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Personal Lines P-C Insurance Markets: *Trends, Challenges & Opportunities for 2012 & Beyond*

Insurance Information Institute

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  - Average Premium/Expenditures
- **Personal Lines Growth Drivers**
  - Exposure, Pricing Factors
- **Personal Lines Profitability Analysis**
- **Catastrophe Loss Trends: US & Global Impacts**
- **Reinsurance Market Overview & Outlook**
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- **P/C Financial Overview & Outlook: The Role of Cyclicality**
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- **Financial Crisis, Recession & Recovery: P/C Insurer Impacts**
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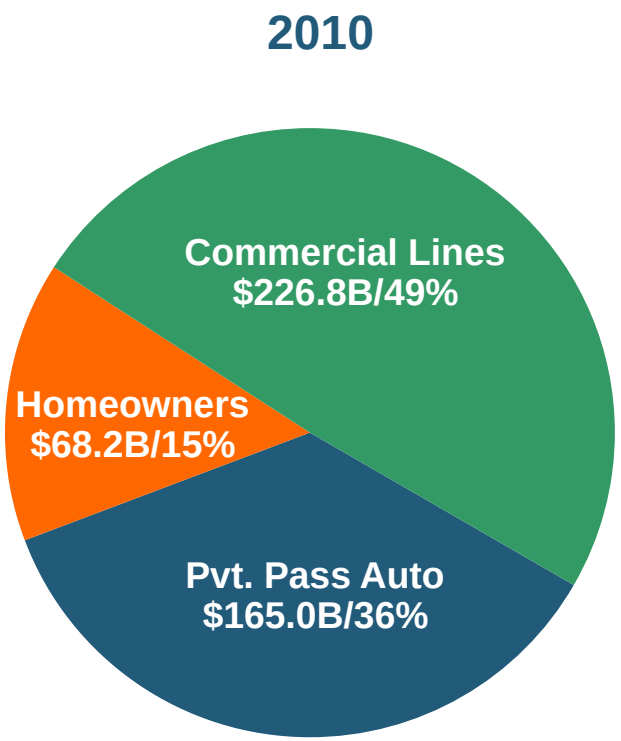
Personal Lines Growth Analysis

Growth Trajectories Differ Substantially by Line, by State and Over Time

Distribution of Direct Premiums Written by Segment/Line, 2010

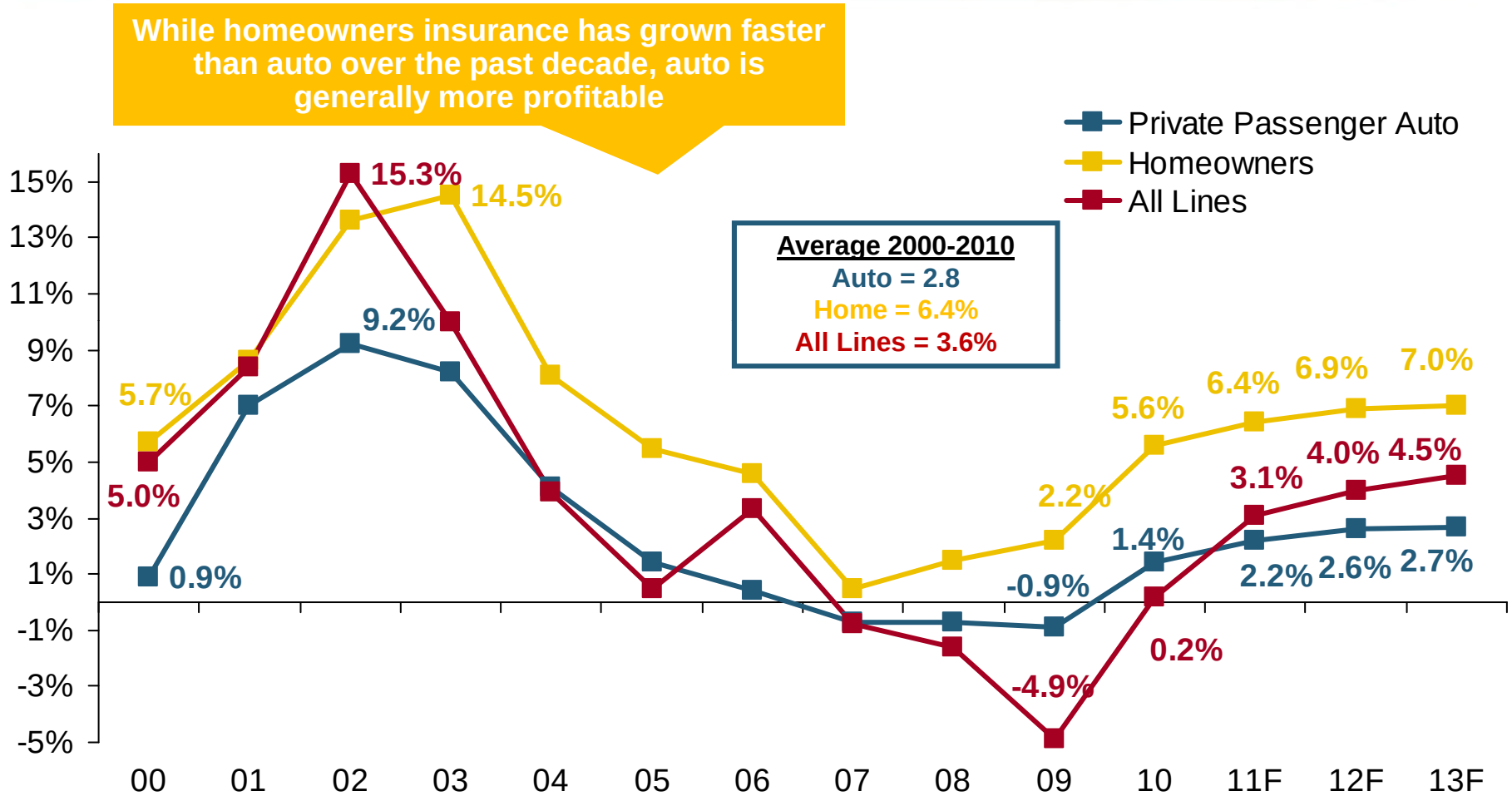
Distribution Facts

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



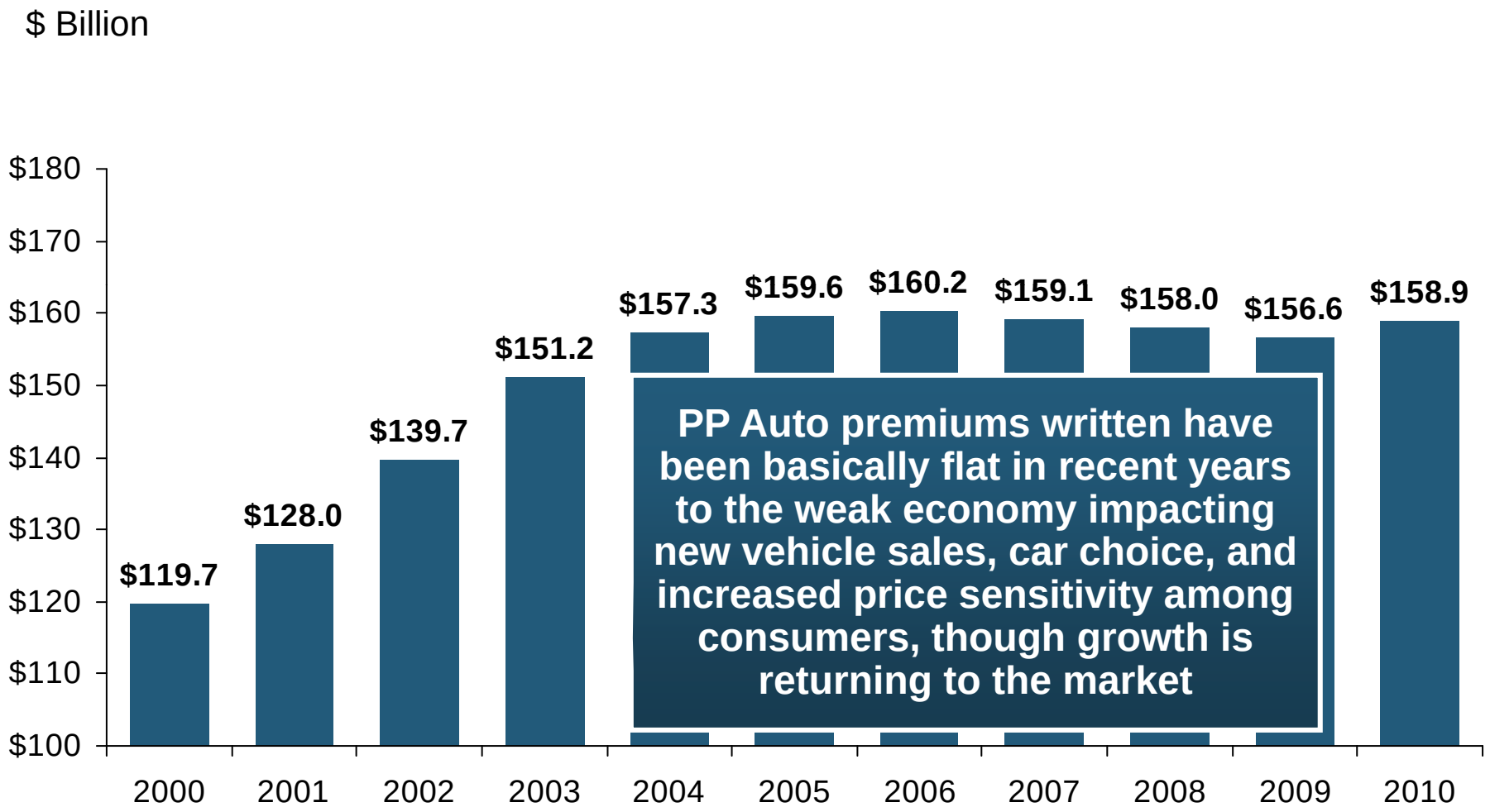
Sources: A.M. Best; Insurance Information Institute research.

Auto & Home vs. All Lines, Net Written Premium Growth, 2000–2013F



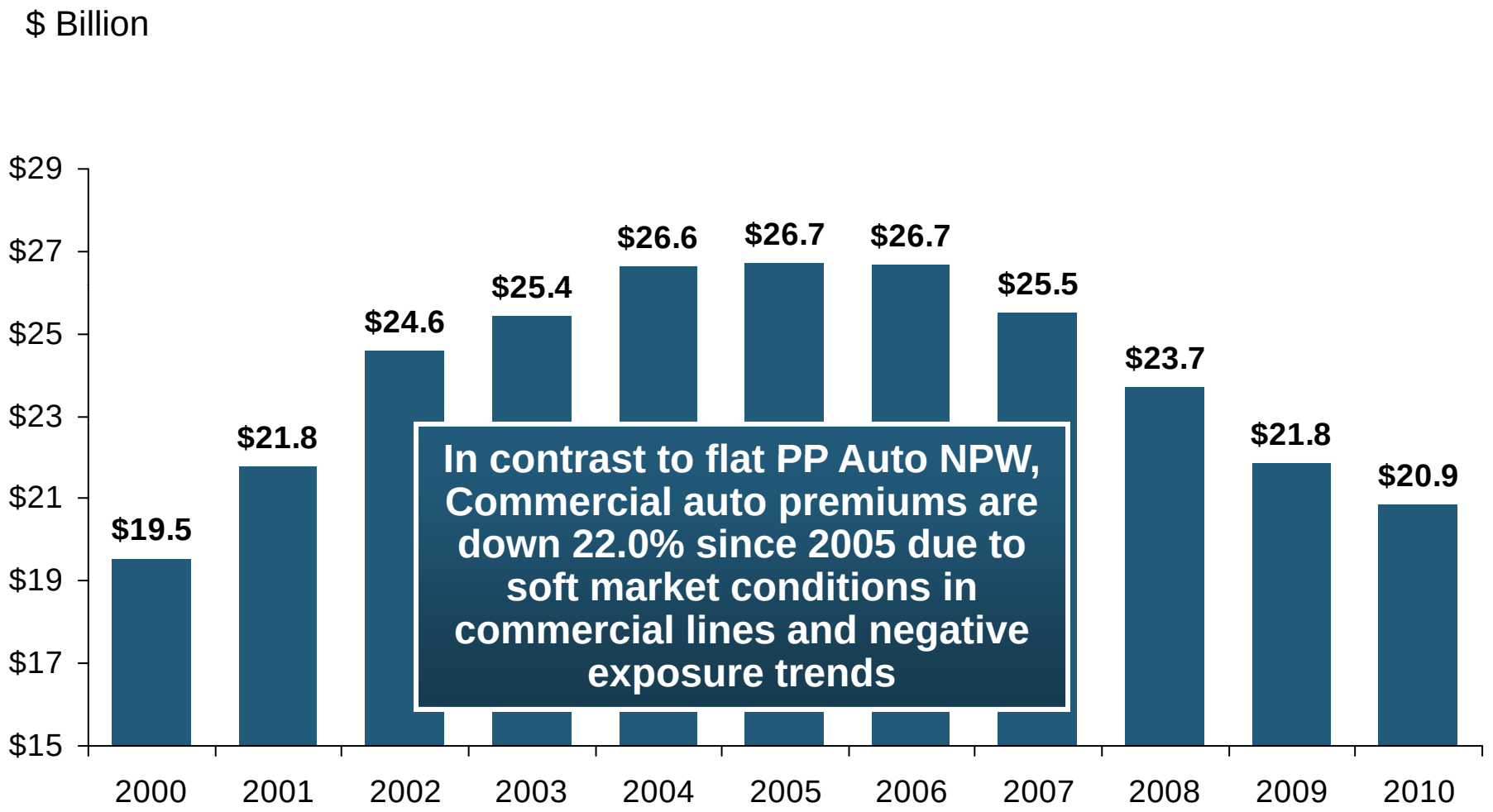
Sources: A.M. Best (historical); Insurance Information Institute (2011F-2013F).

Private Passenger Auto Insurance Net Written Premium, 2000–2010



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

Commercial Auto Insurance Net Written Premium, 2000–2010



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

Percent Change in DPW: Pvt. Pass. Auto by State, 2005-2010

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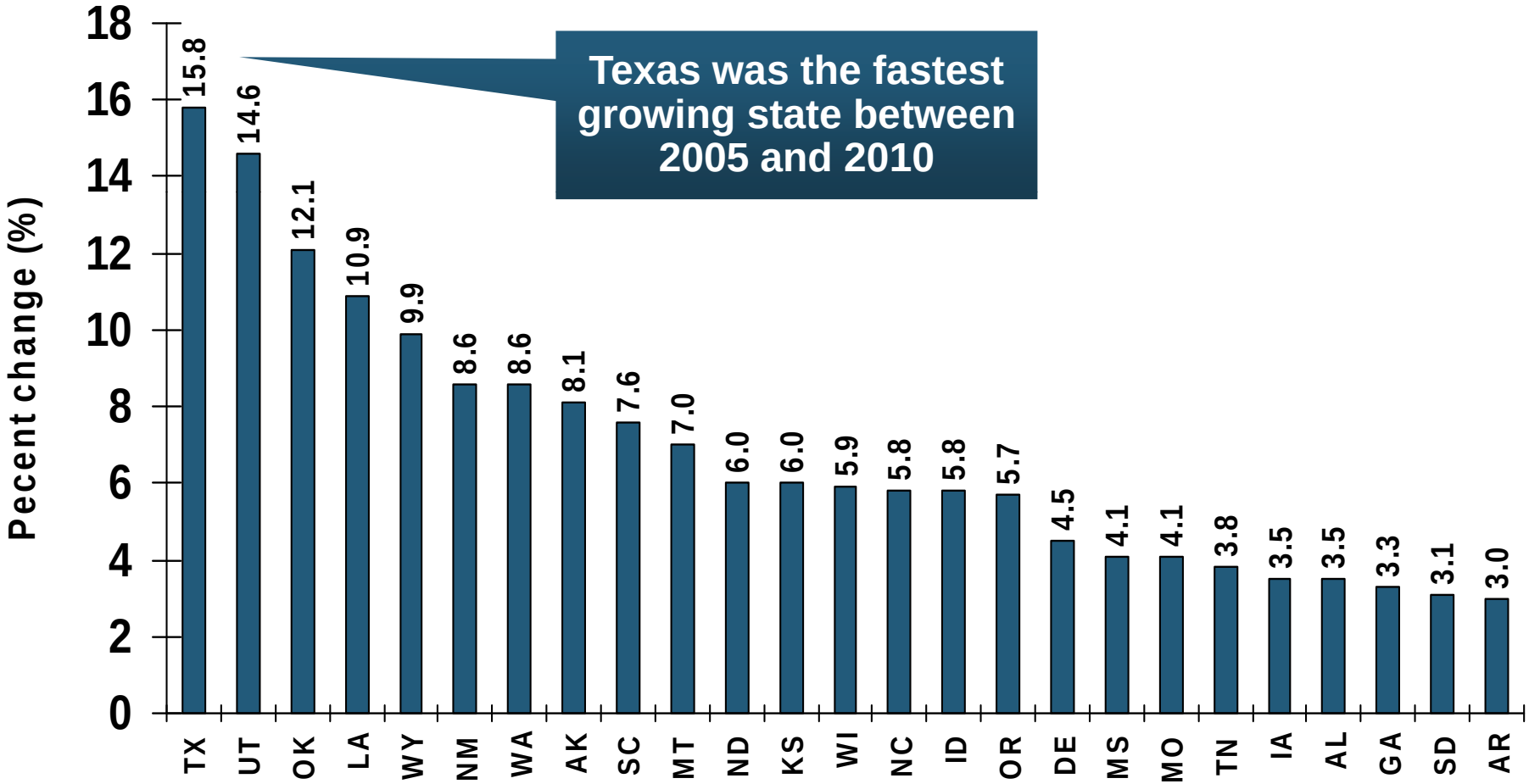
Top 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

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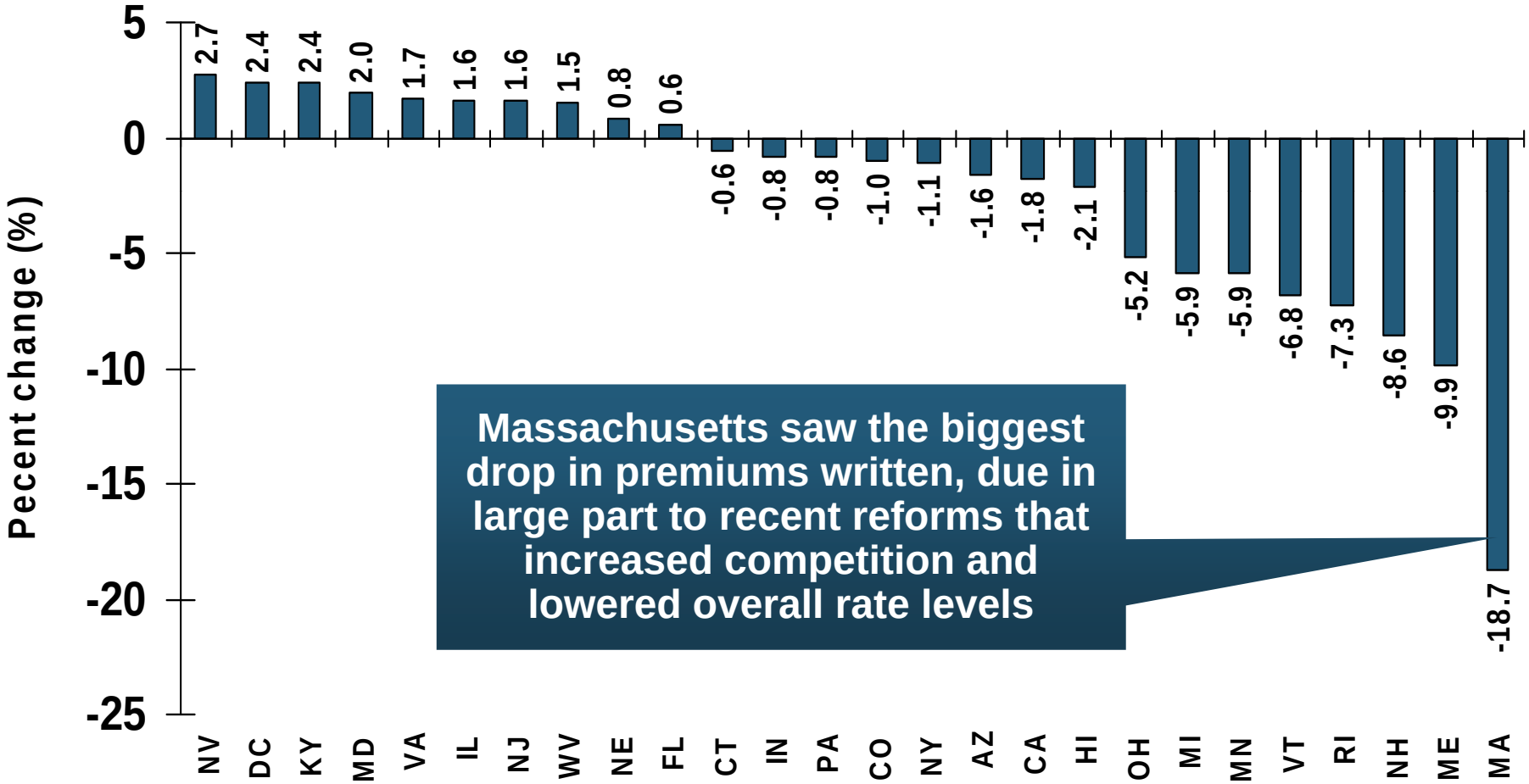
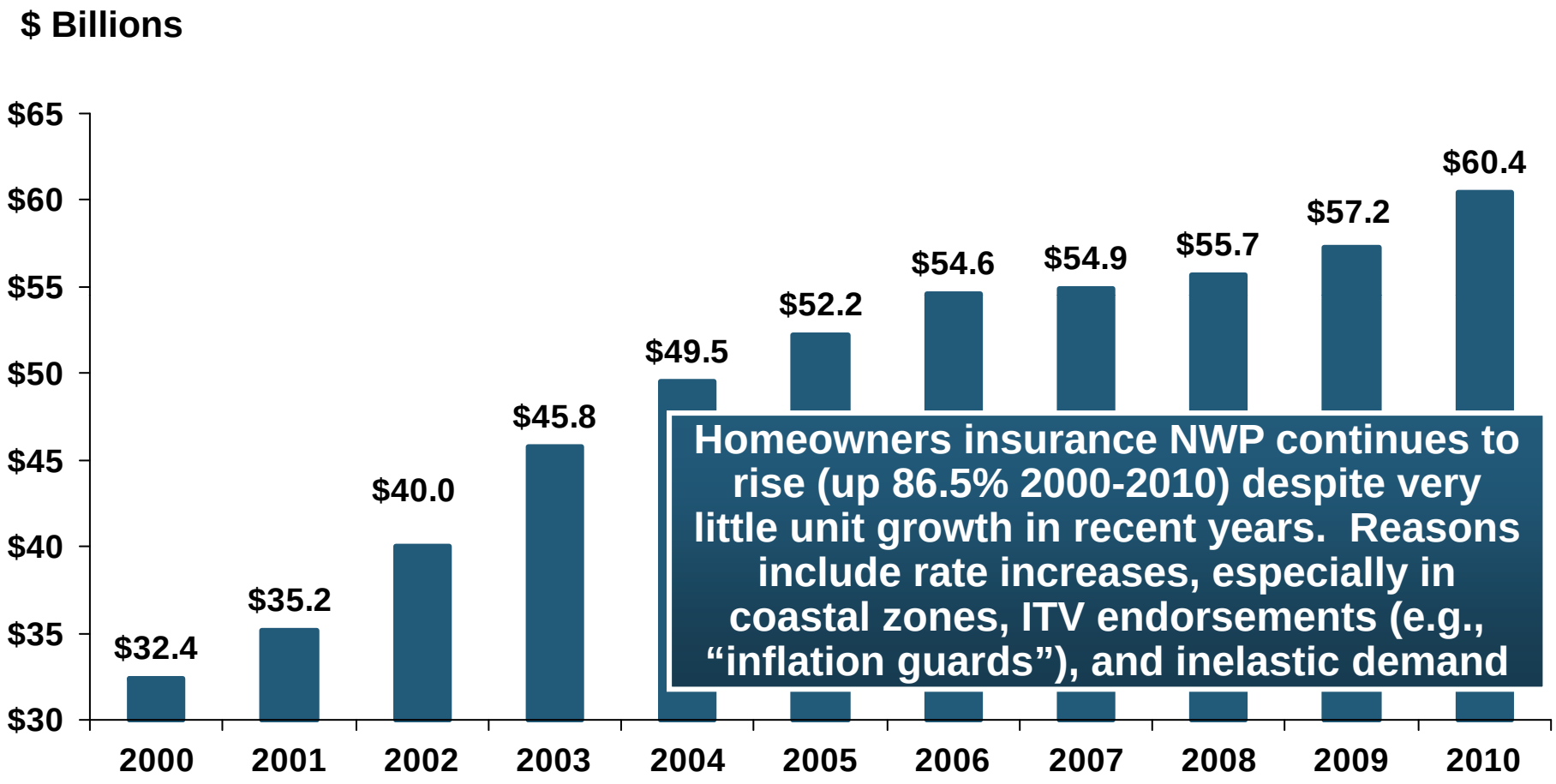


Sources: SNL Financial LC.; Insurance Information Institute.

Homeowners Insurance
Net Written Premium, 2000–2010



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

Average Premiums For Home Insurance By State, 2009* (1)

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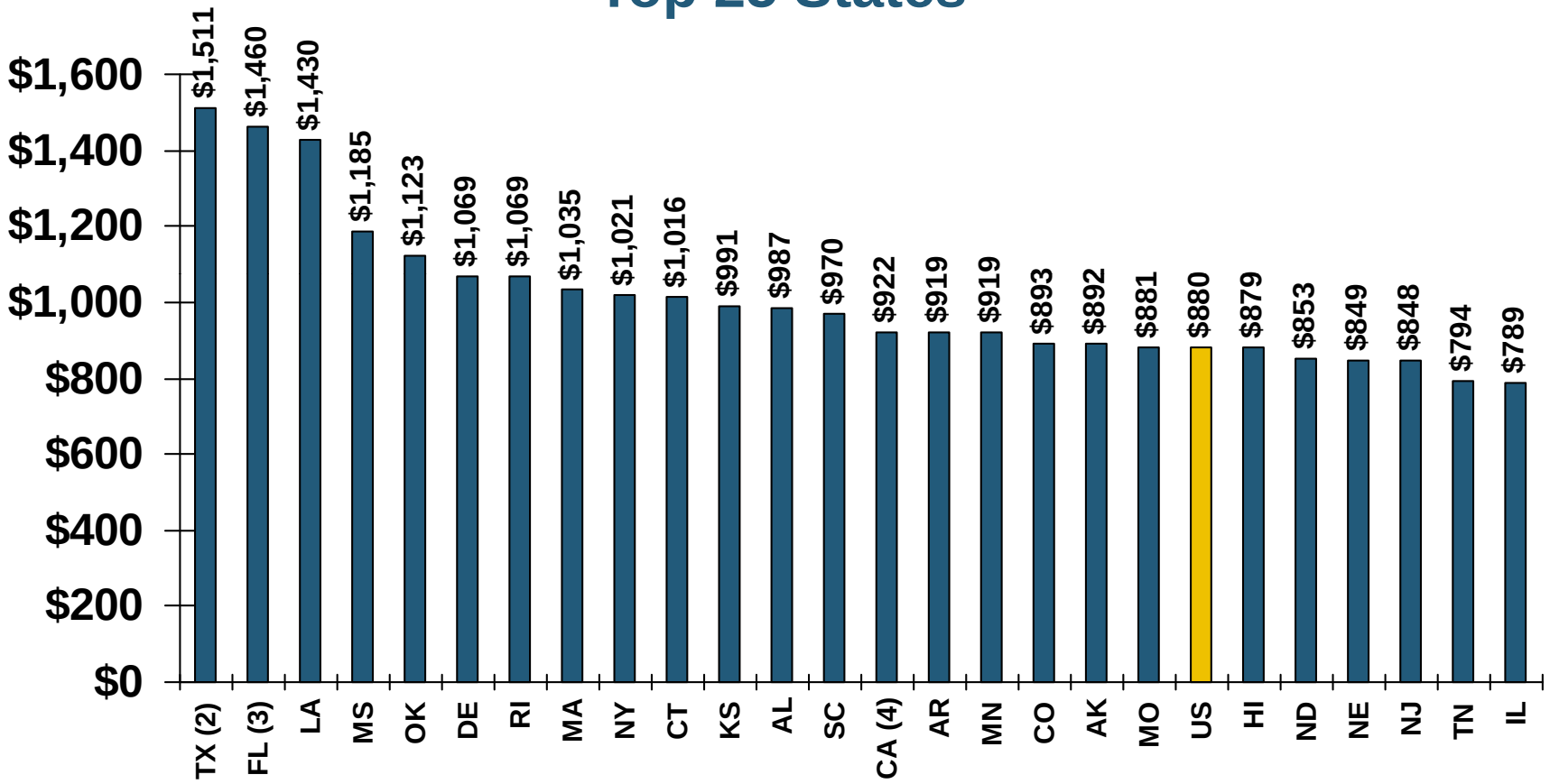
Top 25 States



*Latest available.

(1) 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.

Note: Average premium=Premiums/exposure per house years. A house year is equal to 365 days insured coverage for a single dwelling.

Source: NAIC; Insurance Information Institute.

Average Premiums For Home Insurance By State, 2009* (1)

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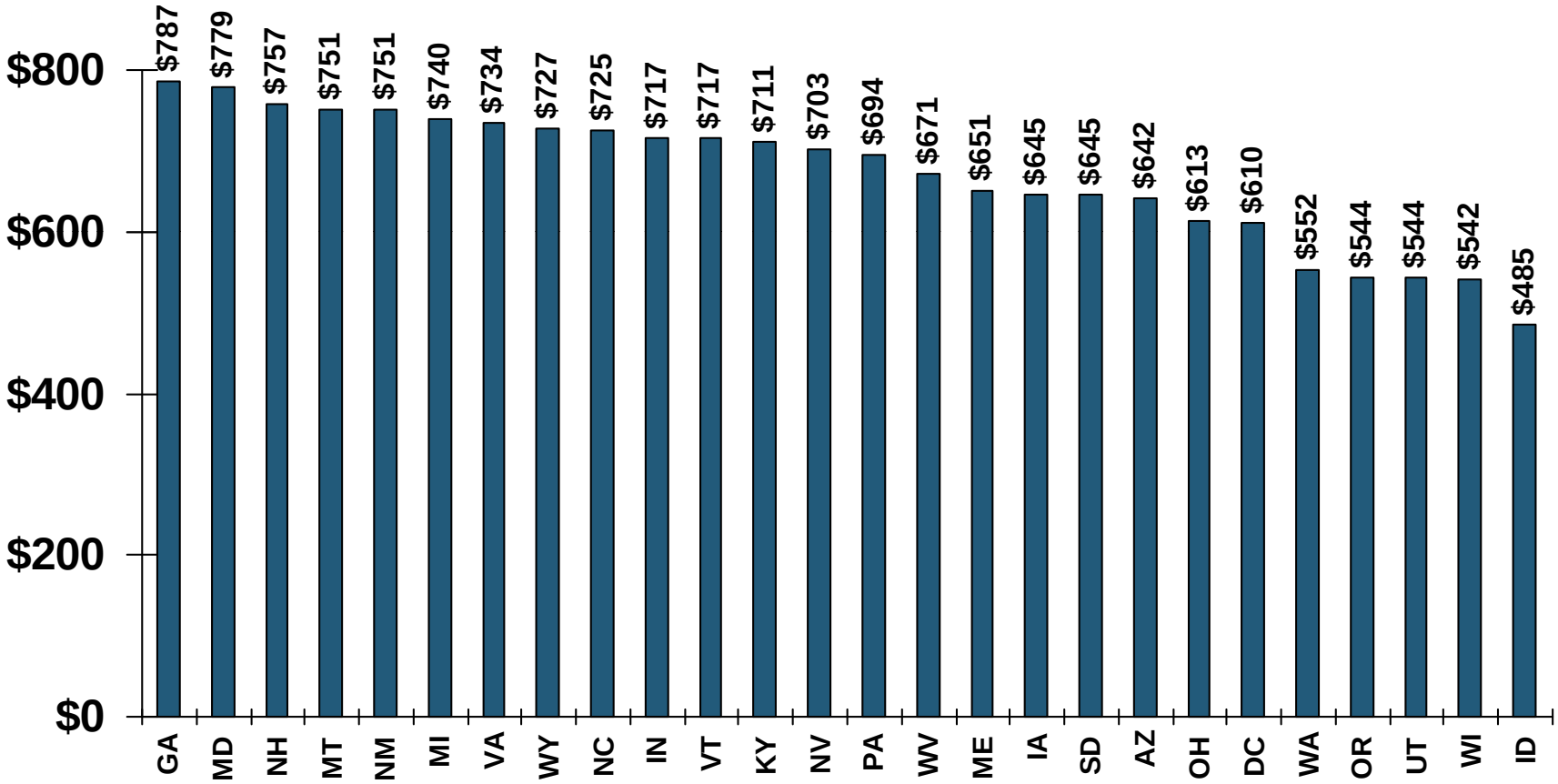

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Ratio of Avg. Premium for Homeowners Insurance to Median Family Income, 2009

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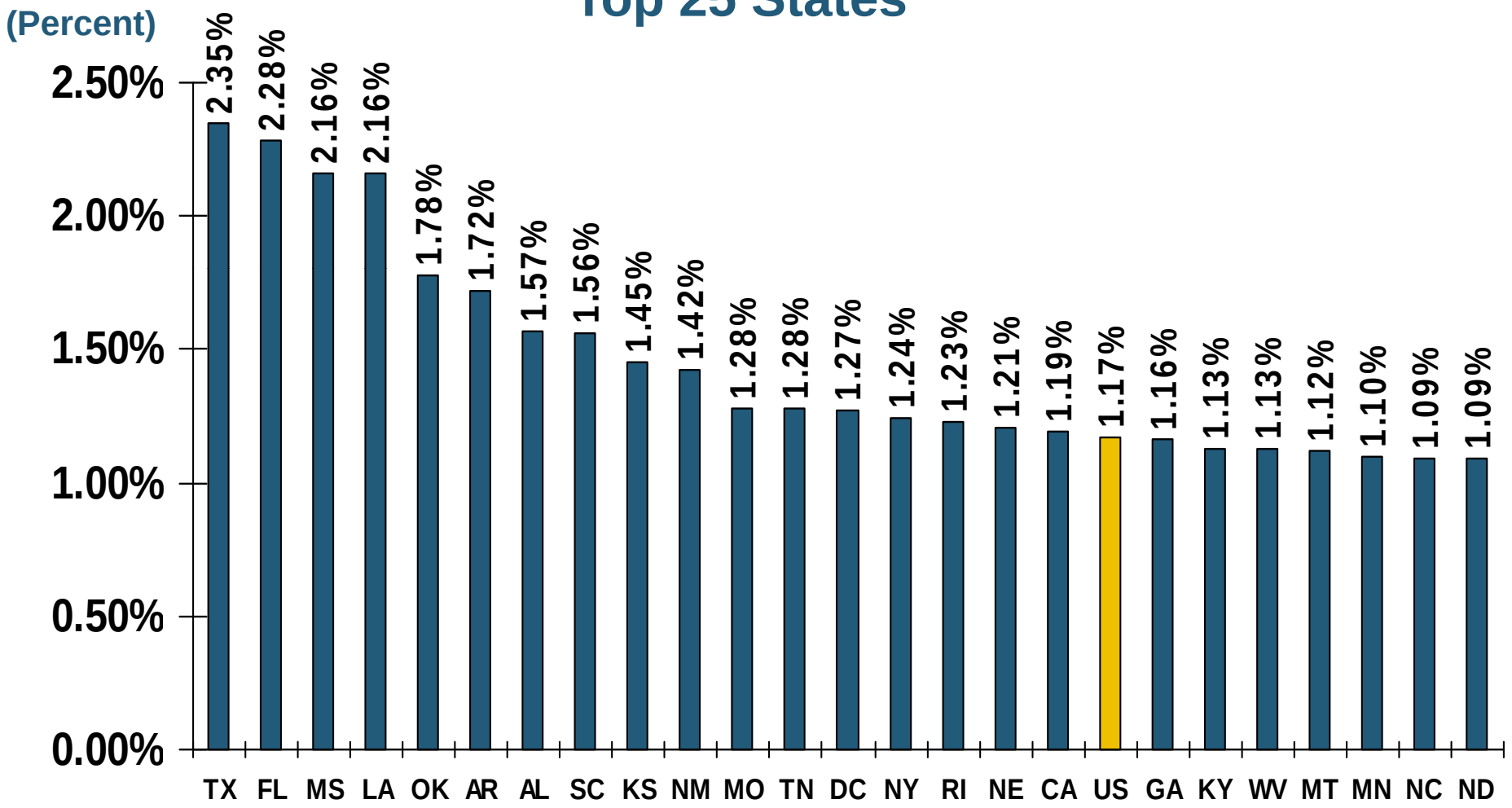

*Average homeowners insurance expenditure as a percentage of the 2009 median income for a family of four

Sources: Prepared by the Insurance Information Institute, based on data from the U.S. Census and the National Association of Insurance Commissioners.

Ratio of Avg. Premium for Homeowners Insurance to Median Family Income, 2009

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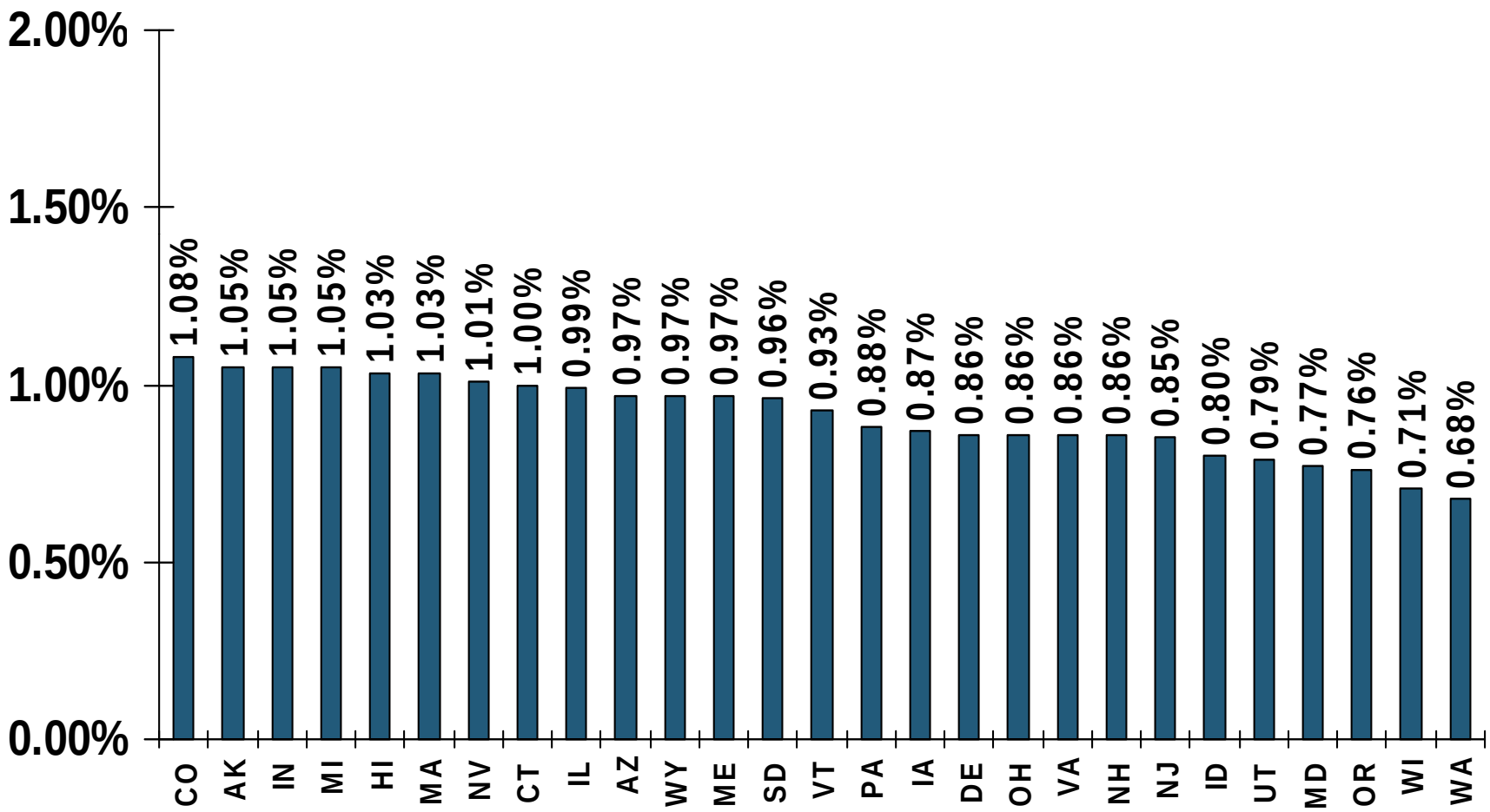
(Percent)

Bottom 25 States



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Sources: Prepared by the Insurance Information Institute, based on data from the U.S. Census and the National Association of Insurance Commissioners.

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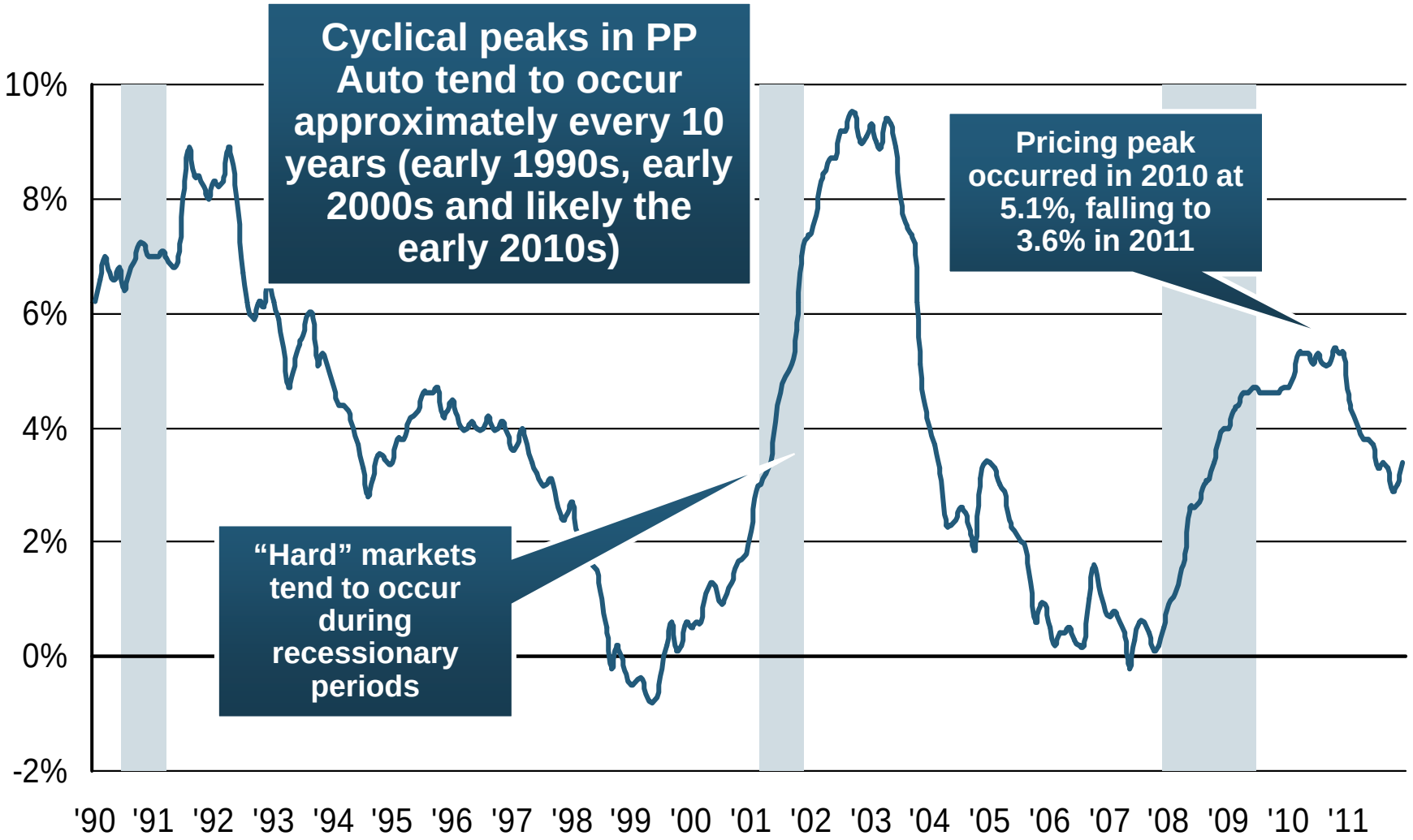
Personal Lines Growth Drivers

Rate is Presently a Bigger Driver than Exposure

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



*Percentage change from same month in prior year; through December 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.

Monthly Change* in Auto Insurance Prices, January 2005 - December 2011

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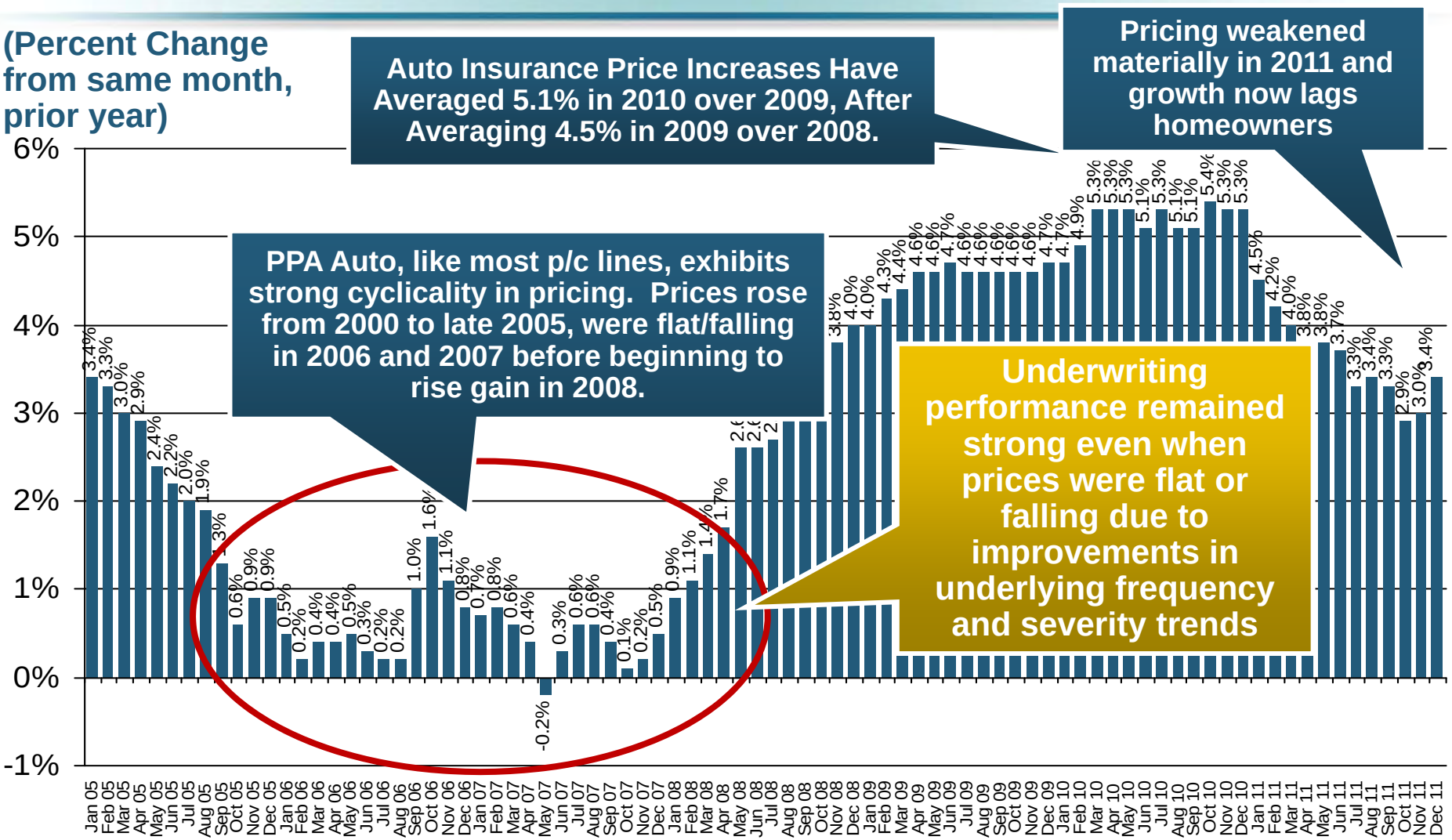
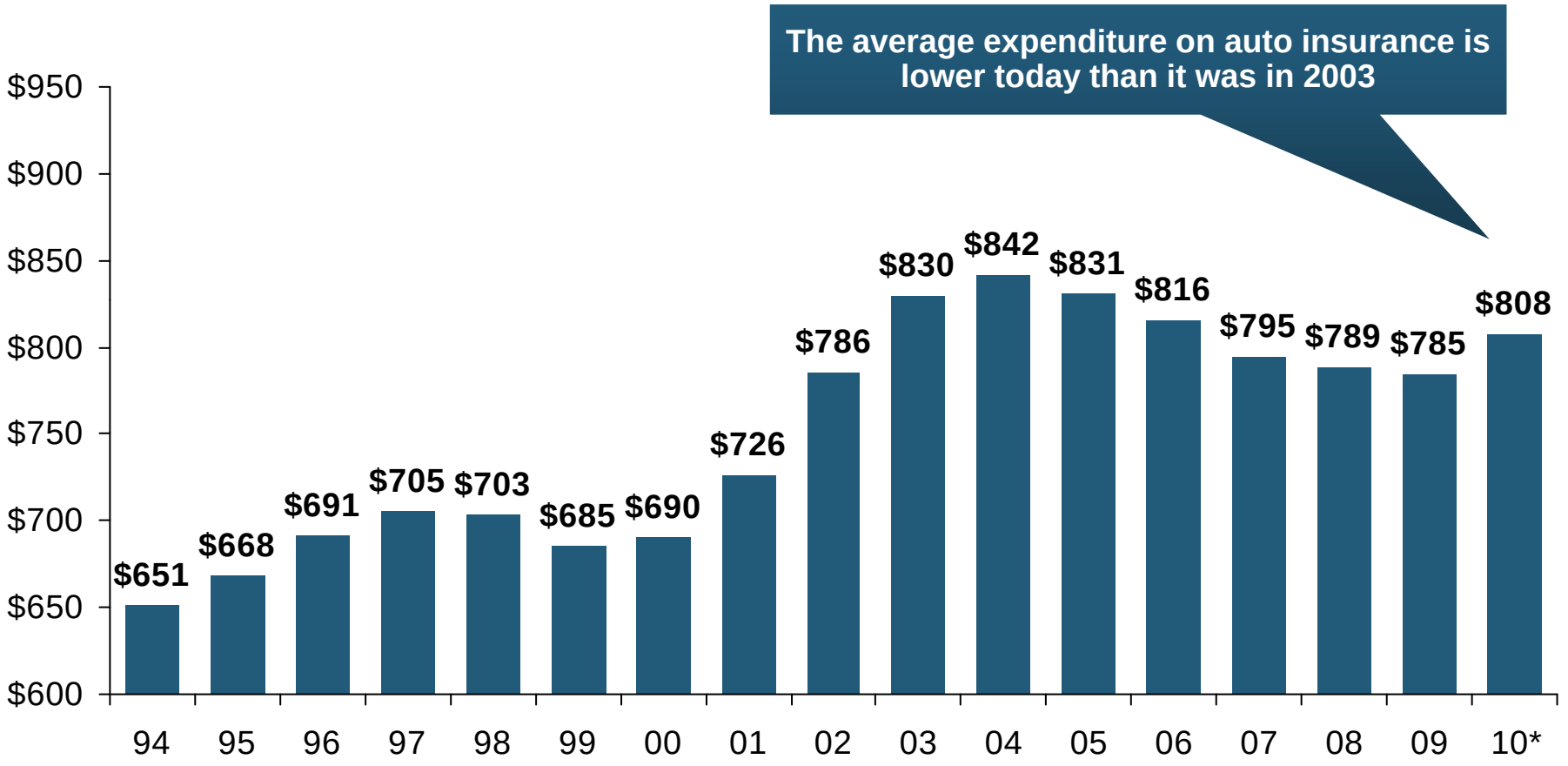
(Percent Change from same month, prior year)



*Percentage change from same month in prior year, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute

Average Expenditures on Auto Insurance



Countrywide Auto Insurance Expenditures Decreased by 0.8% in 2008 and 0.5% in 2009 and Increased 3.0% in 2010 (est.)

* Insurance Information Institute Estimates/Forecasts
Source: NAIC, Insurance Information Institute estimate for 2010 based on CPI and other data.

Average Expenditures For Auto Insurance By State, 2009

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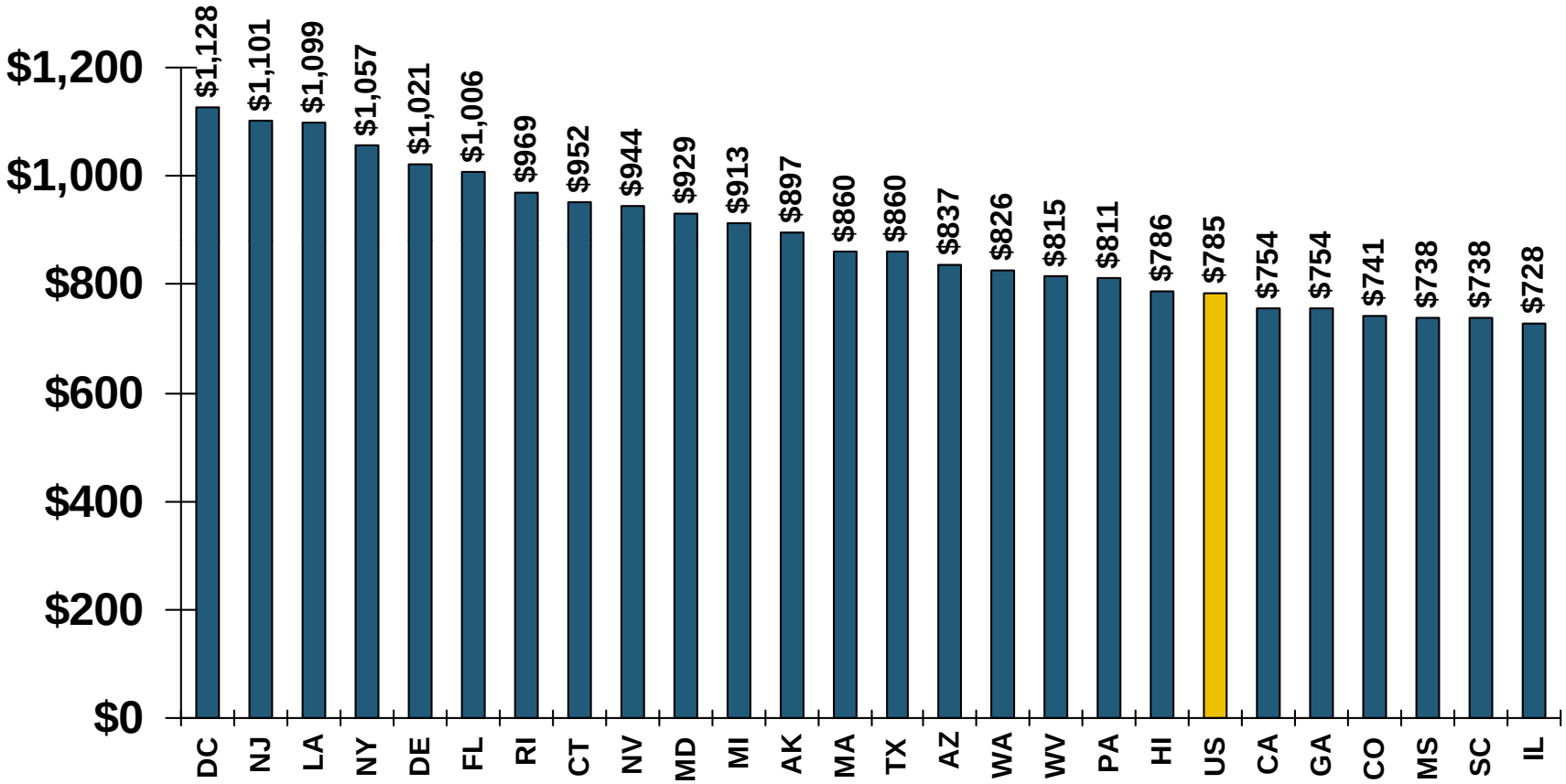
Top 25 States



Note: Average expenditure=Total written premium/liability car years. A car year is equal to 365 days of insured coverage for a single vehicle.

Source: © 2010 National Association of Insurance Commissioners.

Average Expenditures For Auto Insurance By State, 2009

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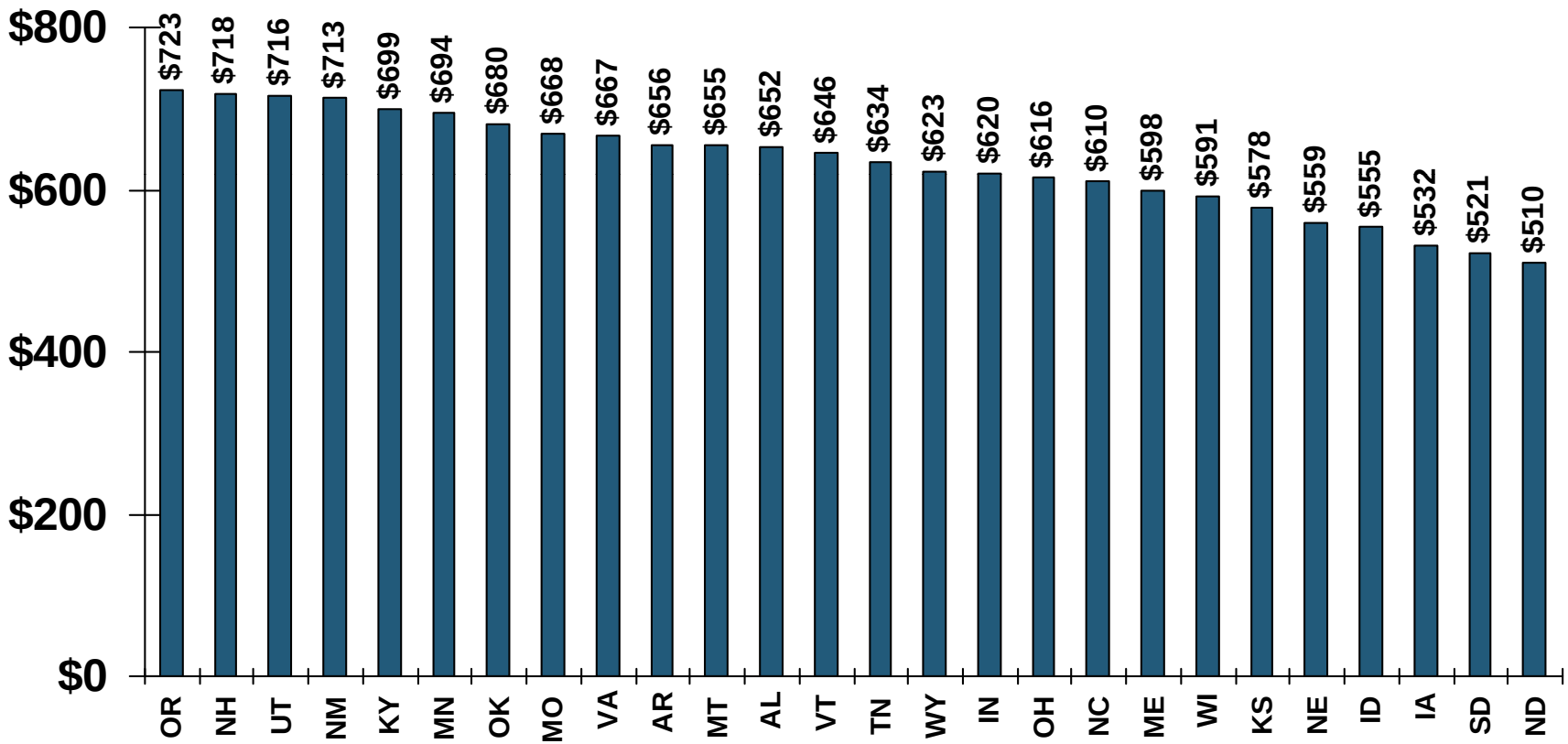
Bottom 25 States



Note: Average expenditure=Total written premium/liability car years. A car year is equal to 365 days of insured coverage for a single vehicle.

Source: © 2010 National Association of Insurance Commissioners.

Ratio of Avg. Expenditure for Pvt. Passenger Auto Insurance to Median Family Income, 2009

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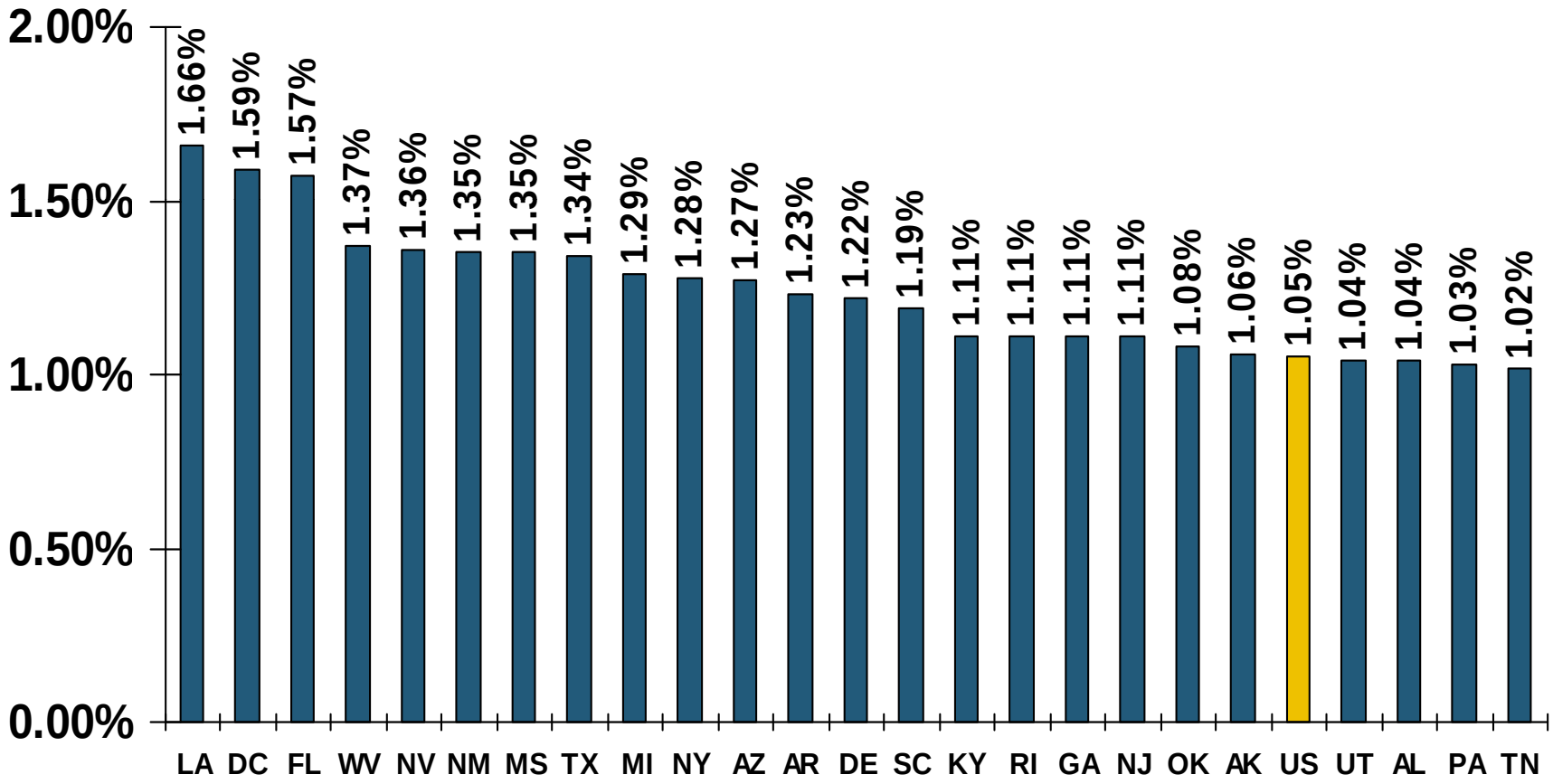
Top 25 States

(Percent)



*Average auto insurance expenditure as a percentage of the 2009 median income for a family of four

Sources: Prepared by the Insurance Information Institute, based on data from the U.S. Census and the National Association of Insurance Commissioners.

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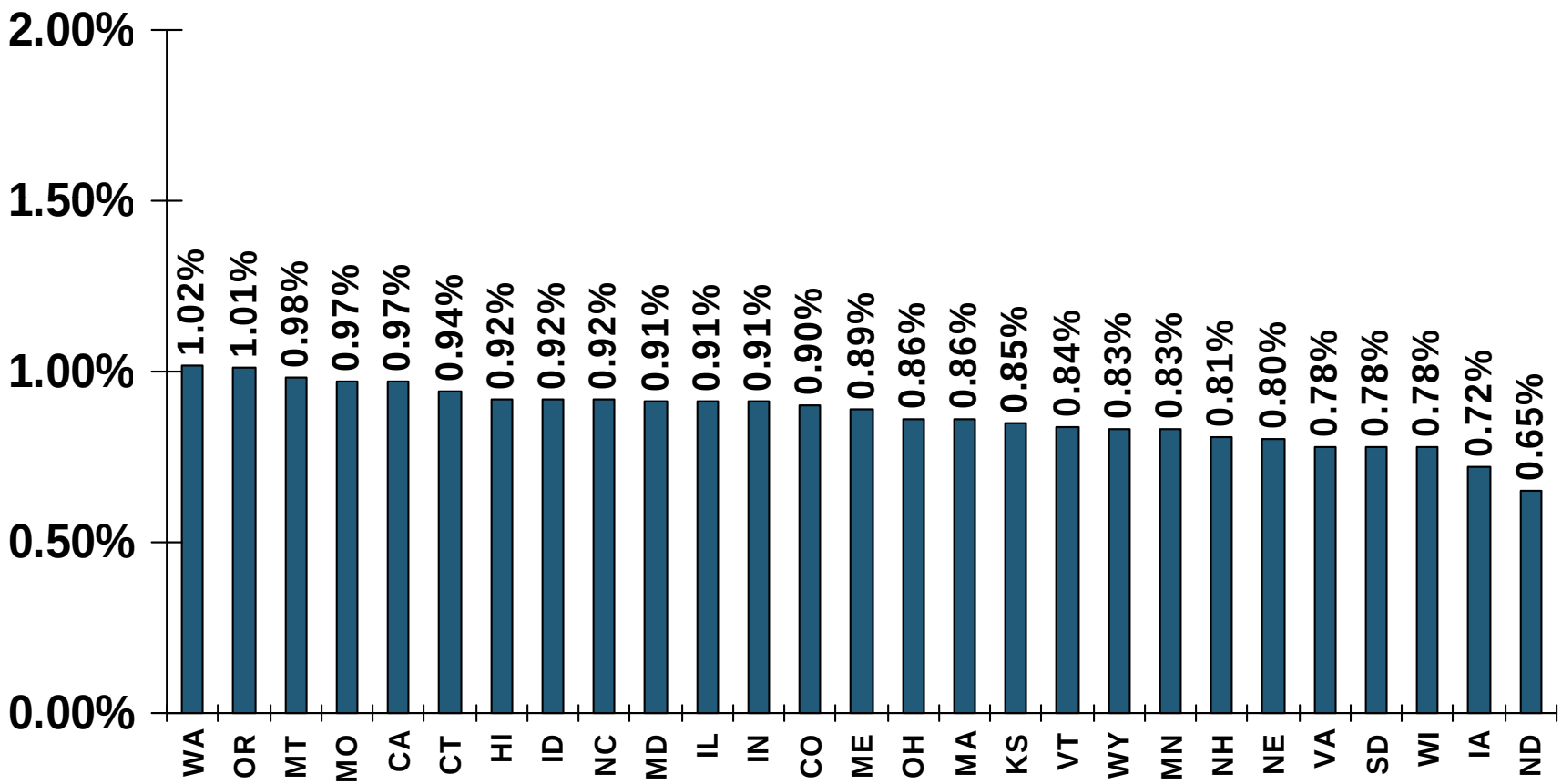
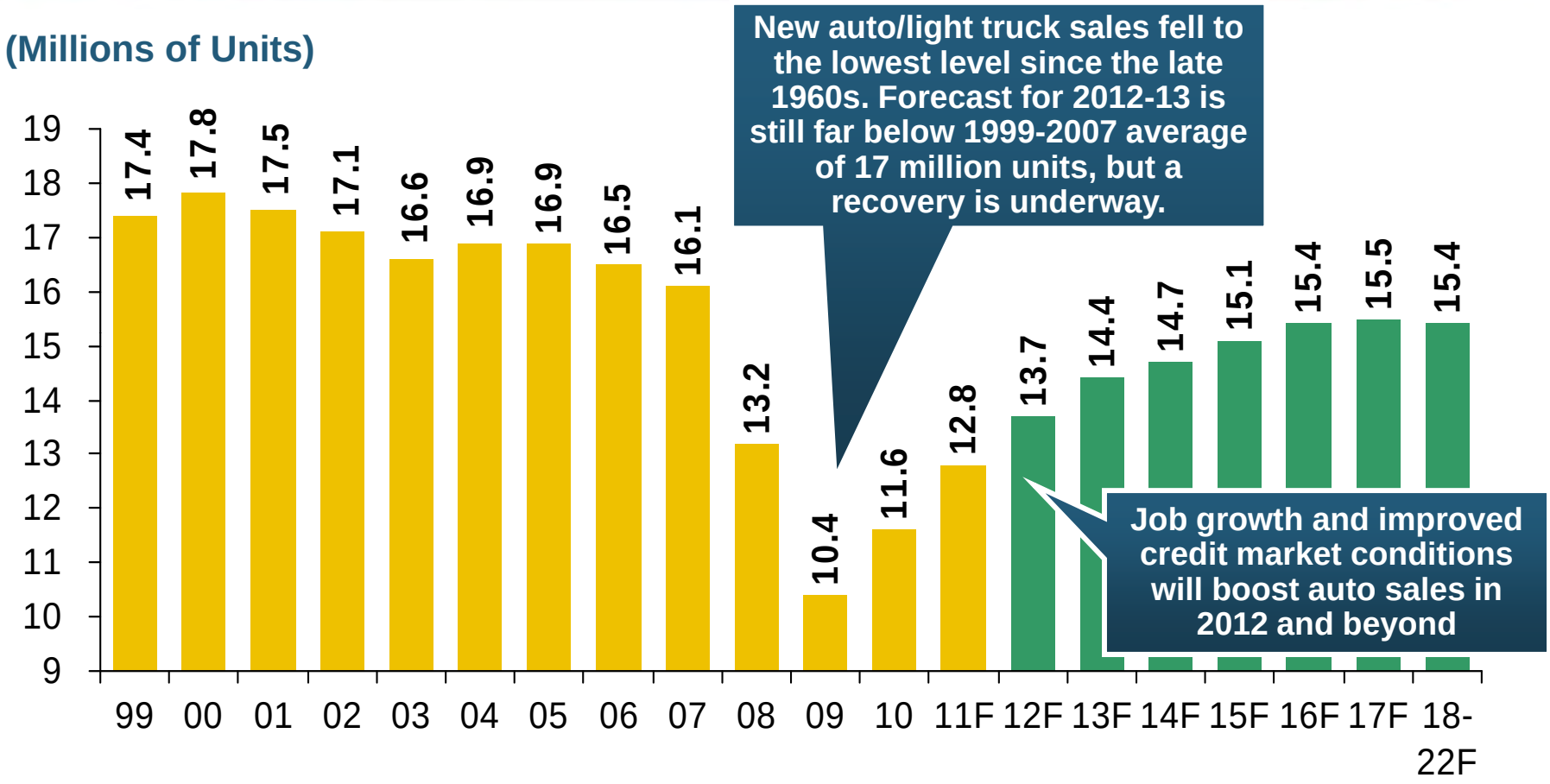


*Average auto insurance expenditure as a percentage of the 2009 median income for a family of four

Sources: Prepared by the Insurance Information Institute, based on data from the U.S. Census and the National Association of Insurance Commissioners.

