Financial Crisis, Global Recession & the Future of the (Re)Insurance Industry

Trends, Challenges & Opportunities

Reinsurance Association of America
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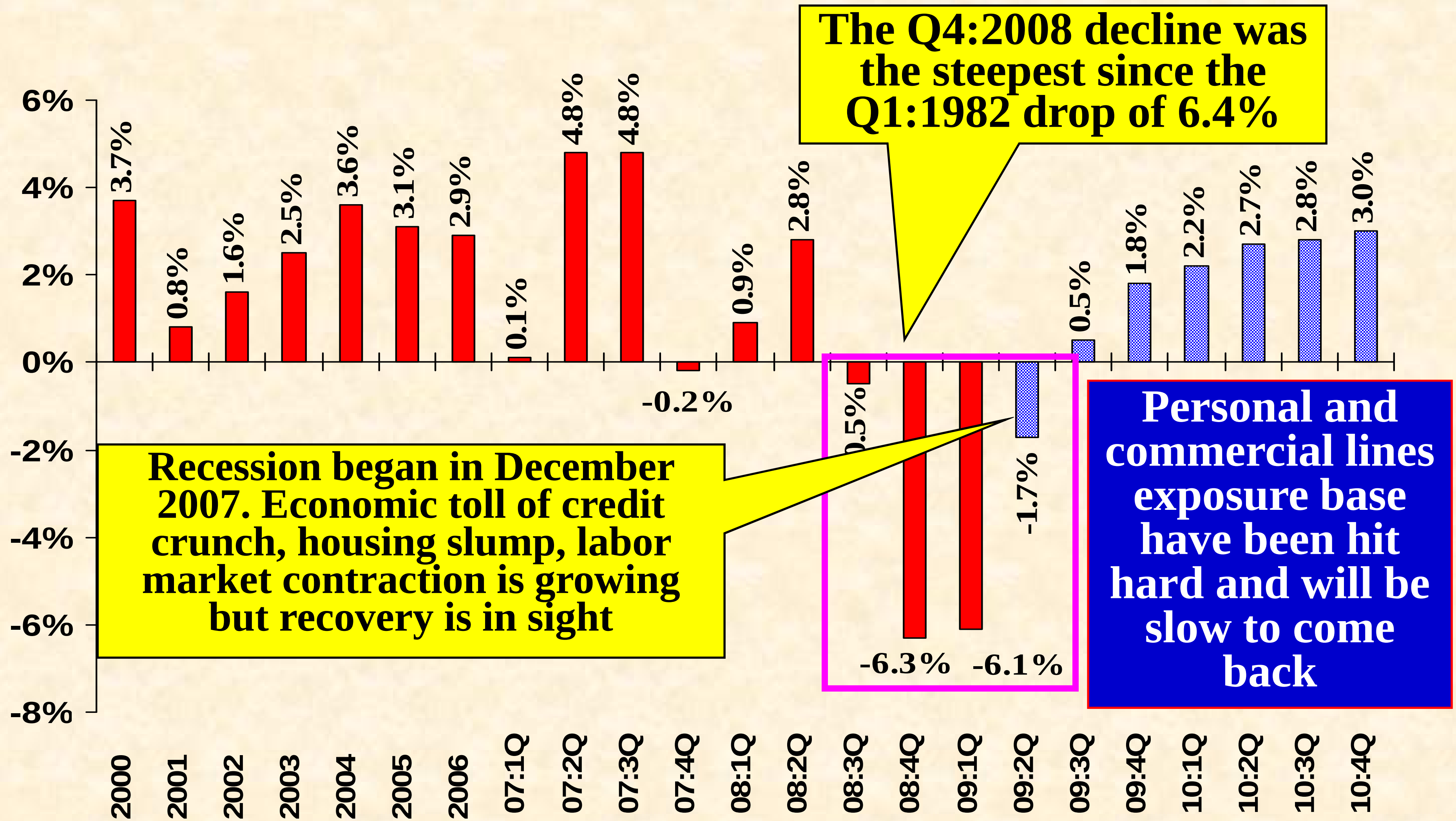
Presentation Outline

- **The Economic Storm: Financial Crisis & Recession**
- **Economic Trends: Personal, Commercial Exposure Implications**
- **Aftershock: P/C Insurance *After* the Financial Crisis**
- **10 Key Threats and Issues Facing P/C Insurers Through 2015**
- **Green Shoots: Signs of Recovery?**
- **Financial Strength & Ratings**
- **P/C Insurance Industry Overview & Outlook**
  - **Profitability**
  - **Premium Growth**
  - **Underwriting Performance**
  - **Financial Market Impacts**
- **Capital & Capacity**
- **Catastrophe Loss Trends**

THE GLOBAL ECONOMIC STORM

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

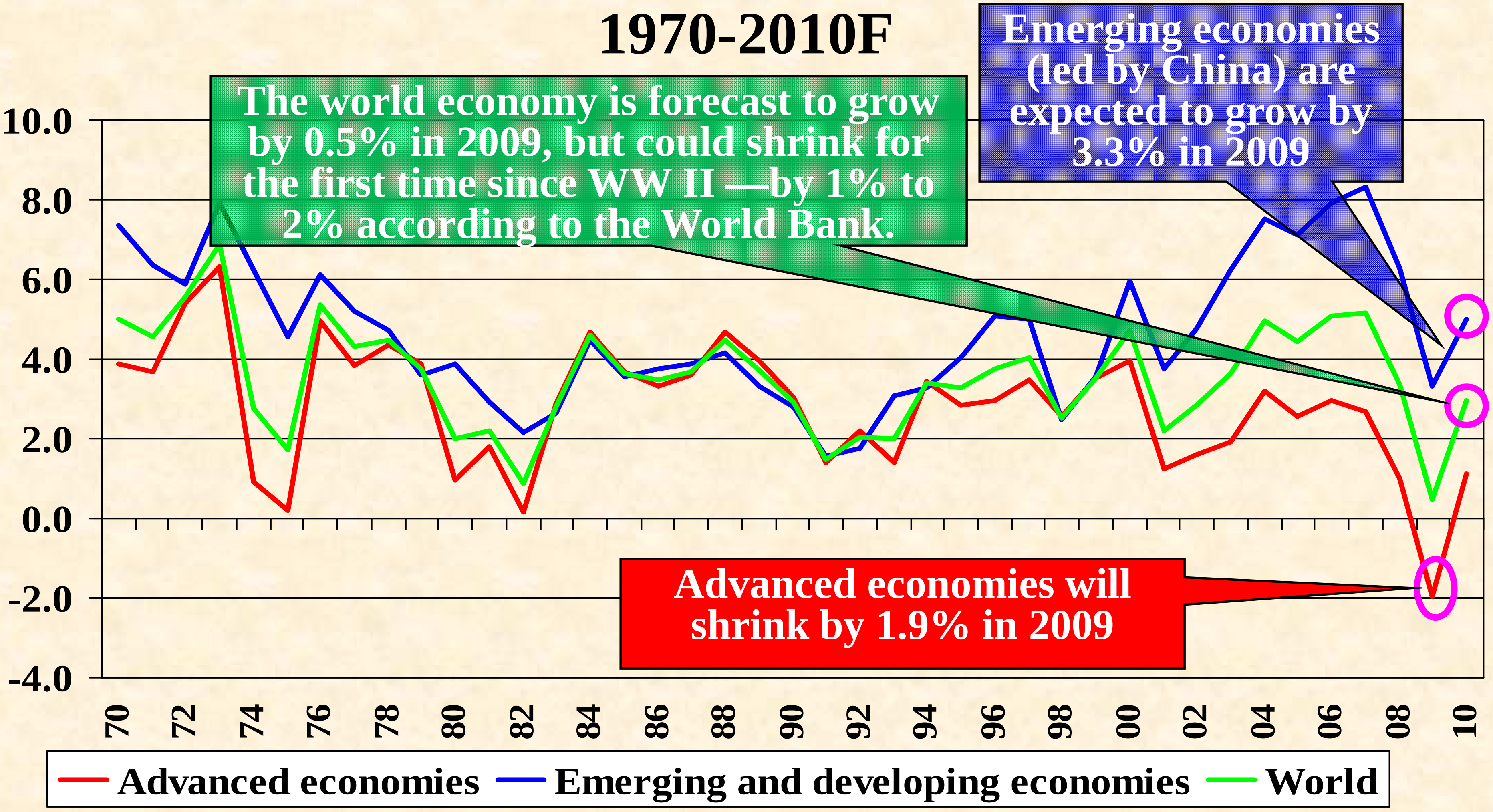
*Real GDP Growth**



*Blue bars are Estimates/Forecasts from Blue Chip Economic Indicators.

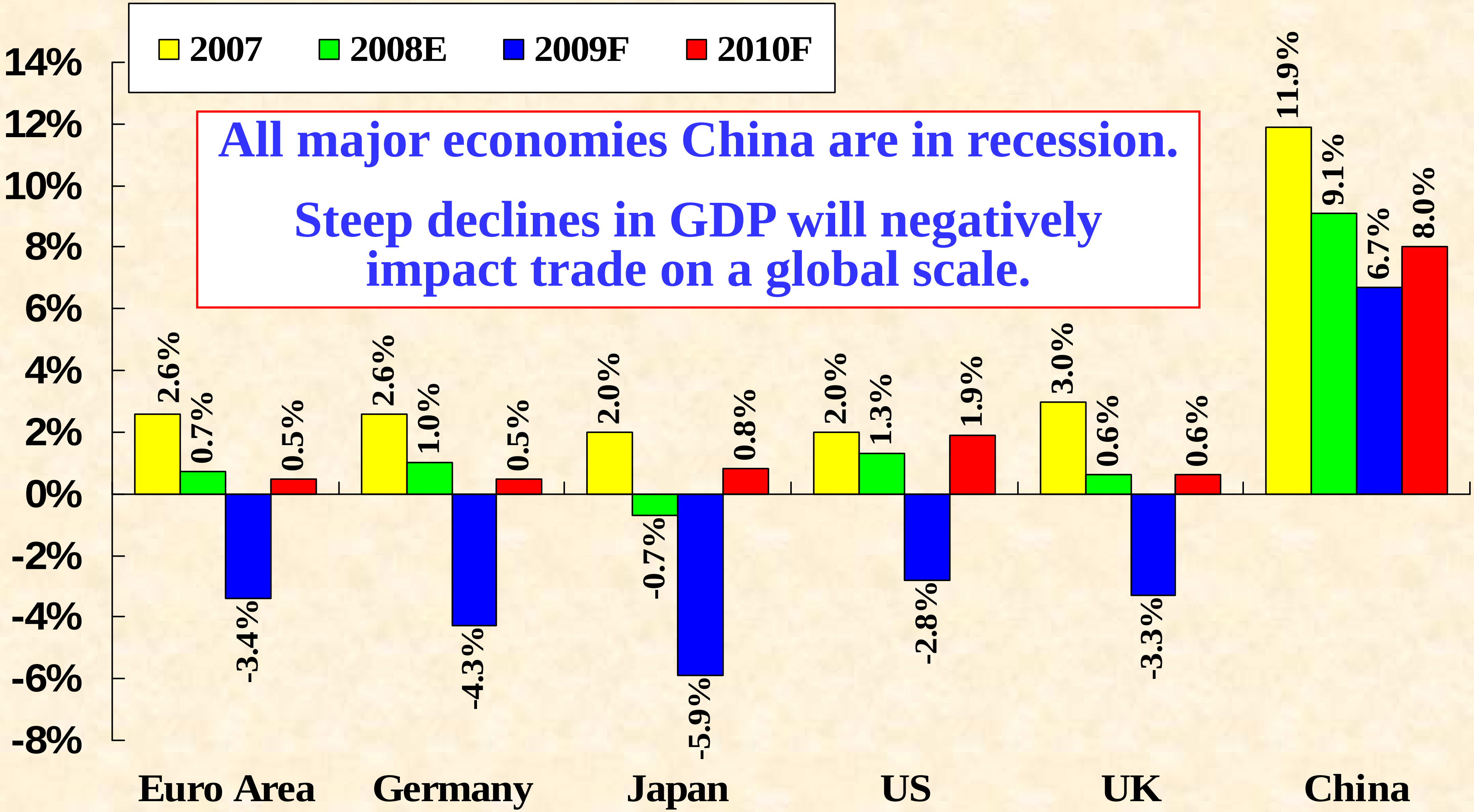
Source: US Department of Commerce, Blue Economic Indicators 5/09; Insurance Information Institute.

GDP Growth: Advanced & Emerging Economies vs. World



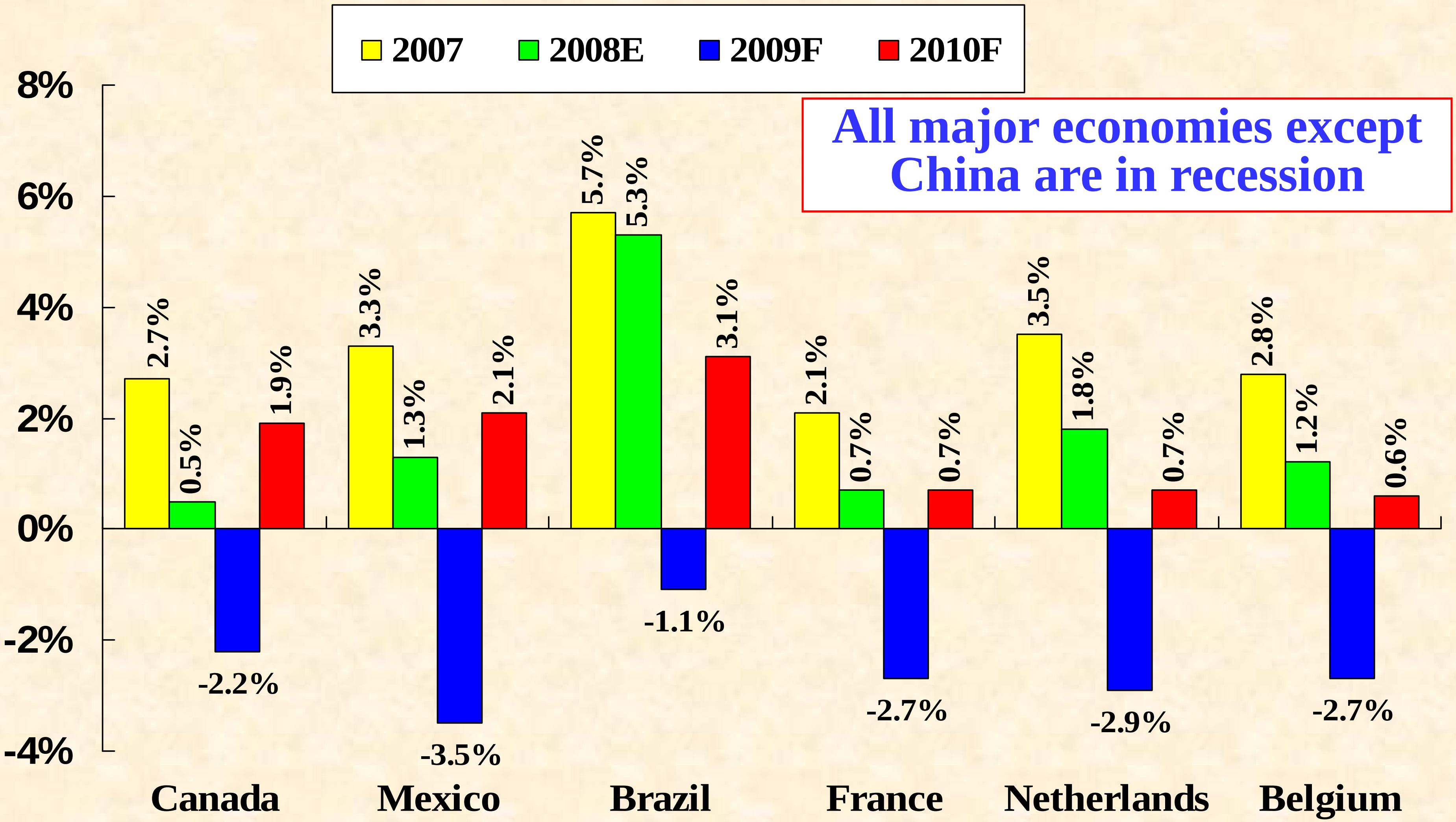
Source: International Monetary Fund, World Economic Outlook Update, Jan. 28, 2009; Ins. Info. Institute.

Real GDP By Market 2007-2010F (% change from previous year)



Source: Blue Chip Economic Indicators, 5/10/09 edition.

Real GDP for Selected Large Economies, 2007-2010F, (% change from prior yr.)



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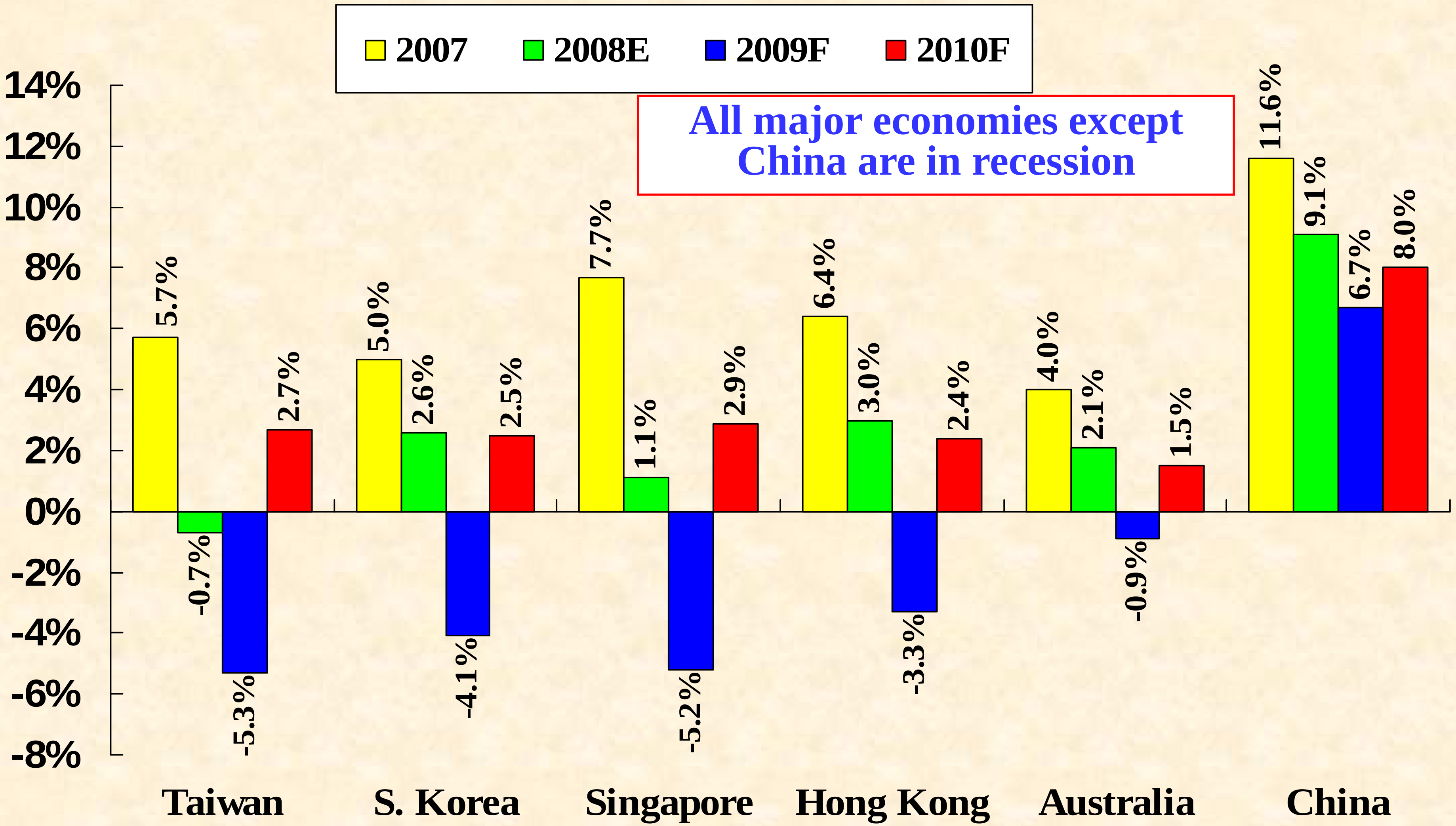
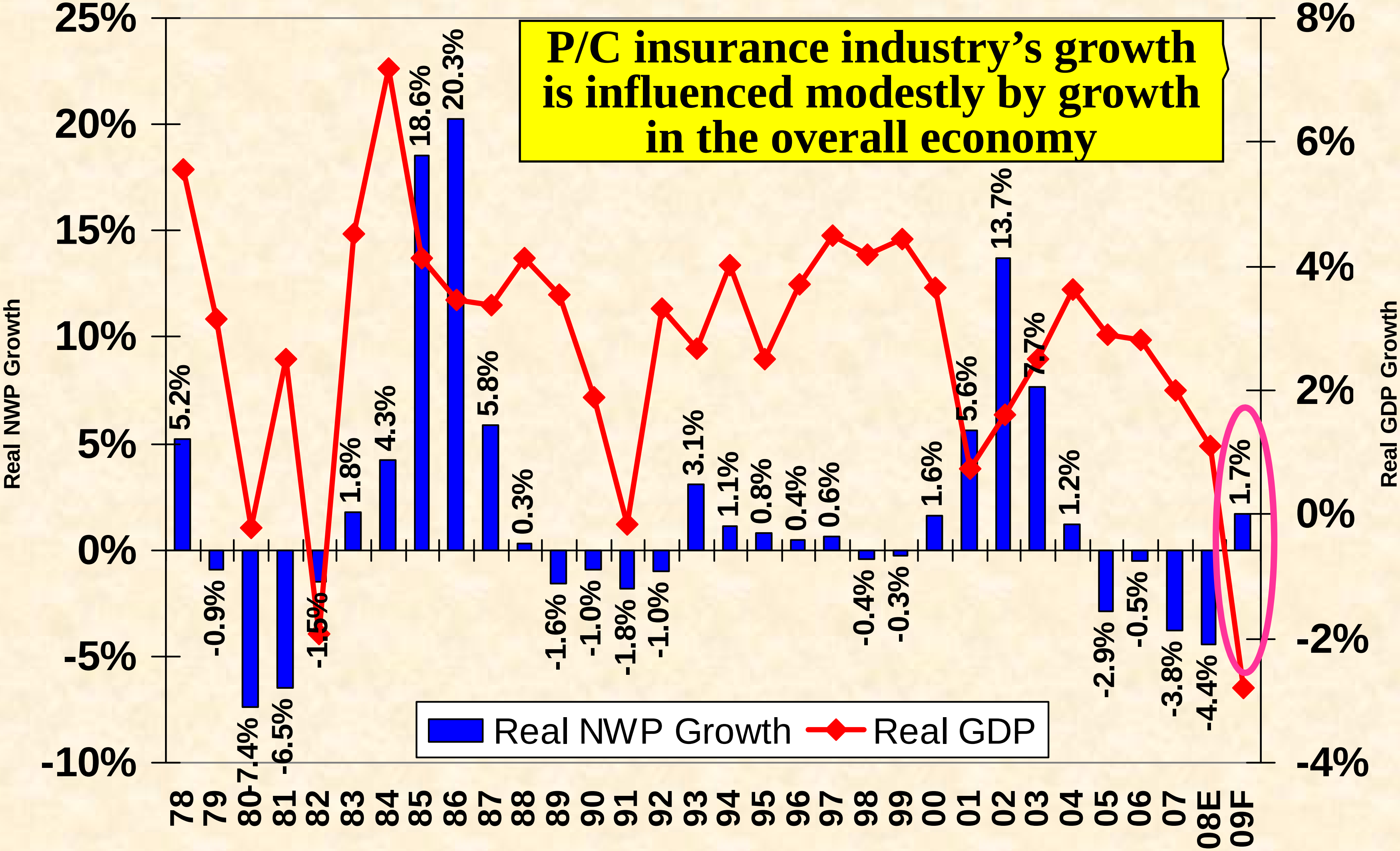
Real GDP for Selected Large Economies, 2007-2010F, (% change from prior yr.)



Source: Blue Chip Economic Indicators, 5/10/09 edition.

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



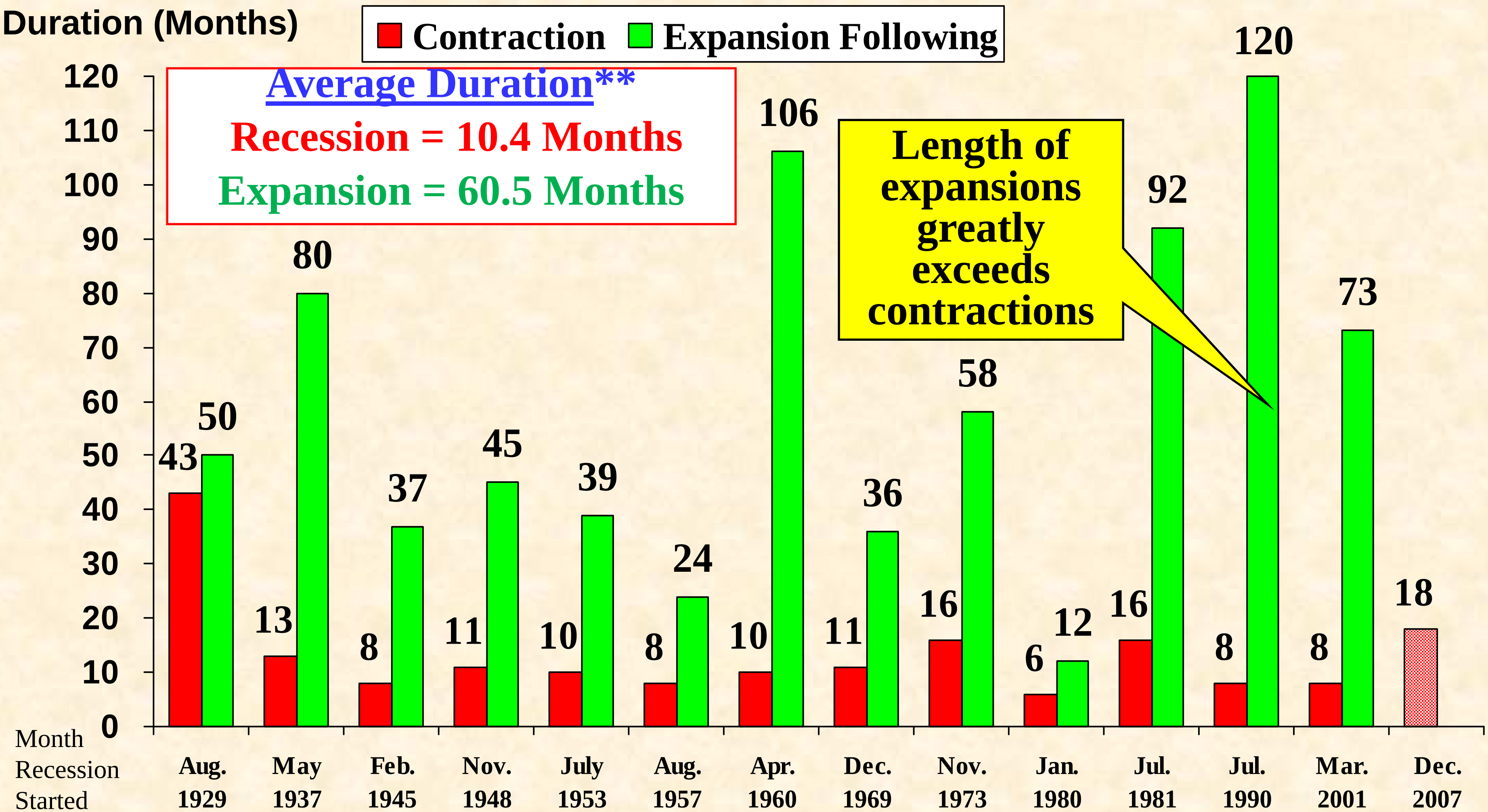
Sources: A.M. Best, US Bureau of Economic Analysis, Blue Chip Economic Indicators, 5/09; Insurance Information Inst.

*Length of US Recessions, 1929-Present**

* As of May 2009, inclusive

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

*Length of U.S. Business Cycles, 1929-Present**



* As of May 2009, inclusive; **Post-WW II period through end of most recent expansion.

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

Industrial Production

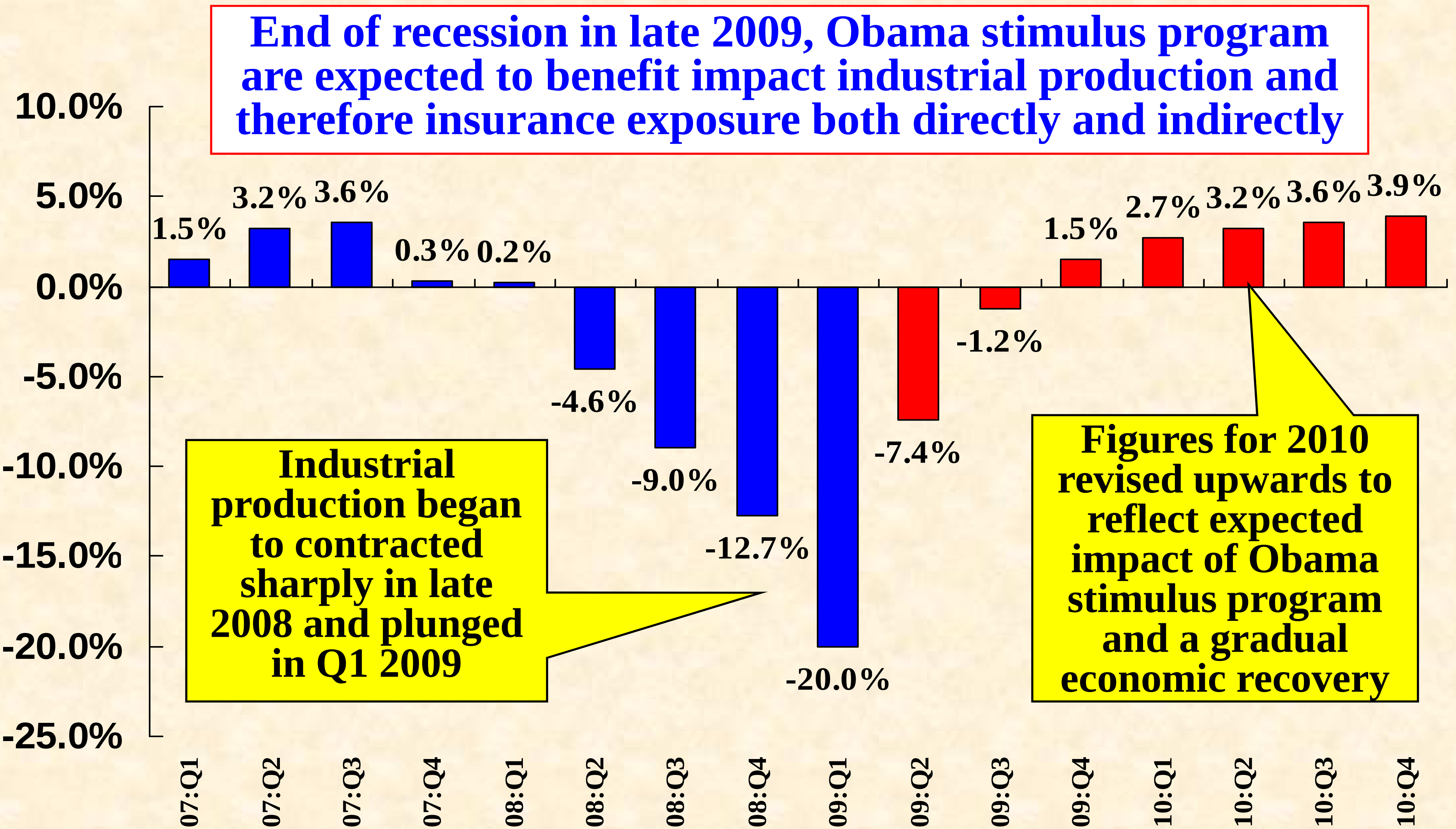
Sharp Decline in Production Spread by Global Supply Chains Hurts Global Exposure & Premiums

Global Industrial Production Is in a Tailspin, Signaling Weakness in Trade

Annualized 3-Month Percent Change

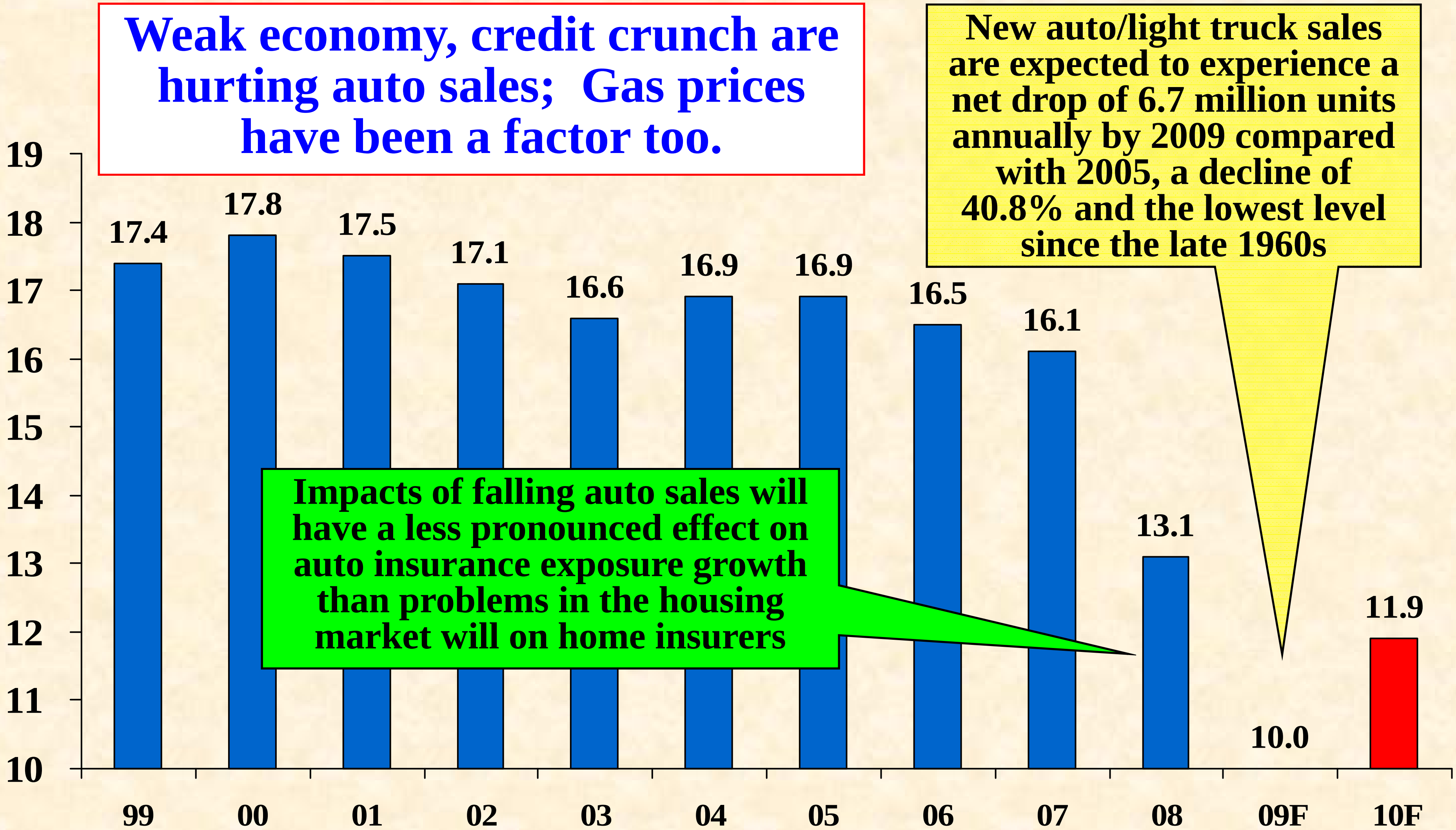
Source: International Monetary Fund, *World Economic Outlook Update*, Jan. 28, 2009; Ins. Info. Institute.

Total Industrial Production, (2007:Q1 to 2010:Q4F)



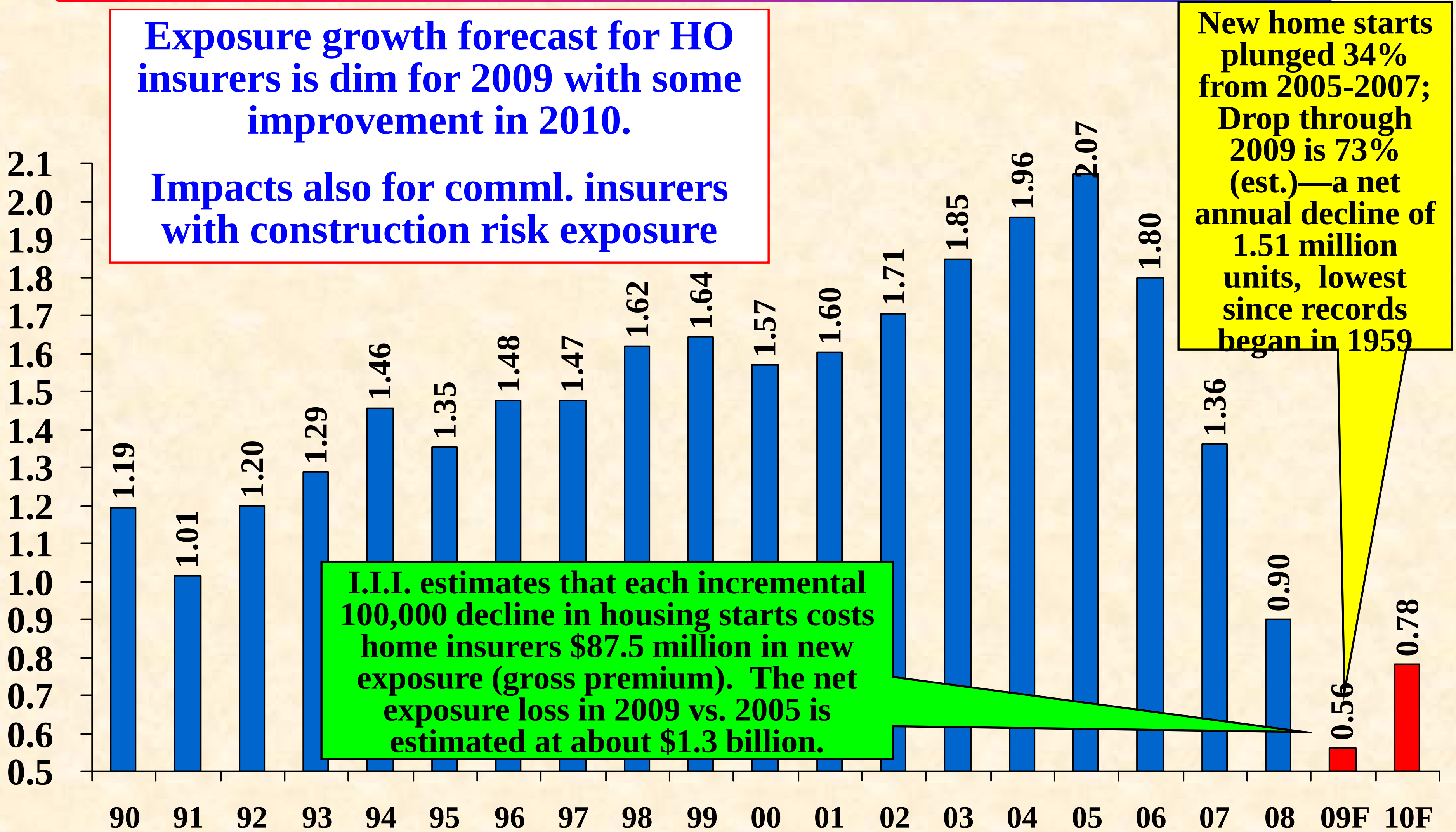
Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (5/09); Insurance Info. Inst.

Auto/Light Truck Sales, 1999-2010F (Millions of Units)



Source: US Department of Commerce; Blue Chip Economic Indicators (5/09); Insurance Information Inst.

New Private Housing Starts, 1990-2010F (Millions of Units)



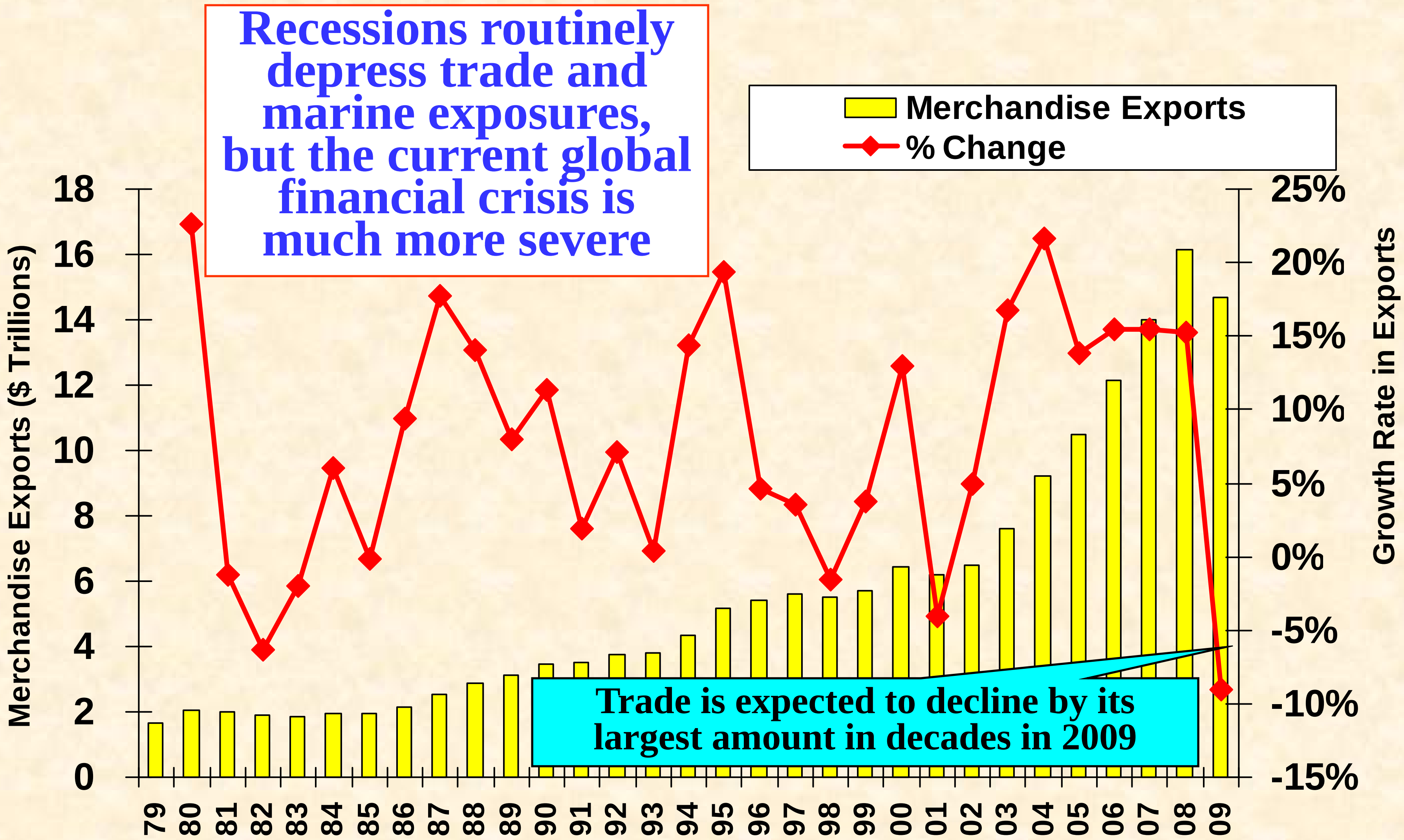
Source: US Department of Commerce; Blue Chip Economic Indicators (5/09); Insurance Information Inst.

CASE STUDY: Ocean Marine (Re) Insurance

Caught in the Storm

Global Merchandise Exports, 1979-2009F

($ Trillions and Annual Growth Rate)



Source: World Trade Organization; Insurance Information Institute.

