Beyond the Crisis: *The P/C Insurance in the Aftermath of the "Great Recession"*

Insurance Information Institute
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Presentation Outline

- **Reasons for Optimism, Causes for Concern**
- **The Economic Storm: Financial Crisis & Recession**
  - Exposure, Growth & Profitability
- **Crisis-Driven Exposure Issues: Personal & Commercial Lines**
  - When and Where Will Growth Return?
- **Threats and Issues Facing P/C Insurers Through 2015**
- **Financial Strength & Ratings**
  - Key Differences Between Insurer and Bank Performance During Crisis
- **Insurance Industry Financial Overview & Outlook**
  - Profitability
  - Premium Growth
  - Underwriting Performance: Commercial & Personal Lines
  - Financial Market Impacts
- **Capital & Capacity**
- **Catastrophe Loss Trends**
- **Q&A**

Reasons for Optimism, Causes for Concern in the P/C Insurance Industry

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- **Economic Recovery in US is Self-Sustaining: No Double Dip Recession**
- **European Debt Crisis Will Pass; Concerns are Overblown**
  - **Volatility will remain a reality, however**
- **Era of Mass Commercial Insurance Exposure Destruction Has Ended**
  - **But restoration of destroyed exposure will take 3+ years in US**
- **No Secondary Spike in Unemployment or Swoon in Payrolls/WC Exposure**
  - **But wage growth remains sluggish**
- **Exposure Growth Will Begin in Earnest in 2nd Half 2010, Accelerate in 2011**
- **Increase in Demand for Commercial Insurance is in its Earliest Stages and Will Accelerate in 2011**
  - **Includes workers comp, commercial auto, marine, many liability coverages, D&O**
  - **Laggards: Property, inland marine, aviation**
  - **Personal Lines: Auto leads, homeowners lags**
- **P/C Insurance Industry Will See Growth in 2011 for the First Time Since 2006**
- **Investment Environment Is/Remains Much More Favorable**
  - **Volatility, however, will persist and yields remain low**
  - **Both are critical issues in long-tailed commercial lines like WC, Med Mal, D&O**

Source: Insurance Information Institute.

Reasons for Optimism, Causes for Concern in the P/C Insurance Industry

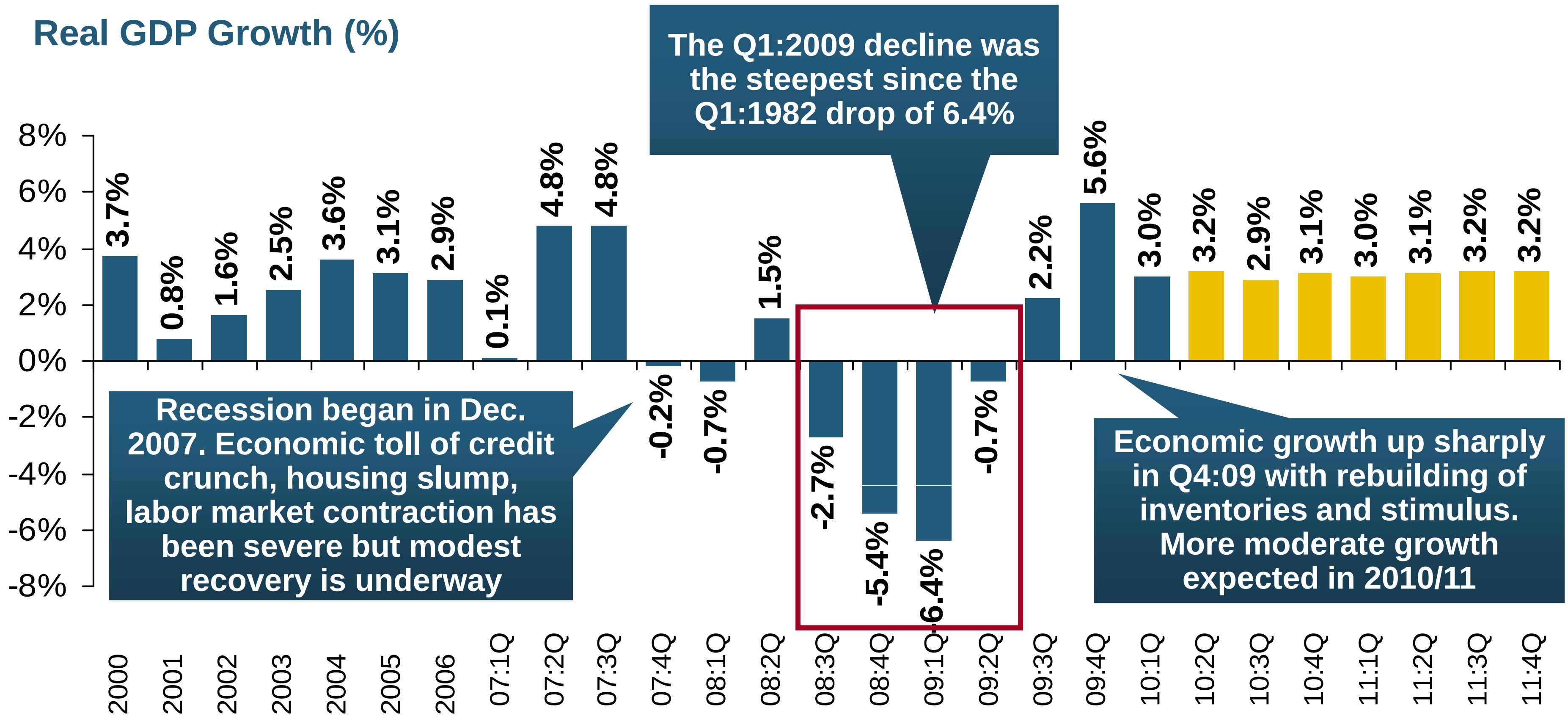
- **P/C Insurance Industry Capacity as of 3/31/10 Is at Record Levels and Has Recovered 100%+ of the Capital Lost During the Financial Crisis**
  - **As of 12/31/09 capacity was within 2% of pre-crisis high**
- **Record Capacity, Depressed Exposures Mean that Generally Soft Market Conditions Will Persist through 2010 and Potentially into 2011**
- **There is No Catalyst for a Robust Hard Market at the Current Time**
- **High First Half 2010 CAT Losses Insufficient to Trigger Hard Market**
  - **Localized insurance and reinsurance impacts are occurring, especially earthquake coverage in Latin/South America, Offshore Energy Markets, European Wind Cover**
- **Inflation Outlook for US and Major European Economies and Japan is Tame**
  - **Will temper claims inflation**
- **Financial Strength & Ratings of Global (Re)Insurance Industries Remained Strong Throughout the Financial Crisis in Sharp Contrast With Banks**
- **Insurers Have Avoided (So Far) the Most Draconian Outcomes in Financial Services Reform Legislation**
- **Tort Environment in US is Beginning to Deteriorate; No Tort Reform in US**
- **Major Transformation of US Economy Underway with Major Opportunities for Insurers through 2020 in Health, Tech, Natural Resources, Energy**

Source: Insurance Information Institute.

The Economic Storm

What the Financial Crisis and Recession Mean for the Industry's Exposure Base, Growth and Profitability

Real GDP Growth*



Personal and Commercial Lines Exposure Base 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.

Length of US Business Cycles, 1929–Present*

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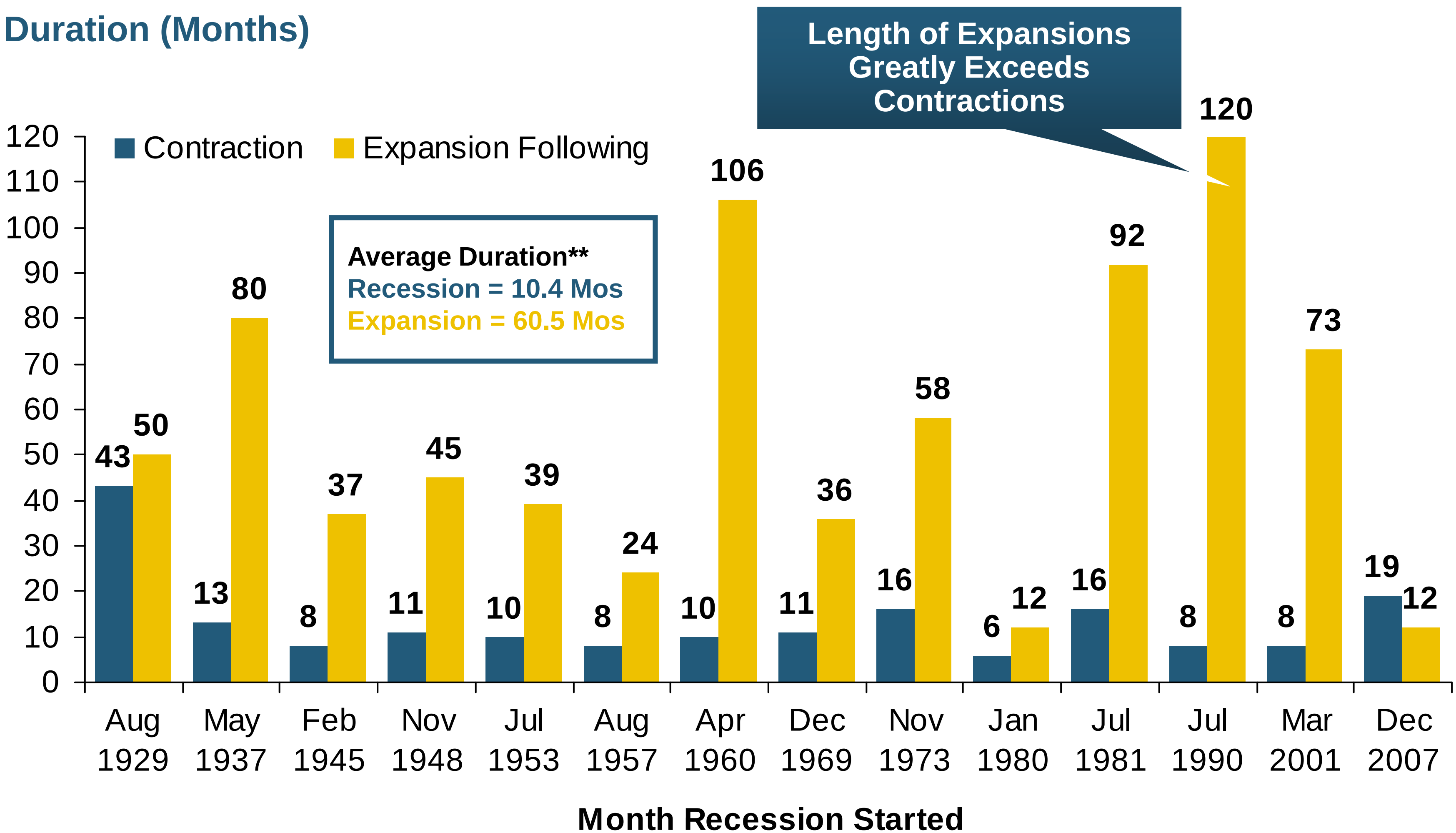

* Through June 2010. Assumes "official" end of recession was June 2009. ** Post-WW II period through end of most recent expansion.

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

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

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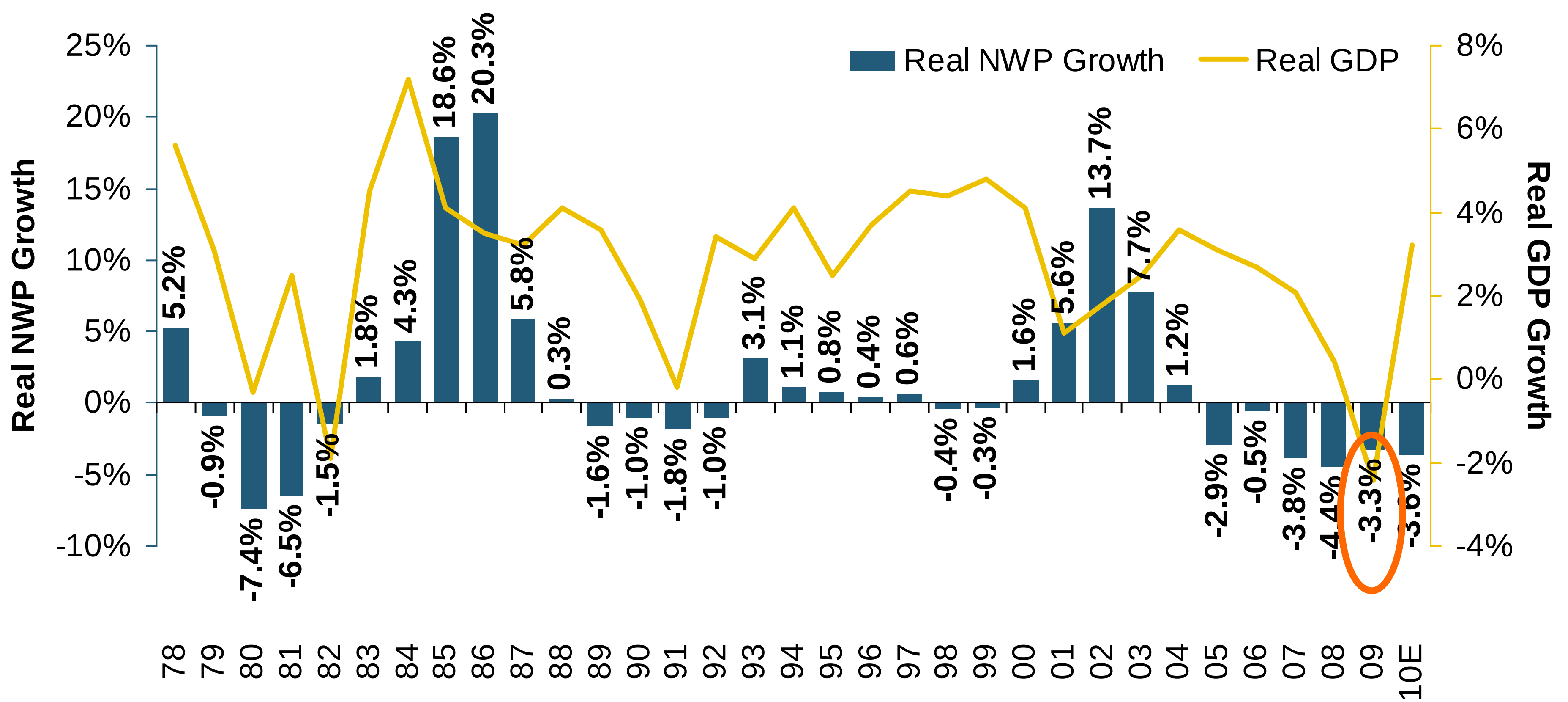
Real GDP Growth vs. Real P/C (%)



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, 5/10; Insurance Information Institute

Regional Differences Will Significantly Impact P/C Markets

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

State Economic Growth Varied Tremendously in 2008

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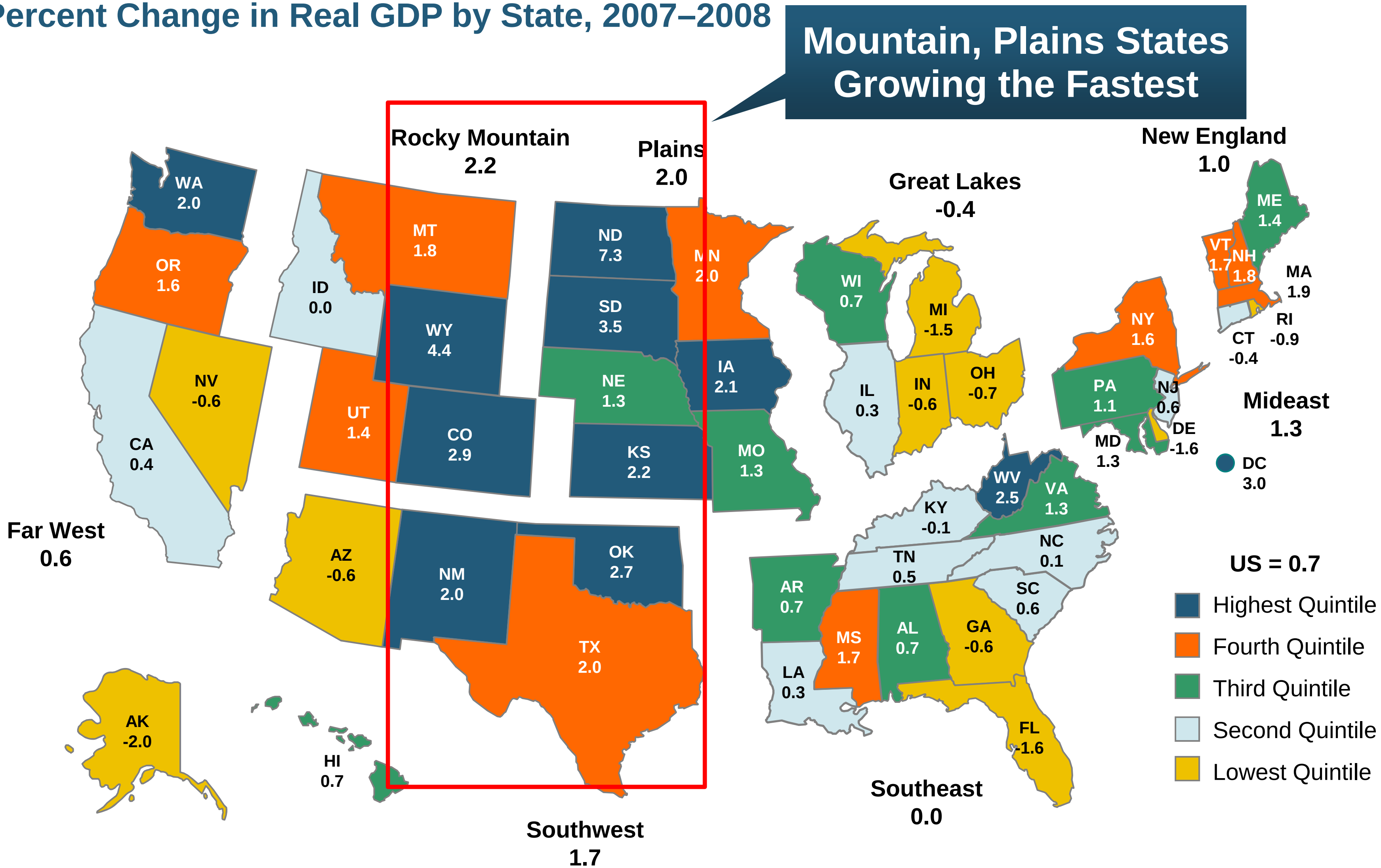
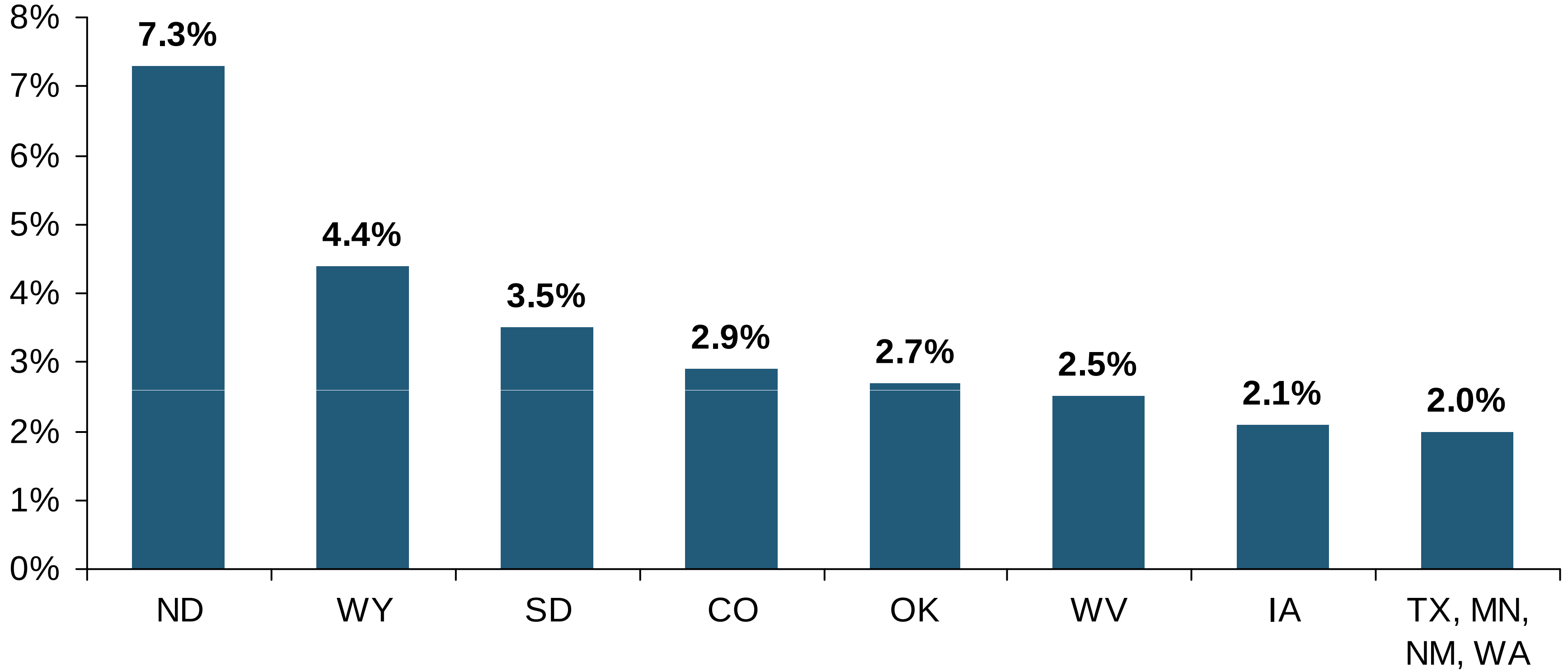
Percent Change in Real GDP by State, 2007–2008



US Bureau of Economic Analysis

Fastest Growing States in 2008: Plains, Mountain States Lead

Real State GDP Growth (%)



Natural Resource and Agricultural States Have Done Better Than Most Others Recently, Helping Insurance Exposure in Those Areas

Source: US Bureau of Economic Analysis; Insurance Information Institute.

Slowest Growing States in 2008: Diversity of States Suffering

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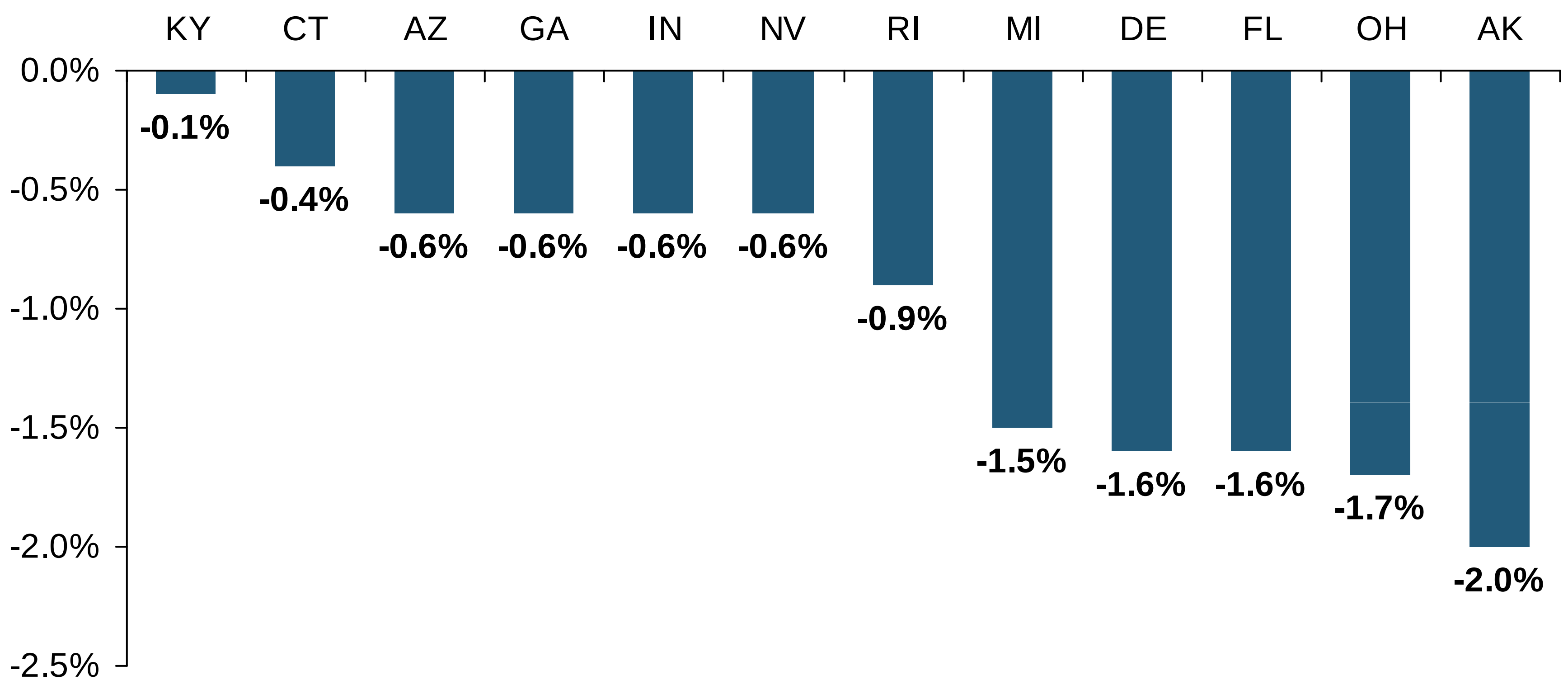
Real State GDP Growth (%)



States in the North, South, East and West All Represented Among Hardest Hit, But for Differing Reasons

Source: US Bureau of Economic Analysis; Insurance Information Institute.

Labor Market Trends

Fast & Furious:
Massive Job Losses Sap the Economy and Commercial/Personal Lines Exposure

Unemployment and Underemployment Rates: Rocketed Up in 2008-09; Stabilizing in 2010?

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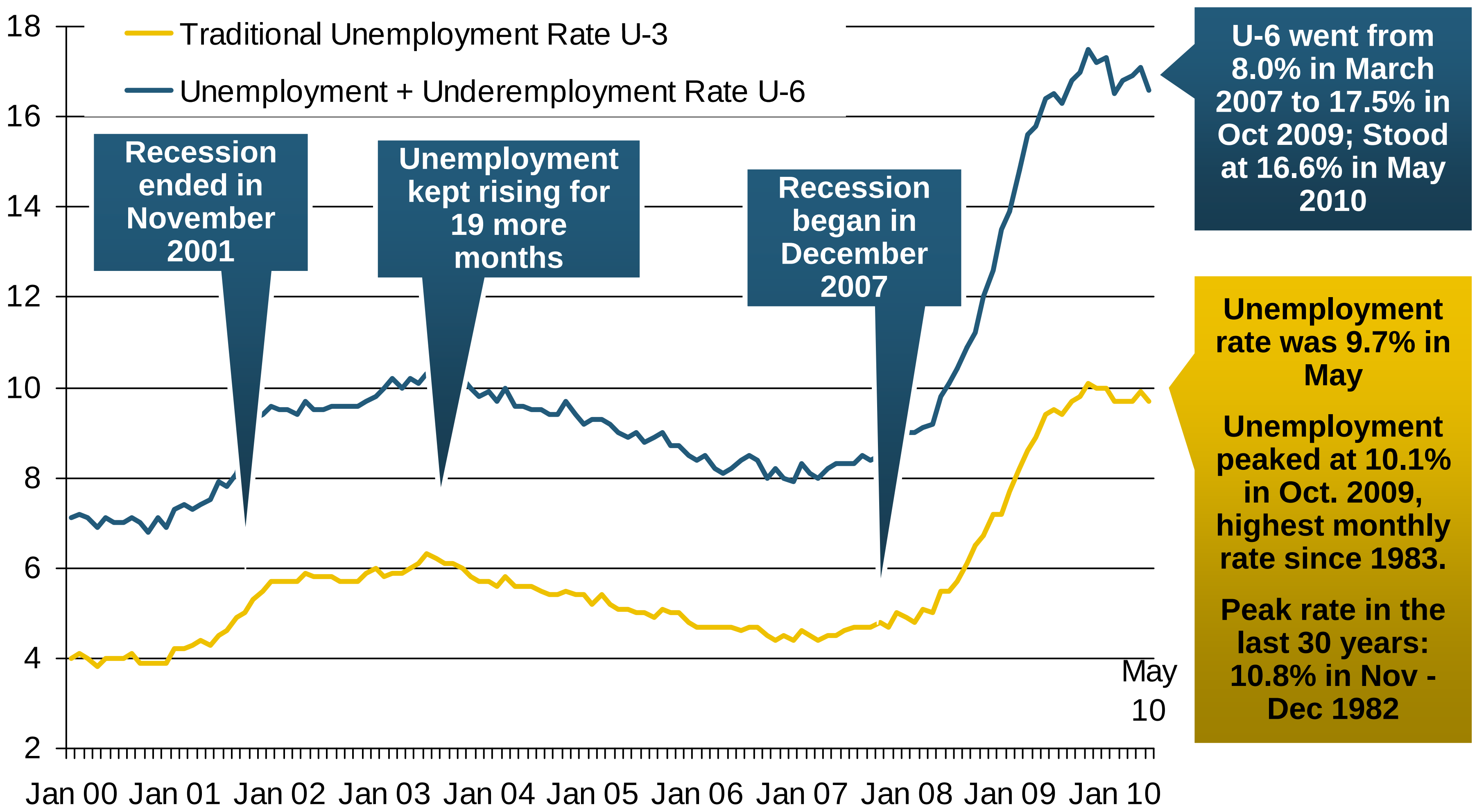
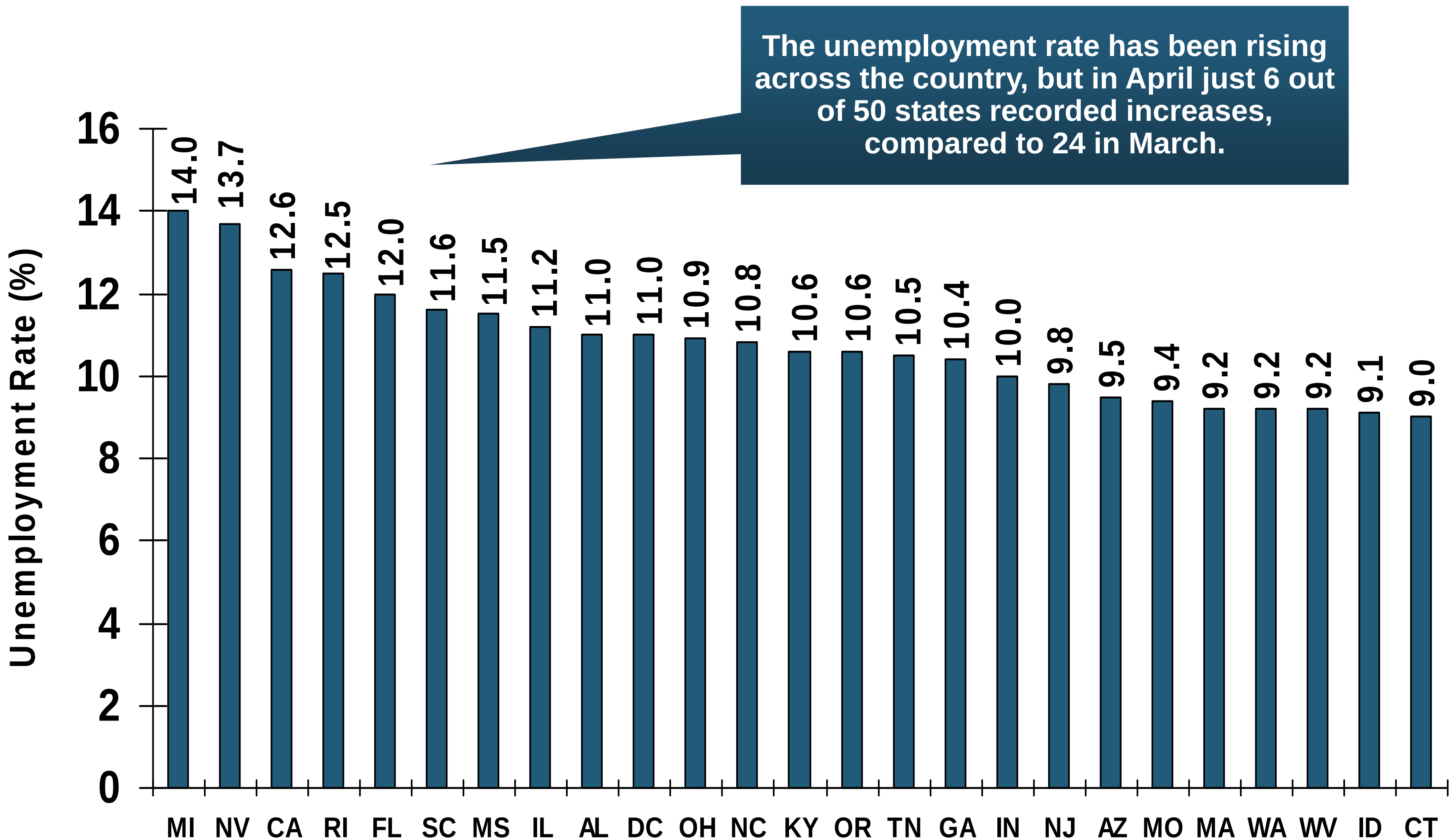
January 2000 through May 2010, Seasonally Adjusted (%)



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

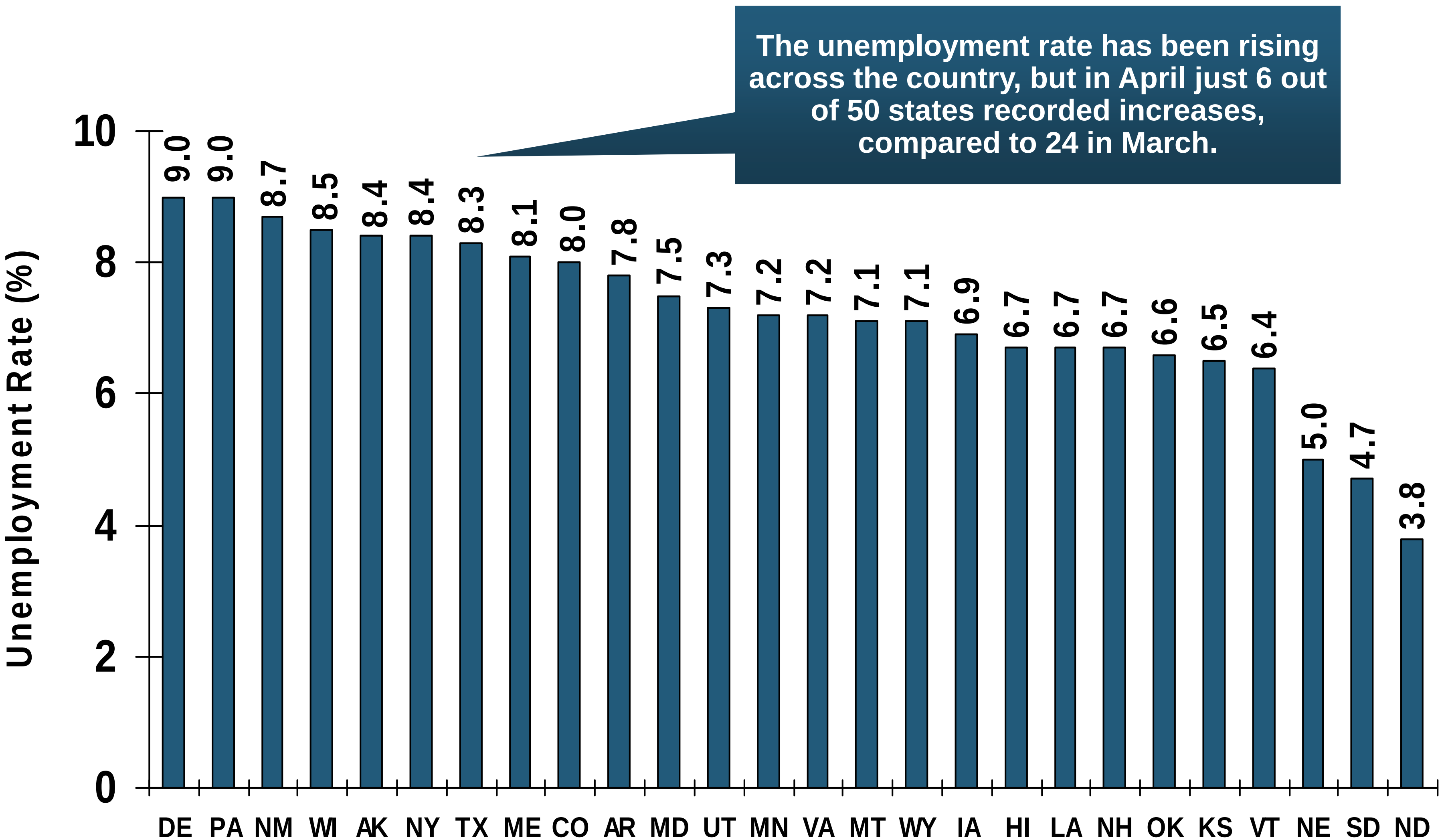
Unemployment Rates by State, April 2010: Highest 25 States*



*Provisional figures for April 2010, seasonally adjusted.

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

Unemployment Rates By State, April 2010: Lowest 25 States*

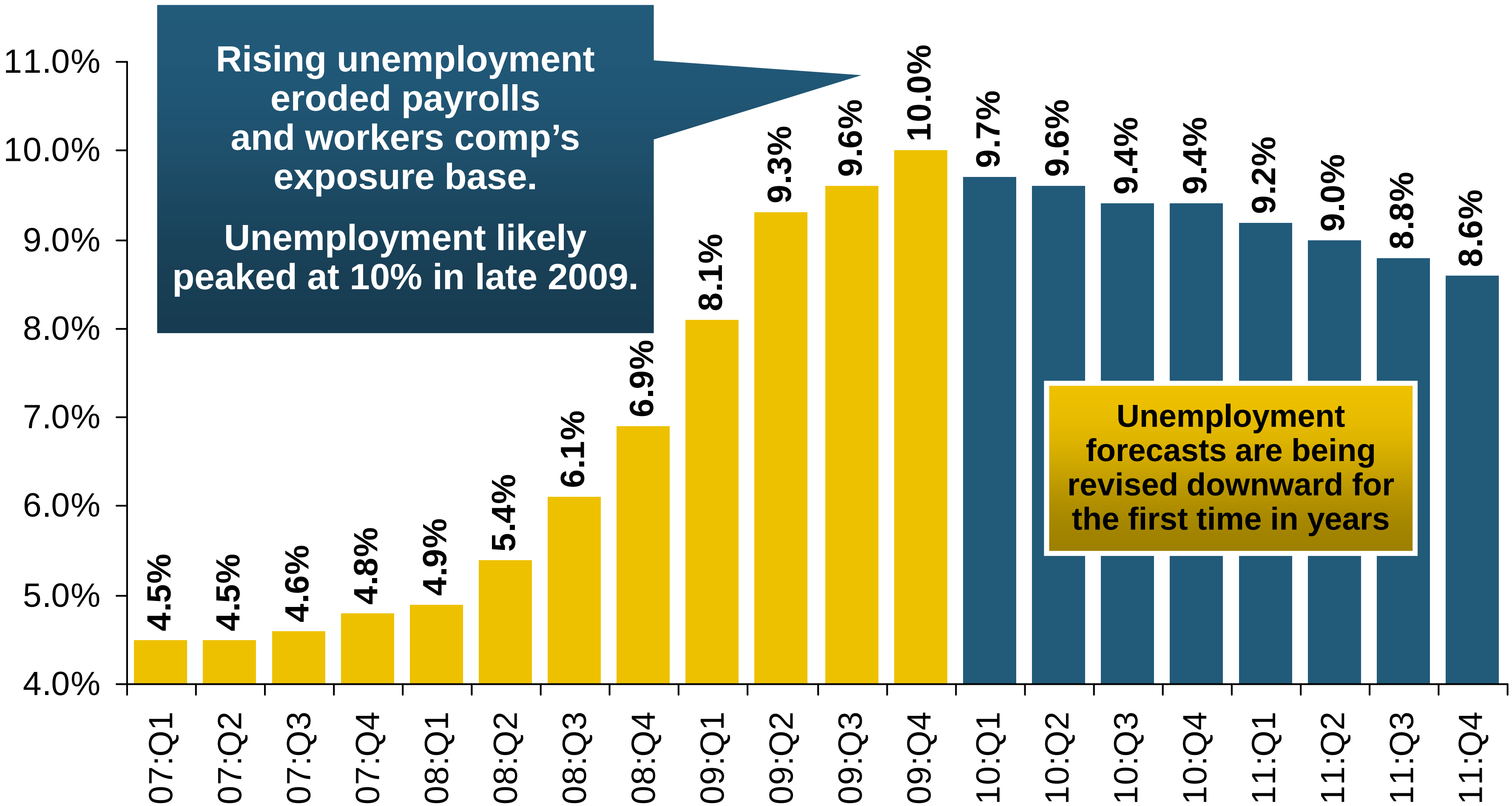


*Provisional figures for April 2010, seasonally adjusted.

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

US Unemployment Rate

2007:Q1 to 2011:Q4F*



* = actual; = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (5/10); Insurance Information Institute

Monthly Change Employment*

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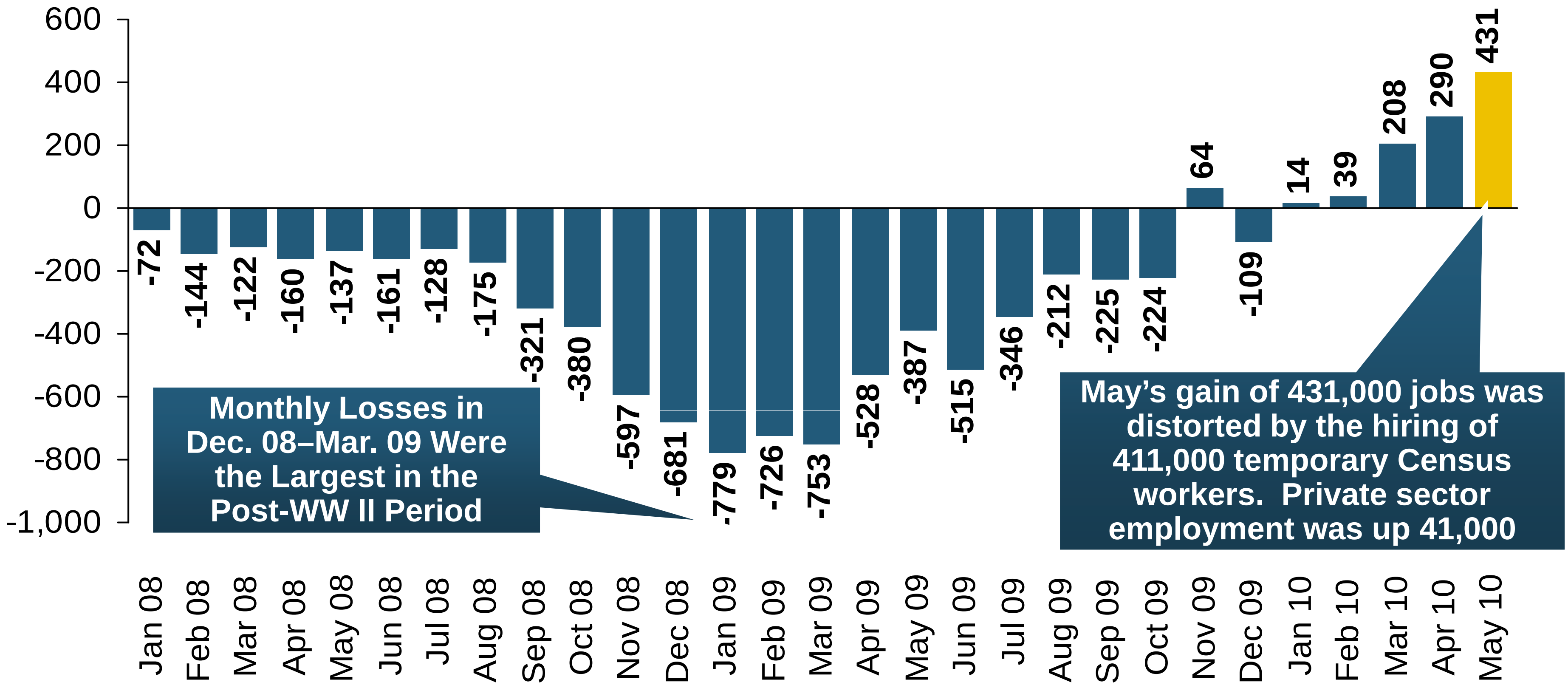
January 2008 through April 2010* (Thousands)

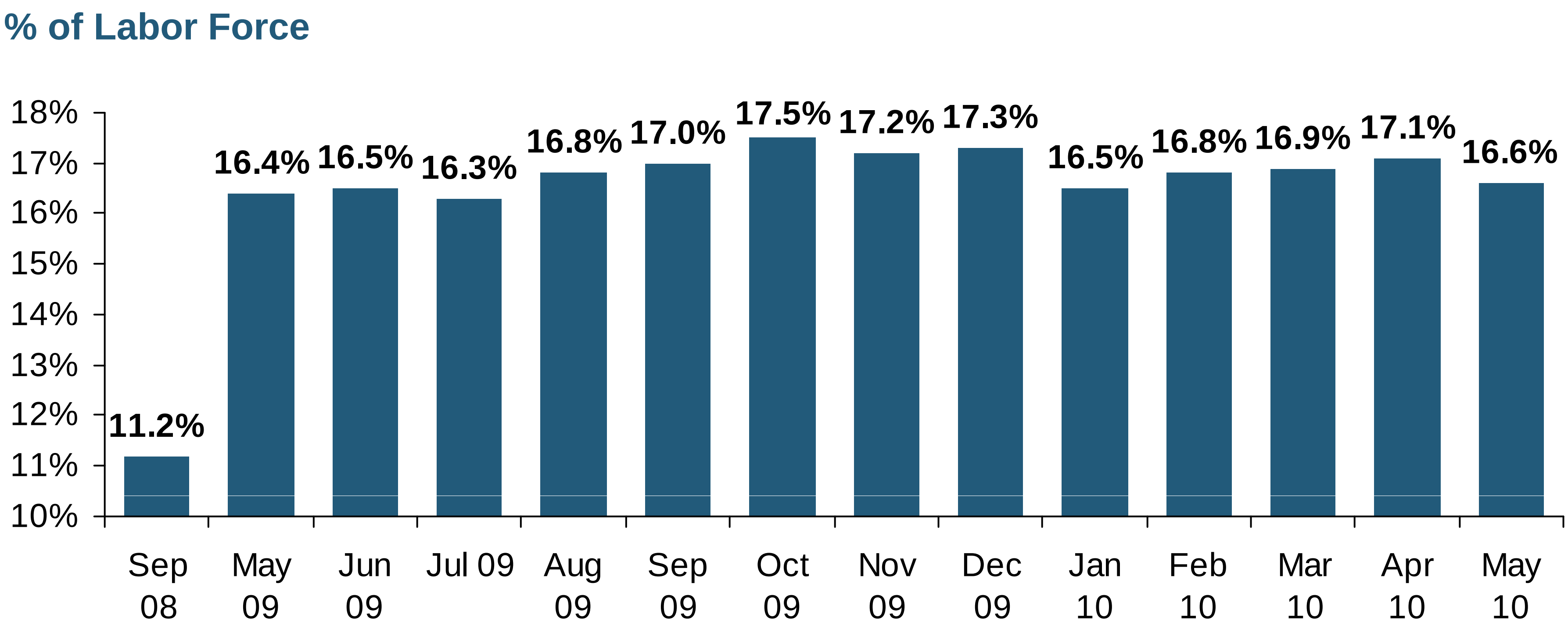


Job Losses Since the Recession Began in Dec. 2007 Total 8.4 Million Through Mar. 2010; 15.0 Million People are Now Defined as Unemployed

*Estimate based on Reuters poll of economists.

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

Labor Underutilization: Broader than Just Unemployment



Marginally Attached and Unemployed Persons Account for 16.6% of the Labor Force in May 2010 (1 Out 6 People). Unemployment Rate Alone was 9.7%. 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 Nonfarm Private Employment

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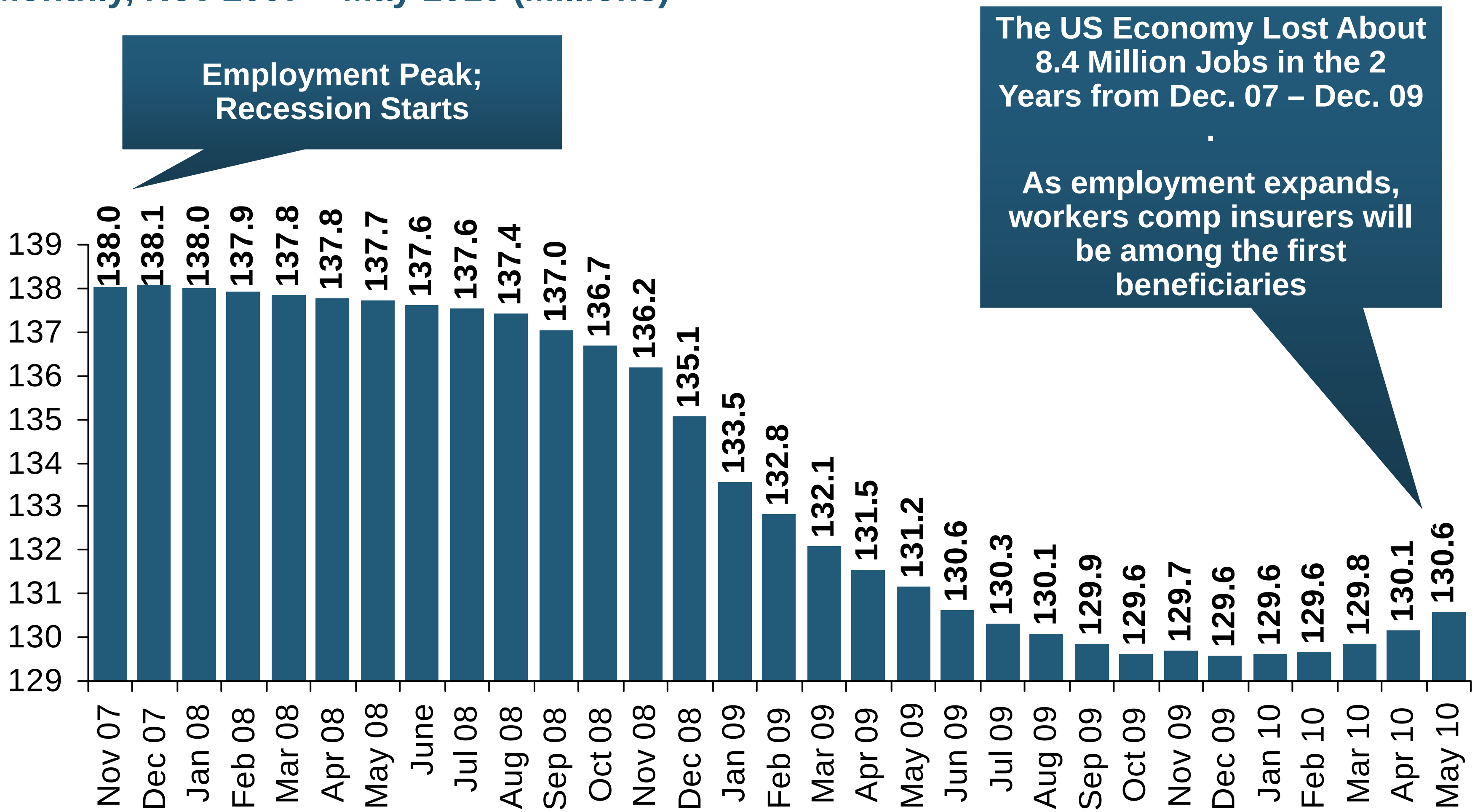
Monthly, Nov 2007 – May 2010 (Millions)

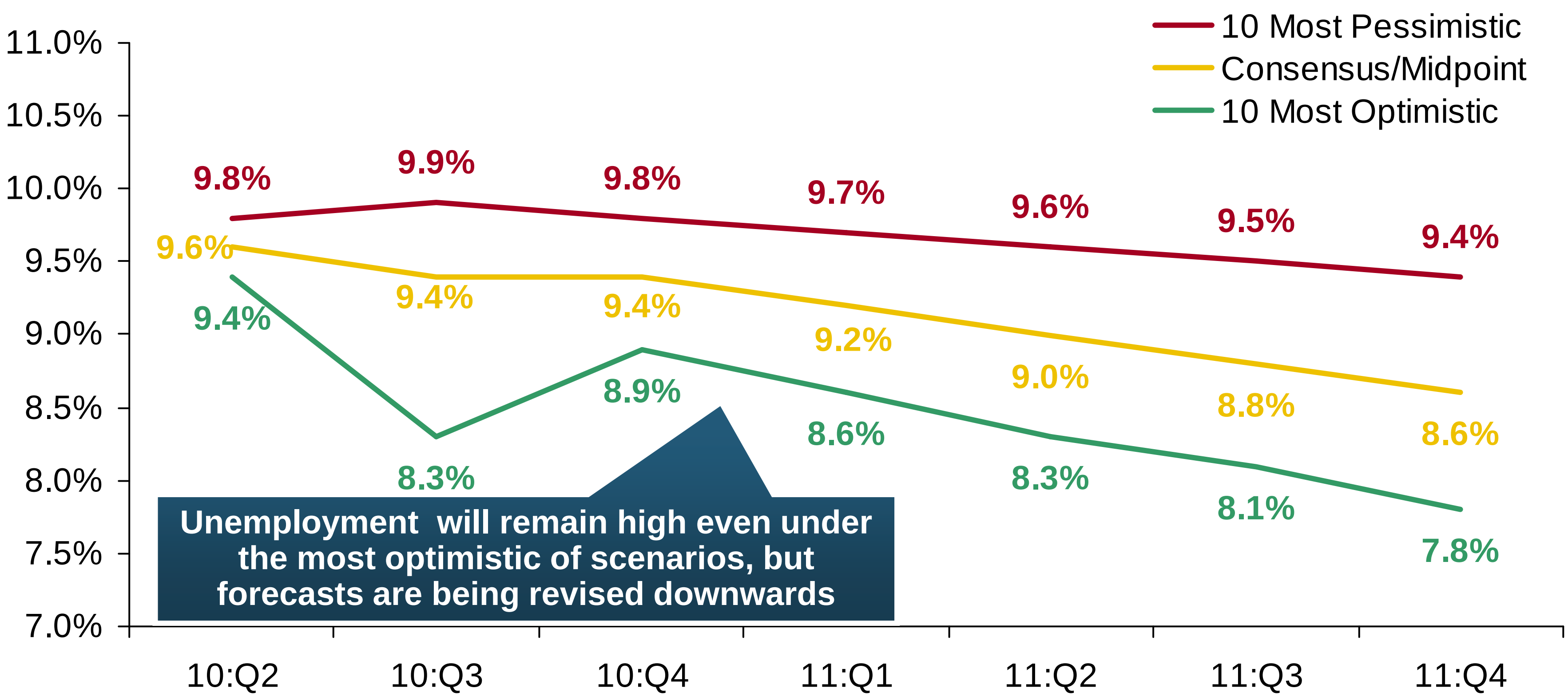


Seasonally adjusted.