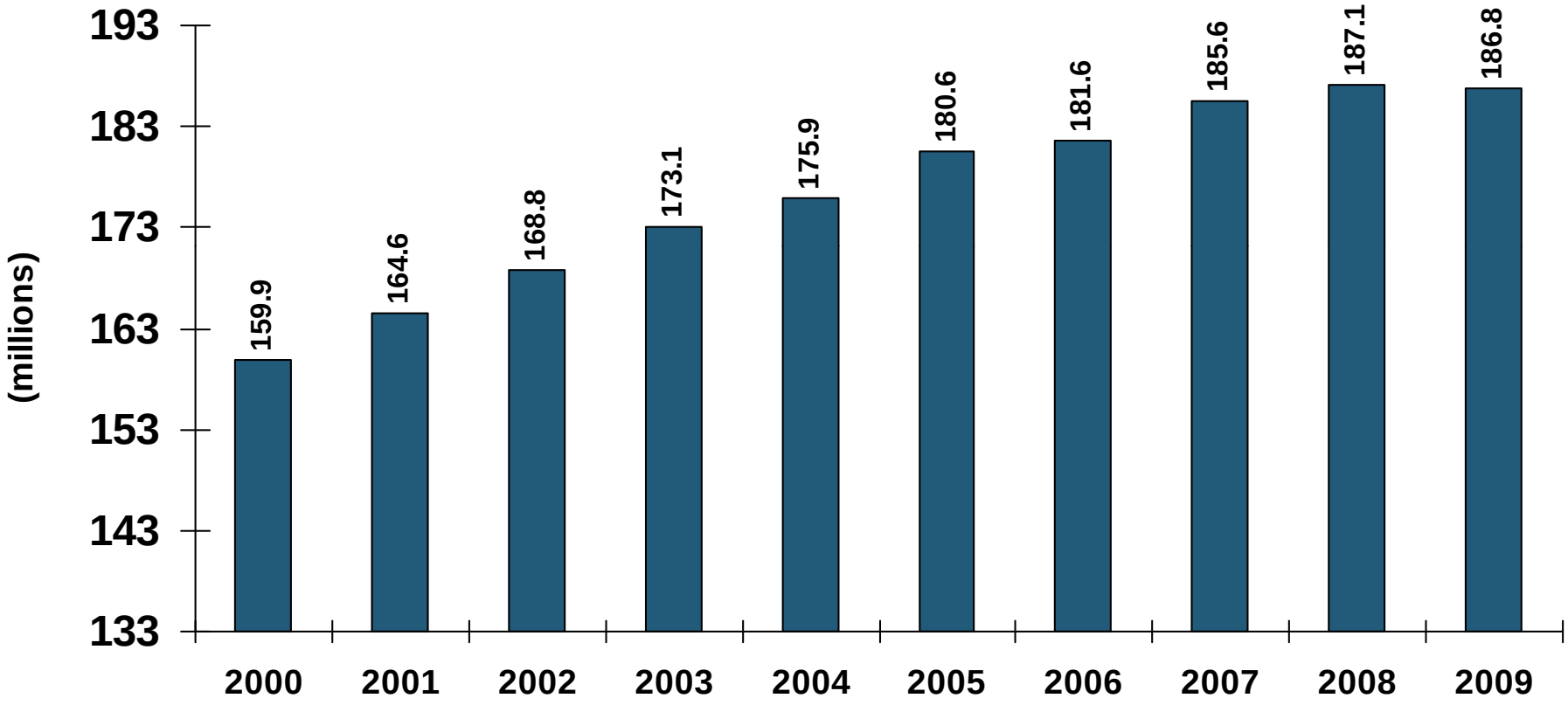
Auto/Light Truck Sales, 1999-2022F



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

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (10/11 and 1/12); Insurance Information Institute.

Number of Insured Vehicles in the US, 2000-2009*



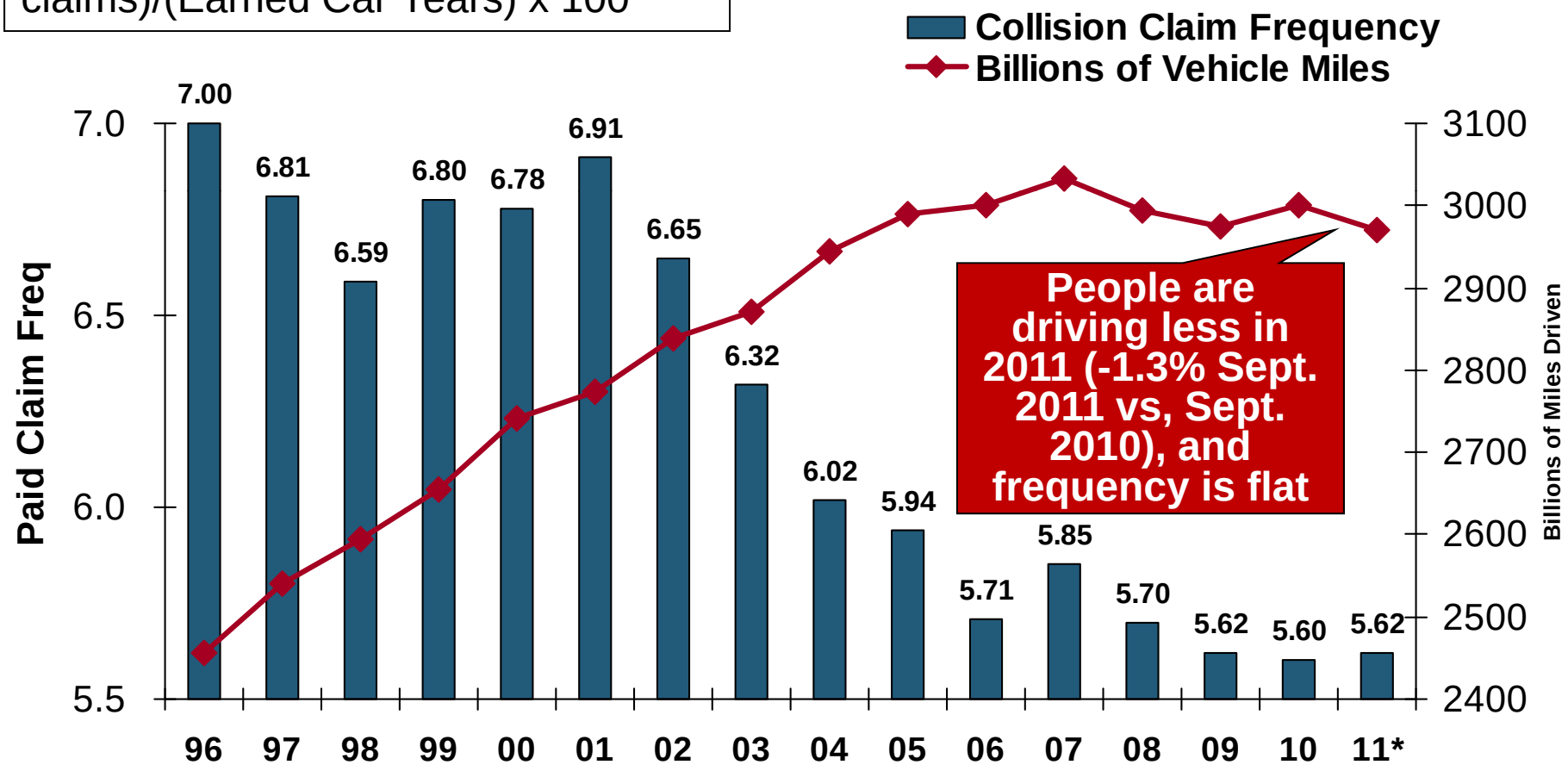
The Number of Insured Passenger Vehicles Stopped Growing During the Economic Downturn. Growth Has Likely Returned.

*Latest available as of Nov. 2011.

Source: Automobile Insurance Plans Service Office.

Do Changes in Miles Driven Affect Auto Collision Claim Frequency?

Paid Claim Frequency = (No. of paid claims)/(Earned Car Years) x 100



Sources: Federal Highway Administration (http://www.fhwa.dot.gov/ohim/tvtw/tvtpage.cfm; ISO Fast Track Monitoring System, *Private Passenger Automobile Fast Track Data*: 2nd Qtr. 2011, published Sep. 30, 2011 and earlier reports. *2011 ISO figure is for 12 months ending 6/30/2011; FHA data is for 12 months ending Sep. 2011.

Auto Insurance: Claim Frequency Impacts of Energy Crisis/Recession of 1973/74

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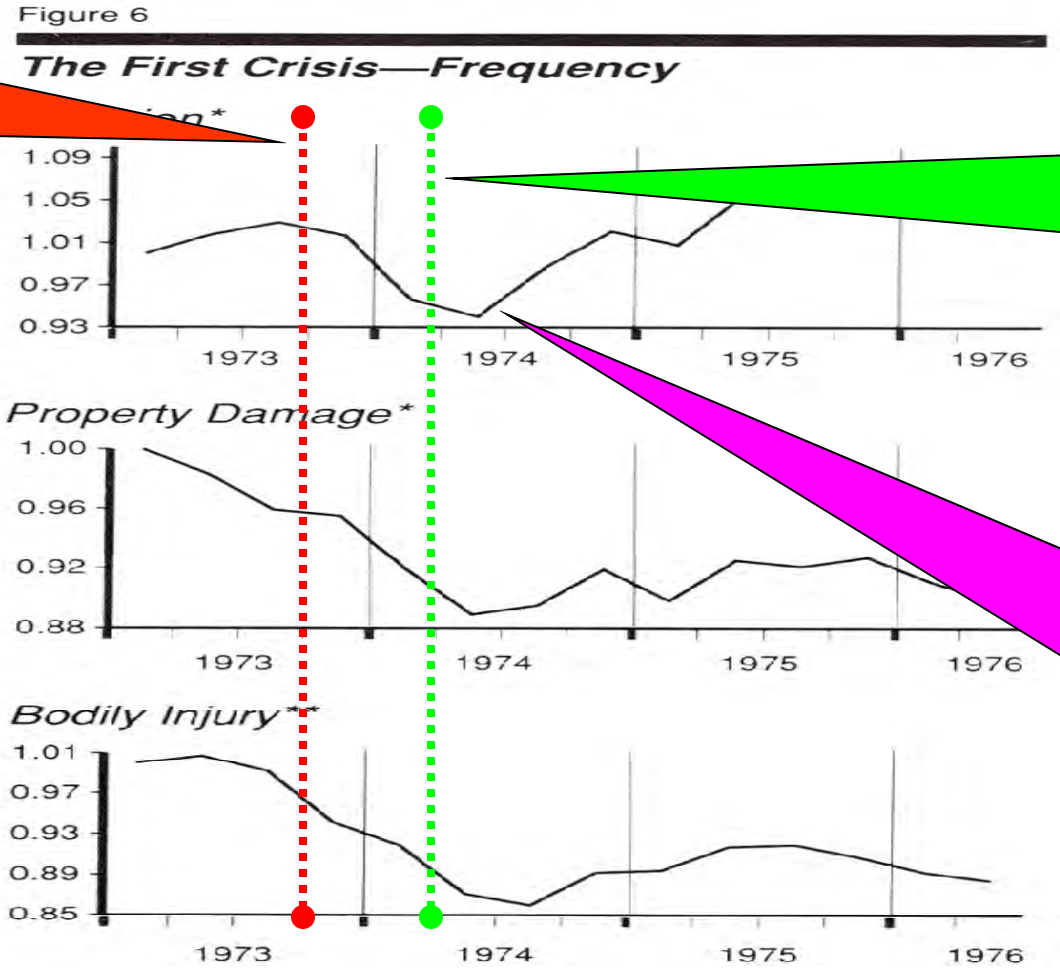
Oct. 17, 1973: Arab oil embargo begins

Frequency Impacts
Collision: -7.7%
PD: -9.5%
BI: -13.3%

Driving Stats
- **Gas prices rose 35-40%**
- **Miles driven fell 6.7% in 1974**



March 17, 1974: Arab oil states announce end to embargo

Frequency began to rebound almost immediately after the embargo ended

Source: ISO, US DOT.

Auto Insurance: Claim Severity Impacts of Energy Crisis/Recession of 1973/74

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Oct. 17, 1973: Arab oil embargo begins

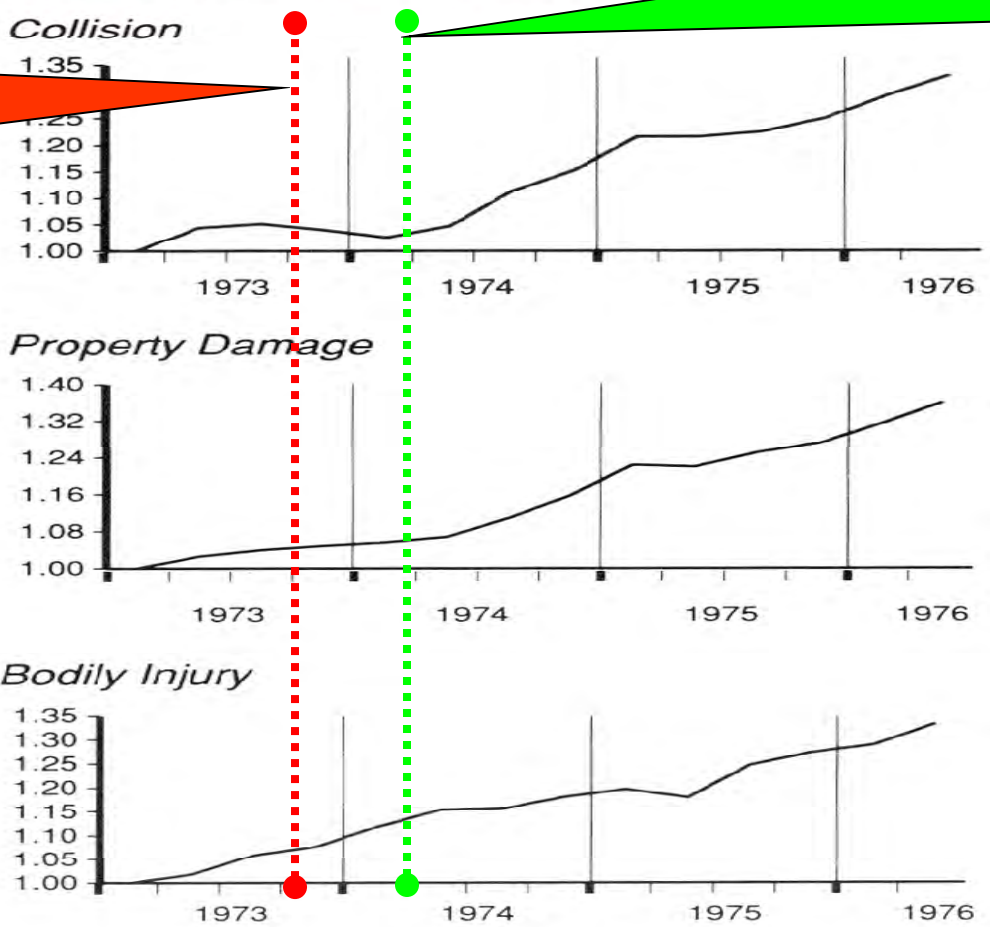
March 17, 1974: Arab oil states announce end to embargo

Severity Impacts
Collision: -7.5%
PD: +15.9%
BI: N/A*

Driving Stats
- **Gas prices rose 35-40%**
- **Miles driven fell 6.7% in 1974**

Figure 7

*The First Crisis—Severity**

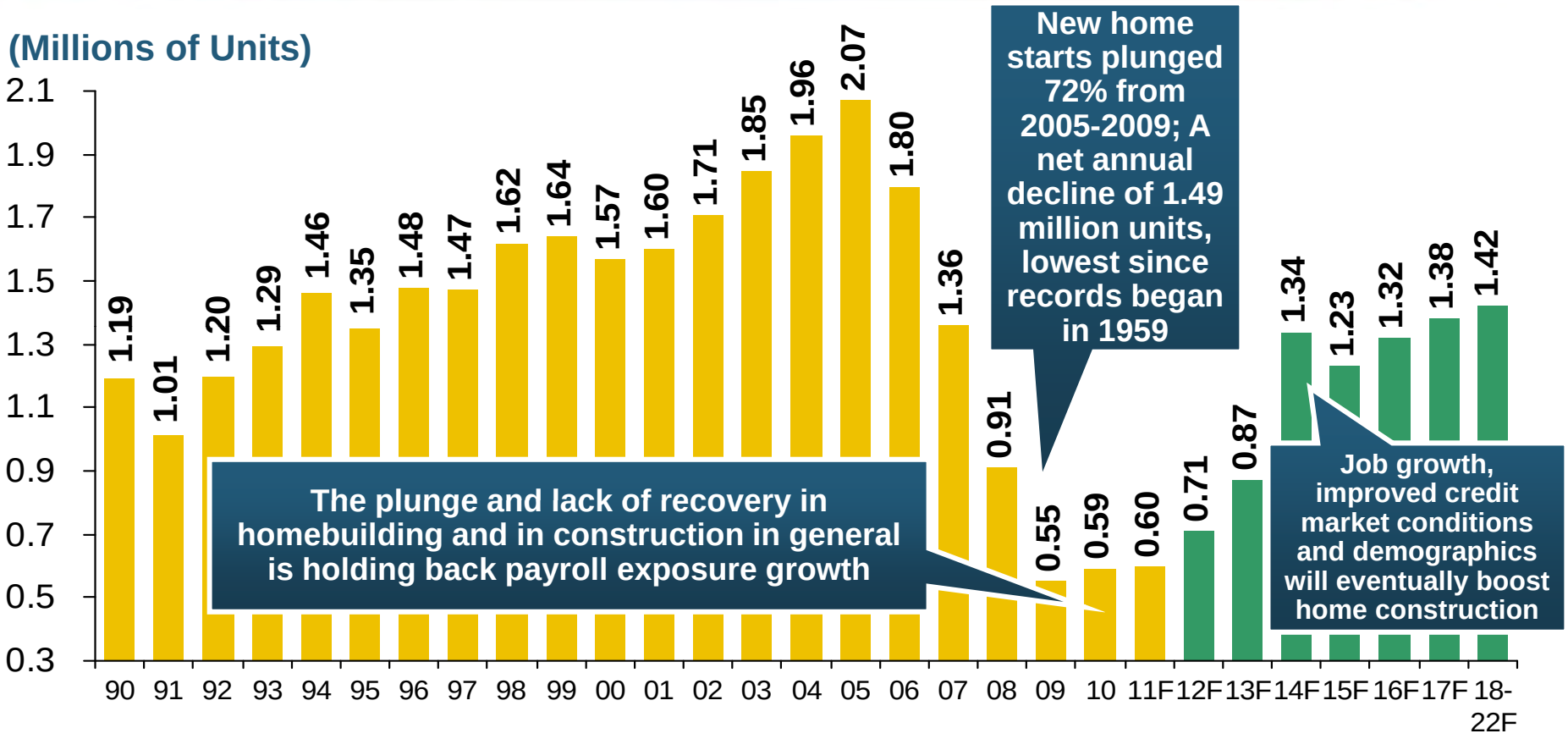


*Seasonally Adjusted, Quarterly Paid Fast Track data indexed to First Quarter 1973.

Collision severity began to rebound almost immediately after the embargo ended; PD accelerated as inflation rose; No discernable trend change in BI.

Source: ISO.

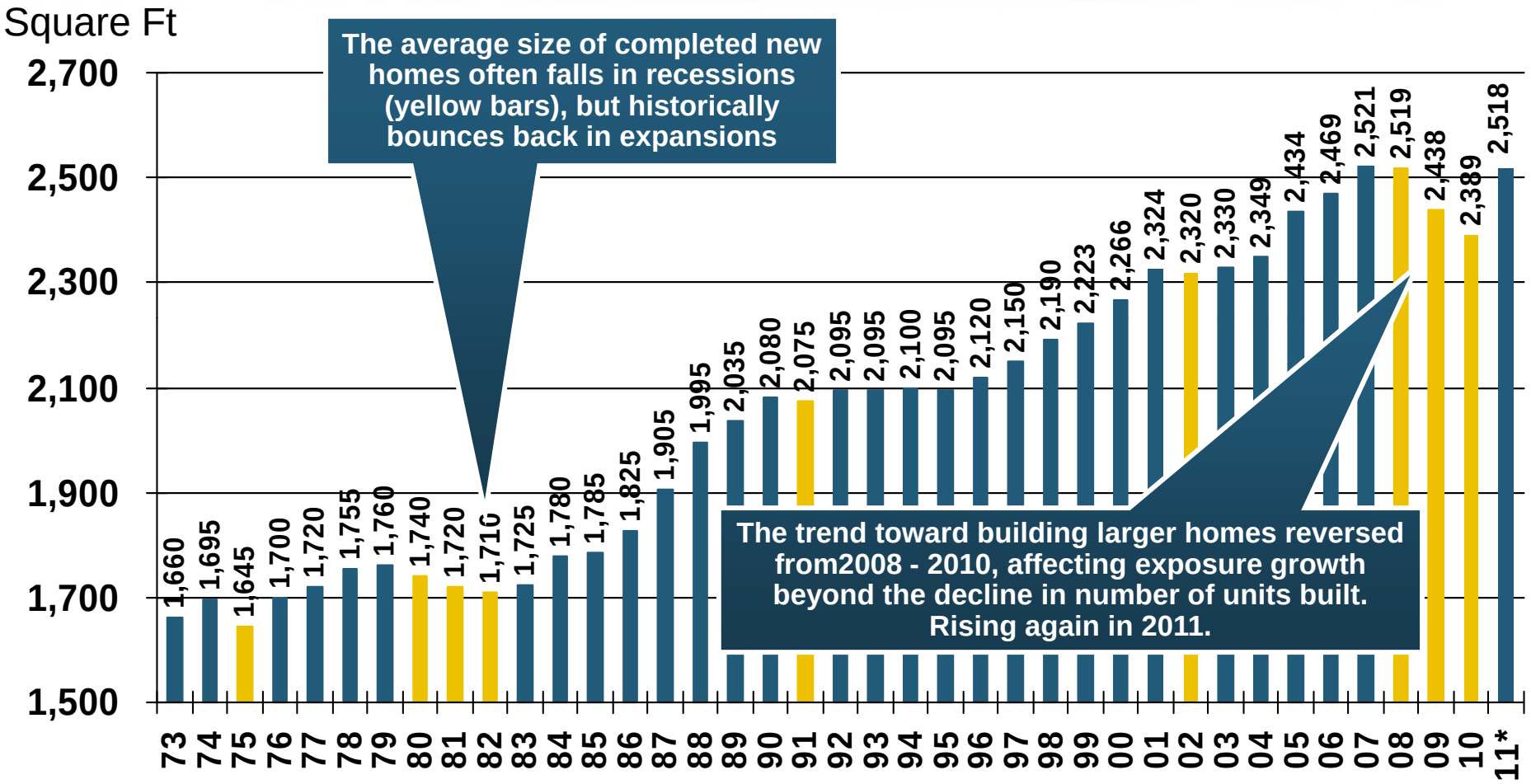
New Private Housing Starts, 1990-2022F



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

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (10/11 and 1/12); Insurance Information Institute.

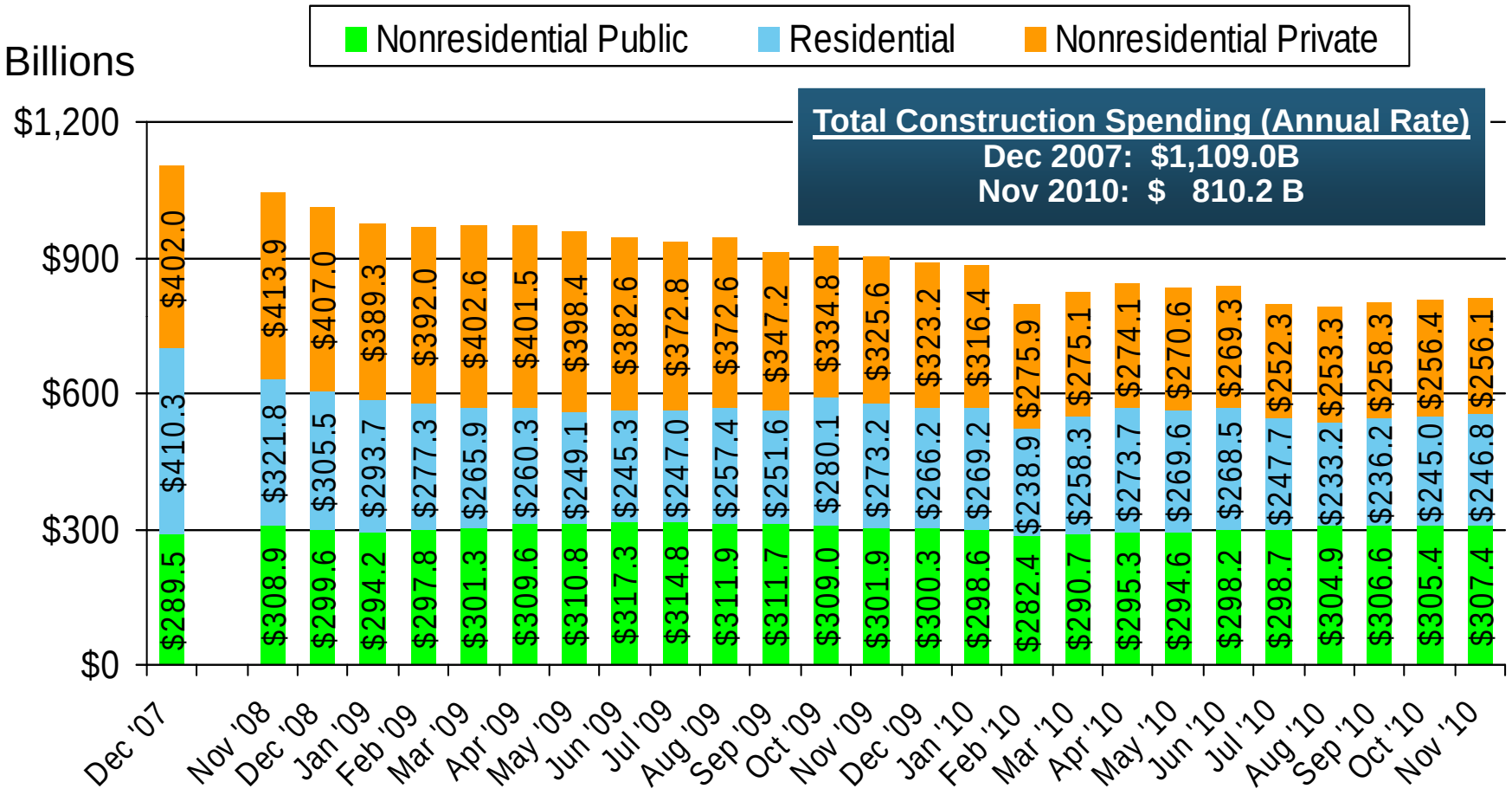
Average Square Footage of Completed New Homes in U.S., 1973-2011*



The average size of completed new homes fell by 147 square feet (5.75%) from 2008-2010. This was the largest recession-based drop in nearly four decades.

*2011 figure is weighted average square feet of completed homes in first three quarters of 2011
Source: U.S. Census Bureau: http://www.census.gov/const/www/quarterly_starts_completions.pdf; Insurance Information Institute.

Value* of Construction Put In Place

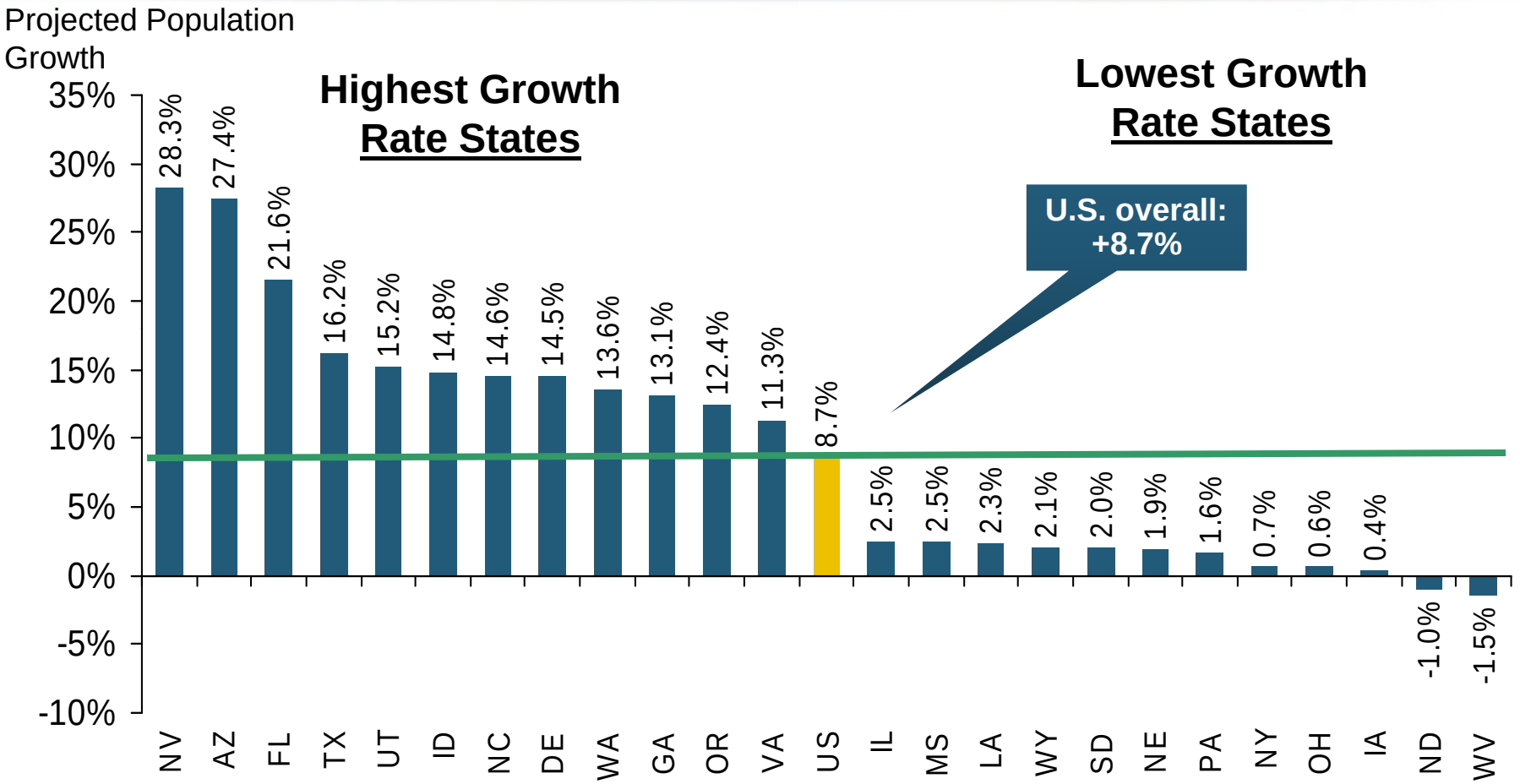


Since the recession started,private residential and nonresidential construction together are down $300 billion (annual rate) – a drop of 38%. This affects property, surety, and other construction-related exposures.

*seasonally adjusted annual rate

Source: http://www.census.gov/const/C30/release.pdf

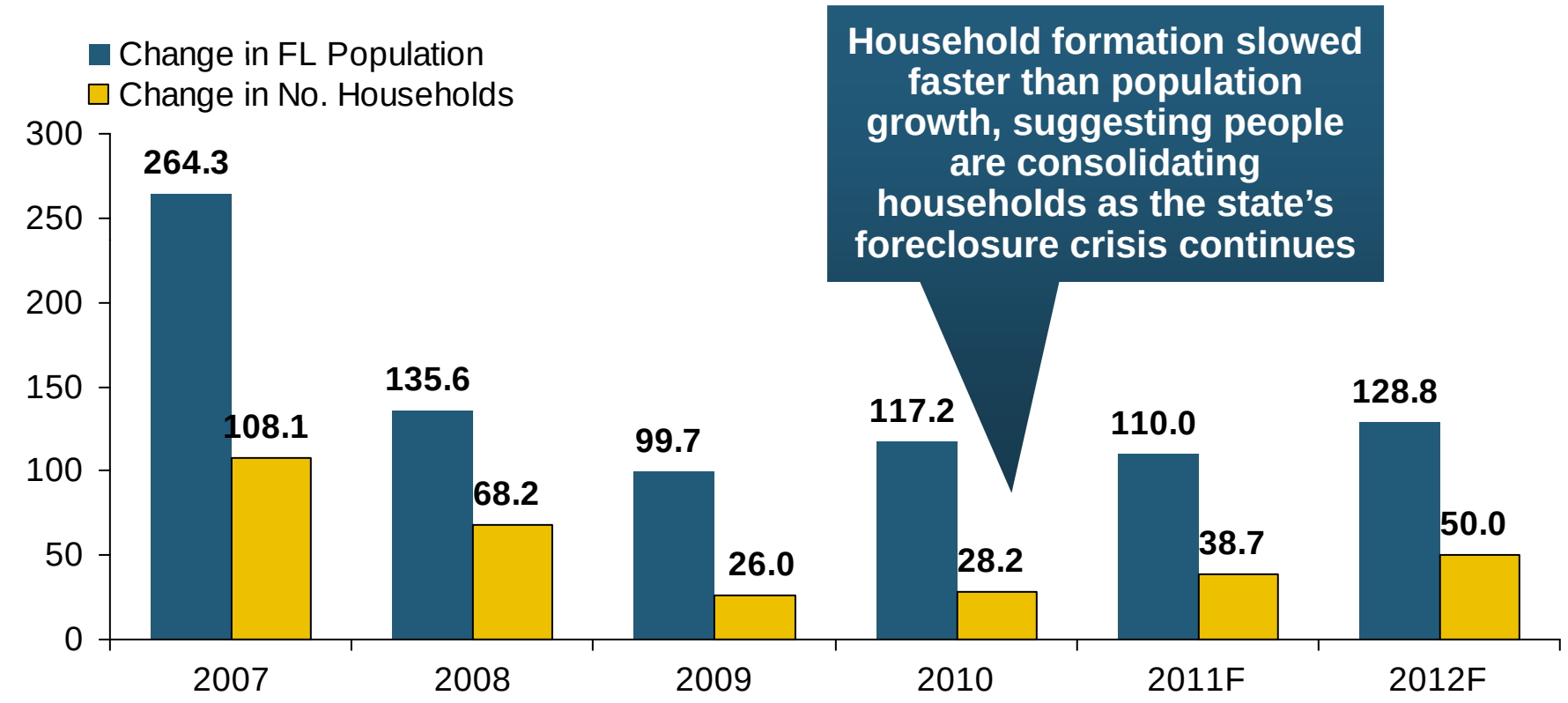
State Population Growth Rate Projections, 2010-2020*



The Mountain West region is projected to grow the most from now to 2020 (up 17.6%), followed by the South Atlantic (up 14.5%) and Pacific (up 11.2%). The Mid-Atlantic is projected to be the slowest-growing region (up 1.9%).

*based on 2000 census. Source: http://www.census.gov/population/www/projections/projectionsagesex.html Table 7

FLORIDA CASE STUDY: Weak Population Growth, Slow Household Formation Hurt Personal Lines Exposure Gains



FL's Construction Sector, One of Most Critical of FL's Growth Engines, Remains in a Deep Recession

Source: Dept. of Commerce (historical); Wells Fargo Securities (FL forecasts) as of September 2011; Insurance Information Institute.

FL Housing Permits: Multi-Family Unit Growth Poised to Soar, Single-Family Weak

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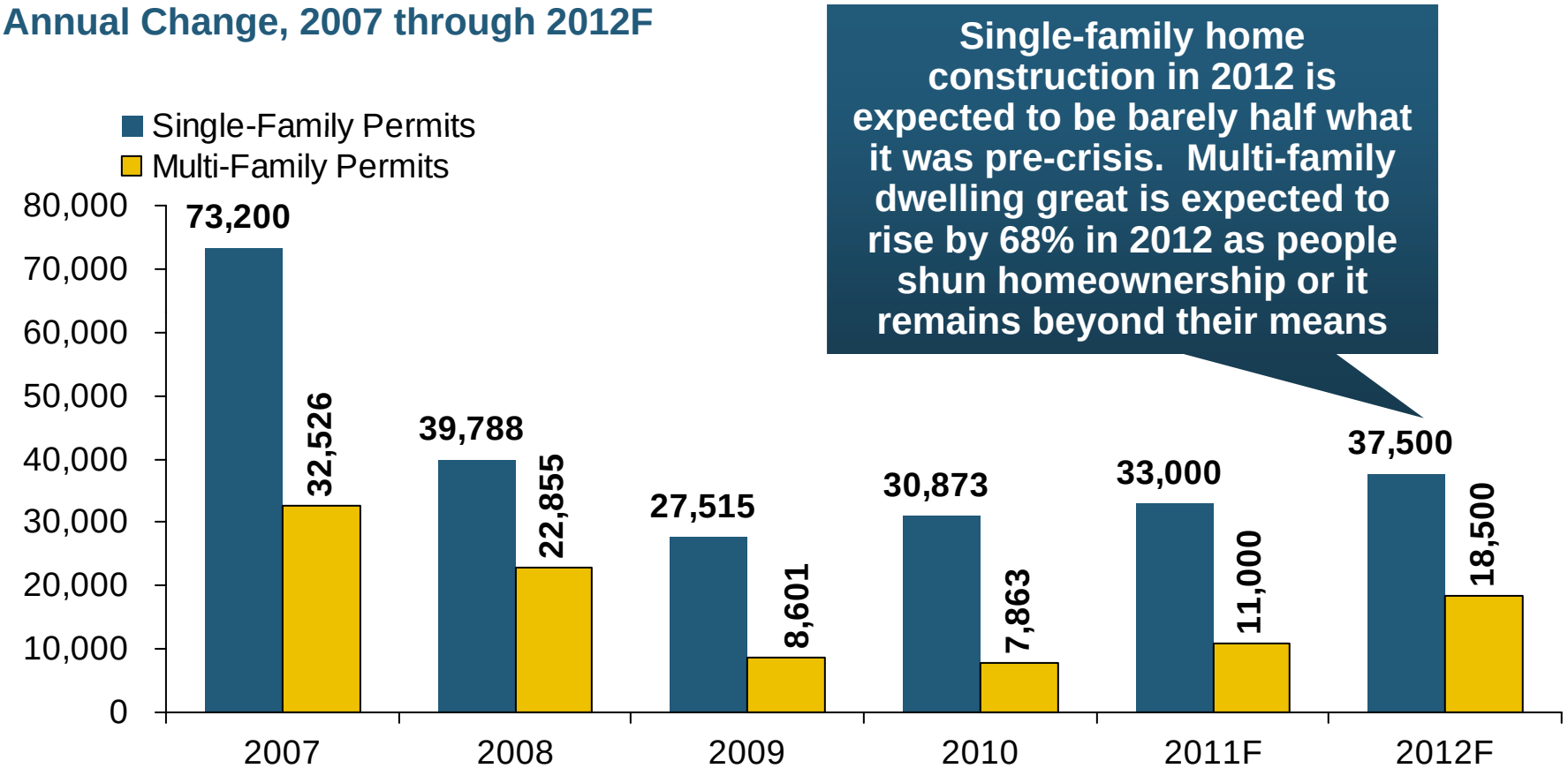
Annual Change, 2007 through 2012F

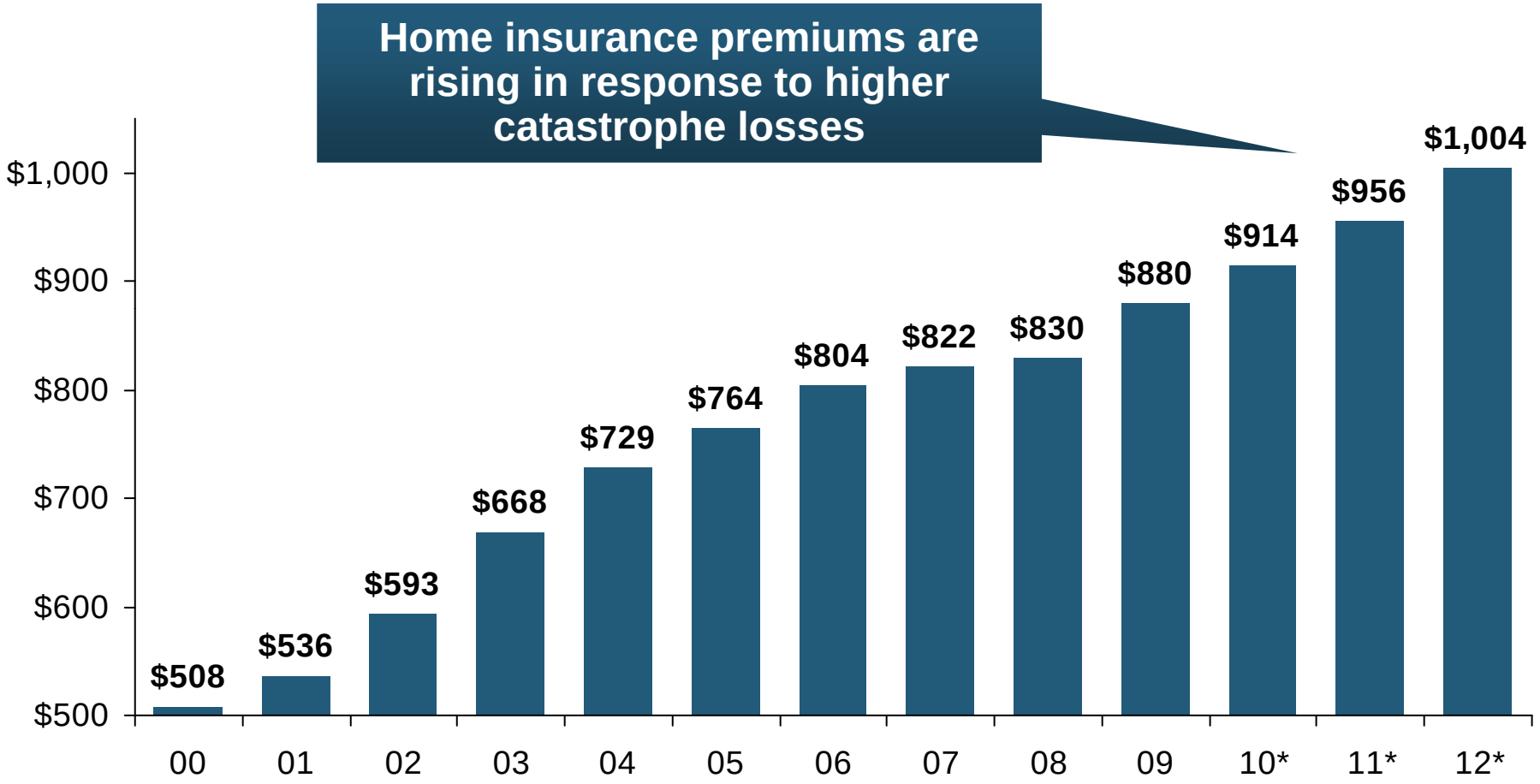


Single-family home construction in 2012 is expected to be barely half what it was pre-crisis. Multi-family dwelling great is expected to rise by 68% in 2012 as people shun homeownership or it remains beyond their means

FL's Construction Sector, One of Most Critical of FL's Growth Engines, Remains in a Deep Recession

Source: Dept. of Commerce (historical); Wells Fargo Securities (FL forecasts) as of September 2011; Insurance Information Institute.

Average Premium for Home Insurance Policies**



* Insurance Information Institute Estimates/Forecasts **Excludes state-run insurers.
Source: NAIC, Insurance Information Institute estimates 2010-2012 based on CPI and other data.

Percent Change in DPW: Homeowners, by State, 2005-2010

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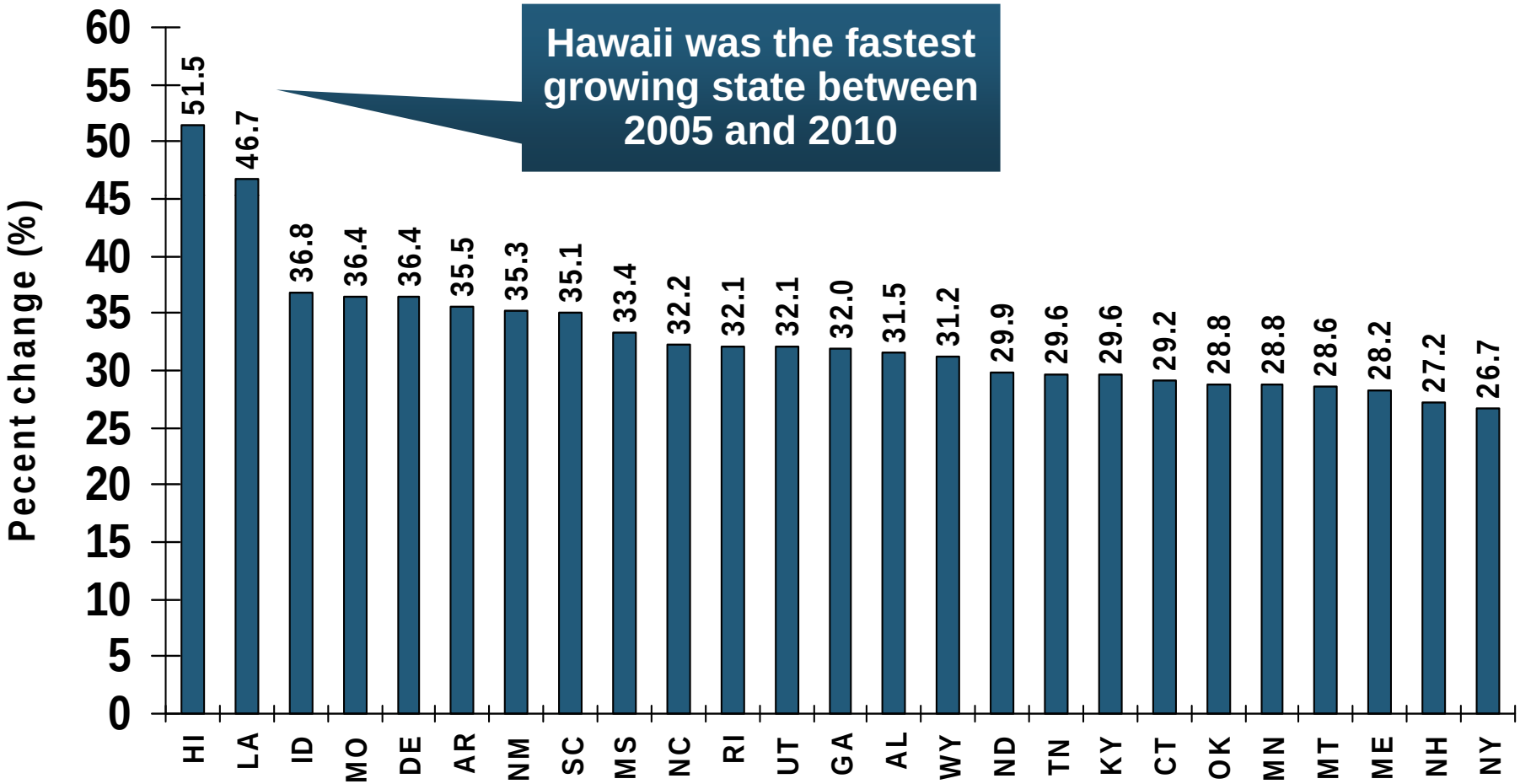
Top 25 States



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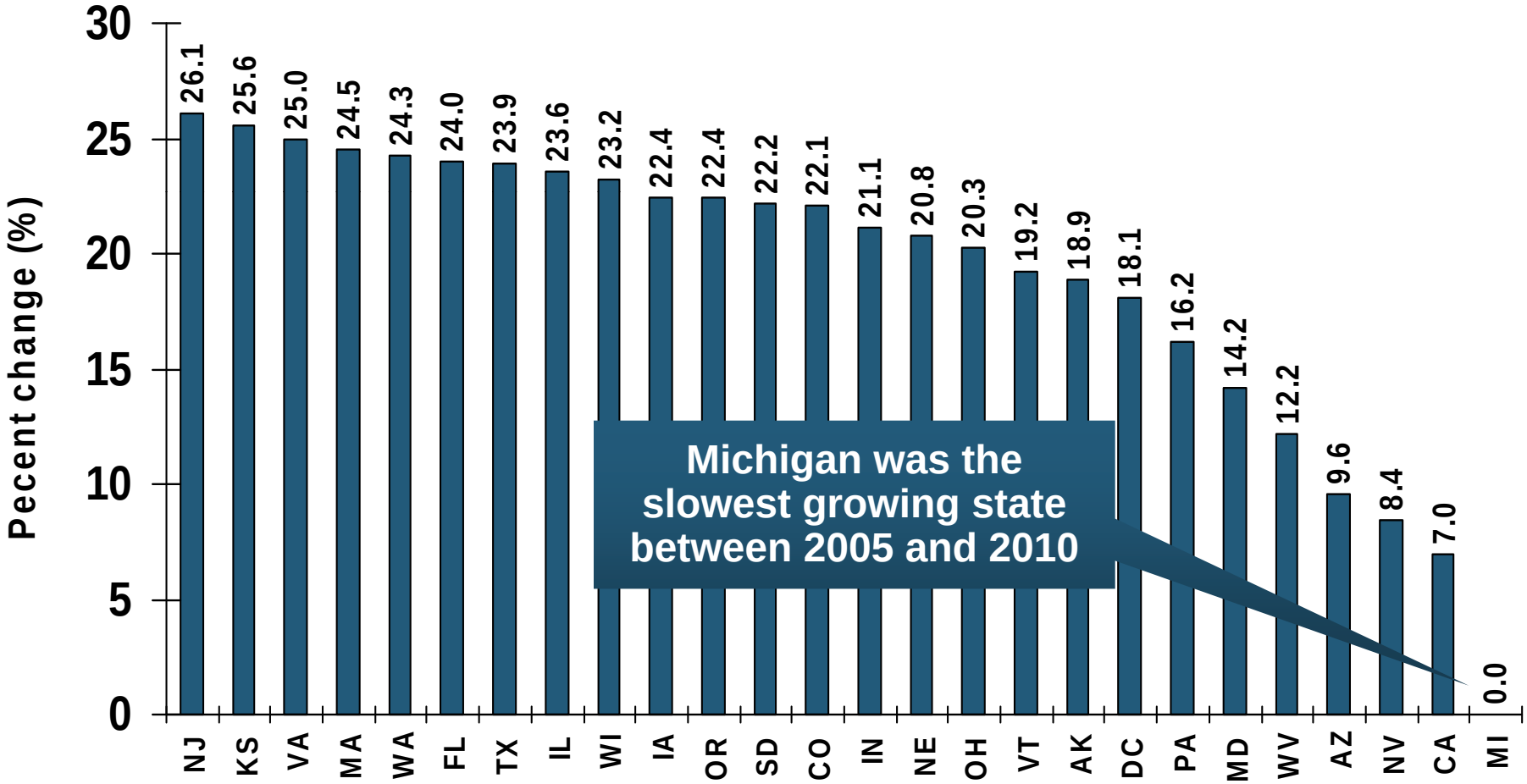
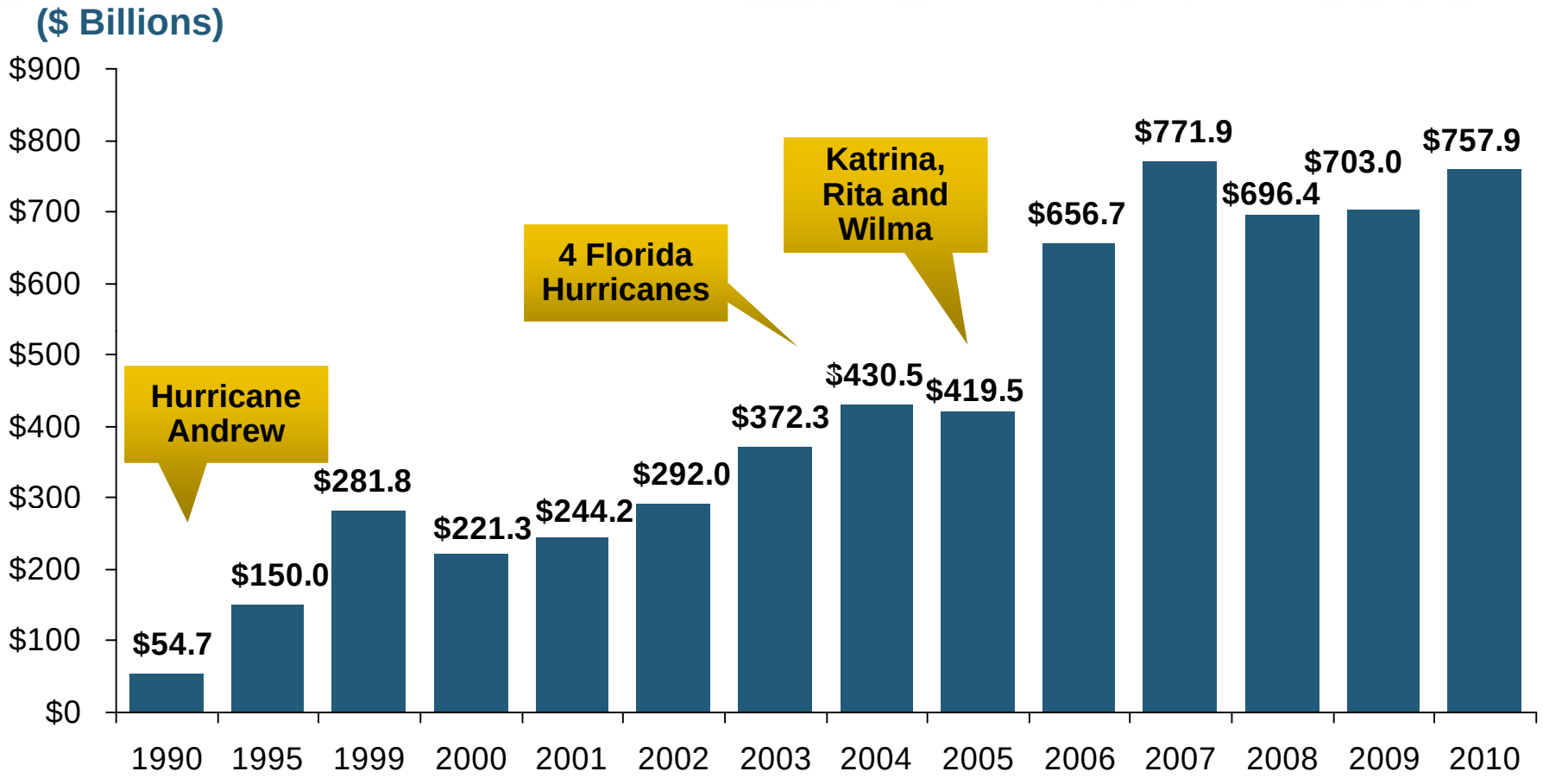


Sources: SNL Financial LC.; Insurance Information Institute.

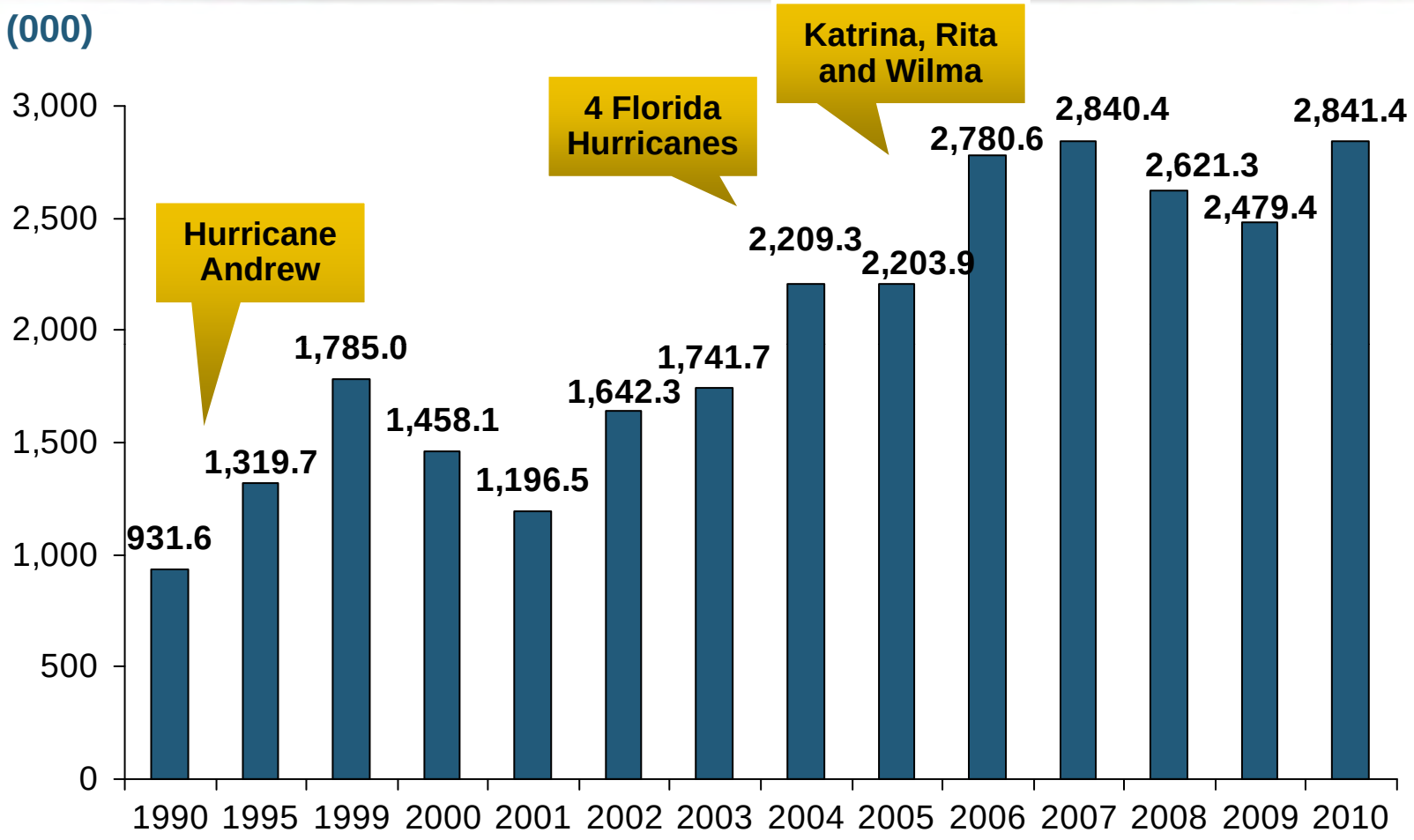
U.S. Residual Market Exposure to Loss ($ Billions)



In the 21-year period from 1990 through 2010, total exposure to loss in the residual market (FAIR & Beach/Windstorm) Plans has surged from $54.7 billion in 1990 to $757.9 billion in 2010.

Source: PIPSO; Insurance Information Institute (I.I.I.).

U.S. Residual Market: Total Policies In-Force (1990-2010) (000)



In the 21-year period between 1990 and 2010, the total number of policies in-force in the residual market (FAIR & Beach/Windstorm) Plans has more than tripled.

Source: PIPSO; Insurance Information Institute

Hurricanes, Insolvencies and Insured Losses, 1984-2011

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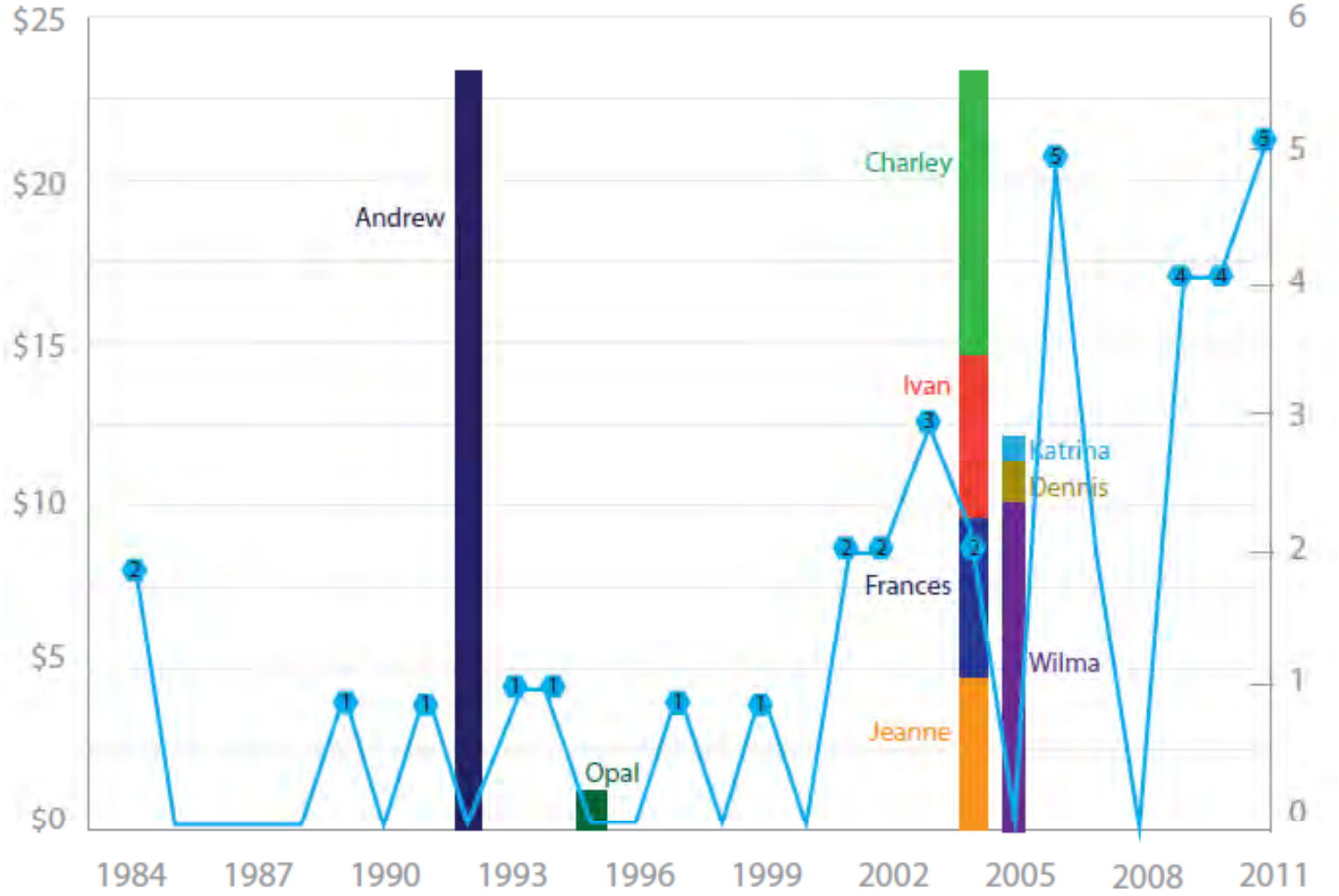
Insured Loss ($ Bill, 2009 Dollars) **No. of Insolvent Insurers**



Sources: Florida TaxWatch, *Risk & Reform: A Florida TaxWatch Analysis of Florida's Property Insurance System,* November 2011, citing the Insurance Information Institute and the Florida Hurricane Fact File.

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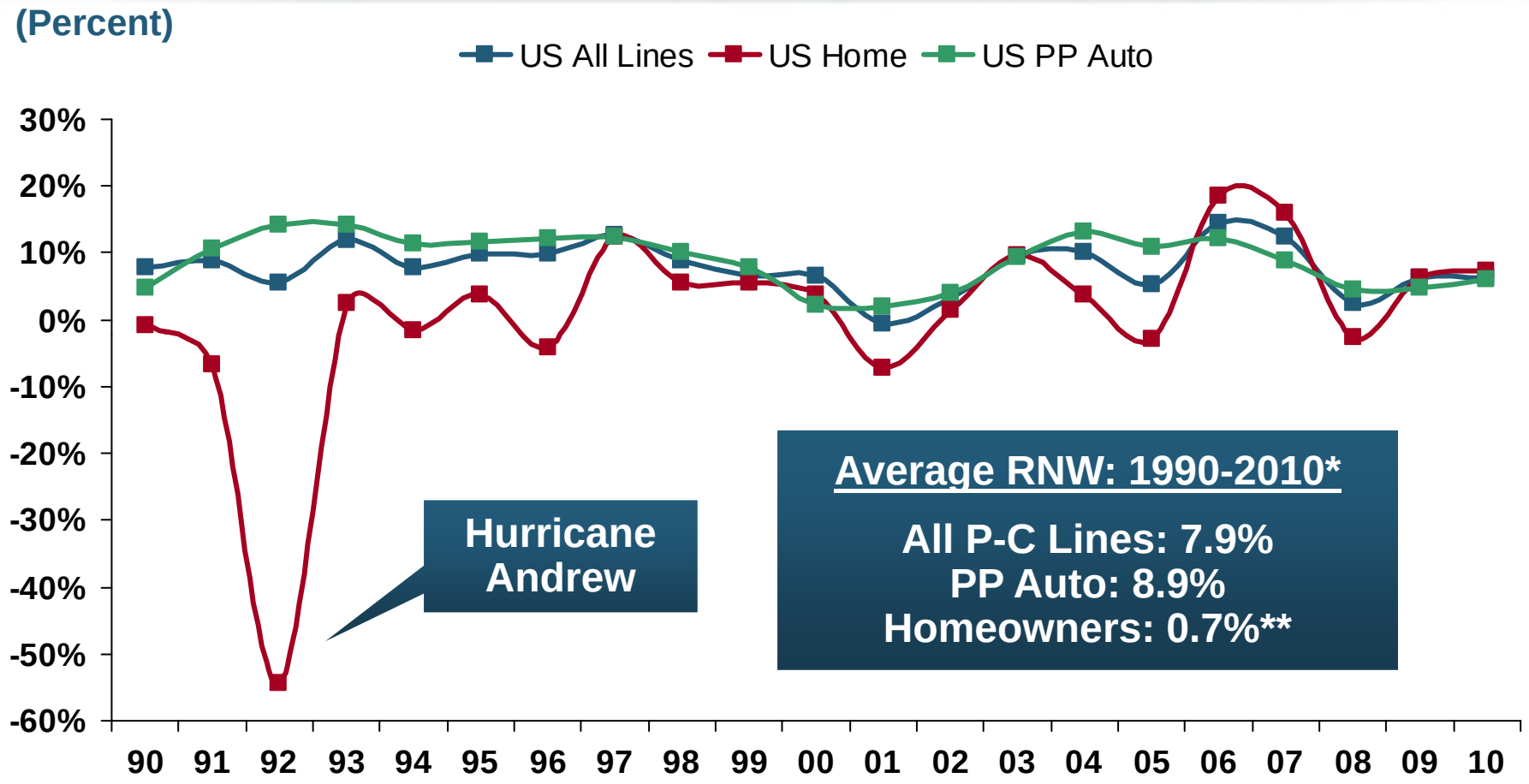
Personal Lines Profitability Analysis

Significant Variability Over Time and Across States

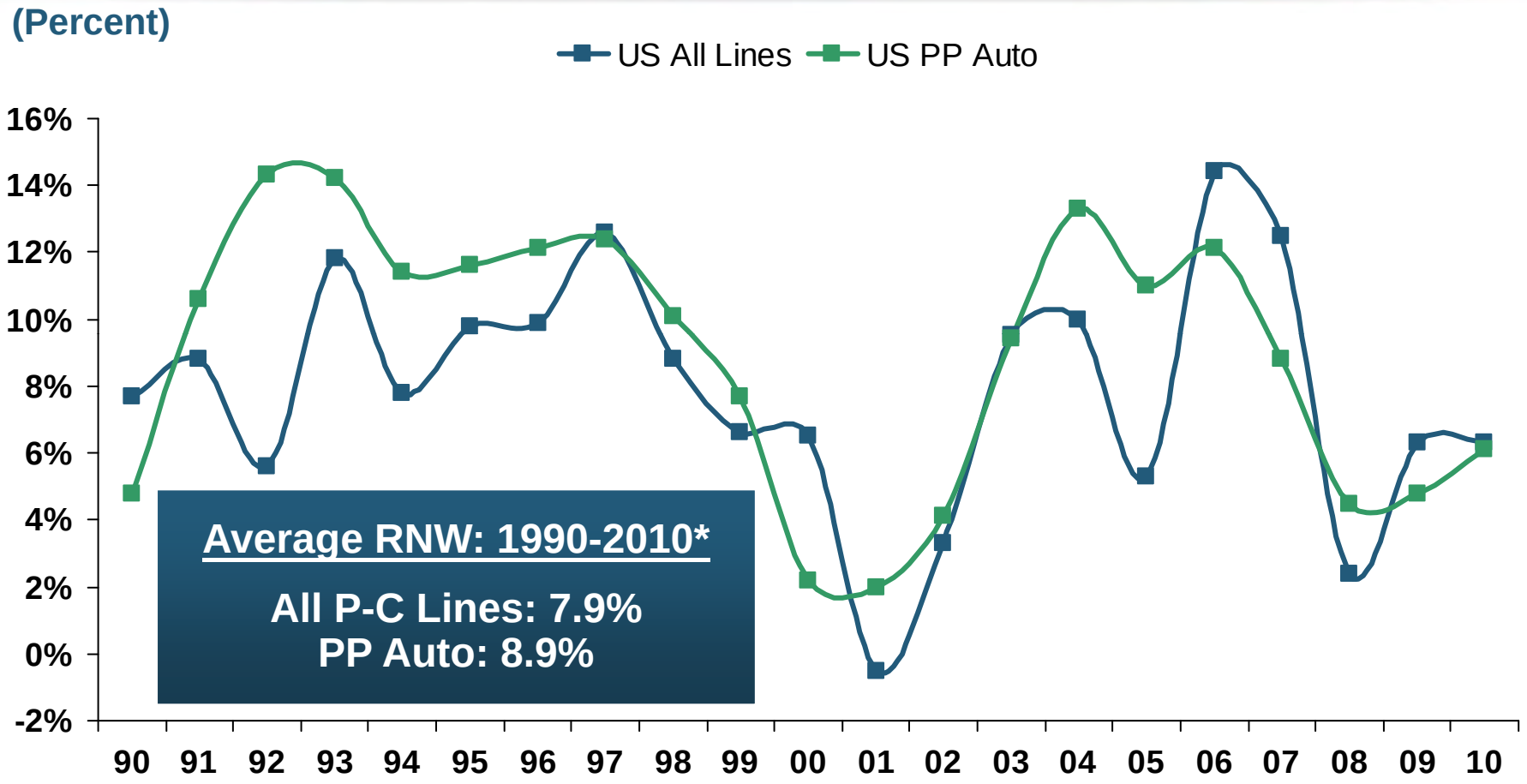
Return on Net Worth: All P-C Lines vs. Homeowners & Pvt. Pass. Auto, 1990-2010*



Pvt.Pass. Auto Has Consistently Outperformed the P-C Industry as a Whole. Homeowners Volatility is Associated Primarily With Coastal Exposure Issues

*Latest available.
**Excluding 1992, the Hurricane Andrew, produces a homeowners RNW of 3.5%.
Sources: NAIC.

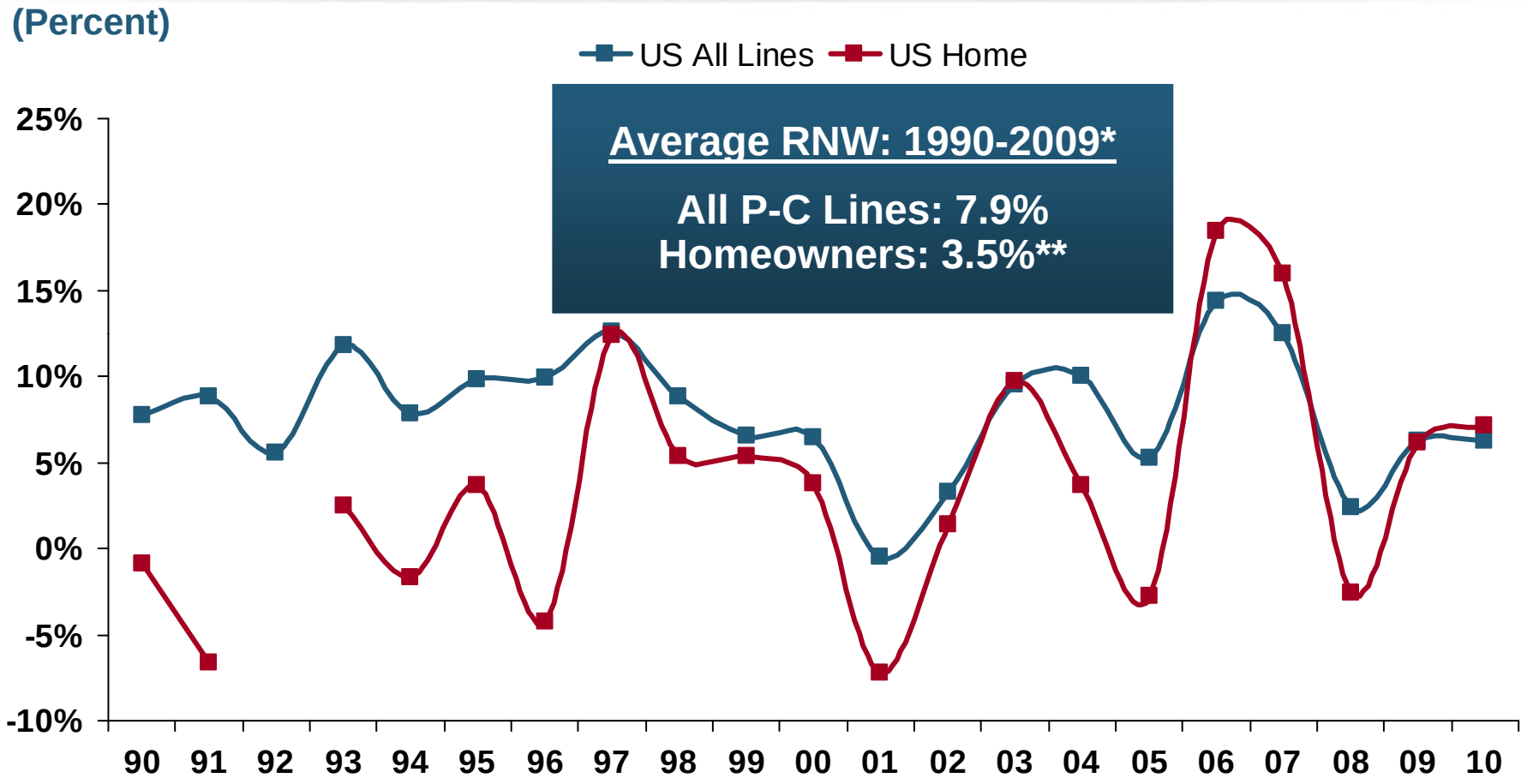
Return on Net Worth: All P-C Lines vs. Pvt. Pass. Auto, 1990-2010*



Pvt.Pass. Auto Profitability Has Exceeded the P-C Industry as a Whole in 13 of the 21 Years from 1990-2010 (Inclusive)

*Latest available.
Sources: NAIC.

Return on Net Worth: All P-C Lines vs. Homeowners, 1990-2010*



Homeowners Insurance Is Considerably More Volatile than the Market Overall Due to Coastal Exposure and Interior Wind/Hail Events

*Latest available.
**Excluding Hurricane Andrew (1992); including 1992 produces an average homeowners RNW of 0.7%.
Sources: NAIC.

