Economic Factors Affecting the Workers Compensation Market:
An Overview and Outlook

Workers Compensation Educational Conference

Orlando, FL

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Download at www.iii.org/presentations

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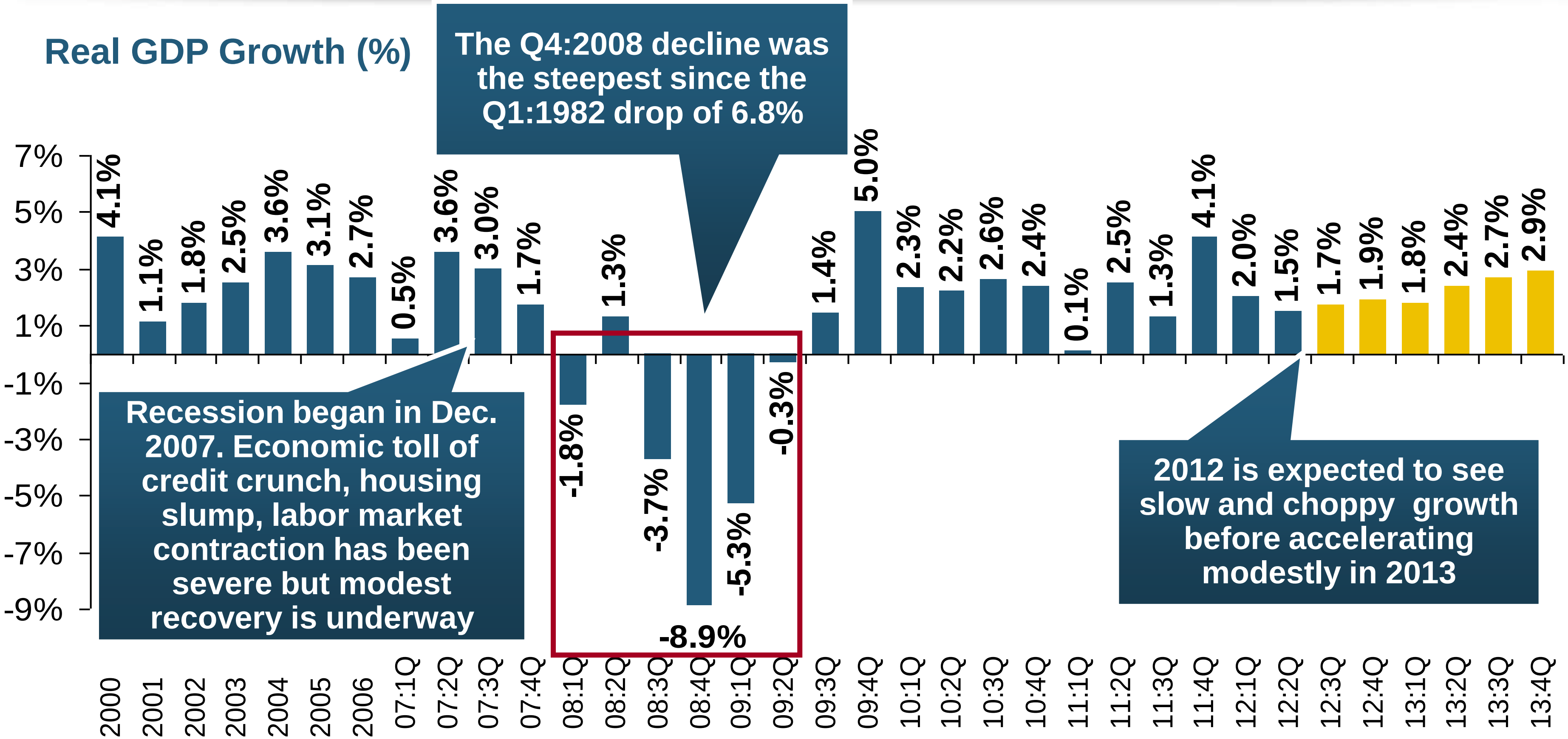
The Strength of the Economy Will Influence P/C Insurer Growth Opportunities

Growth Will Expand Workers Comp Payroll Exposure Base

America's Manufacturing Renaissance? Construction Activity Still Depressed?

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 8/12; Insurance Information Institute.

Percent Change in Real GDP by State, 2011

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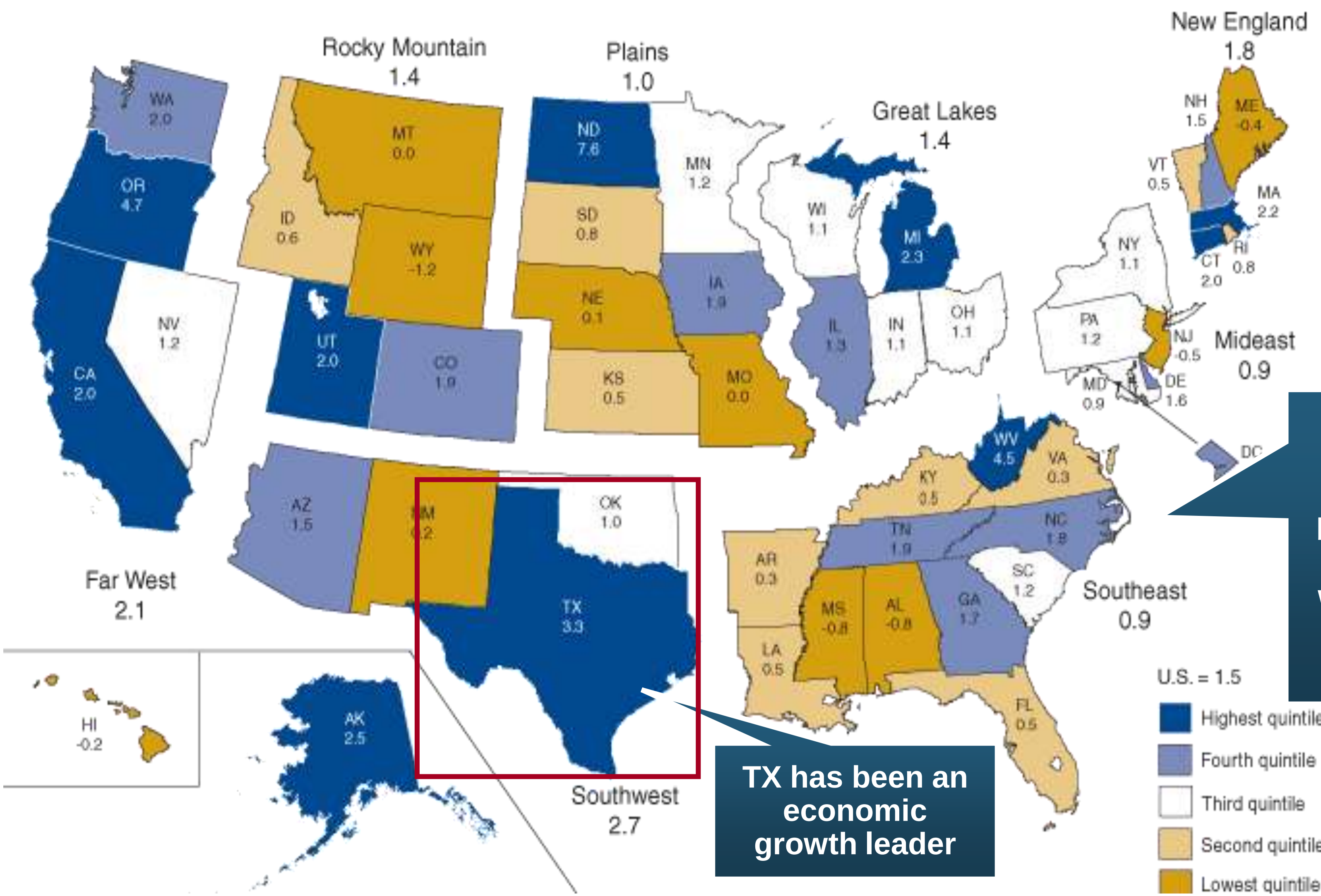

TX has been an economic growth leader

Growth varied considerably across states but in total was weak in 2011 with US overall growth at just 1.7%

Source: Bureau of Economic Analysis at http://www.bea.gov/newsreleases/regional/gdp_state/gsp_glance.htm ;Insurance Information Institute.

Consumer Sentiment Survey *(1966 = 100)*

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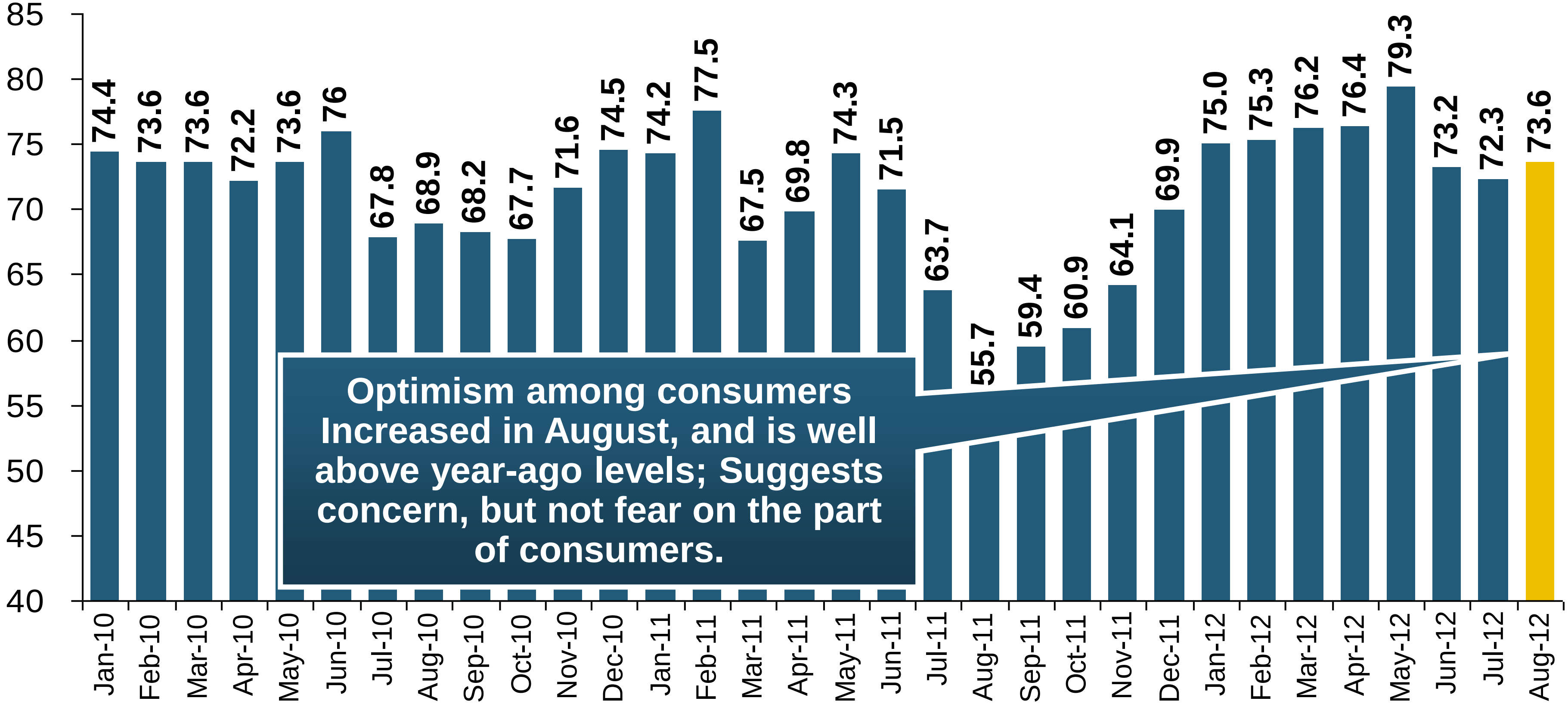
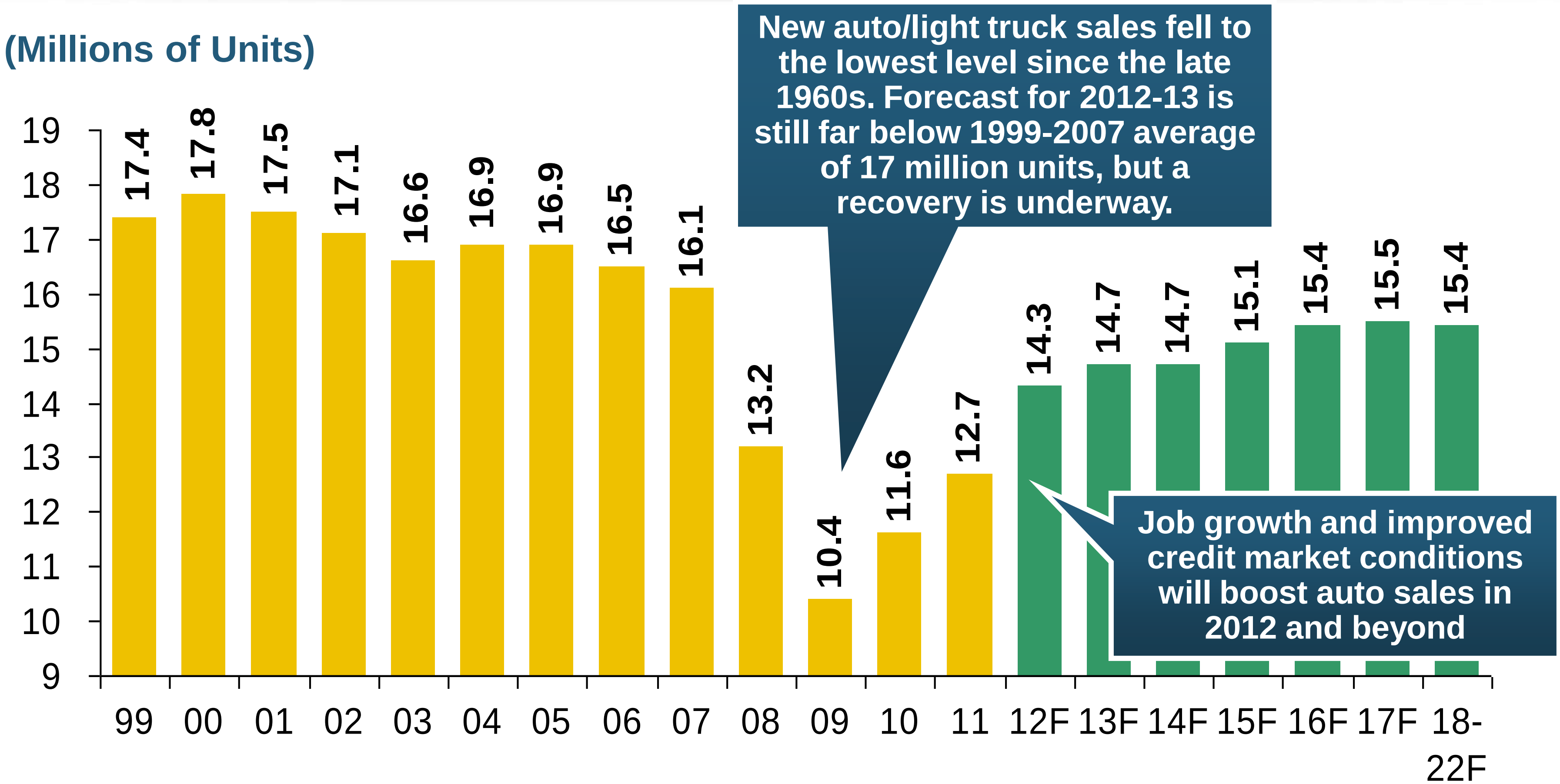
January 2010 through August 2012



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

Source: University of Michigan; Insurance Information Institute

Auto/Light Truck Sales, 1999-2022F



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

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (10/11 and 8/12); Insurance Information Institute.

New Private Housing Starts, 1990-2022F

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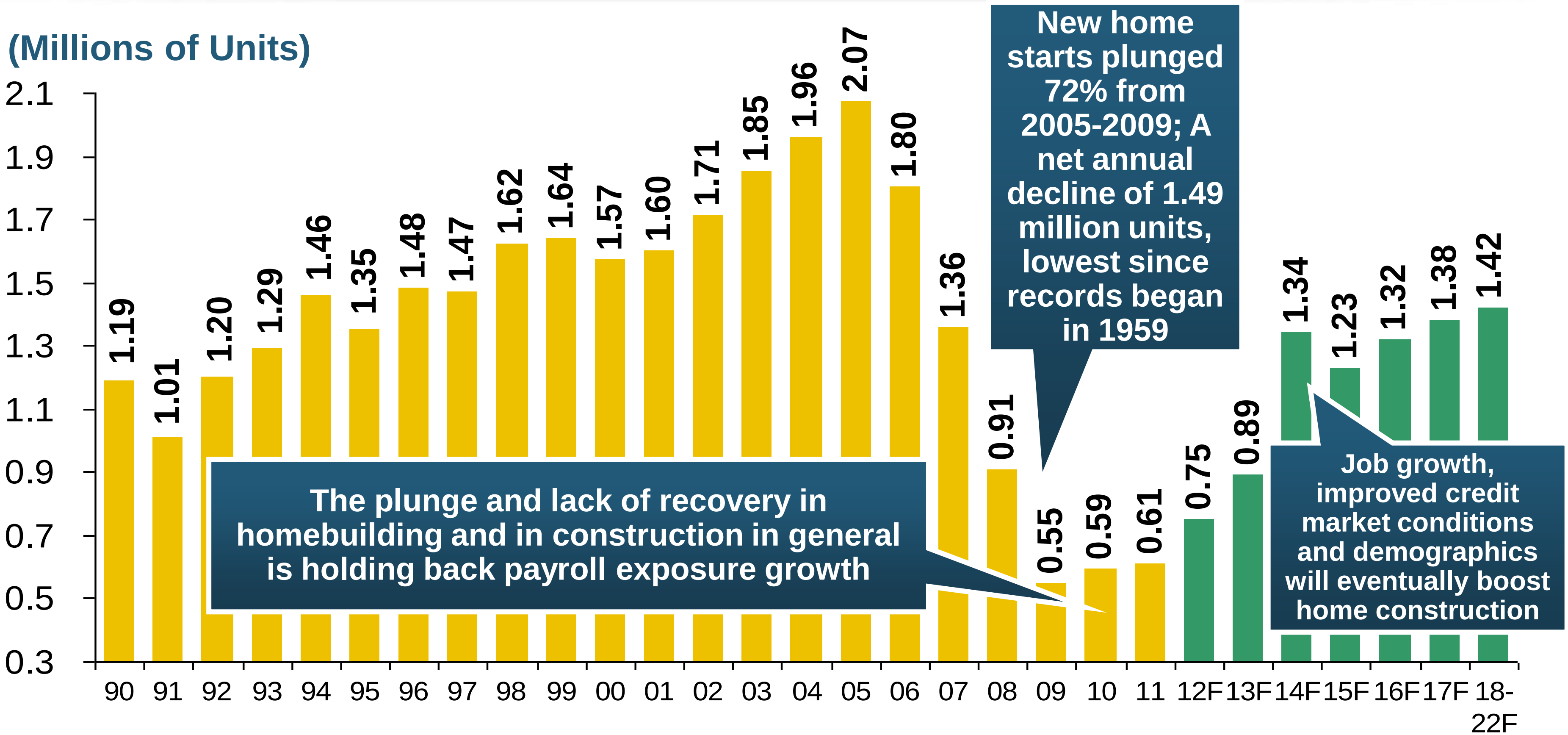
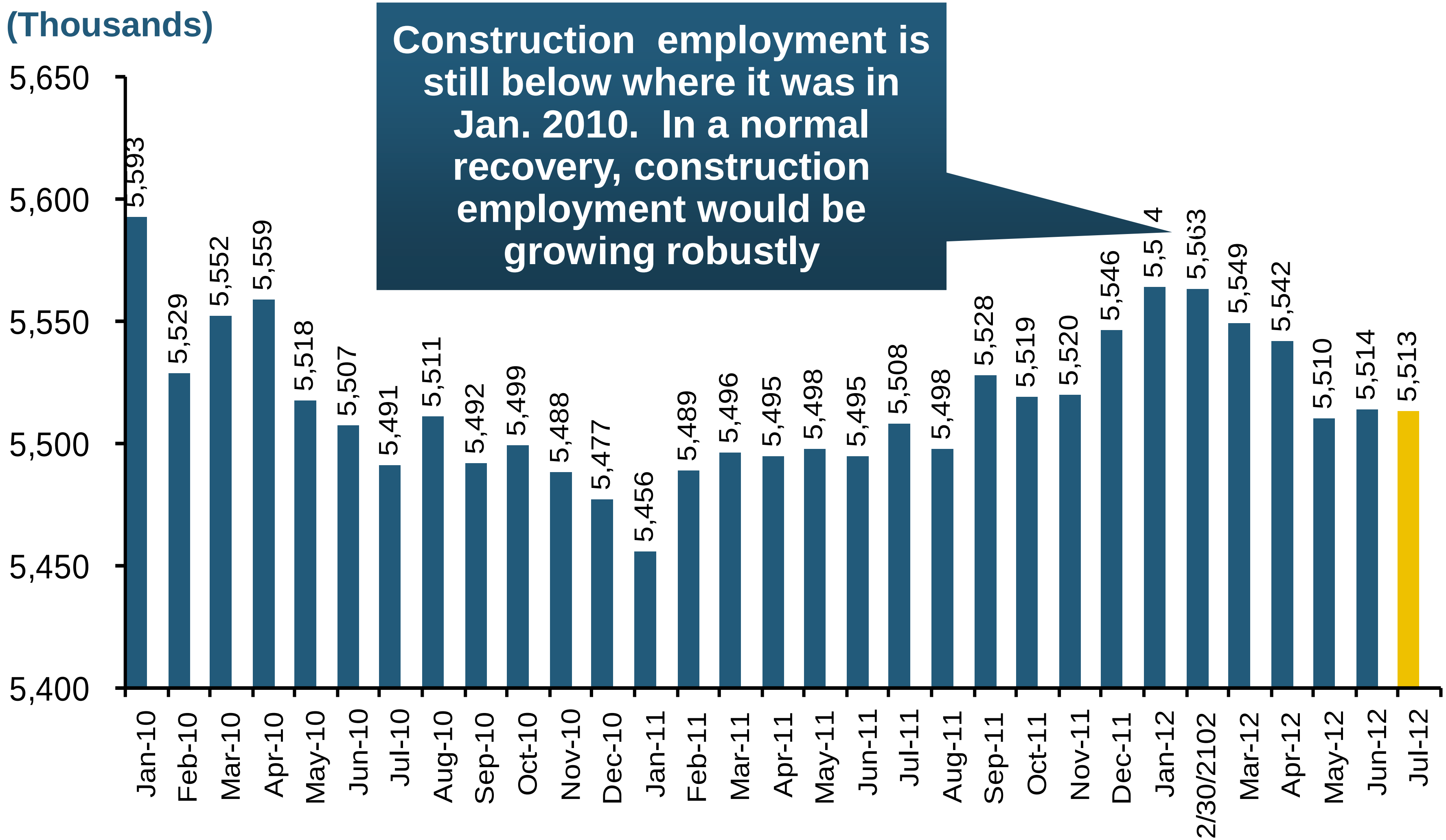


Little Exposure Growth Likely for Homeowners Insurers Until at least 2014. Also Affects Commercial Insurers with Construction Risk Exposure, Surety

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (10/11 and 8/12); Insurance Information Institute.

Construction Employment, Jan. 2010—July 2012*



*Seasonally adjusted

Sources: US Bureau of Labor Statistics at http://data.bls.gov; Insurance Information Institute.

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

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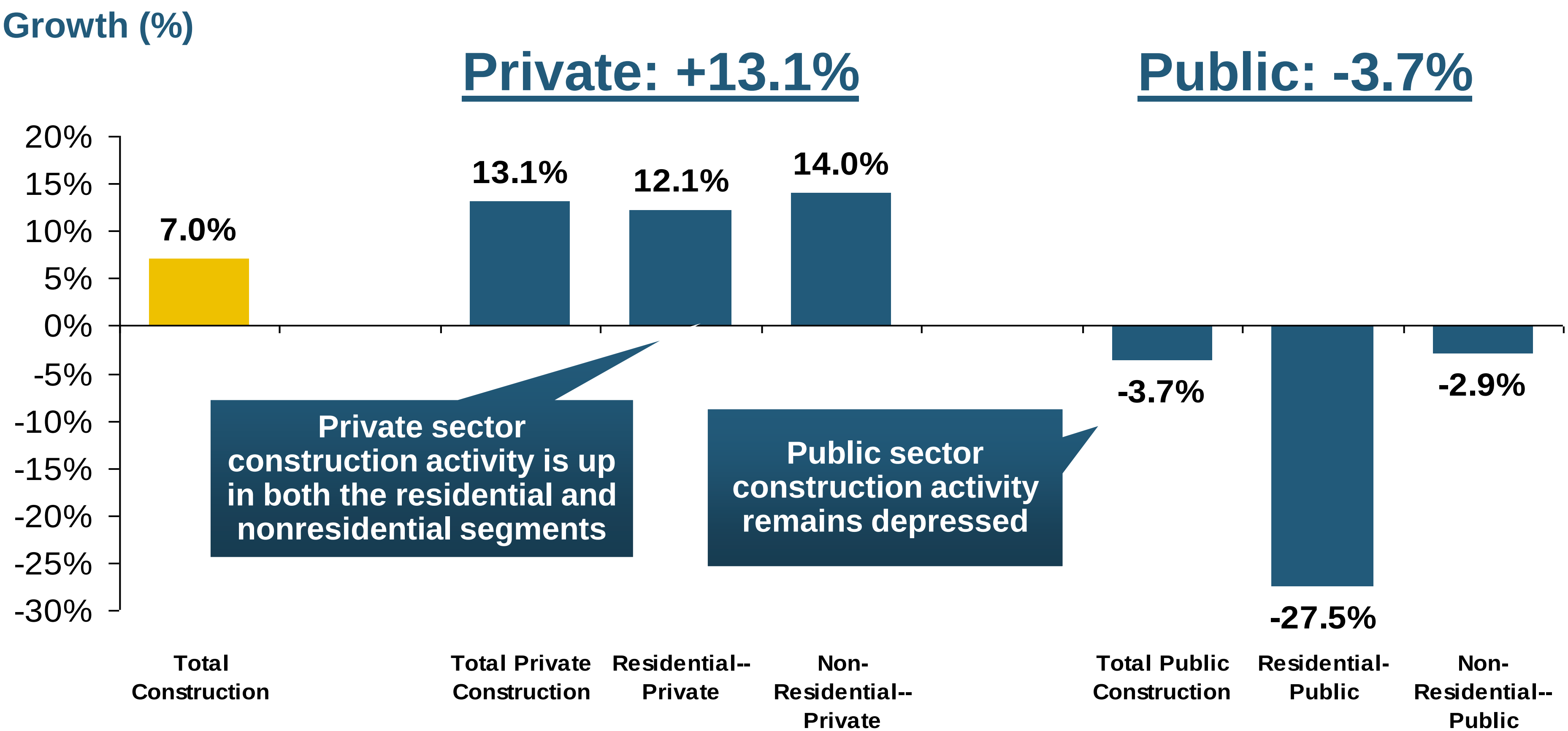

Overall Construction Activity is Up, But Growth Is Entirely in the Private Sector as State/Local Government Budget Woes Continue

*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, June 2012 vs. June 2011*

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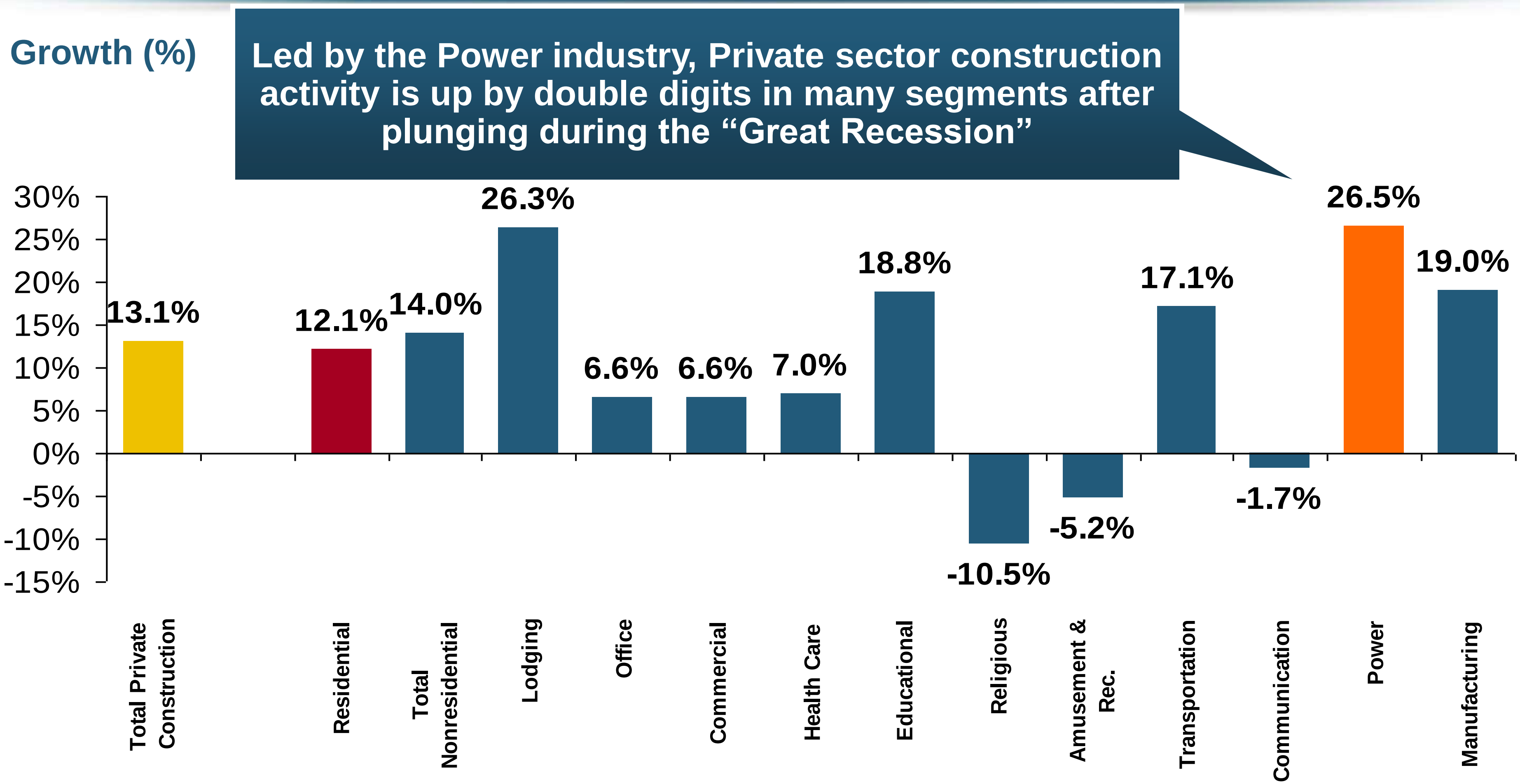
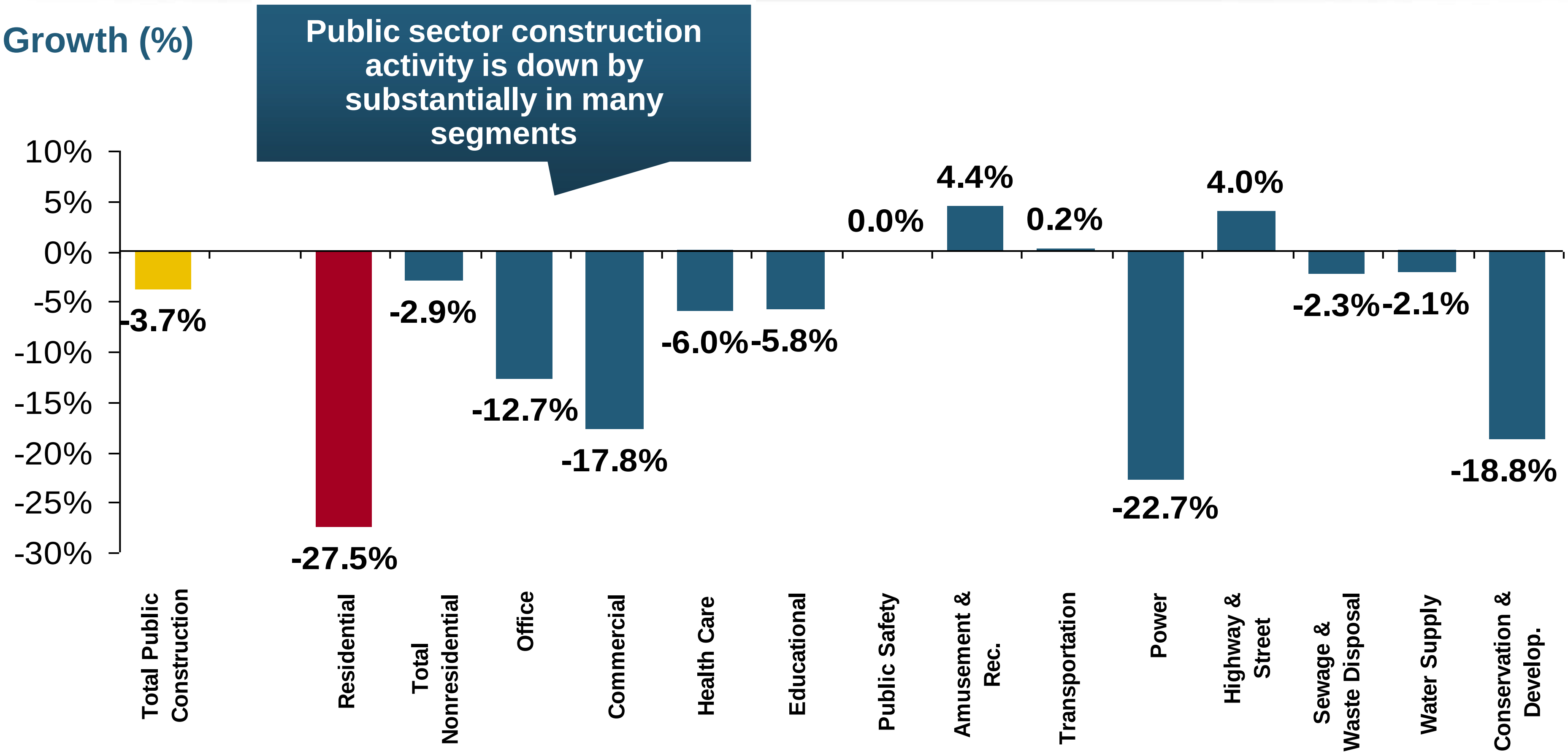


Private Construction Activity is Up in Most Segments, Including Residential Construction but Led by Power

*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, June 2012 vs. June 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)

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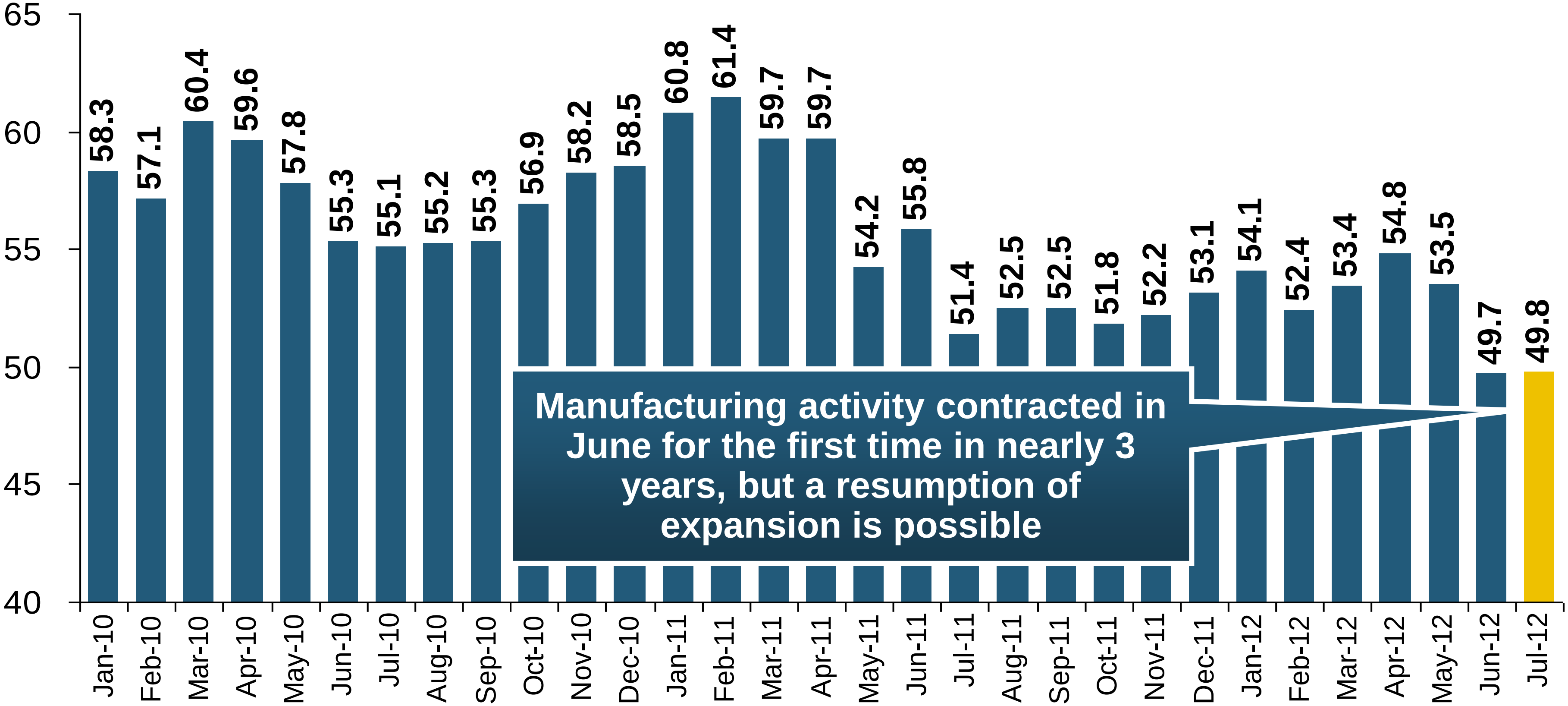
January 2010 through July 2012



The manufacturing sector expanded for 34 consecutive months until June 2012 and added jobs. The question is whether this will continue.

Source: Institute for Supply Management at http://www.ism.ws/ismreport/mfgrob.cfm; Insurance Information Institute.

Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures

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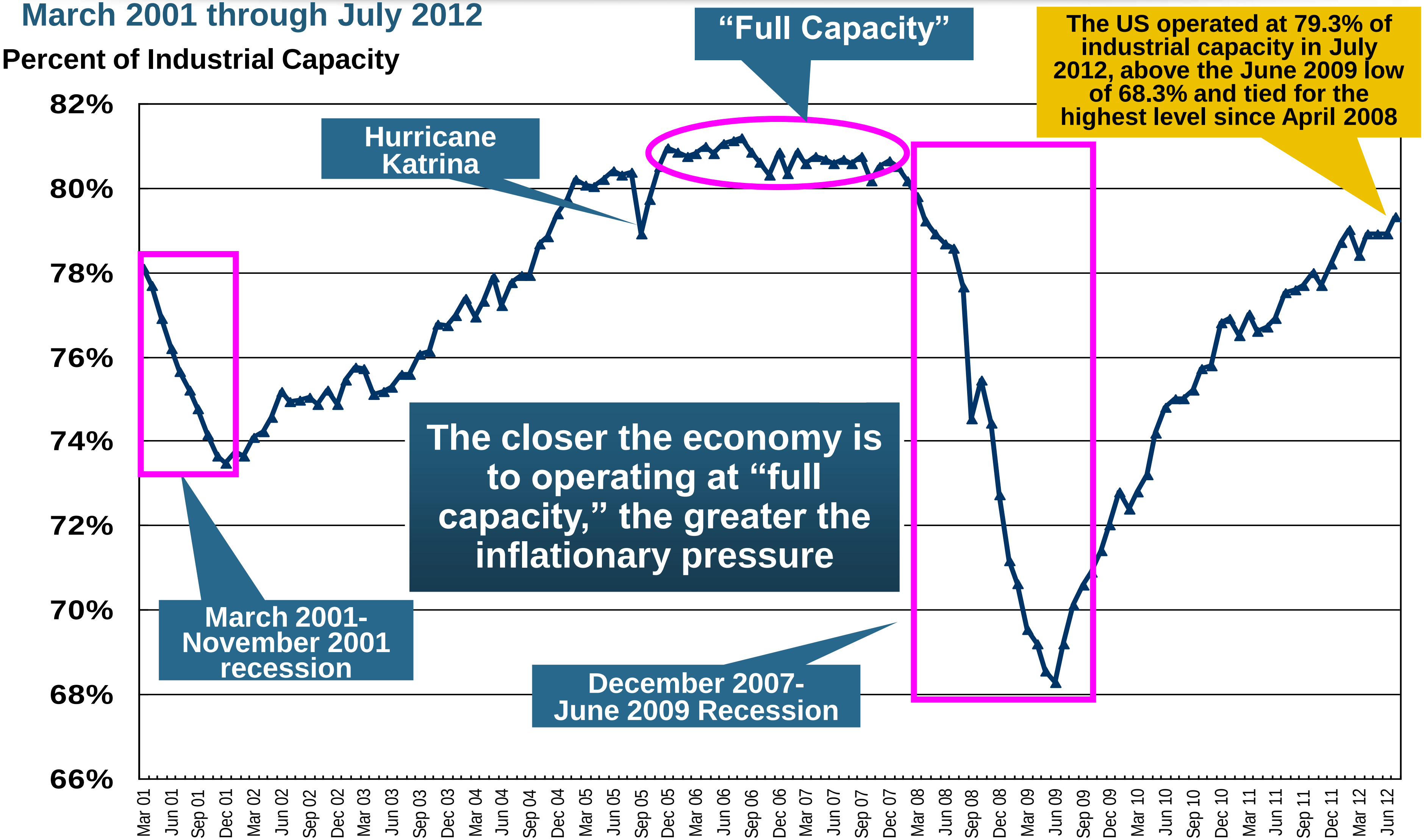
March 2001 through July 2012



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

Manufacturing Employment, Jan. 2010—July 2012*

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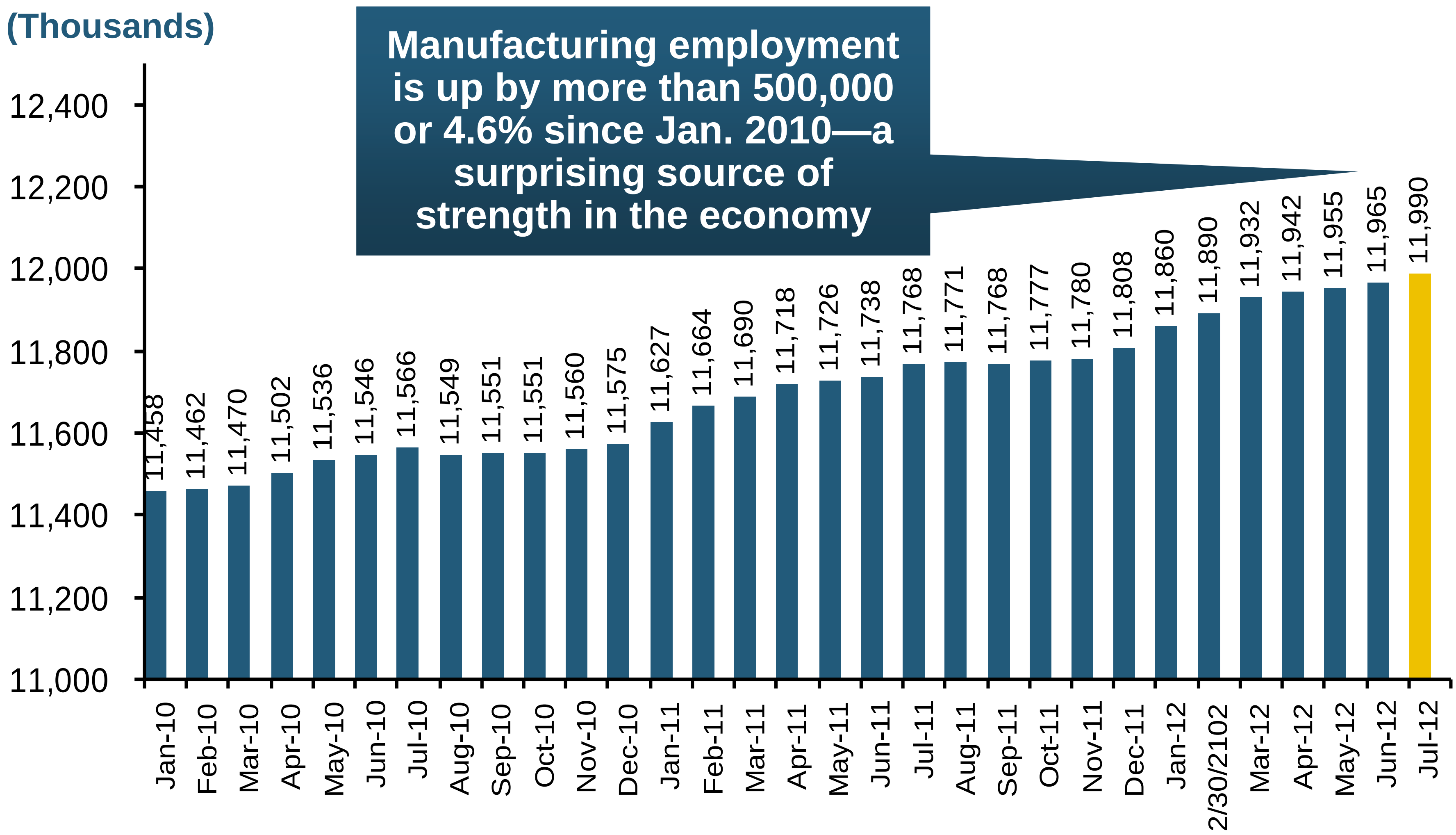
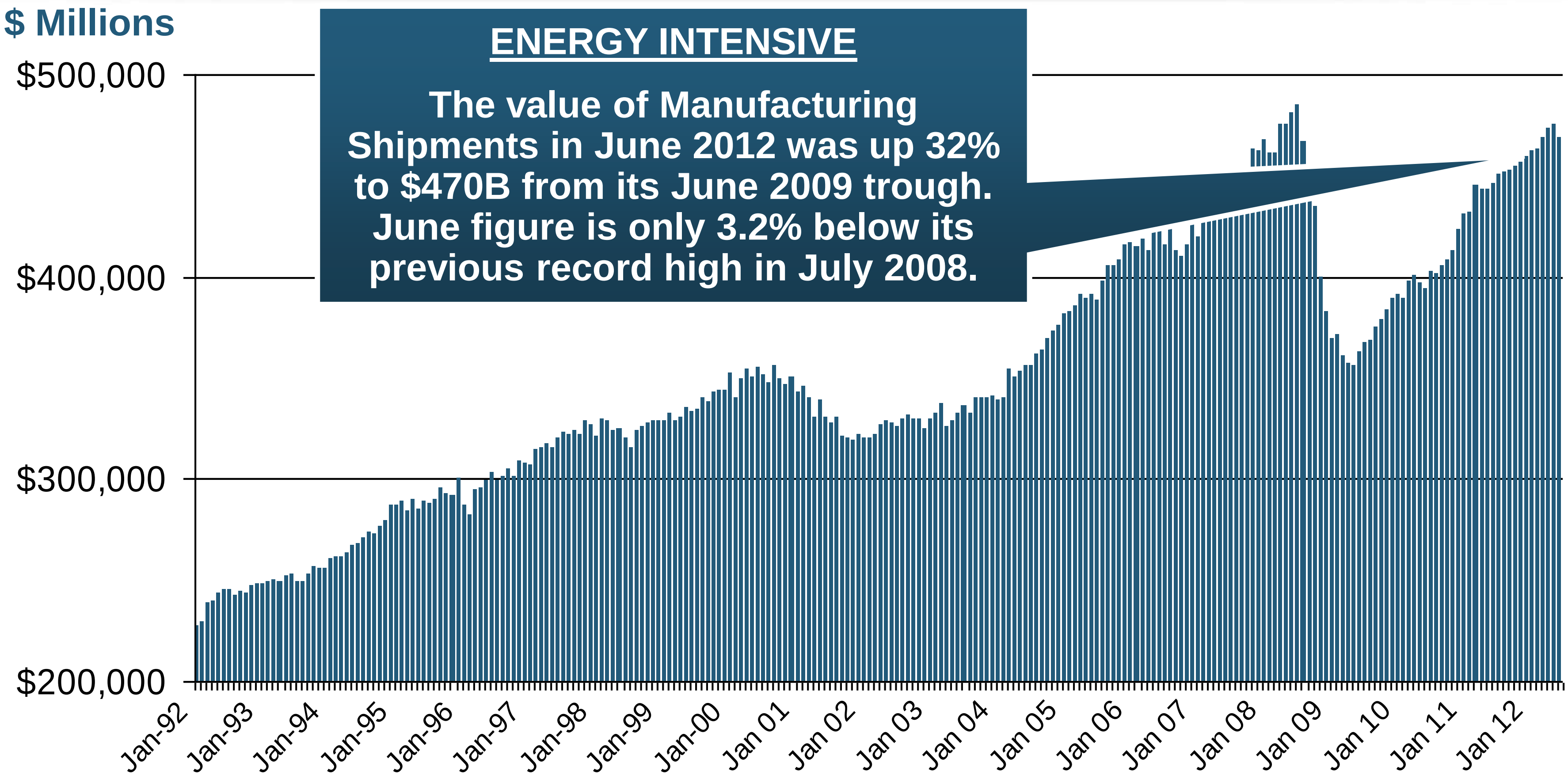


*Seasonally adjusted

Sources: US Bureau of Labor Statistics at http://data.bls.gov; Insurance Information Institute.

