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Overview and Outlook for the P/C Insurance Industry

Focus on Pennsylvania Markets

Pennsylvania Association of Mutual Insurance Companies

Bedford Springs, PA

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Download at www.iii.org/presentations

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Presentation Outline

- Review of Recent Events
  - What in the World is Going On?
- Summary of P/C Financial Performance
- Pennsylvania P/C Financial Performance
- Catastrophe Loss Developments & Trends
  - Global
  - US
- 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

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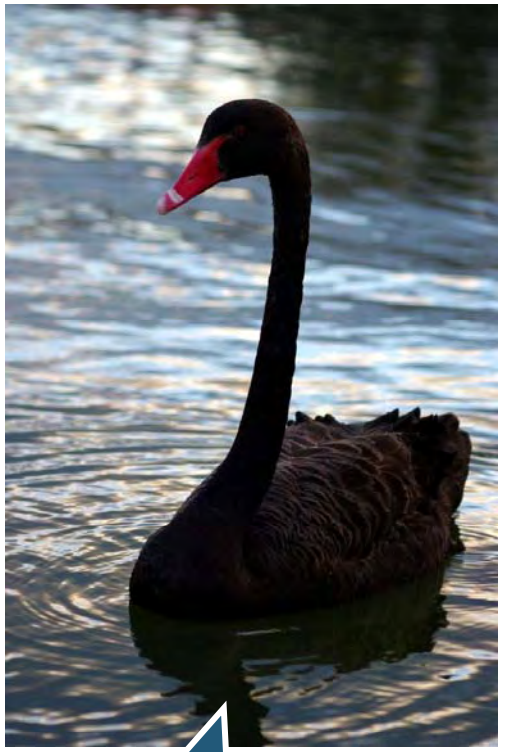
What in the World Is Going On?

Is the World Becoming a Riskier Place?

What Are the Implications for Insurance and Risk Management?

Uncertainty, Risk and Fear Abound

- Japan, New Zealand, Haiti, Chile Earthquakes
- Nuclear Fears
- Record Tornado, Flooding in the US, Wildfires
- Cyber Attacks
- Resurgent Terrorism Risk (e.g., Bin Laden Killing)
- Political Upheaval in the Middle East
- Echoes of the Financial Crisis
- Housing Crisis
- Persistently High Unemployment
- US Debt and Budget Crisis
- Sovereign Debt & Currency Crises
- Inflation/Deflation
- Runaway Energy & Commodity Prices
- Era of Fiscal Austerity
- Reshuffling the Global Economic Deck
- China Becomes #2 Economy in the World
- Manmade Disasters (e.g., Deepwater Horizon)



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

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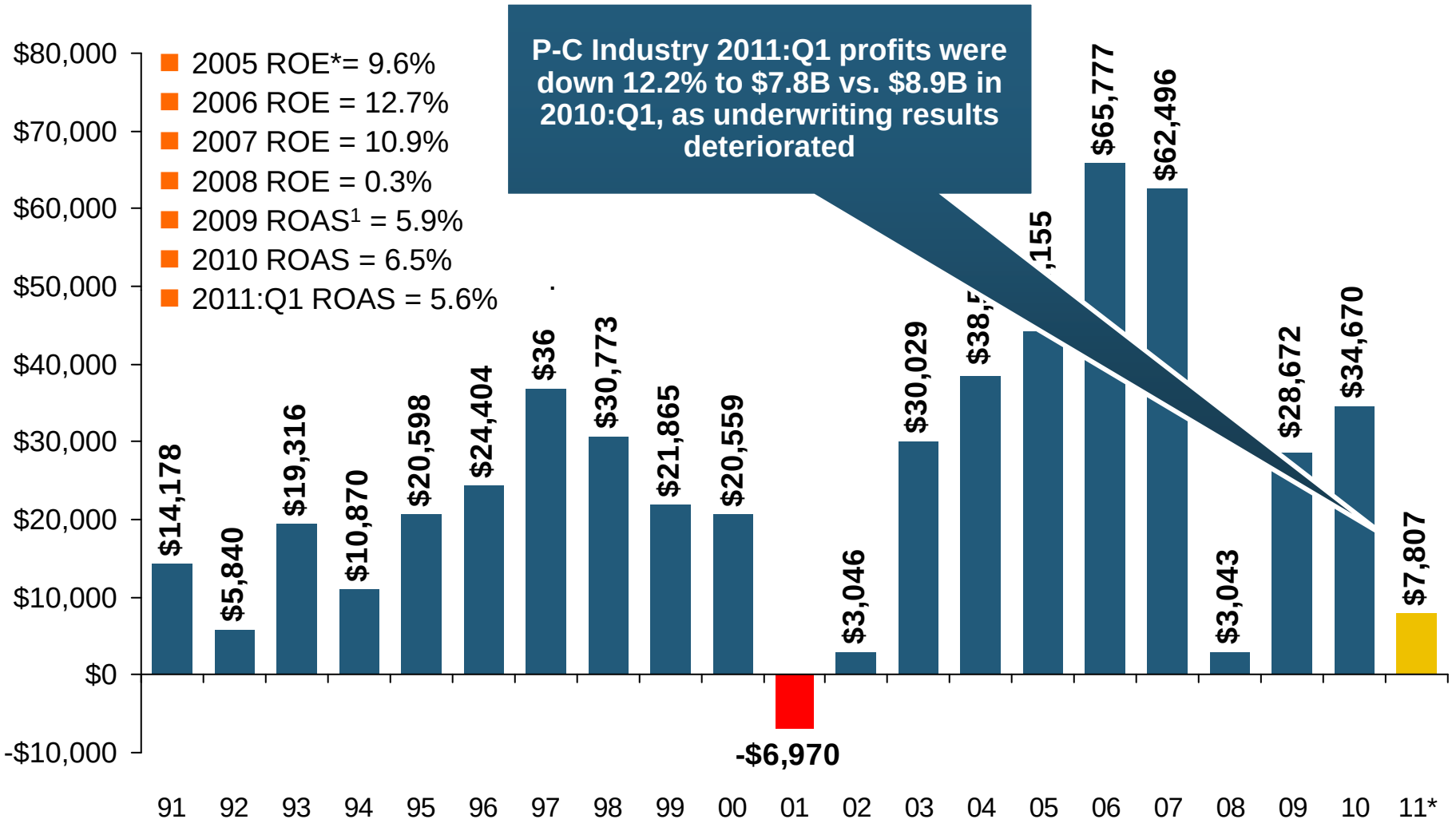
P/C Insurance Industry Financial Overview

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

P/C Net Income After Taxes 1991–2011:Q1 ($ Millions)



* ROE figures are GAAP; [1]Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 6.5% ROAS for 2011:Q1, 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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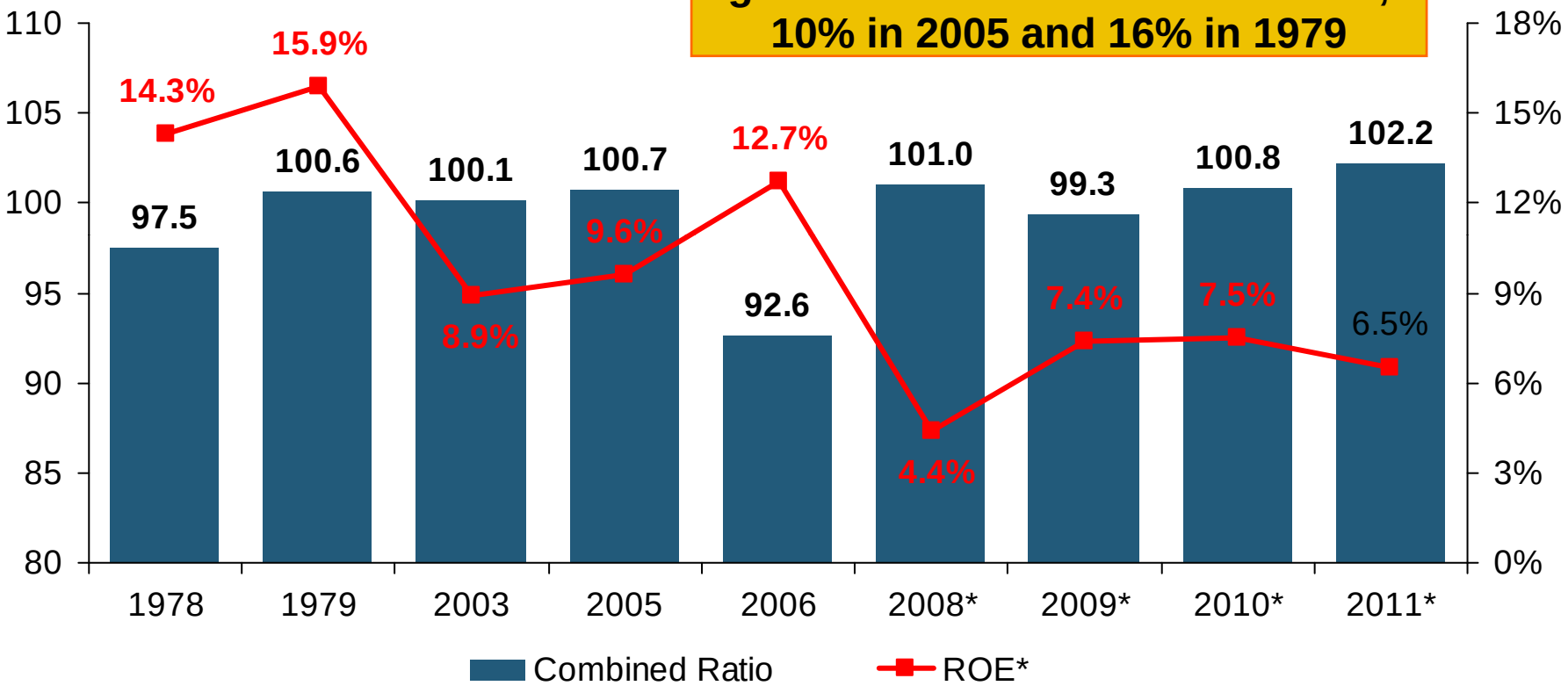
Combined Ratio / ROE

A combined ratio of about 100 generated ~7.5% ROE in 2009/10, 10% in 2005 and 16% in 1979

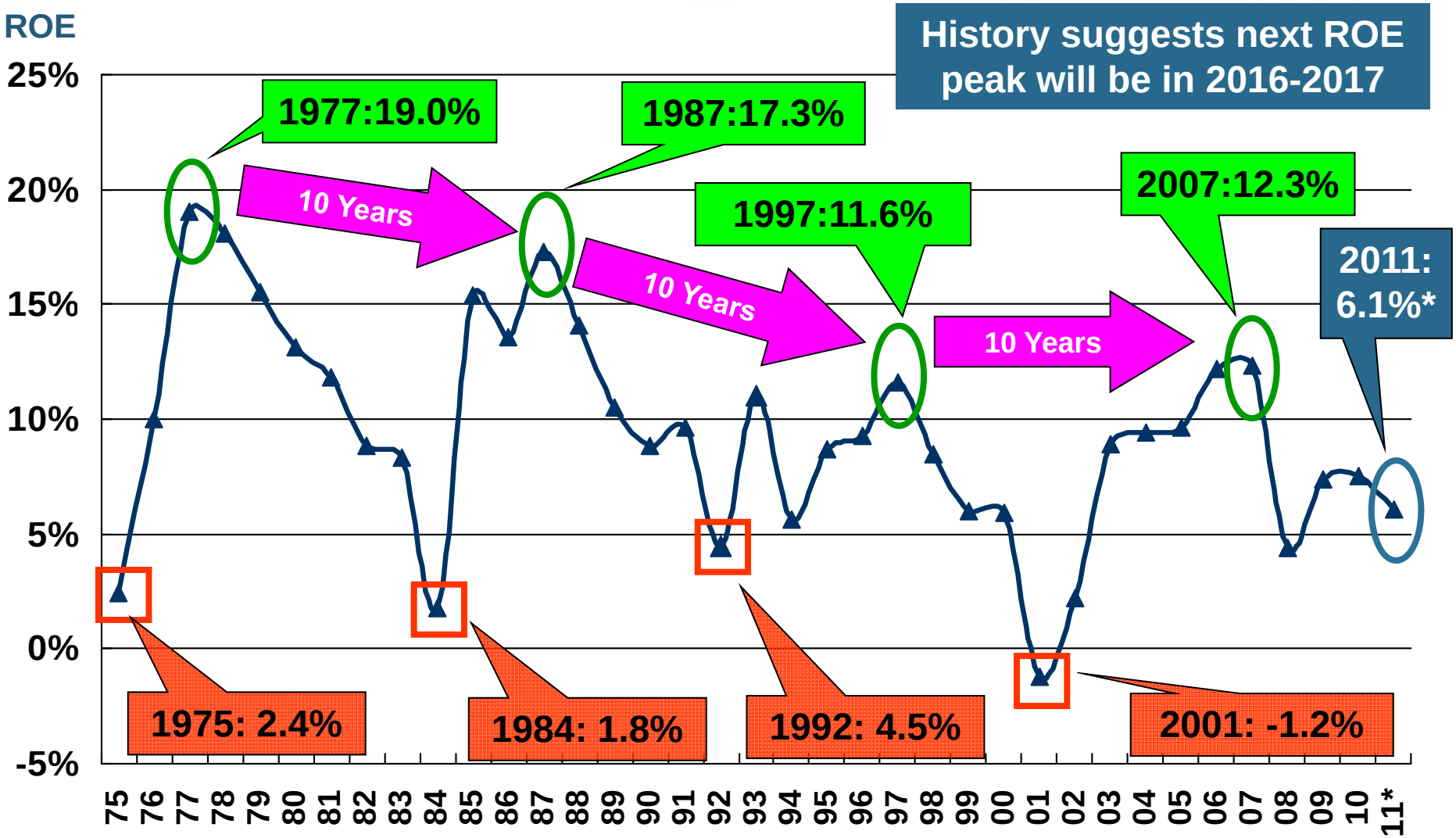


Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2009 and 2010 figures are return on average statutory surplus. 2008 -2011 figures exclude mortgage and financial guaranty insurers

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 Q1 data.
Note: Data for 2008-2011 exclude mortgage and financial guaranty insurers.
Source: Insurance Information Institute; NAIC, ISO, A.M. Best.

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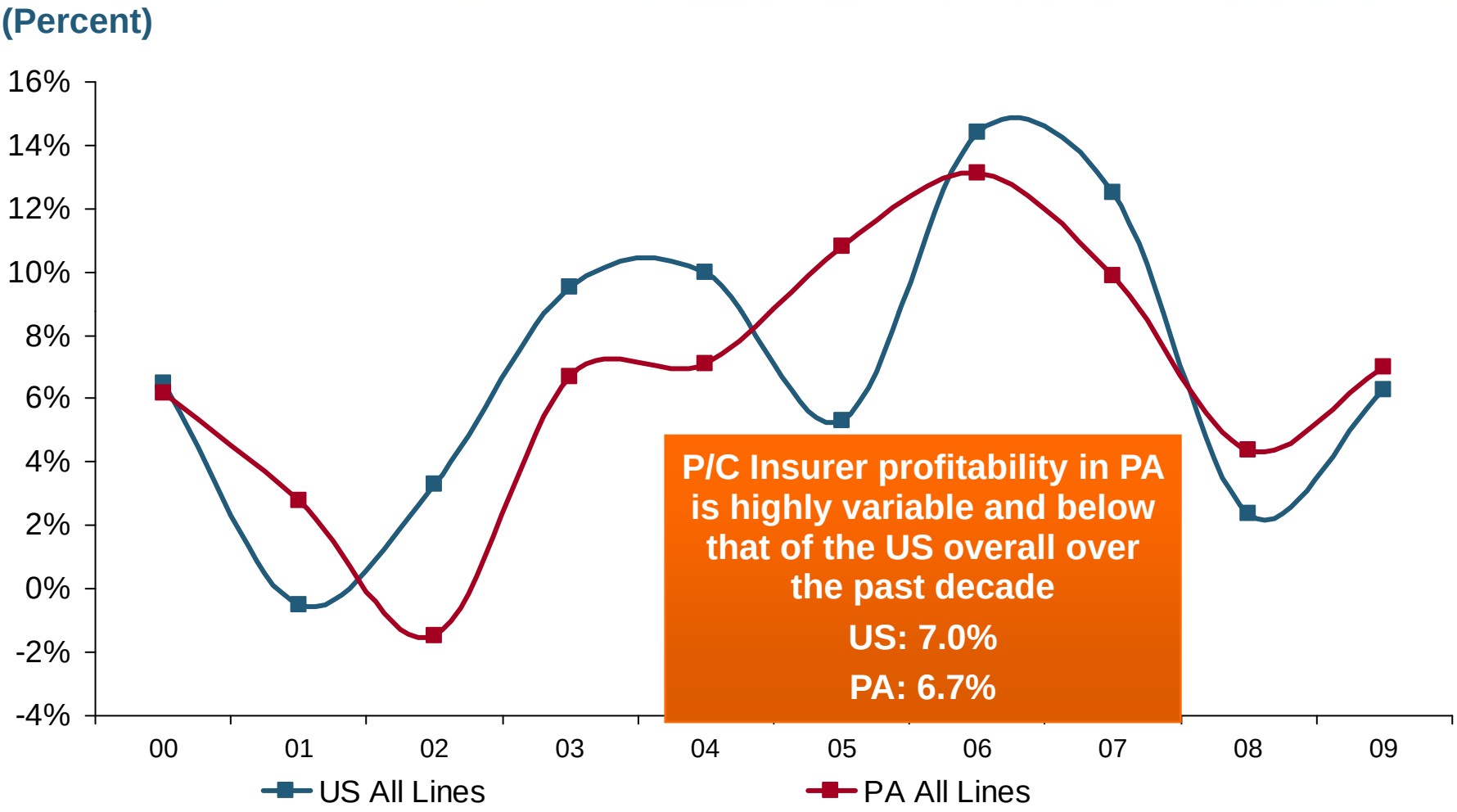
Profitability and Growth in Pennsylvania P/C Insurance Markets

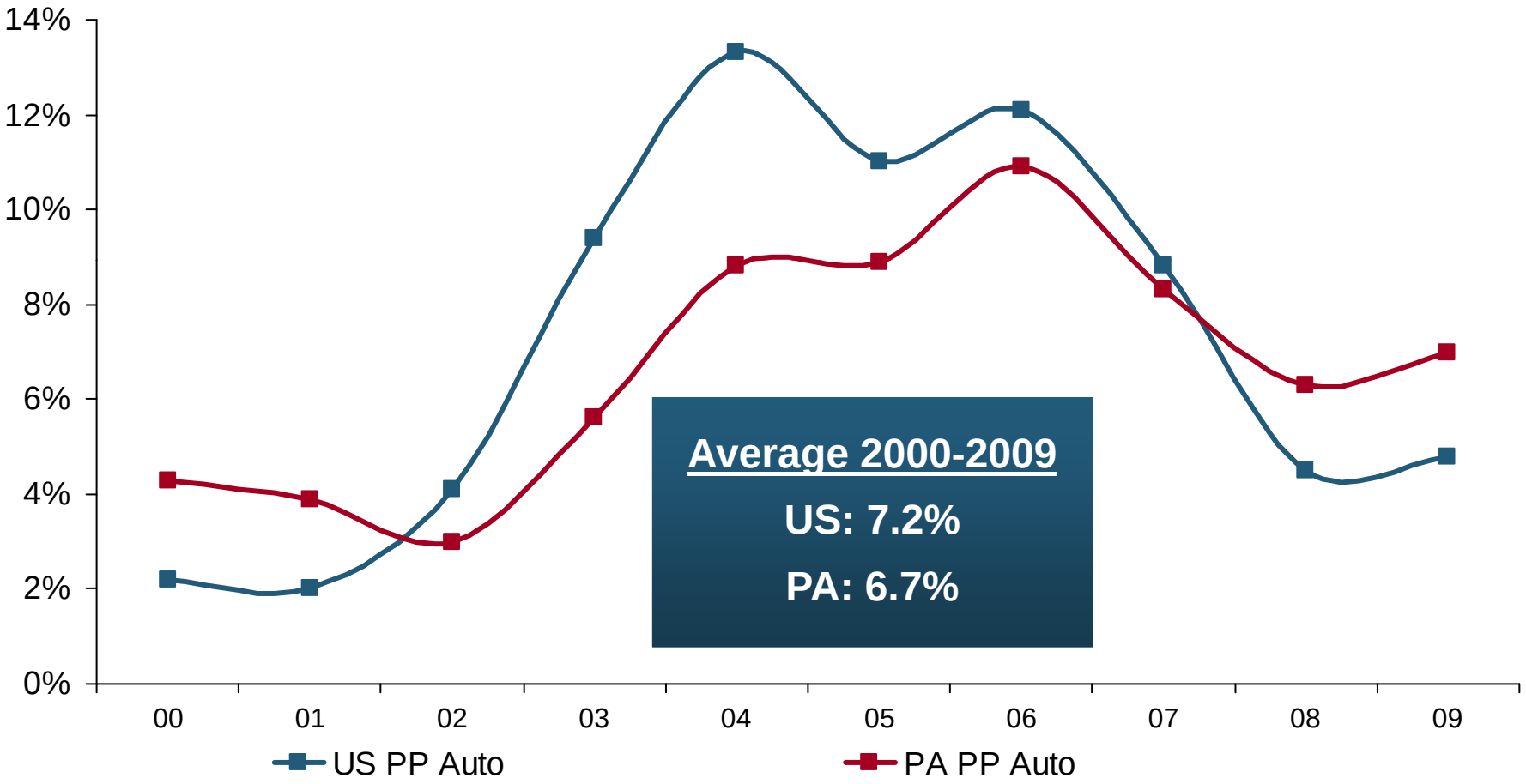
Analysis by Line and Nearby State Comparisons

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



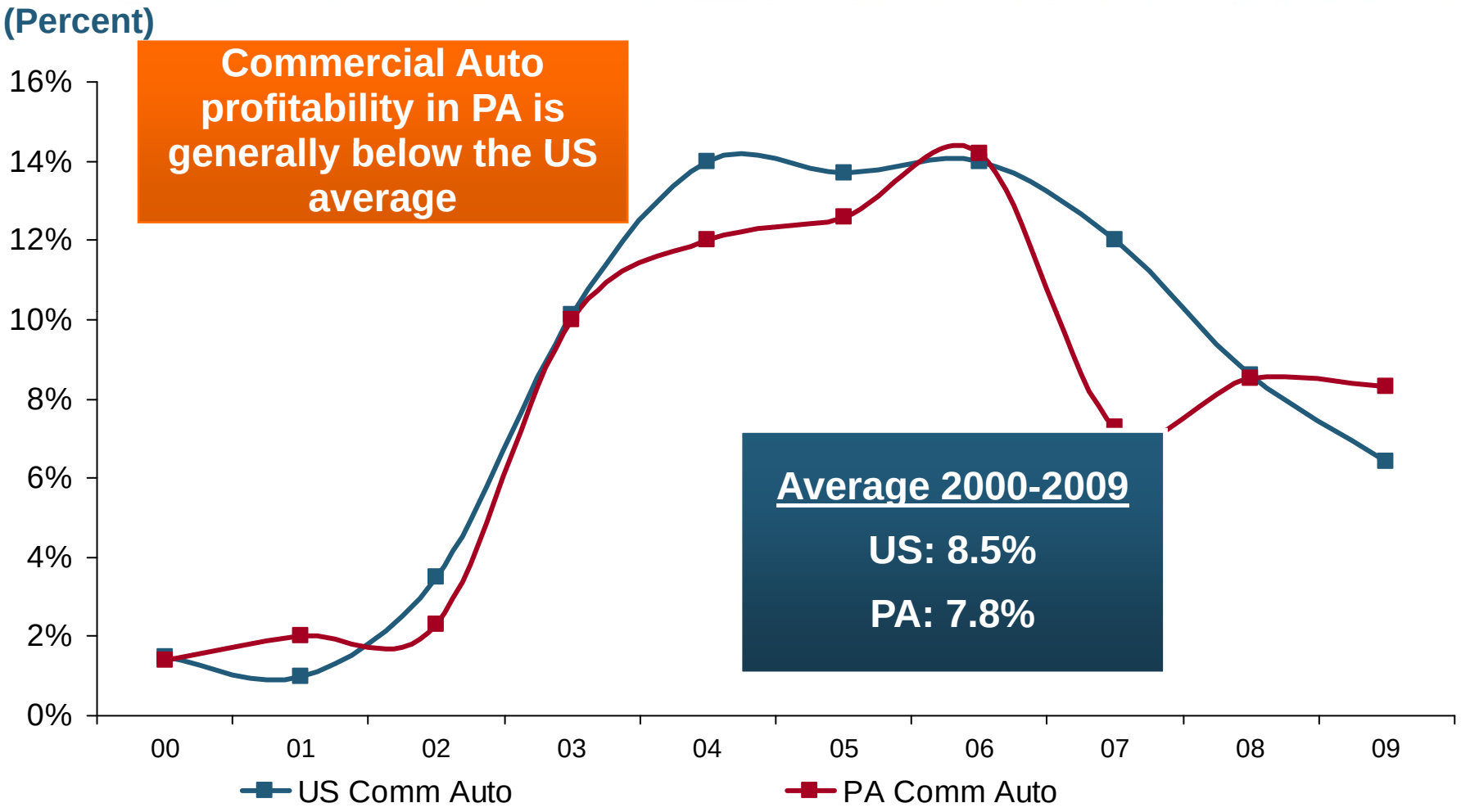
Sources: NAIC.

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



Sources: NAIC.

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



Sources: NAIC.

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

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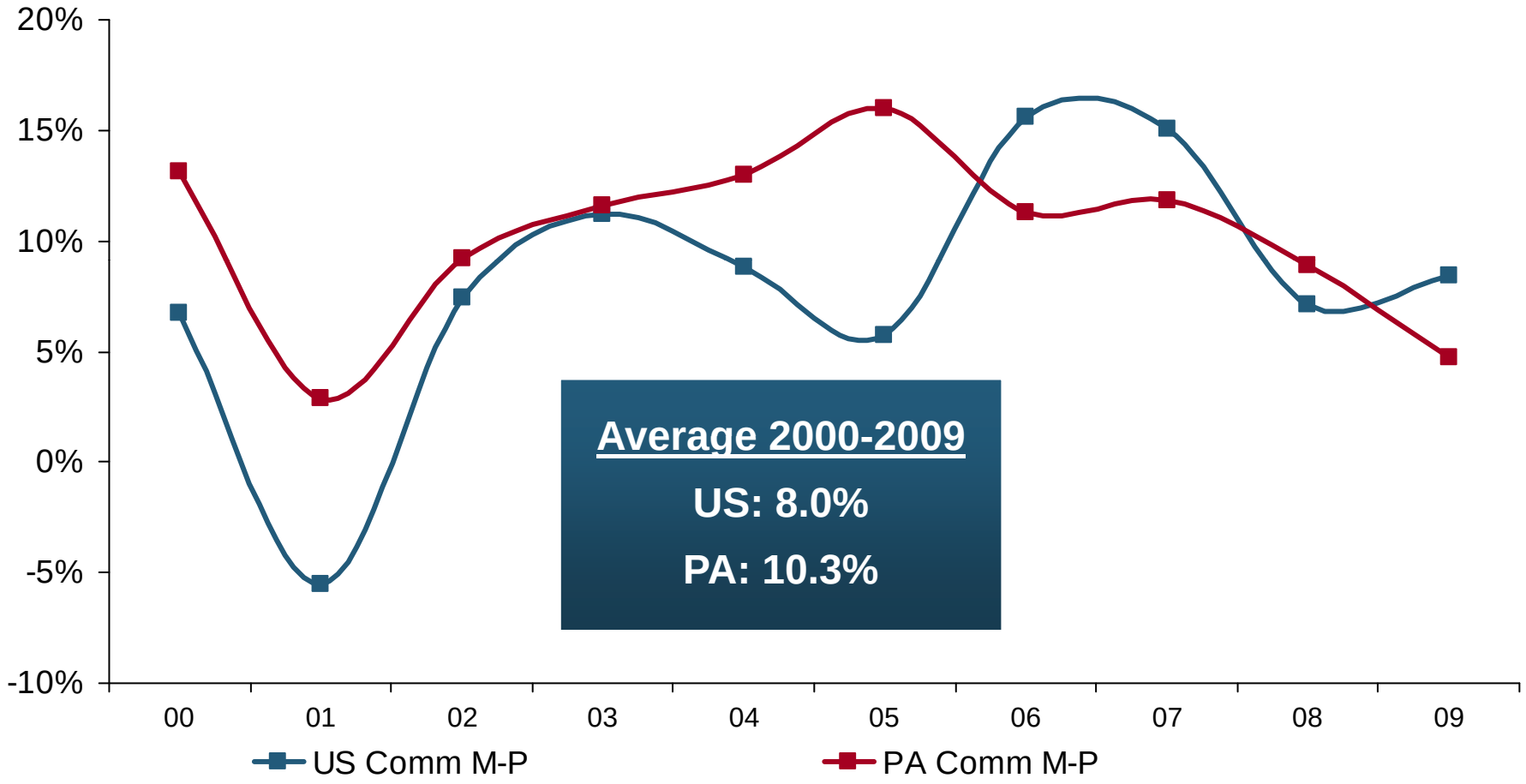
(Percent)



Sources: NAIC.

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

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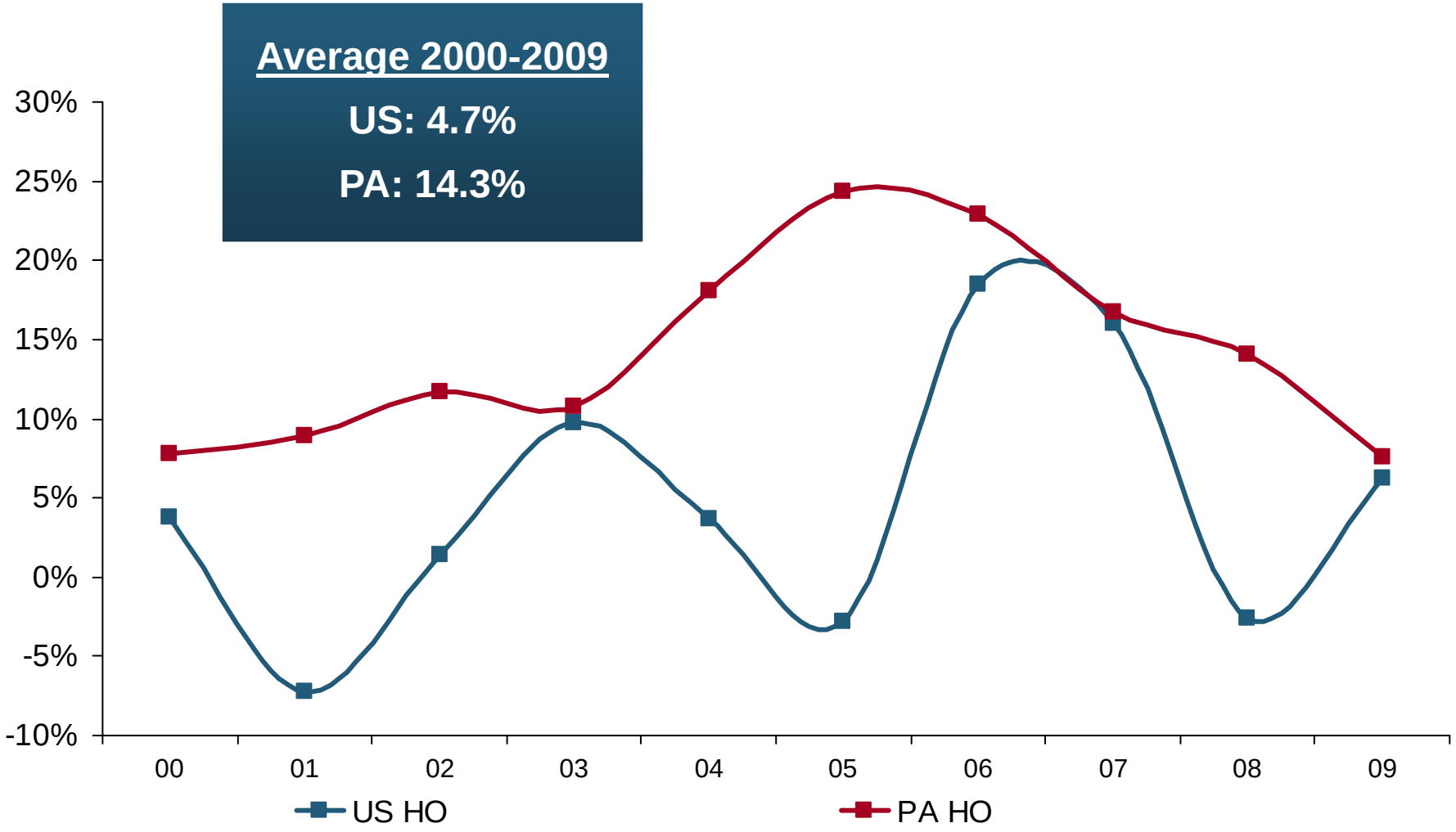
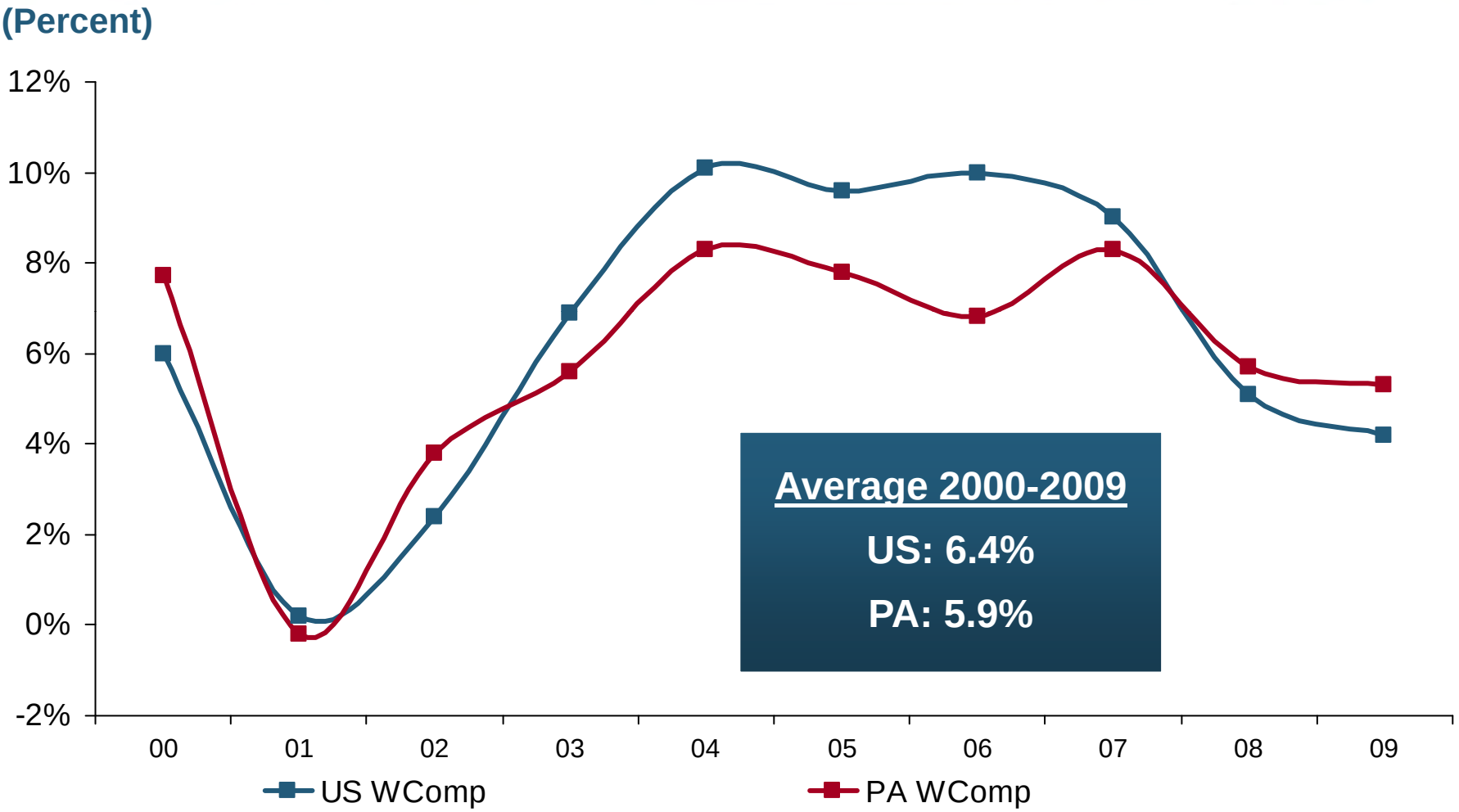
(Percent)



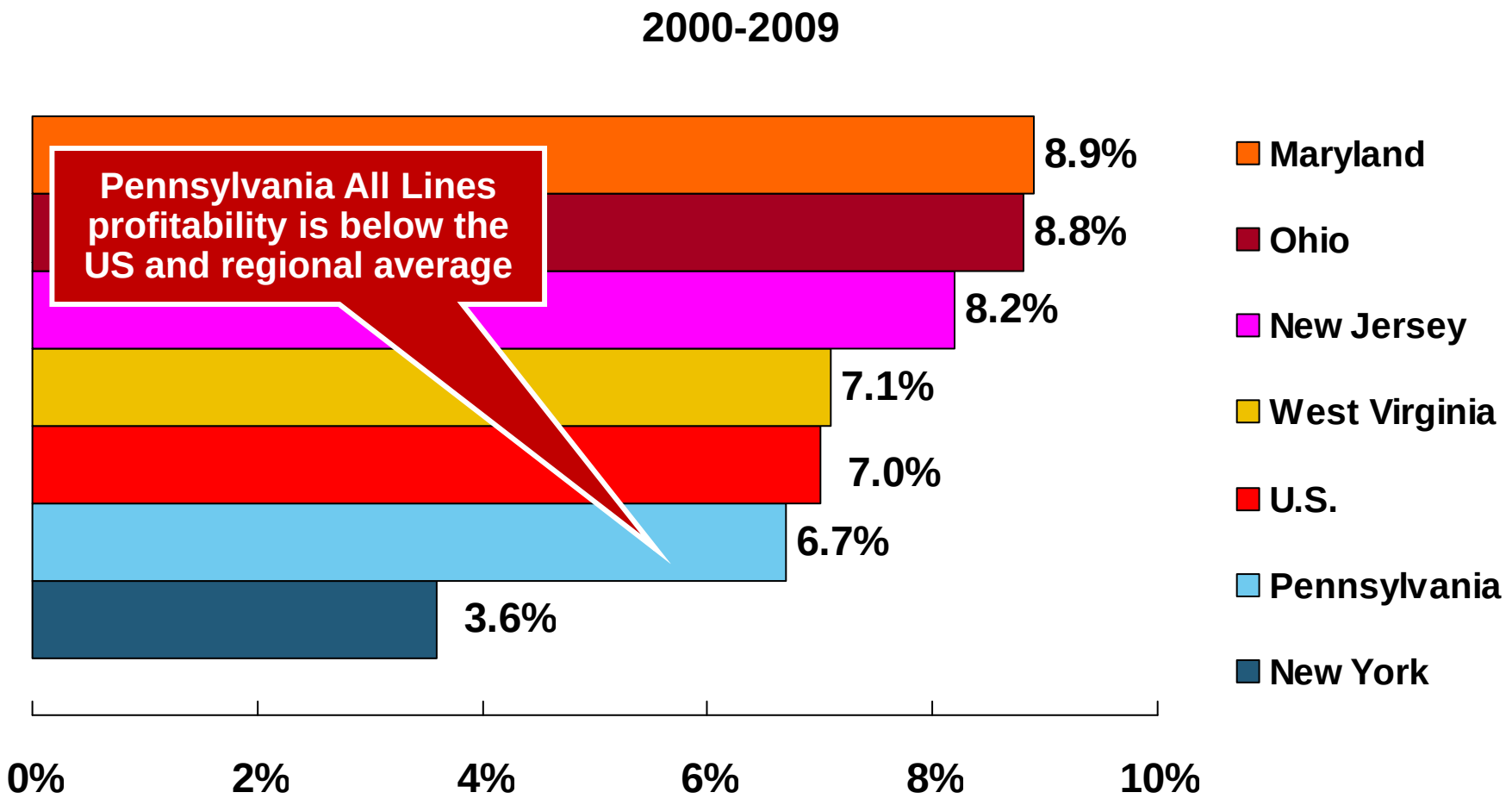
Sources: NAIC.

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



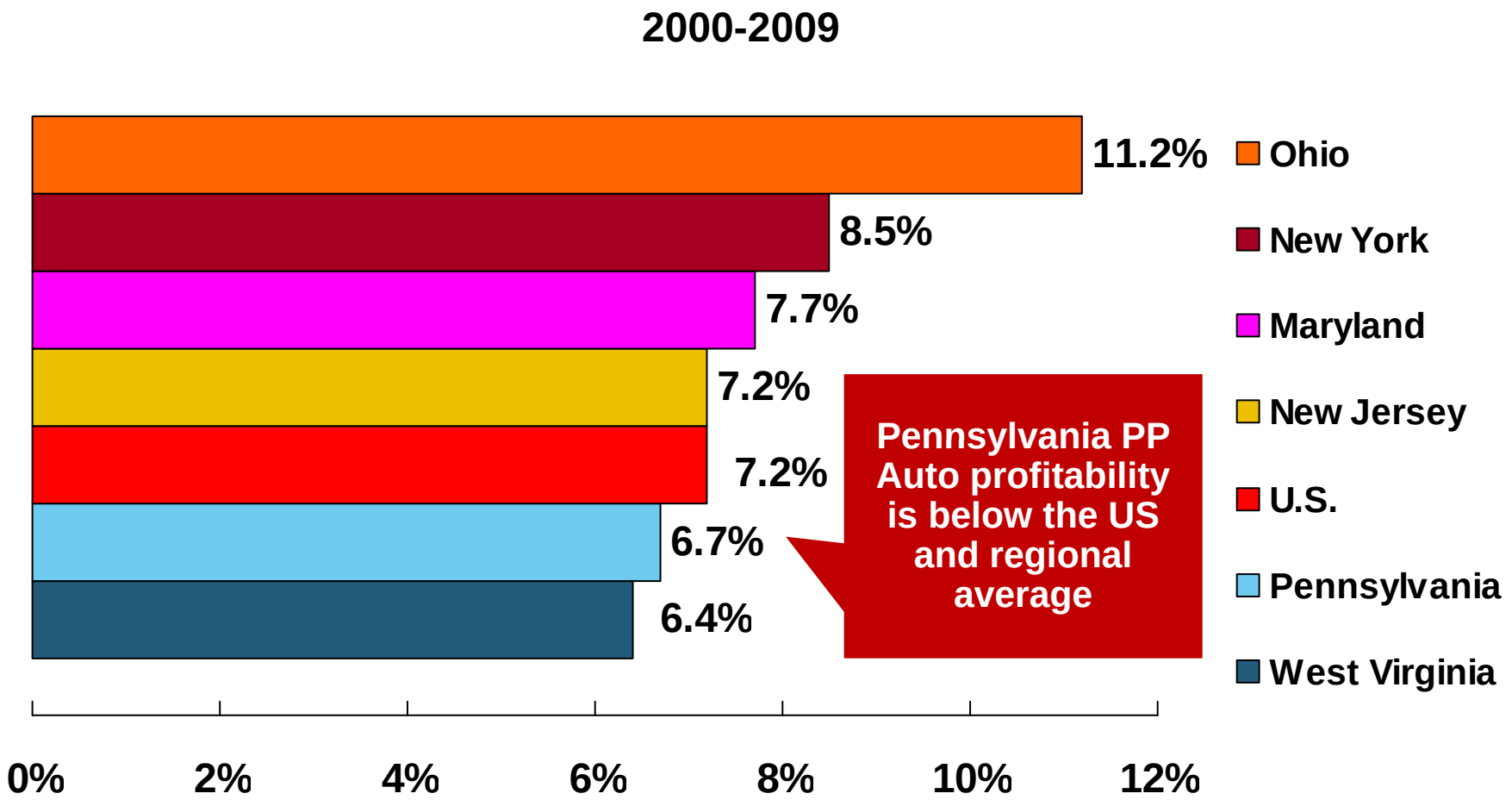
Sources: NAIC.

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



Source: NAIC, Insurance Information Institute

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



Source: NAIC, Insurance Information Institute

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

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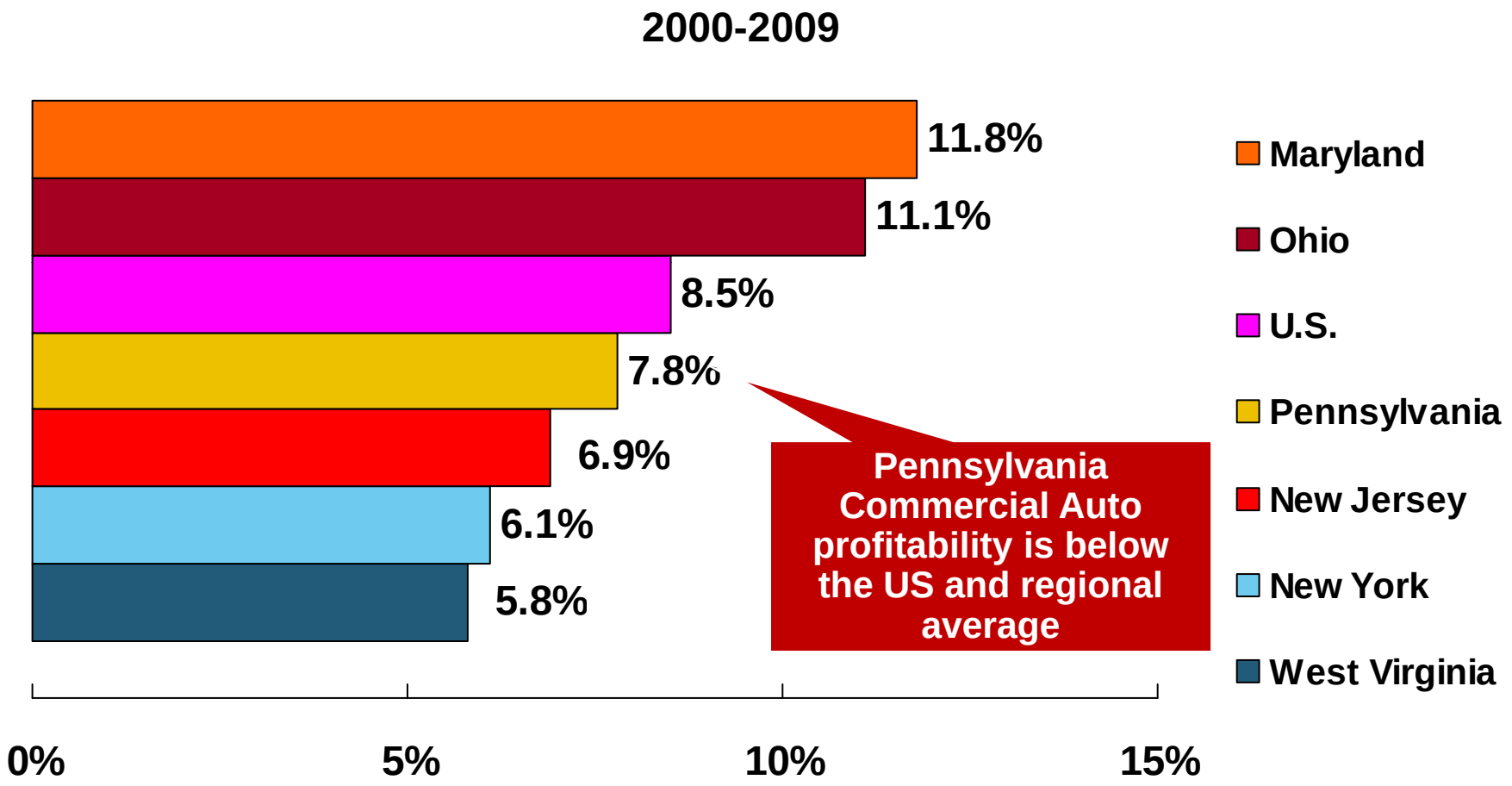
Rank	Most expensive states	Average expenditure	Rank	Least expensive states	Average expenditure
1	D.C.	$1,126	1	North Dakota	$503
2	Louisiana	1,105	2	Iowa	519
3	New Jersey	1,081	3	South Dakota	520
4	Florida	1,055	4	Nebraska	547
5	New York	1,044	5	Idaho	562
6	Delaware	1,007	6	Kansas	576
7	Rhode Island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

Pennsylvania ranked 17th in 2008, with an average expenditure for auto insurance of $817.

(1) Based on average automobile insurance expenditures.

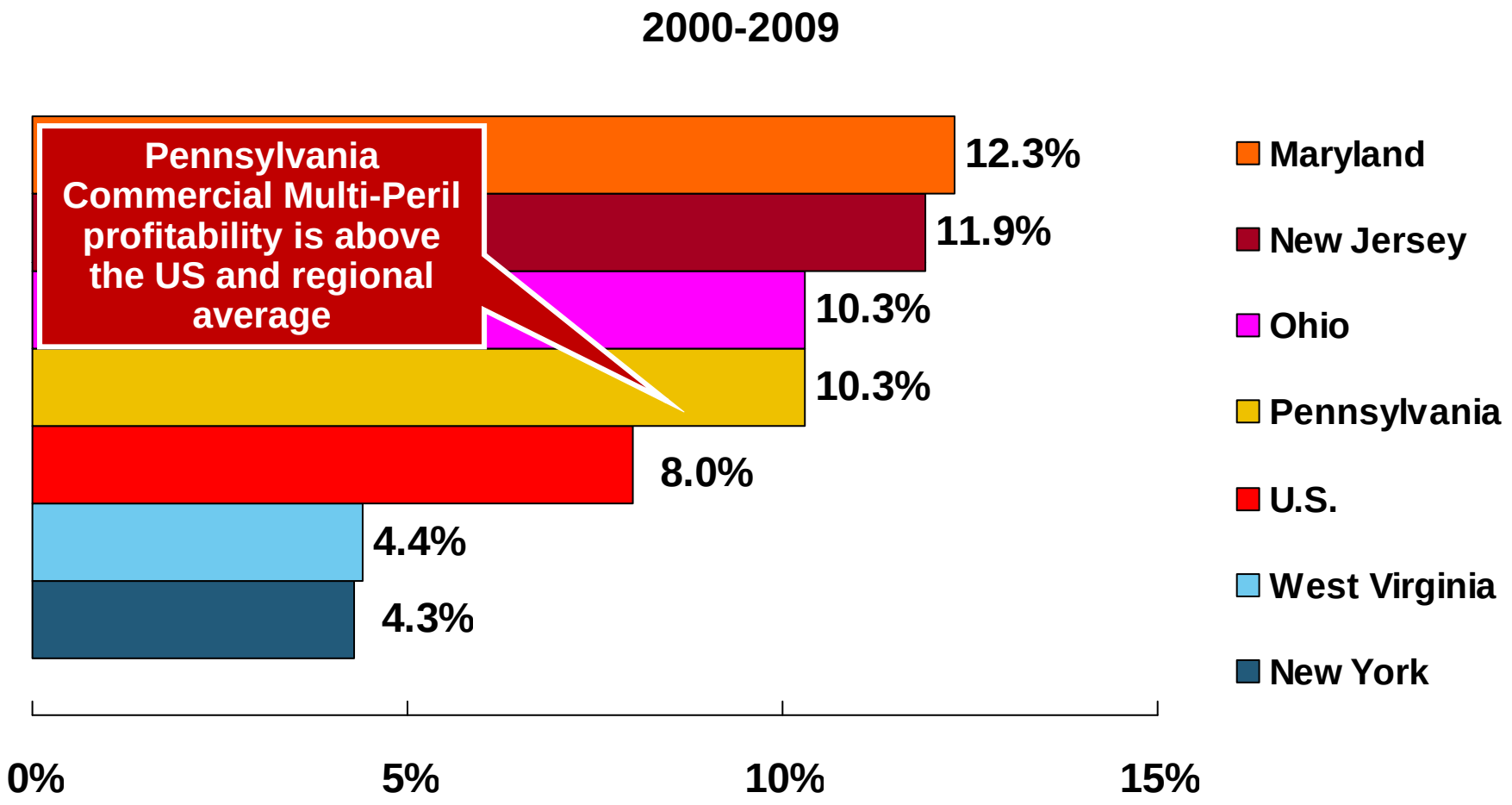
Source: © 2010 National Association of Insurance Commissioners.

