



An Industry and Economy in Transition:

***Overview and Outlook for the US
P/C Insurance Markets & Public Sector Risks***

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- **U.S. Economic Overview and Outlook**
 - ◆ Economy as a Growth Engine for P/C Insurers
 - ◆ Labor Market Review
- **Summary of P/C Financial Performance**
- **Catastrophe Loss Developments & Trends**
 - ◆ Global, US
- **Will the Market Turn? Four Necessary Criteria:**
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 - ◆ Reinsurance Markets
 - ◆ Pricing Discipline
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- **Other Contributing Factors to the Underwriting Cycle**
 - ◆ Investment Environment
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 - ◆ Inflation
- **Q&A**

Economics 2012: The World Is Changing

**2012 Is the First Year Since 2005
Where Economic Perceptions and
Reality in the US Will Be Positive**

***Enormous Consequences for
Public Sector Risks***

- **Economic Growth Will Accelerate Modestly in 2012/13, Albeit Unevenly**
 - ◆ No Double Dip Recession
 - ◆ Economy remains more resilient than most pundits presume
- **Consumer Confidence Will Continue to Improve**
- **Consumer Spending/Investment Will Continue to Expand**
- **Consumer and Business Lending Continue to Expand**
- **Housing Market Remains Weak, but Some Improvement Expected by 2013**
- **Inflation Remains Tame**
 - ◆ Runaway inflation highly unlikely but energy spike possible; Fed has things under control
- **Private Sector Hiring Remains Consistently Positive**
 - ◆ Unemployment dips below 8% by year's end
- **Sovereign Debt, Euro Currency/Economy, Muni Bond "Crises" Overblown**
- **European Recession is Milder than Commonly Presumed**
- **Soft Landing in China**
- ***Higher Oil Prices and Current Middle East Turmoil Pose Greater Risk to US Economy than in 2011***
- **Interest Rates Remain Low by Historical Standards; Edge Up by Year's End**
- **Stock and Bond Markets More Stable, Less Volatile**
- **Political Environment Is More Hospitable to Business Interests**
- **State Tax Receipts Rise, Local Revenues Lag Behind**

Implications for State/Municipal Finances and Public Entity Insurable Exposures

■ Overall State and Local Tax Receipts Are Rising

- ◆ State tax receipts (as of Q4 2011) now exceed Q4 2007 peak
- ◆ State PIT: +4.2%; Sales Tax: +2.4% (Q4 2011 vs. Q4 2010)

■ Local Tax Receipts Languish

- ◆ Receipts up 0.6% in Q4 2011 vs. Q4 2010 but down in real terms for 5 quarters

■ Local Tax Receipts Are Exceedingly Dependent on Property Taxes

- ◆ Over the past two decades, property tax share of revenues has exceeded 2/3 of total
- ◆ As of Q4 2011, that share is 85.1
- ◆ Cities/counties exposed to falling property values, downward reassessments for years
- ◆ Stimulus money is effectively exhausted

■ Muni Bond Market Never Crashed

- ◆ State/Local issuers can still borrow at favorable rates

■ State/Local Governments Are Spending More

- ◆ Expenditures were up an estimated 2.2% in 2011, the second consecutive year of increase

■ State/Local Spending Will Generate Little Additional Insurance Exposure

- ◆ Public construction activity continues to shrink even as growth returns to private sector

■ Massive State/Local Pension Obligations Will Temper Govt. Investment

- ◆ Impact will be on public “investment” that generates insurance exposures
- ◆ Rehiring of teachers, fire, police, etc., may also receive higher priority

■ P/C Insurance Exposures Grow Robustly

- ◆ Personal and commercial exposure growth is certain in 2012; Strongest since 2004
- ◆ But restoration of destroyed exposure will take until mid-decade

■ P/C Industry Growth in 2012 Will Be Strongest Since 2004

- ◆ Growth likely to exceed A.M. Best projection of +3.8% for 2012
- ◆ No traditional “hard market” emerges in 2012

■ Underwriting Fundamentals Deteriorate Modestly

- ◆ Some pressure from claim frequency, in some severity in key lines

■ Increasing Private Sector Hiring Will Drive Payrolls/WC Exposures

- ◆ Wage growth is also positive and could modestly accelerate
- ◆ WC will prove to be tough to fix from an underwriting perspective

■ Increase in Demand for Commercial Insurance Will Accelerate in 2012

- ◆ Includes workers comp, property, marine, many liability coverages
- ◆ Laggards: inland marine, aviation, commercial auto, surety
- ◆ Personal Lines: Auto leads, homeowners lags (*though HO leads in NPW growth due to rates*)

■ Investment Environment Is/Remains Much More Favorable

- ◆ Return of realized capital gains as a profit driver
- ◆ Interest rates remain low; Some upward pressured if economic strength surprises

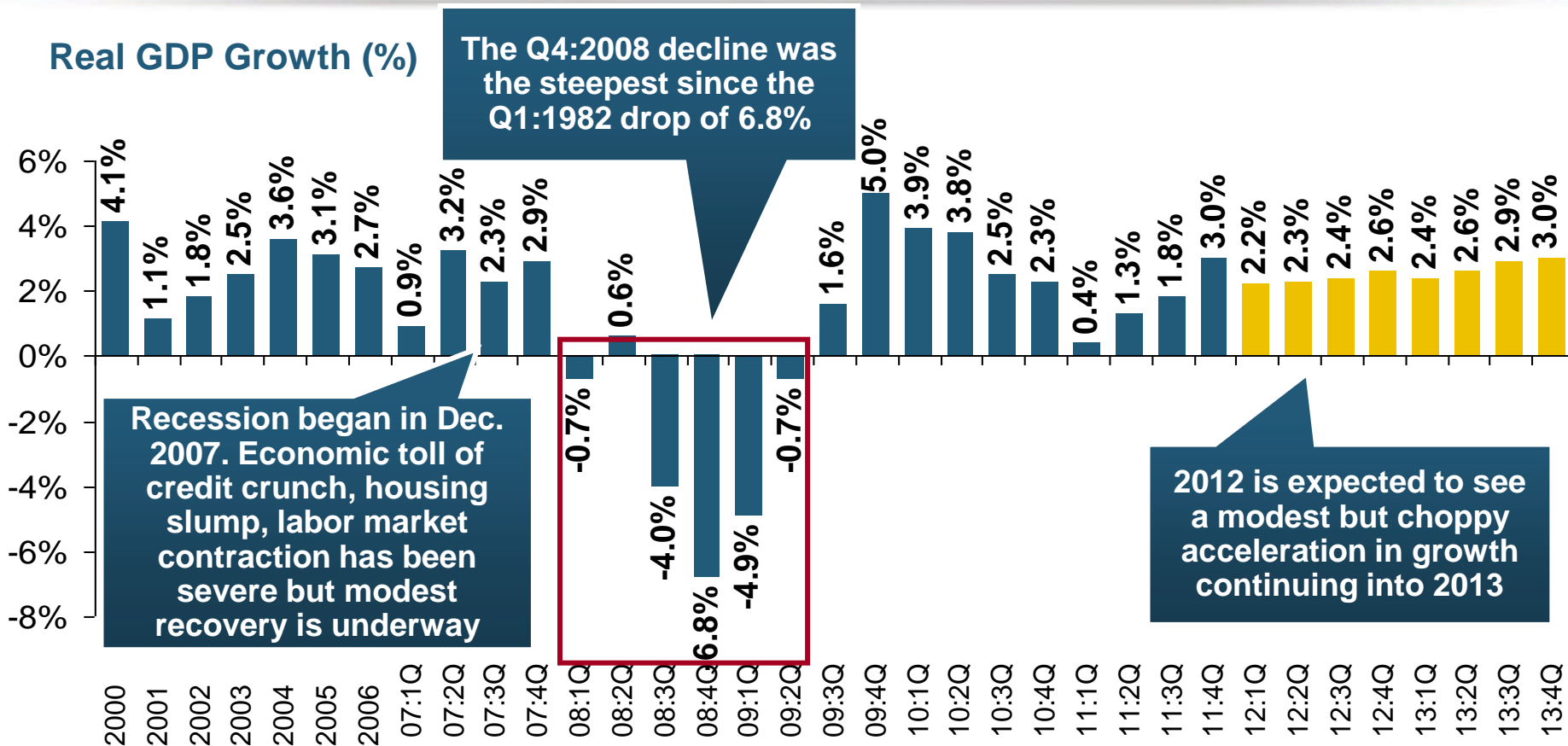
■ Industry Capacity Hits a New Record by Year-End 2012 (Barring Mega-CAT)



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

**Growth Will Expand Insurable Exposures
and Help Absorb Excess Capital**

US Real GDP Growth*



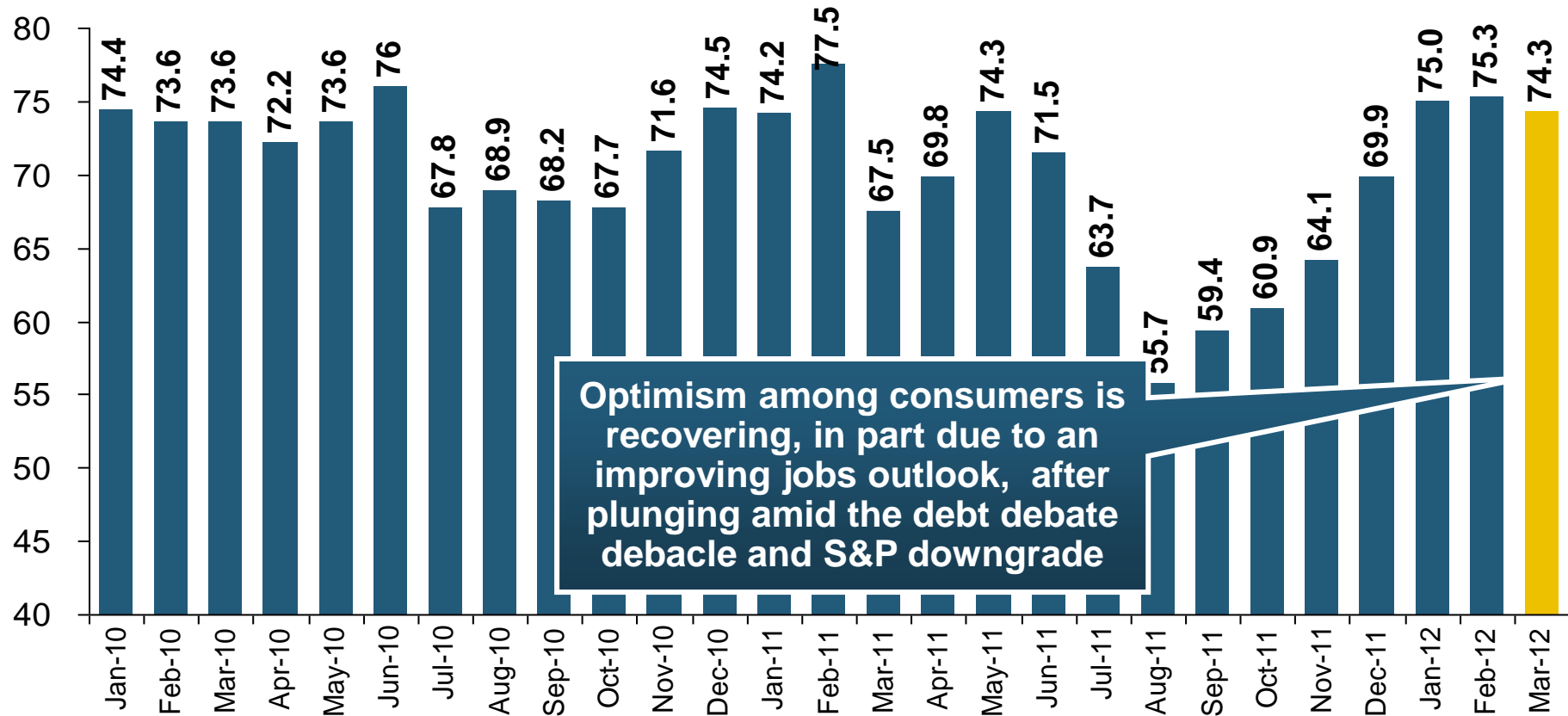
Demand for Insurance Continues To Be Impacted by Sluggish Economic Conditions, but the Benefits of Even Slow Growth Will Compound and Gradually Benefit the Economy Broadly

* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 4/12; Insurance Information Institute.

Consumer Sentiment Survey (1966 = 100)

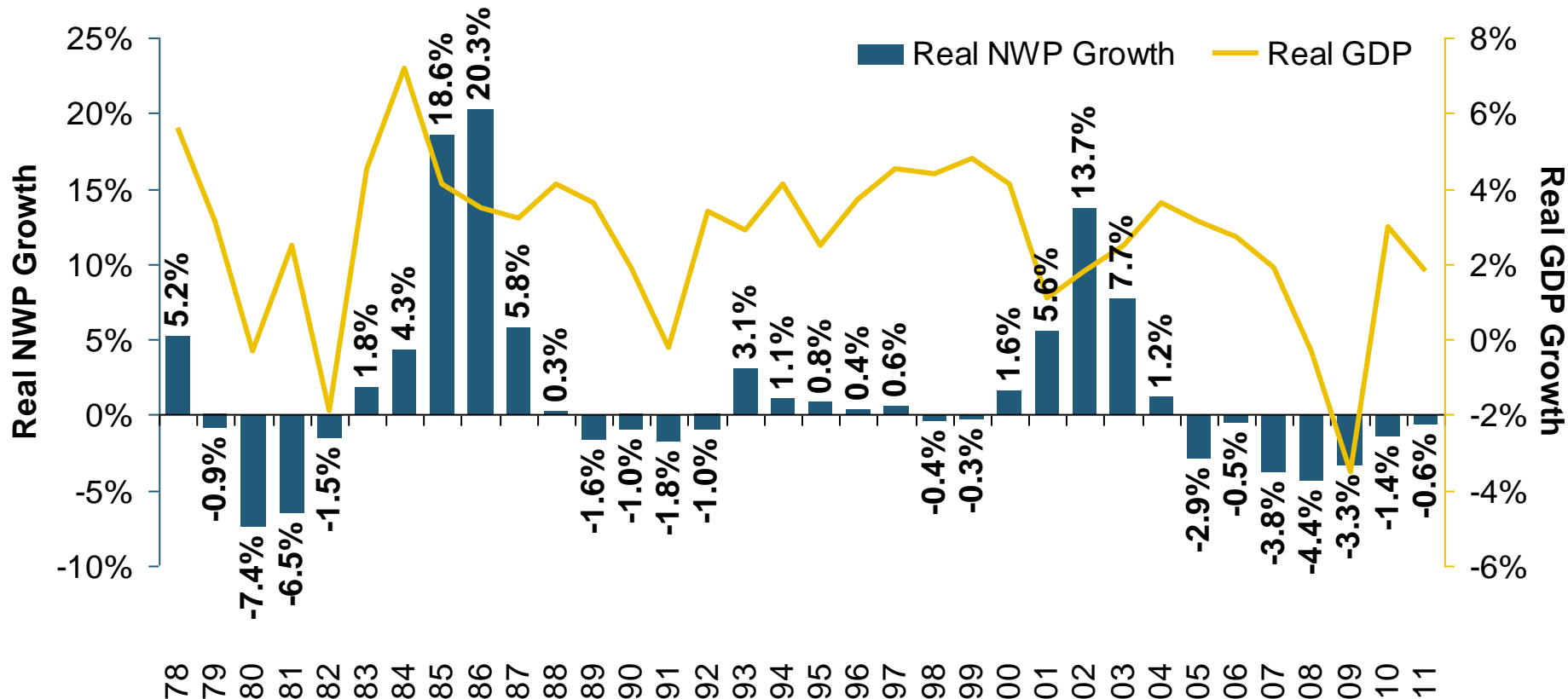
January 2010 through March 2012



Consumer confidence has been low for years amid high unemployment, falling home prices and other factors adversely impact consumers, but improved substantially in late 2011 and early 2012

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

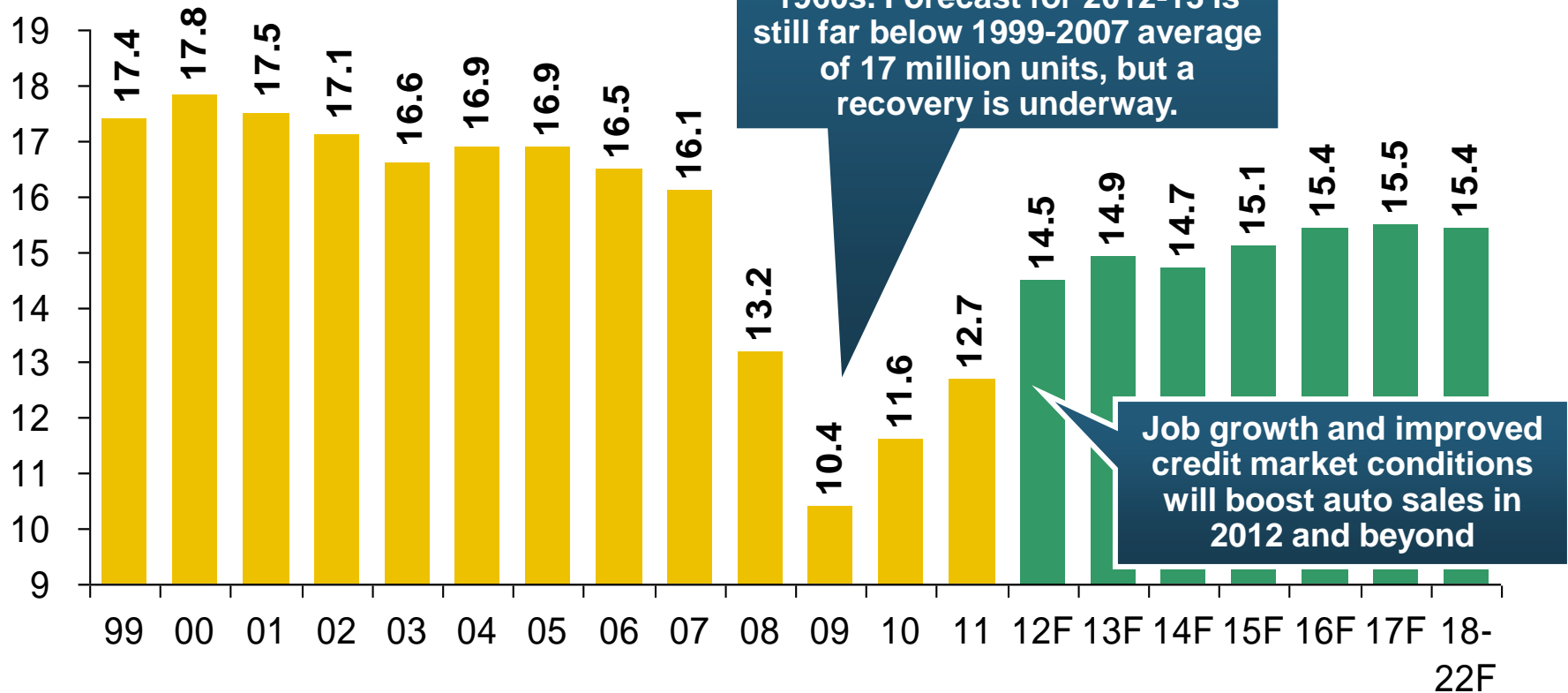
Real GDP Growth vs. Real P/C (%)



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

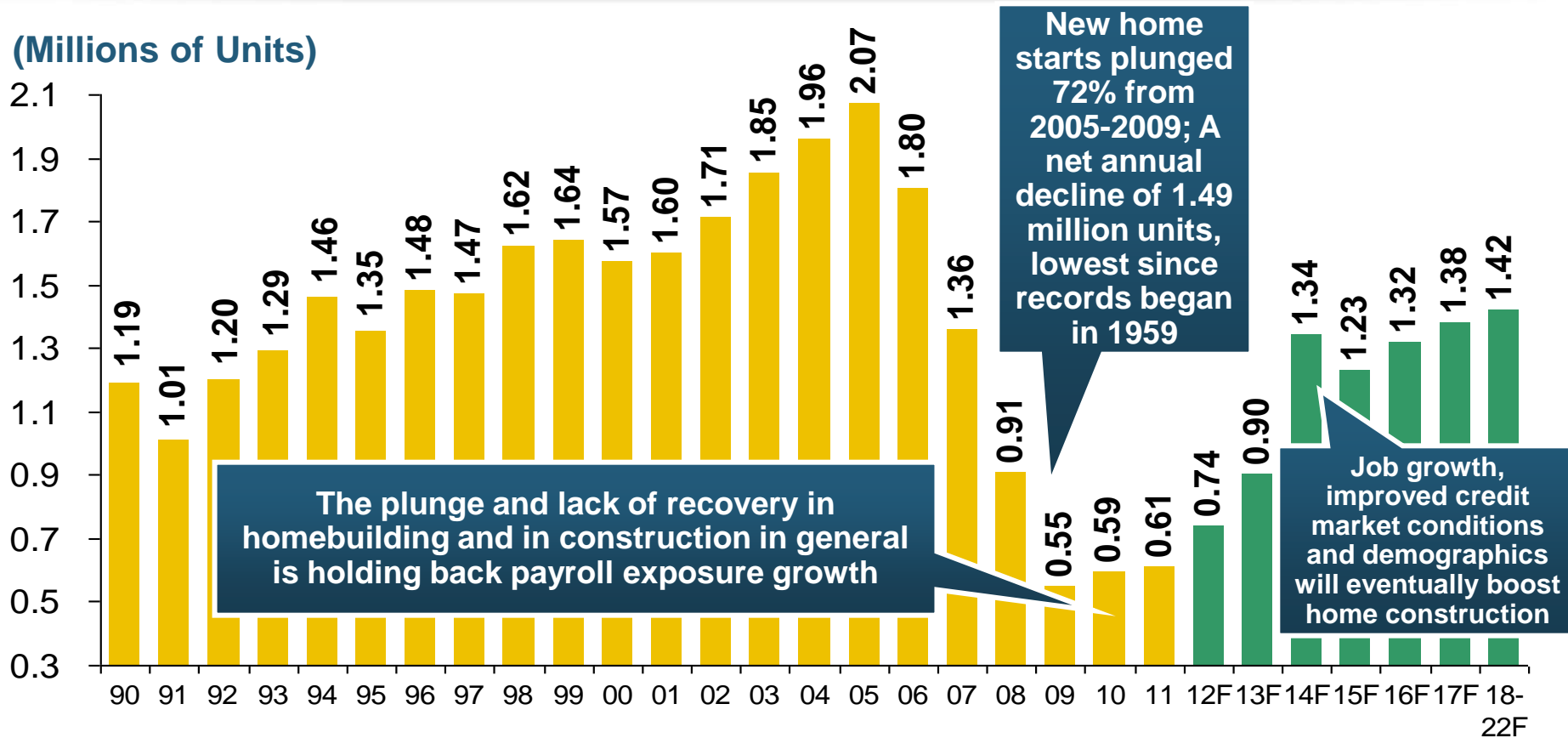
Auto/Light Truck Sales, 1999-2022F

(Millions of Units)



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

New Private Housing Starts, 1990-2022F



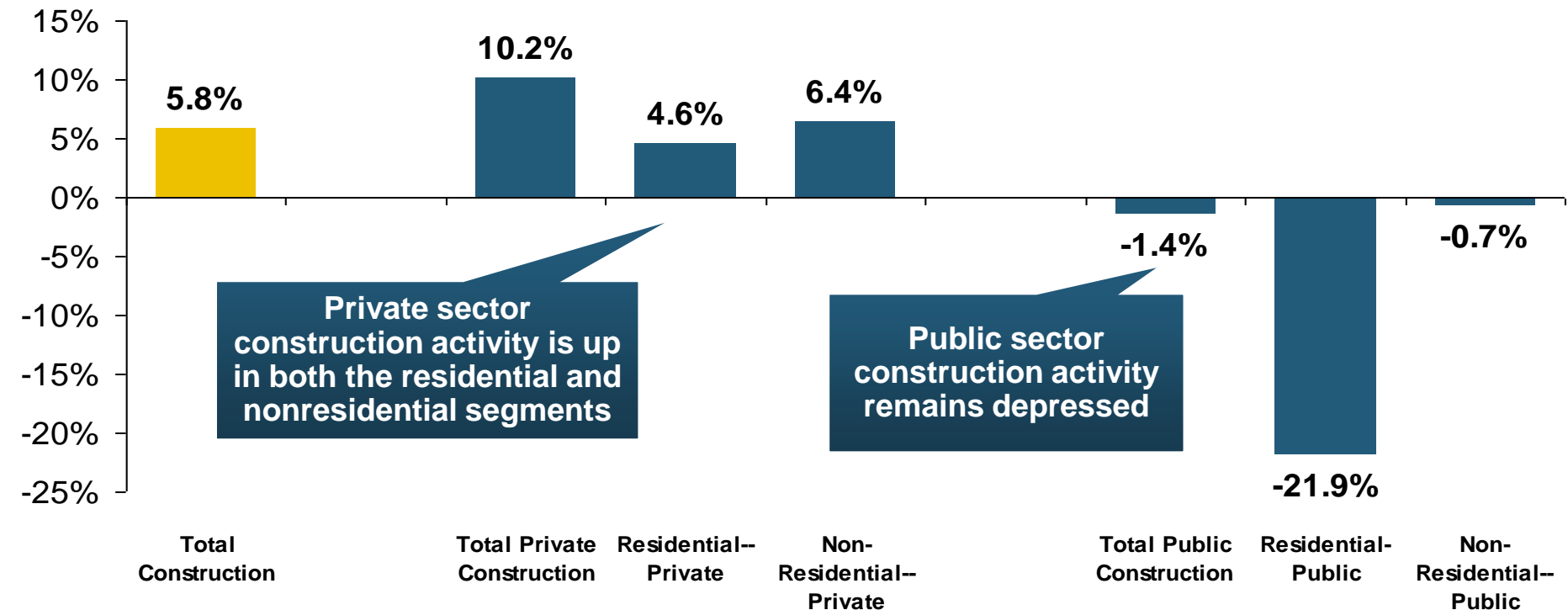
Little Exposure Growth Likely for Homeowners Insurers Until at least 2014. Also Affects Commercial Insurers with Construction Risk Exposure, Surety

Value of Construction Put in Place, Feb. 2012 vs. Feb. 2011*

Growth (%)

Private: +10.2%

Public: -1.4%



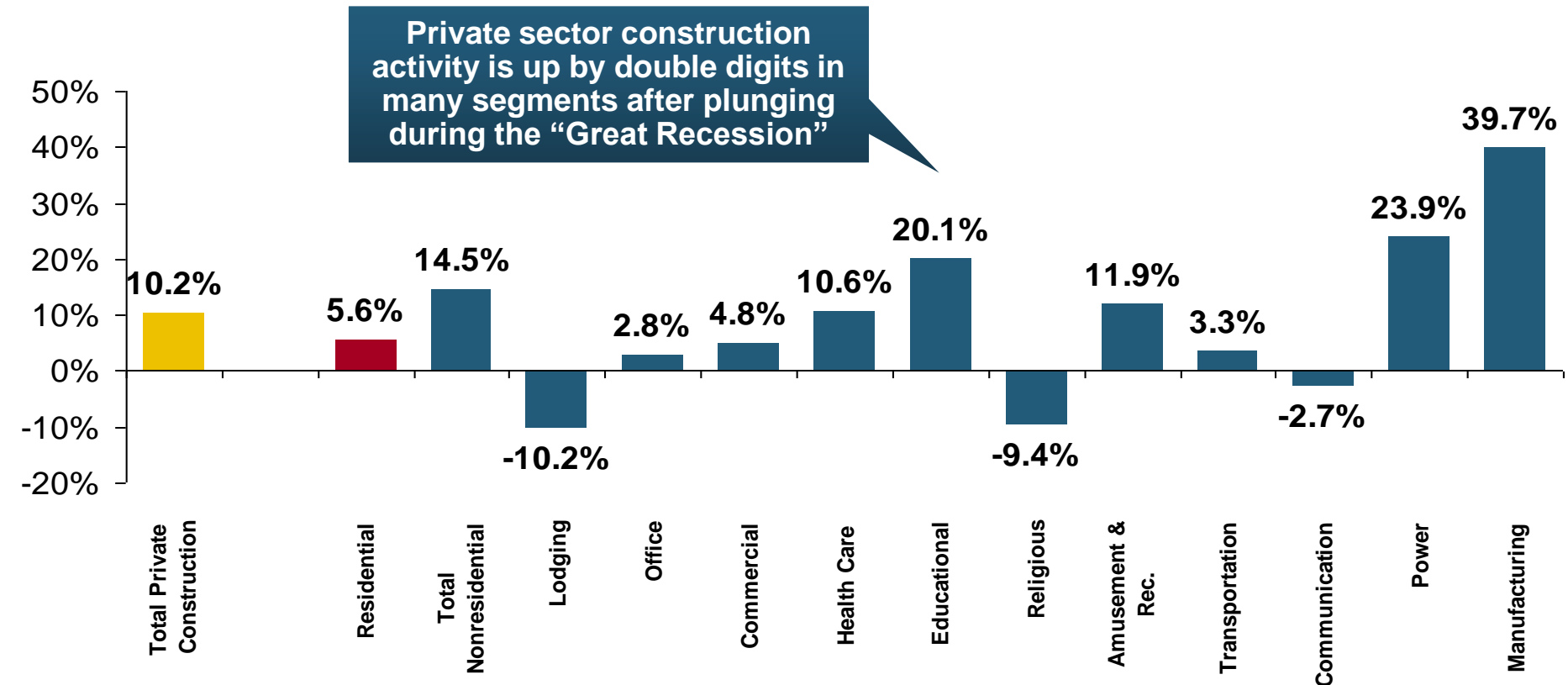
Overall Construction Activity is Up, But Growth Is Entirely in the Private Sector as State/Local Government Budget Woes Continue

*seasonally adjusted

Source: U.S. Census Bureau, <http://www.census.gov/construction/c30/c30index.html> ; Insurance Information Institute.

Value of Private Construction Put in Place, by Segment, Feb. 2012 vs. Feb. 2011*

Growth (%)

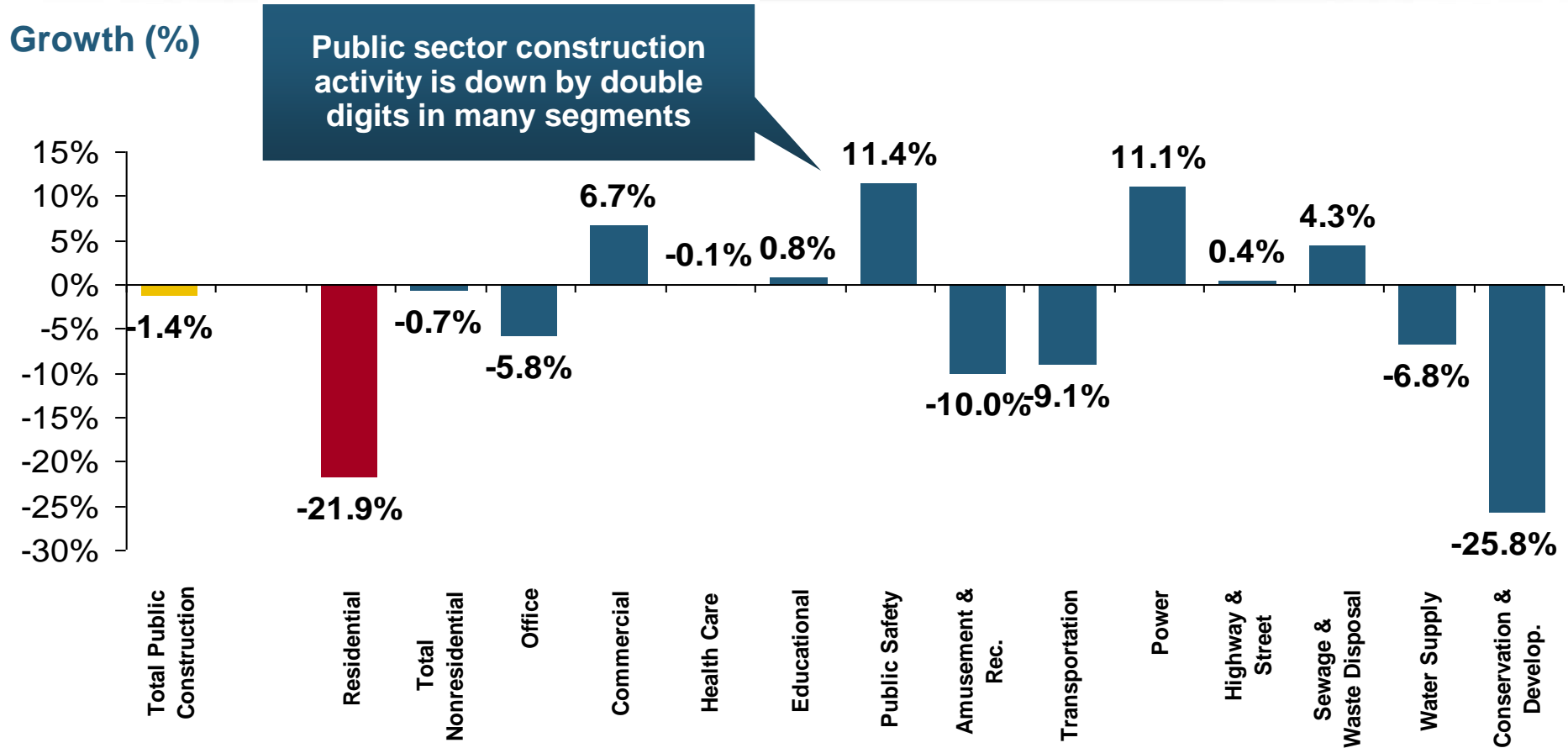


Private Construction Activity is Up in Most Segments, Including Residential Construction

*seasonally adjusted

Source: U.S. Census Bureau, <http://www.census.gov/construction/c30/c30index.html> ; Insurance Information Institute.

Value of Public Construction Put in Place, by Segment, Feb. 2012 vs. Feb. 2011*



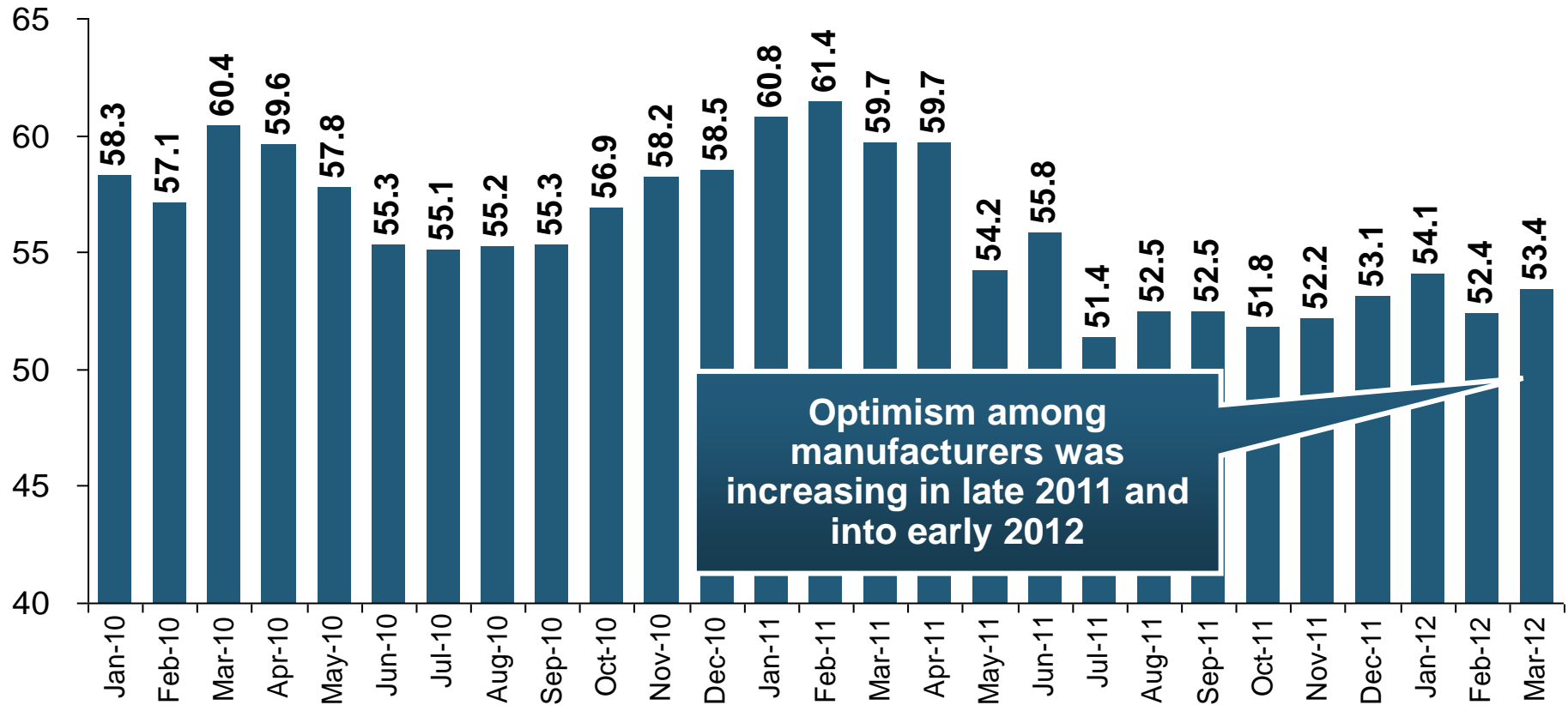
Public Construction Activity is Up Down in Many Segments as State, City and County Budgets Remain Under Stress

*seasonally adjusted

Source: U.S. Census Bureau, <http://www.census.gov/construction/c30/c30index.html> ; Insurance Information Institute.

ISM Manufacturing Index (Values > 50 Indicate Expansion)

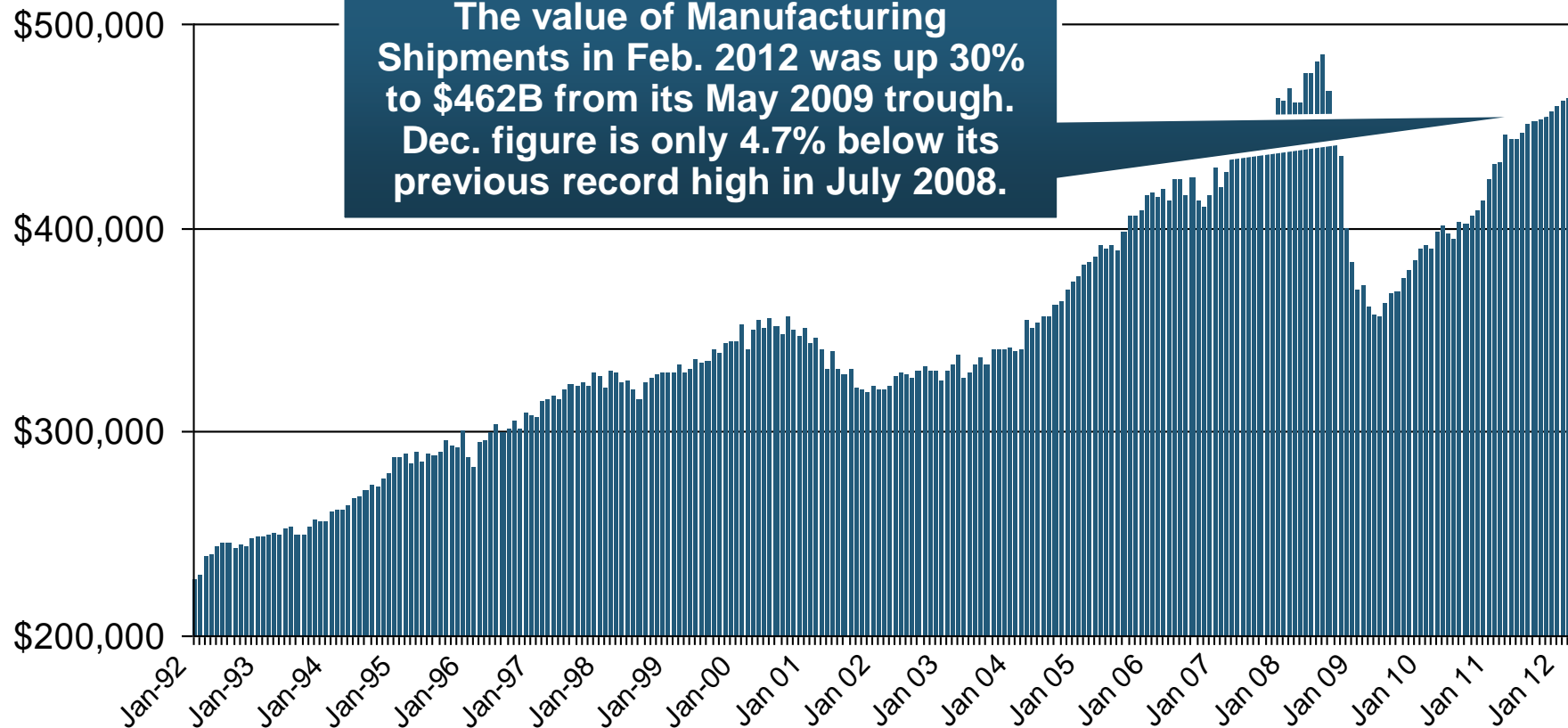
January 2010 through March 2012



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

Dollar Value* of Manufacturers' Shipments Monthly, Jan. 1992—Feb. 2012

\$ Millions



Monthly shipments are nearly back to peak (in July 2008, 8 months into the recession). Trough in May 2009. Growth from trough to February 2012 was 30%. This growth leads to gains in many commercial exposures: WC, Commercial Auto, Property and Various Liability Coverages

*seasonally adjusted

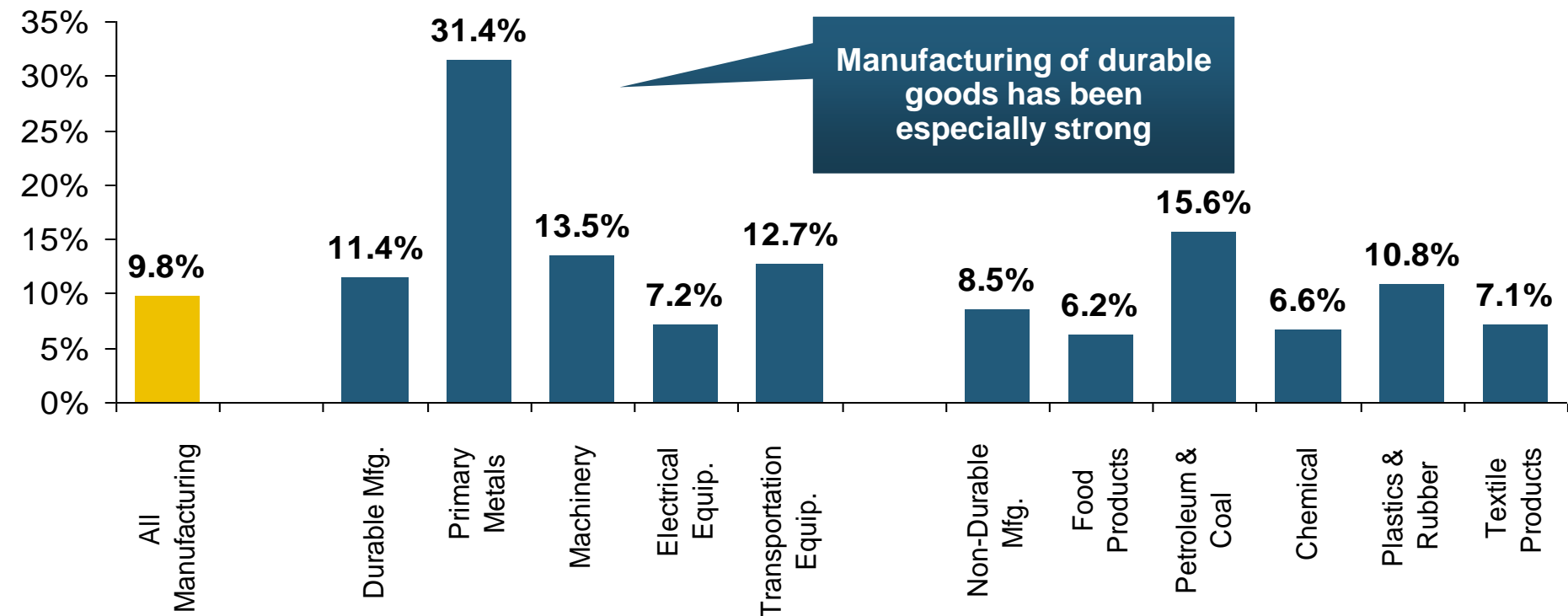
Source: U.S. Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders*, <http://www.census.gov/manufacturing/m3/>

Manufacturing Growth for Selected Sectors, 2012 vs. 2011*

Growth (%)

Durables: +11.4%

Non-Durables: +8.5%



Manufacturing Is Expanding Across a Wide Range of Sectors that Will Contribute to Growth in Insurable Exposures Including: WC, Commercial Property, Commercial Auto and Many Liability Coverages

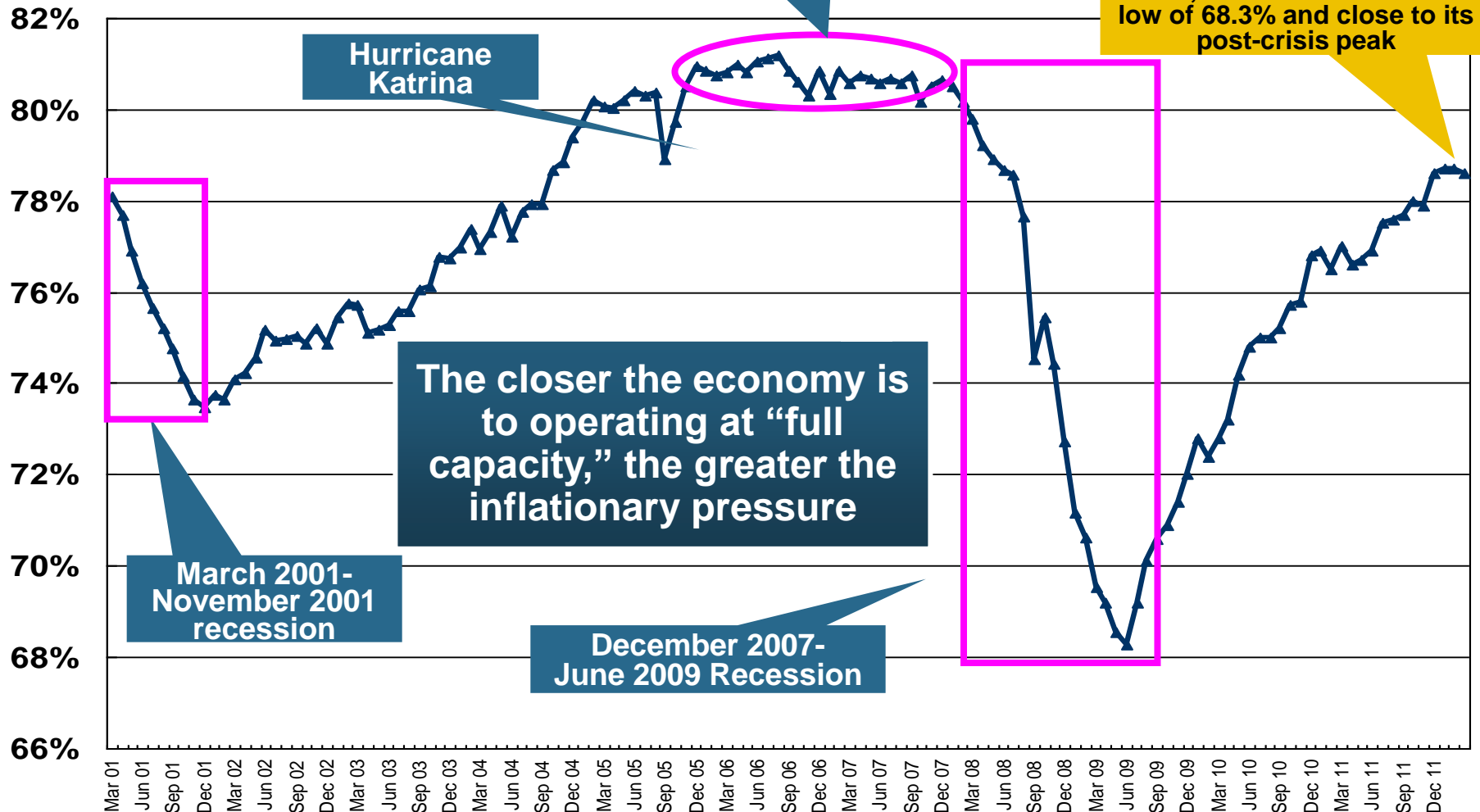
*seasonally adjusted; Date are YTD comparing data through Feb. 2012 to the same period in 2011.

Source: U.S. Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders*, <http://www.census.gov/manufacturing/m3/>

Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures

March 2001 through March 2012

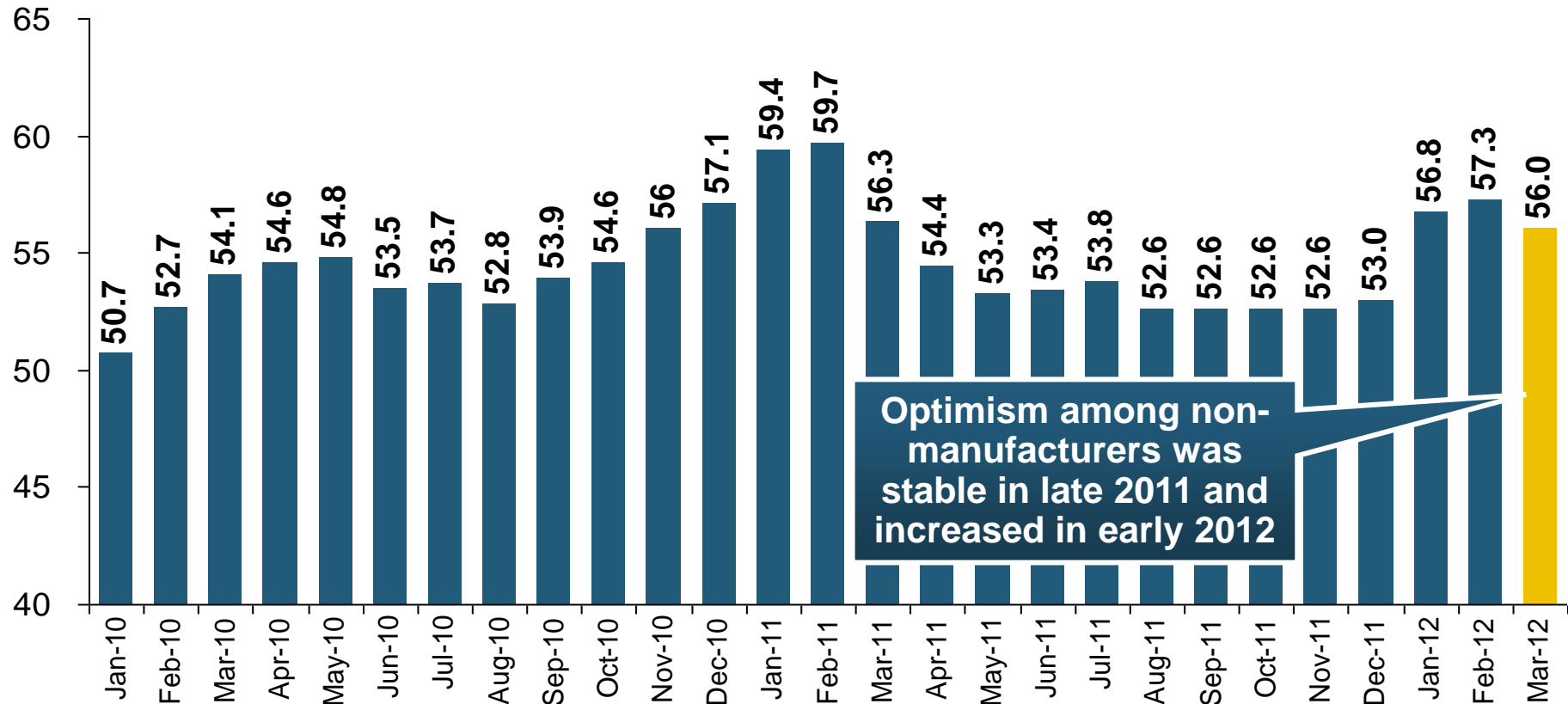
Percent of Industrial Capacity



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

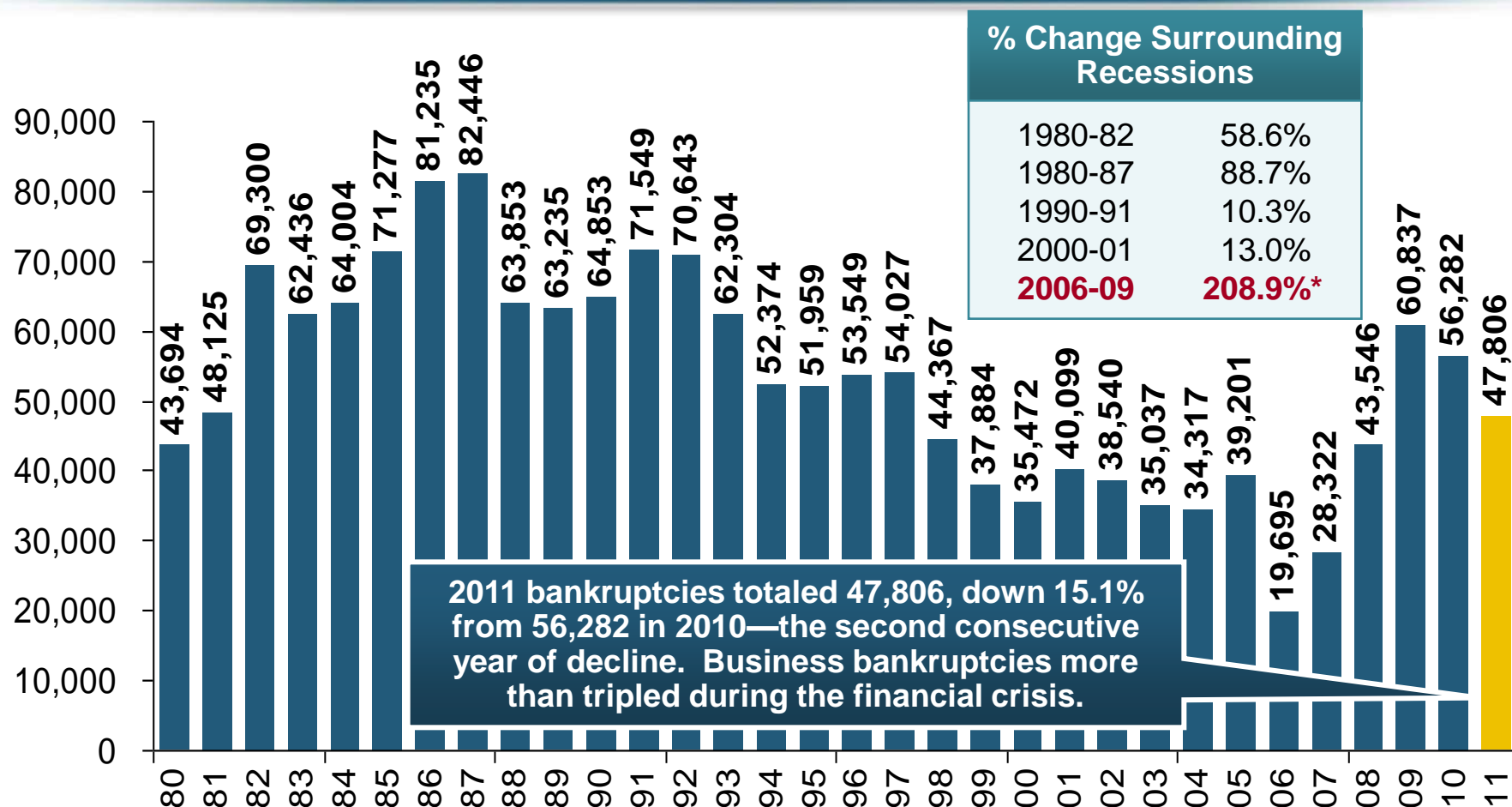
ISM Non-Manufacturing Index (Values > 50 Indicate Expansion)

January 2010 through March 2012



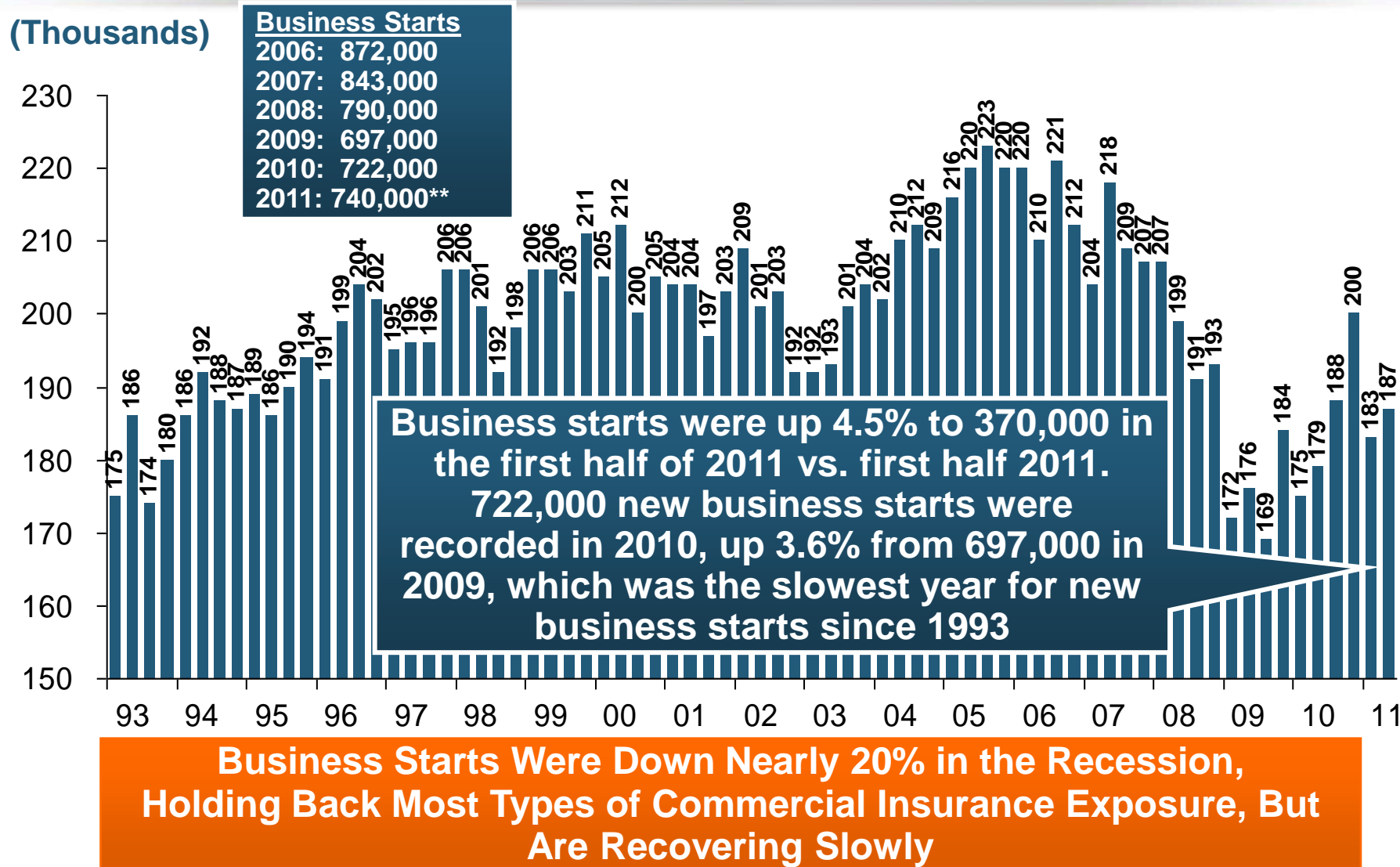
Non-manufacturing industries have been expanding and adding jobs. The question is whether this will continue.

Business Bankruptcy Filings, 1980-2011



Significant Exposure Implications for All Commercial Lines as Business Bankruptcies Begin to Decline

Private Sector Business Starts, 1993:Q2 – 2011:Q2*



* Data through June 30, 2011 are the latest available as of March 7, 2012; Seasonally adjusted.

Source: Bureau of Labor Statistics, <http://www.bls.gov/news.release/cewbd.t08.htm>.