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



Monthly shipments are nearly back to peak (in July 2008, 8 months into the recession). Trough in May 2009. Growth from trough to March 2012 was 31%. Manufacturing is an energy intensive activty and growth leads to gains in many commercial exposures: WC, Commercial Auto, Marine, 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*

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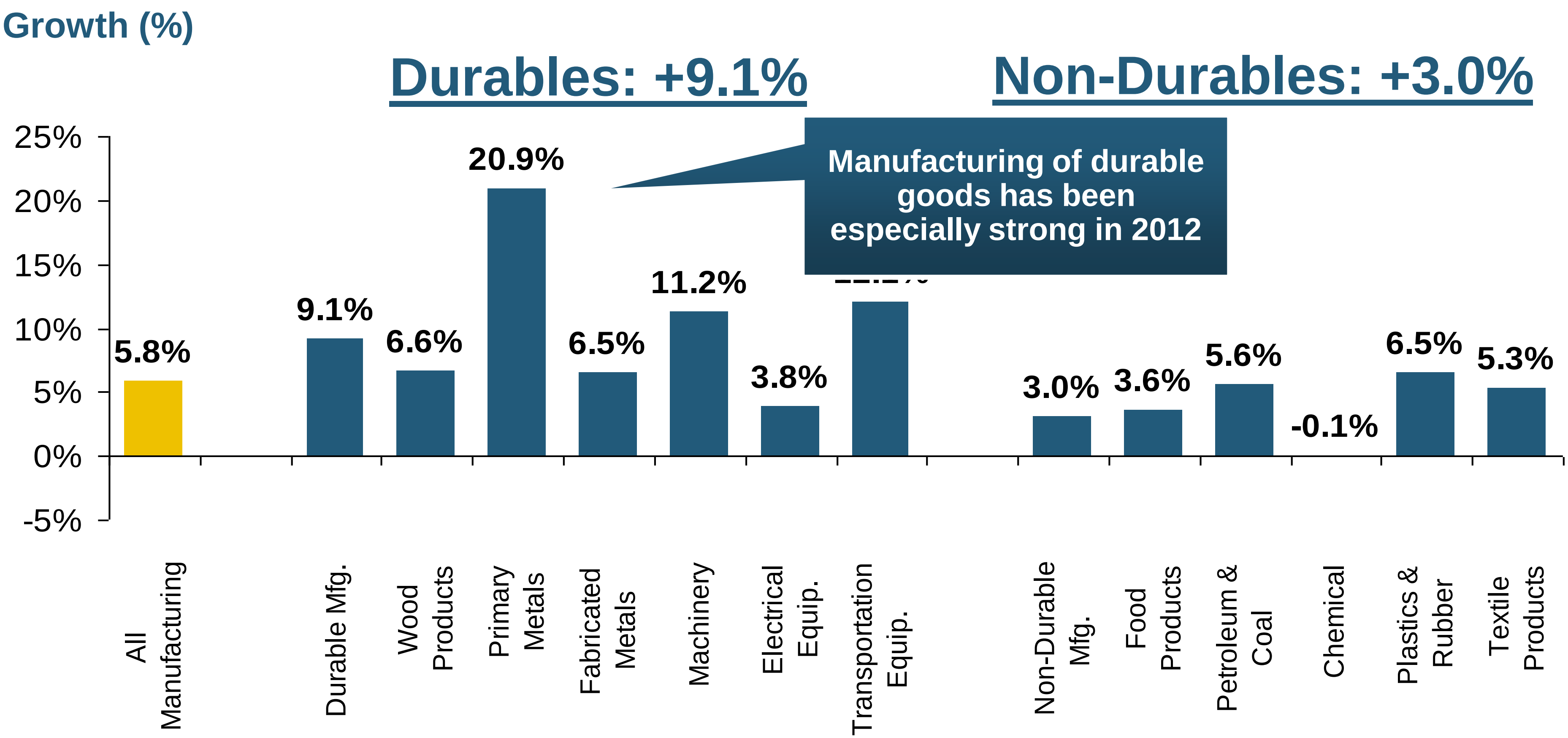

Manufacturing Is Expanding Across a Wide Range of Sectors that Will Contribute to Growth in Energy Demand and Insurable Exposures Including: WC, Commercial Property, Commercial Auto and Many Liability Coverages

*Seasonally adjusted; Date are YTD comparing data through June 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/

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

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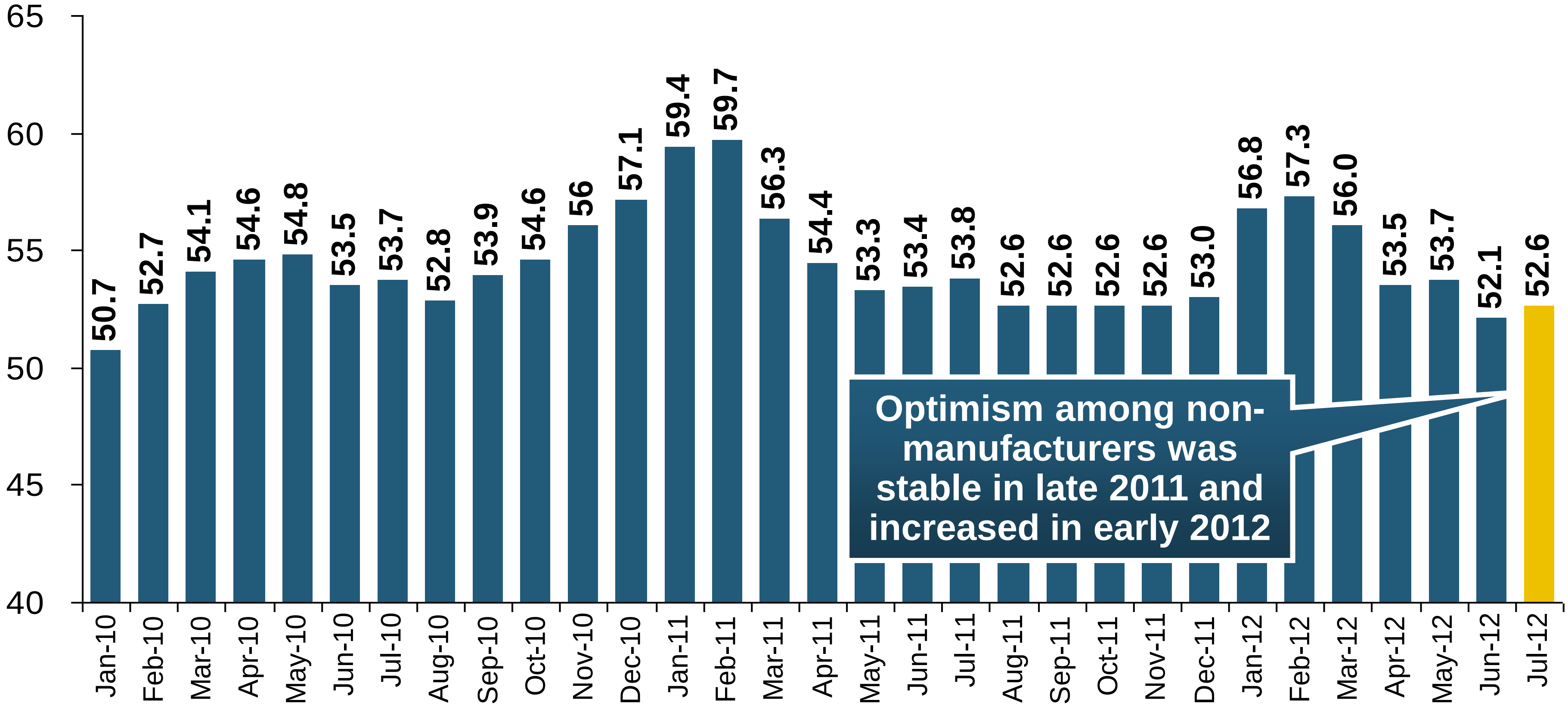
January 2010 through July 2012



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

Source: Institute for Supply Management at http://www.ism.ws/ismreport/nonmfgrob.cfm; Insurance Information Institute.

Business Bankruptcy Filings, 1980-2012: Q1

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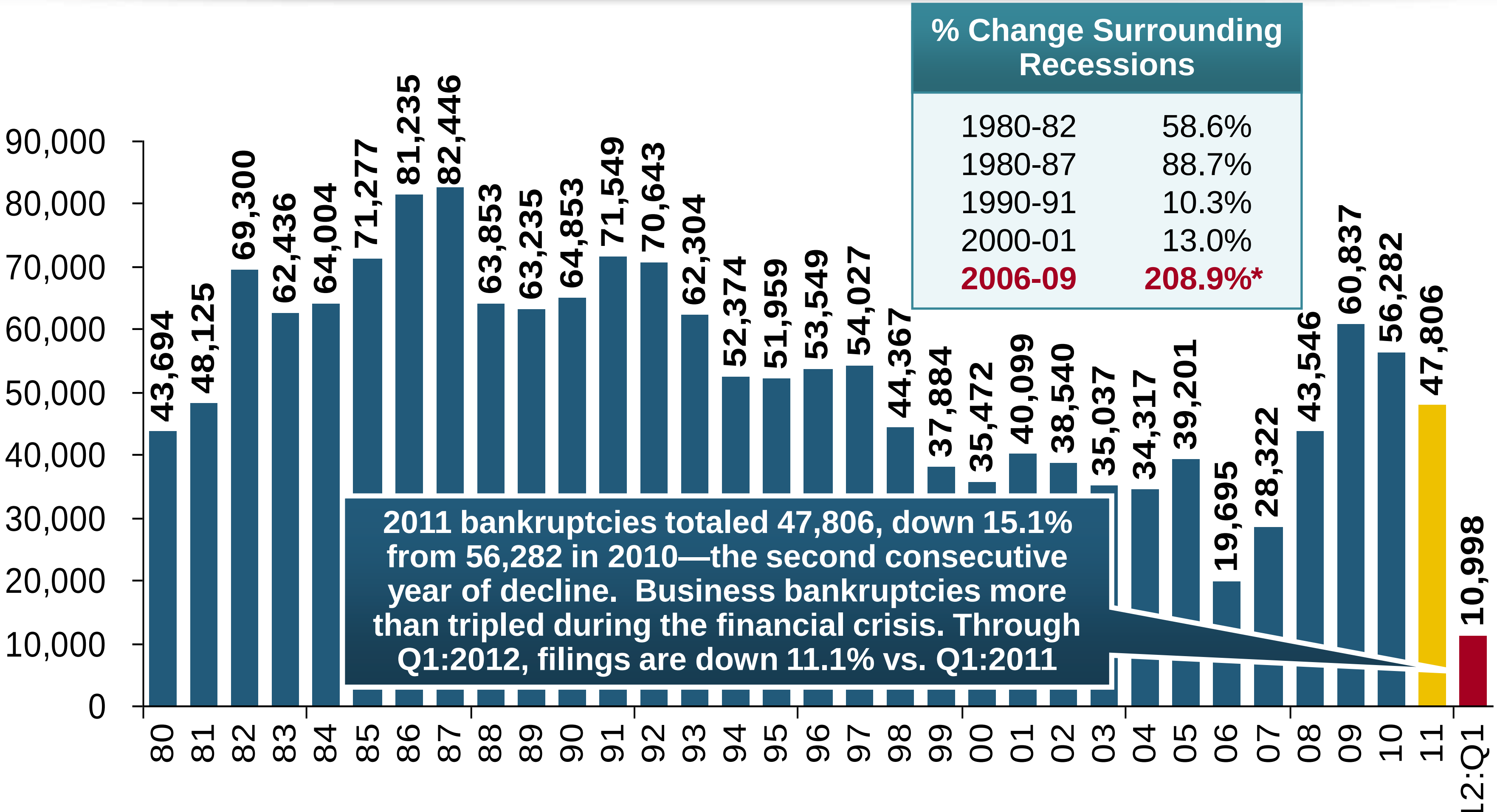

% Change Surrounding Recessions	
1980-82	58.6%
1980-87	88.7%
1990-91	10.3%
2000-01	13.0%
2006-09	**208.9%***

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

Sources: American Bankruptcy Institute at http://www.abiworld.org/AM/AMTemplate.cfm?Section=Home&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=61633; Insurance Information Institute

Private Sector Business Starts, 1993:Q2 – 2011:Q4*

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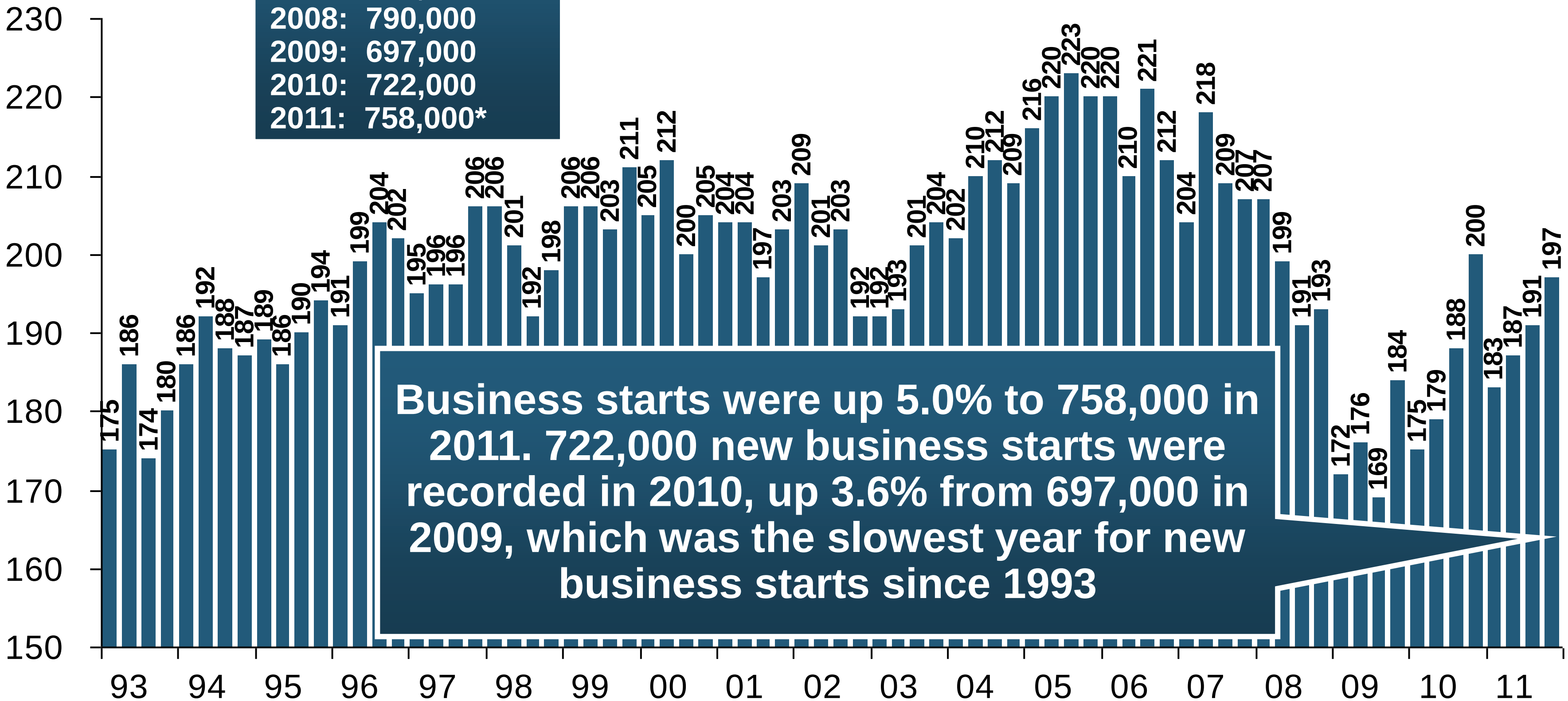
(Thousands)

Business Starts
2006: 872,000
2007: 843,000
2008: 790,000
2009: 697,000
2010: 722,000
2011: 758,000*



Business starts were up 5.0% to 758,000 in 2011. 722,000 new business starts were recorded in 2010, up 3.6% from 697,000 in 2009, which was the slowest year for new business starts since 1993

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

* Data through Dec. 31, 2011 are the latest available as of Aug. 20, 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

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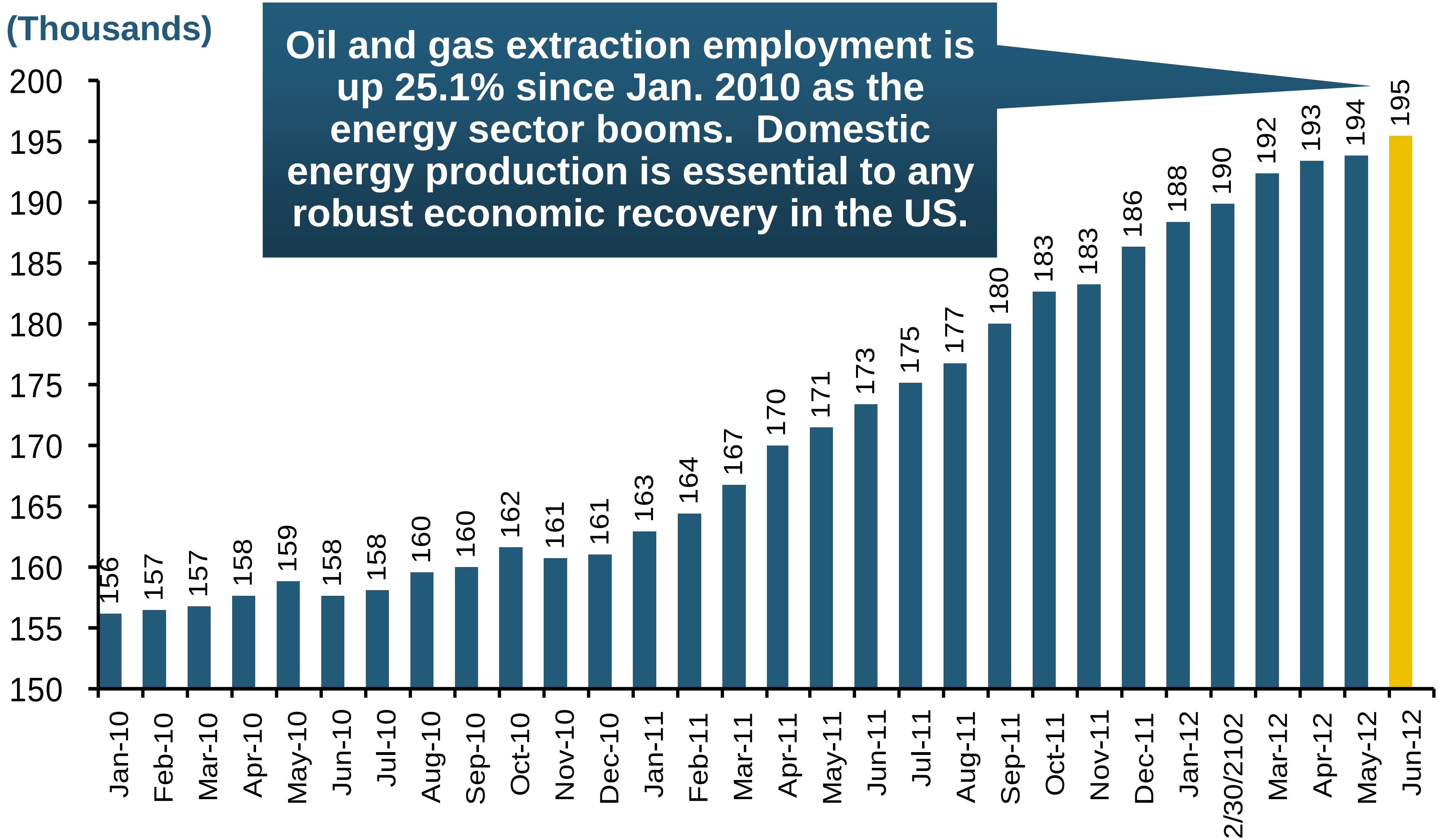
- Health Care
- Health Sciences
- Energy (Traditional)
- Alternative Energy
- Petrochemical
- Agriculture
- Natural Resources
- Technology (incl. Biotechnology)
- Light Manufacturing
- Insourced Manufacturing
- Export-Oriented Industries
- Shipping (Rail, Marine, Trucking)

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

Oil & Gas Extraction Employment, Jan. 2010—June 2012*



*Seasonally adjusted

Sources: US Bureau of Labor Statistics at http://data.bls.gov; Insurance Information Institute.

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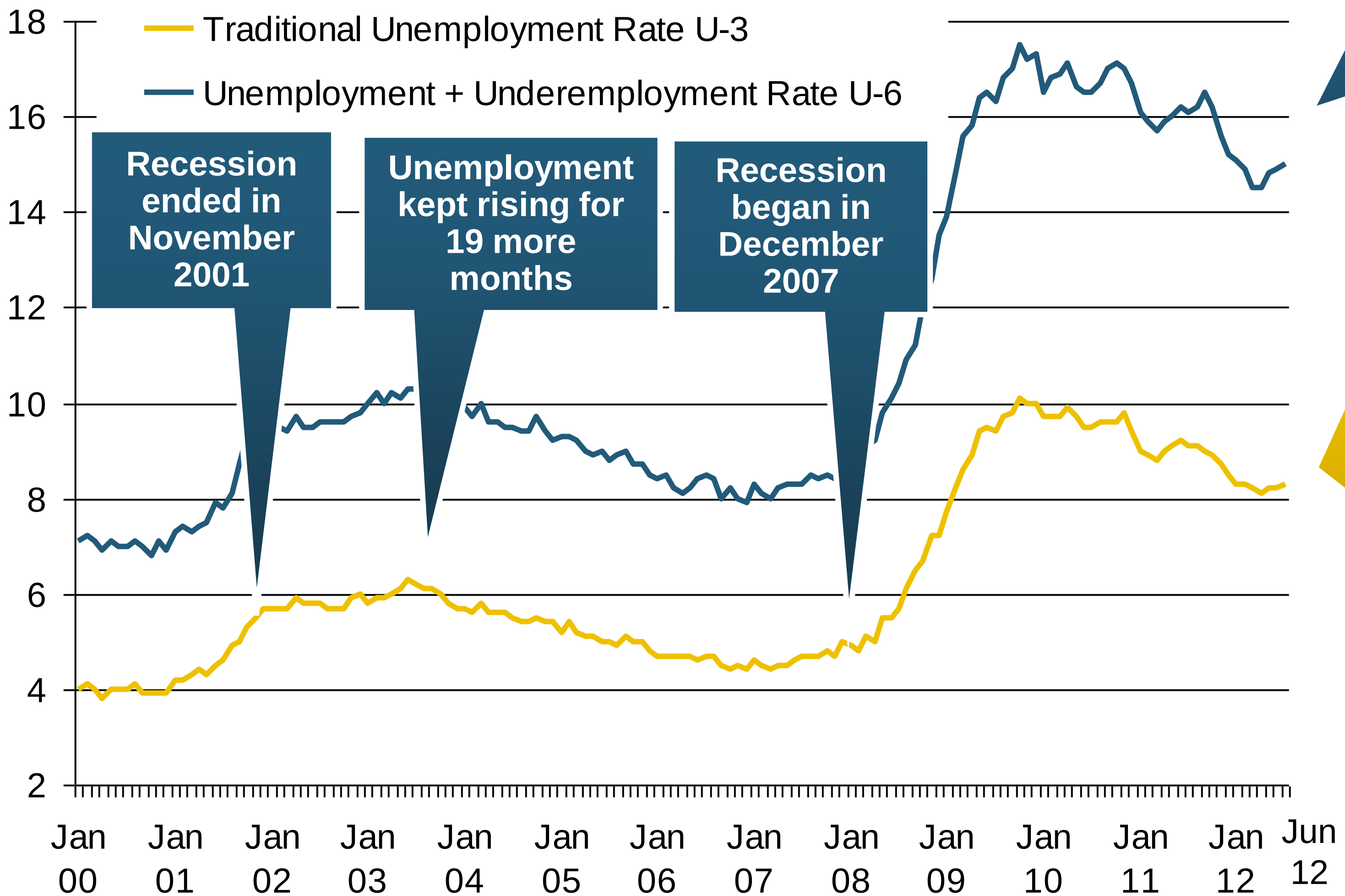
Labor Market Trends

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

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

January 2000 through July 2012, Seasonally Adjusted (%)



U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 15.0% in July 2012

Unemployment stood at 8.3% in July 2012

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

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

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

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

Monthly Change in Private Employment

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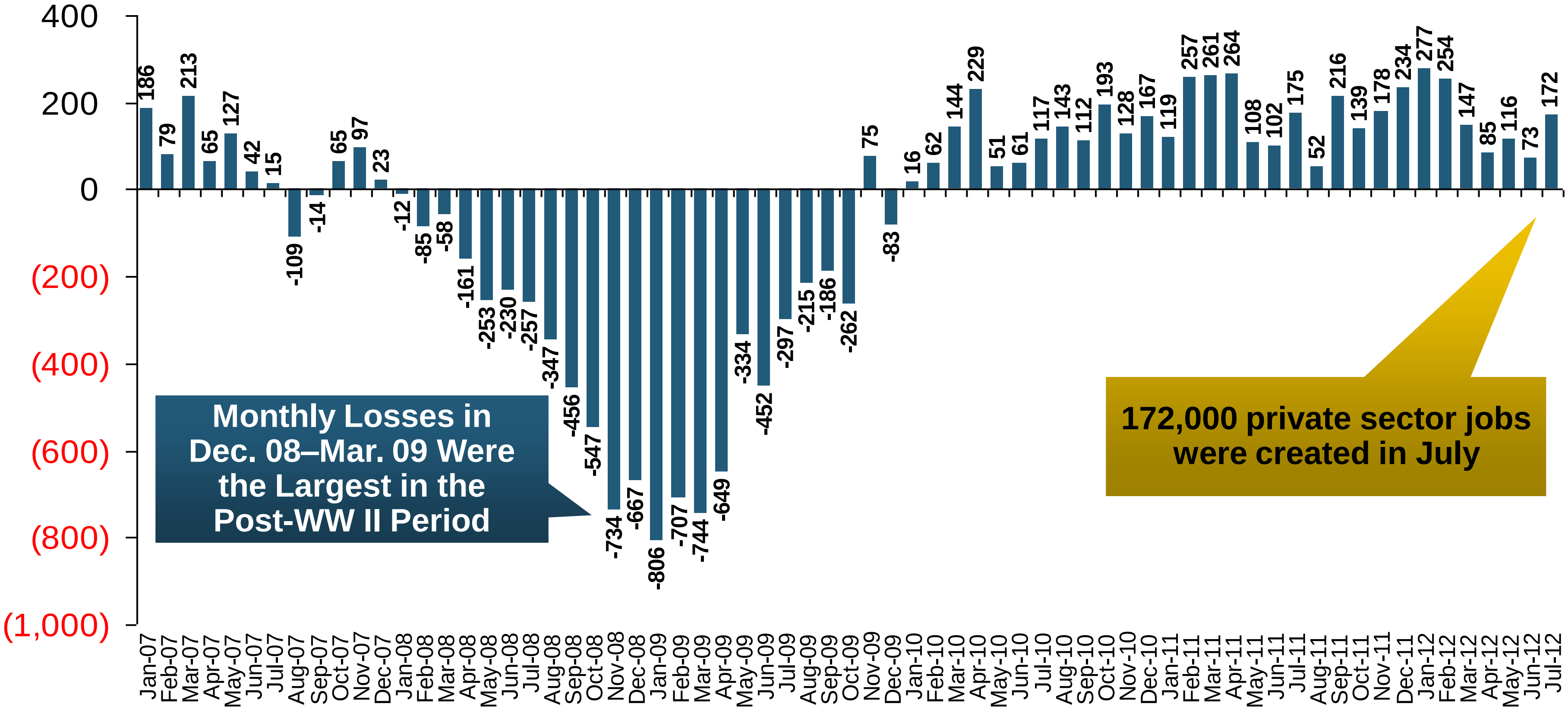
January 2008 through July 2012 (Thousands)



Private Employers Added 4.65 million Jobs Since Jan. 2010 After Having Shed 4.66 Million Jobs in 2009 and 3.81 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

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

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

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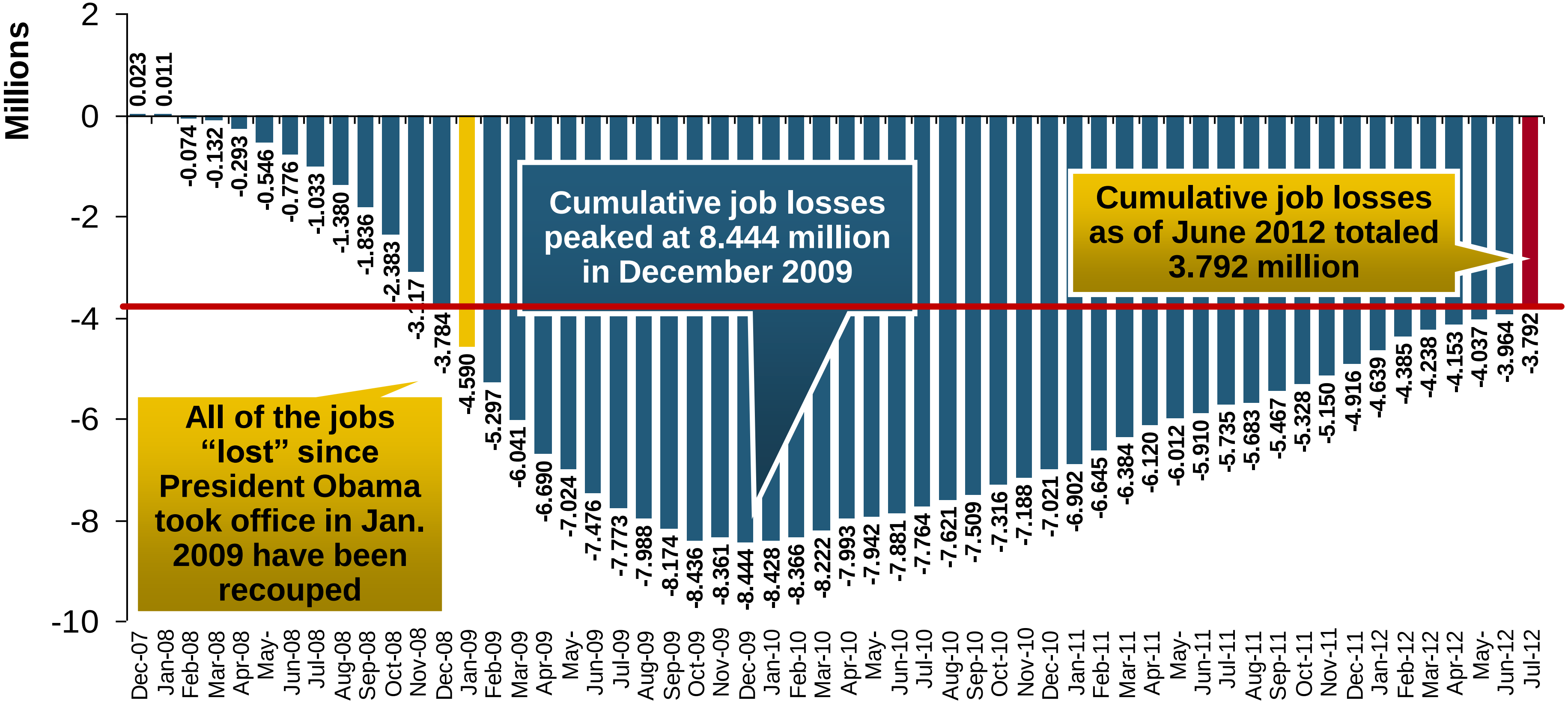
December 2007 through July 2012 (Millions)



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

Cumulative Change in Private Sector Employment: Jan. 2010—July 2012

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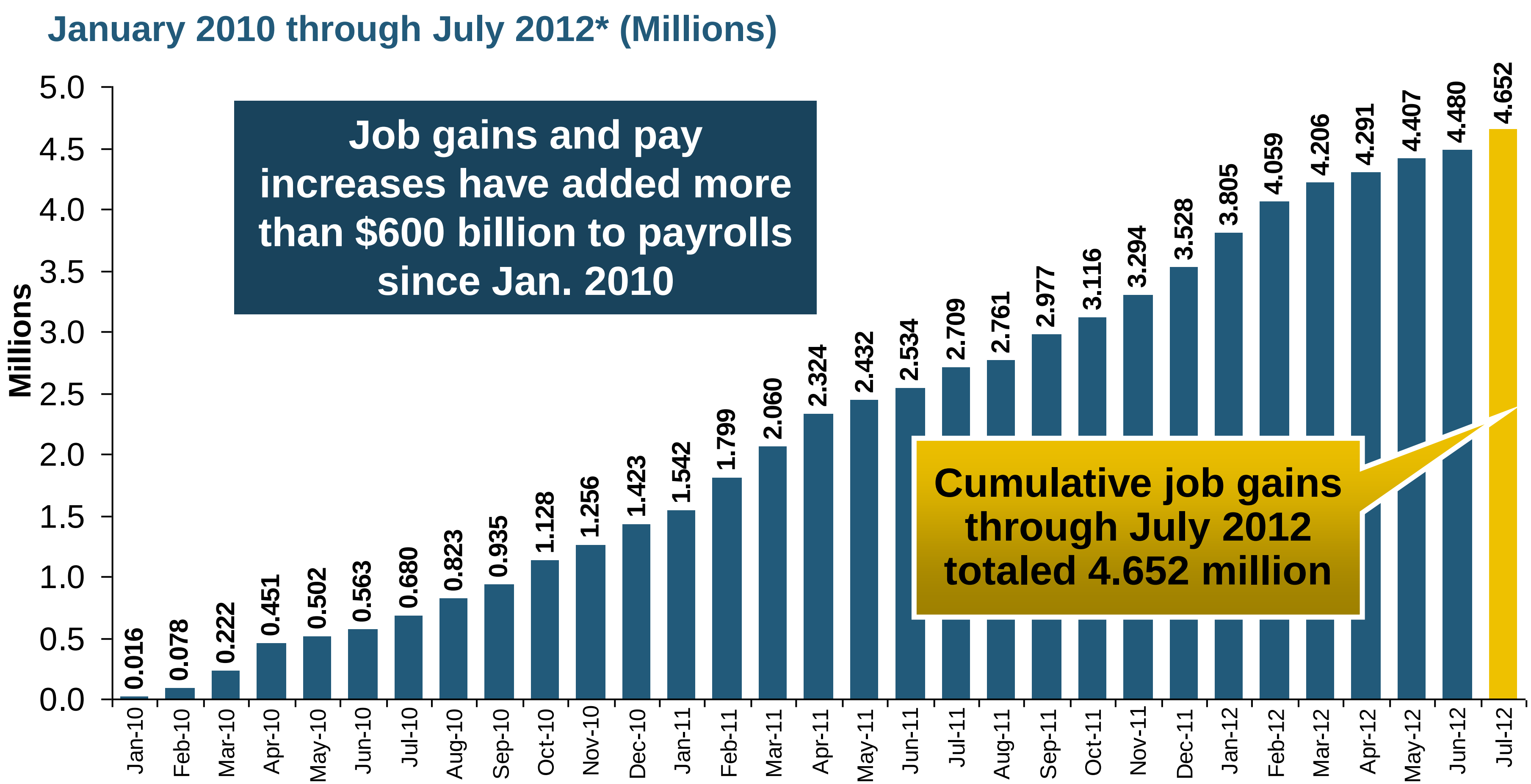

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Source: US Bureau of Labor Statistics: http://www.bls.gov/ces/home.htm; Insurance Information Institute

