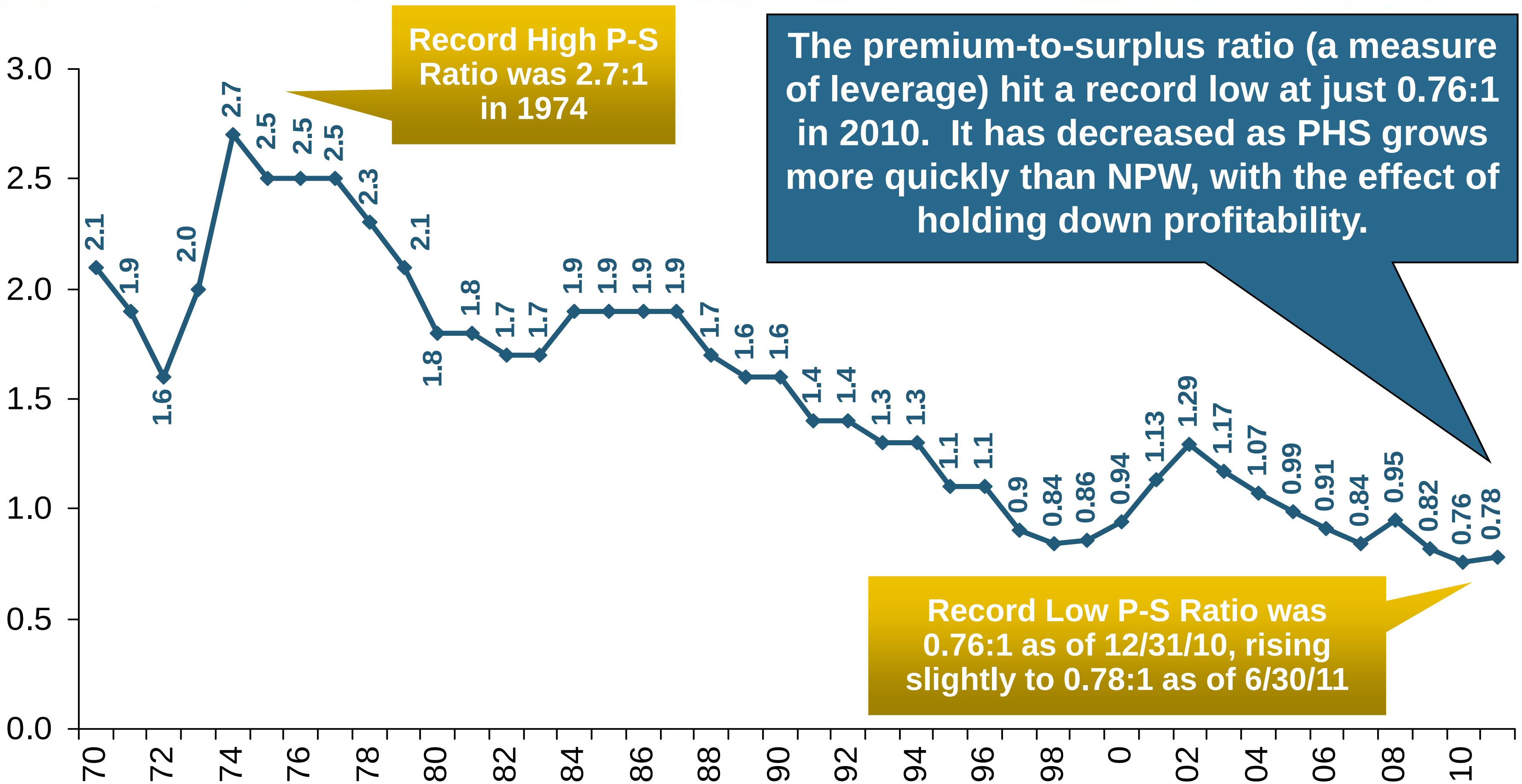


Sharp Decline in Capacity is a Necessary but Not Sufficient Condition for a True Hard Market

* 2011 NWP and Surplus figures are % changes as of H1:11 vs. H1:10.

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

Ratio of Net Premiums Written to Policyholder Surplus, 1970-2011*



The Premium-to-Surplus Ratio in 2011:H1 Implies that P/C Insurers Held $1 in Surplus Against Each $0.78 Written in Premiums. In 1974, Each $1 of Surplus Backed $2.70 in Premium.

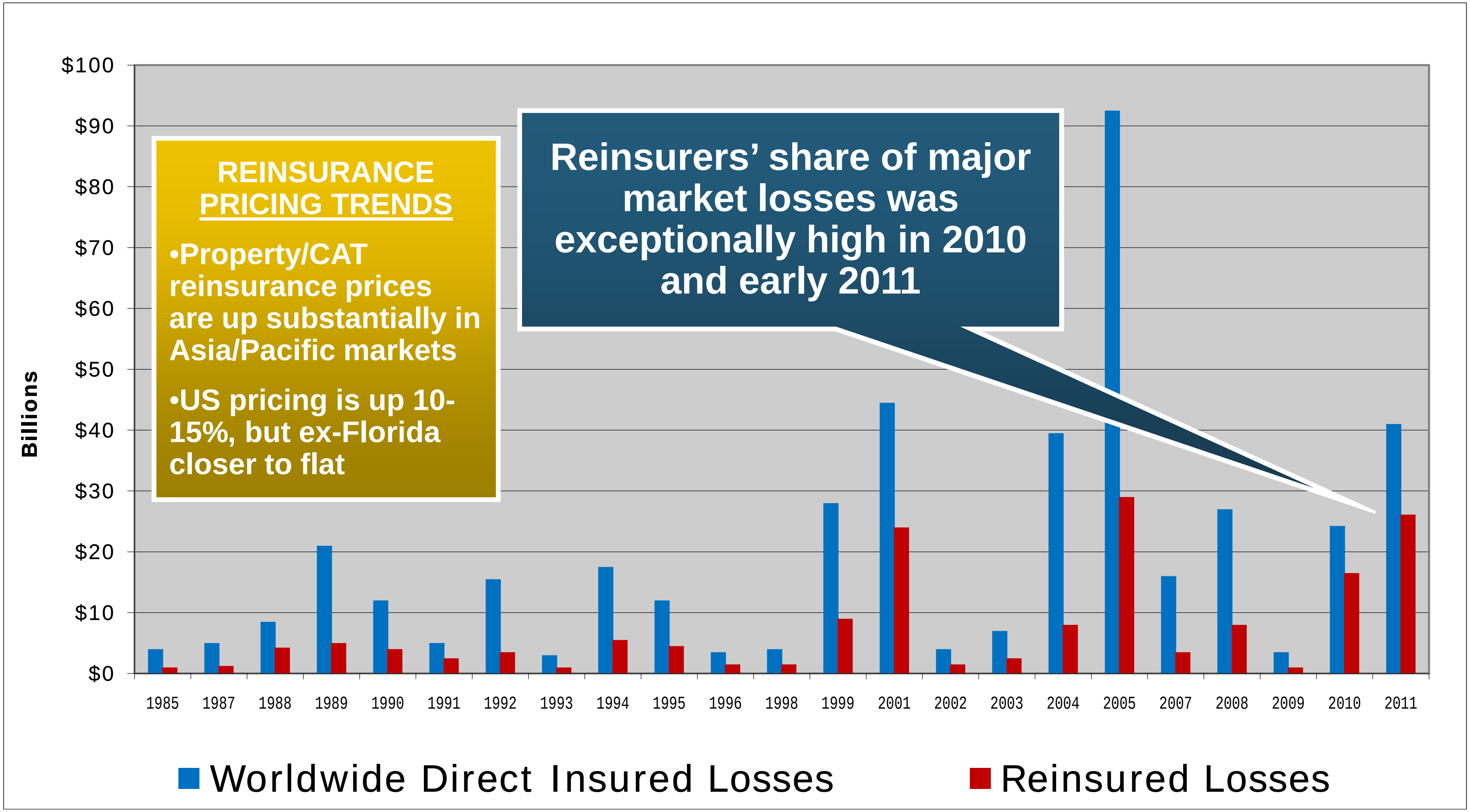
*2011 data are as of 6/30/11.

Sources: Insurance Information Institute calculations from A.M. Best data.

3. REINSURANCE MARKET CONDITIONS

Record Global Catastrophes Activity is Pressuring Pricing

Significant Market Losses, 1985-2011*



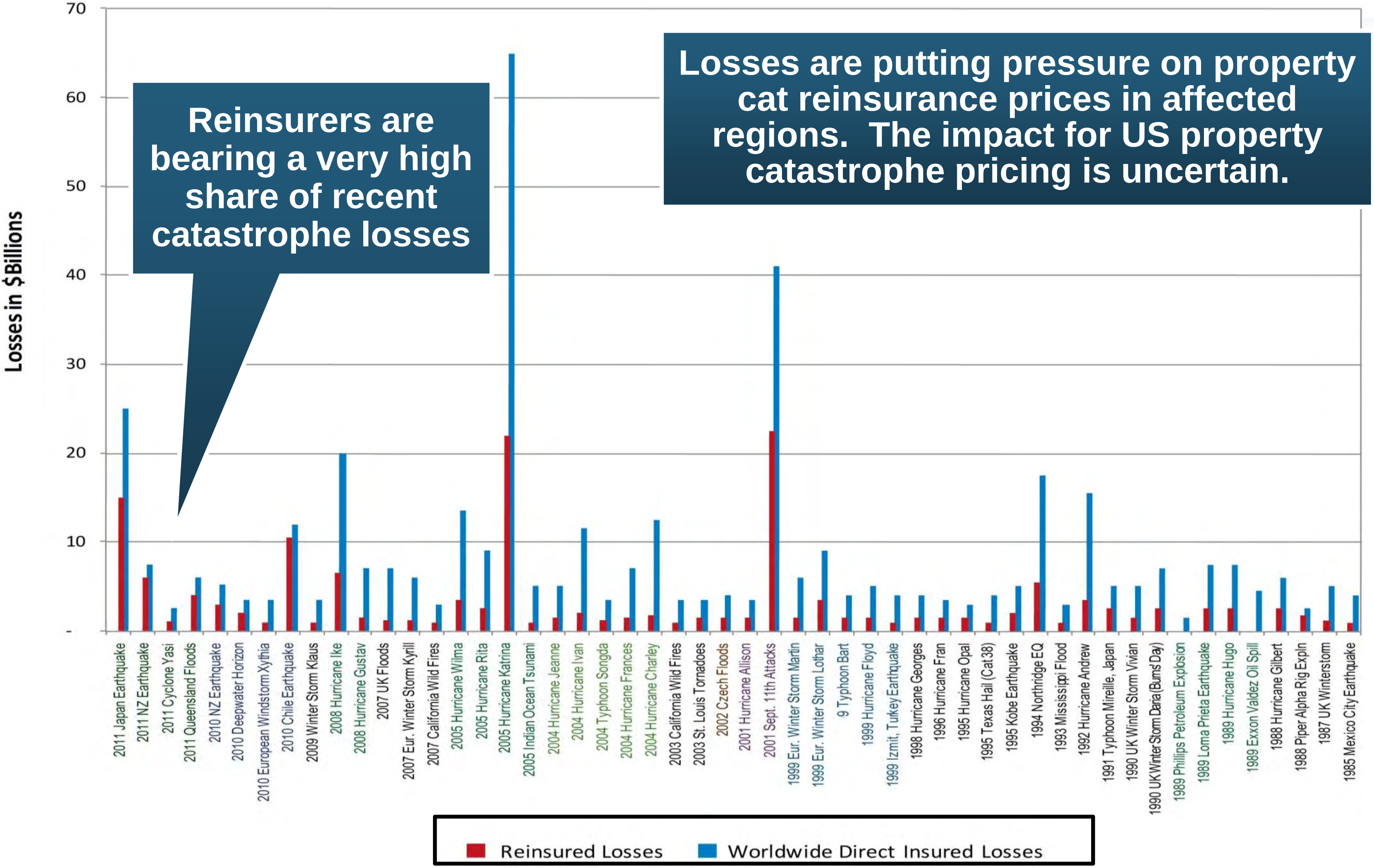
Source: Holborn; RAA.

* 2011 events are as of March 31 and are preliminary and may change as loss estimates are refined further.

Significant Market Losses by Event, 1985-2011*

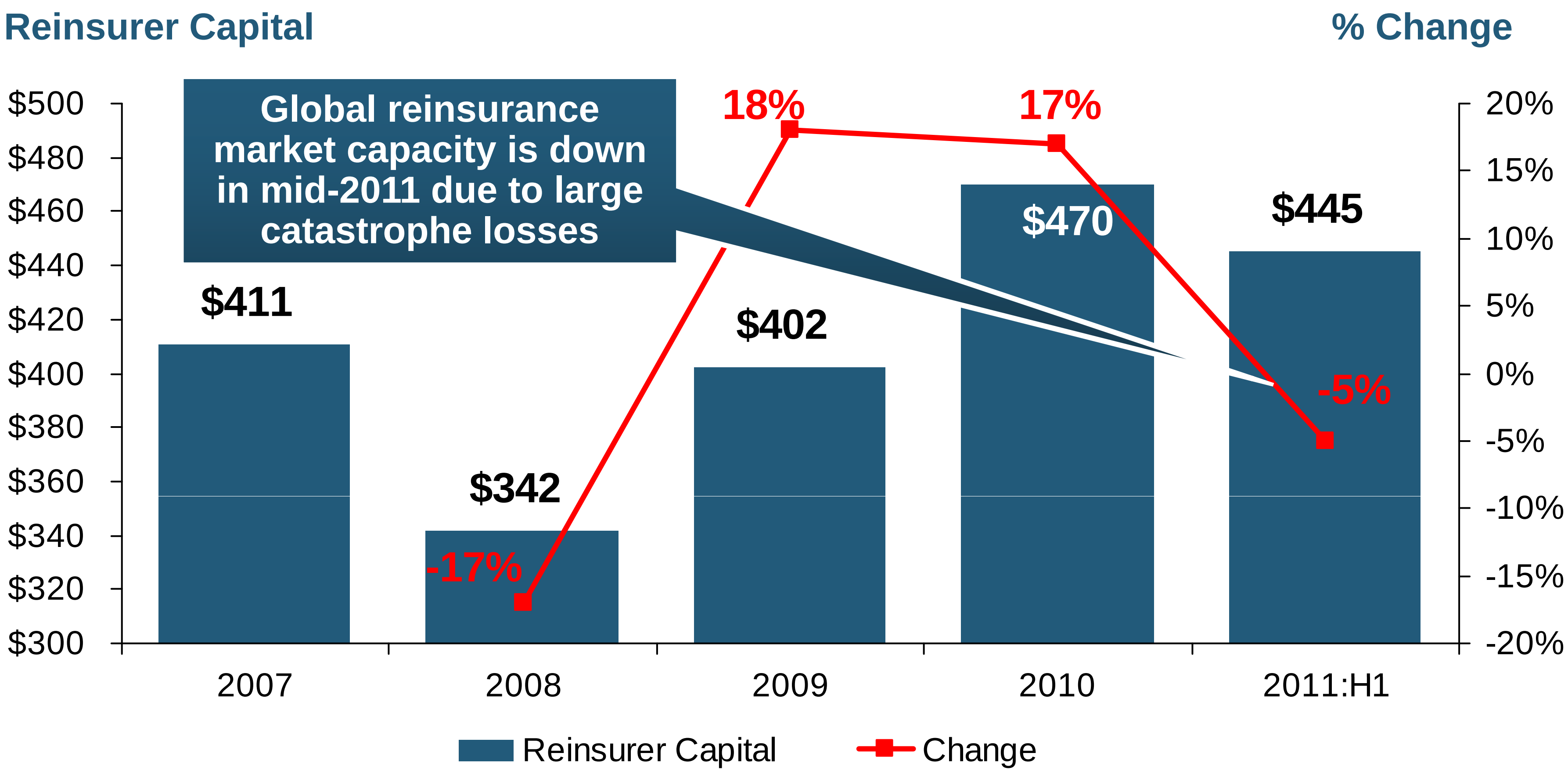
Reinsurers are bearing a very high share of recent catastrophe losses

Losses are putting pressure on property cat reinsurance prices in affected regions. The impact for US property catastrophe pricing is uncertain.



Source: Holborn, RAA. *2011 events as of March 31 are preliminary and may change as loss estimates are refined further.

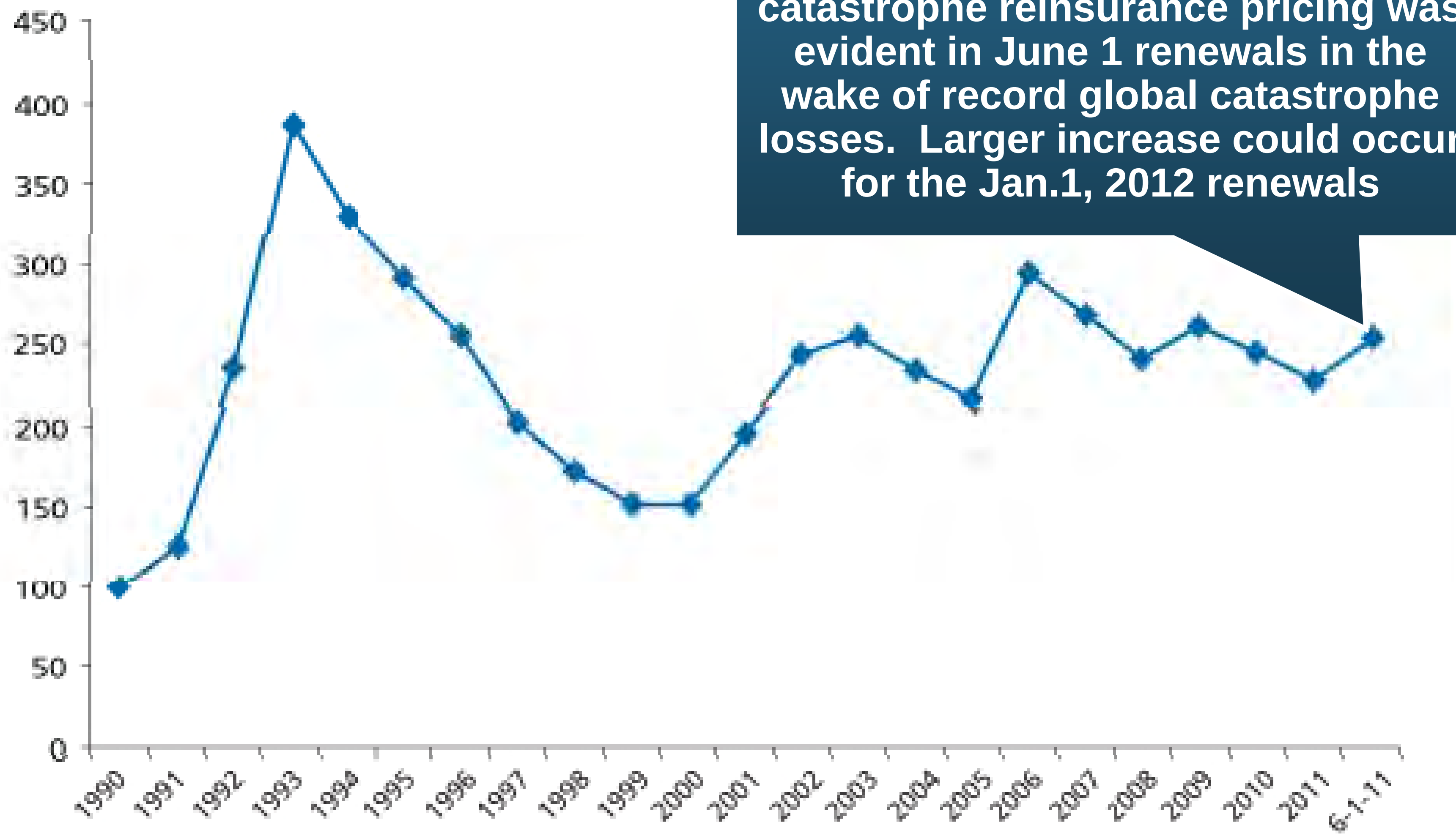
Global Reinsurance Capital, 2007-2011:H1



High Global Catastrophe Losses Have Had a Modest Adverse Impact on Global Reinsurance Market Capacity

Source: Aon Reinsurance Market Outlook, September 2011 from Individual Company and AonBenfield Analytics; Insurance Information Institute.

Global Property Catastrophe Rate on Line Index, 1990-2011 YTD (6/1/11)



A modest increase in global property catastrophe reinsurance pricing was evident in June 1 renewals in the wake of record global catastrophe losses. Larger increase could occur for the Jan.1, 2012 renewals

Source: Guy Carpenter, *GC Capital Ideas.com,* September 26, 2011.