12 Industries for the Next 10 Years: Insurance Solutions Needed

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

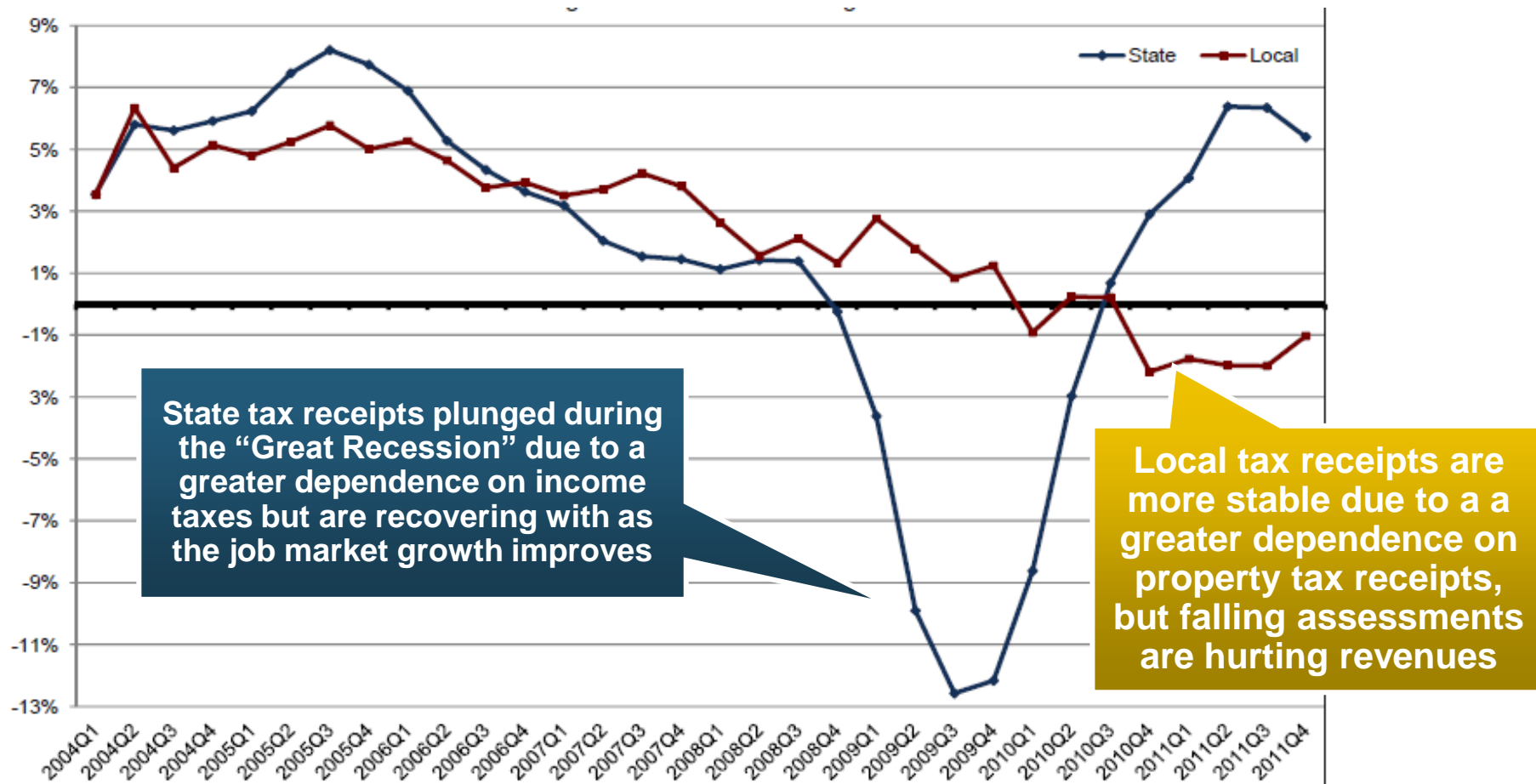
Many industries are poised for growth, though insurers' ability to capitalize on these industries varies widely

State & Local Government Finances Are Recovering

**State Finances Are Improving as
Local Governments Continue to
Face Challenges**

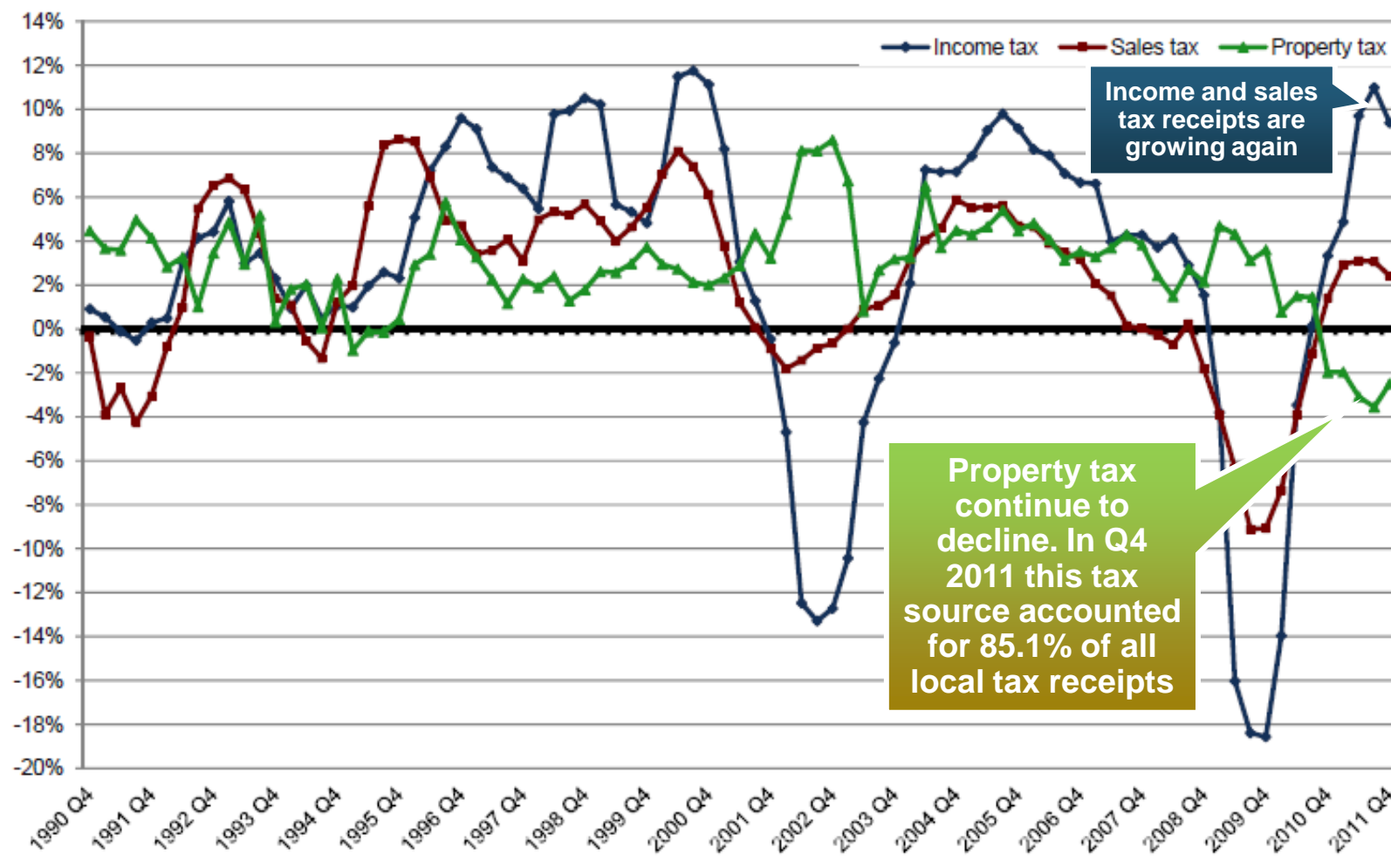
Local Tax Revenues Languish While State Receipts Recover

Year-Over-Year Change in Inflation-Adjusted State and Local Taxes
% Change of 4-Quarter Average, 2004-2011



Income and Sales Tax Revenues Recover While Property Taxes Decline

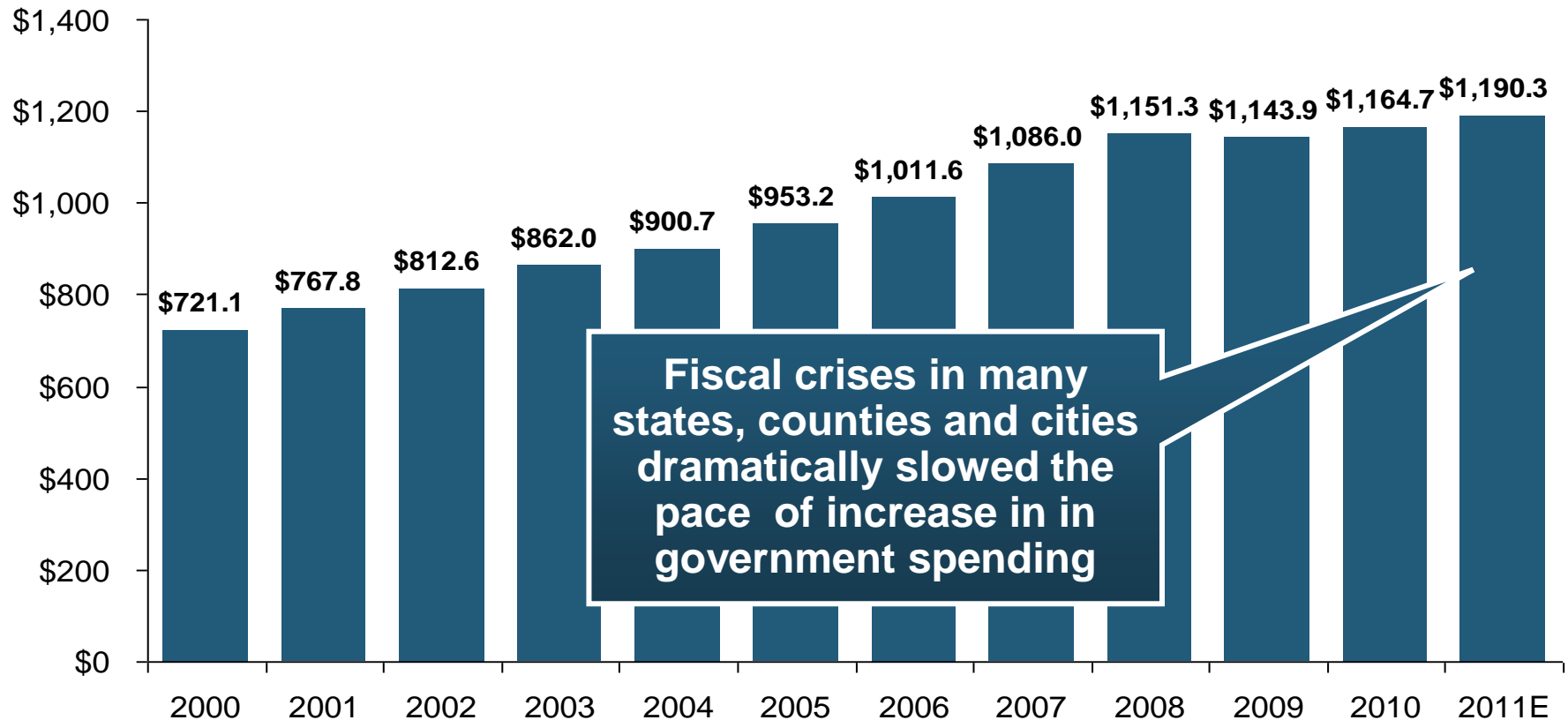
Year-Over-Year Change in Inflation-Adjusted State and Local Taxes
% Change of 4-Quarter Average, 2004-2011



Sources: US Census Bureau (tax revenues); BEA; Nelson A. Rockefeller Institute of Government: <http://www.rockinst.org/>; Insurance Information Institute.

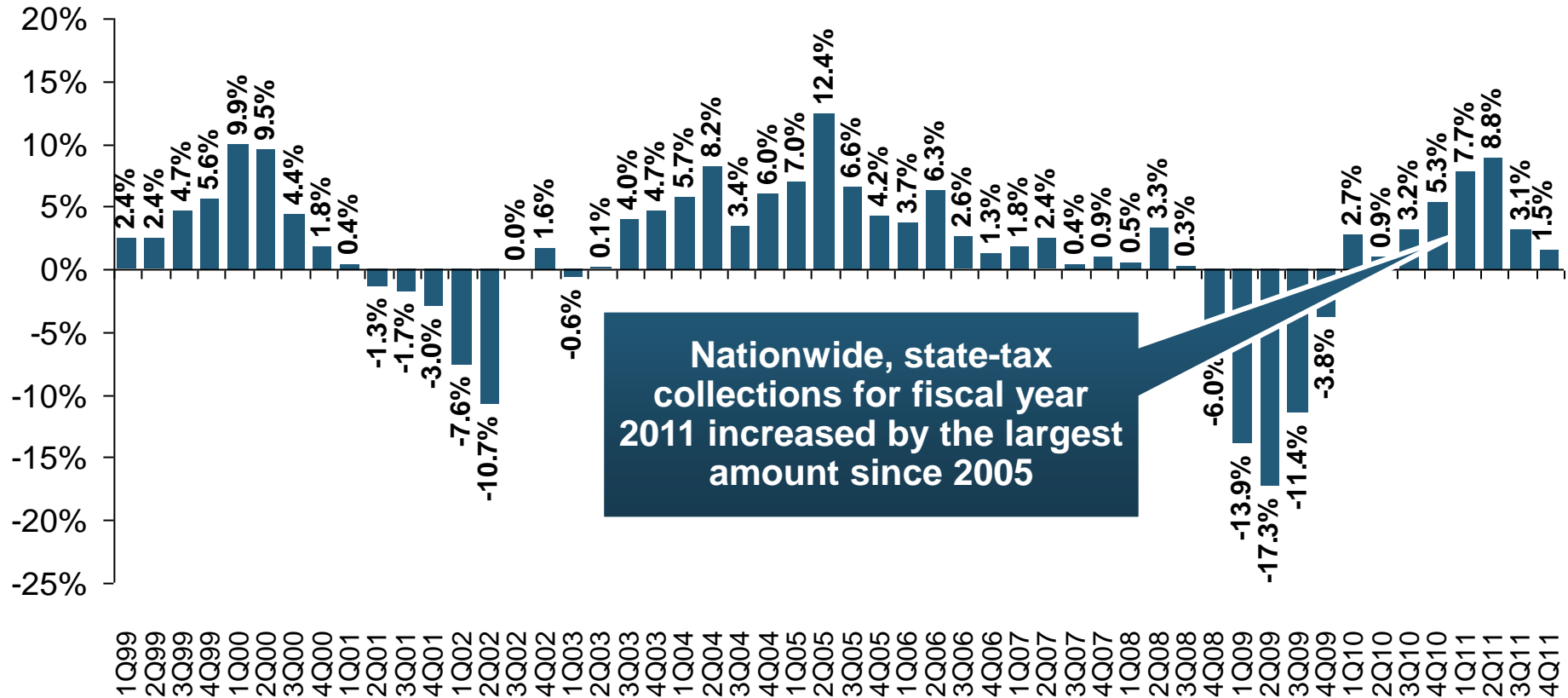
State and Local Government Expenditures and Net Investment, 2000-2011E

(Billions of Dollars)



State and local governments face flat tax revenues and increased demand for government services and huge pressure from public worker pension obligations. These pressures are keeping a lid on spending on infrastructure and other projects that would generate insurance exposure.

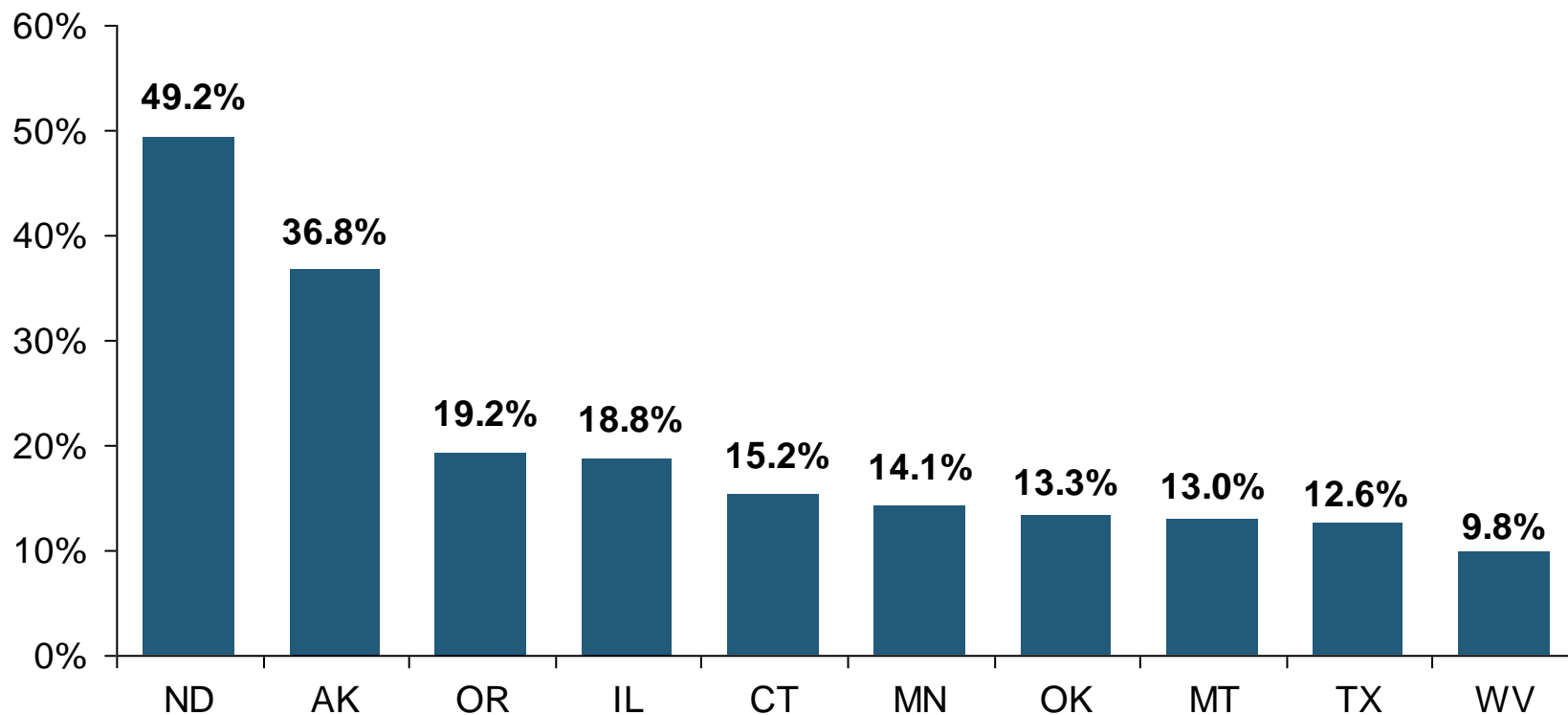
Year-Over-Year Change in Quarterly US State Tax Revenues, Inflation Adjusted



States Revenues Were Up 1.5% in Q4 2011, the 8th Consecutive Quarter of Revenue Increase. Impact on Public Infrastructure Spending is Unclear as State/Local Governments Grapple with Pension Shortfalls

States with the Fastest Increase in Tax Revenues

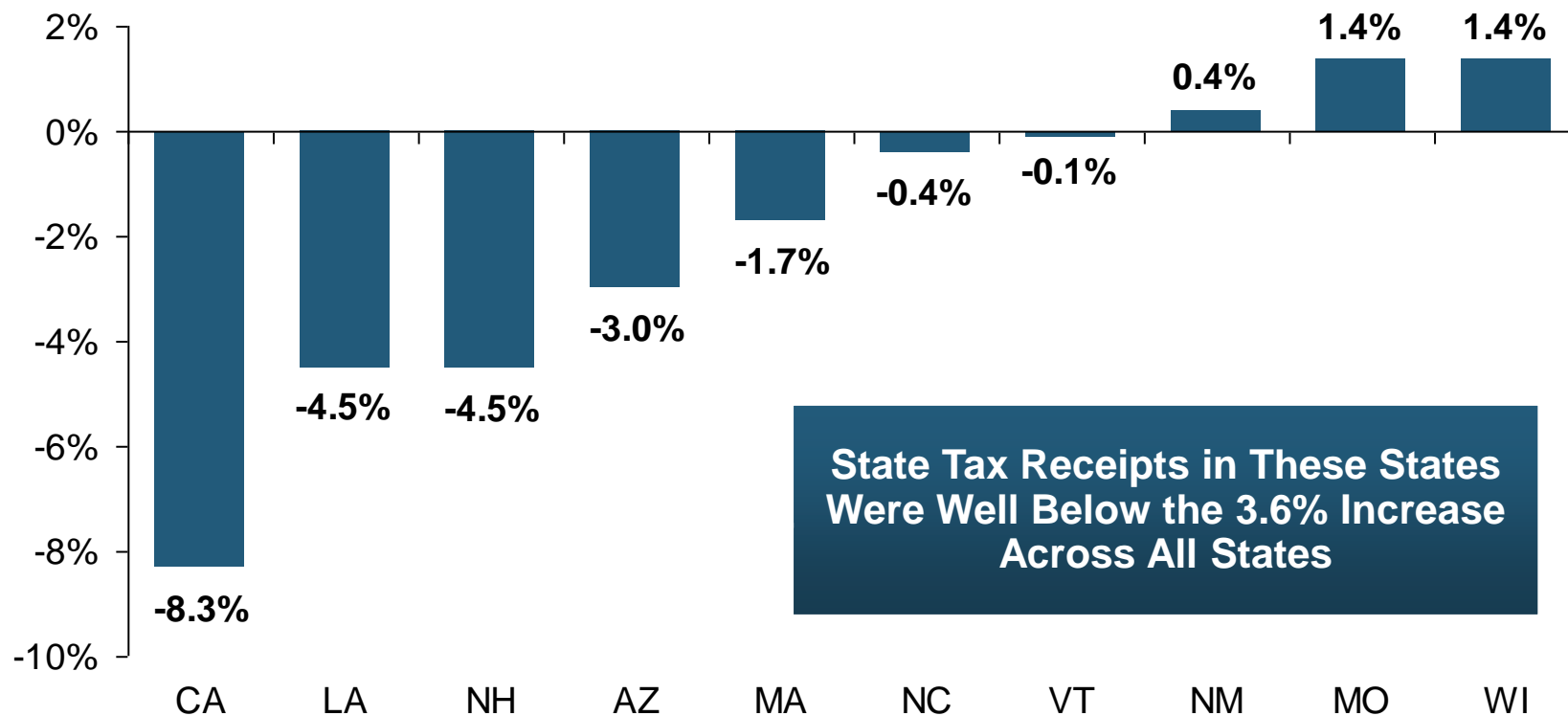
Period Ending Oct. – Dec. 2011 vs. Oct. – Dec. 2010 (%)



Some States Are Doing Much Better Than Others

States with the Slowest Growth in Tax Revenues

Period Ending Oct. – Dec. 2011 vs. Oct. – Dec. 2010 (%)



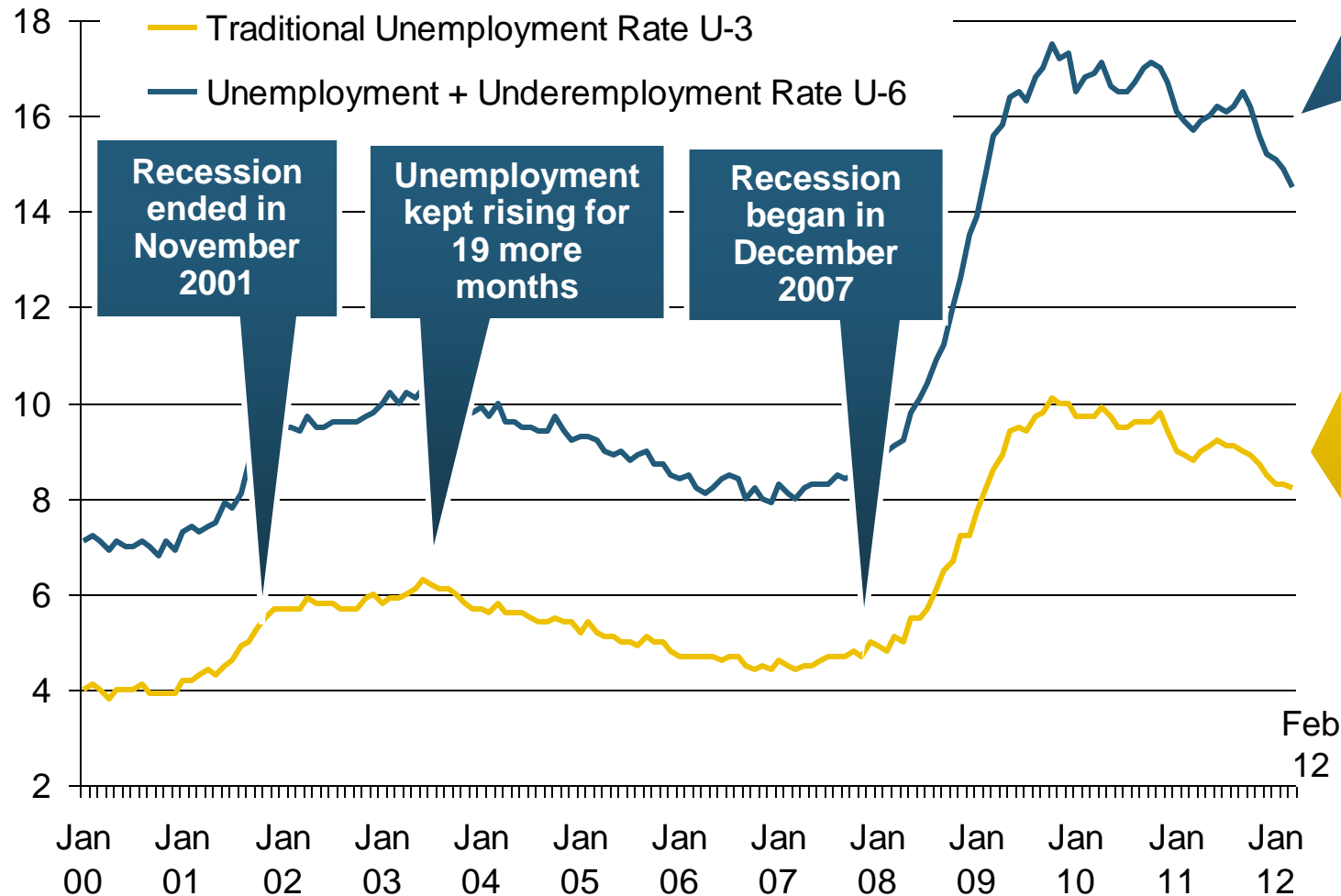
Some States Are Still Seeing Negative or Negligible Growth in State Tax Revenues

Labor Market Trends

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

Unemployment and Underemployment Rates: Stubbornly High in 2012, But Falling

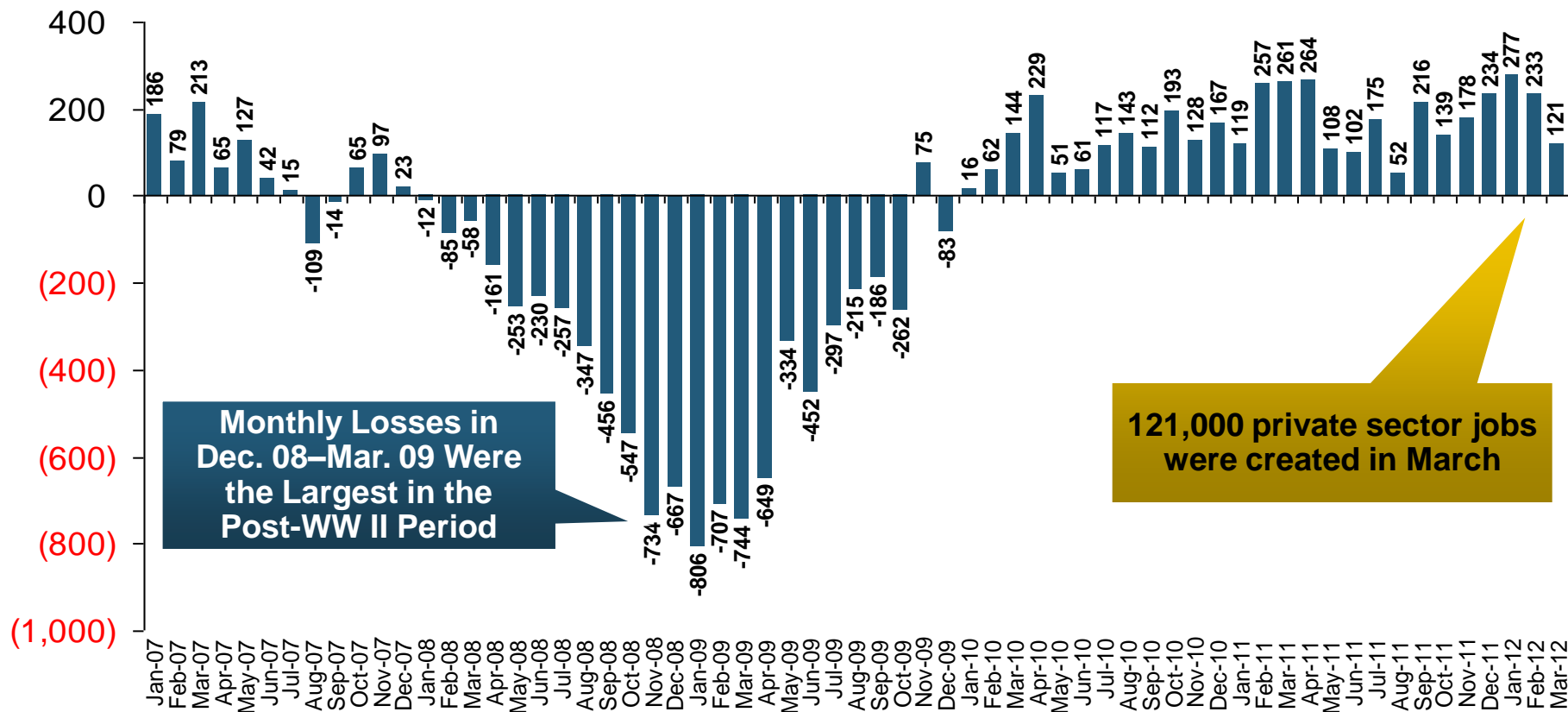
January 2000 through March 2012, Seasonally Adjusted (%)



Stubbornly high unemployment and underemployment constrain overall economic growth, but the job market is now clearly improving

Monthly Change in Private Employment

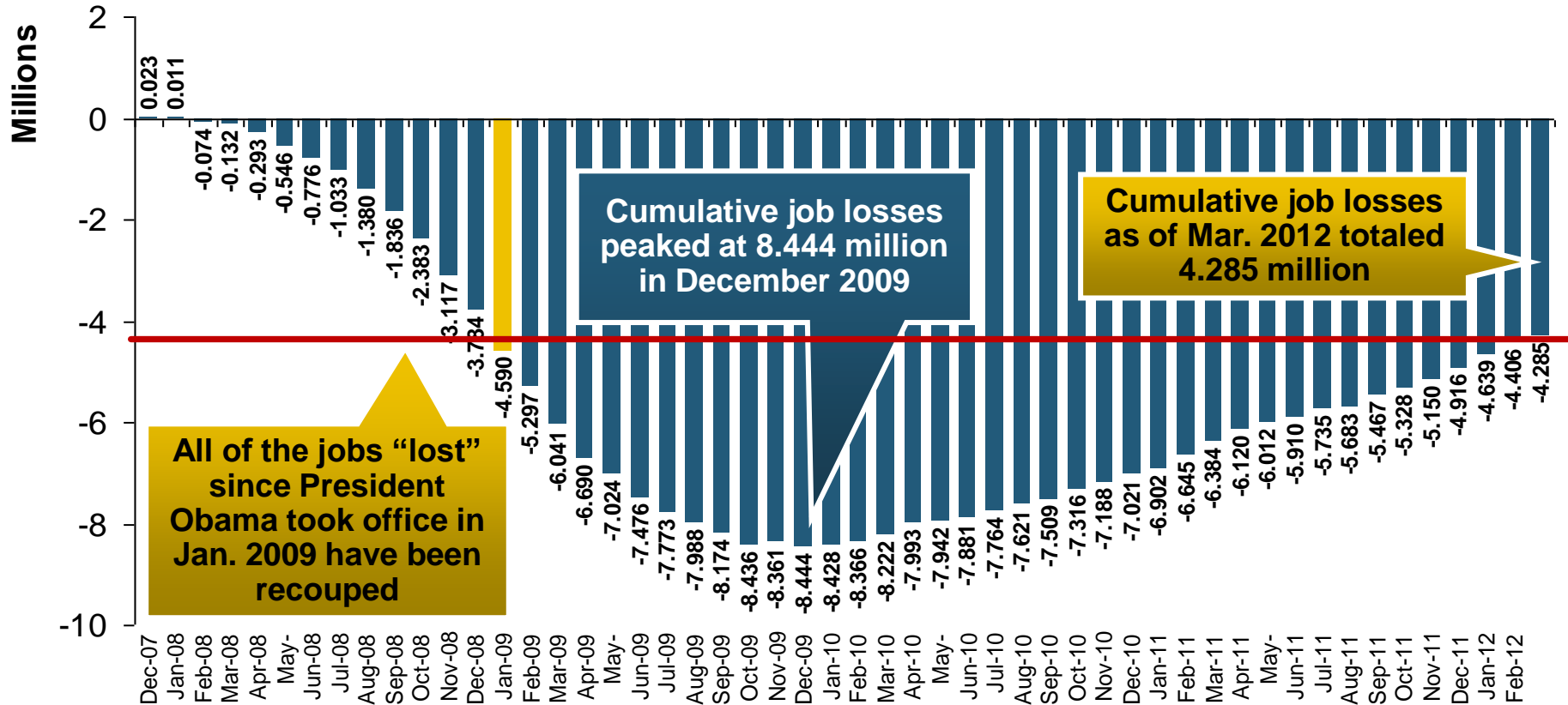
January 2008 through March 2012* (Thousands)



Private Employers Added 4.159 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)

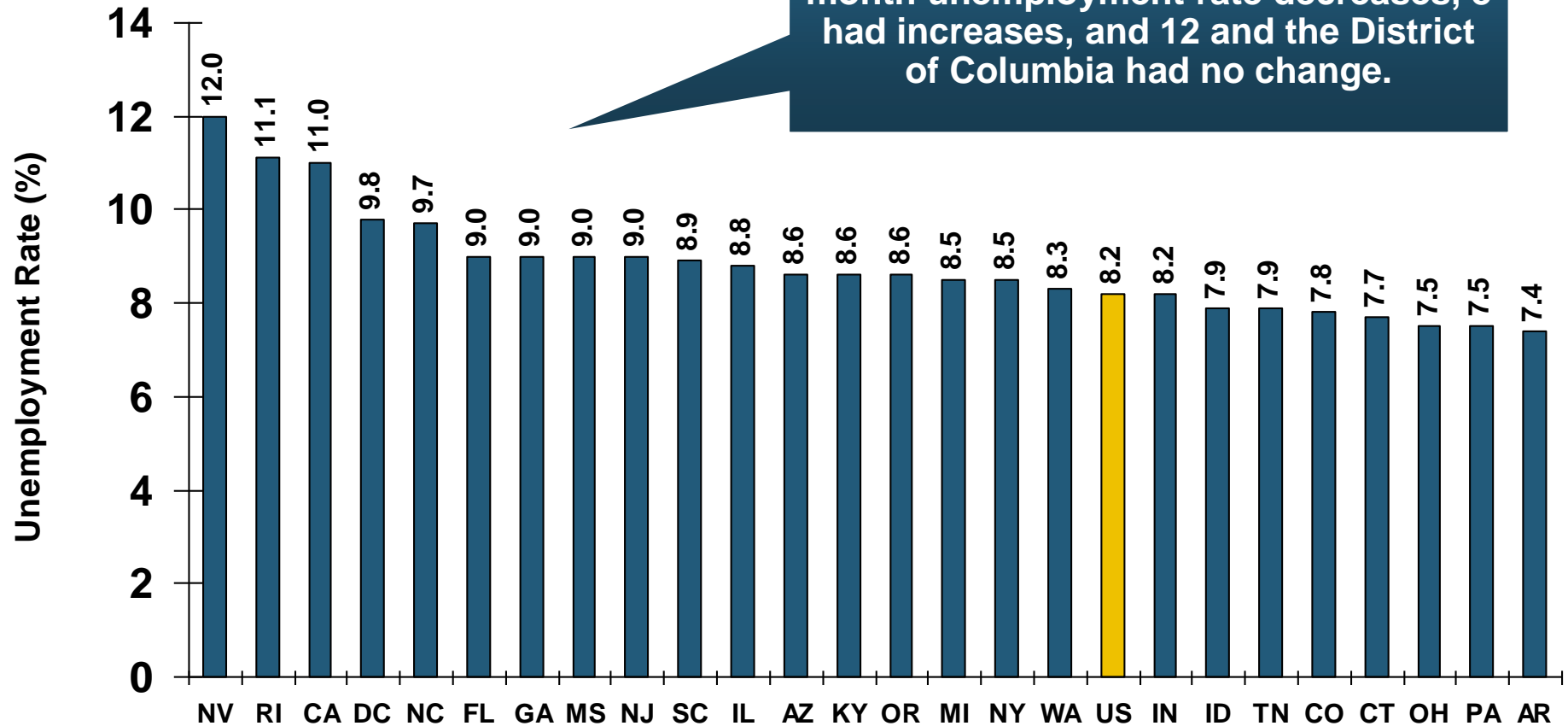
Cumulative Change in Private Employment: Dec. 2007—Mar. 2012

December 2007 through March 2012* (Millions)



Private Employers Added 4.159 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)

Unemployment Rates by State, March 2012: Highest 25 States*



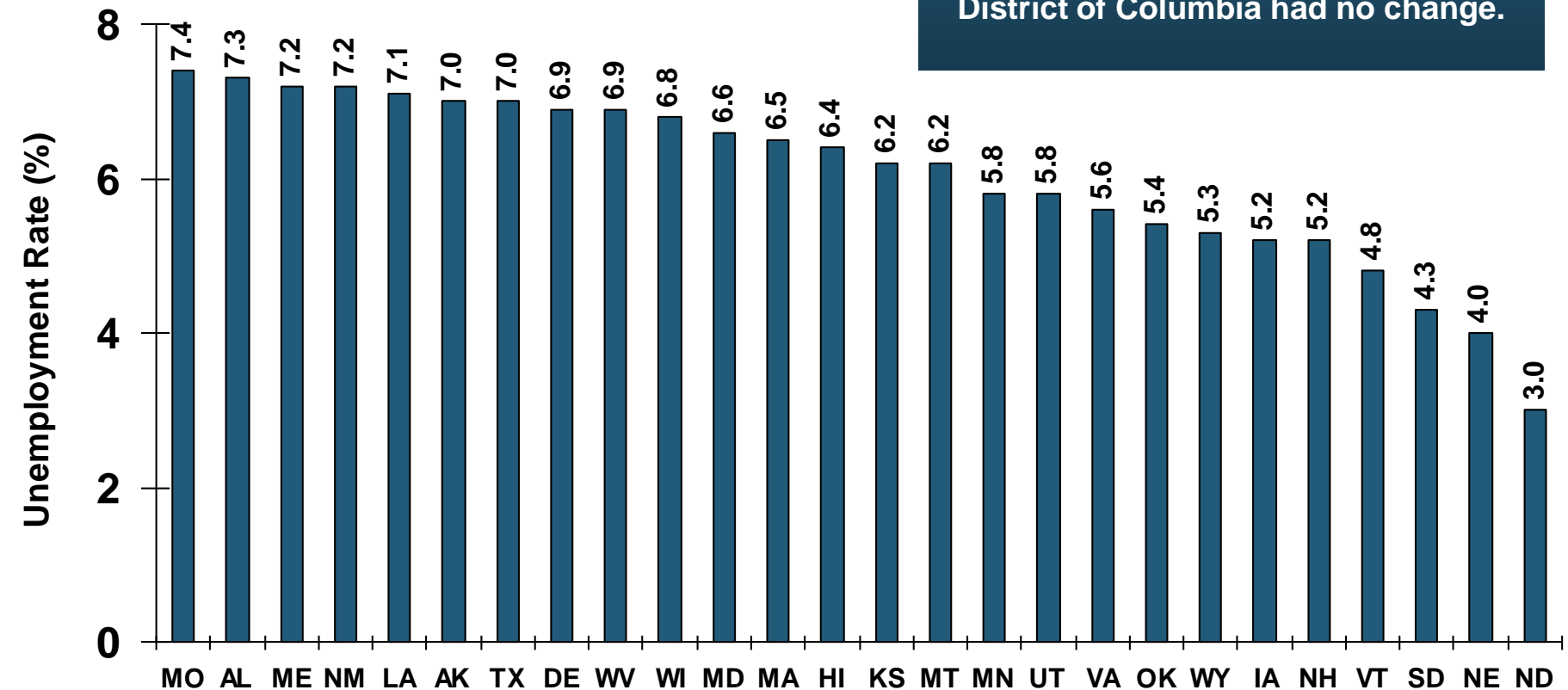
*Provisional figures for March 2012, seasonally adjusted.

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

Unemployment Rates By State, March 2012:

Lowest 25 States*

In March, 30 states reported over-the-month unemployment rate decreases, 8 had increases, and 12 and the District of Columbia had no change.

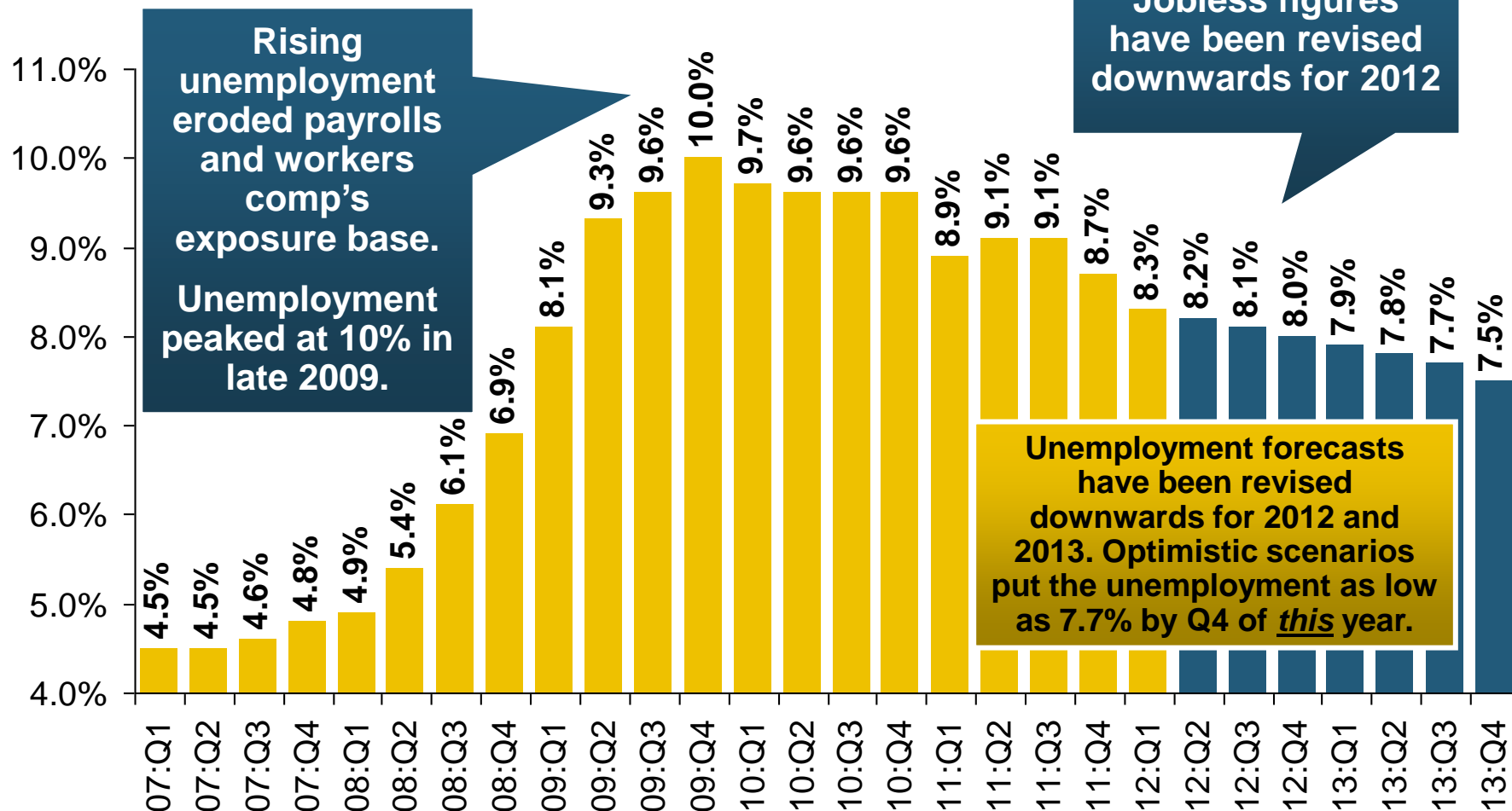


*Provisional figures for March 2012, seasonally adjusted.

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

US Unemployment Rate

2007:Q1 to 2013:Q4F*

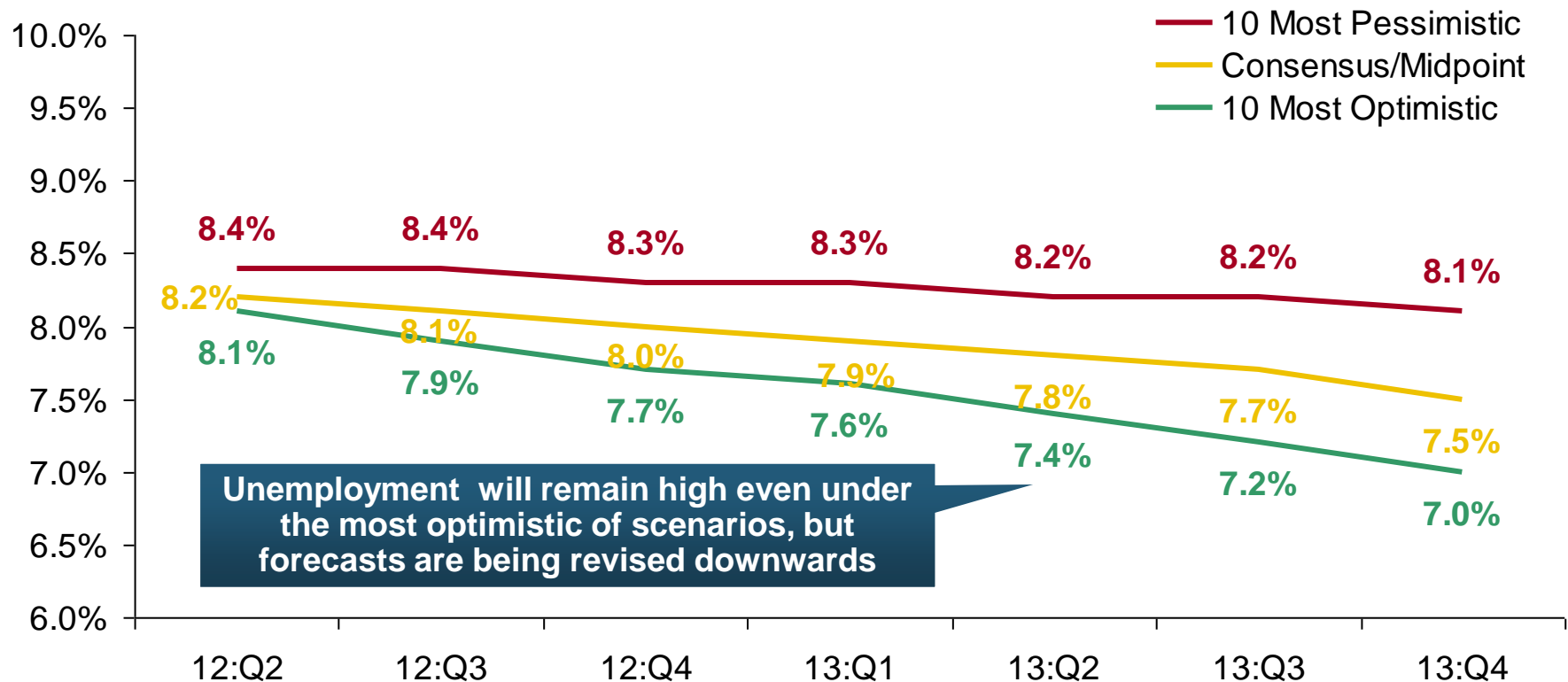


* ■ = actual; ■ = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (4/12 edition); Insurance Information Institute.

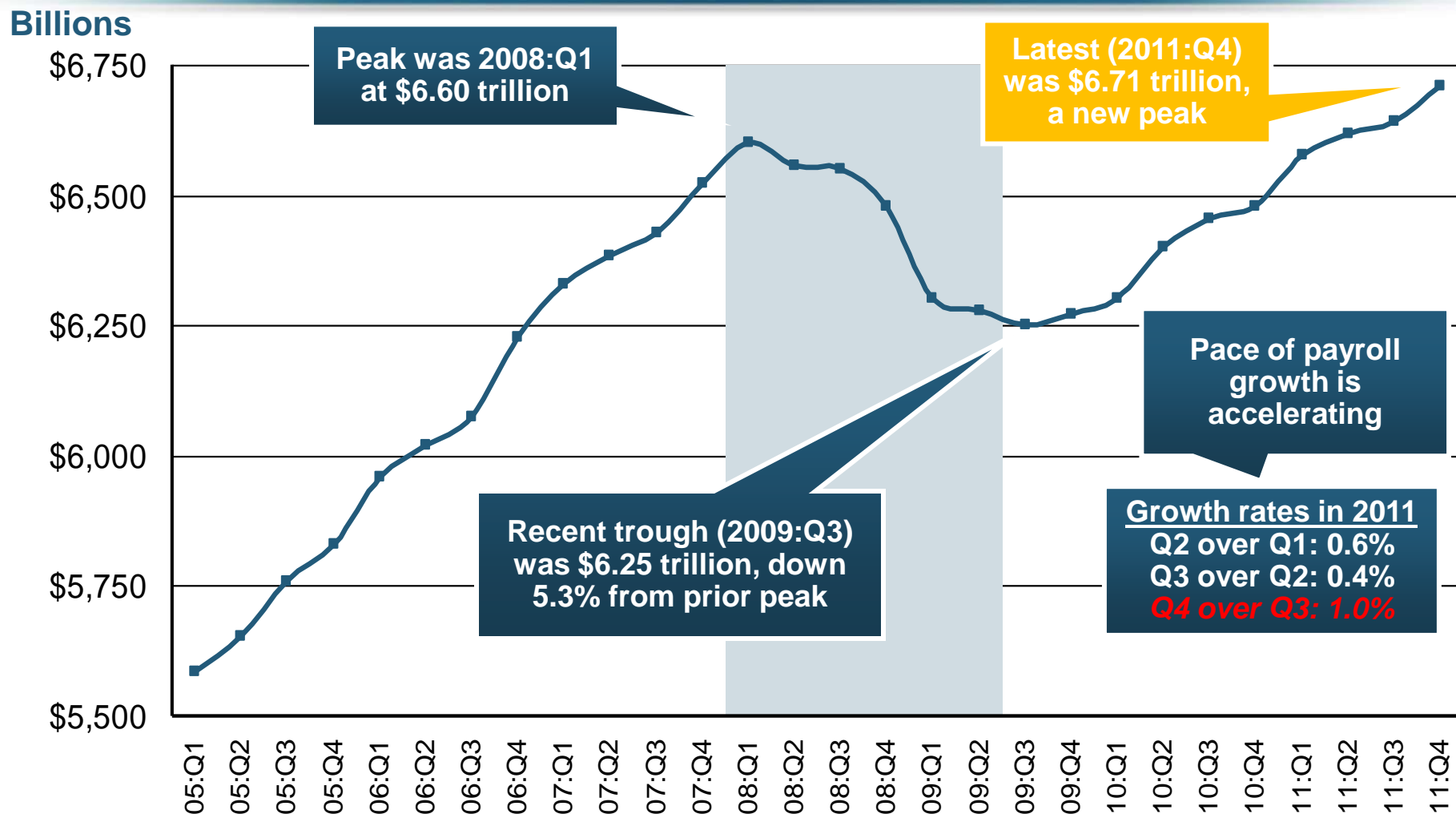
US Unemployment Rate Forecasts

Quarterly, 2012:Q2 to 2013:Q4



Steadily Decreasing Unemployment Should Benefit the Workers Comp Exposure Base at Least Through 2013

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2011:Q4



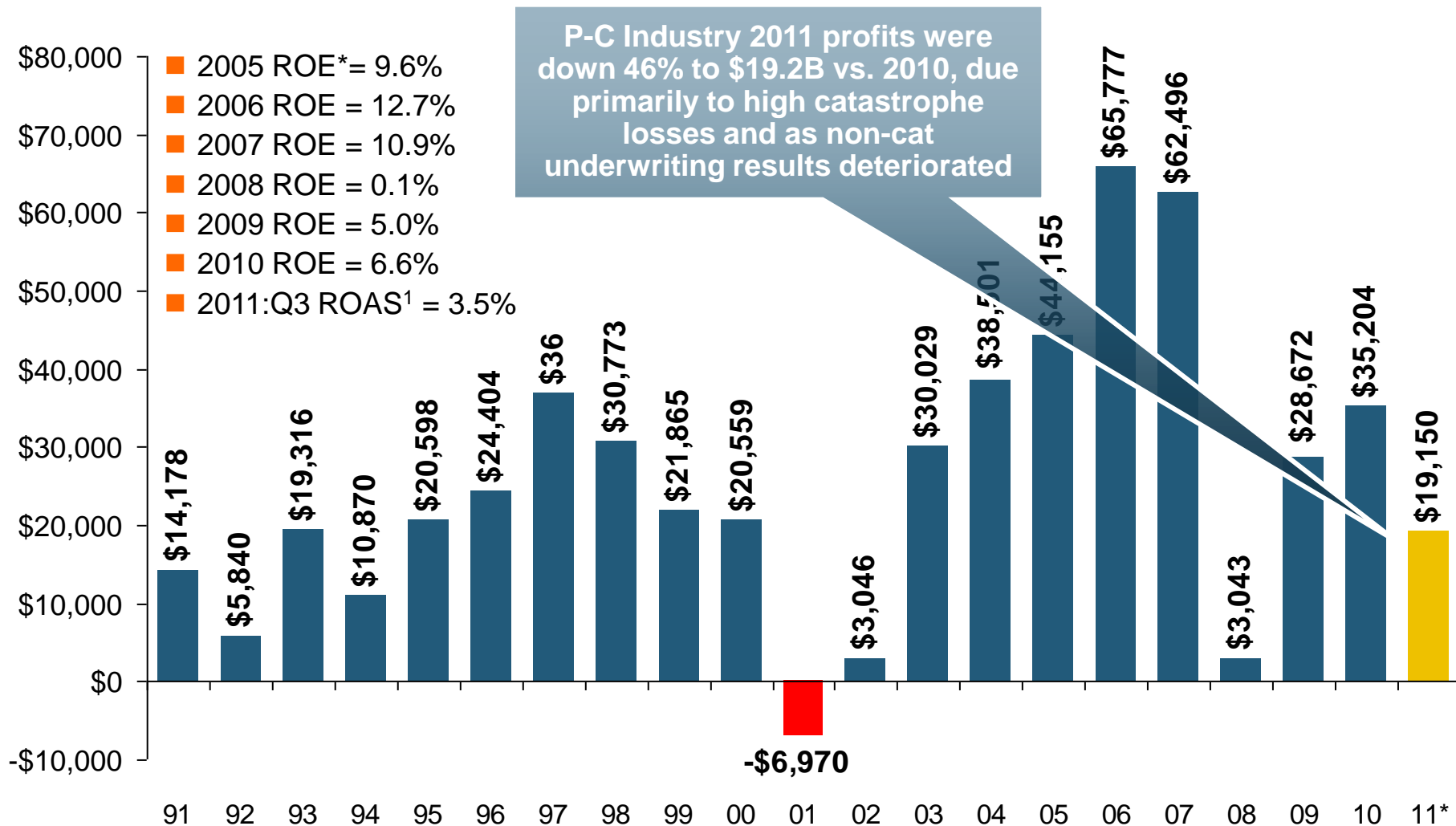
Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

Sources: <http://research.stlouisfed.org/fred2/series/WASCUR>; National Bureau of Economic Research (recession dates); Insurance Information Institute.

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 (\$ Millions)



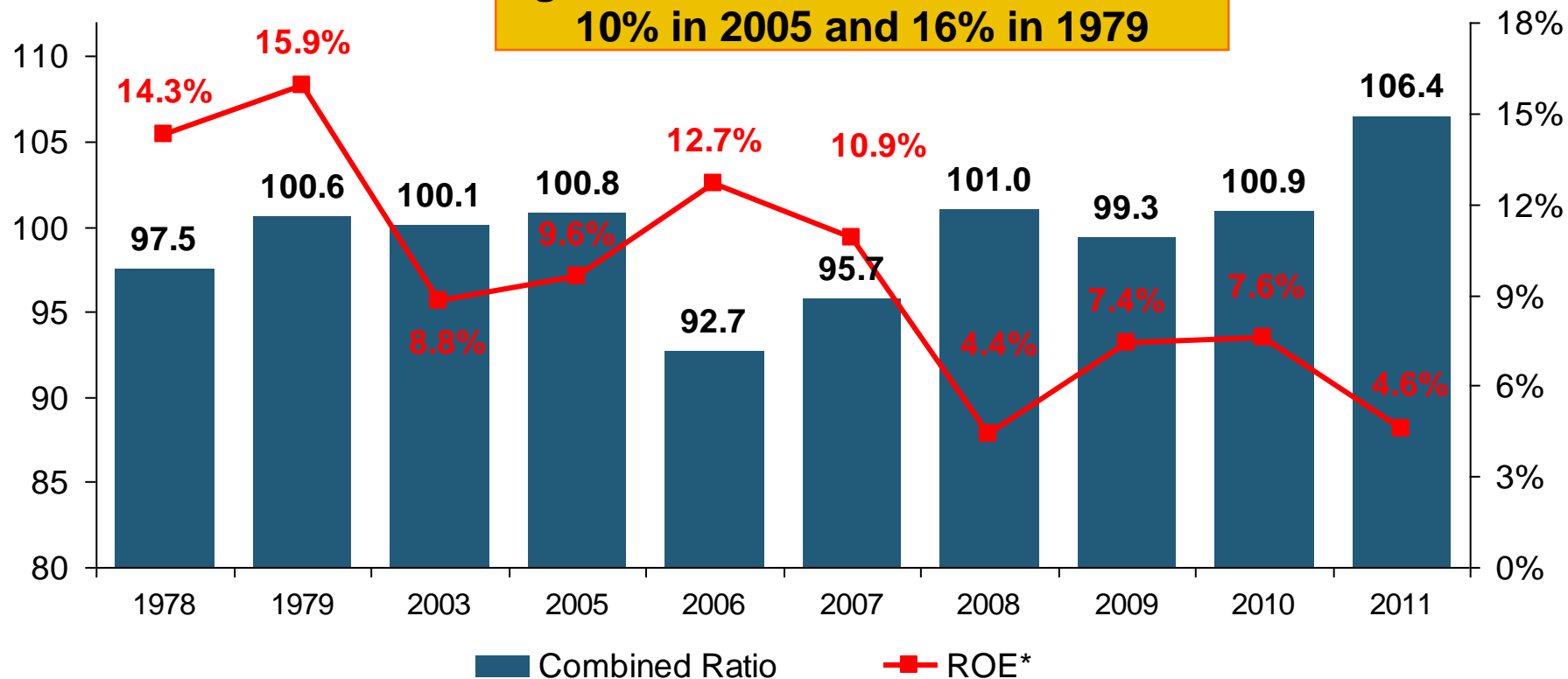
* ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 4.6% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009.

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

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

Combined Ratio / ROE

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

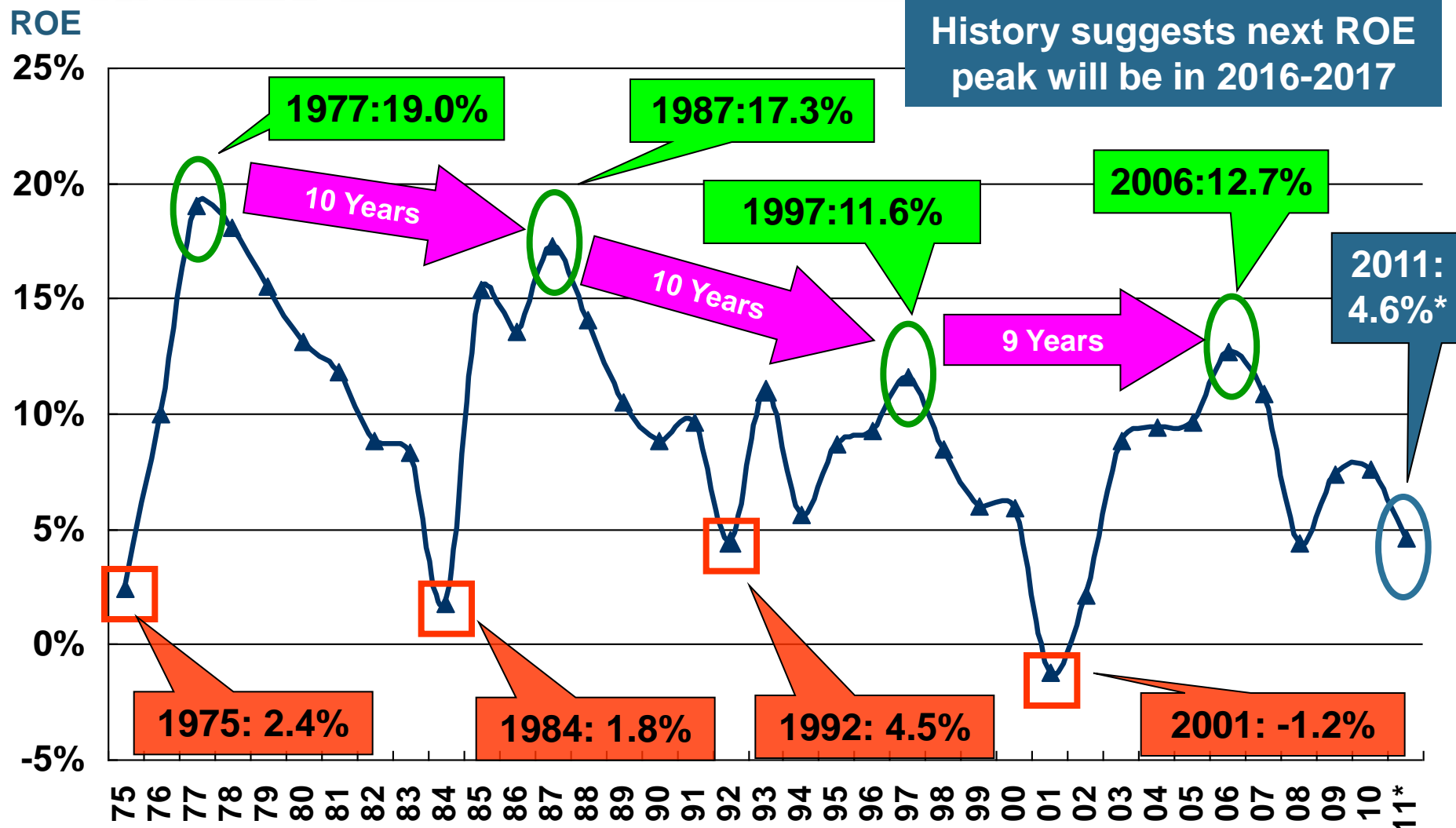


Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2008 -2011 figures are return on average surplus and exclude mortgage and financial guaranty insurers. 2011 combined ratio including M&FG insurers is 108.2, ROAS = 3.5%.