Cumulative Change in Government Employment: Jan. 2010—July 2012

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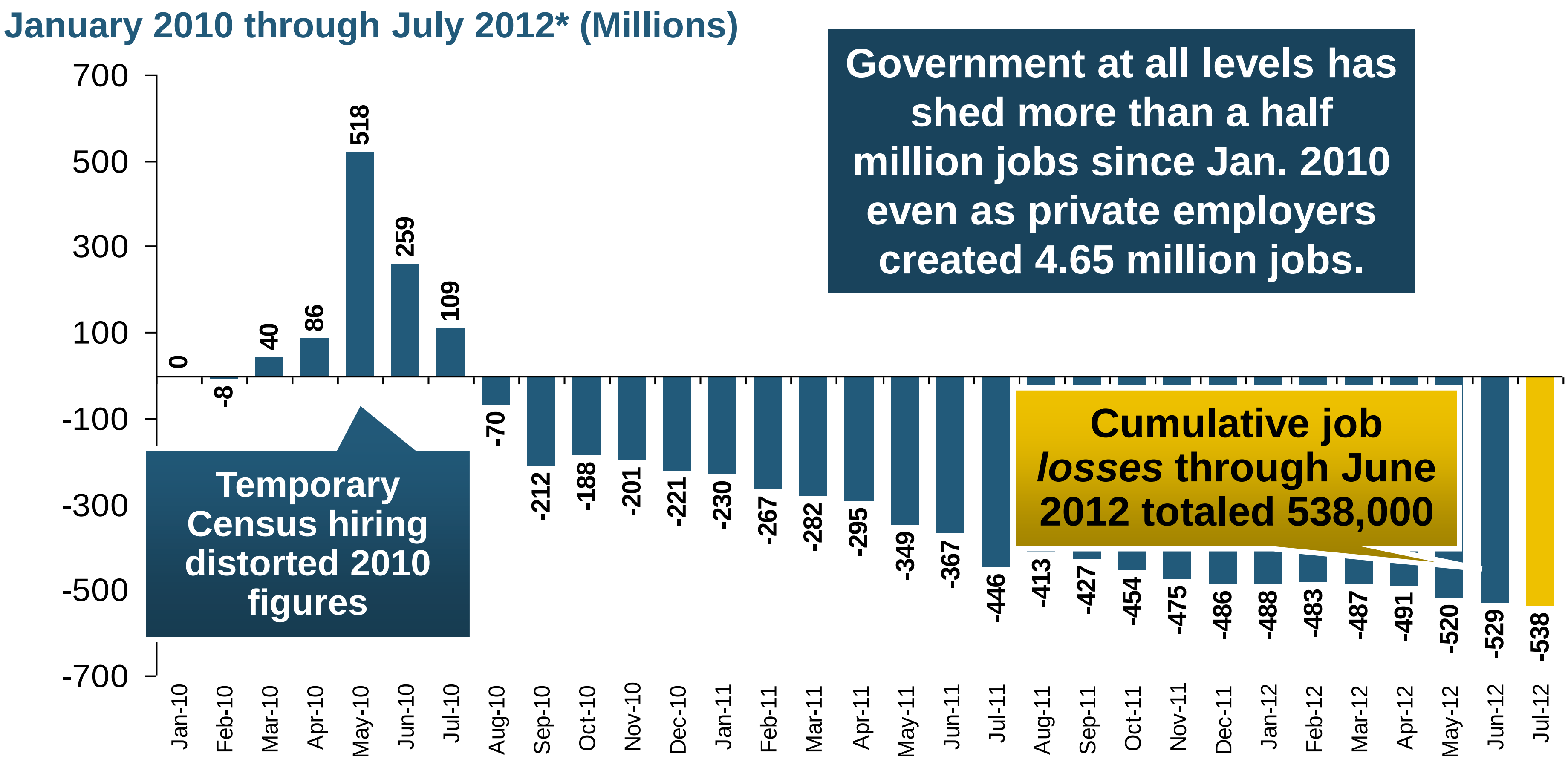
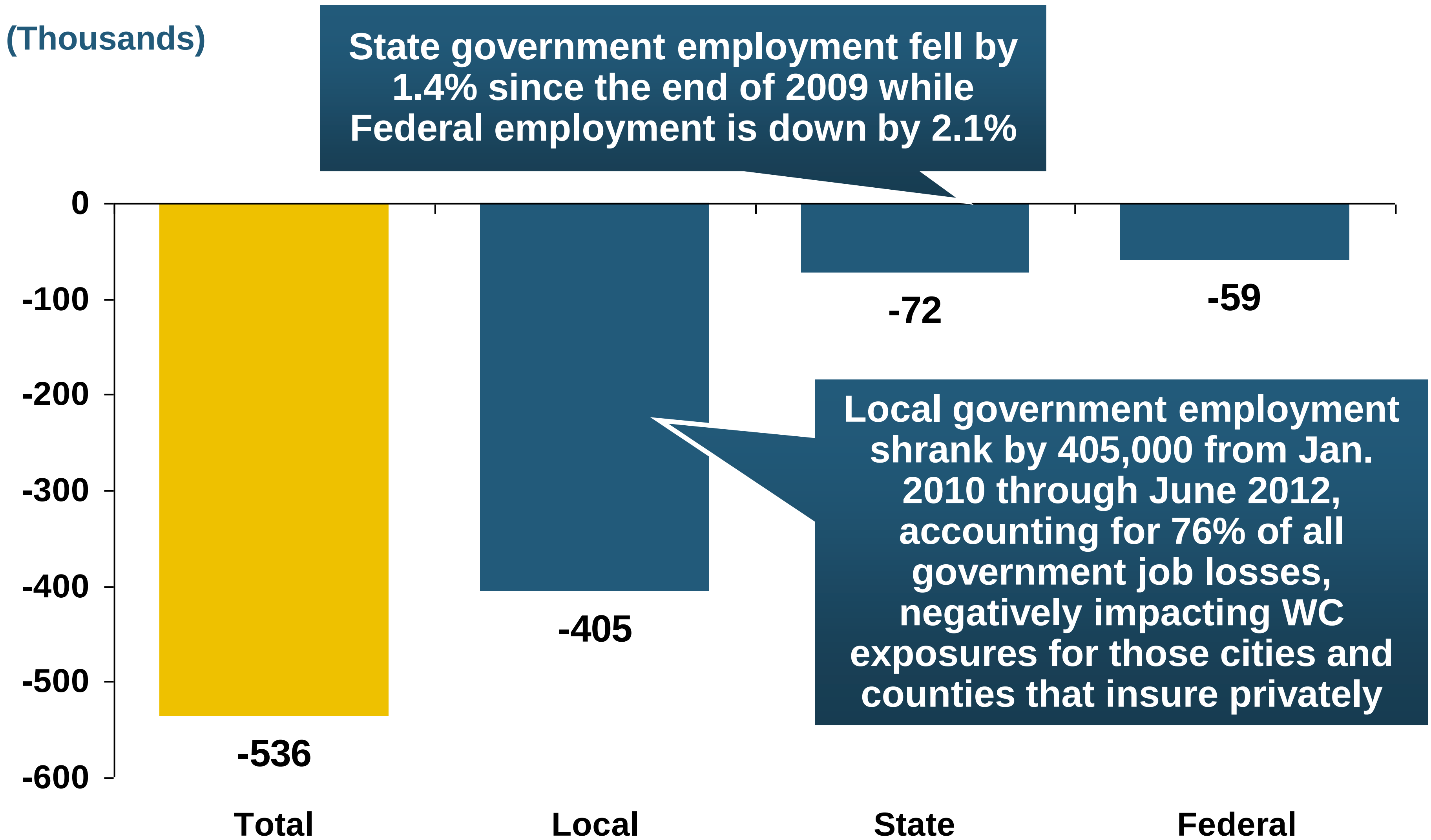


Governments at All Levels are Under Severe Fiscal Strain As Tax Receipts Plunged and Pension Obligations Soared During the Financial Crisis, Causing Them to Reduce Staff

Source: US Bureau of Labor Statistics http://www.bls.gov/data/#employment; Insurance Information Institute

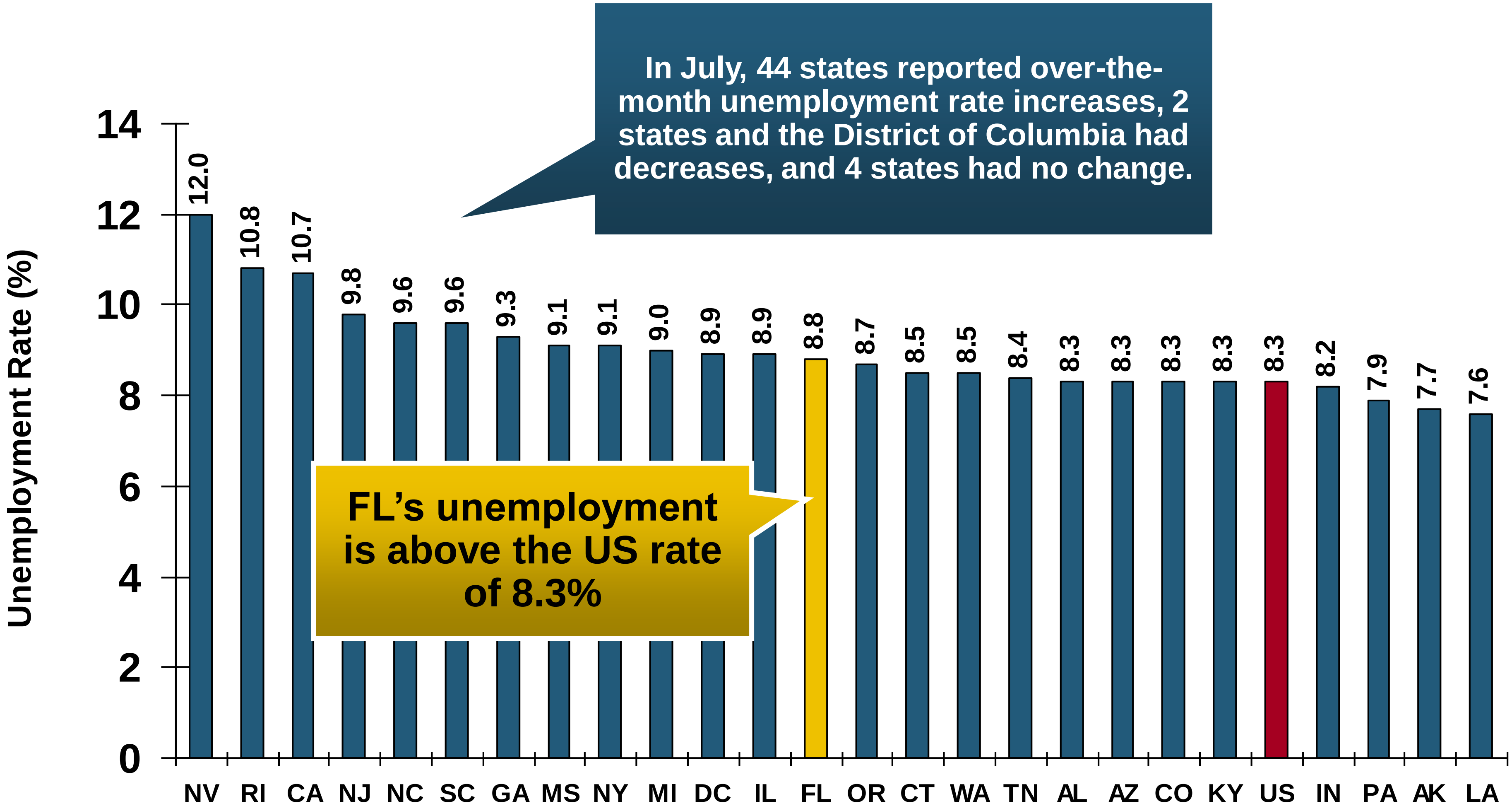
Net Change in Government Employment: Jan. 2010—June 2012*



*Cumulative change from prior month; Base employment date is Dec. 2009.

Source: US Bureau of Labor Statistics http://www.bls.gov/data/#employment; Insurance Information Institute

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

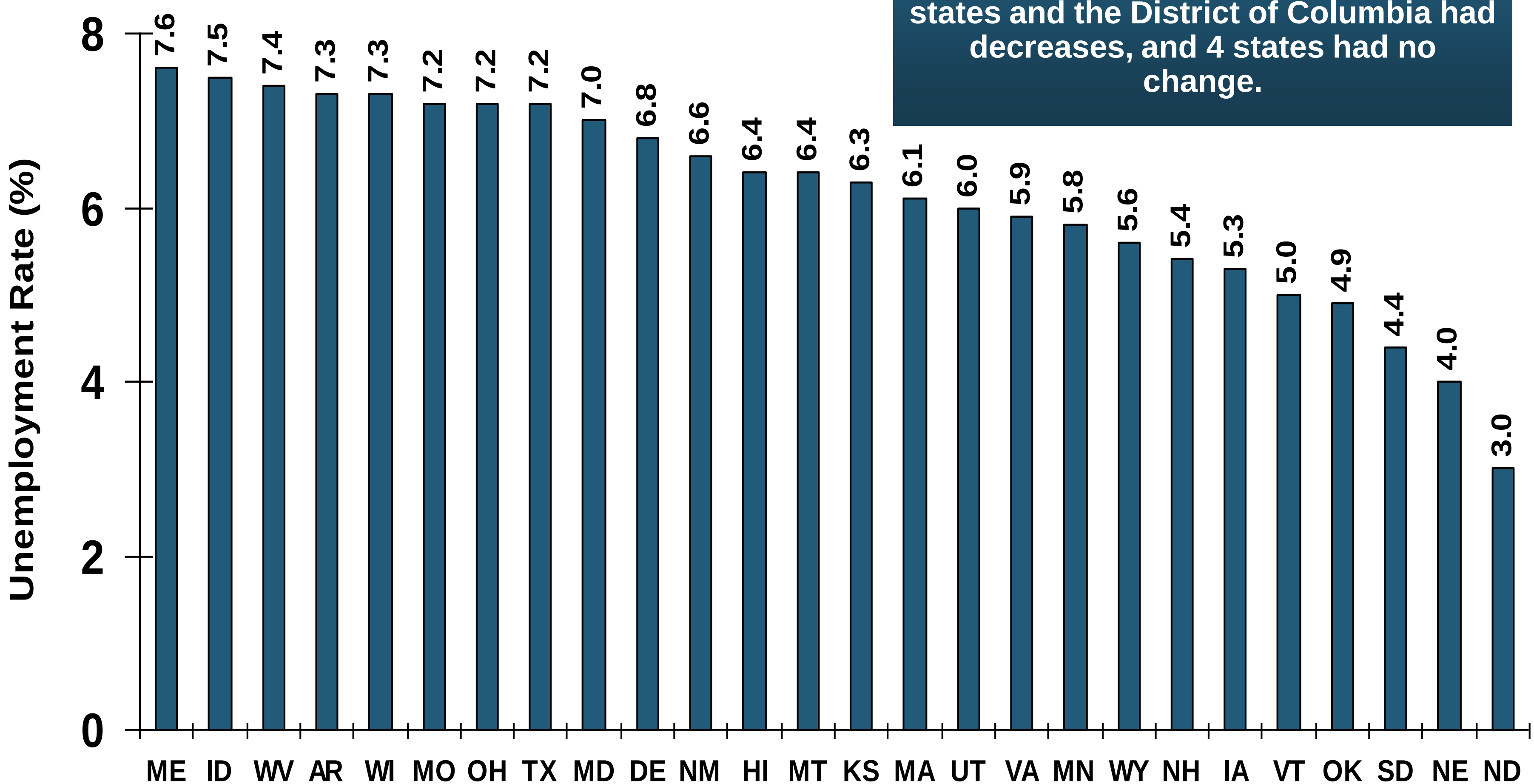


*Provisional figures for July 2012, seasonally adjusted.

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

Unemployment Rates by State, July 2012: Lowest 25 States*

In July, 44 states reported over-the-month unemployment rate increases, 2 states and the District of Columbia had decreases, and 4 states had no change.



*Provisional figures for July 2012, seasonally adjusted.

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

US Unemployment Rate Forecast

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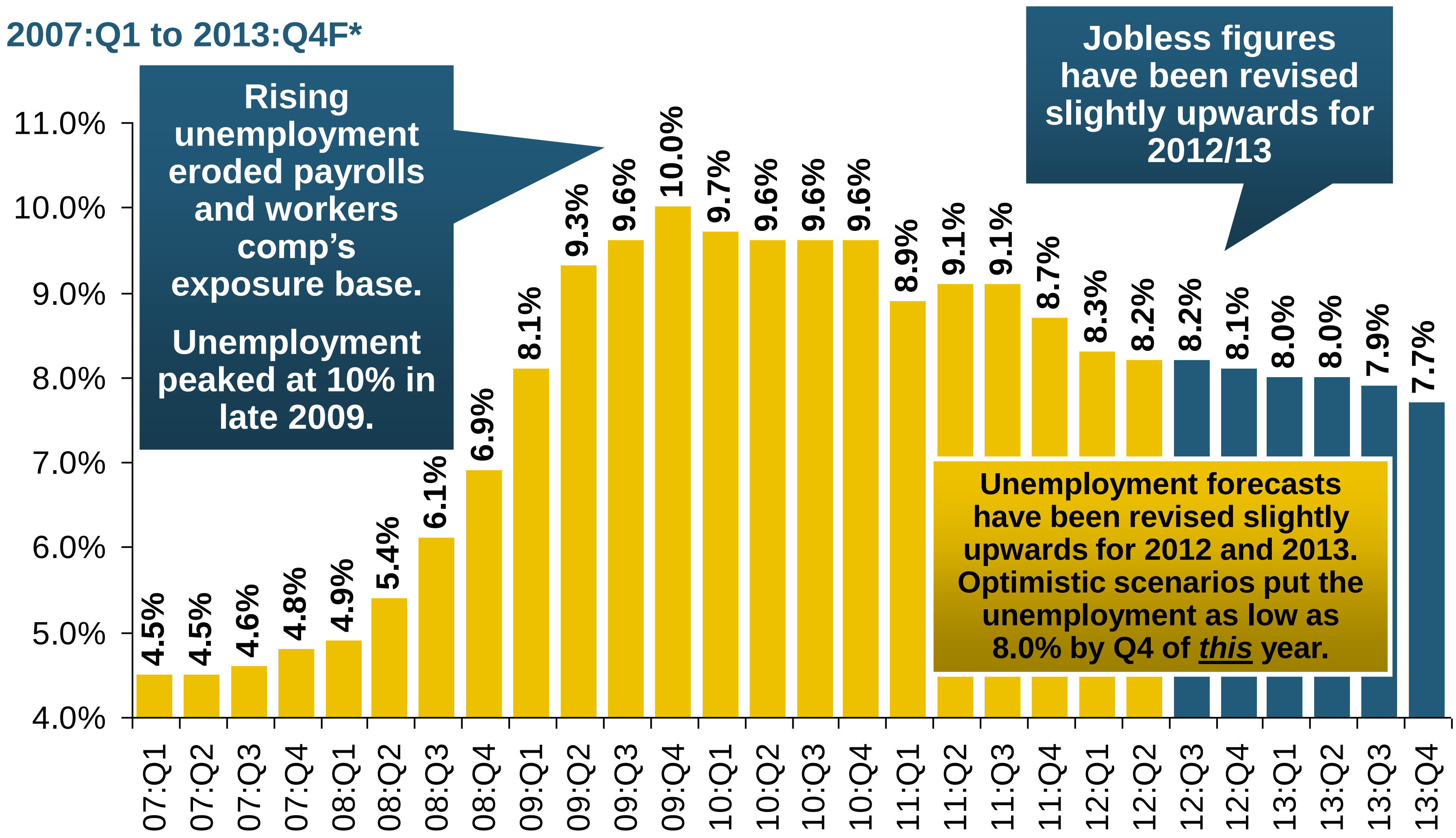

* = actual; = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (8/12 edition); Insurance Information Institute.

US Unemployment Rate Forecasts

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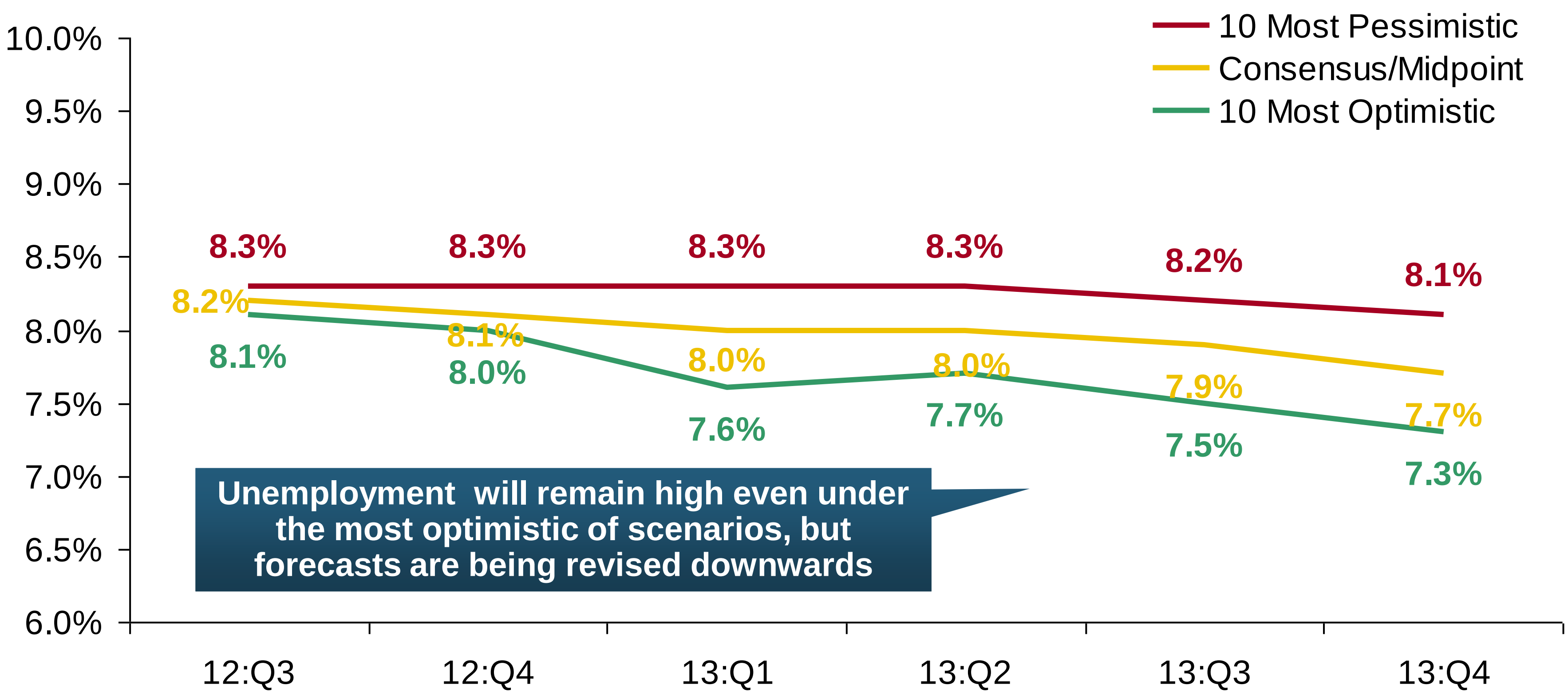
Quarterly, 2012:Q2 to 2013:Q4



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

Sources: Blue Chip Economic Indicators (8/12); Insurance Information Institute

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2012:Q2

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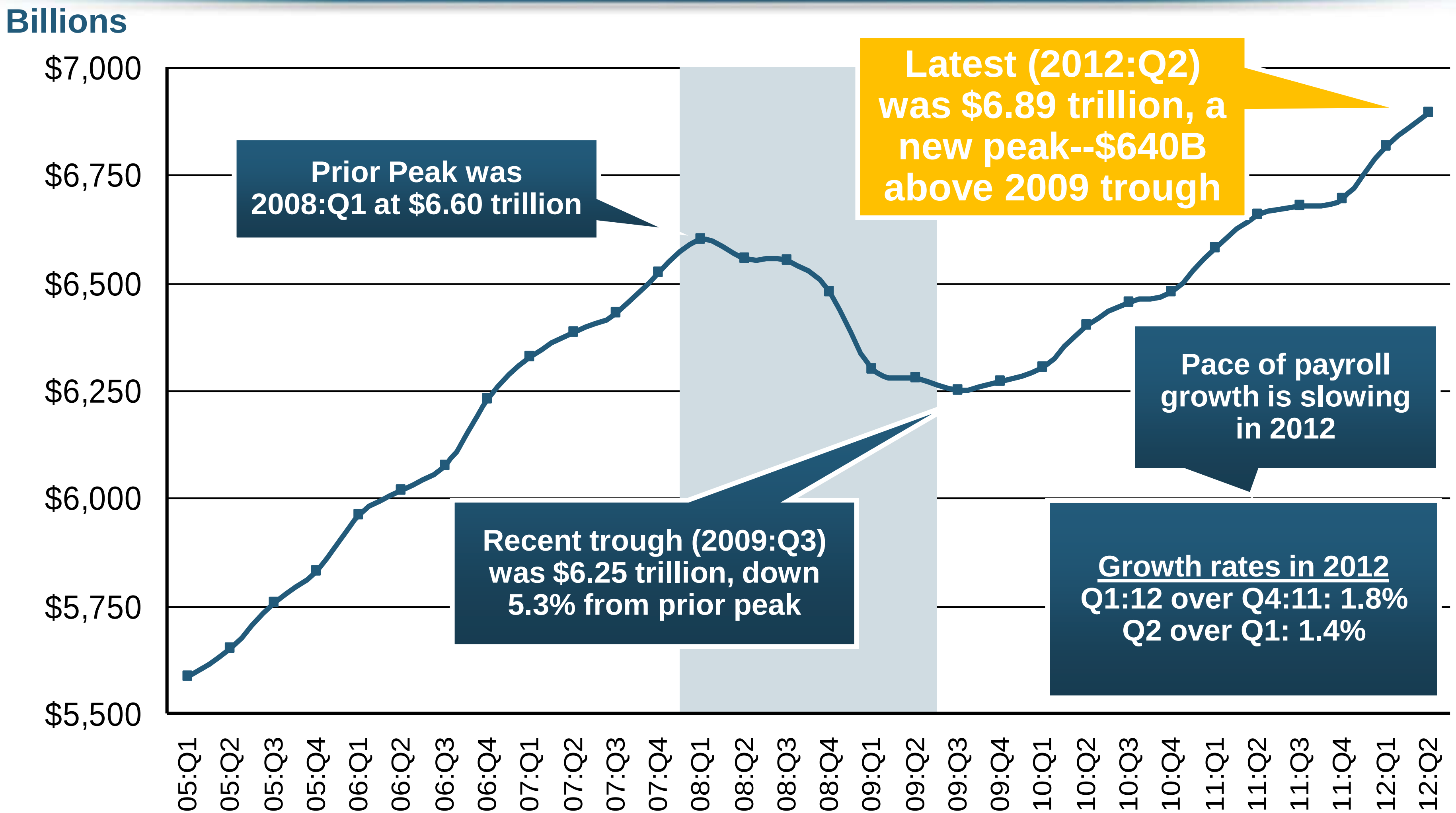
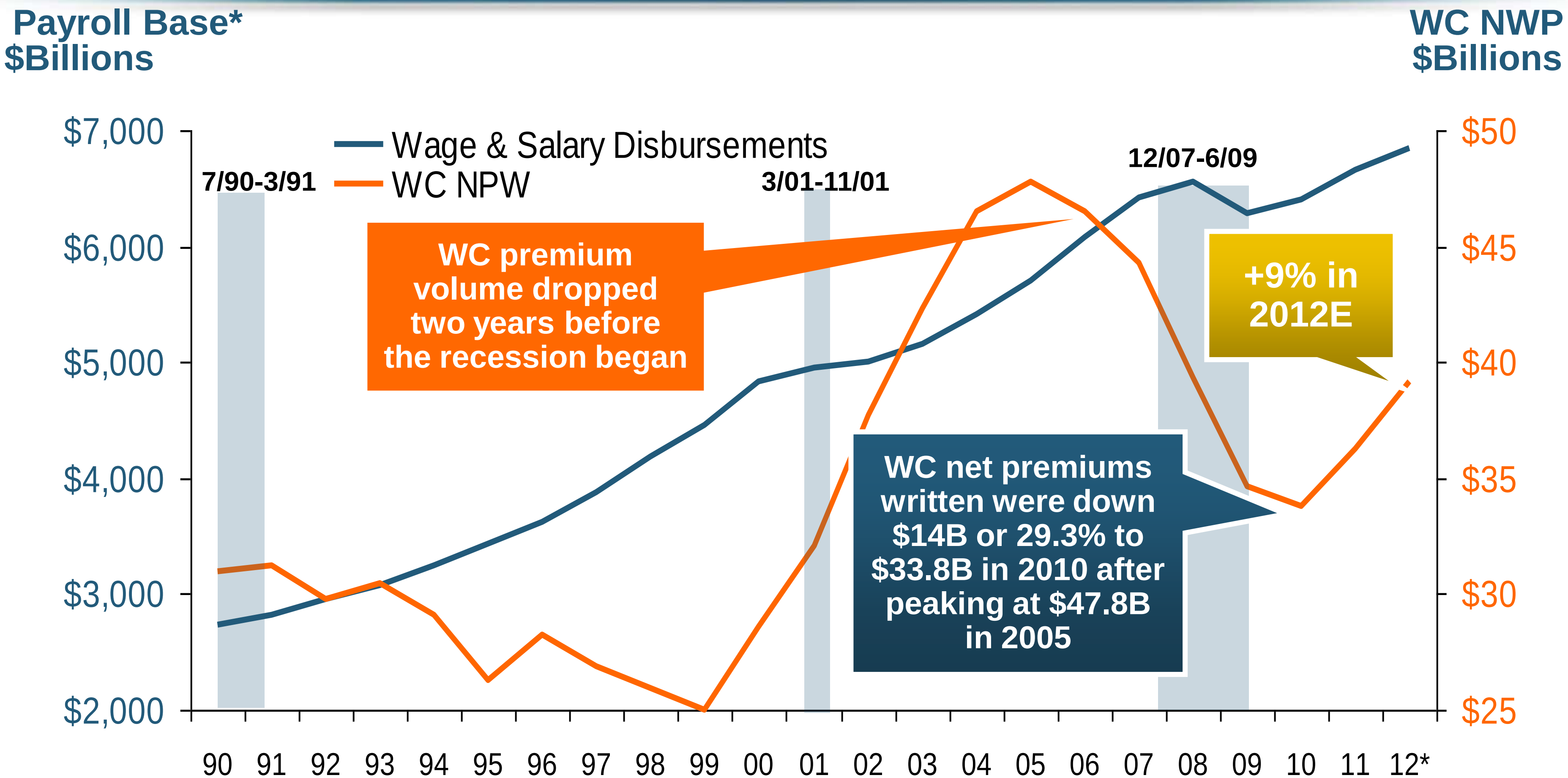


Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

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, 1990-2012E



Continued Payroll Growth and Rate Increases Suggest WC NWP Will Grow Again in 2012; +7.9% Growth in 2011 Was the First Gain Since 2005

*Private employment; Shaded areas indicate recessions. Payroll and WC premiums for 2012 is I.I.I. estimate based YTD 2012 actuals.
Sources: NBER (recessions); Federal Reserve Bank of St. Louis at http://research.stlouisfed.org/fred2/series/WASCUR ; NCCI; I.I.I.

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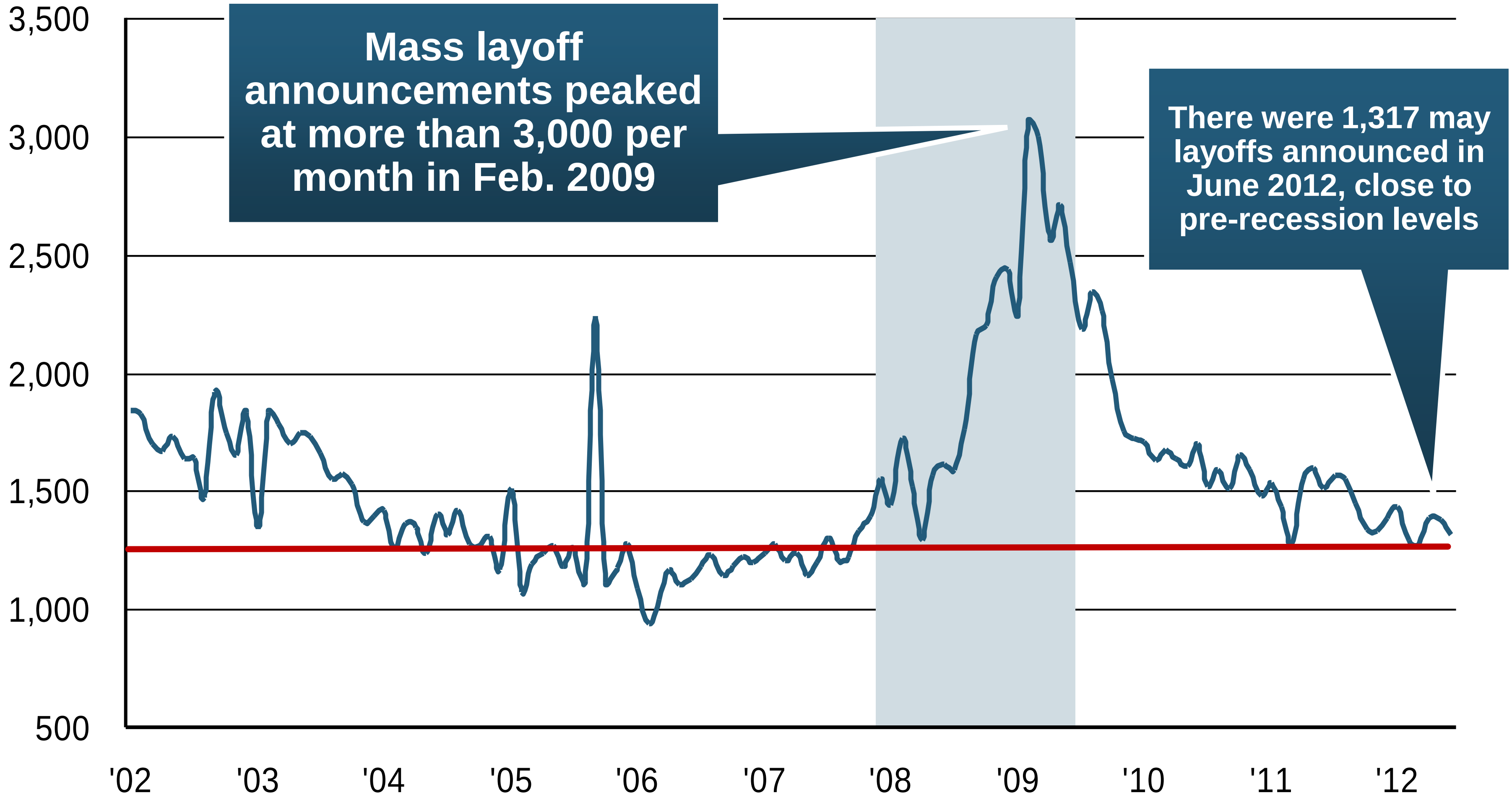
POSITIVE LABOR MARKET DEVELOPMENTS

Key Factors Driving Workers Compensation Exposure

Mass Layoff Announcements, Jan. 2002—June 2012*



*Seasonally adjusted.

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics at http://www.bls.gov/mls/; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Average Weekly Hours of All Private Workers, Mar. 2006—June 2012

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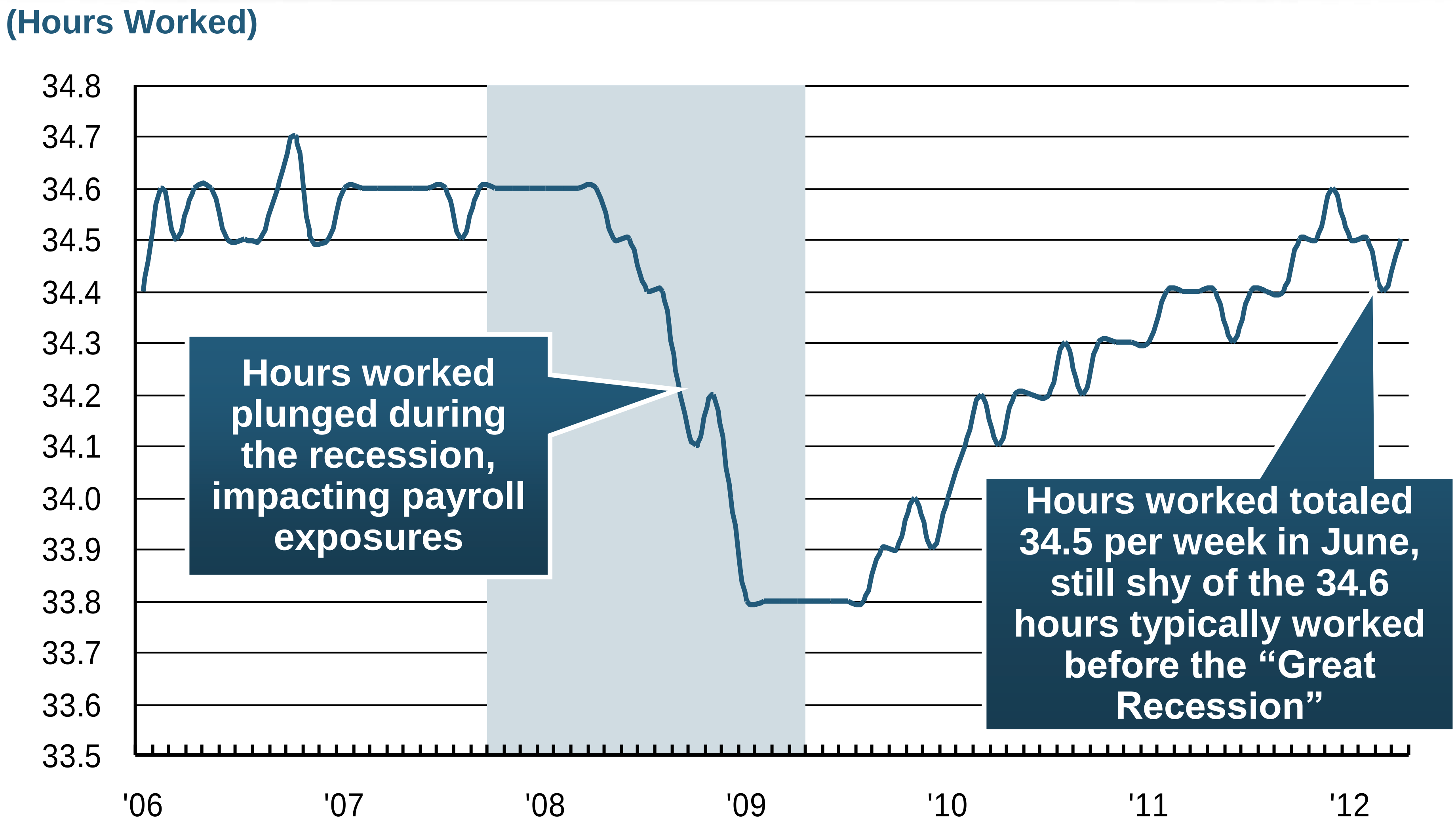

*Seasonally adjusted

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics at http://www.bls.gov/data/#employment; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Average Hourly Wage of All Private Workers, Mar. 2006—June 2012

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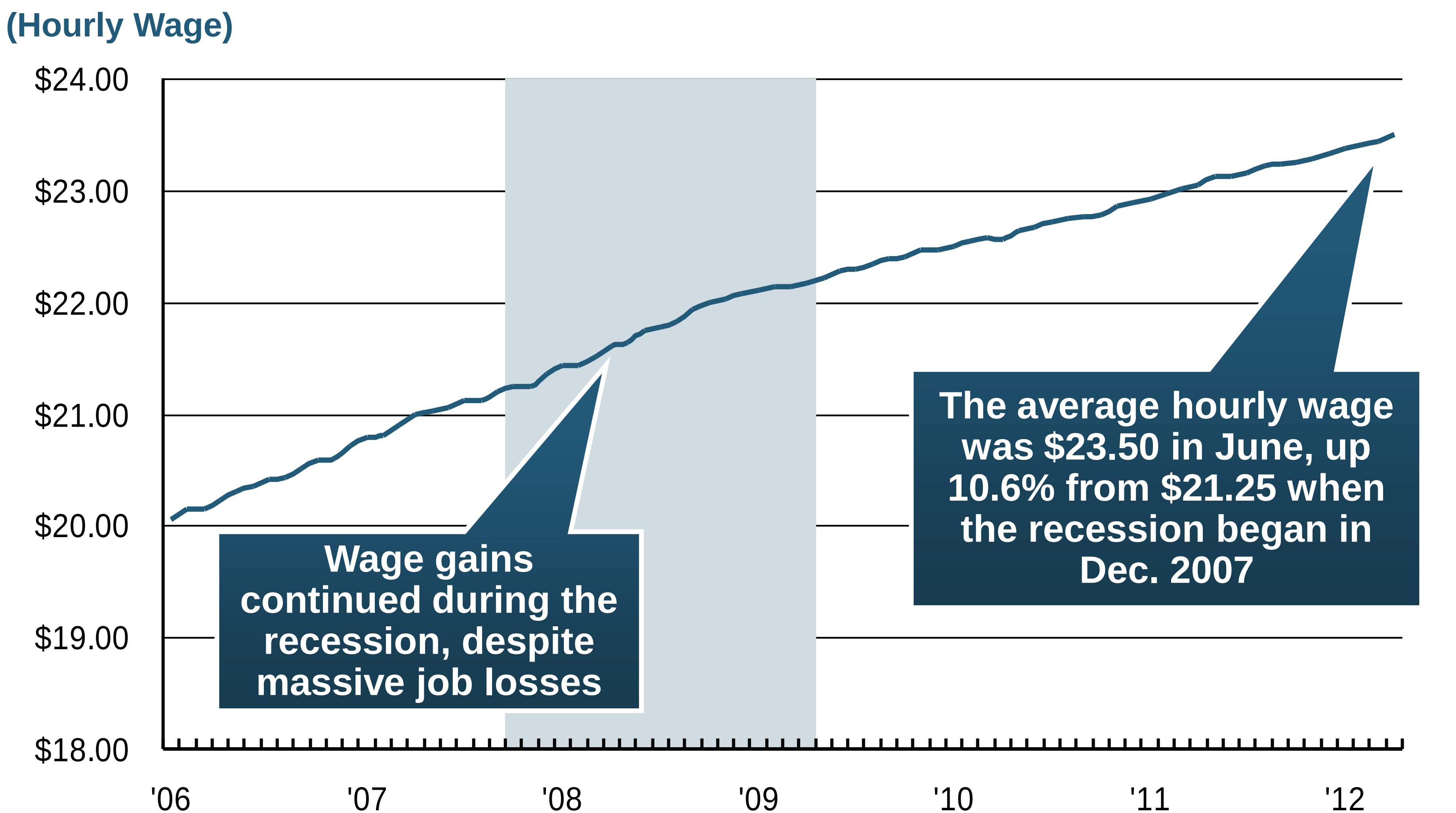

*Seasonally adjusted

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics at http://www.bls.gov/data/#employment; National Bureau of Economic Research (recession dates); Insurance Information Institute.

ADVERSE LONG-TERM LABOR MARKET DEVELOPMENTS

Key Factors Harming Workers Compensation Exposure and the Overall Economy

Duration of Unemployment, June 2011 vs. June 2012

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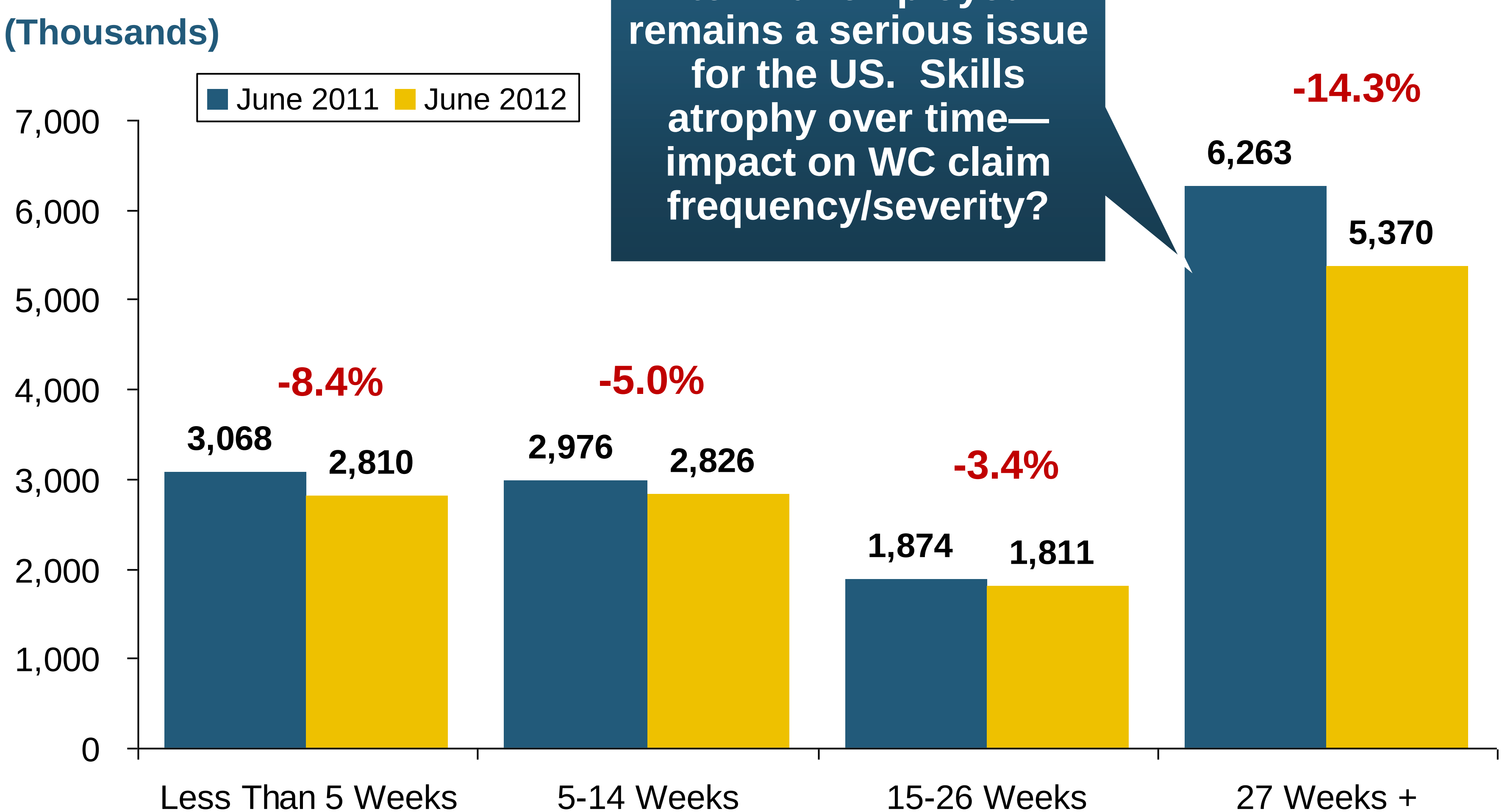
The plight of the long-term unemployed remains a serious issue for the US. Skills atrophy over time—impact on WC claim frequency/severity?



Source: US Bureau of Labor Statistics at http://www.bls.gov/news.release/empsit.a.htm; Insurance Information Institute.