Return on Net Worth: Pvt. Passenger Auto, 10-Year Average (2001-2010*)

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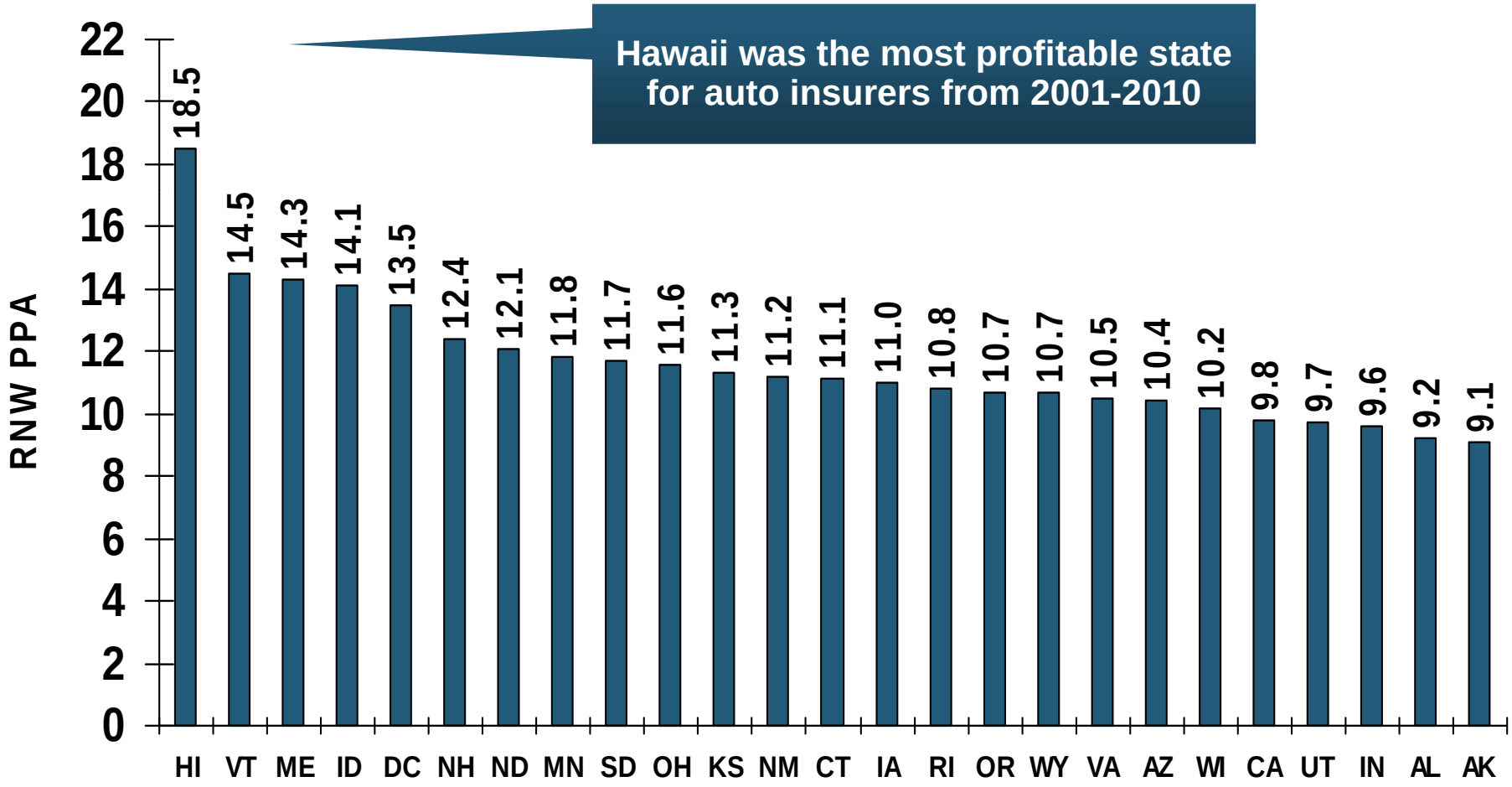
Top 25 States

(Percent)



*Latest available.

Sources: NAIC.

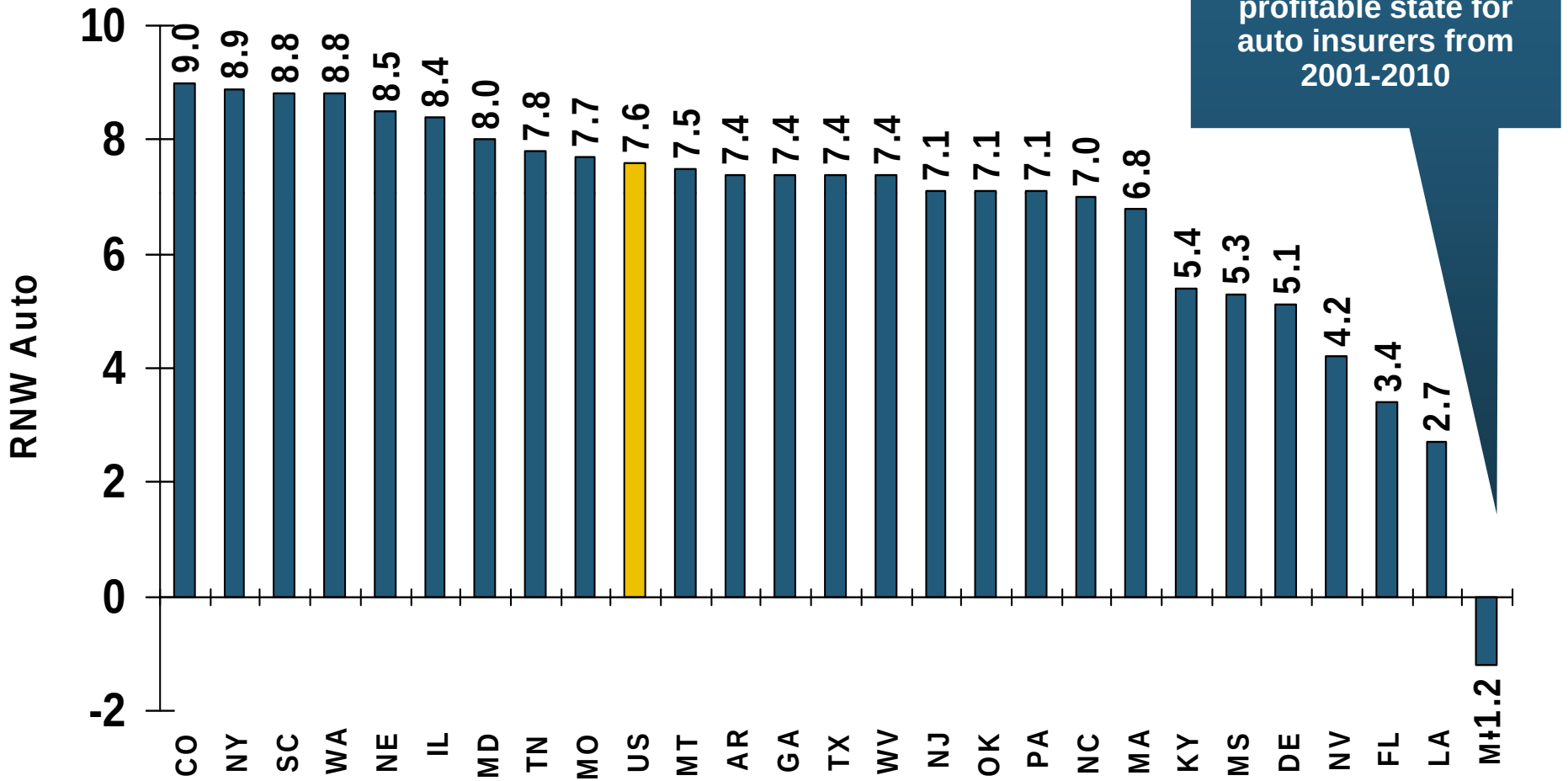
Return on Net Worth: Pvt. Passenger Auto, 10-Year Average (2001-2010*)

INSURANCE INFORMATION INSTITUTE

(Percent)

Bottom 25 States

Michigan was the least profitable state for auto insurers from 2001-2010



*Latest avaiiable.
Sources: NAIC

Return on Net Worth: Homeowners Insurance, 10-Year Average (2001-2010*)

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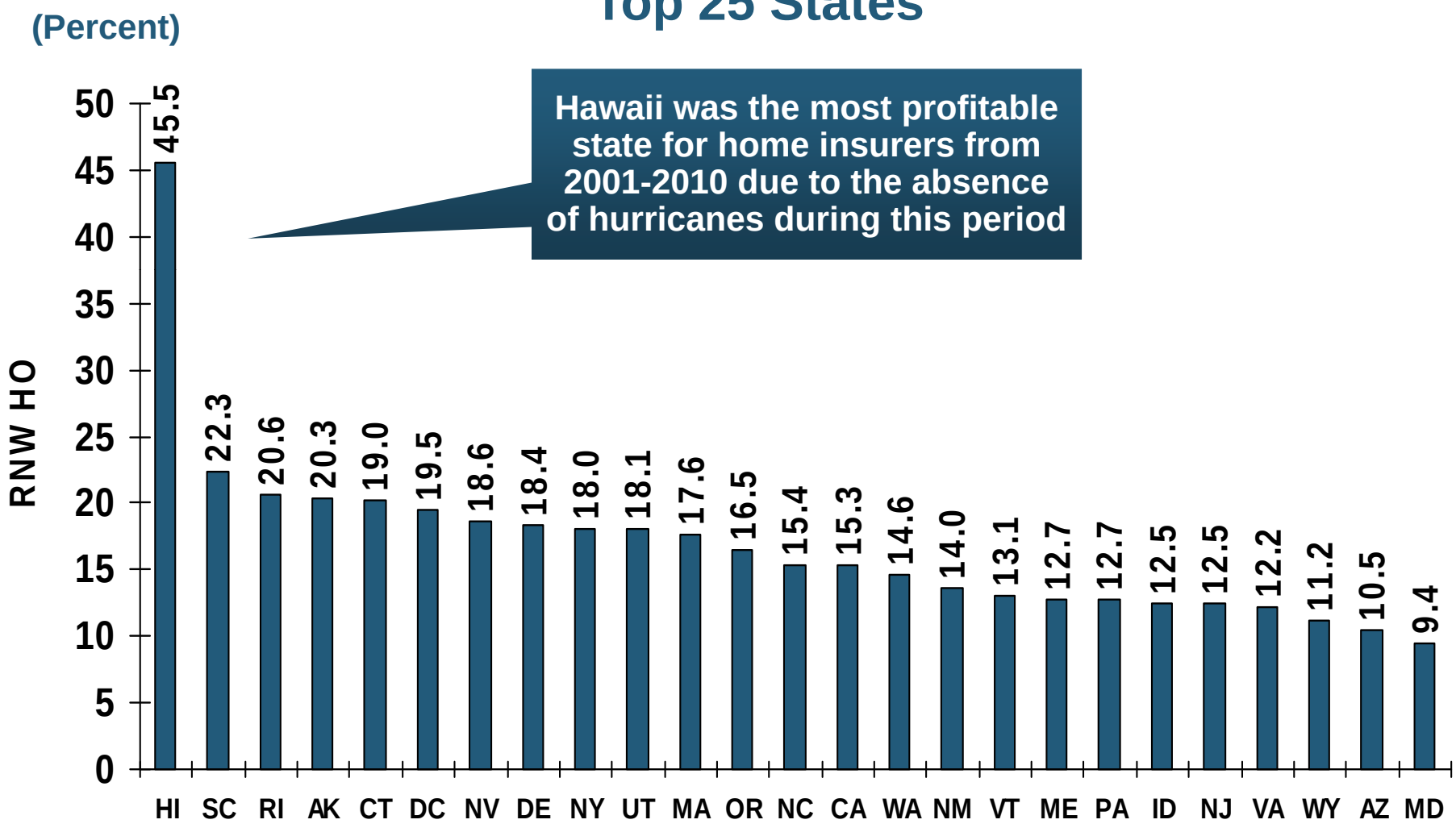
Top 25 States



*Latest available.

Sources: NAIC.

Return on Net Worth: Homeowners Insurance, 10-Year Average (2001-2010*)

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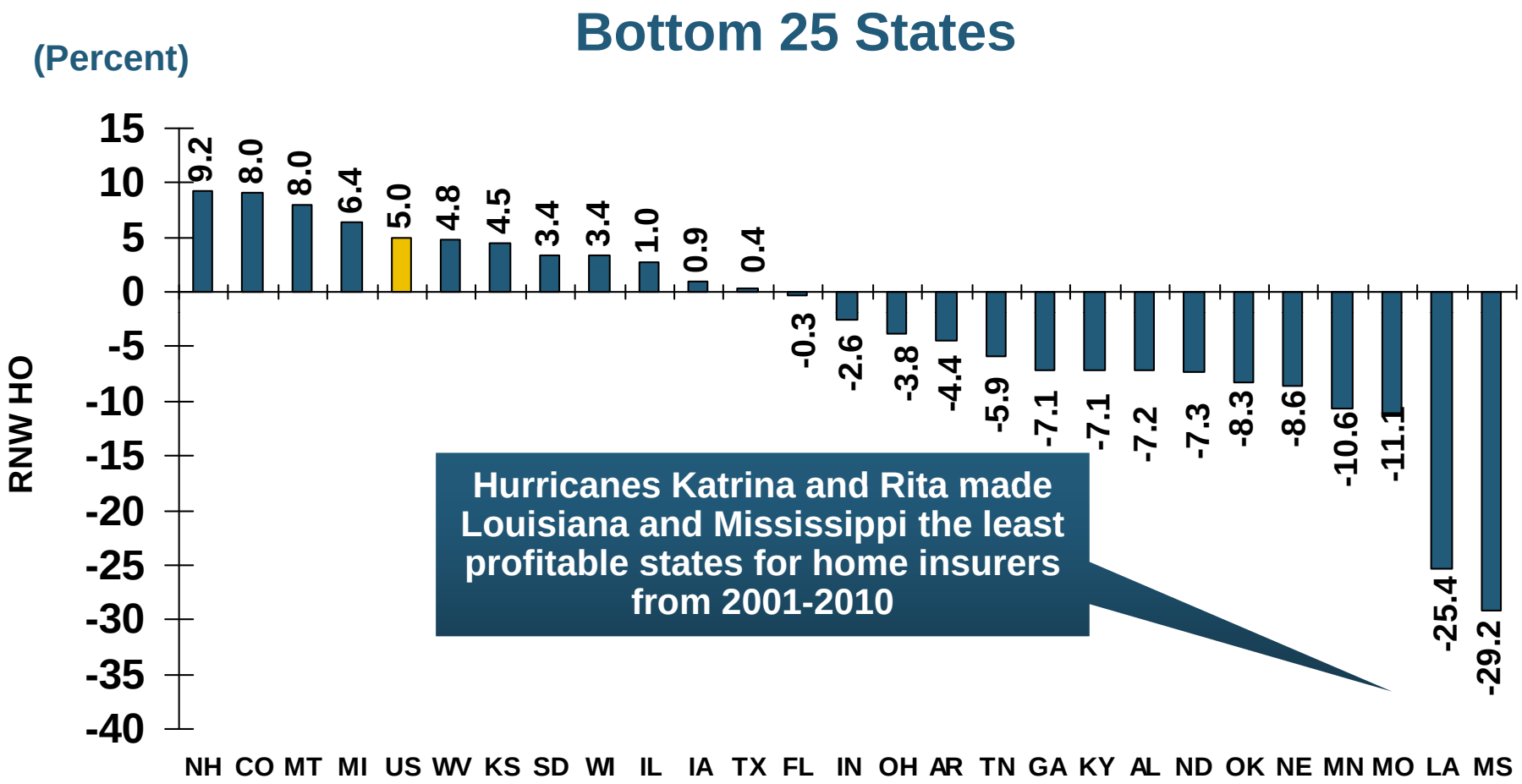

*Latest available.
Sources: NAIC

INSURANCE INFORMATION INSTITUTE

Global Catastrophe Loss Developments and Trends

2011 Will Rewrite Catastrophe Loss and Insurance History

But Will Losses Turn the Market?

Global Catastrophe Loss Summary: 2011

- **2011 Was the *Highest* Loss Year on Record for Economic Losses Globally**
  - Extraordinary accumulation of severe natural catastrophe: Earthquakes, tsunami, floods and tornadoes are the primary causes of loss
- **$380 Billion in *Economic* Losses Globally (New Record)**
  - New record, exceeding the previous record of $270B in 2005
- **$105 Billion in *Insured* Losses Globally**
  - 2011 losses were 2.5 times 2010 insured losses of $42B
  - Second only to 2005 on an inflation adjusted basis (new record on a unadjusted basis)
  - Over 5 times the 30-year average of $19B
- **$72.8 Billion in *Economic* Losses in the US**
  - Represents a 129% increase over the $11.8 billion amount through the first half of 2010
- **$35.9 Billion in *Insured* Losses in the US Arising from 171 CAT Events**
  - Fifth highest year on record
  - Represents 51% increase over the $23.8 billion total in 2010

Source: Munich Re; Insurance Information Institute.

Natural Loss Events, 2011

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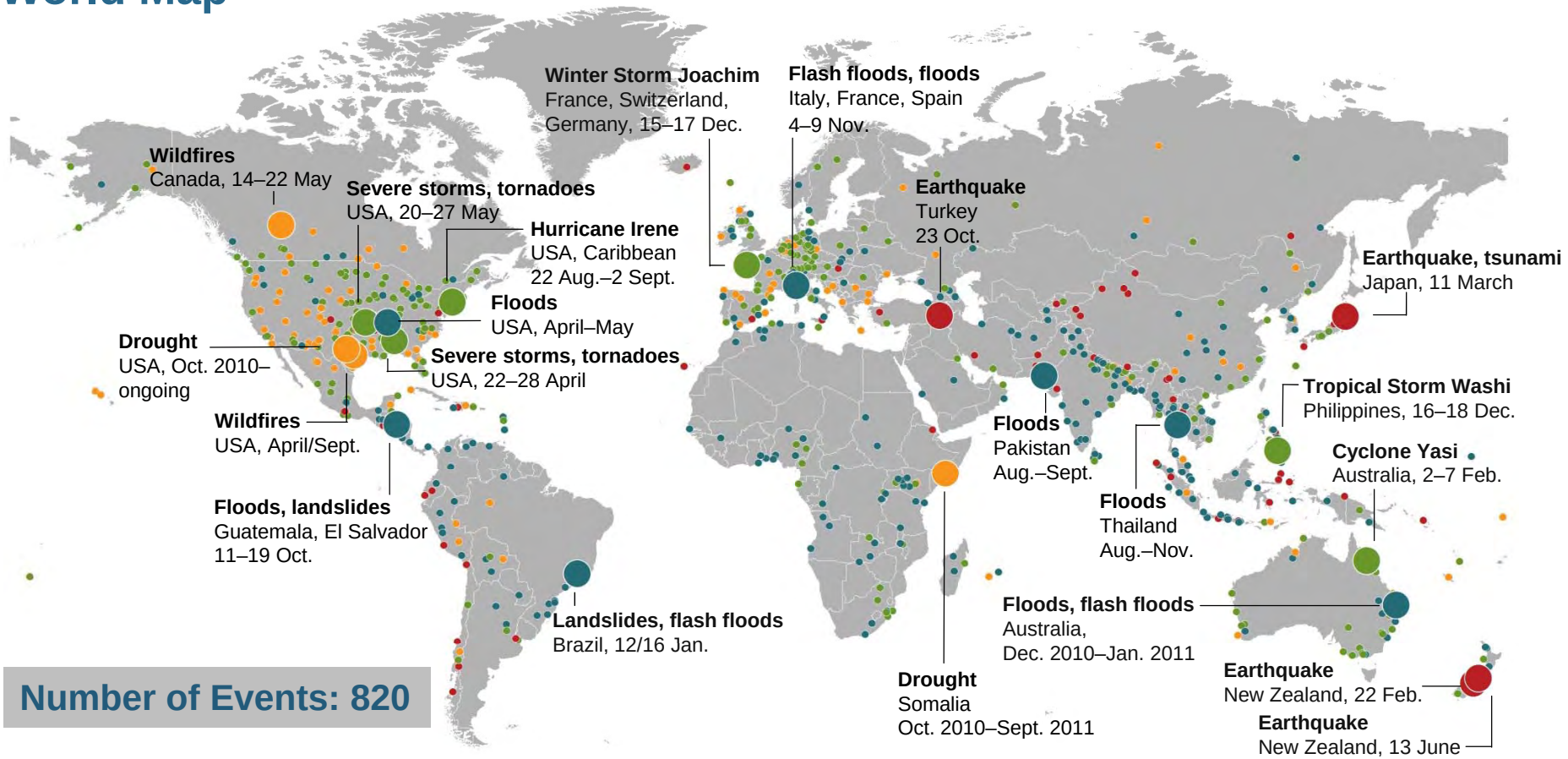
World Map



- **Natural catastrophes**
- **Selection of significant loss events (see table)**
- **Geophysical events** (earthquake, tsunami, volcanic activity)
- **Meteorological events** (storm)
- **Hydrological events** (flood, mass movement)
- **Climatological events** (extreme temperature, drought, wildfire)

Source: MR NatCat*SERVICE*

Natural Catastrophes Worldwide, 2011

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Overview and Comparison with Previous Years

	2011	2010	Average of the last 10 years 2001-2010	Average of the last 30 years 1981-2010	Top Year 1981-2010
Number of events	820	970	790	630	**2007 (1,025)**
Overall losses in US$ m (original values)	380,000	152,000	113,000	75,000	**2005 (227,000)**
Insured losses in US$ m (original values)	105,000	42,000	35,000	19,000	**2005 (101,000)**
Fatalities	27,000	296,000	106,000	69,000	**2010 (296,000)**

Source: MR NatCat*SERVICE*

5 Costliest Natural Catastrophes Worldwide in Terms of Insured Losses, 2011 ($Mill)

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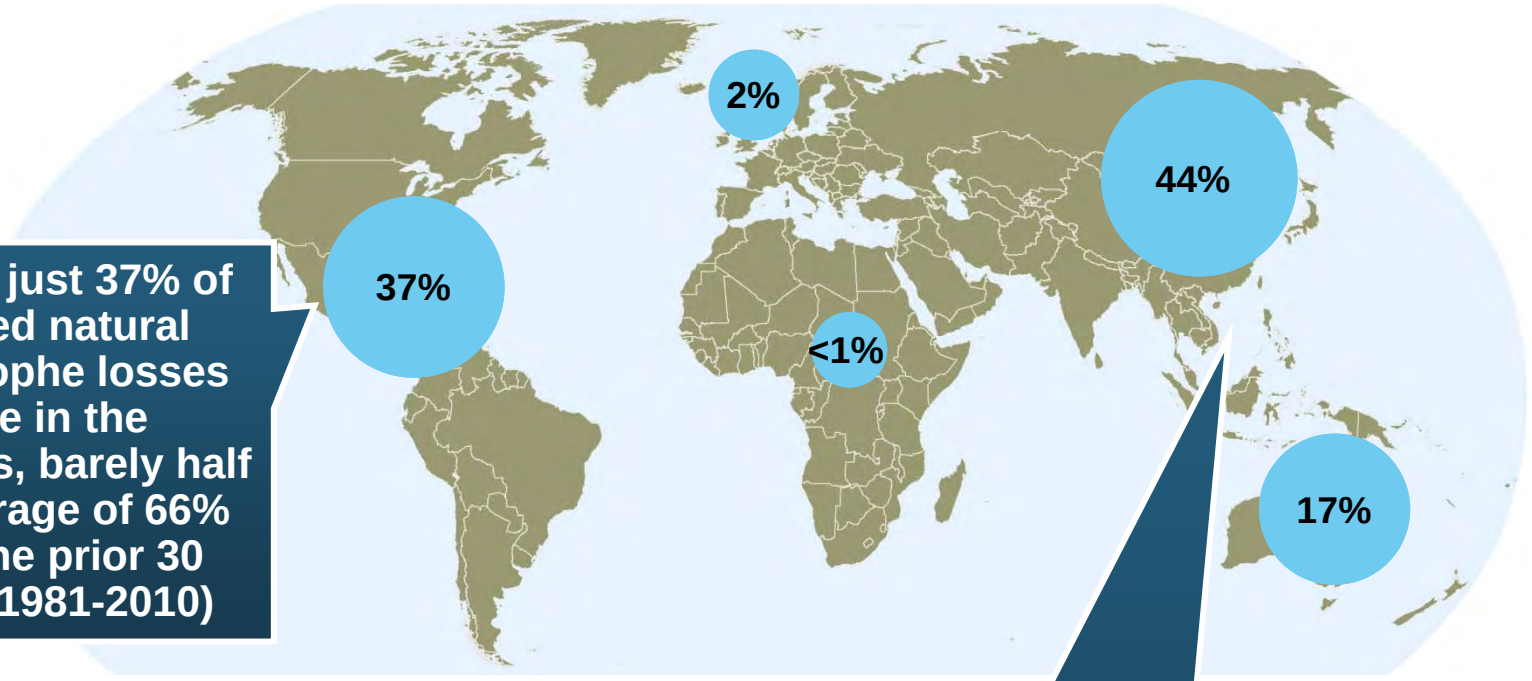
Date	Region	Event	Fatalities	Overall losses US$ m	Insured losses US$ m
March 11	Japan	Earthquake, tsunami	15,840	210,000	35,000-40,000
Feb. 22	New Zealand	Earthquake	181	16,000	13,000
Aug. 1 – Nov. 15	Thailand	Floods, landslides	813	40,000	10,000
Apr. 22-28	USA	Severe storms/ tornadoes	350	15,000	7,300
Aug. 22 - Sep. 2	USA, Caribbean	Hurricane Irene	55	15,000	7,000

Source: MR NatCat*SERVICE*

Natural Catastrophes Worldwide 2011

Insured losses US$ 105bn - Percentage distribution per continent



In 2011, just 37% of insured natural catastrophe losses were in the Americas, barely half the average of 66% over the prior 30 years (1981-2010)

Continent	Insured losses US$ m
America (North and South America)	40,000
Europe	2,000
Africa	Minor damages
Asia	45,000
Australia / Oceania	18,000

In 2011, 61% of insured natural catastrophe losses were in the Asia/Pacific region, nearly 3.5 times the average of 13% over the prior 30 years (1981-2010)

Source: MR NatCat*SERVICE*

Natural Catastrophes Worldwide 1980 – 2011
Insured losses US$ 870bn - Percentage distribution per continent

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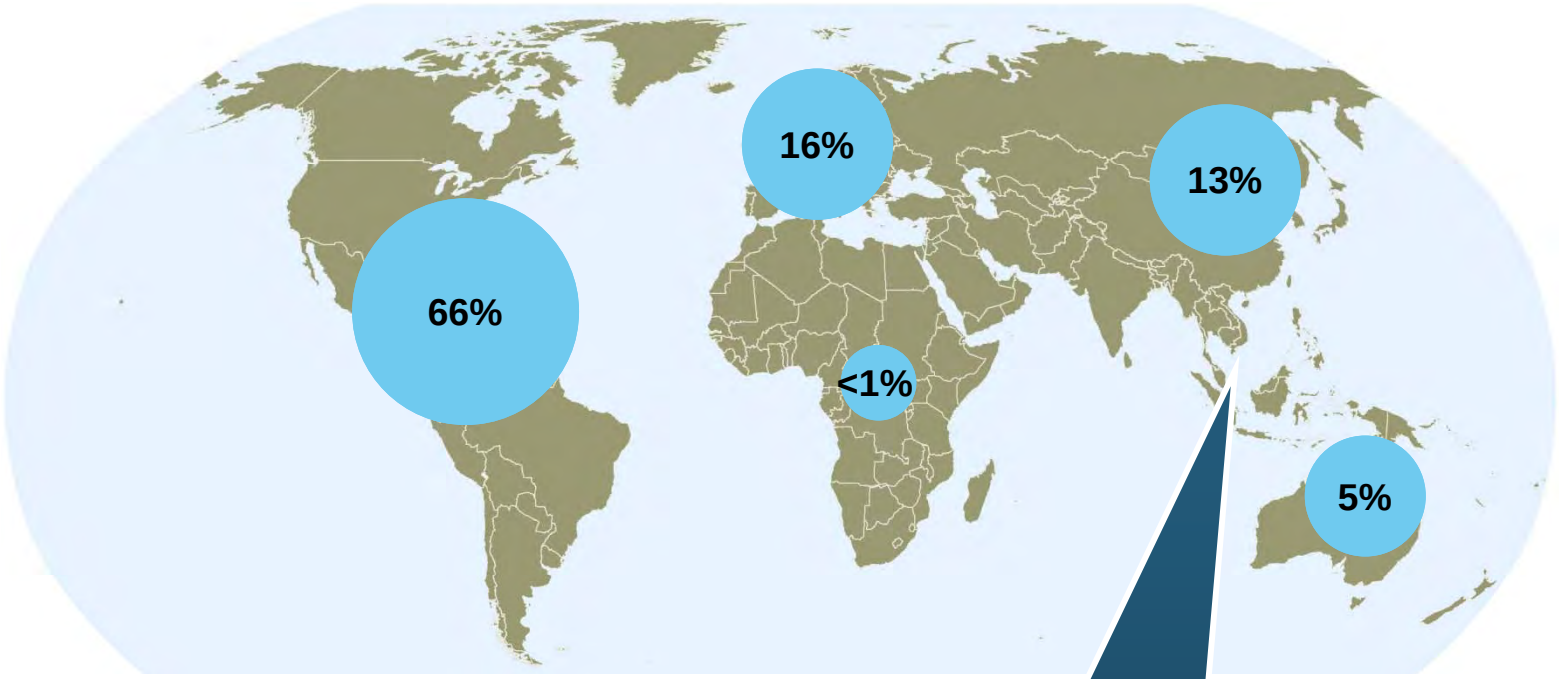

Continent	Insured losses US$ m
America (North and South America)	566,000
Europe	146,000
Africa	2,000
Asia	115,000
Australia / Oceania	41,000

In 2011, 61% of natural catastrophe losses were in the Asia/Pacific region, nearly 3.5 times the average of 13% over the prior 30 years (1981-2010)

Source: MR NatCat*SERVICE*

Natural Catastrophes in Asia 1980 – 2011

Overall and insured losses in 2011 Dollars

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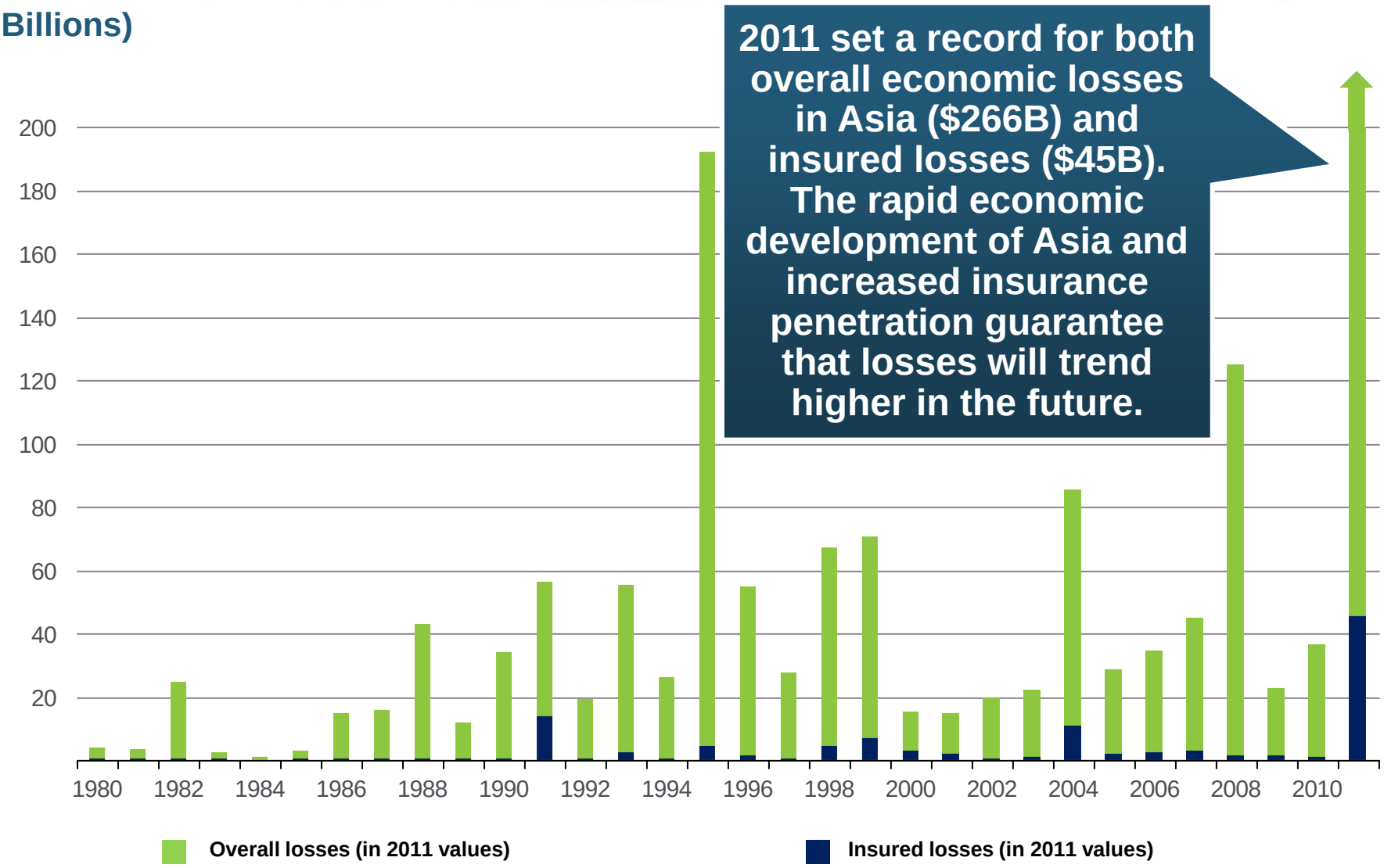
($ Billions)



Source: MR NatCat*SERVICE*

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

(Insured Losses, 2011 Dollars, $ Billions)

Taken as a single event, the Spring 2011 tornado and thunderstorm season would likely become the 5th costliest event in global insurance history

5 of the top 14 most expensive catastrophes in world history have occurred within the past 2 years

*Average of range estimates of $35B - $40B as of 1/4/12; Privately insured losses only.

**Figures do not include federally insured flood losses.

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

Worldwide Natural Disasters, 1980 – 2011

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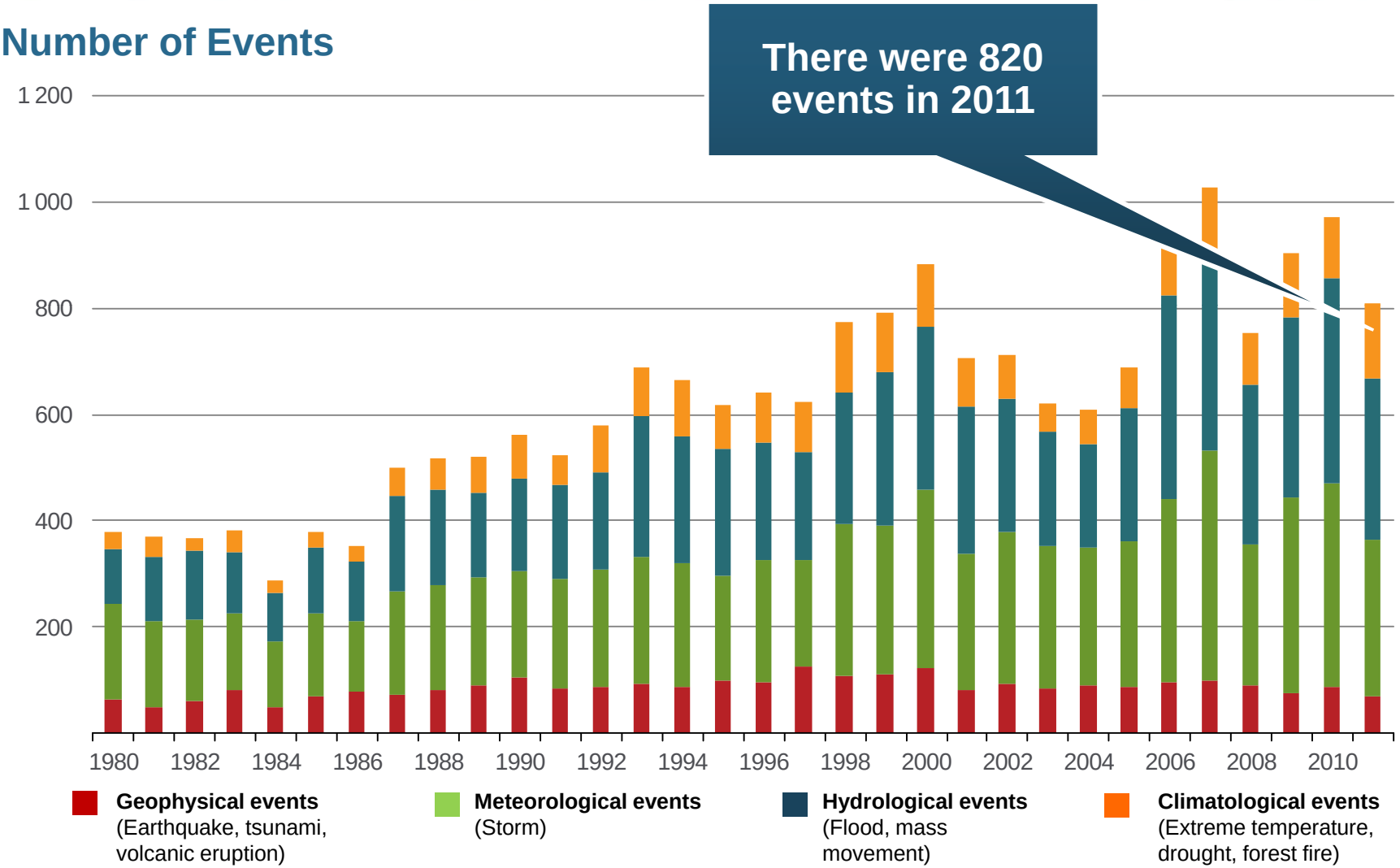
Number of Events

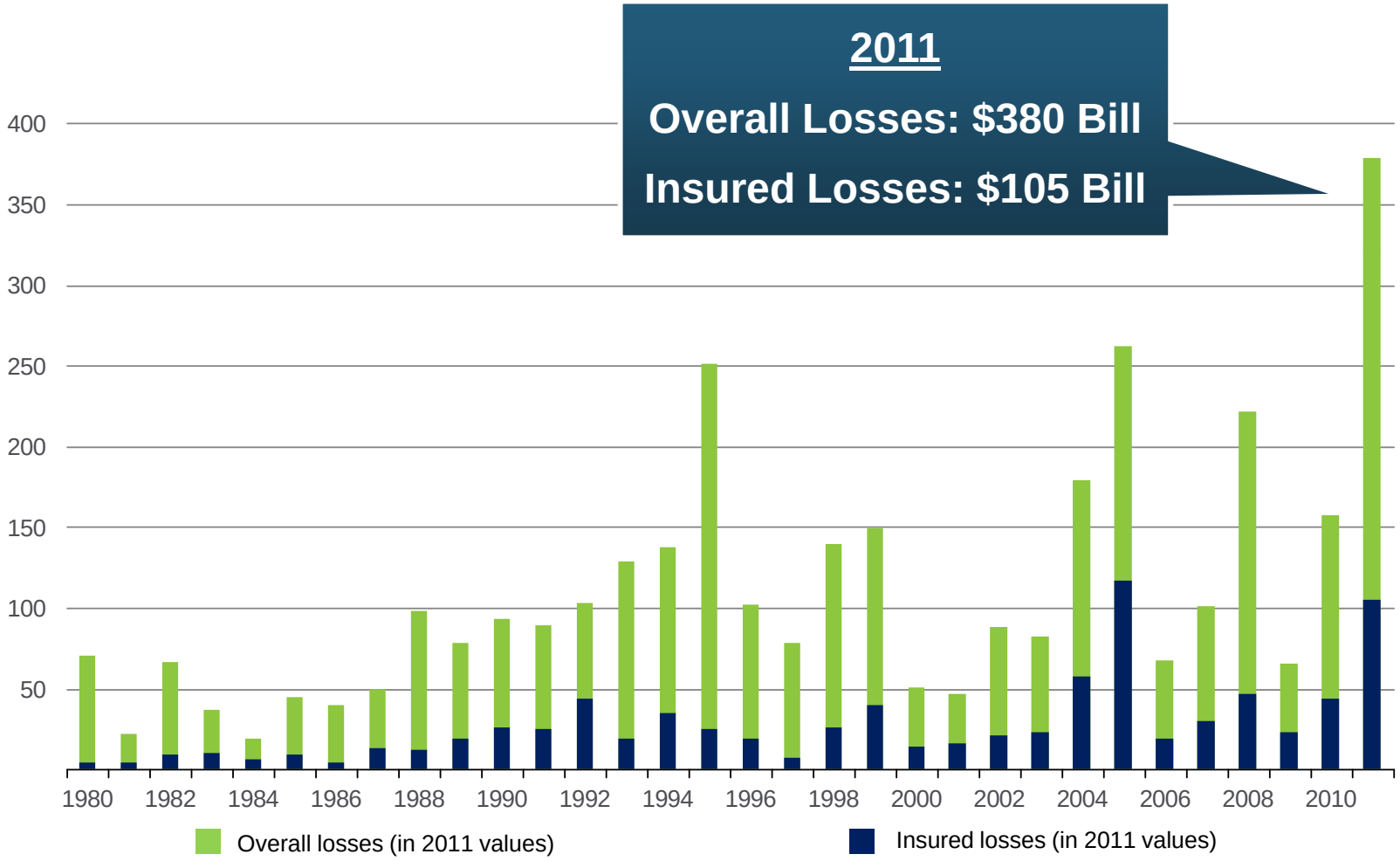


Source: MR NatCat*SERVICE*

Worldwide Natural Disasters 1980–2011, Overall and Insured Losses

INSURANCE INFORMATION INSTITUTE

(Insured Losses, 2011 Dollars, $ Billions)



Source: MR NatCat*SERVICE*

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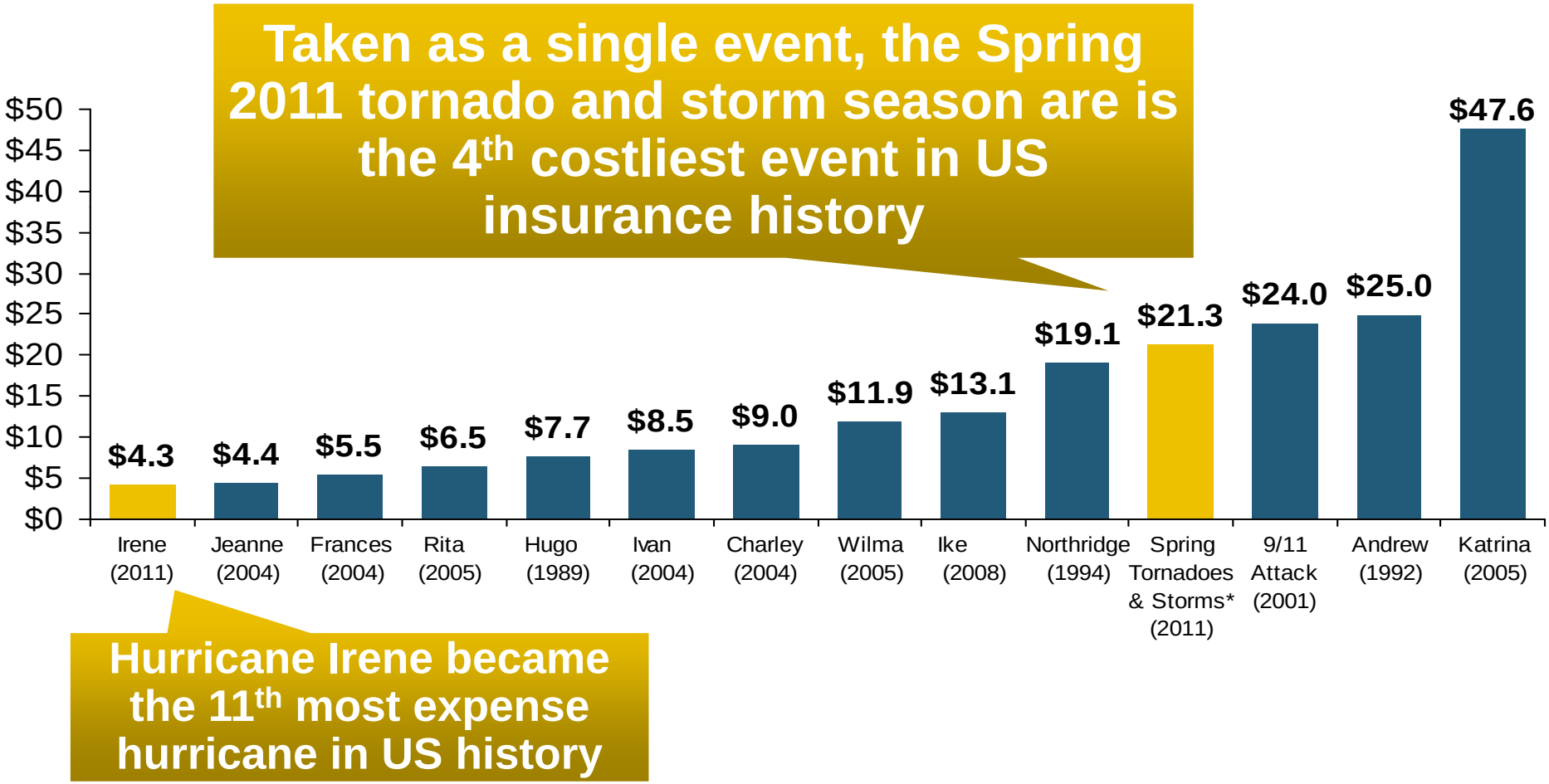
U.S. Insured Catastrophe Loss Update

2011 Was One of the Most Expensive Years on Record

Top 14 Most Costly Disasters in U.S. History

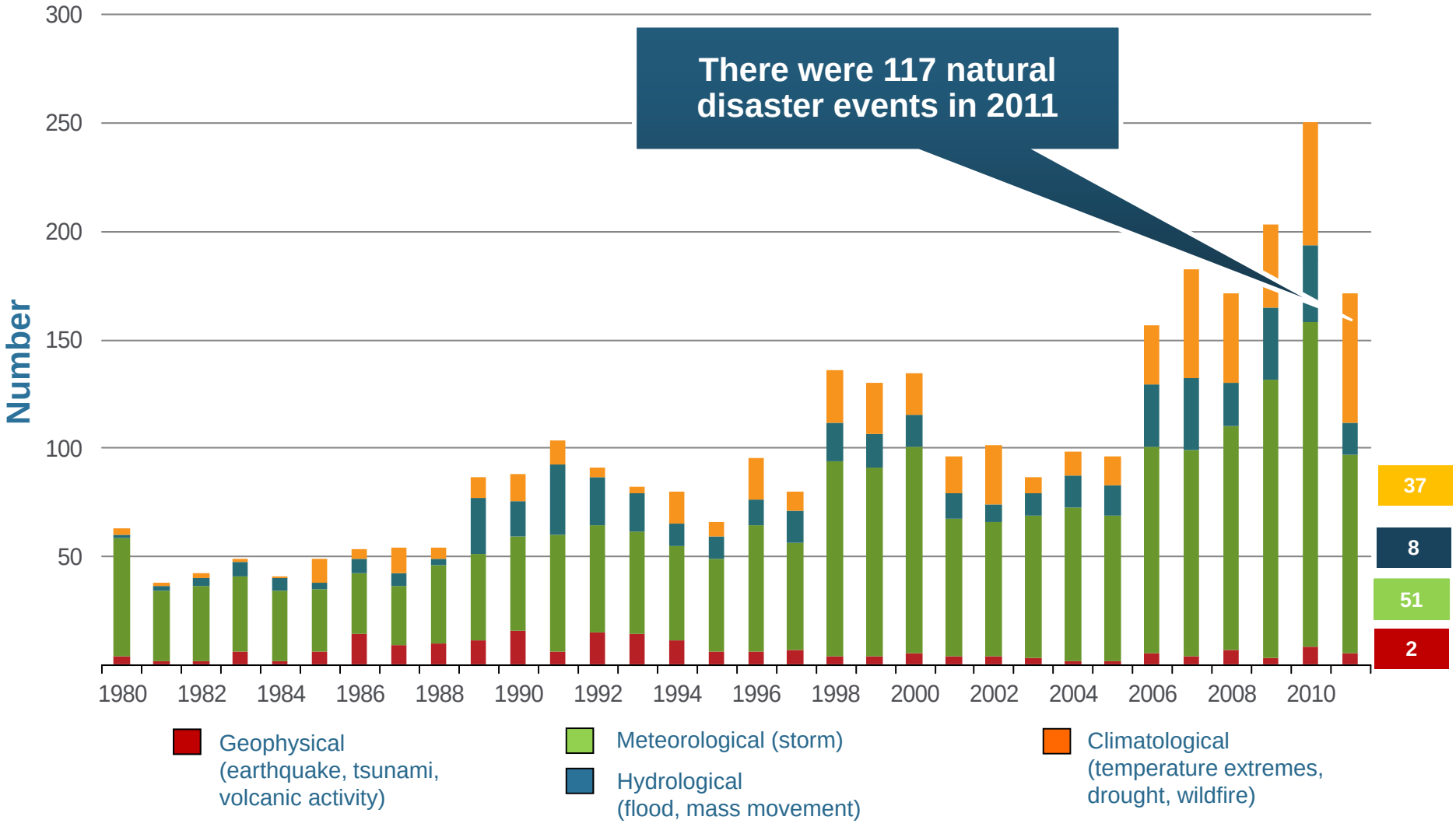
(Insured Losses, 2011 Dollars, $ Billions)



*Losses will actually be broken down into several "events" as determined by PCS. Includes losses for the period April 1 – June 30.
Sources: PCS; Insurance Information Institute inflation adjustments.

Natural Disasters in the United States, 1980 – 2011

Number of Events (Annual Totals 1980 – 2011)



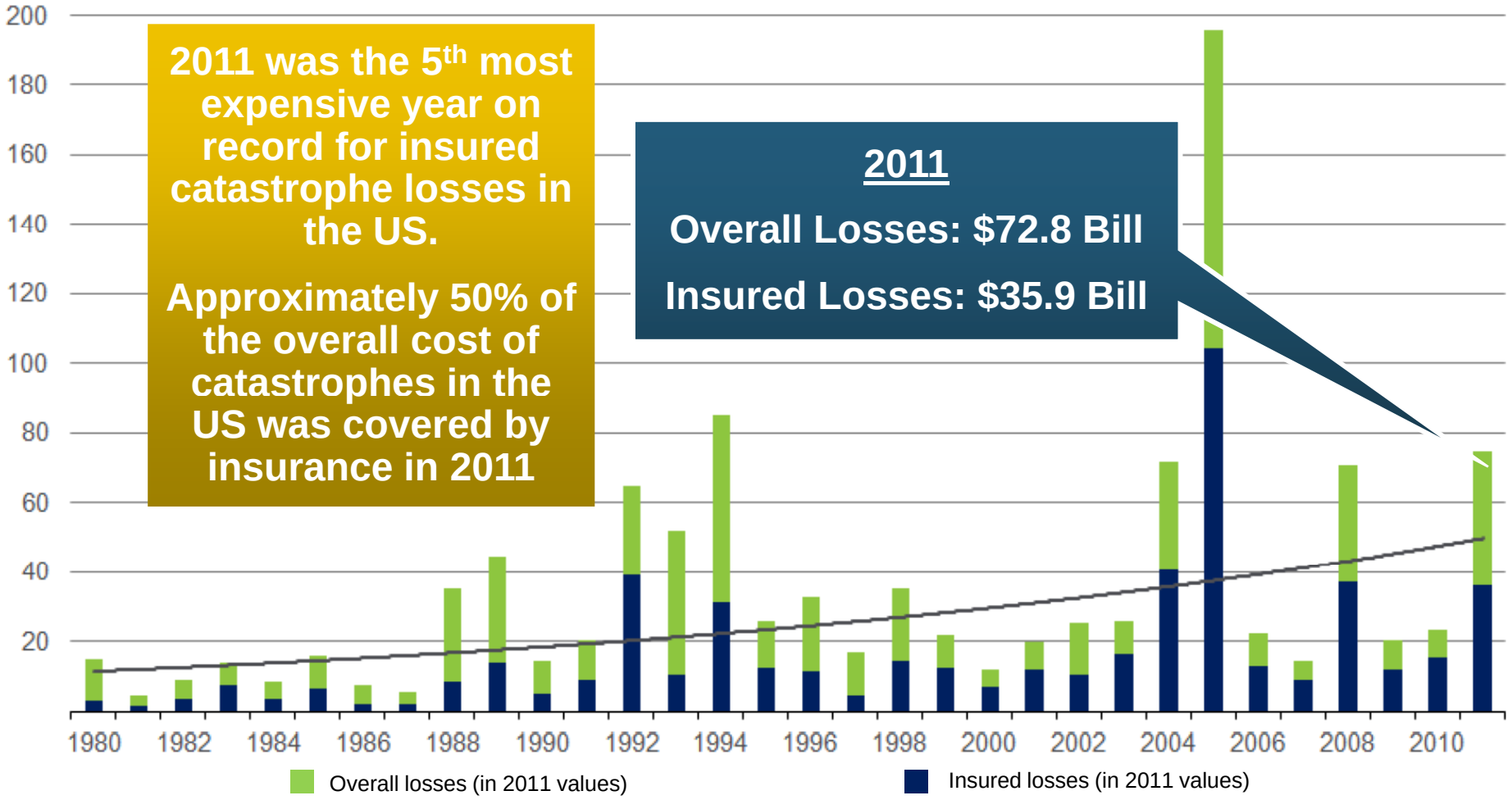
Source: MR NatCat*SERVICE*

Losses Due to Natural Disasters in the US, 1980–2011 (Overall & Insured Losses)

INSURANCE INFORMATION INSTITUTE

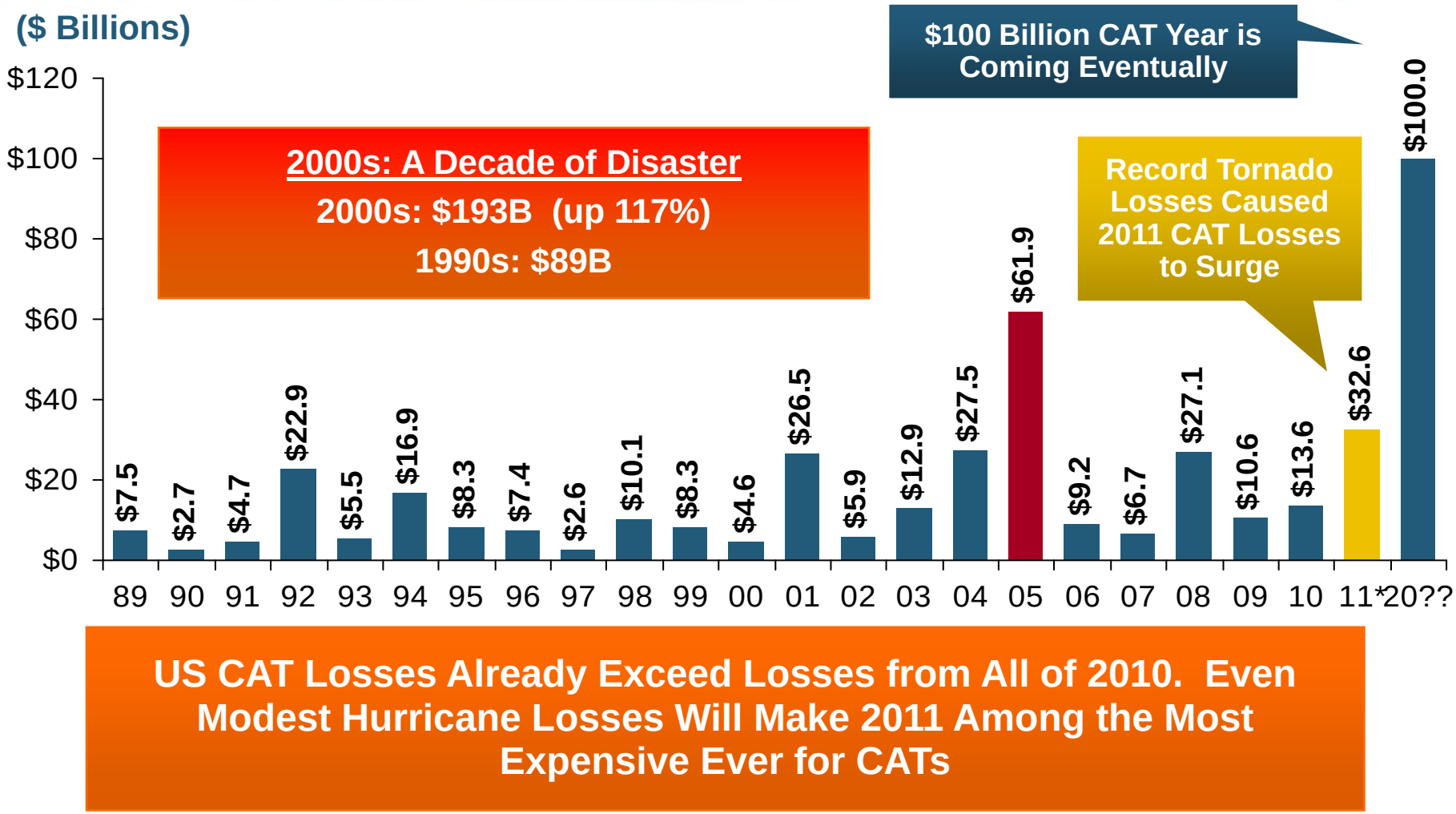
(Overall and Insured Losses)

(2011 Dollars, $ Billions)



Source: MR NatCat*SERVICE*

US Insured Catastrophe Losses



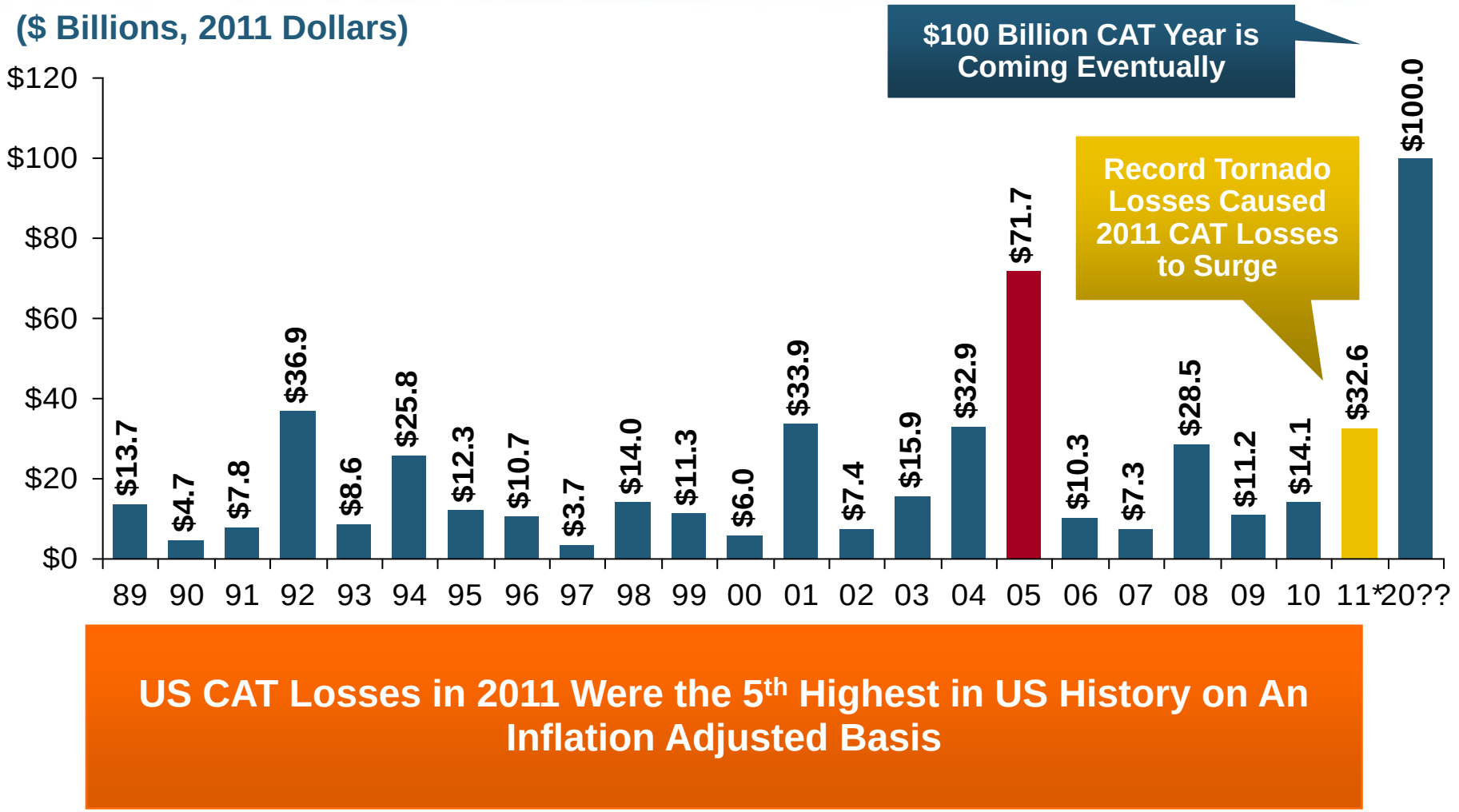
US CAT Losses Already Exceed Losses from All of 2010. Even Modest Hurricane Losses Will Make 2011 Among the Most Expensive Ever for CATs

*PCS estimate through Sept. 30, 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.

US Insured Catastrophe Losses



US CAT Losses in 2011 Were the 5th Highest in US History on An Inflation Adjusted Basis

*PCS estimate through Sept. 30, 2011.

Note: 2001 figure includes $20.3B for 9/11 losses reported through 12/31/01 ($25.9B 2011 dollars). Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = $12.2B ($15.6B in 2011 dollars.)

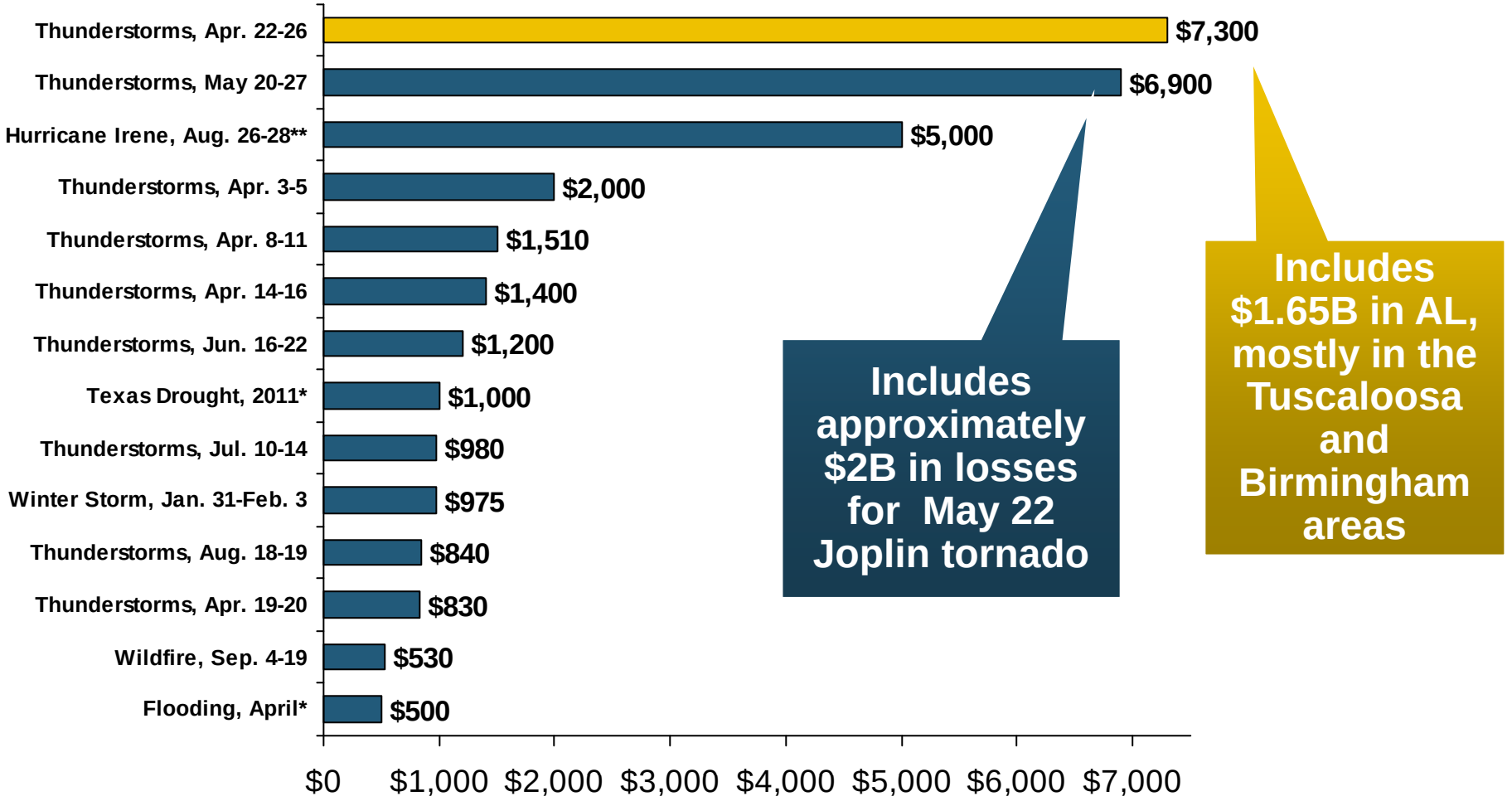
Sources: Property Claims Service/ISO; Insurance Information Institute.

Natural Disaster Losses in the United States: 2011

As of Jan. 1, 2012	Number of Events	Fatalities	Estimated Overall Losses (US $m)	Estimated Insured Losses (US $m)
Severe Thunderstorm	69	617	46,548	25,813
Winter Storm	9	67	2,708	2,017
Flood	14	20	2,705	535
Earthquake	5	1	257	50
Tropical Cyclone	3	0	10,700	5,510
Wildfire	58	15	1,922	855
Other	2	33	8,000	1,000

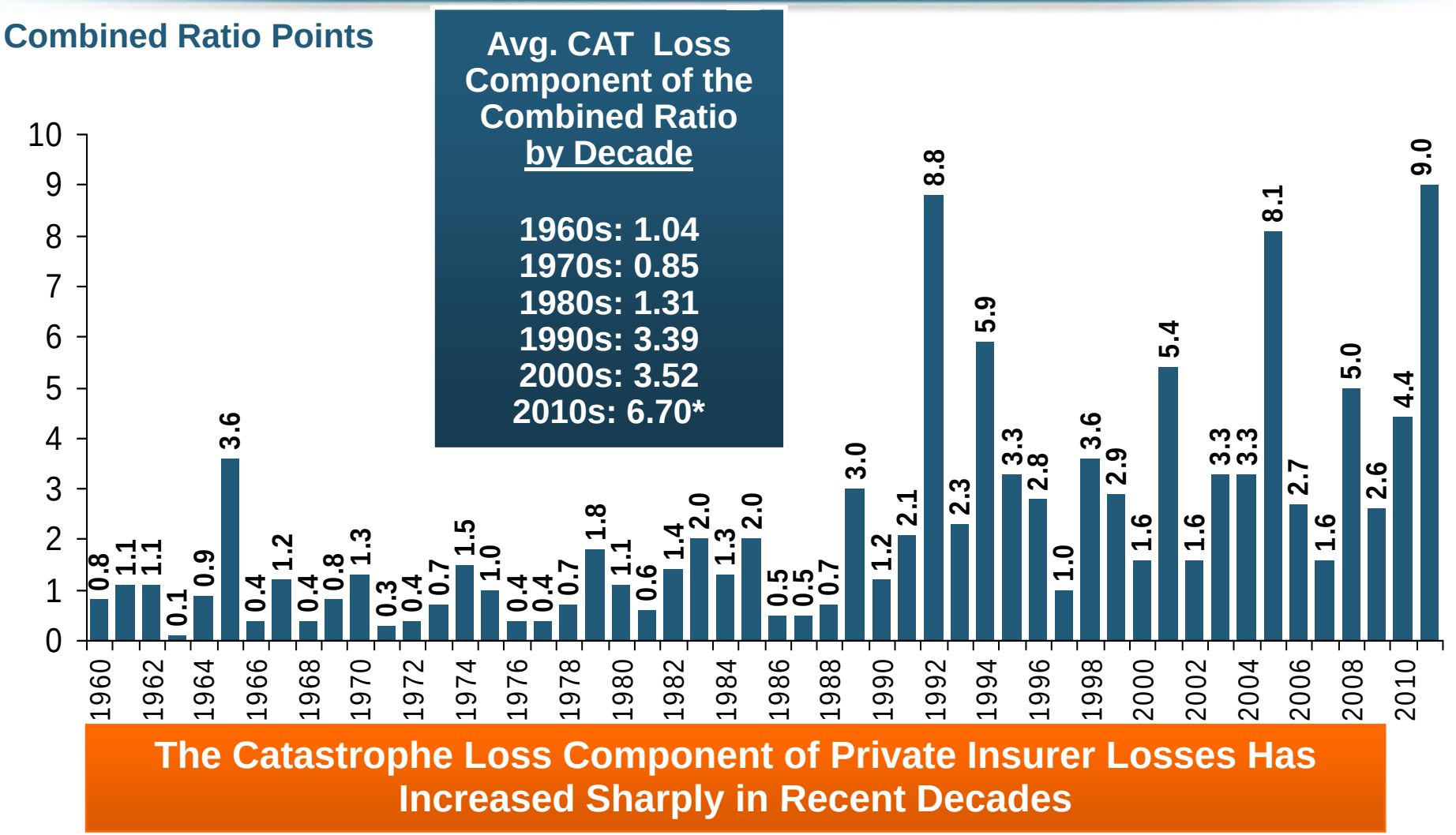
Source: MR NatCat*SERVICE*

2011's Most Expensive Catastrophes, Insured Losses



**Includes $700 million in flood losses insured through the National Flood Insurance Program.
Source: PCS except as noted by "*" which are sourced to Munich Re; Insurance Information Institute.

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



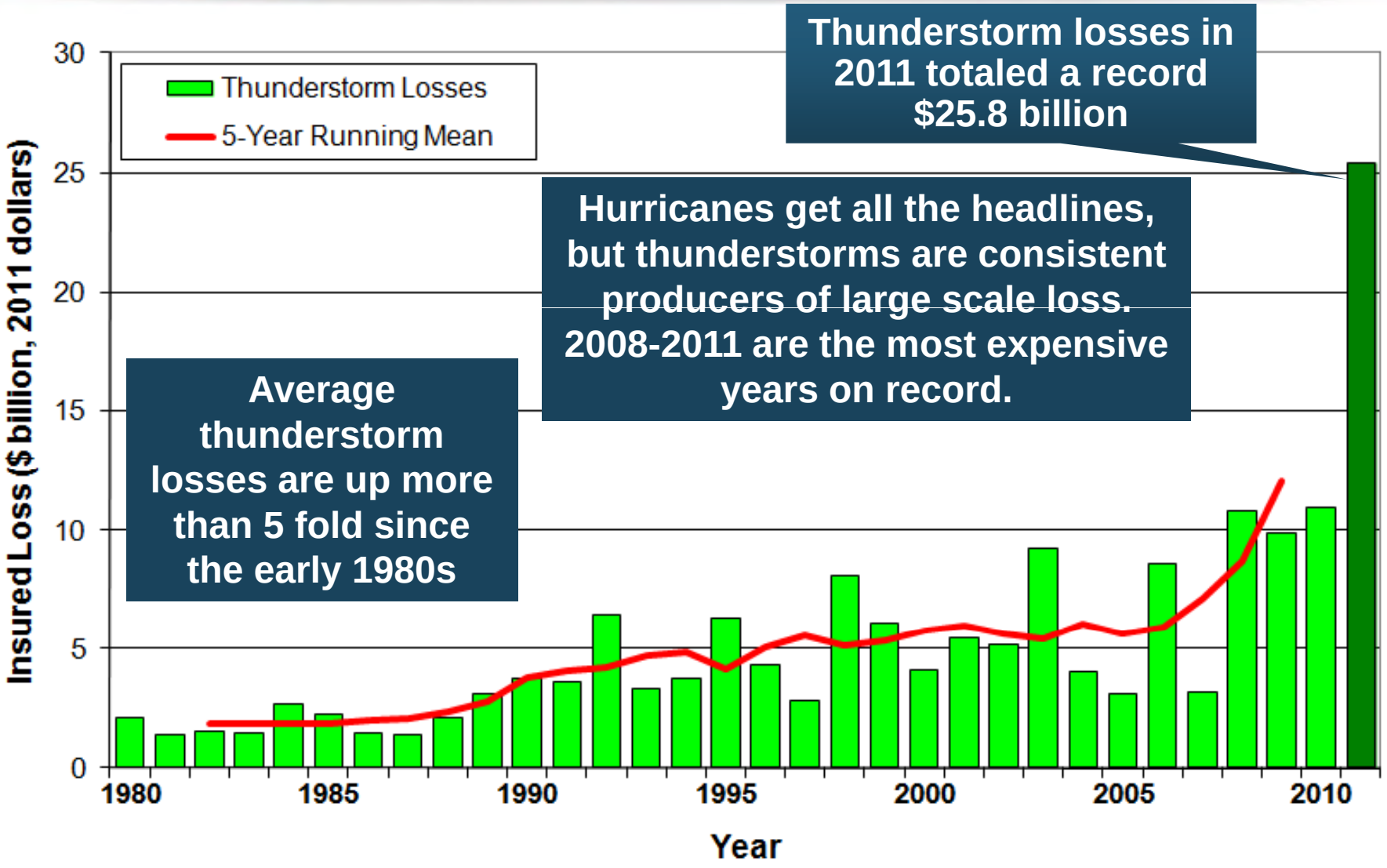
The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades

*Insurance Information Institute estimates for 2010 and 2011 based on A.M. Best data.

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.