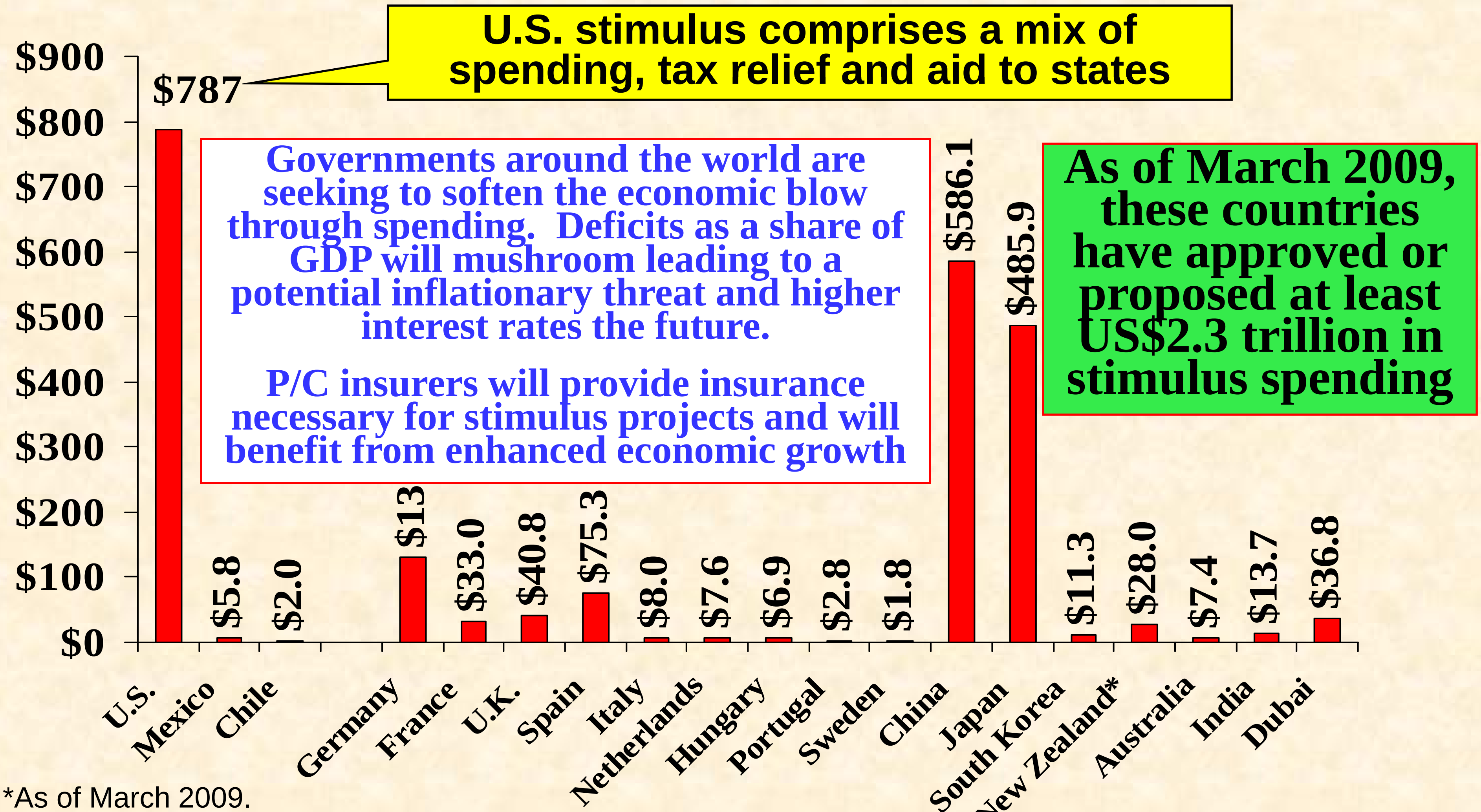
Major Economic Trends Affecting Marine Insurance Markets

- **All Major World Economies Except China Are in Recession**
- **Demand for Imported Products Has Plunged Globally**
- **Global Trade Expected to Shrink by 9% in 2009, the First Decline Since 1982 and the Largest Drop Since World War II**
  - **Trans-Pacific containerized trade was down 3.9% in 2008 with a 4.1% drop projected for 2009**
- **Immense Amounts of Excess Shipping Capacity is Driving Down Shipping Prices**
  - **Baltic Dry Index of shipping prices fell 94% from record high 11,793 in May 2008 to 663 in December 2008**
- **As Much as 11.3% of Global Shipping Fleet is Idle**
- **As Much as 45% of the New Containership Capacity Scheduled for Delivery in 2010 Will Be Delayed or Cancelled**
- **Concern that Rising Protectionist Sentiments Could Increase Tariffs, Quotas and Further Hurt Trade and Ultimately Deepen Global Recession**

THE $2.75 TRILLION GLOBAL ECONOMIC STIMULUS

Stimulus Spending Will Have Only a Minor Impact on Trade

Announced Economic Stimulus Packages Worldwide (US$ Bill)*



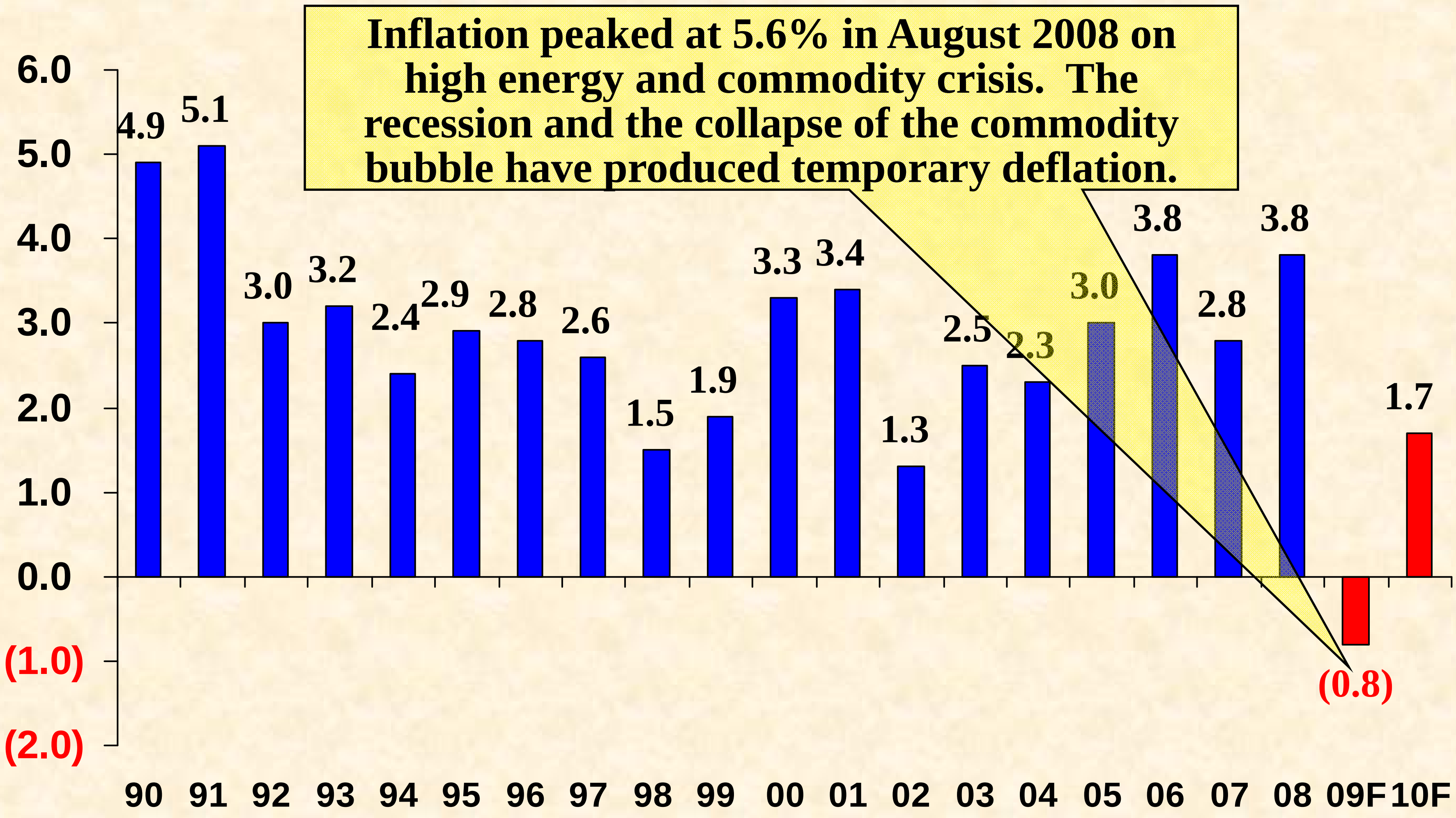
*As of March 2009.

Sources: Wall Street Journal, January 8, 2009 with updates by I.I.I.; Institute of International Finance and Brookings Institute.

Inflation Trends

Significant Moderation Should Help Reduce Severity Trends

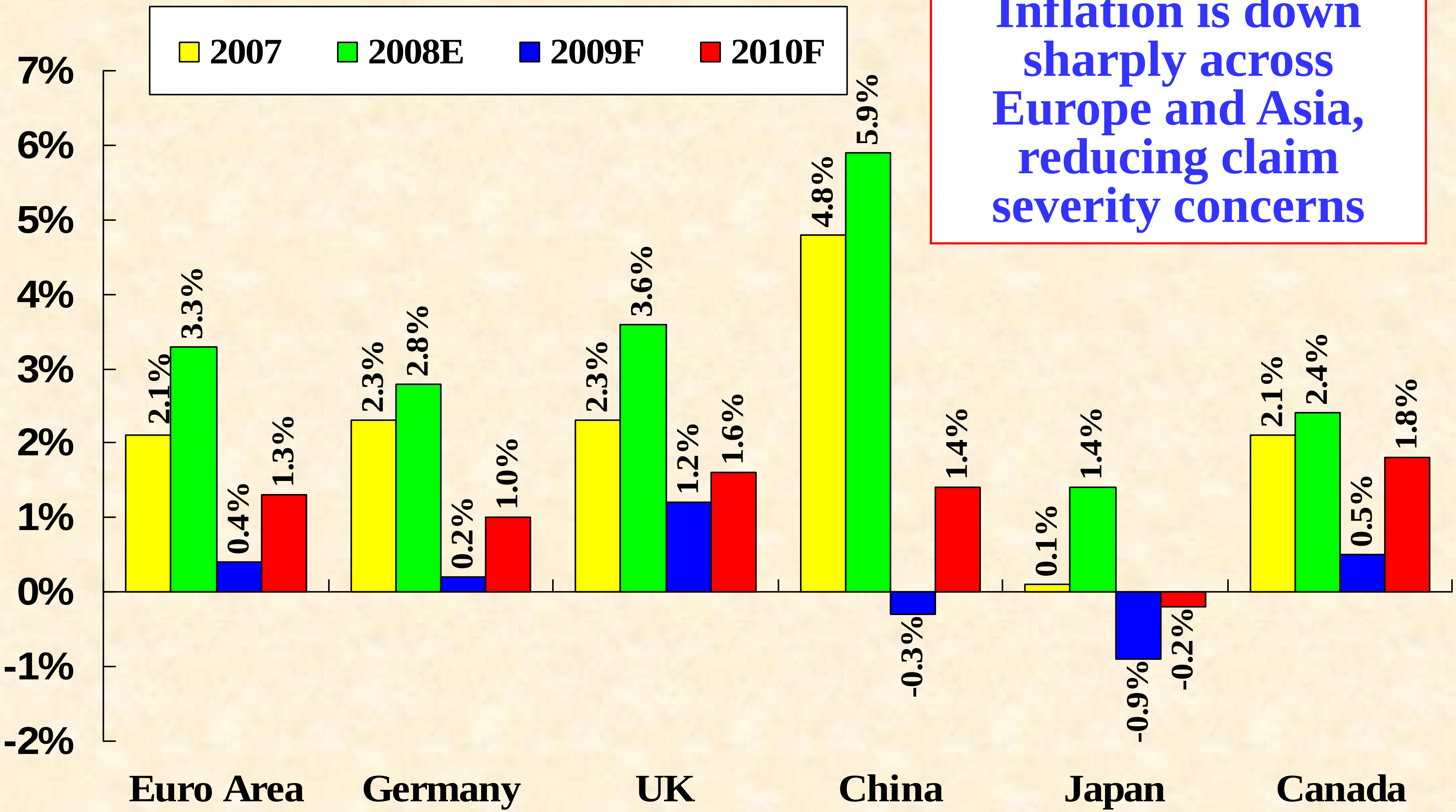
Annual Inflation Rates (CPI-U, %), 1990-2010F



Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators, May 10, 2009 (forecasts).

Inflation Rates for Selected Large Economies, 2007-2010F, (% change from prior yr.)

Inflation is down sharply across Europe and Asia, reducing claim severity concerns



Source: Blue Chip Economic Indicators, 5/10/09 edition.

Top Concerns/Risks for Insurers if Inflation is Reignited

CONCERNS: The Federal Reserve Has Flooded Financial System with Cash (Turned on the Printing Presses), the Federal Govt. Has Approved a $787B Stimulus and the Deficit is Expected to Mushroom to $1.8 Trillion. All Are Potentially Inflationary.

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

KEY RISKS FROM SUSTAINED/ACCELERATING INFLATION

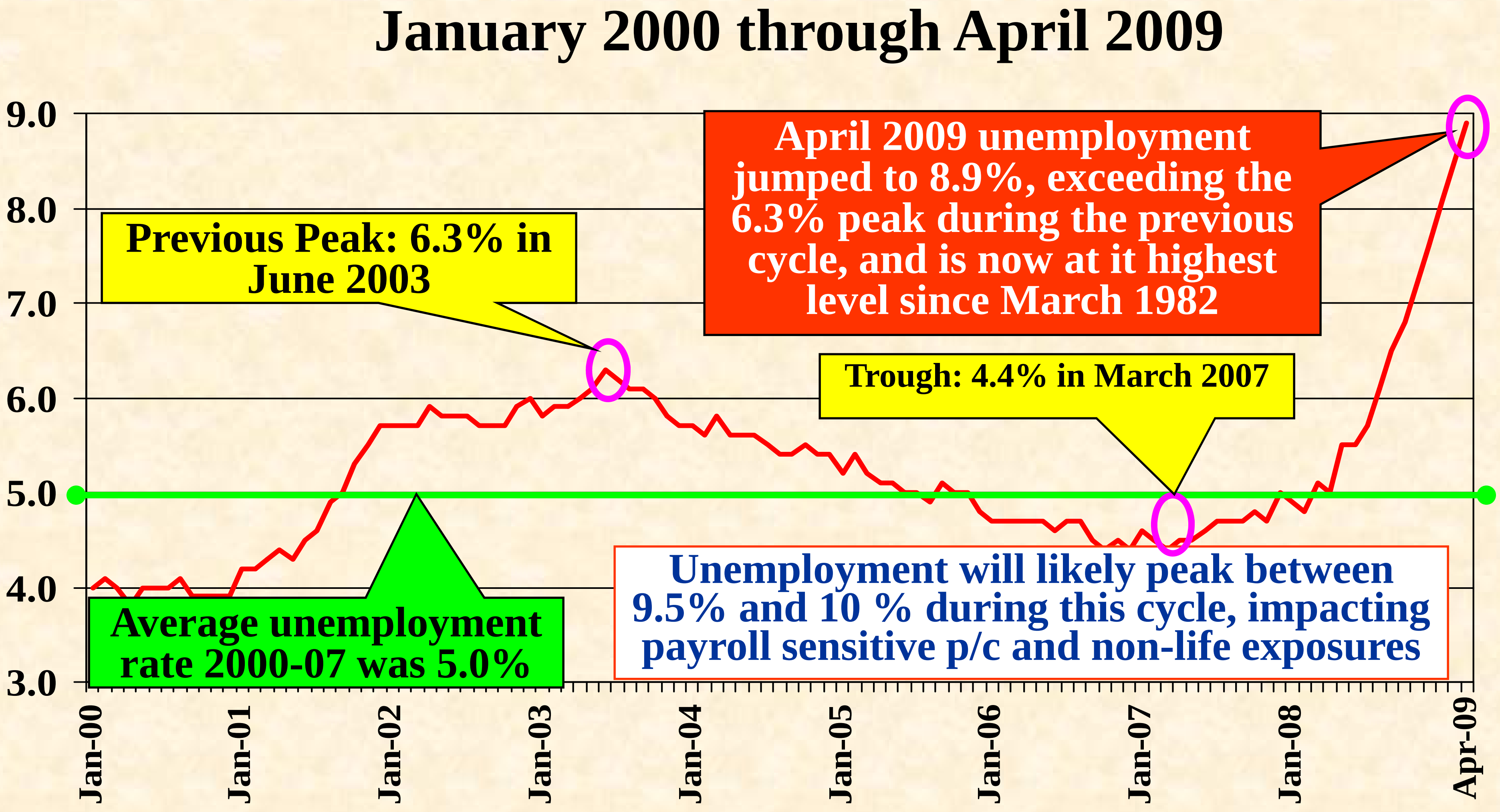
- Rising Claim Severities
  - **Cost of claims settlement rises across the board (property and liability)**
- Rate Inadequacy
  - **Rates inadequate due to low trend assumptions arising from use of historical data**
- Burn Through on Retentions
  - **Retentions, deductibles burned through more quickly**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

Source: Ins. Info. Inst.

Labor Market Trends

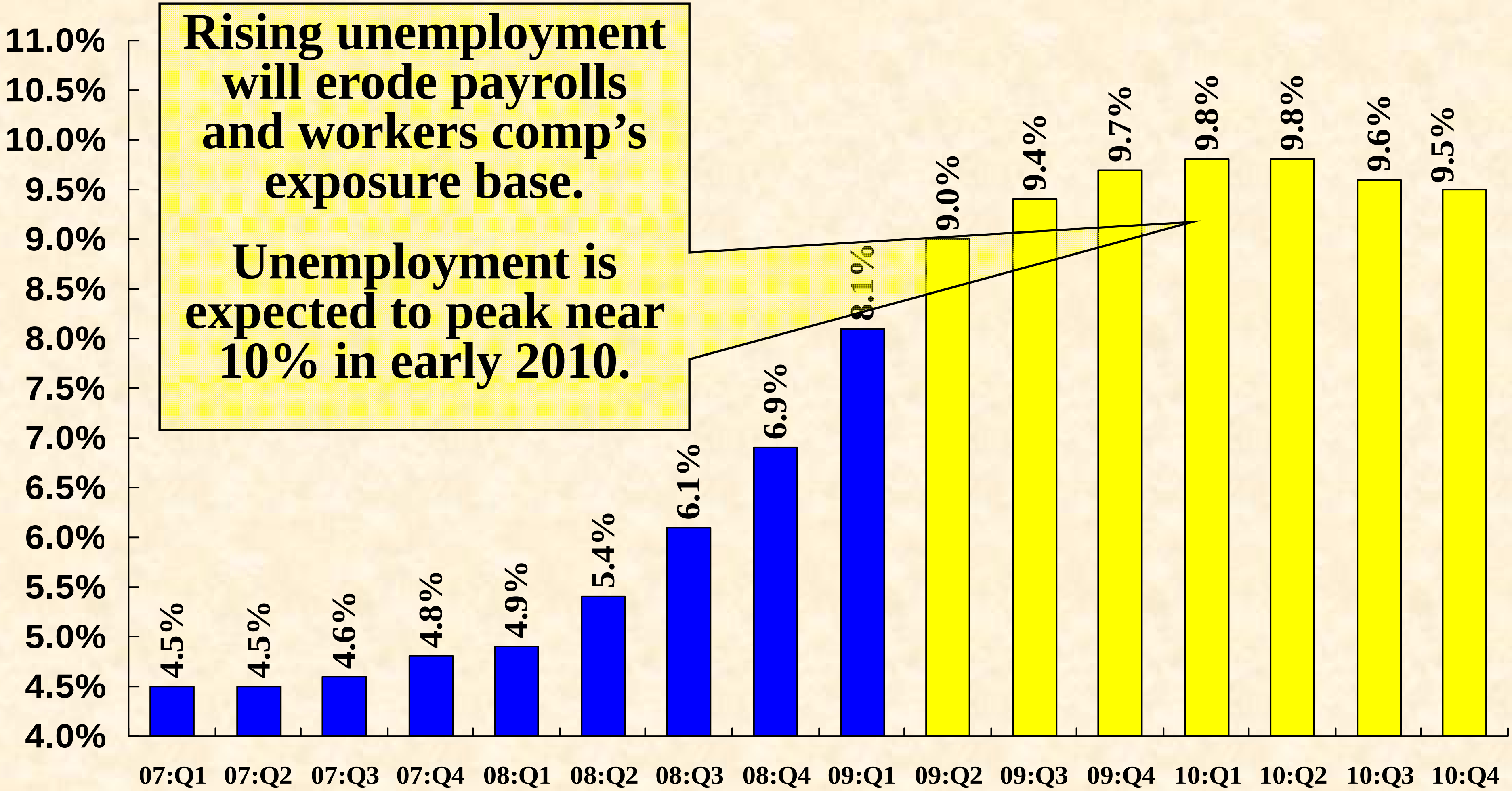
Fast & Furious: Massive Job Losses Sap the Economy Workers Comp & Other Commercial Exposure

Unemployment Rate: On the Rise



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

U.S. Unemployment Rate, (2007:Q1 to 2010:Q4F)*

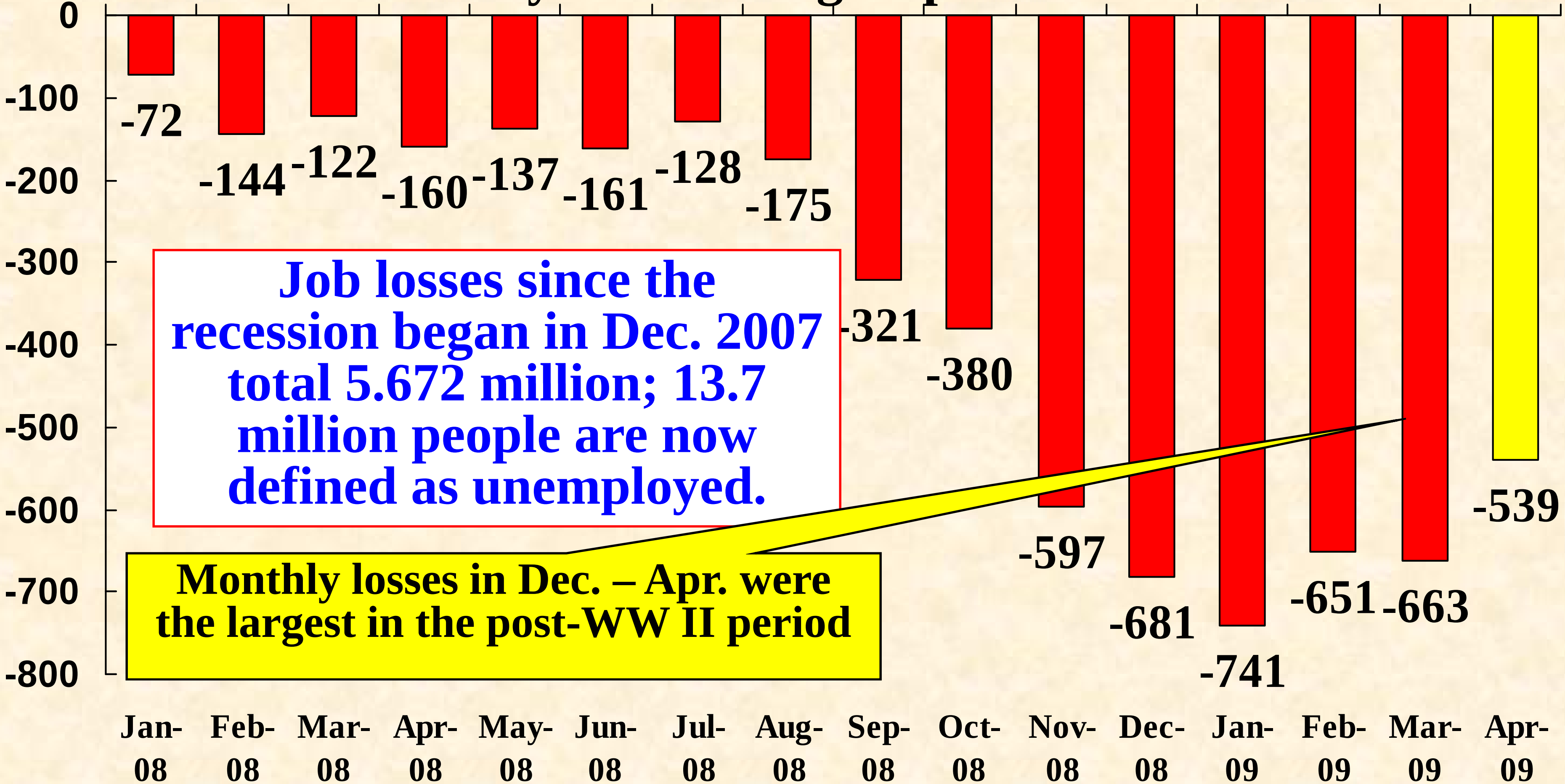


* Blue bars are actual; Yellow bars are forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (5/09); Insurance Info. Inst.

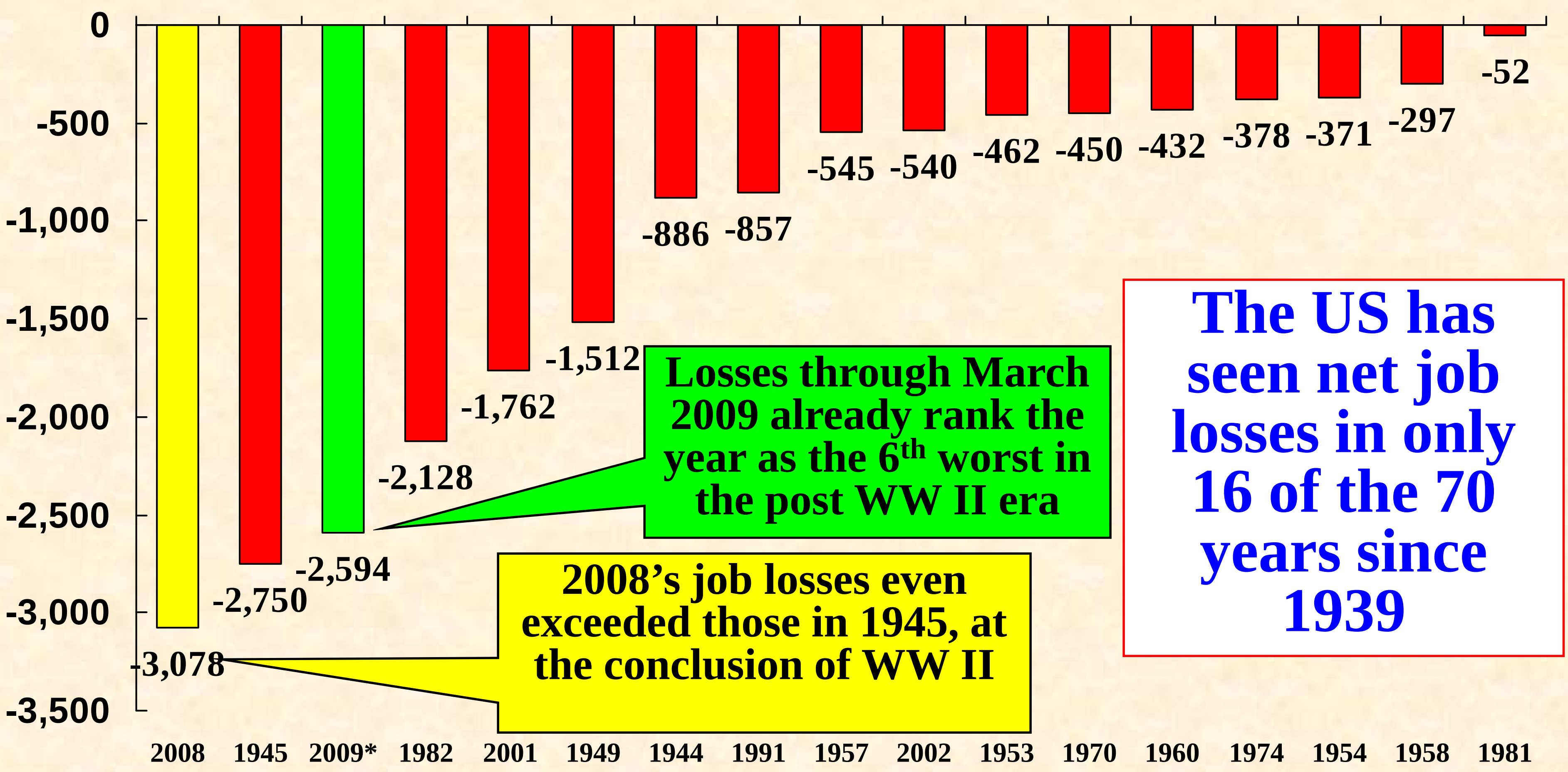
Monthly Change Employment (Thousands)*

January 2008 through April 2009



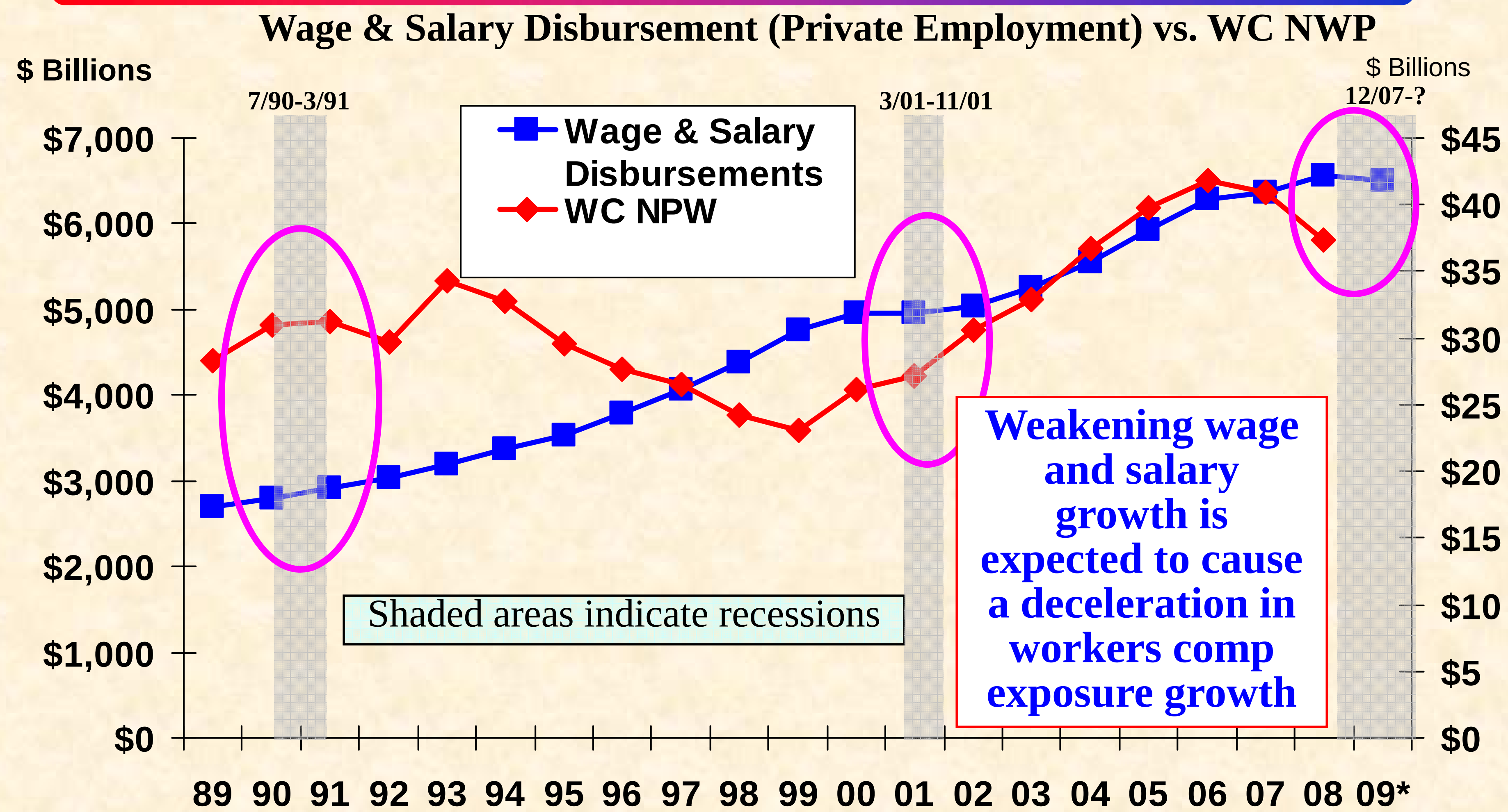
Source: US Bureau of Labor Statistics: http://www.bls.gov/ces/home.htm; Insurance Info. Institute

Years With Job Losses: 1939-2009 (Thousands)*



*Through April 2009.
Source: Insurance Information Institute research from US Bureau of Labor Statistics data: http://www.bls.gov/ces/home.htm.

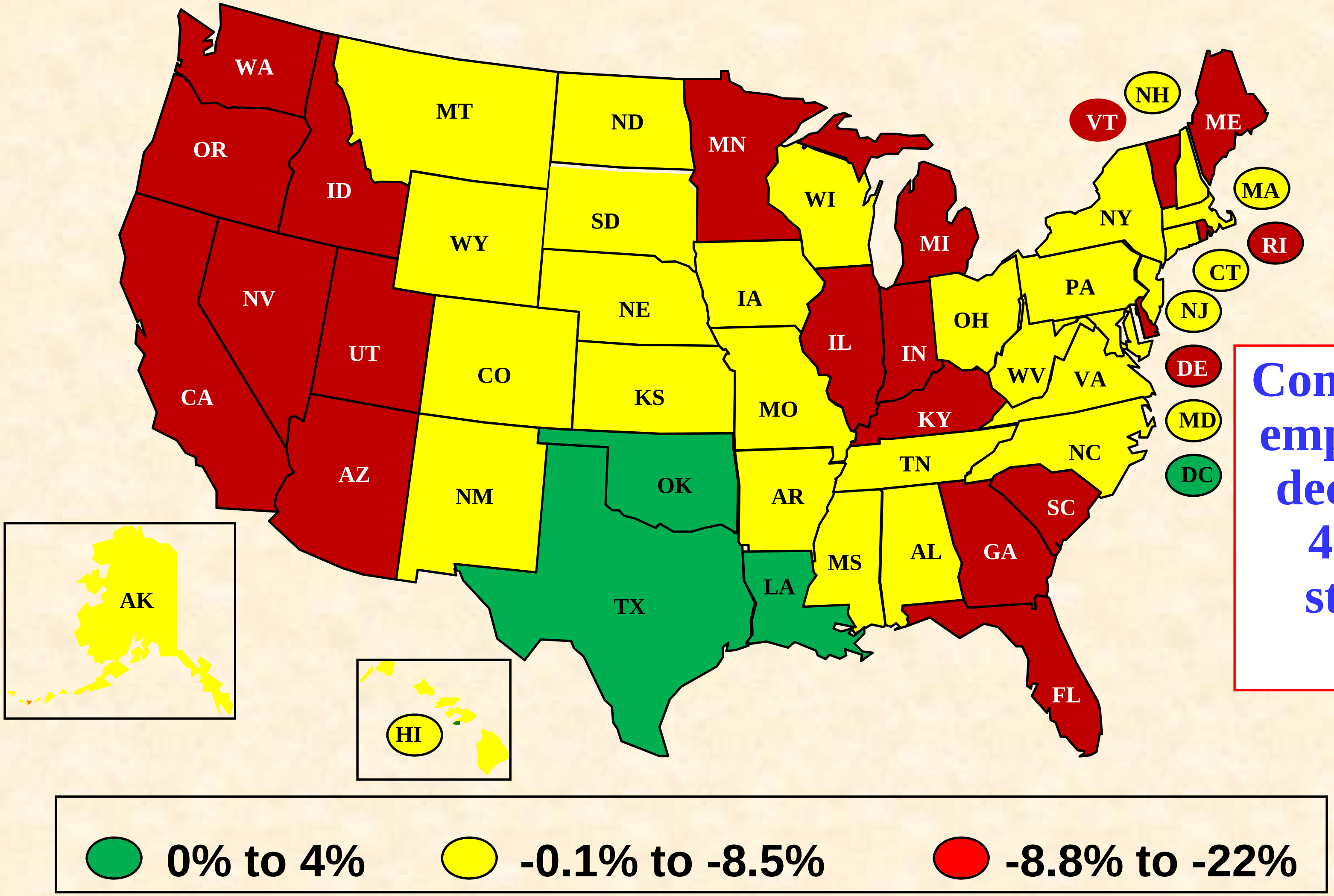
Wage & Salary Disbursements (Payroll Base) vs. Workers Comp Net Written Premiums



*Wage and Salary data as of 1/1/2009.

Source: US Bureau of Economic Analysis; Federal Reserve Bank of St. Louis at http://research.stlouisfed.org/fred2/series/WASCUR; I.I.I. Fact Books

State Construction Employment, Dec. 2007 – Dec. 2008



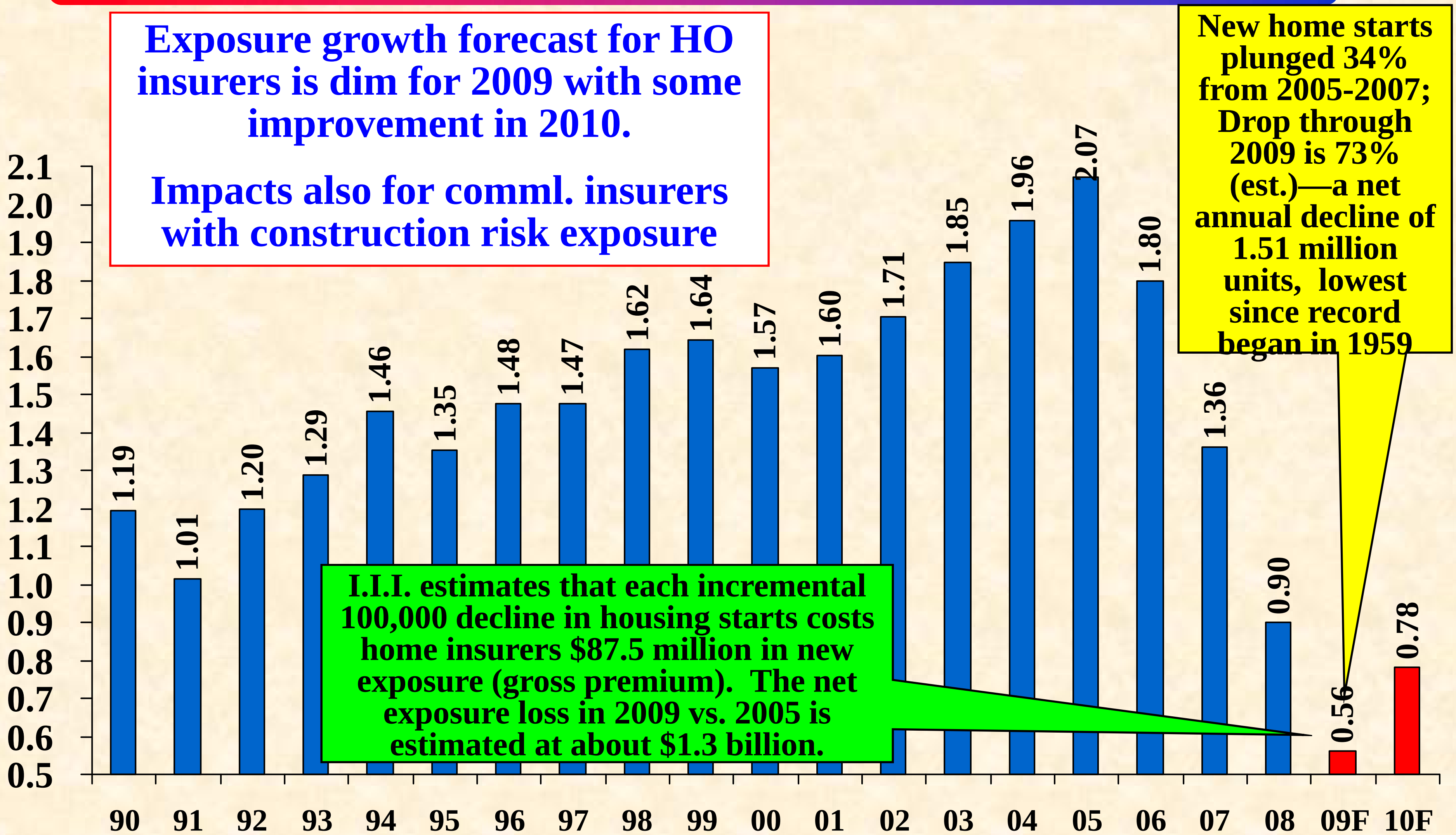
Construction employment declined in 47 of 50 states in 2008

Sources: Associated General Contractors of America from Bureau of Labor Statistics; Insurance Information Institute.

Crisis-Driven Exposure Implications

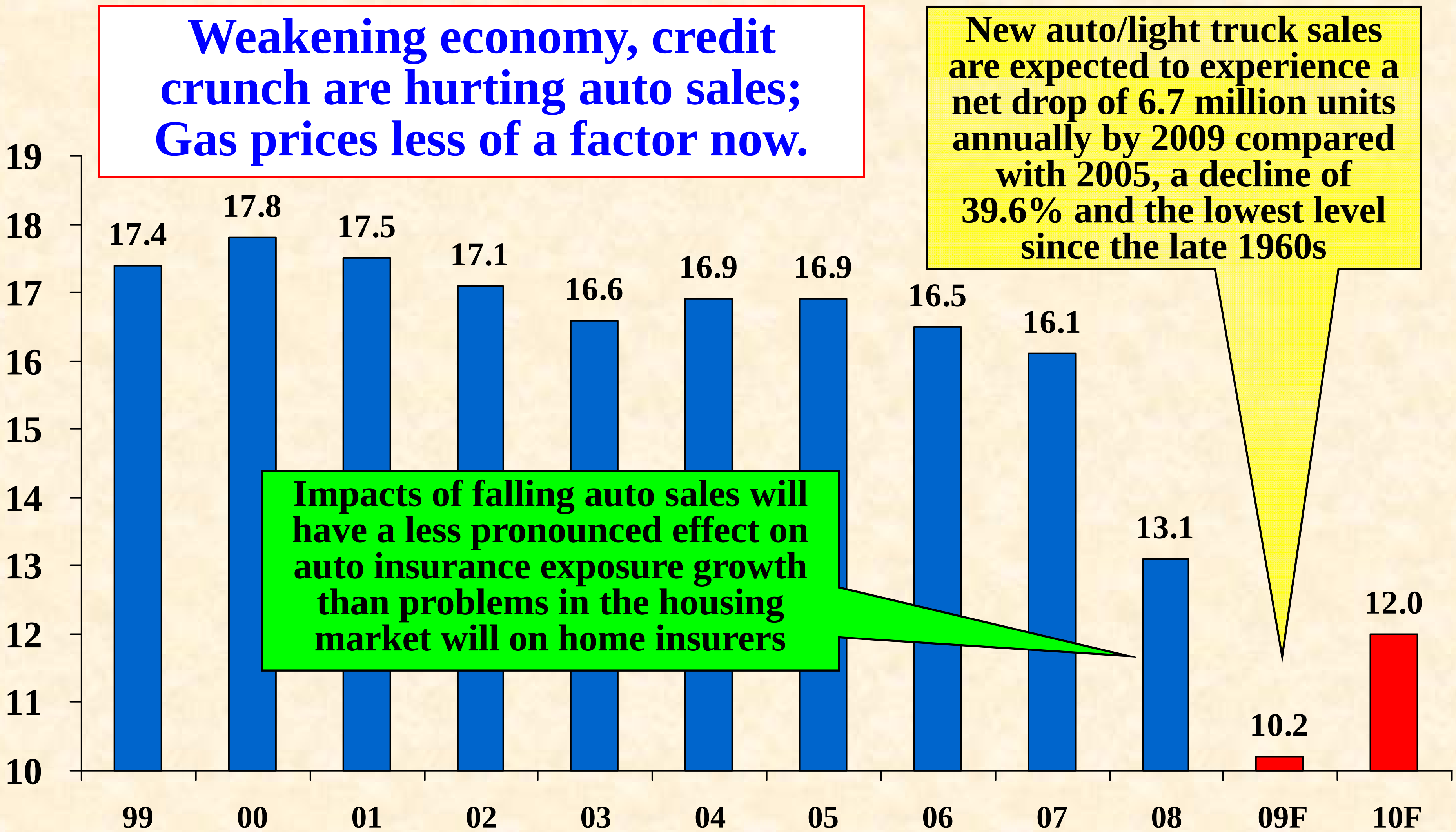
Home, Contractor, Auto, Exposure Growth Slows as Sales Nosedive

New Private Housing Starts, 1990-2010F (Millions of Units)



Source: US Department of Commerce; Blue Chip Economic Indicators (5/09); Insurance Information Inst.

Auto/Light Truck Sales, 1999-2010F (Millions of Units)



Source: US Department of Commerce; Blue Chip Economic Indicators (4/09); Insurance Information Inst.

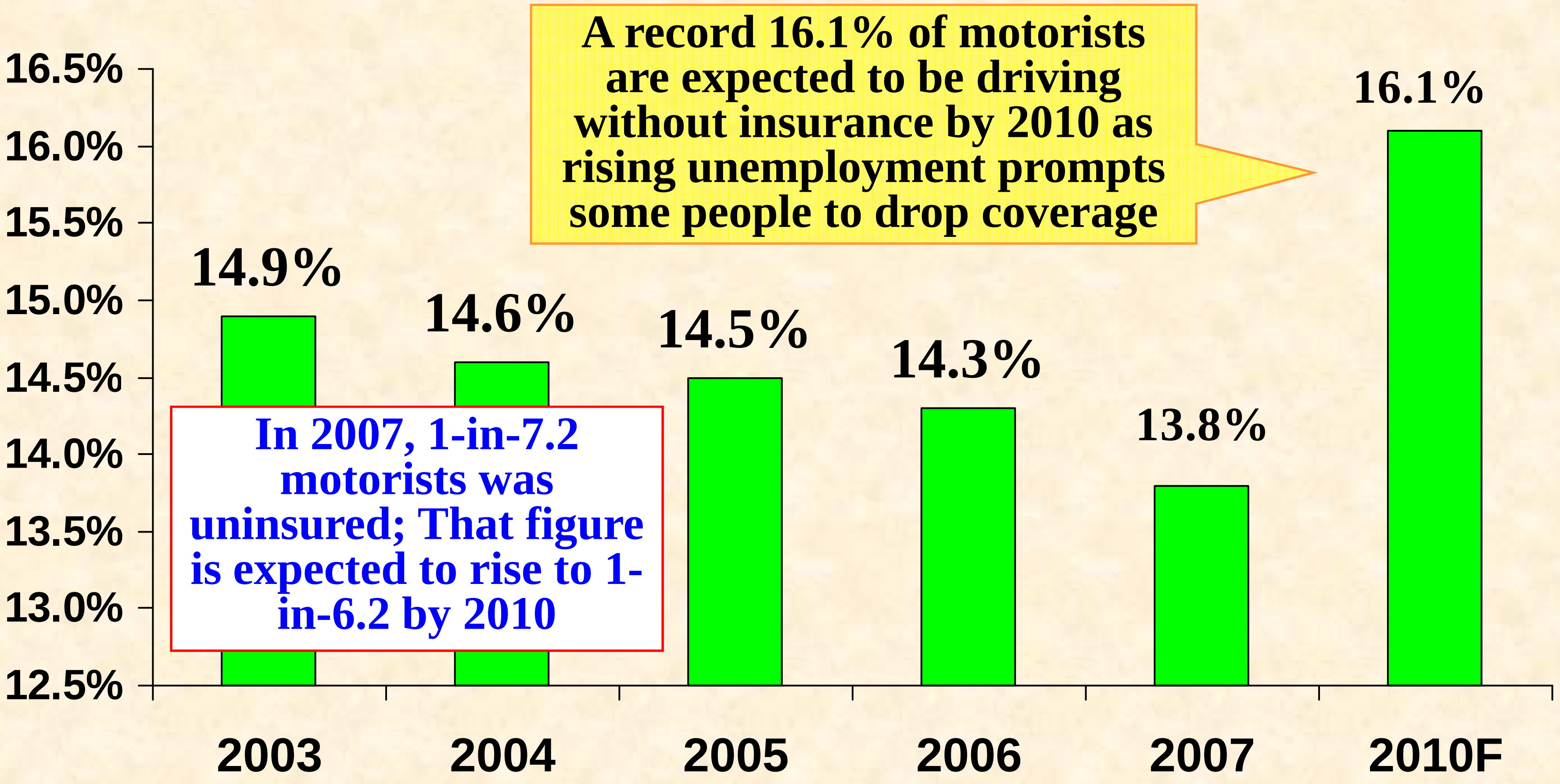
Crisis Implications

Top Crisis-Driven Claim Issues for Personal Lines Insurers

Summary of Short-Run Changes in Claiming Behavior Due to Economy

- **CLAIMING BEHAVIOR**
  - **Claim frequency falls with miles driven. History: Drop is temporary.**
  - **Claim severity continues to rise: med costs, collisions repair costs up**
  - **Likely maintenance on homes, cars deferred→claim. freq/sev. impact?**
- **PURCHASING BEHAVIOR: Efforts to Economize**
  - **More shopping around**
  - **Increased deductibles**
  - **Dropping optional coverages (collision, comprehensive)**
  - **Lower limits**
  - **Insuring fewer vehicles (3 or 4th vehicle sold)**
  - **Insuring older vehicles (old cars retained, new car purchases deferred)**
- **UNINSURED/UNDERINSURED MOTORIST % RISES**
  - **Expected to rise from 13.8% in 2007 to 16.1% in 2010**
- **FRAUD & ABUSE:**
  - **Evidence emerging of increased frequency of "give-ups" where car owners underwater on payments commit fraud to obtain insurance money (e.g., car arson, fabricated theft, etc.)**
  - **Anecdotal evidence of owner-caused home arson**

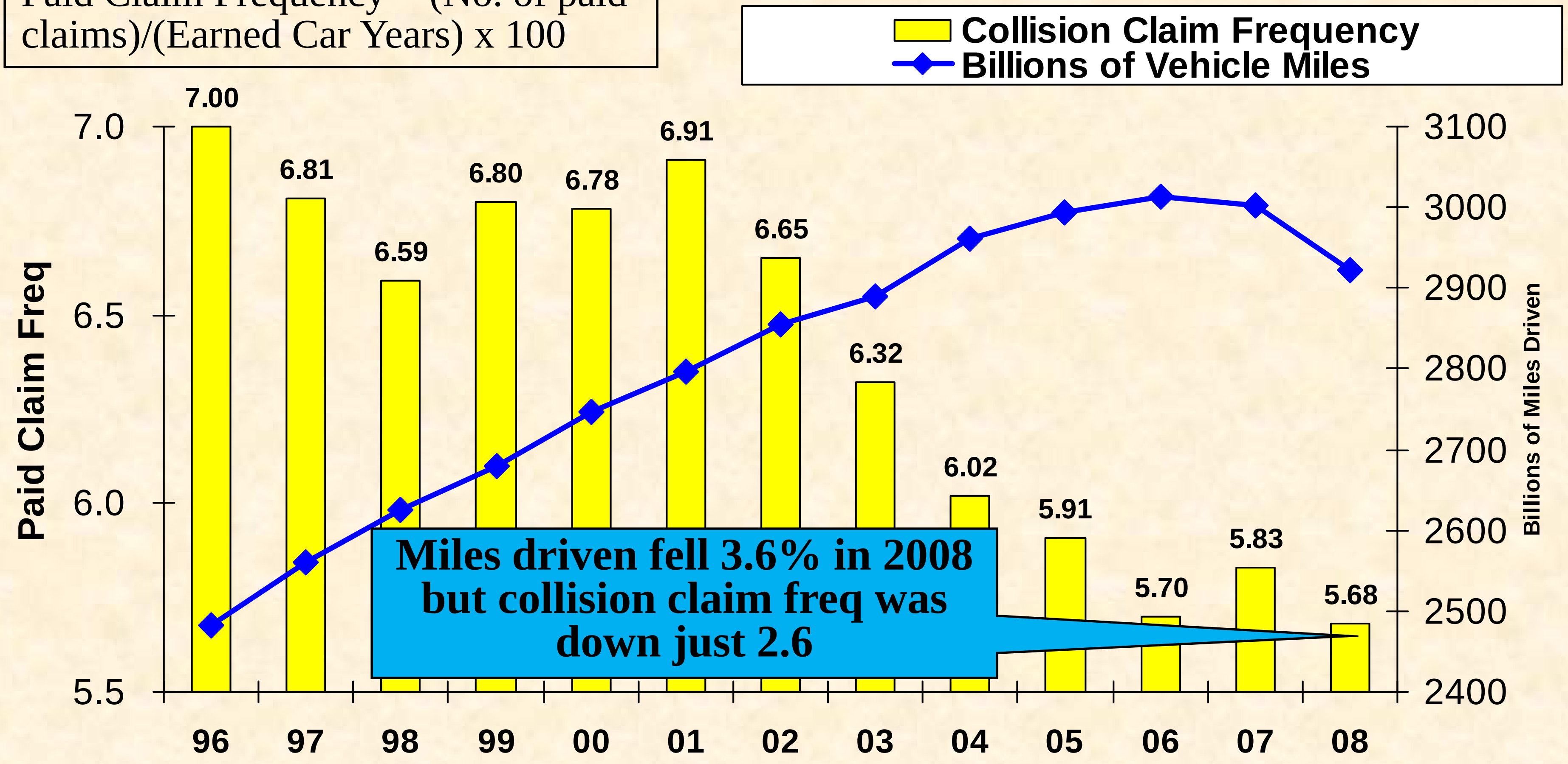
Percentage Motorists Driving Without Insurance, 2003-2010F



Source: *Uninsured Motorists, 2008* Edition, Insurance Research Council; Insurance Information Institute

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/08septvt/index.cfm; ISO Fast Track Monitoring System, *Private Passenger Automobile Fast Track Data*: Nine Months 2008, published April 1, 2009 and earlier reports. *2008 ISO figure is for 4 quarters ending Q4 2008.

