The State of the P/C Insurance Industry

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The Economic Backdrop

Real Quarterly GDP Growth: A Slow Recovery is Forecast

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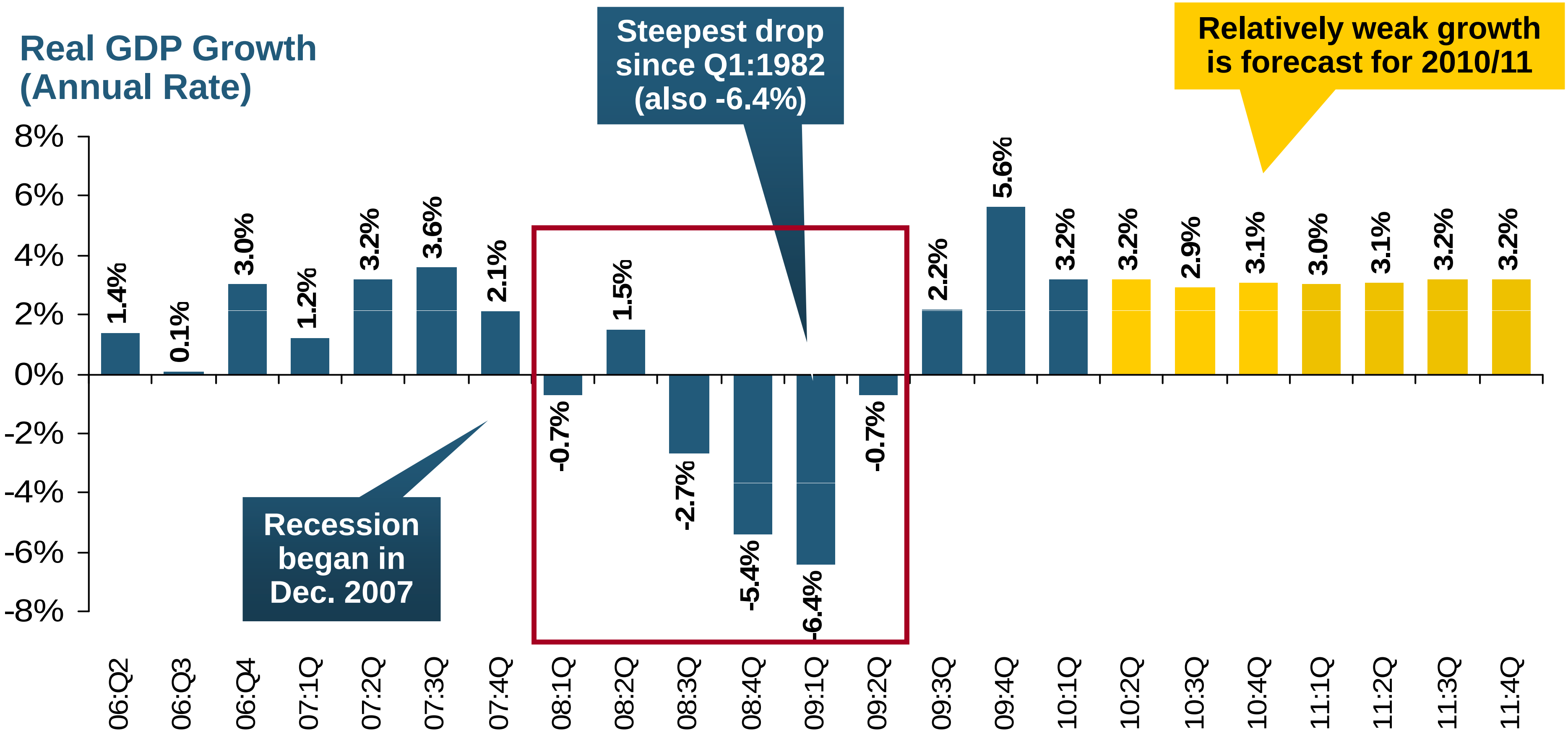
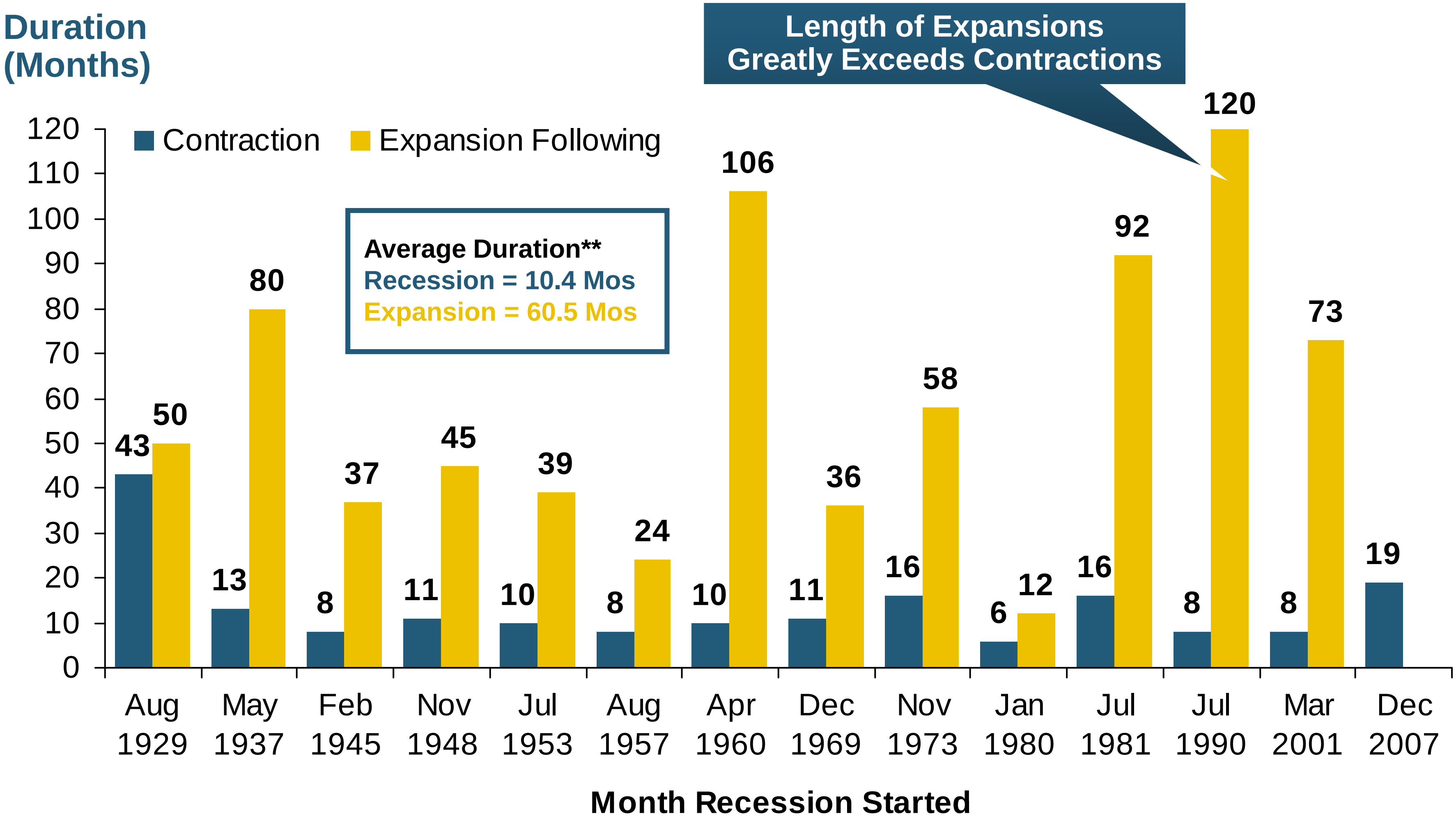


Personal and Commercial Lines Exposure Bases Have Been Hit Hard and Will Be Slow to Come Back

* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 5/10; Insurance Information Institute.

It Seems We Have a Recession Every 5-8 Years or So



* Through June 2009 (likely the "official end" of recession) ** Post-WW II period through end of most recent expansion.

Sources: National Bureau of Economic Research; Insurance Information Institute.

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Labor Market Trends

Massive Job Losses Affect the Commercial and Personal Lines Exposure Bases

Unemployment and Underemployment Rates: Is the Worst Over?

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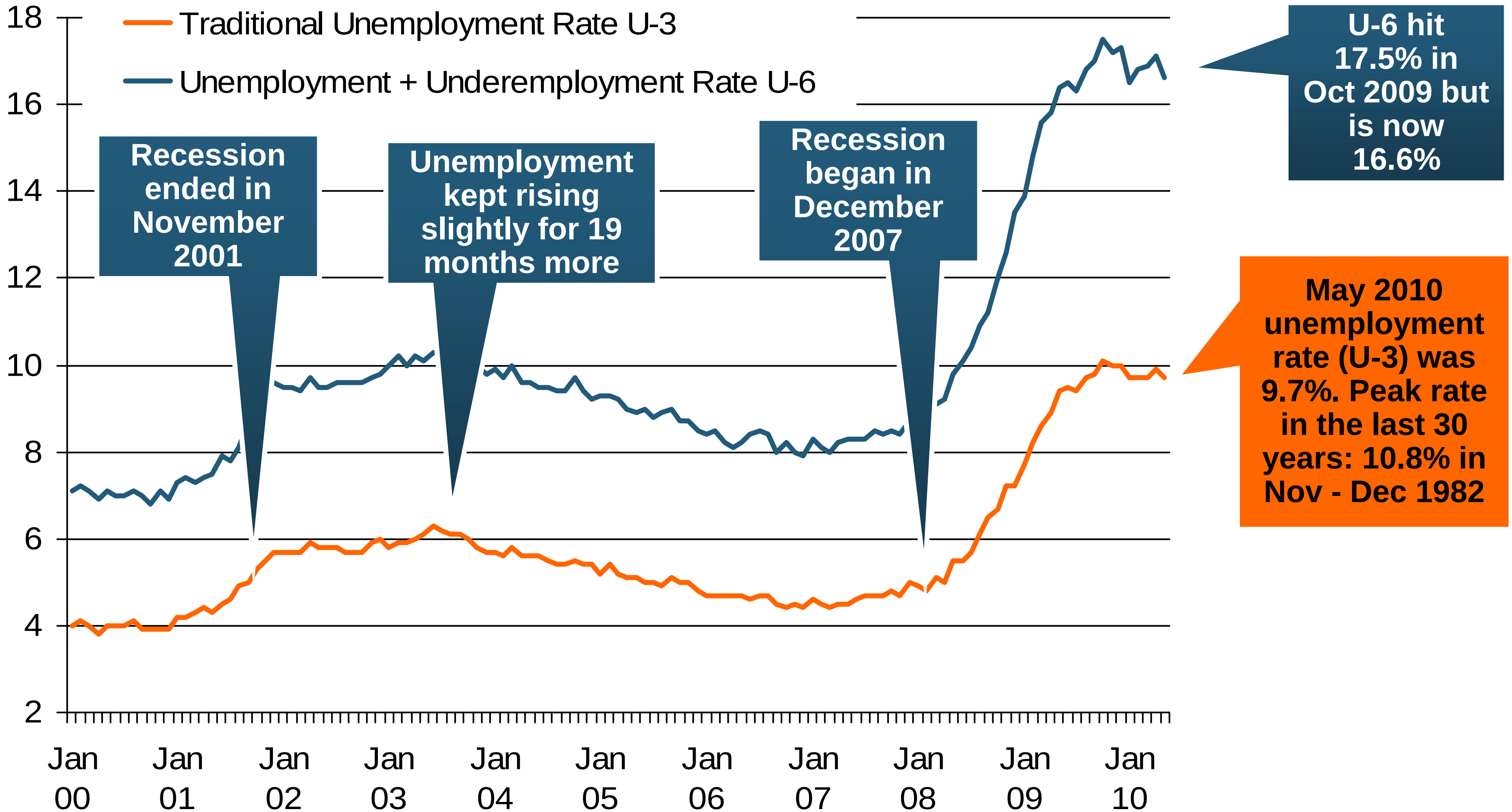
January 2000 through May 2010, Seasonally Adjusted (%)



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

An Uneven Recession: Less Education => Higher Unemployment

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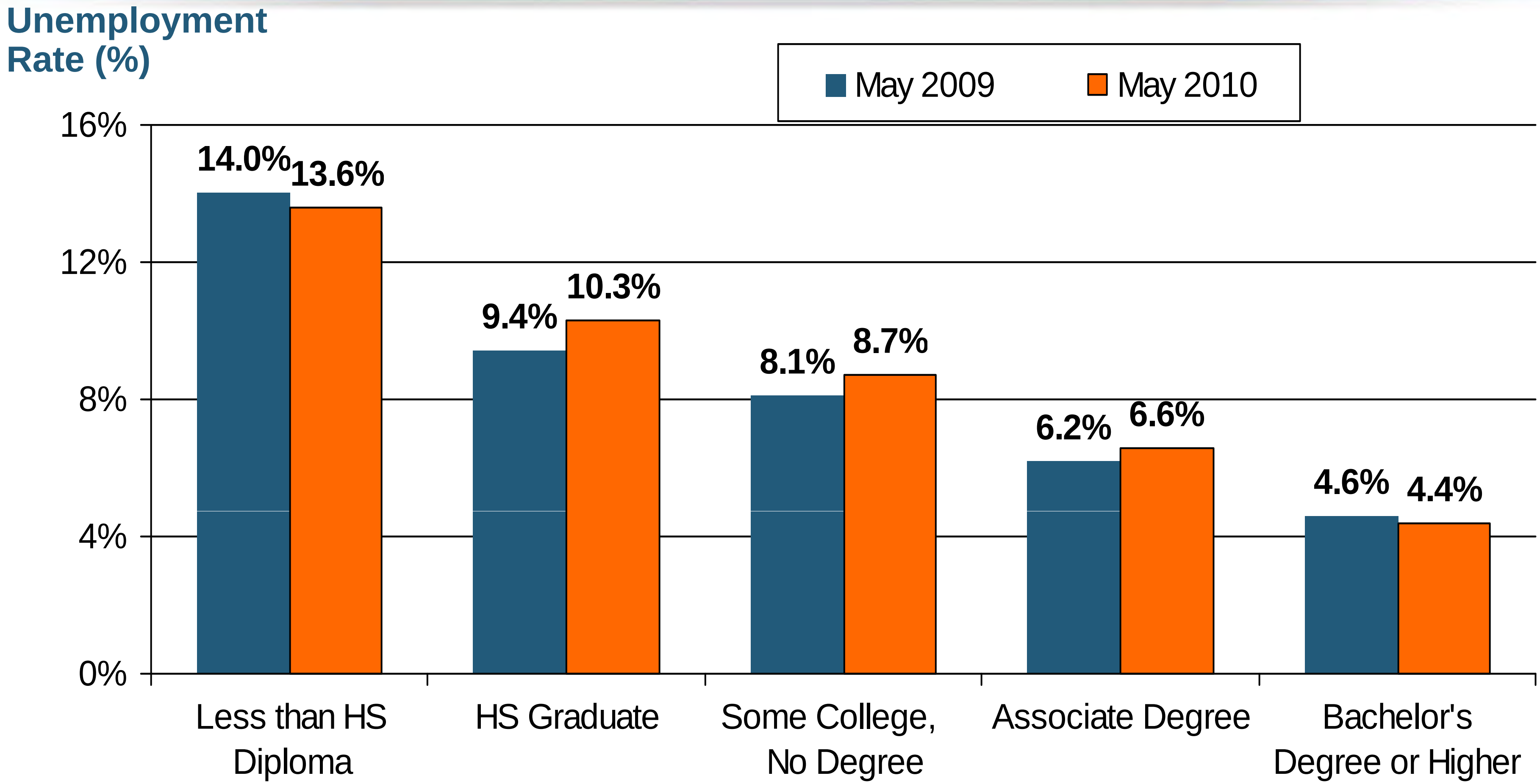

Personal Lines Exposures Should Remain More Stable in Populations with Higher Educational Attainment

Source: US Bureau of Labor Statistics accessed at ftp://ftp.bls.gov/pub/suppl/empsit.cpseea17.txt .

Unemployment Rate by Gender: The "Mancession" Can Affect Exposure Too

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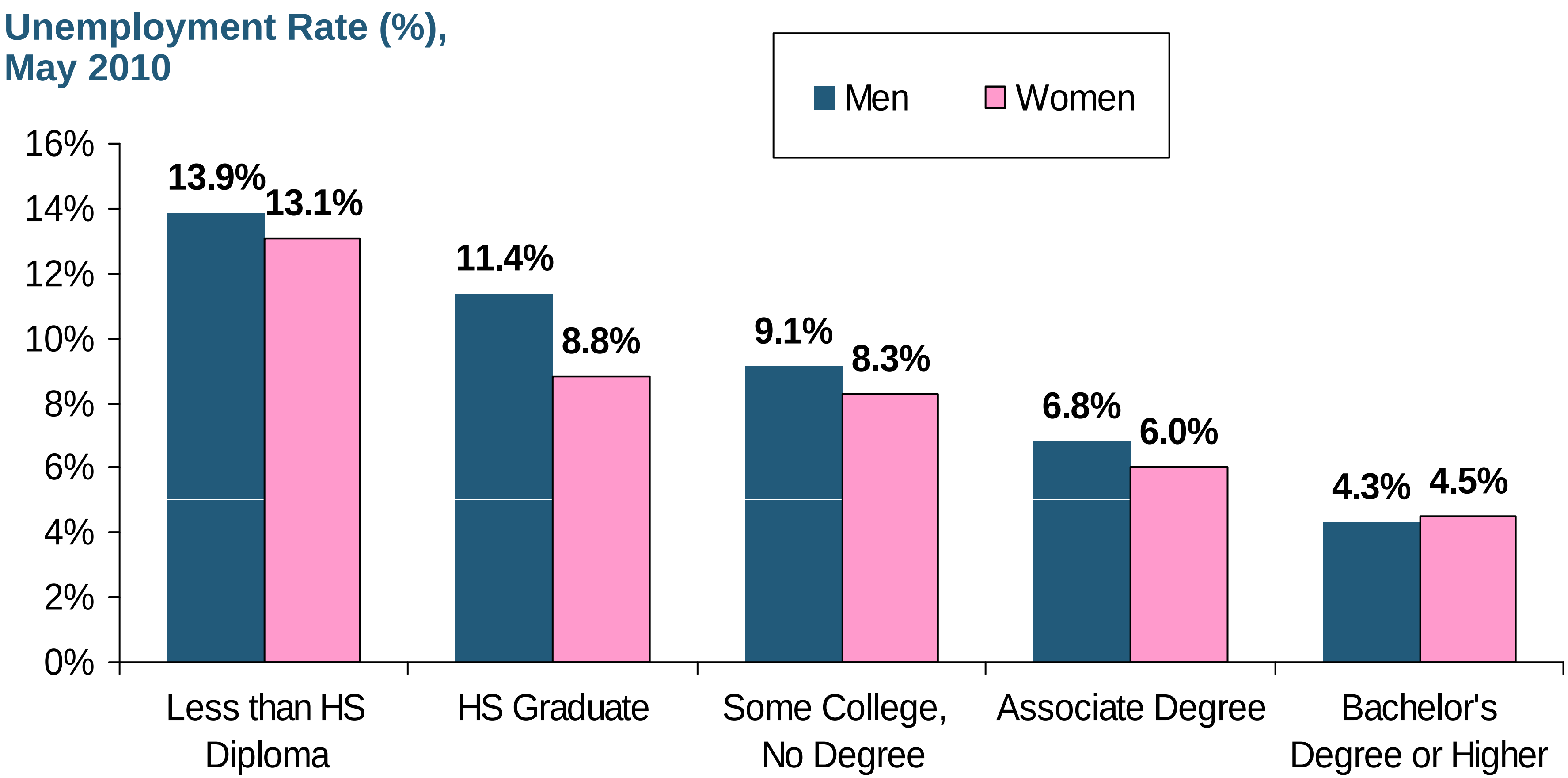

Higher Male Unemployment Rate Has Had a Significant Impact on Specialty Personal Lines (e.g., watercraft, RVs, campers, motorcycles, snowmobiles, etc.)

Source: US Bureau of Labor Statistics accessed at ftp://ftp.bls.gov/pub/suppl/empsit.cpseea17.txt .