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



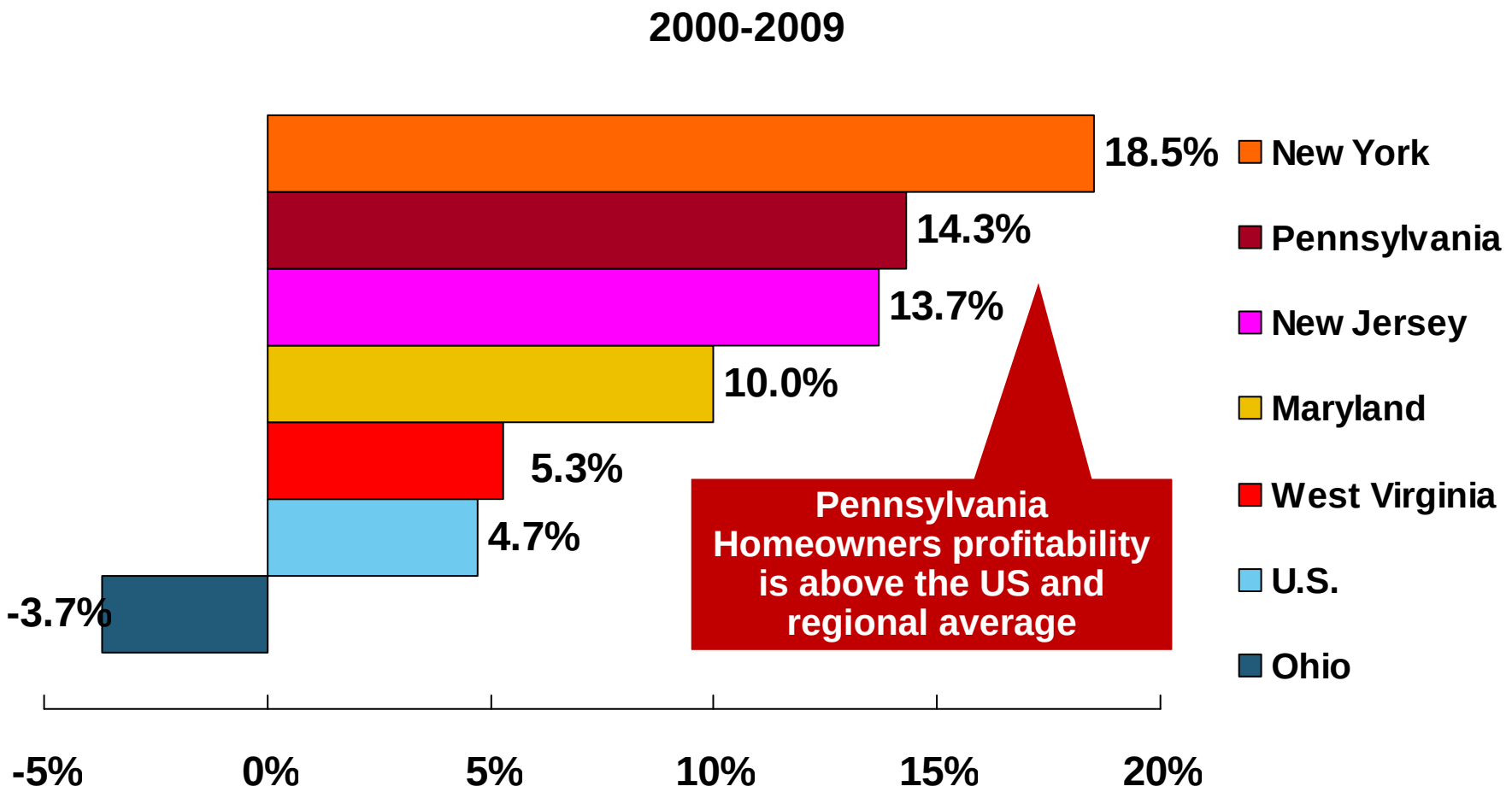
Source: NAIC, Insurance Information Institute

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



Source: NAIC, Insurance Information Institute

Homeowners: 10-Year Average RNW PA & Nearby States



Source: NAIC, Insurance Information Institute

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

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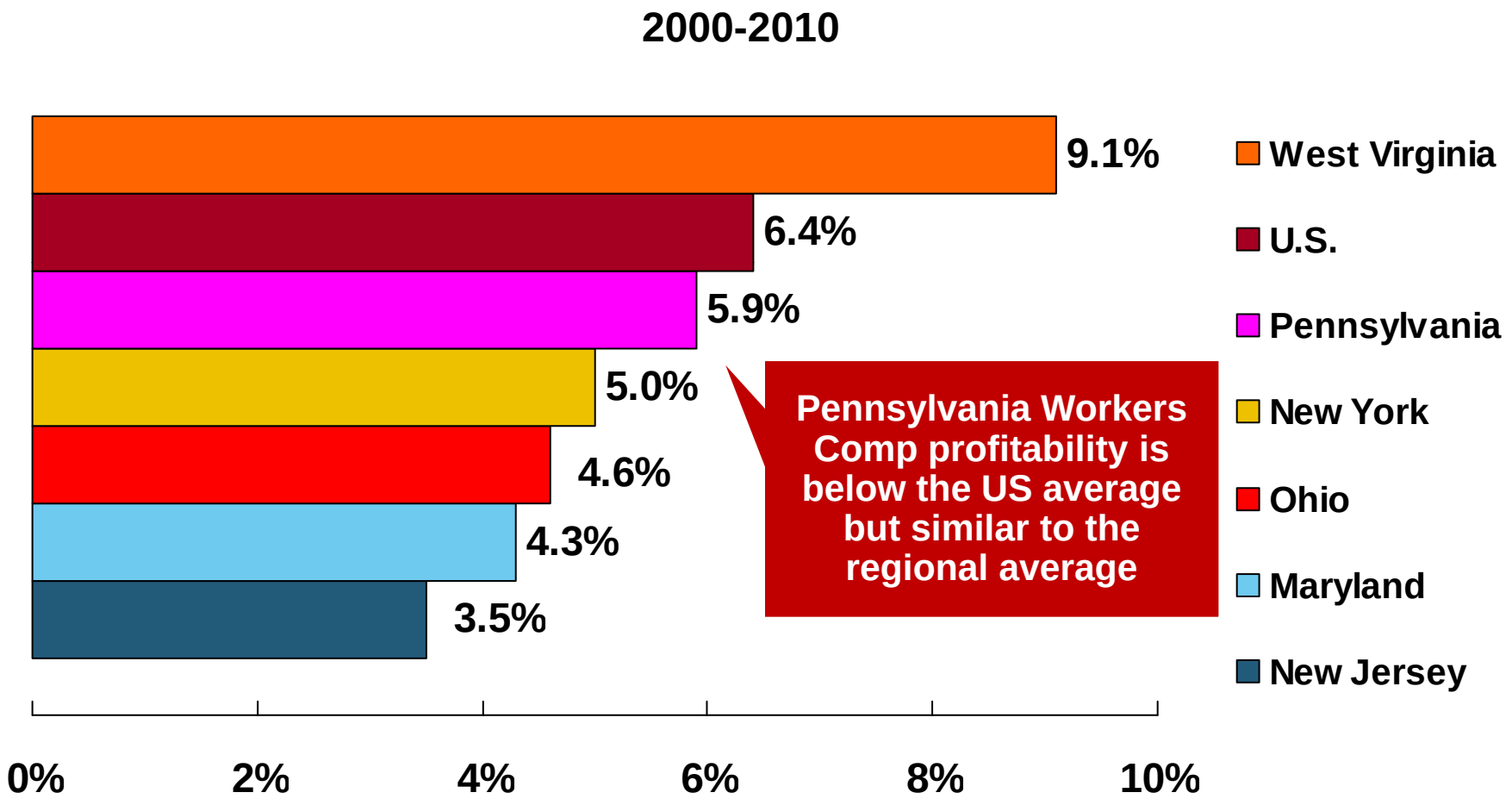
Pennsylvania ranked as the ninth least expensive state for homeowners insurance in 2008, with an average expenditure of $586.

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.

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



Source: NAIC, Insurance Information Institute

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

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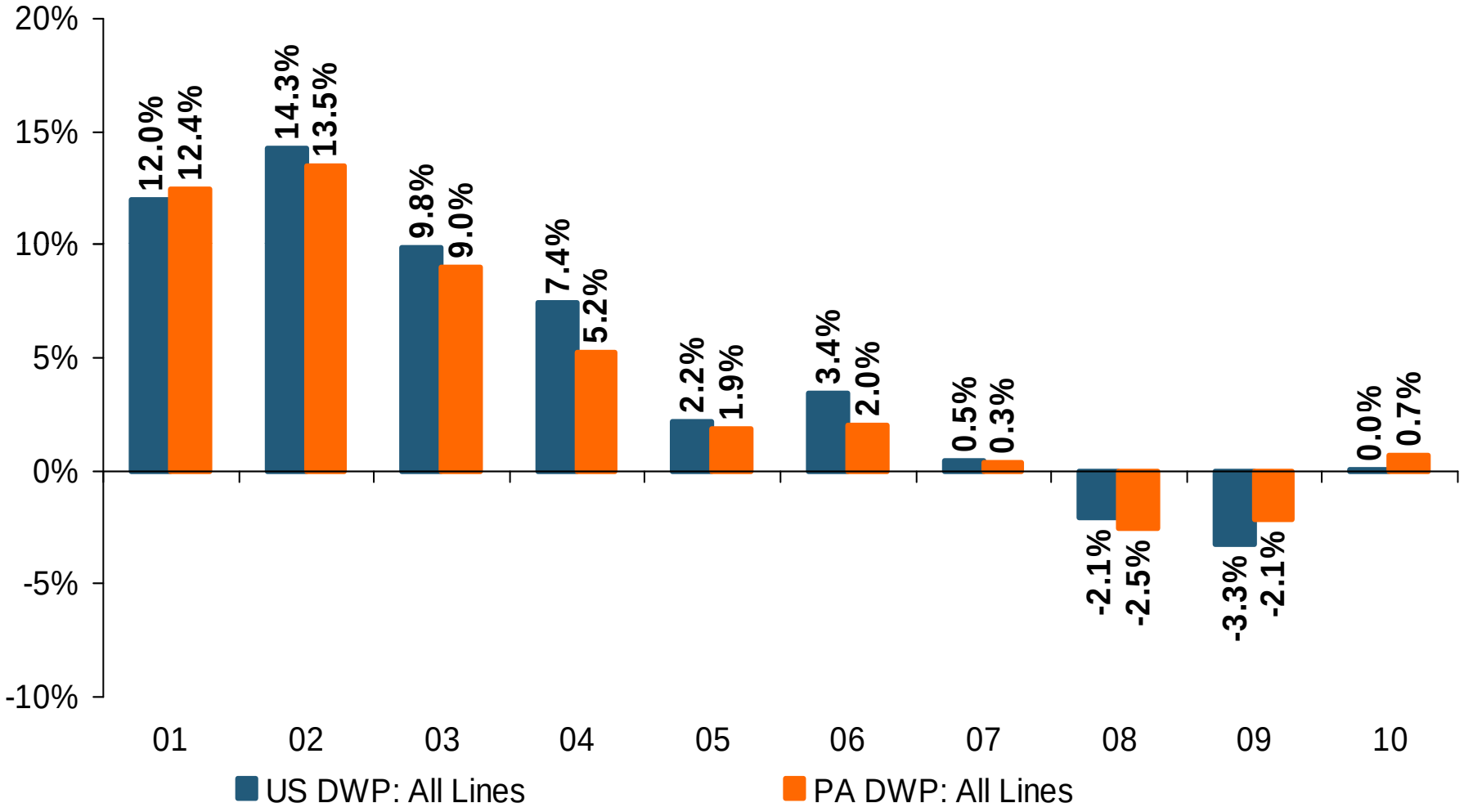
(Percent)



Source: SNL Financial.

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

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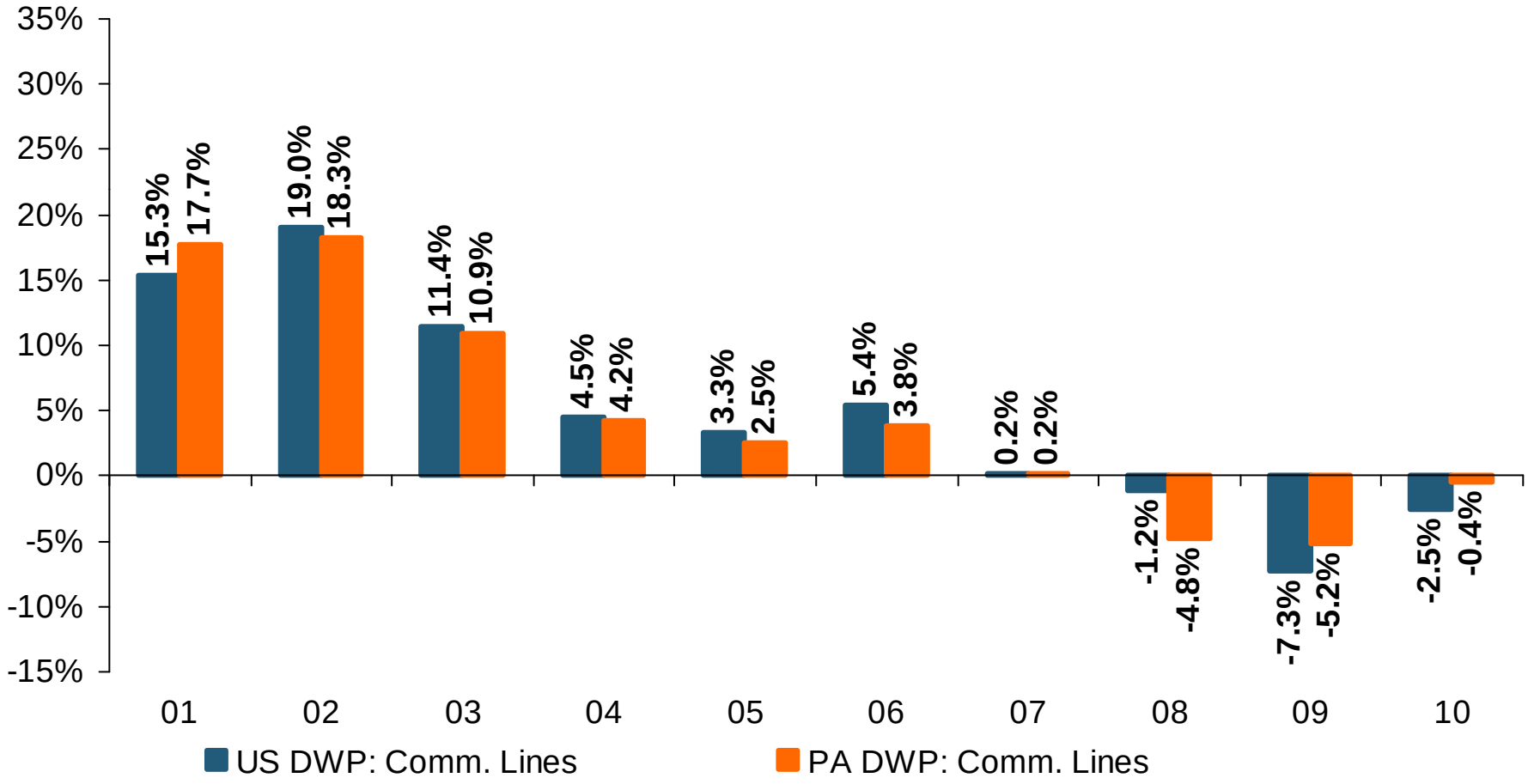
(Percent)



Source: SNL Financial.

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

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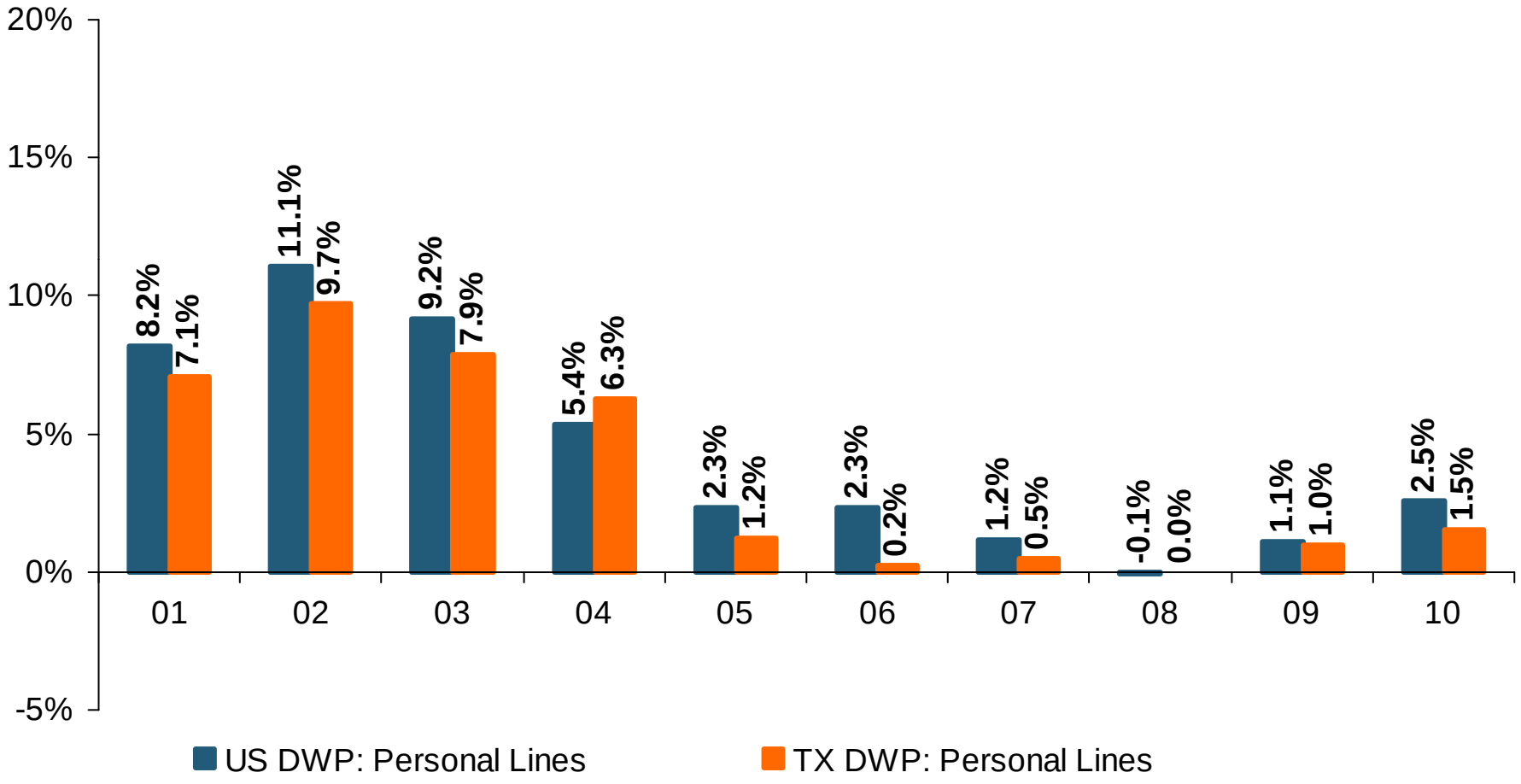
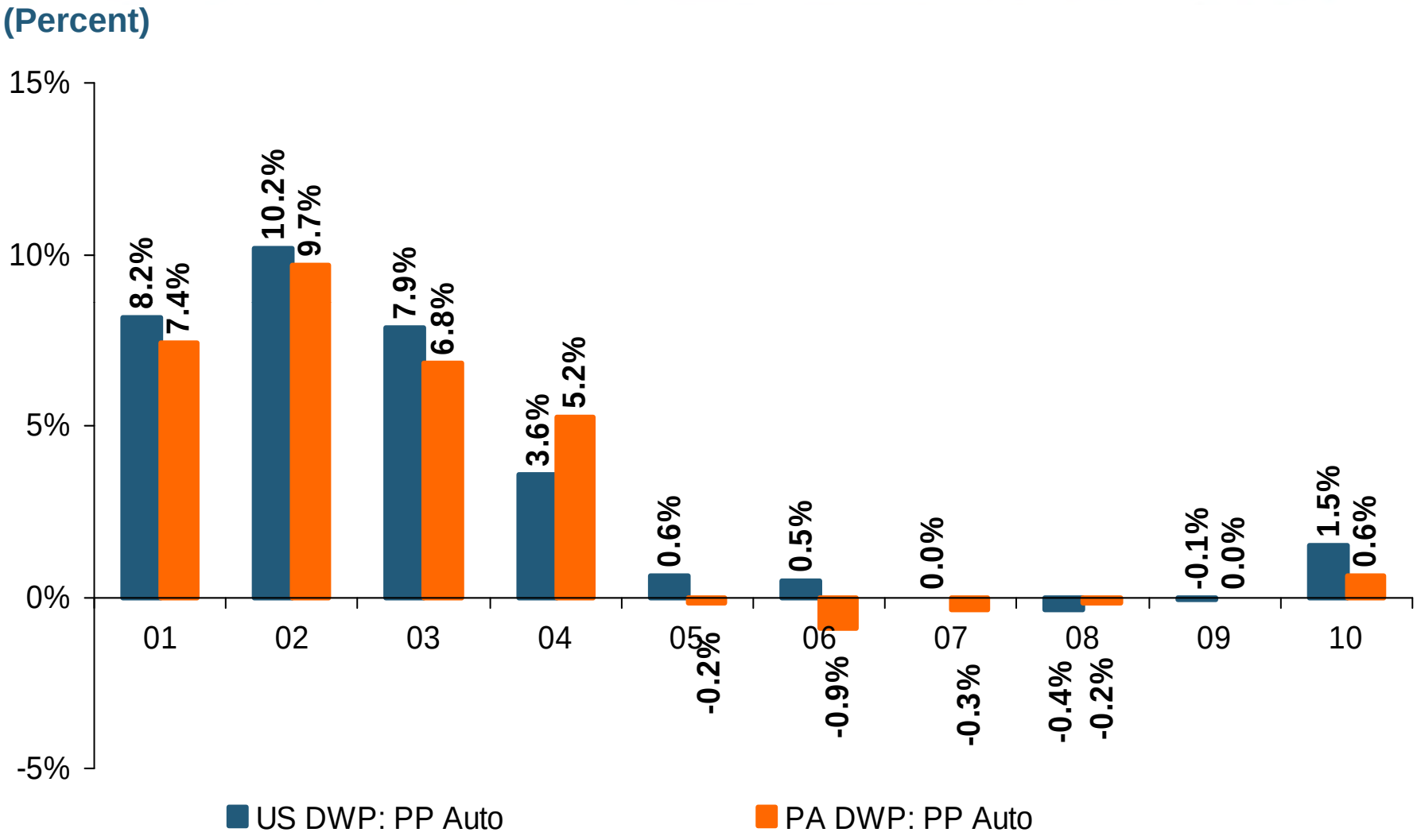
(Percent)



Source: SNL Financial.

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



Source: SNL Financial.

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

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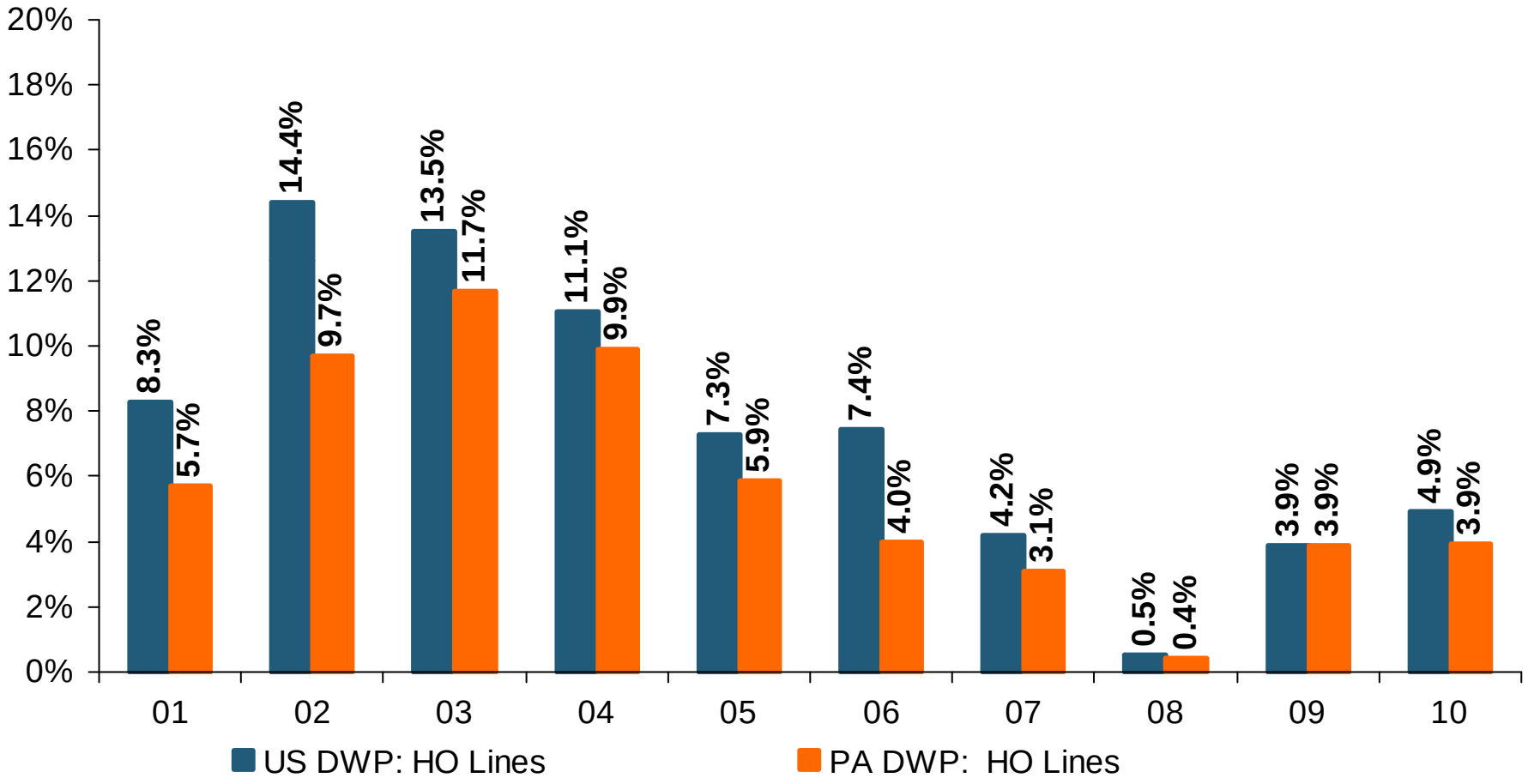
(Percent)



Source: SNL Financial.

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Catastrophe Loss Developments and Trends

2011 and 2010 Are Rewriting Catastrophe Loss and Insurance History

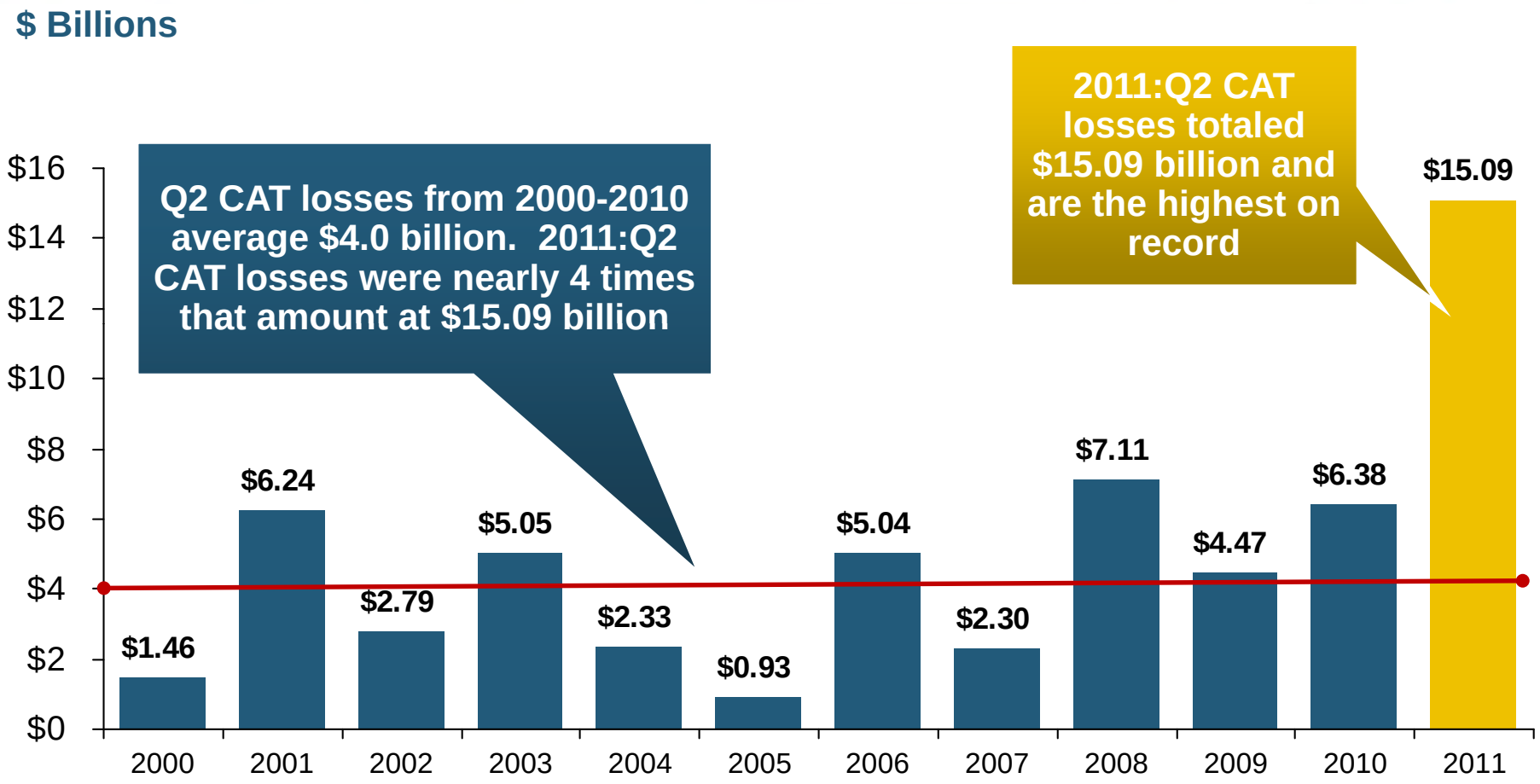
Global Catastrophe Loss Summary: First Half 2011

- **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

Insured Loss Estimates for Selected Major Catastrophes in 2011

	Japan Earthquake	April Tornadoes	May (Joplin) Tornadoes
Eqecat	$22 to $39 billion	$5 billion to $7 billion	$1 billion to $3 billion
RMS	$21 to 34 billion	$3.5 to $6 billion	$2 to $6 billion
AIR	$20 billion to $30 billion	$5 billion to $7 billion	$2 to $6 billion

US Second Quarter Insured Catastrophe Losses, 2000–2011



Record Q2 (and First Half) CAT Losses Will Adversely Impact Insurer Results in 2011

Sources: ISO/PCS; Insurance Information Institute.

Top 15 Most Costly World Insurance Losses, 1970-2011*

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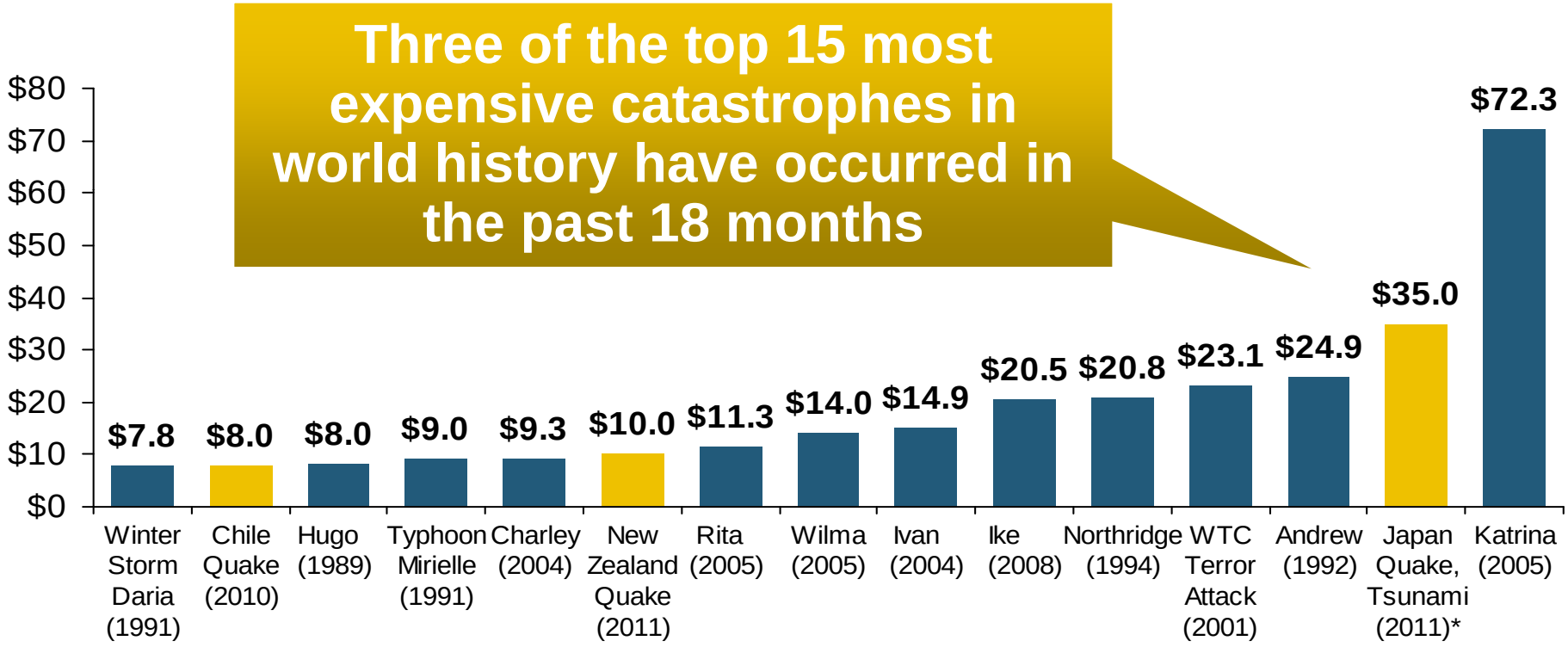
(Insured Losses, 2010 Dollars, $ Billions)



*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.

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

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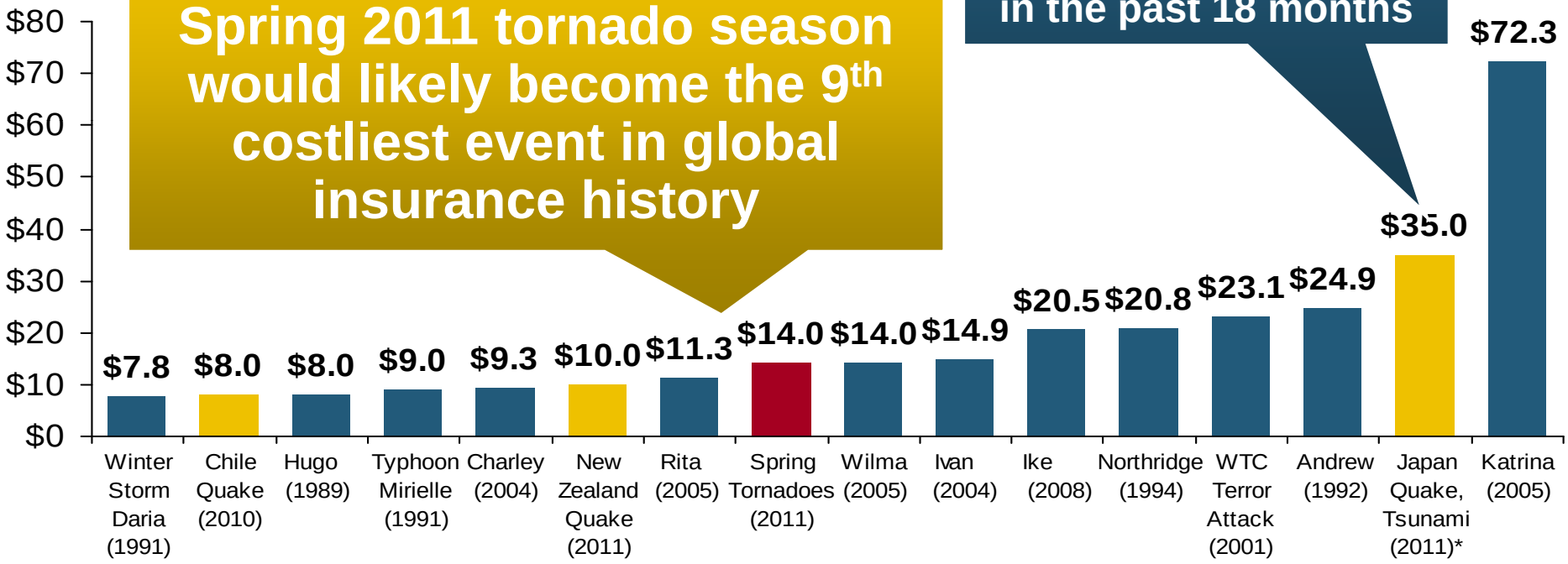
(Insured Losses, 2010 Dollars, $ Billions)

Taken as a single event, the Spring 2011 tornado season would likely become the 9th costliest event in global insurance history

3 of the top 15 most expensive catastrophes in world history have occurred in the past 18 months



*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*

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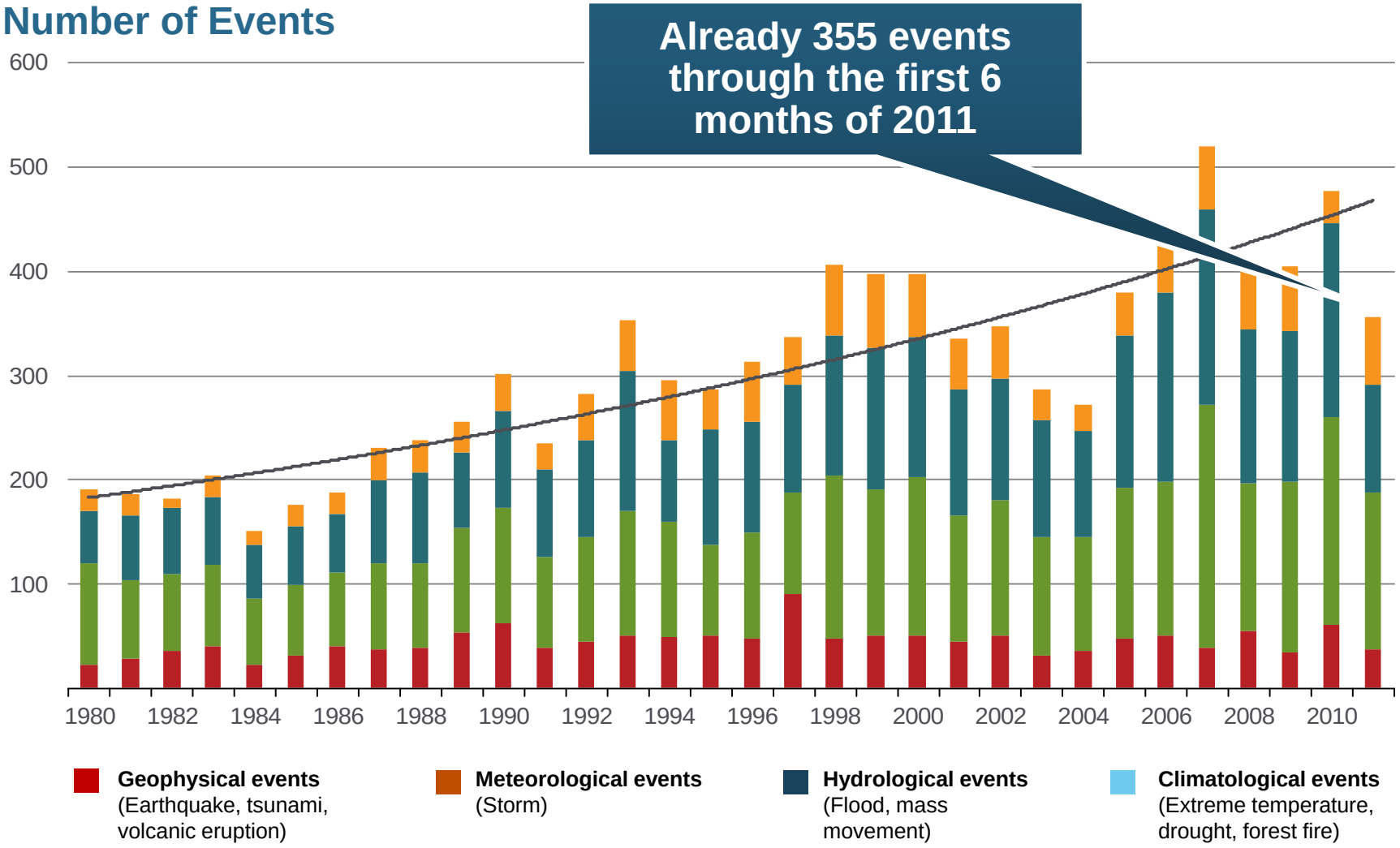
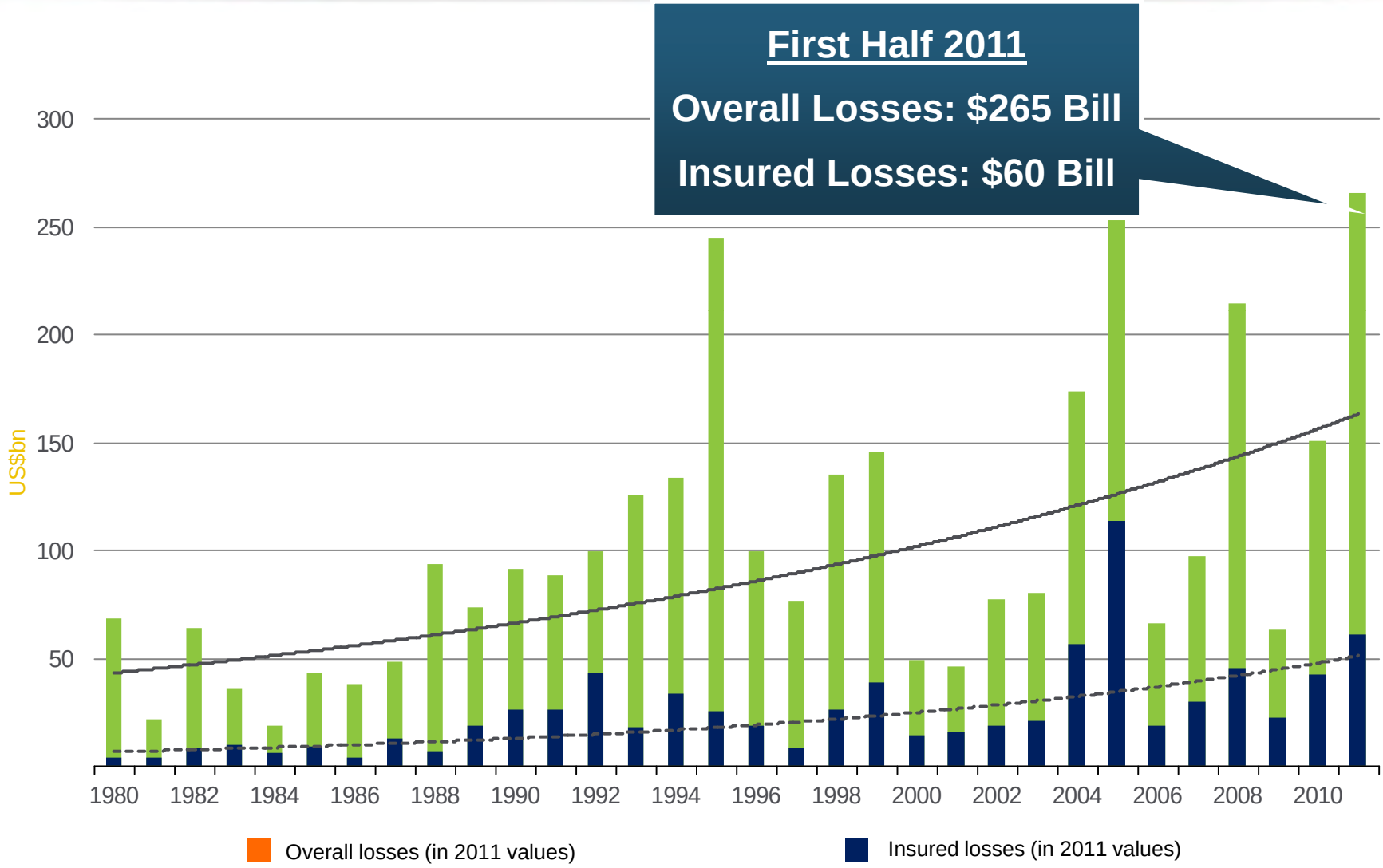
Number of Events



*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*

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JAPAN EARTHQUAKE/TSUNAMI & NUCLEAR DISASTER

March 11 Quake/Tsunami Is Just the Most Recent of Several Large Global Catastrophe Losses

Insured Japan Earthquake Loss Estimates*

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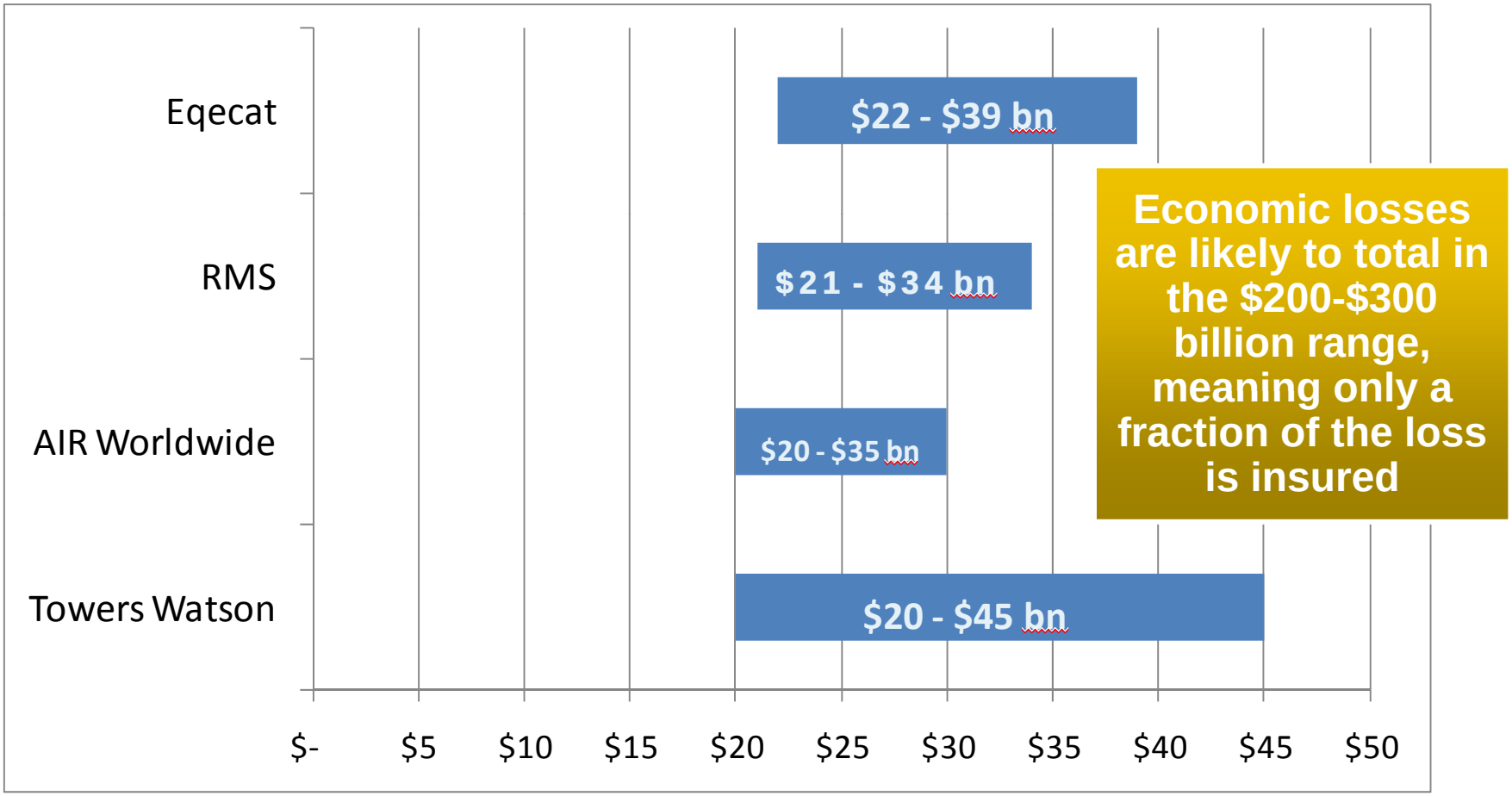
(Insured Losses, $ Billions)

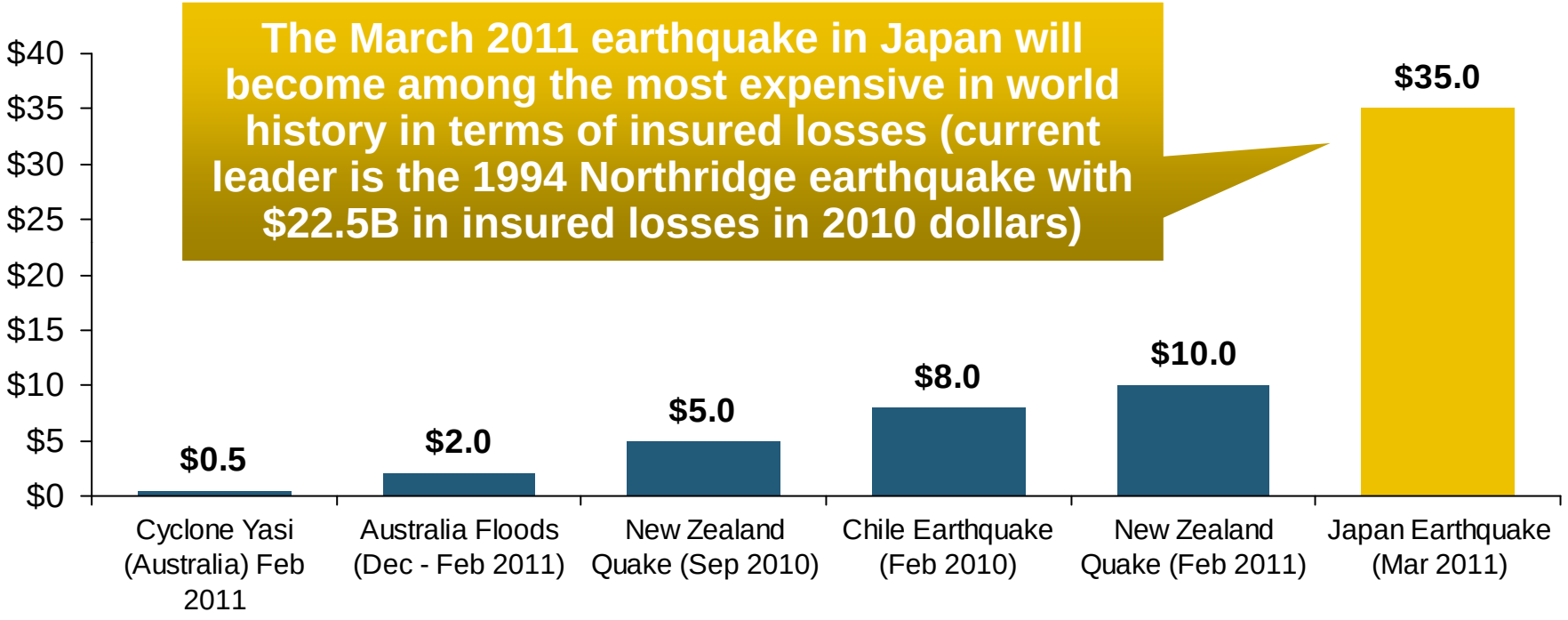


*As of June 17, 2011. Towers Watson estimate includes $3.0 (low) to $4.9 billion (high) in life insurance losses. RMS estimate includes insured life/health losses of $3 to $8 billion.