Auto Insurance: Claim Frequency Impacts of Energy Crisis of 1973/4

Oct. 17, 1973: Arab oil embargo begins

Frequency Impacts

Collision: -7.7%

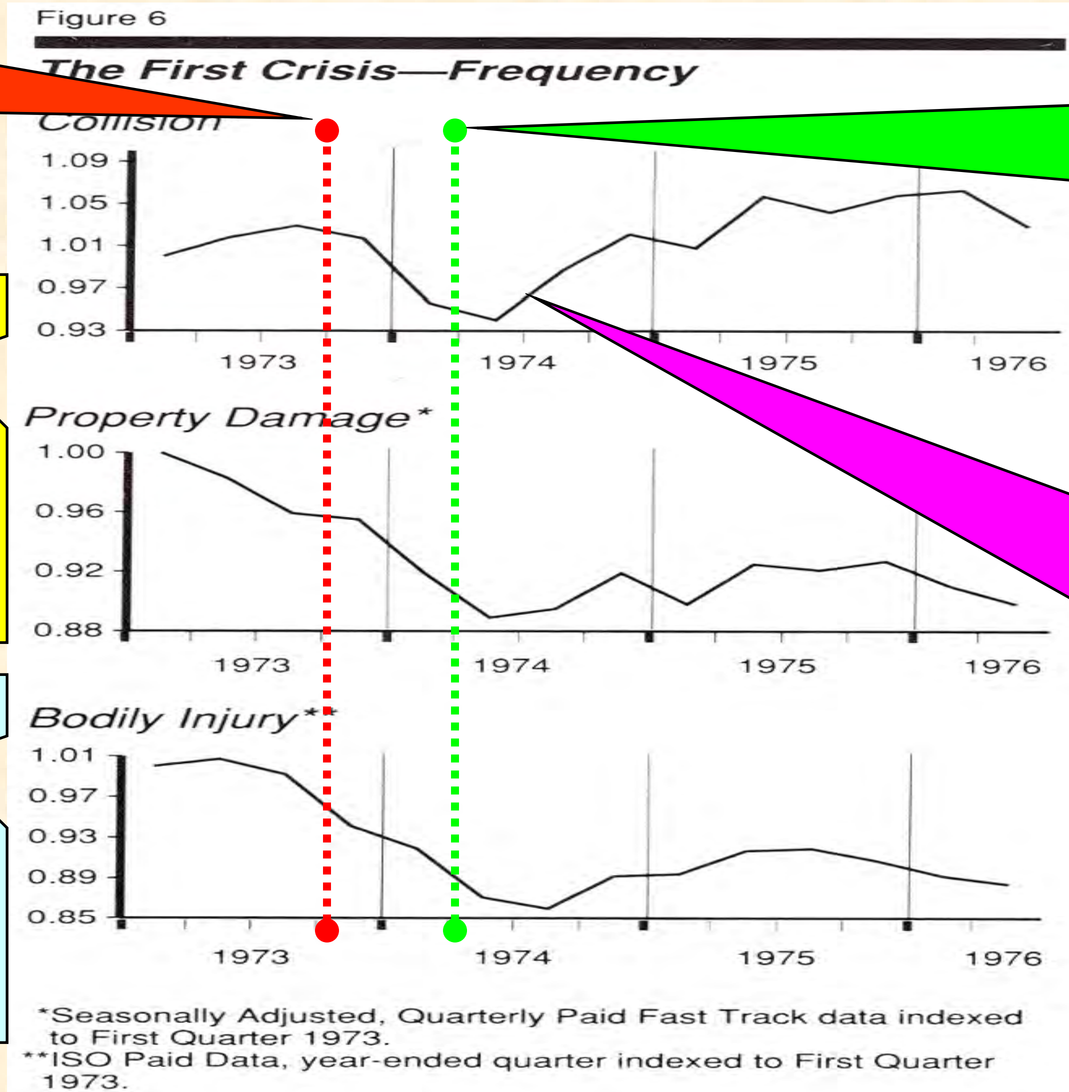
PD: -9.5%

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.

GREEN SHOOTS

Is the Recession Nearing an End?

Hopeful Signs That the Economy Will Begin to Recover Soon

- Recession Appears to be Bottoming Out, Freefall Has Ended
  - Pace of GDP shrinkage is beginning to diminish
  - Pace of job losses is leveling off
  - Major stock market indices well off record lows, anticipating recovery
  - Some signs of retail sales stabilization are evident
- Financial Sector is Stabilizing
  - Banks are reporting quarterly profits
  - Many banks expanding lending to credit worthy people & businesses
- Housing Sector Likely to Find Bottom Soon
  - Home are much more affordable (attracting buyers)
  - Mortgage rates are at multi-decade lows (attracting buyers)
  - Freefall in housing starts and existing home sales is ending
- Inflation & Energy Prices Are Under Control
- Consumer & Business Debt Loads Are Shrinking

Source: Ins. Info. Inst.

AFTERSHOCK

What Will the P/C Insurance Industry Look Like After the Crisis?

6 Key Differences

6 Key Differences: P/C Insurance in the Post-Financial Catastrophe World

1. **The P/C Insurance Industry Will Be Smaller: The Industry Will Have Shrunk by About 3% in Dollar Terms and by 7% on an Inflation Adjusted Basis, 2007-09**
   - Falling prices, weak exposure growth, increasing government intervention in private (re)insurance markets, large retentions and alternative forms of risk transfer have siphoned away premium
   - There will be fewer competitors after a mini consolidation wave

2. **P/C Industry Will Emerge With Its Risk Mgmt. Model More Intact than Most other Financial Service Segments**
   - Benefits of risk-based underwriting, pricing and low leverage clear

3. **There Will Be Federal Regulation of Insurers: Now in Waning Months of Pure State-Based Regulation**
   - Federal regulation of "systemically important" firms seems certain
   - Solvency and Rates regulation, Consumer Protection may be shared
   - Dual regulation likely; federal/state regulatory conflicts are likely
   - With the federal nose under the tent, anything is possible
   - Life insurers want federal regulation

Source: Insurance Info. Inst.

6 Key Differences: P/C Insurance in the Post-Financial Catastrophe World

4. **Investment Earnings Will Shrink Dramatically for an Extended Period of Time: Federal Reserve Policy, Shrinking Dividends, Aversion to Stocks**
   - **Trajectory toward lower investment earnings is being locked in**

5. **Back to Basics: Insurers Return to Underwriting Roots: Extended Period of Low Investments Exert Greatest Pressure to Generate Underwriting Profits Since 1960s**
   - **Chastened and "derisked" but facing the same (or higher) expected losses, insurers must work harder to match risk to price**

6. **P/C Insurers: Profitable Before, During & *After* Crisis: Resiliency Once Again Proven**
   - **Directly the result of industry's risk management practices**

Source: Insurance Information Inst.

Possible Regulatory Scenarios for P/C Insurers as of Year-End 2009

- **Status Quo: P/C Insurers Remain Entirely Under Regulatory Supervision of the States**
  - **Unlikely, but some segments of the industry might welcome this outcome above all others**
- **Federal Regulation: Everything is Regulated by Feds**
  - **Unlikely that states will be left totally in the cold**
- **Optional Federal Charter (OFC): Insurers Could Choose Between Federal and State Regulation**
  - **Unlikely to be implemented as envisioned for past several years by OFC supporters**
- **Dual Regulation: Federal Regulation Layer Above State**
  - **Feds assume solvency regulation, states retain rate/form regulation**
- **Hybrid Regulation: Feds Assume Regulation of Large Insurers at the Holding Company Level**
- **Systemic Risk Regulator: Feds Focus on Regulation of Systemic Risk Points in Financial Services Sector**
  - **What are these points for insurers? P/C vs. Life?**

Source: Insurance Information Inst.

INSURERS & FEDERAL GOVERNMENT

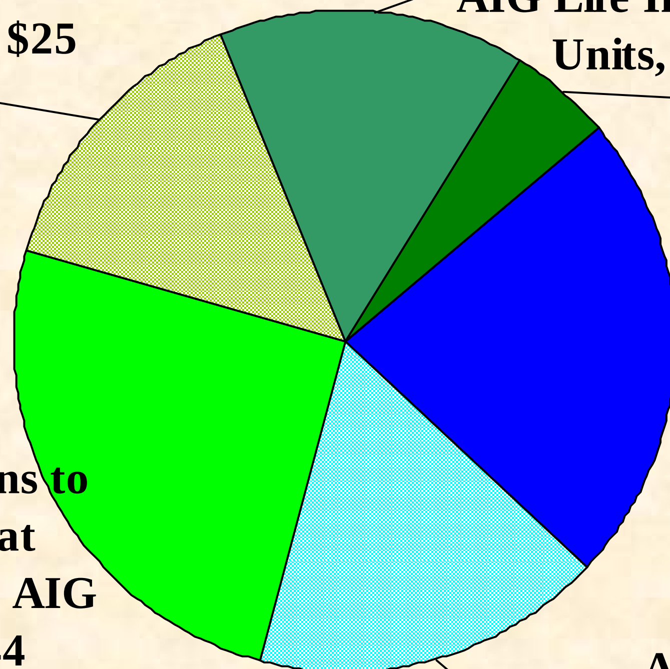
Federal Government Believes There is Some Systemic Risk Present

Implications of Latest AIG Rescue Package: $173.3B Potential*

AIG Rescue Facts

- Federal aid started at $85B in Sept. 2007, rose to $123B, then $150B and now $173B as of 3/2/09.
- AIG is deemed to be too big and interconnected to fail, i.e., AIG is a systemic risk
- Some insurers feel it is unfair and allows AIG to undercut on price. GAO looking into this.
- Feds view AIG as systemic risk and are committed to keeping it afloat

$ Billions



*Blue = Treasury program; Green = Federal Reserve

Source: Federal Reserve; *WSJ* "For AIG, a Buy-and-Hold Strategy," 3/3/09.

Summary of AIG Issue

- **March Bonus Flap or the Identity of Counterparties is Not the Main Concern for AIG**
- **From a PC Insurance Standpoint, the Separation of Most (or All) Commercial and Personal Lines Insurance Companies into AIU Holdings, Inc., is Significant**
  - **$43B in both premiums and equity as of 12/31/08**
  - **Effort will be to try to offer 20% stake in AIU entity**
  - **Will have its own management, board of directors and eventually credit rating**
- **Ultimate Goal is to Be Completely Separate from AIG**
- **AIU Holdings Will Be 100% Focused on PC Markets**

TARP UPDATE

Federal Government Believes There is Some Systemic Risk Present in the Insurance Sector

Summary of Treasury Decision to Offer TARP Aid to Life Insurers

- **On May 14, US Treasury Announced It Would Inject Up to $22B into Life Insurers via TARP Program**
  - **Government agreed to provide funds to life insurance divisions of: The Hartford Financial Services Group, Allstate, Ameriprise Financial, Prudential Financial, Principal Financial and Lincoln National Corp.**
  - **Hartford, Lincoln seem likely to accept funds, Principal is hesitant**
  - **Allstate, Ameriprise, Prudential have rejected funds (as of 5/20/09)**
  - **Hartford said it is eligible for up to $3.4B**
  - **Unclear how much other companies are eligible**
  - **Treasury hasn't said if other insurers may eventually be approved**

- **Terms: Warrants in Firm Plus Preferred Stock Paying 5% Initial Dividend**
  - **Firms will also be subjected to scrutiny by Treasury and Congress, not to mention the media and general public**
  - **Pay caps and other restrictions will also apply**

Impact of Treasury Decision to Offer TARP Aid to Life Insurers

- **Explicit Recognition by Government that Life Insurance Industry Poses a Systemic Risk**
  - **Risk posed by life insurers primarily arises from their role as large institutional investors in fixed income securities, not some much from their role in offering protection (insurance products)**
  - **Life insurers are therefore big players in the credit markets (as buyers of debt). Feds believe that their role is integral to preserving credit market stability.**
- **Makes Federal Regulation of Life Insurers More Likely**
  - **Life insurers are long-time supporters of federal chartering**
  - **ACLI: "***By extending funds to certain insurers, Treasury is taking the right step toward helping restore lending and liquidity to the marketplace.*"

    - Frank Keating, President and CEO of the American Council of Life Insurers*, May 14, 2009.*
- **P/C Insurers Remain Opposed to TARP Money**

Taxing Issues for Insurers

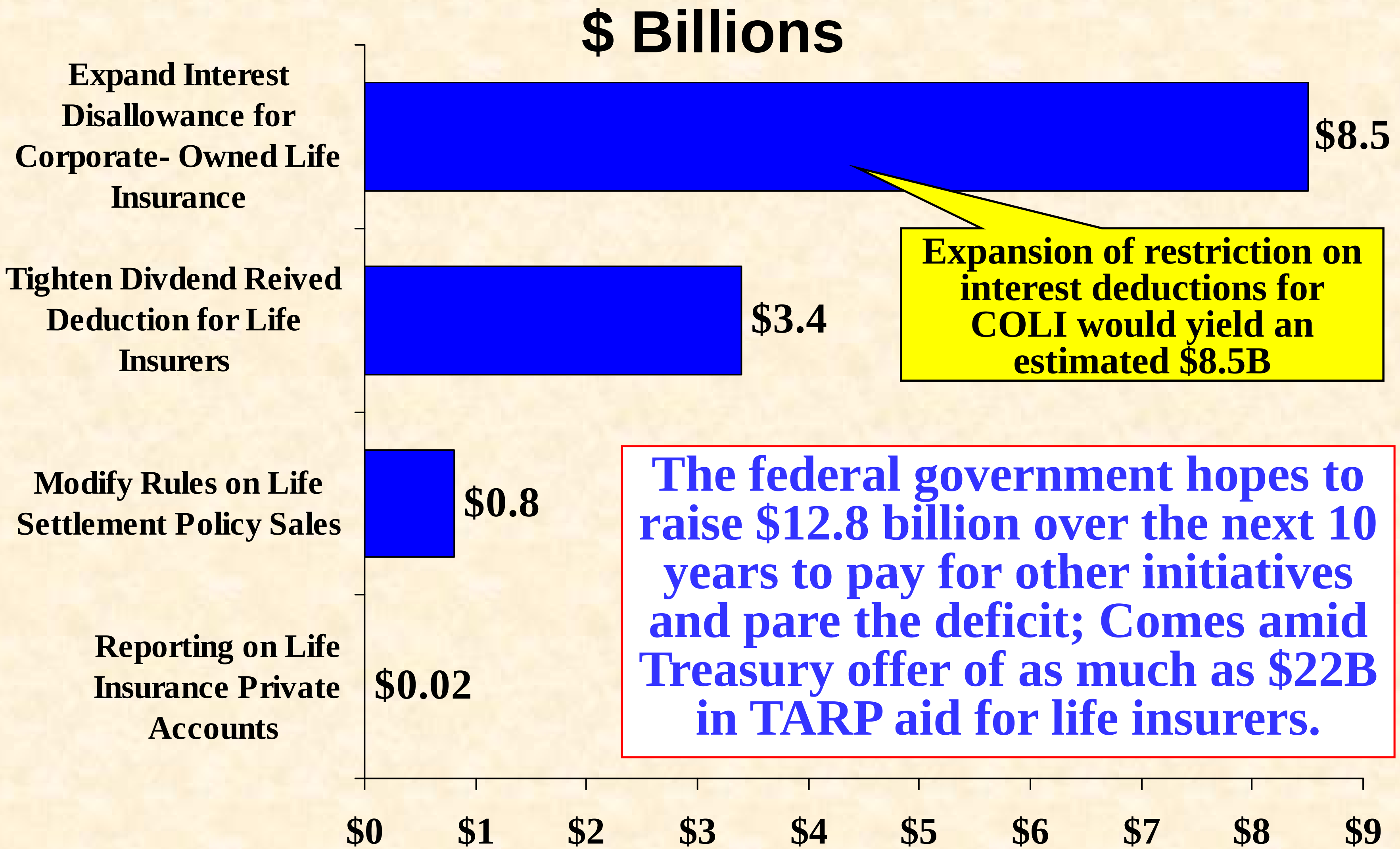
Federal Effort to Increase Revenues Will Impact P/C and Life Insurers and Reinsurers

Obama Administration Seeking to Raise Additional Billions from Insurers and Reinsurers

- **Obama Administration Seeking to Raise More Than $400B in New Tax Revenue Through Tax Code Changes**
  - **Money needed to pay for expensive new initiatives, especially health care overhaul and to temper growth in anticipated $1.8 trillion deficit**
  - **(Re) Insurers affected 2 ways and become effective in 2010 or 2011**
    - **Taxation of Offshore (Re) Insurance**
    - **Tax Treatment of Certain Life Insurance Products**
- **Taxation of Foreign Source Income**
  - **Foreign source income from all industries subject to higher taxes *including (re)insurance*. Administration hopes to take in $220 billion between 2011 and 2019 across all sources.**
  - **Brattle Group Study (May 2009): Will raise insurance costs to consumers by $10-$12B per year in US as supply of reinsurance falls 20%**
- **Tax Treatment of Certain Life Insurance Products: Expected to Raise $12.8 Billion Over 10 Years**
  - **i. Expand interest disallowance on Corporate Owned Life Insurance (COLI)**
  - **ii. Tightening of deduction for dividends received on investments**
  - **iii. Limits on tax breaks related to Life Settlements**

Source: *Wall Street Journal*, various issues, May 2009; I.I.I.

Estimated Tax Revenue from Changes in Tax Treatment of Life Insurance Products Over 10 Yrs.



Source: US Treasury Department; "New Tax Proposals Target Life Insurers," *Wall Street Journal,* 5/18/09; I.I.I.

10 Key Threats Facing Insurers Amid Financial Crisis

Challenges for the Next 5-8 Years

Important Issues & Threats Facing Insurers: 2009 - 2015

1. Erosion of Capital

- Losses are larger and occurring more rapidly than is commonly understood or presumed
- Surplus down 13%=$66B since 9/30/07 peak; 12% ($80B) in 2008
- P/C policyholder surplus could be even more by year-end 2009
- Some insurers propped up results by reserve releases
- Decline in PHS of 1999-2002 was 15% over 3 years and was entirely made up and them some in 2003. Current decline is ~13% in 5 qtrs.
- During the opening years of the Great Depression (1929-1933) PHS fell 37%, Assets fell 28% and Net Written Premiums fell by 35%. It took until 1939-40 before these key measures returned to their 1929 peaks.
- BOTTOM LINE: Capital and assets could fall much farther and faster than many believe. It will take years to return to the 2007 peaks (likely until 2011 with a sharp hard market and 2015 without one)

Source: Insurance Information Inst.

Important Issues & Threats Facing Insurers: 2009 - 2015

2. Reloading Capital After "Capital Event"

- **Continued asset price erosion coupled with major "capital event" could lead to shortage of capital among *some* companies**
- **Possible Consequences: Insolvencies, forced mergers, calls for govt. aid, requests to relax capital requirements**
- **P/C insurers have come to assume that large amounts of capital can be raised quickly and cheaply after major events (post-9/11, Katrina).**
  - ***This assumption may be incorrect in the current environment***
- **Cost of capital is *much* higher today, reflecting both scarcity & risk**
- **Implications: P/C (re)insurers need to protect capital today and develop detailed contingency plans to raise fresh capital & generate internally. Already a reality for some life insurers.**

Source: Insurance Information Inst.

Important Issues & Threats Facing Insurers: 2009 - 2015

3. Long-Term Loss of Investment Return

- **Low interest rates, risk aversion toward equities and many categories of fixed income securities lock in a multi-year trajectory toward ever lower investment gains**
- **Price bubble in Treasury securities keeps yields low**
- **Many insurers have not adjusted to this new investment paradigm of a sustained period of low investment gains**
- ***Regulators will not readily accept it*; Many will reject it**
- **Implication 1: Industry must be prepared to operate in environment with investment earnings accounting for a smaller fraction of profits**
- **Implication 2: Implies underwriting discipline of a magnitude not witnessed in this industry in more than 30 years. Yet to manifest itself.**
- **Lessons from the period 1920-1975 need to be relearned**

Source: Insurance Information Inst.

Important Issues & Threats Facing Insurers: 2009 - 2015

4. Economic Collapse

- **Long-term decline in industry growth prospects similar to the 1930s**
- **Collapse does *not* imply inability to remain profitable**
- **Industry in 1930s shrank but became profitable**
- **Some insurers will not survive due to combination of poor investment environment, operating underwriting challenges and capital depletion**
- **Policyholder and claimant behavior will change; *Need Mitigation Strategies***
  - **Claim malingering**
  - **Cost shifting from healthcare into WC**
  - **Insurance fraud will increase (premium evasion, classification)**

- **Bottom Line: Industry can survive deep and prolonged economic downturn, but not without casualties**

Source: Insurance Information Inst.

Important Issues & Threats Facing Insurers: 2009 – 2????

5. Regulatory Overreach

- **Principle danger is that P/C insurers get swept into vast federal regulatory overhaul and subjected to inappropriate, duplicative and costly regulation (Dual Regulation)**
- **Danger is high as feds get their nose under the tent**
- **Status Quo is viewed as unacceptable by all**
- **Pushing for major change is not without *significant* risk in the current highly charged political environment**
- **Insurance & systemic risk**
- **Disunity within the insurance industry**
- **Impact of regulatory changes will be felt for decades**
- **Bottom Line: Regulatory outcome is uncertain and risk of adverse outcome is high**

Source: Insurance Information Inst.

Important Issues & Threats Facing Insurers: 2009 - 2015

6. Creeping Restrictions on Underwriting

- **Attacks on underwriting criteria such as credit, education, occupation, territory increasing**
- **Industry will lose some battles**
- **View that use of numerous criteria are discriminatory and create an adverse impact on certain populations**
- **Impact will be to degrade the accuracy of rating systems to increase subsidies**
- **Predictive modeling also at risk**
- **Current social and economic environment could accelerate these efforts**
- **Danger that bans could be codified at federal level during regulatory overhaul**
- **Bottom Line: Industry must be prepared to defend existing and new criteria indefinitely**

Source: Insurance Information Inst.

Important Issues & Threats Facing Insurers: 2009 - 2015

7. **Exploitation of Insurance as a Wealth and Income Redistribution Mechanism**
   - **There is a longstanding history of attempts to use insurance to advance wealth redistribution/economic agendas**
   - **Urban subsidies; Coastal subsidies are old; Could be extended to workers comp in variety of ways**
   - **Insurer focus on underwriting profitability (resulting in higher rates) coupled with poor economic conditions could raise profile of affordability issue**
   - **Calls for "excess profits tax" on insurers**
   - **Increased government involvement in insurance (including ownership stakes) make this more likely**
   - **Federal regulation could impose such redistribution schemes**
   - **Bottom Line: Expect efforts to address social and economic inequities through insurance**

Source: Insurance Information Inst.

Important Issues & Threats Facing P/C Insurers: 2009 - 2015

8. Mega-Catastrophe Losses

- **$100B CAT year is not improbably over the next 5-7 year**
- **Severity trend remains upward**
- **Frequency trends highly variable but more prone to spikes**
- **FINANCING: Unclear if sufficient capital exists to finance mega-cats in current capital constrained environment**
- **Concern over reinsurance capacity and pricing**
- **Alternative sources of CAT financing have dried up**
- **Some regulators will continue to suppress rates**
- **Residual markets shares remain high**
- **Loss of volume for private insurers in key states (e.g., FL)**
- ***Serves as entry point for socialization of insurance***
- **Bottom Line: Capacity to finance mega-cats is diminished. Government may fill the void, sometimes with the industry's support; sometimes in spite of opposition**

Important Issues & Threats Facing Insurers: 2009 -2015

9. **Creeping Socialization and Partial Nationalization of Insurance System**
   - **CAT risk is, on net, being socialized directly via state-run insurance and reinsurance mechanisms or via elaborate subsidy schemes involving assessments, premium tax credits, etc.**
   - **Some (life) insurers seeking TARP money**
   - **Efforts to expand flood program to include wind**
   - **Health insurance may be substantively socialized—*WC folded in?***
   - **Terrorism risk—already a major federal role backed by insurers**
   - **Eventually impacts for other lines such as personal auto, *WC*?**
   - **Feds may open to more socialization of private insurance risk**
   - **Ownership stakes in some insurers could be a slippery slope**
   - **States like FL will lean heavily on Washington in the event of a mega-cat that threatens state finance**
   - **Bottom Line: Additional socialization likely. Can insurers/will insurers draw the line?**

Source: Insurance Information Inst.

Important Issues & Threats Facing Insurers: 2009 -2015

10. Emerging Tort Threat

- **No tort reform (or protection of recent reforms) is forthcoming from the current Congress or Administration**
- **Erosion of recent reforms is a certainty (already happening)**
- **Innumerable legislative initiatives will create opportunities to undermine existing reforms and develop new theories and channels of liability**
- **Torts twice the overall rate of inflation**
- **Influence personal and commercial lines, esp. auto liab.**
- **Historically *extremely* costly to p/c insurance industry**
- **Leads to reserve deficiency, rate pressure**
- **Bottom Line: Tort "crisis" is on the horizon and will be recognized as such by 2012-2014**

Source: Insurance Information Inst.

THE $787 BILLION ECONOMIC STIMULUS

Sectoral Impacts & Implications for P/C Insurance

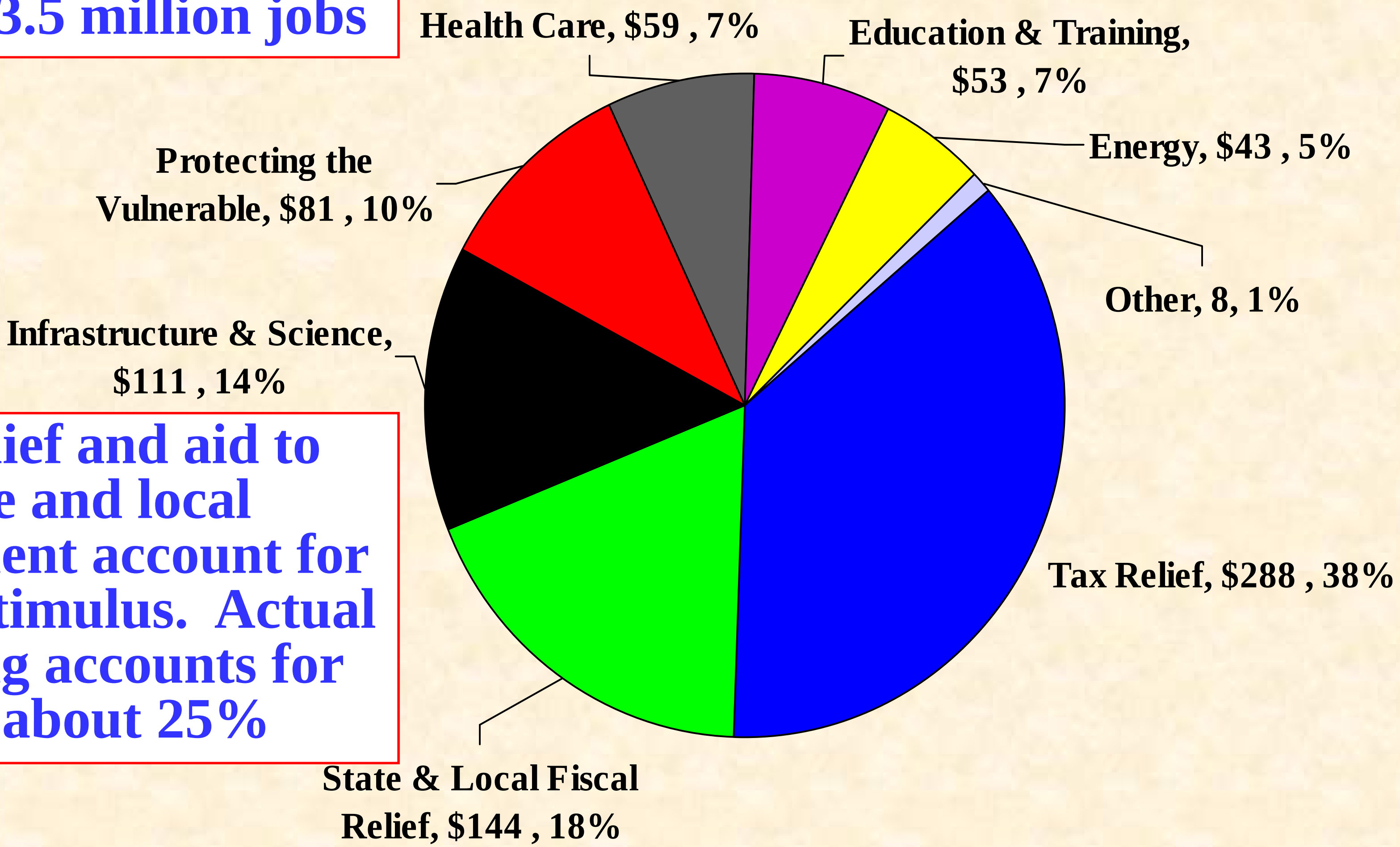
Summary of Short-Run Impacts of Stimulus Package on P/C Insurance

- **No Stimulus Provisions Specifically Address P/C Insurance**
  - **Spending, Aid and Tax Reductions benefit other industries, state and local governments, as well as individual and some corporate taxpayers**
- **Stimulus Package is Unlikely to Increase Net Premiums Written by More Than 1% or Approx. $4.5 Bill. by Year-End 2010**
- **"Direct" Impact to P/C Insurers Results Primarily from Increased Demand for Commercial Insurance**
  - **Primarily the result of increased infrastructure spending and the resulting need to insure workers, property and protect against liability risks**
  - **Because the primary objective of the stimulus is employment related, workers compensation will be the p/c line that benefits the most**
  - **Assuming the target of 3.5 million jobs created or preserved is achieved, private workers comp NPW (new and preserved) could amount to as much as $1.1 billion**
  - **Other commercial lines to benefit: surety, commercial auto, inland marine**
- **Other "Direct" P/C Demand Benefits Will Be Minimal**
  - **Tax provisions providing incentives to buy cars and homes and accelerate the depreciation of equipment will have little net impact on exposure**
  - **Some additional premium may be generated as older cars and equipment are replaced with new and more valuable (and therefore more expensive to insure)**

Economic Stimulus Package: Where the $787B Goes

Objective is to create or preserve 3.5 million jobs

$ Billions

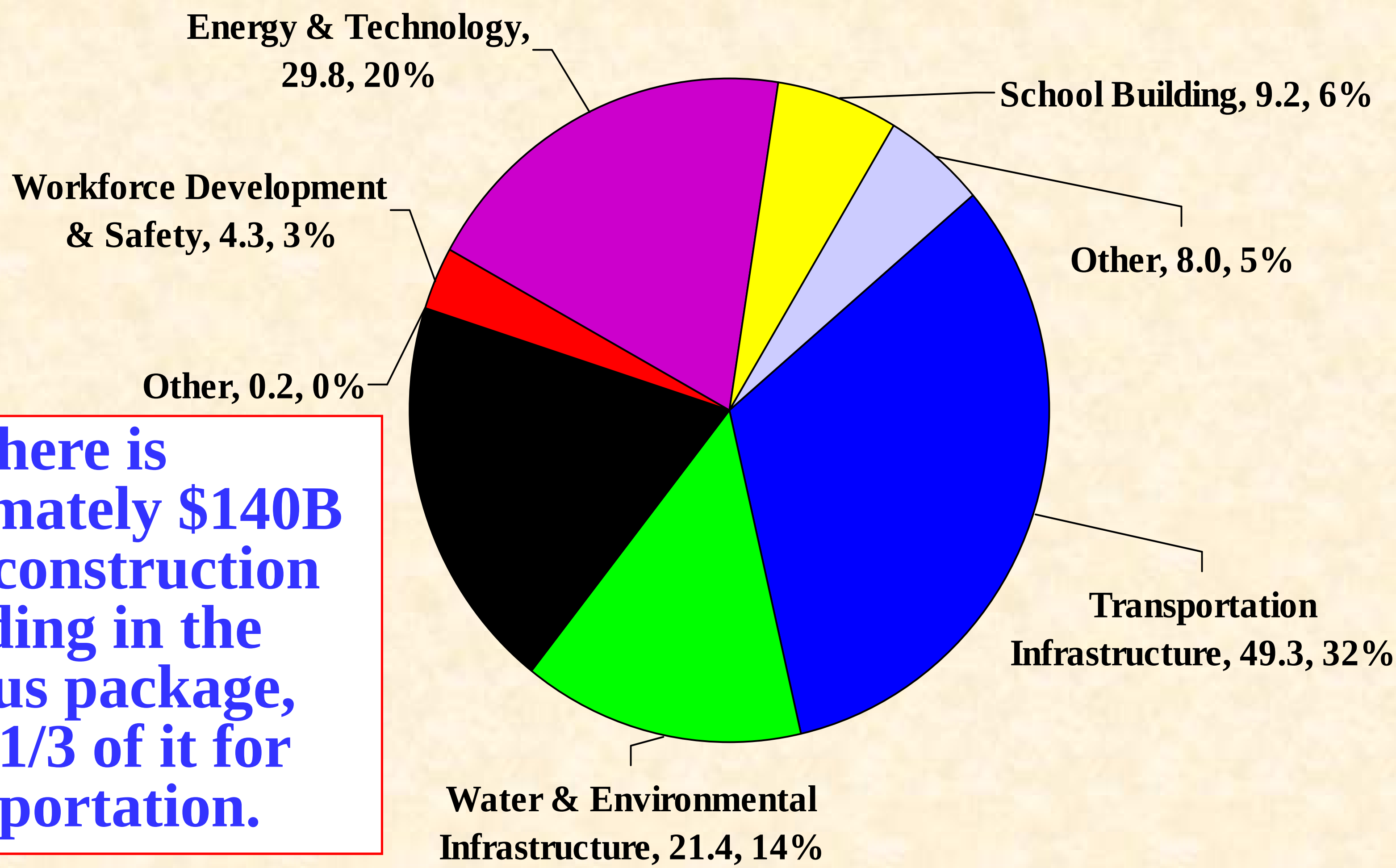


Tax relief and aid to state and local government account for 56% of stimulus. Actual spending accounts for only about 25%

Source: http://www.recovery.gov/ accessed 2/18/09; Insurance Information Institute.

Economic Stimulus Package: $143.4 in Construction Spending

$ Billions



There is approximately $140B in new construction spending in the stimulus package, about 1/3 of it for transportation.

Source: Associated General Contractors at http://www.agc.org/cs/rebuild_americas_future (2/18/09); Insurance Info. Inst..

State-by-State Infrastructure Spending

Bigger States Get More, Should Benefit Commercial Insurer Exposure

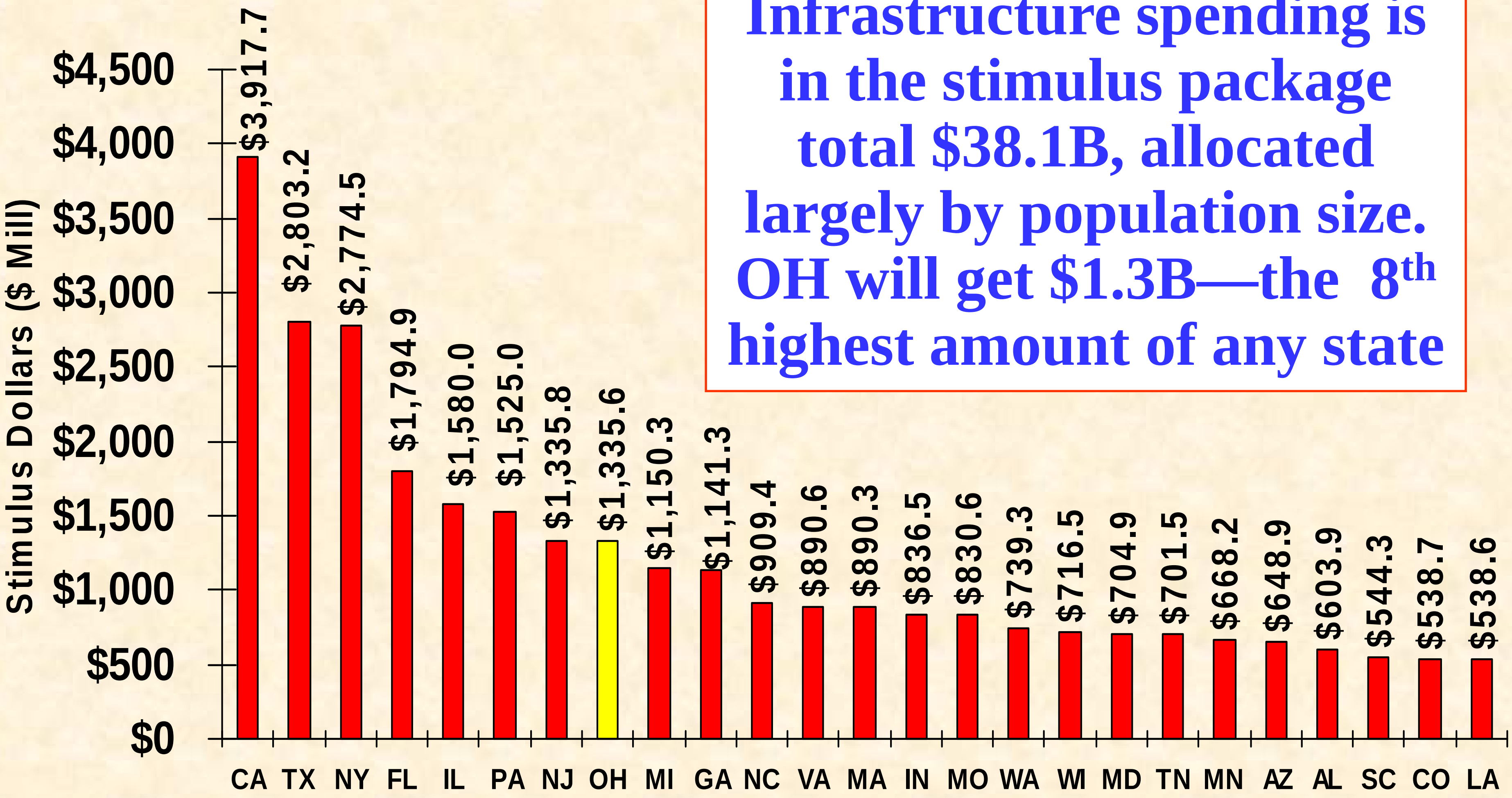
Infrastructure Stimulus Spending by State (Total = $38.1B)

State	Allocation	State	Allocation	State	Allocation
AL	$603,871,807	LA	$538,575,876	OK	$535,407,908
AK	$240,495,117	ME	$174,285,111	OR	$453,788,475
AZ	$648,928,995	MD	$704,863,248	PA	$1,525,011,979
AR	$405,531,459	MA	$890,333,825	RI	$192,902,023
CA	$3,917,656,769	MI	$1,150,282,308	SC	$544,291,398
CO	$538,669,174	MN	$668,242,481	SD	$213,511,174
CT	$487,480,166	MS	$415,257,720	TN	$701,516,776
DE	$158,666,838	MO	$830,647,063	TX	$2,803,249,599
DC	$267,617,455	MT	$246,599,815	UT	$292,231,904
FL	$1,794,913,566	NE	$278,897,762	VT	$150,666,577
GA	$1,141,255,941	NV	$270,010,945	VA	$890,584,959
HI	$199,866,172	NH	$181,678,856	WA	$739,283,923
ID	$219,528,313	NJ	$1,335,785,100	WV	$290,479,108
IL	$1,579,965,373	NM	$299,589,086	WI	$716,457,120
IN	$836,483,568	NY	$2,774,508,711	WY	$186,111,170
IA	$447,563,924	NC	$909,397,136	U.S. Territories	$238,045,760
KS	$413,837,382	ND	$200,318,301		
KY	$521,153,404	OH	$1,335,600,553	Total	$38,101,898,173

Sources: USA Today, 2/17/09; House Transportation and Infrastructure Committee; the Associated Press.

Infrastructure Stimulus Spending By State: Top 25 States ($ Millions)

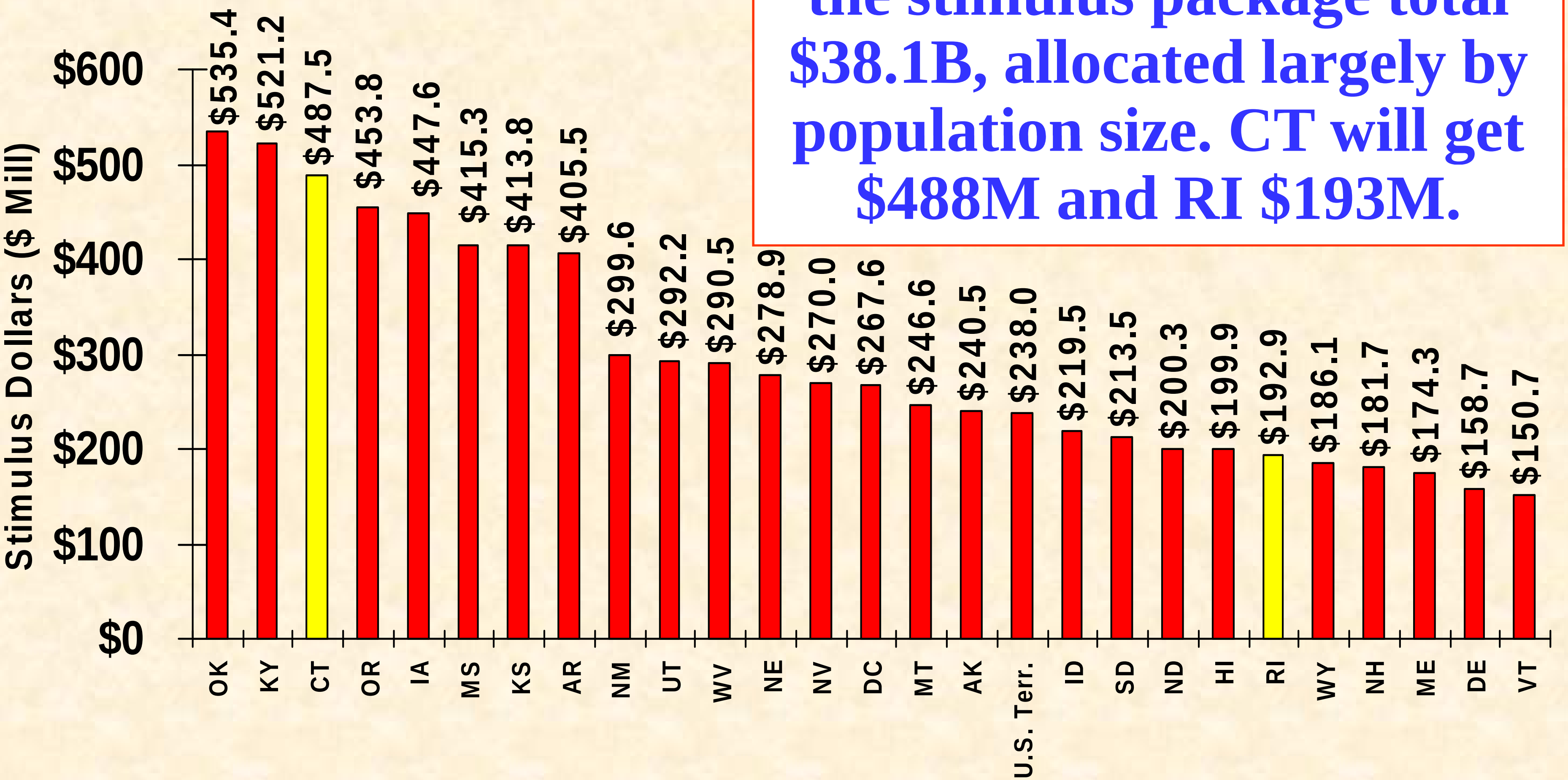
Infrastructure spending is in the stimulus package total $38.1B, allocated largely by population size. OH will get $1.3B—the 8th highest amount of any state



Sources: USA Today 2/19/09; House Transportation and Infrastructure Committee; the Associated Press.