The Number of Long-term Unemployed is Still Growing

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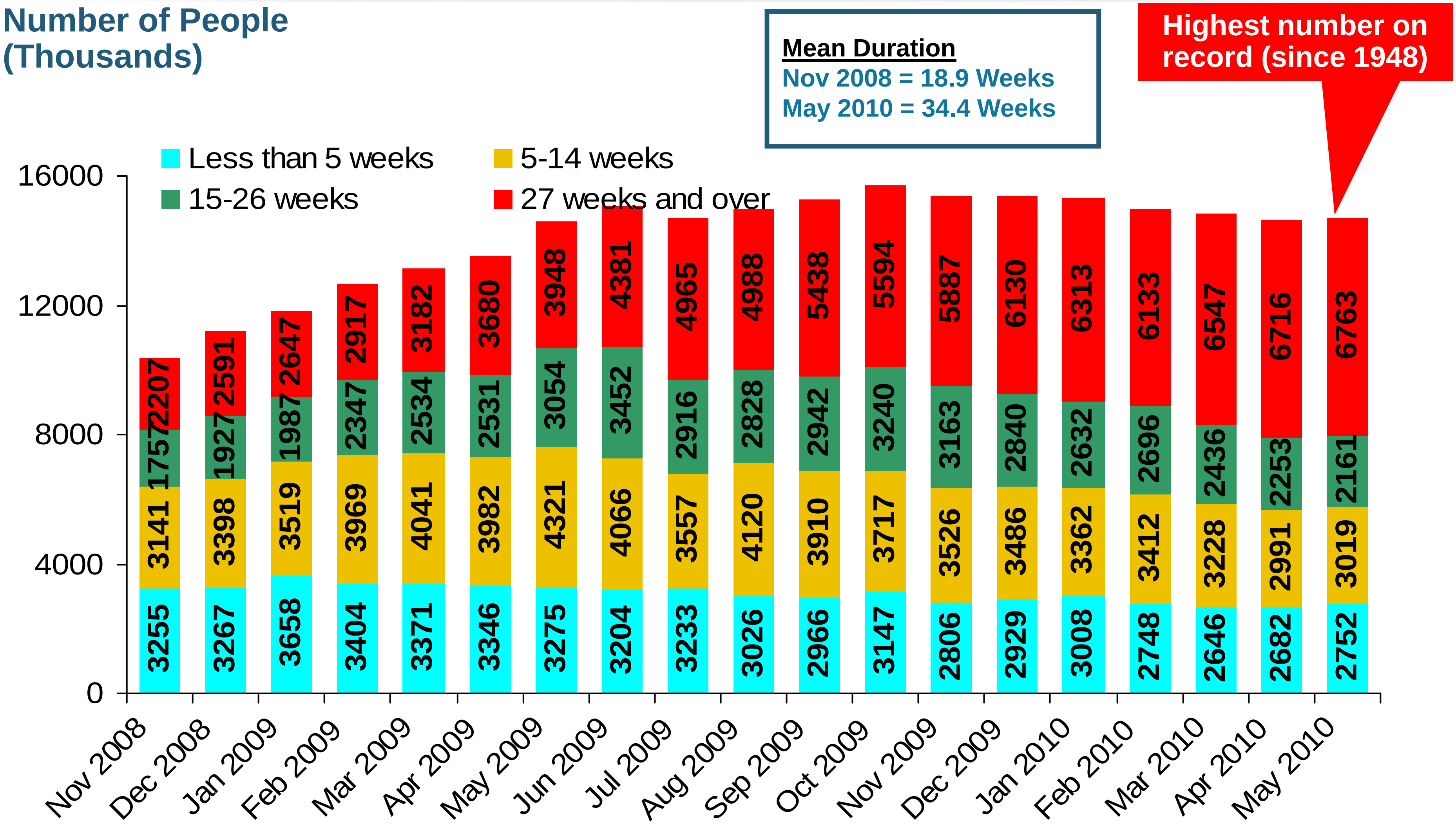
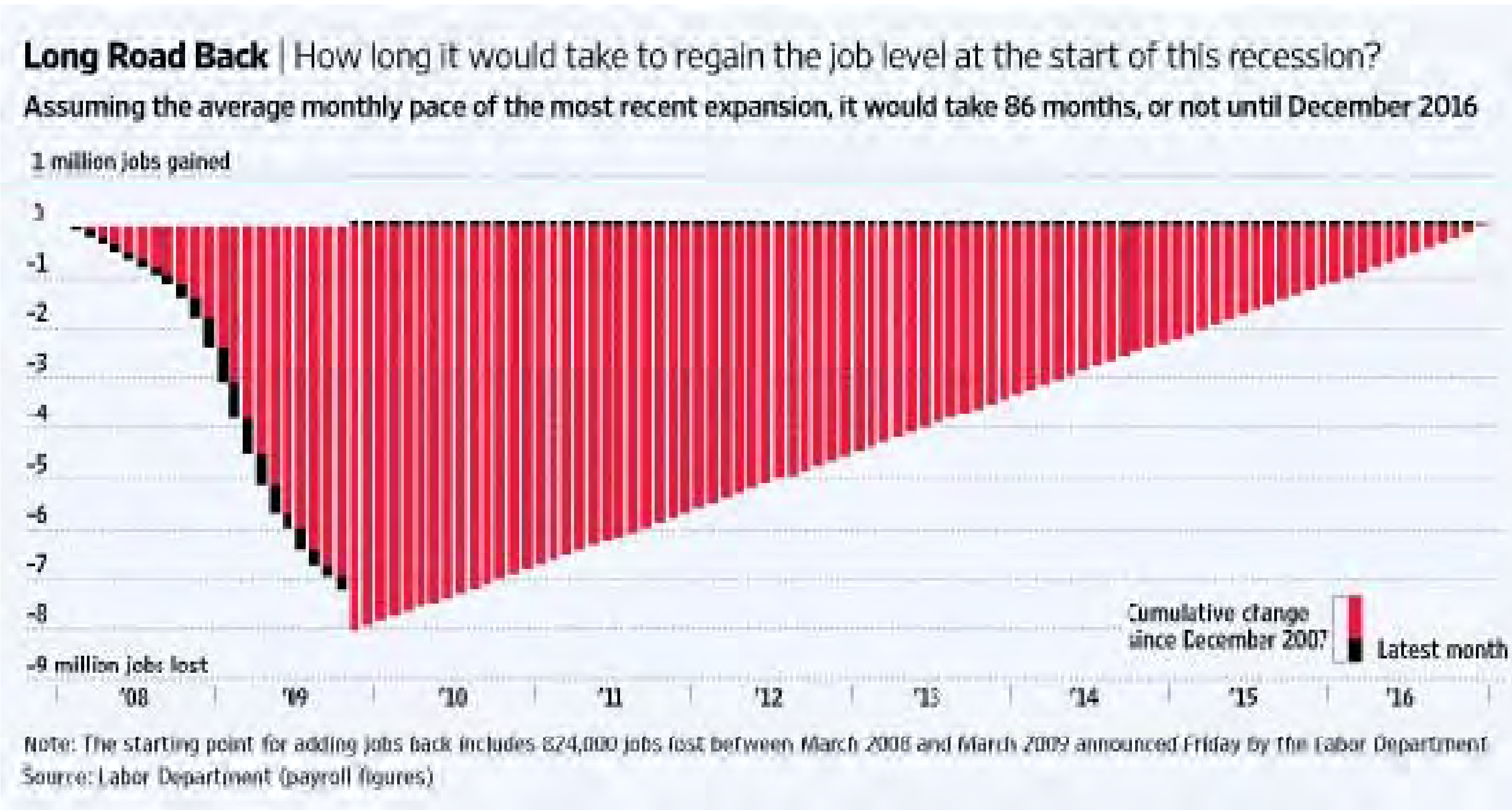


*Through May 2010; Seasonally adjusted

Sources: Bureau of Labor Statistics; Insurance Information Institute.

When Might All of the Lost Jobs Be Regained? 2016?



Source: *Wall Street Journal*, October 9, 2009, p. A3

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Regional Differences Will Significantly Affect P/C Markets

Recovery in Some Areas Will Begin Years Ahead of Others; Speed of Recovery Will Differ by Orders of Magnitude

State Economic Growth Varied Tremendously in 2008

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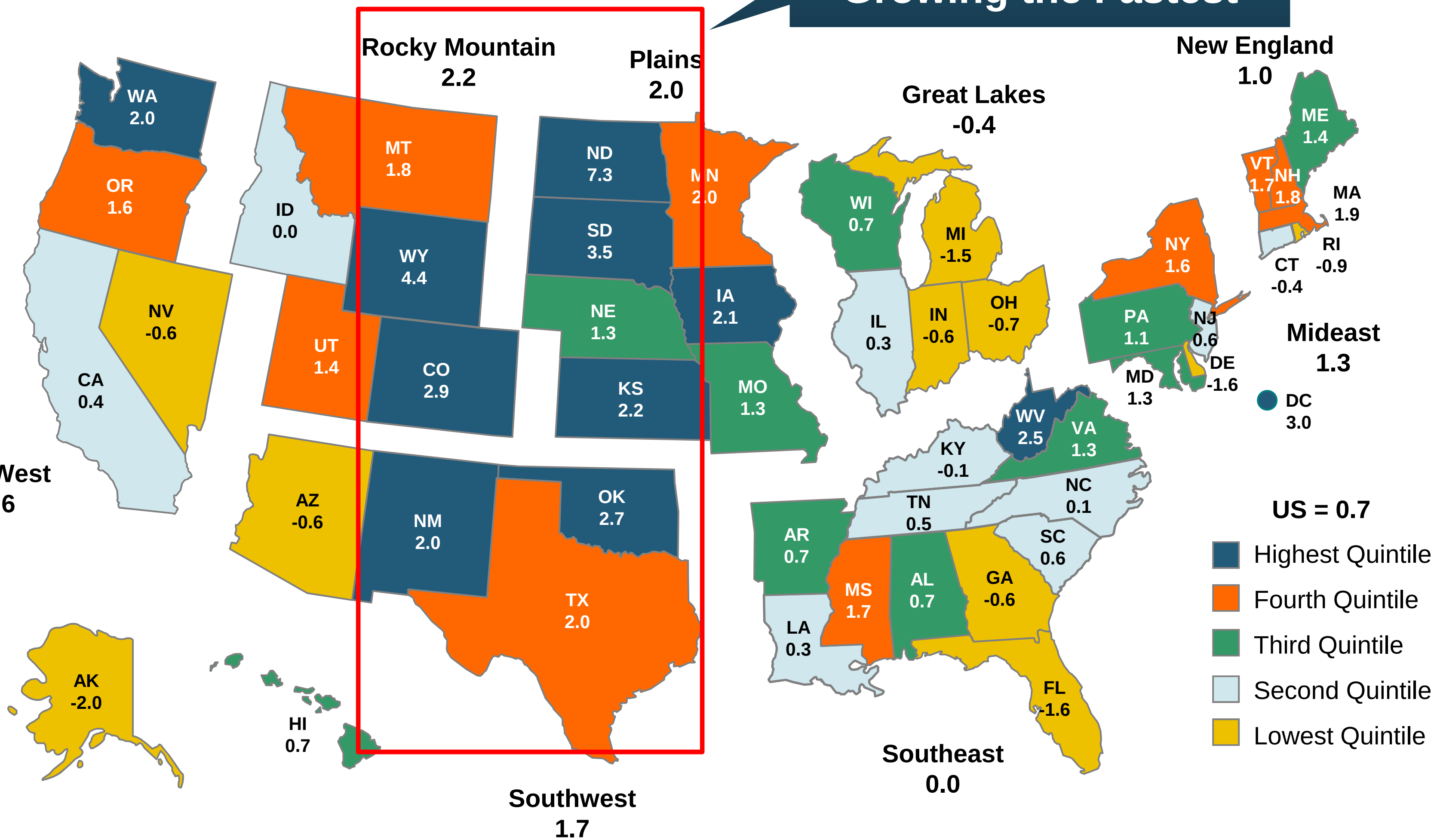
Percent Change in Real GDP by State, 2007–2008

Mountain, Plains States Growing the Fastest



US Bureau of Economic Analysis

Unemployment Rates Vary Widely by State and Region*

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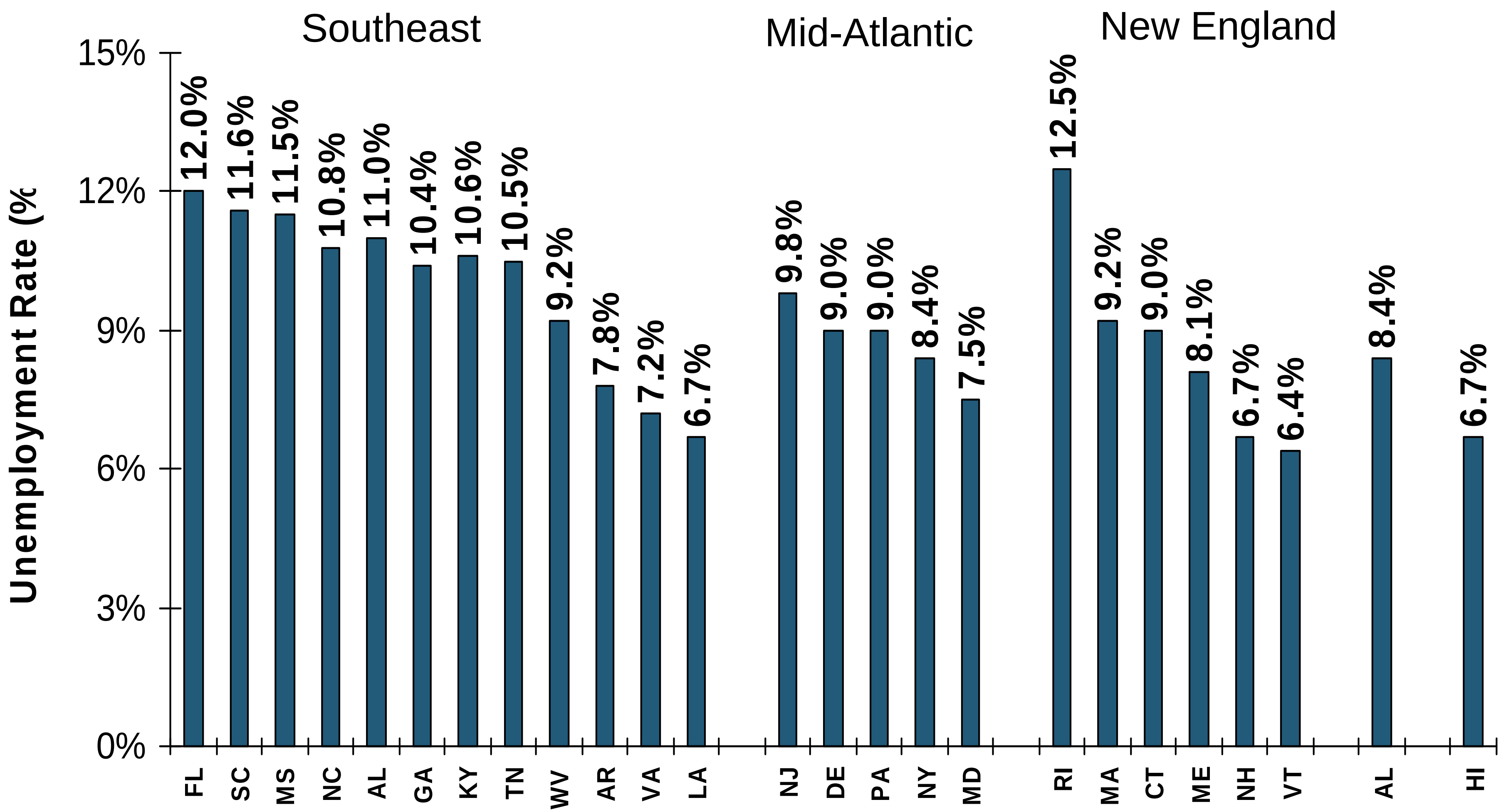
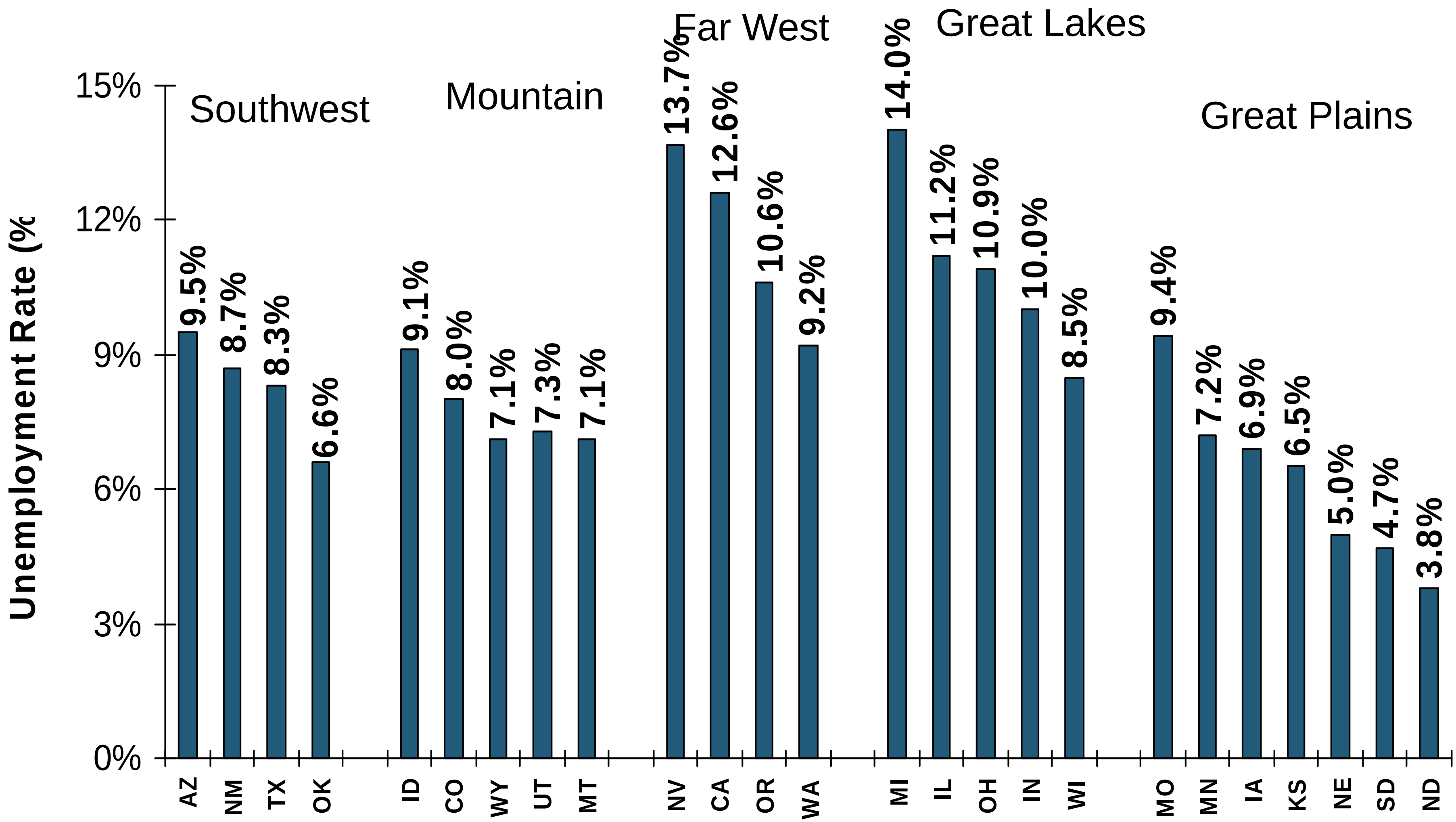


*Provisional figures for March 2010, seasonally adjusted.

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

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



*Provisional figures for March 2010, seasonally adjusted.

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

Insurance Industry Employment Trends

Soft Market, Difficult Economy, Outsourcing Have Contributed to Industry's Job Losses

U.S. Employment in the Direct P/C Insurance Industry: 1990–2010*

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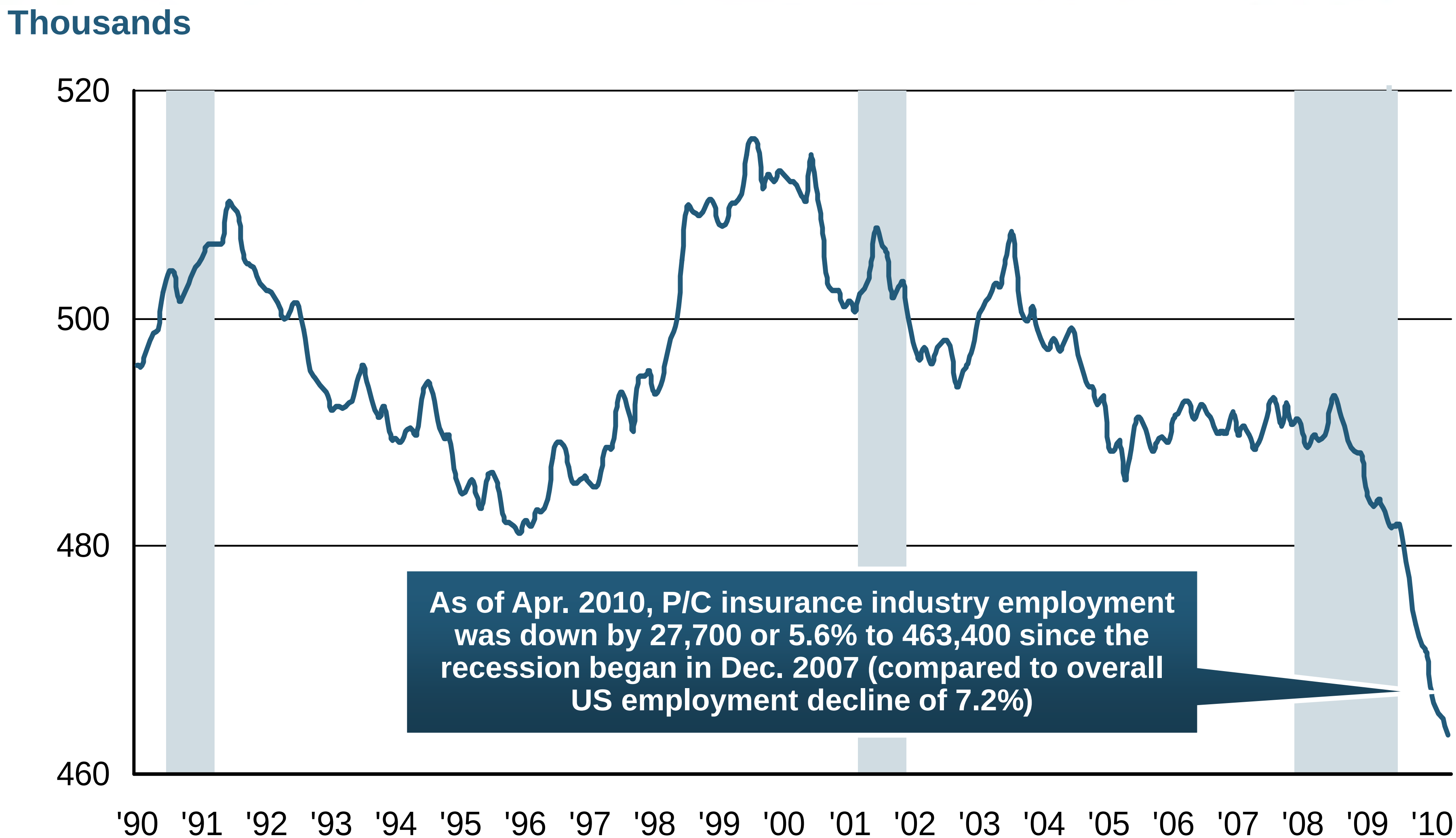


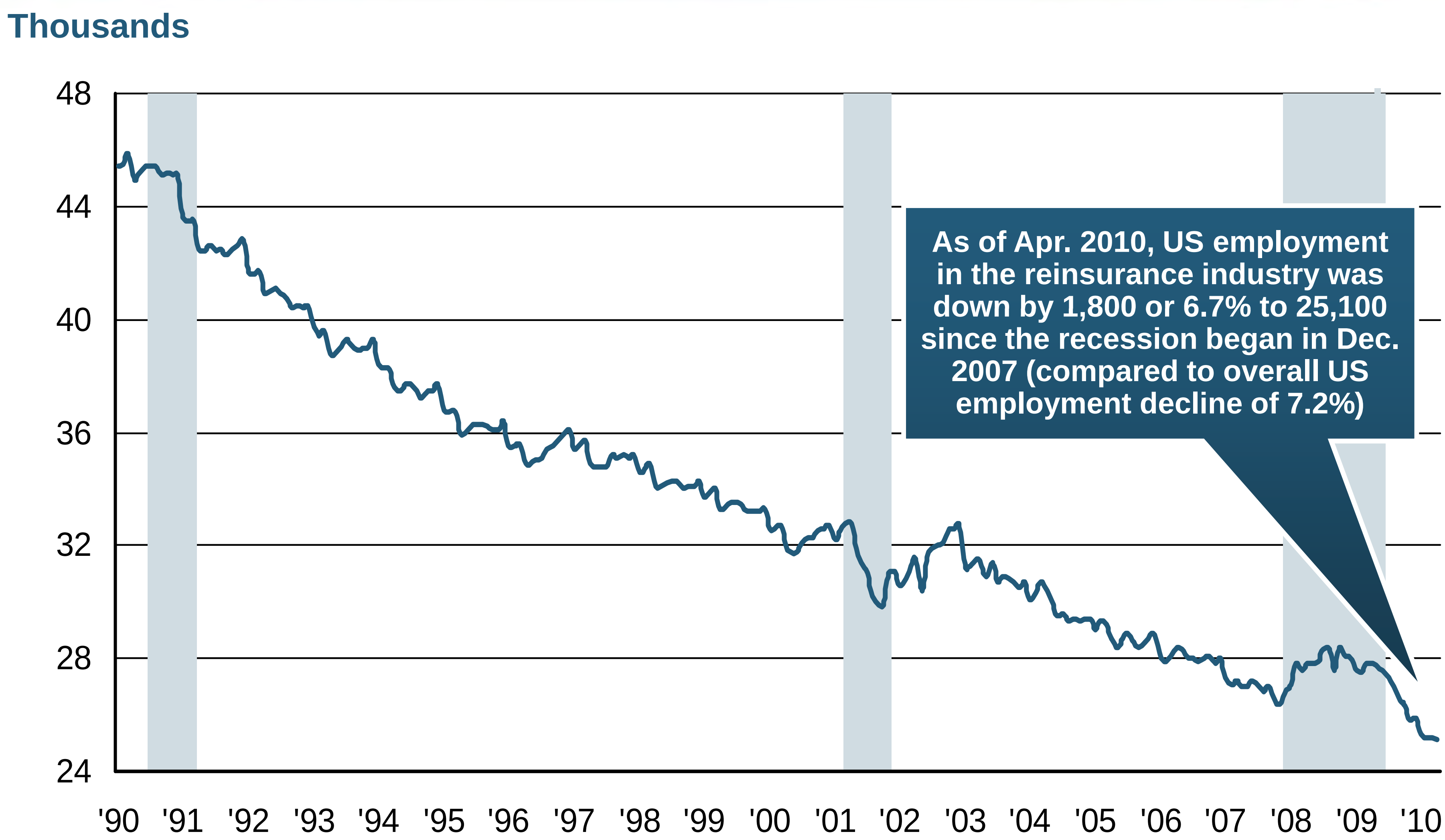
*As of April 2010; Not seasonally adjusted; Does not including agents & brokers

Note: Recessions indicated by gray shaded columns.