Sources: AIR Worldwide, Eqecat, RMS, Towers Perrin; Insurance Information Institute.

Recent Major Non-US Catastrophe Losses

(Insured Losses, $US Billions)



Insured Losses from Recent Major Catastrophe Events Exceed $60 Billion, an Estimated $53 Billion of that from Earthquakes

Sources: Insurance Council of Australia, Munich Re, AIR Worldwide; Insurance Information Institute.

Nonlife (P/C) Insurance Market Impacts of Japan Earthquake

- **No Direct Impact for US Domestic Primary Insurers**
- ***BUT: $2 - $5 Billion in Assumed Loss from Foreign Catastrophes Will Wind Up on the Books of US Insurers, Most with No Direct Exposure to Japan/Australia/NZ***
  - US reinsurers
  - Retrocessional market
  - Blanket property insurance covers
- **Primary Insurance: Domestic Japanese Insurers Take Big Losses**
- **Few US/Foreign Insurers Had Direct Exposure to Japanese P/C Market**
  - Low single-digit market share for a small number of companies
- **Significant Absorption of Loss by Japanese Government**
  - Residential earthquake damage
  - Nuclear-related property and liability damage
- **Significant Impacts for Global Reinsurers**
  - Property-Catastrophe covers on Commercial Lines
  - Business Interruption/Contingent Business Interruption
- **Supply Chain Disruption Concern (Now Waning)**
- **Currently an Earnings Event for Global Reinsurers**
  - Not a capital event: Global reinsurance markets entered 2011 with record capital
- **Cost of Property/Cat Reinsurance Rising in Japan, New Zealand, Australia**
  - Up for all; Magnitude of increase is sensitive to size of loss
- **Impact on Cost of US Property-Cat Reinsurance is Possible/Likely**
  - Market remains well capitalized and competitive

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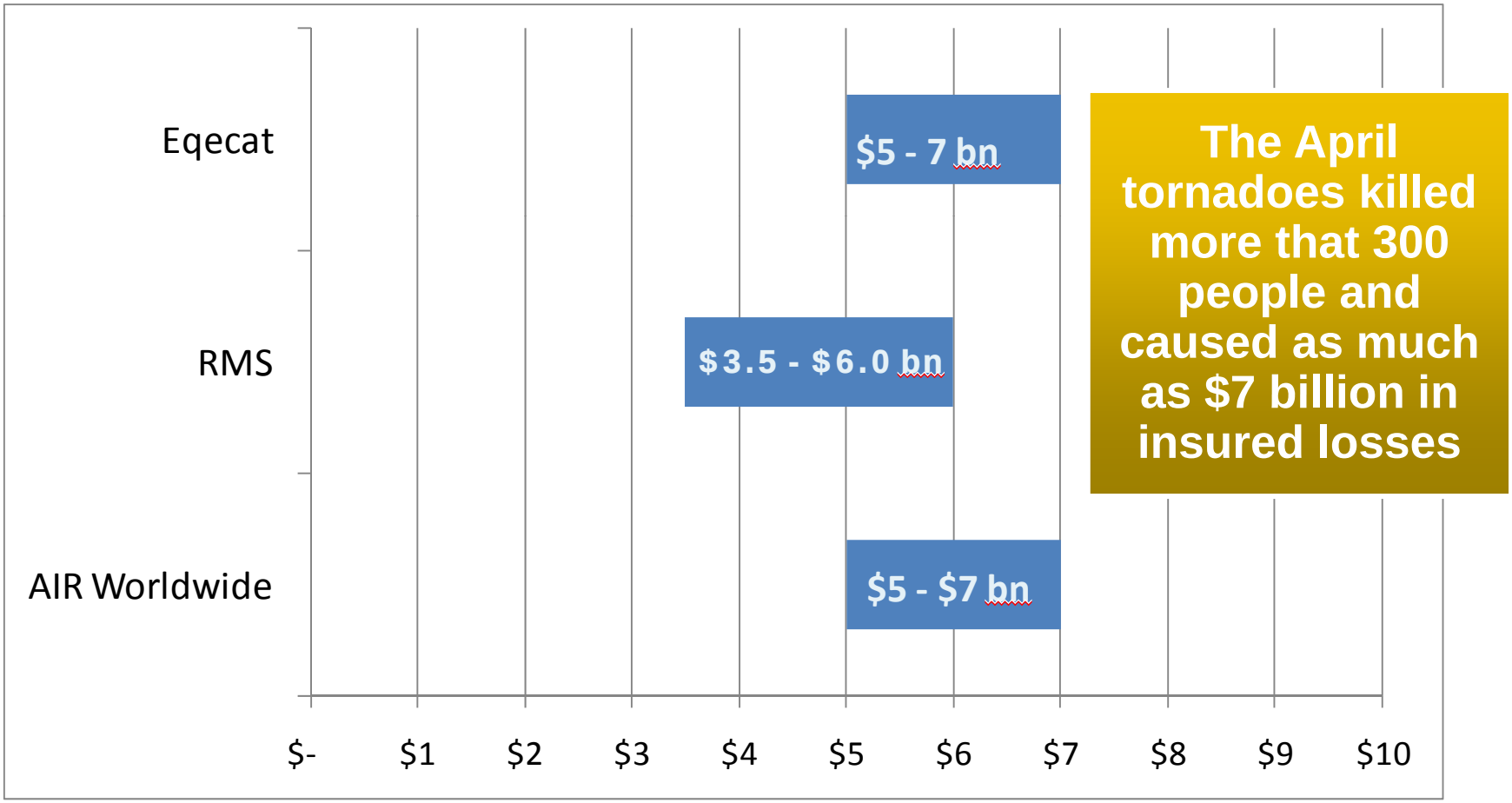
SPRING 2011 TORNADO OUTBREAK

2011 Will Be Among the Most Deadly and Expensive for Tornadoes In History

Insured Loss Estimates from April 2011 Tornadoes*

(Insured Losses, $ Billions)



*As of June 17, 2011.

Sources: AIR Worldwide, Eqecat, RMS; Insurance Information Institute research.

Insured Loss Estimates from May 2011 (Joplin) Tornadoes*

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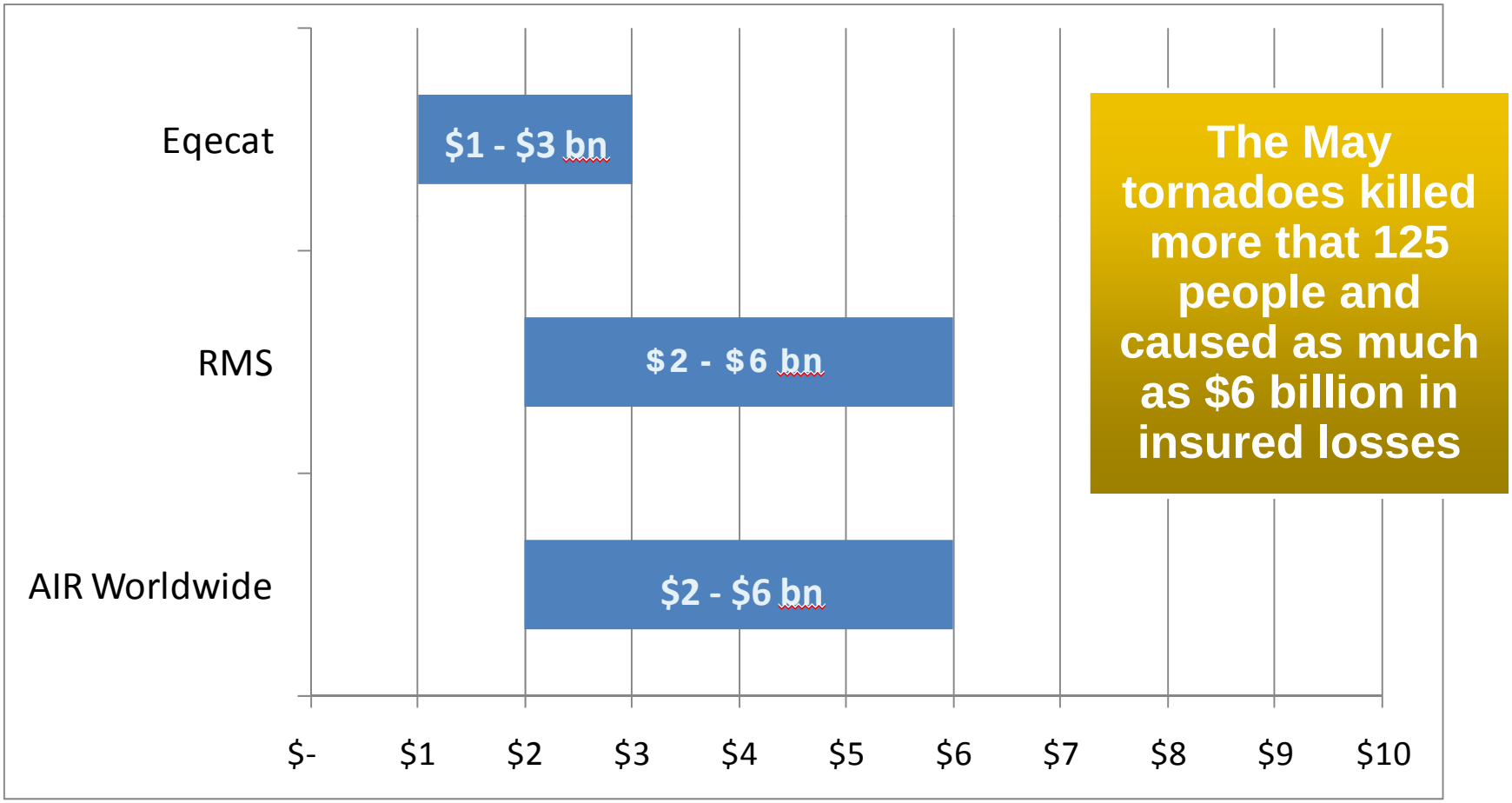
(Insured Losses, $ Billions)



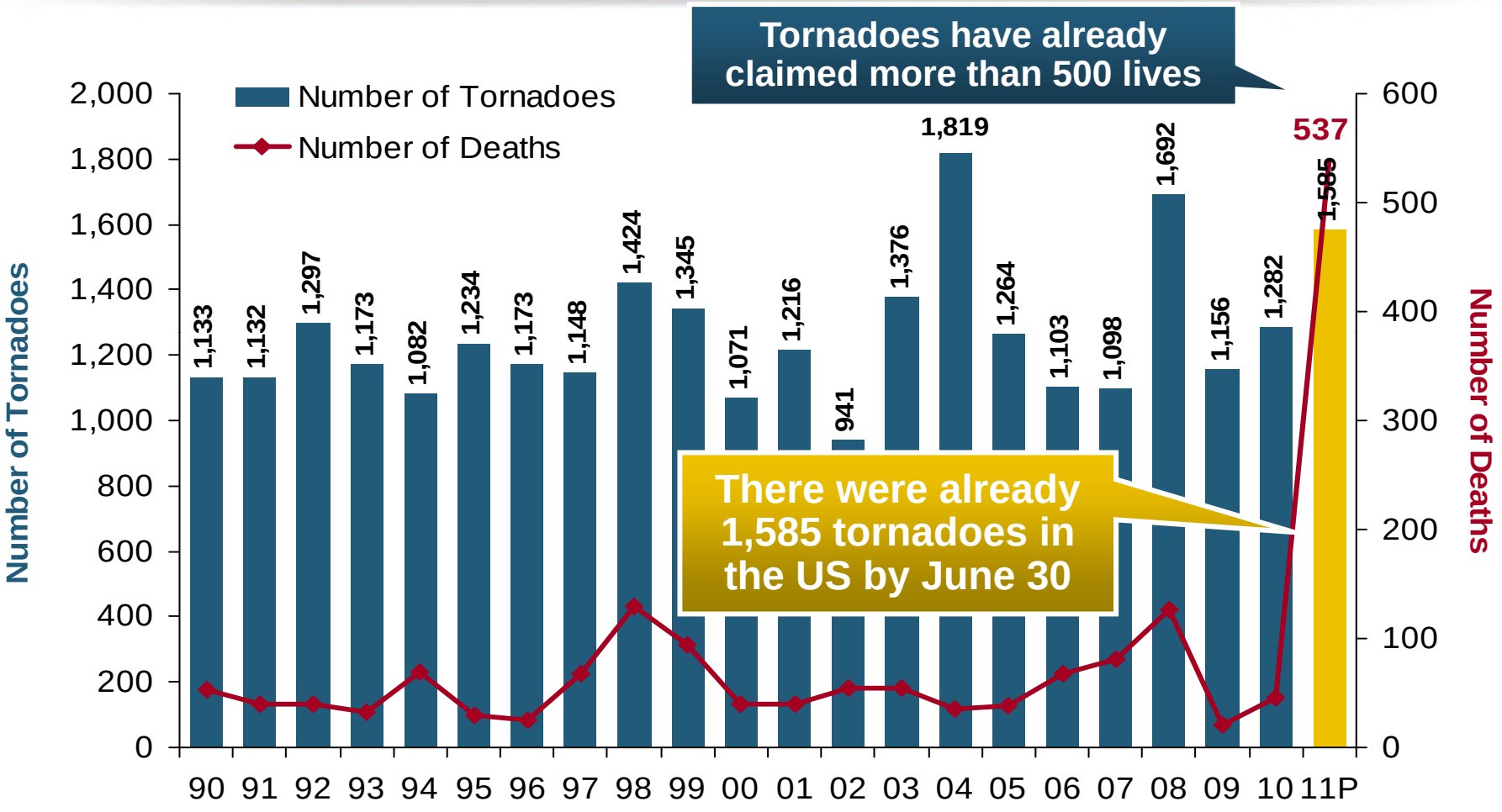
*As of June 17, 2011.

Sources: AIR Worldwide, Eqecat, RMS; Insurance Information Institute research.

Summary of Recent Tornado Activity

- **There Have Been 1,585 Tornadoes Through June 30 in the US**
- **537 People Have Been Killed**
- **The April 27 Tornado Outbreak Killed at Least 342 People**
  - Now the 2nd deadliest outbreak in US history (747 killed in march 1925 event)
  - States impacted: AR, TN, LA, MS, GA and especially AL
  - *Insured Losses Estimated at $3.5B to $7B*
- **Economic Losses Likely in the $7 Bill to $14 Bill Range**
- **The May 22 Tornado in Joplin, MO, Killed at Least 130 People**
  - Largest number of deaths from a single tornado
  - *Insured Losses Estimated at $1B to $6B*
- **P/C Insurance Industry is Very Strong and Will Encounter No Difficulties in Paying these Claims**

Number of Tornadoes and Related Deaths, 1990 – 2011*



Insurers Expect to Pay $2 Billion on 165,000 Claims Arising from the April 2011 Tornadoes in the Birmingham and Tuscaloosa Areas

*2011 is preliminary data through June 30.

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

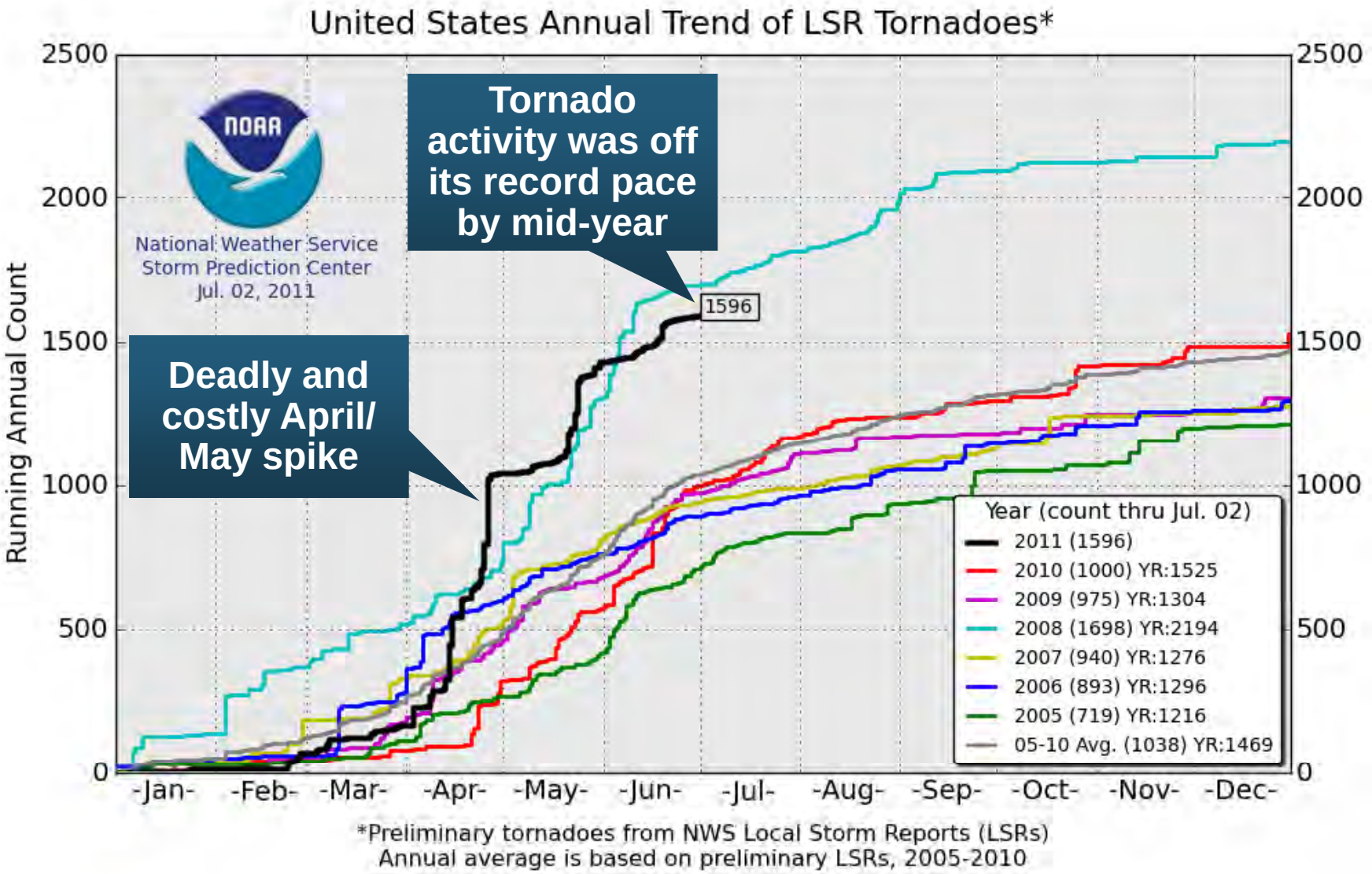
Insurers Making a Difference in Impacted Communities

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

U.S. Tornado Count, 2005-2011*



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

*Through July 2.

Location of Tornadoes in the US, January 1—June 30, 2011

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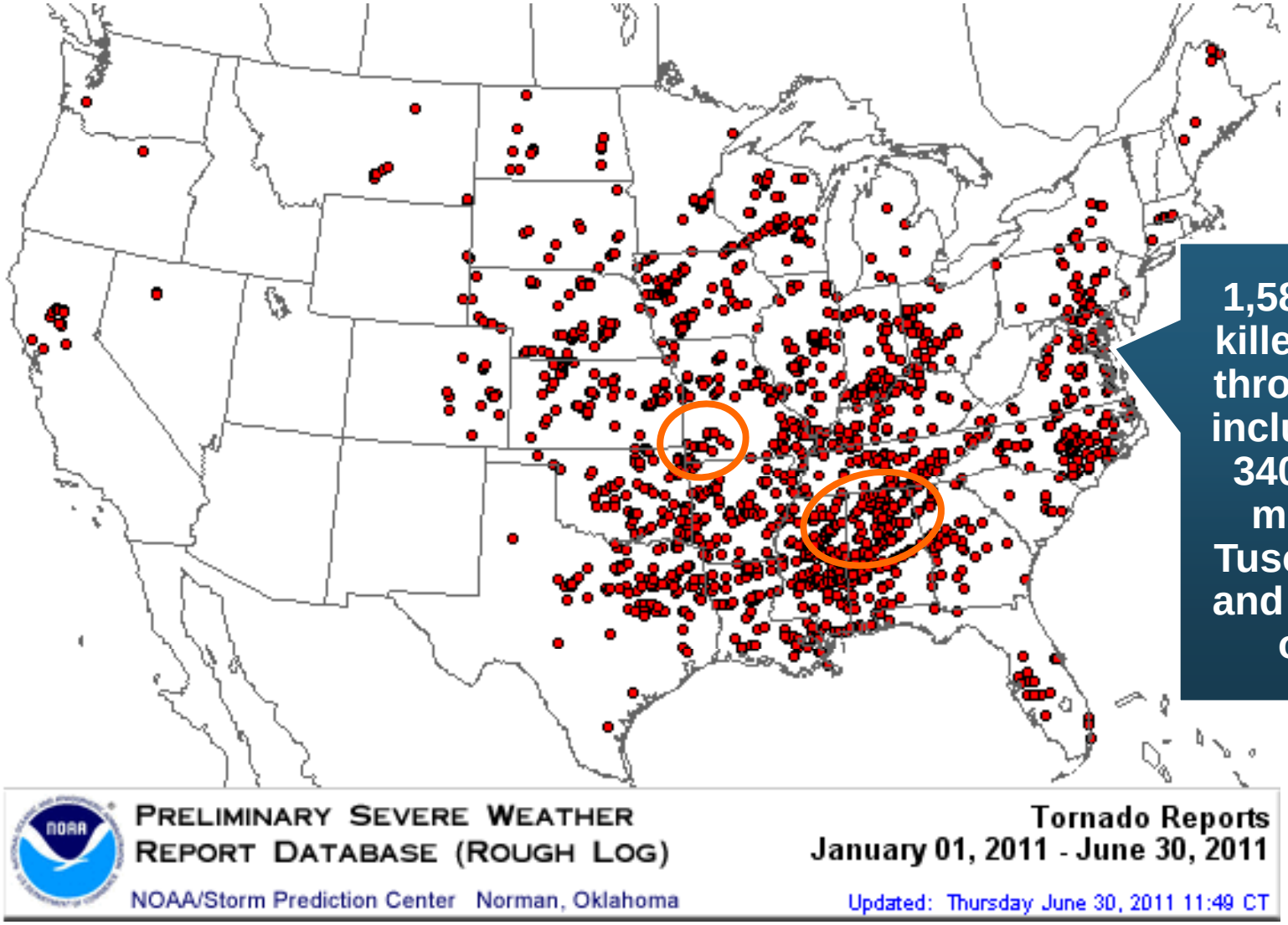
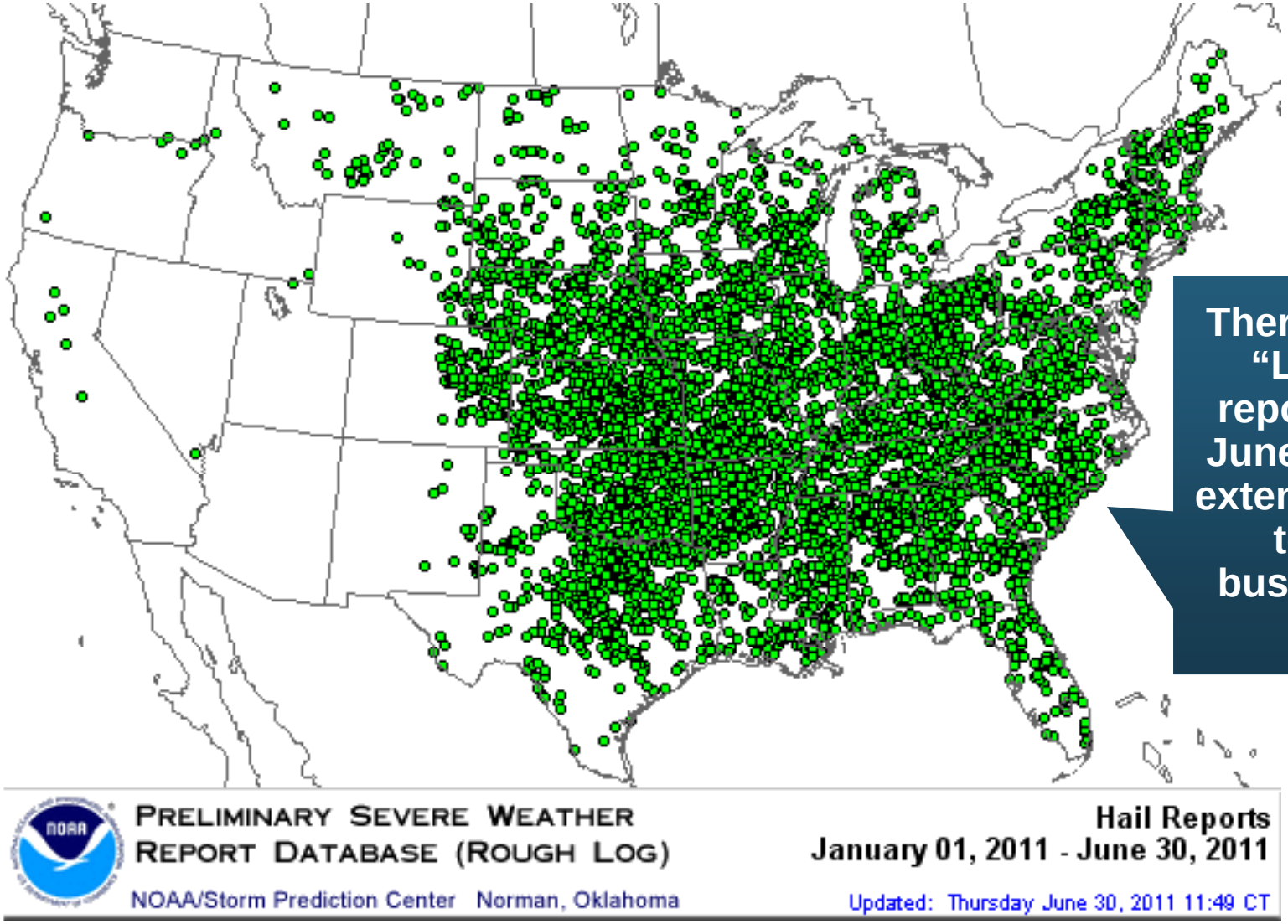


1,585 tornadoes killed 537 people through June 30, including at least 340 on April 26 mostly in the Tuscaloosa area, and 130 in Joplin on May 22

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

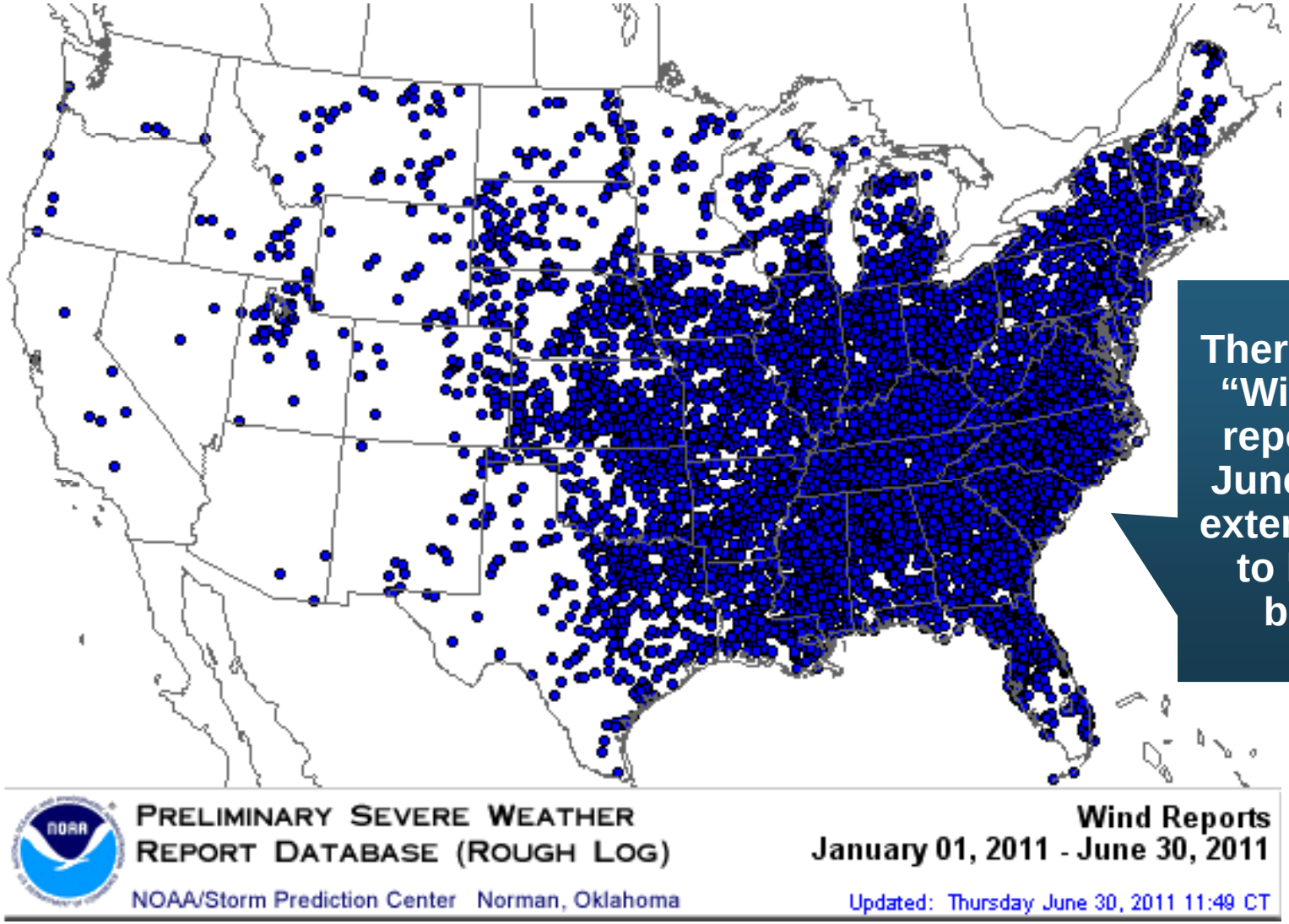
Location of Large Hail Reports in the US, January 1—June 30, 2011



There were 7,176 "Large Hail" reports through June 30, 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—June 30, 2011



There were 11,283 "Wind Damage" reports through June 30, 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—June 30, 2011

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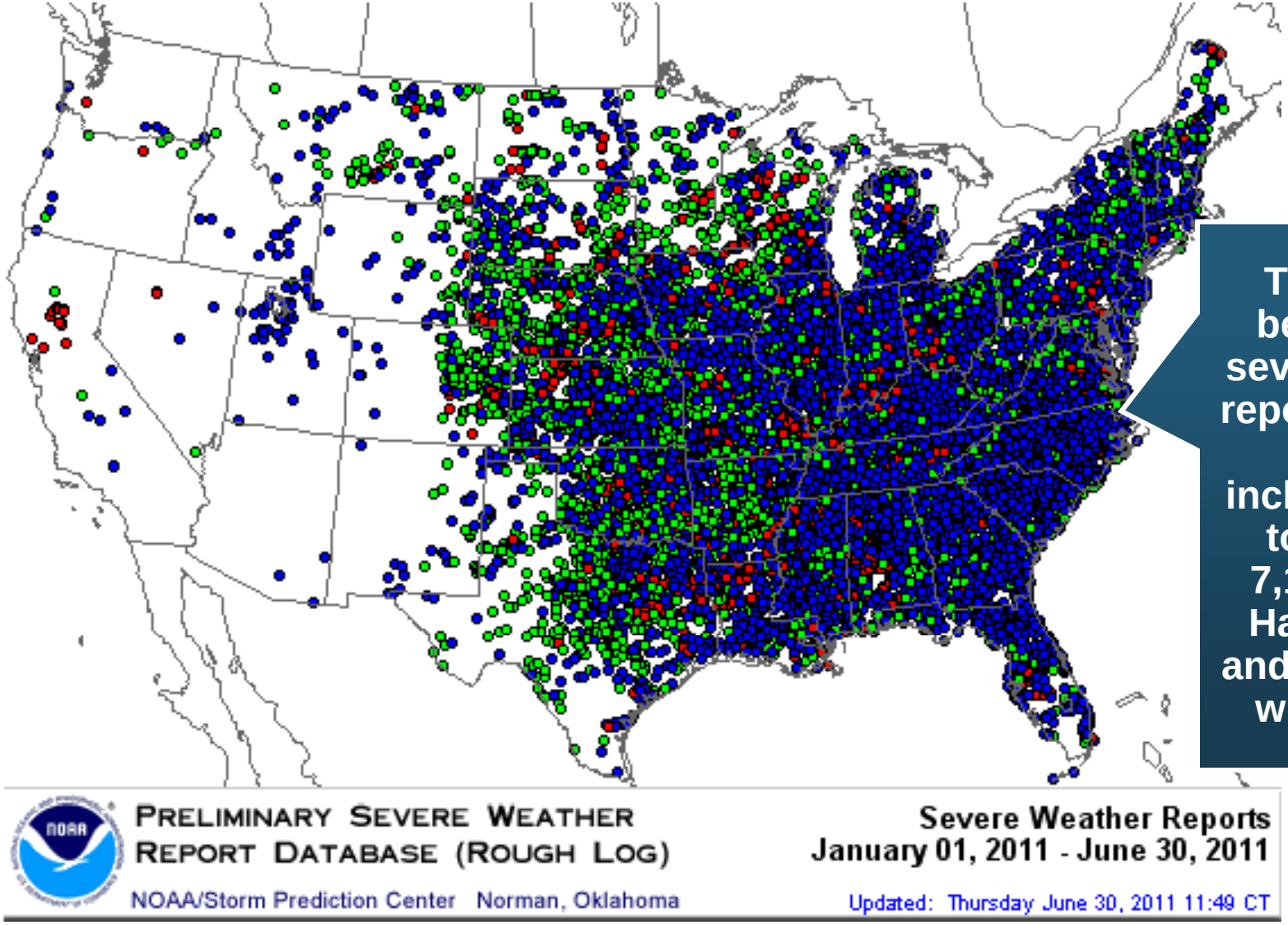
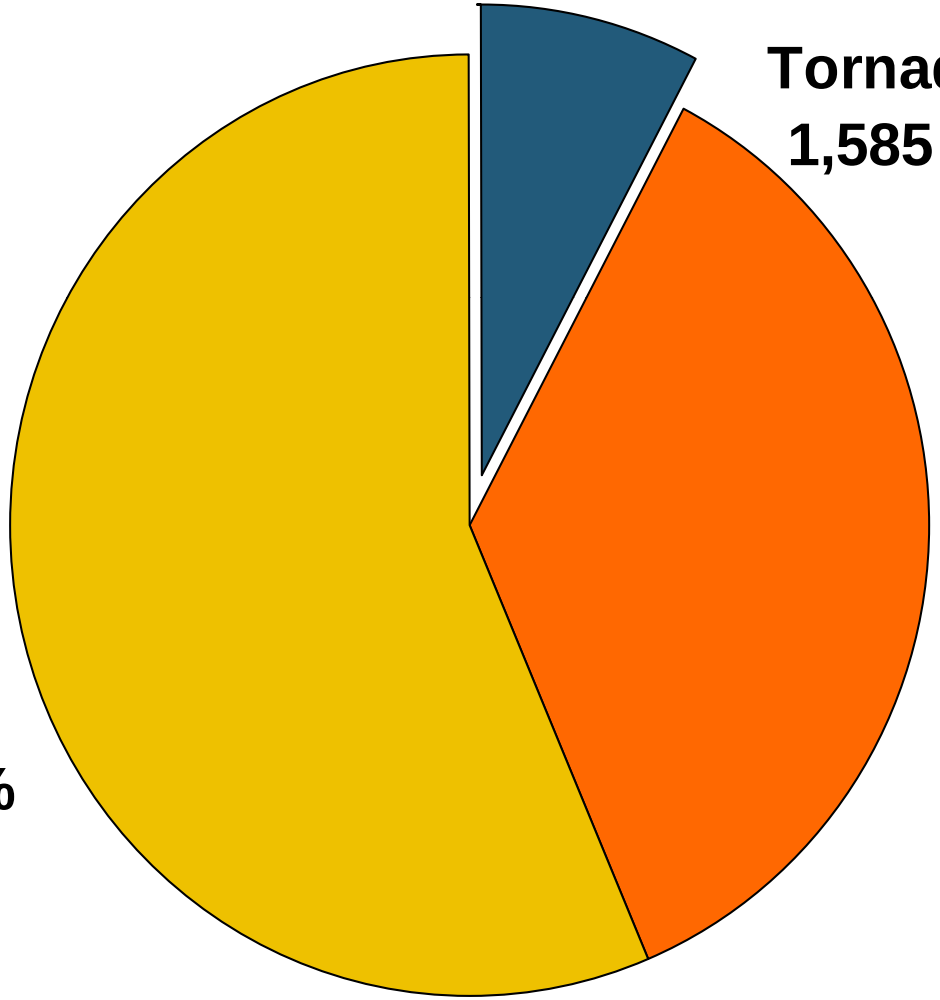


There have been 20,044 severe weather reports through June 30; including 1,585 tornadoes; 7,176 "Large Hail" reports and 11,283 high wind events

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

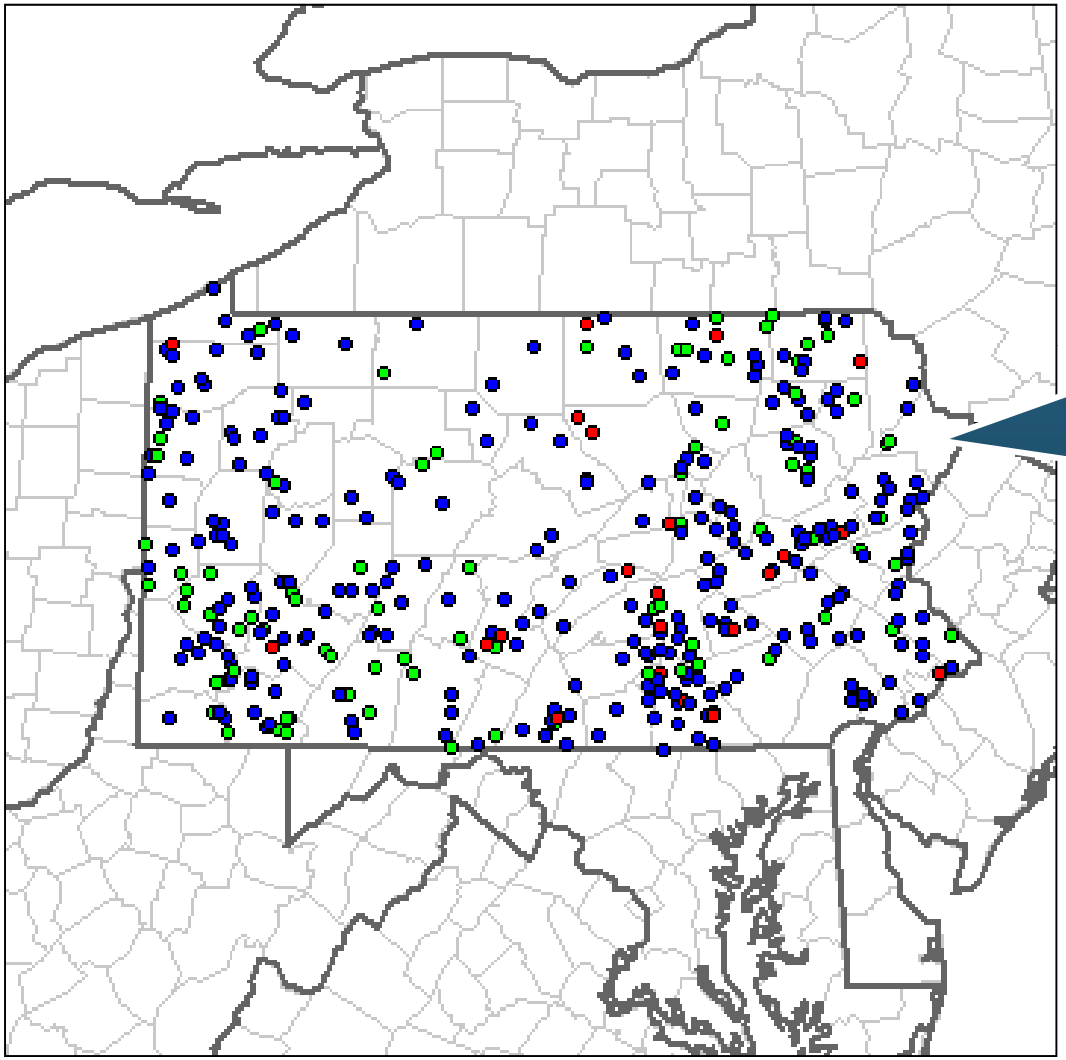
Number of Severe Weather Reports in US, by Type: January 1—June 30, 2011



Tornadoes accounted for just 8% of all Severe Weather Reports through June 30 but more than 500 deaths

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

Location of Severe Weather Reports in Pennsylvania, January 1—July 20, 2011



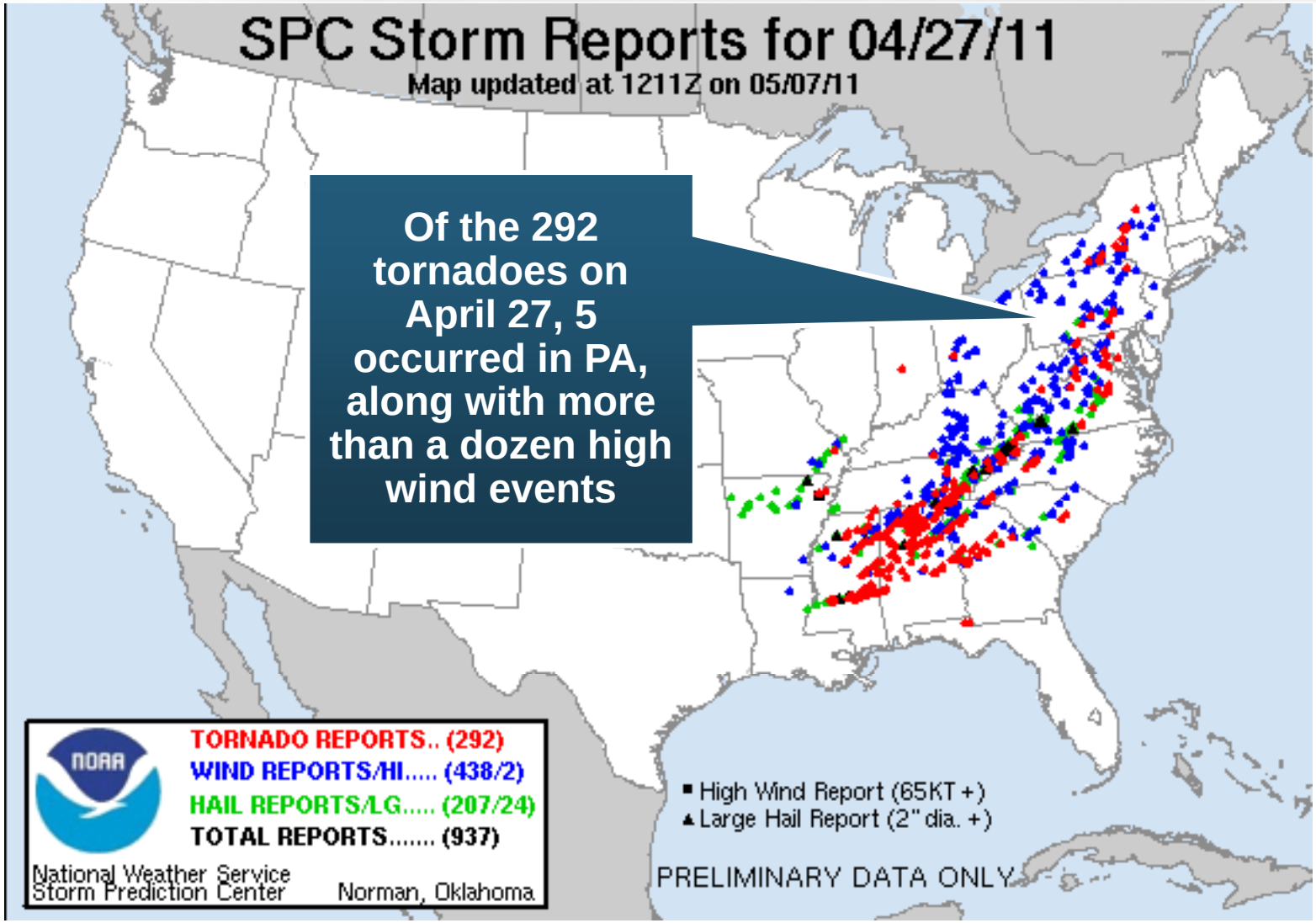
YTD Severe Weather Reports in Pennsylvania

- **Tornadoes: 25**
- **Large Hail: 108**
- **High Wind: 335**

TOTAL: 467

Source: NOAA Storm Prediction Center, http://www.spc.noaa.gov/climo/online/monthly/states.php?month=00&year=2011&state=PA

Location of Severe Weather Reports on April 27 (Wildest Weather Day of 2011)



Source: NOAA Storm Prediction Center, http://www.spc.noaa.gov/climo/online/monthly/states.php?month=00&year=2011&state=PA

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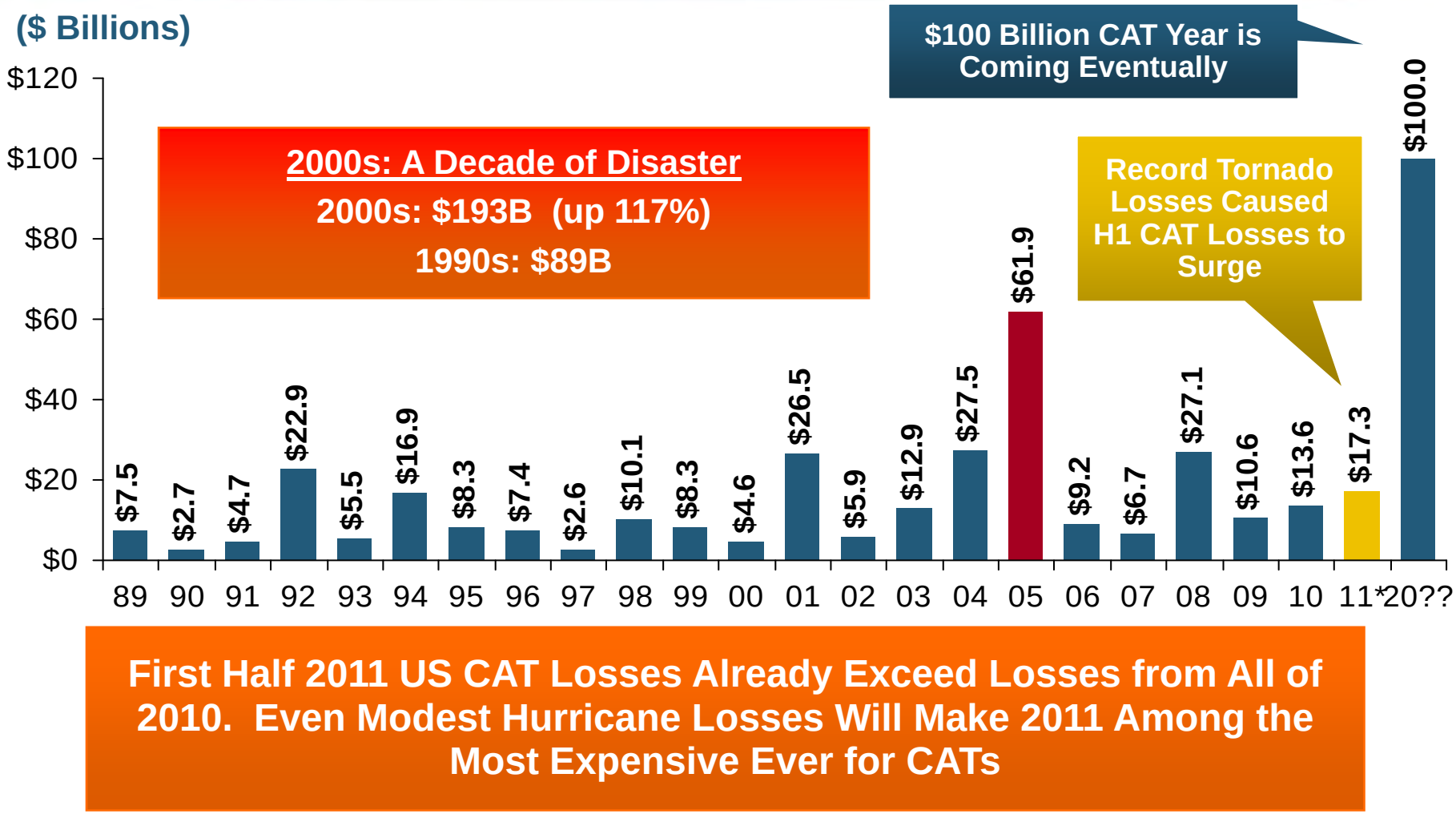
US CATASTROPHE INSURED LOSS UPDATE

First Half 2011 CAT Losses Already Exceed All of 2010 and Could Become One of the Most Expensive Years on Record

US Insured Catastrophe Losses



First Half 2011 US CAT Losses Already Exceed Losses from All of 2010. Even Modest Hurricane Losses Will Make 2011 Among the Most Expensive Ever for CATs

*First half 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.