Infrastructure Stimulus Spending By State: Bottom 25 States ($ Millions)

Infrastructure spending is in the stimulus package total $38.1B, allocated largely by population size. CT will get $488M and RI $193M.



Sources: USA Today 2/19/09; House Transportation and Infrastructure Committee; the Associated Press.

Expected Number of Jobs Gained or Preserved by Stimulus Spending

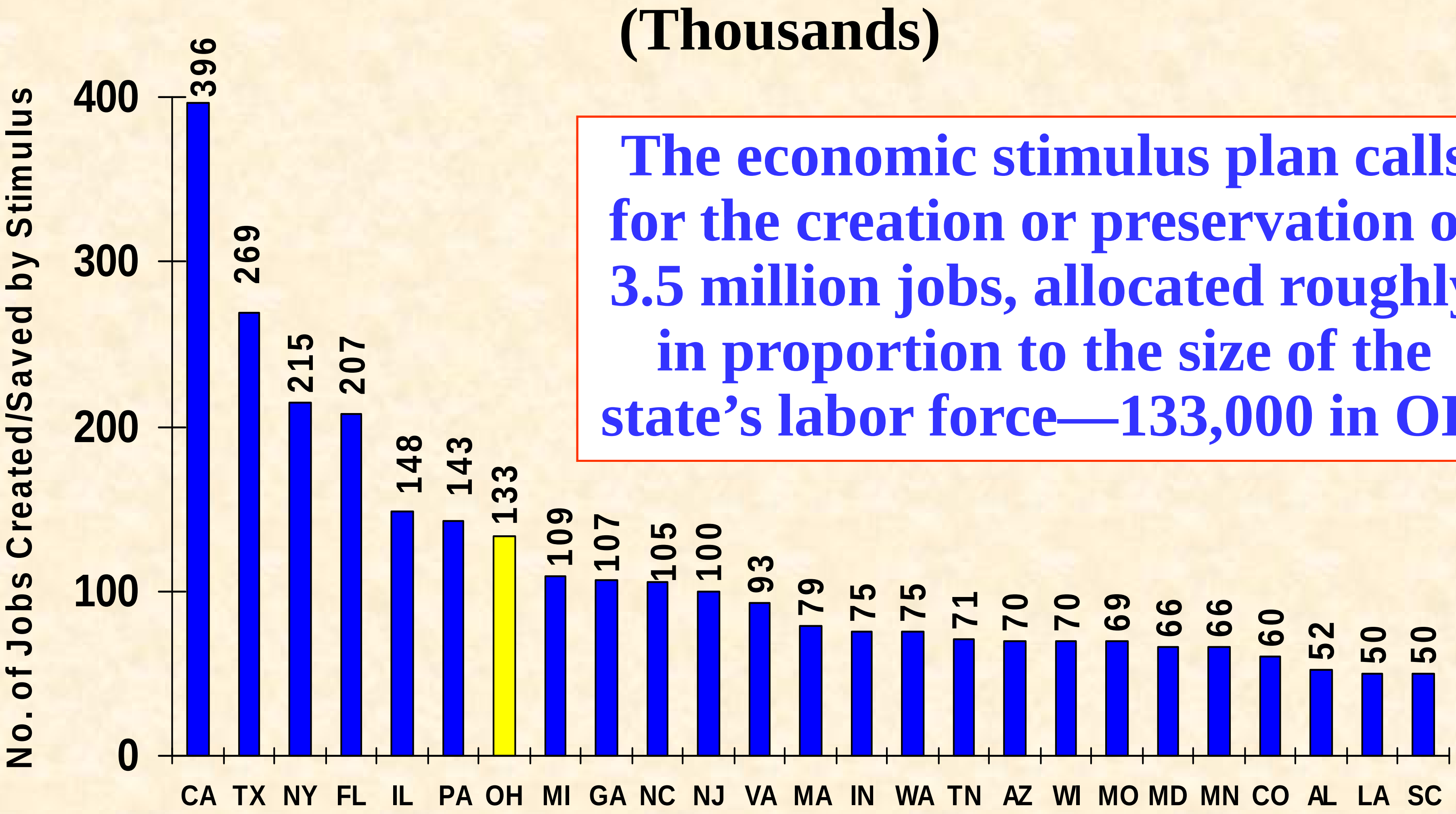
Larger States = More Jobs
Workers Comp Benefits

Estimated Job Effect of Stimulus: Jobs Created/Saved By State = 3.5 Mill Total

State	Jobs Created	State	Jobs Created	State	Jobs Created
AL	52,000	LA	50,000	OK	40,000
AK	8,000	ME	15,000	OR	44,000
AZ	70,000	MD	66,000	PA	143,000
AR	32,000	MA	79,000	RI	12,000
CA	396,000	MI	109,000	SC	50,000
CO	60,000	MN	66,000	SD	10,000
CT	41,000	MS	30,000	TN	71,000
DE	11,000	MO	69,000	TX	269,000
DC	12,000	MT	11,000	UT	32,000
FL	207,000	NE	23,000	VT	8,000
GA	107,000	NV	34,000	VA	93,000
HI	16,000	NH	16,000	WA	75,000
ID	17,000	NJ	100,000	WV	20,000
IL	148,000	NM	22,000	WI	70,000
IN	75,000	NY	215,000	WY	8,000
IA	37,000	NC	105,000		
KS	33,000	ND	9,000		
KY	48,000	OH	133,000	Total	3,467,000

Sources: http://www.recovery.gov/; Council of Economic Advisers; Insurance Information Institute.

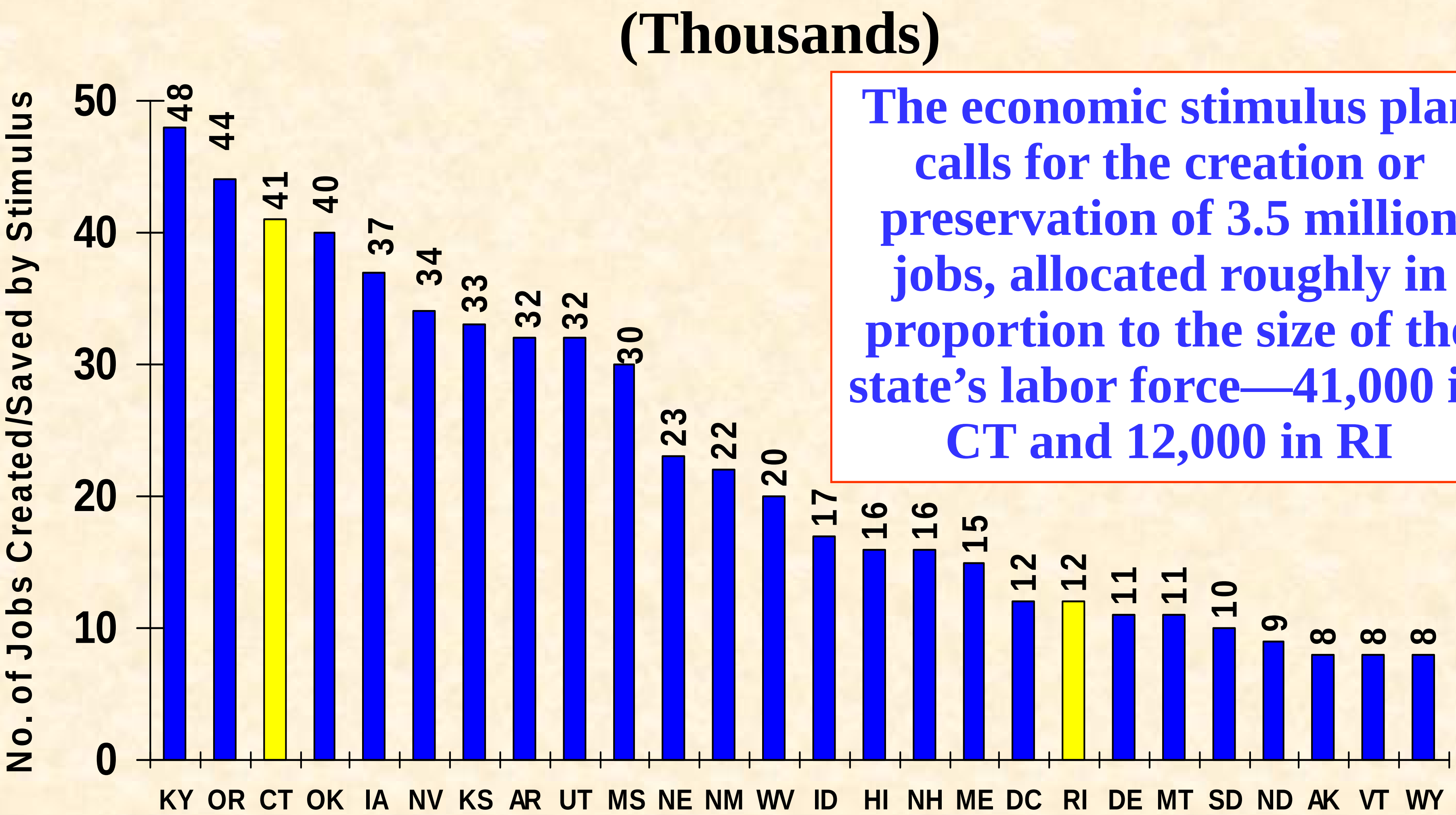
Estimated Job Effect of Stimulus Spending By State: Top 25 States



The economic stimulus plan calls for the creation or preservation of 3.5 million jobs, allocated roughly in proportion to the size of the state's labor force—133,000 in OH

Sources: http://www.recovery.gov/; Council of Economic Advisers Insurance Information Institute.

Estimated Job Effect of Stimulus Spending By State: Bottom 25 States



The economic stimulus plan calls for the creation or preservation of 3.5 million jobs, allocated roughly in proportion to the size of the state's labor force—41,000 in CT and 12,000 in RI

Sources: http://www.recovery.gov/; Council of Economic Advisers Insurance Information Institute.

Stimulus: Reading The Economic Tea Leaves for the Next 4 to 8 Years

- **Growing Role of Government: 2009 Stimulus Package and Other Likely Spending Initiatives Guarantee that Government Will Play a Much Larger Role Than at Any Other Time in Recent History**
  - **Every industry, including insurance, will and must attempt to maximize direct and indirect benefits from this paradigm shift**
- **Obama Administration Priorities: Stimulus Package Acts as "Economic Tea Leaf" on the Administration's Fiscal Priorities for the Next Several Years**
- **These Include:**
  - **Alternative Energy**
  - **Health Care**
  - **Education**
  - **Aging/New Infrastructure**
  - **Environment**
- **Stimulus is Only One Leg of the Stool**
  - **(1) Stimulus; (2) Housing, and (3) Financial Services Reform**

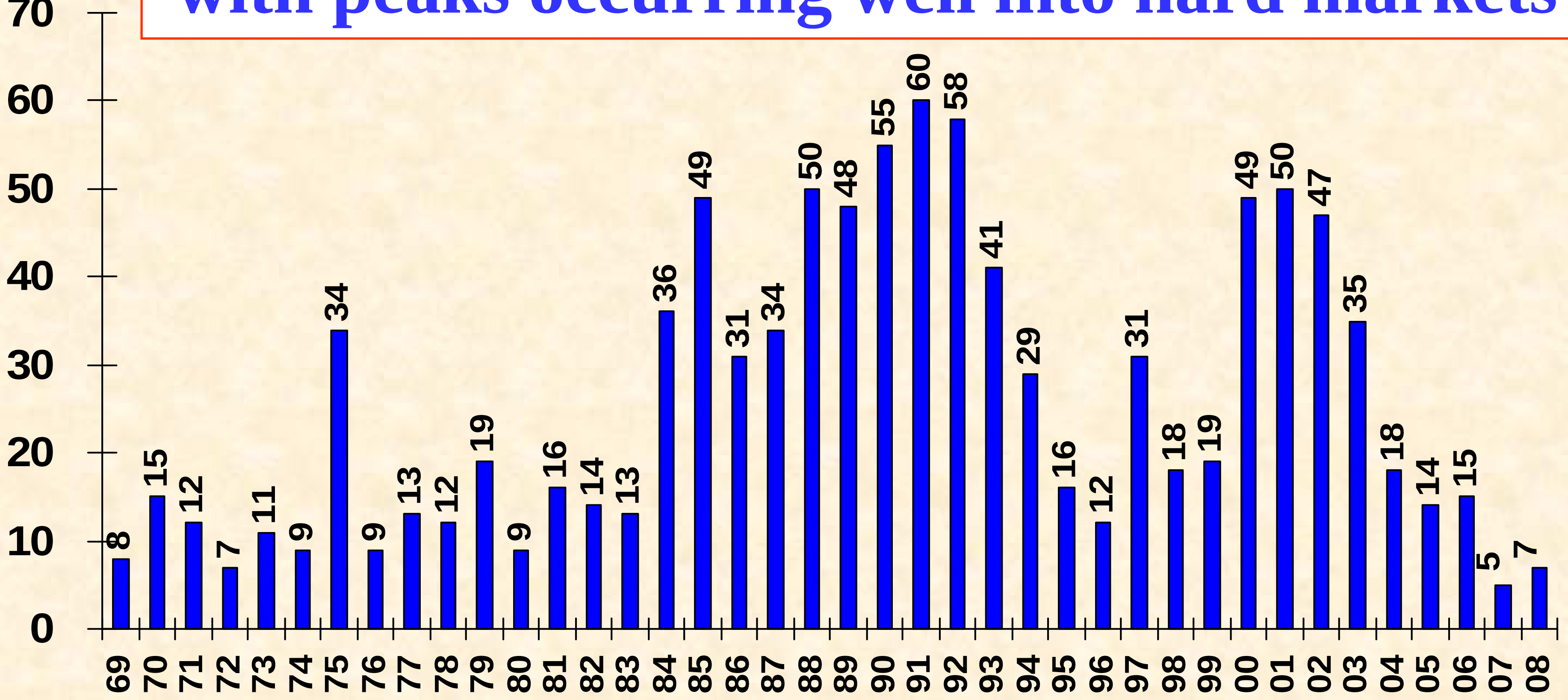
Source: Insurance Information Institute

FINANCIAL STRENGTH & RATINGS

Industry Has Weathered the Storms Well

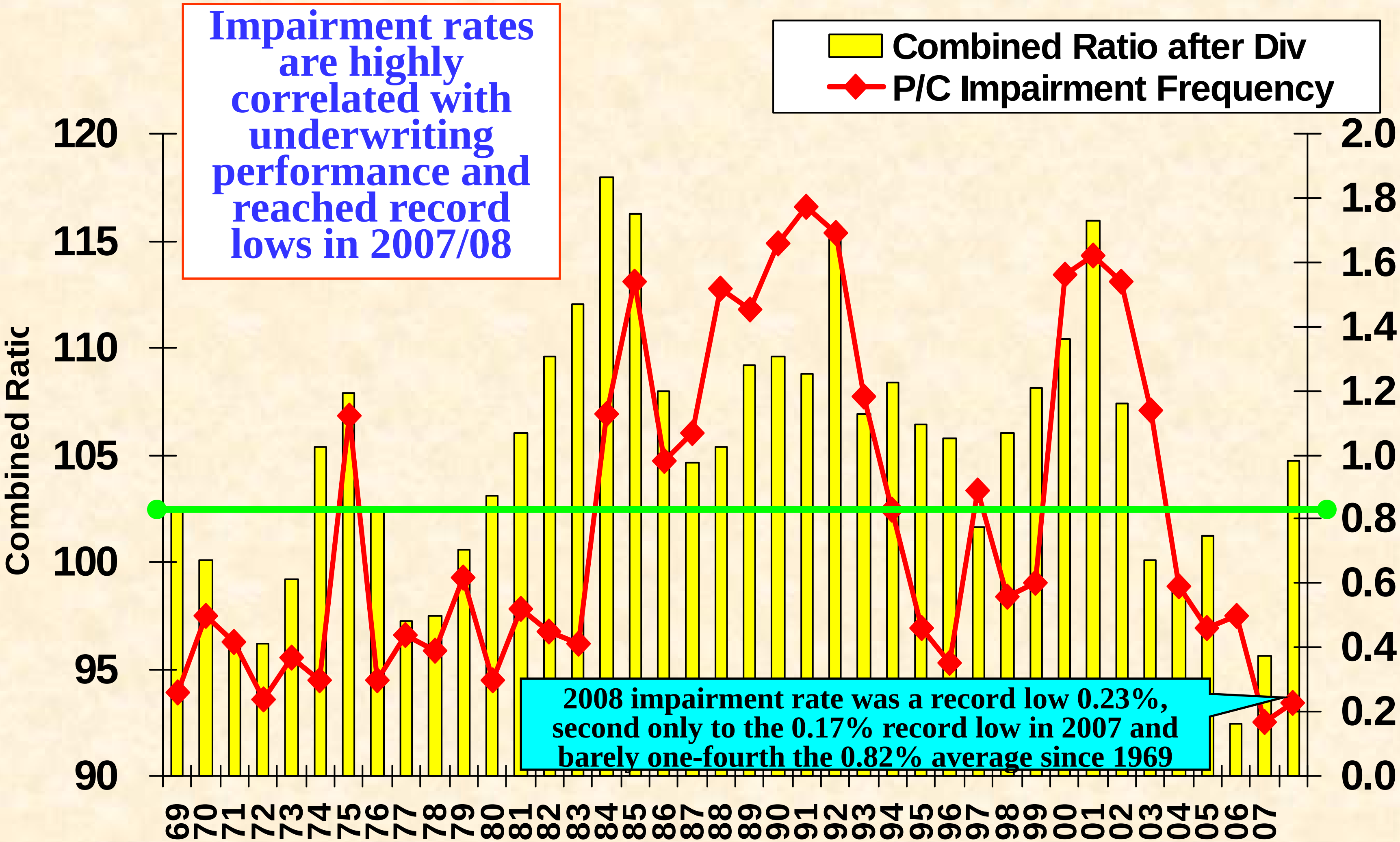
P/C Insurer Impairments, 1969-2008

The number of impairments varies significantly over the p/c insurance cycle, with peaks occurring well into hard markets



Source: A.M. Best; Insurance Information Institute

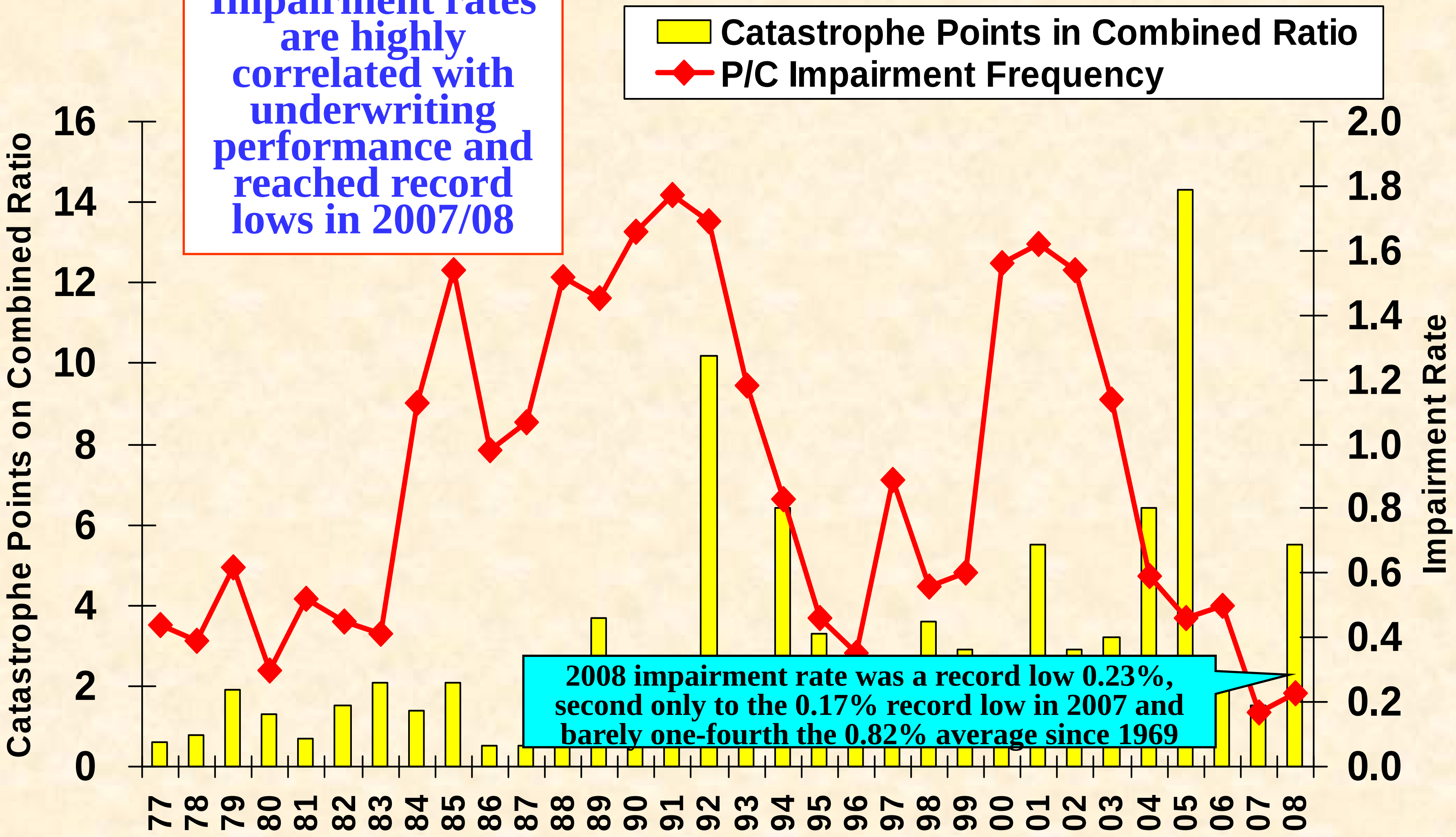
P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2008



Source: A.M. Best; Insurance Information Institute

P/C Impairment Frequency vs. Catastrophe Points in Combined Ratio, 1977-2008

Impairment rates are highly correlated with underwriting performance and reached record lows in 2007/08

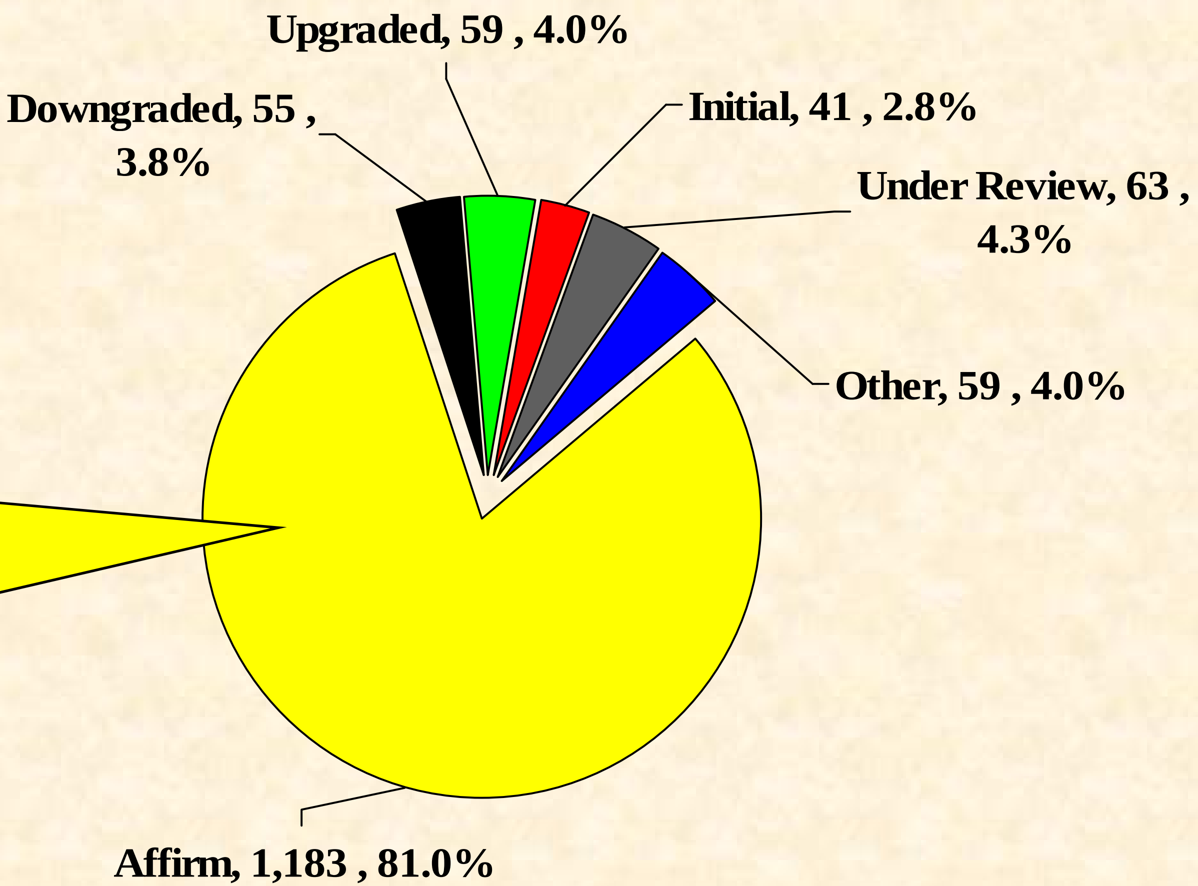


Source: A.M. Best, PCS; Insurance Information Institute

Summary of A.M. Best's P/C Insurer Ratings Actions in 2008*

P/C insurance is by design a resilient in business. The dual threat of financial disasters and catastrophic losses are anticipated in the industry's risk management strategy.

Despite financial market turmoil, high cat losses and a soft market in 2008, 81% of ratings actions by A.M. Best were affirmations; just 3.8% were downgrades and 4.0% upgrades

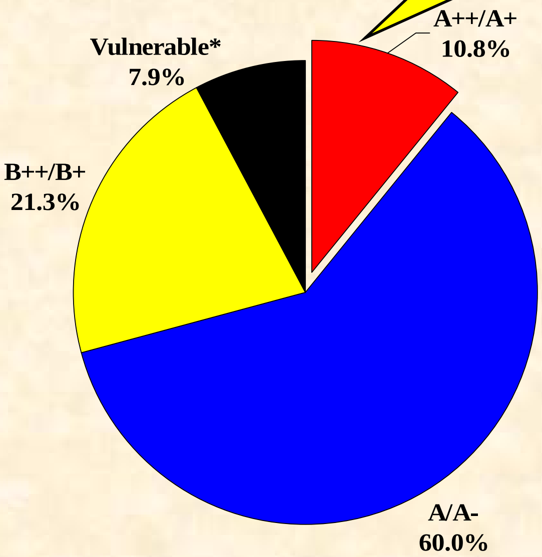


*Through December 19.
Source: A.M. Best.

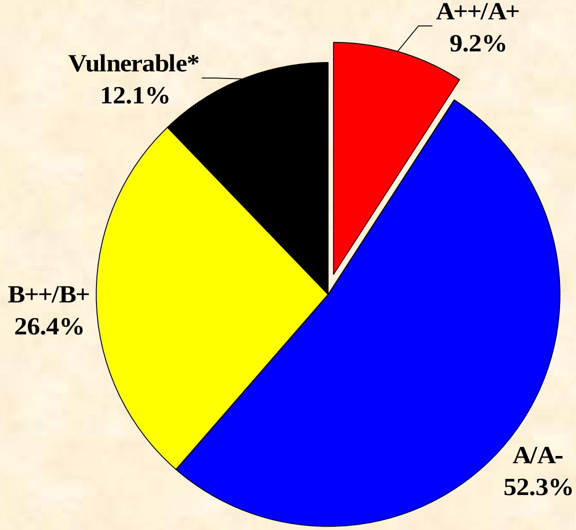
Historical Ratings Distribution,
US P/C Insurers, 2008 vs. 2005 and 2000

2008

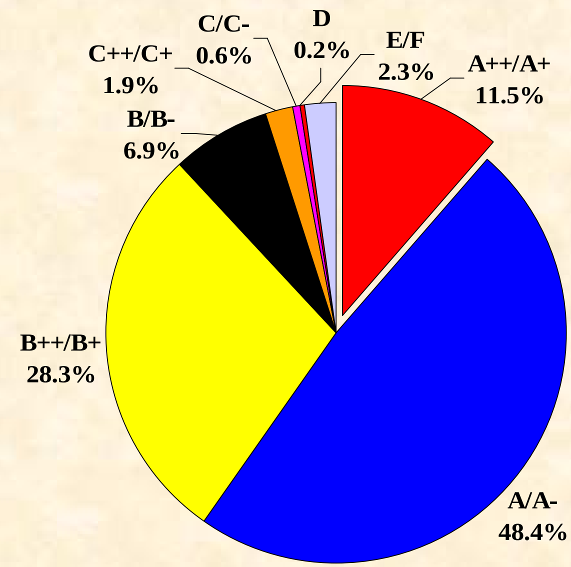
A++/A+ and A/A- gains



2005



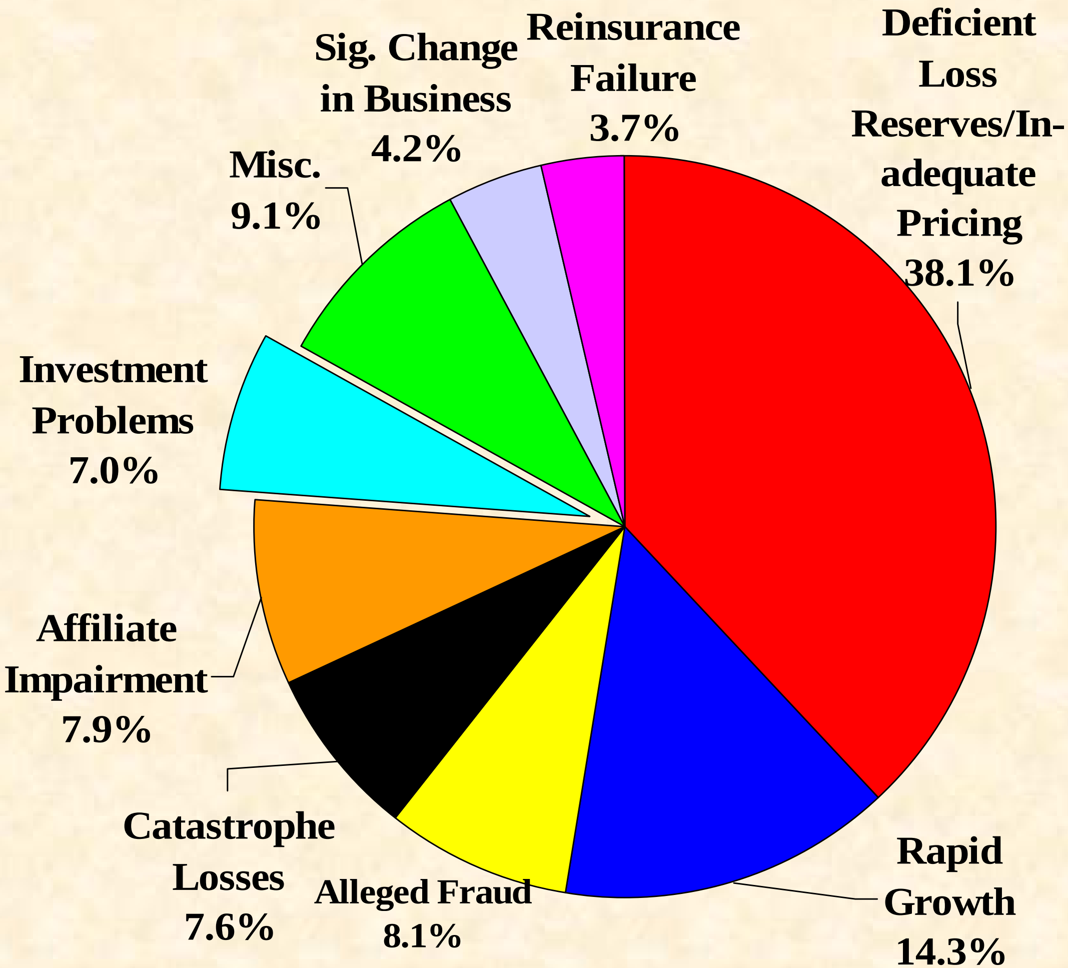
2000



P/C insurer financial strength has improved since 2005 despite financial crisis

Source: A.M. Best: *Rating Downgrades Slowed but Outpaced Upgrades for Fourth Consecutive Year,* Special Report, November 8, 2004 for 2000; 2006 and 2009 *Review & Preview*. *Ratings 'B' and lower.

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



Deficient loss reserves and inadequate pricing are the leading cause of insurer impairments, underscoring the importance of discipline. Investment catastrophe losses play a much smaller role.

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

Critical Differences Between P/C Insurers and Banks

Superior Risk Management Model & Low Leverage Make a Big Difference

How Insurance Industry Stability Has Benefitted Consumers

BOTTOM LINE:

- **Insurance Markets—Unlike Banking—Are Operating *Normally***
- **The Basic Function of Insurance—the Orderly Transfer of Risk from Client to Insurer—Continues *Uninterrupted***
- **This Means that Insurers Continue to:**
  - **Pay claims (whereas 58 banks have gone under as of 5/8)**
    - ***The Promise is Being Fulfilled***
  - **Renew existing policies (banks are reducing and eliminating lines of credit)**
  - **Write new policies (banks are turning away people who want or need to borrow)**
  - **Develop new products (banks are scaling back the products they offer)**

Source: Insurance Information Institute

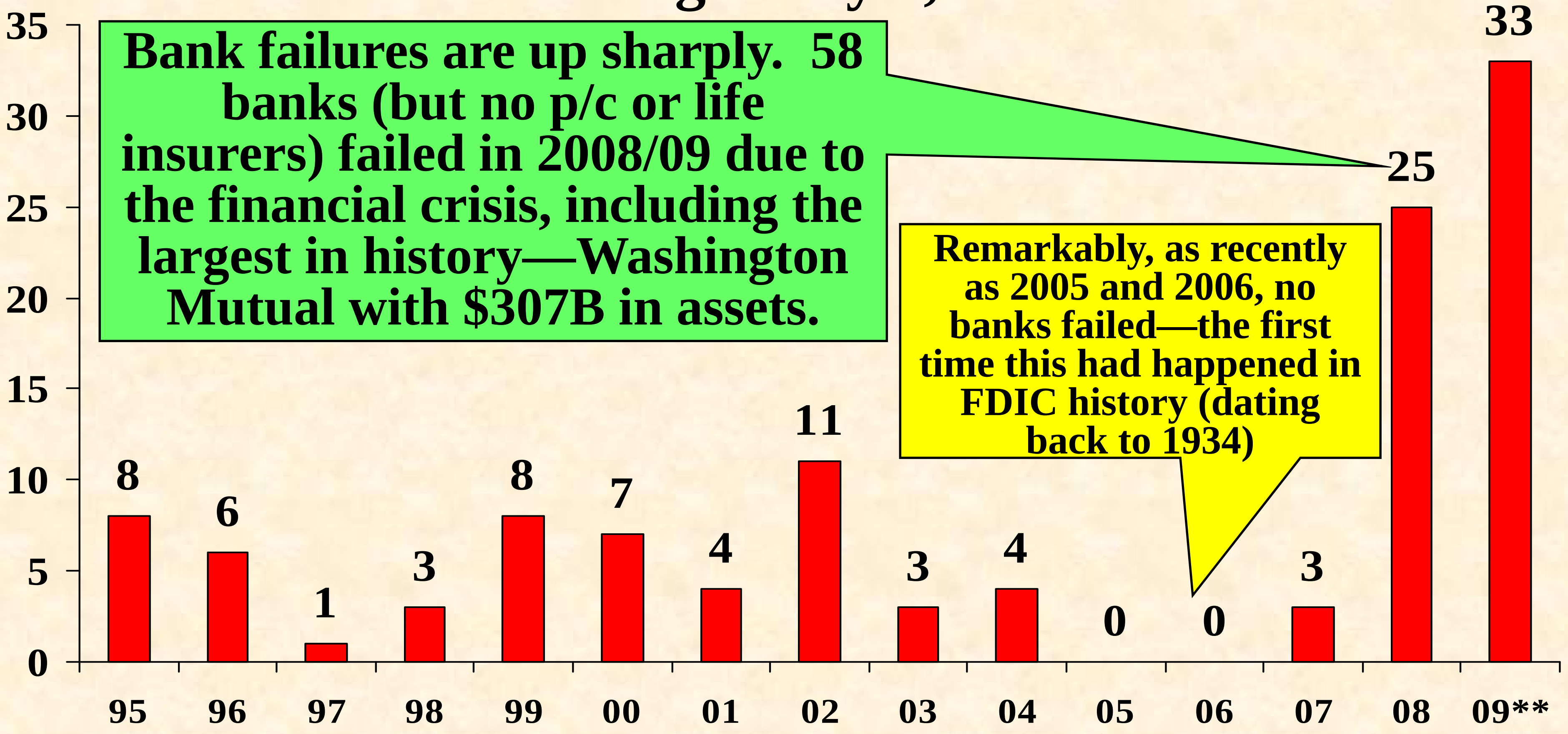
Reasons Why P/C Insurers Have Fewer Problems Than Banks: A Superior Risk Management Model

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

Source: Insurance Information Institute

US Bank Failures: 1995-2009***

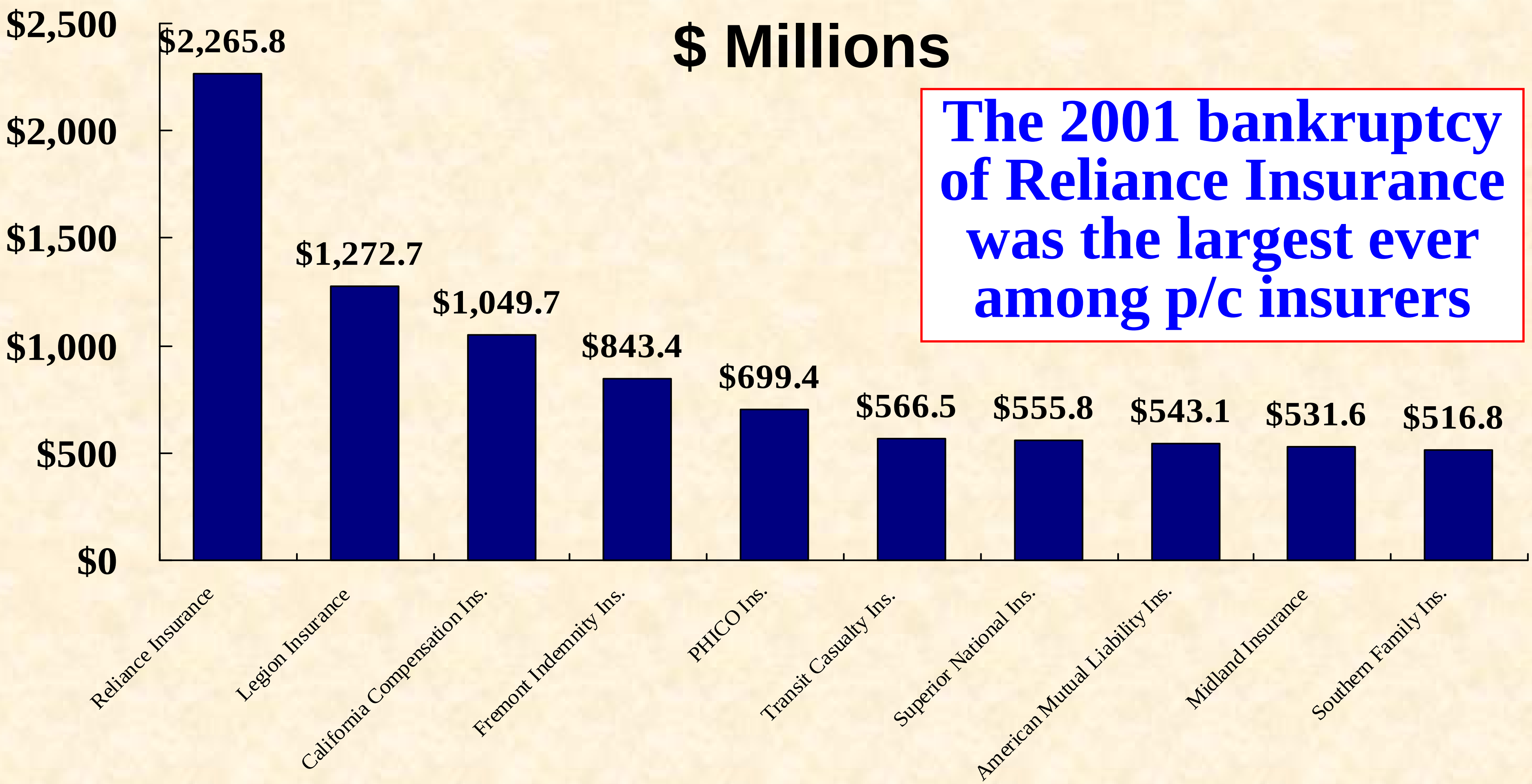
Through May 8, 2009



*Includes all commercial banking and savings institutions. **Through May 8.

Source: FDIC: http://www.fdic.gov/bank/historical/bank/index.html; Insurance Info. Institute

Top 10 P/C Insolvencies, Based Upon Guaranty Fund Payments*



* Disclaimer: This is not a complete picture. If anything the numbers are understated as some states have not reported in certain years.

Source: National Conference of Insurance Guaranty Funds, as of September 17, 2008.

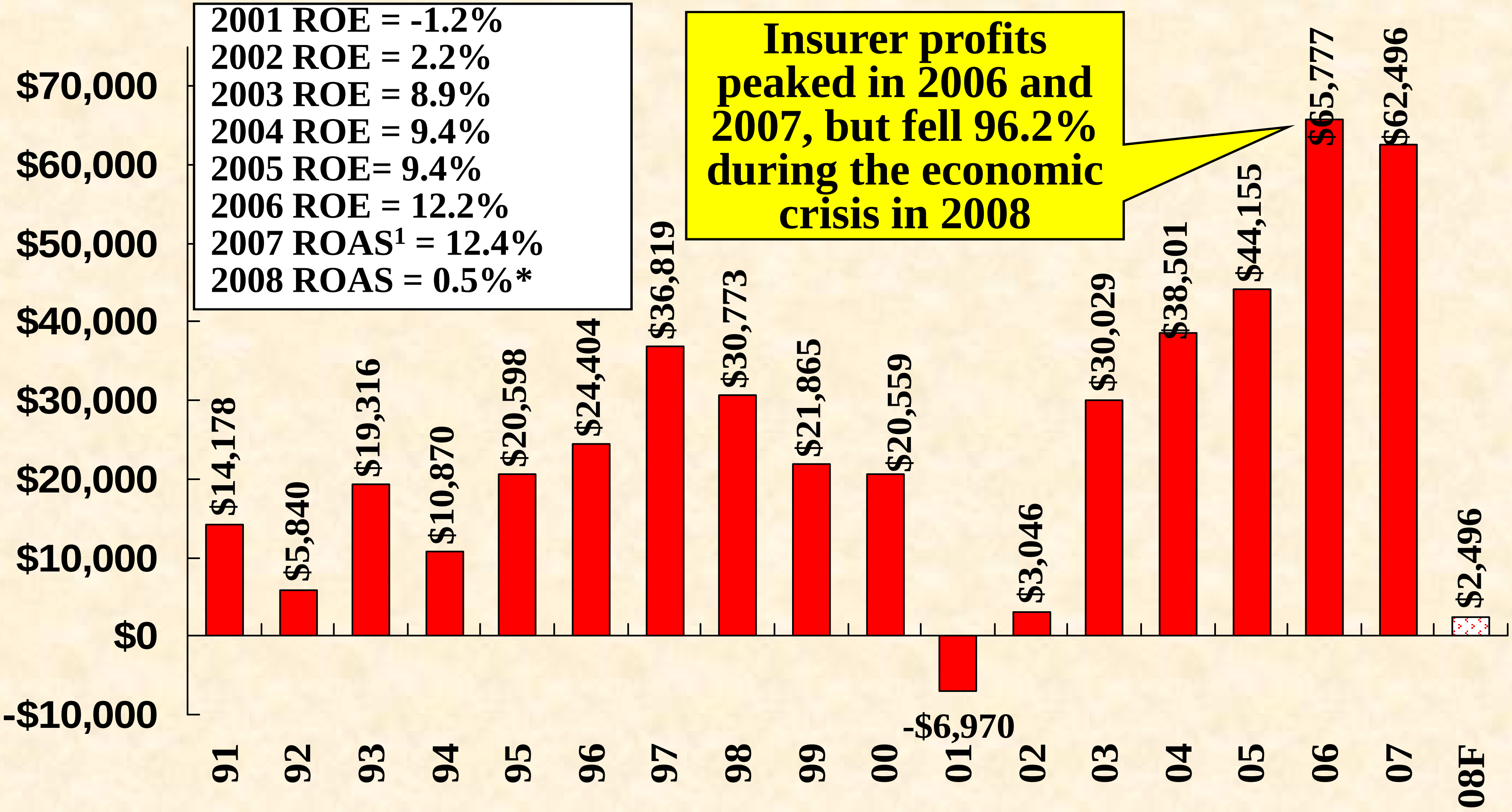
P/C INSURANCE FINANCIAL PERFORMANCE

A Resilient Industry in Challenging Times

Profitability

Historically Volatile

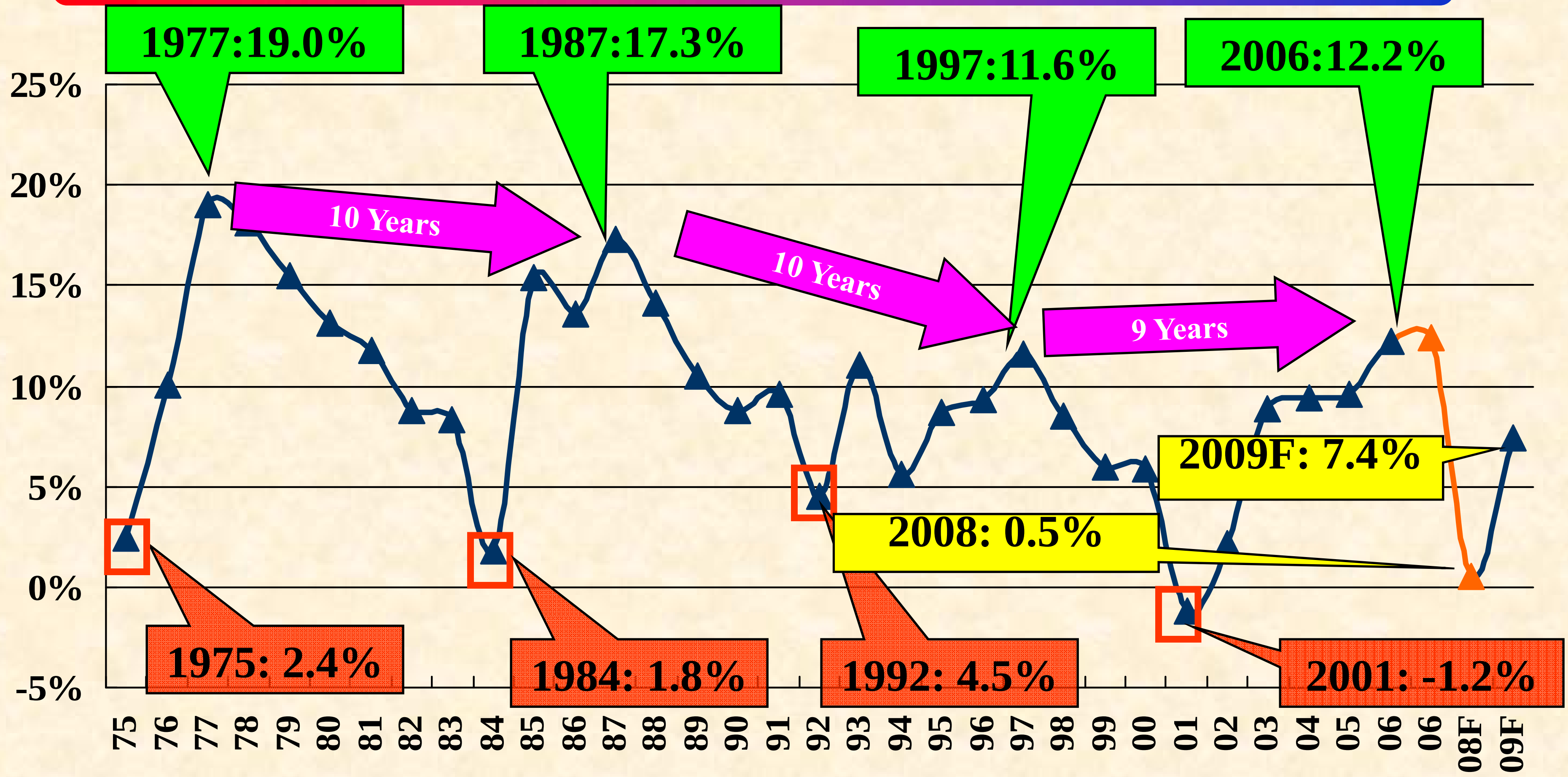
P/C Net Income After Taxes 1991-2008F ($ Millions)*



*ROE figures are GAAP; [1]Return on avg. Surplus. Excluding Mortgage & Financial Guarantee insurers yields an 4.2% ROAS for 2008.