Labor Force Participation Rate, Jan. 2002—June 2012*

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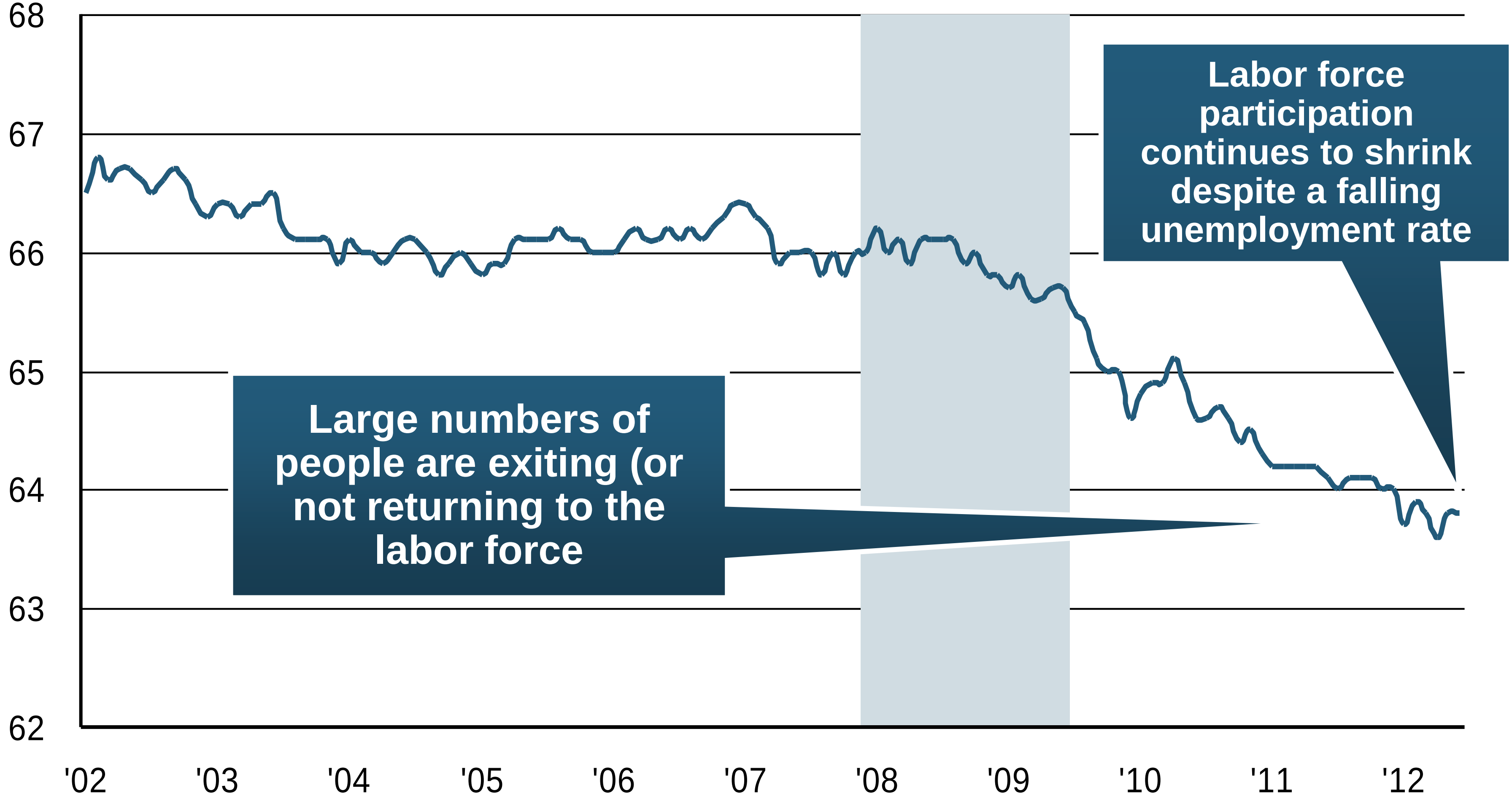
Labor Force Participation as a % of Population



*Defined as the percentage of working age persons in the population who are employed or actively seeking work.

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics at http://data.bls.gov/timeseries/LNS11300000; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Number of "Discouraged Workers," Jan. 2002—June 2012

In recent good times, the number of discouraged workers ranged from 200,000-400,000 (1995-2000) or from 300,000-500,000 (2002-2007).

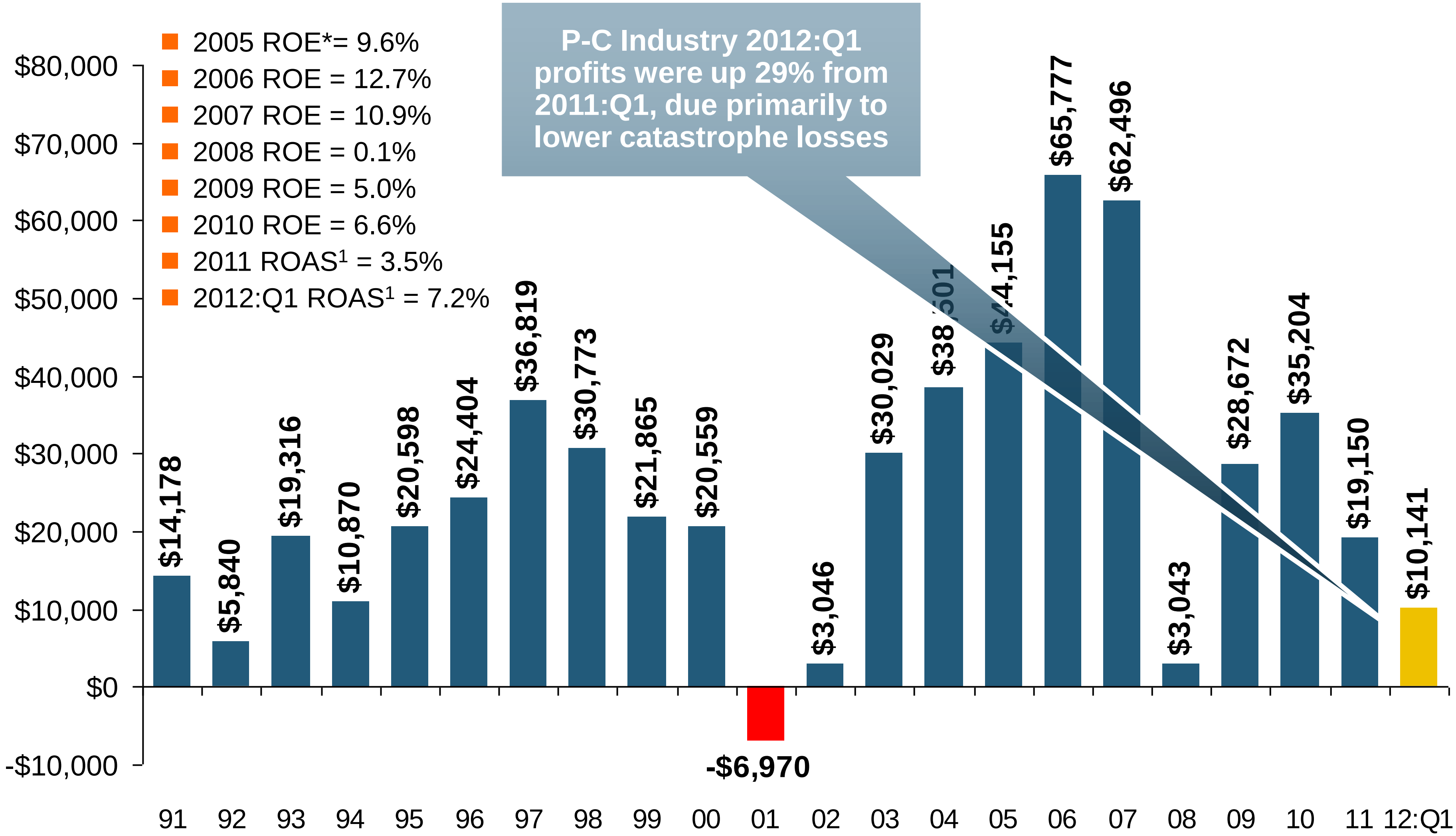
Notes: Recessions indicated by gray shaded columns. Data are seasonally adjusted.

Sources: Bureau of Labor Statistics http://www.bls.gov/news.release/empsit.a.htm ; NBER (recession dates); Ins. Info. Inst.

P/C Insurance Industry Financial Overview

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

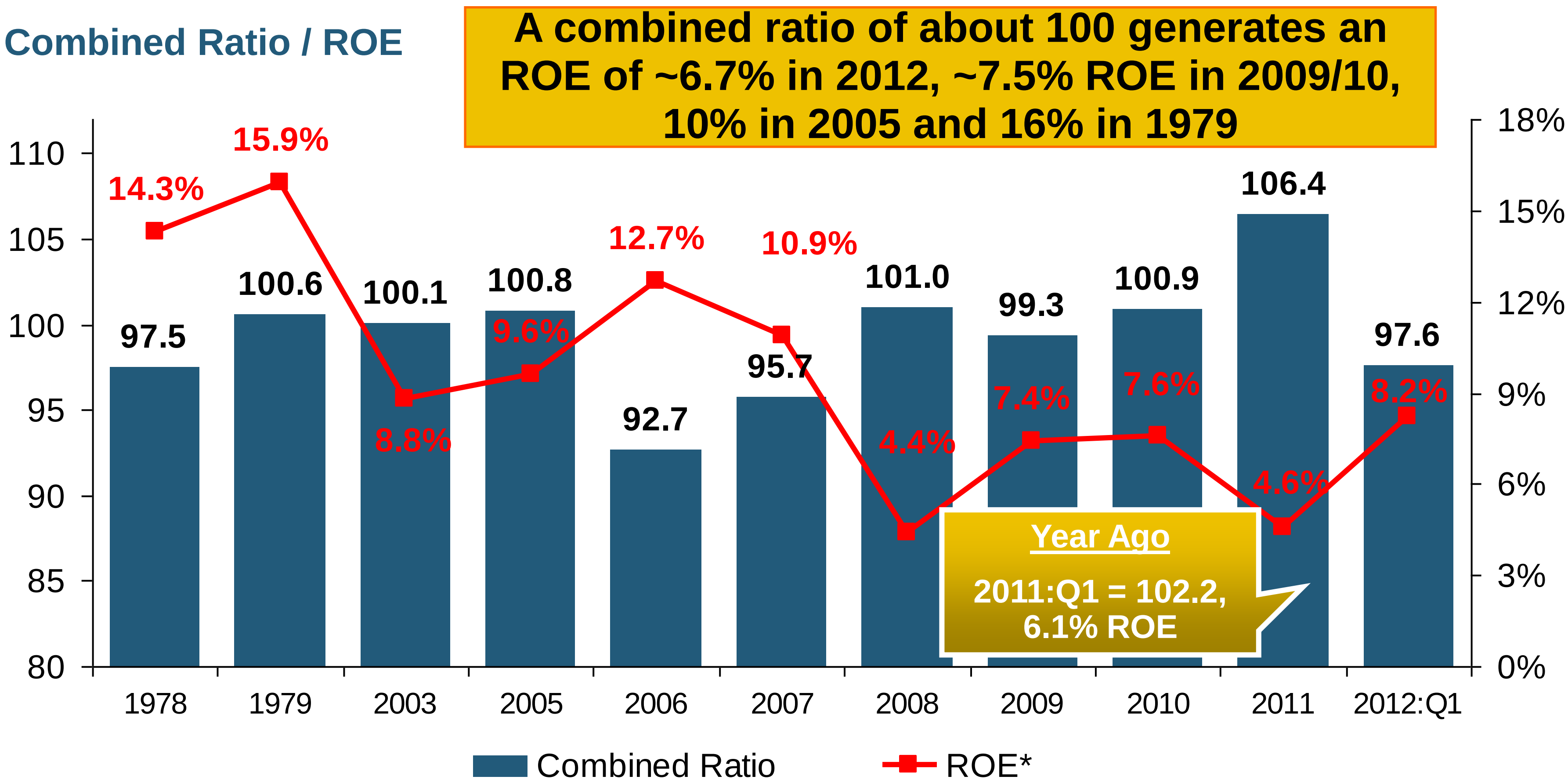
P/C Net Income After Taxes 1991–2012:Q1 ($ Millions)



* ROE figures are GAAP; [1]Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 8.2% ROAS for 2012:Q1, 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 Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2008 -2012 figures are return on average surplus and exclude mortgage and financial guaranty insurers. 2012:Q1 combined ratio including M&FG insurers is 99.0, ROAS = 7.2%; 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 – 2012:Q1*

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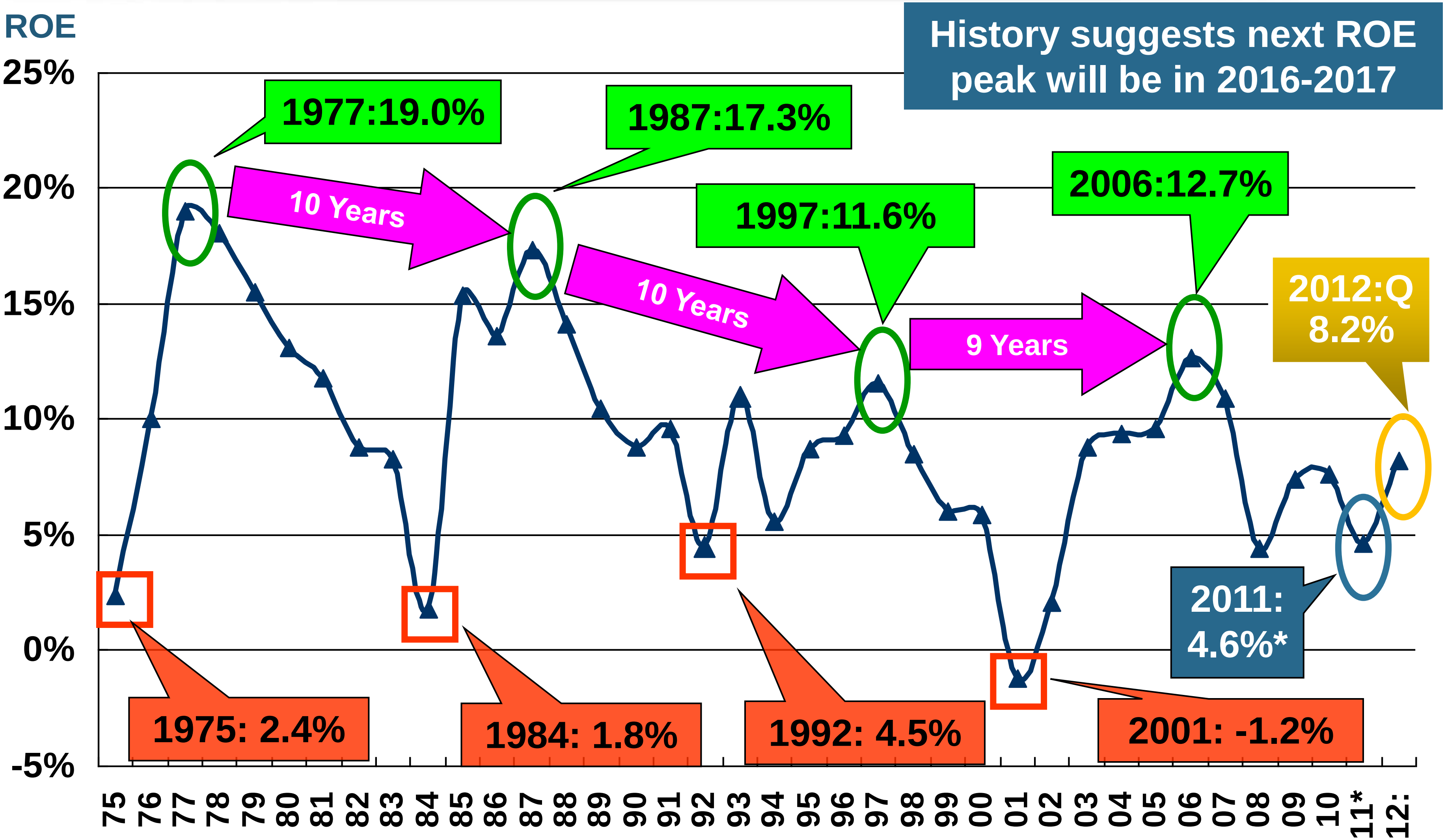

*Profitability = P/C insurer ROEs. 2011 figure is an estimate based on ROAS data. Note: Data for 2008-2012 exclude mortgage and financial guaranty insurers. 2012:Q1 ROAS = 7.2% including M&FG.

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

ROE: Property/Casualty Insurance vs. Fortune 500, 1987–2012:Q1*

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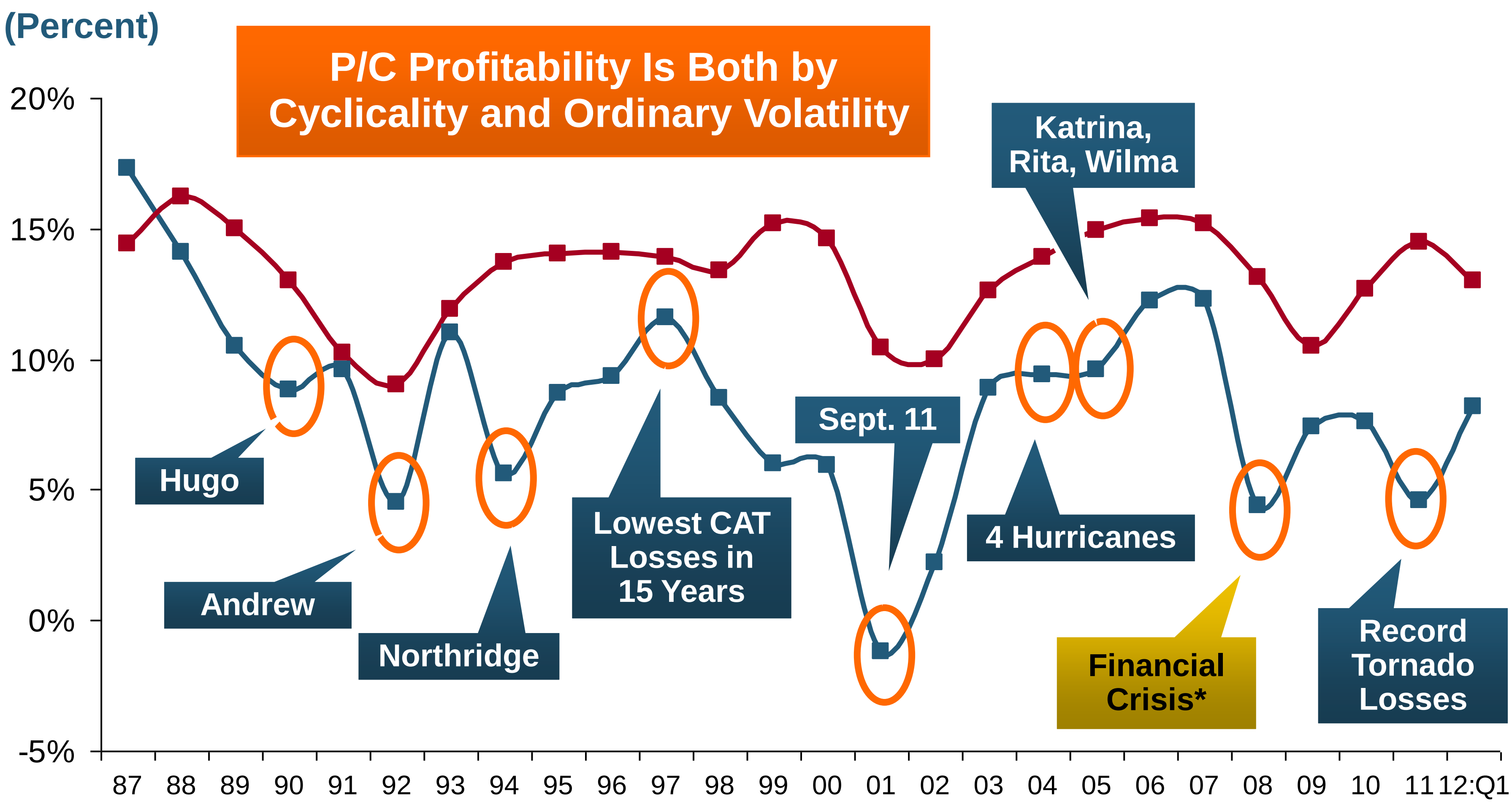

* Excludes Mortgage & Financial Guarantee in 2008 – 2012. 2012 Fortune 500 figure is III estimate.
Sources: ISO, *Fortune*; Insurance Information Institute.

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

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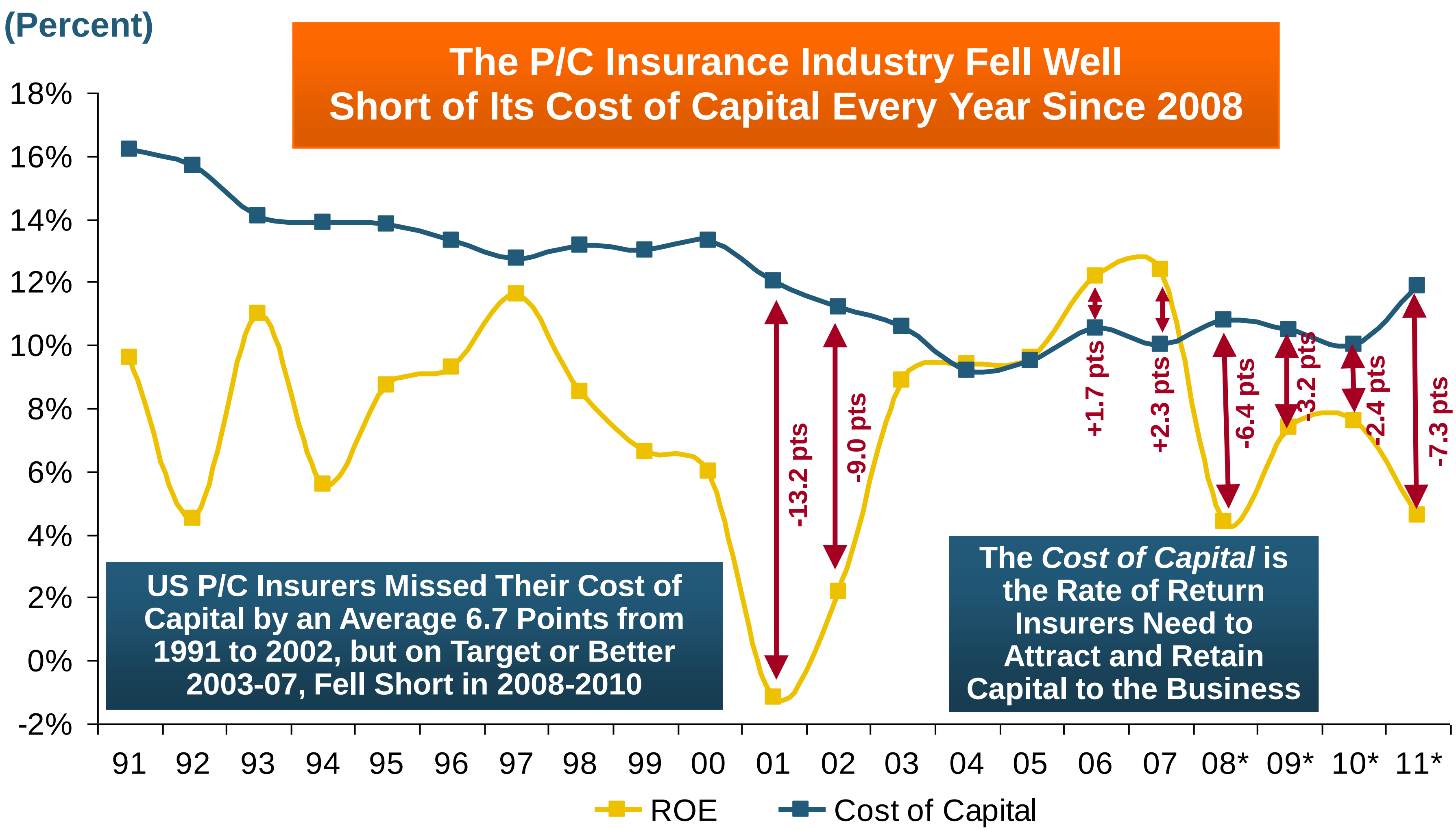

* Return on average surplus in 2008-2011 excluding mortgage and financial guaranty insurers.
Source: The Geneva Association, Insurance Information Institute

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Financial Strength & Underwriting

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

P/C Insurer Impairments, 1969–2011

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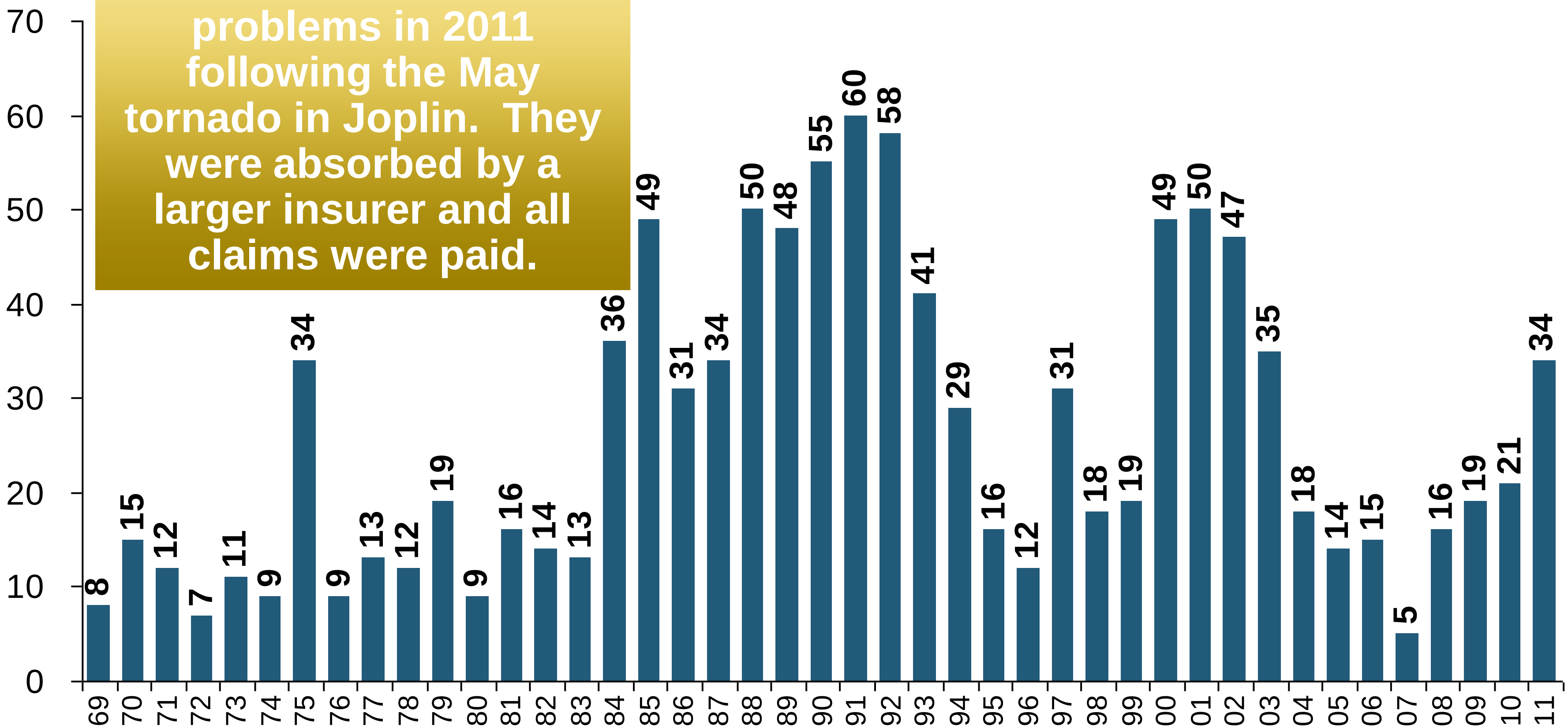
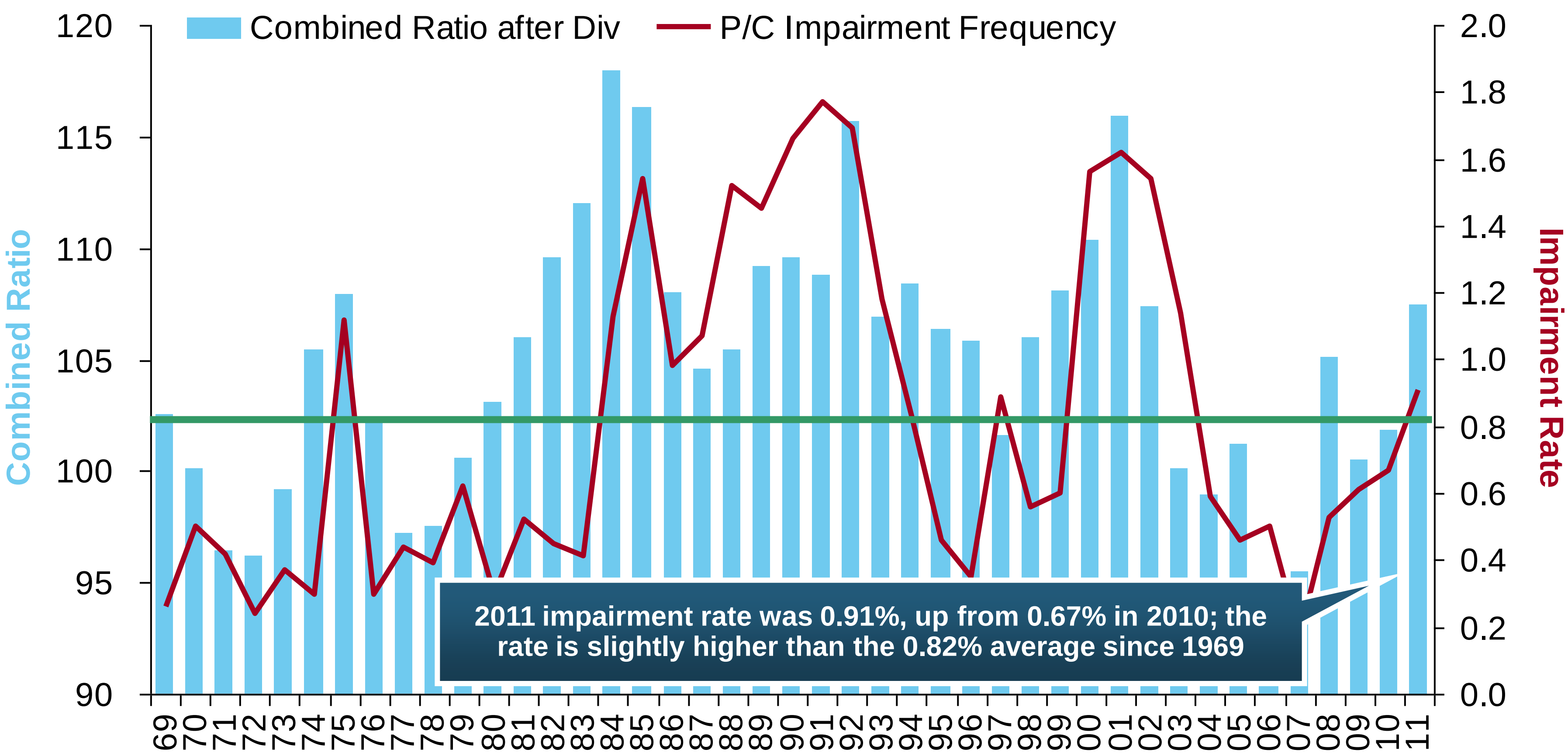
3 small insurers in Missouri did encounter problems in 2011 following the May tornado in Joplin. They were absorbed by a larger insurer and all claims were paid.



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

Source: A.M. Best Special Report "1969-2011 Impairment Review," June 2012; Insurance Information Institute.

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

Source: A.M. Best; Insurance Information Institute

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

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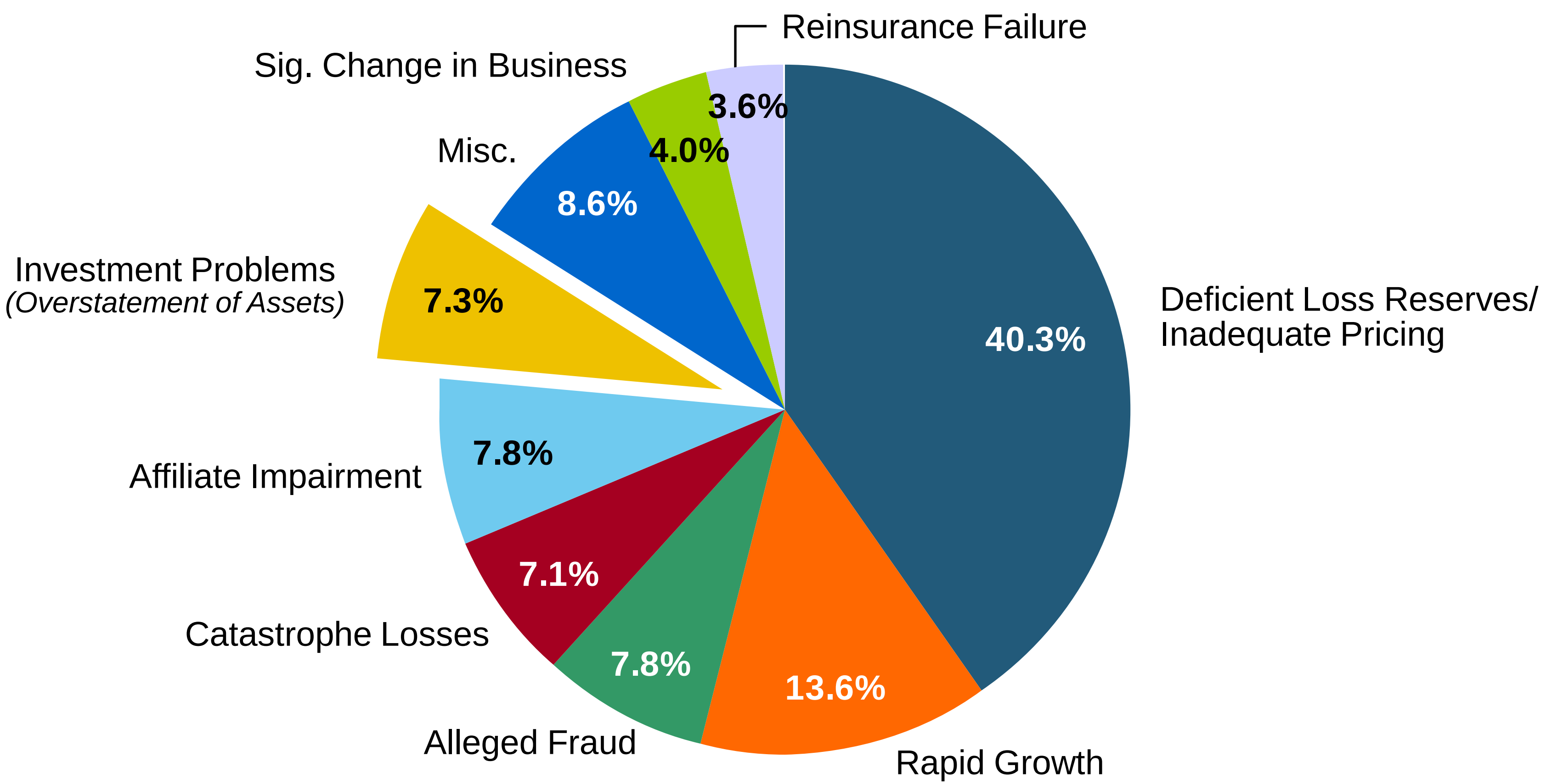
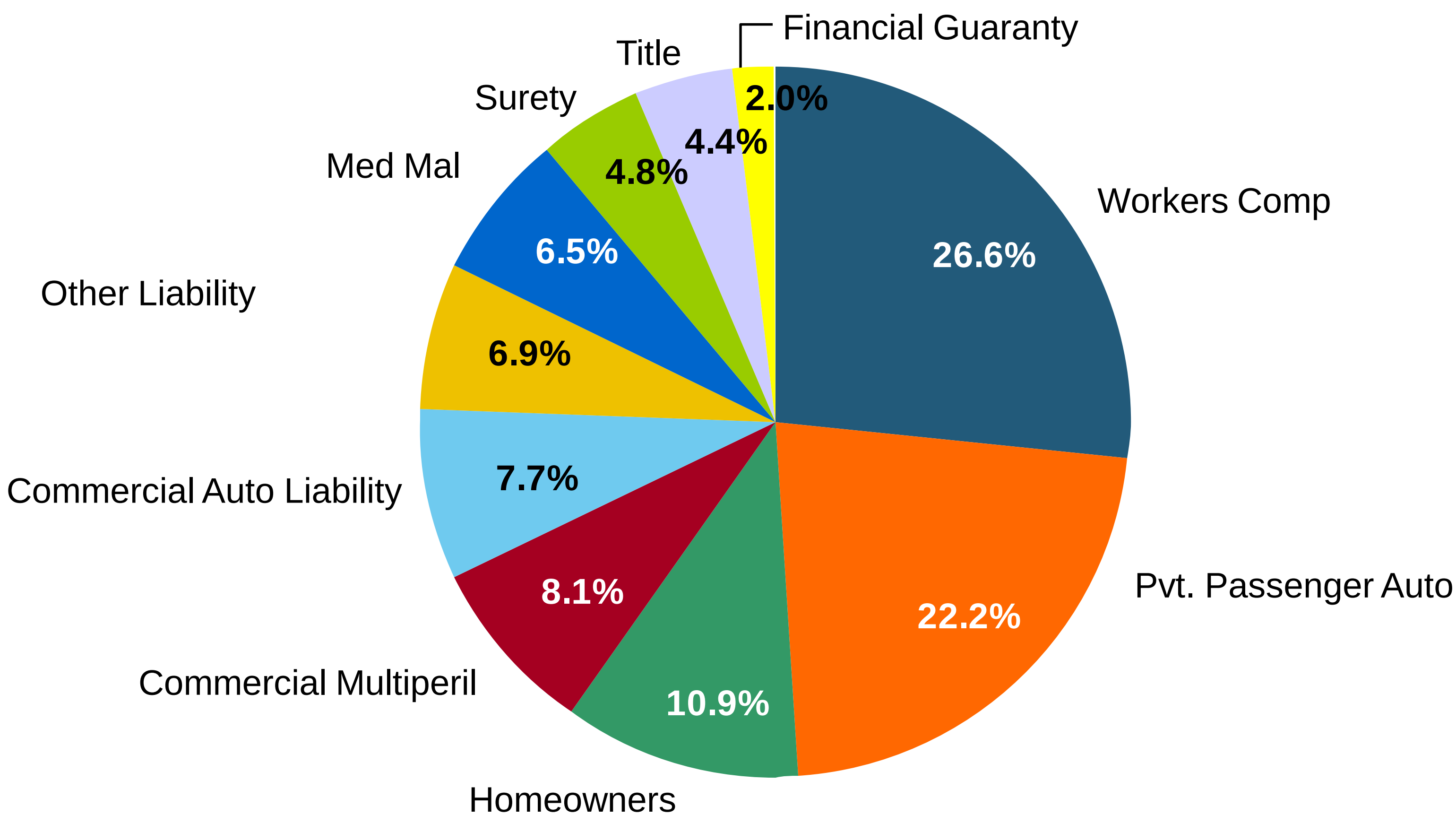
Historically, Deficient Loss Reserves and Inadequate Pricing Are By Far the Leading Cause of P-C Insurer Impairments. Investment and Catastrophe Losses Play a Much Smaller Role



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

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

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



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

Workers Compensation Operating Environment

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

Commercial Lines Combined Ratio, 1990-2012F*

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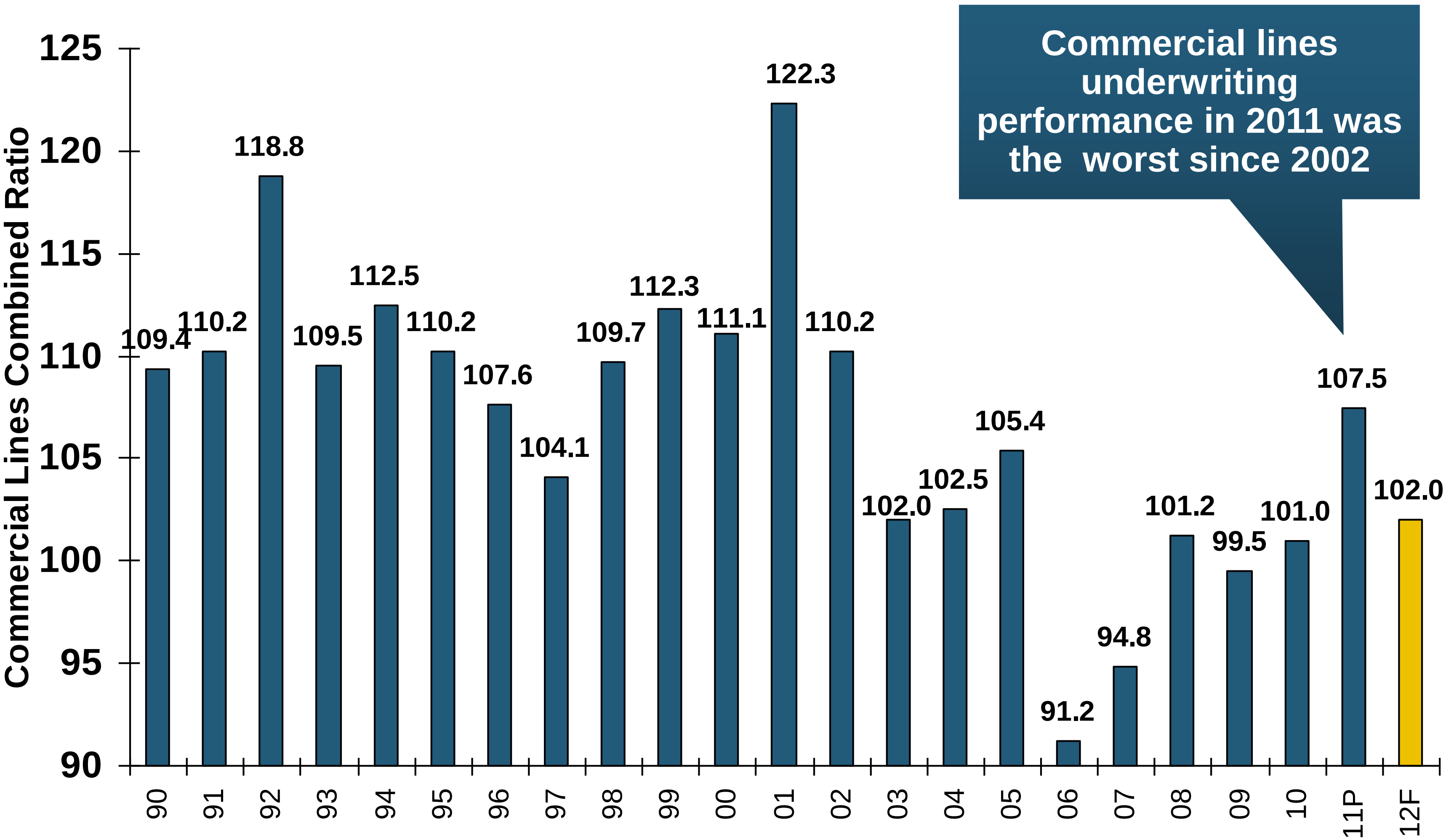
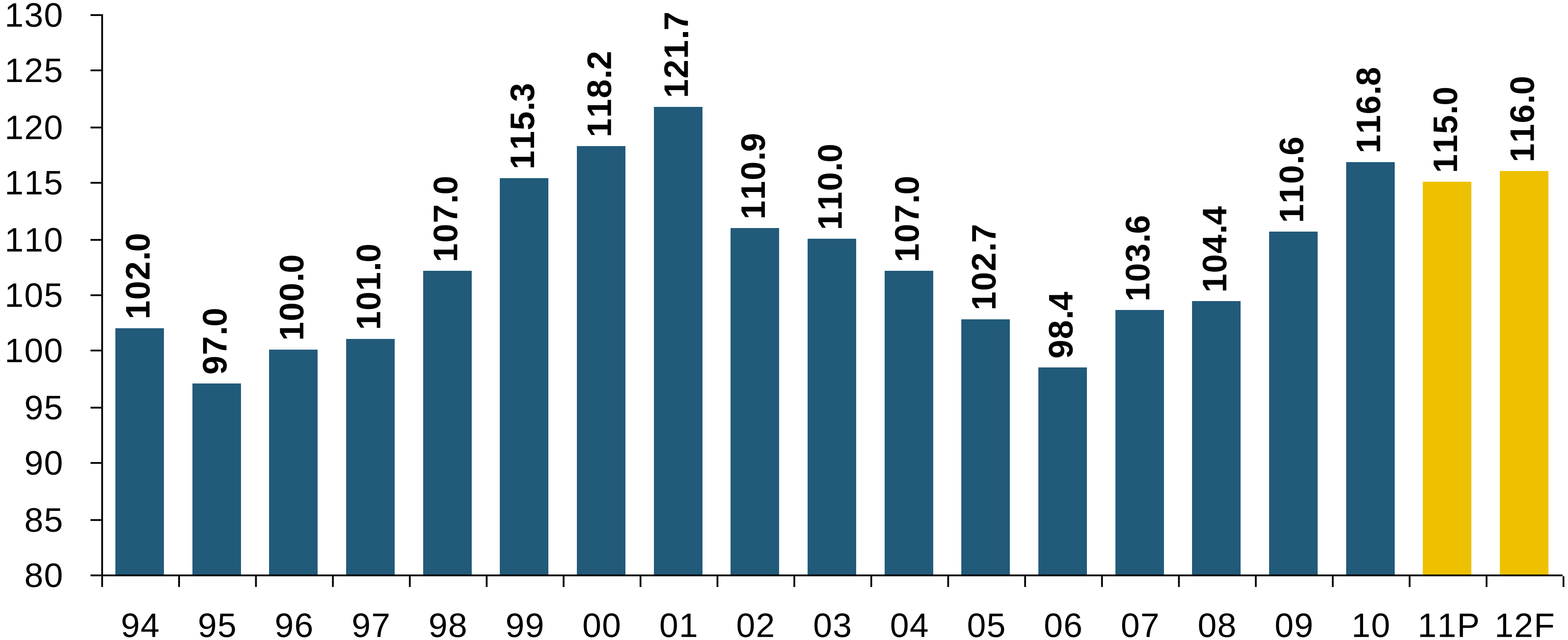


*2007-2012 figures exclude mortgage and financial guaranty segments.
Source: A.M. Best; Insurance Information Institute

Workers Compensation Combined Ratio: 1994–2012F



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

Sources: A.M. Best (1994-2010 all carriers); NCCI for 2011 (Private carriers only); 2012 (All Carriers) Insurance Information Institute.