Natural Disaster Losses in the United States: First 6 Months 2011

As of July 6, 2011	Number of Events	Fatalities	Estimated Overall Losses (US $m)	Estimated Insured Losses (US $m)
Severe Thunderstorm	43	593	23,573	16,350
Winter Storm	8	15	1,900	1,425
Flood	8	15	2,100	in progress
Earthquake	2	1	105	in progress
Tropical Cyclone	0	0	0	0
Wildfire	37	7	125	50

Source: MR NatCat*SERVICE*

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

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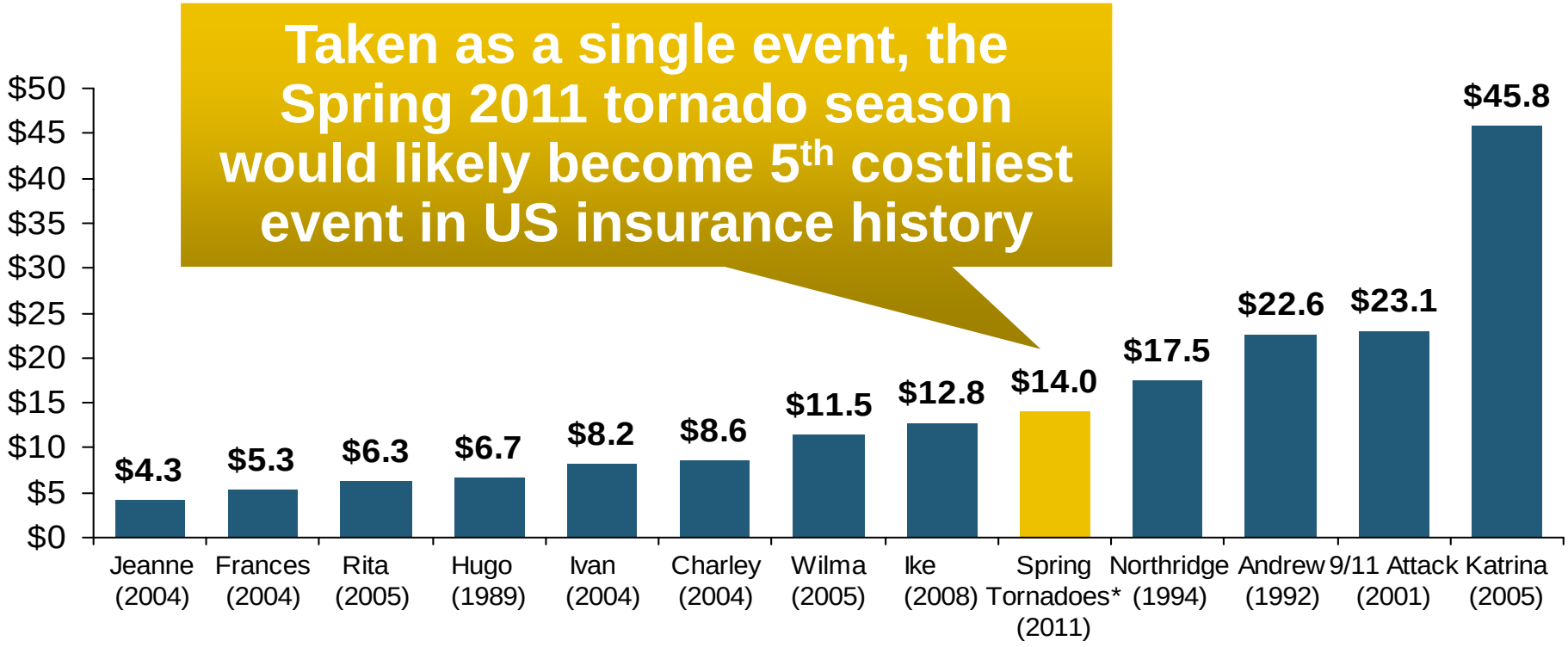
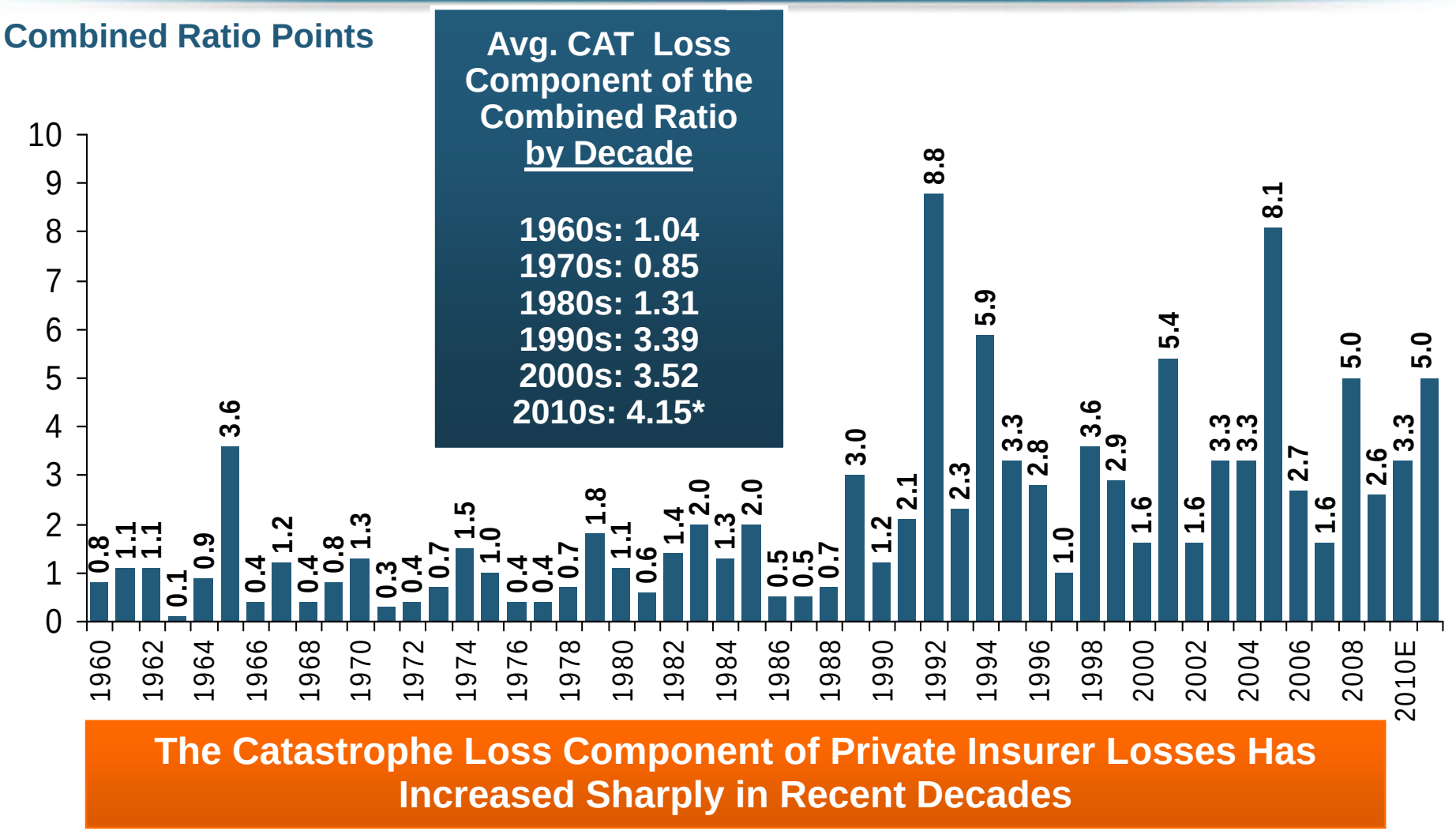
(Insured Losses, 2010 Dollars, $ Billions)



*Losses 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

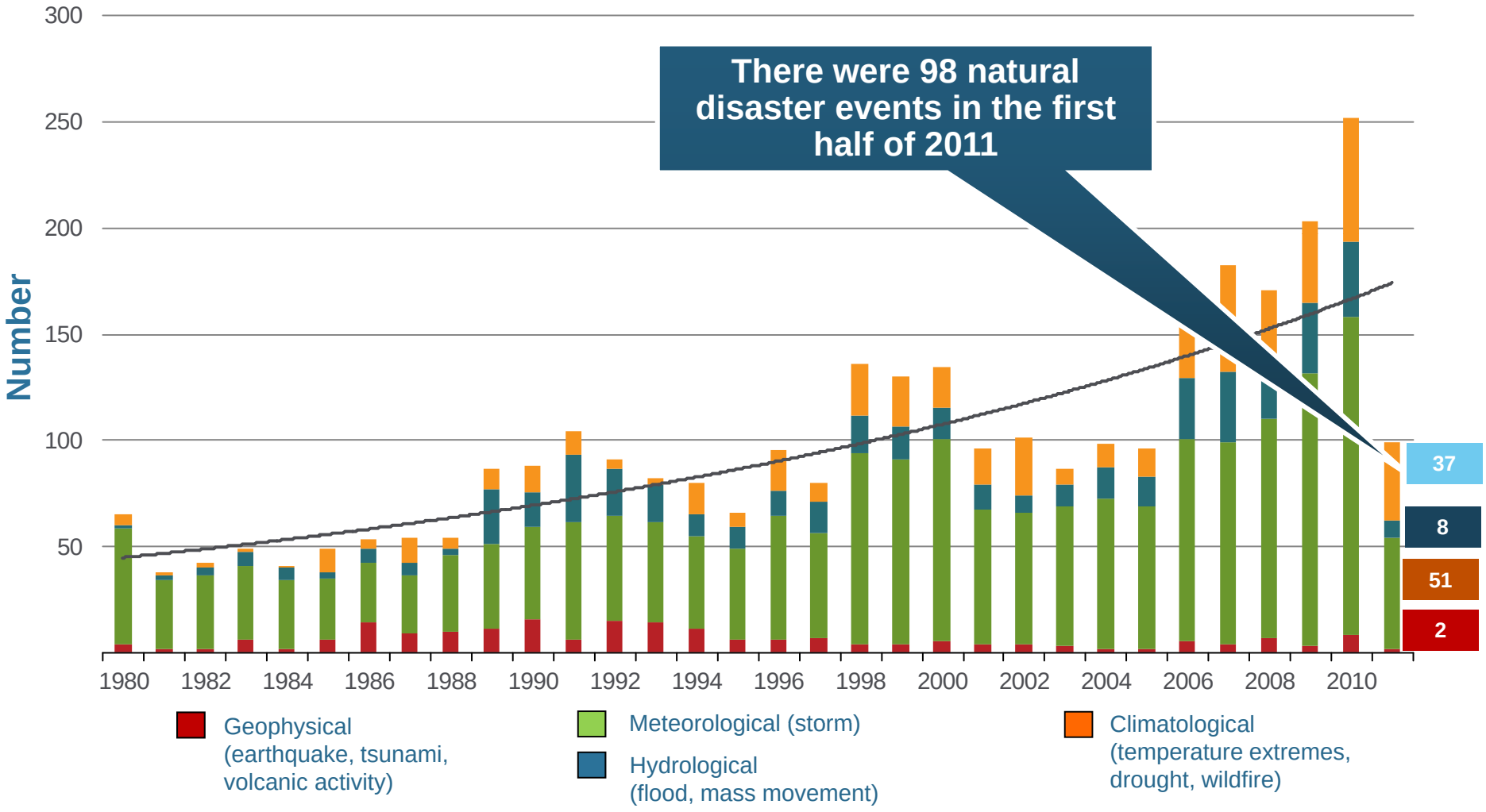
*Insurance Information Institute estimates for 2010 and 2011:H1

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.

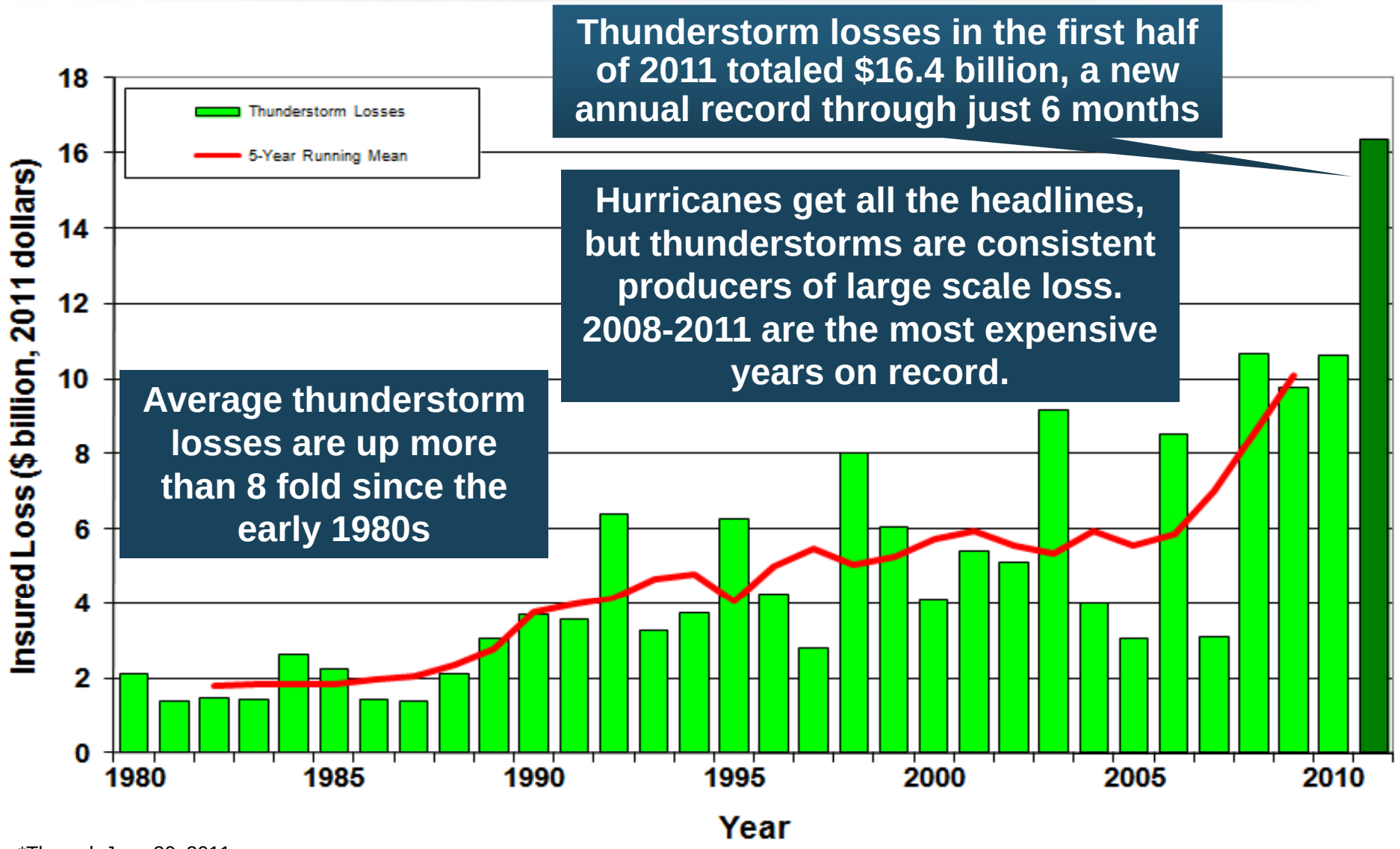
Natural Disasters in the United States, 1980 – 2011*

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

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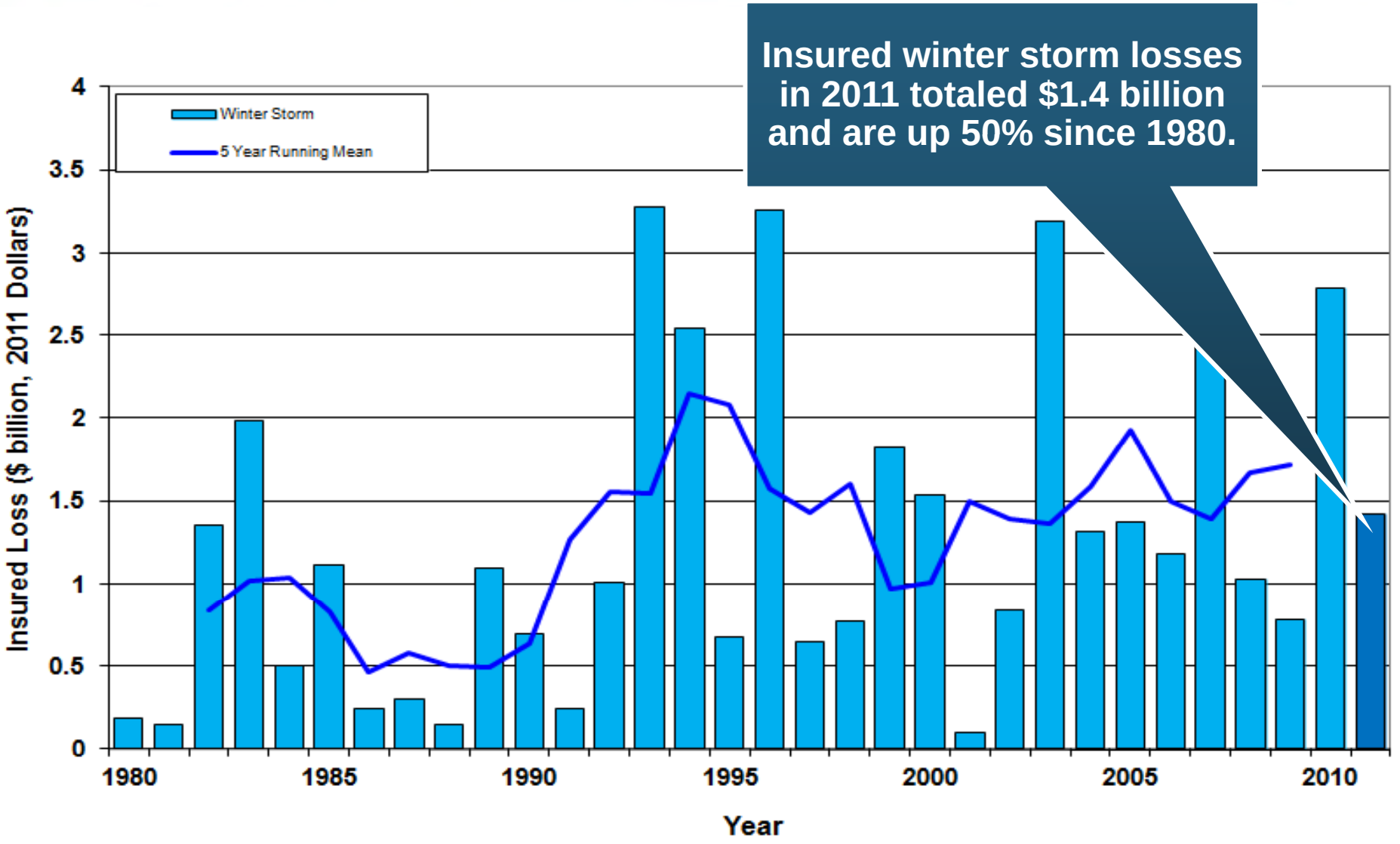
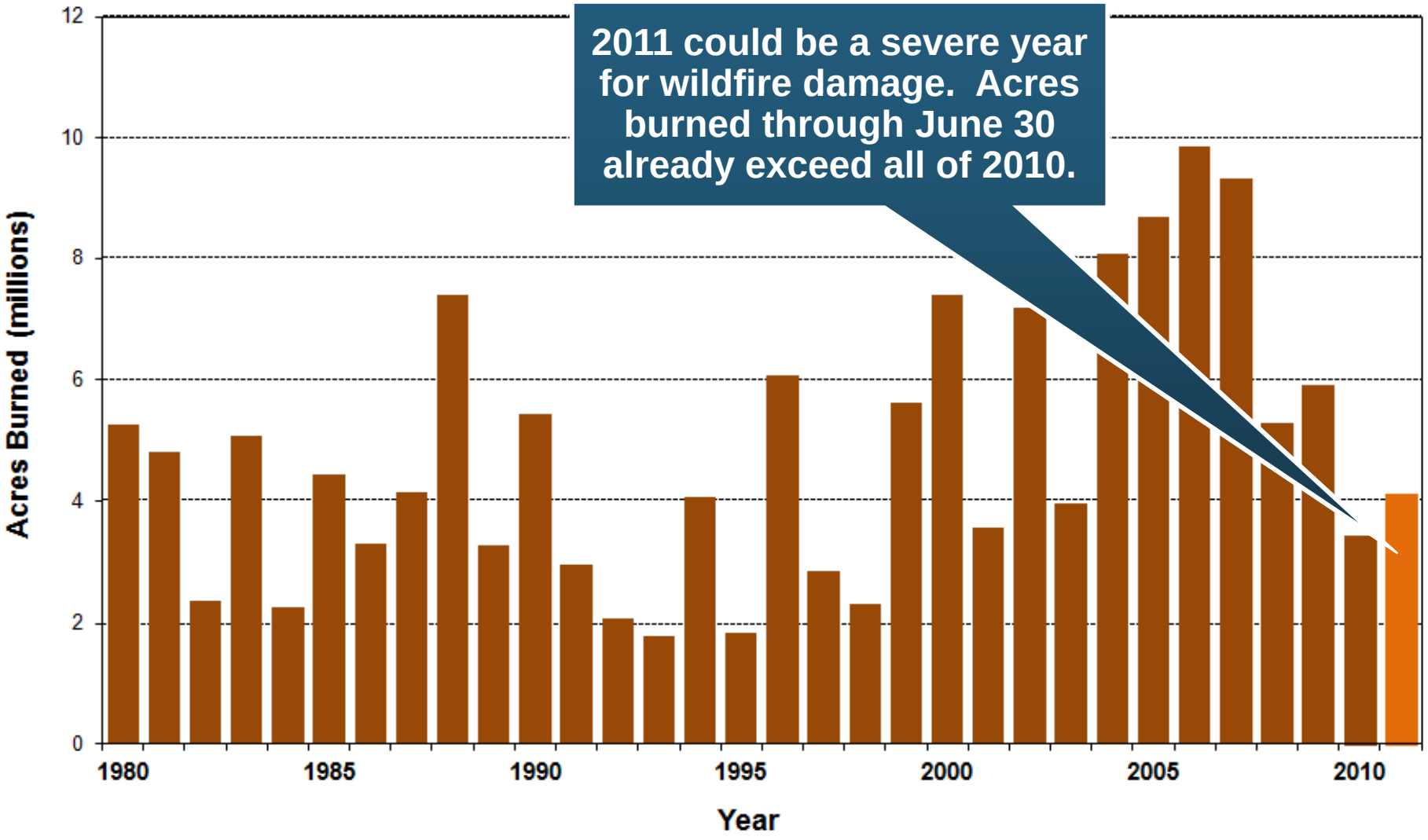


Source: Property Claims Service, MR NatCat*SERVICE*

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



Source: National Forest Service, MR NatCat*SERVICE*

Notable Wildfires in 2011

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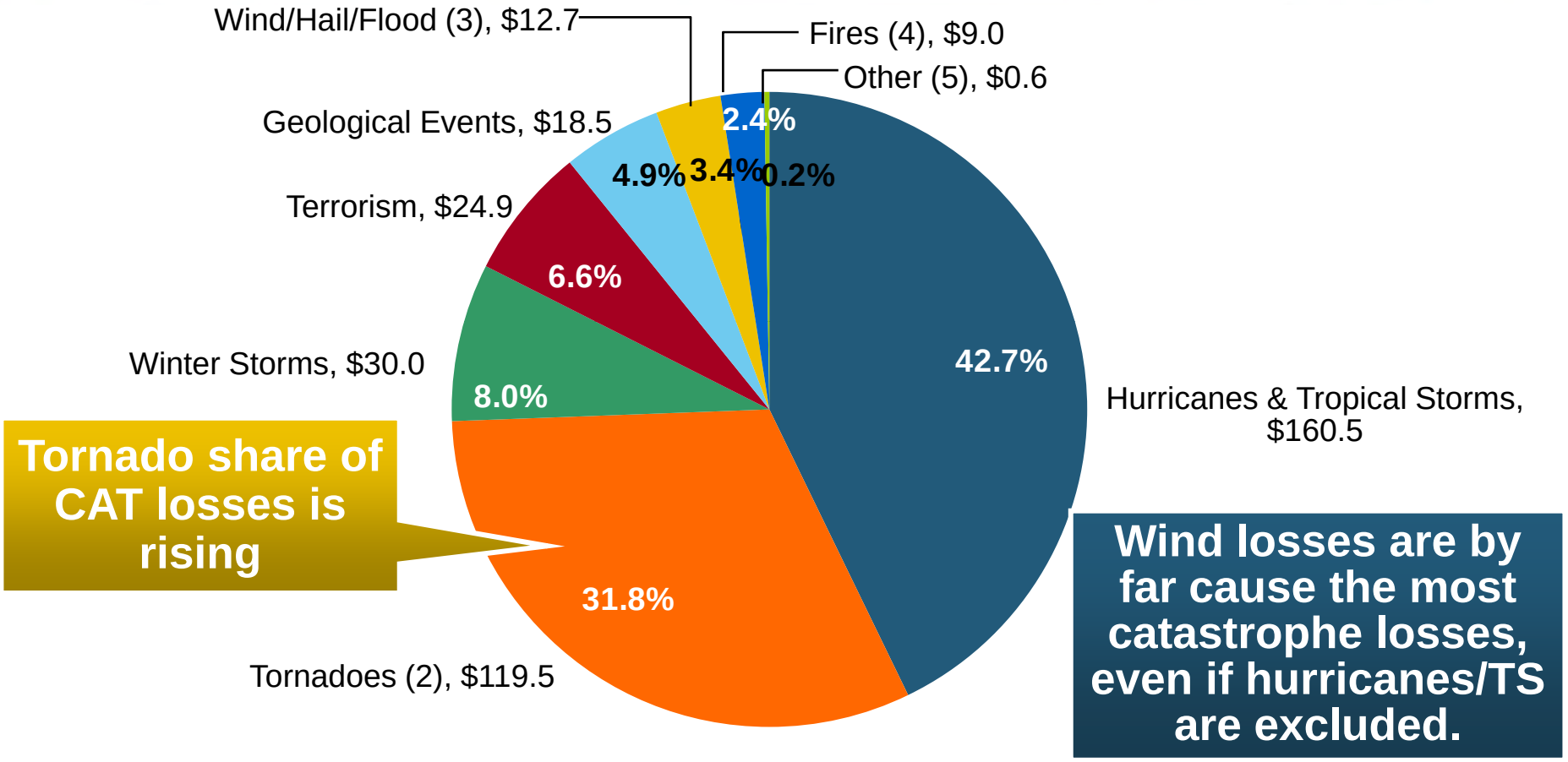
April – June

- ***Texas: Over 3 million acres burned in west Texas from 12 major seats of fire. Over 200 homes and businesses destroyed, $50 million insured loss.***

- Arizona and New Mexico: "Wallow" fire largest in AZ history at 538,000 acres, Las Conchas fire near Los Alamos, 30 buildings destroyed.

Source: Munich Re.

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*

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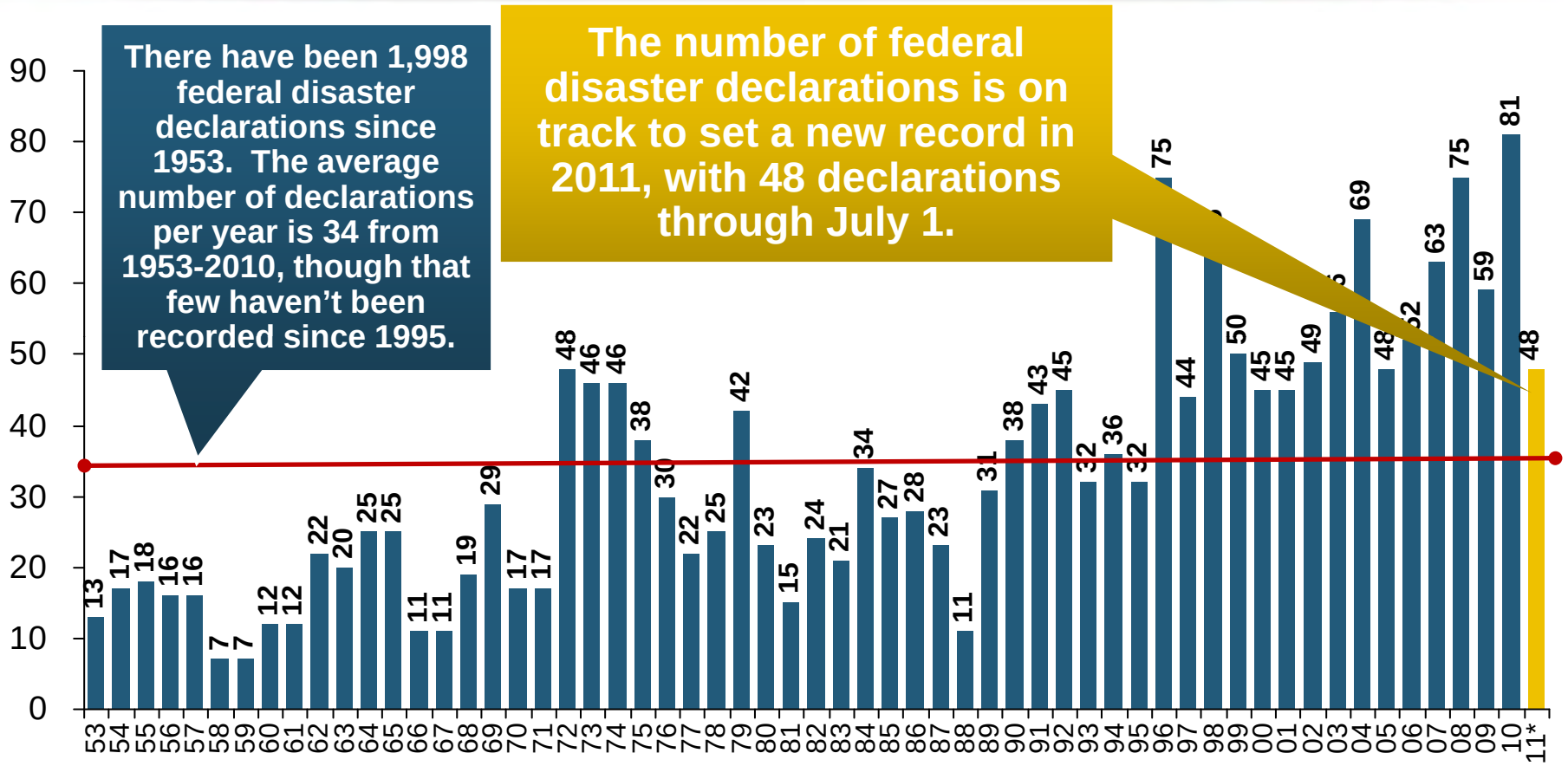

The Number of Federal Disaster Declarations Is Rising

*Through July 1, 2011.

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

Federal Disasters Declarations by State, 1953 – June 30, 2011: Highest 25 States

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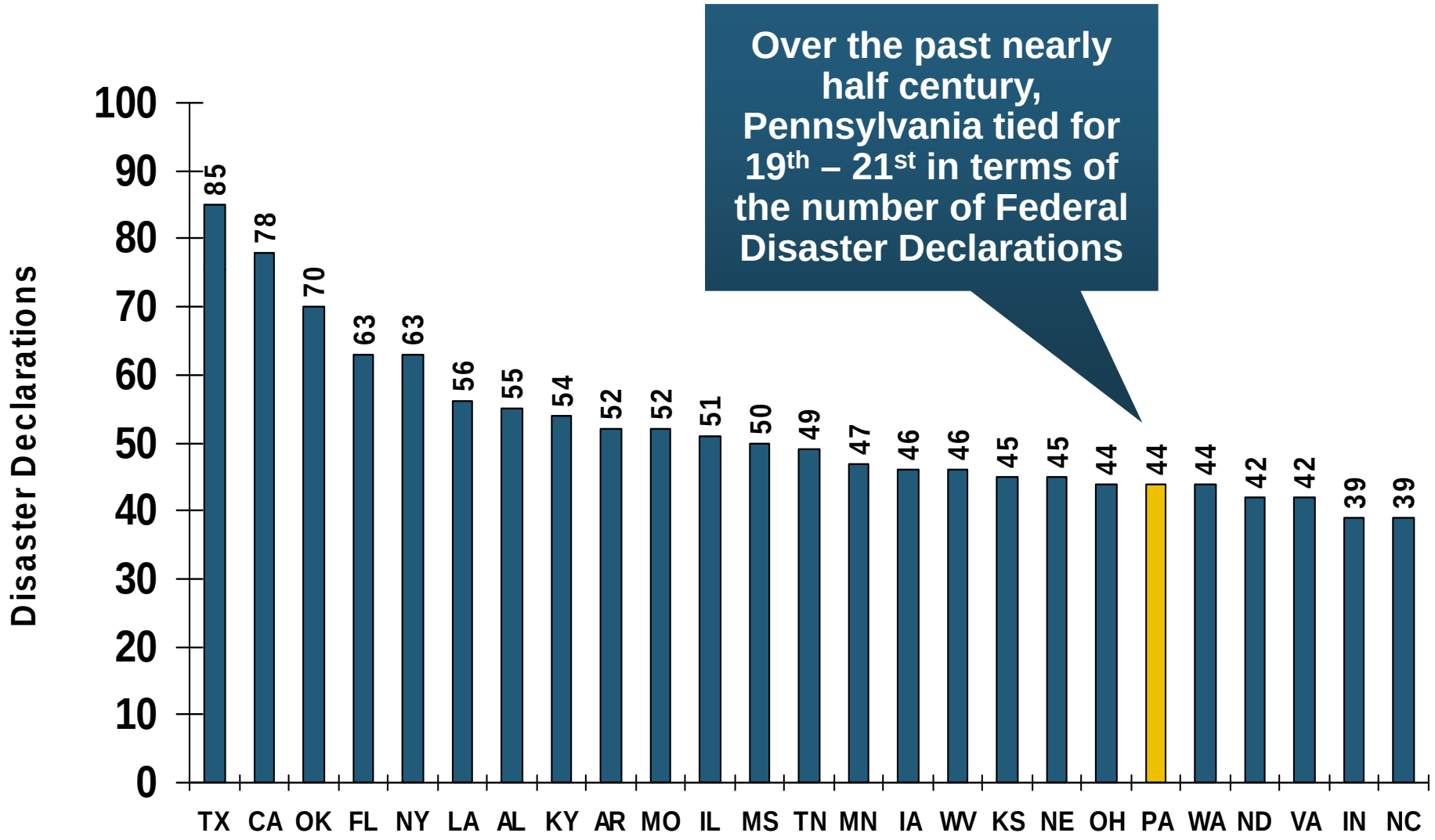
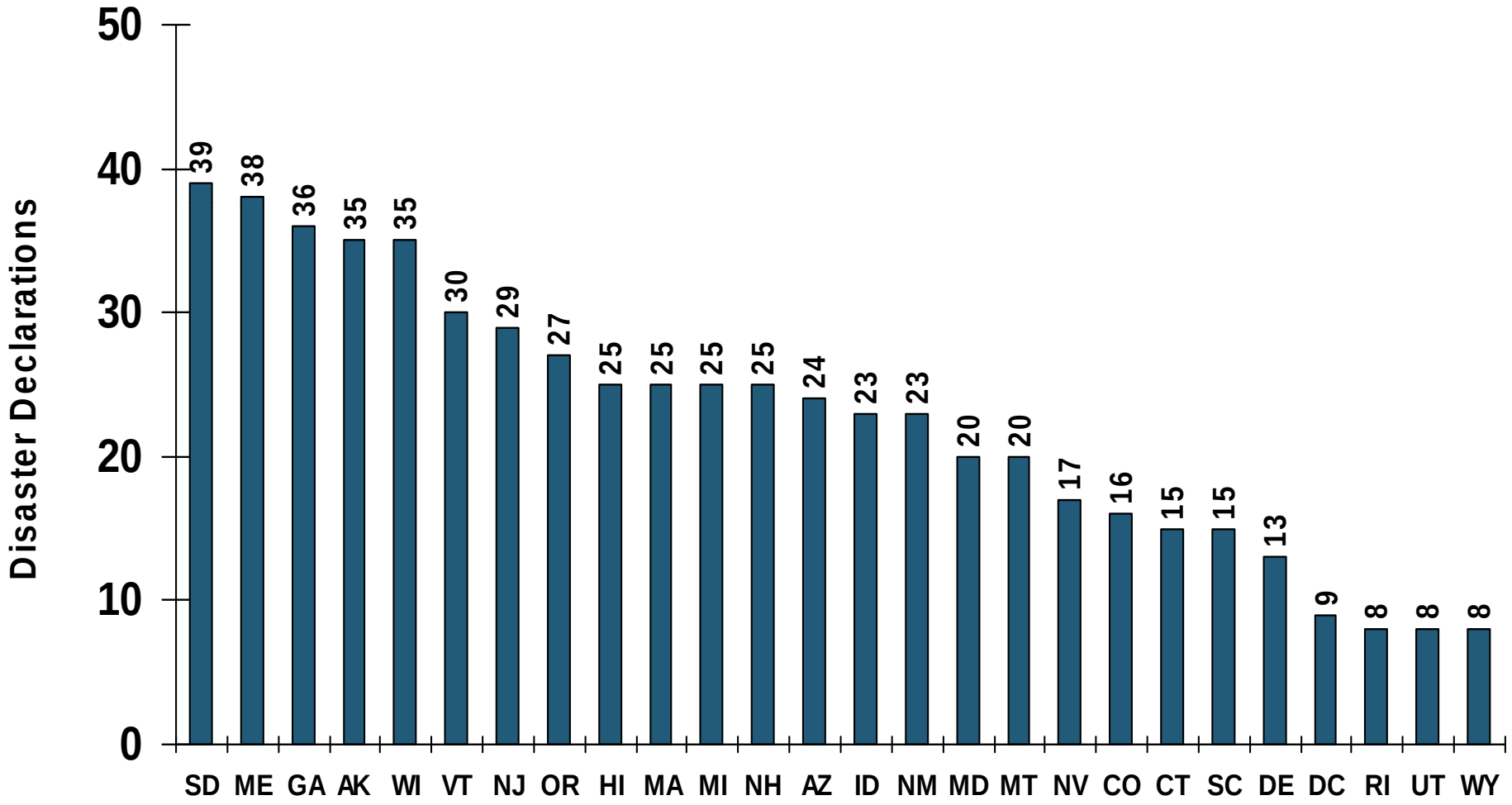


Source: FEMA.

Federal Disasters Declarations by State, 1953 – June 30, 2011: Lowest 25 States



Source: FEMA.

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The BIG Question: When Will the Market Turn?

Insurance Cycle Dynamics

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

Criteria	Status	Comments
Sustained Period of Large Underwriting Losses	*Not Yet Happened*	•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	*Surplus is At/Near Record High*	•Surplus hit a record $565B as of 3/31/11 •Analysts est. excess surplus of $75-$100B •Some excess capacity may still remain in reinsurance markets •Weak growth in demand for insurance is insufficient to absorb much excess capacity
Tight Reinsurance Market	*Somewhat in Place*	•Higher prices in Asia/Pacific •Modestly improved pricing for US risks
Renewed Underwriting & Pricing Discipline	*Not Broadly Evident*	•Commercial lines pricing trends remain negative •Competition remains intense as many seek to maintain market share •Terms & conditions—no broad tightening

Sources: Barclays Capital; Insurance Information Institute.

Do the Property Catastrophe Events of 2011 Impact Casualty Markets?

- **Unlikely that Record 2011 Property CAT Loss Will Impact Casualty Markets in Any Material Way**
- **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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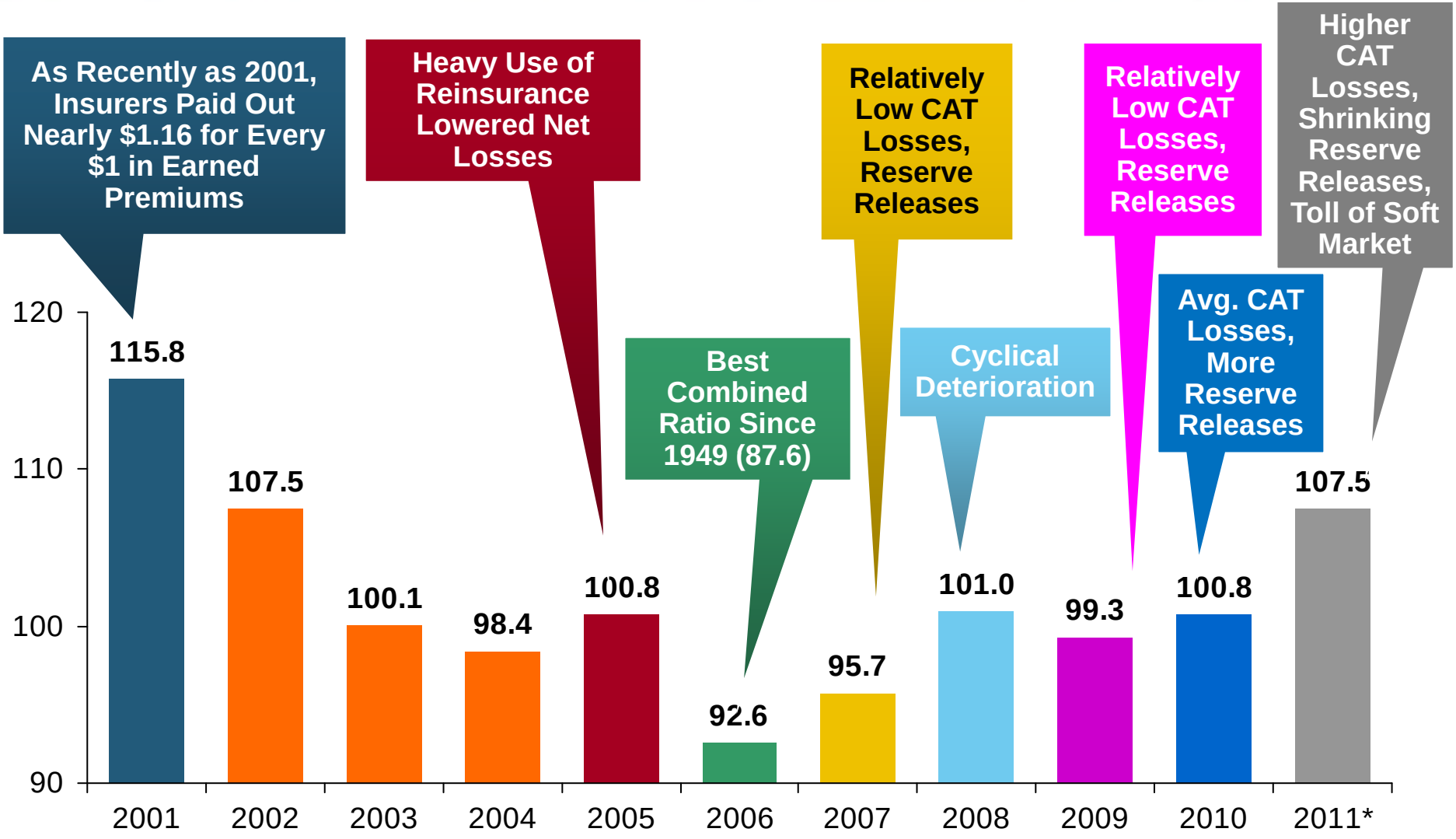
1. UNDERWRITING

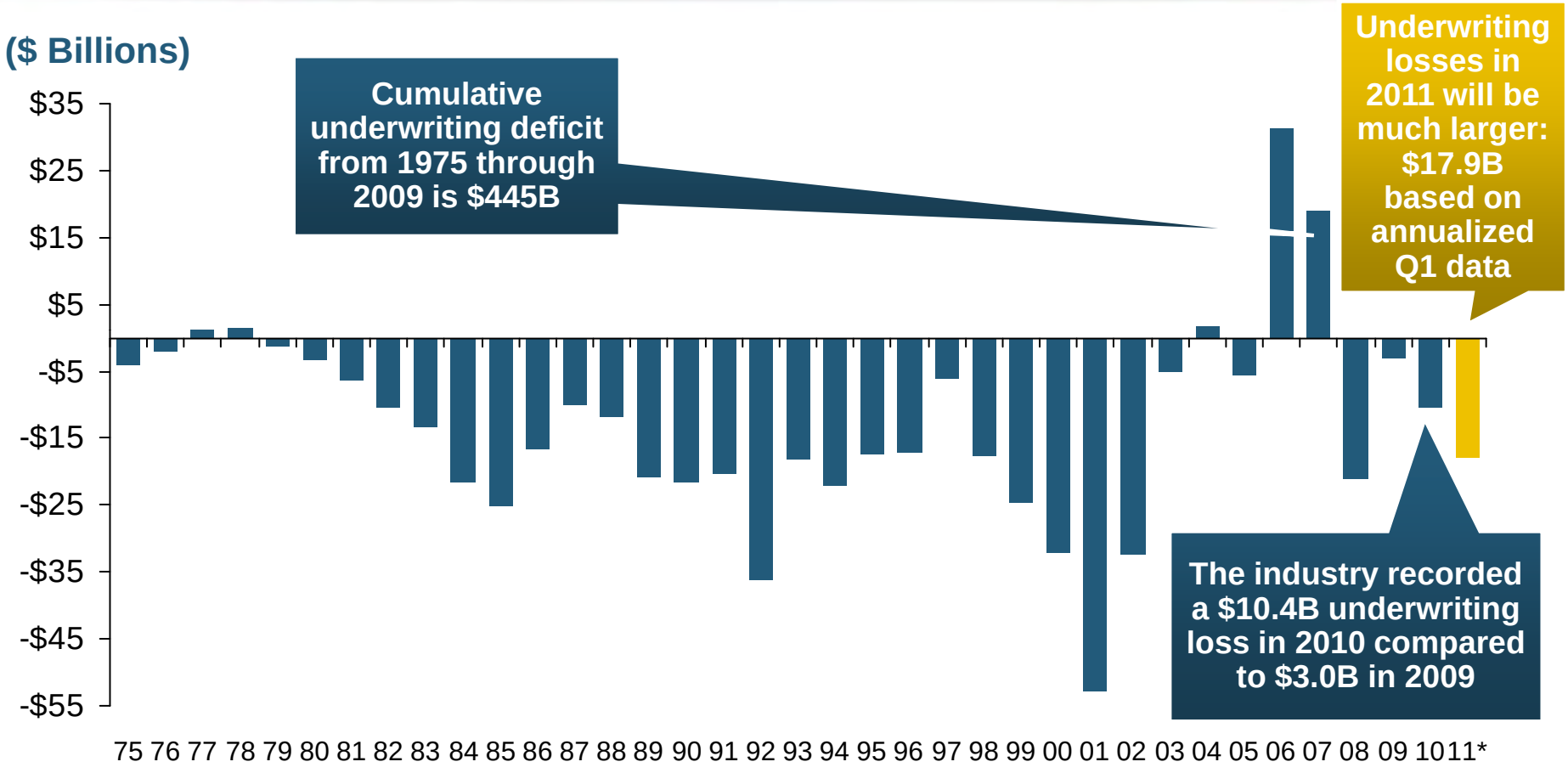
Have Underwriting Losses Been Large Enough for Long Enough to Turn the Market?

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=109.1
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 annualized based on actual Q1 underwriting losses of $4.463 billion.

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

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

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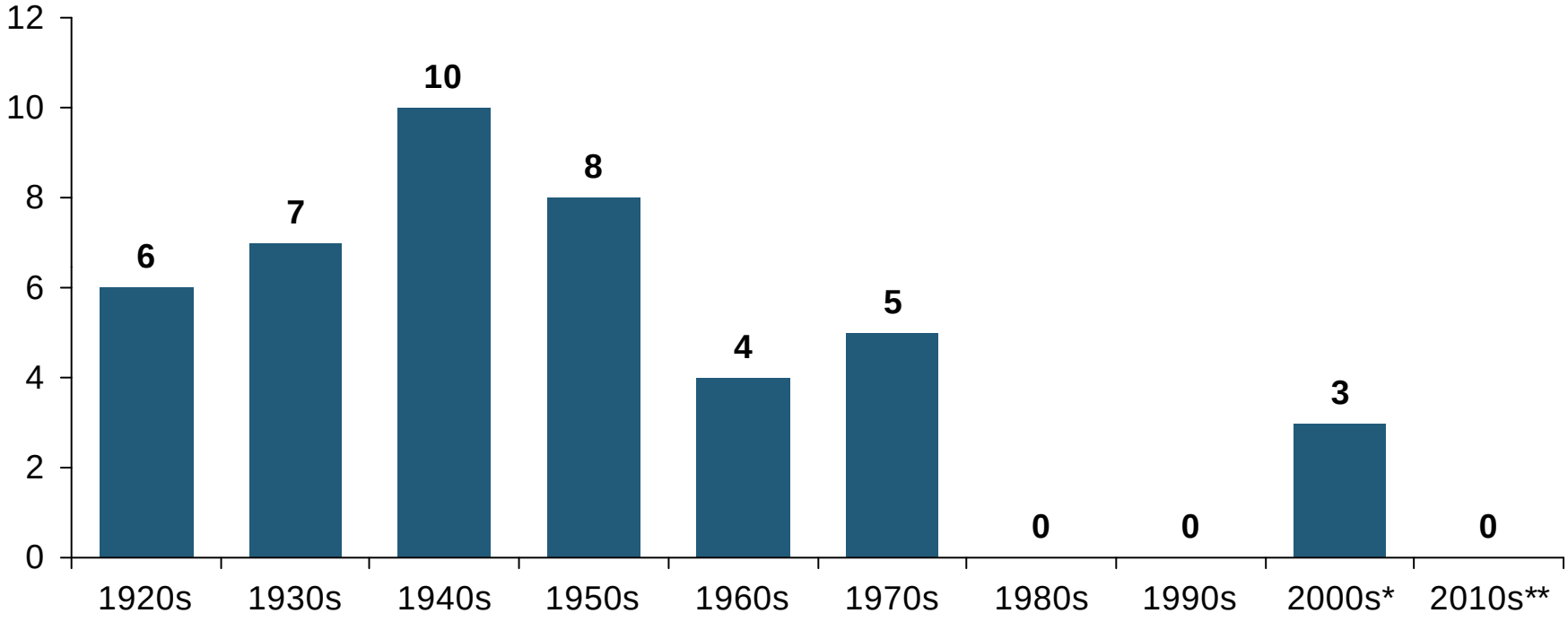
Number of Years with Underwriting Profits



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

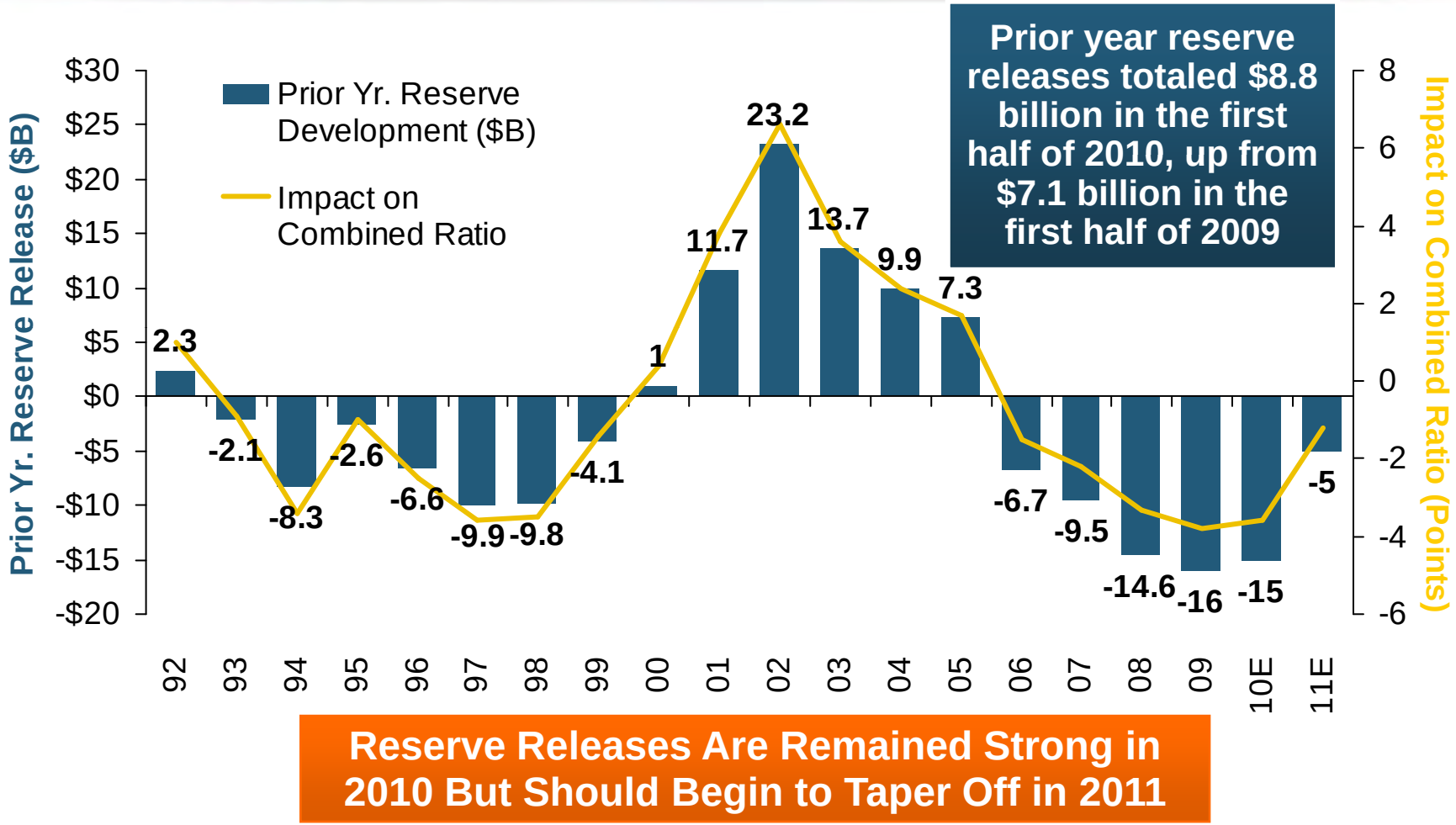
total to 4 years with an underwriting profit.