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

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

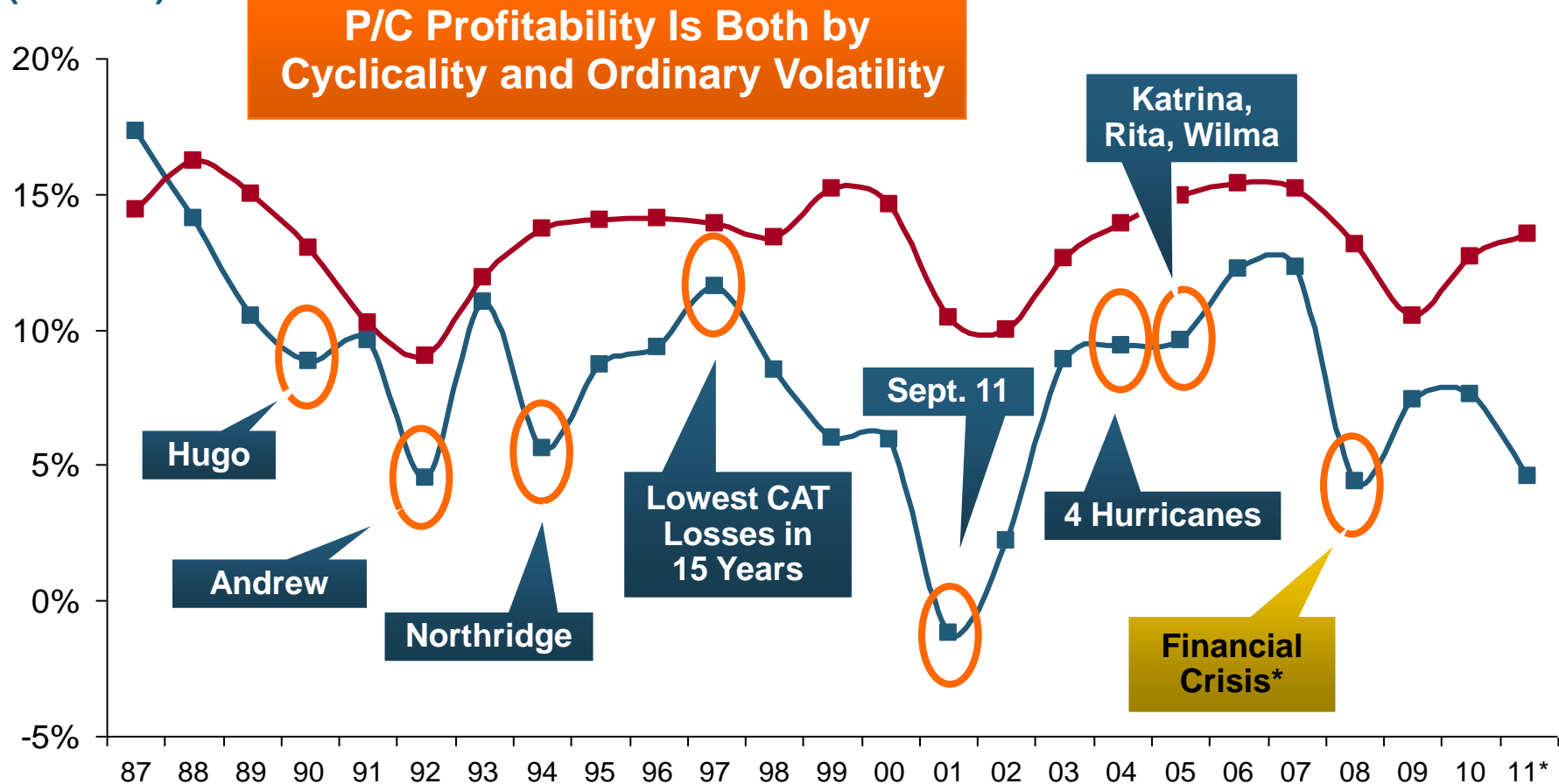


*Profitability = P/C insurer ROEs are I.I.I. estimates. 2011 figure is an estimate based on ROAS data. Note: Data for 2008-2011 exclude mortgage and financial guaranty insurers. For 2011:Q3 ROAS = 3.5% including M&FG.

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

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

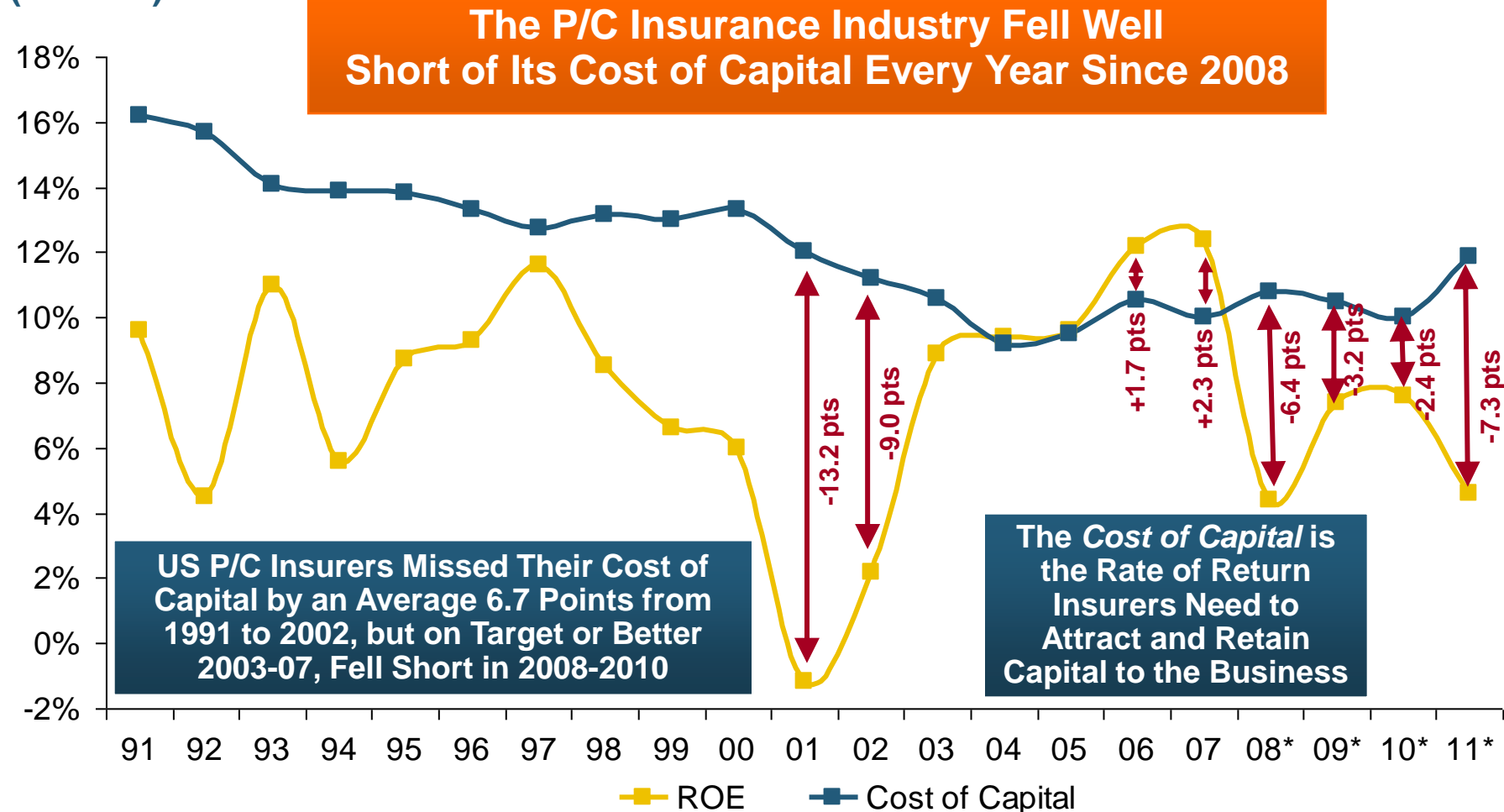
(Percent)



* Excludes Mortgage & Financial Guarantee in 2008 - 2011; 2012 Fortune 500 figure is an ILL estimate.
Sources: ISO, *Fortune*; Insurance Information Institute.

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

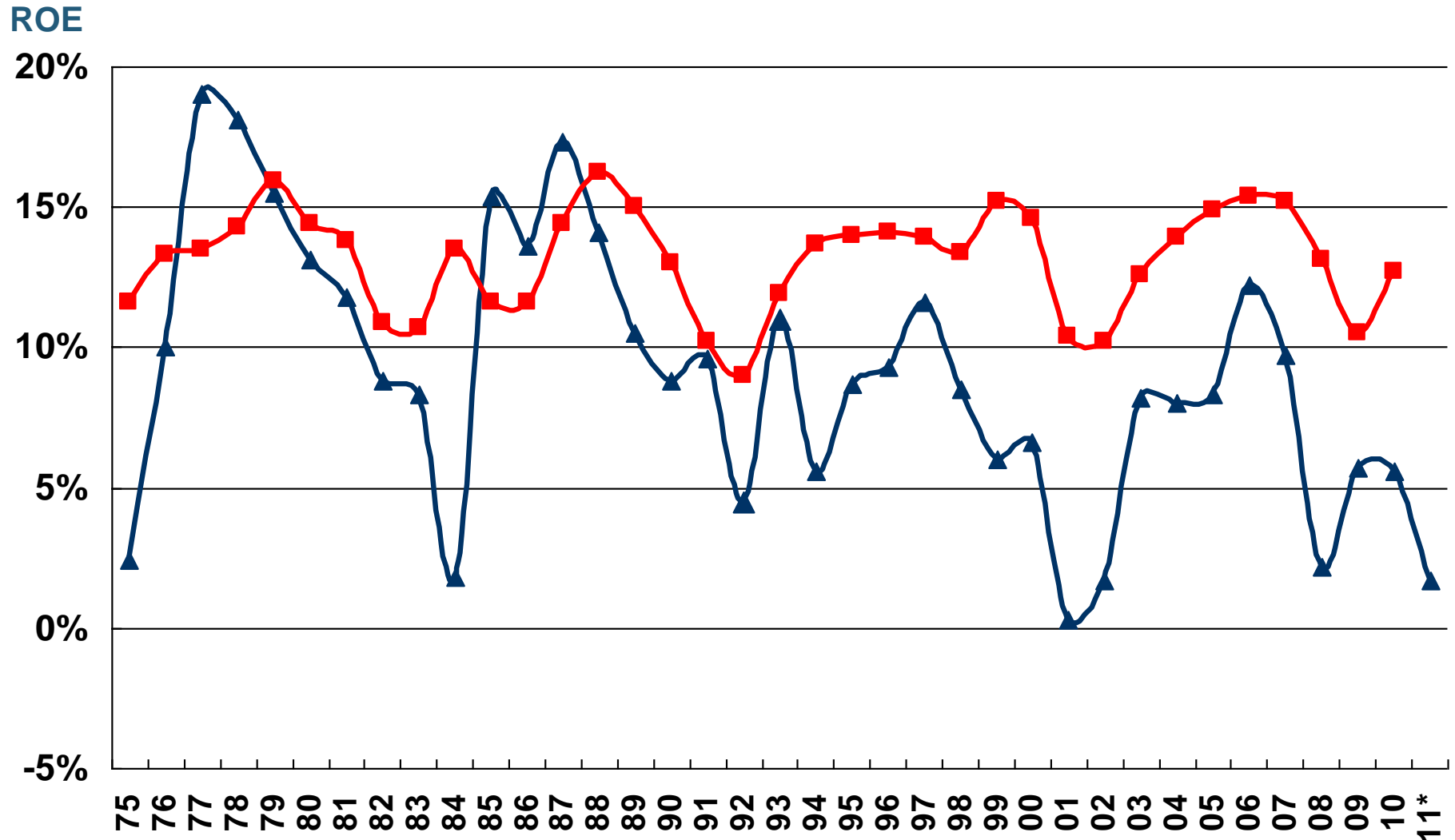
(Percent)



* 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.

Global Catastrophe Loss Developments and Trends

**2011 Rewrote 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

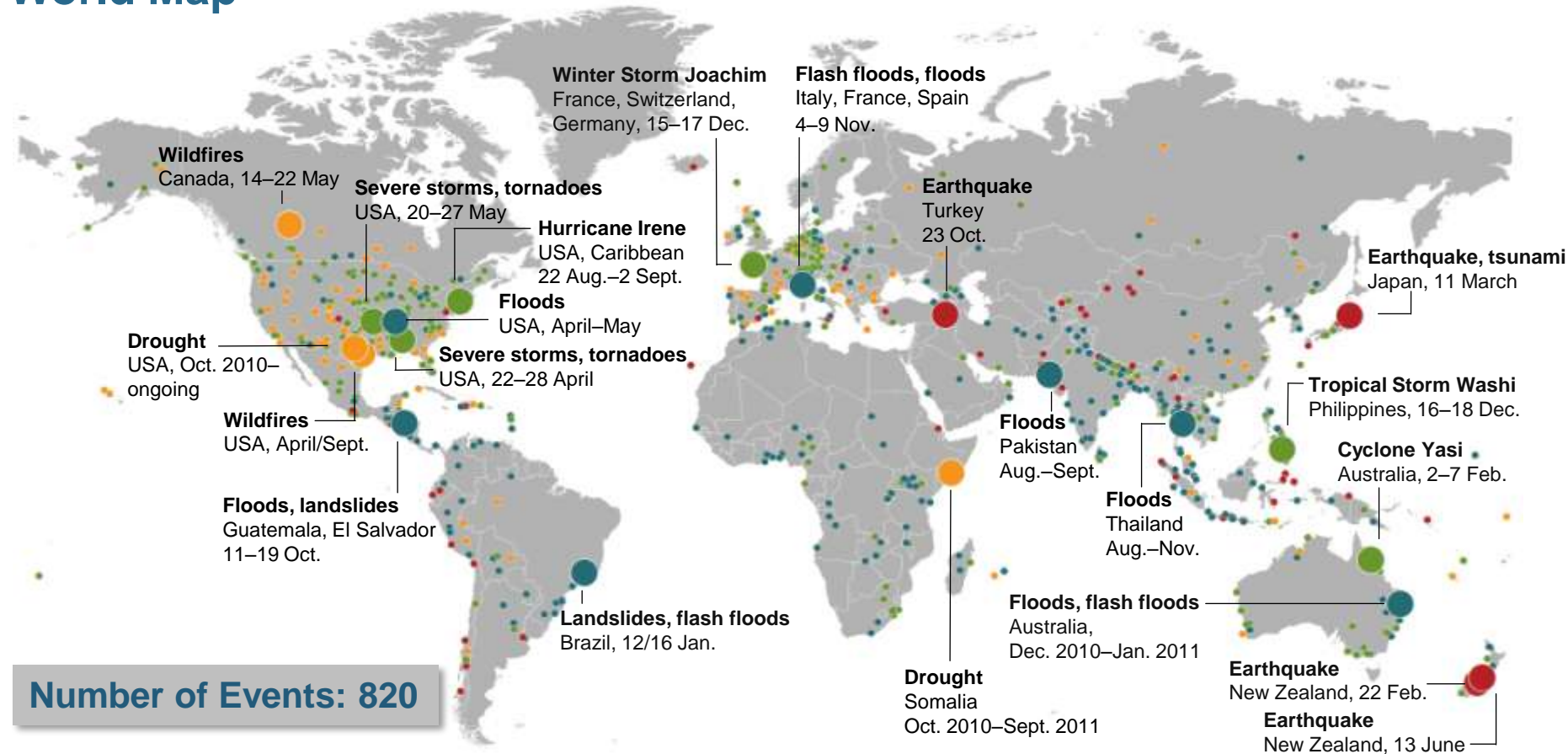
- ◆ Represents a 129% increase over the \$11.8 billion amount through the first half of 2010

■ \$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

Natural Loss Events, 2011

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)

Natural Catastrophes Worldwide, 2011

Overview and Comparison with Previous Years

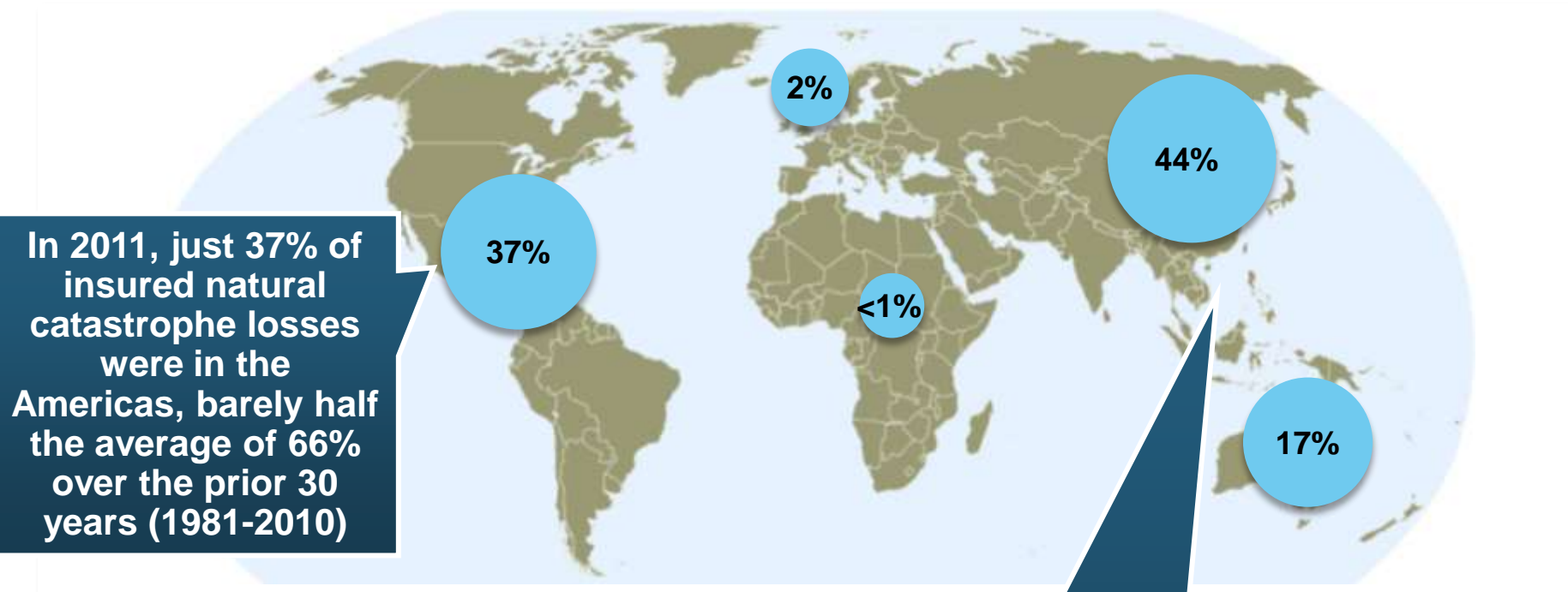
	2011	2010	Average of the last 10 years 2001-2010	Average of the last 30 years 1981-2010	Top Year 1981- 2010
Number of events	820	970	790	630	2007 (1,025)
Overall losses in US\$ m (original values)	380,000	152,000	113,000	75,000	2005 (227,000)
Insured losses in US\$ m (original values)	105,000	42,000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

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

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

Natural Catastrophes Worldwide 2011

Insured losses US\$ 105bn - Percentage distribution per continent



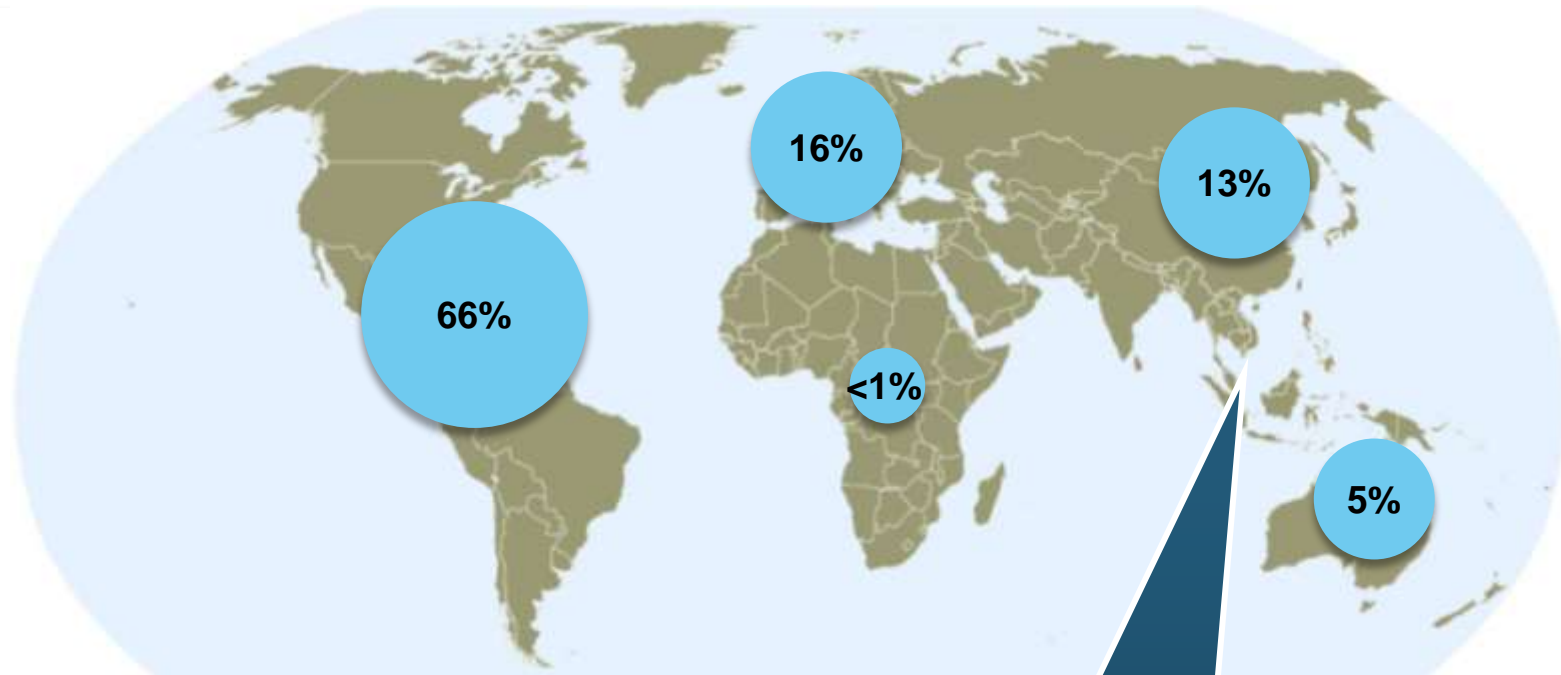
In 2011, just 37% of insured natural catastrophe losses were in the Americas, barely half the average of 66% over the prior 30 years (1981-2010)

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)

Natural Catastrophes Worldwide 1980 – 2011

Insured losses US\$ 870bn - Percentage distribution per continent



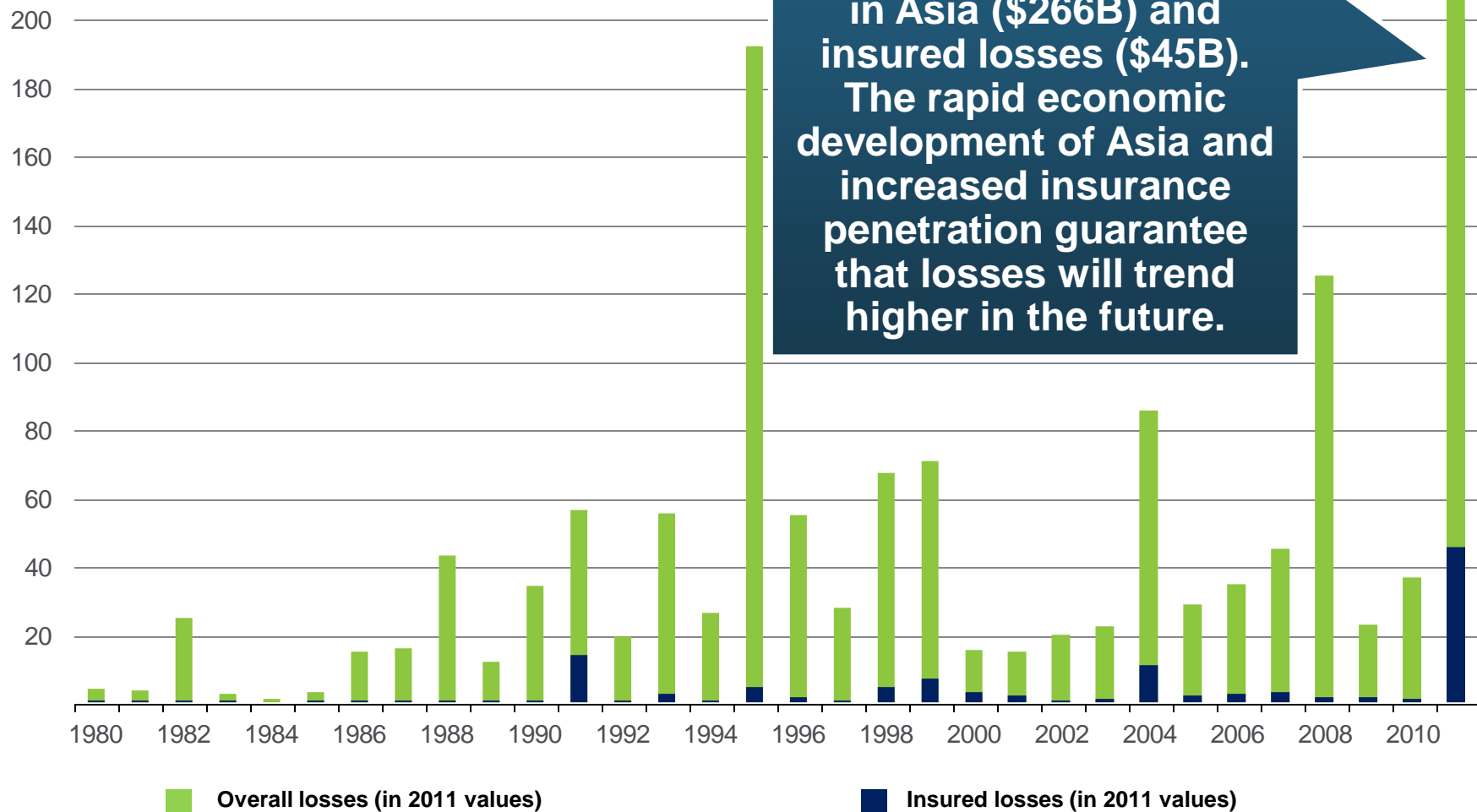
Continent	Insured losses US\$ m
America (North and South America)	566,000
Europe	146,000
Africa	2,000
Asia	115,000
Australia/Oceania	41,000

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)

Natural Catastrophes in Asia 1980 – 2011

Overall and insured losses in 2011 Dollars

(\$ Billions)



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



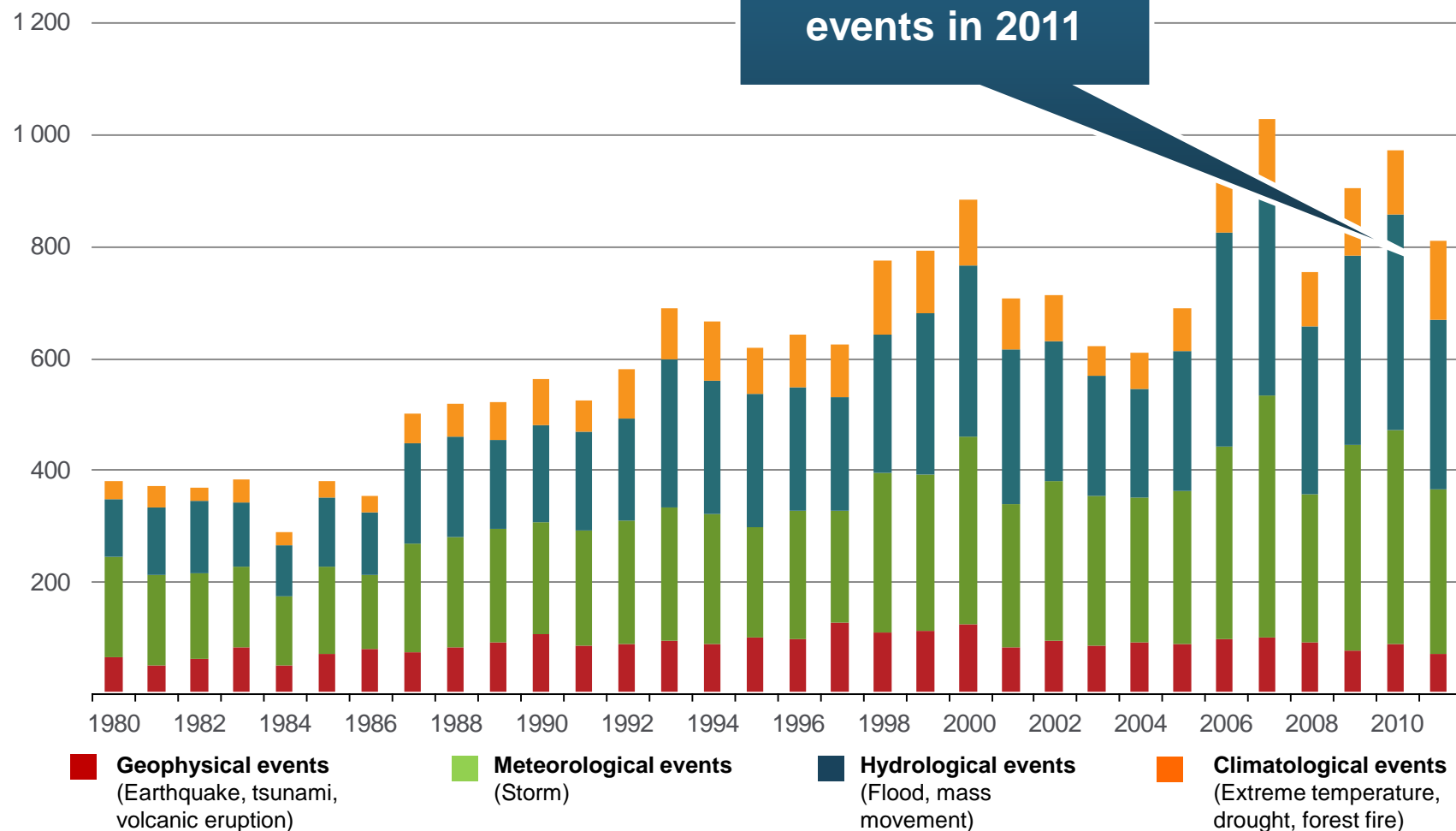
*Average of range estimates of \$35B - \$40B as of 1/4/12; Privately insured losses only.

**Figures do not include federally insured flood losses.

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

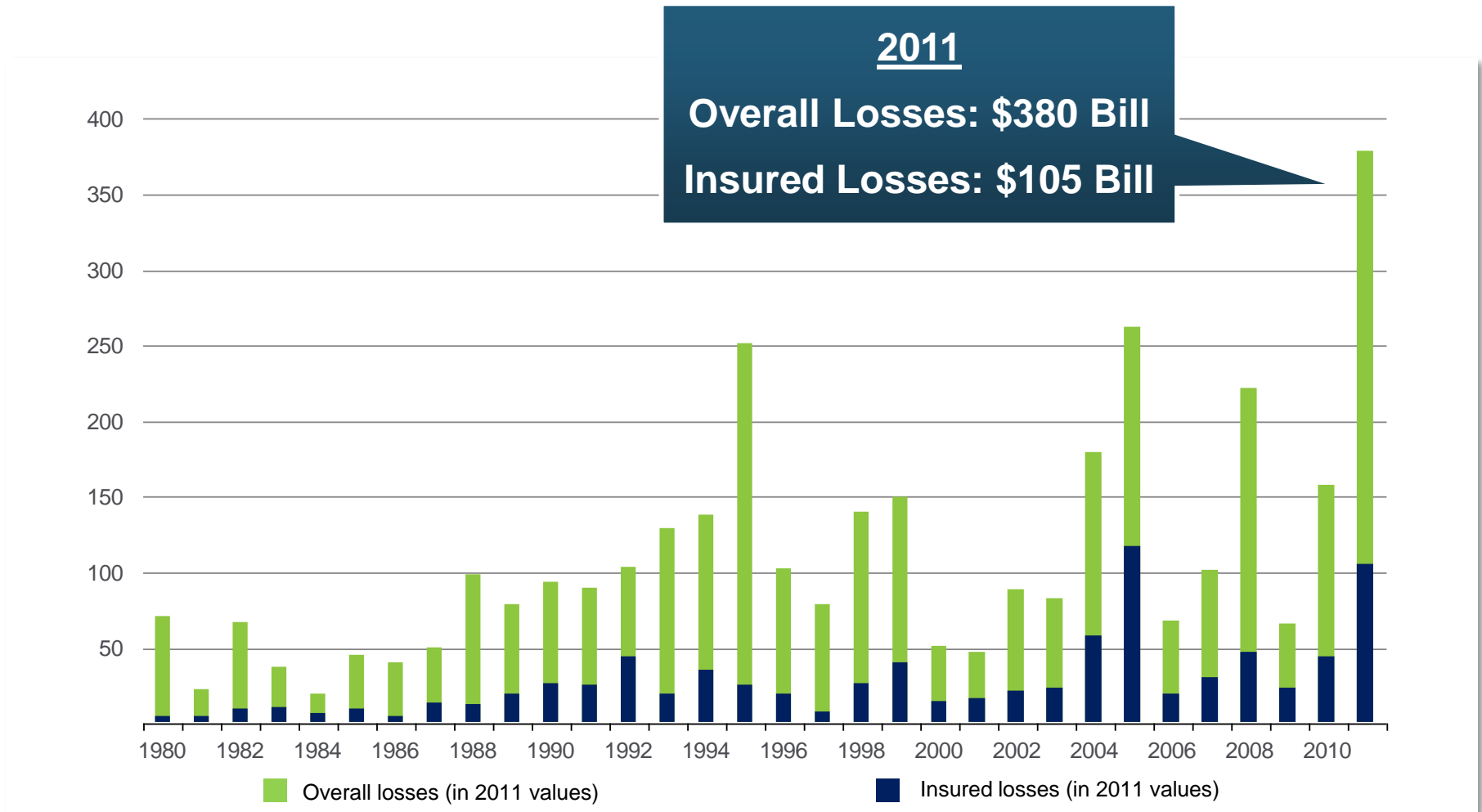
Worldwide Natural Disasters, 1980 – 2011

Number of Events



Worldwide Natural Disasters 1980–2011, Overall and Insured Losses

(Insured Losses, 2011 Dollars, \$ Billions)



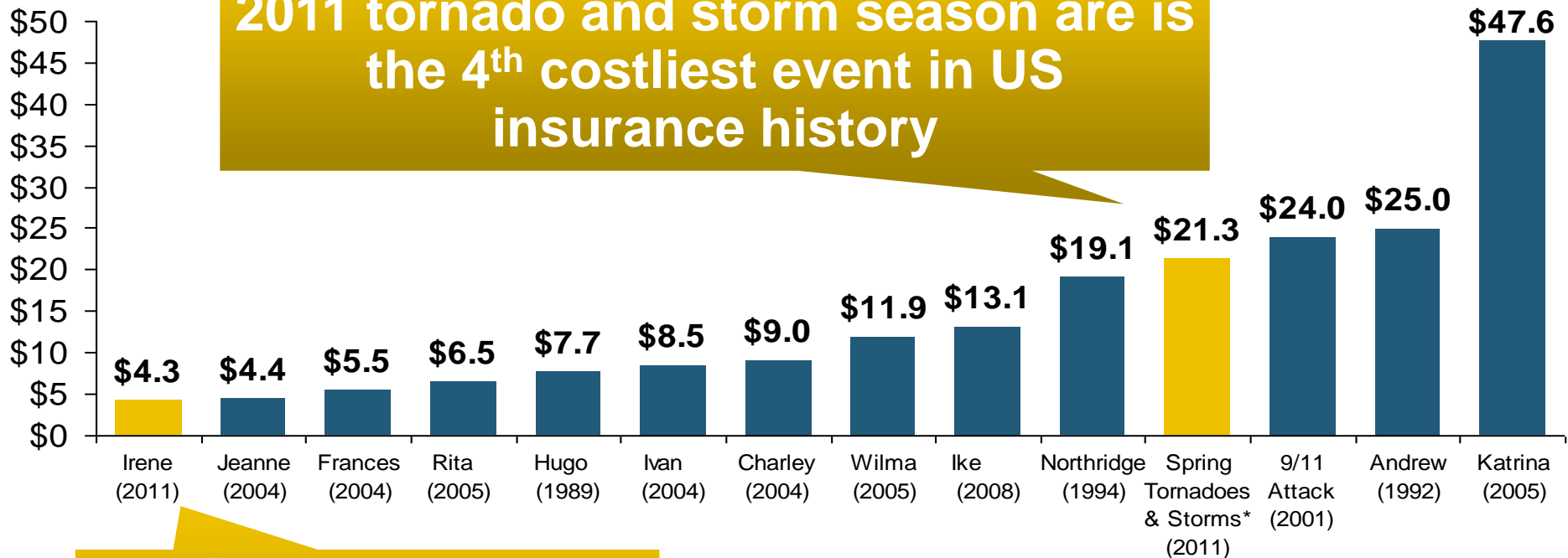
U.S. Insured Catastrophe Loss Update

**2011 Was One of the Most Expensive
Years on Record**

Top 14 Most Costly Disasters in U.S. History

(Insured Losses, 2011 Dollars, \$ Billions)

Taken as a single event, the Spring 2011 tornado and storm season are is the 4th costliest event in US insurance history



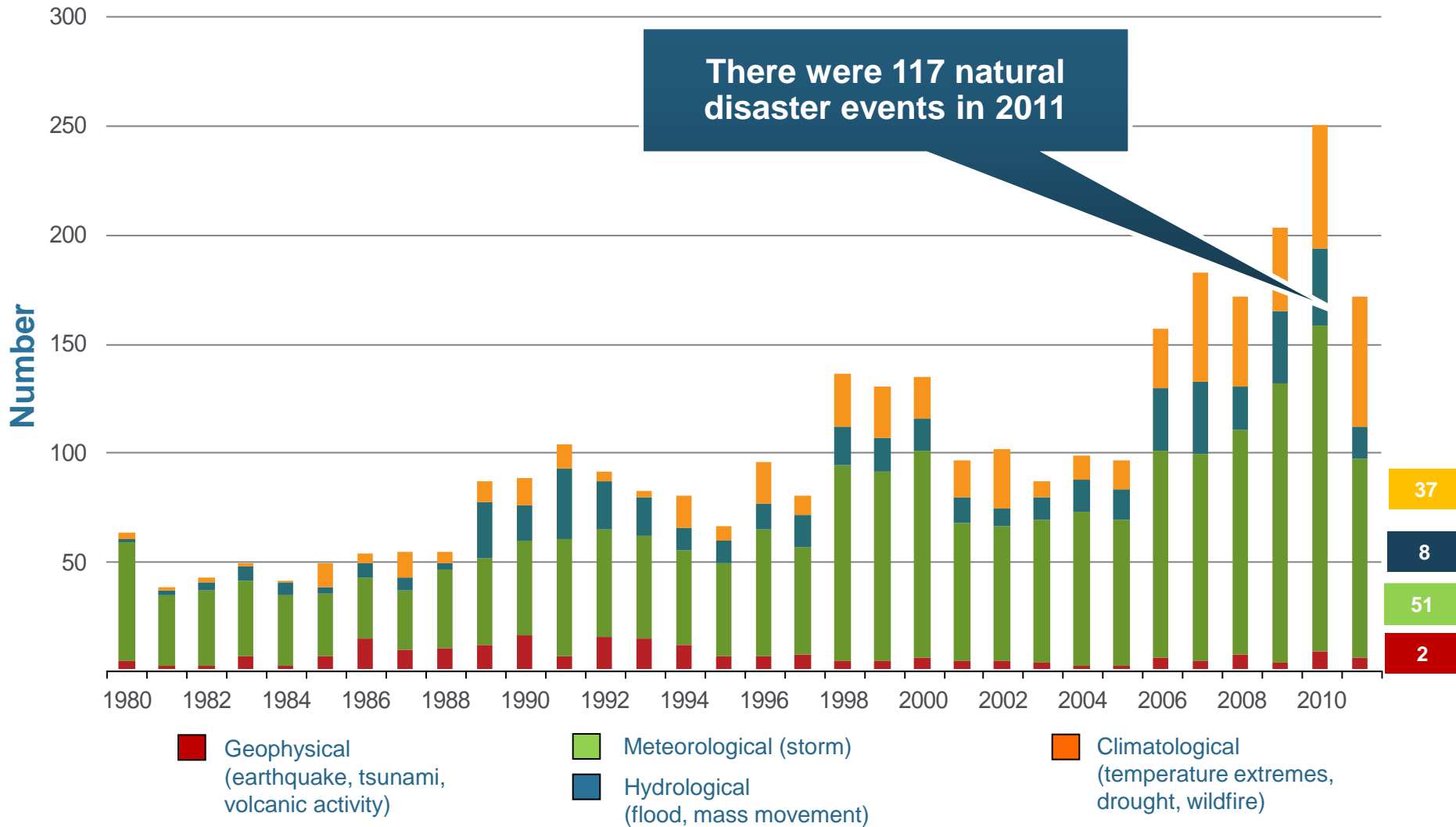
Hurricane Irene became the 11th most expensive hurricane in US history

*Losses will actually be broken down into several "events" as determined by PCS. Includes losses for the period April 1 – June 30.

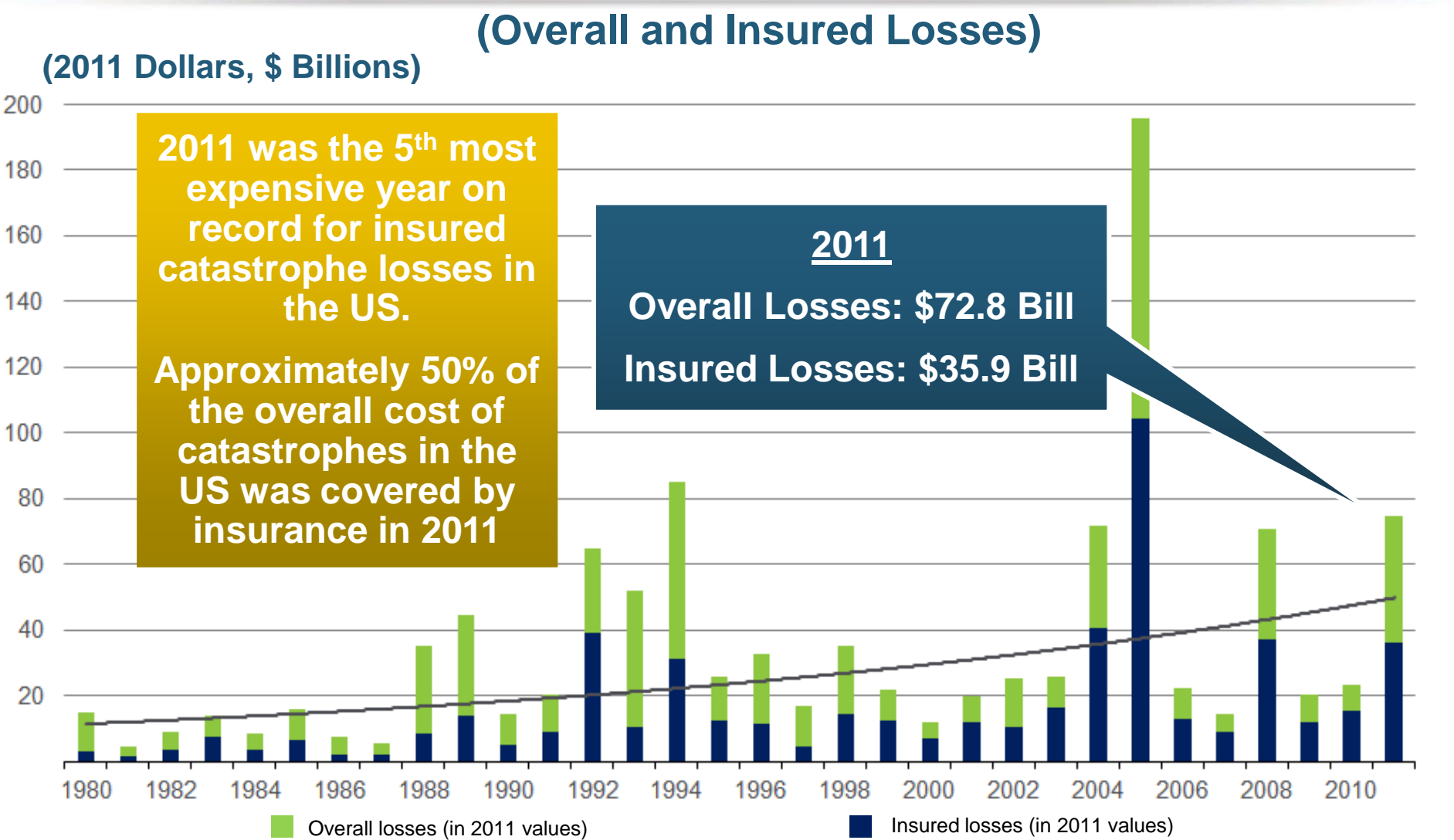
Sources: PCS; Insurance Information Institute inflation adjustments.

Natural Disasters in the United States, 1980 – 2011

Number of Events (Annual Totals 1980 – 2011)

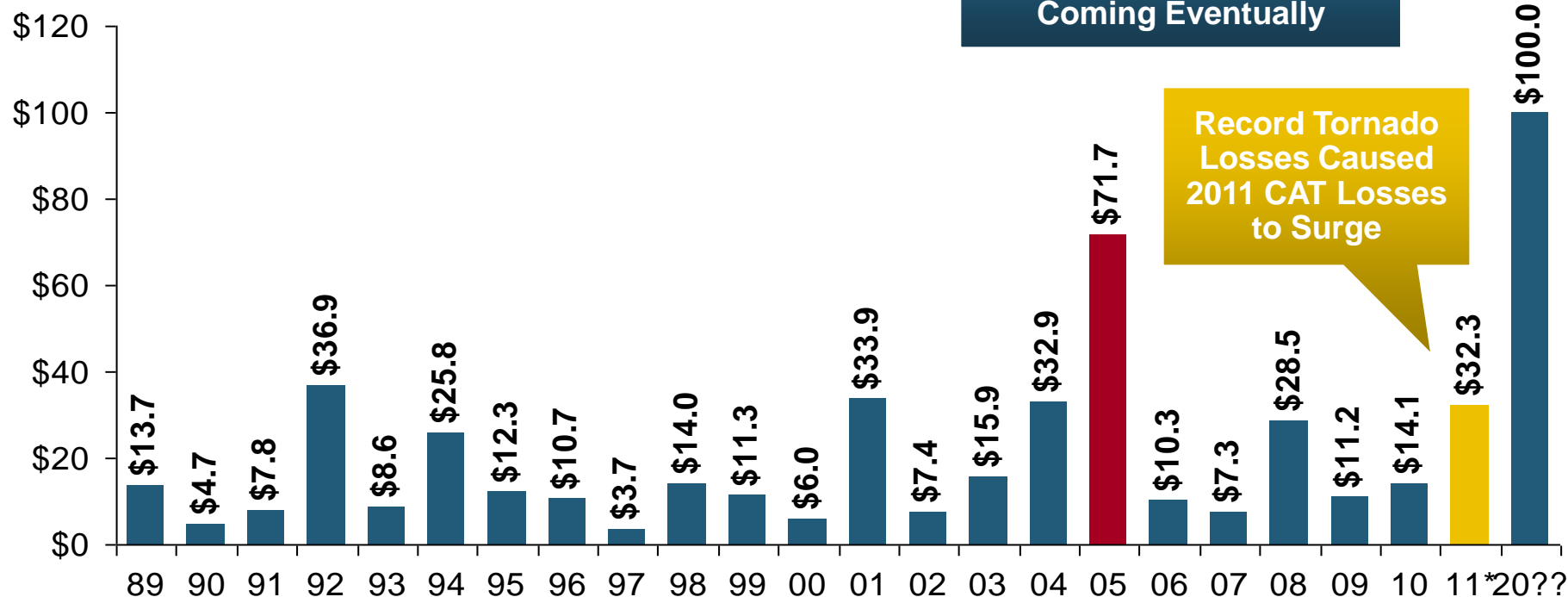


Losses Due to Natural Disasters in the US, 1980–2011 (Overall & Insured Losses)



US Insured Catastrophe Losses

(\$ Billions, 2011 Dollars)



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

*PCS figure as of April 6, 2012.

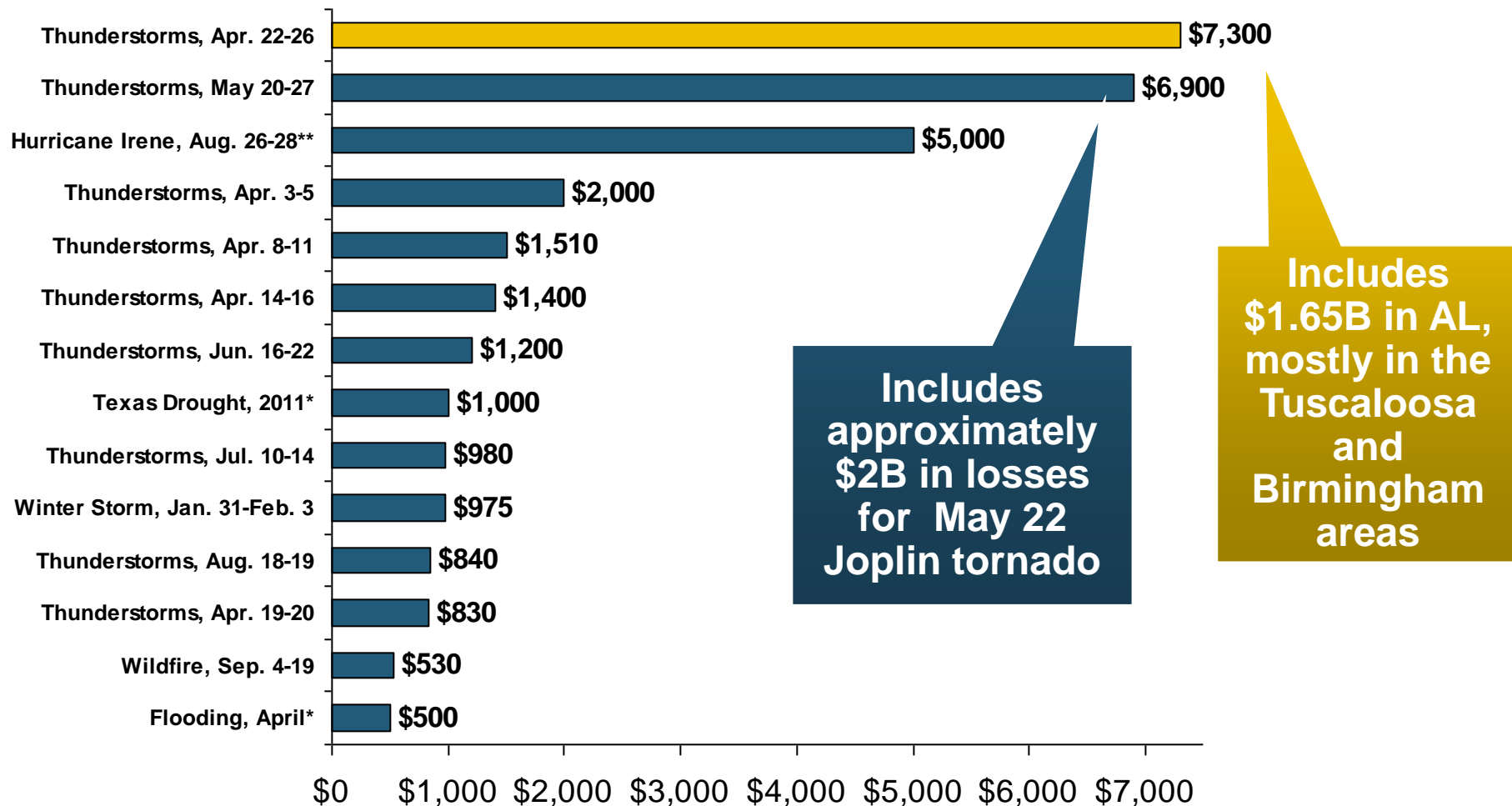
Note: 2001 figure includes \$20.3B for 9/11 losses reported through 12/31/01 (\$25.9B 2011 dollars). Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = \$12.2B (\$15.6B in 2011 dollars.)

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

2011's Most Expensive Catastrophes, Insured Losses



**Includes \$700 million in flood losses insured through the National Flood Insurance Program.

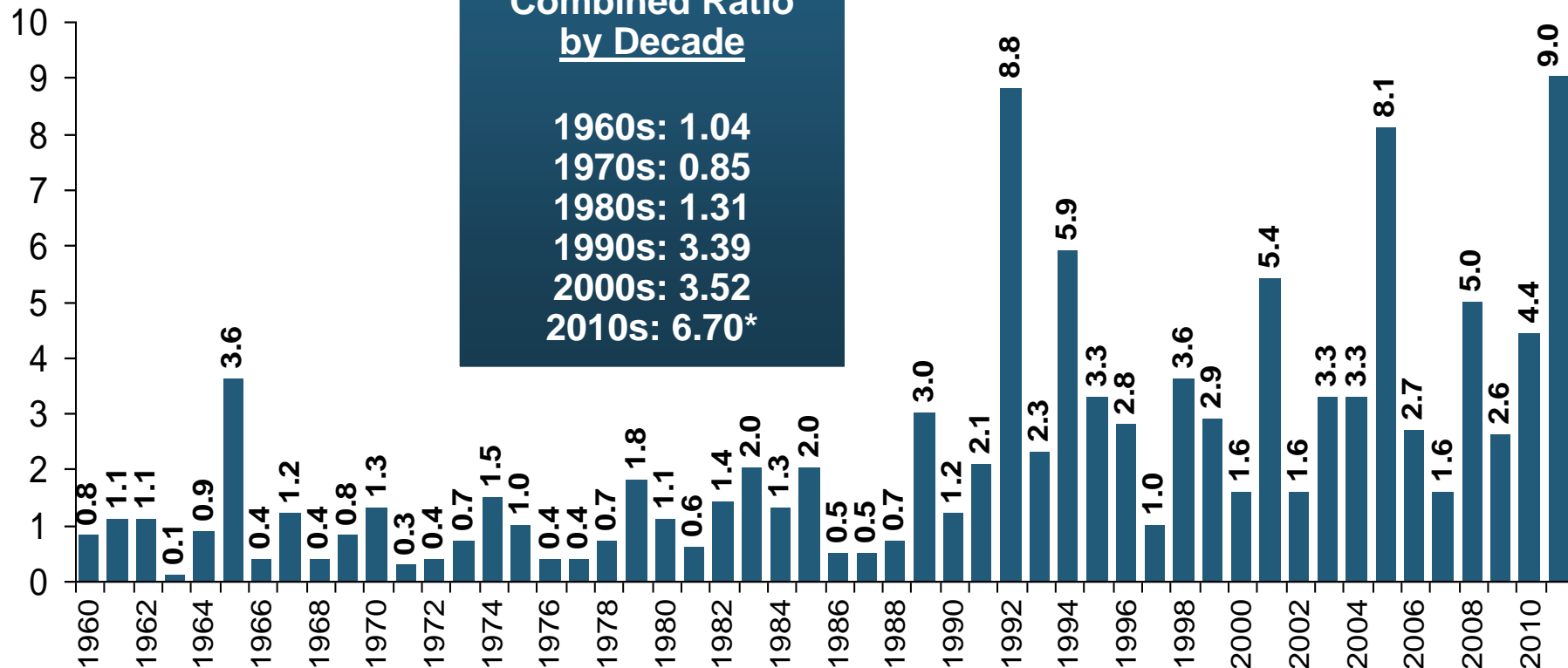
Source: PCS except as noted by “**” which are sourced to Munich Re; Insurance Information Institute.

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

Combined Ratio Points

Avg. CAT Loss Component of the Combined Ratio by Decade

1960s: 1.04
1970s: 0.85
1980s: 1.31
1990s: 3.39
2000s: 3.52
2010s: 6.70*



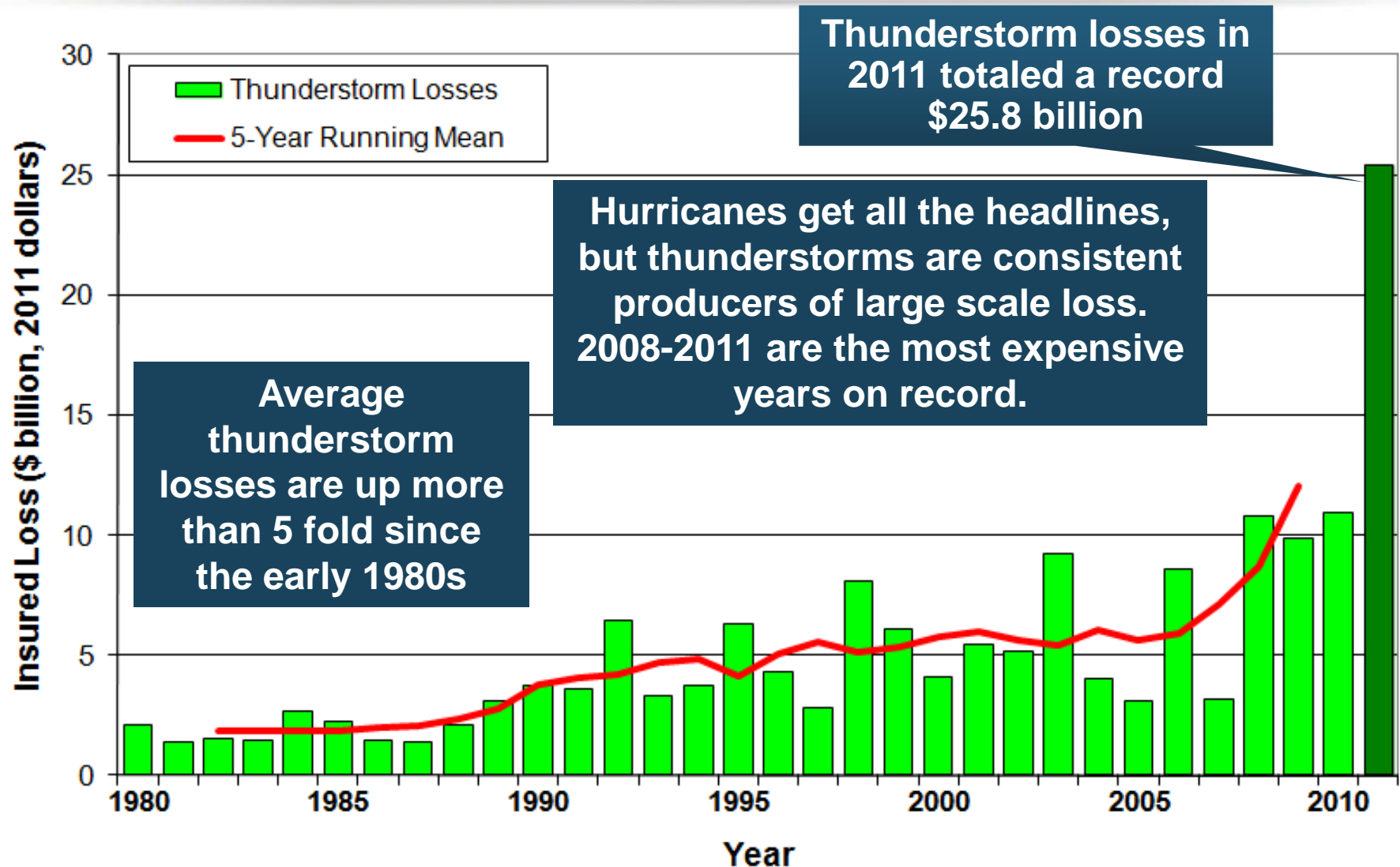
The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades

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

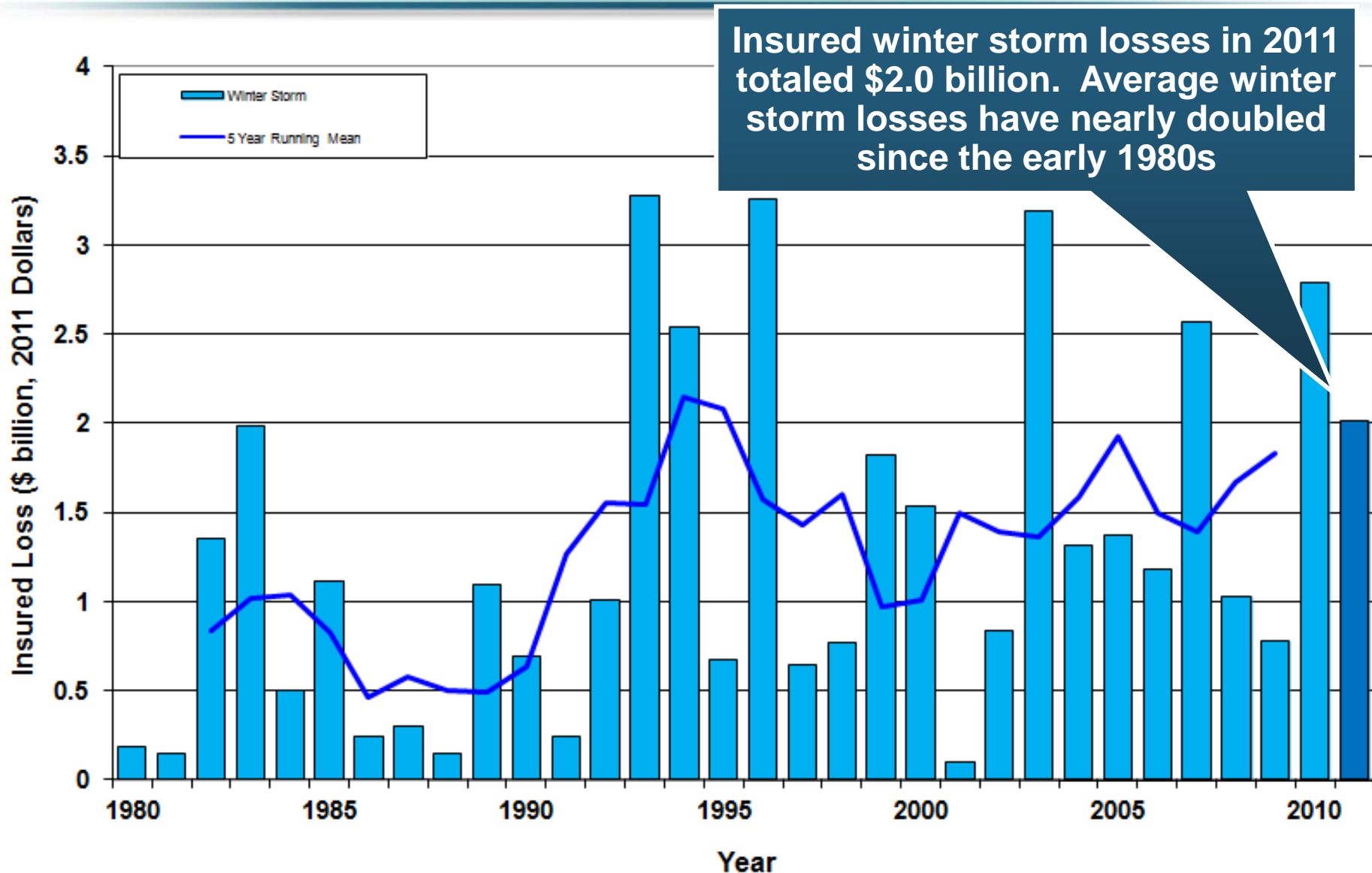
Notes: Private carrier losses only. Excludes loss adjustment expenses and reinsurance reinstatement premiums. Figures are adjusted for losses ultimately paid by foreign insurers and reinsurers.