Workers Comp Benefits* and Costs** per $100 of Covered Wages, 1980-2012F

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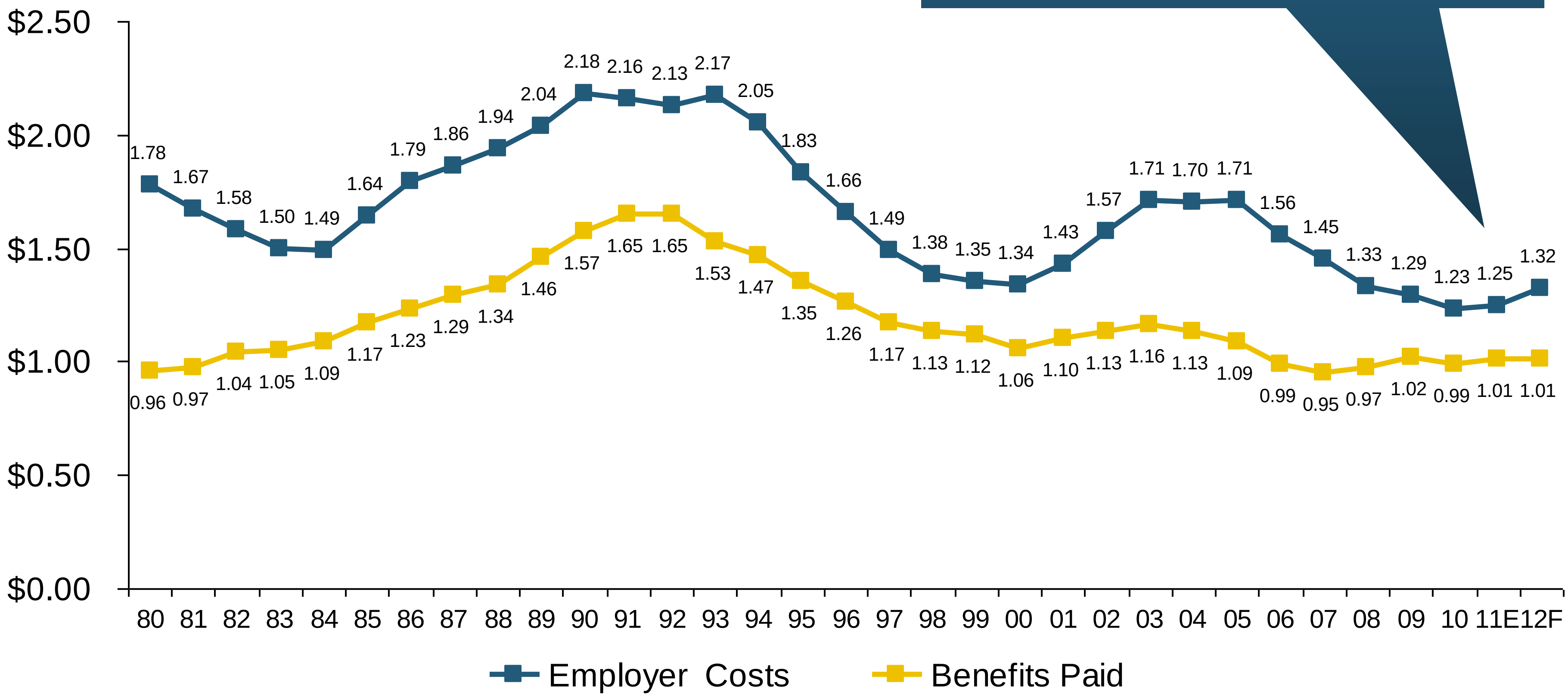
(Dollars per $100 of Covered Wages)

WC costs to employers began to rise in 2011/12 for the first time since 2003



* Benefits paid during calendar year to injured workers and to providers of their medical care.

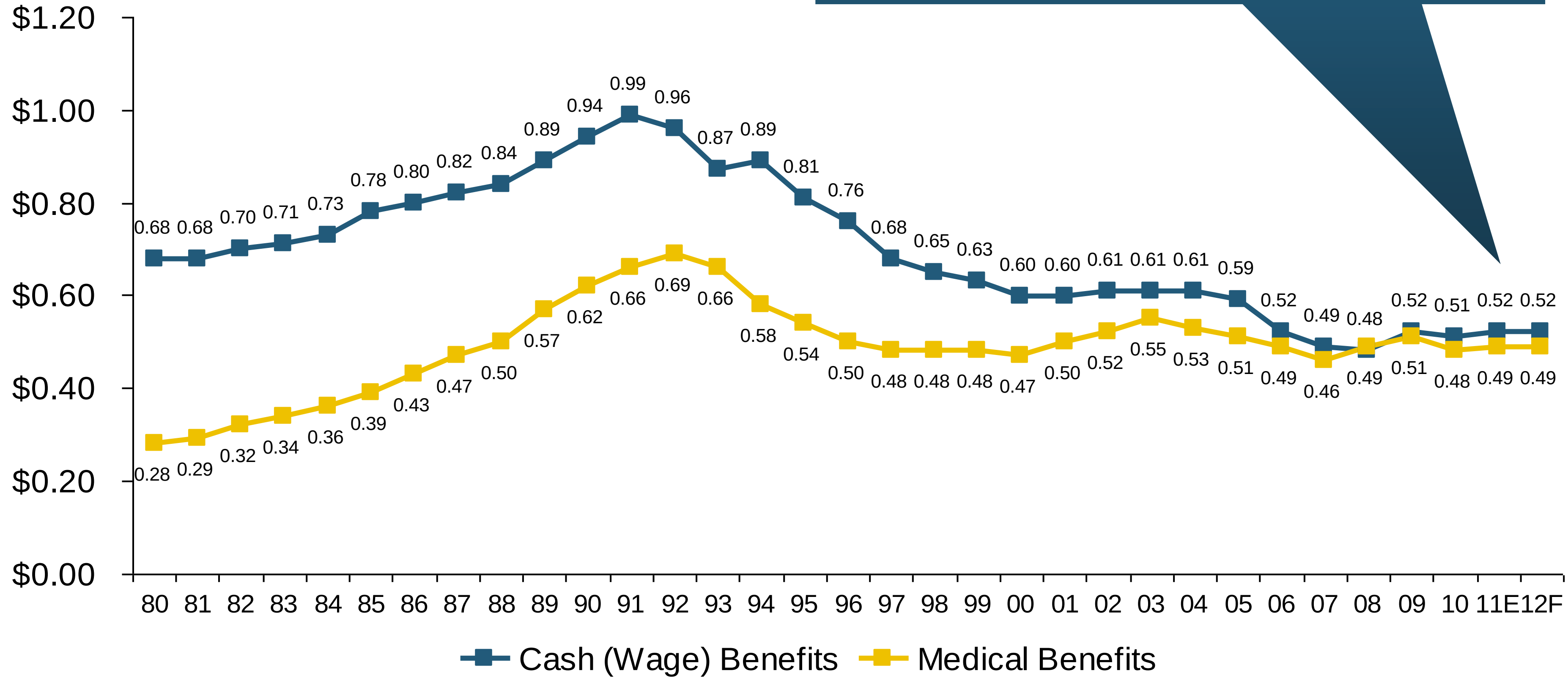
**Costs are employer expenditures for WC benefits, associated administrative costs and insurance premiums. Includes self-insured employers and payments of benefits under large insurance programs.

Sources: National Academy of Social Insurance (1980-2010); Insurance Information Institute estimates for 2011-2012.

Workers Comp Medical and Cash Benefits per $100 of Covered Wages, 1980-2012F

(Dollars per $100 of Covered Wages)

Medical benefits as a share of total benefits has increased dramatically over the pat 20 years



Sources: National Academy of Social Insurance (1980-2010); Insurance Information Institute estimates for 2011-2012.

Medical Cost Inflation Has Outpaced Overall Inflation For Over 50 Years

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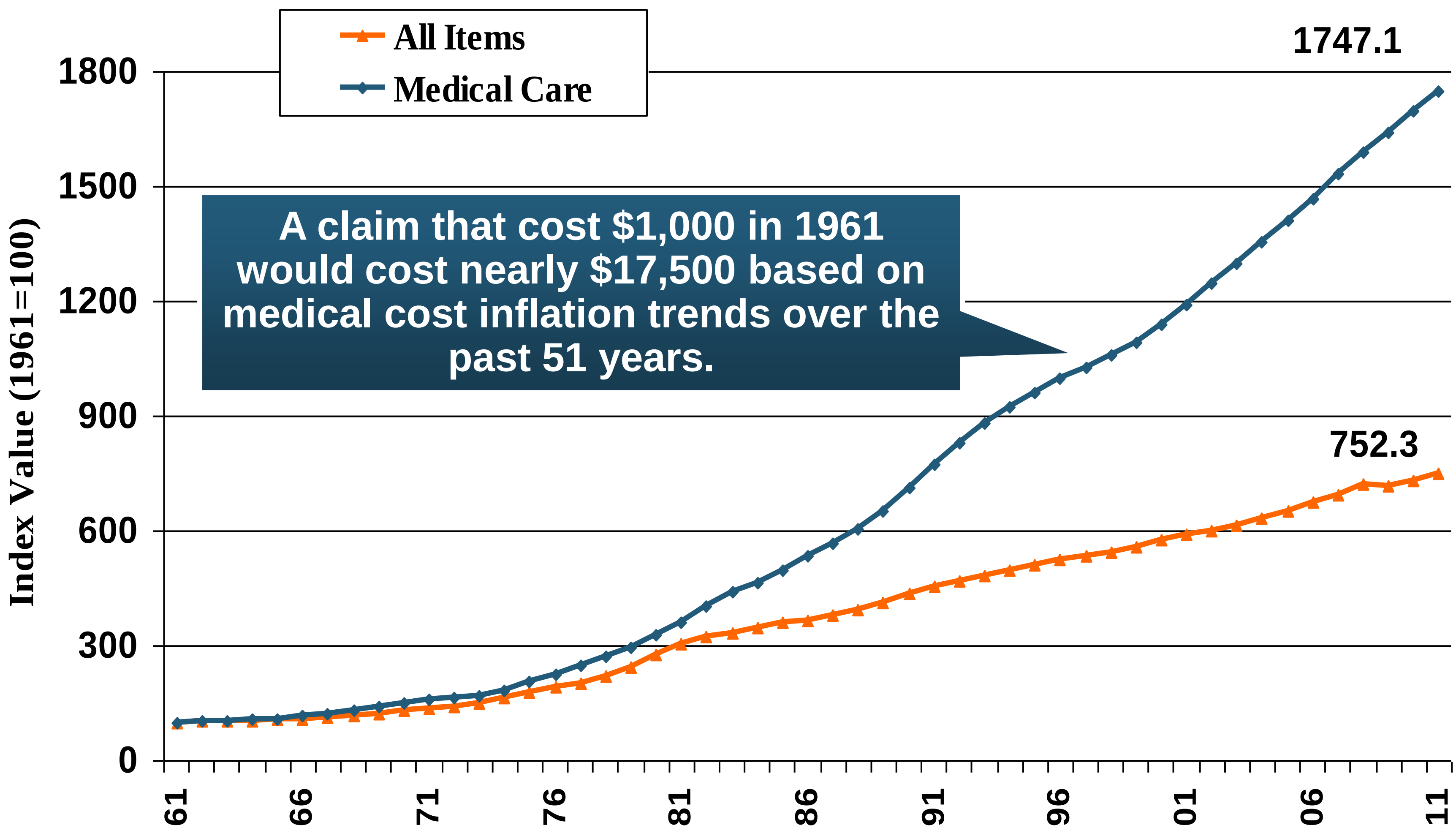
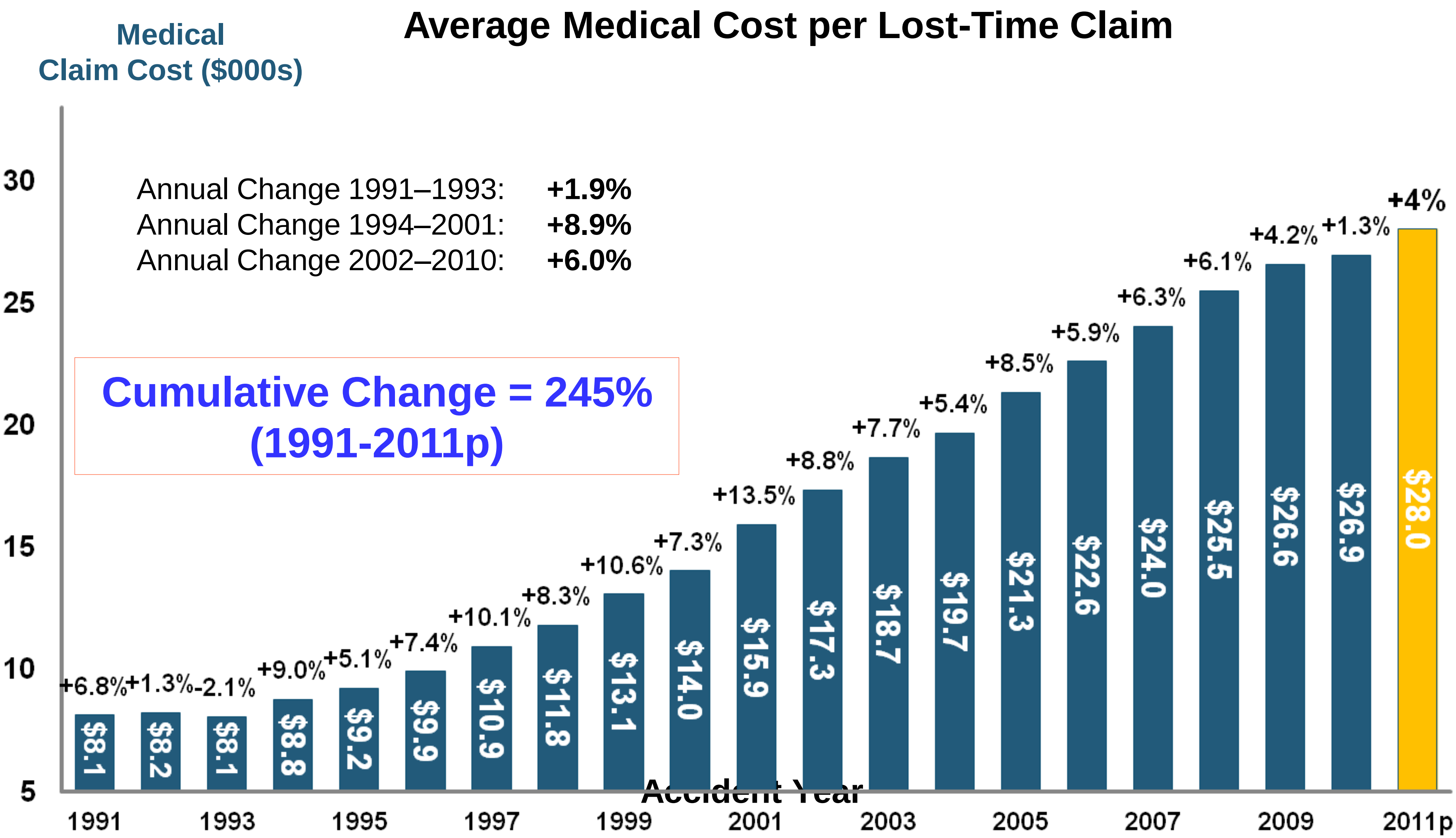


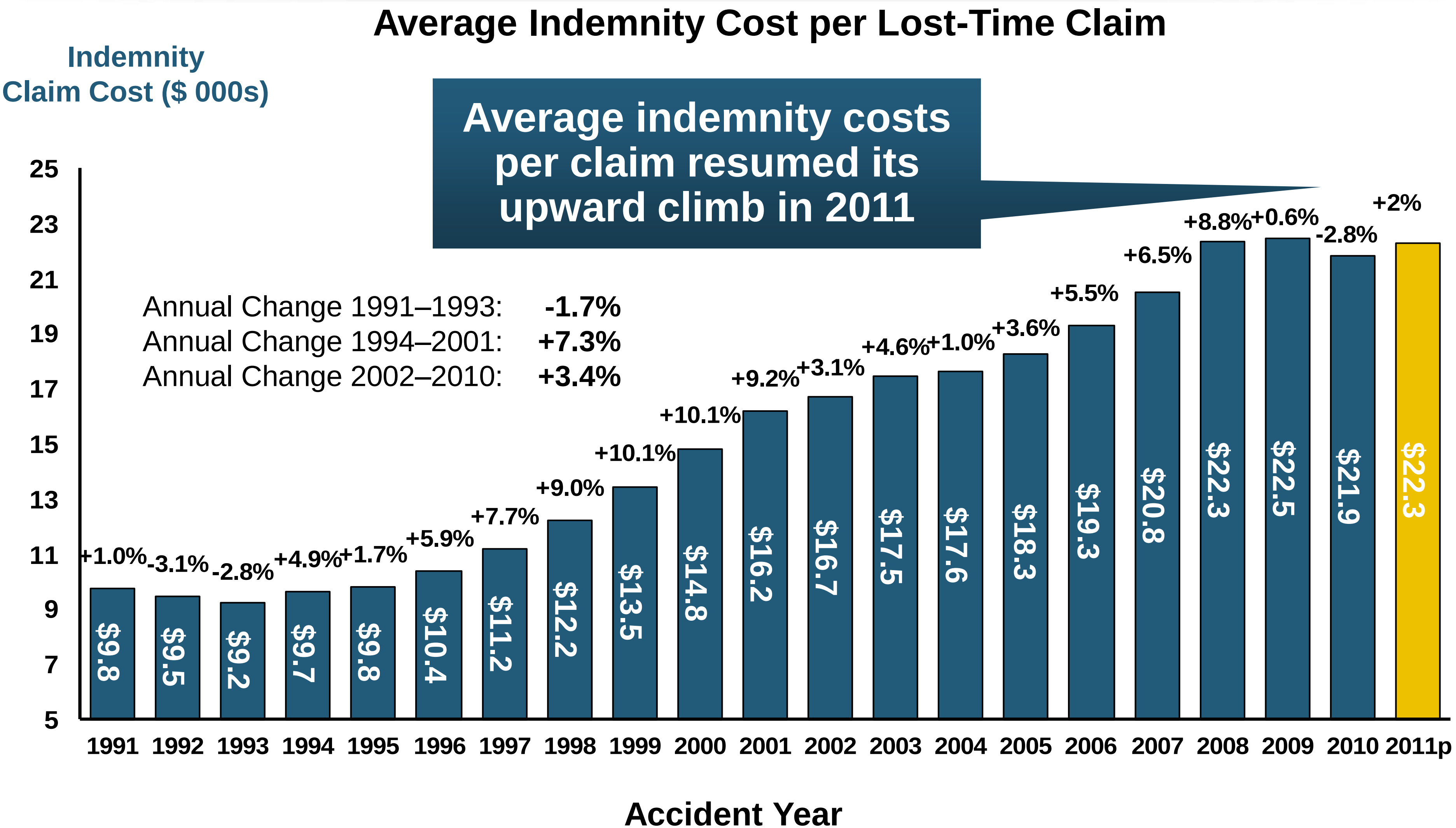
Source: Department of Labor (Bureau of Labor Statistics)

Workers Compensation Medical Severity Moderate Increase in 2011



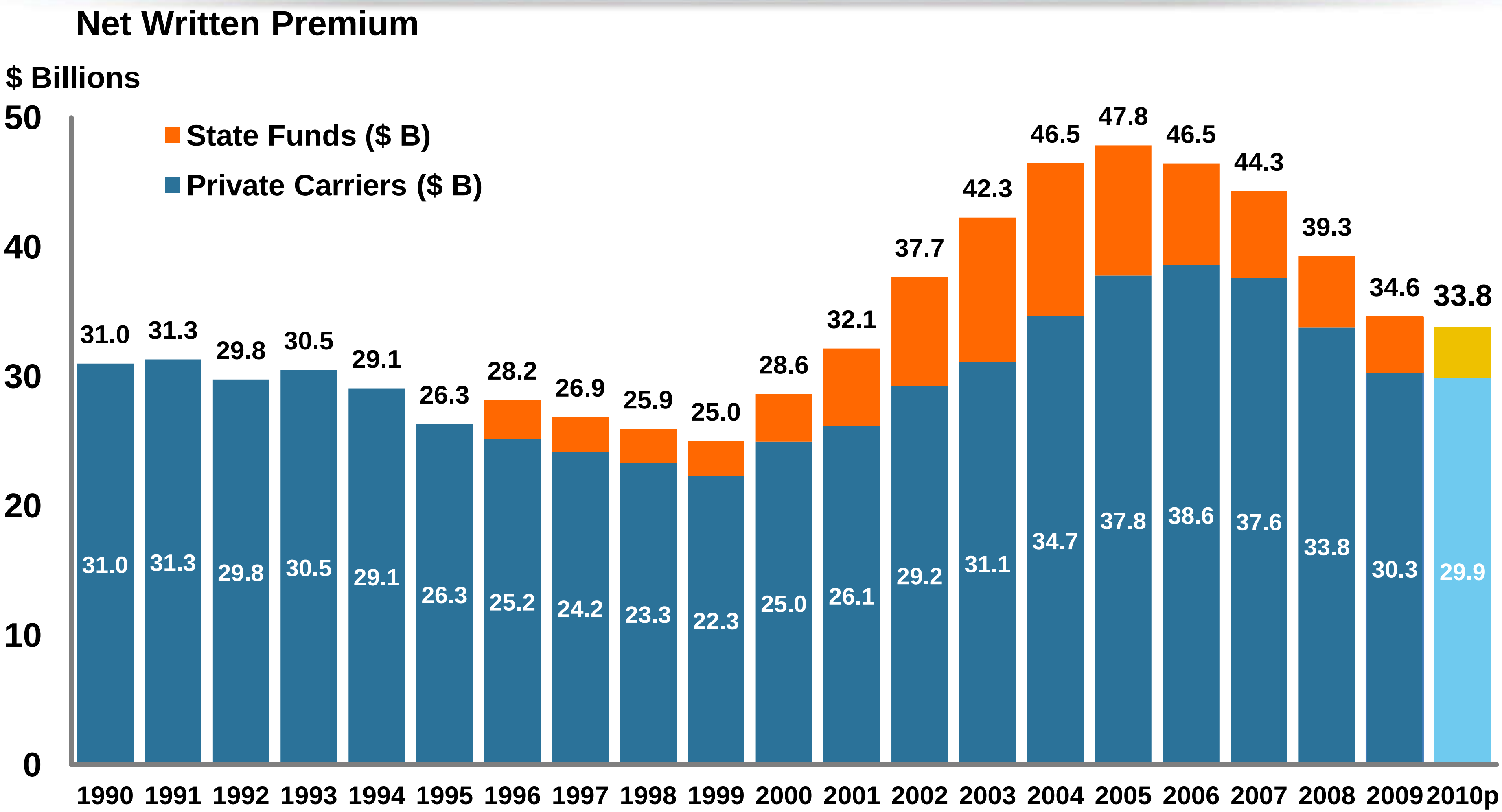
2011p: Preliminary based on data valued as of 12/31/2011
1991-2010: Based on data through 12/31/2010, developed to ultimate
Based on the states where NCCI provides ratemaking services; Excludes high deductible policies

Workers Comp Indemnity Claim Costs: Modest Increase in 2011



2010p: Preliminary based on data valued as of 12/31/2011
1991–2010: Based on data through 12/31/2010, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes high deductible policies

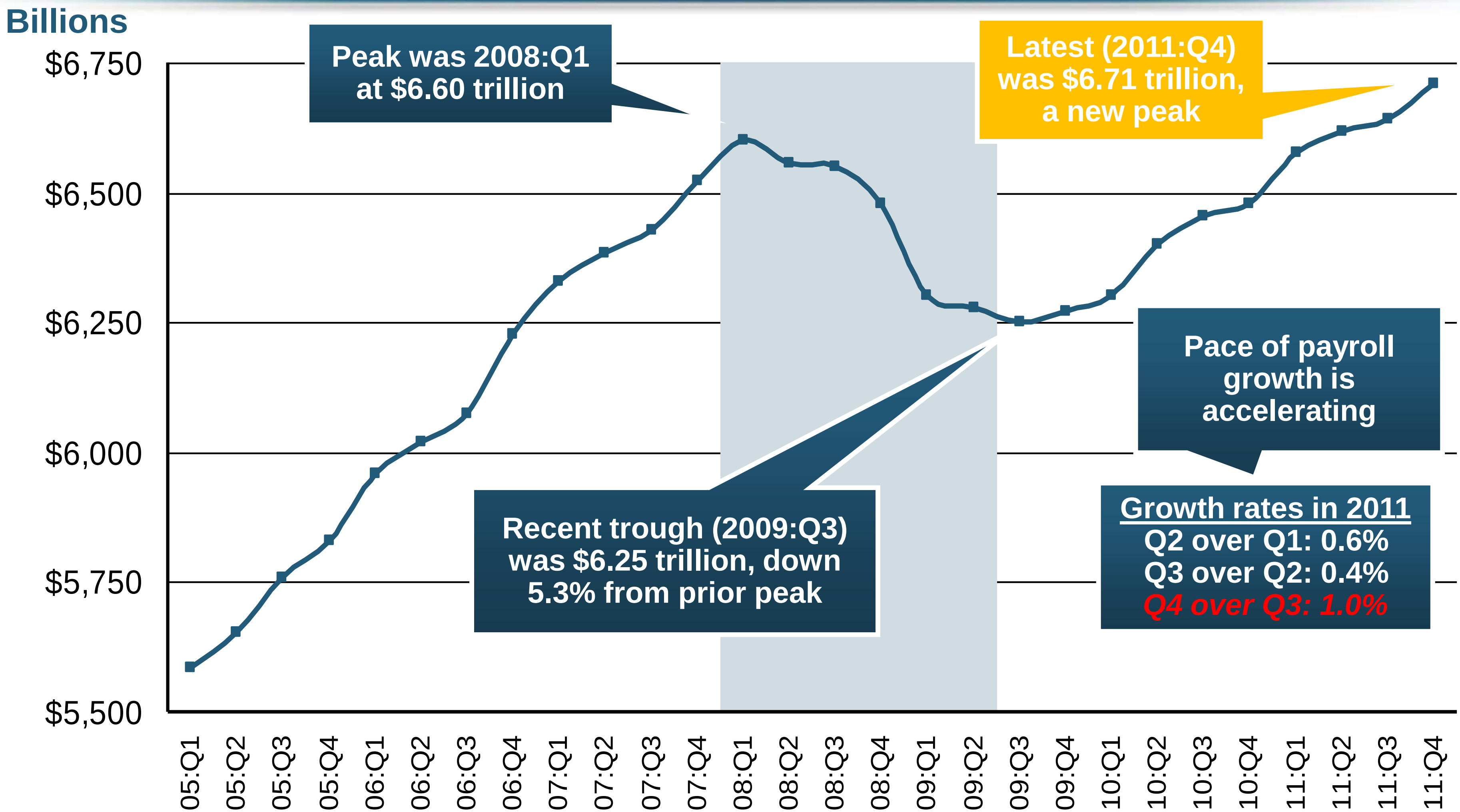
Workers Compensation Premium Continues Its Sharp Decline



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

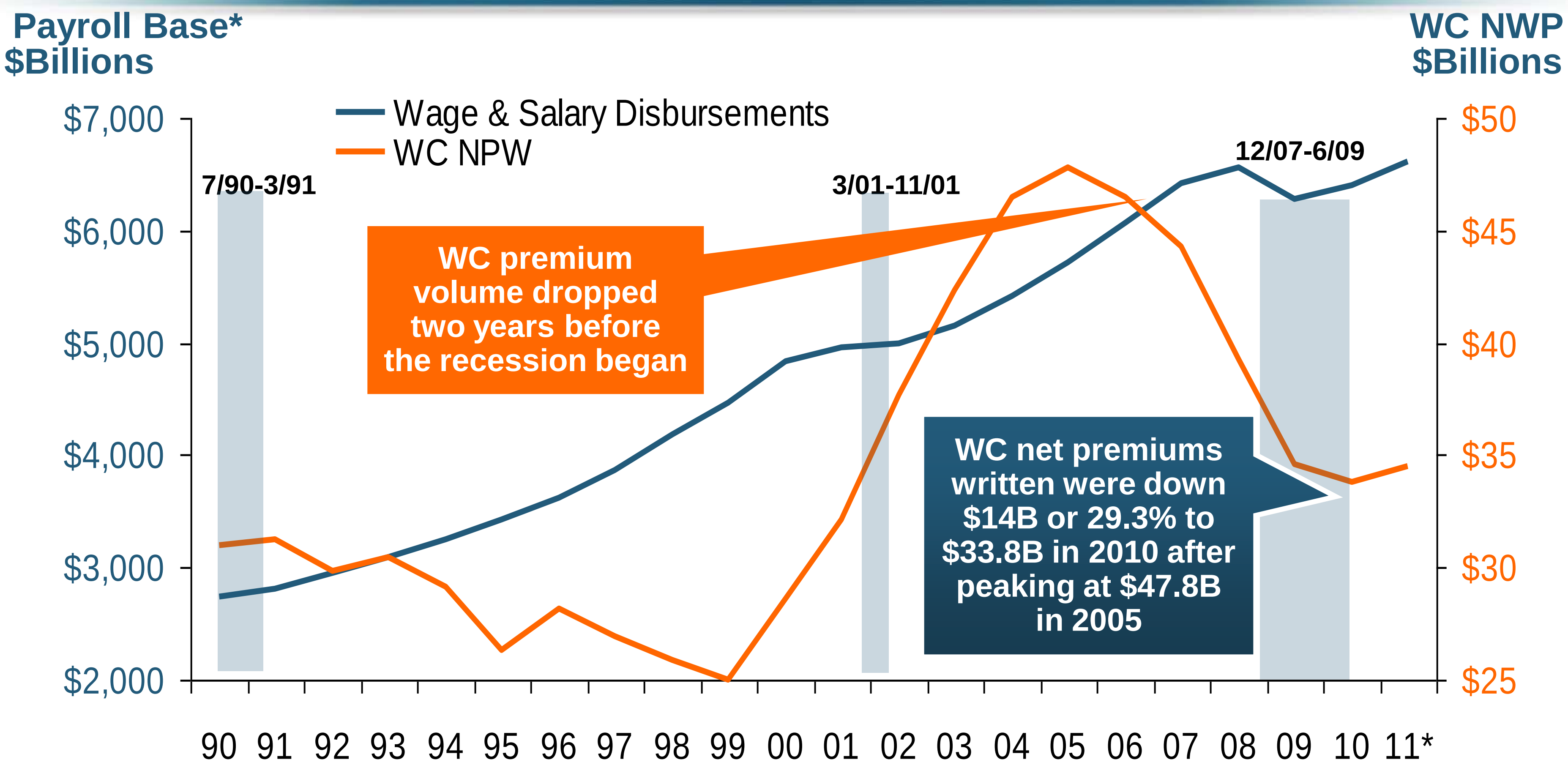
Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2011:Q4



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



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

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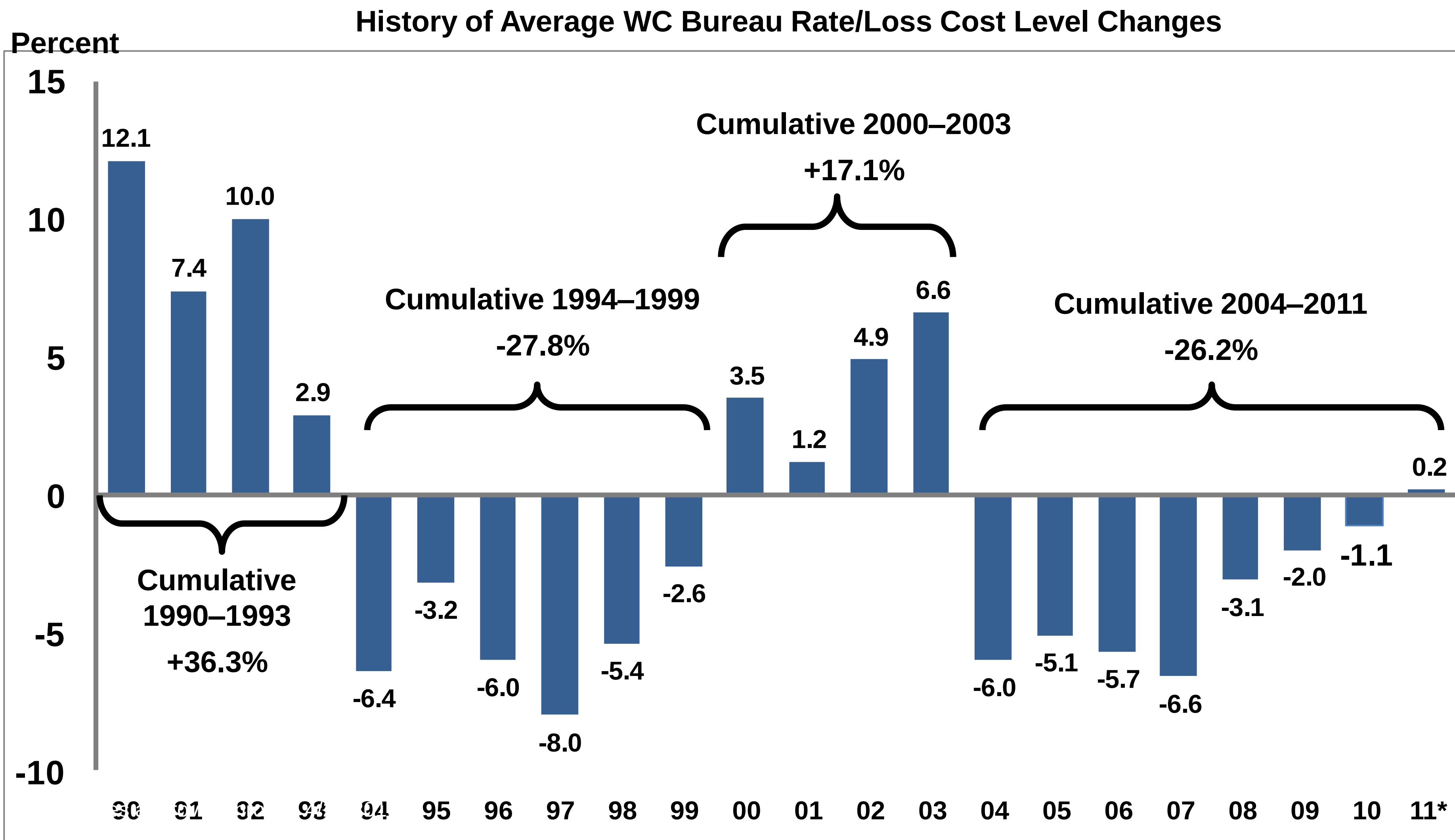
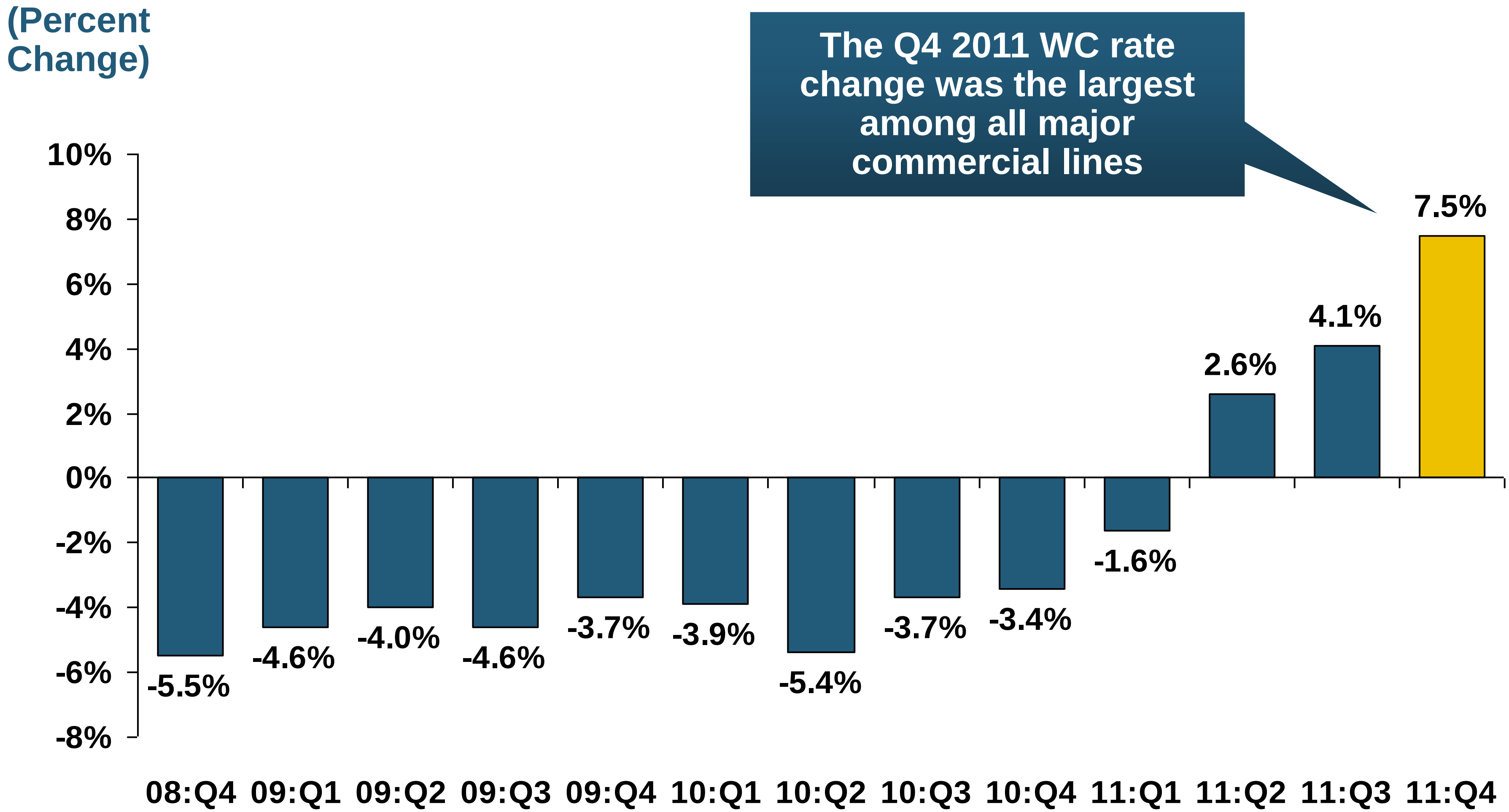


*States approved through 4/8/11.

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



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

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

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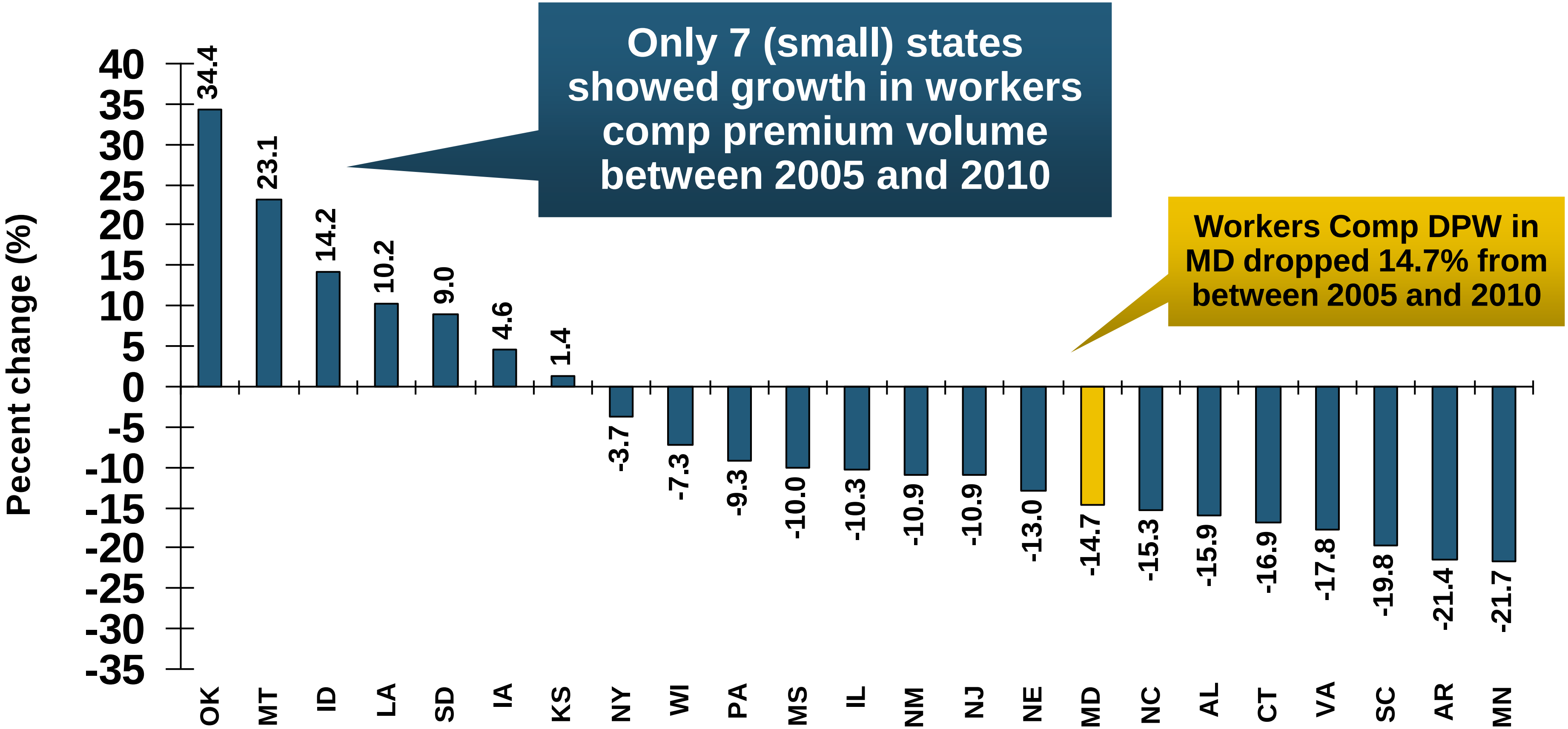
Top 25 States



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

Sources: SNL Financial LC.; Insurance Information Institute.