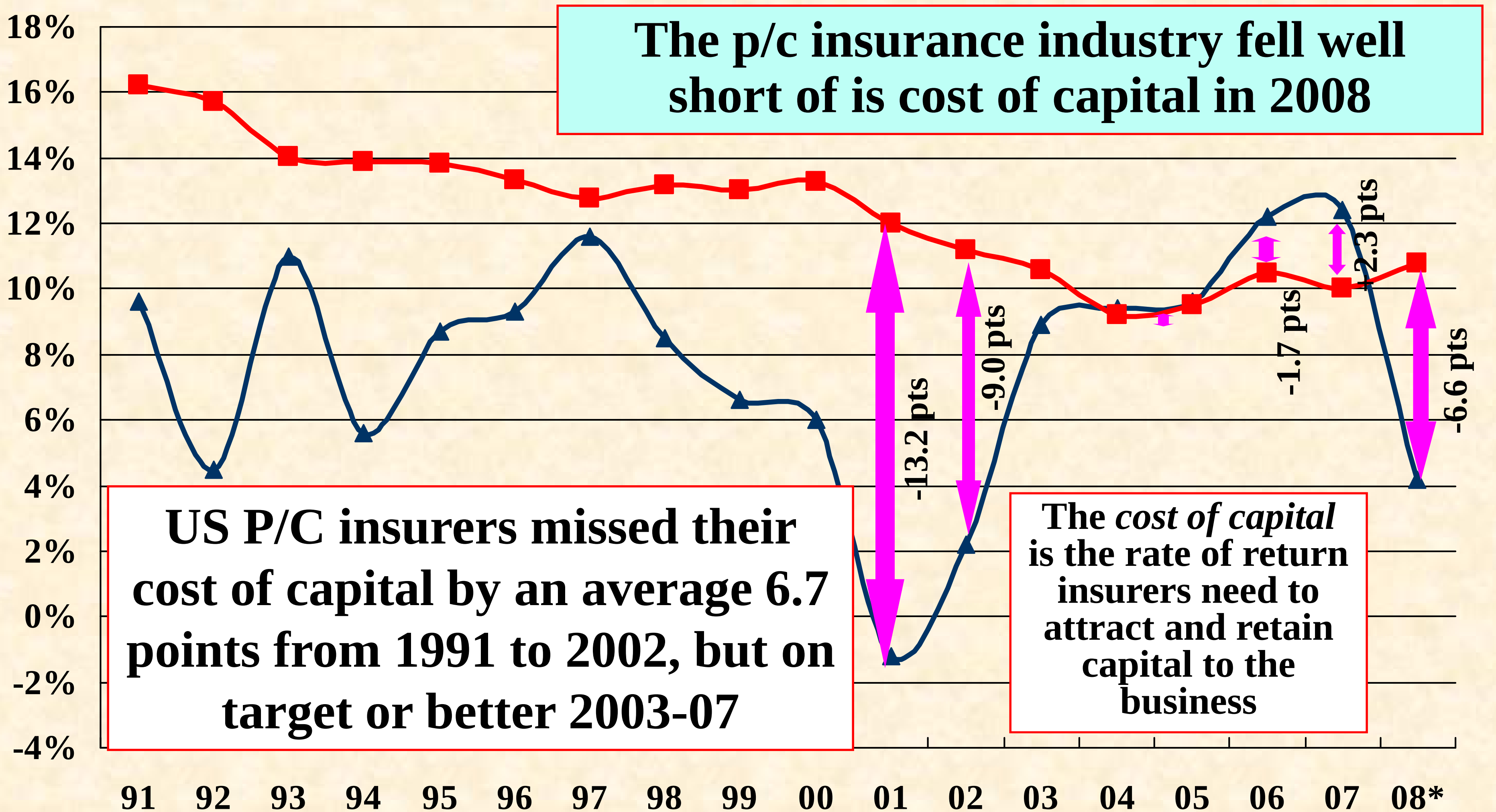
Sources: A.M. Best, ISO, Insurance Information Inst.

P/C Insurance Industry ROEs, 1975 – 2009F*



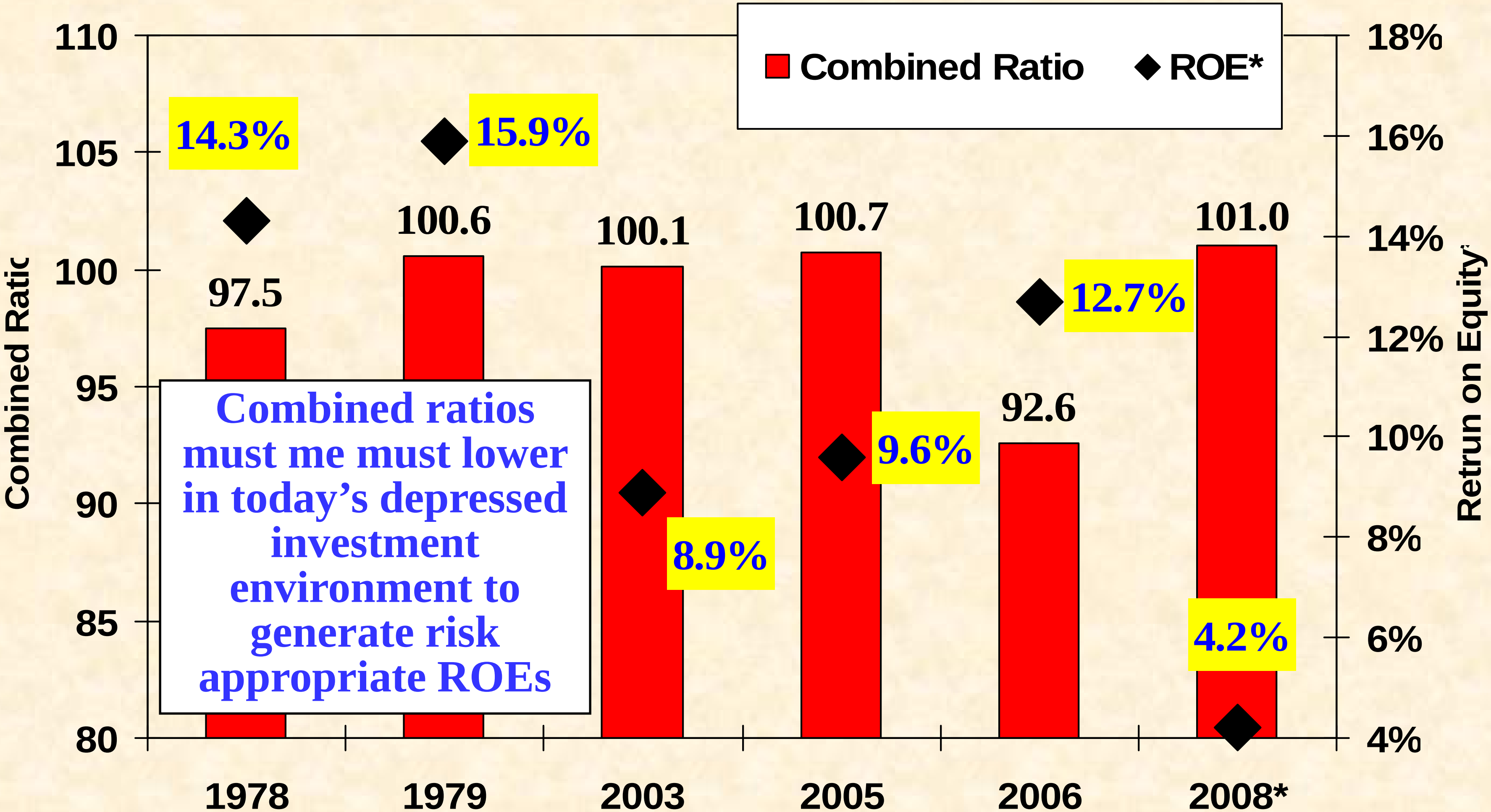
Note: 2008 result excluding Mortgage & Financial Guarantee insurers is 4.2%.
Sources: ISO; A.M. Best (2009F); Insurance Information Institute.

ROE vs. Equity Cost of Capital: US P/C Insurance:1991-2008



*Excludes mortgage and financial guarantee insurers.
Source: The Geneva Association, Ins. Information Inst.

A 100 Combined Ratio Isn't What it Used to Be: 95 is Where It's At

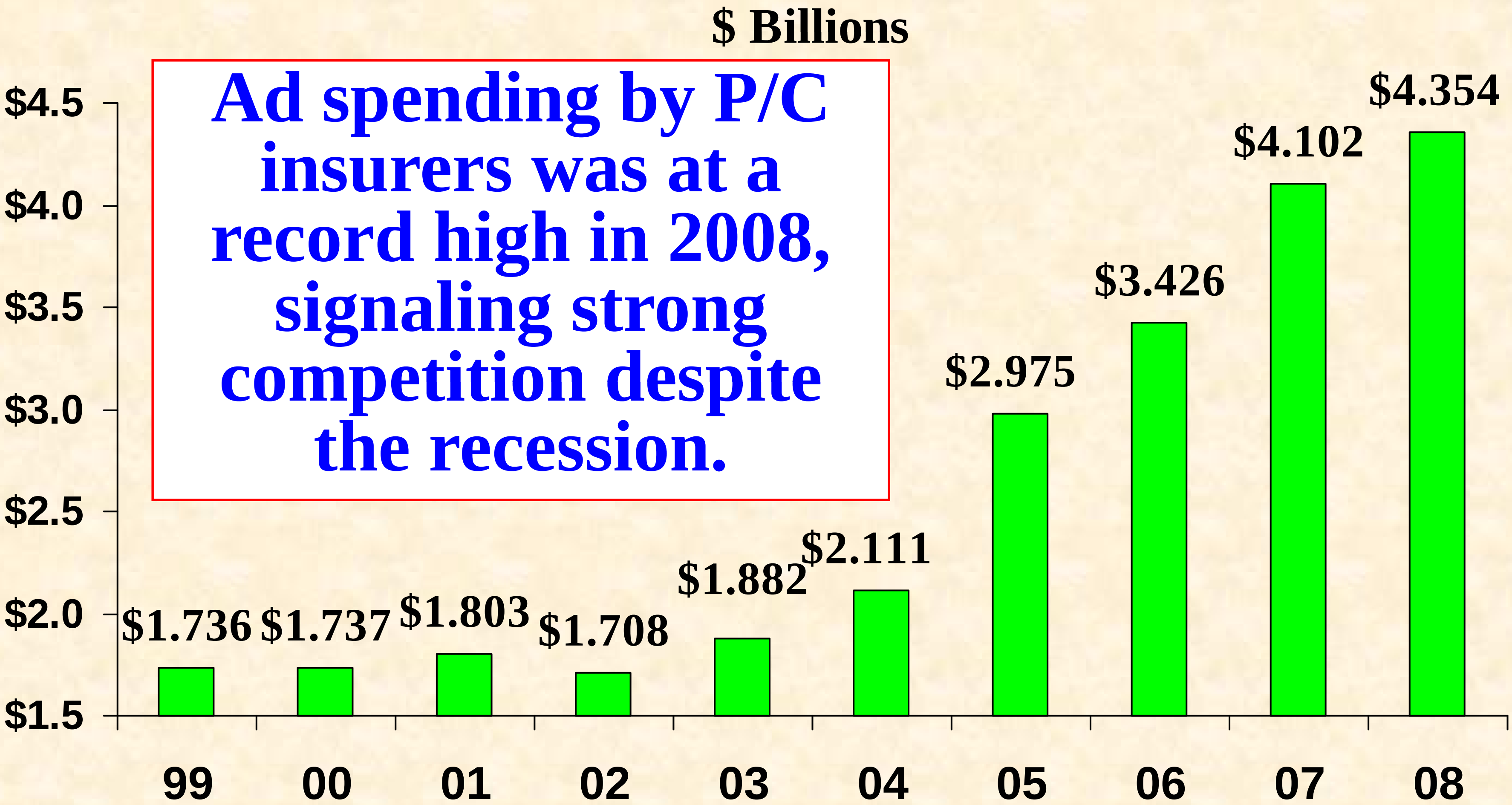


* 2008 figure is return on average statutory surplus. Excludes mortgage and financial guarantee insurers.

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

Advertising Trends

Advertising Expenditures by P/C Insurance Industry, 1999-2008



Source: Insurance Information Institute from consolidated P/C Annual Statement data.

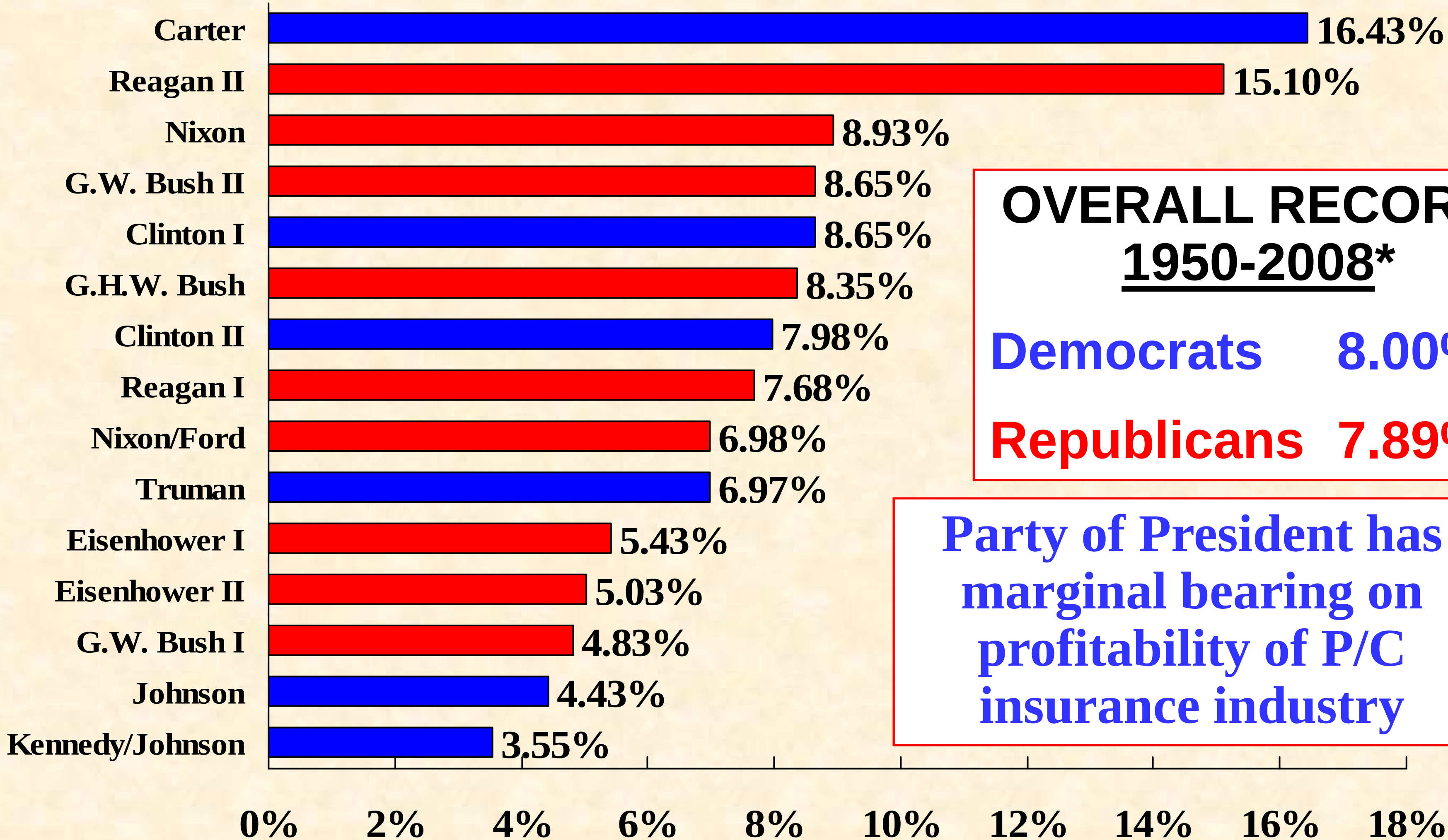
Why Advertising Will Likely Remain Strong?

- **DIRECT MARKETERS: No Agents = Advertising**
  - **Collectively, direct marketers have a larger market share**
  - **GEICO, 21st Century (formerly AIG Direct) and others are committed to the direct model**
  - **EA/IA companies sometimes have direct channels (some which bypass the agent, some which complement the agent)**
- **PERFORMANCE: U/W Results Not that Bad**
  - **Advertising is cut back when line is performing poorly from an underwriting perspective; Not generally the case today.**
- **SLOW GROWTH: Hope to Stimulate Demand**
- **INTERNET: Advertising Must Include New Media**
  - **Will appear more ubiquitous even if ad spend flat**
- **REBRANDING: Some Insurers Recasting Themselves**
  - **Want to emphasize affordability in down economy**

Presidential Politics & P/C Insurance

How is Profitability Affected by the President's Political Party?

P/C Insurance Industry ROE by Presidential Administration,1950-2008*



OVERALL RECORD:
1950-2008*

Democrats	8.00%
Republicans	7.89%

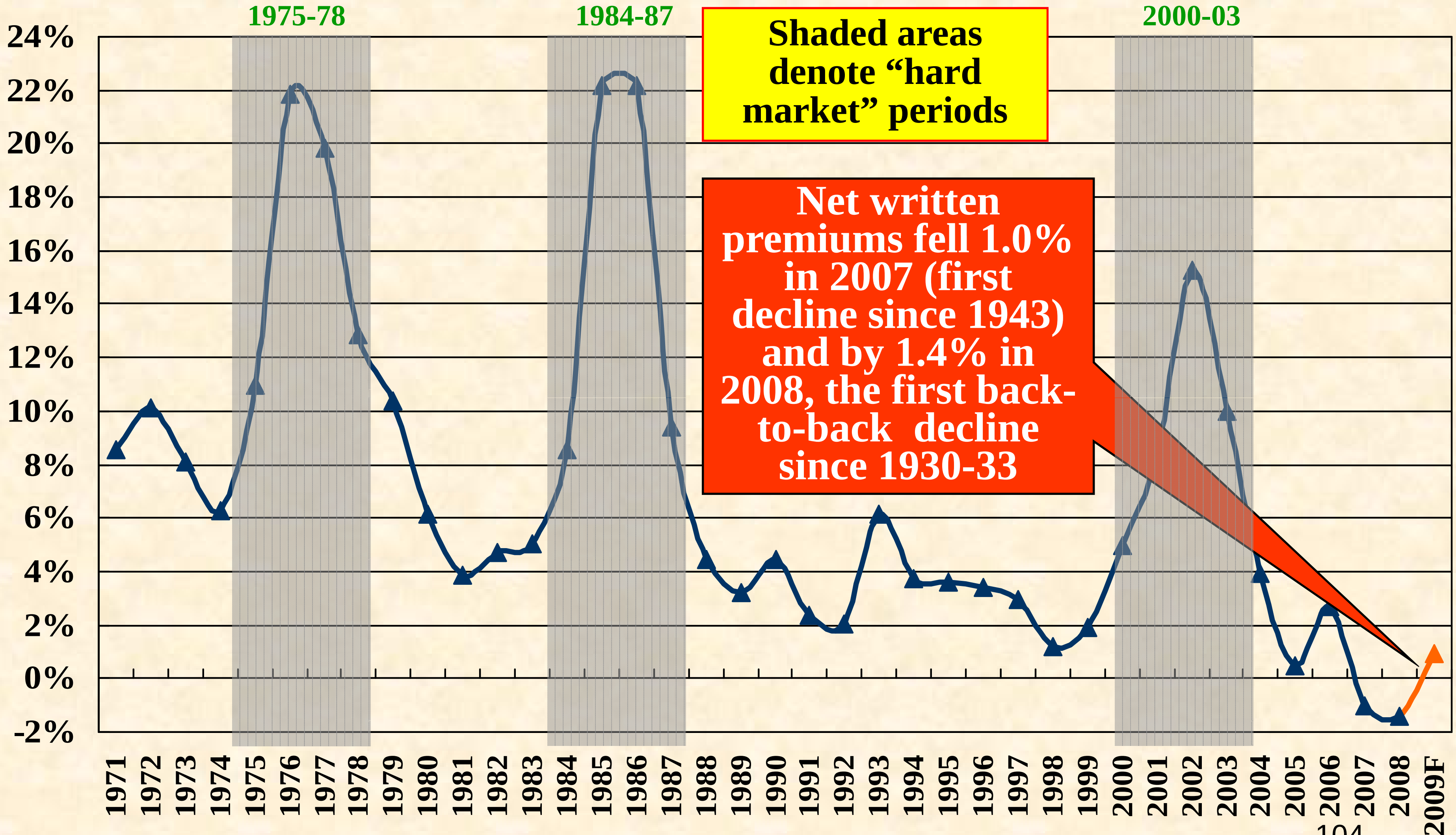
Party of President has marginal bearing on profitability of P/C insurance industry

*Truman administration ROE of 6.97% based on 3 years only, 1950-52.
Source: Insurance Information Institute

P/C Premium Growth

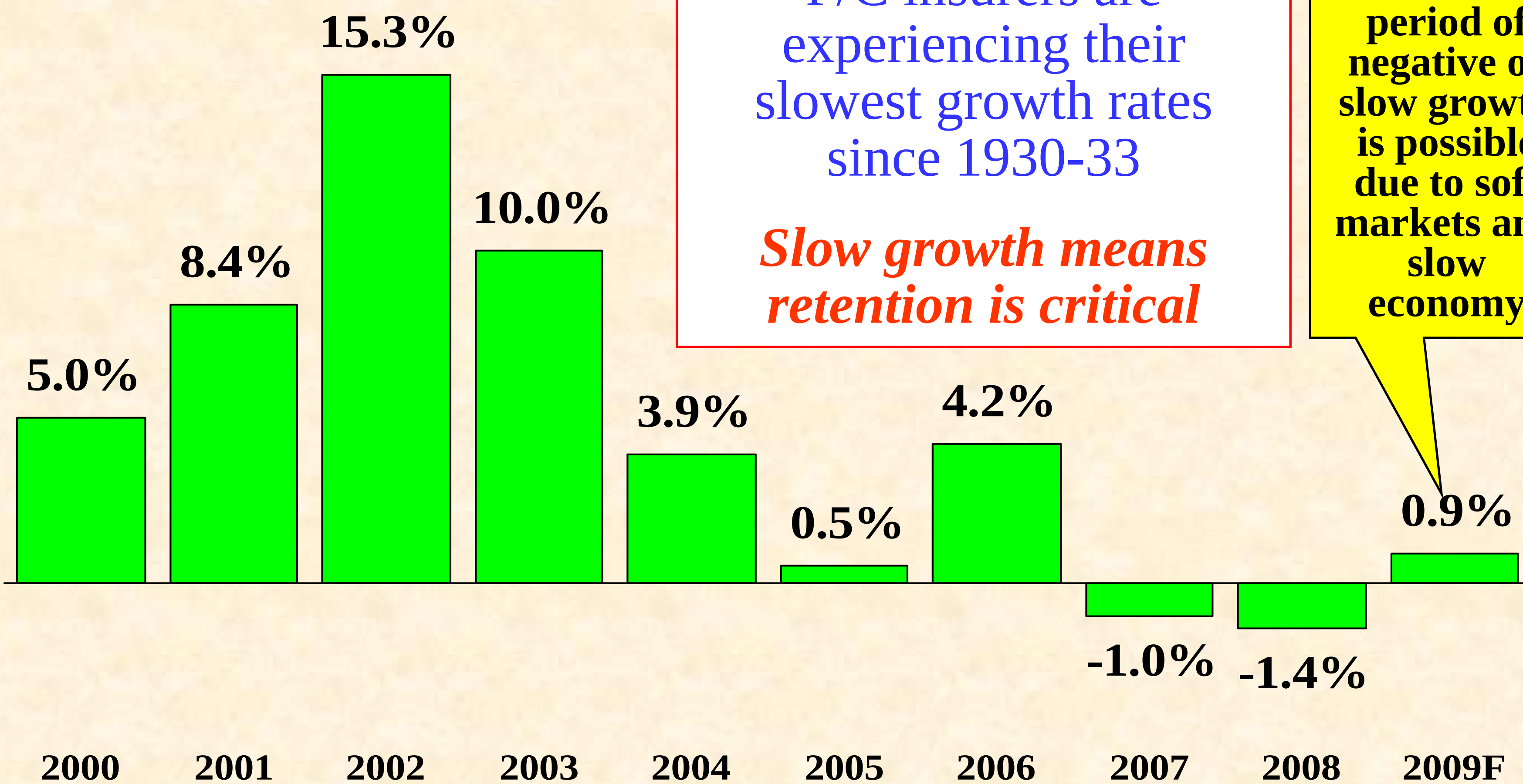
Primarily Driven by the Industry's Underwriting Cycle, Not the Economy

Strength of Recent Hard Markets by NWP Growth



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

Year-to-Year Change in Net Written Premium, 2000-2009F*



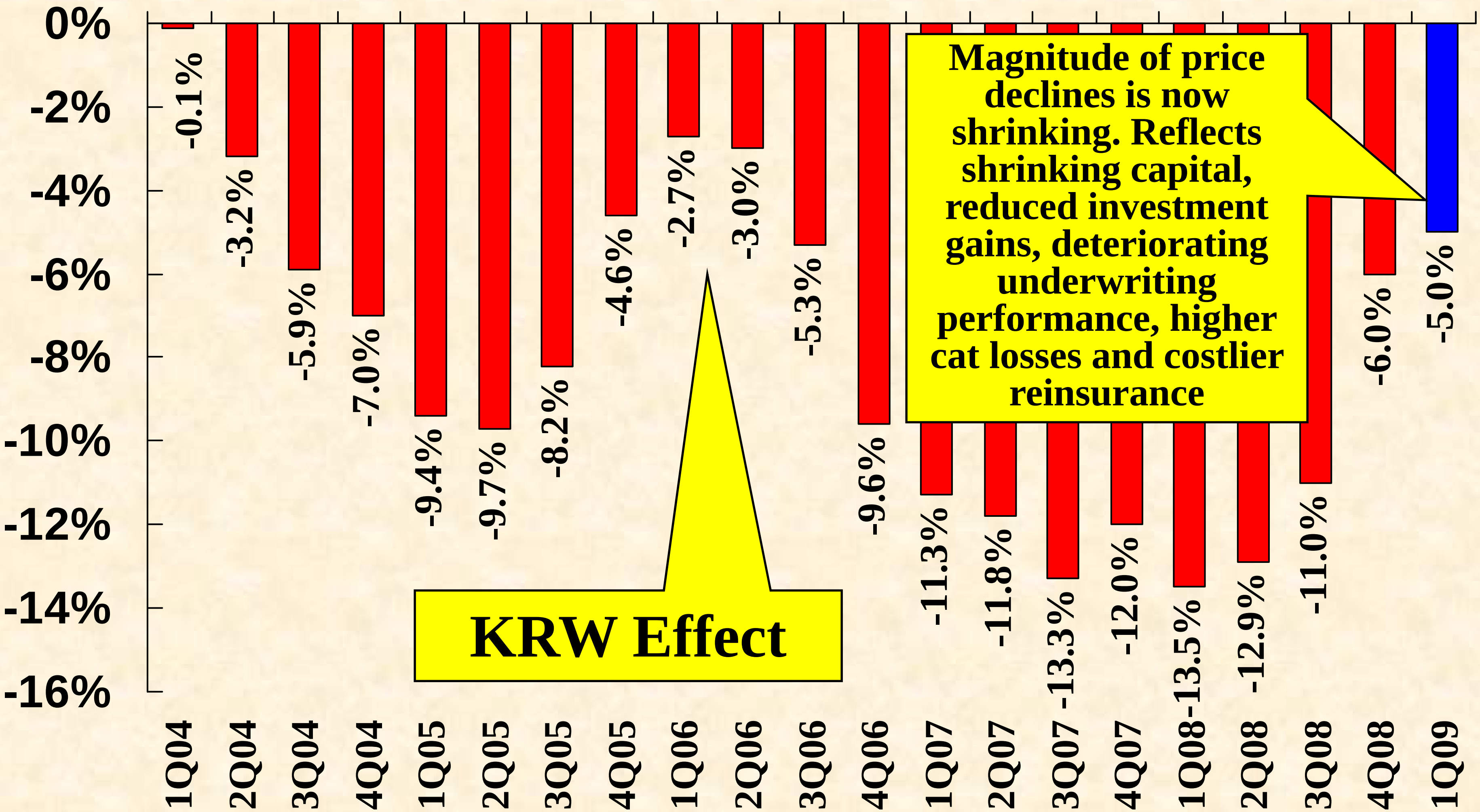
P/C insurers are experiencing their slowest growth rates since 1930-33

Slow growth means retention is critical

Protracted period of negative or slow growth is possible due to soft markets and slow economy

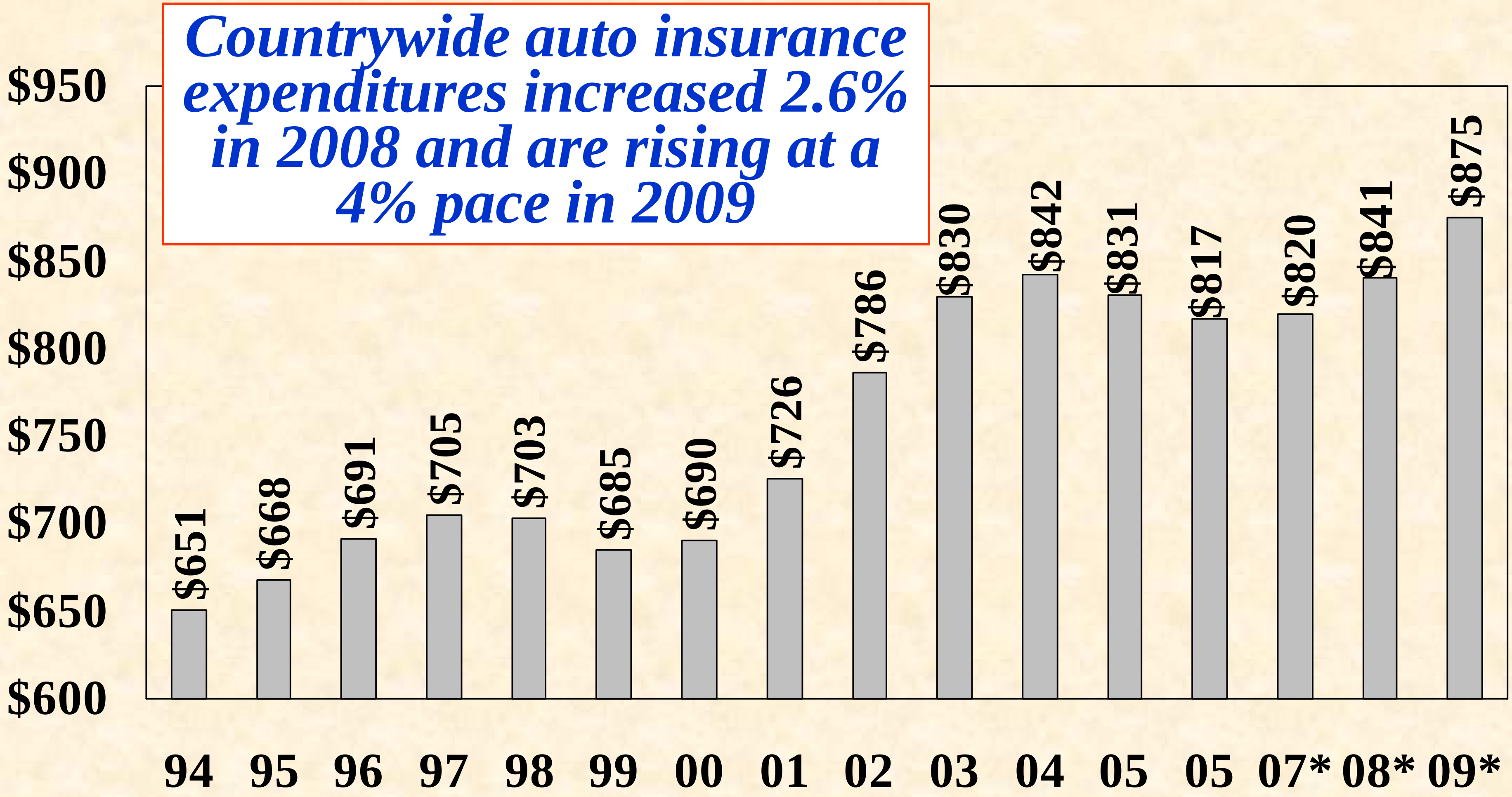
*2008 figure is from ISO. Excluding Mortgage & Financial Guarantee insurers = -1.5%.
Source: A.M. Best (historical and forecast)

Average Commercial Rate Change, All Lines, (1Q:2004 – 1Q:2009)



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

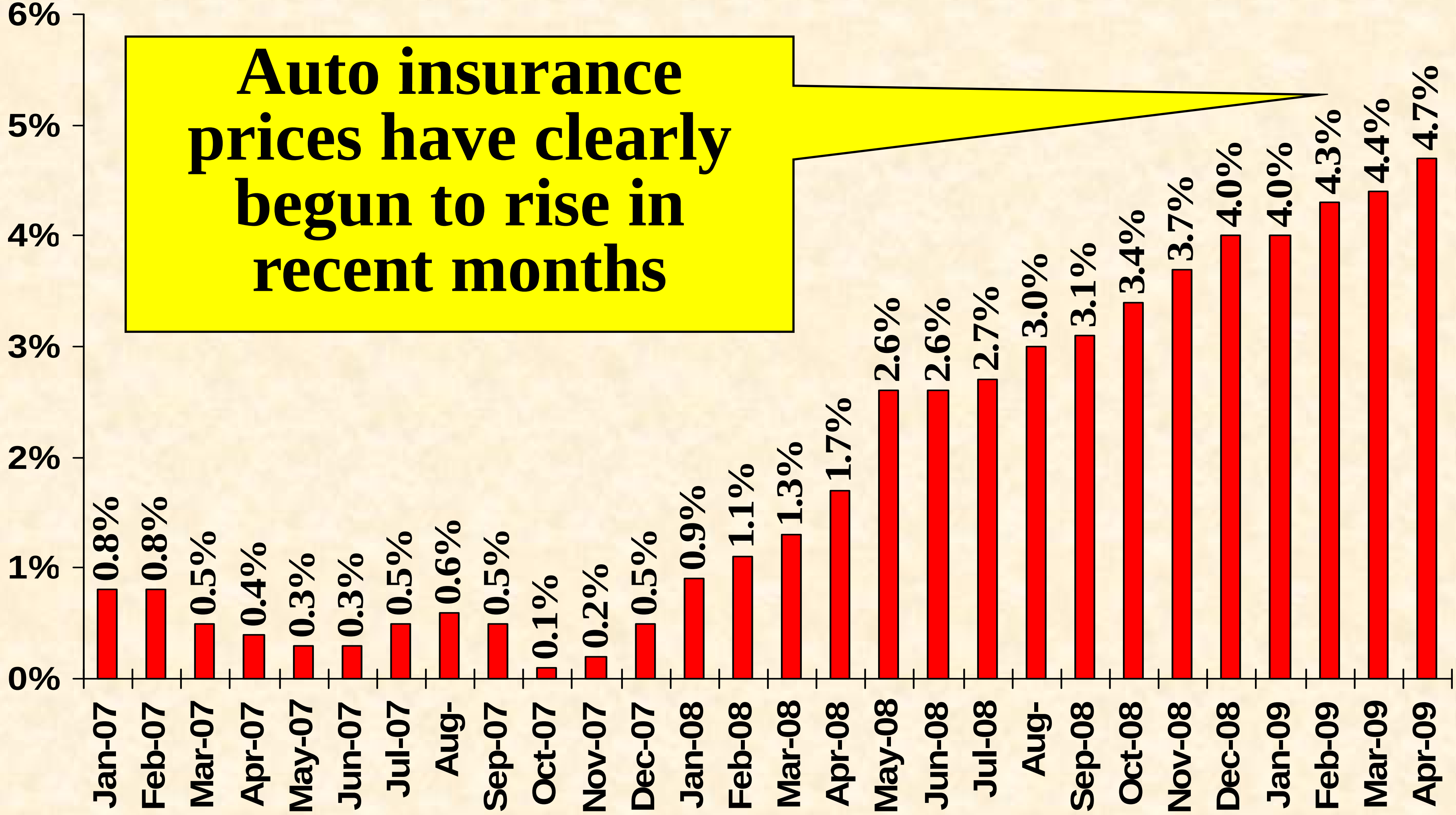
Average Expenditures on Auto Insurance



*Insurance Information Institute Estimates/Forecasts

Source: NAIC, Insurance Information Institute estimates 2007-2009 based on CPI data.

Monthly Change in Auto Insurance Prices*

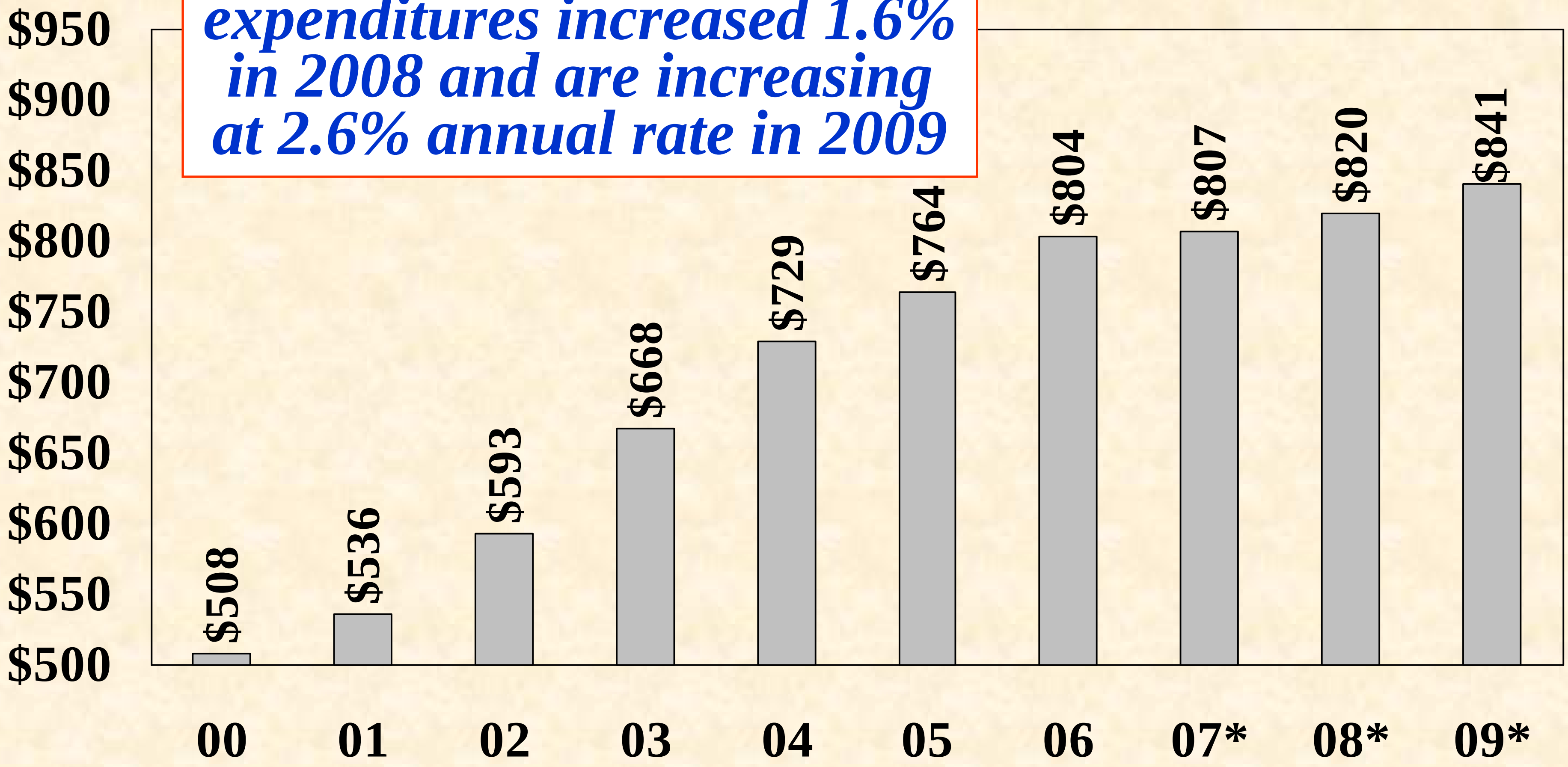


*Percentage change from same month in prior year.

Source: US Bureau of Labor Statistics

Average Premium for Home Insurance Policies**

Countrywide auto insurance expenditures increased 1.6% in 2008 and are increasing at 2.6% annual rate in 2009

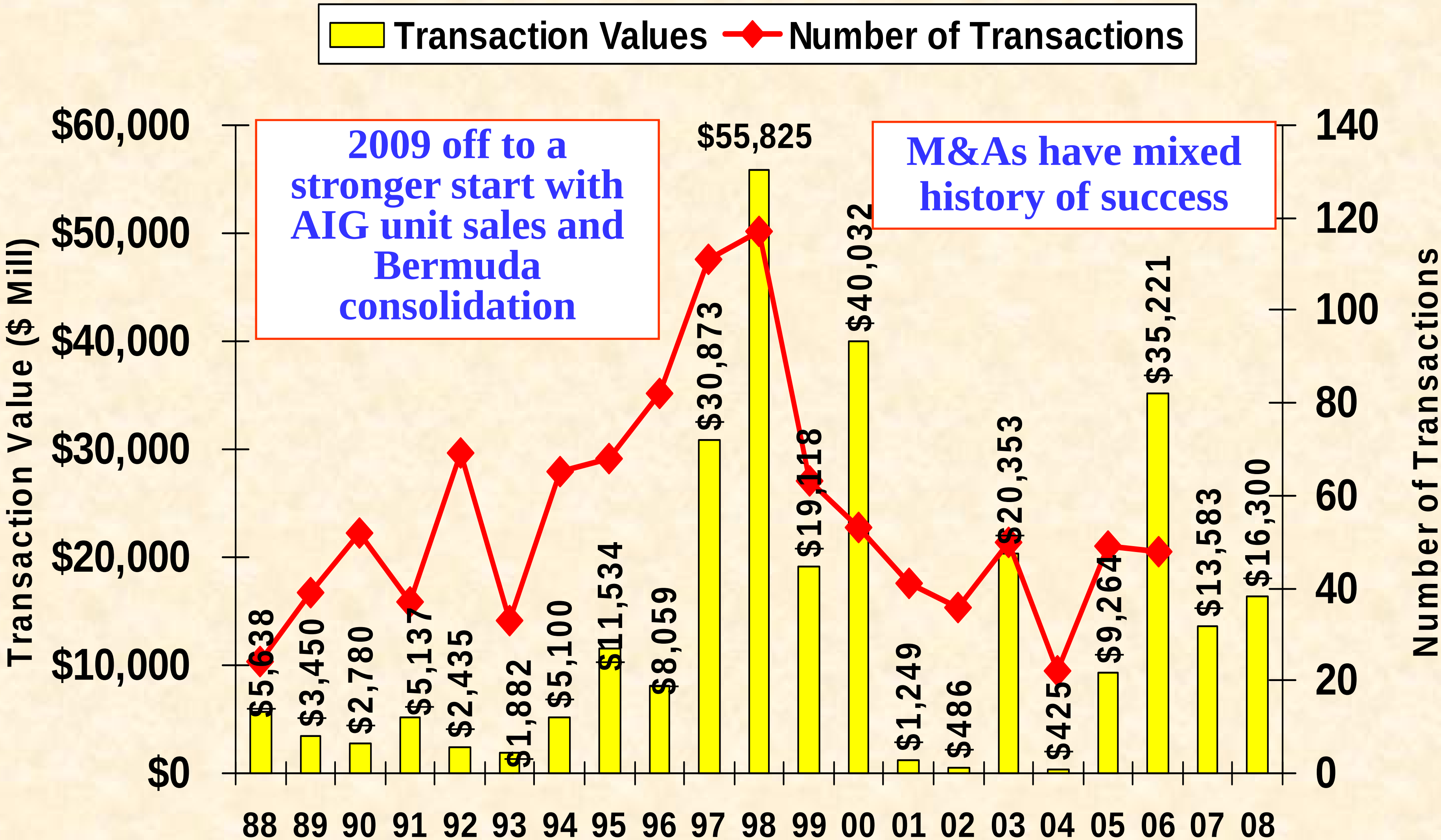


*Insurance Information Institute Estimates/Forecasts **Excludes state-run insurers.
Source: NAIC, Insurance Information Institute estimates 2007-2009 based on CPI data.