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

U.S. Employment in the Reinsurance Industry: 1990–2010*

Insurance Information Institute



*As of April 2010; Not seasonally adjusted; Does not including agents & brokers

Note: Recessions indicated by gray shaded columns.

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

U.S. Employment in Insurance Agencies & Brokerages: 1990–2010*

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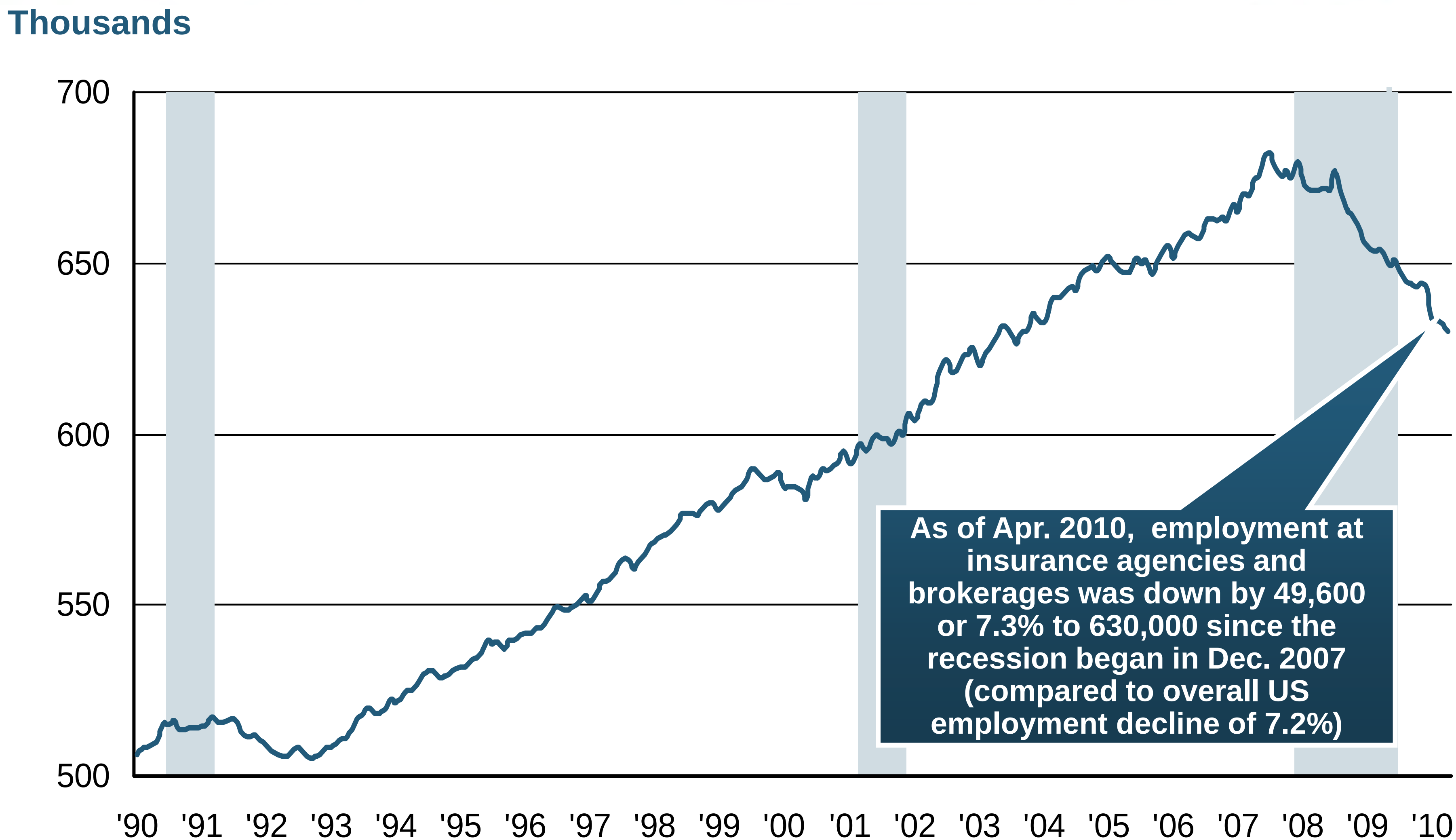
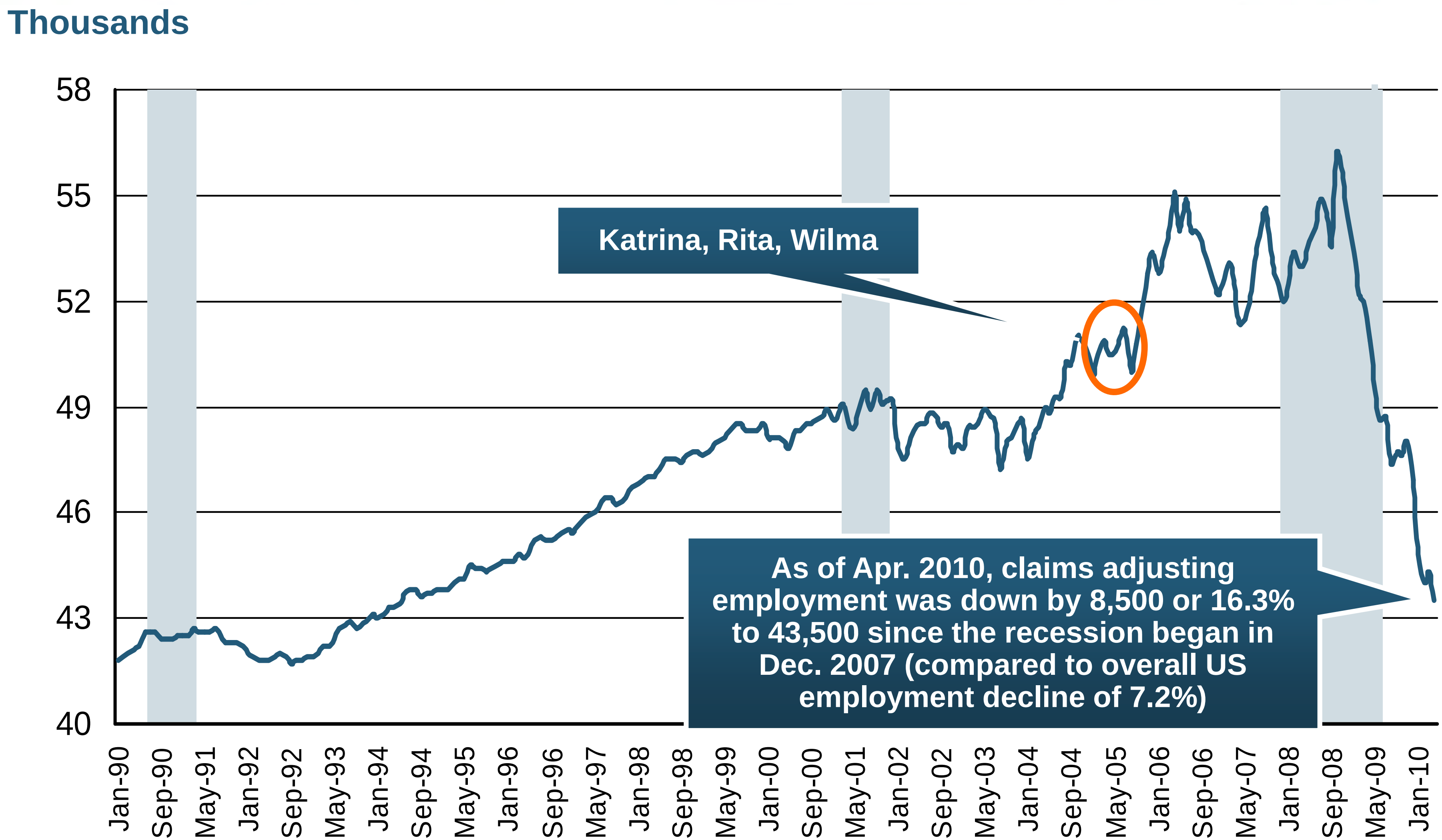


*As of April 2010; Not seasonally adjusted. Includes all types of insurance.

Note: Recessions indicated by gray shaded columns.

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

U.S. Employment in Insurance Claims Adjusting: 1990–2010*



*As of April 2010; Not seasonally adjusted.

Note: Recessions indicated by gray shaded columns.

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

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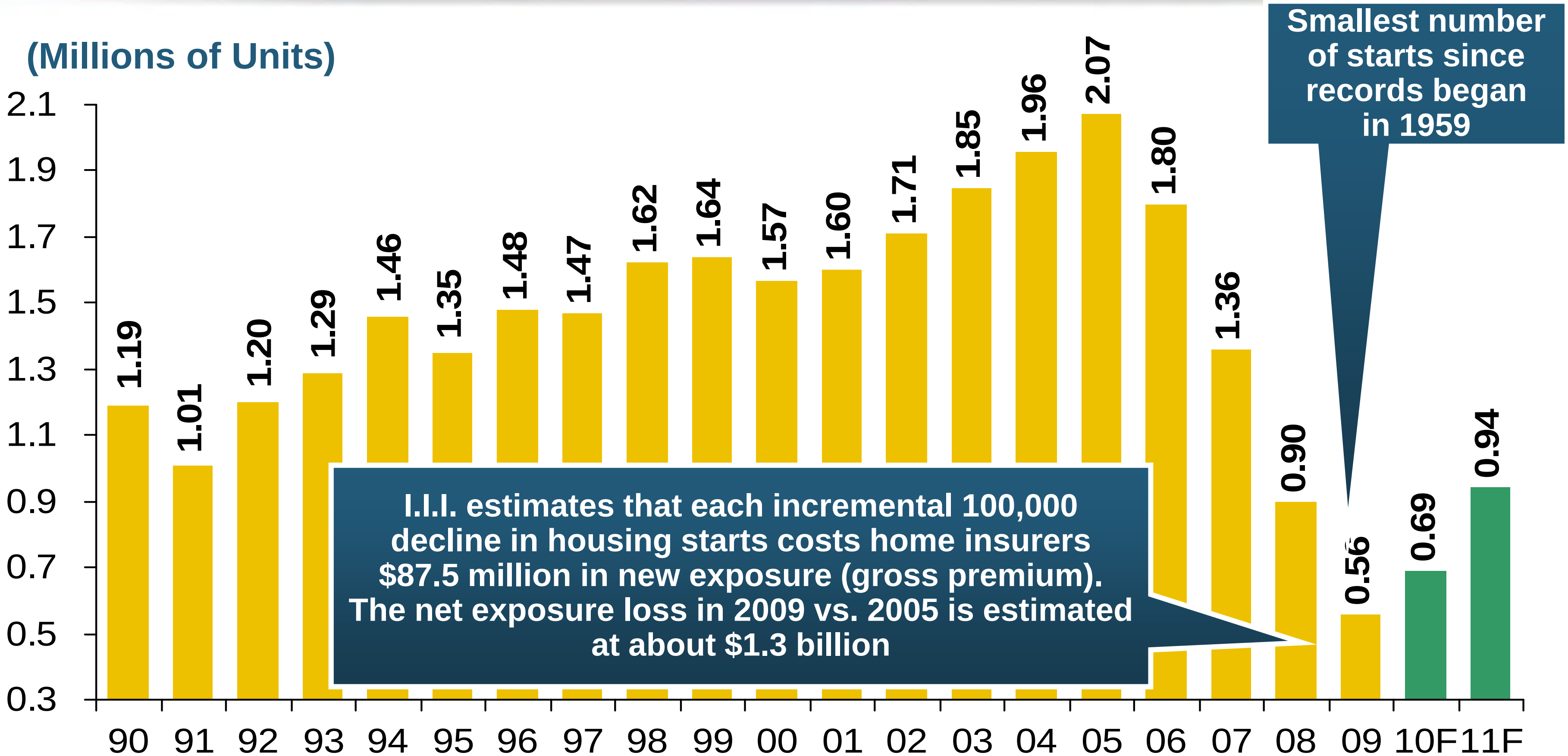
Exposure Drivers

Economic Obstacles or Pathways to Growth in the P/C Insurance Exposure Base

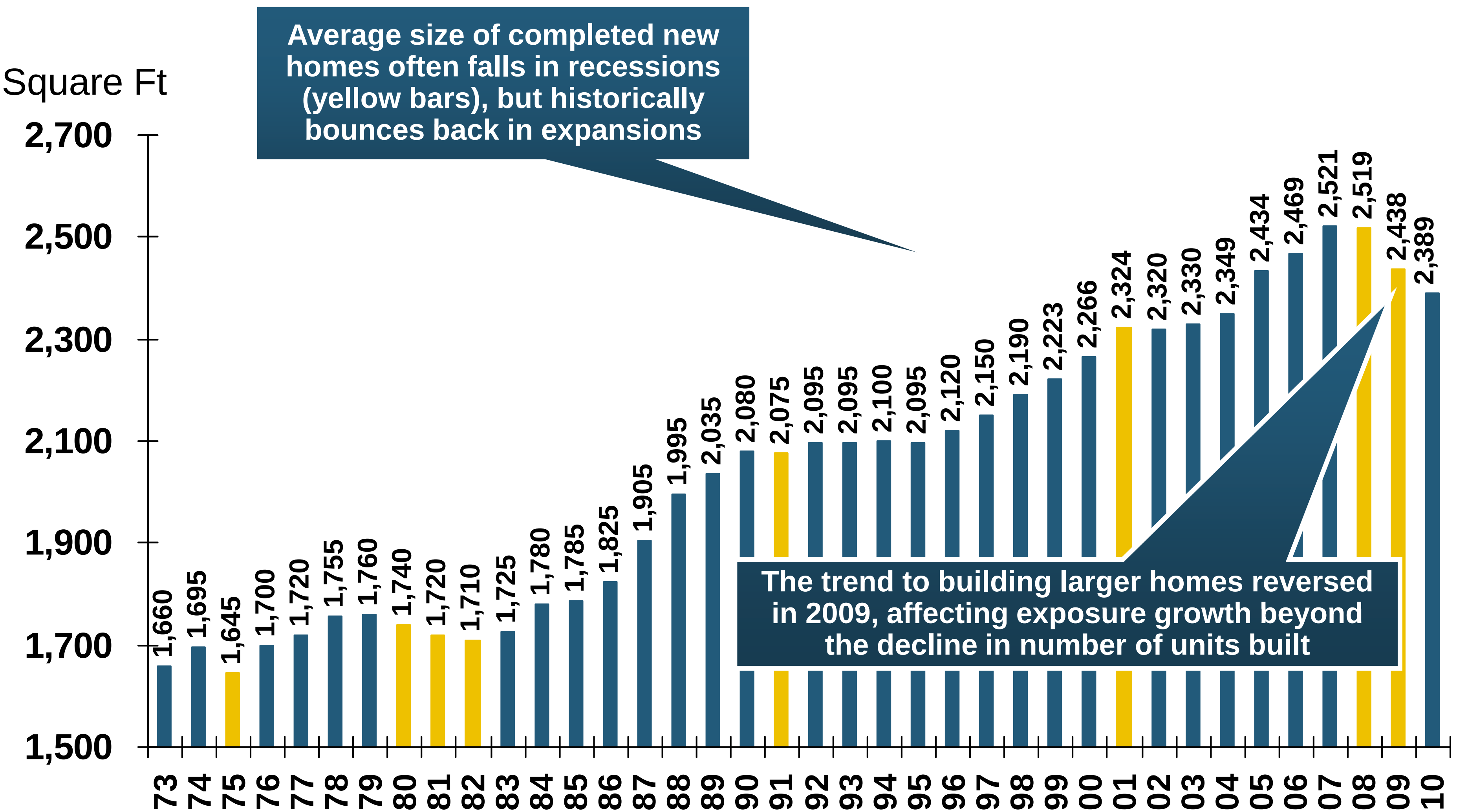
Private Housing Unit Starts, 1990-2011F



Little Exposure Growth Likely for Homeowners Insurers Due to Weak Home Construction Forecast for 2010-2011. Also Affects Commercial Insurers with Construction Risk Exposure, Surety

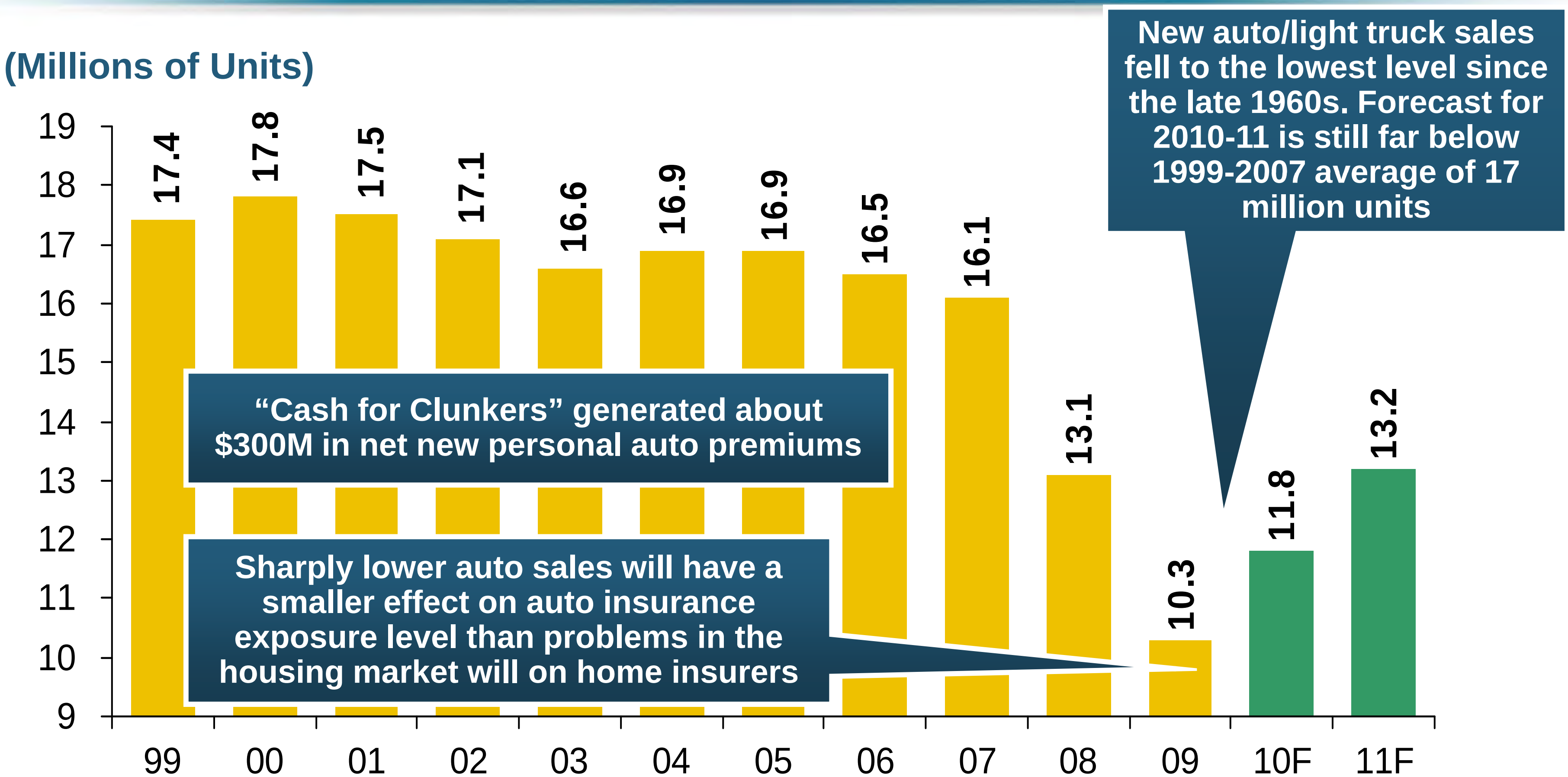
Source: U.S. Department of Commerce; Blue Chip Economic Indicators (5/10); Insurance Information Institute.

Average Square Footage of Completed New Homes in U.S., 1973-2010:Q1



Source: U.S. Census Bureau: http://www.census.gov/const/www/quarterly_starts_completions.pdf; Insurance Information Institute.

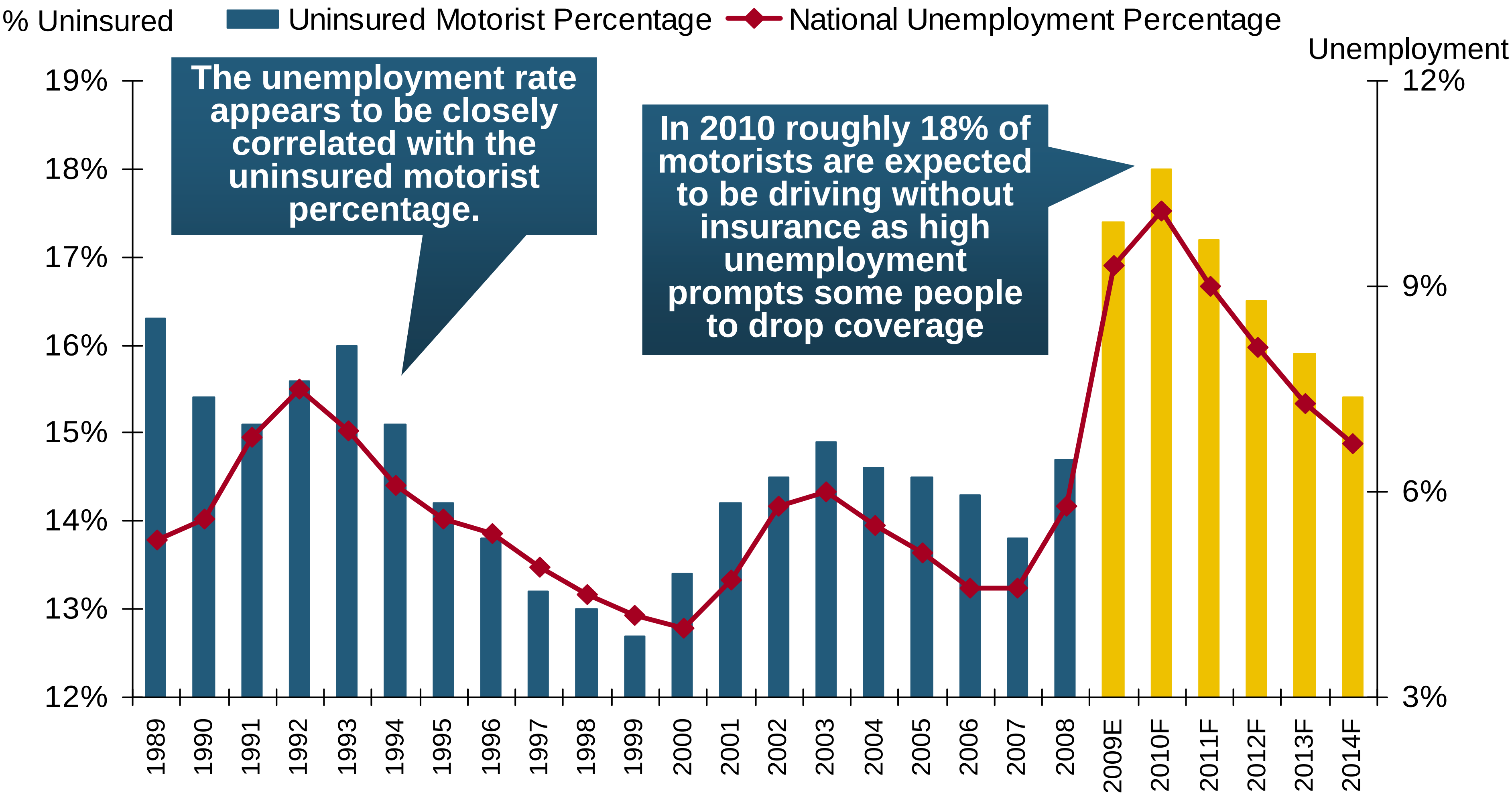
Auto/Light Truck Sales, 1999-2011F



Car/Light Truck Sales Will Recover from the 2009 Low Point, but High Unemployment, Tight Credit Are Still Restraining Sales; Gas Prices Could Once Again Become a Factor Too

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (5/10); Insurance Information Institute.