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

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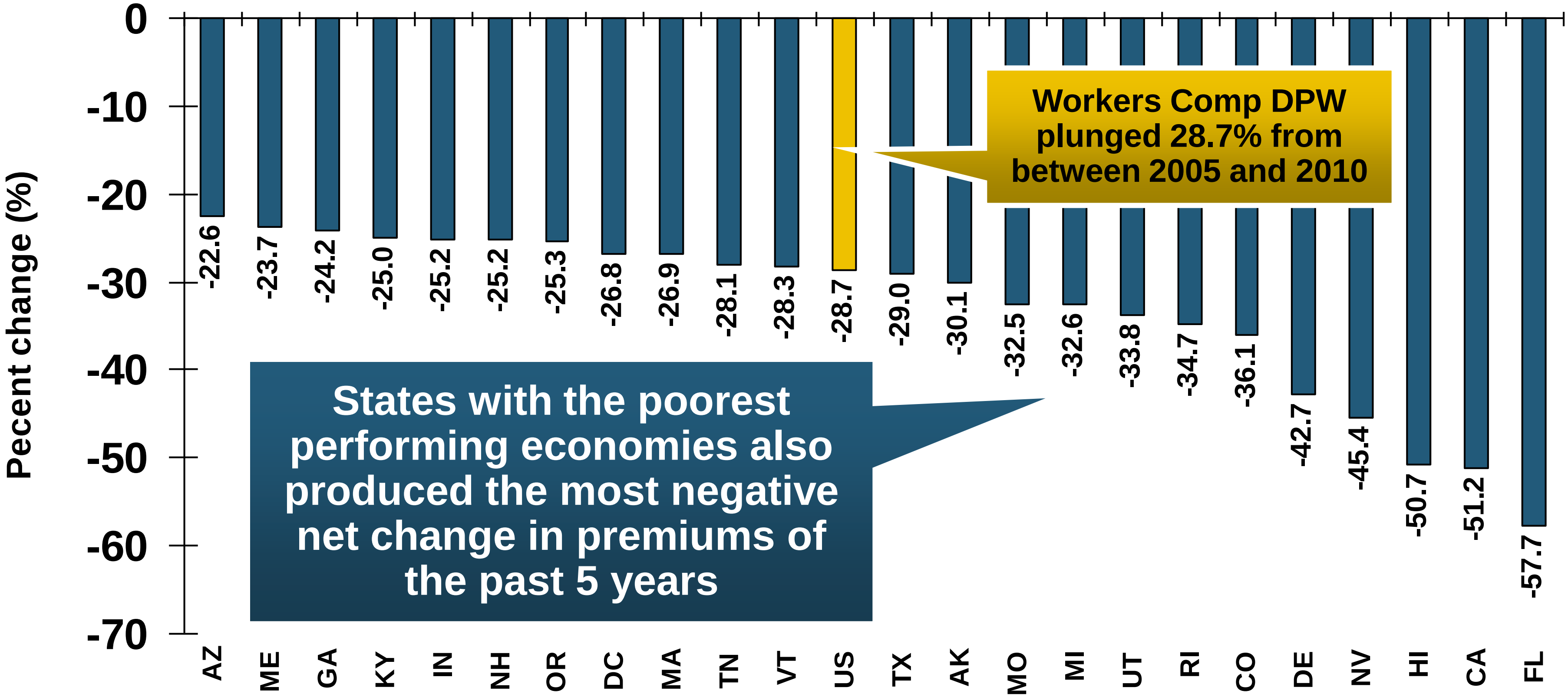
Bottom 25 States



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

Sources: SNL Financial LC.; Insurance Information Institute.

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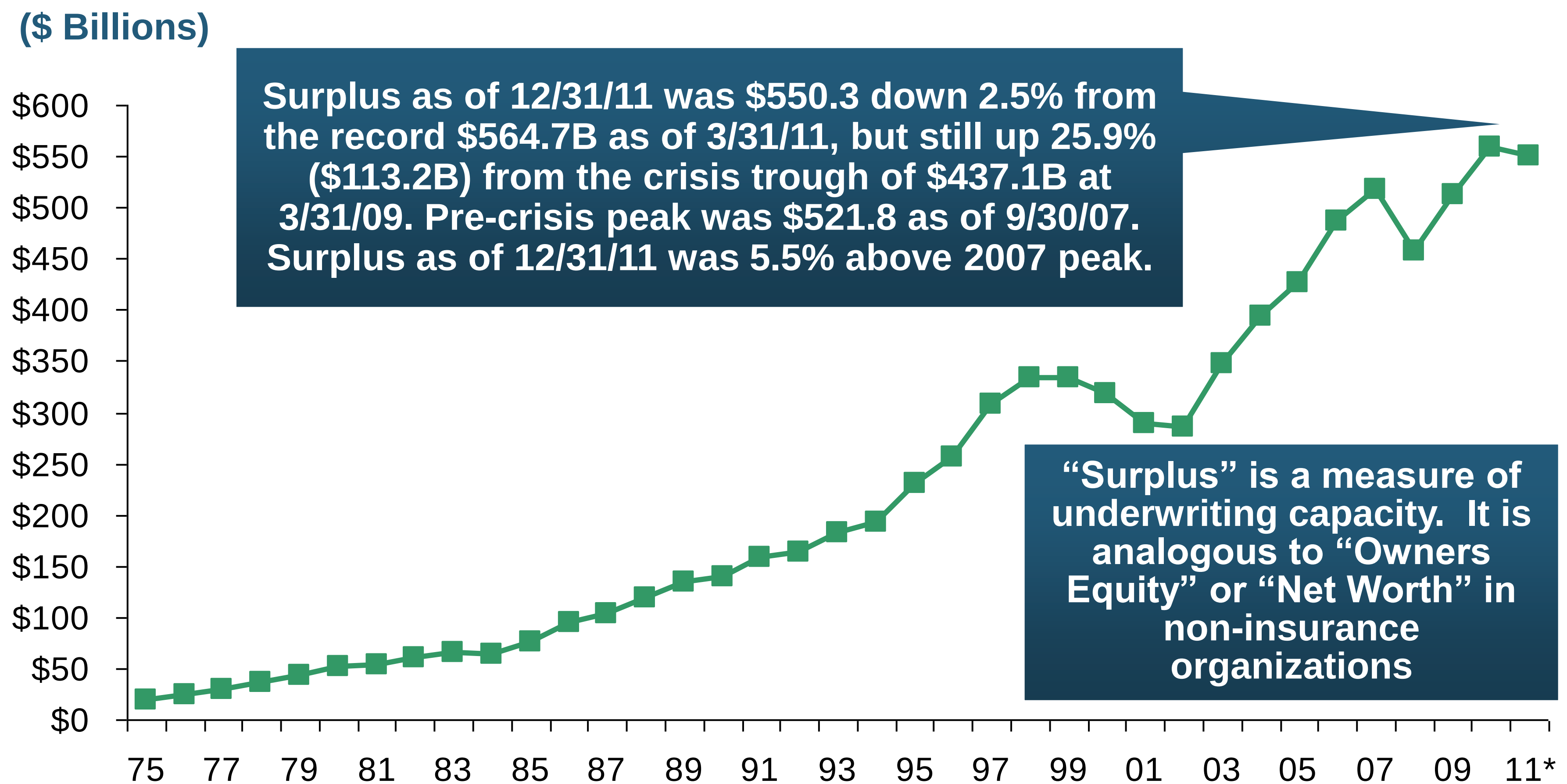
2. SURPLUS/CAPITAL/CAPACITY

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

US Policyholder Surplus: 1975–2011*



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:Q4–2012:Q1

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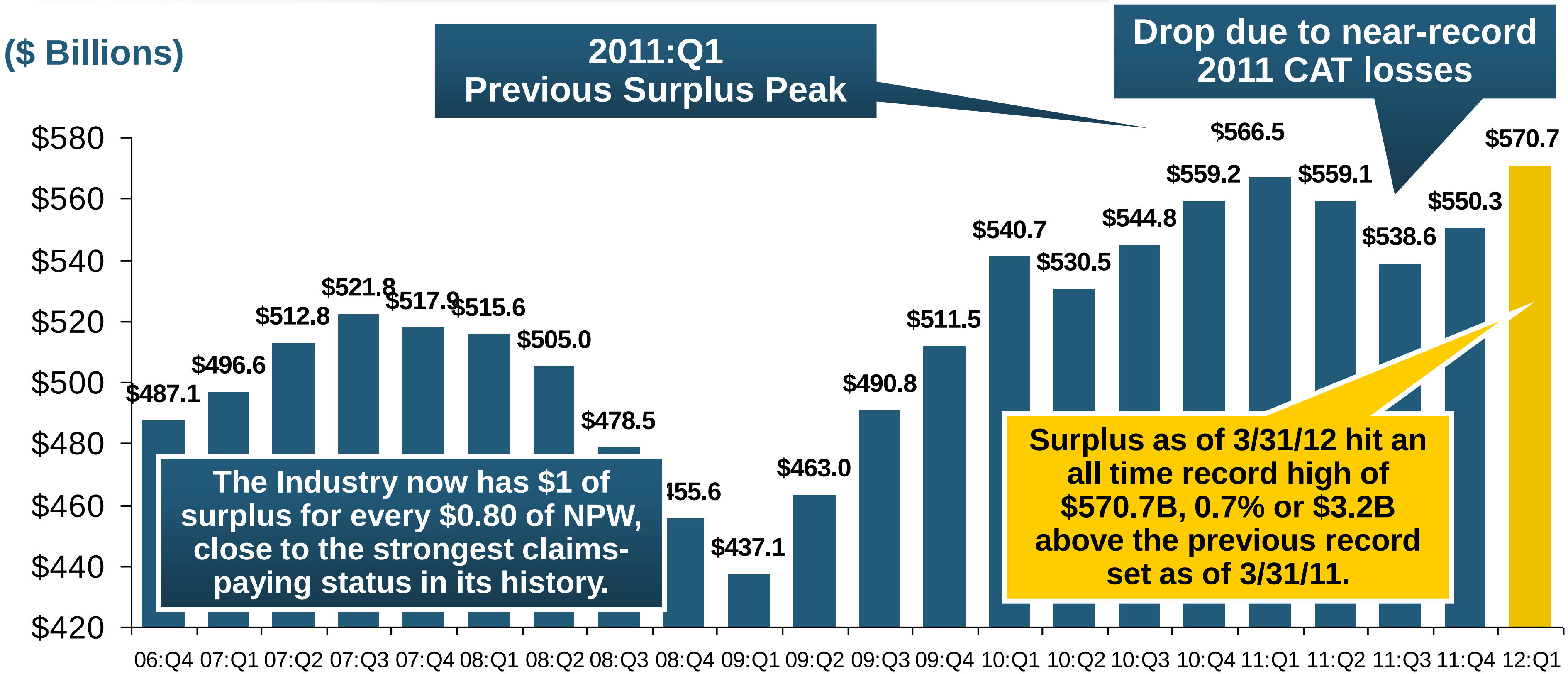

*Includes $22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business in early 2010.

Quarterly Surplus Changes Since 2011:Q1 Peak

11:Q2: -$7.4B (-1.0%)

11:Q3: -$27.9B (-4.6%)

11:Q4: -$16.2B (-2.5%)

12:Q1: +$3.2B (+0.7%)

Sources: ISO, A.M .Best.

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

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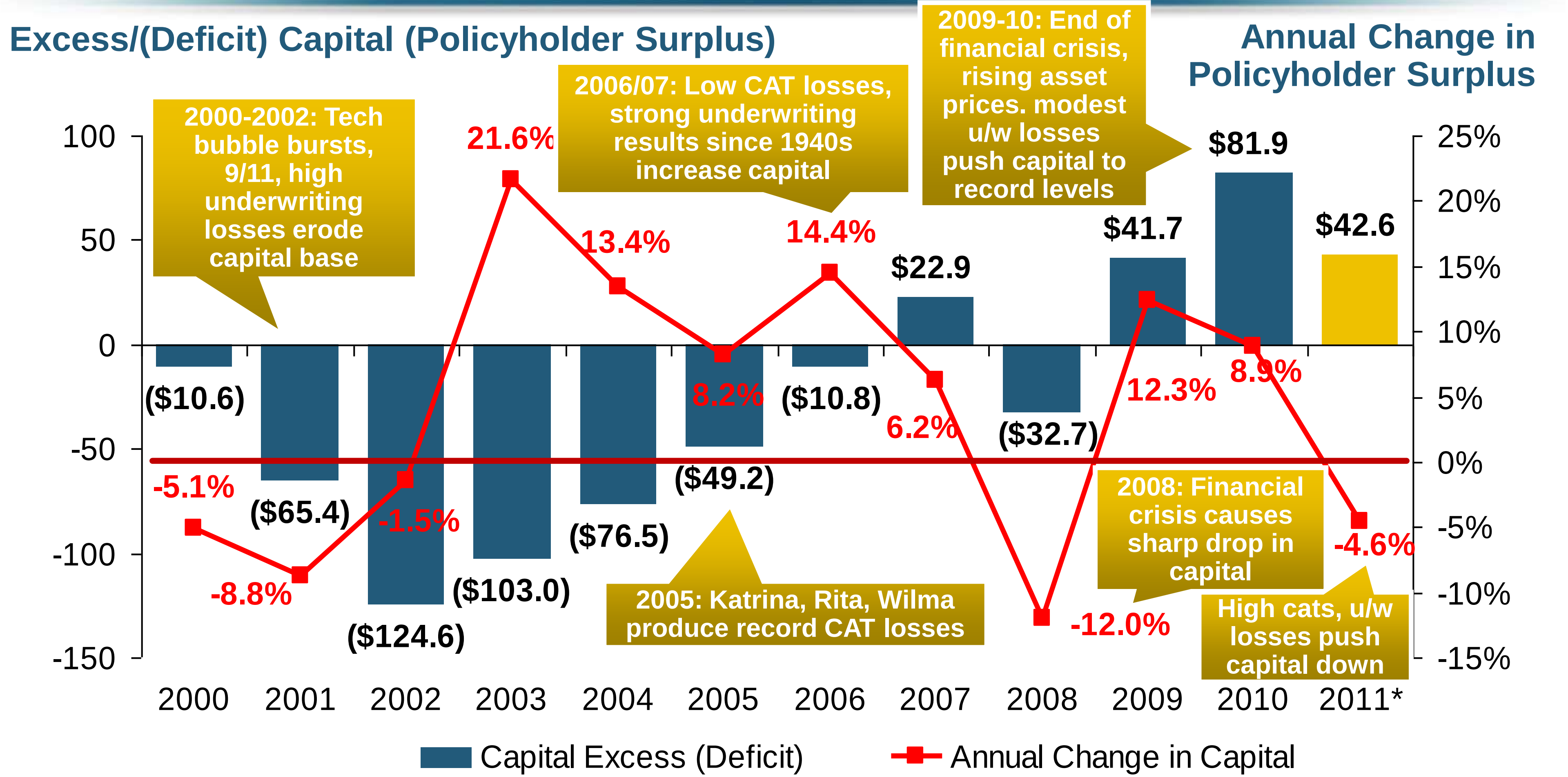
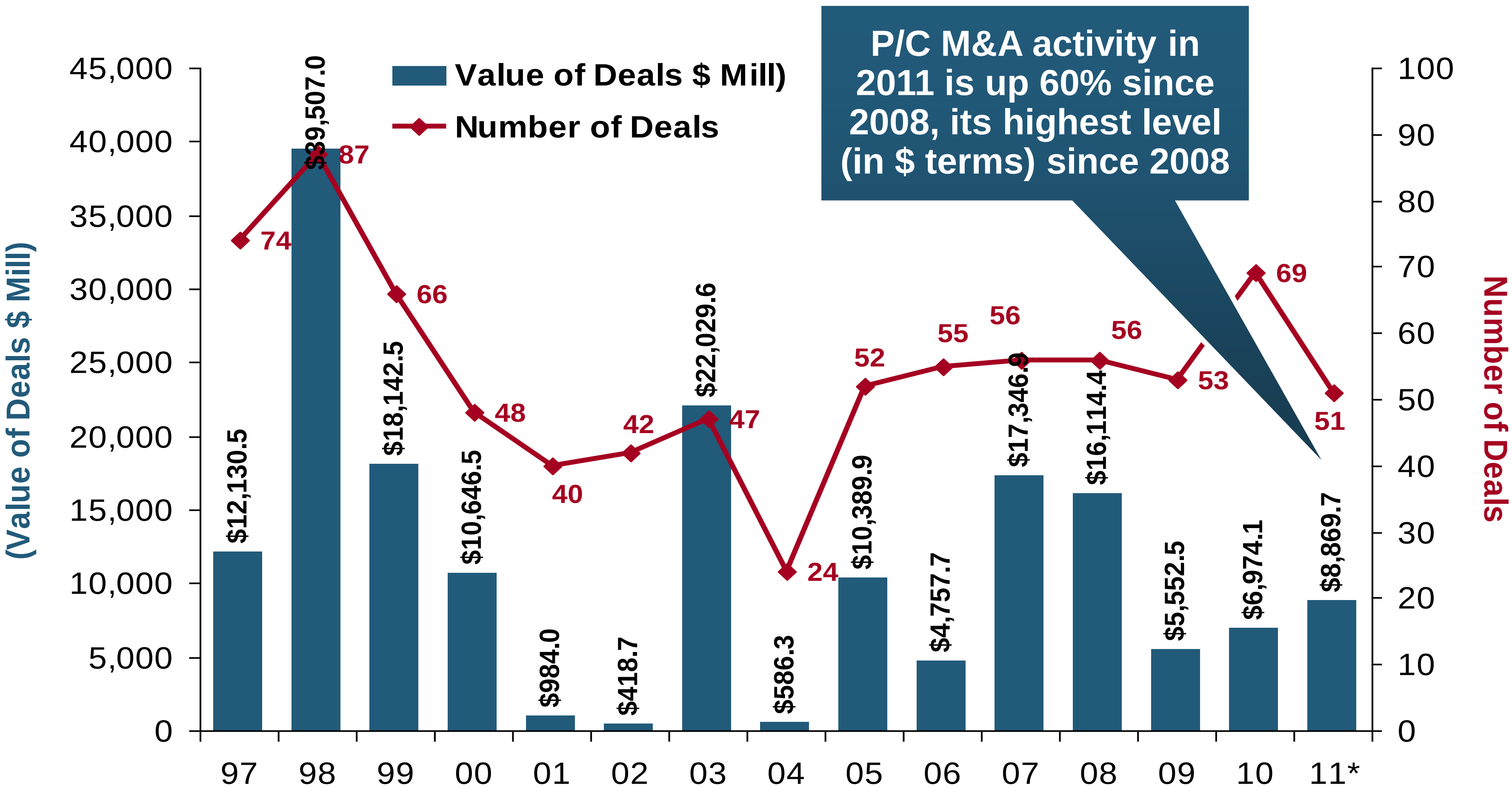


Record Policyholder Surplus (Capital) Resulted in Significant Excess Capital in the P/C Insurance Sector in 2010. Deteriorating Underwriting Losses, Higher CAT Activity, More Modest Market Returns Shrank Excess Capital in 2011 by Nearly Half.

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

* Net Premiums Written

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

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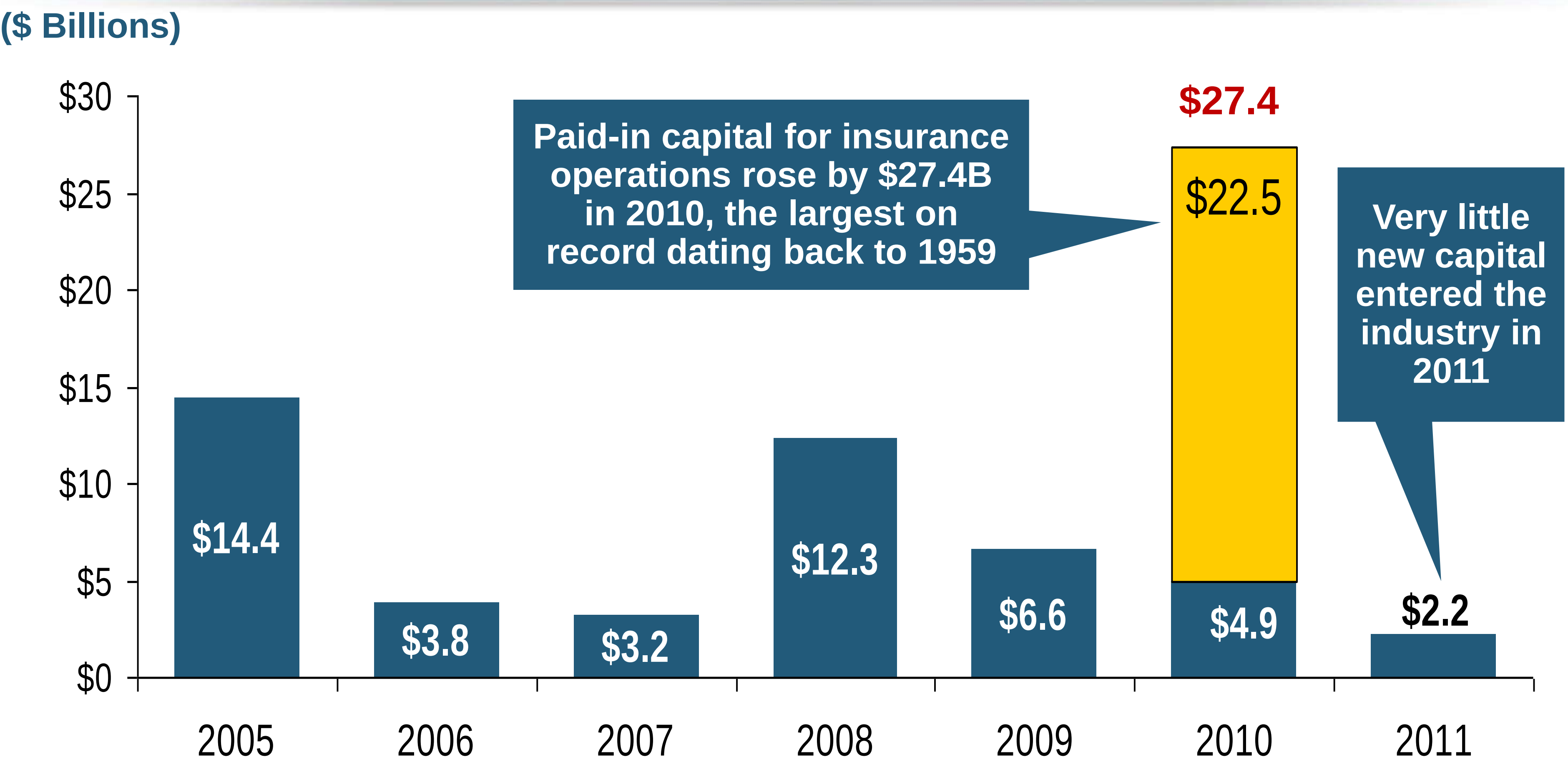
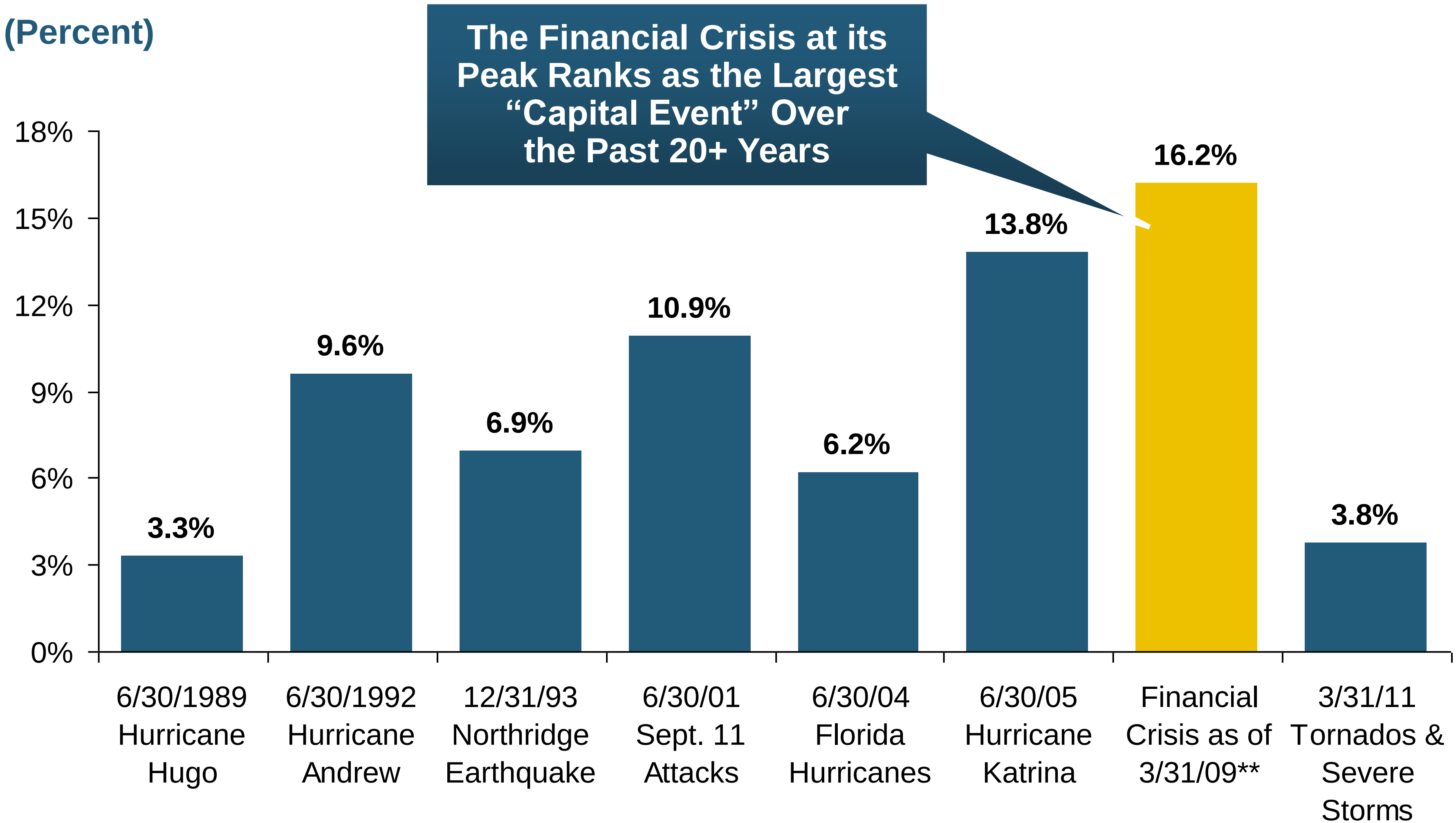


In 2010 One Insurer's Paid-in Capital Rose by $22.5B as Part of an Investment in a Non-insurance Business

Source: ISO; Insurance Information Institute.

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



* Ratio is for end-of-quarter surplus immediately 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*

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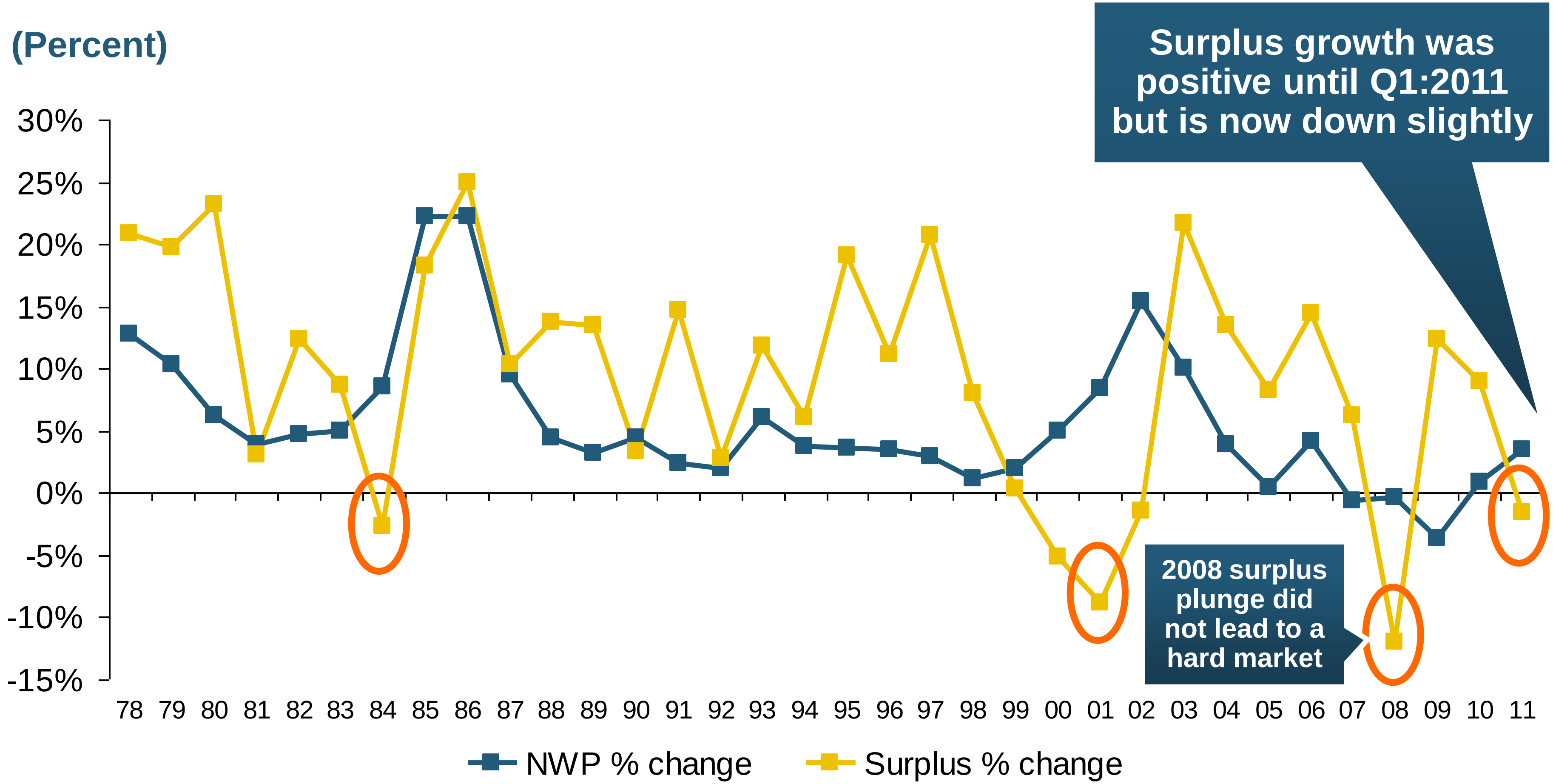

Sharp Decline in Capacity is a Necessary but Not Sufficient Condition for a True Hard Market

* 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*

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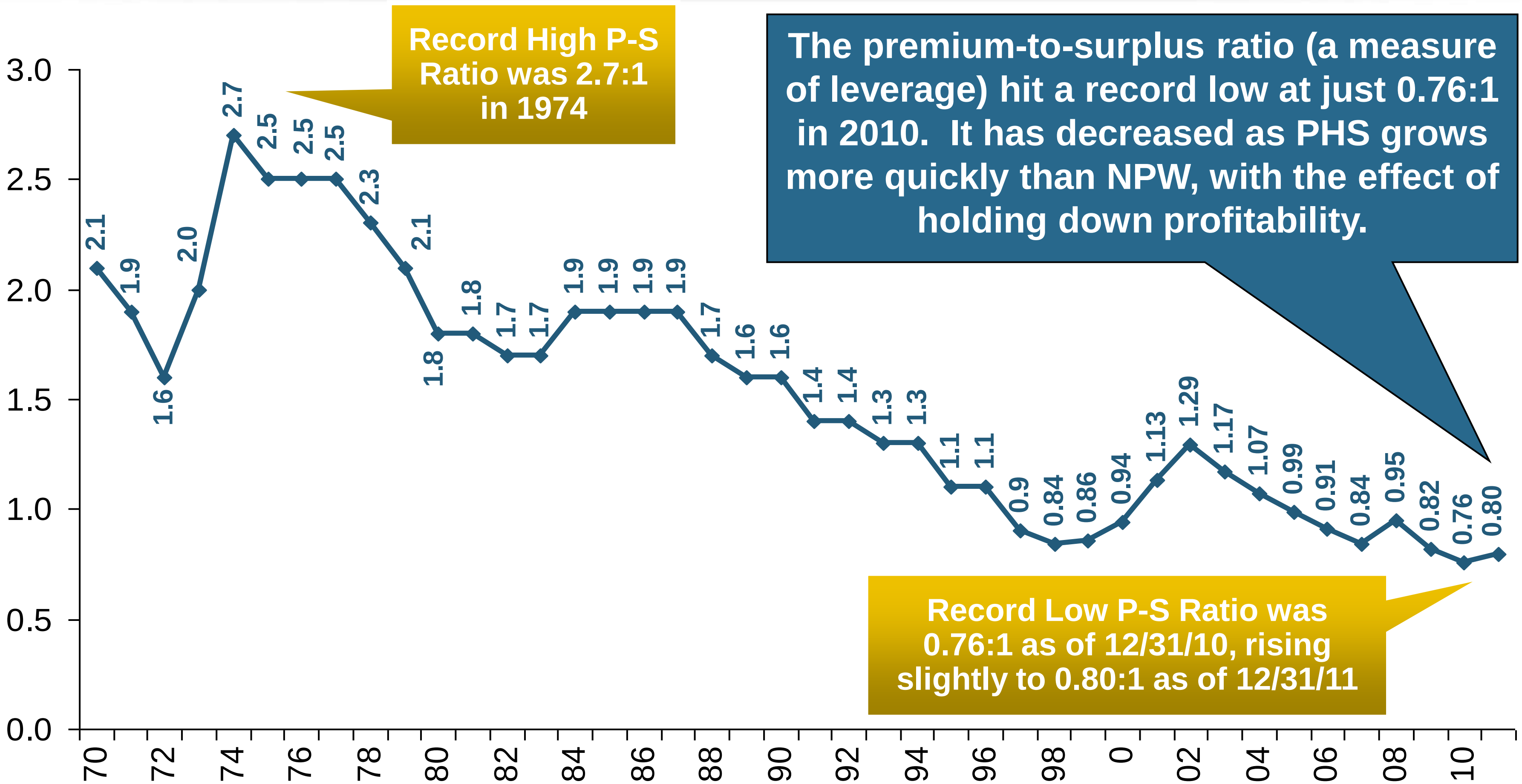


The Premium-to-Surplus Ratio in 2011:Q4 Implies that P/C Insurers Held $1 in Surplus Against Each $0.80 Written in Premiums. In 1974, Each $1 of Surplus Backed $2.70 in Premium.

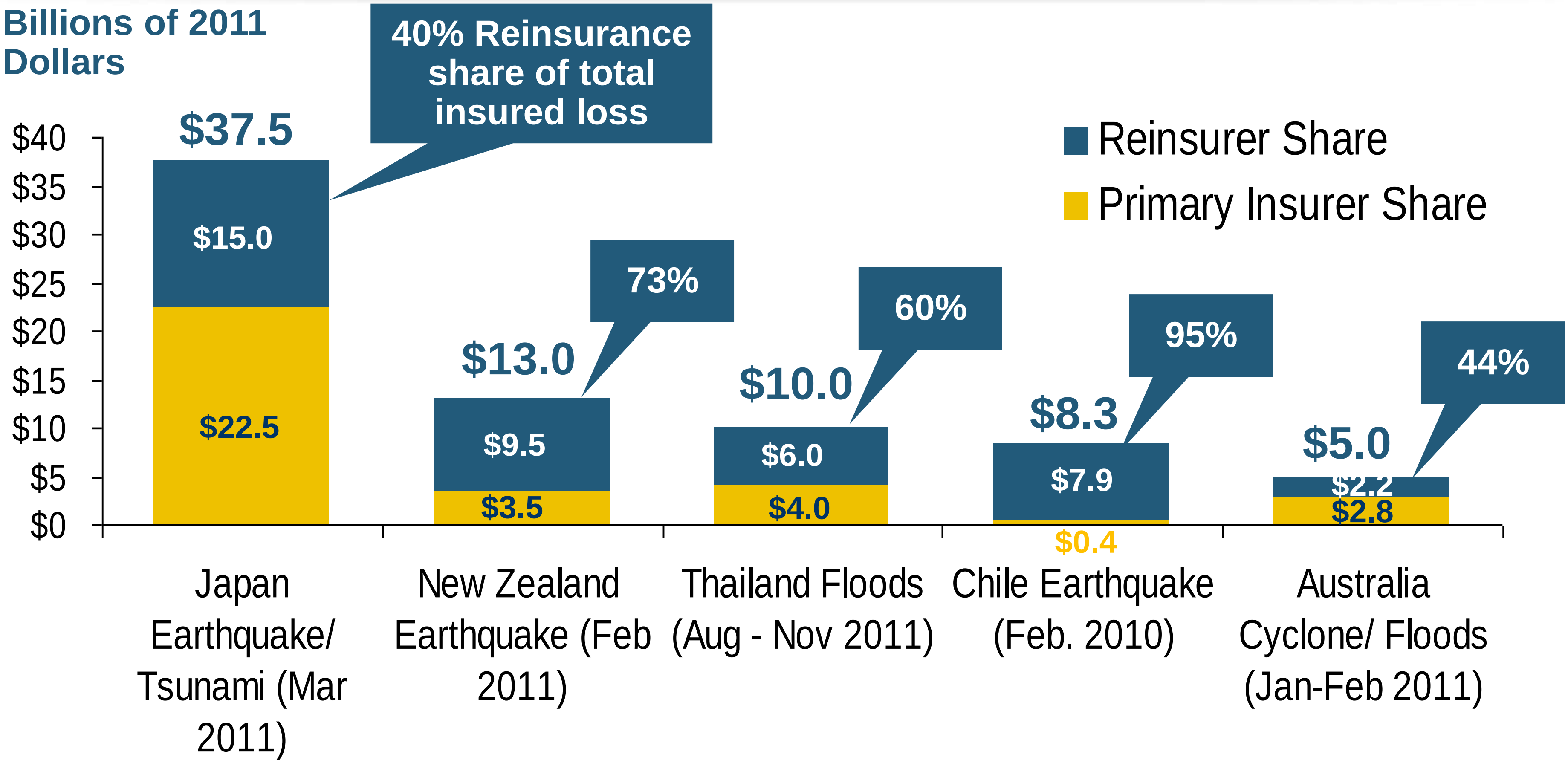
*2011 data are as of 12/31/11.

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

3. REINSURANCE MARKET CONDITIONS

Record Global Catastrophes Activity is Pressuring Pricing

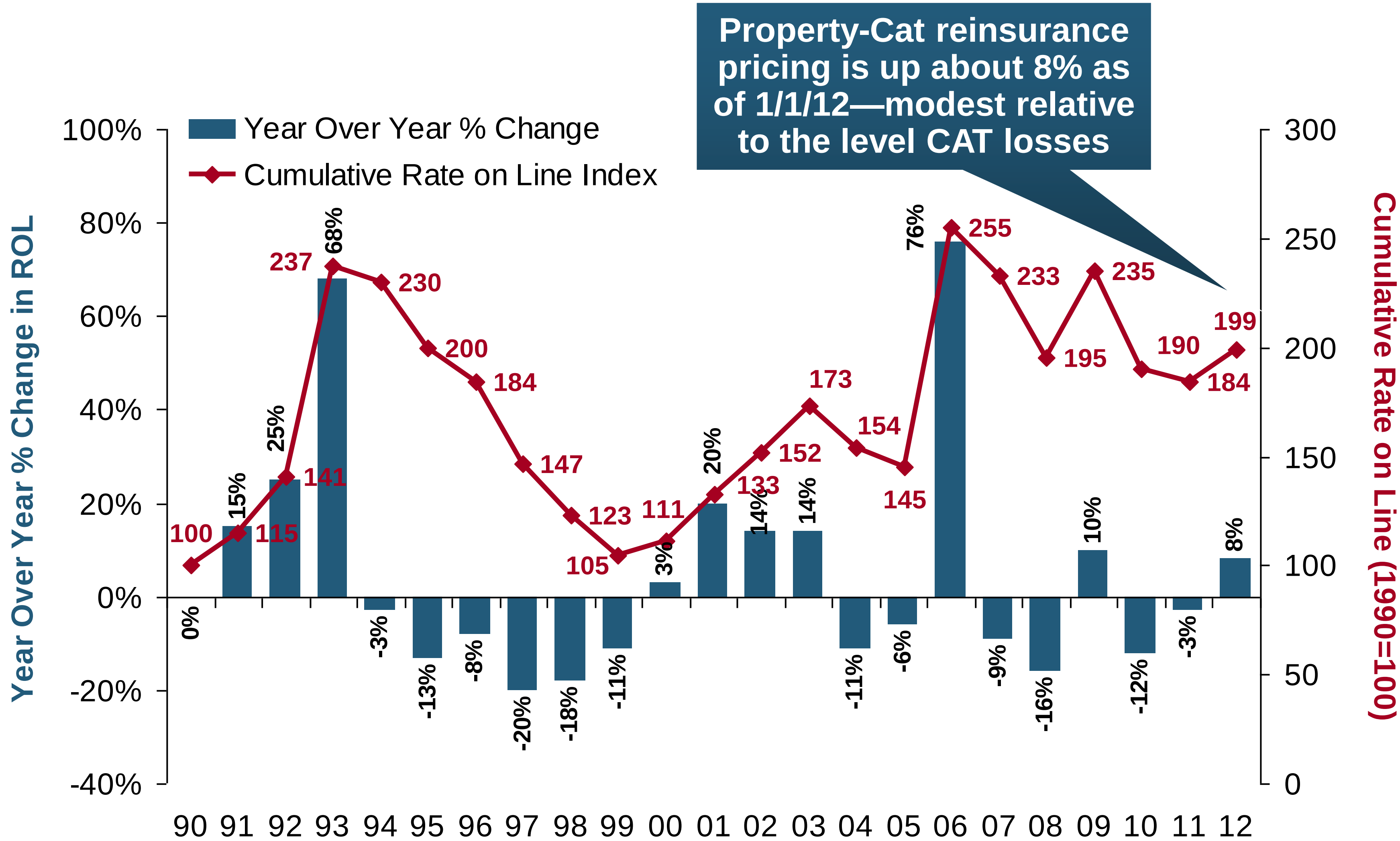
Reinsurer Share of Recent Significant Market Losses



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

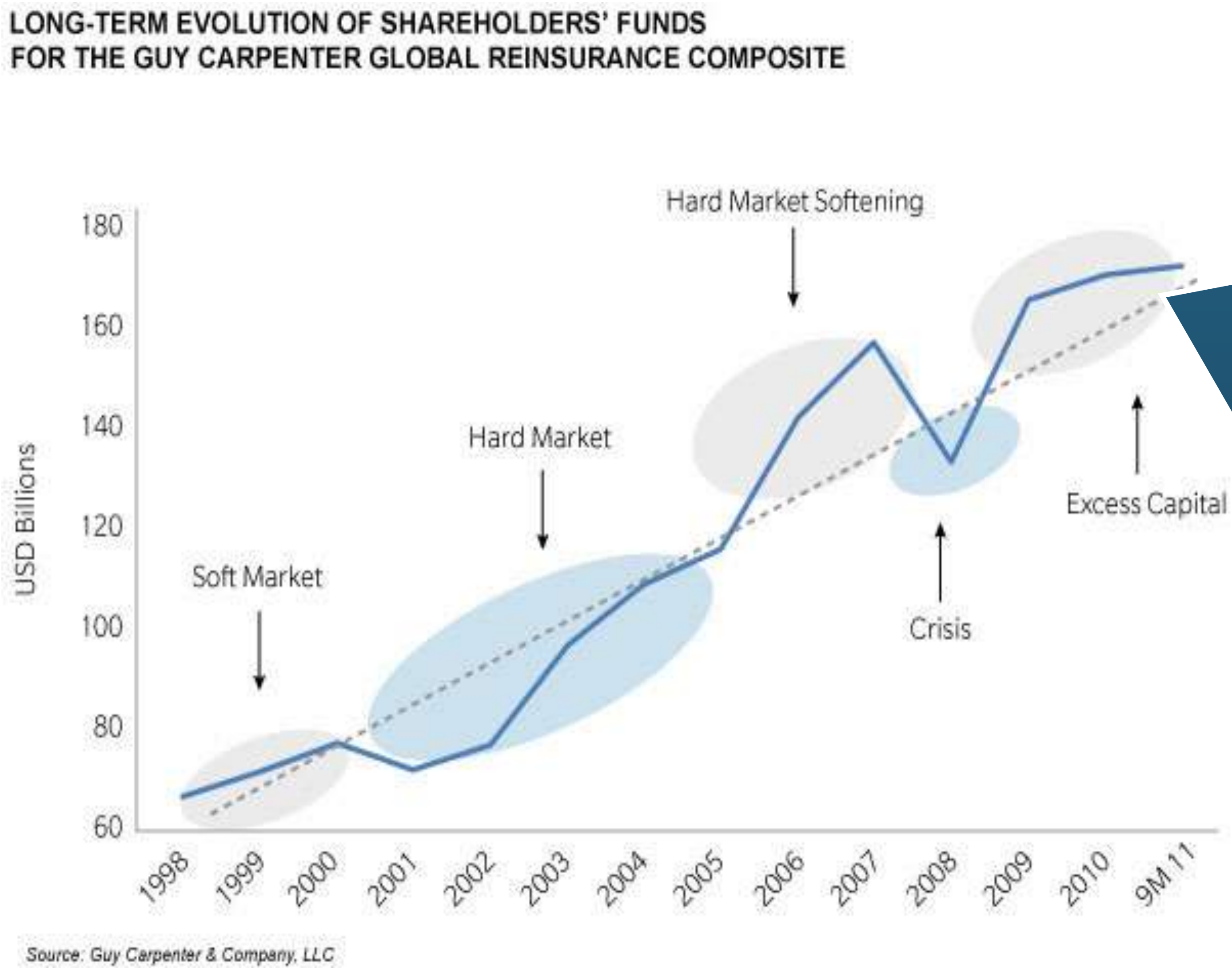
Source: Insurance Information Institute from reinsurance share percentages provided in RAA, ABIR and CEA press release, Jan. 13, 2011.