U.S. Thunderstorm Loss Trends, 1980 – 2011



Source: Property Claims Service, MR NatCat*SERVICE*

U.S. Winter Storm Loss Trends, 1980 – 2011

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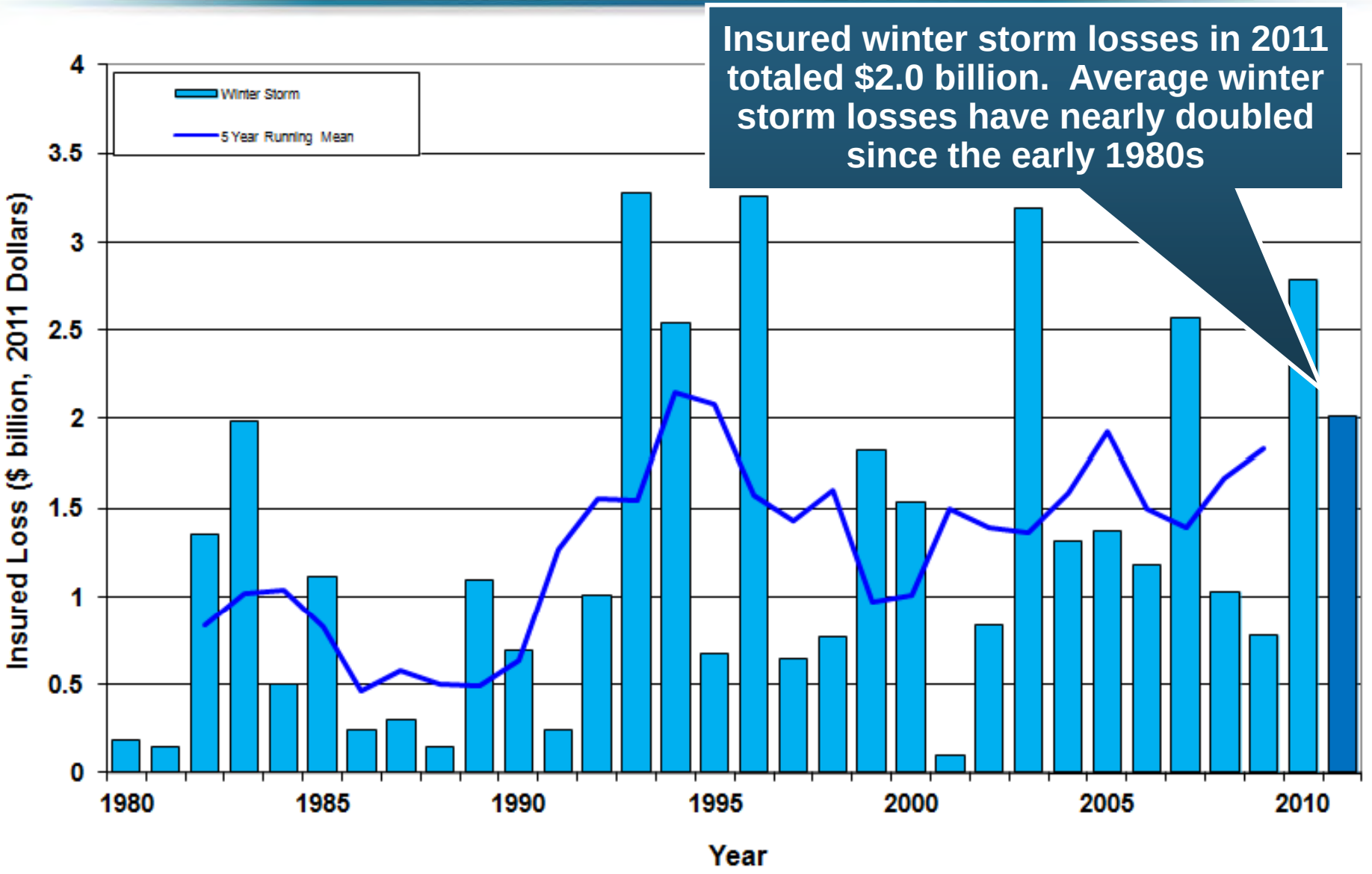

Source: Property Claims Service, MR NatCat*SERVICE*

U.S. Acreage Burned by Wildfires, 1980 – 2011

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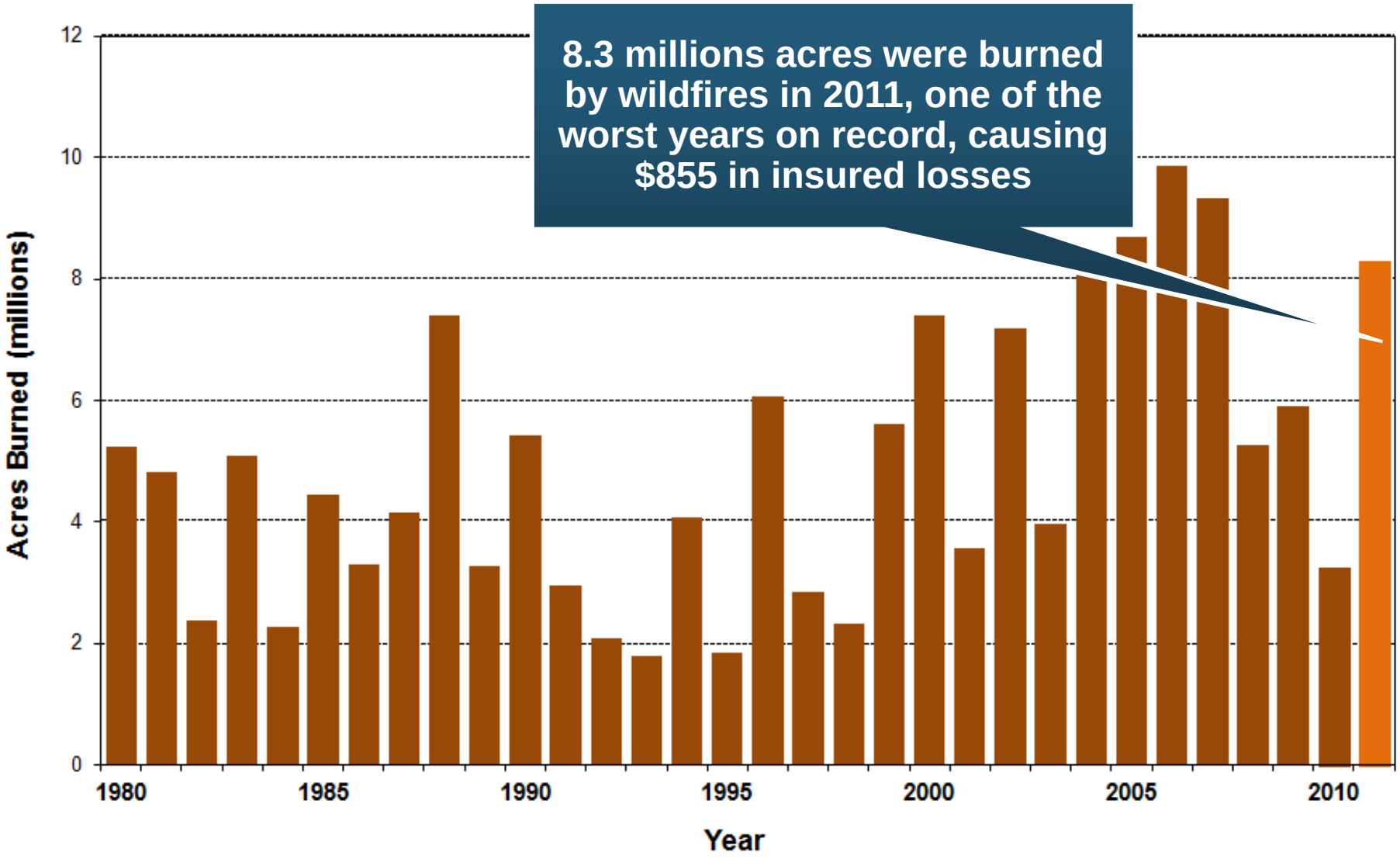
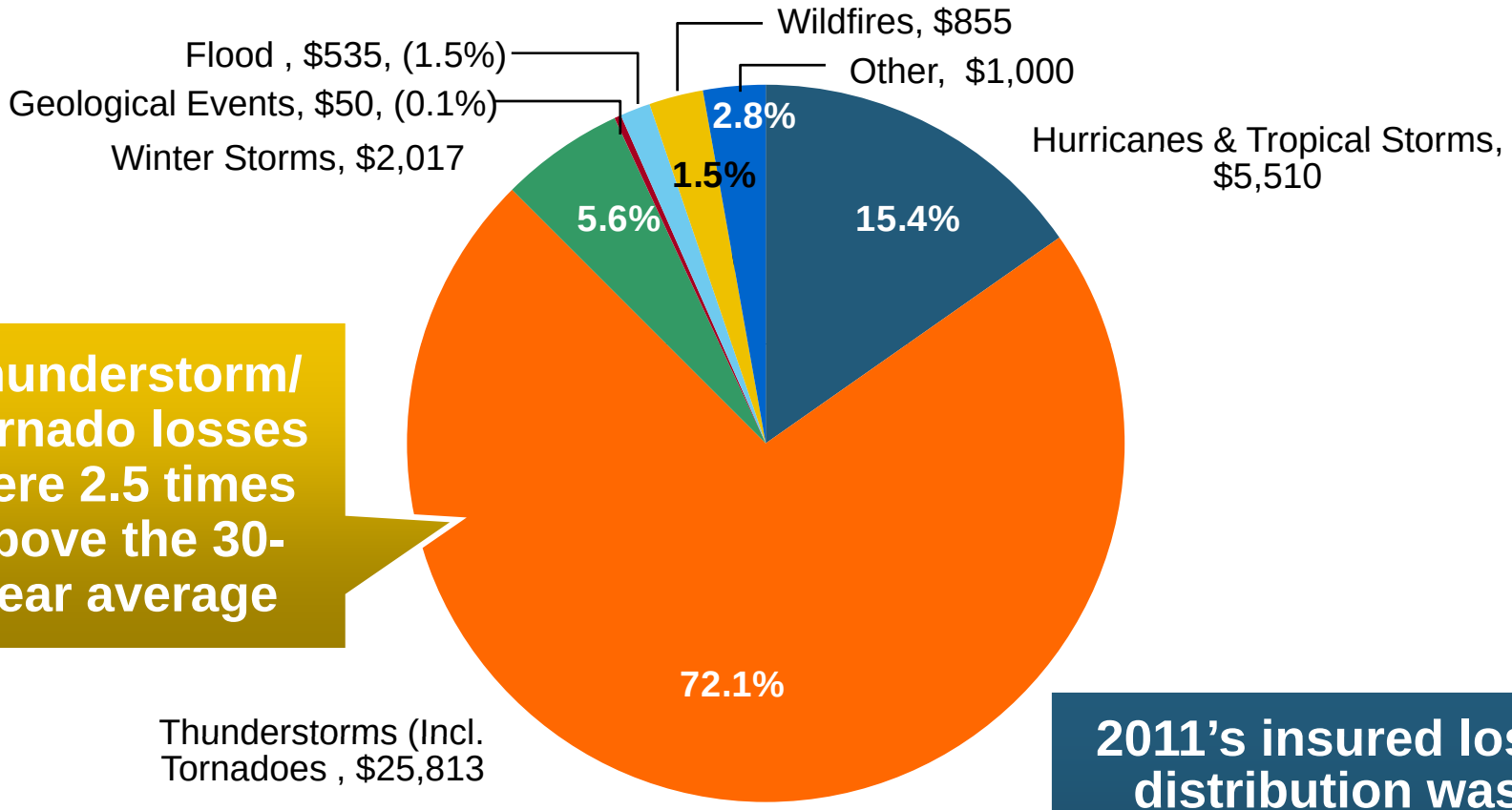


Source: National Forest Service, MR NatCat*SERVICE*

Notable Wildfires in 2011

- Worst wildfire year on record in Texas due to persistent drought.
- **Spring:** Over 3 million acres burned in west Texas from 12 major seats of fire. Over 200 homes and businesses destroyed, $50 million insured loss.
- **September:** Bastrop County Complex Fire near San Antonio destroys over 1,600 homes, insured loss of $530 million.

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

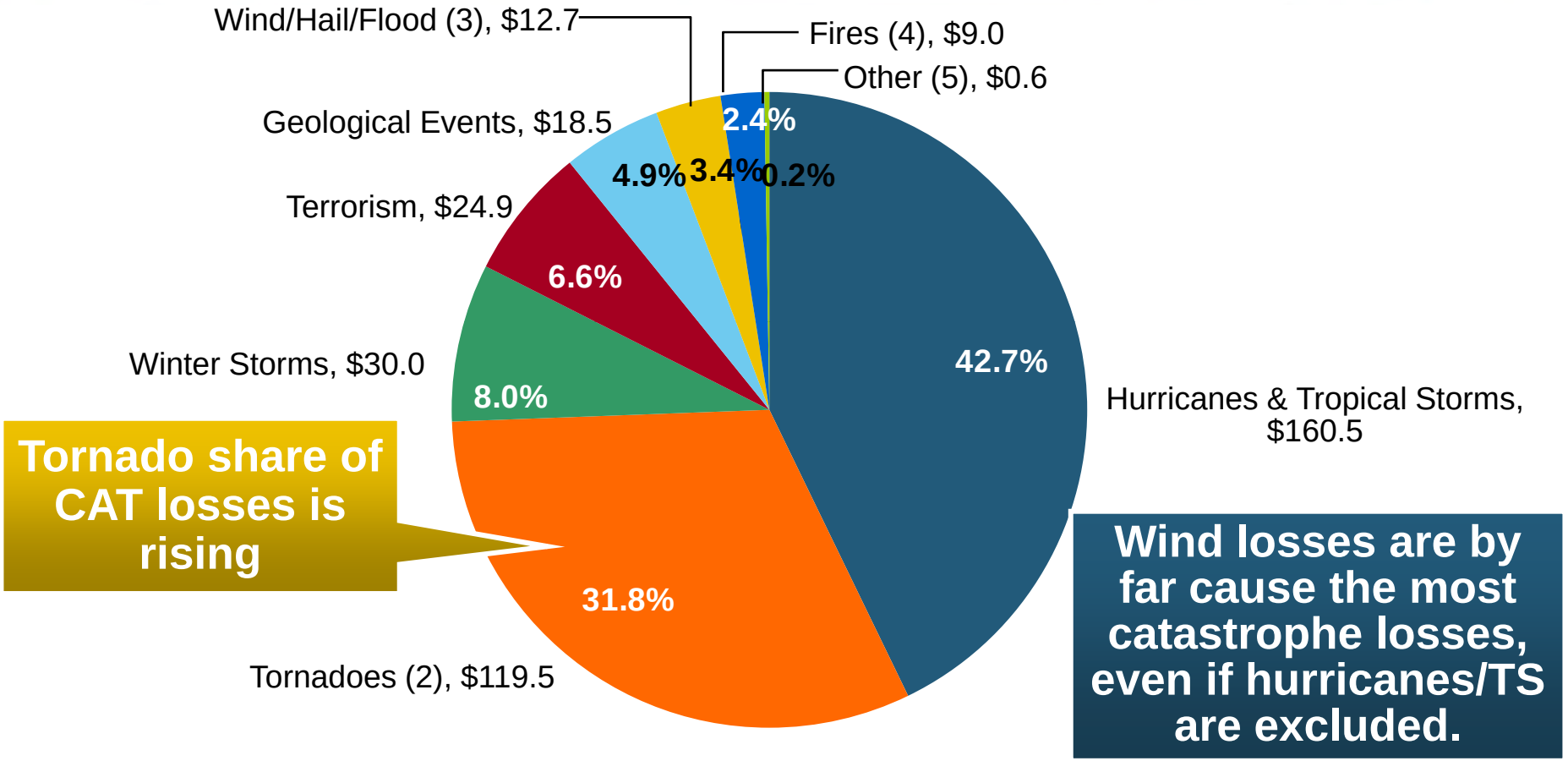


Thunderstorm/ Tornado losses were 2.5 times above the 30-year average

2011's insured loss distribution was unusual with tornado and thunderstorm accounting for the vast majority of loss

Source: ISO's Property Claim Services Unit, Munich Re; Insurance Information Institute.

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.

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2011: Nowhere to Run, Nowhere to Hide

Most of the Country East of the Rockies Suffered Severe Weather in 2011, Impacting Most Insurers

Number of Federal Disaster Declarations, 1953-2011*

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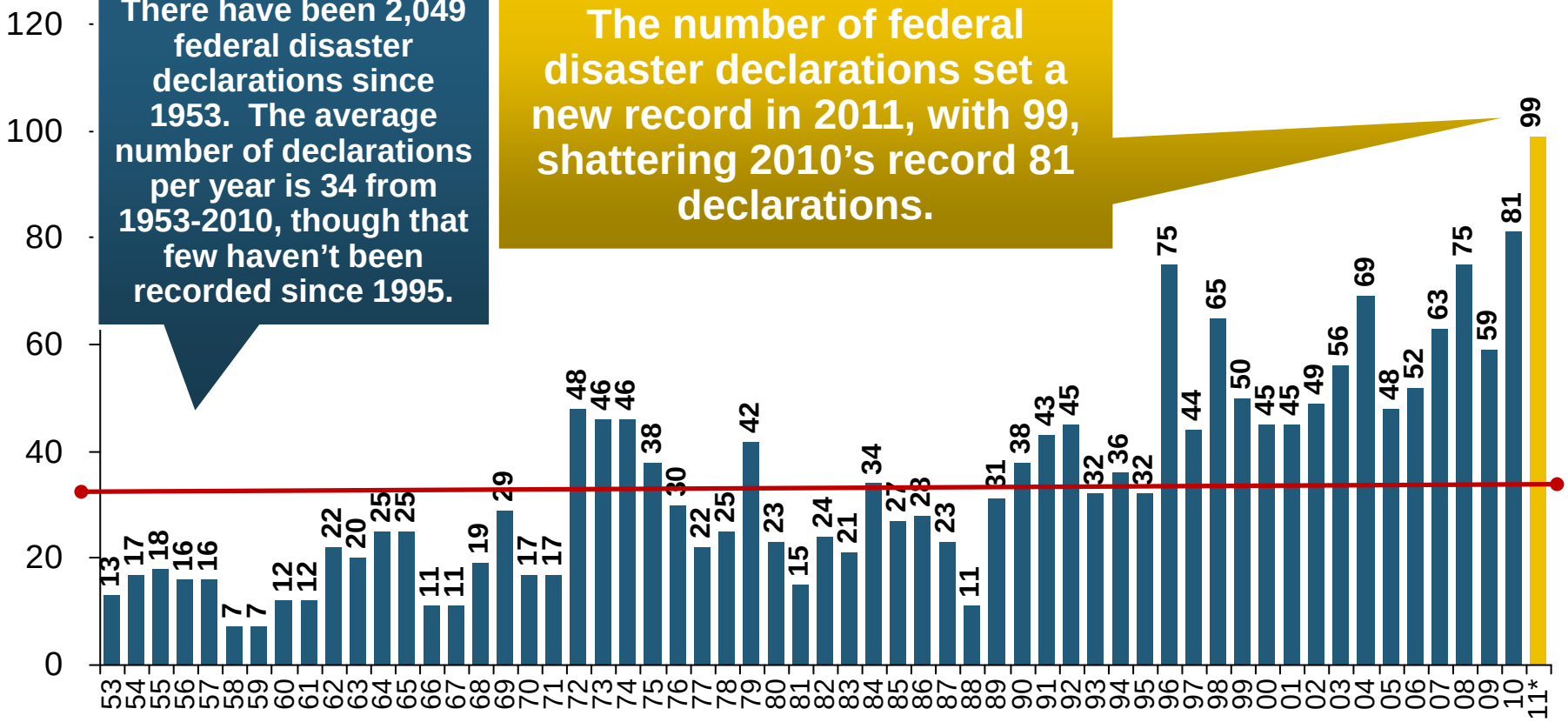
There have been 2,049 federal disaster declarations since 1953. The average number of declarations per year is 34 from 1953-2010, though that few haven't been recorded since 1995.

The number of federal disaster declarations set a new record in 2011, with 99, shattering 2010's record 81 declarations.

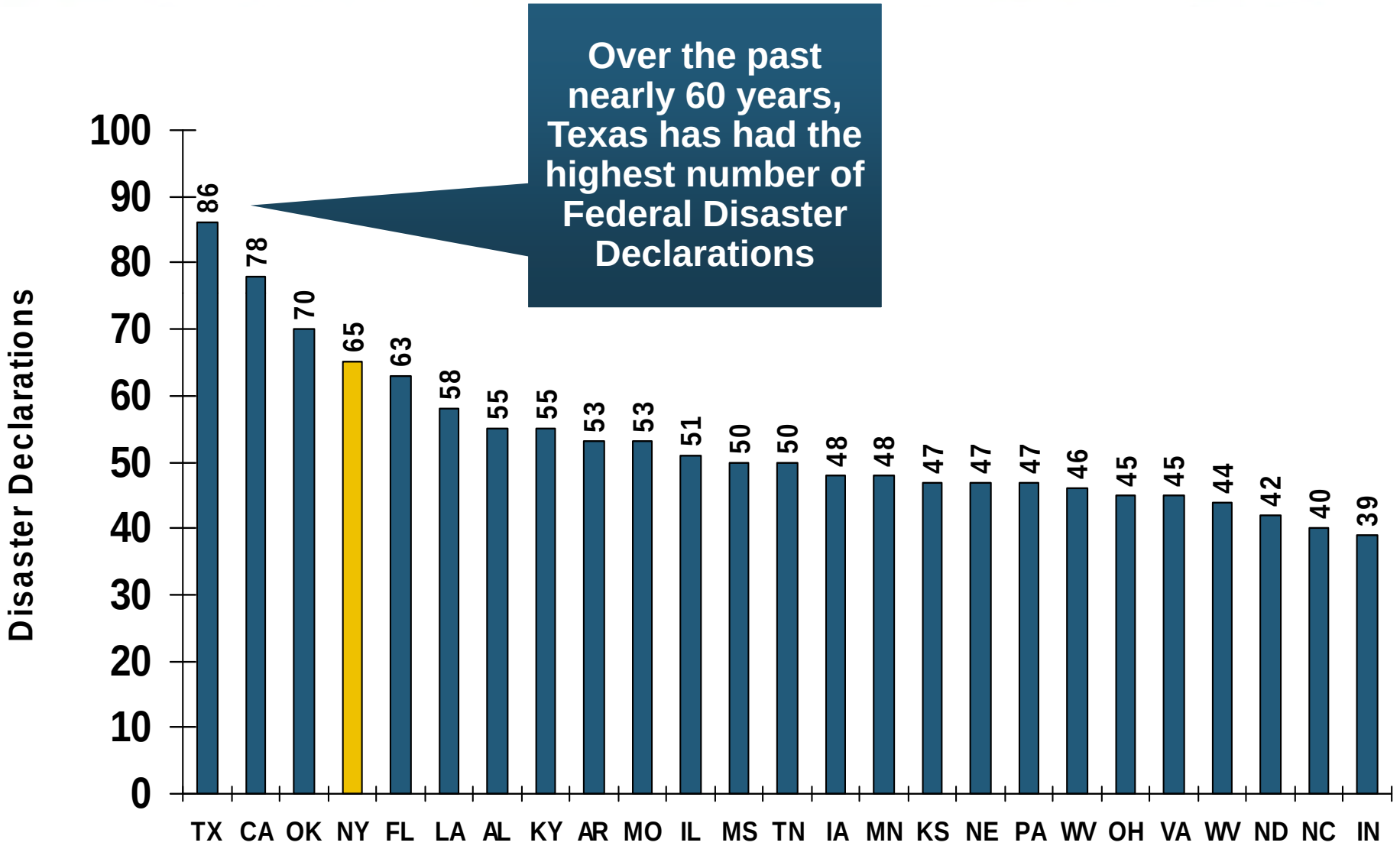


The Number of Federal Disaster Declarations Is Rising and Set a New Record in 2011

*Through December 31, 2011.

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

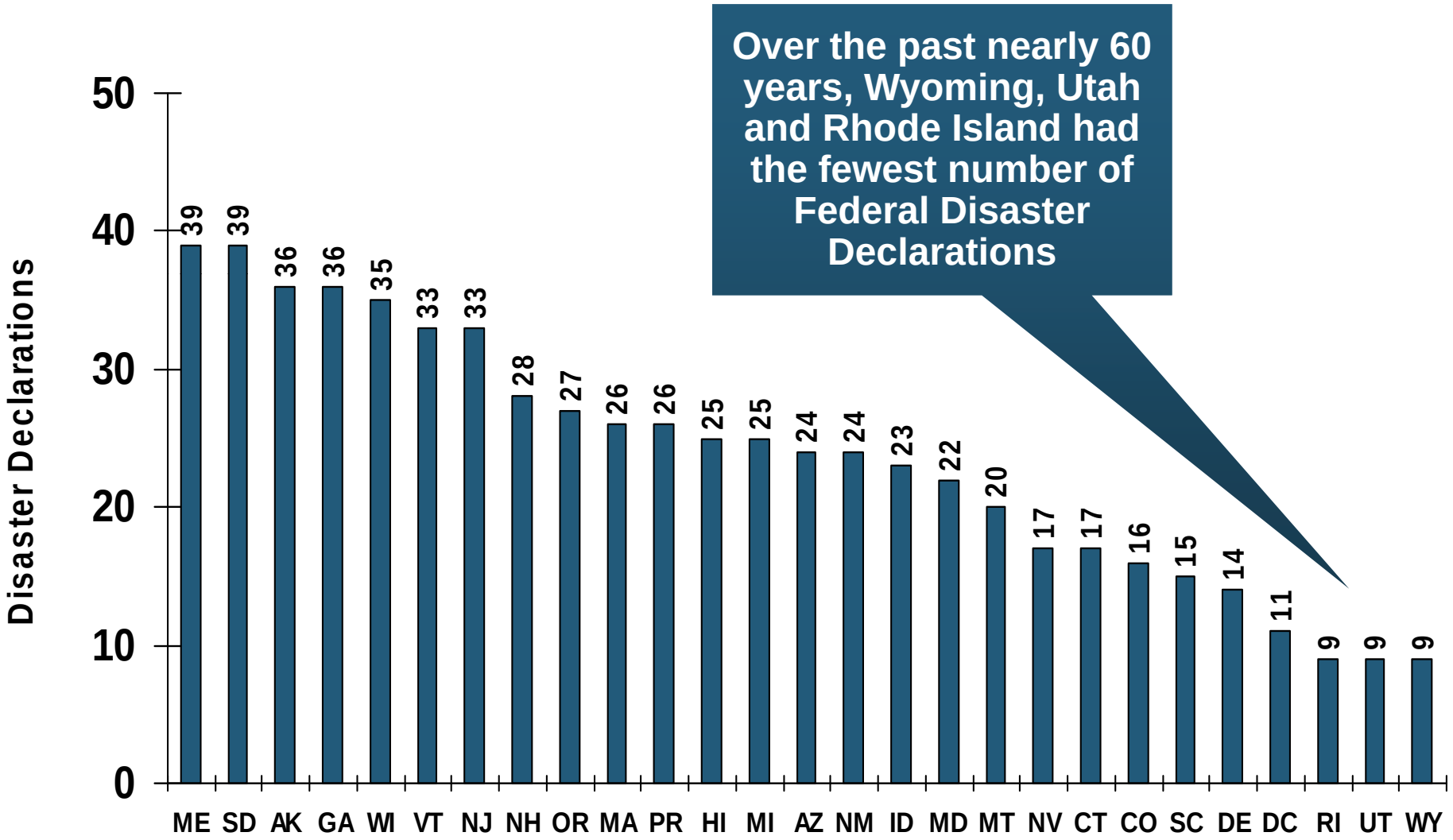
Federal Disasters Declarations by State, 1953 – 2011: Highest 25 States*



*Through Dec. 31, 2011.

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

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



*Through Dec. 31. Includes Puerto Rico and the District of Columbia.

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

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SPRING 2011 TORNADO & SEVERE STORM OUTBREAK

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

Number of Tornadoes and Related Deaths, 1990 – 2011

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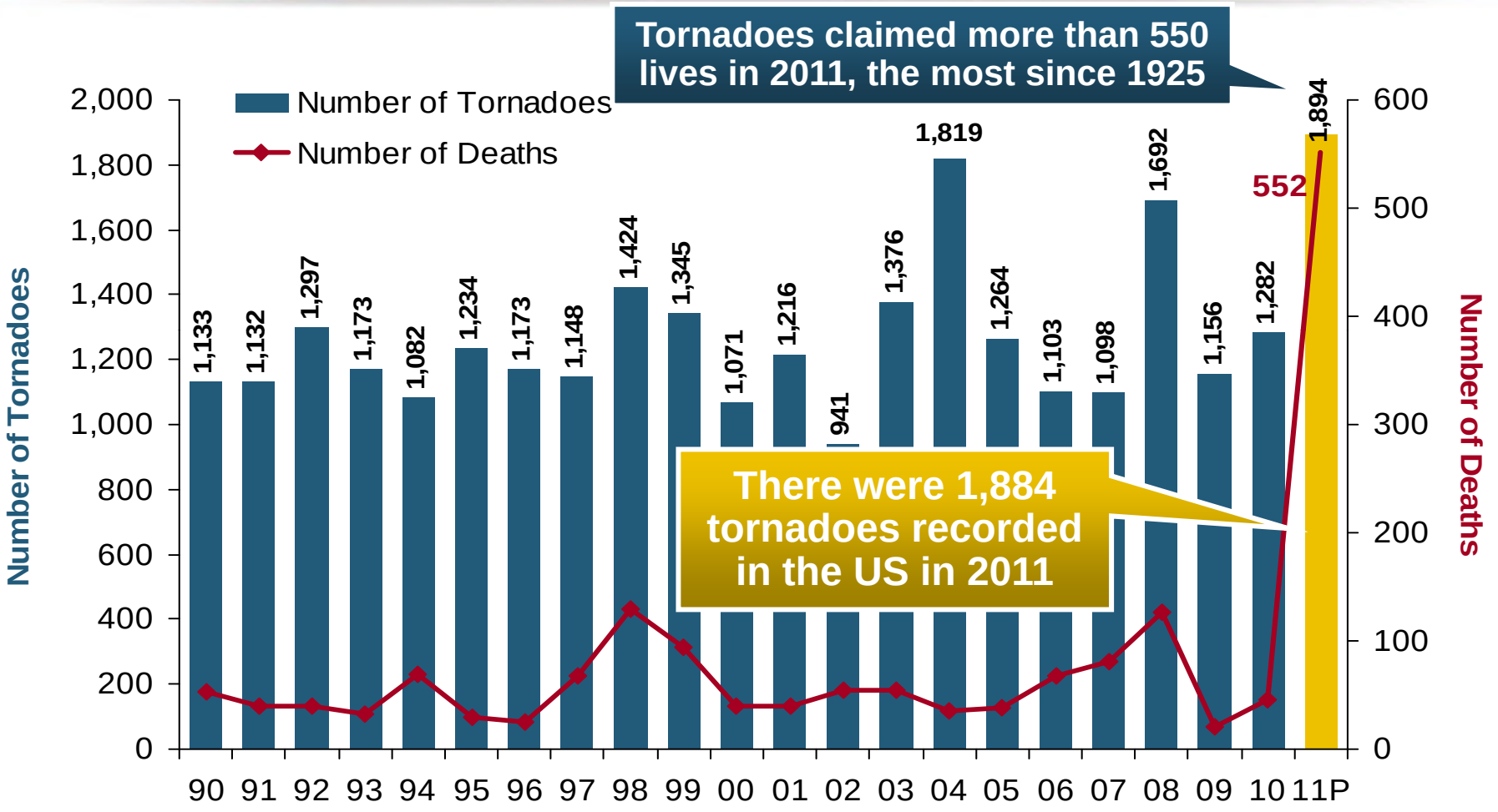
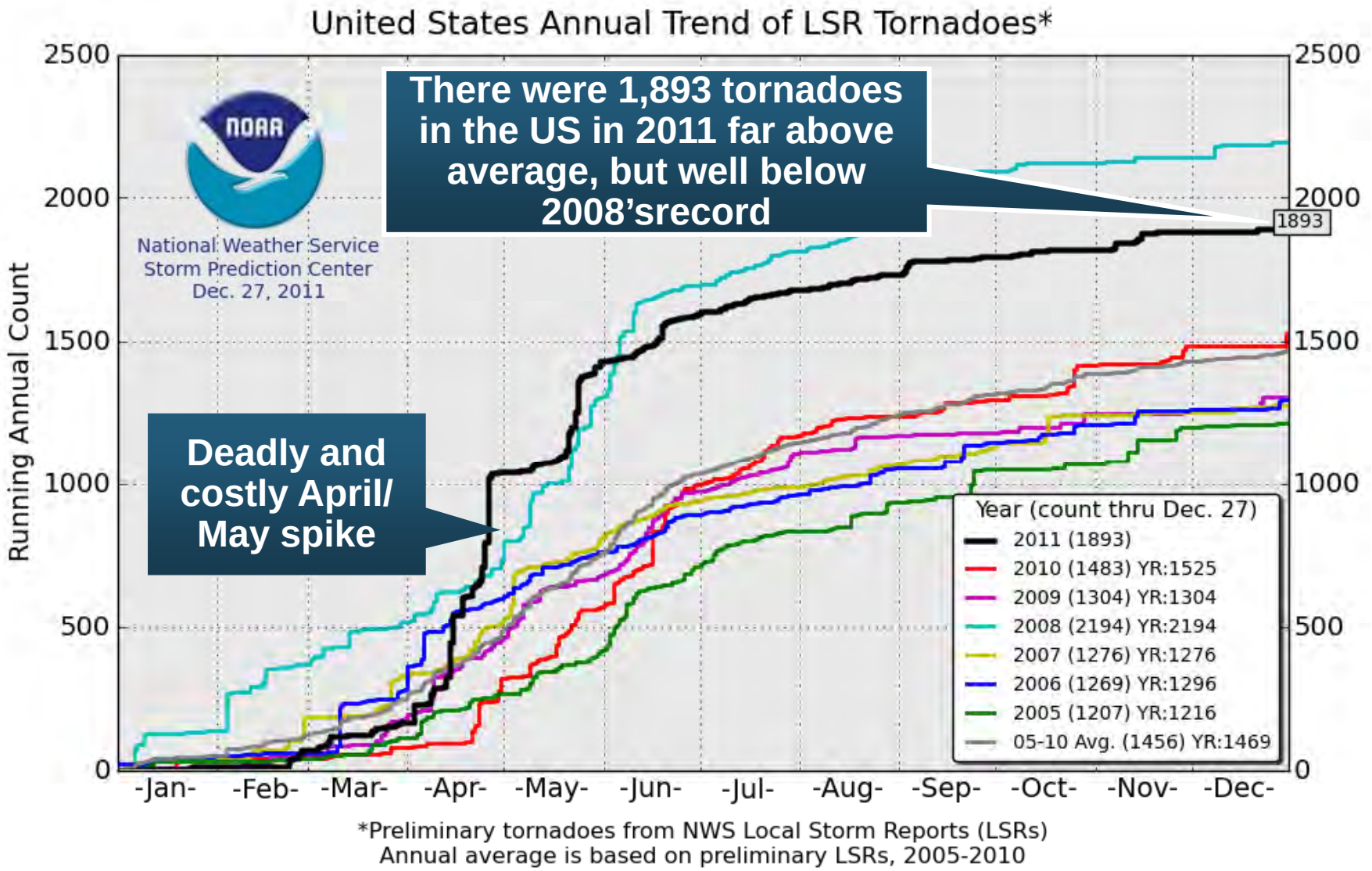


Insurers Expect to Pay at Least $2 Billion Each for the April 2011 Tornadoes in Alabama and a Similar Amount for the May Storms in Joplin

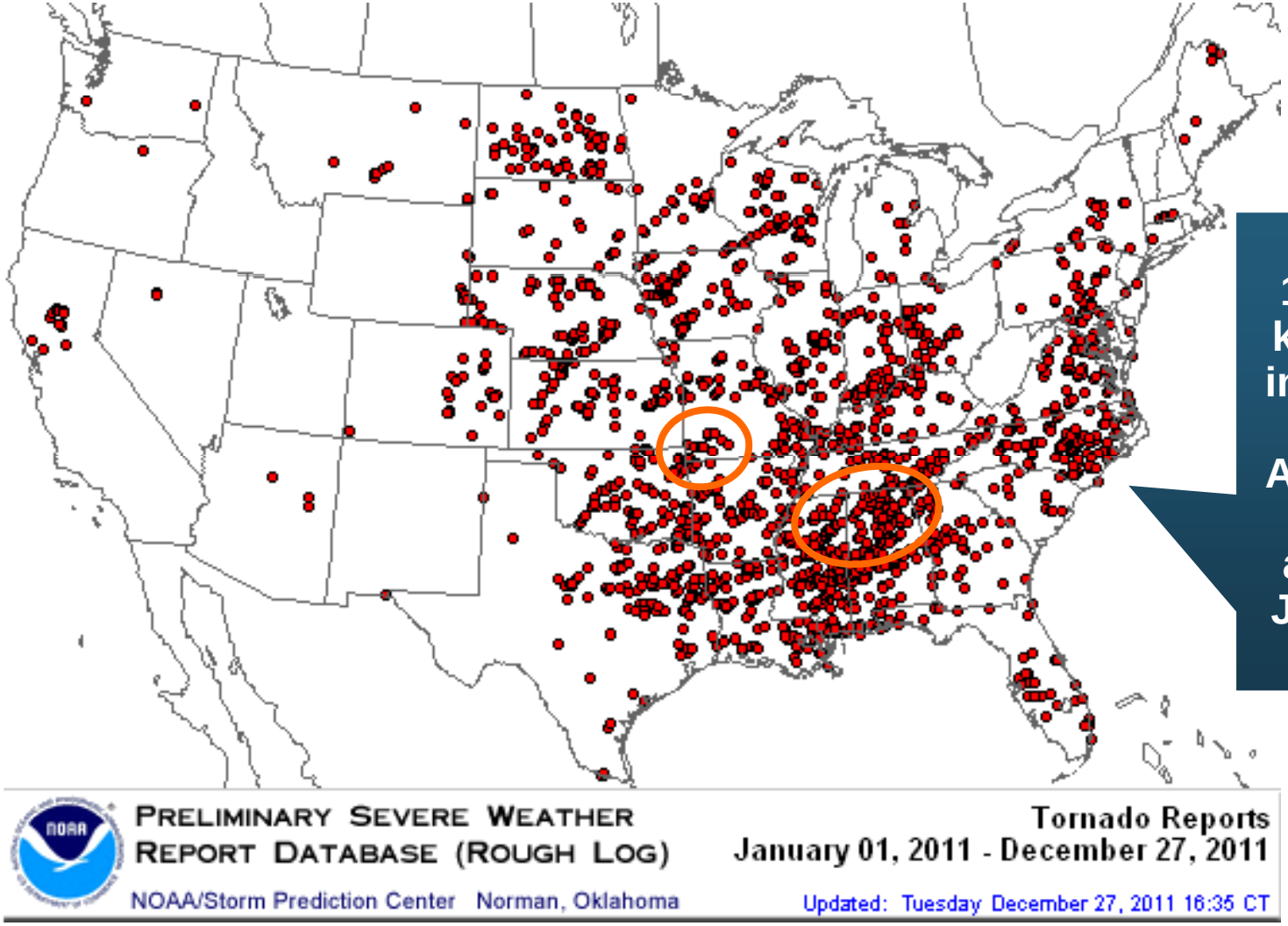
Source: U.S. Department of Commerce, Storm Prediction Center, National Weather Service.

U.S. Tornado Count, 2005-2011



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

Location of Tornadoes in the US, 2011



1,894 tornadoes killed 552 people in 2011, 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#

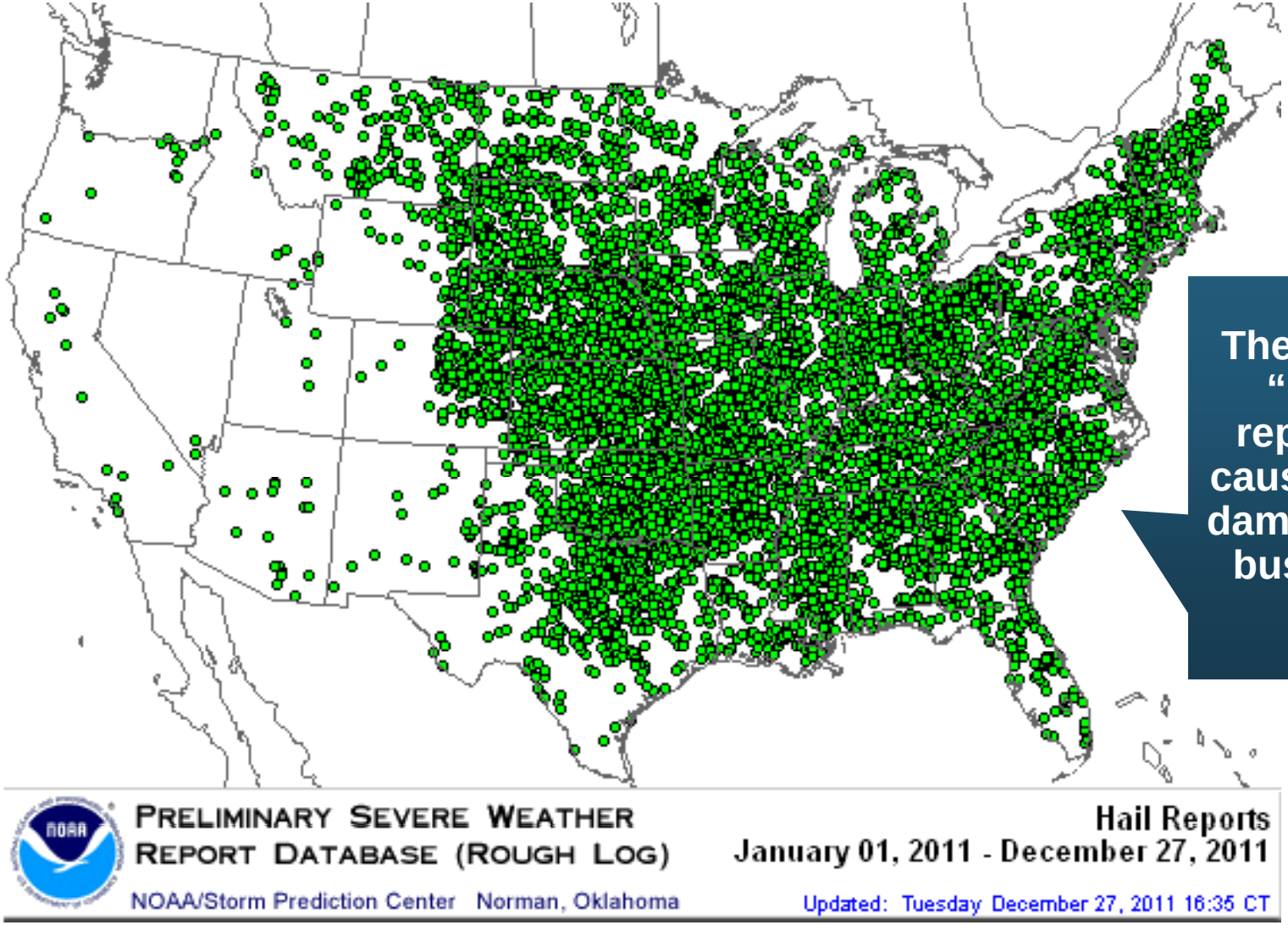
Insurers Making a Difference in Impacted Communities

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

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

Source: Insurance Information Institute

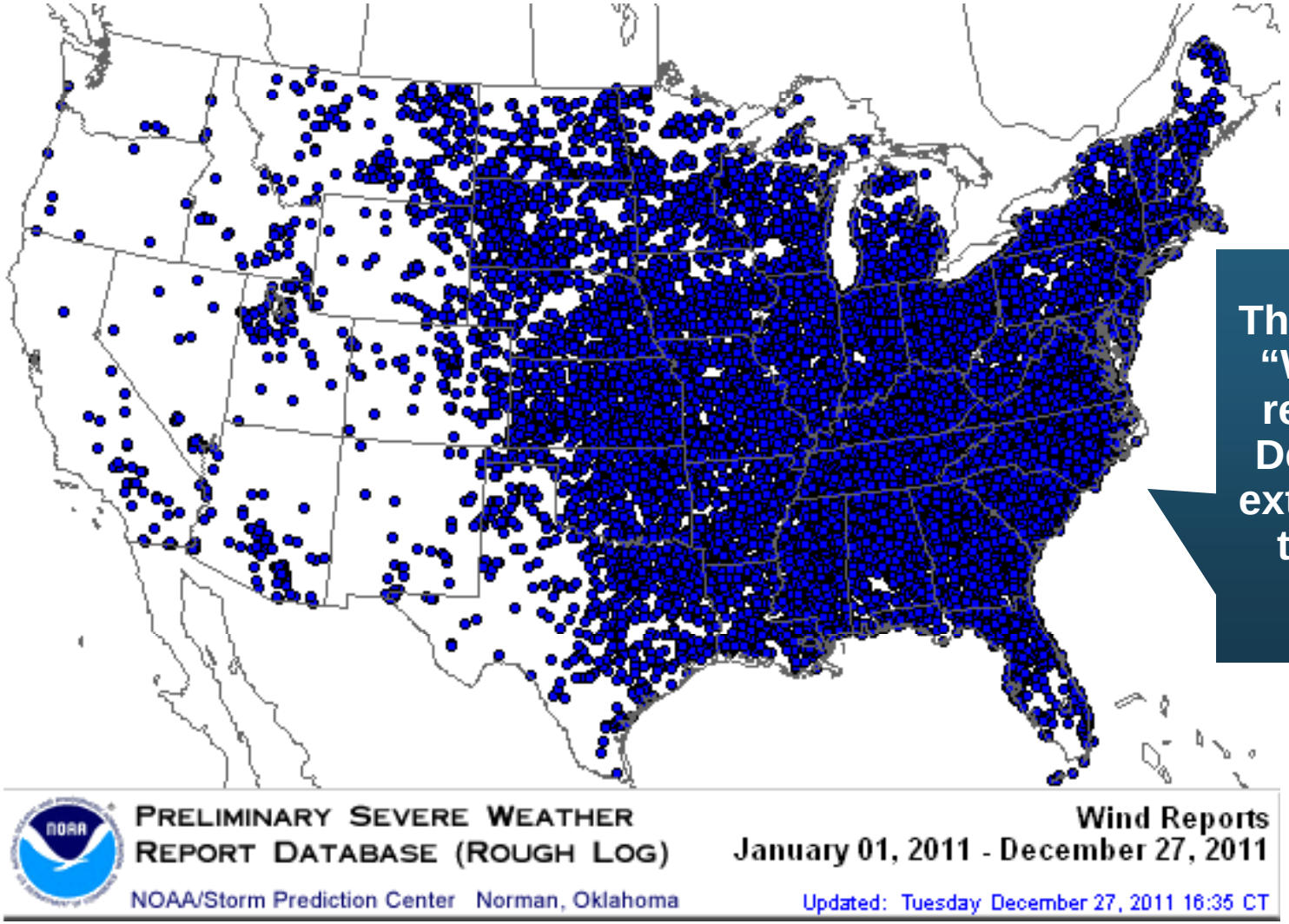
Location of Large Hail Reports in the US, 2011



There were 9,417 "Large Hail" reports in 2011, 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#

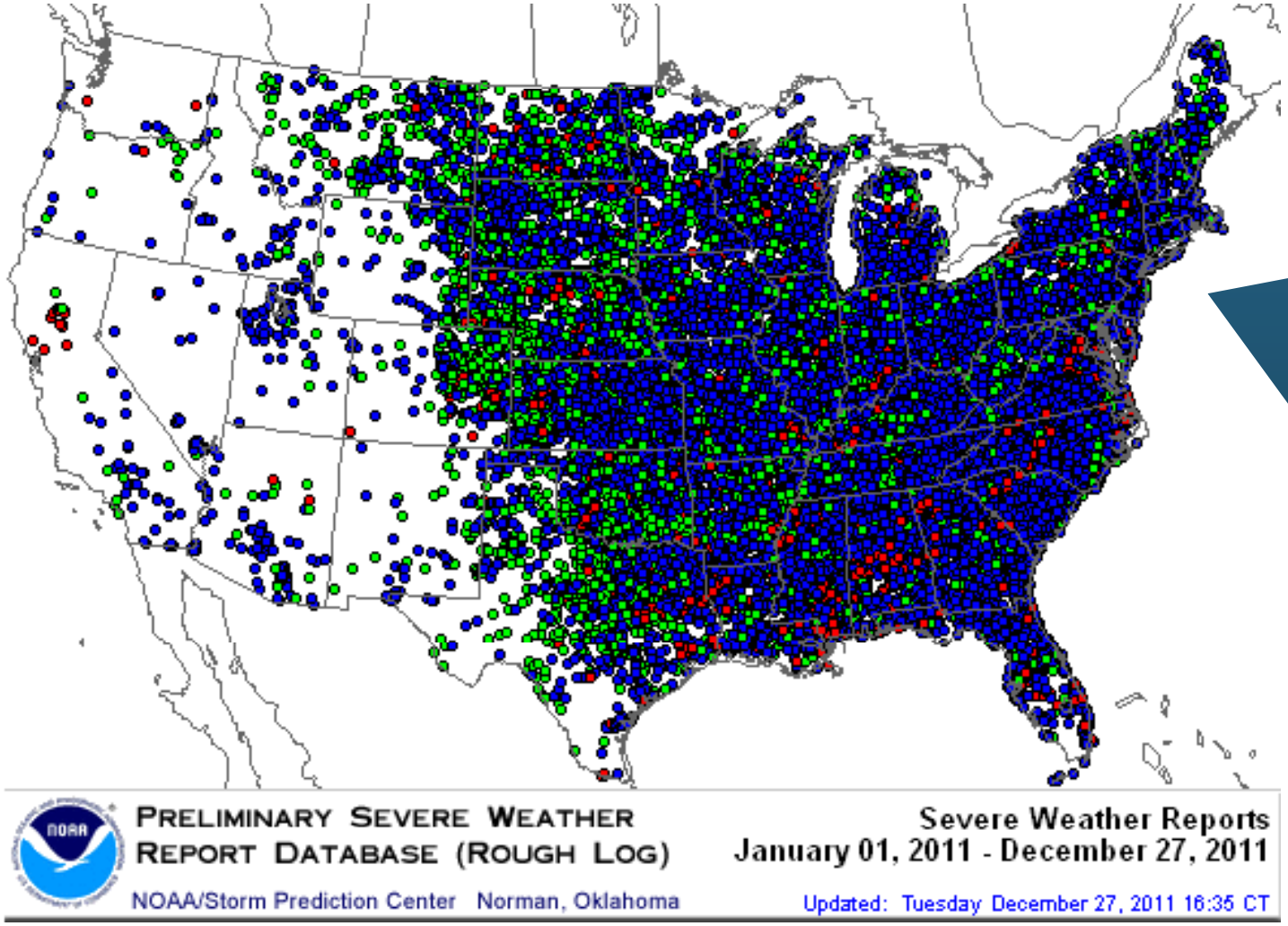
Location of Wind Damage Reports in the US, 2011



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

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

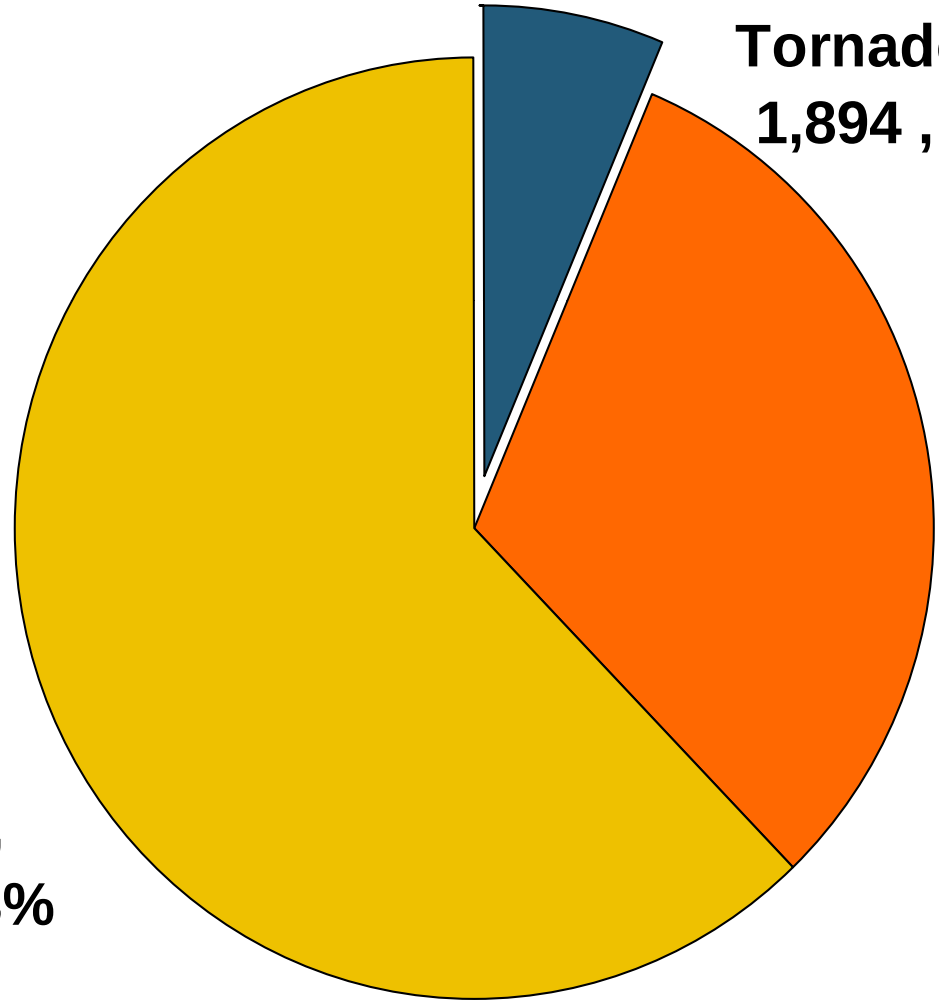
Severe Weather Reports, 2011



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

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, 2011



Tornadoes accounted for just 6% of all Severe Weather Reports but more than 550 deaths in 2011, the most in 75 years

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

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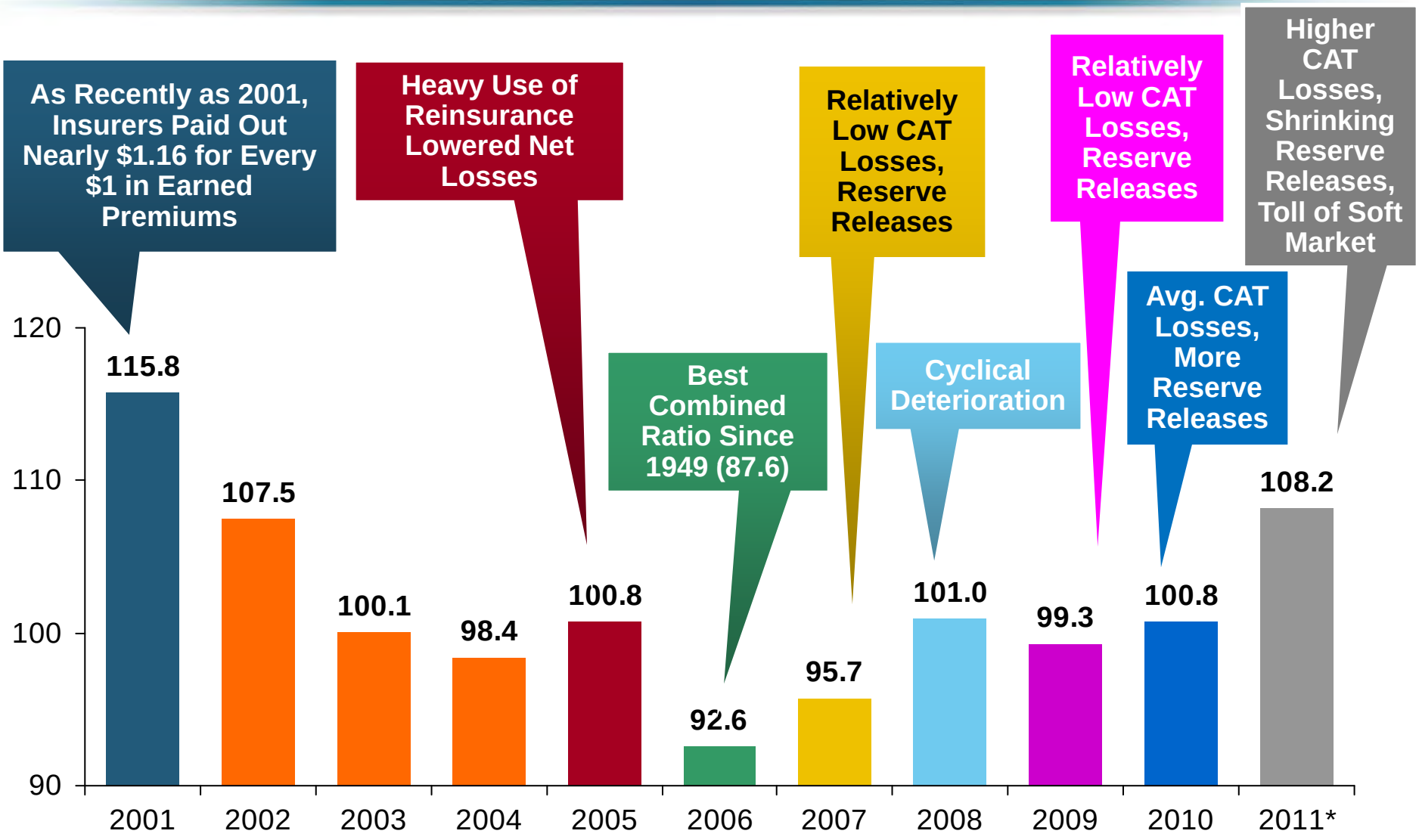
Underwriting Trends: Cycle, Catastrophes Are Among 2011 and 2012 Drivers

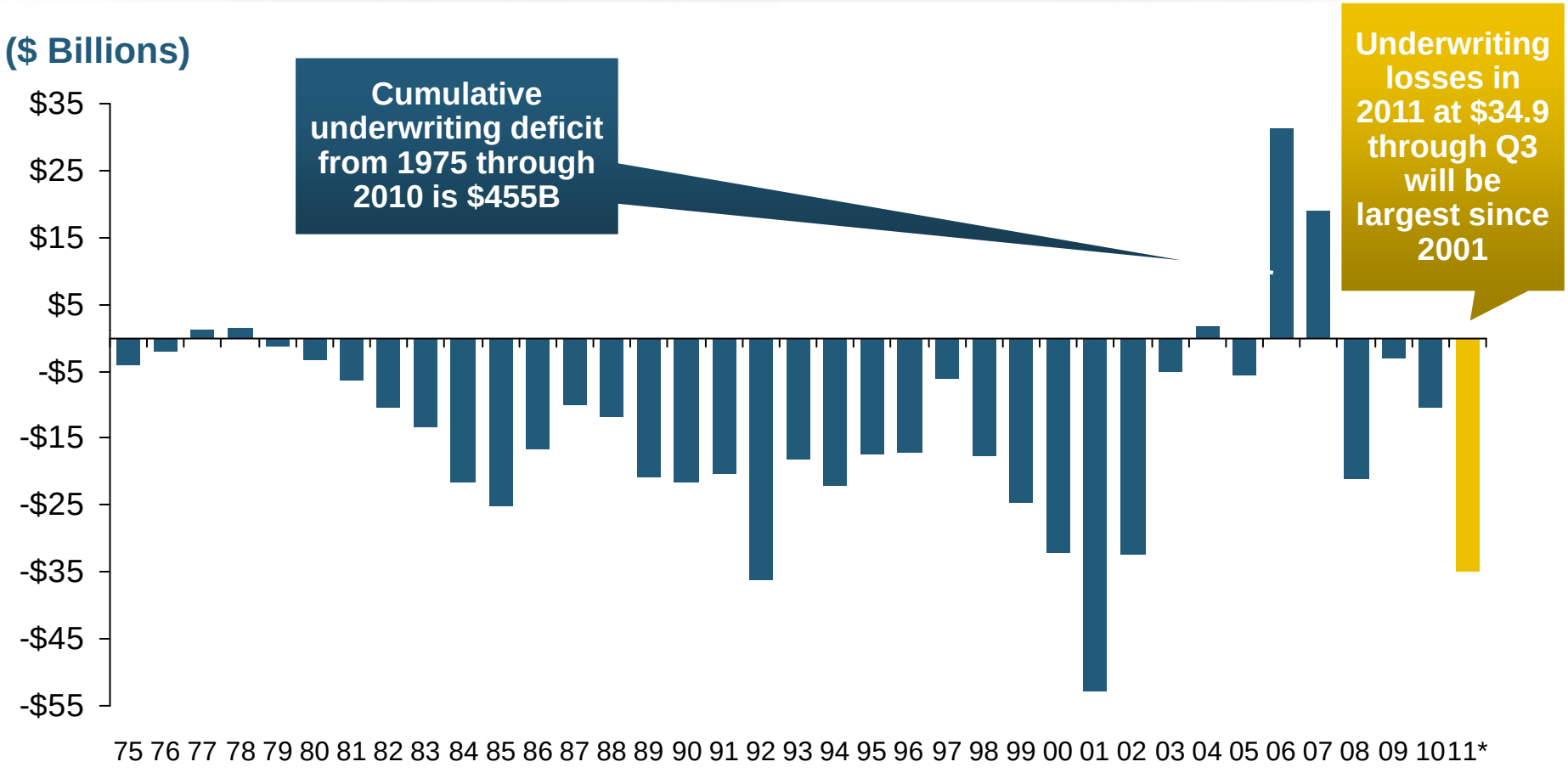
P/C Insurance Industry Combined Ratio, 2001–2011:Q3*



* Excludes Mortgage & Financial Guaranty insurers 2008--2011. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=109.9

Sources: A.M. Best, ISO.

Underwriting Gain (Loss) 1975–2011*

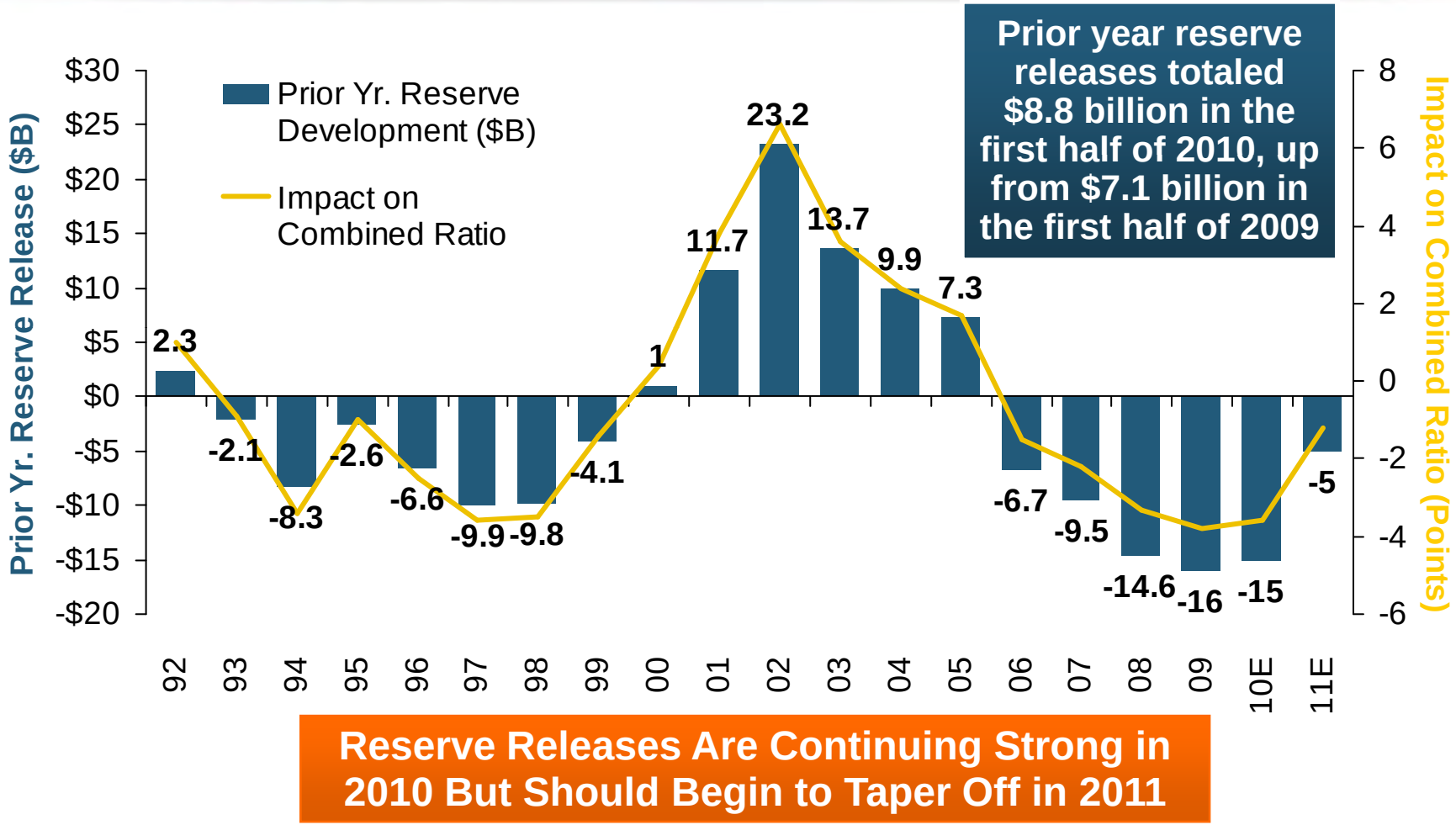


Large Underwriting Losses Are *NOT* Sustainable in Current Investment Environment

* Includes mortgage and financial guaranty insurers in all years

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

P/C Reserve Development, 1992–2011E



Reserve Releases Are Continuing 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.

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

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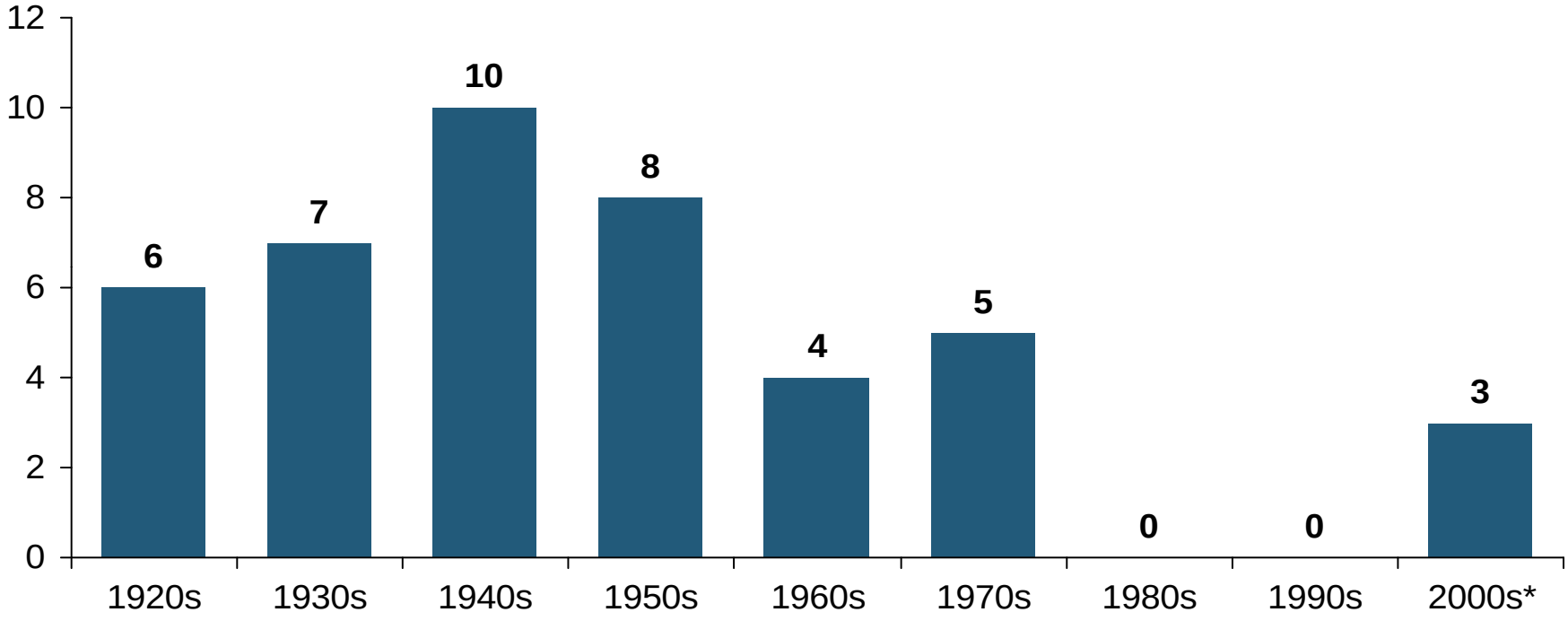
Number of Years with Underwriting Profits



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

* 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.

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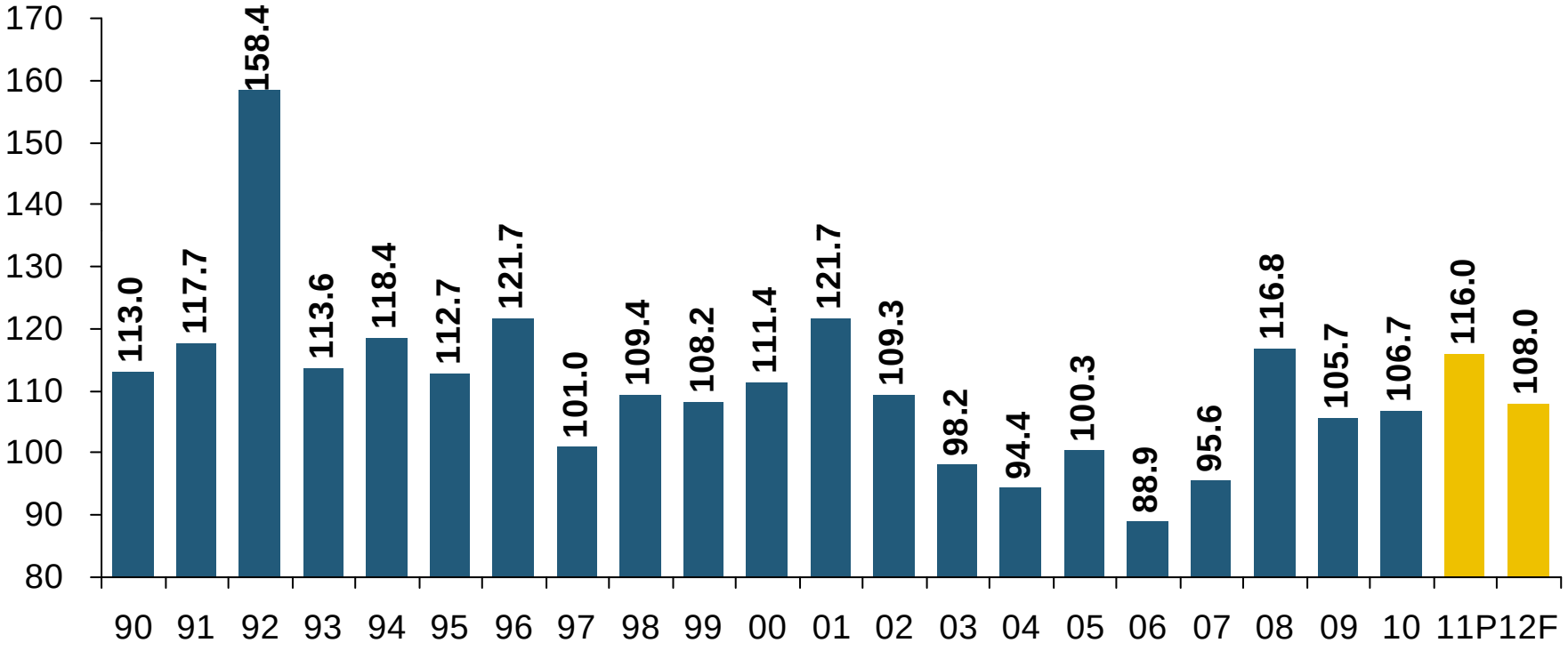
Performance by Segment: Personal Lines

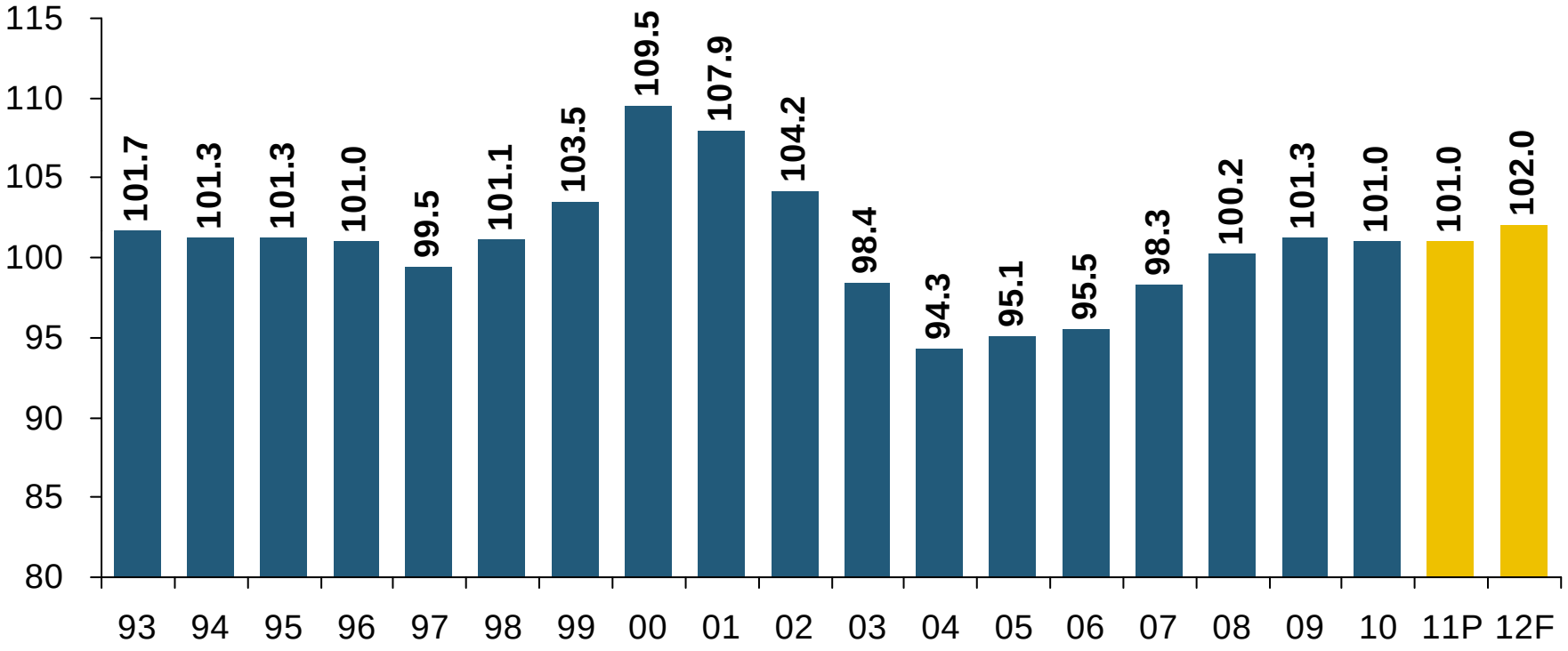
Homeowners Insurance Combined Ratio: 1990–2012F



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

Sources: A.M. Best (1990-2010); Insurance Information Institute (2011P/12F).