Unemployment's Effect on Percent of Uninsured Motorists, 1989-2014F



Source: *Uninsured Motorists, 2008* Edition, Insurance Research Council; Blue Chip Economic Indicators (Unemployment data, including forecasts); Insurance Information Institute.

Net New Business Formations* 1999:Q1-2008:Q4*

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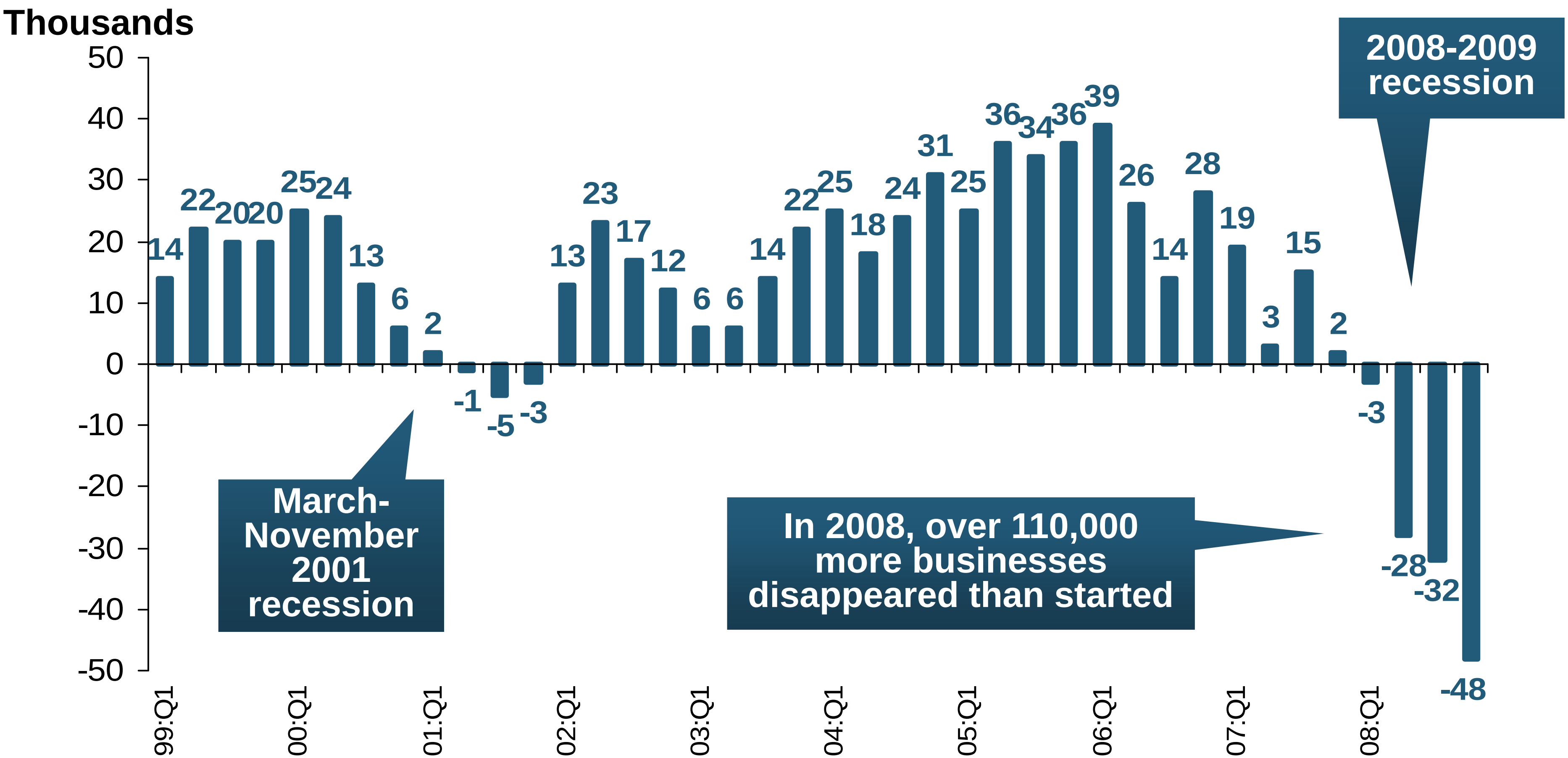

Net Business Formations Likely Were Positive Again, at Least in the Second Half of 2009 and into 2010.

*Business “births” minus business “deaths.” Latest data on business “deaths” is for 2008:Q4.
Sources: Bureau of Labor Statistics at http://www.bls.gov/news.release/cewbd.t07.htm ; Insurance Information Institute.

FDIC-Insured Banks Are Reducing Credit: 2008, 2009, 2010:Q1

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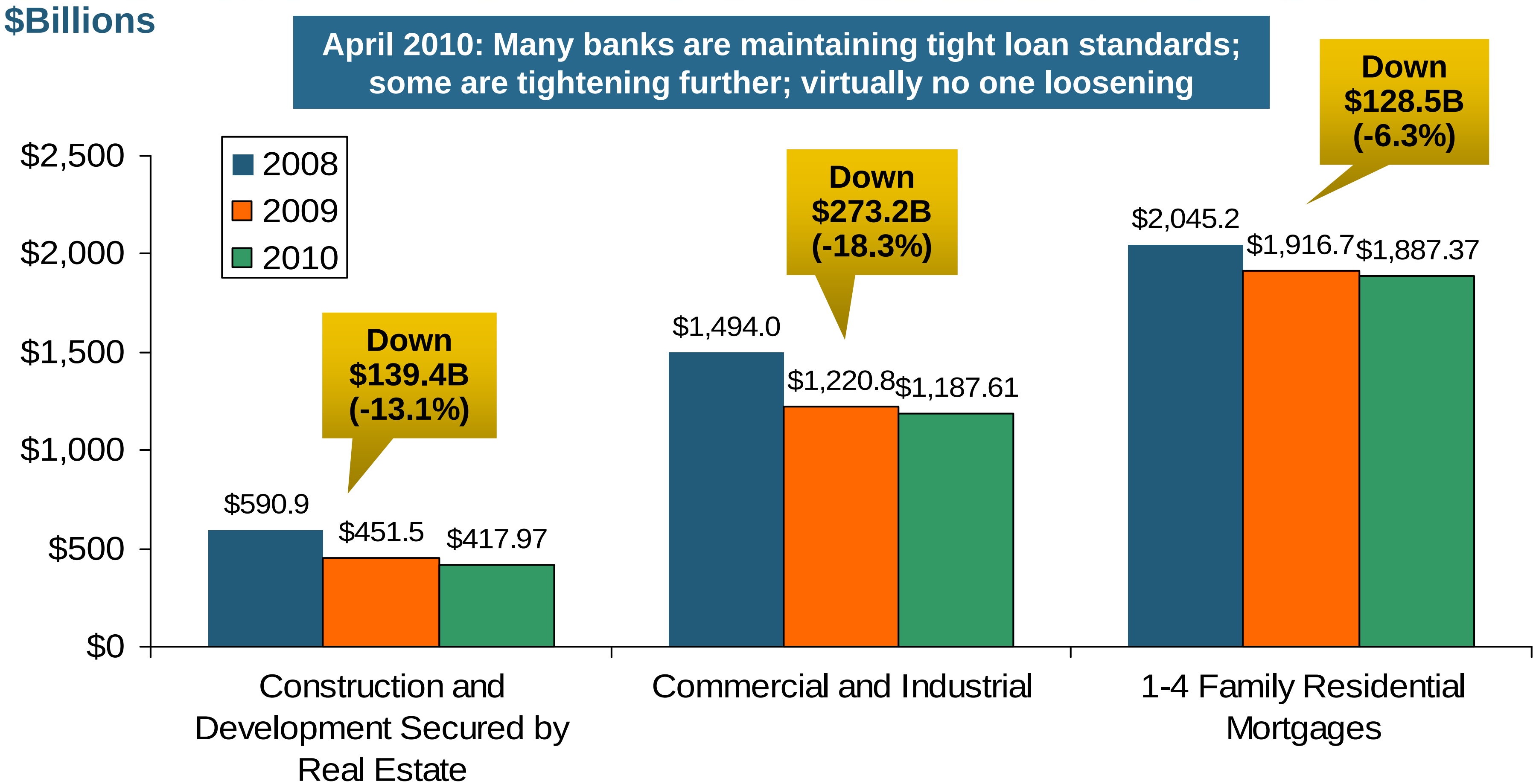
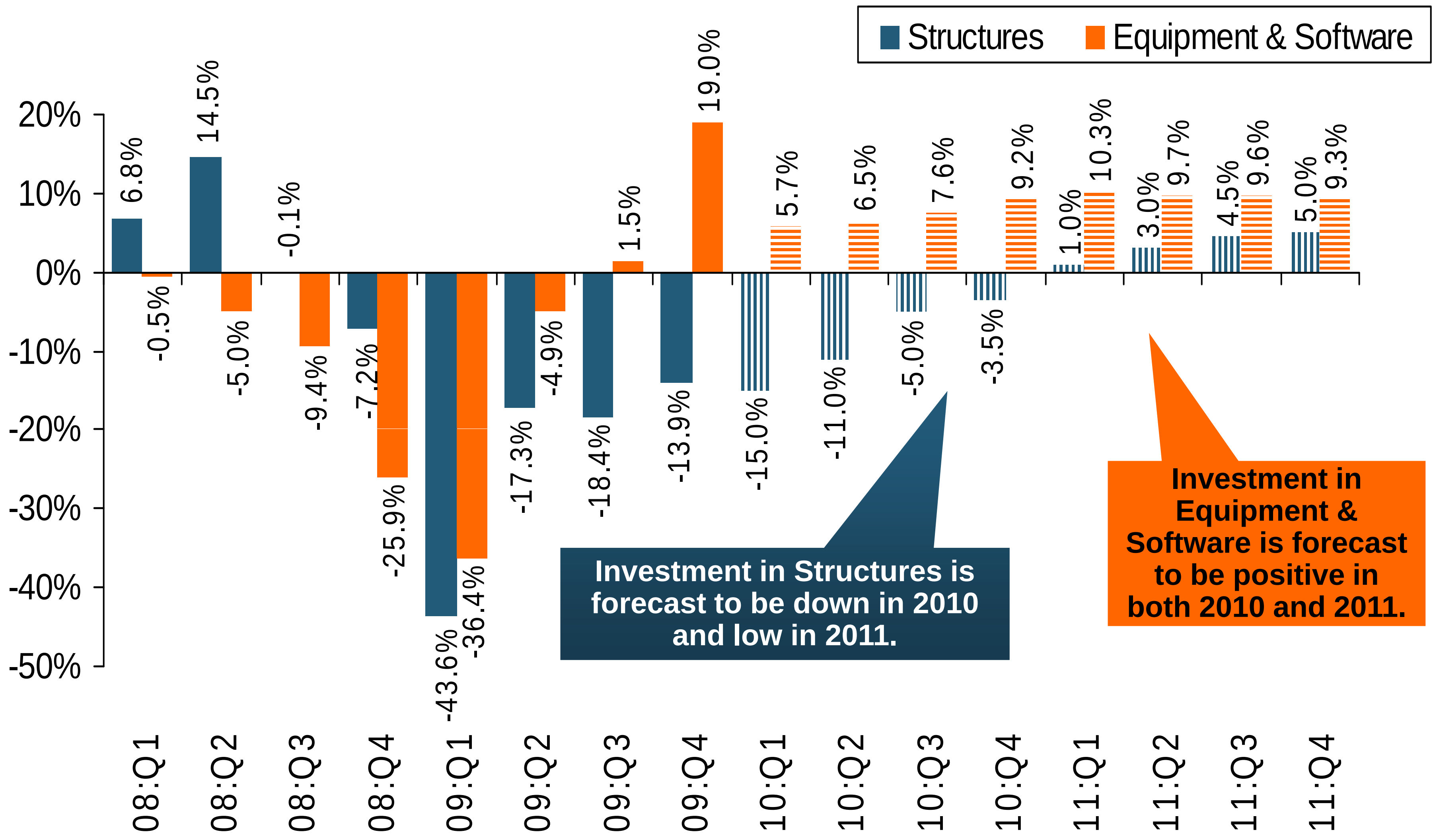


FDIC-Insured Institutions Had $541.1B (-13.1%) Less in Outstanding Loans in These Three Categories at Year-end 2009 vs. 2008, and Even Less at End of 2010:Q1

Source: FDIC Quarterly Banking Profile, First Quarter 2010, Table II-A

Business Fixed Investment

2008:Q1 to 2011:Q4F



Source: Wells Fargo Securities Economics Group, Monthly Outlook, April 7, 2010

Estimated Effect of Recessions* on Payroll (Workers Comp Exposure)

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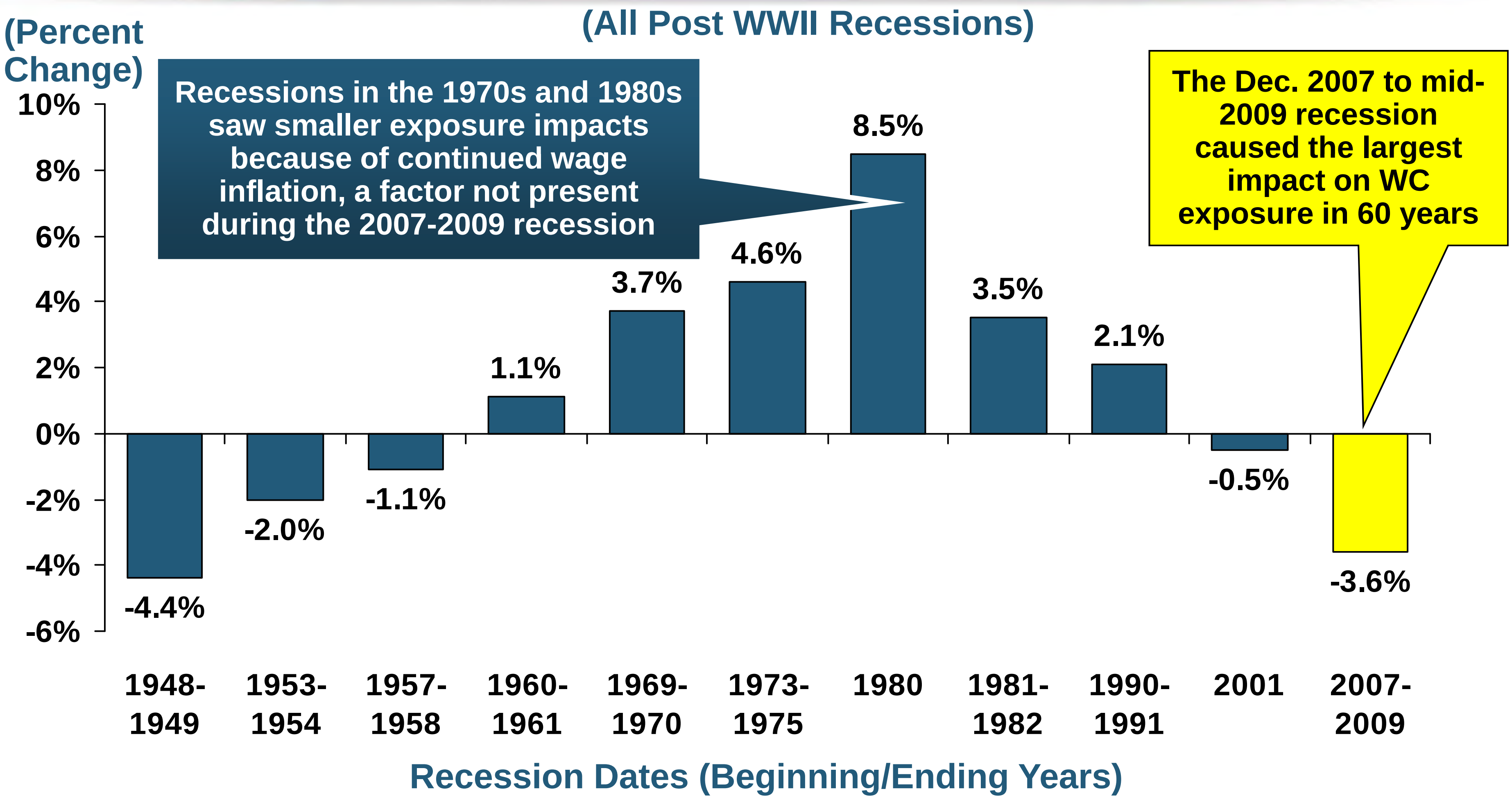

*Data represent maximum recorded decline over 12-month period using annualized quarterly wage and salary accrual data

Source: Insurance Information Institute research; Federal Reserve Bank of St. Louis (wage and salary data); National Bureau of Economic Research (recession dates).

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Inflation Trends: *Concerns Over Stimulus Spending and Monetary Policy*

Mounting Pressure on Claim Cost Severities?

Annual Inflation Rates (CPI-U, %), 1990–2011F

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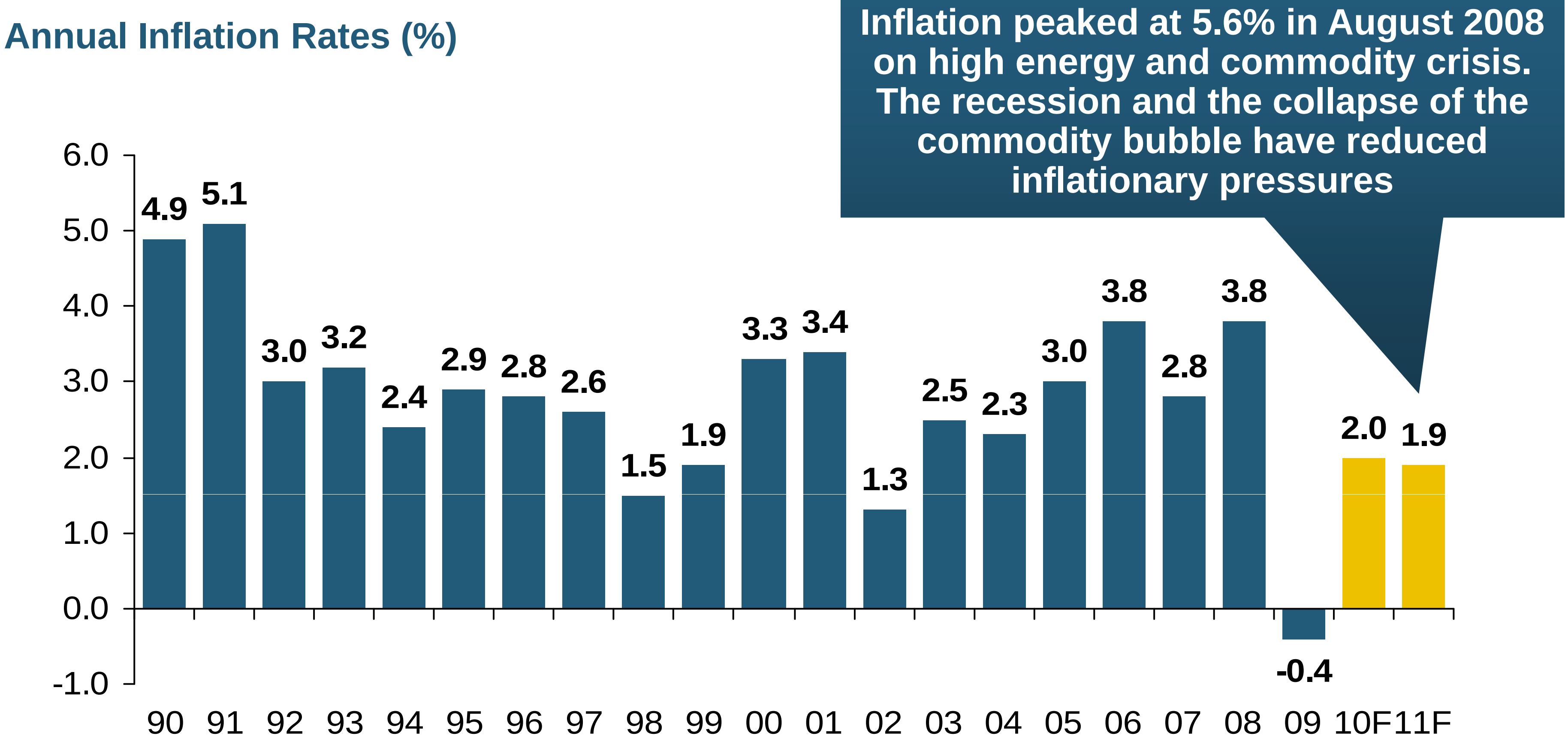

There is So Much Slack in the US Economy That Inflation Should Not Be a Concern Through 2010/11, but Depreciation of Dollar is Concern Longer Run

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators, May 10, 2010 (forecasts).