Source: US Bureau of Labor Statistics

US Unemployment Rate Forecasts

Quarterly, 2010:Q1 to 2011:Q4



Stubbornly High Unemployment Will Slow the Recovery of the Workers Comp Exposure Base

Sources: Blue Chip Economic Indicators (5/10); Insurance Information Institute

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

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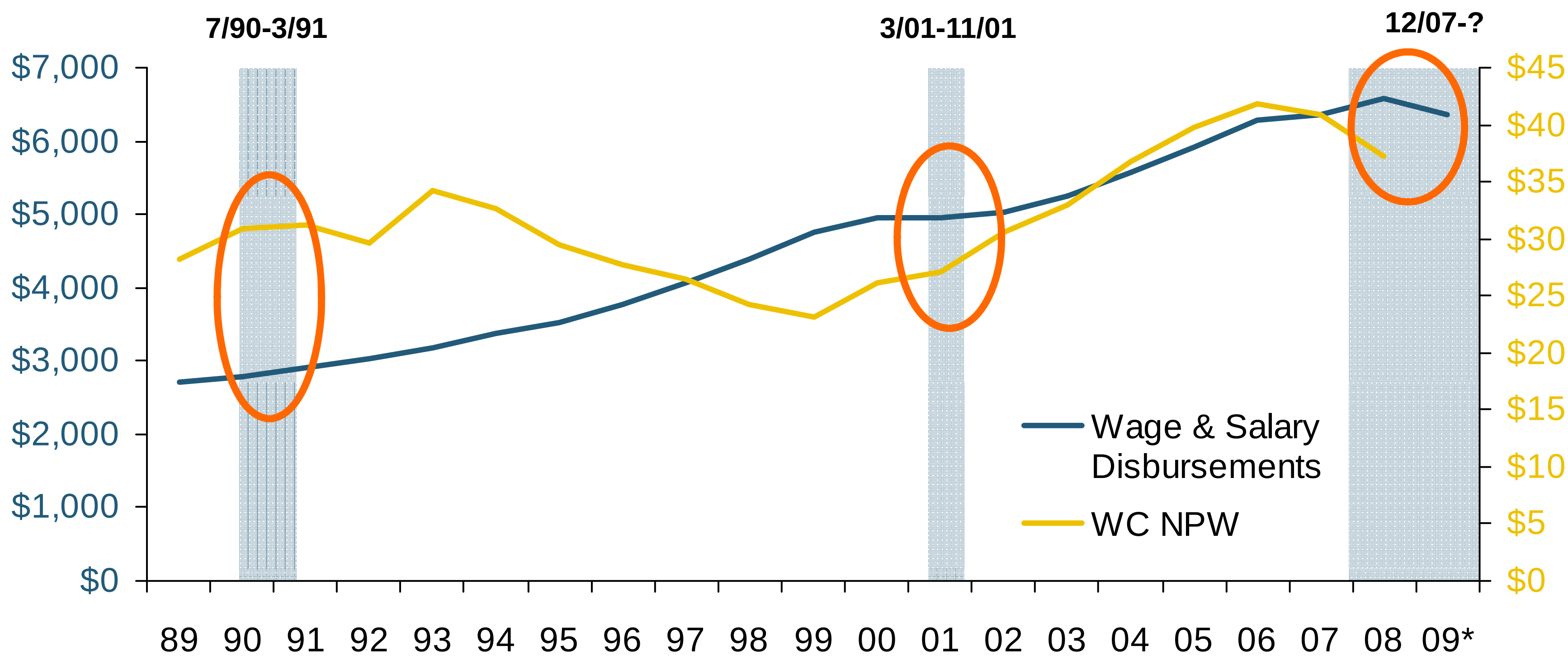
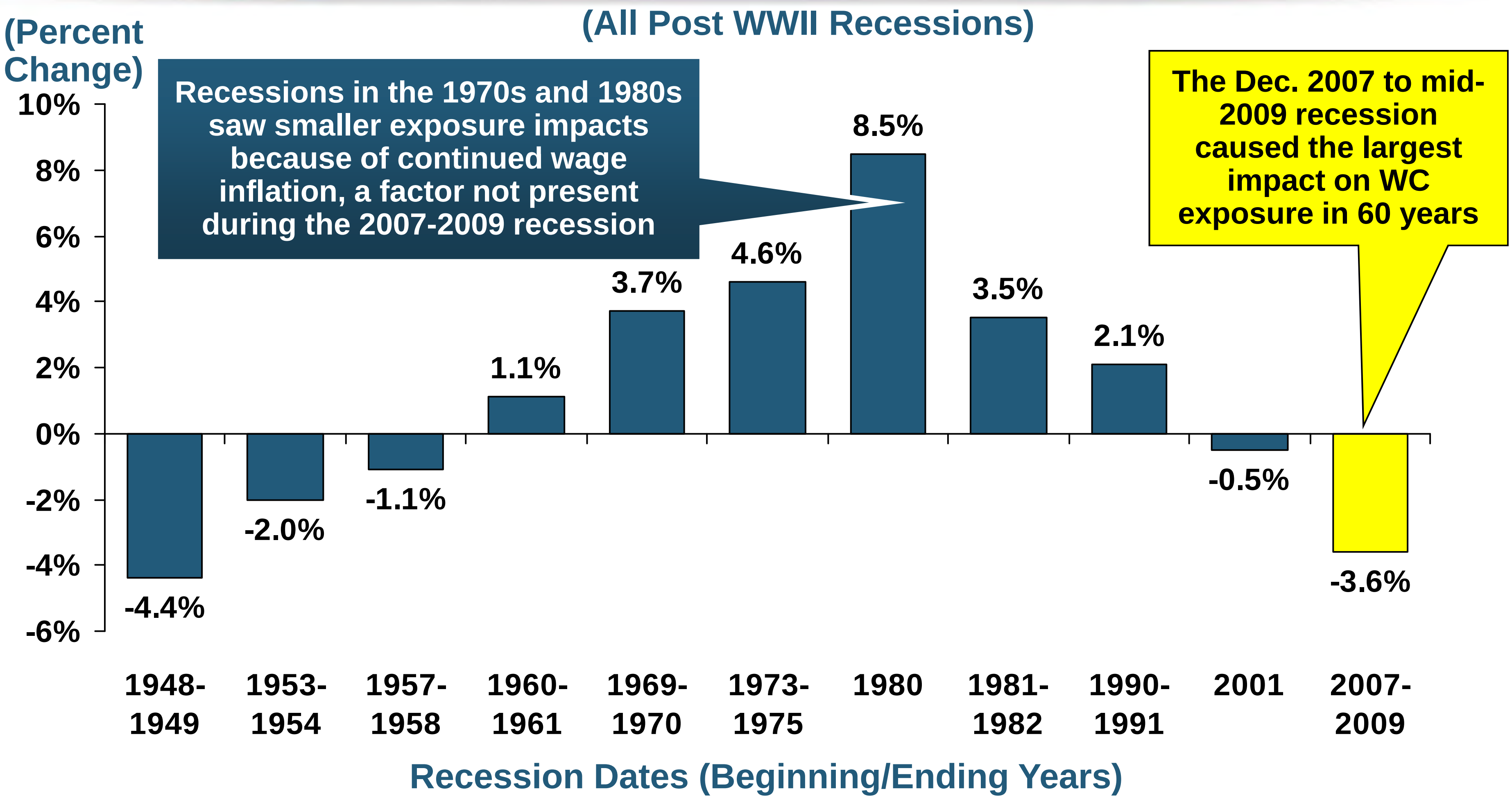
Wage & Salary Disbursement (Private Employment) vs. WC NWP ($ Billions)



Weakening Payrolls Have Eroded $2B+ in Workers Comp Premiums

* Average Wage and Salary data as of 10/1/2009. Shaded areas indicate recessions
Source: US Bureau of Economic Analysis; Federal Reserve Bank of St. Louis at http://research.stlouisfed.org/fred2/series/WASCUR ; I.I.I. Fact Books

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

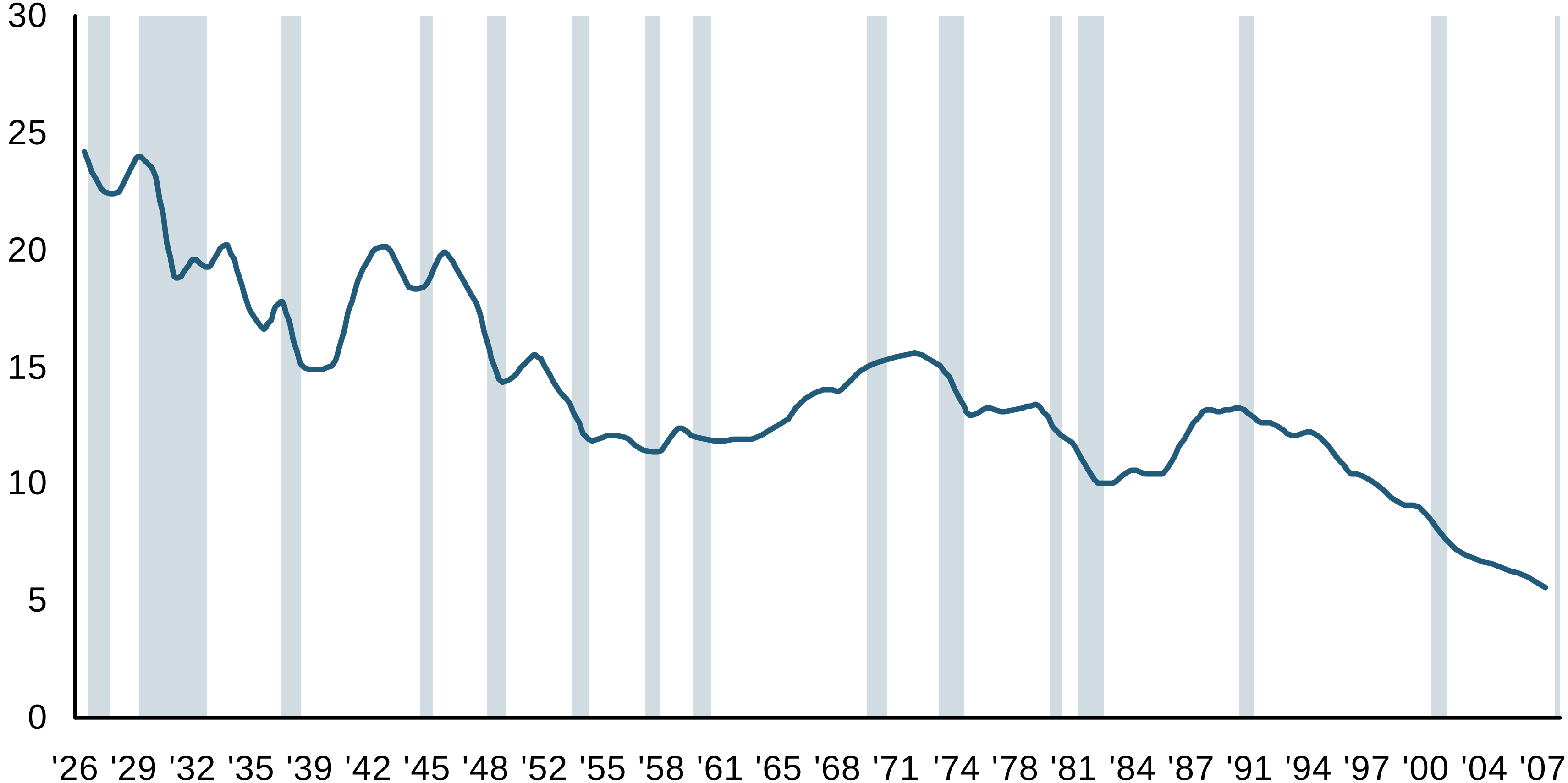


*Data represent maximum recorded decline over 12-month period using annualized quarterly wage and salary accrual data

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

Frequency: 1926–2008
A Long-Term Drift Downward

Manufacturing – Total Recordable Cases
Rate of Injury and Illness Cases per 100 Full-Time Workers



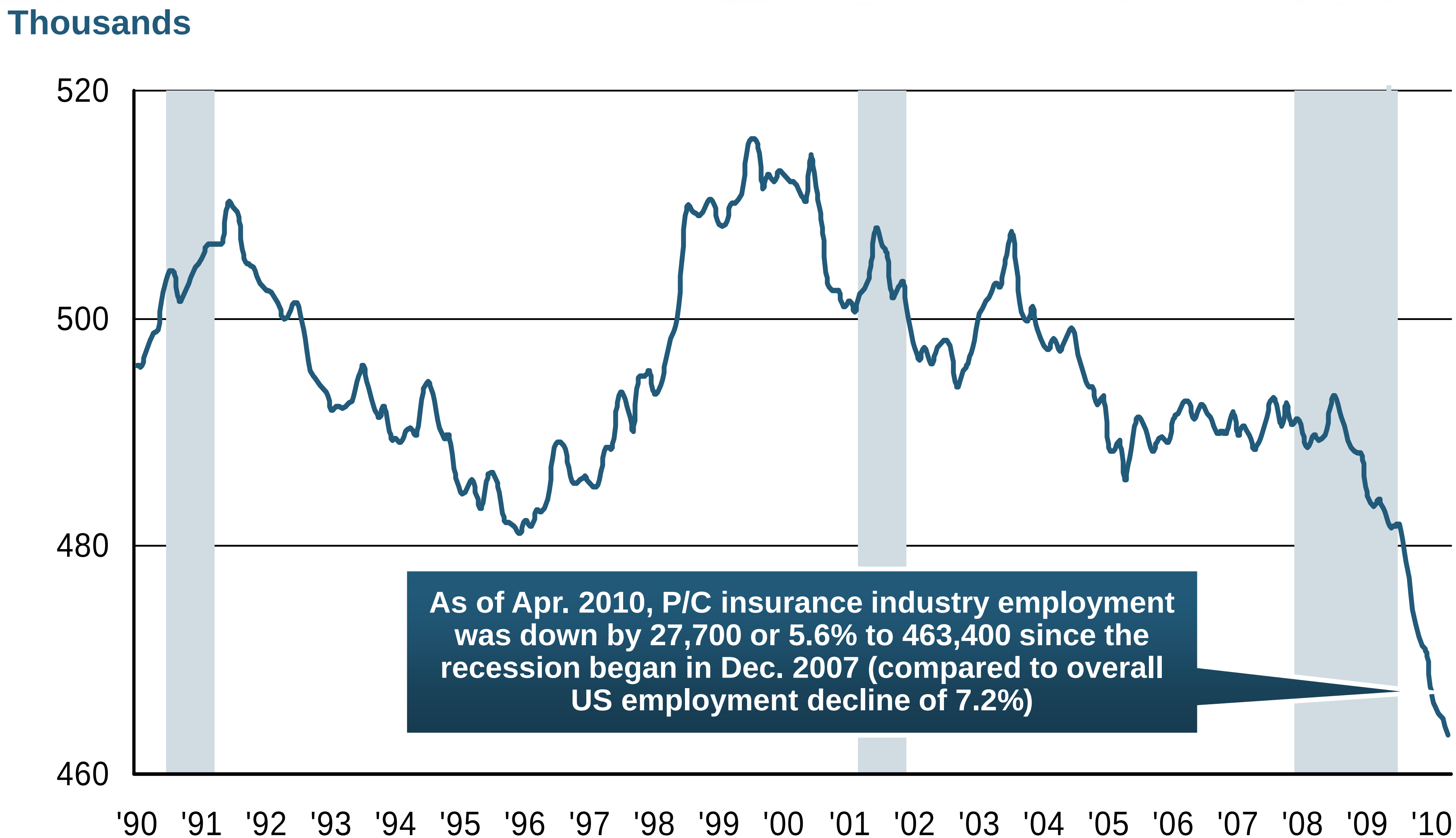
Note: Recessions indicated by gray bars.

Sources: NCCI from US Bureau of Labor Statistics; National Bureau of Economic Research

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*

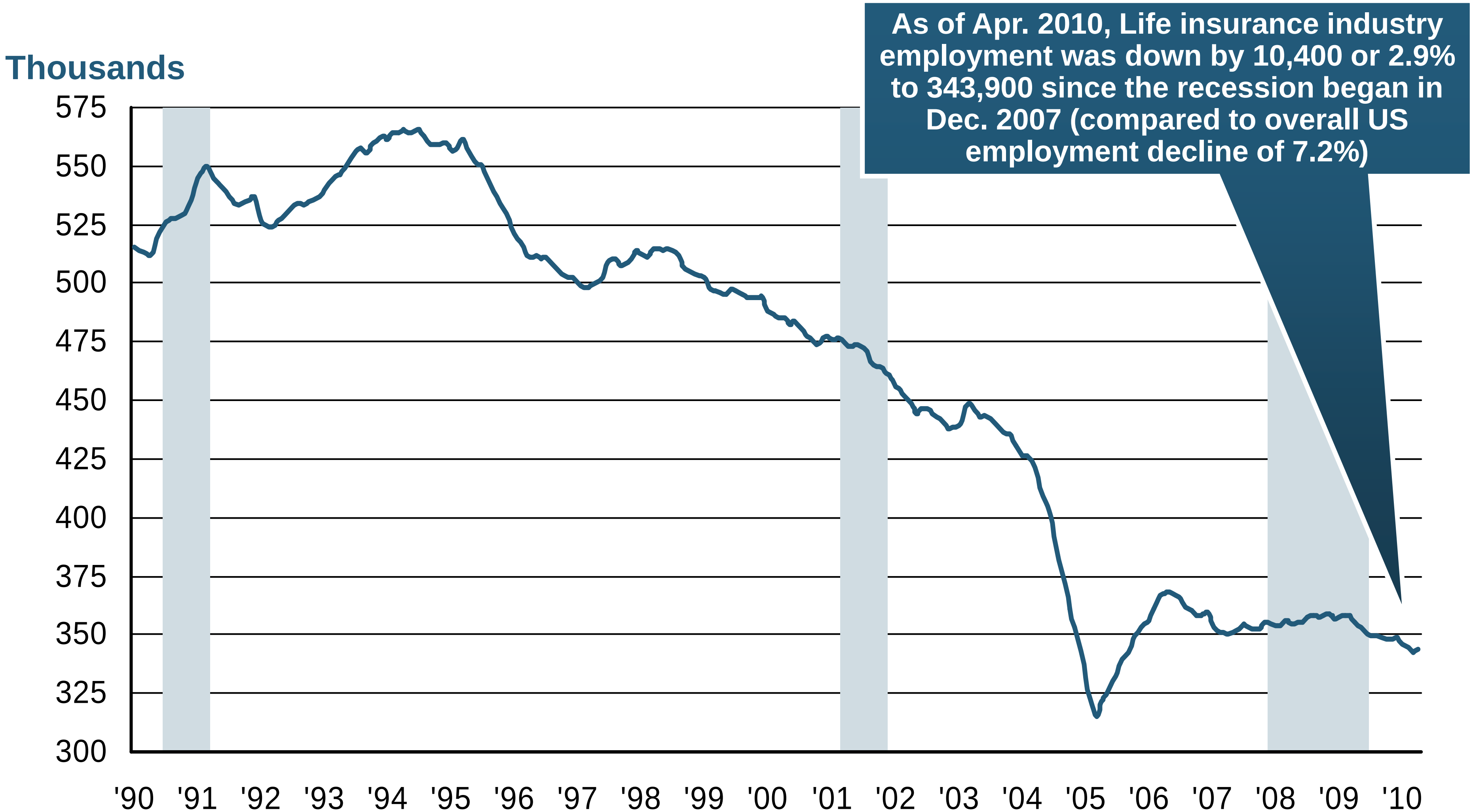


*As of April 2010; Not seasonally adjusted; Does not including agents & brokers

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 Direct Life Insurance Industry: 1990–2010*

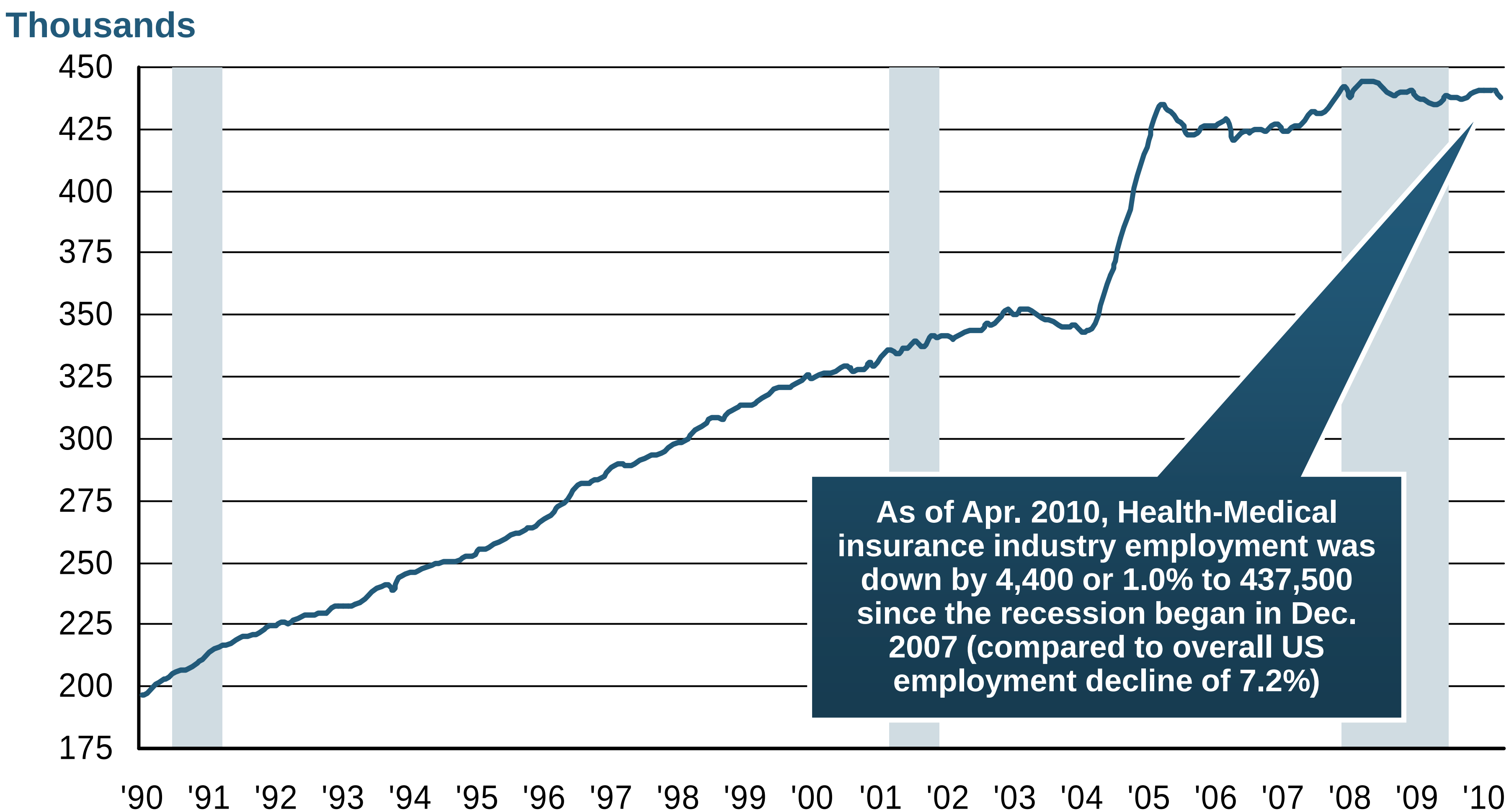


*As of April 2010; Not seasonally adjusted; Does not including agents & brokers

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 Direct Health-Medical Insurance Industry: 1990–2010*



*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*

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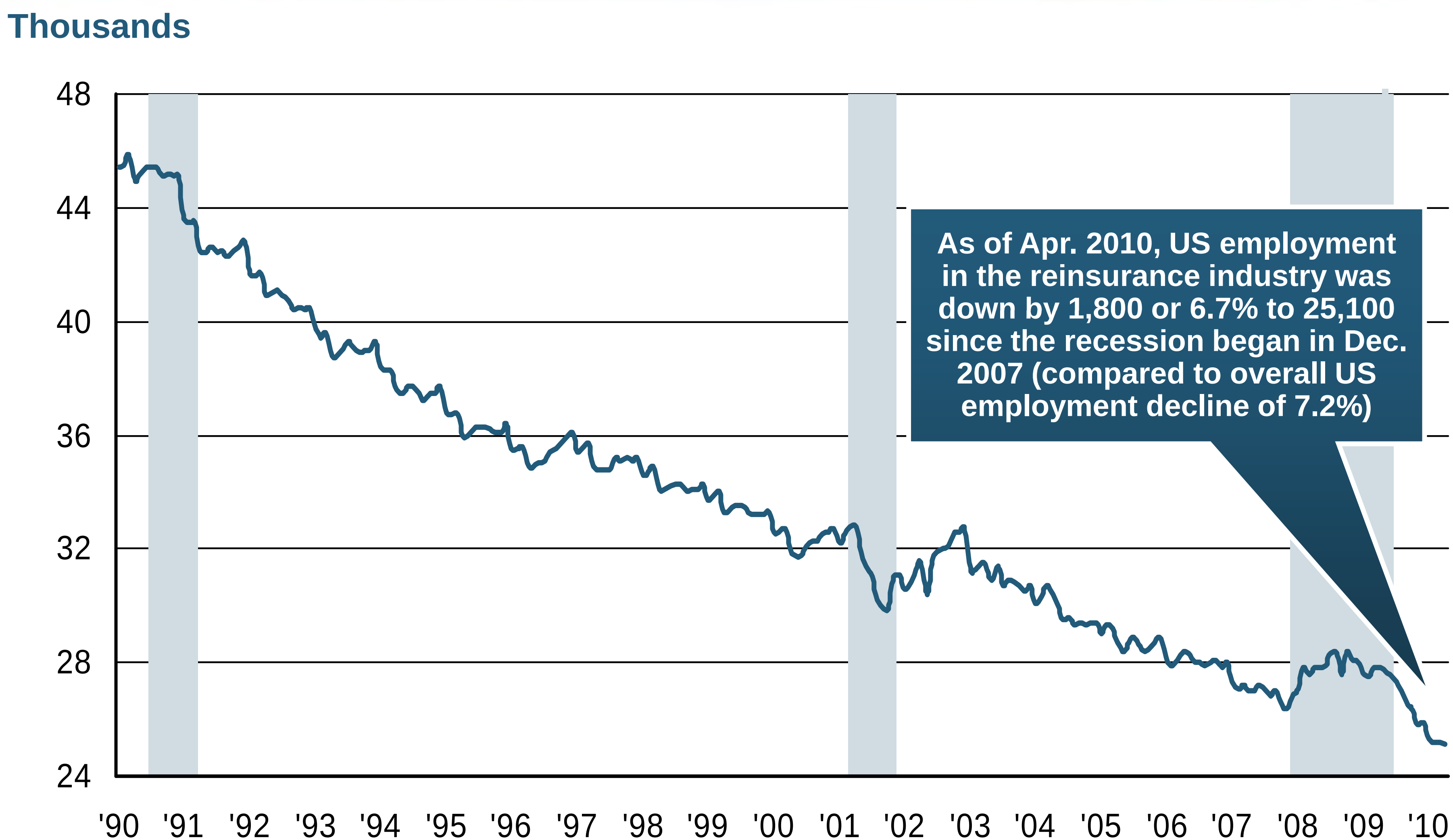

*As of April 2010; Not seasonally adjusted; Does not including agents & brokers

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 Insurance Agencies & Brokerages: 1990–2010*

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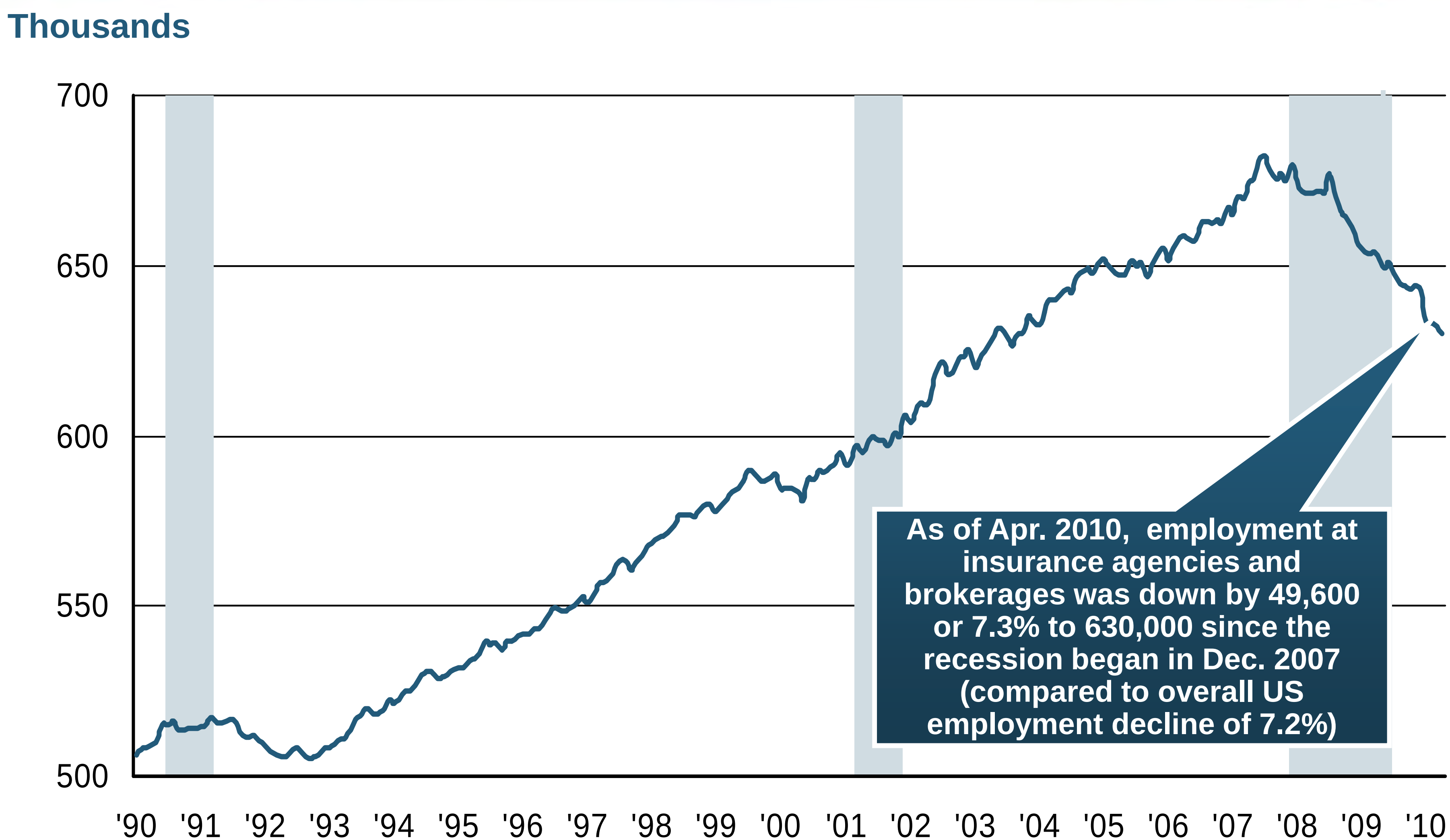

*As of April 2010; Not seasonally adjusted. Includes all types of insurance.

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*

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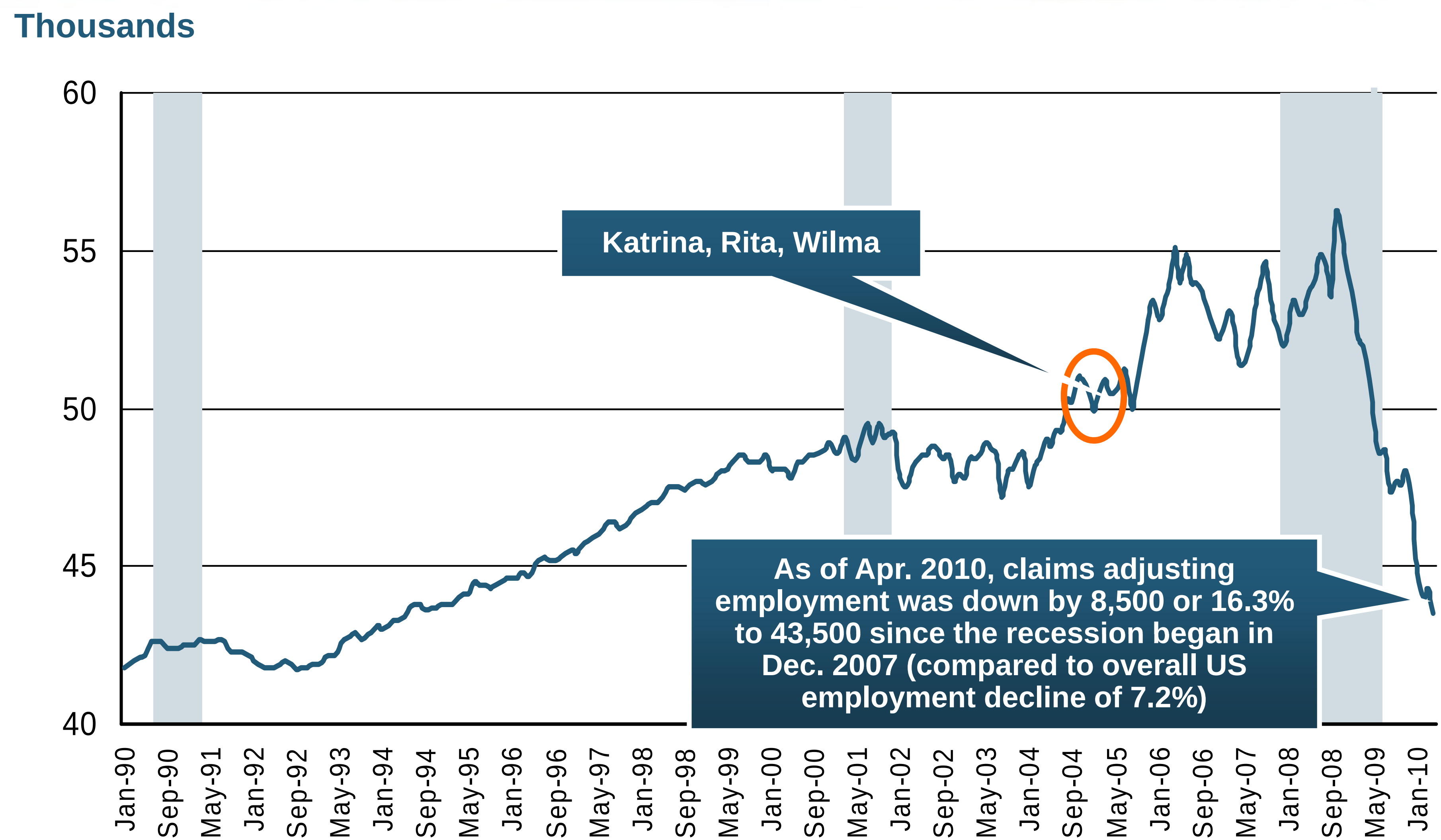

*As of April 2010; Not seasonally adjusted.

Note: Recessions indicated by gray shaded columns.

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

U.S. Employment in Third-Party Administration of Insurance Funds: 1990–2010*

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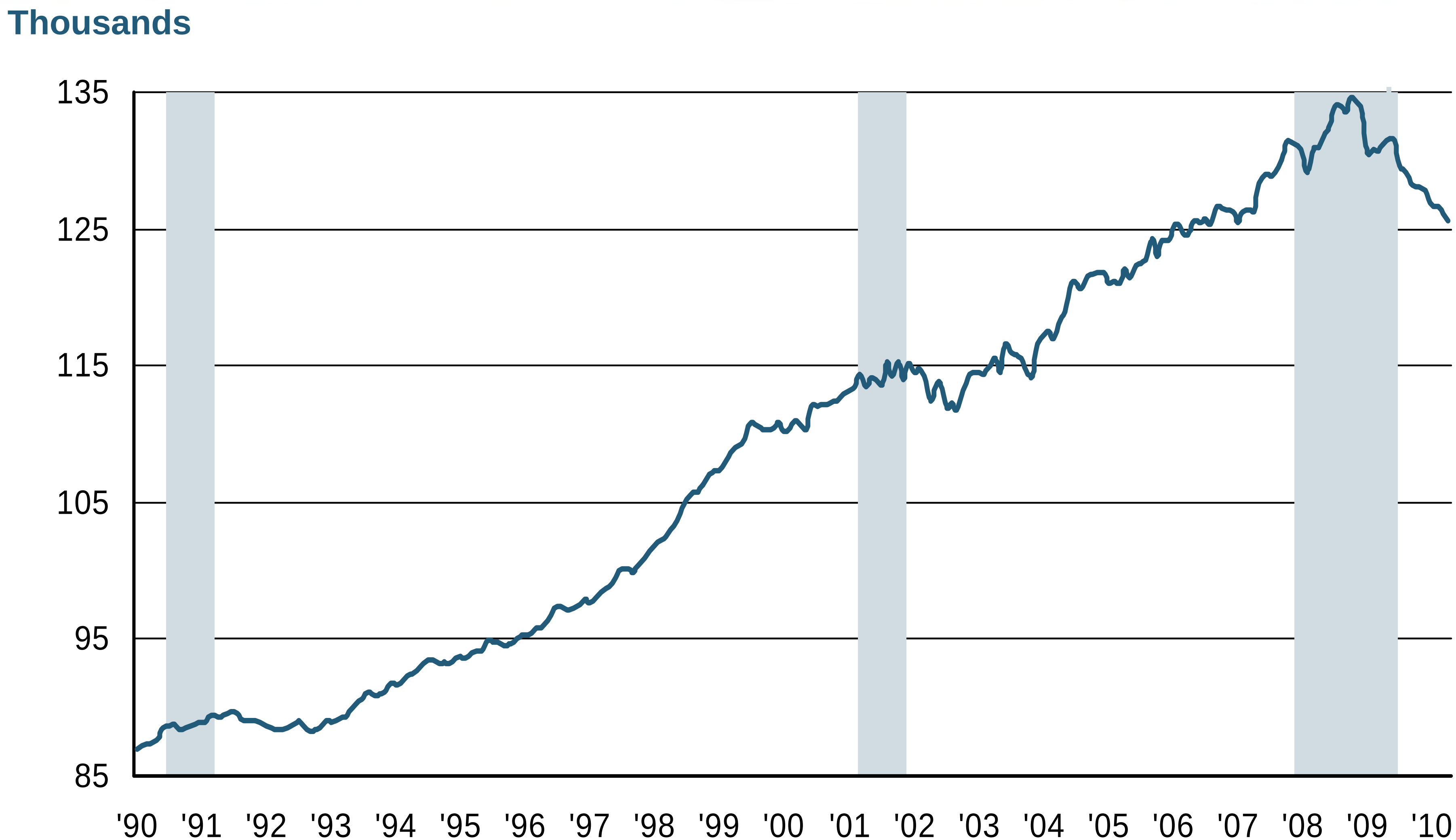

*As of April 2010; Not seasonally adjusted. Includes all types of insurance.

Note: Recessions indicated by gray shaded columns.

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

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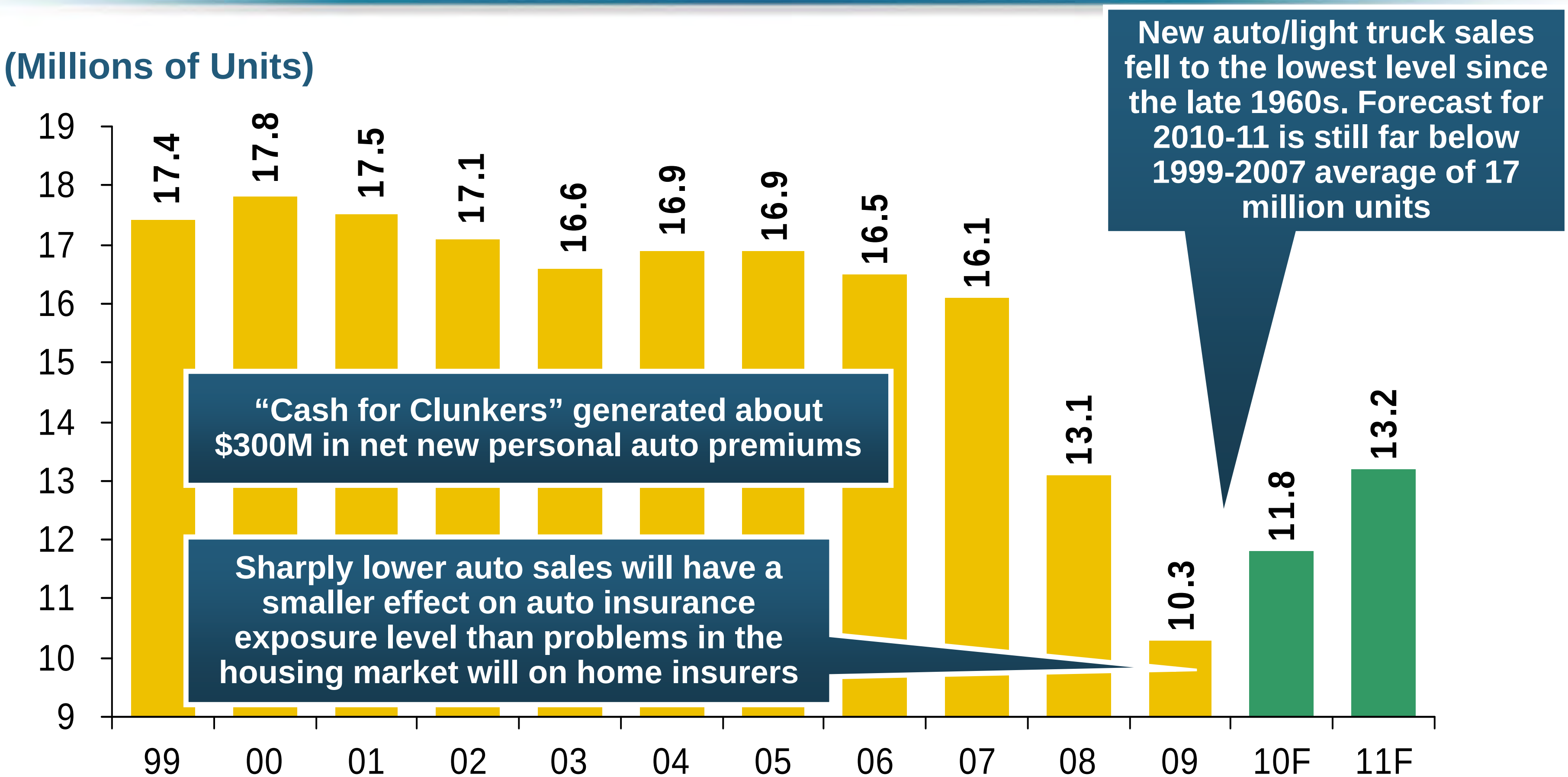
Crisis-Driven Exposure Drivers

Economic Obstacles to Growth in P/C Insurance

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.

New Private Housing Starts, 1990-2011F

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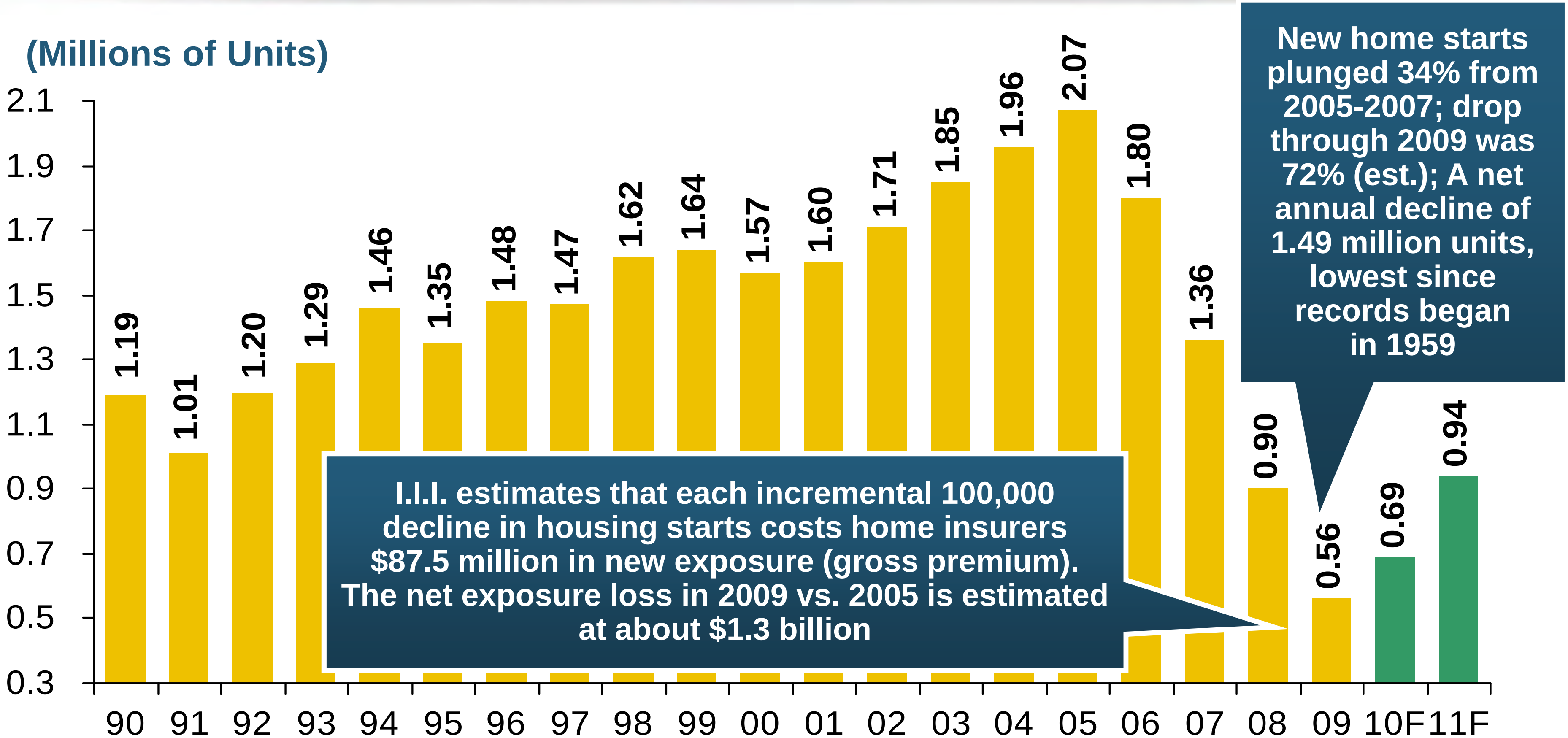
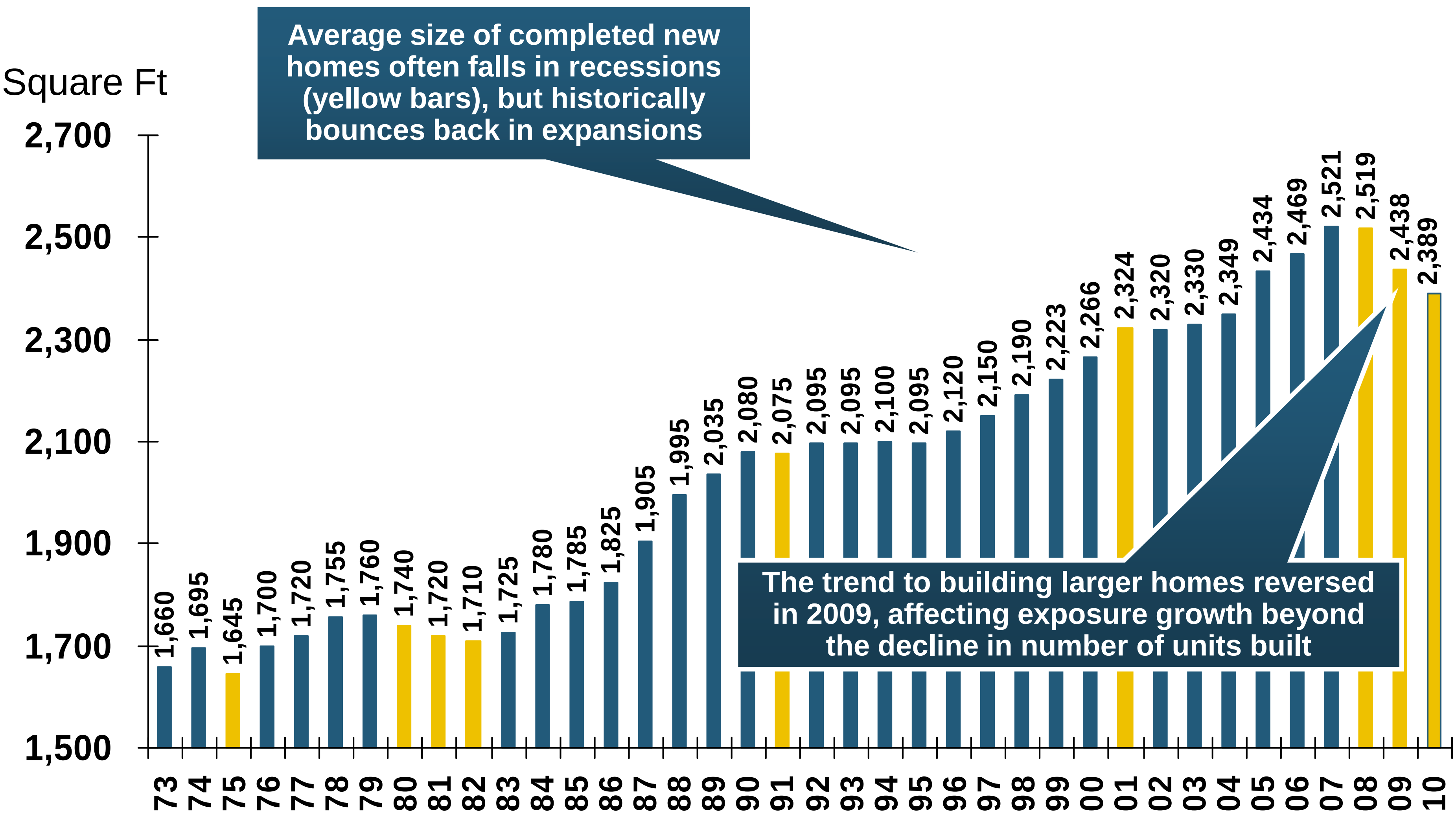


Little Exposure Growth Likely for Homeowners Insurers Due to Weak Home Construction Forecast for 2010-2011. Also Affects Commercial Insurers with Construction Risk Exposure, Surety

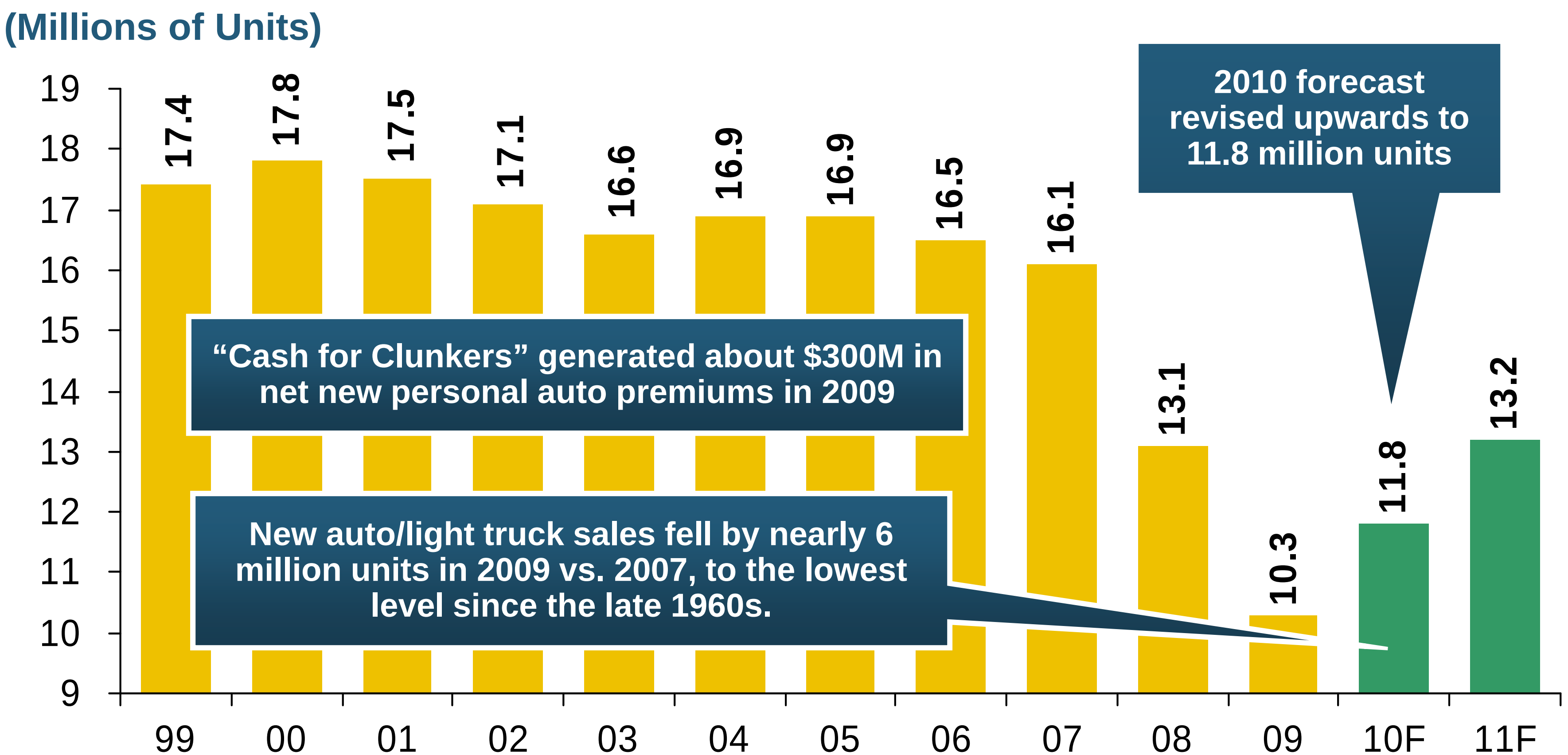
Source: U.S. Department of Commerce; Blue Chip Economic Indicators (5/10); Insurance Information Institute.

