



2016 & Beyond: Trends, Challenges and Opportunities

PRMA Annual Summit

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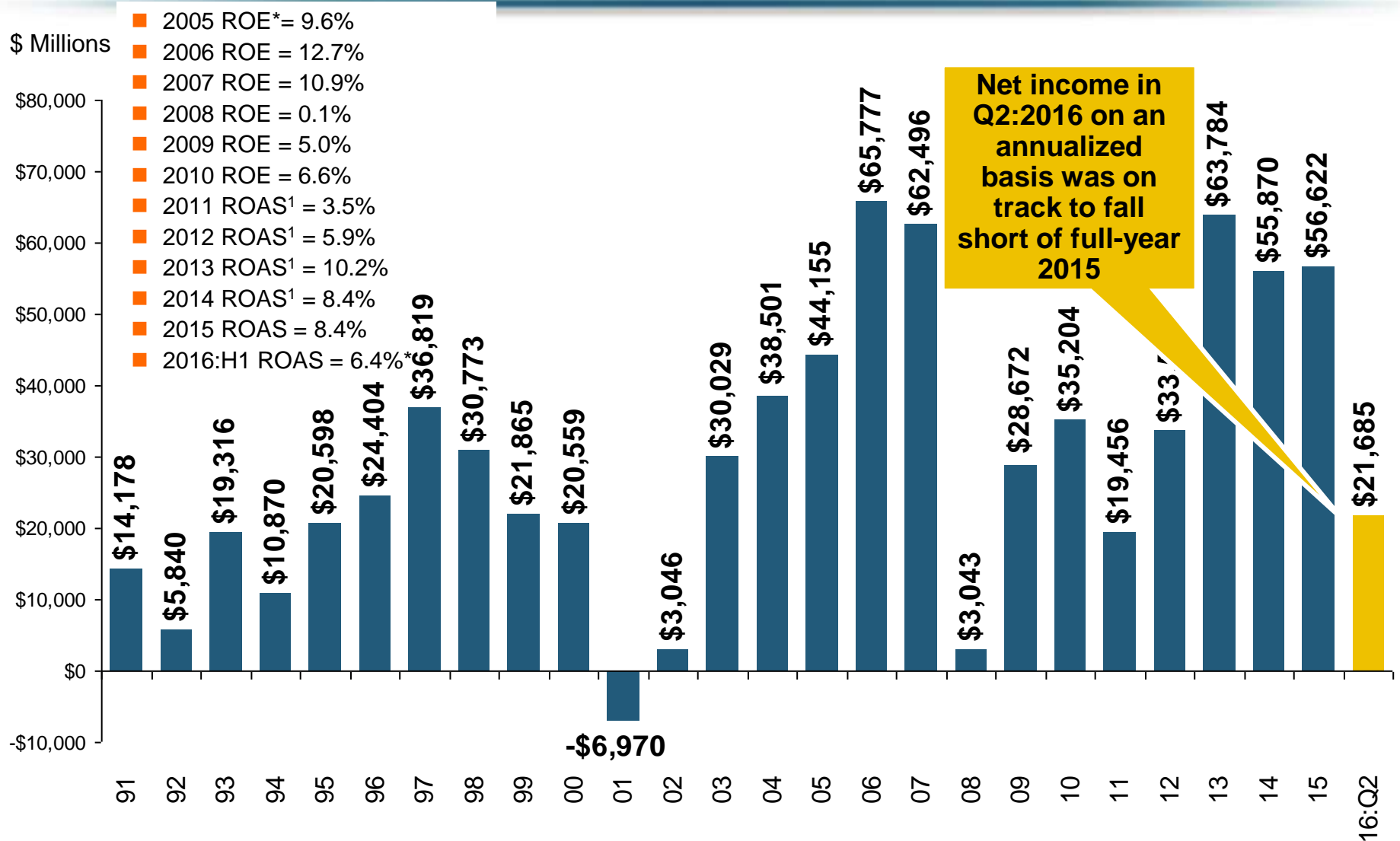
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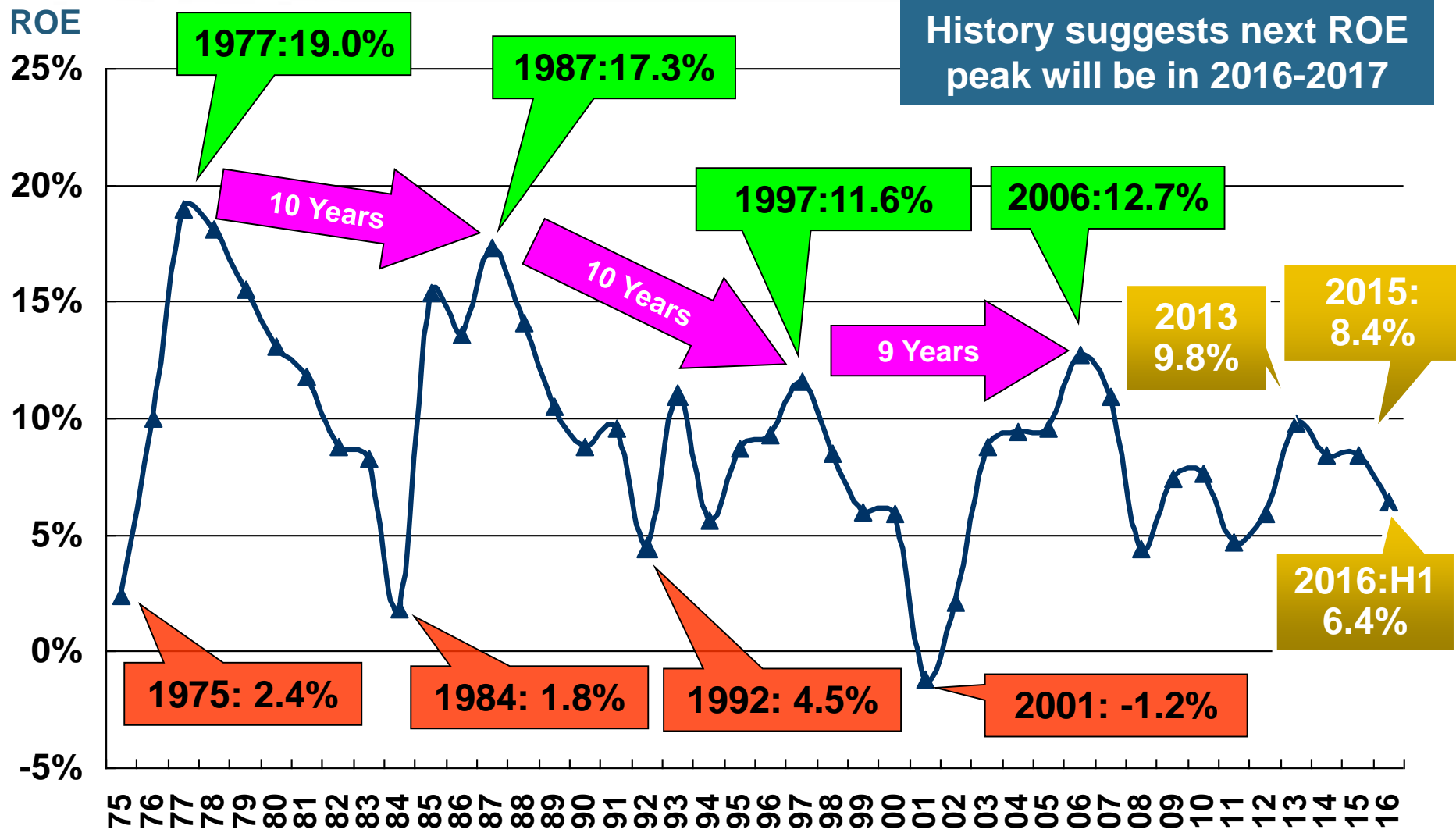
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P/C Industry Net Income After Taxes 1991–2016:Q2



*ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 8.2% ROAS in 2014, 9.8% ROAS in 2013, 6.2% ROAS in 2012, 4.7% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009; 2015E is annualized figure based actual figure through Q3 of \$44.0

Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2016:H1

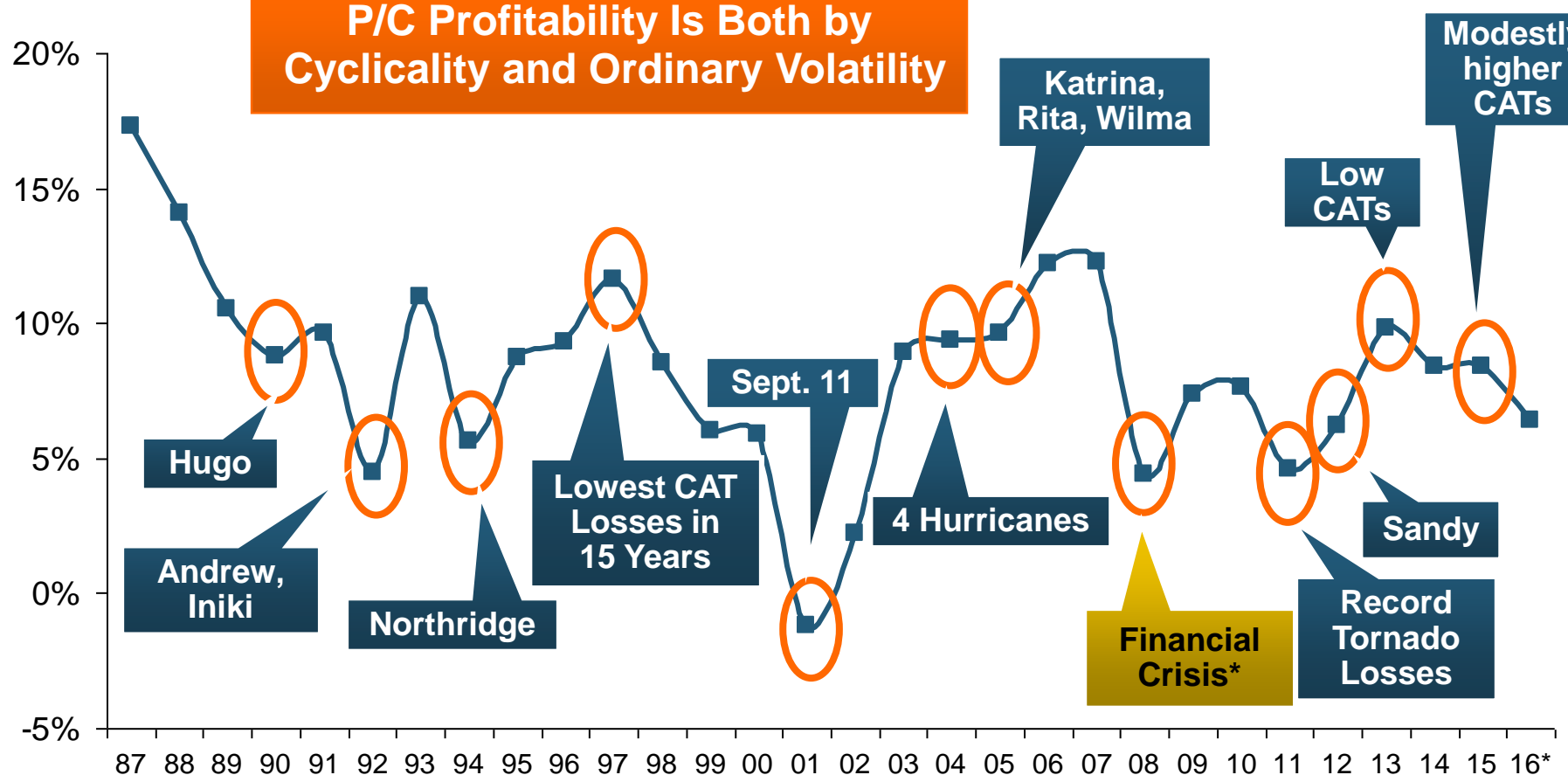


*Profitability = P/C insurer ROEs. 2011-15 figures are estimates based on ROAS data. Note: Data for 2008-2014 exclude mortgage and financial guaranty insurers.

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

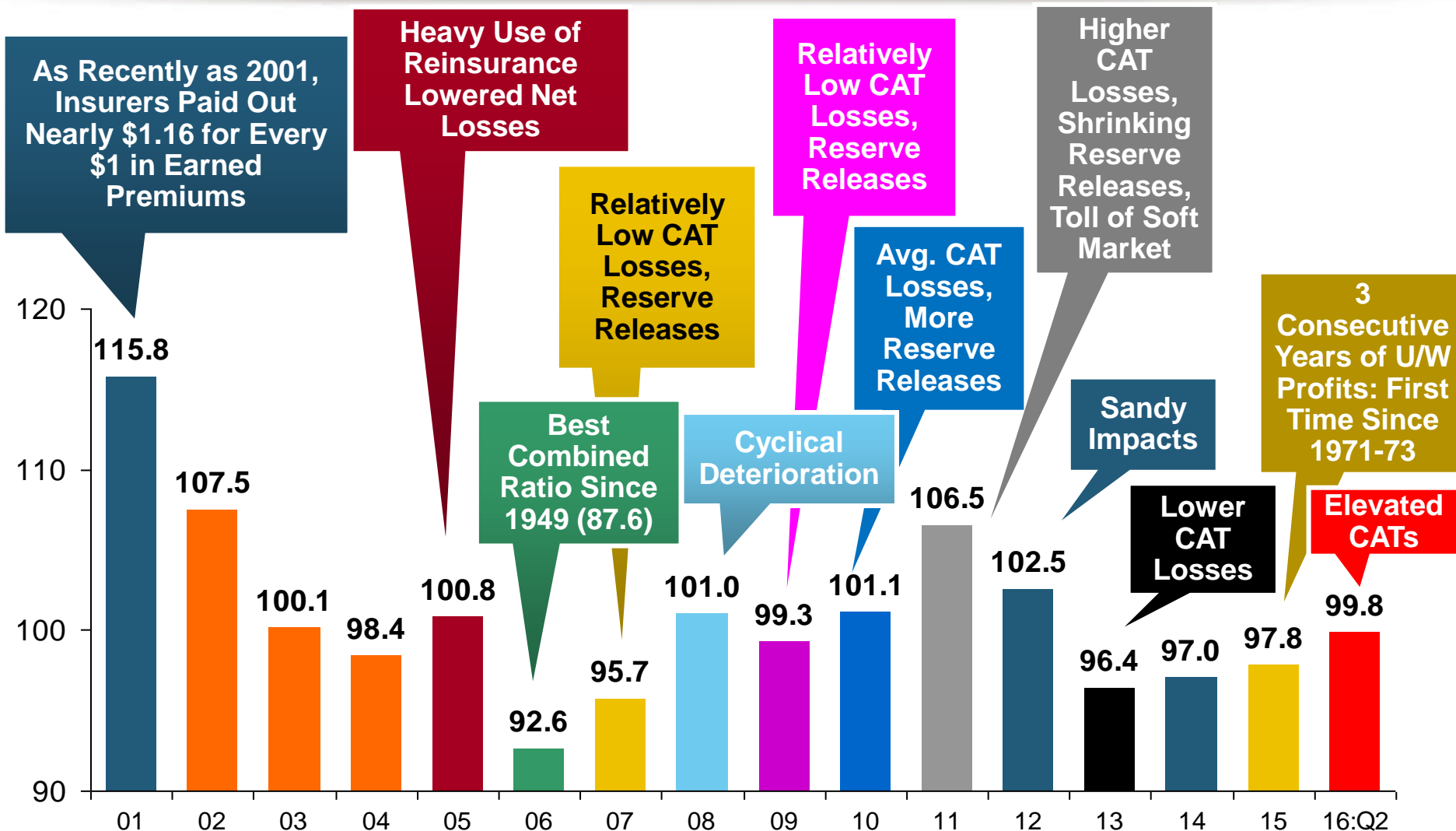
ROE: Property/Casualty Insurance by Major Event, 1987–2016:H1