**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.

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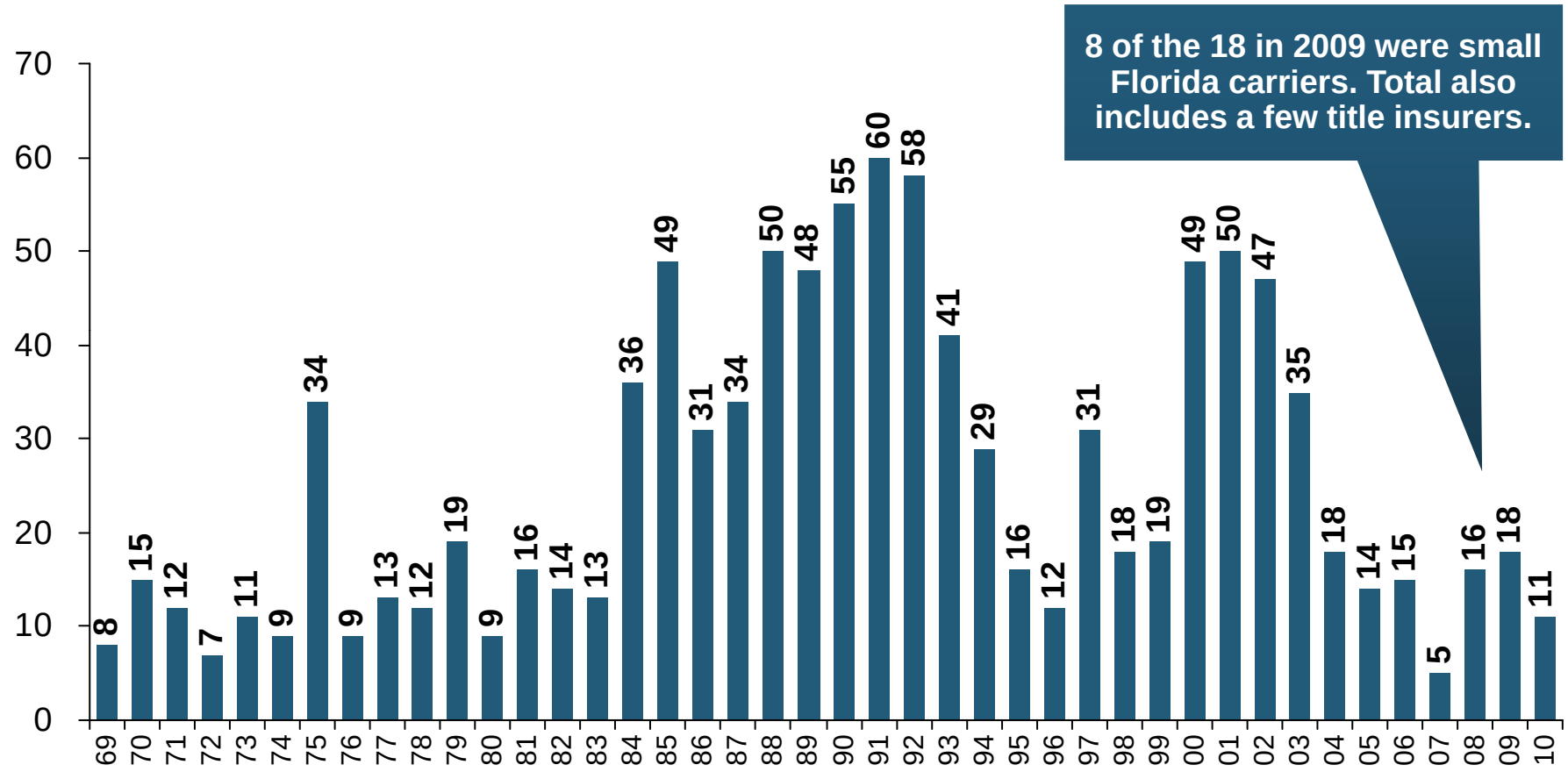
Financial Strength & Underwriting

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

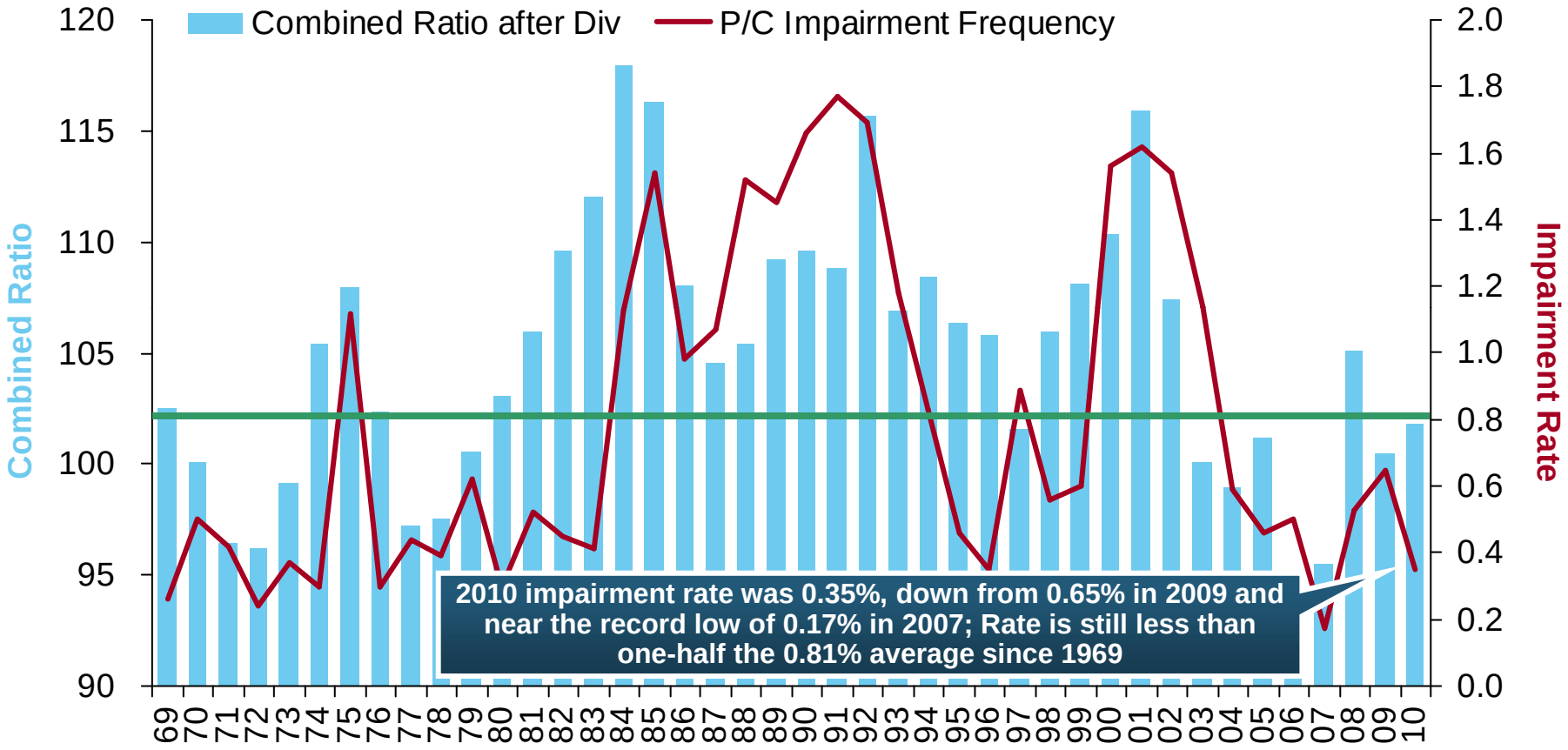
P/C Insurer Impairments, 1969–2010



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

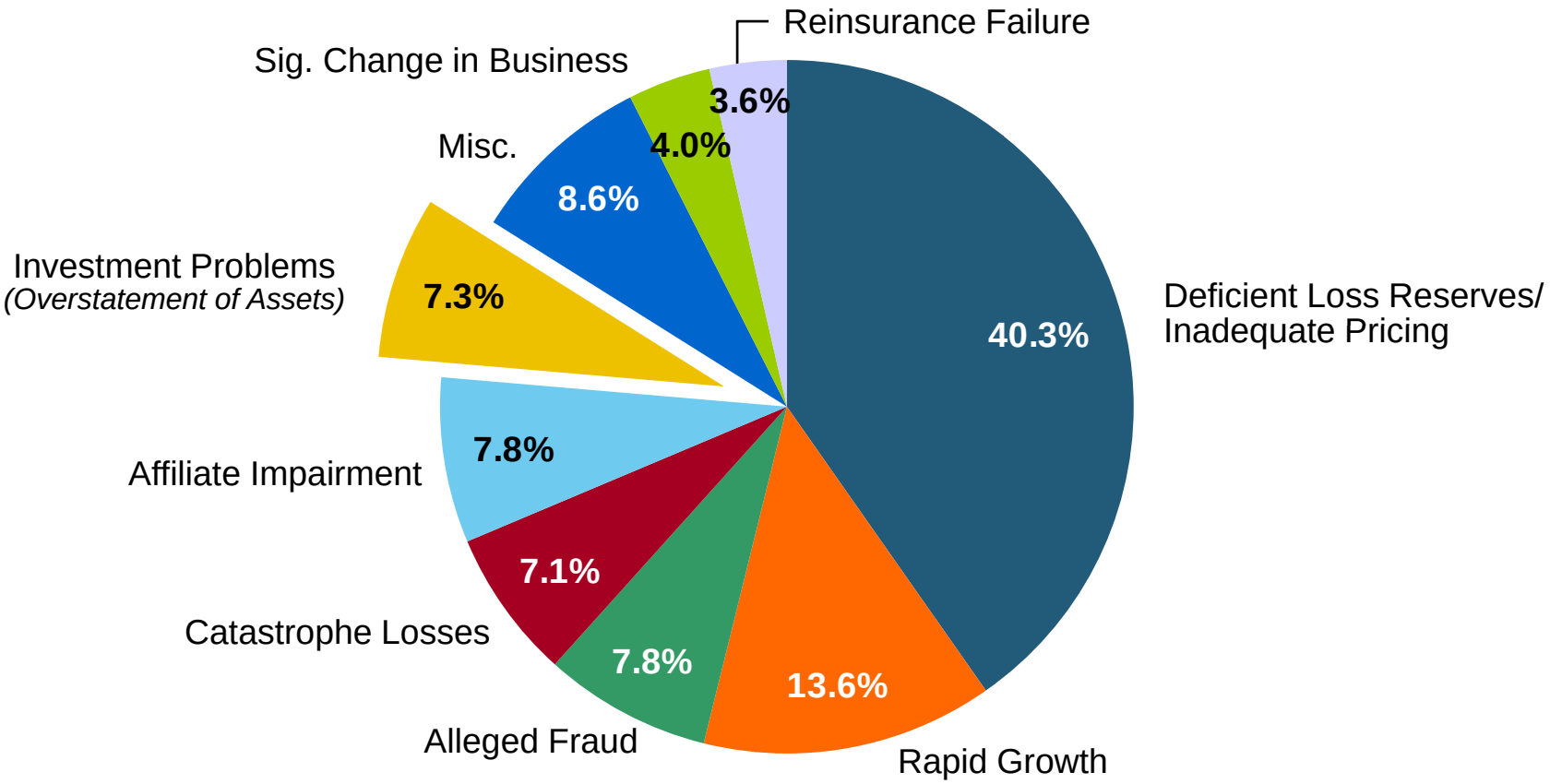


Impairment Rates Are Highly Correlated With Underwriting Performance and Reached Record Lows in 2007

Source: A.M. Best; Insurance Information Institute

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

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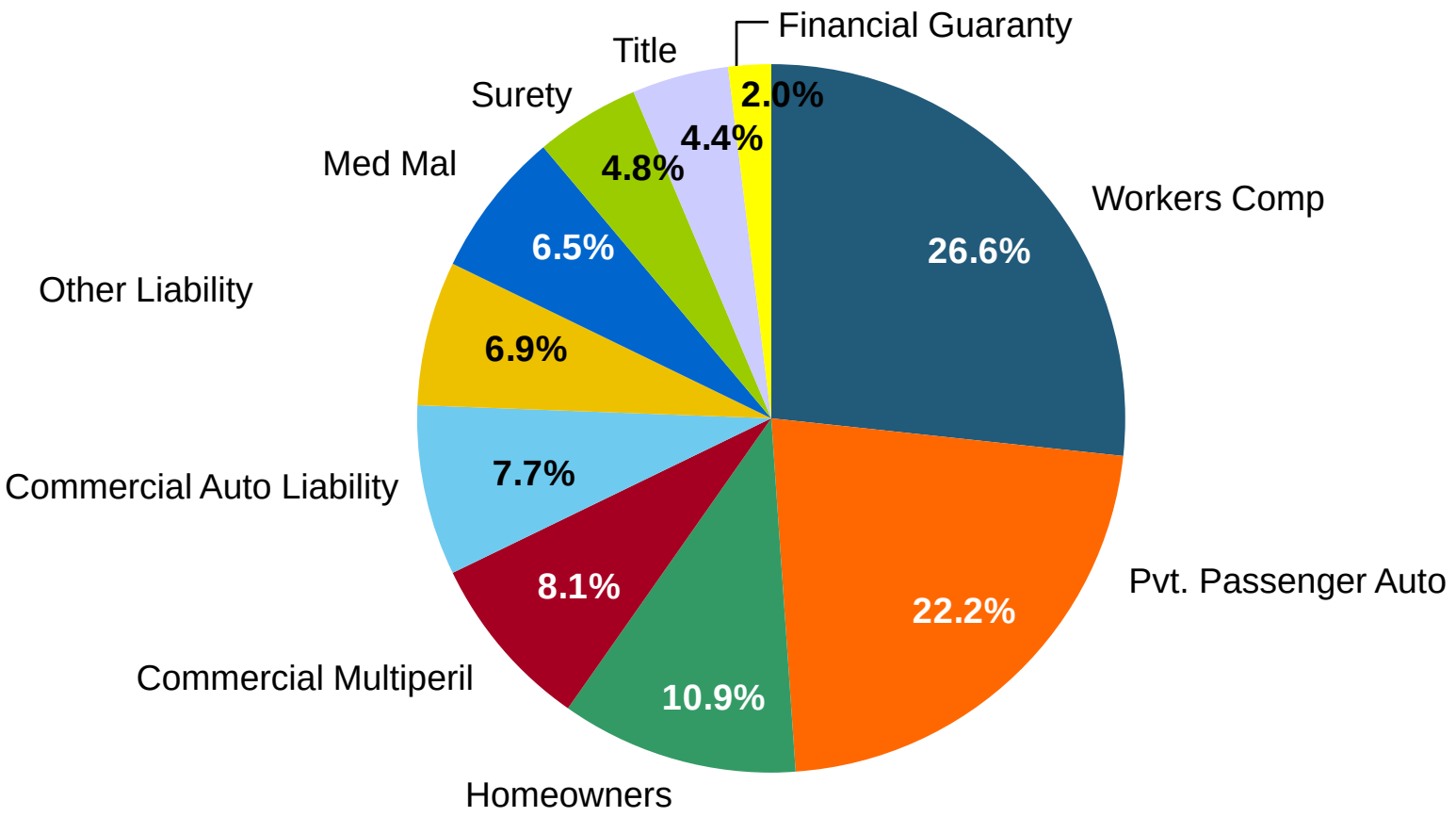
Workers Comp and Pvt. Passenger Auto Account for Nearly Half of the Premium Volume of Impaired Insurers Over the Past Decade



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

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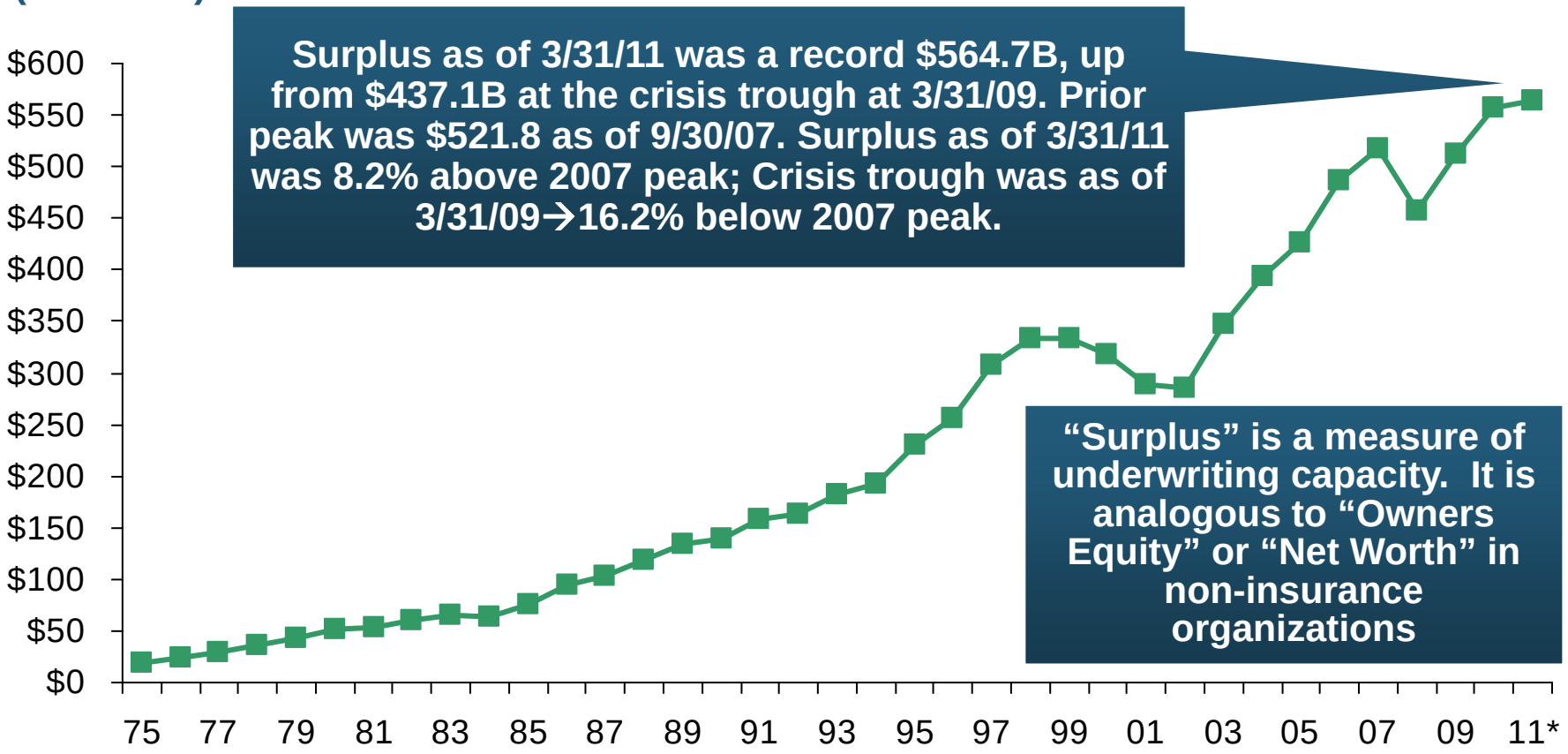
2. SURPLUS/CAPITAL/CAPACITY

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

US Policyholder Surplus: 1975–2011*

($ Billions)



Surplus as of 3/31/11 was a record $564.7B, up from $437.1B at the crisis trough at 3/31/09. Prior peak was $521.8 as of 9/30/07. Surplus as of 3/31/11 was 8.2% above 2007 peak; Crisis trough was as of 3/31/09→16.2% below 2007 peak.

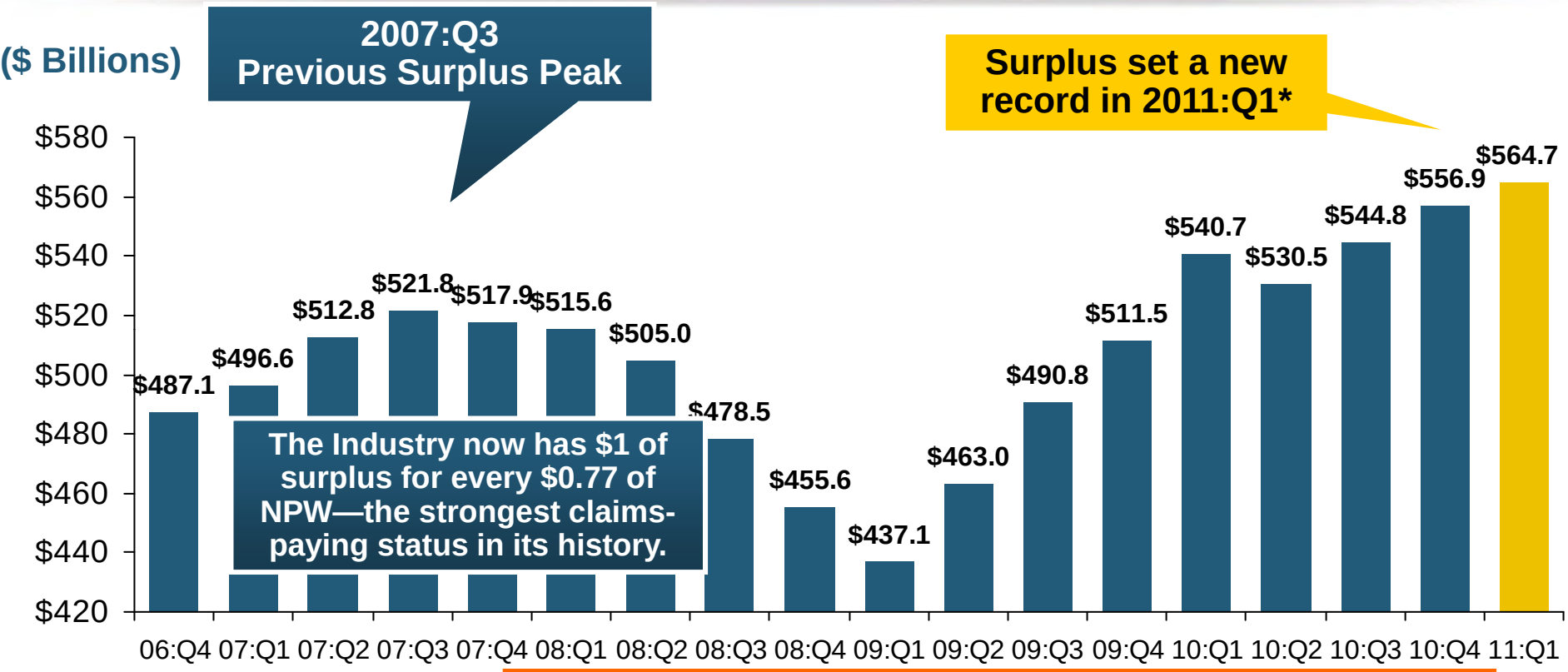
"Surplus" is a measure of underwriting capacity. It is analogous to "Owners Equity" or "Net Worth" in non-insurance organizations

The Premium-to-Surplus Ratio Stood at $0.77:$1 as of 3/31/11, A Near Record Low (at Least in Recent History)**

* As of 3/31/11.

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

Policyholder Surplus, 2006:Q4–2011:Q1



*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.

Sources: ISO, A.M .Best.

Quarterly Surplus Changes Since 2007:Q3 Peak

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

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

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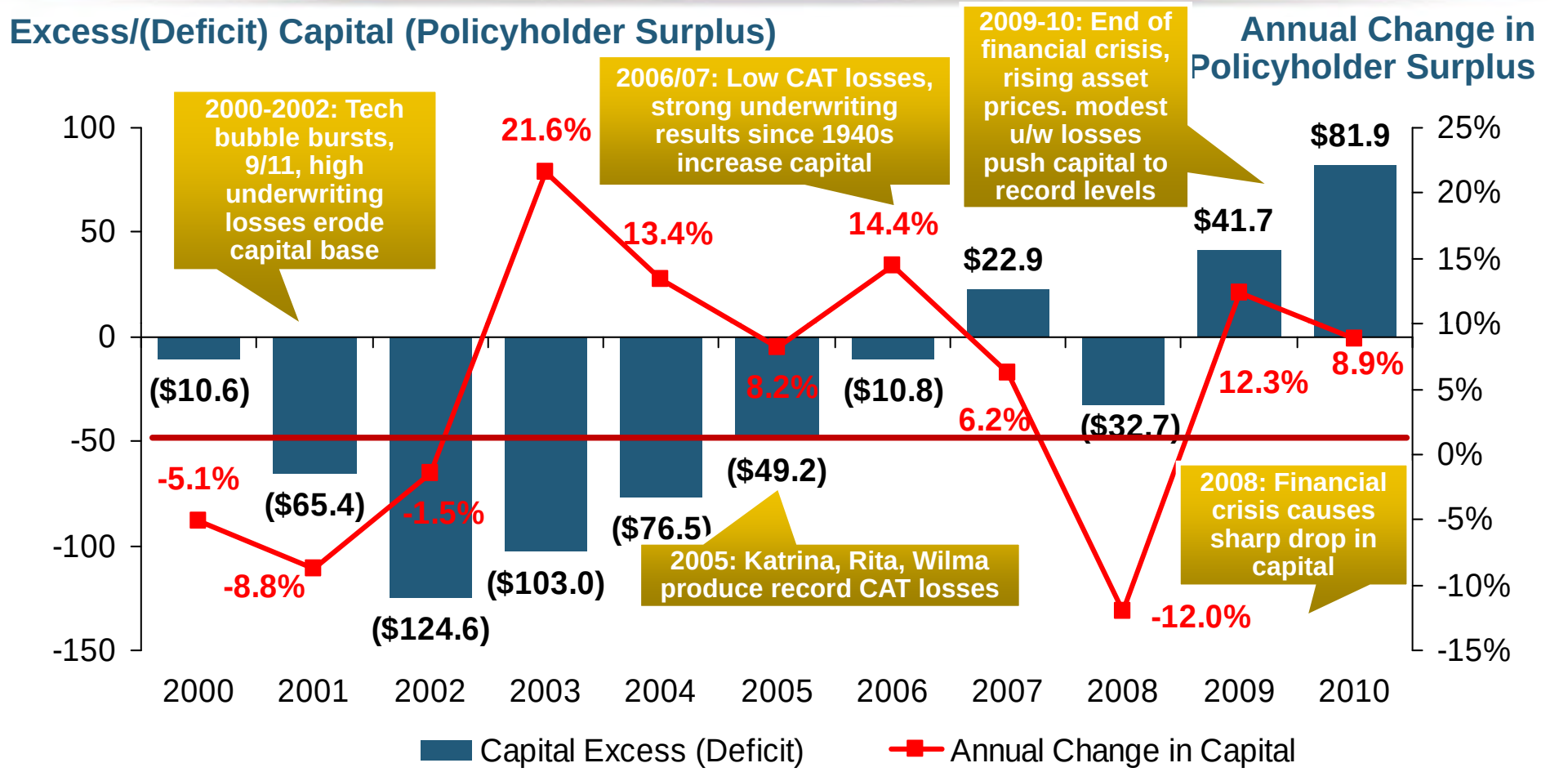


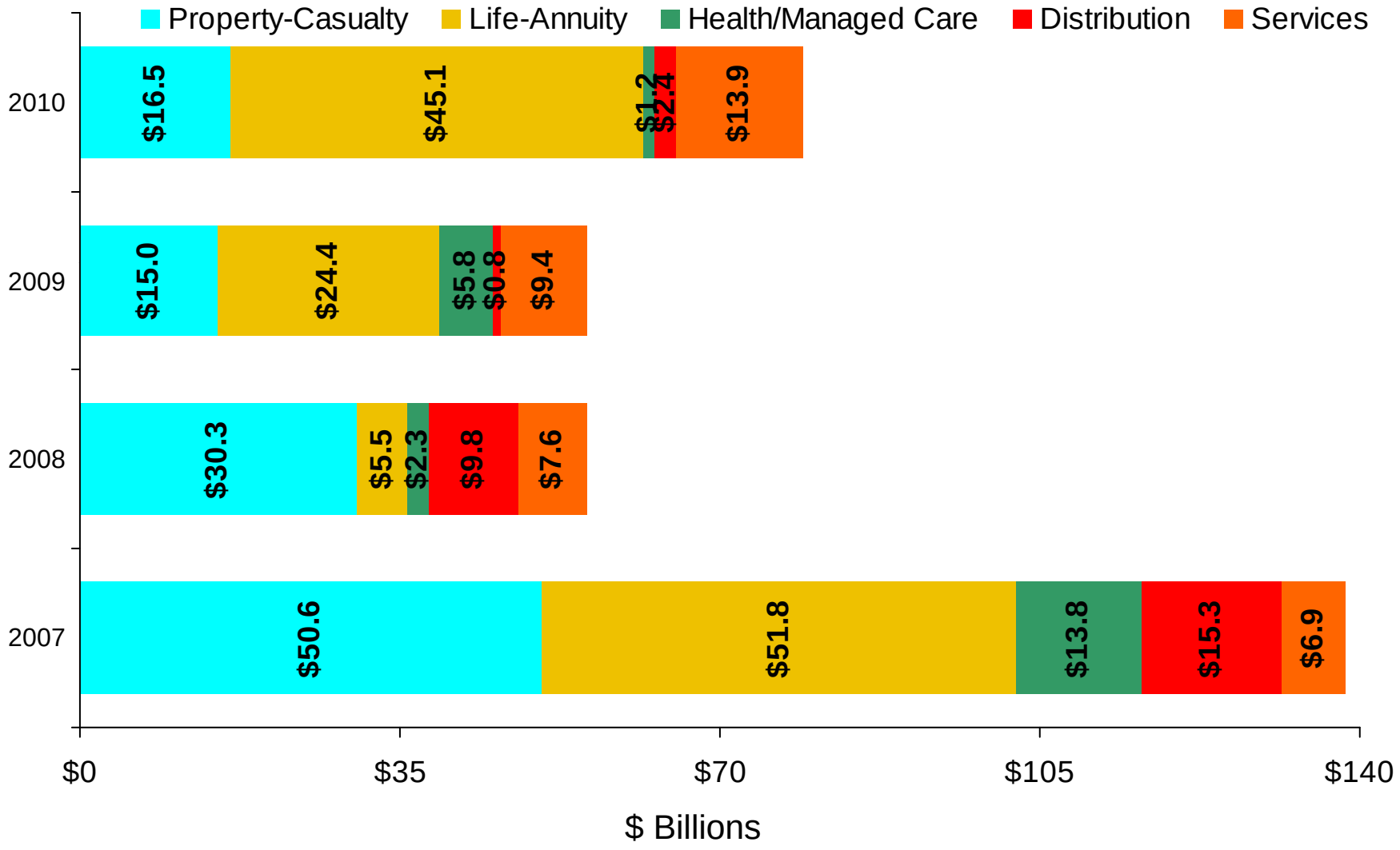
Record Policyholder Surplus (Capital) Has Resulted Significant Excess Capital in the P/C Insurance Sector As of Year End 2010. Deteriorating Underwriting Losses, Higher CAT Activity, More Modest Market Returns Will Likely Shrink Excess Capital in 2011.

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

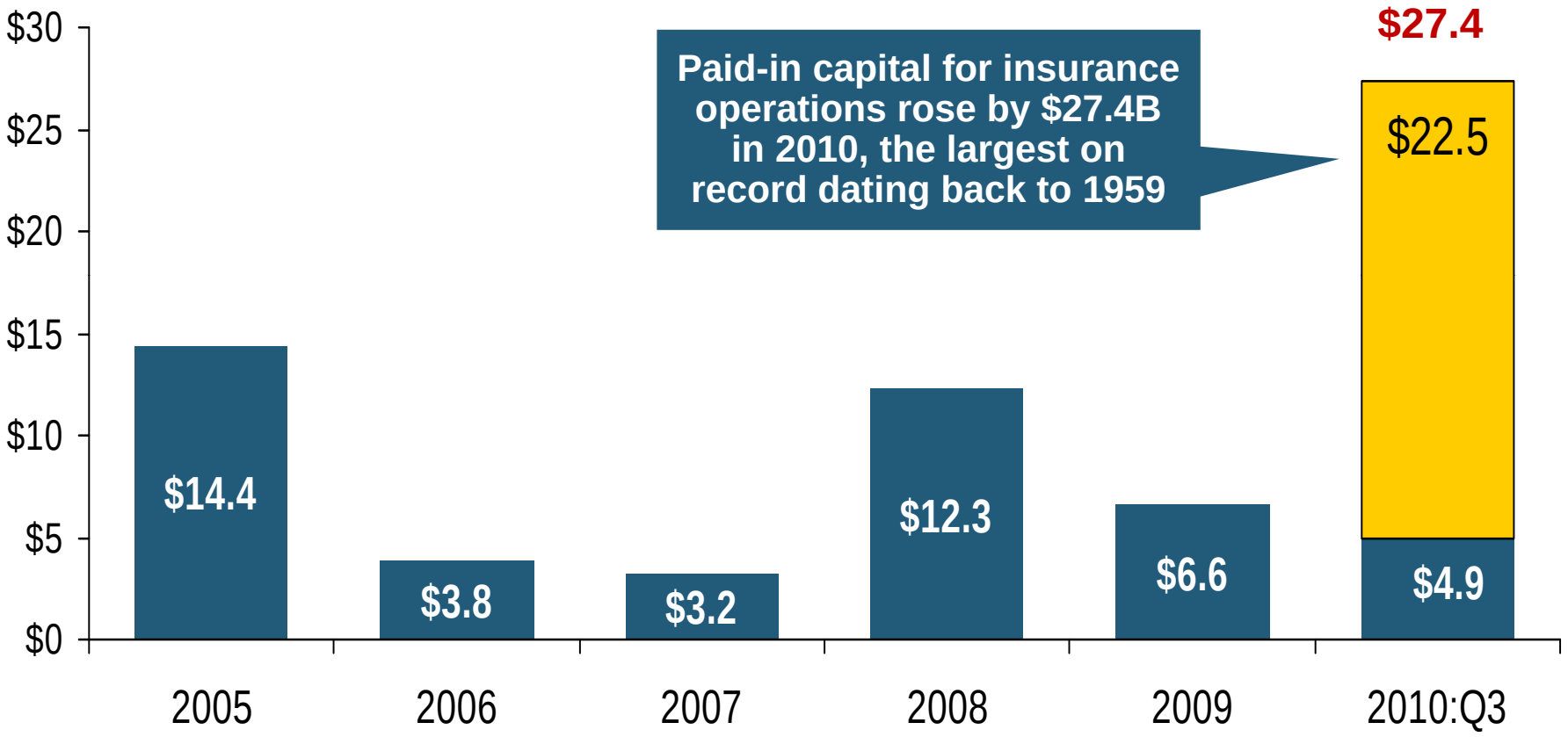
M&A Activity Globally Among P/C Insurers Remains Subdued: Little Capacity Leaving



Sources: Conning Research; Insurance Information Institute.

Paid-in Capital, 2005–2010

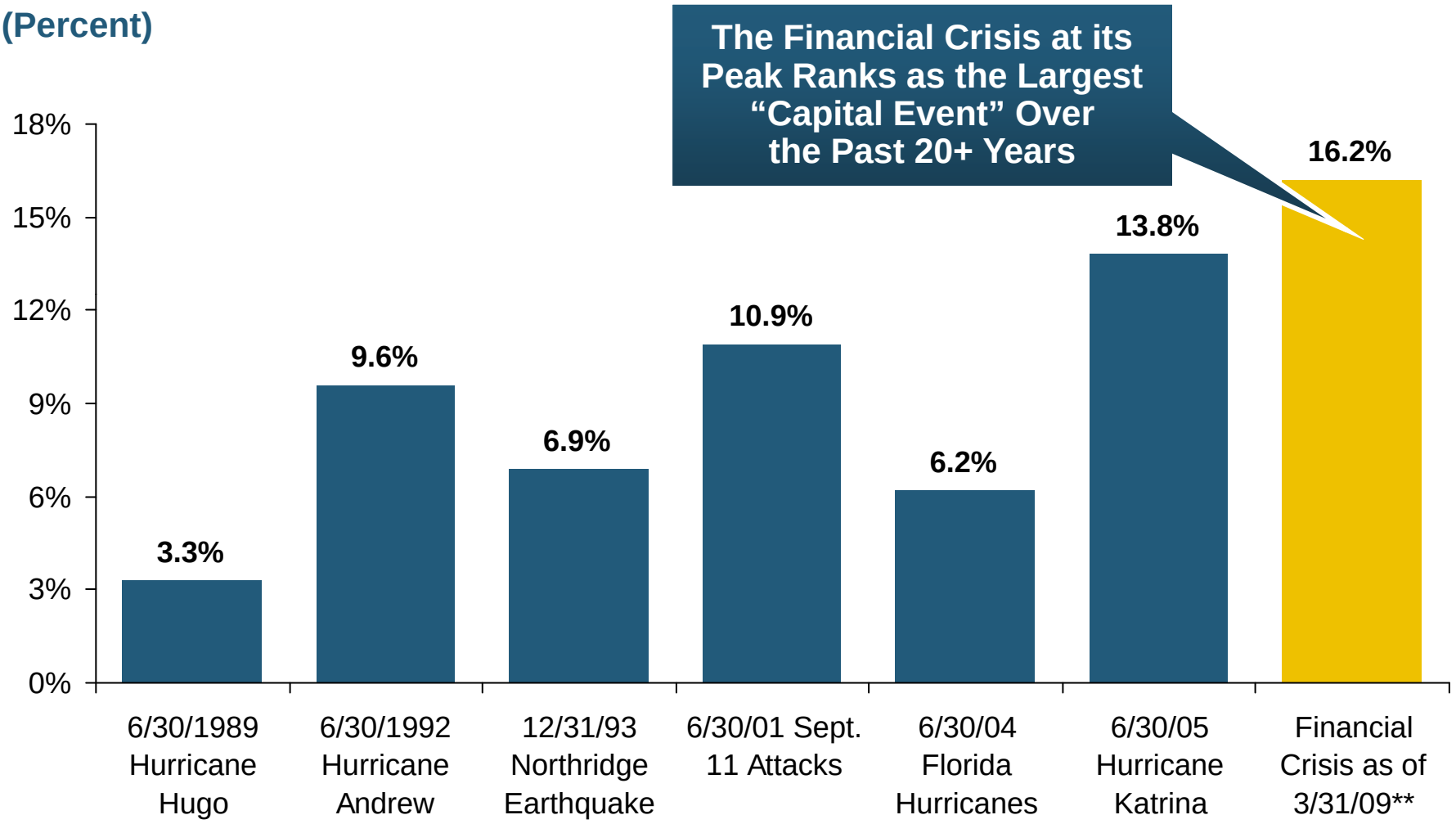
($ Billions)



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*

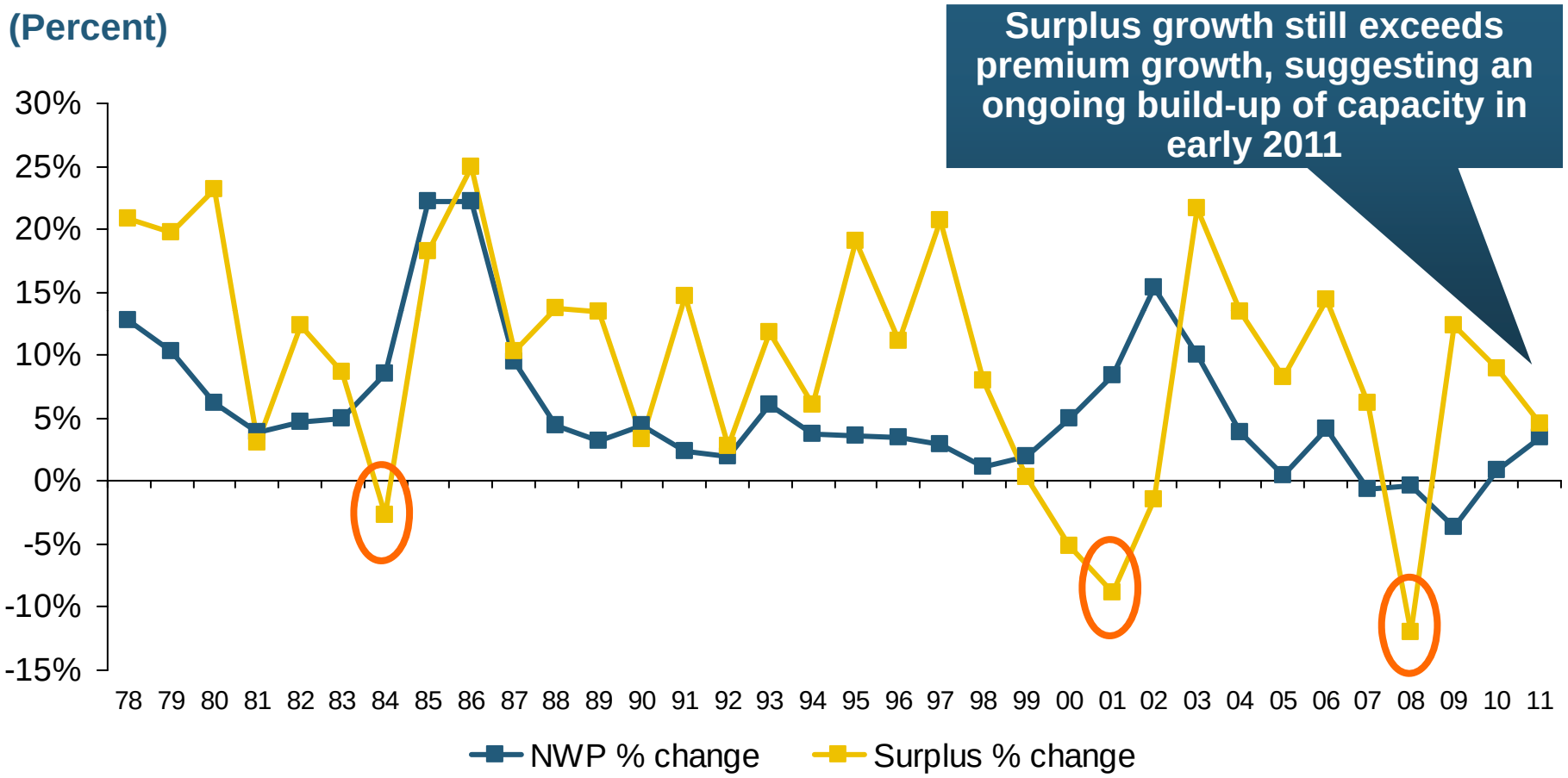


* Ratio is for end-of-quarter surplus immediately prior to event. Date shown is end of quarter prior to event

** 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*

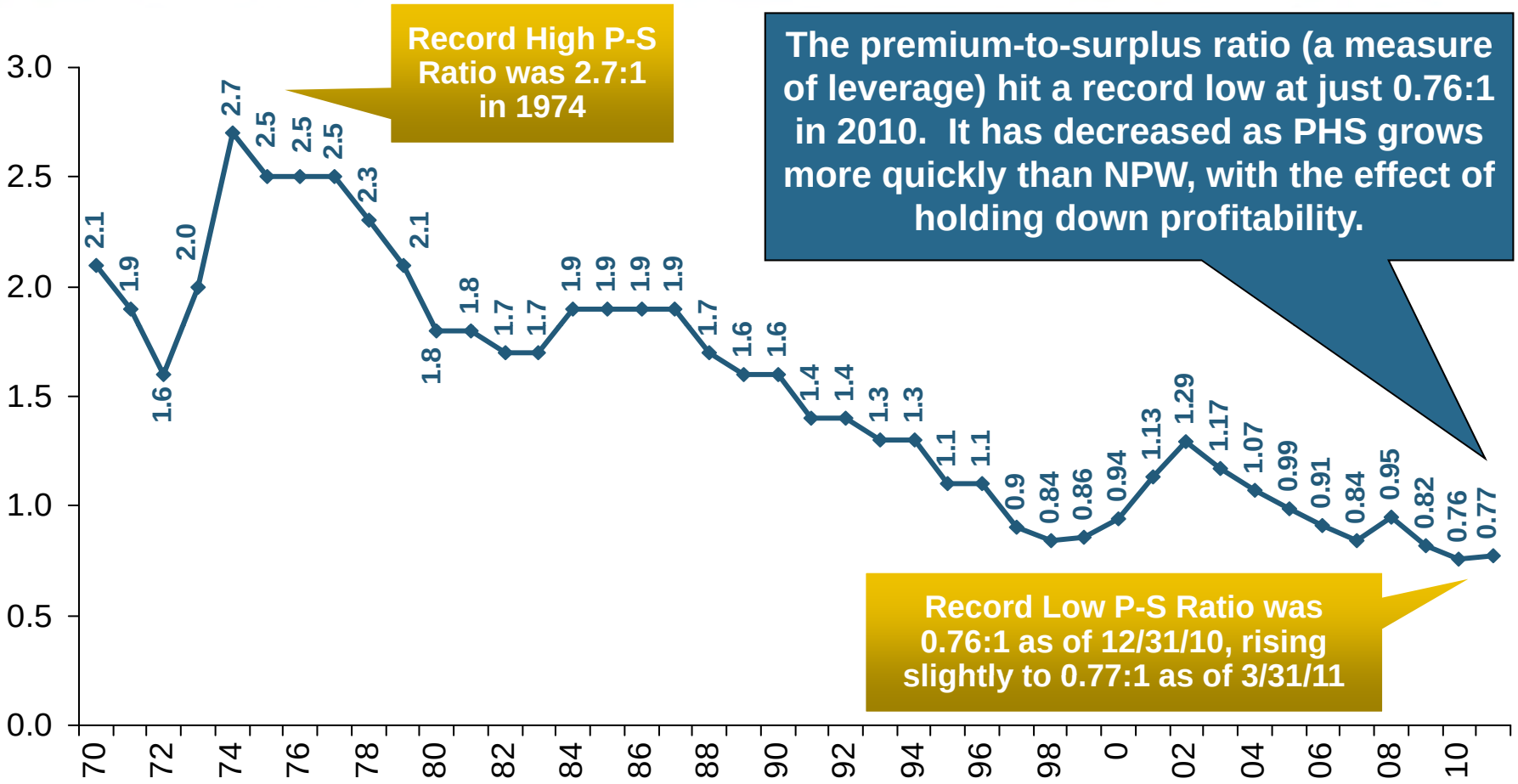


Sharp Decline in Capacity is a Necessary but Not Sufficient Condition for a True Hard Market

* 2011 NWP and Surplus figures are % changes as of Q1:11 vs. Q1:10.

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:Q1 Implies that P/C Insurers Held $1 in Surplus Against Each $0.77 Written in Premiums. In 1974, Each $1 of Surplus Backed $2.70 in Premium.

*2011 data are as of 3/31/11.

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

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3. REINSURANCE MARKET CONDITIONS

Has Record Global Catastrophes Activity Erased Enough Capacity to Turn Markets?

Significant Market Losses, 1985-2011*

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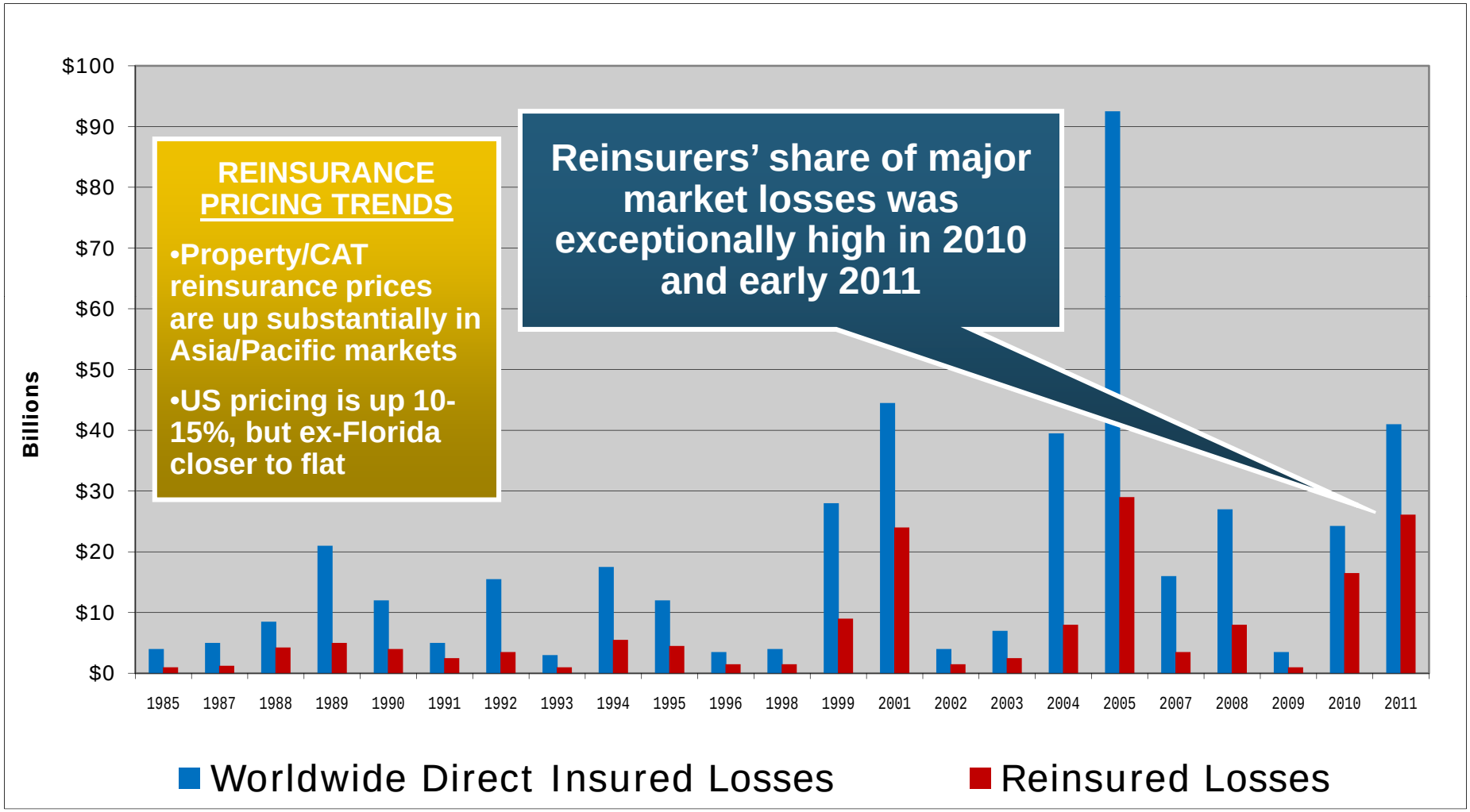

Source: Holborn; RAA.

* 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*

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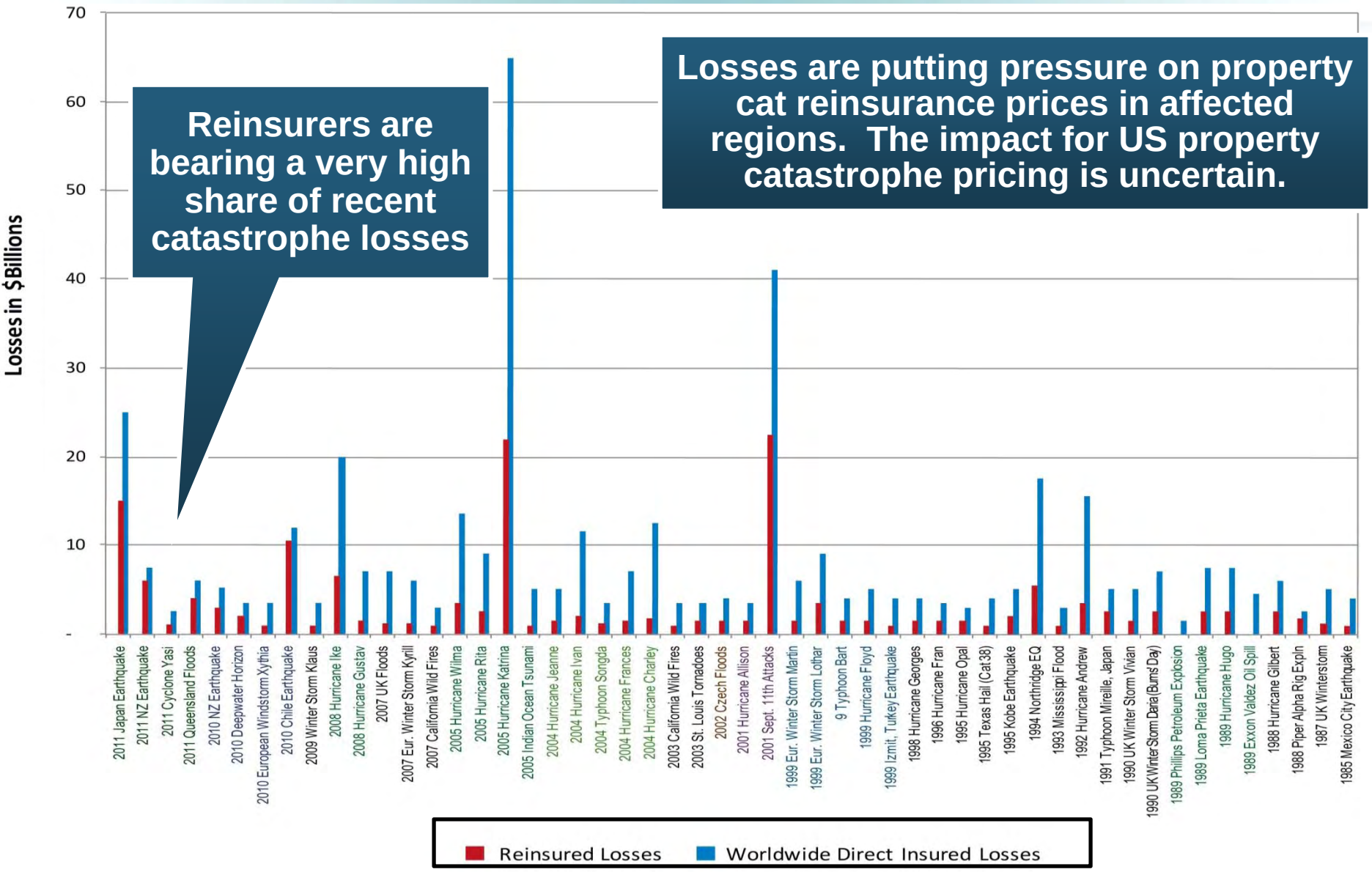

Source: Holborn, RAA. *2011 events as of March 31 are preliminary and may change as loss estimates are refined further.