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 & Truck Sales Are Beginning to Recover but Weak Economy, Credit Woes Are Still Restraining Sales; Gas Prices Could Once Again Become a Factor Too, But Overall Exposure Trend is Becoming More Favorable

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

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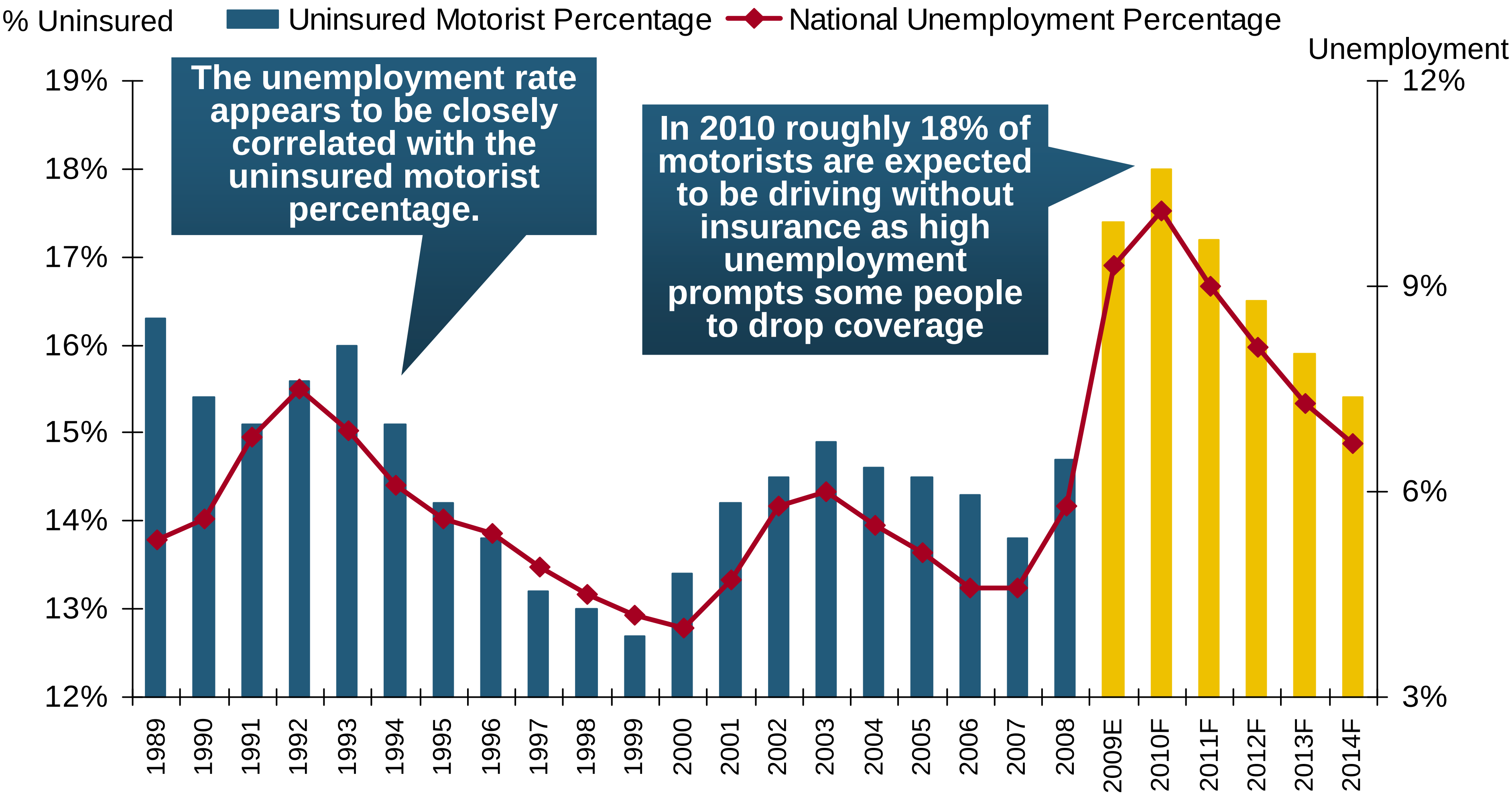

Source: *Uninsured Motorists, 2008* Edition, Insurance Research Council; Blue Chip Economic Indicators (Unemployment data, including forecasts); Insurance Information Institute.

New Boat Sales Symptomatic of Decline in Insured Exposure Growth for Luxury/Discretionary Items

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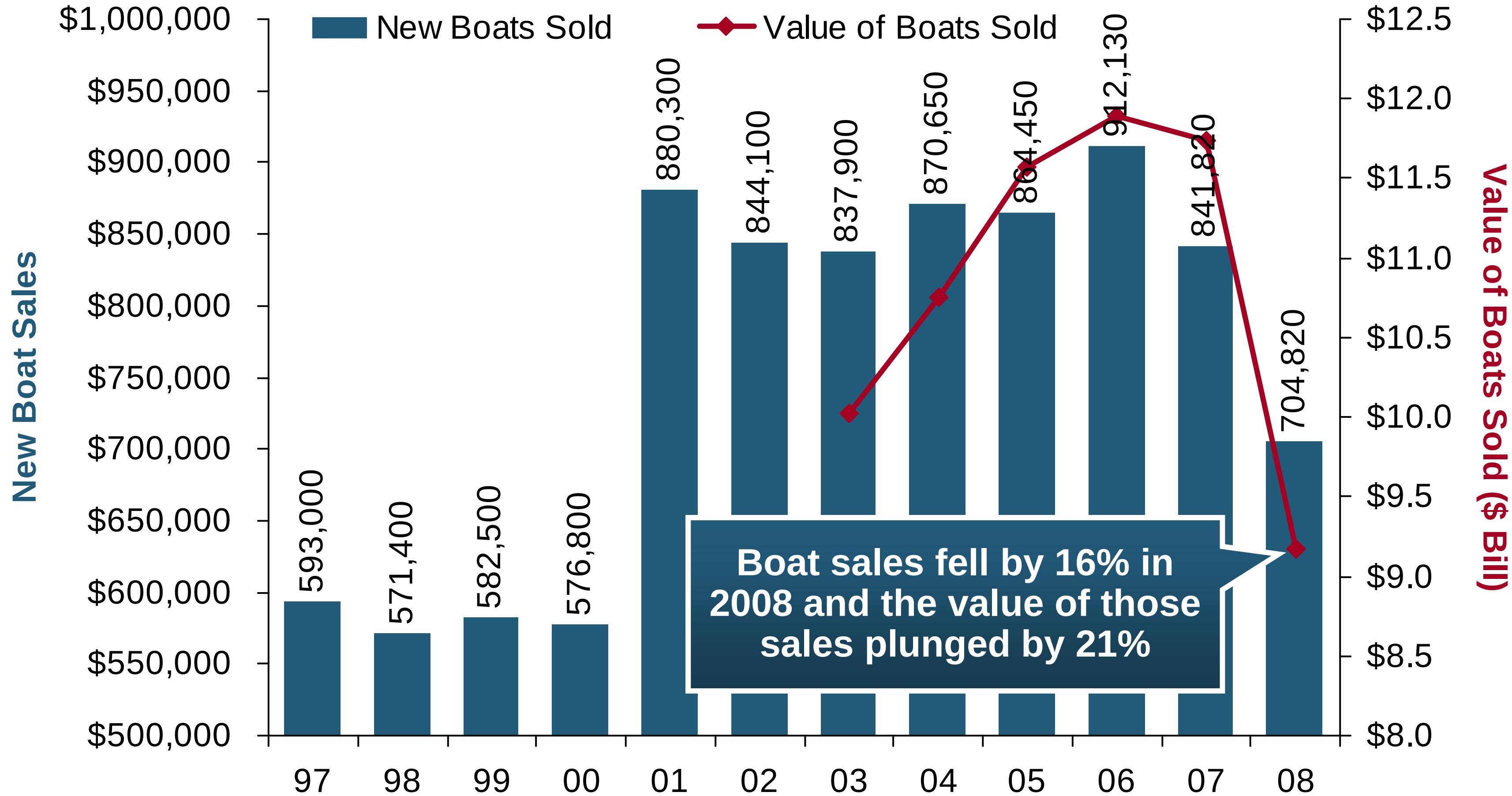
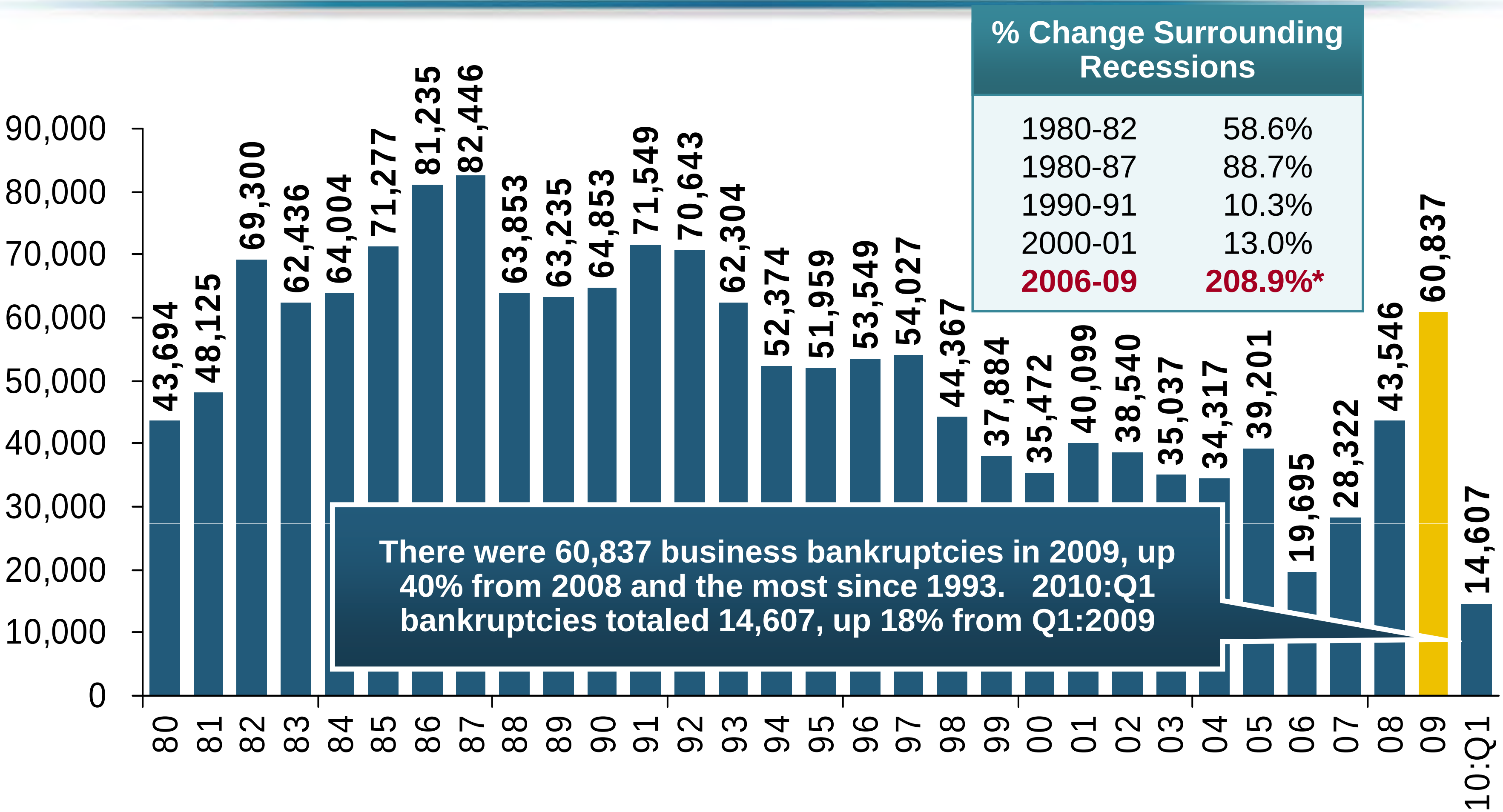


Sources: National Marine Manufacturers Association, 2008 Abstract (latest available as of Feb. 2010); Insurance Information Institute.

Business Bankruptcy Filings, 1980-2010:Q1



Significant Exposure Implications for All Commercial Lines

Source: American Bankruptcy Institute; Insurance Information Institute

Private Sector Business Starts, 1993:Q2 – 2009:Q3*

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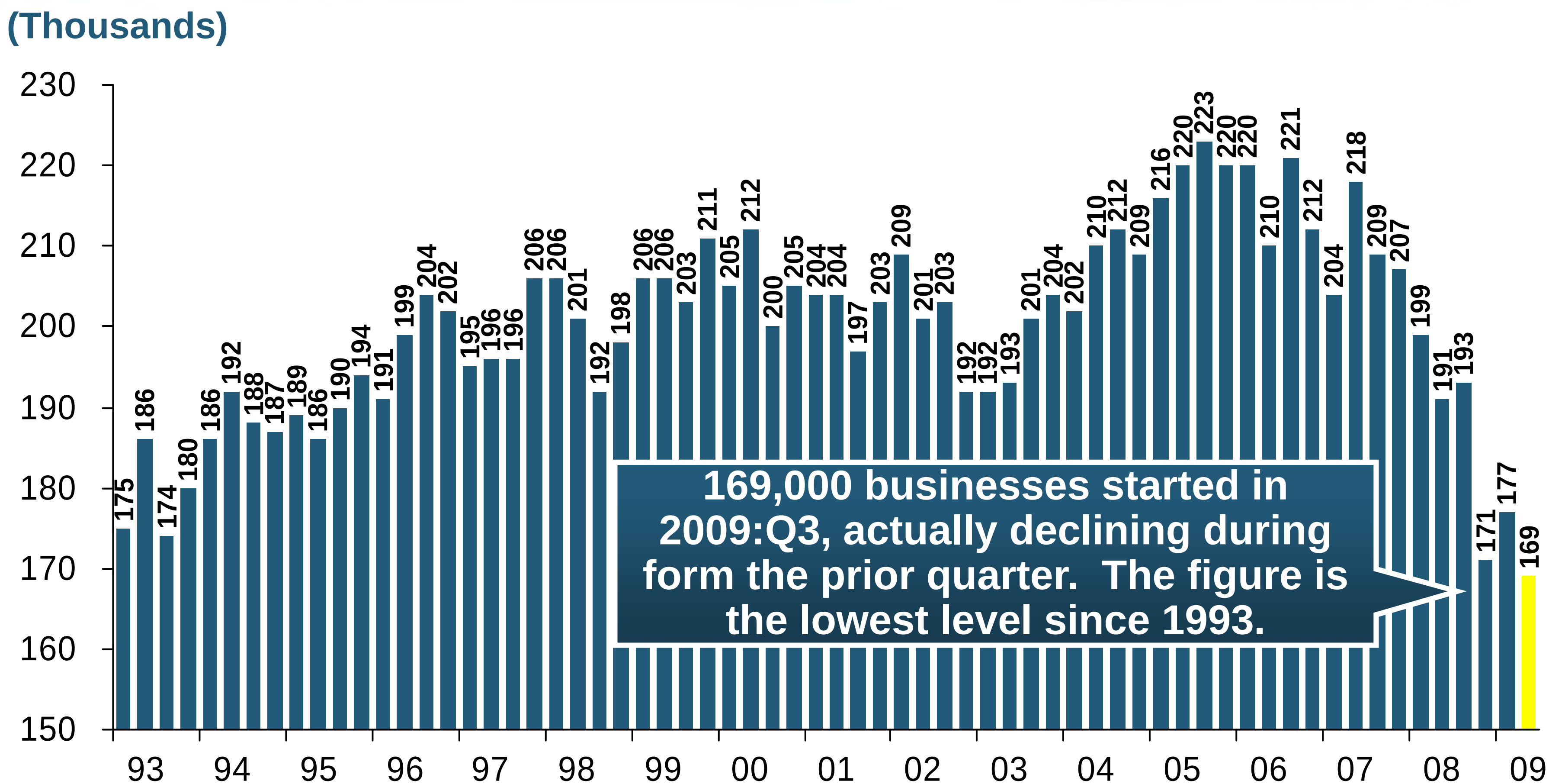

Business Starts Are Down Nearly 20% in the Current Downturn, Holding Back Most Types of Commercial Insurance Exposure

*Latest available as of June 7, 2010, seasonally adjusted

Source: Bureau of Labor Statistics, http://www.bls.gov/news.release/cewbd.t07.htm.

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

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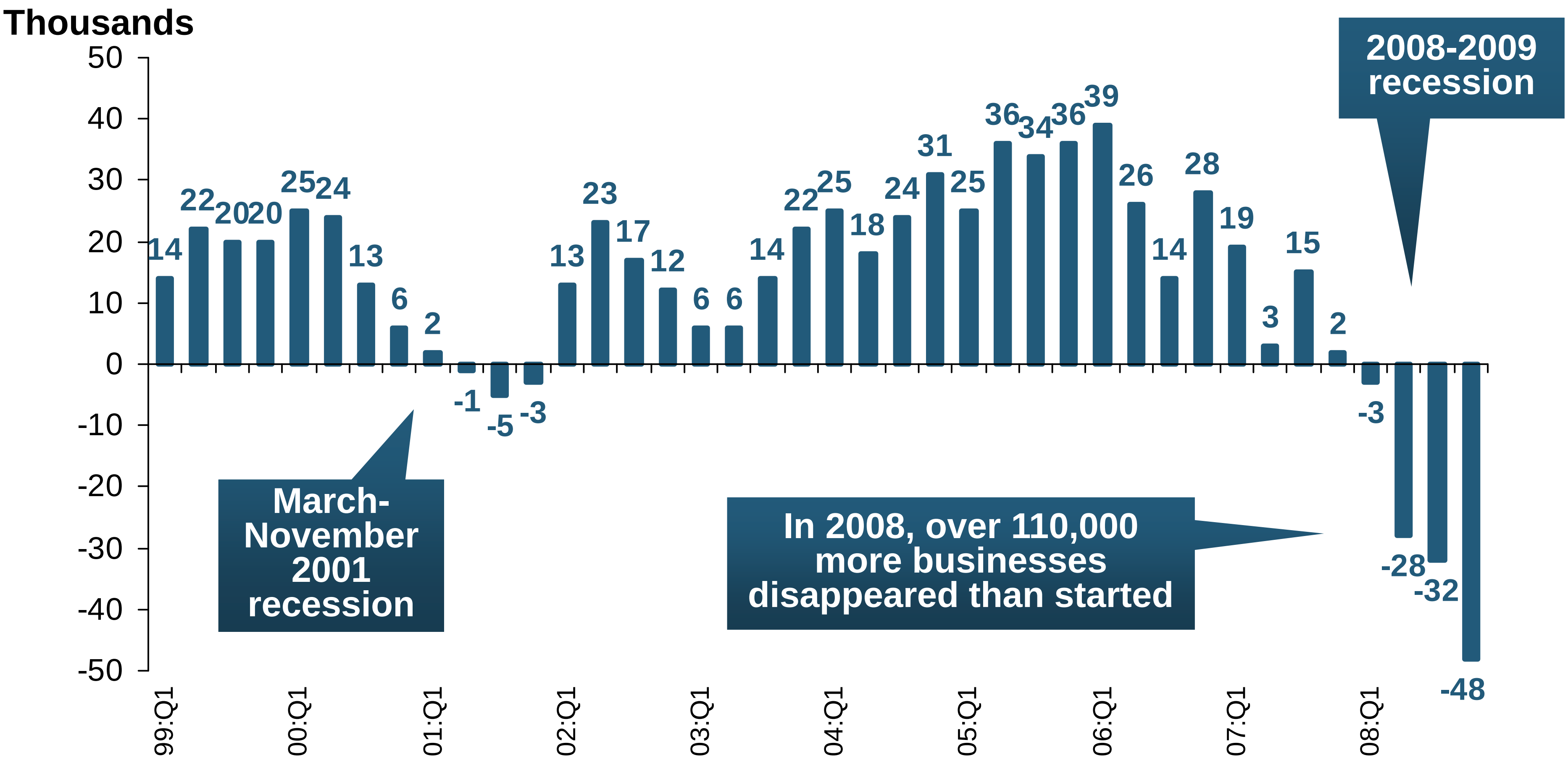

Net Business Formations Likely Were Positive Again, at Least in the Second Half of 2009 and into 2010.

*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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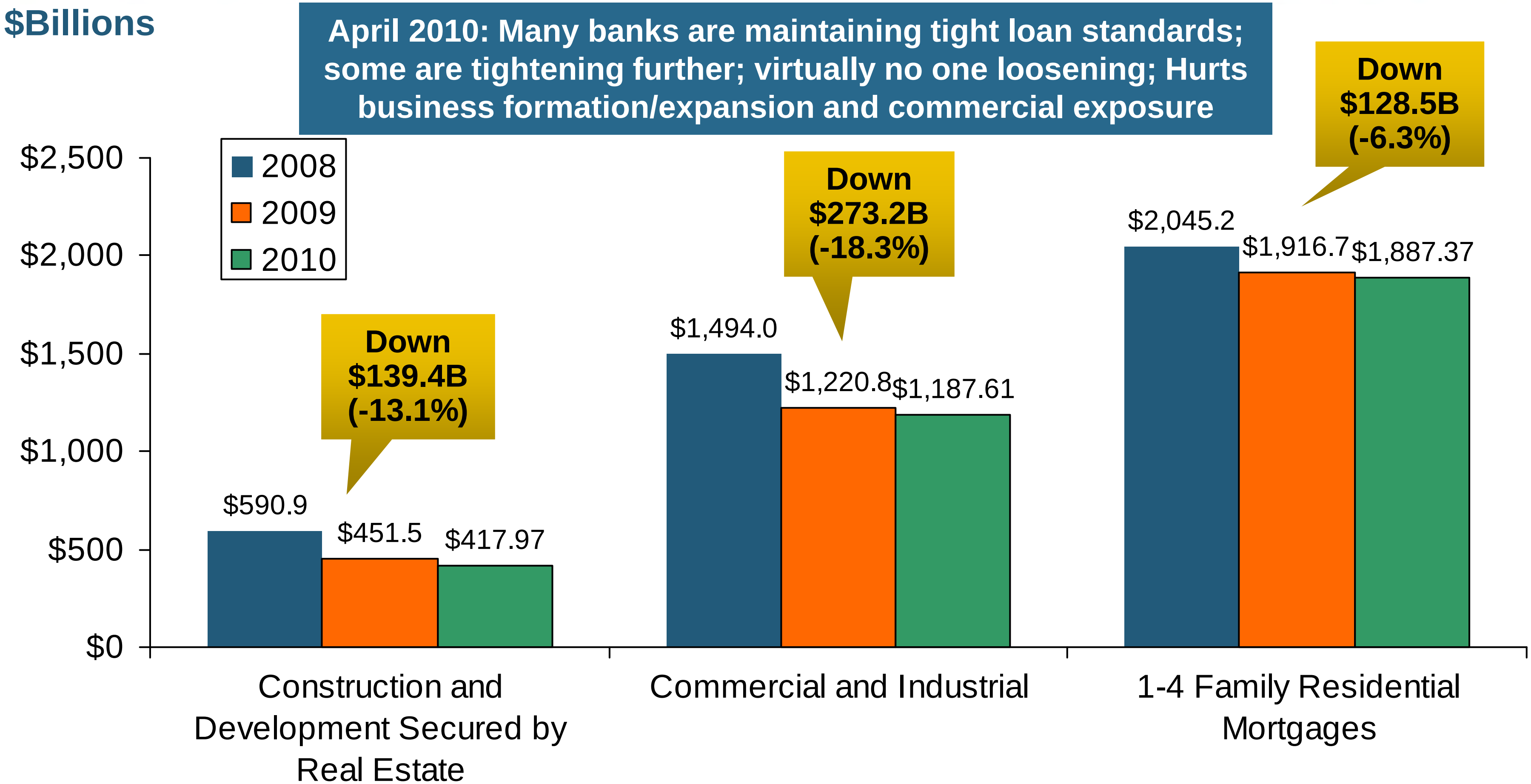
April 2010: Many banks are maintaining tight loan standards; some are tightening further; virtually no one loosening; Hurts business formation/expansion and commercial exposure

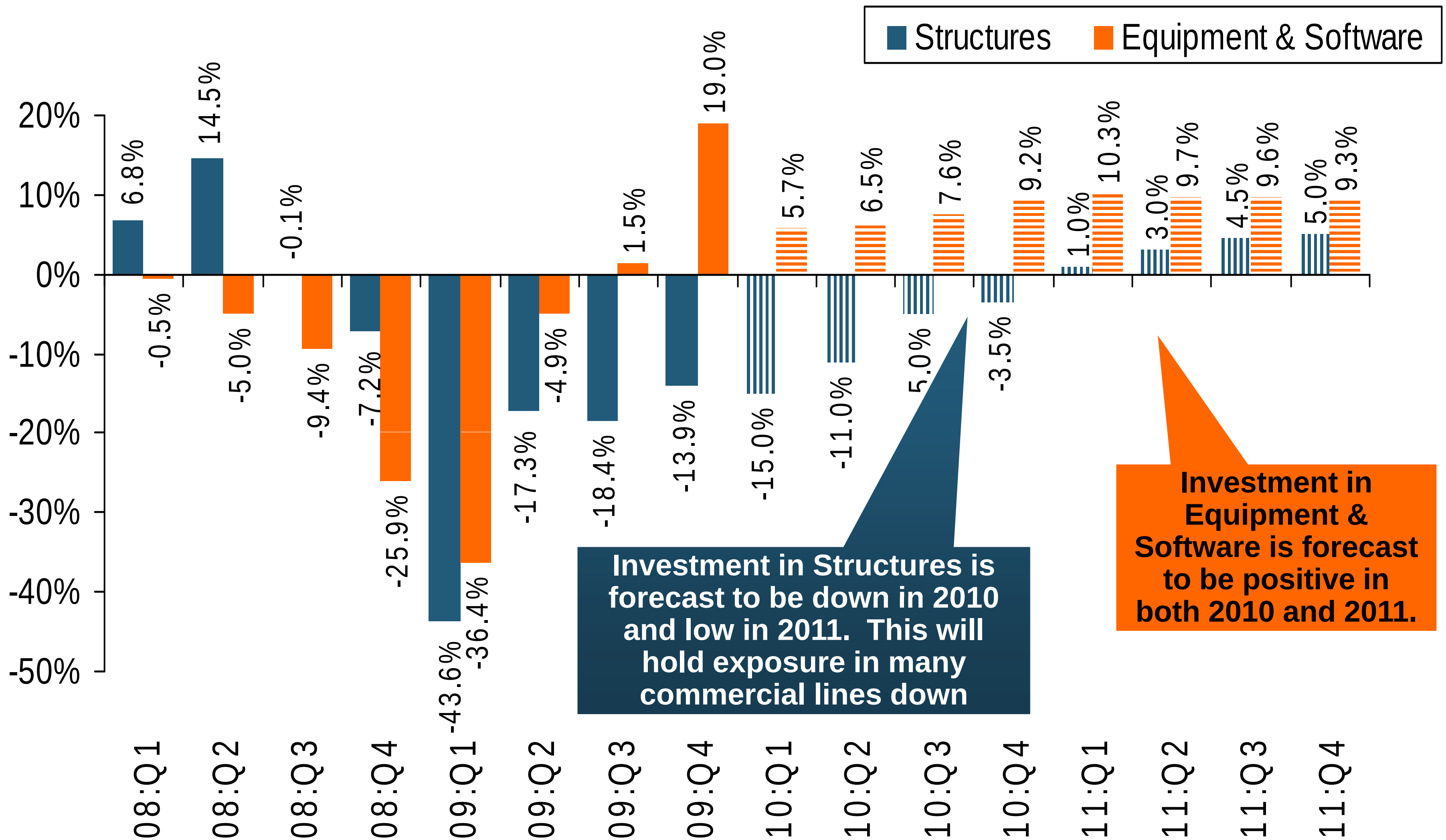


FDIC-Insured Institutions Had $541.1B (-13.1%) Less in Outstanding Loans in These Three Categories at Year-end 2009 vs. 2008, and Even Less at End of 2010:Q1

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

Total Industrial Production

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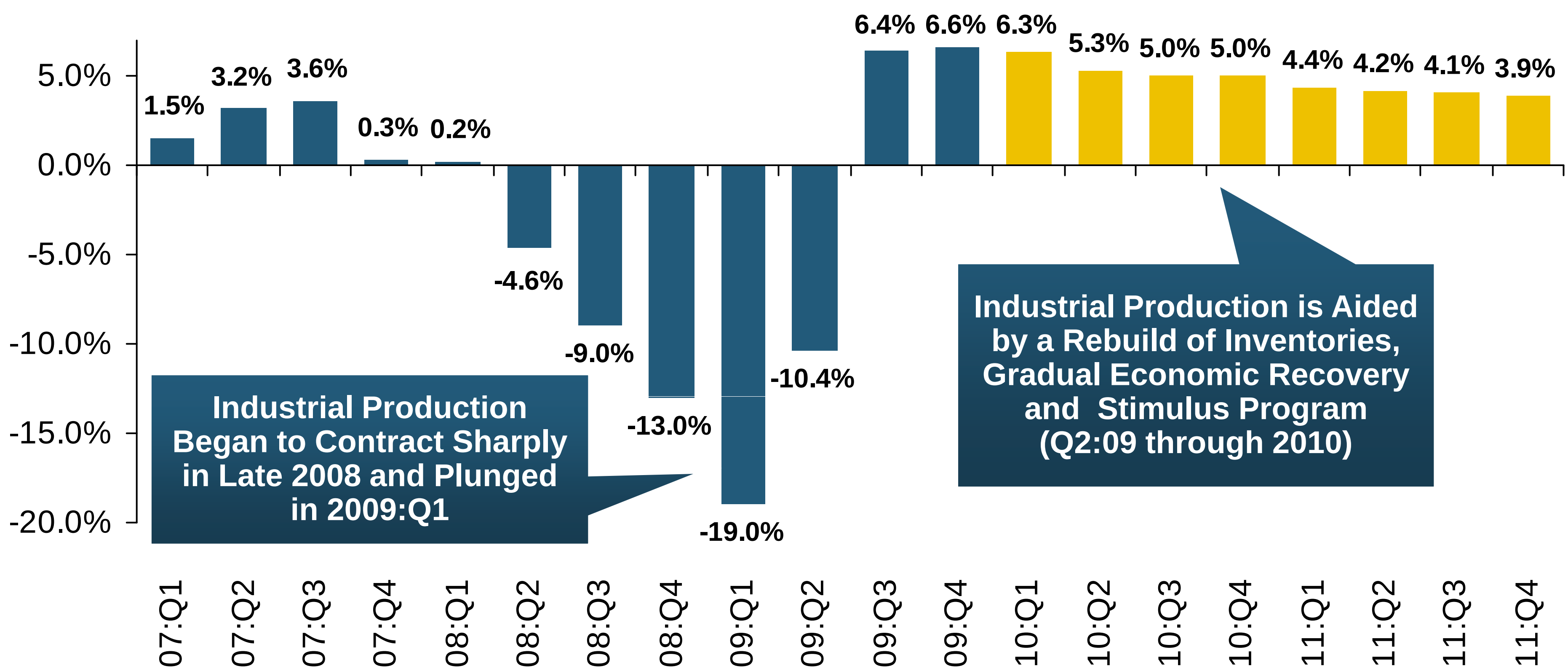
2007:Q1 to 2011:Q4F (%)



End of Recession in mid-2009, Stimulus Program Are Benefiting Industrial Production and Therefore Insurance Exposure Both Directly and Indirectly, Albeit Very Modestly

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (4/10); Insurance Information Institute

State & Local Government Finances in Dire Straits

Large, Long-Term Cuts Necessary to Align Spending with Shrinking Tax Revenues

Year-Over-Year Change in Quarterly US State Tax Revenues, Inflation Adjusted

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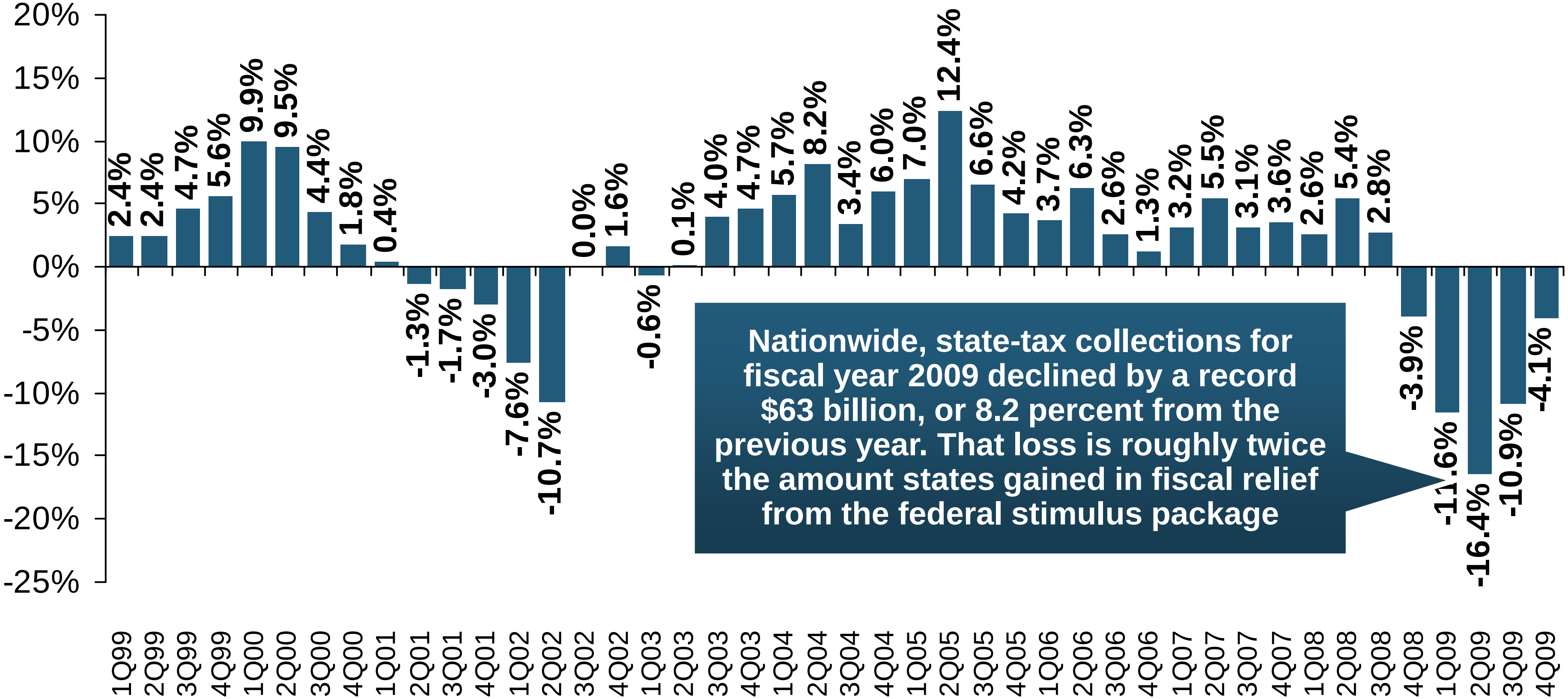

States Revenues Were Down 4.4% in Q4 2009, the 5th Consecutive Quarter of Revenue Decline. This Will Impact Public Infrastructure Spending Significantly and Related Insurance Exposures and Demand.

Source: US Census Bureau; Nelson A. Rockefeller Institute of Government: http://www.rockinst.org/.

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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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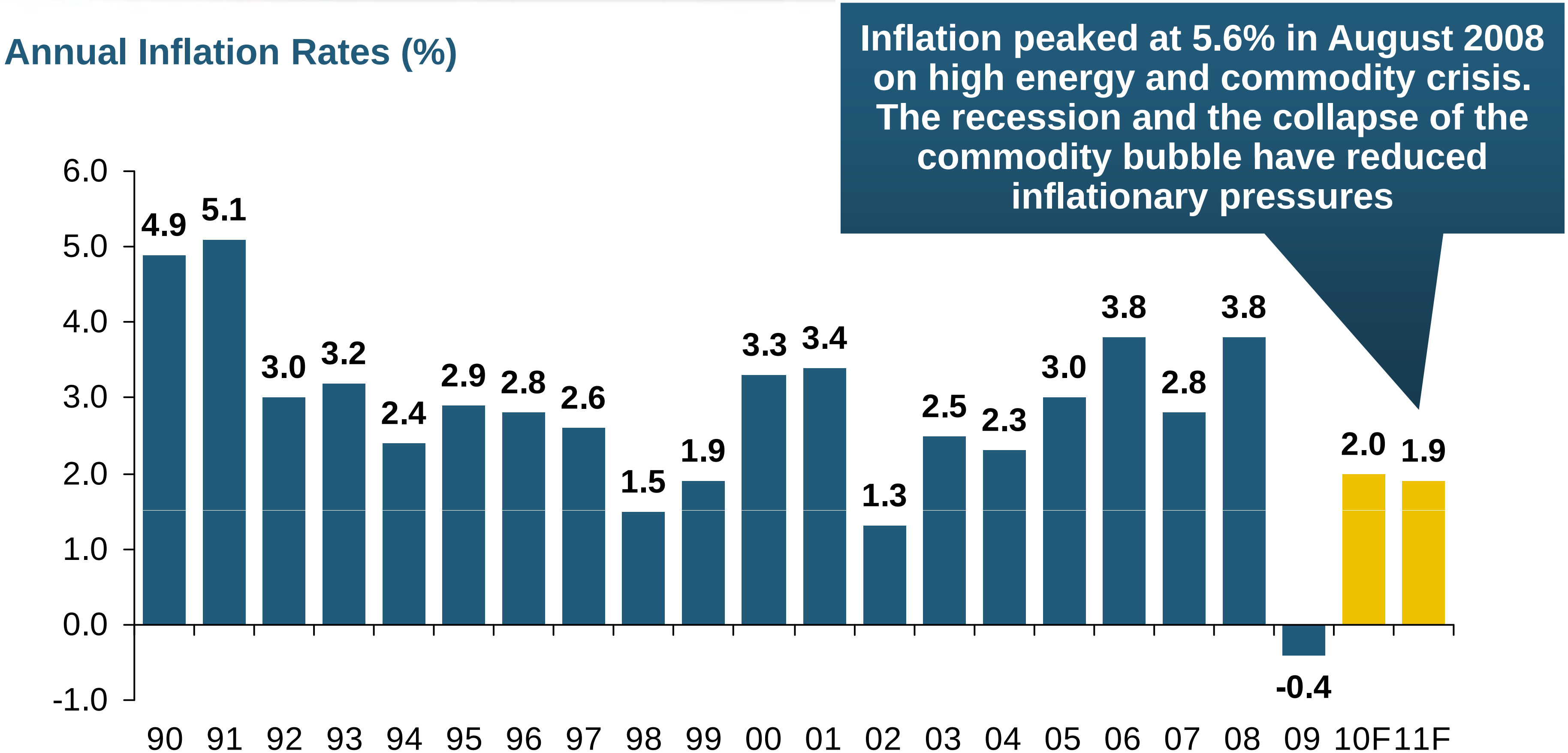

There is So Much Slack in the US Economy That Inflation Should Not Be a Concern Through 2010/11, but Depreciation of Dollar is Concern Longer Run

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

Forecasts of Annual Inflation Rates (CPI-U, %), 2010–2015F

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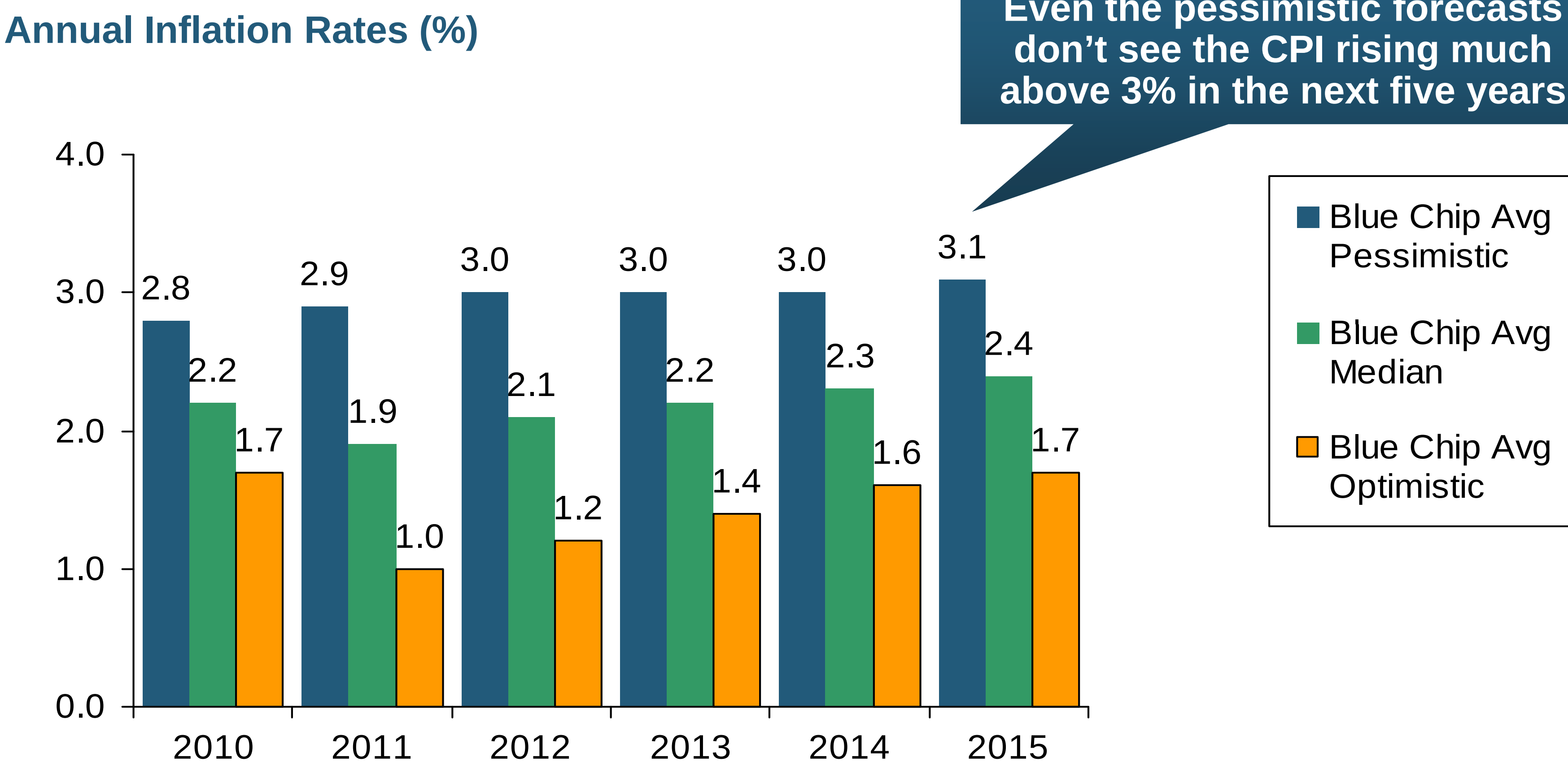
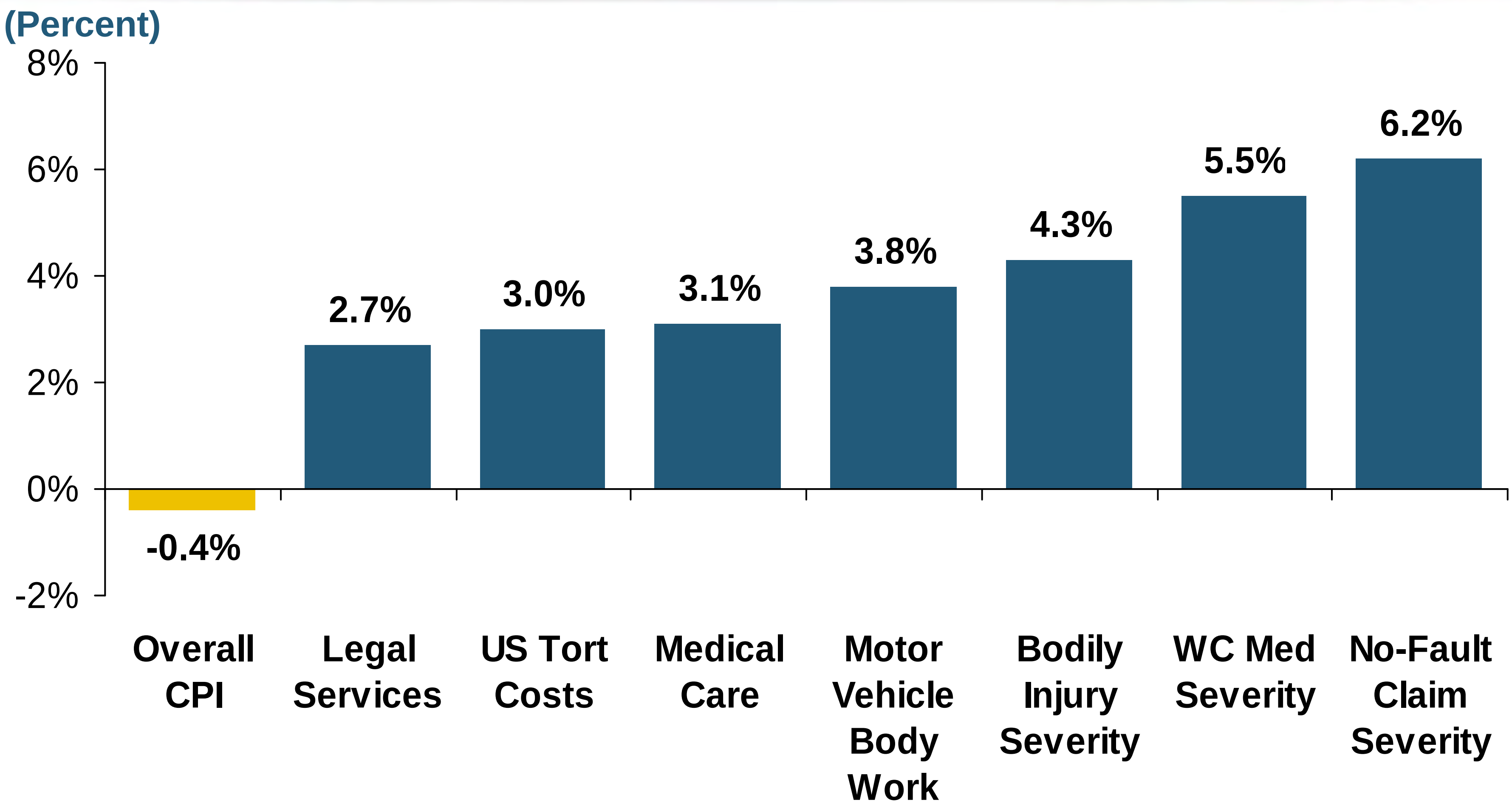
Even the pessimistic forecasts don't see the CPI rising much above 3% in the next five years



Inflation Will Accelerate Modestly through 2015 but Should Is Not Expected to Become a Major Concern or Threat

Sources: Blue Chip Economic Indicators, Oct. 2009 and Mar. 2010.

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



Healthcare and Legal/Tort Costs Are a Major P/C Insurance Cost Driver. These Are Expected to Increase 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

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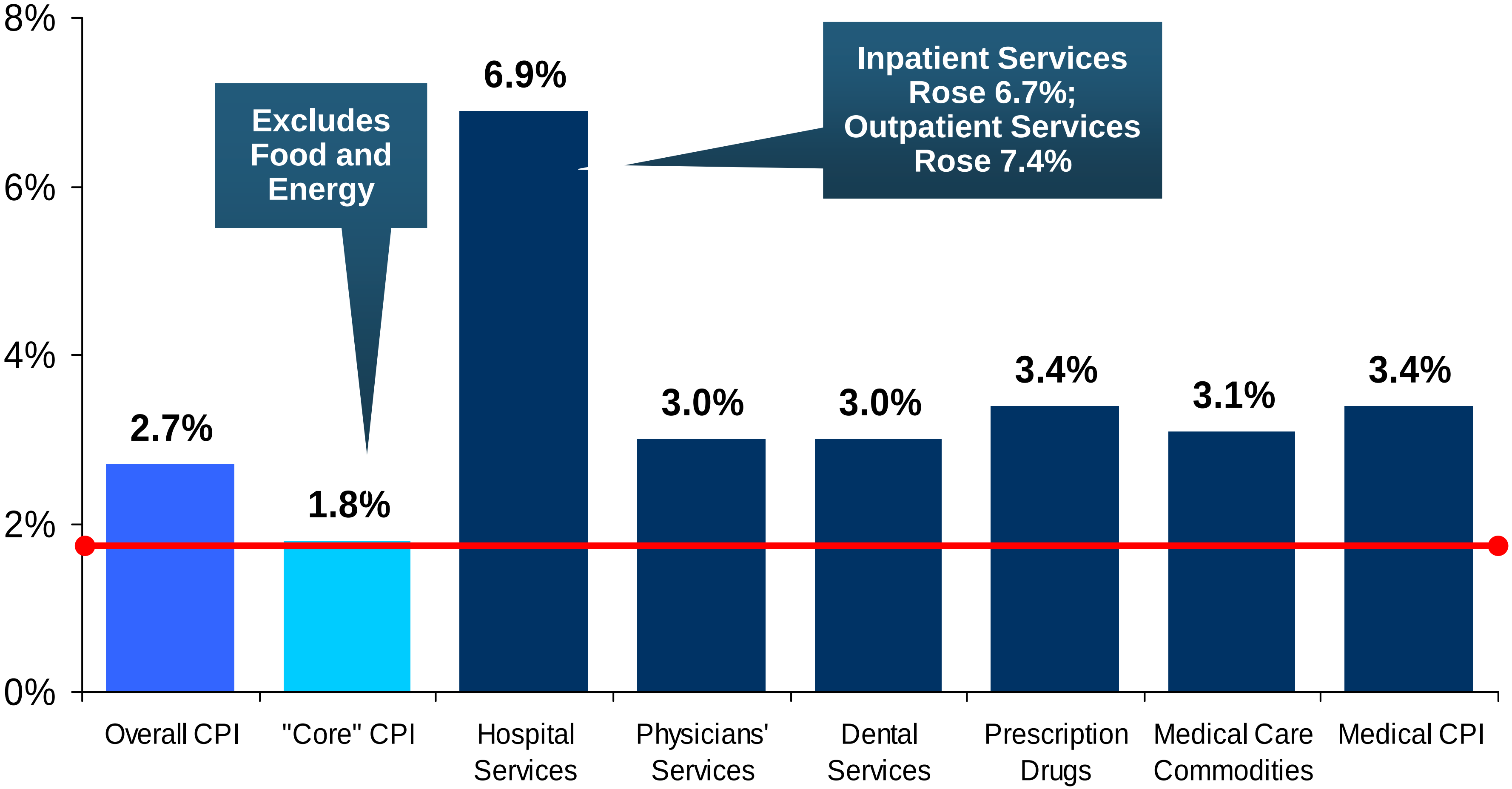
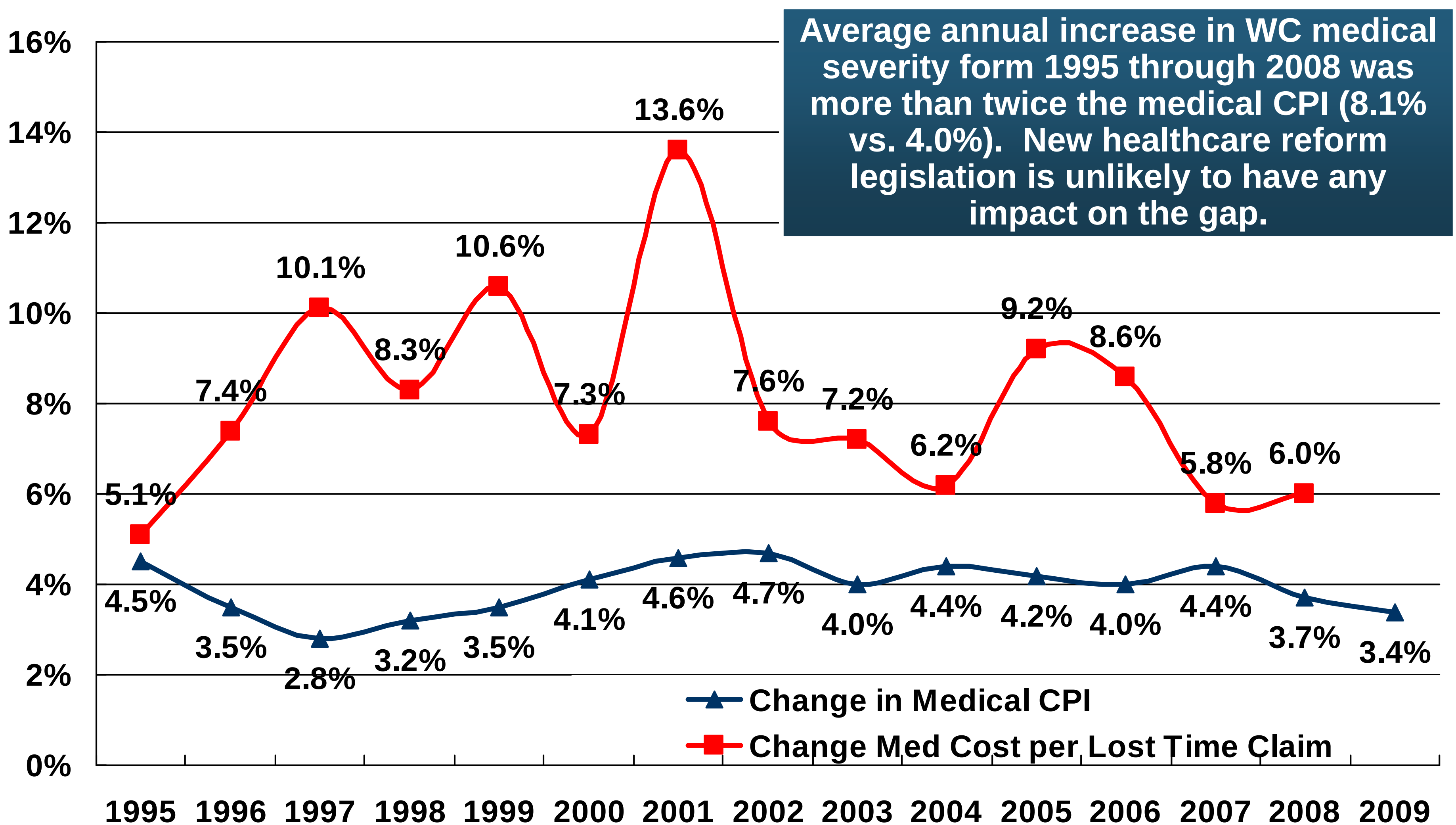
(Percent increase Dec 08 to Dec 09)



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.