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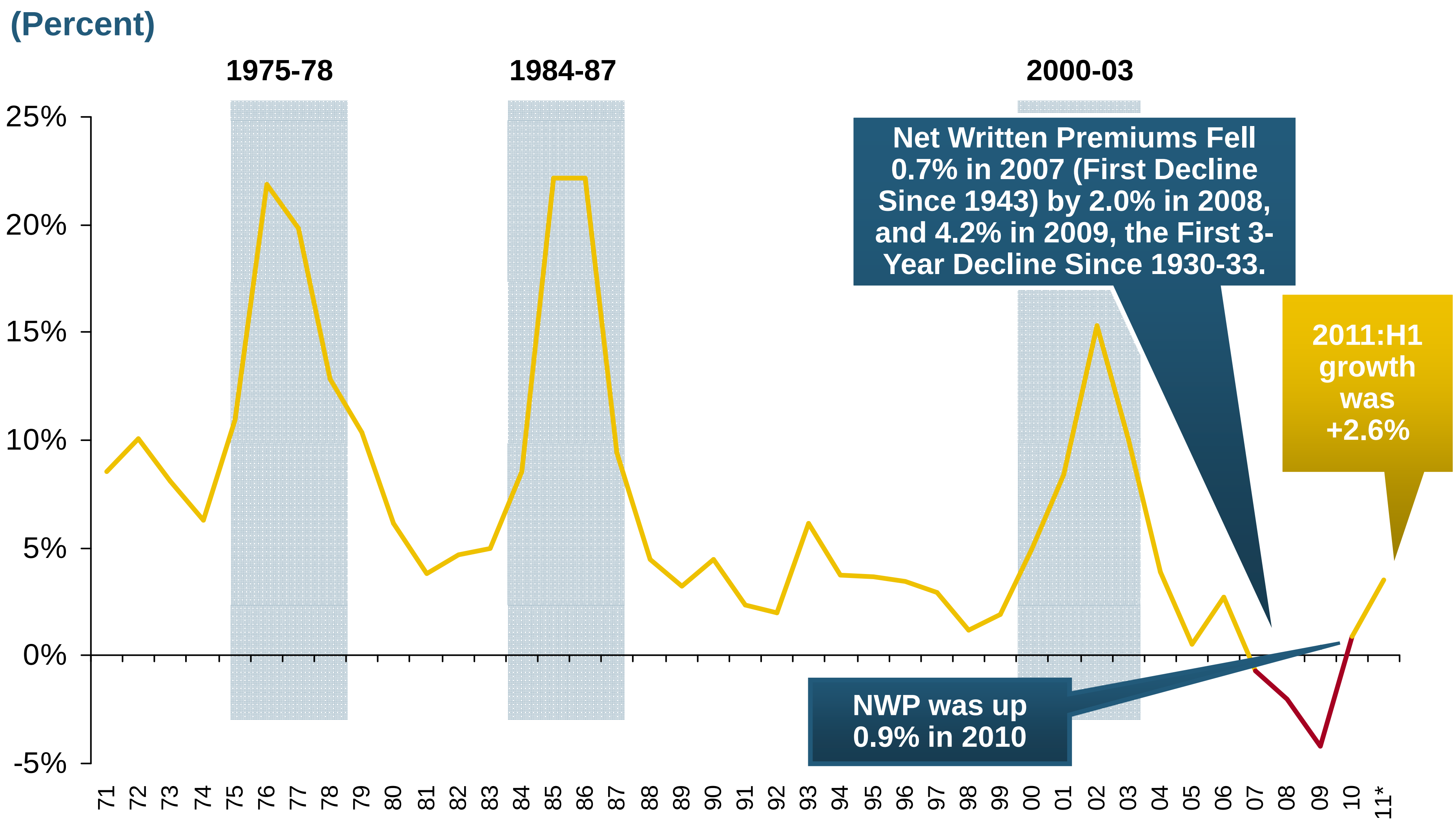
4. RENEWED PRICING DISCIPLINE

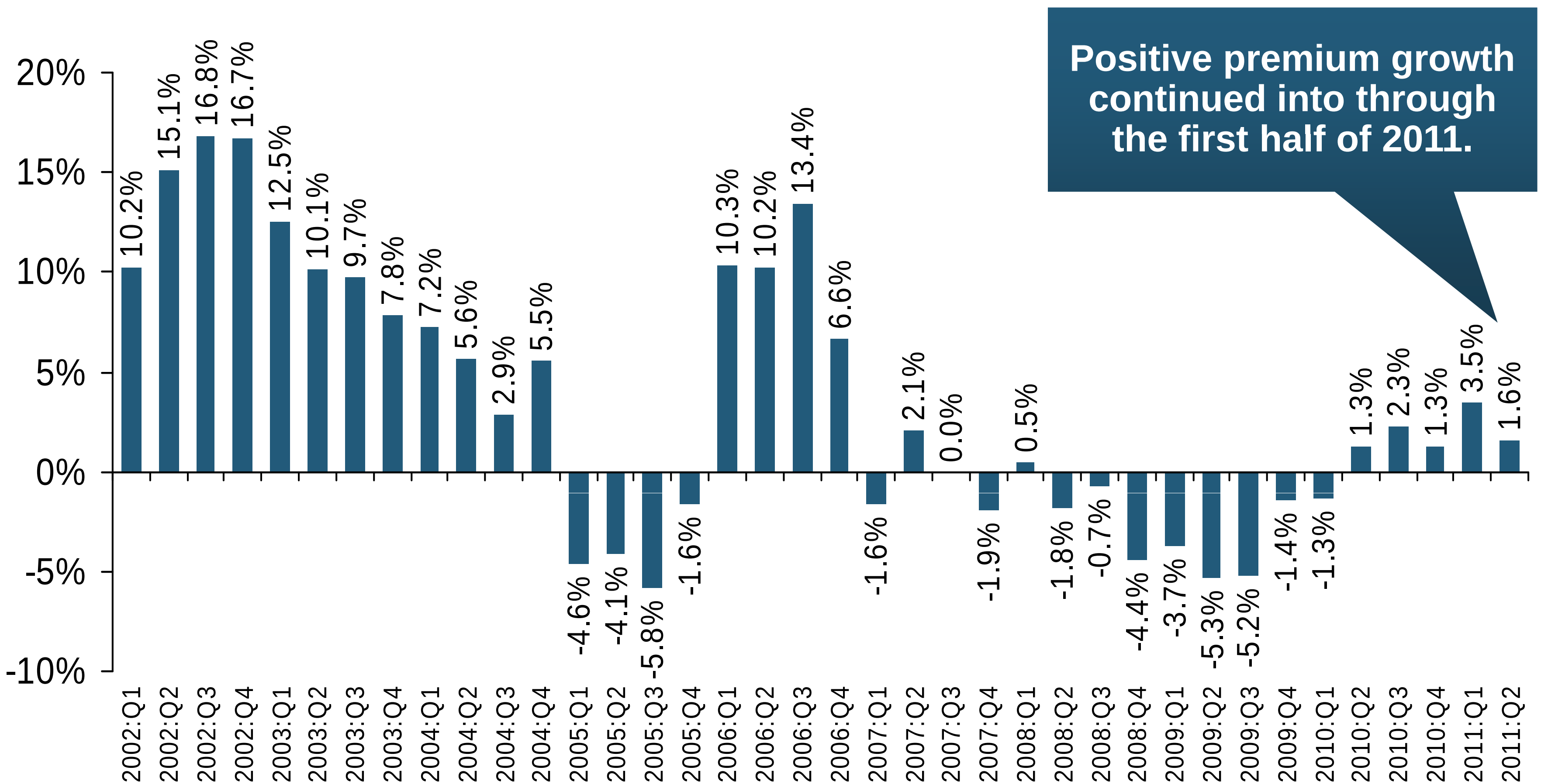
Is There Evidence of a Broad and Sustained Shift in Pricing?

Soft Market Persisted in 2010 but Growth Returned: More in 2011?



*2011 figure is for H1 vs. 2010:H1.
Shaded areas denote “hard market” periods
Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute.

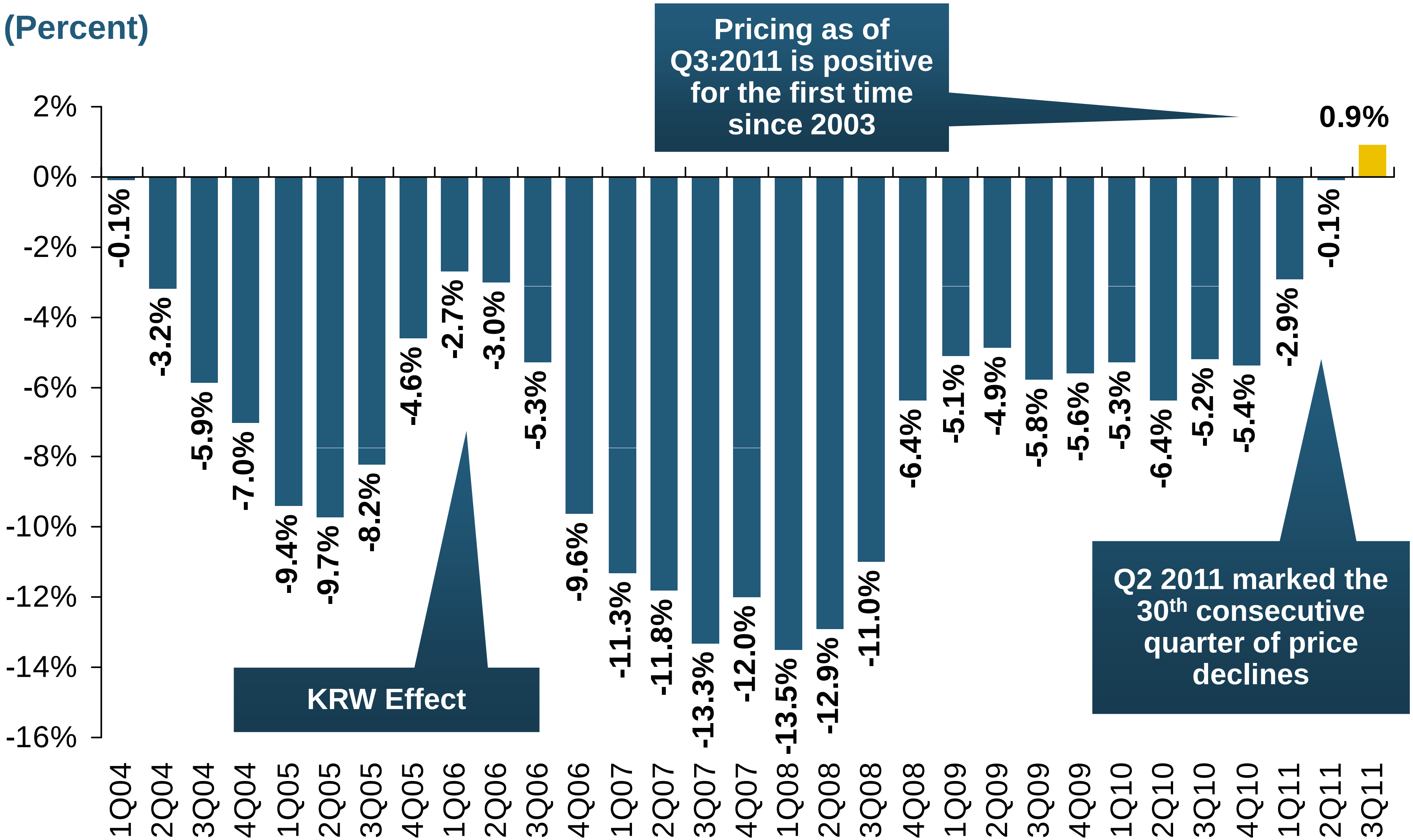
P/C Net Premiums Written: % Change, Quarter vs. Year-Prior Quarter



Pricing and more stable exposure environment are contributing to consistent positive growth in recent quarters (vs. the same quarter, prior year)

Sources: ISO, Insurance Information Institute.

Average Commercial Rate Change, All Lines, (1Q:2004–3Q:2011)



Source: Council of Insurance Agents & Brokers; Insurance Information Institute

Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2011:Q3

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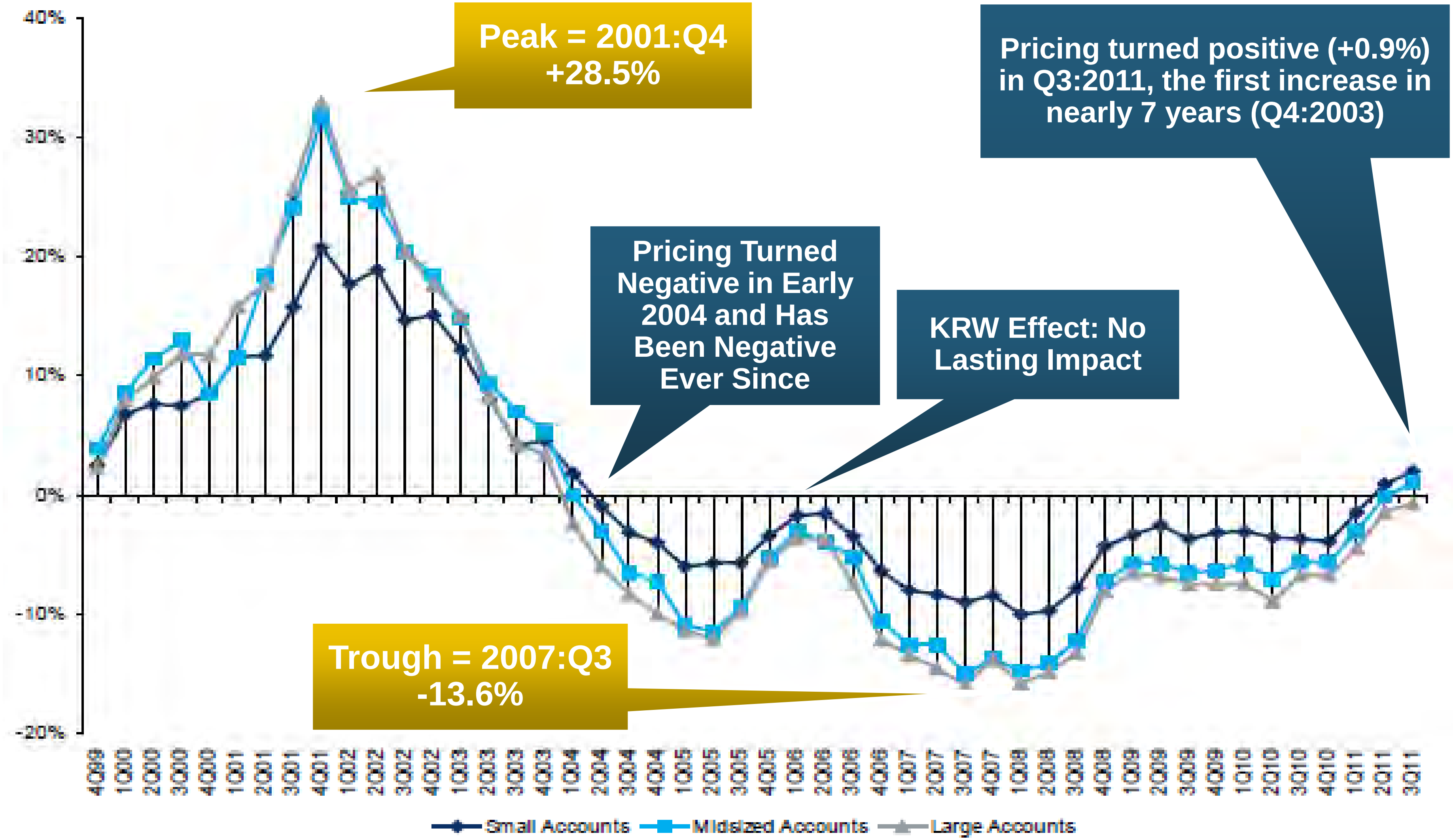
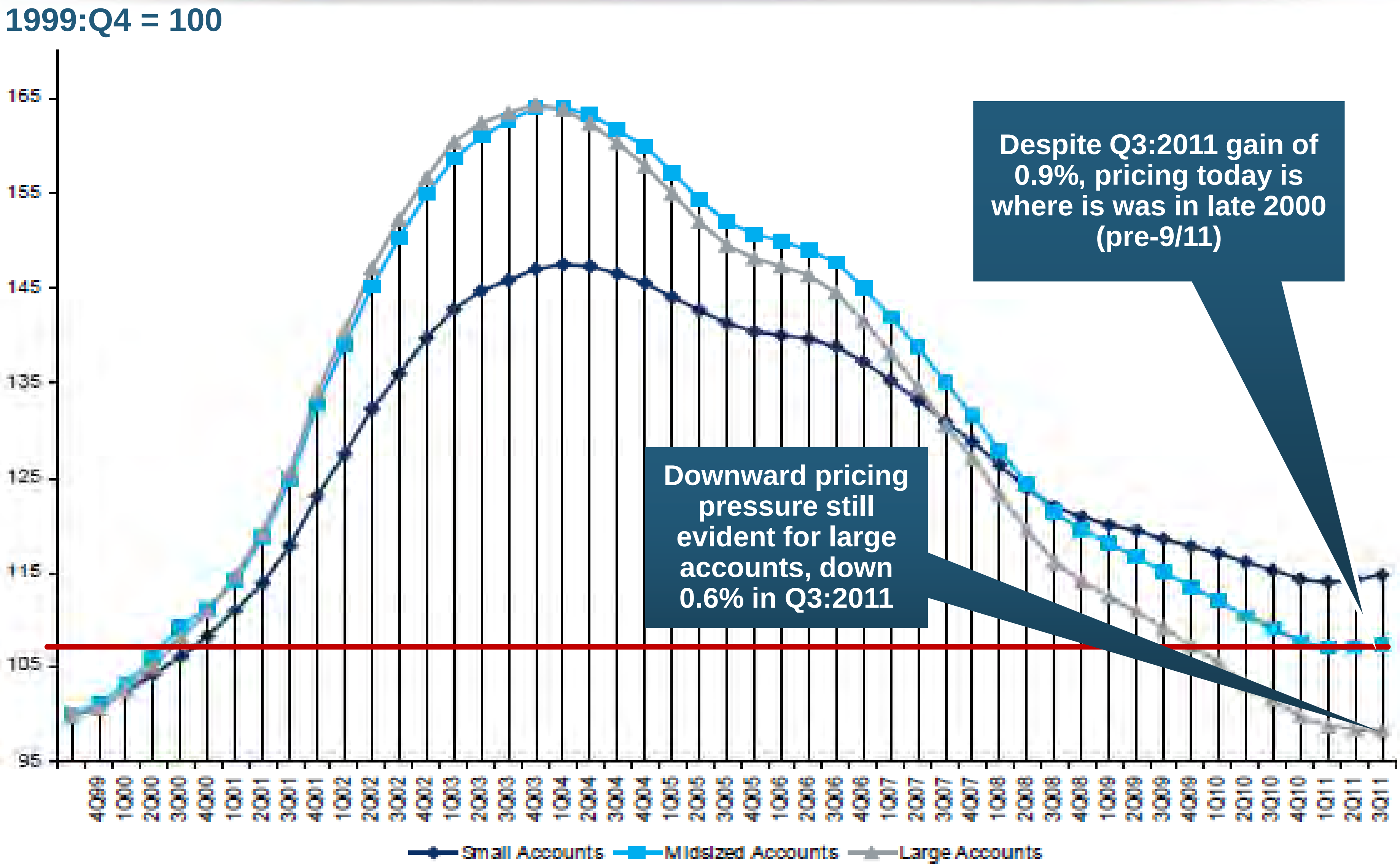
Percentage Change (%)



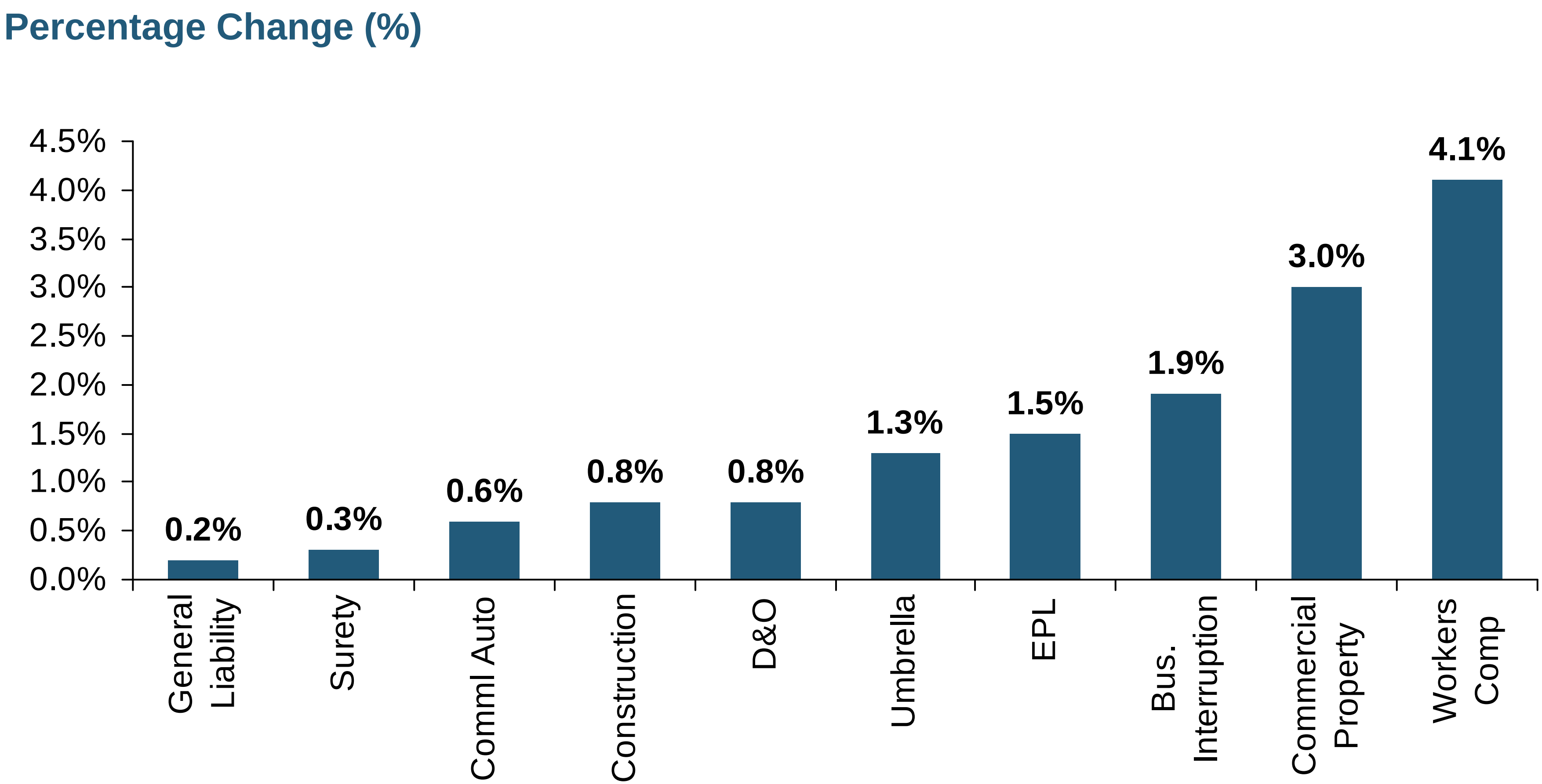
Source: Council of Insurance Agents and Brokers; Insurance Information Institute.

Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2011:Q3



Source: Council of Insurance Agents and Brokers; Insurance Information Institute.

