Overview & Outlook for the Commercial P/C Insurance Industry:
Trends, Challenges & Opportunities

January 30, 2015

Download at www.iii.org/presentations

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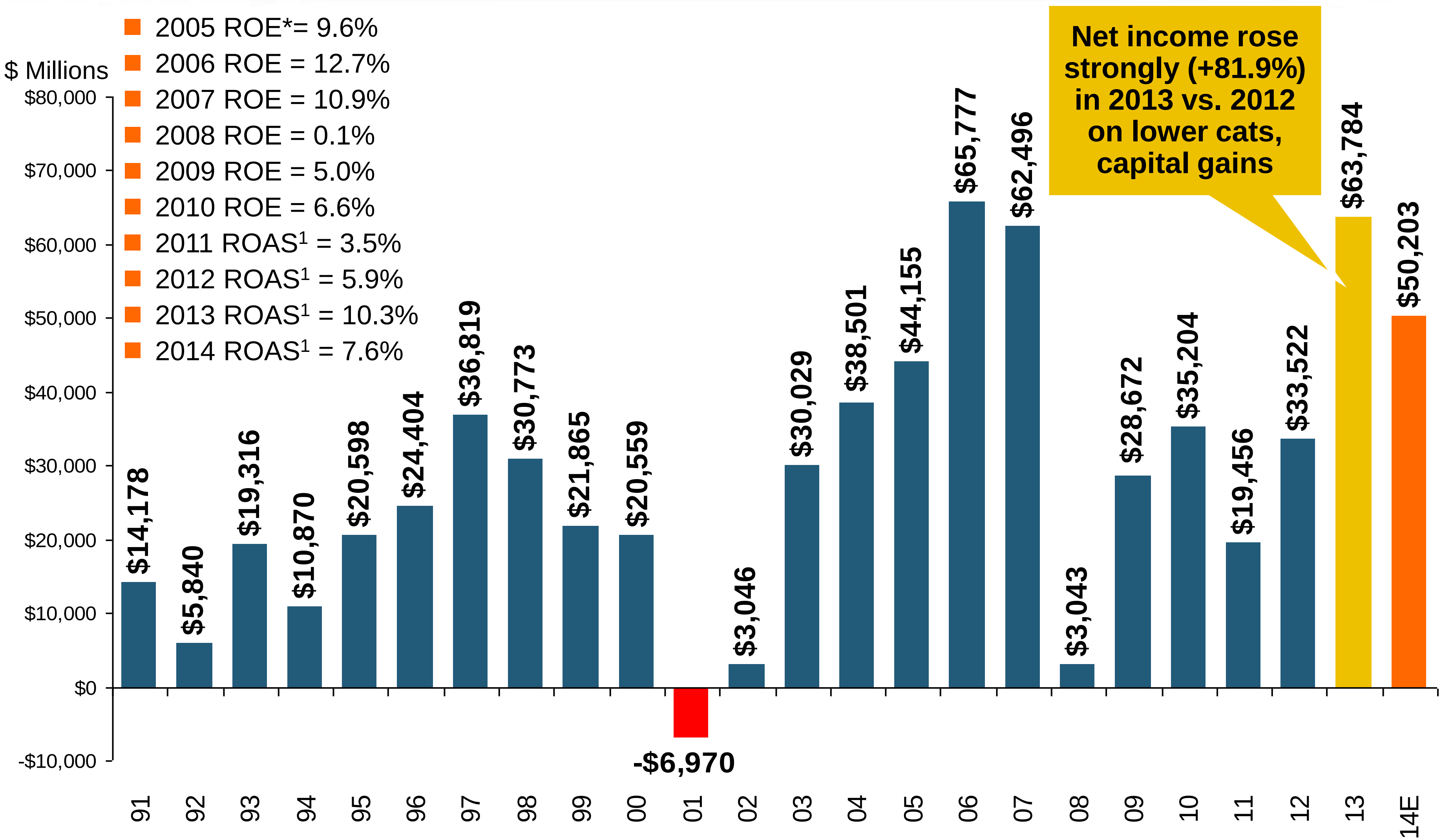
Insurance Industry: *Financial Update & Outlook*

2014 Was a Reasonably Good Year

2013 Was the Industry's Best Year in the Post-Crisis Era

P/C Industry Net Income After Taxes 1991–2014E



•ROE figures are GAAP; [1]Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 7.7% ROAS through 2014:Q2, 9.8% ROAS in 2013, 6.2% ROAS in 2012, 4.7% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009.

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

Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2014:Q3*

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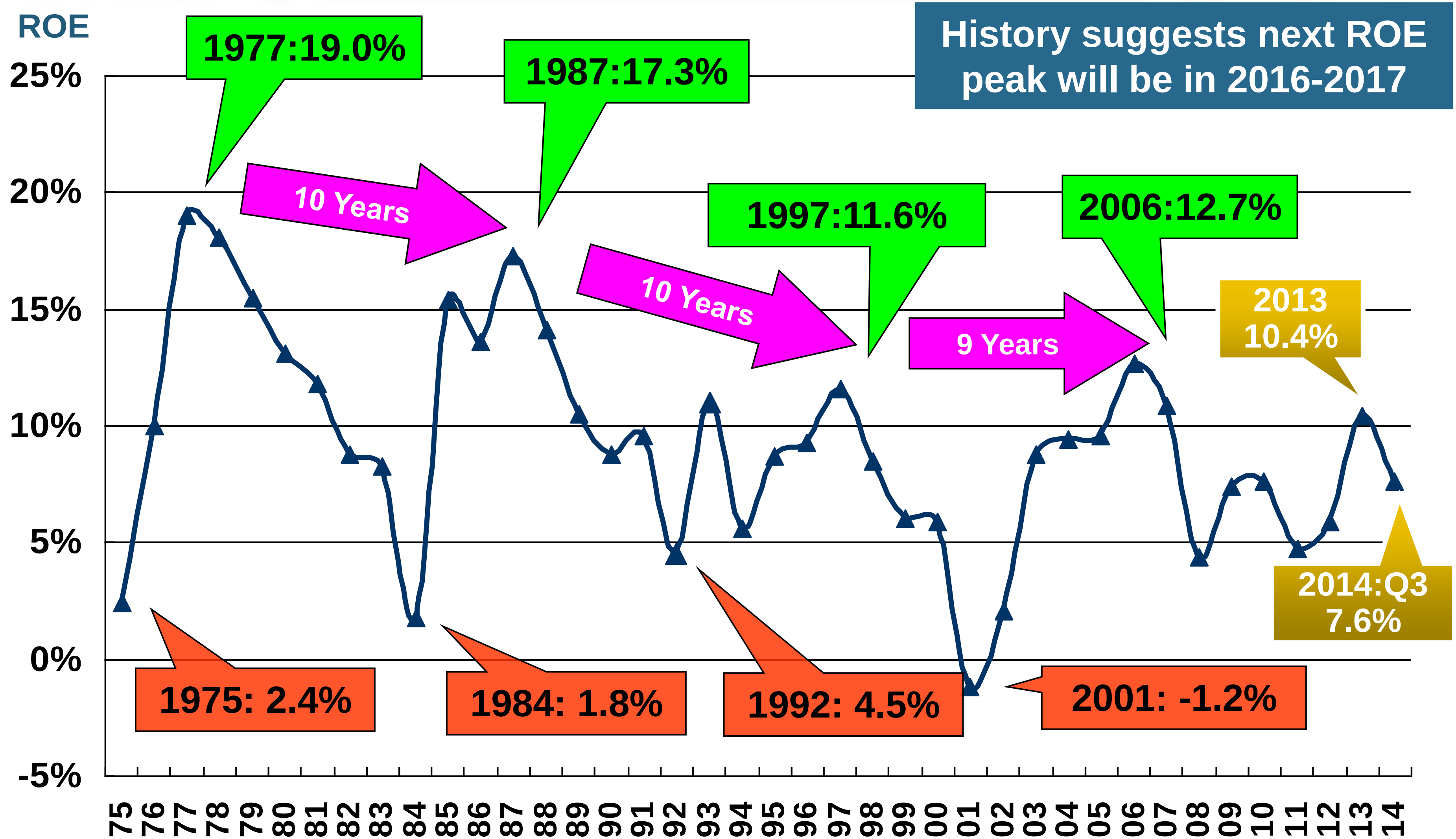
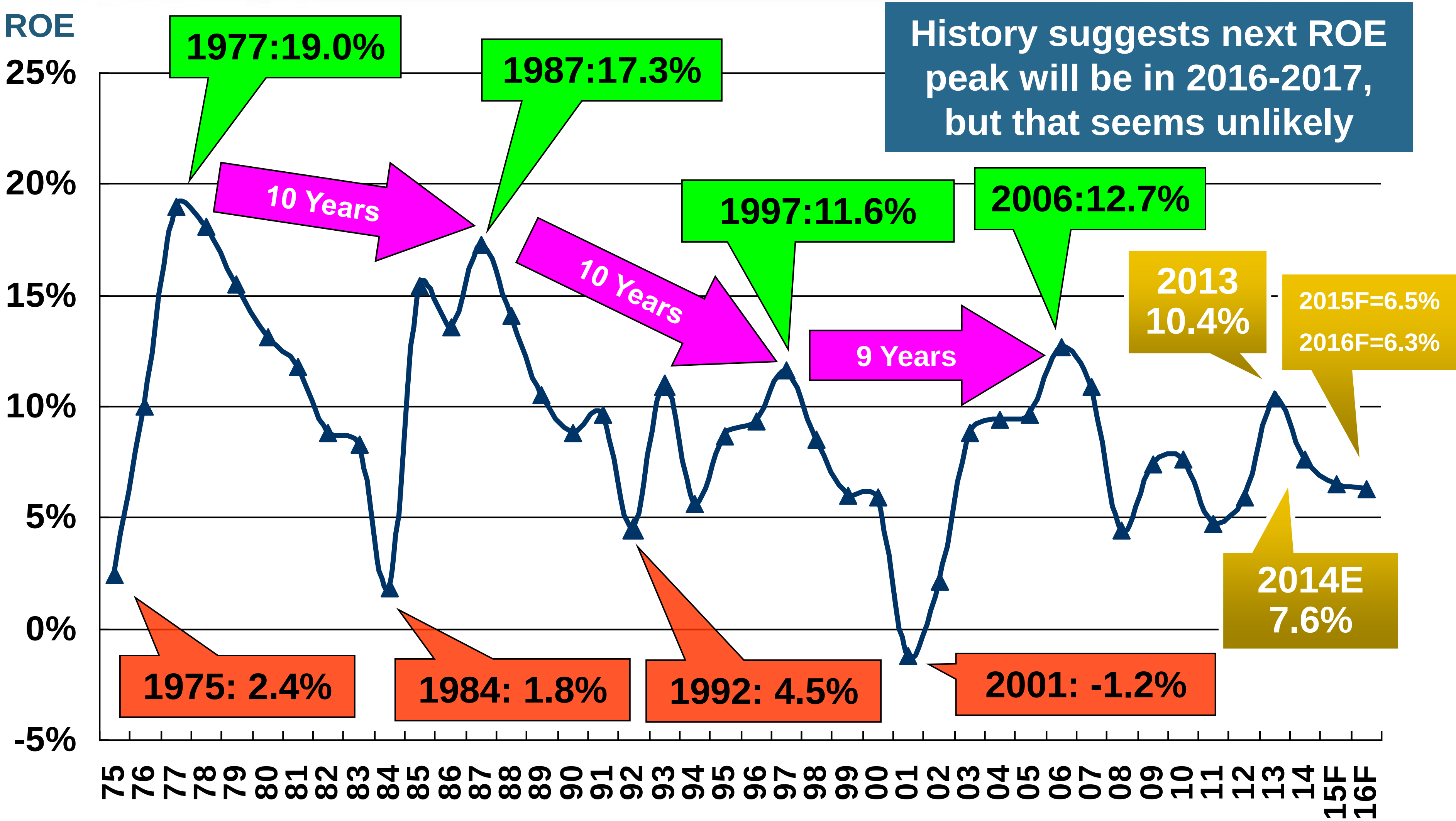


*Profitability = P/C insurer ROEs. 2011-14 figures are estimates based on ROAS data. Note: Data for 2008-2014 exclude mortgage and financial guaranty insurers.

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

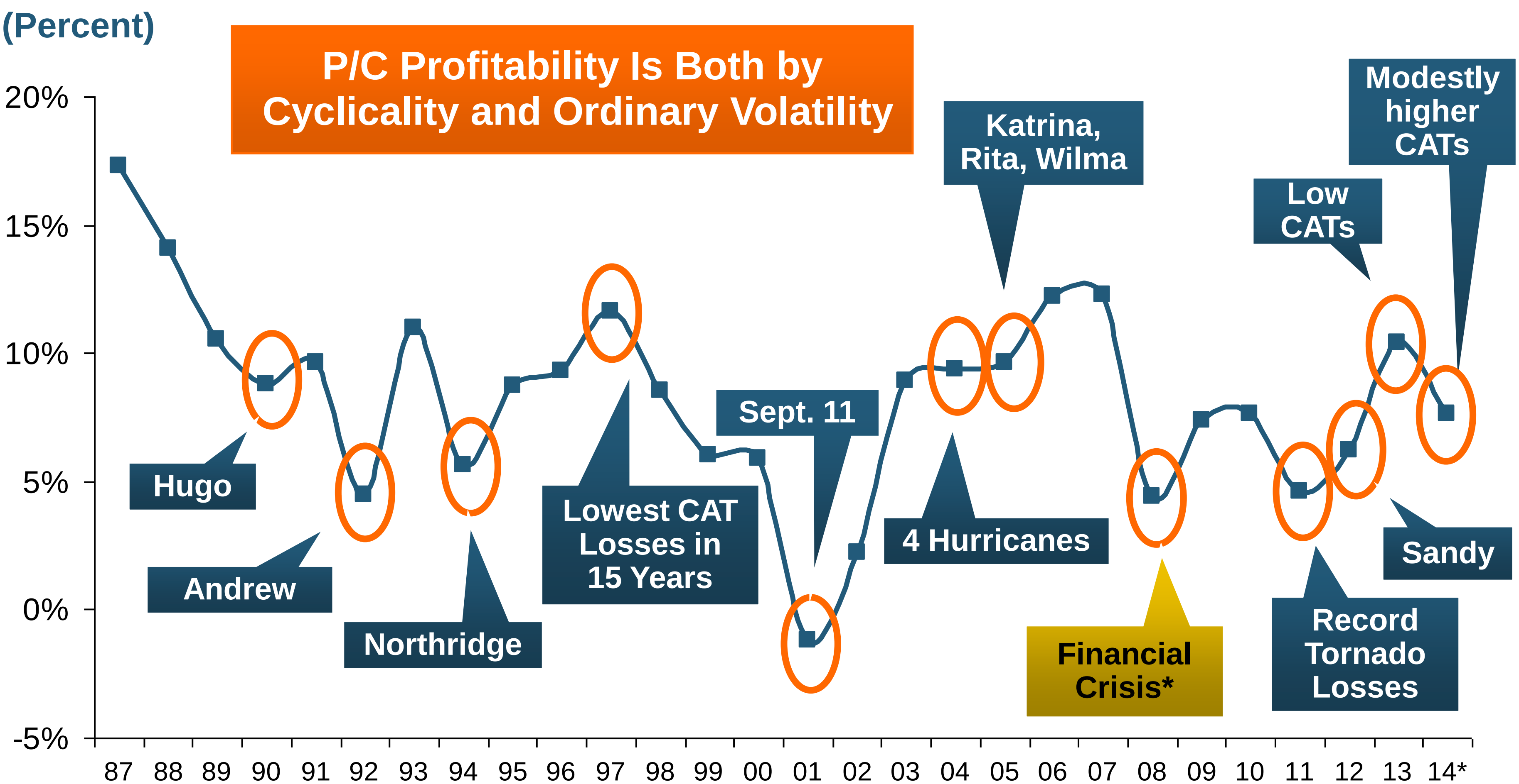
Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2016F



*Profitability = P/C insurer ROEs. 2011-14 figures are estimates based on ROAS data. Note: Data for 2008-2014 exclude mortgage and financial guaranty insurers.

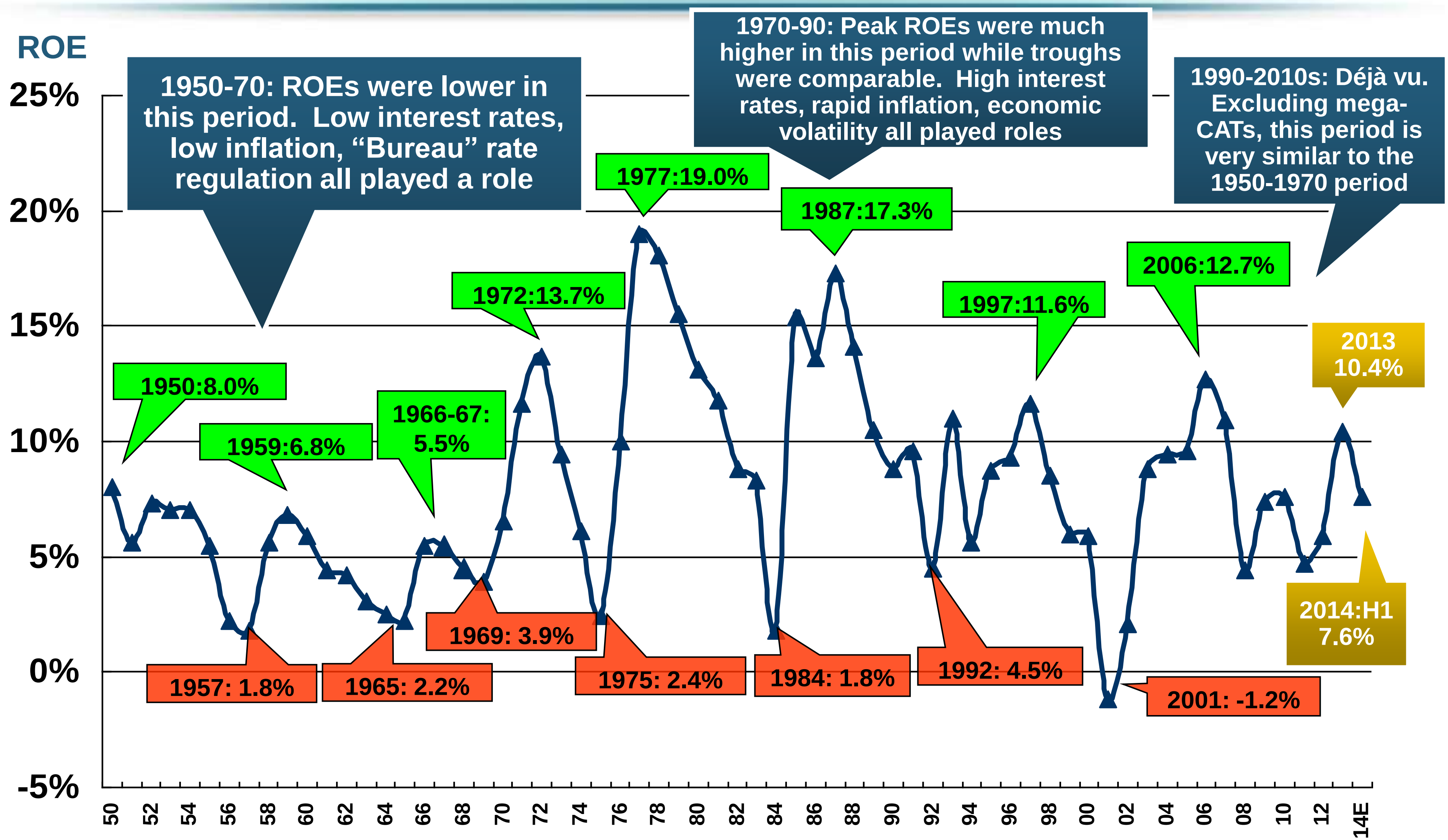
Source: Insurance Information Institute; NAIC, ISO, A.M. Best, Conning

ROE: Property/Casualty Insurance by Major Event, 1987–2014E



* Excludes Mortgage & Financial Guarantee in 2008 – 2014. 2014 figure is through Q3:2014.
Sources: ISO, *Fortune*; Insurance Information Institute.

Back to the Future: Profitability Peaks & Troughs in the P/C Insurance Industry, 1950 – 2014*



*Profitability = P/C insurer ROEs. 2011-14 figures are estimates based on ROAS data. Note: Data for 2008-2014 exclude mortgage and financial guaranty insurers. 2014 figure is through Q3.

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

P/C Insurance Industry Combined Ratio, 2001–2014:Q3*

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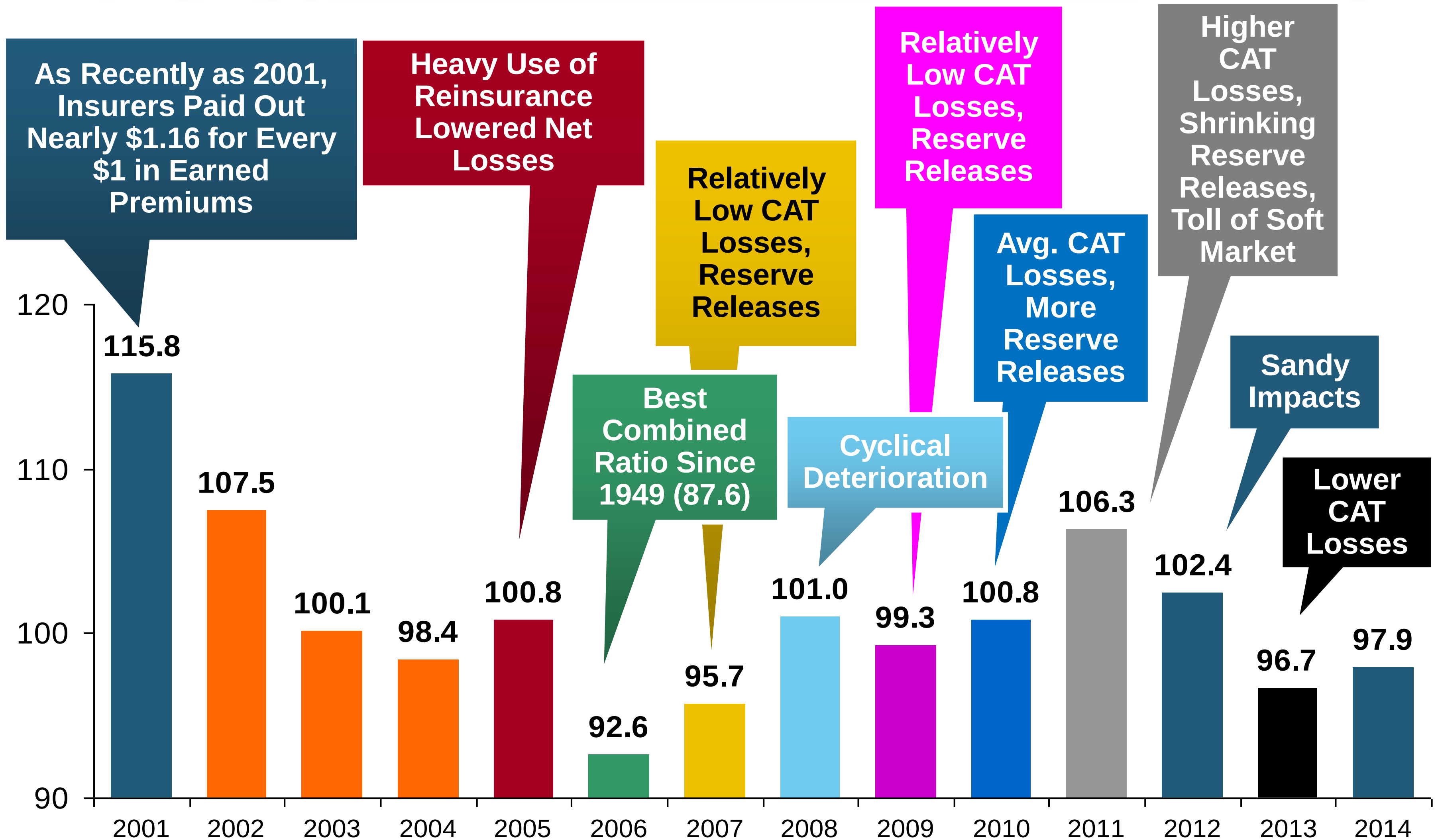
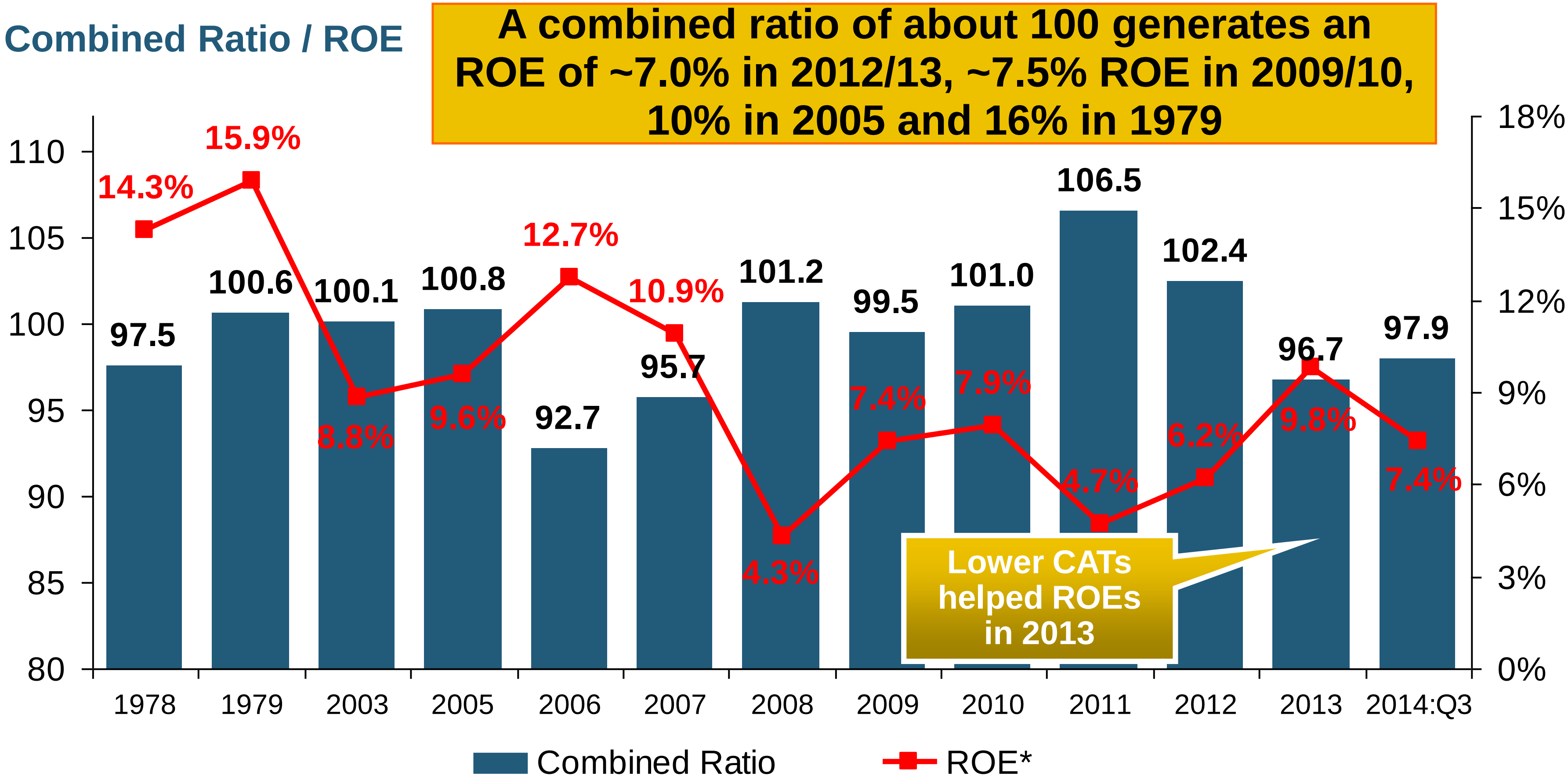


* Excludes Mortgage & Financial Guaranty insurers 2008--2014. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.1; 2012:=103.2; 2013: = 96.1; 2014:9M = 97.7.

Sources: A.M. Best, ISO.

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

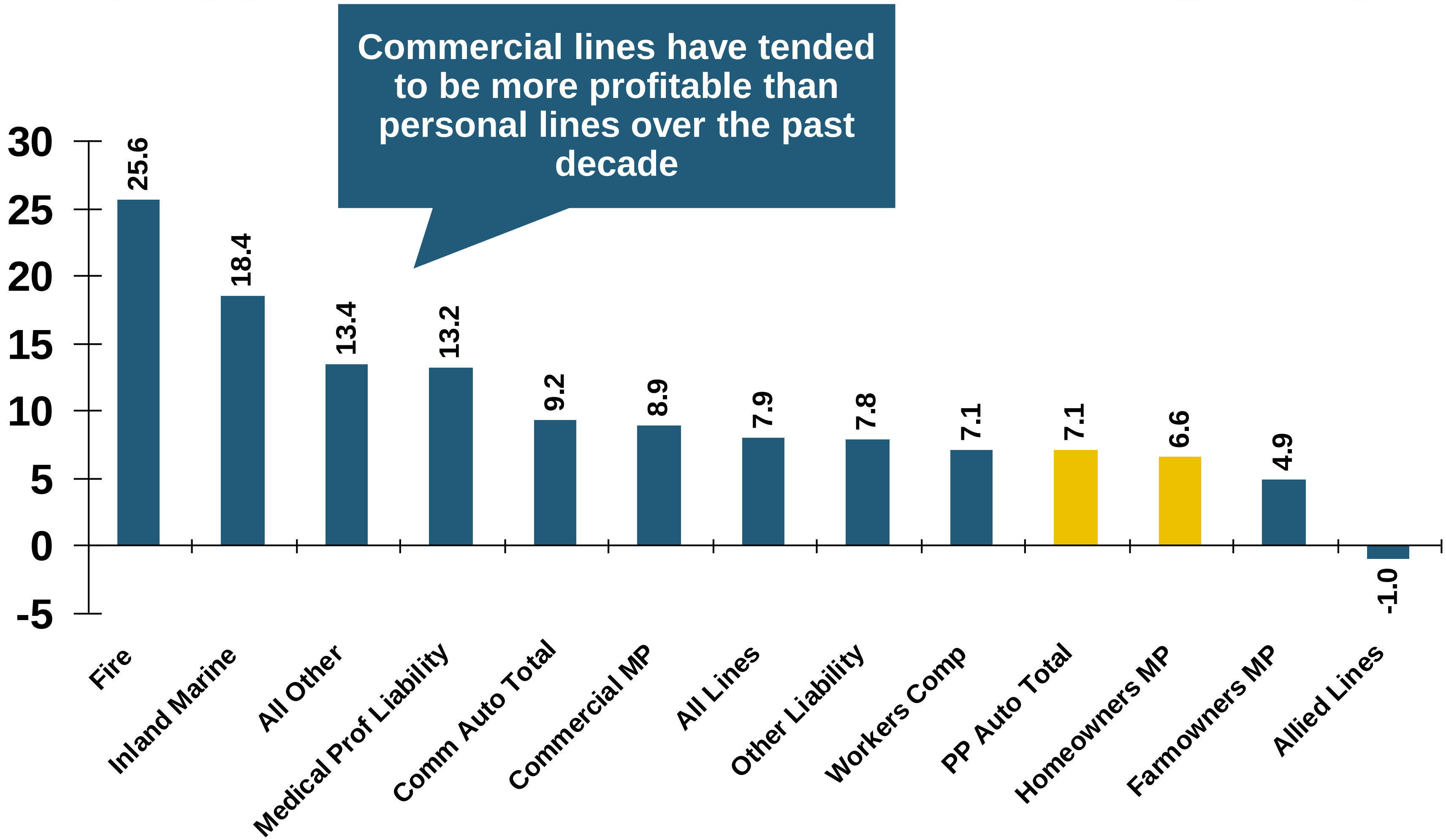


Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2008 -2014 figures are return on average surplus and exclude mortgage and financial guaranty insurers. 2014:9M combined ratio including M&FG insurers is 97.7; 2013 = 96.1; 2012 =103.2, 2011 = 108.1, ROAS = 3.5%.

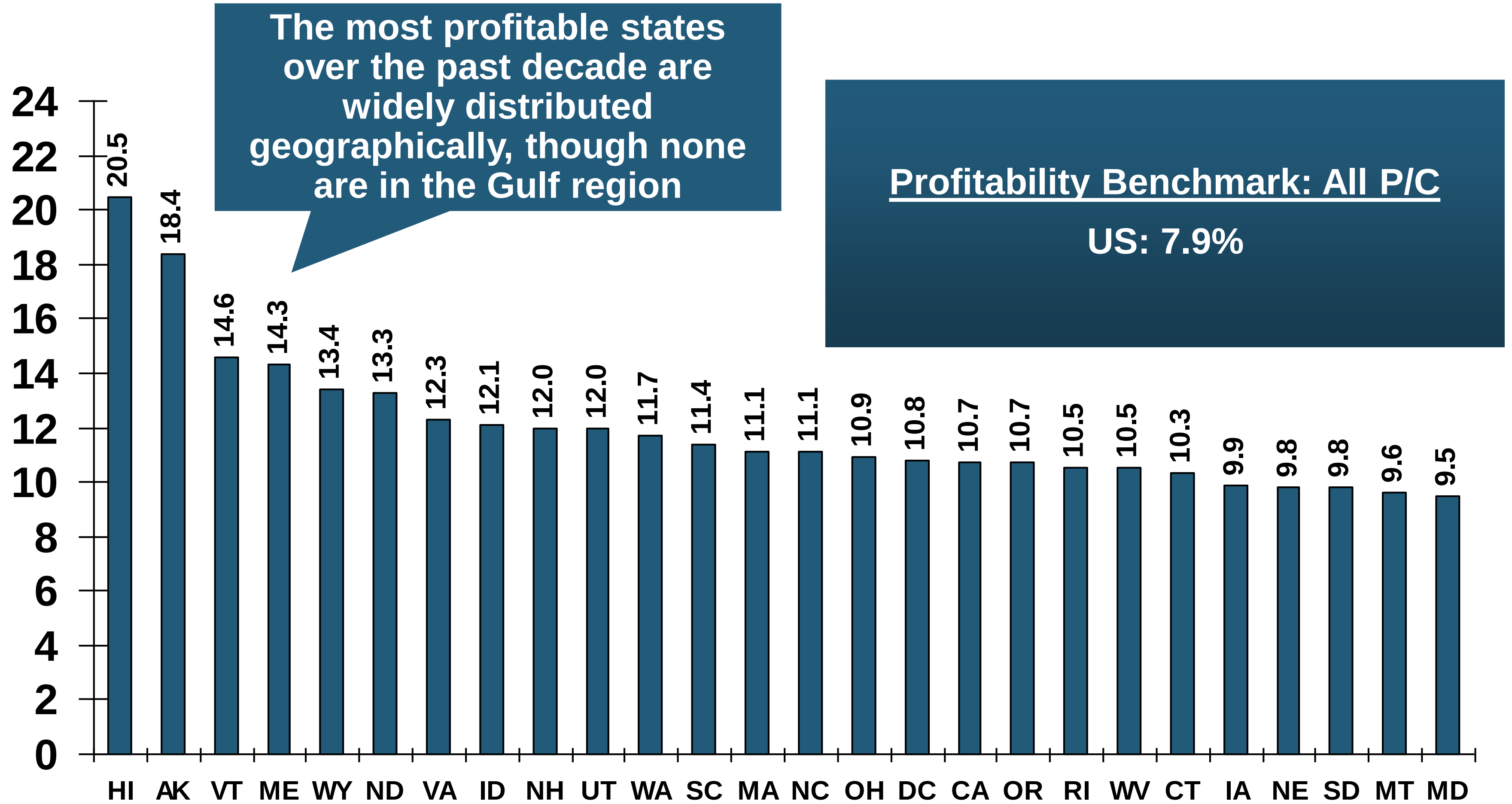
Source: Insurance Information Institute from A.M. Best and ISO Verisk Analytics data.

Return on Net Worth (RNW) All Lines: 2004-2013 Average



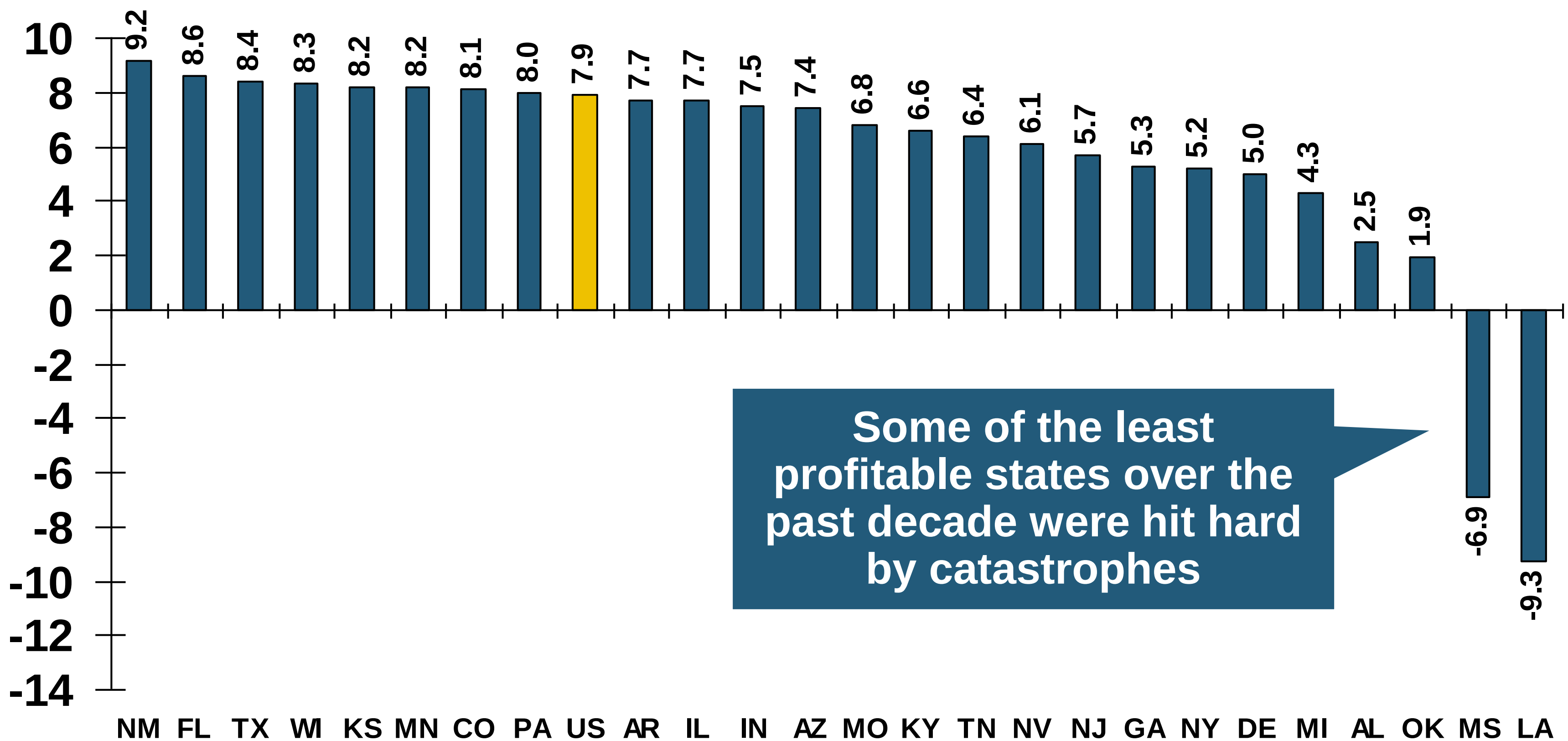
Source: NAIC; Insurance Information Institute.

RNW All Lines by State, 2004-2013 Average: Highest 25 States



Source: NAIC; Insurance Information Institute.

RNW All Lines by State, 2004-2013 Average: Lowest 25 States



Source: NAIC; Insurance Information Institute.

P/C Insurance Loss Reserve Development, 1992 – 2016E*

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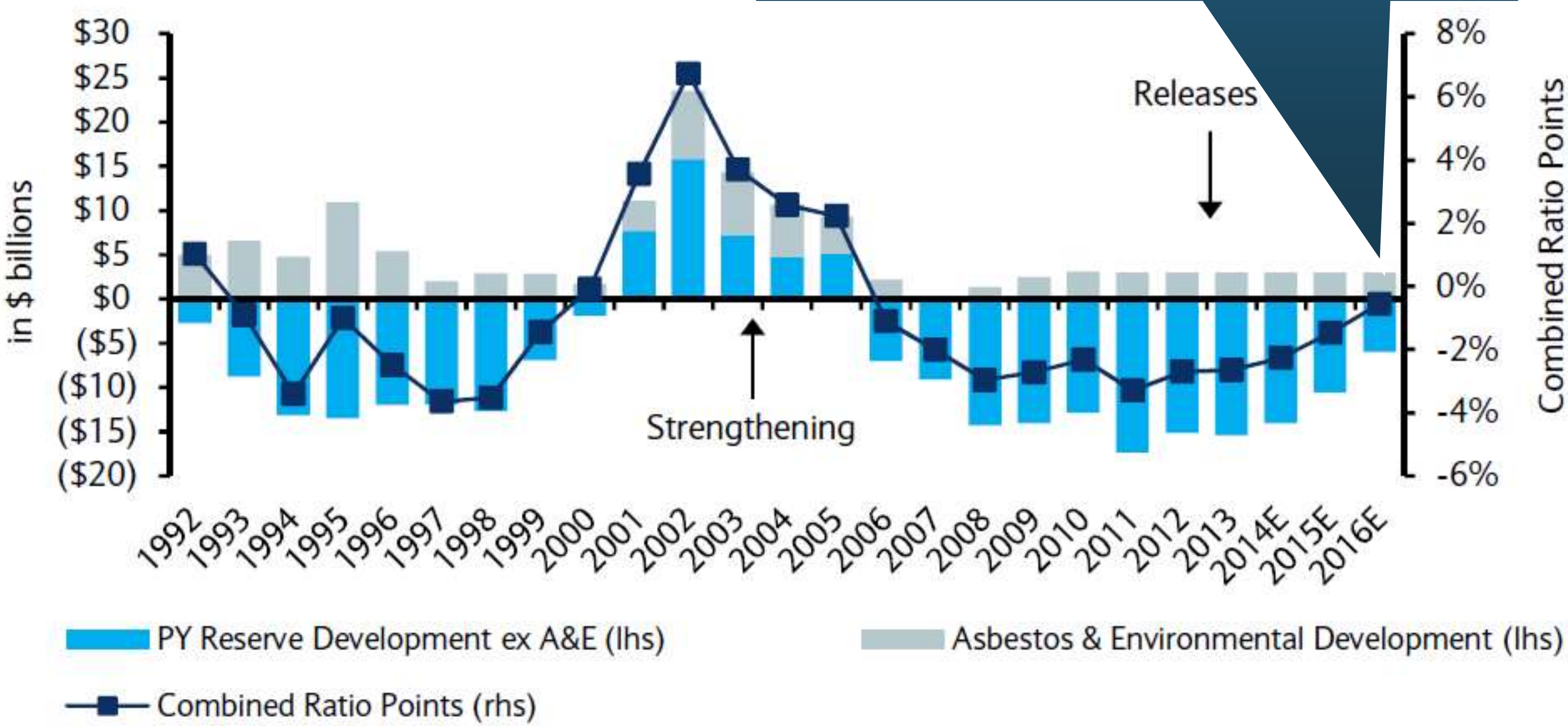
Reserve releases are expected to gradually taper off, but will continue to benefit the bottom line and combined ratio through at least 2016

Reserve Change



Source: A.M. Best; Barclays research for estimates.

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Top Insurance Issues:

What's Hot, What's Not

No Dominant Even in 2014, but Some Key Commercial Lines Issues Spiked

Terrorism, TRIA & Cyber

I.I.I. Media Index, P/C, 2014 vs 2013

Percent increase/decrease from previous year

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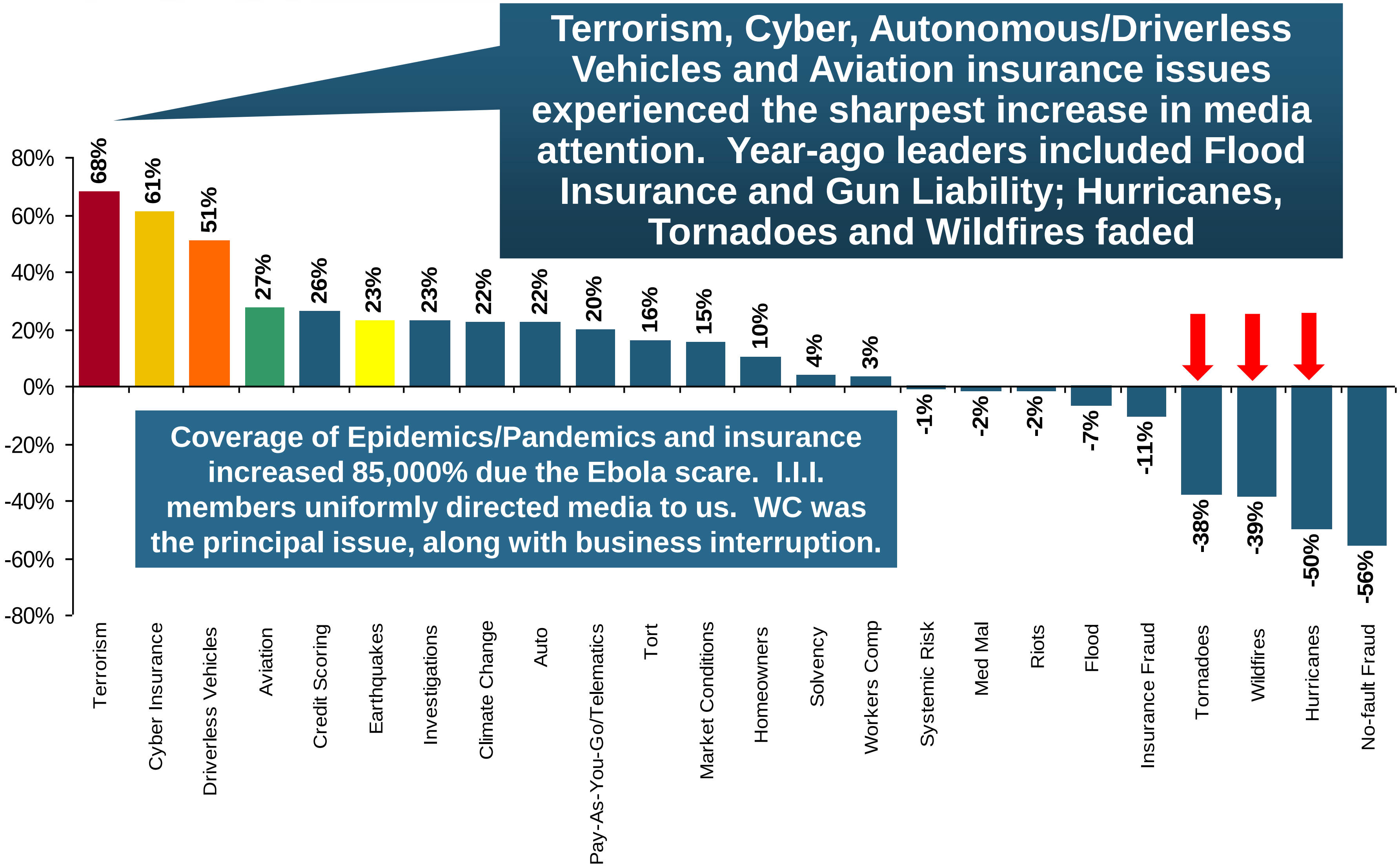

Source: Insurance Information Institute based on a search of Lexis/Nexis.

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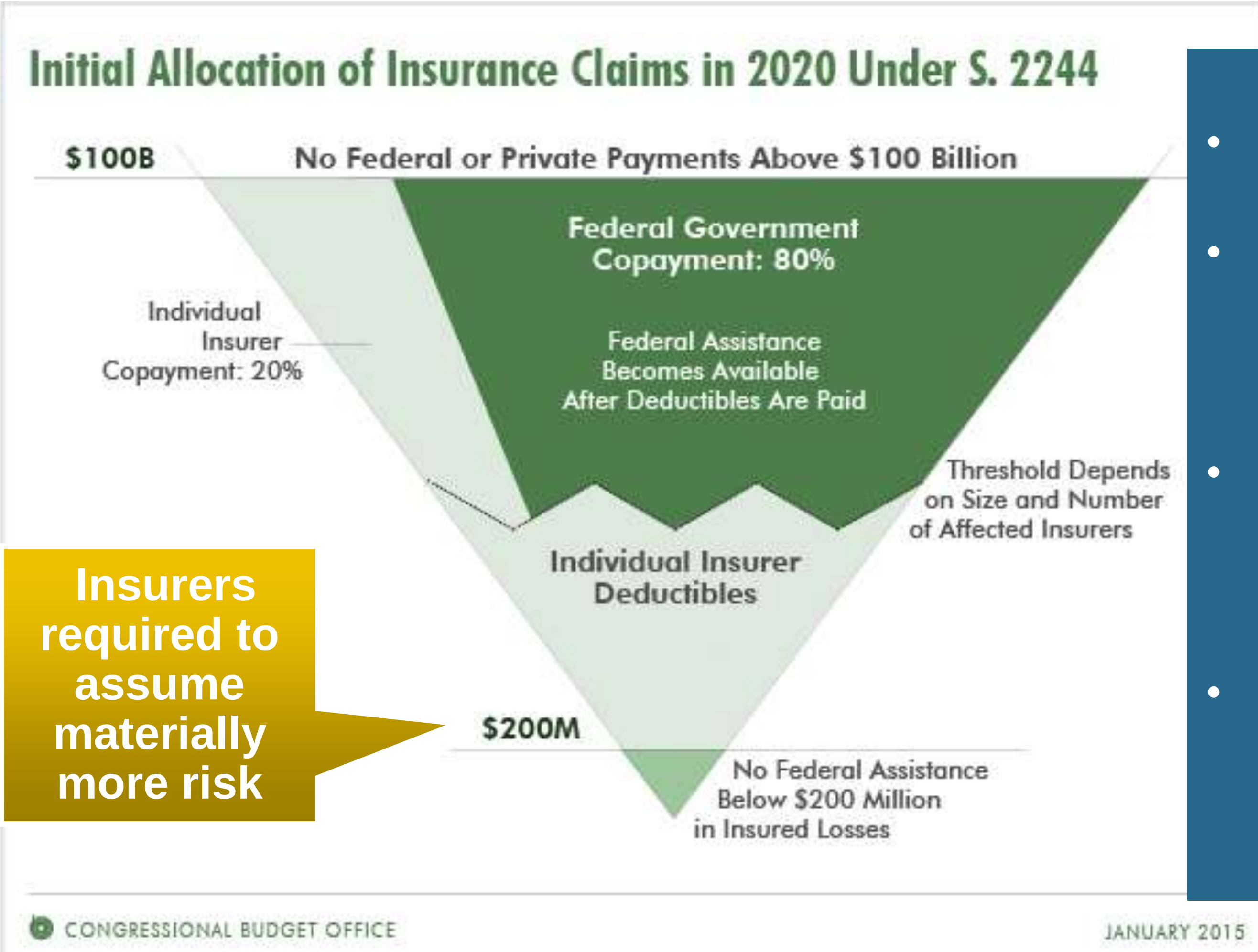
TERRORISM & TRIA LAPSE

Reauthorization Was a Major Industry Effort Over the Past Few Years

Outline of New TRIA Structure

Structure of Reauthorized TRIA Program (as of 2020)



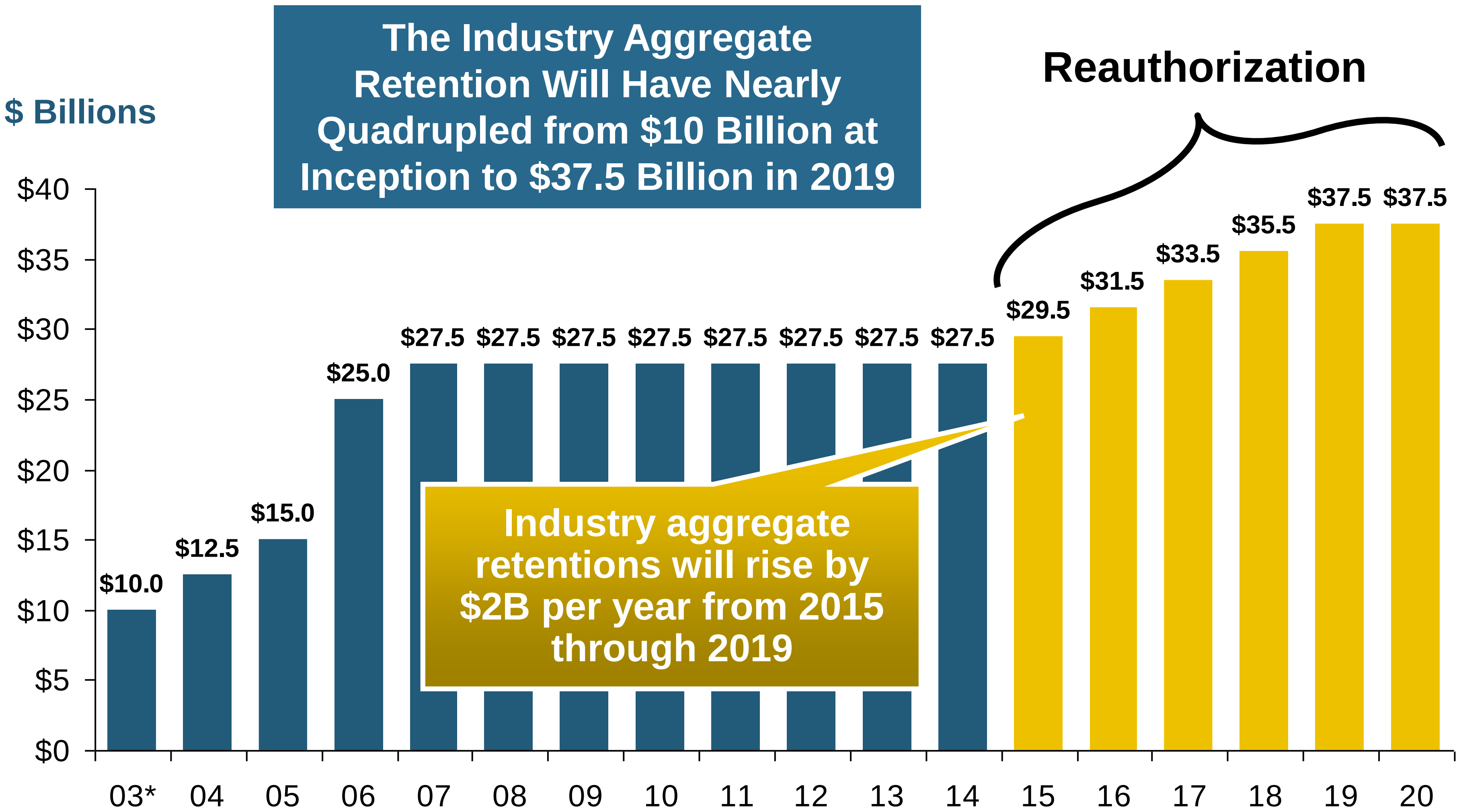
Insurers required to assume materially more risk

Major Changes

- 6-Year reauthorization
- Trigger rises in steps from $100MM to $200MM
- Industry aggregate retention rises in steps from $27.5B to $37.5B
- Industry co-share above retained losses rise in steps from 15% to 20%

Source: Congressional Budget Office: http://www.cbo.gov/publication/49866; Insurance Information Institute research.

Industry Aggregate Retention Under TRIA, from Inception through Extension



*First full year of program; TRIA was signed in to law on Nov. 26, 2002, with provisions identical to those in 2003.
Source: Insurance Information Institute research.

TRIA Program Trigger, from Inception through Extension

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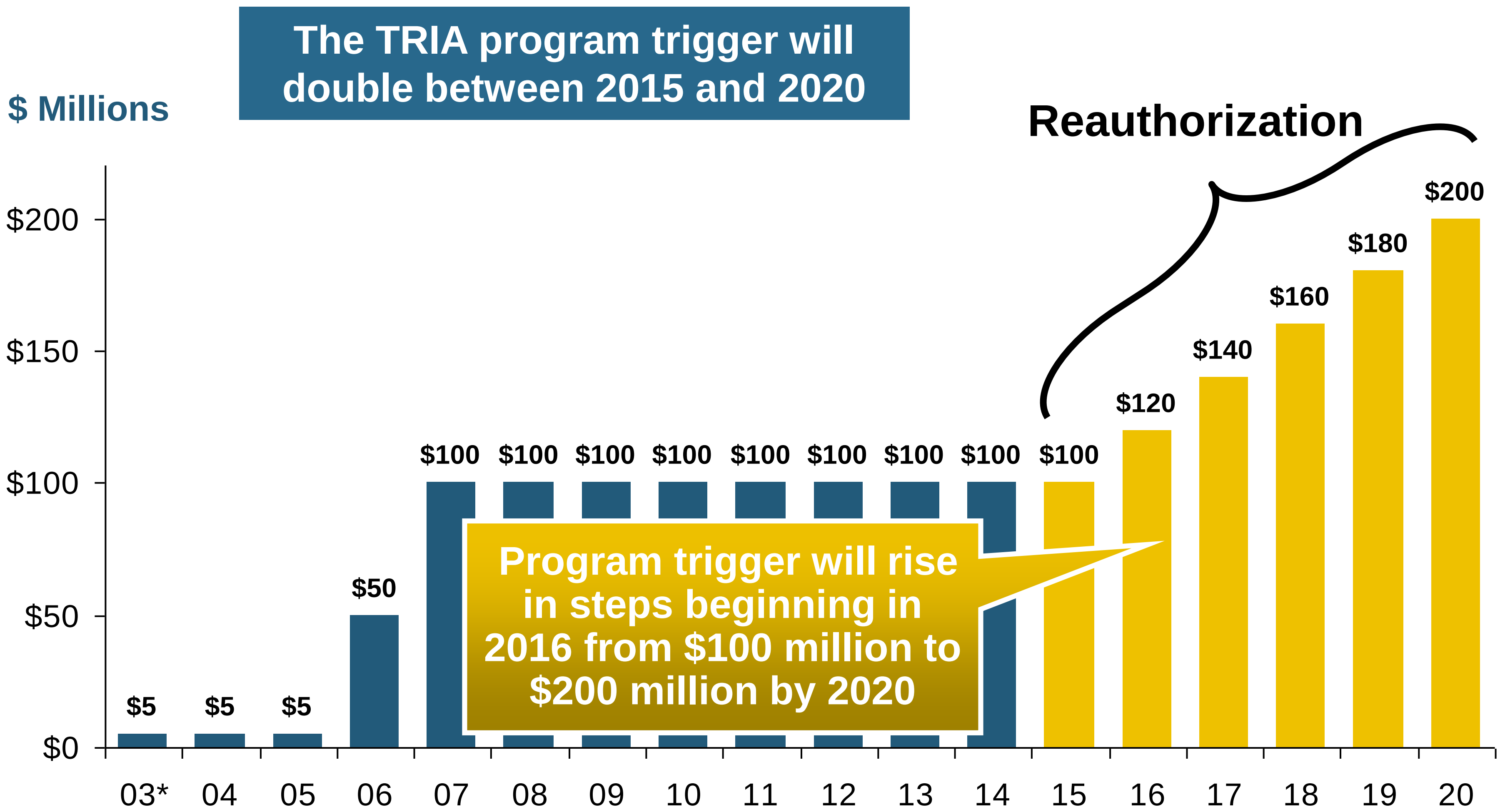
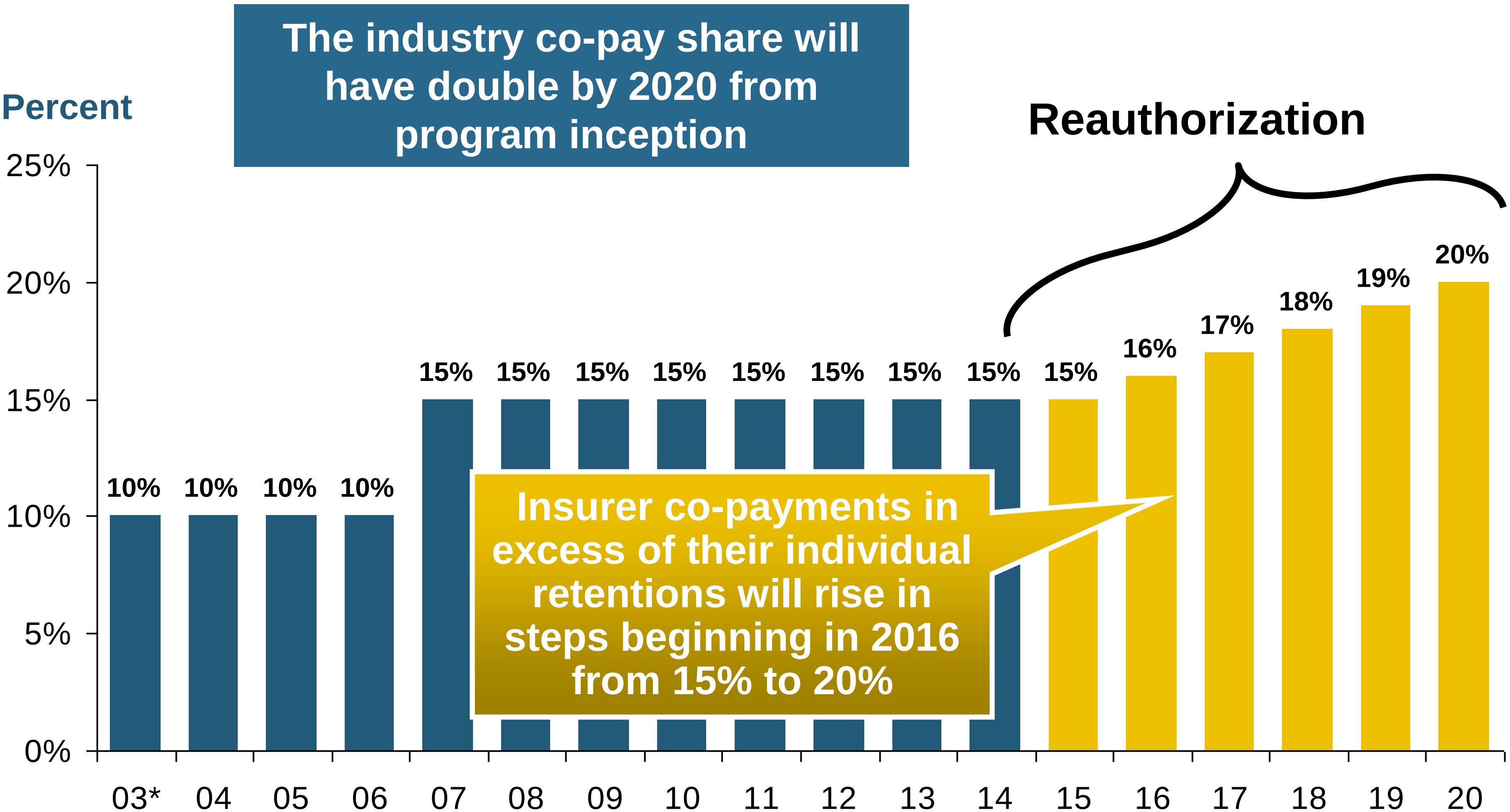


*First full year of program; TRIA was signed in to law on Nov. 26, 2002, with provisions identical to those in 2003.
Source: Insurance Information Institute research.

Industry Co-Pay Share in Excess of Individual Retention



*First full year of program; TRIA was signed in to law on Nov. 26, 2002, with provisions identical to those in 2003.
Source: Insurance Information Institute research.

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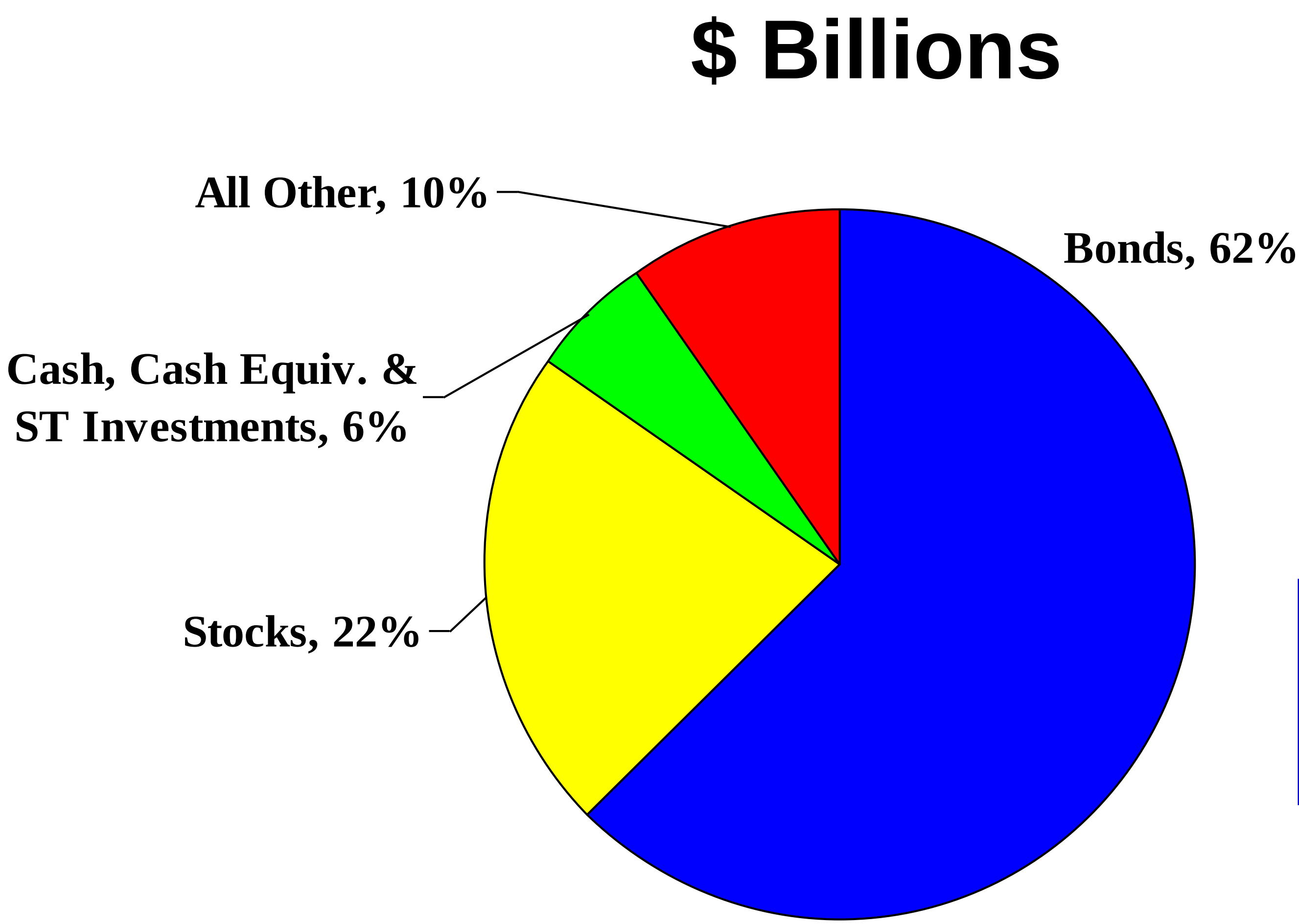
INVESTMENTS: THE NEW REALITY

Investment Performance is a Key Driver of Profitability

Depressed Yields Will Necessarily Influence Underwriting & Pricing

Distribution of Invested Assets: P/C Insurance Industry, 2013



Total Invested Assets = $1.5 Trillion

Source: Insurance Information Institute *Fact Book 2015,* A.M. Best.