WC Medical Severity Rising at Twice the Medical CPI Rate



Sources: Med CPI from US Bureau of Labor Statistics, WC med severity from NCCI based on NCCI states.

Top Concerns/Risks for Insurers if Inflation Is Reignited

Concerns	The Federal Reserve Has Flooded Financial System with Cash (Turned on the Printing Presses), the Federal Gov't Has Approved a $787B Stimulus and the Deficit is Expected to Mushroom to $1.8 Trillion. All Are Potentially Inflationary.

- What are the potential impacts for insurers?
- What can/should insurers do to protect themselves from the risks of inflation?

Key Risks	From Sustained/Accelerating Inflation

- **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

Source: Insurance Information Institute.

Tort Cost Growth & Medical Cost Inflation vs. Overall Inflation (CPI-U), 1961-2009E*

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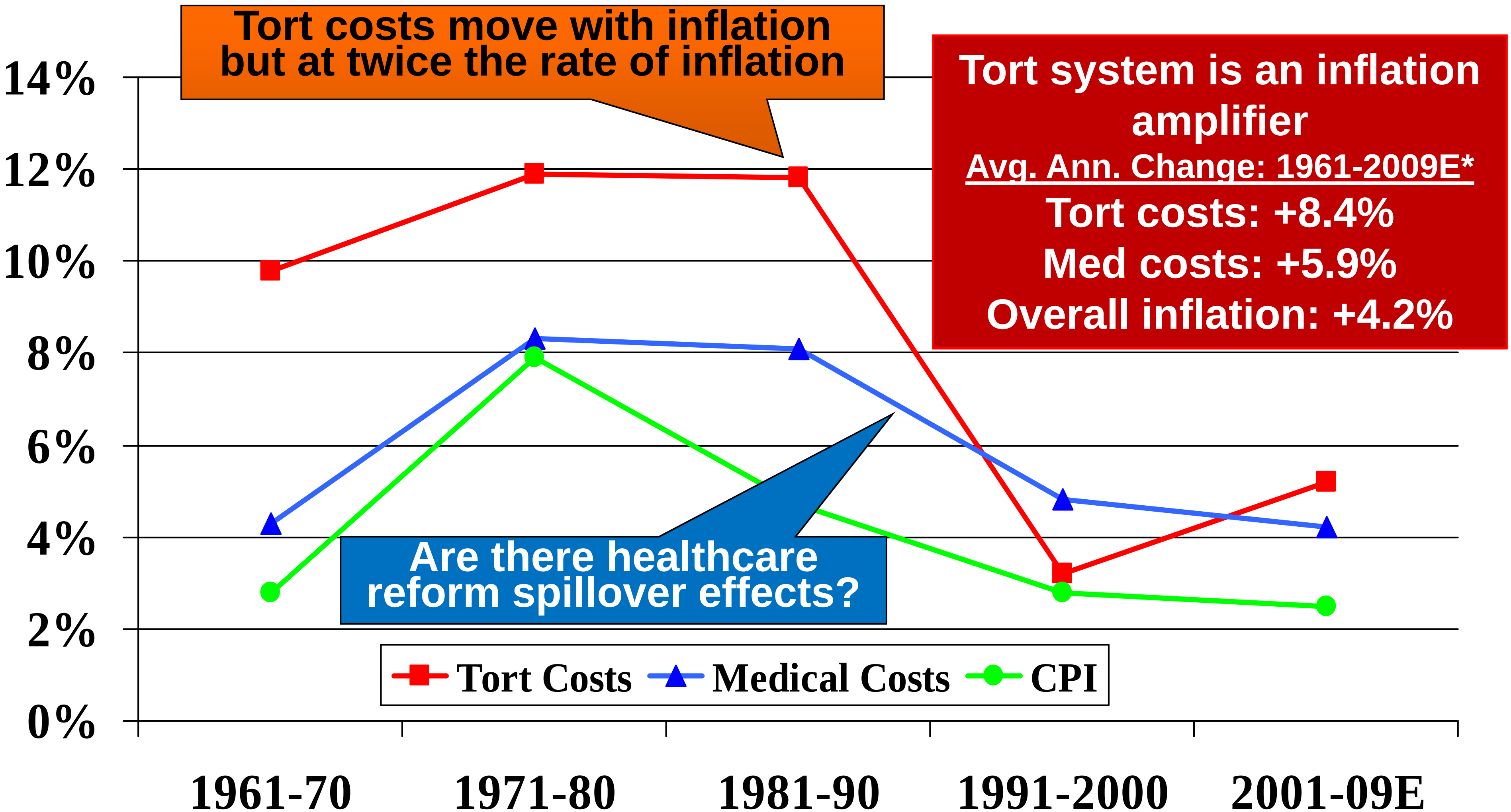


* CPI-U and medical costs as of Sept 2009; Tort figure is for full-year 2009 from Tillinghast.

Source: U.S. Bureau of Labor Statistics; Tillinghast-Towers Perrin, *2008 Update on U.S. Tort Costs;* I.I.I.

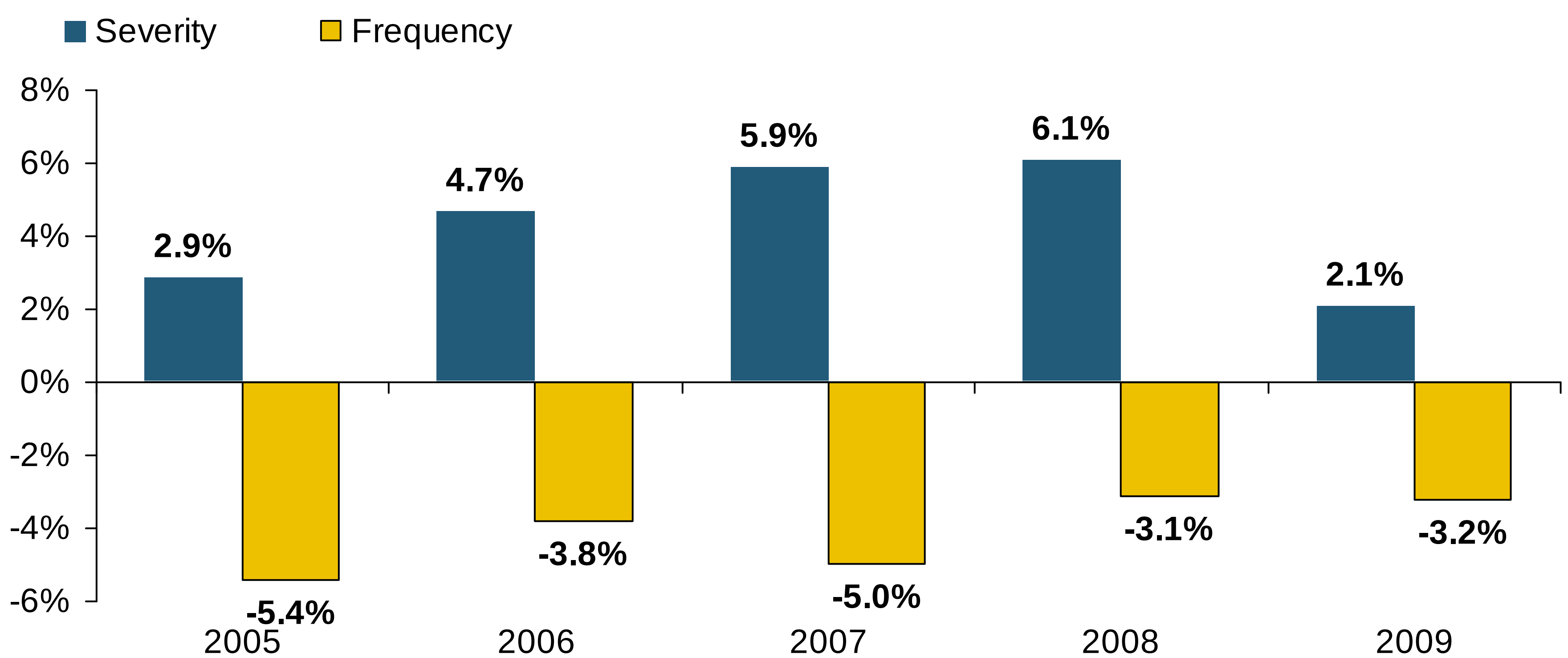
Claim Trends in Auto Insurance

Rising Costs Held in Check by Falling Frequency:

Can That Pattern Be Sustained?

Bodily Injury: Severity Trends Generally Above Decline in Frequency

Annual Change, 2005 through 2009



Cost Pressures Will Increase if Current BI Frequency and Severity Trends Continue

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

Property Damage Liability: Frequency and Severity Trends Nearly Offset in 2009

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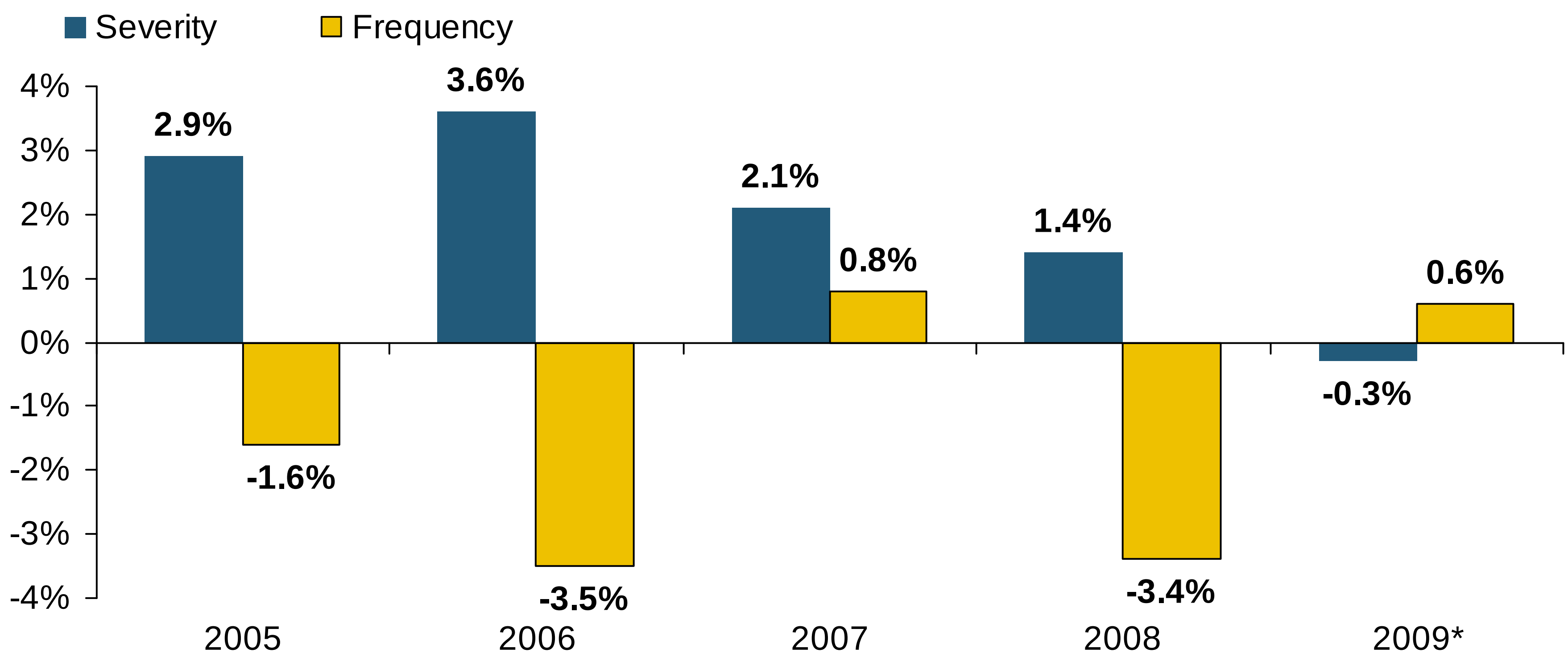
Annual Change, 2005 through 2009



Favorable Severity/Frequency Trends Keeping PD Costs in Check, But Are TheseTrends Sustainable?

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

No-Fault (PIP) Liability: Frequency and Severity Trends Are Adverse*

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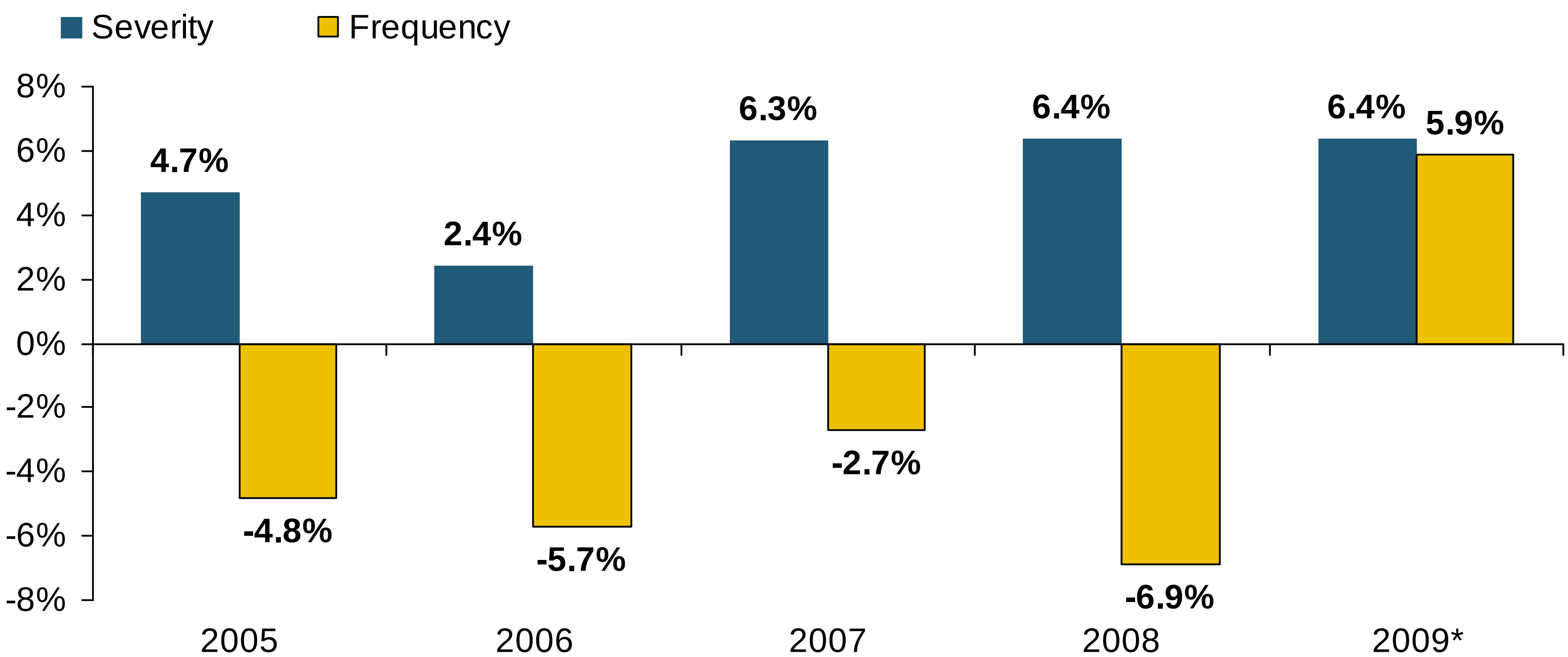
Annual Change, 2005 through 2009



Multiple States Are Experiencing Severe Fraud and Abuse Problems in their No-Fault Systems, Especially FL, MI, NY and NJ

*No-fault states included are: FL, HI, KS, KY, MA, MI, MN, NY, ND and UT.

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

Collision Coverage: Frequency and Severity Trends Have Been Favorable

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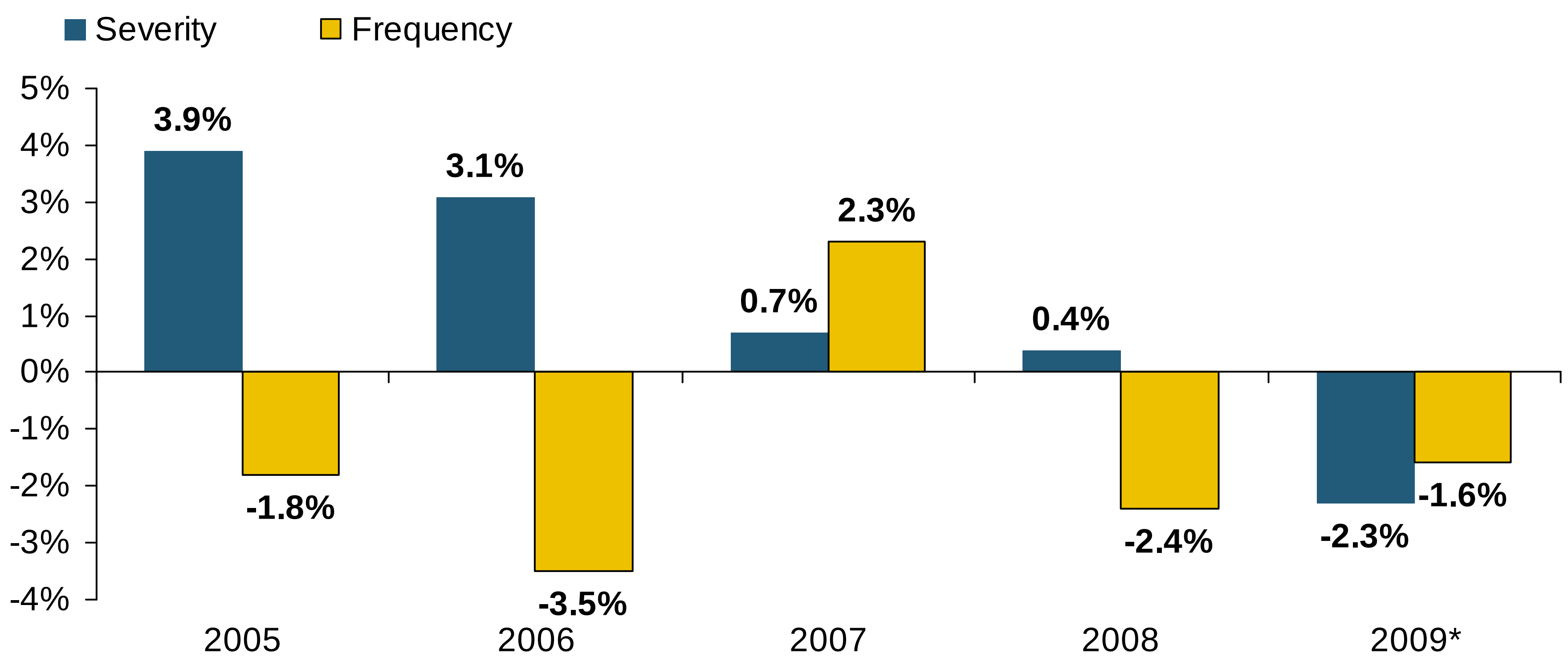
Annual Change, 2005 through 2009



The Recession, High Fuel Prices Have Helped Push Down Frequency and Temper Severity, But this Trend Will Likely Be Reversed Based on Evidence from Past Recoveries

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

Comprehensive Coverage: Frequency and Severity Trends Favorable in 2009

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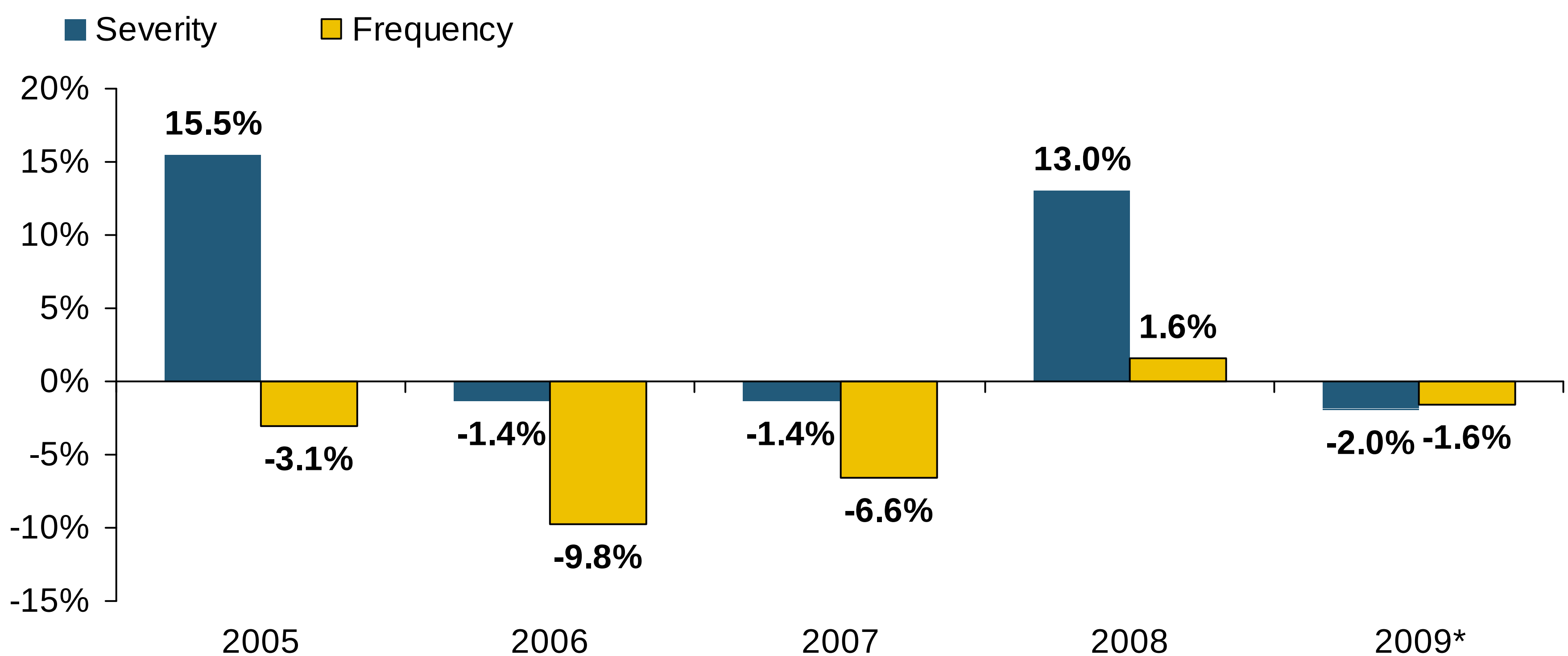
Annual Change, 2005 through 2009



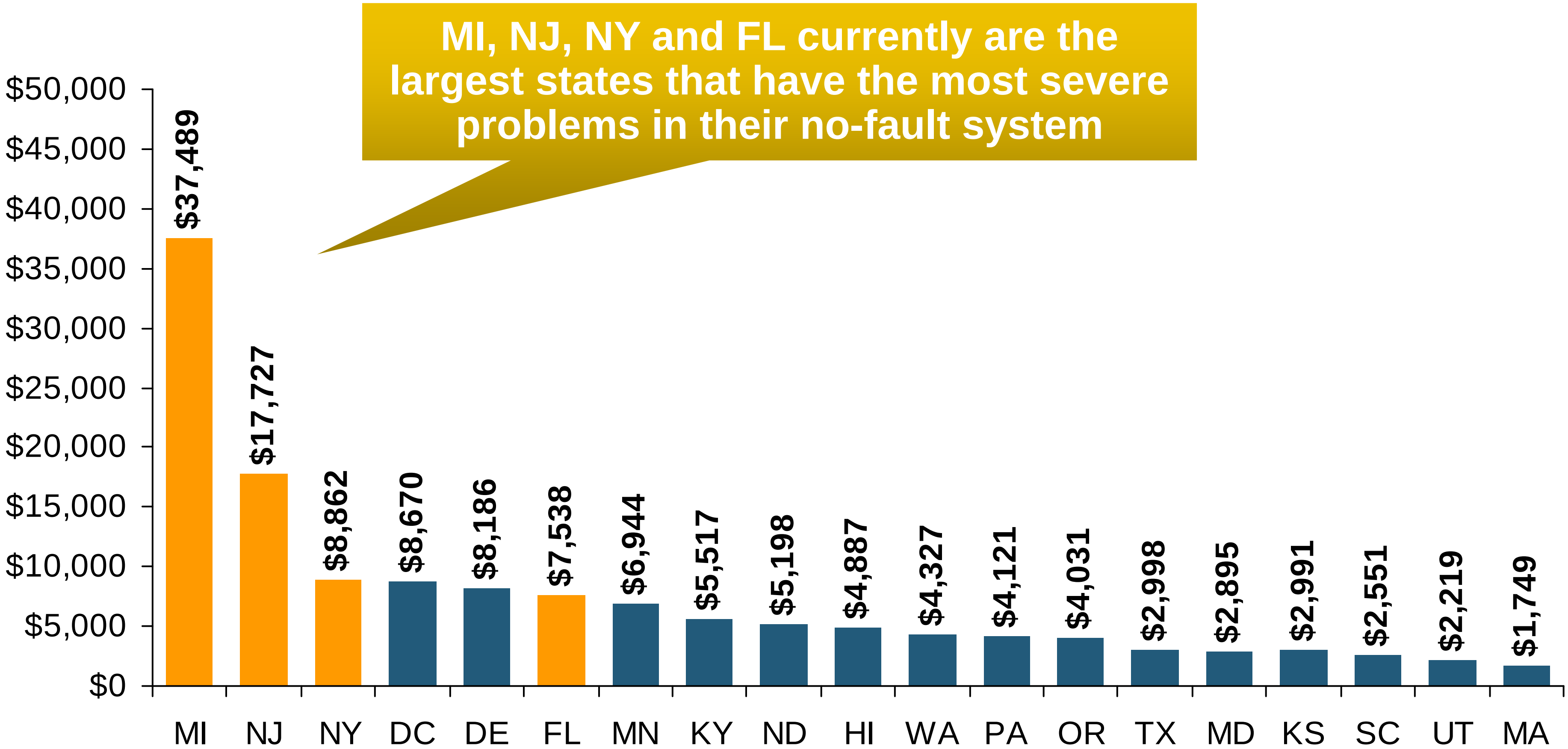
Weather Creates Volatility for Comprehensive Coverage; Recession Has Helped Push Down Frequency and Temper Severity, But This Factors Will Weaken as Economy Recovers

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

Fraud & Abuse in Private Passenger Auto Insurance

Skyrocketing No-Fault (PIP) Claim Costs Are a Major Concern in Several States

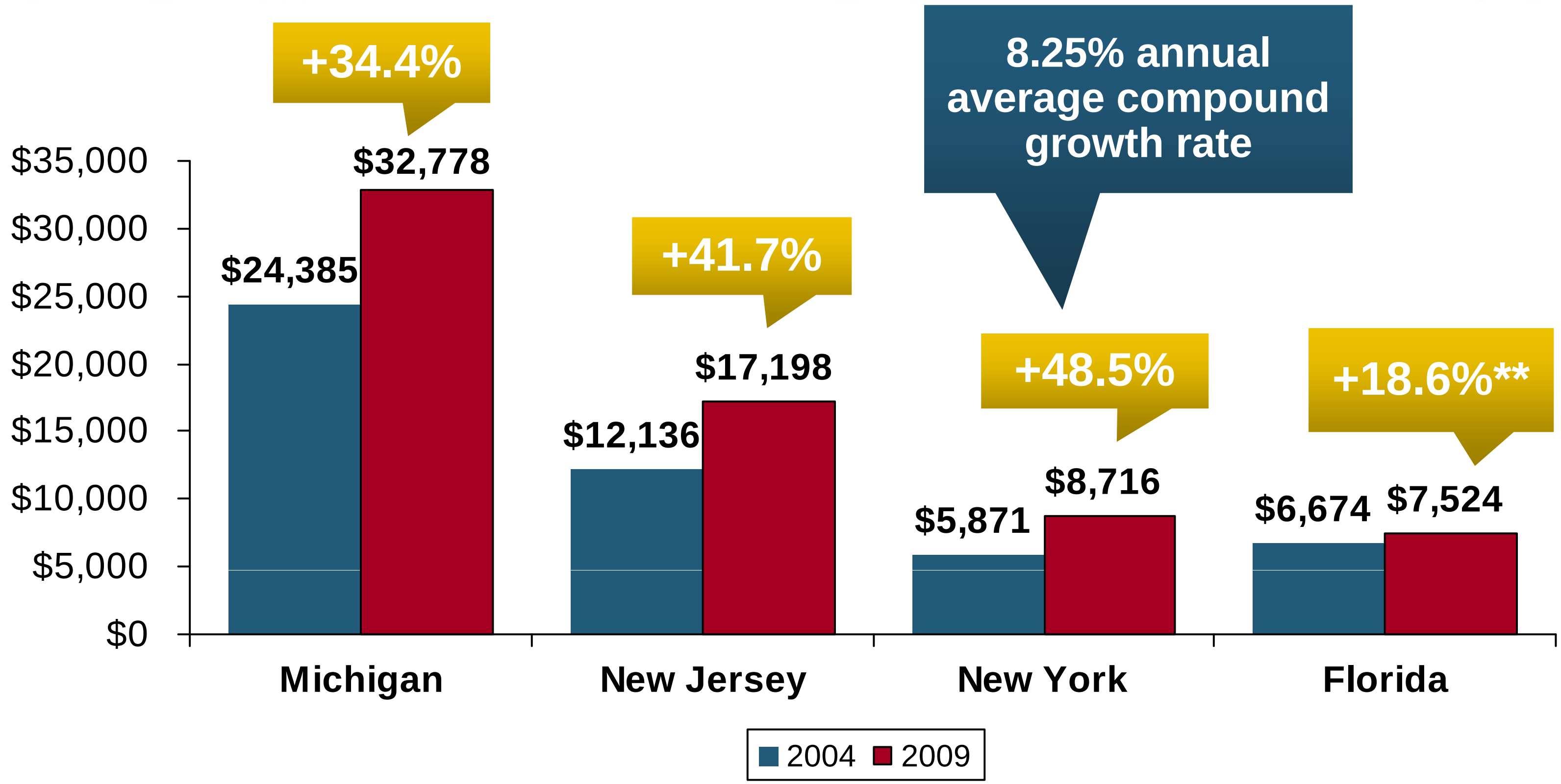
Average No-Fault Claim Severity, 2009:Q4



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

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

Increase in No-Fault Claim Severity: 2004-2009*



The no-fault systems in MI, NJ, NY and FL are under stress due to rising fraud and abuse which will ultimately lead to higher premiums for drivers

*2009 figure is for the 4 quarters ending 2009:Q4.

**Since 2006 the increase in Florida was 17.3% (average severity that year was $6,344).

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

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Critical Differences Between P/C Insurers and Banks

Superior Risk Management Model and Low Leverage Make a Big Difference

How P/C Insurance Industry Stability Has Benefitted Consumers

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Bottom Line:

- Insurance markets – unlike banking – are operating ***normally***
- The basic function of insurance – the orderly transfer of risk from client to insurer – ***continues uninterrupted***
- This means that insurers continue to:
  - Pay claims (whereas 246 banks have gone under as of 5/28/10)
    - ***The promise is being fulfilled***
  - Renew existing policies *(banks are reducing and eliminating lines of credit)*
  - Write new policies *(banks are turning away people and businesses who want or need to borrow)*
  - Develop new products *(banks are scaling back the products they offer)*
  - Compete intensively *(banks are consolidating, reducing consumer choice)*

Source: Insurance Information Institute

Reasons Why P/C Insurers Have Fewer Problems Than Banks

A Superior Risk Management Model

- **Emphasis on Underwriting**
  - Matching of risk to price (via experience and modeling)
  - Limiting of potential loss exposure
  - ***Some banks sought to maximize volume and fees and disregarded risk***
- **Strong Relationship Between Underwriting and Risk Bearing**
  - **Insurers always maintain a stake in the business they underwrite, keeping "skin in the game" at all times**
  - ***Banks and investment banks package up and securitize, severing the link between risk underwriting and risk bearing, with (predictably) disastrous consequences – straightforward moral hazard problem from Econ 101***
- **Low Leverage**
  - Insurers do not rely on borrowed money to underwrite insurance or pay claims → ***There is no credit or liquidity crisis in the insurance industry***
- **Conservative Investment Philosophy**
  - High quality portfolio that is relatively less volatile and more liquid
- **Comprehensive Regulation of Insurance Operations**
  - The business of insurance remained comprehensively regulated whereas a separate banking system had evolved largely outside the auspices and understanding of regulators (e.g., hedge funds, private equity, complex securitized instruments, credit derivatives – CDS's)
- **Greater Transparency**
  - Insurance companies are an open book to regulators and the public

Source: Insurance Information Institute

Obama Administration Proposal to Scale Back Terrorism Risk Insurance Program

5 Administration's Budget Proposal for FY 2011:

- Includes proposal to scale back federal support for terrorism risk insurance program
- Proposal projects savings of $249 million from 2011-2020
- Administration's justification is that this would "encourage the private sector to better mitigate terrorism risk through other means, such as developing alternative reinsurance options and building safer buildings."

Key Concerns **Among Industry Observers Over Proposed Reduction in Federal Support**

- Suggestion of changes to law would have detrimental effect on availability and affordability of terrorism insurance
- A 2009 Aon study estimated some 70-80 percent of the commercial property insurance market would revert to absolute exclusions for terrorism, if TRIA is changed.

Source: Budget of the U.S. Government Fiscal Year 2011

Terrorism: Insurance Concerns Resurface

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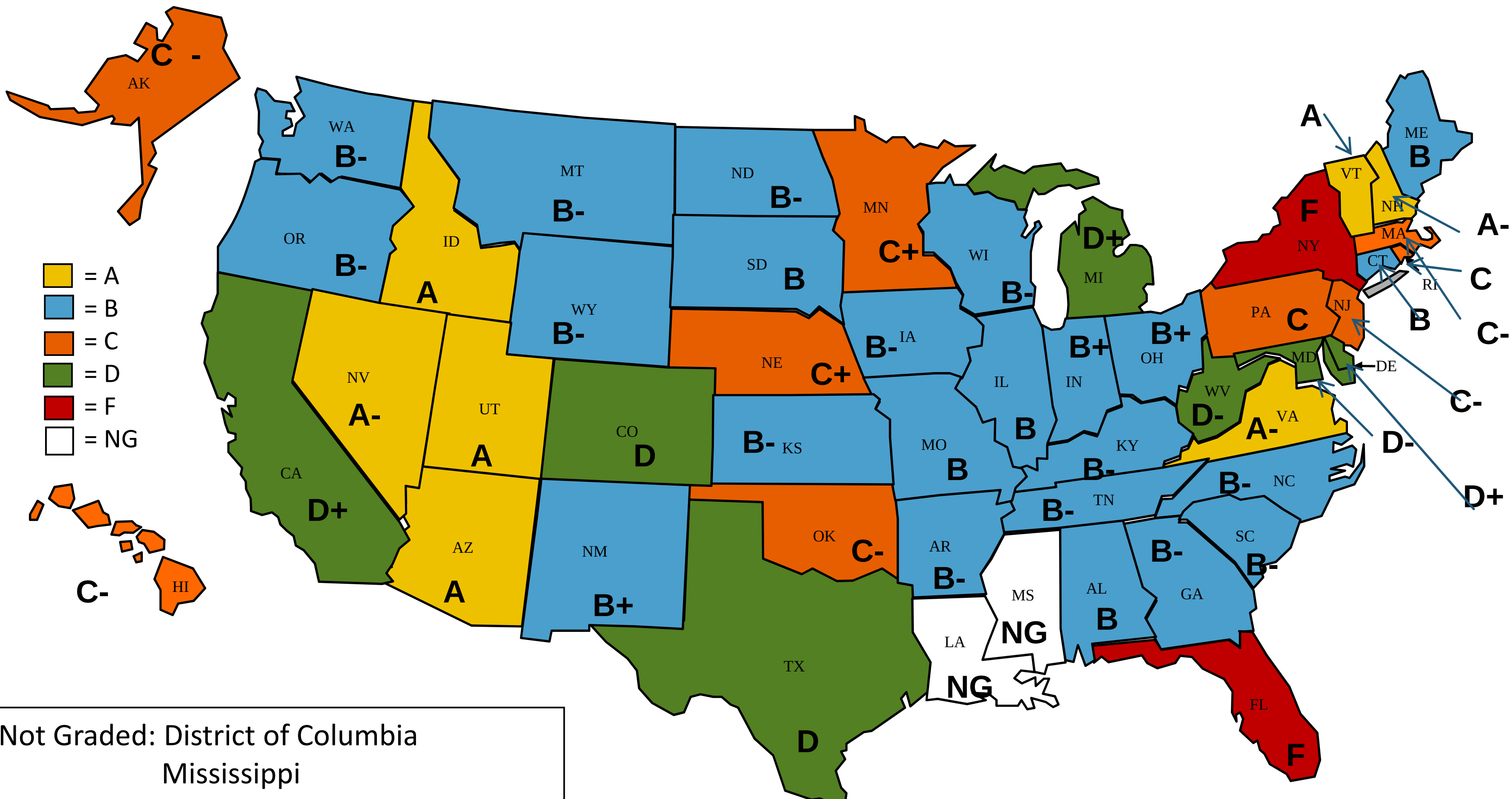
Reasons Why Concerns Are Mounting in 2010

- **Perception (Reality) that U.S. vulnerability is rising**
- **Thwarted Christmas Day attack by "underwear bomber"**
  - **And new bin Laden tape claiming al Qaeda is responsible**
- **Foiled NYC Subway Bomber Plot (Zazi case)**
- ***Failed Times Square Car Bombing on May 1***
- **Trials of Guantanamo 9/11 suspects in Manhattan Court (?)**
- **U.K. in January Raised Terror Alert Status to 2nd Highest Level**
- **Increased anti-terror efforts, including full-body scans**
- **Effort by government to appear more vigilant, prepared**
- **Rise of groups such al Qaeda in the Arabian Peninsula**
- **U.S. military surge in Afghanistan operations**
- **Most buyers/producers haven't thought about coverage recently**
- ***Obama Administration's Intent to Reduce Support for TRIA***

2010 Property and Casualty Insurance Report Card



Not Graded: District of Columbia
Mississippi
Louisiana

Source: Heartland Institute, May 2010

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Shifting Legal Liability & Tort Environment

Is the Tort Pendulum Swinging Against Insurers?

Important Issues & Threats Facing Insurers: 2010–2015

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Emerging Tort Threat

- No tort reform (or protection of recent reforms) is forthcoming from the current Congress or Administration
- Erosion of recent reforms is a certainty (already happening)
- Innumerable legislative initiatives will create opportunities to undermine existing reforms and develop new theories and channels of liability
- Torts twice the overall rate of inflation
- Influence personal and commercial lines, esp. auto liability
- Historically ***extremely*** costly to p/c insurance industry
- Leads to reserve deficiency, rate pressure

Bottom Line: **Tort "crisis" is on the horizon and will be recognized as such by 2012–2014**

Source: Insurance Information Institute

Over the Last Three Decades, Total Tort Costs* as a % of GDP Appear Somewhat Cyclical

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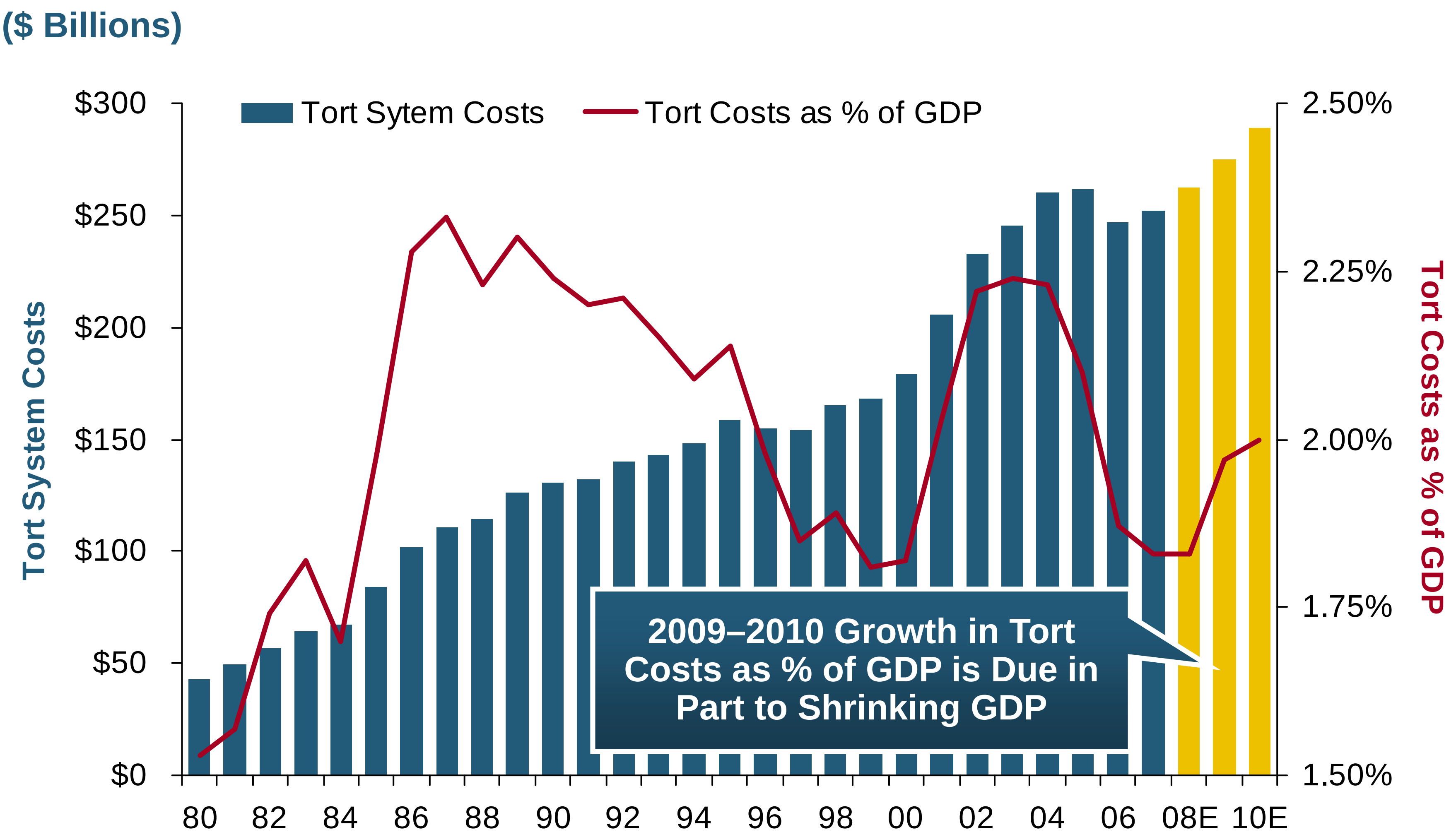

* Excludes the tobacco settlement, medical malpractice

Sources: Tillinghast-Towers Perrin, *2008 Update on US Tort Cost Trends*, Appendix 1A; I.I.I. calculations/estimates for 2009 and 2010

The Nation's Judicial Hellholes: 2010

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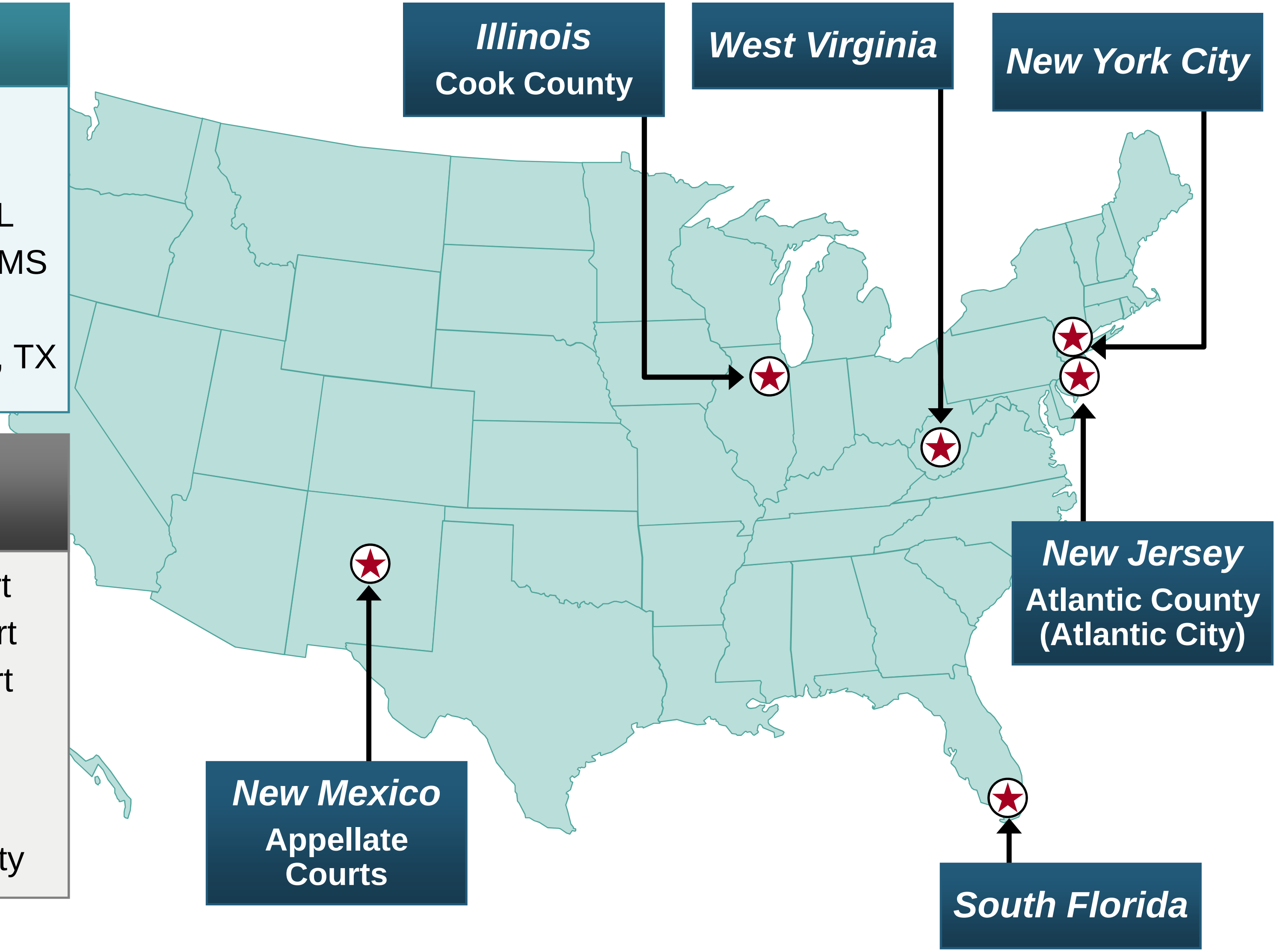
Watch List

- California
- Alabama
- Madison County, IL
- Jefferson County, MS
- Texas Gulf Coast
- Rio Grande Valley, TX

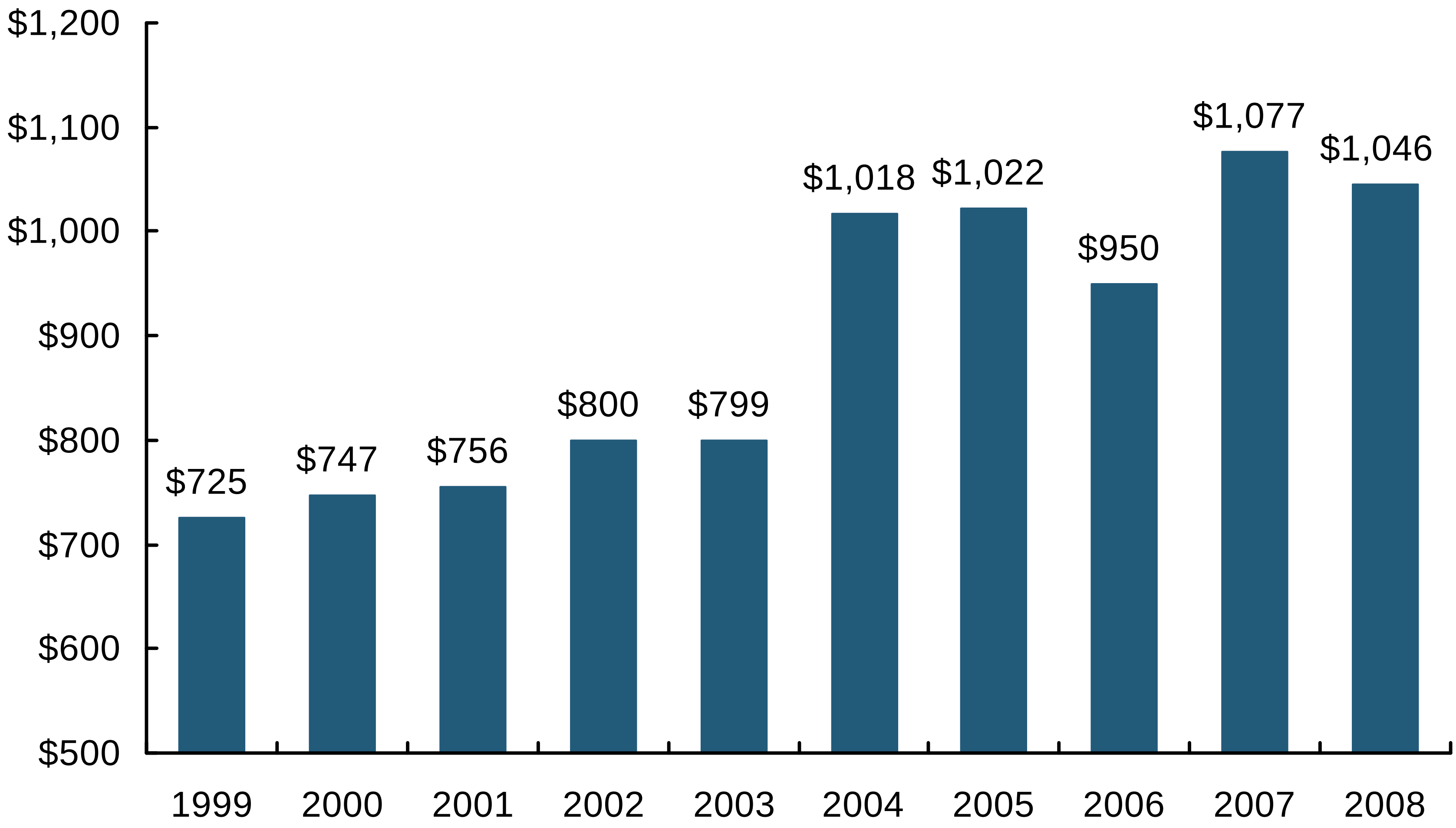
Dishonorable Mention

- AR Supreme Court
- MN Supreme Court
- ND Supreme Court
- PA Governor
- MA Supreme Judicial Court
- Sacramento County



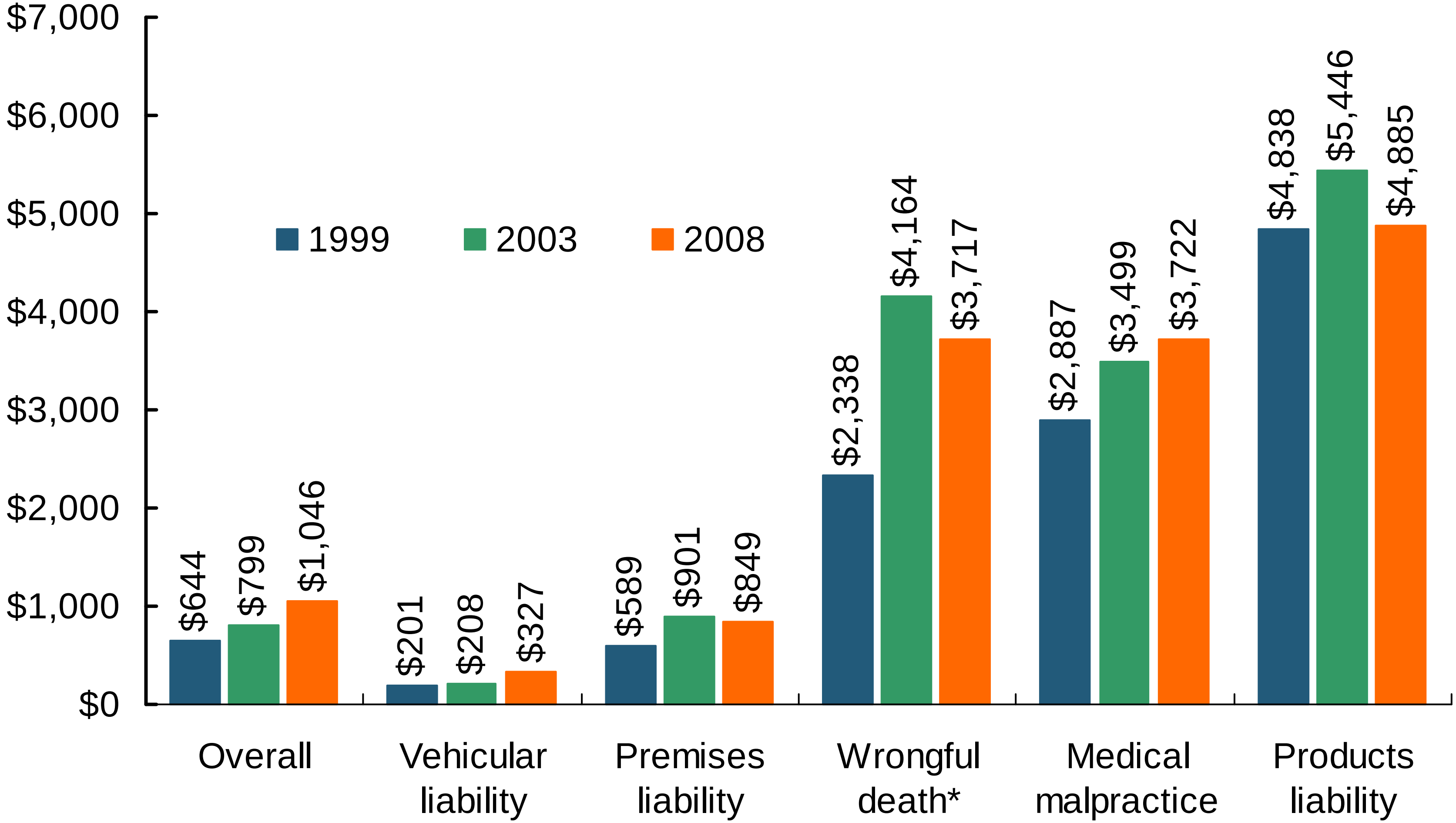
Source: American Tort Reform Association; Insurance Information Institute

Average Jury Awards 1999 - 2008



Source: Jury Verdict Research; 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 2004-2009

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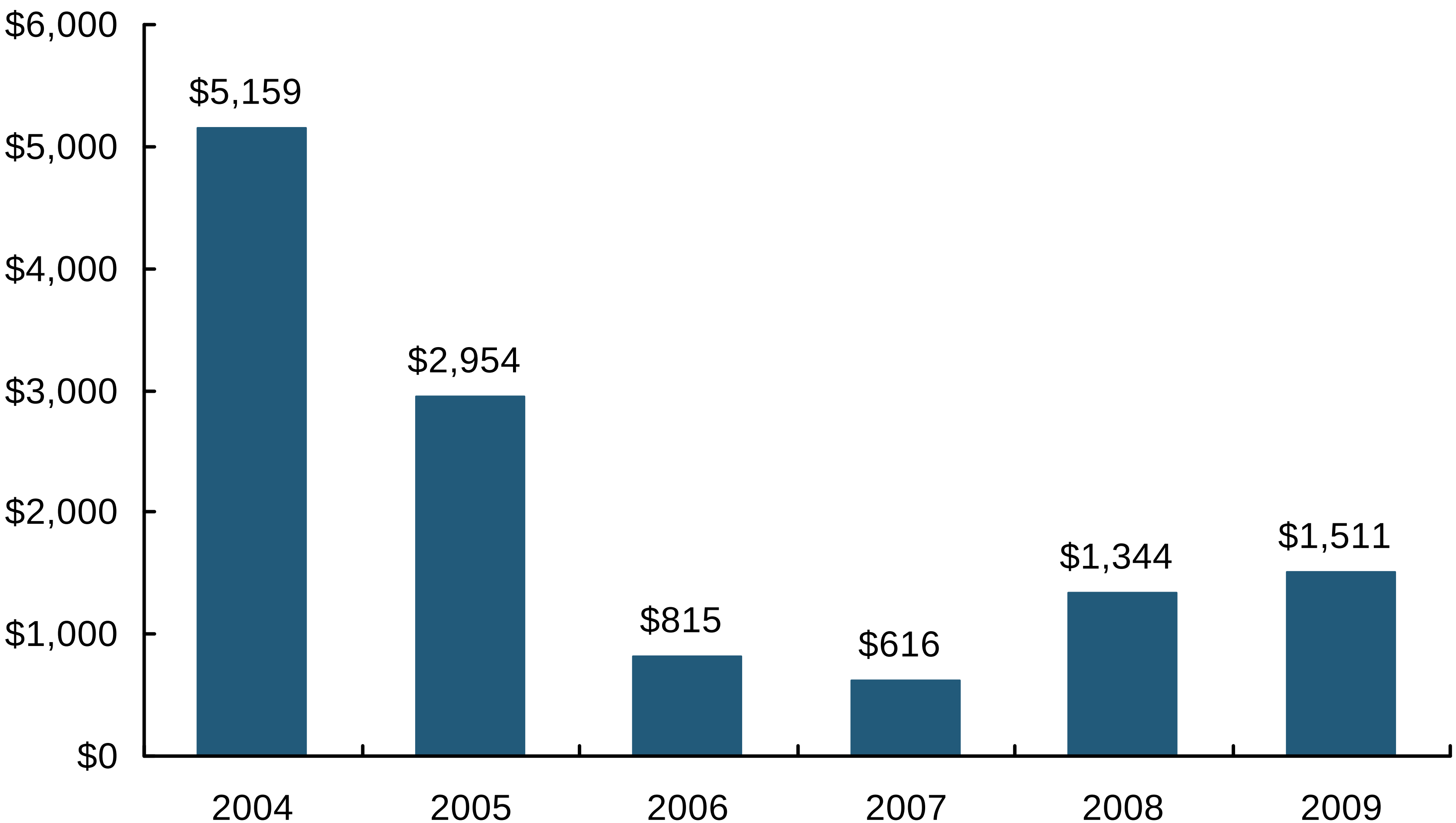

Source: Insurance Information Institute from Lawyers USA, January 2005, 2006, 2007, 2008, 2009 and 2010.