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Outlook for the 2011 Atlantic Hurricane Season

If Expected Above Average Activity Produces Costly Landfalls, Reinsurance Markets Could Harden Significantly

Outlook for 2011 Hurricane Season: 75% *More* Active Than Average

	Average*	2005 (Katrina Year)	2011F
Named Storms	9.6	28	16
Named Storm Days	49.1	115.5	80
Hurricanes	5.9	14	9
Hurricane Days	24.5	47.5	35
Intense Hurricanes	2.3	7	5
Intense Hurricane Days	5.0	7	10
Accumulated Cyclone Energy	96.1	NA	160
Net Tropical Cyclone Activity	100%	275%	**175%**

*Average over the period 1950-2000.
Source: Dr. Philip Klotzbach and Dr. William Gray, Colorado State University, June 1, 2011.

Probability of Major Hurricane Landfall (CAT 3, 4, 5) in 2011

	Average*	2011F
Entire US Coast	52%	72%
US East Coast Including Florida Peninsula	31%	48%
Gulf Coast from FL Panhandle to Brownsville, TX	30%	47%
ALSO…Above-Average Major Hurricane Landfall Risk in Caribbean for 2011 (61% vs. 42%)		

*Average over the period 1950-2000.
Source: Dr. Philip Klotzbach and Dr. William Gray, Colorado State University, June 1, 2011.

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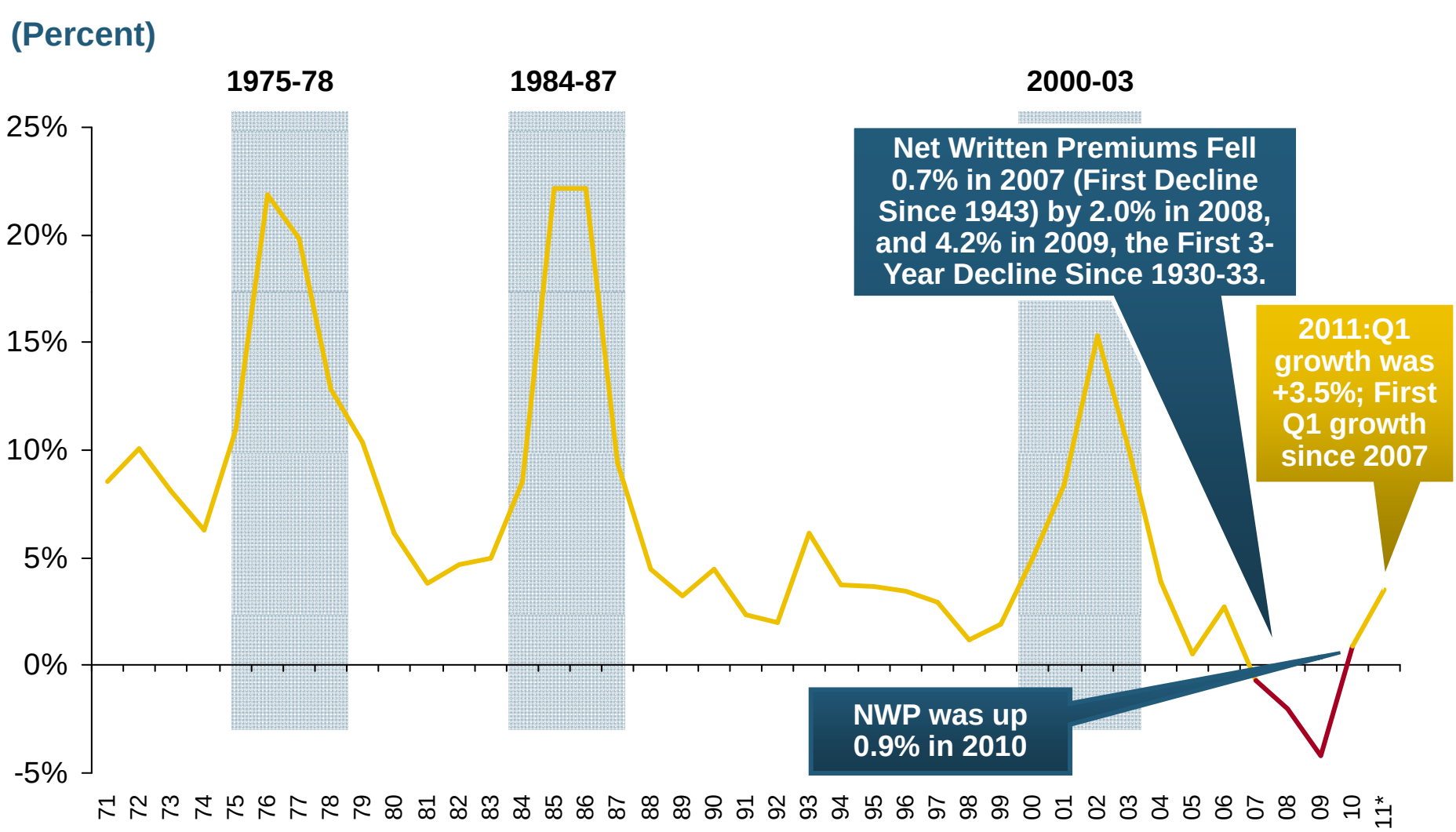
4. RENEWED PRICING DISCIPLINE

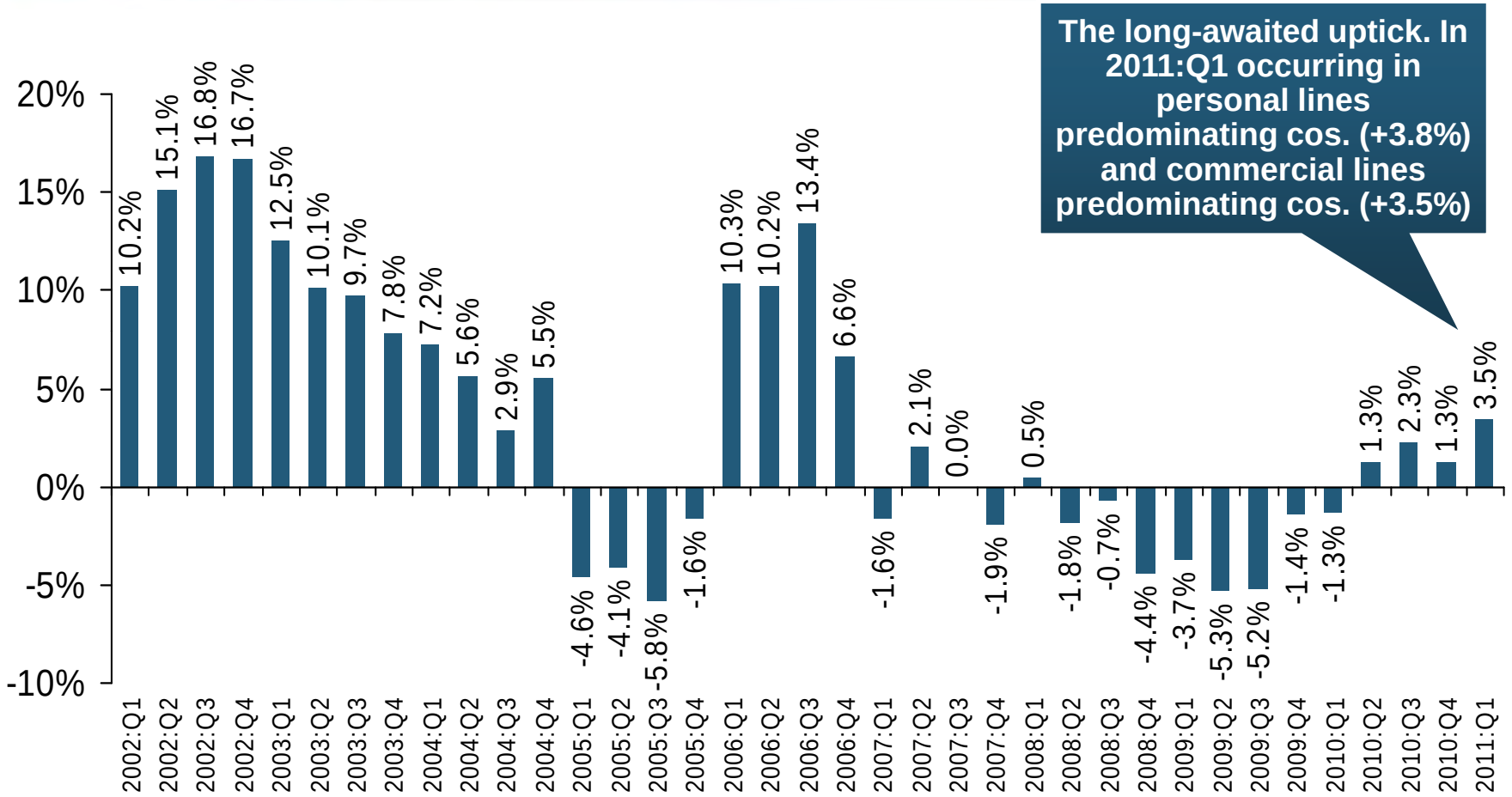
Is There Evidence of a Broad and Sustained Shift in Pricing?

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



*2011 figure is an estimate based on Q1 data.
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



Finally! Back-to-back quarters of net written premium growth (vs. the same quarter, prior year)

Sources: ISO, Insurance Information Institute.

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

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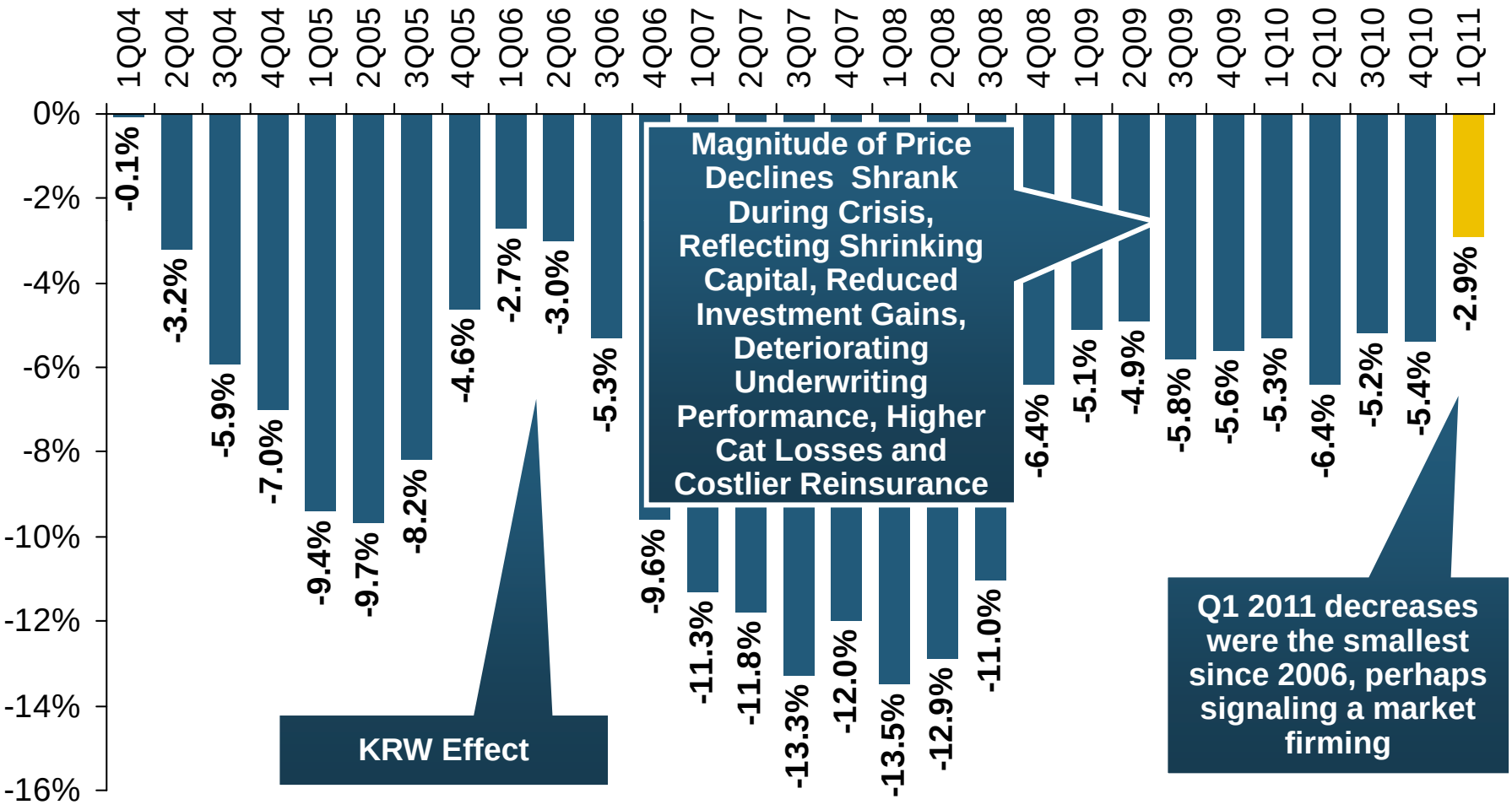
(Percent)



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

Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2011:Q1

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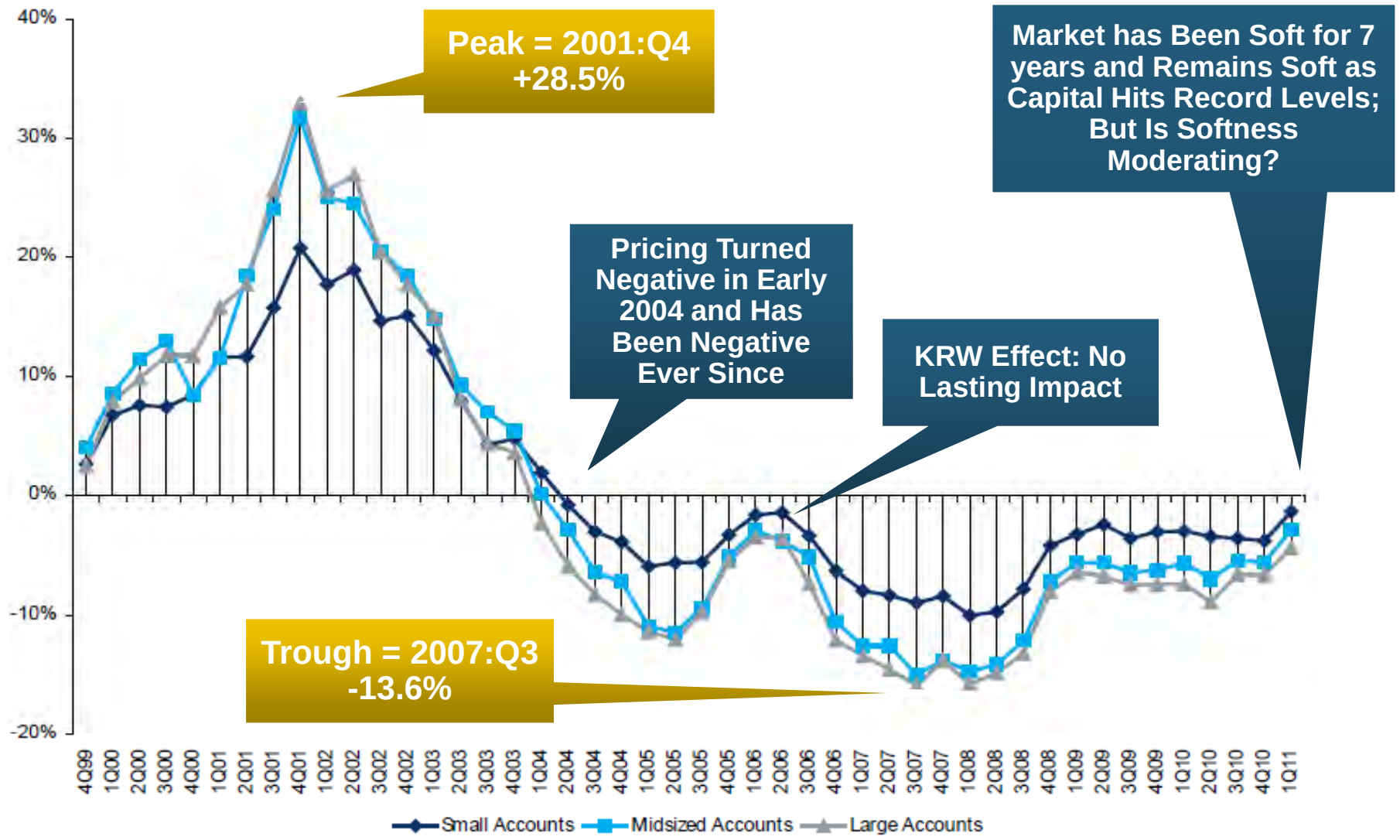

Source: Council of Insurance Agents and Brokers; Insurance Information Institute.

Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2011:Q1

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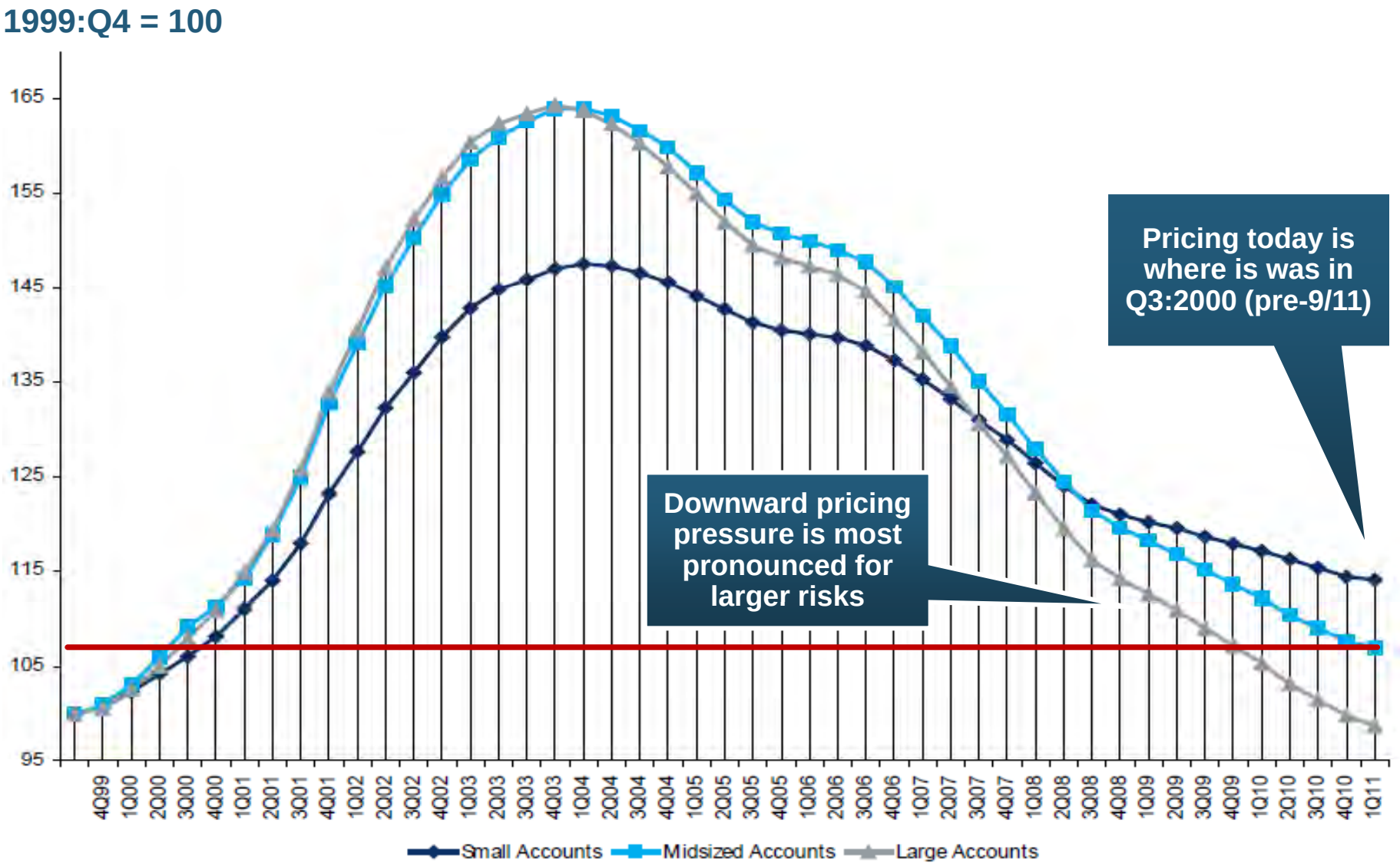
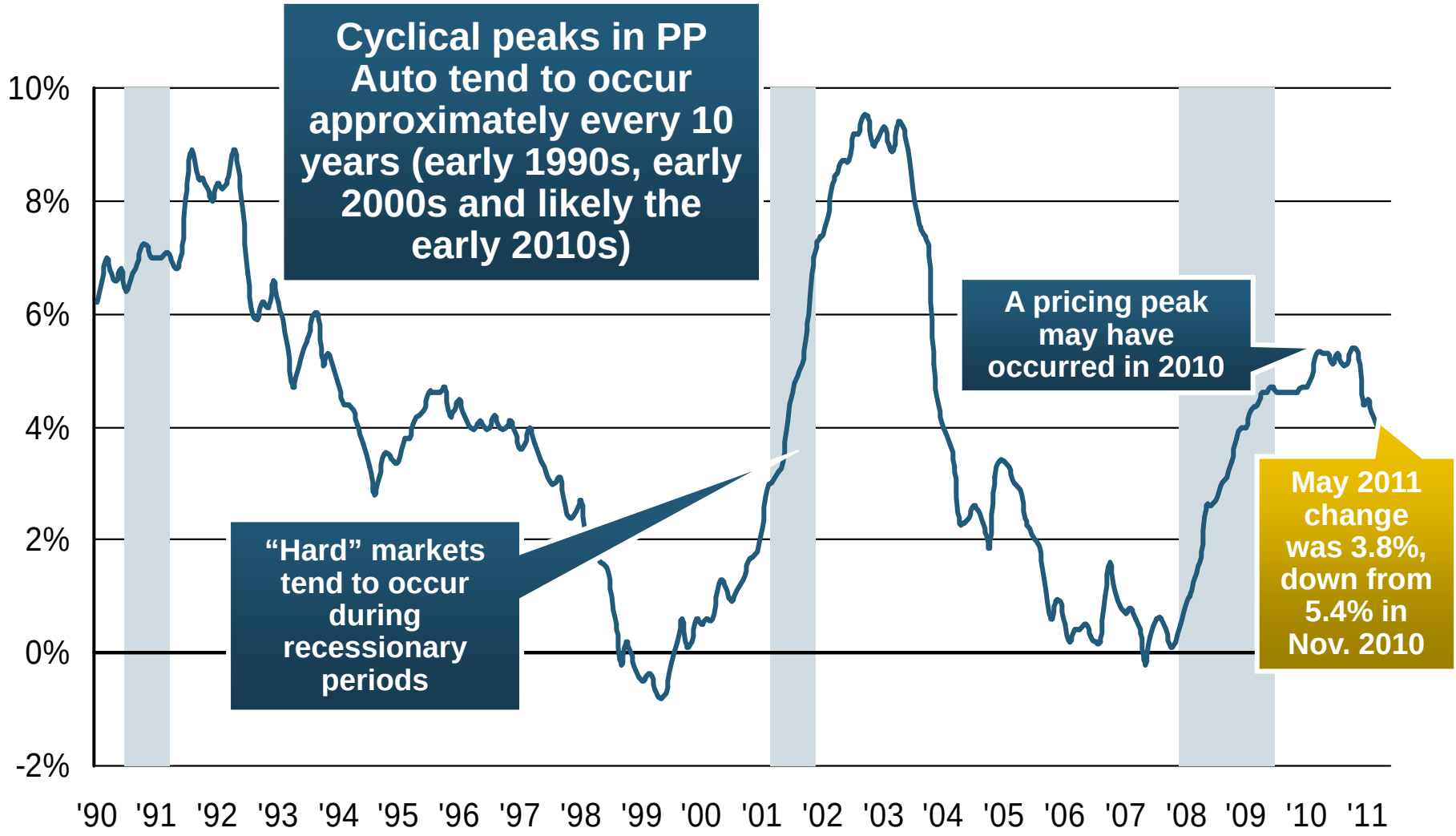


Source: Council of Insurance Agents and Brokers; Insurance Information Institute.

Monthly Change* in Auto Insurance Prices, 1991–2011*



*Percentage change from same month in prior year; through May 2011; 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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Other Cycle-Influencing Factors

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

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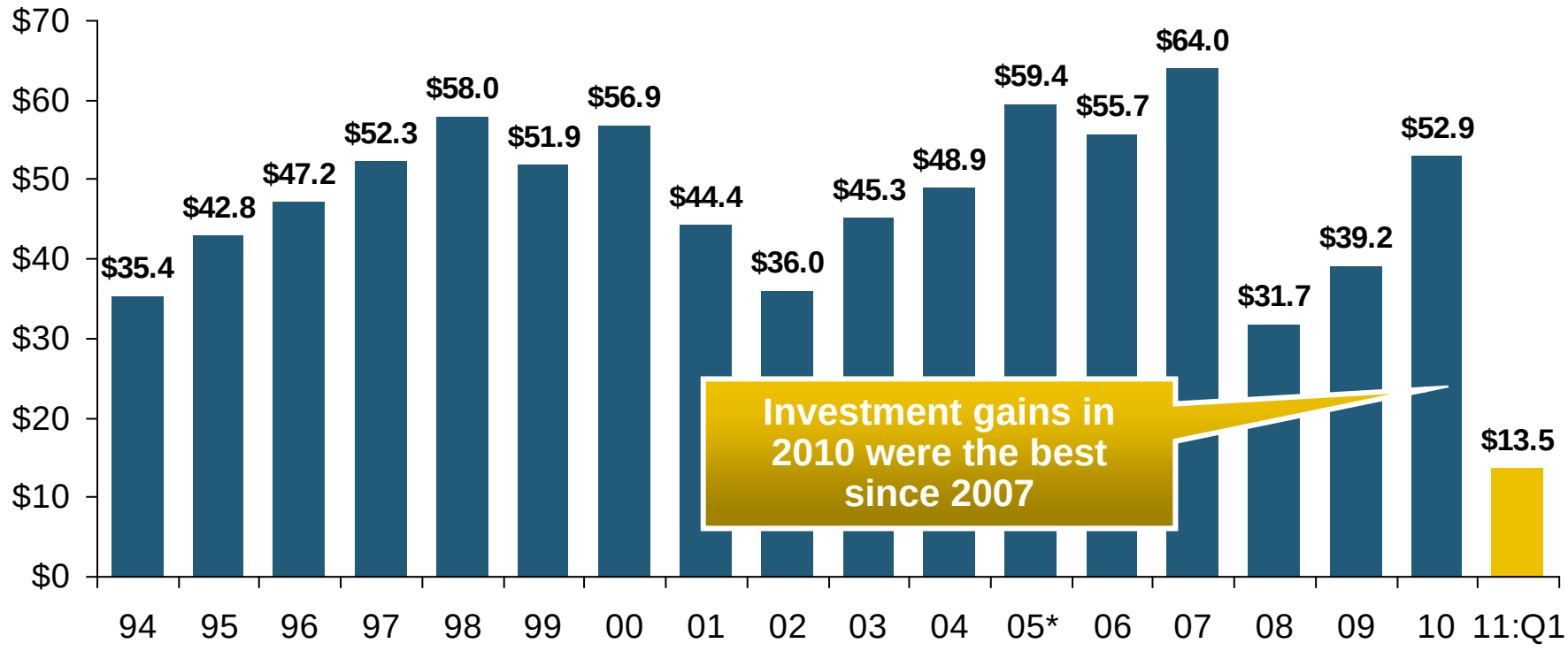
INVESTMENTS: THE NEW REALITY

Investment Performance is a Key Driver of Profitability

Does It Influence Underwriting or Cyclicality?

Property/Casualty Insurance Industry Investment Gain: 1994–2011:Q1[1]

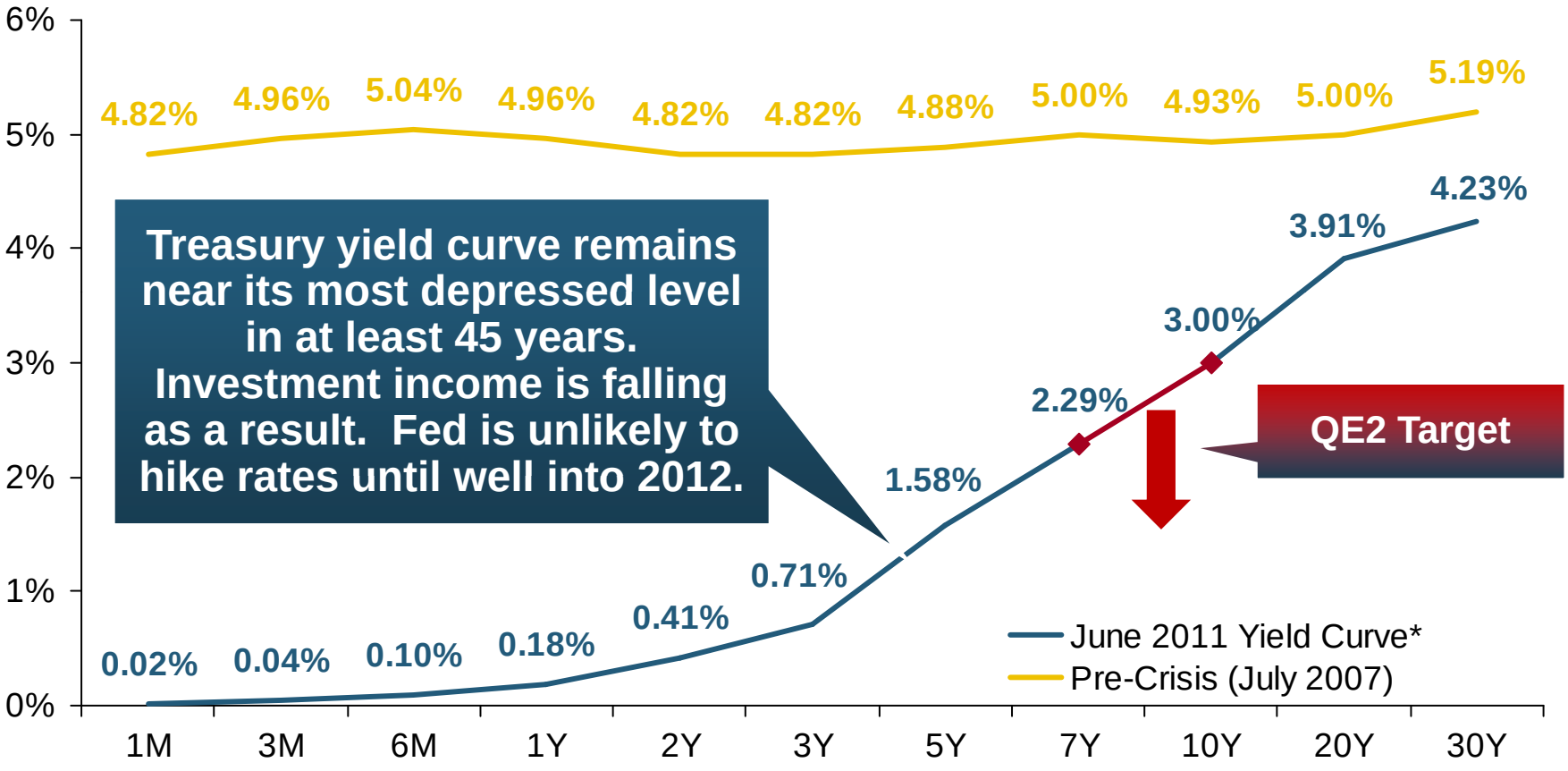
($ Billions)



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. June 2011*

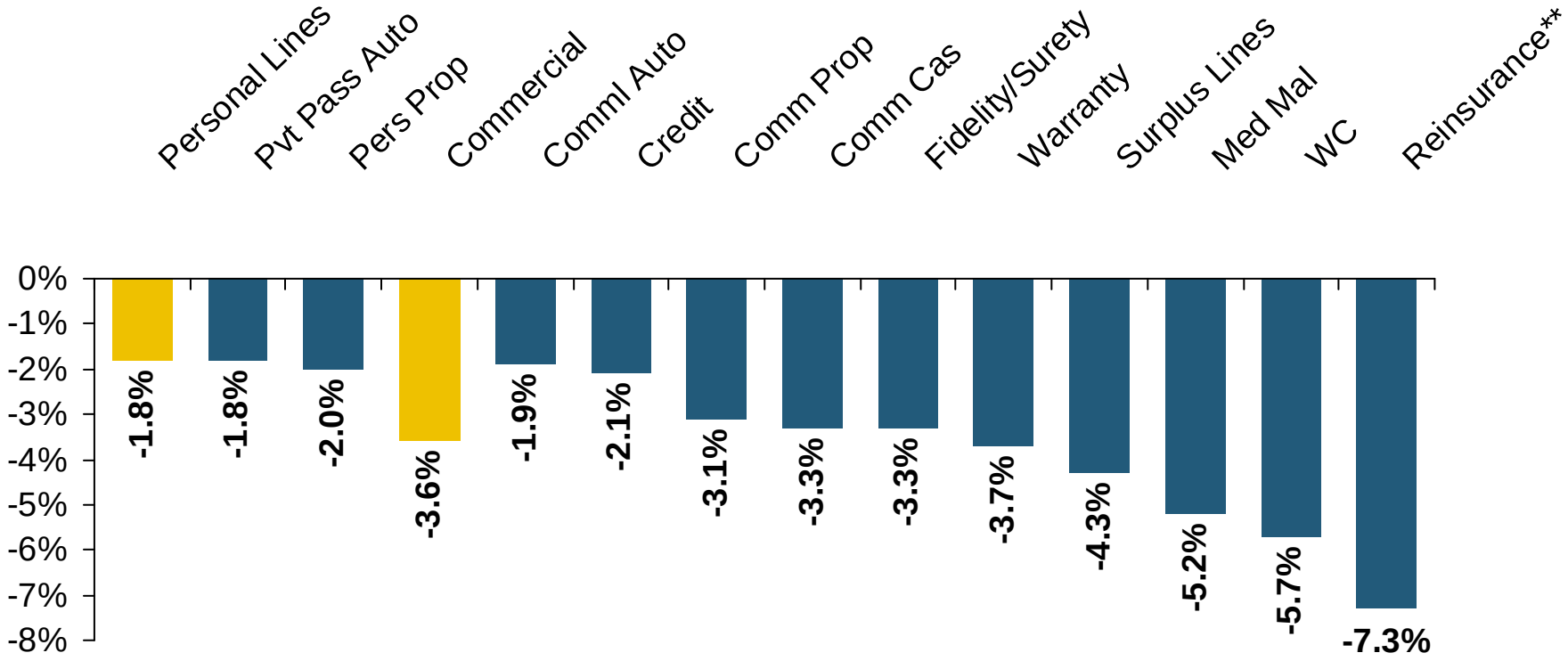


The End of the Fed's Quantitative Easing Is Unlikely to Push Interest Rates Up Substantially Given Ongoing Economic Weakness

*Average of daily rates.

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

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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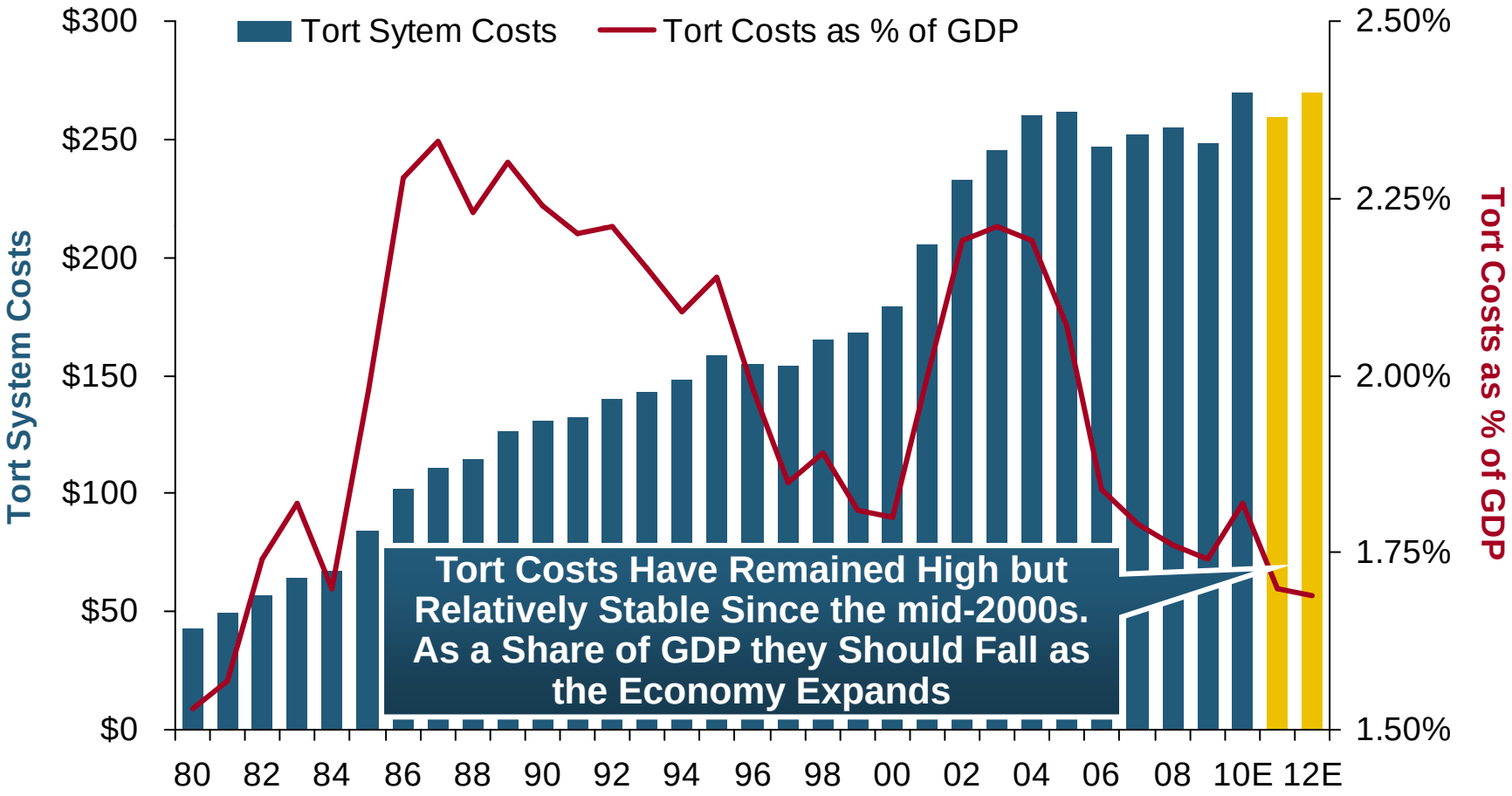
($ Billions)



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

Business Leaders Ranking of Liability Systems in 2010

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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

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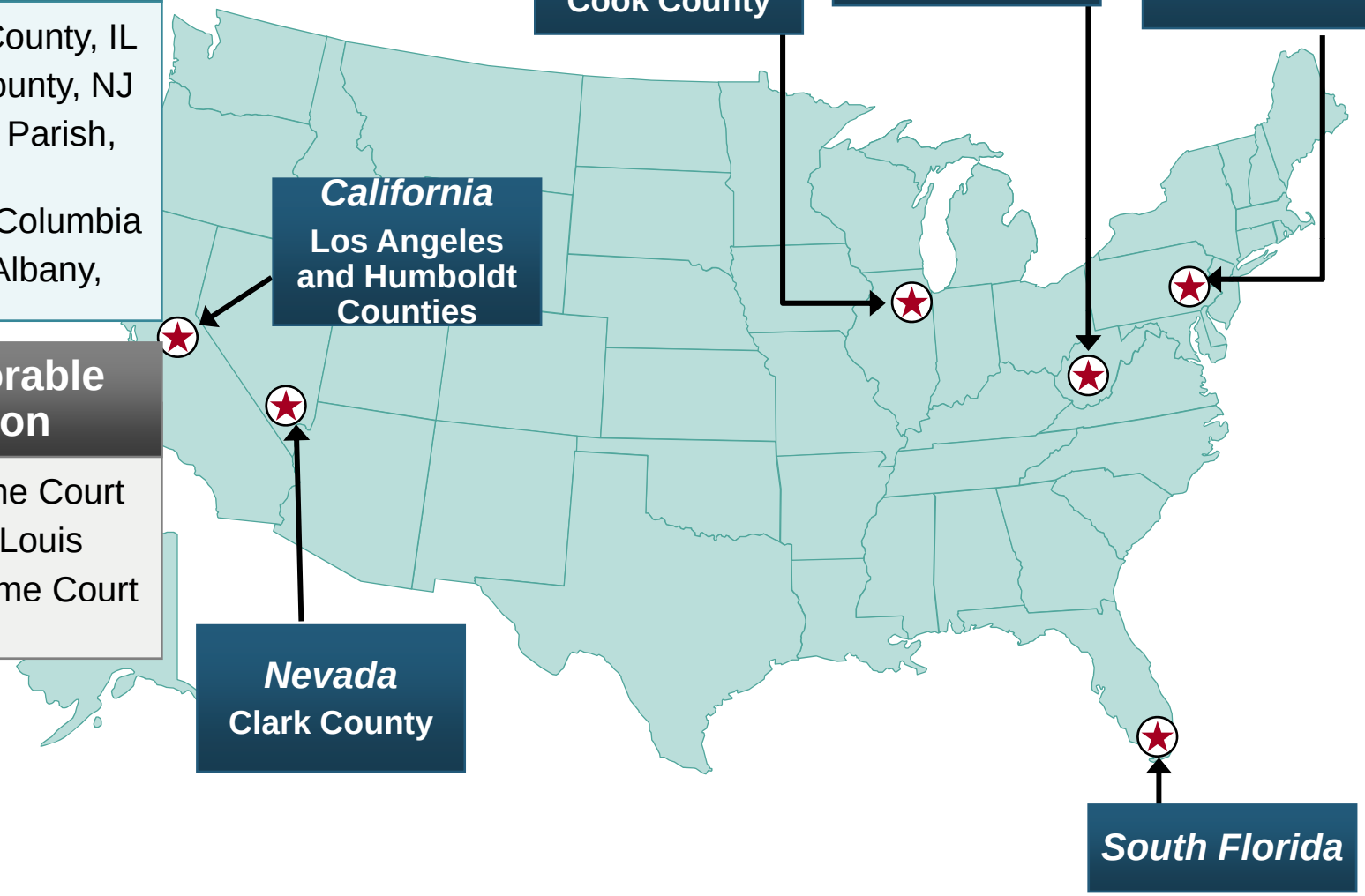
Watch List

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

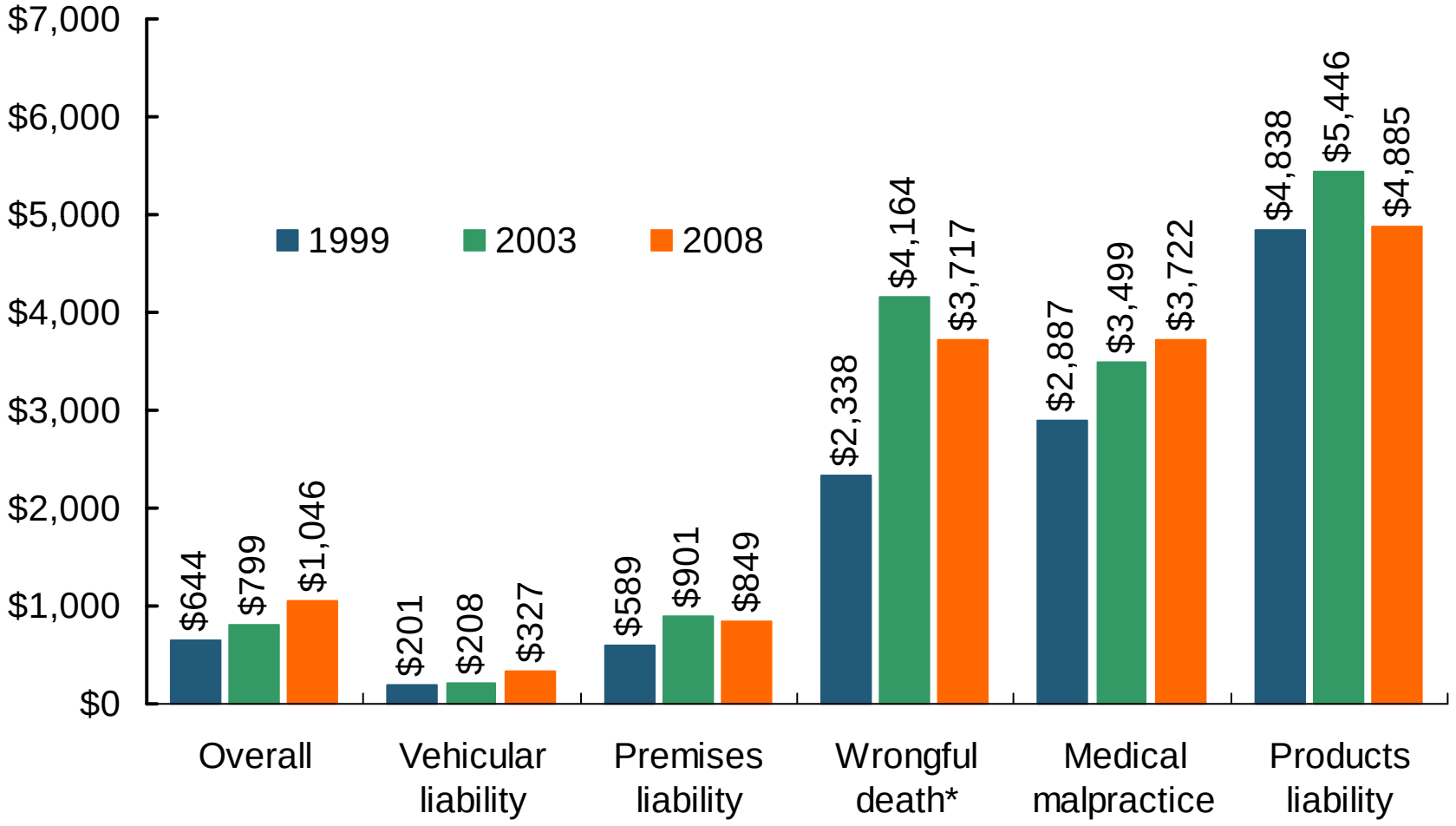
Dishonorable Mention

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



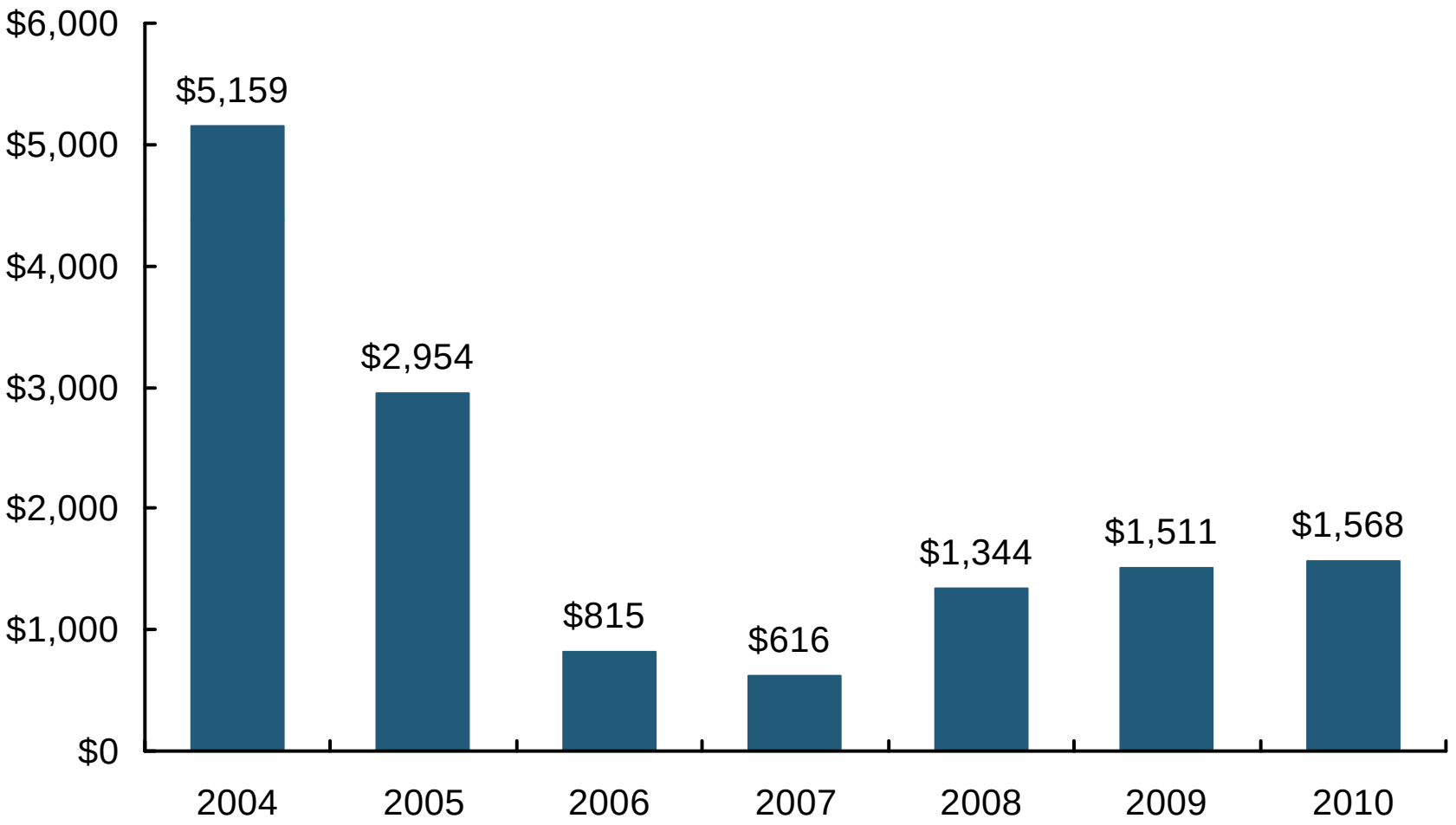
Source: American Tort Reform Association; Insurance Information Institute

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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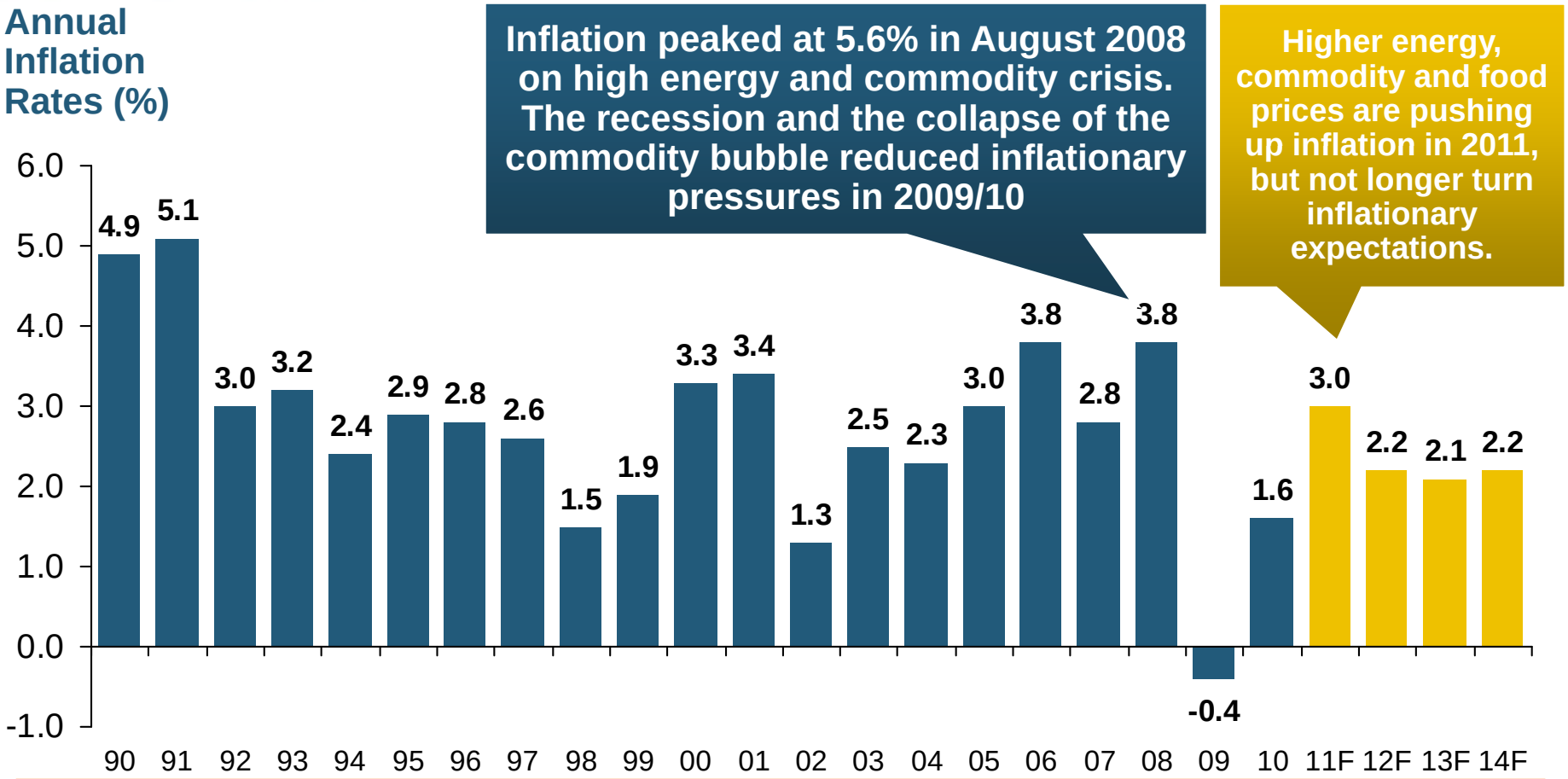
Inflation

Is it a Threat to Claim Cost Severities

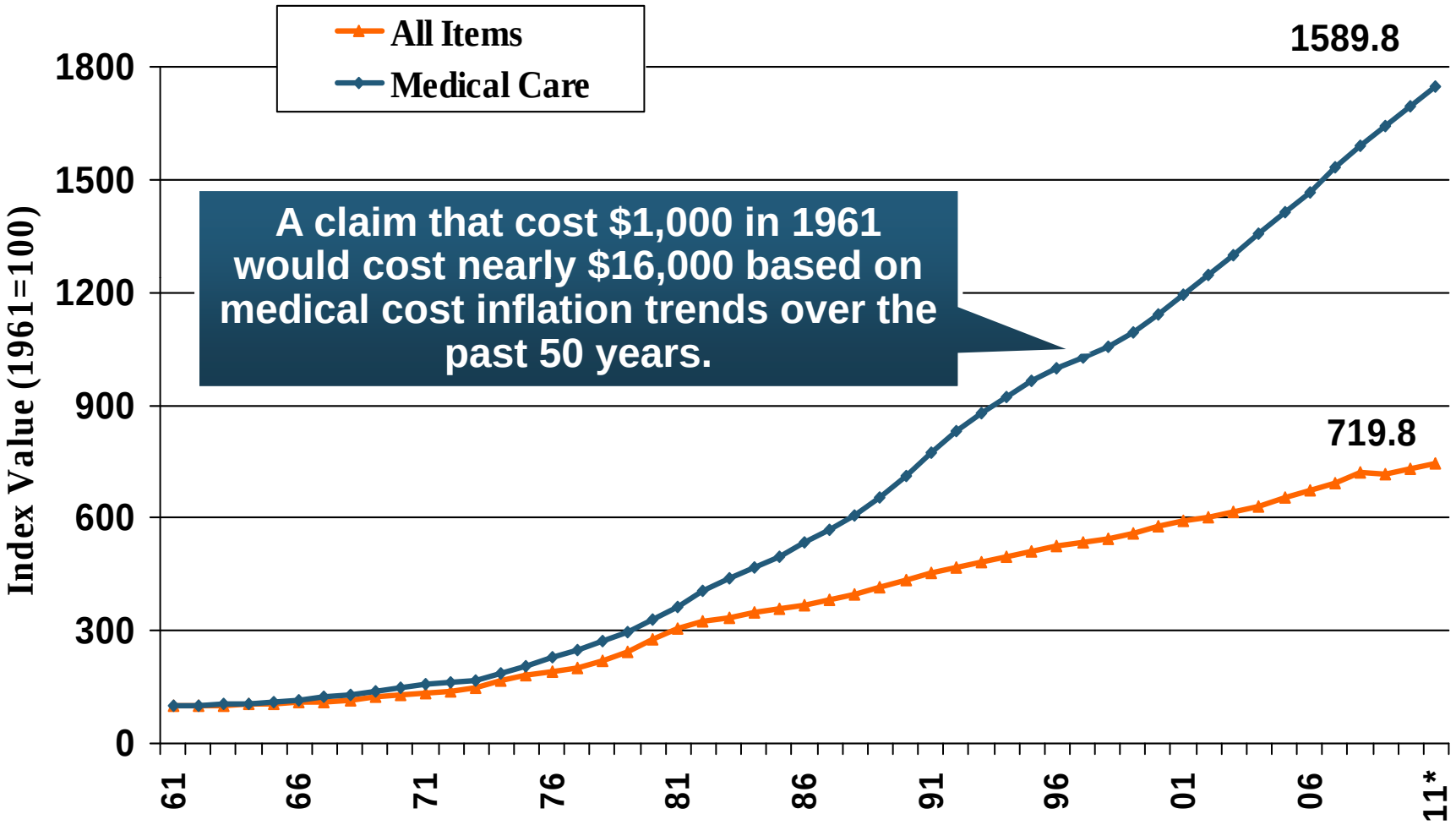
Annual Inflation Rates, (CPI-U, %), 1990–2014F



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, 3/11 and 6/11 (forecasts).