(Percent)



* Through 2016:H1. Excludes Mortgage & Financial Guarantee in 2008 – 2014.
Sources: ISO, *Fortune*; Insurance Information Institute.

P/C Insurance Industry Combined Ratio, 2001–2016:Q2*

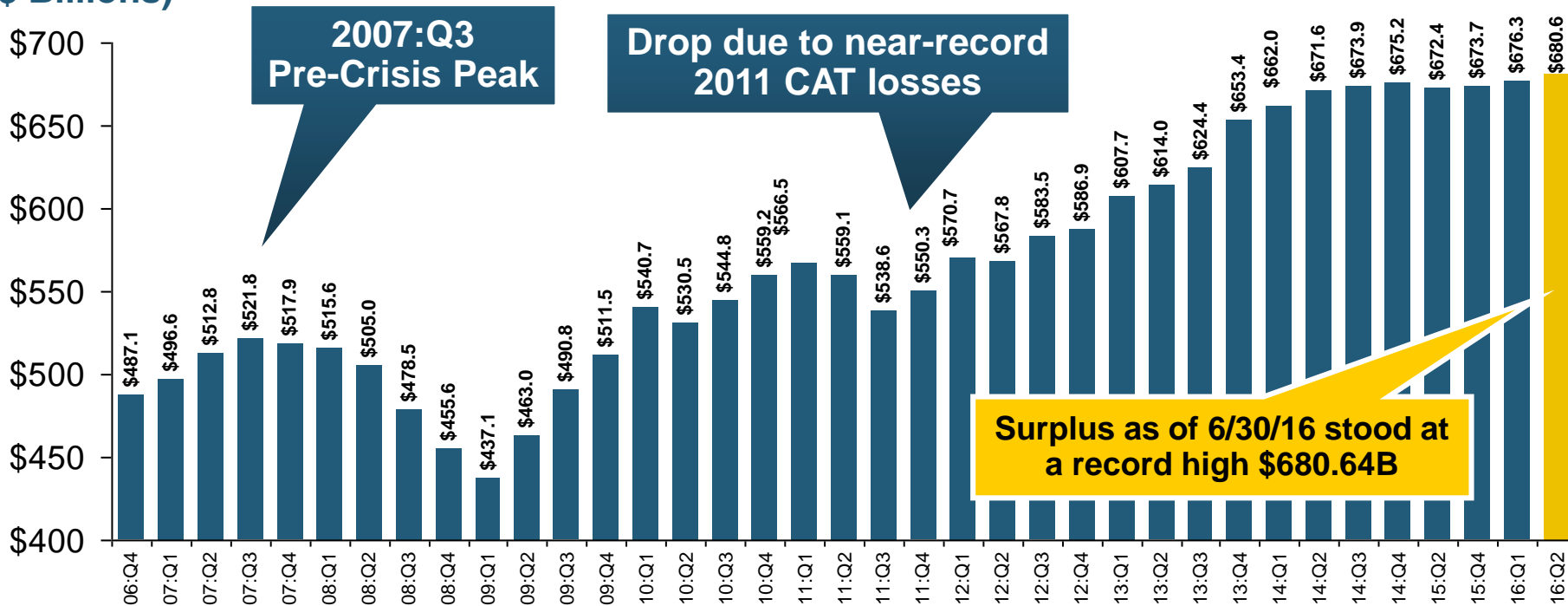


* Excludes Mortgage & Financial Guaranty insurers 2008--2014. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.1; 2012:=103.2; 2013: = 96.1; 2014: = 97.0.

Sources: A.M. Best, ISO (2014-2015); Figure for 2010-2013 is from A.M. Best P&C Review and Preview, Feb. 16, 2016.

Policyholder Surplus, 2006:Q4–2016:Q2

(\$ Billions)



2007:Q3
Pre-Crisis Peak

Drop due to near-record
2011 CAT losses

Surplus as of 6/30/16 stood at
a record high \$680.64B

The industry now has \$1 of surplus for every \$0.76 of NPW, close to the strongest claims-paying status in its history.