Property/Casualty Insurance Industry Investment Income: 2000–2014[1]

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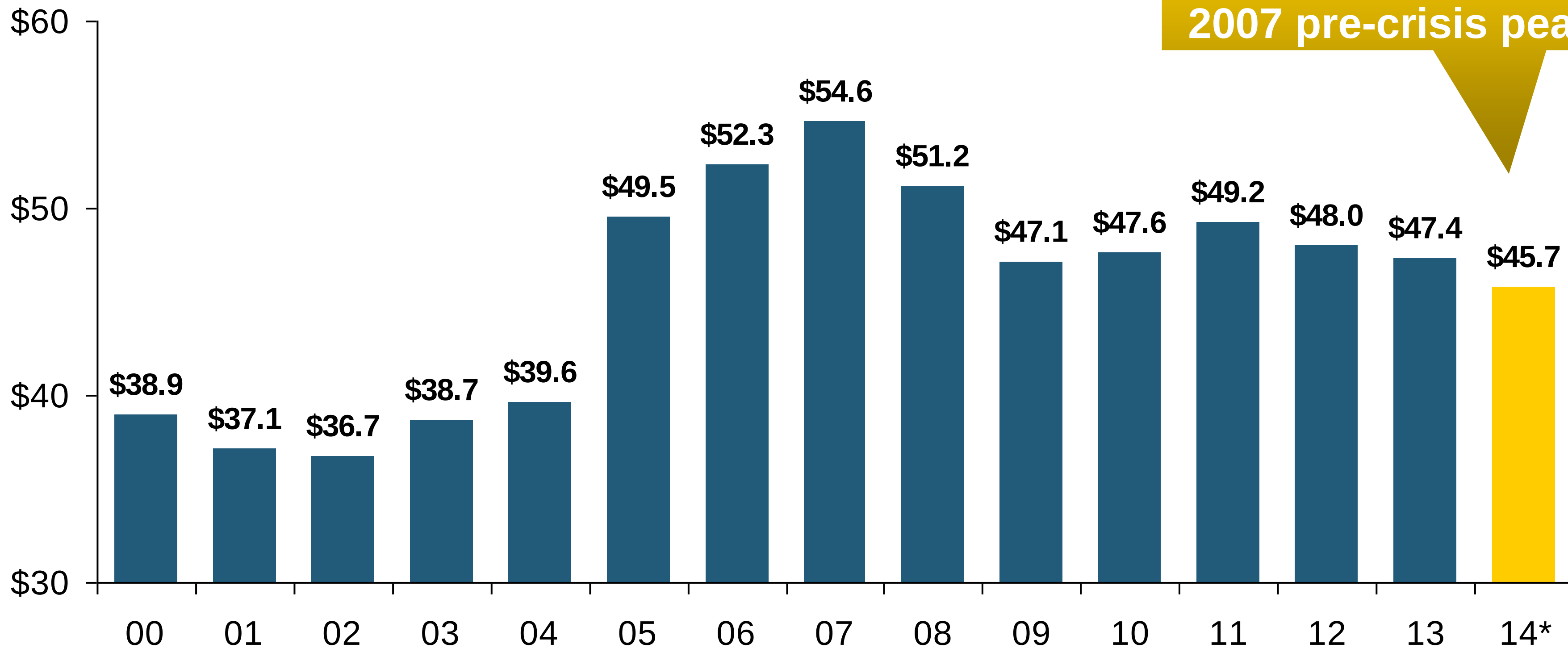
($ Billions)

Investment earnings are still below their 2007 pre-crisis peak



Due to persistently low interest rates, investment income fell in 2012, 2013 and 2014.

[1] Investment gains consist primarily of interest and stock dividends. *2014 figure is estimated based on annualized data through Q3.
Sources: ISO; Insurance Information Institute.

U.S. Treasury Security Yields: A Long Downward Trend, 1990–2014*

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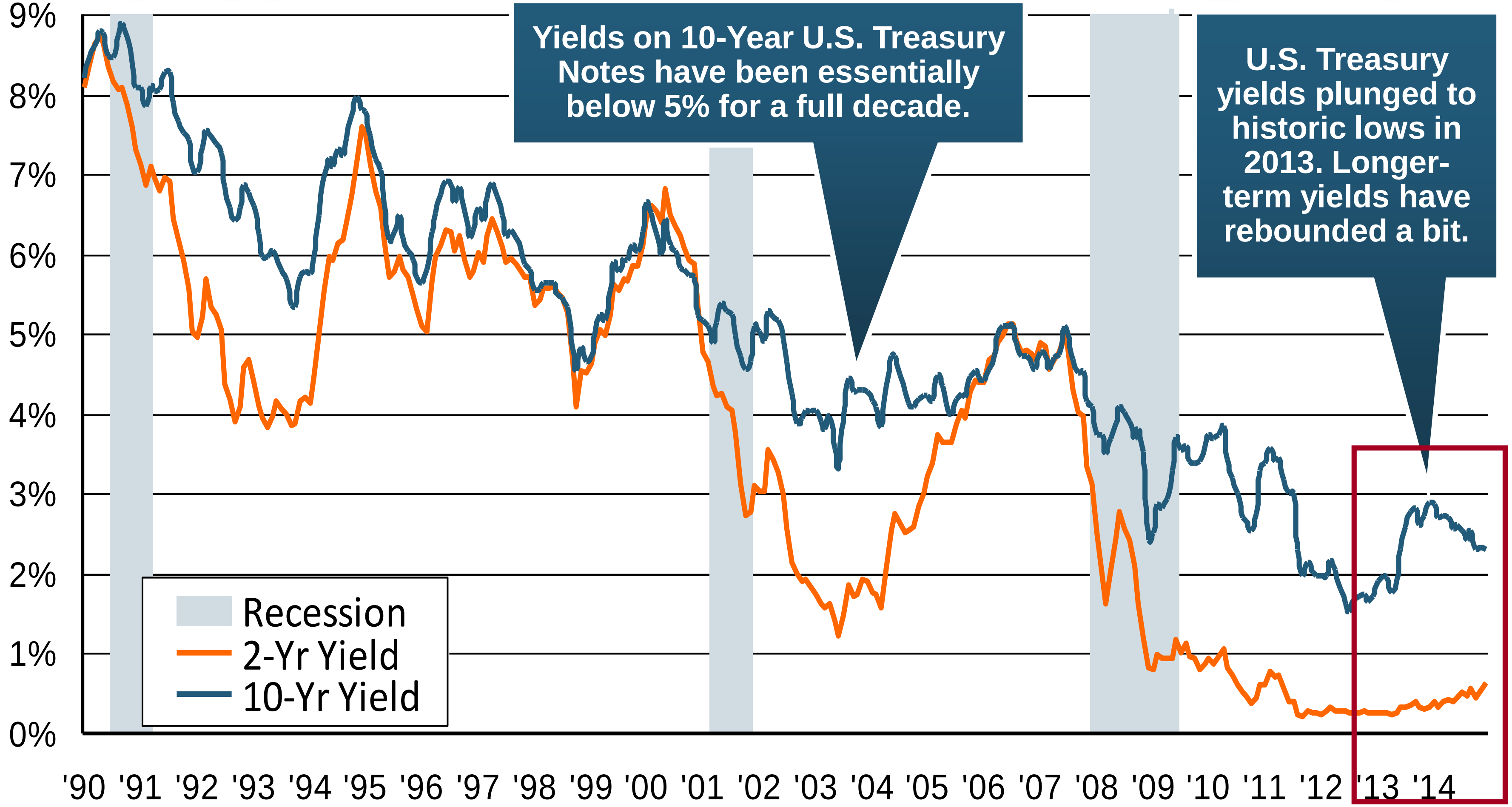

Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, constant maturity, nominal rates, through Dec. 2014.

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

Book Yield on Property/Casualty Insurance Invested Assets, 2007–2016F

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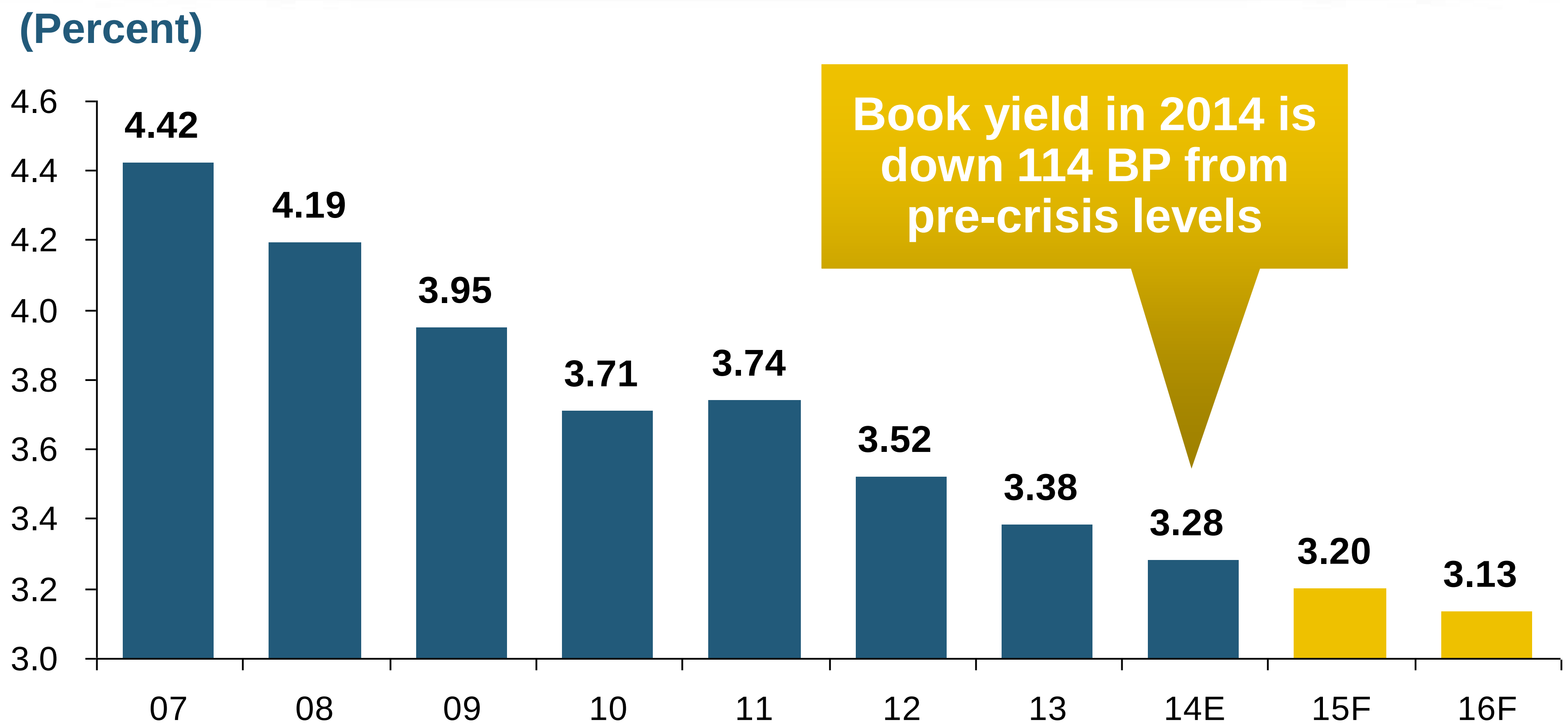
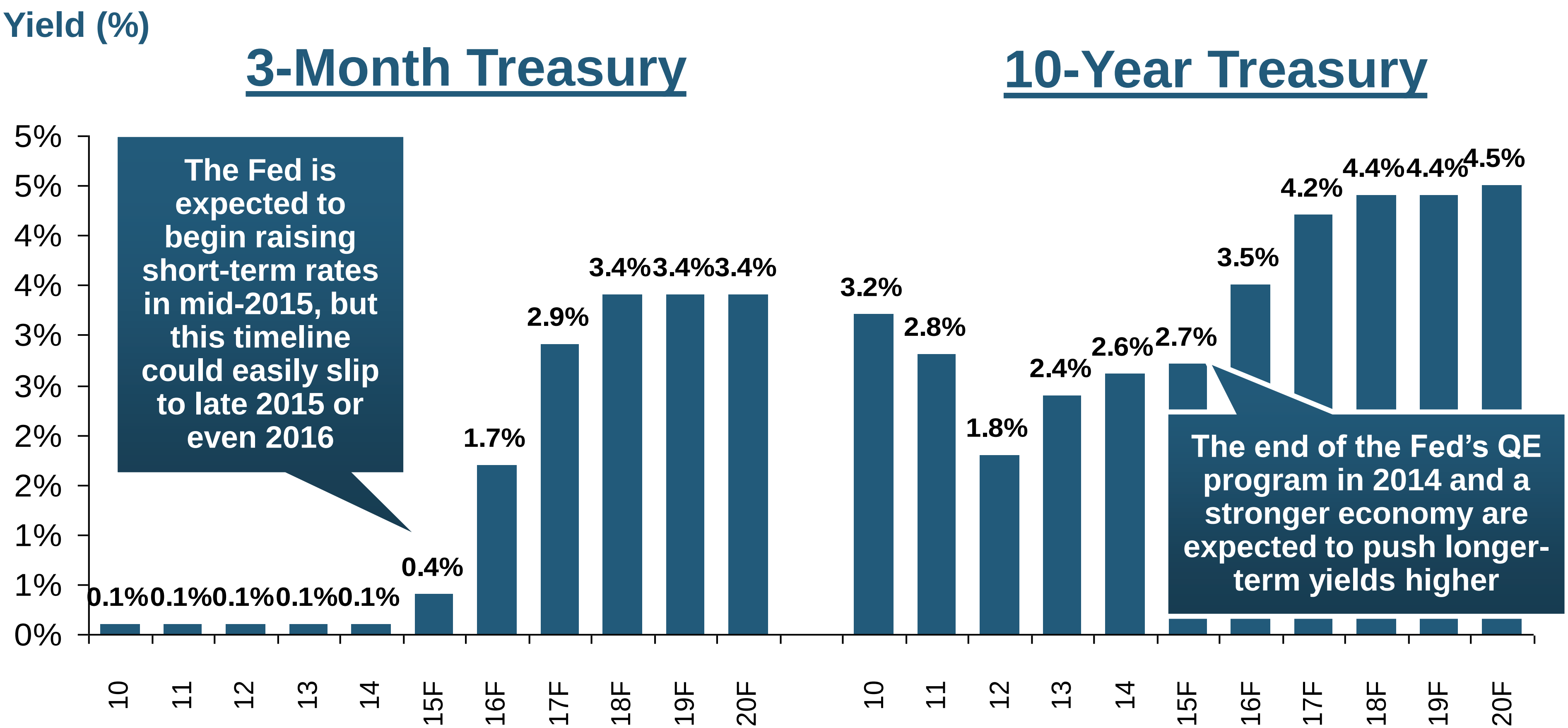


The yield on invested assets continues to decline as returns on maturing bonds generally still exceed new money yields. The end of the Fed's QE program in Oct. 2014 should allow some increase in longer maturities while short term interest rate increases are unlikely until mid-to-late 2015

Sources: Conning.

Interest Rate Forecasts: 2015 – 2020



A Full Normalization of Interest Rates Is Unlikely Until 2018, More than a Decade After the Onset of the Financial Crisis

Sources: Federal Reserve Board of Governors (historical); Blue Chip Economic Indicators (1/15 for 2015 and 2016; for 2017-2020 10/14 issue); Insurance Info. Institute.

Annual Inflation Rates, (CPI-U, %), 1990–2016F

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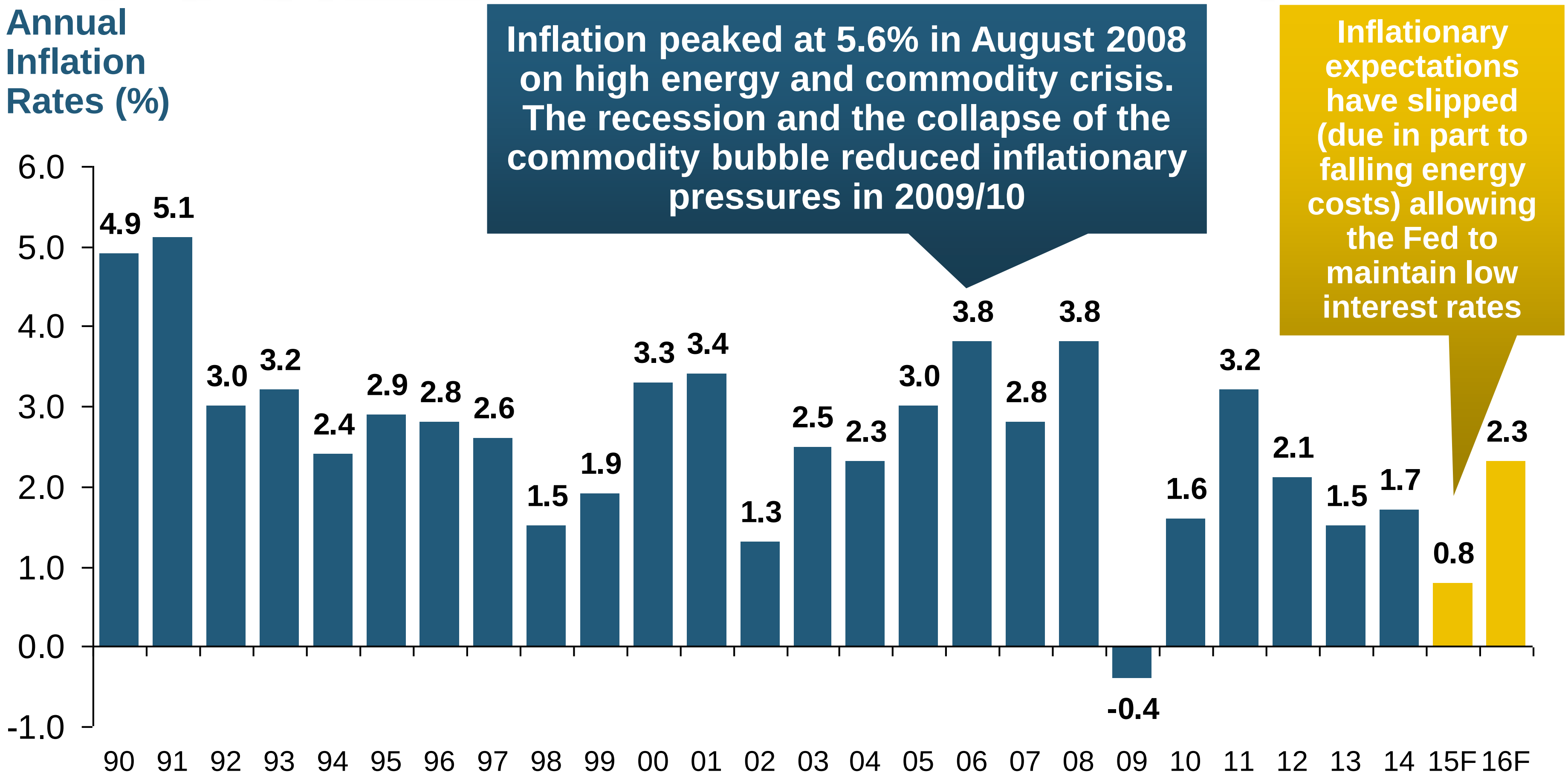
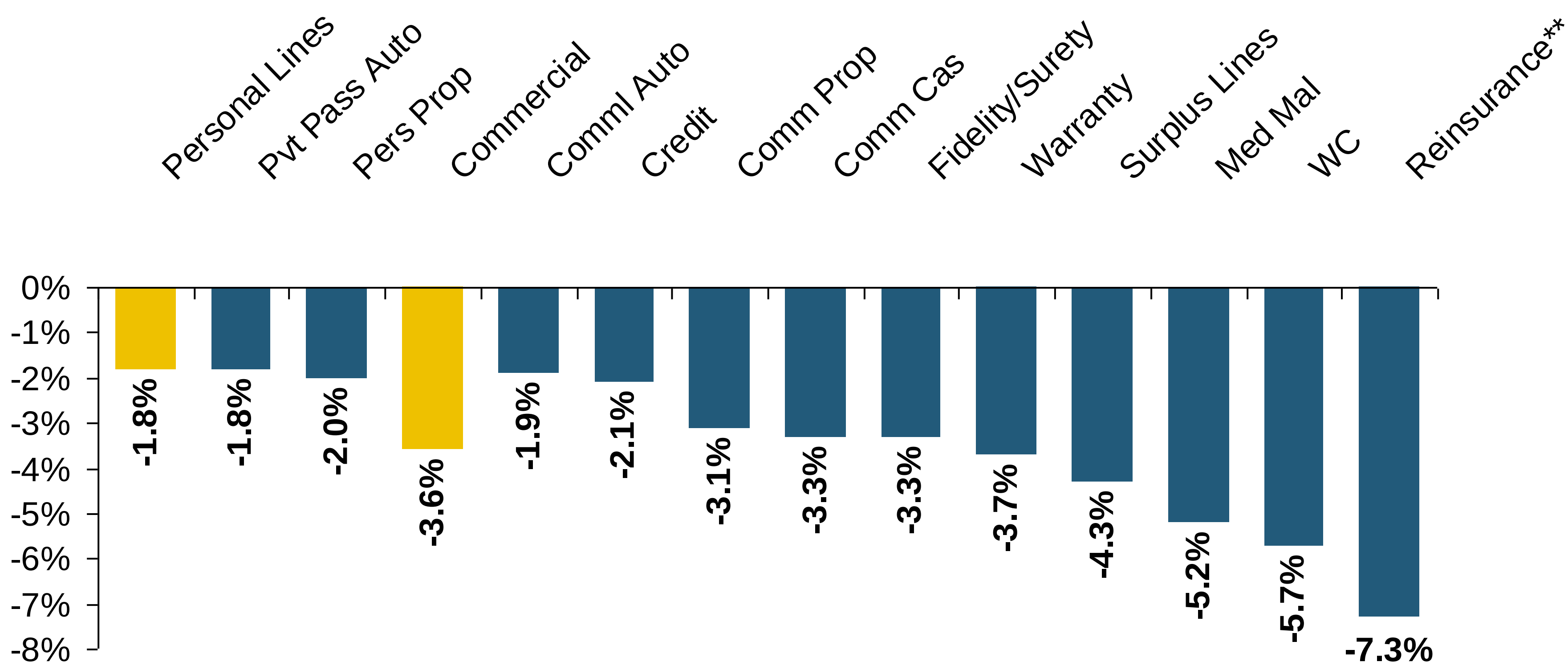


Slack in the U.S. economy and falling energy prices suggests that inflationary pressures should remain subdued for an extended period of times

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators, 1/15 (forecasts).

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



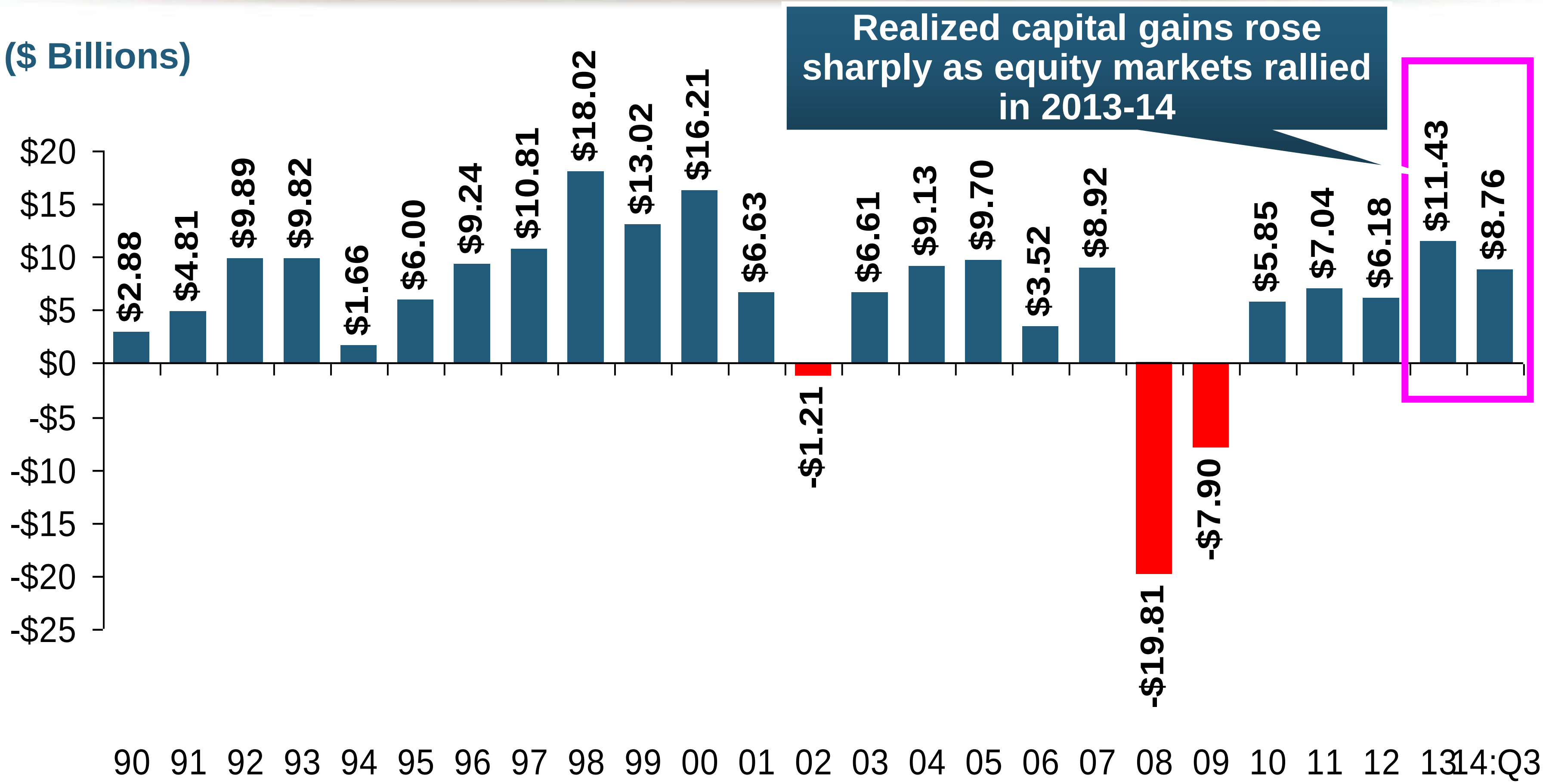
Lower Investment Earnings Place a Greater Burden on Underwriting and Pricing Discipline

*Based on 2008 Invested Assets and Earned Premiums

**US domestic reinsurance only

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

P/C Insurer Net Realized Capital Gains/Losses, 1990-2014:Q3



Insurers Posted Net Realized Capital Gains in 2010 - 2014 Following Two Years of Realized Losses During the Financial Crisis. Realized Capital Losses Were a Primary Cause of 2008/2009's Large Drop in Profits and ROE

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

Property/Casualty Insurance Industry Investment Gain: 1994–2014E[1]

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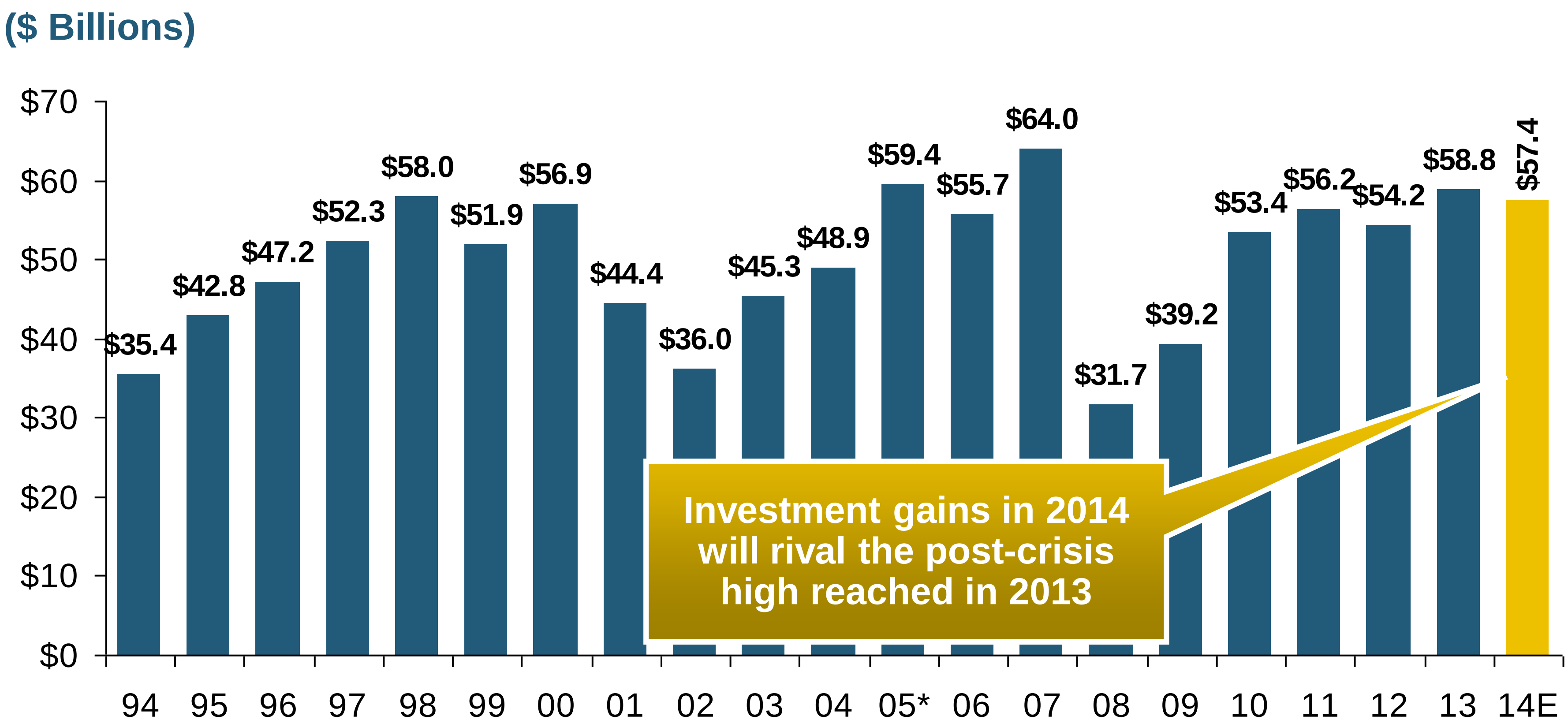
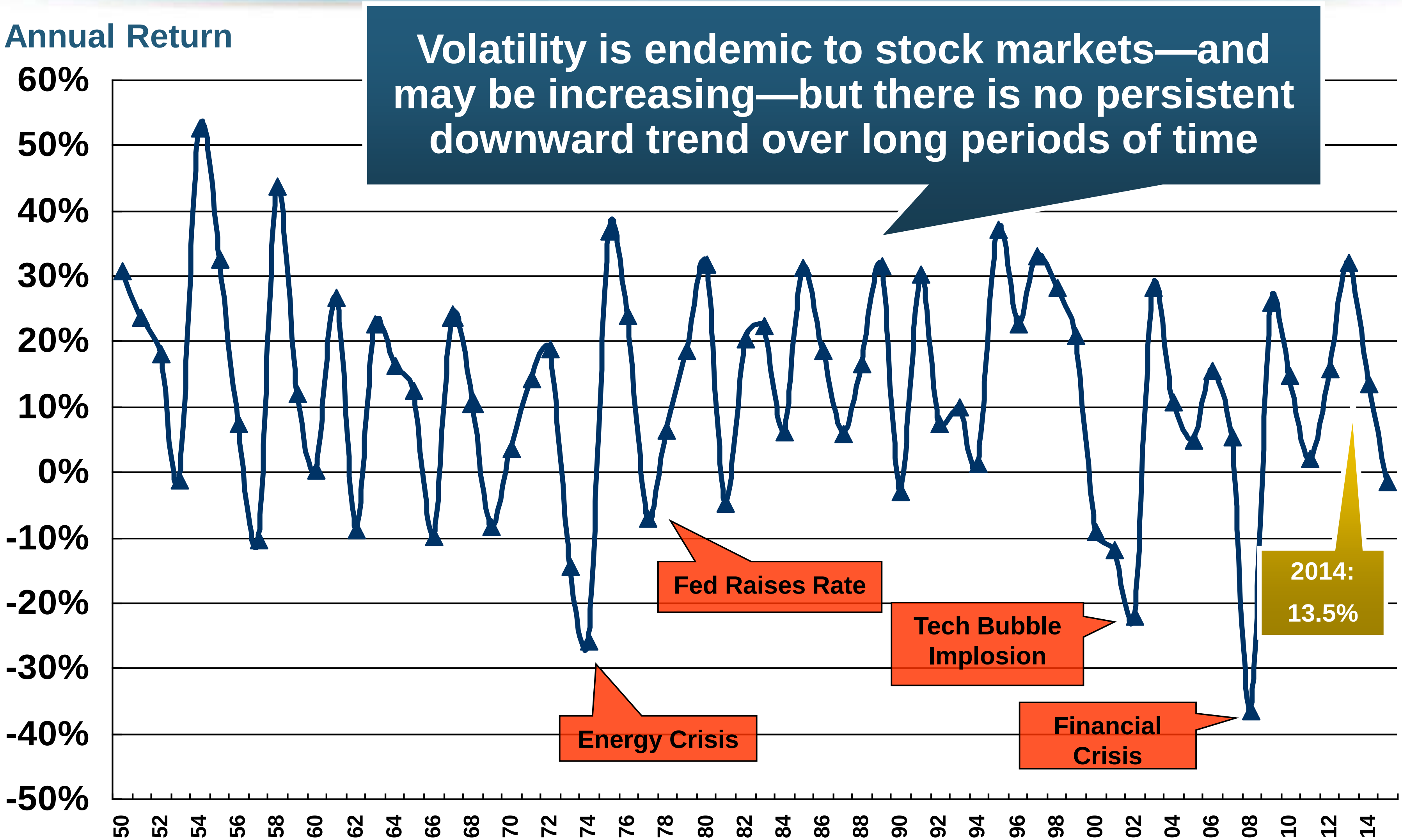


Total Investment Gains Were Flat in 2014 as Low Interest Rates Pressured Investment Income but Realized Capital Gains Remained Robust

[1] Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.
* 2005 figure includes special one-time dividend of $3.2B;
Sources: ISO; Insurance Information Institute.

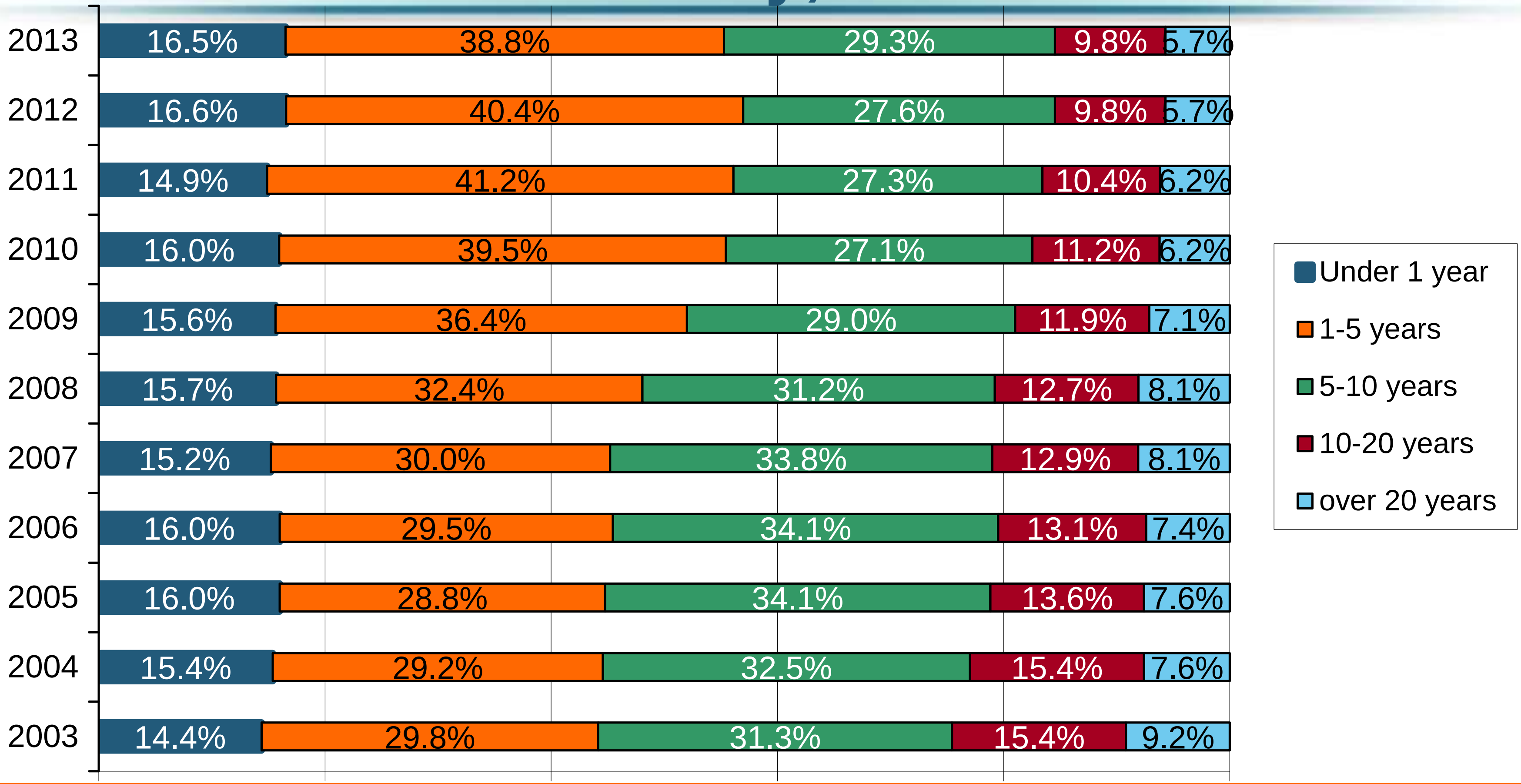
S&P 500 Index Returns, 1950 – 2015*



*Through Jan. 27, 2015.

Source: NYU Stern School of Business: http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html Ins. Info. Inst.

Distribution of Bond Maturities, P/C Insurance Industry, 2003-2013



The main shift over these years has been from bonds with longer maturities to bonds with shorter maturities. The industry first trimmed its holdings of over-10-year bonds (from 24.6% in 2003 to 15.5% in 2012) and then trimmed bonds in the 5-10-year category (from 31.3% in 2003 to 27.6% in 2012) . Falling average maturity of the P/C industry's bond portfolio is contributing to a drop in investment income along with lower yields.

Sources: SNL Financial; Insurance Information Institute.

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CAPITAL/CAPACITY

Capital Accumulation Has Multiple Impacts

Policyholder Surplus, 2006:Q4–2014:Q3

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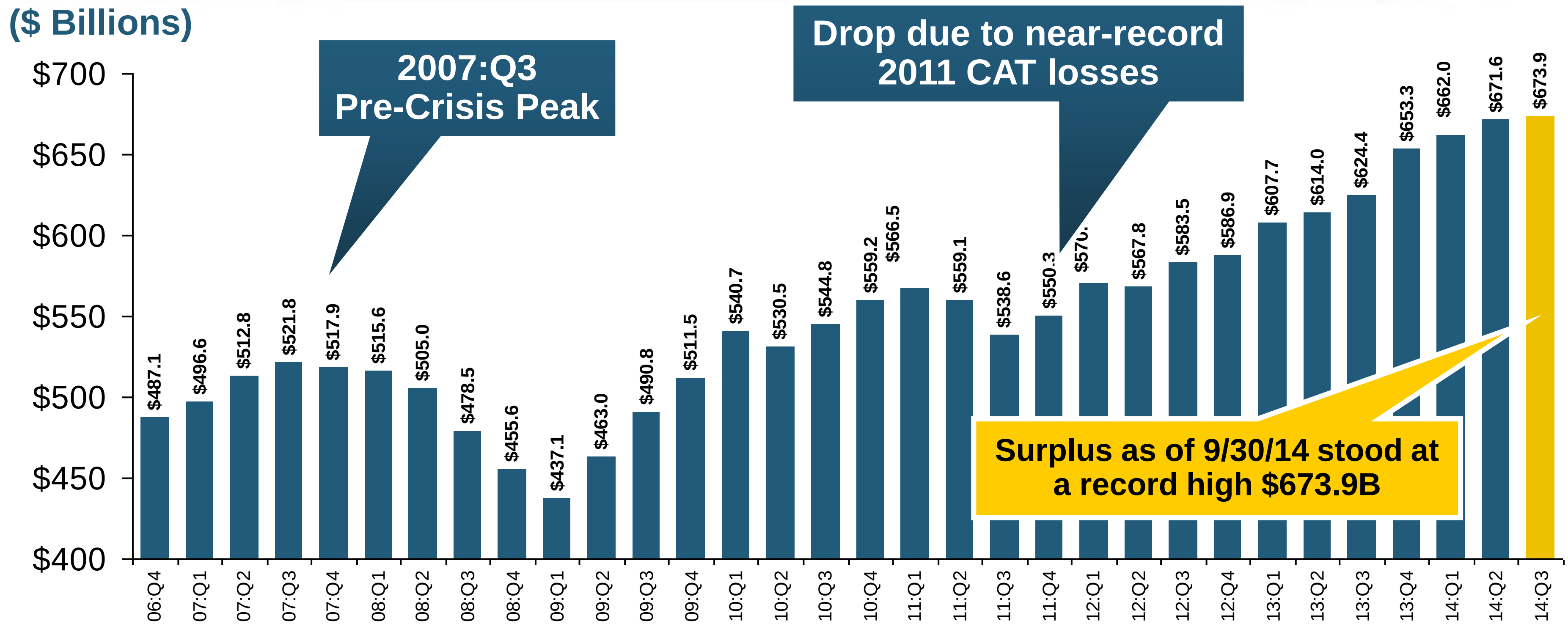

The industry now has $1 of surplus for every $0.73 of NPW, close to the strongest claims-paying status in its history.

2010:Q1 data includes $22.5B of paid-in capital from a holding company parent for one insurer’s investment in a non-insurance business .

The P/C insurance industry entered 2015 in very strong financial condition.

Sources: ISO, A.M .Best.

US Policyholder Surplus: 1975–2014*

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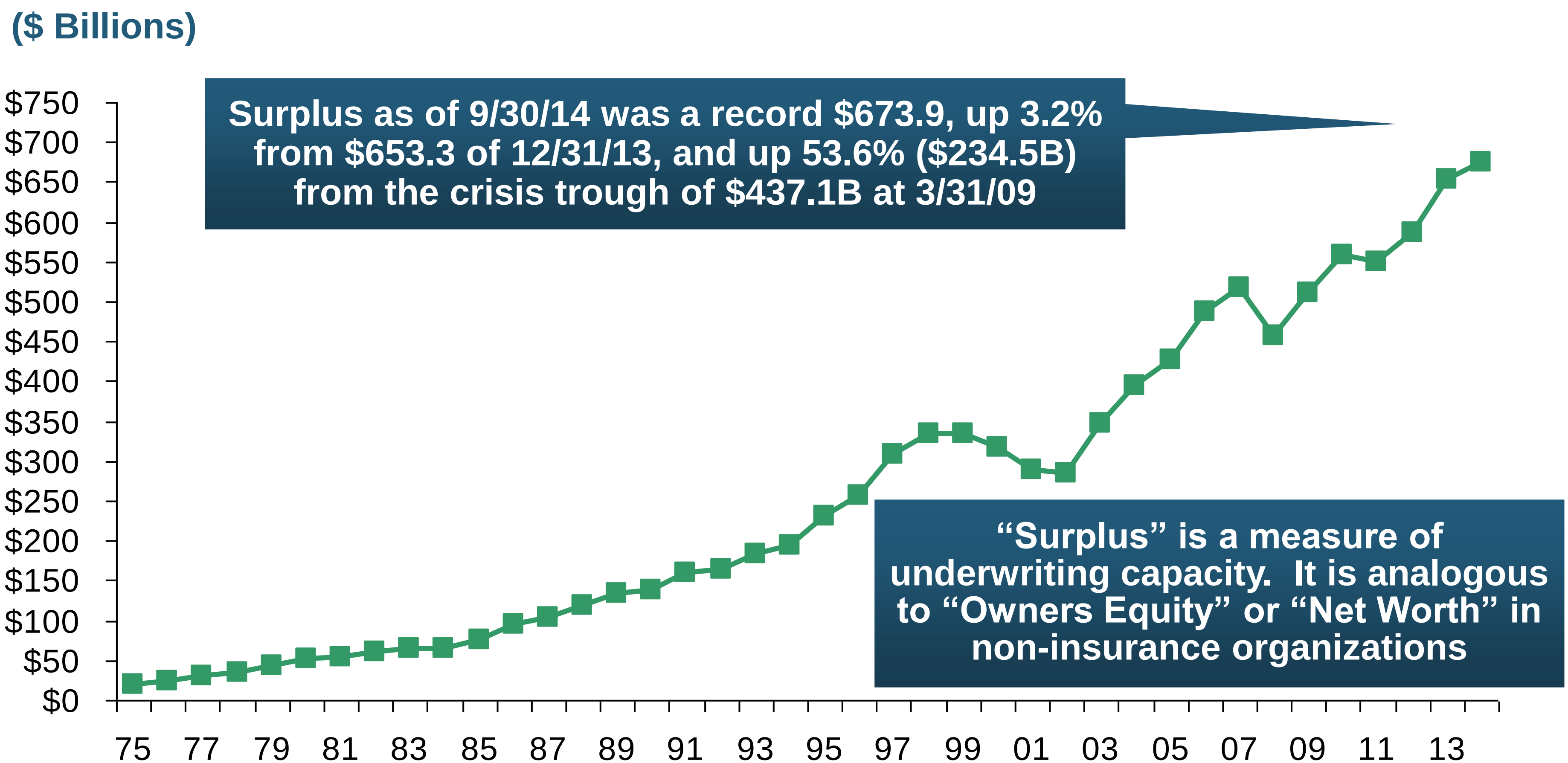

The Premium-to-Surplus Ratio Stood at $0.73:$1 as of 9/30/14, a Near Record Low (at Least in Recent History)

* As of 9/30/14.

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

Premium-to-Surplus Ratio: 1985–2014*

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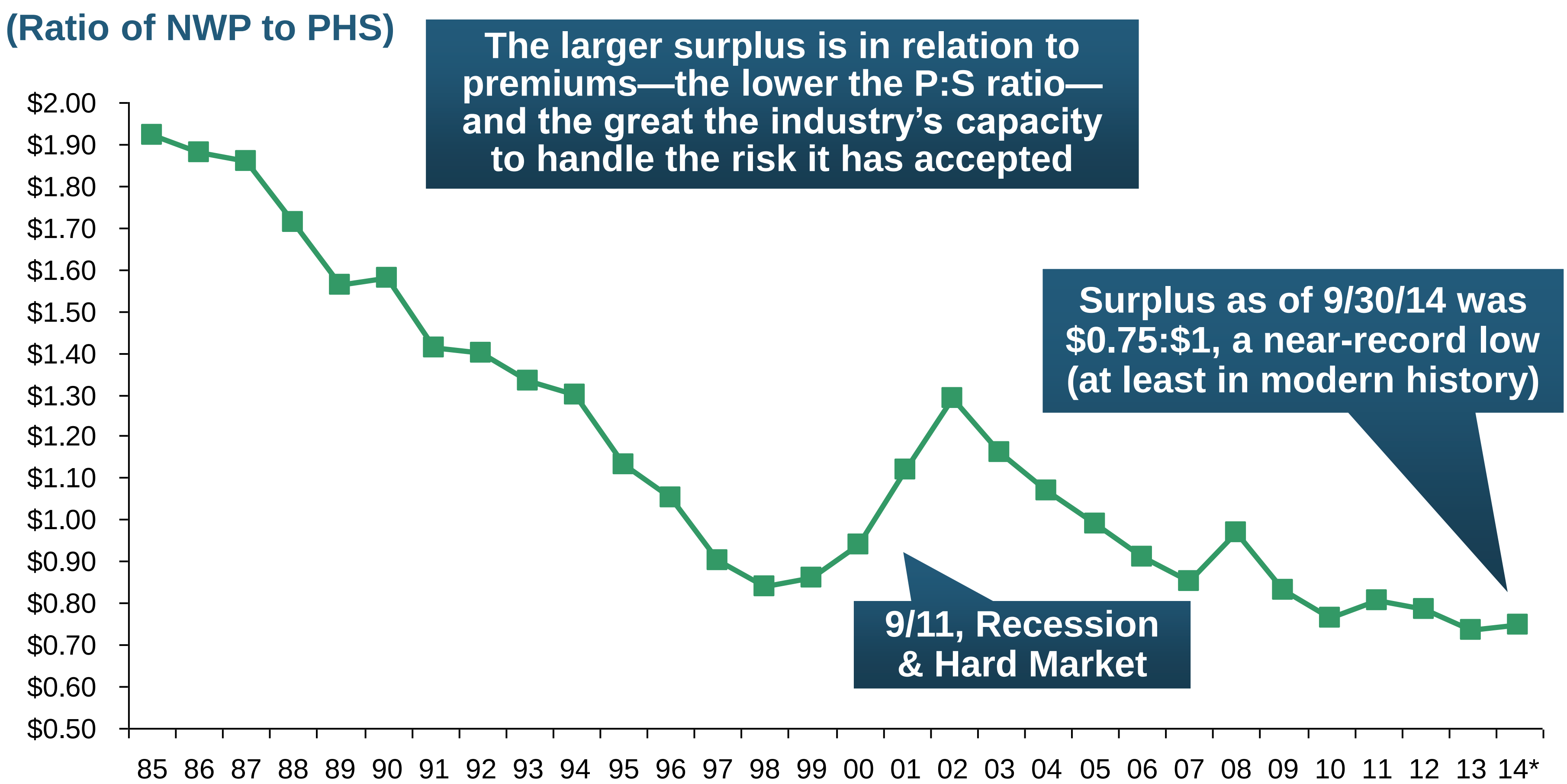


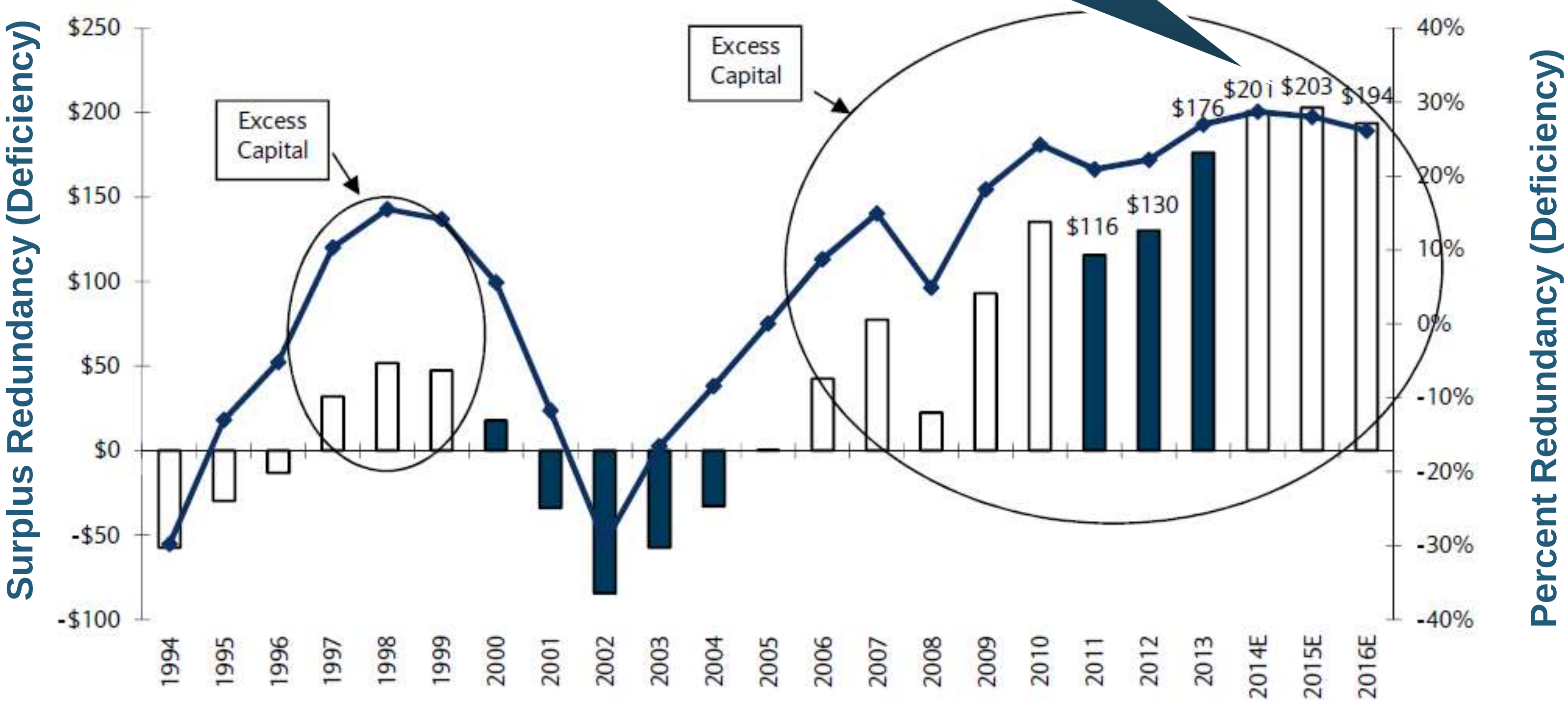
The Premium-to-Surplus Ratio Stood at $0.75:$1 as of 9/30/14, a Record Low (at Least in Recent History)

* As of 9/30/14.

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

US P/C Insurance Industry Excess Capital Position: 1994–2016E

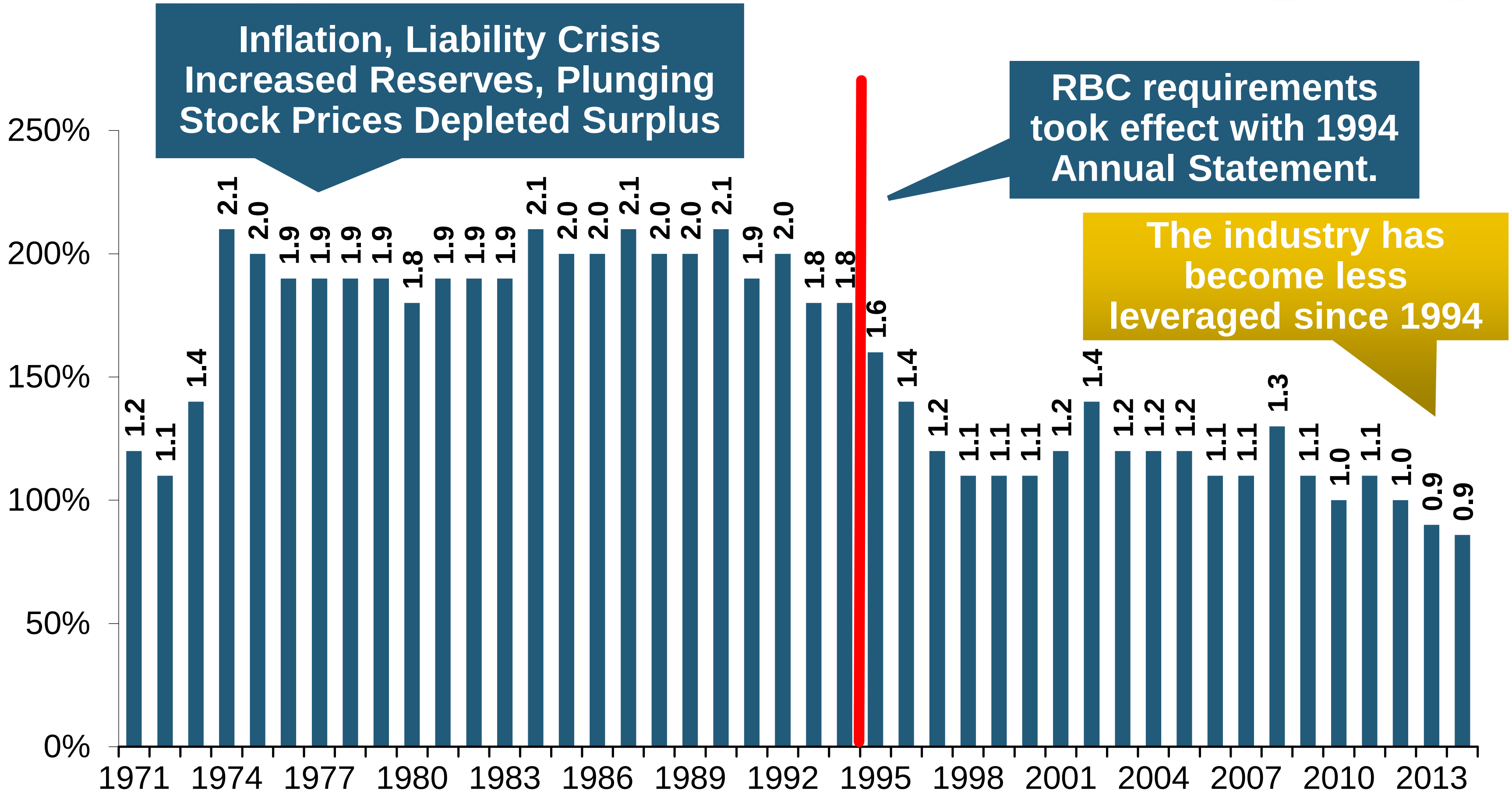
Barclay's suggests that surplus is approximately $200B (~30%)



The Industry's Strong Capital Position Suggests Insurers Are in a Good Position to Increase Risk Appetite, Repurchase Shares and Pursue Acqusitions

Source: Barclays Research estimates.

P/C Industry: Loss Reserve-to-Surplus Ratio, 1971-2014:Q3



The Property/Casualty Industry Adjusted Its Risk Portfolio in Response to Risk-Based Capital Requirements Implemented in 1994.

Source: Calculations from A.M. Best data by Insurance Information Institute.

Alternative Capital

New Investors Continue to Change the Reinsurance Landscape

First I.I.I. White Paper on Issue Will Be Released Q1 2015

Global Reinsurance Capital (Traditional and Alternative), 2006 - 2014

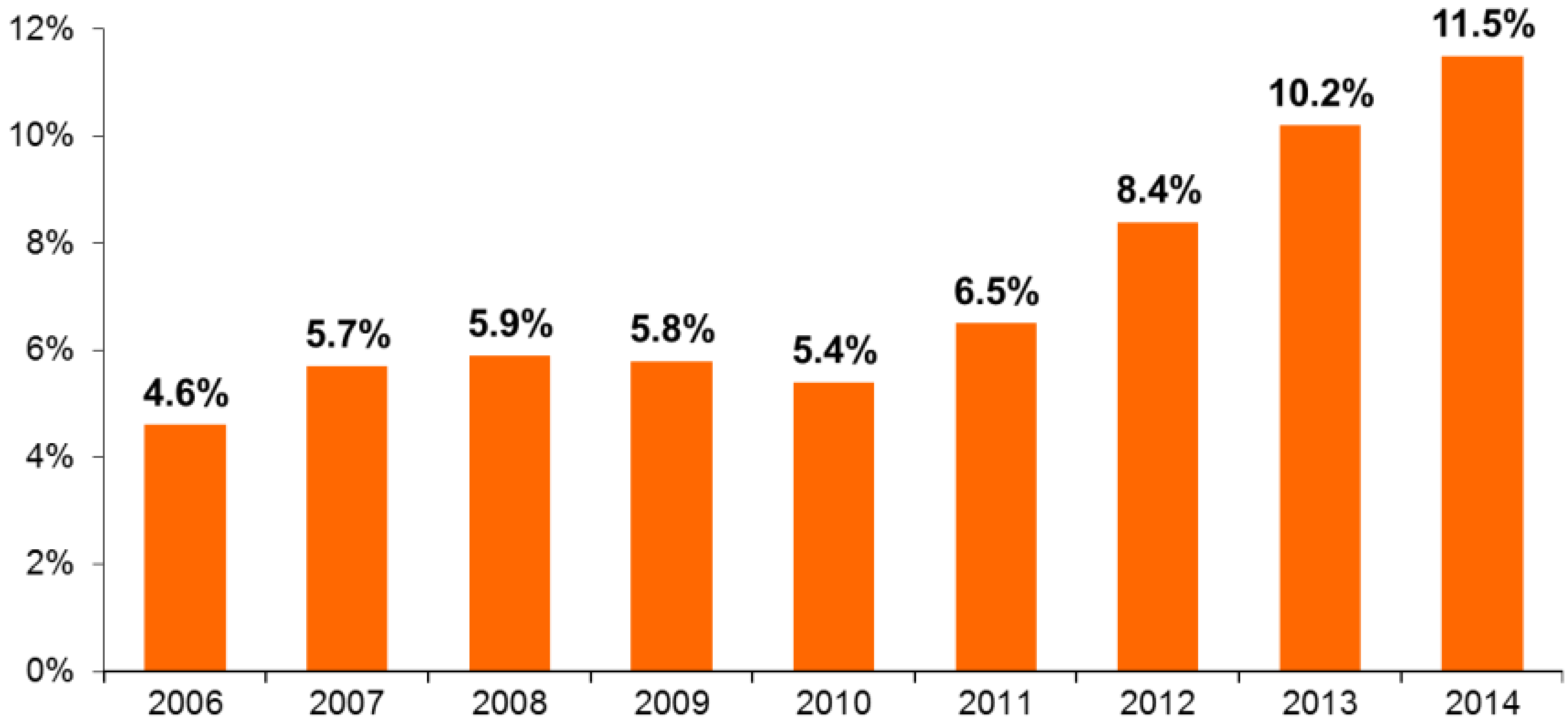
Total reinsurance capital reached a record $570B in 2013, up 68% from 2008.

But alternative capacity has grown 210% since 2008, to $50B. It has more than doubled in the past three years.

2014 data is as of June 30, 2014.

Source: Aon Benfield Analytics; Insurance Information Institute.

Alternative Capital as a Percentage of Traditional Global Reinsurance Capital

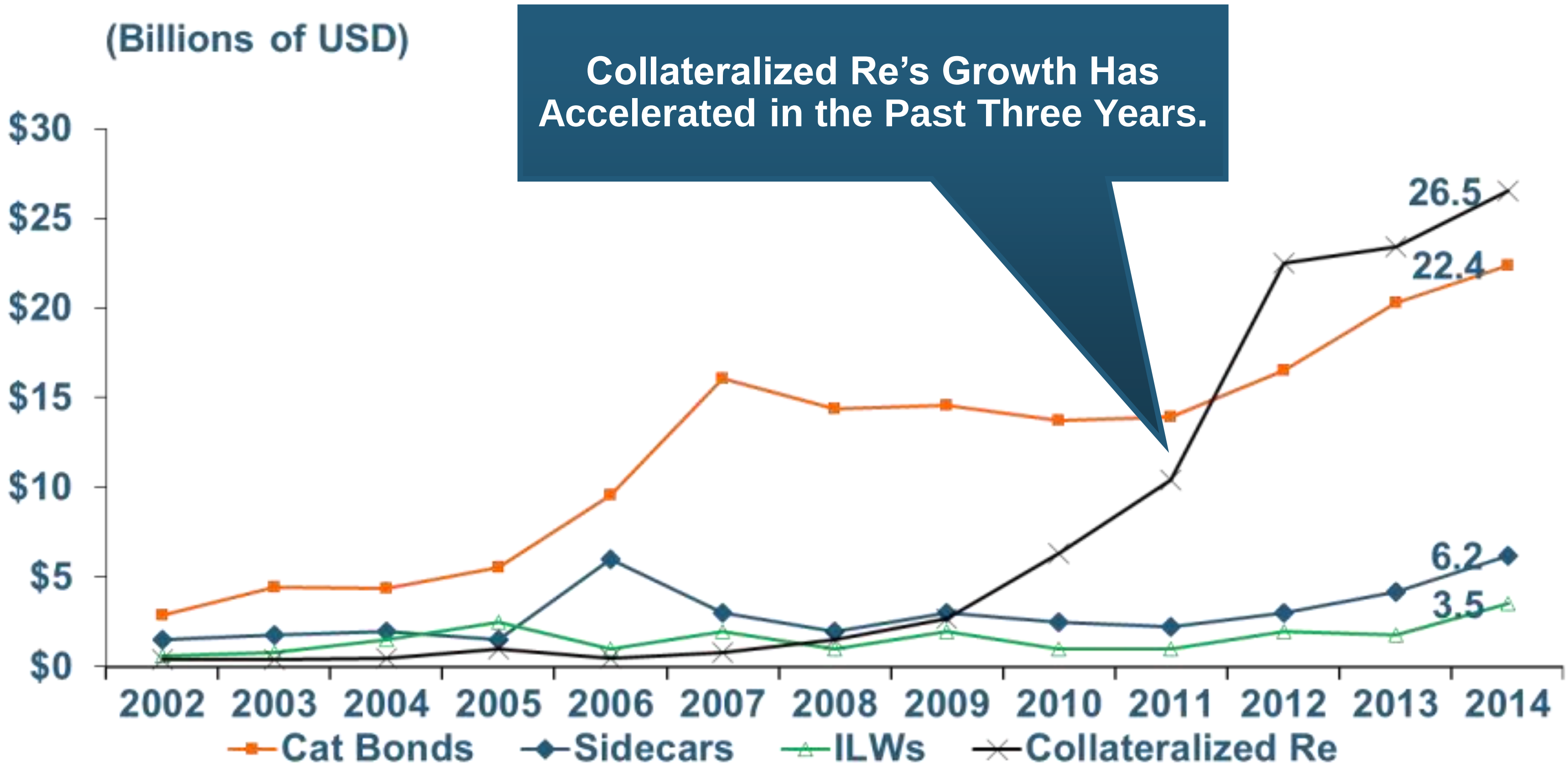


Alternative Capital's Share of Global Reinsurance Capital Has More Than Doubled Since 2010.

2014 data is as of June 30, 2014.

Source: Aon Benfield Analytics; Insurance Information Institute.

Growth of Alternative Capital Structures, 2002 - 2014



Collateralized Reinsurance and Catastrophe Bonds Currently Dominate the Alternative Capital Market.

2014 data is as of June 30, 2014.
Source: Aon Benfield Analytics; Insurance Information Institute.

Catastrophe Bond Issuance and Outstanding: 1997-2014

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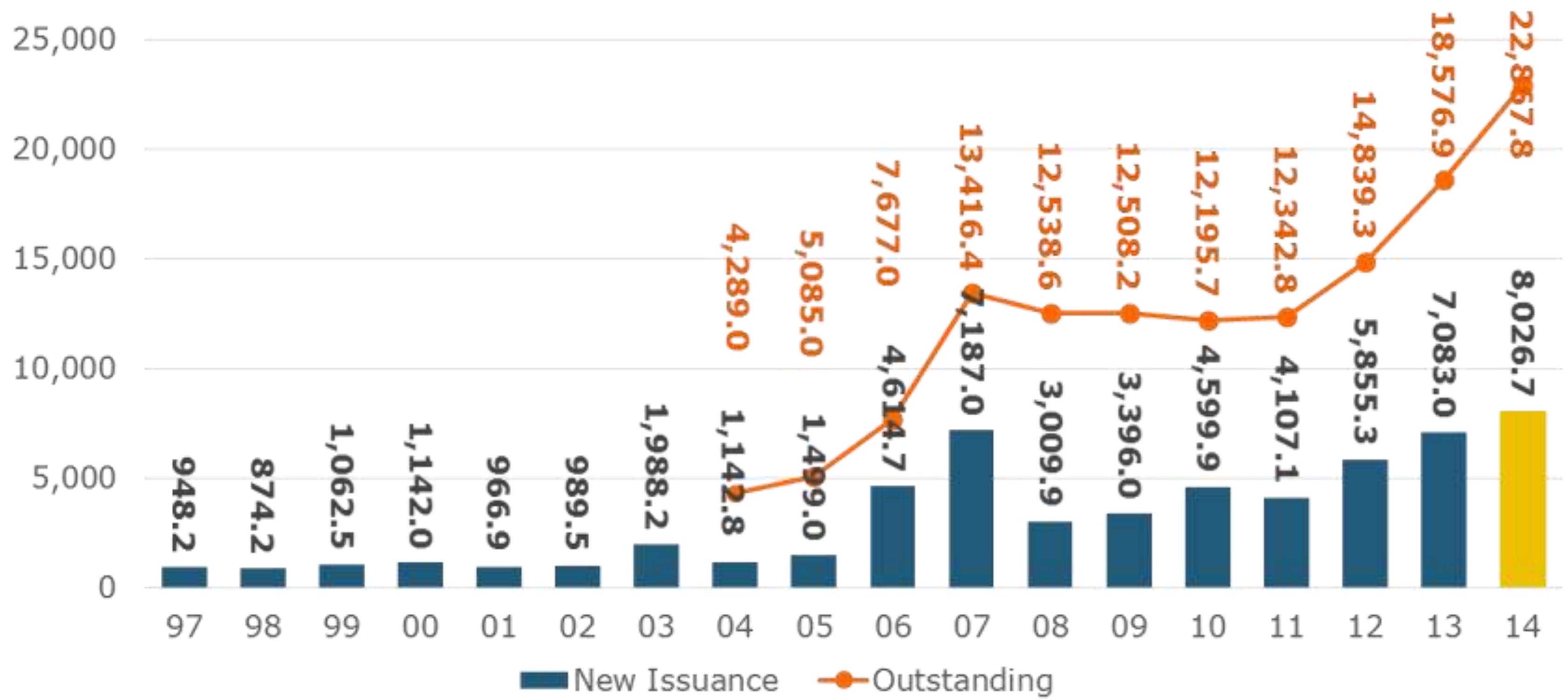
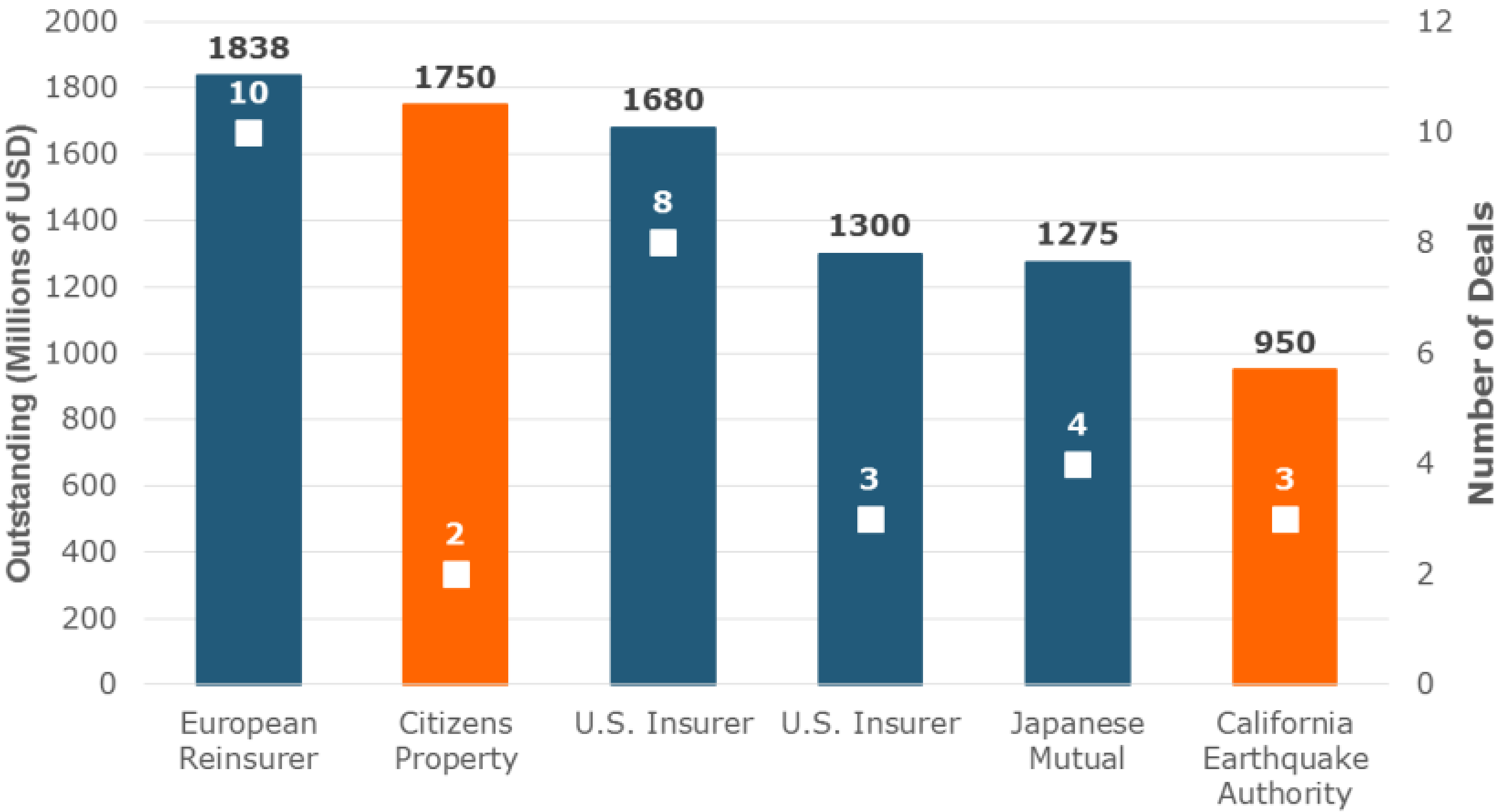
Risk Capital Amount ($ Millions)



2014 Has Seen the Largest Cat Bond Ever - $1.5 Billion (Florida Citizens). Bond Issuance Set a Record.

Source: Guy Carpenter.