Medical Cost Inflation Has Outpaced Overall Inflation Over 50 Years



*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

Financial Services Reform: *What does it mean for insurers?*

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The Dodd Frank Wall Street Reform and Consumer Protection Act

- **Systemic Risk and Resolution Authority**
  - Creates the Financial Stability Oversight Council and the Office of Financial Research
  - Regulator representative is MO Insurance Commissioner Huff
  - *No industry representative has been appointed yet*
  - Imposes heightened federal regulation on large bank holding companies and "systemically risky" nonbank financial companies, including insurers
  - ***Concern some insurers may be labeled as systemically risky based on size alone***
- **Federal Insurance Office (FIO)**
  - Establishes the FIO (while maintaining state regulation of insurance) within the Department of Treasury, headed by a Director appointed by the Secretary of Treasury
  - FIO will have authority to monitor the insurance industry, identify regulatory gaps that could contribute to systemic crisis
  - **IL Insurance Director Michael McGraith will become first FIO Director on June 1**
  - **Creation of Federal Advisory Committee on Insurance to Advise FIO**
  - ***CONCERN: FIO morphs into quasi/shadow or actual regulator***

Source: Insurance Information Institute (I.I.I.) updates and research; The Financial Services Roundtable; Adapted from summary by Dewey & LeBoeuf LLP

2010 Property and Casualty Insurance Regulatory Report Card

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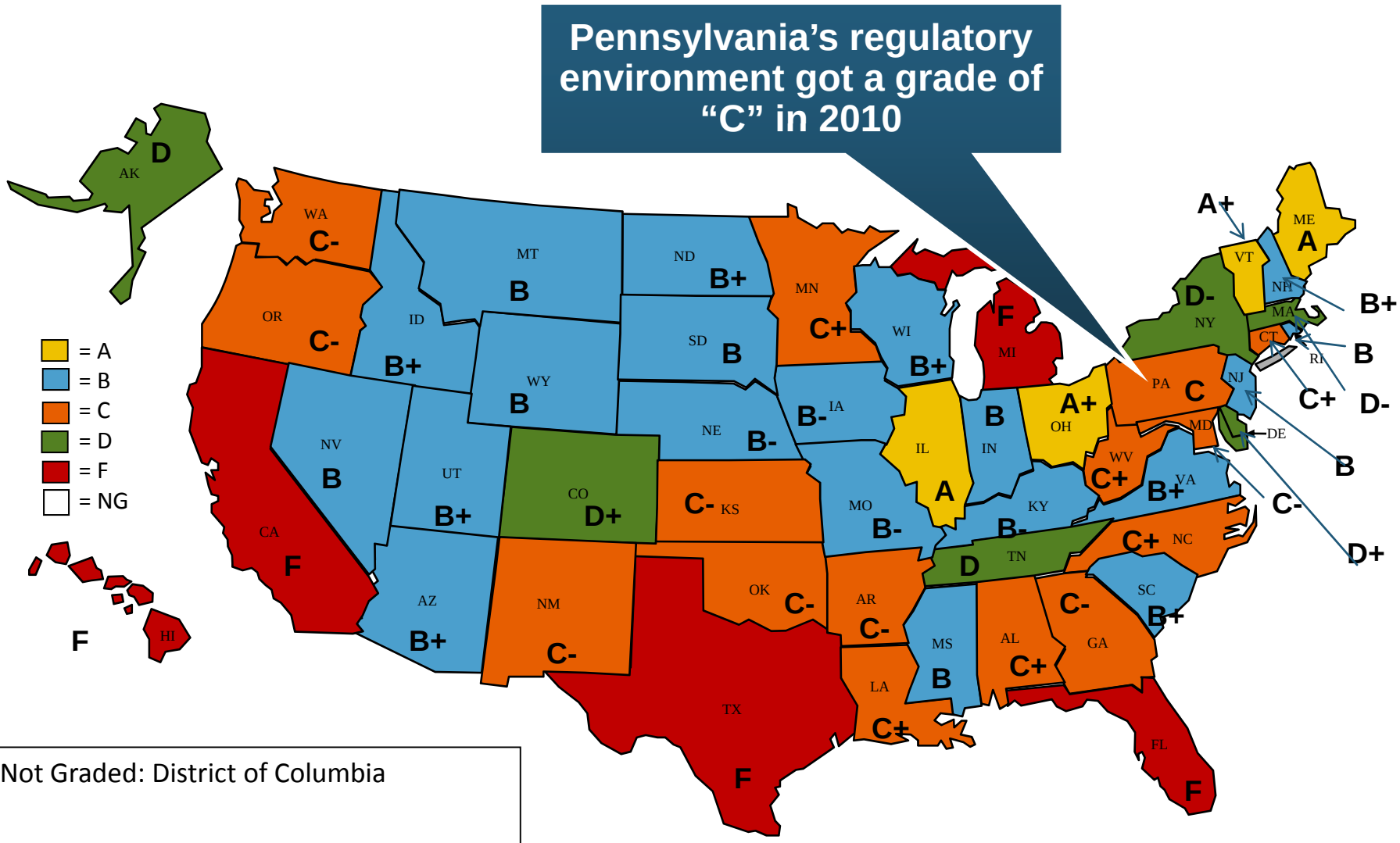

Not Graded: District of Columbia

Source: Heartland Institute, May 2011

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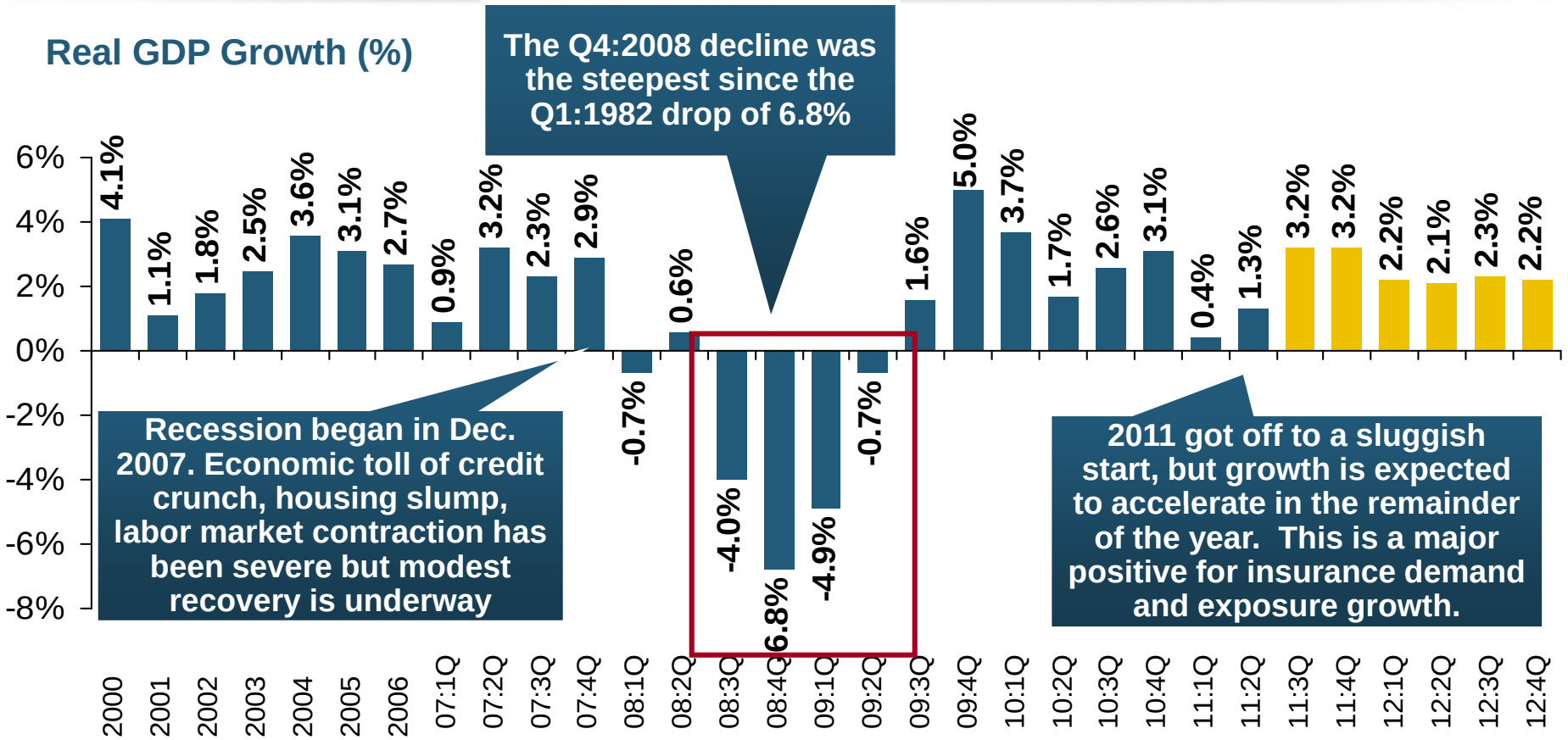
The Strength of the Economy Will Influence P/C Insurer Growth Opportunities

Growth Would Also Help Absorb Excess Capital

US Real GDP Growth*

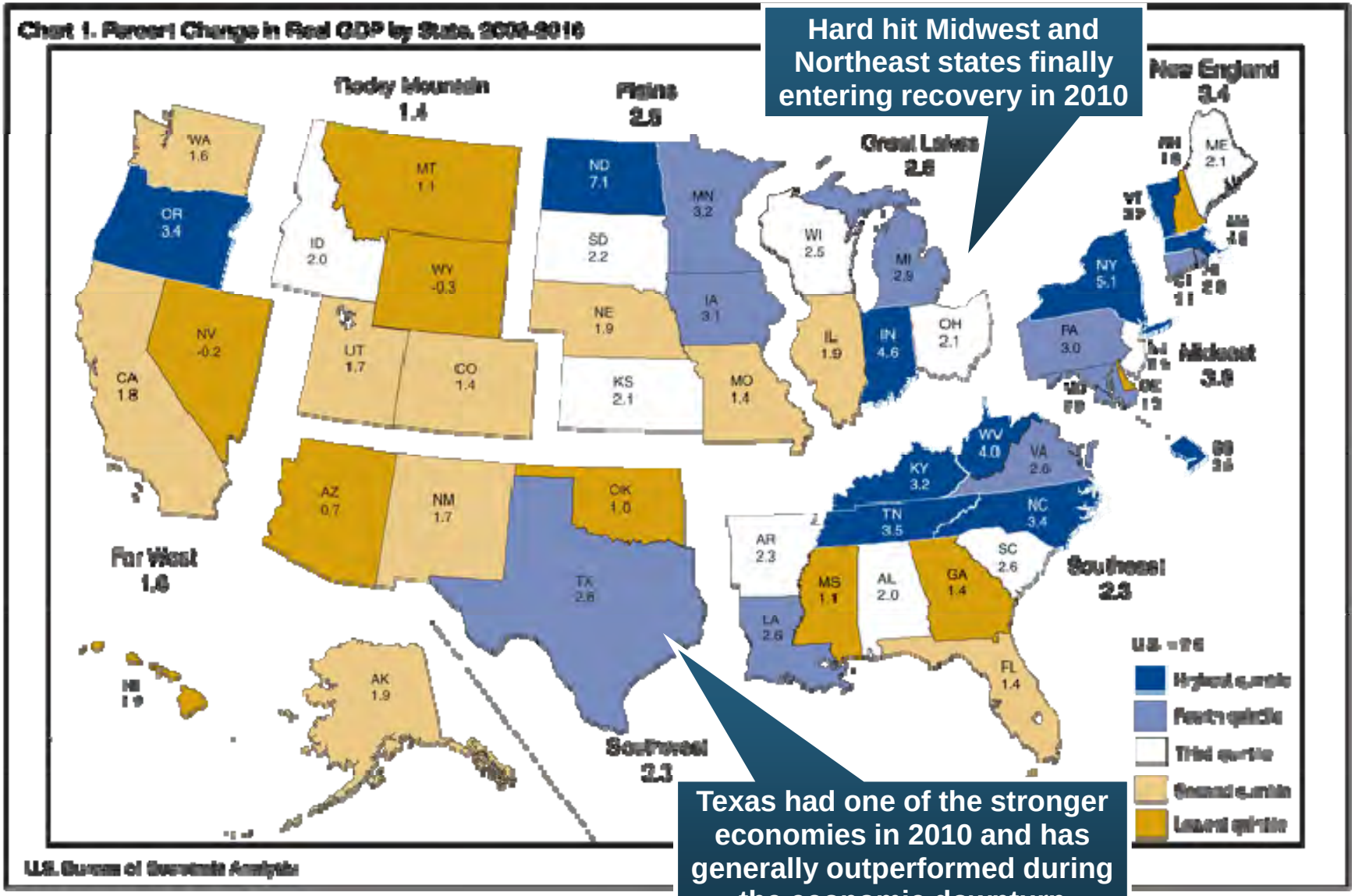


Demand for Insurance Continues To Be Impacted by Sluggish Economic Conditions, but the Benefits of Even Slow Growth Will Compound and Gradually Benefit the Economy Broadly

* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 7/11; Insurance Information Institute.

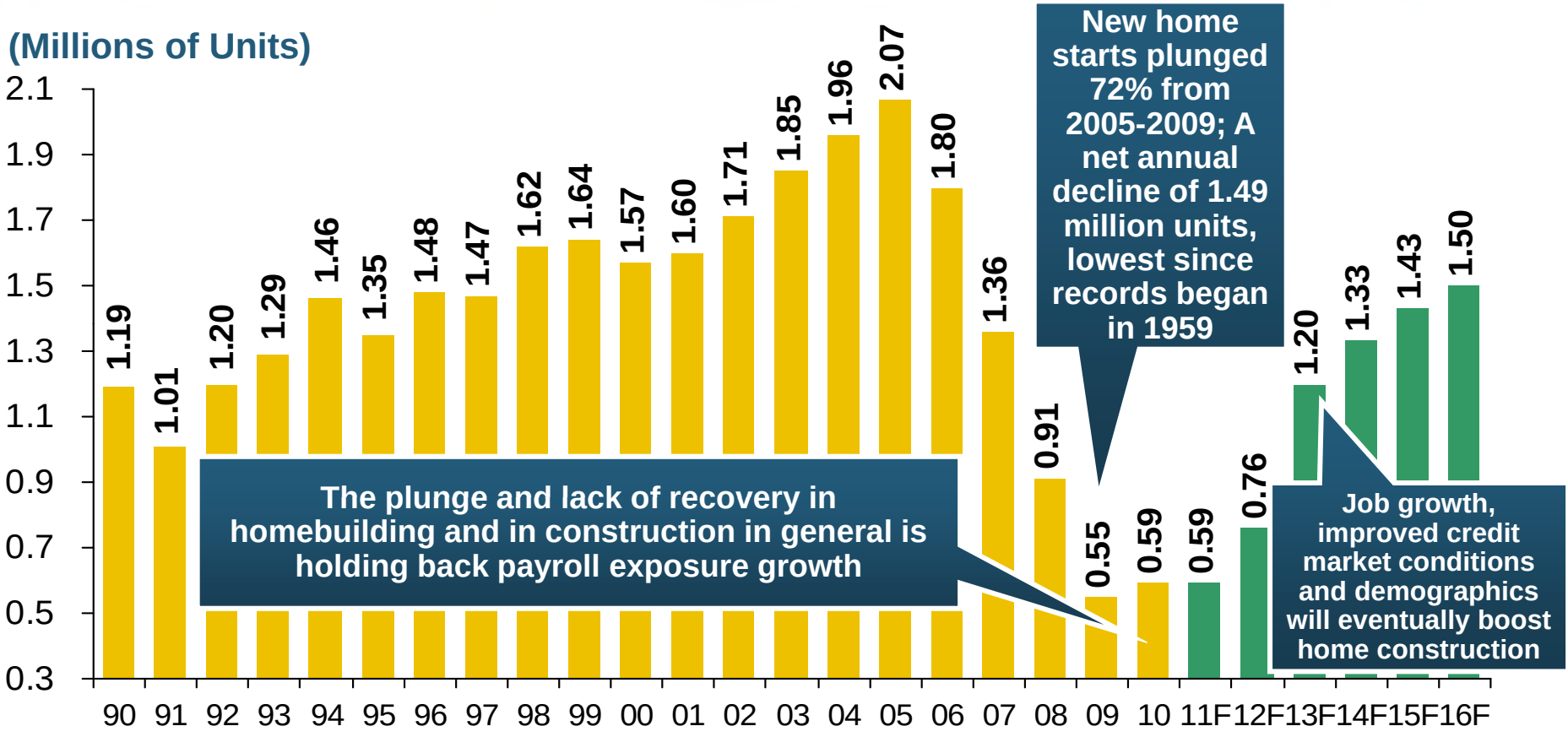
2011 Financial Overview
State Economic Growth Varied in 2010



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

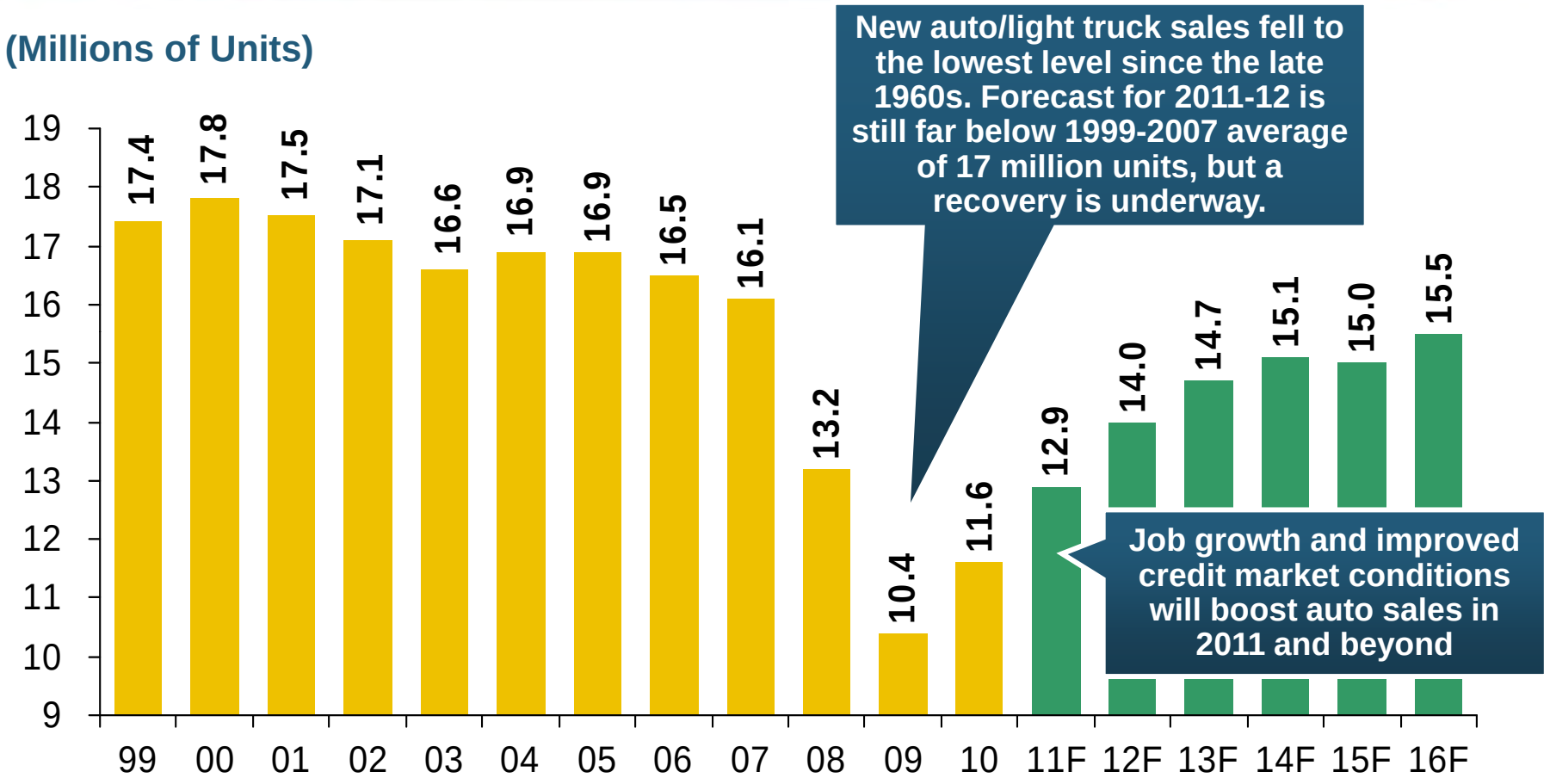
New Private Housing Starts, 1990-2016F



Little Exposure Growth Likely for Homeowners Insurers Until 2013. Also Affects Commercial Insurers with Construction Risk Exposure, Surety

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (10/10 and 7/11); Insurance Information Institute.

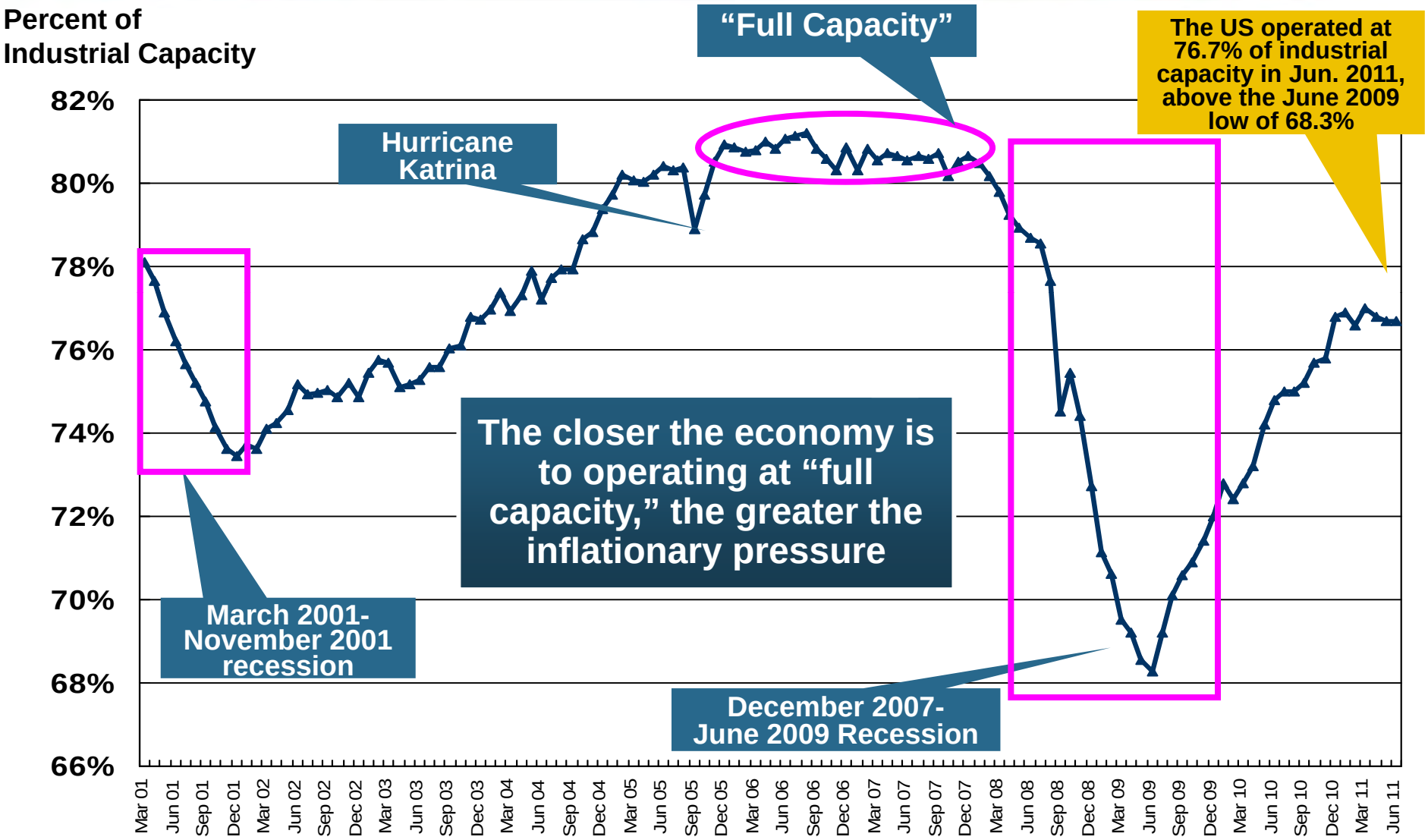
Auto/Light Truck Sales, 1999-2016F



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

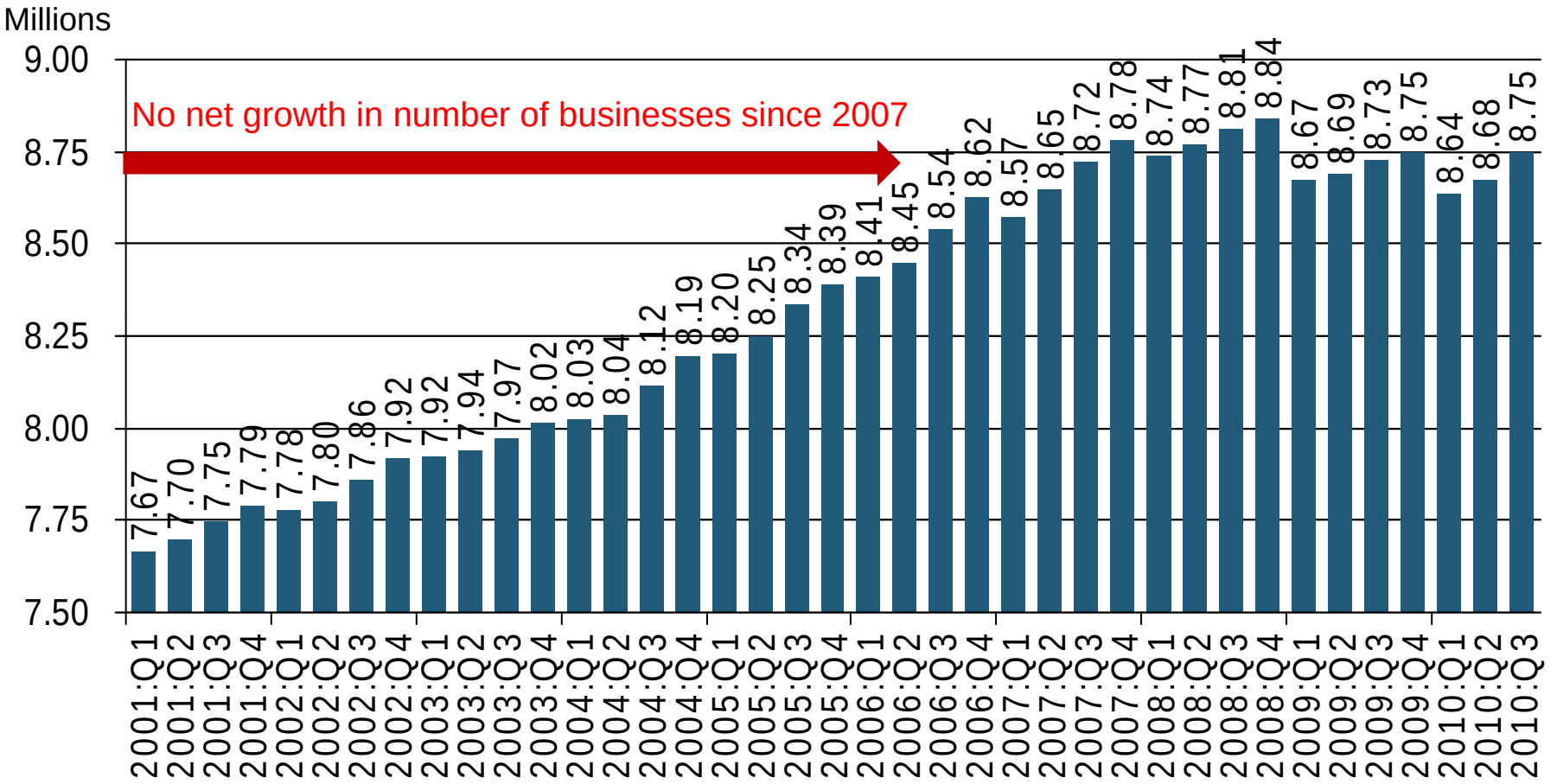
Source: U.S. Department of Commerce; Blue Chip Economic Indicators (10/10 and 7/11); Insurance Information Institute.

Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures



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

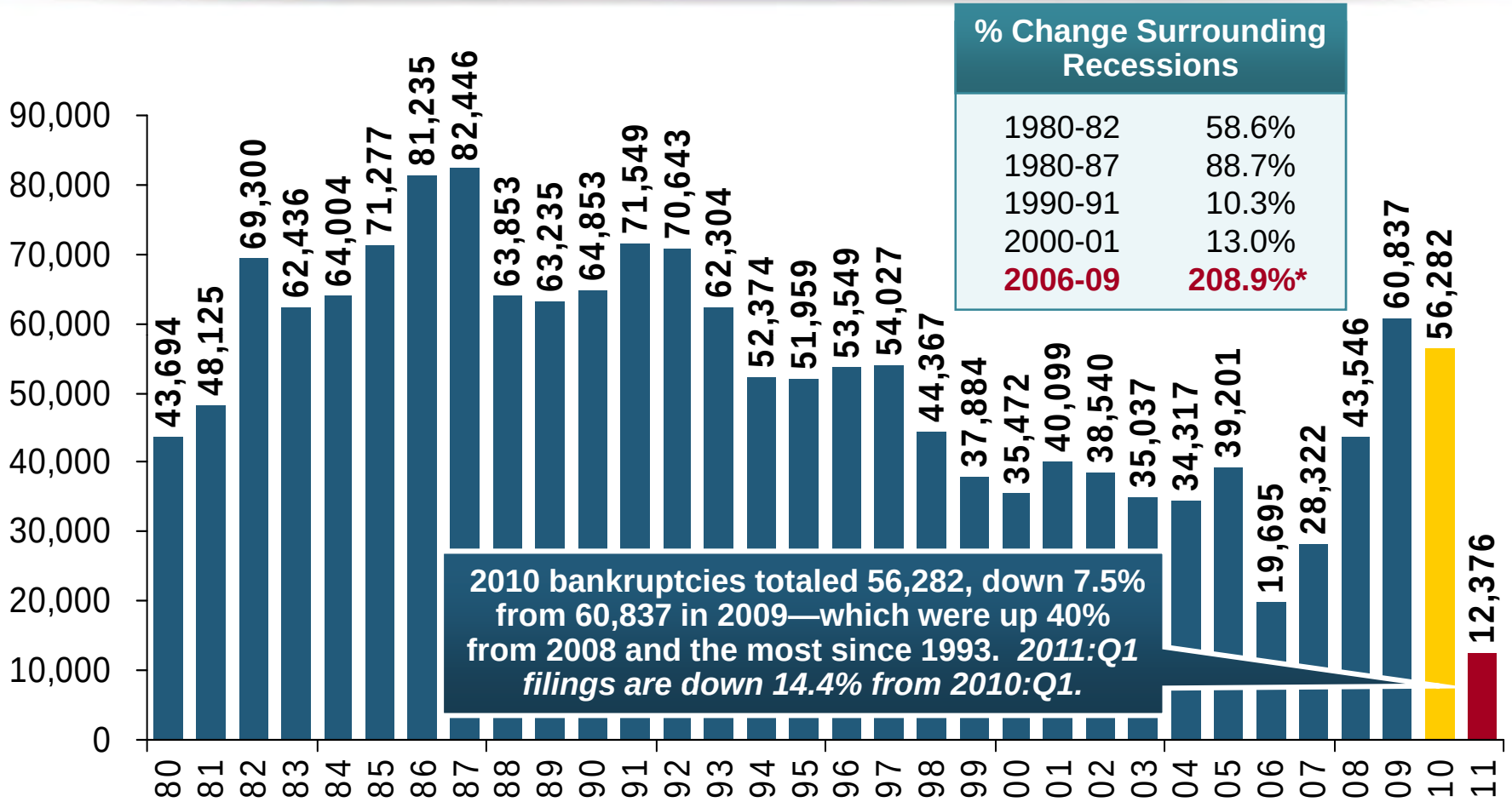
Number of Private Business Establishments, 2001:Q1-2010:Q3



**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:Q1



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:Q3*

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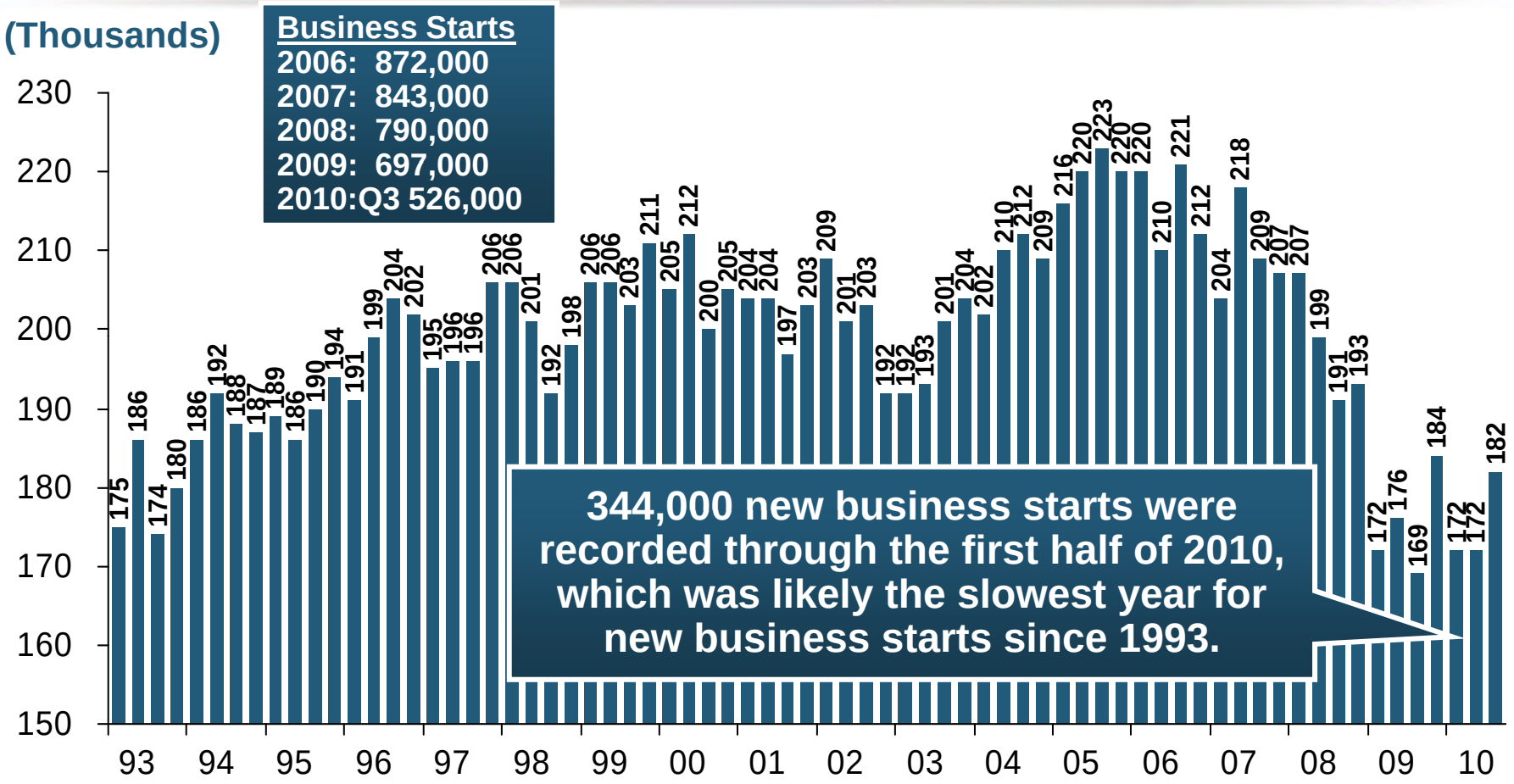

Business Starts Were Down Nearly 20% in the Recession, Holding Back Most Types of Commercial Insurance Exposure

* Data through September 30, 2010 are the latest available as of July 25, 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: Falling in 2011

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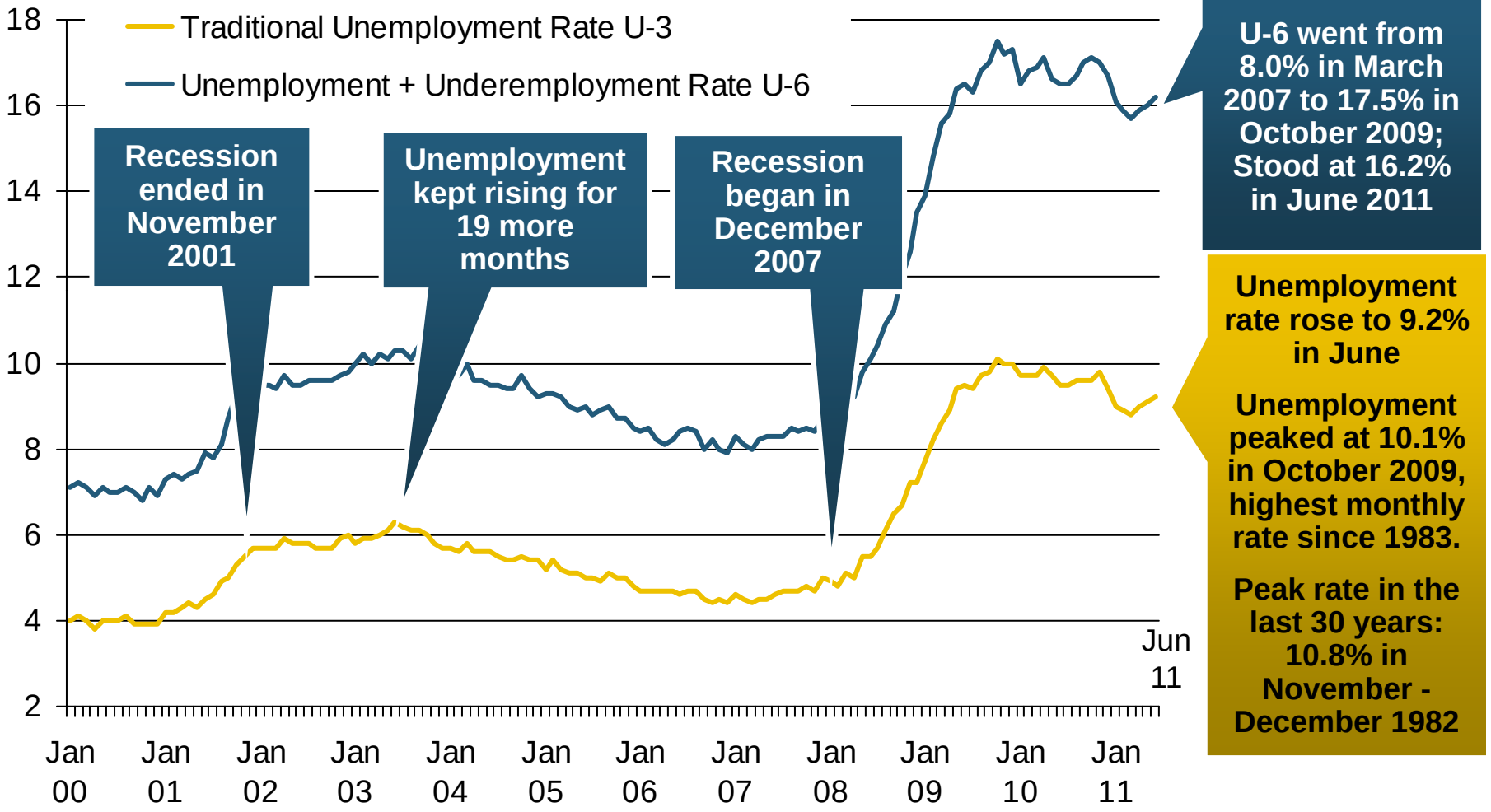
January 2000 through June 2011, Seasonally Adjusted (%)



U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 16.2% in June 2011

Unemployment rate rose to 9.2% in June

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

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

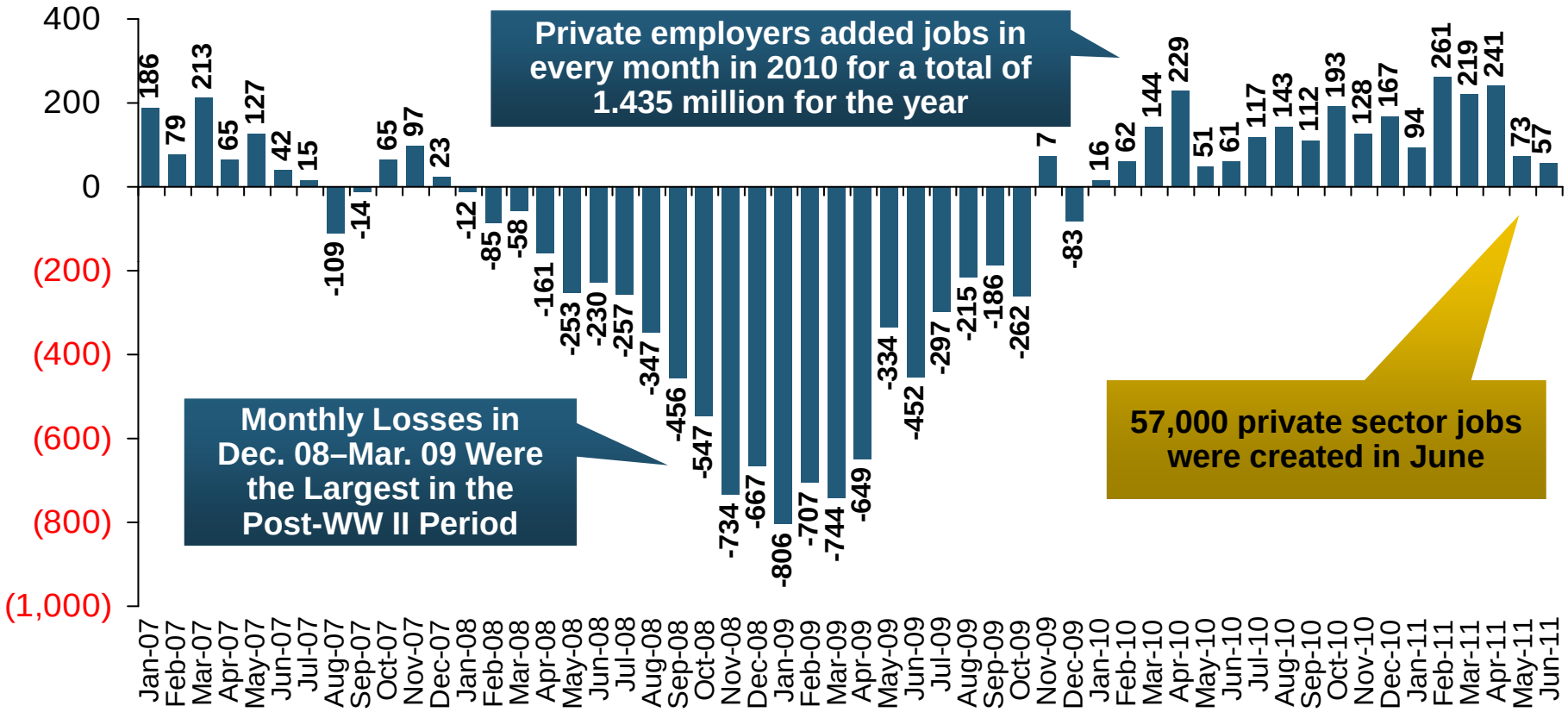
Stubbornly high unemployment and underemployment will constrain payroll growth, which directly affects WC exposure