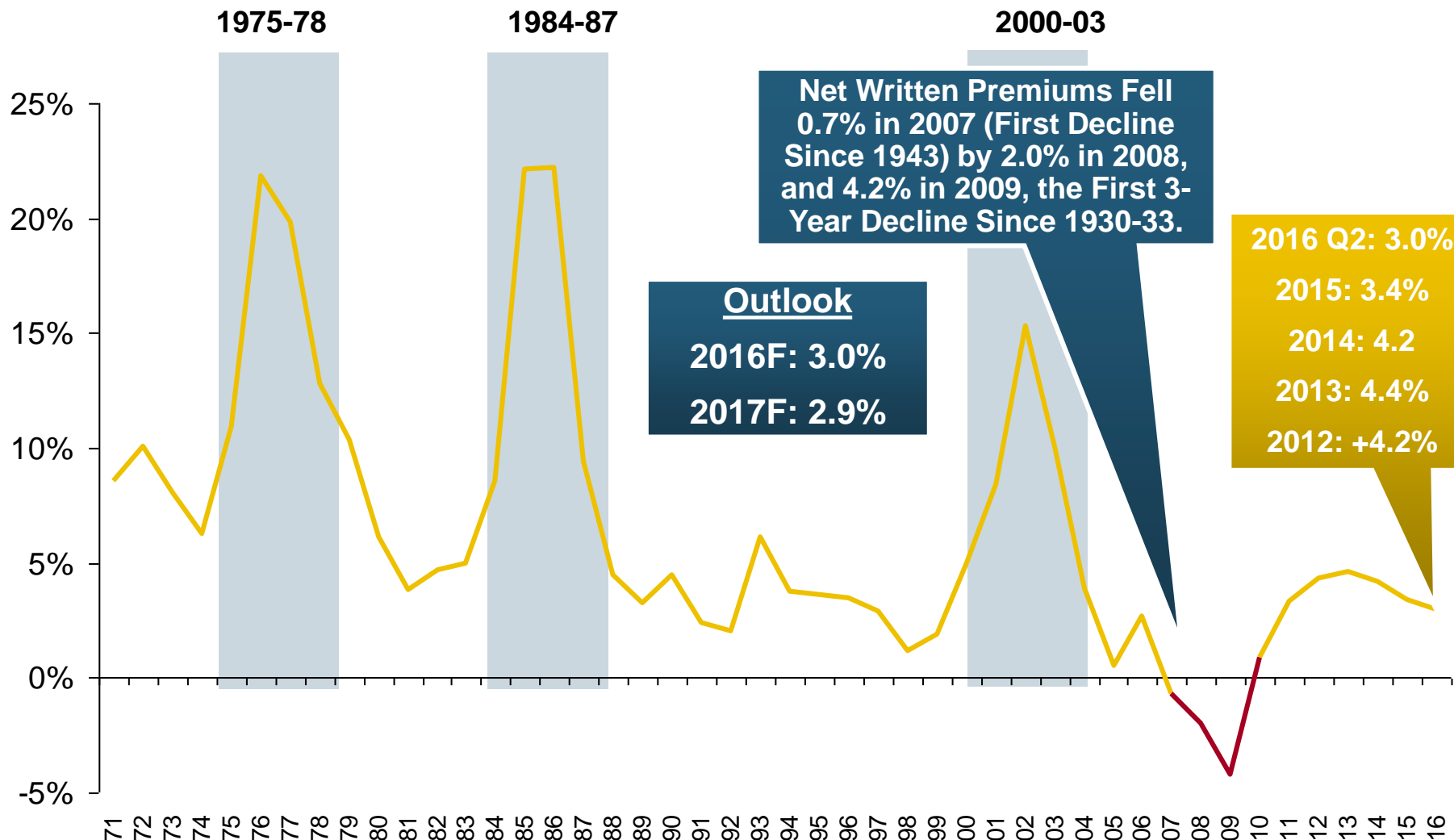
2010:Q1 data includes \$22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business .

The P/C insurance industry entered 2016 in very strong financial condition.

Sources: ISO, A.M .Best.

Net Premium Growth (All P/C Lines): Annual Change, 1971—2016:Q2

(Percent)



Shaded areas denote "hard market" periods
Sources: A.M. Best (1971-2013), ISO (2014-16).

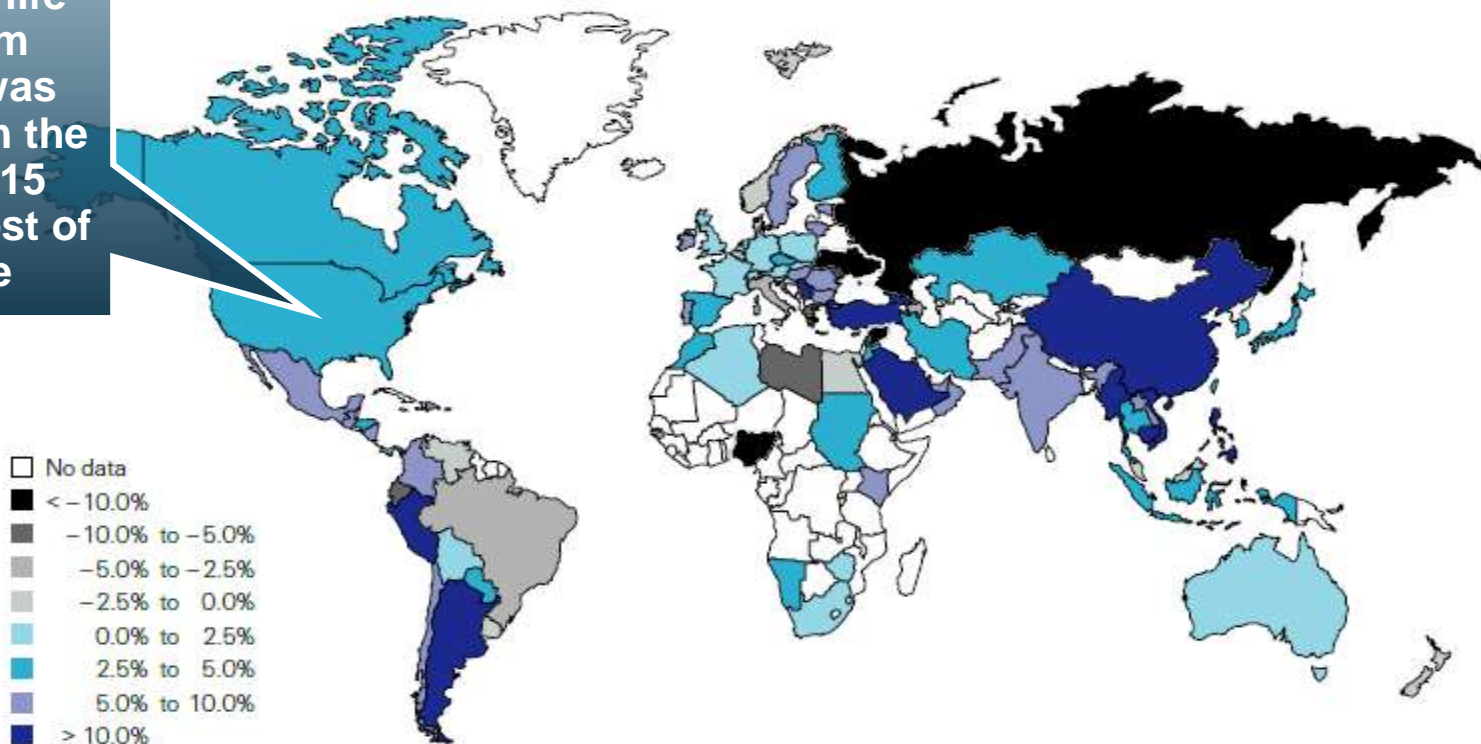
Y-o-Y Growth Rates, Direct Premiums Written, Commercial vs. Personal Lines, 2013:Q4 - 2016:Q2



Since 2013, personal lines Direct Premiums Written have generally grown faster than commercial lines DPW, and that growth has been less volatile.