P/C Insurers Experience Inflation More Intensely than 2009 CPI Suggests

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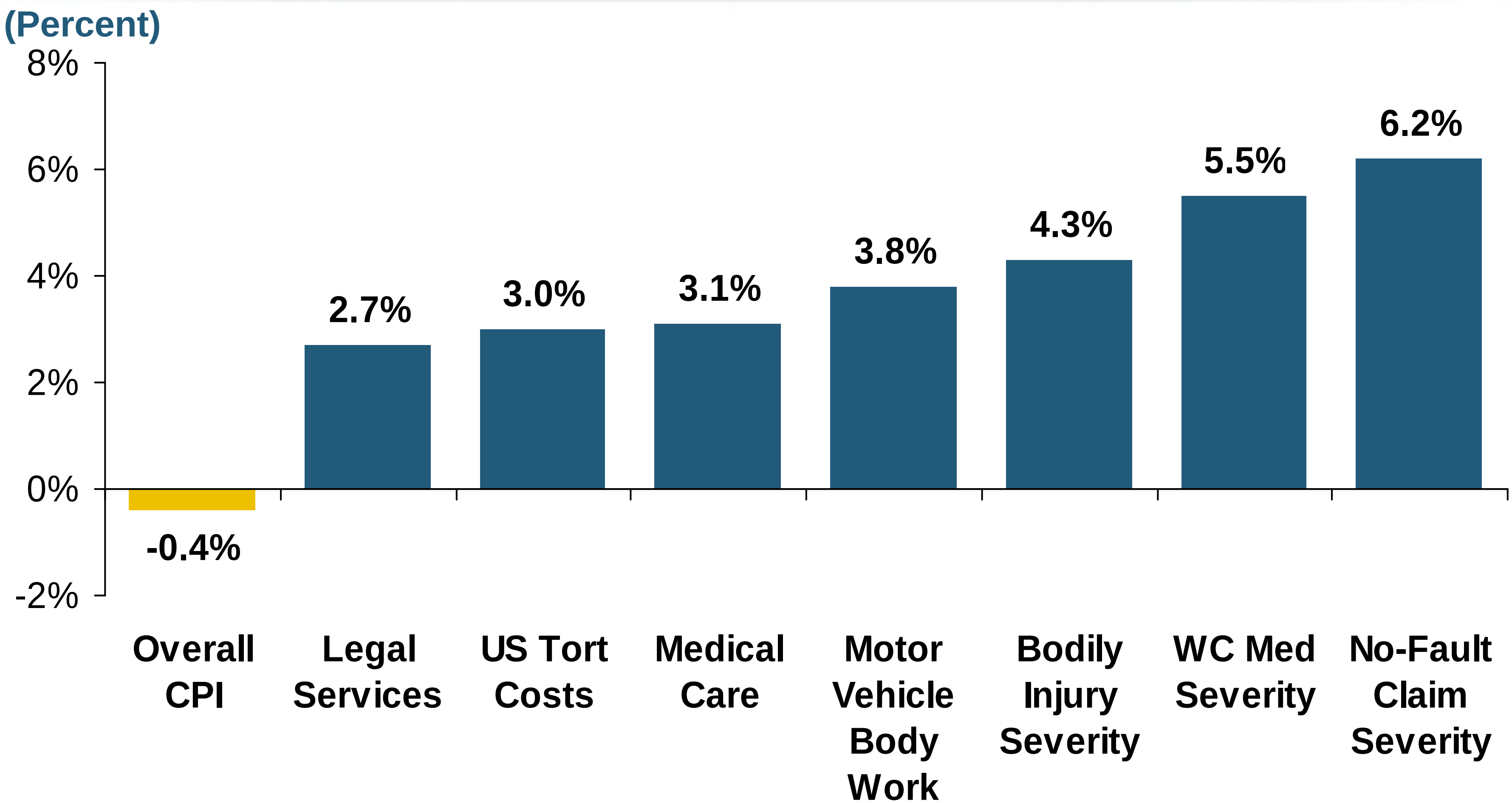
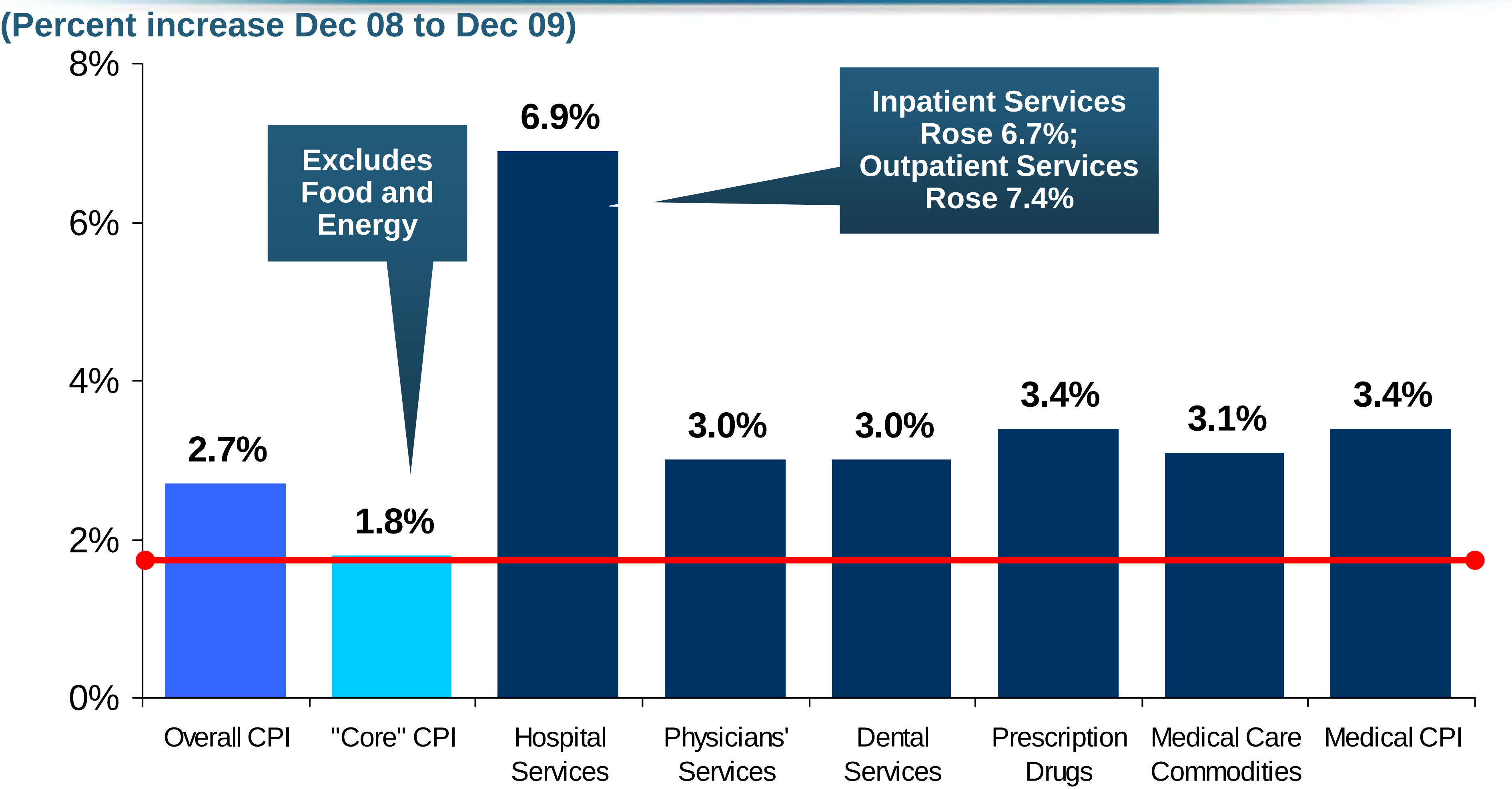


Healthcare and Legal/Tort Costs, Major P/C Insurance Cost Drivers, Are Expected to Grow Above the Overall Inflation Rate (CPI) Indefinitely

Source: CPI is Blue Chip Economic Indicator 2009 estimate, 12/09; Legal services, medical care and motor vehicle body work are avg. monthly year-over-year change from BLS; BI and no-fault figures from ISO Fast Track data for 4 quarters ending 09:Q3. Tort costs is 2009 Towers-Perrin estimate. WC figure is I.I.I. estimate based on historical NCCI data.

WC Insurers Experience Inflation More Intensely than 2009 CPI Suggests



Healthcare Costs Are a Major WC Insurance Cost Driver. They Are Likely to Increase Faster than the CPI for the Next Few Years, at Least

Source: Bureau of Labor Statistics; Insurance Information Institute.

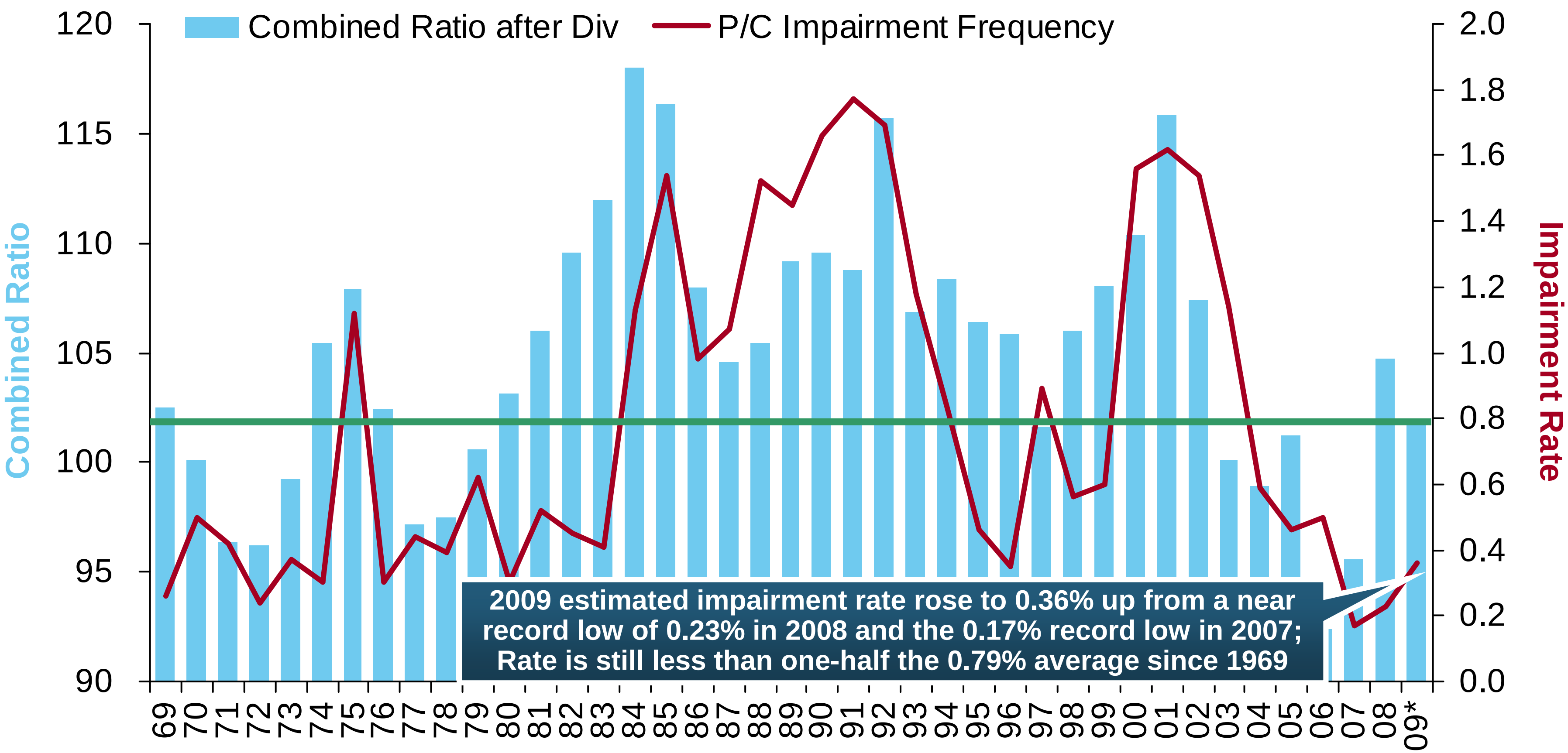
Risks for Insurers if Inflation Is Reignited

- **Rising Claim Severities**
  - Cost of claims settlement rises across the board (property and liability)
- **Rate Inadequacy**
  - Rates inadequate due to low trend assumptions arising from use of historical data
- **Reserve Inadequacy**
  - Reserves may develop adversely and become inadequate (deficient)
- **Burn Through on Retentions**
  - Retentions, deductibles burned through more quickly
- **Reinsurance Penetration/Exhaustion**
  - Higher costs ➔ risks burn through their retentions more quickly, tapping into reinsurance more quickly and potentially exhausting their reinsurance more quickly

Financial Strength & Ratings

Industry Has Weathered the Storms Well

P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2009p

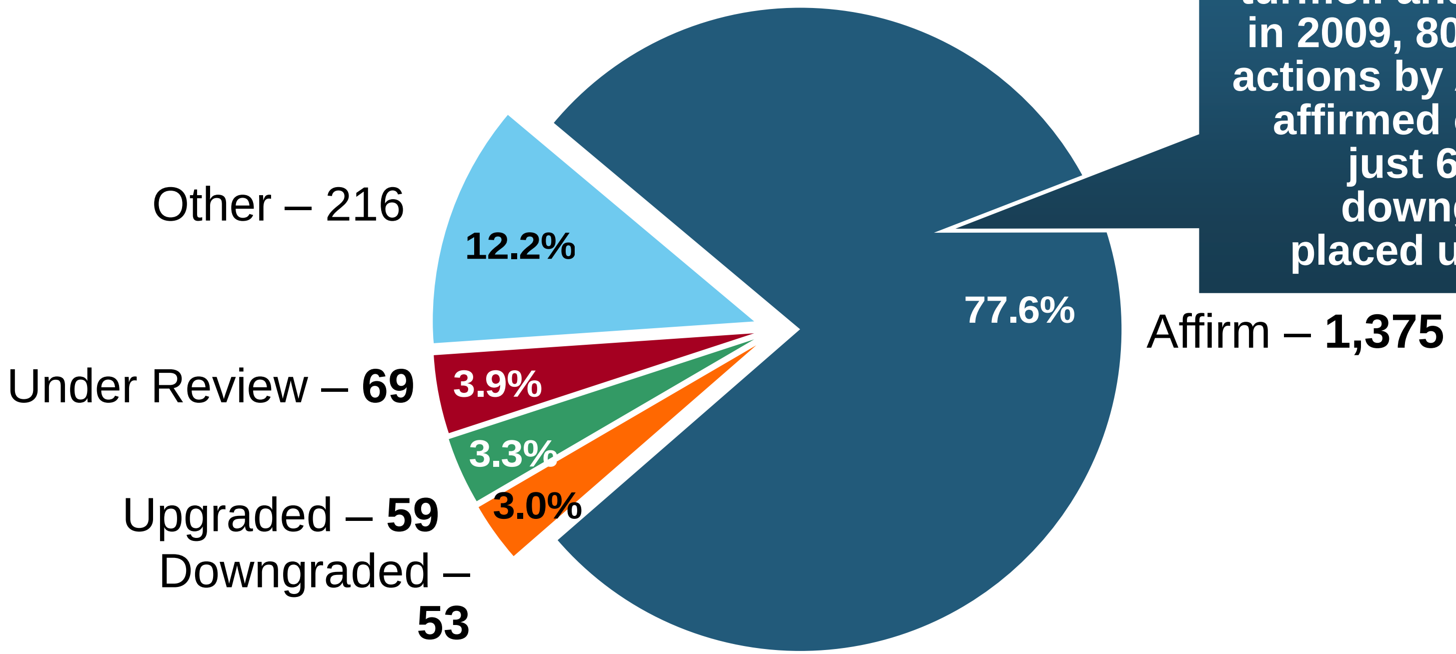


Impairment Rates Are Highly Correlated With Underwriting Performance and Reached Record Lows in 2007/08

*Combined ratio of 101.7 is through Q3:09; 0.36% 2009 impairment rate is III estimate based on preliminary A.M. Best data.

Source: A.M. Best; Insurance Information Institute

Summary of A.M. Best's P/C Insurer Ratings Actions in 2009



Despite financial market turmoil and a soft market in 2009, 80.9% of ratings actions by A.M. Best were affirmed or upgraded; just 6.9% were downgraded or placed under review

P/C Insurance is by Design a Resilient Business. The Dual Threat of Financial Disasters and Catastrophic Losses Are Anticipated in the Industry's Risk Management Strategy

.
Source: A.M. Best.

Reasons for US P/C Insurer Impairments, 1969–2008

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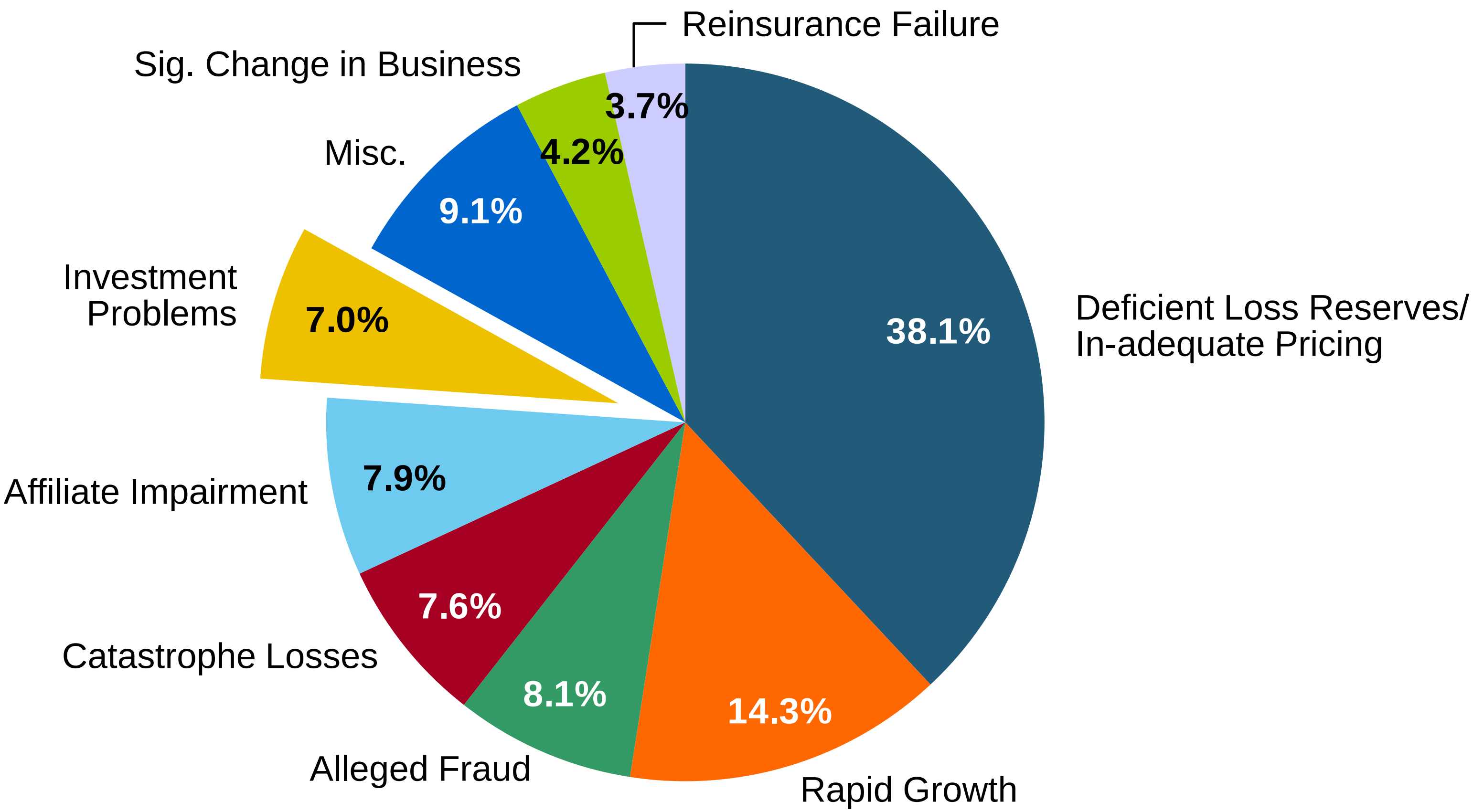
Deficient Loss Reserves and Inadequate Pricing Are the Leading Cause of Insurer Impairments, Underscoring the Importance of Discipline. Investment Catastrophe Losses Play a Much Smaller Role



Source: A.M. Best: *1969-2008 Impairment Review*, Special Report, Apr. 6, 2008

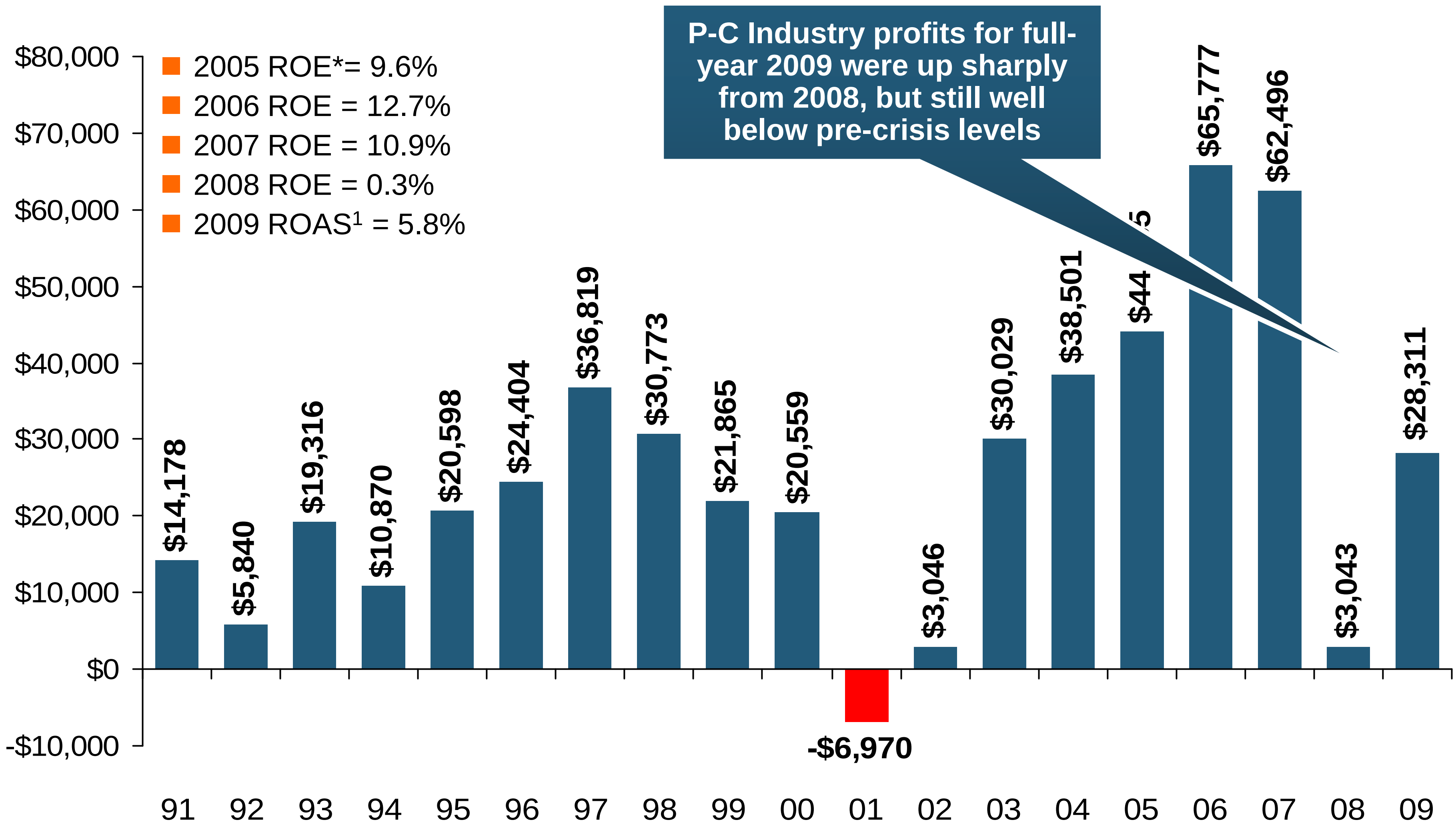
P/C Insurance Financial Performance

A Resilient Industry in Challenging Times

Profitability

Historically Volatile

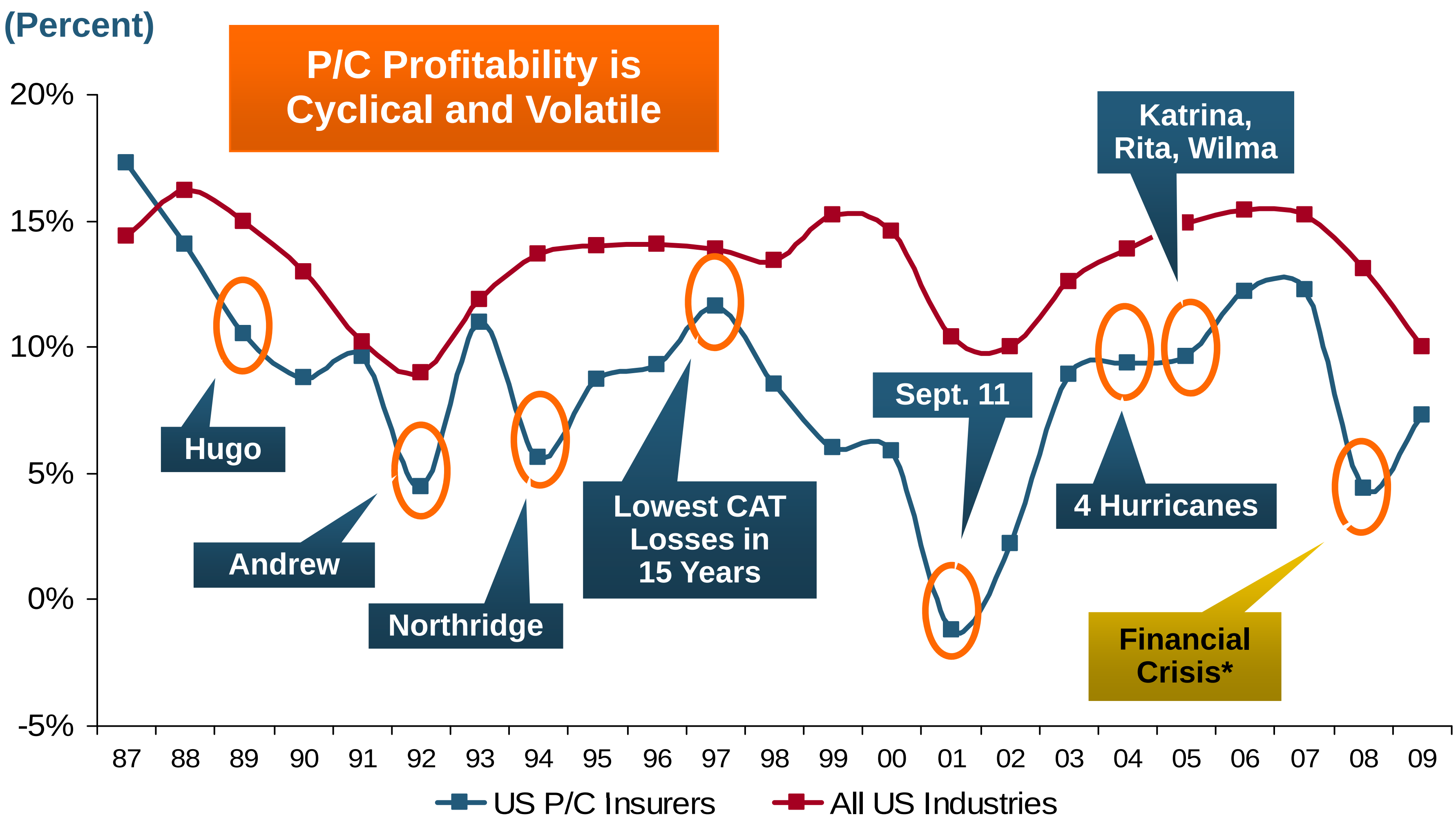
P/C Net Income After Taxes 1991–2009 ($ Millions)



* ROE figures are GAAP; [1]Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 7.3% ROAS for 2009 and 4.4% for 2008. 2009 net income was $34.5 billion and $20.8 billion in 2008 excluding M&FG.