Merger & Acquisition

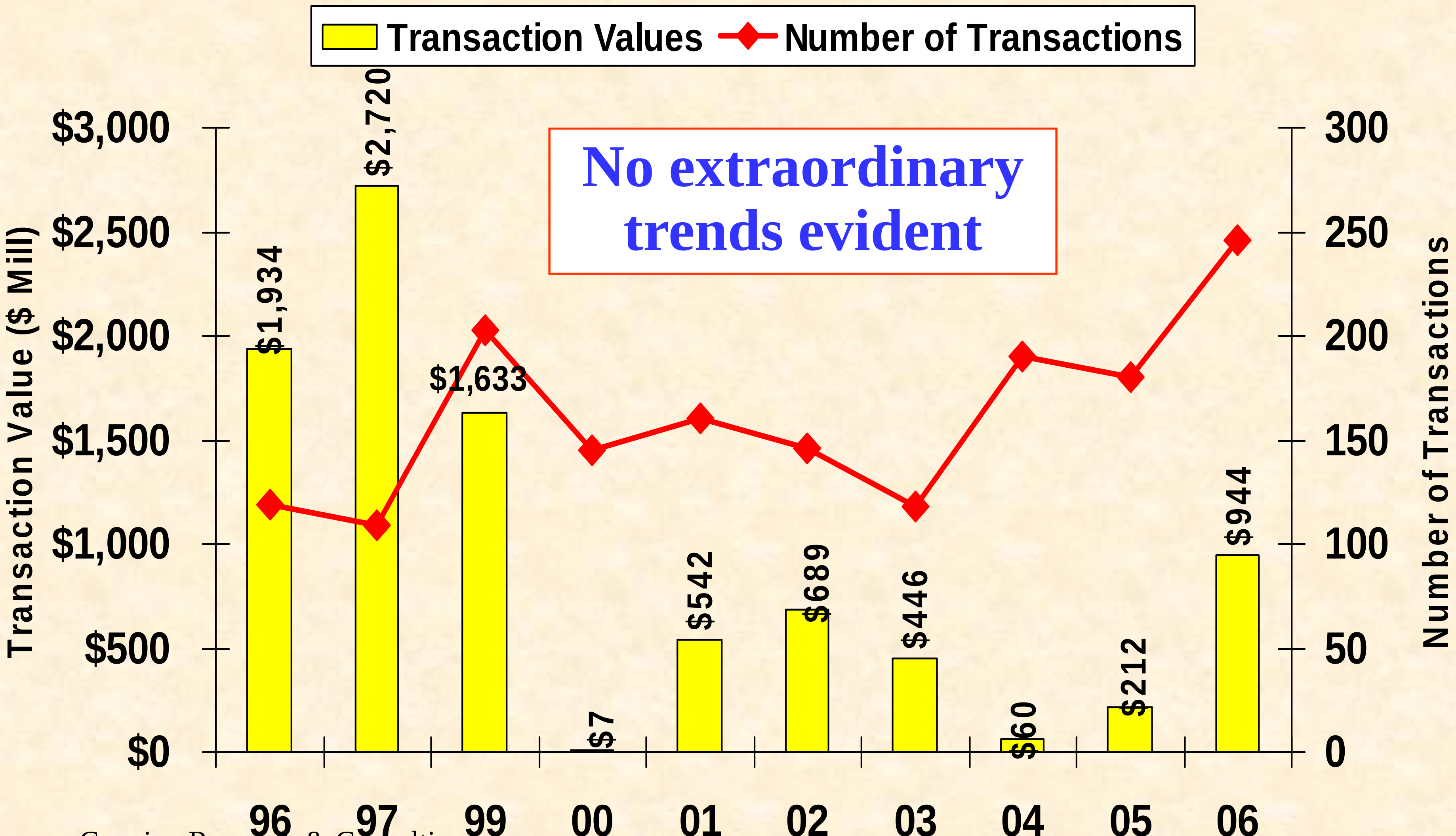
Barriers to Consolidation Will Diminish in 2009/10

P/C Insurance-Related M&A Activity, 1988-2008*



Source: Conning Research & Consulting.   *2007/08 figures approximate.

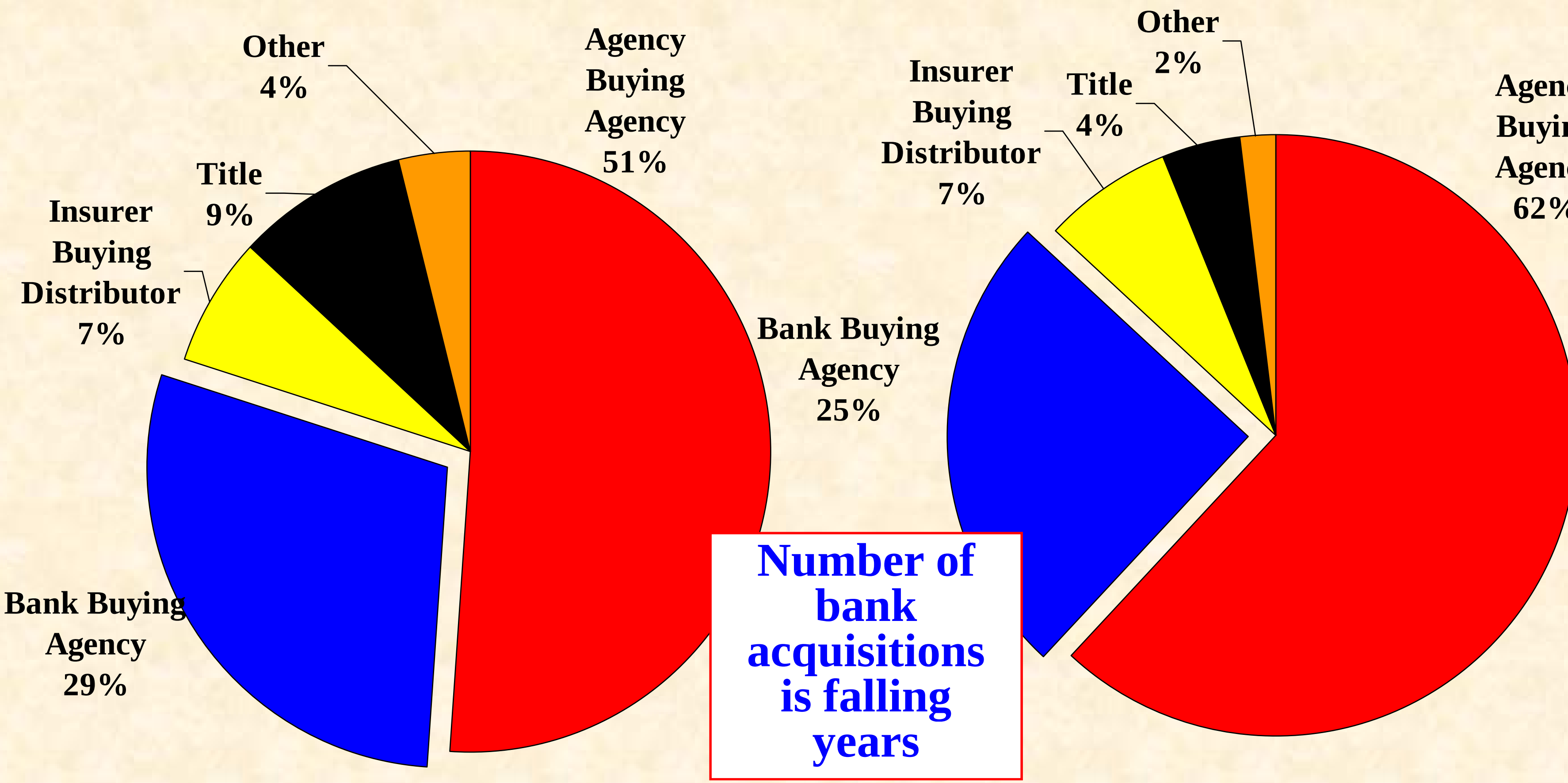
Distribution Sector: Insurance-Related M&A Activity, 1988-2006



Source: Conning Research & Consulting.

Distribution Sector M&A Activity, 2005 vs. 2006

2005 **2006**

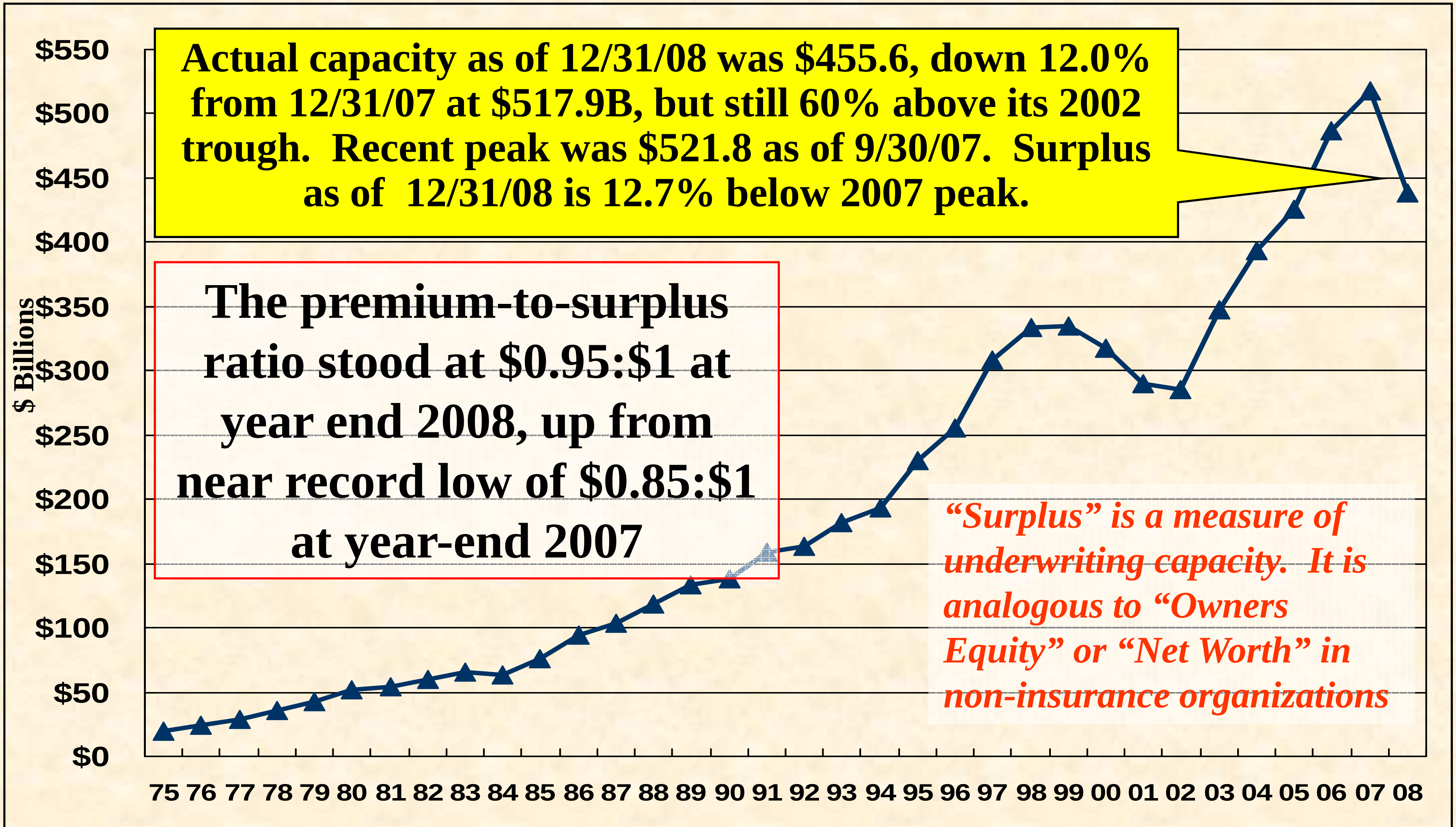


Source: Conning Research & Consulting

Capital/ Policyholder Surplus

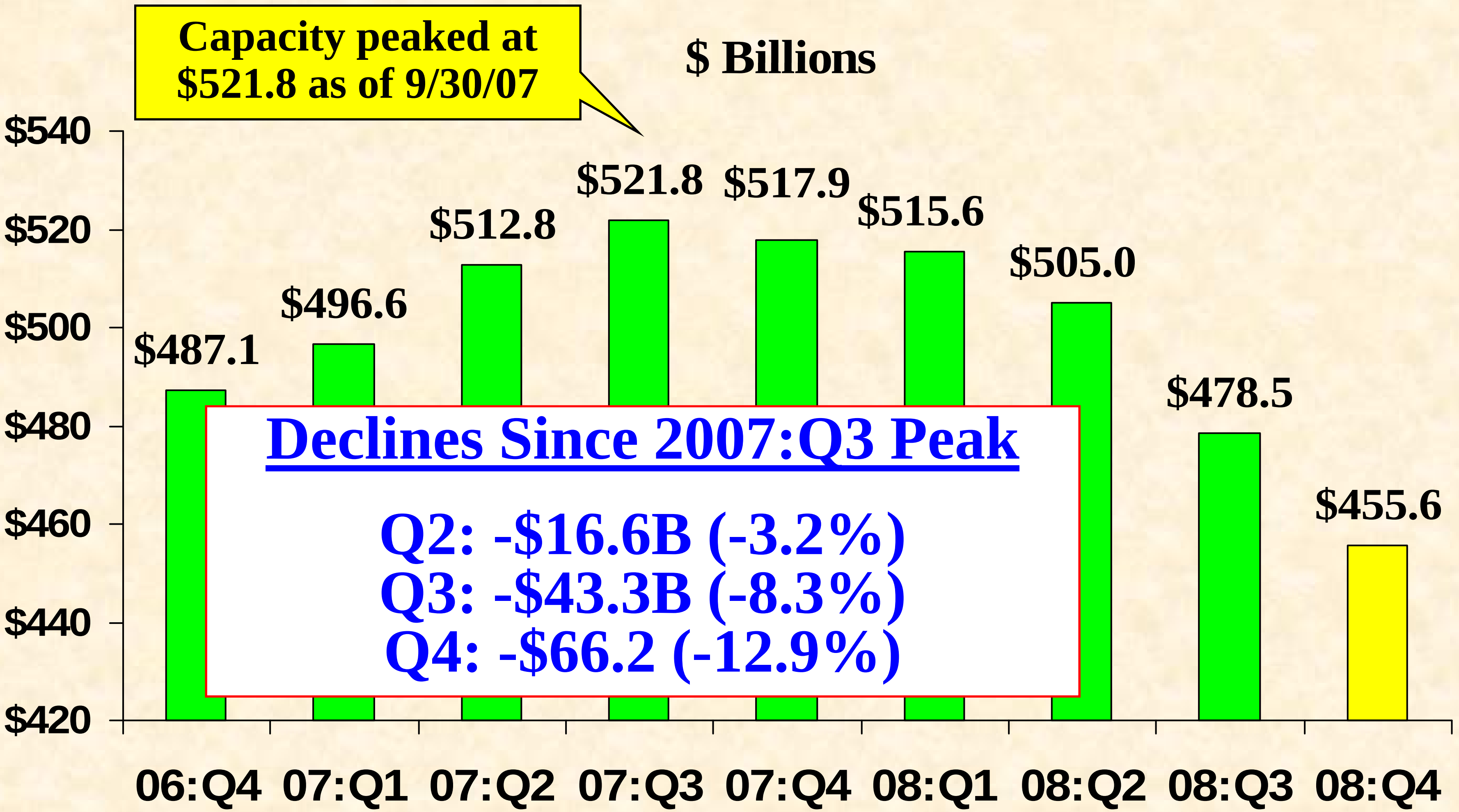
Shrinkage, but Capital is Within Historic Norms

*U.S. Policyholder Surplus: 1975-2008**



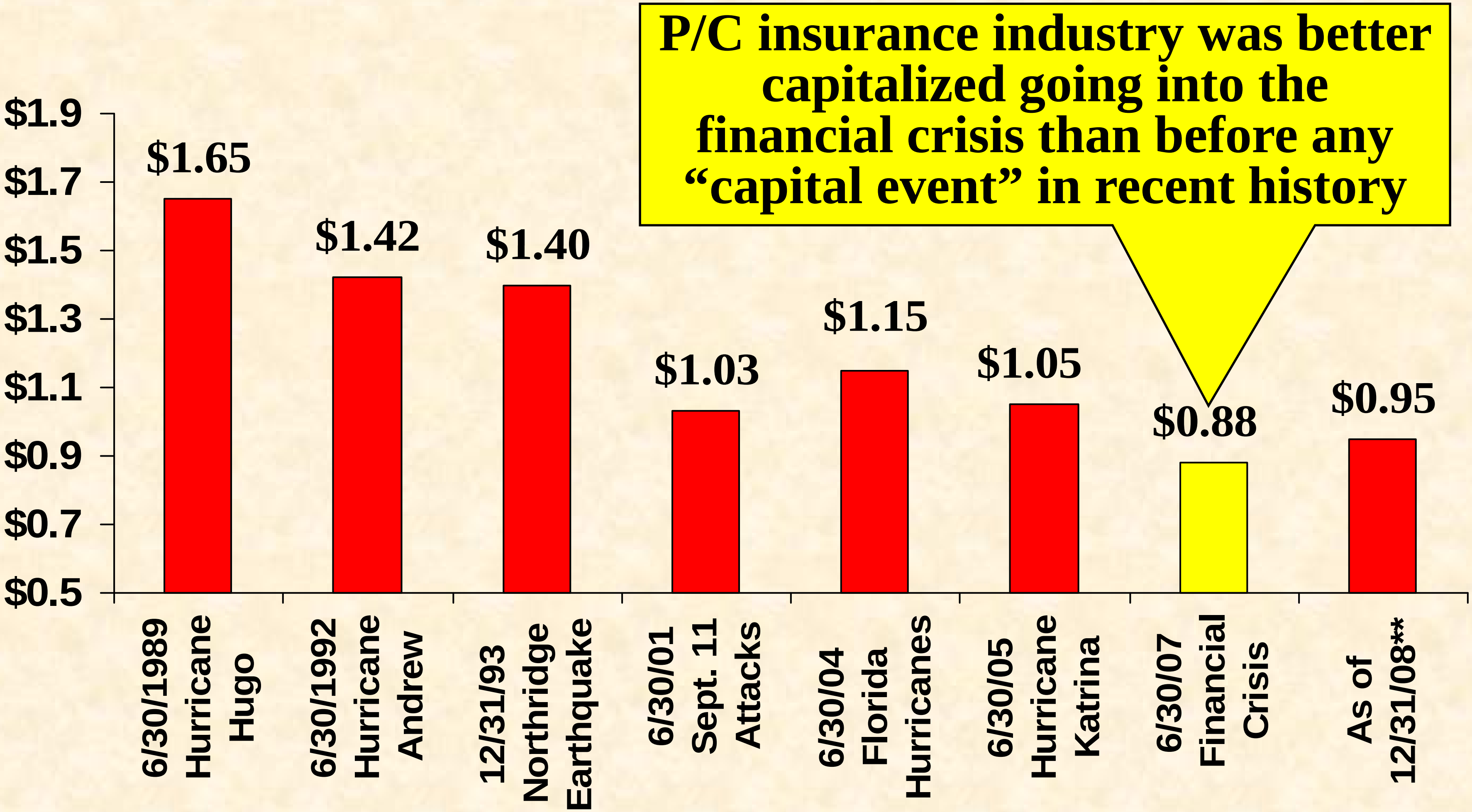
Source: A.M. Best, ISO, Insurance Information Institute. *As of 12/31/08

Policyholder Surplus,
2006:Q4 – 2008:Q4



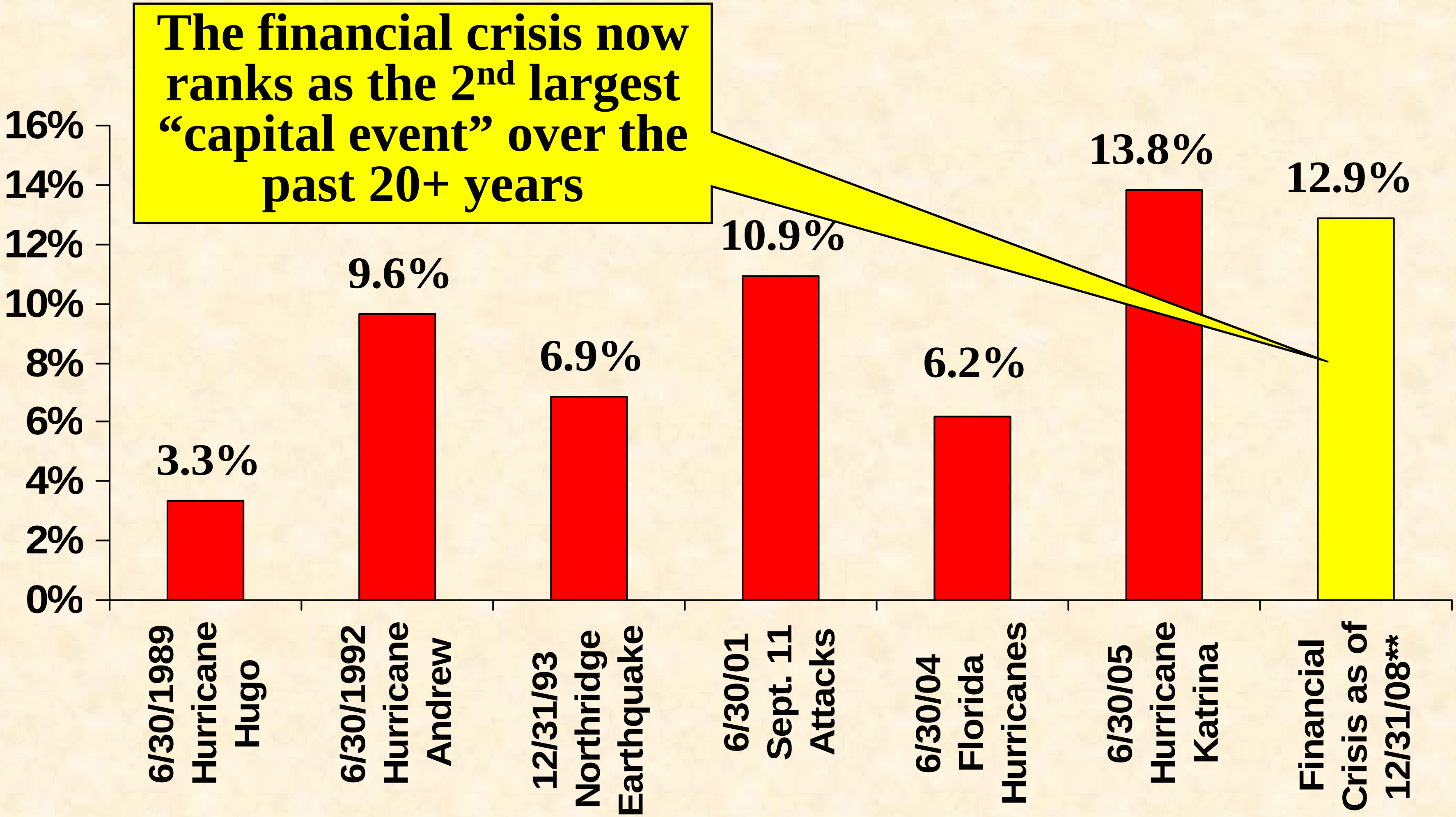
Source: ISO.

Premium-to-Surplus Ratios Before Major Capital Events*



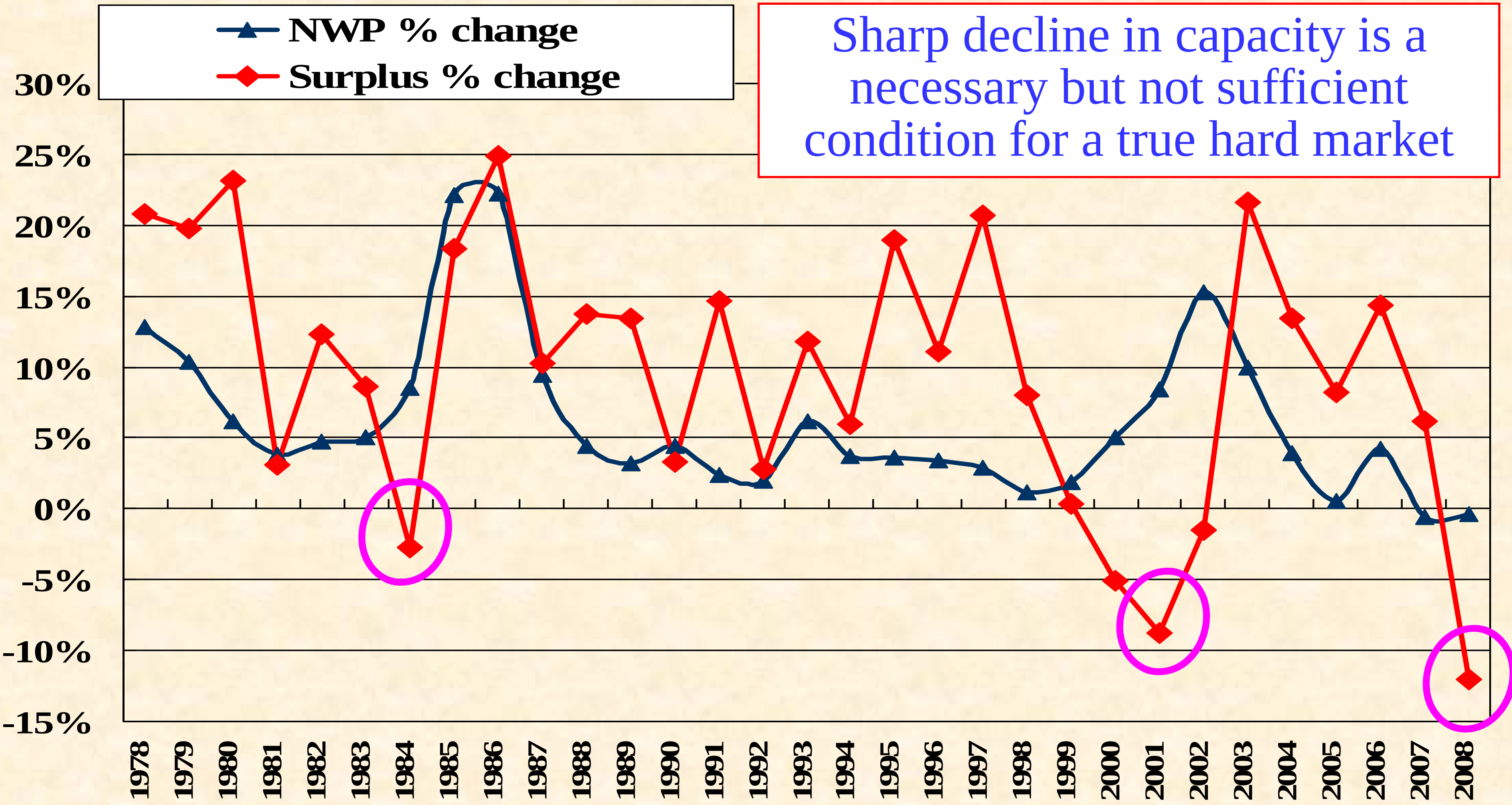
*Ratio is for end of quarter immediately prior to event. Date shown is end of quarter prior to event.
**Latest available
Source: PCS; Insurance Information Institute.

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



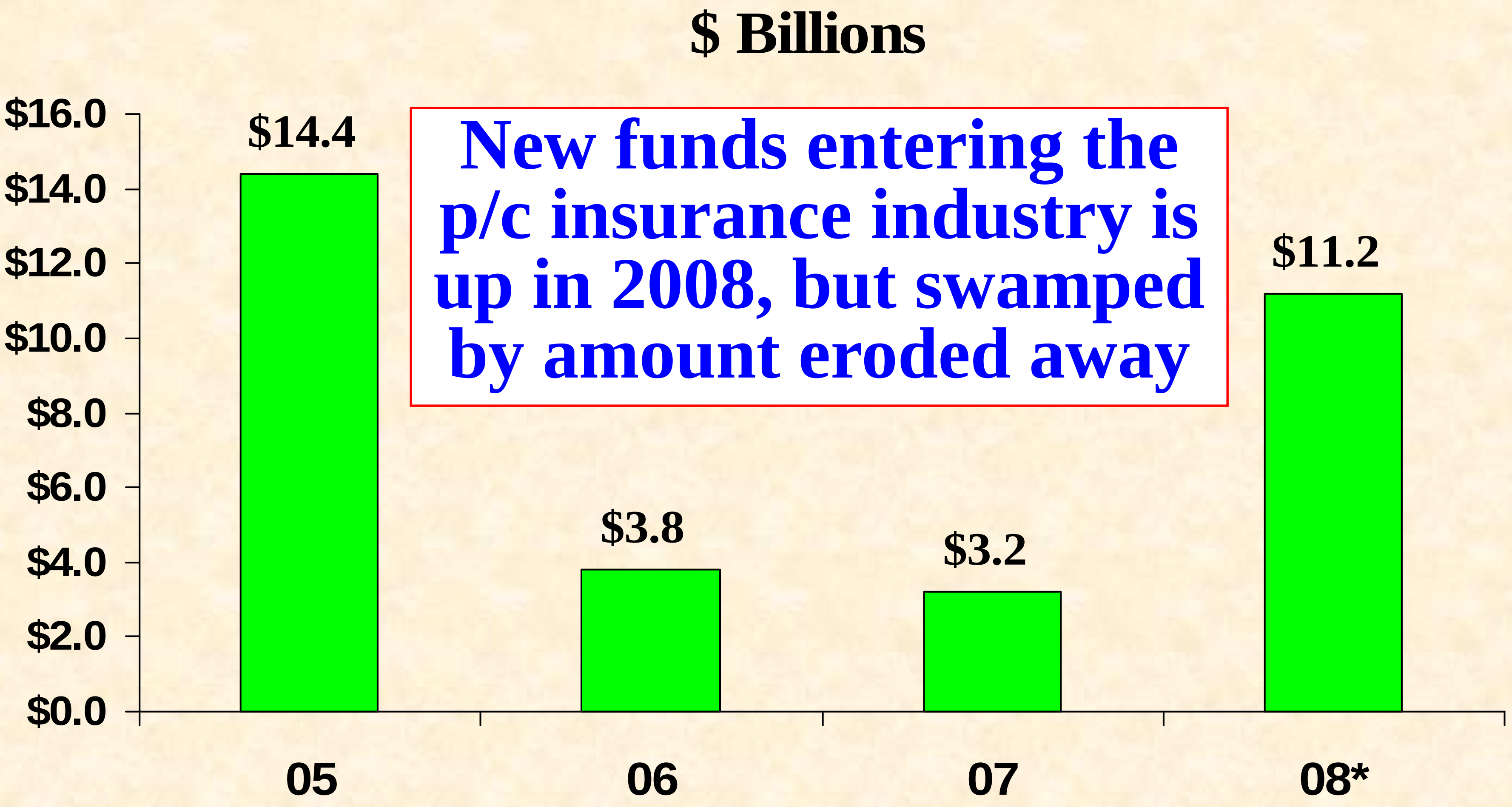
*Ratio is for end-of-quarter surplus immediately prior to event. Date shown is end of quarter prior to event.
**Latest available
Source: PCS; Insurance Information Institute.

Historically, Hard Markets Follow When Surplus "Growth" is Negative



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

New Funds Contributing to US Policyholder Surplus, 2005-2008



*Through Q4 2009 (latest available).

Source: ISO; Insurance Information Institute

Investment Performance

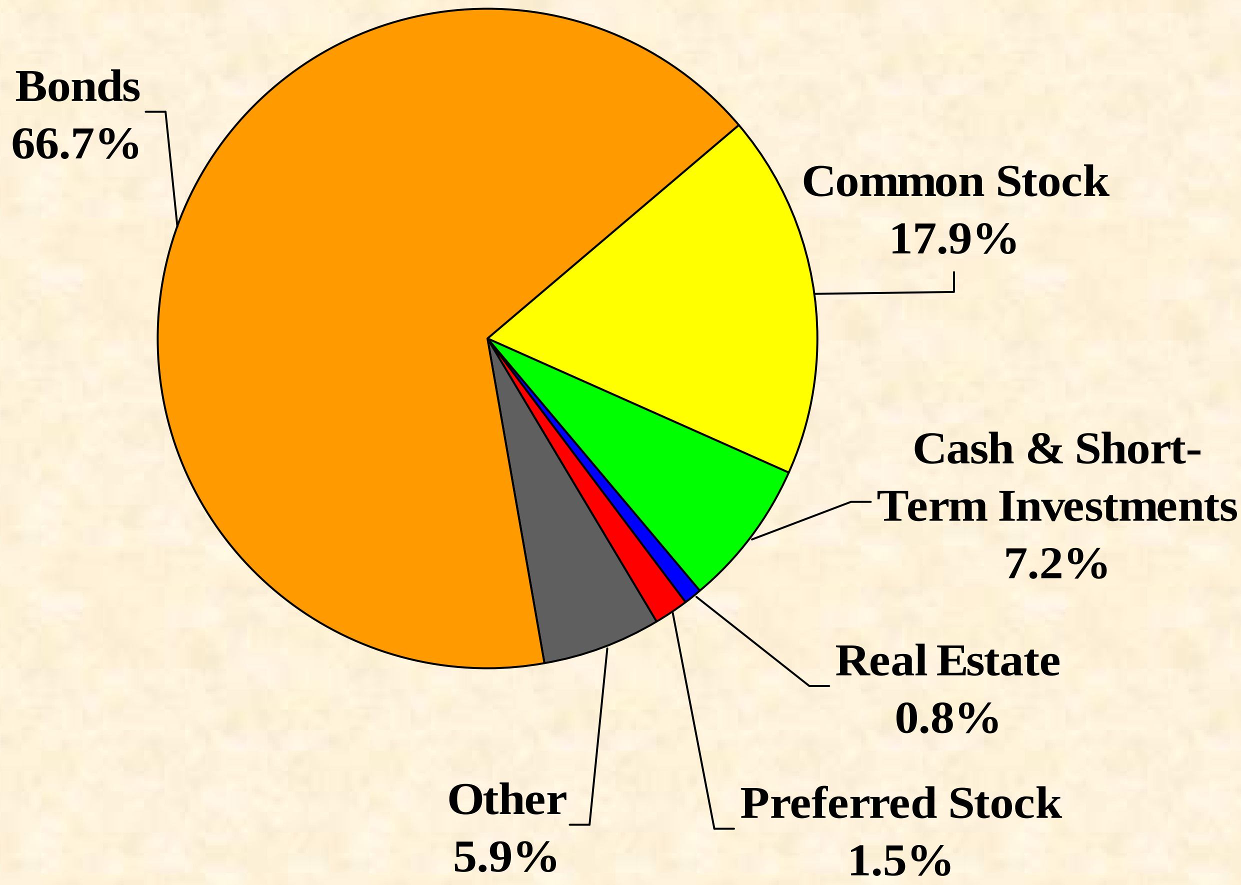
Investments are the Principle Source of Declining Profitability

Distribution of P/C Insurance Industry's Investment Portfolio

As of December 31, 2007

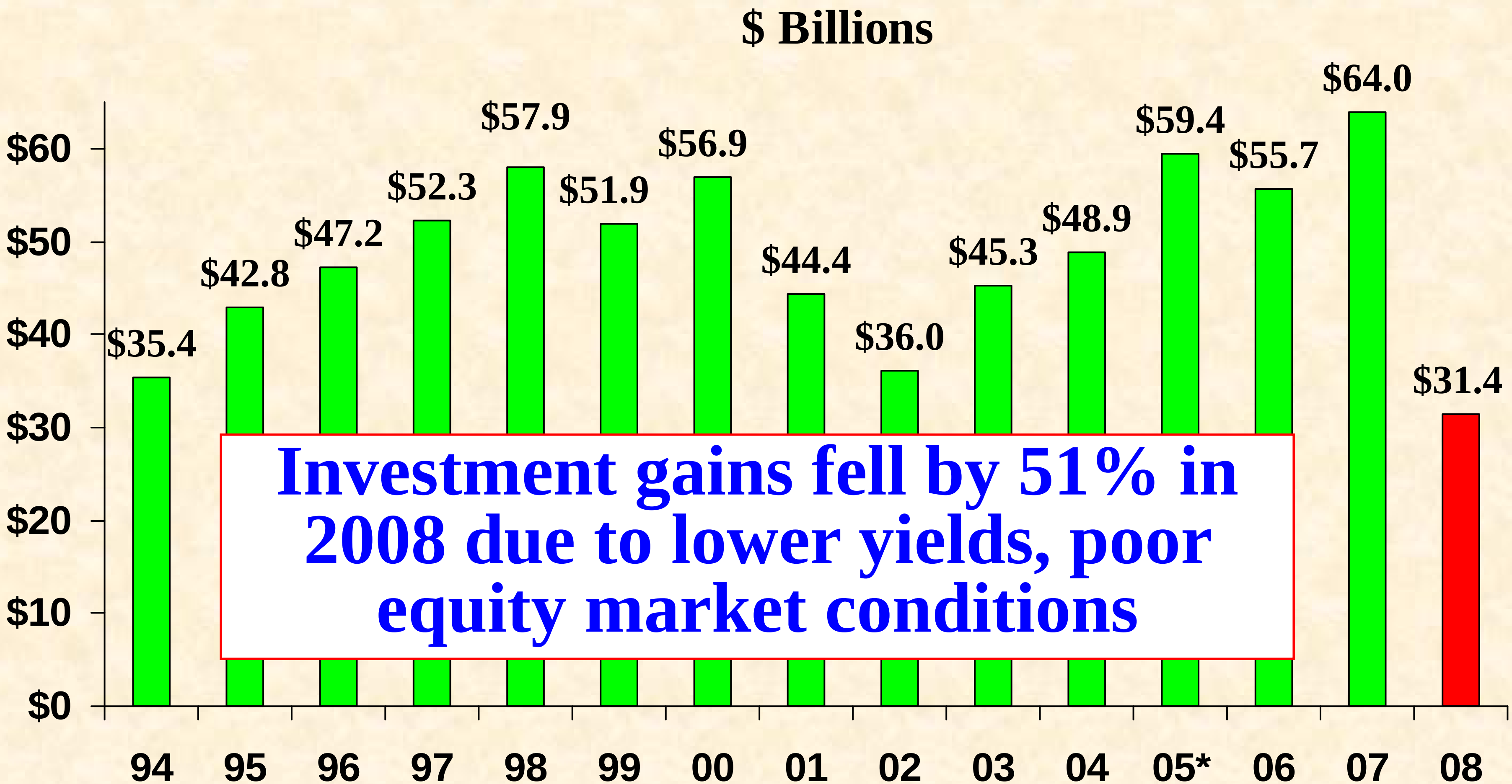
Portfolio Facts

- **Invested assets totaled $1.3 trillion as of 12/31/07**
- **Insurers are generally conservatively invested, with 2/3 of assets invested in bonds as of 12/31/07**
- **Only about 18% of assets were invested in common stock as of 12/31/07**
- **Even the most conservative of portfolios was hit hard in 2008**



Source: NAIC; Insurance Information Institute research;.

Property/Casualty Insurance Industry Investment Gain:1994- 2008[1]

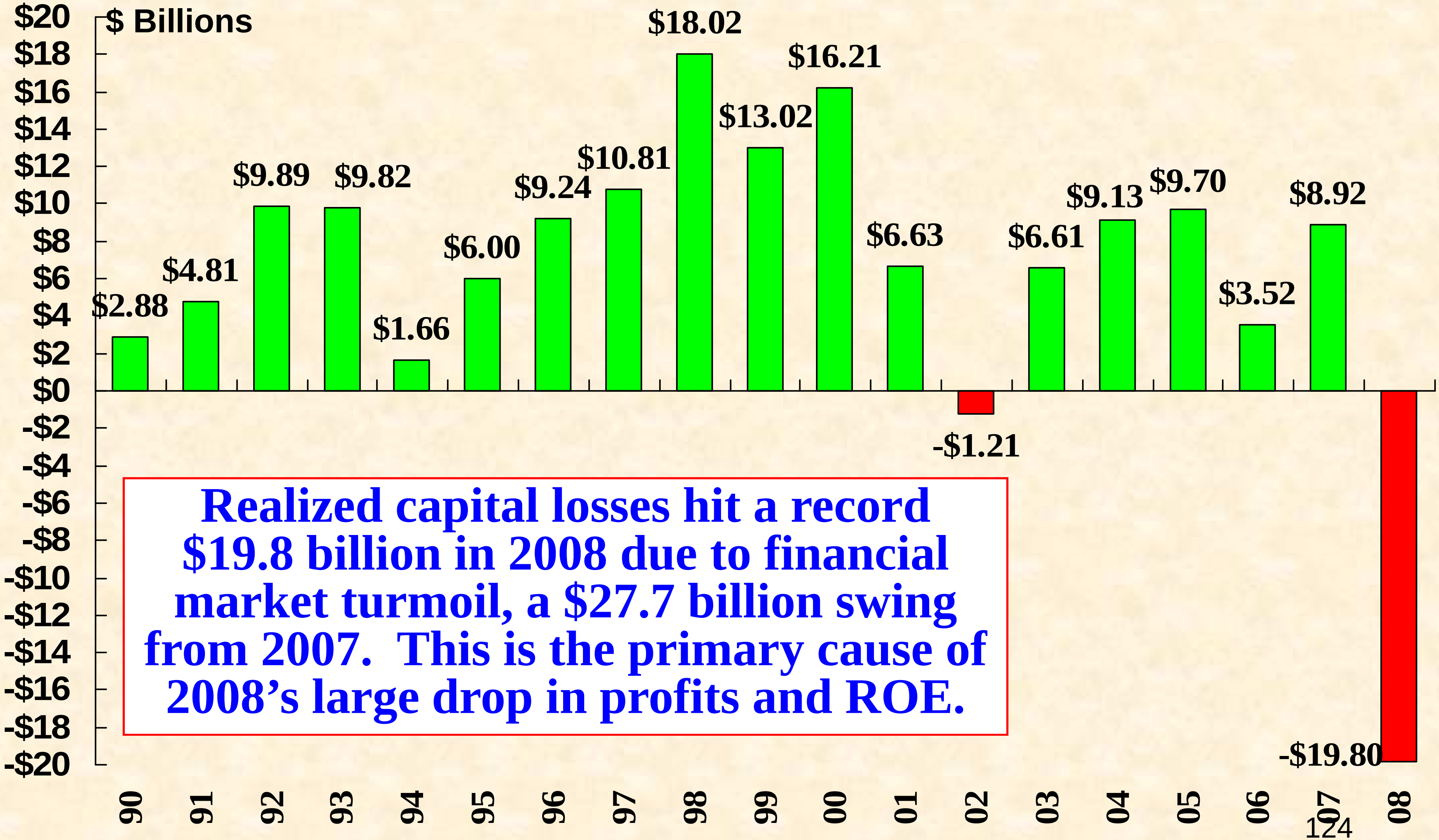


[1]Investment gains consist primarily of interest, stock dividends and realized capital gains and losses. 2006 figure consists of $52.3B net investment income and $3.4B realized investment gain.

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

Sources: ISO; Insurance Information Institute.

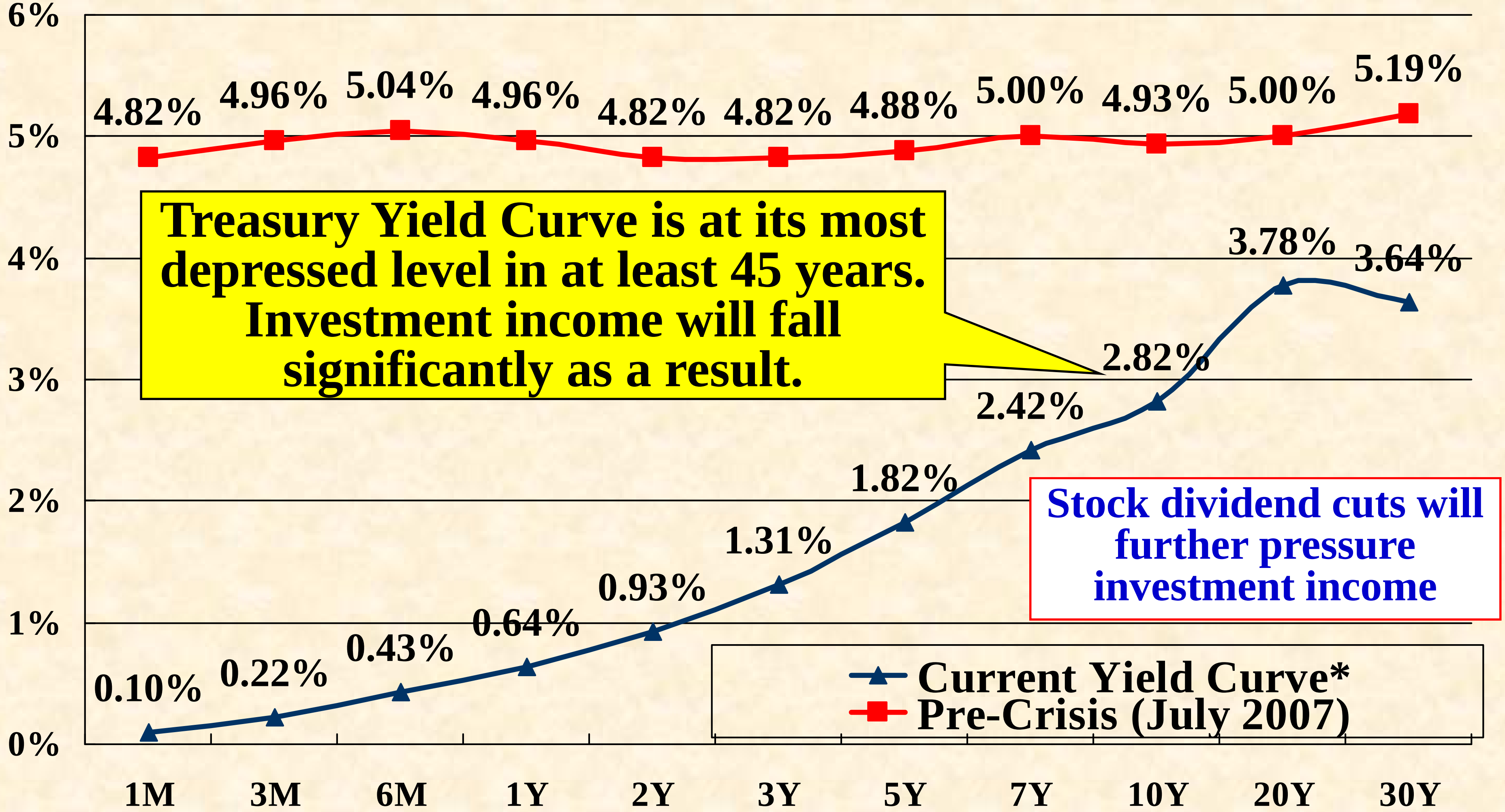
P/C Insurer Net Realized Capital Gains, 1990-2008



Realized capital losses hit a record $19.8 billion in 2008 due to financial market turmoil, a $27.7 billion swing from 2007. This is the primary cause of 2008's large drop in profits and ROE.