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Financial Strength & Ratings

Industry Has Weathered the Storms Well

P/C Insurer Impairments, 1969–2009p

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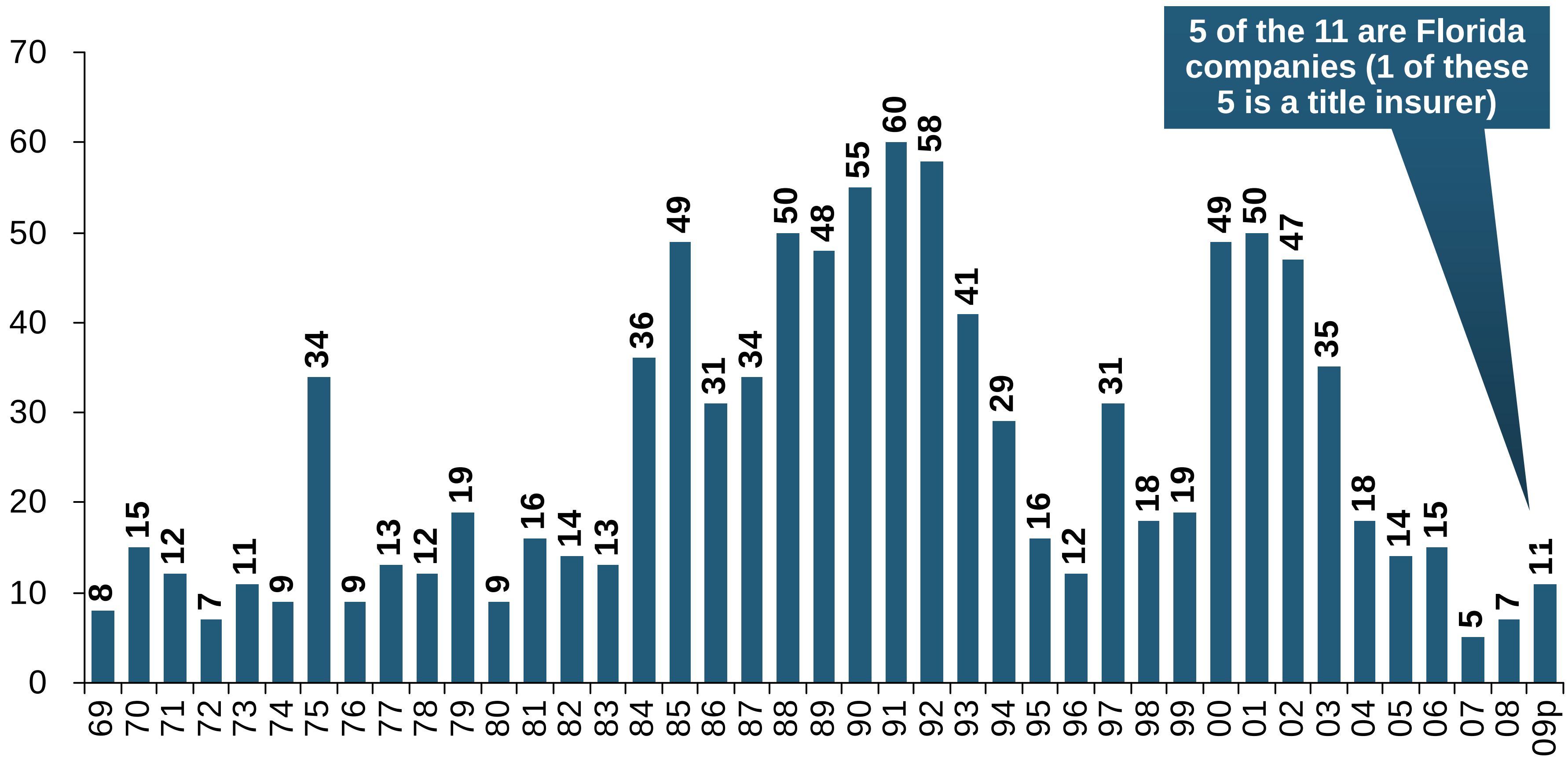
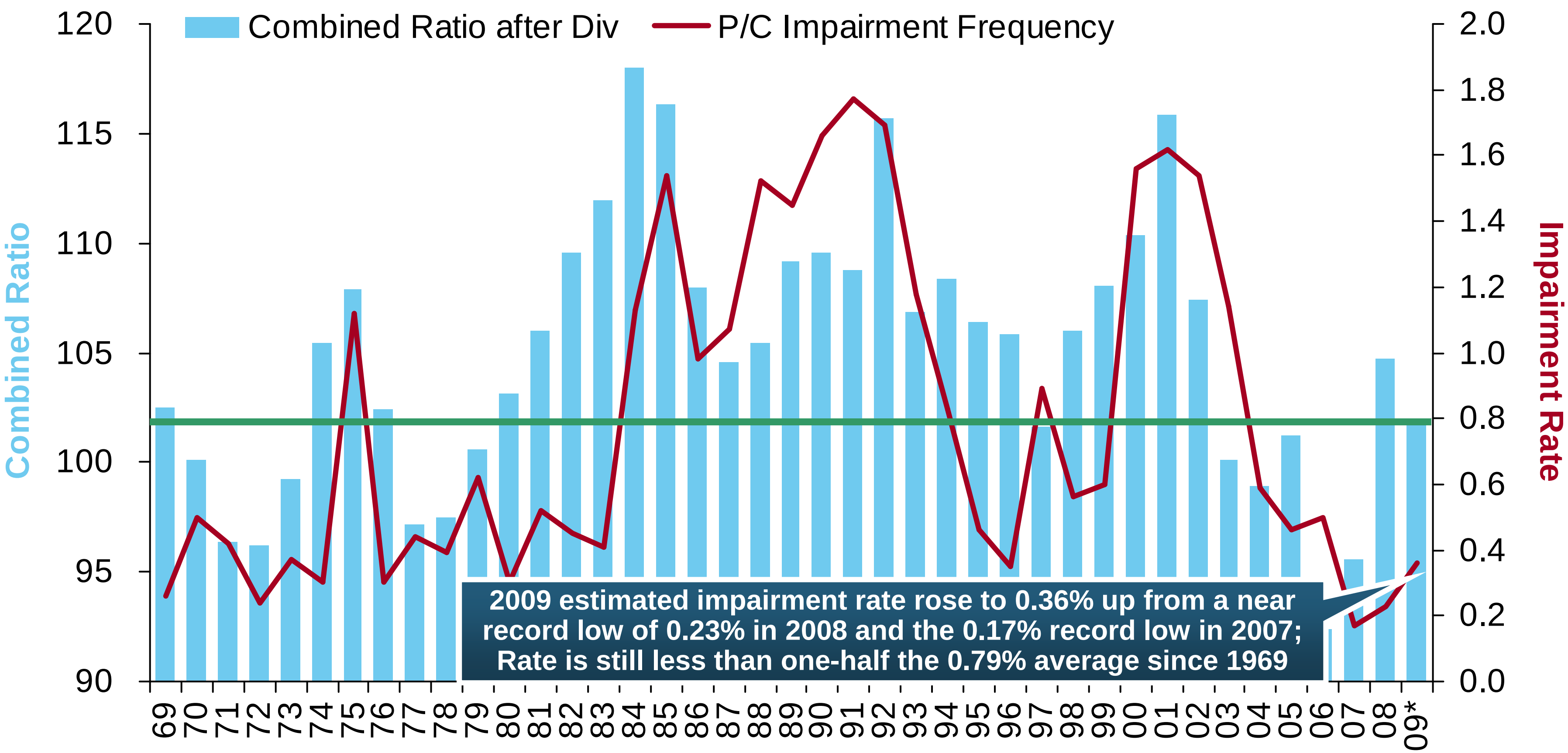


The Number of Impairments Varies Significantly Over the P/C Insurance Cycle, With Peaks Occurring Well into Hard Markets

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

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



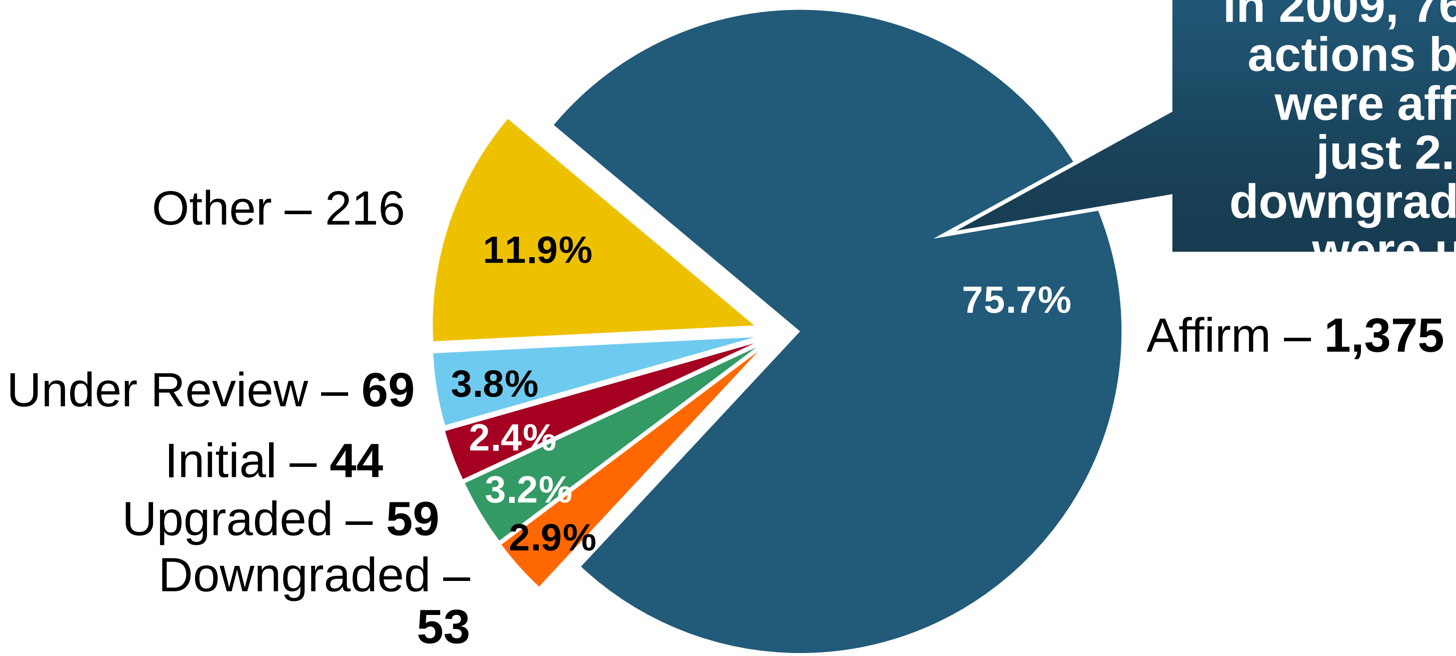
Impairment Rates Are Highly Correlated With Underwriting Performance and Reached Record Lows in 2007/08

*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, 76% of ratings actions by A.M. Best were affirmations; just 2.9% were downgrades and 3.2% were upgrades

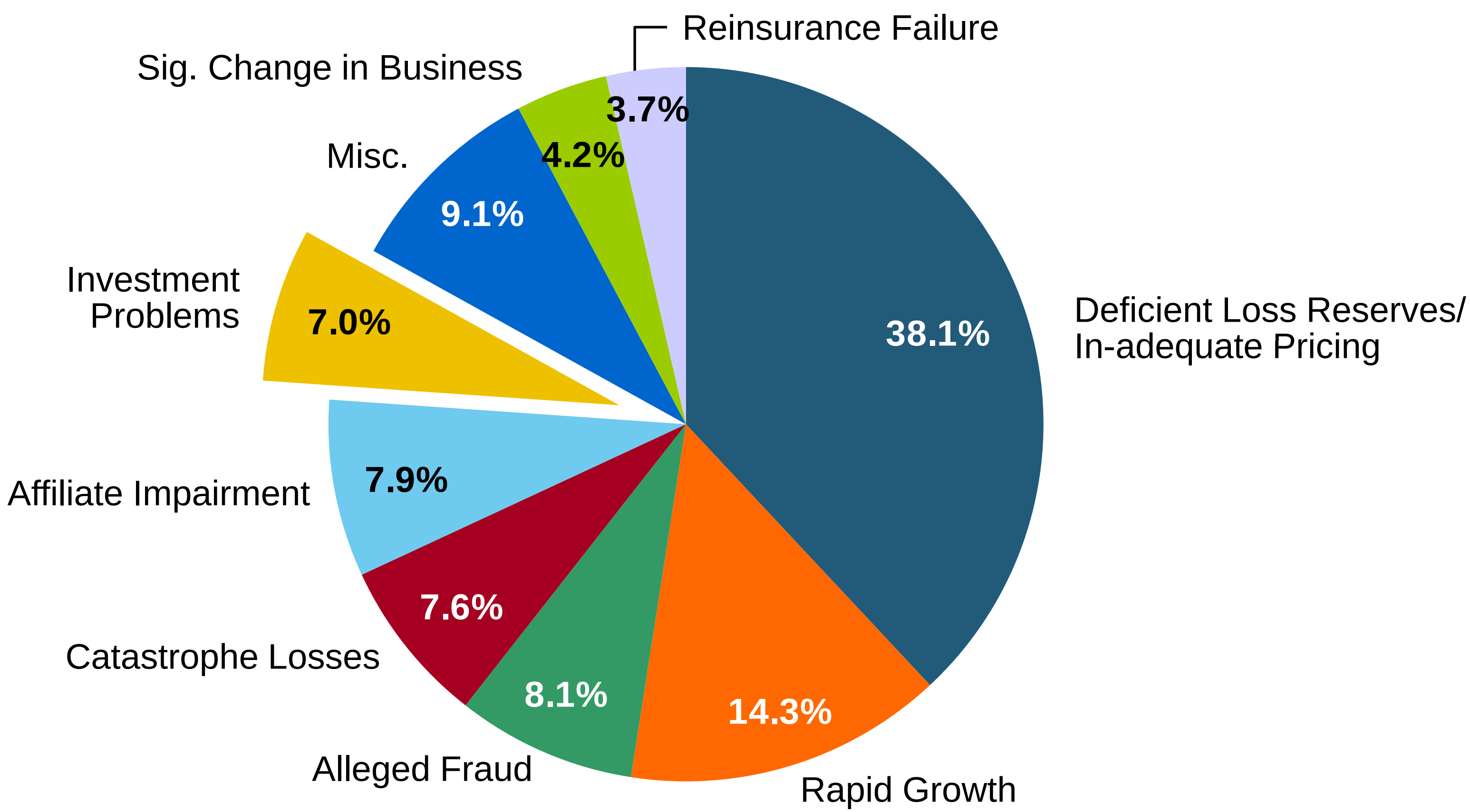


P/C Insurance is by Design a Resilient Business.
The Dual Threat of Financial Disasters and Catastrophic Losses
Are Anticipated in the Industry's Risk Management Strategy

Source: A.M. Best.

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

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

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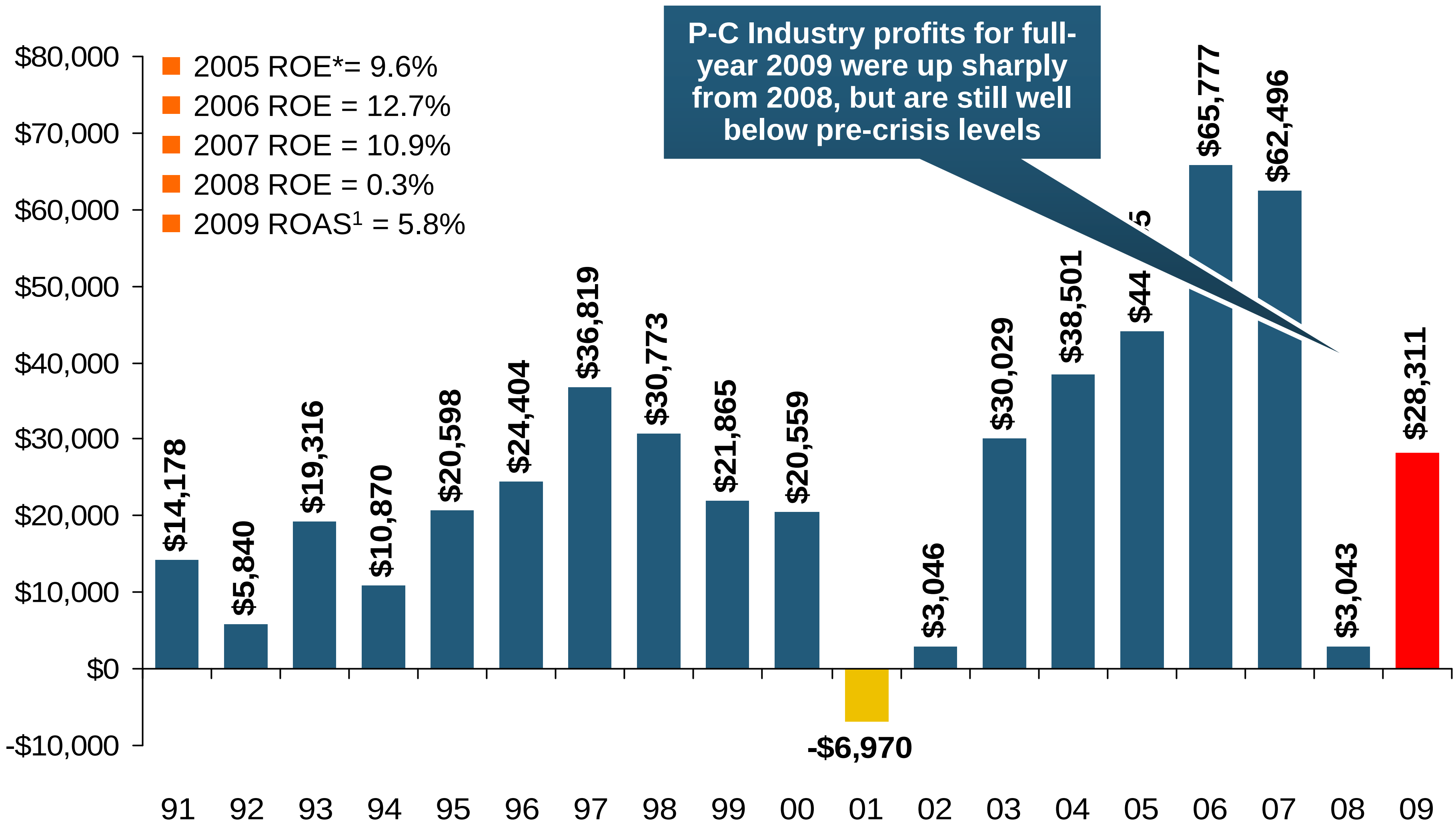
Profitability

Historically Volatile

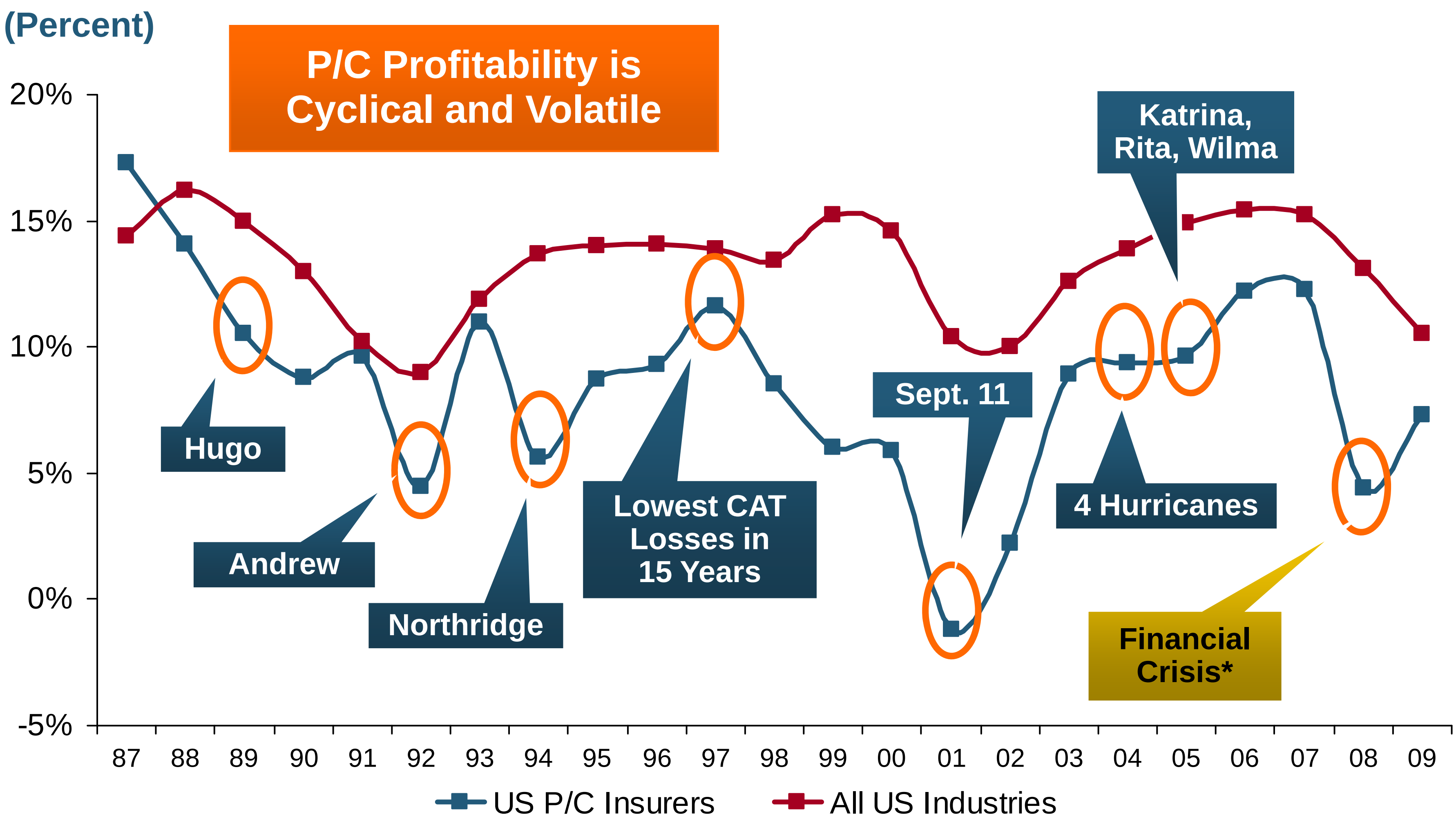
P/C Net Income After Taxes 1991–2009 ($ Millions)



* 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.

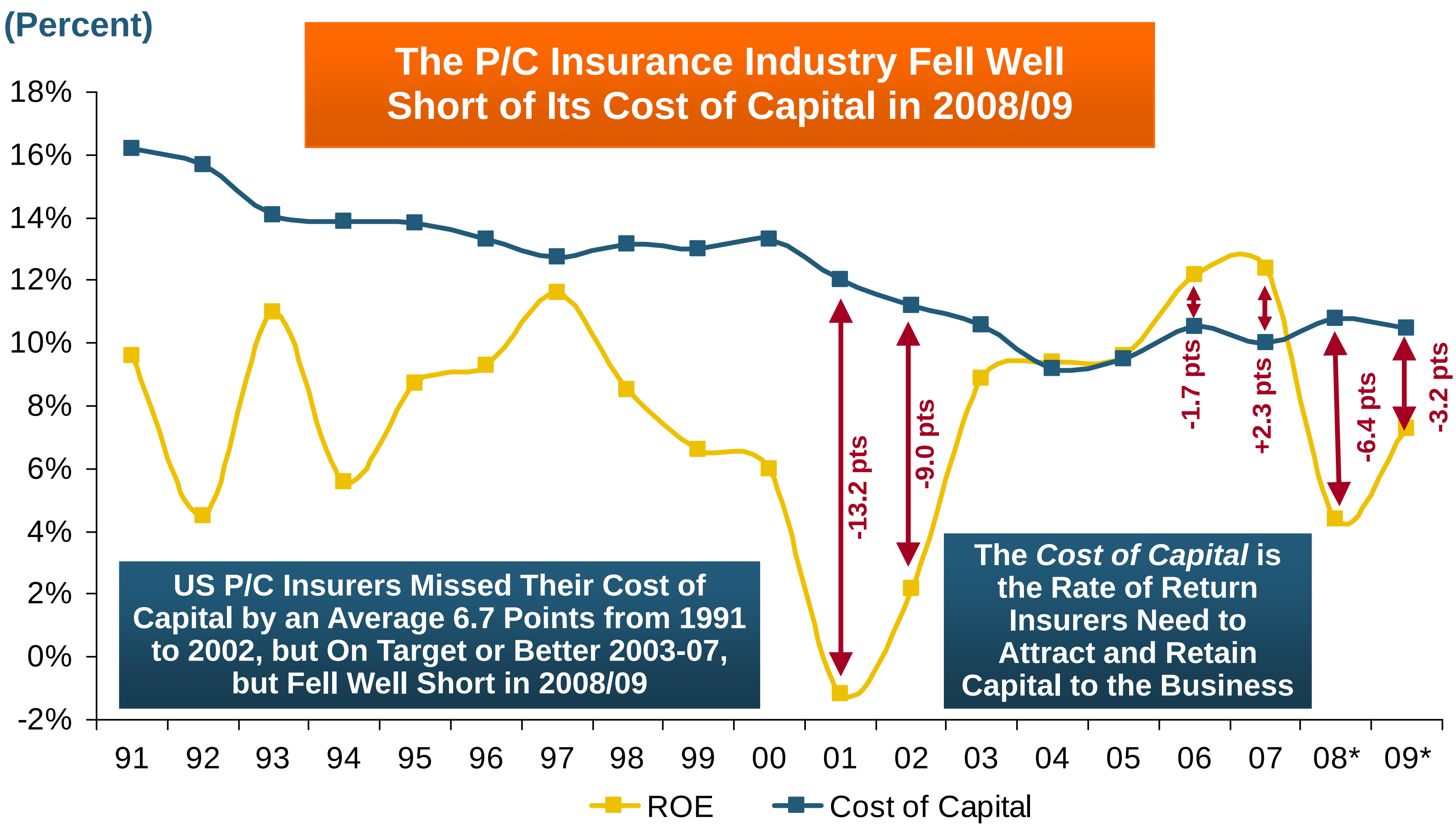
Sources: A.M. Best, ISO, Insurance Information Institute

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



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

ROE vs. Equity Cost of Capital: US P/C Insurance:1991-2009*



* Return on average suplus in 2008/09 excluding mortgage and financial guaranty insurers.
Source: The Geneva Association, Insurance Information Institute

Median ROE for Insurers vs. Financial Firms & Other Key Industries 2009

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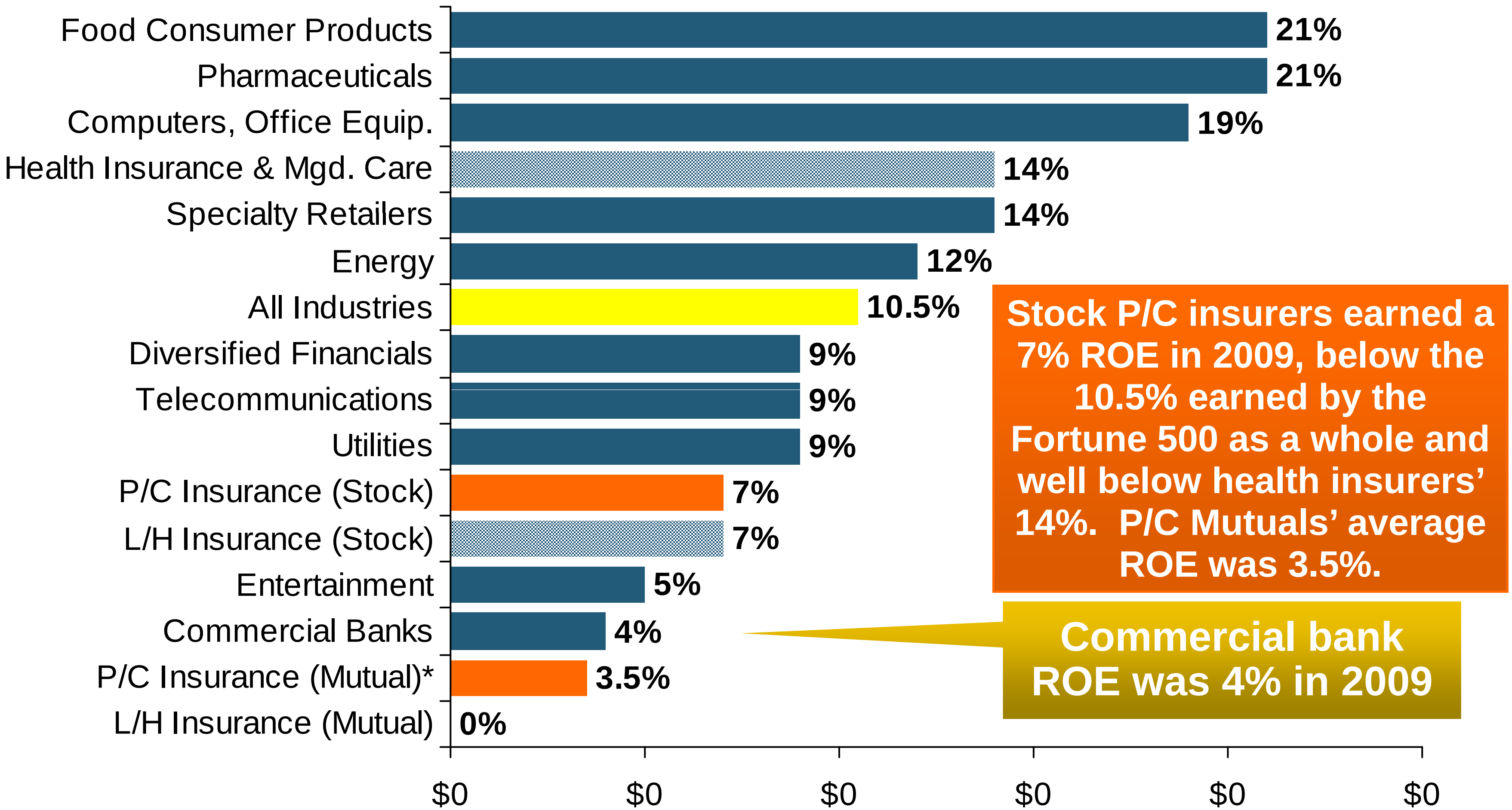
(Profits as a % of Stockholders' Equity)



Source: *Fortune*, May 3, 2010; 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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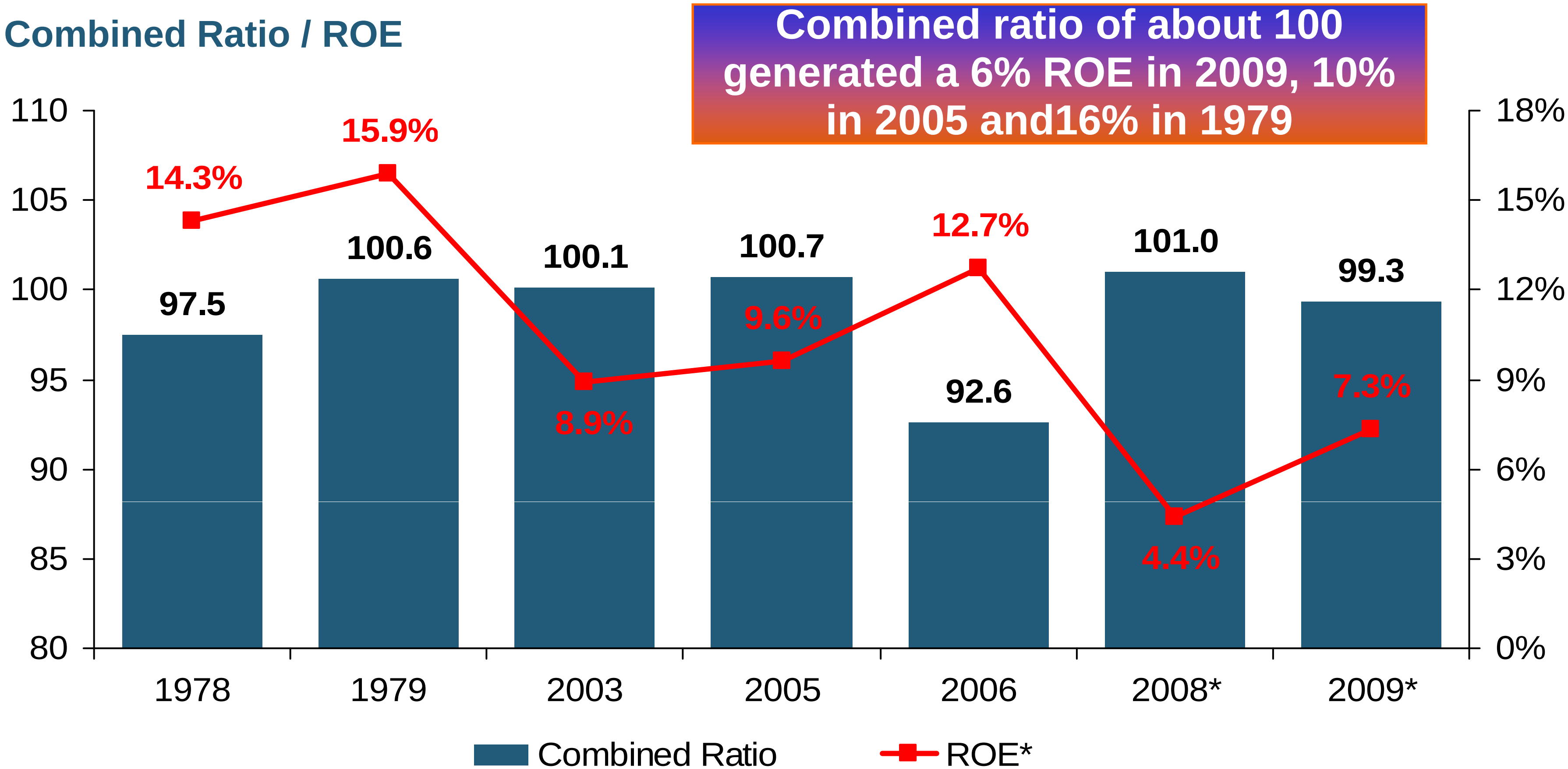

Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

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

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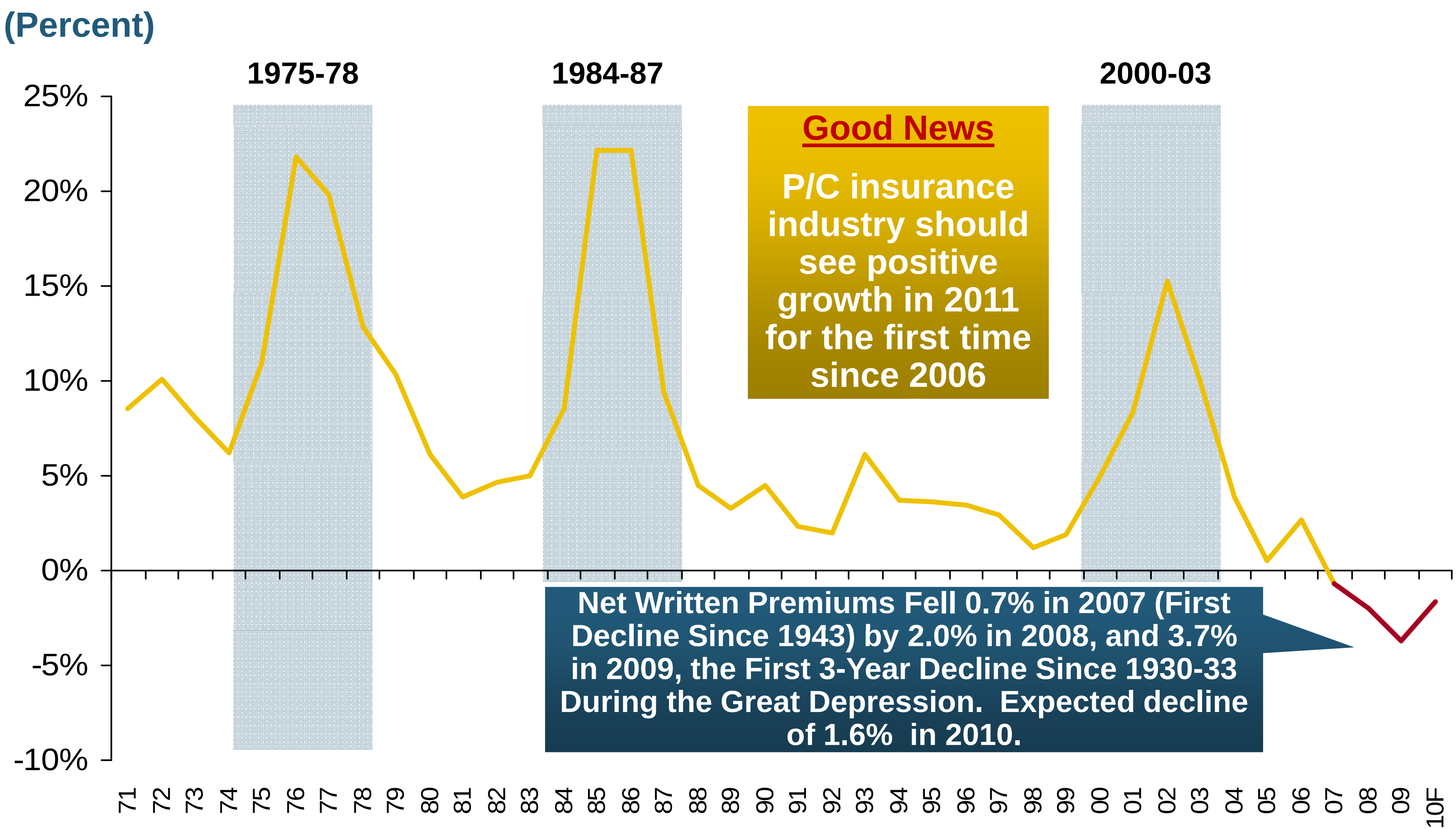
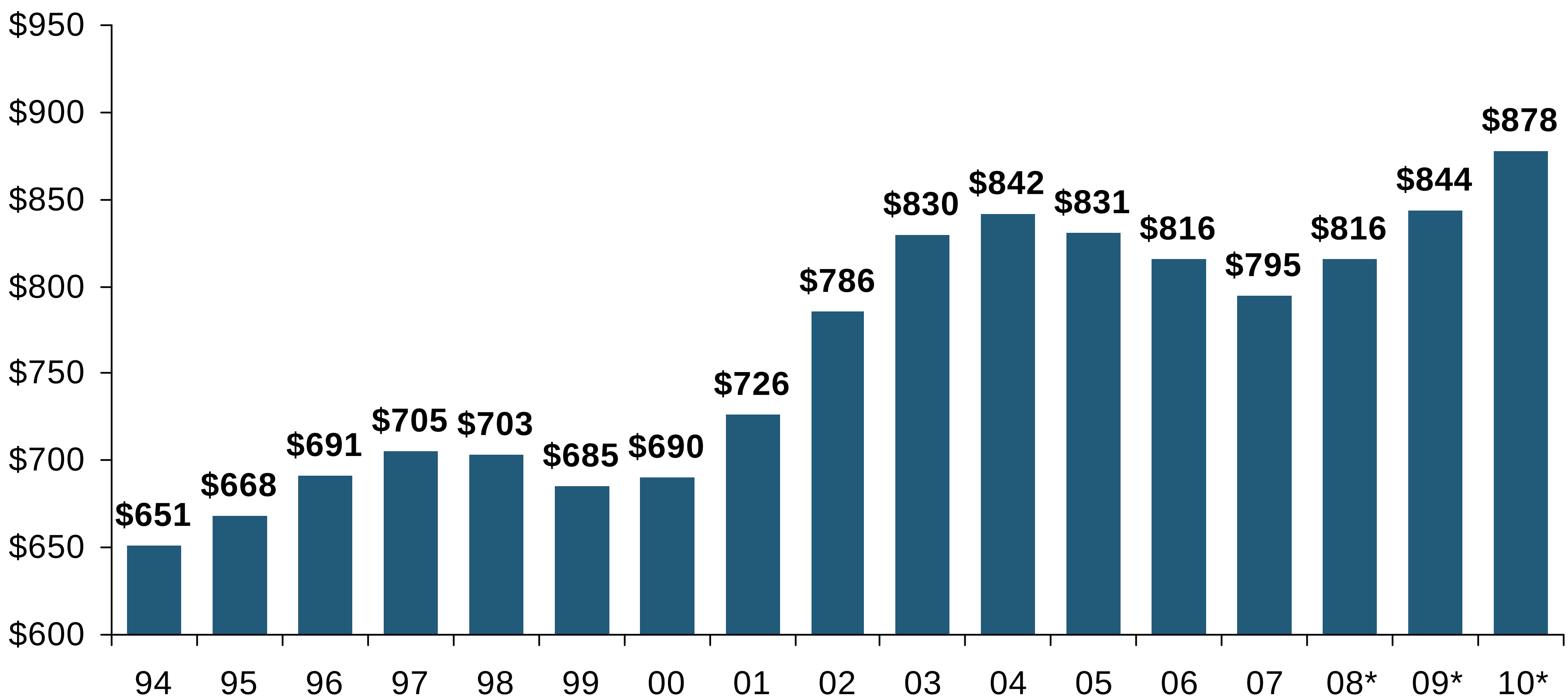
P/C Premium Growth Primarily Driven by the Industry's Underwriting Cycle, Not the Economy

Strength of Recent Hard Markets by NWP Growth



Shaded areas denote “hard market” periods
Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute

Average Expenditures on Auto Insurance



Countrywide Auto Insurance Expenditures Increased 2.6% in 2008 and 3.5% Pace in 2009 (est.) and 4% in 2010 (est.)

* Insurance Information Institute Estimates/Forecasts
Source: NAIC, Insurance Information Institute estimates 2008-2010 based on CPI data.

Monthly Change in Auto Insurance Prices*

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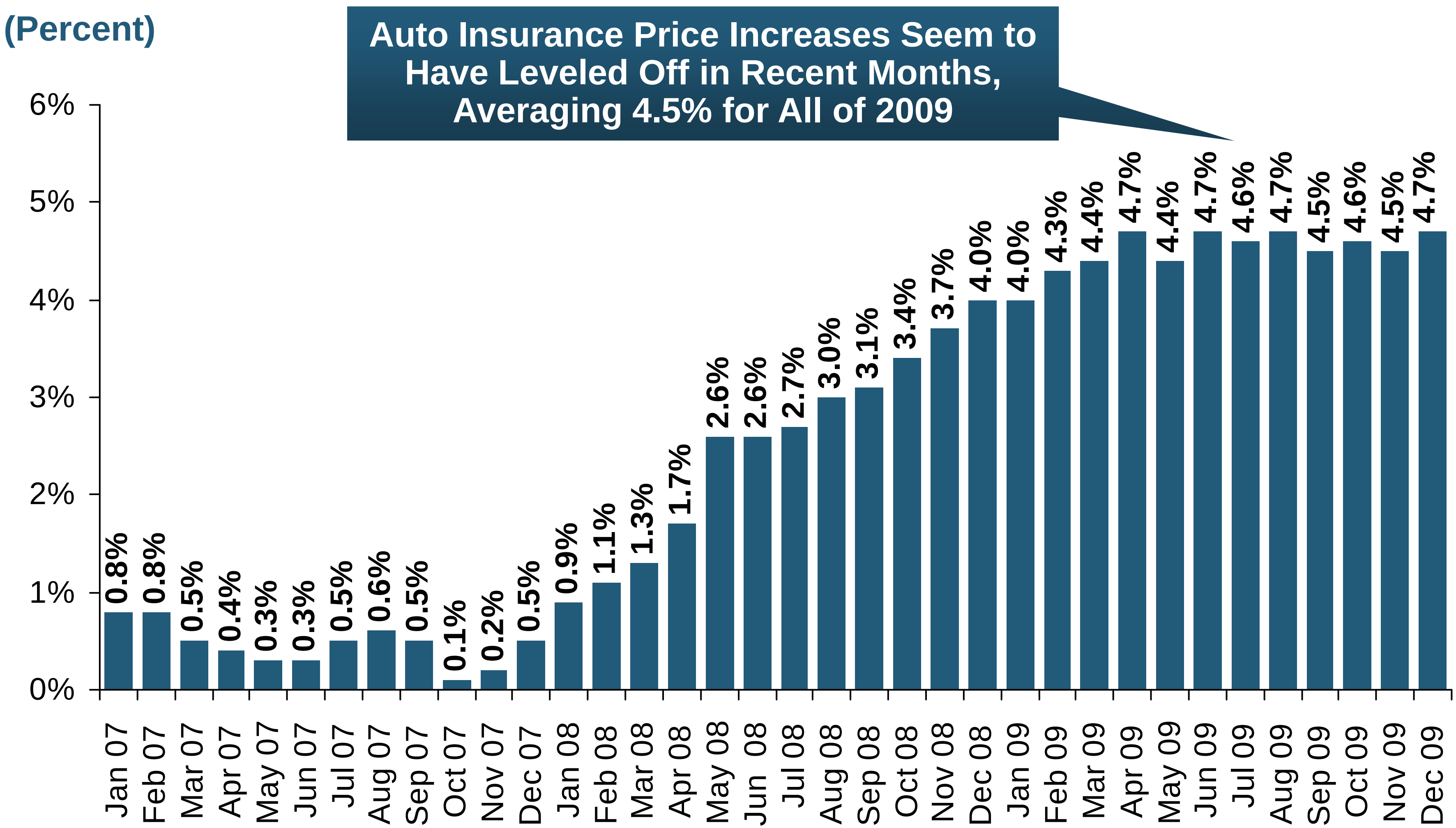
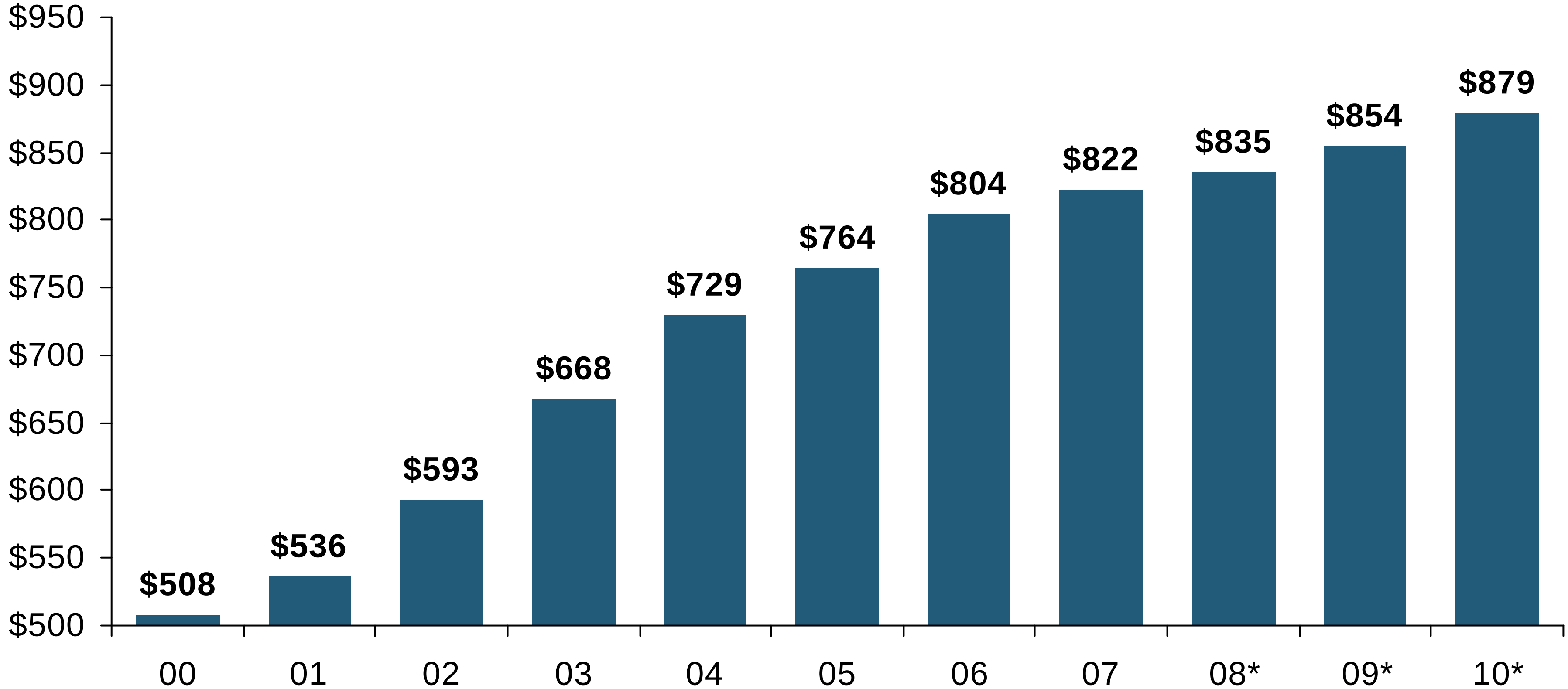


* Percentage change from same month in prior year.
Source: US Bureau of Labor Statistics

Average Premium for Home Insurance Policies**



* Insurance Information Institute Estimates/Forecasts **Excludes state-run insurers.
Source: NAIC, Insurance Information Institute estimates 2008-2010 based on CPI data.