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

ROE: P/C vs. All Industries 1987–2009*



* Excludes Mortgage & Financial Guarantee in 2008 and 2009.
Sources: ISO, *Fortune*; Insurance Information Institute.

A 100 Combined Ratio Isn't What It Once Was: 90-95 is Where It's At Now

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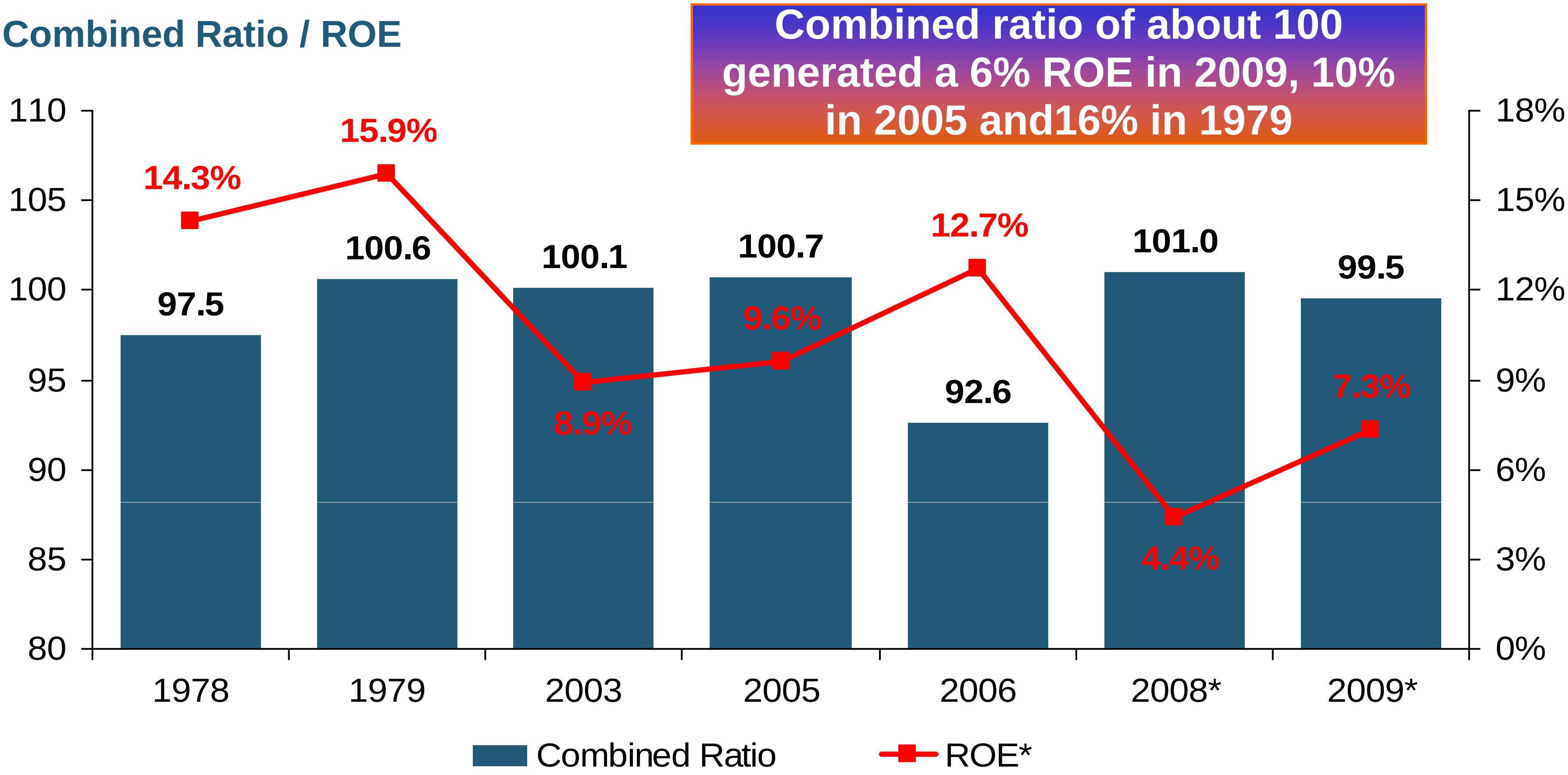

Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2009 figure is return on average statutory surplus. 2008 and 2009 figures exclude mortgage and financial guarantee insurers
Source: Insurance Information Institute from A.M. Best and ISO data

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P/C Premium Growth(?) Driven Mainly by the Industry's Underwriting Cycle, Not the Economy

Real GDP Growth vs. Real P/C Premium Growth: Modest Association

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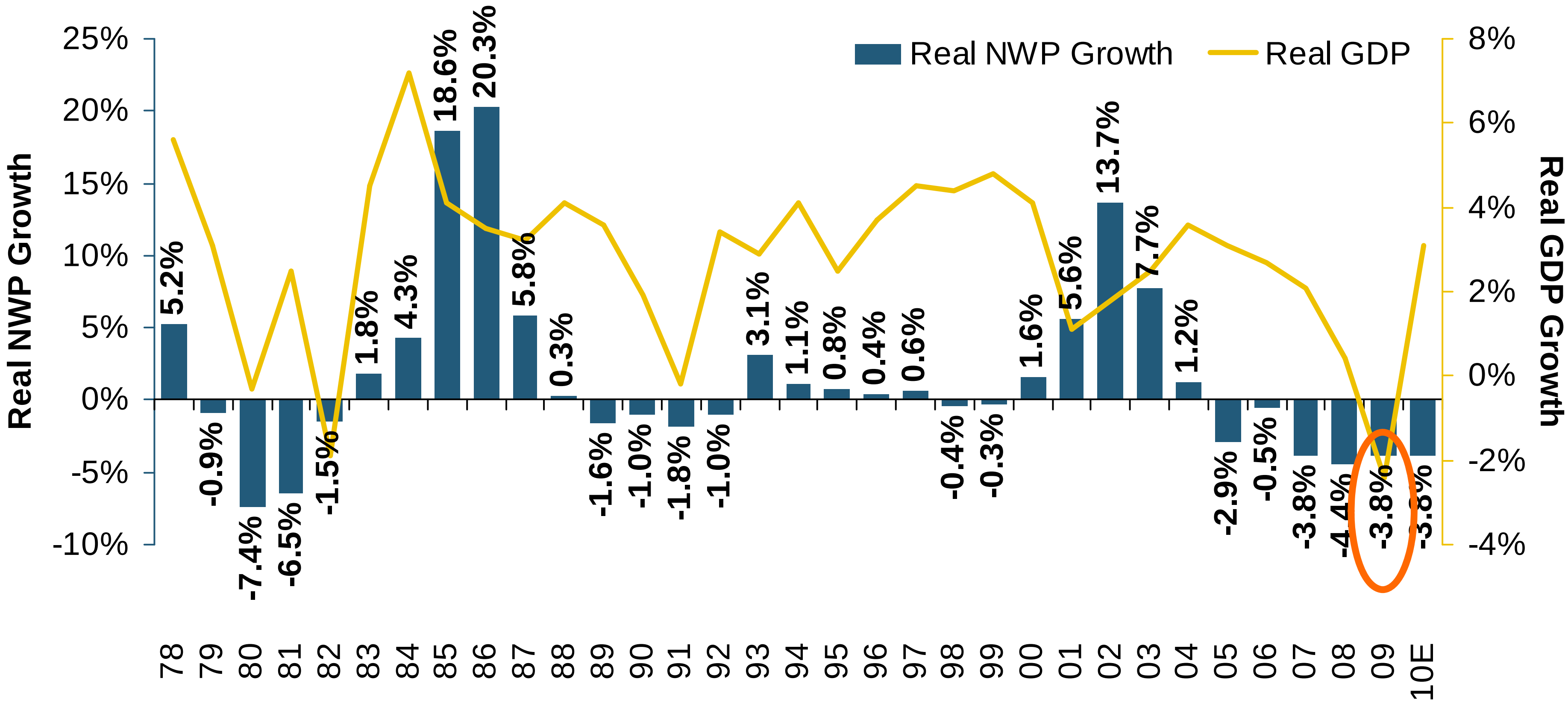
Real GDP Growth vs. Real P/C (%)



P/C Insurance Industry's Growth is Influenced Modestly by Growth in the Overall Economy

Sources: A.M. Best, US Bureau of Economic Analysis, Blue Chip Economic Indicators, 3/10; Insurance Information Institute

Strength of Recent Hard Markets by NWP Growth

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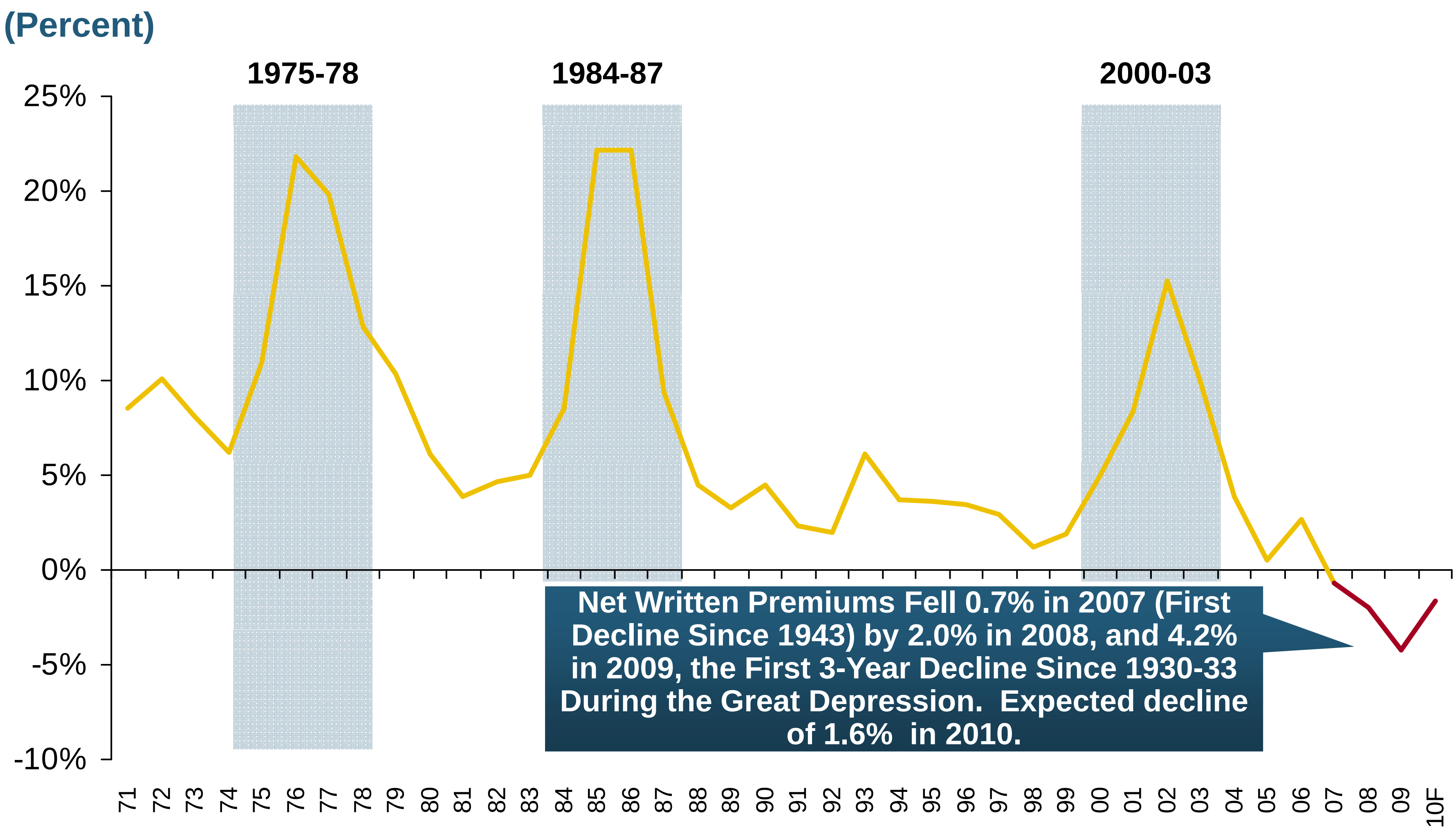

Shaded areas denote "hard market" periods

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

Capital/Policyholder Surplus (US)

Policyholder Surplus, 2006:Q4–2010:Q1E

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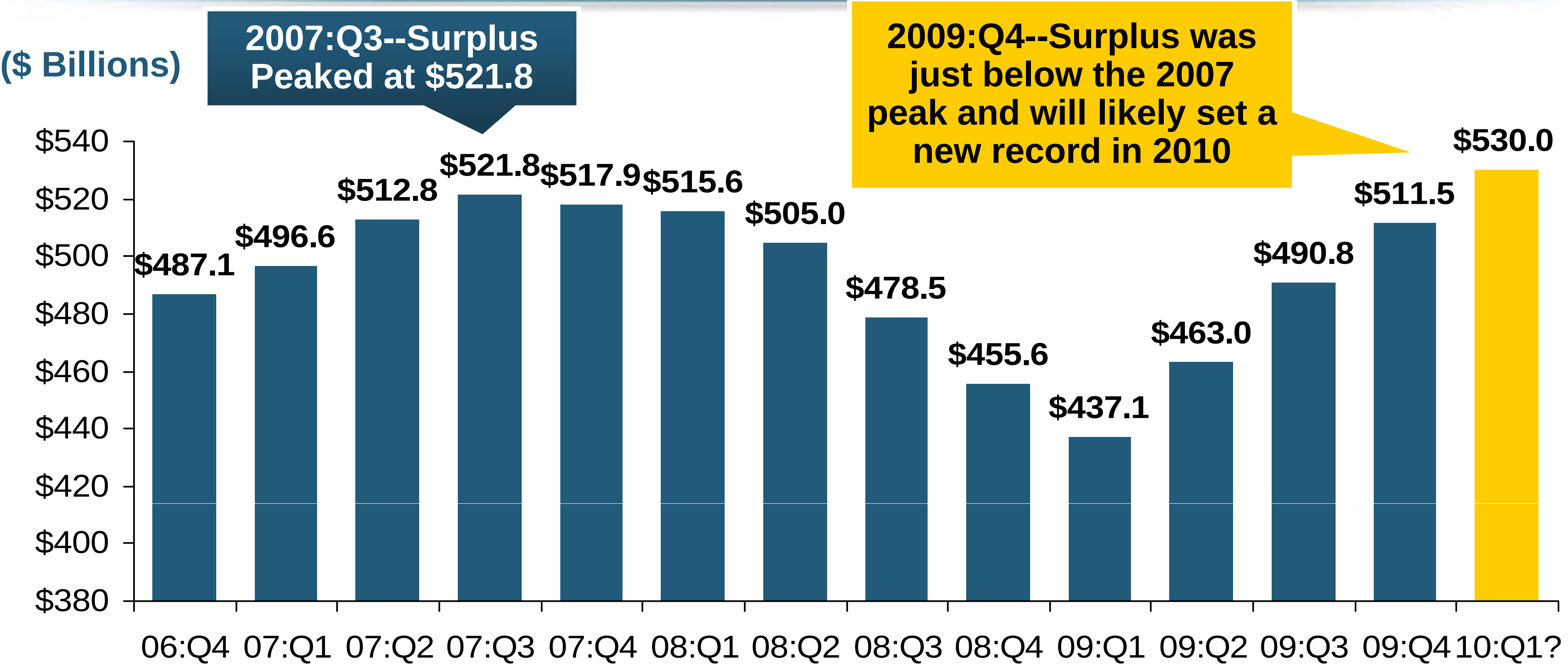
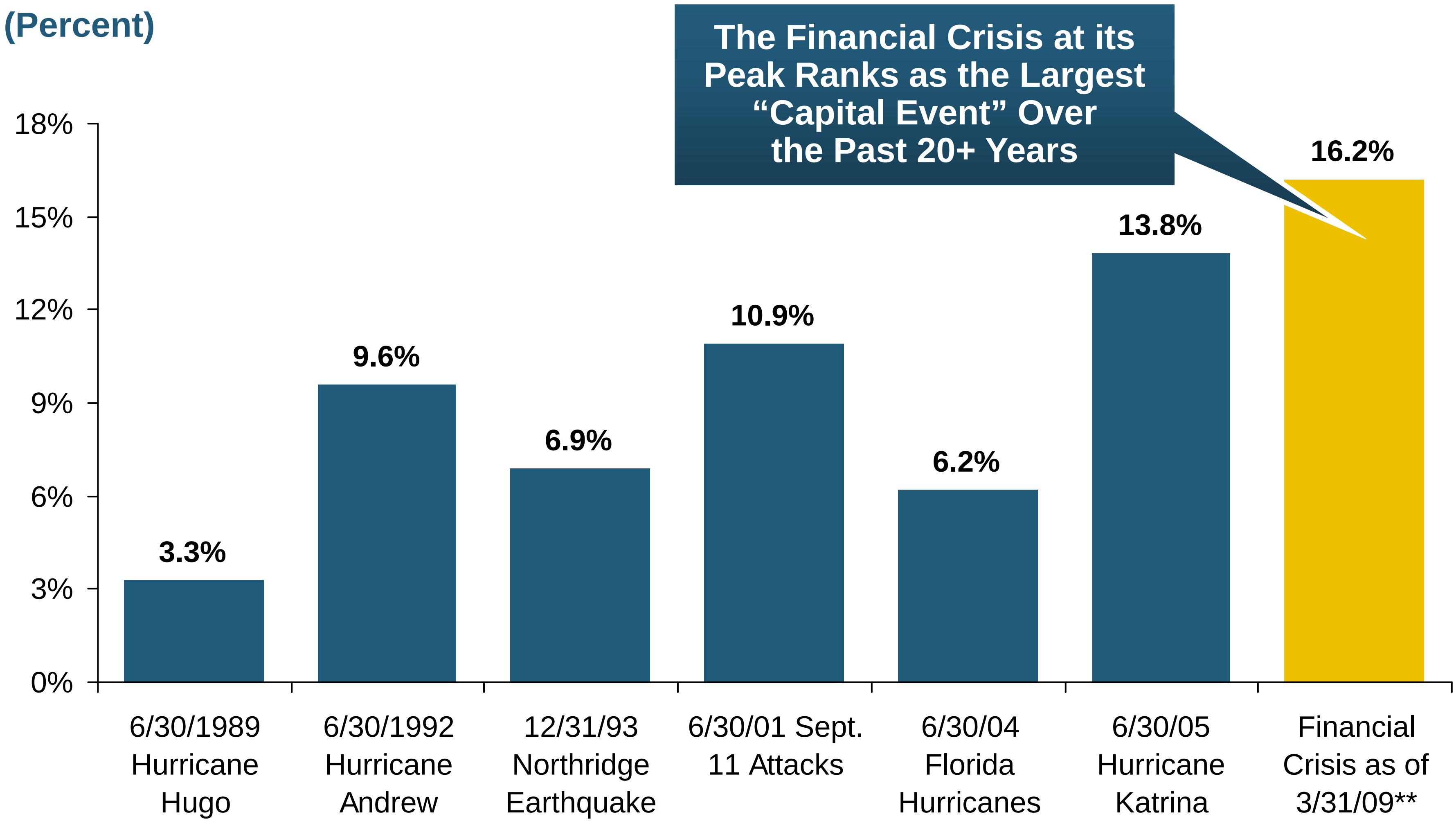


Declines Since 2007:Q3 Peak

08:Q2: -$16.6B (-3.2%)	**09:Q2: -$58.8B (-11.2%)**
08:Q3: -$43.3B (-8.3%)	**09:Q3: -$31.8B (-5.9%)**
08:Q4: -$66.2B (-12.9%)	**09:Q4: -$10.3B (-2.0%)**
09:Q1: -$84.7B (-16.2%)	

Source: ISO, AM Best.