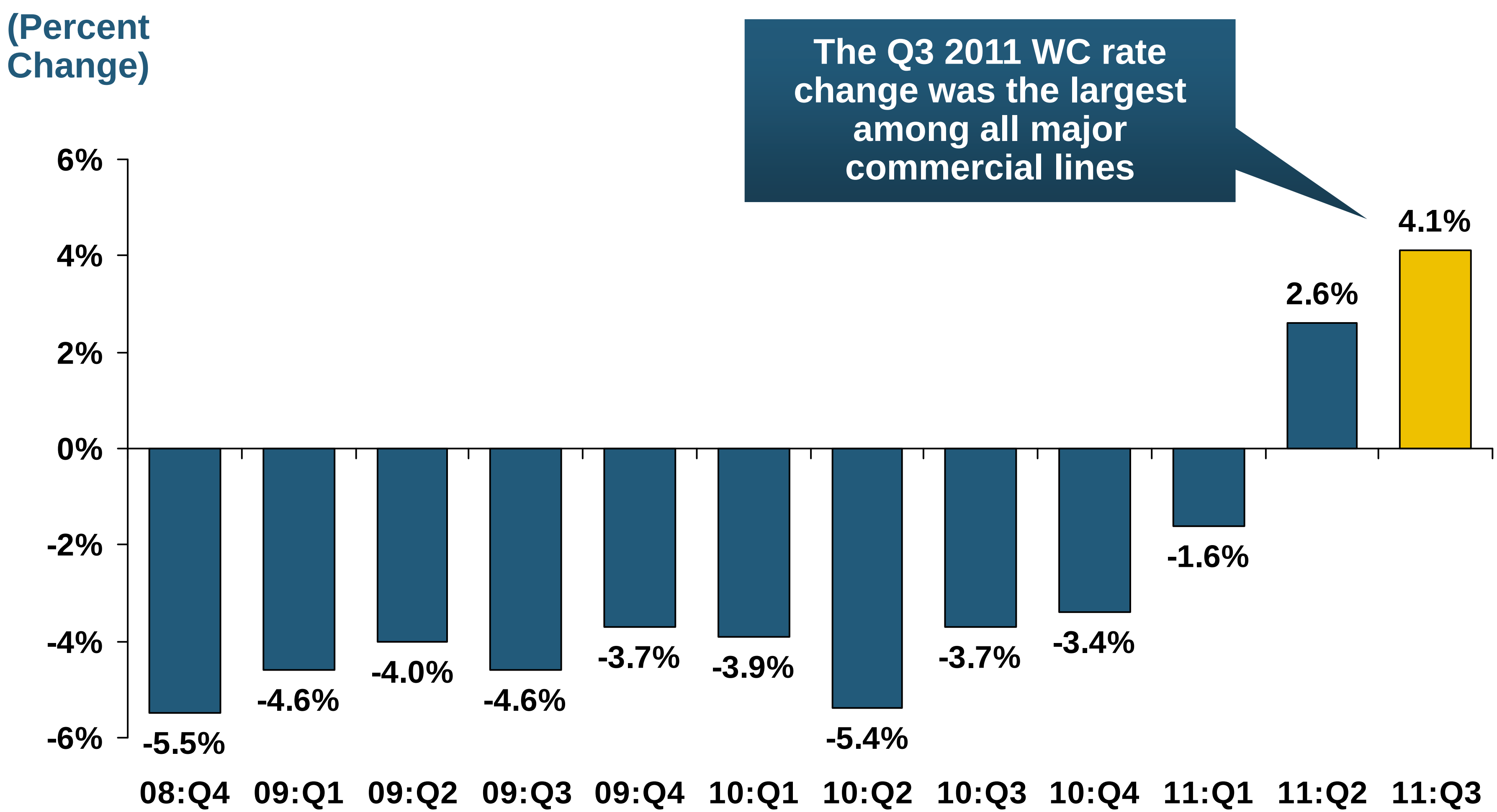
Change in Commercial Rate Renewals, by Line: 2011:Q3



Major Commercial Lines Renewed Uniformly Upward in Q3:2011 for the First Time Since 2003, With Workers Up More than Any Other Line

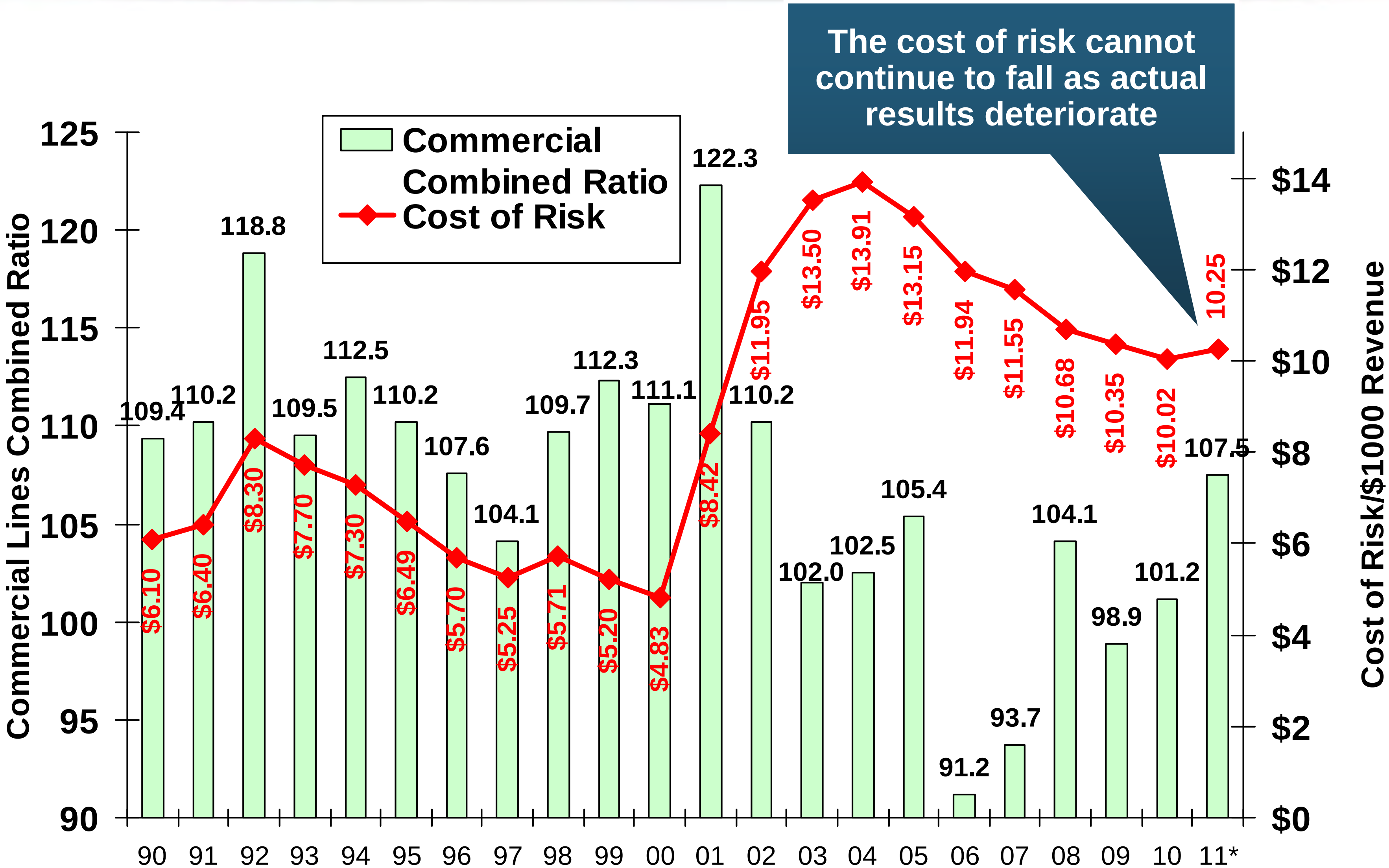
Source: Council of Insurance Agents and Brokers; Insurance Information Institute.

Workers Comp Rate Changes, 2008:Q4 – 2011:Q3



Source: Council of Insurance Agents and Brokers; Information Institute.

Cost of Risk vs. Commercial Lines Combined Ratio



*Insurance Information Institute estimates for 2011.

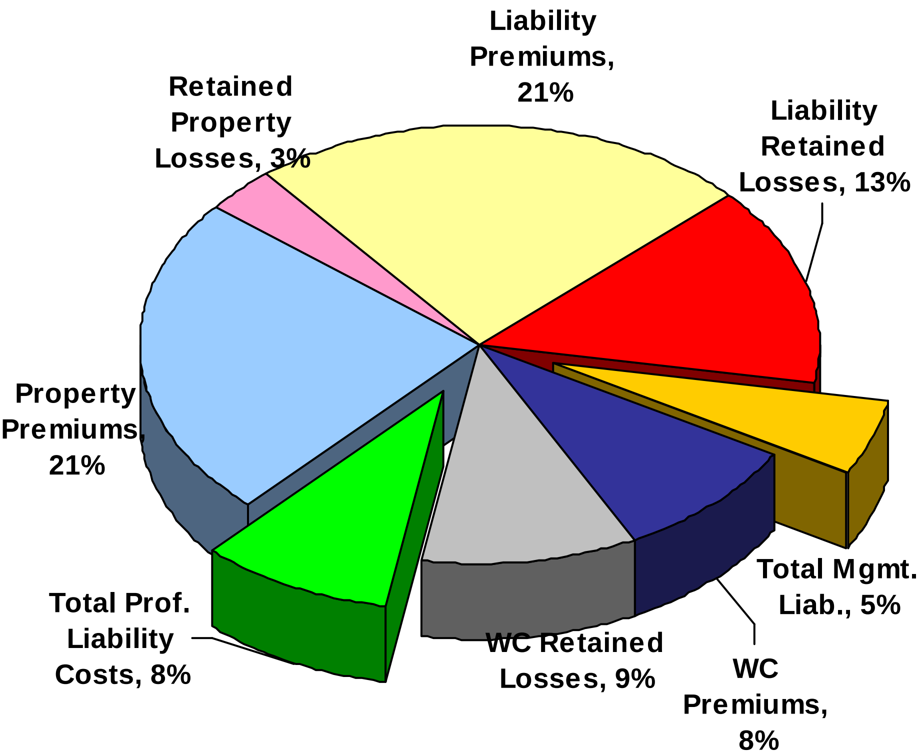
Source: 2011 RIMS Benchmark Survey; A.M. Best; Insurance Information Institute

How the Risk Dollar is Spent (2011)

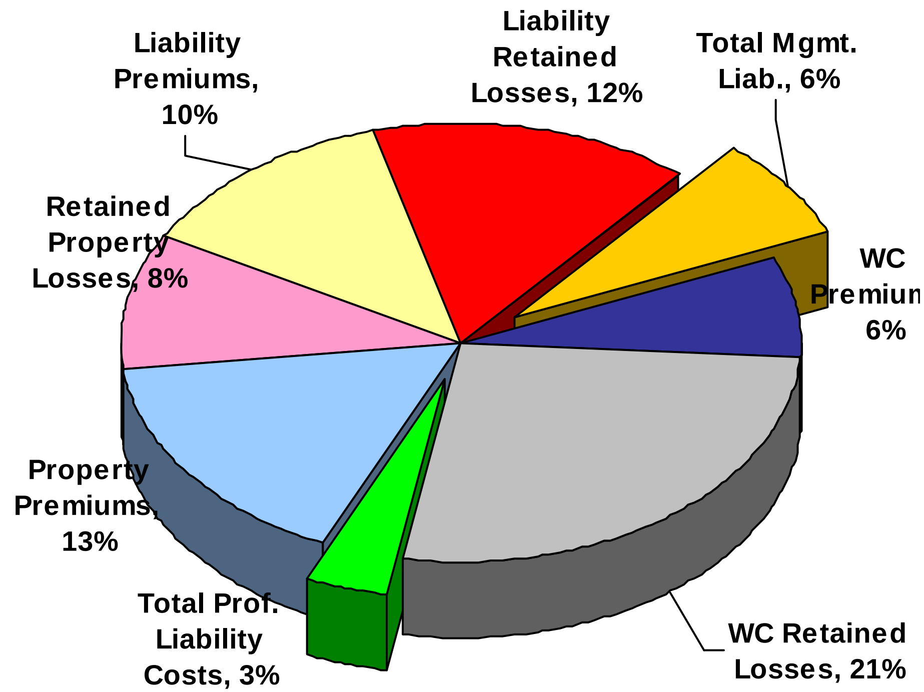
INSURANCE INFORMATION INSTITUTE

Management & Professional Liability Costs Account for 9% - 13% of the Risk Dollar

Firms w/Revenues < $1 Billion

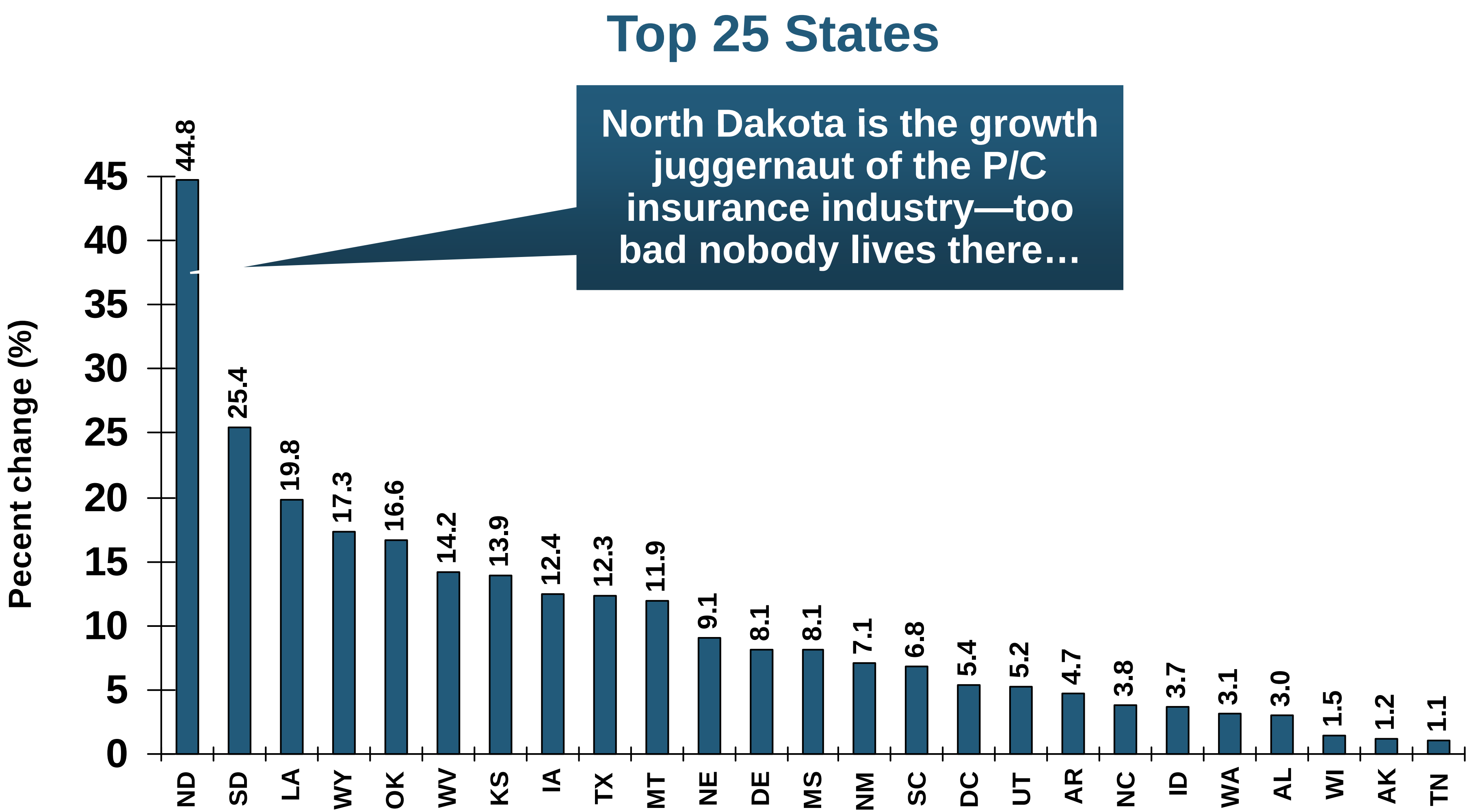


Firms w/Revenues > $1 Billion



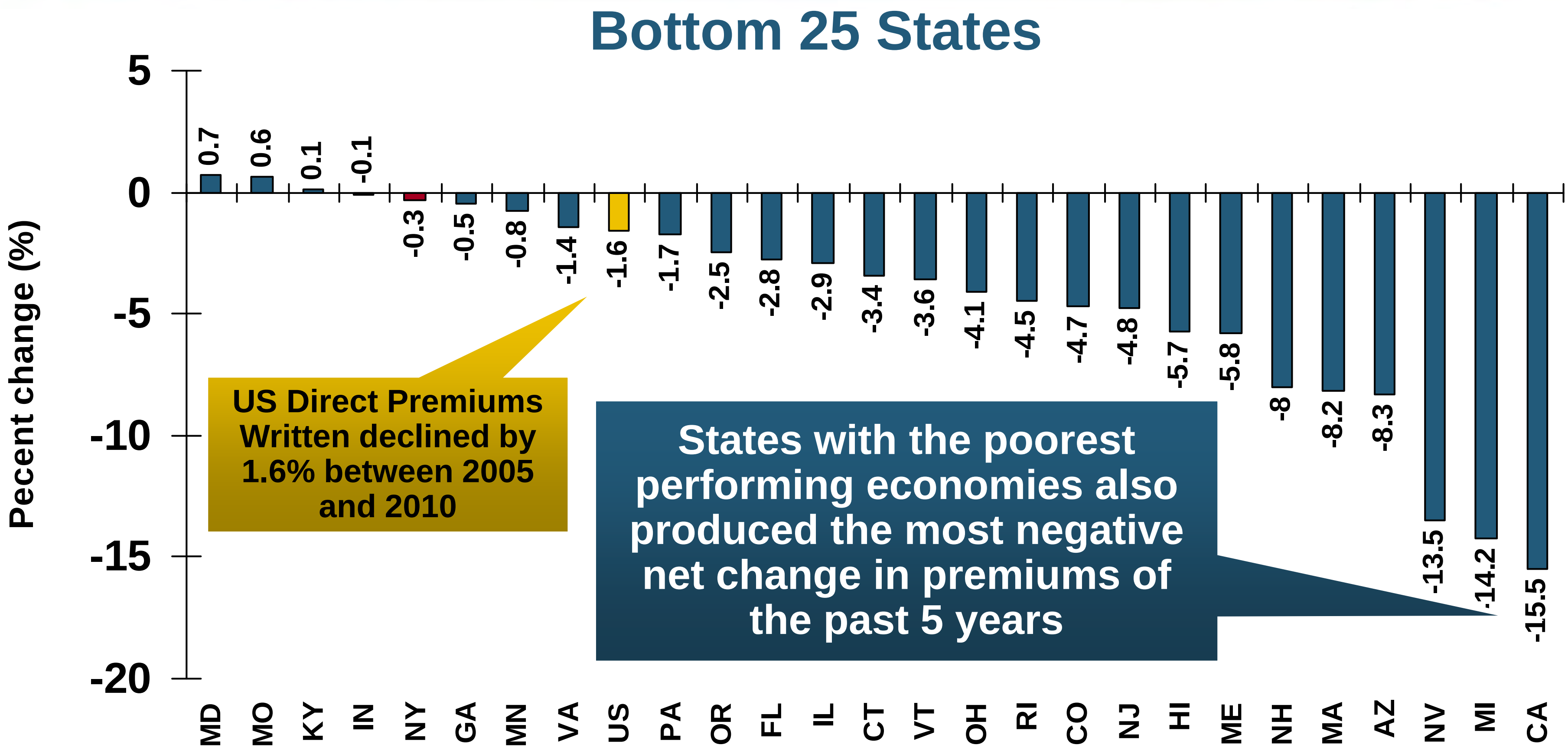
Source: 2011 RIMS Benchmark Survey, Advisen; Insurance Information Institute

Direct Premiums Written: All P/C Lines Percent Change by State, 2005-2010



Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: All P/C Lines Percent Change by State, 2005-2010



Sources: SNL Financial LC; Insurance Information Institute.

Other Cycle-Influencing Factors

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

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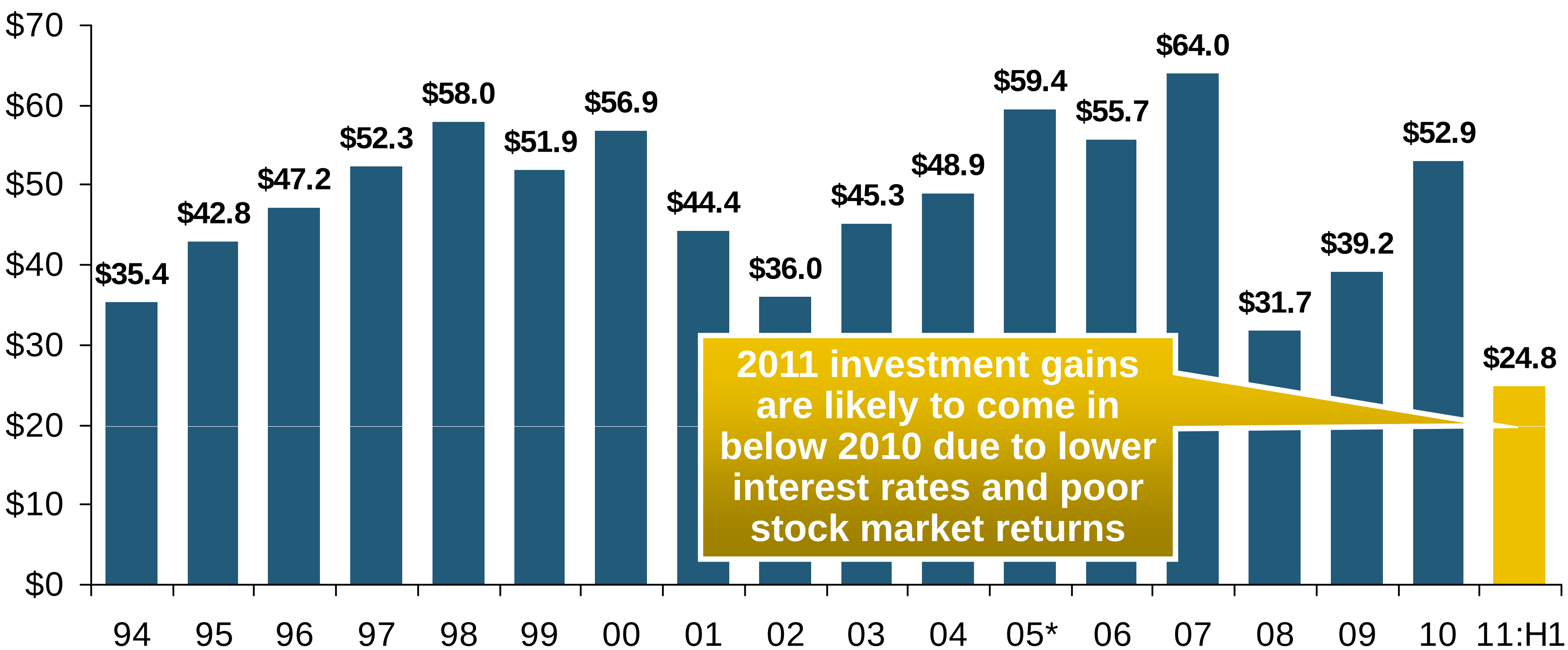
INVESTMENTS: THE NEW REALITY

Investment Performance is a Key Driver of Profitability

Does It Influence Underwriting or Cyclicality?

Property/Casualty Insurance Industry Investment Gain: 1994–2011:H1[1]

($ Billions)



Investment Gains Recovered Significantly in 2010 Due to 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.