Average Commercial Rate Change, All Lines, (1Q:2004–1Q:2010)

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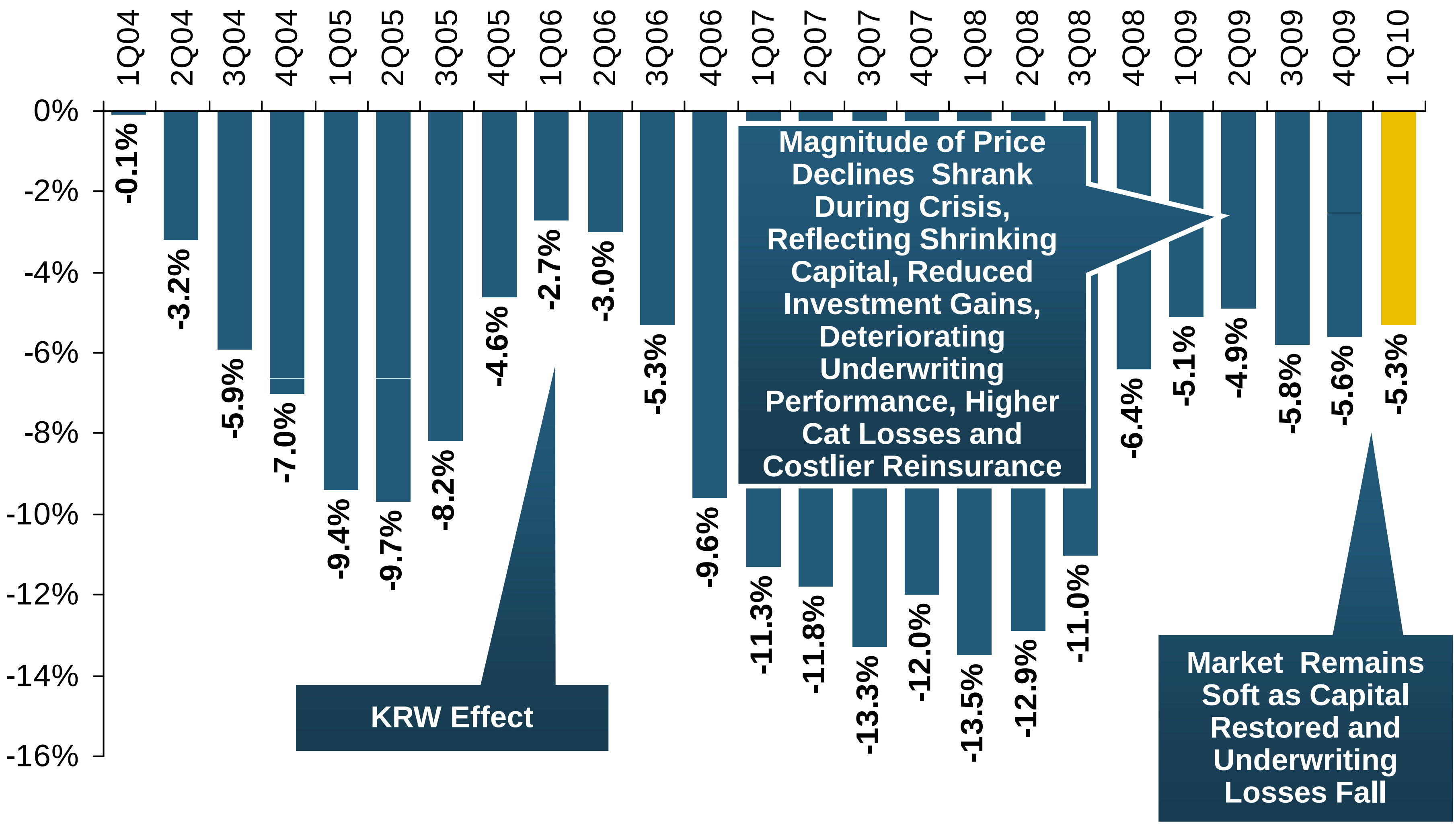
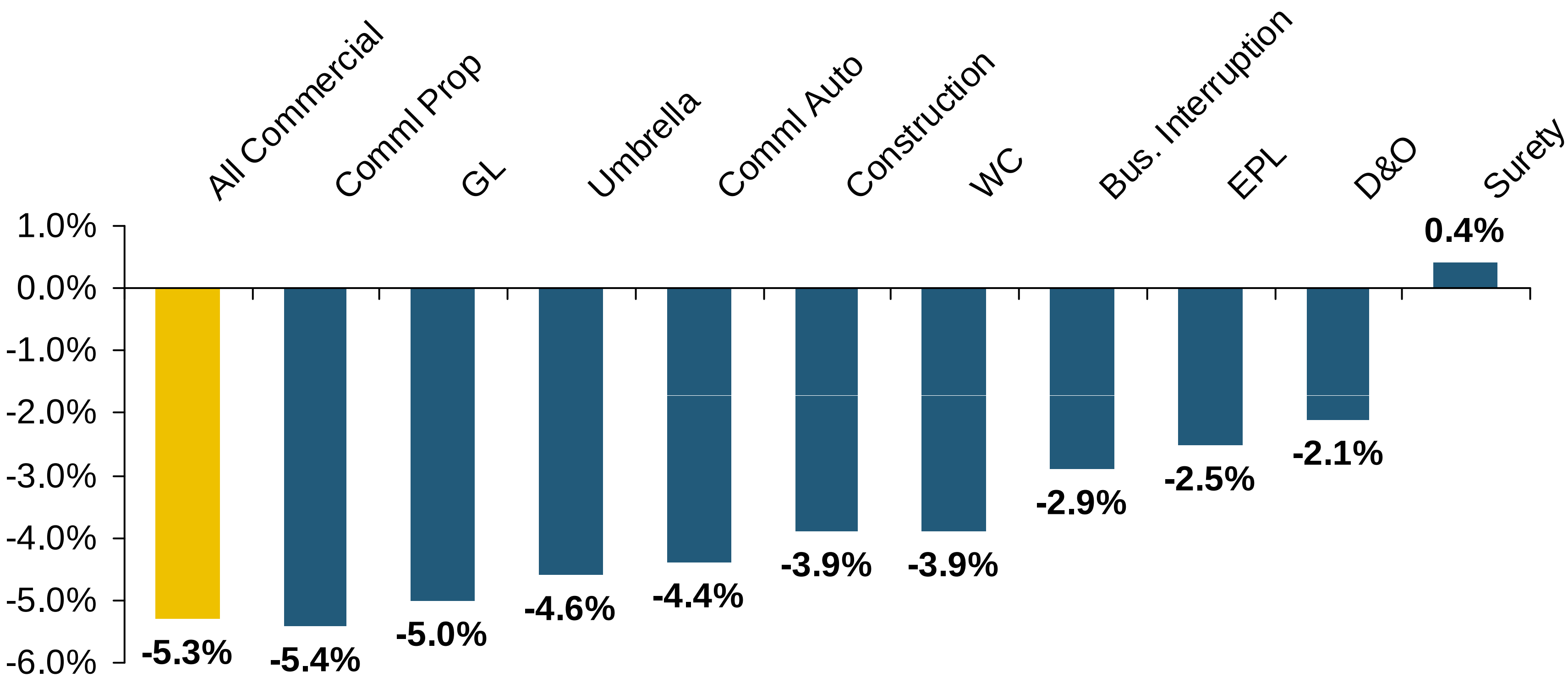
(Percent)



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

Change in Commercial Rate Renewals, by Line: 2010:Q1

Percentage Change (%)



Most Major Commercial Lines Renewed Down in Q1:2010 by Roughly the Same Margin as a Year Earlier

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

Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2010:Q1

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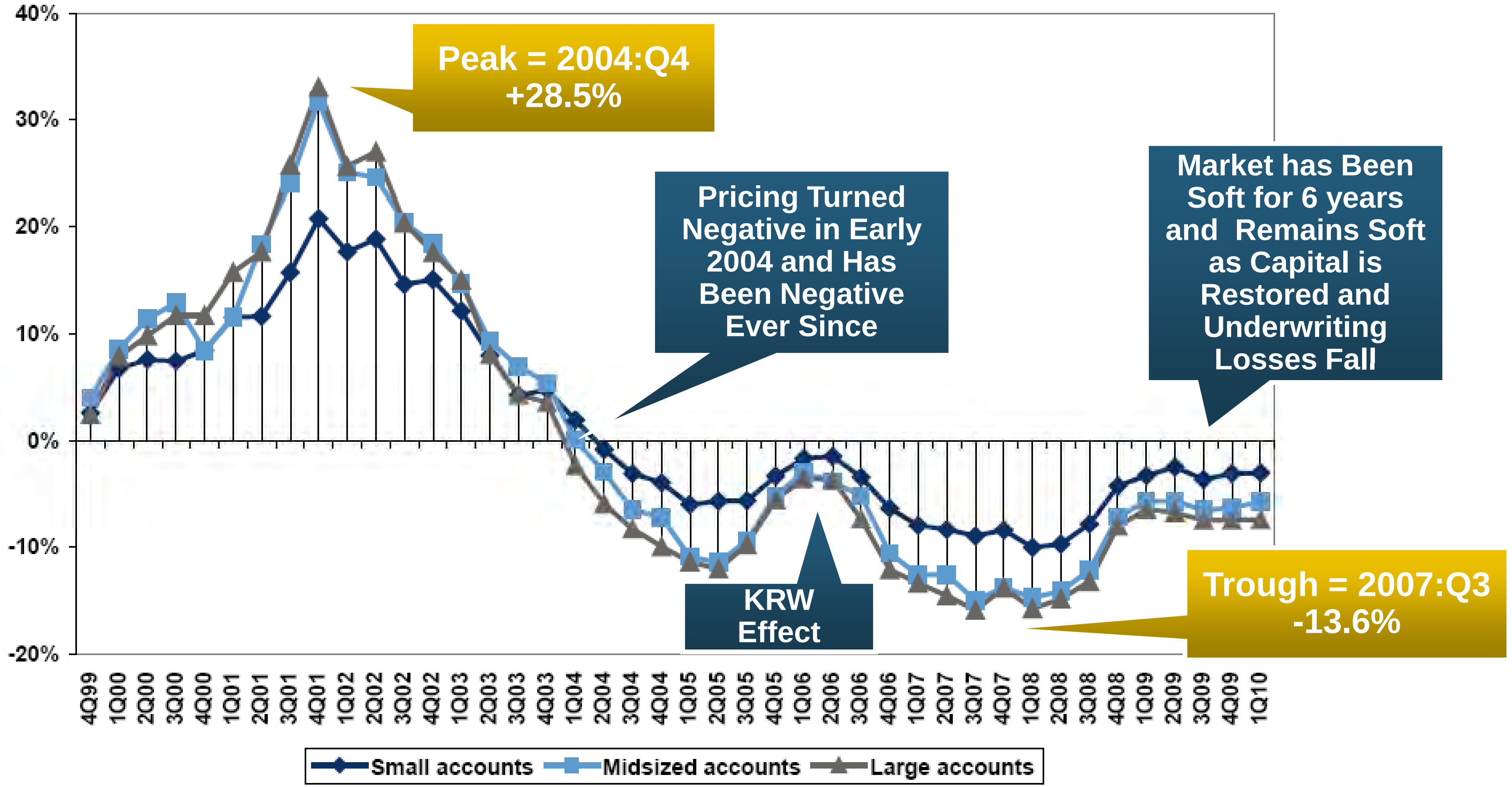
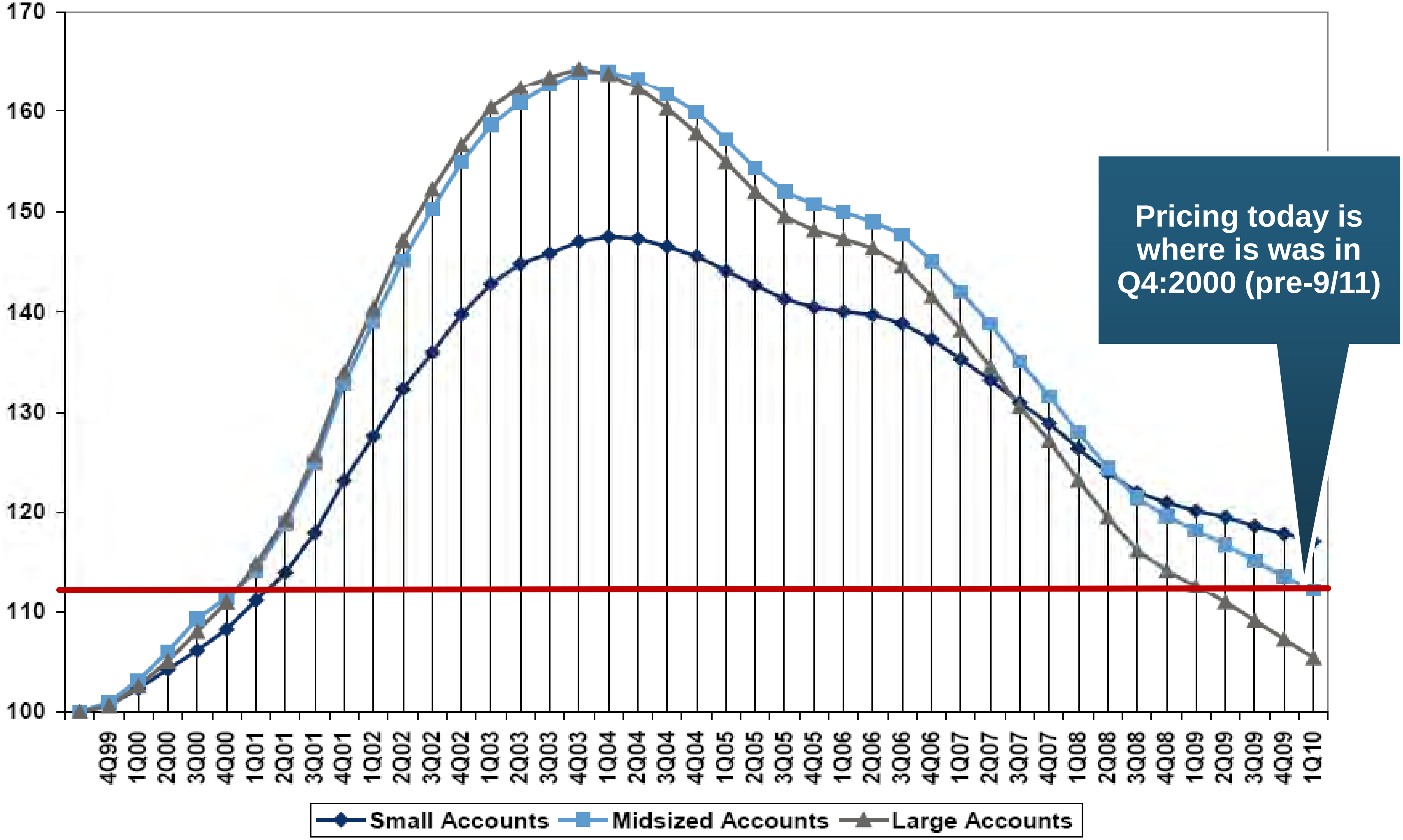
Percentage Change (%)



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

Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2010:Q1

1999:Q4 = 100



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

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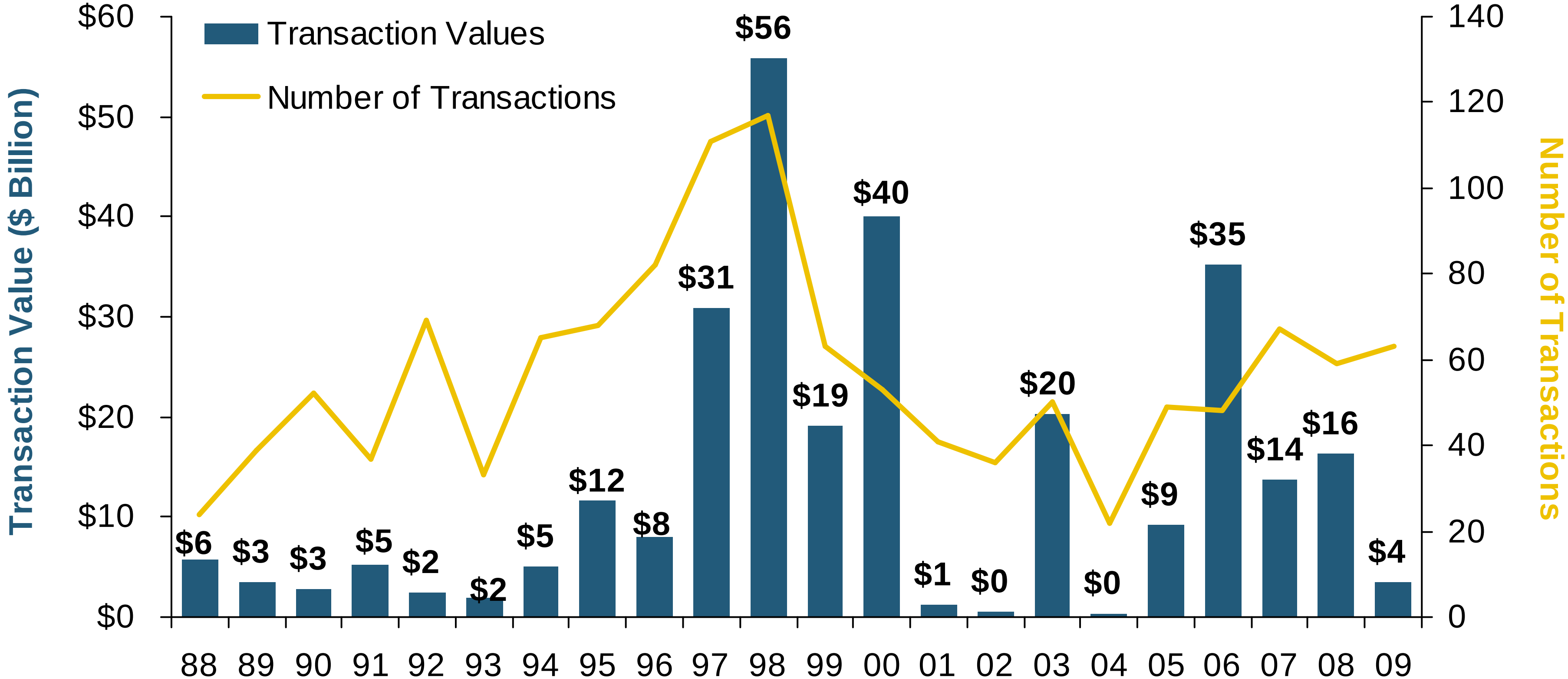
Merger & Acquisition

Barriers to Consolidation Will Diminish in 2010

U.S. P/C Insurance-Related M&A Activity, 1988–2009



$ Value of Deals Down 78% in 2009, Volume Up 7%

2010: No Mega Deals So Far, Despite Record Capital, Slow Growth and Improved Financial Market Conditions

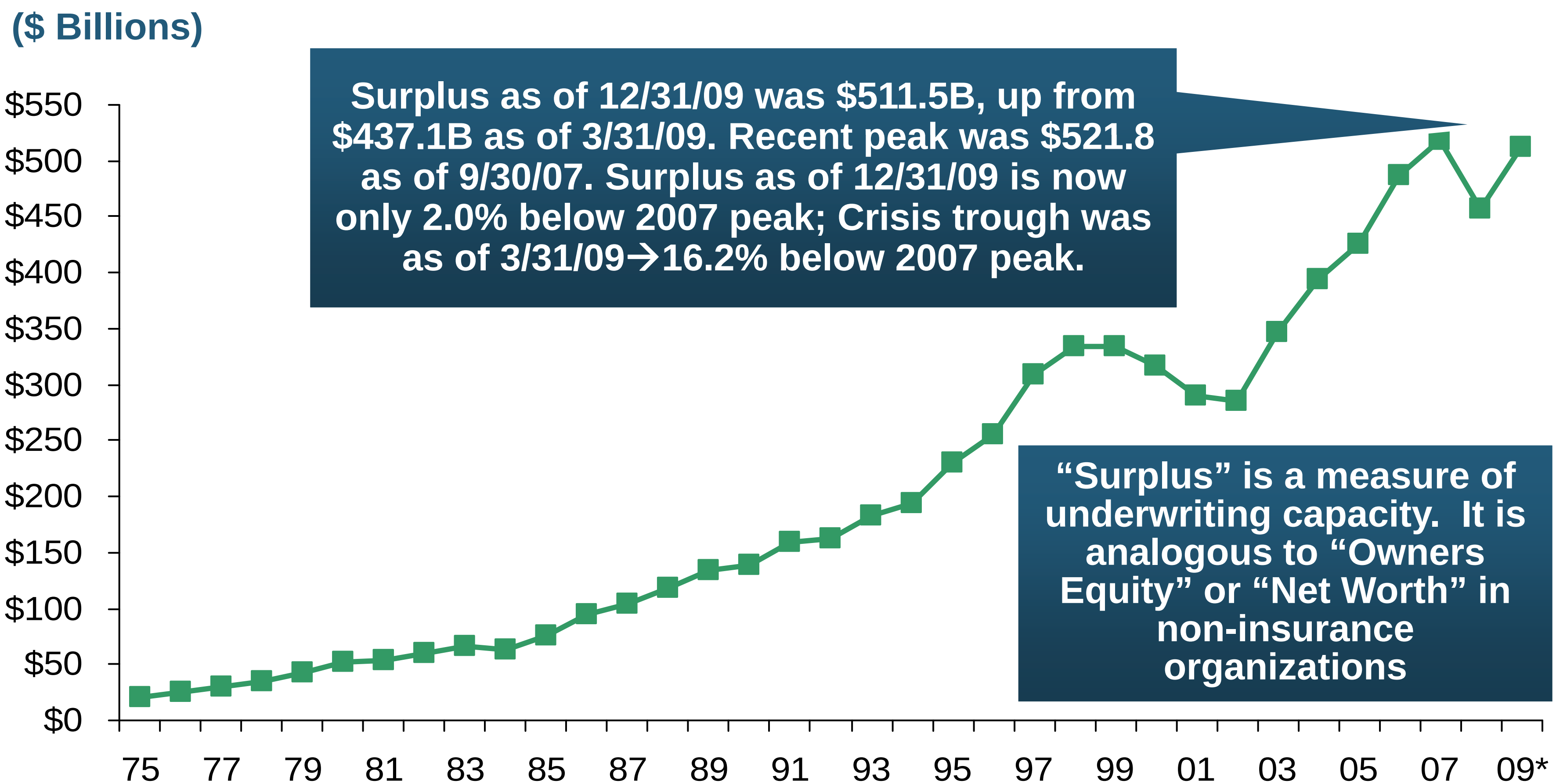
Note: U.S. Company was the acquirer and/or target.

Source: Conning Research & Consulting.

Capital/Policyholder Surplus (US)

Shrinkage, but Not Enough to Trigger Hard Market

US Policyholder Surplus: 1975–2009*



The Premium-to-Surplus Ratio Stood at $0.82:$1 as of 12/31/09, A Record Low (at Least in Recent History)

* As of 9/30/09

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

Policyholder Surplus, 2006:Q4–2009:Q4

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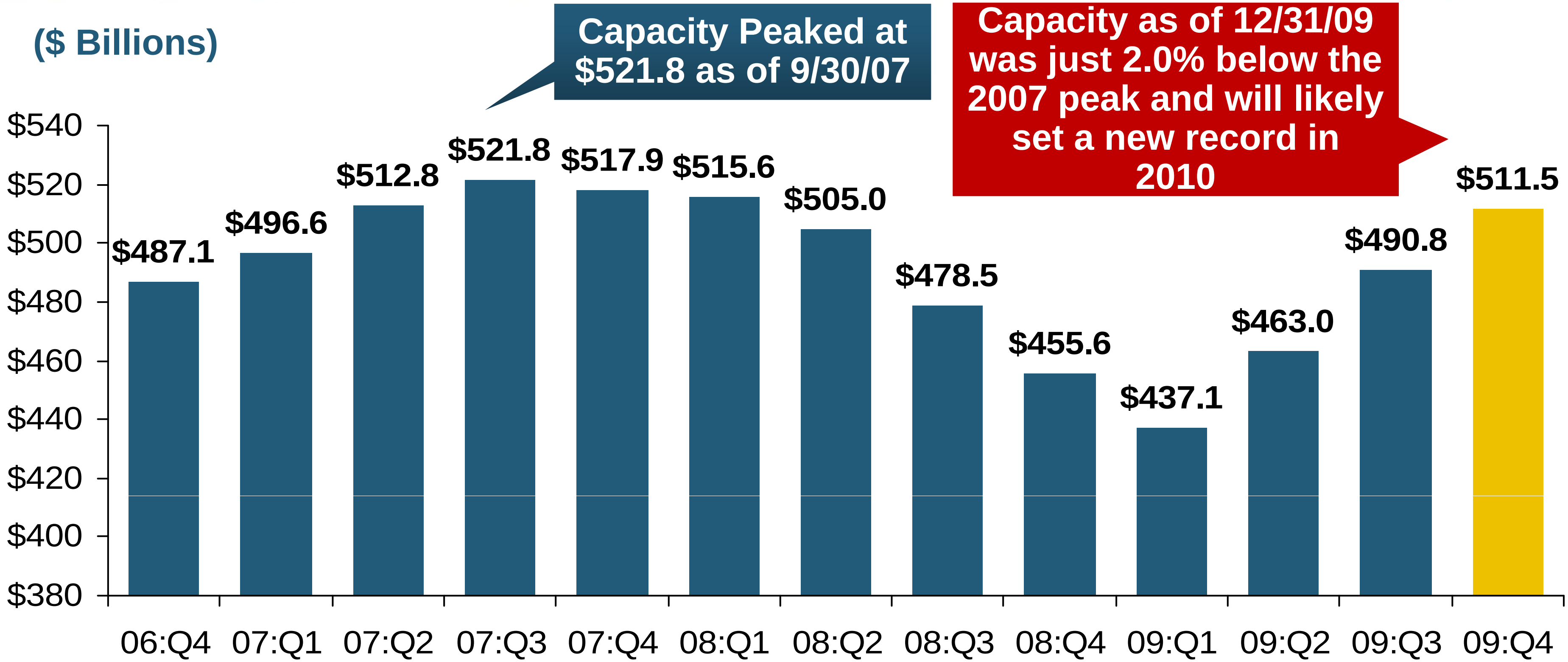


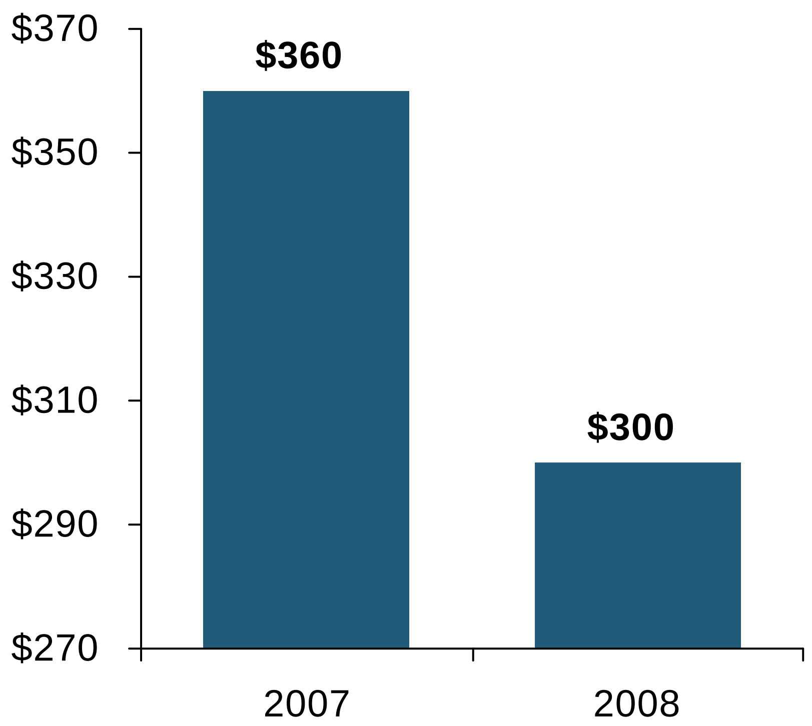
Declines Since 2007:Q3 Peak

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: -$2.5B (-0.5%)**
09:Q1: -$84.7B (-16.2%)	

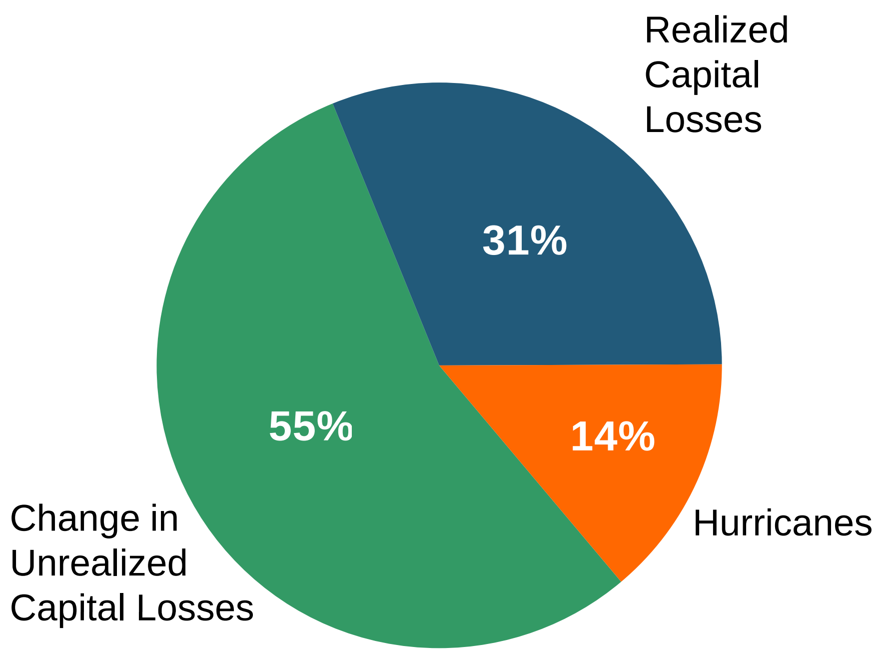
Source: ISO, AM Best.

Global Reinsurance Capacity Shrank in 2008, Mostly Due to Investments

Global Reinsurance Capacity



Source of Decline



Global Reinsurance Capacity Fell by an Estimated 17% in 2008

Source: AonBenfield Reinsurance Market Outlook 2009; Insurance Information Institute.

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

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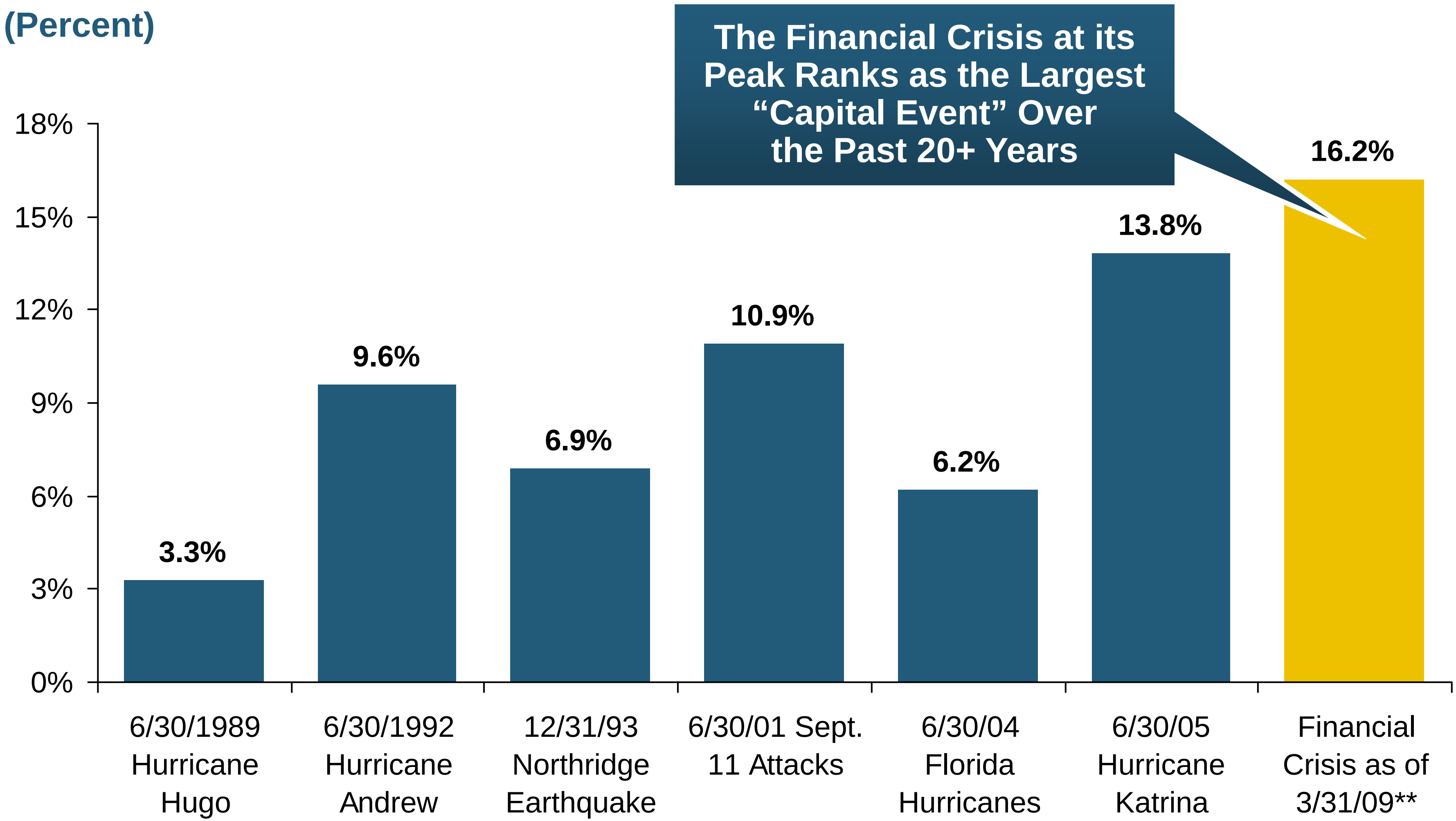
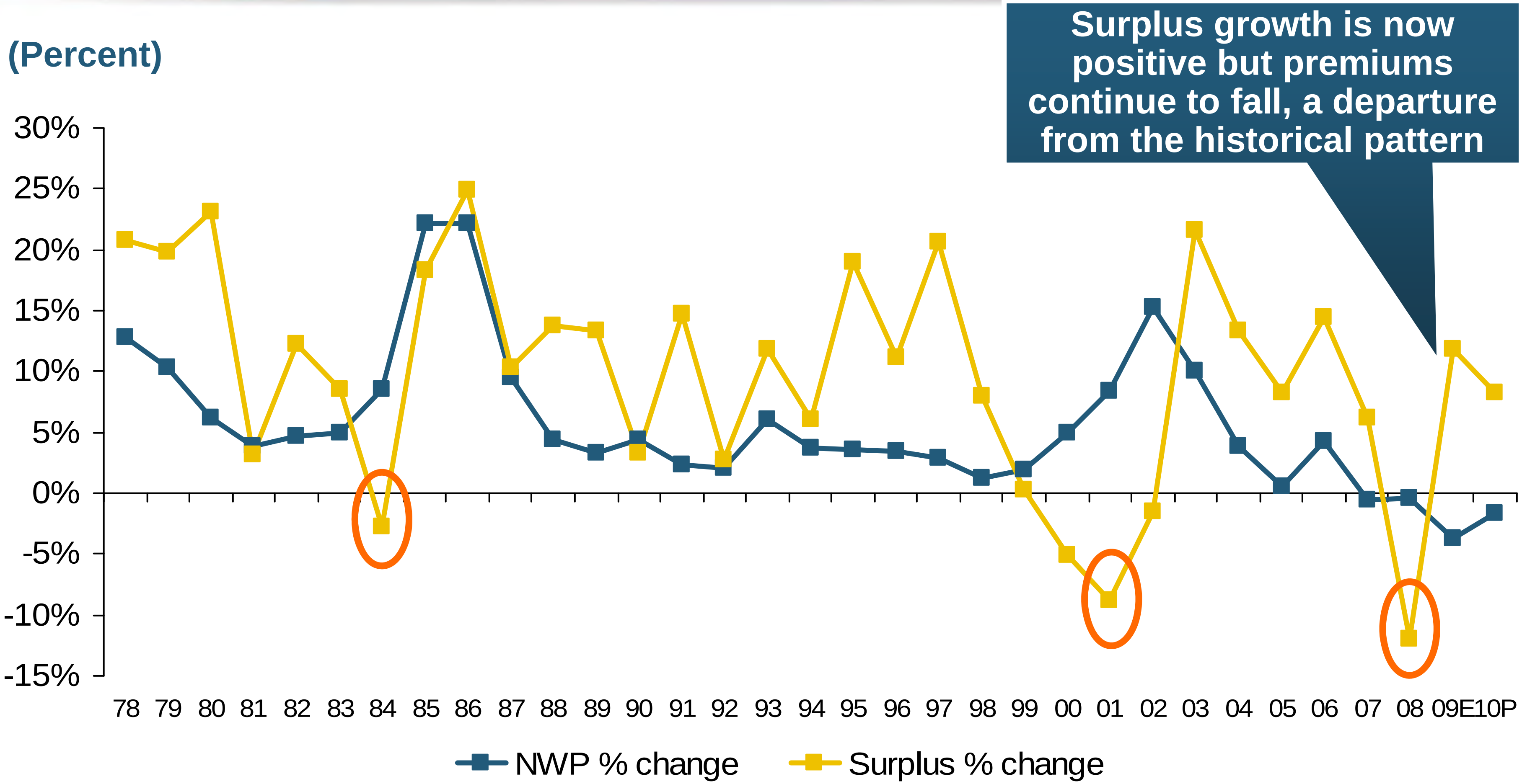


* Ratio is for end-of-quarter surplus immediately prior to event. Date shown is end of quarter prior to event

** 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

* 2009 NWP and Surplus figures are % changes as of Q4:09 vs Q4:08

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

Investment Performance

Investments Are a Principle Source of Declining Profitability

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

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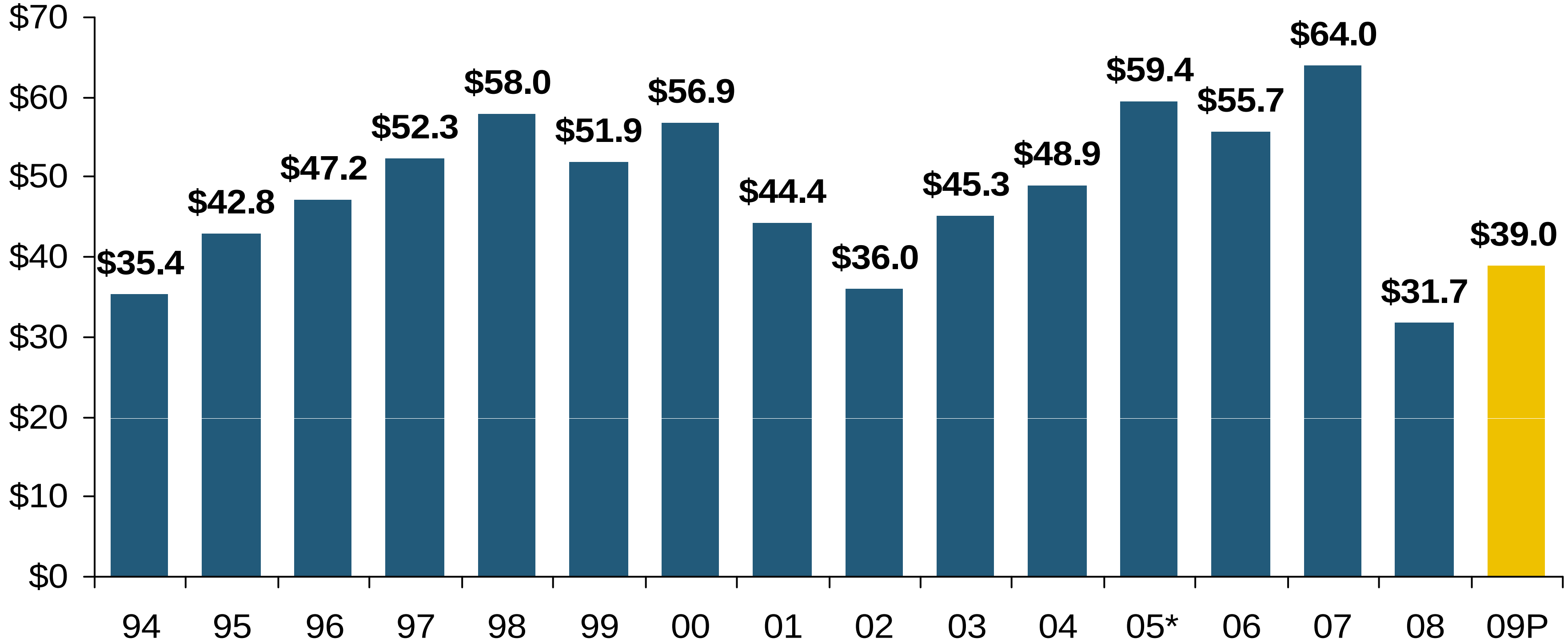
($ Billions)



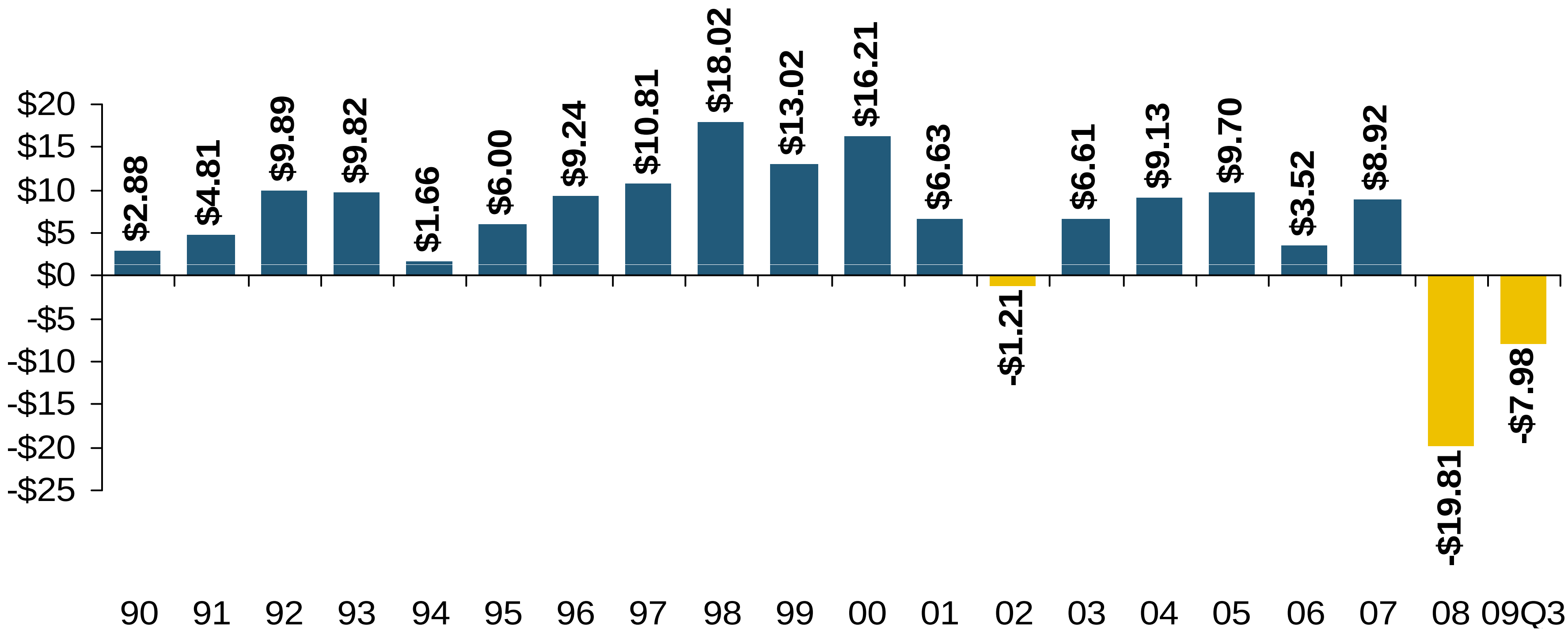
Investment Gains Fell by 50% In 2008 Due to Lower Yields, Poor Equity Market Conditions. In 2009, the Lower Realized Capital Losses Helped Offset Lower Investment Income

[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

INSURANCE INFORMATION INSTITUTE

($ Billions)



Realized Capital Losses Hit a Record $19.8 Billion in 2008 Due to Financial Market Turmoil, a $27.7 Billion Swing From 2007, 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.

Treasury Yield Curves: Pre-Crisis (July 2007) vs. May 2010*

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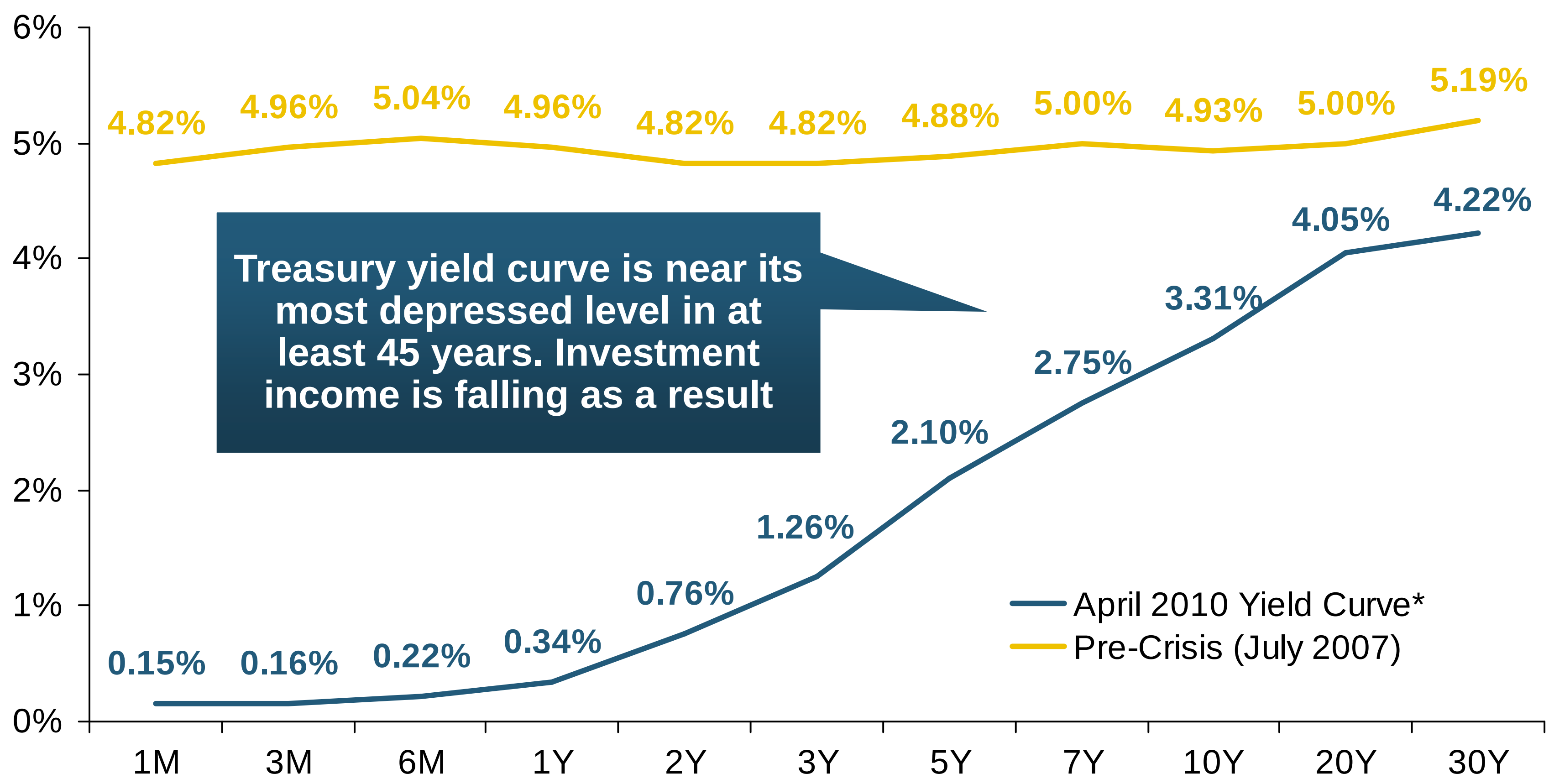
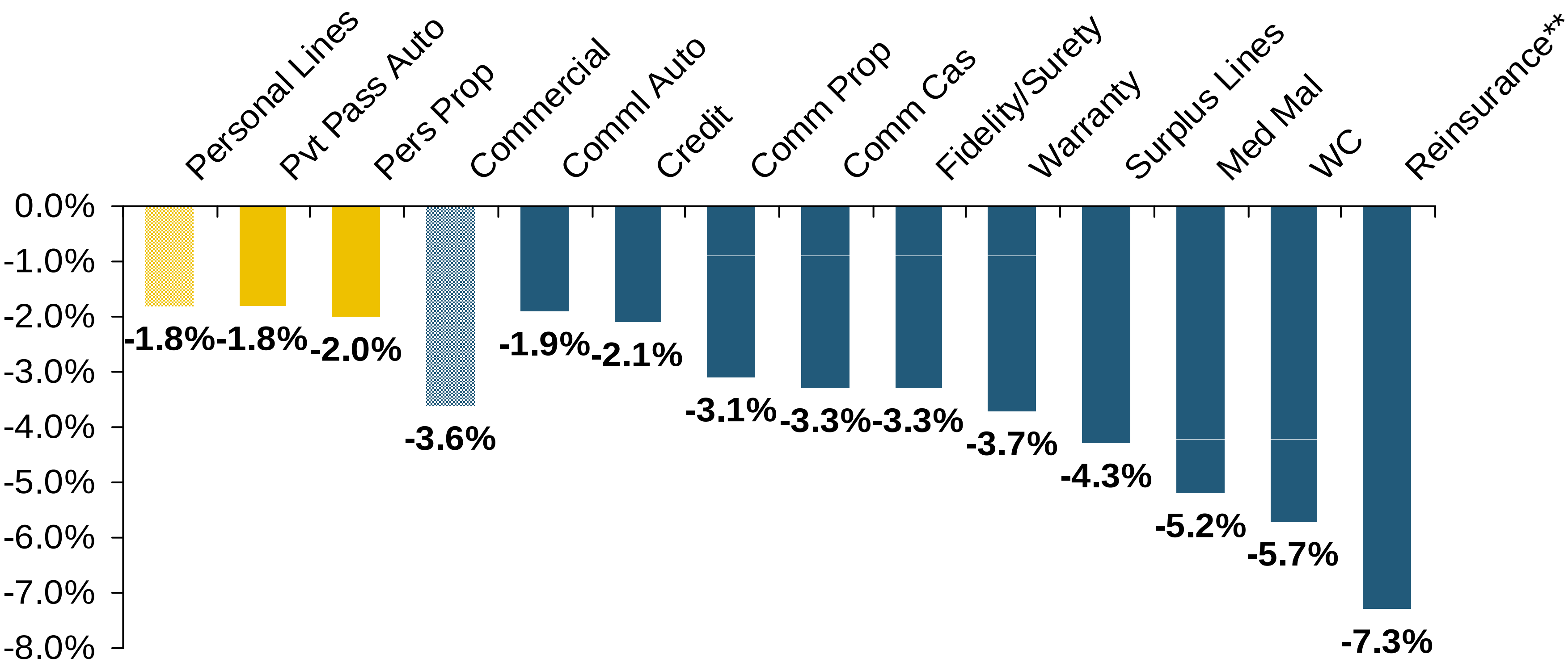


Stock Dividend Cuts Have Further Pressured Investment Income

*Week ending May 24, 2010.

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.