Source: ISO; Insurance Information Institute.

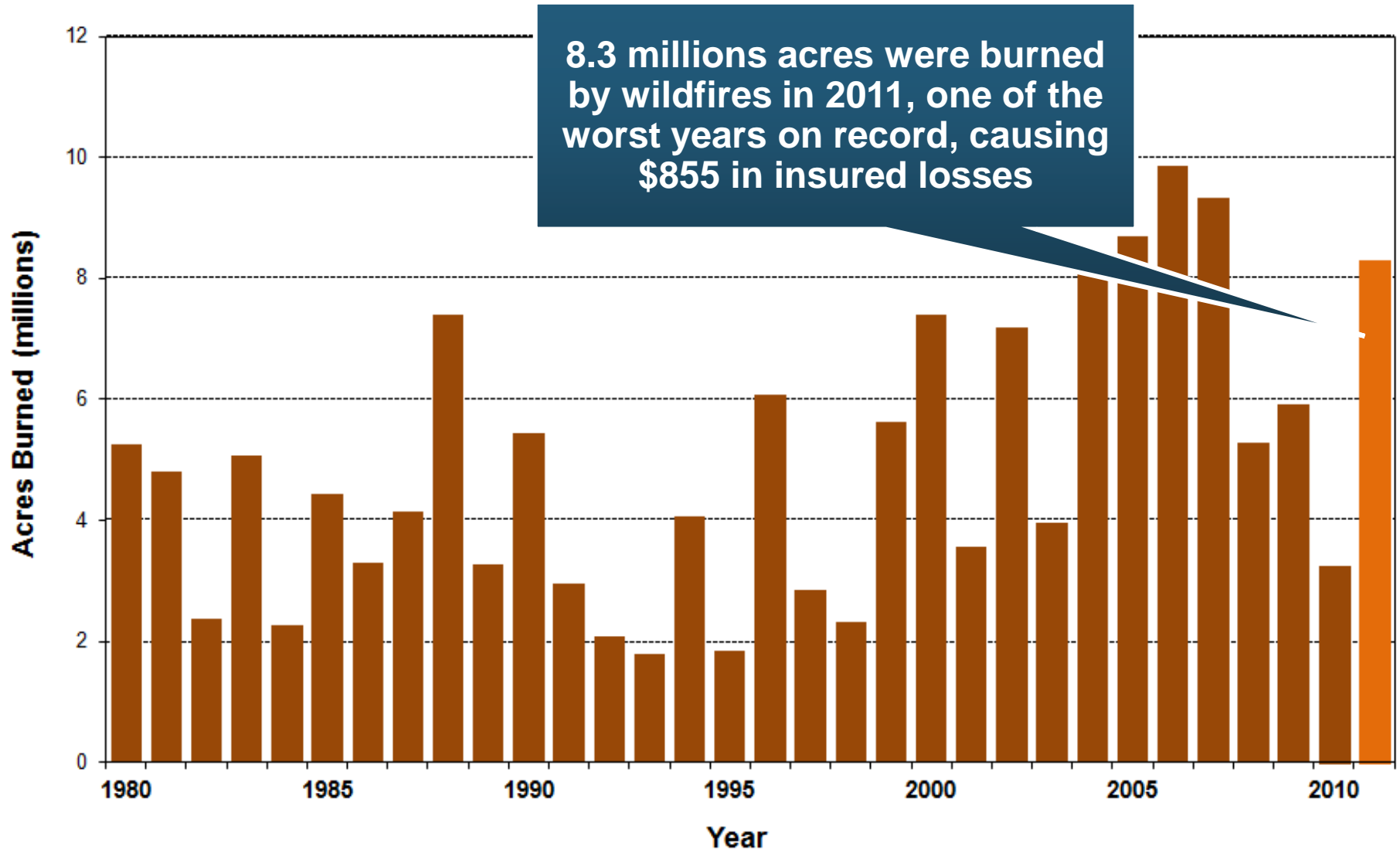
U.S. Thunderstorm Loss Trends, 1980 – 2011



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



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

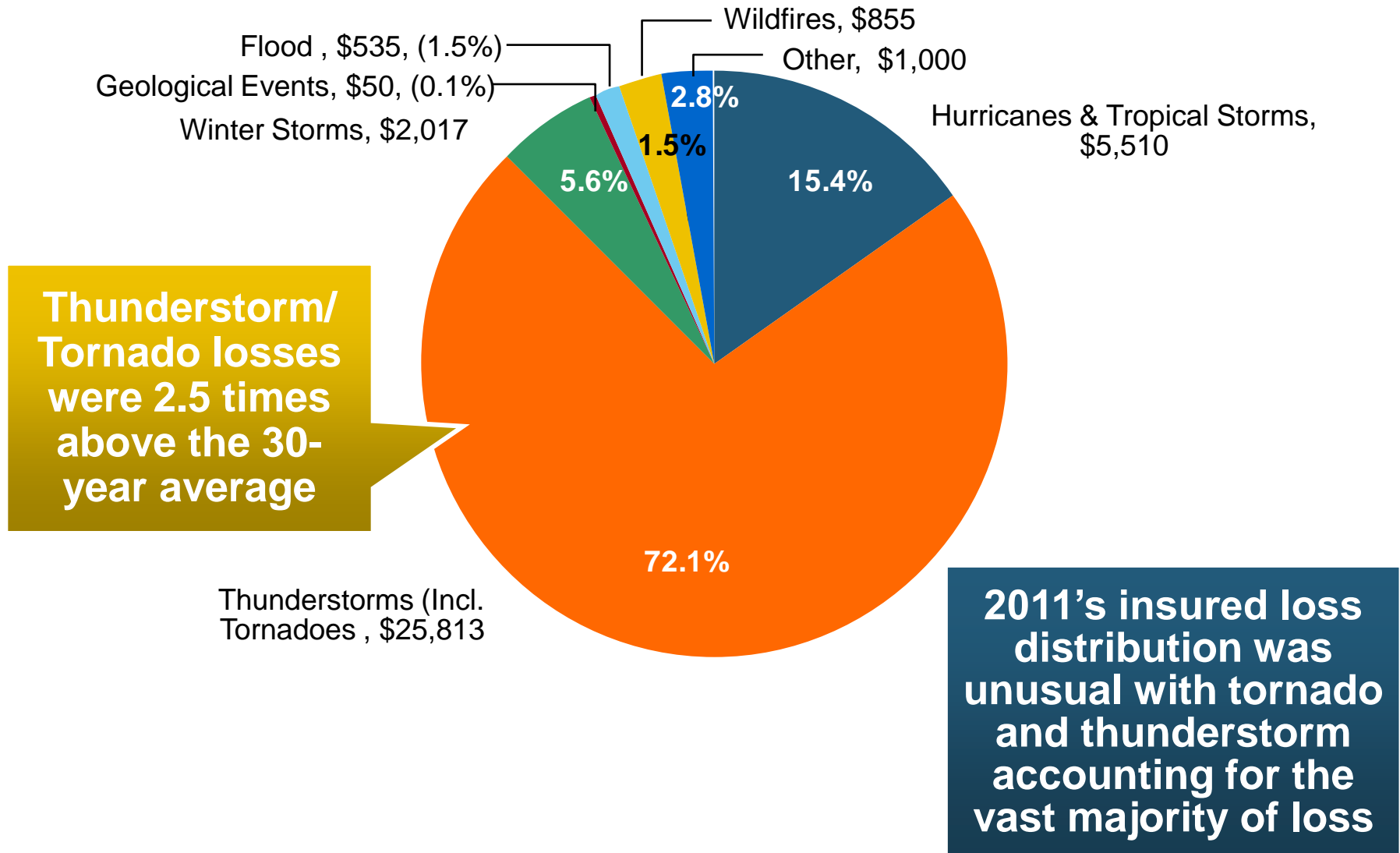


Notable Wildfires in 2011

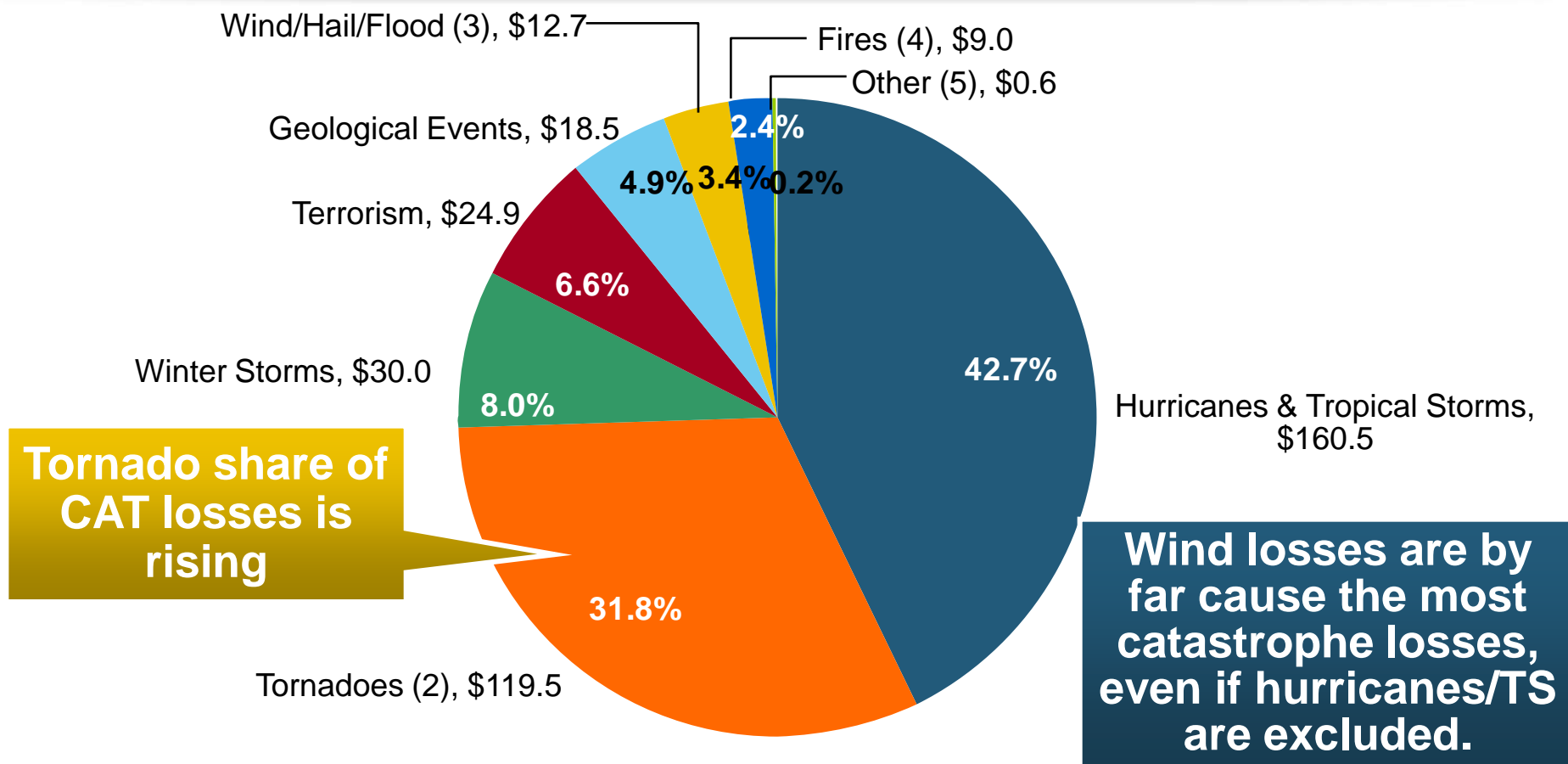
- Worst wildfire year on record in Texas due to persistent drought.
- **Spring:** Over 3 million acres burned in west Texas from 12 major seats of fire. Over 200 homes and businesses destroyed, \$50 million insured loss.
- **September:** Bastrop County Complex Fire near San Antonio destroys over 1,600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



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



Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1990–2011:H1¹



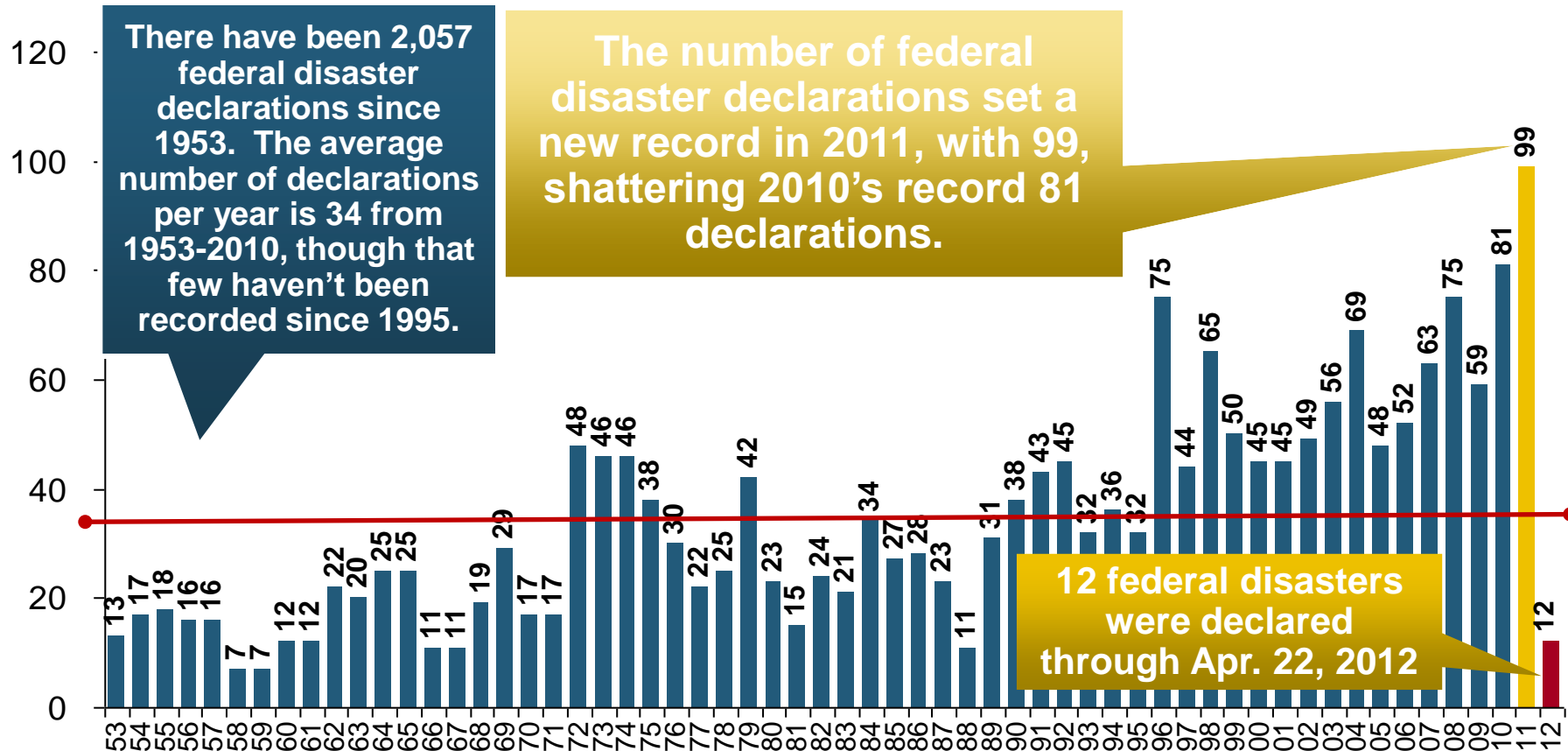
1. Catastrophes are defined as events causing direct insured losses to property of \$25 million or more in 2009 dollars.
2. Excludes snow.
3. Does not include NFIP flood losses
4. Includes wildland fires
5. Includes civil disorders, water damage, utility disruptions and non-property losses such as those covered by workers compensation.

Source: ISO's Property Claim Services Unit.

Federal Disaster Declarations Patterns: 1953-2012

**Records Were Set for Federal
Disaster Declarations in 2010 and
2011—Most Declarations Were
Unrelated to Tropical Activity**

Number of Federal Disaster Declarations, 1953-2012*

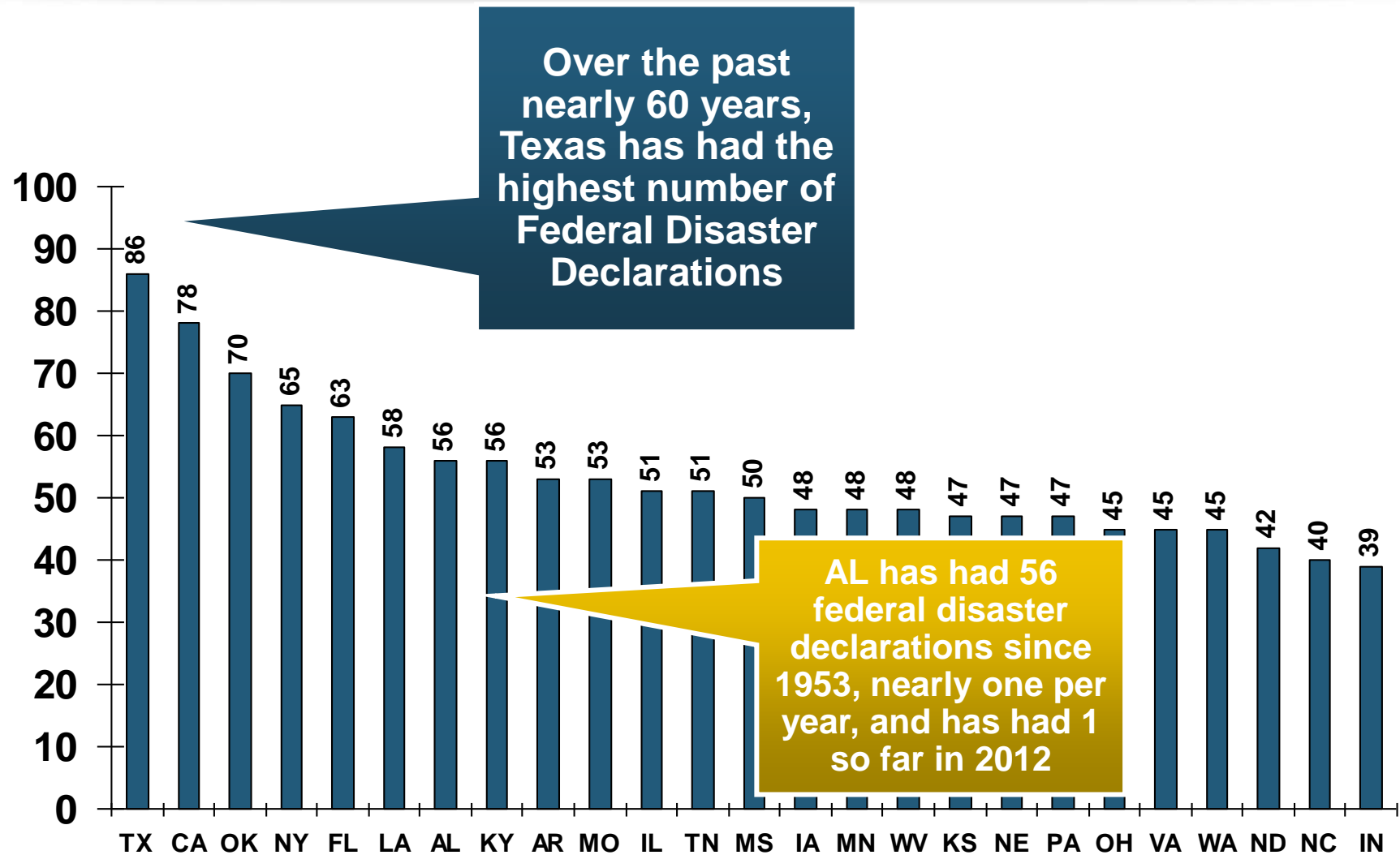


The Number of Federal Disaster Declarations Is Rising and Set New Records in 2010 *and* 2011

*Through April 22, 2012.

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

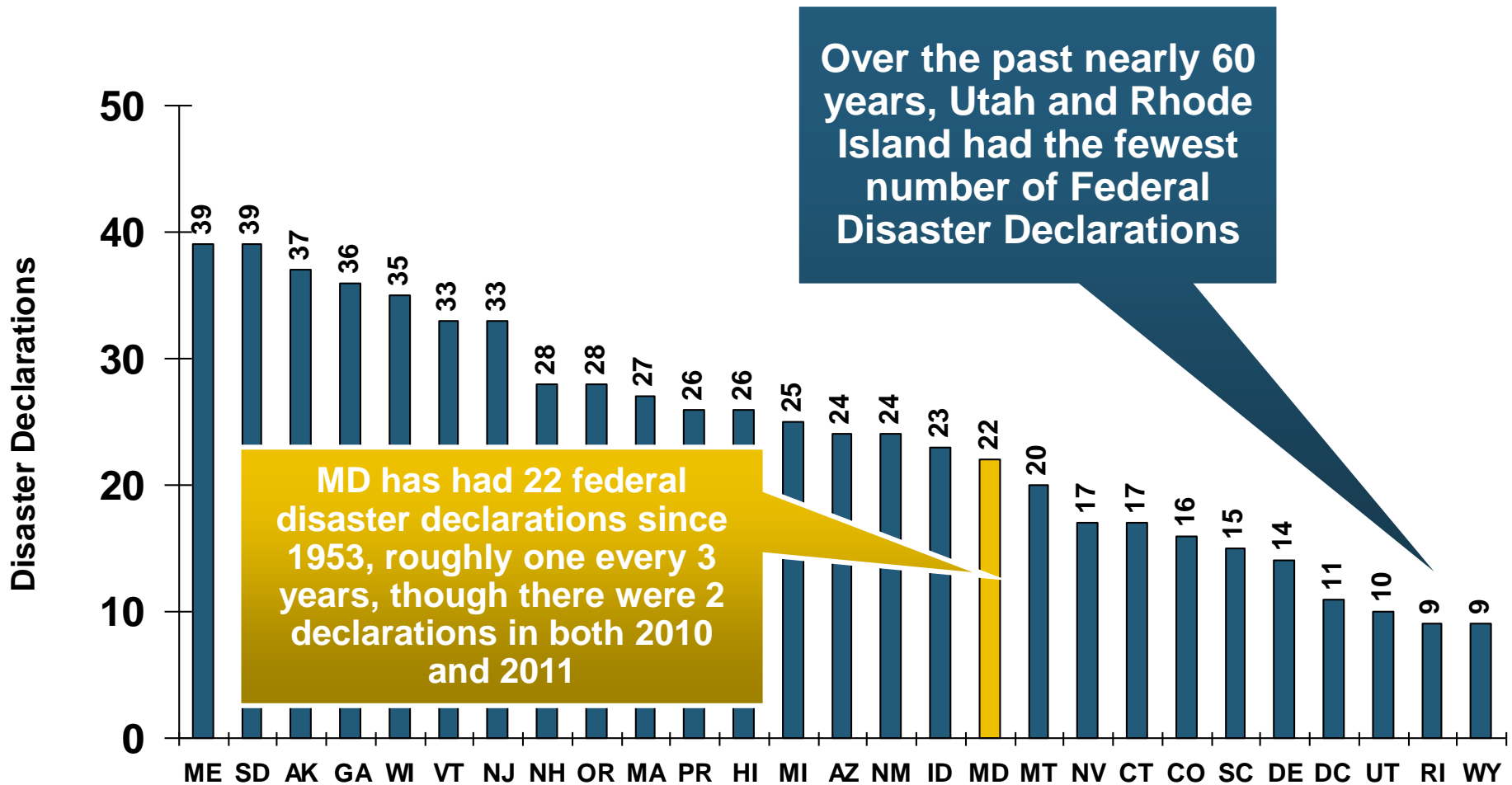
Federal Disasters Declarations by State, 1953 – 2012: Highest 25 States*



*Through Apr. 18, 2012.

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

Federal Disasters Declarations by State, 1953 – 2012: Lowest 25 States*



*Through Apr. 22, 2012. Includes Puerto Rico and the District of Columbia.

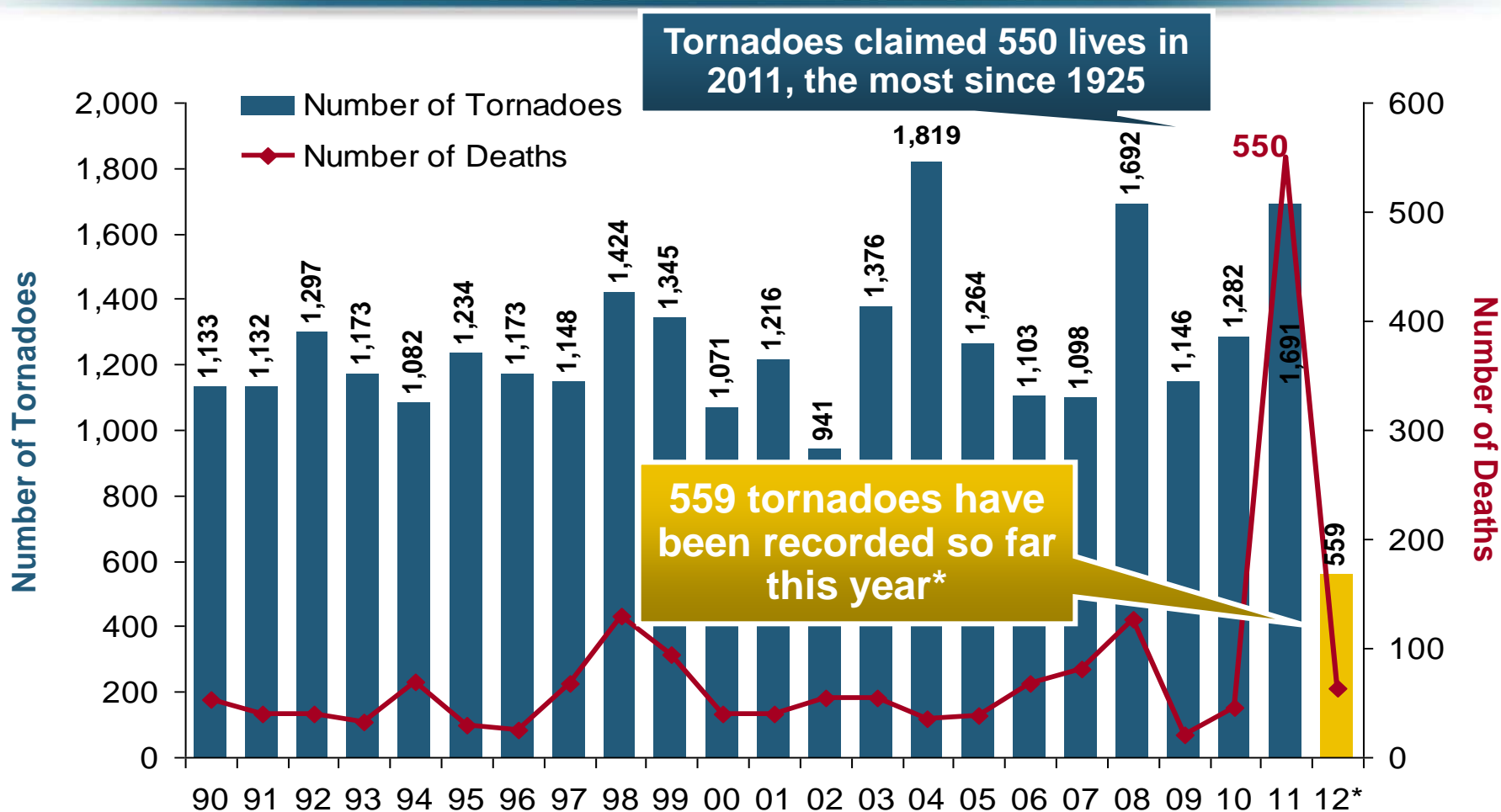
Source: FEMA: http://www.fema.gov/news/disaster_totals_annual.fema; Insurance Information Institute.



SPRING 2012 TORNADO & SEVERE STORM OUTBREAK

**2012 Is Off to a Worrisome Start, But
a Repeat of 2011 Is Unlikely**

Number of Tornadoes and Related Deaths, 1990 – 2012*

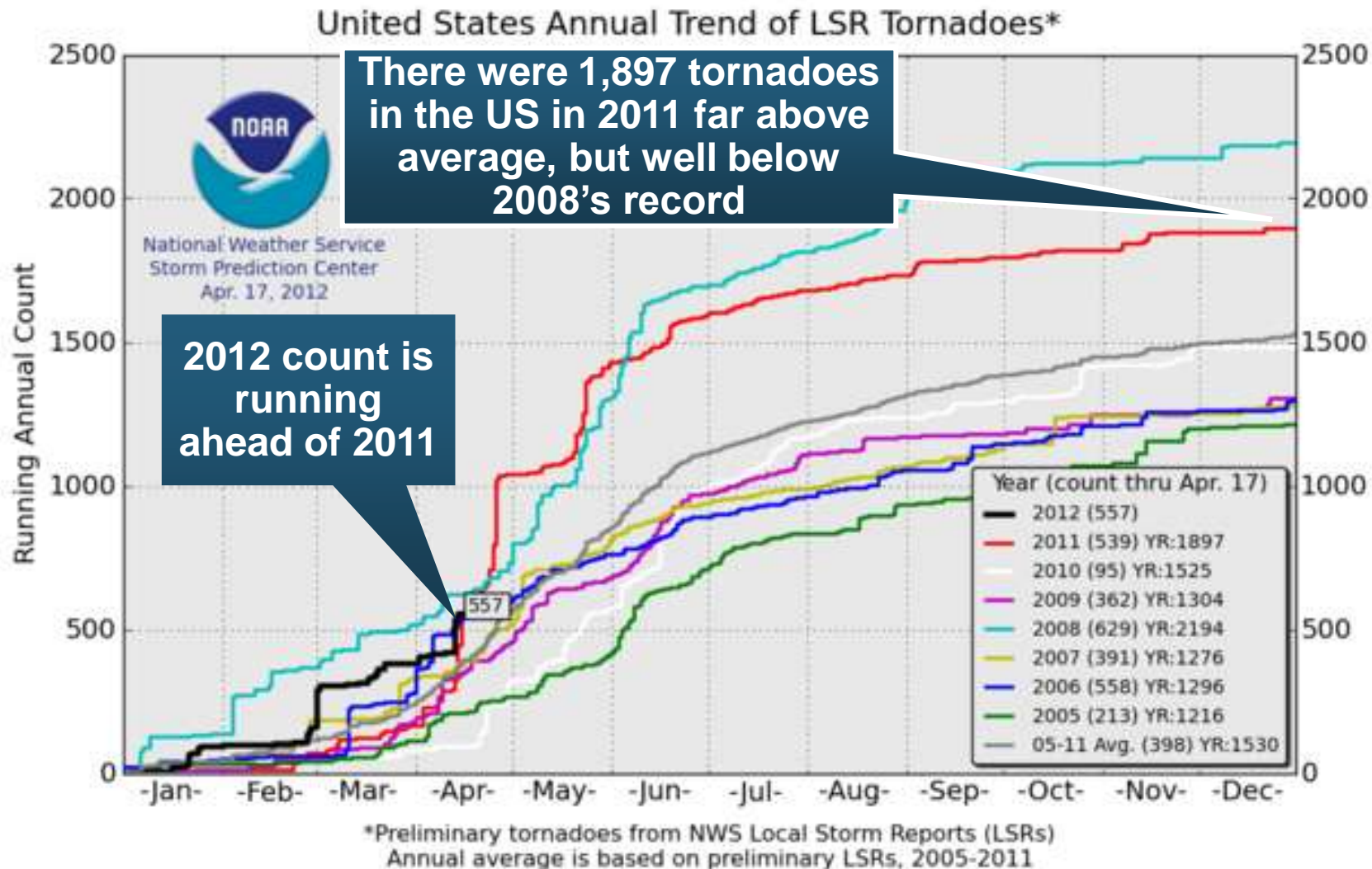


2012 Tornado Losses Is Off to a Ominous Beginning. First Half 2011 Insured Losses from Tornadoes and Thunderstorms Topped \$21B.

*Through April 19, 2012.

Source: U.S. Department of Commerce, Storm Prediction Center, National Weather Service at <http://www.spc.noaa.gov/climo/online/monthly/newm.html>

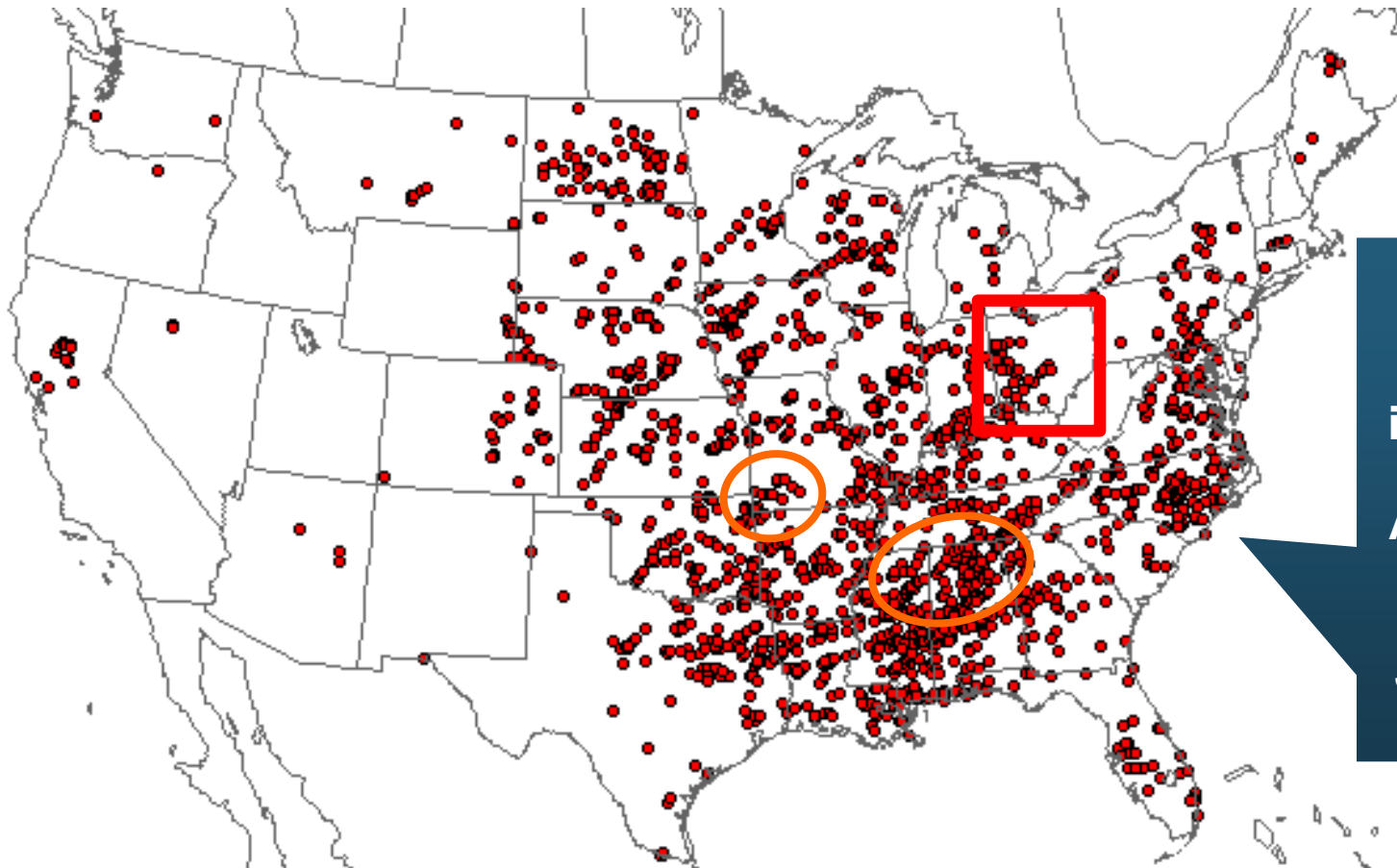
U.S. Tornado Count, 2005-2012*



*Through April 17, 2012.

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



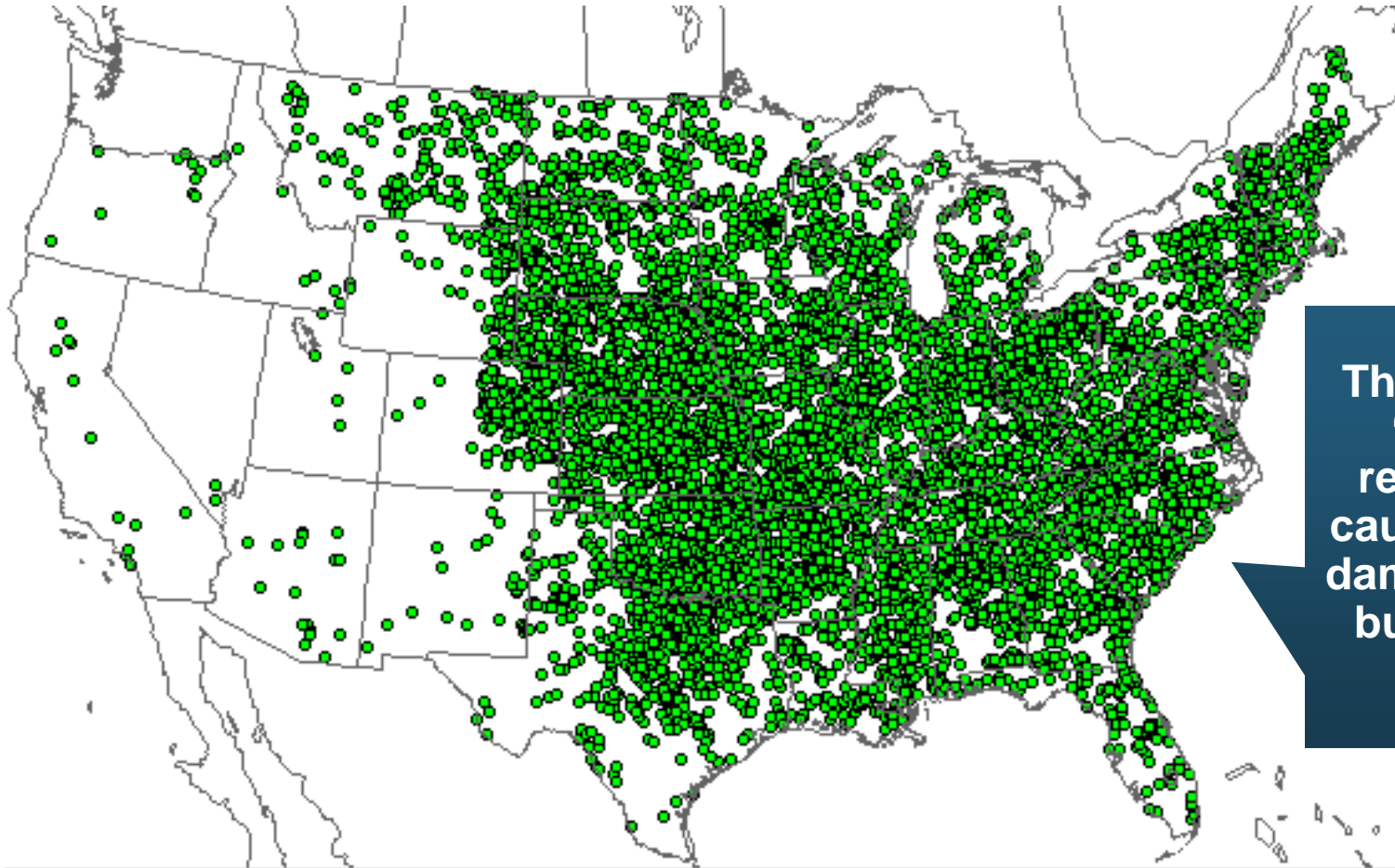
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Tornado Reports
January 01, 2011 - December 27, 2011

Updated: Tuesday December 27, 2011 16:35 CT

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



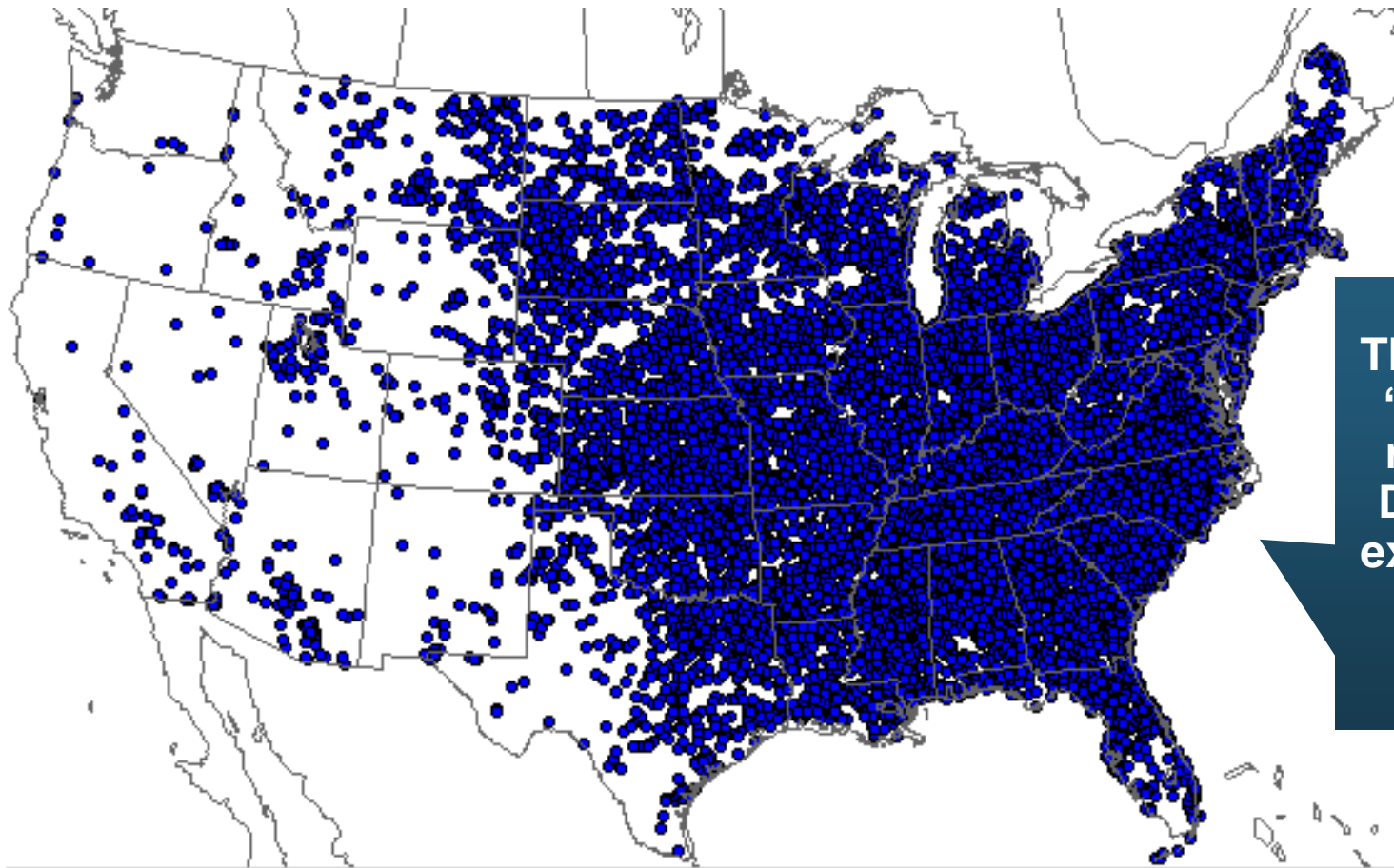
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Hail Reports
January 01, 2011 - December 27, 2011

Updated: Tuesday December 27, 2011 16:35 CT

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



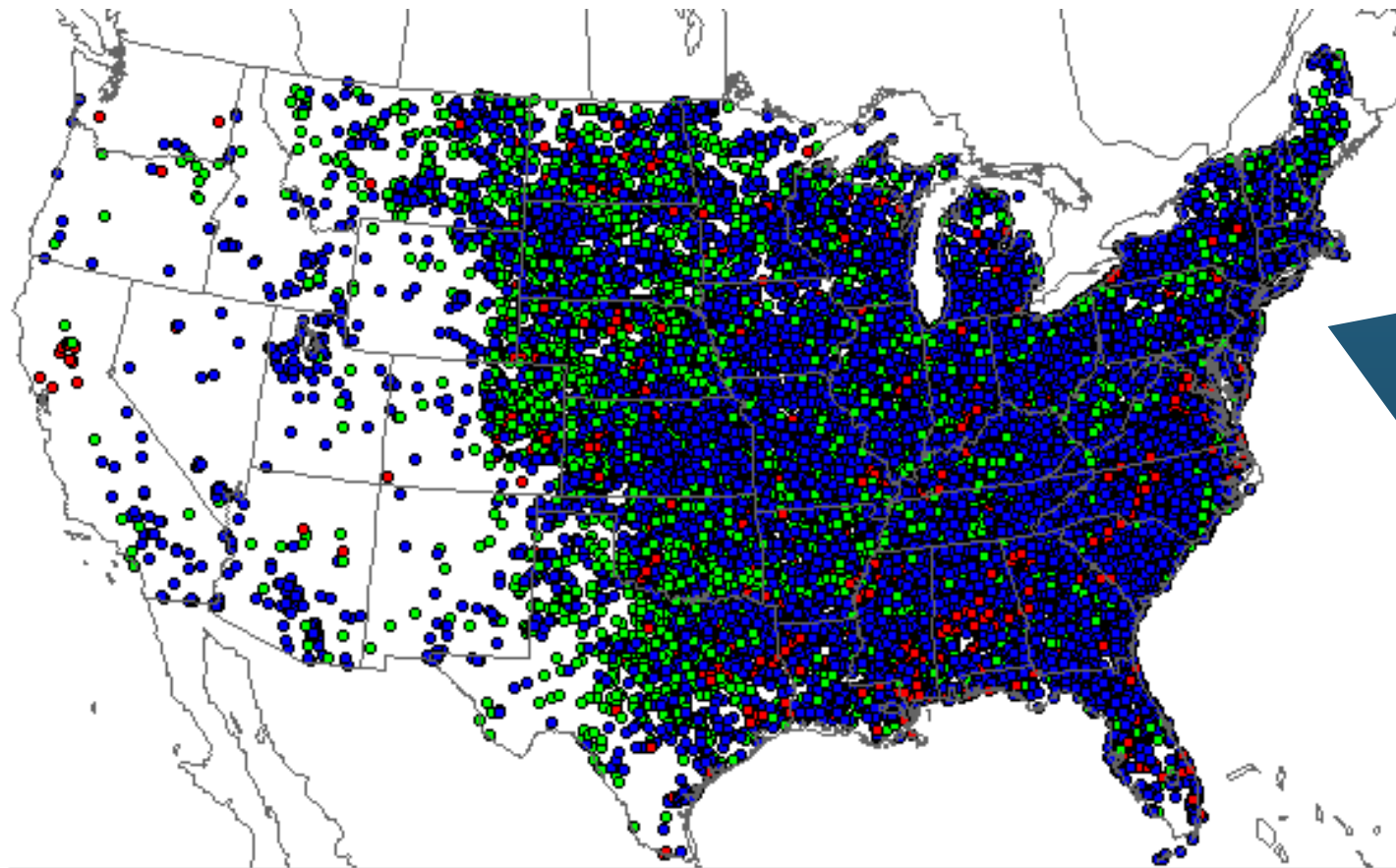
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Wind Reports
January 01, 2011 - December 27, 2011

Updated: Tuesday December 27, 2011 16:35 CT

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



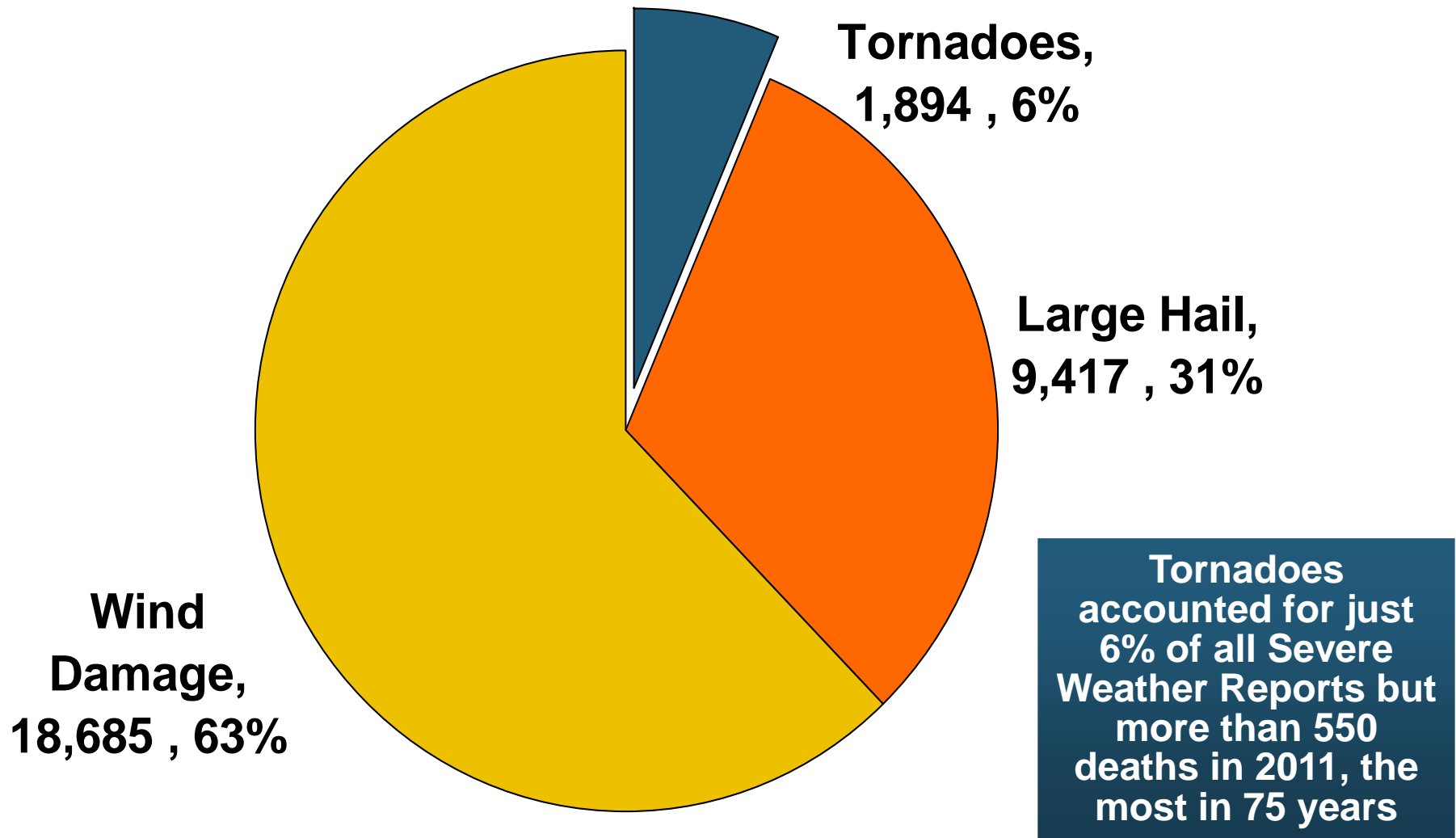
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Severe Weather Reports
January 01, 2011 - December 27, 2011

Updated: Tuesday December 27, 2011 16:35 CT

Number of Severe Weather Reports in US, by Type, 2011



The BIG Question: When Will the Market Turn?

Are Catastrophes and Other Factors Pressuring Insurance Markets?

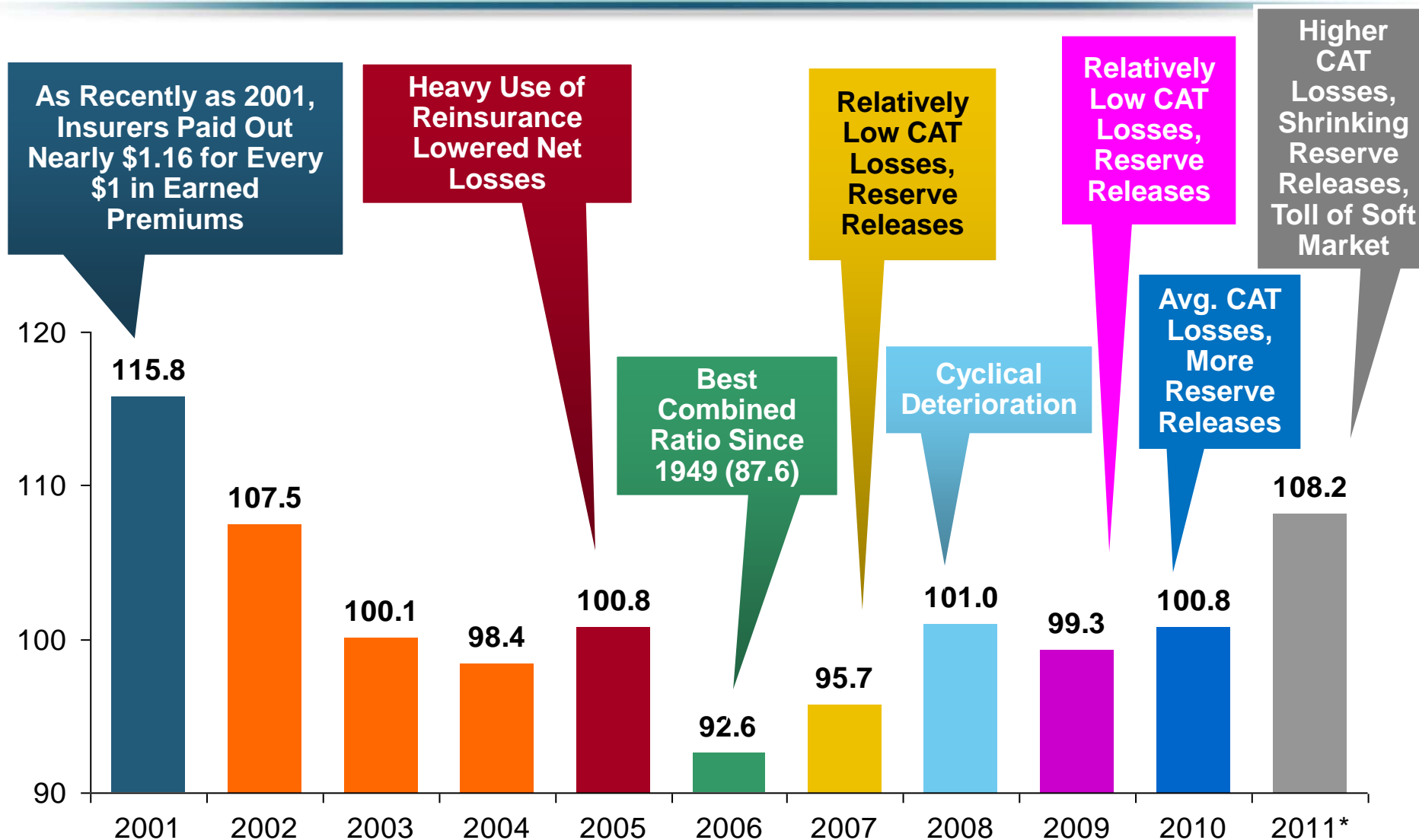
Criteria Necessary for a “Market Turn”: All Four Criteria Must Be Met

Criteria	Status	Comments
Sustained Period of Large Underwriting Losses	<i>Early Stage, Inevitable</i>	<ul style="list-style-type: none"> • Apart from 2011 CAT losses, overall p/c underwriting losses remain modest • Combined ratios (ex-CATs) still in low 100s (vs. 110+ at onset of last hard market) • Prior-year reserve releases continue to reduce u/w losses, boost ROEs, though more modestly
Material Decline in Surplus/ Capacity	<i>Entered 2011 At Record High; Only Small Decline</i>	<ul style="list-style-type: none"> • Surplus hit a record \$565B as of 3/31/11 • Fell just 1.6% through 12/31/11 from 12/31/10 • Will likely see new record in 2012 • Little excess capacity remains in reinsurance markets • Modest growth in demand for insurance is insufficient to absorb much excess capacity
Tight Reinsurance Market	<i>Somewhat in Place</i>	<ul style="list-style-type: none"> • Much of the global “excess capacity” was eroded by cats • Higher prices in Asia/Pacific • Modestly higher pricing for US risks
Renewed Underwriting & Pricing Discipline	<i>Some Firming esp. in Property, WC</i>	<ul style="list-style-type: none"> • Commercial lines pricing trends have turned from negative to flat and now positive, esp. Property & WC; • Competition remains intense as many seek to maintain market share

1. UNDERWRITING

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

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

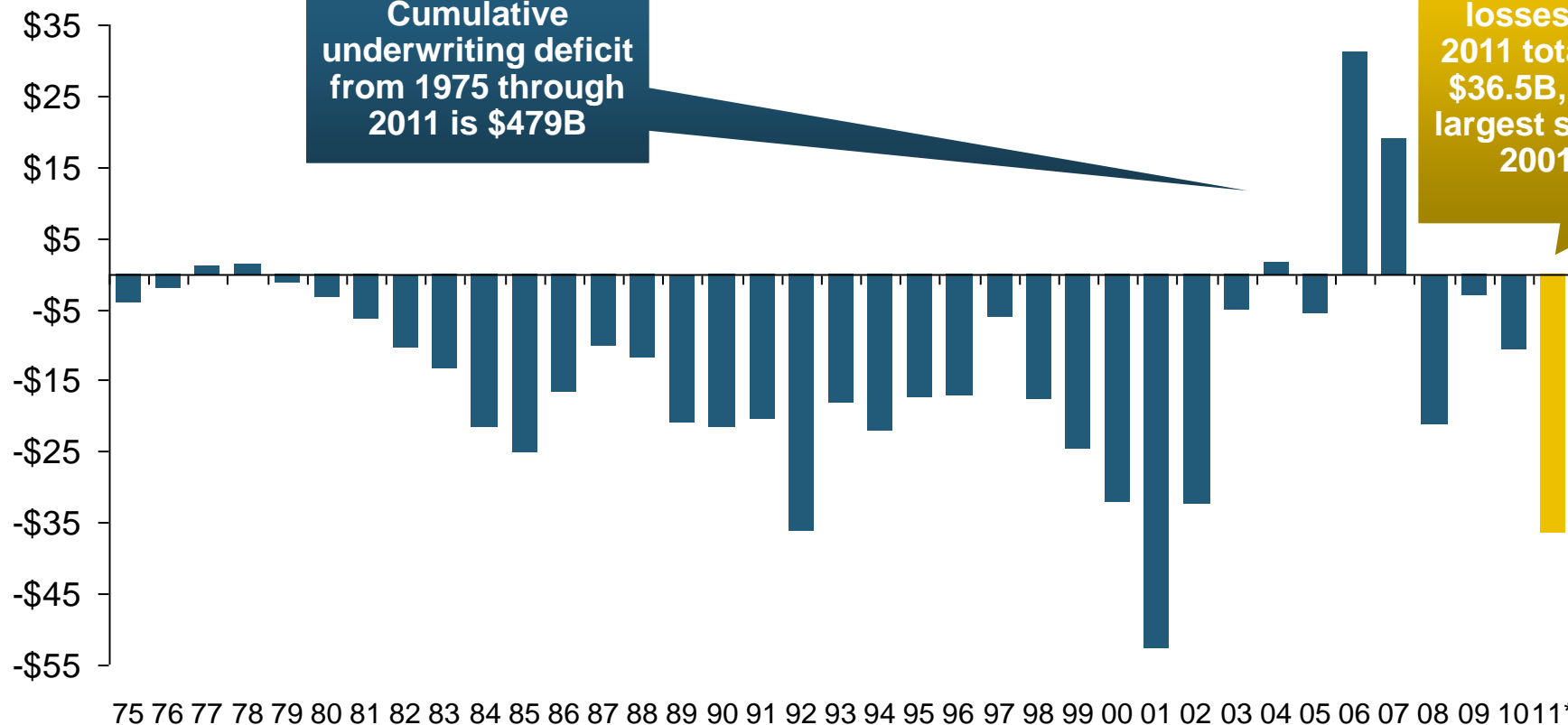


* Excludes Mortgage & Financial Guaranty insurers 2008--2011. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=106.4

Sources: A.M. Best, ISO.