Treasury Yield Curves: Pre-Crisis (July 2007) vs. Sept. 2011*

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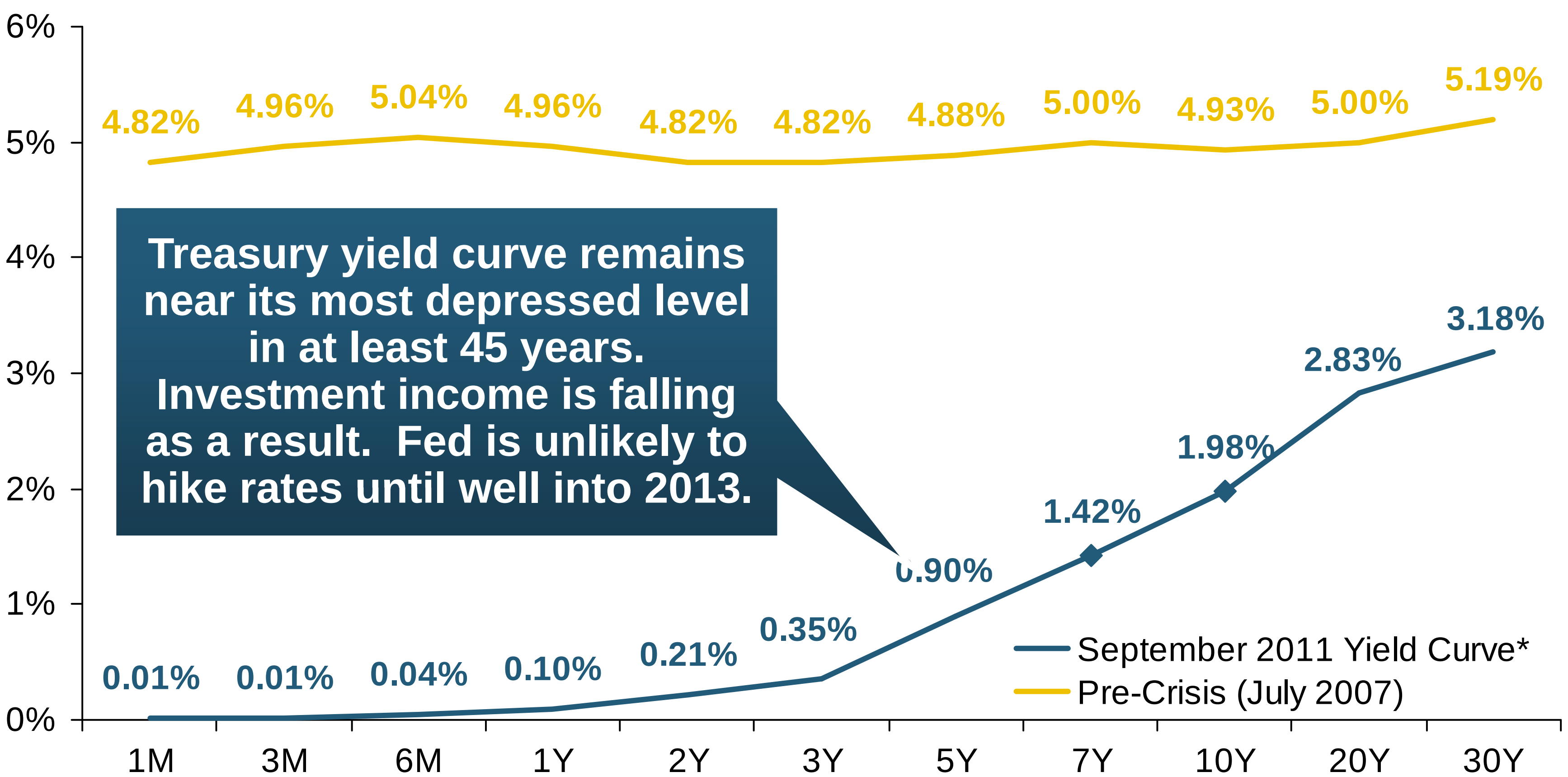
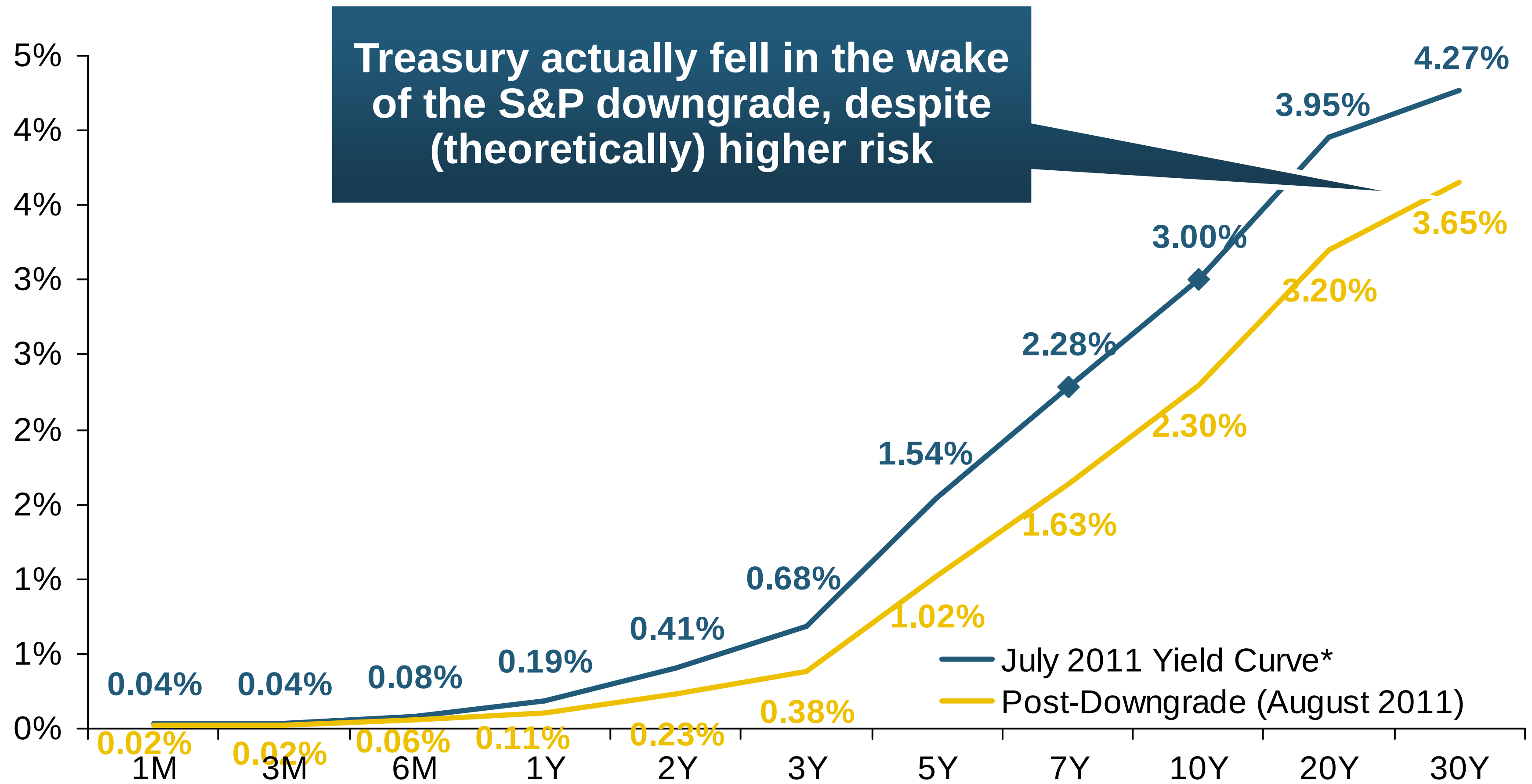


The End of the Fed's Quantitative Easing Is Unlikely to Push Interest Rates Up Substantially Given Ongoing Economic Weakness

*Average of daily rates.

Sources: Board of Governors of the United States Federal Reserve Bank; Insurance Information Institute.

Treasury Yield Curves Before and After S&P Downgrade

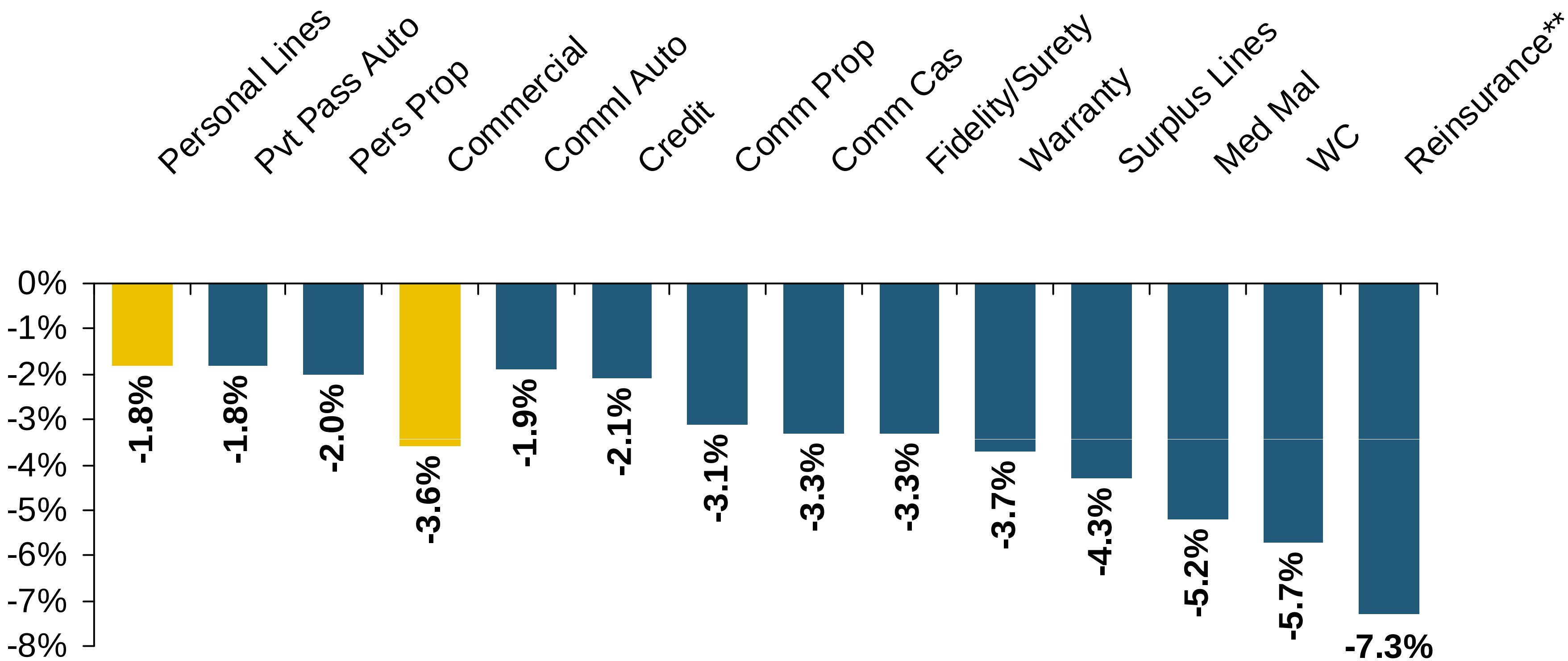


S&P's Downgrade on August 5th Did Not Increase the Borrowing Costs of the US Government. In Fact, Treasury Yields Fell Afterwards

*Average of daily rates.

Sources: Board of Governors of the United States Federal Reserve Bank; 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.

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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

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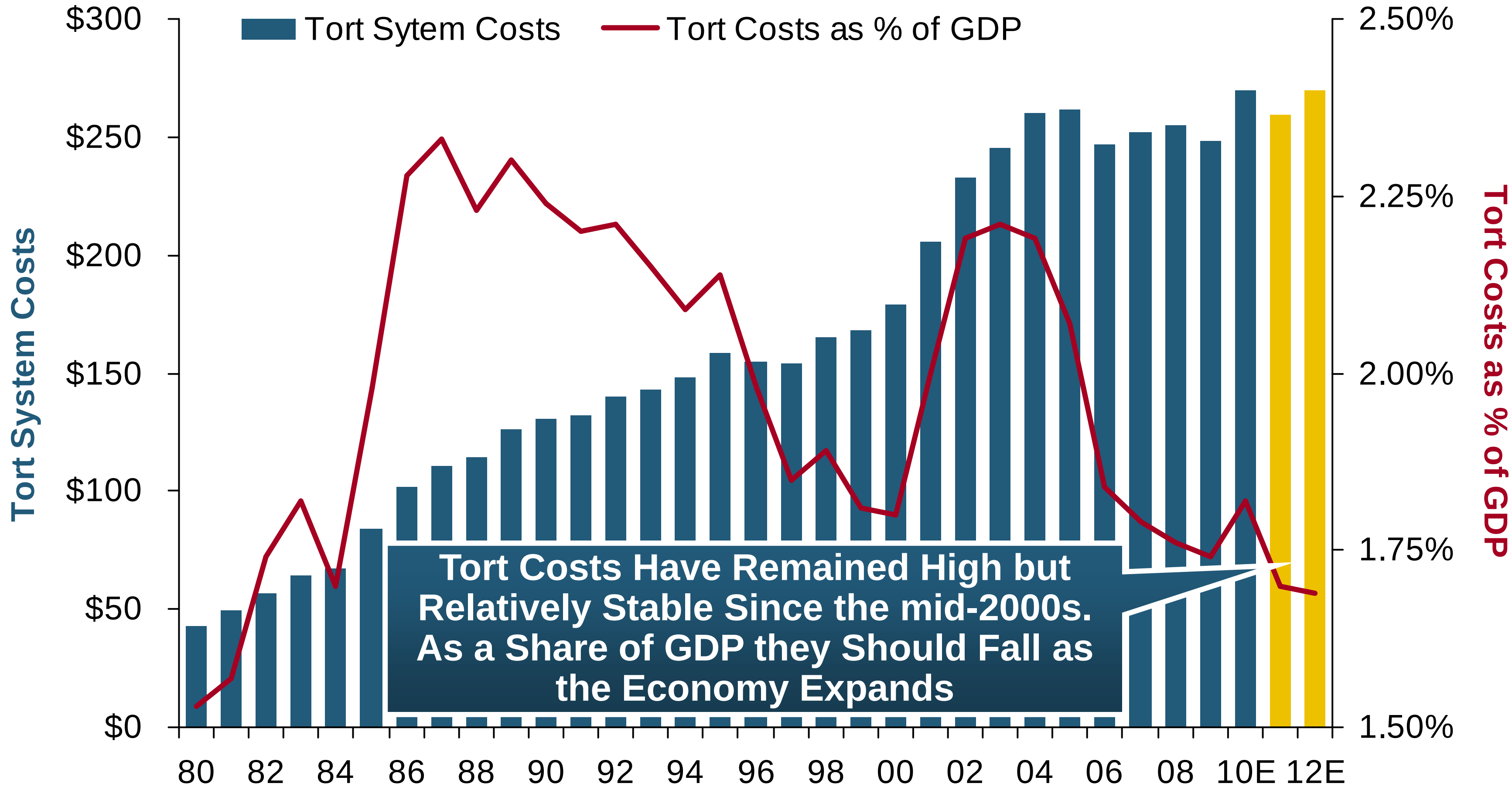
($ Billions)



Sources: Towers Watson, *2010 Update on US Tort Cost Trends*, Appendix 1A

Business Leaders Ranking of Liability Systems in 2010

Best States

1. Delaware
2. North Dakota
3. Nebraska
4. Indiana
5. Iowa
6. Virginia
7. Utah
8. Colorado
9. Massachusetts
10. South Dakota

New in 2010

- North Dakota
- Massachusetts
- South Dakota

Drop-offs

- Maine
- Vermont
- Kansas

Midwest/West has mix of good and bad states.

Worst States

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

Newly Notorious

- New Mexico
- Montana
- Arkansas

Rising Above

- **Texas**
- South Carolina
- Hawaii

Source: US Chamber of Commerce 2010 State Liability Systems Ranking Study; Insurance Info. Institute.

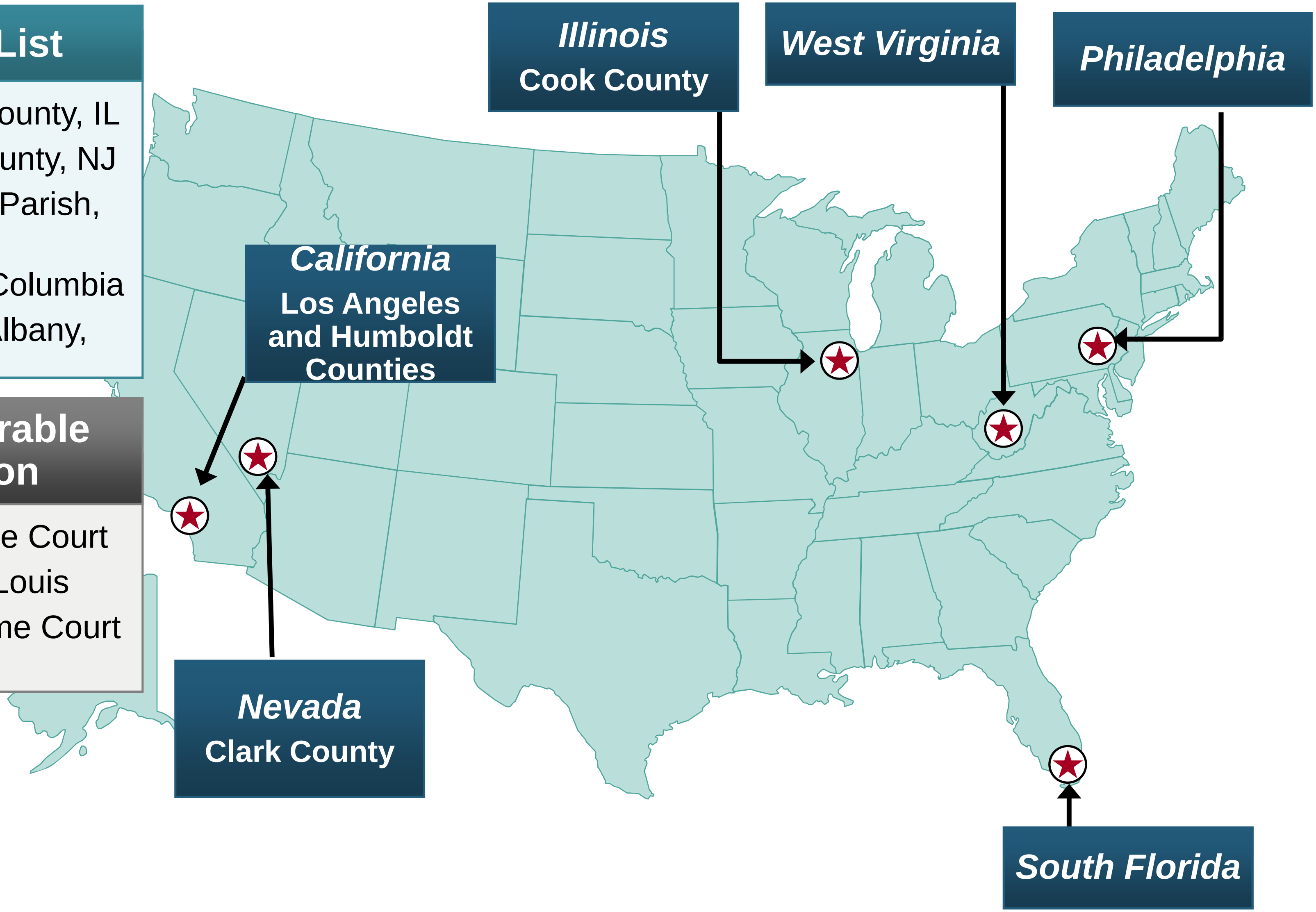
The Nation's Judicial Hellholes: 2010

Watch List

- Madison County, IL
- Atlantic County, NJ
- St. Landry Parish, LA
- District of Columbia
- NYC and Albany, NY