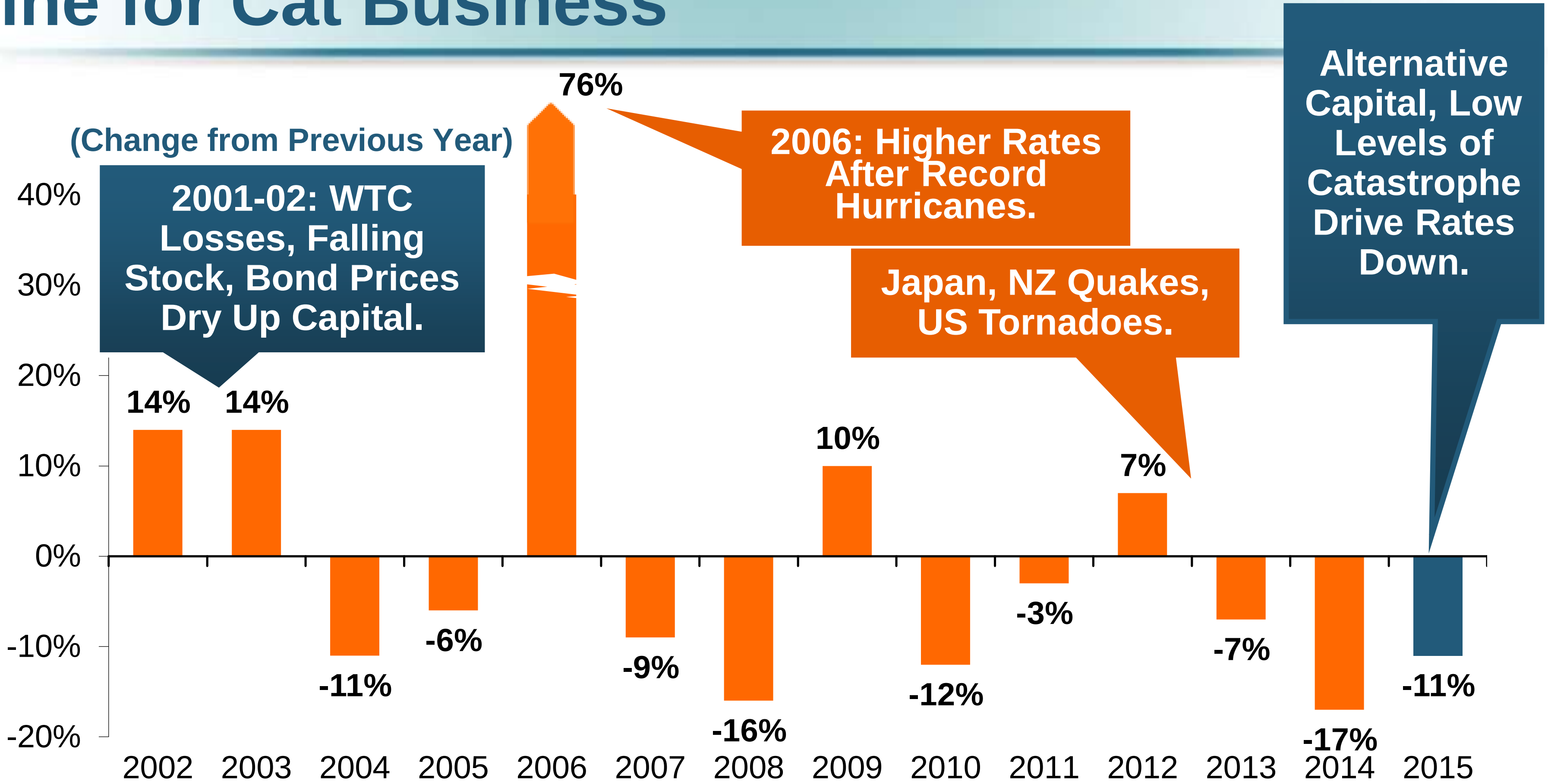
Largest Sponsors of ILS, Year-End 2014



Two of the Largest ILS Issuers Are Government-Sponsored Insurers. Nine Government-Related Insurers Have $4.6 Billion in Outstanding Securities.

Source: Artemis.bm; Insurance Information Institute.

Reinsurance Pricing: Change in Rate on Line for Cat Business

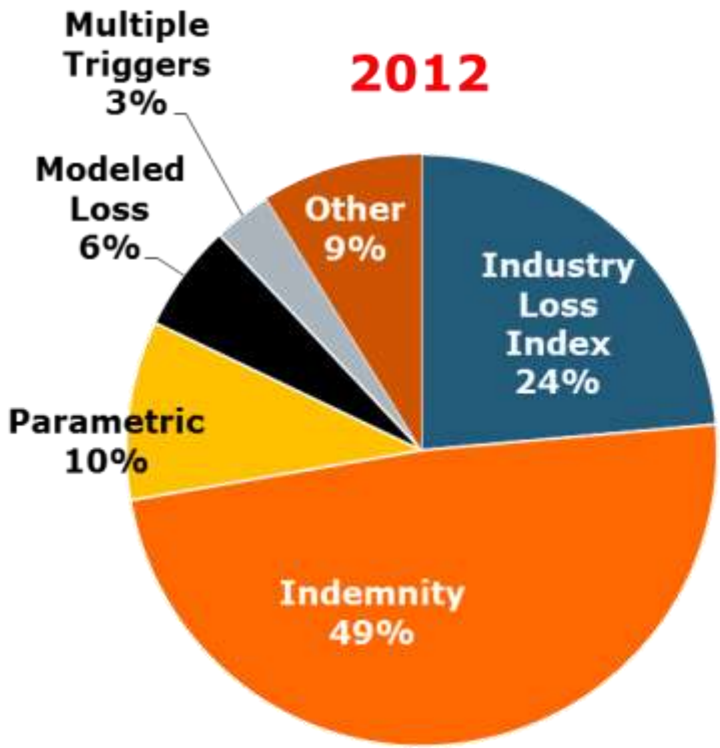


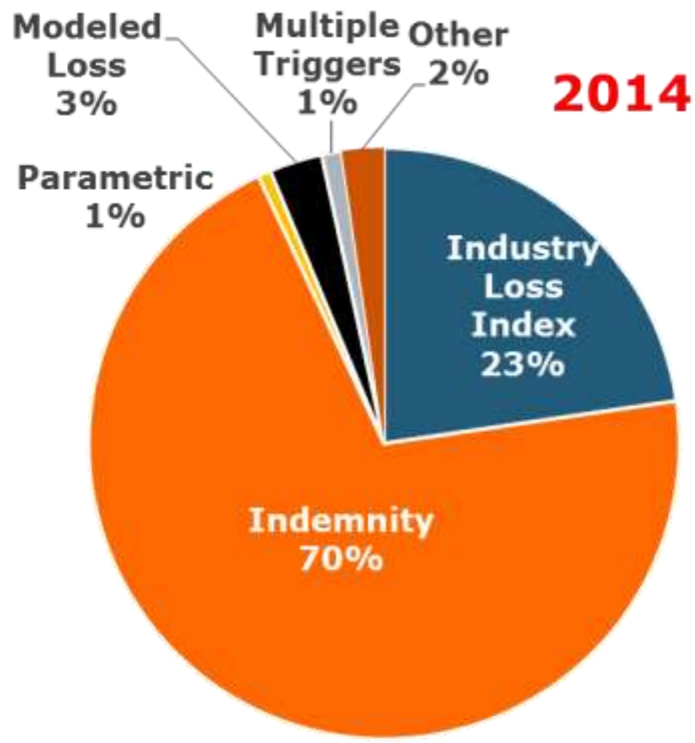
Catastrophe Prices Fell 11 Percent on January 1 Renewals, Driven by Emergence of New Capital, Mild Catastrophe Losses.

2014 reflects change through June 30 from prior year end. 2015 is for January 1 renewals..

Source: Guy Carpenter; Insurance Information Institute.

ILS Issuance by Trigger

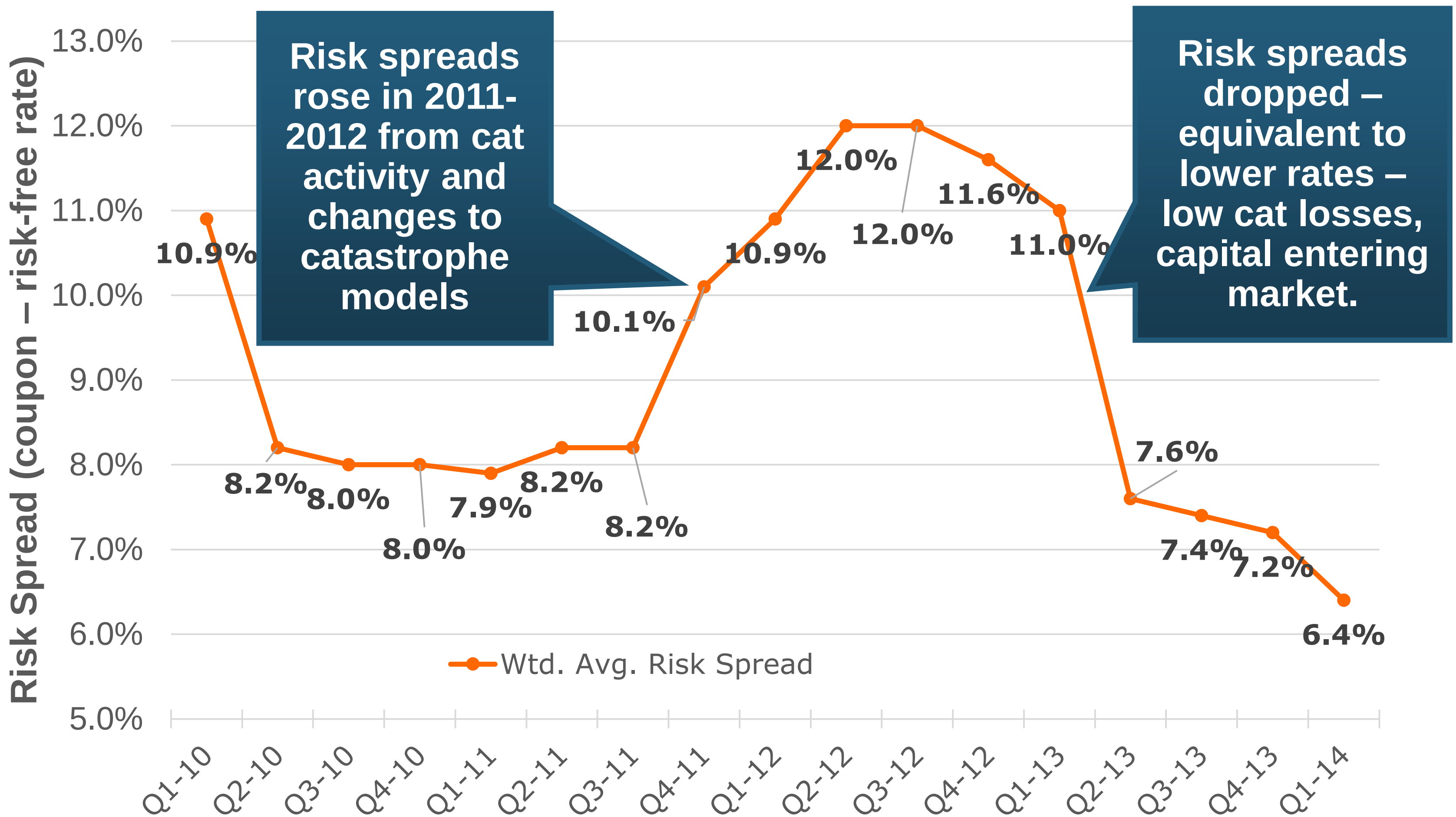




Terms Are Shifting Away From 'Objective' Triggers (Favored by Investors) Toward Indemnity Trigger (Favored by Insurers).

Source: Artemis.bm; Insurance Information Institute.

U.S. Wind-Exposed Risk Premium* 2010:Q1 to 2014: Q1



* Trailing 12-month average
SOURCE: Willis Capital Markets, Insurance Information Institute.

I.I.I. Will Release its First Report on Alternative Capital During Q1 2015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ALTERNATIVE CAPITAL: PASSING FANCY OR PERMANENT FIXTURE?

Forthcoming: Q1 2015

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- **Issue of alternative capital in (re)insurance has received increased attention in recent years**
- **Significant structural changes in property catastrophe reinsurance space**
- **Questions addressed include:**
  - **Sources of new capital**
  - **Reasons/Drivers of growth**
  - **New structures**
  - **Impact of major triggering event(s)**
  - **Impacts of higher interest rates**
  - **Cat bond yield compression**

Questions Arising from Influence of Alternative Capital

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- **What Will Happen When Investors Face Large-Scale Losses?**
- **What Happens When Interest Rates Rise?**
- **Does ILS Have a Higher Propensity to Litigate?**
- **How Much Lower Will Risk Premiums Shrink/ROLs Fall?**
- **Will There Be Spillover Into Casualty Reinsurance?**
- **Will Alternative Capital Drive Consolidation?**

Commercial Lines Pricing Trends

Survey Results Suggest Commercial Pricing Has Flattened Out

Average Commercial Rate Change, All Lines, (1Q:2004–4Q:2014)

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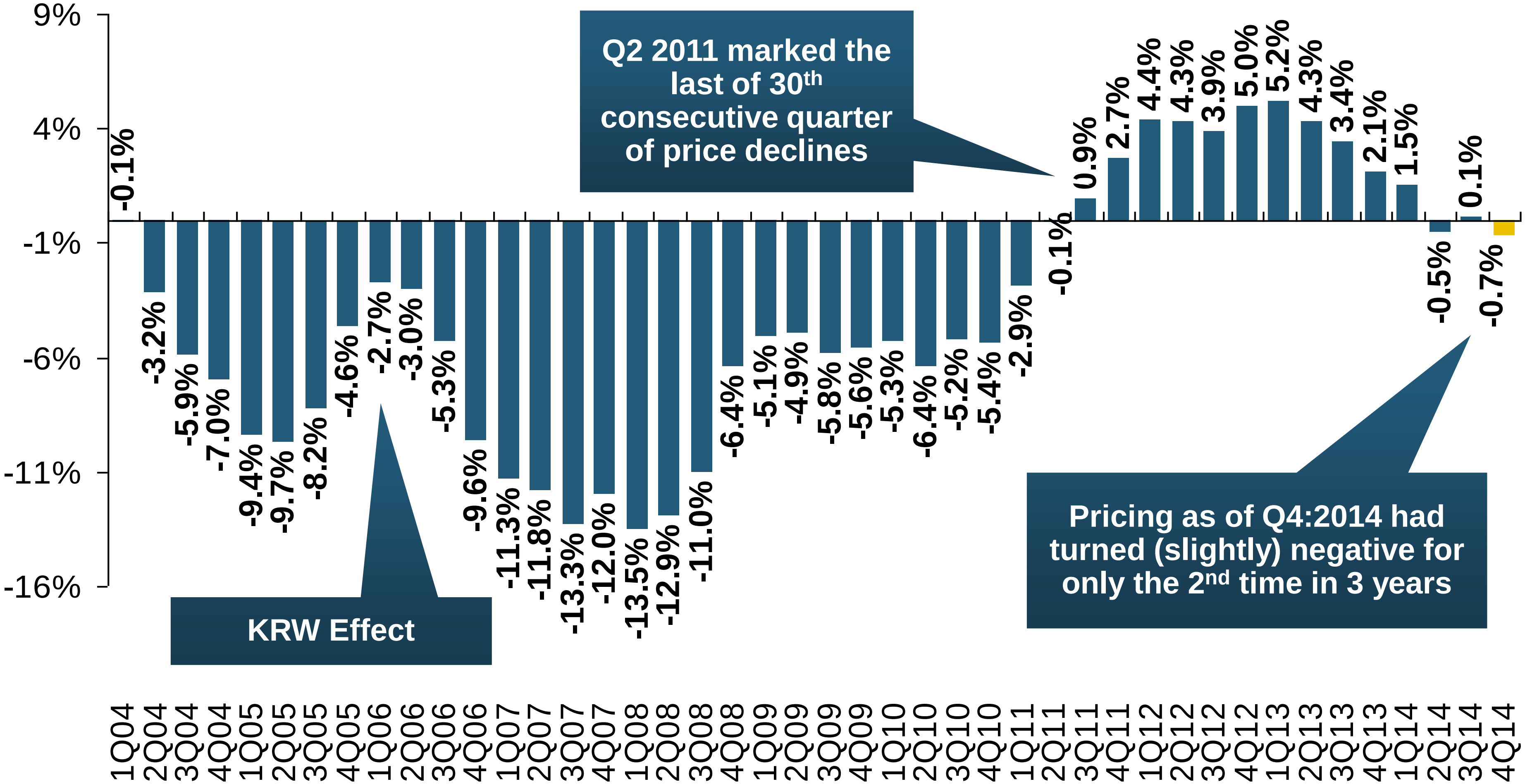
(Percent)



Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents & Brokers; Insurance Information Institute

Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2014:Q4

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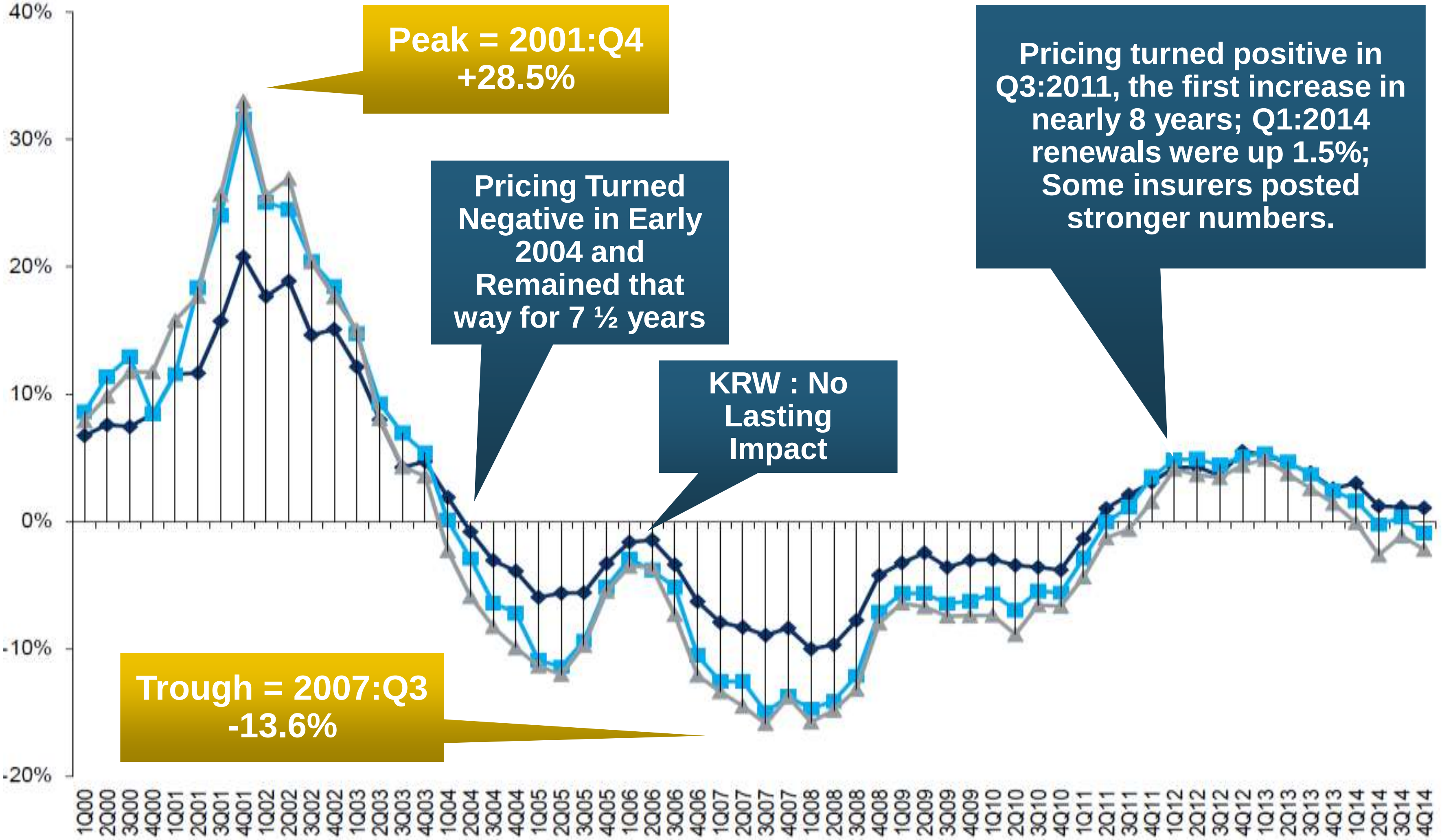
Percentage Change (%)

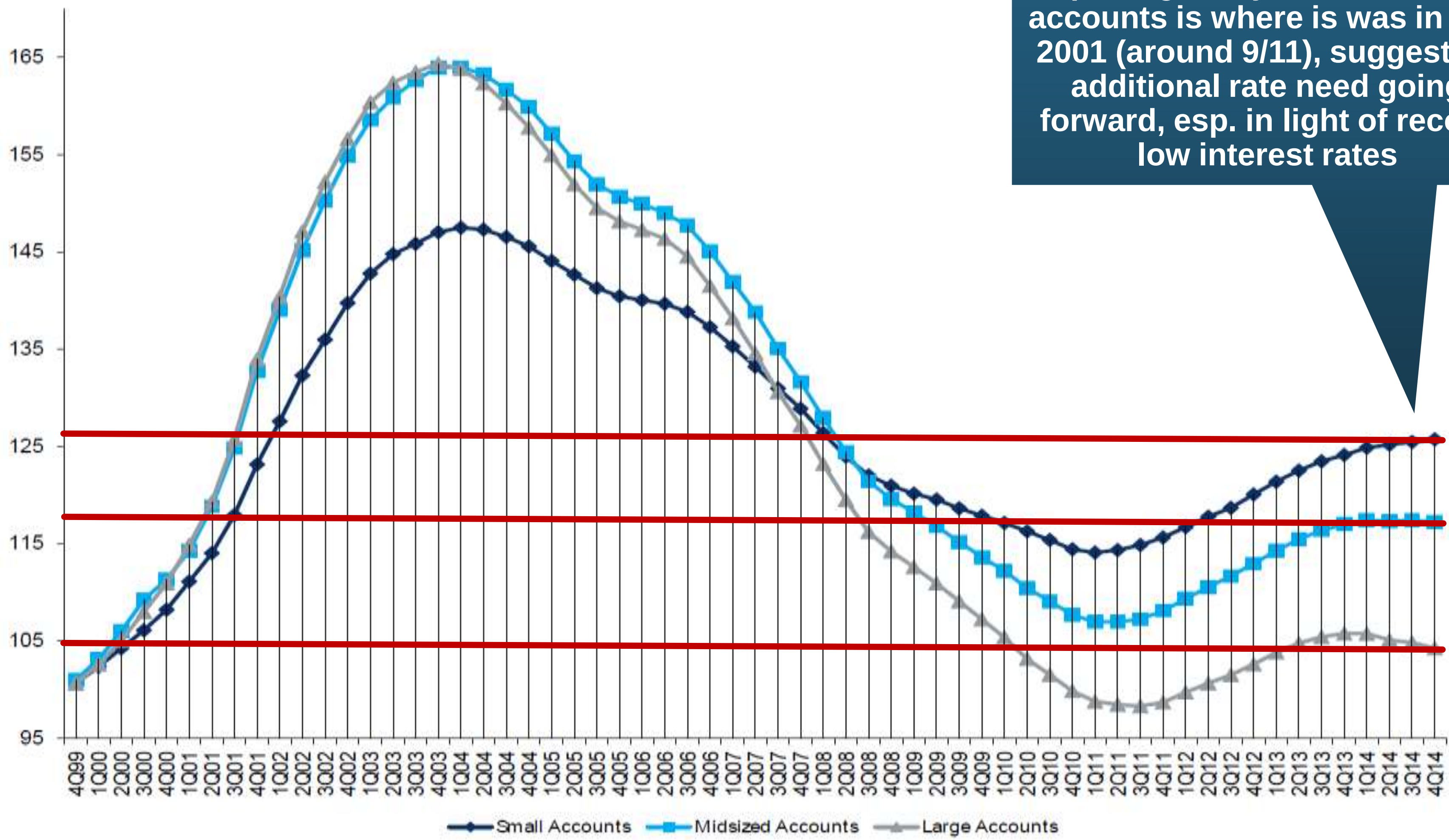


Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents and Brokers; Barclay's Capital; Insurance Information Institute.

Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2014:Q4

1999:Q4 = 100

Despite several years of gains, pricing today for midsized accounts is where is was in late 2001 (around 9/11), suggesting additional rate need going forward, esp. in light of record low interest rates

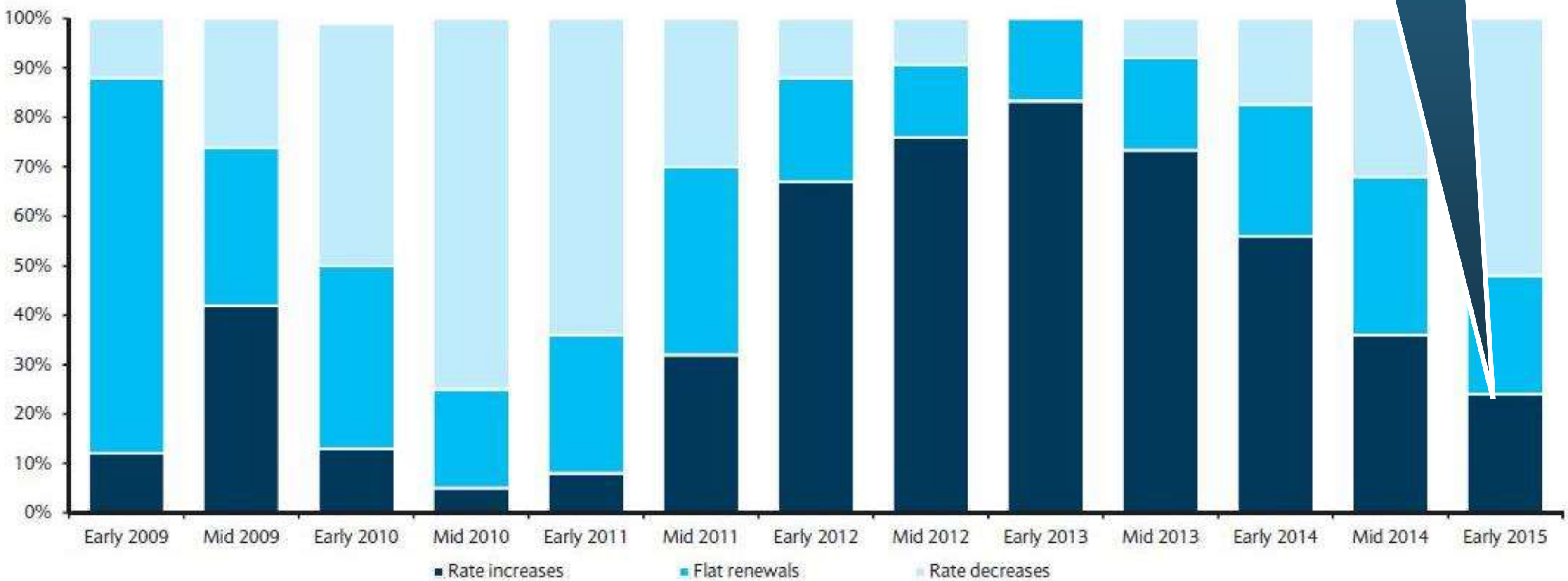


Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents and Brokers; Barclay's Capital; Insurance Information Institute.

Directional Pricing Trend in Large Account P/C Renewals

Early 2009 through Early 2015

Few accounts are seeing increases



Source: Barclays' Commercial Insurance Buyers Survey.

Change in Commercial Rate Renewals, by Line: 2014:Q4

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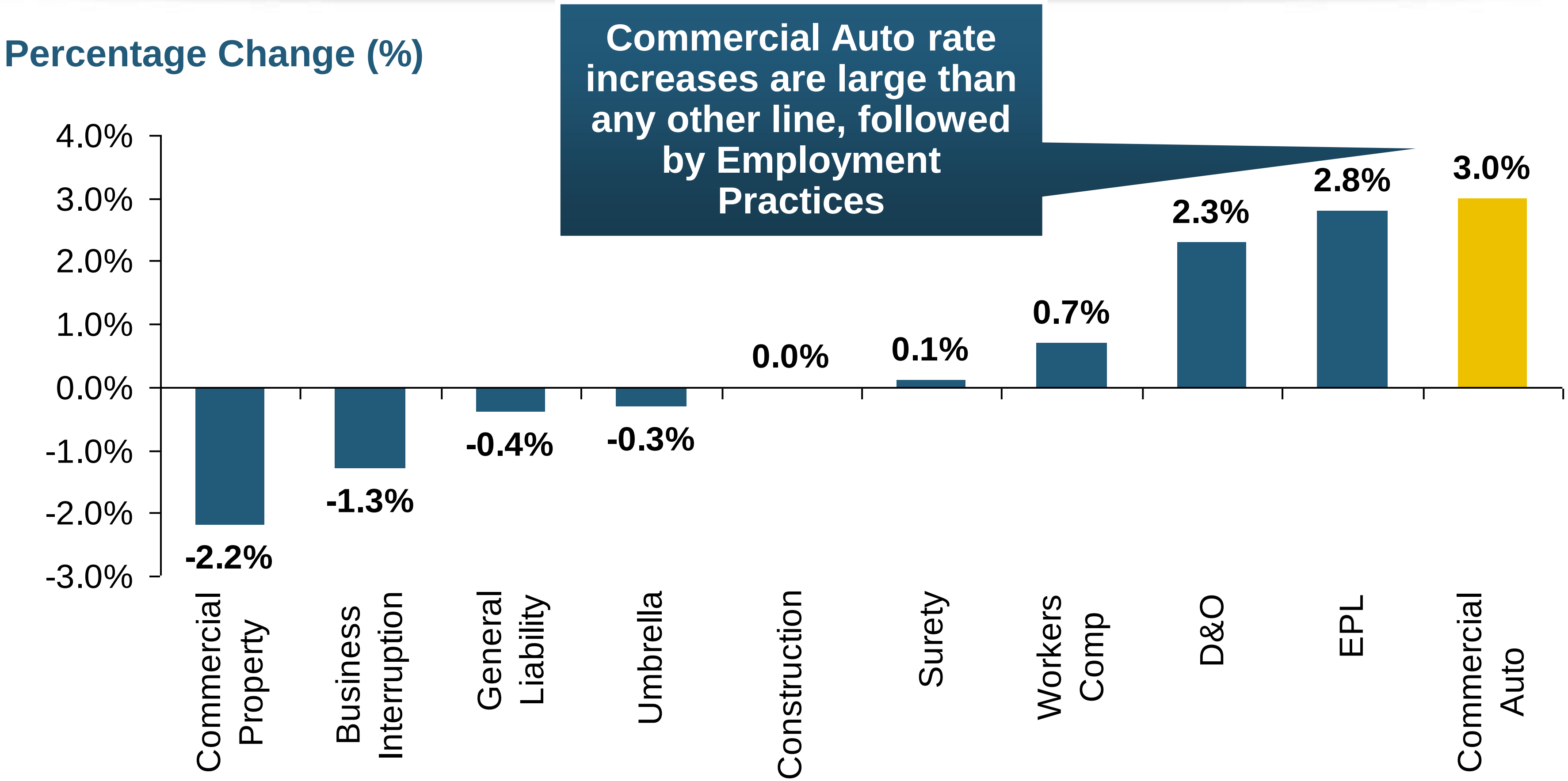
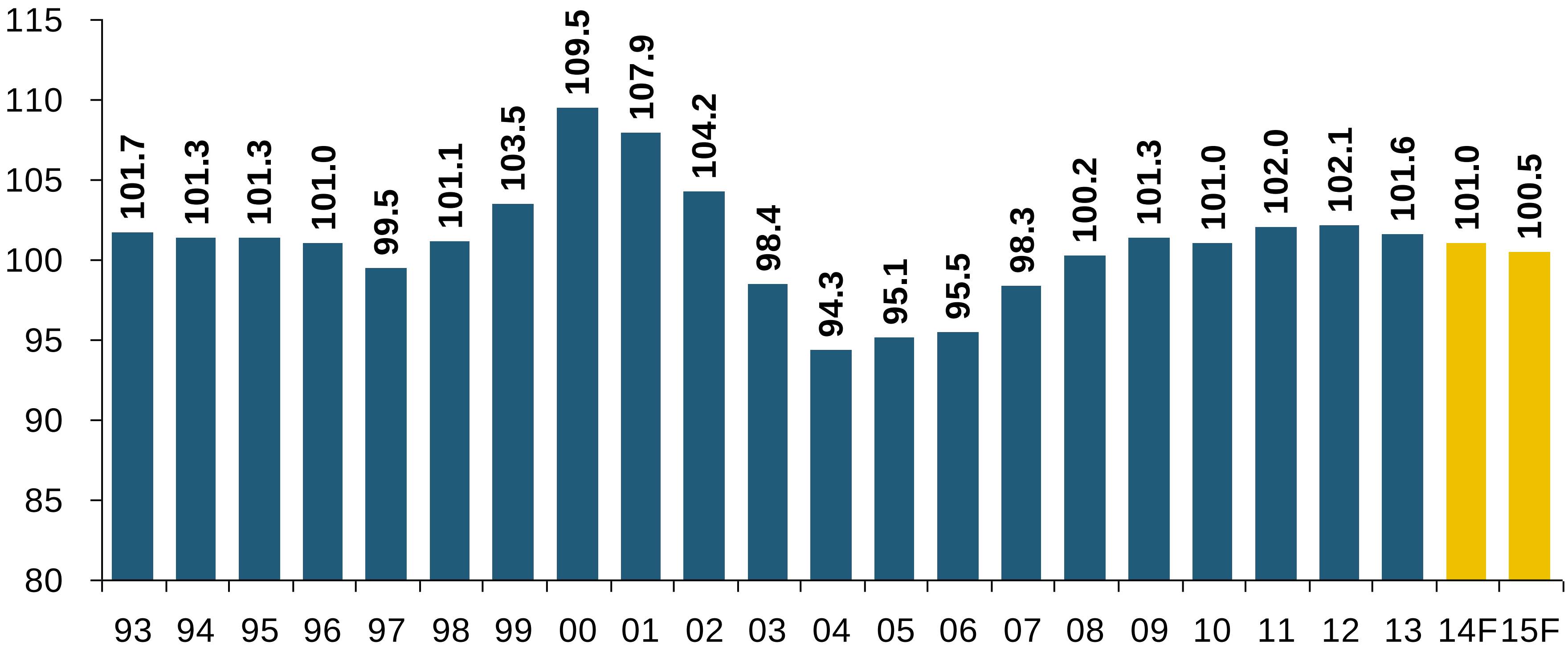


Major Commercial Lines Renewals Were Mixed to Flat in Q4:2014; Commercial Auto and EPL Led the Way

Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents and Brokers; Insurance Information Institute.

Performance by Segment

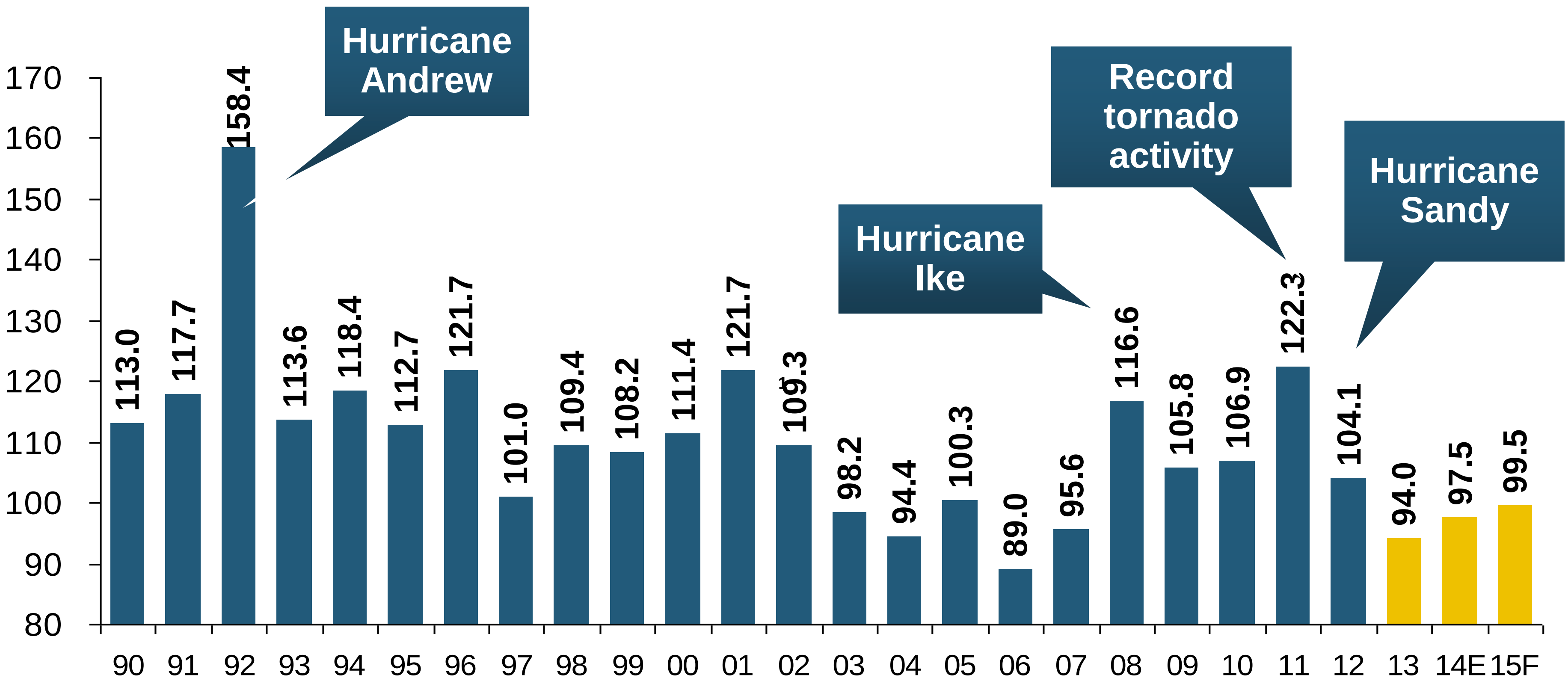
Private Passenger Auto Combined Ratio: 1993–2015F



Private Passenger Auto Accounts for 37% of Industry Premiums and Remains the Profit Juggernaut of the P/C Insurance Industry

Sources: A.M. Best (1990-2013); Insurance Information Institute (2014F – 2015F).

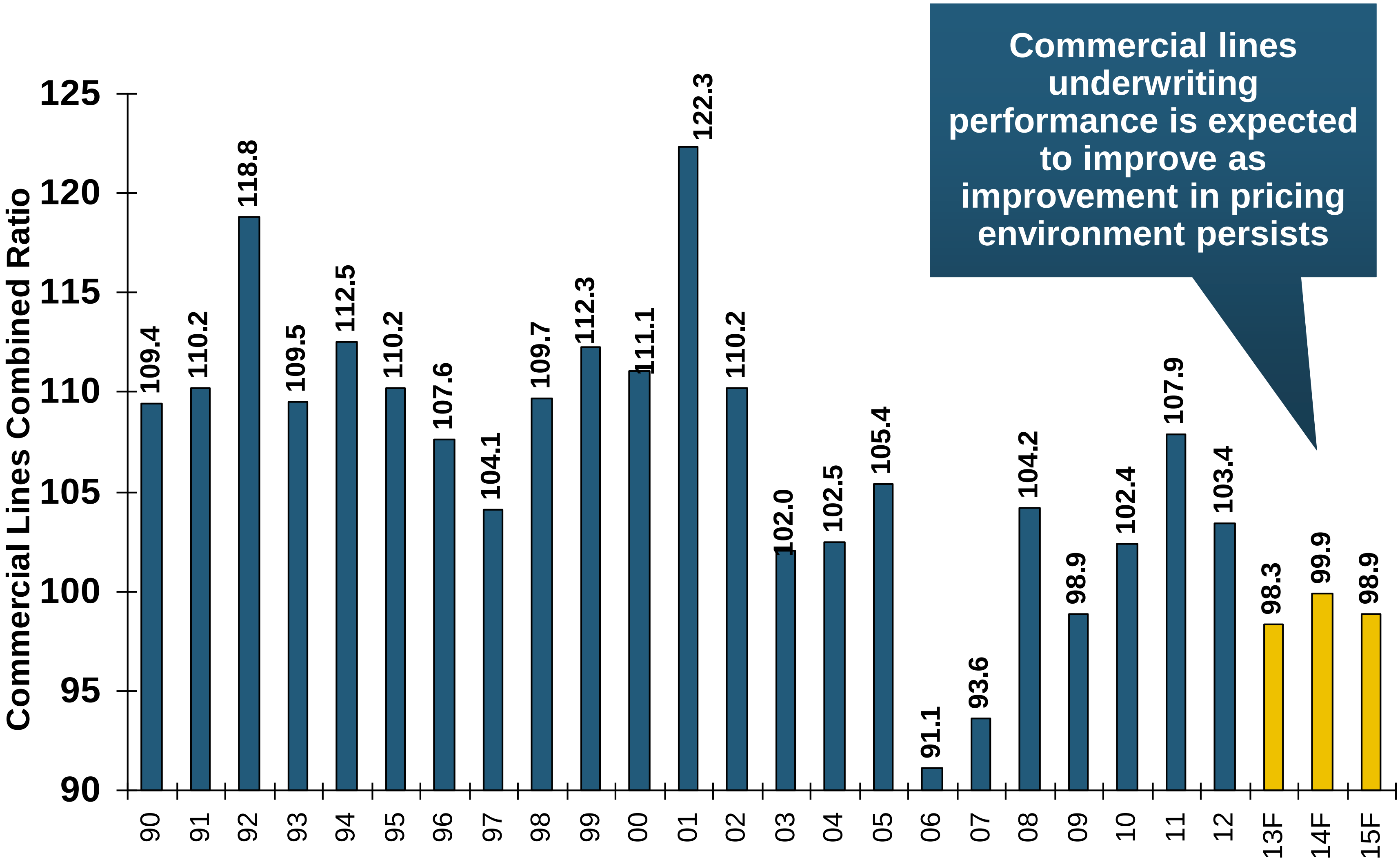
Homeowners Insurance Combined Ratio: 1990–2015F



Homeowners Performance in 2011/12 Impacted by Large Cat Losses. Extreme Regional Variation Can Be Expected Due to Local Catastrophe Loss Activity

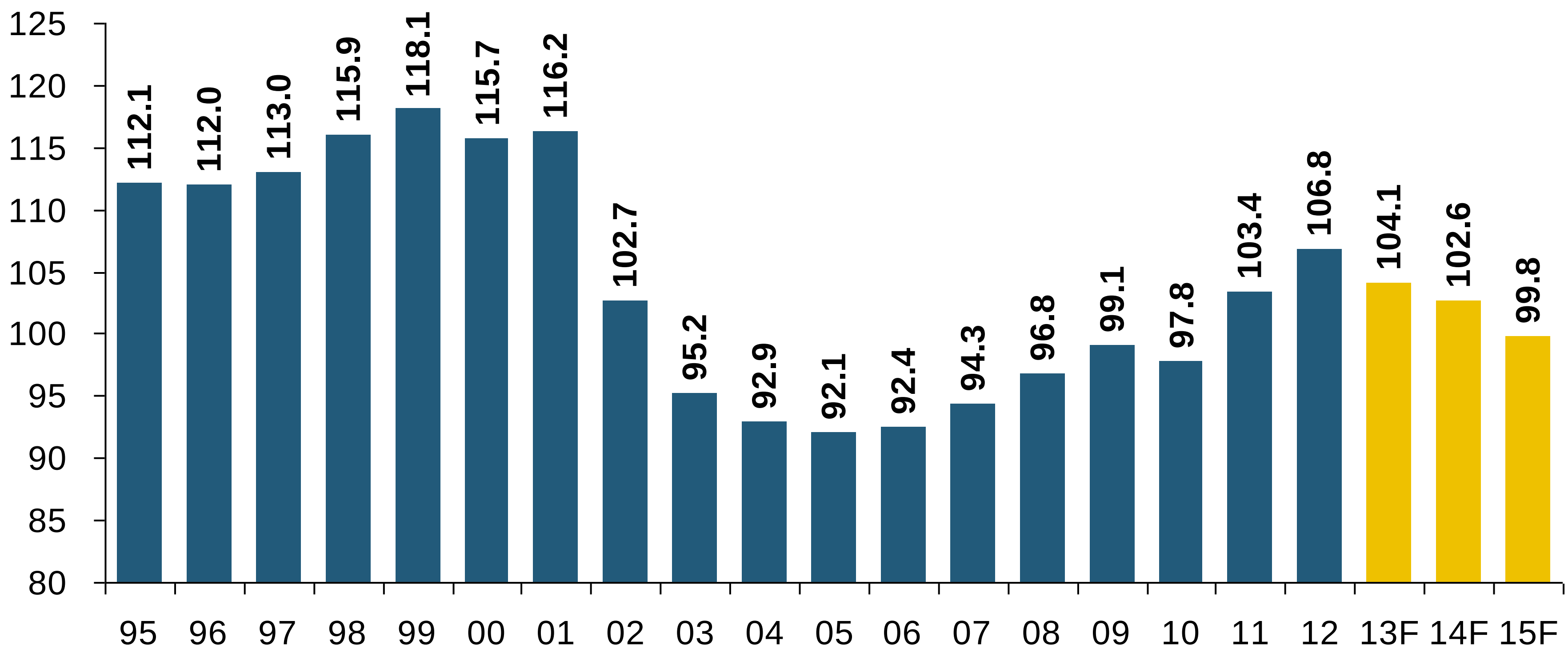
Sources: A.M. Best (1990-2014F);Conning (2015F); Insurance Information Institute.

Commercial Lines Combined Ratio, 1990-2015F*



*2007-2012 figures exclude mortgage and financial guaranty segments.
Source: A.M. Best (1990-2014F); Conning (2015F) Insurance Information Institute.

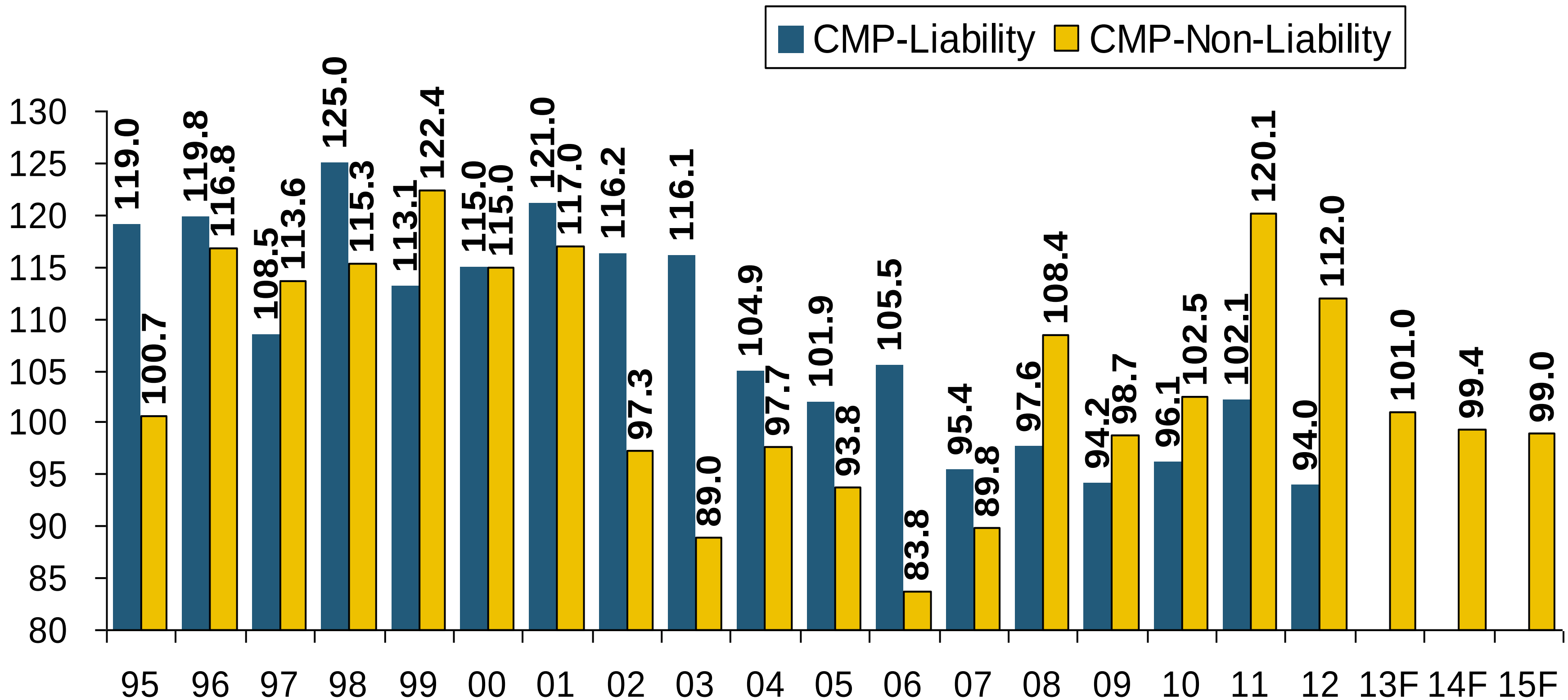
Commercial Auto Combined Ratio: 1993–2015F



Commercial Auto is Expected to Improve as Rate Gains Outpace Any Adverse Frequency and Severity Trends

Sources: A.M. Best (1990-2014F);Conning (2015F); Insurance Information Institute.

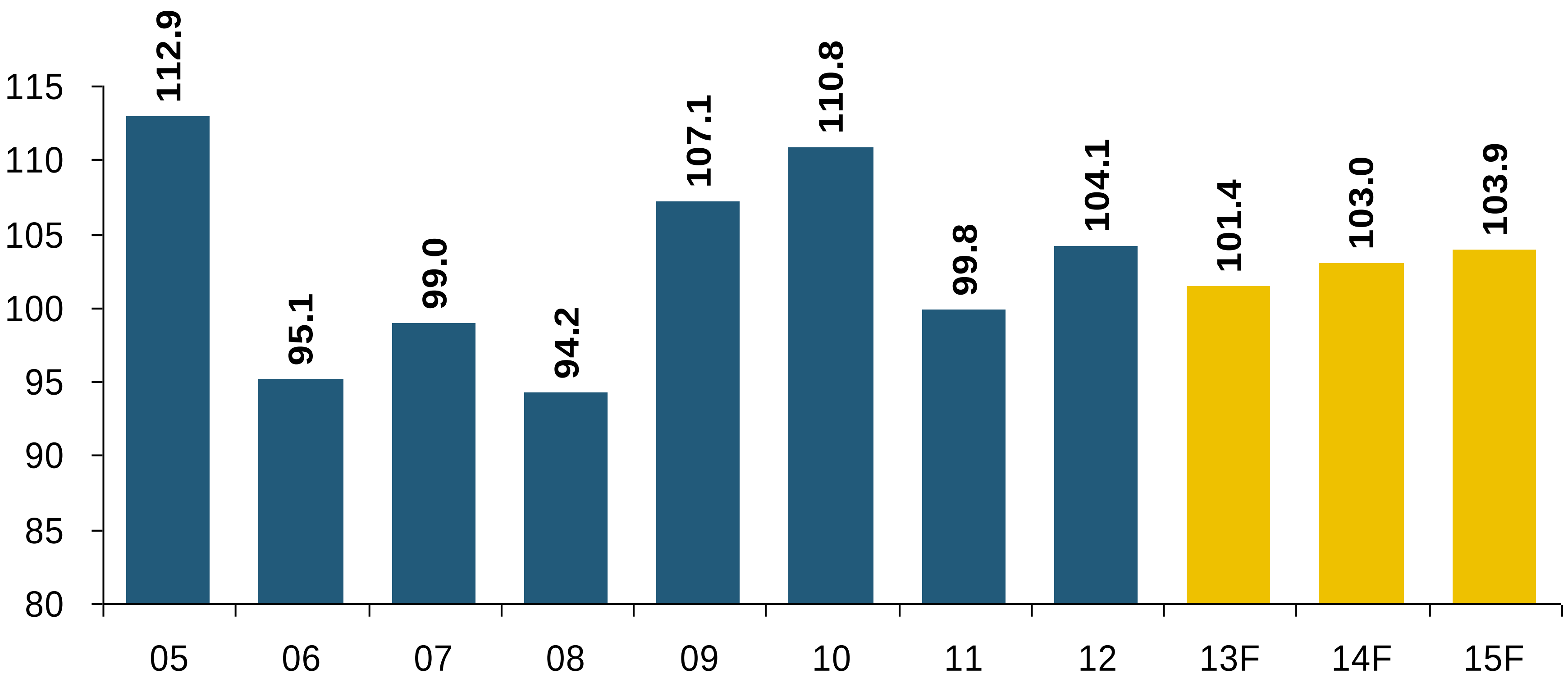
Commercial Multi-Peril Combined Ratio: 1995–2015F



Commercial Multi-Peril Underwriting Performance is Expected to Improve in 2013 Assuming Normal Catastrophe Loss Activity

*2013F-2012F figures are Conning figures for the combined liability and non-liability components..
Sources: A.M. Best; Conning; Insurance Information Institute.

General Liability Combined Ratio: 2005–2015F



Commercial General Liability Underwriting Performance Has Been Volatile in Recent Years

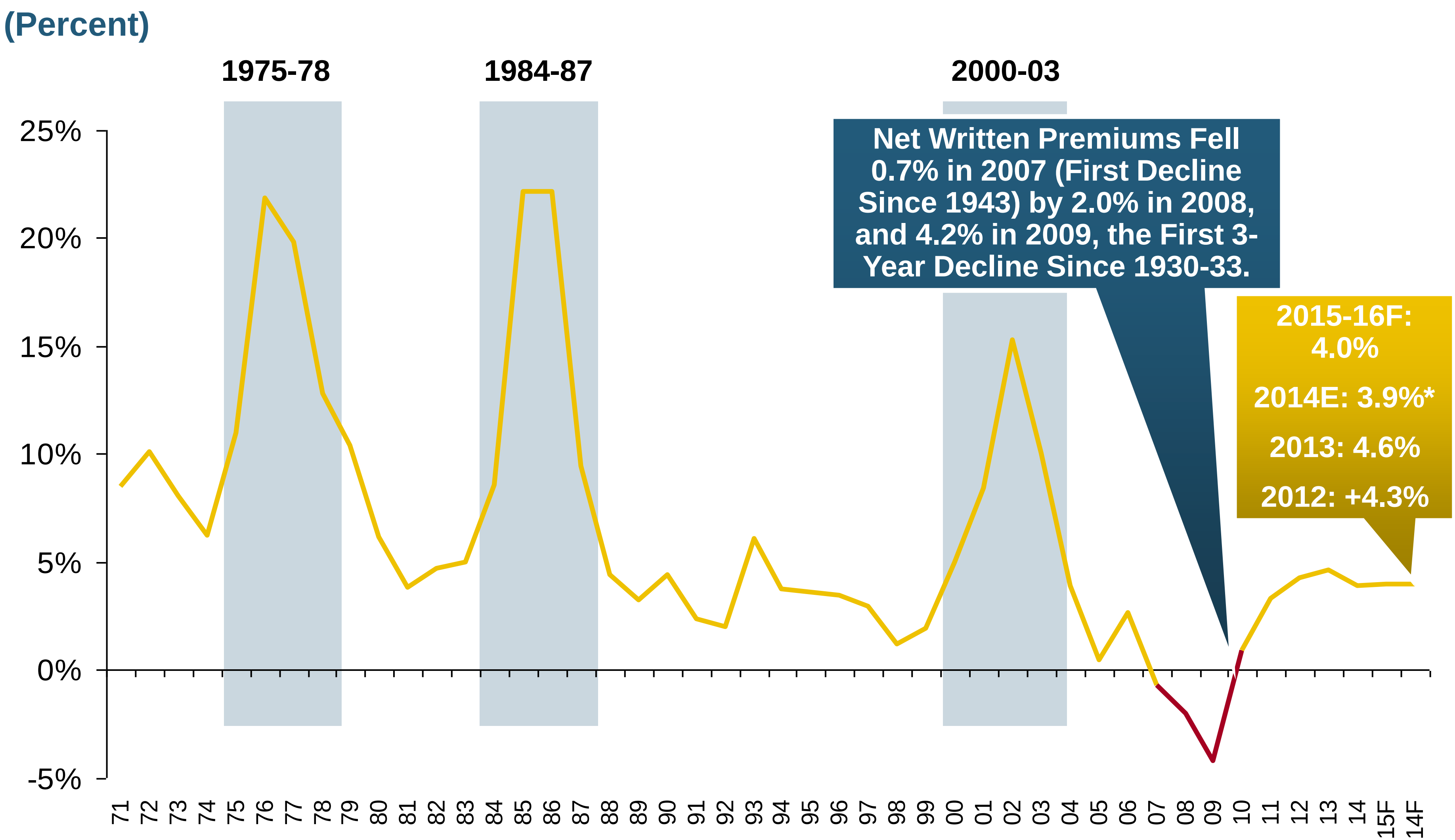
Source: Conning Research and Consulting.

Growth Analysis by State and Business Segment

Post-Crisis Paradox?

Premium Growth Rates Vary Tremendously by State

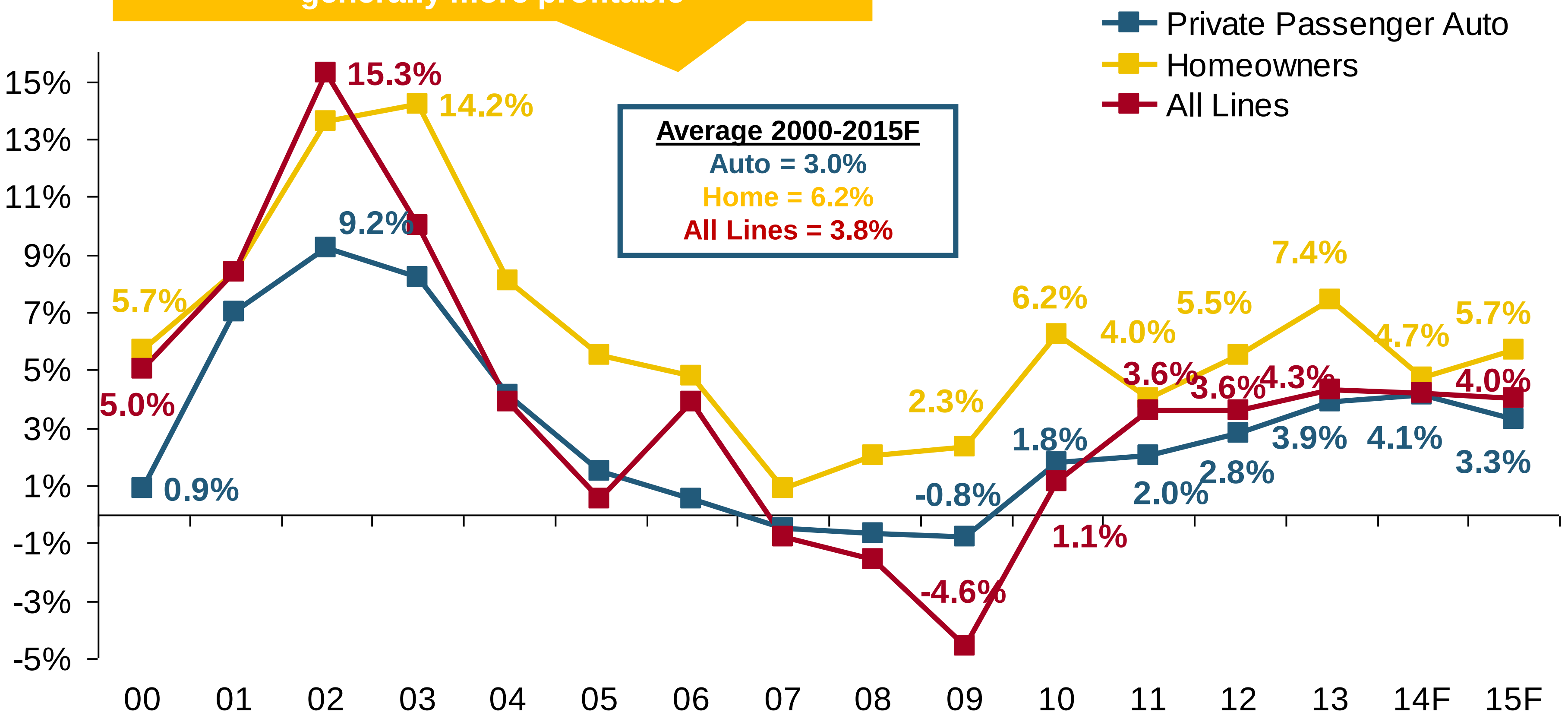
Net Premium Growth: Annual Change, 1971—2016F



*Actual figure based on data through Q3 2014.
Shaded areas denote “hard market” periods
Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute.

Auto & Home vs. All Lines, Net Written Premium Growth, 2000–2015F

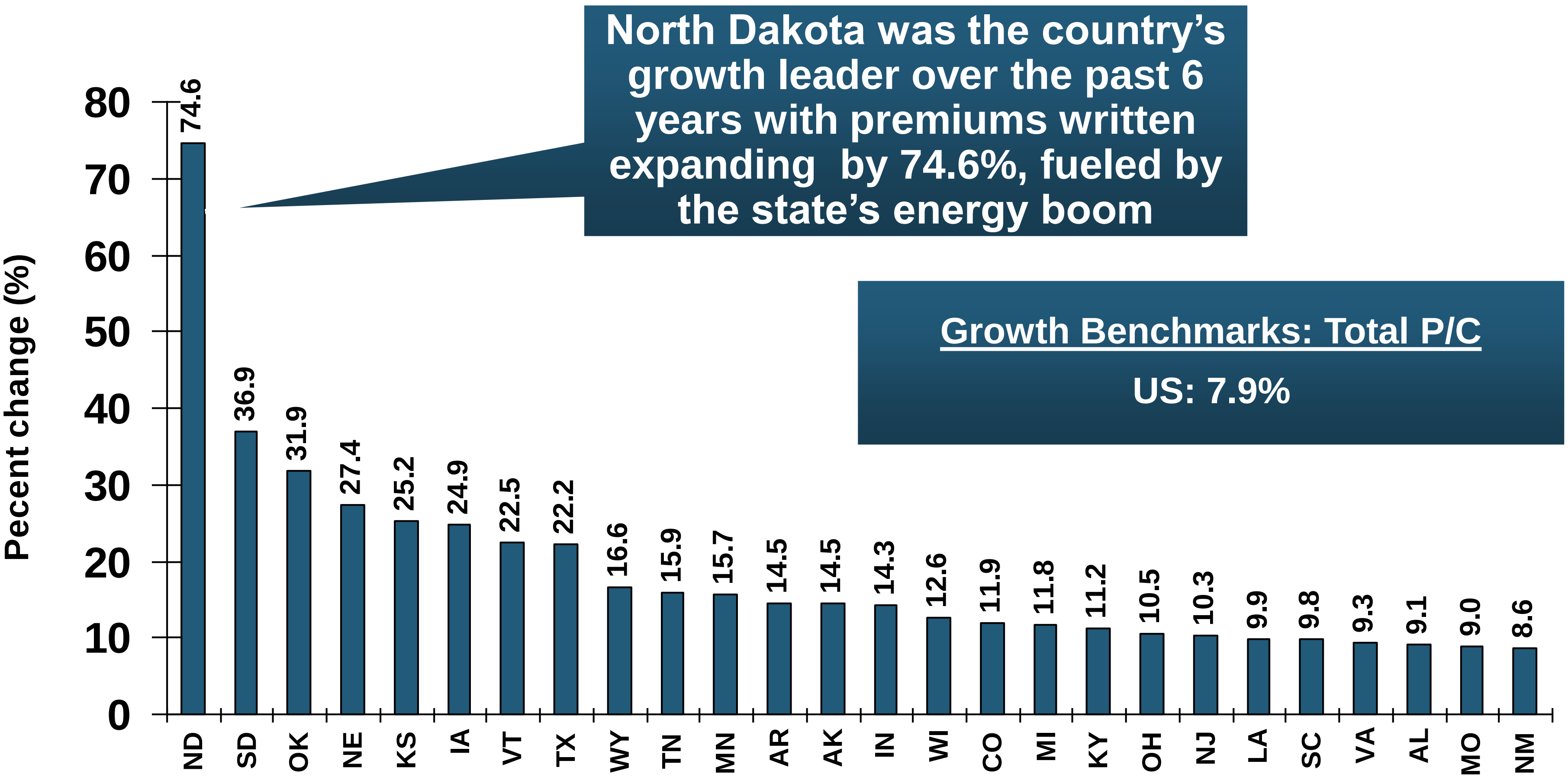
While homeowners insurance has grown faster than auto over the past decade, auto is generally more profitable



Sources: A.M. Best (2000-2013); Conning (2014P-2015F); Insurance Information Institute.