Underwriting Gain (Loss) 1975–2011E*

(\$ Billions)



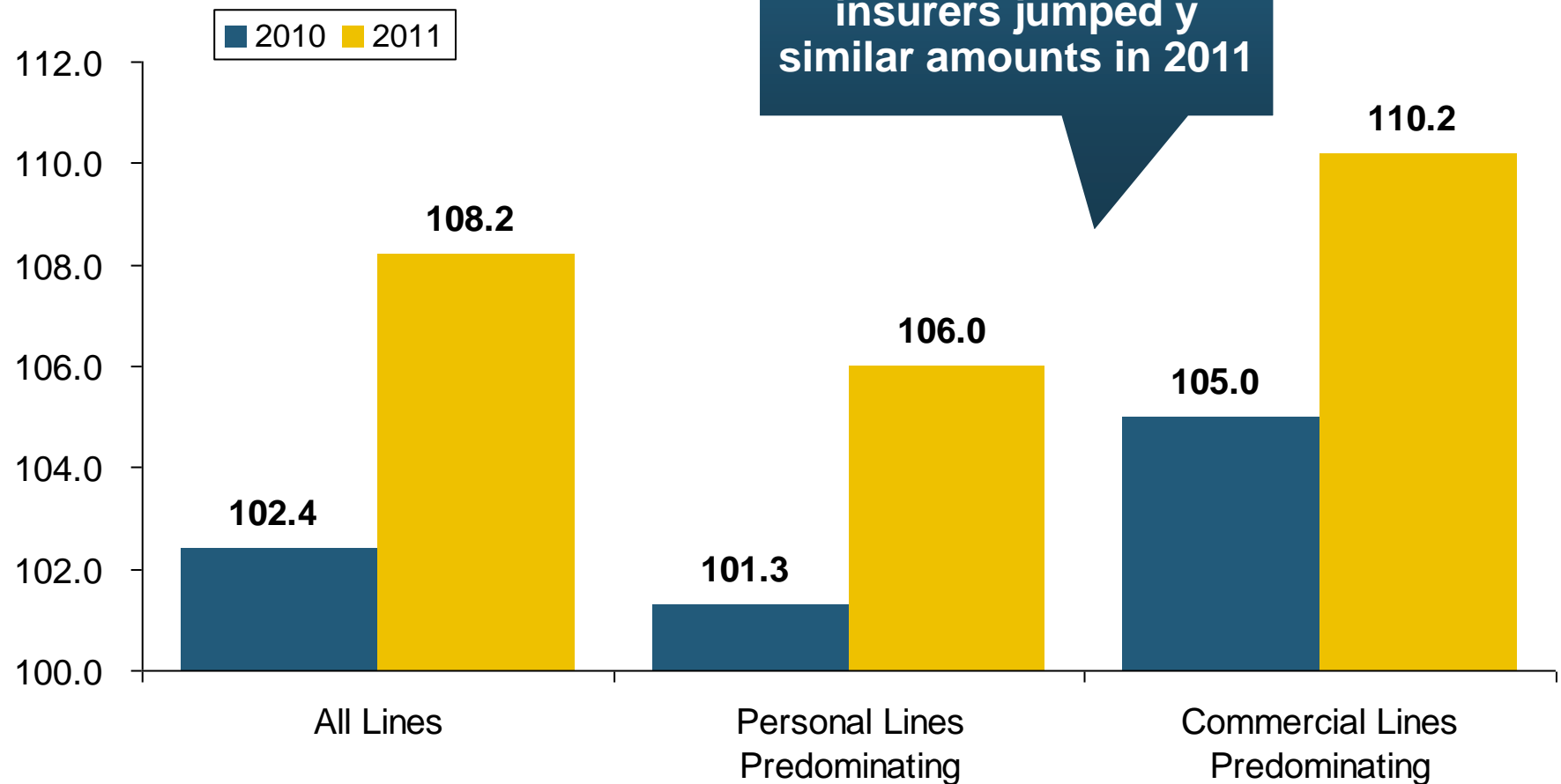
**Large Underwriting Losses Are *NOT* Sustainable
in Current Investment Environment**

* Includes mortgage and financial guaranty insurers in all years

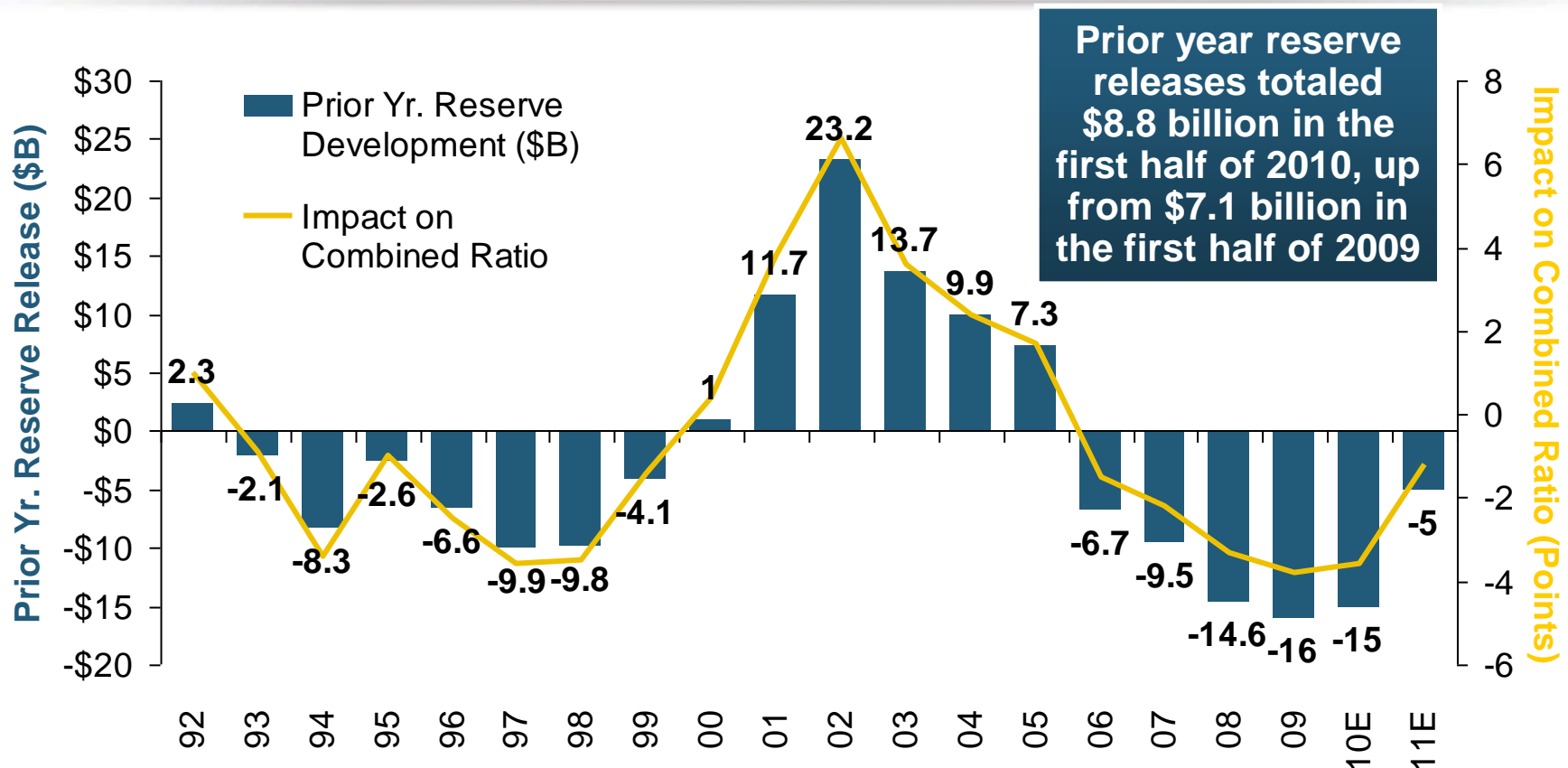
Sources: A.M. Best, ISO; Insurance Information Institute.

Combined Ratios by Predominant Business Segment, 2011 vs. 2010

(Percent)



P/C Reserve Development, 1992–2011E



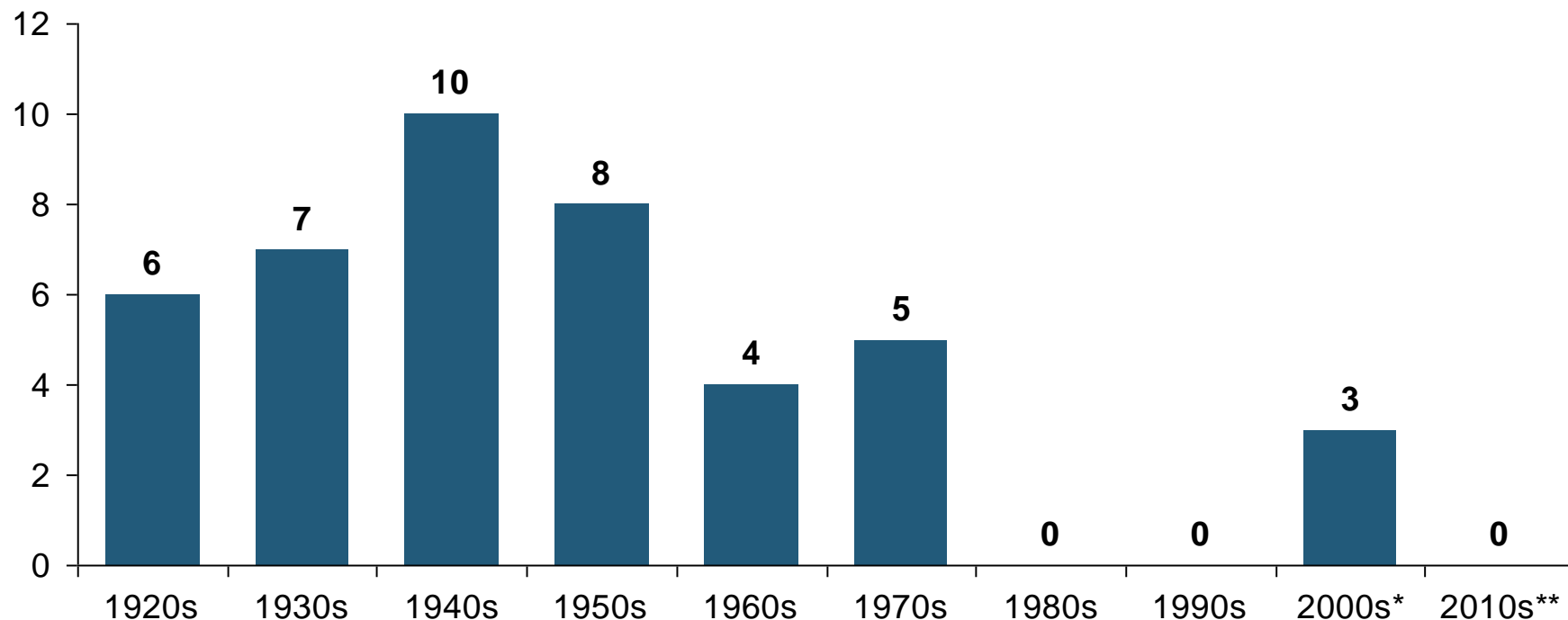
Reserve Releases Are Continuing Strong in 2010 But Should Begin to Taper Off in 2011

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–2010s

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**

* 2009 combined ratio excl. mort. and finl. guaranty insurers was 99.3, which would bring the 2000s total to 4 years with an u/w profit.

**Data for the 2010s includes 2010 and 2011.

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

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

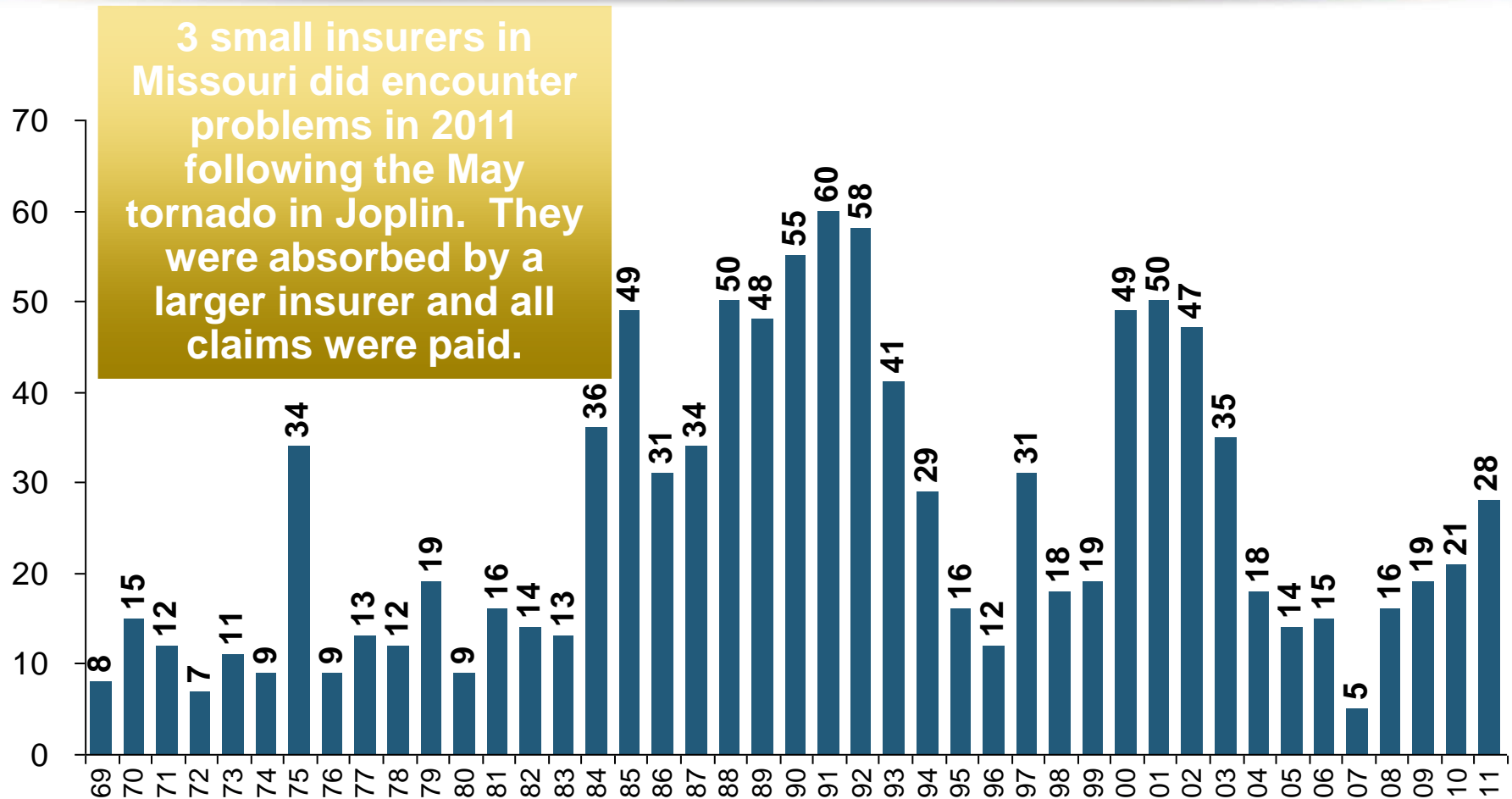
P/C Estimated Loss Reserve Deficiency/ (Redundancy), Excl. Statutory Discount

Line of Business	2011
Personal Auto Liability	-\$1.8B
Homeowners	-\$0.2
Other Liab (incl. Prod Liab)	\$4.0
Workers Compensation	\$8.2
Commercial Multi Peril	\$1.5
Commercial Auto Liability	\$0.0
Medical Malpractice	-\$4.0
Reinsurance—Nonprop Assumed	\$3.4
All Other Lines*	-\$2.2
Total Core Reserves	\$8.9
Asbestos & Environmental	\$7.4
Total P/C Industry	\$16.3B

Financial Strength & Underwriting

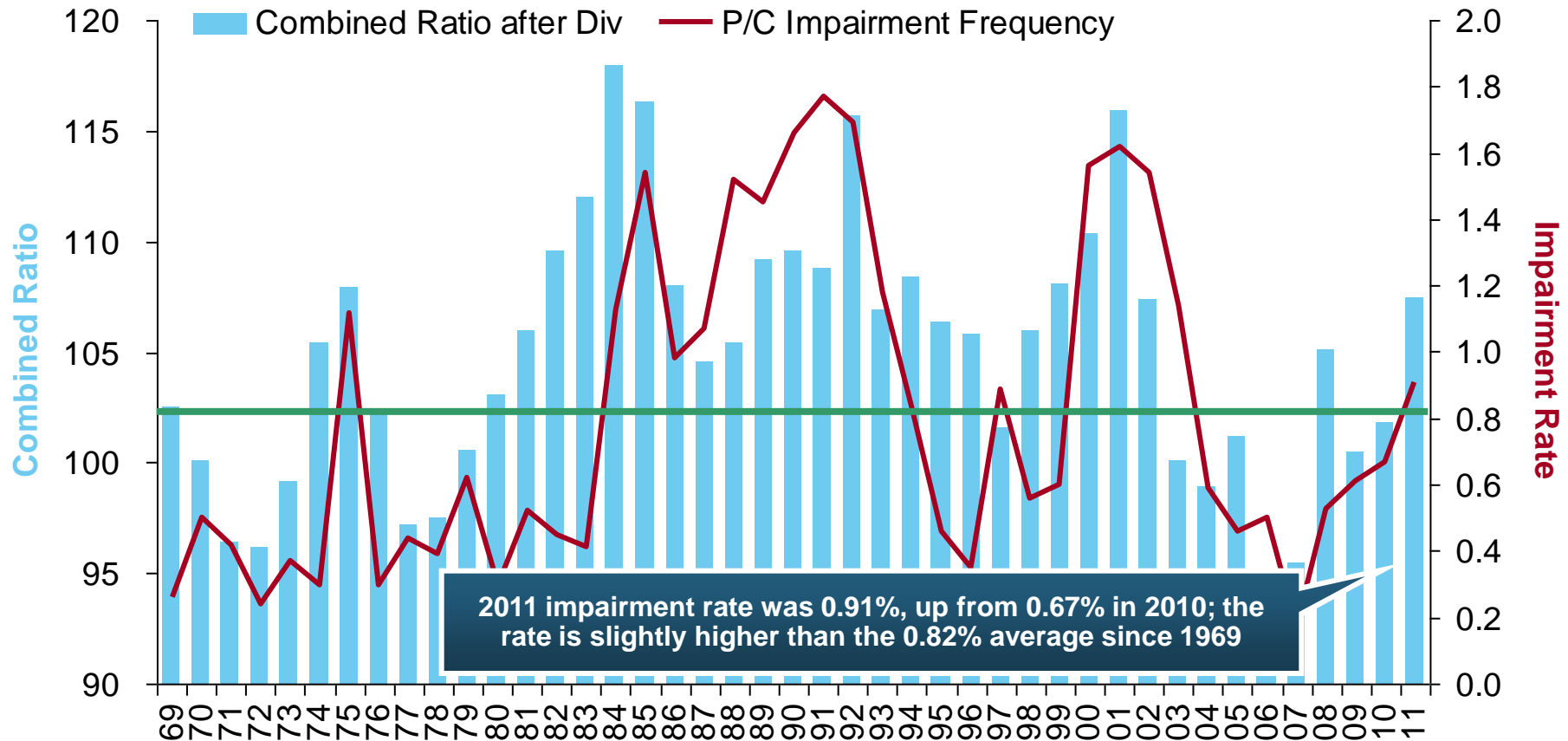
**Cyclical Pattern is P-C Impairment
History is Directly Tied to
Underwriting, Reserving & Pricing**

P/C Insurer Impairments, 1969–2011



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

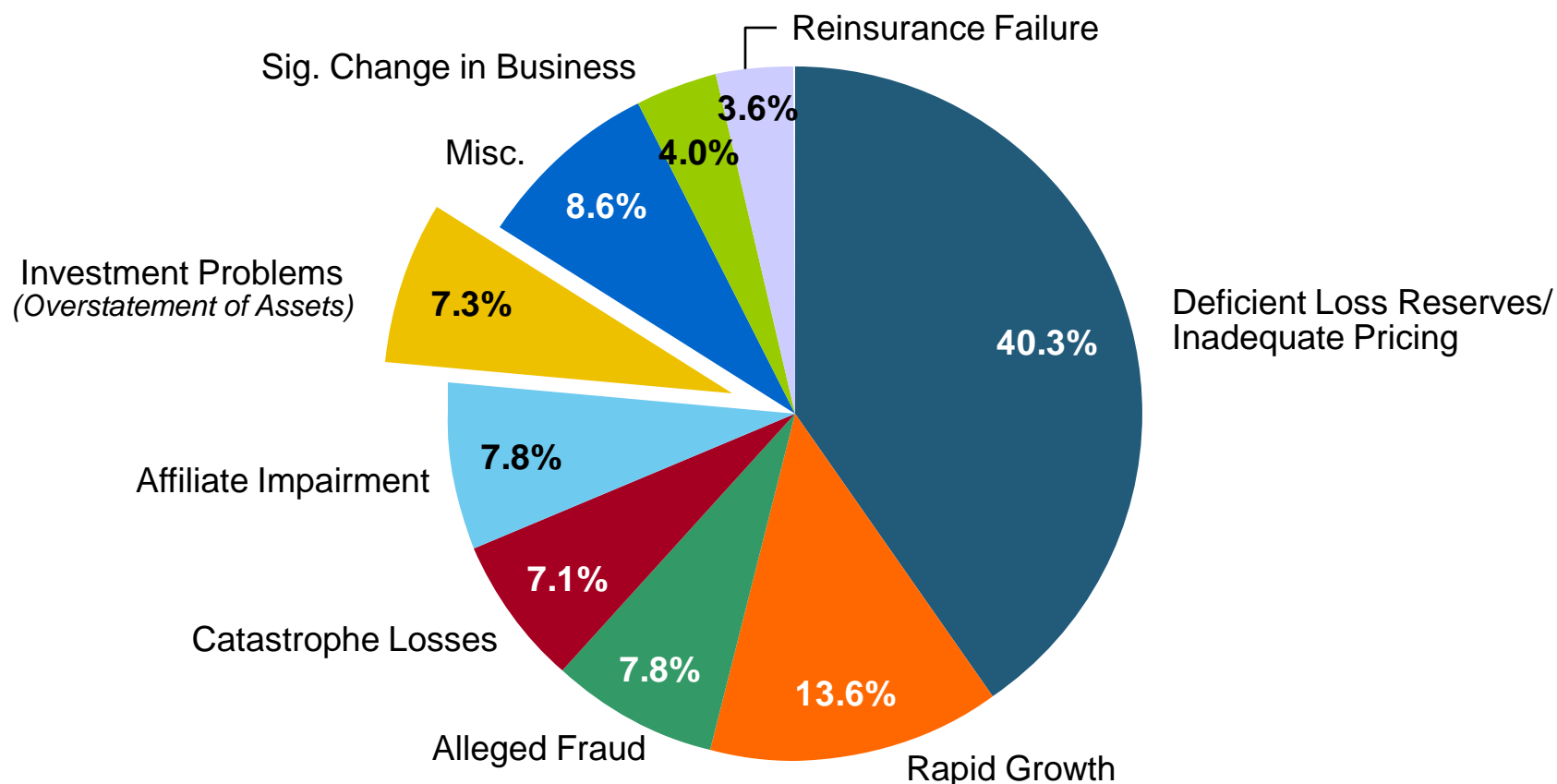
P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2011



Impairment Rates Are Highly Correlated With Underwriting Performance and Reached Record Lows in 2007; Recent Increase Was Associated Primarily With Mortgage and Financial Guaranty Insurers and Not Representative of the Industry Overall

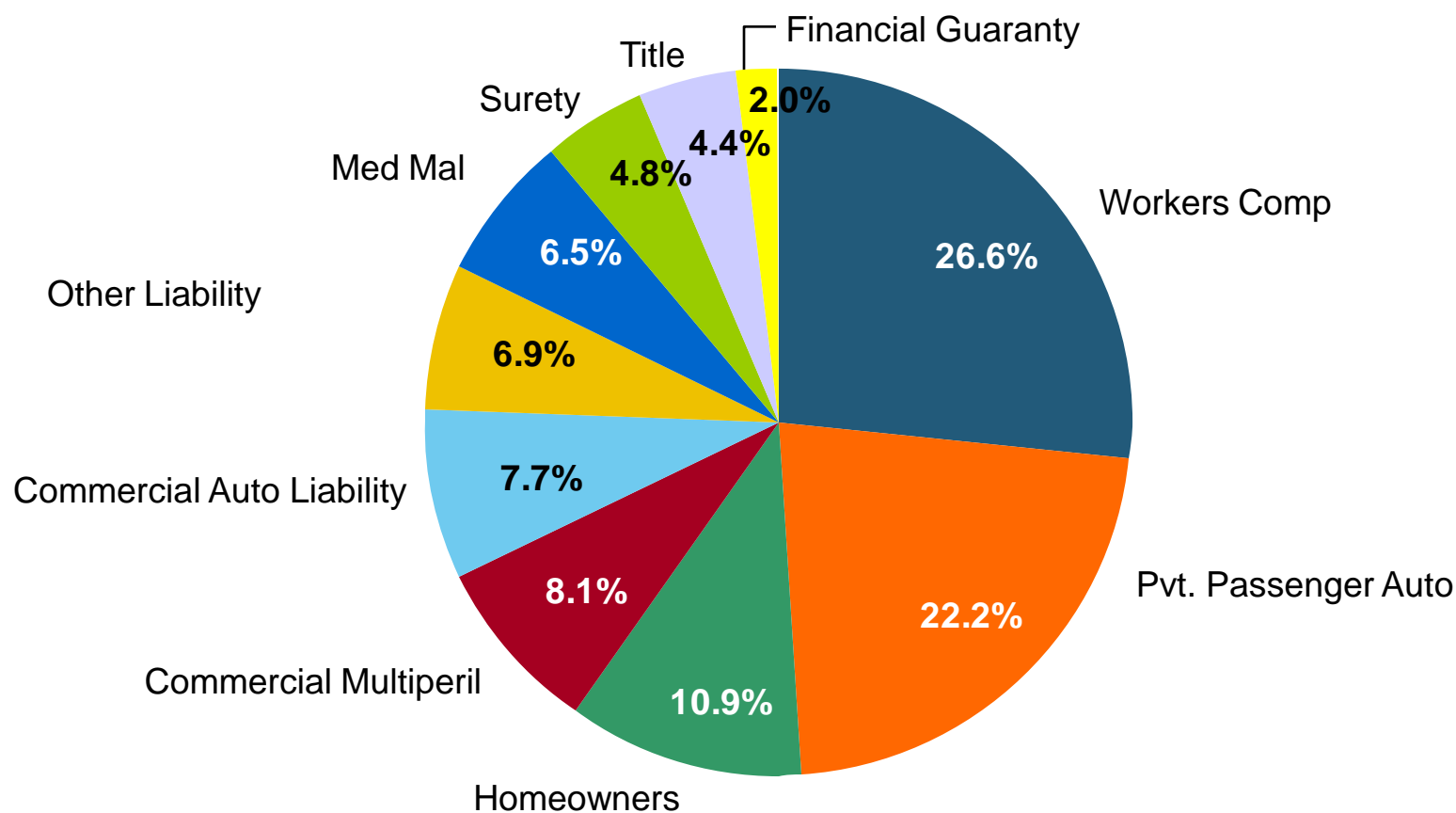
Reasons for US P/C Insurer Impairments, 1969–2010

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



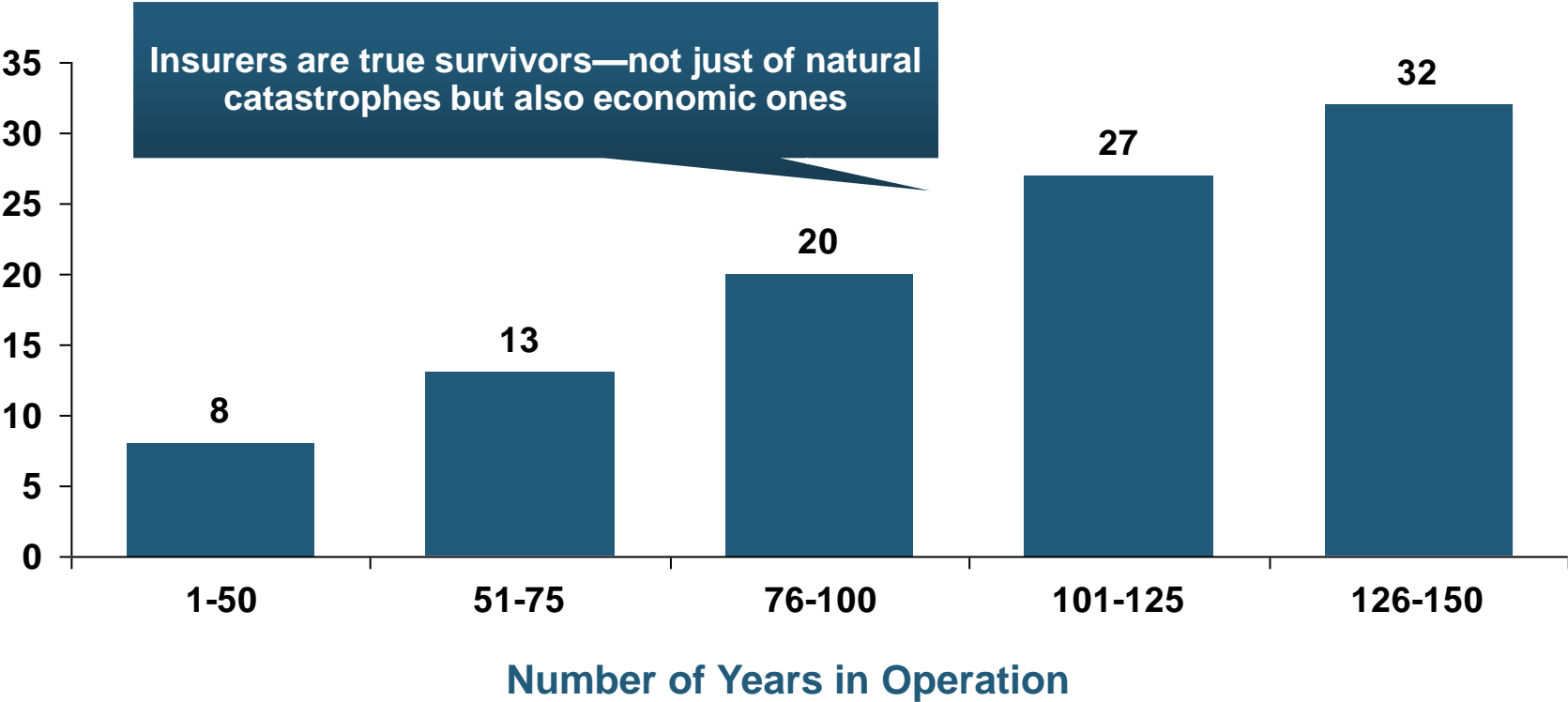
Top 10 Lines of Business for US P/C Impaired Insurers, 2000–2010

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



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

Number of Recessions Since 1860



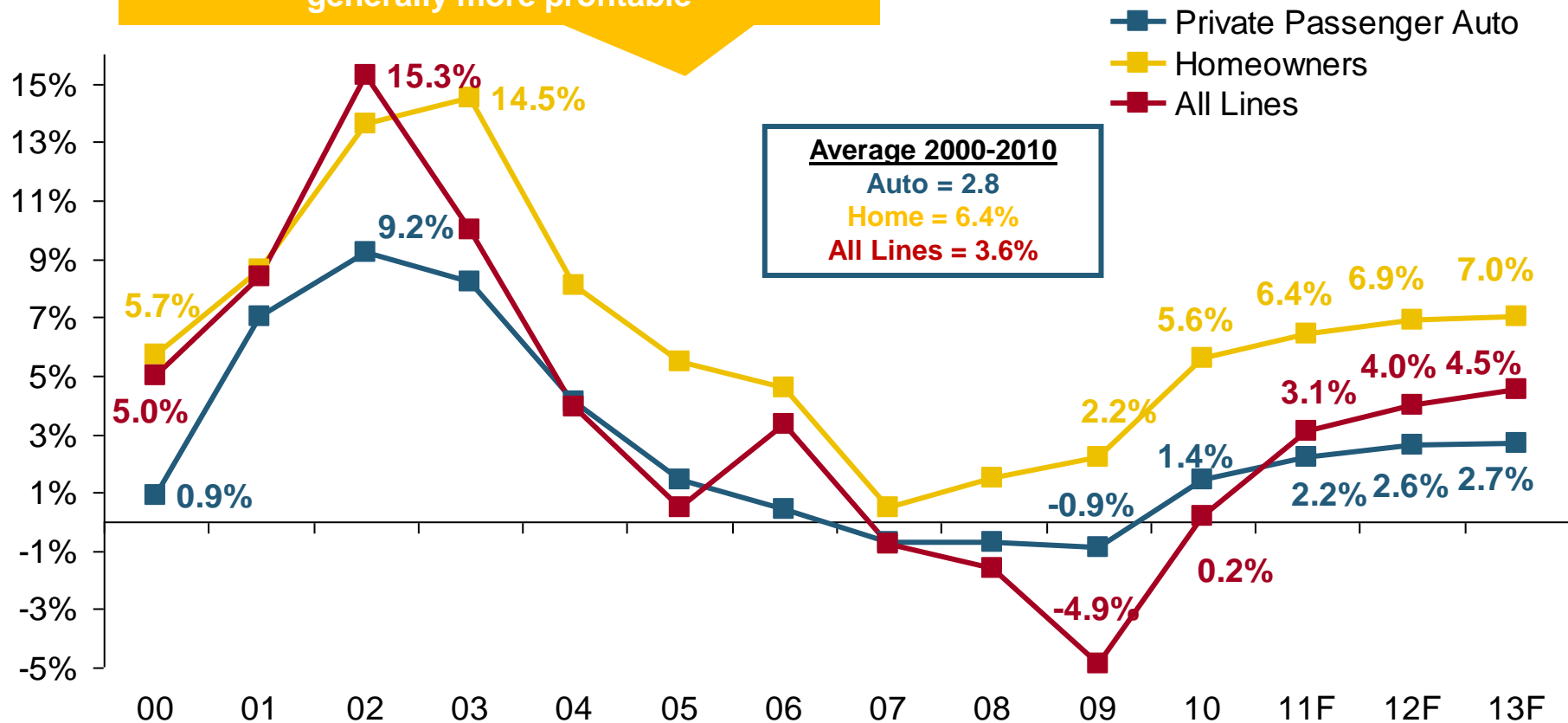
Many US Insurers Are Close to a Century Old or Older



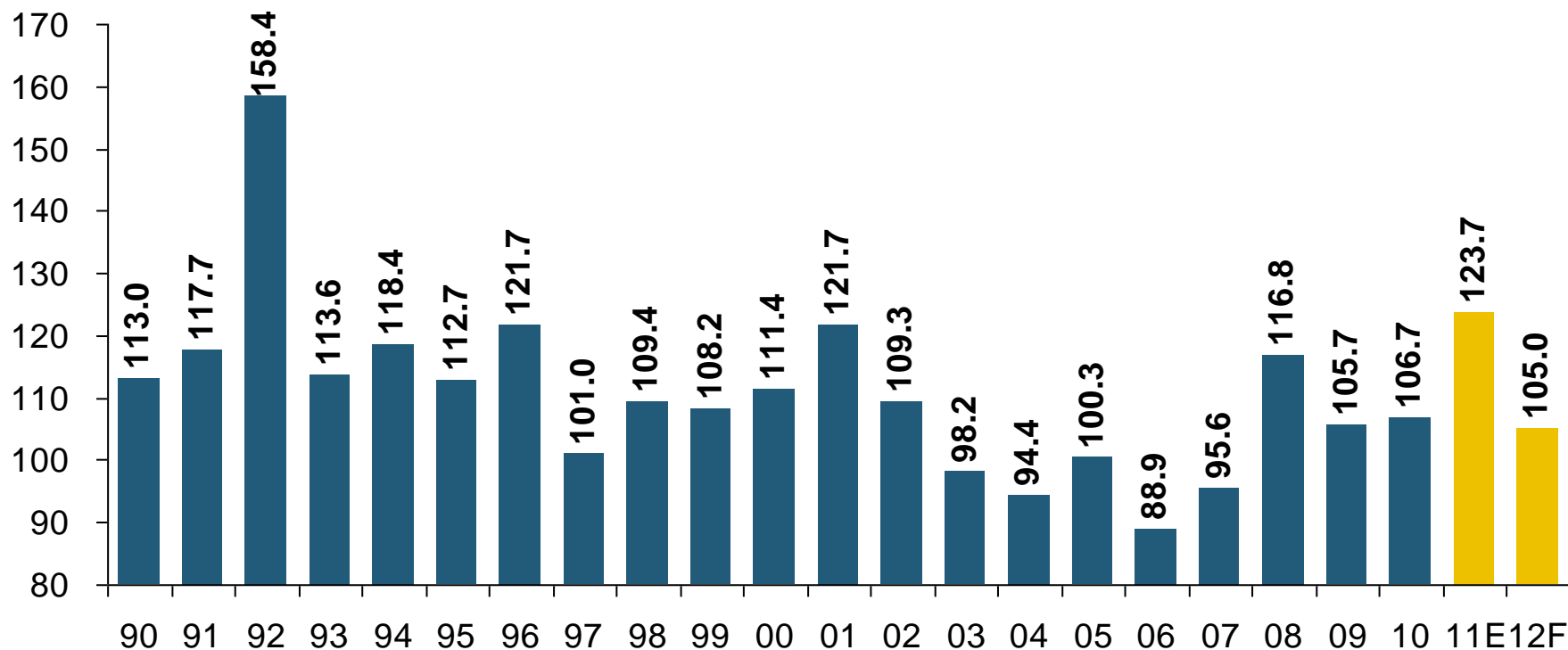
Performance by Segment: Personal Lines

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

While homeowners insurance has grown faster than auto over the past decade, auto is generally more profitable

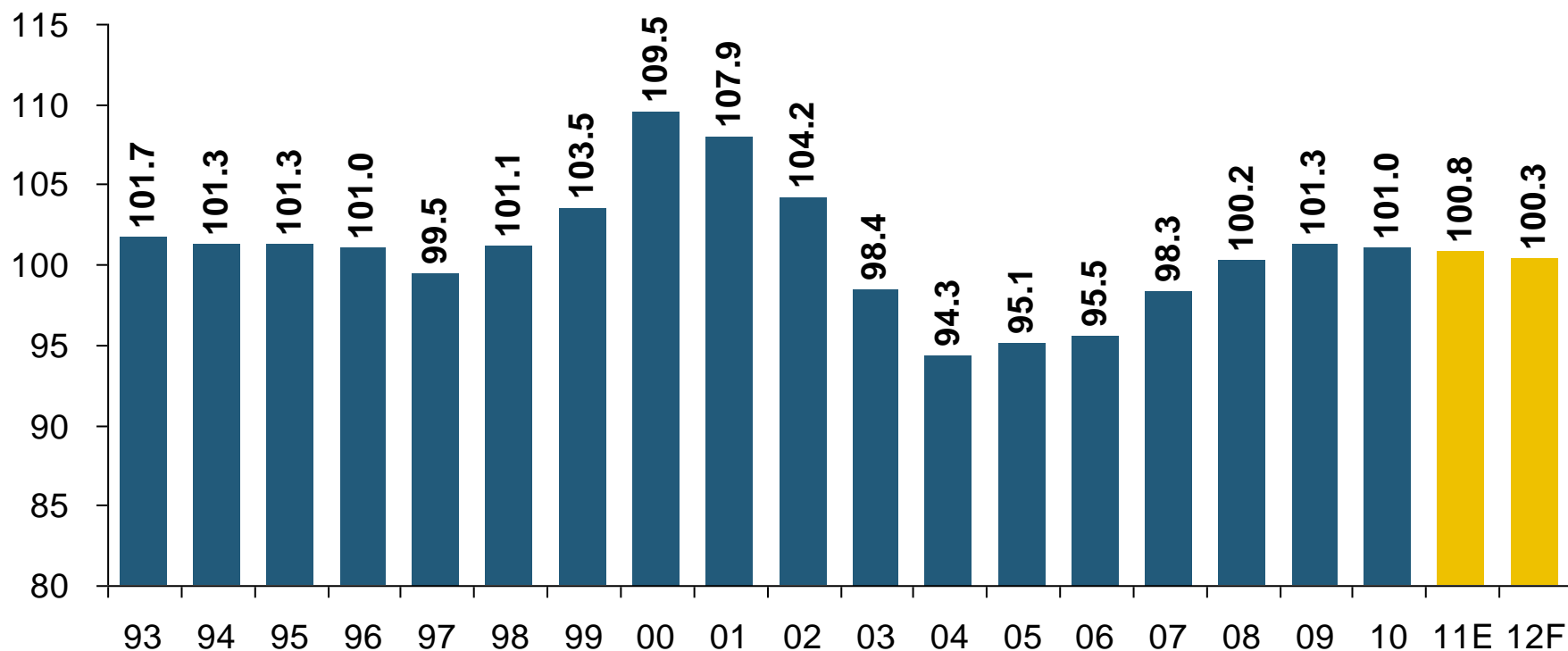


Homeowners Insurance Combined Ratio: 1990–2012F



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

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

Performance by Segment: Commercial Lines

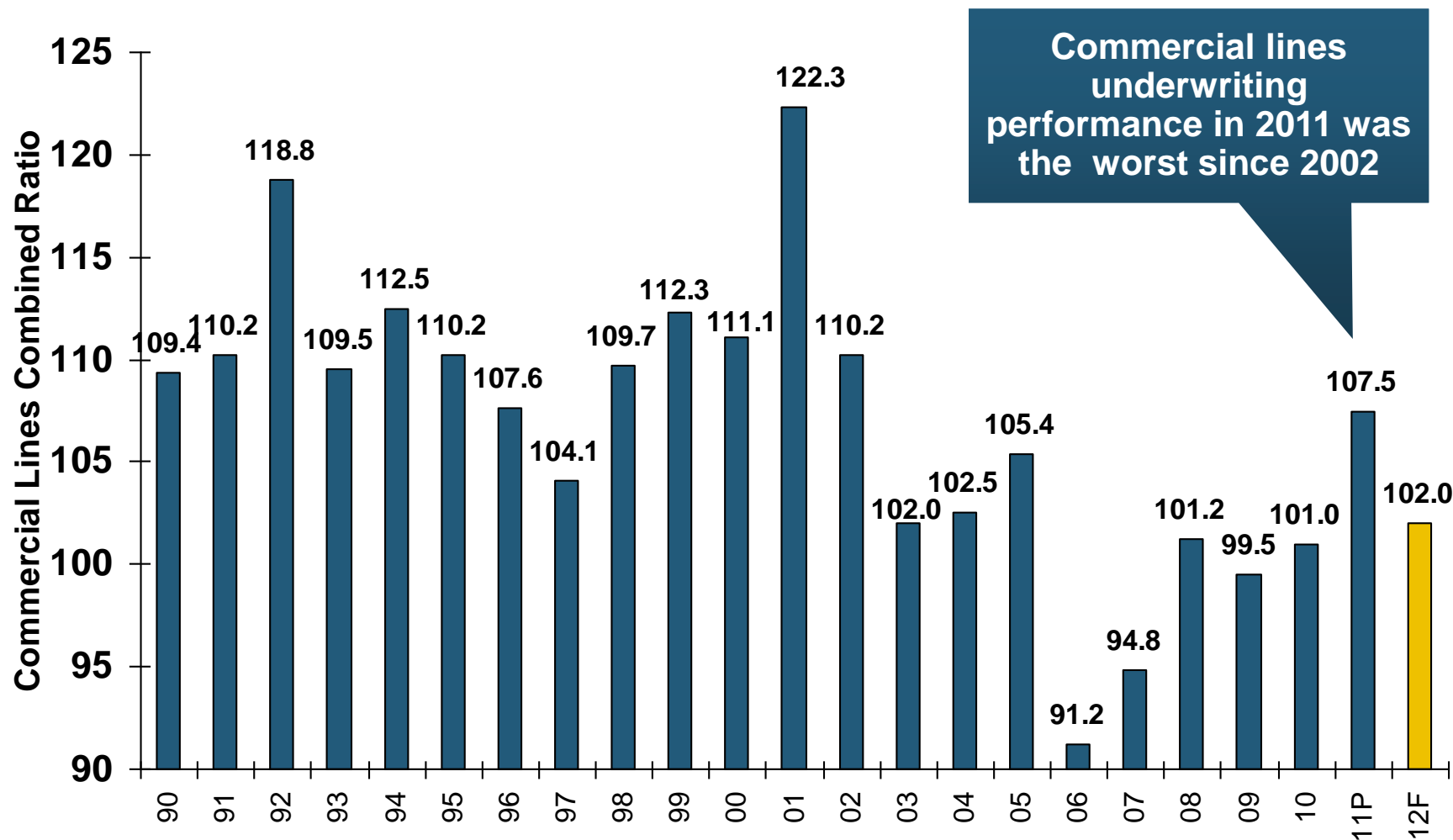
A.M. Best Commercial Lines Outlook: Negative (as of January 2012)

- **Underwriting Margins Pressured**
 - ◆ Will recent rate increases hold?
- **Loss Reserve Redundancies Fade**
- **Historically Low Investment Yields**

OFFSETTING FACTORS

- **Capitalization Still Solid**
- **Emergence of Sophisticated Price Monitoring and Underwriting Tools**

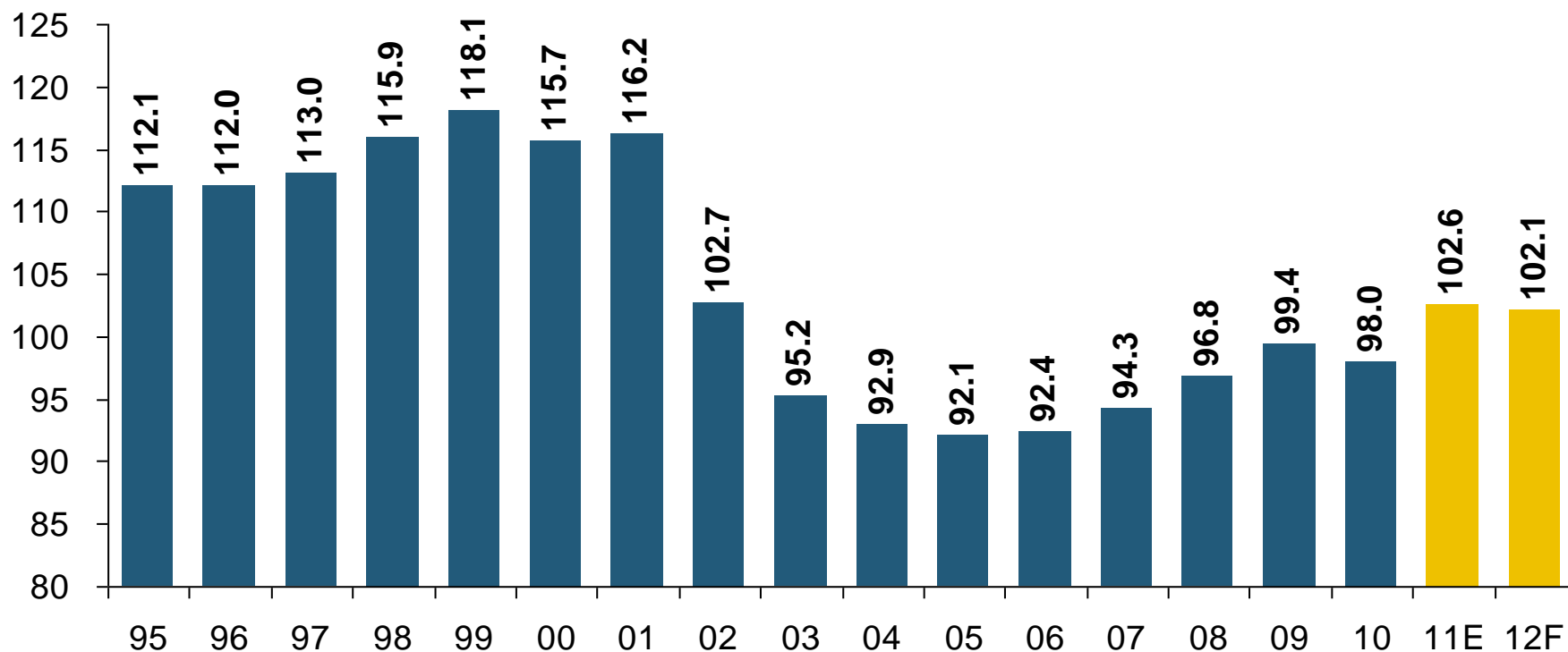
Commercial Lines Combined Ratio, 1990-2012F*



*2007-2012 figures exclude mortgage and financial guaranty segments.

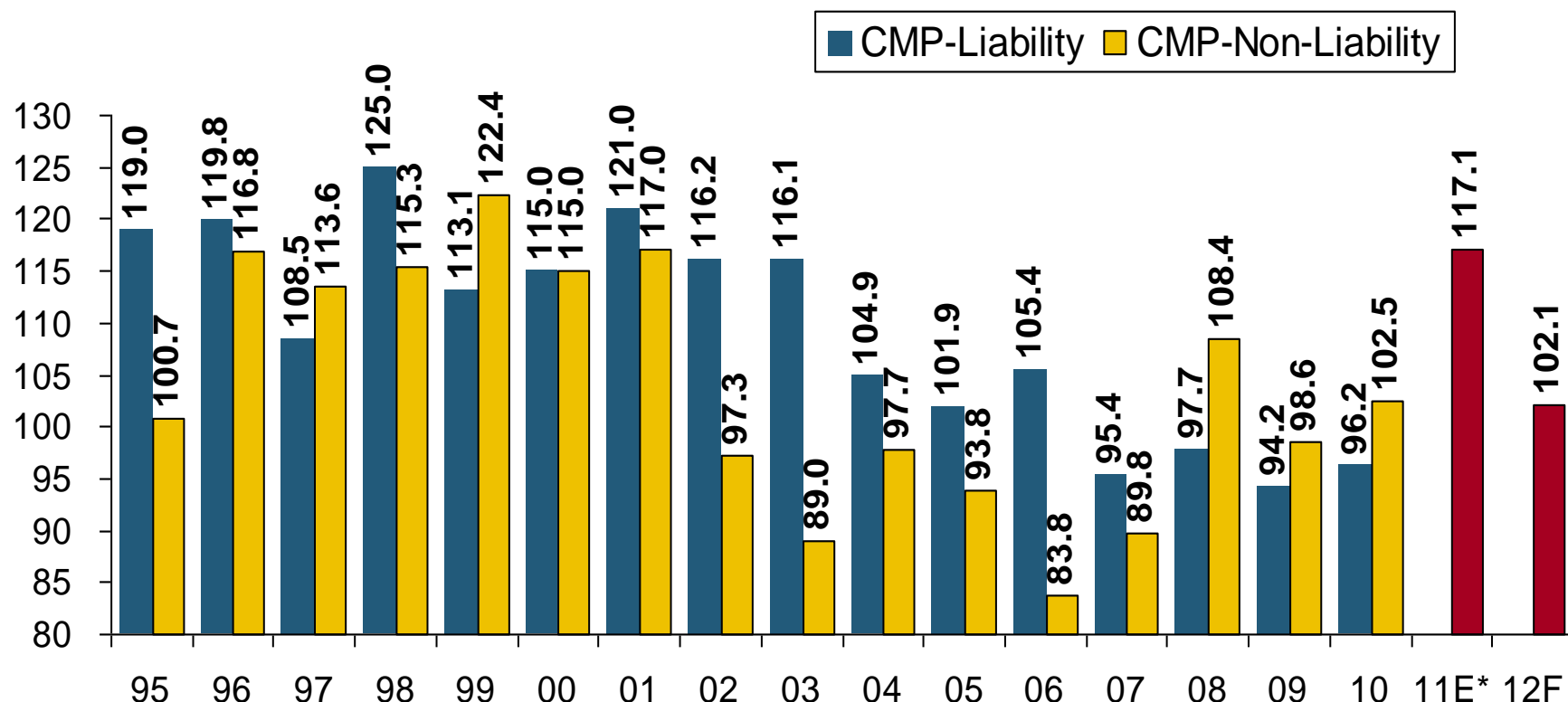
Source: A.M. Best; Insurance Information Institute

Commercial Auto Combined Ratio: 1993–2012F



Commercial Auto is Expected to Deteriorate as Loss Frequency and Severity Trends Deteriorate 2011-2012

Commercial Multi-Peril Combined Ratio: 1995–2012F

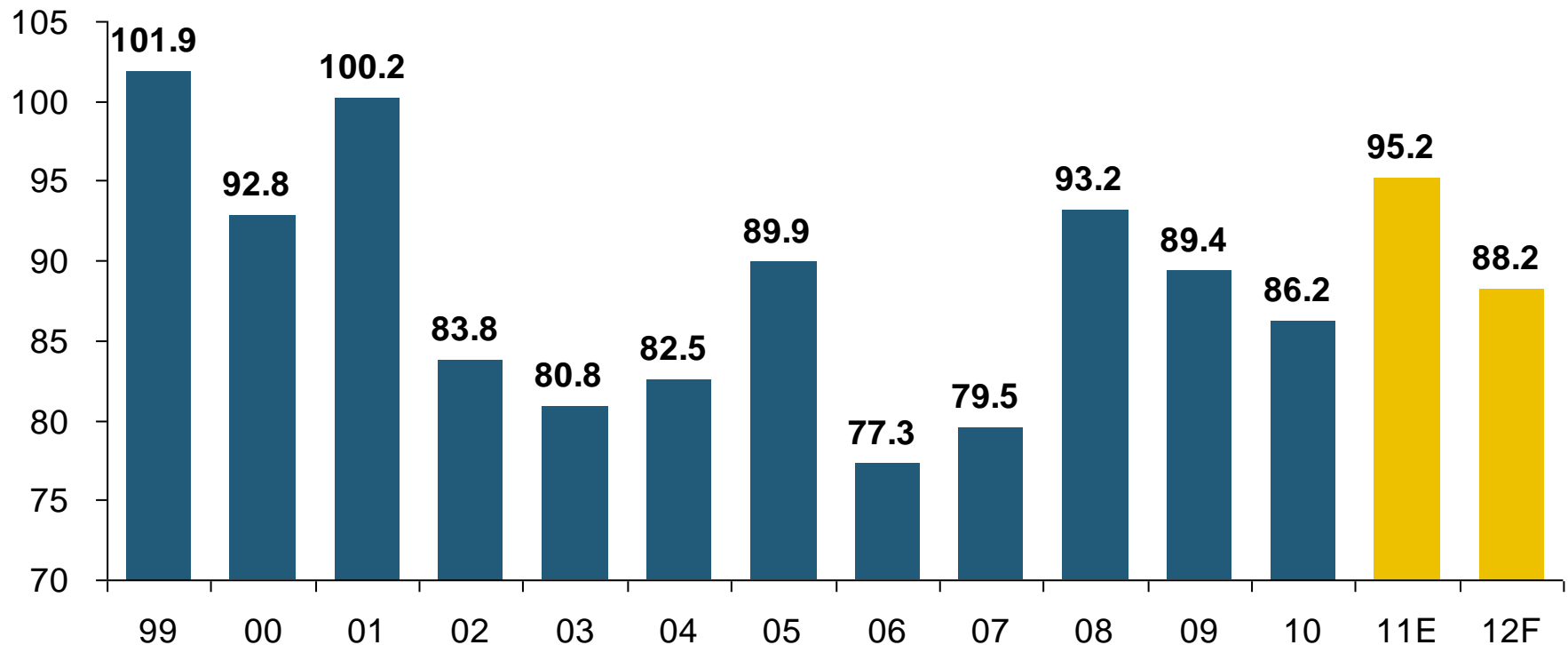


**Commercial Multi-Peril Underwriting Performance
is Expected to Improve in 2012 Assuming Normal
Catastrophe Loss Activity**

*2011-12 figures are A.M. Best estimate/forecast for the combined liability and non-liability components.

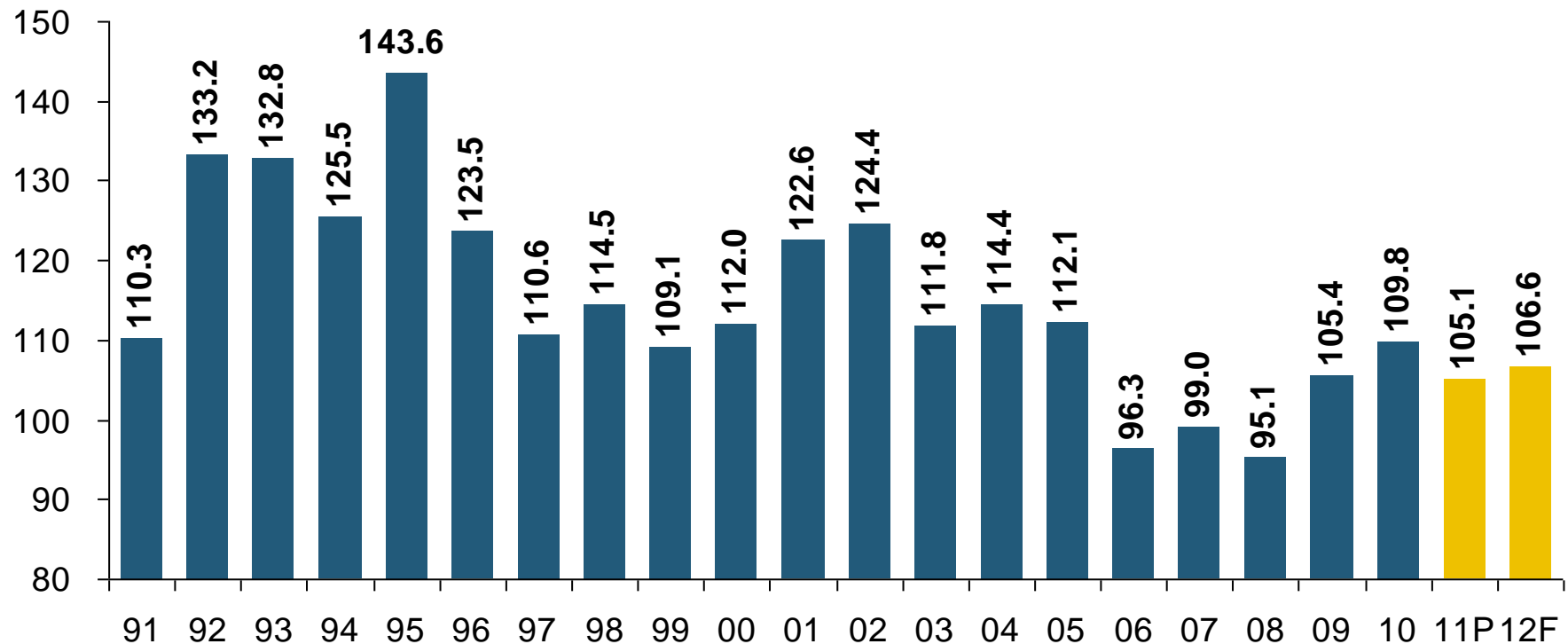
Sources: A.M. Best; Insurance Information Institute.