Private Passenger Auto Combined Ratio: 1993–2012P



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

Sources: A.M. Best (1990-2010); Insurance Information Institute (2011P/12F).

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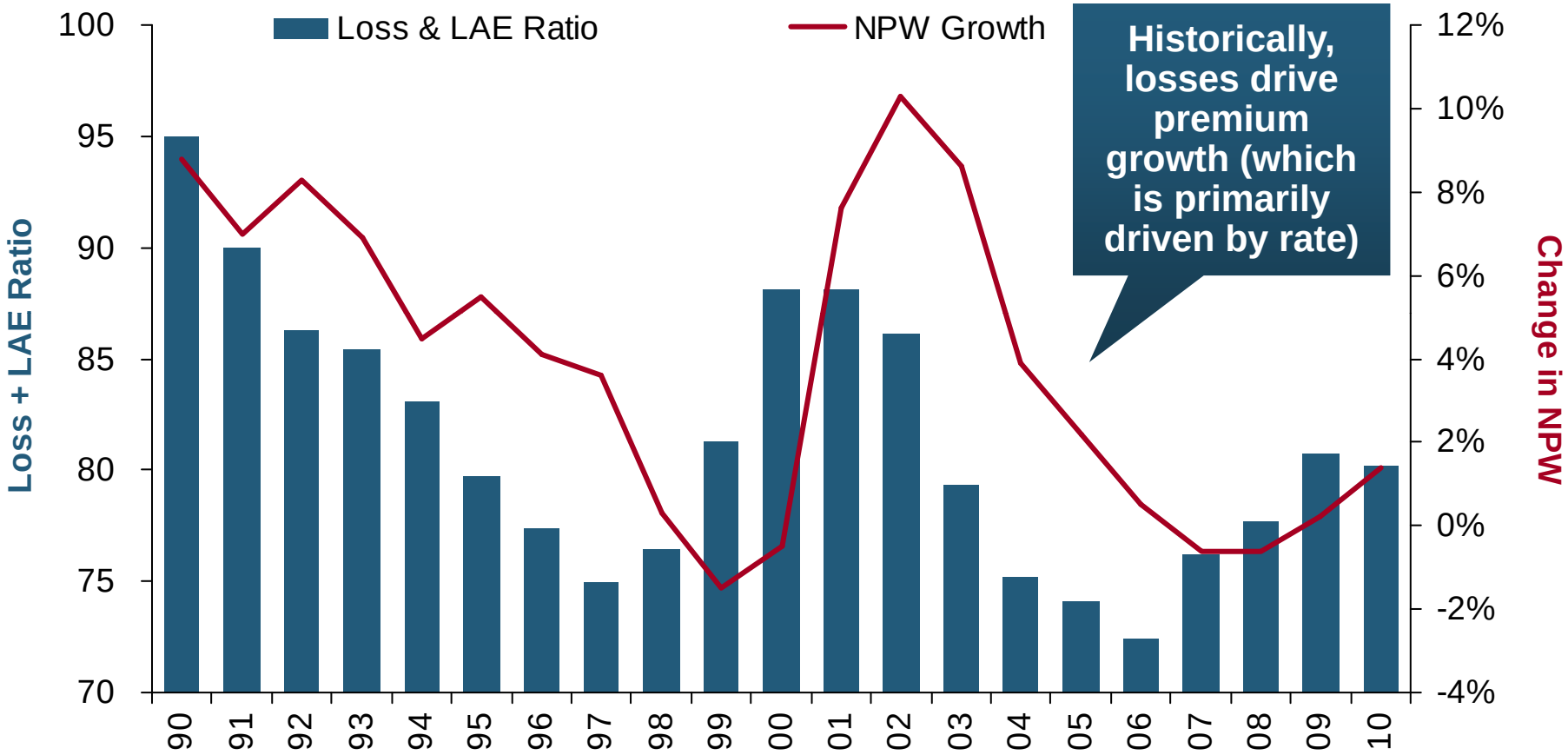
Cycle Drivers

The Role of Losses and Reserves in the Underwriting Cycle

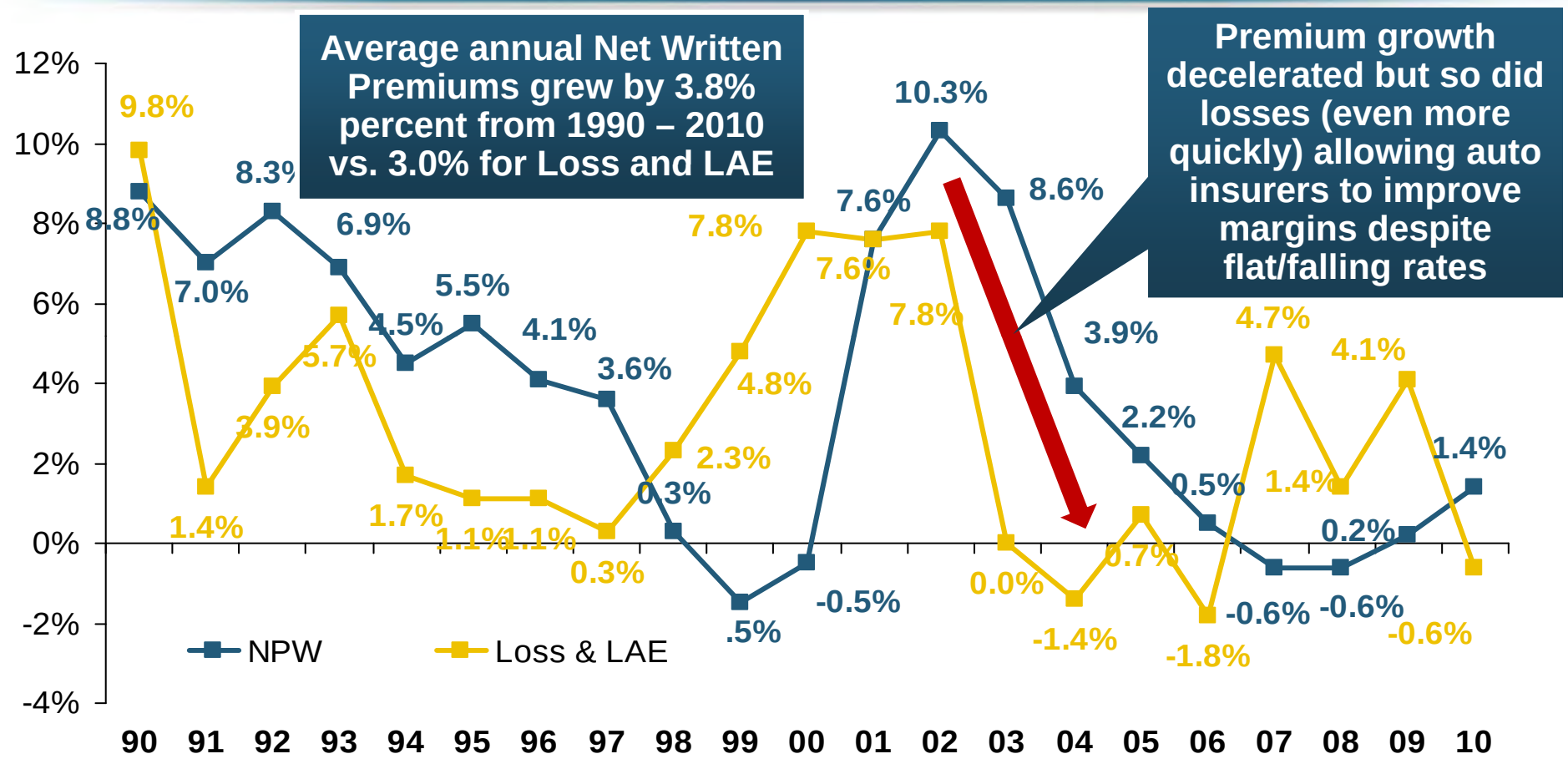
PP Auto Liability: Loss and LAE vs. Net Premiums Written, 1990-2010



While Premium Growth Decelerated, the Driver Was Primarily Lower Losses, Allowing Auto Insurers to Maintain String Margins

Source: A.M. Best; Insurance Information Institute

PP Auto Liability: % Change in NPW vs. % Change in Loss & LAE, 1990 - 2010

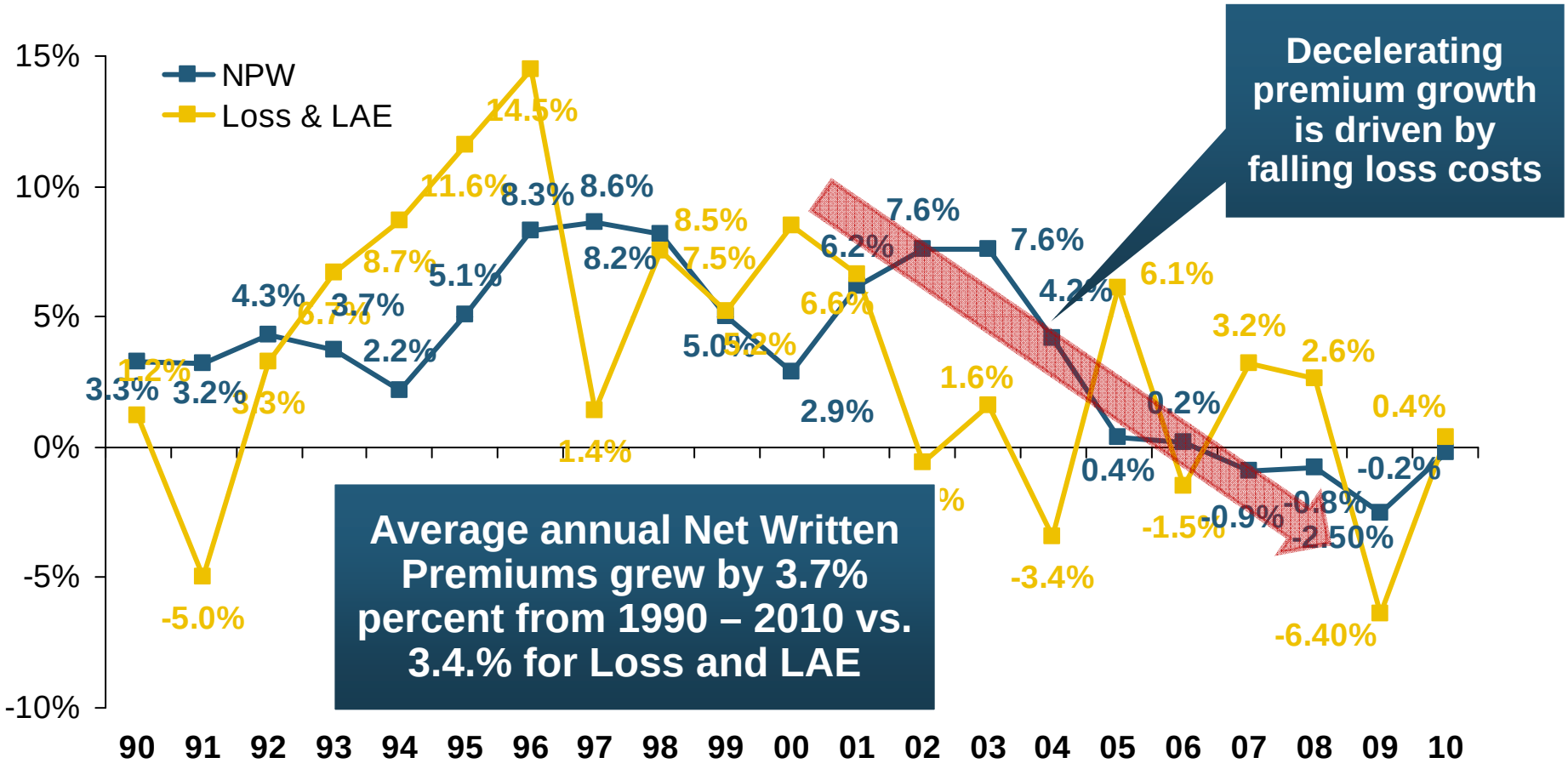


Losses Drive Premiums

Premiums Exhibit an Elastic Response (with a Lag) to Changes in Losses

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

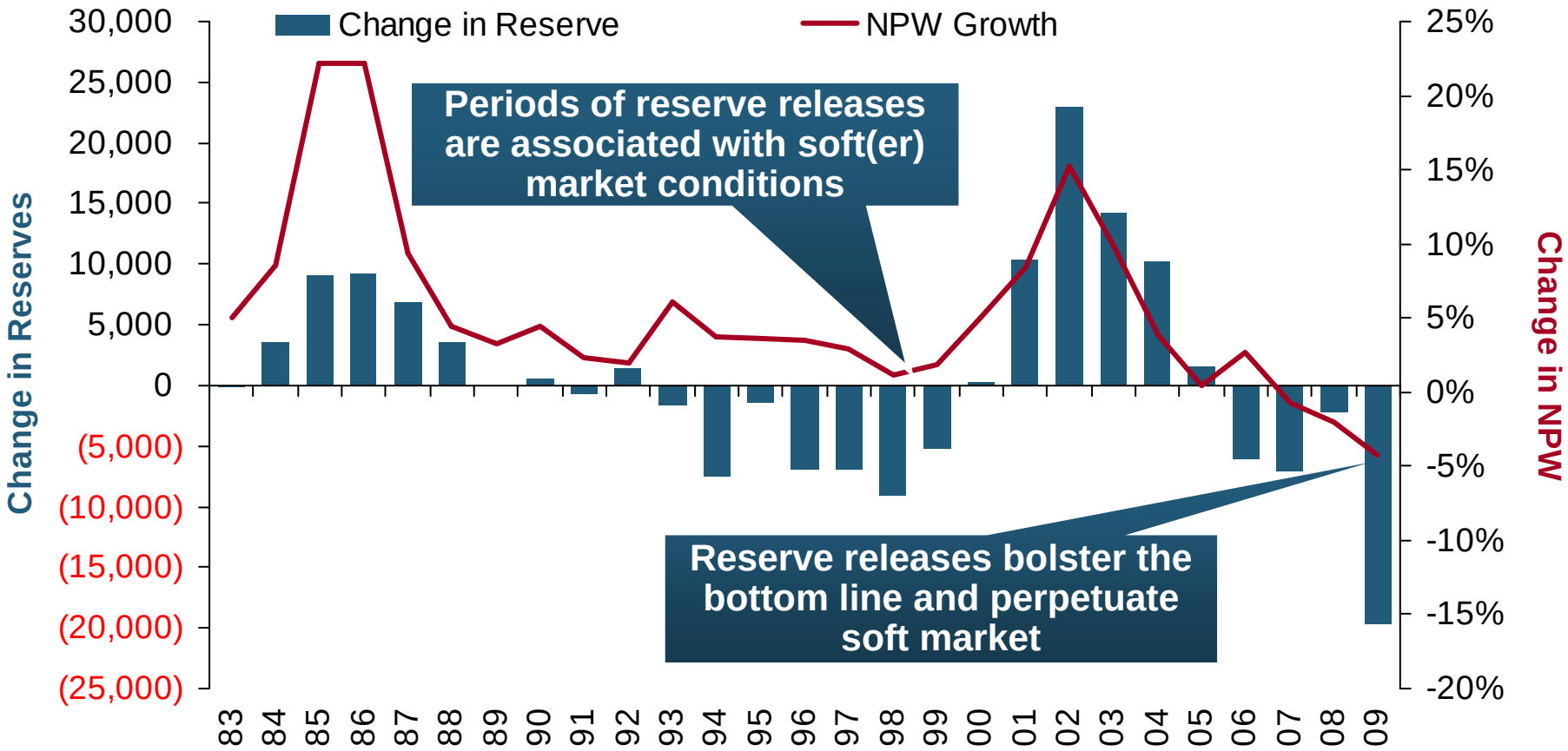
PP Auto Physical Damage: Change in NPW vs. Change in Loss & LAE, 1990 - 2010



Loss Trends Ultimately Drive Premium Trends

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

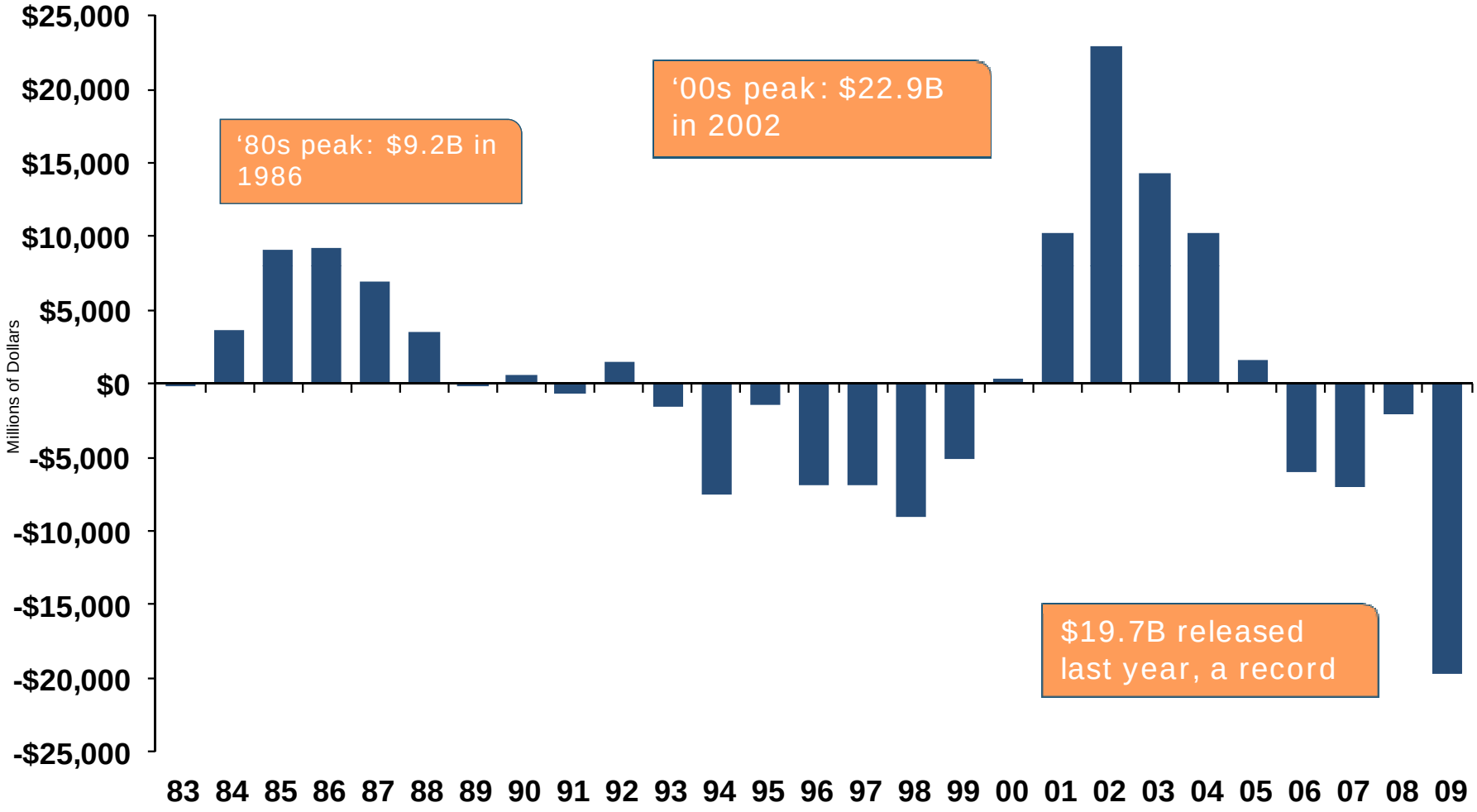
P-C Loss Development vs. Change in NPW, 1983-2009



Reserve Releases, in Addition to Losses, Drive Pricing Cycles

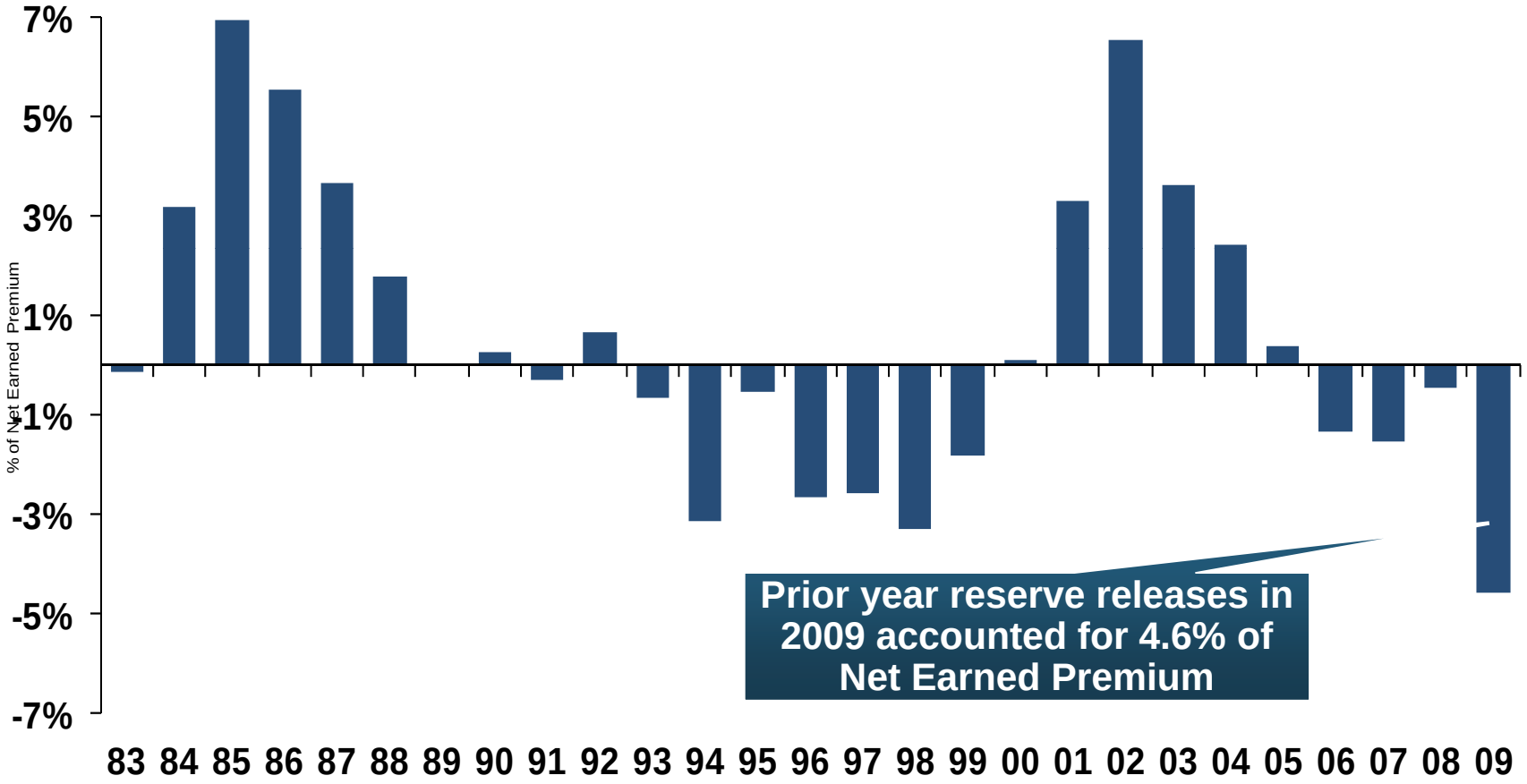
Source: A.M. Best; Insurance Information Institute

P-C Industry Loss Development, 1983-2009 ($ Millions)



Sources: A.M. Best, Insurance Information Institute

Industry Loss Development as % of Net Earned Premium, 1983-2009



Sources: A.M. Best, Insurance Information Institute

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REINSURANCE MARKET CONDITIONS

Record Global Catastrophes Activity is Pressuring Pricing

Significant Market Losses, 1985-2011*

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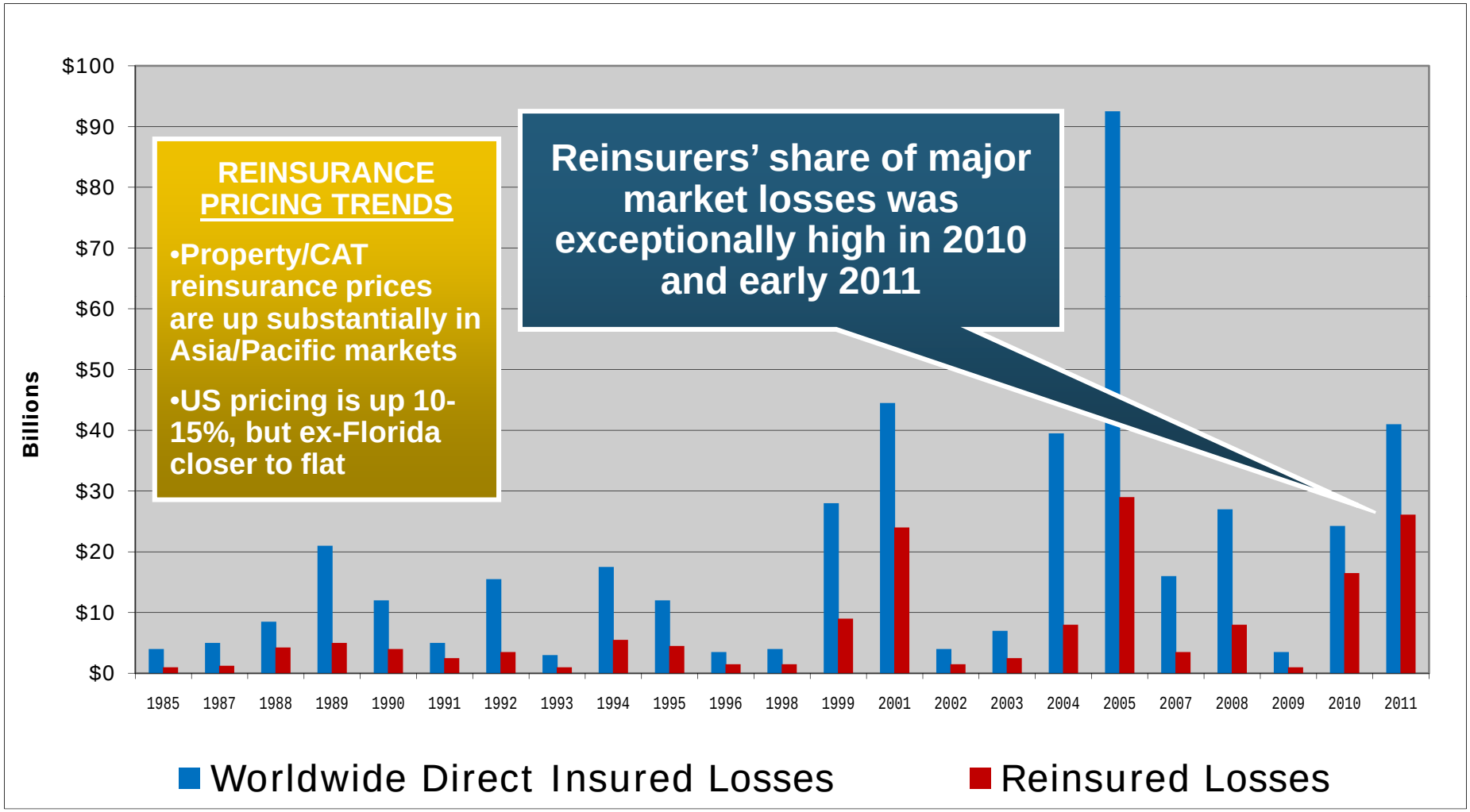
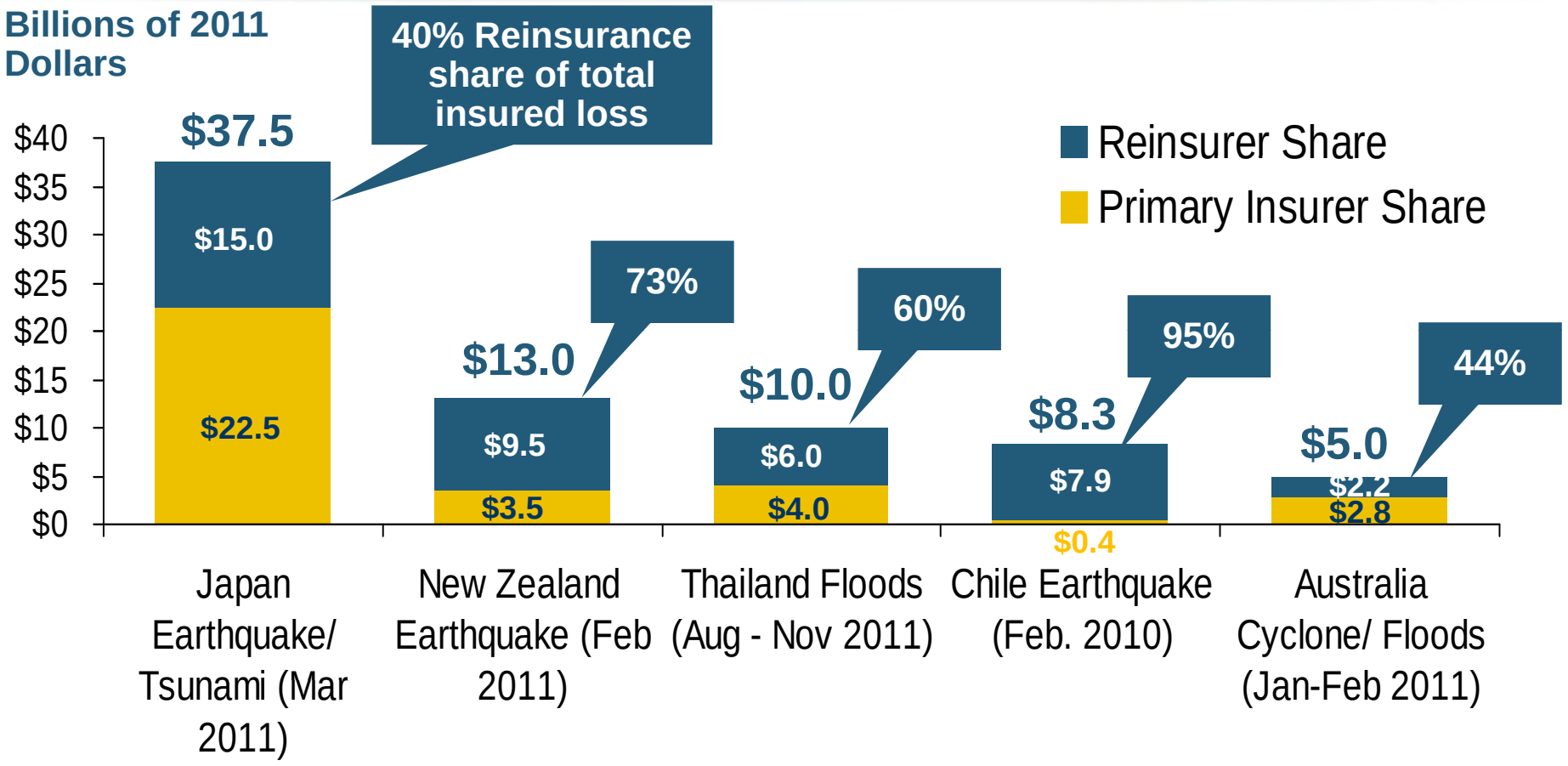


Source: Holborn; RAA.

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

Reinsurer Share of Recent Significant Market Losses

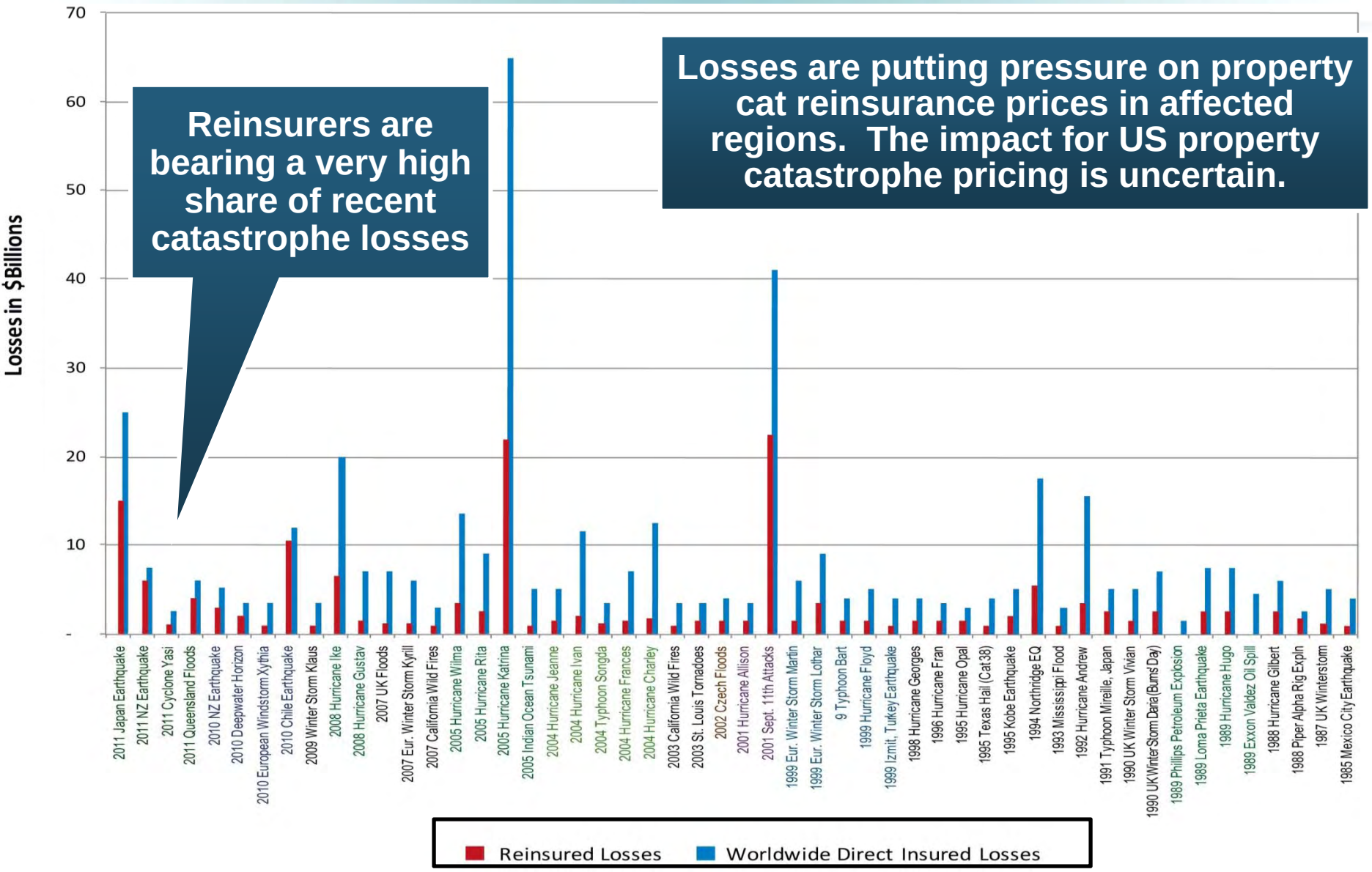


Reinsurers Paid a High Proportion of Insured Losses Arising from Major Catastrophic Events Around the World in Recent Years

Source: Insurance Information Institute from reinsurance share percentages provided in RAA, ABIR and CEA press release, Jan. 13, 2011.

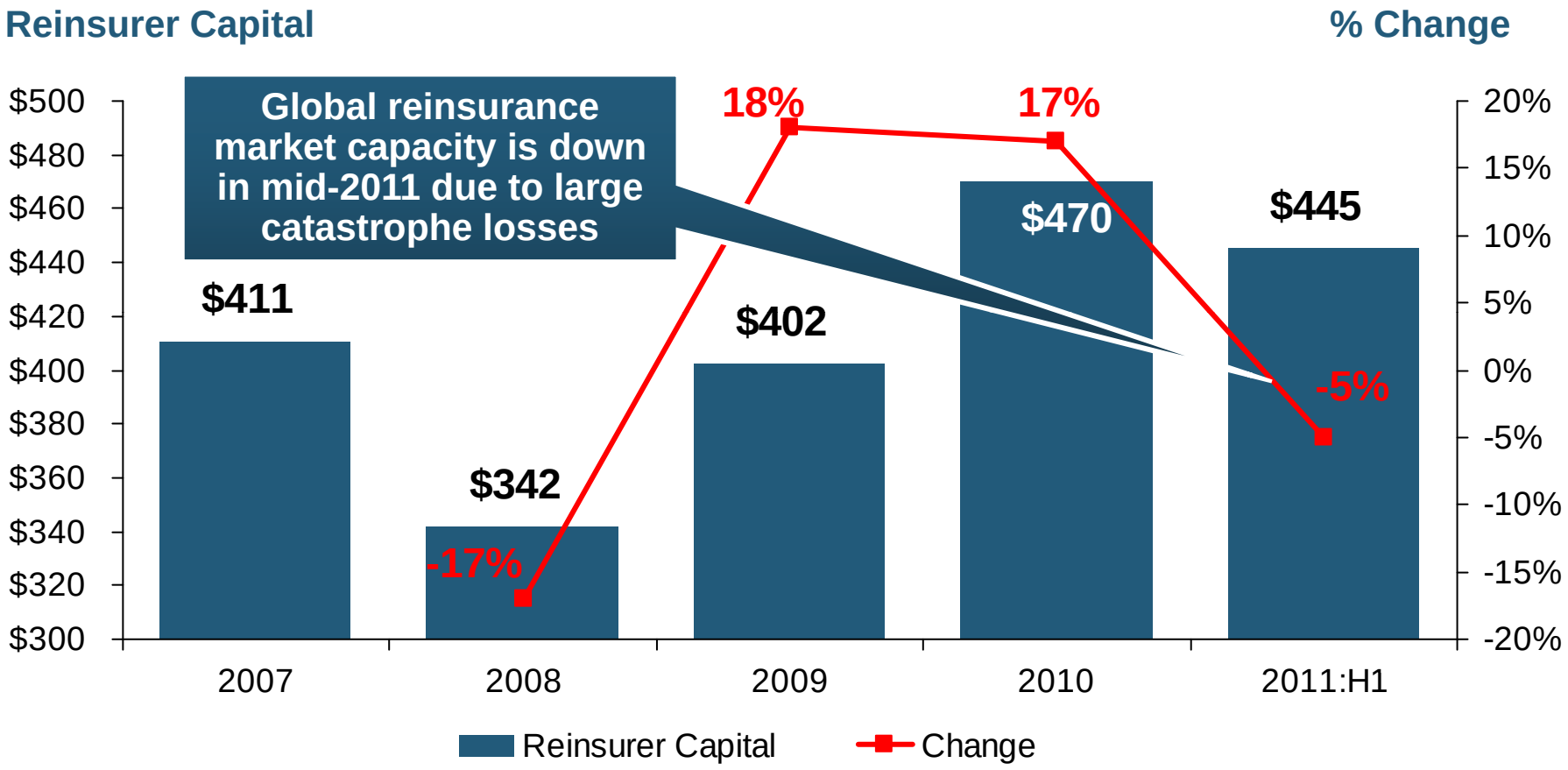
Significant Market Losses by Event, 1985-2011*

INSURANCE INFORMATION INSTITUTE



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

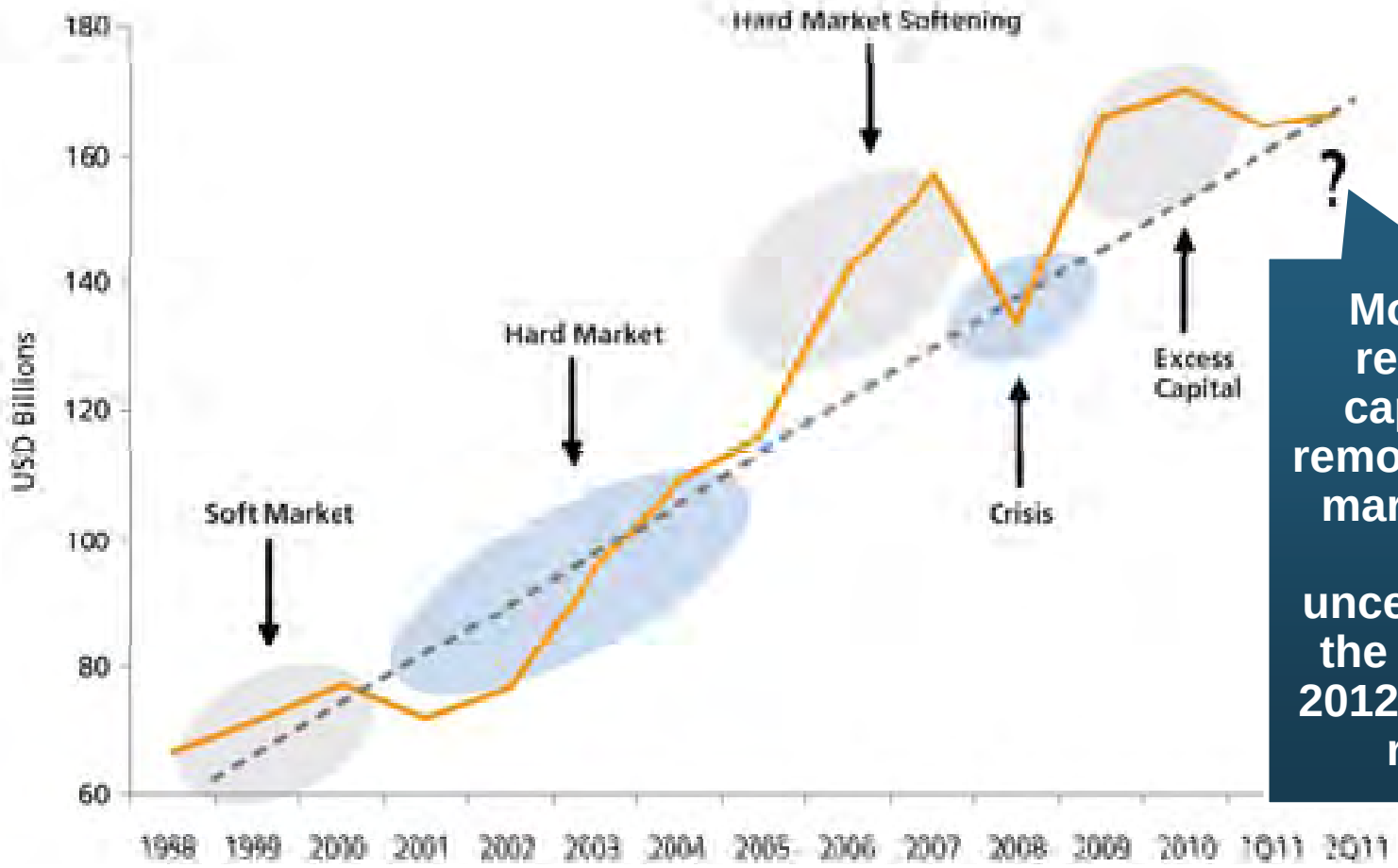
Global Reinsurance Capital, 2007-2011:H1



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

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

Historical Capital Levels of Guy Carpenter Reinsurance Composite, 1998—2Q11



Most excess reinsurance capacity was removed from the market in 2011, leaving uncertainty as to the direction of 2012 reinsurance renewals

Source: Guy Carpenter, *GC Capital Ideas.com,* November 23, 2011.

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

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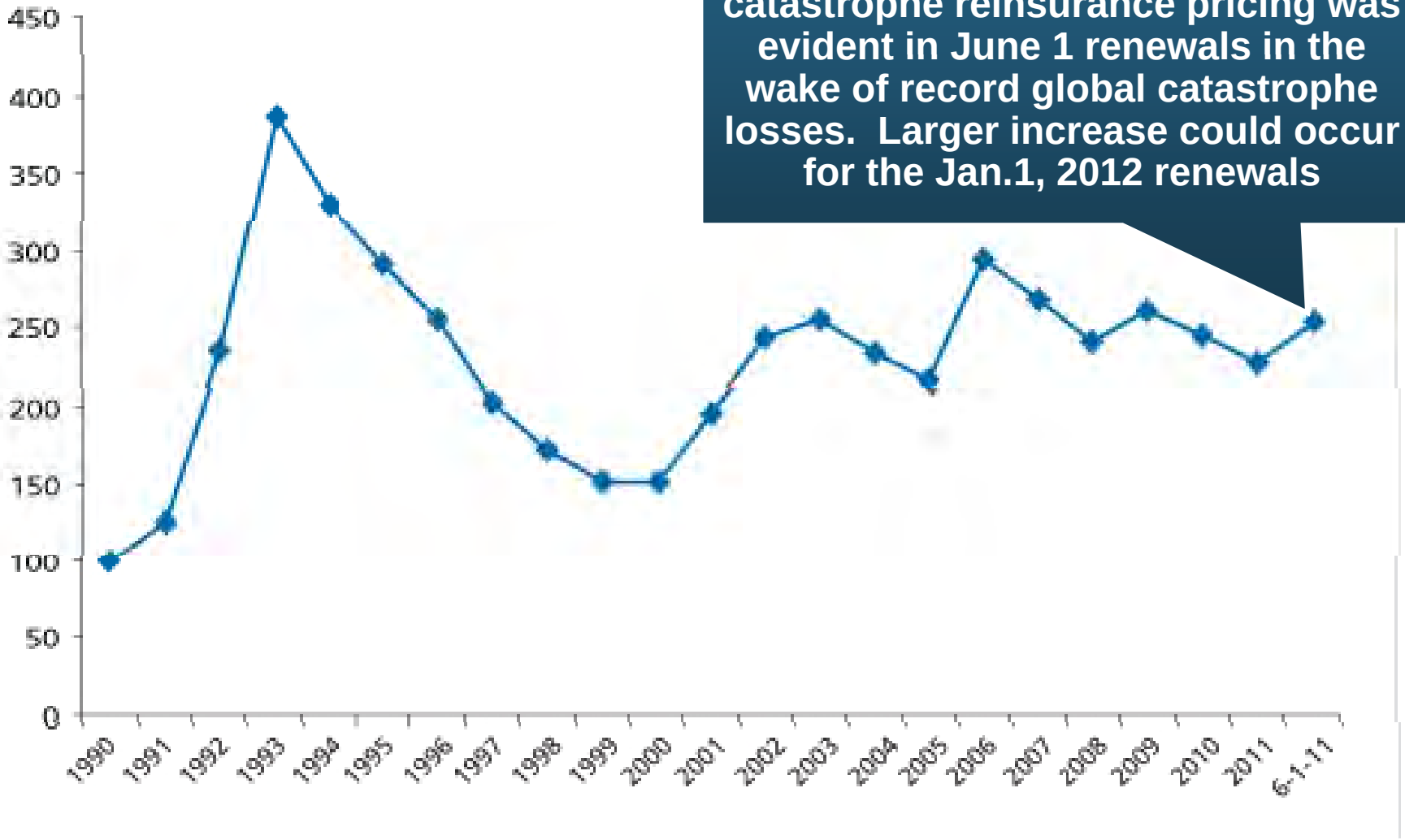
A modest increase in global property catastrophe reinsurance pricing was evident in June 1 renewals in the wake of record global catastrophe losses. Larger increase could occur for the Jan.1, 2012 renewals



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

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Claim Trends in Auto Insurance

Rising Costs Held in Check by Falling Frequency:

Can That Pattern Be Sustained?

Bodily Injury: Severity Trend Rising, Frequency Decline Has Ended

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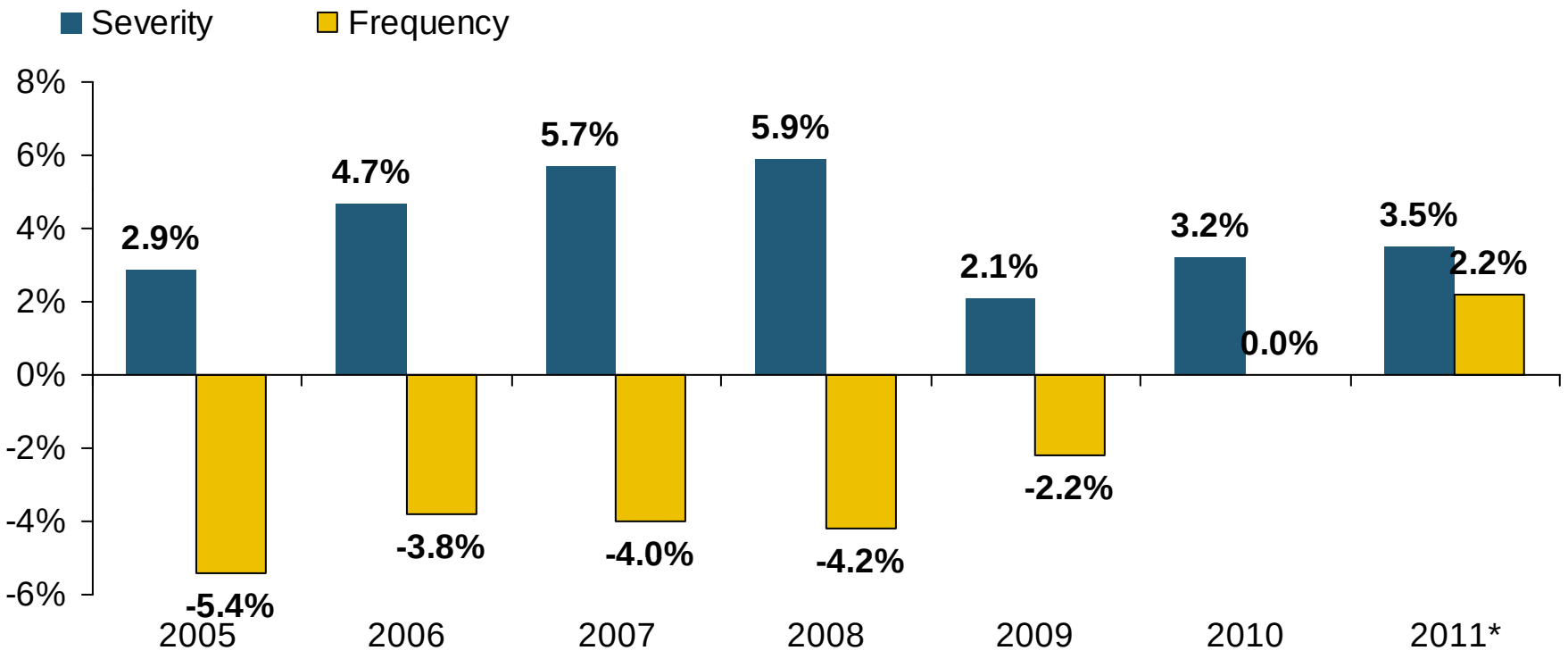
Annual Change, 2005 through 2011*



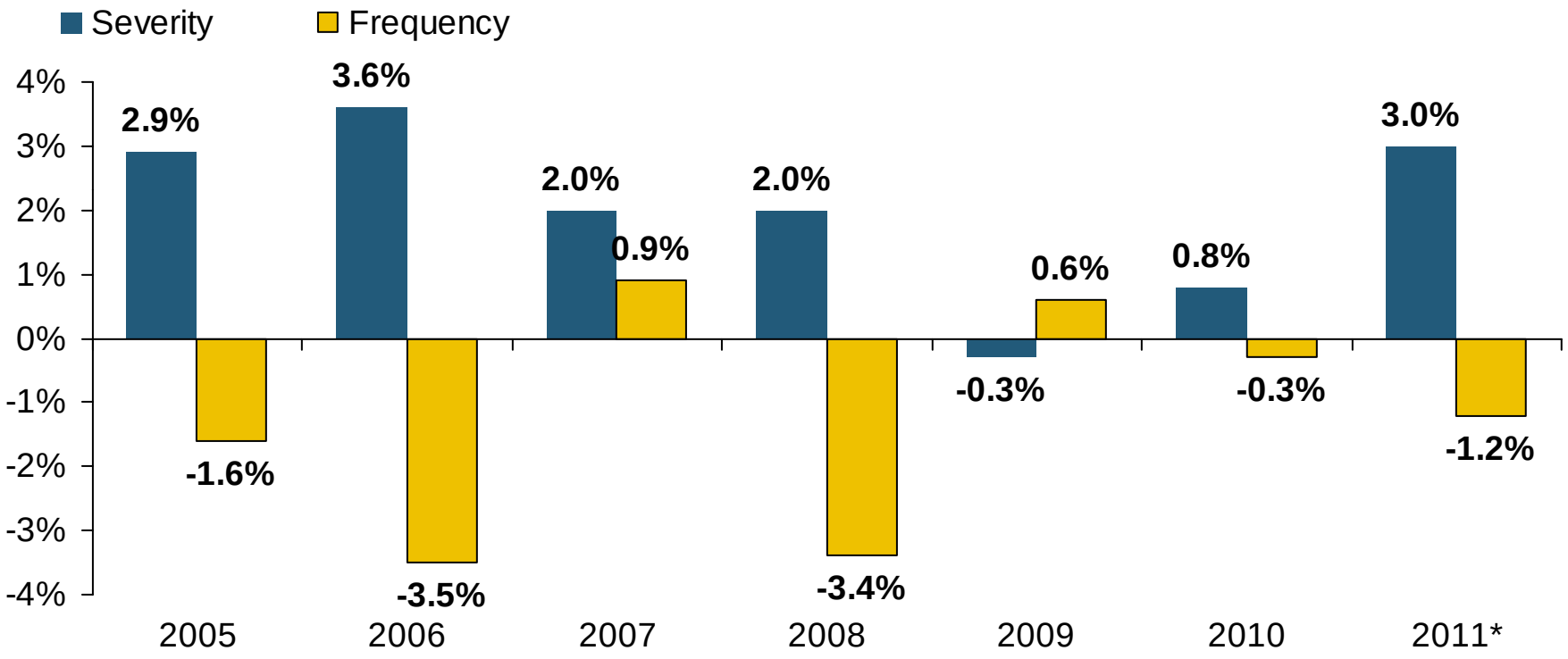
Cost Pressures Will Increase if BI Severity Frequency Increases Continue

*For 2011, data are for the 4 quarters ending with 2011:Q3.

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

Property Damage Liability: Severity is Up, Frequency Nearly Flat Since 2009

Annual Change, 2005 through 2011*



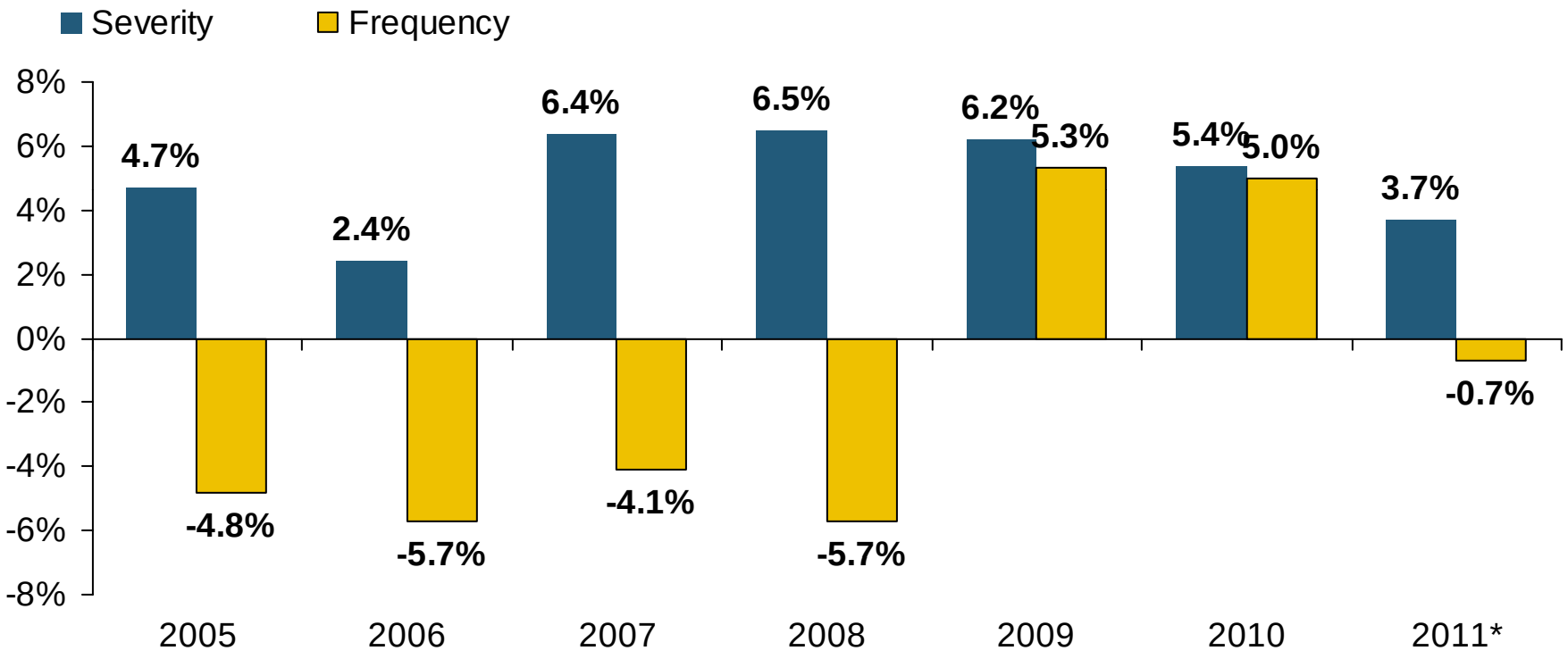
Severity/Frequency Trends Were Stable Through 2010, But Rising Severity in 2011 Is a Concern

*For 2011, data are for the 4 quarters ending with 2011:Q3.

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

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

Annual Change, 2005 through 2011*



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; 2010 data are for the 4 quarters ending 2011:Q3.
Source: ISO/PCI *Fast Track* data; Insurance Information Institute

Collision Coverage: Frequency and Severity Trends Are Up in 2011*

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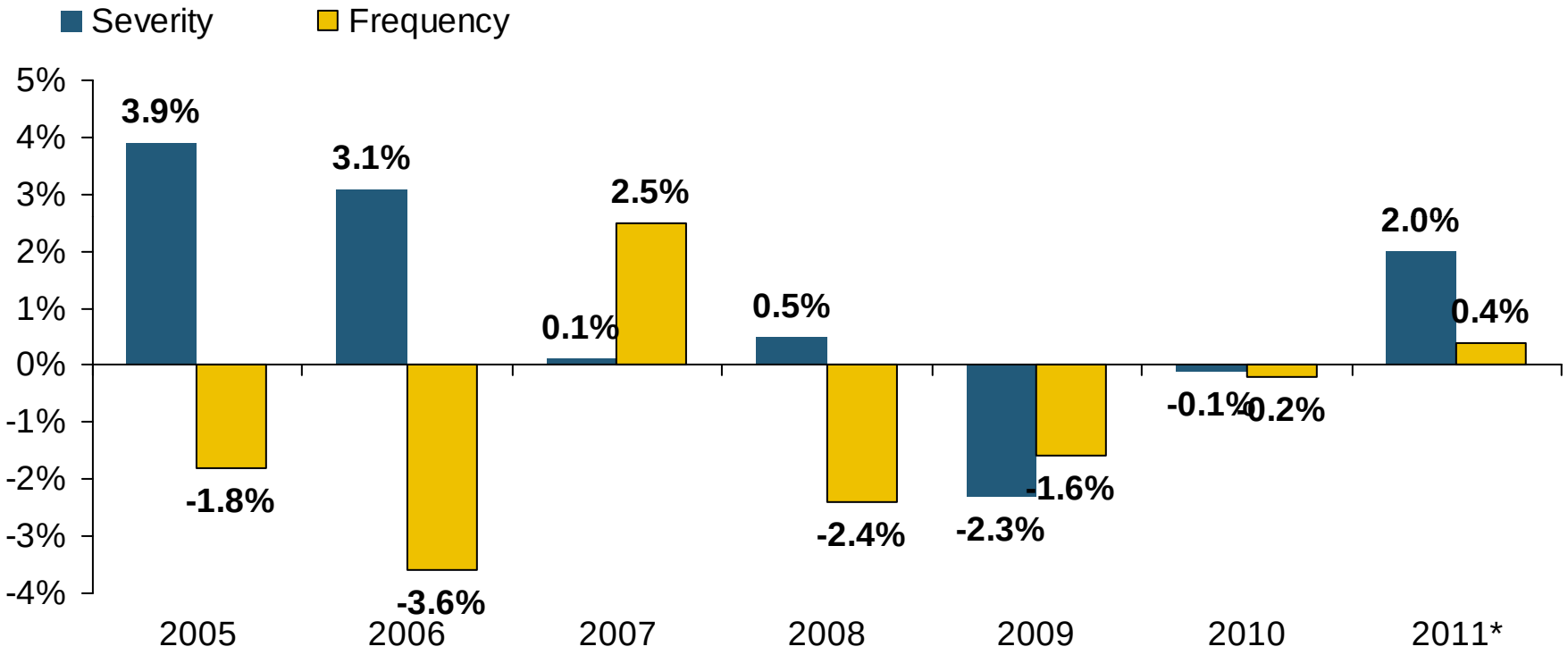
Annual Change, 2005 through 2011*



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

*For 2011, data are for the 4 quarters ending with 2011:Q3.

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

Comprehensive Coverage: Frequency and Severity Trend in 2011 is Unfavorable

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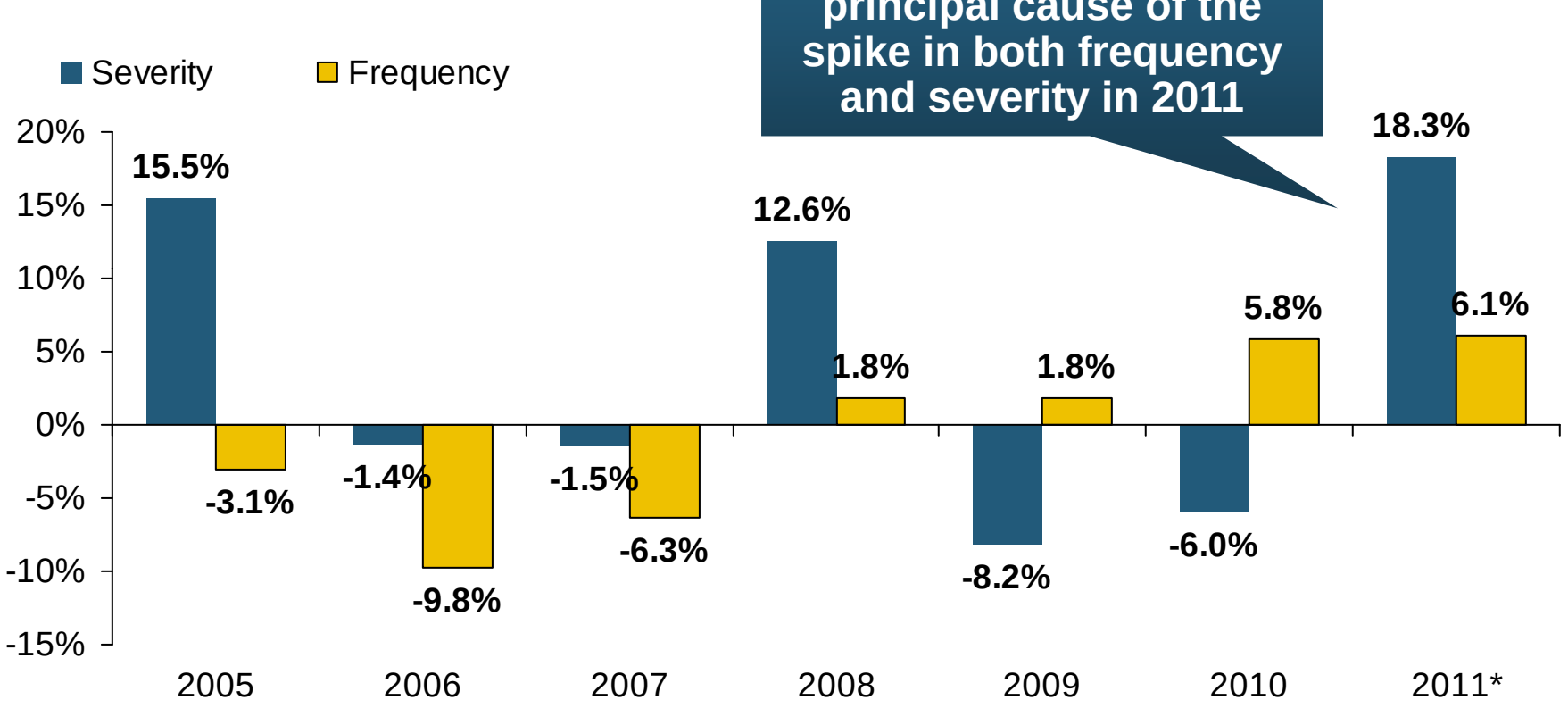
Annual Change, 2005 through 2011*

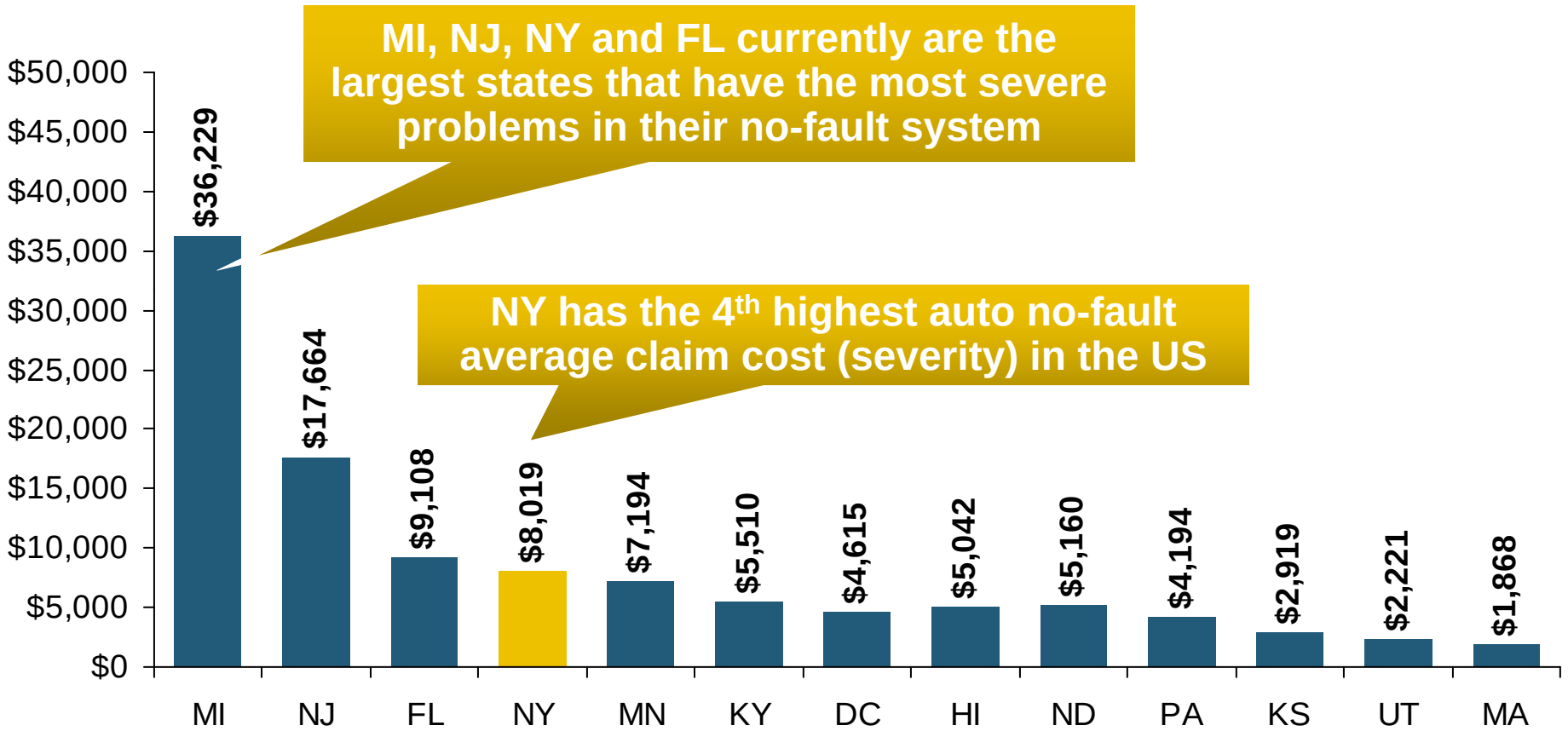


Weather Creates Volatility for Comprehensive Coverage; Recession Has Helped Push Down Frequency and Temper Severity, But This Factors Will Weaken as Economy Recovers

*For 2011, data are for the 4 quarters ending with 2011:Q3.

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

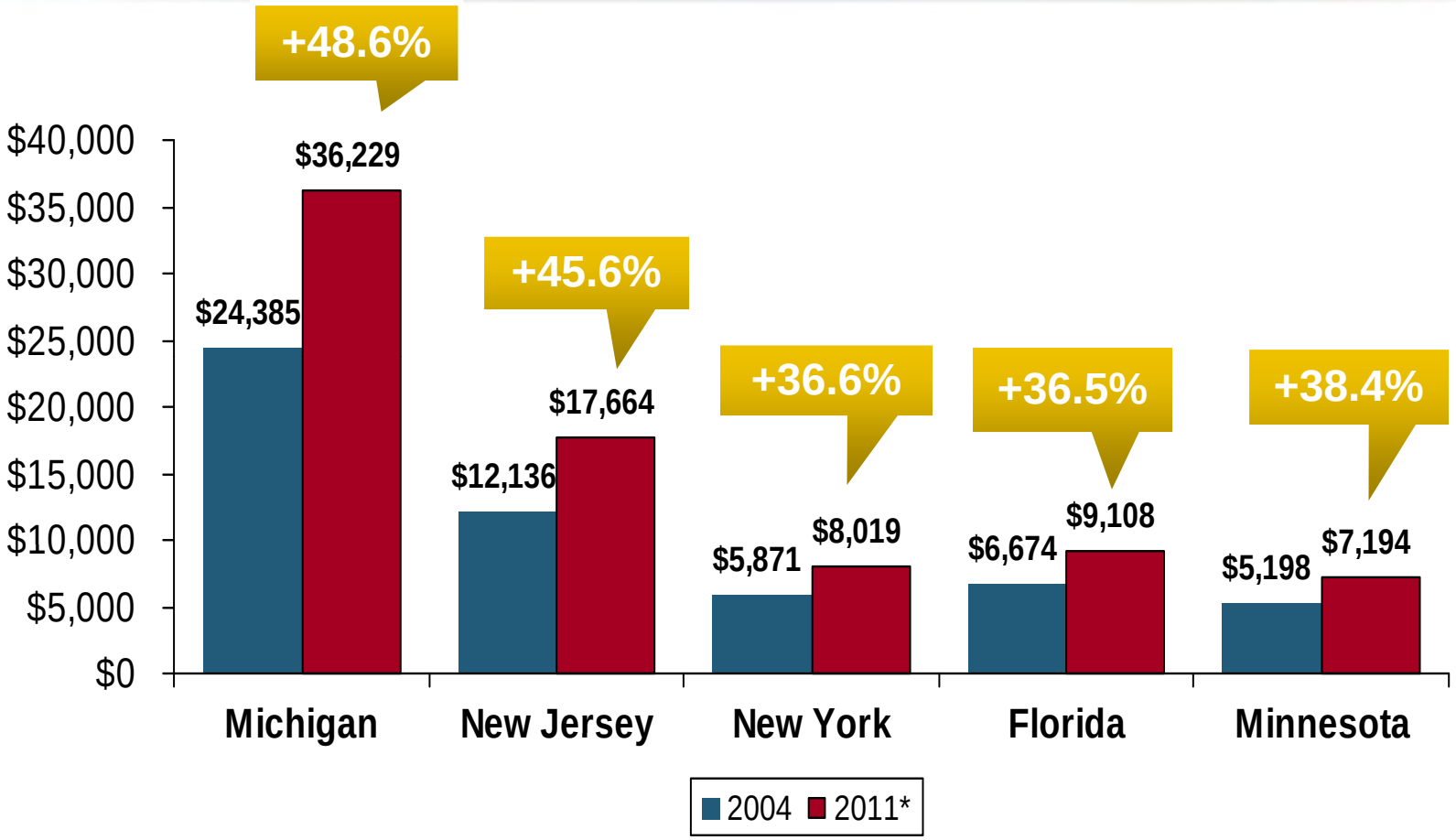
Average No-Fault Claim Severity, 2011:Q3*



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

*Average of the four quarters ending 2011:Q3.
Source: ISO/PCI *Fast Track* data; Insurance Information Institute.