Non-Life Insurance: Global Real (Inflation Adjusted) Premium Growth, 2015

Real non-life premium growth was stronger in the US in 2015 than in most of Europe



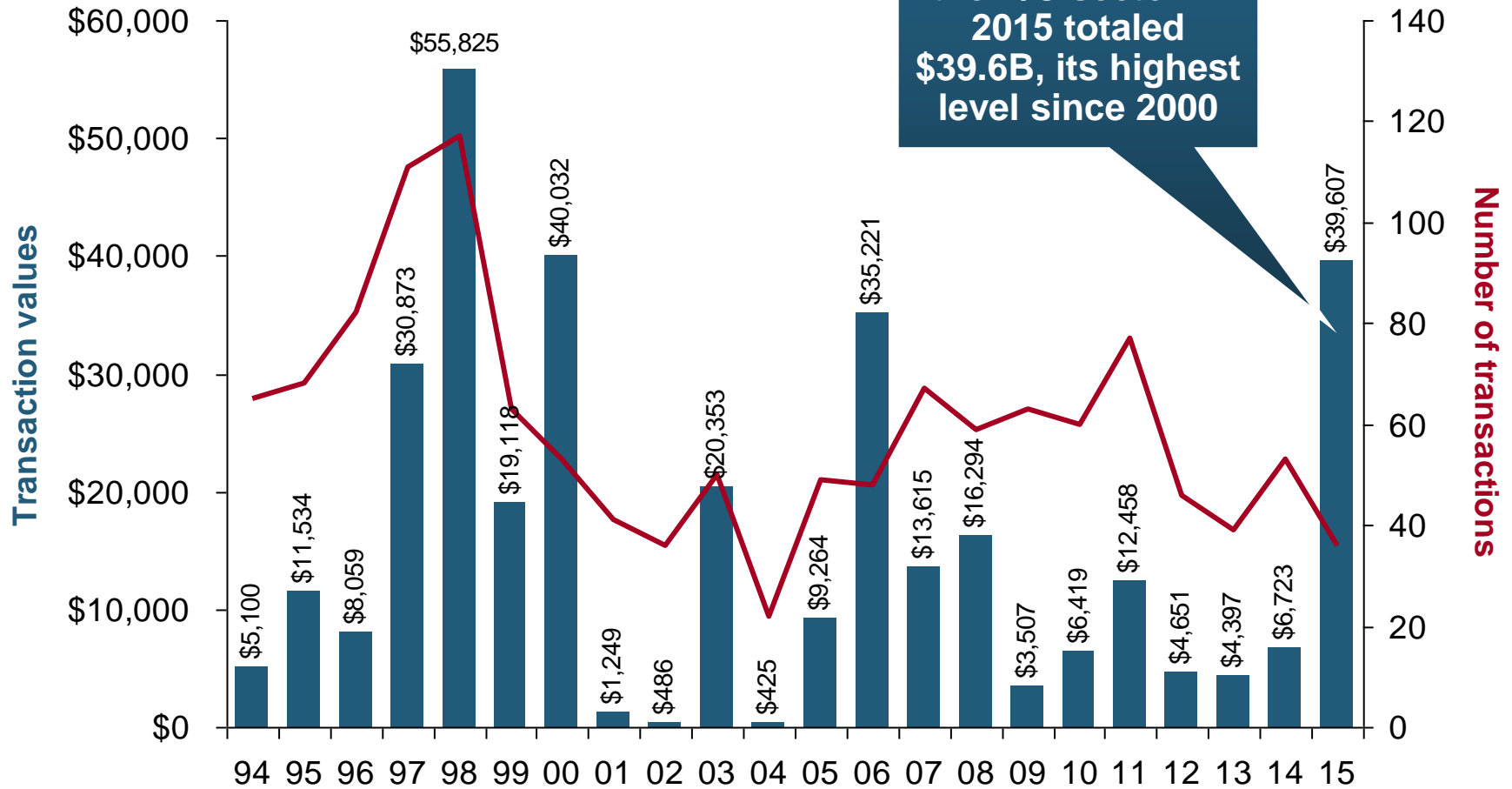
Market	Life	Non-Life	Total
Advanced	2.5	2.6	2.5
Emerging	12.0	7.8	9.8
World	4.0	3.6	3.8

GLOBAL M&A UPDATE: *A PATH TO GROWTH?*

**Are Capital Accumulation, Drive
for Growth and Scale Stimulating
M&A Activity?**

U.S. INSURANCE MERGERS AND ACQUISITIONS, P/C SECTOR, 1994-2015 (1)

(\$ Millions)



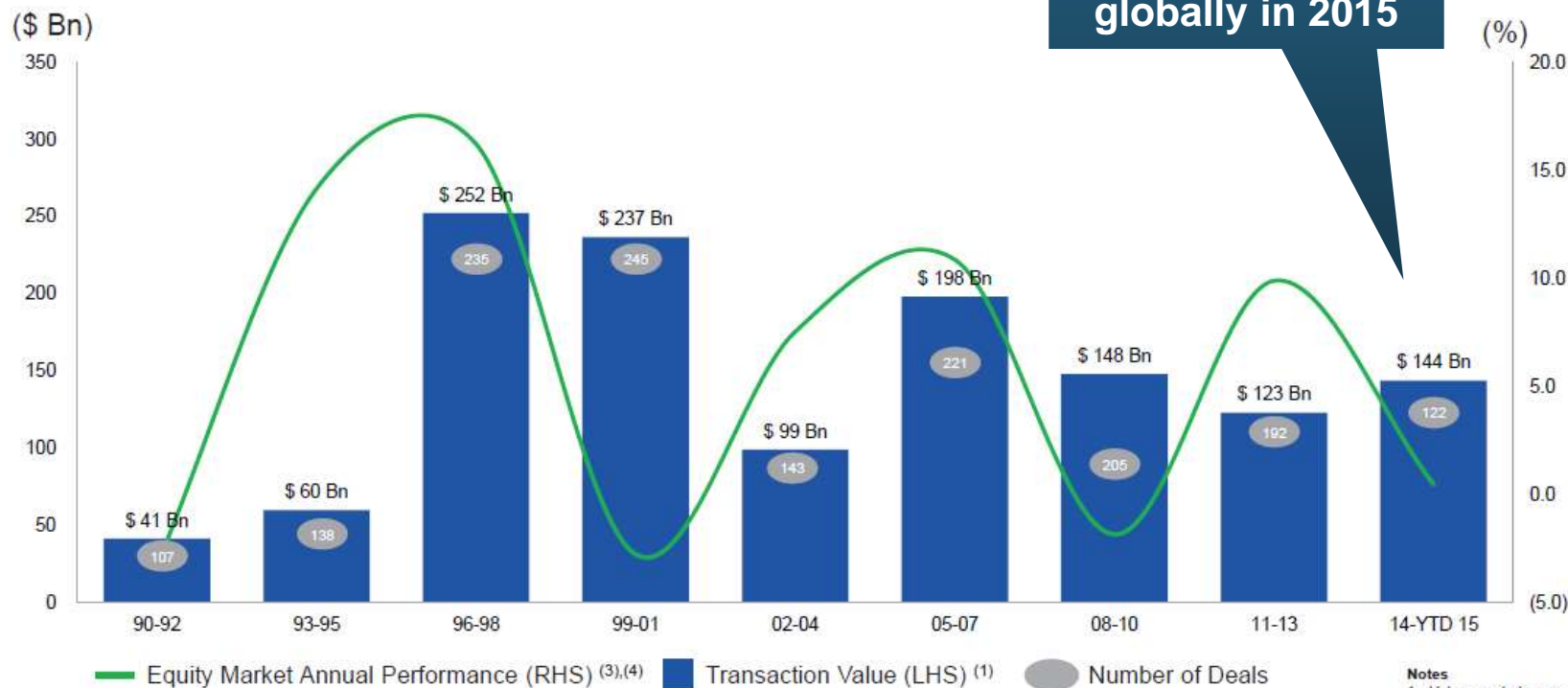
(1) Includes transactions where a U.S. company was the acquirer and/or the target.