Inland Marine Combined Ratio: 1999–2012F



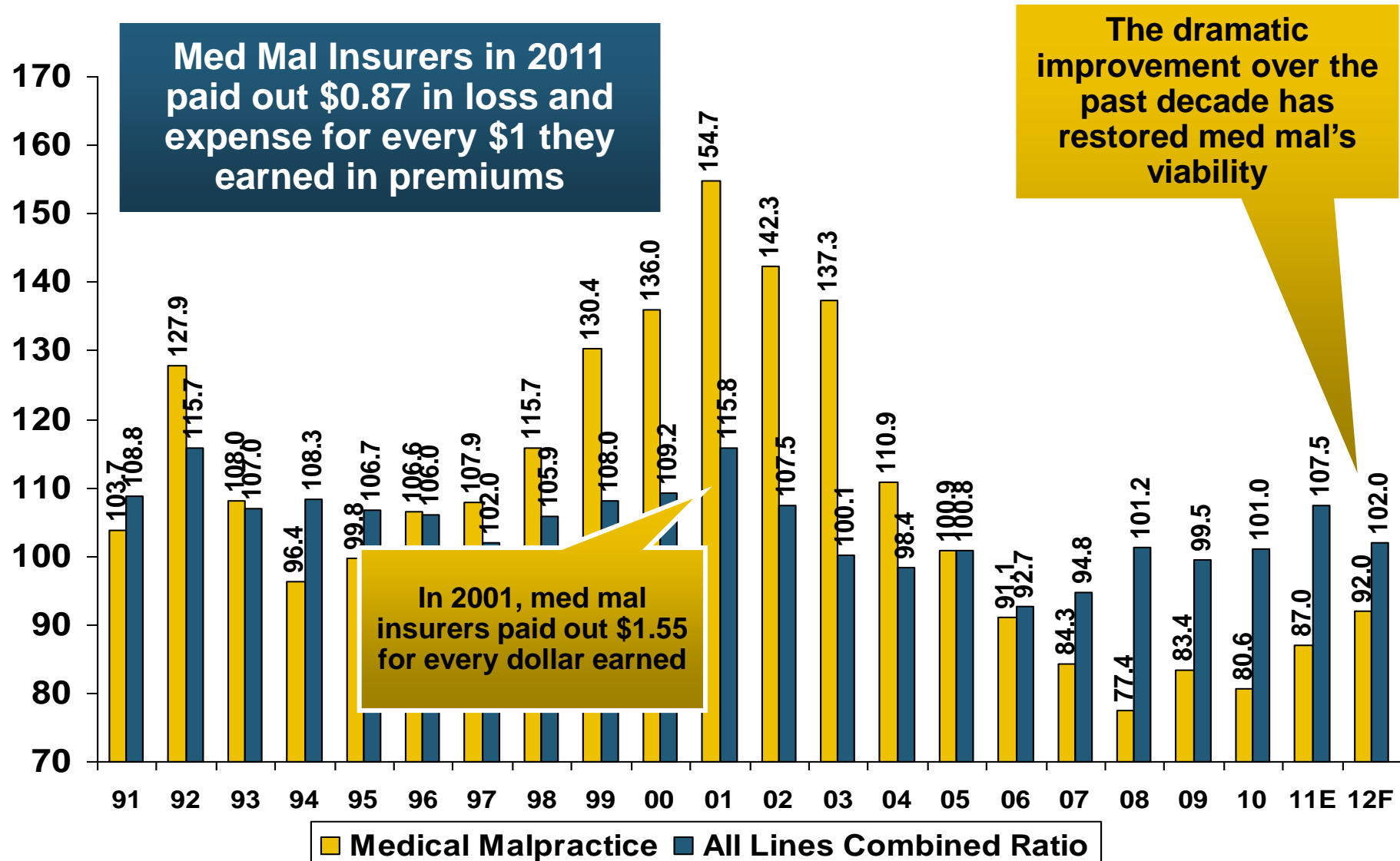
Inland Marine is Expected to Remain Among the Most Profitable of All Lines

Other & Products Liability Combined Ratio: 1991–2012F

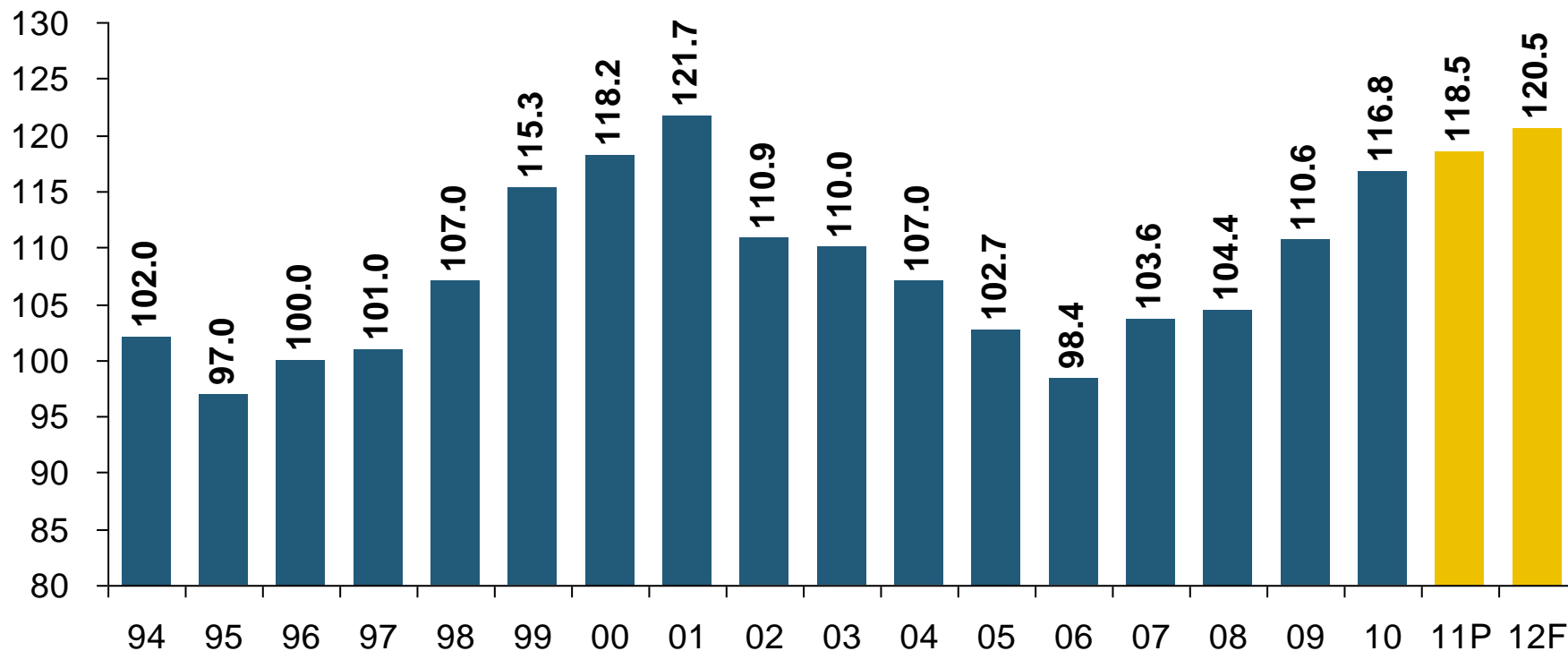


Liability Lines Have Performed Better in the Post-Tort Reform Era (~2005), but There Has Been Some Deterioration in Recent Years

Medical Malpractice Combined Ratio vs. All Lines Combined Ratio, 1991-2012F



Workers Compensation Combined Ratio: 1994–2012F

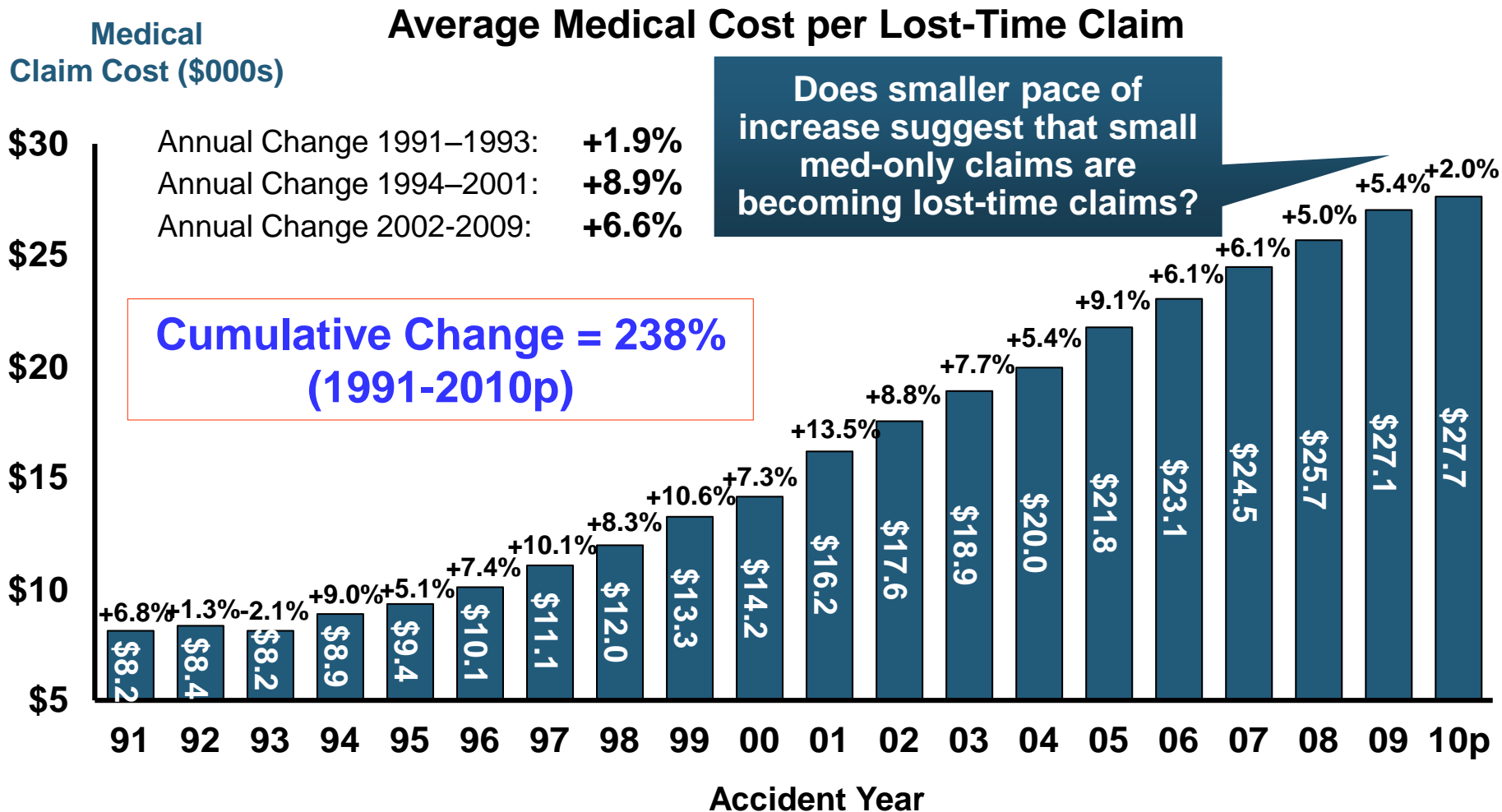


Workers Comp Underwriting Results Are Deteriorating Markedly and the Worst They Have Been in a Decade

Workers Compensation Operating Environment

**The Weak Economy and Soft Market Have
Made the Workers Comp Operating
Increasingly Challenging**

Workers Comp Medical Claim Costs Continue to Rise



2010p: Preliminary based on data valued as of 12/31/2010

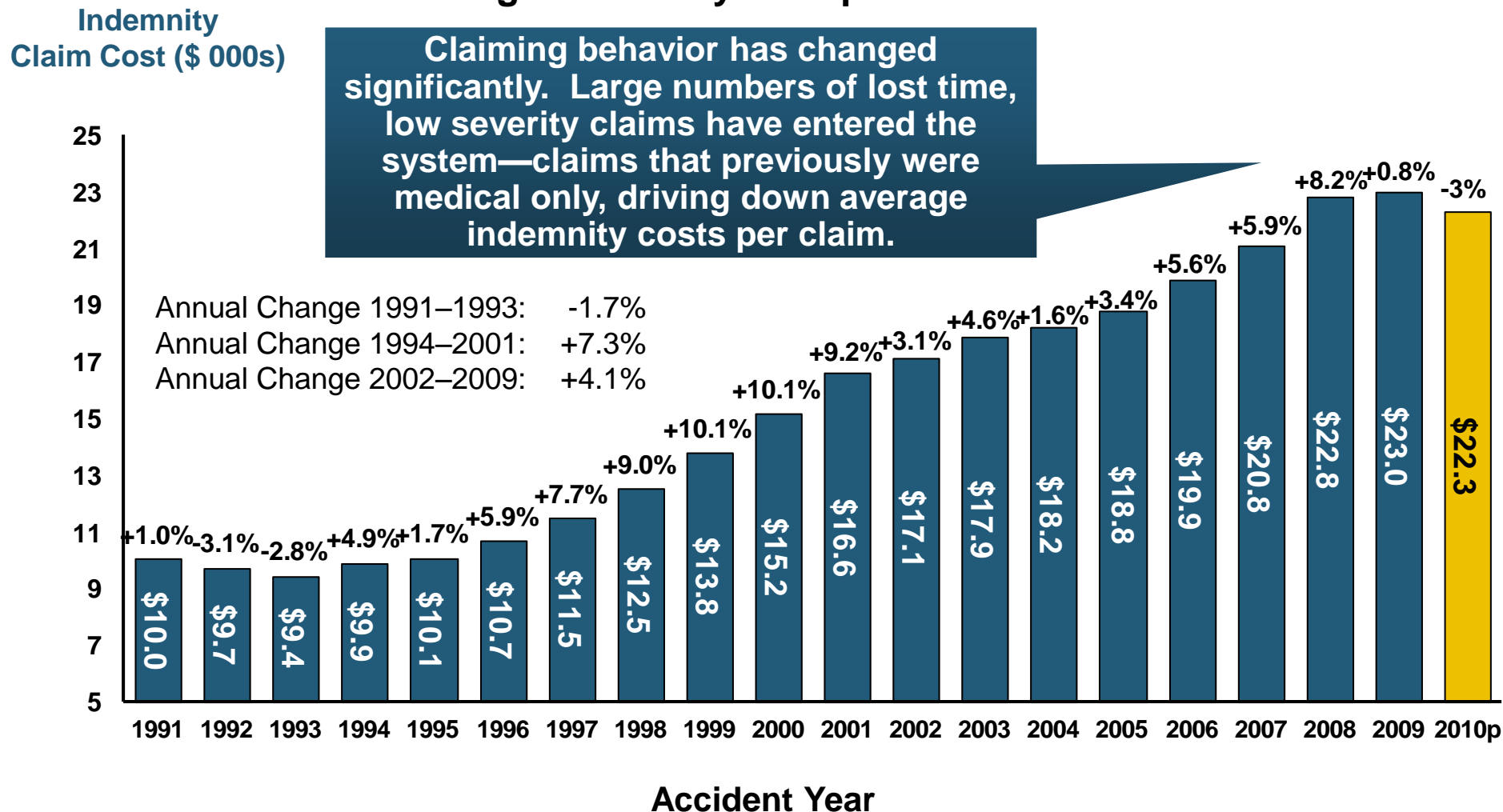
1991–2008: Based on data through 12/31/2008, developed to ultimate

Based on the states where NCCI provides ratemaking services; Excludes the effects of deductible policies

Workers Comp Indemnity Claim Costs Decline in 2010

Average Indemnity Cost per Lost-Time Claim

Claiming behavior has changed significantly. Large numbers of lost time, low severity claims have entered the system—claims that previously were medical only, driving down average indemnity costs per claim.



2010p: Preliminary based on data valued as of 12/31/2010

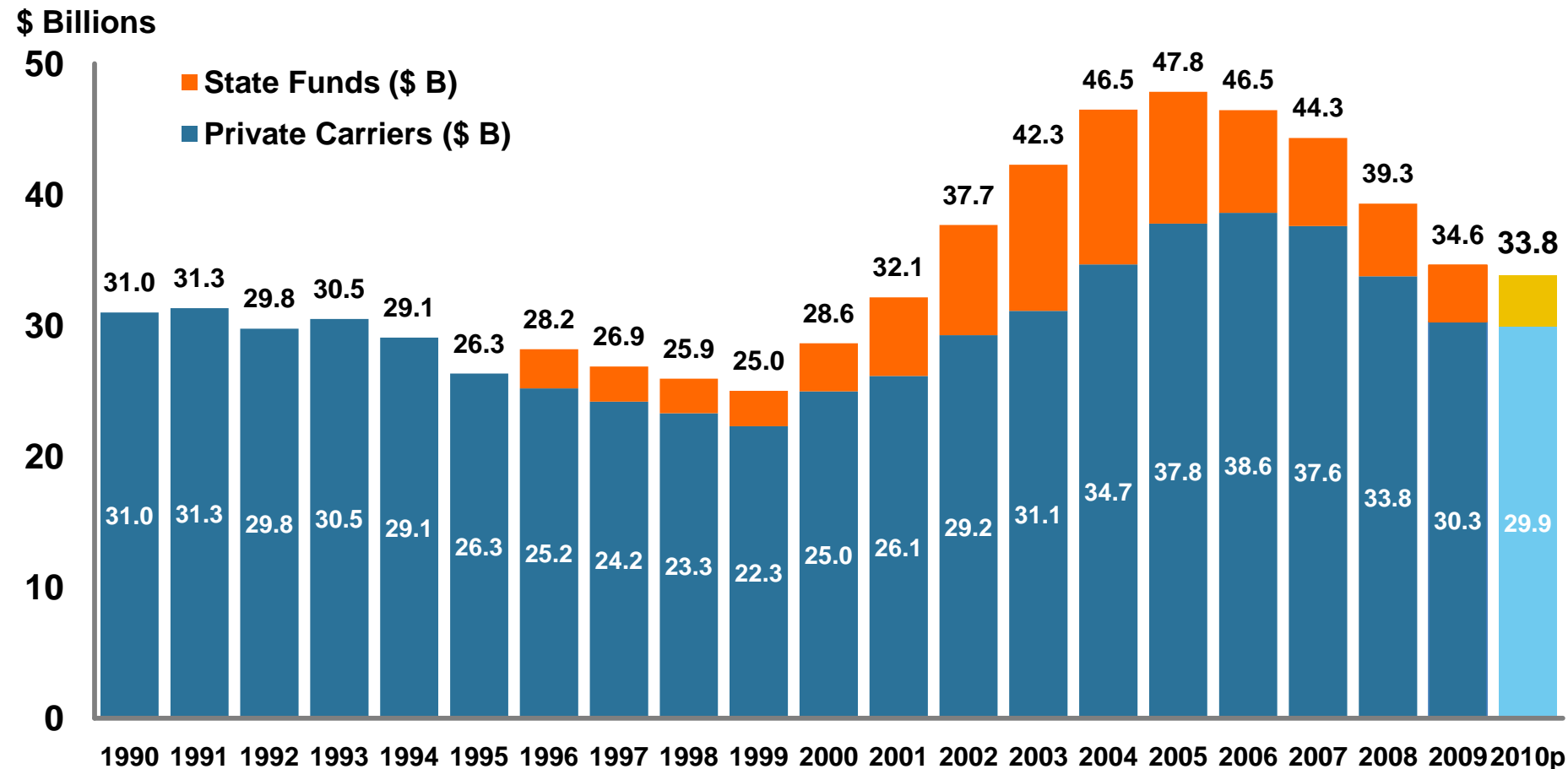
1991–2008: Based on data through 12/31/2008, developed to ultimate

Based on the states where NCCI provides ratemaking services

Excludes the effects of deductible policies

Workers Compensation Premium Continues Its Sharp Decline

Net Written Premium



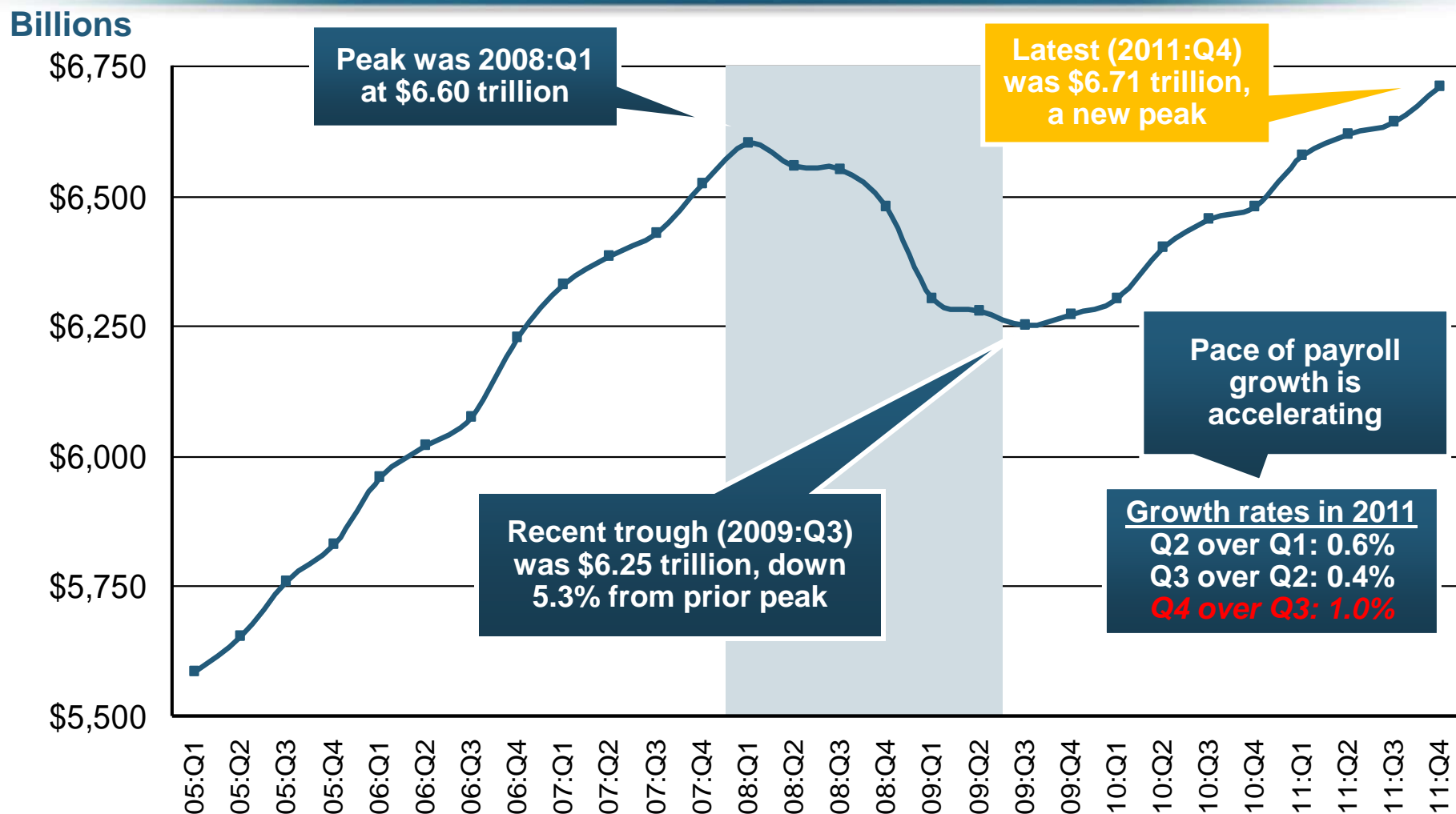
p Preliminary

Source: 1990–2009 Private Carriers, *Best's Aggregates & Averages*; 2010p, NCCI

1996–2010p State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

State Funds available for 1996 and subsequent

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2011:Q4



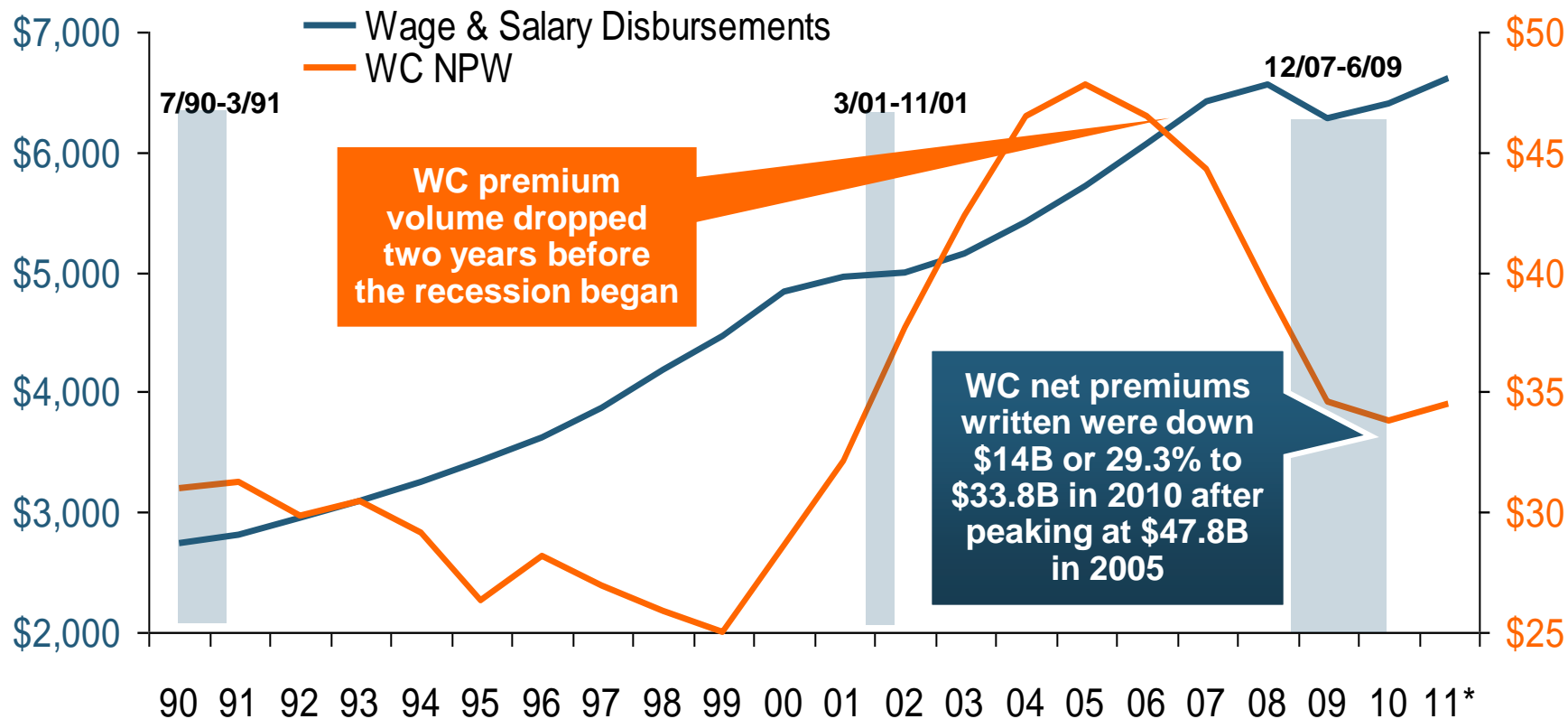
Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

Sources: <http://research.stlouisfed.org/fred2/series/WASCUR>; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Payroll vs. Workers Comp Net Written Premiums, 1990-2011

Payroll Base*
\$Billions

WC NWP
\$Billions



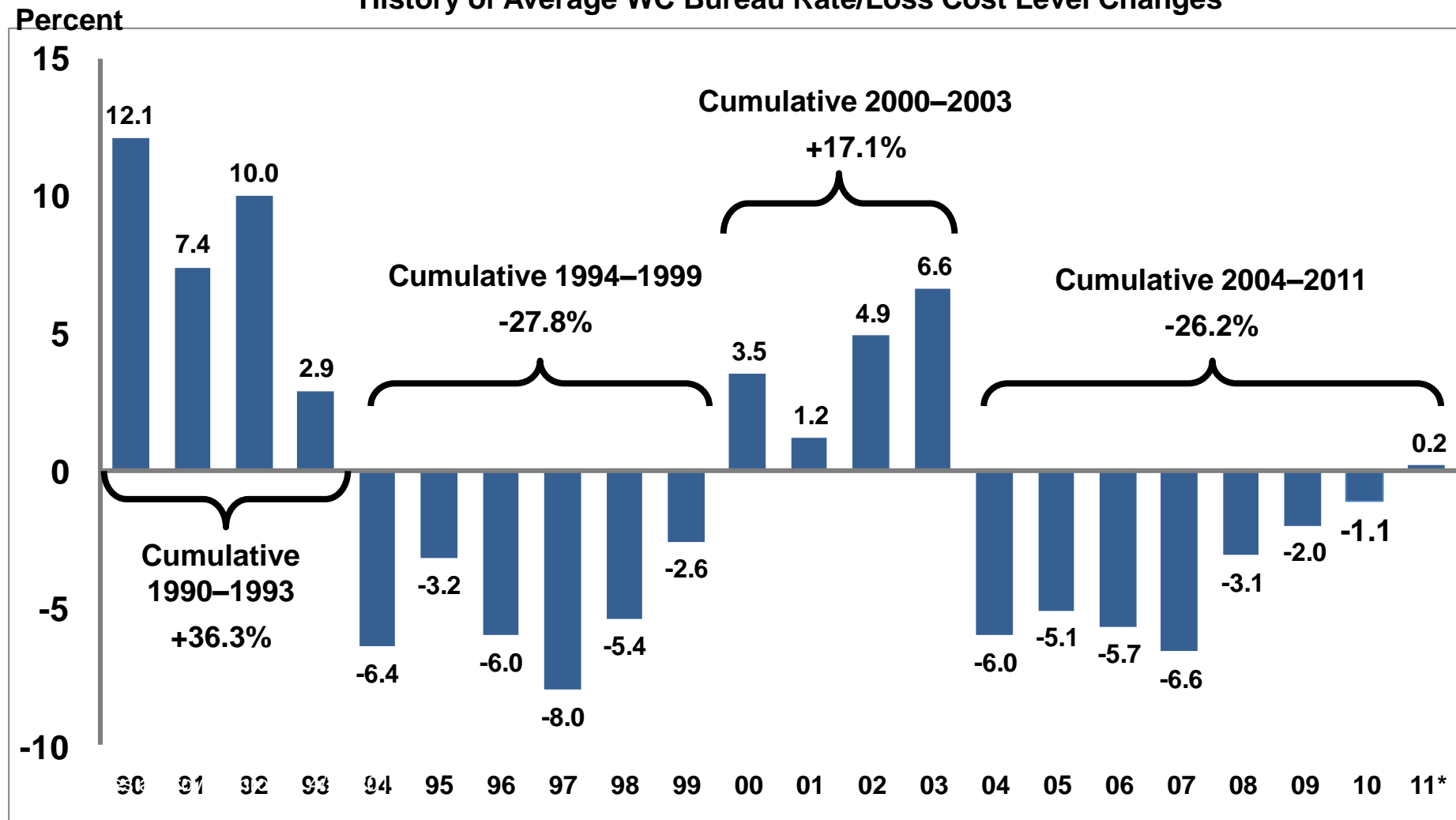
Resumption of payroll growth and rate increases suggests WC NWP will grow again in 2012

*Private employment; Shaded areas indicate recessions. Payroll and WC premiums for 2011 is I.I.I. estimate

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

Average Approved Bureau Rates/Loss Costs

History of Average WC Bureau Rate/Loss Cost Level Changes



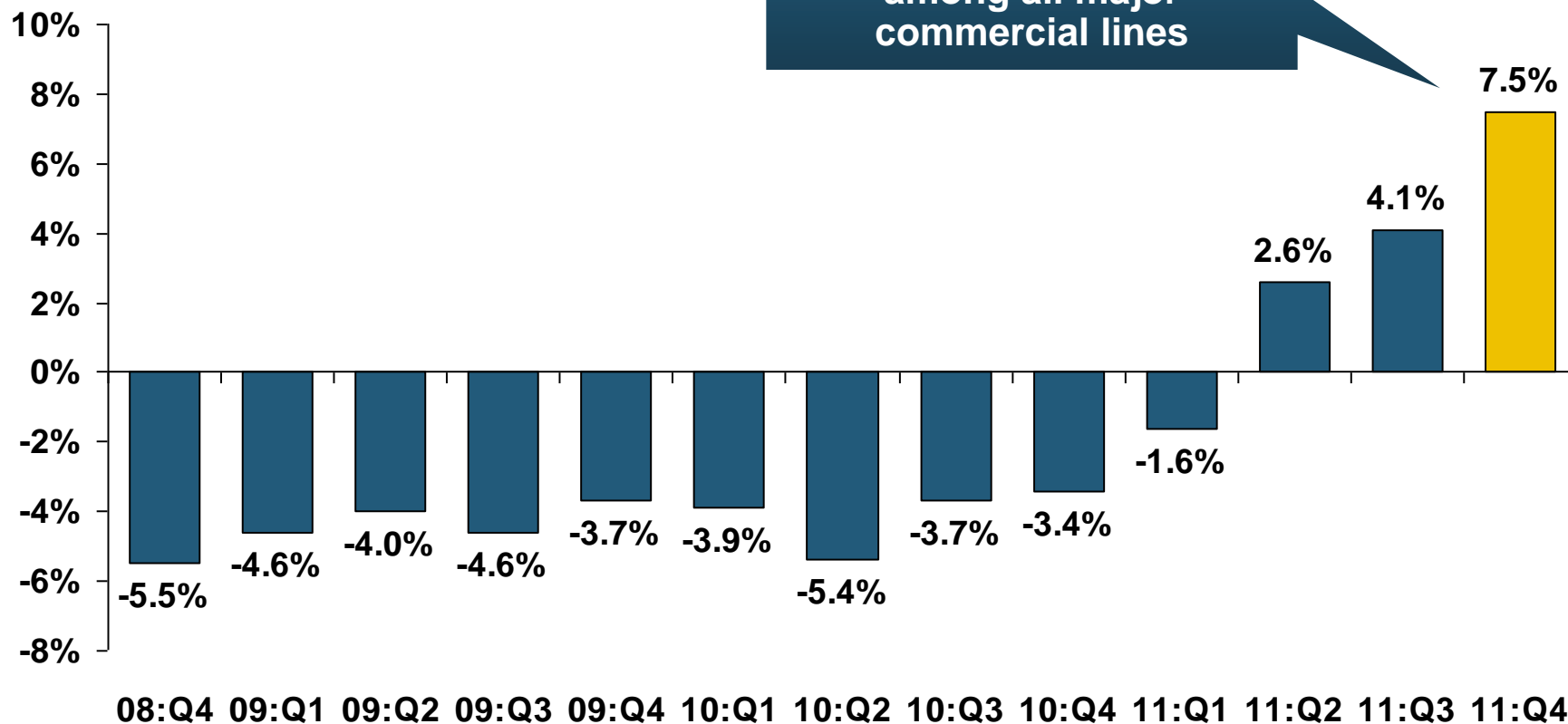
*States approved through 4/8/11.

Note: Countrywide approved changes in advisory rates, loss costs and assigned risk rates as filed by applicable rating organization.

Source: NCCI.

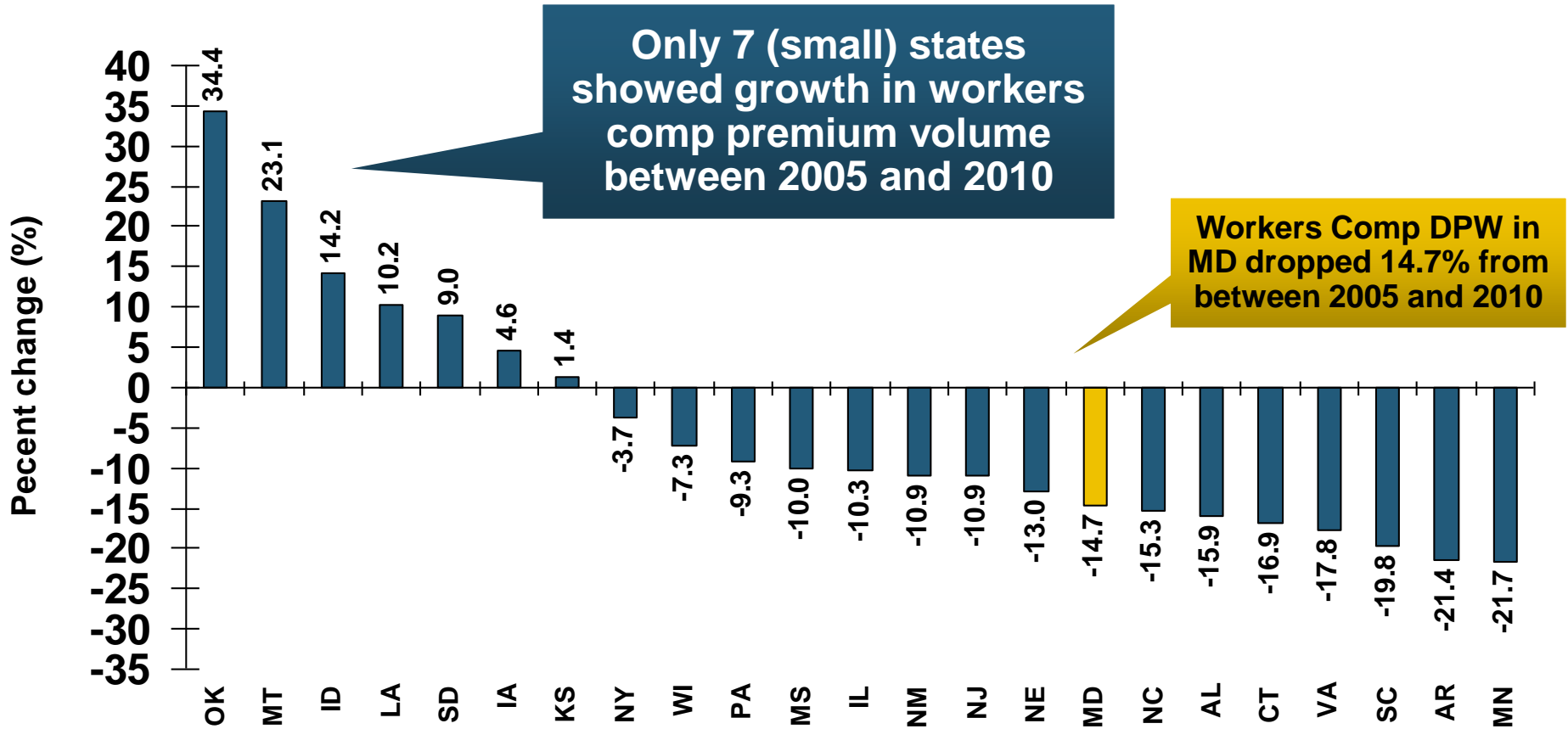
Workers Comp Rate Changes, 2008:Q4 – 2011:Q4

(Percent
Change)



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

Top 25 States

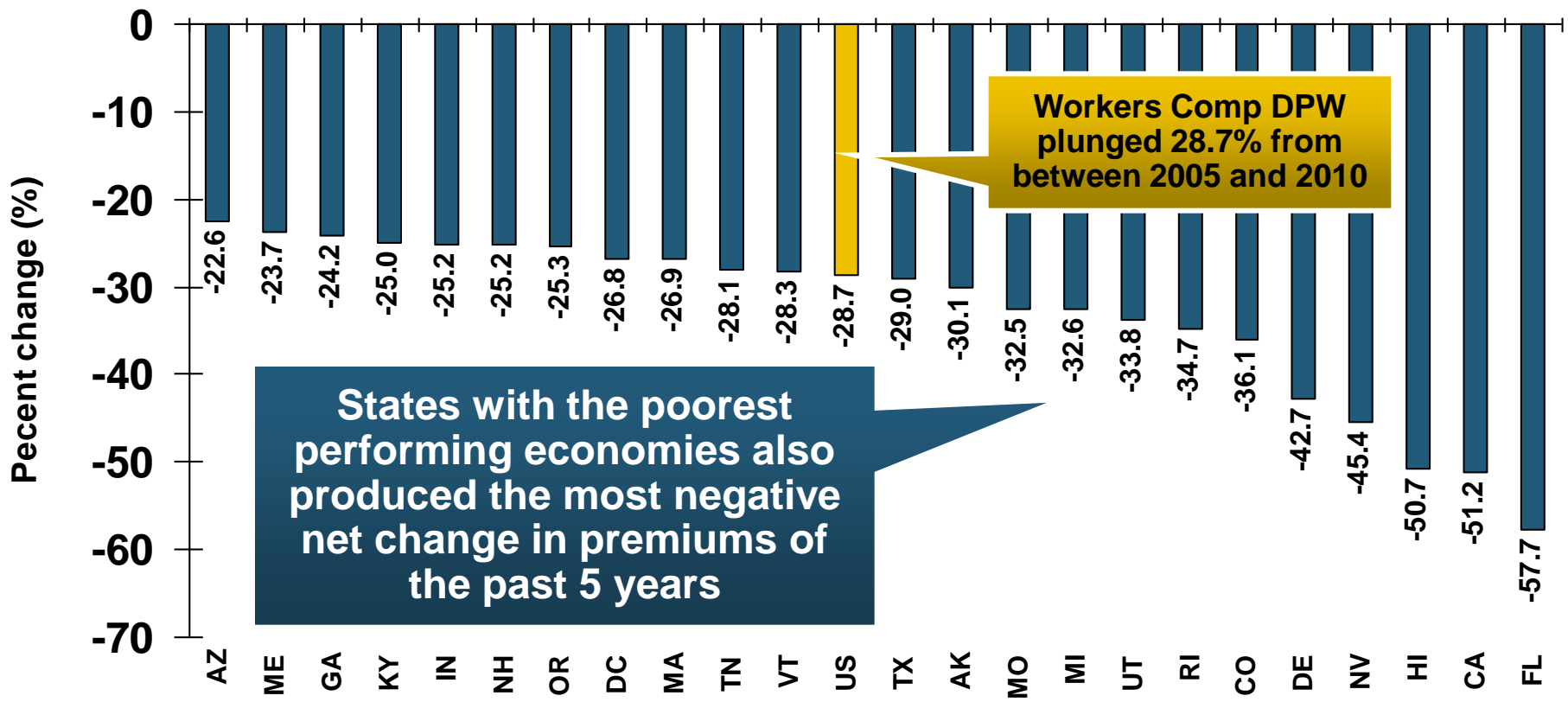


*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

Sources: SNL Financial LC.; Insurance Information Institute.

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

Bottom 25 States



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

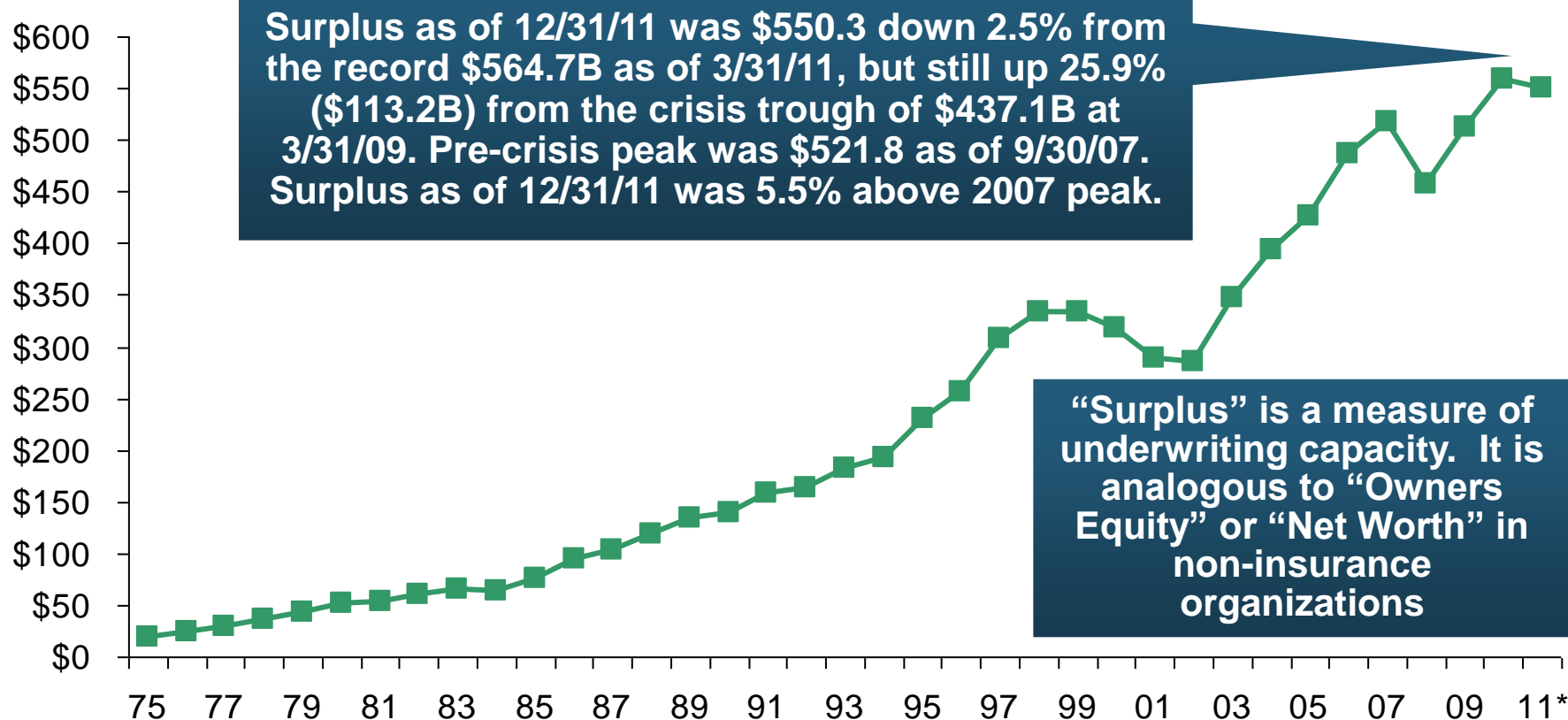
Sources: SNL Financial LC.; Insurance Information Institute.

2. SURPLUS/CAPITAL/CAPACITY

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

US Policyholder Surplus: 1975–2011*

(\$ Billions)

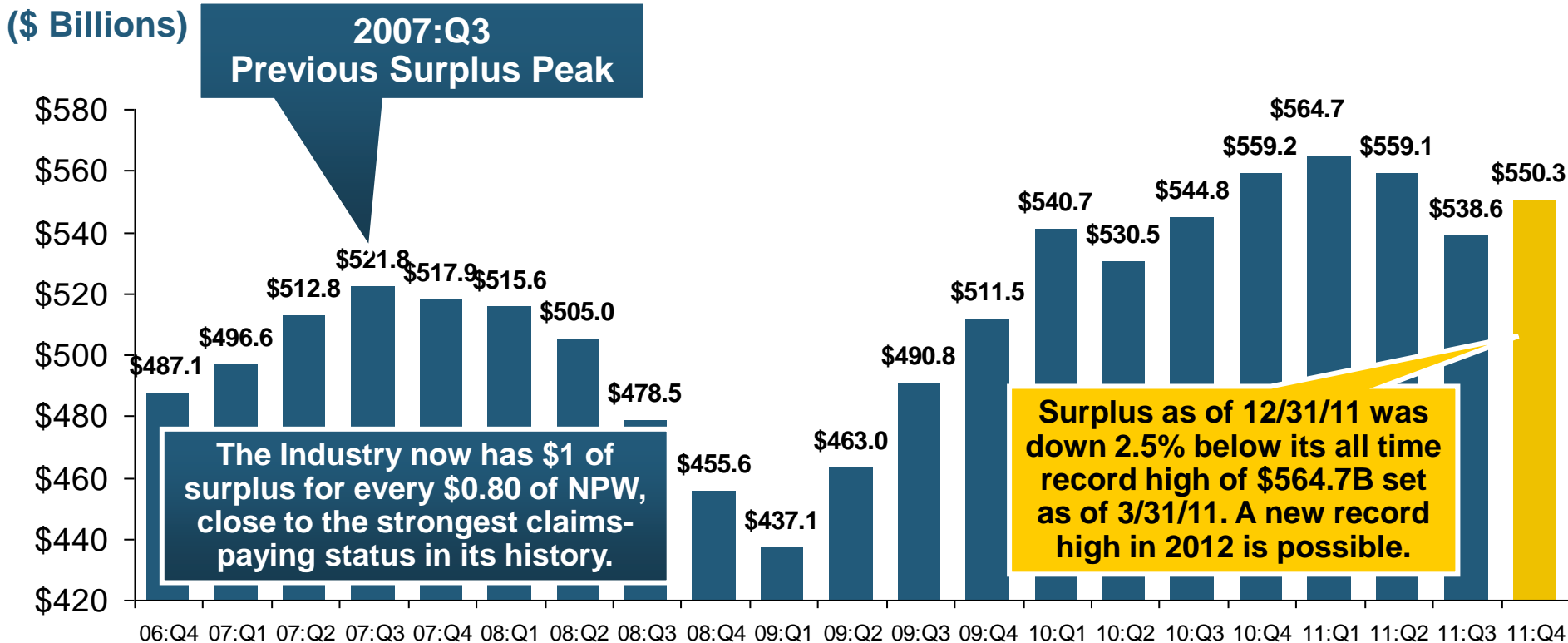


The Premium-to-Surplus Ratio Stood at \$0.80:\$1 as of 12/31/11, A Near Record Low (at Least in Recent History)*

* As of 12/31/11.

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

Policyholder Surplus, 2006:Q4–2011:Q4



Quarterly Surplus Changes Since 2011:Q1 Peak

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

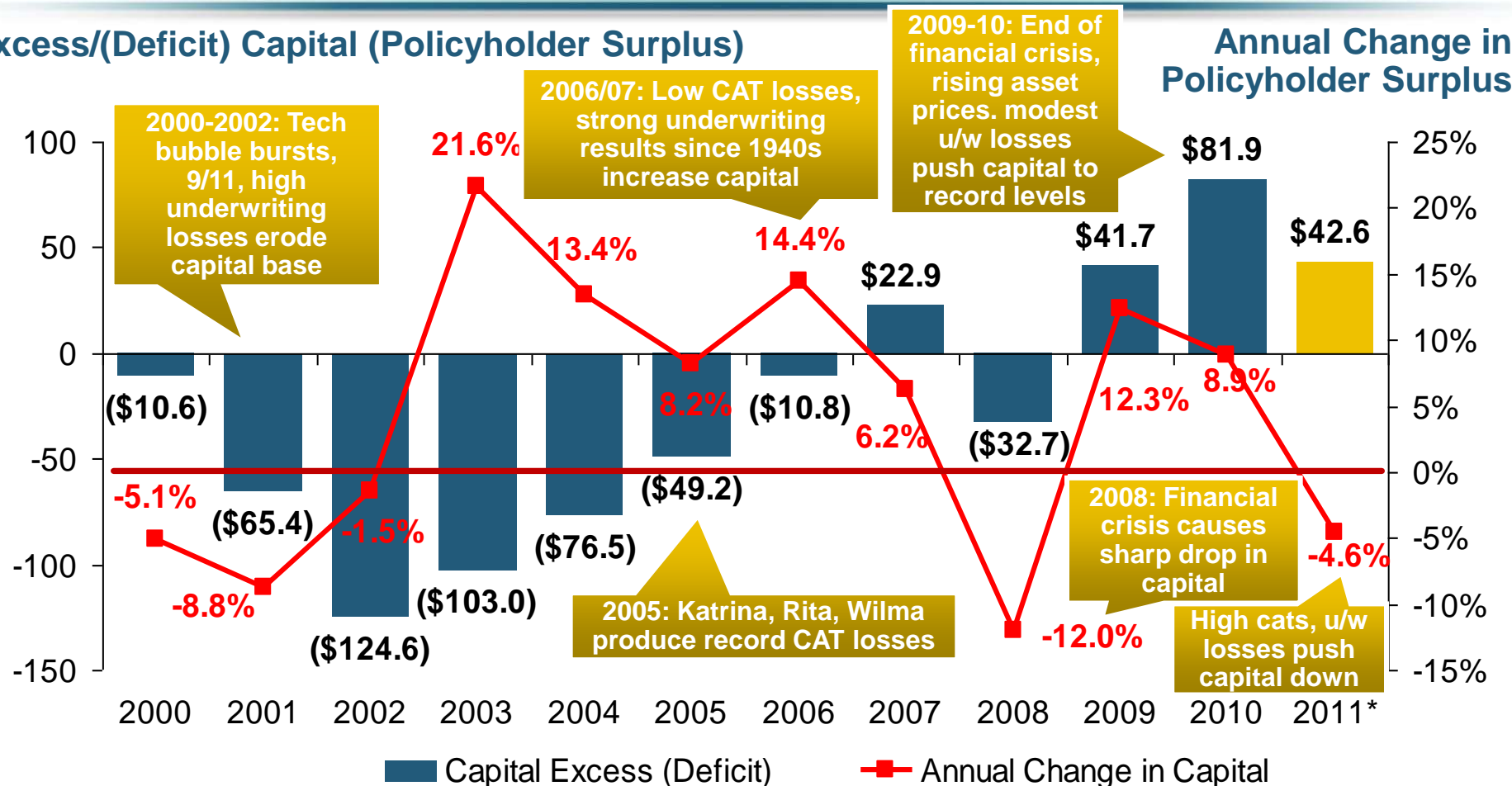
11:Q3: -\$26.1B (-4.6%)

11:Q4: -\$14.3B (-2.5%)

*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.

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

Excess/(Deficit) Capital (Policyholder Surplus)



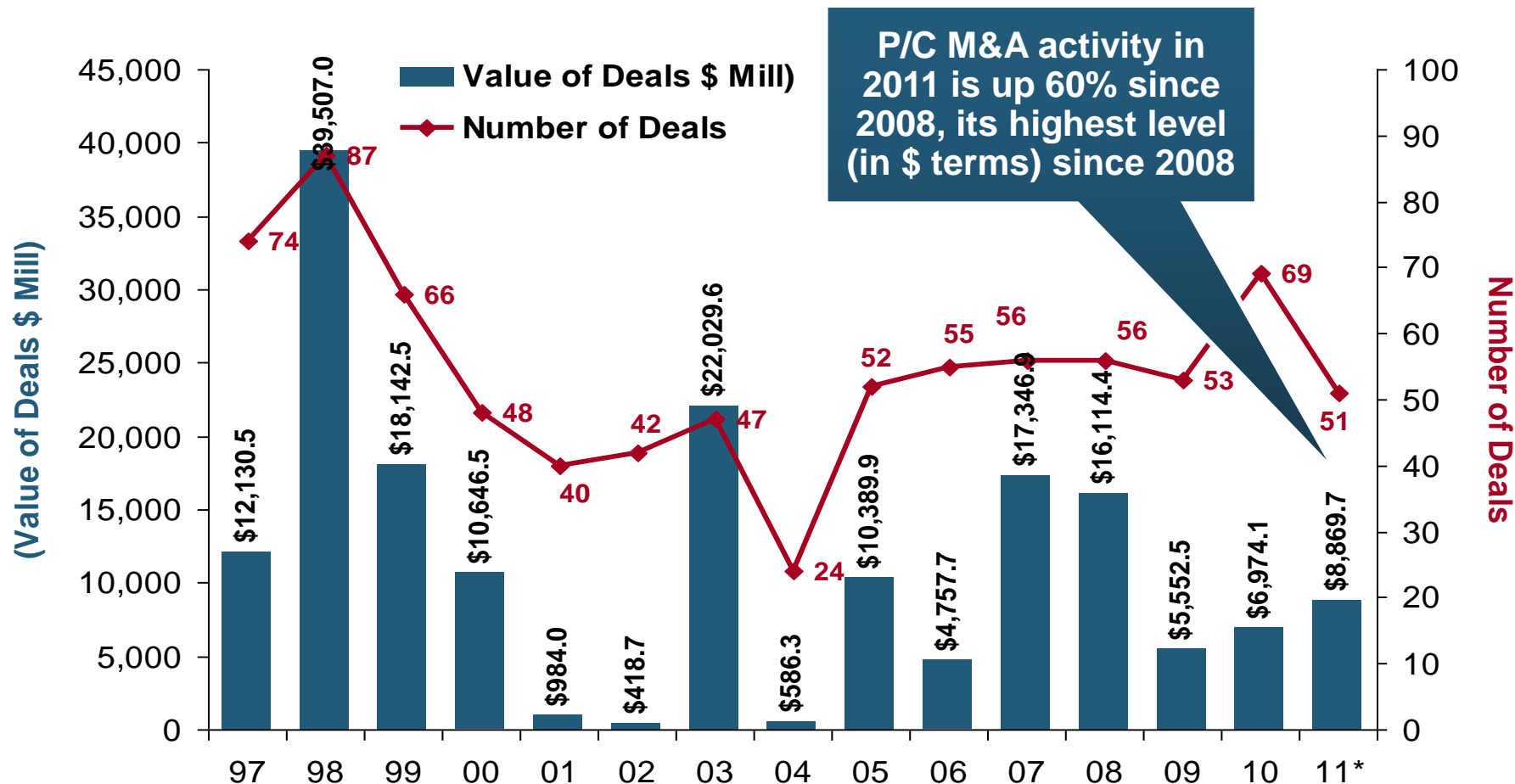
Record Policyholder Surplus (Capital) Resulted in Significant Excess Capital in the P/C Insurance Sector in 2010. Deteriorating Underwriting Losses, Higher CAT Activity, More Modest Market Returns Shrank Excess Capital in 2011 by Nearly Half.

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 125

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



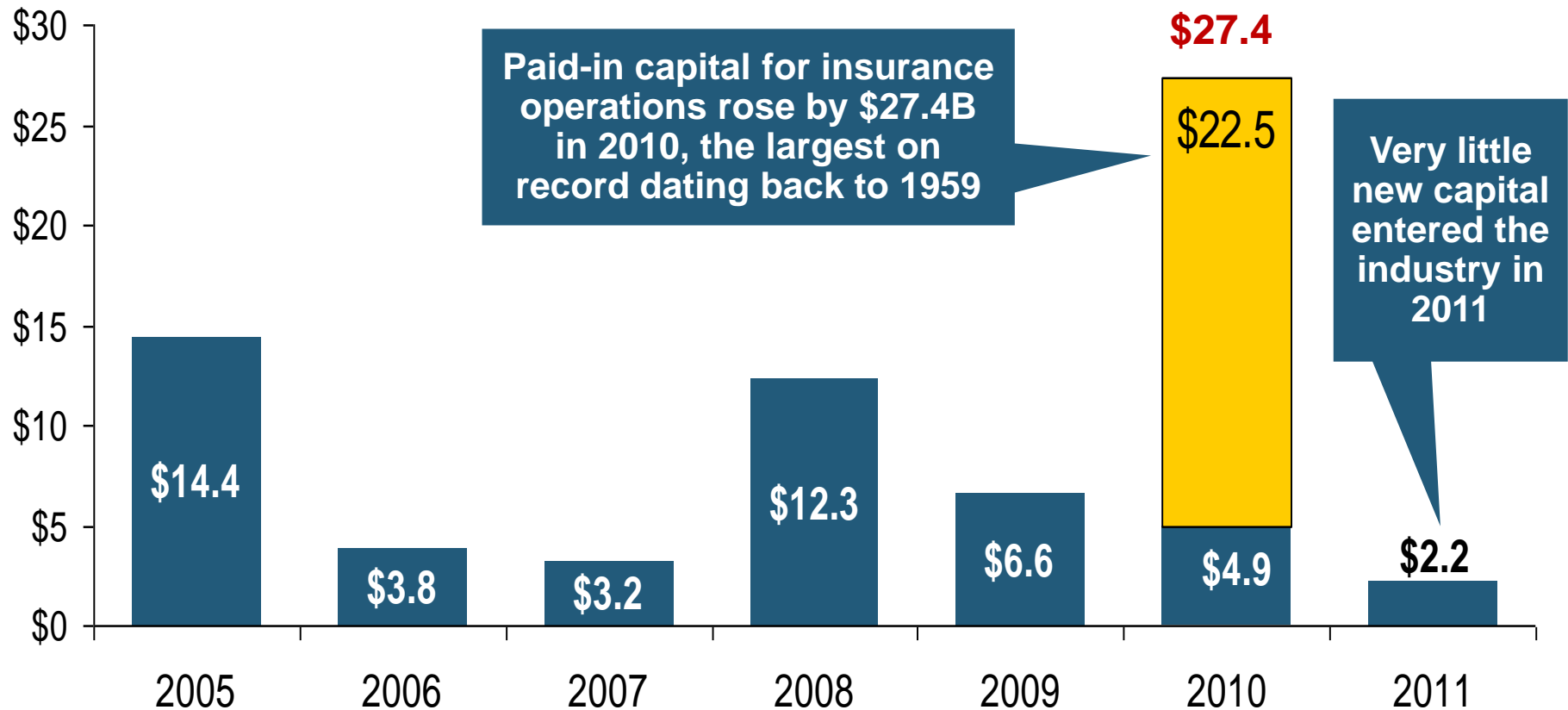
M&A Activity in the P/C Insurance Industry Remains Well Below its 1990s Peak

*2011 data are through December 1.

Source: SNL Securities; Insurance Information Institute.