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

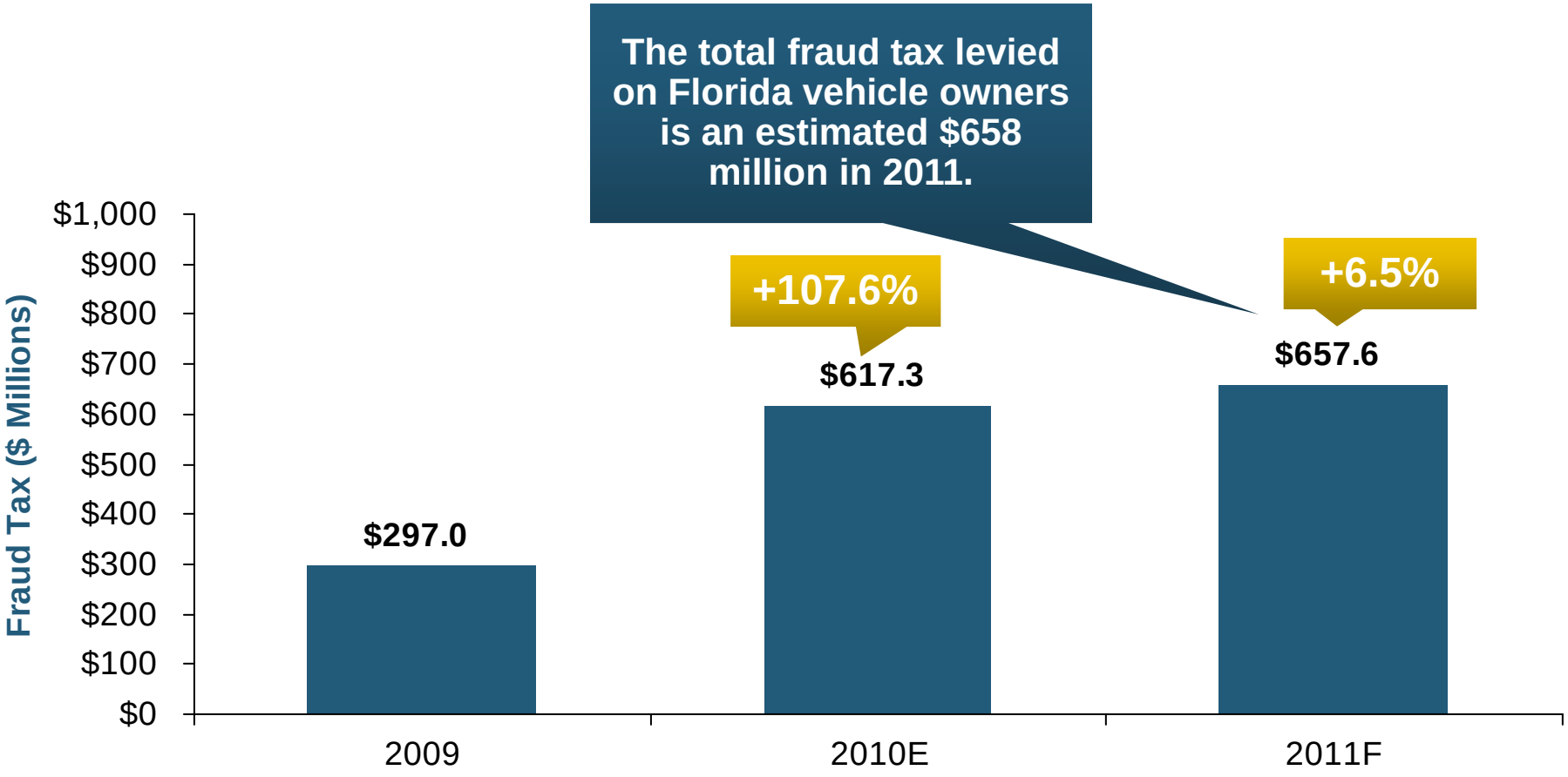


The no-fault systems in MI, NJ, NY, FL, and MN are under stress due to rising fraud and abuse, which leads to higher premiums for honest drivers.

*2011 figures are for the 4 quarters ending 2011:Q3.

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

Florida's No-Fault Fraud Tax: Estimated Aggregate Annual Cost, 2009-2011E ($ Millions)



Unscrupulous Medical Providers and Attorneys Are Costing Honest Florida Drivers Hundreds of Millions of Dollars

*2011 estimate is based on data through Q2:2011.

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

New York State No-Fault Claim Frequency and Severity, 1997–2011:Q3

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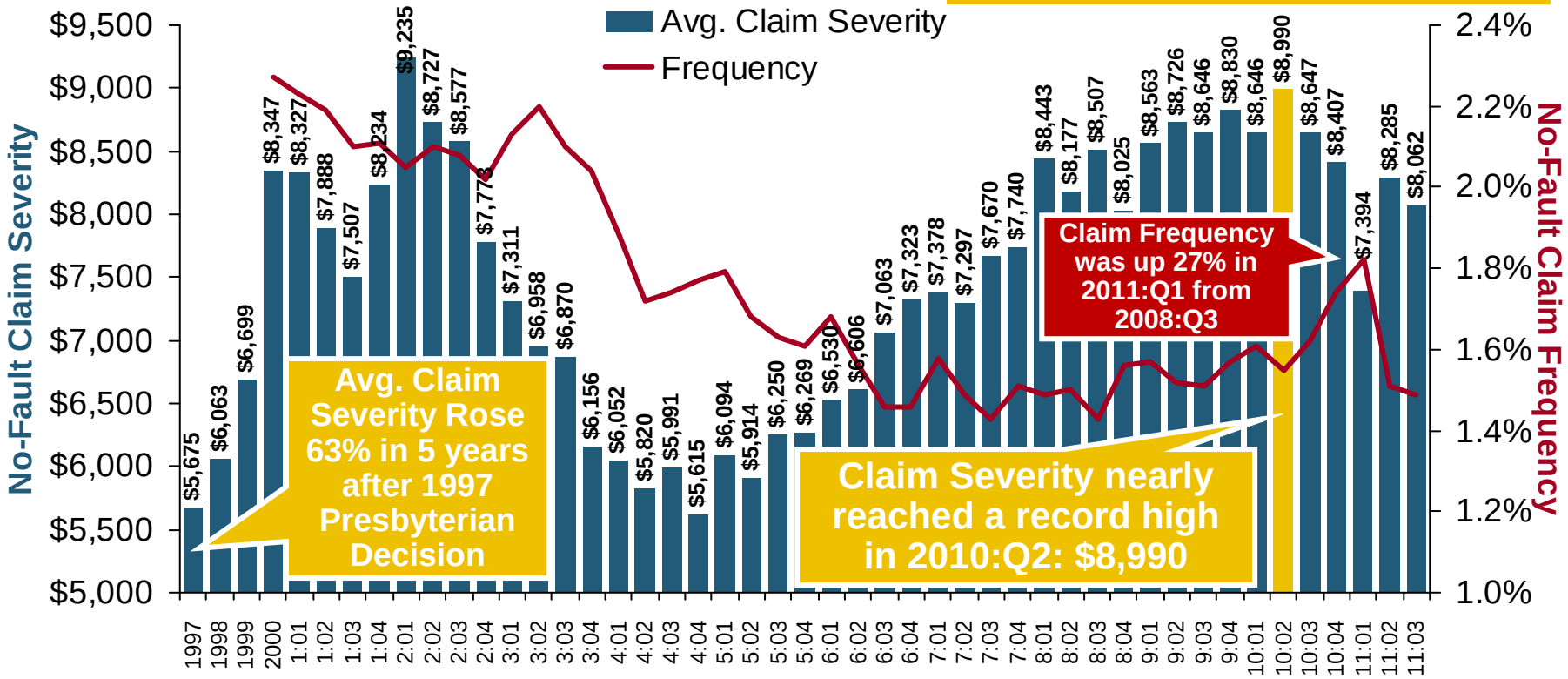
No-Fault Claim Severity

Avg. Claim Severity is up 44% since 2004:Q4 though 2011:Q3

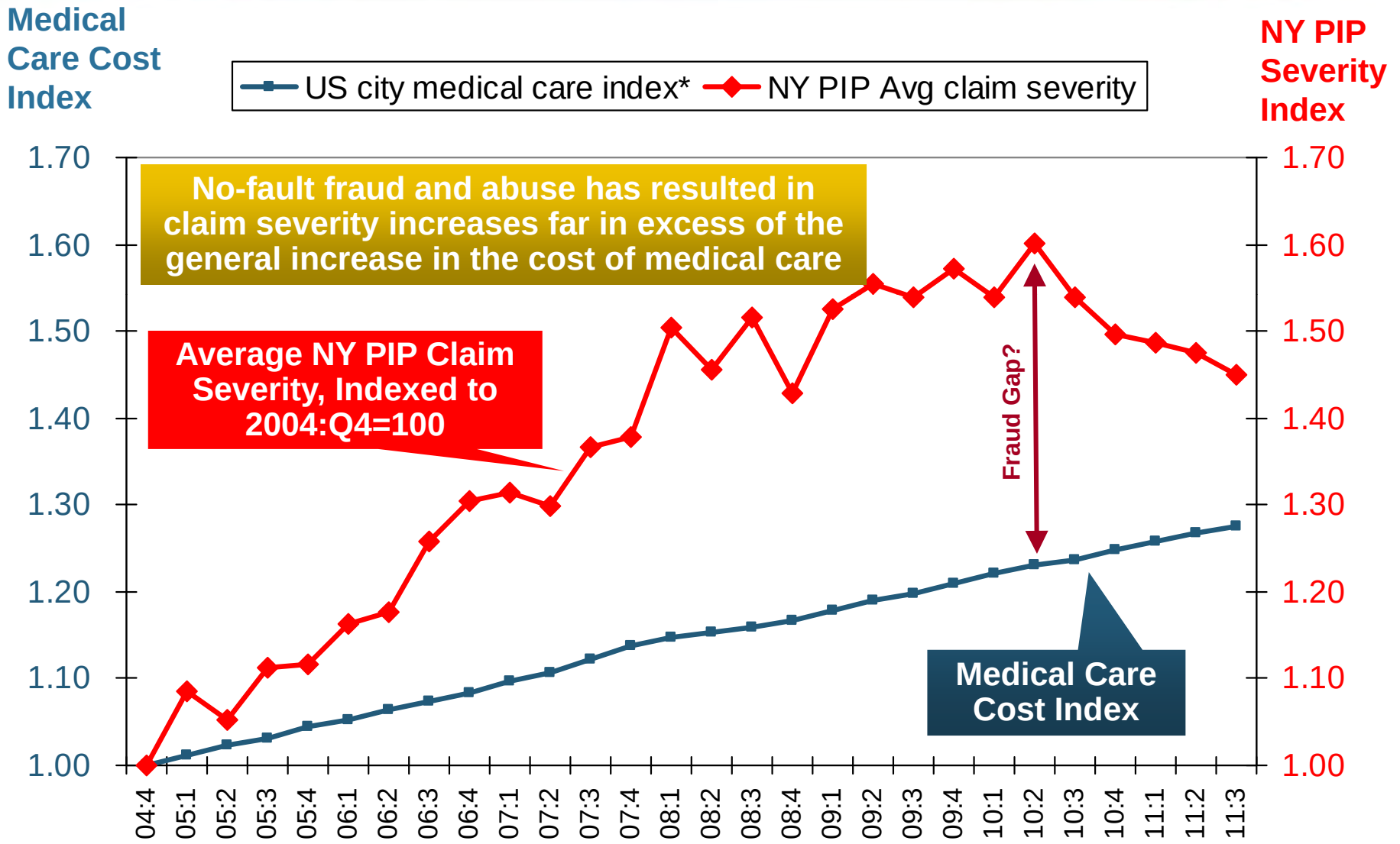


About 10% of No-Fault Claim Costs in 2011 Were Estimated to Be Attributable to Fraud and Abuse

*2011 figure is based on data for the 4 quarters ending Q3:2011.

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

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



*Middle month of quarter **For the four quarters ending in quarter indicated
Sources: Insurance Information Institute calculations based on ISO/PCI *Fast Track* Data and BLS Medical Care CPI

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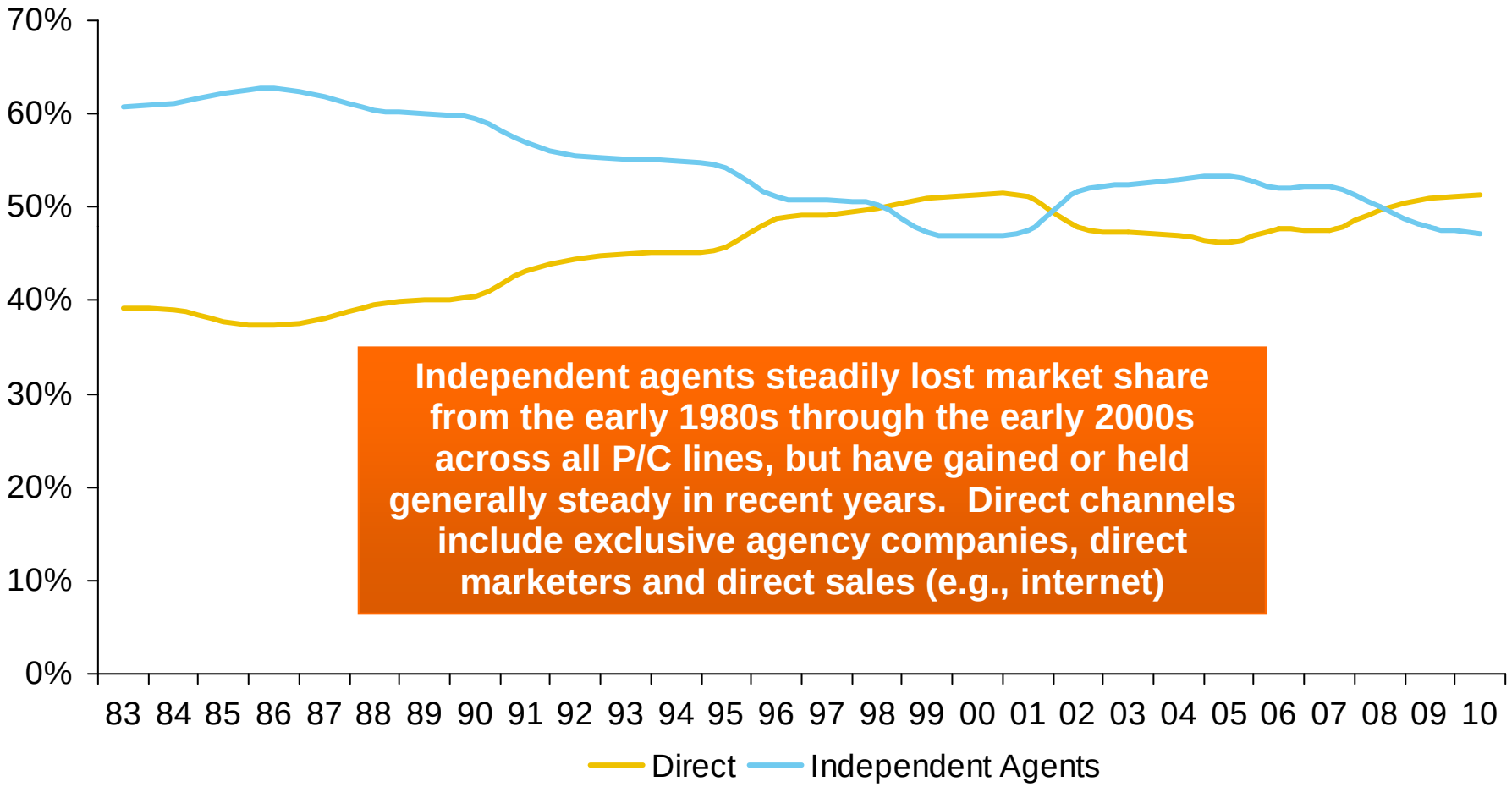
Distribution Trends

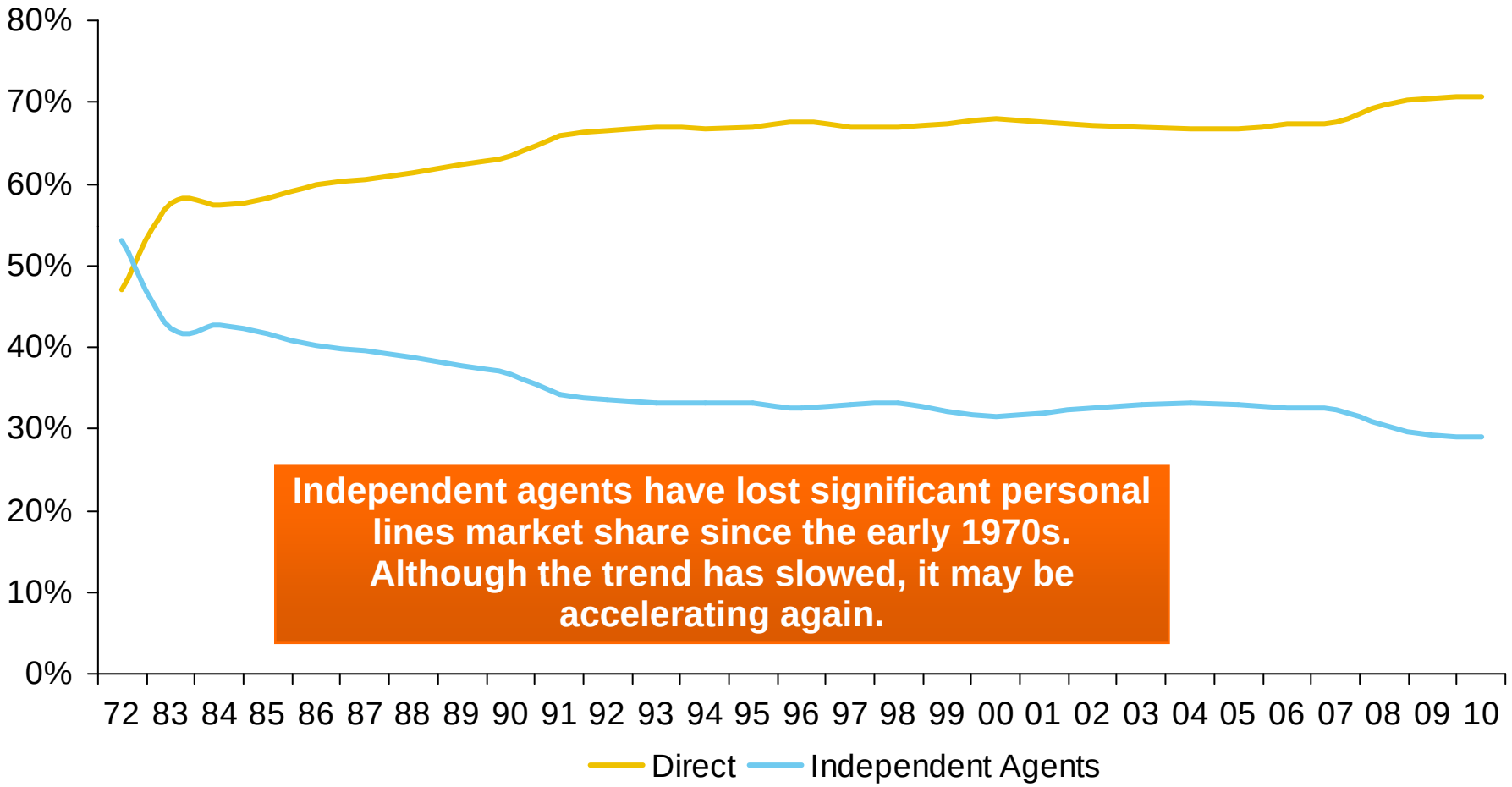
Distribution by Channel Type Continues to Evolve

All P/C Lines Distribution Channels, Direct vs. Independent Agents



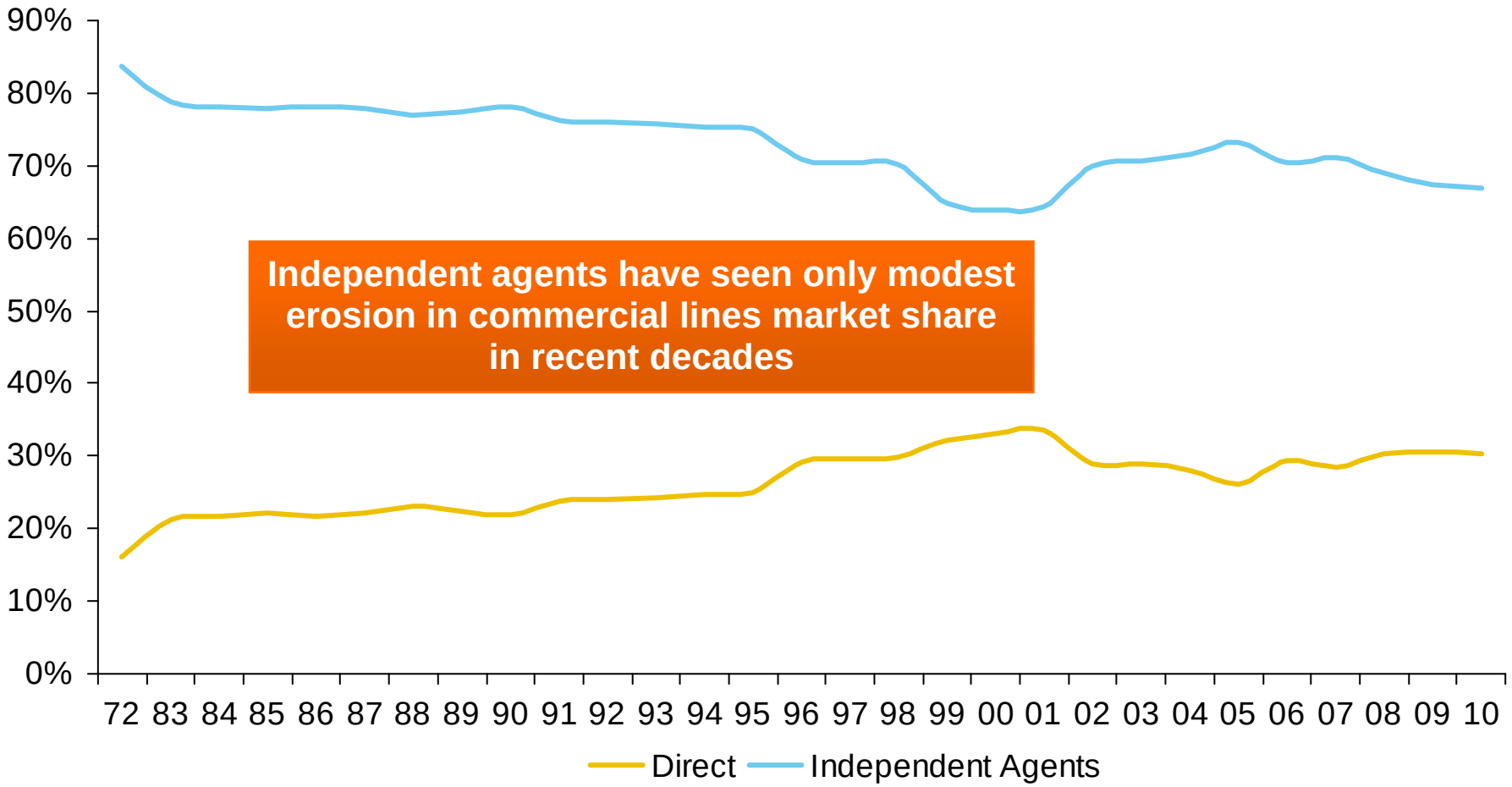
Source: Insurance Information Institute; based on data from Conning and A.M. Best.

Personal Lines Distribution Channels, Direct vs. Independent Agents



Source: Insurance Information Institute; based on data from Conning and A.M. Best.

Commercial P/C Distribution Channels, Direct vs. Independent Agents



Source: Insurance Information Institute; based on data from Conning and A.M. Best.

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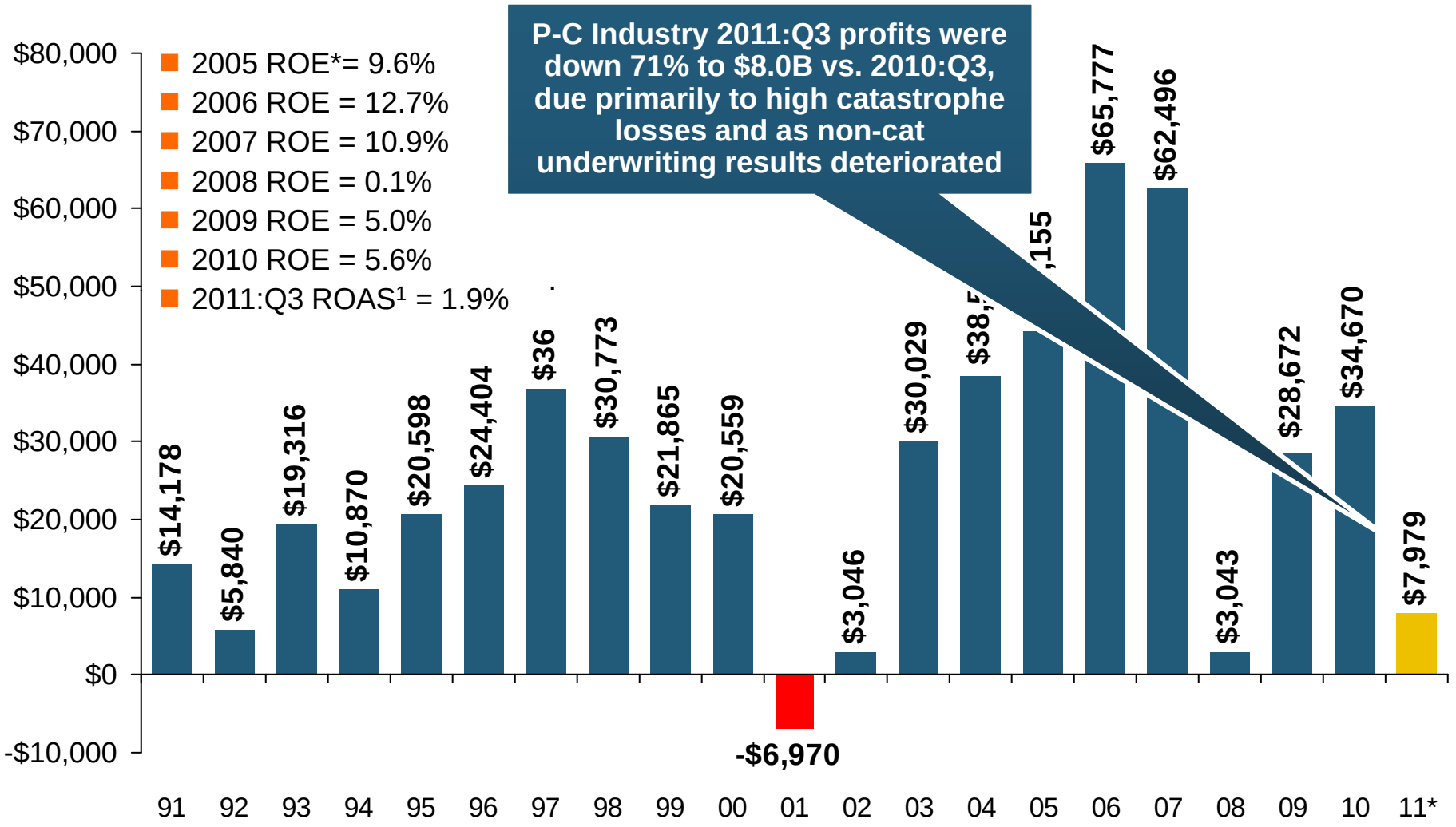
P/C Insurance Industry Financial Overview

Profit Recovery Was Set Back in 2011 by High Catastrophe Loss & Other Factors

P/C Net Income After Taxes 1991–2011:Q3 ($ Millions)



* ROE figures are GAAP; [1]Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 3.0% ROAS for 2011:Q3, 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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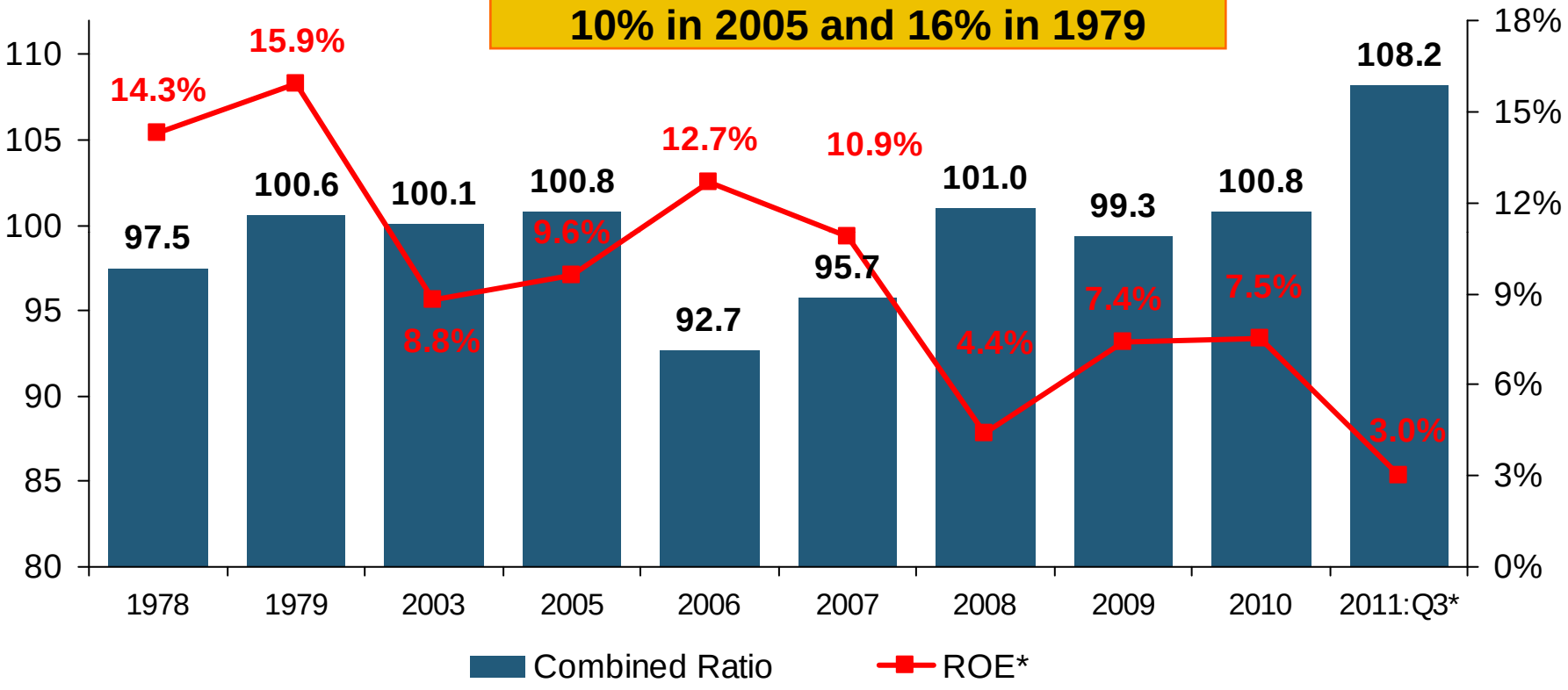
Combined Ratio / ROE

A combined ratio of about 100 generated ~5.5% ROE in 2009/10, 10% in 2005 and 16% in 1979

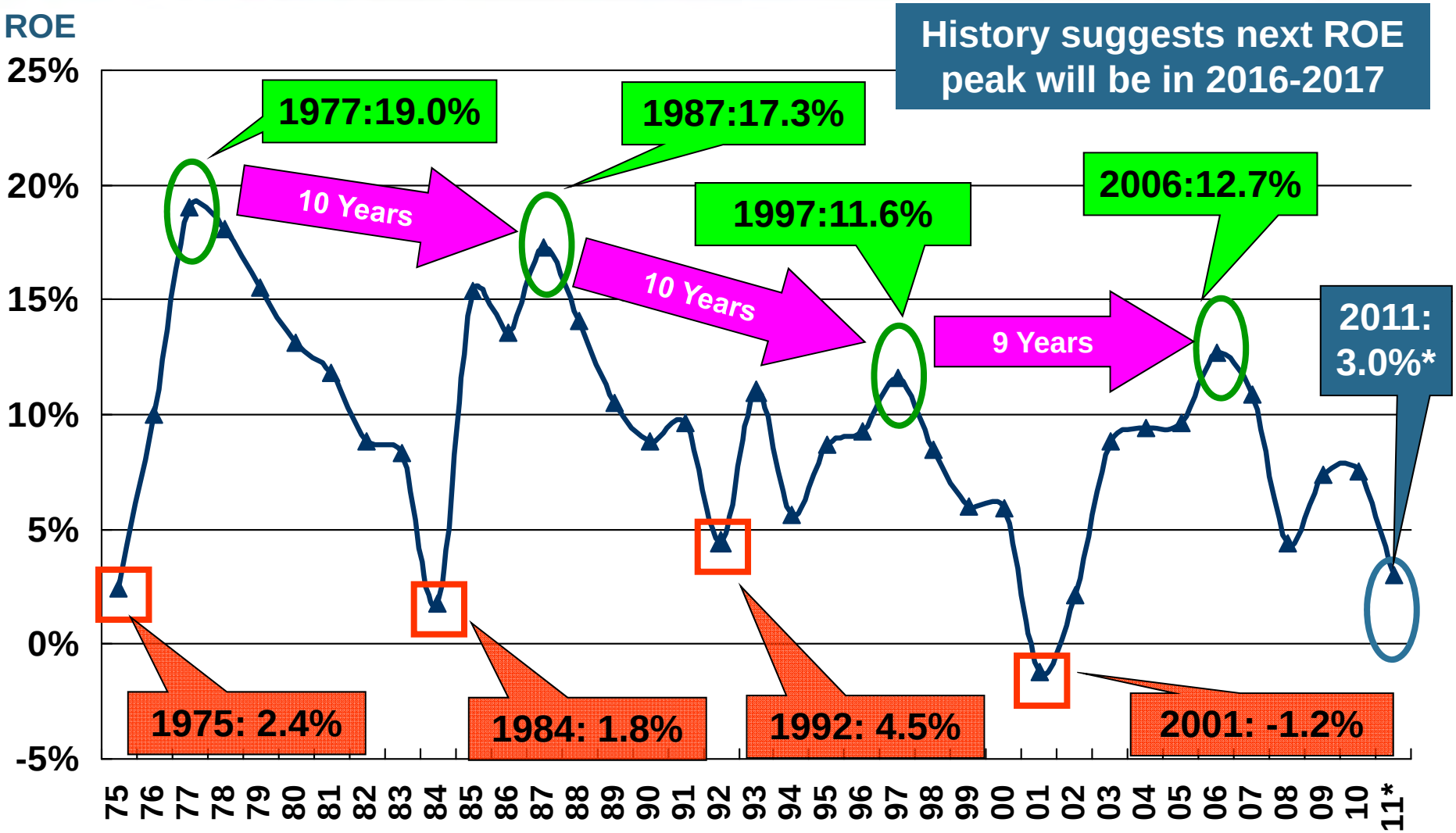


Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2008 -2011 figures are return on average surplus and exclude mortgage and financial guaranty insurers. 2011:Q3 combined ratio including M&FG insurers is 109.9, ROAS = 1.9%.

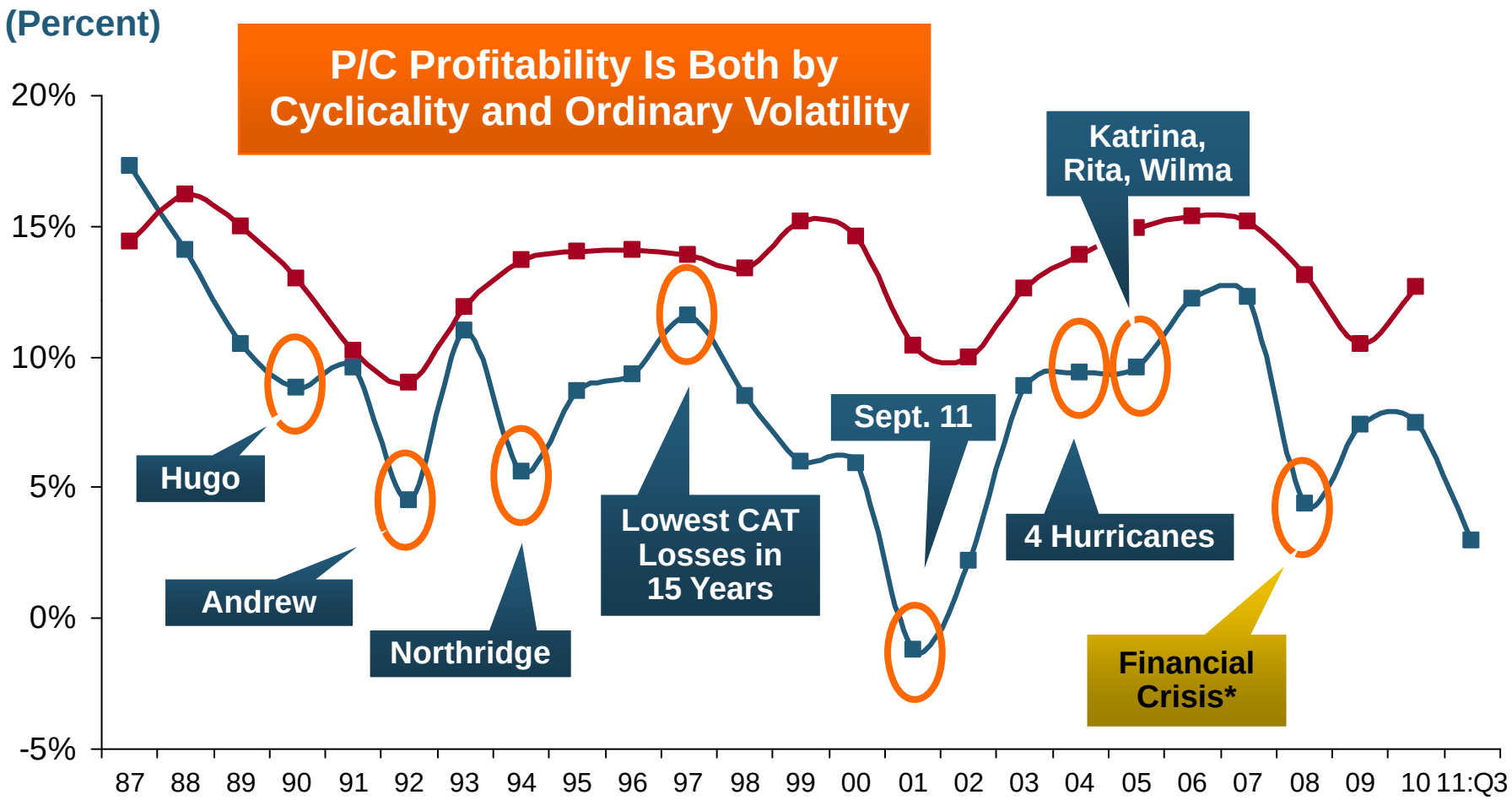
Source: Insurance Information Institute from A.M. Best and ISO data.

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



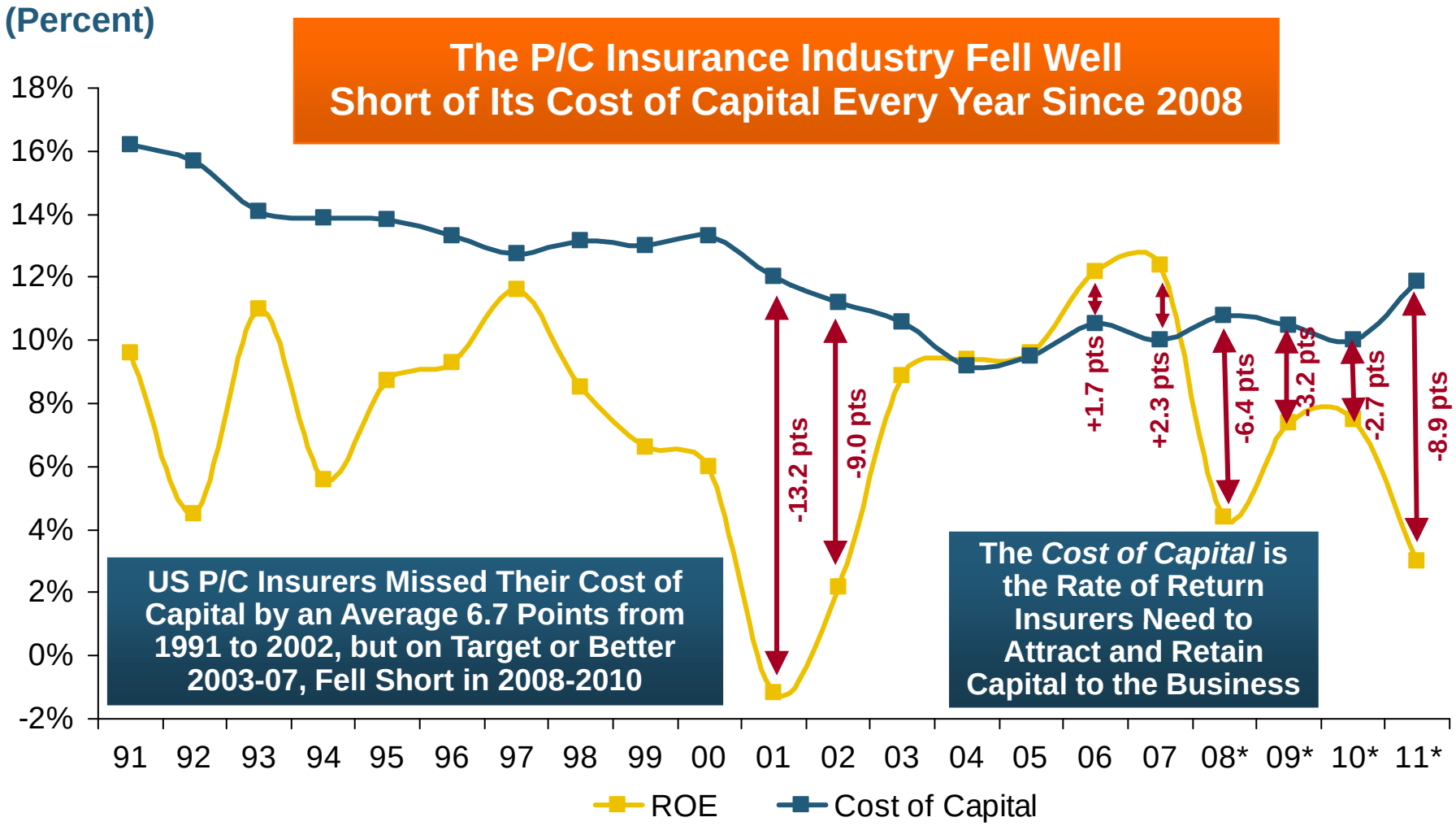
*Profitability = P/C insurer ROEs are I.I.I. estimates. 2011 figure is an estimate based on annualized ROAS through Q3 data.
Note: Data for 2008-2011 exclude mortgage and financial guaranty insurers. For 2011:Q3 ROAS = 1.9% including M&FG.
Source: Insurance Information Institute; NAIC, ISO, A.M. Best.

ROE: Property/Casualty Insurance vs. Fortune 500, 1987–2011:Q3*



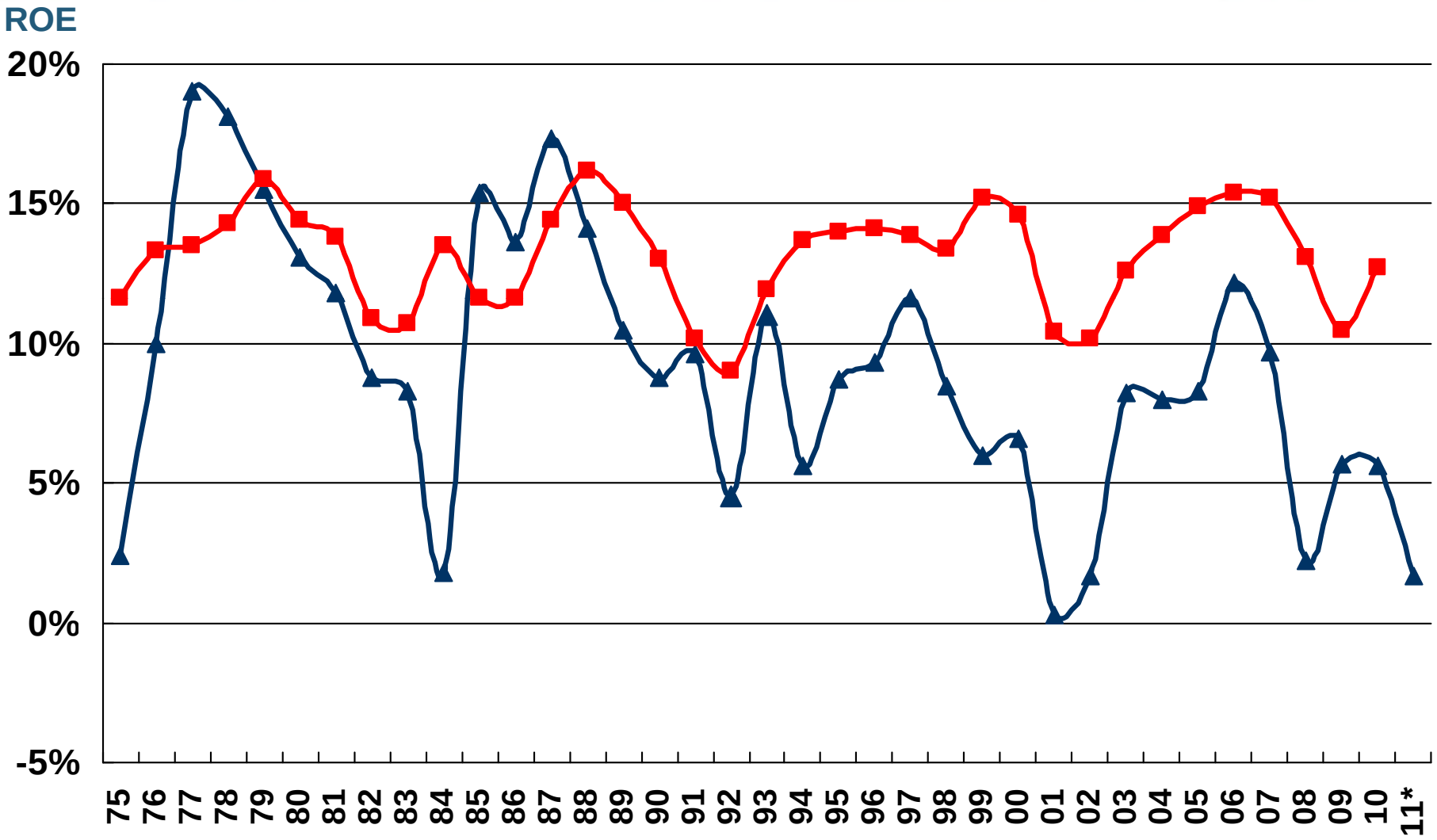
* Excludes Mortgage & Financial Guarantee in 2008 - 2011.
Sources: ISO, *Fortune*; Insurance Information Institute.

ROE vs. Equity Cost of Capital: U.S. P/C Insurance:1991-2011*



* Return on average surplus in 2008-2011 excluding mortgage and financial guaranty insurers.
Source: The Geneva Association, Insurance Information Institute

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



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

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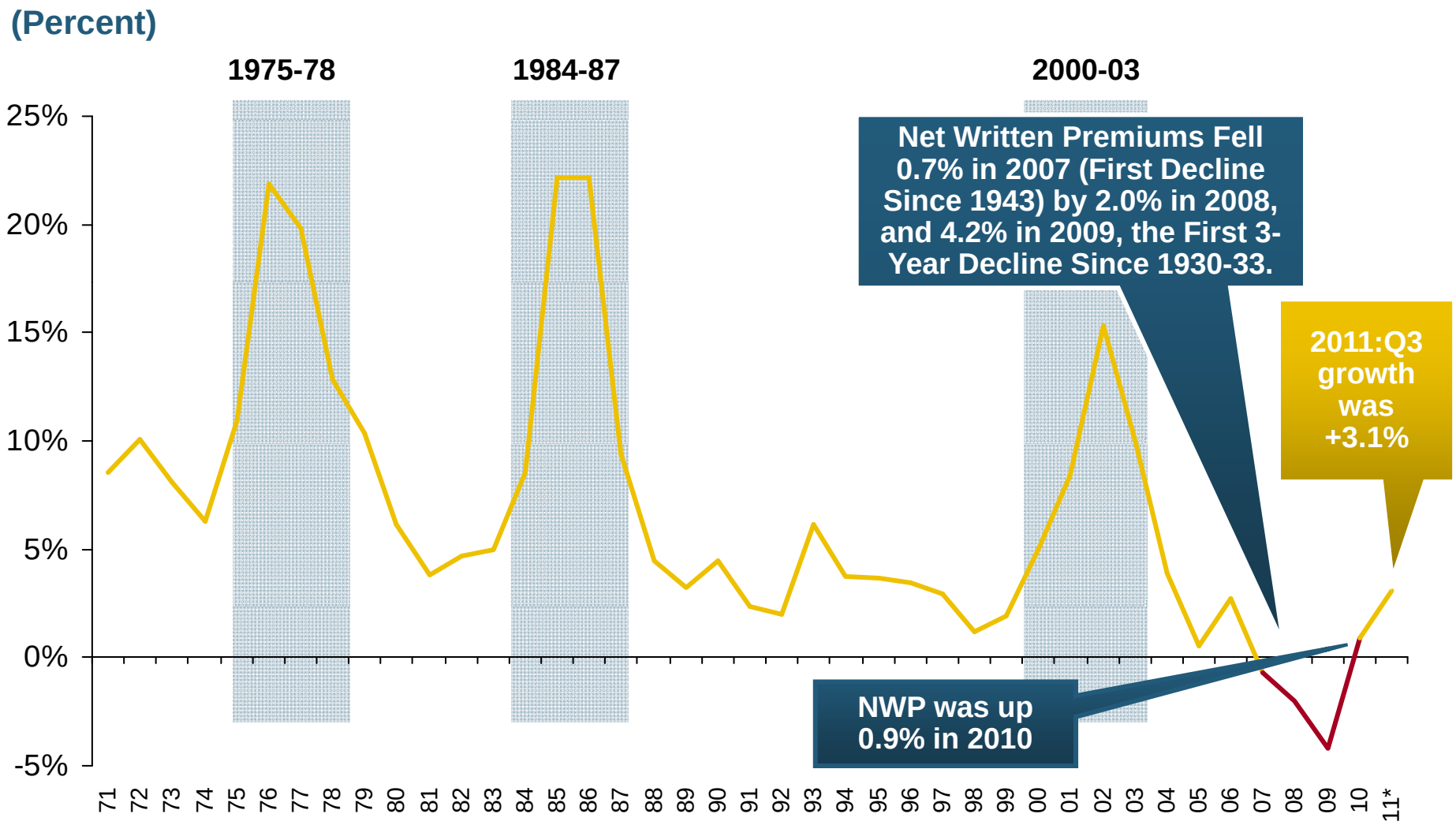
P/C Premium Growth Cycles

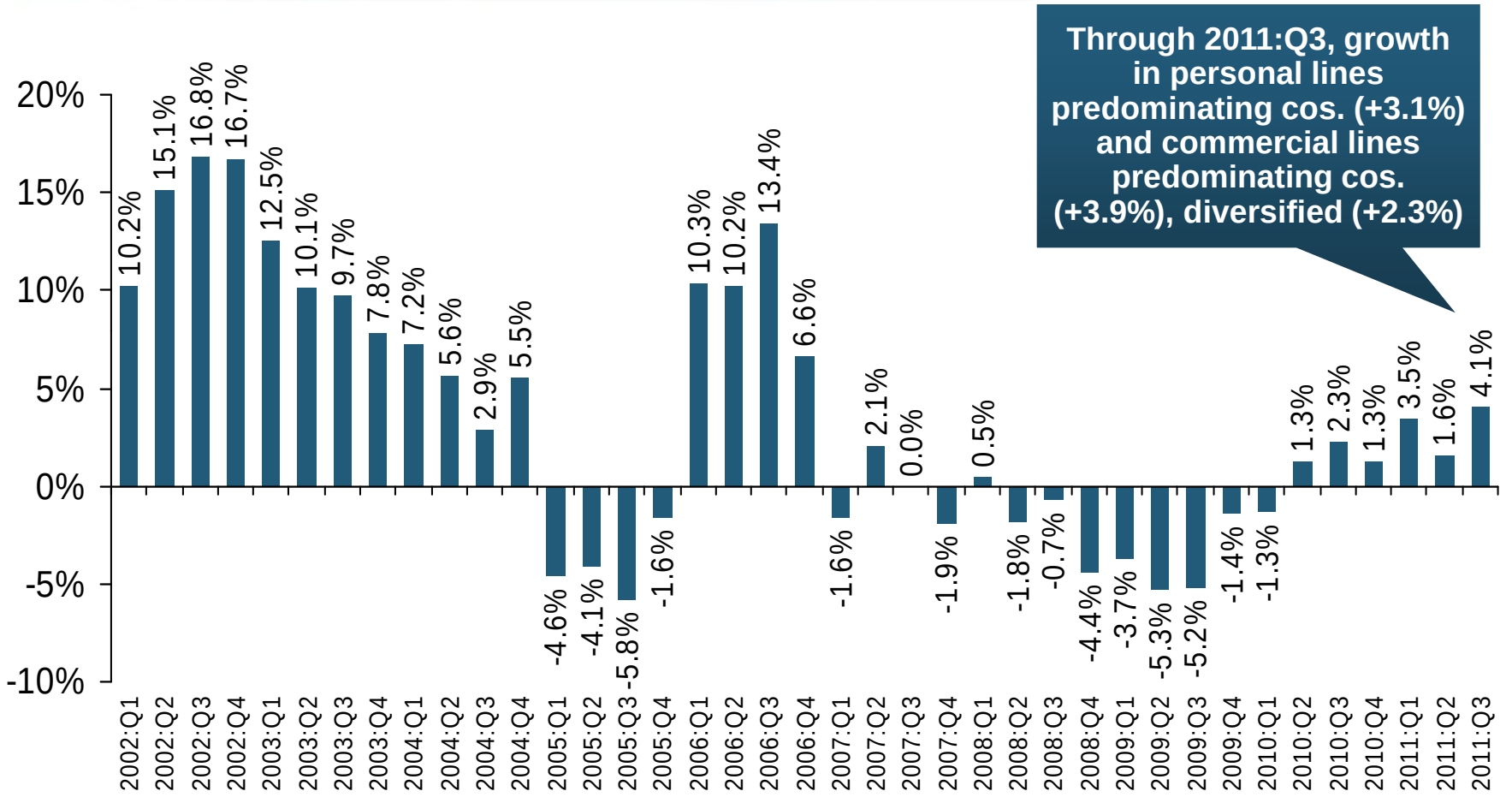
Cyclicality is Driven Primarily by the Industry's Underwriting Cycle, Not the Economy

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



*2011 figure is through first 9 months vs. same period in 2010
Shaded areas denote "hard market" periods
Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute.

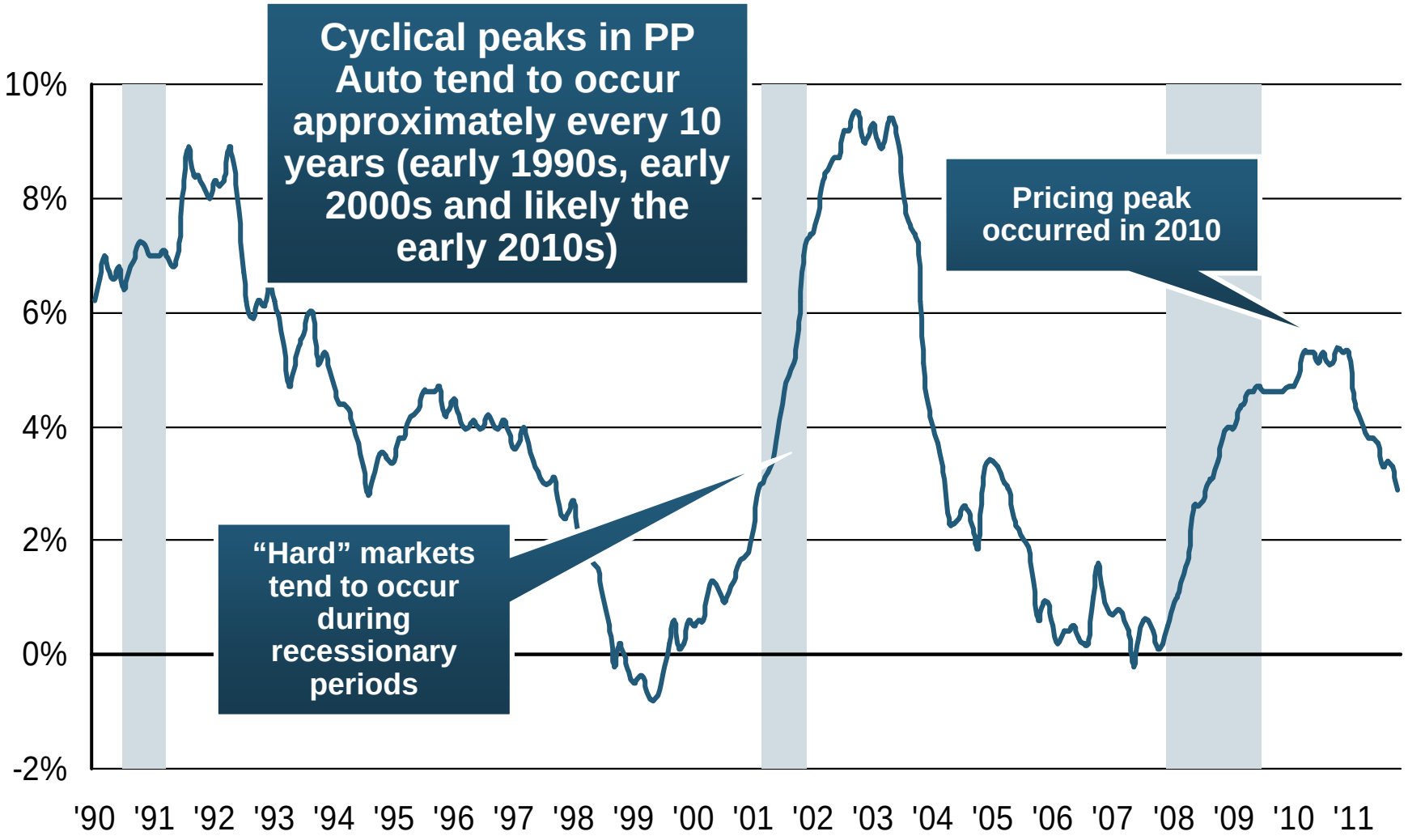
P/C Net Premiums Written: % Change, Quarter vs. Year-Prior Quarter



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

Sources: ISO, Insurance Information Institute.

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

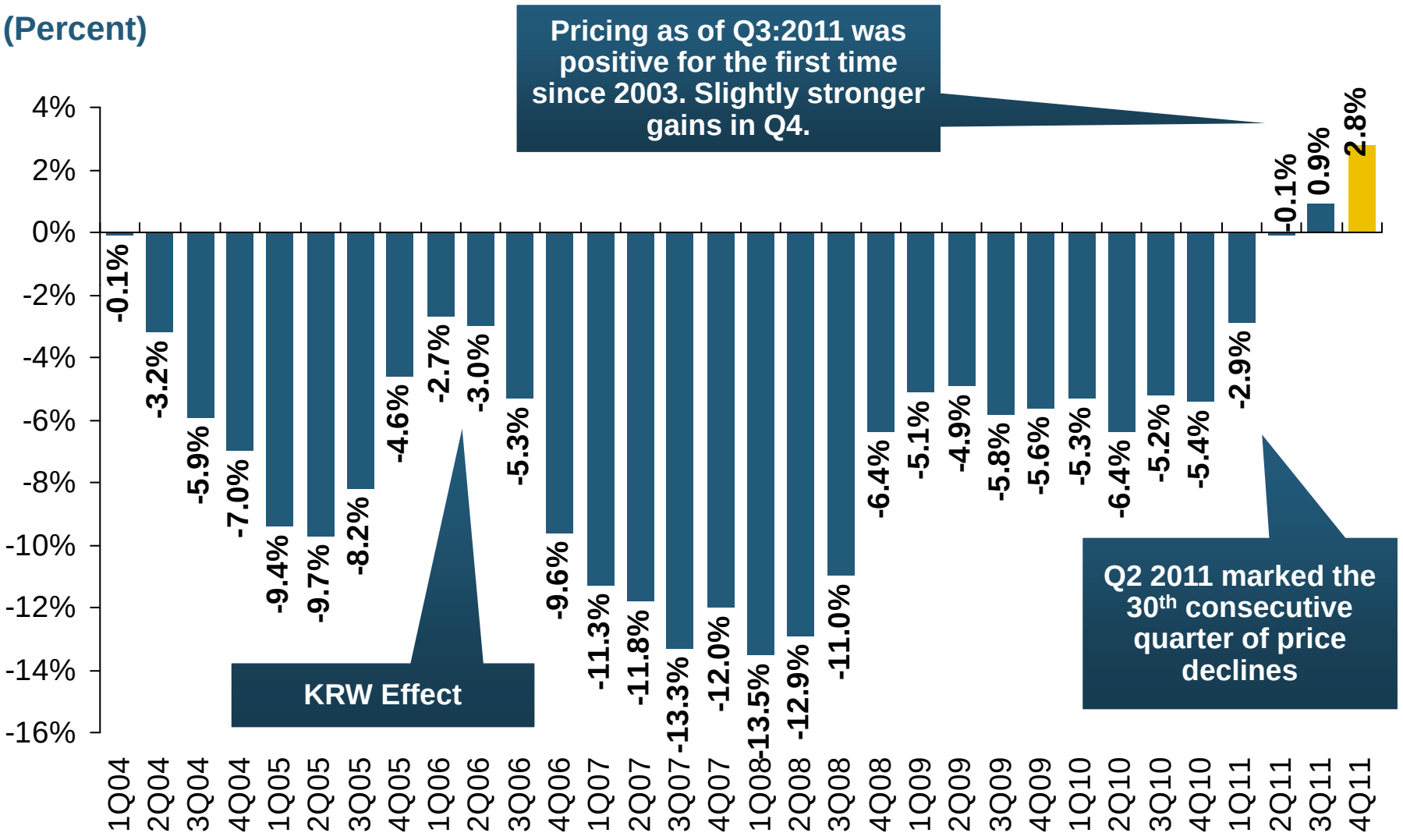


*Percentage change from same month in prior year; through October 2011; seasonally adjusted

Note: Recessions indicated by gray shaded columns.

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

Average Commercial Rate Change, All Lines, (1Q:2004–4Q:2011)



Source: Council of Insurance Agents & Brokers (1Q04-4Q11); Insurance Information Institute

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

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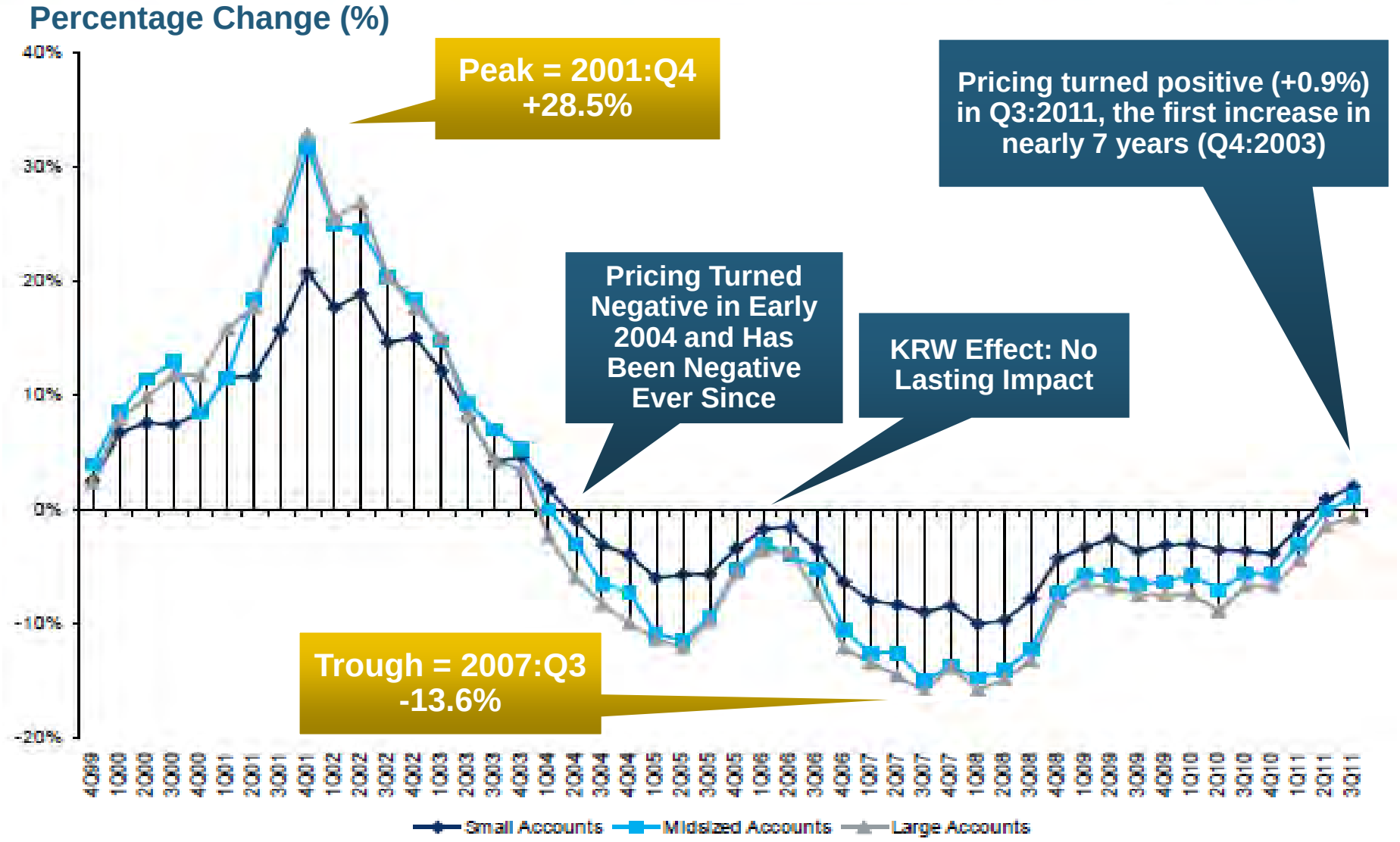

Source: Council of Insurance Agents and Brokers; Insurance Information Institute.

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

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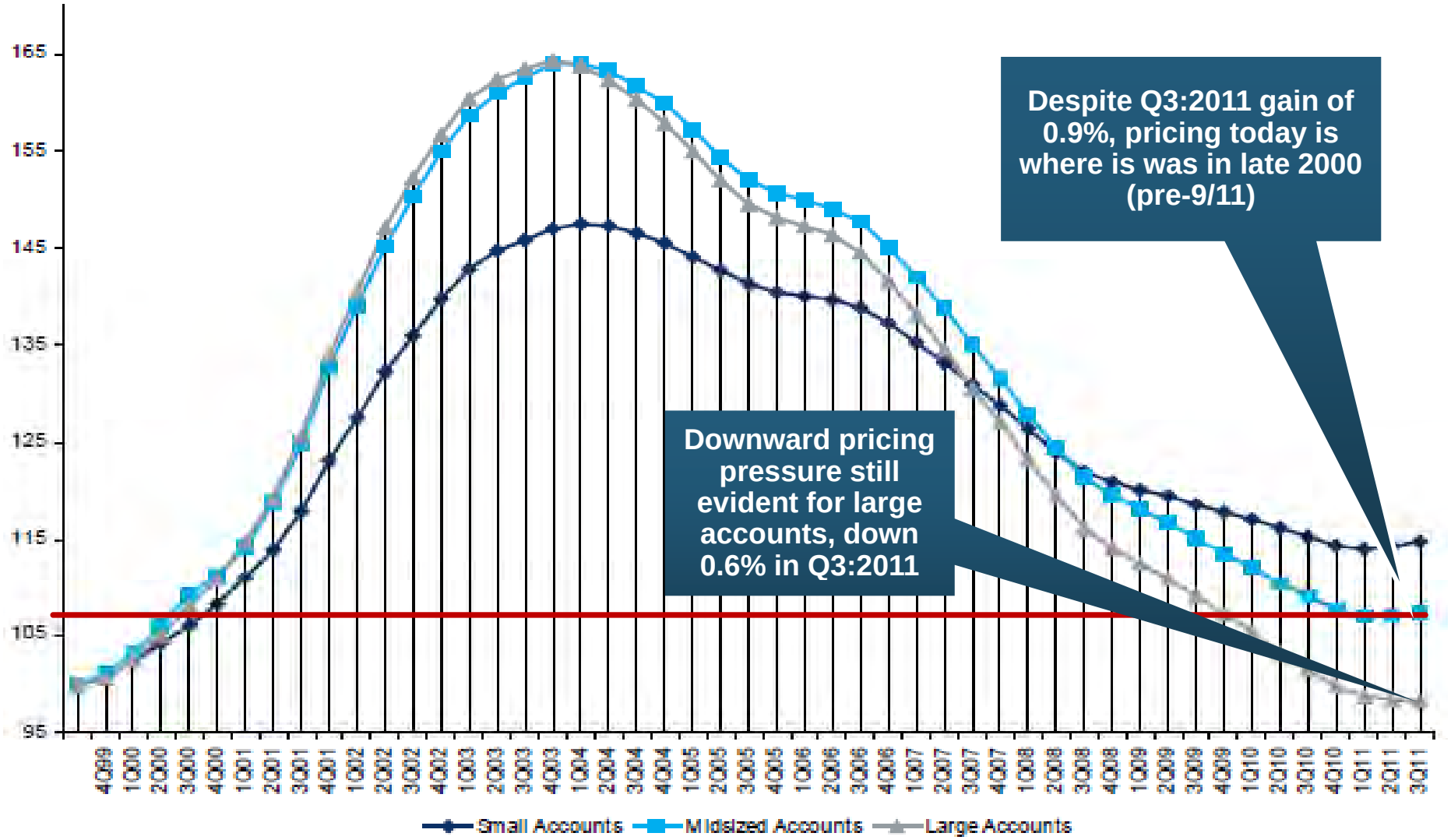
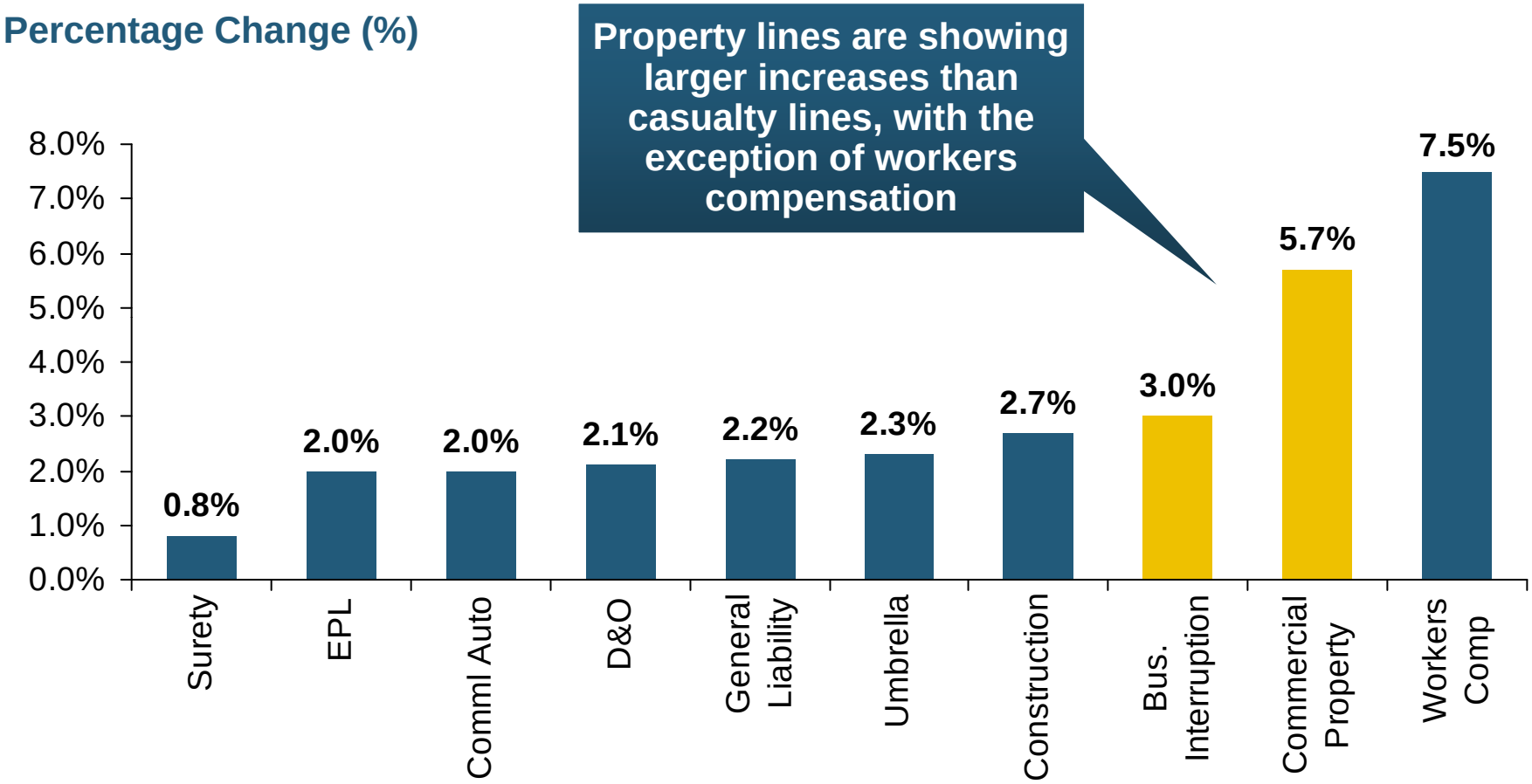
1999:Q4 = 100



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

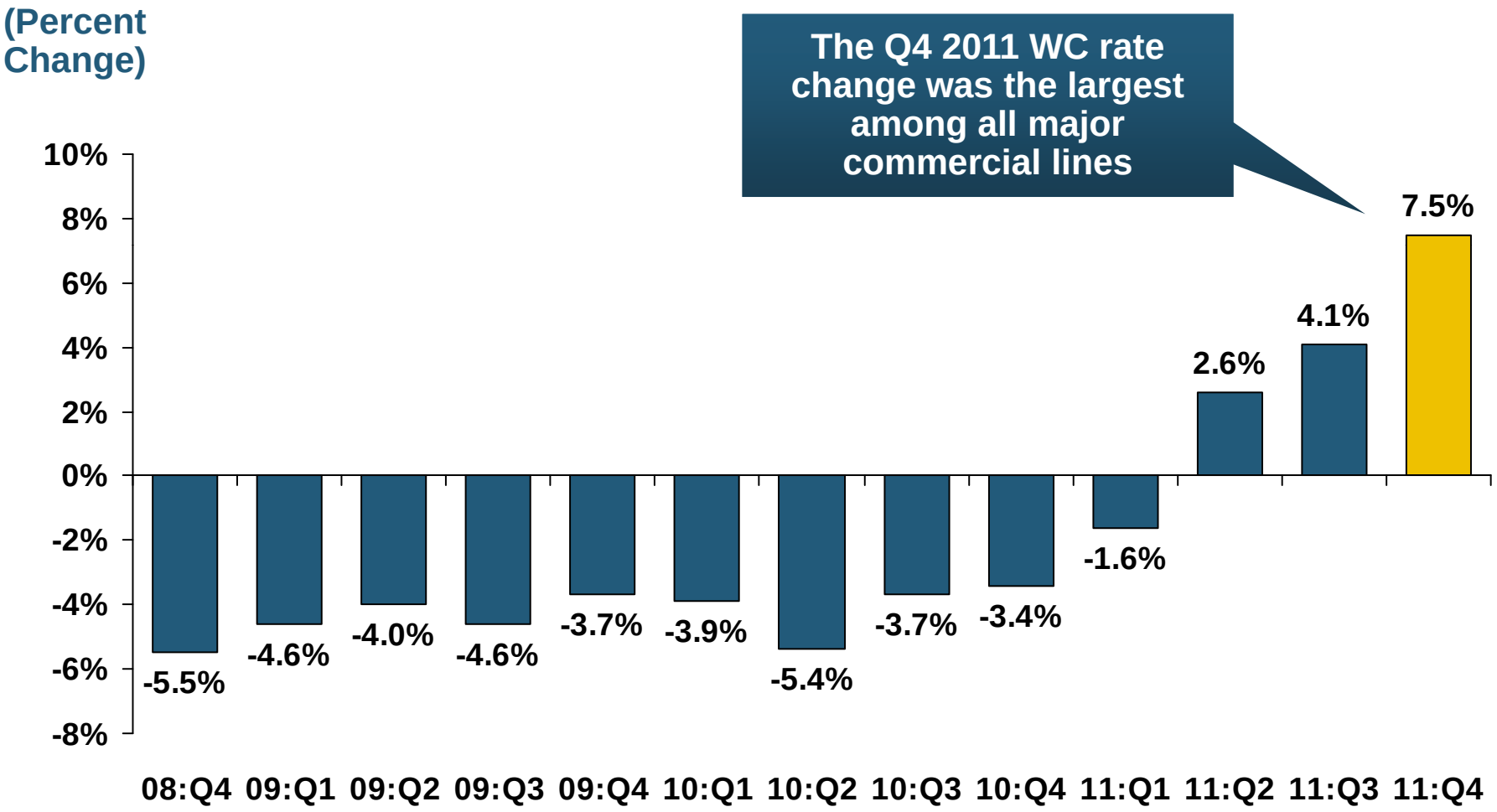
Change in Commercial Rate Renewals, by Line: 2011:Q4



Major Commercial Lines Renewed Uniformly Upward in Q4:2011 for Only the Second Time Since 2003; Property Lines & Workers Comp Leading the Way

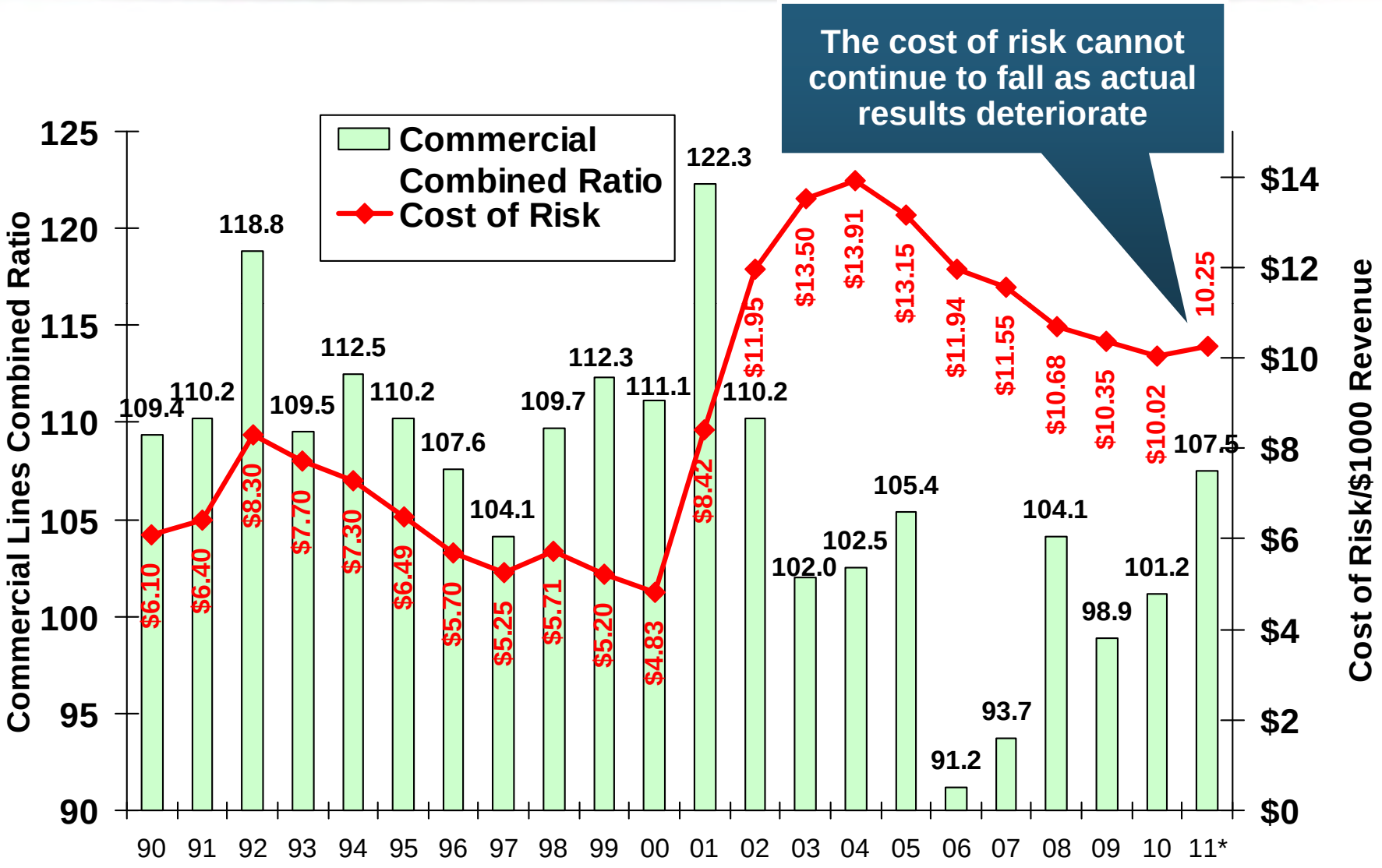
Source: Council of Insurance Agents and Brokers; Insurance Information Institute.