Direct Premiums Written: Total P/C Percent Change by State, 2007-2013

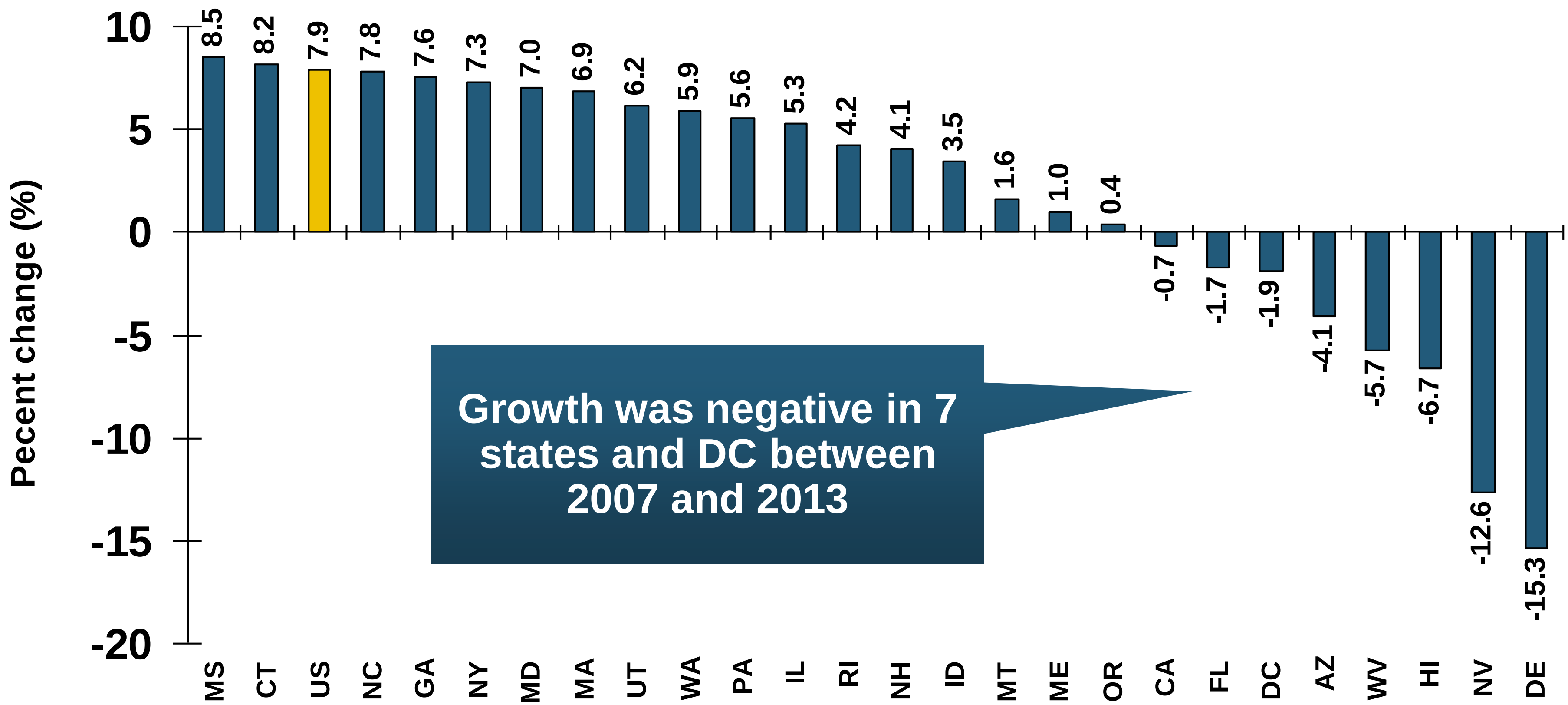
Top 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: Total P/C Percent Change by State, 2007-2013

Bottom 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: PP Auto Percent Change by State, 2007-2013

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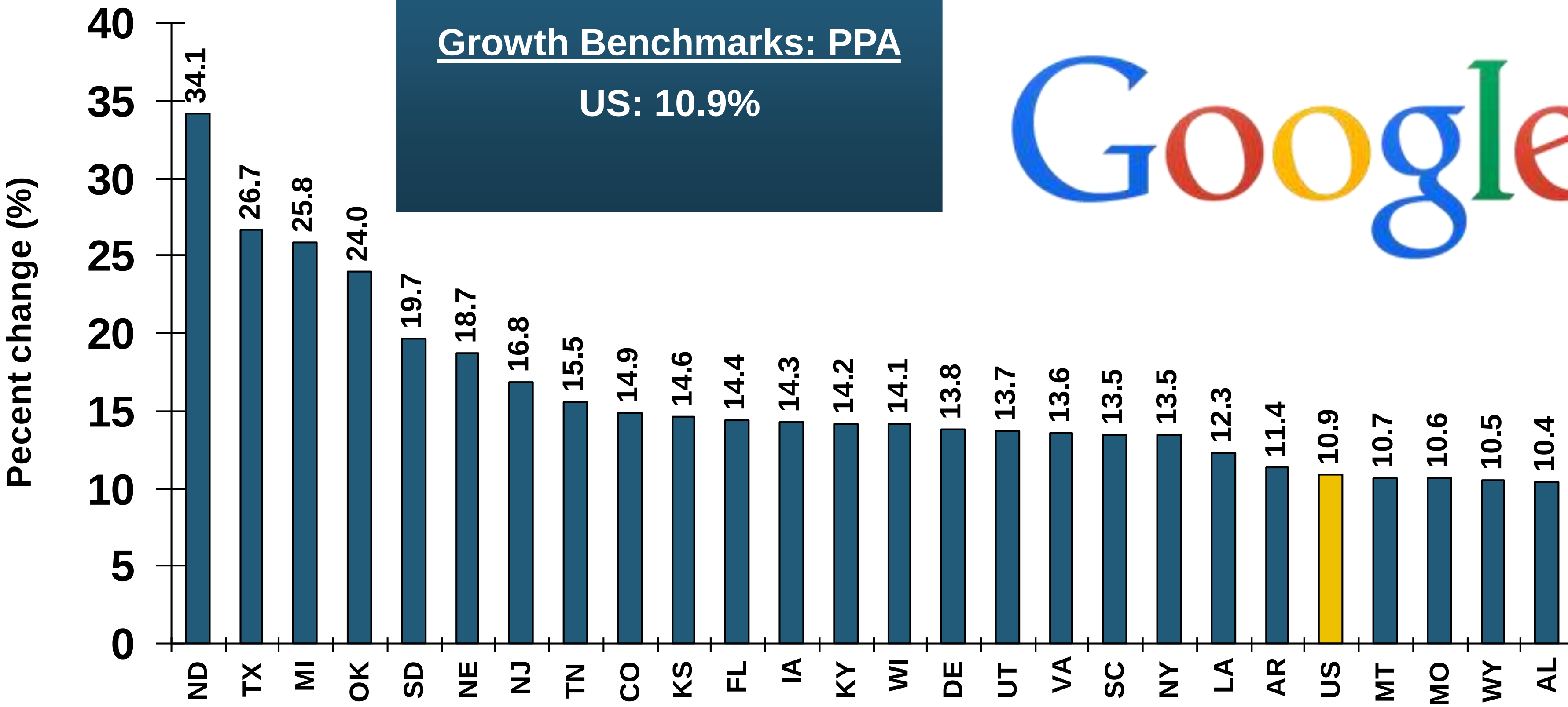
Top 25 States

Growth Benchmarks: PPA

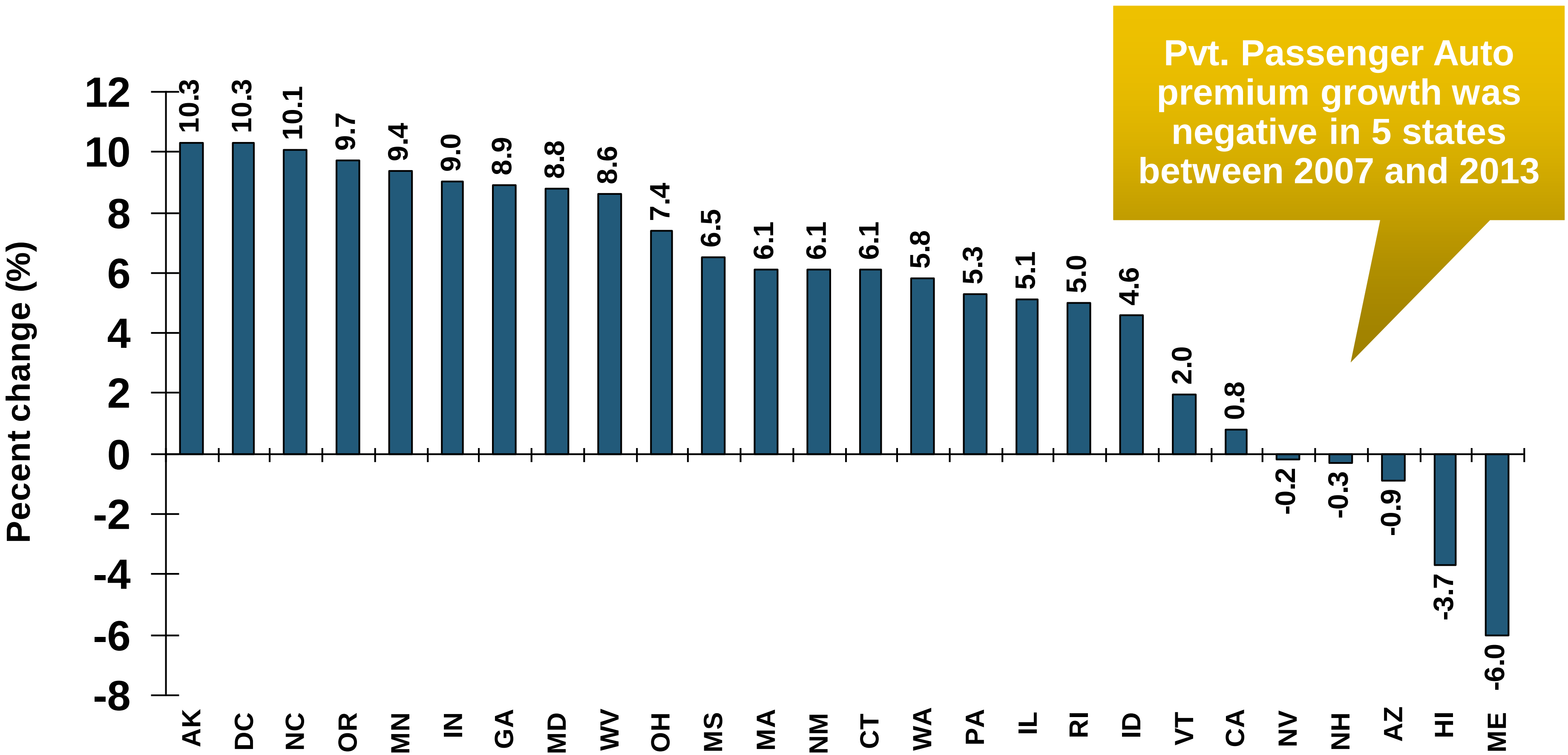
US: 10.9%



Sources: SNL Financial LC.; Insurance Information Institute.

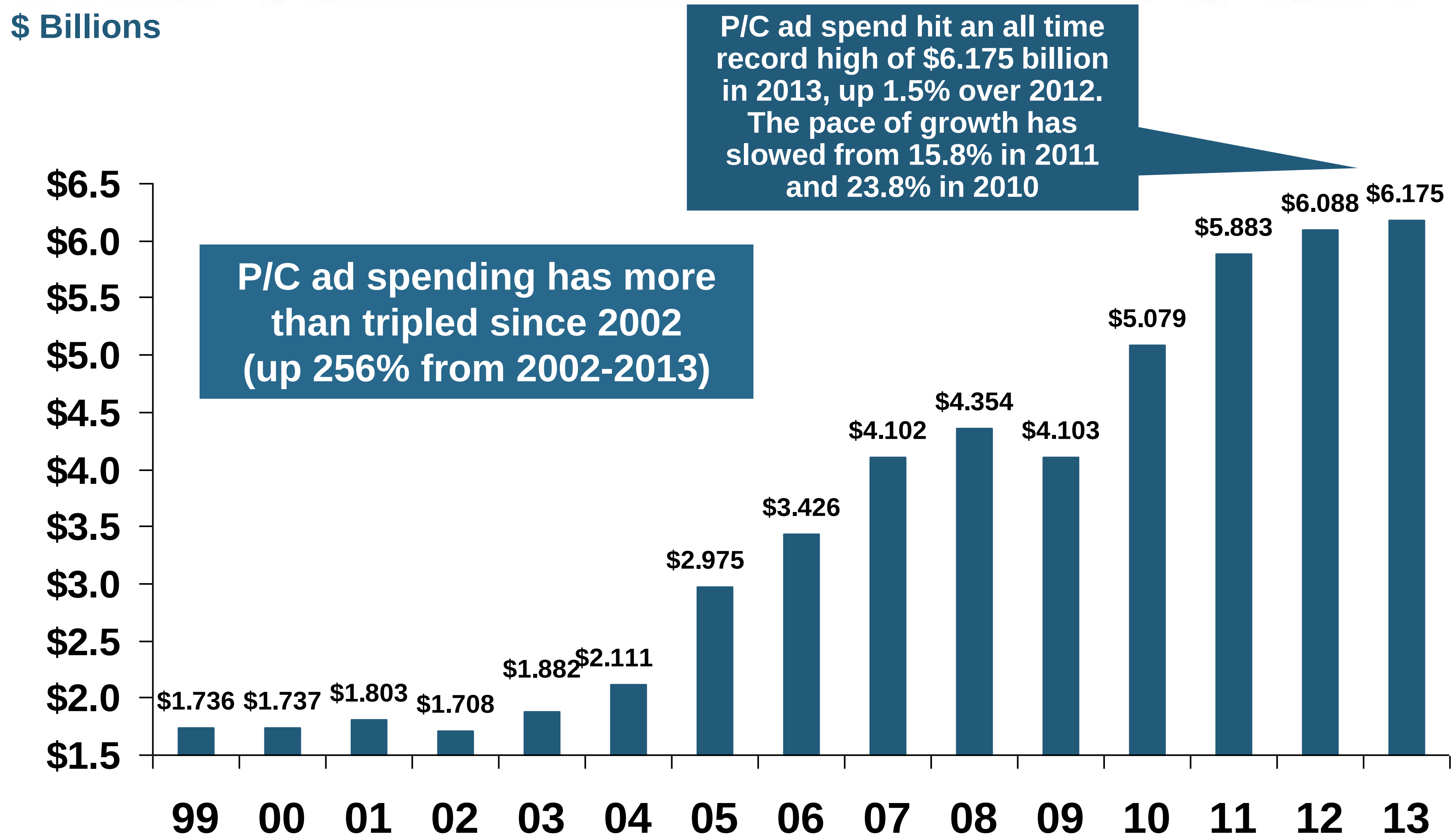
Direct Premiums Written: PP Auto Percent Change by State, 2007-2013

Bottom 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

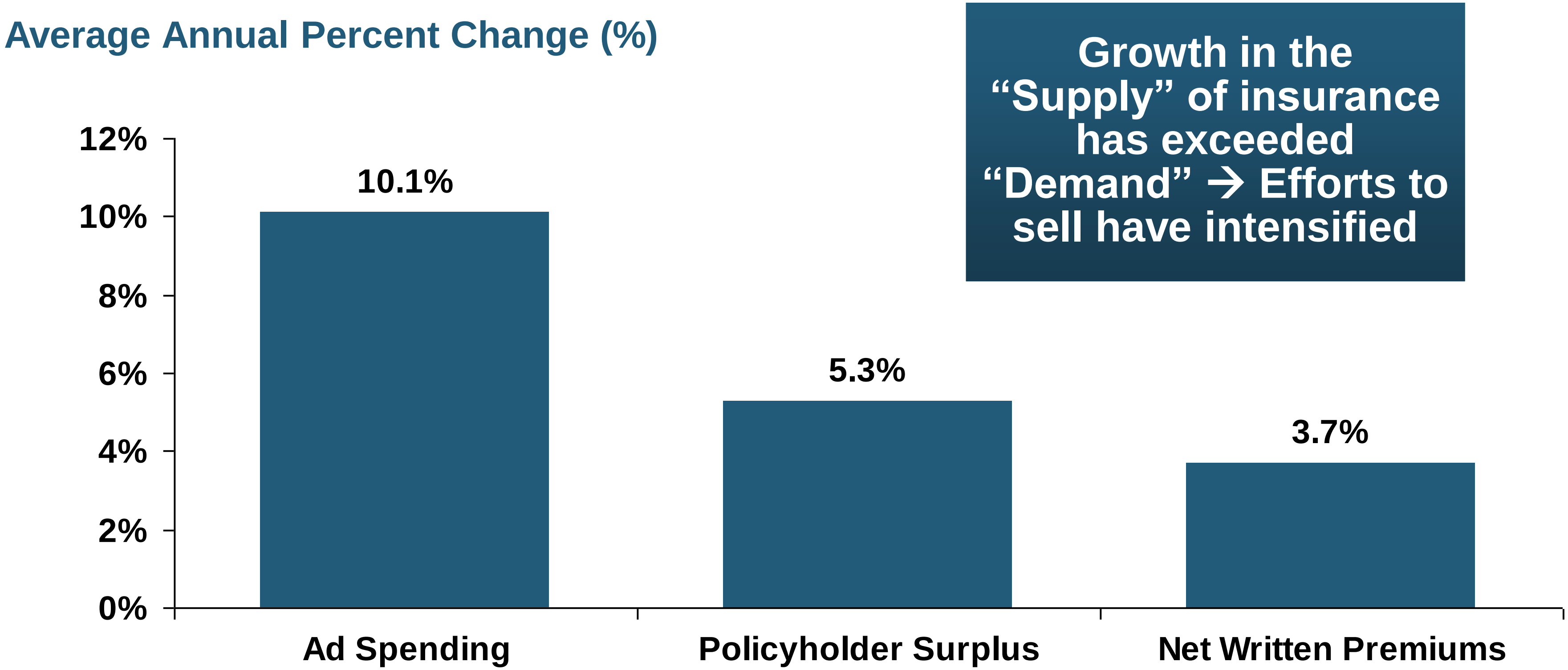
Advertising Expenditures by P/C Insurance Industry, 1999-2013



Source: Insurance Information Institute from consolidated P/C Annual Statement data, Insurance Expense Exhibit (Part I).

Growth in Premiums, Capacity vs. Growth in Advertising Expenditures, 2000 – 2013

INSURANCE INFORMATION INSTITUTE



Growth in the "Supply" of insurance has exceeded "Demand" → Efforts to sell have intensified

Overall Growth in Ad Spending has greatly exceeded growth in capacity (policyholder surplus) or premium growth. This suggests that there are diminishing returns to advertising.

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

Direct Premiums Written: Homeowners Percent Change by State, 2007-2013

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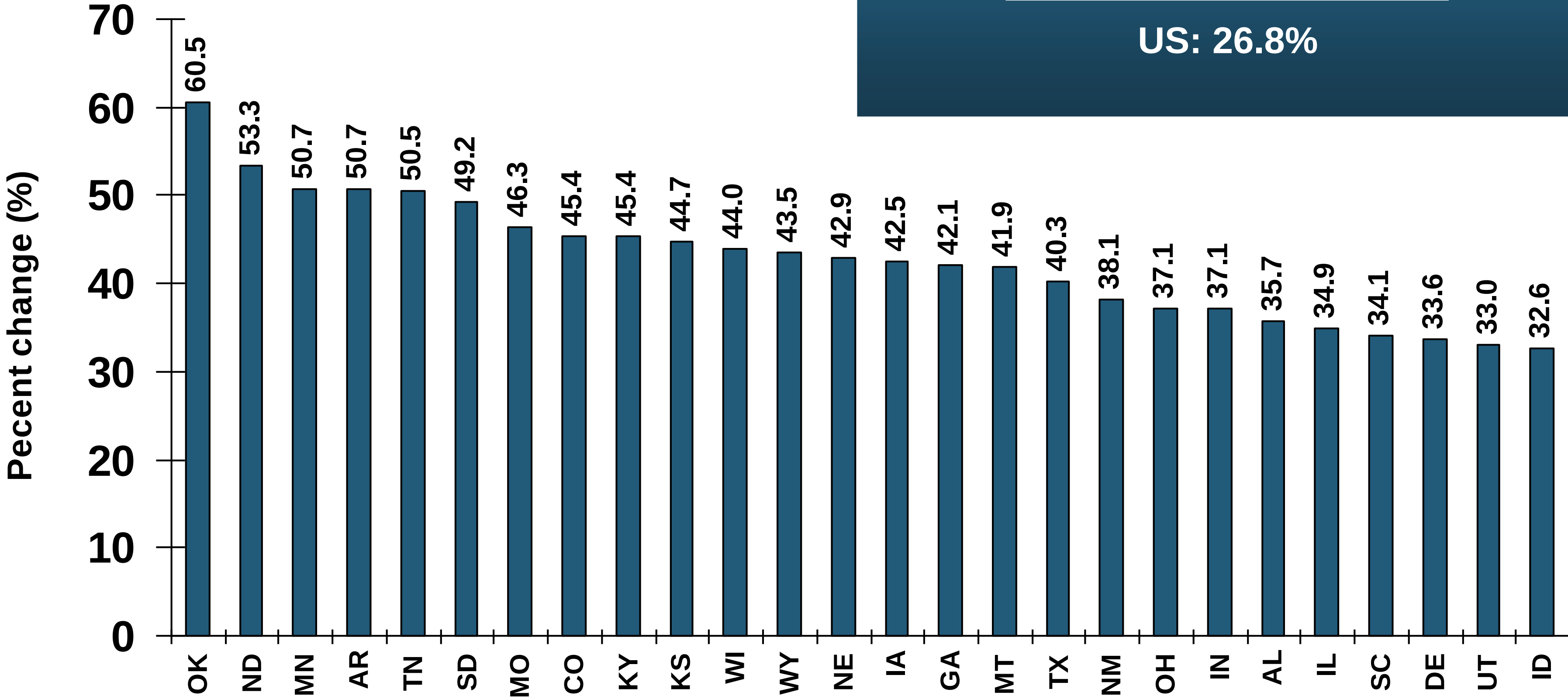
Top 25 States

Growth Benchmarks: HO

US: 26.8%

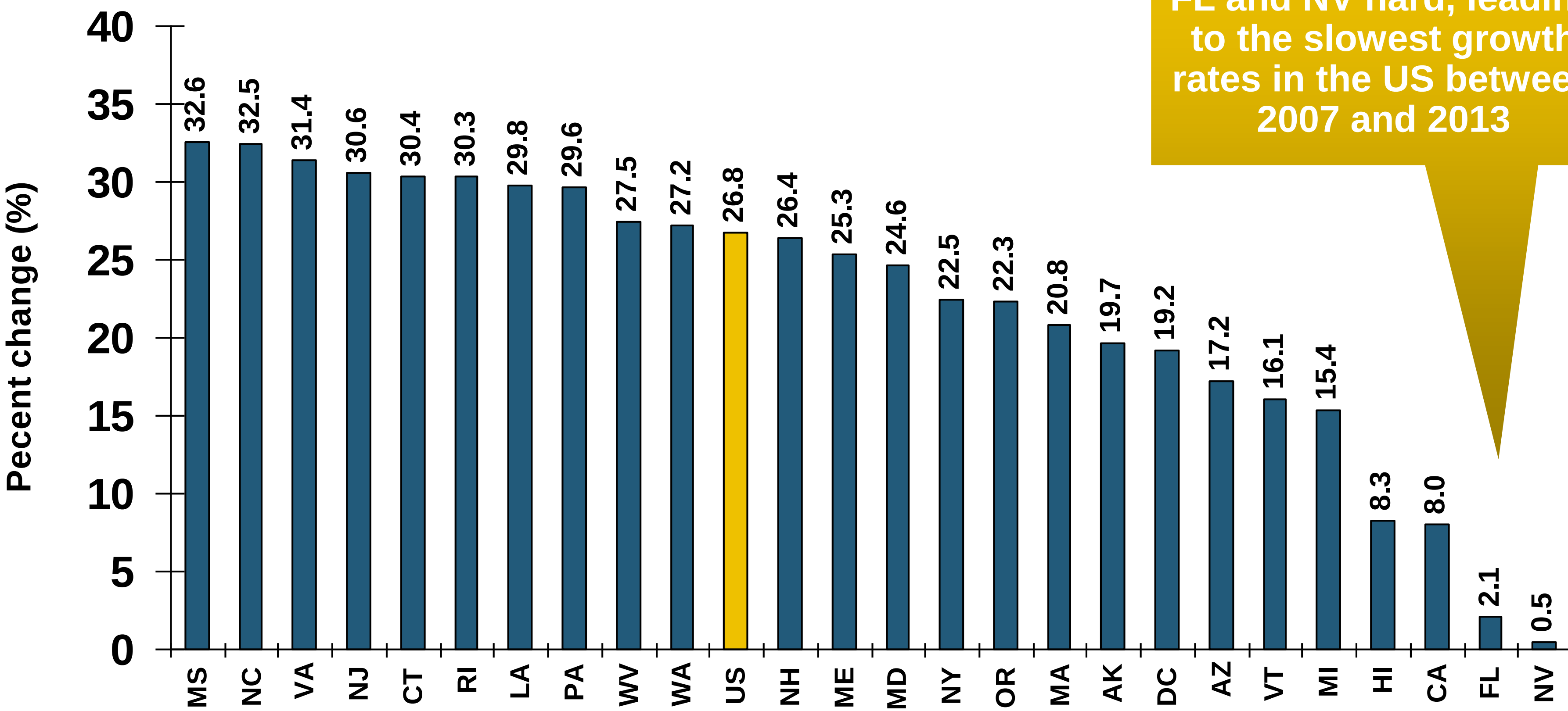


Sources: SNL Financial LLC.; Insurance Information Institute.

Direct Premiums Written: Homeowners Percent Change by State, 2007-2013

Bottom 25 States

The collapse of the housing bubble hit CA, FL and NV hard, leading to the slowest growth rates in the US between 2007 and 2013



Sources: SNL Financial LLC.; Insurance Information Institute.

Direct Premiums Written: Comm. Lines Percent Change by State, 2007-2013

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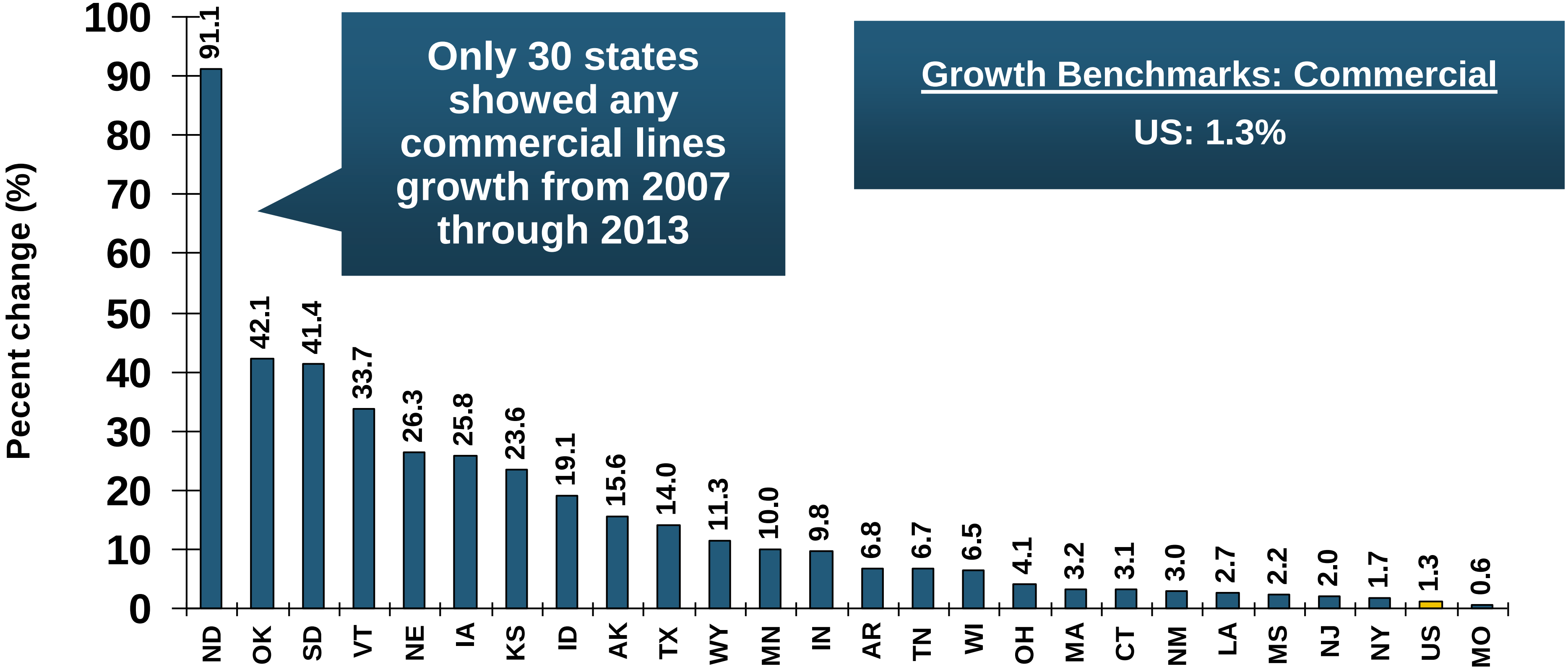
Top 25 States



Sources: SNL Financial LLC.; Insurance Information Institute.

Direct Premiums Written: Comm. Lines Percent Change by State, 2007-2013

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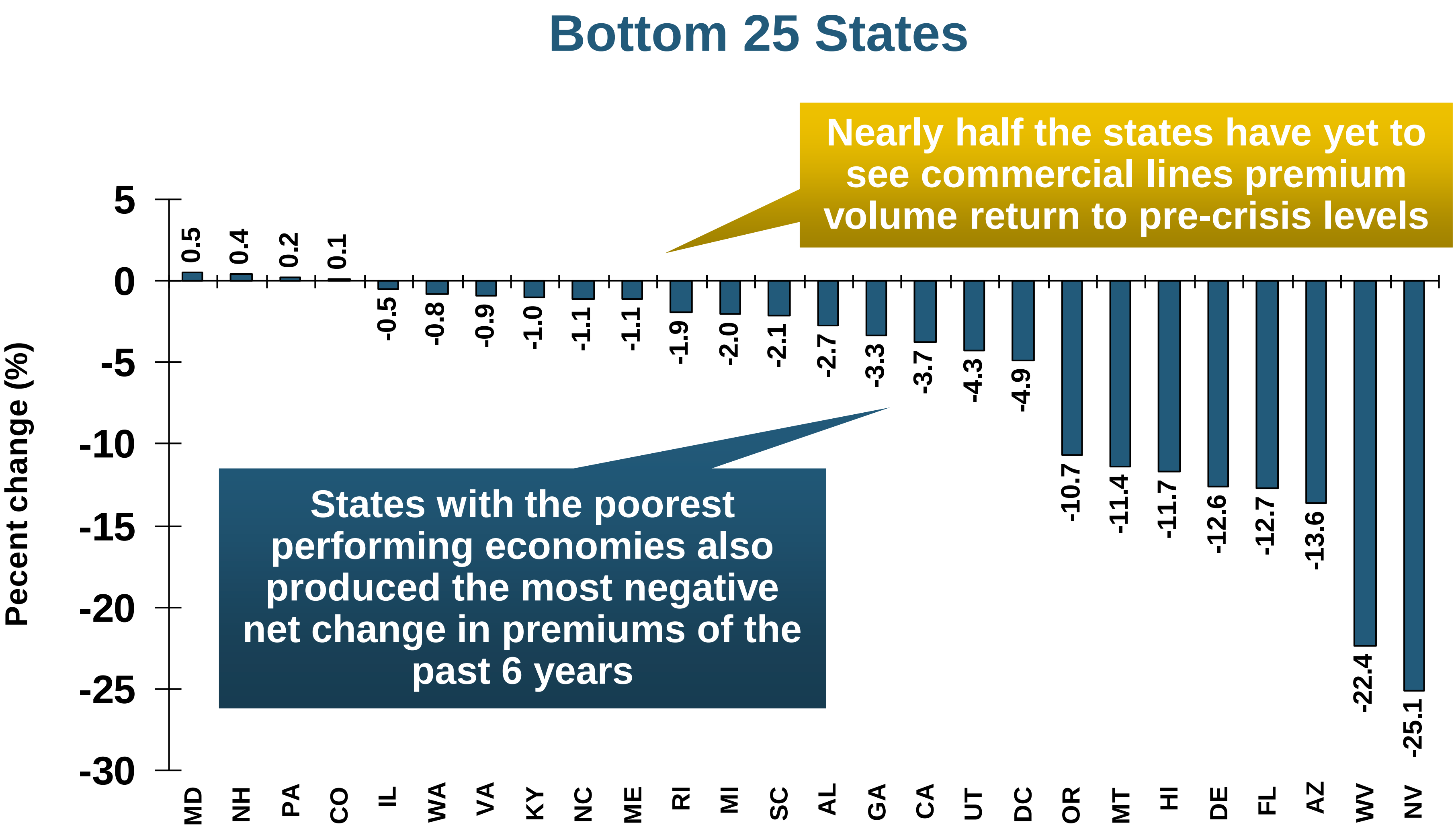

Sources: SNL Financial LLC.; Insurance Information Institute.

Direct Premiums Written: Workers' Comp Percent Change by State, 2007-2013*

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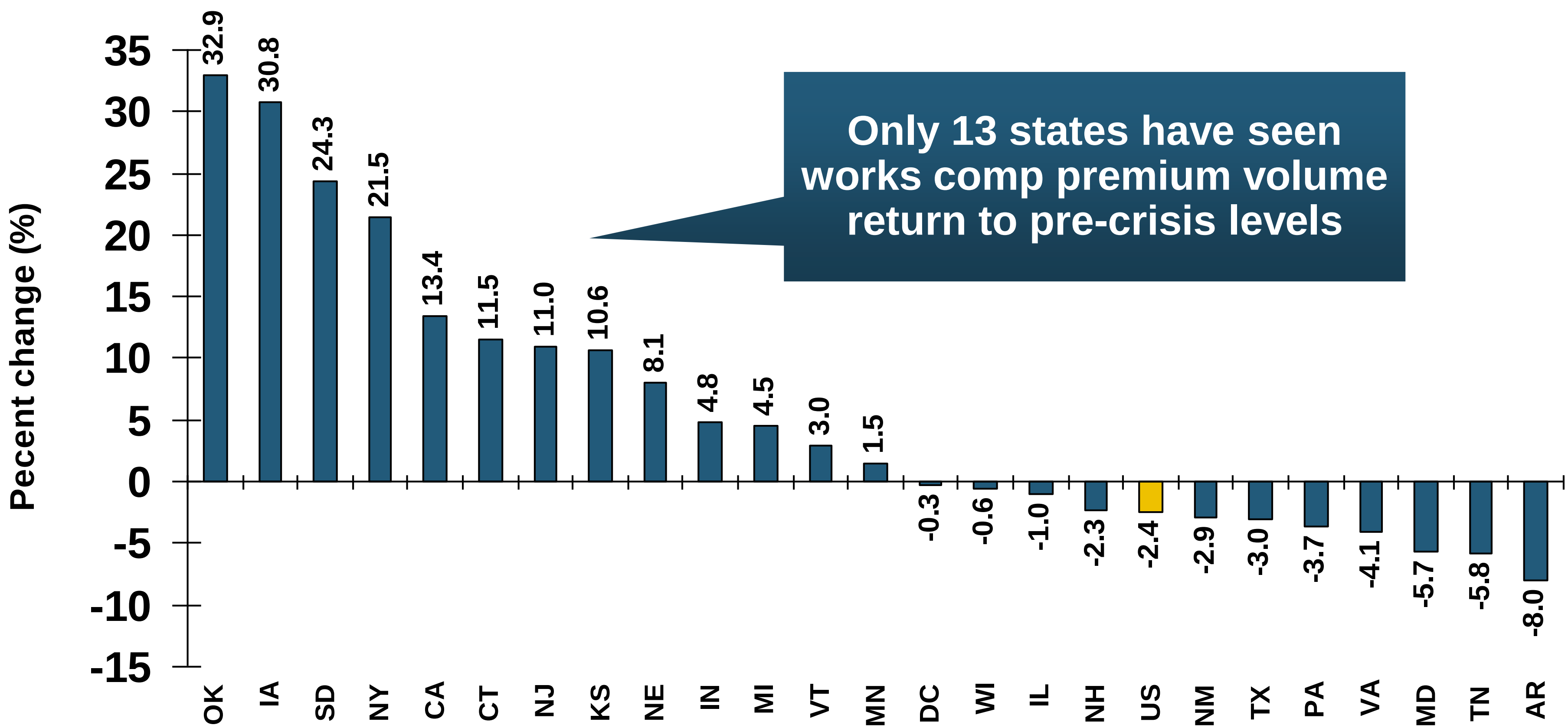
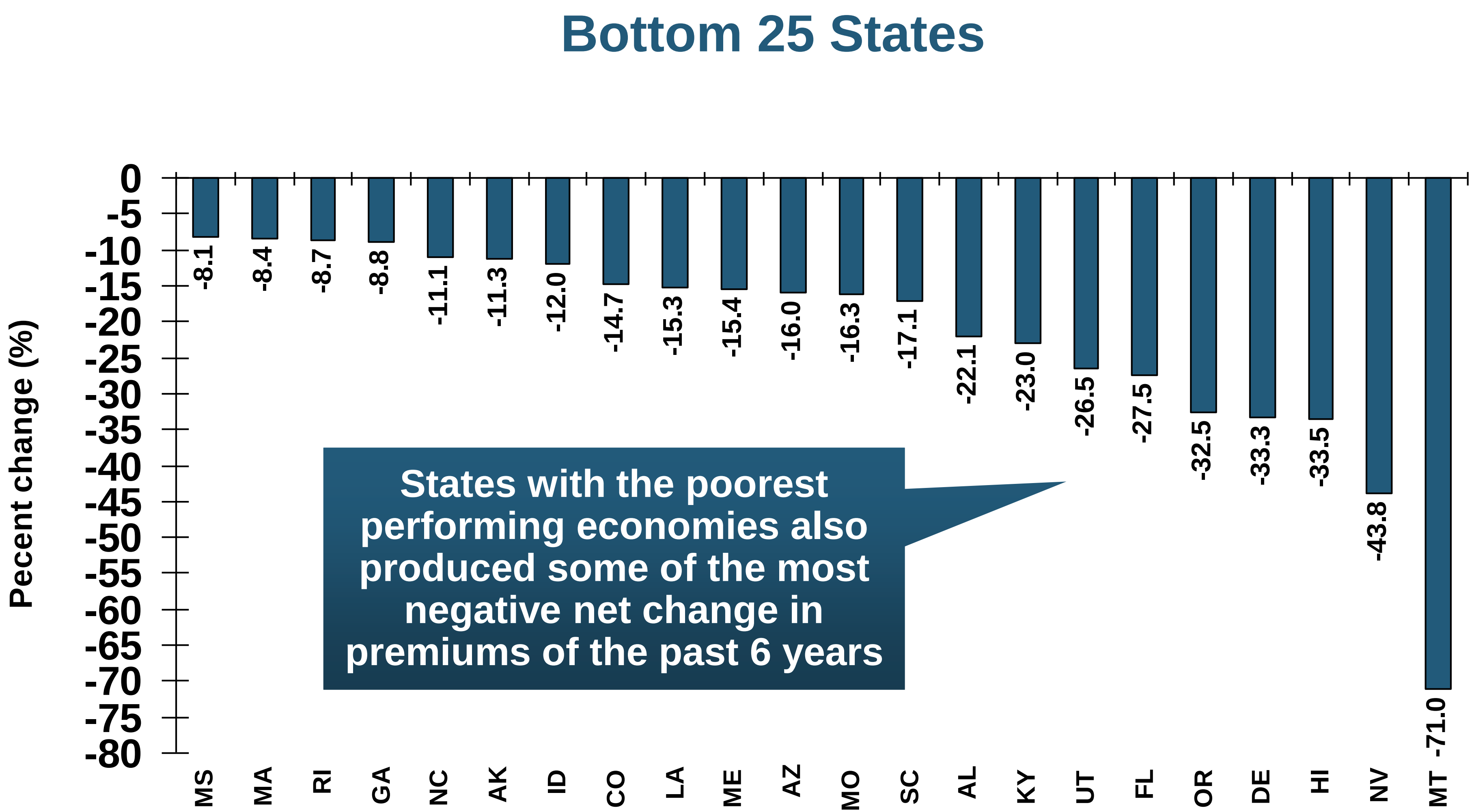
Top 25 States



*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, 2007-2013*



*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.

Percentage of Carriers Using Predictive Analytics by Major P/C Line, 2013

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Predictive analytics is more like to be used in personal lines, but commercial lines use is growing

82% of insurers report using predicative analytics in at least one line. 18% do not use it all.

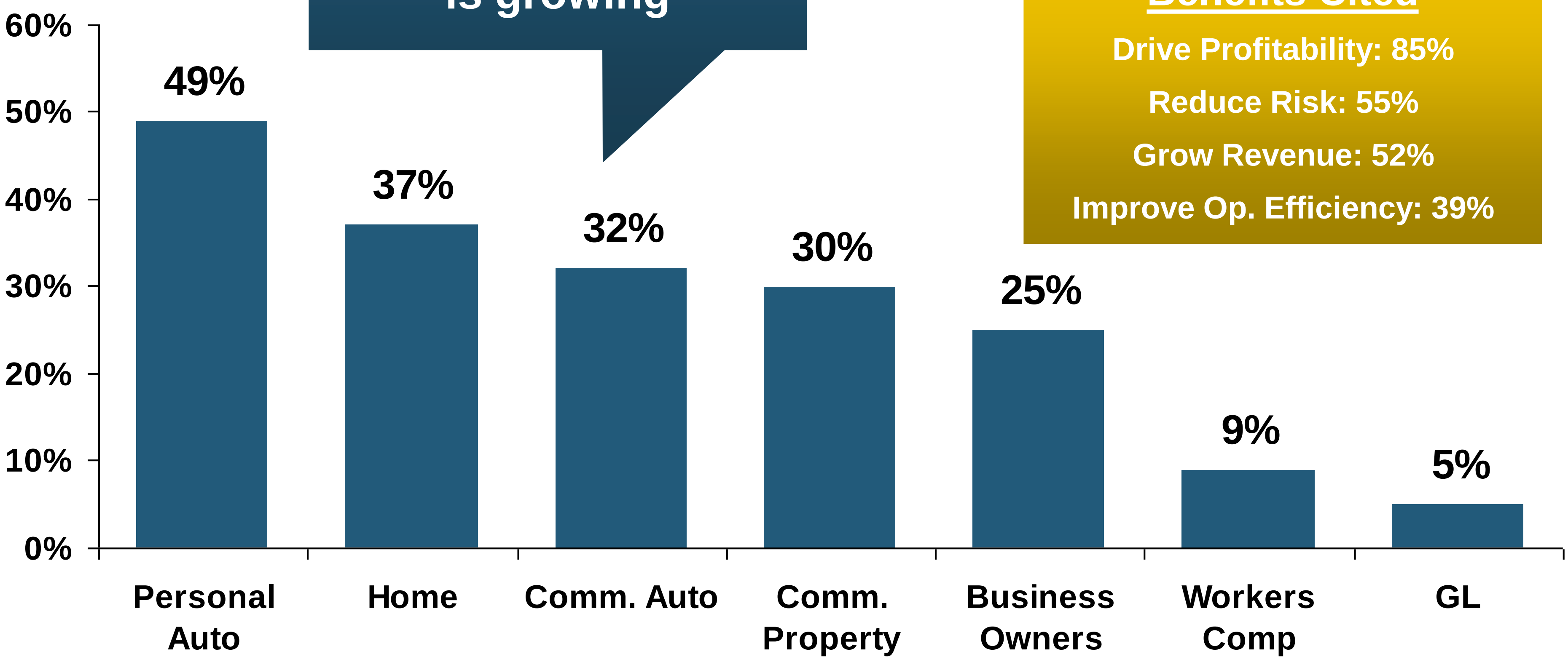
Benefits Cited

Drive Profitability: 85%

Reduce Risk: 55%

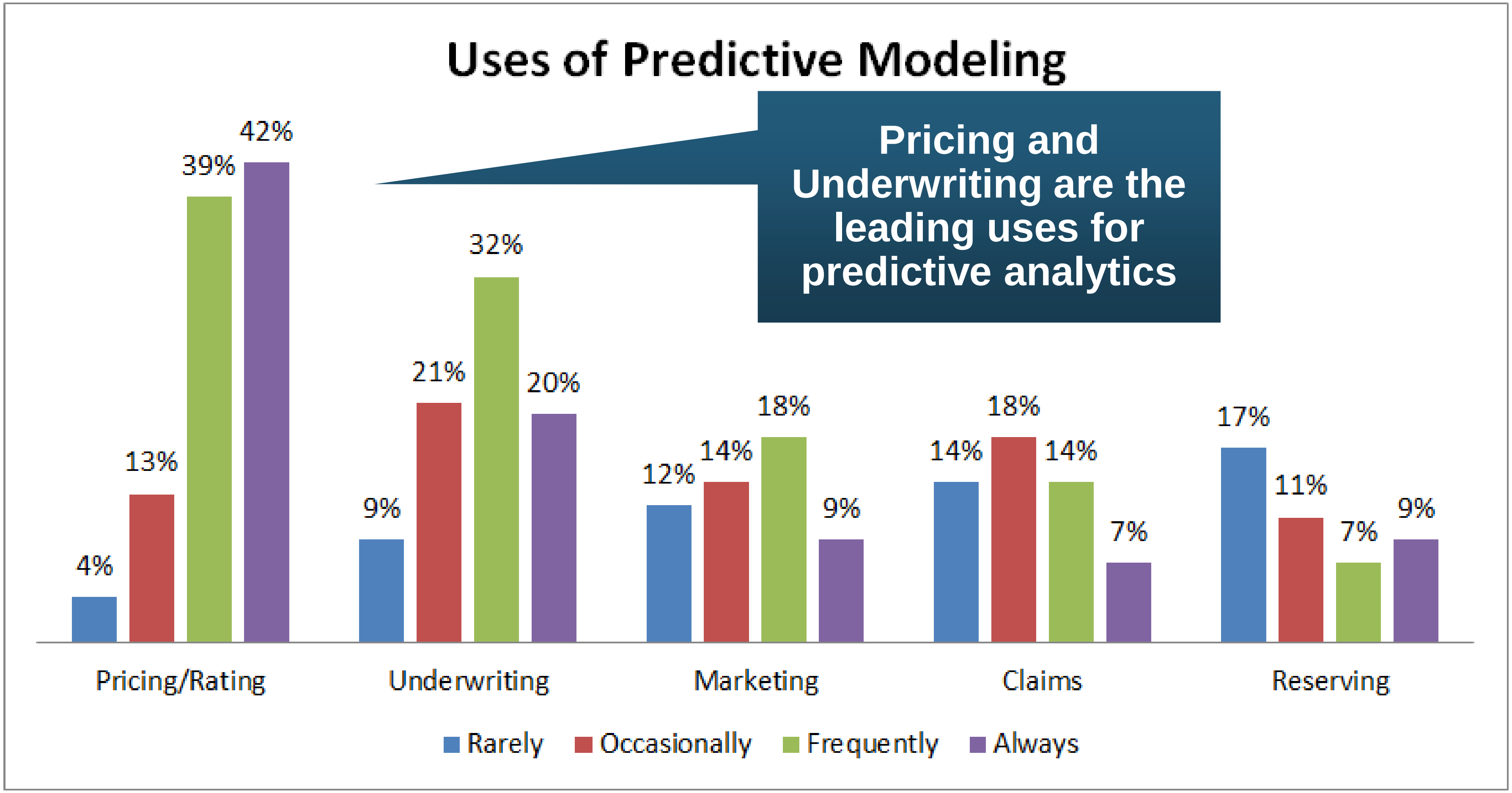
Grow Revenue: 52%

Improve Op. Efficiency: 39%



Source: ISO/Earnix Survey, September 2013; Insurance Information Institute.

Uses of Predictive Analytics by Function



Source: Earnix/ISO September 2013 Survey

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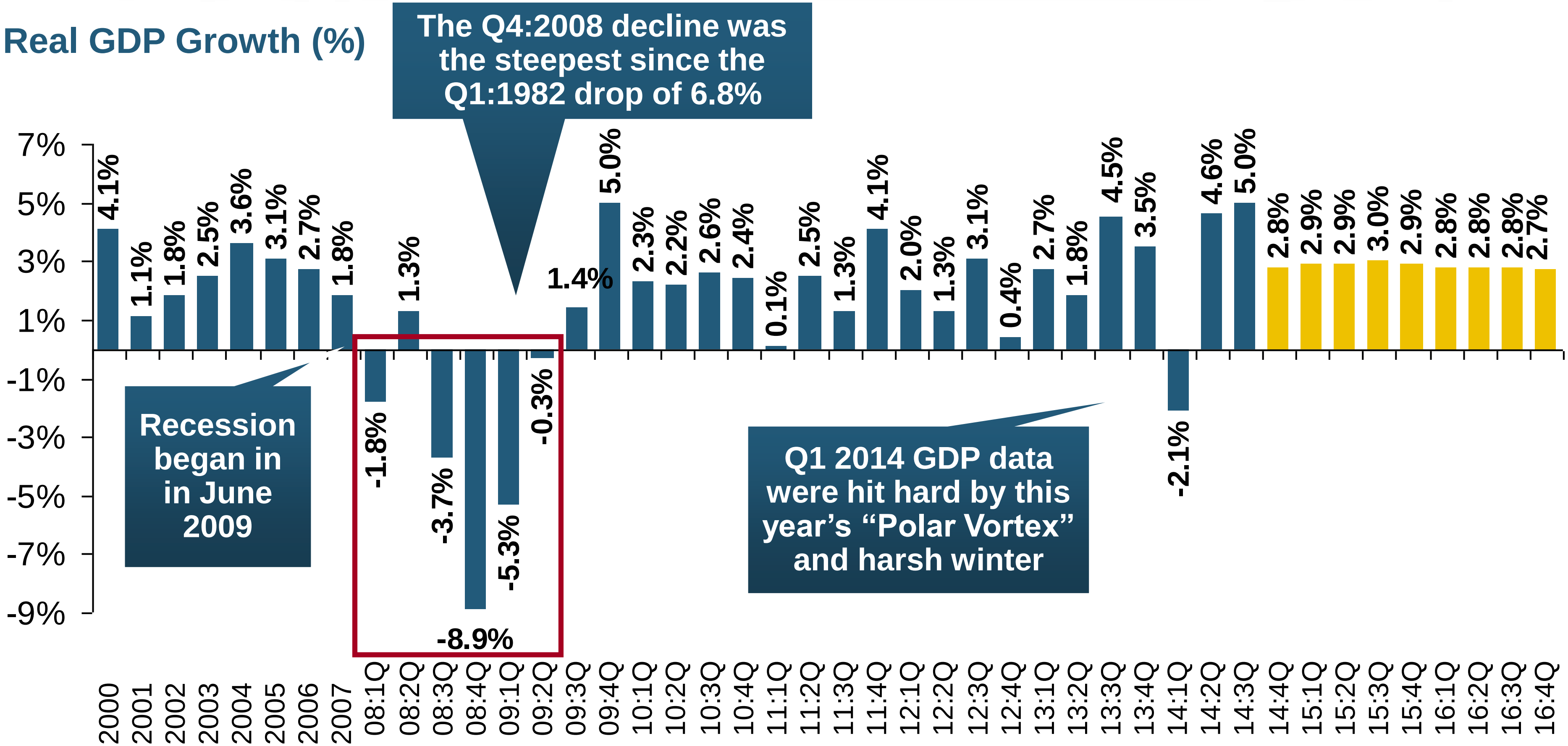
The Strength of the Economy Will Influence P/C Insurer Growth Opportunities

Growth Will Expand Insurer Exposure Base Across Most Lines

US Real GDP Growth*



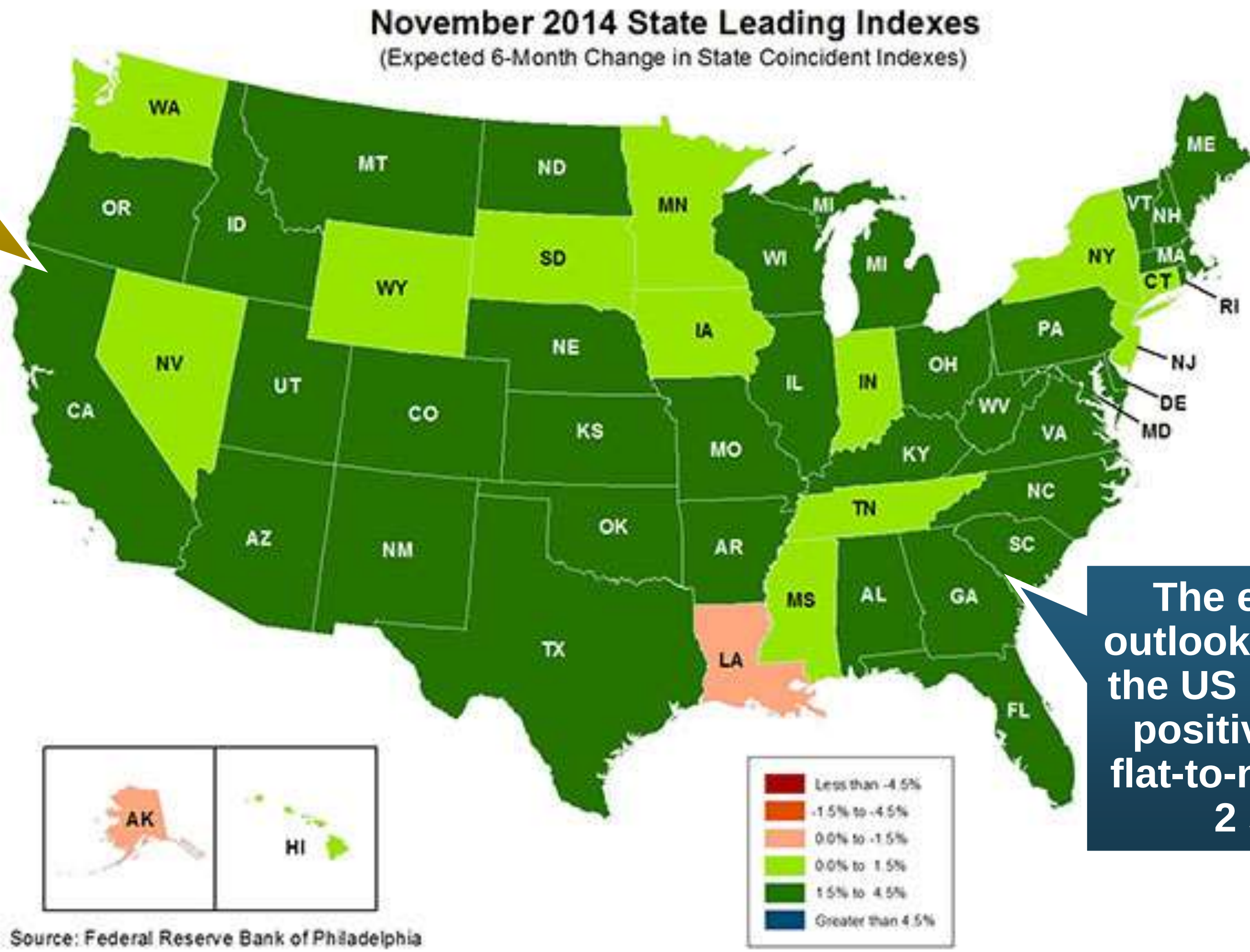
Demand for Insurance Should Increase in 2015 as GDP Growth Accelerates Modestly and Gradually Benefits the Economy Broadly

* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 1/15; Insurance Information Institute.

State-by-State Leading Indicators through 2015:Q2

Growth in the West is finally beginning to pick up



The economic outlook for most of the US is generally positive, though flat-to-negative for 2 states

Sources: Federal Reserve Bank of Philadelphia at http://www.philadelphiafed.org/index.cfm ;Insurance Information Institute.

Real GDP by State Percent Change, 2013: Highest 25 States

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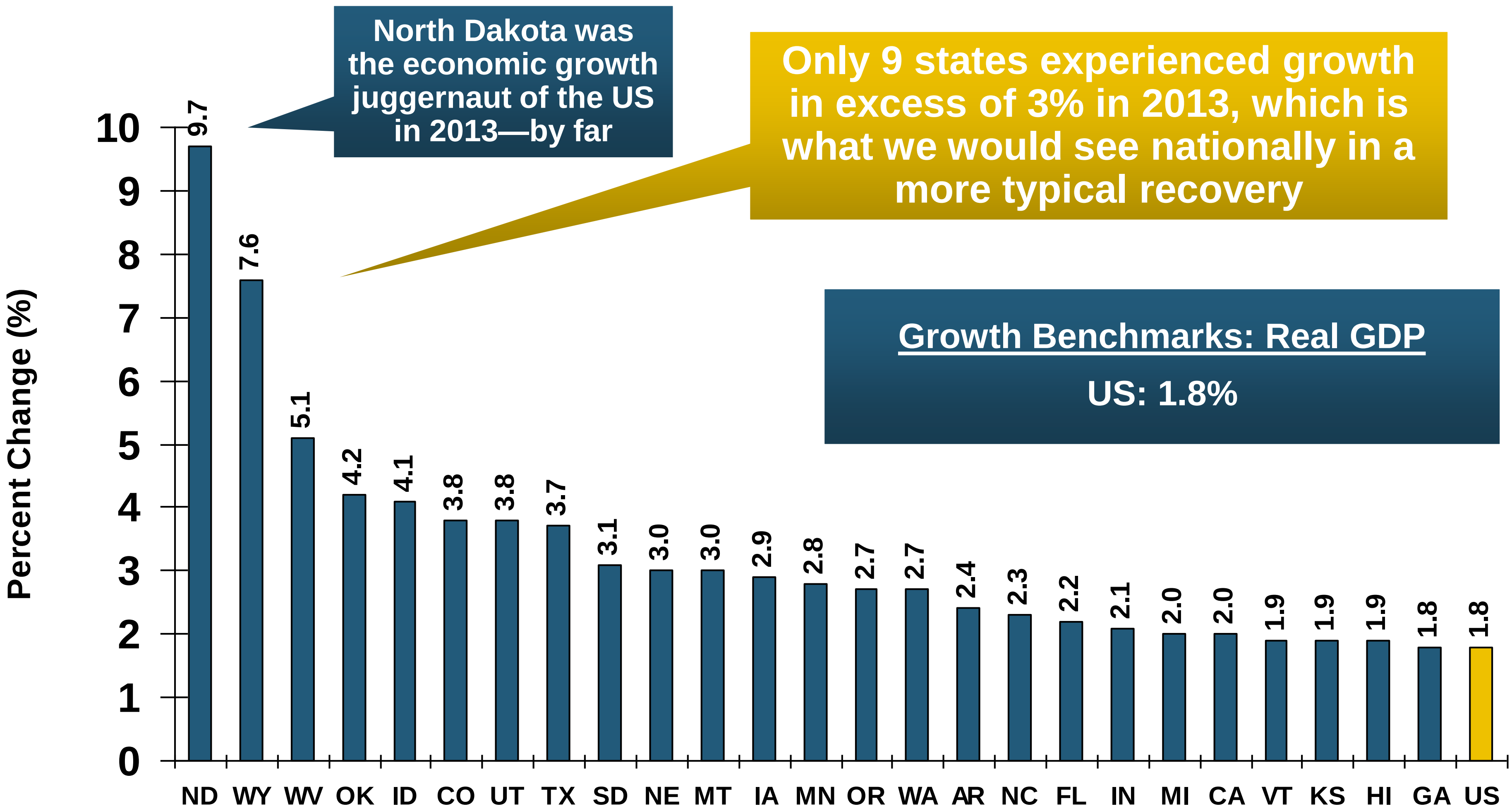

Sources: U.S. Bureau of Economic Analysis; Insurance Information Institute.

Real GDP by State Percent Change, 2013: Lowest 25 States

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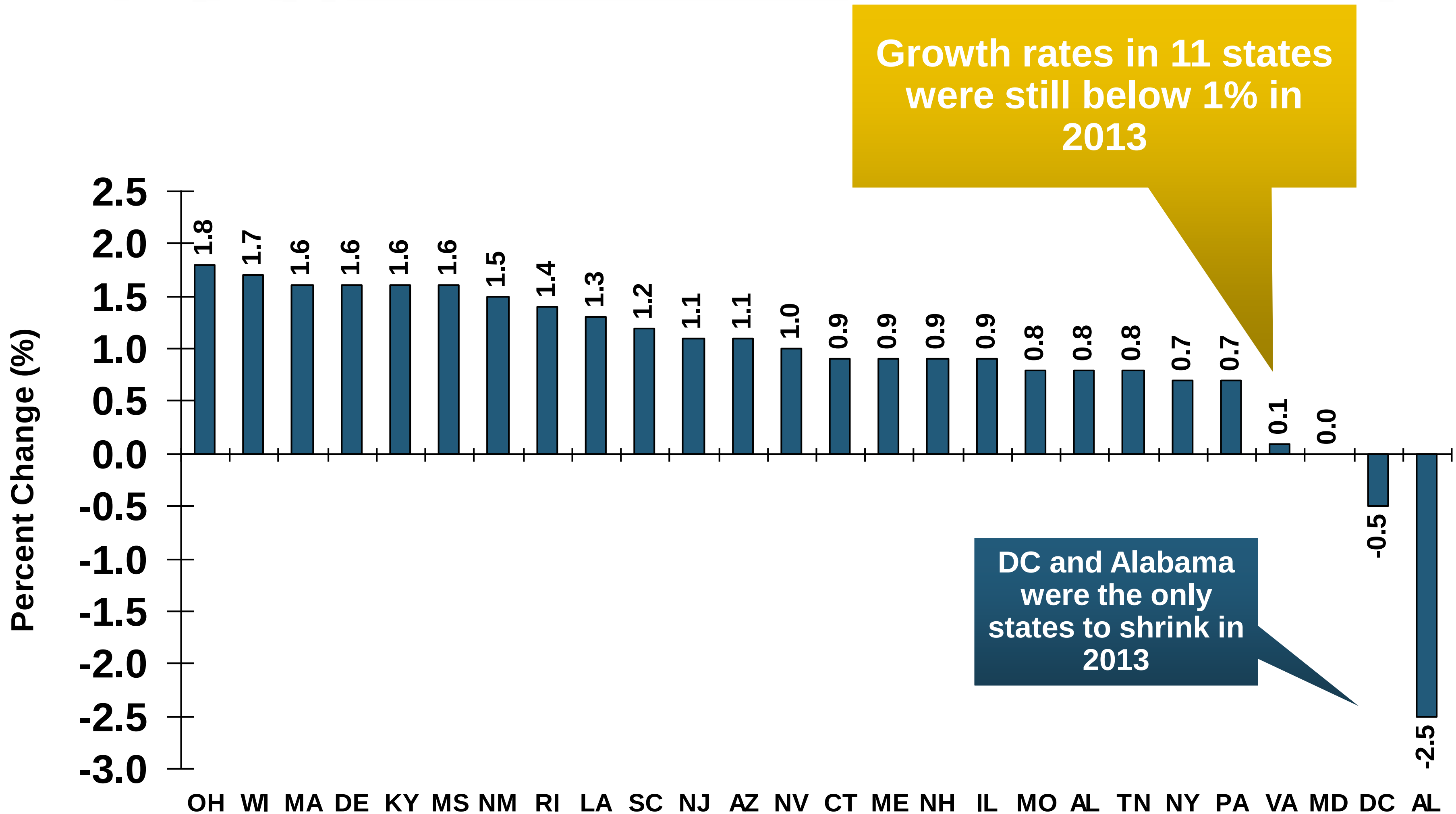
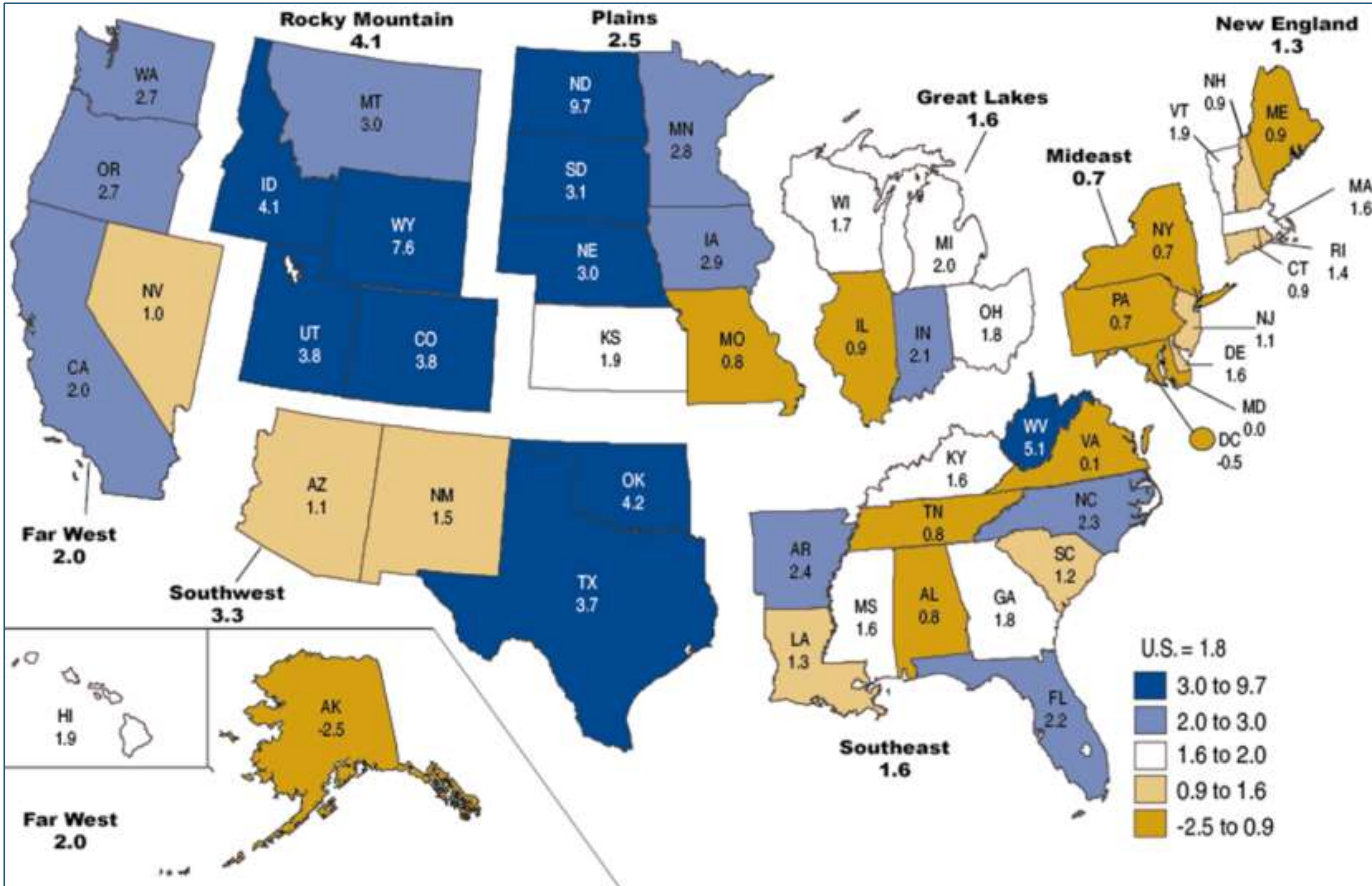


Sources: US Bureau of Economic Analysis; Insurance Information Institute.