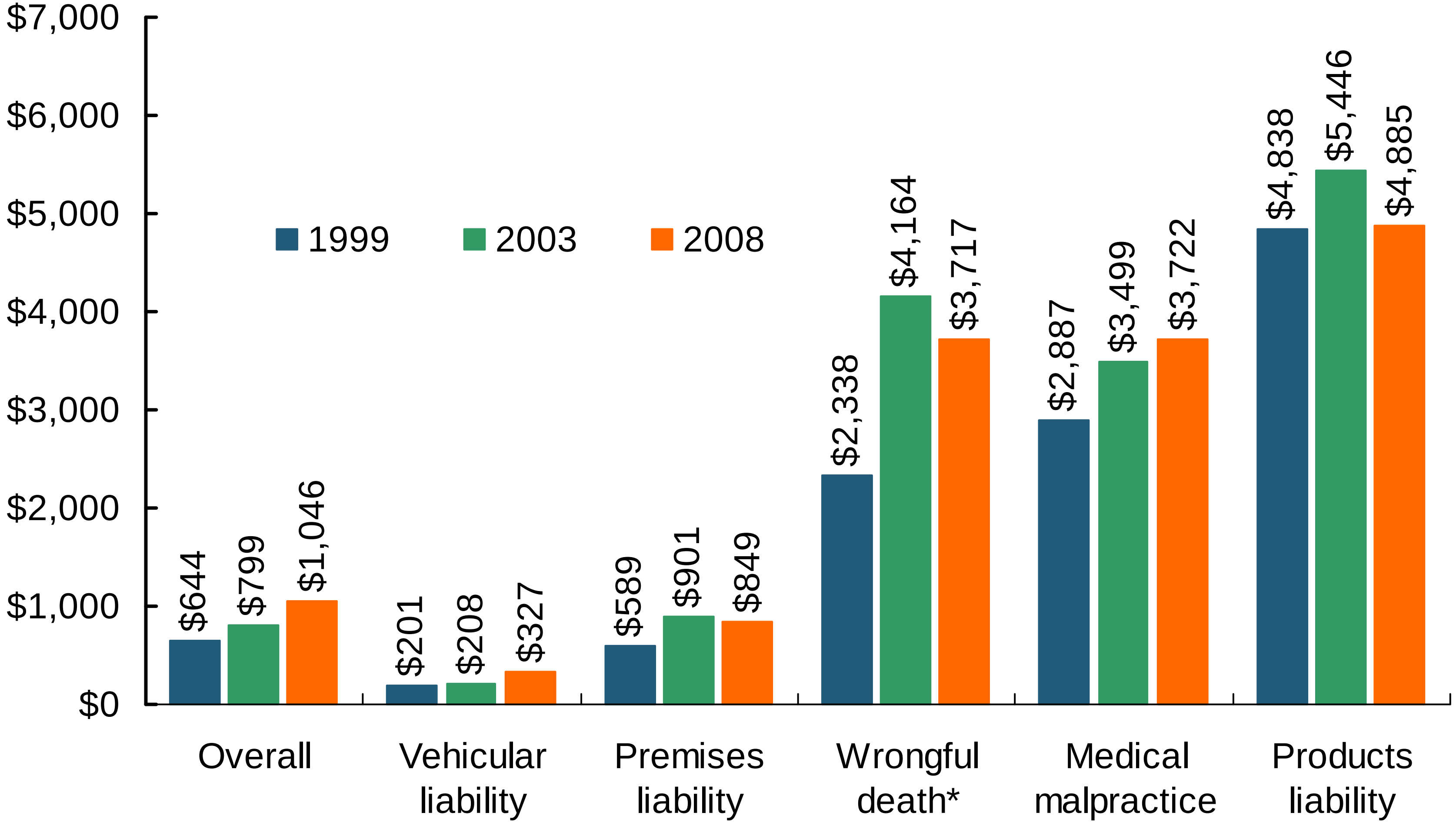
Dishonorable Mention

- MI Supreme Court
- City of St. Louis
- CO Supreme Court



Source: American Tort Reform Association; Insurance Information Institute

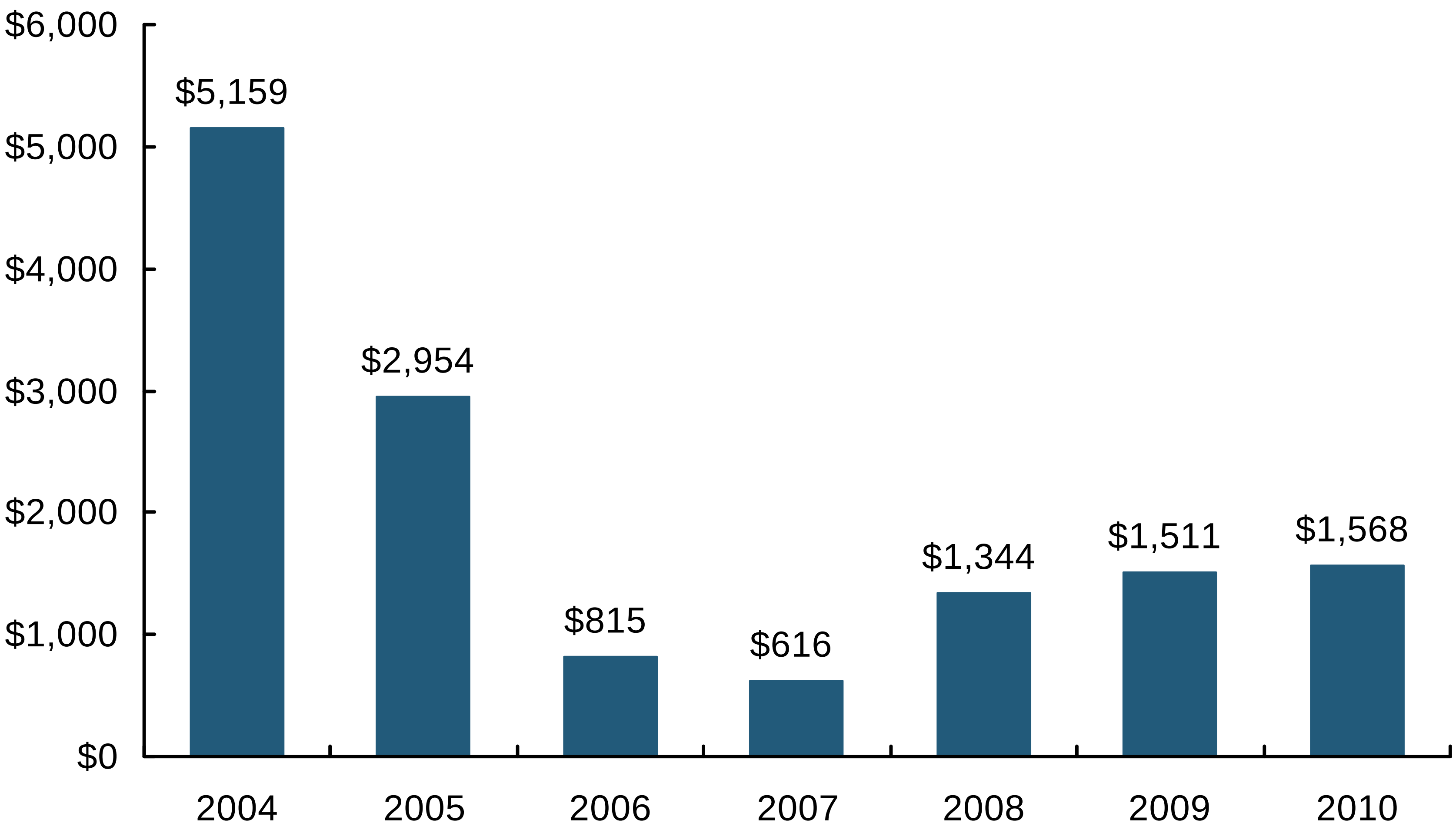
Avg. Jury Awards 1999 vs. 2003 and 2008



*Award trends in wrongful deaths of adult males.

Source: Jury Verdict Research; Insurance Information Institute.

Sum of Top 10 Jury Awards 2004-2010



Source: Insurance Information Institute from Lawyers USA, January 2005, 2006, 2007, 2008, 2009, and 2010.

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Inflation

Is it a Threat to Claim Cost Severities

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

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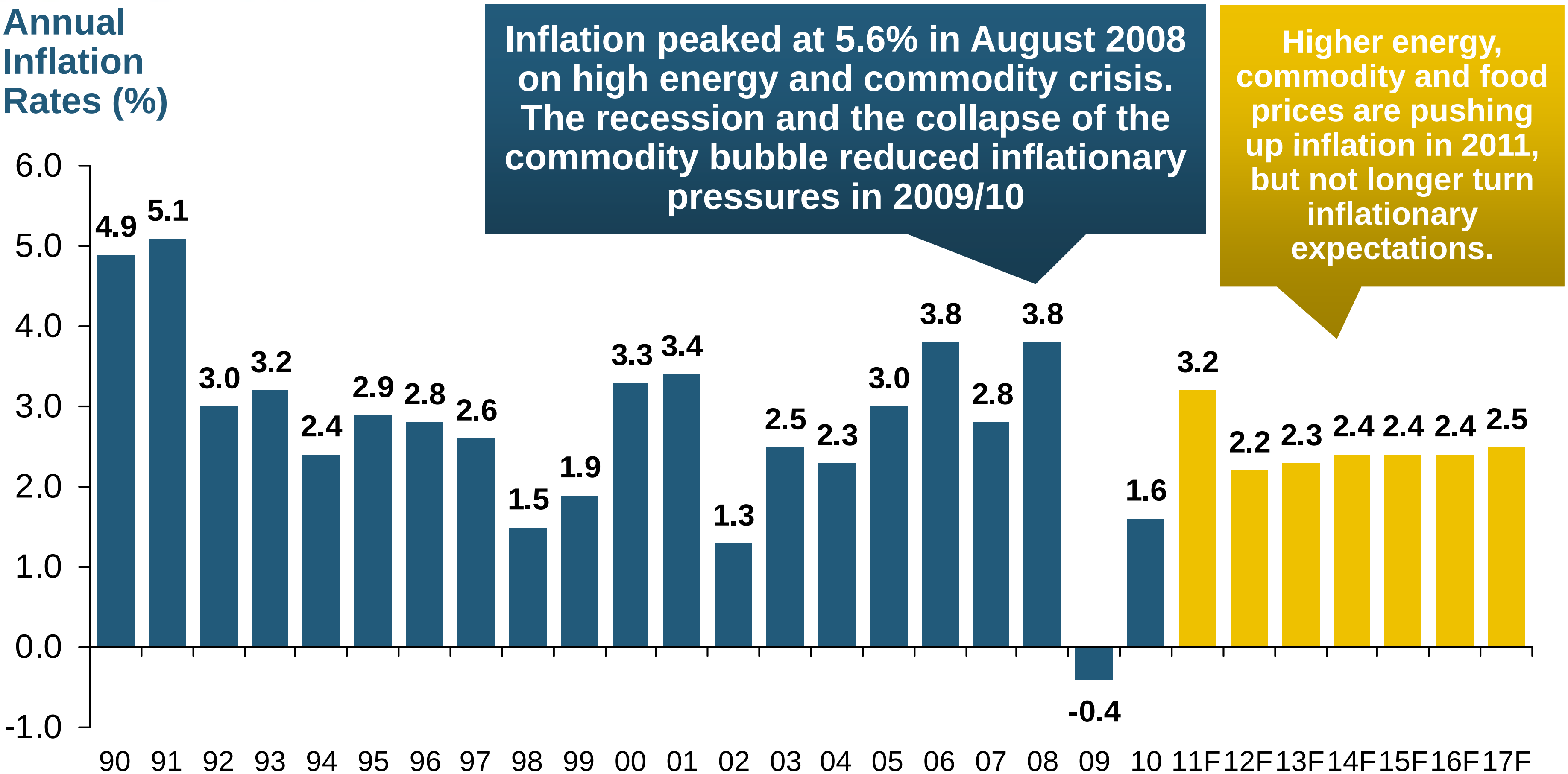

The slack in the U.S. economy suggests that inflation should not heat up before 2012, but other forces (commodity prices, inflation in countries from which we import, etc.), plus U.S. debt burden, remain longer-run concerns

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators, 10/11 and 11/11 (forecasts).

Medical Cost Inflation Has Outpaced Overall Inflation Over 50 Years

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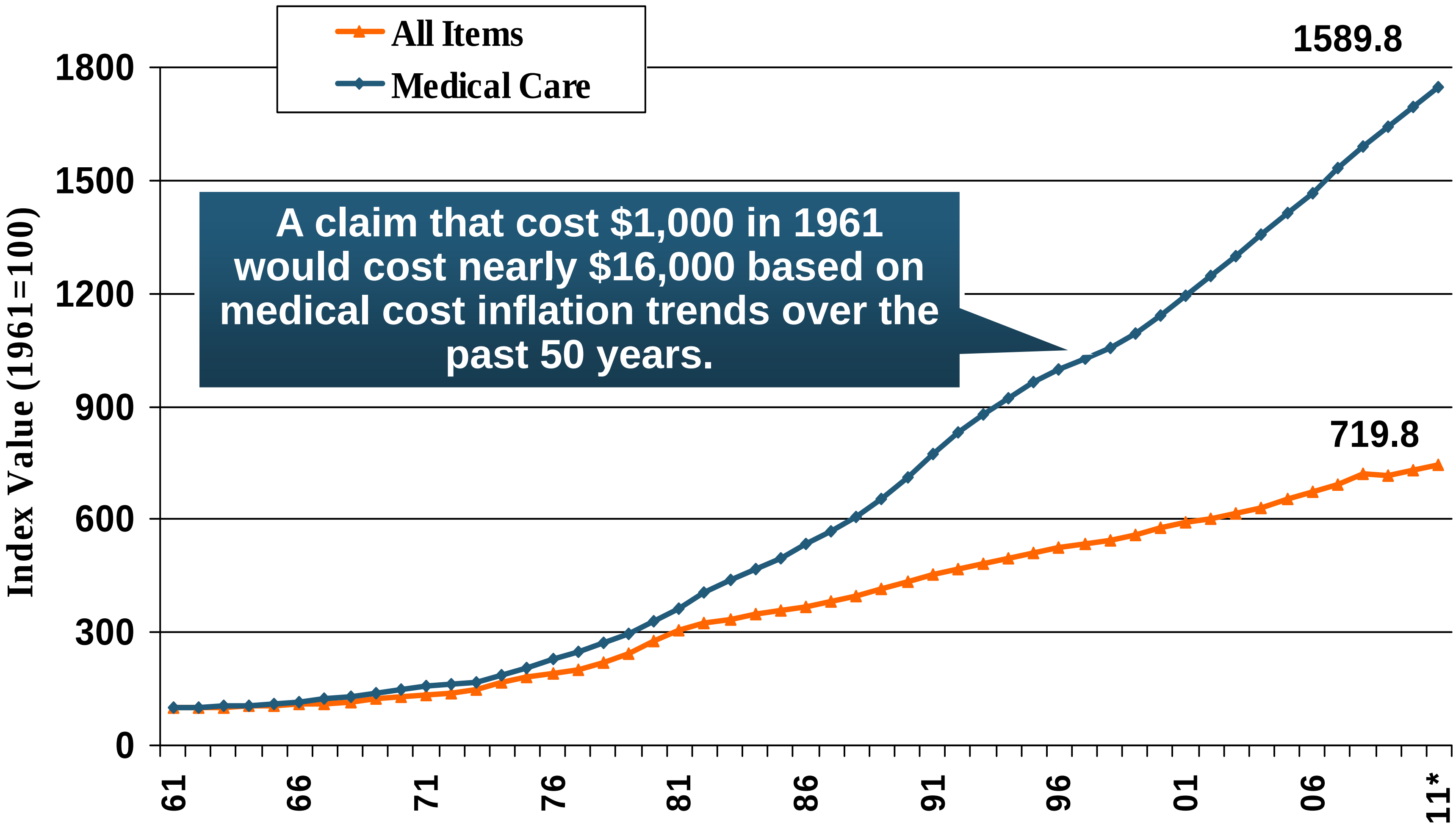

*Based on change from Feb. 2011 to Feb. 2010 (latest available)

Source: Department of Labor (Bureau of Labor Statistics)

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Regulatory Environment & Financial Services Reform

Insurers Not as Impacted as Banks, But Dodd-Frank Implementation Has Been a Concern for Insurers

2010 Property and Casualty Insurance Regulatory Report Card

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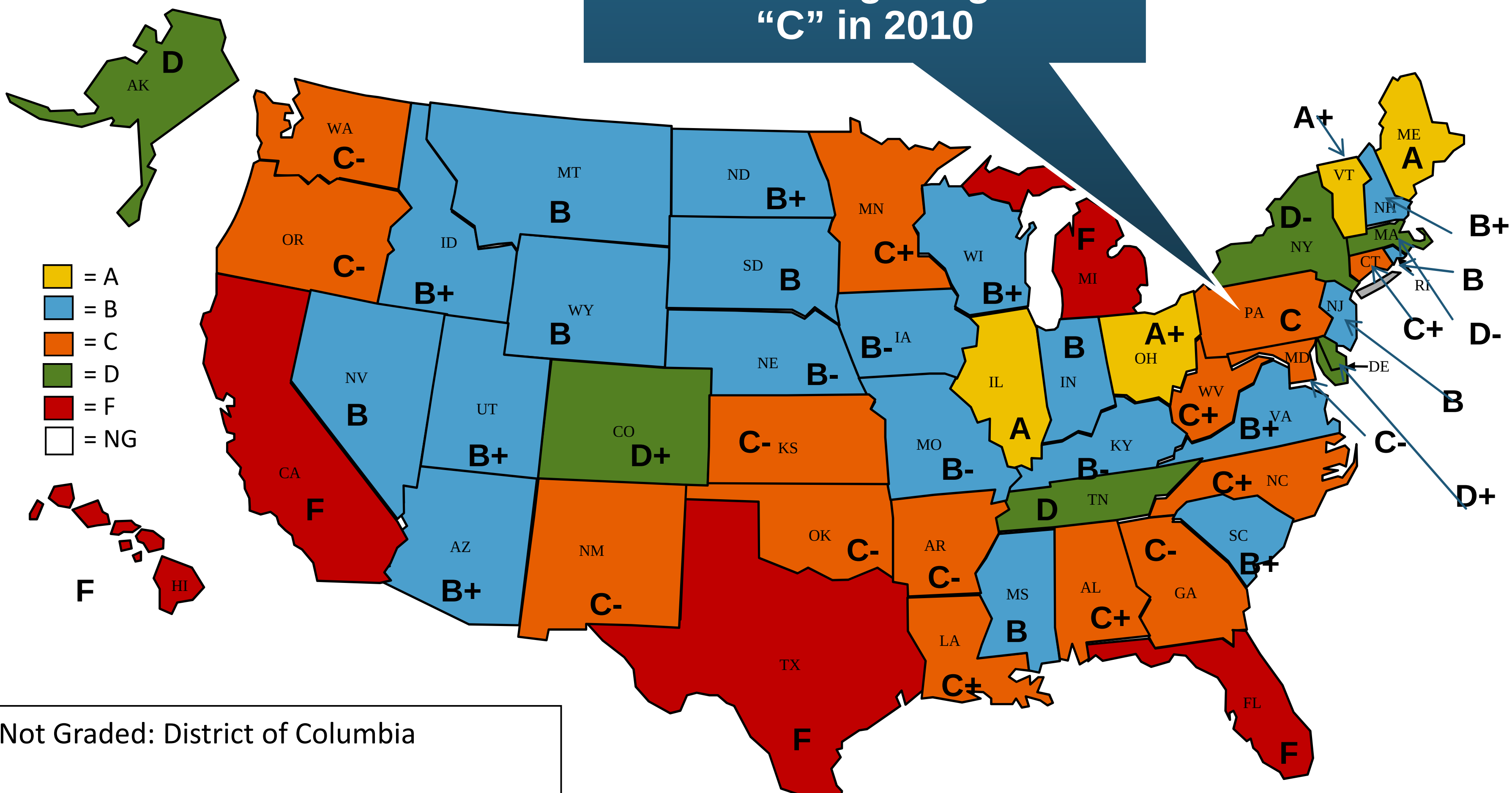
Pennsylvania's regulatory environment got a grade of "C" in 2010



Not Graded: District of Columbia

Source: Heartland Institute, May 2011

Dodd-Frank & Insurance One Year: *Status Report*

Expectations vs. Reality

Dodd-Frank Implementation
Status Report for Insurers: Slow Start

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The Dodd-Frank Wall Street Reform and Consumer Protection Act

- **Financial Stability Oversight Council—*Slow to Consider Insurer Concerns***
  - FSOC deliberates largely behind closed doors
  - Criteria and process for designation of Systemically Important Financial Institutions (SIFIs) were not announced until October 12, 2011
    - ***Possible that small number of US insurers will be designated as SIFIs***
  - Operated/deliberated until late September 2011 without a voting member representing the insurance industry
    - ***Roy Woodall, approved by Senate in Sept. 27, 2011, is the sole voting representative for the entire p/c and life insurance industry (was Kentucky Ins. Comm. 1966-1967; Worked in other insurance trade posts, Treasury)***
  - Two non-voting FSOC members represent insurance interests:
    - ***FIO Director Michael McGraith (started June 1, 2011)***
    - ***Missouri Insurance Director John Huff (started in Sept. 2010)***
      - ***Not allowed to brief fellow regulators on FSOC discussions***

Source: Insurance Information Institute (I.I.I.) updates and research

Dodd-Frank Implementation: *SYSTEMIC RISK CRITERIA*

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The Dodd-Frank Act and Systemic Importance

- **All Banks with Assets > $50B Considered Systemically Important**
- **Non-Bank Financial Groups with Global Consolidated Assets > $50B Will Be Examined for Systemic Riskiness, But Not Automatically Labeled as a Systemically Important Financial Institution (SIFI)**
  - Foreign firms with assets in the US exceeding $50 billion will also fall under review
- **If Firm Exceeds the $50B Threshold, a 3-Stage Test Applies**
- **STAGE 1: Non-Banks Financial Groups with $50B+ Assets Will Be Evaluated on Five "Uniform Quantitative Thresholds," at Least One of Which Will Have to Be Met to Trigger a Further (Stage 2) Review Potentially Leading to a SIFI Designation**
  - **Leverage:** Would have to be leveraged more than 15:1 (insurers unlikely to trigger)
  - **ST Debt-to-Assets**: Would have to a ratio of ST debt (less than 12 months to maturity) to consolidate assets exceeding 10%
  - **Debt:** Have total debt exceeding $20 billion (i.e., loans borrowed and bond issues)
  - **Derivative Liabilities:** Have derivative liabilities exceeding $3.5 billion
  - **Credit Default Swaps:** Have more than $30 billion CDS outstanding for which the nonbank financial firm is the reference entity (i.e., CDS written against firm's failure)
- **Thresholds Considered to Be Guideposts**
  - Not all companies that breach a barrier will be deemed systemically important
  - Regulators retain right to include firms that do meet any of the criteria

Source: Financial Stability Oversight Council; Insurance Information Institute (I.I.I.) research.

Dodd-Frank Implementation: *SYSTEMIC RISK CRITERIA (continued)*

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The Dodd-Frank Act and Systemic Importance

- **STAGE 2: Analysis of Firms Triggering Uniform Quantitative Thresholds**
  - Firms triggering one or more of the quantitative thresholds in Stage 1 will be analyzed using publicly available information in order to conduct a more thorough review
  - No data call will be required at this stage
  - Firms viewed as potentially systemically important (candidate SIFIs) will subject to a Stage 3 analysis
- **STAGE 3: Analysis of Candidate Systemically Important Financial Institutions**
  - Firms deemed in Stage 2 to be potentially systemically important will be subjected to more detailed analysis including data not available during the Stage 2 analysis
  - Stage 3 firms will be notified by the FSOC that they are under consideration and will have the opportunity to contest their consideration
- **SIFI DESIGNATION PROCEDURE: 2-Stage Voting Procedure by FSOC is Required Before a Final SIFI Designation is Made**
  - At the conclusion of the Stage 3, FSOC has the authority to propose a firm be designated as a SIFI
  - Requires 2/3 majority vote of FSOC members, including affirmation of the Chair (Treasury Secretary)
  - Potential SIFI firm will be given written explanation for the determination
  - Firm can request a hearing to contest the determination
  - Final determination requires *another* 2/3 majority of FSOC members and affirmation of the Chair

Source: Financial Stability Oversight Council; Insurance Information Institute (I.I.I.) research.

Dodd-Frank Implementation: *FSOC MEMBERS*

The Dodd-Frank Act and Systemic Importance

Members of the Financial Stability Oversight Council

- There are 10 voting members of the FSCO

- **Treasury Secretary and FSOC Chair: Timothy Geithner**
- **Federal Reserve Chairman: Ben Bernanke**
- **Securities & Exchange Commission Chairman: Mary Shapiro**
- **Commodities Futures Trading Commission Chairman: Gary Gensler**
- **National Credit Union Administration Chairman: Debbie Matz**
- **(Acting) Comptroller of the Currency: John Walsh**
- **Federal Housing Finance Agency (Acting) Director: Edward DeMarco**
- **Consumer Financial Protection Bureau Director: *Position is Currently Vacant***
- **Independent Insurance Expert: Roy Woodall**
    - There are 2 nonvoting members of the FSOC representing insurance interests
        - Federal Insurance Office Director Mike McGraith
        - John Huff, Director of the Missouri Insurance Department

Source: Financial Stability Oversight Council; Insurance Information Institute (I.I.I.) research.

Dodd-Frank Implementation: *FSOC MEMBERS*

Members of the Federal Advisory Committee on Insurance

Members Announced on November 2, 2011:

- David Birnbaum, Economist and Executive Director, Center for Economic Justice
- Michael Consedine, Commissioner, Commonwealth of the Pennsylvania Department of Insurance
- Jacqueline Cunningham, Commissioner, State of Virginia Bureau of Insurance
- John Degnan, Senior Advisor to the CEO of the Chubb Corporation
- Brian Duperreault, President and Chief Executive Officer, Marsh & McLennan Companies
- Loretta Fuller, Chief Executive Officer, Insurance Solutions Associates
- Scott E. Harrington, Alan B. Miller Professor in the Health Care Management and Insurance and Risk Management departments at the Wharton School, University of Pennsylvania
- Benjamin Lawsky, Superintendent of Financial Services, State of New York
- Thomas Leonardi, Commissioner of the Connecticut Department of Insurance
- Monica Lindeen, State of Montana Commissioner of Securities and Insurance and State Auditor
- Christopher Mansfield, Senior Vice President and General Counsel, Liberty Mutual Group
- Sean McGovern, Director and General Counsel, Lloyd's North America
- Theresa Miller, Administrator, State of Oregon Insurance Division
- Michael E. Sproule, Executive VP and Chief Financial Officer, New York Life Insurance Co.
- Bill White, Commissioner, District of Columbia Department of Insurance

Source: Federal Insurance Office; Insurance Information Institute (I.I.I.) research.