Source: Conning proprietary database.

Global M&A Activity Tends to Follow Equity Market Performance

The number and volume of insurance M&A deals was up globally in 2015

Total Insurance M&A Volumes
Deals of value > \$100M - Since 1990



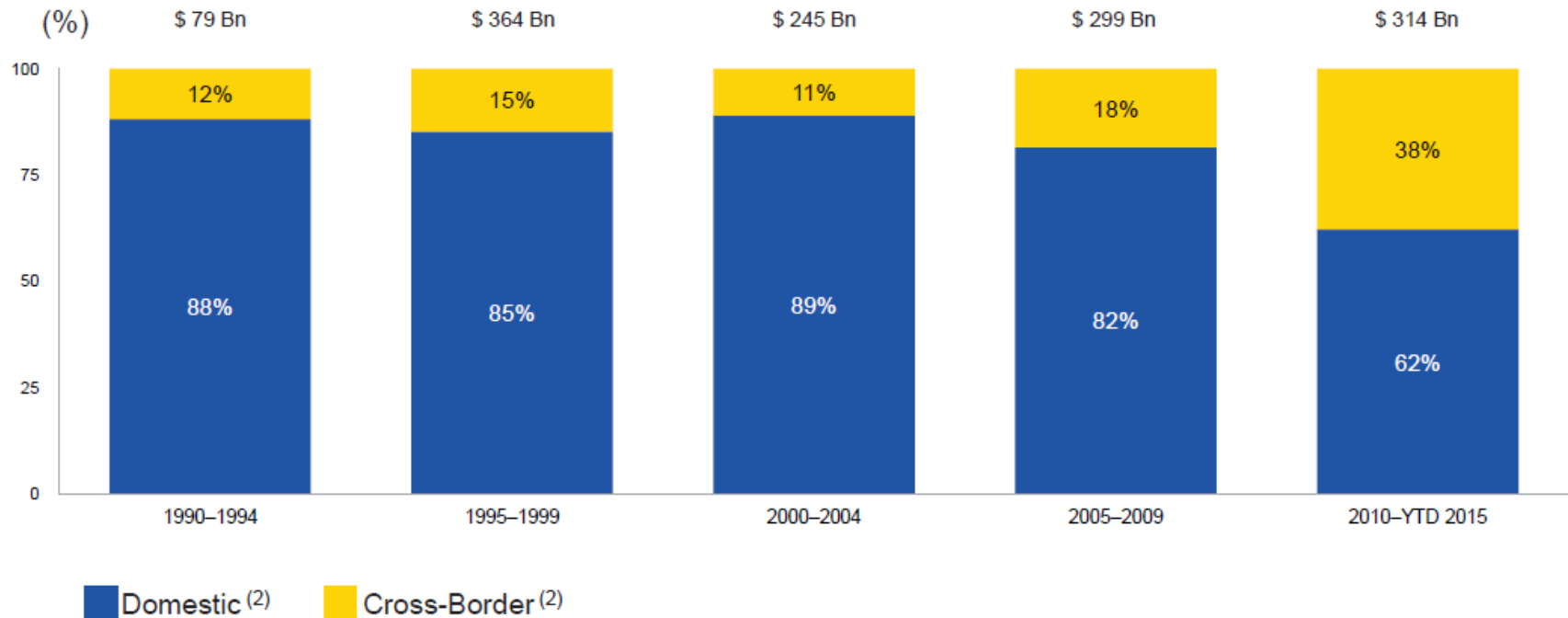
- Notes
1. Values exclude assumed liabilities
 2. IMF Aggregate for World
 3. MSCI World Index
 4. Period average figures

Source: Thomson Reuters, Capital IQ as of Oct. 2015 and IMF from Geneva Association Newsletter *Insurance and Finance*, Jan. 2016, presentation "Facts vs. Sentiment: Deals in the Insurance Sector," by Aviva CEO Mark Wilson.

Huge Shift from Domestic M&A Activity to Cross-Border

The share of M&A deal volume that was cross-border more than doubled in 2015

Insurance M&A Volumes
Deals of value > \$100M (Since 1990)