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

Monthly Change in Private Employment

INSURANCE INFORMATION INSTITUTE

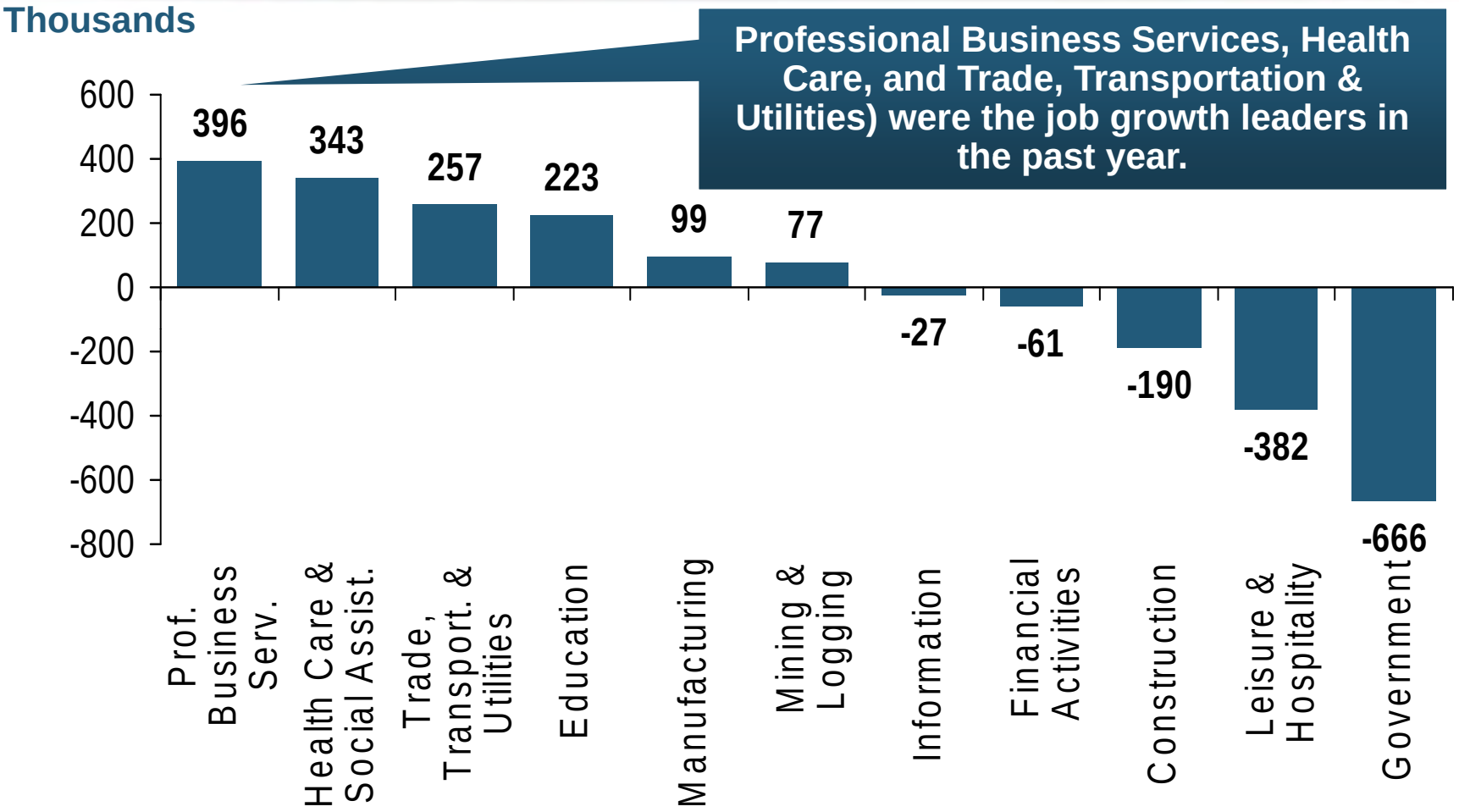
January 2008 through June 2011* (Thousands)



Private Employers Added 2.368 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



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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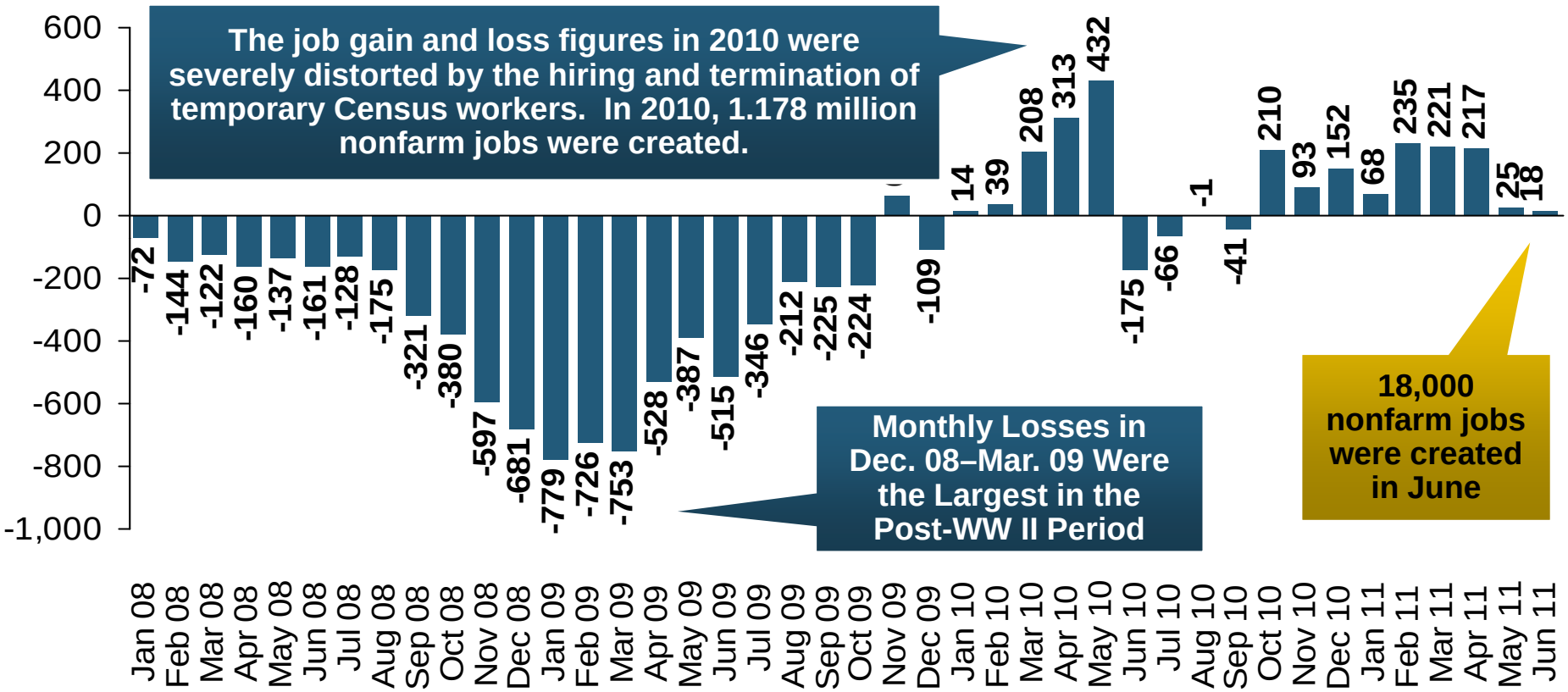
January 2008 through June 2011* (Thousands)

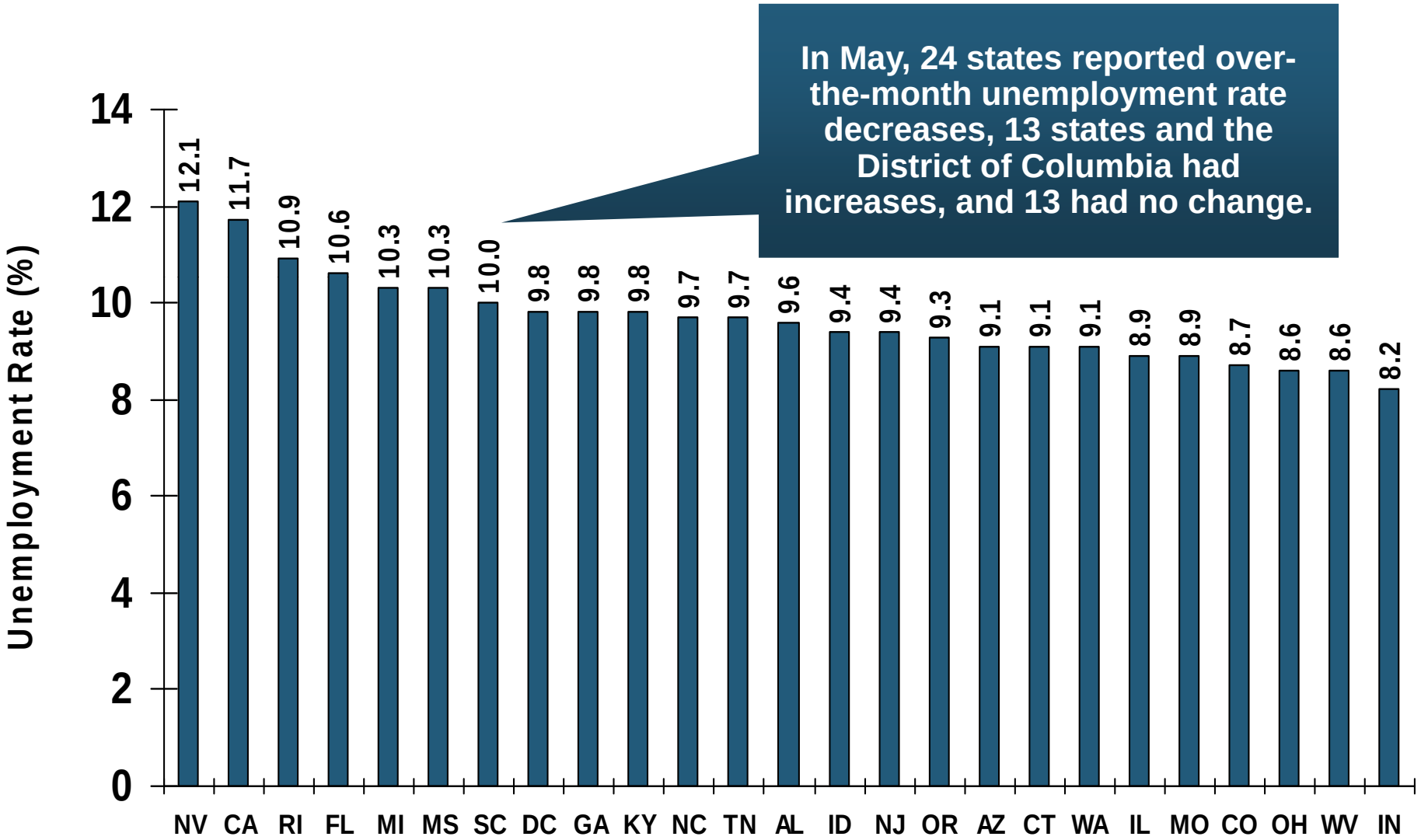


Job Losses Since the Recession Began in Dec. 2007 Peaked at 8.4 Mill in Dec. 09; Stands at 6.2 Million Through March 2011; 13.5 Million People are Now Defined as Unemployed

*Estimate based on Reuters poll of economists.

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

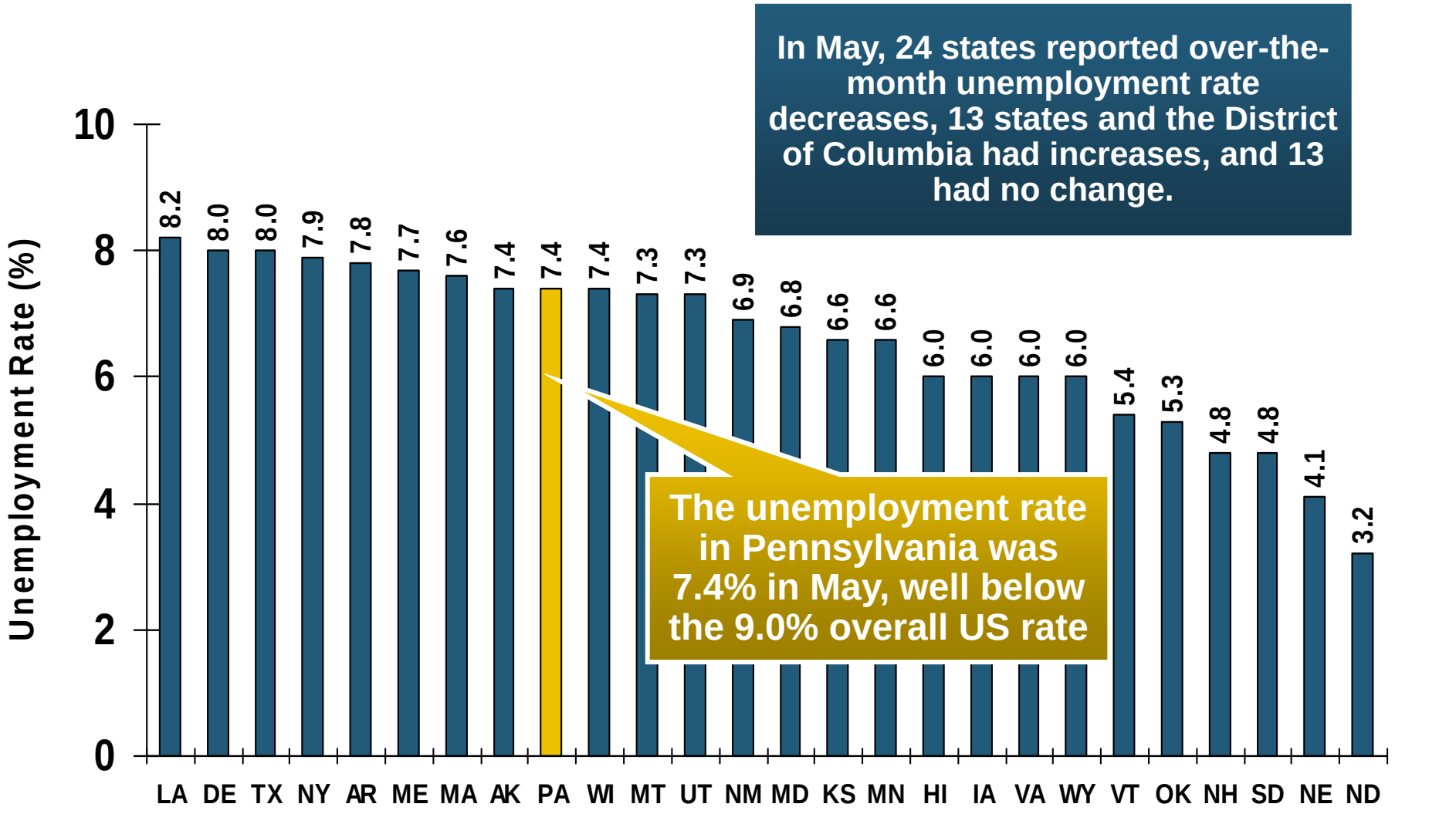
Unemployment Rates by State, May 2011: Highest 25 States*



*Provisional figures for May 2011, seasonally adjusted.

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

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



*Provisional figures for May 2011, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Labor Underutilization: Broader than Just Unemployment

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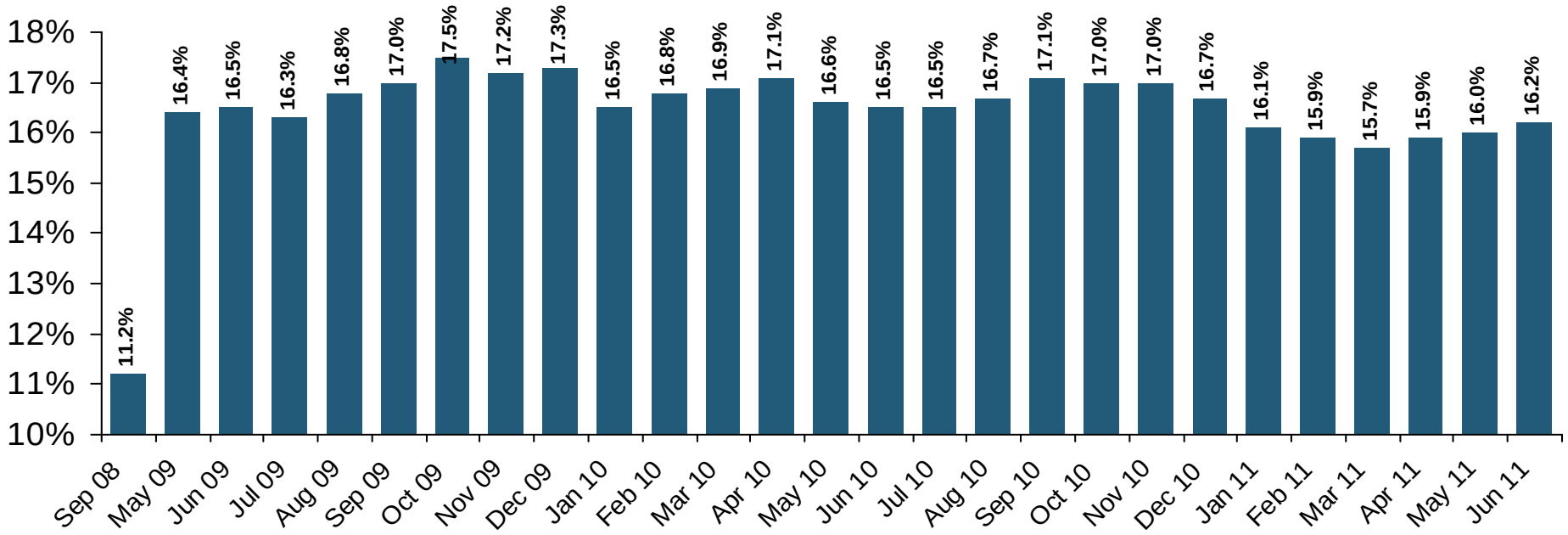
% of Labor Force



Marginally Attached and Unemployed Persons Account for 16.2% of the Labor Force in April 2011 (1 Out Every 6.2 People). Unemployment Rate Alone was 9.2%. Underutilization Shows a Broader Impact on WC and Other Commercial Exposures

NOTE: Marginally attached workers are persons who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the recent past. Discouraged workers, a subset of the marginally attached, have given a job-market related reason for not looking currently for a job. Persons employed part time for economic reasons are those who want and are available for full-time work but have had to settle for a part-time schedule.

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

US Unemployment Rate

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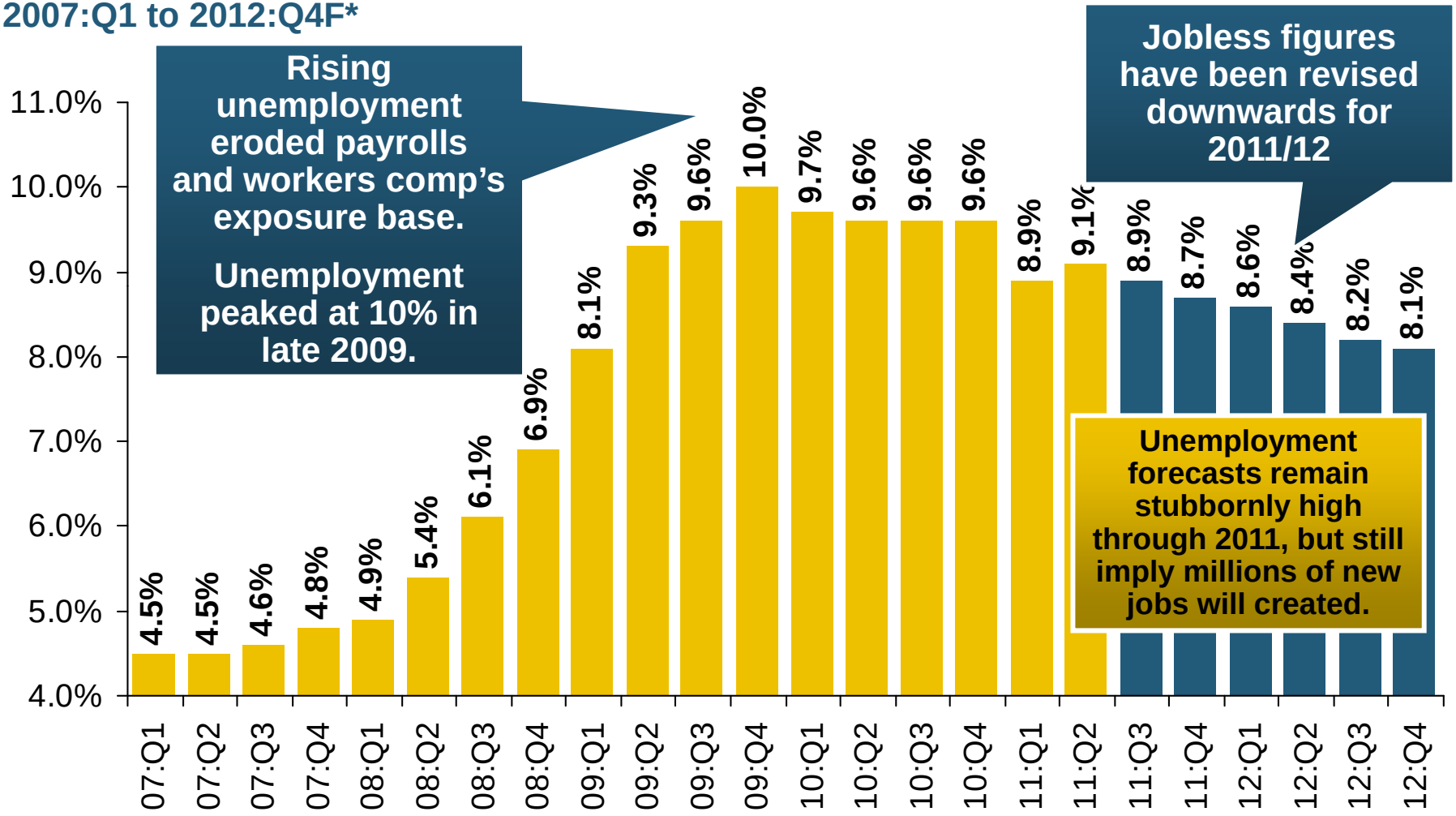
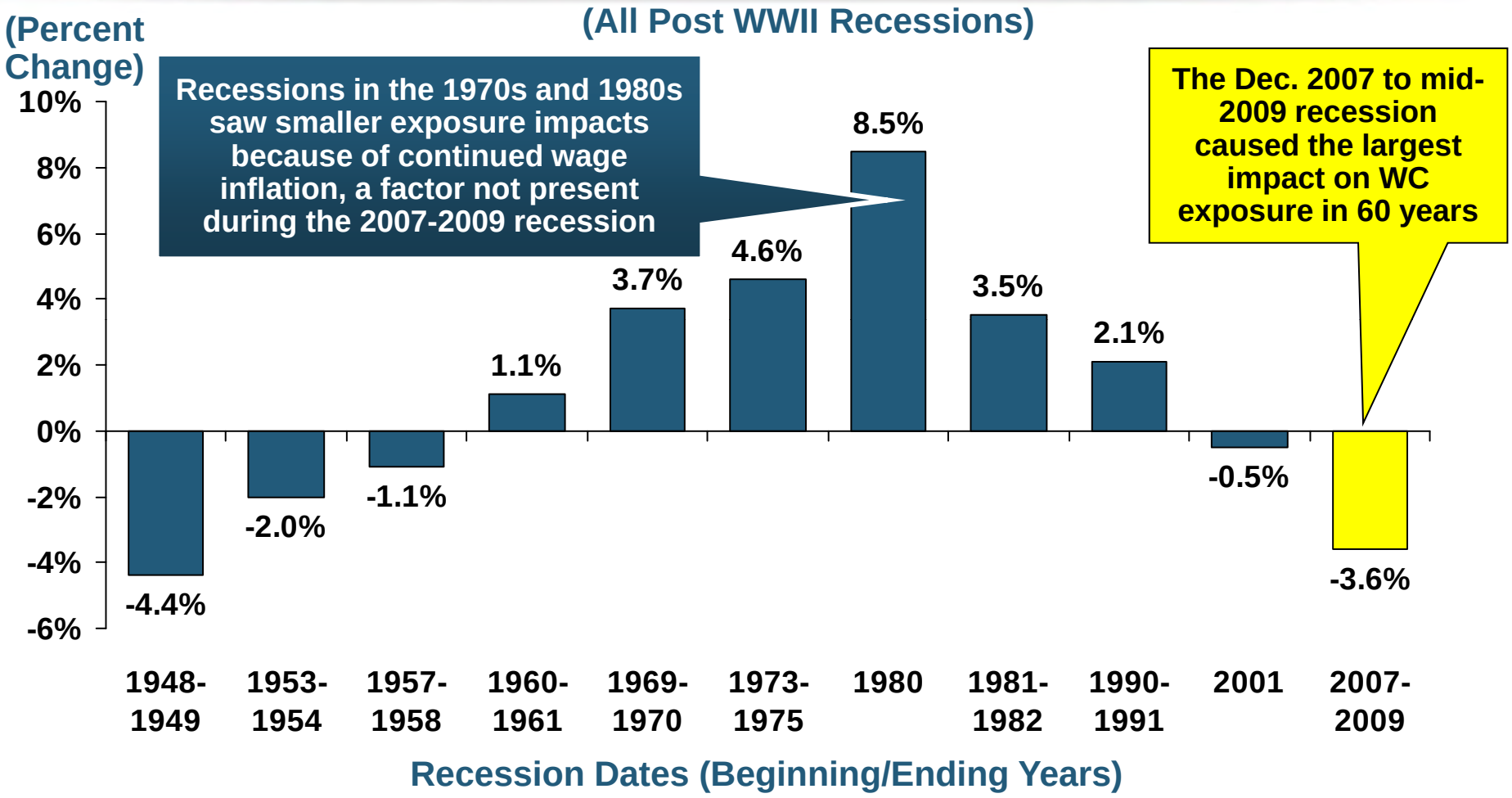
2007:Q1 to 2012:Q4F*



* = actual; = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (7/11); Insurance Information Institute

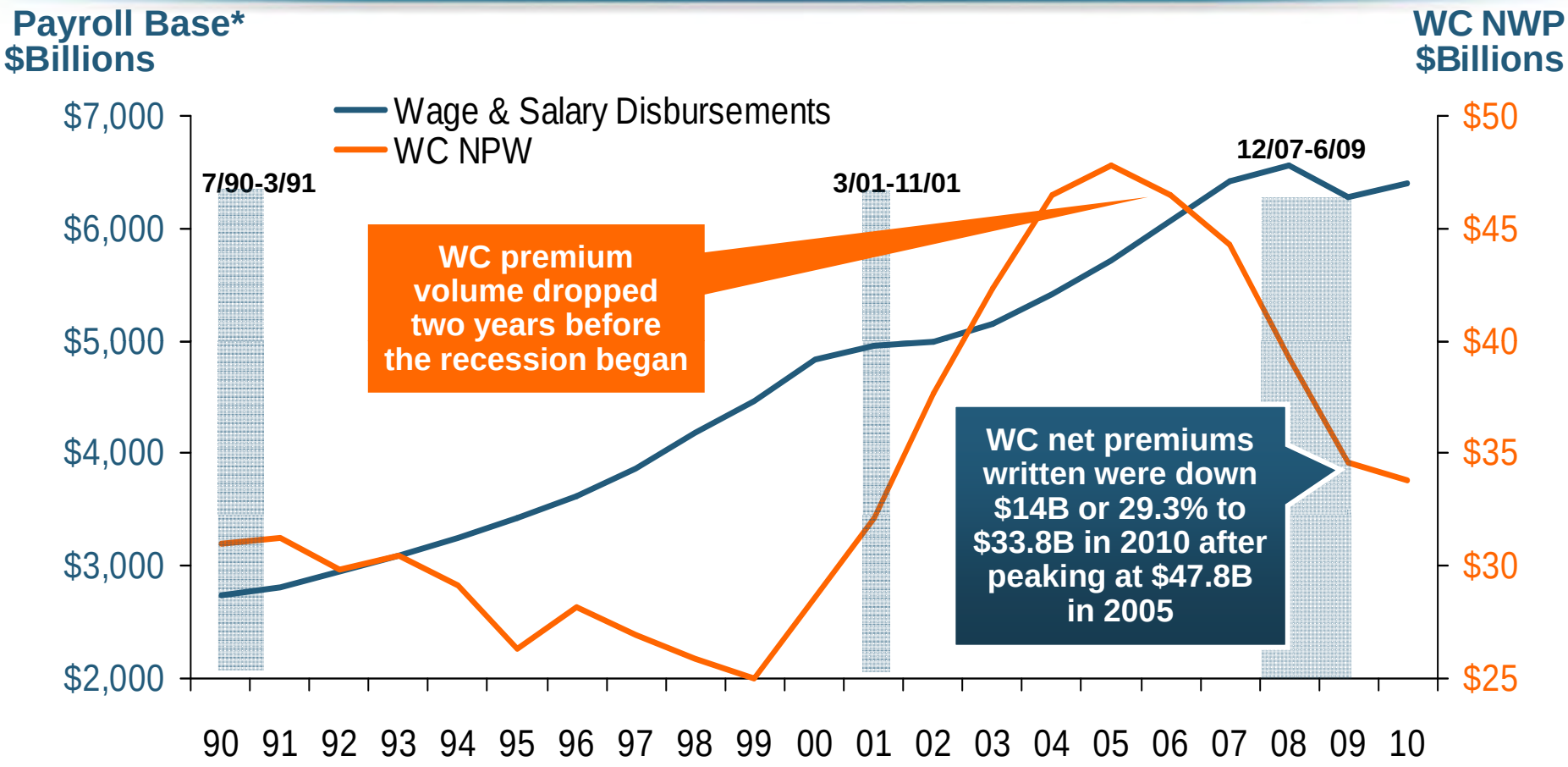
Estimated Effect of Recessions* on Payroll (Workers Comp Exposure)



*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).

Wage and Salary Disbursements (Payroll Base) vs. Workers Comp Net Written Premiums



29% of NPW has been eroded away by the soft market and weak economy

*Private employment; Shaded areas indicate recessions.

Sources: NBER (recessions); Federal Reserve Bank of St. Louis at http://research.stlouisfed.org/fred2/series/WASCUR ; NCCI; I.I.I.

Direct Premiums Written: Worker's Comp Percent Change by State, 2005-2010*

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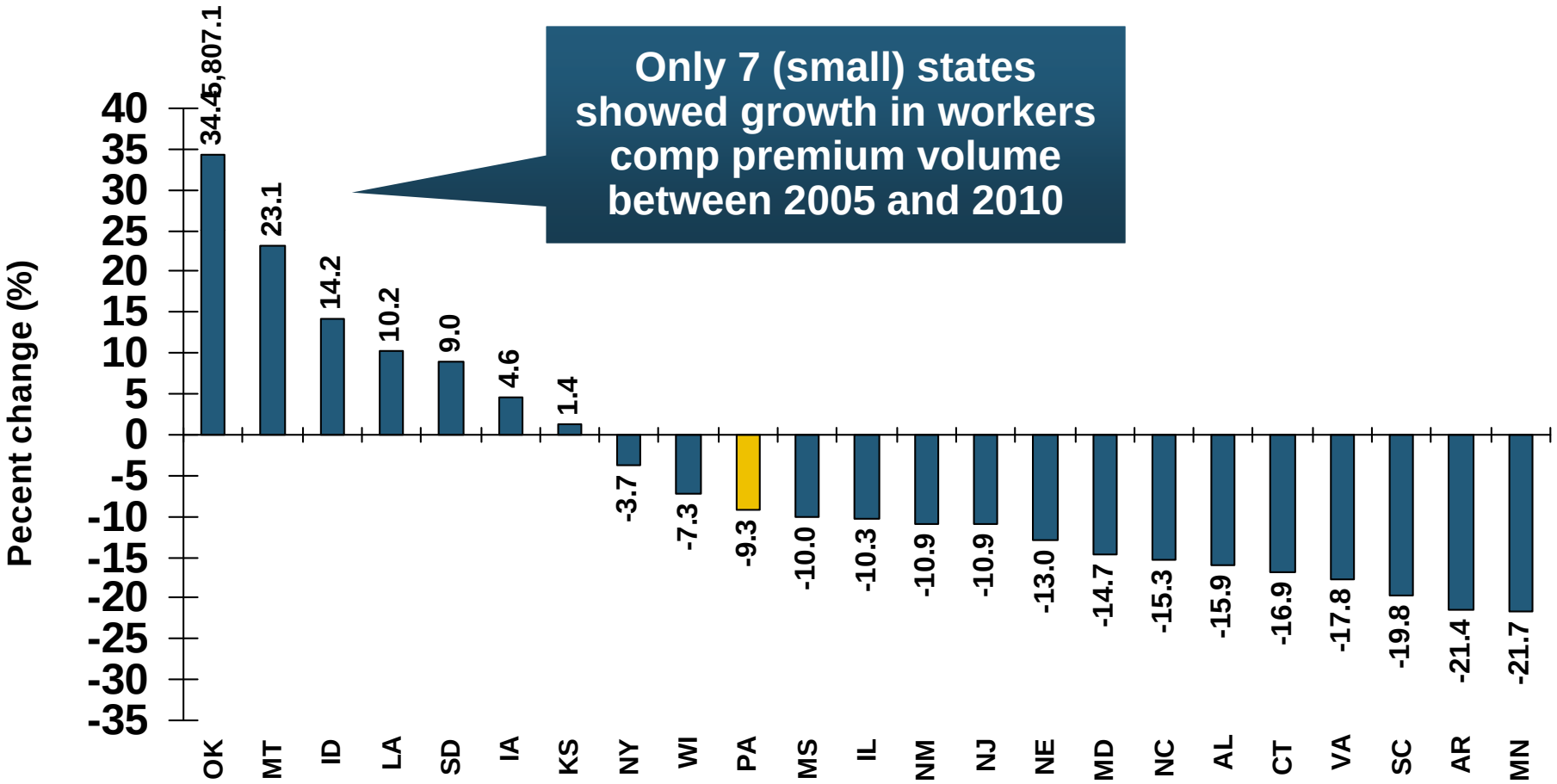
Top 25 States



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

Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: Worker's Comp Percent Change by State, 2005-2010*

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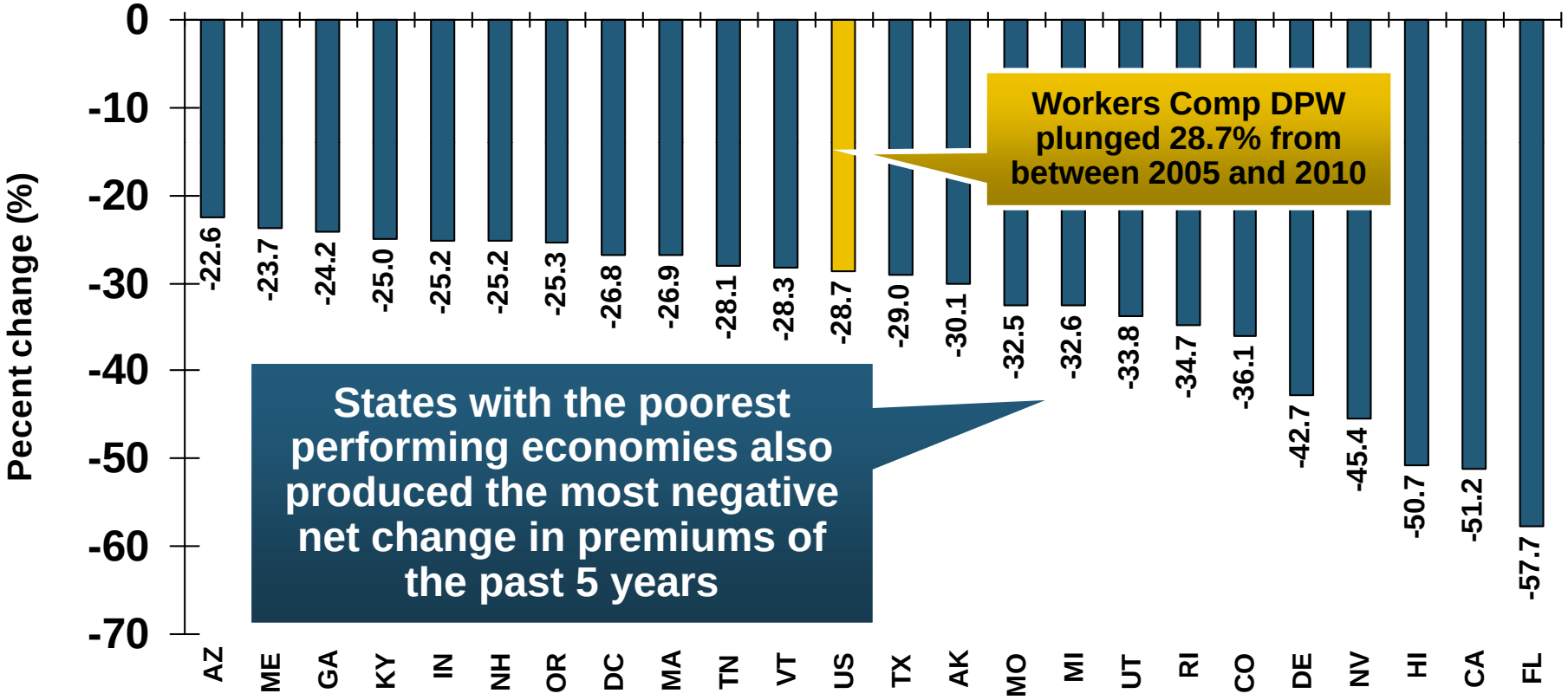
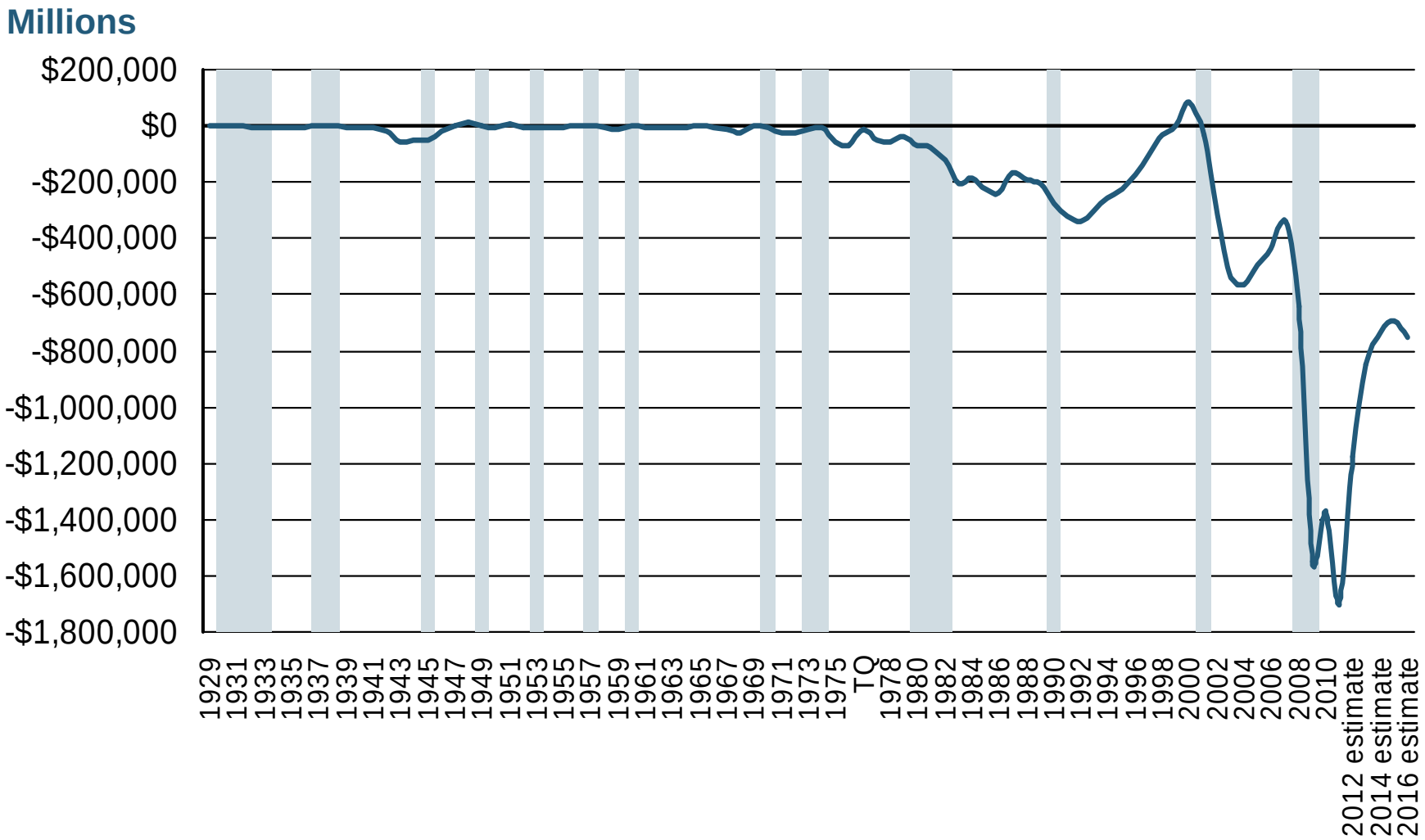
Bottom 25 States



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

Sources: SNL Financial LC.; Insurance Information Institute.

U.S. On-Budget Surplus or Deficit, 1929–2016F*



*White House forecasts

Note: Recessions indicated by gray shaded columns.

Sources: http://www.whitehouse.gov/omb/budget/Historicals ; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

U.S. On-Budget surplus or deficit, as % of GDP, 1930–2016F*

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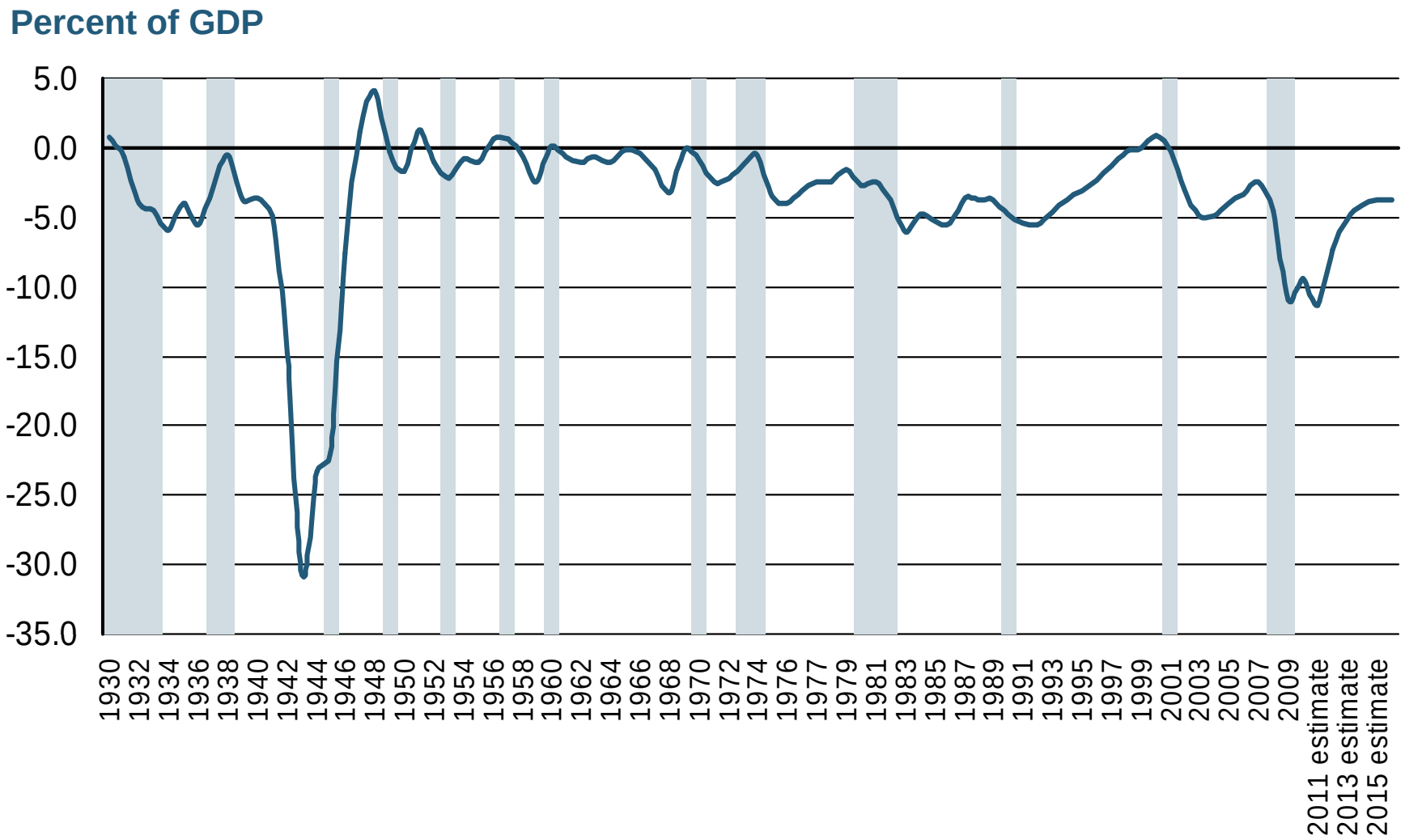
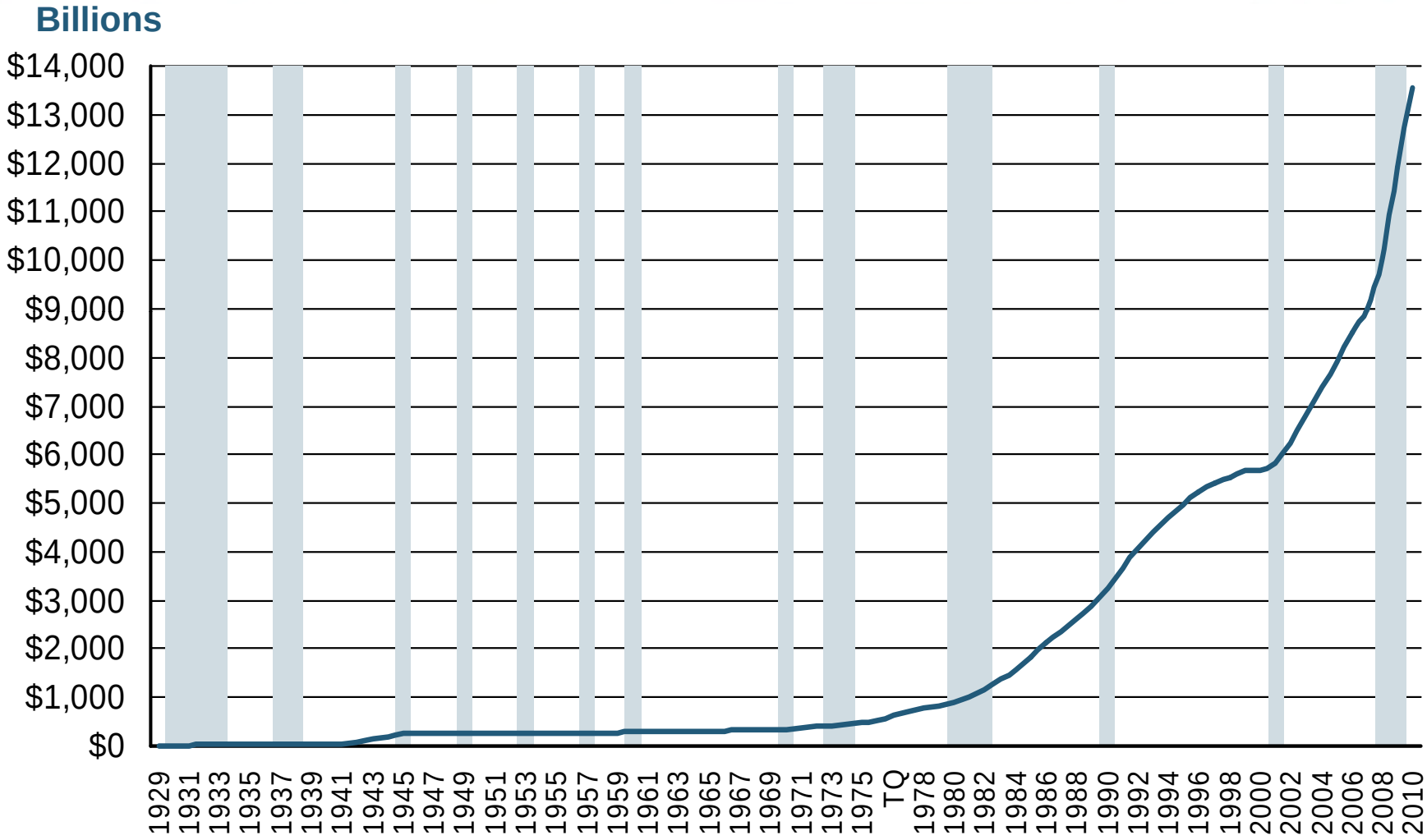


*White House forecasts

Note: Recessions indicated by gray shaded columns.

Sources: http://www.whitehouse.gov/omb/budget/Historicals ; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

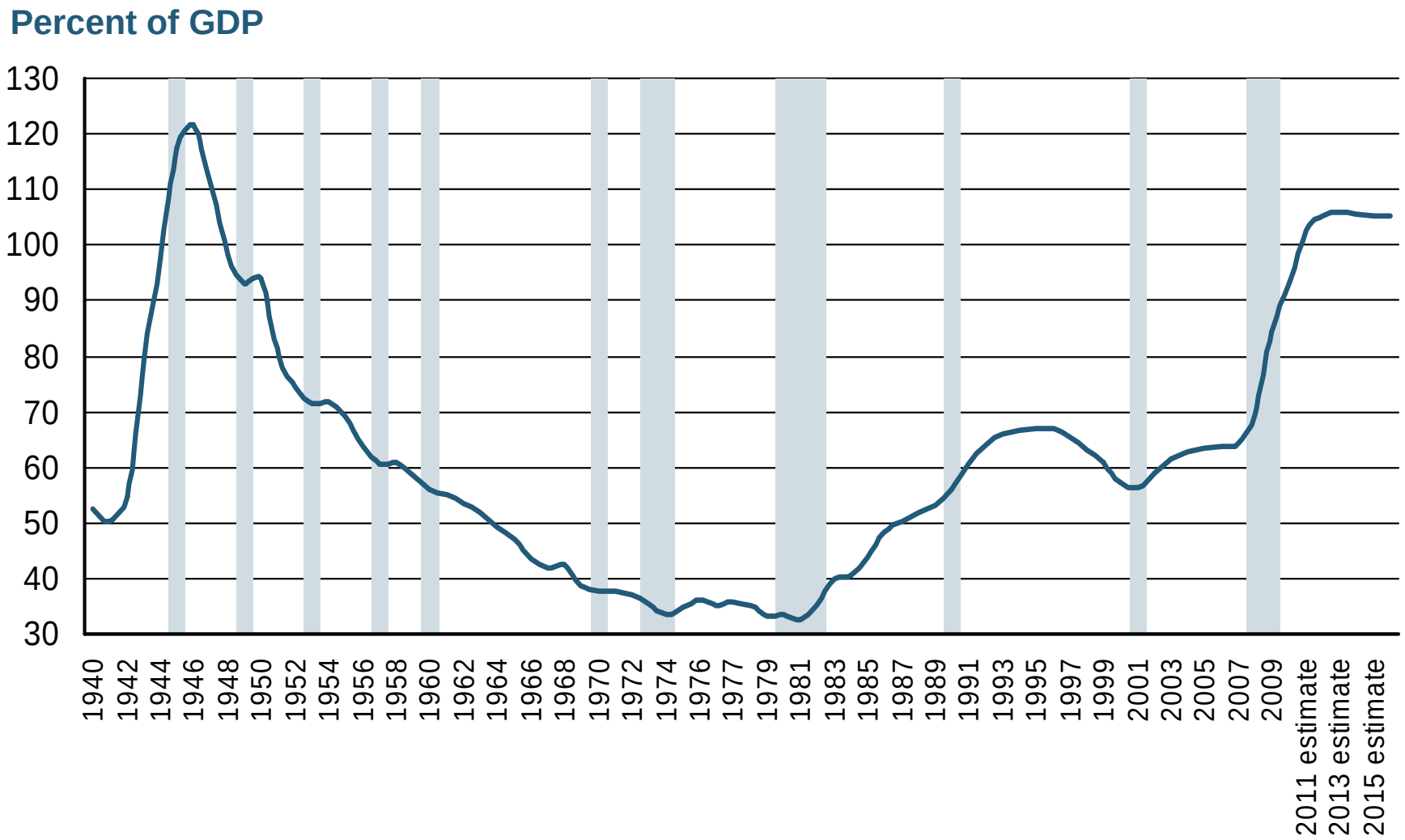
U.S. Debt Outstanding, 1929–2010*



*debt is as of 6/30 of year indicated for 1929-1976, as of 9/30 for 1977-2010 Note: Recessions indicated by gray shaded columns.

Sources: http://www.treasurydirect.gov/govt/reports/pd/histdebt/histdebt.htm
National Bureau of Economic Research (recession dates); Insurance Information Institutes.

Gross U.S. Debt as % of GDP, 1940–2016F*



*White House forecasts; debt and GDP measured at end of fiscal year

Note: Recessions indicated by gray shaded columns.

Sources: http://www.whitehouse.gov/omb/budget/Historicals ; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

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