Distribution of P/C Insurance Industry's Investment Portfolio

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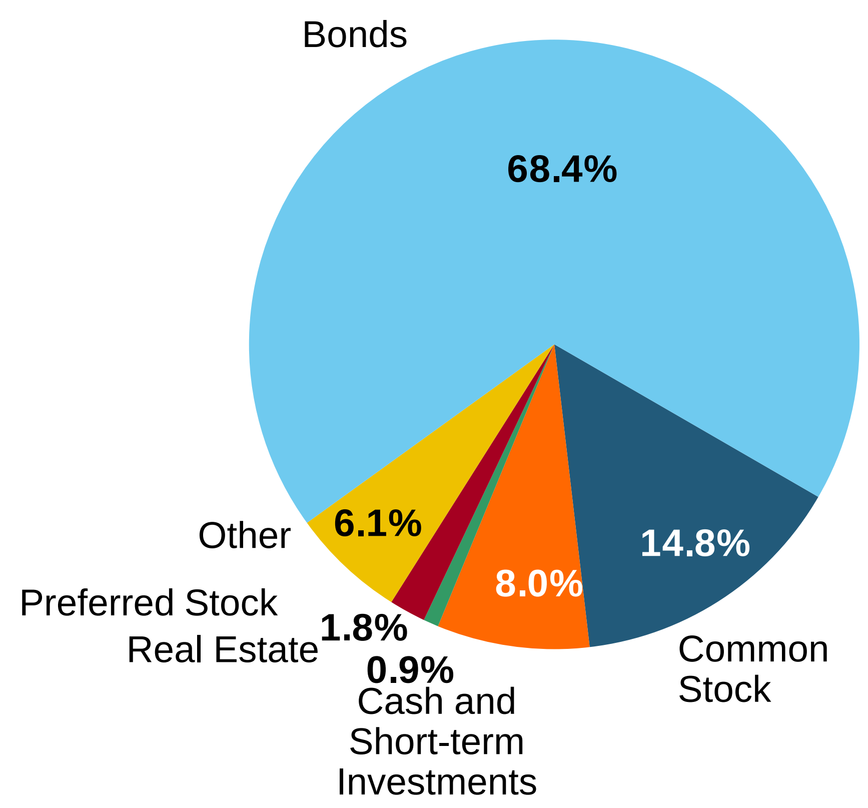
Portfolio Facts

- 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.

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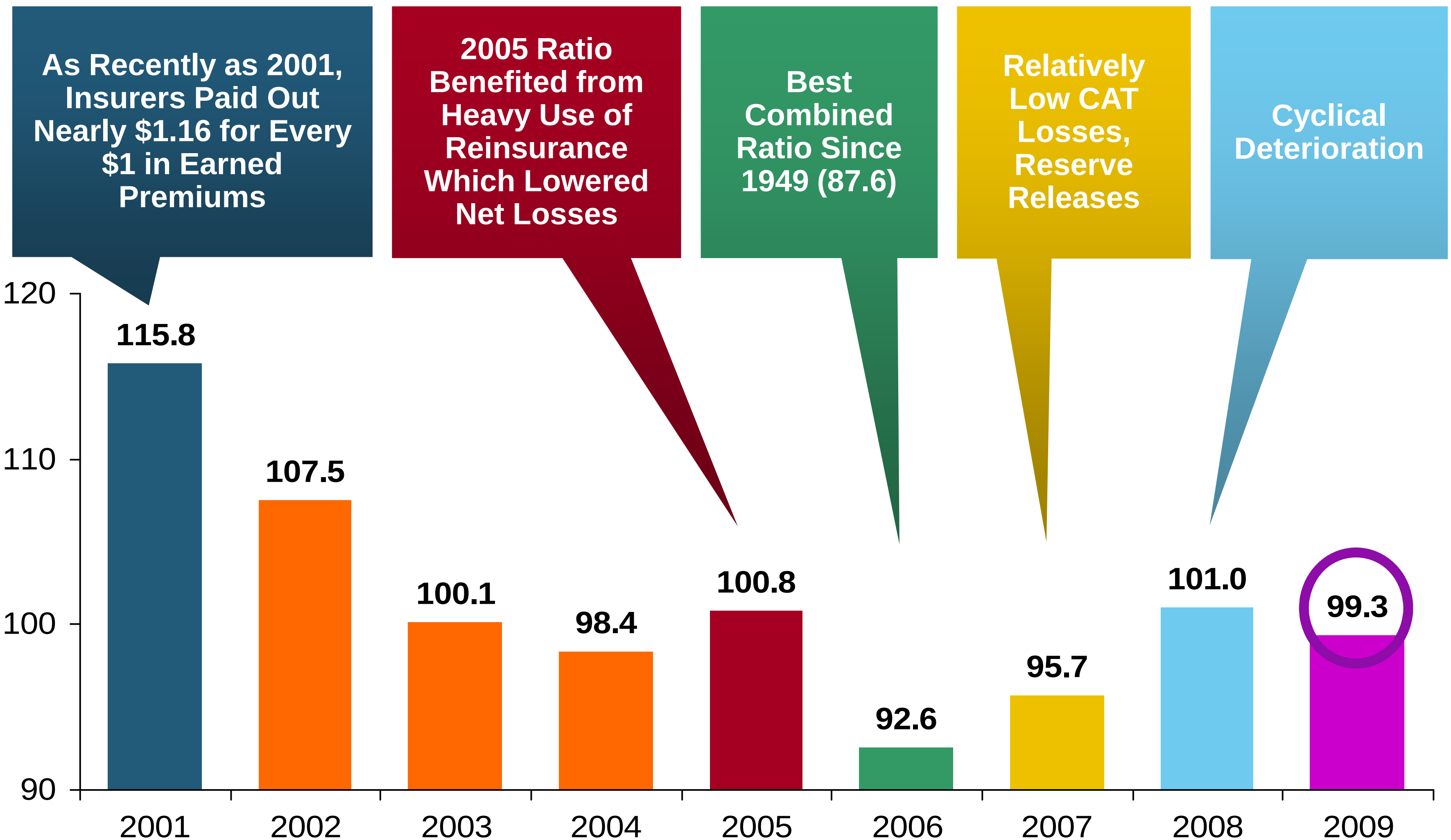
Underwriting Trends – Financial Crisis Does *Not* Directly Impact Underwriting Performance: Cycle, Catastrophes Were 2008's Drivers

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



* Excludes Mortgage & Financial Guaranty insurers in 2008/2009. Including M&FG, 2008=105.0, 2009=101.0

Sources: A.M. Best, ISO.

Underwriting Gain (Loss) 1975–2009*

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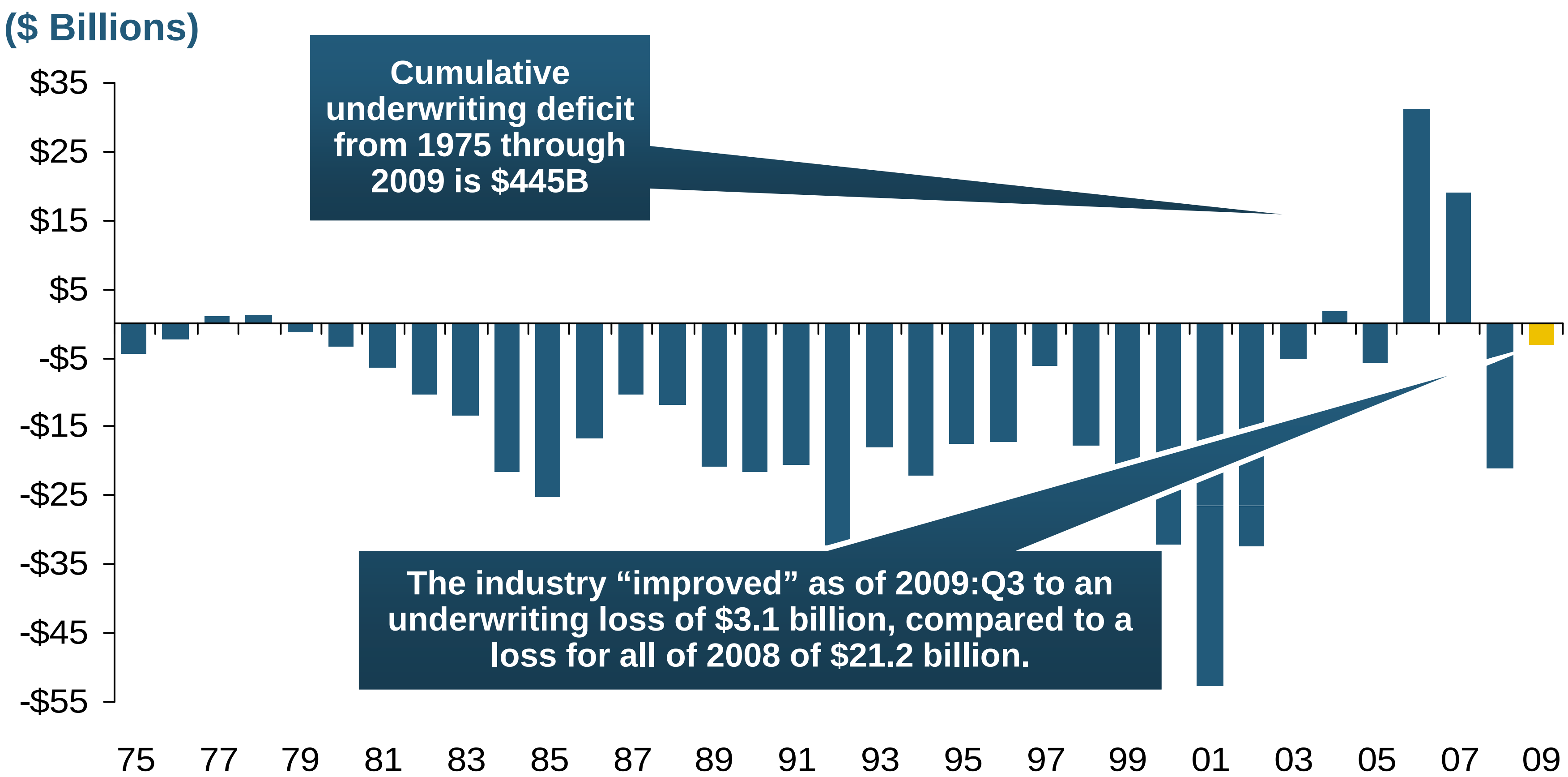

Large Underwriting Losses Are *NOT* Sustainable in Current Investment Environment

* Includes mortgage and financial guarantee insurers.

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

P/C Reserve Development, 1992–2011E

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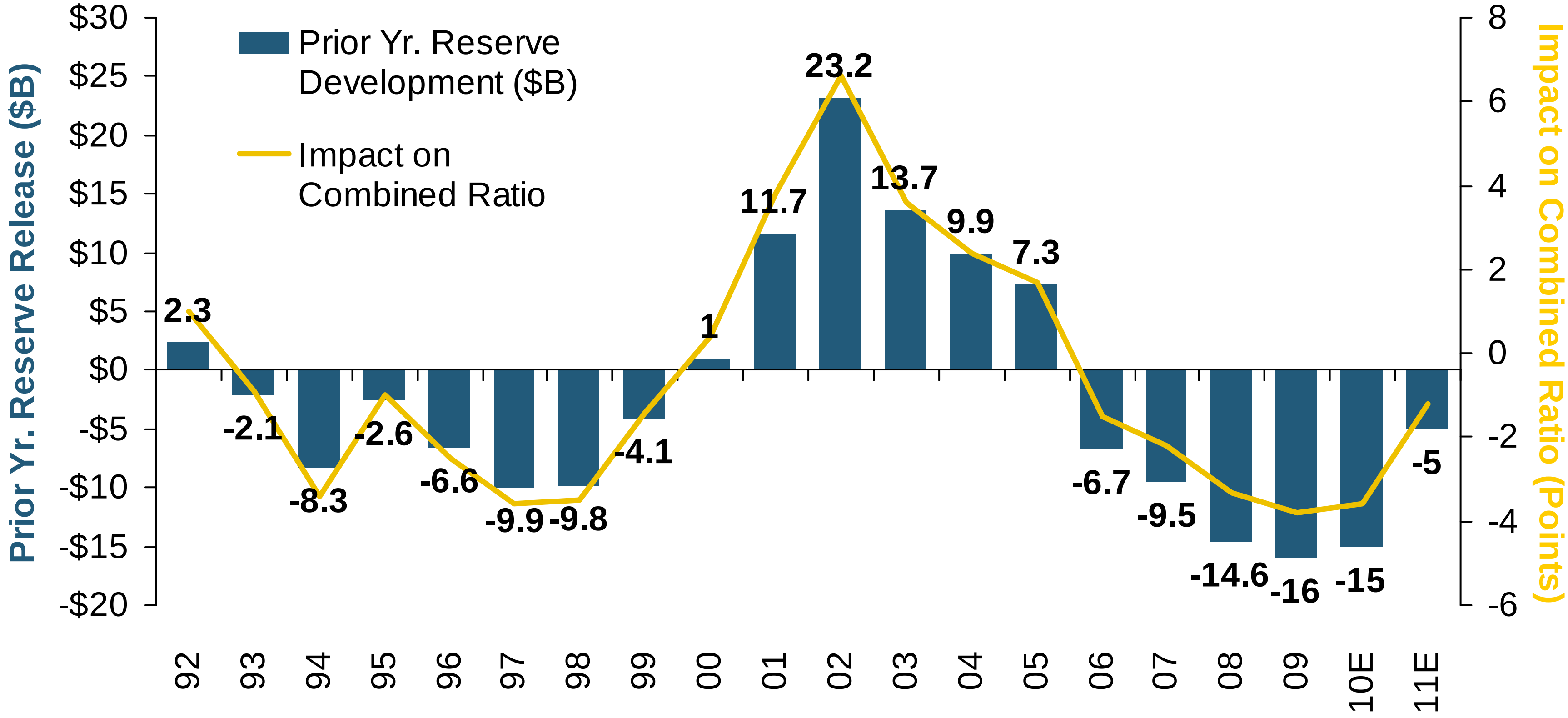
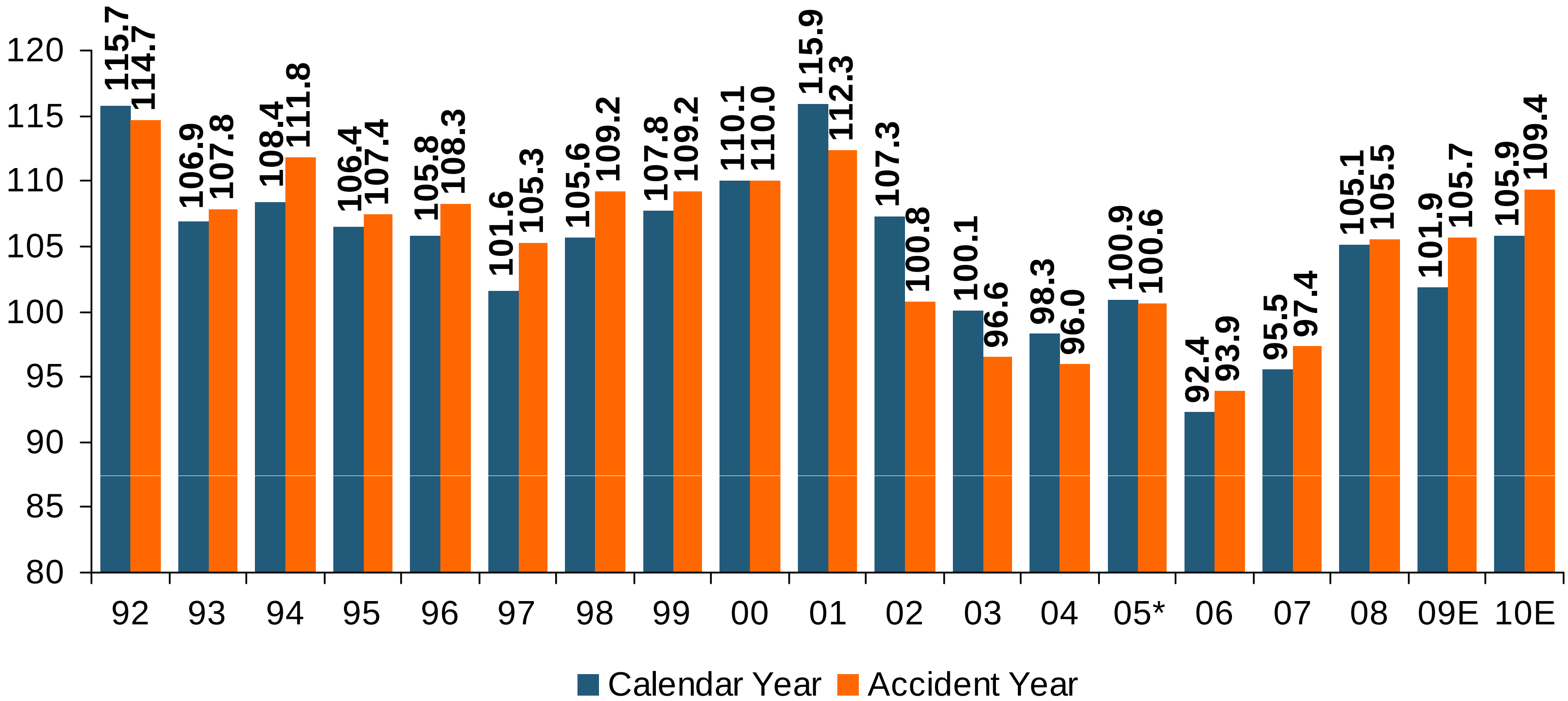


Reserve Releases Will Expected to Taper Off in 2010 and Drop Significantly in 2011

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.

Calendar Year vs. Accident Year P/C Combined Ratio: 1992–2010E[1]



Accident Year Results Show a More Significant Deterioration in Underwriting Performance. Calendar Year Results Are Helped by Reserve Releases

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.

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

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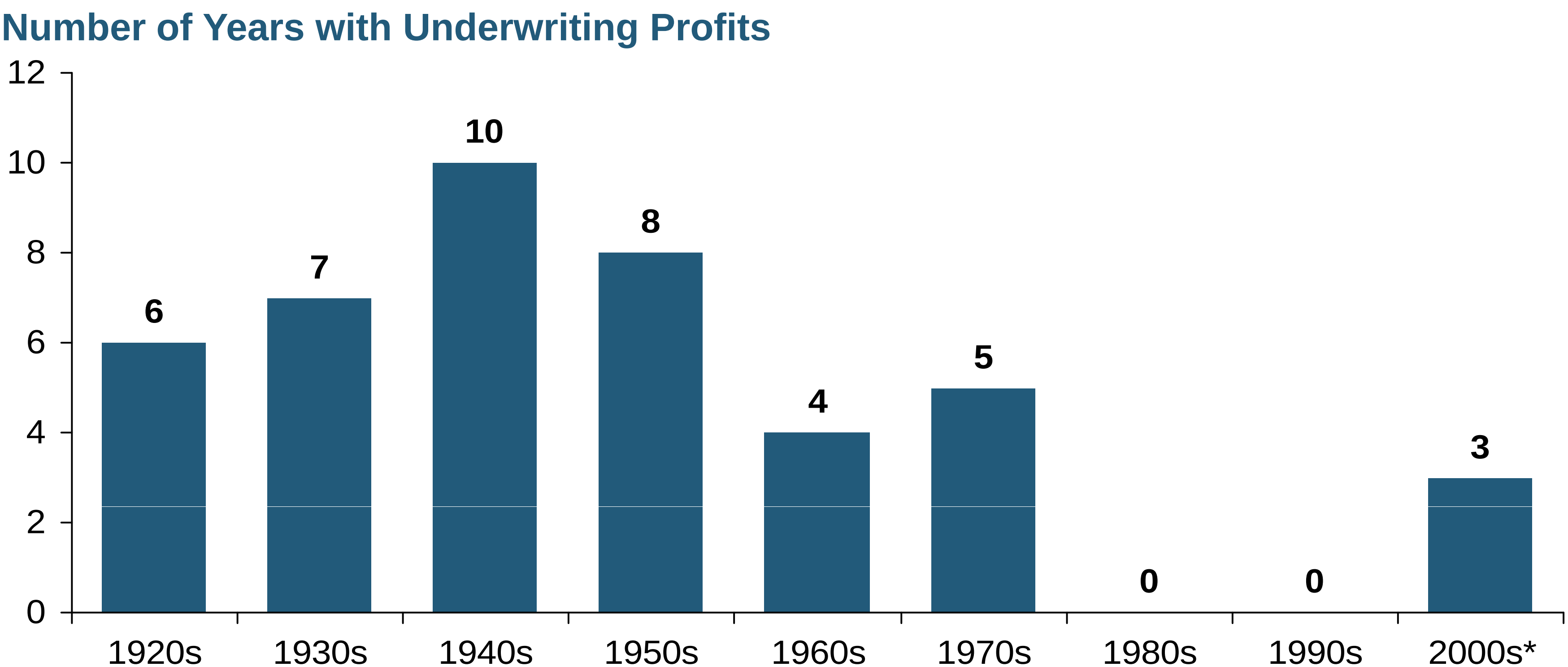

Underwriting Profits Were Common Before the 1980s (40 of the 60 Years Before 1980 Had Combined Ratios Below 100) – But Then They Vanished. Not a Single Underwriting Profit Was Recorded in the 25 Years from 1979 Through 2003

* 2000 through 2009. 2009 combined ratio excluding mortgage and financial guaranty insurers was 99.3, which would bring the 2000s total to 4 years with an underwriting profit.

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

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

Performance by Segment: Commercial/Personal Lines & Reinsurance

Calendar Year Combined Ratios by Segment: 2008-2010P

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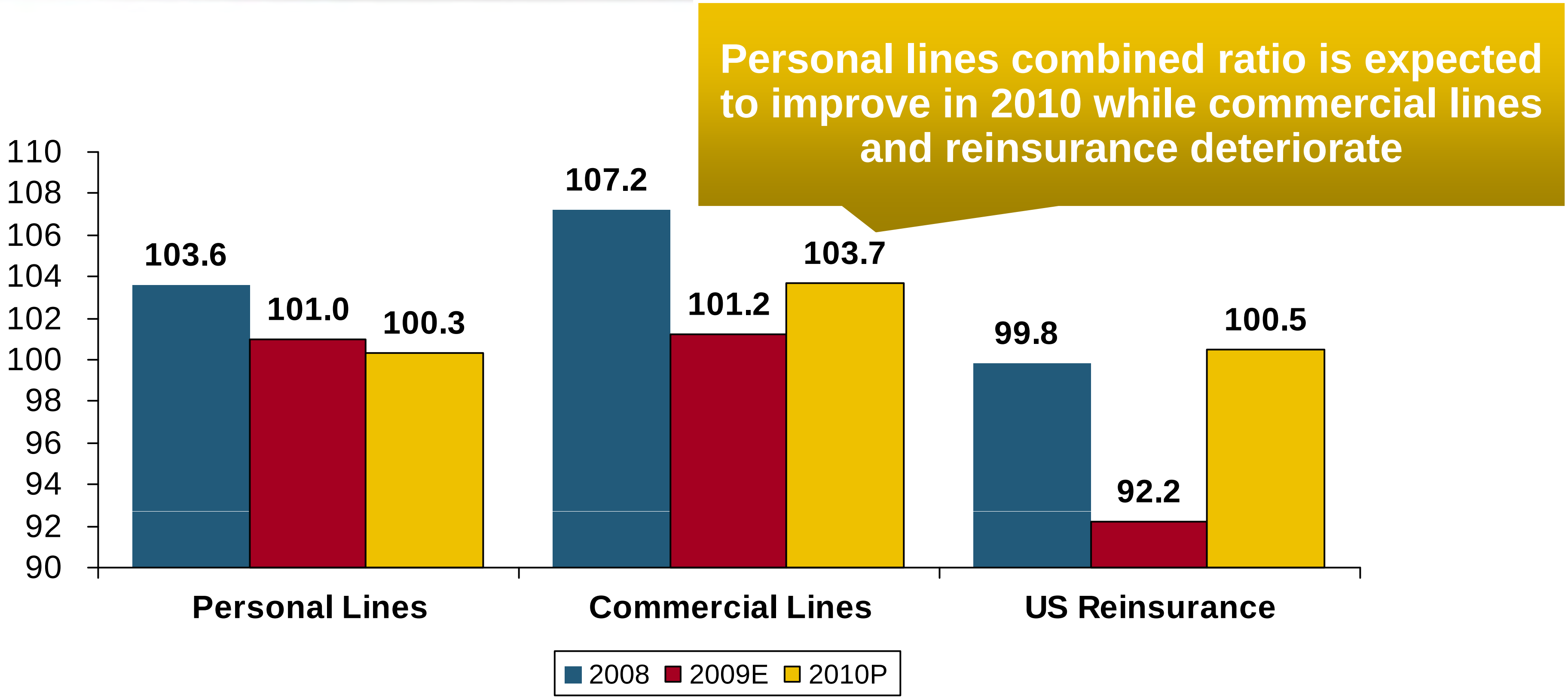

Overall deterioration in 2010 underwriting performance is due to expected return to normal catastrophe activity along with deteriorating underwriting performance related to the prolonged commercial soft market

Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute.

Calendar vs. Accident Year Combined Ratios by Segment: 2008-2010P*

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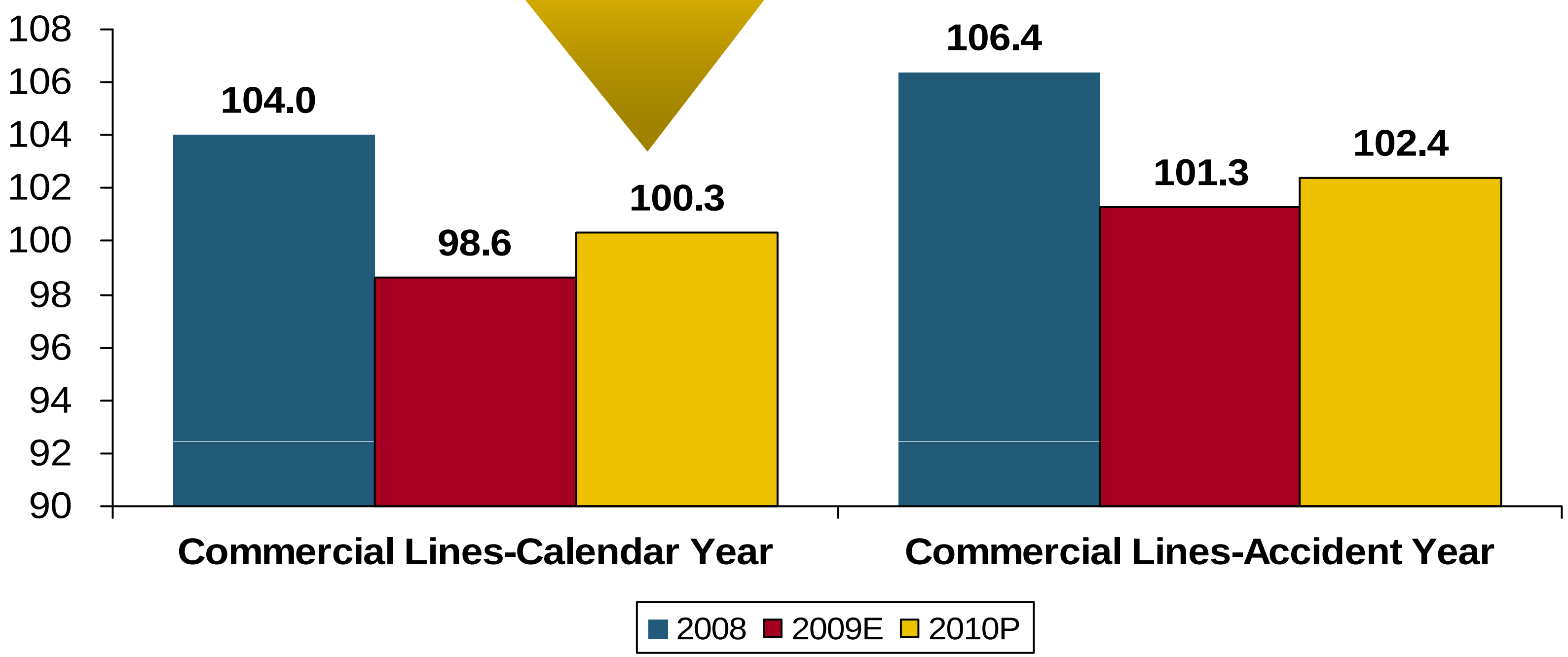
CY commercial lines combined ratios are lower than AY due to reserve releases



The ability of reserves releases to favorably impact calendar year results will diminish over time reserved redundancies fall

*Normalized to reflect average/typical level of catastrophe losses.

Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute.

After-Tax Return on Surplus (ROE) by Segment: 2008-2010P

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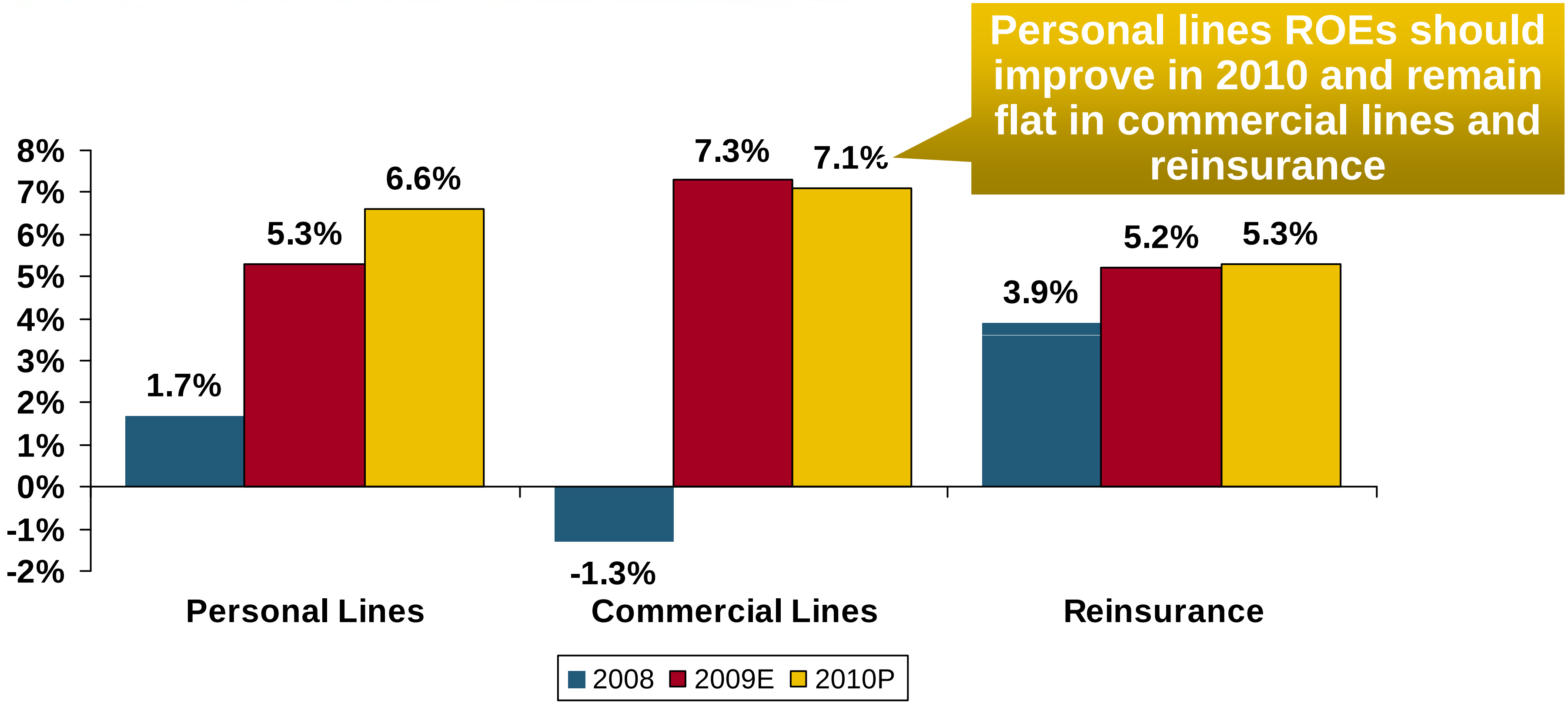

Profitability will rise or stabilize across most p/c lines, barring a financial crisis relapse or major catastrophic losses

Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute.

Change in Policyholder Surplus by Segment: 2008-2010P

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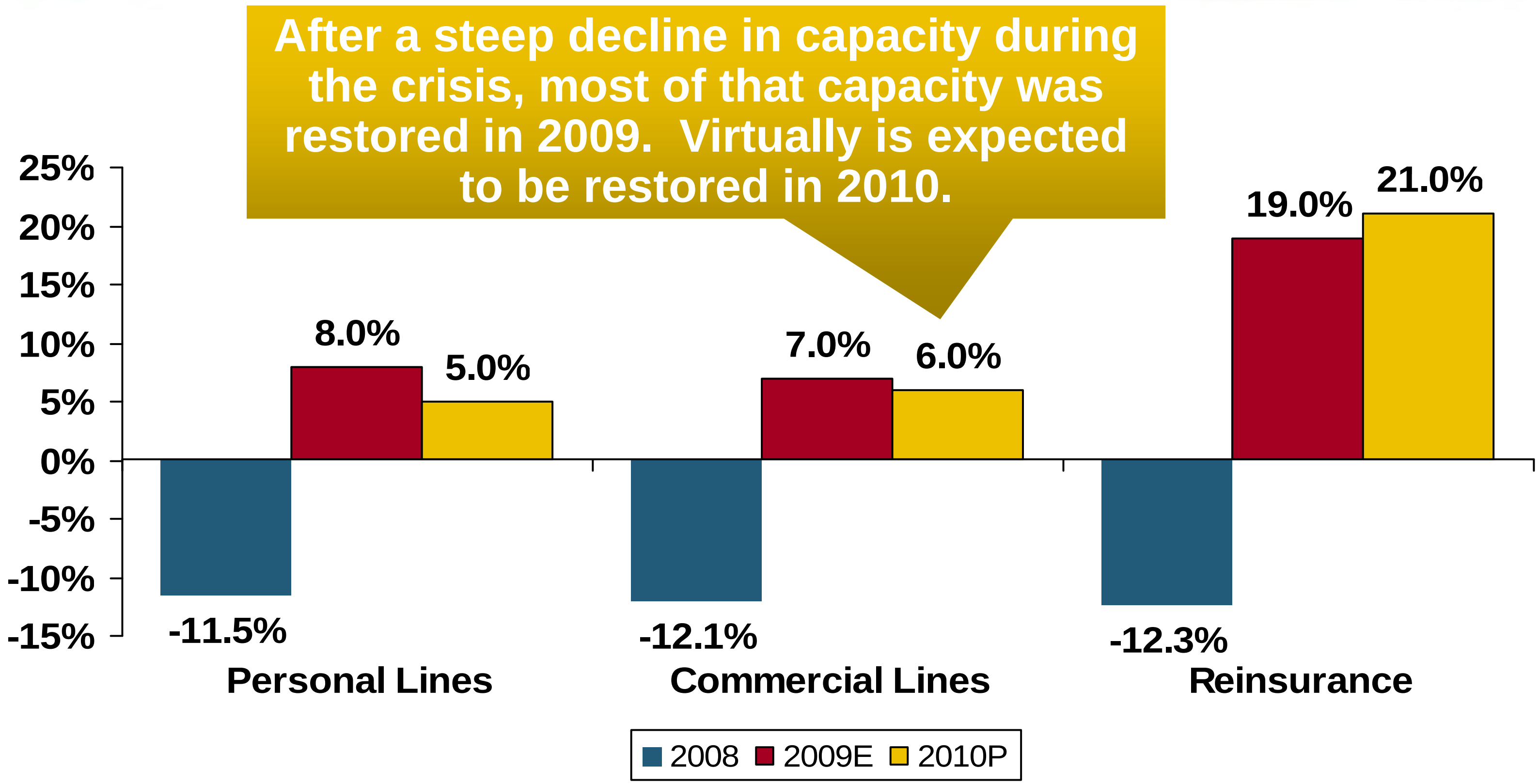

Rapid growth in policyholder surplus to pre-crisis levels combined with ongoing slow growth or declines in premiums (esp. in commercial lines) implies a build-up of excess capacity—a major factor in weak commercial lines and reinsurance pricing

Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute.

Net Written Premium Growth by Segment: 2008-2010P

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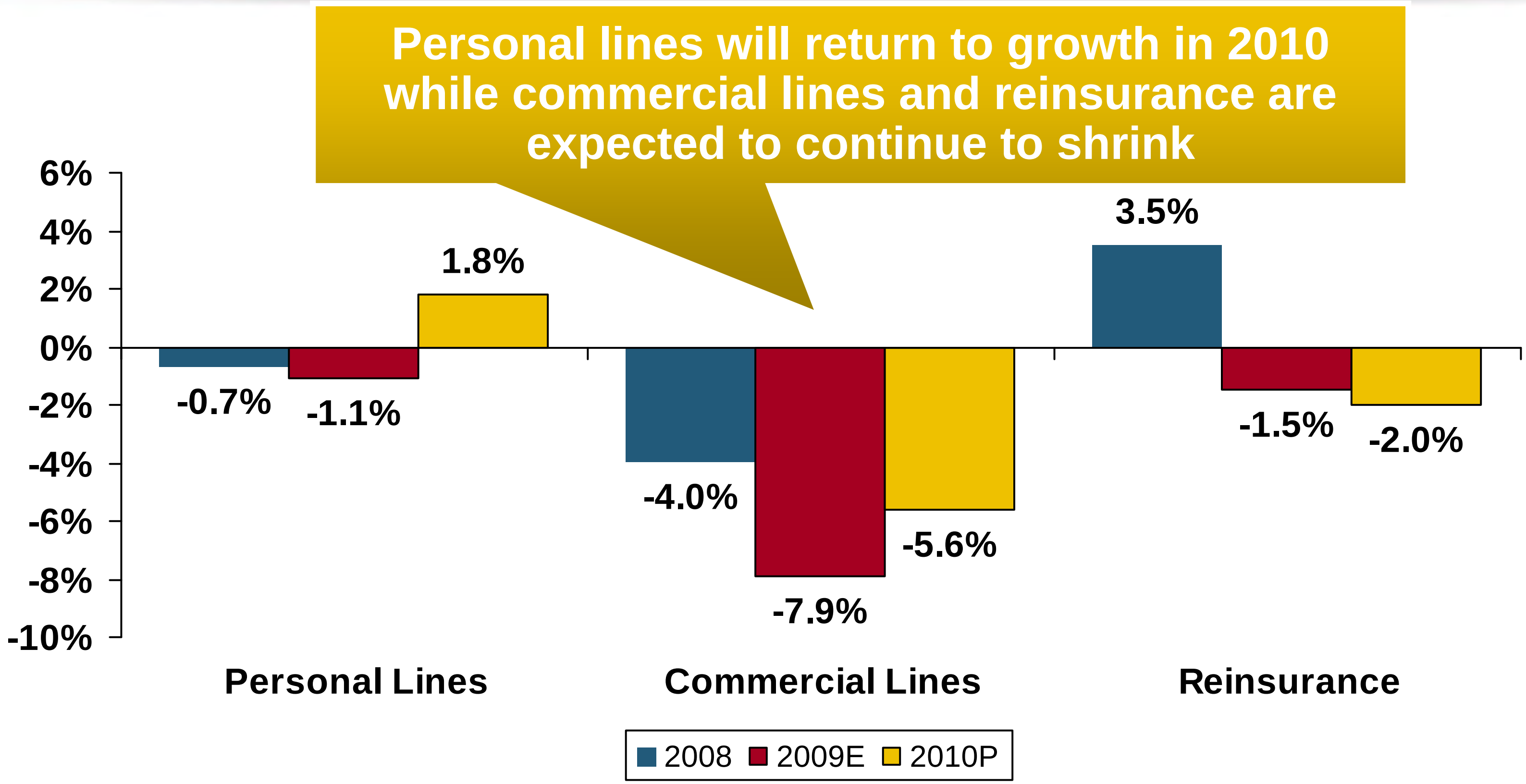
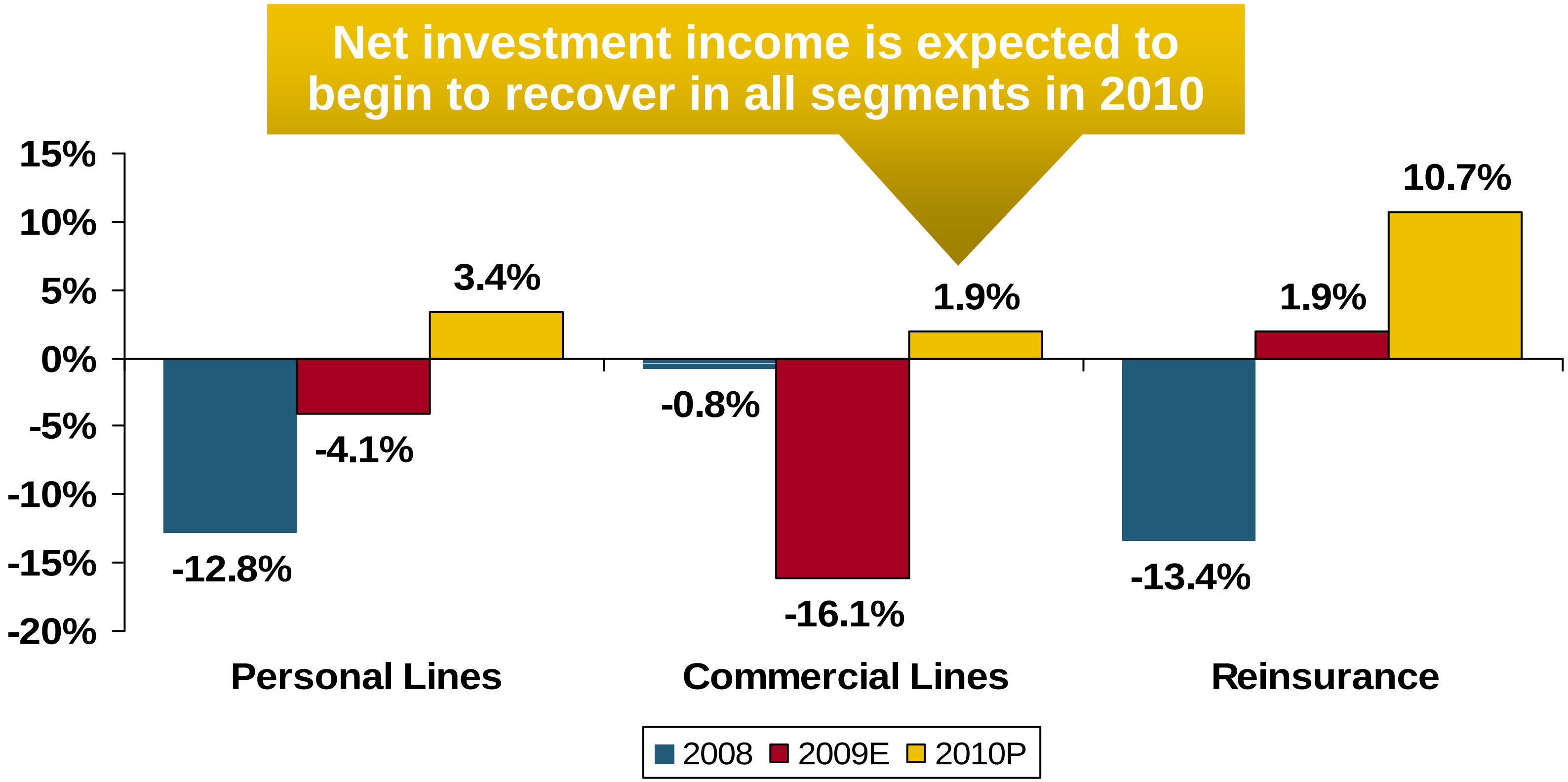


Rate and exposure are more favorable in personal lines, whereas a prolonged soft market and sluggish recovery from the recession weigh on commercial lines. Low catastrophe losses and ample capacity are holding down reinsurance prices while higher insurer retentions impact premiums

Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute.

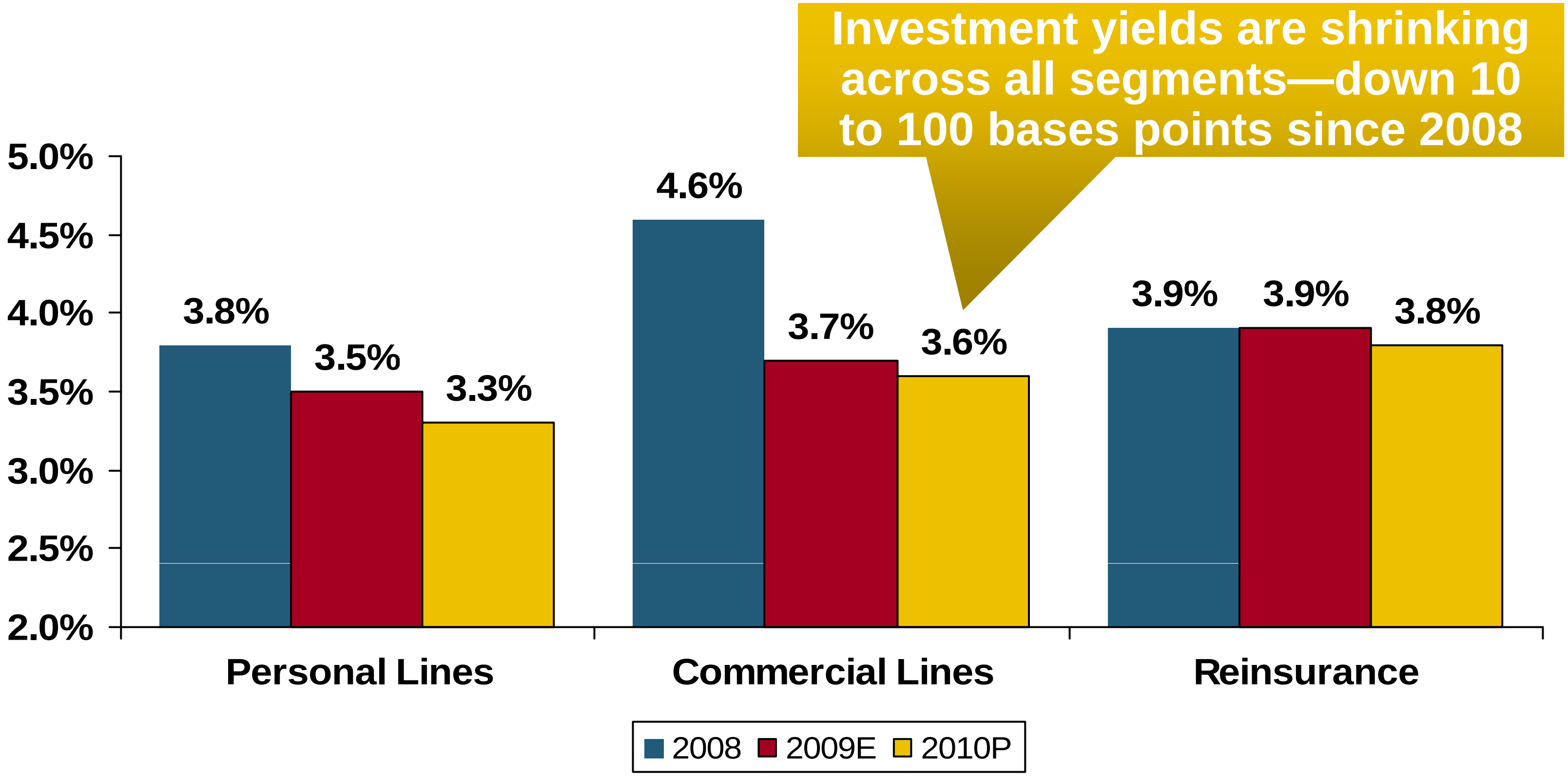
Change in Net Investment Income by Segment: 2008-2010P*



Investment income consists primarily of interest on bonds and stock dividends. Both were hit hard during the financial crisis as the Fed slashed interest rates to near zero and corporations cut dividends. A recovery in investment asset values beginning in Q2 2009—which reduced realized capital losses—has helped offset some of the decrease in investment income.

Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute.

Investment Yield by Segment: 2008-2010P*



The Fed slashed interest rates in 2008 and has kept them low since, eroding the yield on all types of bonds, especially US Treasury securities. Yields will not recover until the Fed begins monetary policy tightening.

Sources: A.M. Best (historical and estimates/projected for 2009 and 2010); Insurance Information Institute.

Homeowners Insurance Combined Ratio: 1990–2010P

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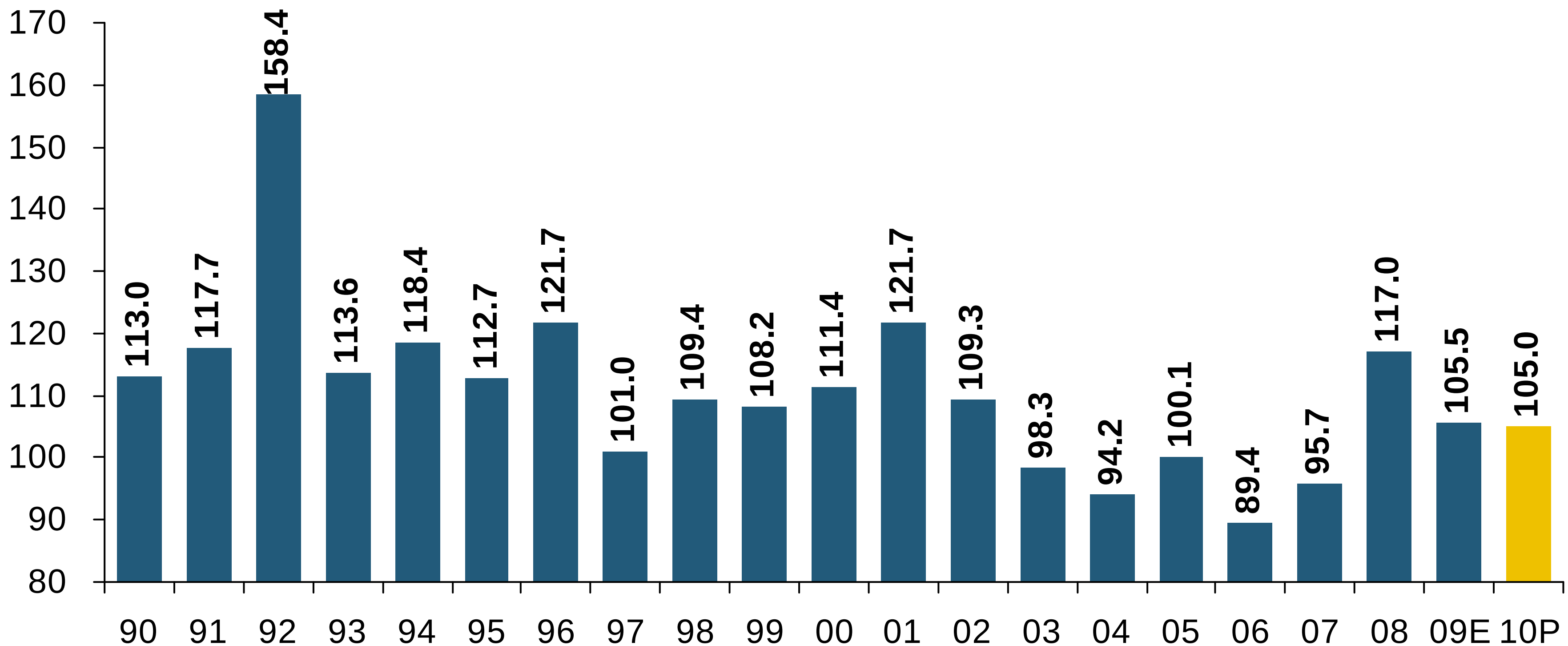
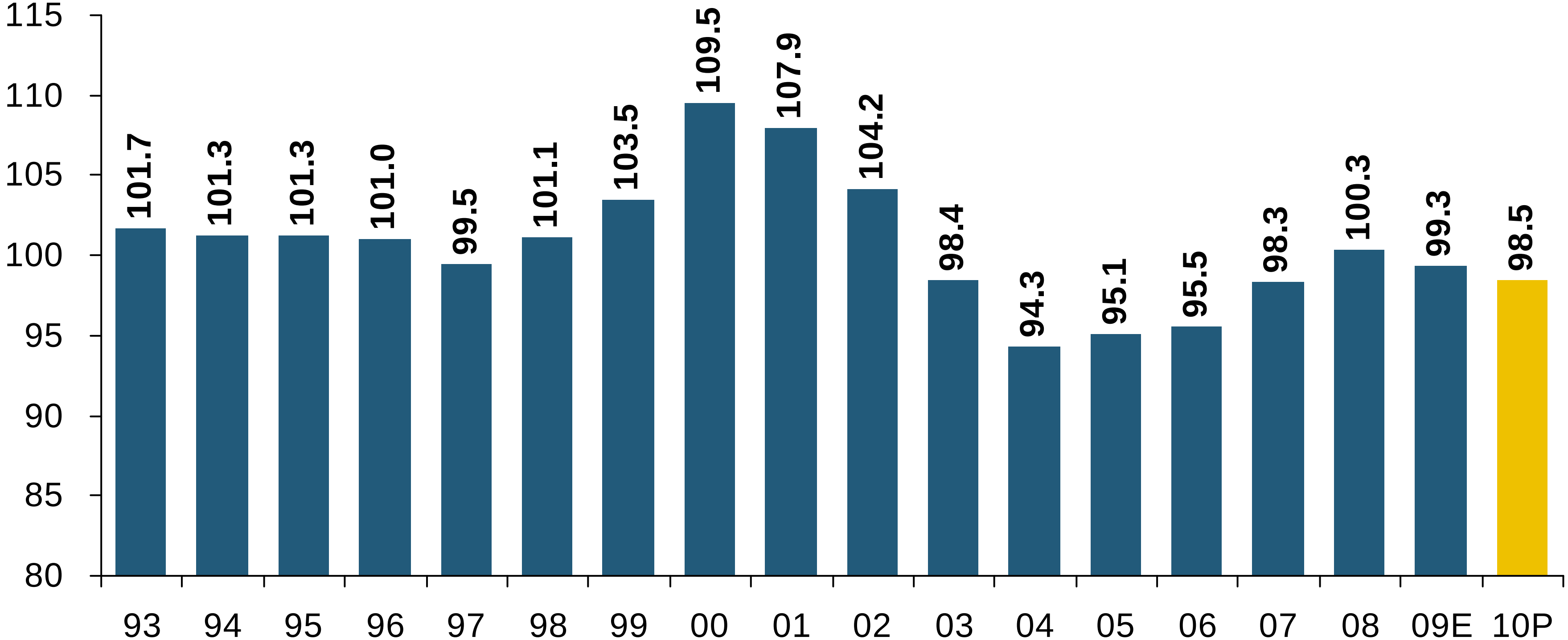


Homeowners Line Is Expected to Be Marginally Profitable Overall in 2010, but in Many States Could Be Quite Profitable. Volatility Due to Catastrophe Losses Will Persist

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

Private Passenger Auto Combined Ratio: 1993–2010P



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

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

Commercial Multi-Peril Combined Ratio: 1995–2010P

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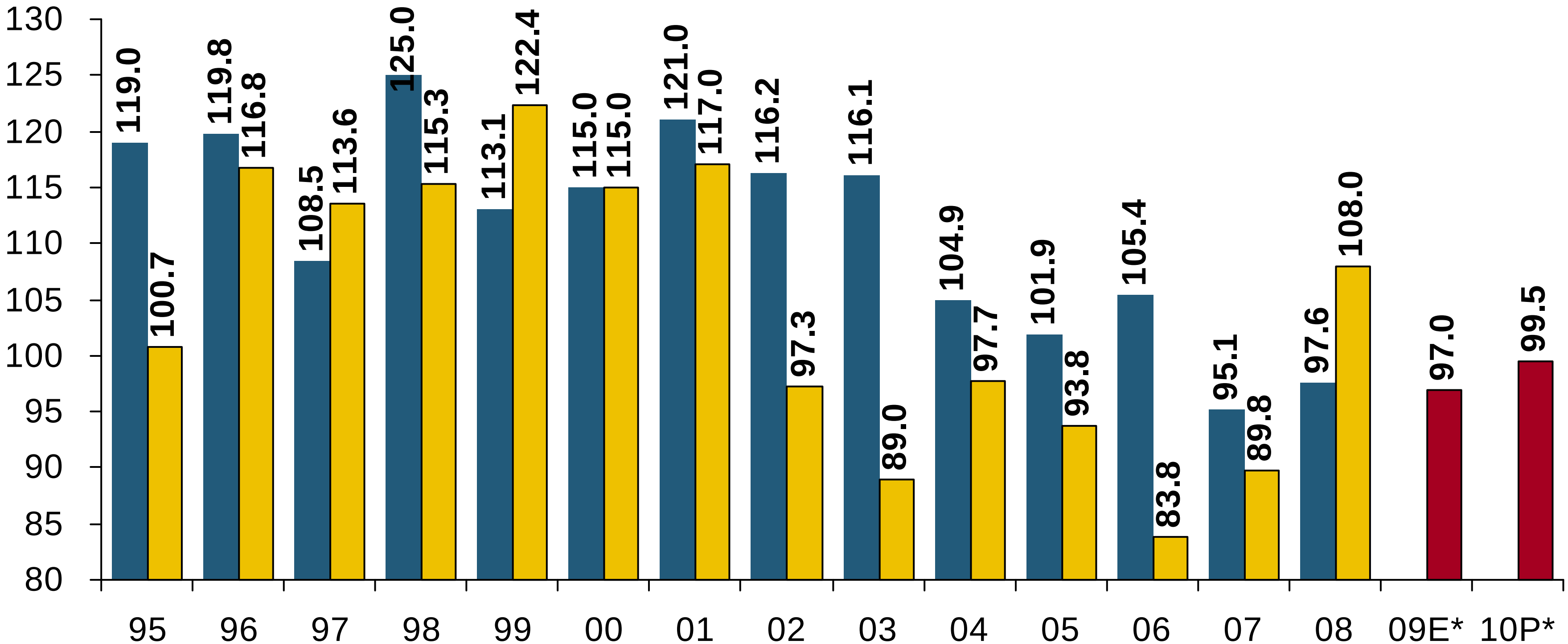

Commercial Multi-Peril is Expected to Continue to Perform Reasonably Well

*2009E and 2010P figures are for the combined liability and non-liability components.
Sources: A.M. Best; Insurance Information Institute.