Dodd-Frank Implementation: *Federal Insurance Office: Very Quiet*

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Federal Insurance Office Update: *Activity Update*

- **FIO's First Director Did Not Assume Office Until June 1, 2011**
  - Former Illinois Insurance Director Michael McGraith
  - Small staff (10-12) and modest budget
  - McGraith has made few appearances or public comments

- **Study on State of Insurance Regulation Due Jan. 21, 2012**
  - Report will likely review previously identified inefficiencies and strengths of current regulatory system with an eye toward modernization.
- **Treasury Will Likely Exert Heavy Influence on the Report**

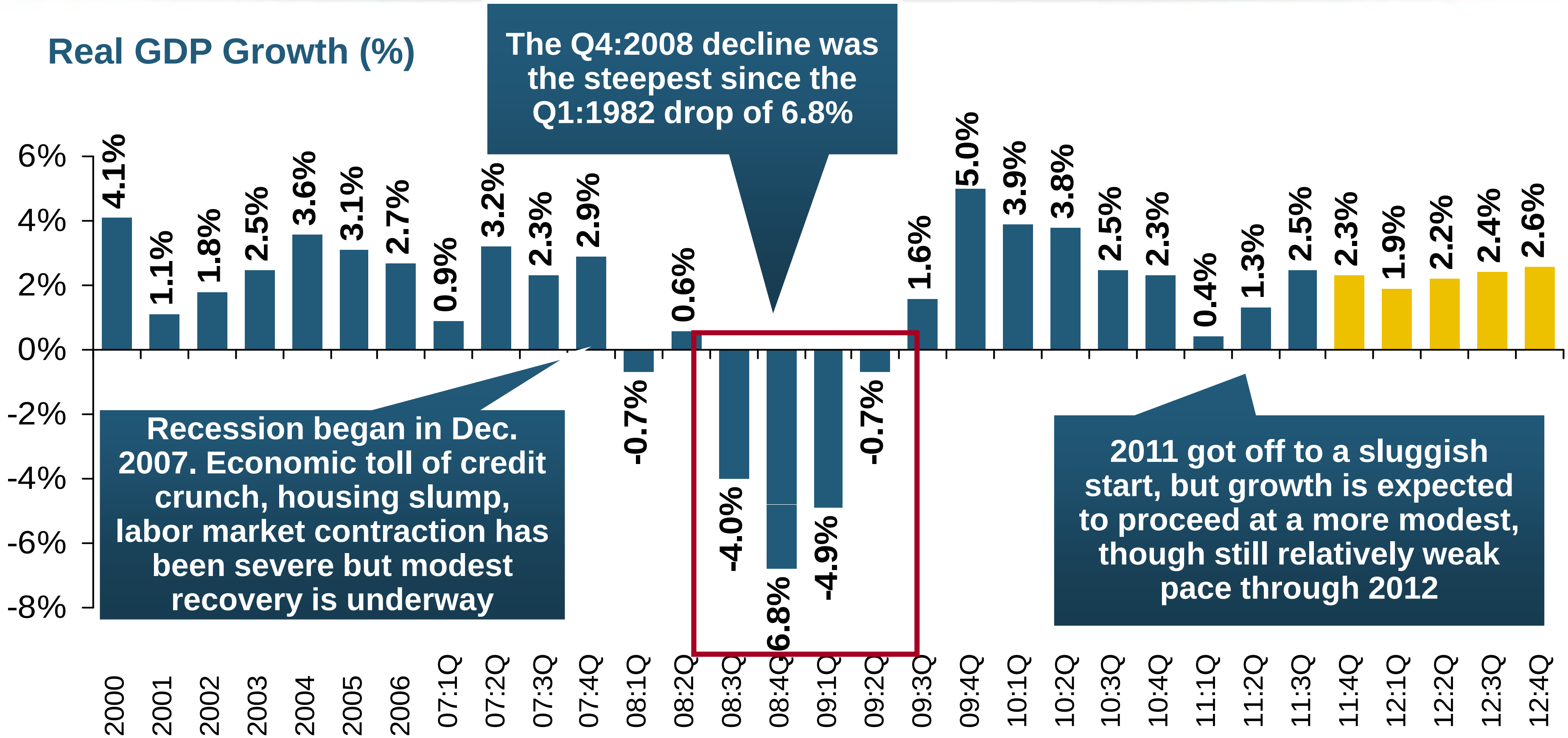
Former President of P/C Insurance at The Hartford

Source: Insurance Information Institute (I.I.I.) updates and research

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

Growth Would Also Help Absorb Excess Capital

US Real GDP Growth*

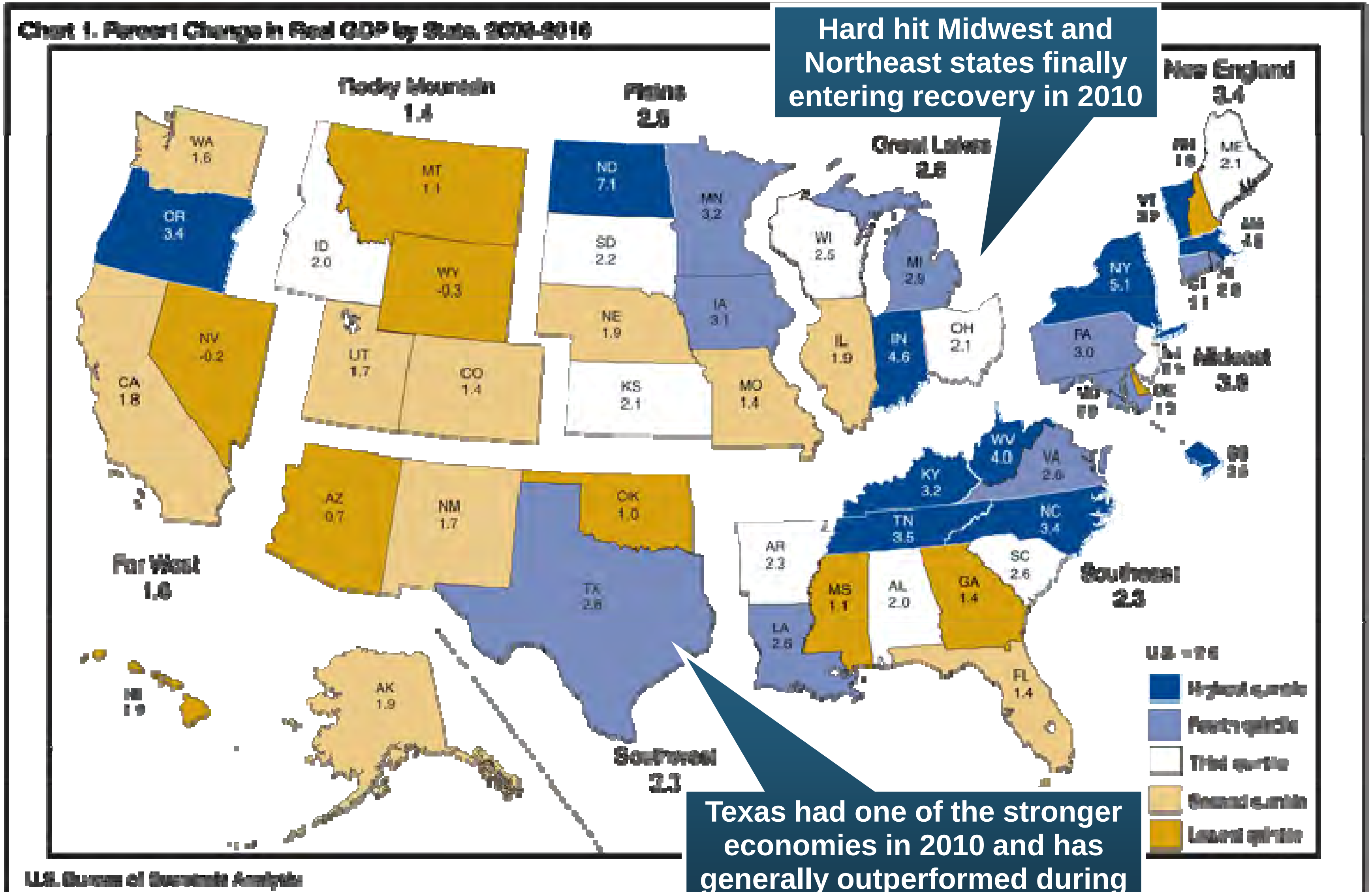


Demand for Insurance Continues To Be Impacted by Sluggish Economic Conditions, but the Benefits of Even Slow Growth Will Compound and Gradually Benefit the Economy Broadly

* Estimates/Forecasts from Blue Chip Economic Indicators.

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

2011 Financial Overview
State Economic Growth Varied in 2010



Hard hit Midwest and Northeast states finally entering recovery in 2010

Texas had one of the stronger economies in 2010 and has generally outperformed during the economic downturn

New Private Housing Starts, 1990-2022F

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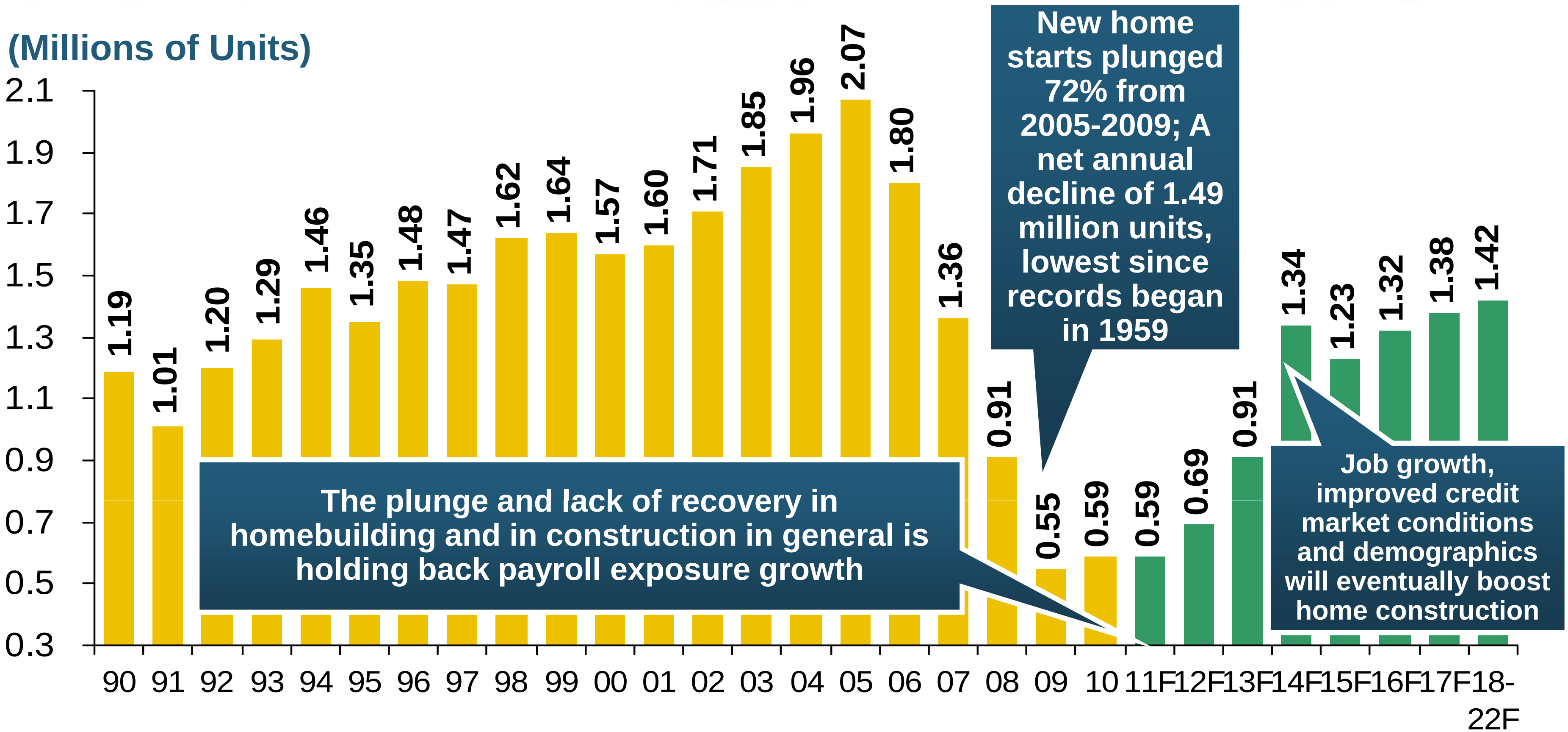

Little Exposure Growth Likely for Homeowners Insurers Until 2014. Also Affects Commercial Insurers with Construction Risk Exposure, Surety

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (10/11 and 11/11); Insurance Information Institute.

Auto/Light Truck Sales, 1999-2022F

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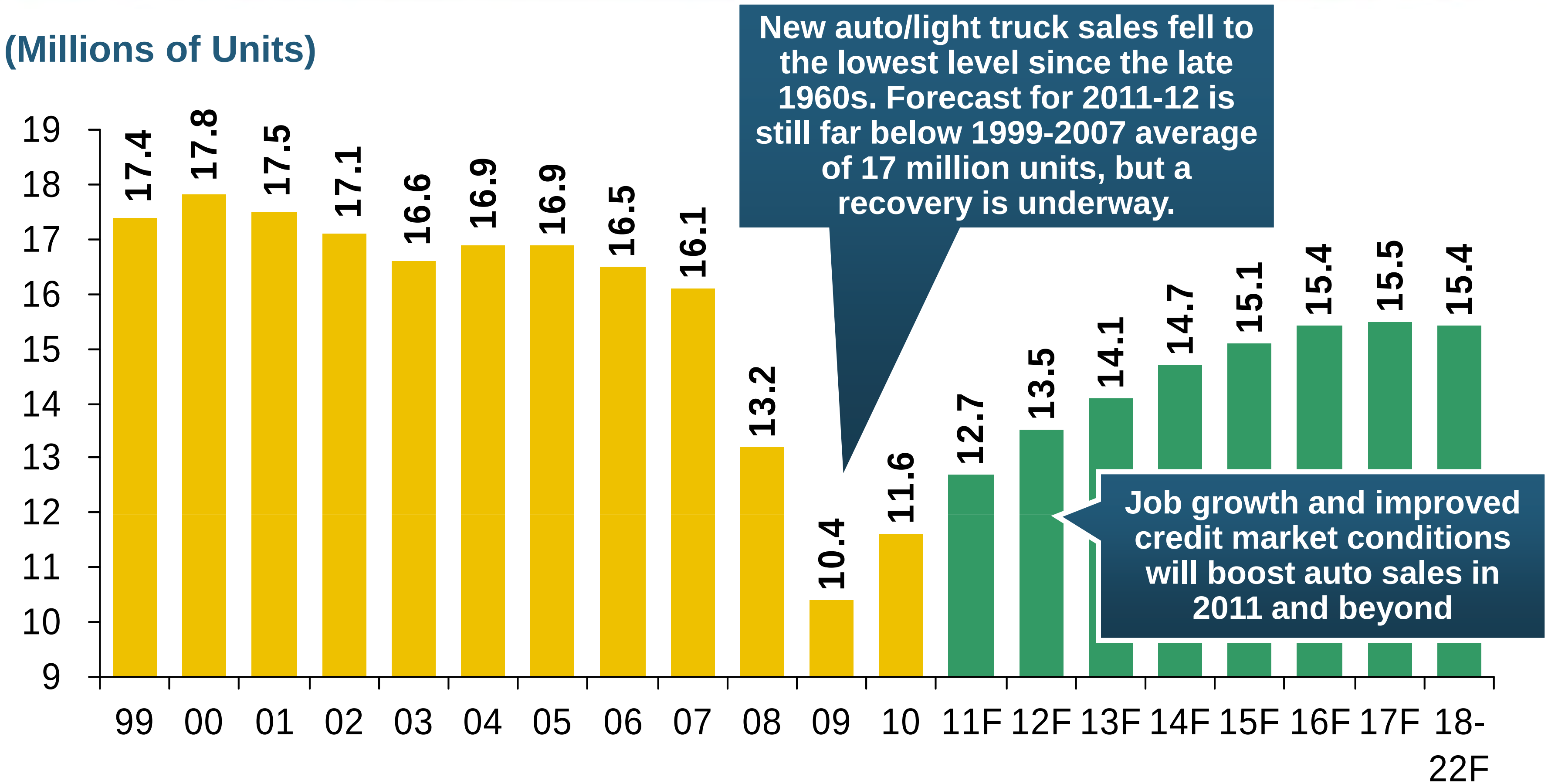

Car/Light Truck Sales Will Continue to Recover from the 2009 Low Point, Bolstering the Auto Insurer Growth and the Manufacturing Sector.

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (10/11 and 11/11); Insurance Information Institute.

Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures

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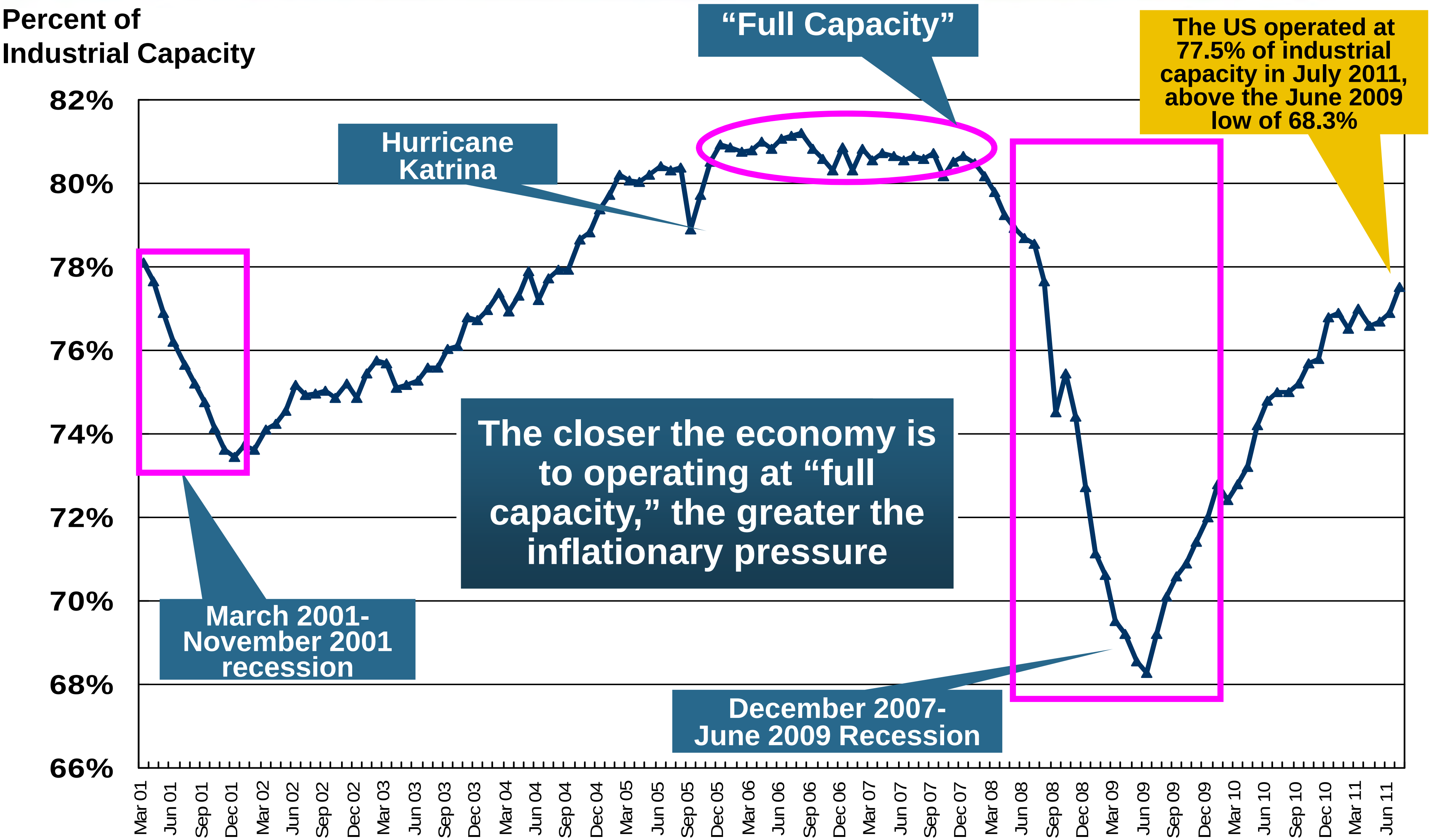

Source: Federal Reserve Board statistical releases at http://www.federalreserve.gov/releases/g17/Current/default.htm.