Percent Change in Real GDP by State, 2013



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

Consumer Sentiment Survey *(1966 = 100)*

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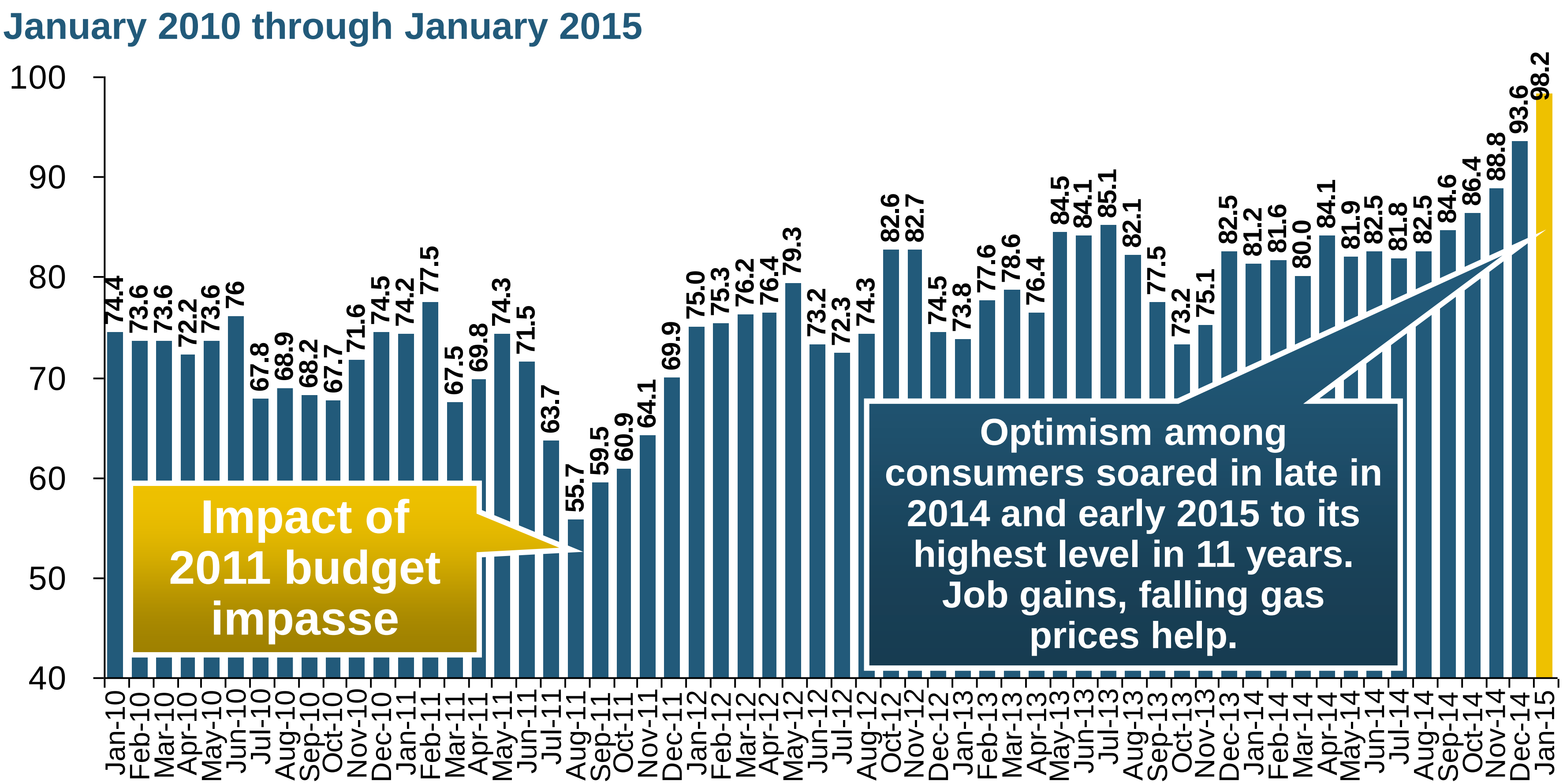

Consumer confidence had been low for years amid high unemployment, falling home prices and other factors adversely impact consumers, but improved substantially over the past 2+ years, as job growth and falling energy prices aid consumers

Source: University of Michigan; Insurance Information Institute

Auto/Light Truck Sales, 1999-2020F

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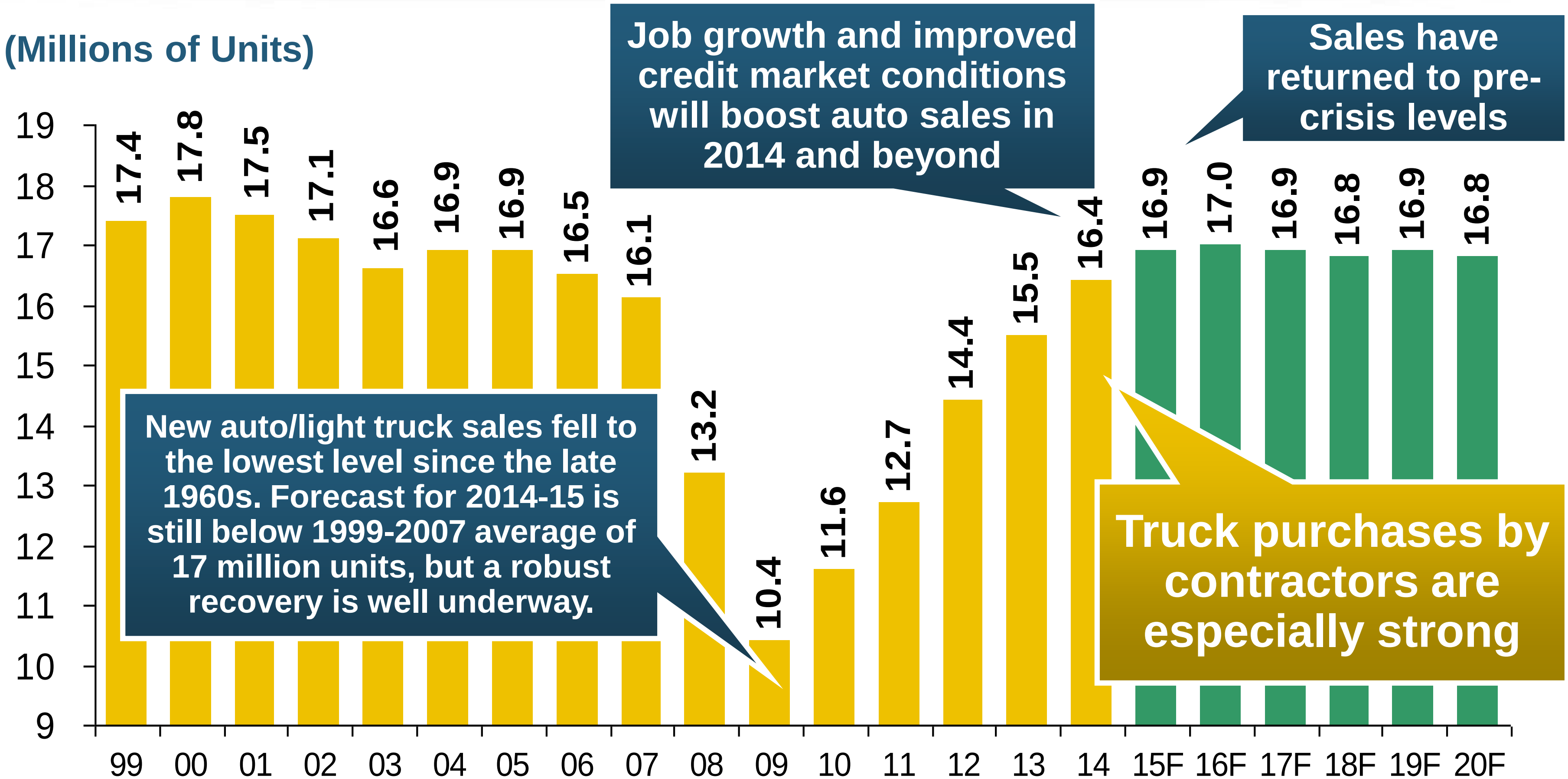
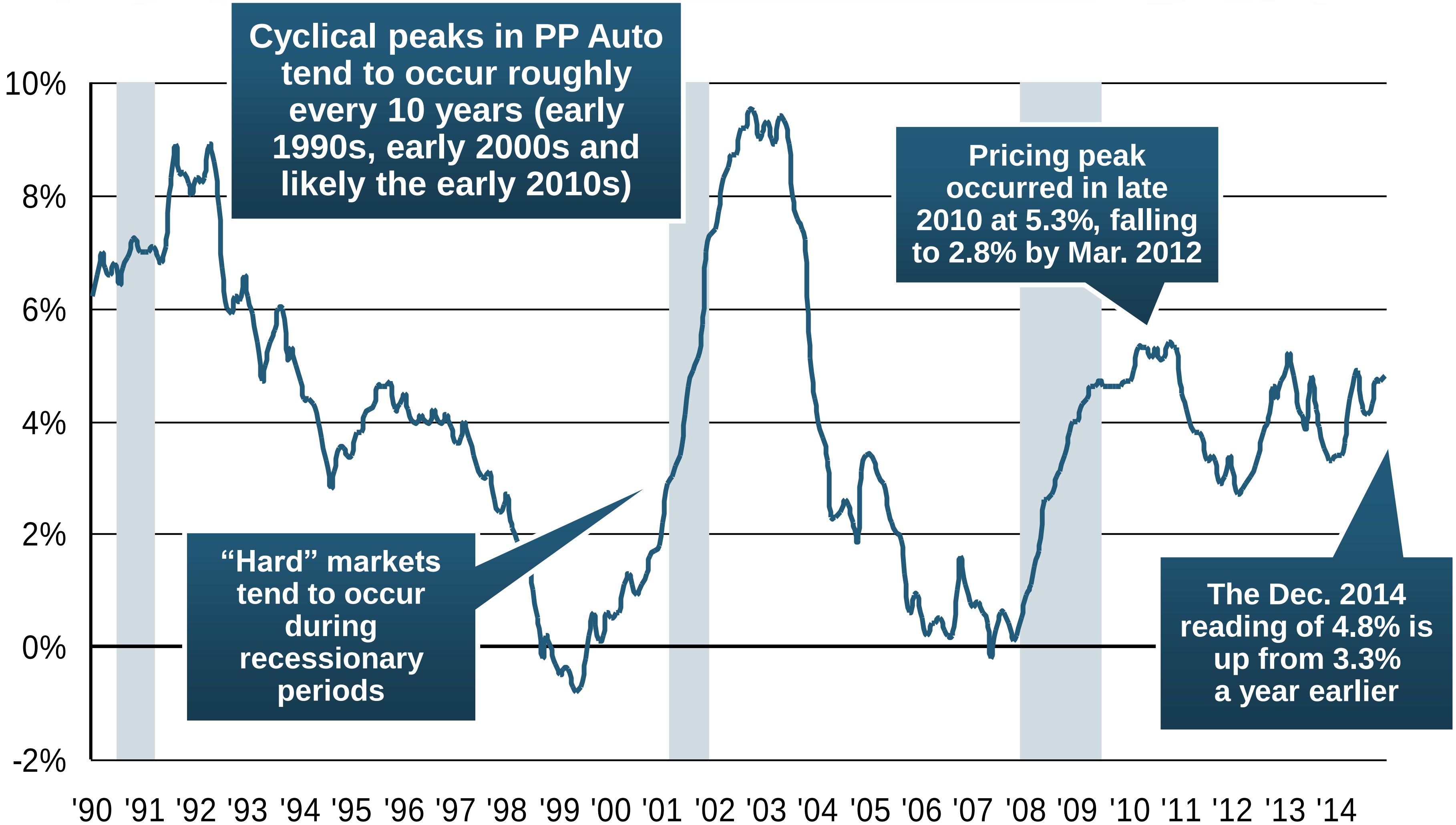


Yearly car/light truck sales will likely continue at current levels, in part replacing cars that were held onto in 2008-12. New vehicles will generate more physical damage insurance coverage but will be more expensive to repair. PP Auto premium might grow by 5% - 6%.

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (1/15 and 10/14); Insurance Information Institute.

Monthly Change in Auto Insurance Prices, 1991–2014*

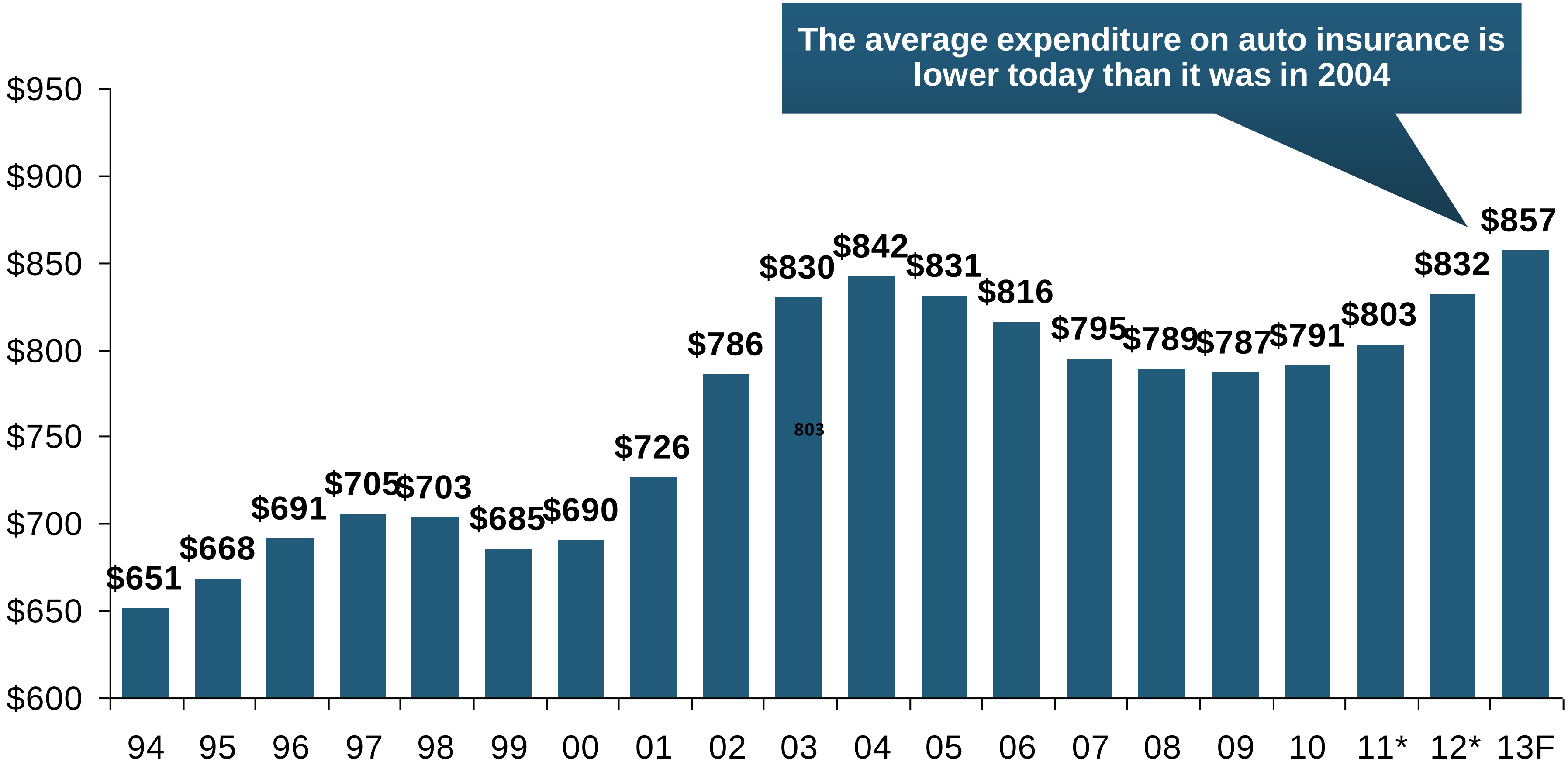


*Percentage change from same month in prior year; through December 2014; seasonally adjusted

Note: Recessions indicated by gray shaded columns.

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

Average Expenditures on Auto Insurance



Countrywide Auto Insurance Expenditures Decreased by 0.8% in 2008 and 0.5% in 2009 and Increased 0.5% in 2010, 1.5% in 2011 (est.), 2.0% in 2012 and 2.2% in 2013 (forecast)

* Insurance Information Institute Estimates/Forecasts

Source: NAIC, Insurance Information Institute estimate for 2011-2013 based on CPI and other data.

New Private Housing Starts, 1990-2020F

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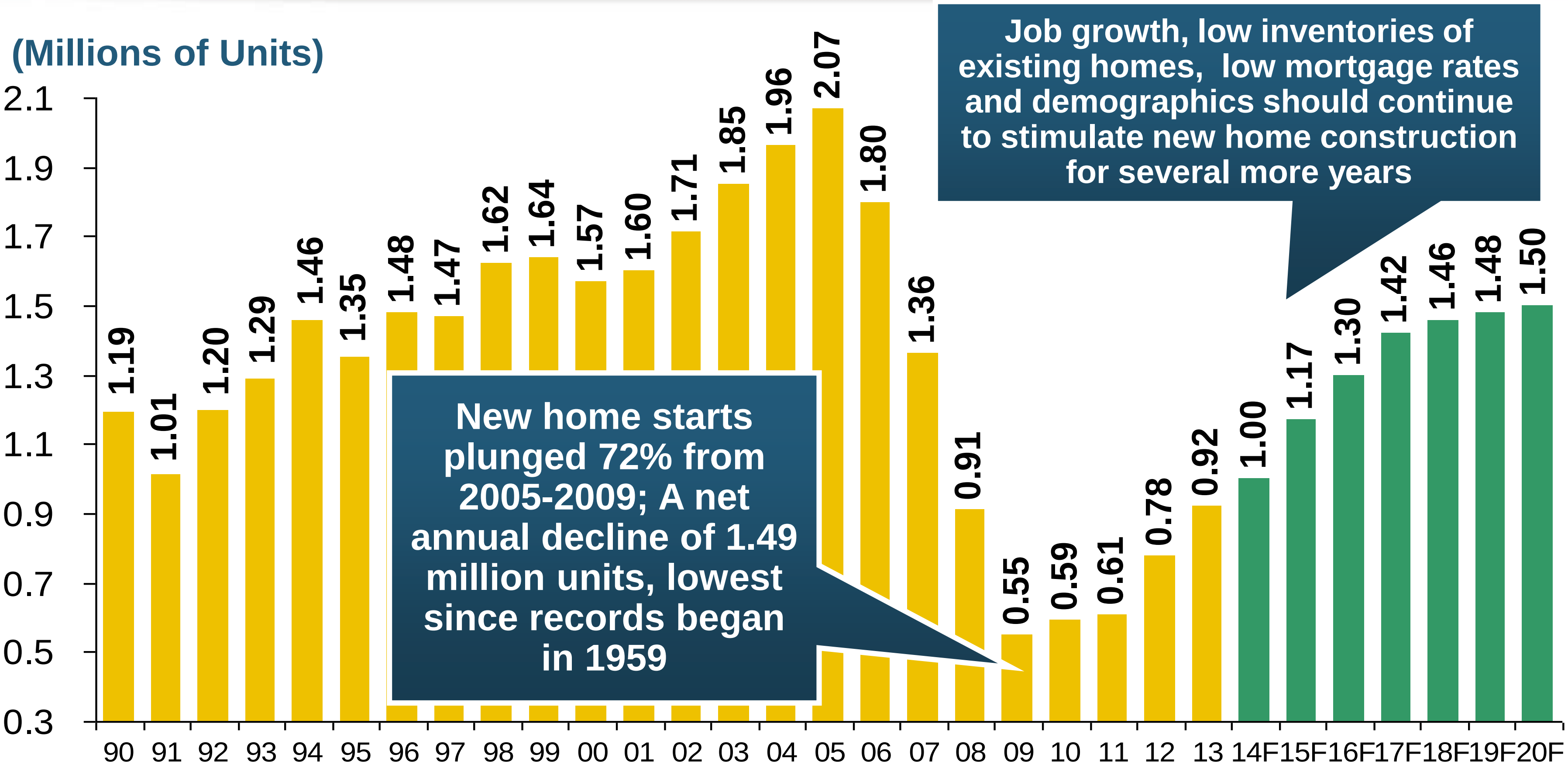

Insurers Are Continue to See Meaningful Exposure Growth in the Wake of the "Great Recession" Associated with Home Construction: Construction Risk Exposure, Surety, Commercial Auto; Potent Driver of Workers Comp Exposure

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (1/15 and 10/14); Insurance Information Institute.

Interest Rate on Convention 30-Year Mortgages: Up a Bit, 1990–2014*

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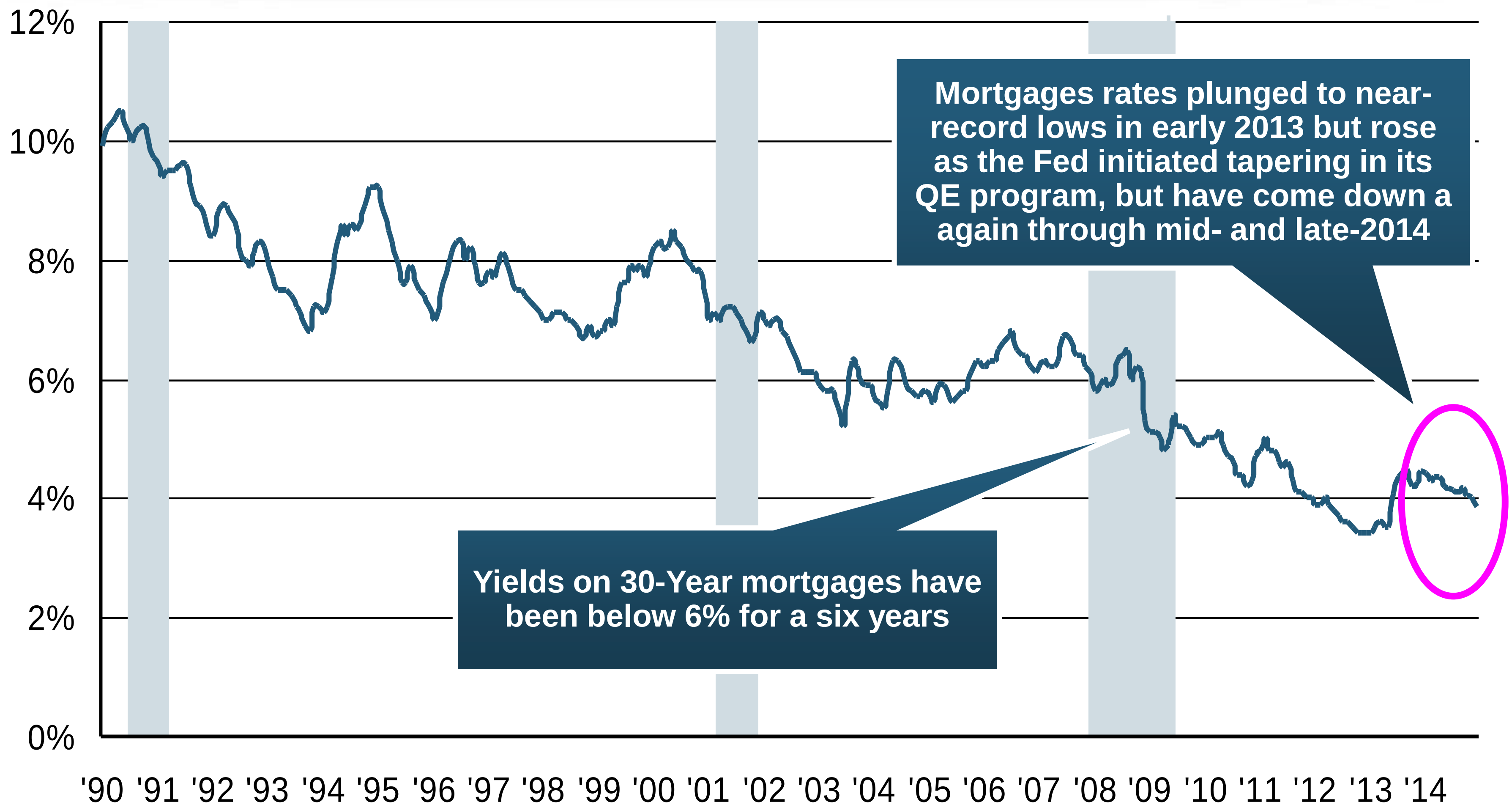


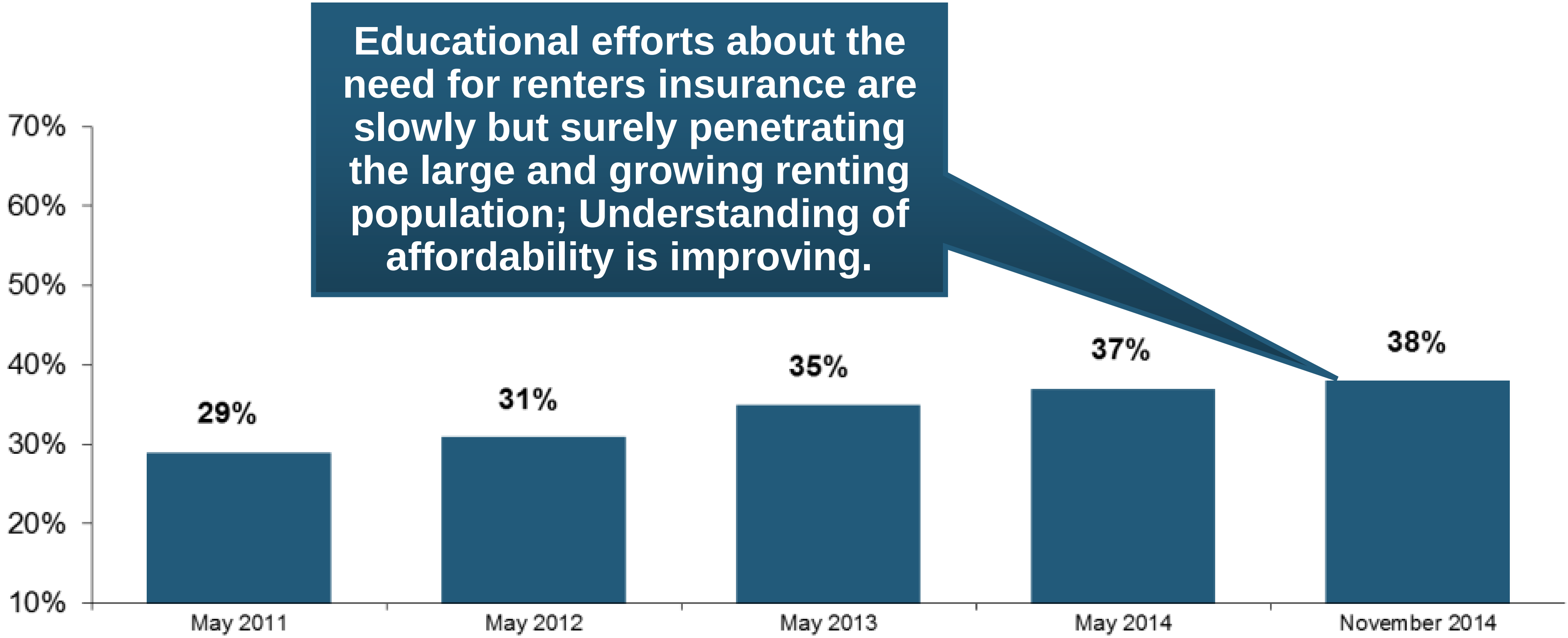
Rising mortgage interest rates have impacted home sales marginall but are unlikely to derail the recovery on housing

*Monthly, through Dec. 2014. 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.

I.I.I. Poll: Renters Insurance

Percentage of Renters Who Have Renters Insurance, 2011-2014

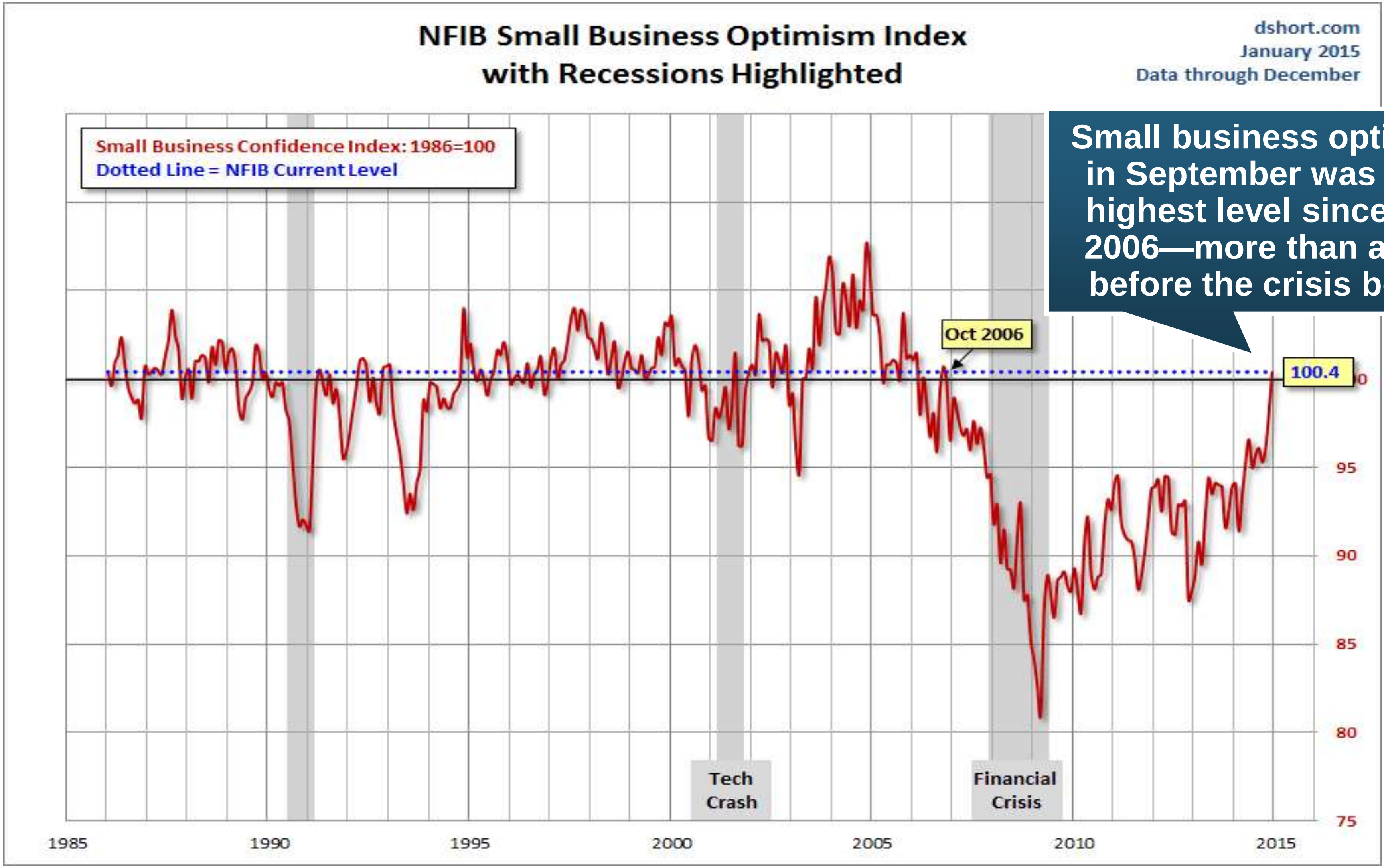


Percentage Of Renters With Renters Insurance Is Increasing.

Source: Insurance Information Institute Annual *Pulse* Survey.

NFIB Small Business Optimism Index

January 1985 through December 2014



Small business optimism in September was at its highest level since Oct. 2006—more than a year before the crisis began

Source: National Federation of Independent Business at http://www.advisorperspectives.com/dshort/charts/indicators/Sentiment.html?NFIB-optimism-index.gif ; Insurance Information Institute.

Business Bankruptcy Filings: Still Falling

(1994:Q1 – 2014:Q3)

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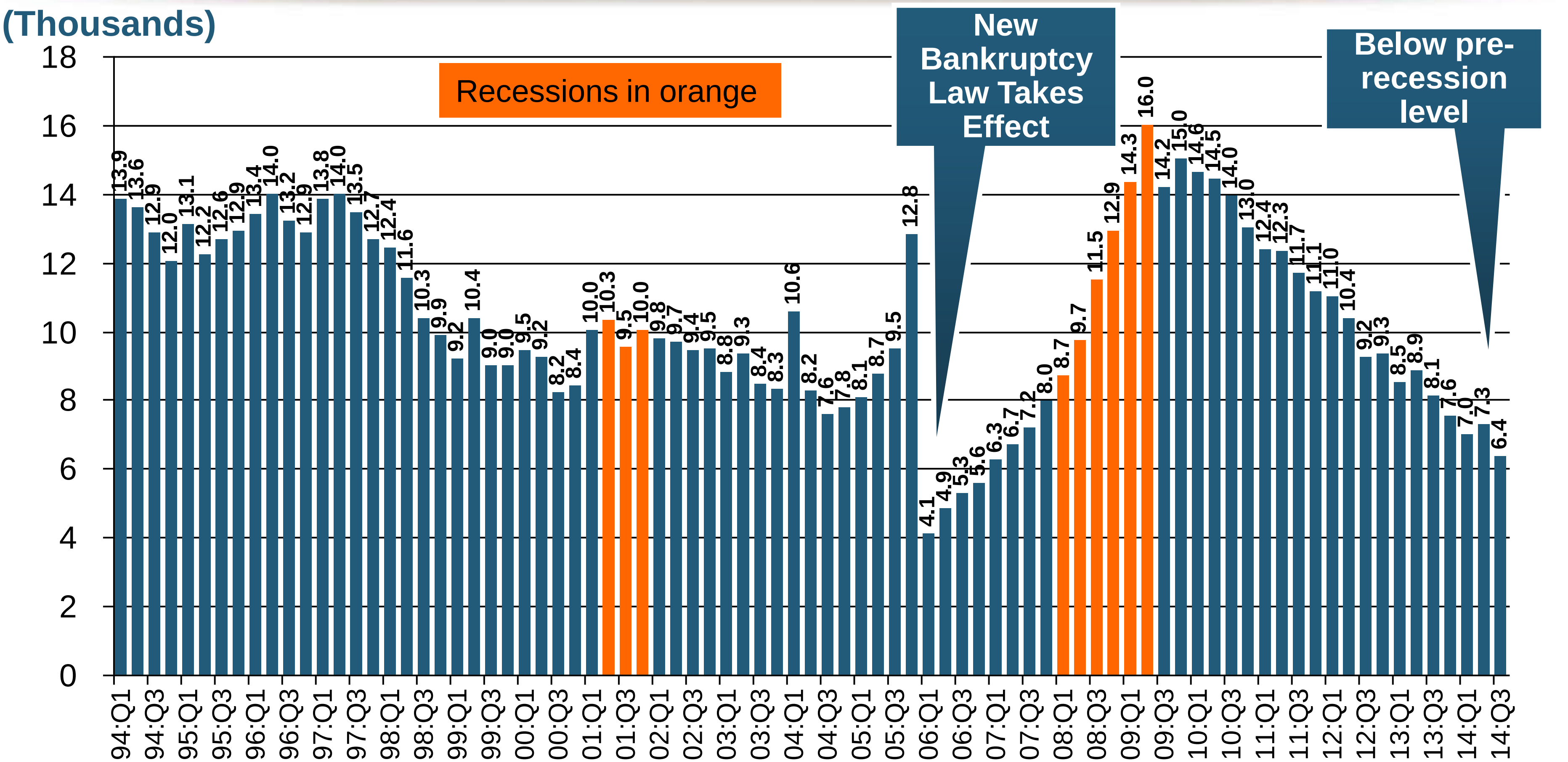

Business bankruptcies in 2014 were below both the Great Recession levels and the 2003:Q3-2005:Q1 period (the best five-quarter stretch in the last 20 years). Bankruptcies restrict exposure growth in all commercial lines.

Sources: U.S. Courts at http://www.uscourts.gov/uscourts/Statistics/BankruptcyStatistics/BankruptcyFilings/2013/0913_f2q.pdf ; Insurance Information Institute

Business Bankruptcy Filings, 1980-2014

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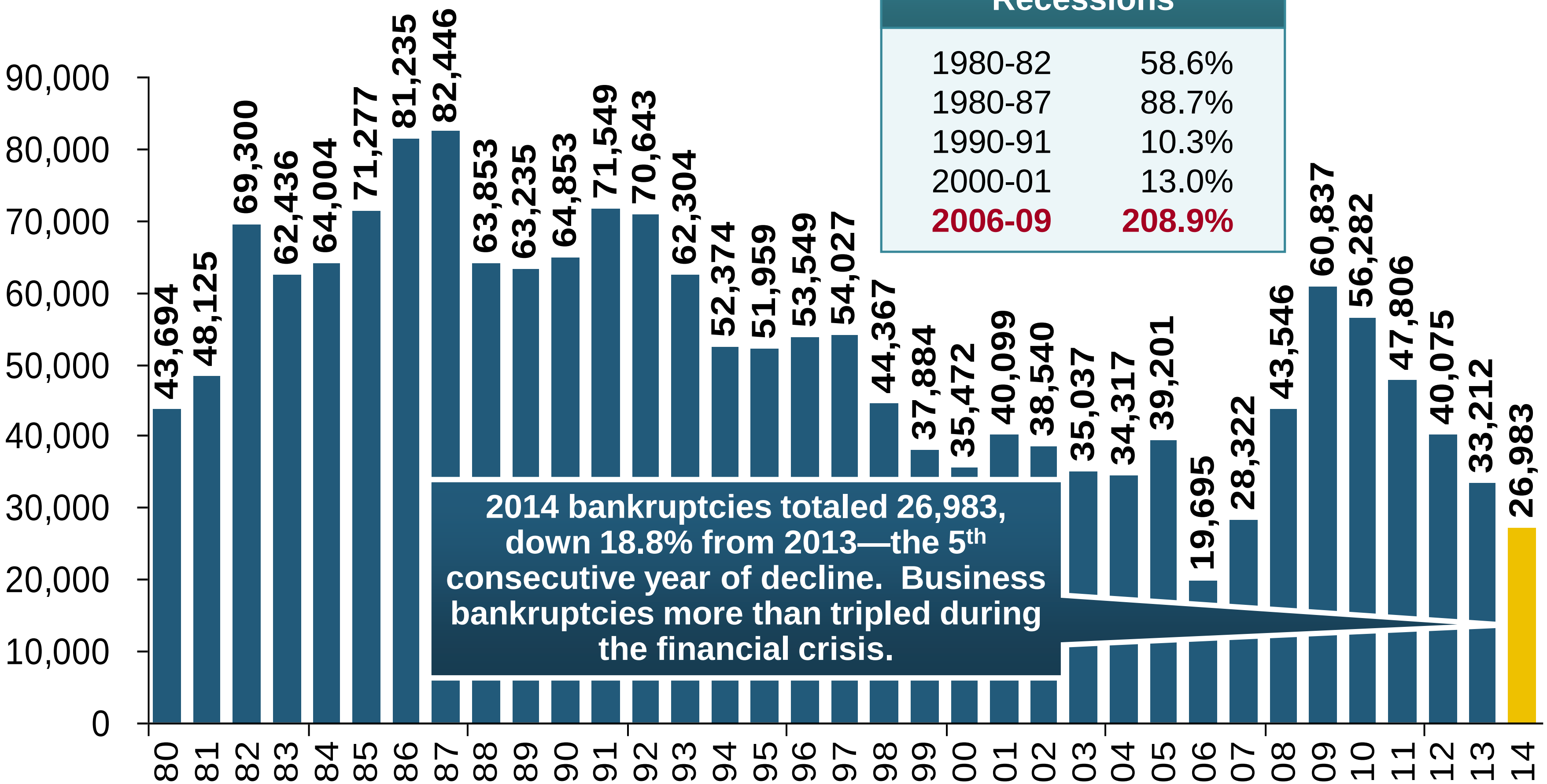
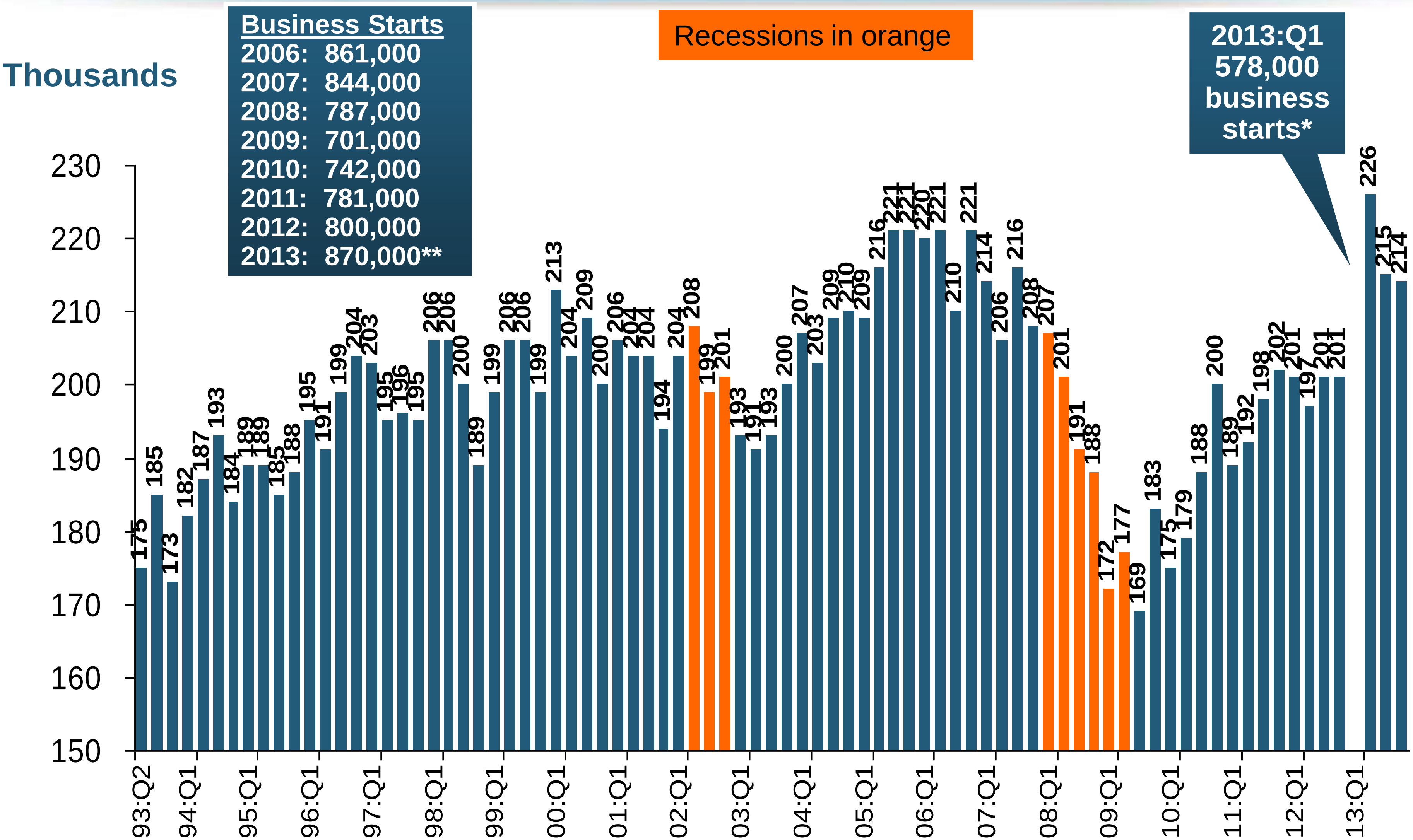


% Change Surrounding Recessions	
1980-82	58.6%
1980-87	88.7%
1990-91	10.3%
2000-01	13.0%
2006-09	**208.9%**

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

Sources: American Bankruptcy Institute (1980-2012) at http://www.abiworld.org/AM/AMTemplate.cfm?Section=Home&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=61633; 2013-14 data from United States Courts at http://news.uscourts.gov; Insurance Information Institute.

Private Sector Business Starts: 1993:Q2 – 2013:Q4* As Strong as Ever?



*Data posted Apr 29, 2014, the latest available; a classification change in 2013:Q1 resulted in a report of 578,000 businesses started in that quarter. Seasonally adjusted. **2014 number assumes 1st quarter equaled average of other three quarters

Sources: Bureau of Labor Statistics, http://www.bls.gov/news.release/cewbd.t08.htm. NBER (recession dates)

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

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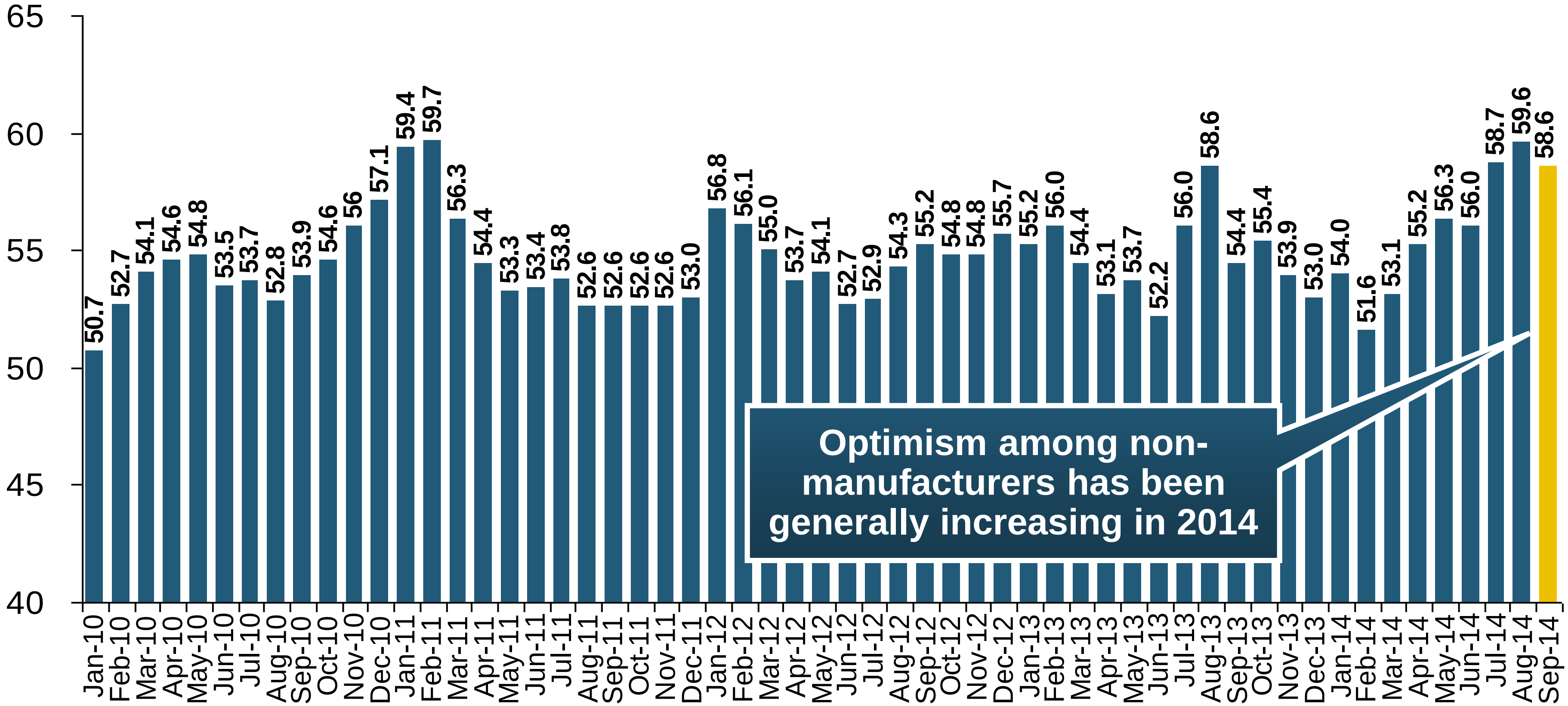
January 2010 through September 2014



Non-manufacturing industries have been expanding and adding jobs. This trend is likely to continue through 2014.

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

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, *Pipelines*)

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

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CONSTRUCTION INDUSTRY OVERVIEW & OUTLOOK

The Construction Sector Is Critical to the Economy and the P/C Insurance Industry

Value of New Private Construction: Residential & Nonresidential, 2003-2014*

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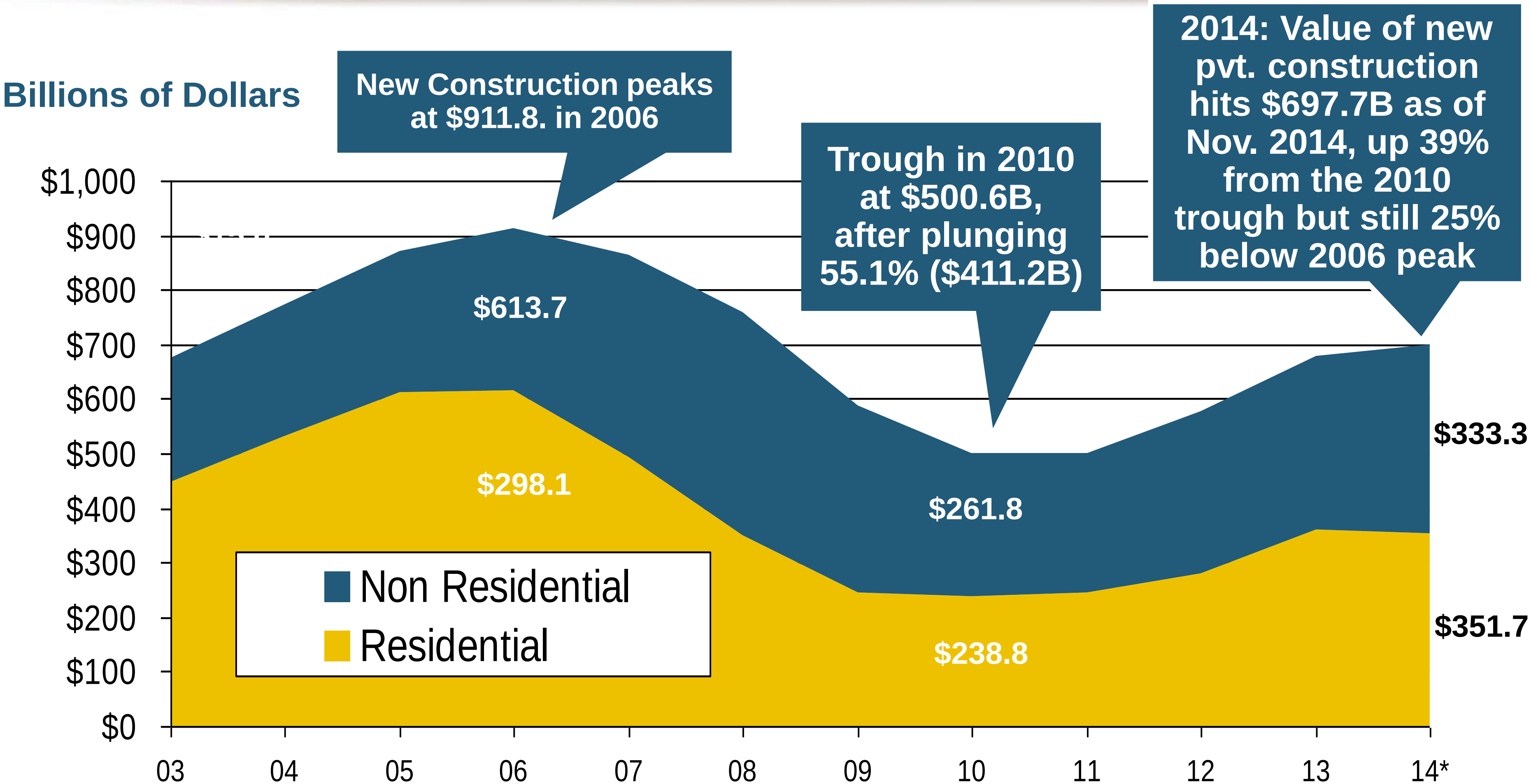
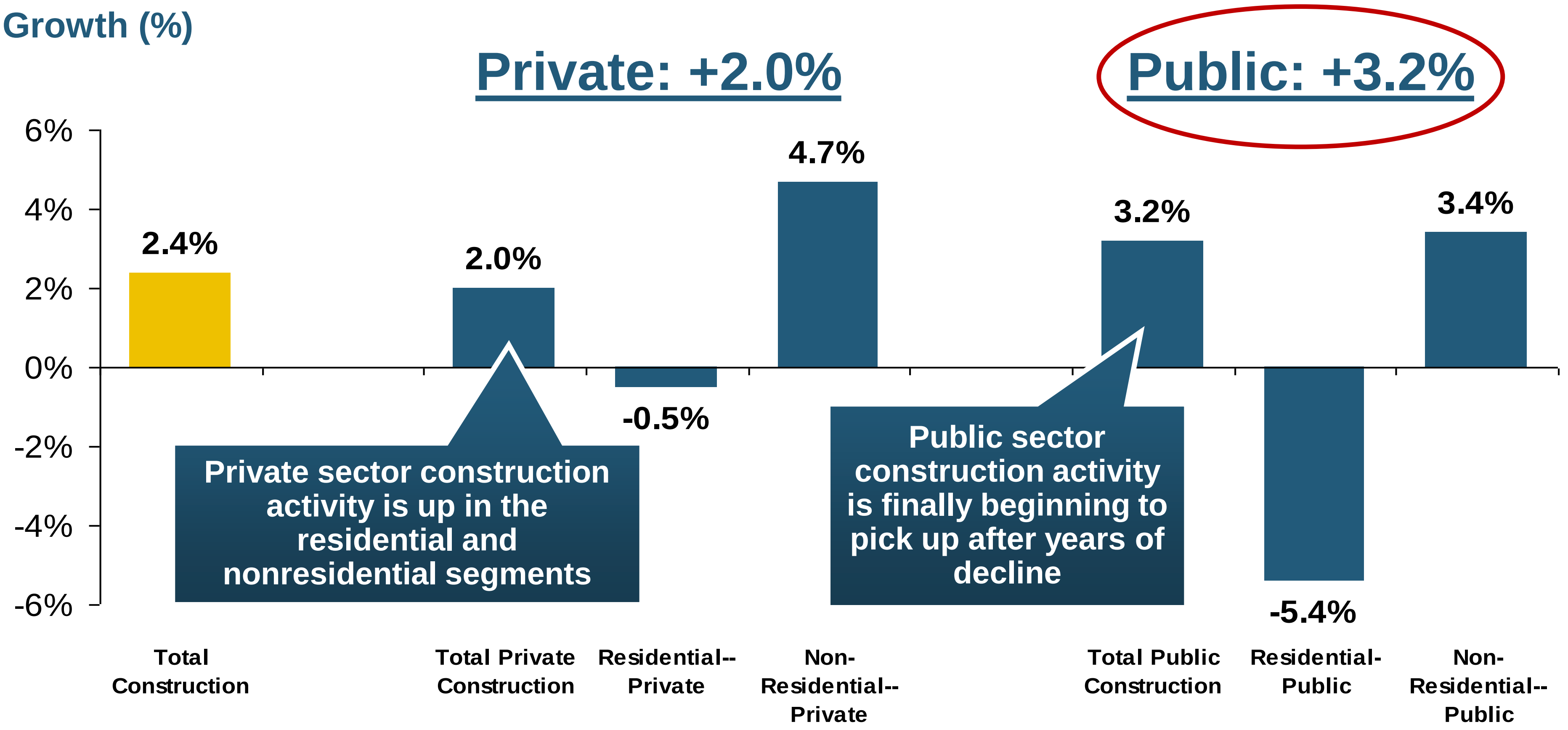


Private Construction Activity Is Moving in a Positive Direction though Remains Well Below Pre-Crisis Peak; Residential Dominates

*2014 figure is a seasonally adjusted annual rate as of November.

Sources: US Department of Commerce http://www.census.gov/construction/c30/c30index.html ; Insurance Information Institute.

Value of Construction Put in Place, Nov. 2014 vs. Nov. 2013*



Overall Construction Activity is Up, But Growth In the Private Sector Slowed in Late 2014 While Picking in the State/Local Sector Government Sector as Budget Woes Ease in Some Jurisdictions

*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, Nov. 2014 vs. Nov. 2013*

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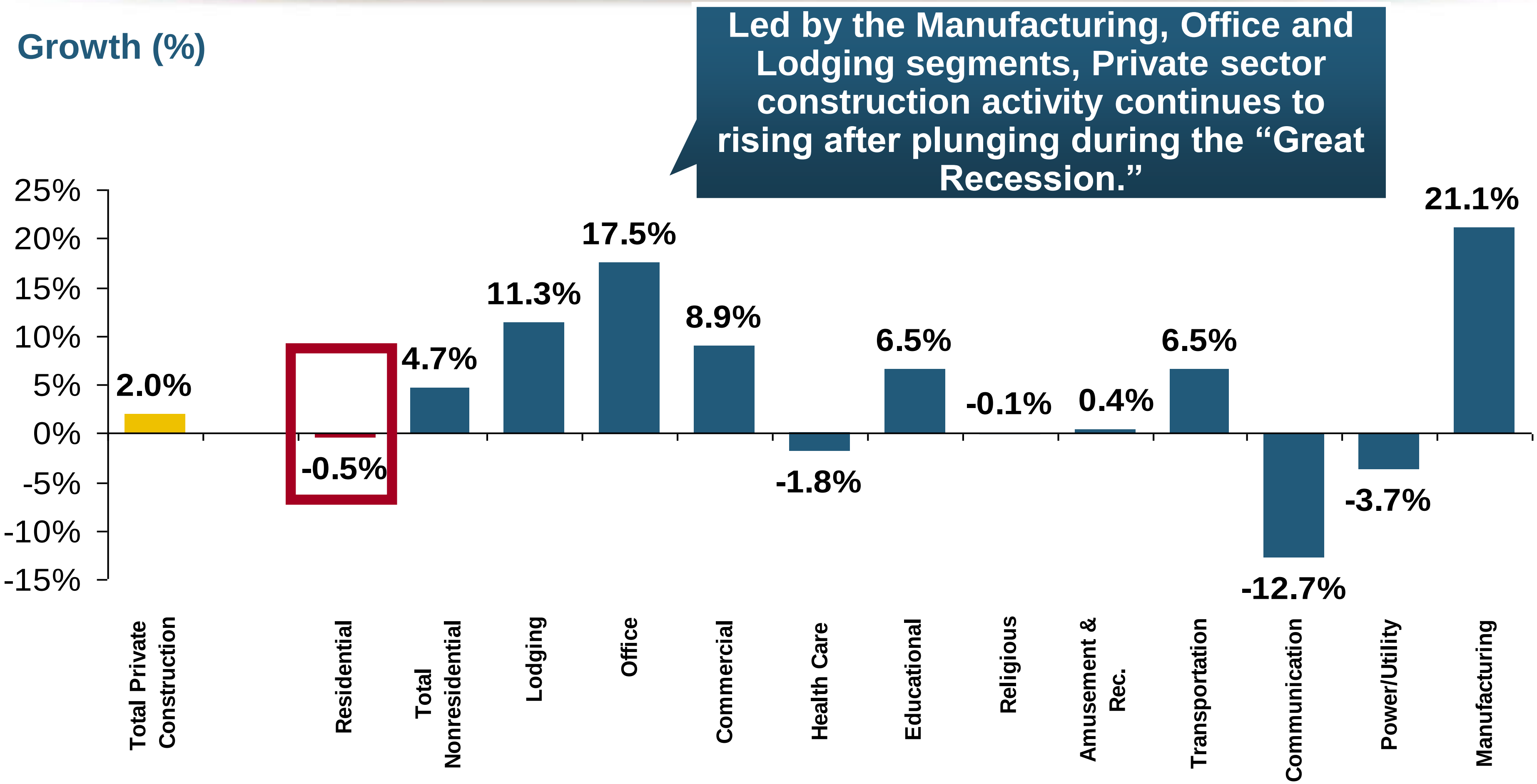
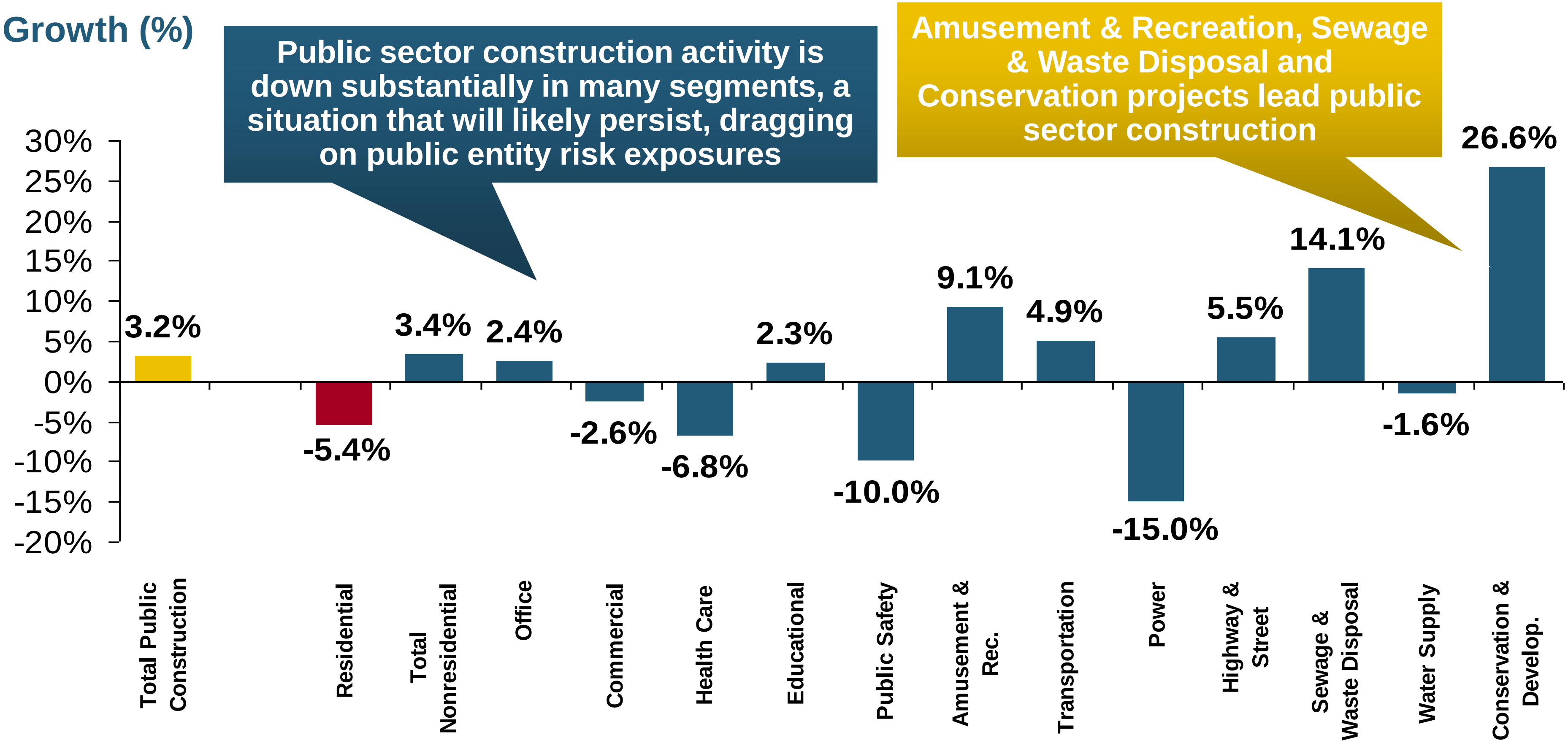


Private Construction Activity is Up in Many Segments, Including the Key Residential Construction Sector; Bodes Well for the Remainder of 2014

*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, Nov. 2014 vs. Nov. 2013*

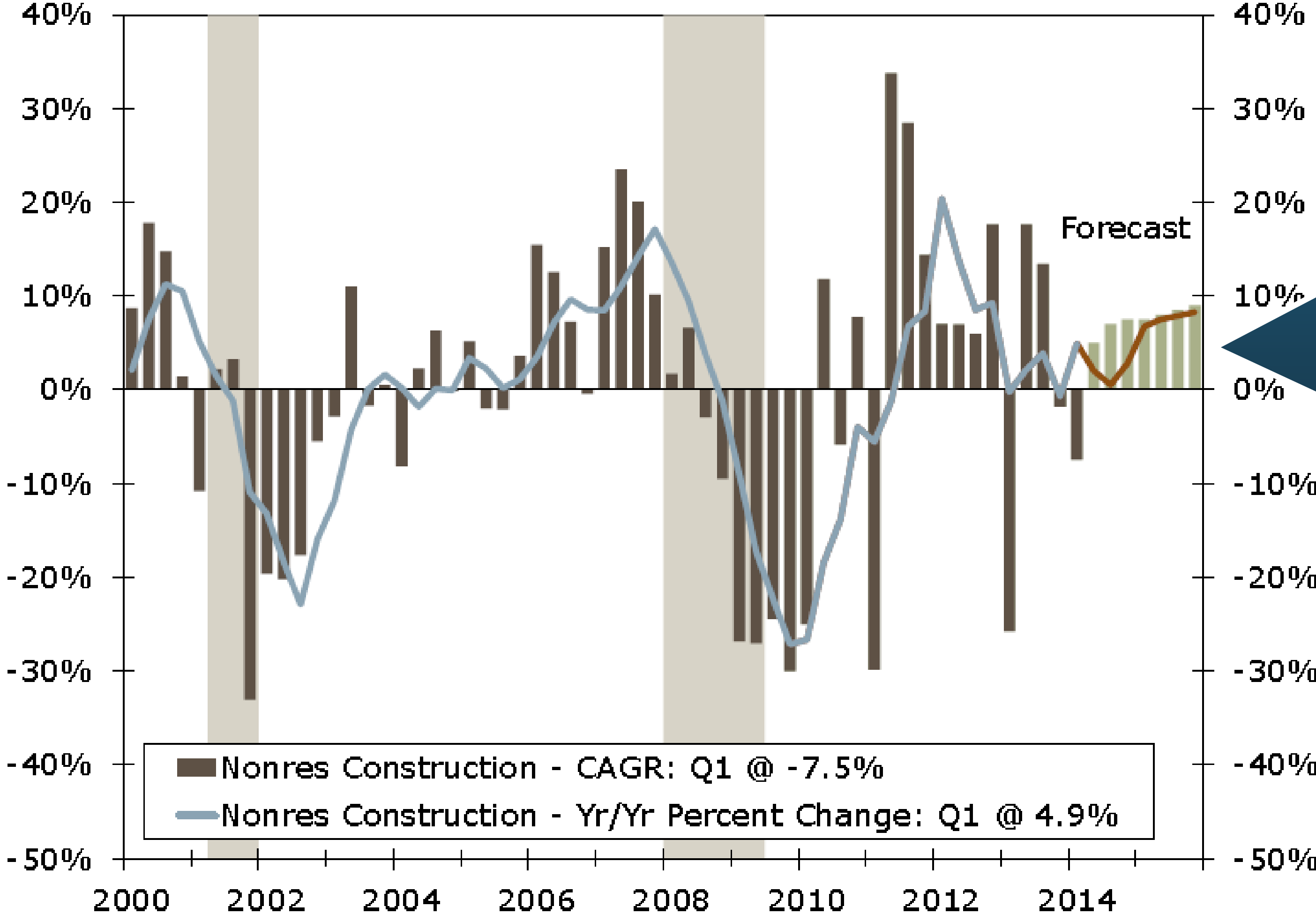


Public Construction Activity is Beginning to Recover from its Long Contraction which Will Drive Demand in Many Commercial Insurance Lines

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

Real (Inflation-Adjusted) Nonresidential Construction, 2000-2014*

(Bar = CAGR; Line = Y/Y Growth Rate)

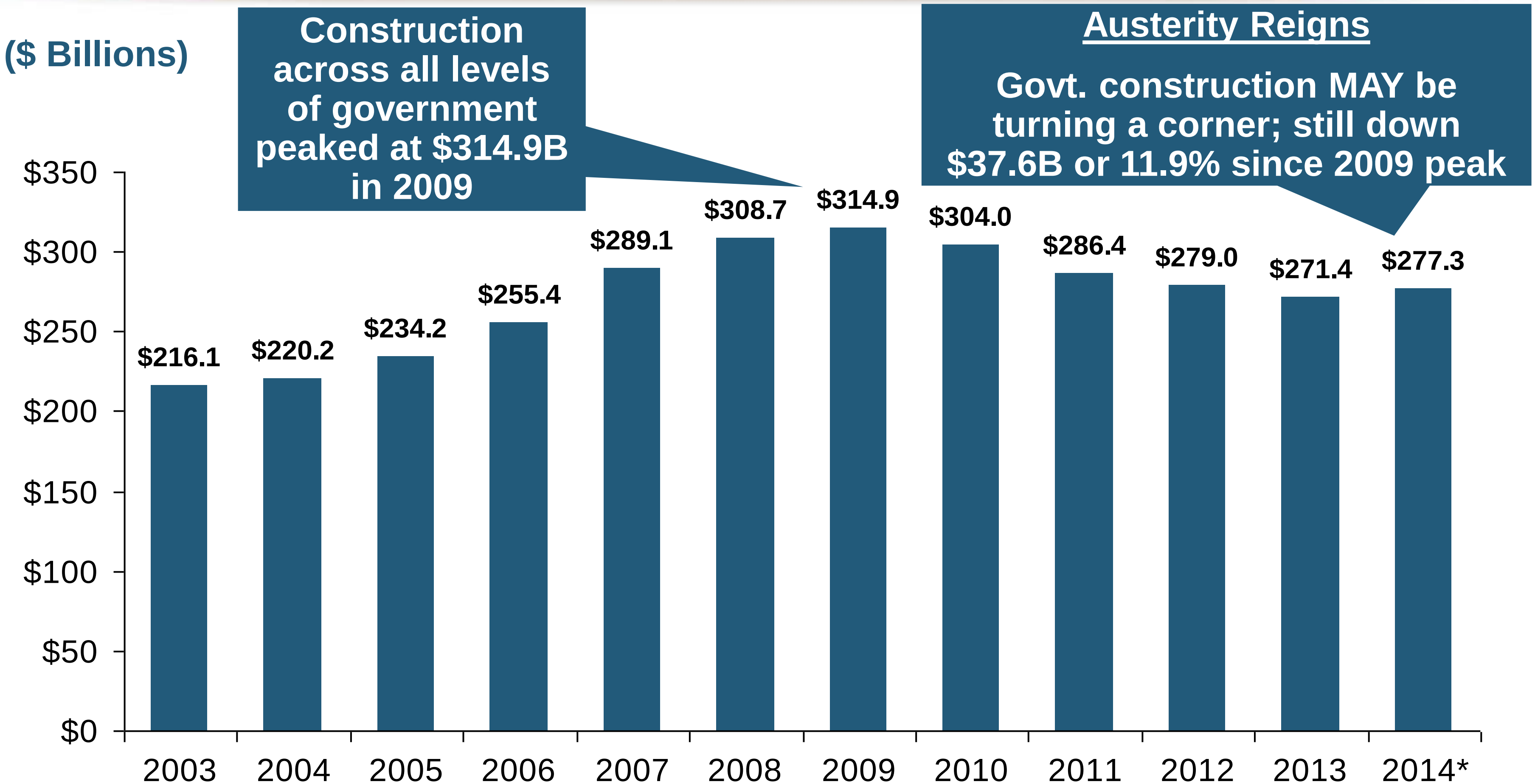


Construction activity has generally been positive since late 2010 but has occasionally be erratic. Forecast is for slowing improving growth

*Through Q1 2014.

Source: US Dept. of Commerce; Wells Fargo Securities (June 6, 2014 research report).