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



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.

Source: Guy Carpenter, *GC Capital Ideas.com,* February 28, 2012.

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RENEWED PRICING DISCIPLINE

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

Distribution of Direct Premiums Written by Segment/Line, 2010

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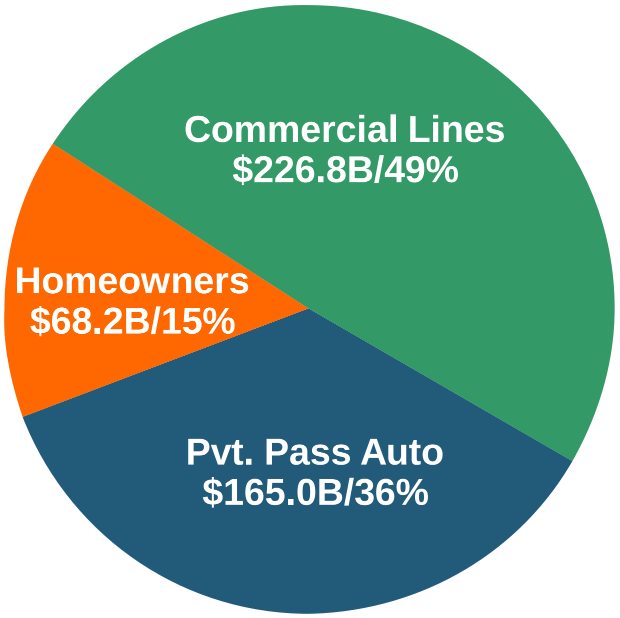
Distribution Facts

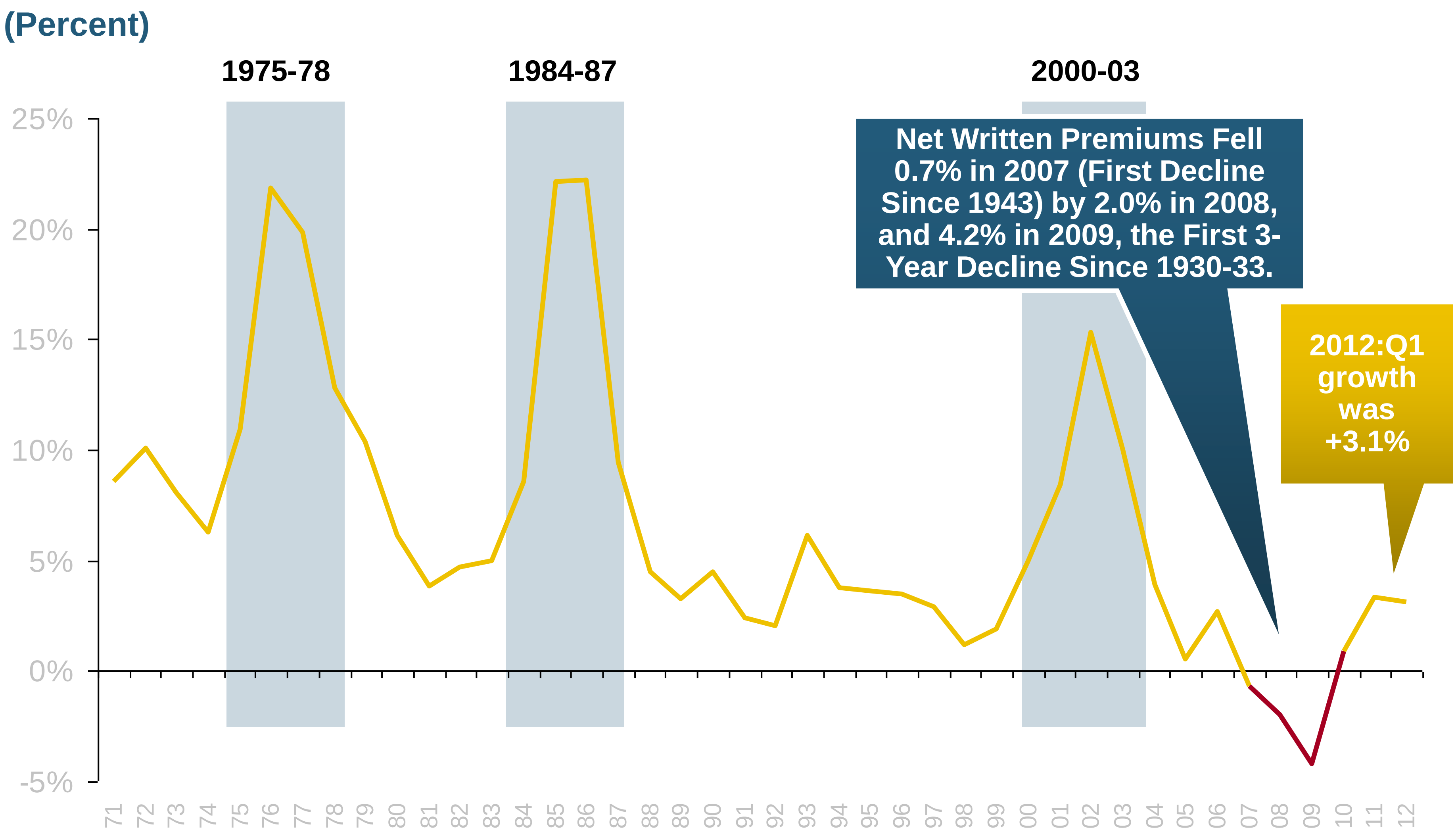
- Personal/Commercial lines split has been about 50/50 for many years; Personal Lines overtook Commercial Lines in 2010
- Pvt. Passenger Auto is by far the largest line of insurance and is currently the most important source of industry profits
- Billions of additional dollars in homeowners insurance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

2010



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

Premium Growth Is Up Modestly: More in 2012?



Shaded areas denote "hard market" periods

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

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

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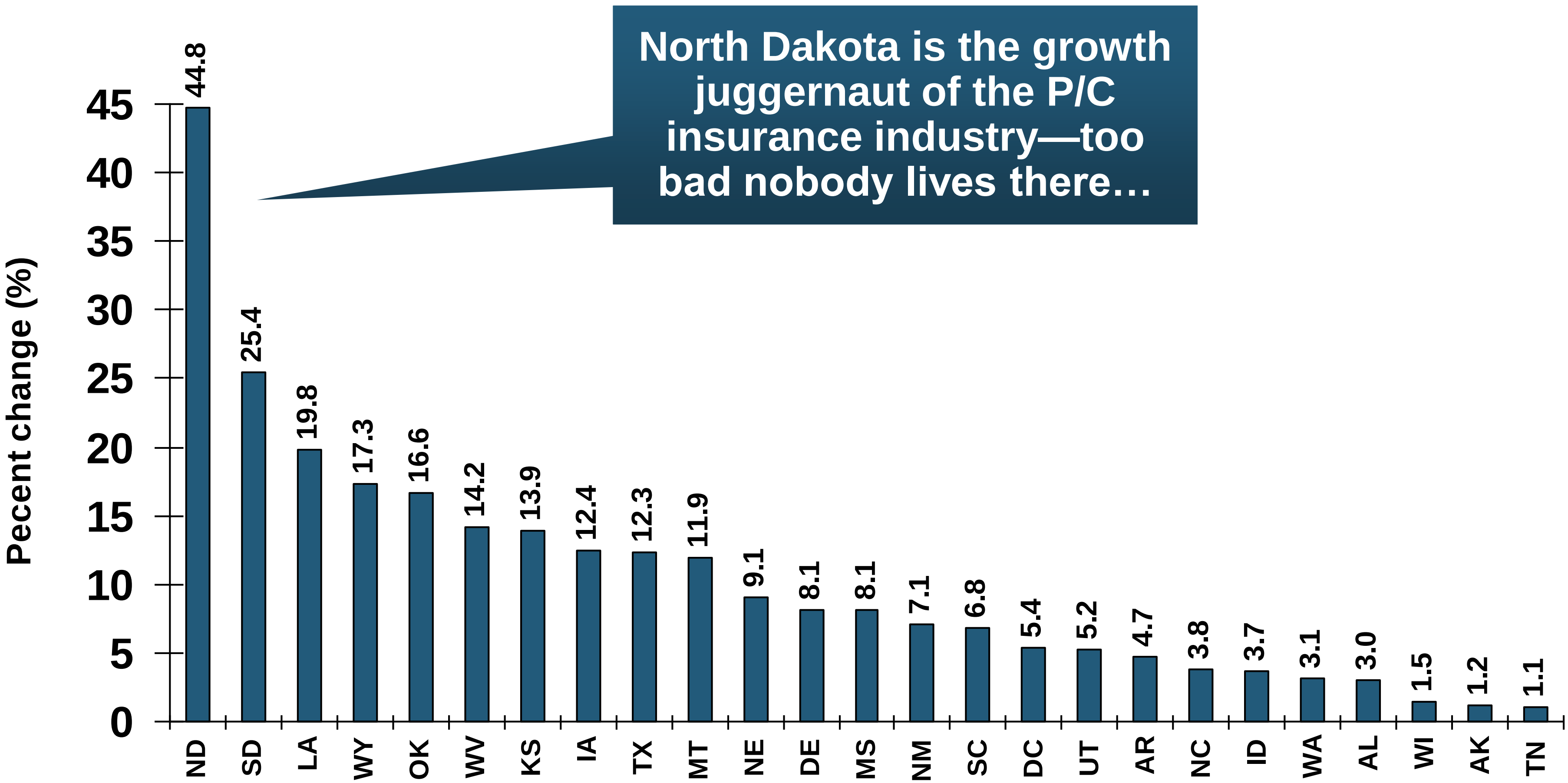
Top 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

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

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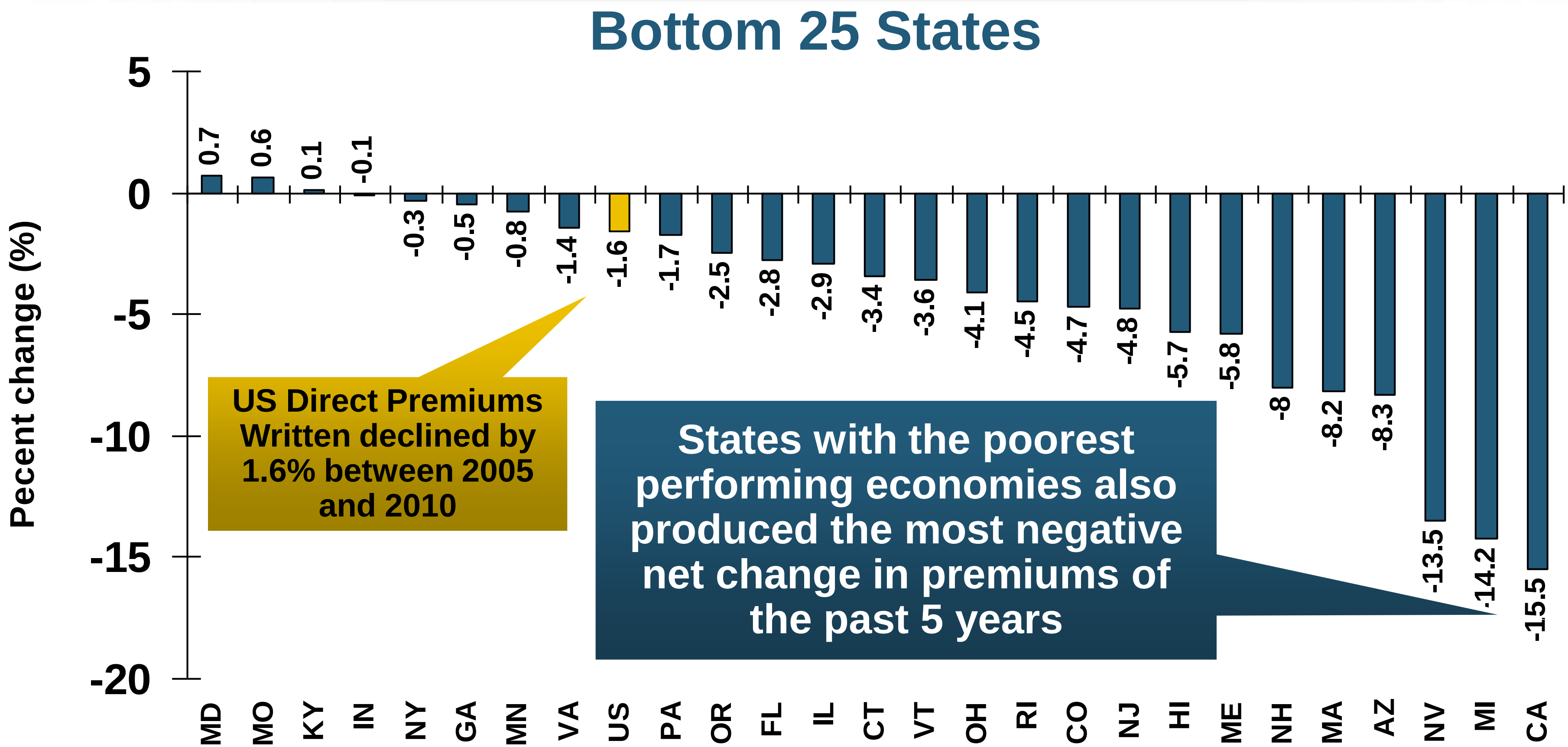
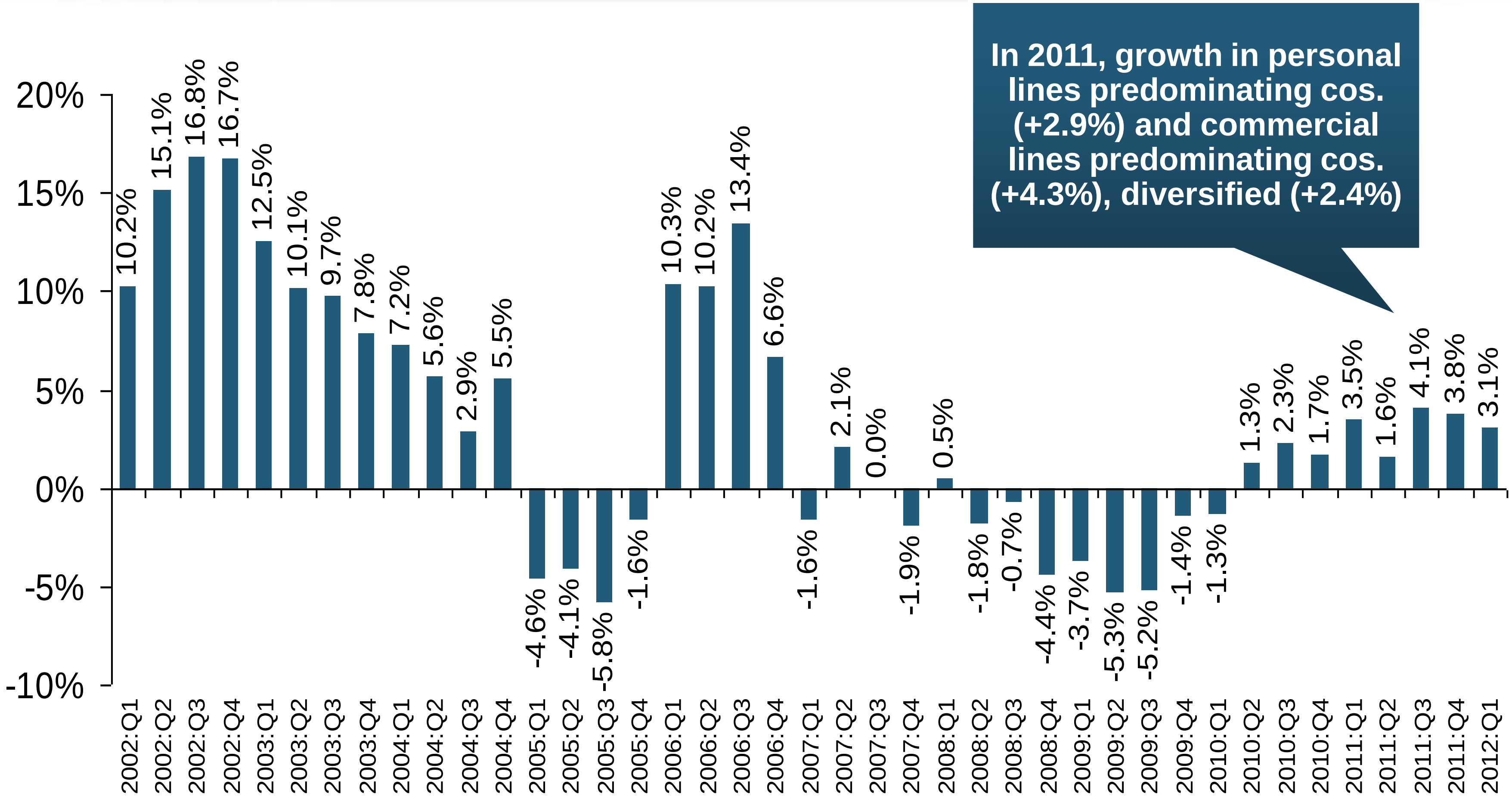


Sources: SNL Financial LC; Insurance Information Institute.

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



Finally! A sustained period of growth in written premium growth (vs. the same quarter, prior year)

Sources: ISO, Insurance Information Institute.

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

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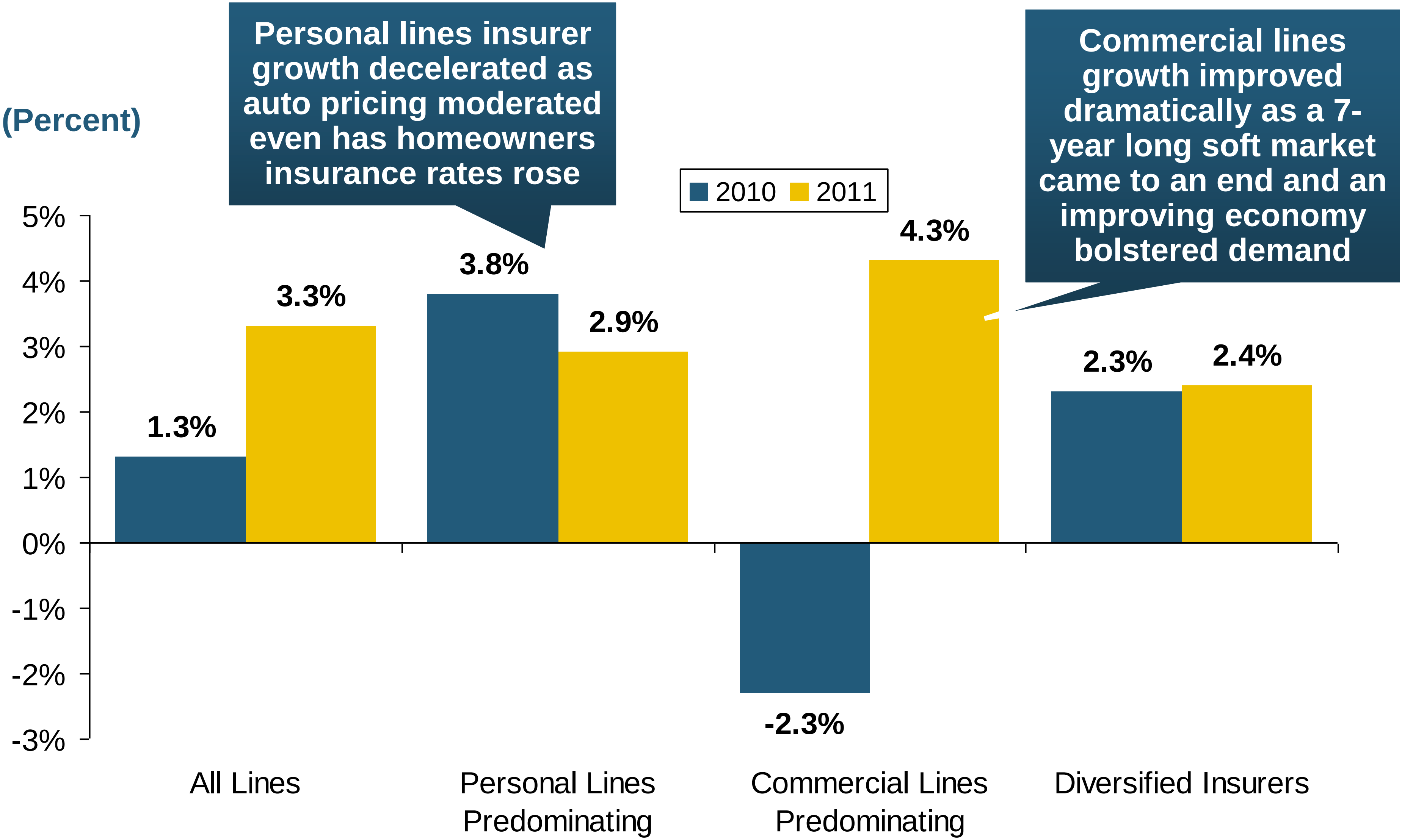

Source: ISO/PCI; Insurance Information Institute

Average Commercial Rate Change, All Lines, (1Q:2004–2Q:2012)

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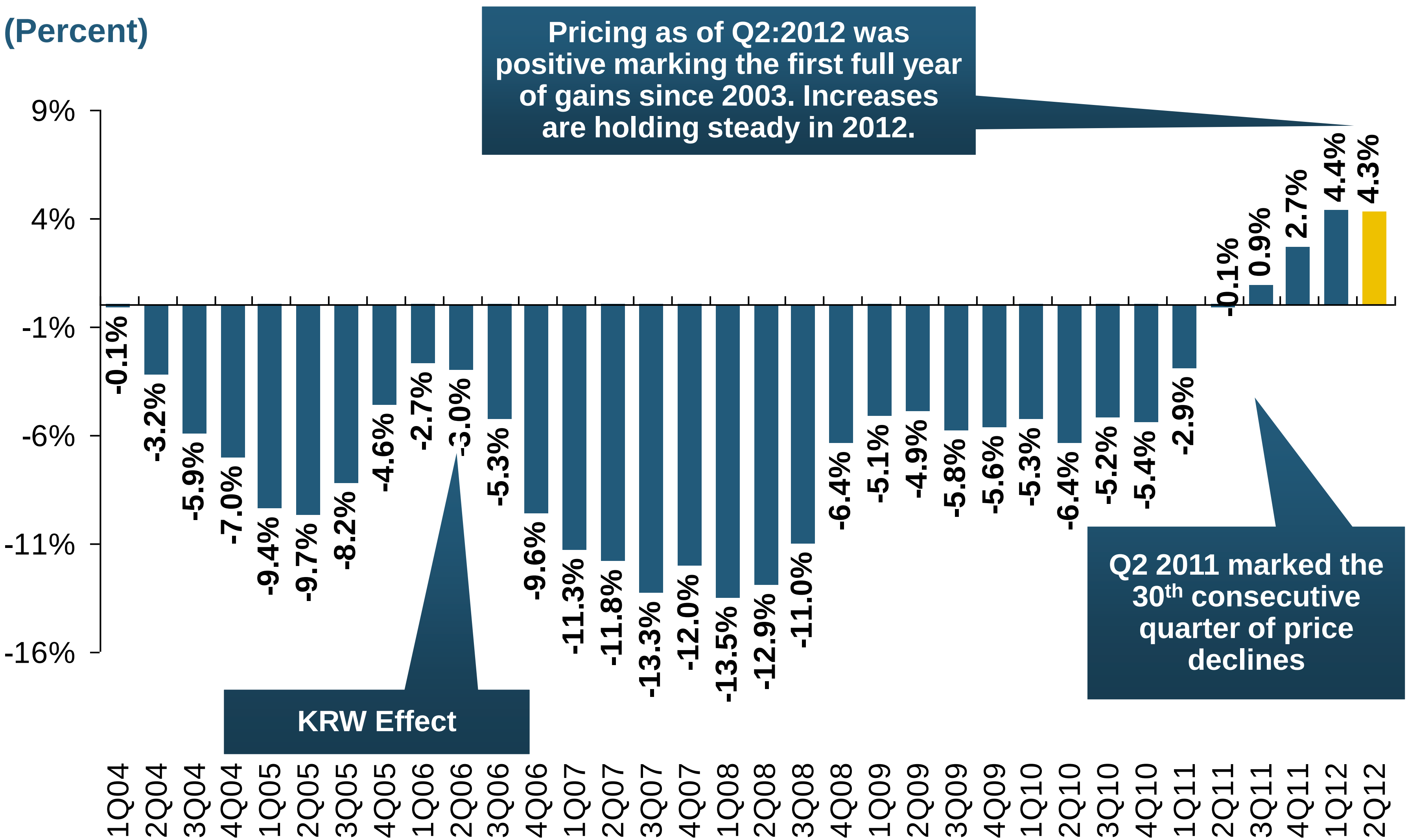
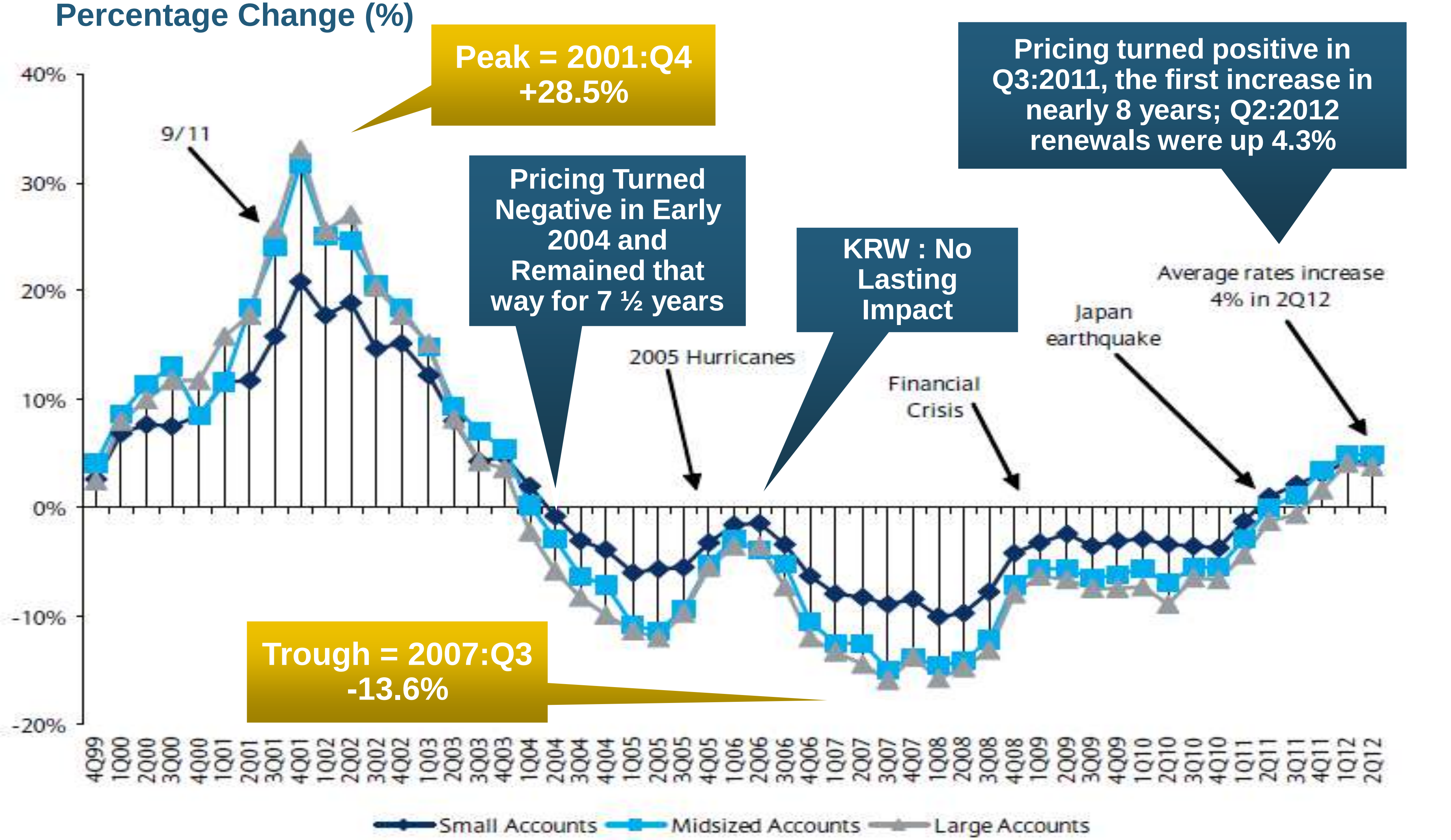


Source: Council of Insurance Agents & Brokers; Insurance Information Institute

Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2012:Q2



Source: Council of Insurance Agents and Brokers; Barclay's Capital; Insurance Information Institute.

Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2012:Q2

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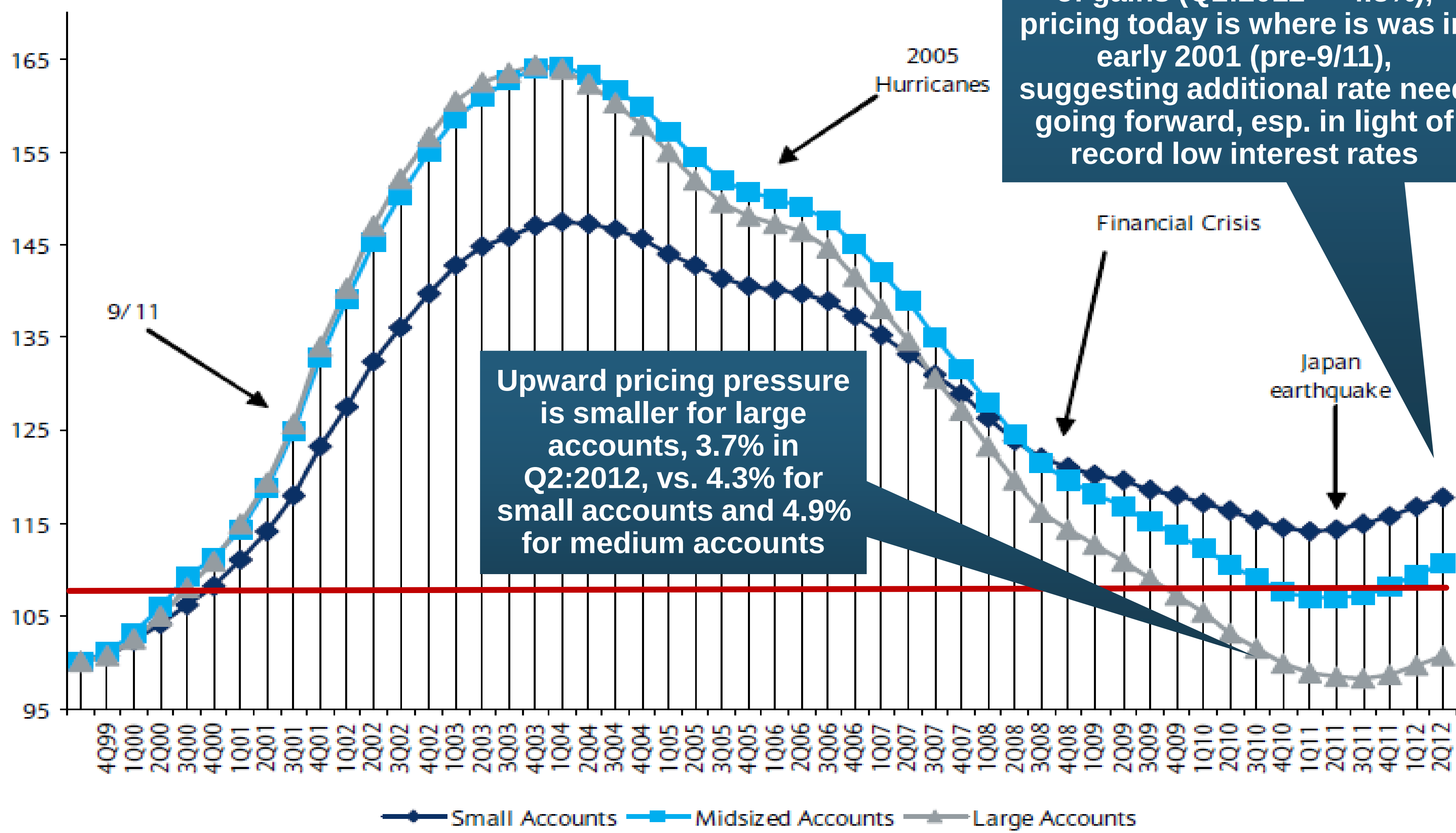
1999:Q4 = 100

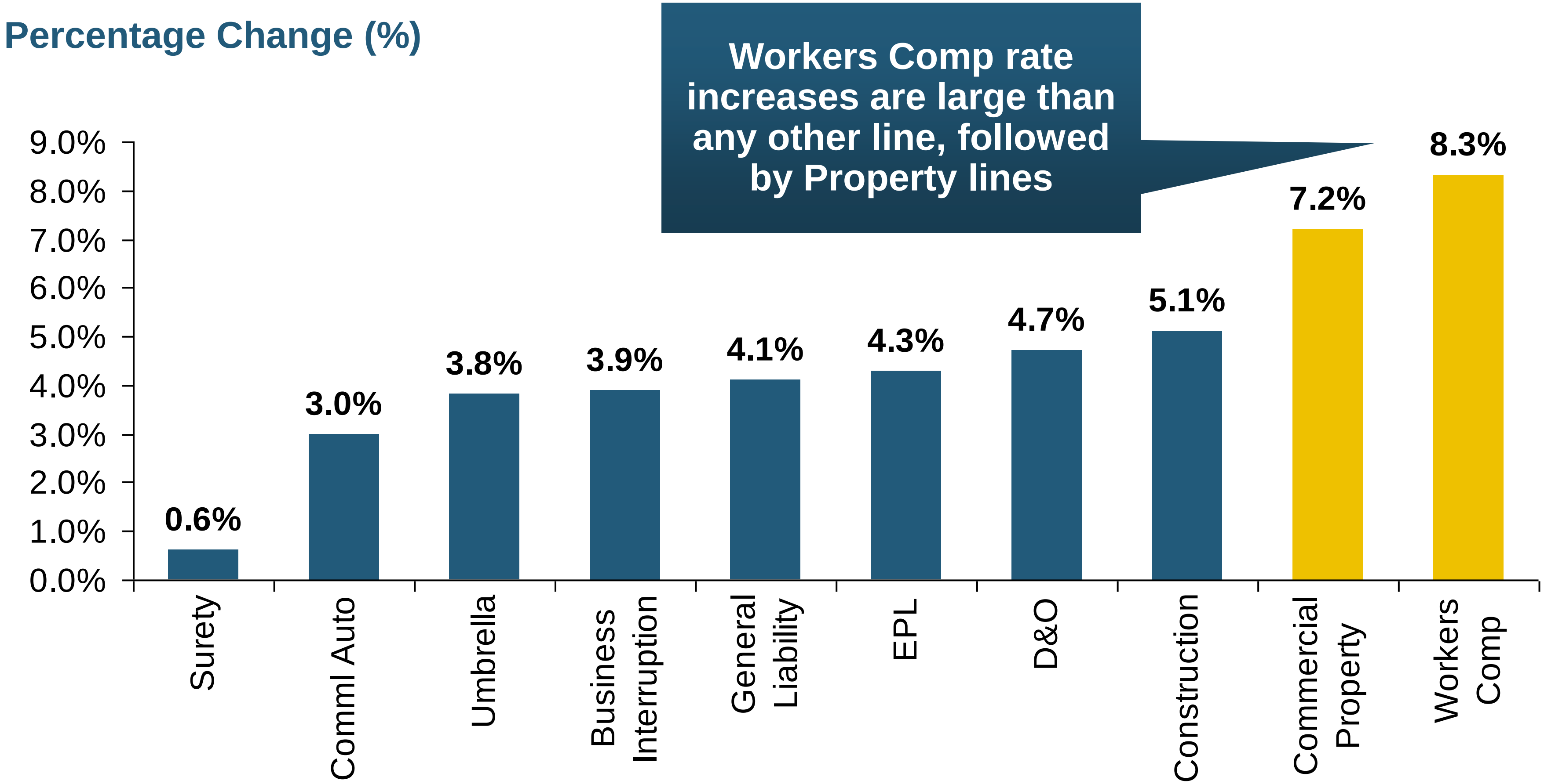
Despite 4 consecutive quarters of gains (Q2:2012 = 4.3%), pricing today is where is was in early 2001 (pre-9/11), suggesting additional rate need going forward, esp. in light of record low interest rates



Upward pricing pressure is smaller for large accounts, 3.7% in Q2:2012, vs. 4.3% for small accounts and 4.9% for medium accounts

Source: Council of Insurance Agents and Brokers; Barclay's Capital; Insurance Information Institute.

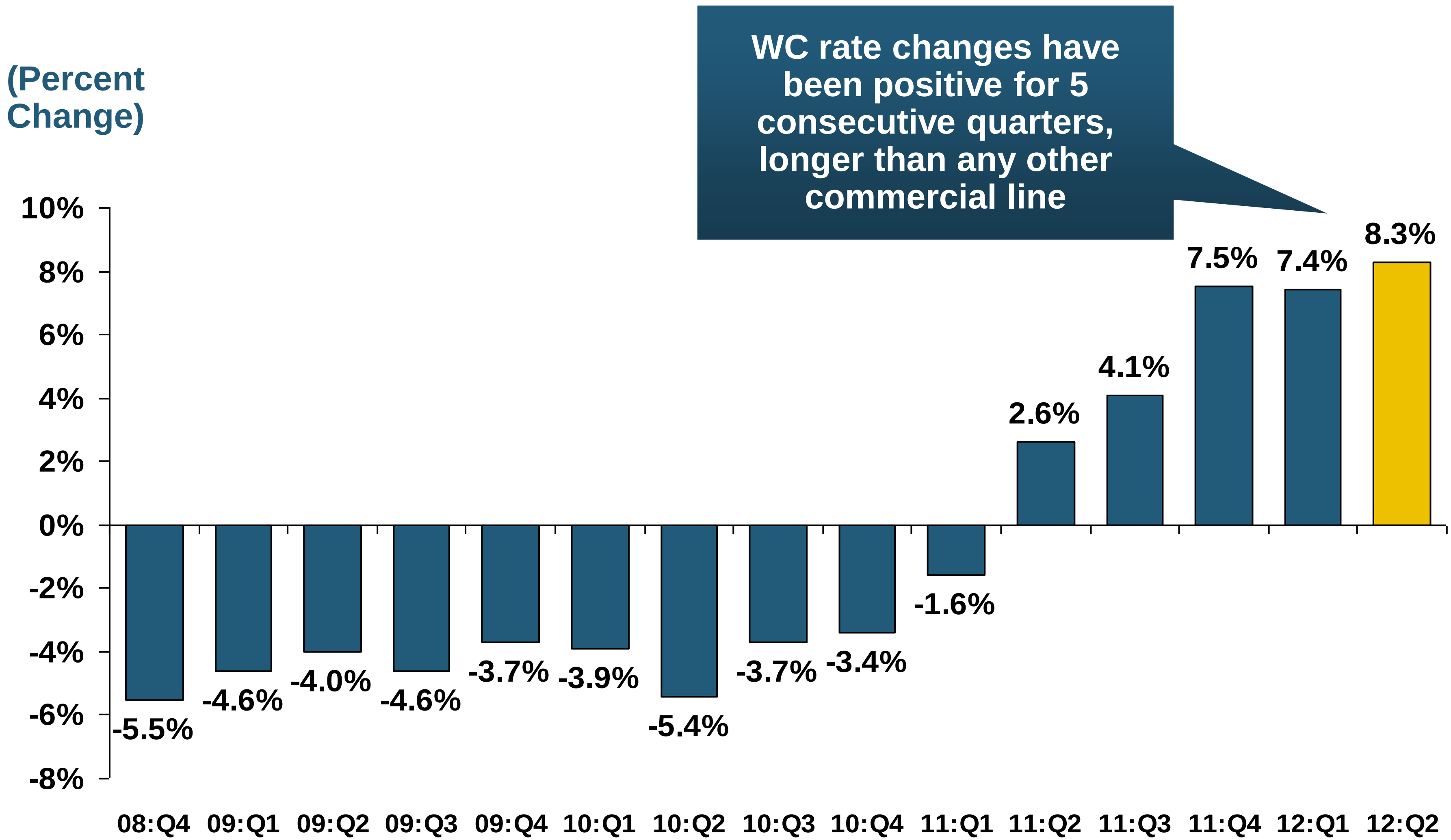
Change in Commercial Rate Renewals, by Line: 2012:Q2



Major Commercial Lines Renewed Uniformly Upward in Q2:2012 for Only the Fourth Time Since 2003; Property Lines & Workers Comp Leading the Way; Cat Losses and Low Interest Rates Provide Momentum Going Forward

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

Workers Comp Rate Changes, 2008:Q4 – 2012:Q2



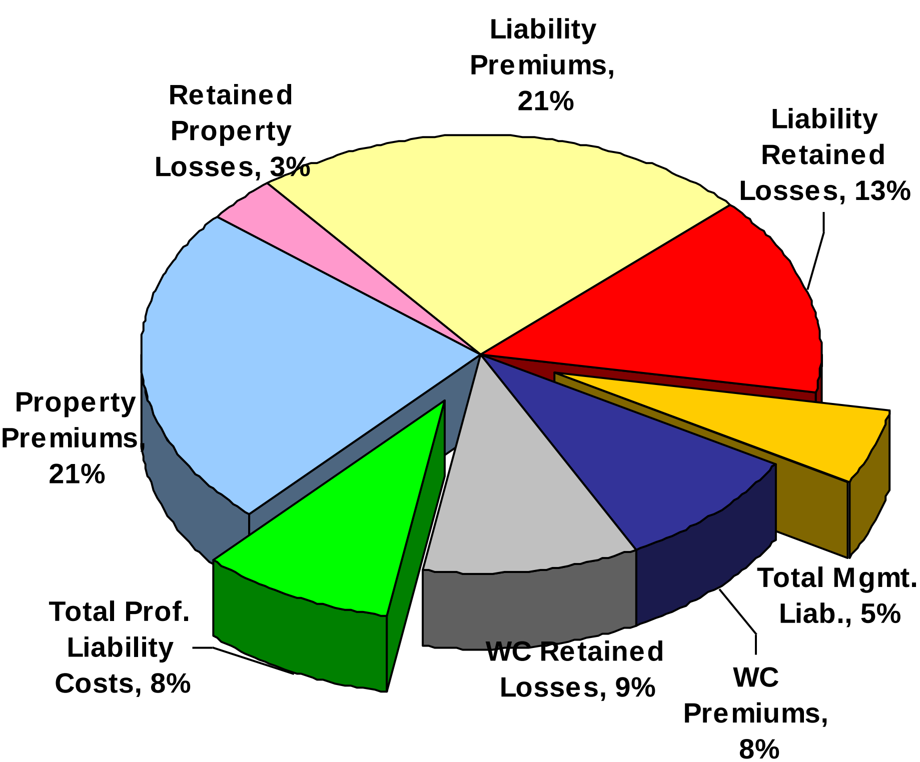
Source: Council of Insurance Agents and Brokers; Information Institute.