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

Investment Performance

Investments Are a Principle Source of Declining Profitability

Property/Casualty Insurance Industry Investment Gain: 1994–2009P[1]

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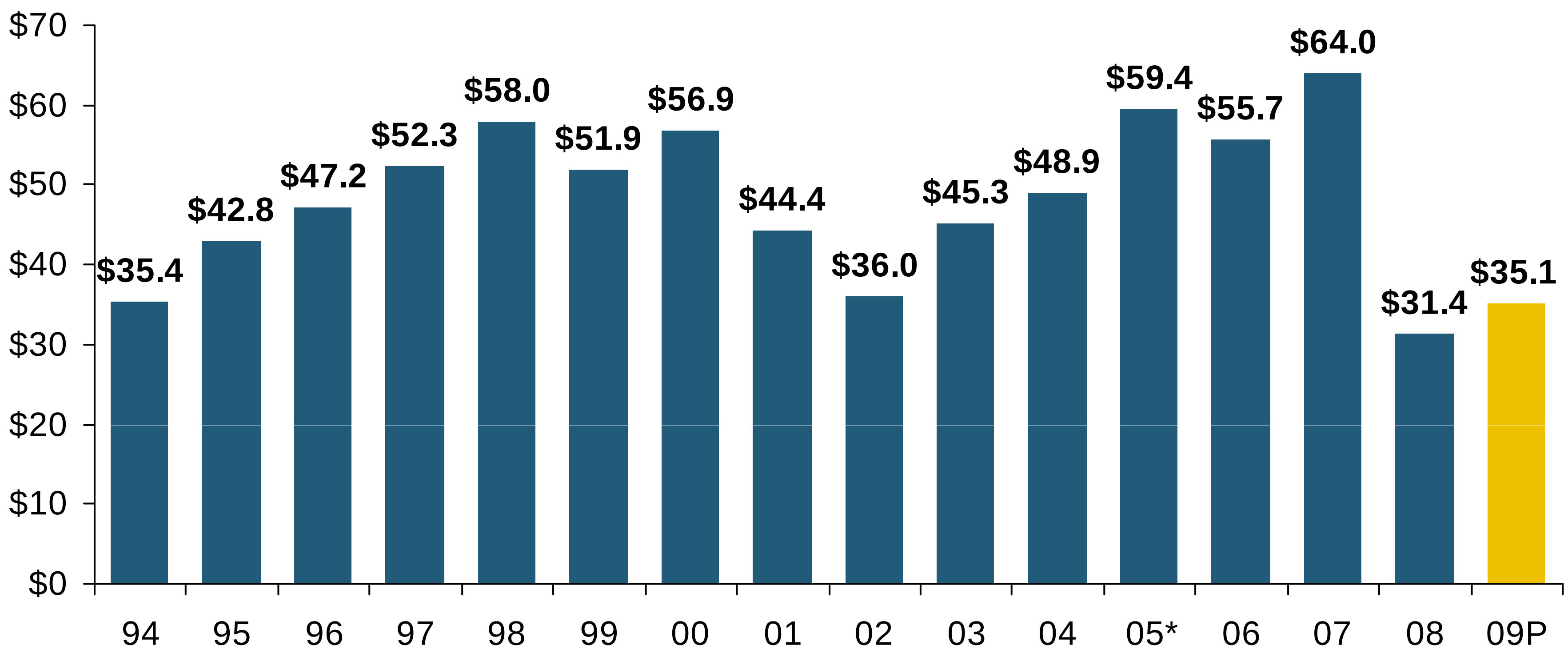
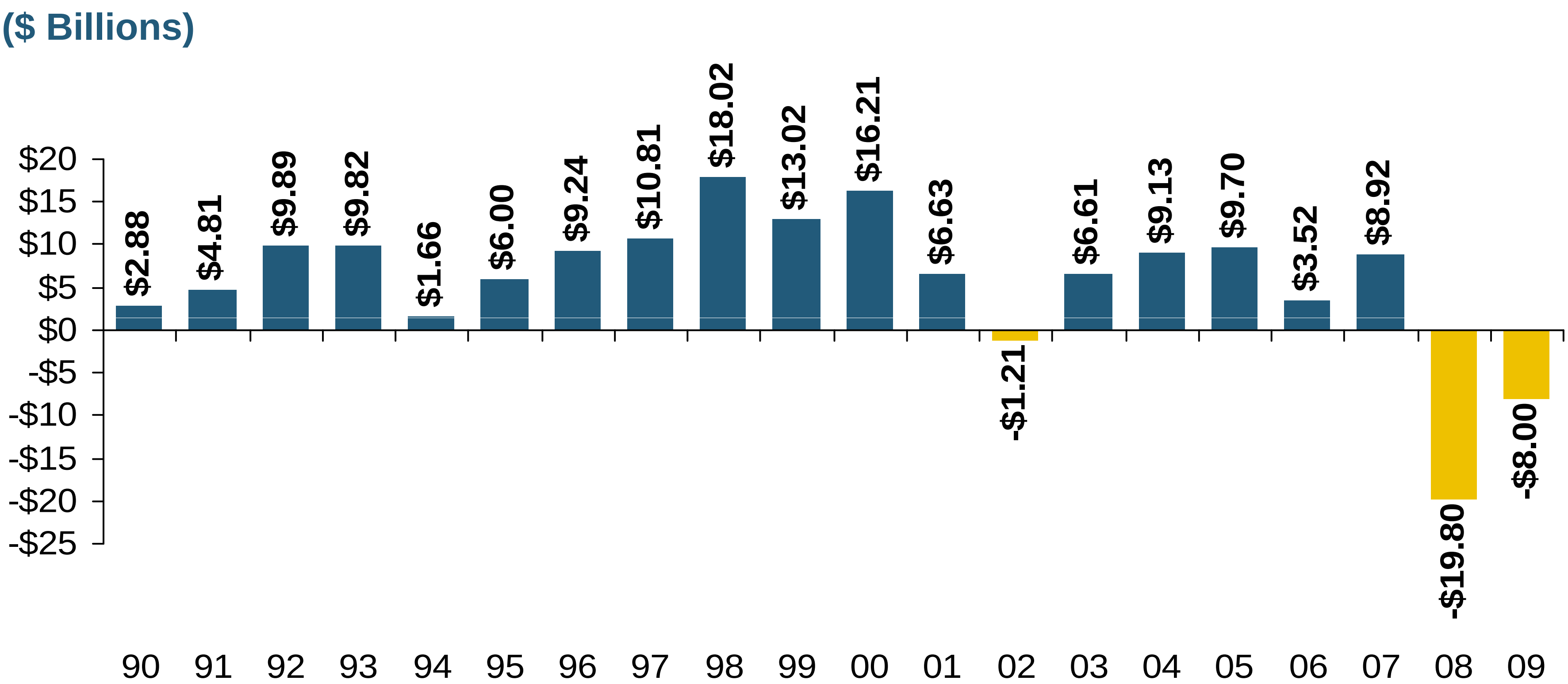
($ Billions)



Investment Gains Fell by 51% In 2008 Due to Lower Yields, Poor Equity Market Conditions. In 2009, the Return of Realized Capital Losses Helped Offset Lower Investment Income

[1] Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.
* 2005 figure includes special one-time dividend of $3.2B.
Sources: ISO; Insurance Information Institute.

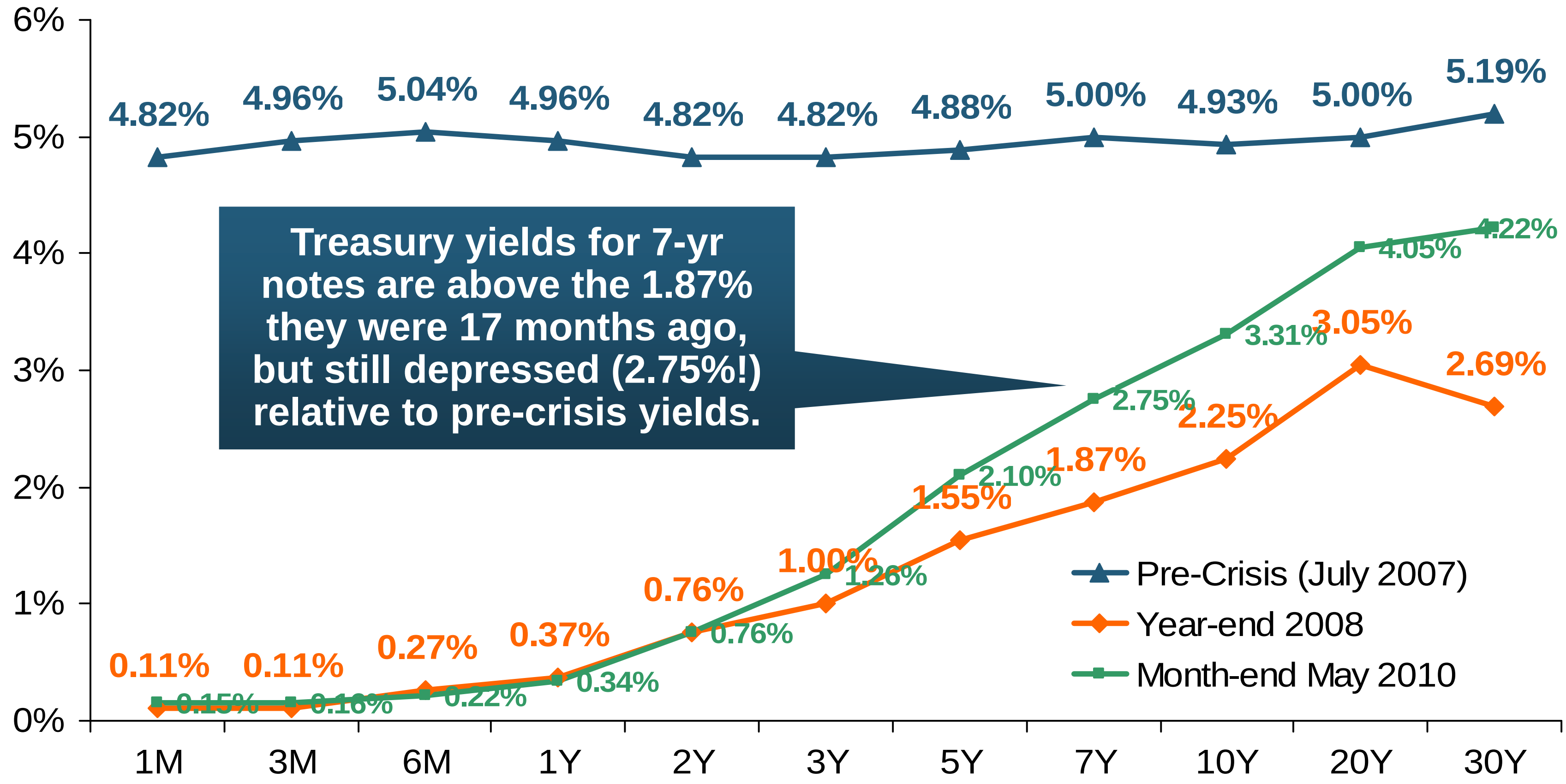
P/C Insurer Net Realized Capital Gains, 1990-2009



Realized Capital Losses Hit a Record $19.8 Billion in 2008
Due to Financial Market Turmoil, Followed by an $8.0B Drop in 2009.
This is a Primary Cause of 2008/2009's Large Drop in Profits and ROE

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

U.S. Treasury Yields Are Still Quite Low Compared to Pre-Crisis Levels



The Average Maturity on Bonds in P-C Insurers' Portfolios Has Remained Steady at About 7.5 Years Through the Last Decade

Sources: Board of Governors of the United States Federal Reserve Bank at http://ustreas.gov/offices/domestic-finance/debt-management/interest-rate/yield_historical_main.shtml ; Insurance Information Institute.

Distribution of P/C Insurance Industry's Investment Portfolio

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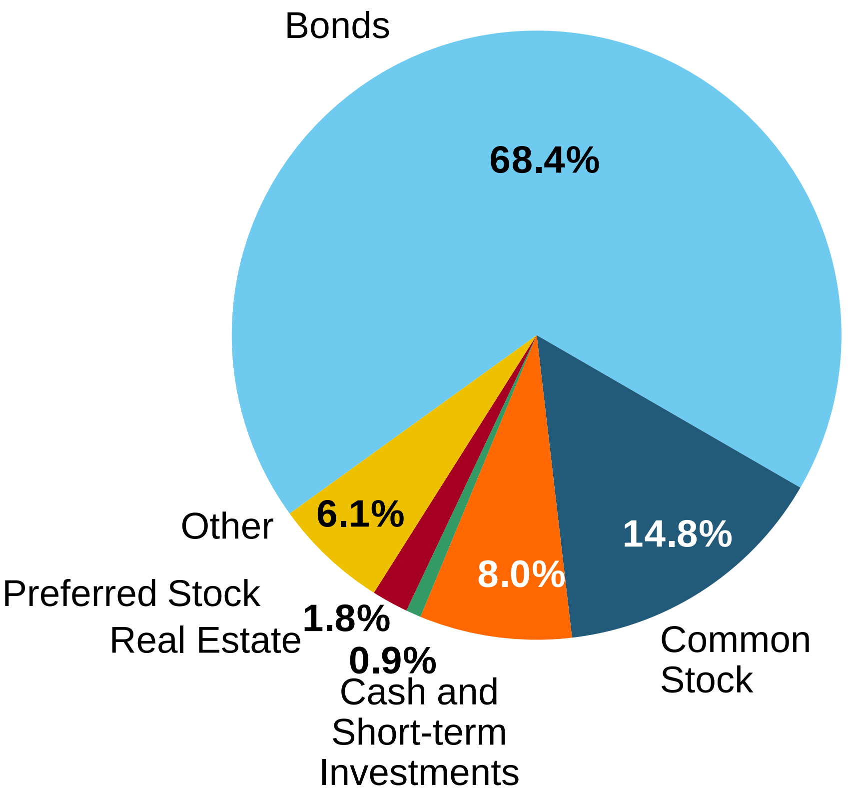
Portfolio Facts

- Invested assets totaled $1.214 trillion as of 12/31/08
- Insurers are generally conservatively invested, with more than 2/3 of assets invested in bonds as of 12/31/08
- Only about 15% of assets were invested in common stock as of 12/31/08
- Even the most conservative of portfolios was hit hard in 2008

As of December 31, 2008

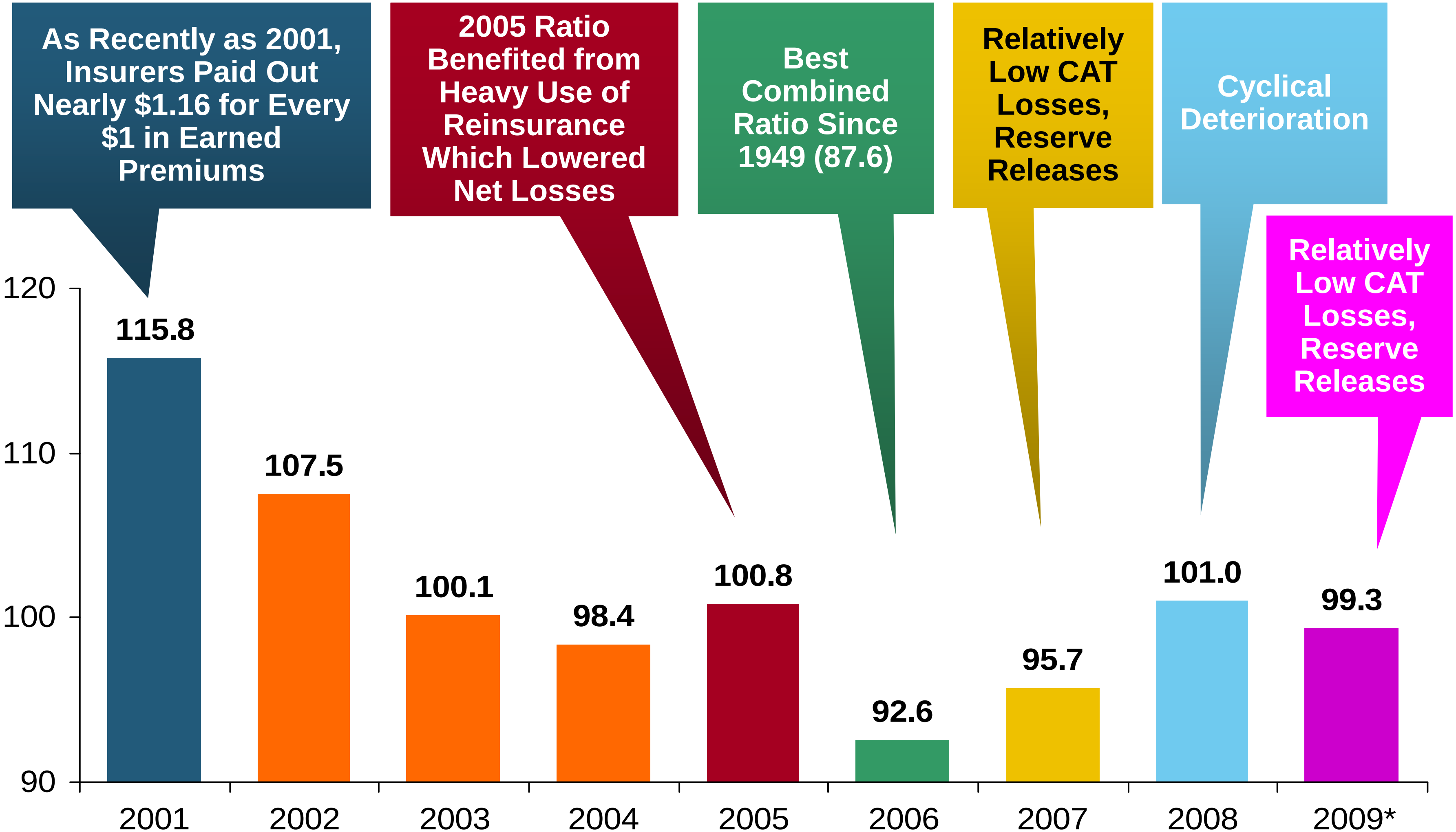


Sources: NAIC; Insurance Information Institute research.

Underwriting:
It Wasn't the Economy, …

The Underwriting Cycle, Catastrophe Losses Were the Main Drivers

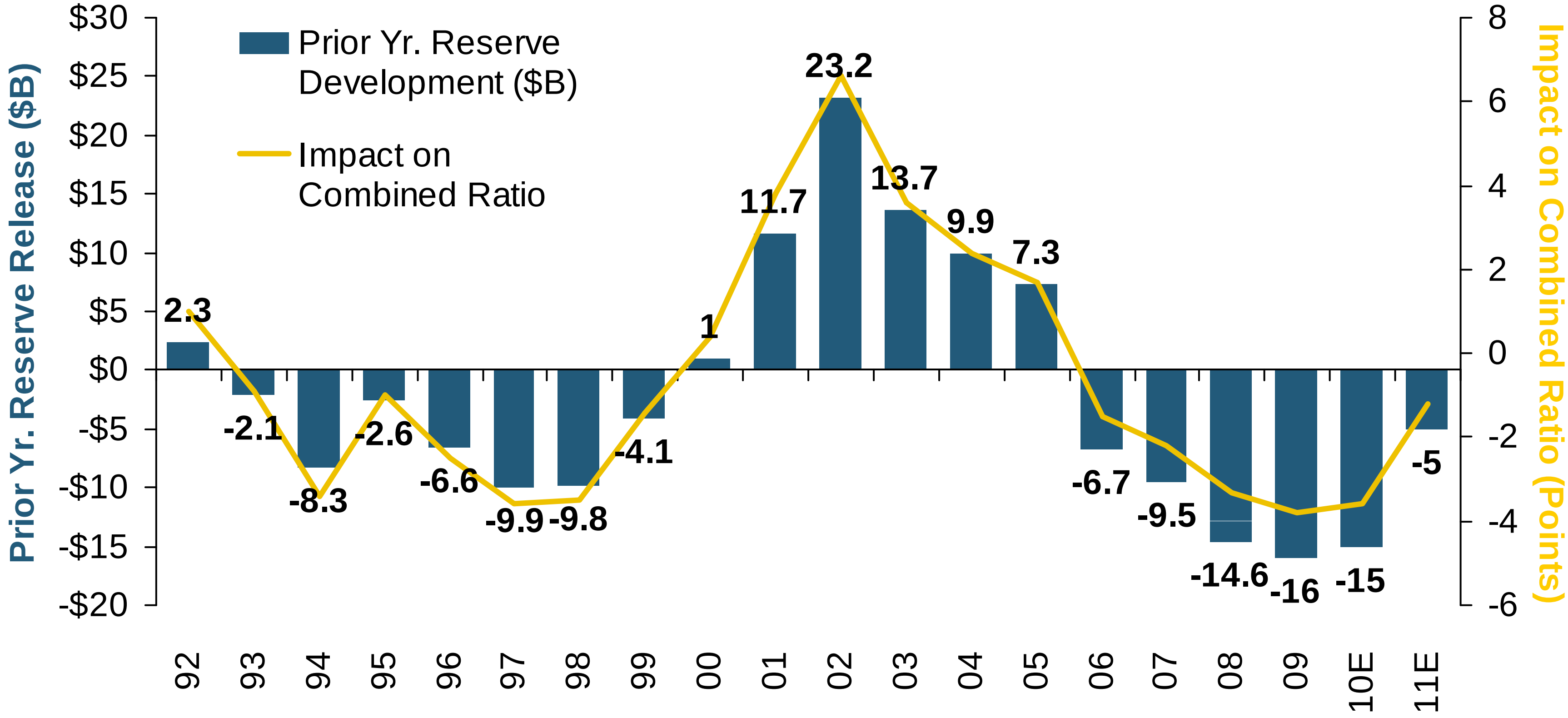
P/C Insurance Industry Combined Ratio, 2001–2009*



* Excludes Mortgage & Financial Guaranty insurers in 2008. Including M&FG, 2008=105.1, 2009=100.7

Sources: A.M. Best, ISO.

P/C Reserve Development, 1992–2011E



Reserve Releases Will Expected to Taper Off in 2010 and Drop Significantly 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.

Underwriting Gain (Loss) 1975–2009:Q3*

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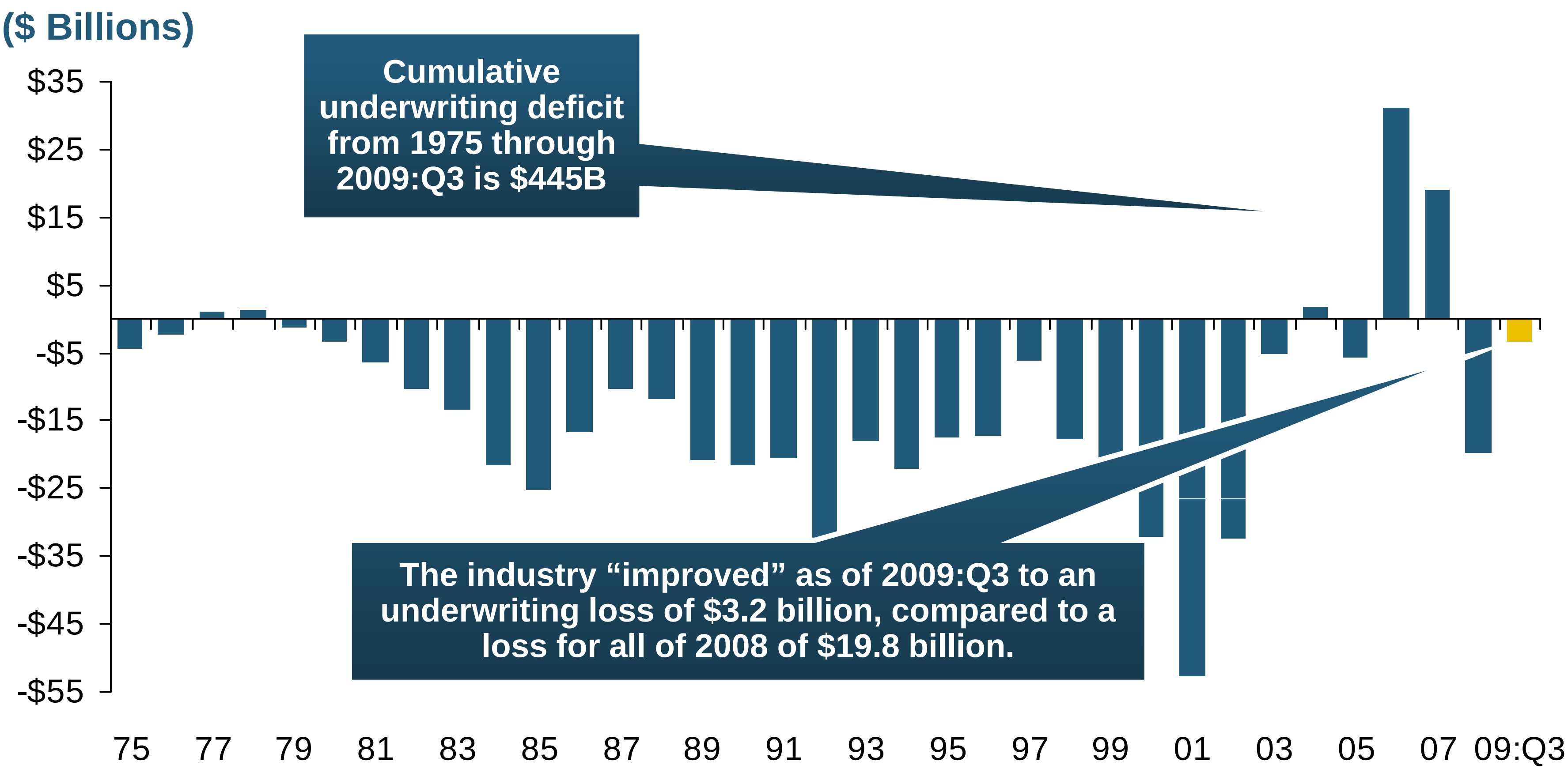

Large Underwriting Losses Are *NOT* Sustainable in Current Investment Environment

* Includes mortgage and financial guarantee insurers.