Paid-in Capital, 2005–2011

(\$ Billions)

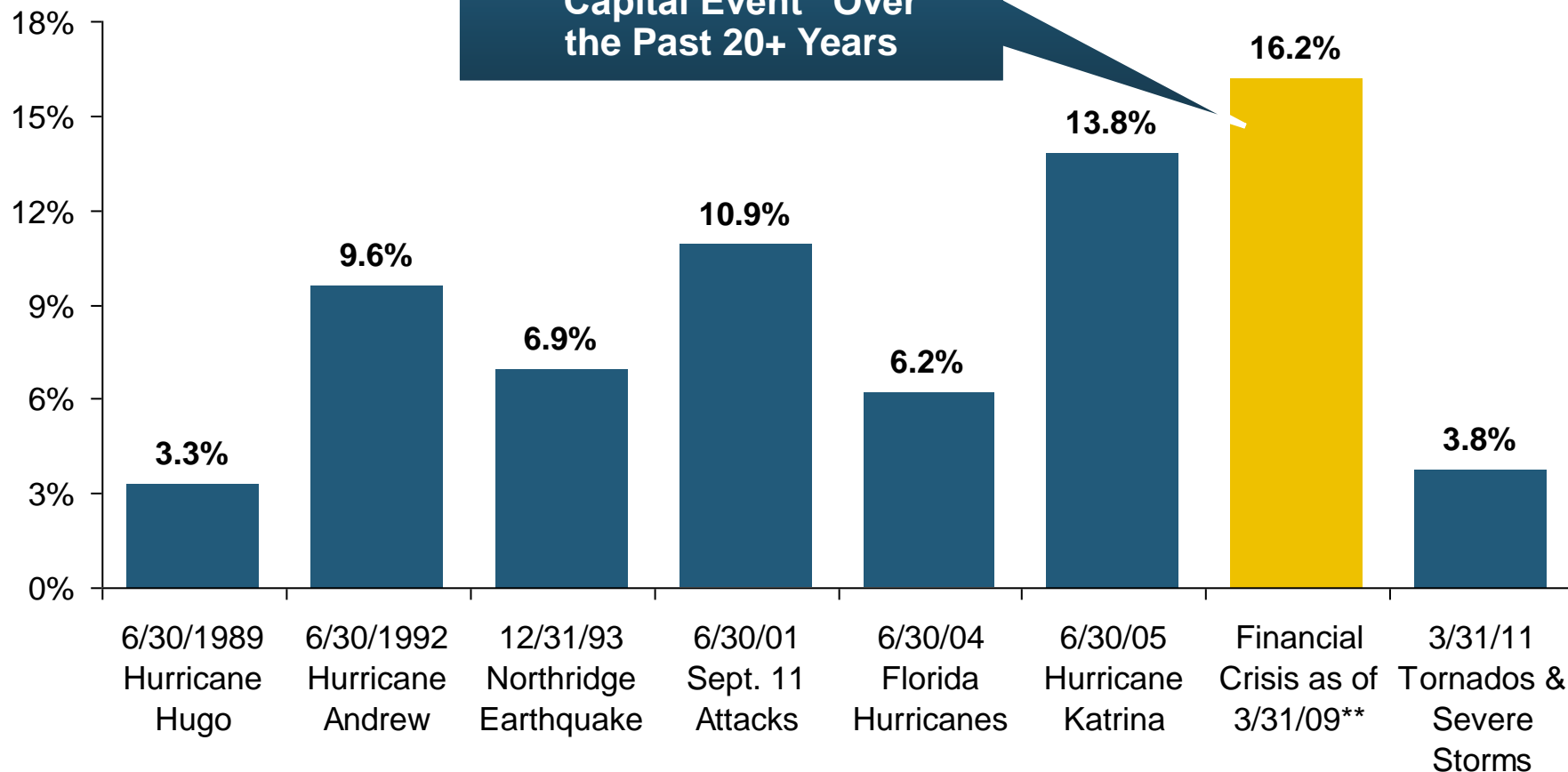


In 2010 One Insurer's Paid-in Capital Rose by \$22.5B as Part of an Investment in a Non-insurance Business

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

(Percent)

The Financial Crisis at its Peak Ranks as the Largest “Capital Event” Over the Past 20+ Years



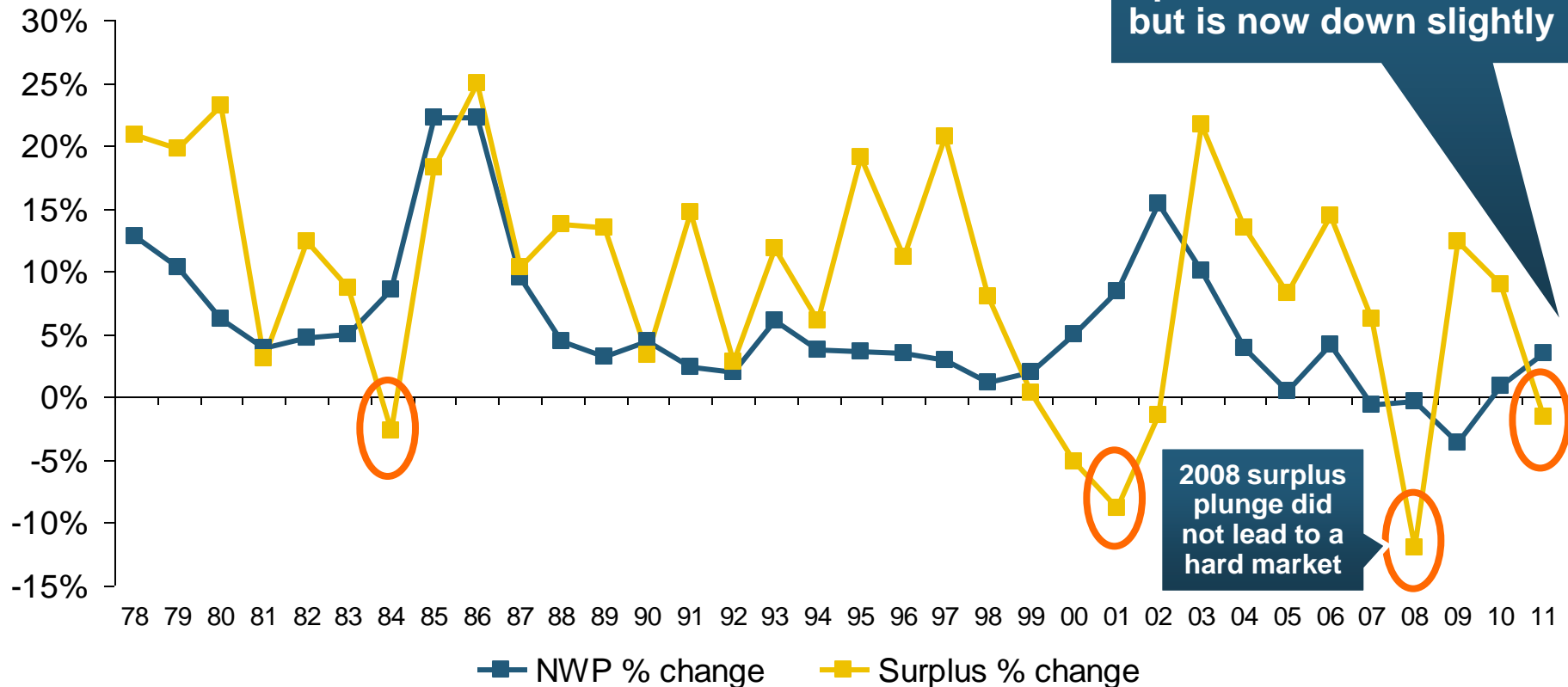
* Ratio is for end-of-quarter surplus immediately after the event. Date shown is end of quarter prior to event

** 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*

(Percent)

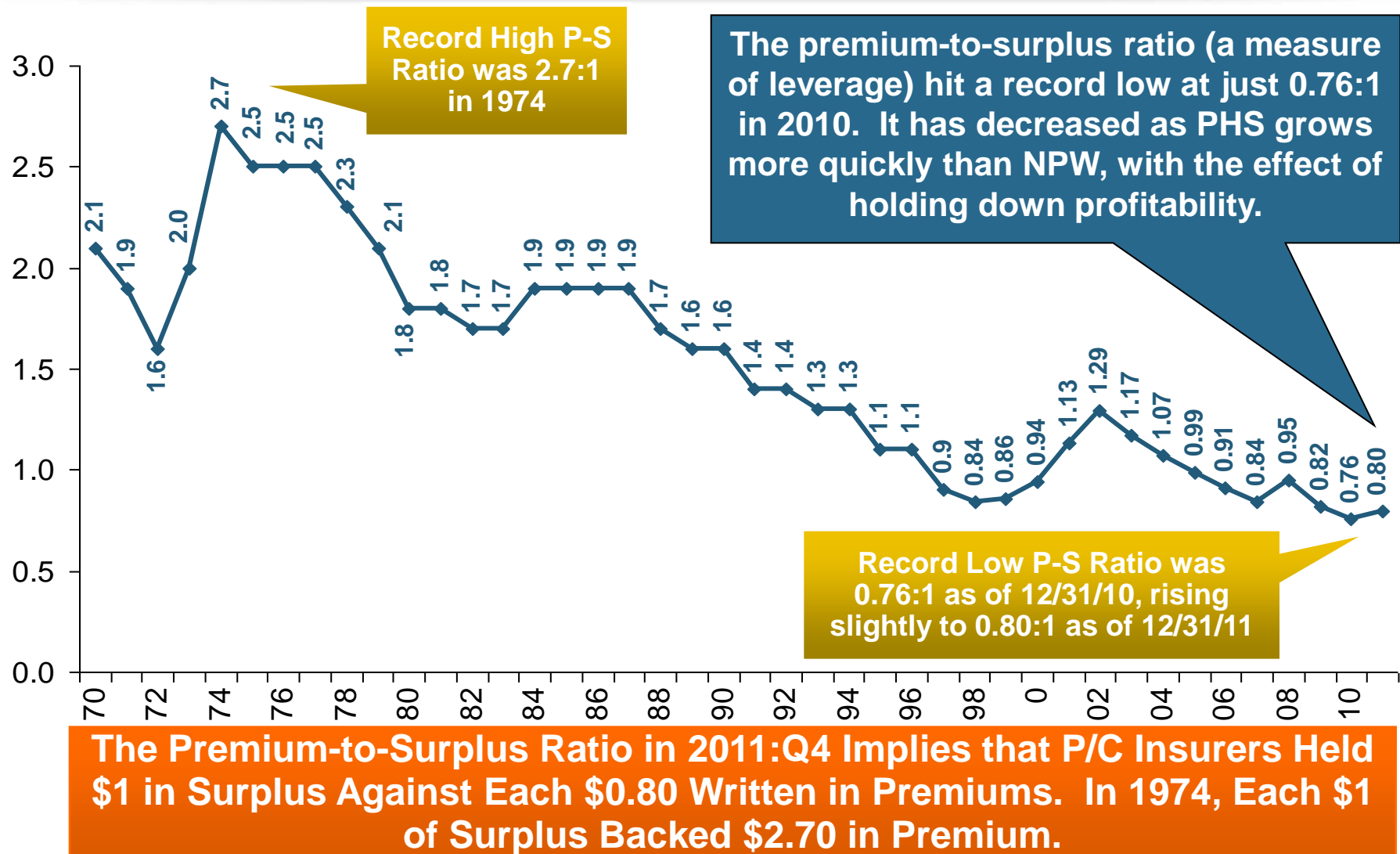


Sharp Decline in Capacity is a Necessary but Not Sufficient Condition for a True Hard Market

* 2011 NWP and Surplus figures are % changes as of Q4:11 vs. Q4:10.

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

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



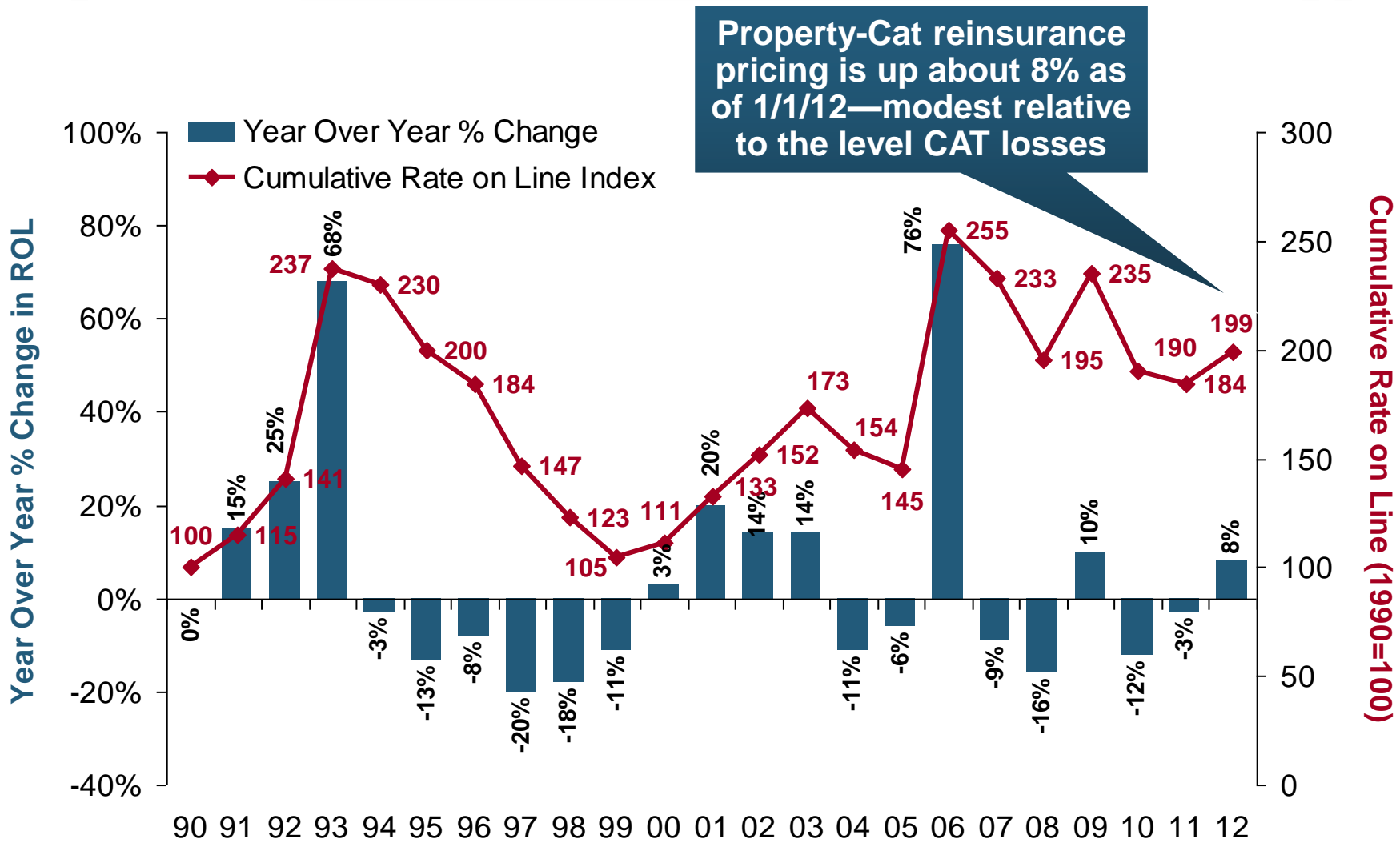
*2011 data are as of 12/31/11.

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

3. REINSURANCE MARKET CONDITIONS

**Record Global
Catastrophes Activity is
Pressuring Pricing**

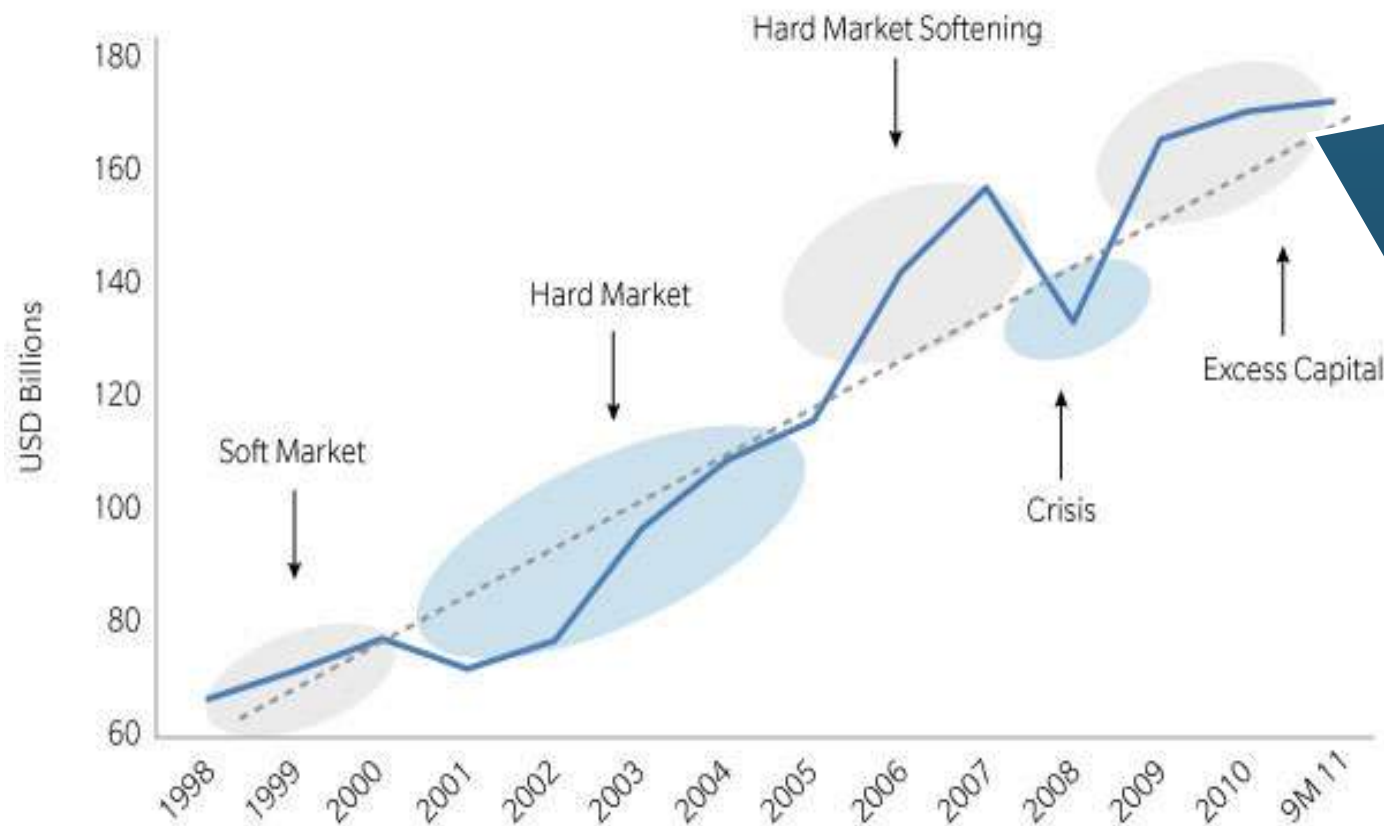
Global Property Catastrophe Rate on Line Index, 1990—2012 (as of Jan. 1)



Sources: Guy Carpenter; Insurance Information Institute.

Historical Capital Levels of Guy Carpenter Reinsurance Composite, 1998—3Q11

LONG-TERM EVOLUTION OF SHAREHOLDERS' FUNDS
FOR THE GUY CARPENTER GLOBAL REINSURANCE COMPOSITE

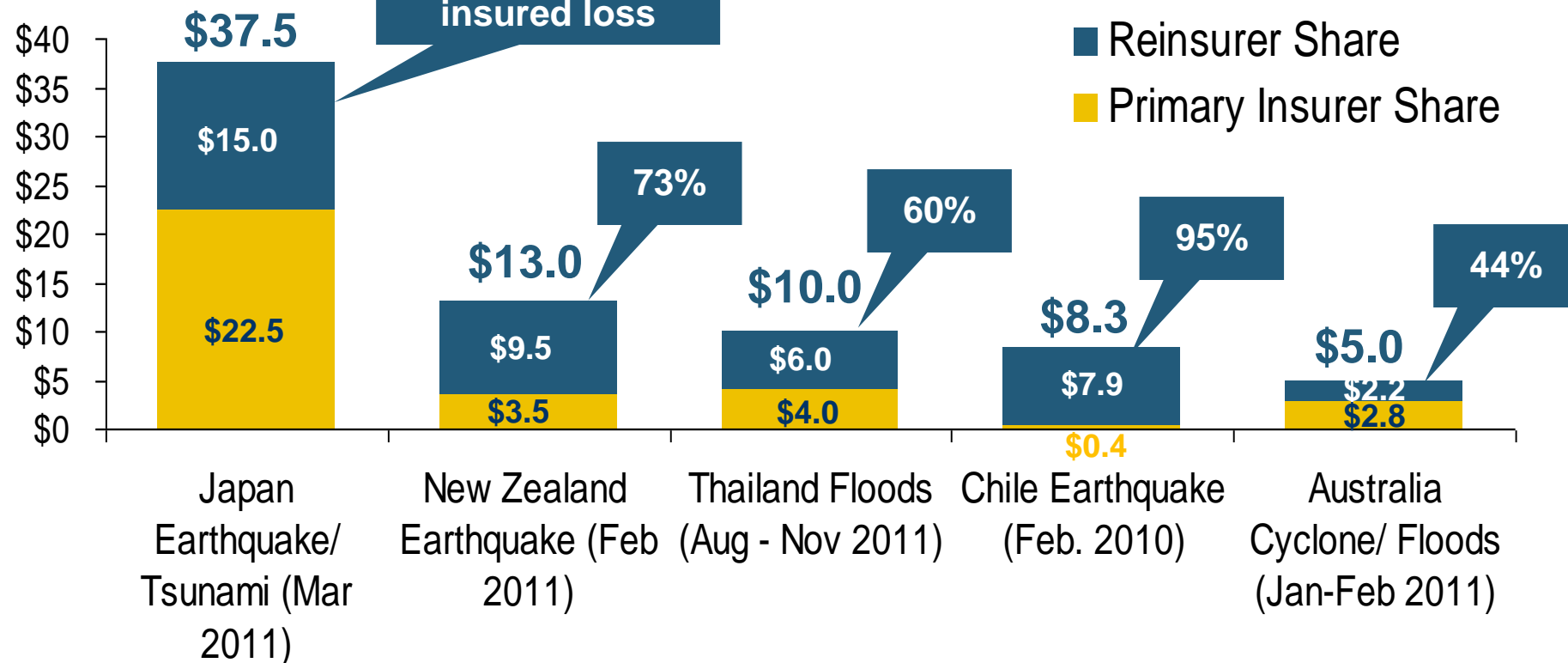


Source: Guy Carpenter & Company, LLC

Most excess reinsurance capacity was removed from the market in 2011, but there does not appear to be a shortage, leading to modest increases in 2012 reinsurance renewals except in areas hit hard by CATs.

Reinsurer Share of Recent Significant Market Losses

Billions of 2011
Dollars



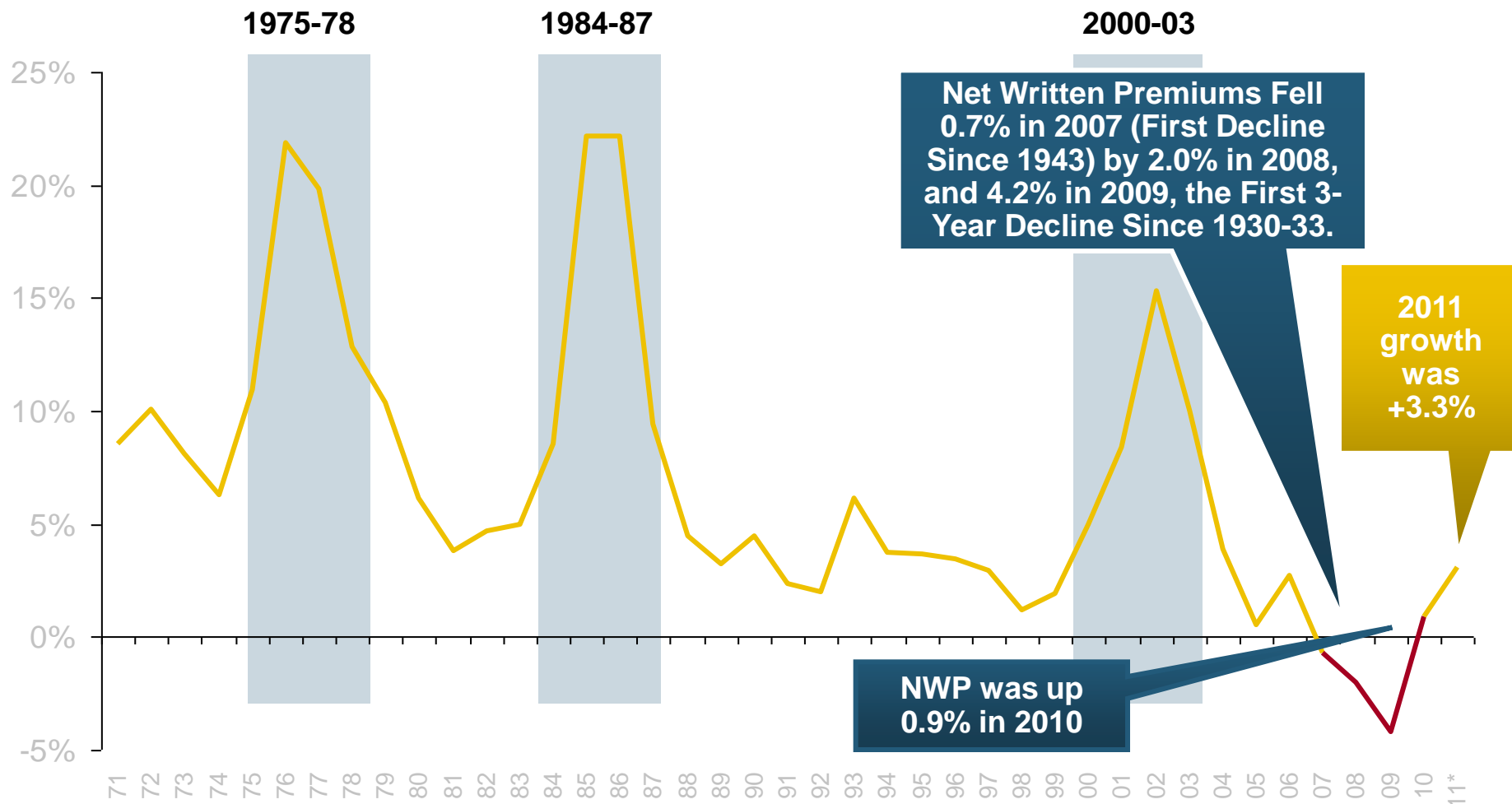
Reinsurers Paid a High Proportion of Insured Losses Arising from Major Catastrophic Events Around the World in Recent Years

4. RENEWED PRICING DISCIPLINE

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

Premium Growth Is Up Modestly: More in 2012?

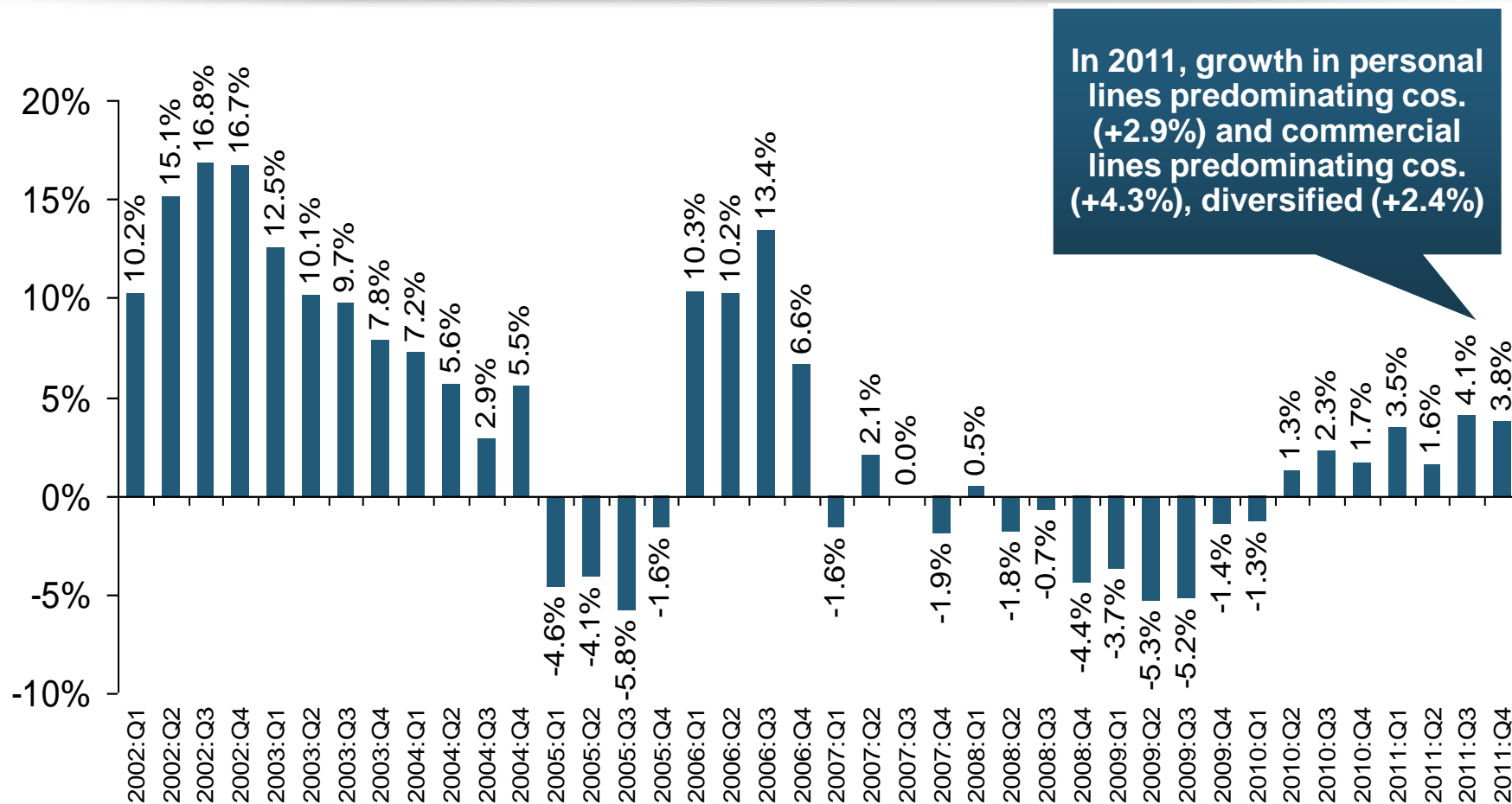
(Percent)



Shaded areas denote "hard market" periods

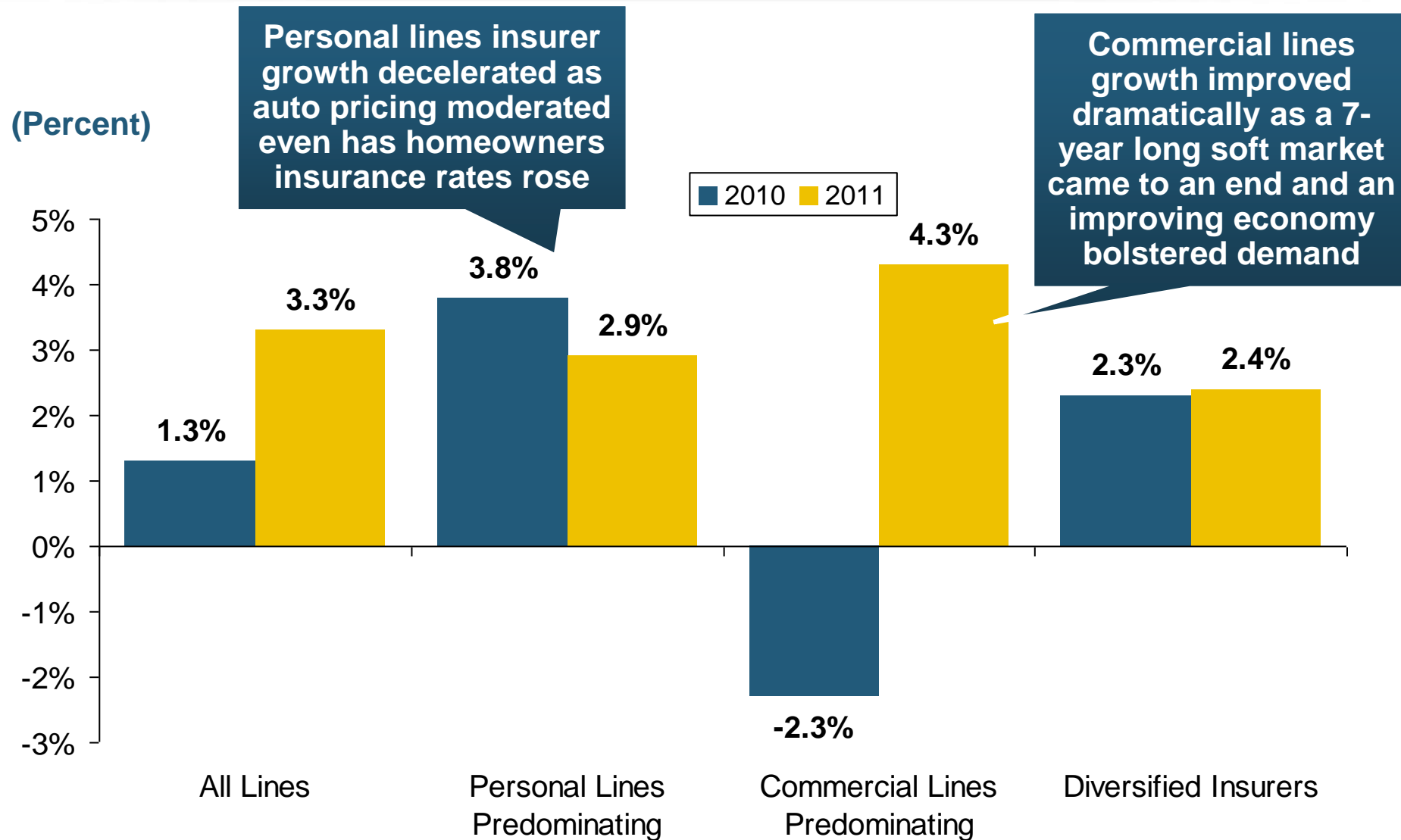
Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute.

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

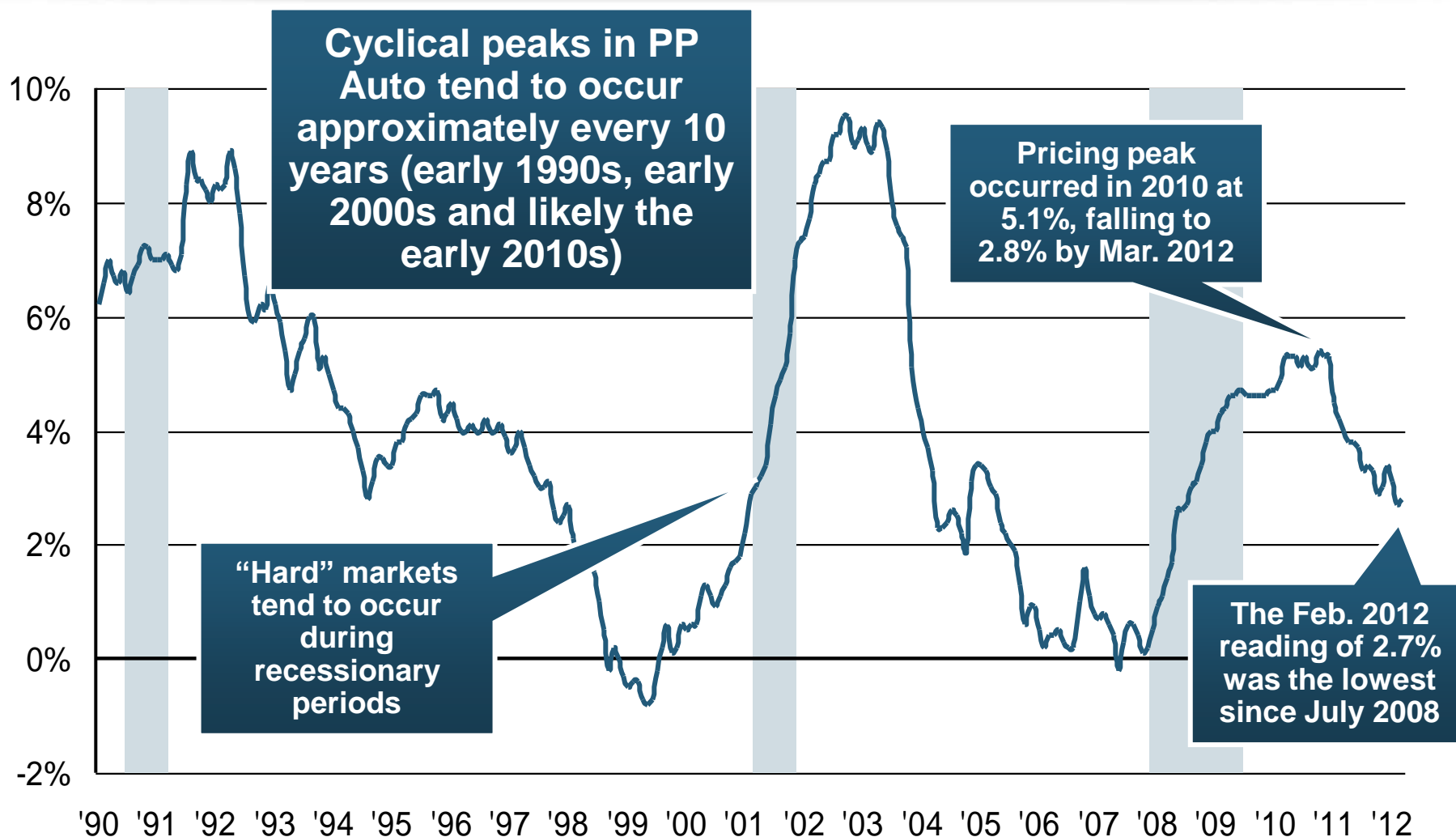


**Finally! Back-to-back quarters of net written premium growth
(vs. the same quarter, prior year)**

Growth in Net Written Premium by Segment, 2011 vs. 2010



Monthly Change* in Auto Insurance Prices, 1991–2012*



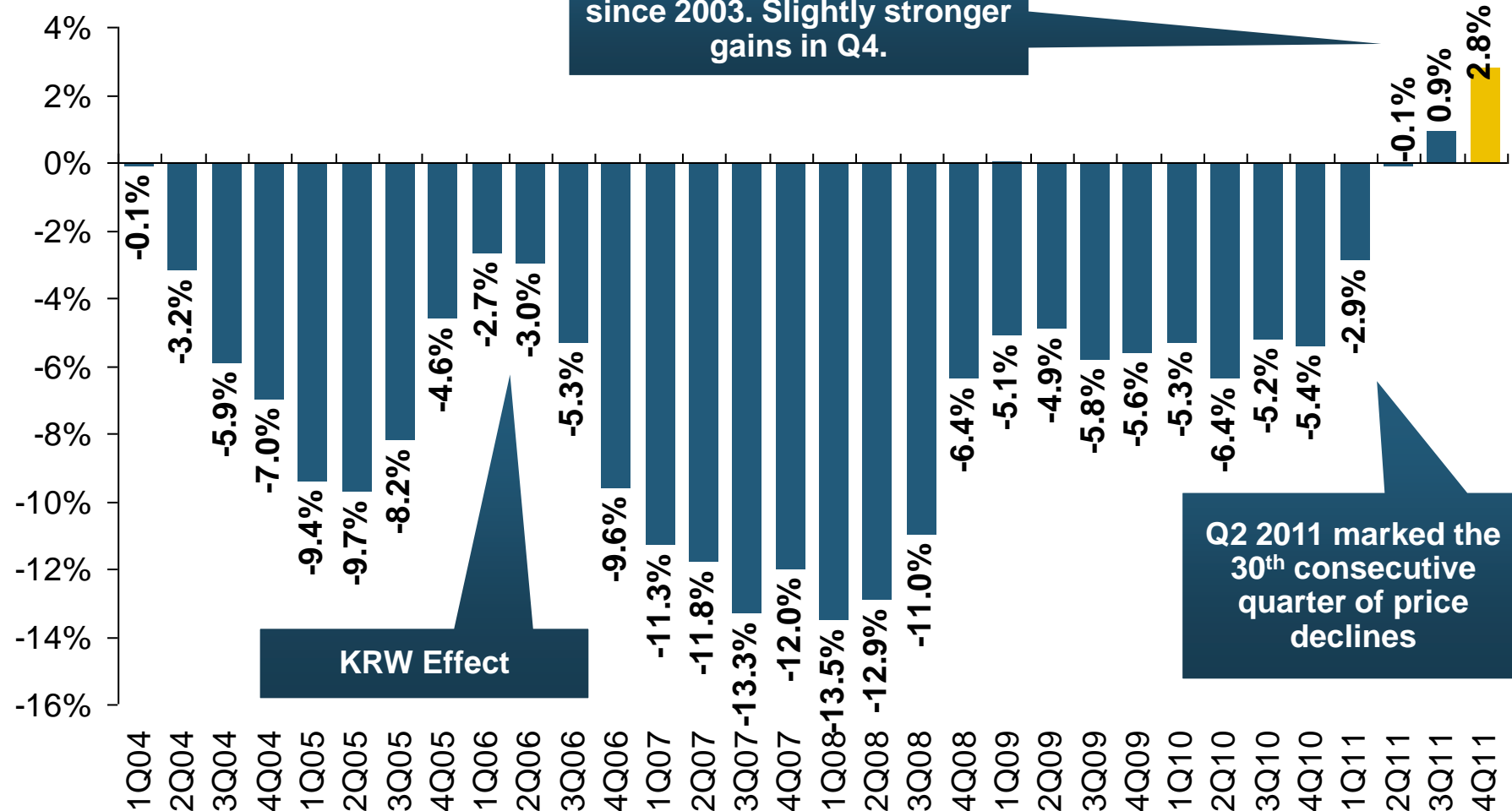
*Percentage change from same month in prior year; through March 2012; seasonally adjusted

Note: Recessions indicated by gray shaded columns.

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

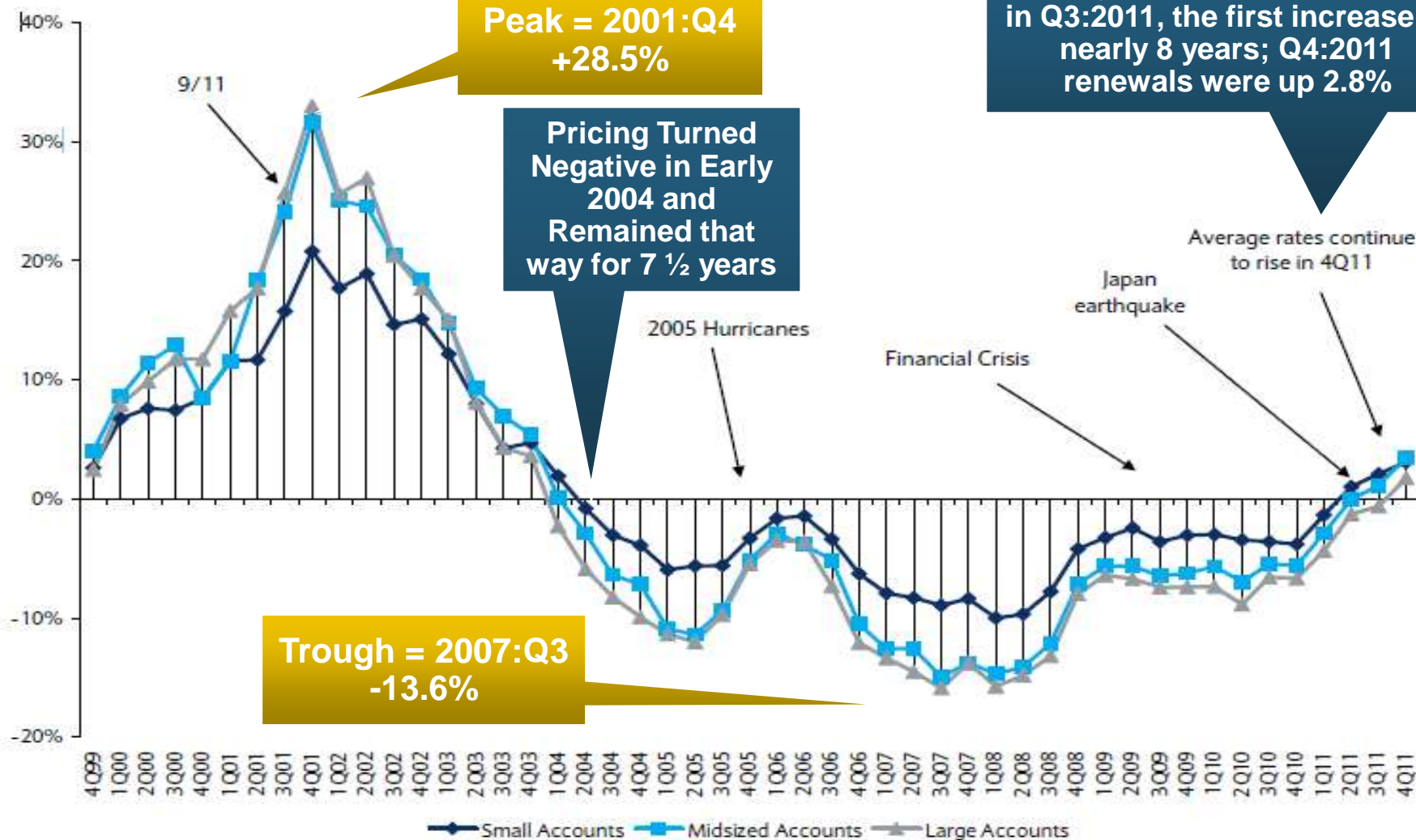
Average Commercial Rate Change, All Lines, (1Q:2004–4Q:2011)

(Percent)



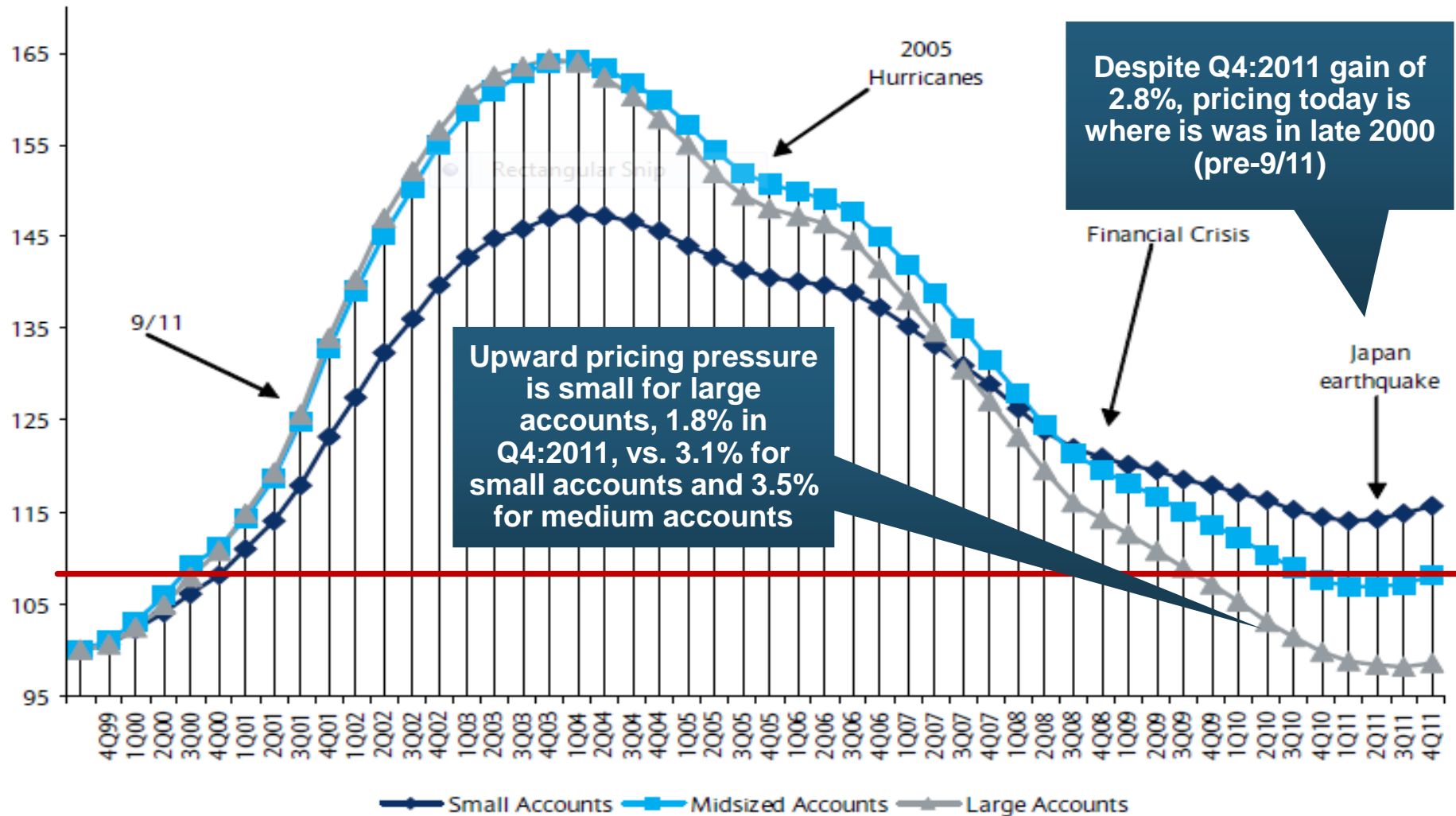
Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2011:Q4

Percentage Change (%)

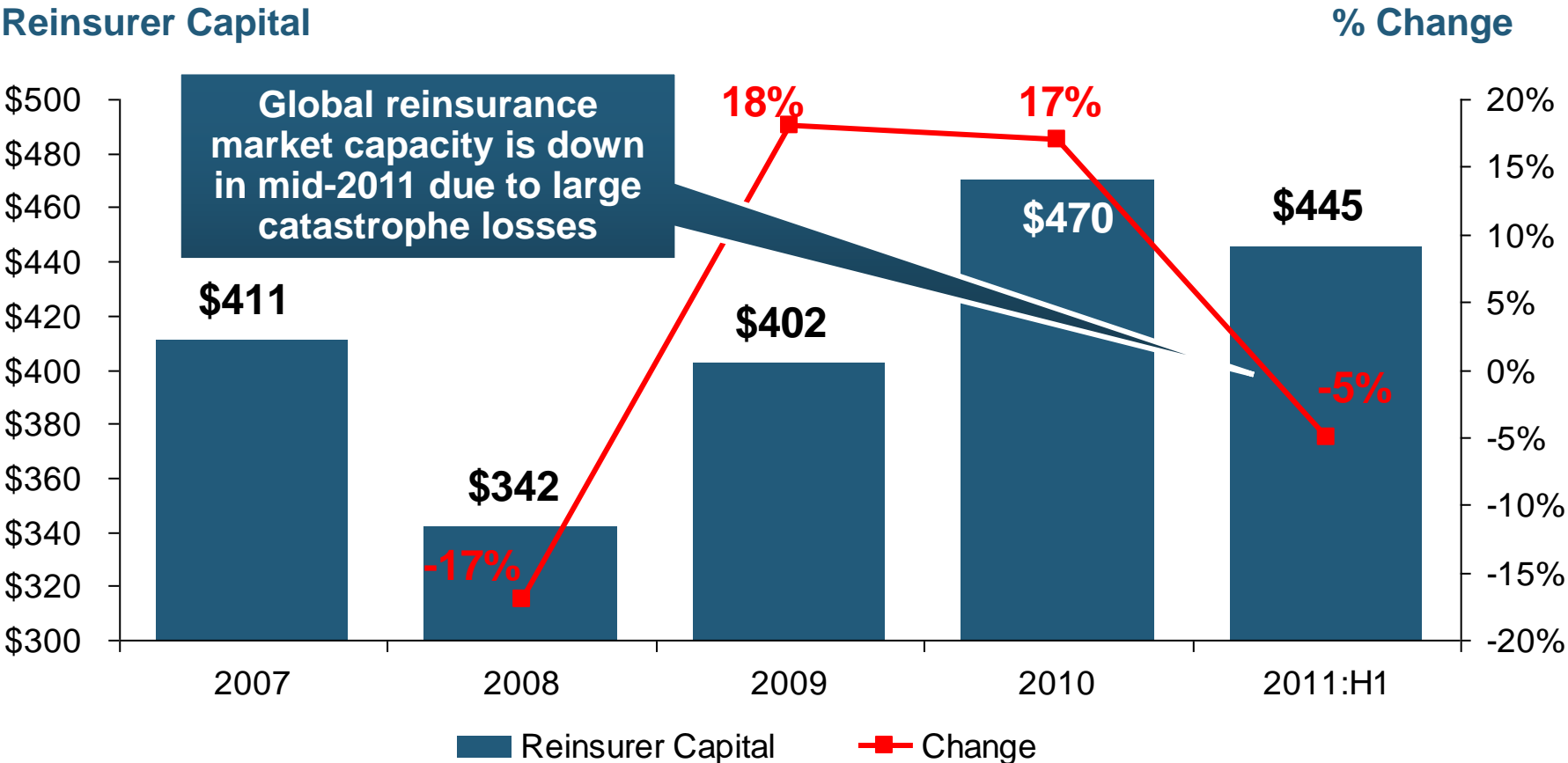


Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2011:Q4

1999:Q4 = 100



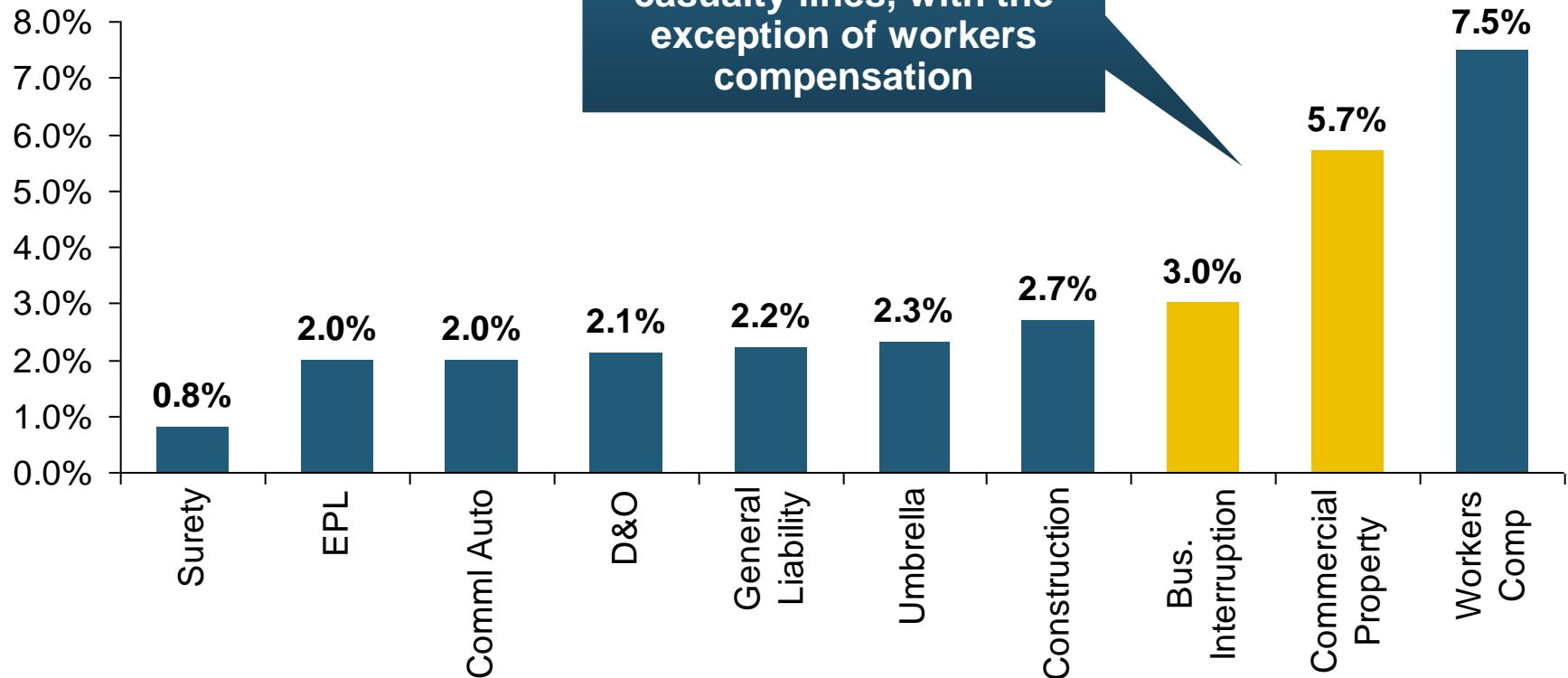
Global Reinsurance Capital, 2007-2011:H1



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

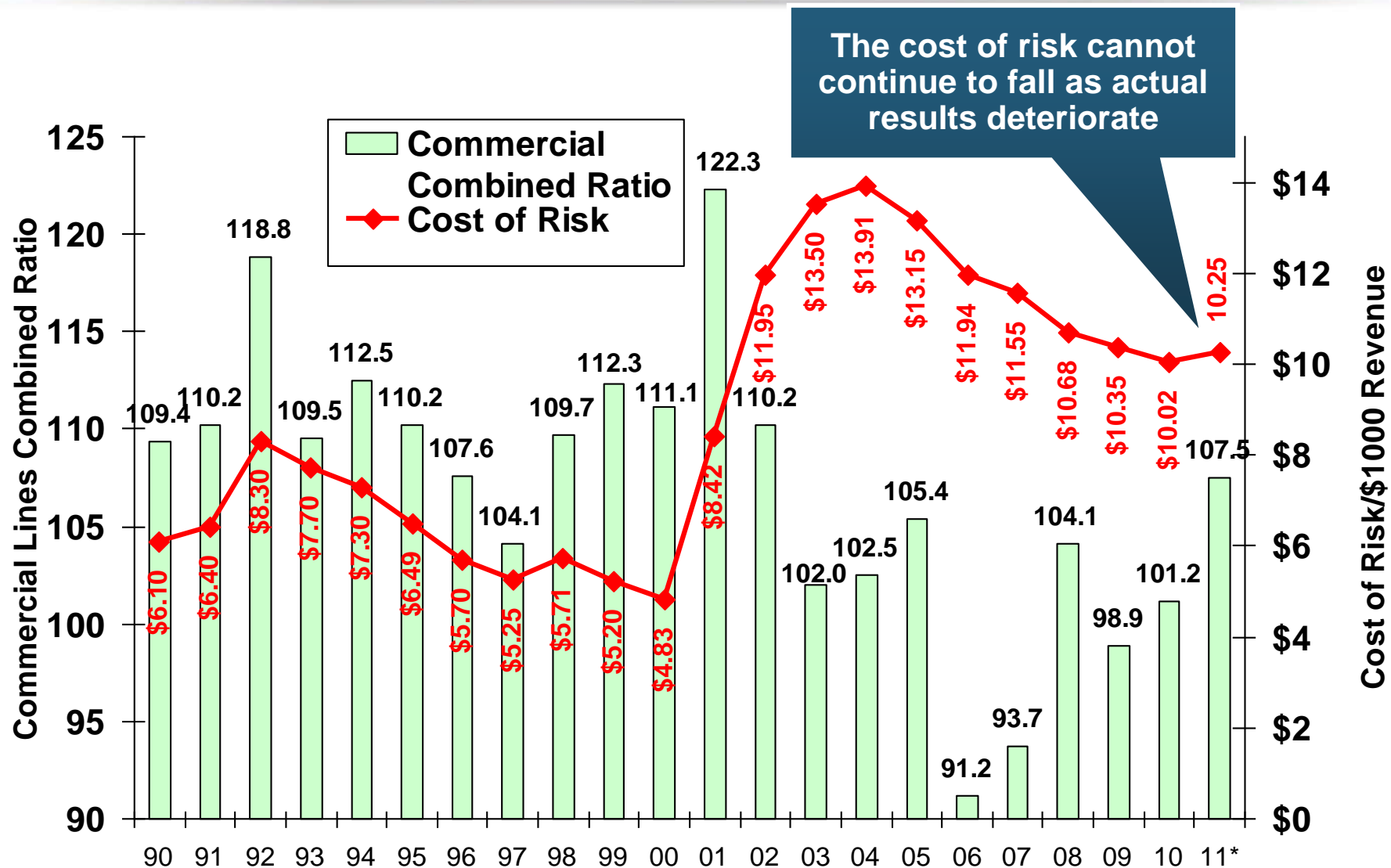
Change in Commercial Rate Renewals, by Line: 2011:Q4

Percentage Change (%)



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

Cost of Risk vs. Commercial Lines Combined Ratio



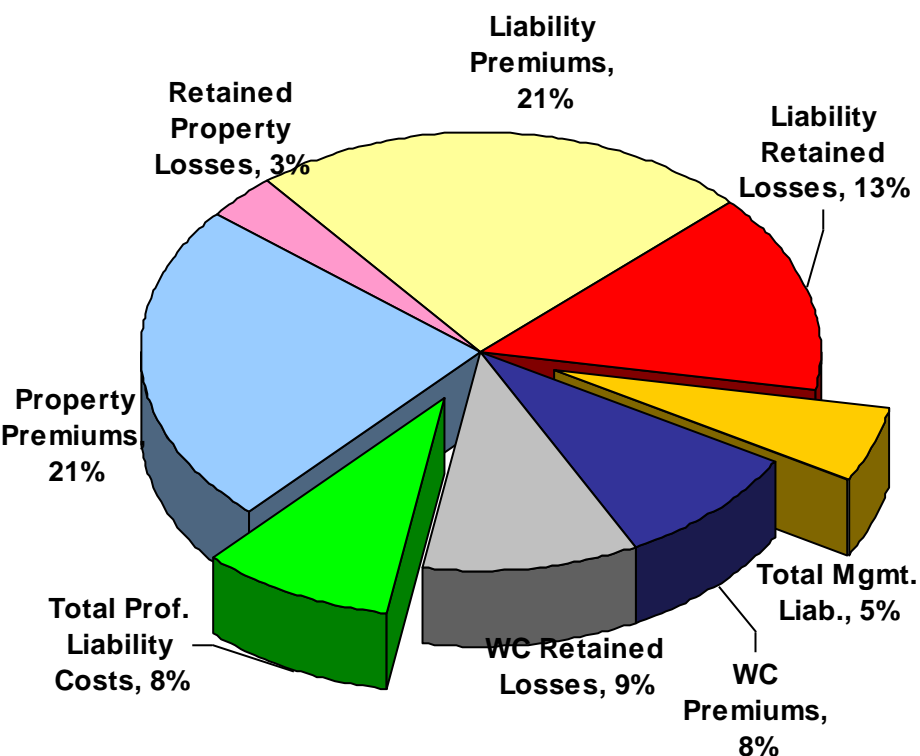
*Insurance Information Institute estimates for 2011.