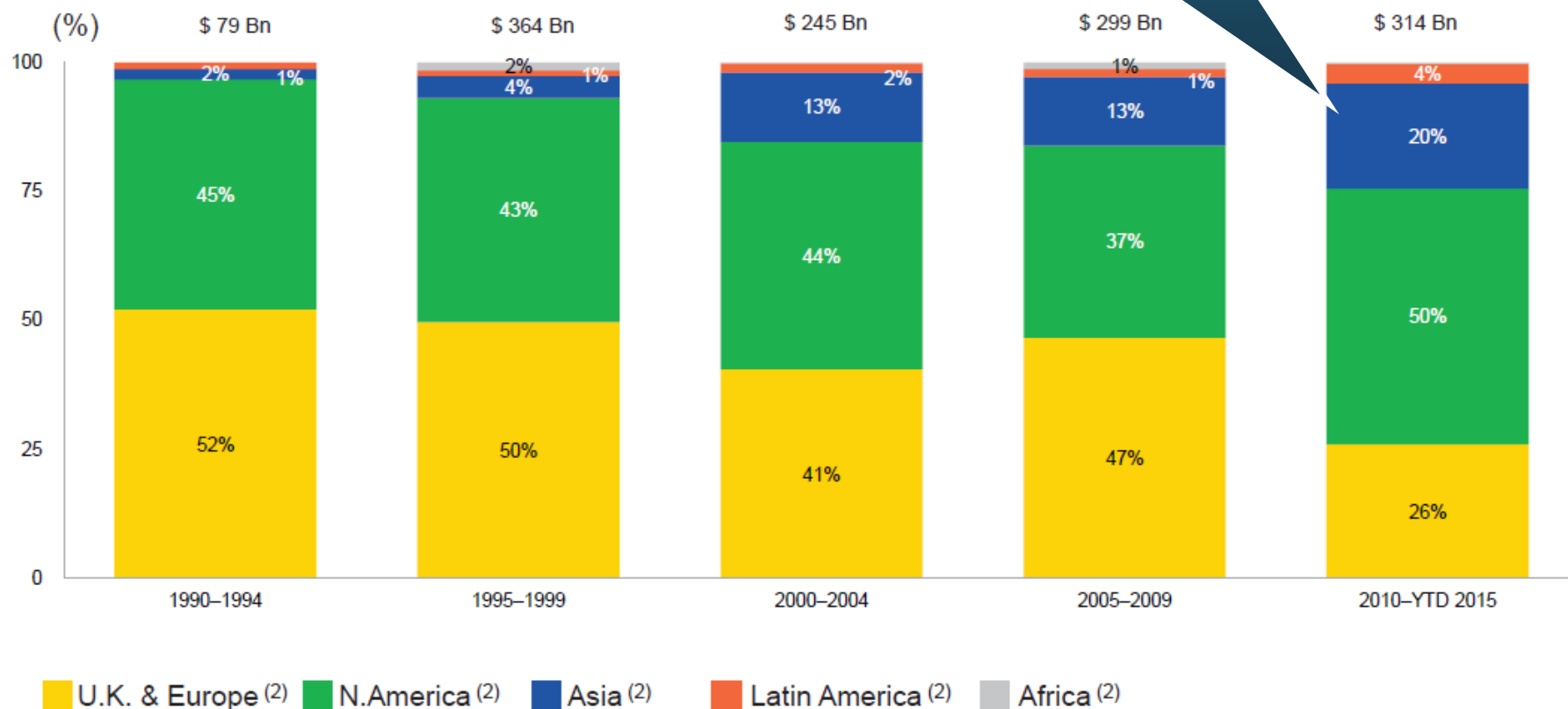


Notes

1. Split based on target's region
2. Values exclude assumed liabilities

M&A Activity Has Shifted Away from Europe and Towards Asia and N. America

Asian, N. American deal volumes were up sharply in 2015

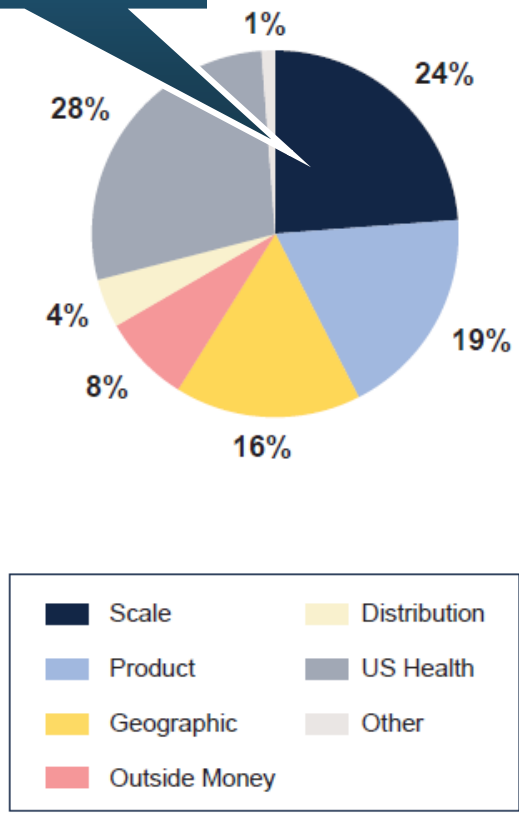
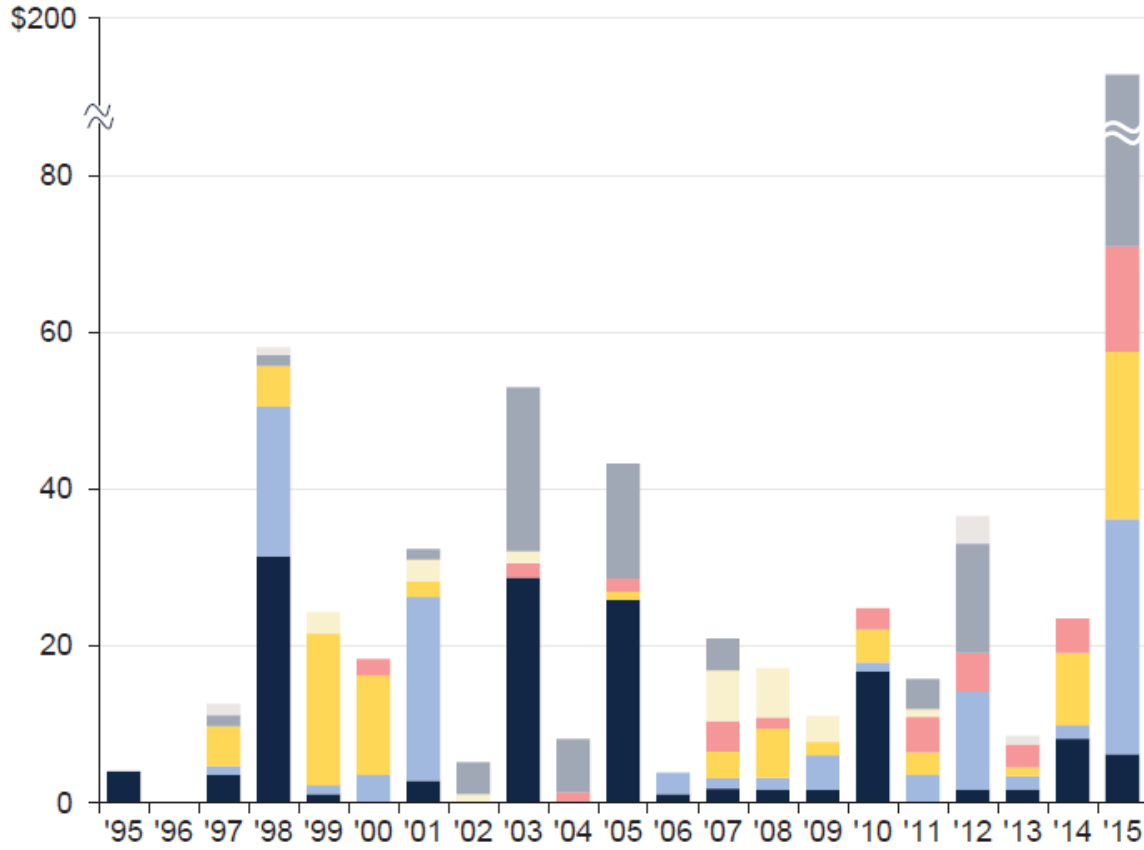


Notes
 1. Split based on target's region
 2. Values exclude assumed liabilities

Source: Thomson Reuters as of Oct. 2015 from Geneva Association Newsletter *Insurance and Finance*, Jan. 2016, presentation "Facts vs. Sentiment: Deals in the Insurance Sector," by Aviva CEO Mark Wilson.

M&A: Deal Rationale by Dollar Amount

Scale drives most deals (excluding health sector)



Source: SNL Financial and WCMA estimates from Geneva Association Newsletter *Insurance and Finance*, Jan. 2016, presentation "What is the Logic Behind Consolidation? And Does It Create Value? A View from Outside," by Brian Shea, Head of Willis Capital Markets & Advisory Europe (WCMA).