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



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

Cost of Risk vs. Commercial Lines Combined Ratio



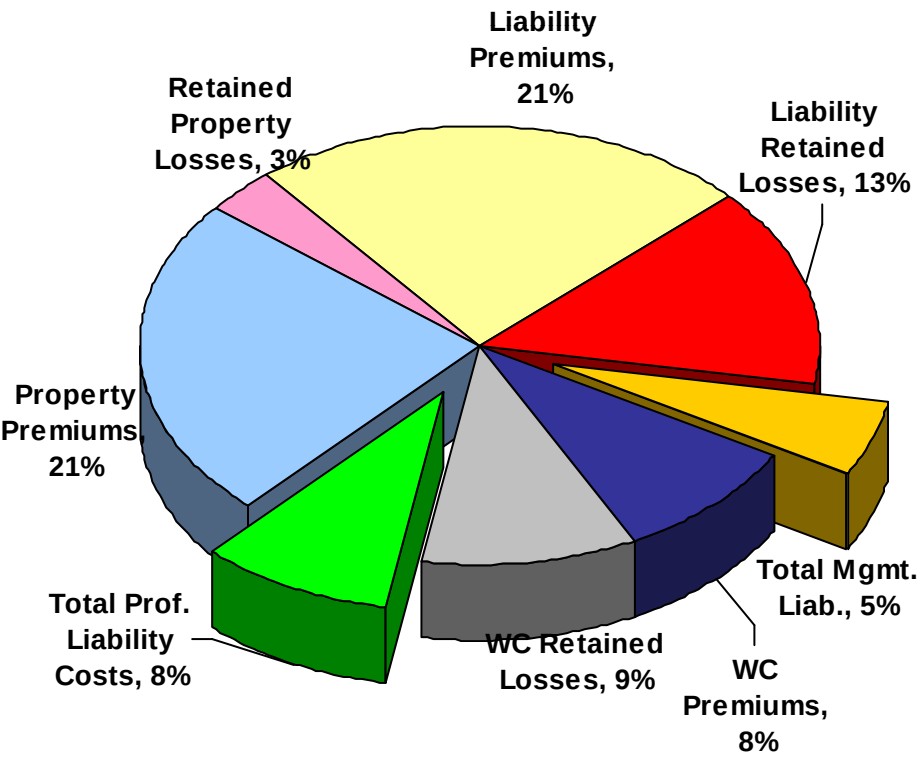
*Insurance Information Institute estimates for 2011.

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

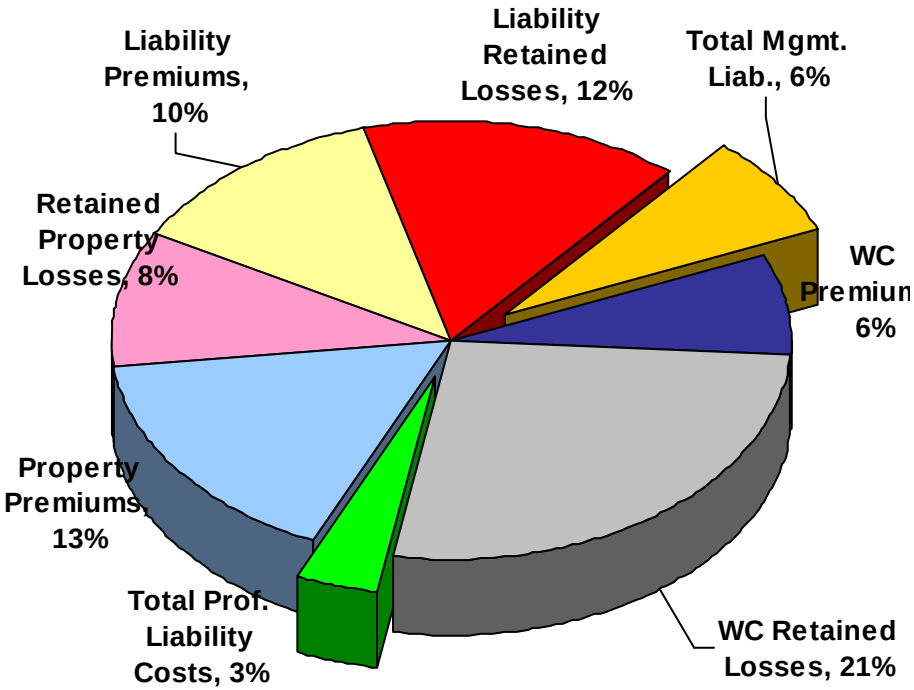
How the Risk Dollar is Spent (2011)

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

Firms w/Revenues < $1 Billion



Firms w/Revenues > $1 Billion



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

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

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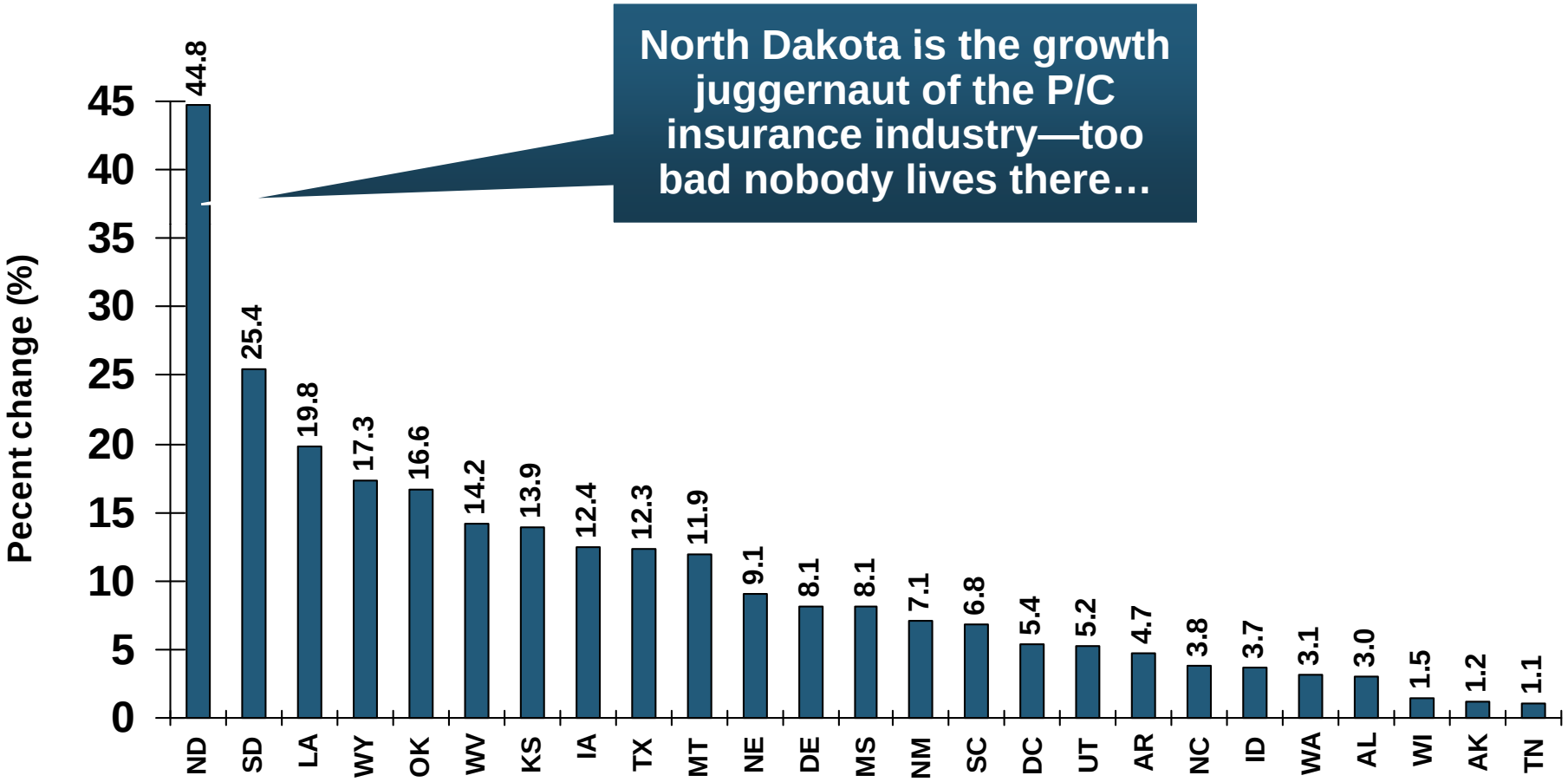
Top 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

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

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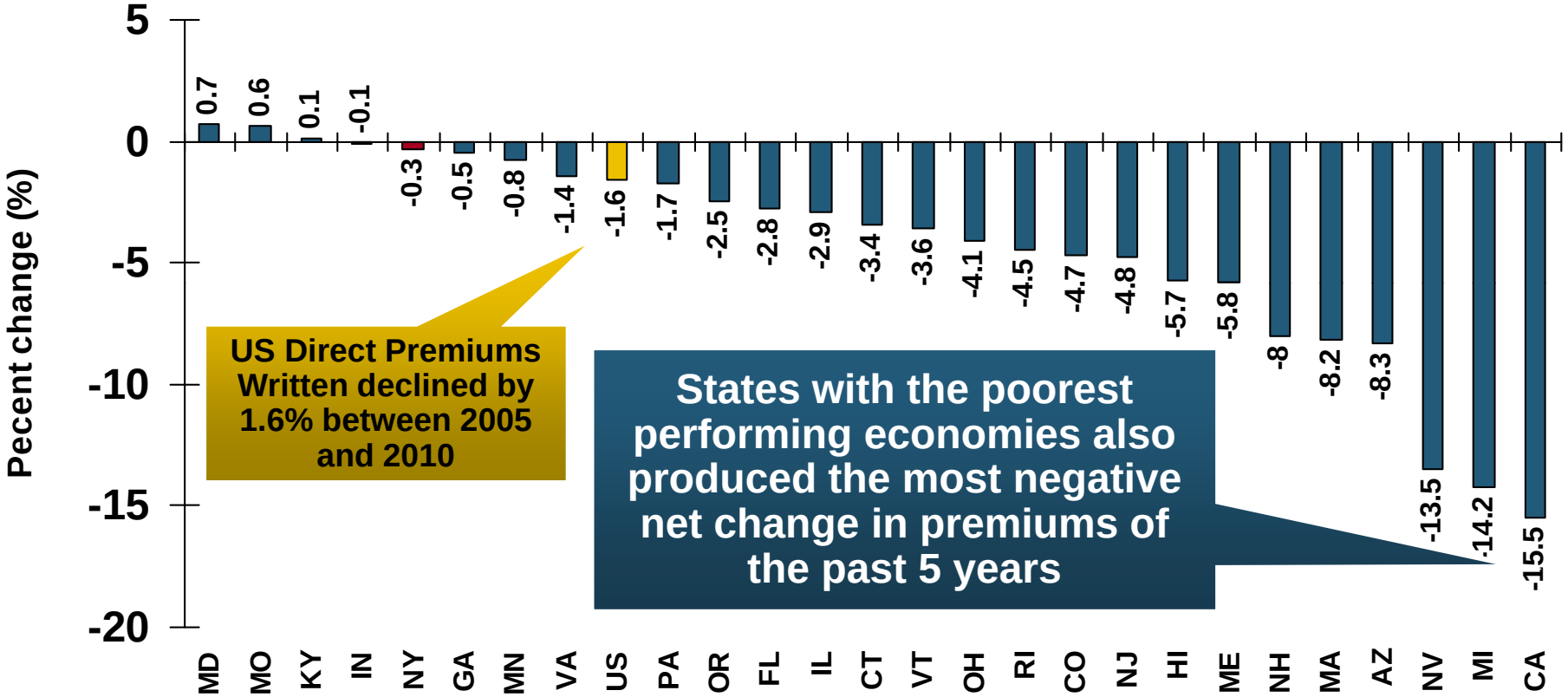
Bottom 25 States



Sources: SNL Financial LC; Insurance Information Institute.

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Capital/Policyholder Surplus (US)

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

US Policyholder Surplus: 1975–2011*

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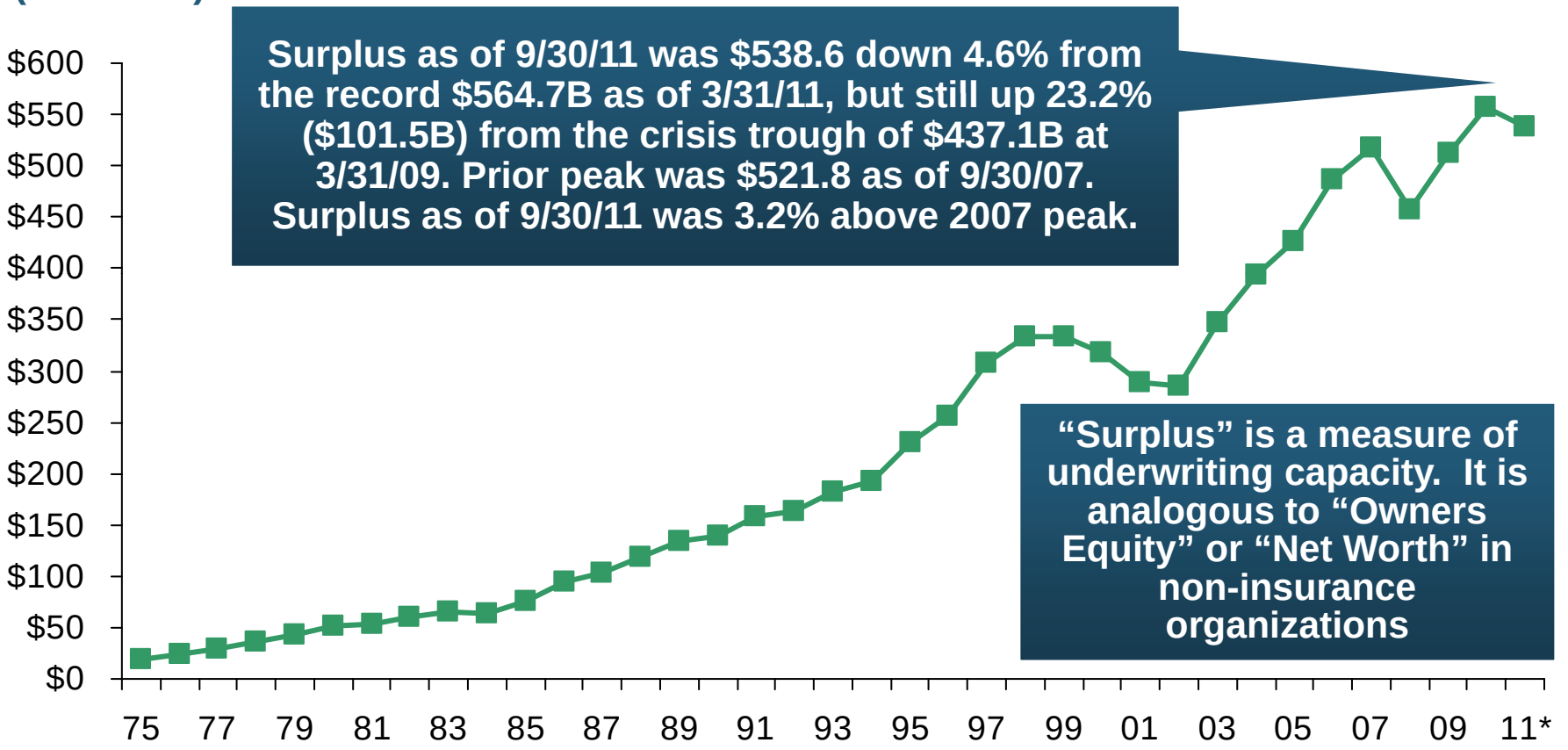
($ Billions)



Surplus as of 9/30/11 was $538.6 down 4.6% from the record $564.7B as of 3/31/11, but still up 23.2% ($101.5B) from the crisis trough of $437.1B at 3/31/09. Prior peak was $521.8 as of 9/30/07. Surplus as of 9/30/11 was 3.2% above 2007 peak.

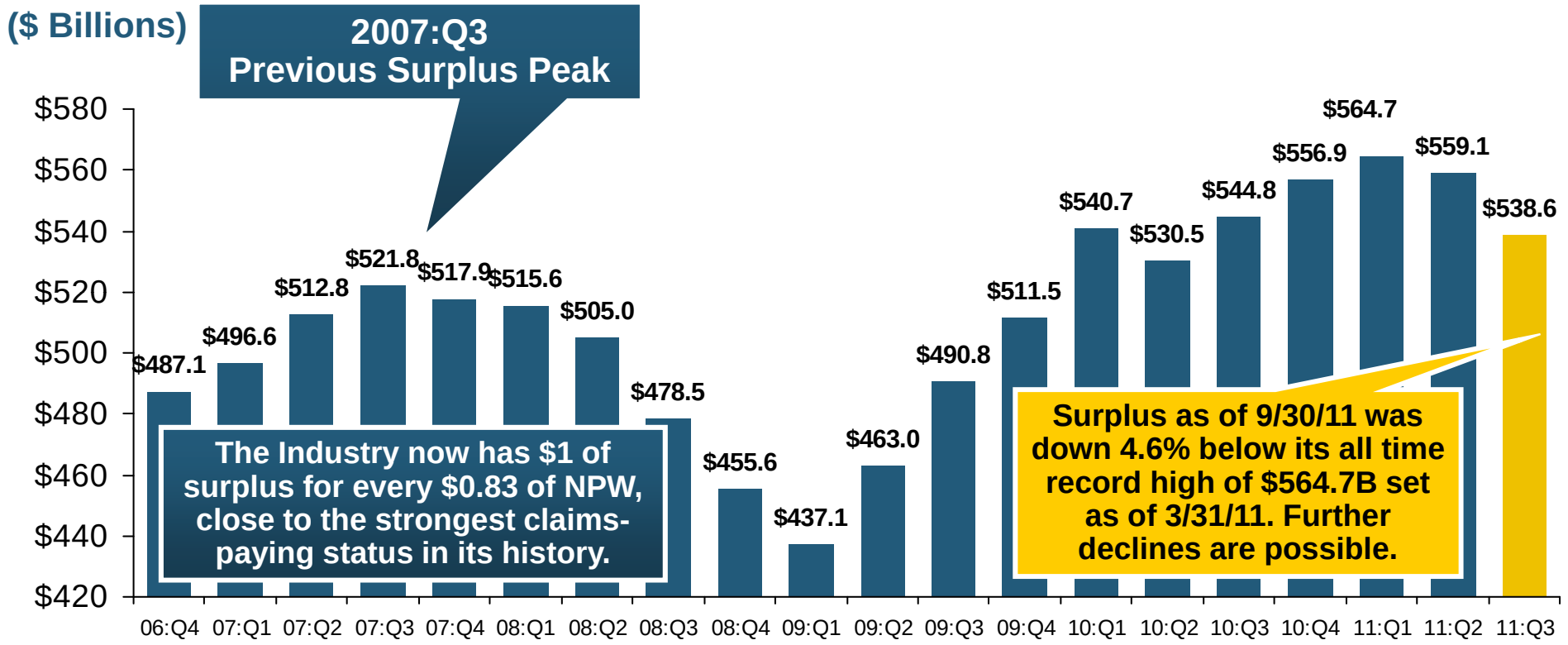
"Surplus" is a measure of underwriting capacity. It is analogous to "Owners Equity" or "Net Worth" in non-insurance organizations

The Premium-to-Surplus Ratio Stood at $0.83:$1 as of 9/30/11, A Near Record Low (at Least in Recent History)*

* As of 9/30/11.

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

Policyholder Surplus, 2006:Q4–2011:Q3



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

Quarterly Surplus Changes Since 2011:Q1 Peak

11:Q2: -$5.6B (-1.0%)

11:Q3: -$26.1B (-4.6%)

Sources: ISO, A.M .Best.

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

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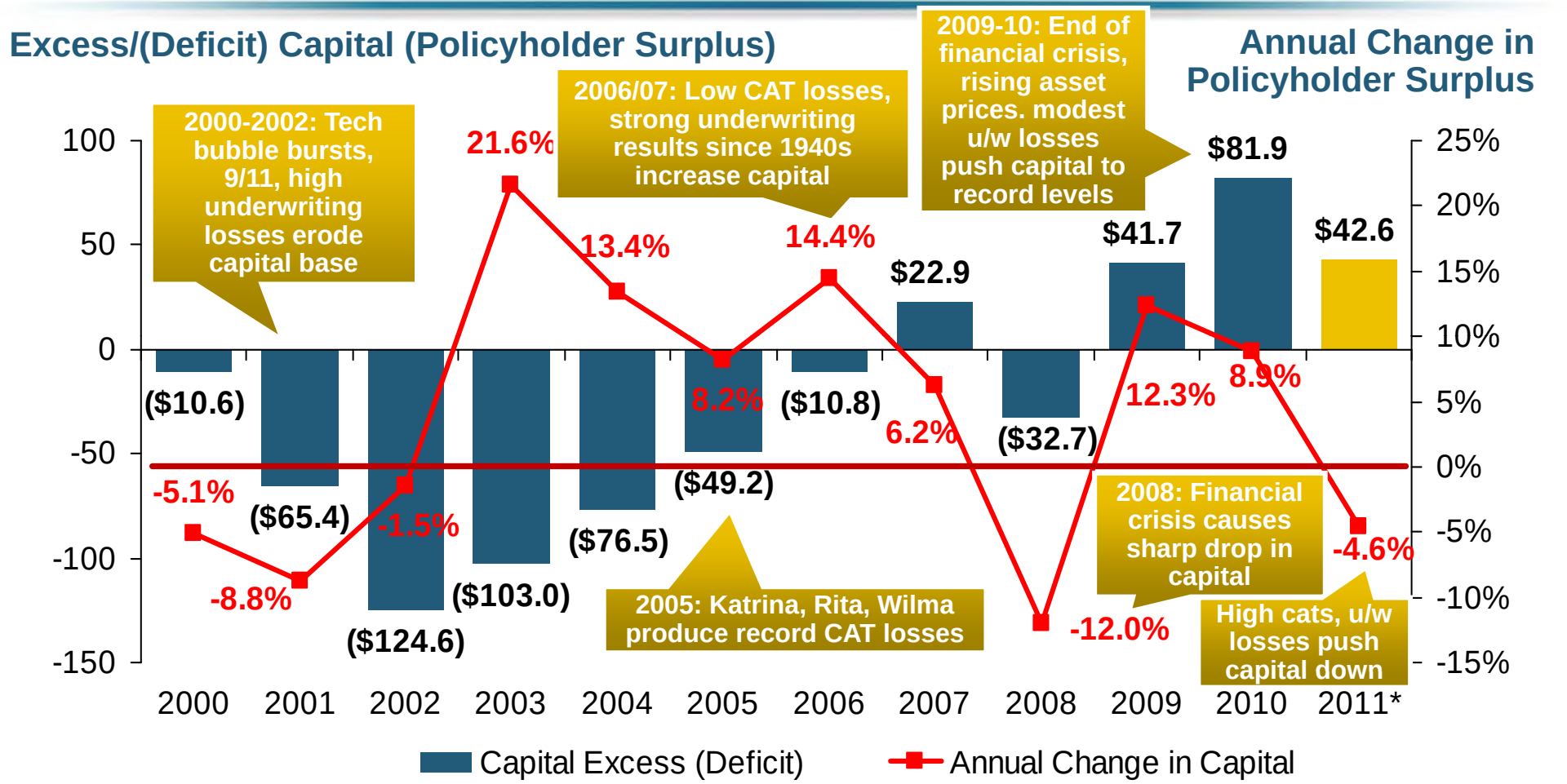


Record Policyholder Surplus (Capital) Resulted in Significant Excess Capital in the P/C Insurance Sector in 2010. Deteriorating Underwriting Losses, Higher CAT Activity, More Modest Market Returns Shrank Excess Capital in 2011 by Nearly Half.

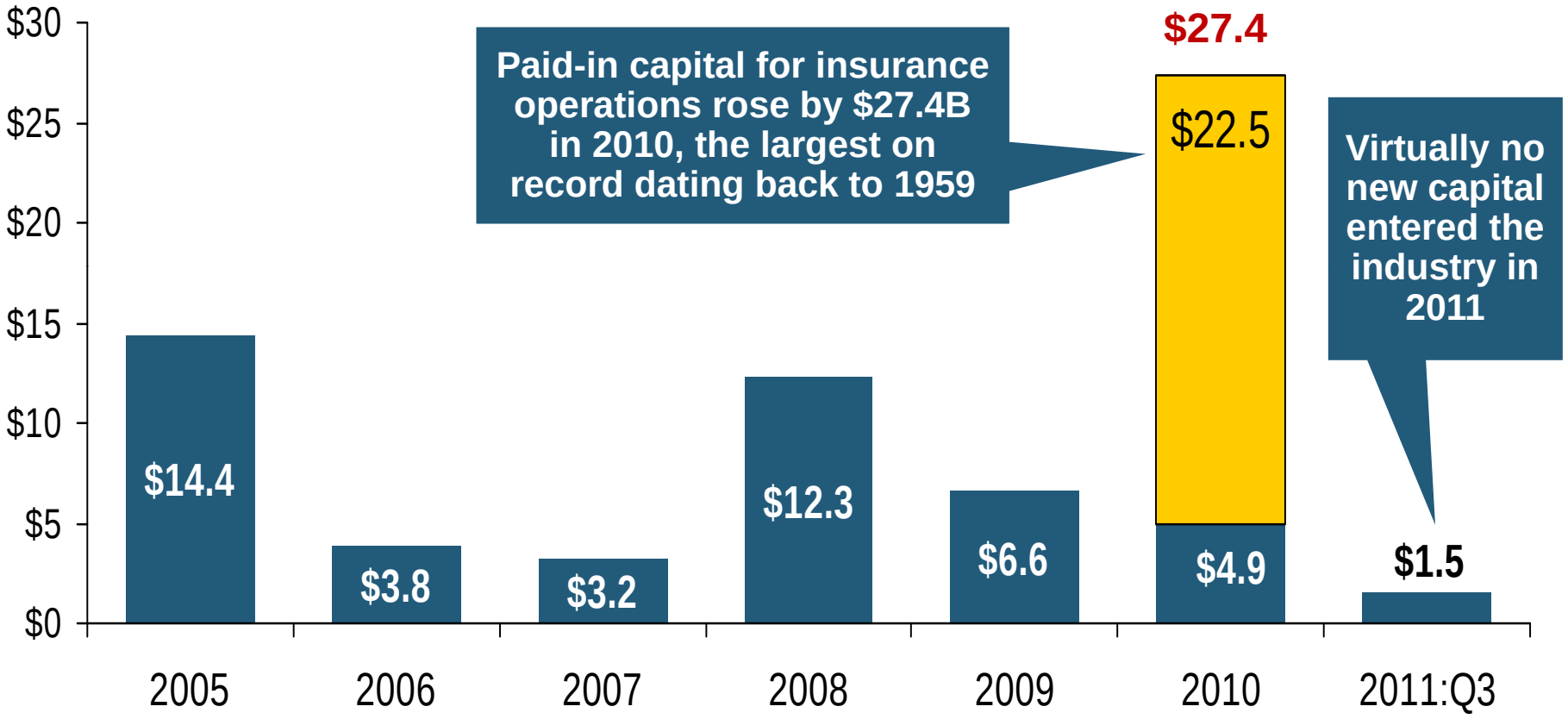
Note: The assumption of a 0.9:1 P/S ratio is derived from a Feb. 2011 announcement by Advisen, Ltd., that the US P/C insurance industry has $74 billion in excess capital. The implied P/S ratio (calculated by III) is 0.88:1, which was rounded to 0.9:1.

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

* Net Premiums Written

Paid-in Capital, 2005–2011:Q3

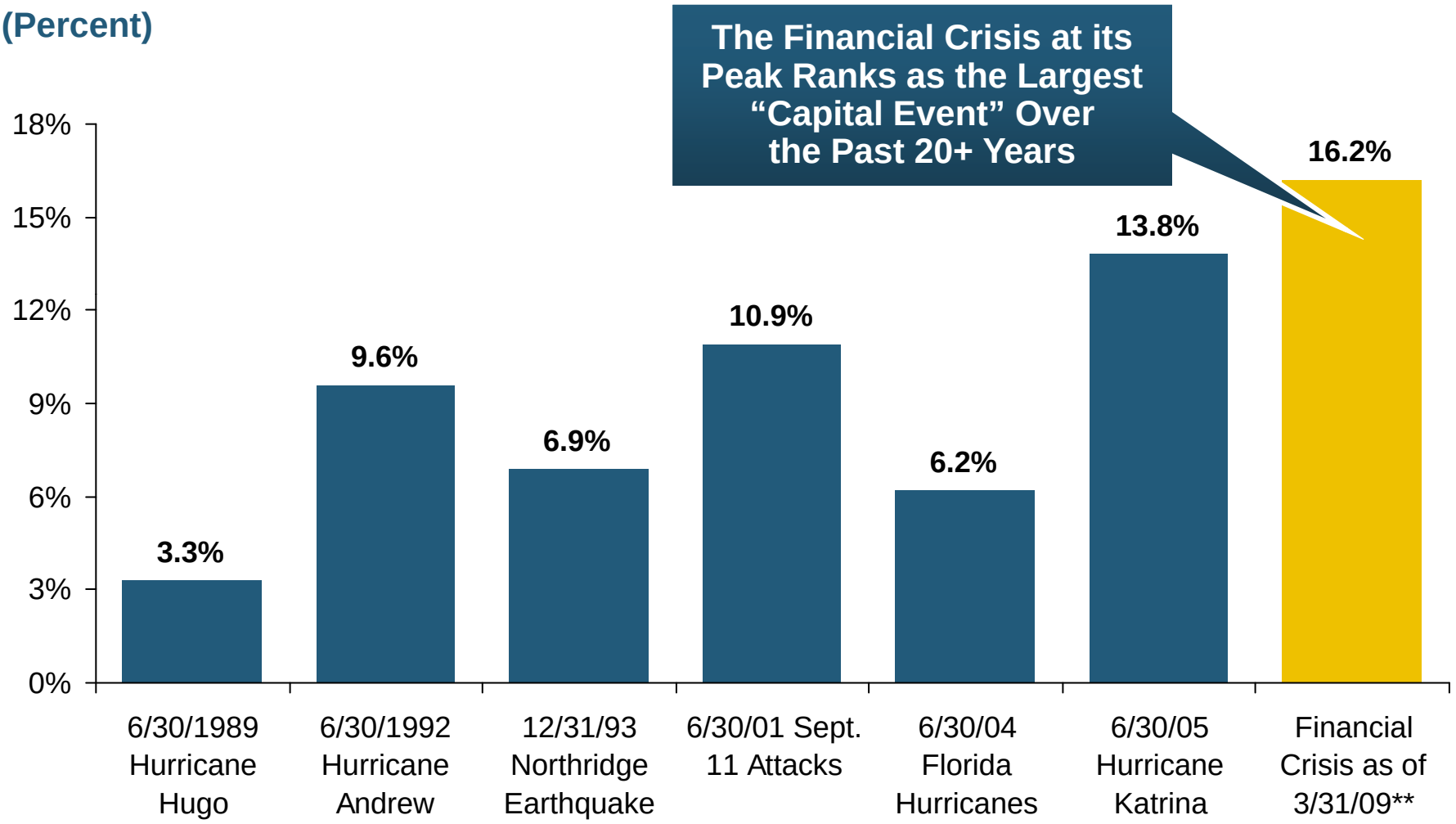
($ Billions)



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*

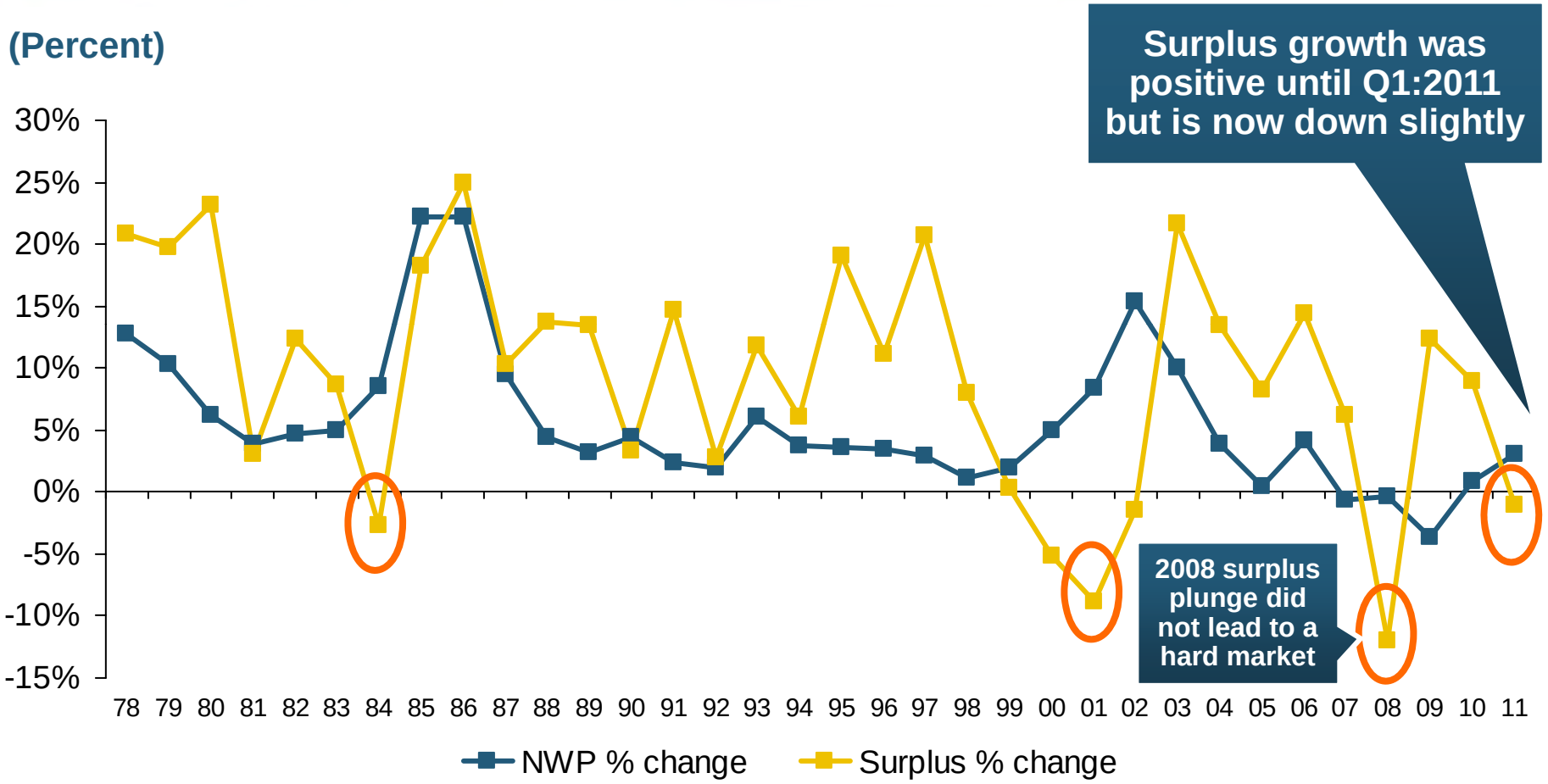


* Ratio is for end-of-quarter surplus immediately prior to event. Date shown is end of quarter prior to event

** 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*

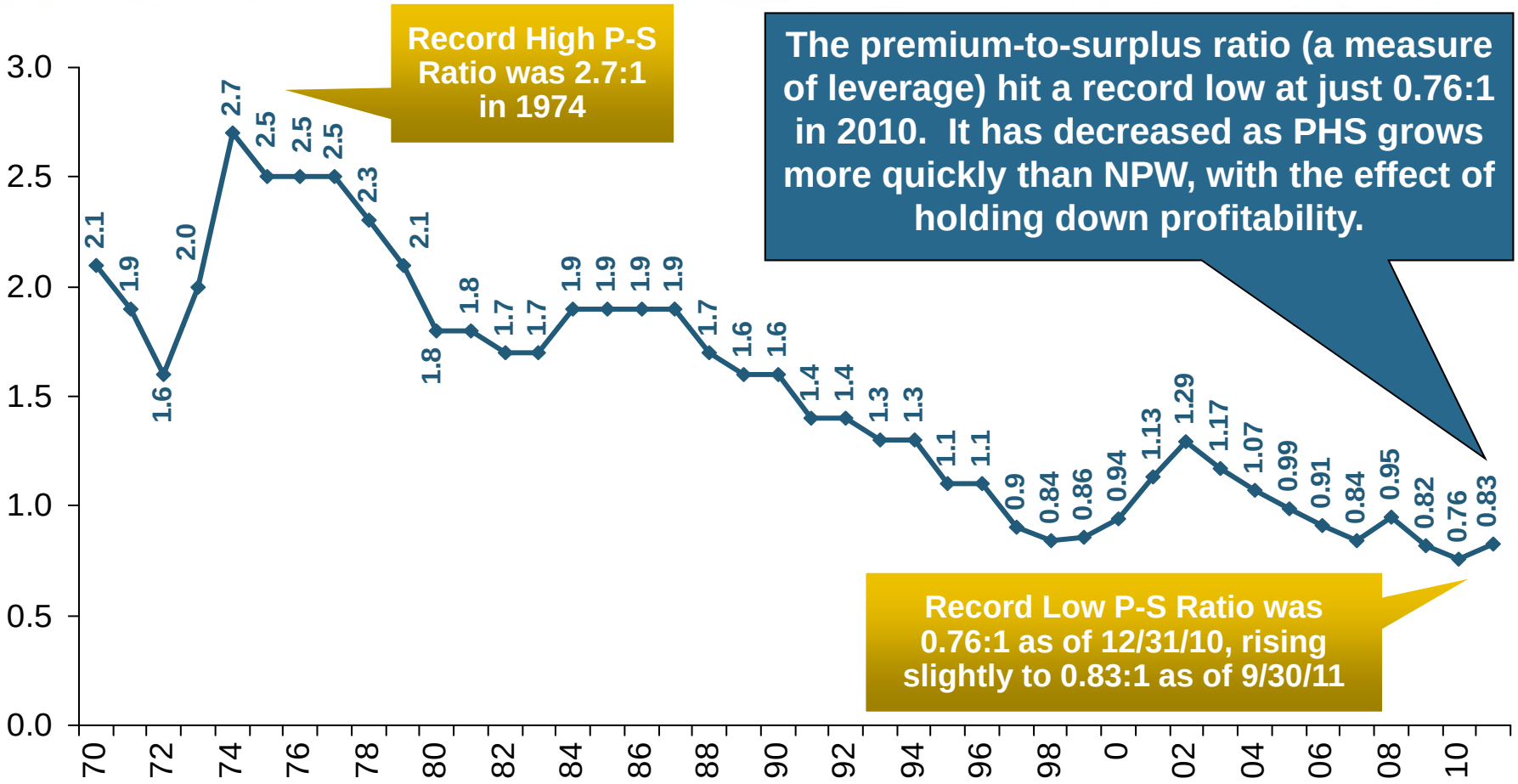


Sharp Decline in Capacity is a Necessary but Not Sufficient Condition for a True Hard Market

* 2011 NWP and Surplus figures are % changes as of Q3:11 vs. Q3:10.

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:Q3 Implies that P/C Insurers Held $1 in Surplus Against Each $0.83 Written in Premiums. In 1974, Each $1 of Surplus Backed $2.70 in Premium.

*2011 data are as of 9/30/11.

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

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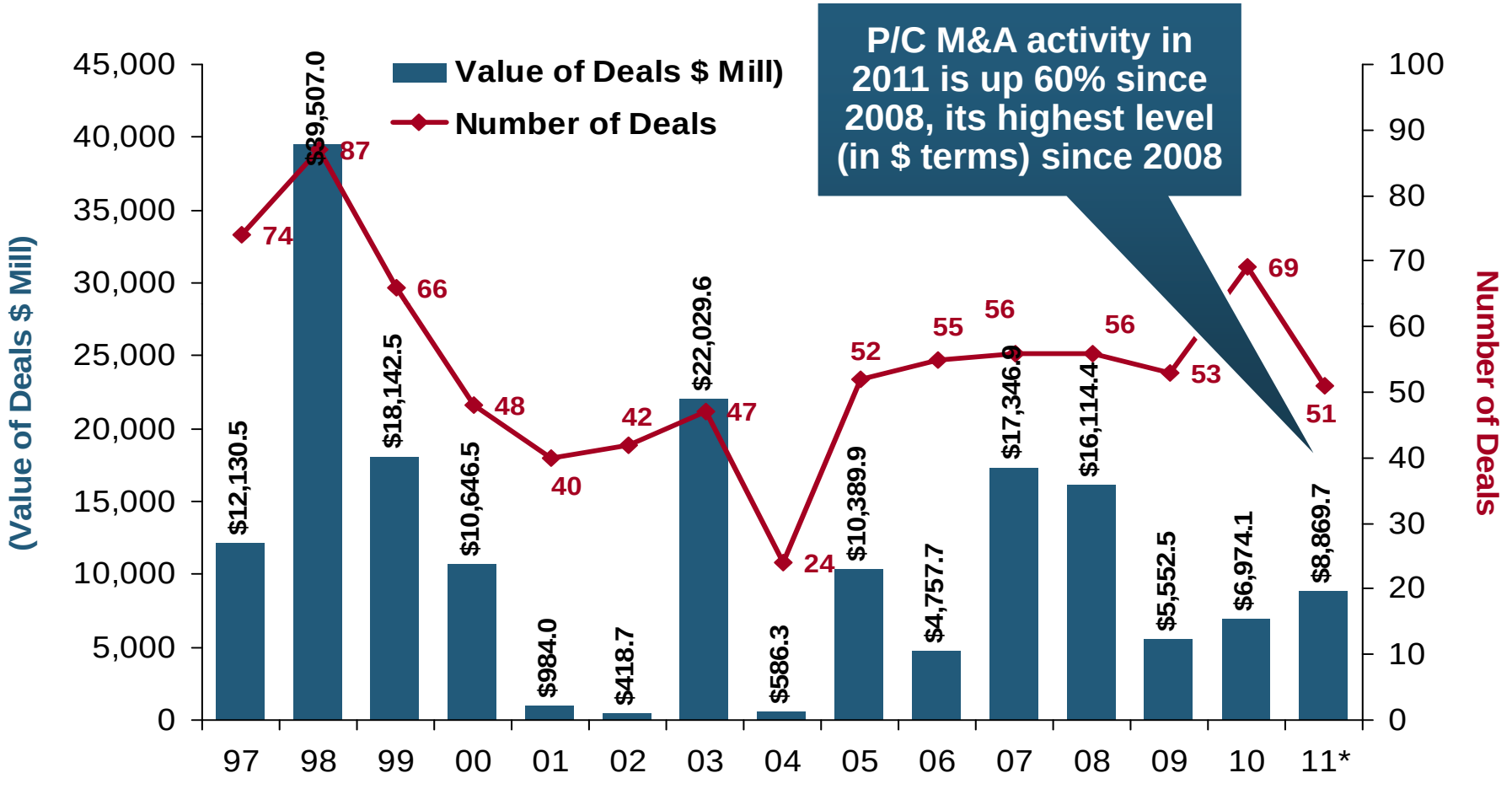
Merger & Acquisition

Capital Cycles Can Drive Consolidation

M&A Activity in the US P/C Insurance Industry, 1997-2011*

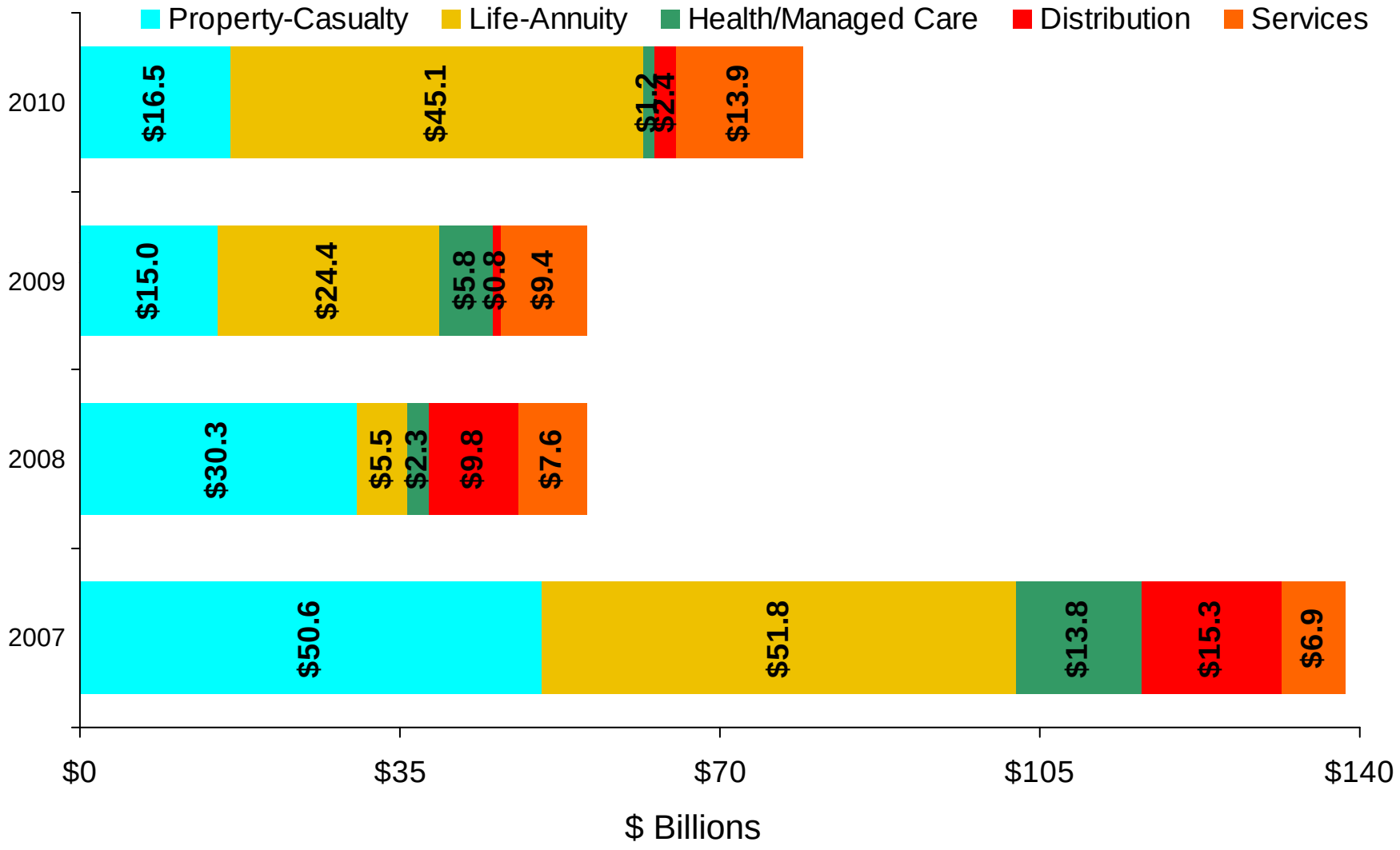


M&A Activity in the P/C Insurance Industry Remains Well Below its 1990s Peak

*2011 data are through December 1.

Source: SNL Securities; Insurance Information Institute.

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



Sources: Conning Research; Insurance Information Institute.

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INVESTMENTS: THE NEW REALITY

Investment Performance is a Key Driver of Profitability

Property/Casualty Insurance Industry Investment Gain: 1994–2011:Q3[1]

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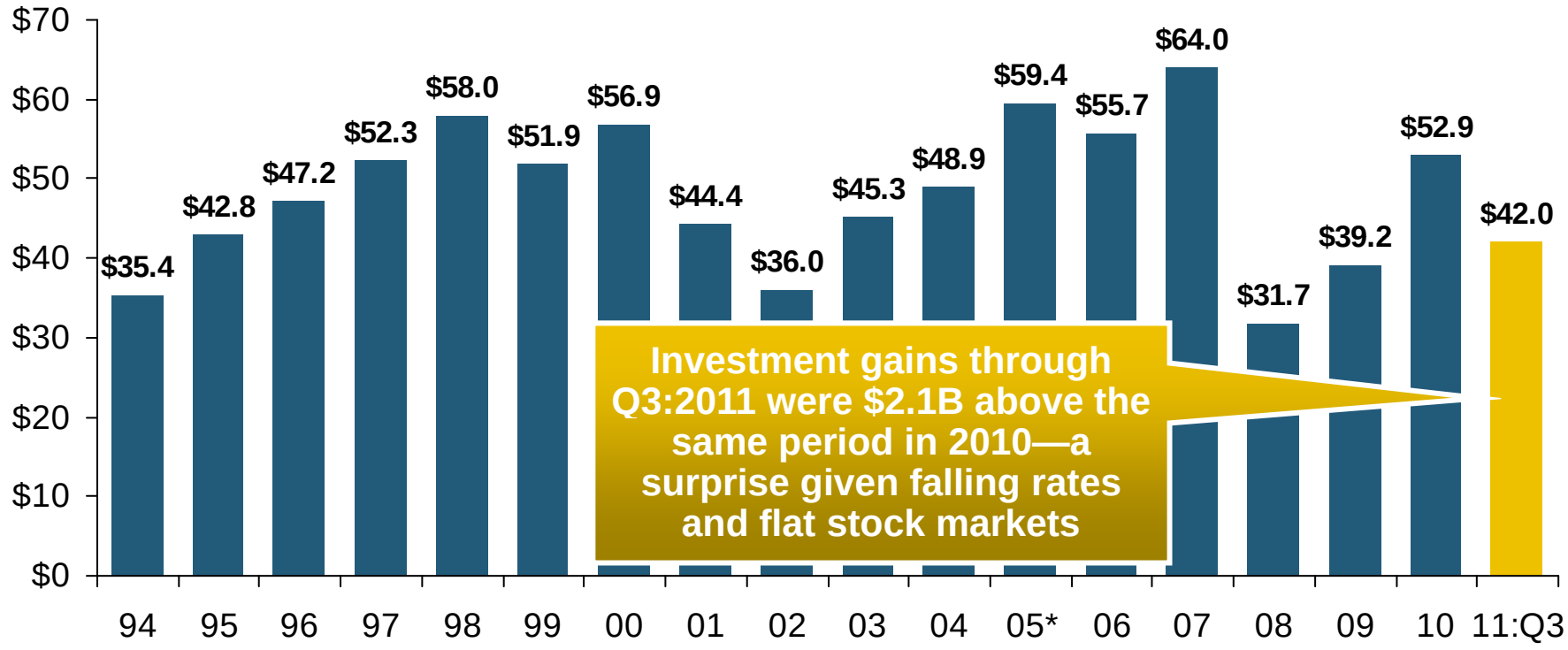
($ Billions)



Investment Gains through Q3:2011 Were Surprisingly Robust. 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.

P/C Insurer Net Realized Capital Gains/Losses, 1990-2011:3Q

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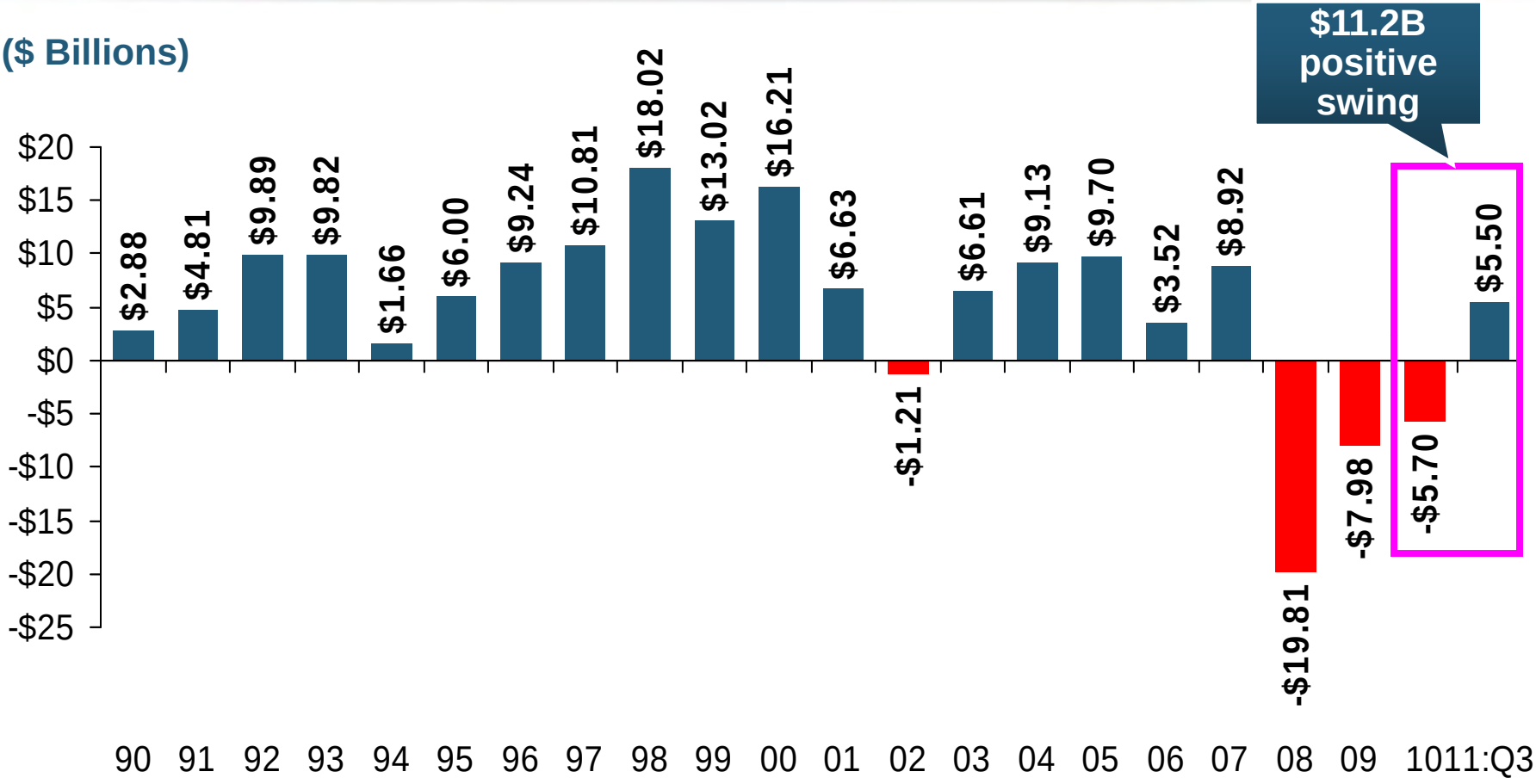

Insurers Are Posting Net Realized Capital Gains in 2011 for the First Time Since 2007. Realized Capital Losses Were the Primary Cause of 2008/2009's Large Drop in Profits and ROE

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

U.S. 10-Year Treasury Note Yields: A Long Downward Trend, 1990–2011*

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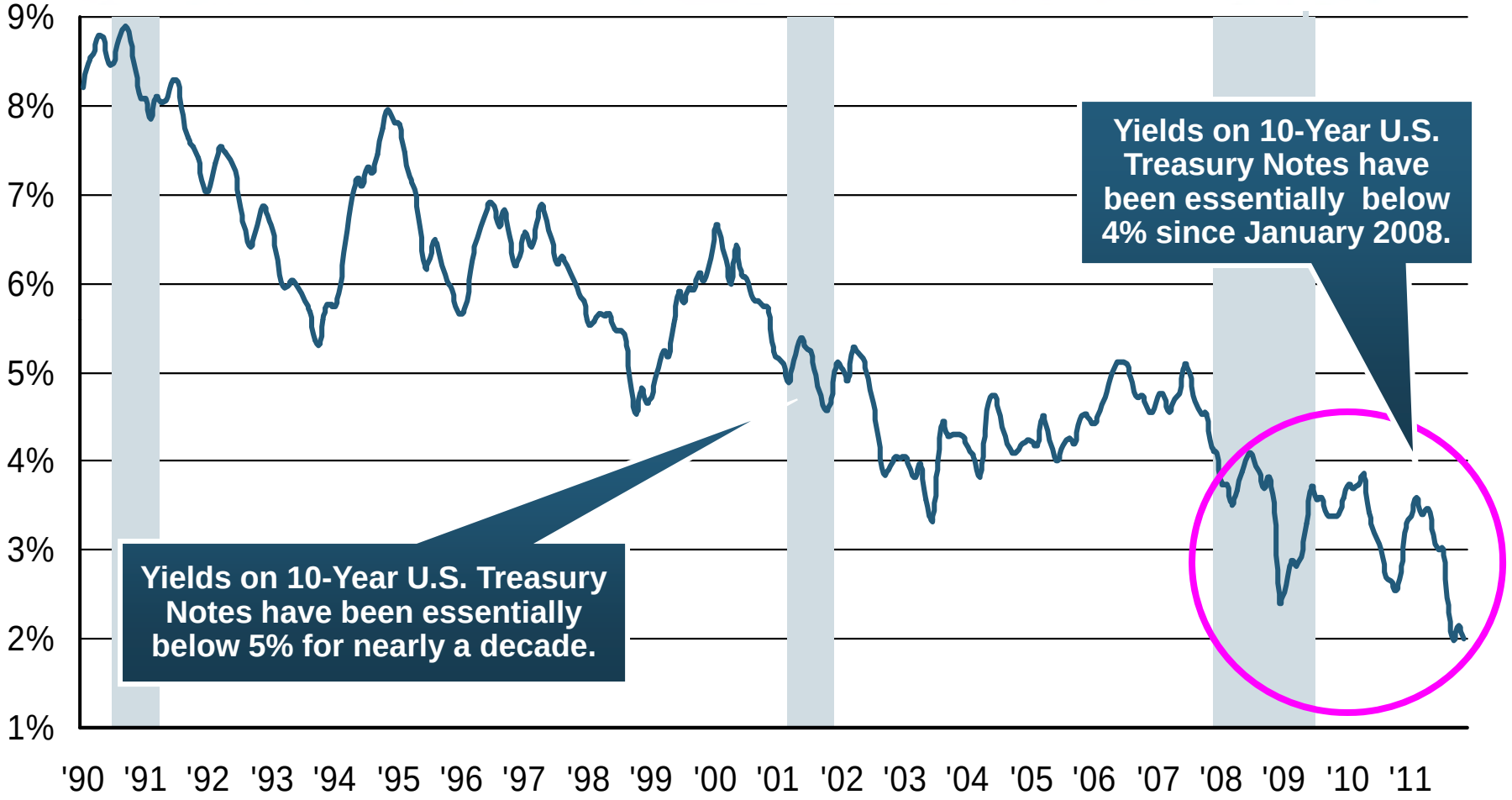

Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, through November 2011 Note: Recessions indicated by gray shaded columns.

Sources: Federal Reserve Bank at http://www.federalreserve.gov/releases/h15/data/Monthly/H15_TCMNOM_Y10.txt
National Bureau of Economic Research (recession dates); Insurance Information Institutes.

Daily Yields, 10-Year U.S. T-Notes vs. Moody's Seasoned AAAs, 2010-2011*

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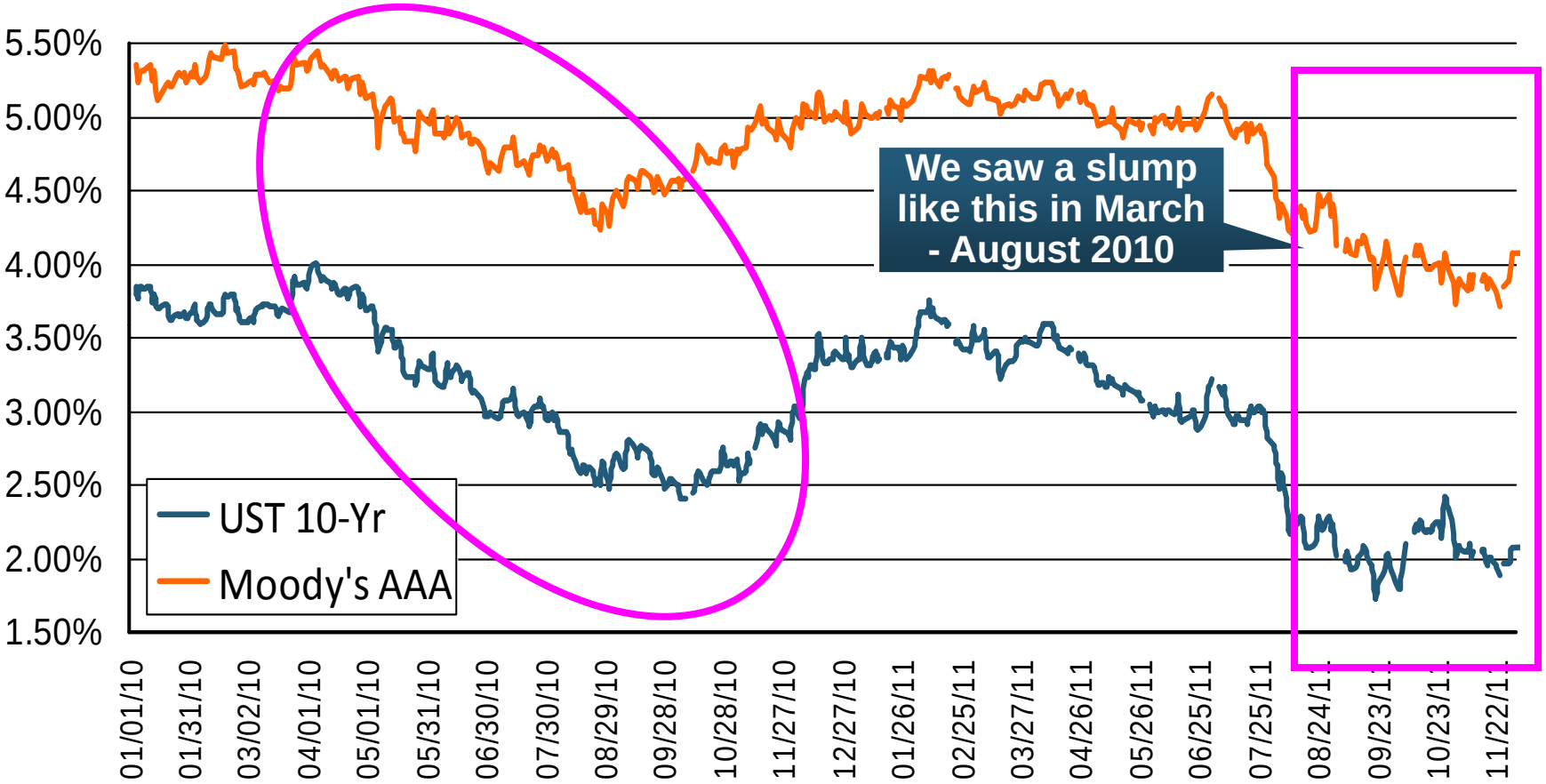
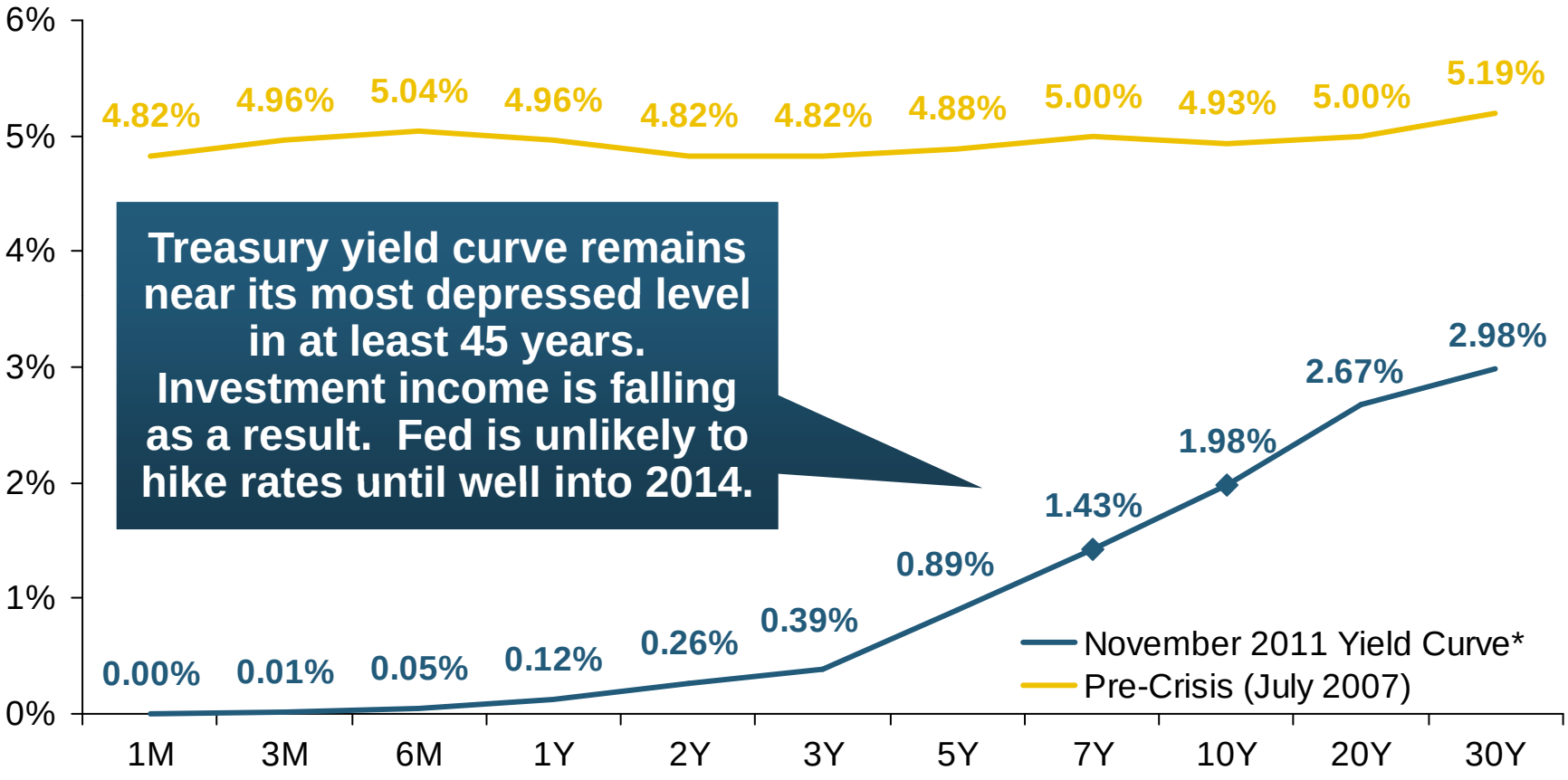


The spread between the two yields reflects confidence (or lack of it) in the economy's prospects. A wider spread indicates worry; narrower = confidence.