Value of New Federal, State and Local Government Construction: 2003-2014*

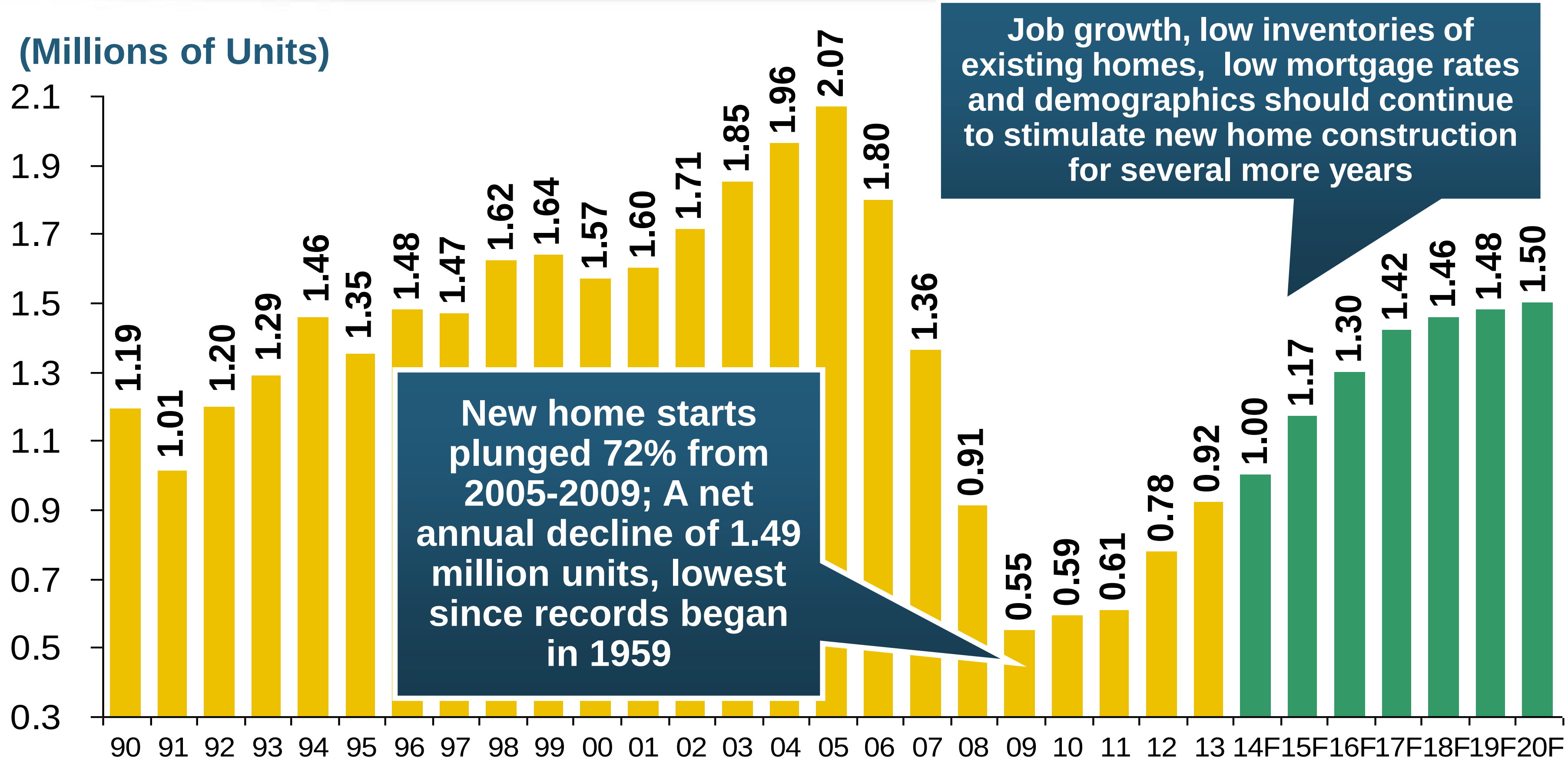


Government Construction Spending Peaked in 2009, Helped by Stimulus Spending, but Contracted As State/Local Governments Grappled with Deficits and Federal Sequestration

*2014 figure is a seasonally adjusted annual rate as of November; http://www.census.gov/construction/c30/historical_data.html

Sources: US Department of Commerce; Insurance Information Institute.

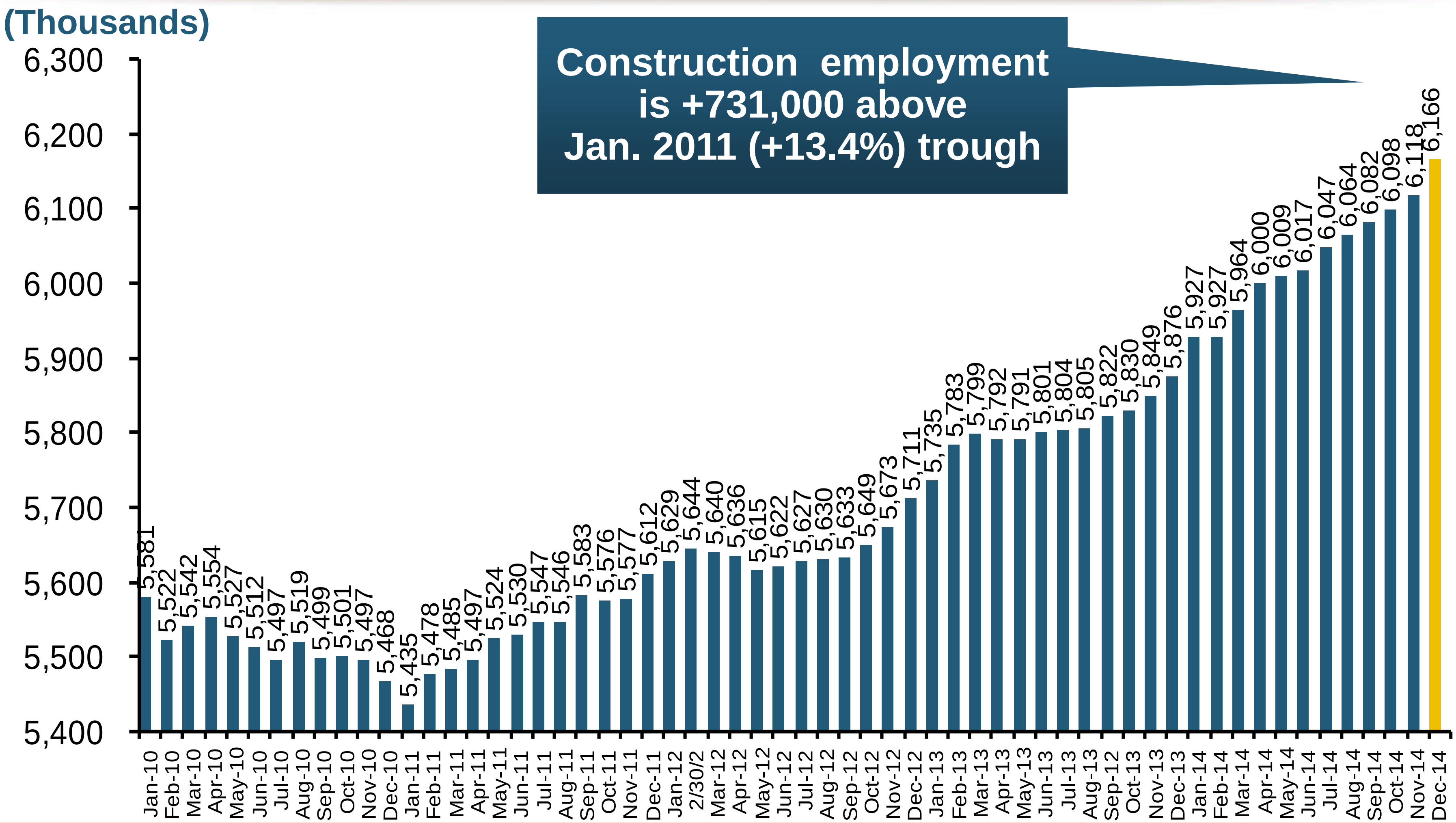
New Private Housing Starts, 1990-2020F



Insurers Are Continue to See Meaningful Exposure Growth in the Wake of the "Great Recession" Associated with Home Construction: Construction Risk Exposure, Surety, Commercial Auto; Potent Driver of Workers Comp Exposure

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (1/15 and 10/14); Insurance Information Institute.

Construction Employment, Jan. 2010—December 2014*

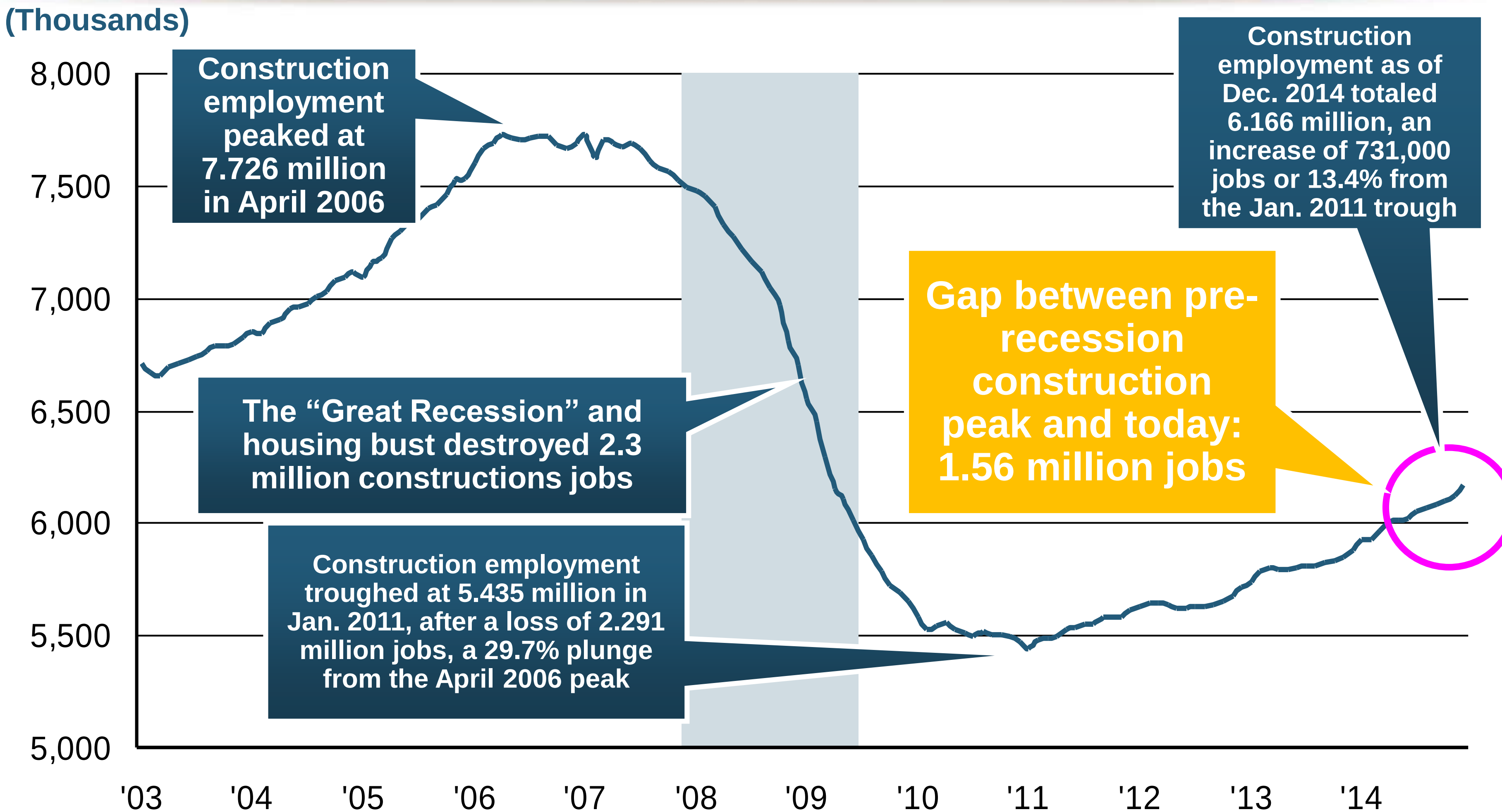


Construction and manufacturing employment constitute 1/3 of all WC payroll exposure.

*Seasonally adjusted.

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

Construction Employment, Jan. 2003–December 2014



The Construction Sector Could Be a Growth Leader in 2014 as the Housing Market, Private Investment and Govt. Spending Recover. WC Insurers Will Benefit.

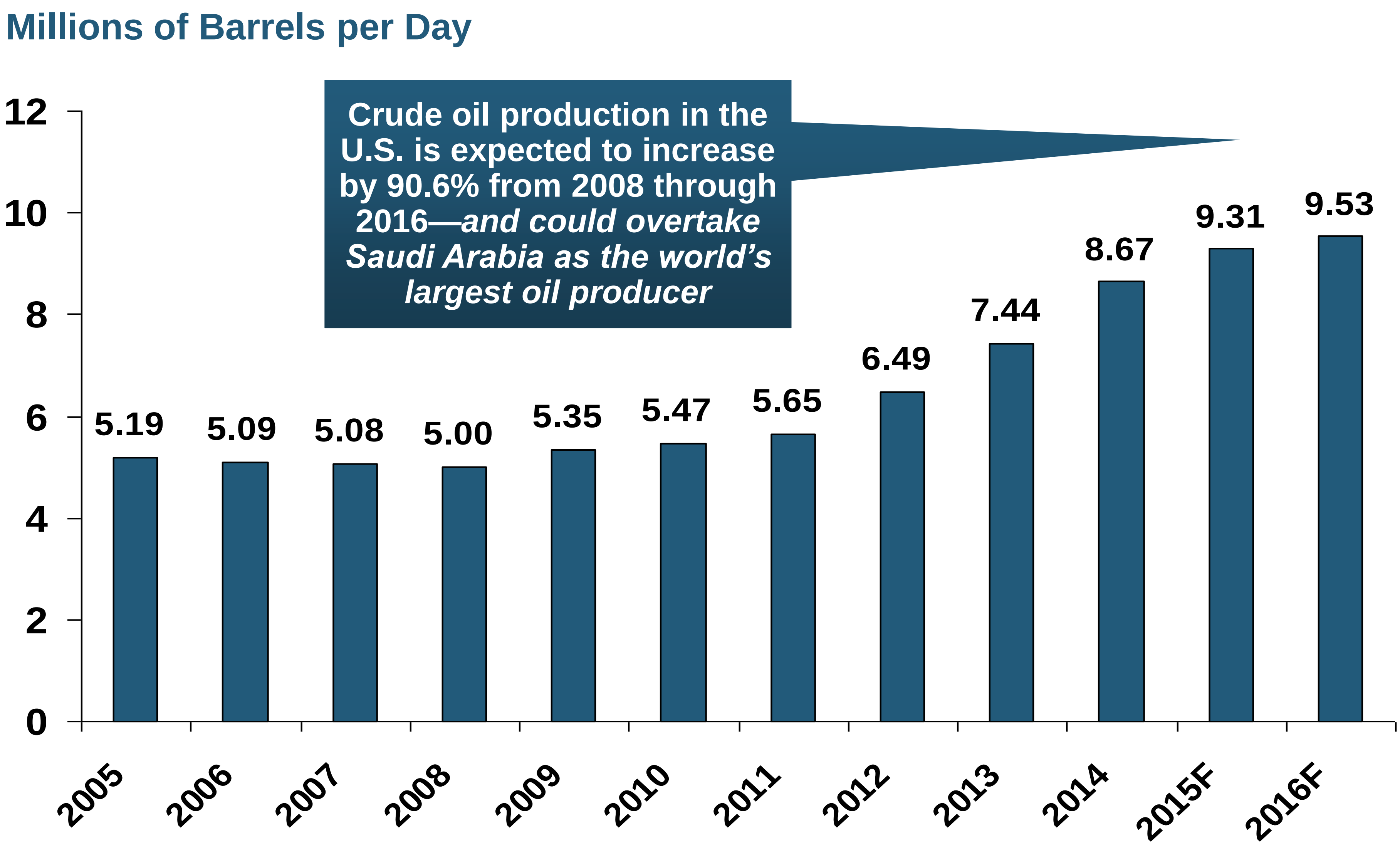
Note: Recession indicated by gray shaded column.

Sources: U.S. Bureau of Labor Statistics; Insurance Information Institute.

ENERGY SECTOR: OIL & GAS INDUSTRY FUTURE IS BRIGHT

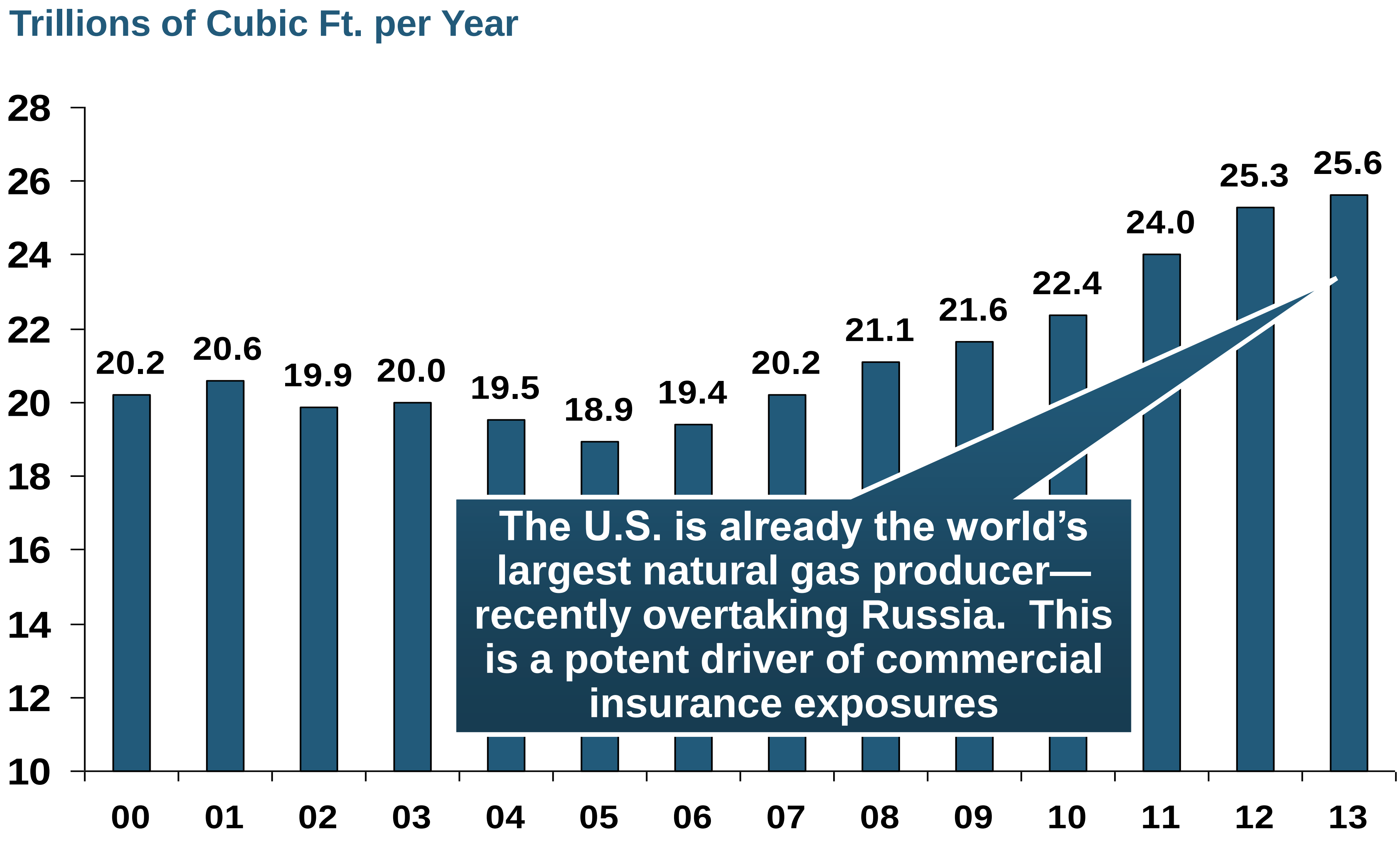
US Is Becoming an Energy Powerhouse but Fall in Prices Will Have Negative Impact

U.S. Crude Oil Production, 2005-2016P



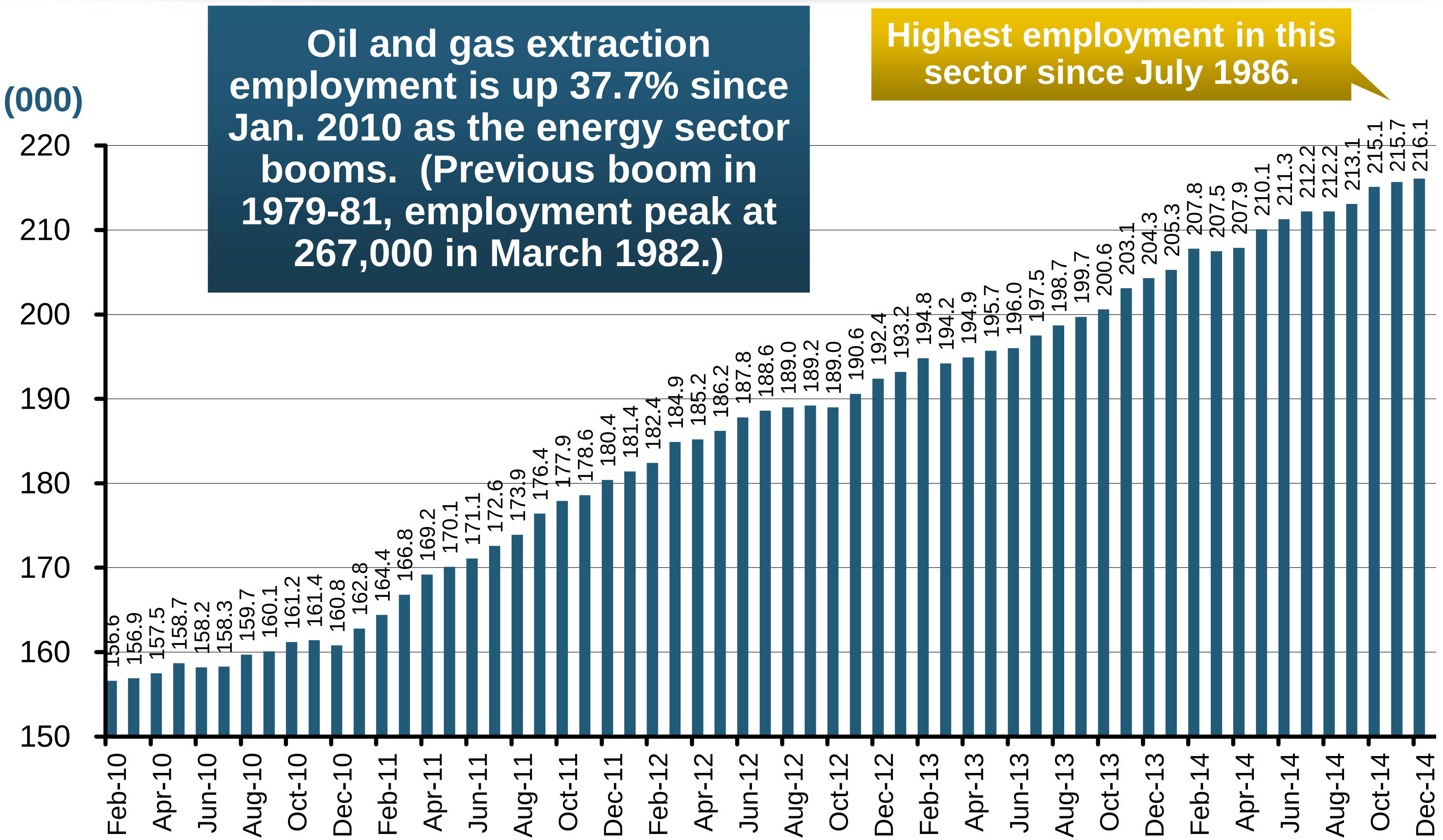
Source: Energy Information Administration, *Short-Term Energy Outlook* (January 15, 2015) , Insurance Information Institute.

U.S. Natural Gas Production, 2000-2013



Source: Energy Information Administration, *Short-Term Energy Outlook* (April 8, 2014) , Insurance Information Institute.

Employment in Oil & Gas Extraction, Jan. 2010—Dec. 2014*



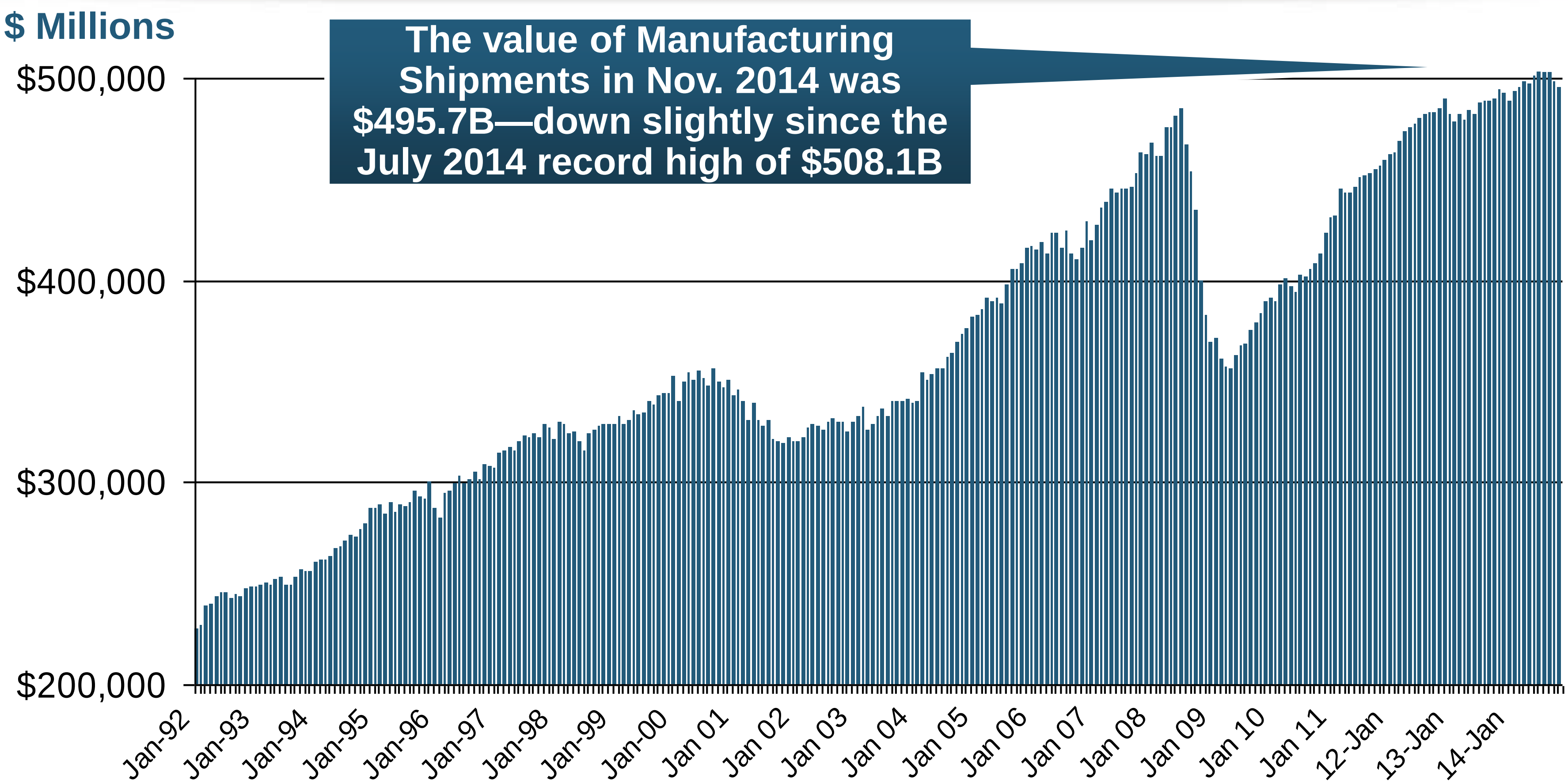
*Seasonally adjusted

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

MANUFACTURING SECTOR OVERVIEW & OUTLOOK

The U.S. Is Experiencing a Mini Manufacturing Renaissance That Is Benefitting the US Economy and the P/C Insurance Industry

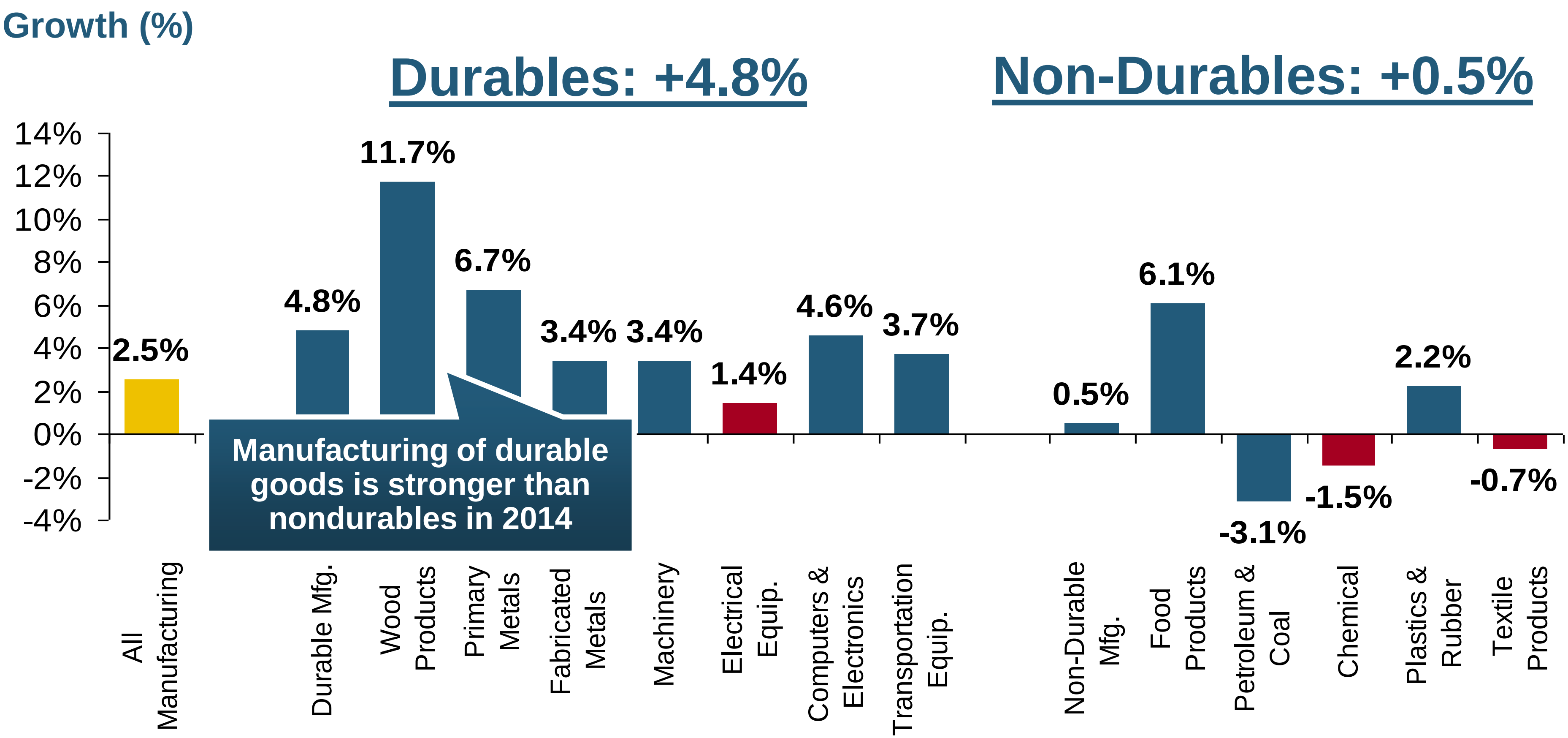
Dollar Value* of Manufacturers' Shipments Monthly, Jan. 1992—November 2014



Monthly shipments in Nov. 2014 exceeded the pre-crisis (July 2008) peak but has declined in recent months. Manufacturing is energy-intensive and growth leads to gains in many commercial exposures: WC, Commercial Auto, Marine, Property, and various Liability Coverages.

* Seasonally adjusted; Data published Jan. 6, 2015.
Source: U.S. Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders*, http://www.census.gov/manufacturing/m3/

Manufacturing Growth for Selected Sectors, 2014 vs. 2013*



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

*Seasonally adjusted; Date are YTD comparing data through November 2014 to the same period in 2013.
Source: U.S. Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders,* http://www.census.gov/manufacturing/m3/

Manufacturing Employment, Jan. 2010—December 2014*

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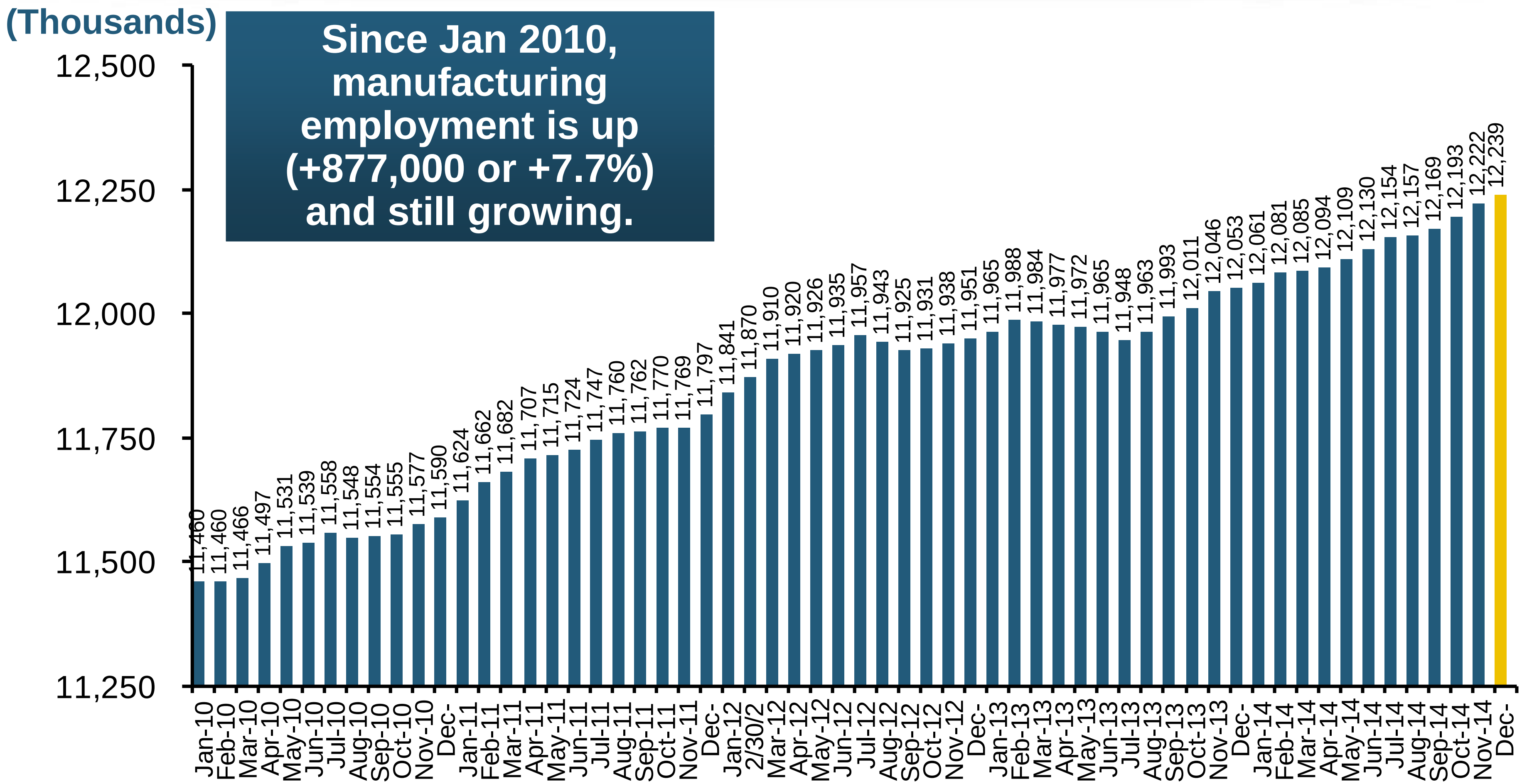

Manufacturing employment is a surprising source of strength in the economy. Employment in the sector is at a multi-year high.

*Seasonally adjusted.

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

ISM Manufacturing Index
(Values > 50 Indicate Expansion)

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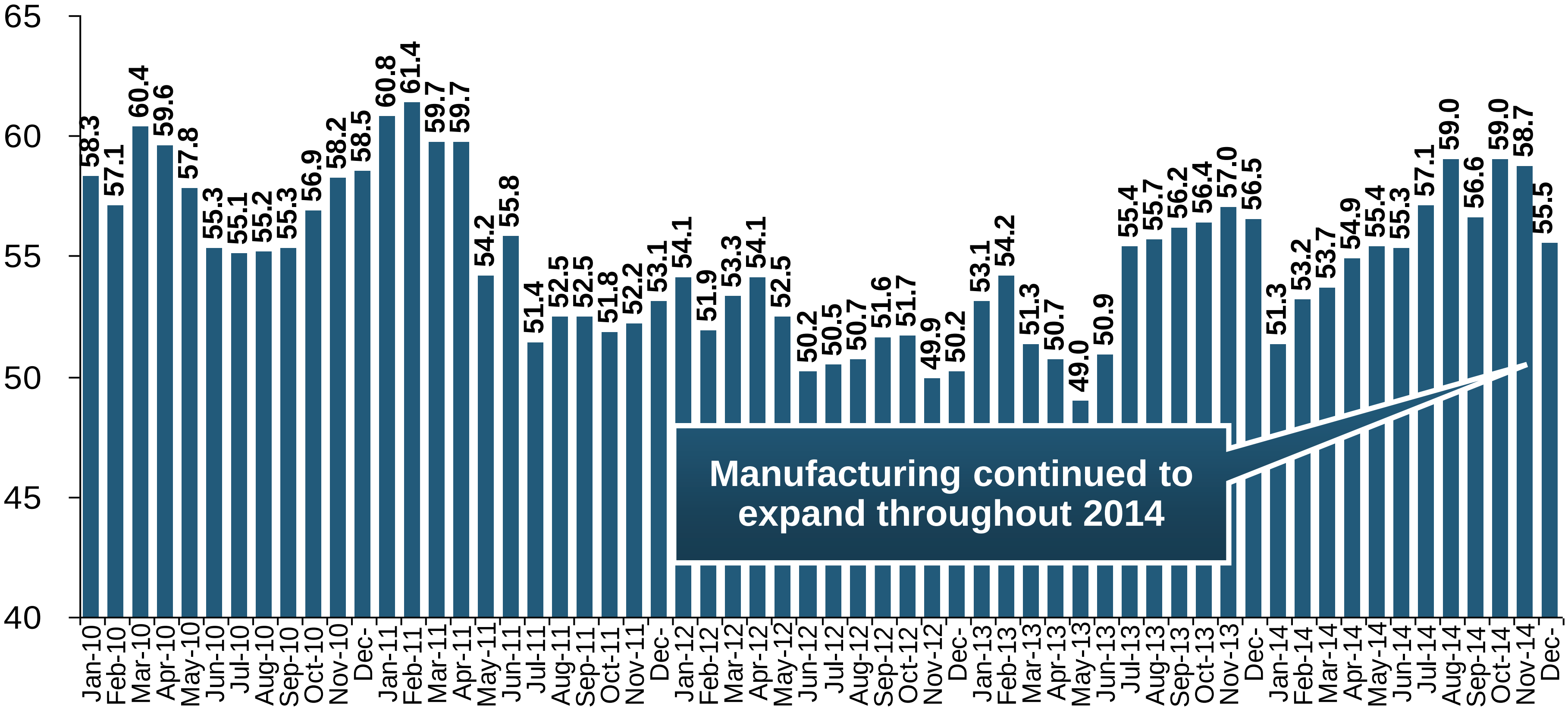
January 2010 through December 2014



The manufacturing sector expanded for 58 of the 60 months from Jan. 2010 through Dec. 2014. Pace of recovery has been uneven due to economic turbulence in the U.S., Europe and China.

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

Index of Total Industrial Production:* A Near Peak as of December 2014

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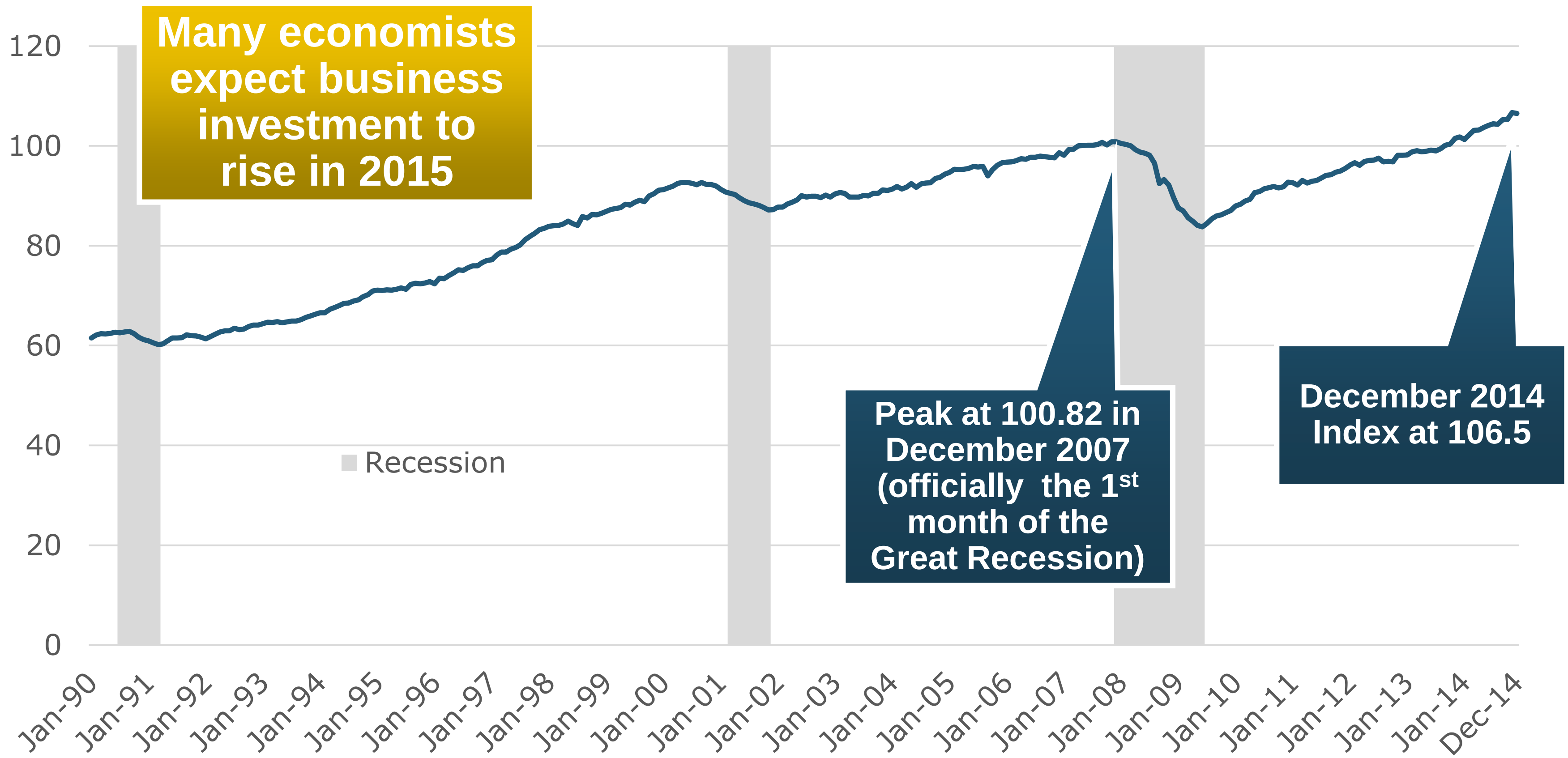

Insurance exposures for industrial production will continue growing in 2015, and commercial insurance premium volume with them. Y-o-Y growth to December 2014 was 4.6%. Both production and premium volume growth for 2015 should exceed this.

*Monthly, seasonally adjusted, through December 2014 (which is preliminary). Index based on year 2007 = 100

Sources: Federal Reserve Board at http://www.federalreserve.gov/releases/g17/ipdisk/ip_sa.txt .
National Bureau of Economic Research (recession dates); Insurance Information Institute.

Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures

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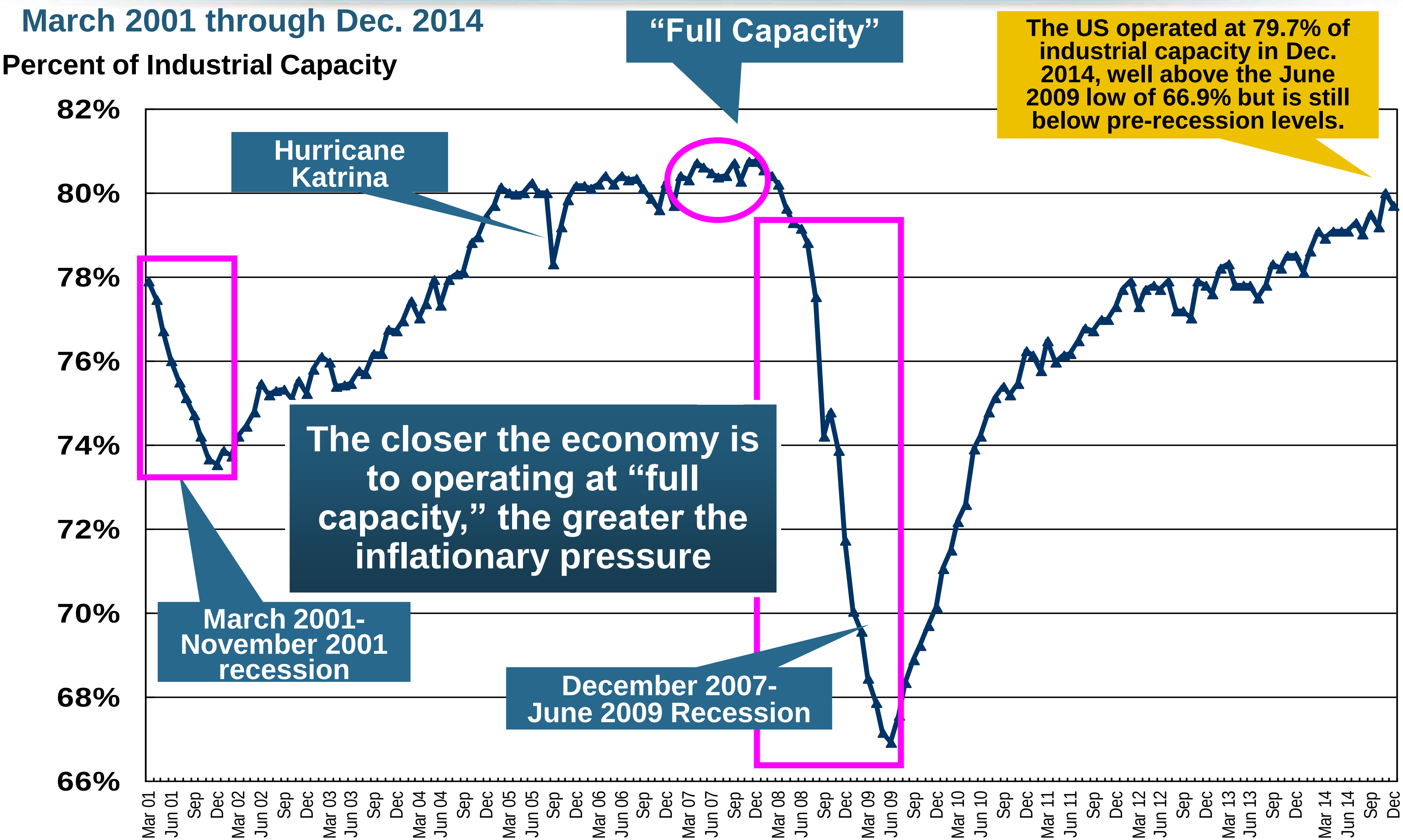

Source: Federal Reserve Board statistical releases at http://www.federalreserve.gov/releases/g17/Current/default.htm.

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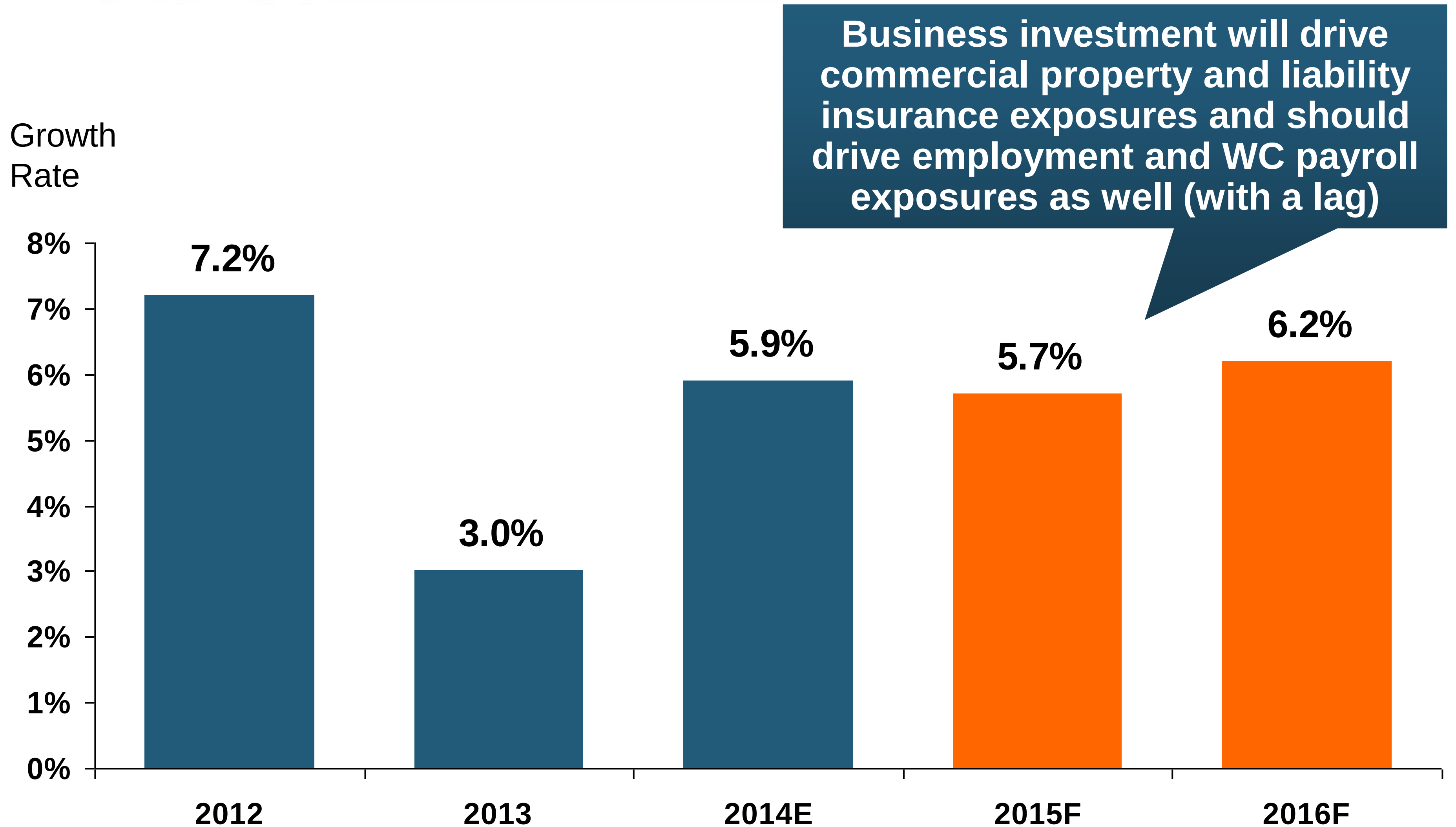
Business Fixed Investment is Forecast to Grow Steadily in 2015-16, Fueling Commercial Exposure Growth



Sources: Wells Fargo Economic Group; Insurance Information Institute.

Labor Market Trends

Massive Job Losses Sapped the Economy and Commercial/Personal Lines Exposure, But Trend Has Greatly Improved

Unemployment and Underemployment Rates: Still Too High, But Falling

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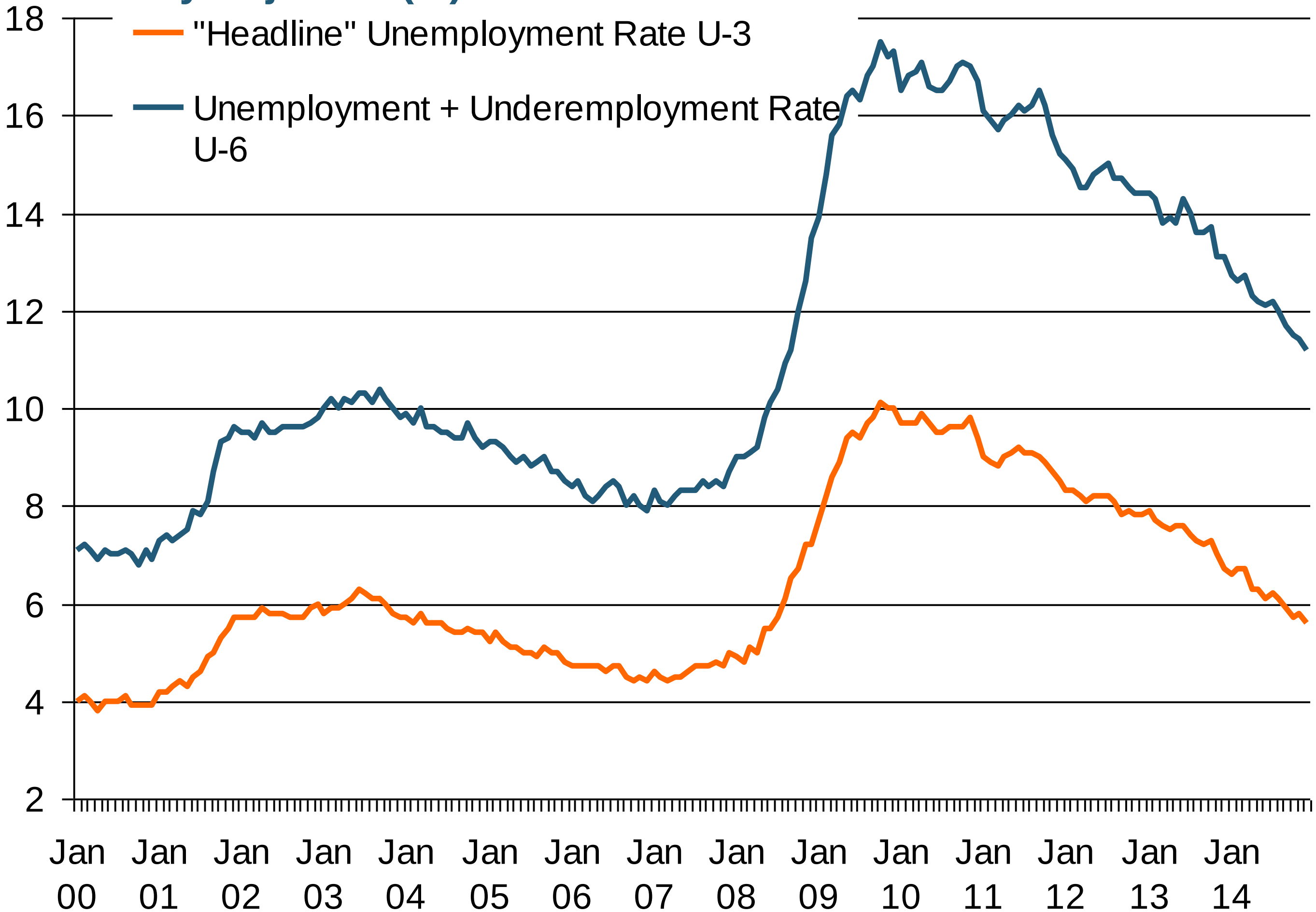
January 2000 through December 2014, Seasonally Adjusted (%)



U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 11.2% in Oct. 2014. 8% to 10% is "normal."

"Headline" unemployment was 5.6% in Dec. 2014. 4.5% to 5.5% is "normal."

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.

US Unemployment Rate Forecast

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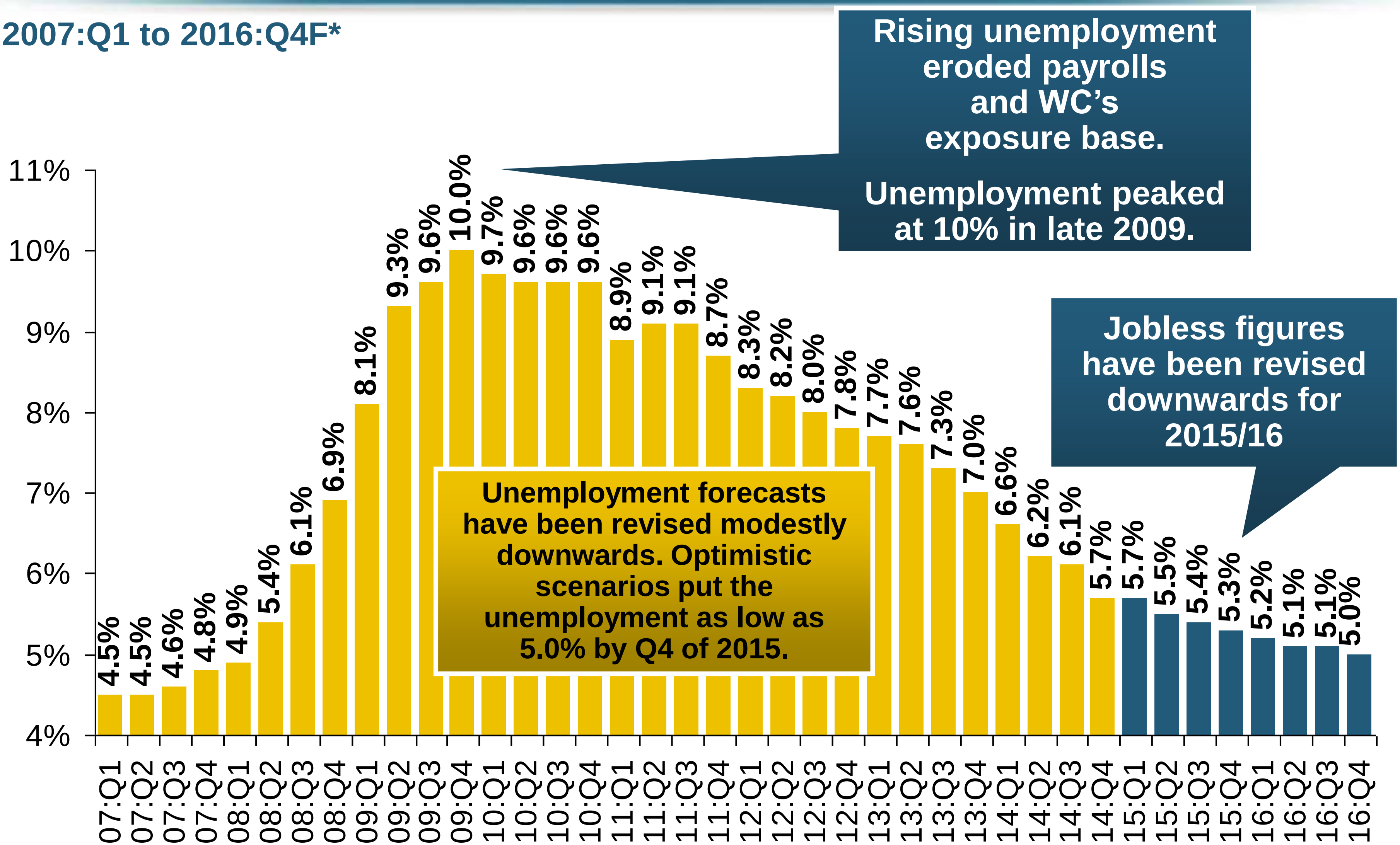
2007:Q1 to 2016:Q4F*



* = actual; = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (1/15 edition); Insurance Information Institute.

Monthly Change in Private Employment

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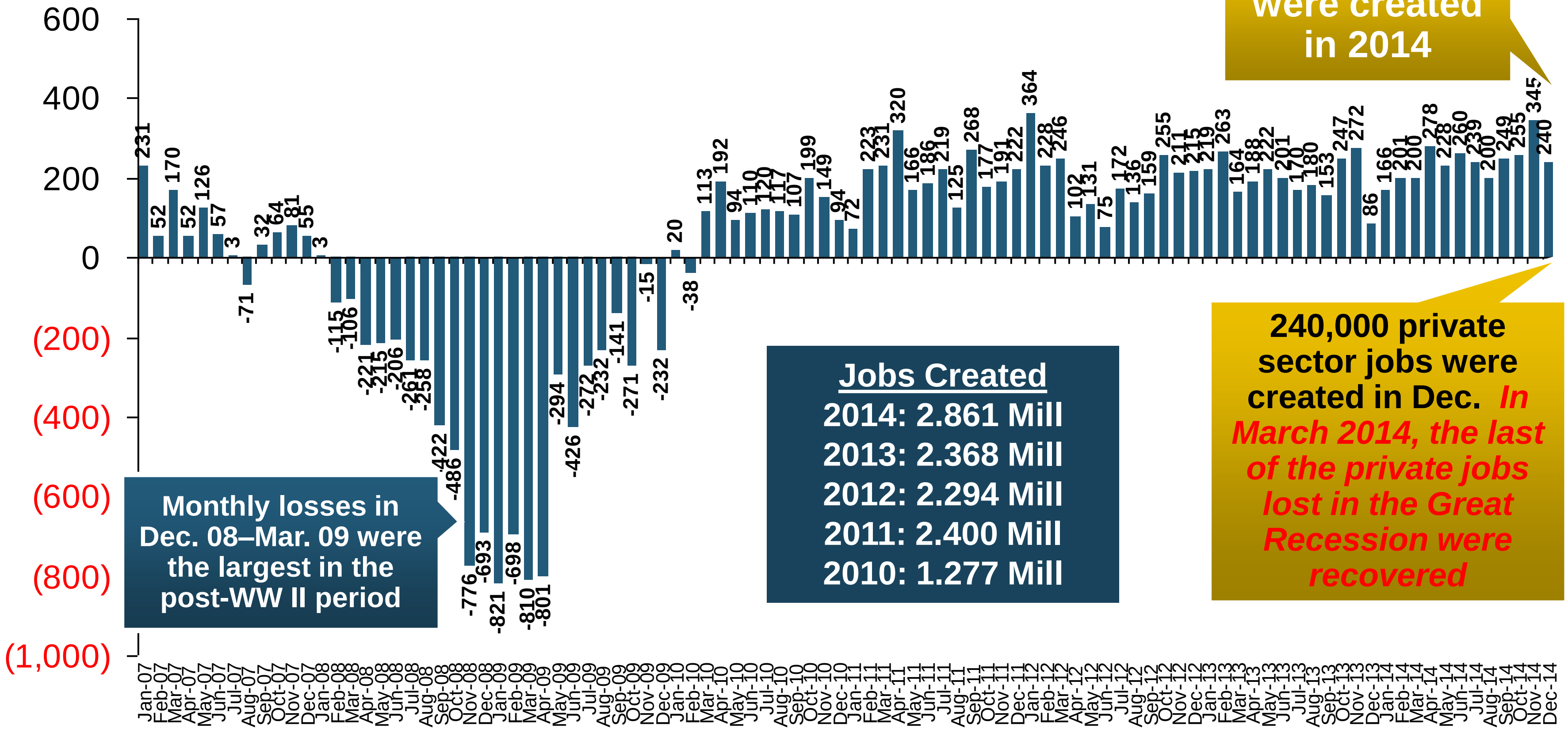
January 2007 through Dec. 2014 (Thousands, Seasonally Adjusted)



Private Employers Added 11.20 million Jobs Since Jan. 2010 After Having Shed 5.01 Million Jobs in 2009 and 3.76 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

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2014:Q3

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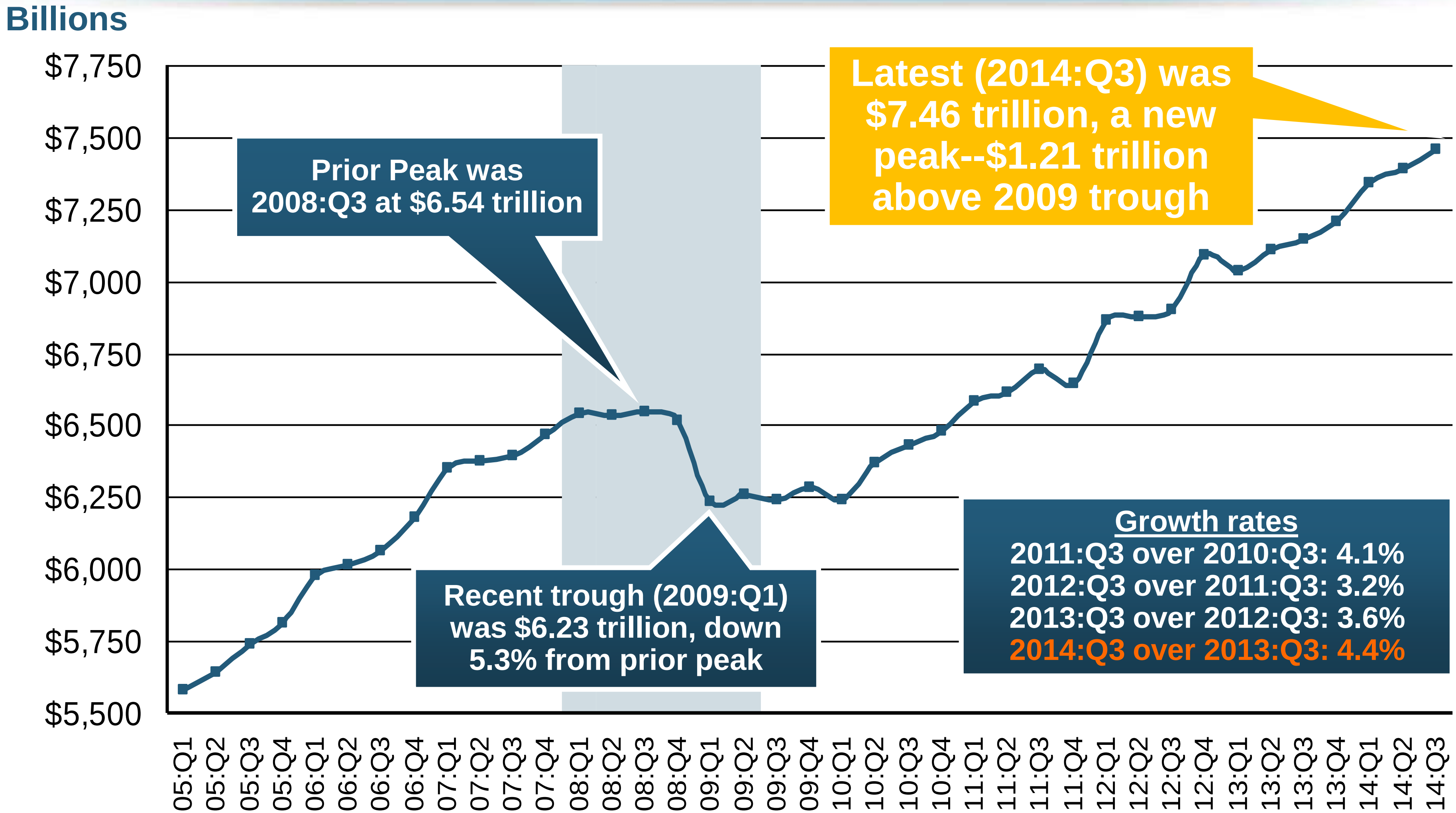
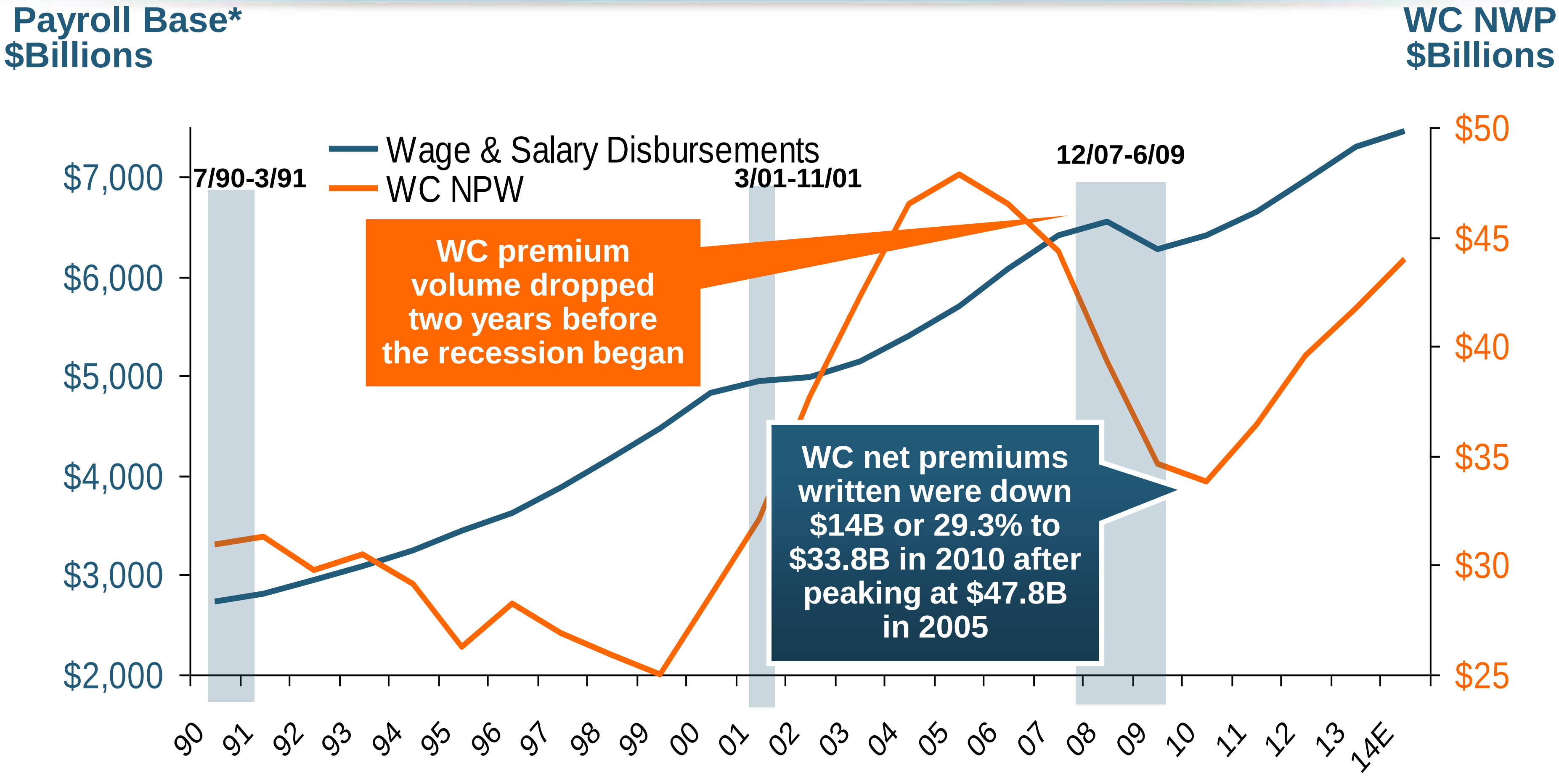


Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

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, 1990-2014P



Continued Payroll Growth and Rate Gains Suggest WC NWP Will Grow Again in 2015

*Private employment; Shaded areas indicate recessions. WC premiums for 2014 are I.I.I. estimates..
Sources: NBER (recessions); Federal Reserve Bank of St. Louis at http://research.stlouisfed.org/fred2/series/WASCUR ; NCCI; I.I.I.