ISM Manufacturing Index
(Values > 50 Indicate Expansion)

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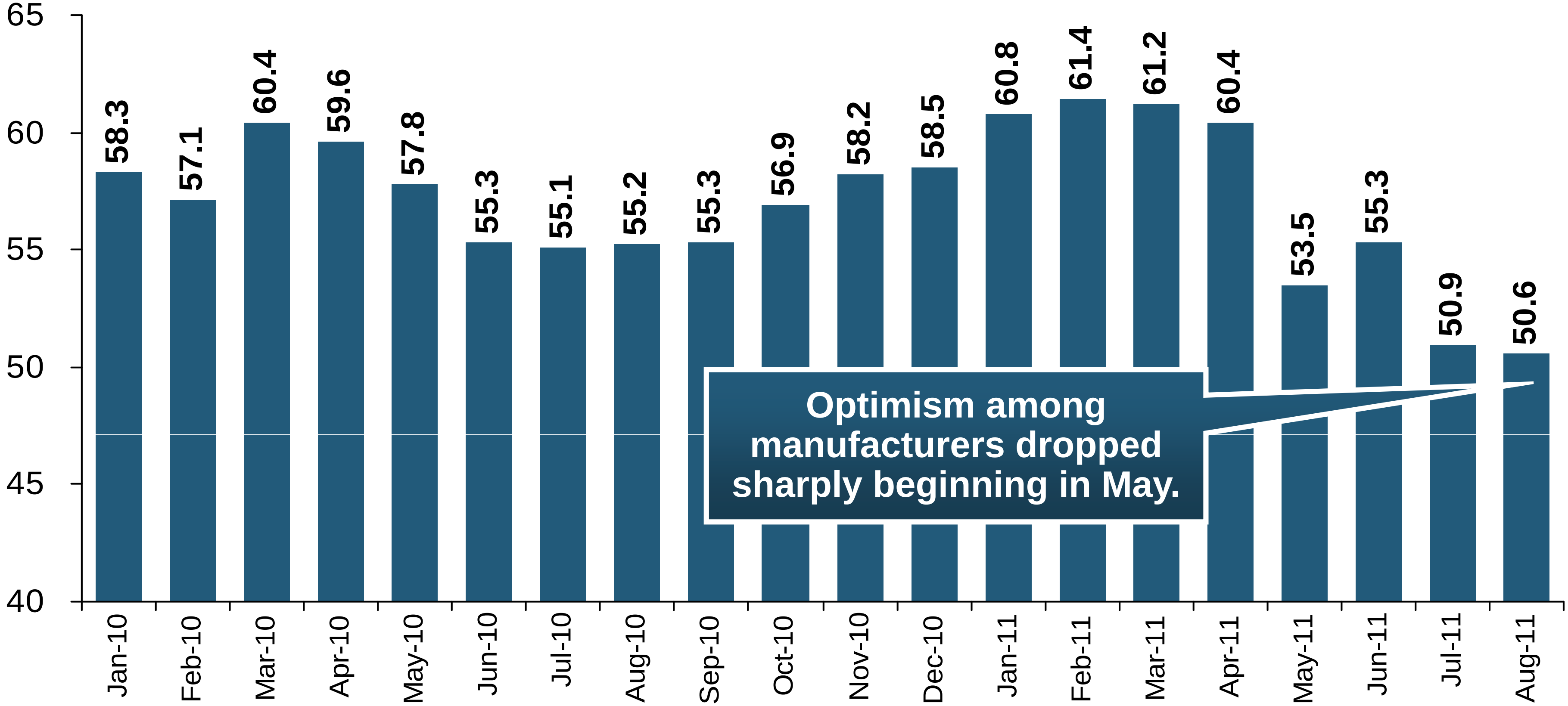
January 2010 through August 2011



The manufacturing sector has been expanding and adding jobs. The question is whether this will continue.

Source: Institute for Supply Management; Insurance Information Institute

Consumer Sentiment Survey *(1966 = 100)*

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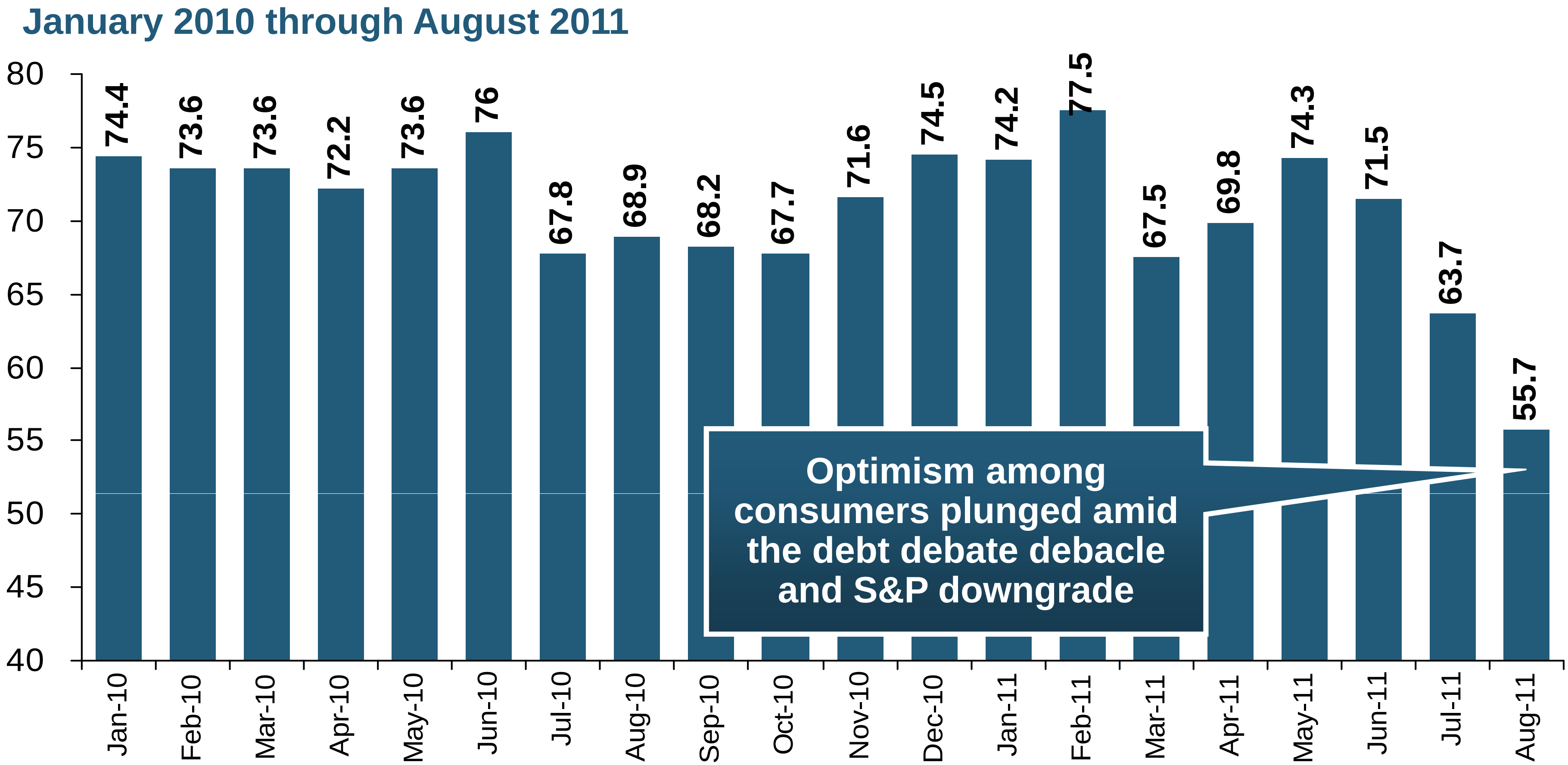
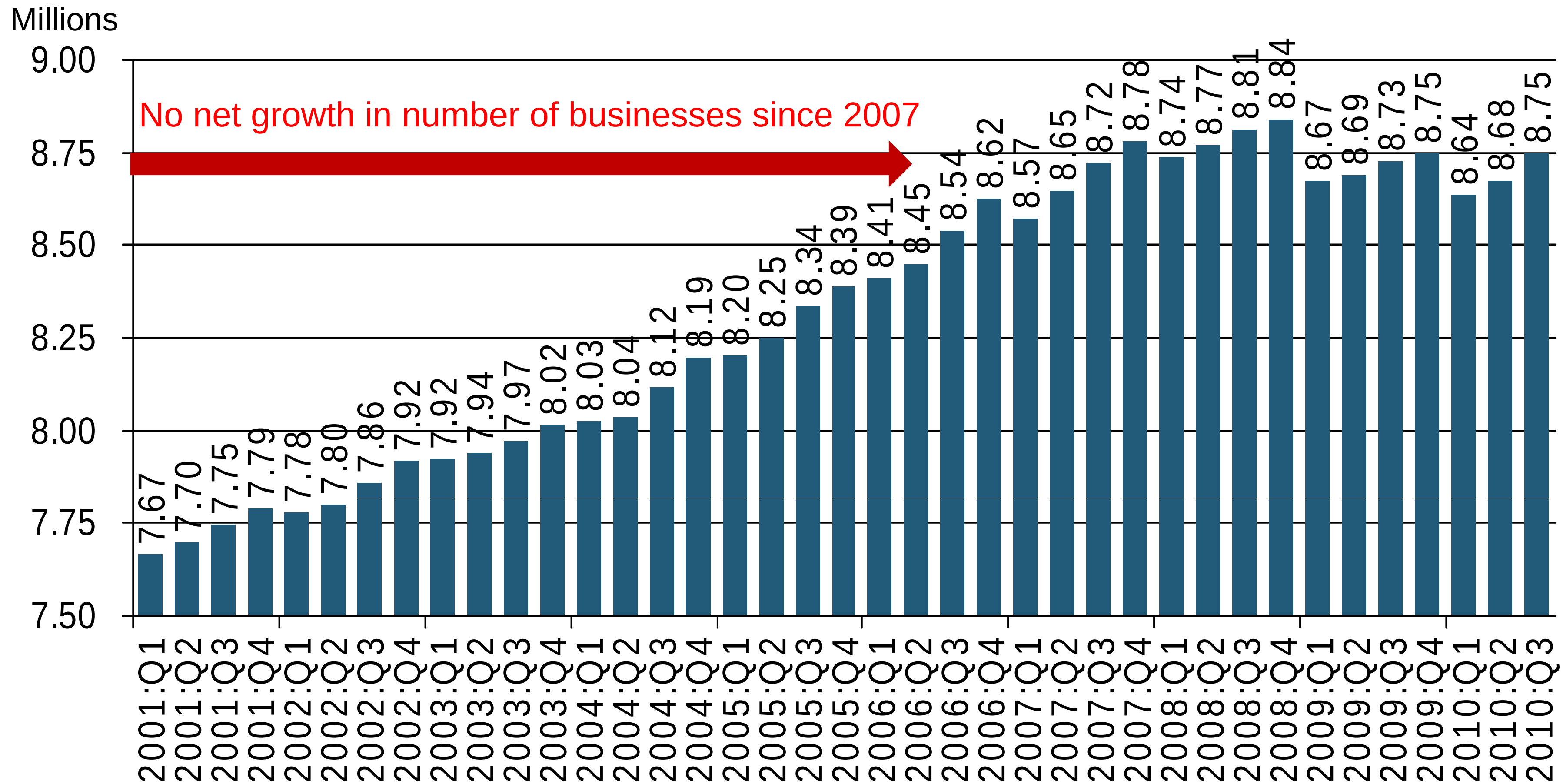


Consumer confidence has been low for years amid high unemployment, falling home prices and other factors adversely impact comsumers.

Source: University of Michigan; Insurance Information Institute

Number of Private Business Establishments, 2001:Q1-2010:Q3



In 2009:Q1 a net of 165,000 businesses disappeared.
By 2010:Q3 73,000 new ones appeared,
returning us to the level first attained three years before, in 2007:Q3.

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

Business Bankruptcy Filings, 1980-2011:H1

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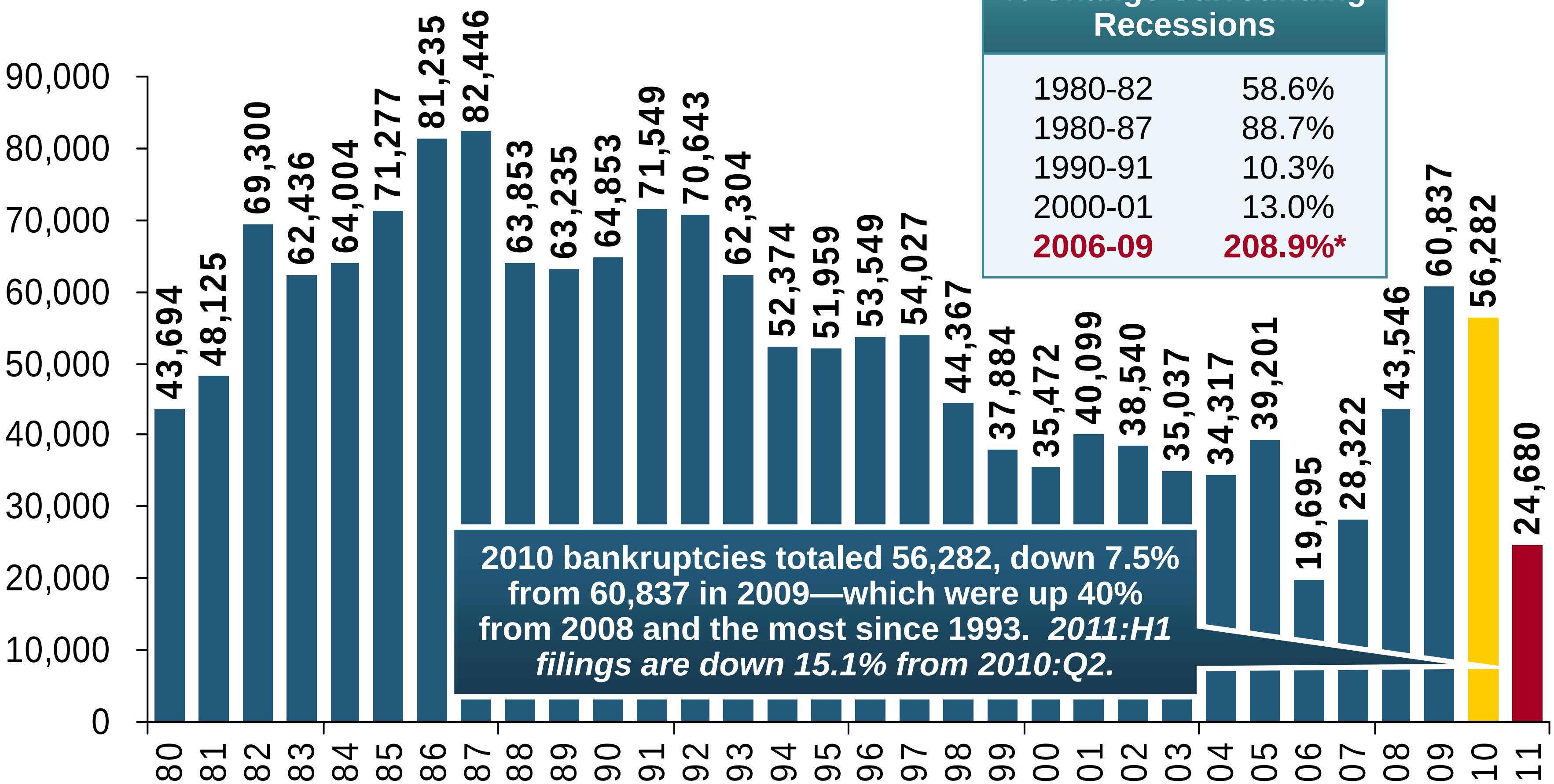
% Change Surrounding Recessions	
1980-82	58.6%
1980-87	88.7%
1990-91	10.3%
2000-01	13.0%
2006-09	**208.9%***



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 – 2010:Q4*

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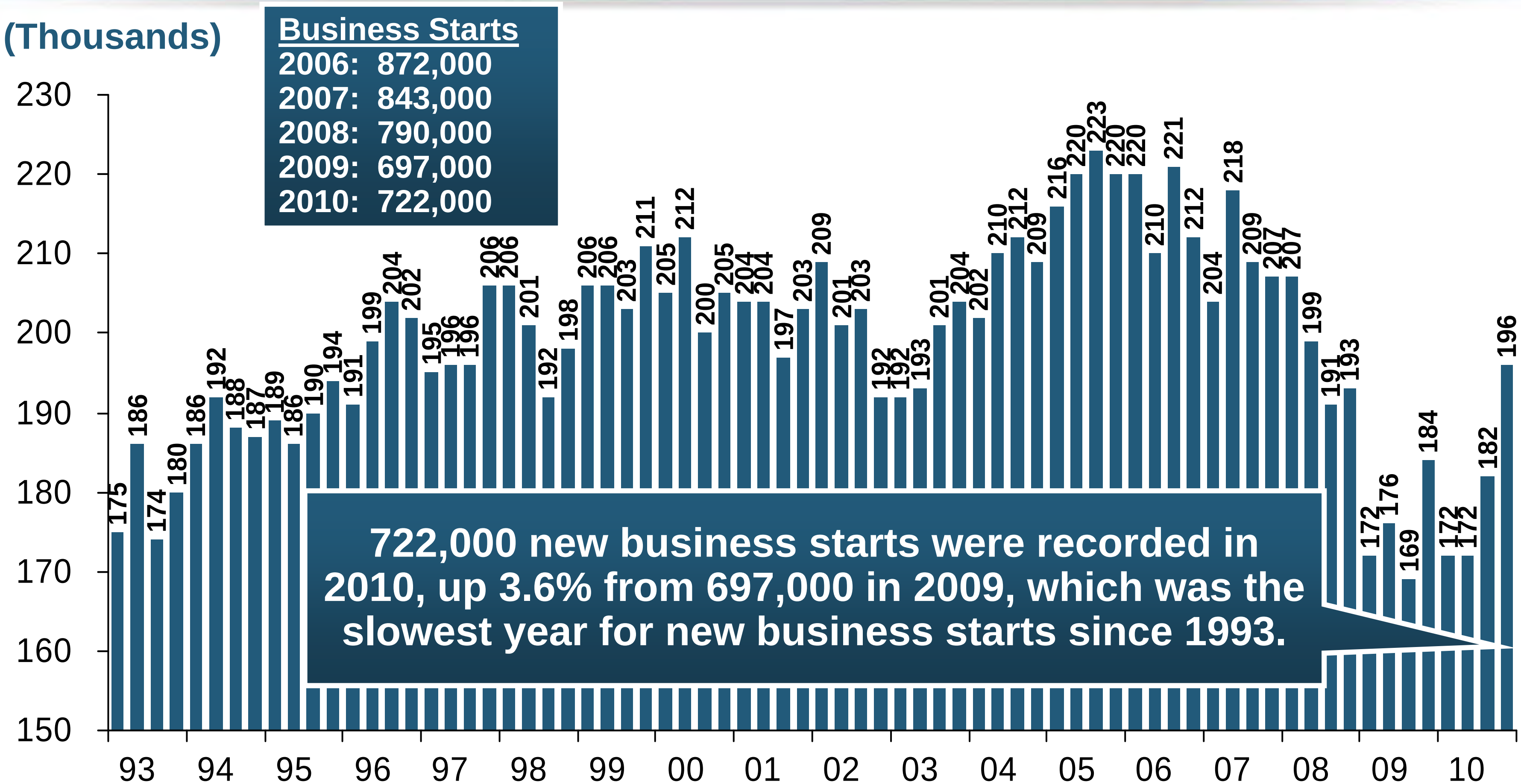

Business Starts Were Down Nearly 20% in the Recession, Holding Back Most Types of Commercial Insurance Exposure

* Data through December 31, 2010 are the latest available as of September 8, 2011; Seasonally adjusted
Source: Bureau of Labor Statistics, http://www.bls.gov/news.release/cewbd.t08.htm.

11 Industries for the Next 10 Years: Insurance Solutions Needed

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

Many industries are poised for growth, but many insurers do not write in these economic segments

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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 2011

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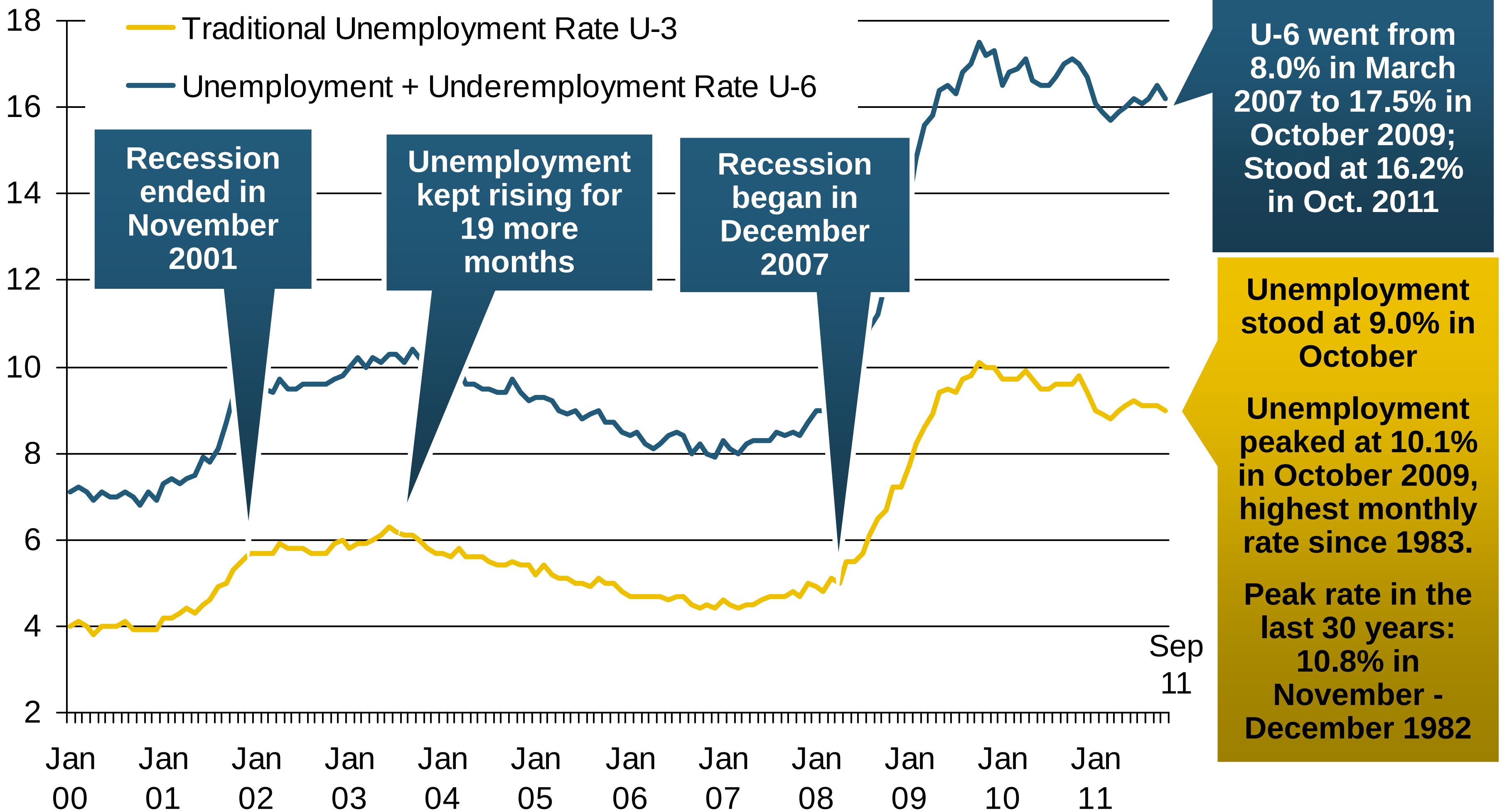
January 2000 through October 2011, Seasonally Adjusted (%)



Stubbornly high unemployment and underemployment will constrain overall economic growth