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

Number of Years with Underwriting Profits by Decade, 1920s–2000s

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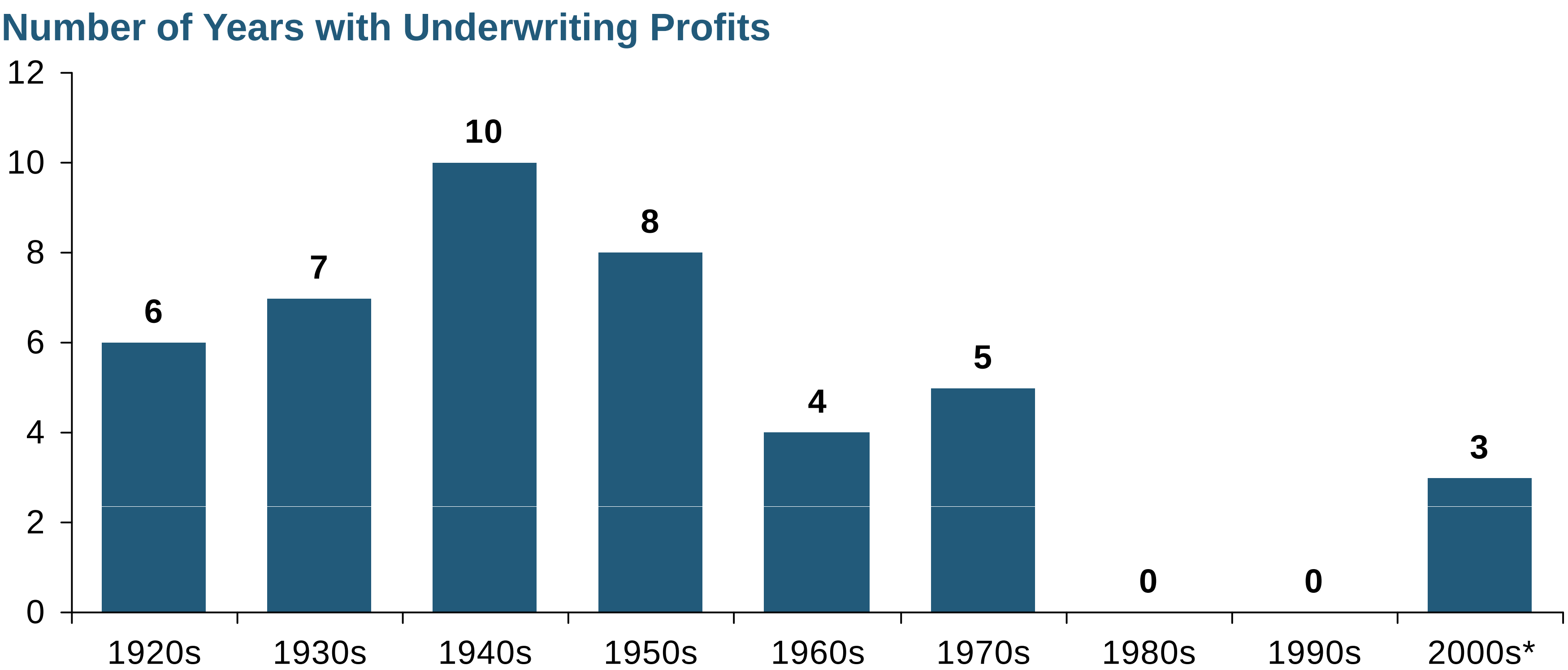

Underwriting Profits Were Common Before the 1980s (40 of the 60 Years Before 1980 Had Combined Ratios Below 100) – But Then They Vanished. Not a Single Underwriting Profit Was Recorded in the 25 Years from 1979 Through 2003

* 2000 through 2009. 2009 combined ratio was 100.7 through Q3.

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

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

Catastrophic Loss – Claims Are Trending Adversely

Catastrophic Losses*: Was 2005 an Outlier or a Harbinger?

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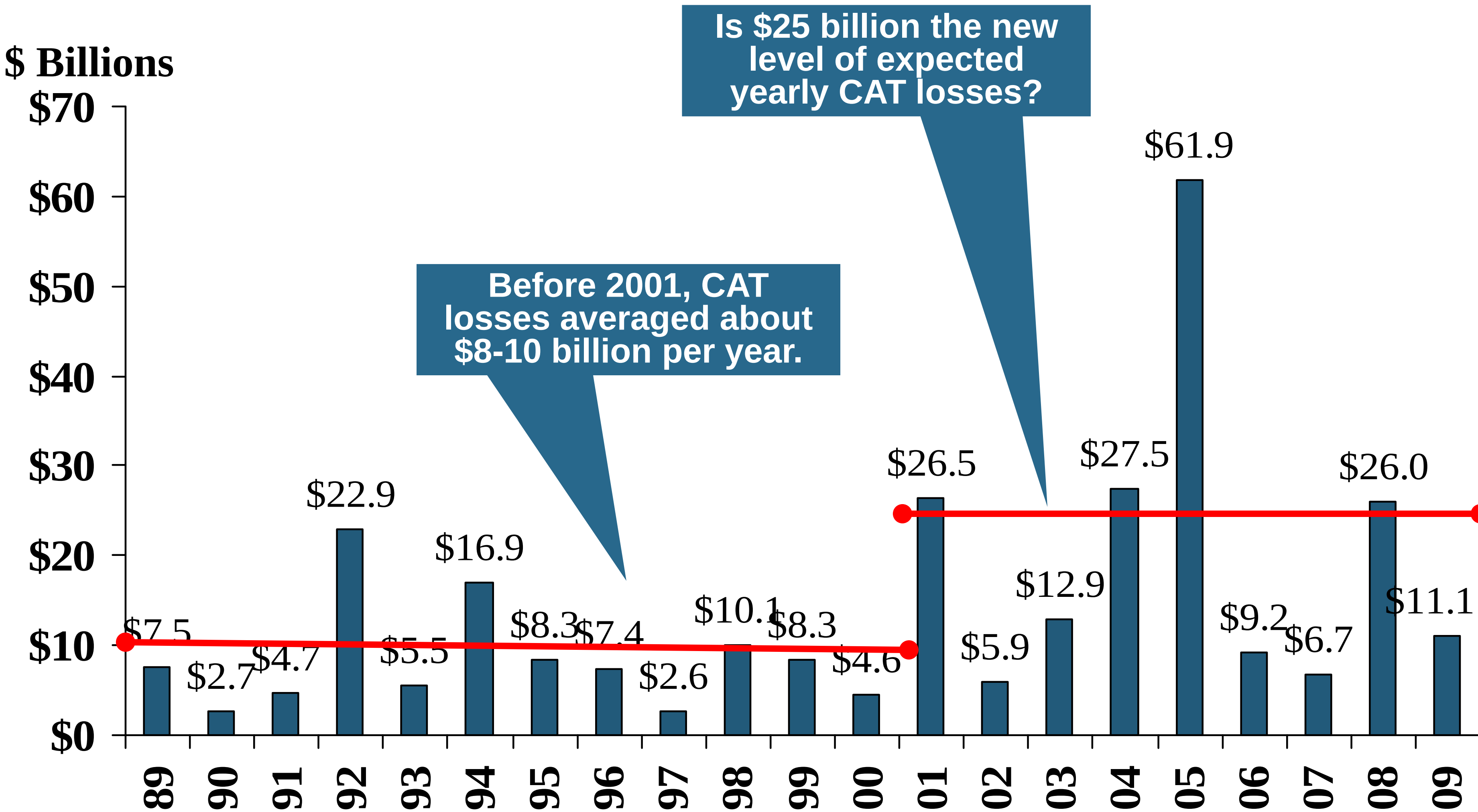

*Excludes $4B-$6b offshore energy losses from Hurricanes Katrina & Rita.

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.

Source: Property Claims Service/ISO; Insurance Information Institute

A Million More Florida Resident Households in the Next Decade?

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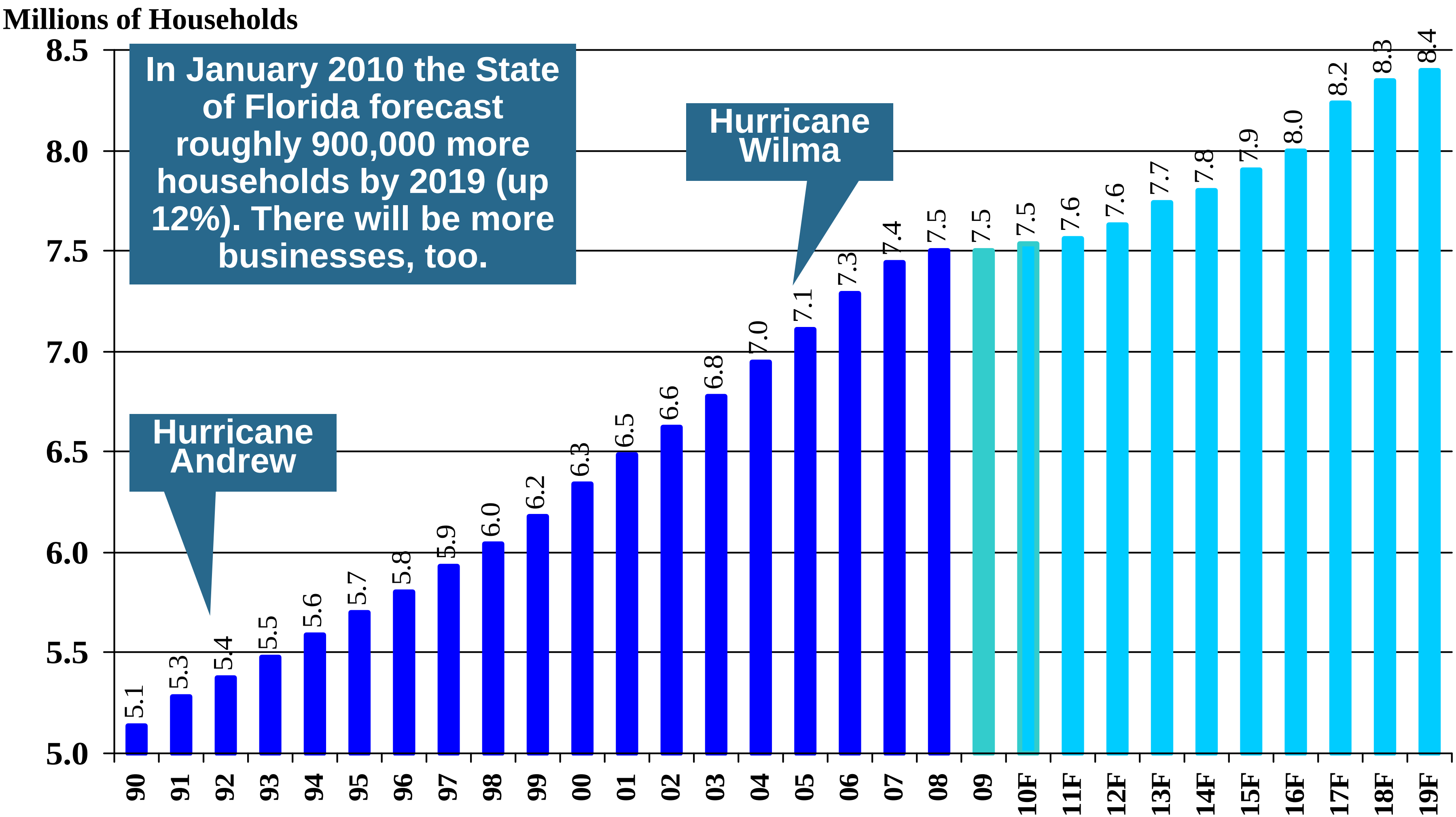

Source: http://edr.state.fl.us/conferences/population/demographic.htm

Data are from Jan. 26, 2010 Florida Demographic Estimating conference

Estimated Value, in 2007, of Insured Coastal Exposure, by State

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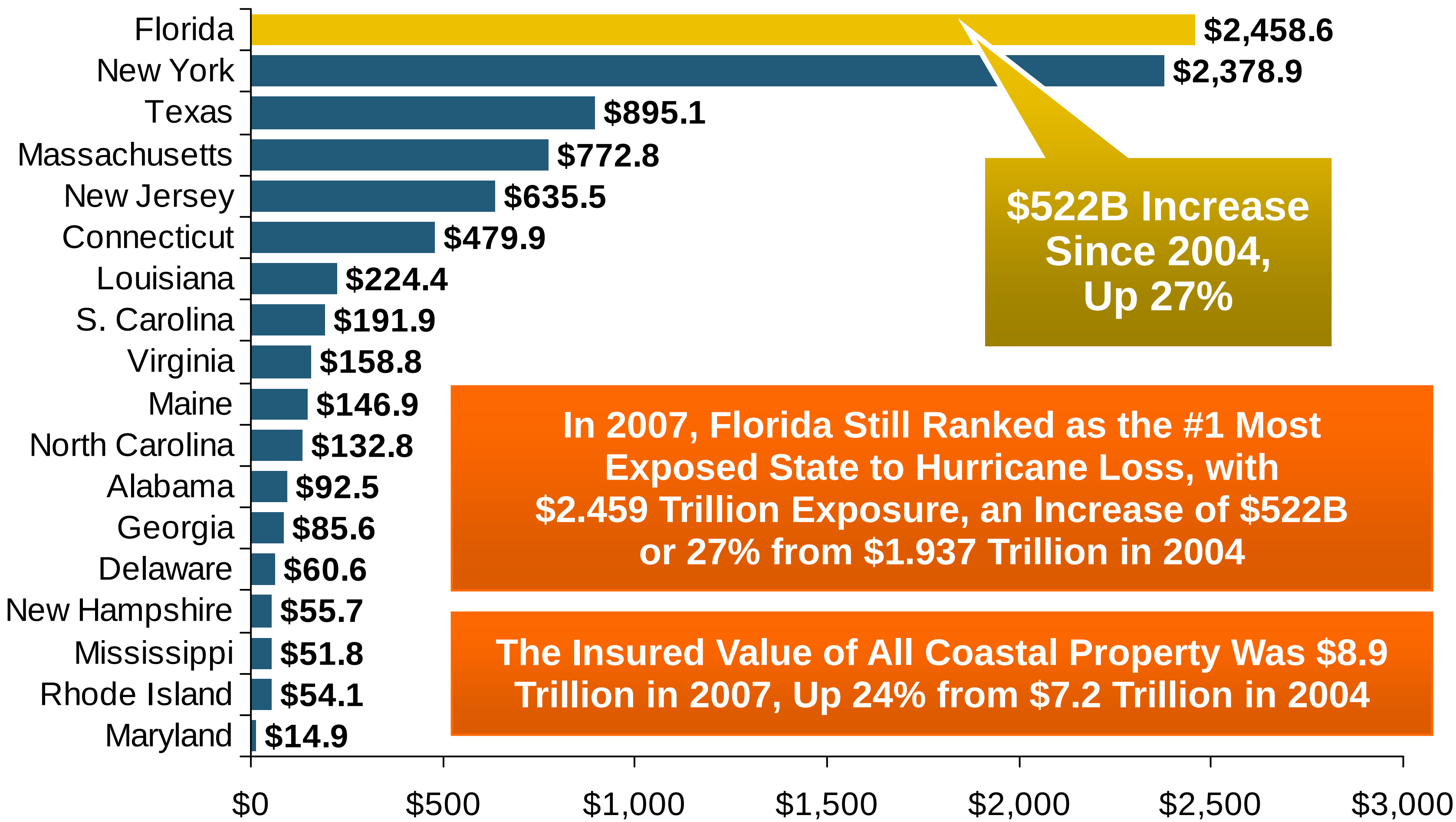
(2007, $ Billions)



In 2007, Florida Still Ranked as the #1 Most Exposed State to Hurricane Loss, with $2.459 Trillion Exposure, an Increase of $522B or 27% from $1.937 Trillion in 2004

The Insured Value of All Coastal Property Was $8.9 Trillion in 2007, Up 24% from $7.2 Trillion in 2004

Sources: AIR Worldwide; I.I.I.

Estimated Value, in 2010, of Insured Coastal Exposure

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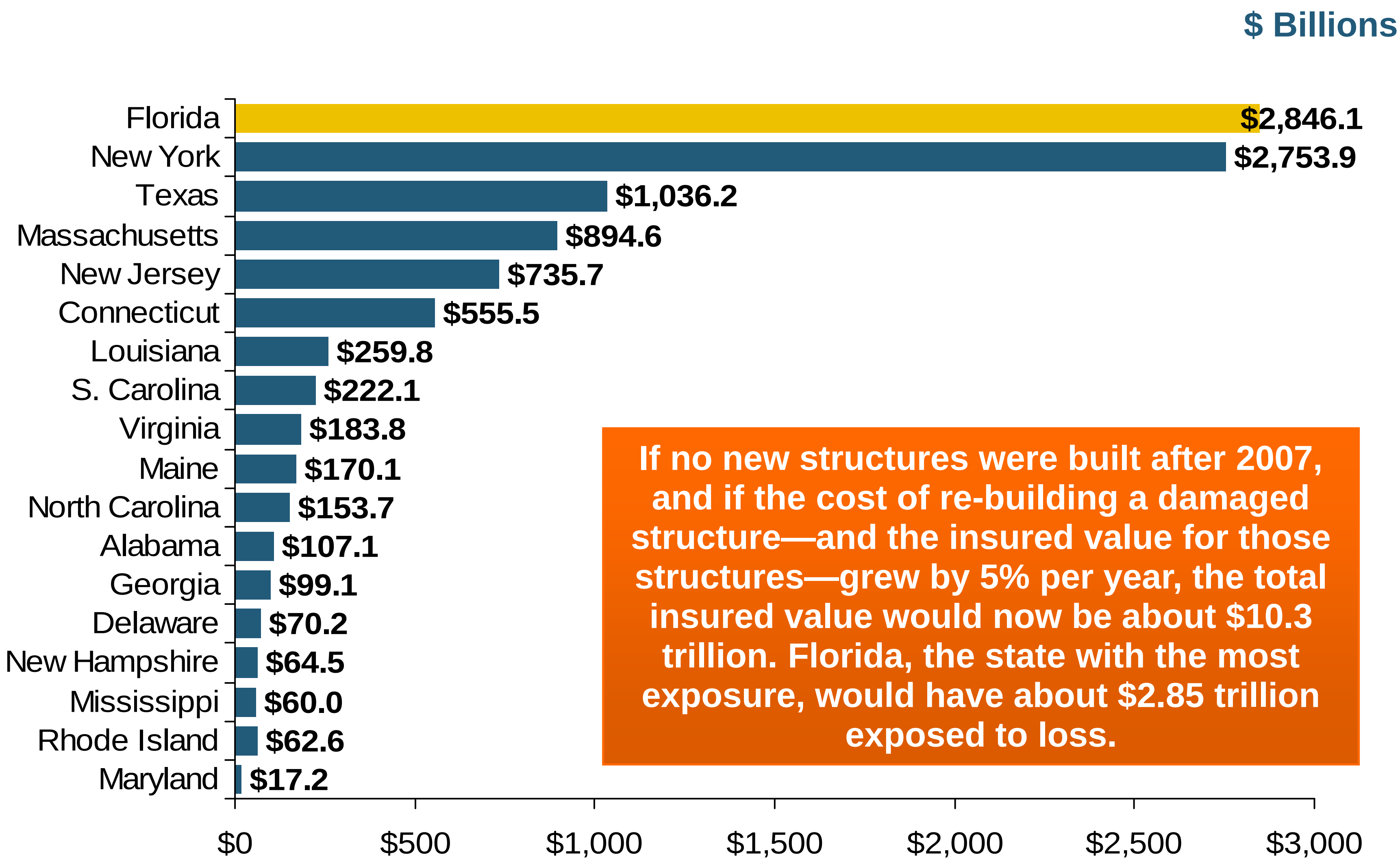

Source: AIR Worldwide's 2007 estimates, assumed to grow by 5% per year increased rebuilding cost; assumes no new structures built in 2008-2010

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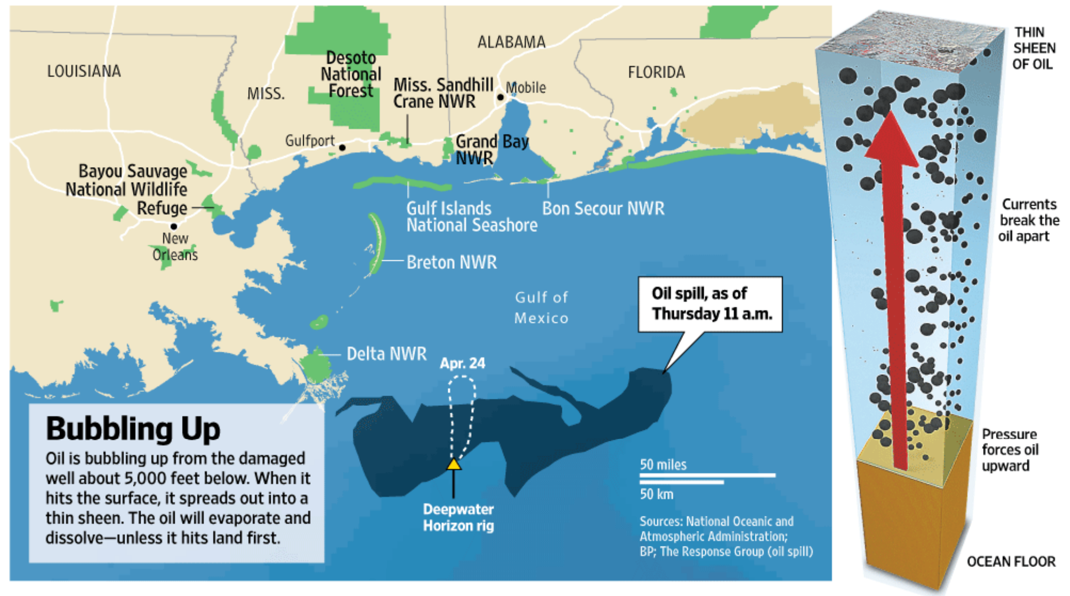

Sinking of Deepwater Horizon Platform and Gulf of Mexico Oil Spill

Insurance Implications of Sinking of *Deepwater Horizon* Platform and Oil Spill

- Insurance losses from the explosion and sinking of the *Deepwater Horizon* offshore oil platform will be significant
  - One of the Largest Losses Ever for Global Offshore Energy Insurance and Reinsurance Markets
  - Early Loss Estimates Put the Insured Loss in Excess of $1B to $1.25B*
  - Includes $560 million as replacement cost of sunken oil platform
  - Loss Appears to Be Well Syndicated With a Global Spectrum of Insurers and Reinsurers Sharing in the Losses
  - Significant retentions/self-insurance may be in play

Deepwater Horizon Oil Rig/Spill Loss: 6 Types of Coverage That Might Apply

INSURANCE INFORMATION INSTITUTE

- **Physical Damage:** covers physical damage or loss to a company's offshore property and equipment, including offshore fixed platforms, pipelines and production and accommodation facilities.
- **Business Interruption/Loss of Production Income:** covers energy businesses against loss due to temporary interruption in oil/gas supply from an offshore facility as a result of physical loss or damage to an offshore facility.
- **Operators' Extra Expense (Control of Well):** covers costs incurred by energy businesses when regaining control of a well after a "blowout". Might include expenses incurred in restoring or re-drilling well after blowout; seepage and pollution liability coverage to pay third party bodily injury, damage to and loss of third party property.

Source: http://www.iii.org/insuranceindustryblog/; http://www.iii.org/articles/offshore_energy_facilities_insurance_considerations.html

Deepwater Horizon Oil Rig/Spill Loss: 6 Types of Coverage That Might Apply (cont'd)

- **Offshore Construction:** covers the many different risks energy businesses face during construction projects, from project inception through completion and beyond.
- **Liability:** ***Comprehensive general liability****:* covers claims an energy business is legally obligated to pay as a result of bodily injury or property damage to a third party. ***Workers compensation/employers liability:*** covers energy businesses for losses from injury or death of employees.
- **Environmental/Pollution Liability:** covers bodily injury, property damage, and clean up costs as a result of a pollution incident from a designated site.

Source: http://www.iii.org/insuranceindustryblog/; http://www.iii.org/articles/offshore_energy_facilities_insurance_considerations.html

Insurance Information Institute Online:

www.iii.org

Thank you for your time and your attention!

Download at: www.iii.org/presentations