*through 11/30/2011
Sources: Federal Reserve Board at http://www.federalreserve.gov/releases/h15/data/Business_day/H15_TCMNOM_Y10.txt and http://www.federalreserve.gov/releases/h15/data/Business_day/H15_AAA_NA.txt

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

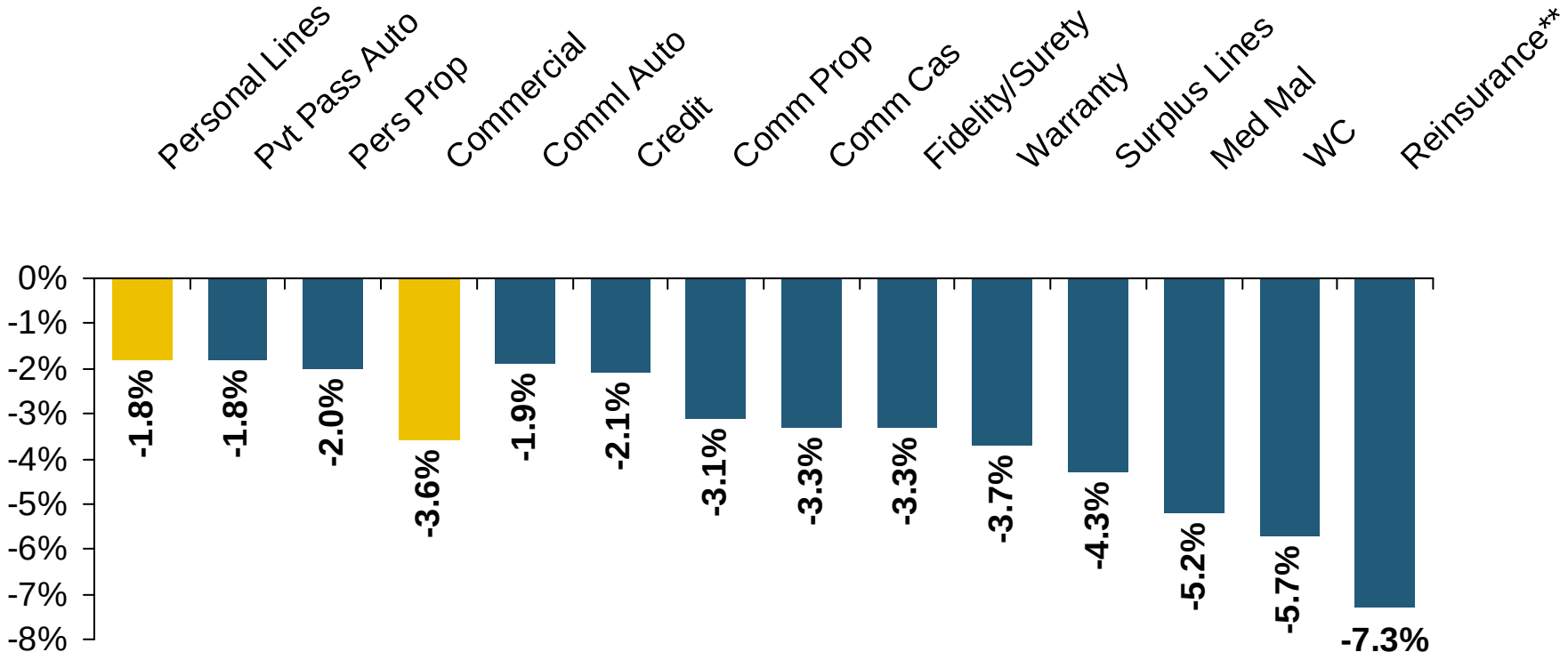


Treasury yield curve remains near its most depressed level in at least 45 years. Investment income is falling as a result. Fed is unlikely to hike rates until well into 2014.

The Fed Is Actively Signaling that it Is Determined to Keep Rates Low Through 2013 and Possibly into 2014

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*



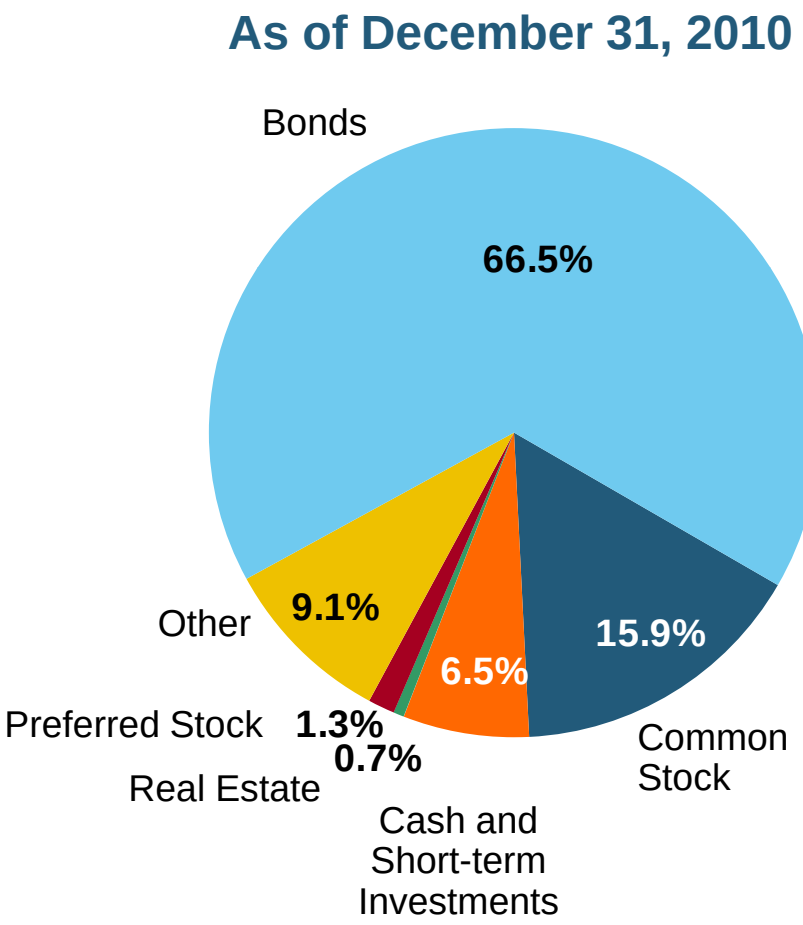
Lower Investment Earnings Place a Greater Burden on Underwriting and Pricing Discipline

*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

Portfolio Facts

- Invested assets totaled $1.316 trillion as of 12/31/10
- Insurers are generally conservatively invested, with more than 2/3 of assets invested in bonds as of 12/31/10
- Only about 16% of assets were invested in common stock as of 12/31/10
- The portfolio is very conservative and returns are impacted by low interest rates.



Sources: SNL Financial; Insurance Information Institute research.

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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, 1969–2011

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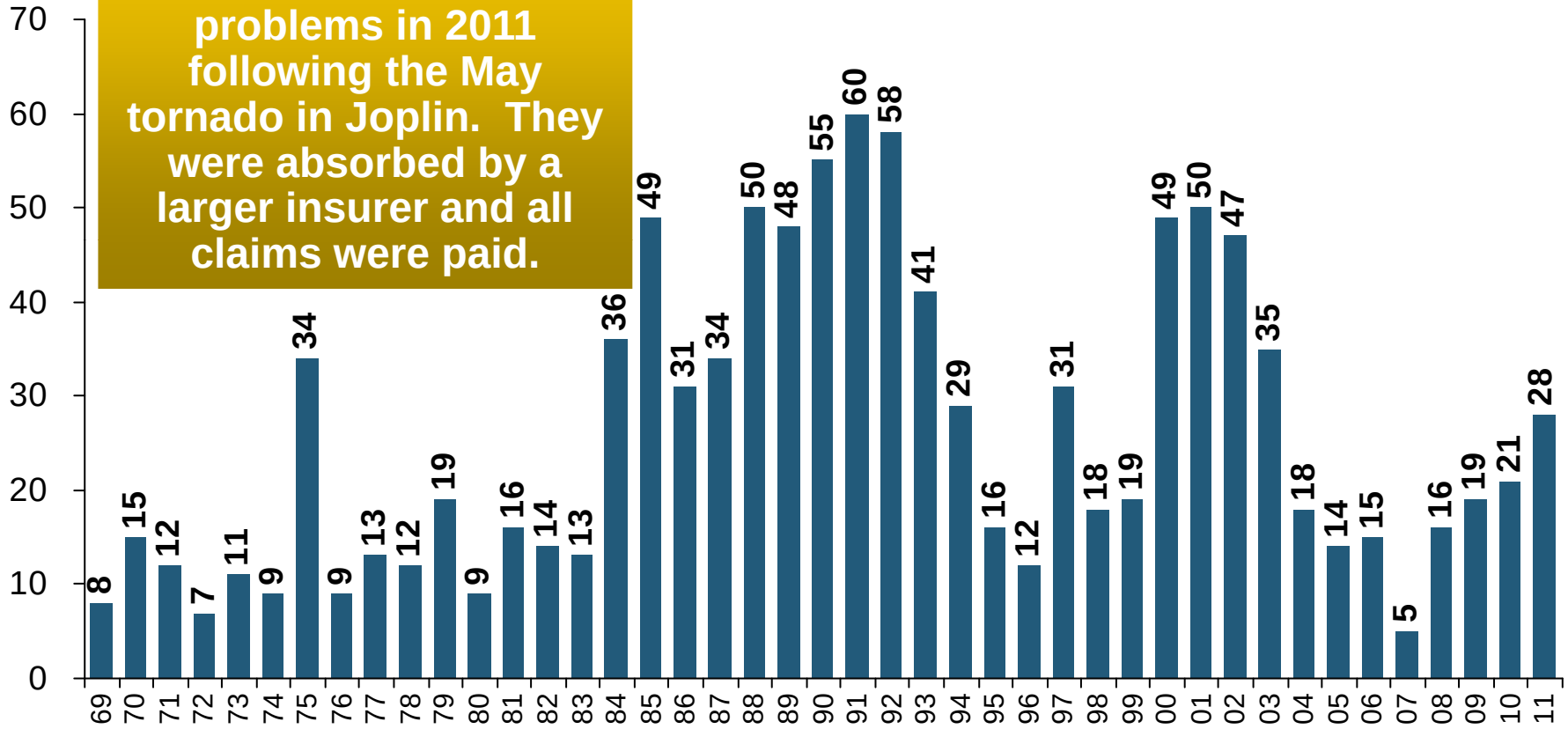
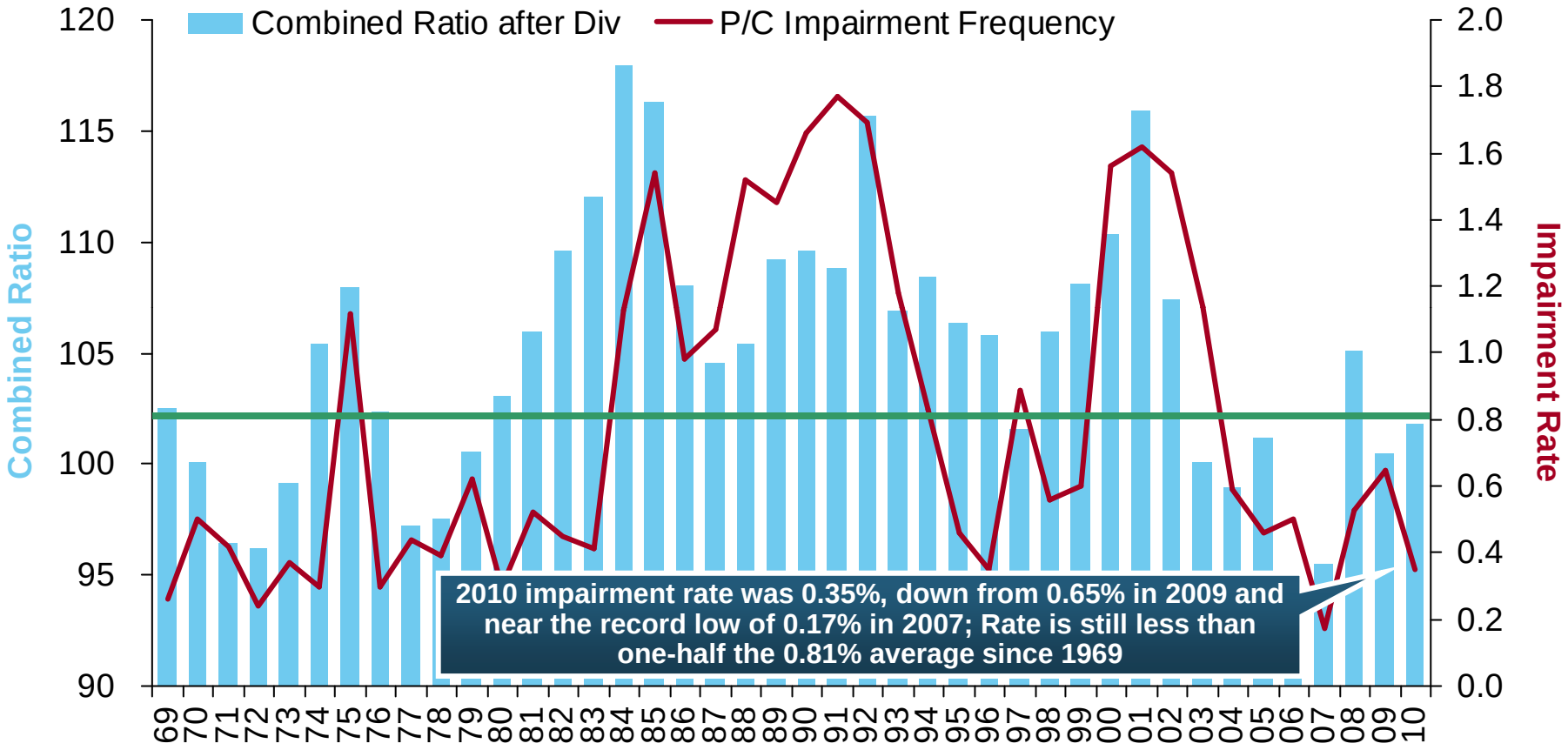
3 small insurers in Missouri did encounter problems in 2011 following the May tornado in Joplin. They were absorbed by a larger insurer and all claims were paid.



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 "1969-2011 Impairment Review," January 23, 2012; Insurance Information Institute.

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

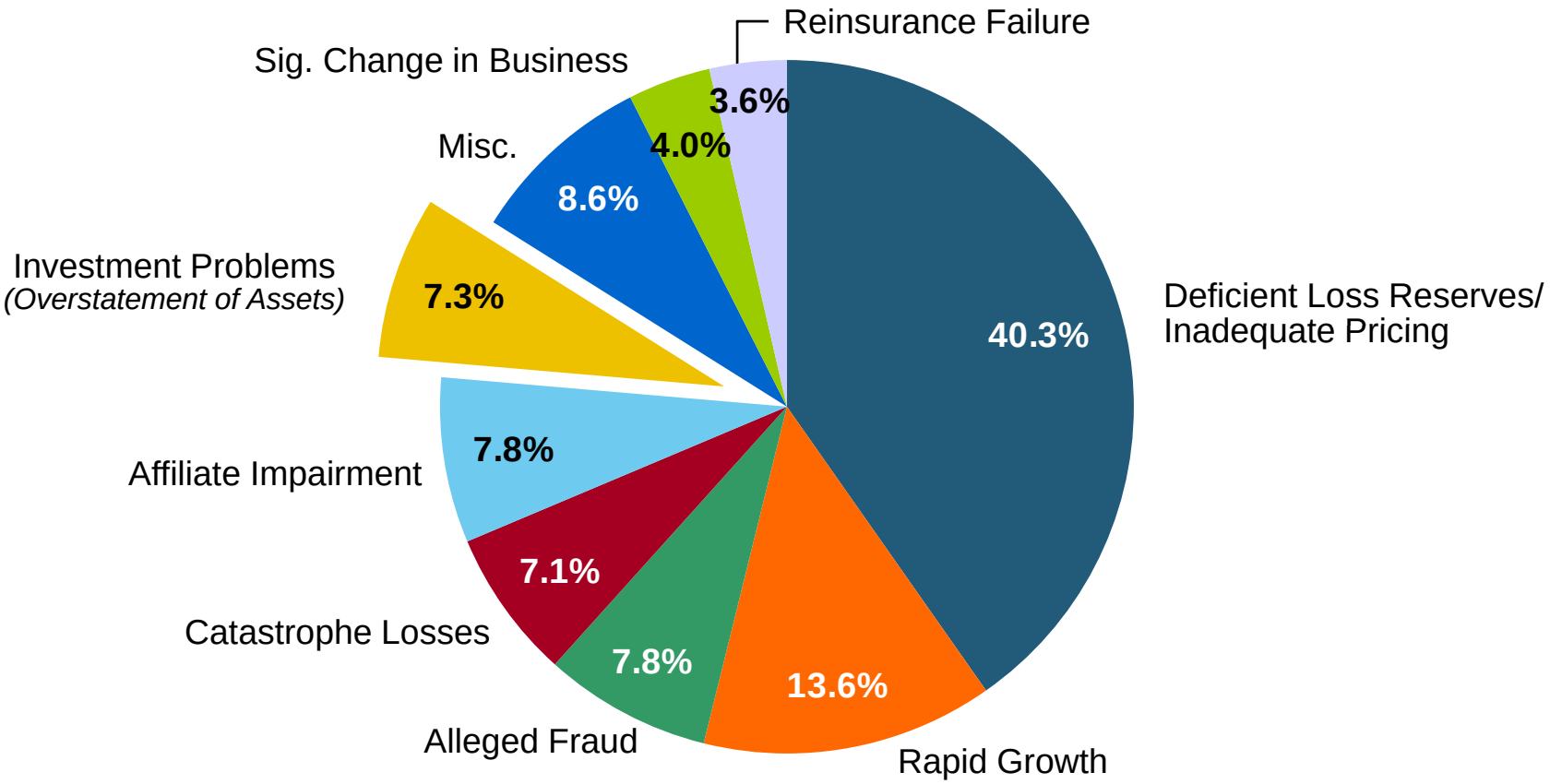


Impairment Rates Are Highly Correlated With Underwriting Performance and Reached Record Lows in 2007

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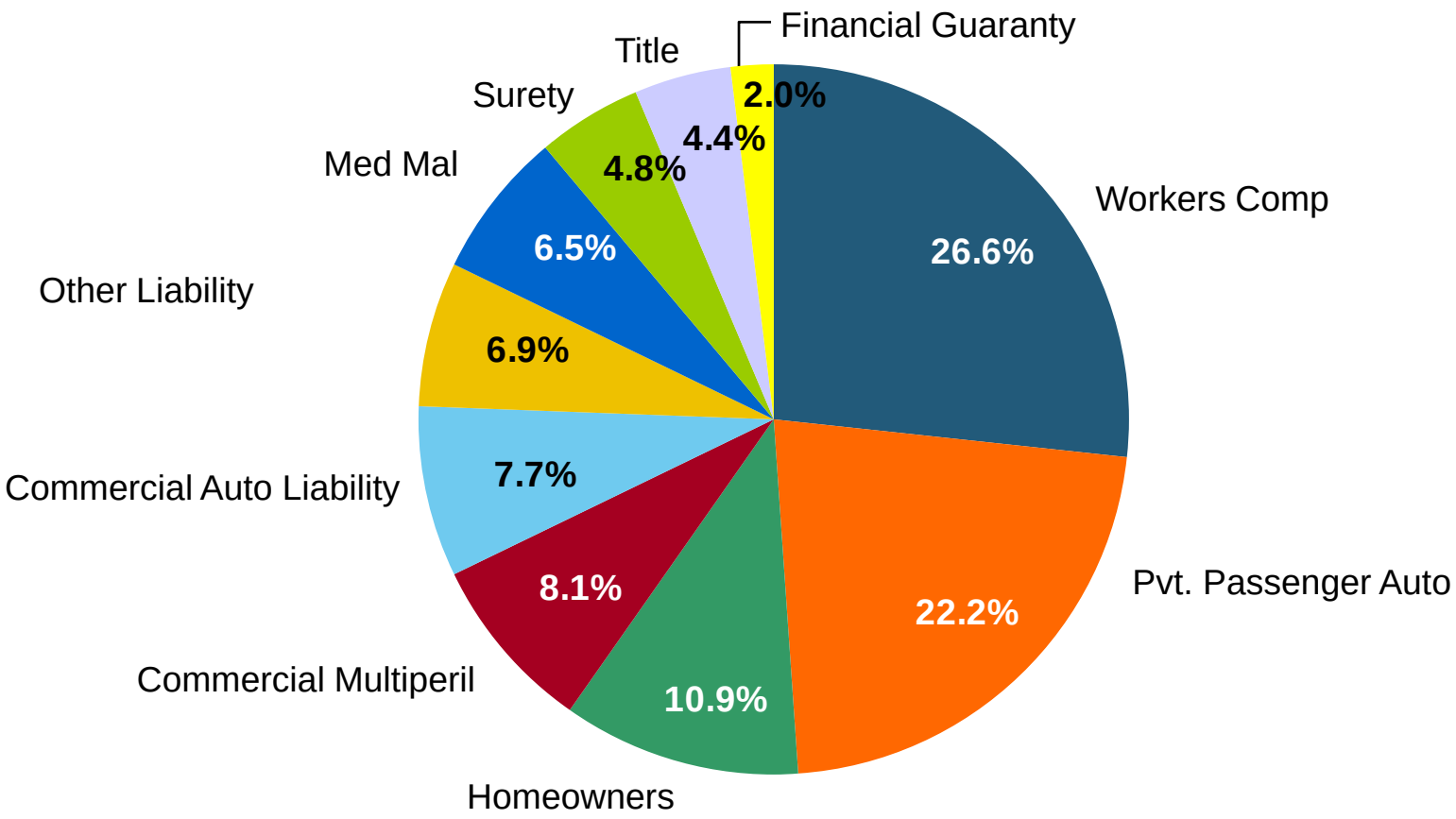
Workers Comp and Pvt. Passenger Auto Account for Nearly Half of the Premium Volume of Impaired Insurers Over the Past Decade



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

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

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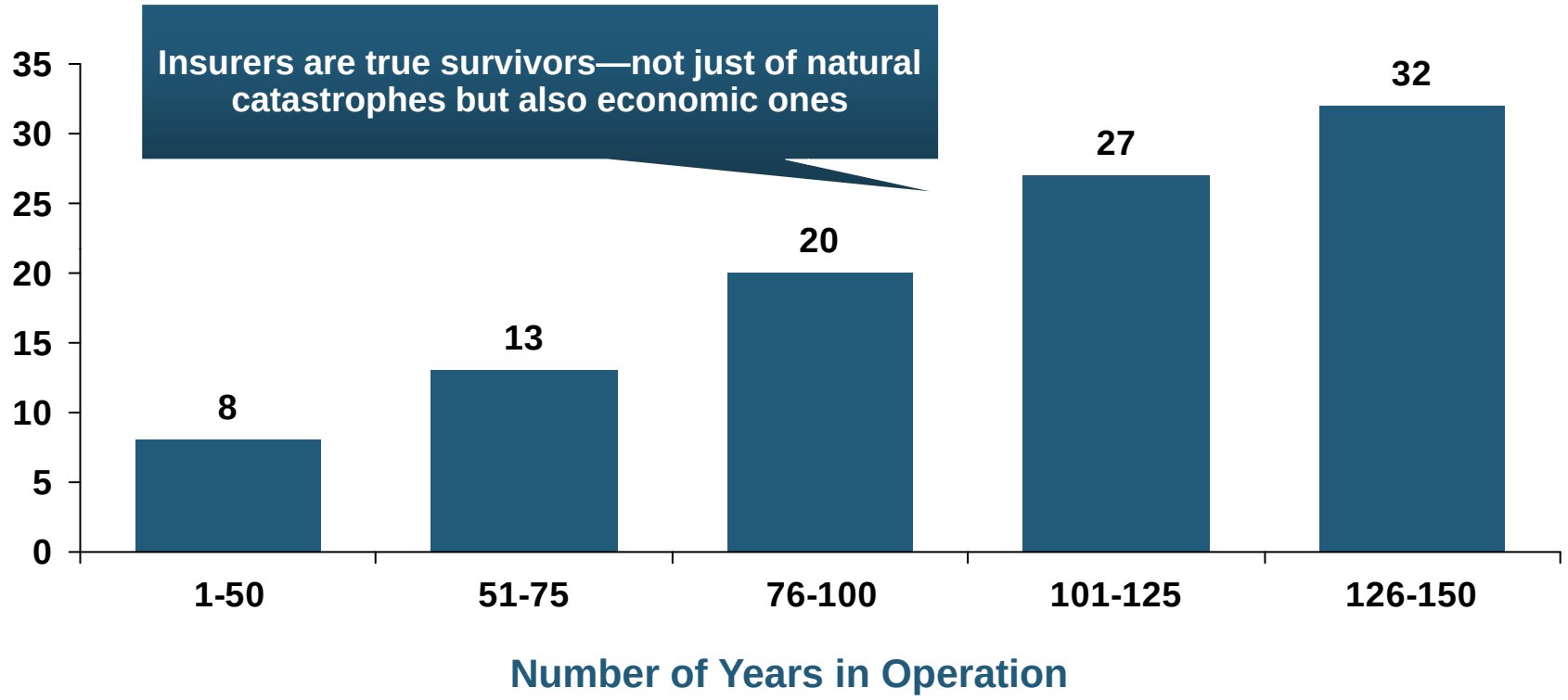
Number of Recessions Since 1860



Many US Insurers Are Close to a Century Old or Older

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

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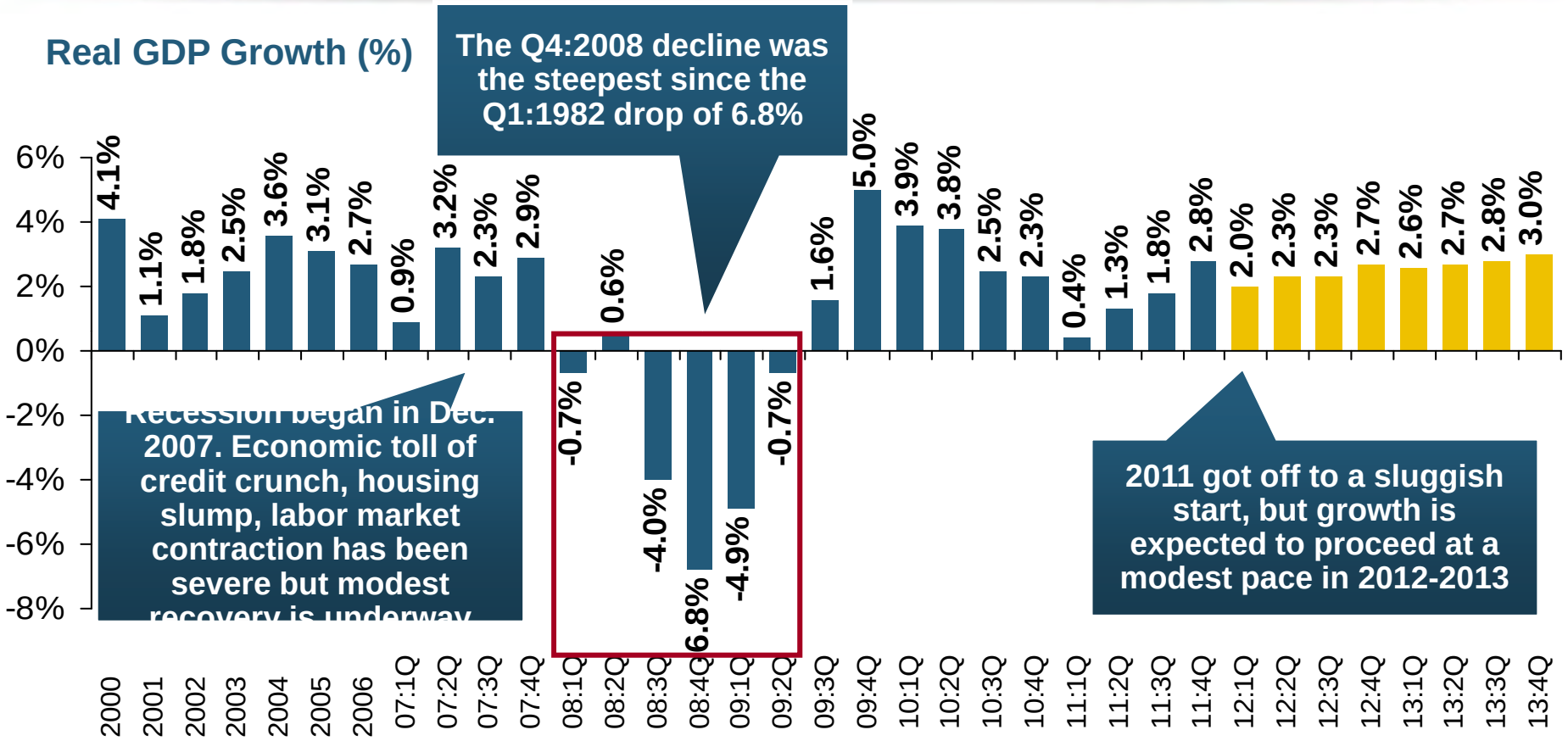
The Economic Storm

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

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 1/12; Insurance Information Institute.

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

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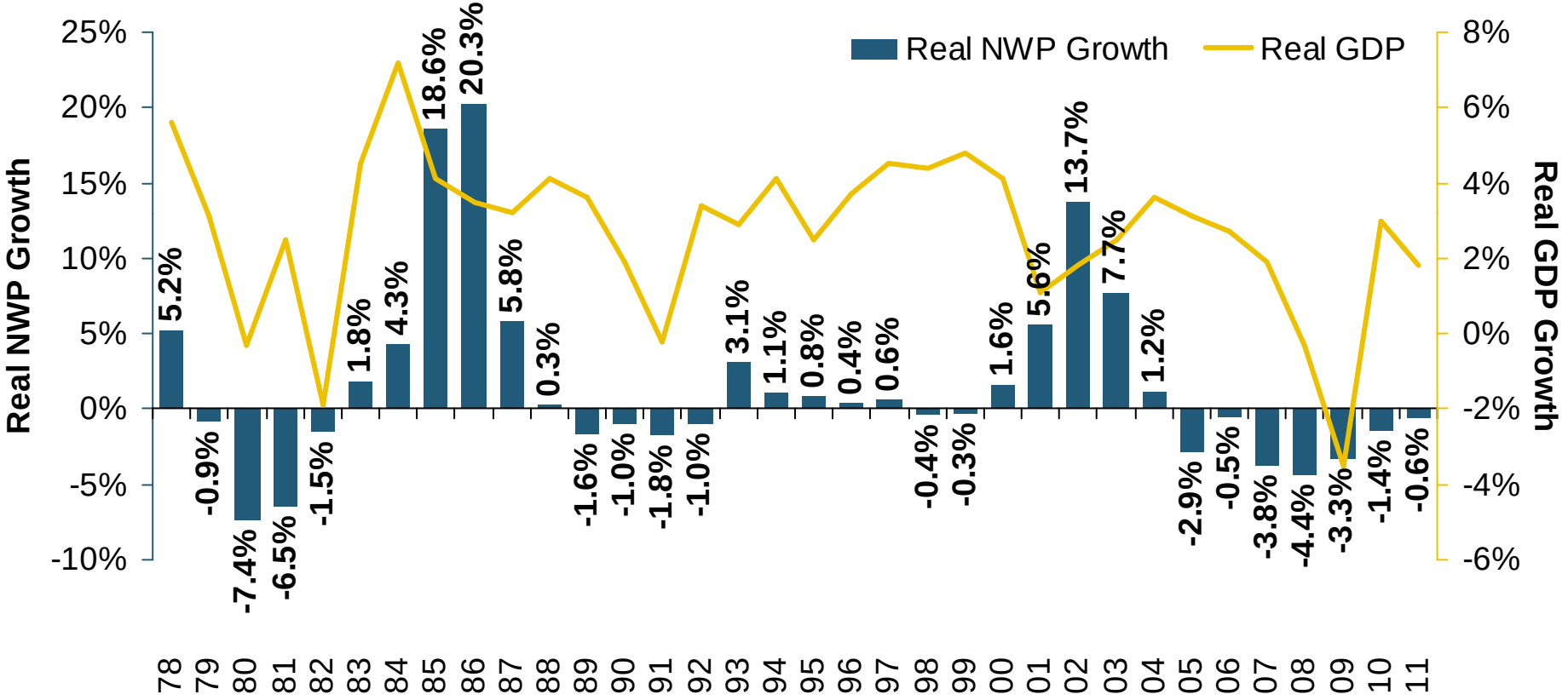
Real GDP Growth vs. Real P/C (%)



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, 11/11; Insurance Information Institute

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Labor Market Trends

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

Unemployment and Underemployment Rates: Stubbornly High in 2011, But Falling

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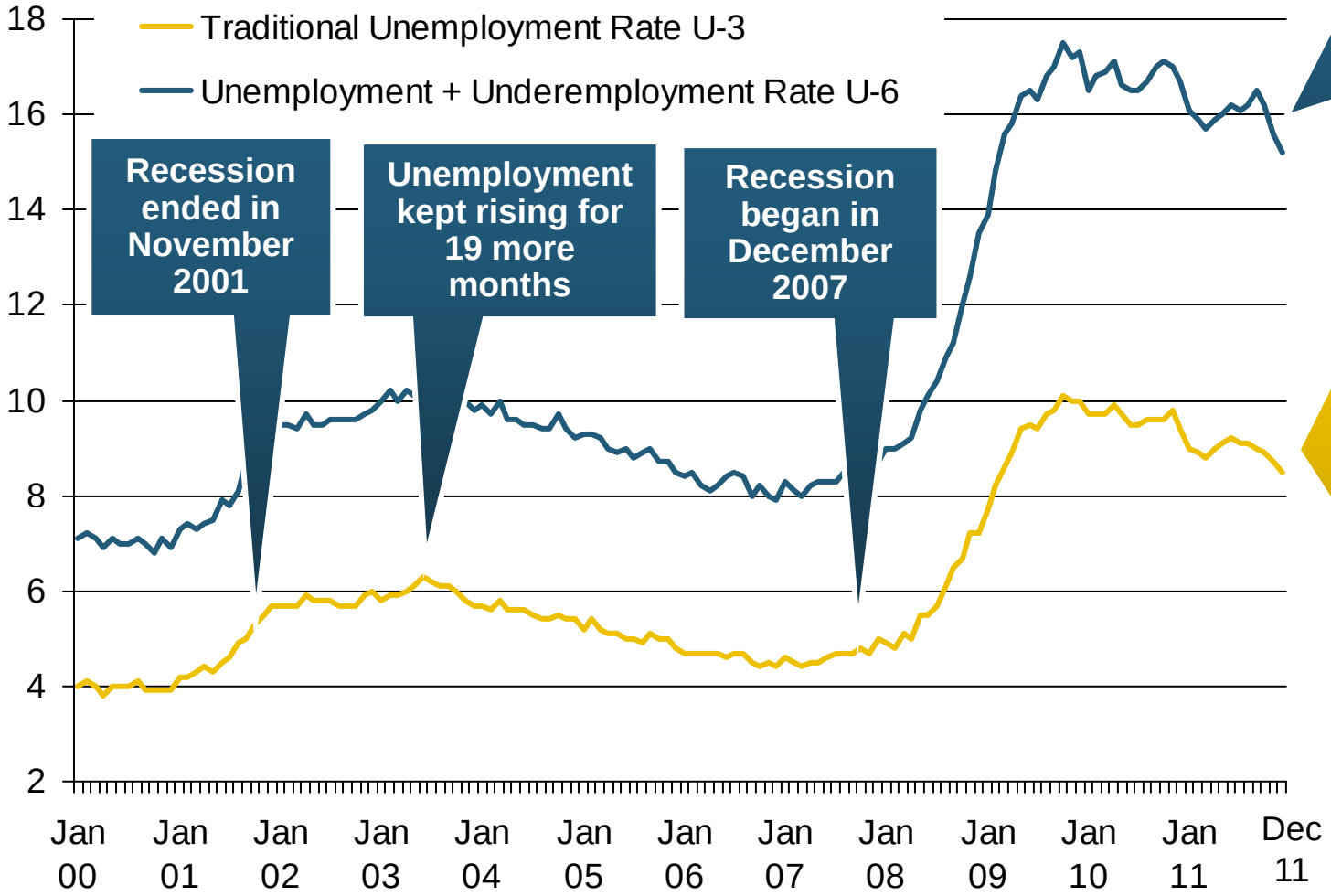
January 2000 through December 2011, Seasonally Adjusted (%)



U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 15.2% in Dec. 2011

Unemployment stood at 8.5% in December

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

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

Stubbornly high unemployment and underemployment constrain overall economic growth, but the job market might finally be improving

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

Monthly Change in Private Employment

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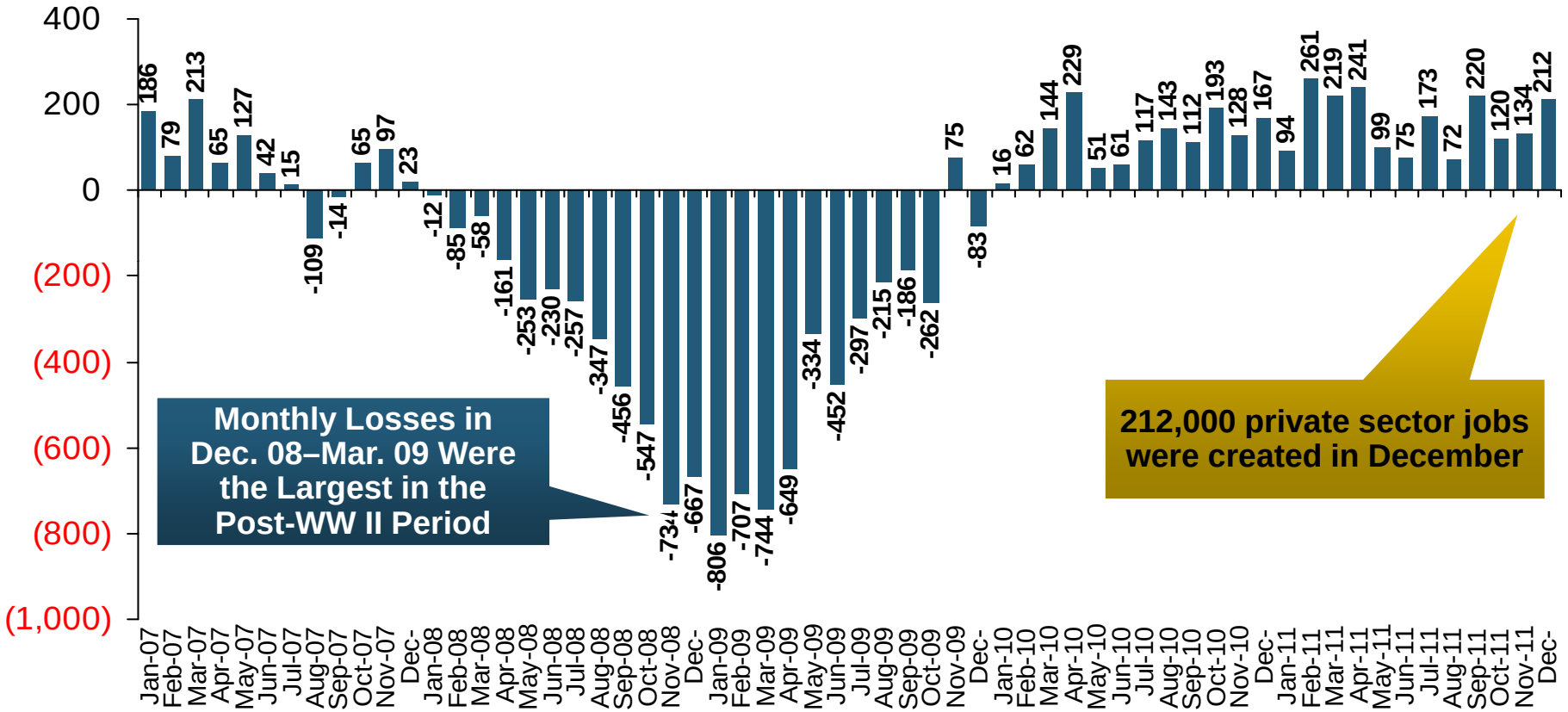
January 2008 through December 2011* (Thousands)



Private Employers Added 3.343 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

Cumulative Private Sector Job Losses

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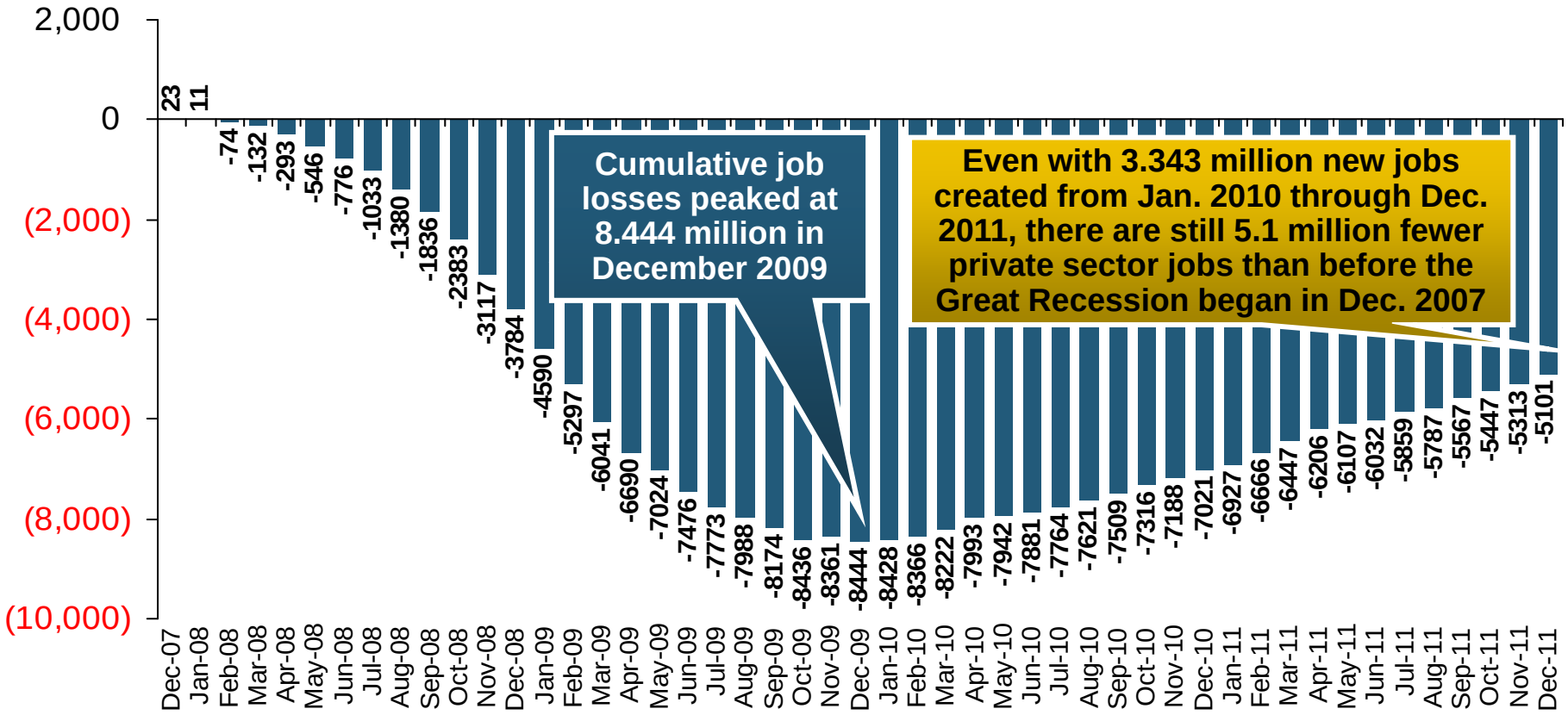
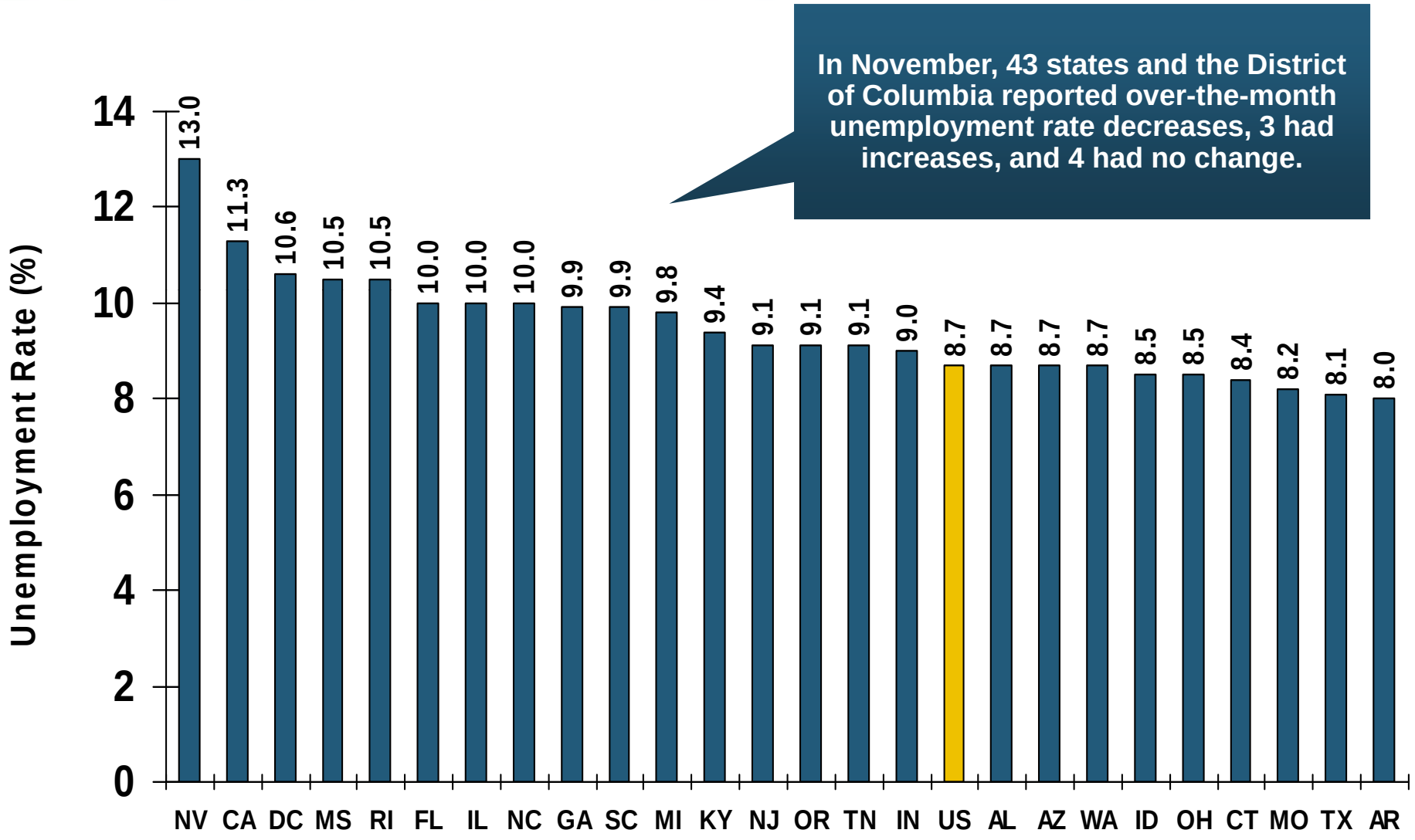
December 2007 through December 2011* (Thousands)



Private Employers Added 3.343 Million Jobs Since Jan. 2010 After Having Shed 4.66 Million Jobs in 2009 and 3.81 Million in 2008. It Is Unlikely that Private Sector Employment Will Fully Recoup All Jobs Lost Until Well into 2014.

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

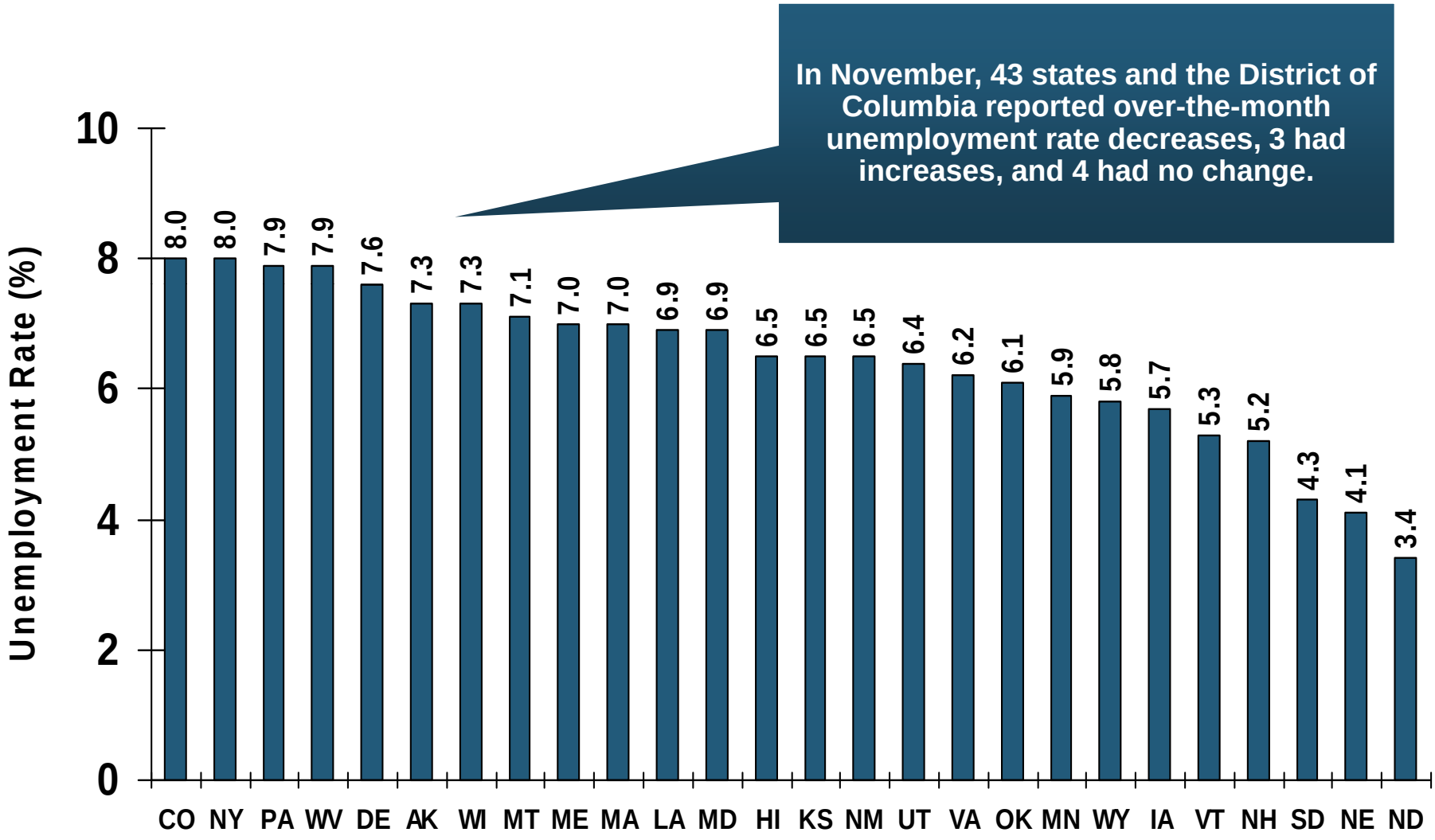
Unemployment Rates by State, November 2011: Highest 25 States*



*Provisional figures for November 2011, seasonally adjusted.

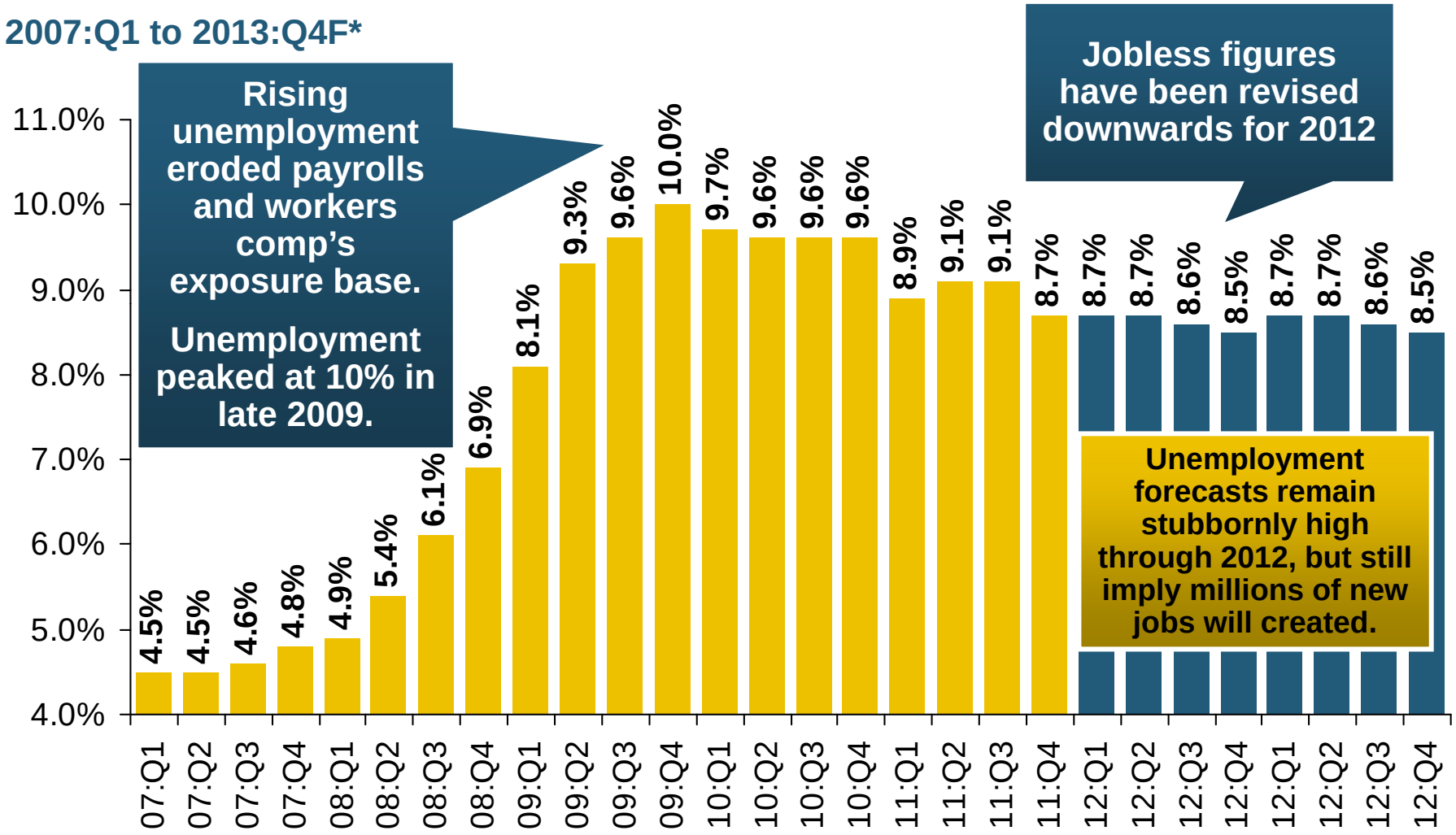
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

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



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

US Unemployment Rate



* = actual; = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (1/12); Insurance Information Institute

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Inflation

Is it a Threat to Claim Cost Severities?

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

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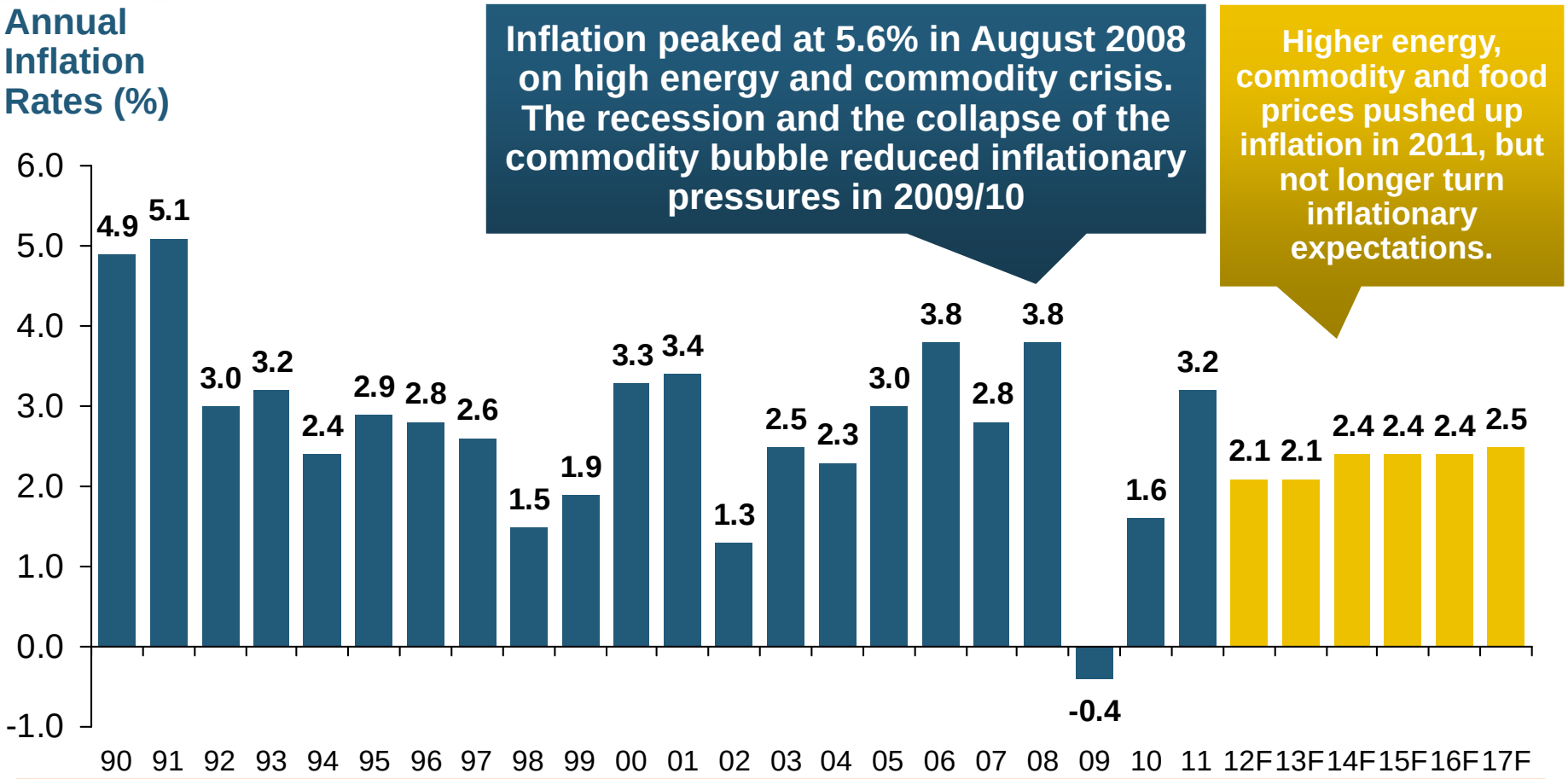
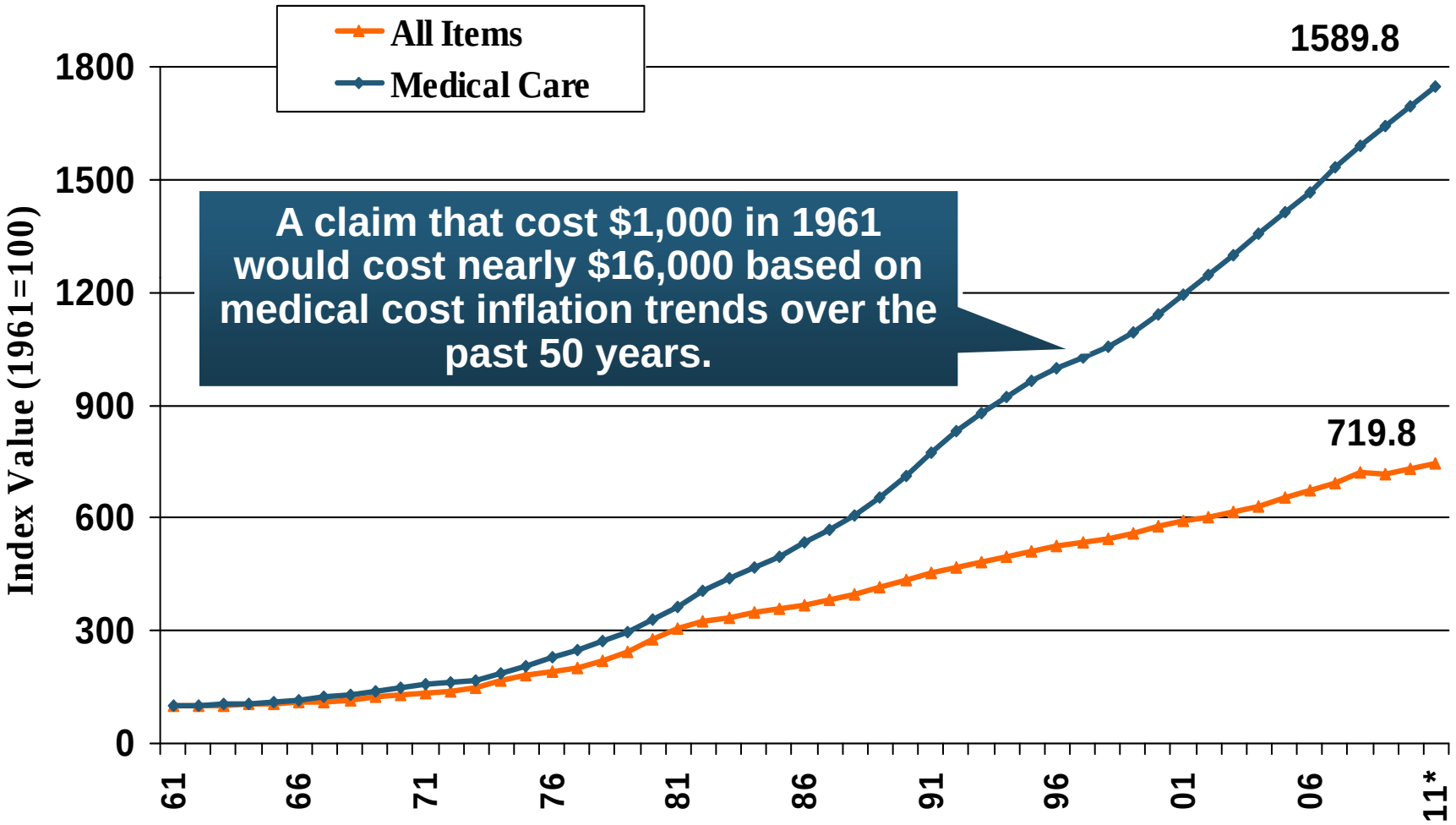


The slack in the U.S. economy suggests that inflationary pressures should remain subdued for an extended period of times. Energy, health care and commodity prices, plus U.S. debt burden, remain longer-run concerns

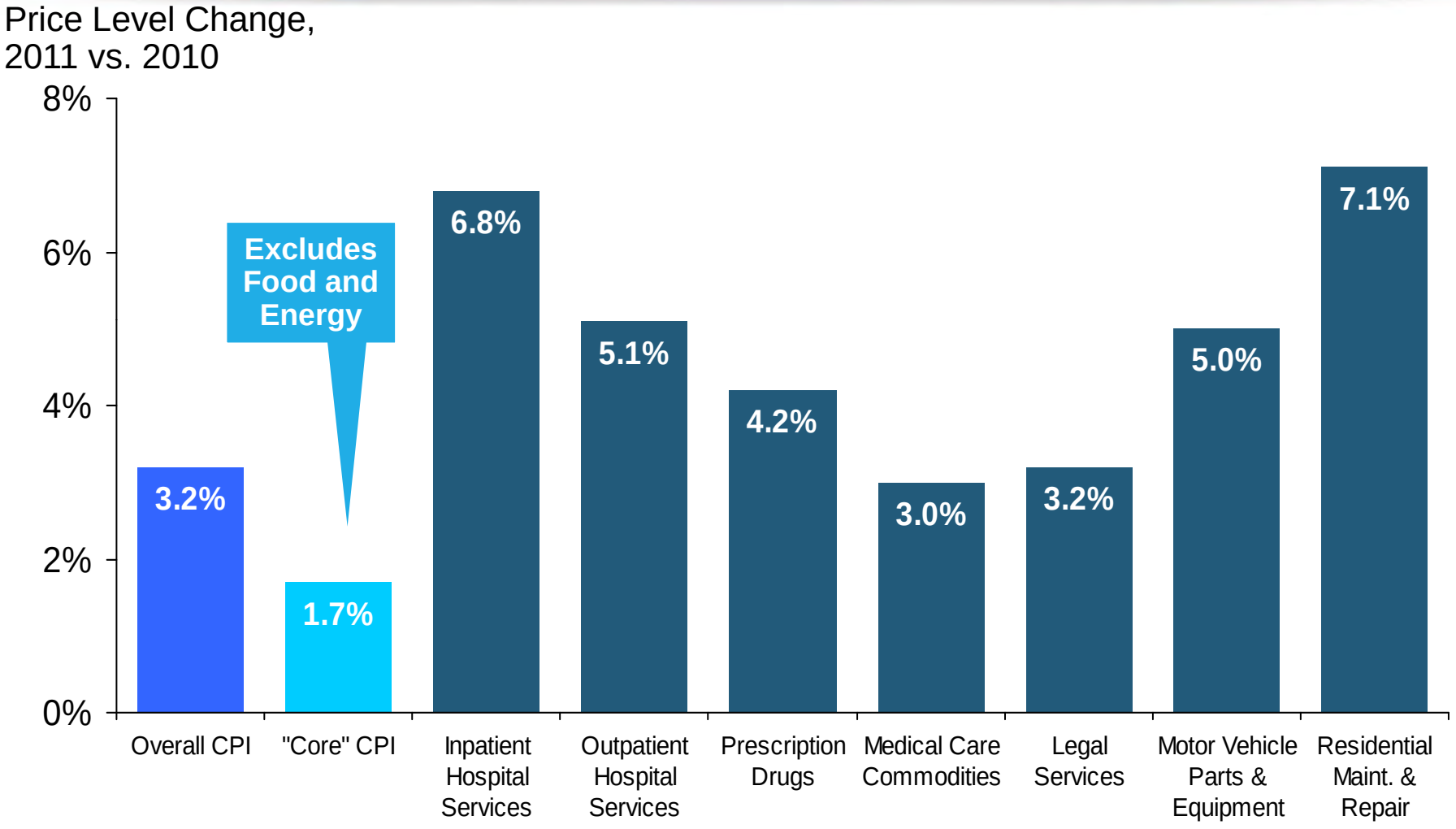
Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators, 10/11 and 1/12 (forecasts).

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)

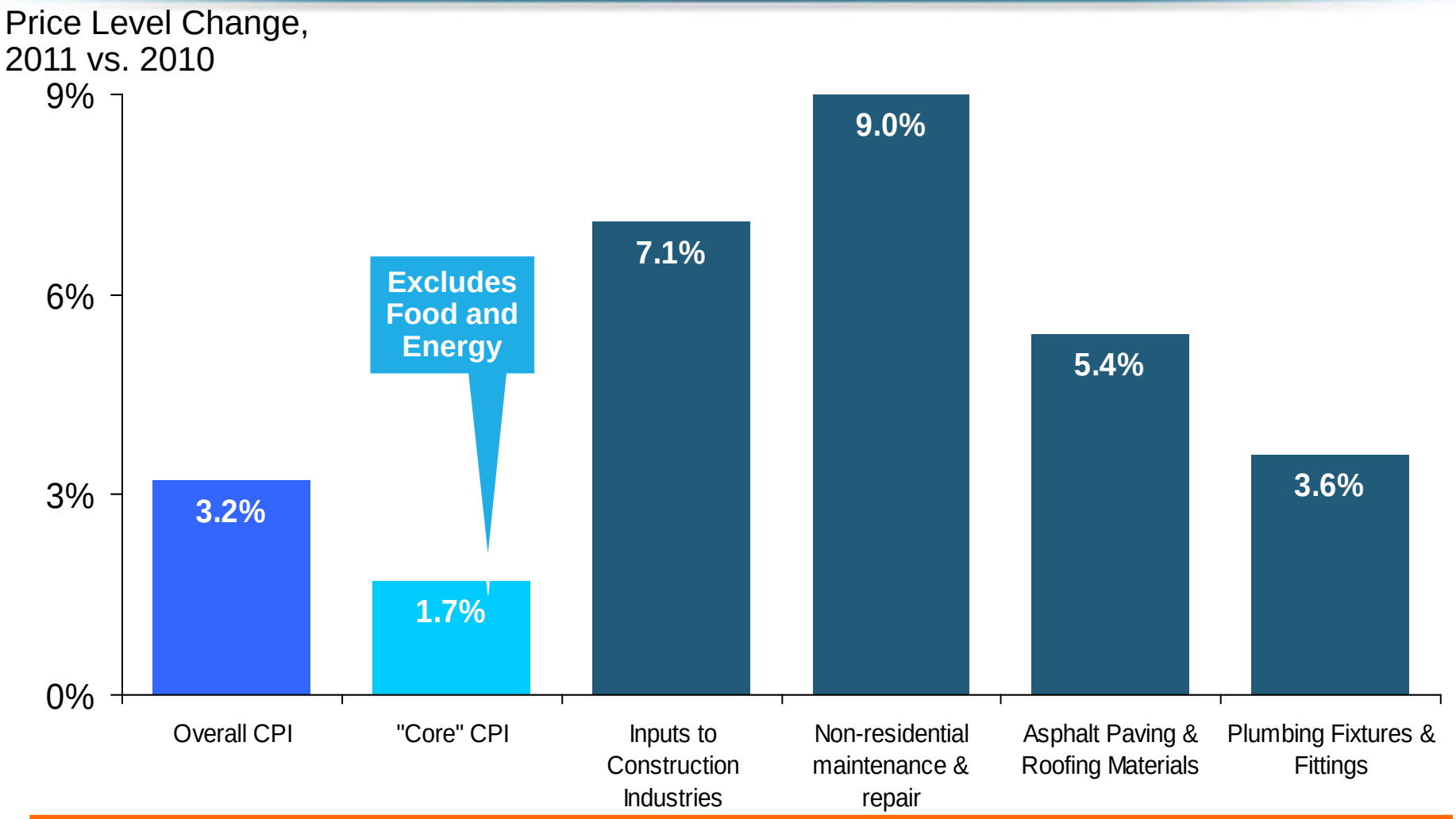
P/C Personal Insurance Claim Cost Drivers Grow Faster Than the Core CPI Suggests



Healthcare costs are a major liability, med pay, and PIP claim cost driver. They are likely to grow faster than the CPI for the next few years, at least

Sources: Bureau of Labor Statistics; Insurance Information Institute.

P/C Commercial Property Insurance Claim Cost Drivers Grow Faster than the Overall CPI Suggests



Copper prices spiked and retreated in 2011. In July its price was 33% higher than a year earlier; by November it cost 8% less than in November 2010.

Sources: Bureau of Labor Statistics; Insurance Information Institute.

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Regulatory Environment & Financial Services Reform

State Regulatory Environments Vary Tremendously and Can Impact Insurer Profitability and Ability to Compete

2010 Property and Casualty Insurance Regulatory Report Card

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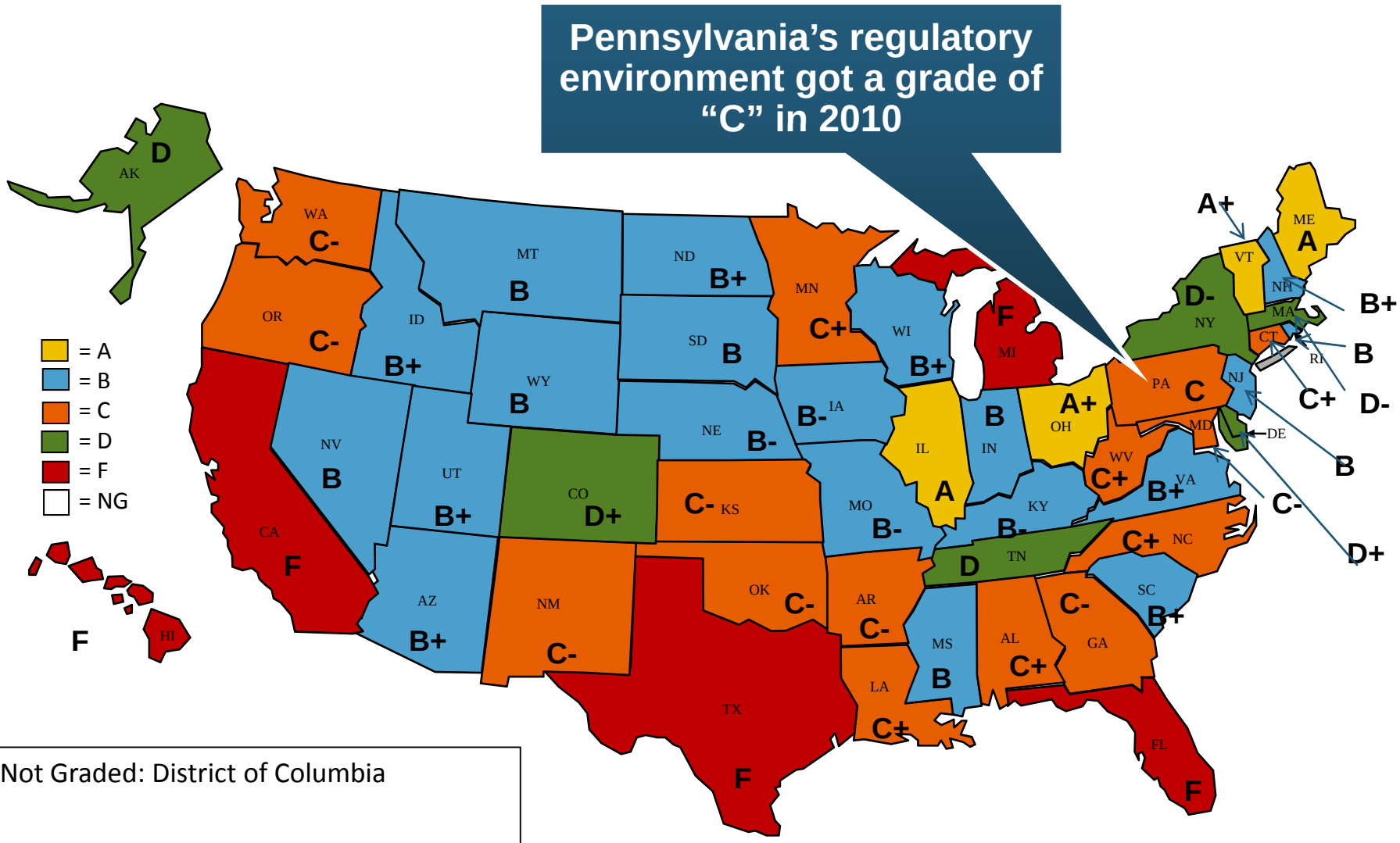

Not Graded: District of Columbia

Source: Heartland Institute, May 2011

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Thank you for your time and your attention!

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