Commercial Auto Combined Ratio: 1993–2010P

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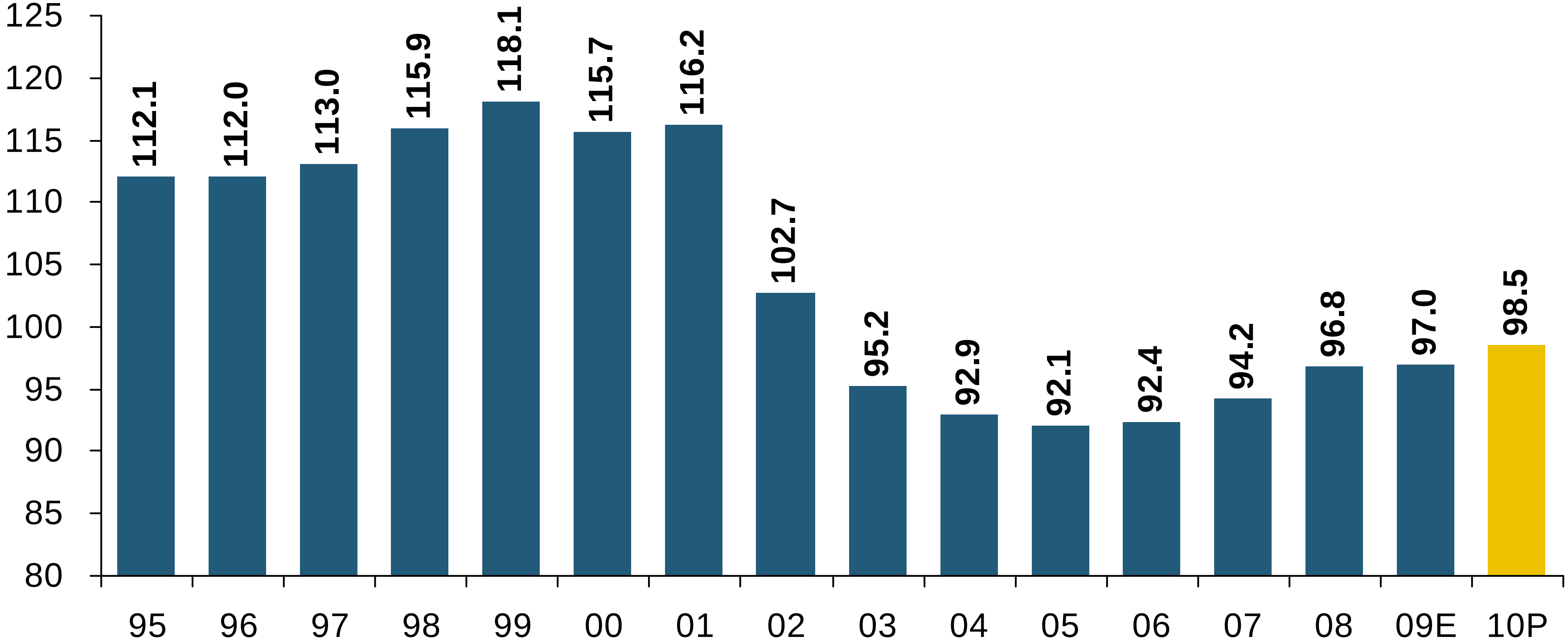
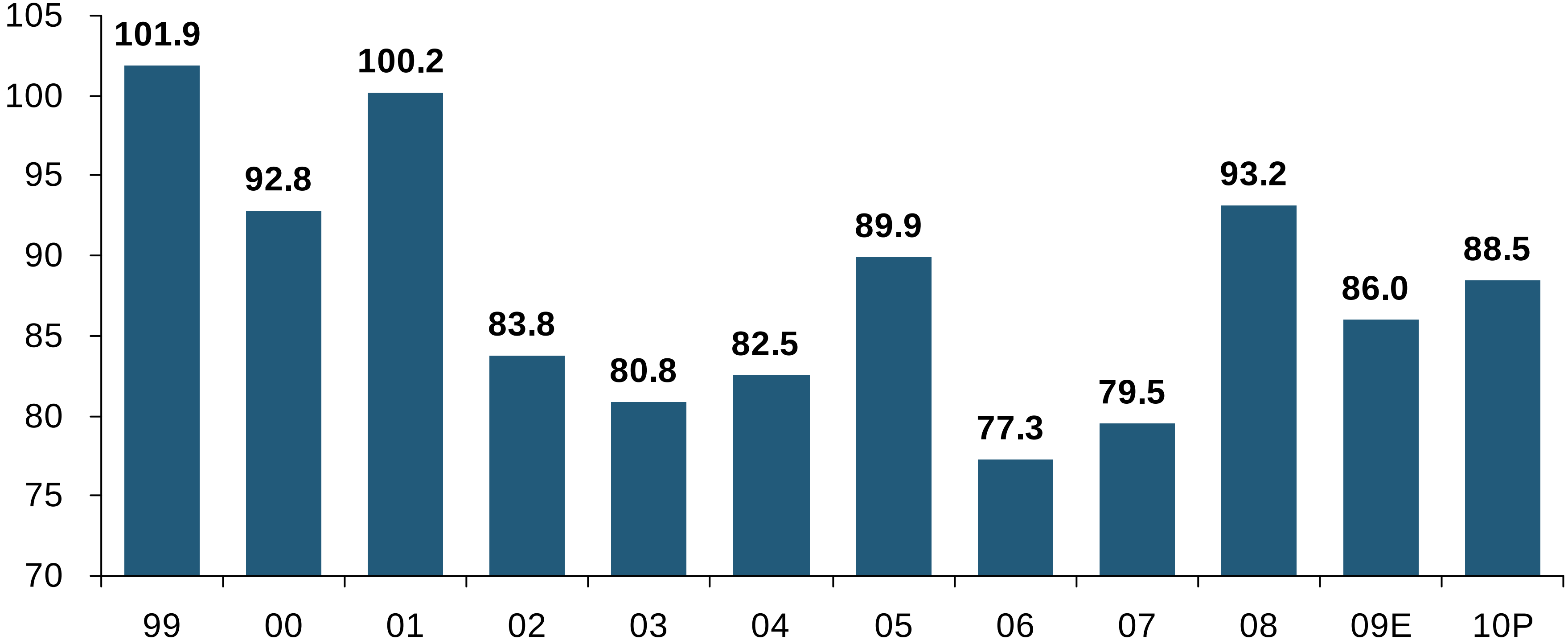


Commercial Auto is Expected to Remain Reasonably Profitable in 2010

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

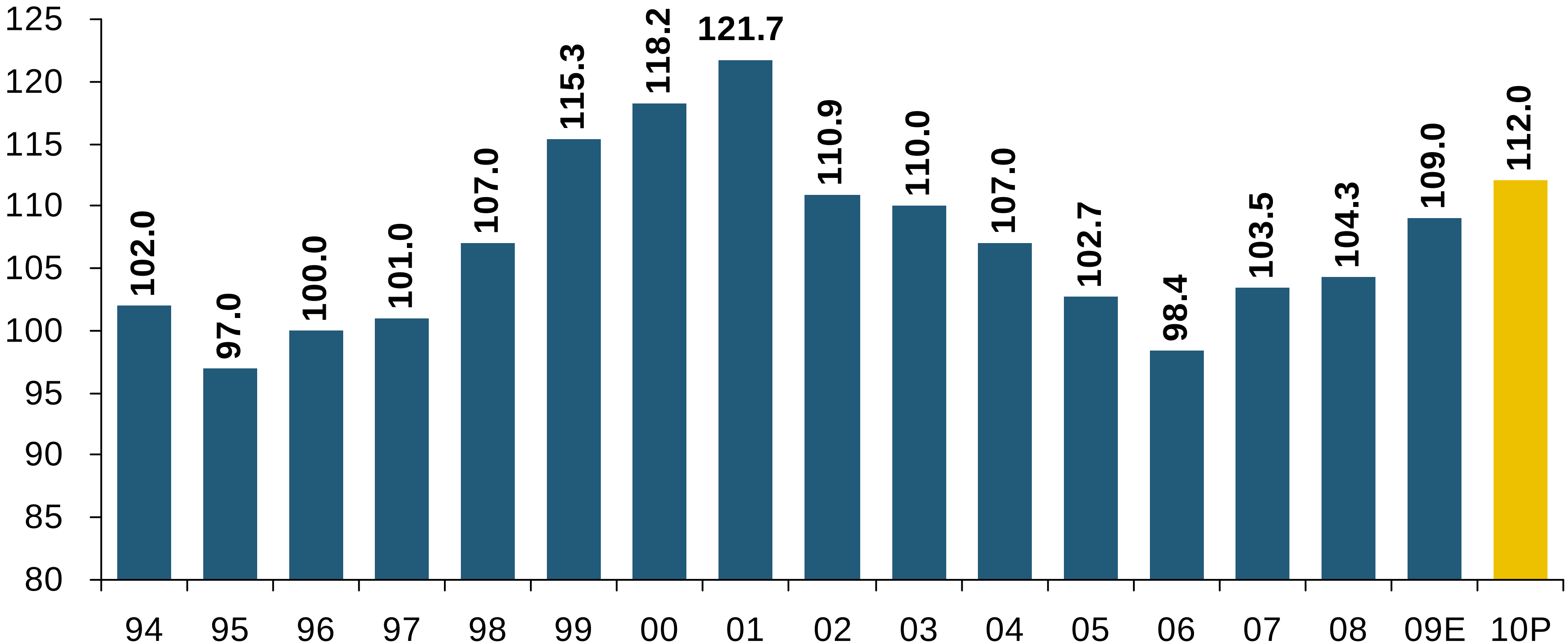
Inland Marine Combined Ratio: 1999–2010P



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

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

Workers Compensation Combined Ratio: 1994–2010P



Workers Comp Underwriting Results Are Deteriorating Markedly

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

Catastrophic Loss –
Catastrophe Losses Trends Are Trending Adversely

Natural Catastrophes: Jan – Mar 2010
Worldmap

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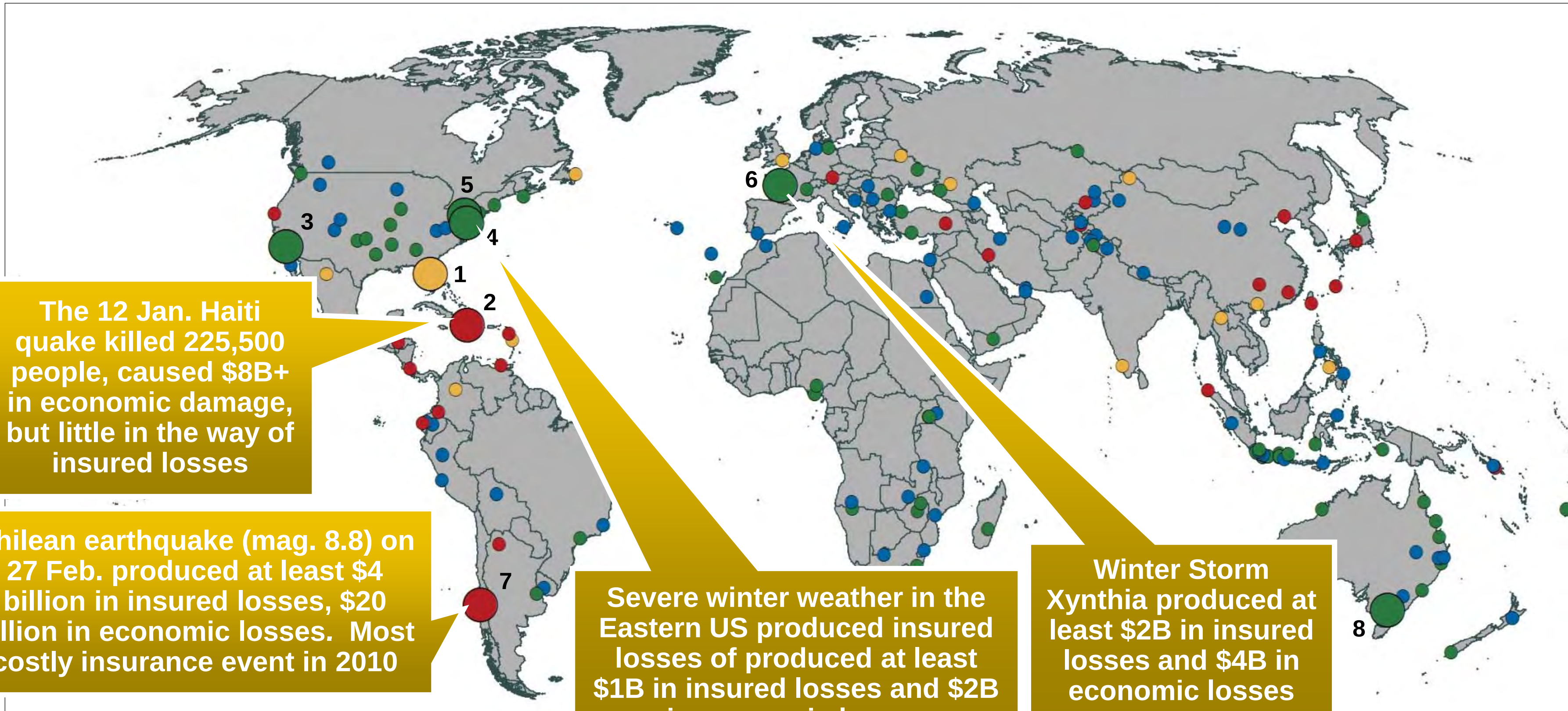

The 12 Jan. Haiti quake killed 225,500 people, caused $8B+ in economic damage, but little in the way of insured losses

Chilean earthquake (mag. 8.8) on 27 Feb. produced at least $4 billion in insured losses, $20 billion in economic losses. Most costly insurance event in 2010

Severe winter weather in the Eastern US produced insured losses of produced at least $1B in insured losses and $2B in economic losses

Winter Storm Xynthia produced at least $2B in insured losses and $4B in economic losses

○ **Global natural catastrophes**

◯ **Selection of significant natural catastrophes (see table)**

● **Geophysical events** (earthquake, tsunami, volcanic activity)

● **Meteorological events** (storm)

● **Hydrological events** (flood, mass movement)

● **Climatological events** (extreme temperature, drought, wildfire)

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Natural Catastrophes: January – March 2010

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Selection of Significant Events

No.	Period	Event	Affected Area	Overall losses*	Insured losses*	Fatal-ities*
				US$ m, original values		
1	7–12 January	Winter damage, cold wave	United States: Midwest (MO, IA); South (AR, LA, OK, TX); Southeast (FL, AL, GA, MS, NC, SC, TN)	800	160	5
2	12 January	Earthquake	Haiti: South (esp. Port-au-Prince)	>8,000		222,500
3	18–22 January	Severe storms	United States: Southwest (CA, AZ, UT)	180	120	20
4	4–6 February	Winter storm, blizzards	United States: Northeast (DC, DE, MD, NJ, PA); Southeast (NC, VA, WV)	180	135	2
5	9–14 February	Winter storm, blizzards, winter damage	United States. Canada	800	560	
6	26–28 February	Winter storm Xynthia, storm surge	Belgium. France. Germany. Netherlands. Portugal. Spain. Switzerland. United Kingdom	4,500	>2,000	63
7	27 February	Earthquake, tsunami	Chile: Central; South	>20,000	>4,000	507
8	6–7 March	Hailstorm, severe storms	Australia: Southeast (Victoria)	1,200	780	

*Preliminary figures

First Quarter 2010 Insured Major Catastrophe Losses Were Among the Highest on Record for Q1, Totaling at least $7.755 Billion. Economic Losses Total at Least $35.66. More than 223,000 People Were Killed in These Events.

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Gulf Coast Near Deepwater Horizon Site

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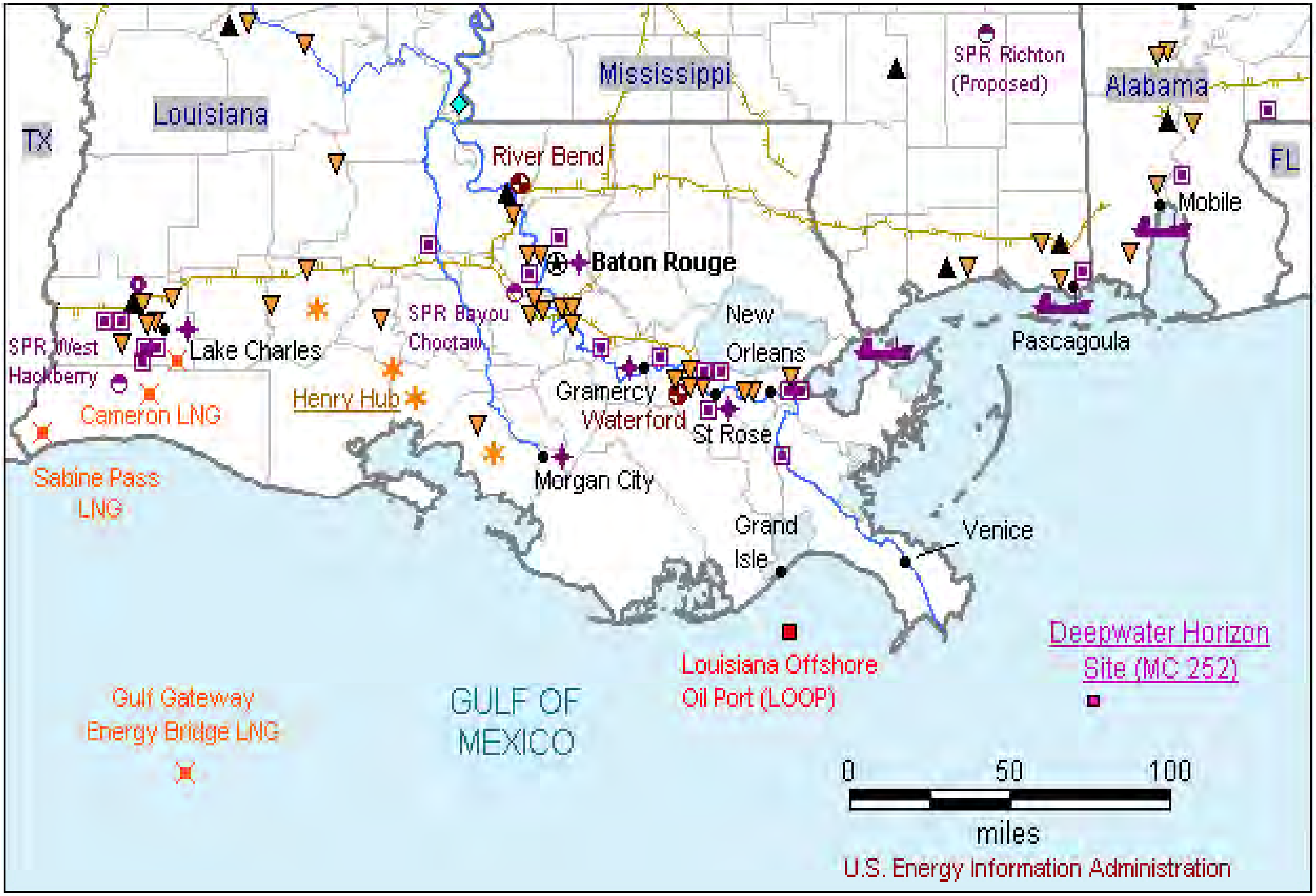

On April 20, 2010, an explosion and fire occurred on the offshore drilling rig Deepwater Horizon, which had been drilling an exploratory well in approx. 5,000 ft of water in the Gulf of Mexico, 52 miles SE of Venice, Louisiana.

The platform subsequently sank, with 11 crewmembers presumed dead, and the uncompleted well leaking oil.

Sources: Energy Information Administration

Announced Deepwater Horizon Insured Losses

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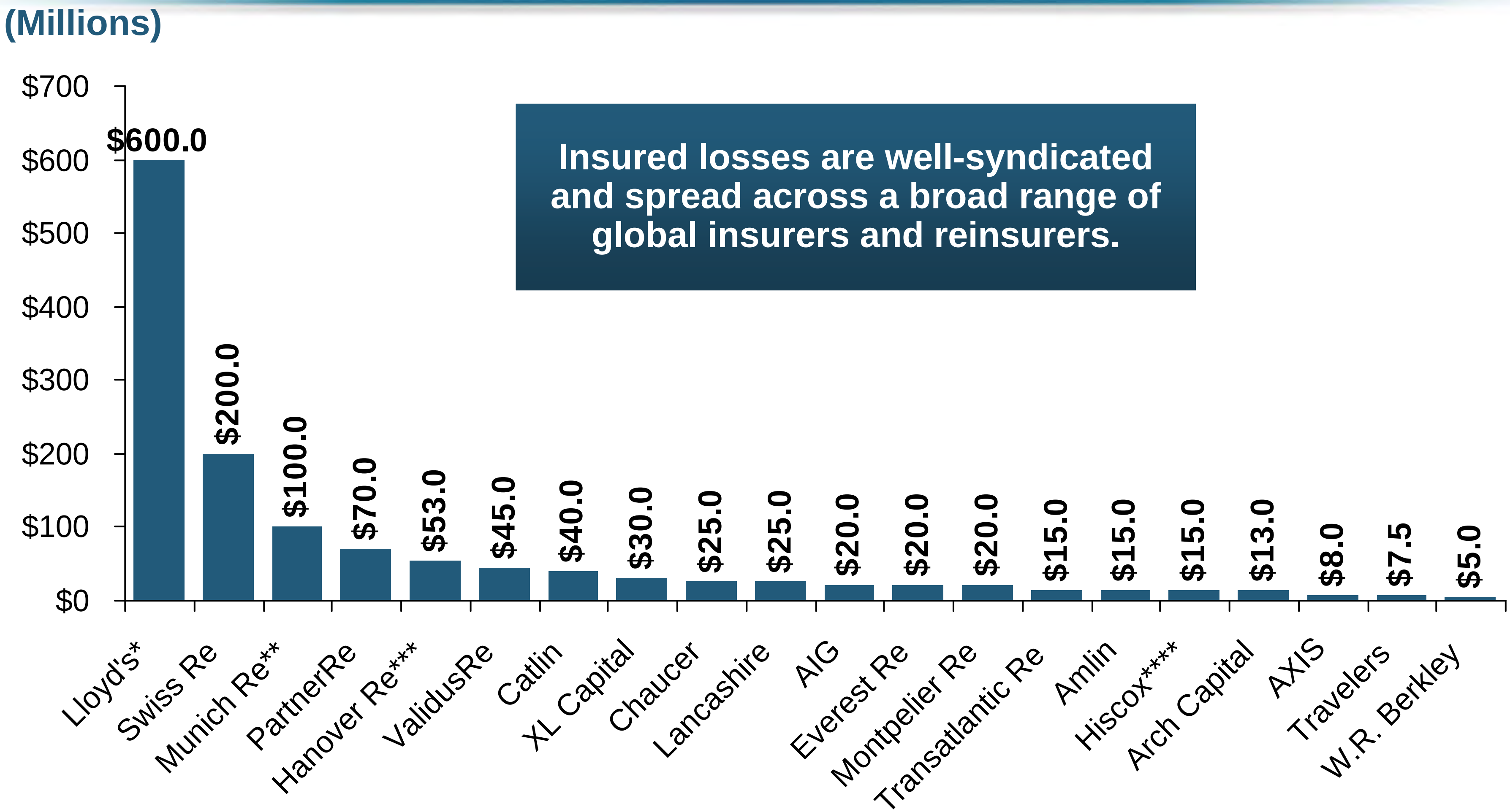


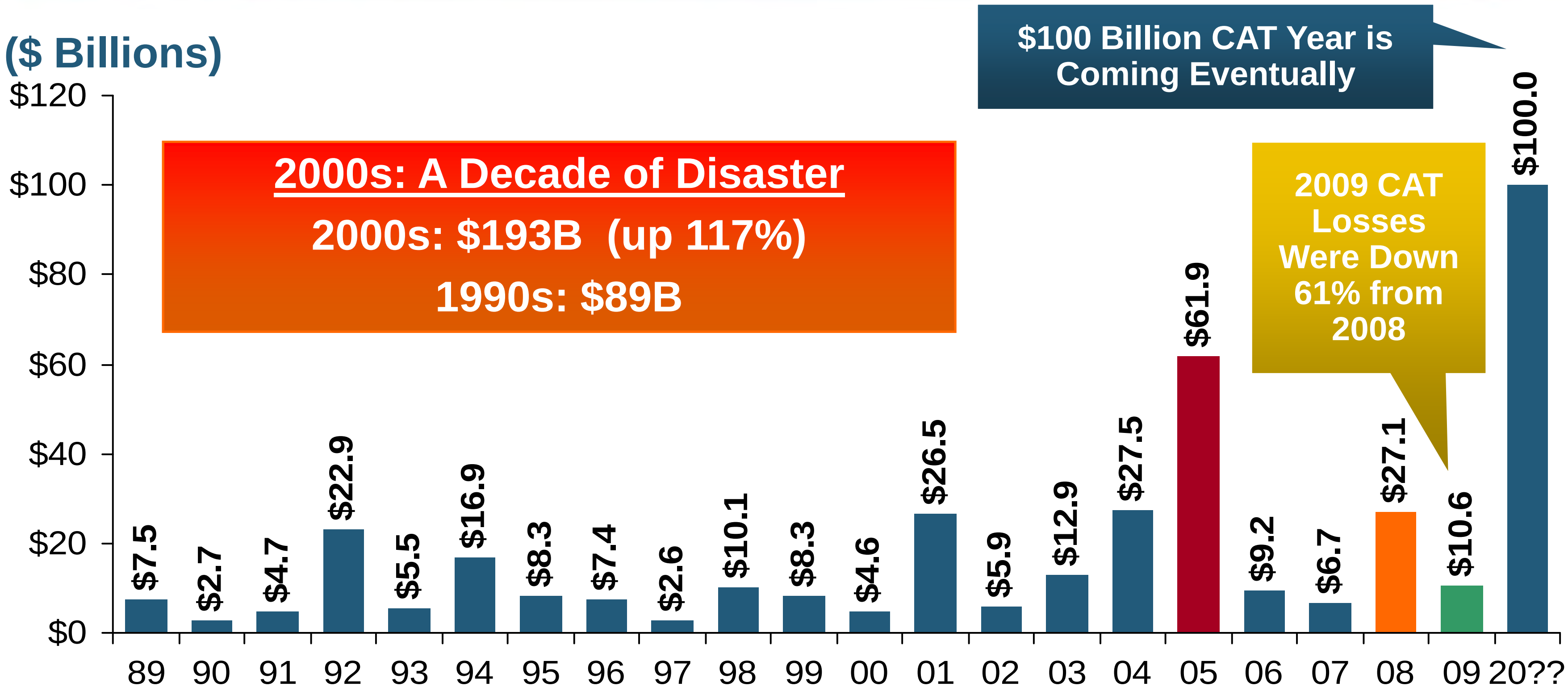
*Lloyd's estimates net loss to the market of $300 million to $600 million. Includes estimate across all Lloyd's syndicates. Those syndicates that have reported losses individually are also shown in this chart and included in the Lloyd's total.

**Munich Re expects low triple digit million euro loss

***Hanover Re expects a Eur40 million loss ****Hiscox expects net claims of below GBP10 million ($14.8 million)

Source: Insurance Information Institute (I.I.I.); Company disclosures, SNL Financial Citi research note 05/04/10; Barclays Capital research note 05/10/10

US Insured Catastrophe Losses



2009 CAT Losses Were Less than Half of 2008.
2005 Was by Far the Worst Year Ever for Insured Catastrophe
Losses in the Decade of the 2000s Were More than Double the 1990s,
But the Worst Has Yet to Come

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.

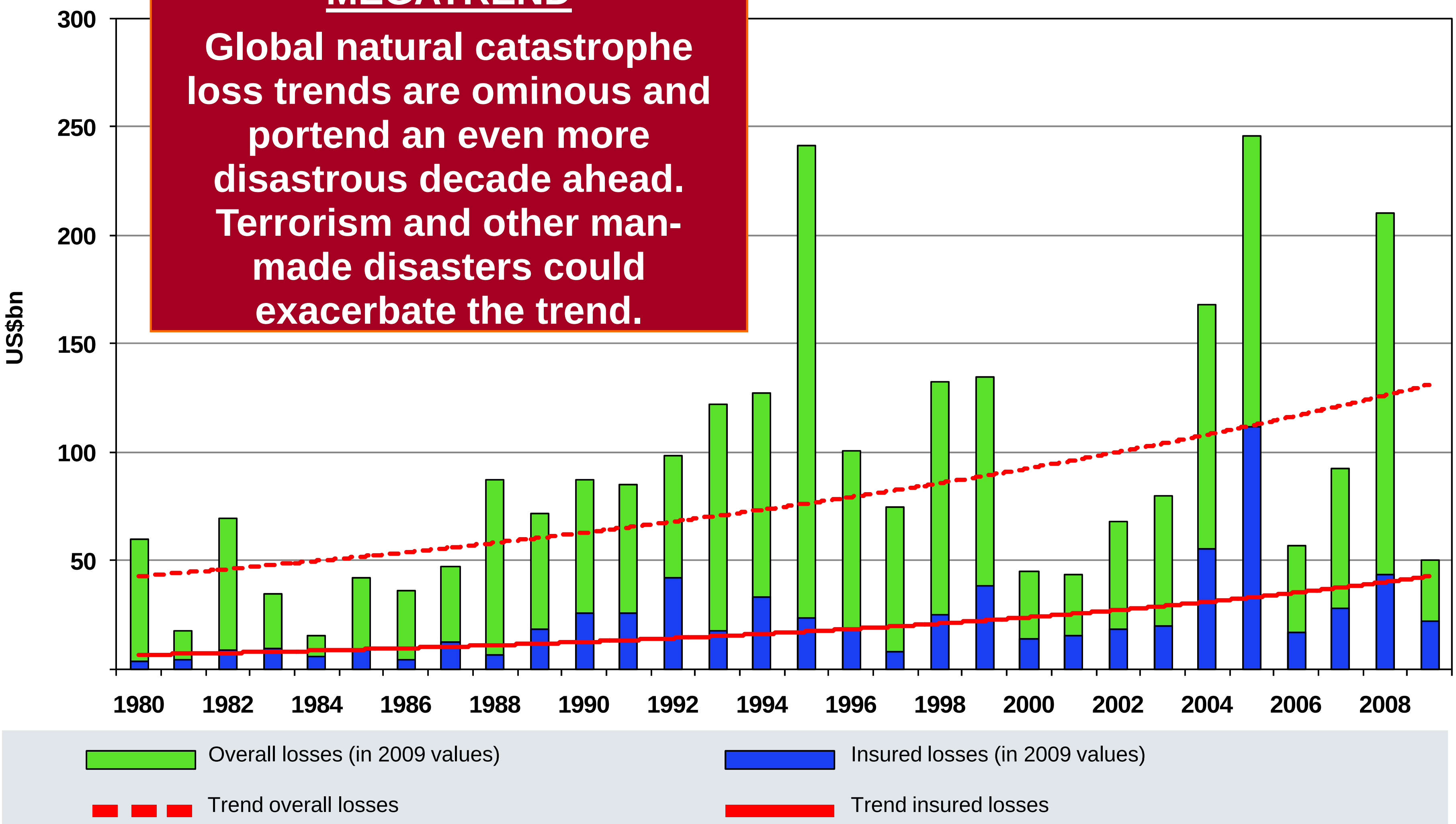
Sources: Property Claims Service/ISO; Insurance Information Institute.

Global Natural Catastrophes 1980–2009

Overall and insured losses with trend

MEGATREND

Global natural catastrophe loss trends are ominous and portend an even more disastrous decade ahead. Terrorism and other man-made disasters could exacerbate the trend.



Source: Munich Re NatCat*SERVICE;* Insurance Information Institute.

U.S. Significant Natural Catastrophes, 1950 – 2009

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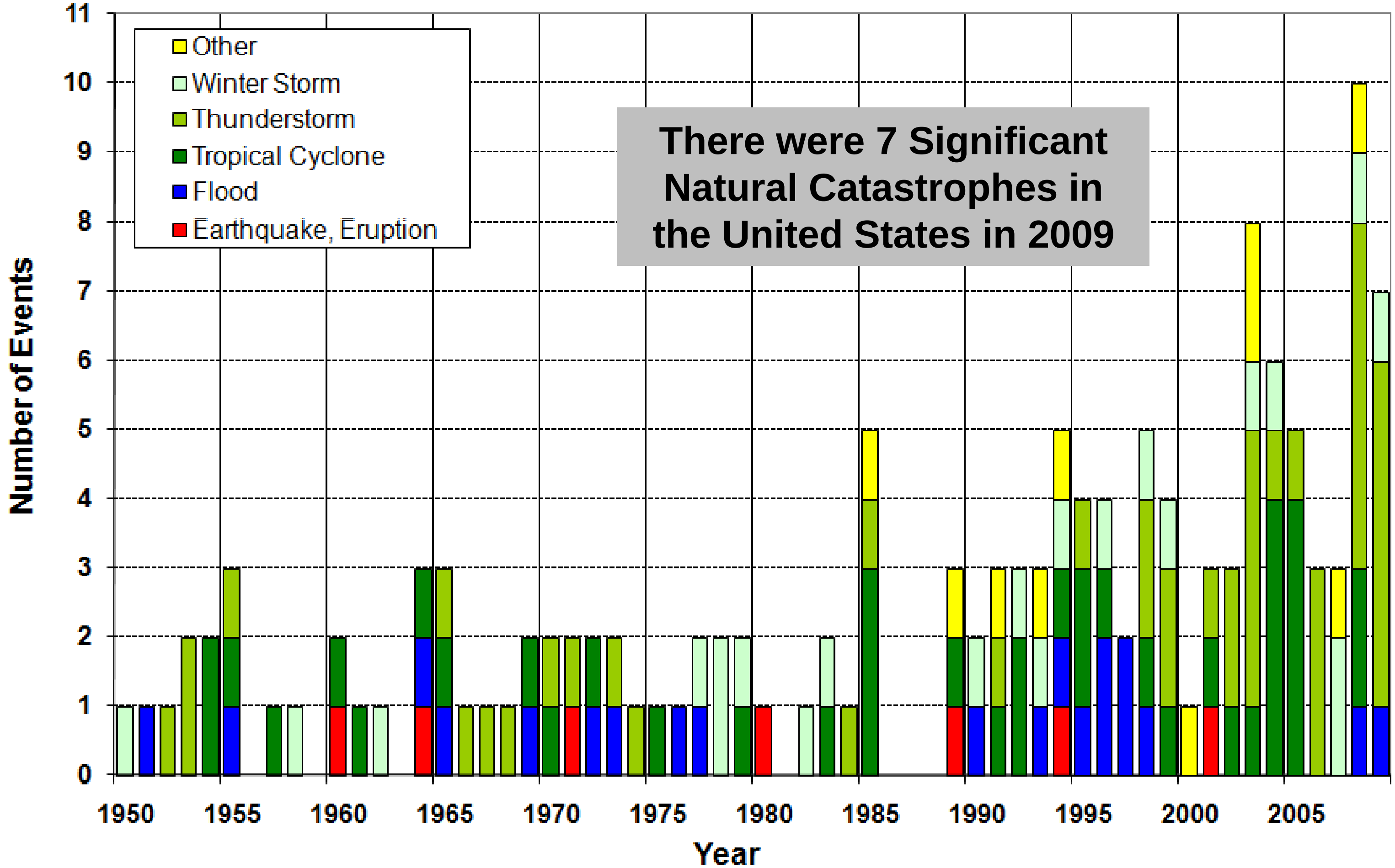
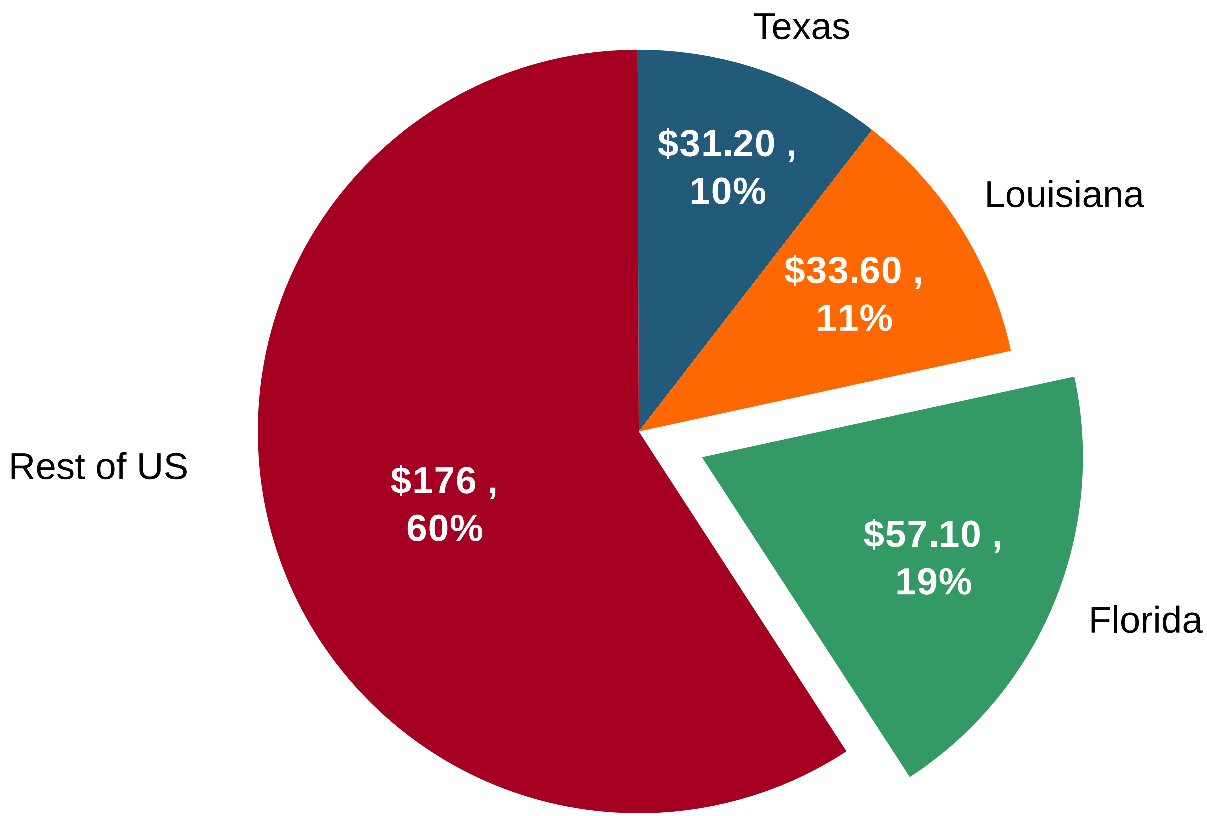
Number of Events ($1+ Bill economic loss and/or 50+ fatalities)



Sources: MR Nat*CatSERVICE*

Distribution of US Insured CAT Losses: TX, FL, LA vs. US, 1980-2008*

($ Billions)

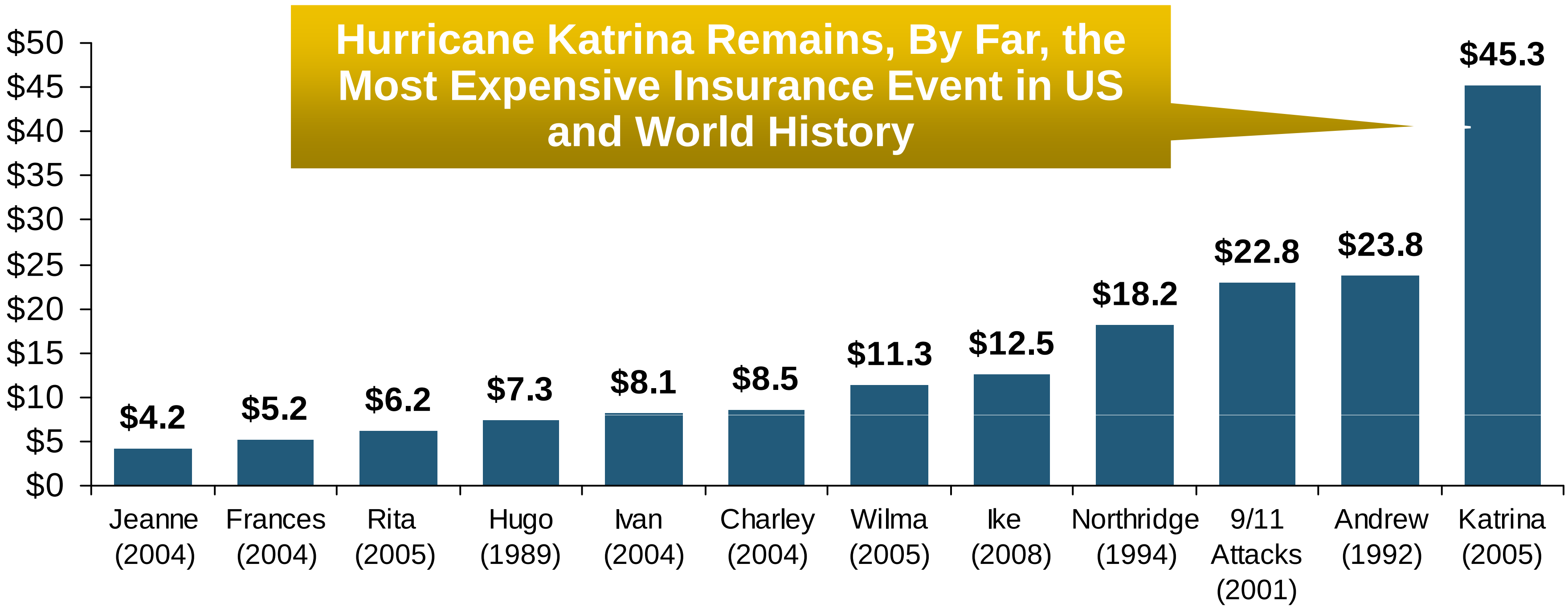


Florida Accounted for 19% of All US Insured CAT Losses from 1980-2008: $57.1B out of $297.9B

* All figures (except 2006-2008 loss) have been adjusted to 2005 dollars.
Source: PCS division of ISO.

Top 12 Most Costly Disasters in US History

(Insured Losses, 2009, $ Billions)



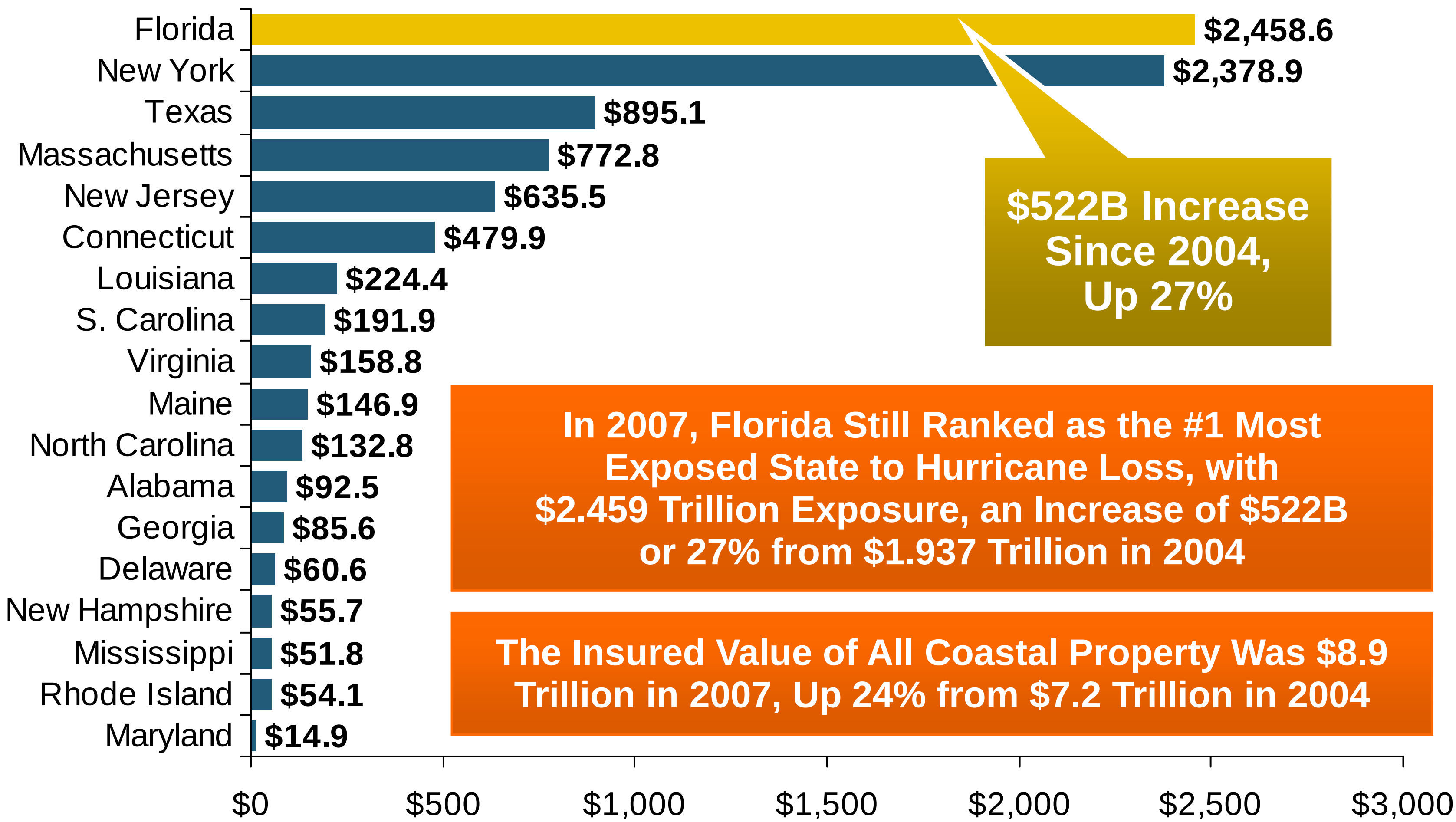
8 of the 12 Most Expensive Disasters in US History Have Occurred Since 2004;
8 of the Top 12 Disasters Affected FL

Sources: PCS; Insurance Information Institute inflation adjustments.

Total Value of Insured Coastal Exposure

INSURANCE INFORMATION INSTITUTE

(2007, $ Billions)

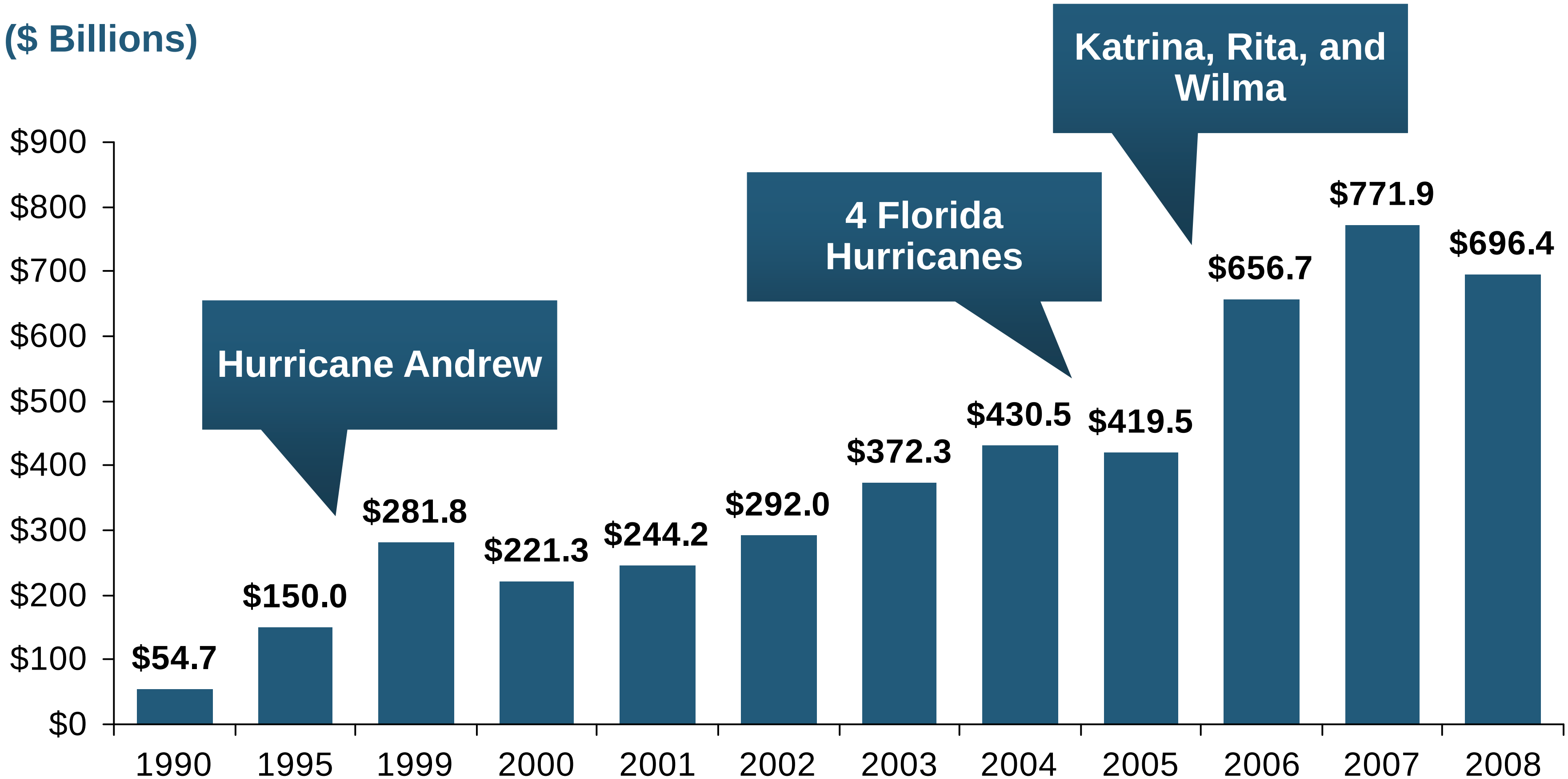


In 2007, Florida Still Ranked as the #1 Most Exposed State to Hurricane Loss, with $2.459 Trillion Exposure, an Increase of $522B or 27% from $1.937 Trillion in 2004

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

Source: AIR Worldwide

US Residual Market Exposure to Loss



In the 19-year Period Between 1990 and 2008, Total Exposure to Loss in the Residual Market (FAIR & Beach/Windstorm) Plans Has Surged from $54.7B in 1990 to $696.4B in 2008

Source: PIPSO; Insurance Information Institute

Insurance Information Institute Online:

www.iii.org

Thank you for your time and your attention!

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