Construction Employment, Jan. 2010—December 2014*

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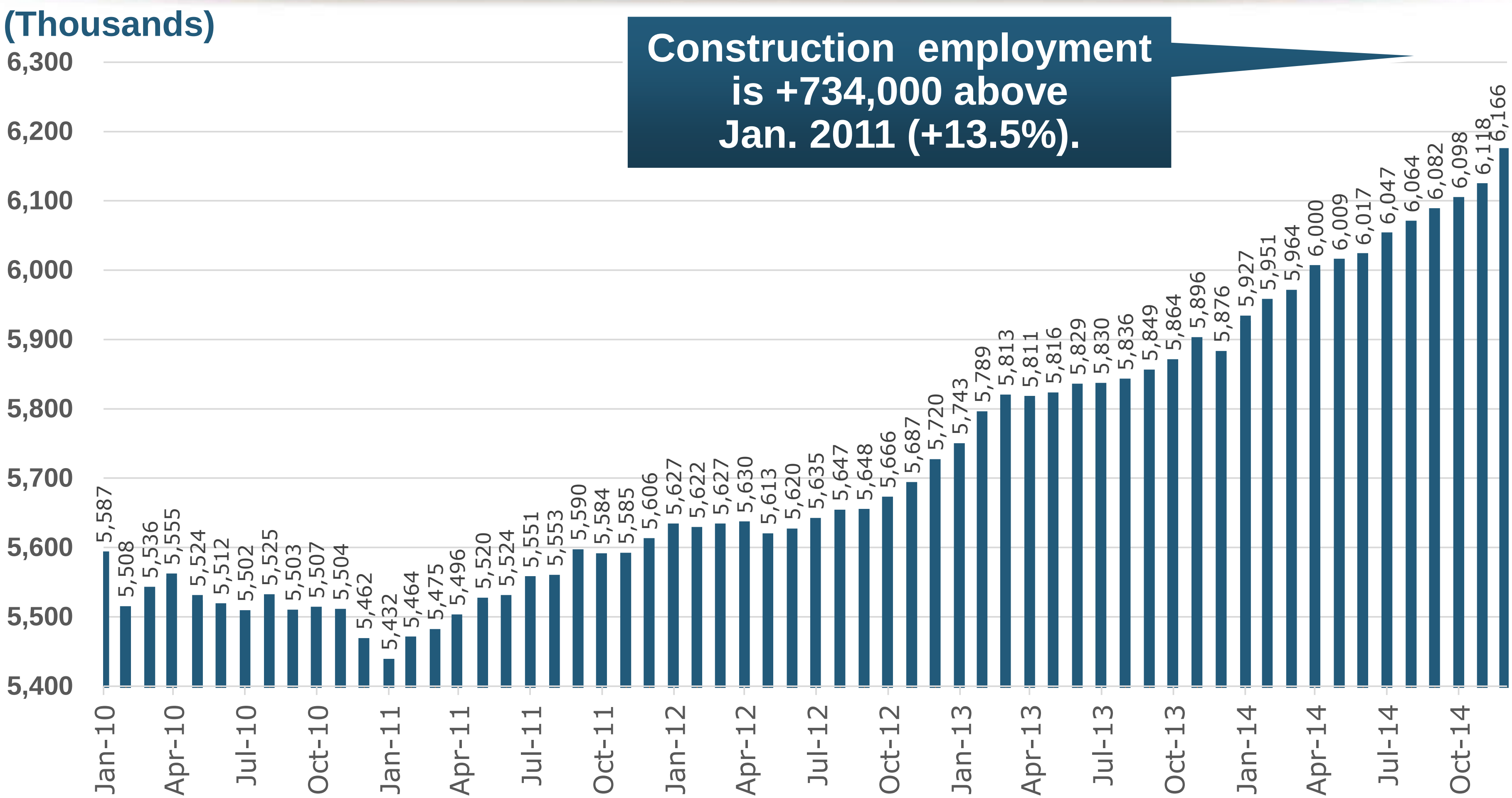
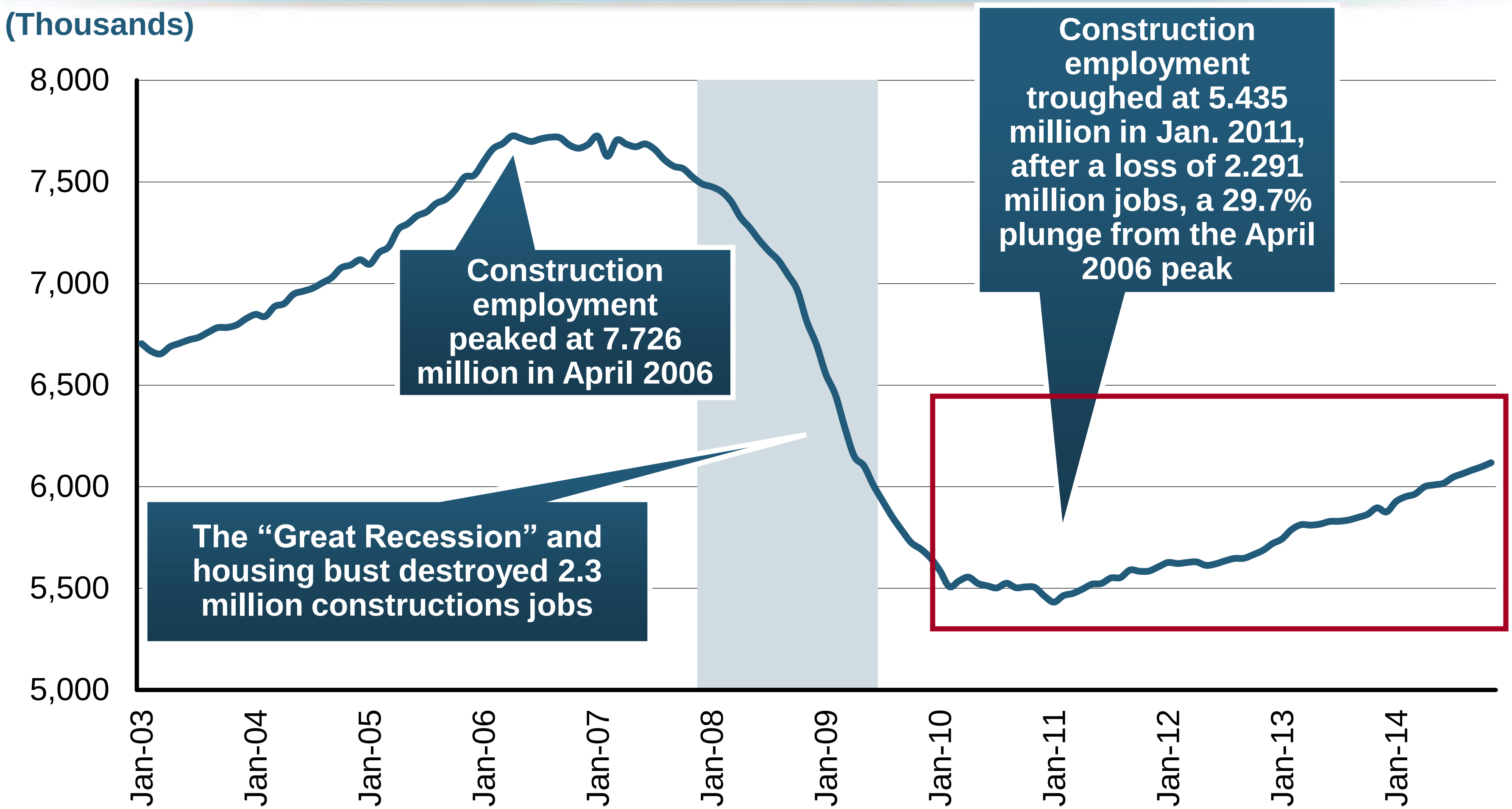


Construction and manufacturing employment constitute 1/3 of all workers comp payroll exposure.

*Seasonally adjusted; Dec and Nov 2014 are preliminary

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

Construction Employment, Jan. 2003–December 2014



The Construction Sector Could Be a Growth Leader in 2015 as the Housing Market, Private Investment and Govt. Spending Recover.

Note: Recession indicated by gray shaded column.

Sources: U.S. Bureau of Labor Statistics; Insurance Information Institute.

Manufacturing Employment, January 2010—December 2014*

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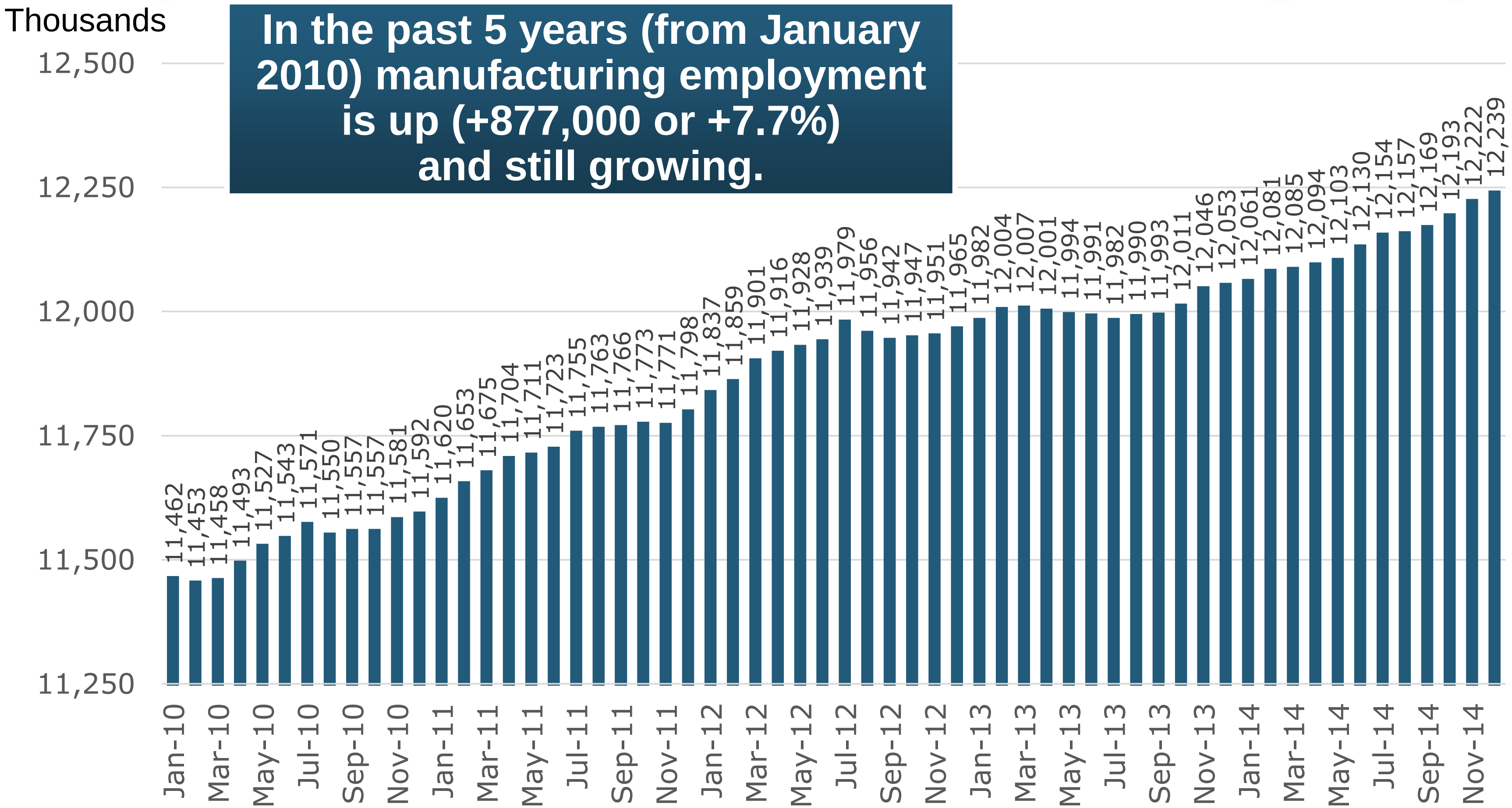
In the past 5 years (from January 2010) manufacturing employment is up (+877,000 or +7.7%) and still growing.

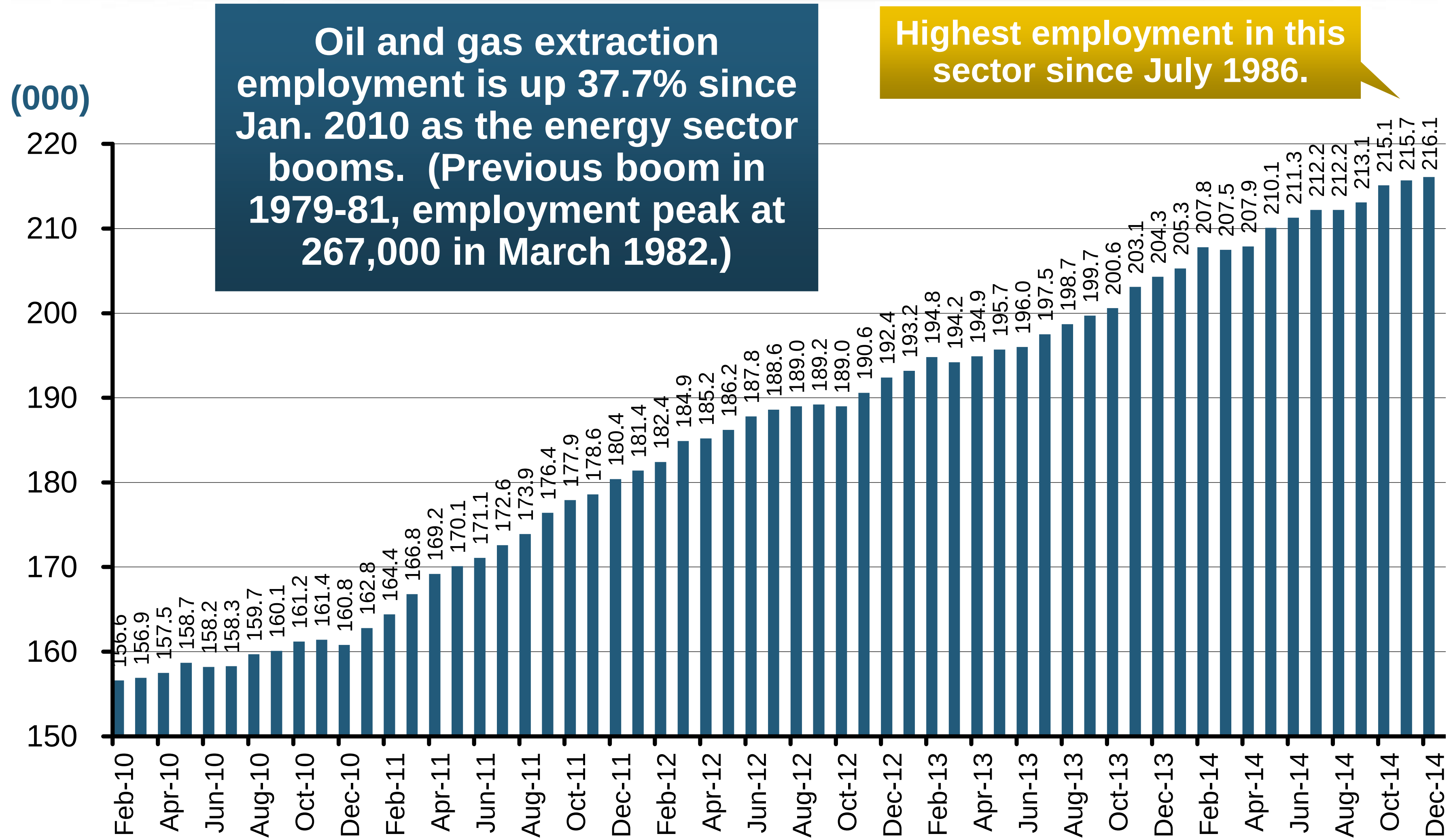


Manufacturing employment is a surprising source of strength in the economy. Employment in the sector is at a multi-year high.

*Seasonally adjusted; Dec and Nov 2013 are preliminary

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

Employment in Oil & Gas Extraction, Jan. 2010—Dec. 2014*



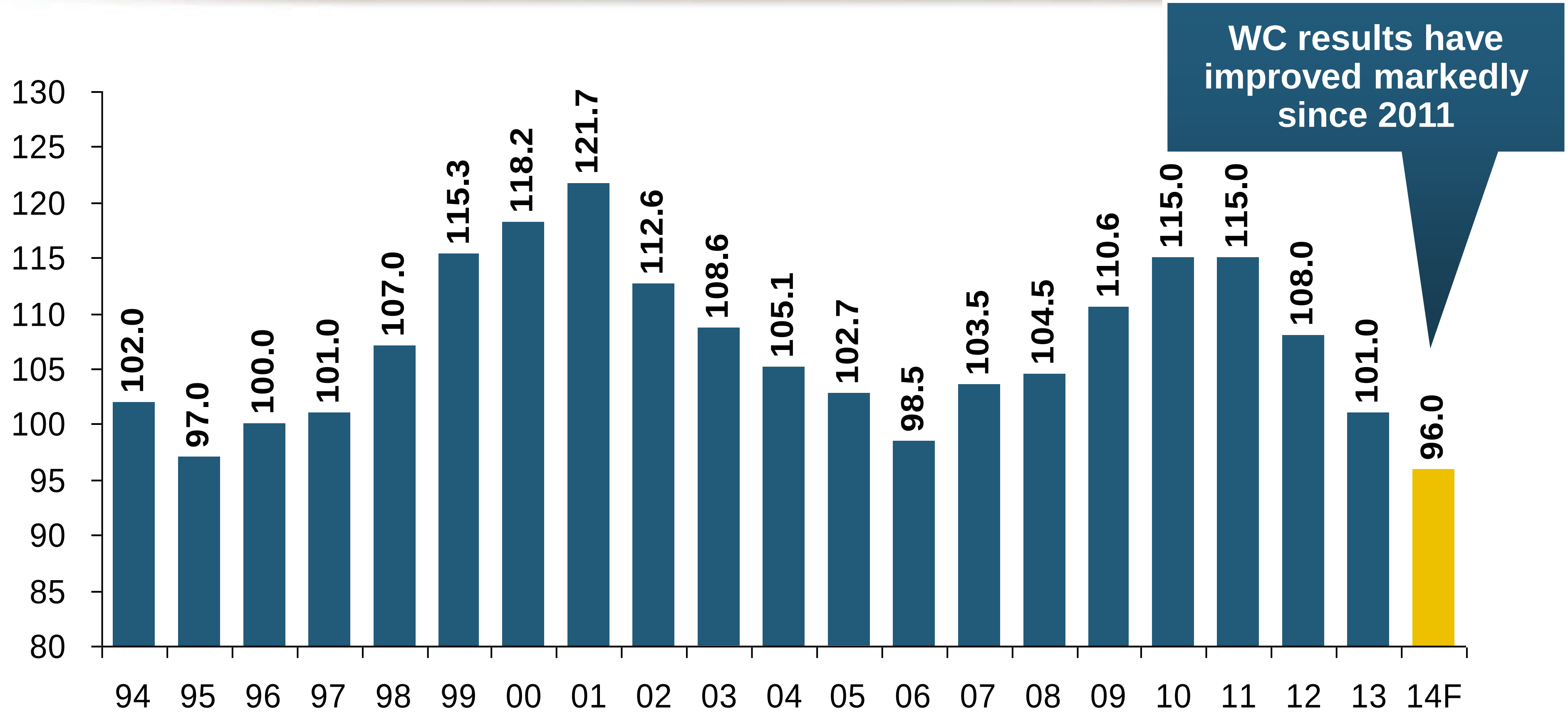
*Seasonally adjusted

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

Workers Compensation Operating Environment

Workers Comp Results Have Improved Substantially in Recent Years

Workers Compensation Combined Ratio: 1994–2014E



Workers Comp Results Began to Improve in 2012. Underwriting Results Deteriorated Markedly from 2007-2010/11 and Were the Worst They Had Been in a Decade.

Sources: A.M. Best (1994-2009); NCCI (2010-2014F) and are for private carriers only; Insurance Information Institute.

Workers Compensation Premium: Third Consecutive Year of Increase

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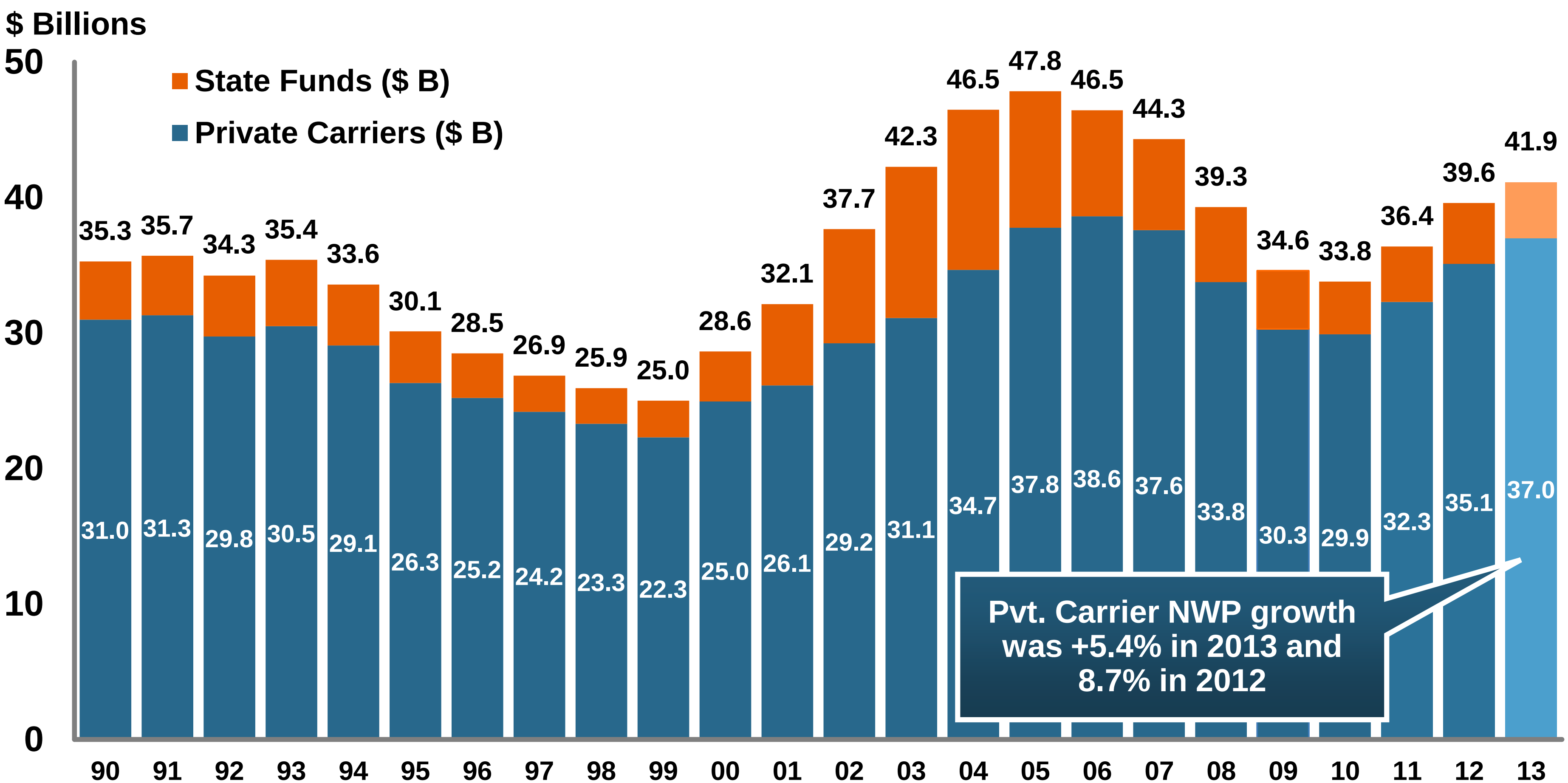
Net Written Premium



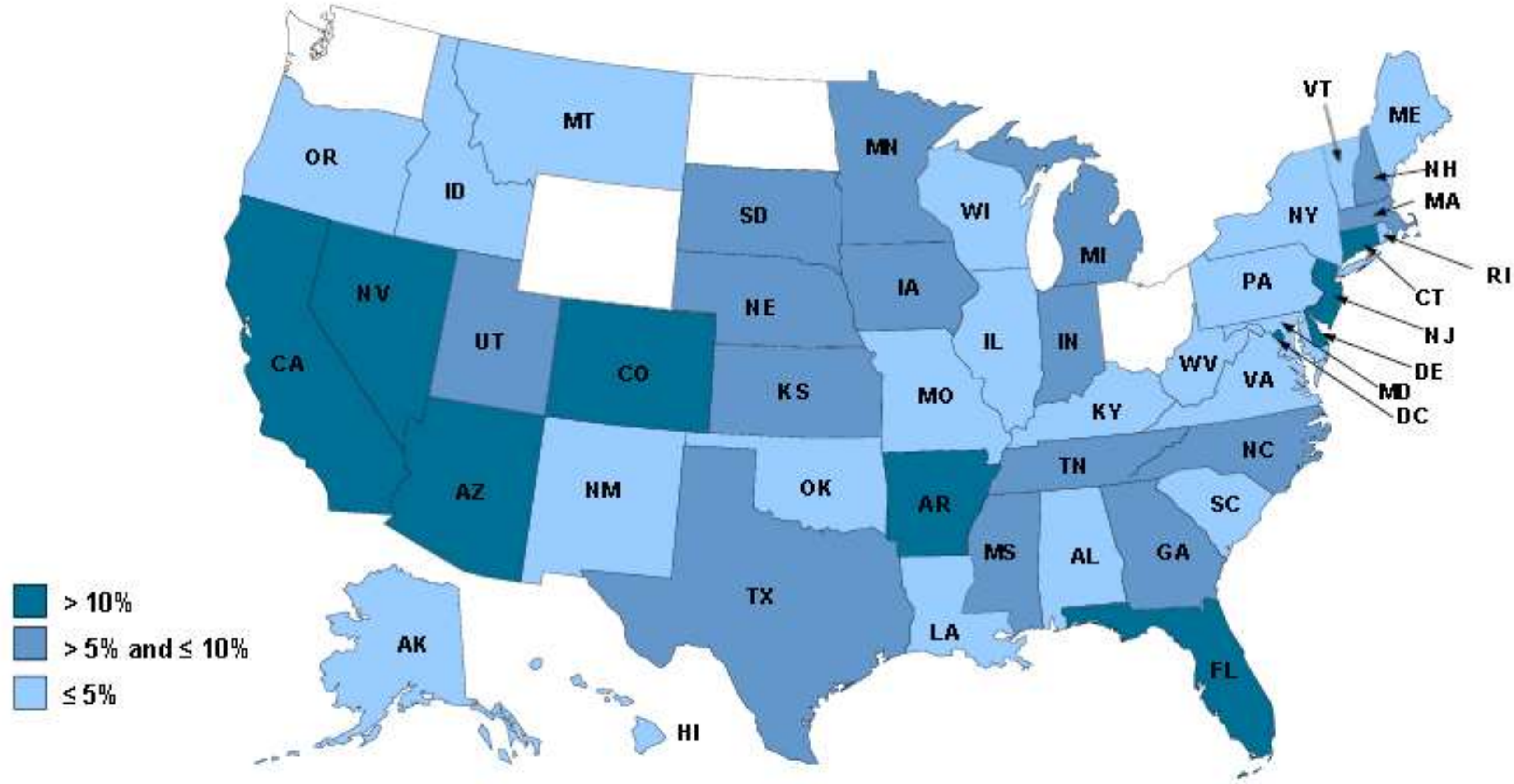
p Preliminary

Source: 1990–2013p Private Carriers, Annual Statement Data, NCCI.
1996–2013p 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

2013 Workers Compensation Direct Written Premium Growth, by State*

PRIVATE CARRIERS: Overall 2013 Growth = +5.4%

While growth rates varied widely, all states experienced positive growth in 2013



*Excludes monopolistic fund states (in white): OH, ND, WA and WY.
Source: NCCI.

Workers Compensation Lost-Time Claim Frequency Declined in 2013

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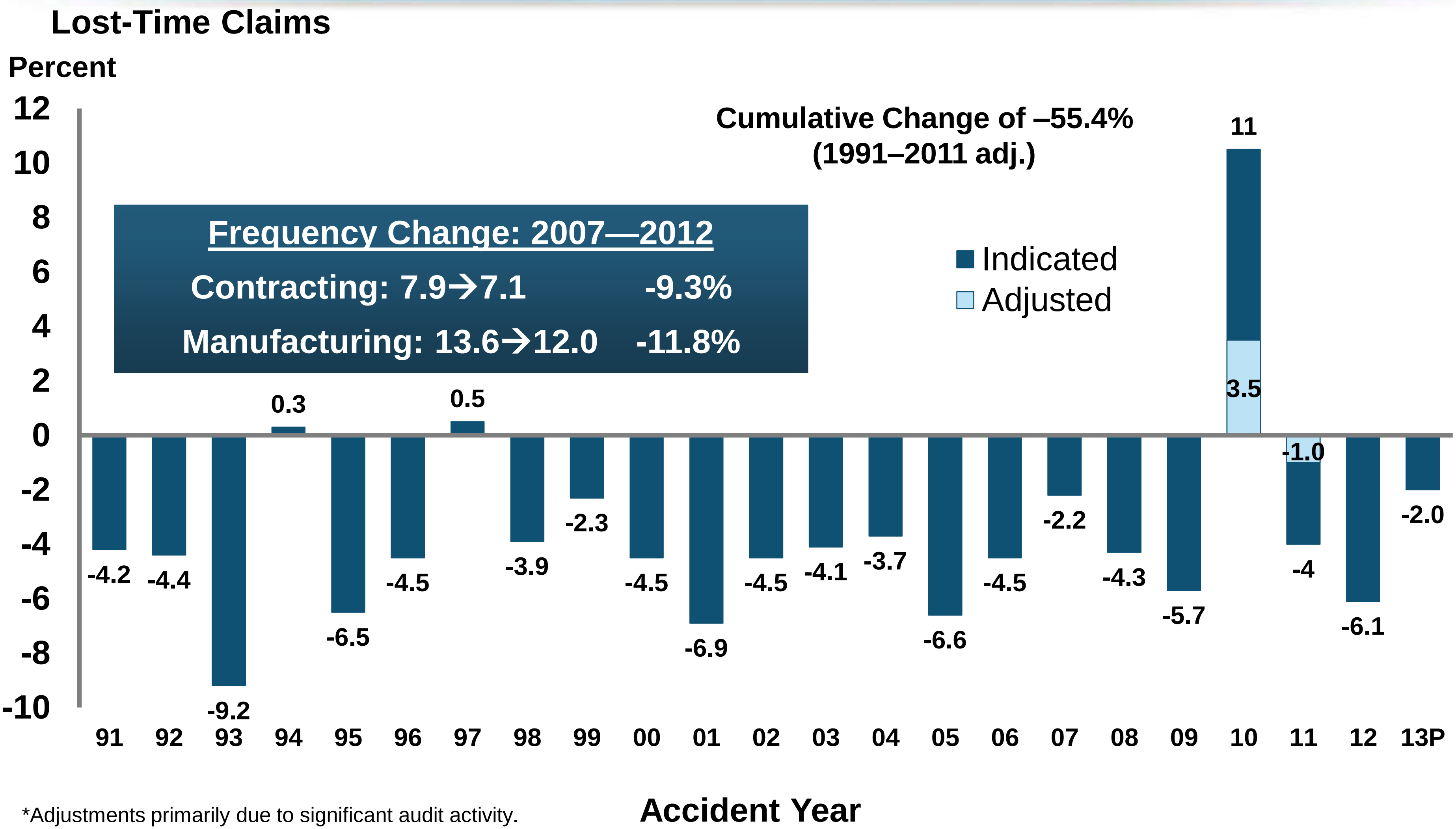

*Adjustments primarily due to significant audit activity.
2013p: Preliminary based on data valued as of 12/31/2013
1991–2012: Based on data through 12/31/2012, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies
Frequency is the number of lost-time claims per $1M pure premium at current wage and voluntary loss cost level
Source: NCCI.

Workers Compensation Medical Severity Moderate Increase in 2013

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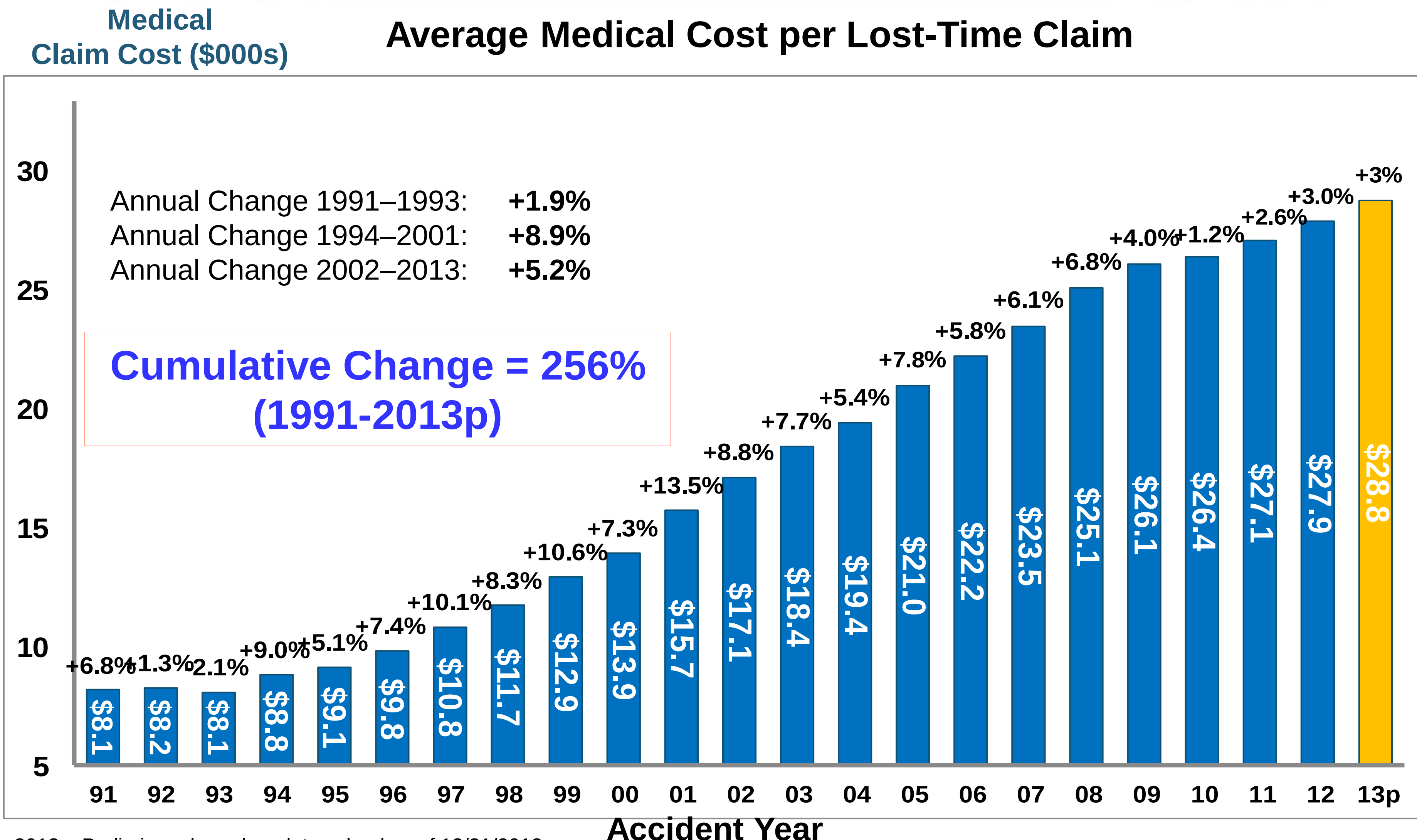
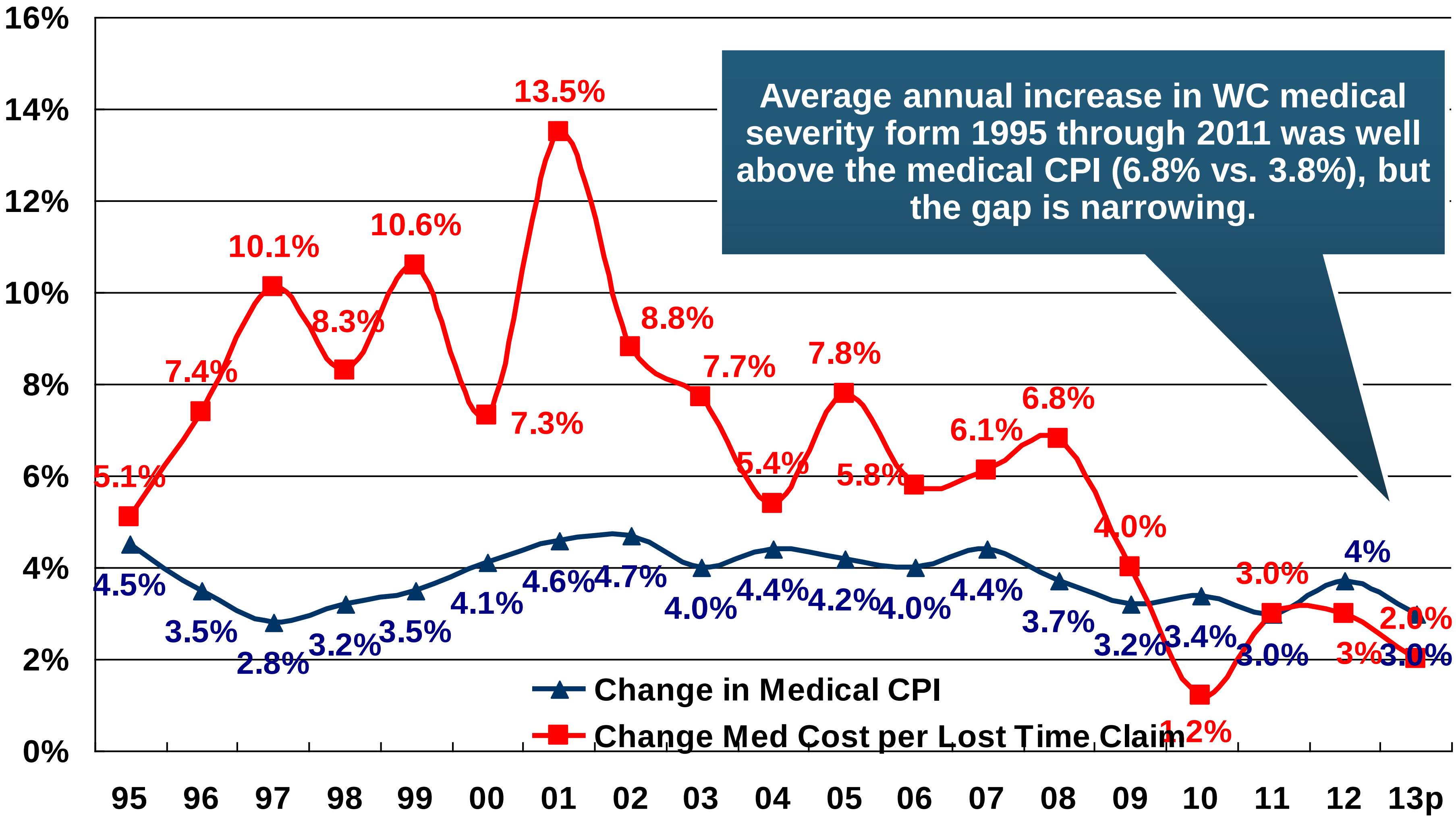


2013p: Preliminary based on data valued as of 12/31/2013.
1991-2012: Based on data through 12/31/2012, developed to ultimate
Based on the states where NCCI provides ratemaking services including state funds, excluding WV; Excludes high deductible policies.

WC Medical Severity Generally Outpaces the Medical CPI Rate



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

Medical Cost Inflation vs. Overall CPI, 1995 – 2014*

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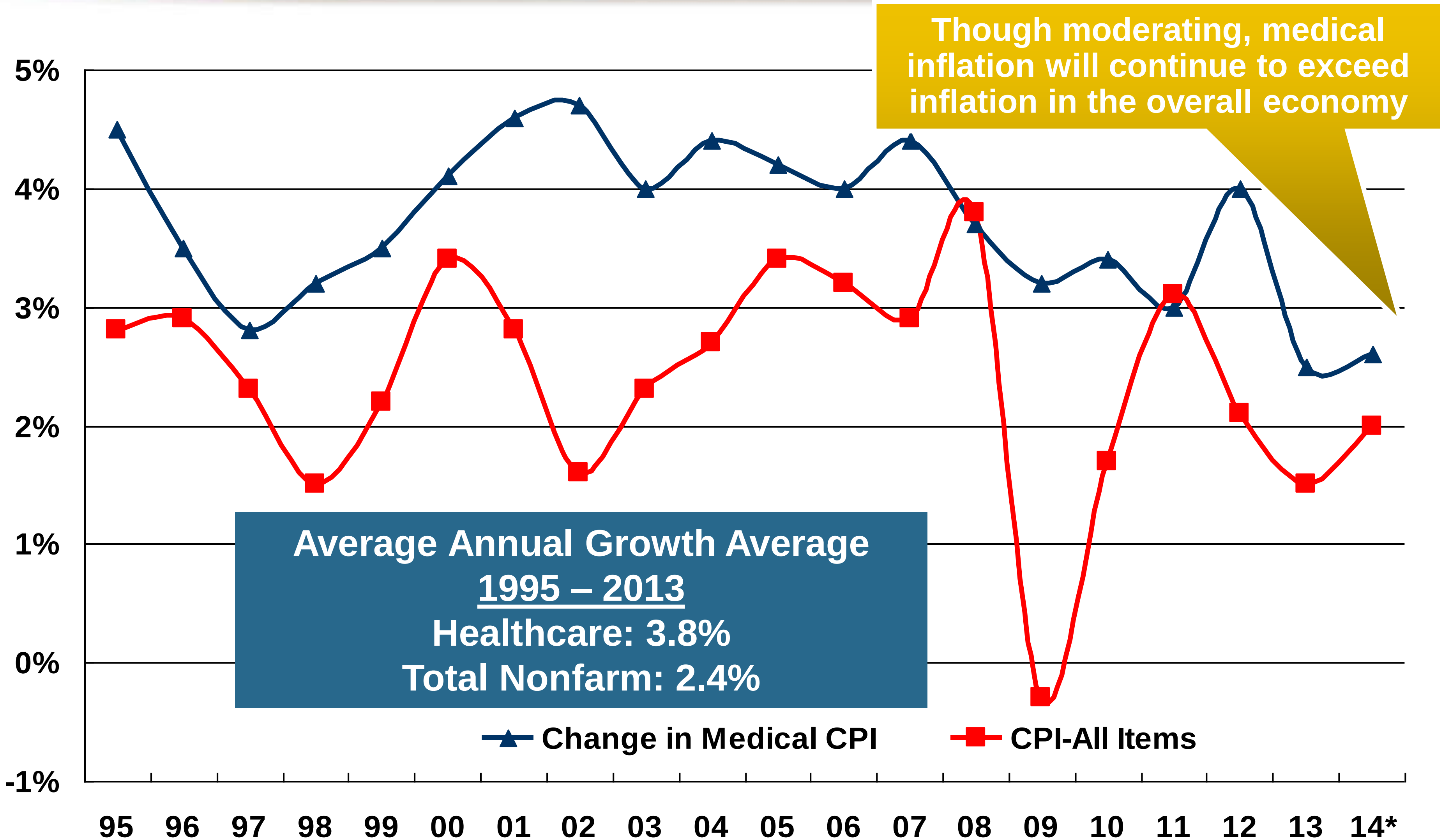

*July 2014 compared to July 2013.

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

U.S. Health Care Expenditures, 1965–2022F

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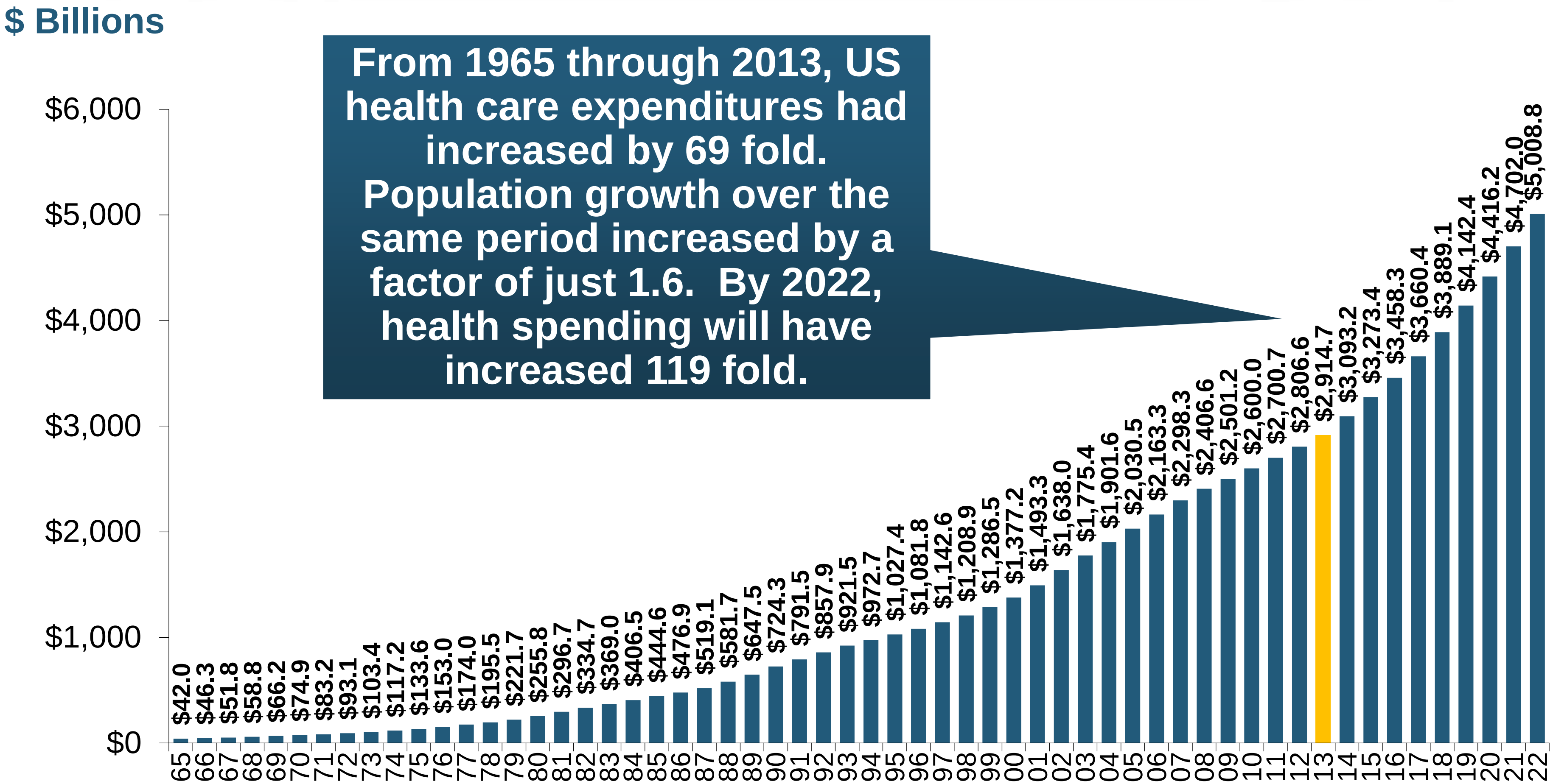

From 1965 through 2013, US health care expenditures had increased by 69 fold. Population growth over the same period increased by a factor of just 1.6. By 2022, health spending will have increased 119 fold.

U.S. health care expenditures have been on a relentless climb for most of the past half century, far outstripping population growth, inflation of GDP growth

Sources: Centers for Medicare & Medicaid Services, Office of the Actuary at http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsProjected.html accessed 3/14/14; Insurance Information Institute.

National Health Care Expenditures as a Share of GDP, 1965 – 2022F*

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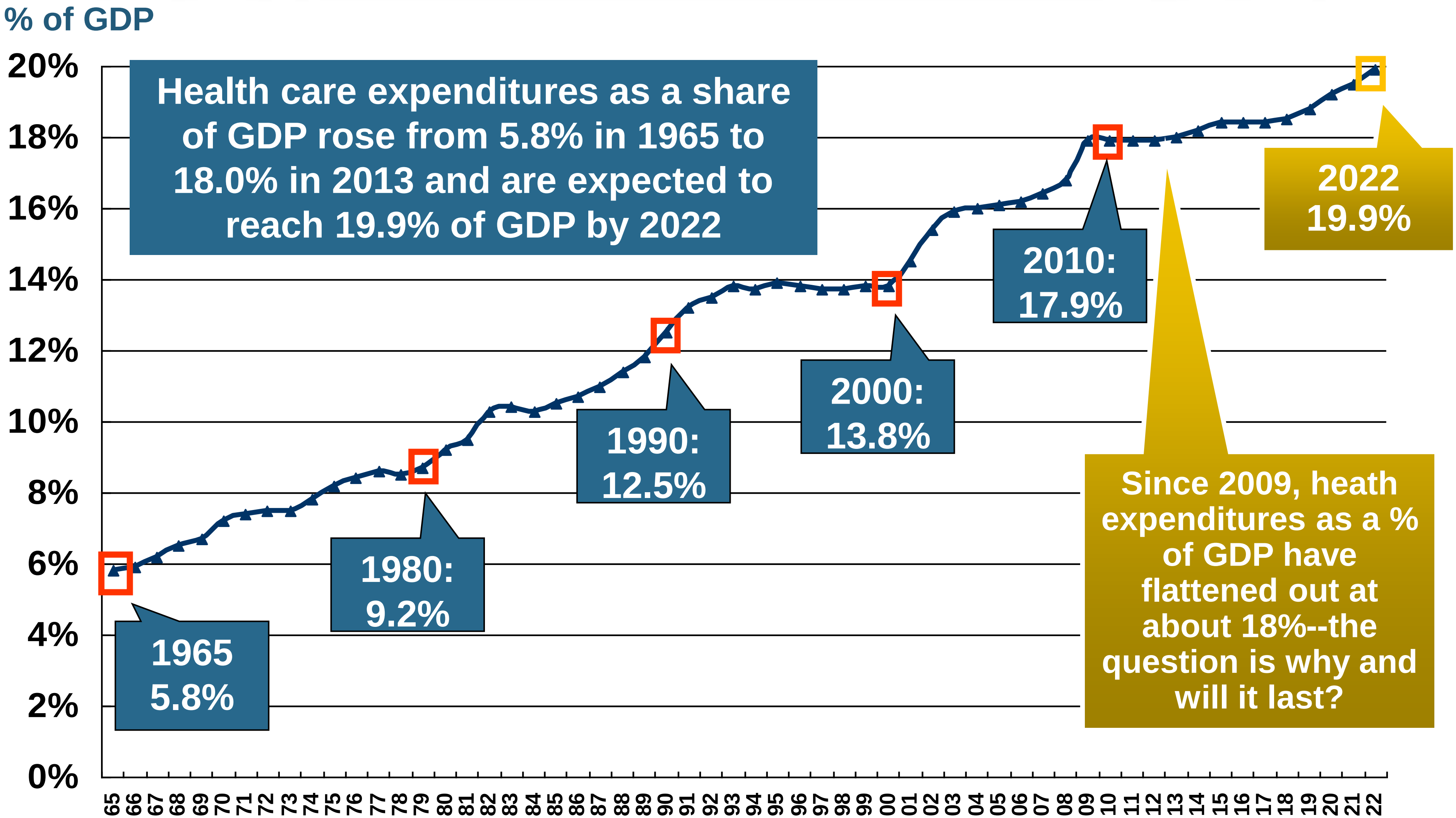

Sources: Centers for Medicare & Medicaid Services, Office of the Actuary at http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsProjected.html accessed 3/14/14; Insurance Information Institute.

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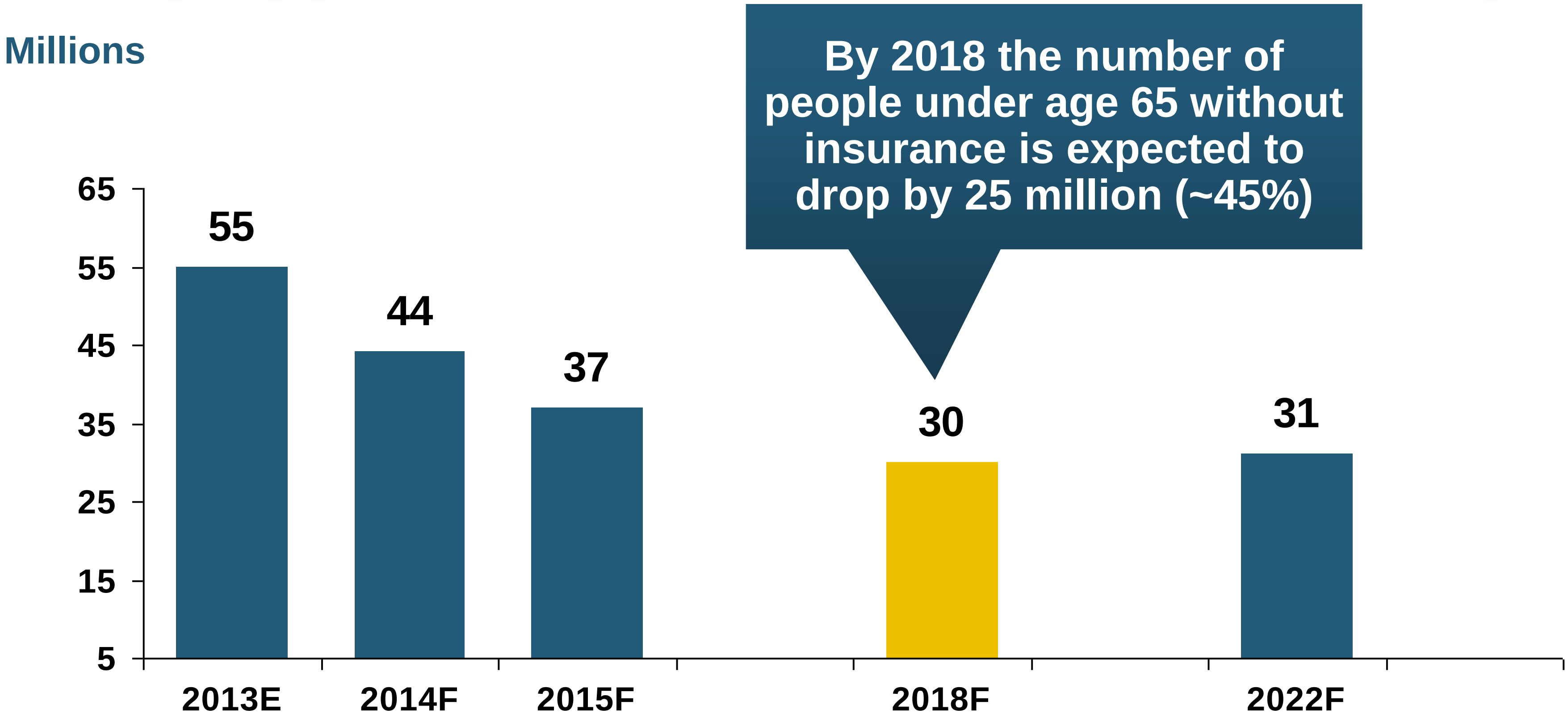
The Affordable Care Act & Implications for P/C Insurance

The ACA Is Now Being Fully Implemented; Consequences for P/C Insurance Are Yet to Be Determined

Projected Number of People with No Health Insurance, 2013—2022*



The projected decline in the uninsured population is very sensitive to the enrollment rate under the Affordable Care Act

*Under age 65.

Sources: Centers for Medicare & Medicaid Services, Office of the Actuary at http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsProjected.html accessed 3/14/14; Insurance Information Institute.

A Few Potential Impacts of the ACA on Workers Compensation

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Issue	Concern	Contravening Argument
Surge in People Covered by Health Insurance	• System is overwhelmed • MD shortage • Patient care adversely impacted	• Over time, people will have access to preventative care, improving the general health of the population • Greater use of PA's, etc.
Electronic Health Records	• Cost	• Computerization of patient data could help flag issues and improve risk management and improve patient outcomes
Claim Shifting	• Provider/patient may prefer claim handled via WC system	• Reduction in uninsured population reduces shifting
Reimbursement Rates	• Cuts in MC reimbursement rates could makes docs less willing to take WC claims	• Impact would be short-lived. All MC-linked states already boost WC reimbursements

Source: Insurance Information Institute research; WCRI.

ACA Impact on WC May Occur via Changes in Rates Set by State Regulators

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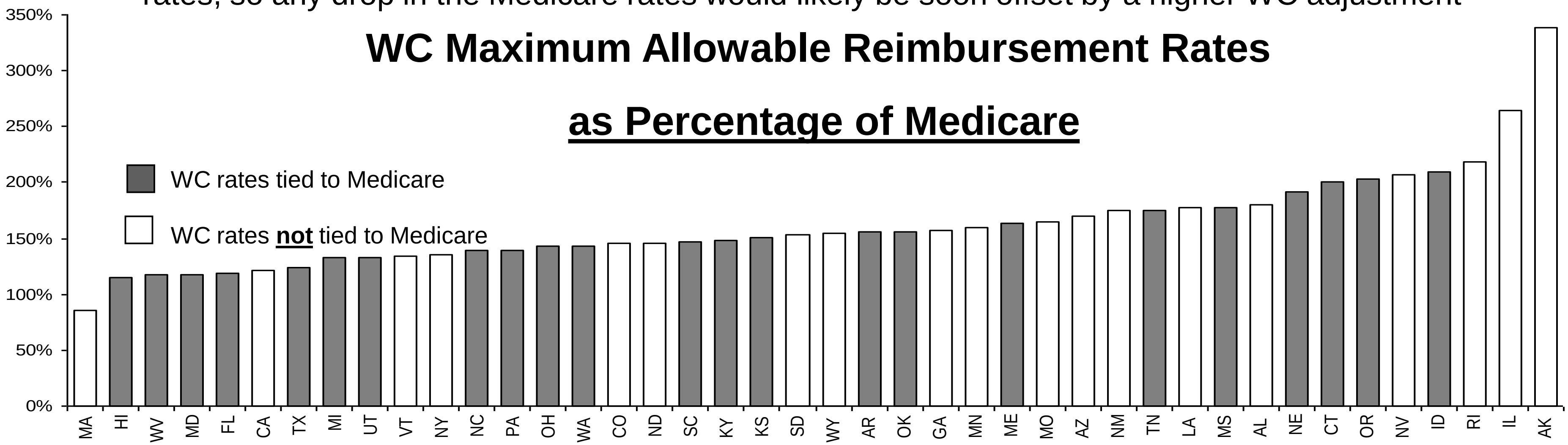
- WC rates often tied to Medicare but can change for reasons independent of this link
- There could be both positive and negative effects of a cut in Medicare rates on WC performance in states which tie reimbursement to Medicare
  - WC reimbursement rates would go down
  - Doctors may be unwilling to see WC patients:
    - ➢ 64% of Dr.'s surveyed said they would stop accepting new Medicare patients if planned rate cuts go through; some of these same doctors may also refuse WC patients if WC rates also decrease
- These effects would likely be short lived
  - All states which tie their fee schedules to Medicare already increase the Medicare rates to set WC rates, so any drop in the Medicare rates would likely be soon offset by a higher WC adjustment



SOURCE: NCCI Annual Issues Symposium 2009, Medicare's Impact on Workers' Compensation, AMA: "Physicians' reactions to the Medicare physician payment cuts."

PPACA May Have Distinct Impacts on WC Depending on Claim Frequency/Severity

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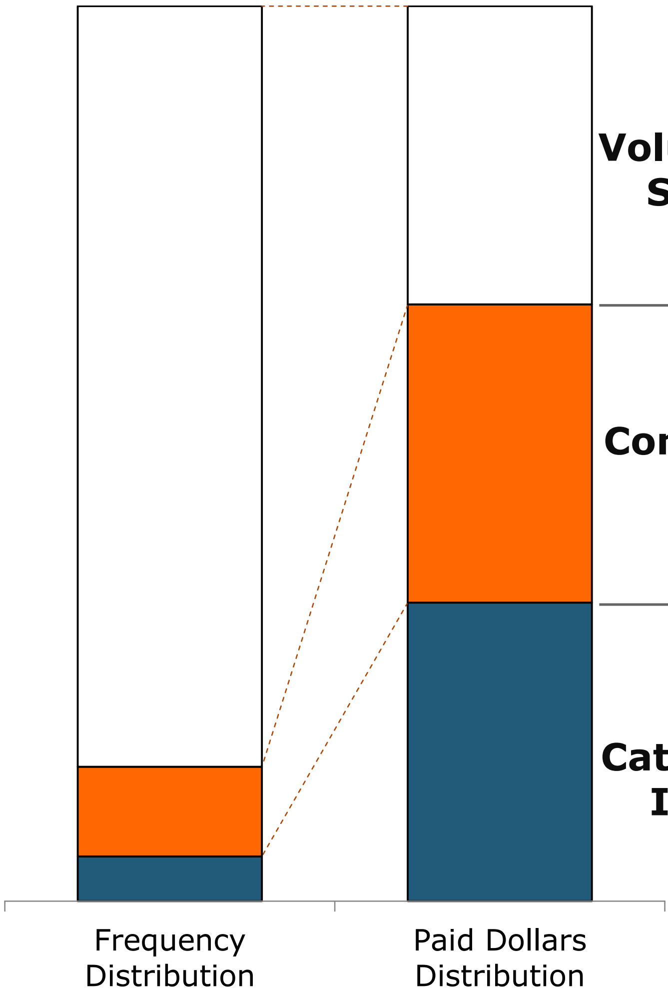
Industry Portfolio by Claim Type

(Relative Volume by Claim Frequency & Paid Dollars)



High Volume, Low Severity — *Ex: med only, quick to settle, <25K*

Complicated — *Ex: back pain claims, very litigious*

Catastrophic Injuries — *Ex: spinal cord injury, multiple trauma claims*

Potential ACA Impact

- **Expanded coverage may shift some small claims to the health insurance system (+)**
- **Physician access problems could lead to indemnity increases and may bleed into the complicated cases (-)**
- **Preventative care and early record keeping decreases WC comorbidities (+)**
- **Soft tissue treatments, a large portion of "slow burn claims," may decrease in cost (+)**
- **No significant impacts**

SOURCE: Christopher Cunniff, FCAS, *Impacts of Healthcare Reform on Workers Compensation.*

Possible Effects on Workers Comp

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1. **Could slow the growth in WC medical care costs**
   - IPAB recommendations and PCORI reports, plus Medicare changes, could have beneficial effects on cost and treatment effectiveness
2. **Could ACA be first step in federal regulation of insurance products and markets?**
   - Will regulation like that requiring products to be priced to meet Medical Loss Ratios be applied to WC?
   - Will cost-control mechanisms such as the Independent Payment Advisory Board be developed for WC?
   - Will WC insurers lose their limited exemption from anti-trust laws that they have had under McCarran-Ferguson since 1945?

Potential Impacts of the ACA on Medical Professional Liability

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Issue	Concern	Contravening Argument
Surge in People Covered by Health Insurance	• System is overwhelmed • Doctors spend less time on patients • Patient care adversely impacted	• Over time, people will have access to preventative care, improving the general health of the population • People are receiving care already via suboptimal channels • Less use of ERs
Electronic Health Records	• Digitization could create a treasure trove of data for plaintiff attorneys	• Computerization of patient data could help flag issues and improve risk management and improve patient outcomes
MPL Claim Severity	• More large verdicts will	• ACA will help contain system costs

Source: Insurance Information Institute research.

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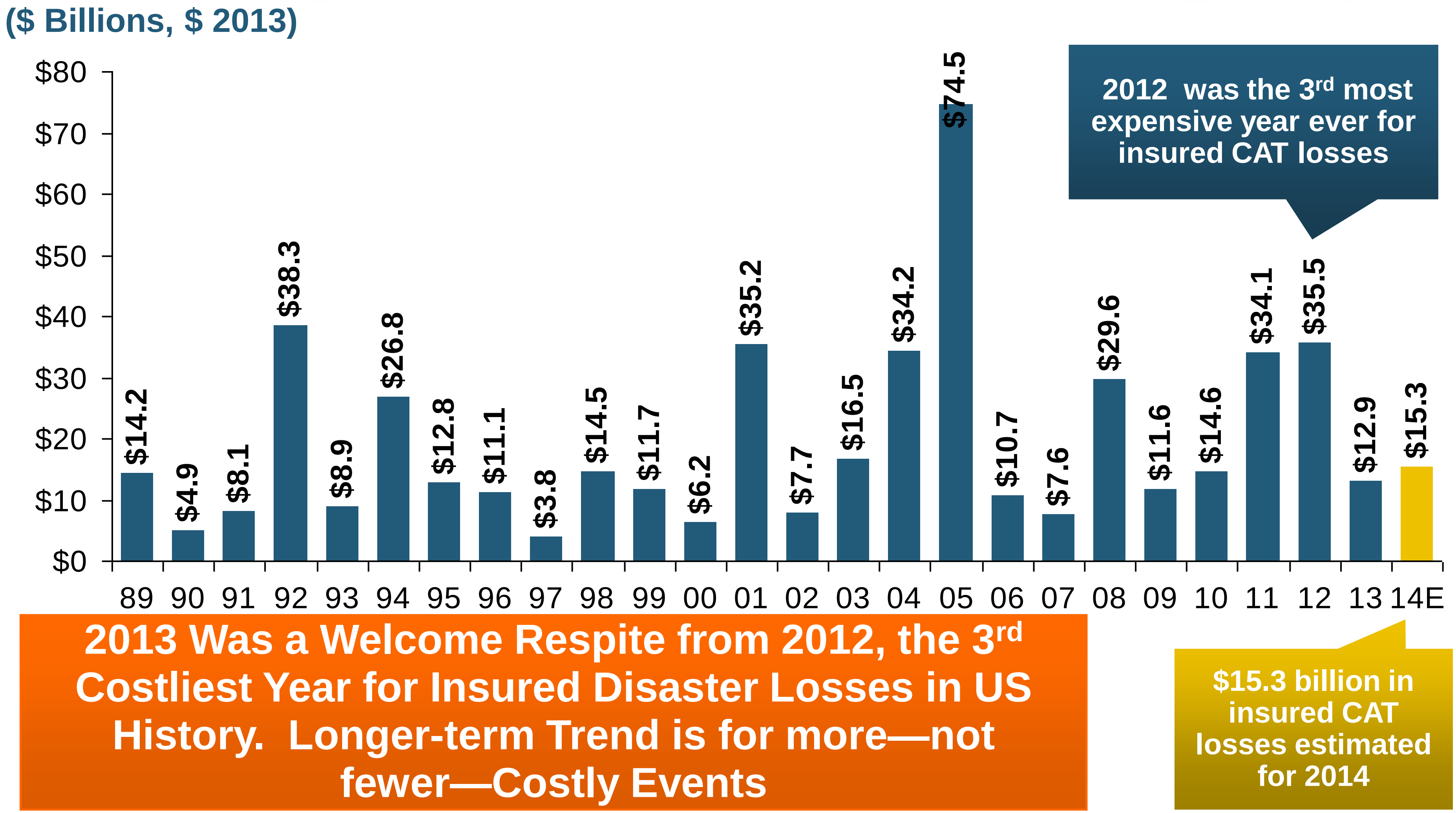
U.S. Insured Catastrophe Loss Update

2014 Experiencing Below Average CAT Activity Following a Welcome Respite in 2013 from Very High CAT Losses in 2011/12

U.S. Insured Catastrophe Losses



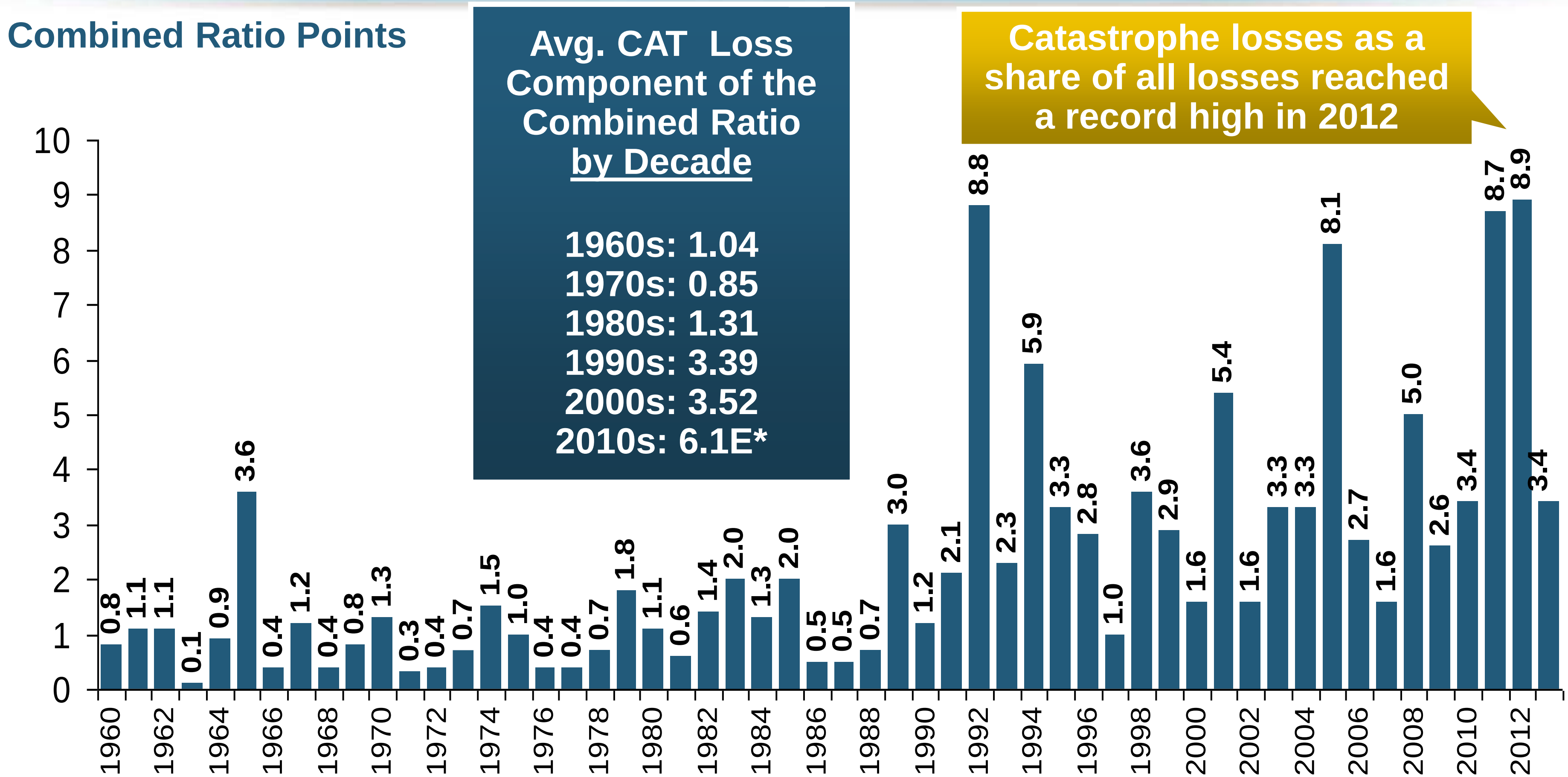
2013 Was a Welcome Respite from 2012, the 3rd Costliest Year for Insured Disaster Losses in US History. Longer-term Trend is for more—not fewer—Costly Events

*Through 12/31/14.