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

Monthly Change in Private Employment

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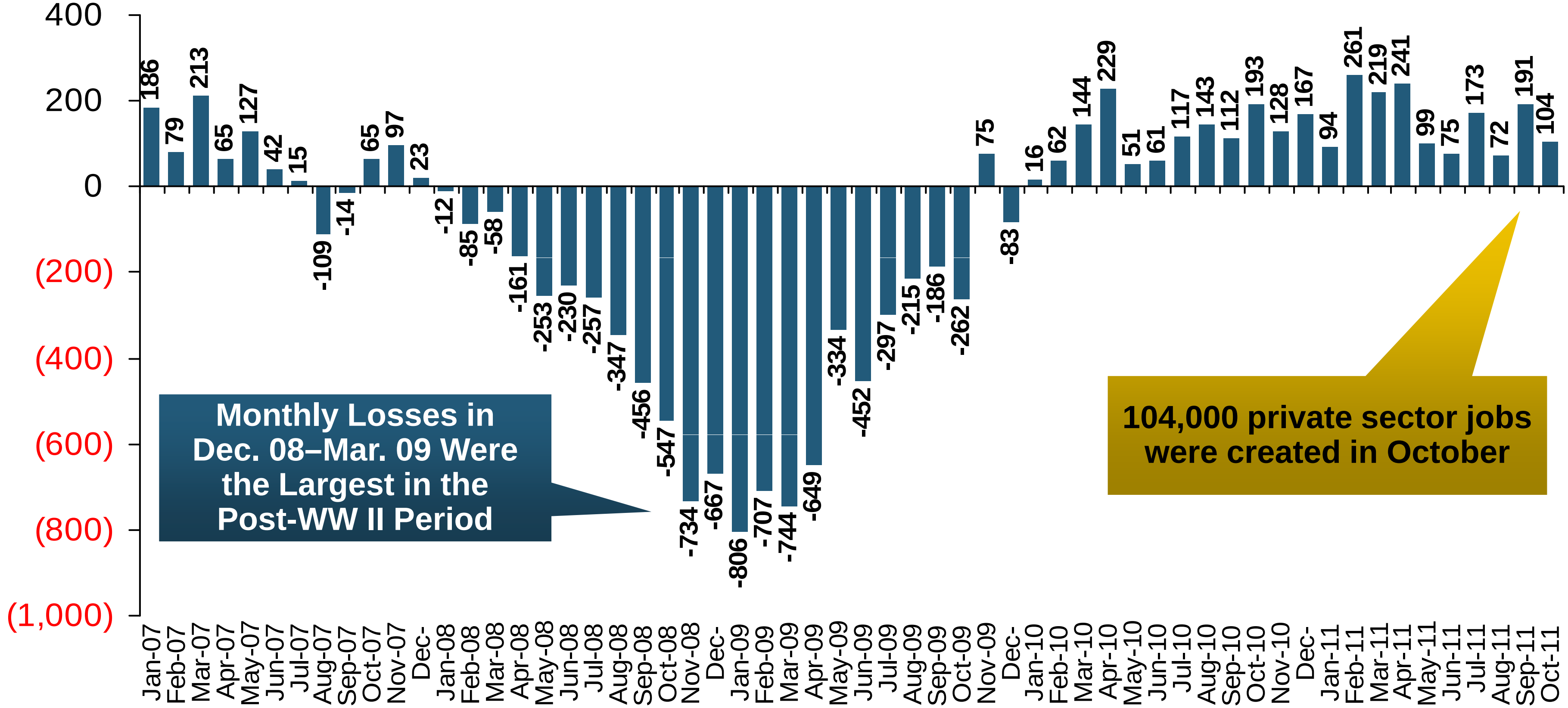
January 2008 through October 2011* (Thousands)



Private Employers Added 2.952 million Jobs Since Jan. 2010 After Having Shed 4.66 Million Jobs in 2009 and 3.81 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs

Source: US Bureau of Labor Statistics: http://www.bls.gov/ces/home.htm; Insurance Information Institute

Change in Number Employed in Select Industries, June 2011 vs. June 2010

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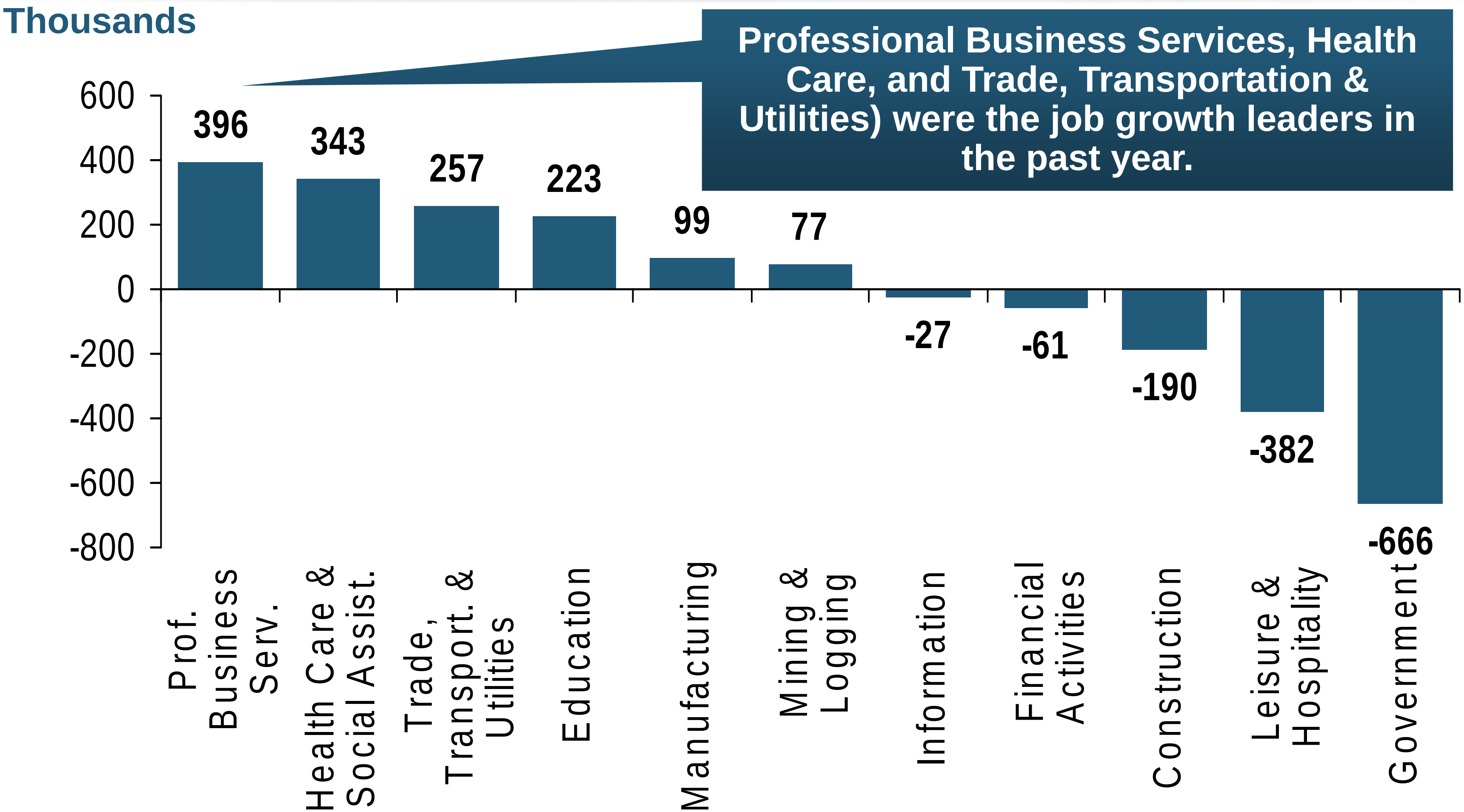

There is a great deal of variation in employment growth by industry, indicating a very uneven and slow recovery

Sources: US Bureau of Labor Statistics "Employment Situation, June 2011"; Insurance Information Institute.

Monthly Change Employment*

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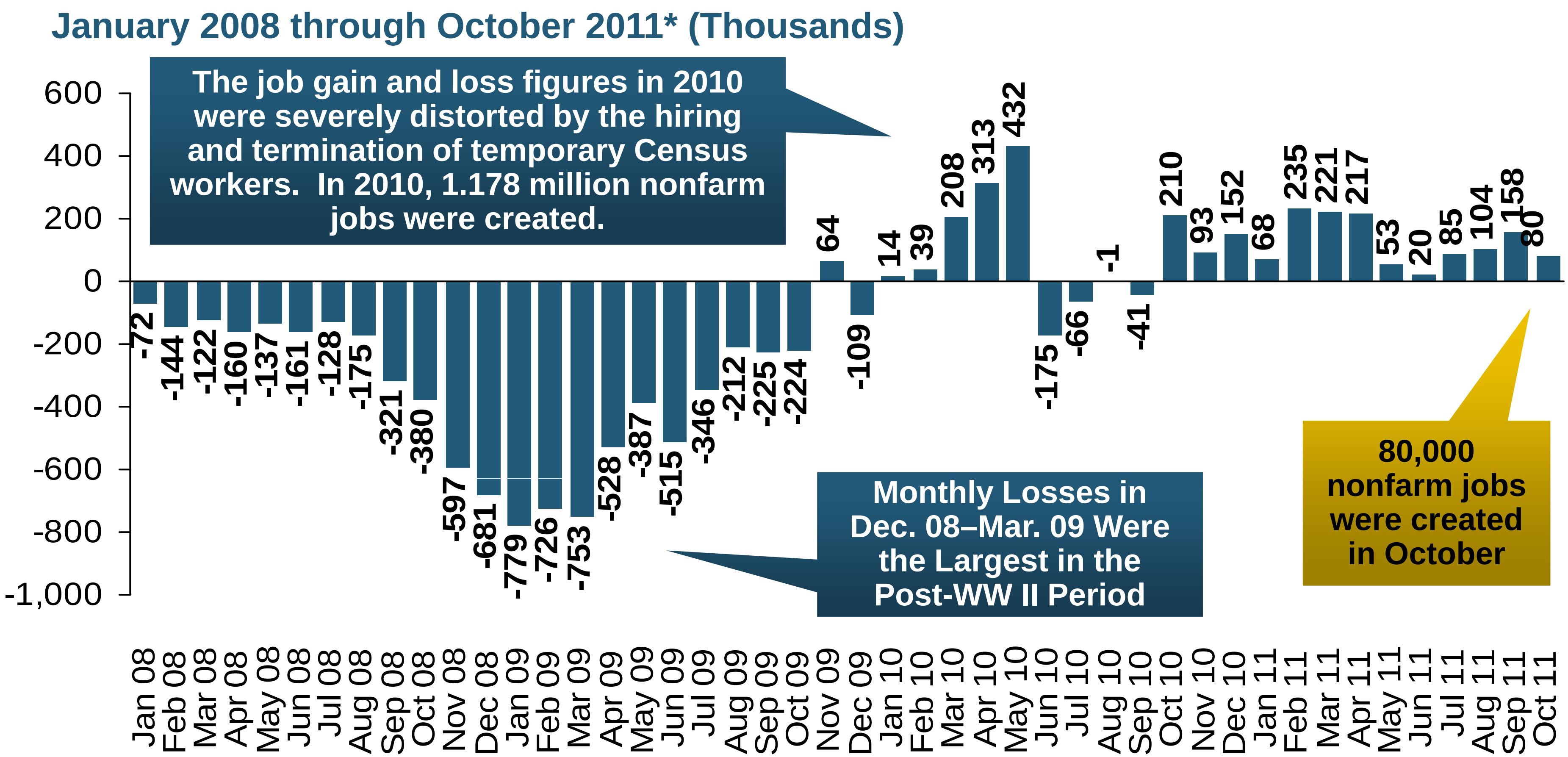
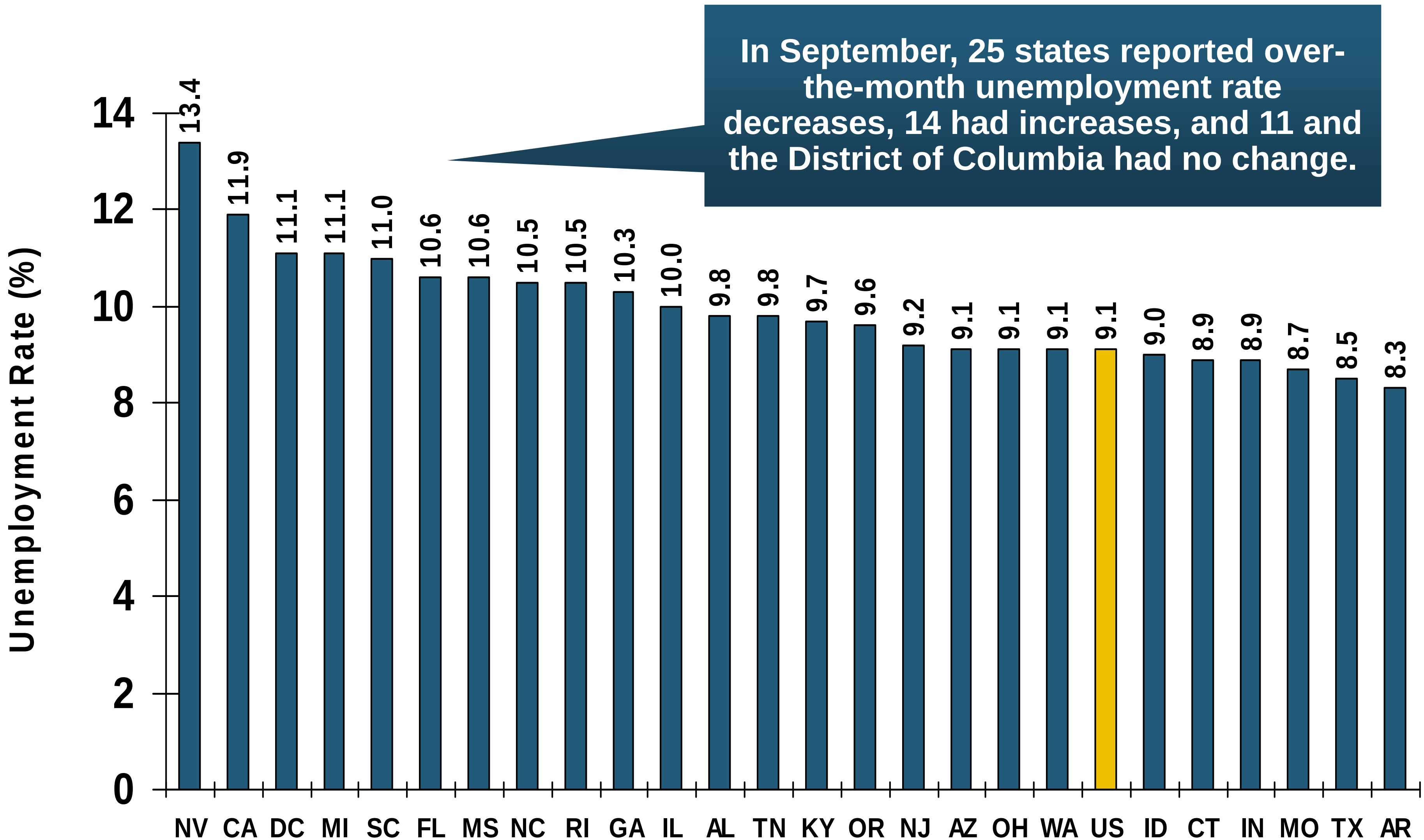


Job Losses Since the Recession Began in Dec. 2007 Peaked at 8.4 Mill in Dec. 09; 13.9 Million People are Now Defined as Unemployed

Source: US Bureau of Labor Statistics: http://www.bls.gov/ces/home.htm; Insurance Information Institute

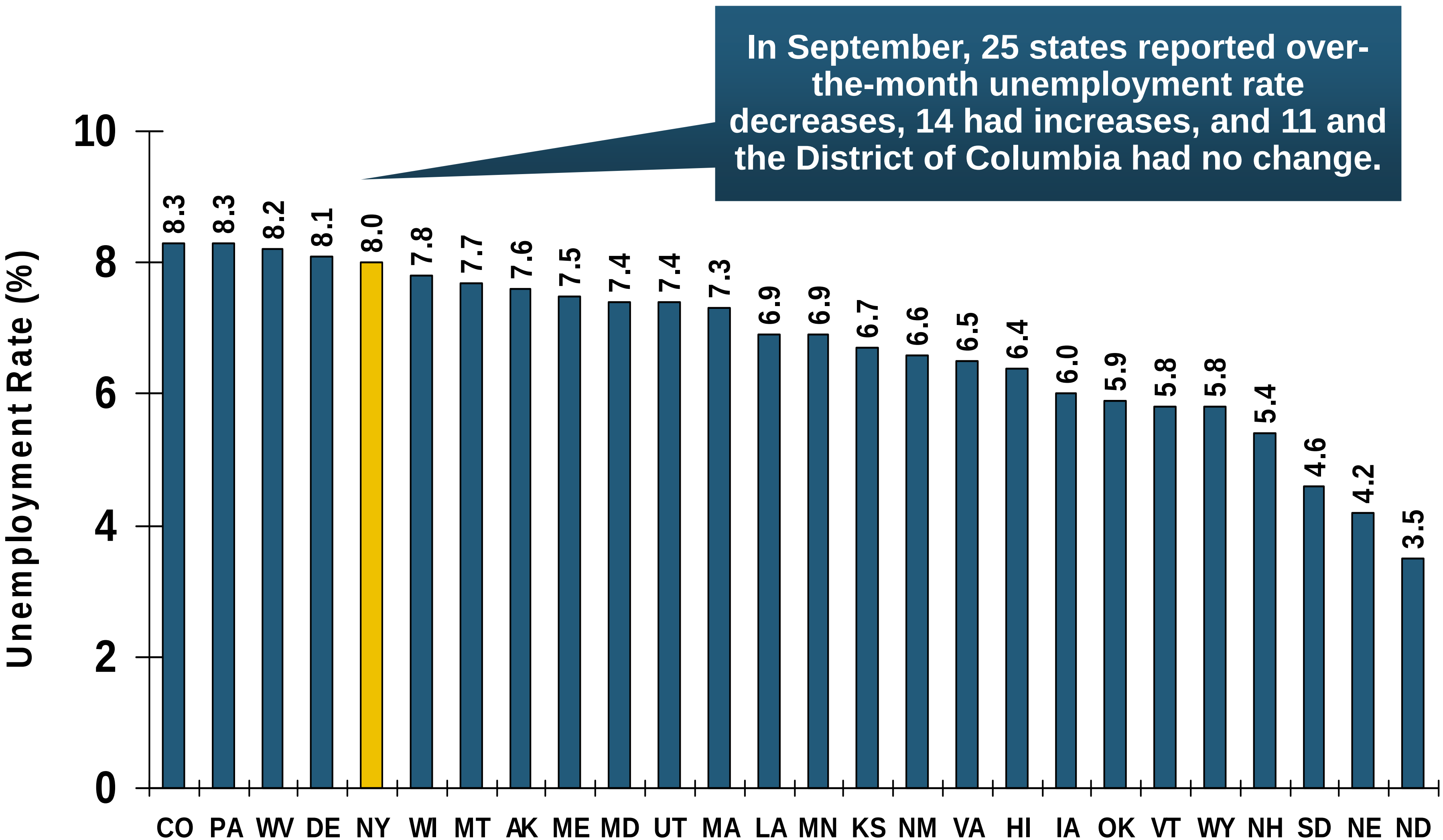
Unemployment Rates by State, September 2011: Highest 25 States*



*Provisional figures for September 2011, seasonally adjusted.

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

Unemployment Rates By State, September 2011: Lowest 25 States*

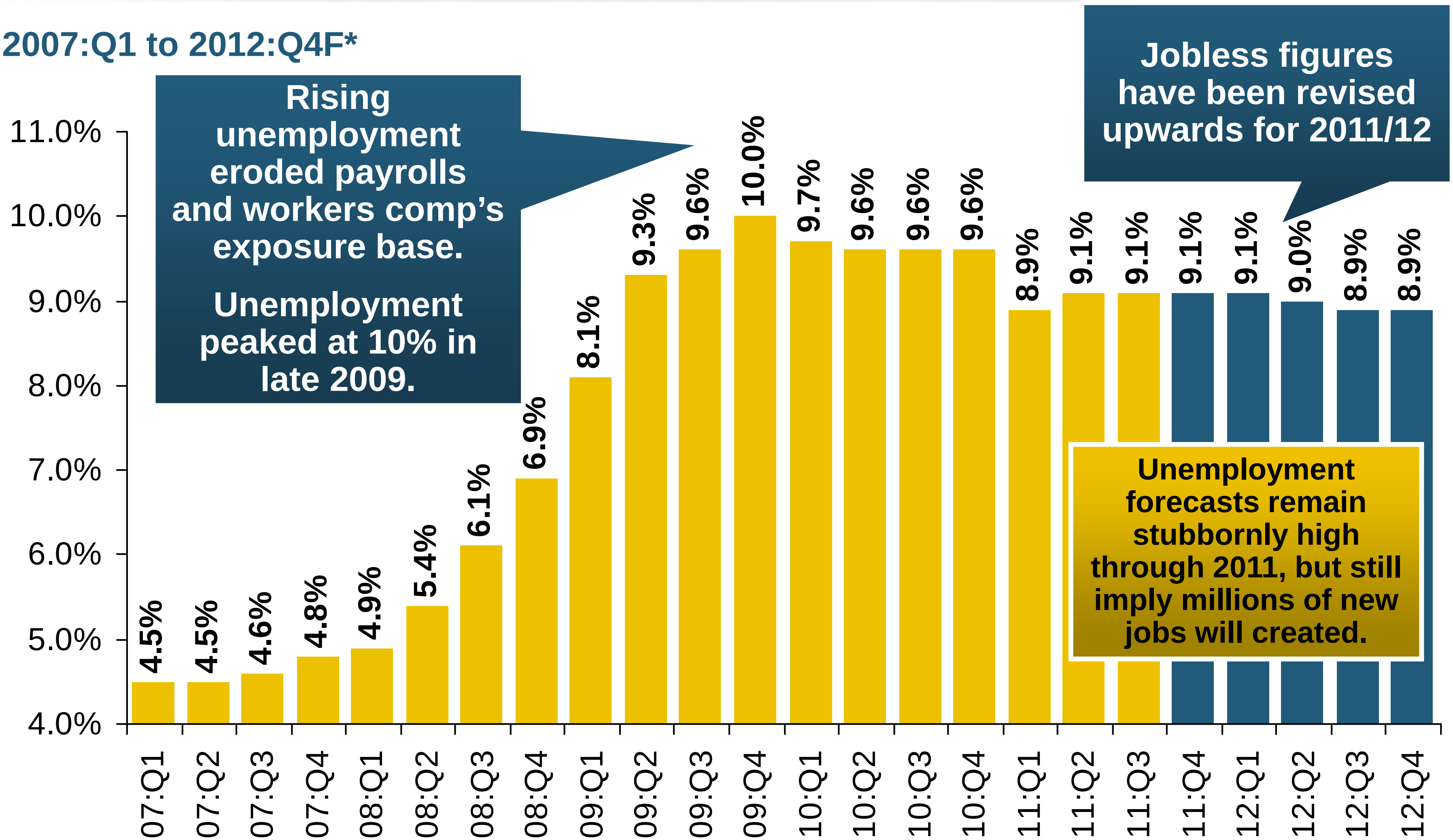


*Provisional figures for September 2011, seasonally adjusted.

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

US Unemployment Rate

2007:Q1 to 2012:Q4F*



* = actual; = forecasts

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

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