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

Treasury Yield Curves: Pre-Crisis vs. Current*



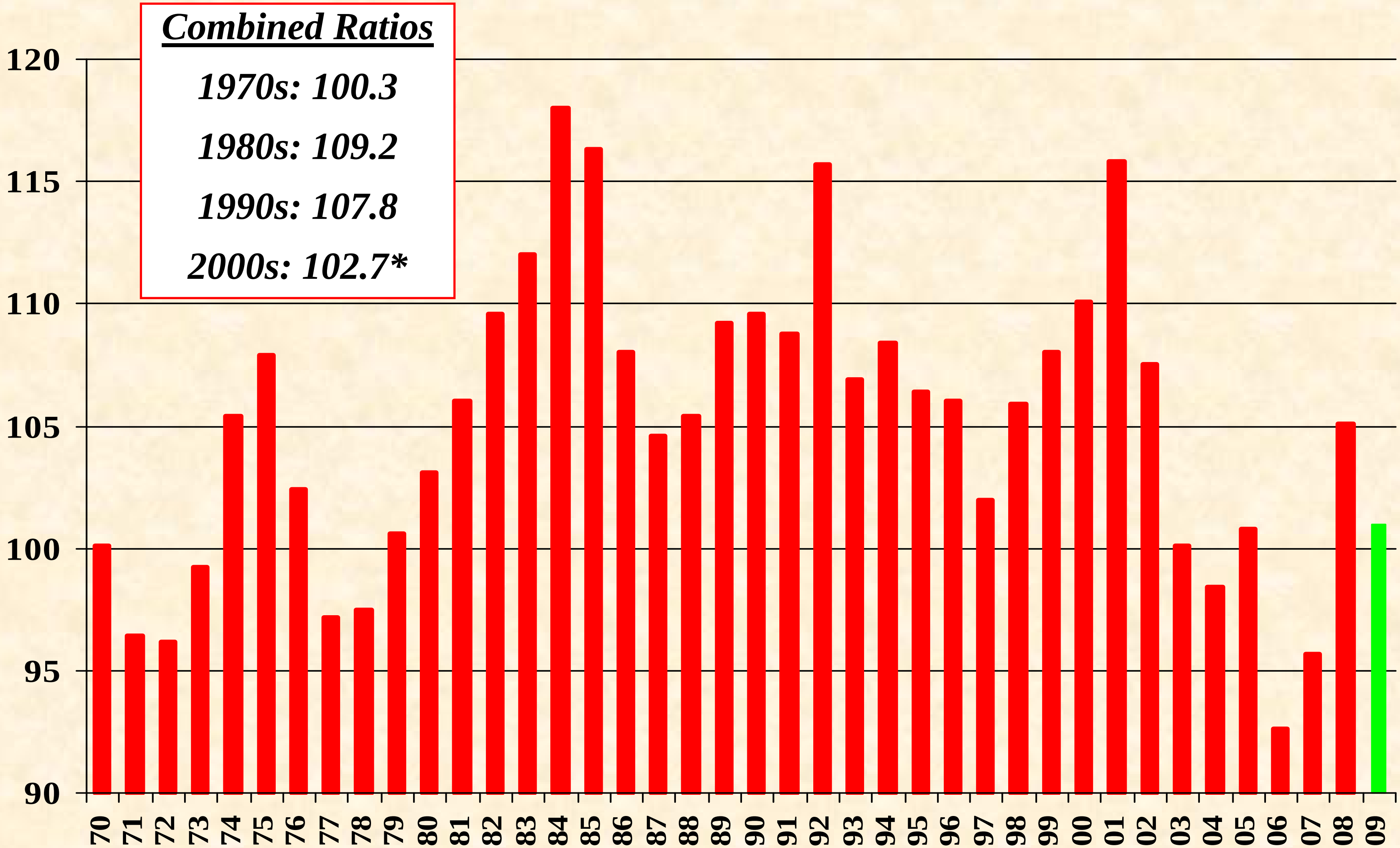
*March 2009.

Sources: Federal Reserve; Insurance Information Institute.

Underwriting Trends

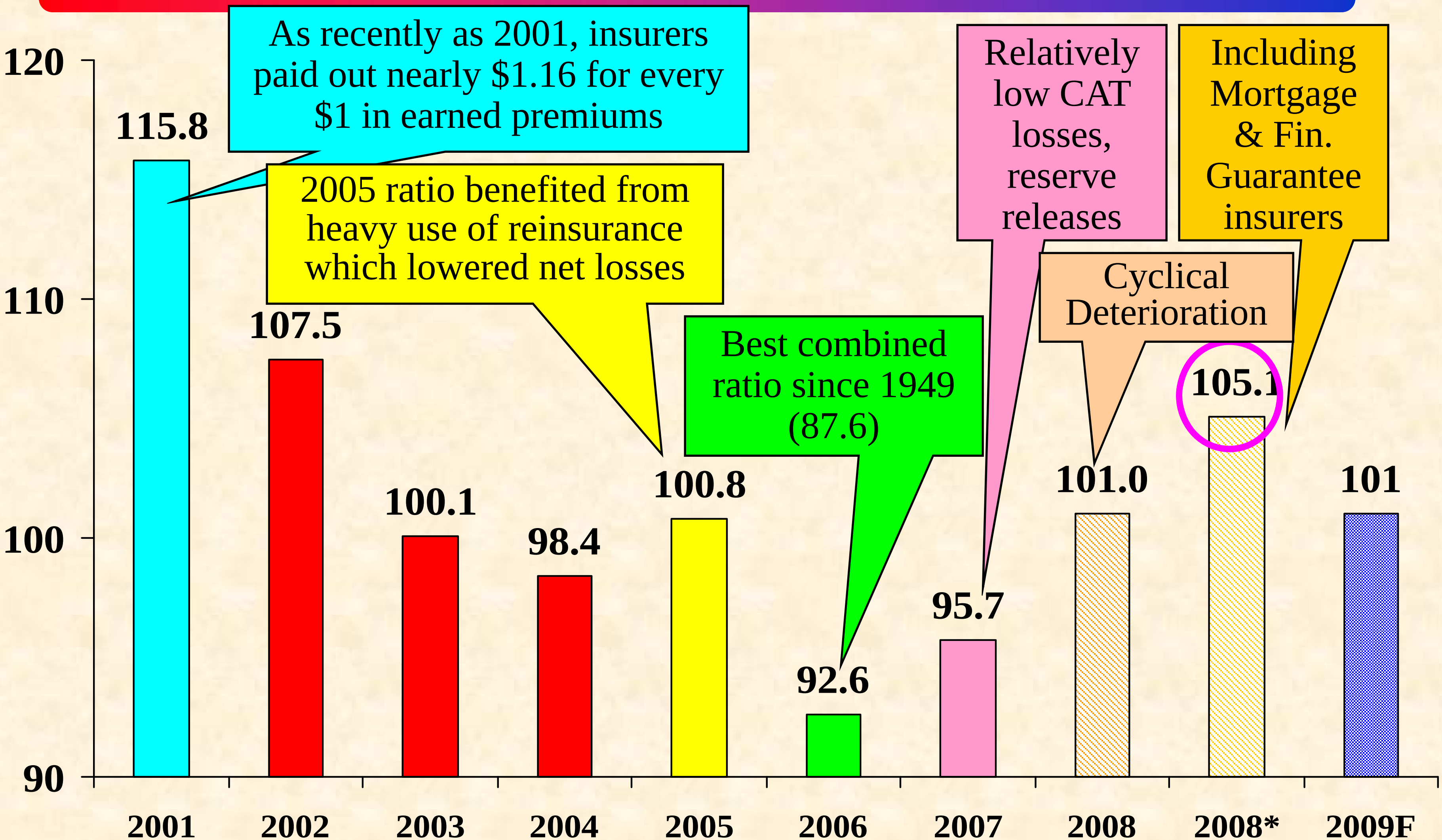
Financial Crisis Does *Not* Directly Impact Underwriting Performance: Cycle, Catastrophes Were 2008’s Drivers

P/C Insurance Combined Ratio, 1970-2009F*



Sources: A.M. Best; ISO, III *2009F from A.M. Best 2009 of 101.0.

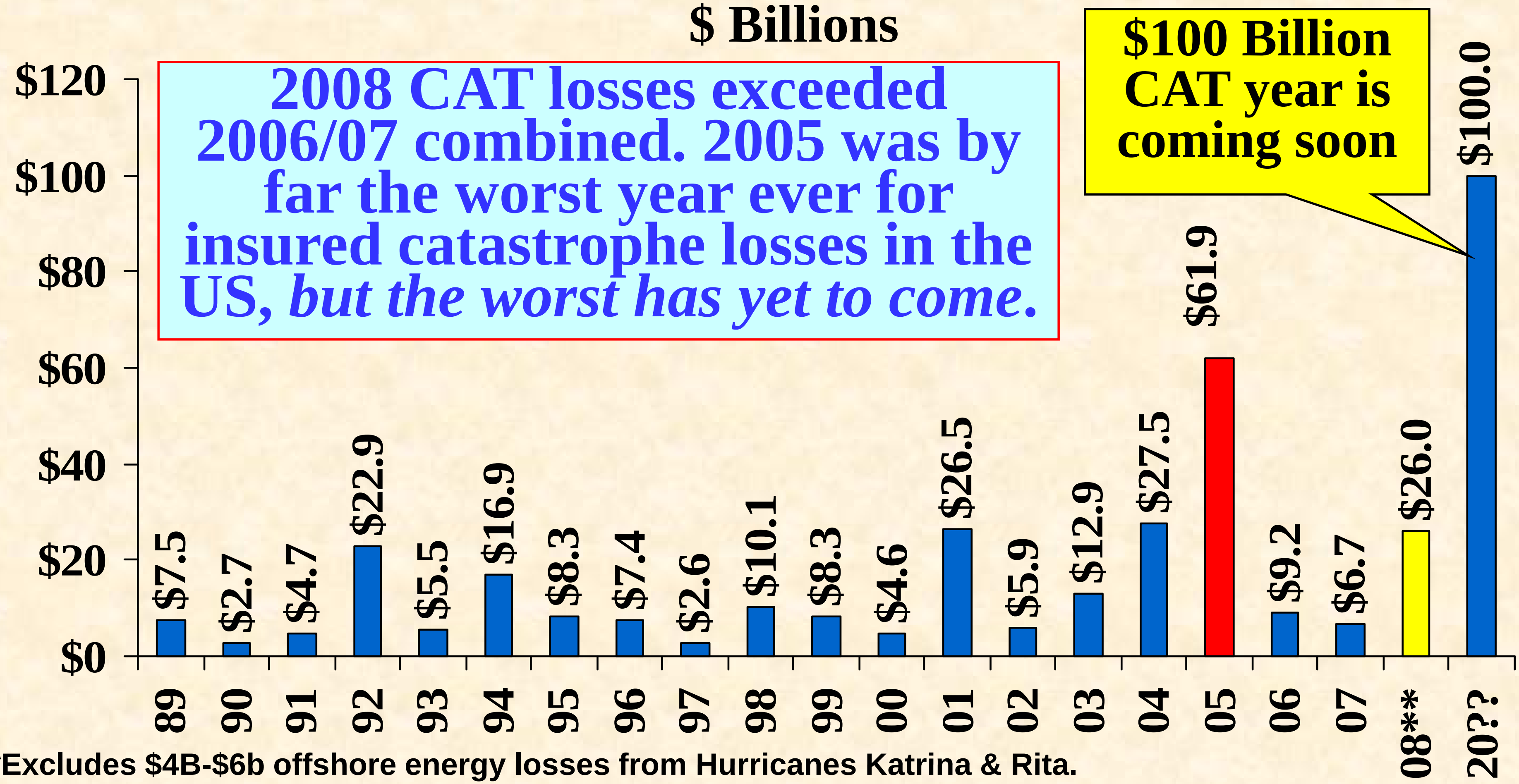
P/C Insurance Industry Combined Ratio, 2001-2009E



*Includes Mortgage & Financial Guarantee insurers.

Sources: A.M. Best.

U.S. Insured Catastrophe Losses*



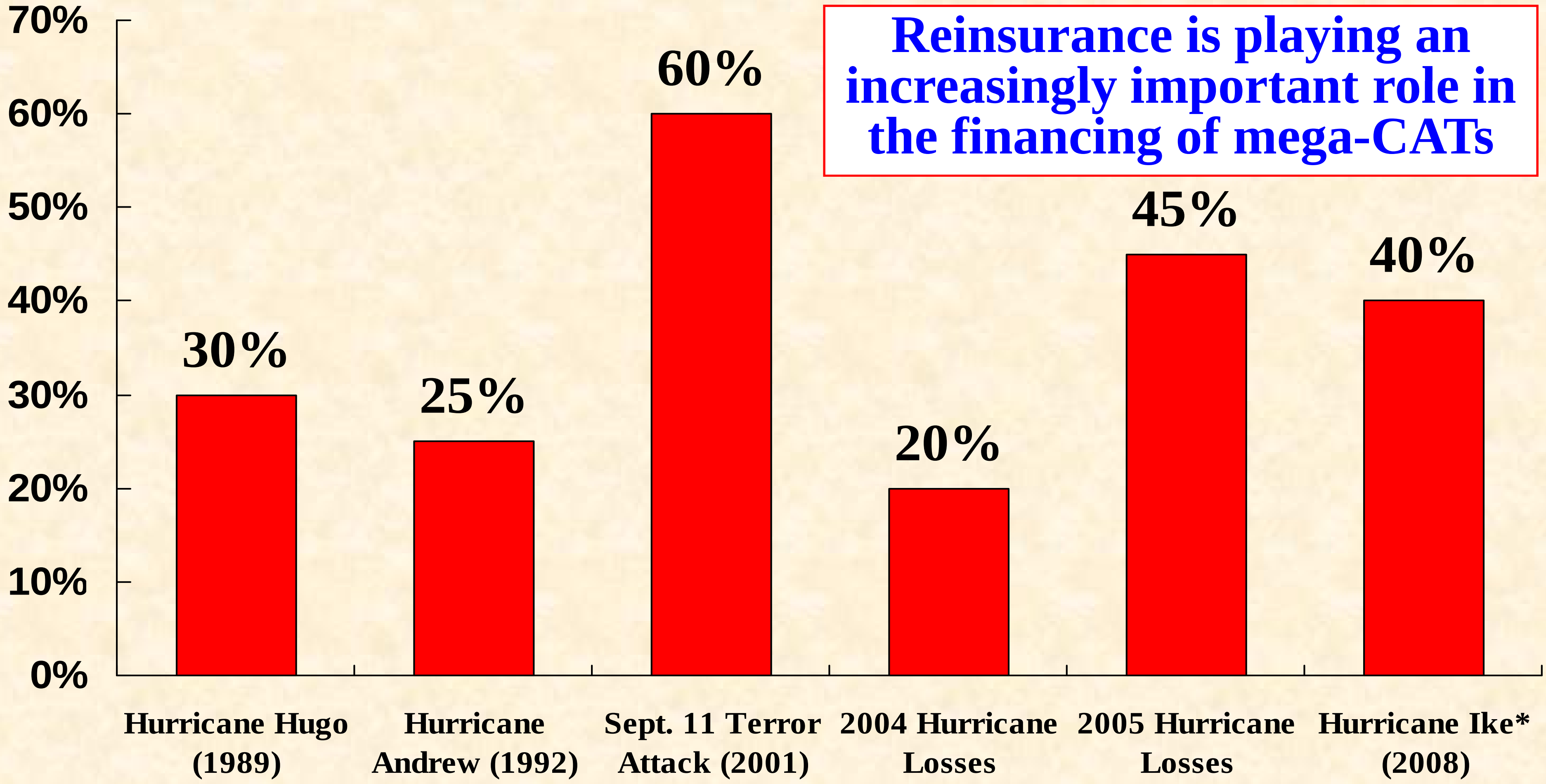
*Excludes $4B-$6b offshore energy losses from Hurricanes Katrina & Rita.

**Based on PCS data through Dec. 31. PCS $2.1B loss of for Gustav. $10.655B for Ike of 12/05/08.

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

Source: Property Claims Service/ISO; Insurance Information Institute

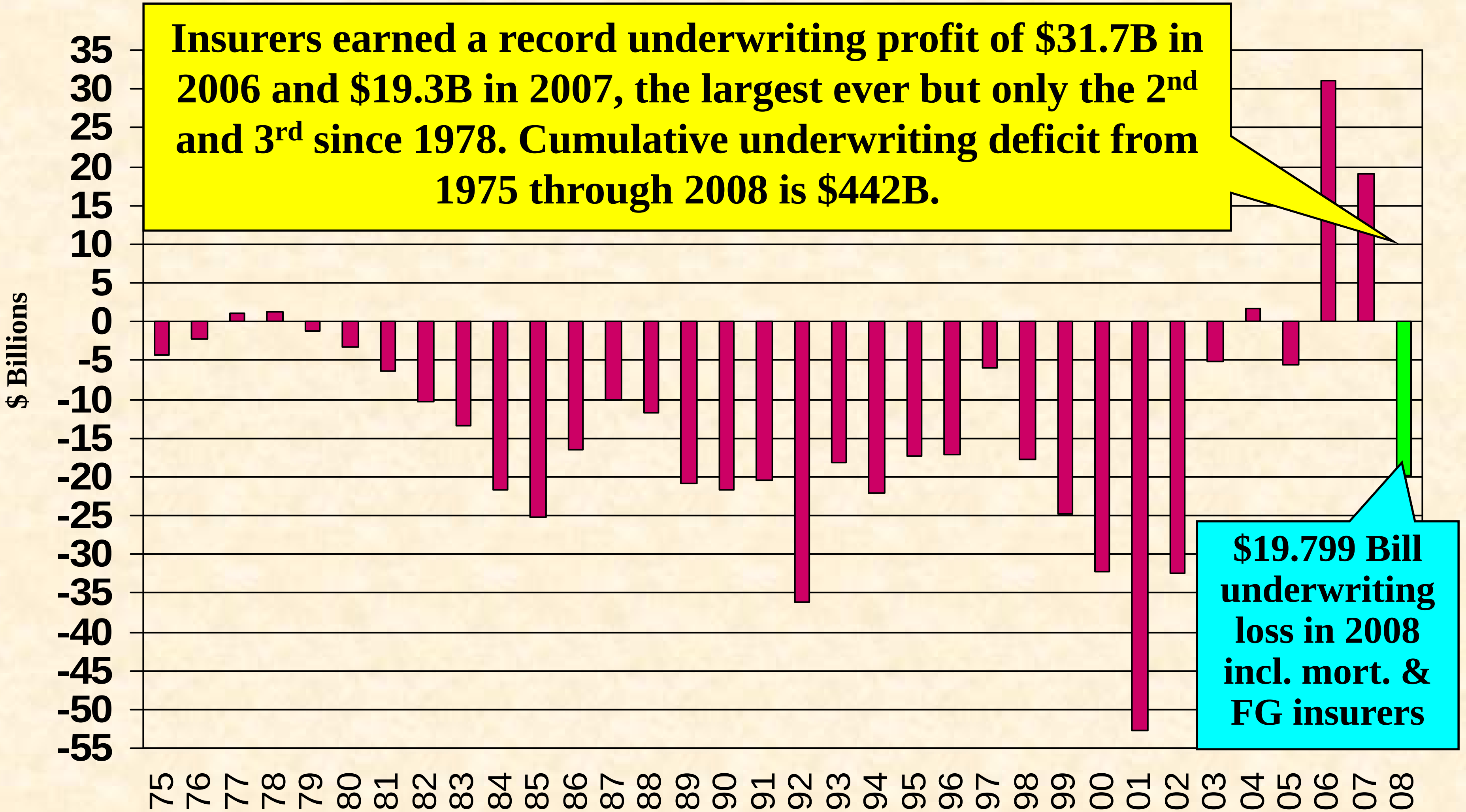
Share of Losses Paid by Reinsurers, by Disaster*



*Excludes losses paid by the Florida Hurricane Catastrophe Fund, a FL-only windstorm reinsurer, which was established in 1994 *after* Hurricane Andrew. FHCF payments to insurers are estimated at $3.85 billion for 2004 and $4.5 billion for 2005. Ike share is an estimate as of 2/9/09.

Sources: Wharton Risk Center, Disaster Insurance Project; Insurance Information Institute.

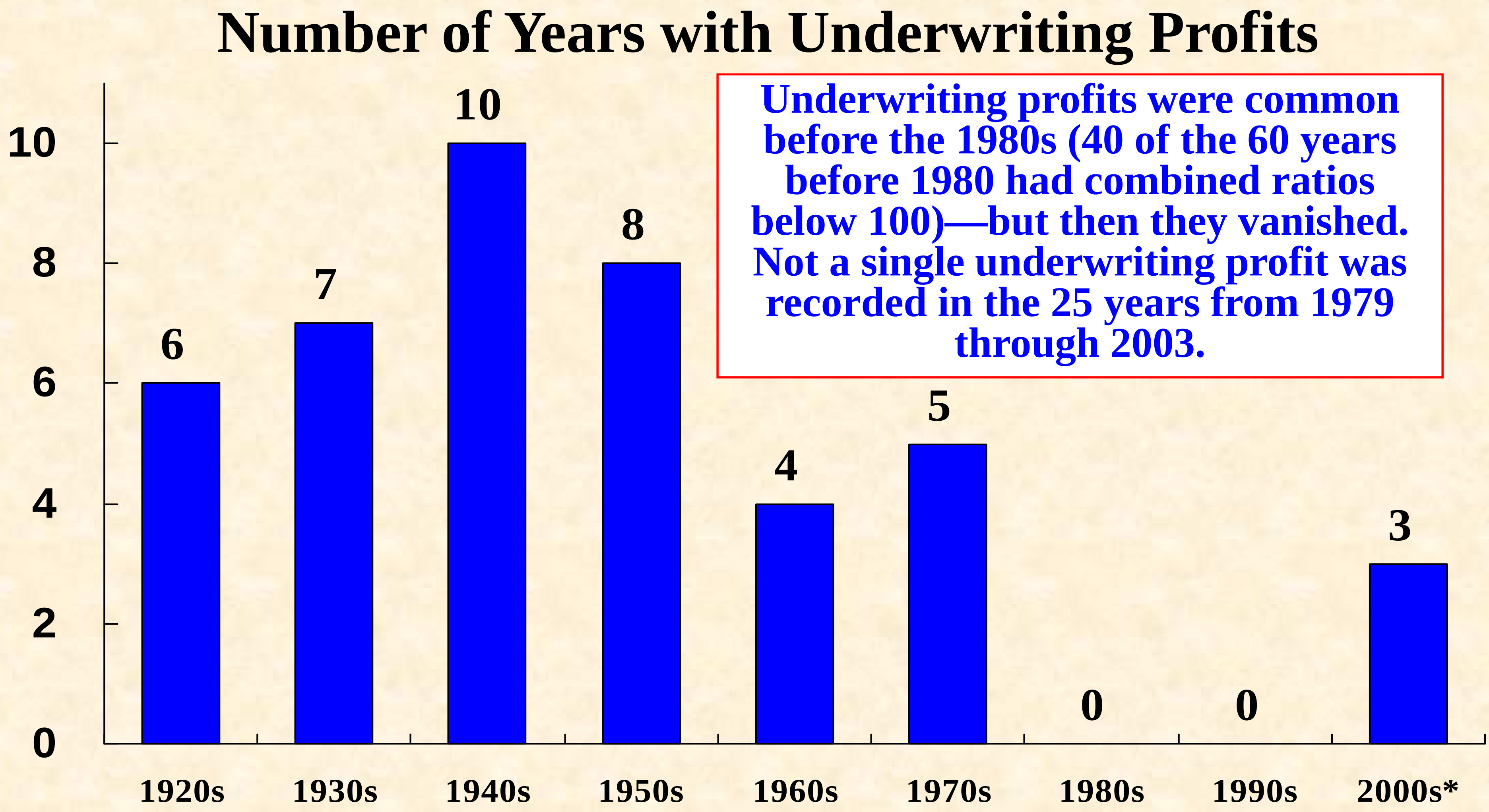
*Underwriting Gain (Loss) 1975-2008**



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

* Includes mortgage & finl. guarantee insurers

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



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

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

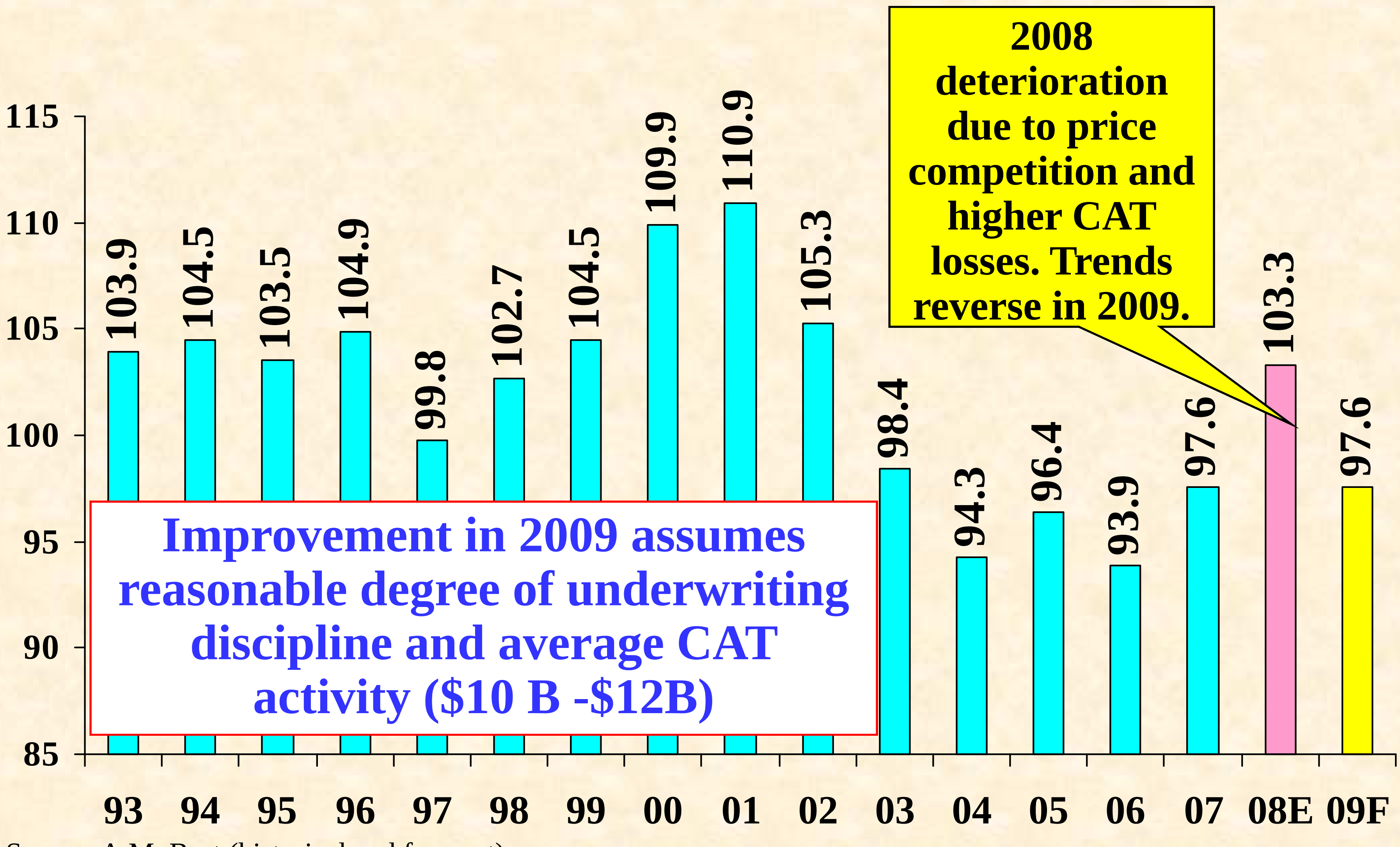
*2000 through 2008.

Personal Lines

Auto (~75% of Market)

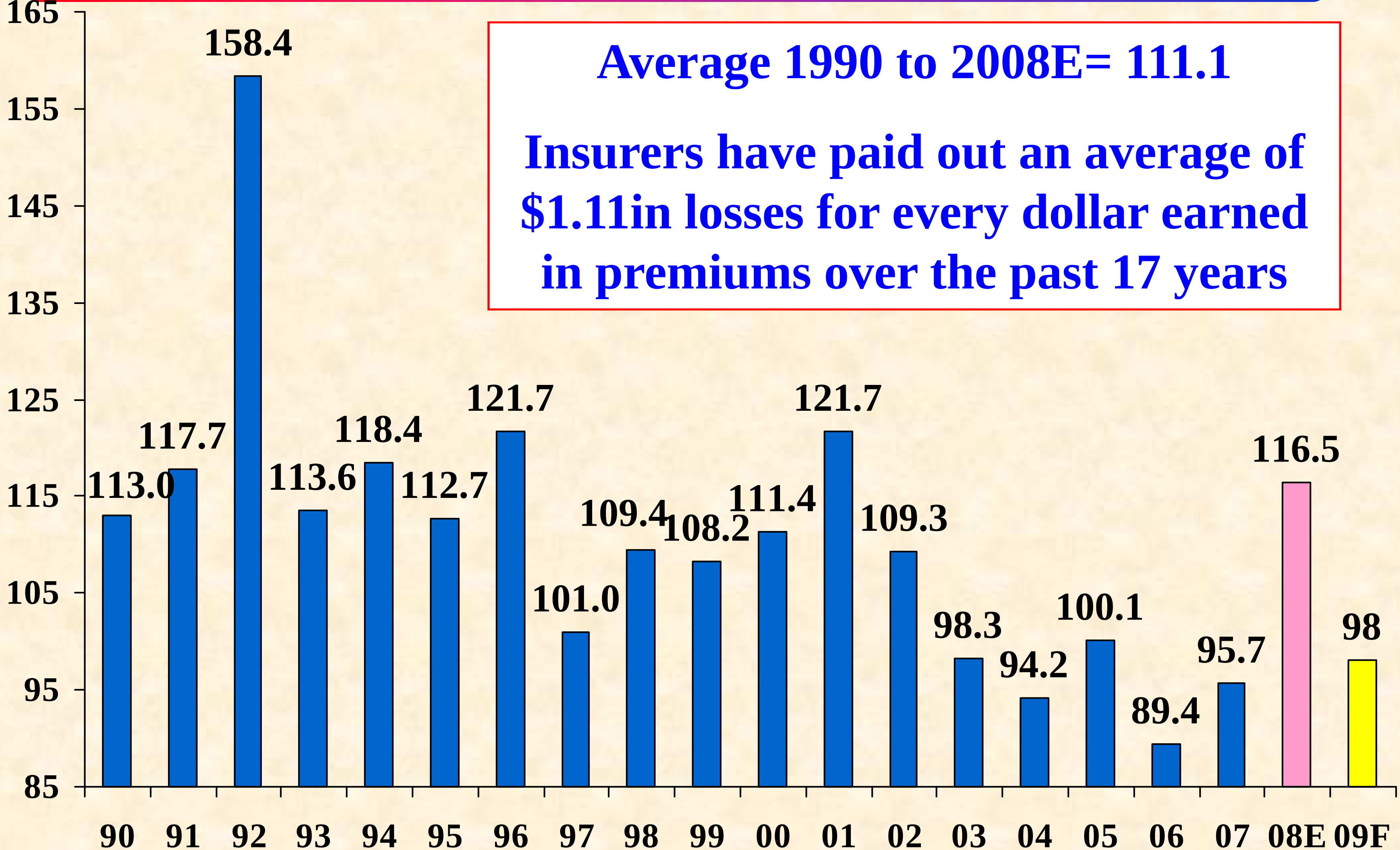
Home (~25%)

Personal Lines Combined Ratio, 1993-2009F



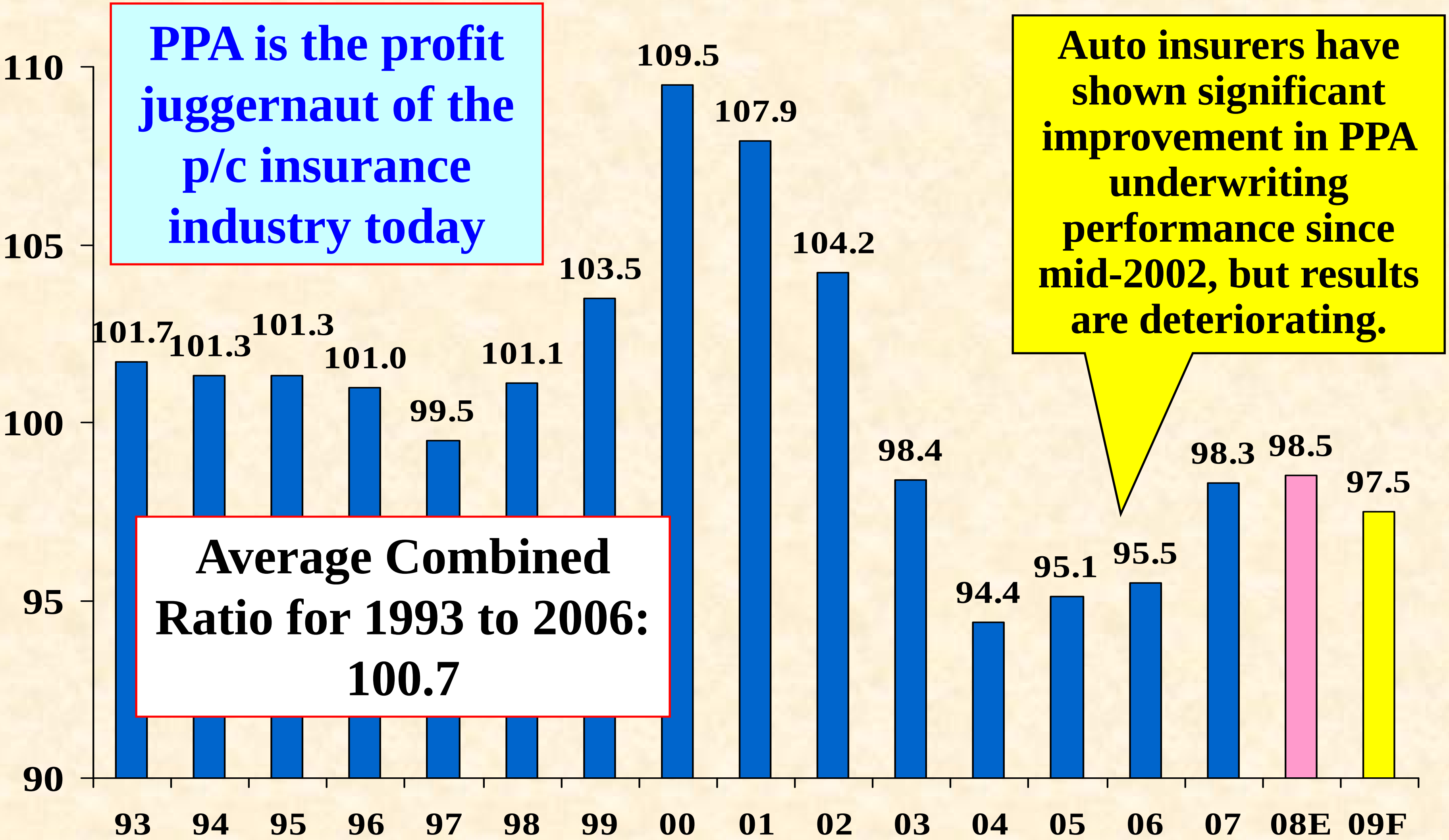
Source: A.M. Best (historical and forecast).

Homeowners Insurance Combined Ratio



Sources: A.M. Best (historical and forecasts)

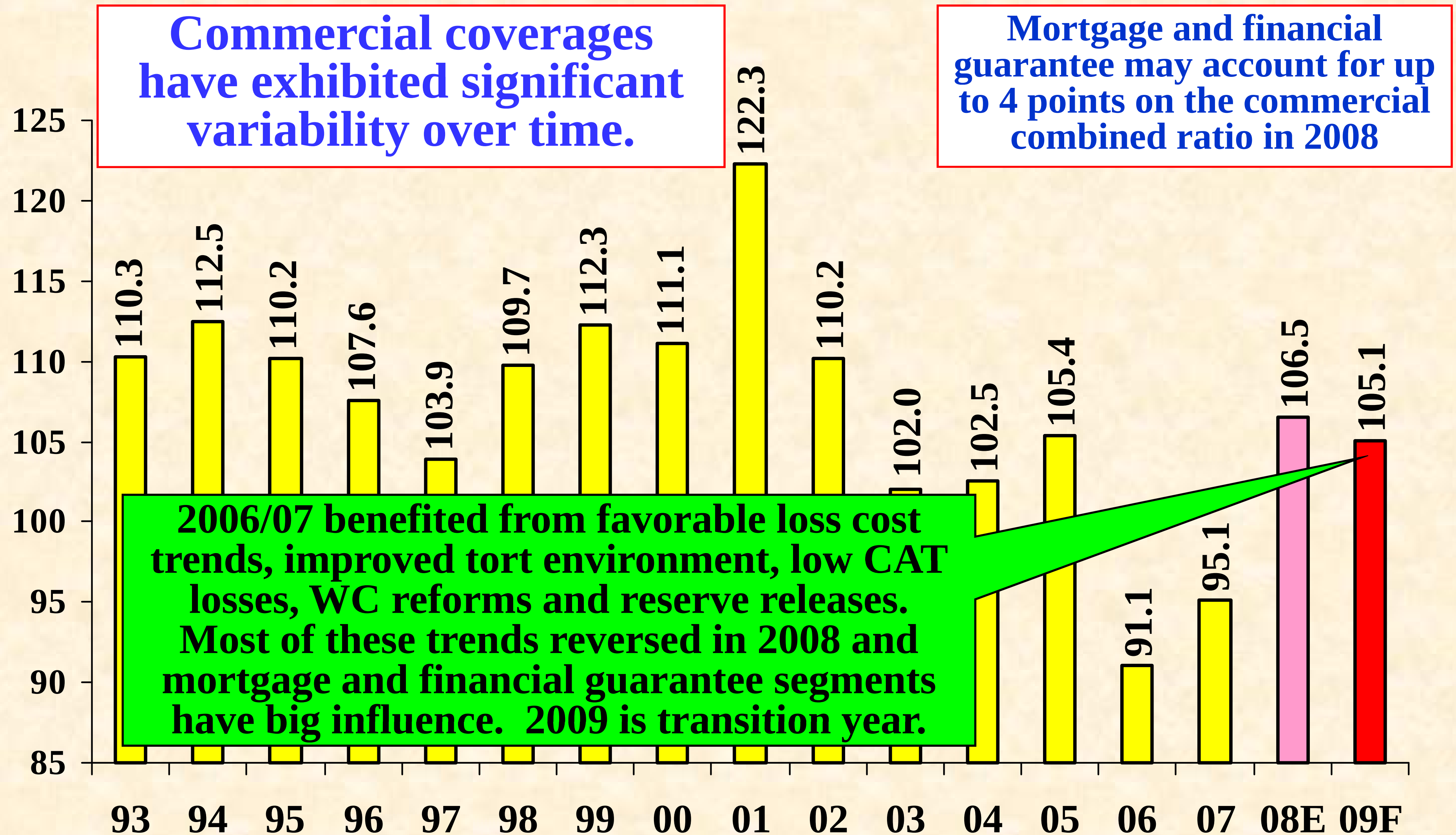
Private Passenger Auto (PPA) Combined Ratio



Sources: A.M. Best (historical and forecasts)

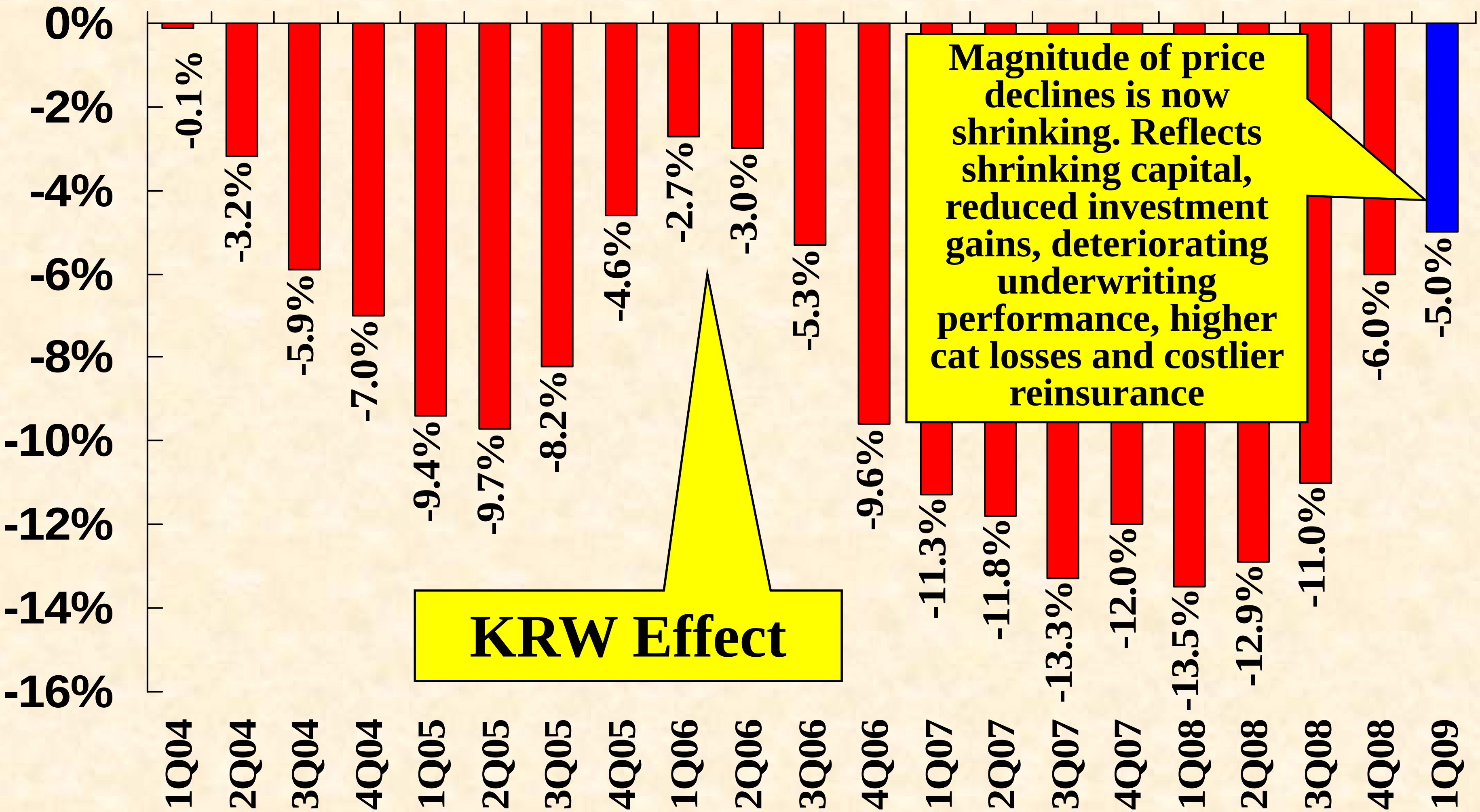
Commercial Lines

Commercial Lines Combined Ratio, 1993-2009F



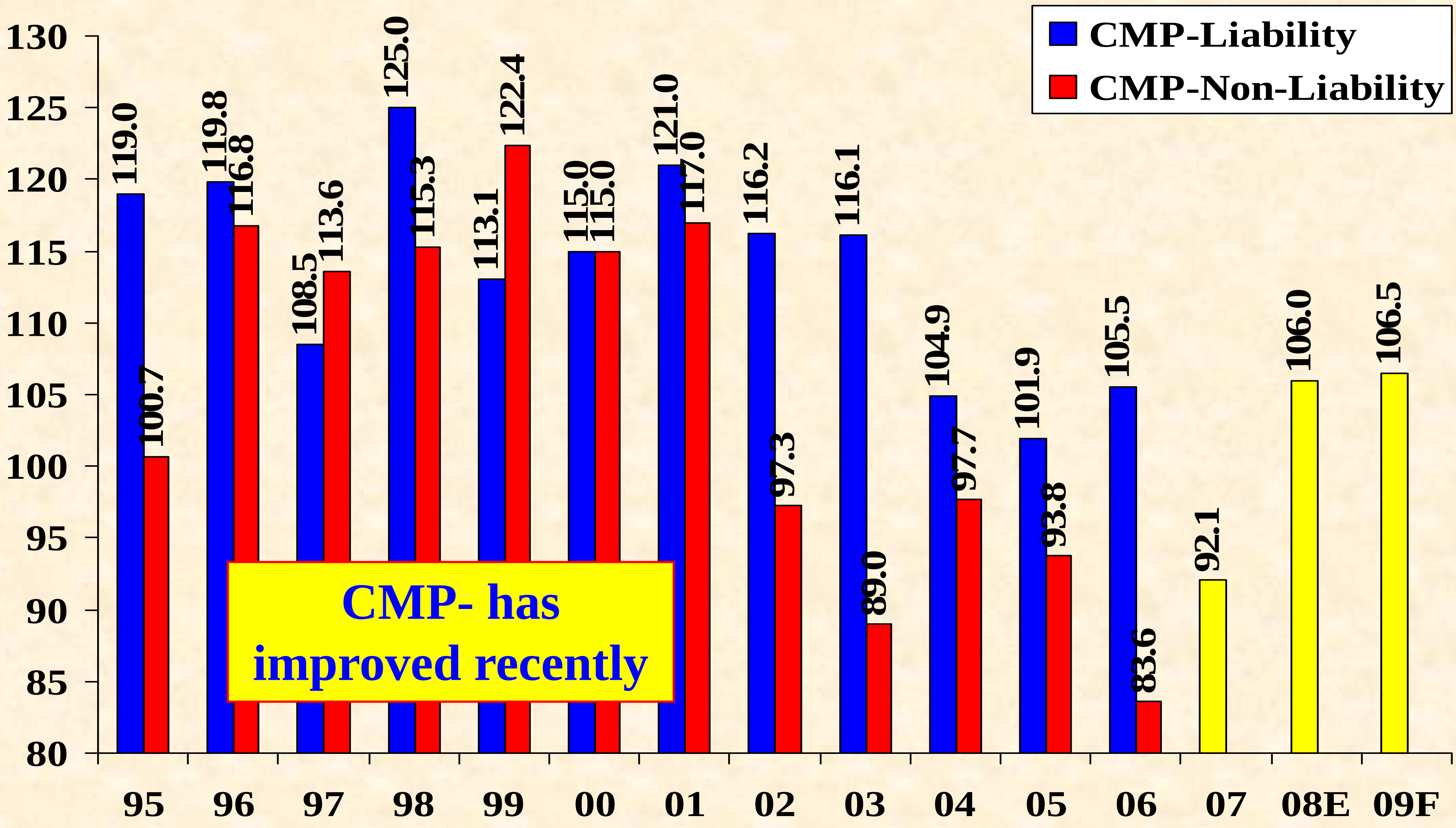
Sources: A.M. Best (historical and forecasts)

Average Commercial Rate Change, All Lines, (1Q:2004 – 1Q:2009)



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

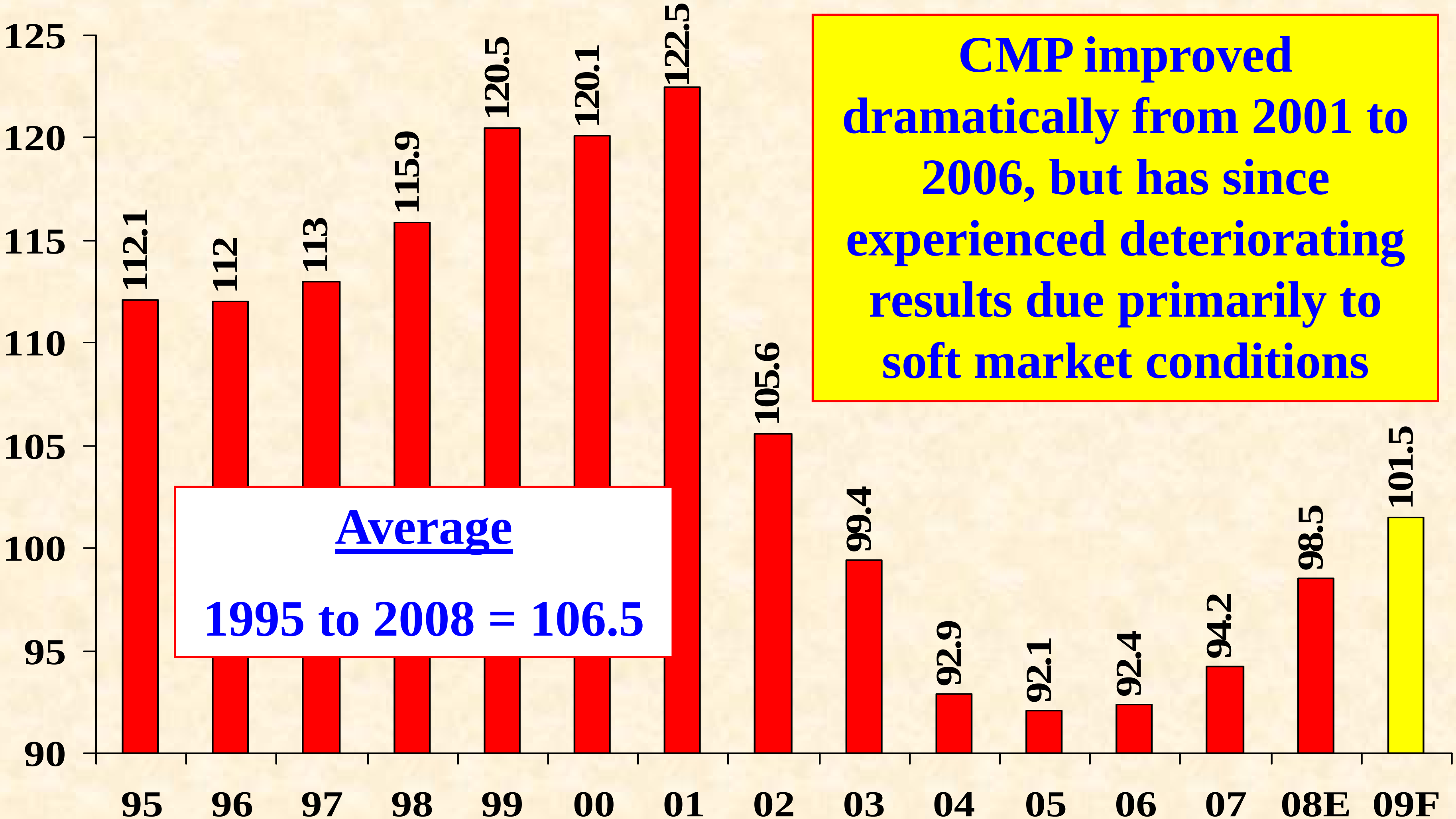
Commercial Multi-Peril Combined (Liability vs. Non-Liability Portion)*



Sources: A.M. Best (historical and forecasts)

*Includes both liability and property damage for years 2007-2009F.