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

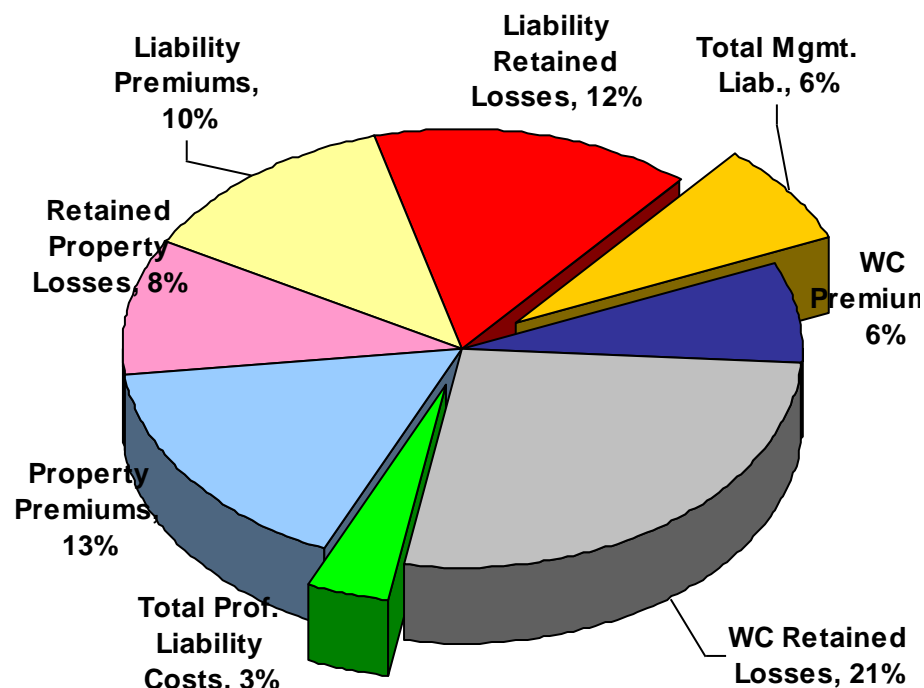
How the Risk Dollar is Spent (2011)

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

Firms w/Revenues < \$1 Billion

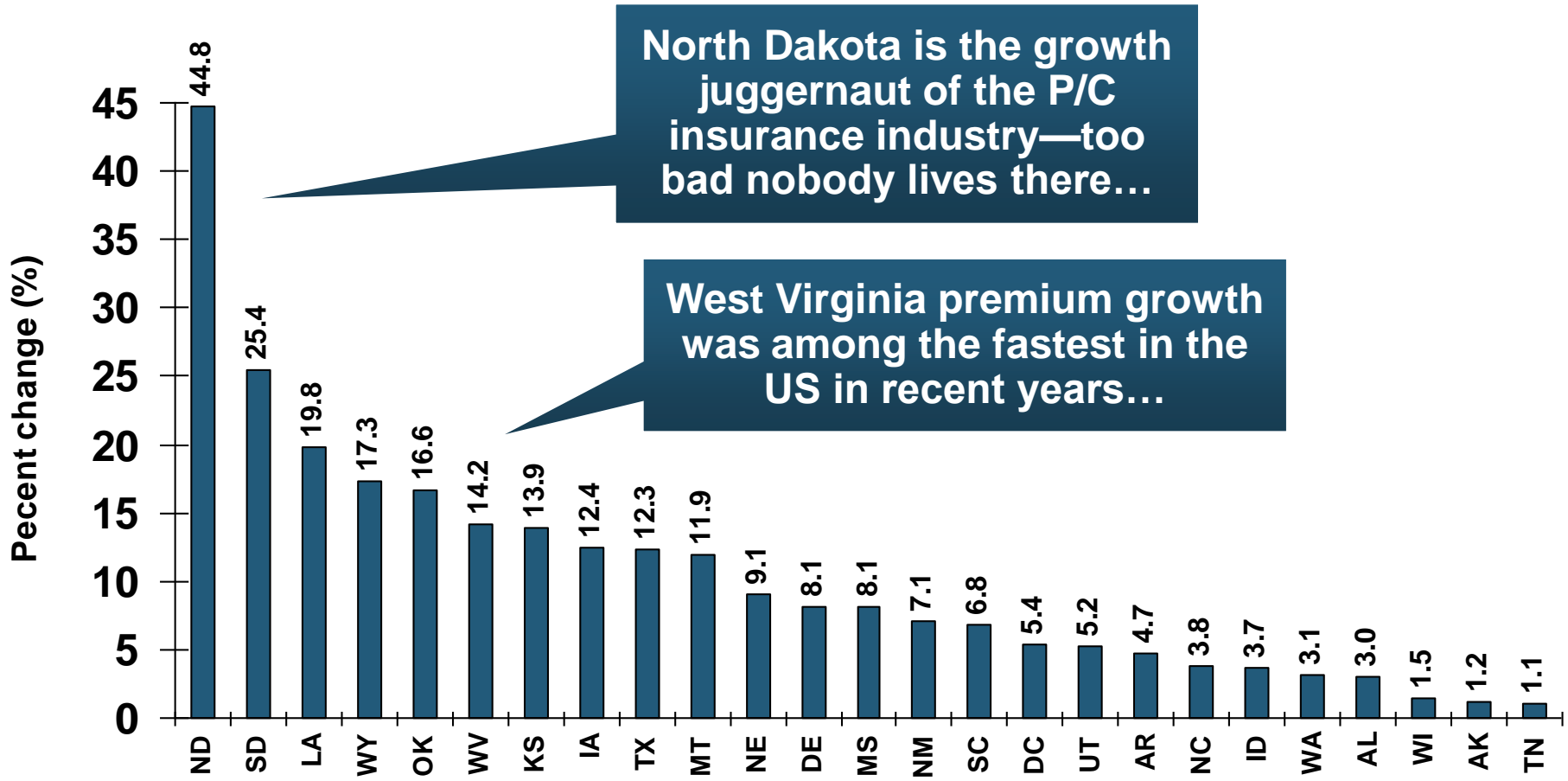


Firms w/Revenues > \$1 Billion

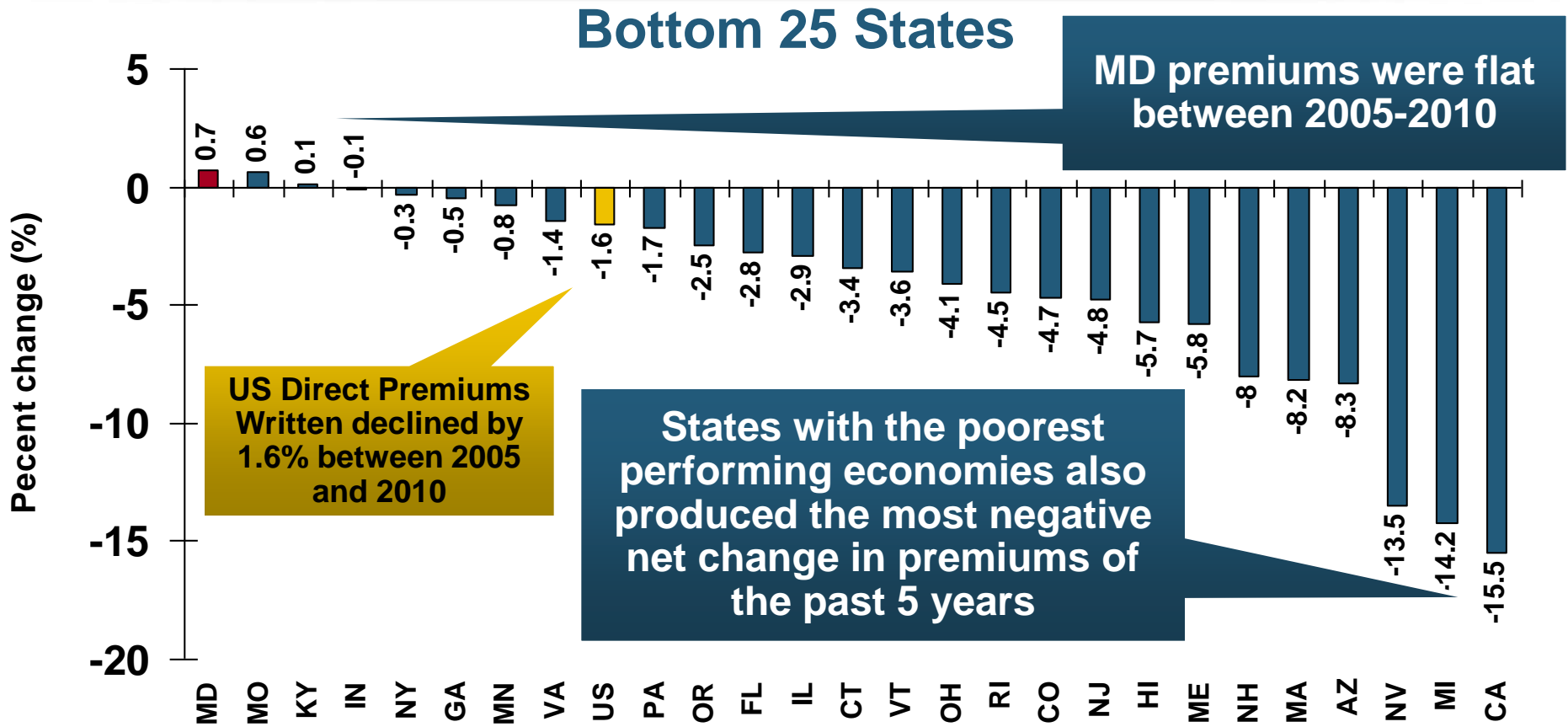


Direct Premiums Written: All P/C Lines Percent Change by State, 2005-2010

Top 25 States



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



Other Cycle-Influencing Factors

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

INVESTMENTS: THE NEW REALITY

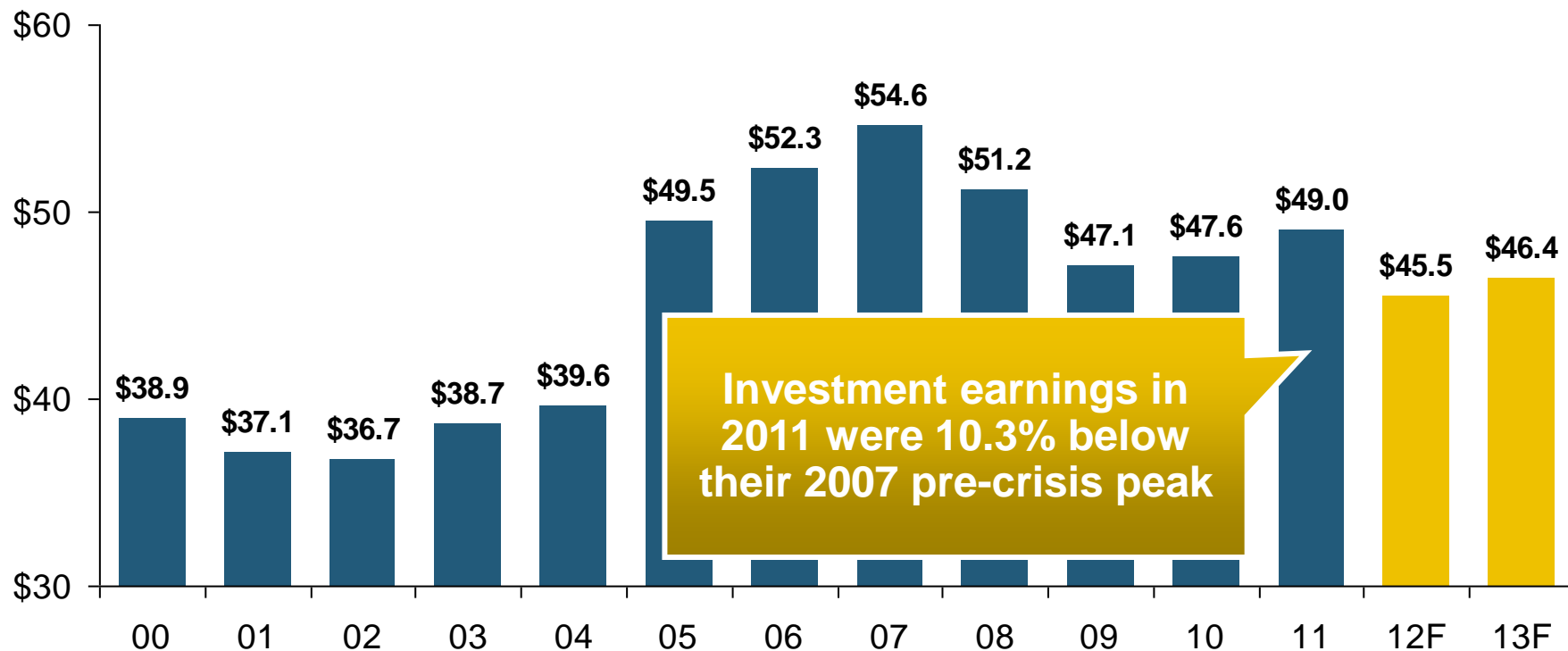
**Investment Performance is a
Key Driver of Profitability
*Does It Influence
Underwriting or Cyclicalities?***

Insurers Have Not Yet Fully Adapted to a Persistently Low Interest Rate Environment

- **No Expectation that Rates Would Be:**
 - ◆ **Pushed to Such Low Levels**
 - ◆ **Pushed Down so Rapidly**
 - ◆ **Held to Such Low Levels for So Long**
 - ◆ **Suppressed via Unprecedented Aggressiveness of the Federal Reserve**
 - **Use of traditional and unconventional tools (QE)**
 - **Unconventional 's policies couldn't be anticipated, esp. QE1, 2 (3?)**
- **Competitive Pressure→Protracted Soft Market**
- **Ability to Release Prior Reserves Eases Urgency**
- **Realization of Capital Gains**

Property/Casualty Insurance Industry Investment Income: 2000–2013F¹

(\$ Billions)



Investment Income in 2011 Was Surprisingly Strong, Though Investment Income Is Likely to Weaken in 2012 Due to Persistently Low Interest Rates

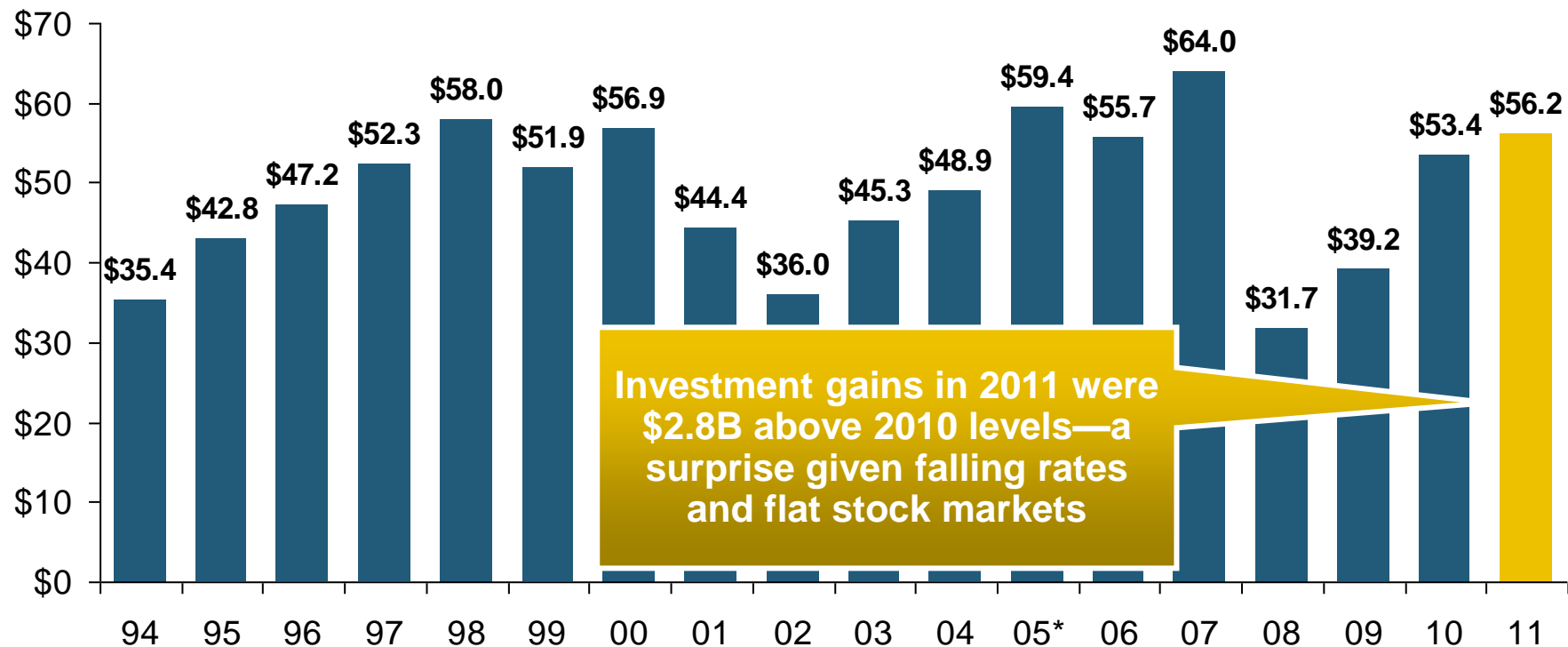
¹ Investment gains consist primarily of interest and stock dividends.

*2012F–2013F based on Conning projections.

Sources: ISO; Conning Research & Consulting; Insurance Information Institute.

Property/Casualty Insurance Industry Investment Gain: 1994–2011:Q4¹

(\$ Billions)



Investment Gains in 2011 Were Surprisingly Robust. Investment Gains Recovered Significantly in 2011 Due to Realized Investment Gains; The Financial Crisis Caused Investment Gains to Fall by 50% in 2008

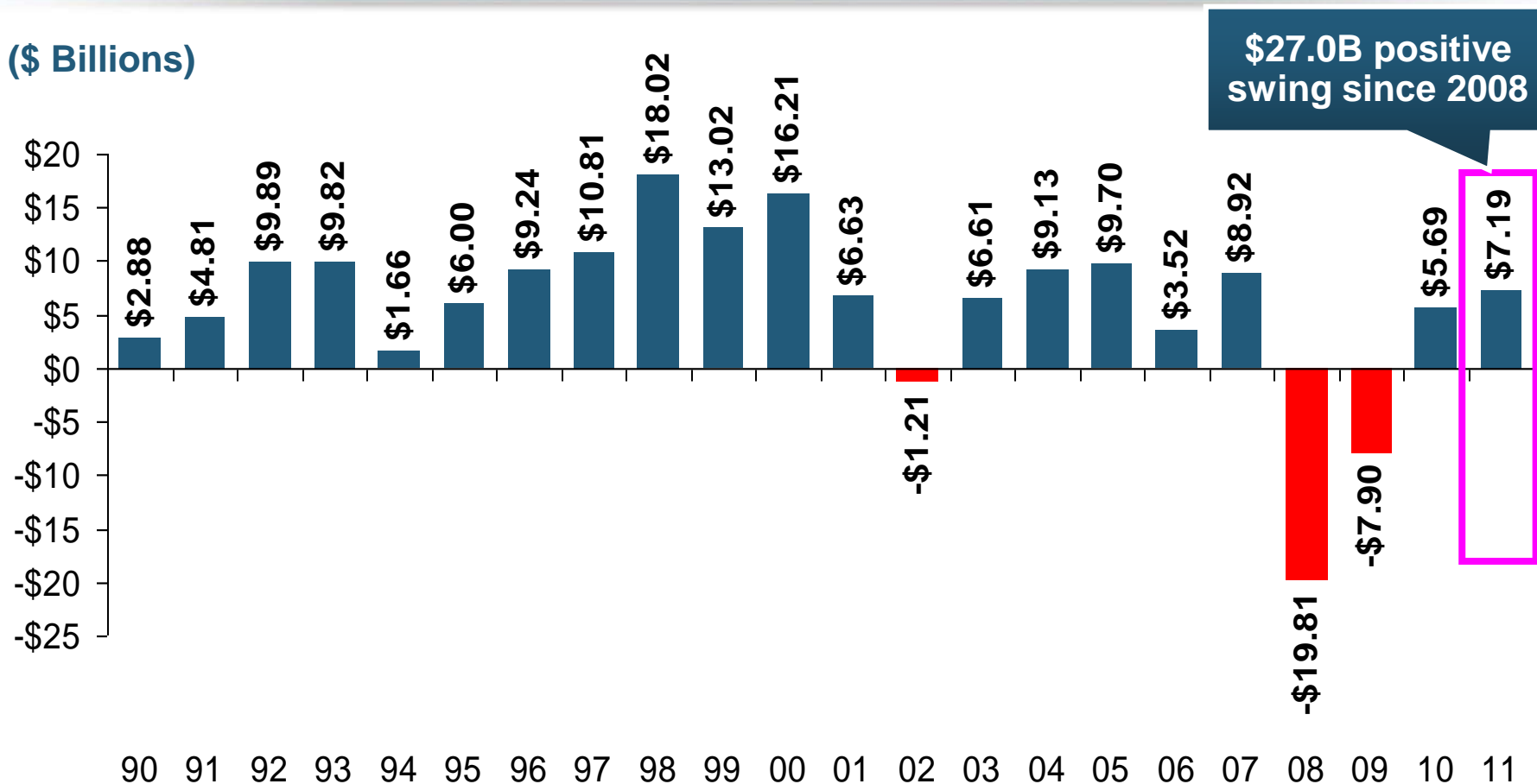
¹ Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.

* 2005 figure includes special one-time dividend of \$3.2B.

Sources: ISO; Insurance Information Institute.

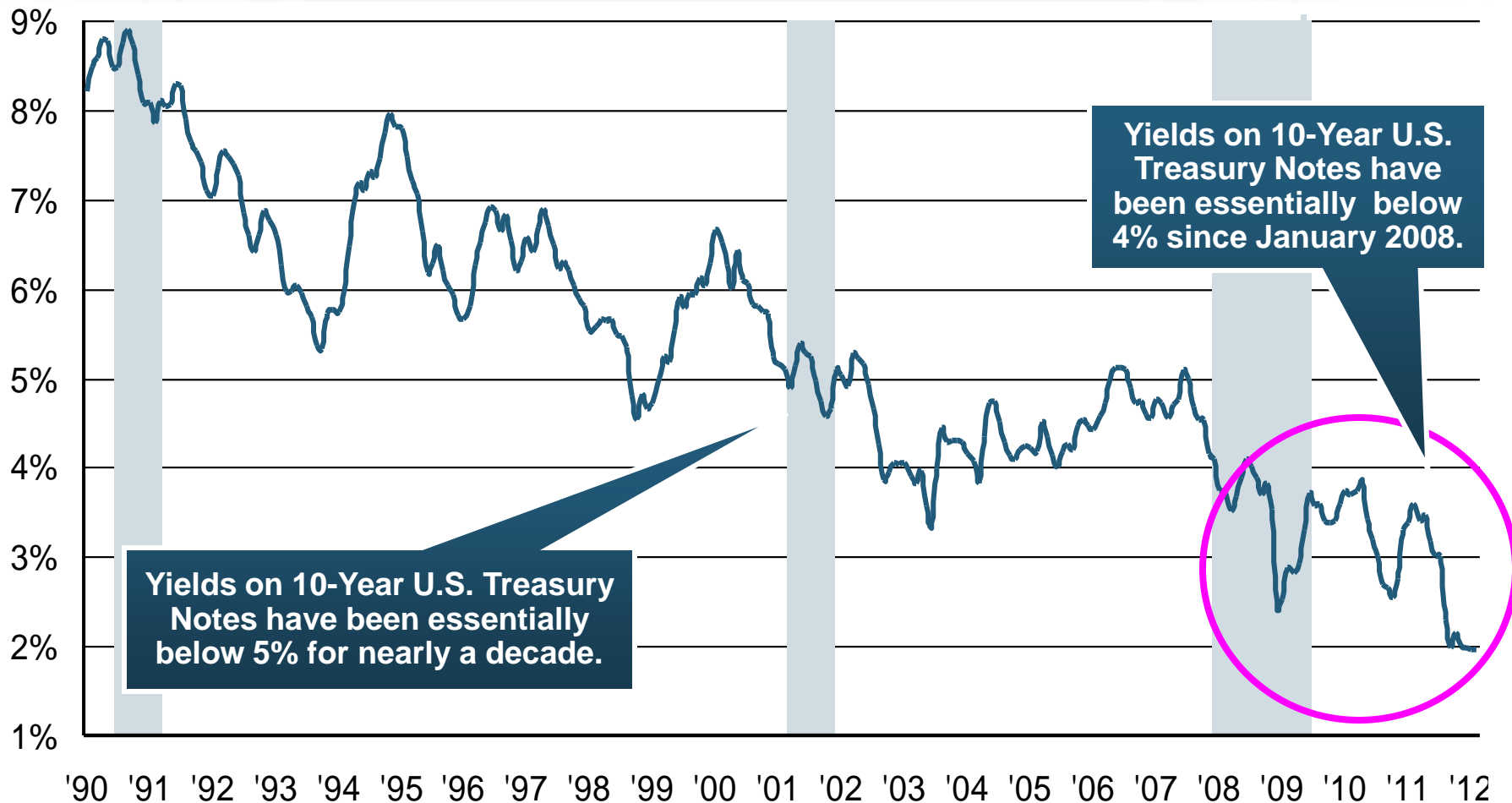
P/C Insurer Net Realized Capital Gains/Losses, 1990-2011

(\$ Billions)



Insurers Posted Net Realized Capital Gains in 2010 and 2011 After Following Two Years of Realized Losses During the Financial Crisis. Realized Capital Losses Were the Primary Cause of 2008/2009's Large Drop in Profits and ROE

U.S. 10-Year Treasury Note Yields: A Long Downward Trend, 1990–2012*



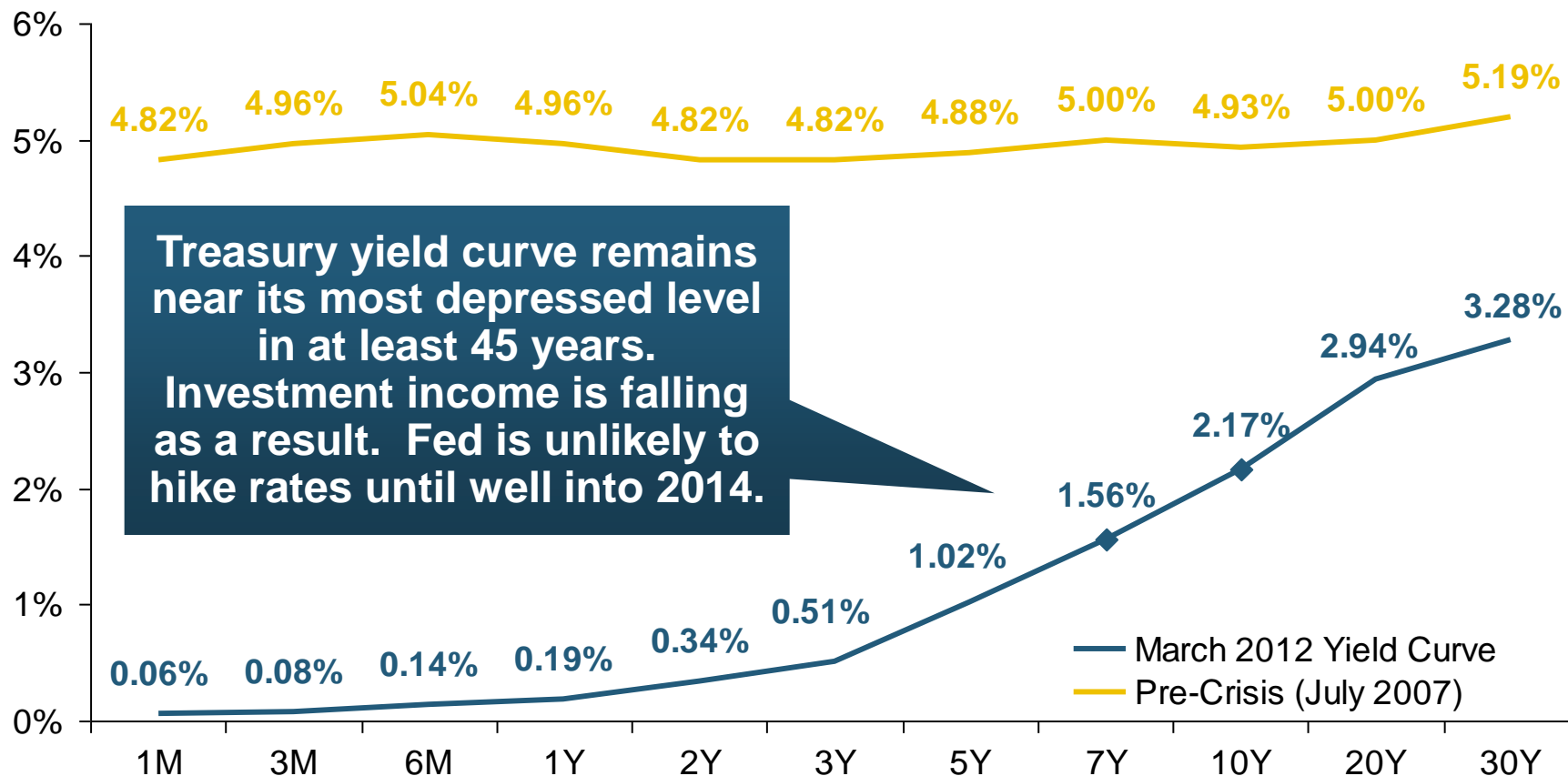
Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, through February 2012.

Note: Recessions indicated by gray shaded columns.

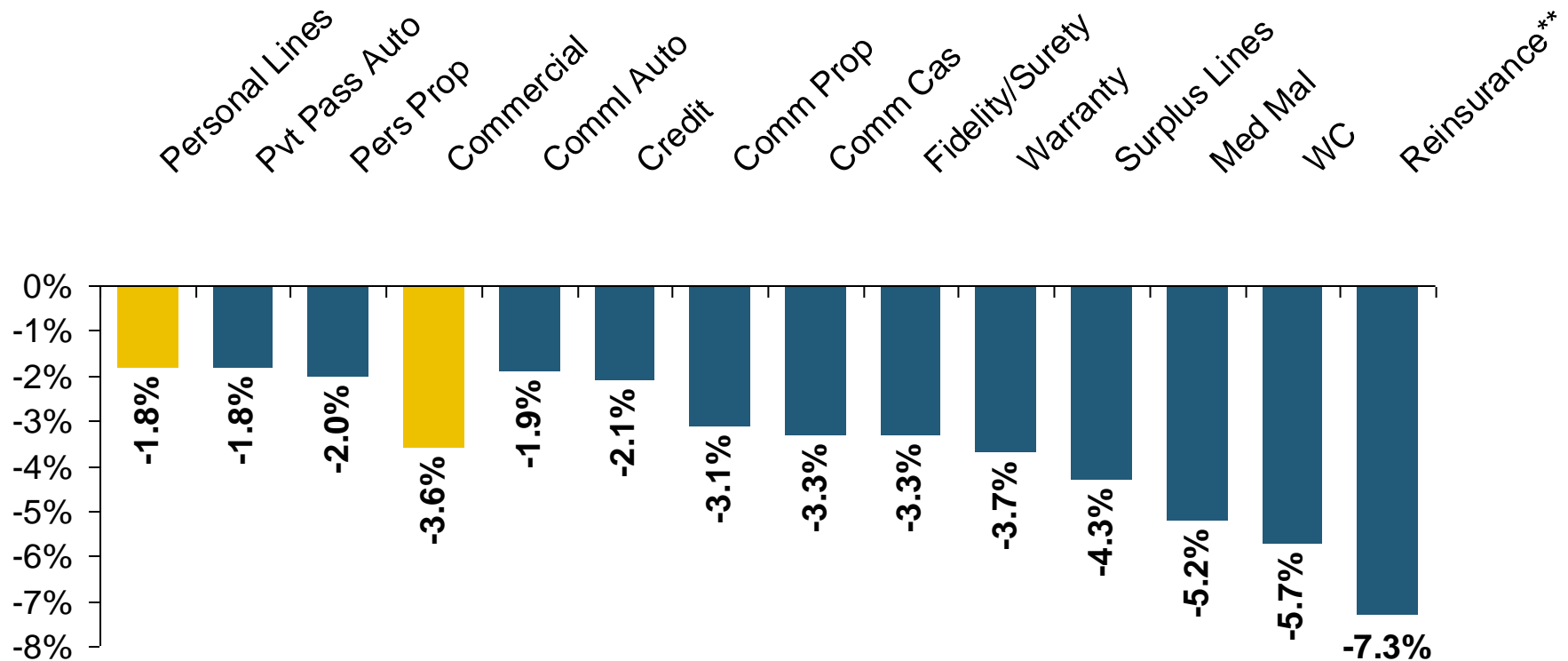
Sources: Federal Reserve Bank at http://www.federalreserve.gov/releases/h15/data/Monthly/H15_TCMNOM_Y10.txt
National Bureau of Economic Research (recession dates); Insurance Information Institutes.

Treasury Yield Curves: Pre-Crisis (July 2007) vs. Mar. 2012



The Fed Is Actively Signaling that it Is Determined to Keep Rates Low Through Late 2014

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

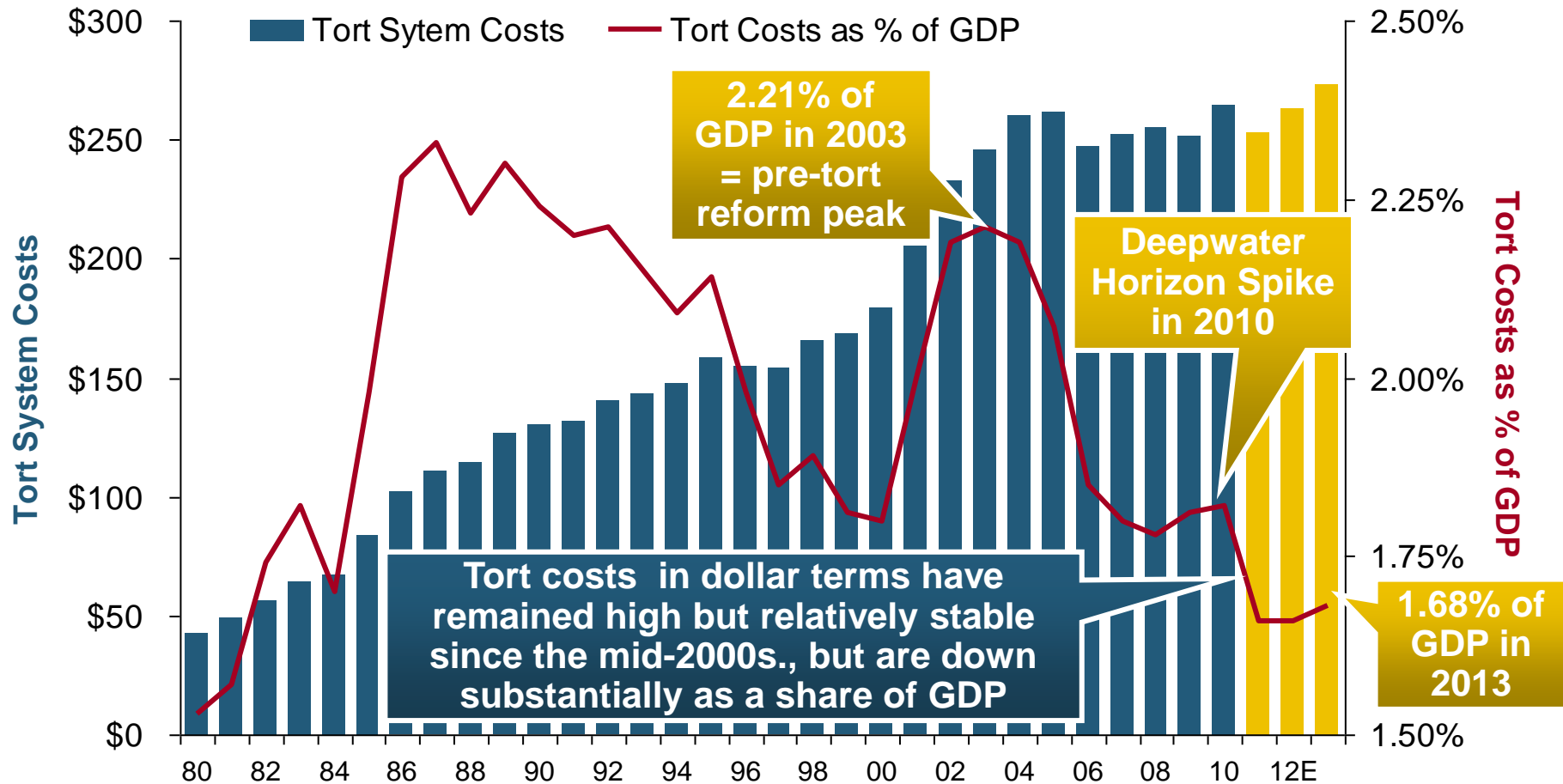
Source: A.M. Best; Insurance Information Institute.

Shifting Legal Liability & Tort Environment

Is the Tort Pendulum Swinging Against Insurers?

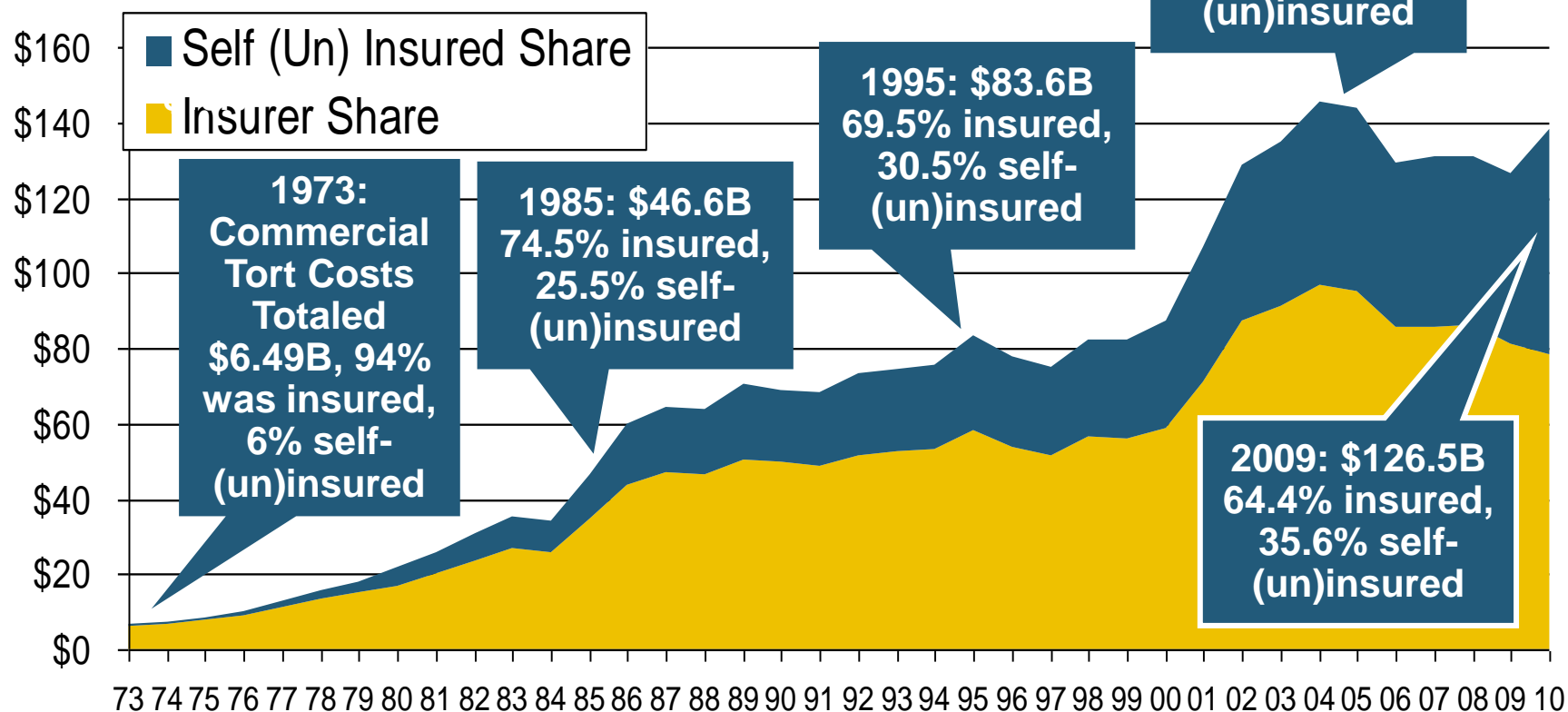
Over the Last Three Decades, Total Tort Costs as a % of GDP Appear Somewhat Cyclical, 1980-2013E

(\$ Billions)



Commercial Lines Tort Costs: Insured vs. Self-(Un)Insured Shares, 1973-2010

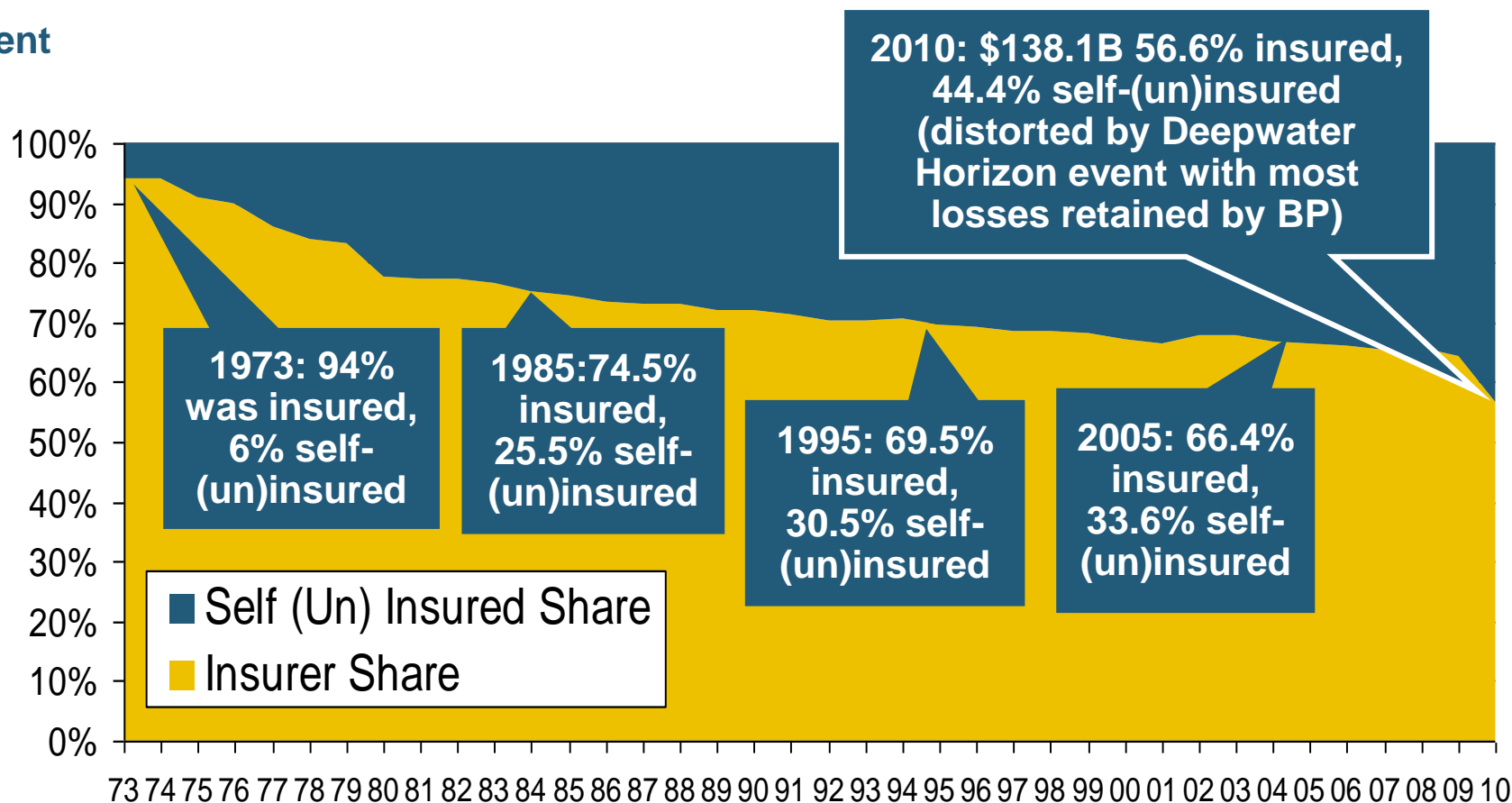
Billions of Dollars



Tort Costs and the Share Retained by Risks Both Grew Rapidly from the mid-1970s to mid-2000s, When Tort Costs Began to Fall But Self-Insurance Shares Continued to Rise

Commercial Lines Tort Costs: Insured vs. Self-(Un)Insured Shares, 1973-2010

Percent



The Share of Tort Costs Retained by Risks Has Been Steadily Increasing for Nearly 40 Years. This Trend Contributes Has Left Insurers With Less Control Over Pricing.

Business Leaders Ranking of Liability Systems in 2010

■ Best States

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

New in 2010

- North Dakota
- Massachusetts
- South Dakota

Drop-offs

- Maine
- Vermont
- Kansas

Midwest/West has mix of good and bad states.

■ Worst States

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

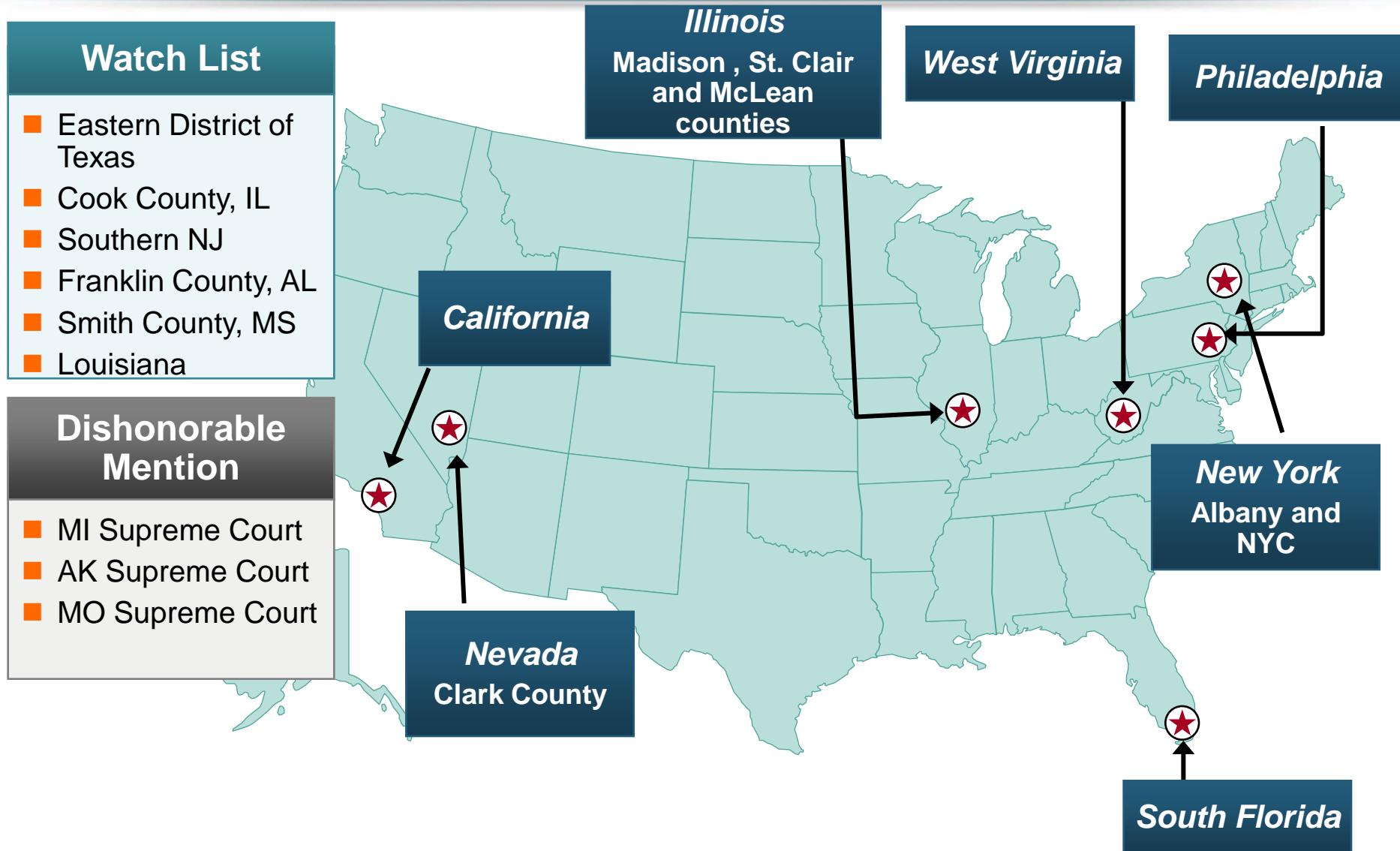
Newly Notorious

- New Mexico
- Montana
- Arkansas

Rising Above

- **Texas**
- South Carolina
- Hawaii

The Nation's Judicial Hellholes: 2011

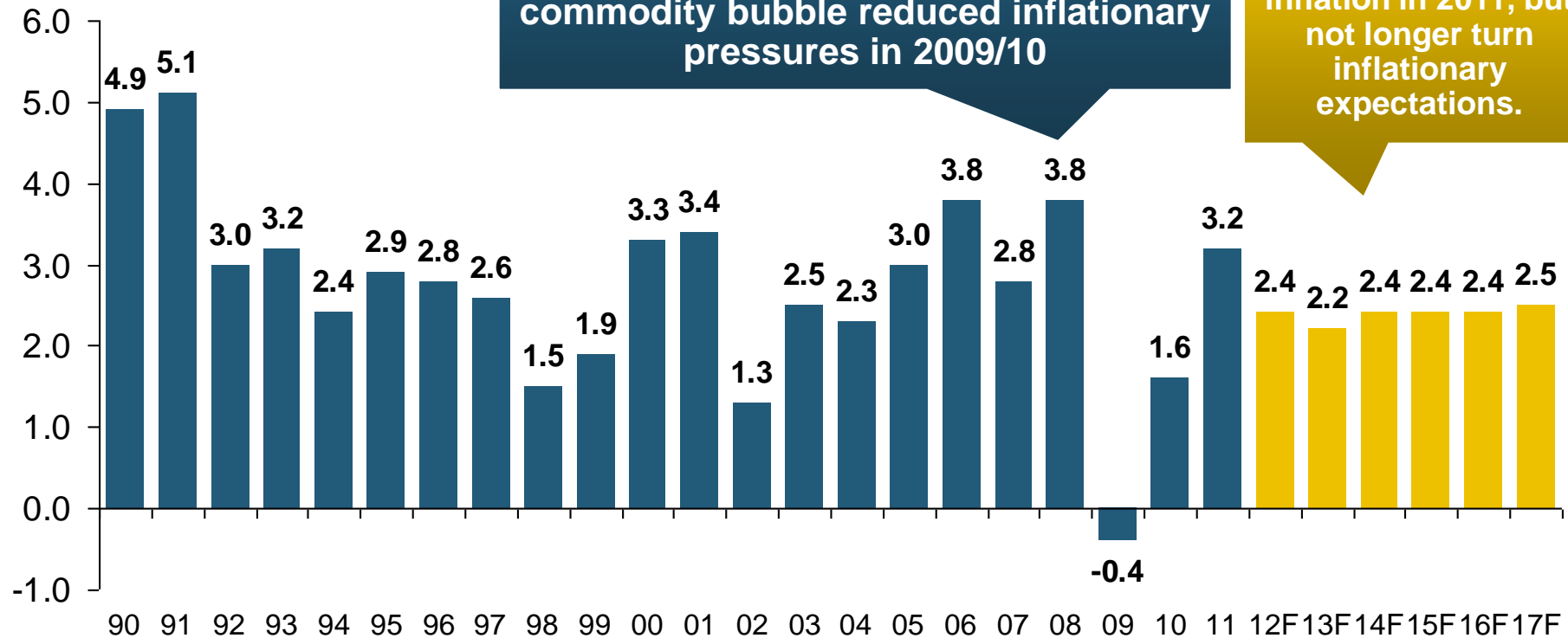


Inflation

**Is it a Threat to Claim Cost
Severities**

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

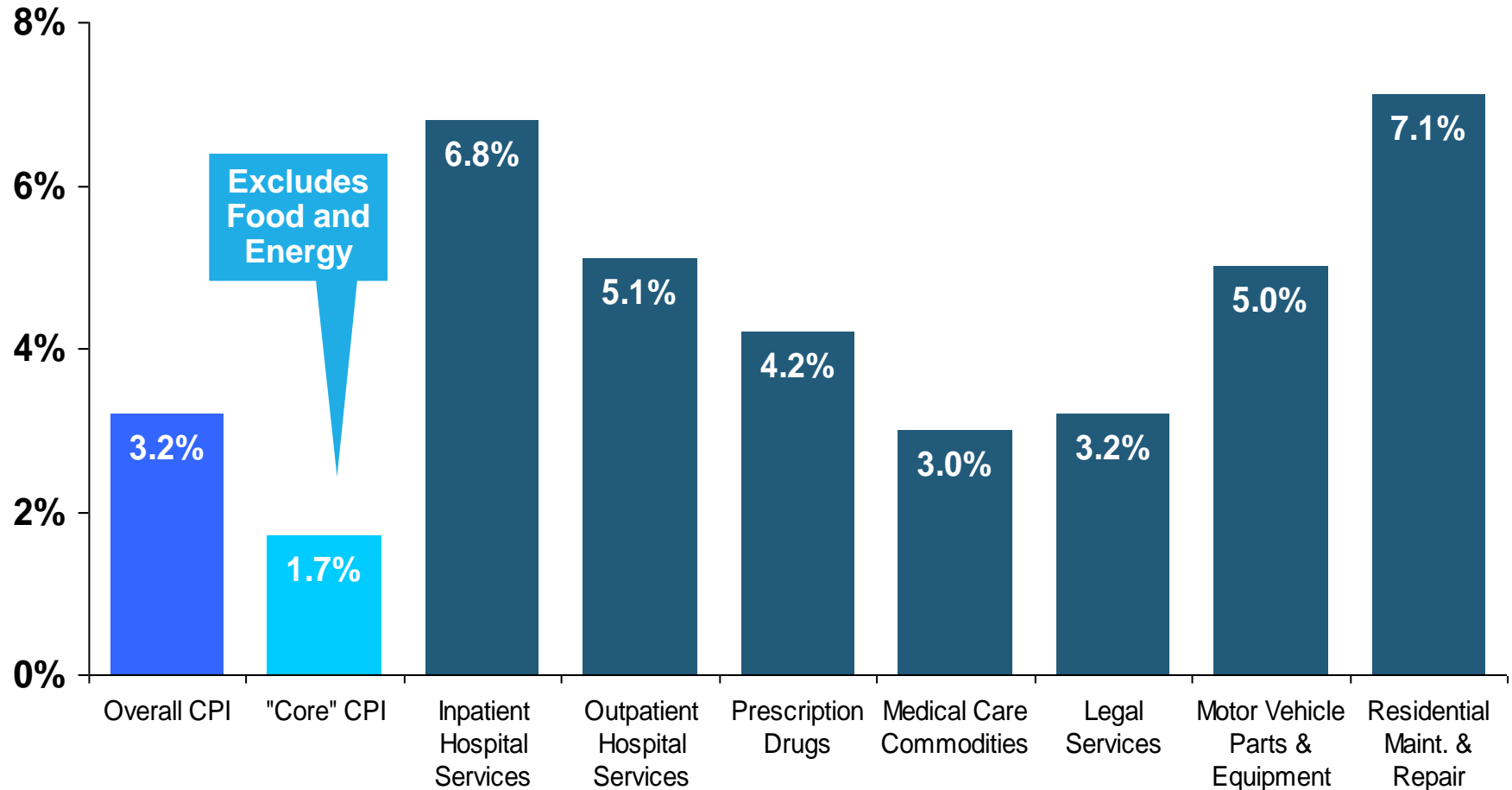
Annual Inflation Rates (%)



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

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

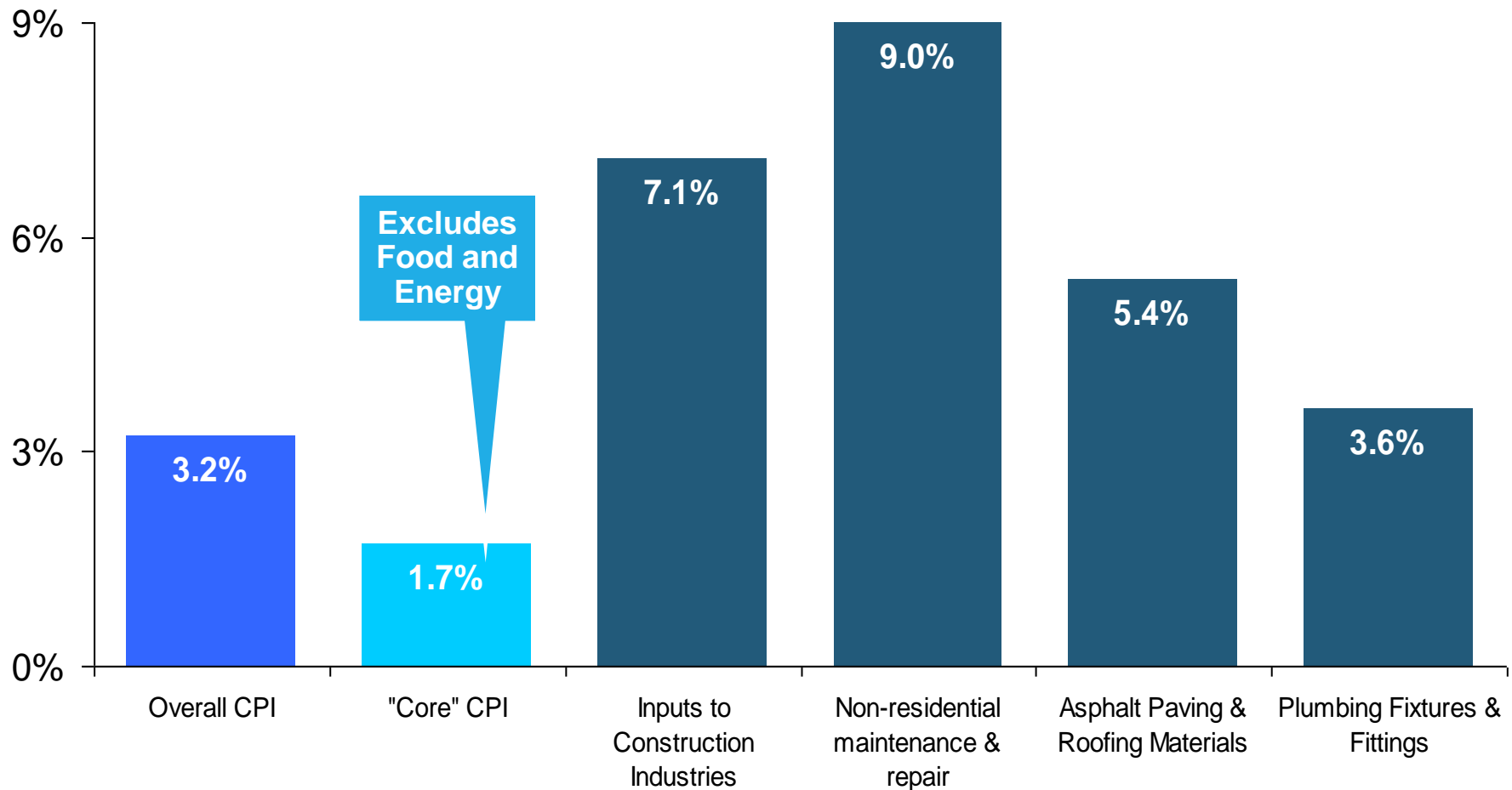
Price Level Change: 2011 vs. 2010



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

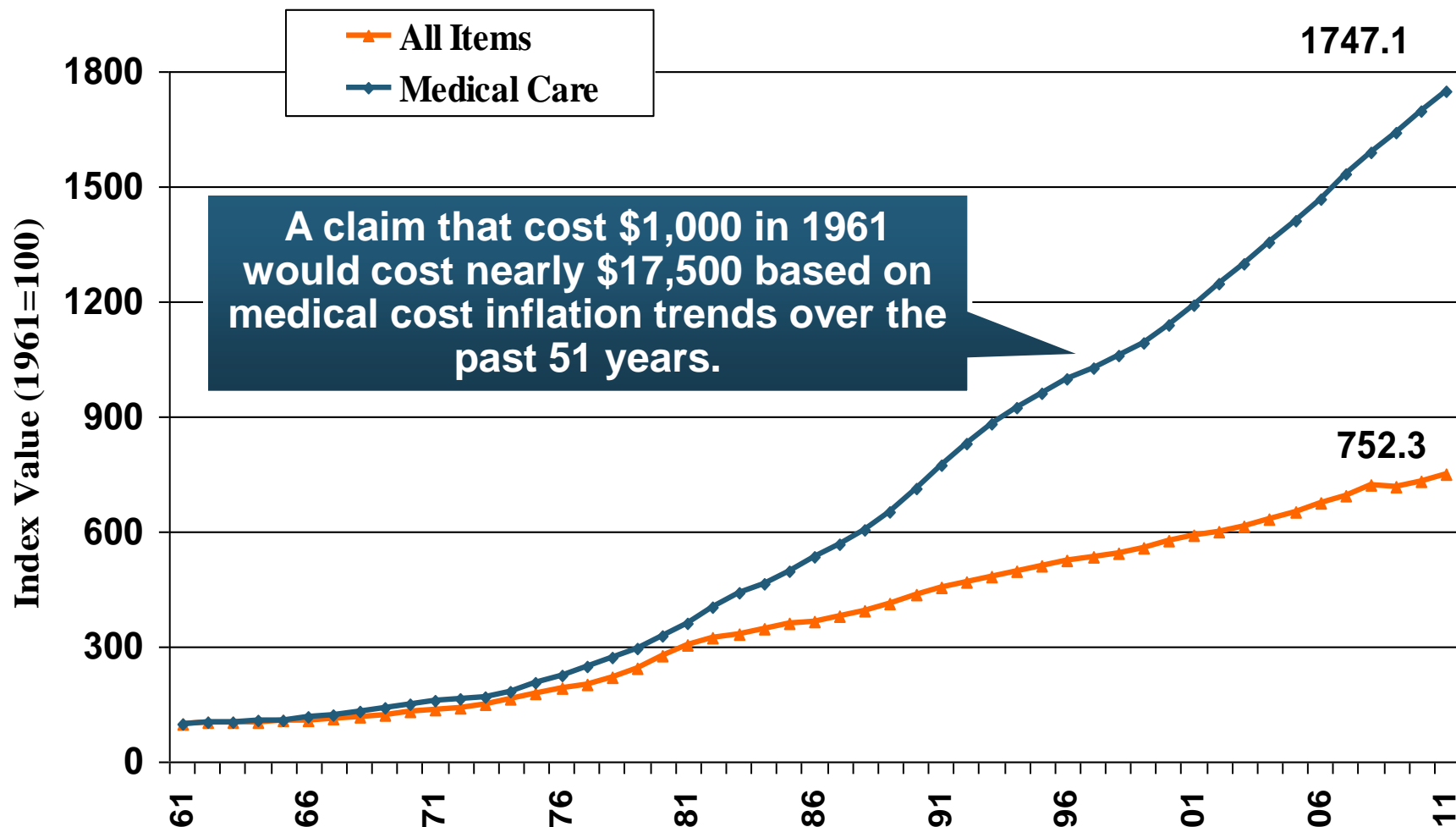
P/C Commercial Property Insurance Claim Cost Drivers Grow Faster than the Overall CPI Suggests

Price Level Change: 2011 vs. 2010



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.

Medical Cost Inflation Has Outpaced Overall Inflation For Over 50 Years



Source: Department of Labor (Bureau of Labor Statistics)

Insurance Information Institute Online:

www.iii.org

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