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

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

Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2013*



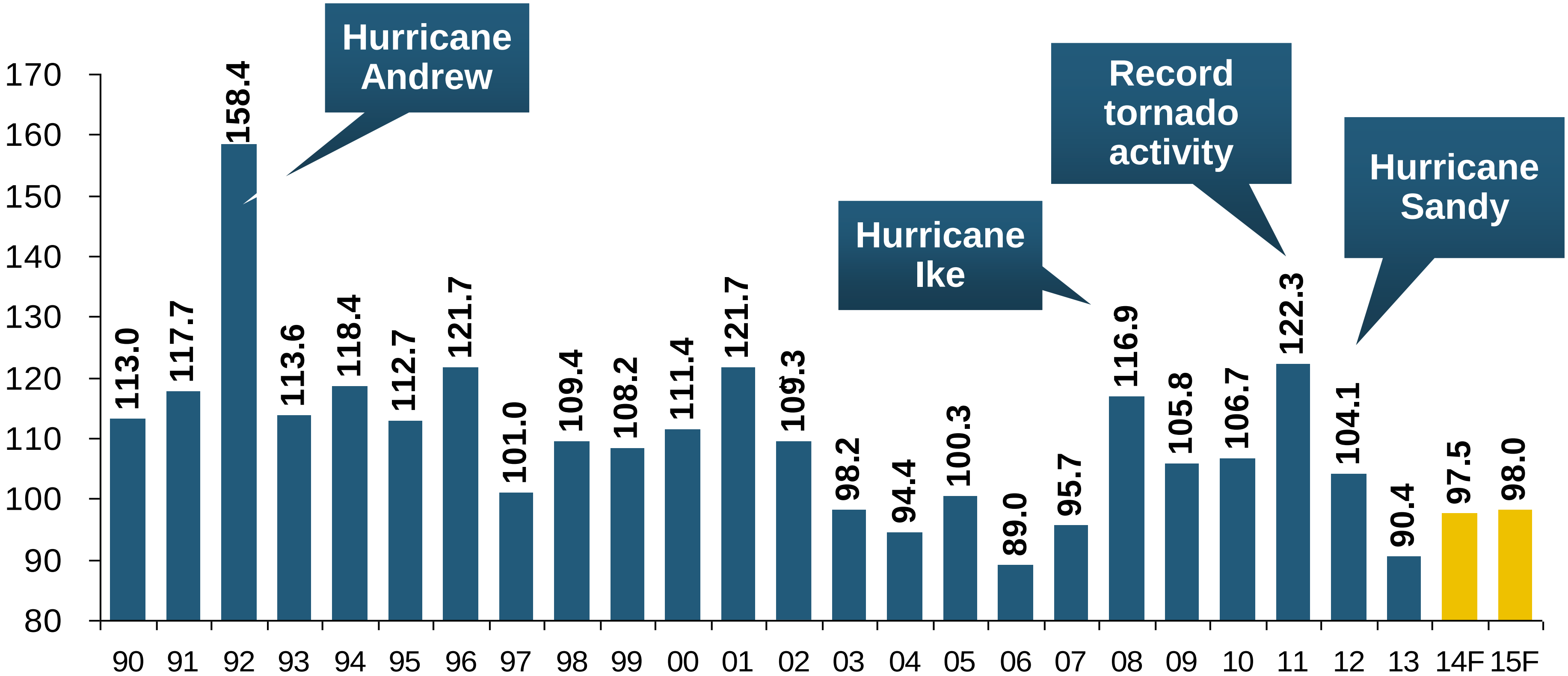
The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades

*2010s represent 2010-2013.

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

Source: ISO (1960-2011); A.M. Best (2012E) Insurance Information Institute.

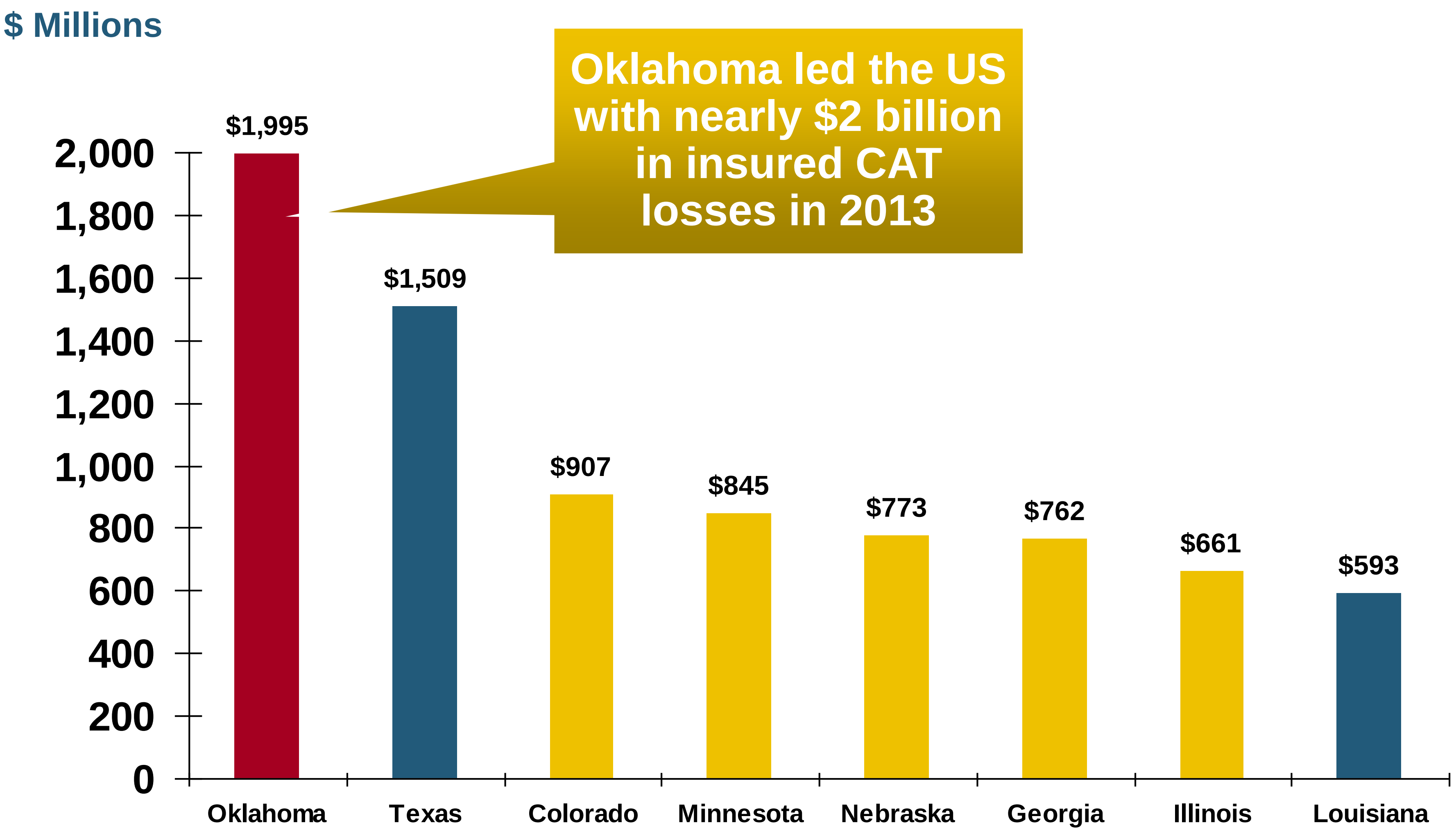
Homeowners Insurance Combined Ratio: 1990–2015F



Homeowners Performance in 2011/12 Impacted by Large Cat Losses but Lower CATs Helped 2013. Extreme Regional Variation Can Be Expected Due to Local Catastrophe Loss Activity

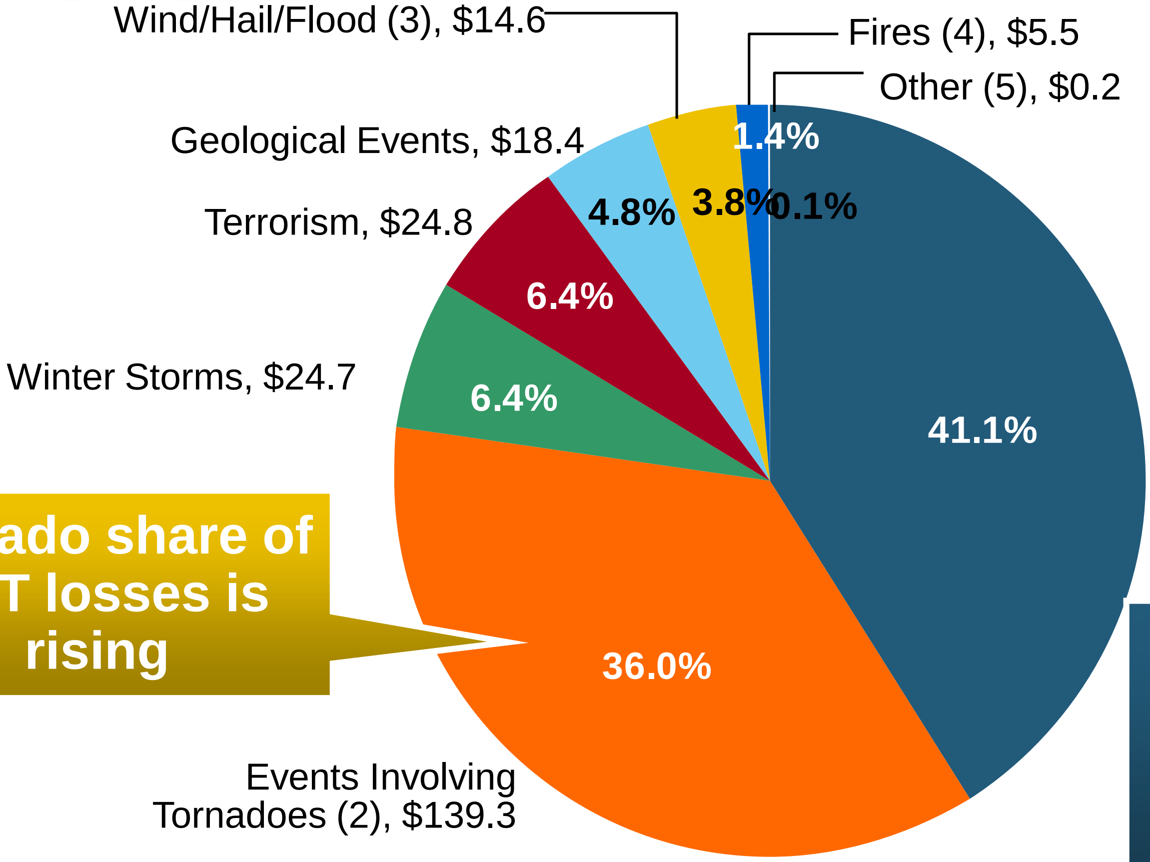
Sources: A.M. Best (1990-2013); Insurance Information Institute (2014E-2015F).

Top 8 States for Insured Catastrophe Losses, 2013



Source: The Property Claim Services (PCS) unit of ISO, a Verisk Analytics company.

Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1994–2013[1]



Insured cat losses from 1993-2012 totaled $386.7B, an average of $19.3B per year or $1.6B per month

Tornado share of CAT losses is rising

Wind losses are by far cause the most catastrophe losses, even if hurricanes/TS are excluded.

1. Catastrophes are defined as events causing direct insured losses to property of $25 million or more in 2013 dollars.
2. Excludes snow.
3. Does not include NFIP flood losses
4. Includes wildland fires
5. Includes civil disorders, water damage, utility disruptions and non-property losses such as those covered by workers compensation.

Source: ISO's Property Claim Services Unit.

Top 16 Most Costly Disasters in U.S. History

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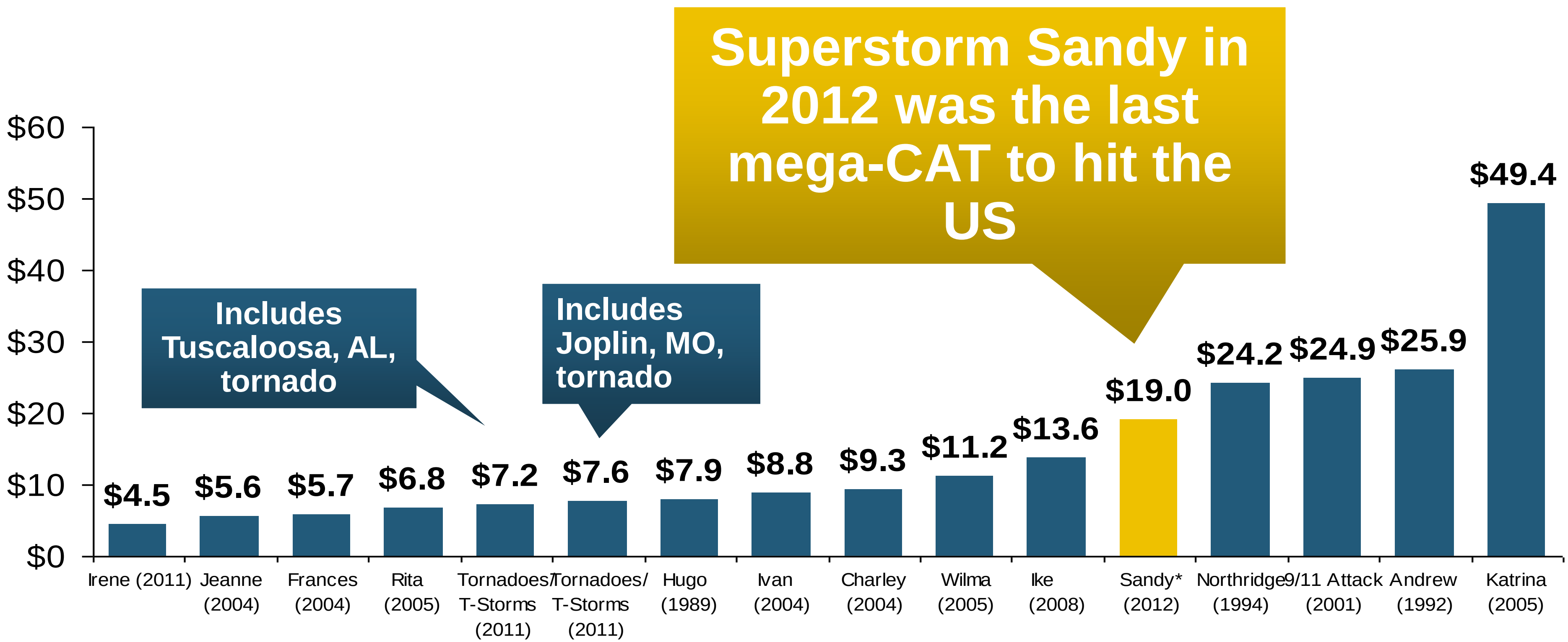
(Insured Losses, 2013 Dollars, $ Billions)



12 of the 16 Most Expensive Events in US History Have Occurred Over the Past Decade

Sources: PCS; Insurance Information Institute inflation adjustments to 2013 dollars using the CPI.

Federal Disaster Declarations Patterns: 1953-2014

Disaster Declarations Set New Records in Recent Years

Number of Federal Major Disaster Declarations, 1953-2014*

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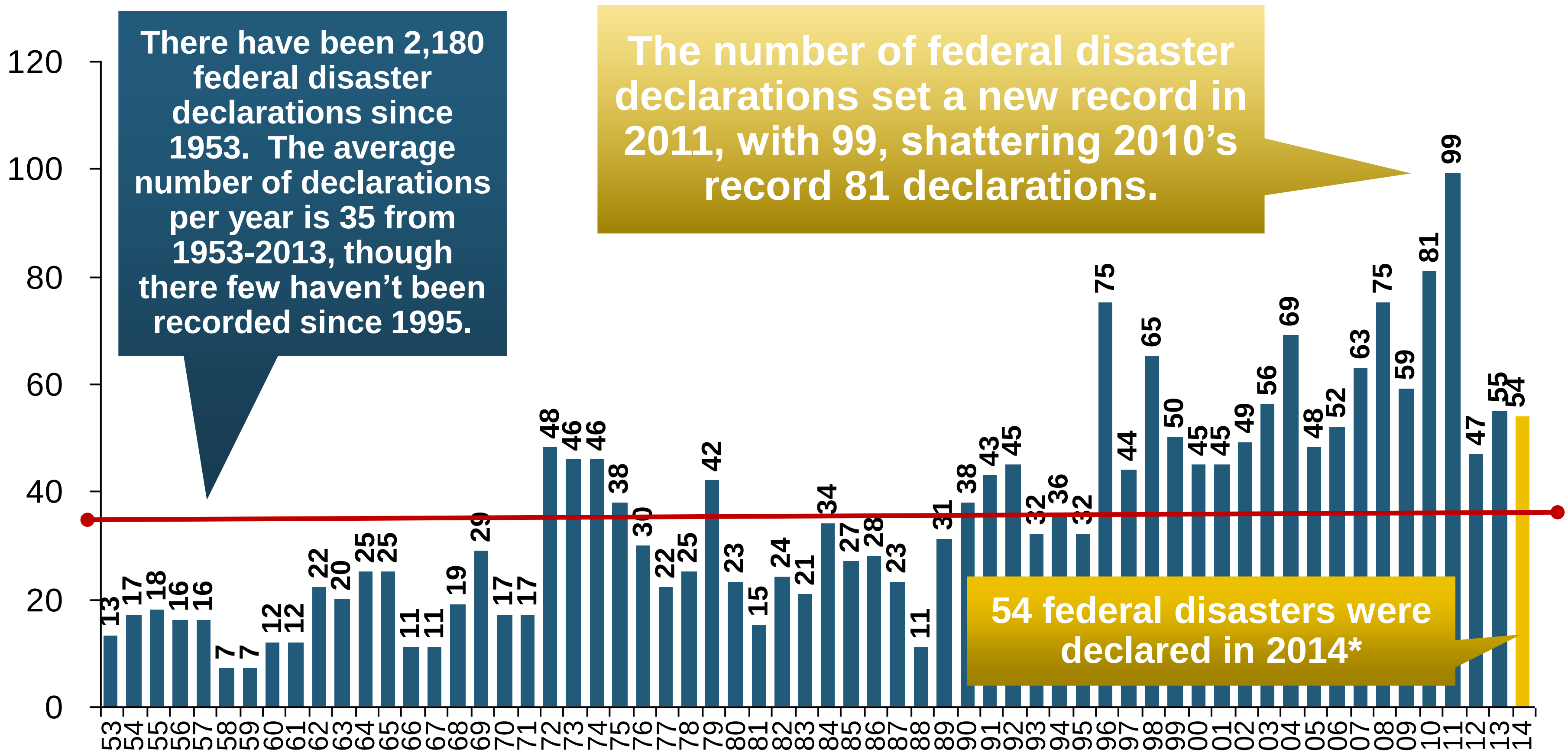
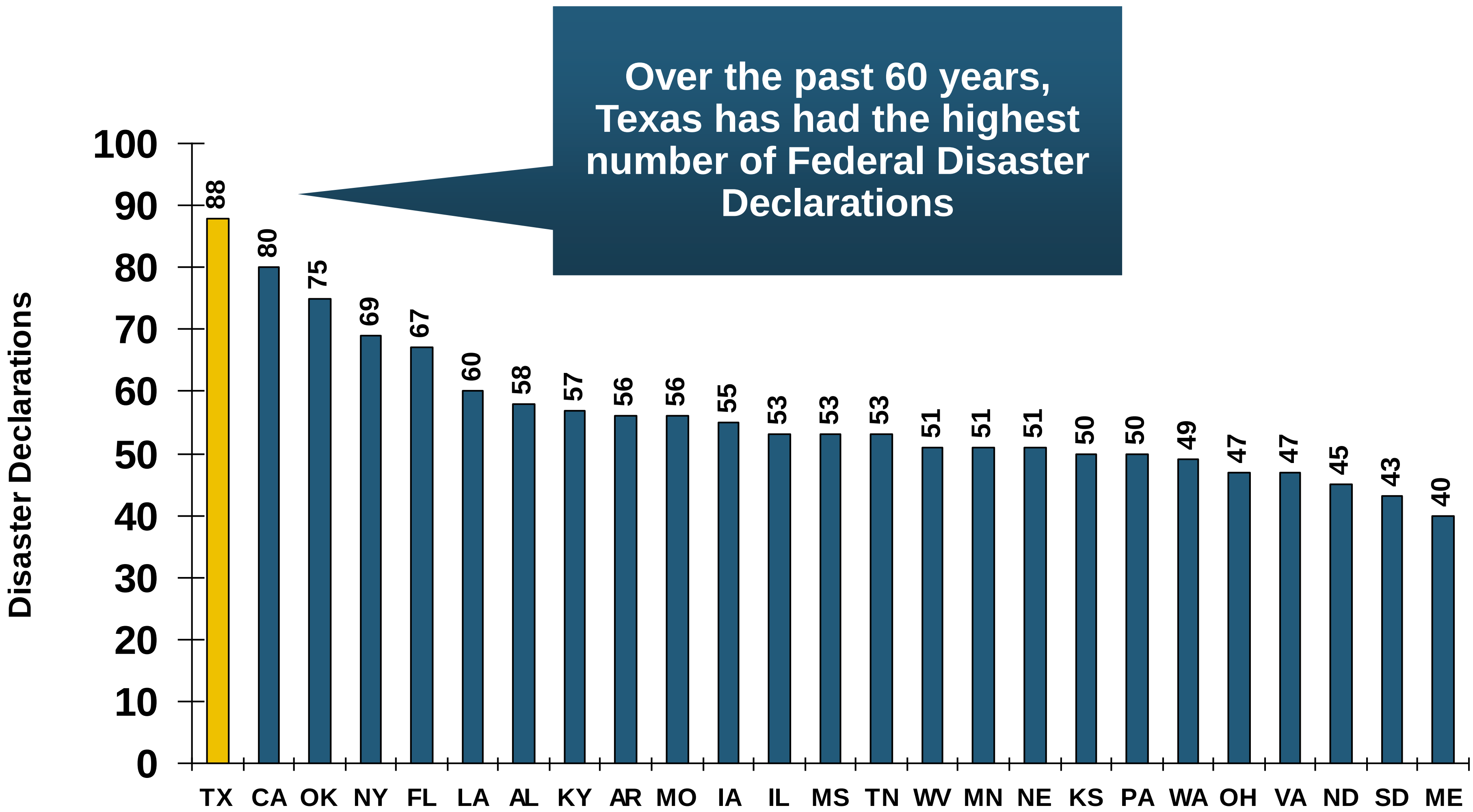


The Number of Federal Disaster Declarations Is Rising and Set New Records in 2010 *and* 2011 Before Dropping in 2012-2014

*Through December 31, 2014.

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

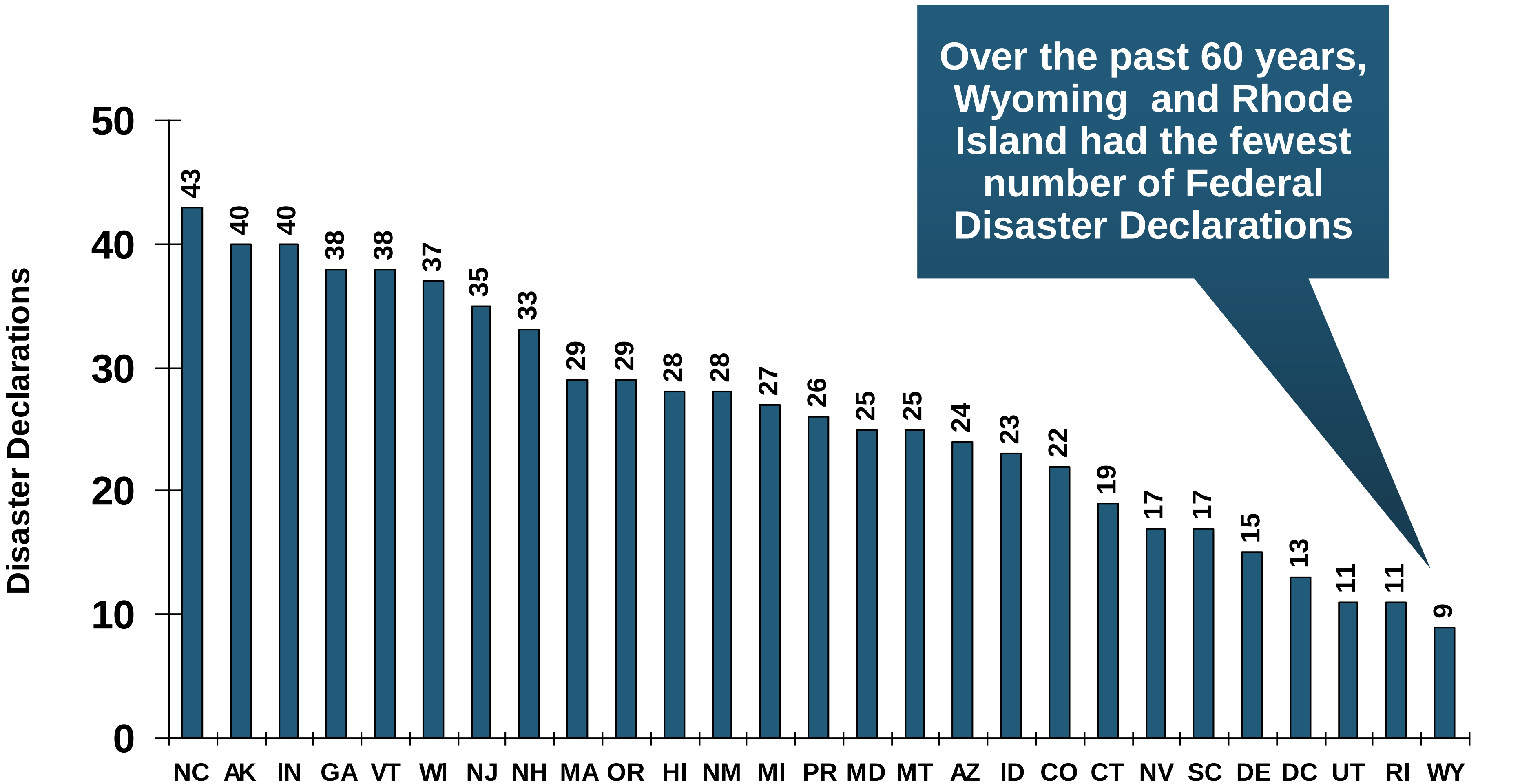
Federal Disasters Declarations by State, 1953 – 2014: Highest 25 States*



*Through December 31, 2014. Includes Puerto Rico and the District of Columbia.

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

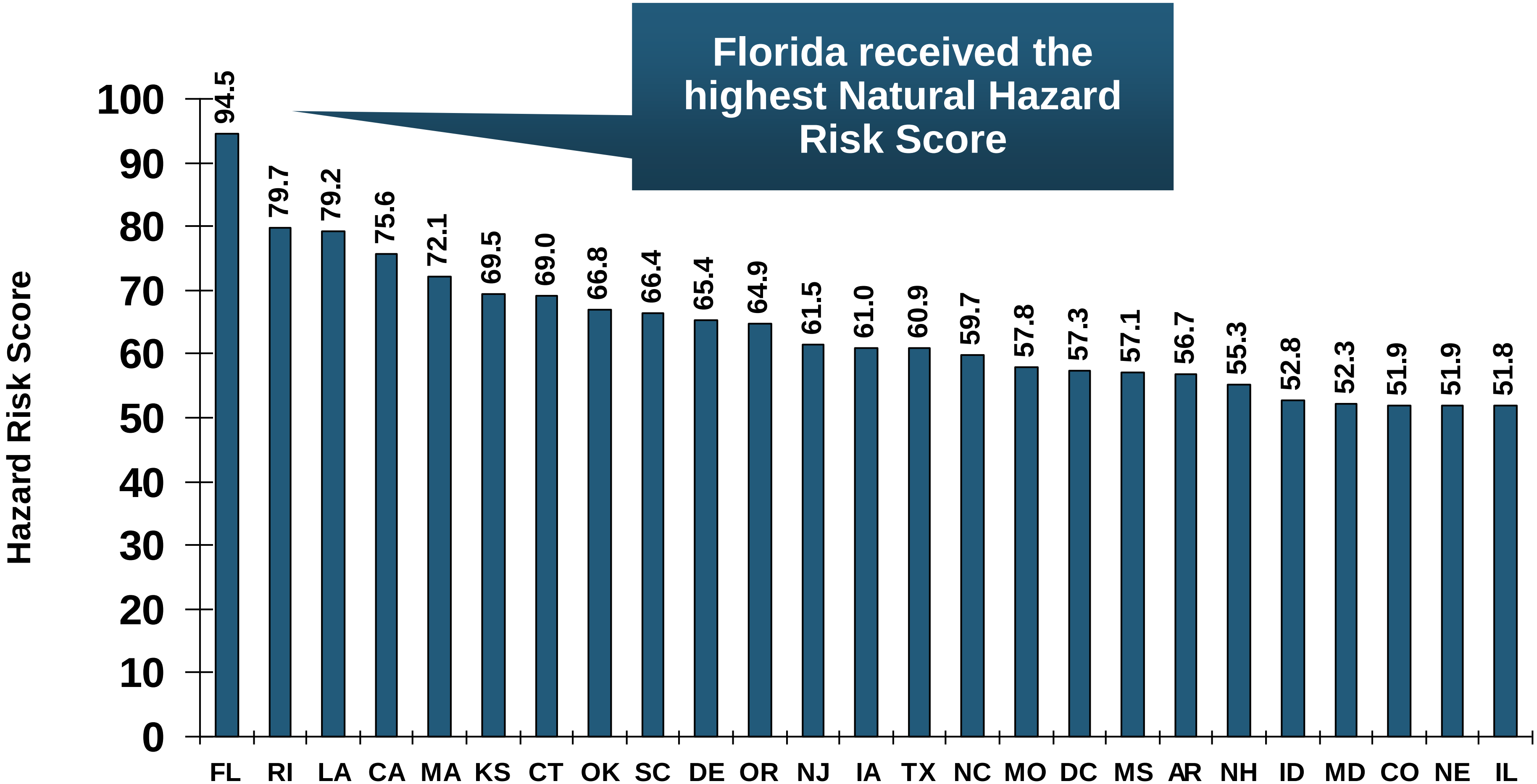
Federal Disasters Declarations by State, 1953 – 2014: Lowest 25 States*



*Through December 31, 2014. Includes Puerto Rico and the District of Columbia.

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

Natural Hazard Risk Scores, 2014
Highest 25 States*

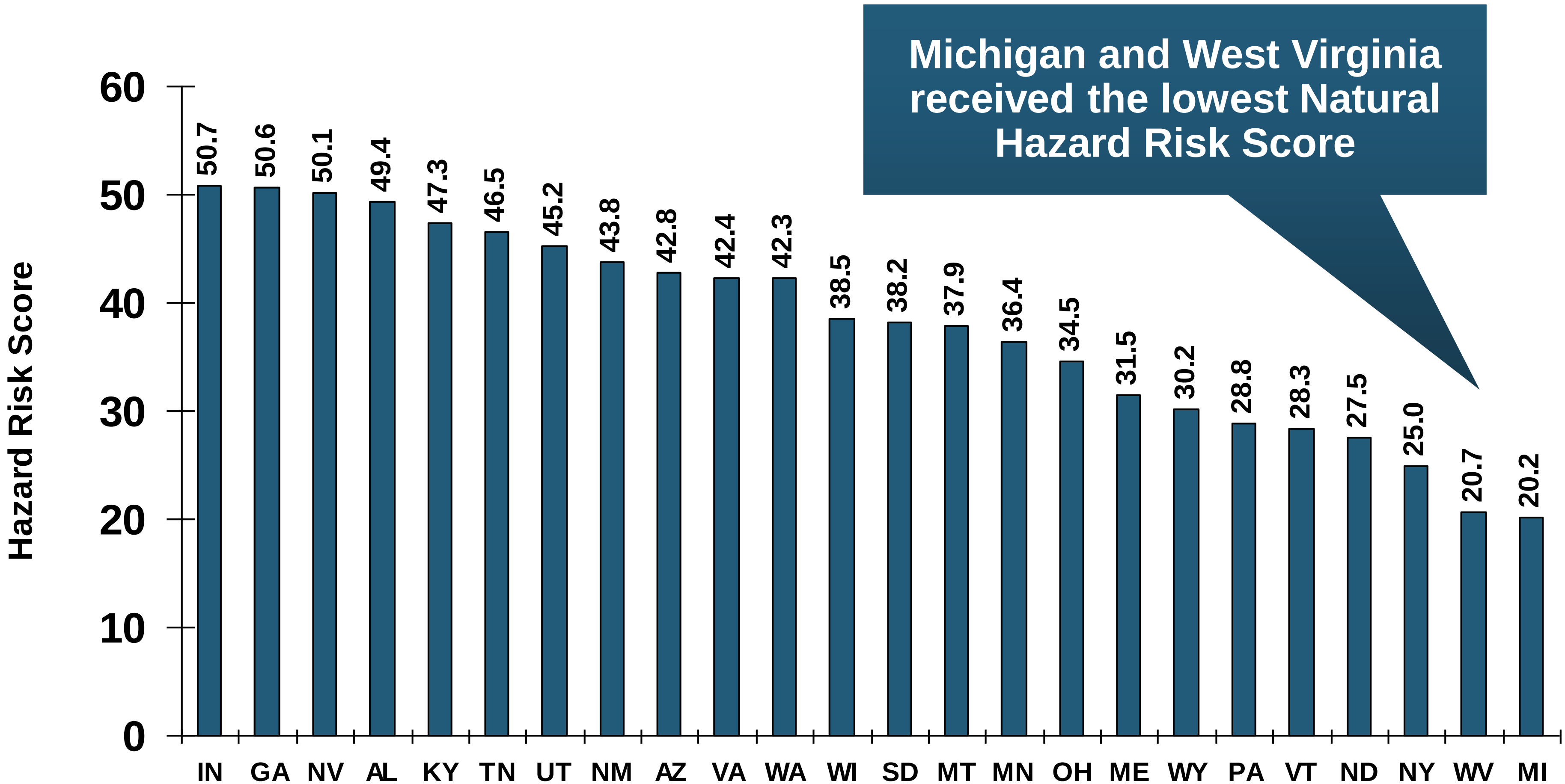


Note: Score is based on data on 9 natural hazards: flood, wildfire, tornado, storm surge, earthquake, straight-line wind, hurricane, wind, hail and sinkhole.

*Analysis Includes DC. Excludes Alaska and Hawaii due to limited natural hazard risk data.

Sources: CoreLogic release *"CoreLogic Identifies US States at Highest Risk of Property Damage Loss from Natural Hazards,"* Sept. 10, 2014; Insurance Information Institute.

Natural Hazard Risk Scores, 2014
Bottom 24 States*



Note: Score is based on data on 9 natural hazards: flood, wildfire, tornado, storm surge, earthquake, straight-line wind, hurricane, wind, hail and sinkhole.

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Sources: CoreLogic release *"CoreLogic Identifies US States at Highest Risk of Property Damage Loss from Natural Hazards,"* Sept. 10, 2014; Insurance Information Institute.

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CYBER RISK & CYBER INSURANCE

Cyber Risk is a Rapidly Emerging Exposure for Businesses Large and Small in Every Industry

Rapidly Increasing Interest from Businesses, Media & Public Policymakers

Data Breaches 2005-2014, by Number of Breaches and Records Exposed

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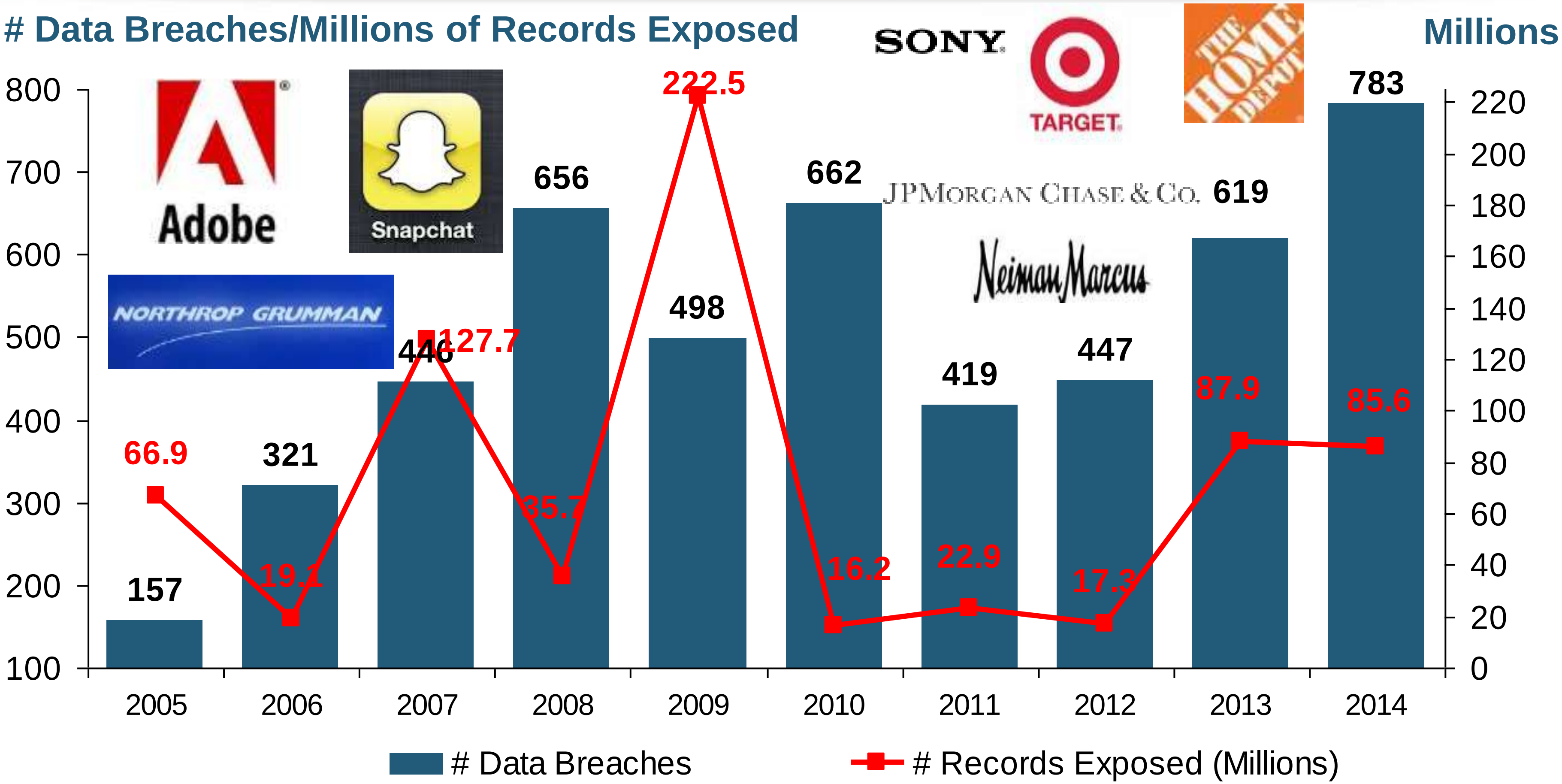
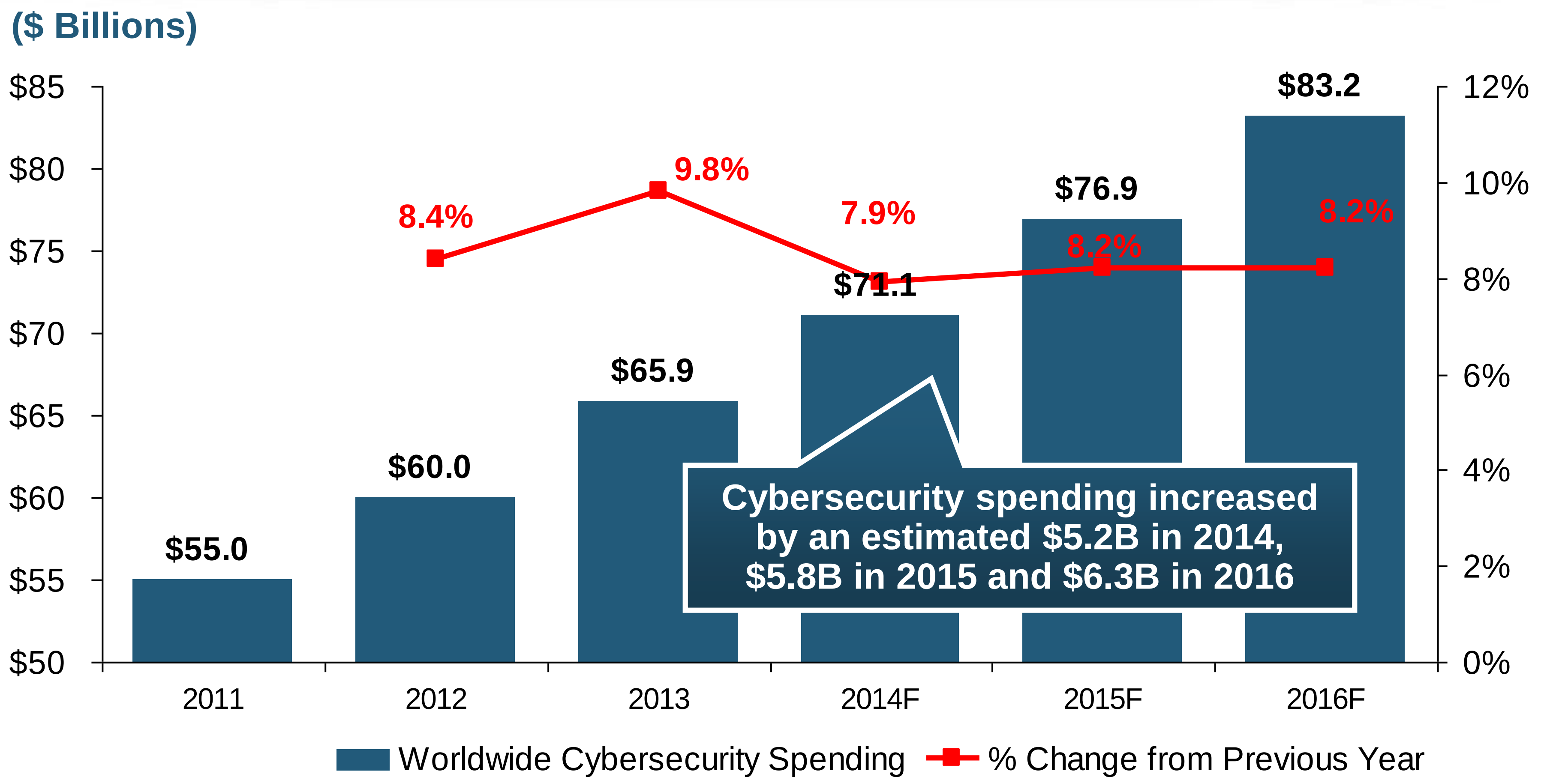


The Total Number of Data Breaches Rose 28% While the Number of Records Exposed Was Relatively Flat (-2.6%)

* 2014 figures as of Jan. 12, 2014 from the ITRC.
Source: Identity Theft Resource Center.

Worldwide Cybersecurity Spending, 2011- 2016F



Cybersecurity Spending Is Rising Sharply, Up by About 8%+ Annually through 2016—a Projected Increase of $12.1 Billion from 2014 to 2016

Source: Gartner Group; Insurance Information Institute; Adapted from *Wall Street Journal*: "Financial Firms Boost Cybersecurity Funds," Nov. 17, 2014.

Data/Privacy Breach: Many Potential Costs Can Be Insured

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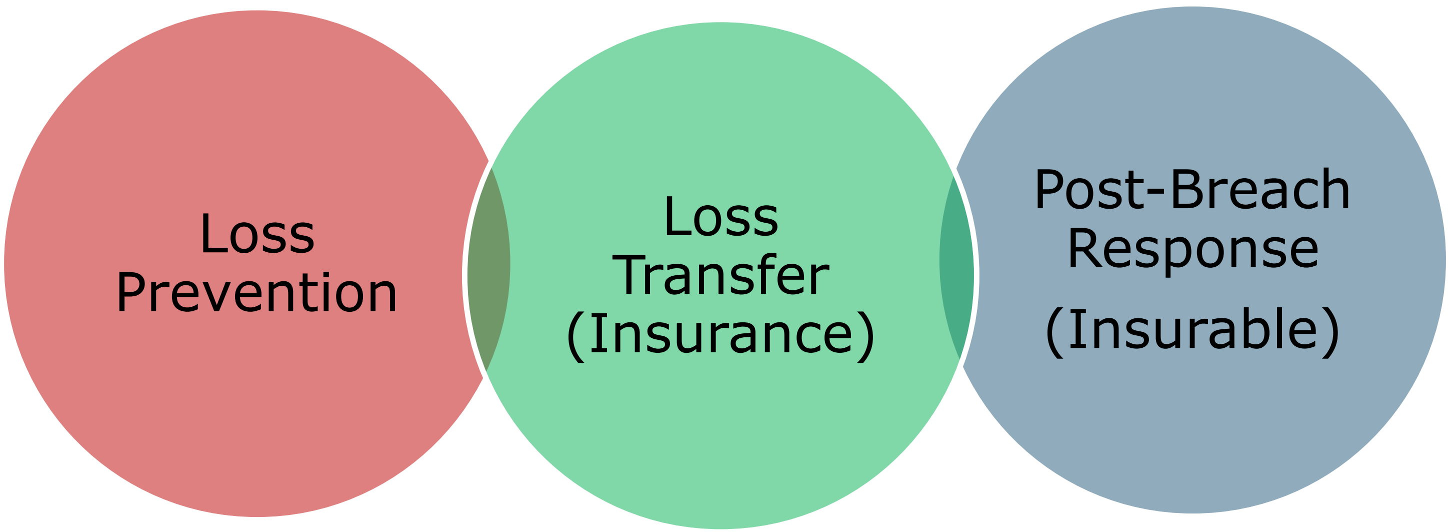
Data Breach Event

- Costs of notifying affecting individuals
- Defense and settlement costs
- Lost customers and damaged reputation
- Cyber extortion payments
- Business Income Loss
- Forensic costs to discover cause
- Regulatory fines at home & abroad
- Costs of notifying regulatory authorities

Source: Zurich Insurance; Insurance Information Institute

The Three Basic Elements of Cyber Coverage: Prevention, Transfer, Response



Cyber risk management today involves three essential components, each designed to reduce, mitigate or avoid loss. An increasing number of cyber risk products offered by insurers today provide all three.

Source: Insurance Information Institute research.

I.I.I. Released its Second Cyber Report in 2014: *Cyber Risk: The Growing Threat*

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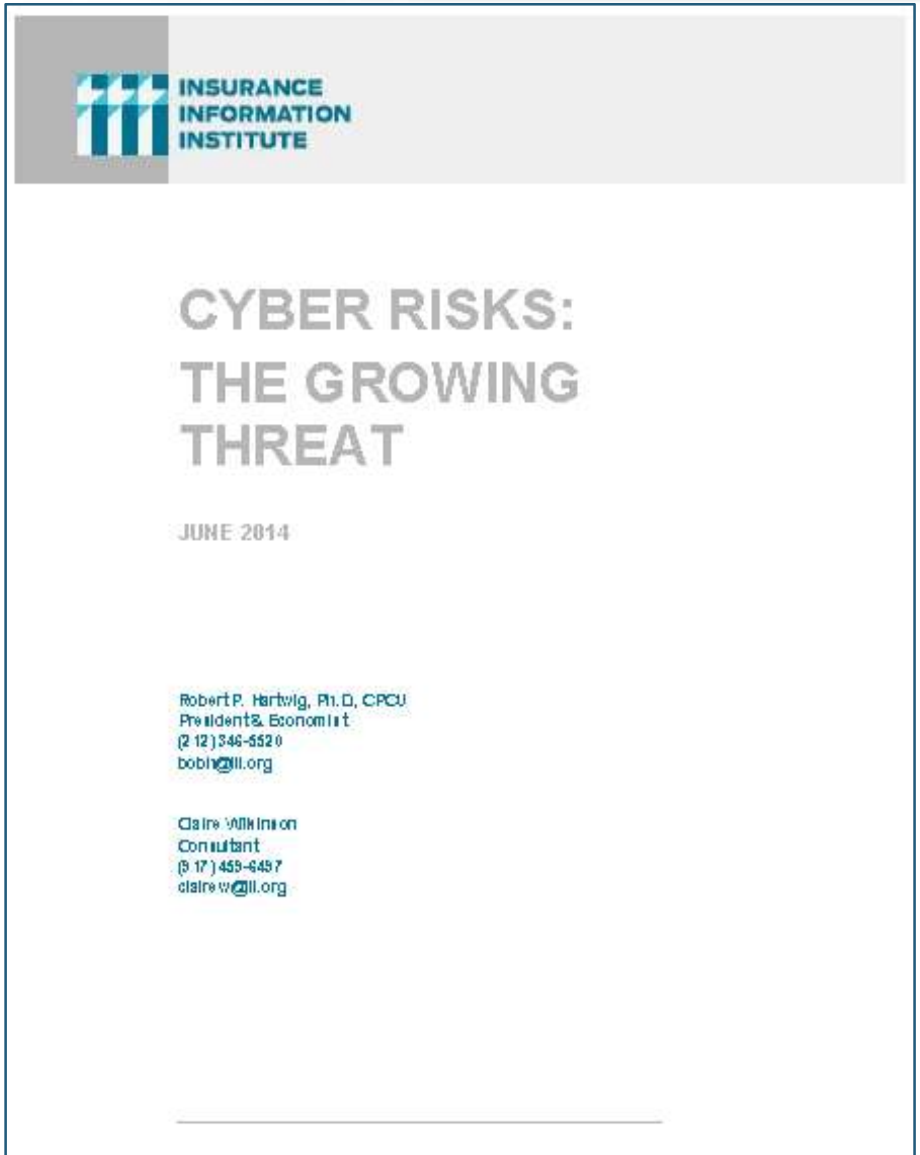
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CYBER RISKS: THE GROWING THREAT

JUNE 2014

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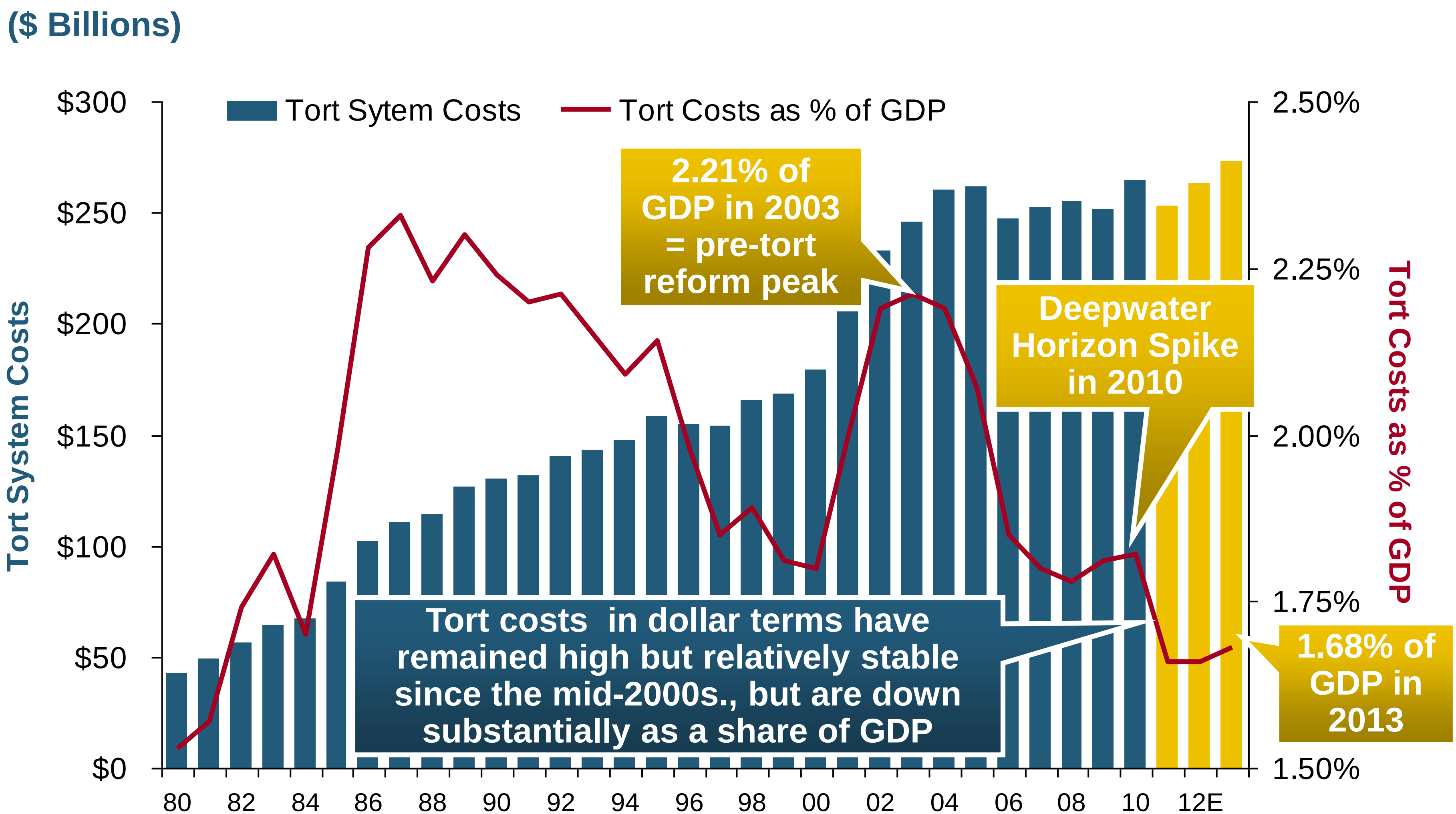
- **I.I.I.’s 2nd report on cyber risk released June 2014**
- **Provides information on cyber threats and insurance market solutions**
- **Global cyber risk overview**
  - **Quantification of threats by type and industry**
- **Cyber security and cost of attacks**
- **Cyber terrorism**
- **Cyber liability**
- **Insurance market for cyber risk**
- ***3rd Report in Q2 2015***

Shifting Legal Liability & Tort Environment

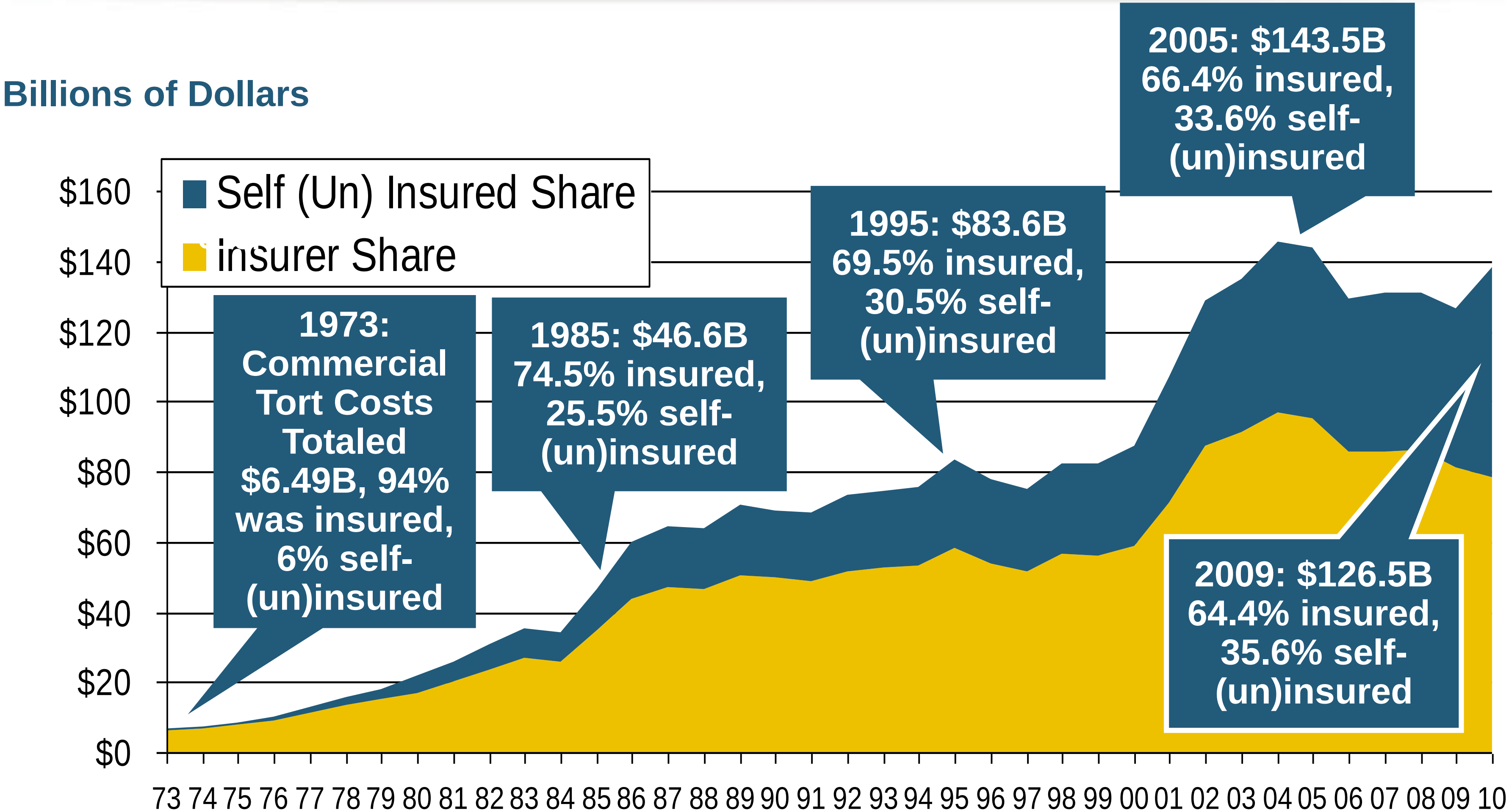
Will the Tort Pendulum Swing Against Insurers?

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



Sources: Towers Watson, *2011 Update on US Tort Cost Trends*, Appendix 1A

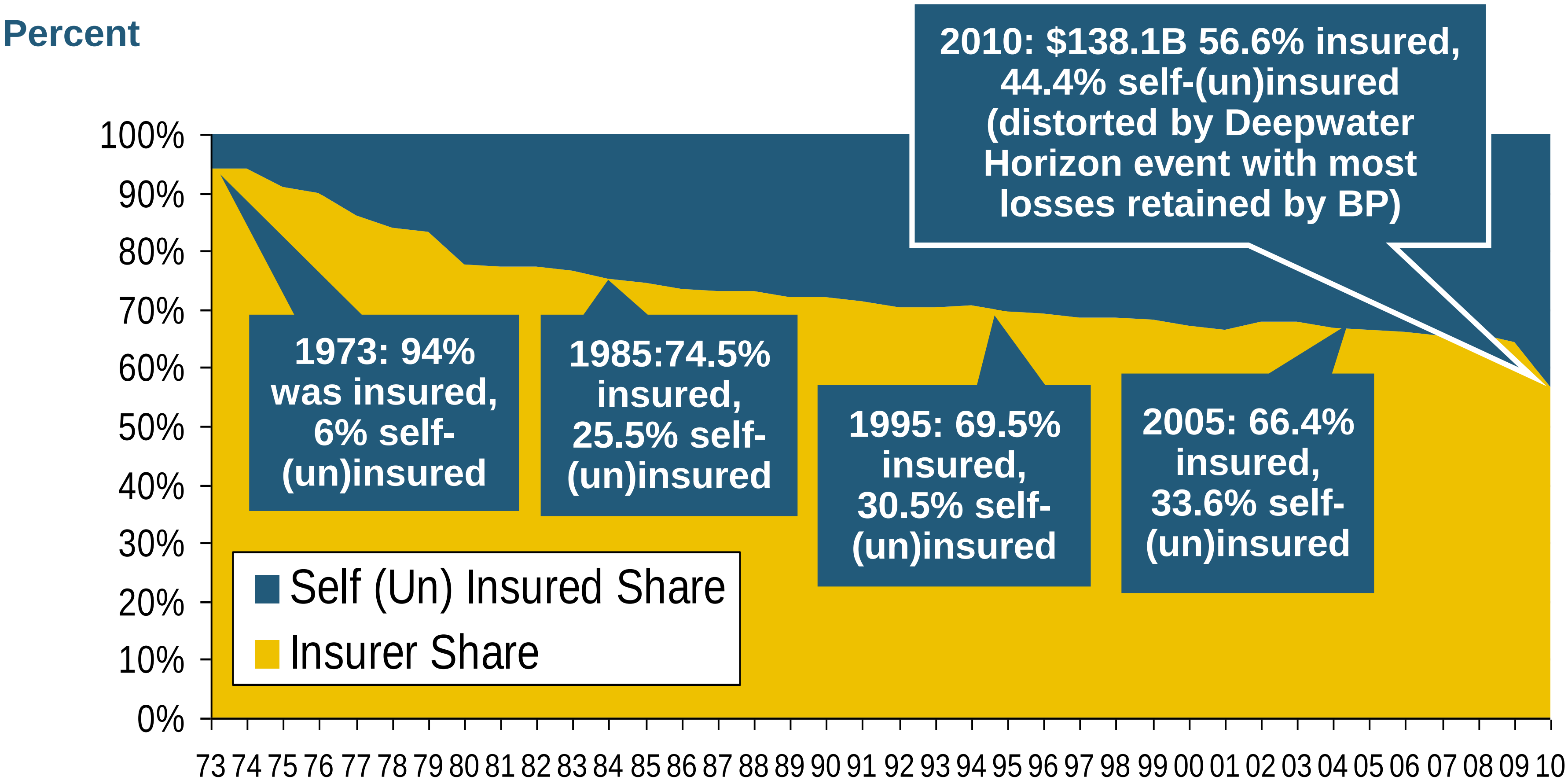
Commercial Lines Tort Costs: Insured vs. Self-(Un)Insured Shares, 1973-2010



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

Sources: Towers Watson, *2011 Update on US Tort Cost Trends*, III Calculations based on data from Appendix 4.

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



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

Sources: Towers Watson, *2011 Update on US Tort Cost Trends*, III Calculations based on data from Appendix 4.

Business Leaders Ranking of Liability Systems in 2012

Best States

1. Delaware
2. Nebraska
3. Wyoming
4. Minnesota
5. Kansas
6. Idaho
7. Virginia
8. North Dakota
9. Utah
10. Iowa

New in 2012

- Wyoming
- Minnesota
- Kansas
- Idaho

Drop-offs

- Indiana
- Colorado
- Massachusetts
- South Dakota

Worst States

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

Newly Notorious

- Oklahoma

Rising Above

- Arkansas

Source: US Chamber of Commerce 2012 State Liability Systems Ranking Study; Insurance Info. Institute.

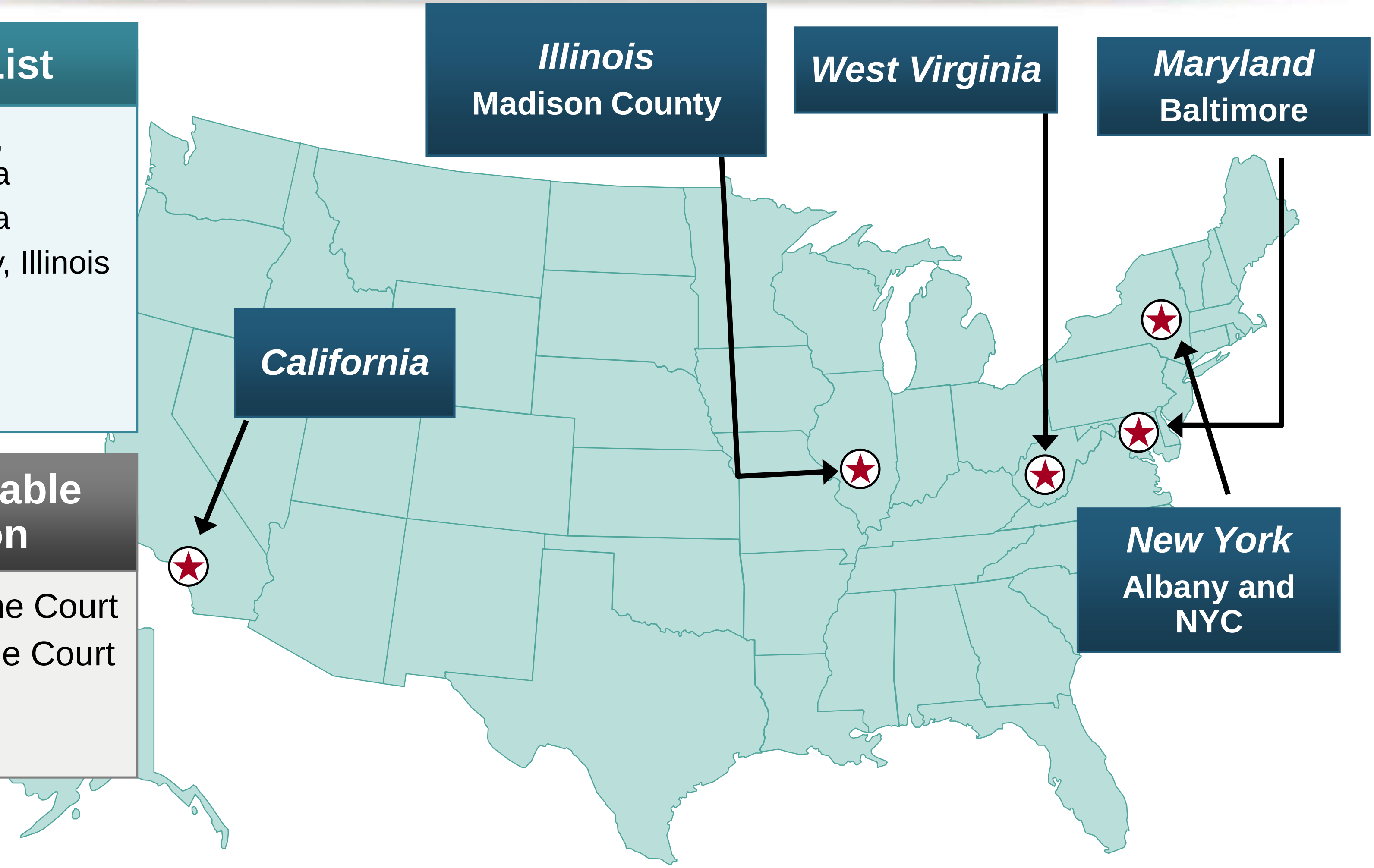
The Nation's Judicial Hellholes: 2012/2013

Watch List

- Philadelphia, Pennsylvania
- South Florida
- Cook County, Illinois
- New Jersey
- Nevada
- Louisiana

Dishonorable Mention

- MO Supreme Court
- WA Supreme Court



Source: American Tort Reform Association; Insurance Information Institute

Insurance Information Institute Online:

www.iii.org

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