How the Risk Dollar is Spent (2011)

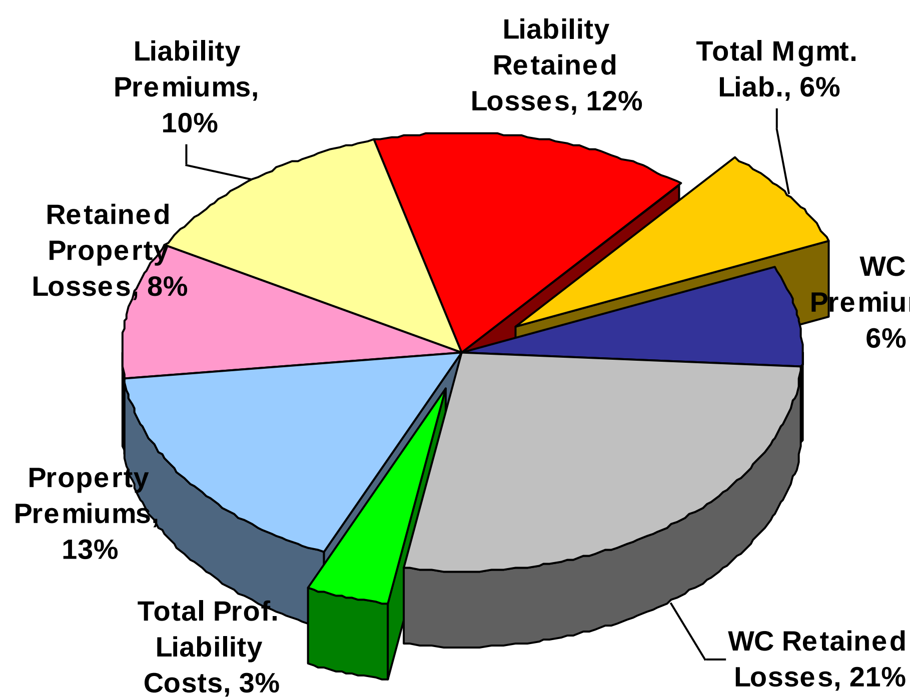
INSURANCE INFORMATION INSTITUTE

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

Firms w/Revenues < $1 Billion



Firms w/Revenues > $1 Billion



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

INVESTMENTS: THE NEW REALITY

Investment Performance is a Key Driver of Profitability

Does It Influence Underwriting or Cyclicality?

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

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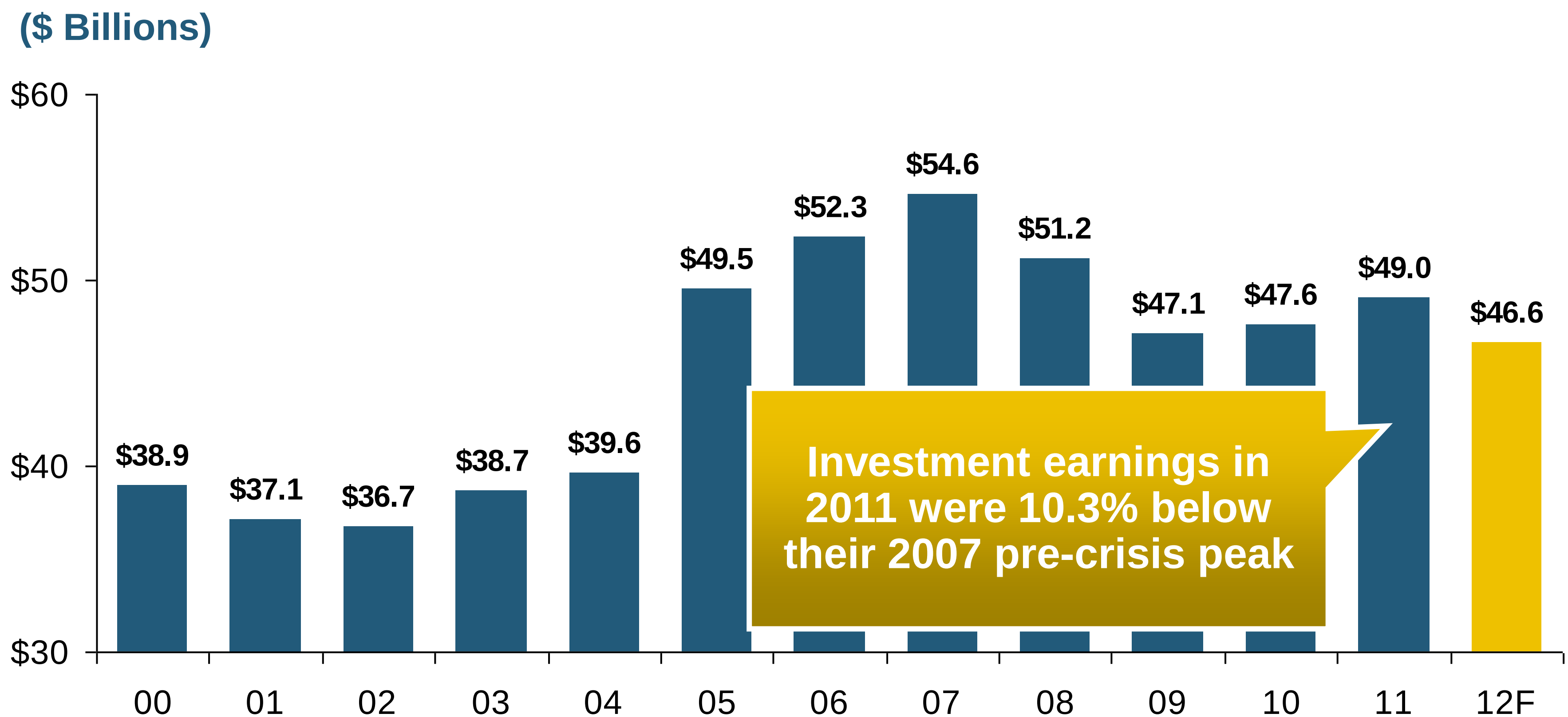
- **No Expectation that Rates Would Be:**
  - **Pushed to Such Low Levels**
  - **Pushed Down so Rapidly**
  - **Held to Such Low Levels for So Long**
  - **Suppressed via Unprecedented Aggressiveness of the Federal Reserve**
    - **Use of traditional and unconventional tools (QE)**
    - **Unconventional '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**

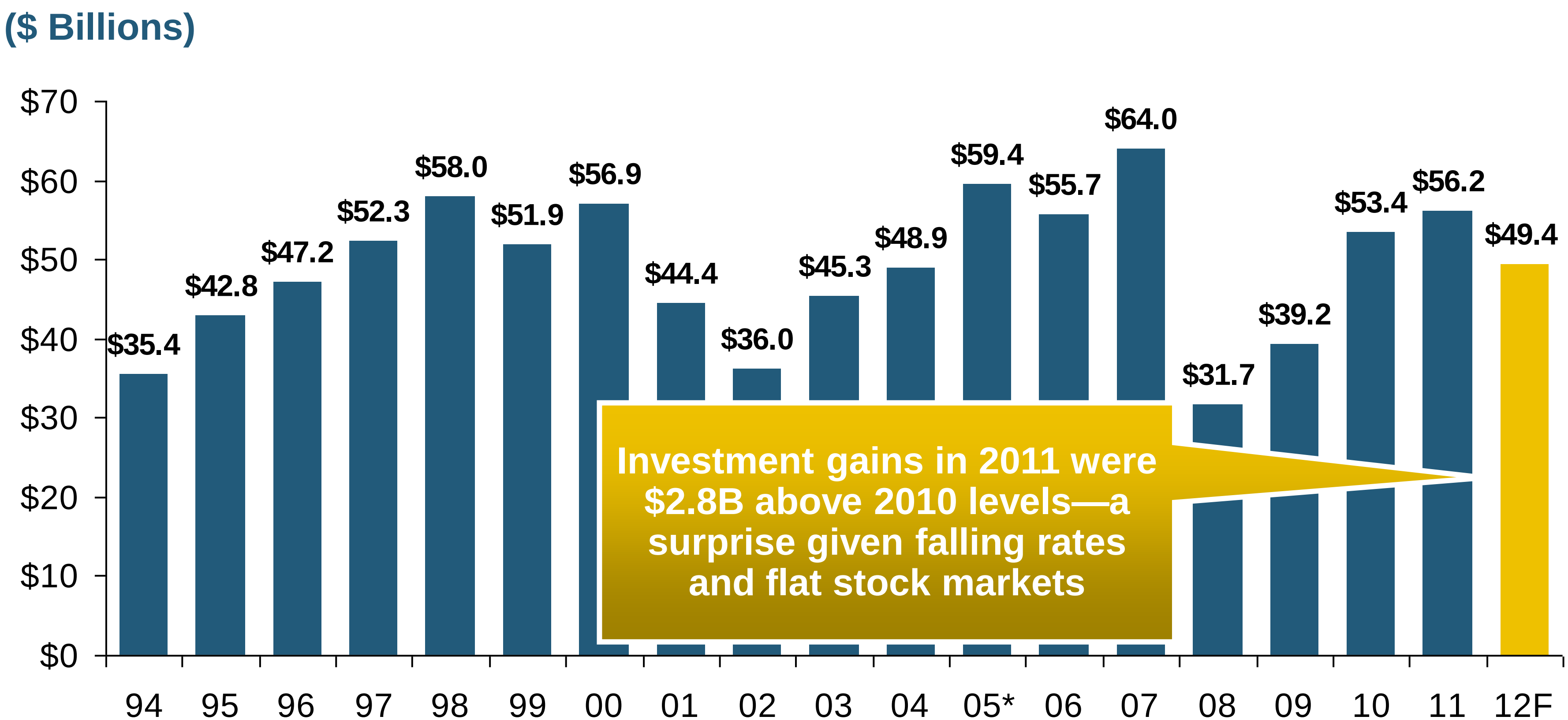
Property/Casualty Insurance Industry Investment Income: 2000–2012F[1]



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 is based on annualized Q1:2012 actual figure of $11.656B.
Sources: ISO; Conning Research & Consulting; Insurance Information Institute.

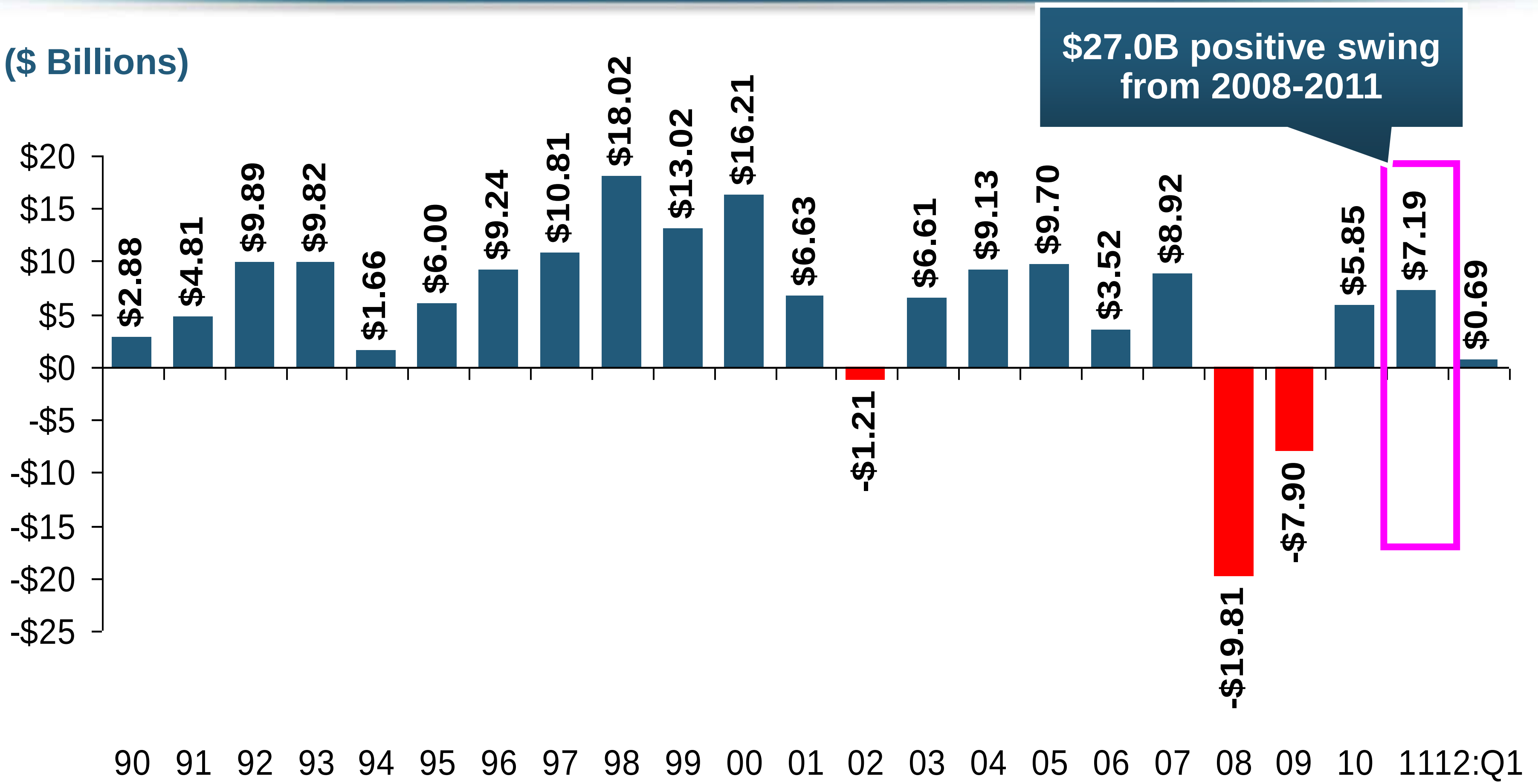
Property/Casualty Insurance Industry Investment Gain: 1994–2012F[1]



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; 2012F figure is III estimate based on annualized actual Q1:2012 result of $12.341B.
Sources: ISO; Insurance Information Institute.

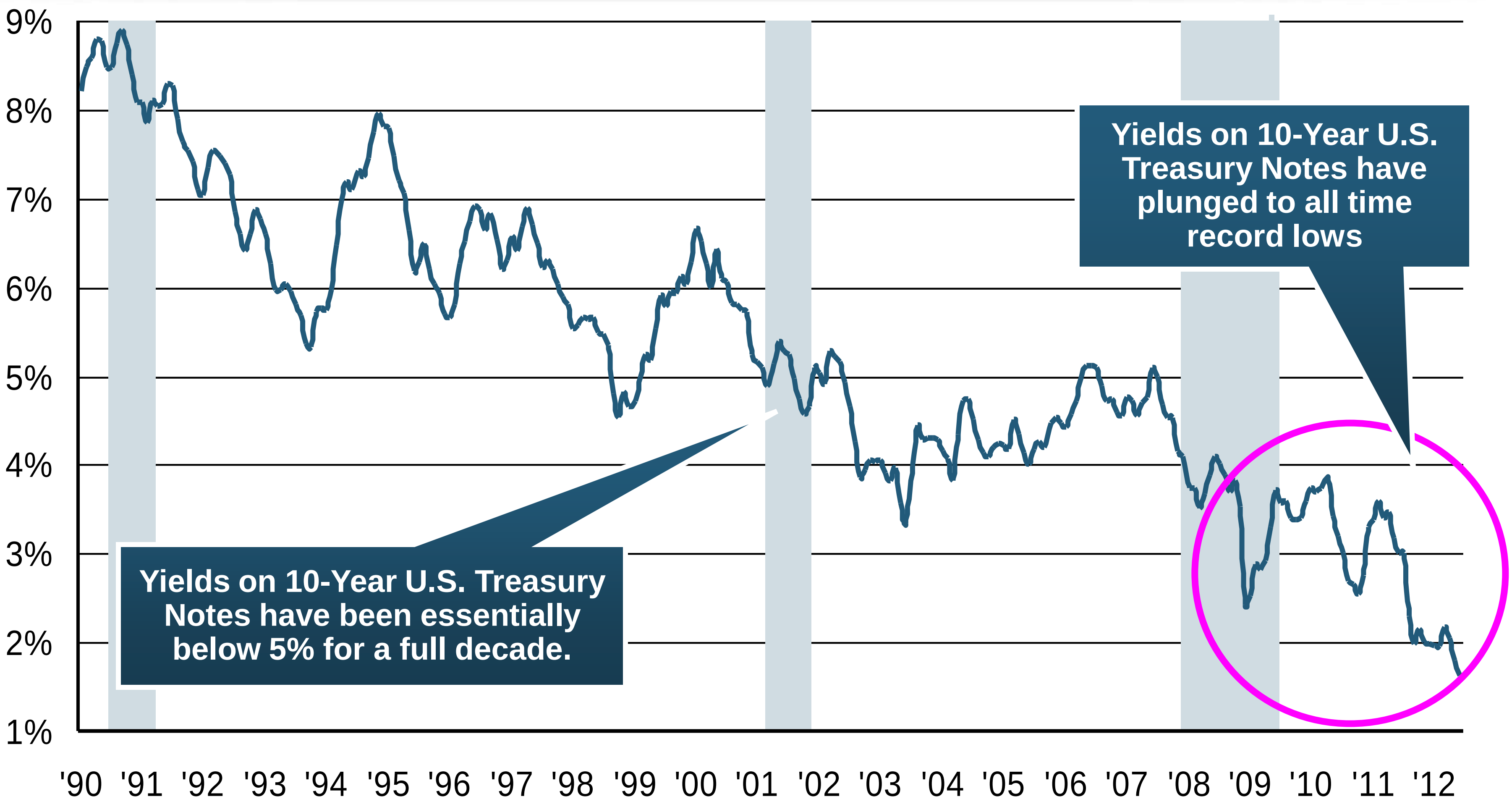
P/C Insurer Net Realized Capital Gains/Losses, 1990-2012:Q1



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

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

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

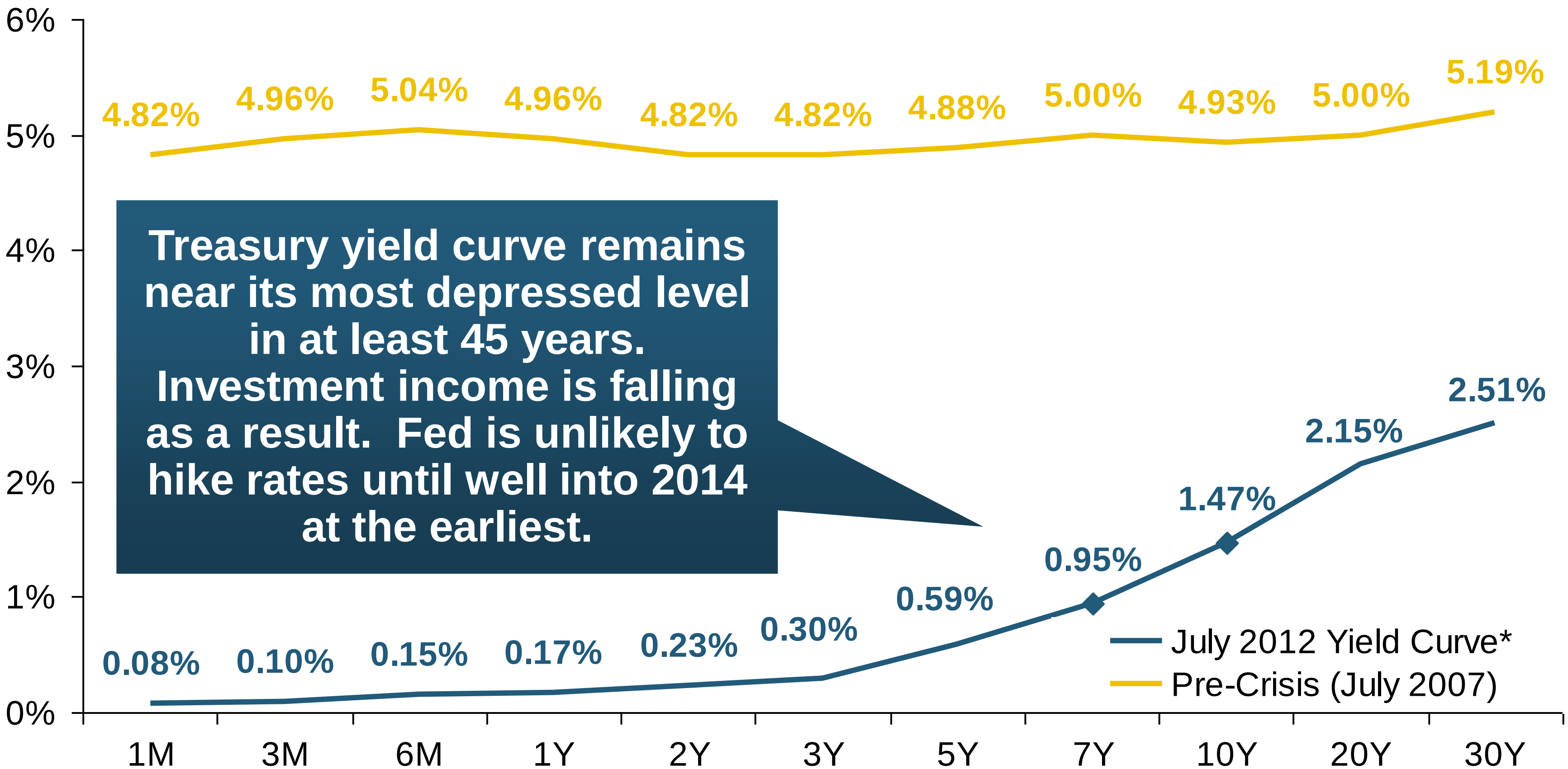


Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, through June 2012. Note: Recessions indicated by gray shaded columns.

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

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

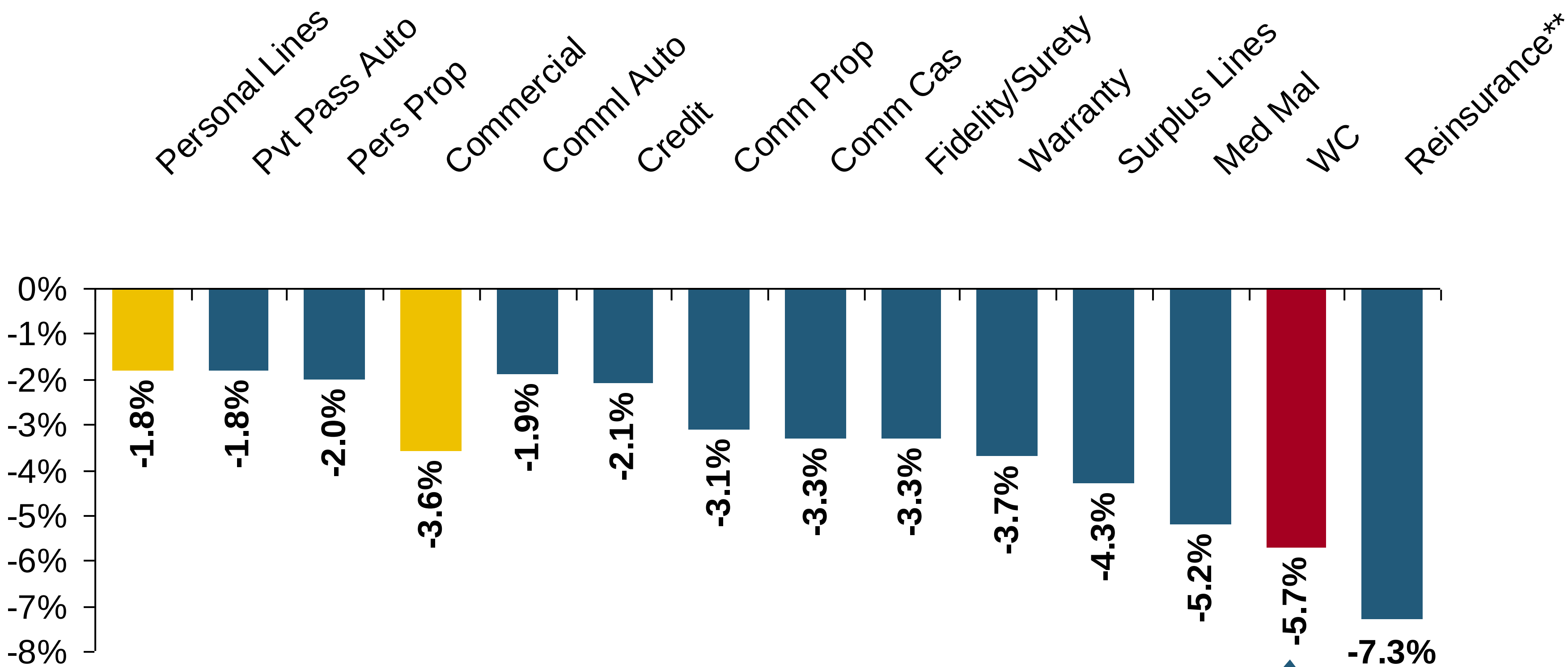


The Fed Is Actively Signaling that it Is Determined to Keep Rates Low Through Late 2014; This Adds to Pricing Pressure for Insurers.

*Week ending July 27.

Source: Federal Reserve Board of Governors; Insurance Information Institute.

Reduction in Combined Ratio Necessary to Offset 1% Decline in Investment Yield to Maintain Constant ROE, by Line*



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

WC is performance and therefore pricing are very sensitive to falling interest rates

*Based on 2008 Invested Assets and Earned Premiums

**US domestic reinsurance only

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

Inflation

Is it a Threat to Claim Cost Severities

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

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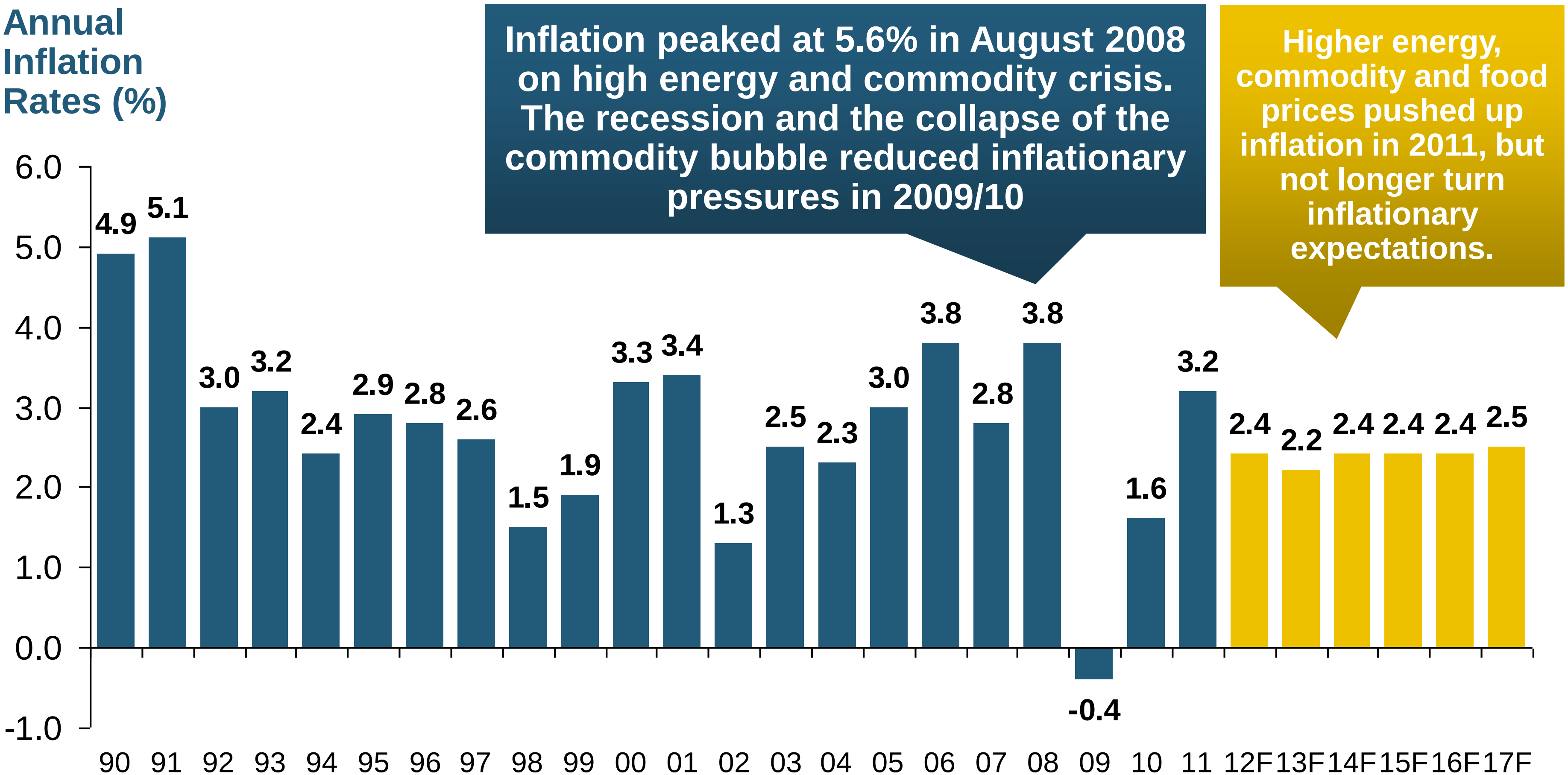

The slack in the U.S. economy suggests that inflationary pressures should remain subdued for an extended period of times. Energy, health care and commodity prices, plus U.S. debt burden, remain longer-run concerns

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators, 10/11 and 5/12 (forecasts).

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

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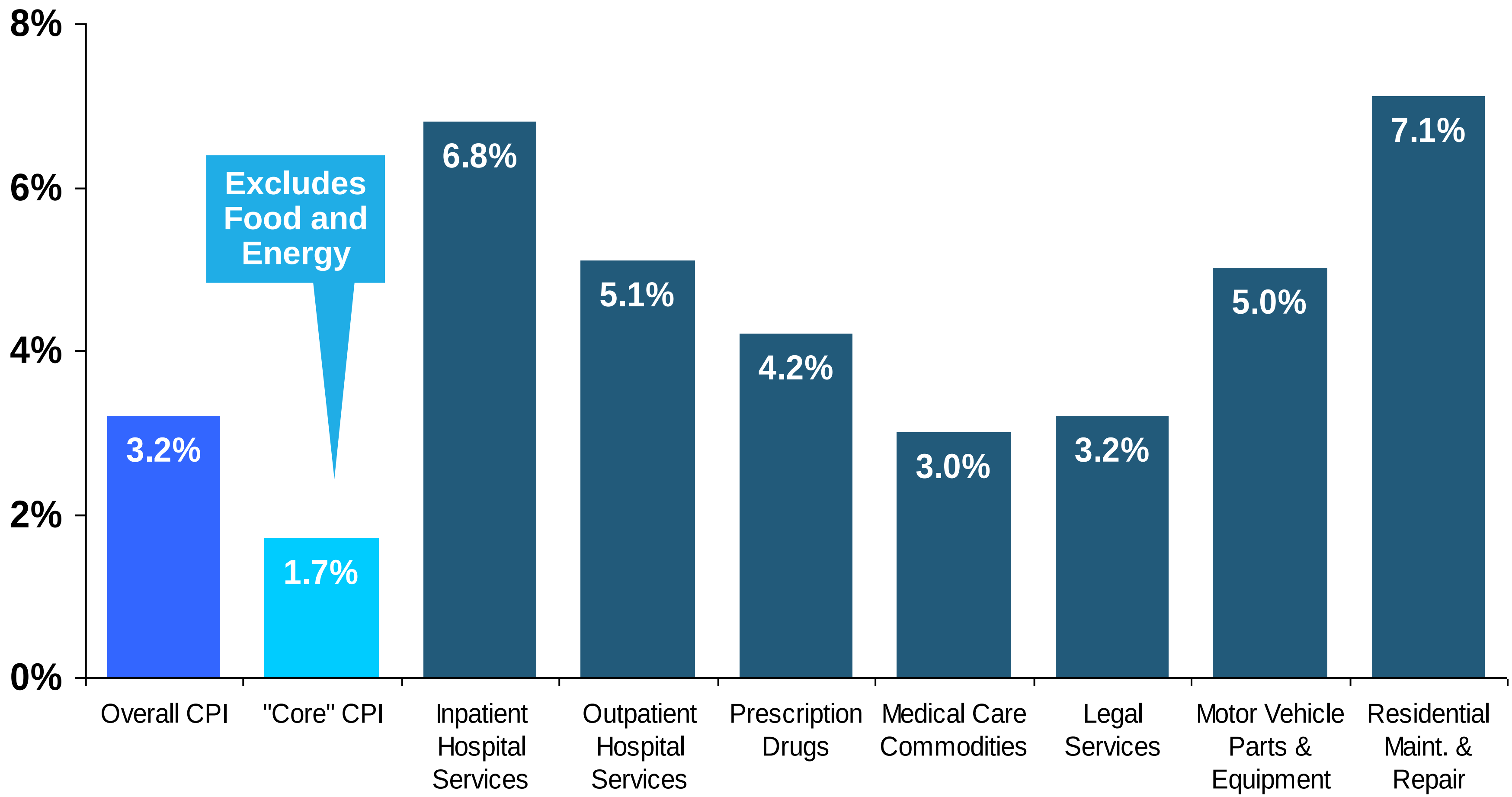
Price Level Change: 2011 vs. 2010



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

Sources: Bureau of Labor Statistics; Insurance Information Institute.

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

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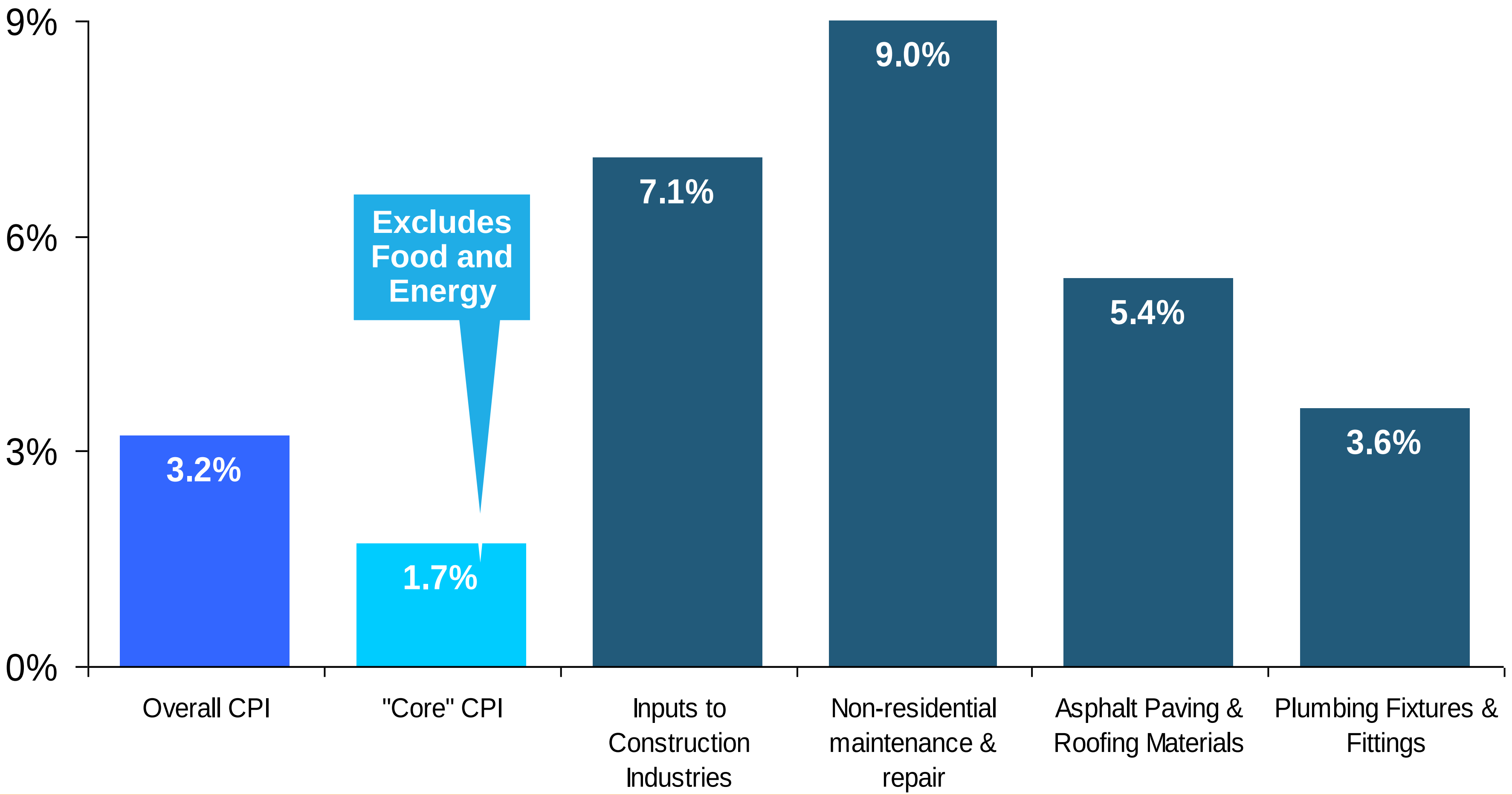
Price Level Change: 2011 vs. 2010



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.

Sources: Bureau of Labor Statistics; Insurance Information Institute.

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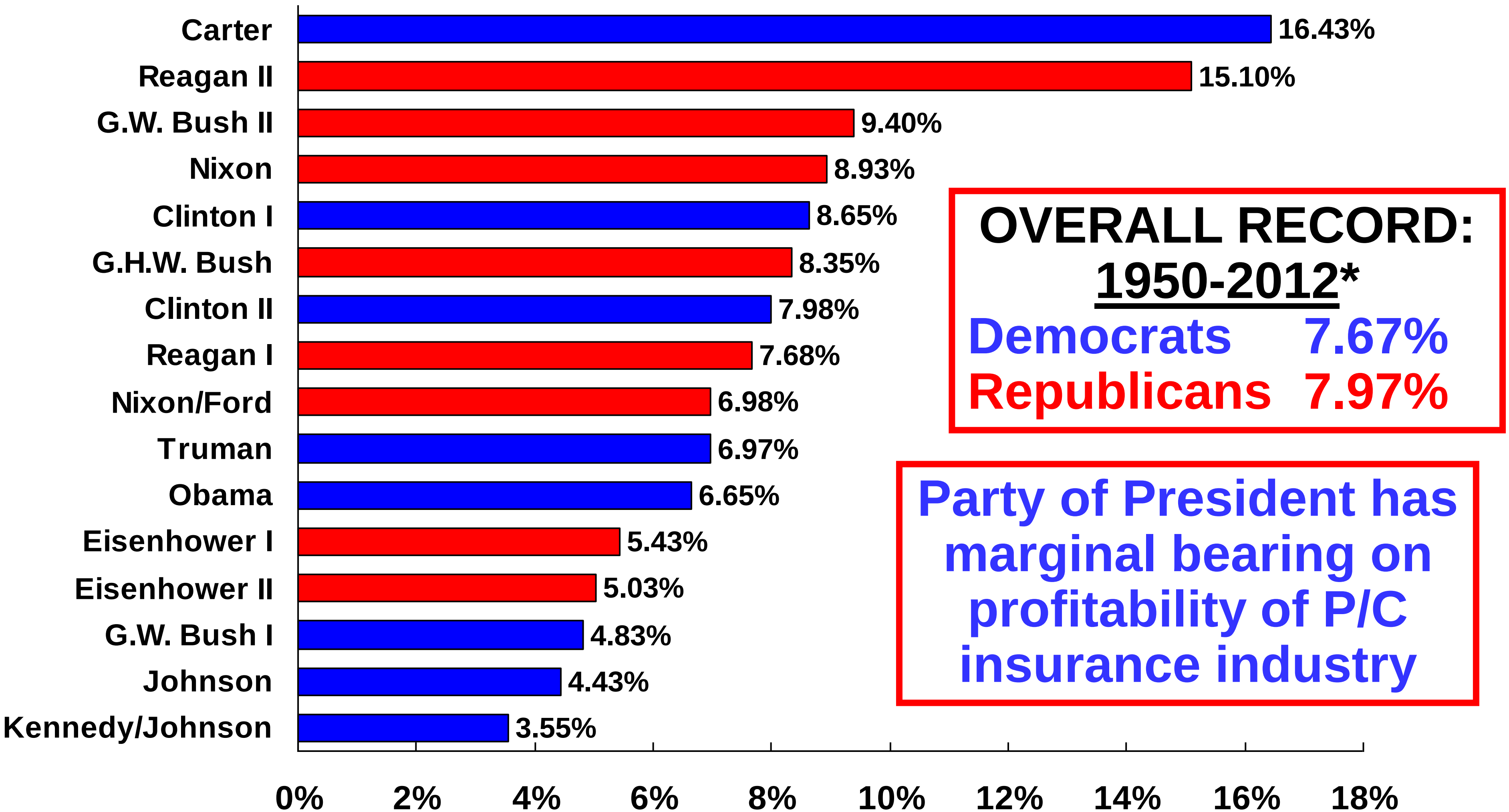
Presidential Politics & the P/C Insurance Industry

How Is Profitability Affected by the President’s Political Party?

P/C Insurance Industry ROE by Presidential Administration, 1950- 2012*



*Truman administration ROE of 6.97% based on 3 years only, 1950-52; ROEs for the years 2008 forward exclude mortgage and financial guaranty segments. Estimated ROE for 2012 = 7.0%.

Source: Insurance Information Institute

P/C insurance Industry ROE by Presidential Party Affiliation, 1950- 2012*

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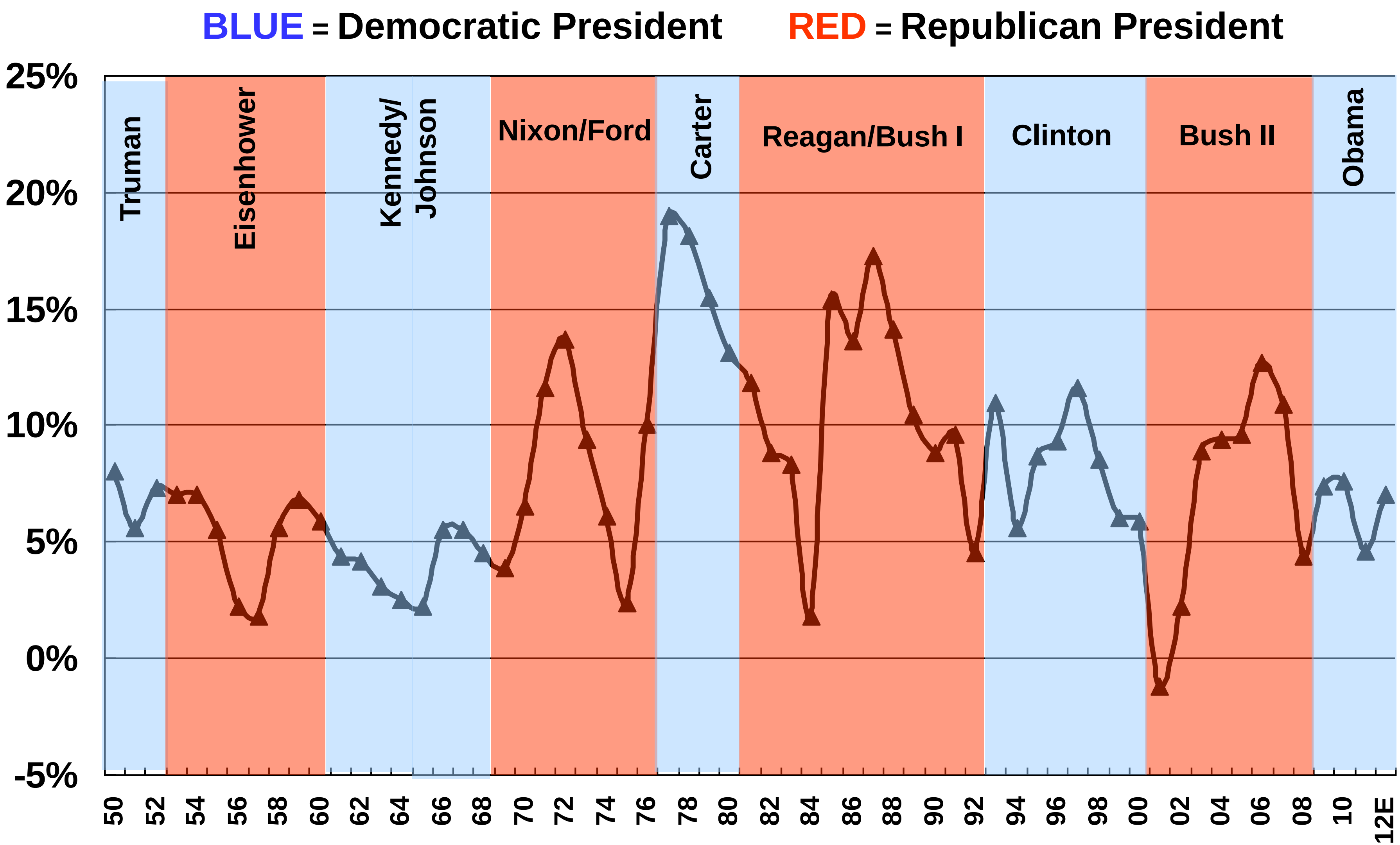

*ROEs for the years 2008 forward exclude mortgage and financial guaranty segments; Estimated 2012 ROE = 7.0%

Source: Insurance Information Institute

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