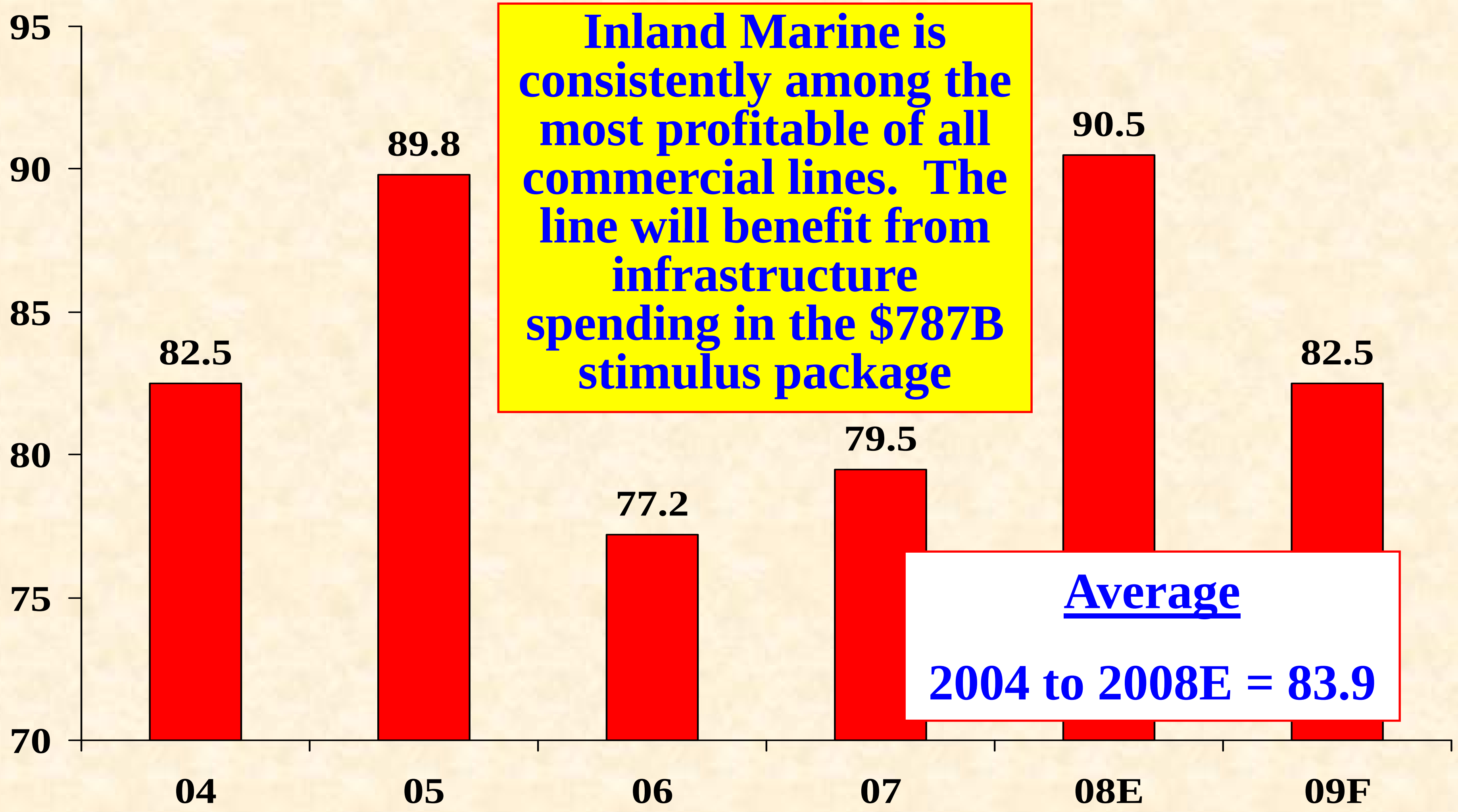
Commercial Auto Combined Ratio (1995-2009F)



Sources: A.M. Best (historical and forecasts)

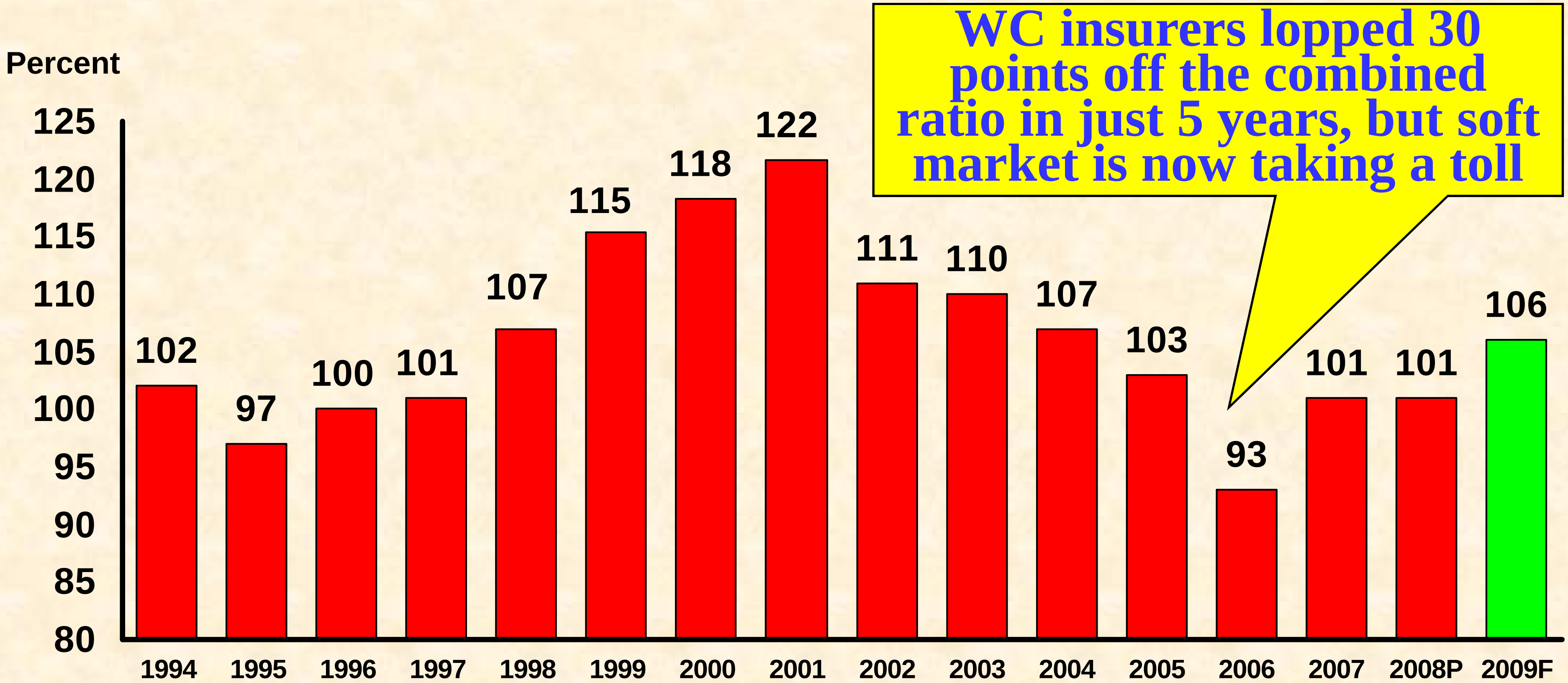
*Includes both liability and property damage.

Inland Marine Combined Ratio (2004-2009F)



Sources: A.M. Best (historical and forecasts)

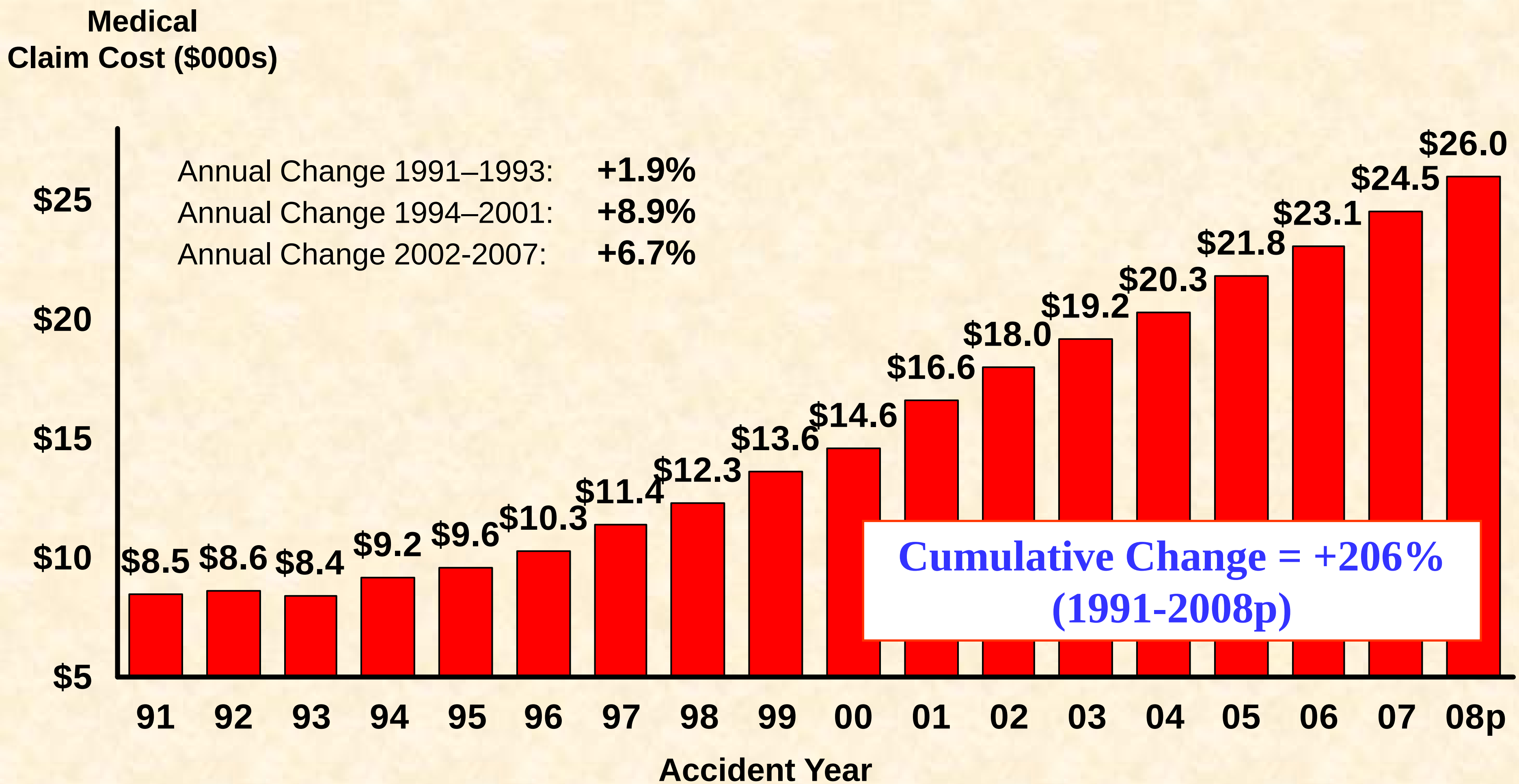
Workers Comp Combined Ratios,
(Calendar Year, Private Carriers) 1994-2009F



p Preliminary.
Sources: Calendar Years 1994-2008p, A.M. Best Aggregates & Averages; Calendar Year 2009F is I.I.I. estimates for private carriers based A.M. Best Review and Preview 2009; NCCI
Includes dividends to policyholders

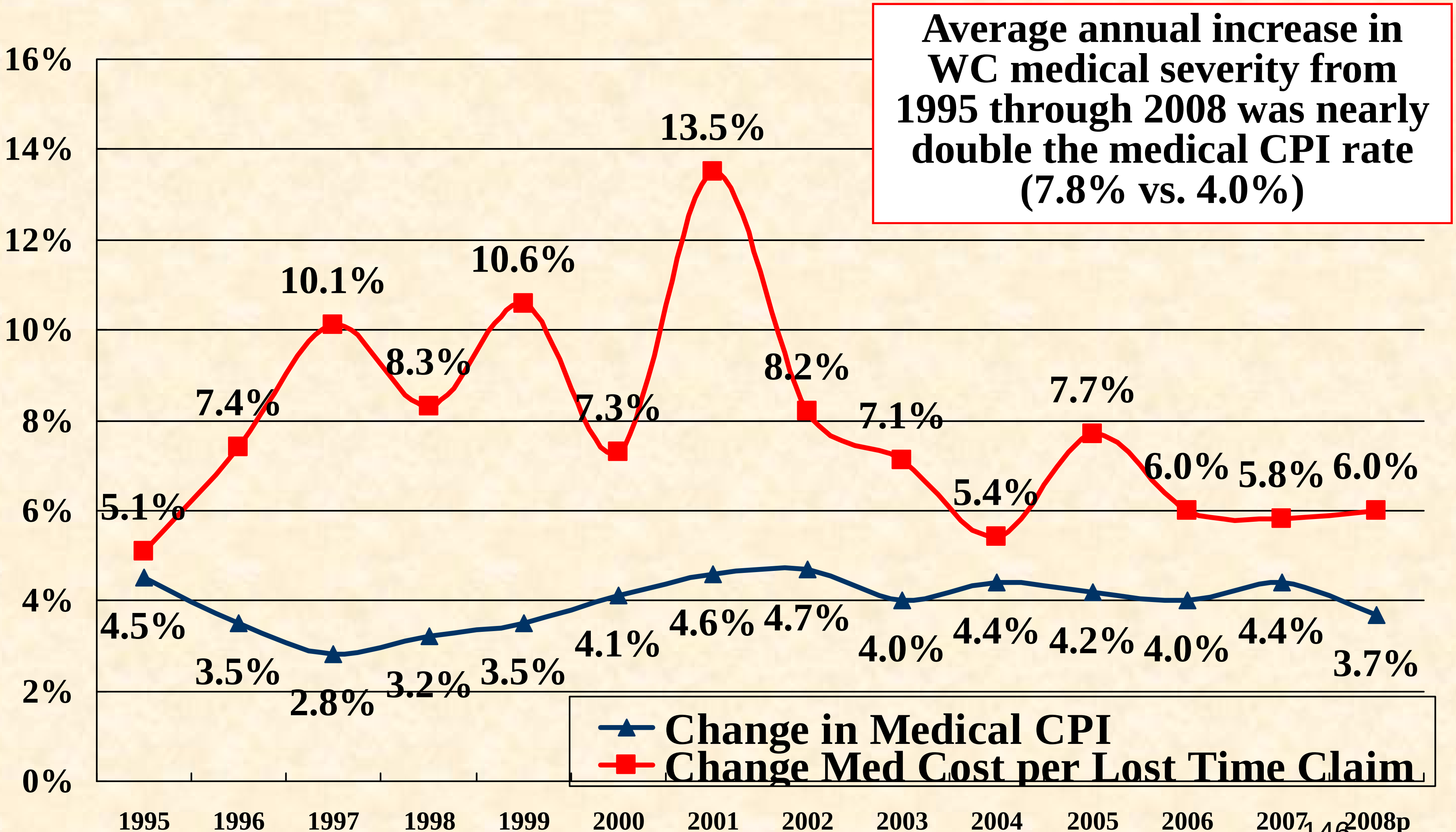
Workers Compensation Medical Claim Trends

Workers Comp Medical Claims Costs Continue to Climb



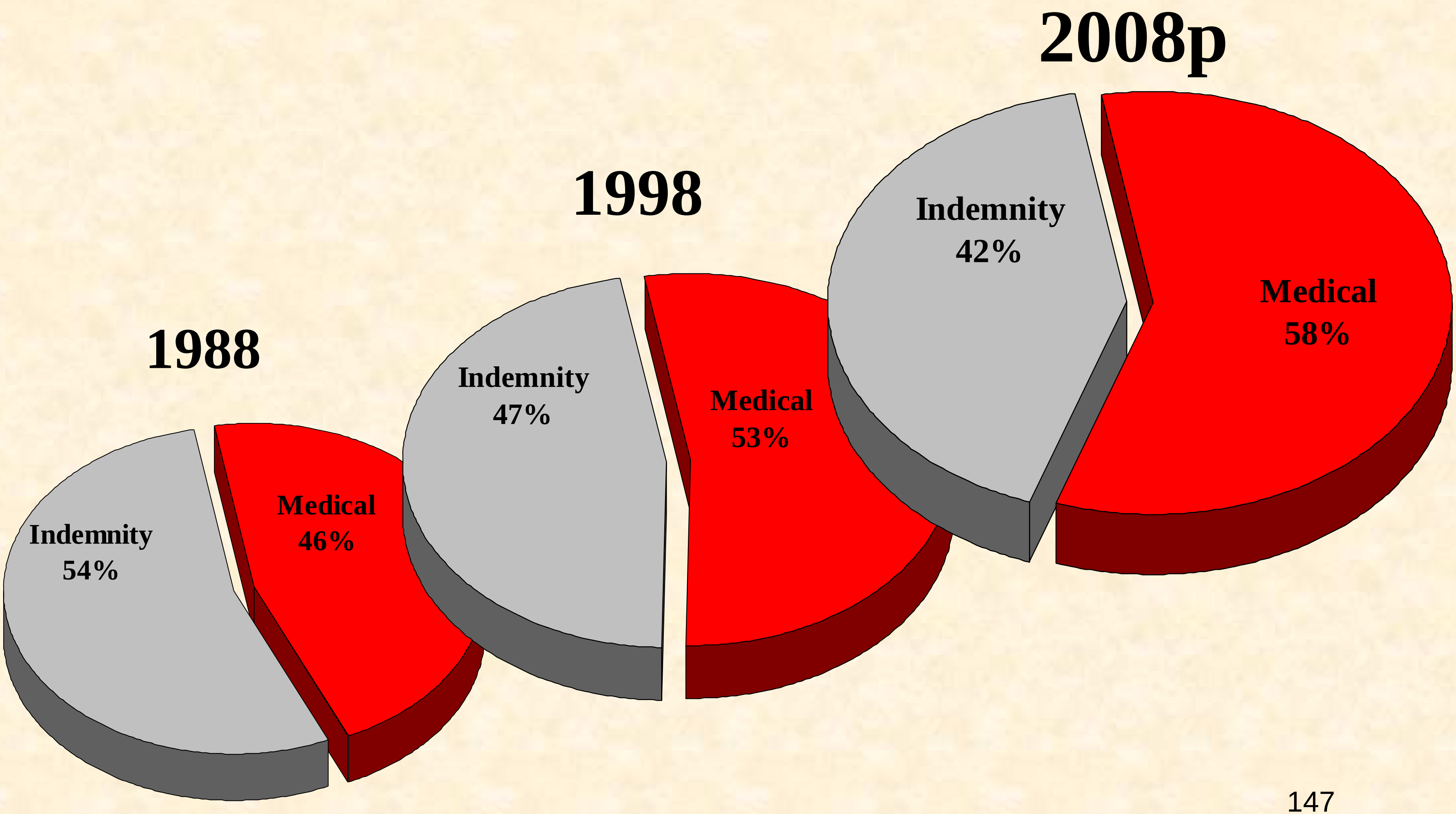
200pp: Preliminary based on data valued as of 12/31/2008
1991-2007: Based on data through 12/31/2007 developed to ultimate
Based on the states where NCCI provides ratemaking services; Excludes the effects of deductible policies

WC Medical Severity Rising at Double the Medical CPI Rate



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

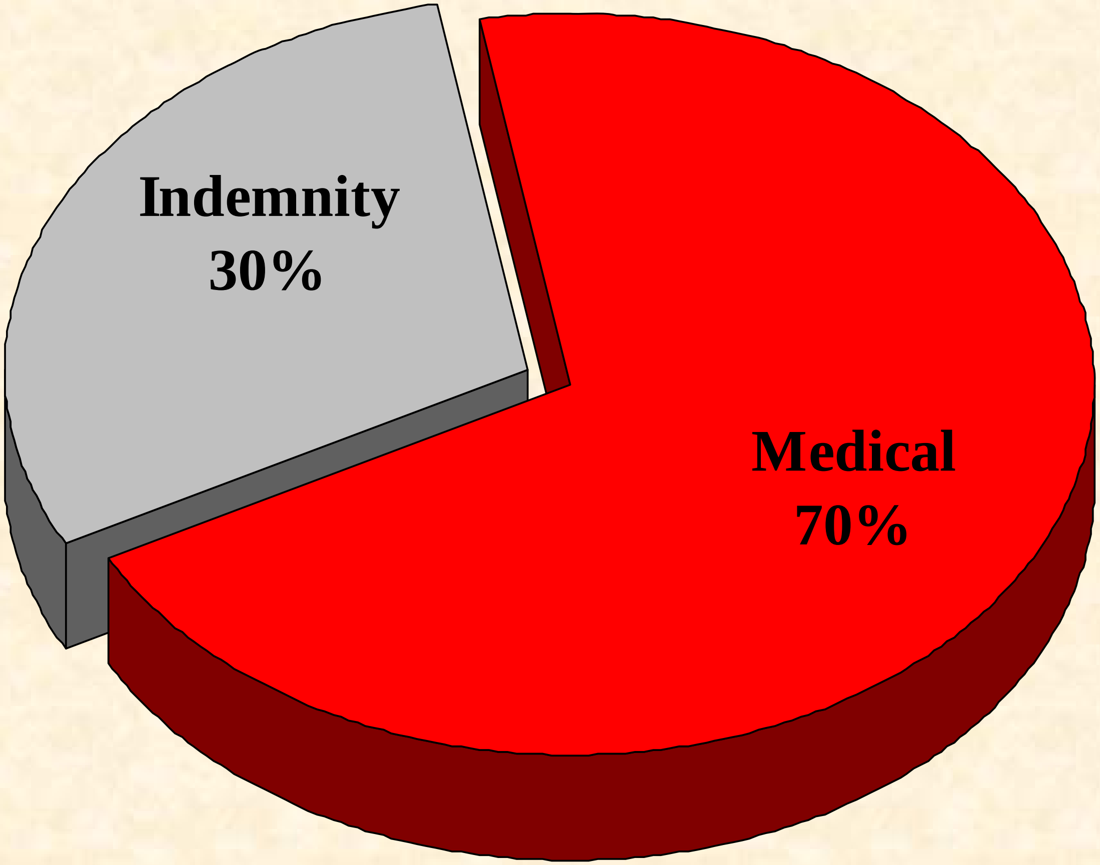
Med Costs Share of Total Costs is Increasing Steadily



Source: NCCI (based on states where NCCI provides ratemaking services).

WC Med Cost Will Equal 70% of Total by 2018 if Trends Hold

2018 Estimate



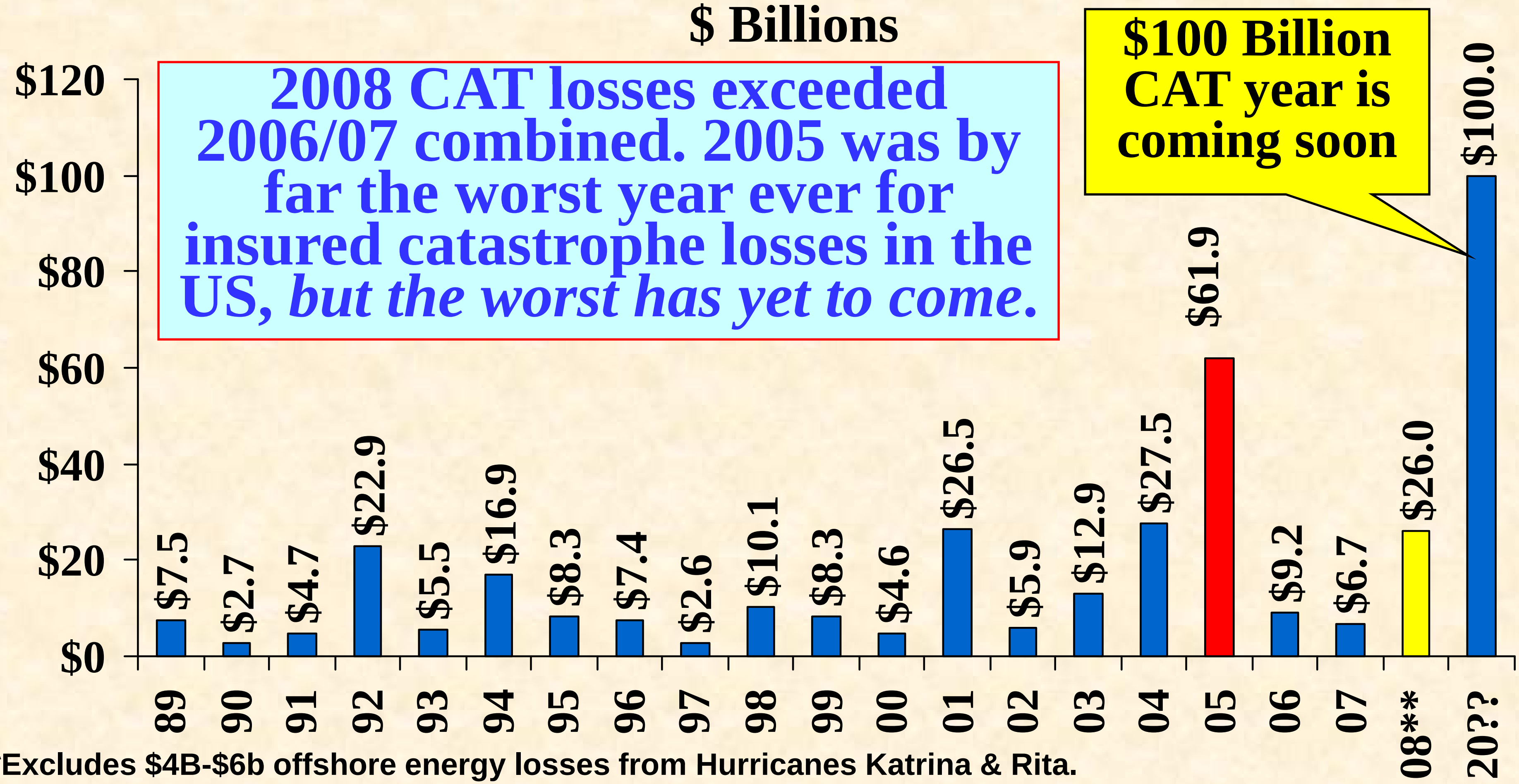
This trend will likely be supported by the increased labor force participation of workers age 55 and older.

Source: Insurance Information Institute.

Catastrophic Loss

Catastrophe Losses Trends Are Trending Adversely

U.S. Insured Catastrophe Losses*



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

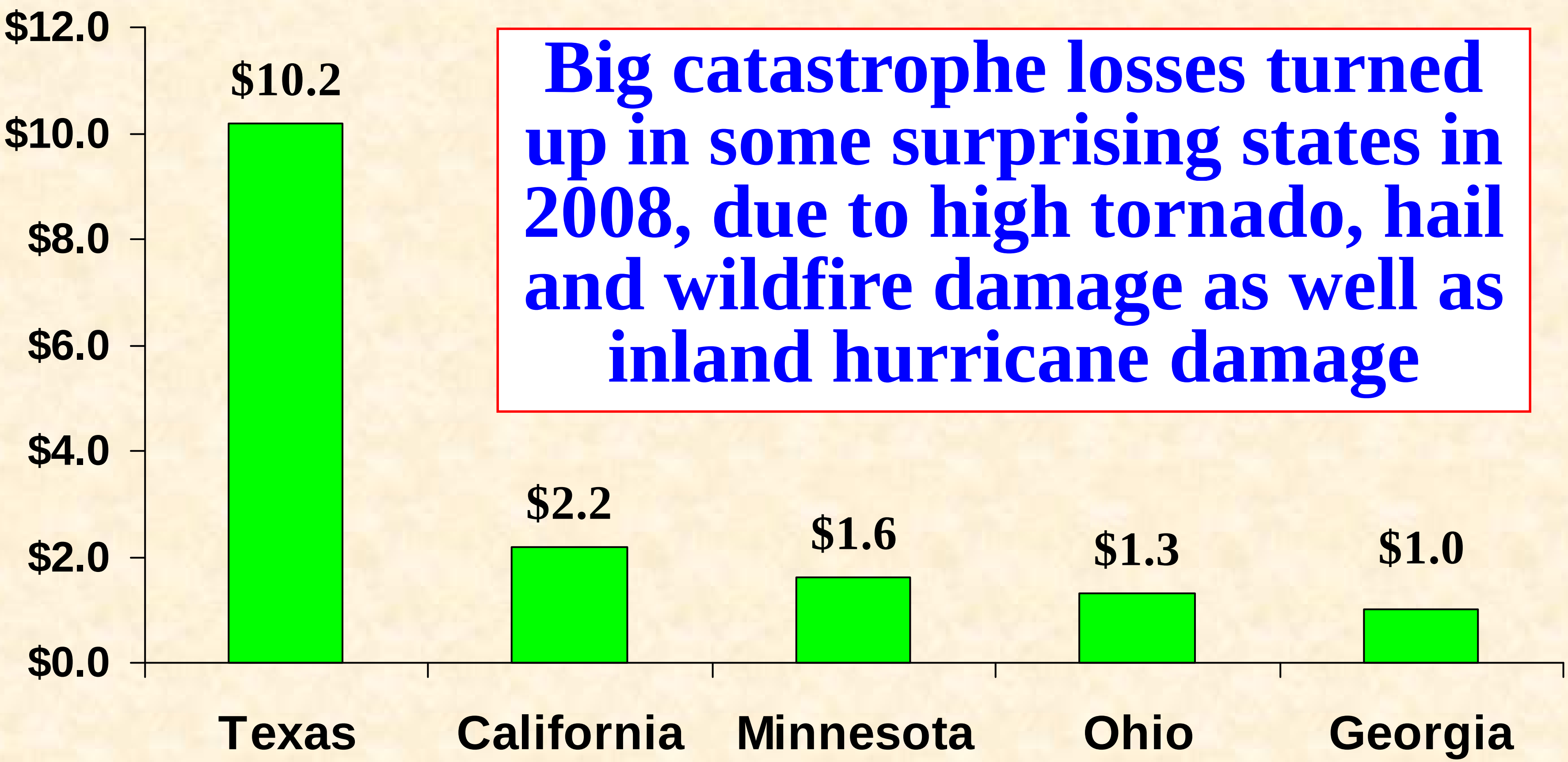
**Based on PCS data through Dec. 31. PCS $2.1B loss of for Gustav. $10.655B for Ike of 12/05/08.

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

Source: Property Claims Service/ISO; Insurance Information Institute

States With Highest Insured Catastrophe Losses in 2008

$ Billions

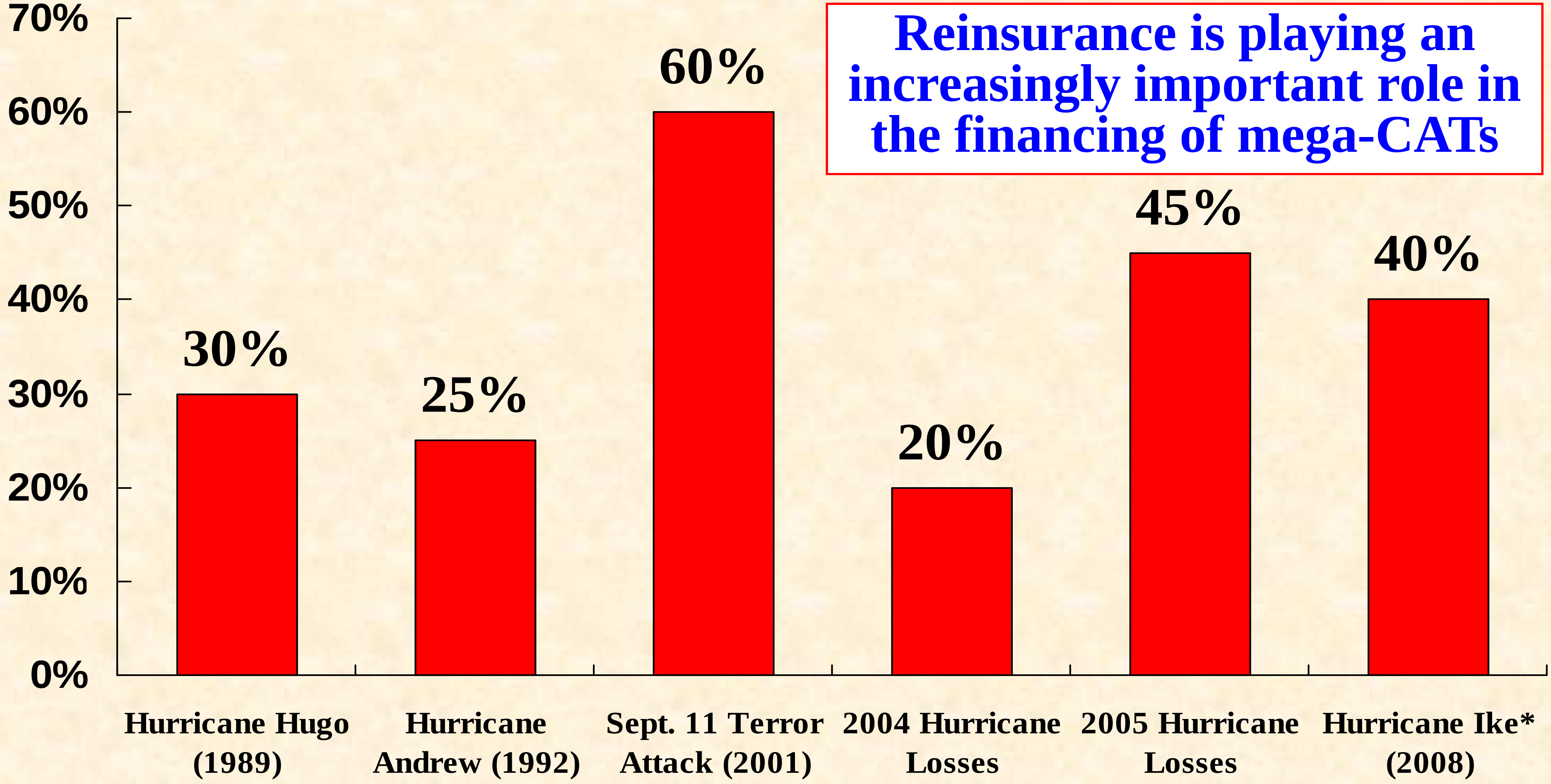


Big catastrophe losses turned up in some surprising states in 2008, due to high tornado, hail and wildfire damage as well as inland hurricane damage

Source: PCS; Insurance Information Institute.

Share of Losses Paid by Reinsurers, by Disaster*

Reinsurance is playing an increasingly important role in the financing of mega-CATs



*Excludes losses paid by the Florida Hurricane Catastrophe Fund, a FL-only windstorm reinsurer, which was established in 1994 *after* Hurricane Andrew. FHCF payments to insurers are estimated at $3.85 billion for 2004 and $4.5 billion for 2005. Ike share is an estimate as of 2/9/09.

Sources: Wharton Risk Center, Disaster Insurance Project; Insurance Information Institute.

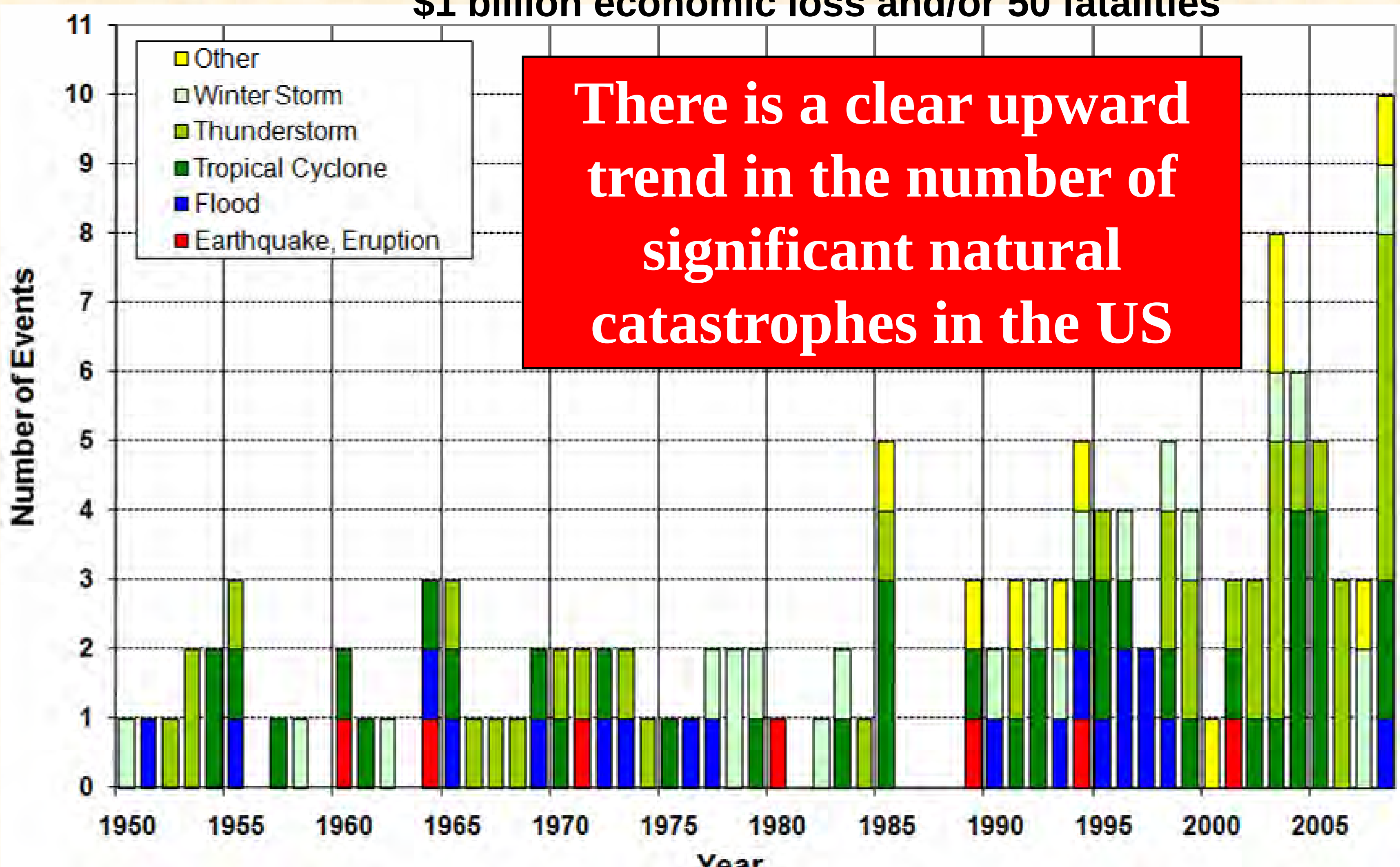
Number of PCS Catastrophe Events, 1998-2008*

*PCS defines a catastrophe as an even that caused at least $25 million in insured property damage and affects and significant number of policyholders and insurers.

Source: PCS; Insurance Information Institute

*Number of U.S. Significant Natural Catastrophes**,1950 – 2008

$1 billion economic loss and/or 50 fatalities



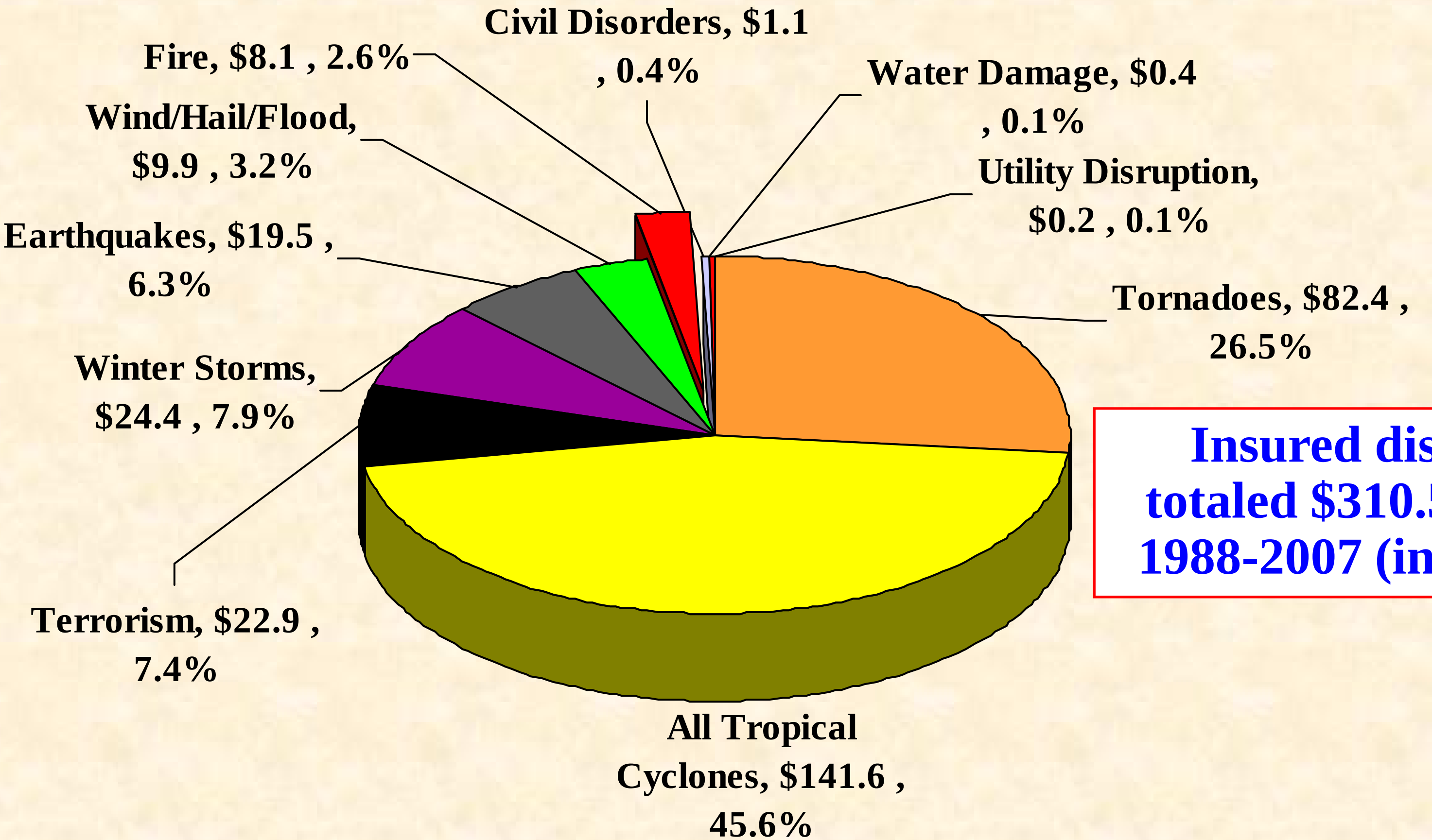
Sources: Munich Re NatCat*SERVICE* **$1 billion economic loss and/or 50 fatalities.*

Top 12 Most Costly Disasters in US History, (Insured Losses, $2007)

*PCS estimate as of 12/15/08.

Sources: ISO/PCS; AIR Worldwide, RMS, Eqecat; Insurance Information Institute inflation adjustments.

Inflation-Adjusted U.S. Insured Catastrophe Losses By Cause of Loss, 1988-2007[1]



Insured disaster losses totaled $310.5 billion from 1988-2007 (in 2007 dollars)

[1] Catastrophes are all events causing direct insured losses to property of $25 million or more in 2007 dollars. Catastrophe threshold changed from $5 million to $25 million beginning in 1997. Adjusted for inflation by the III. [2] Excludes snow. [3] Includes hurricanes and tropical storms. [4] Includes other geologic events such as volcanic eruptions and other earth movement. [5] Does not include flood damage covered by the federally administered National Flood Insurance Program. [6] Includes wildland fires.

Source: Insurance Services Office (ISO)..

Insurance Information Institute On-Line

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