**INVESTMENTS:
THE NEW REALITY**

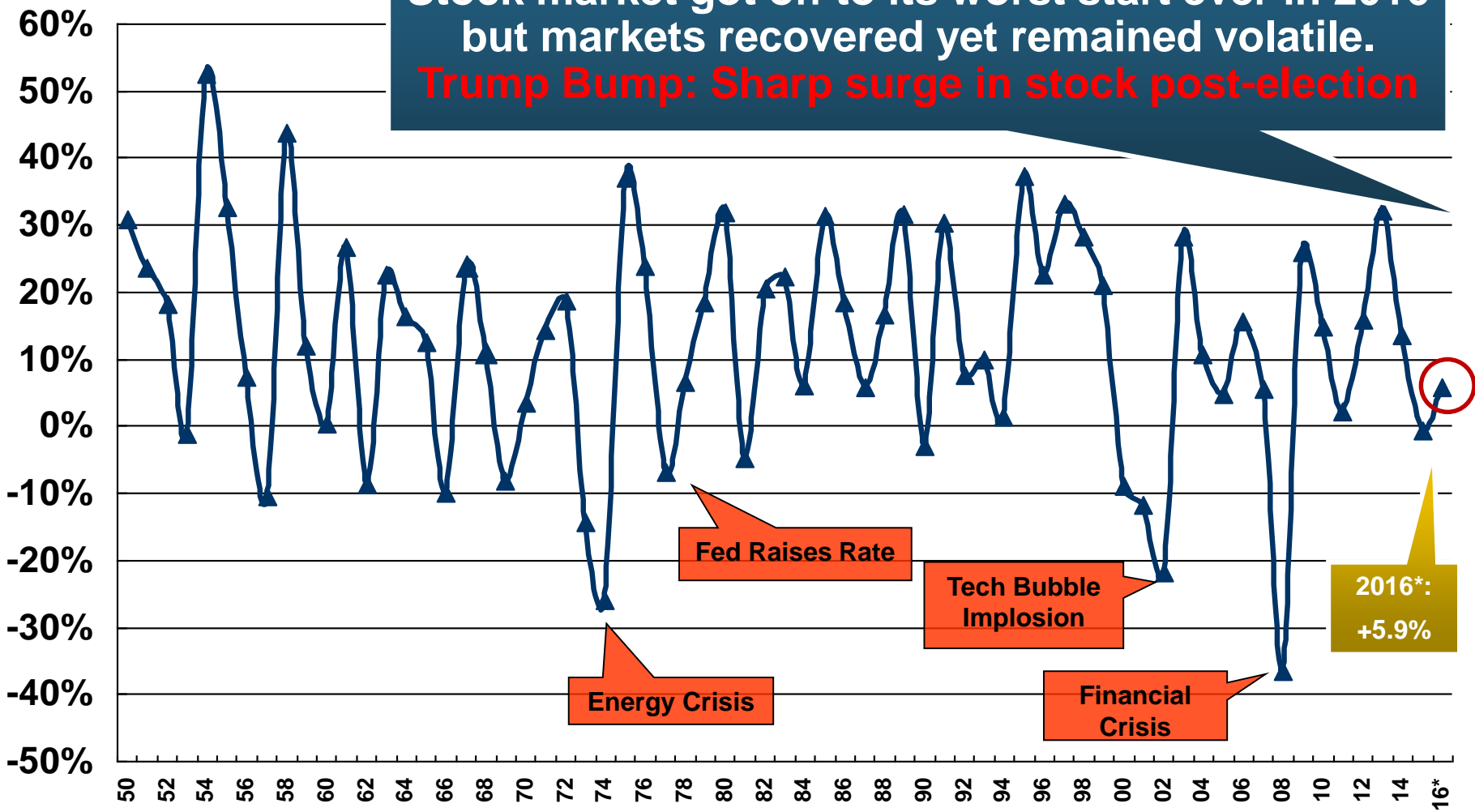
**Investment Performance is a Key
Driver of Profitability**

***Depressed Yields Will Necessarily
Influence Underwriting & Pricing***

S&P 500 Index Returns, 1950 – 2016*

Annual Return

Stock market got off to its worst start ever in 2016 but markets recovered yet remained volatile.
Trump Bump: Sharp surge in stock post-election

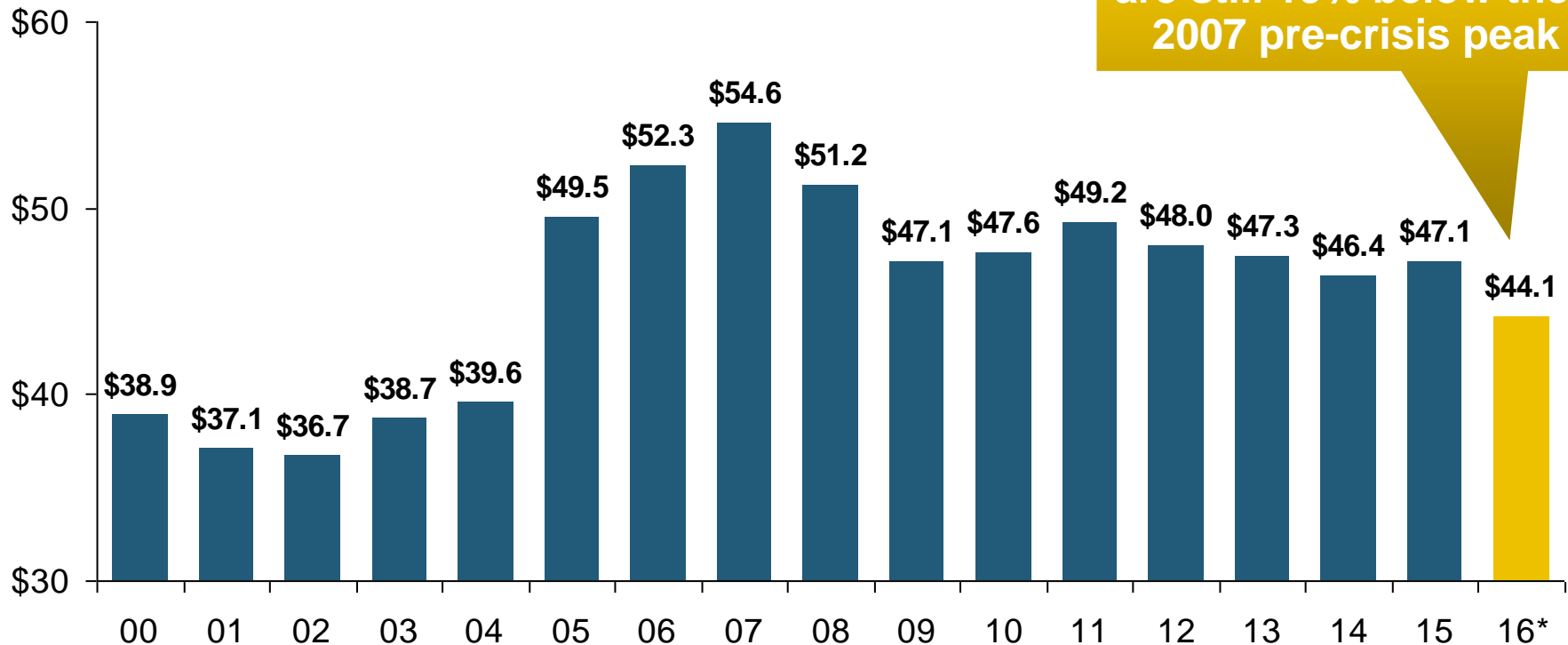


*Through Nov. 12 2016.

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

Property/Casualty Insurance Industry Investment Income: 2000–2016:Q2¹

(\$ Billions)



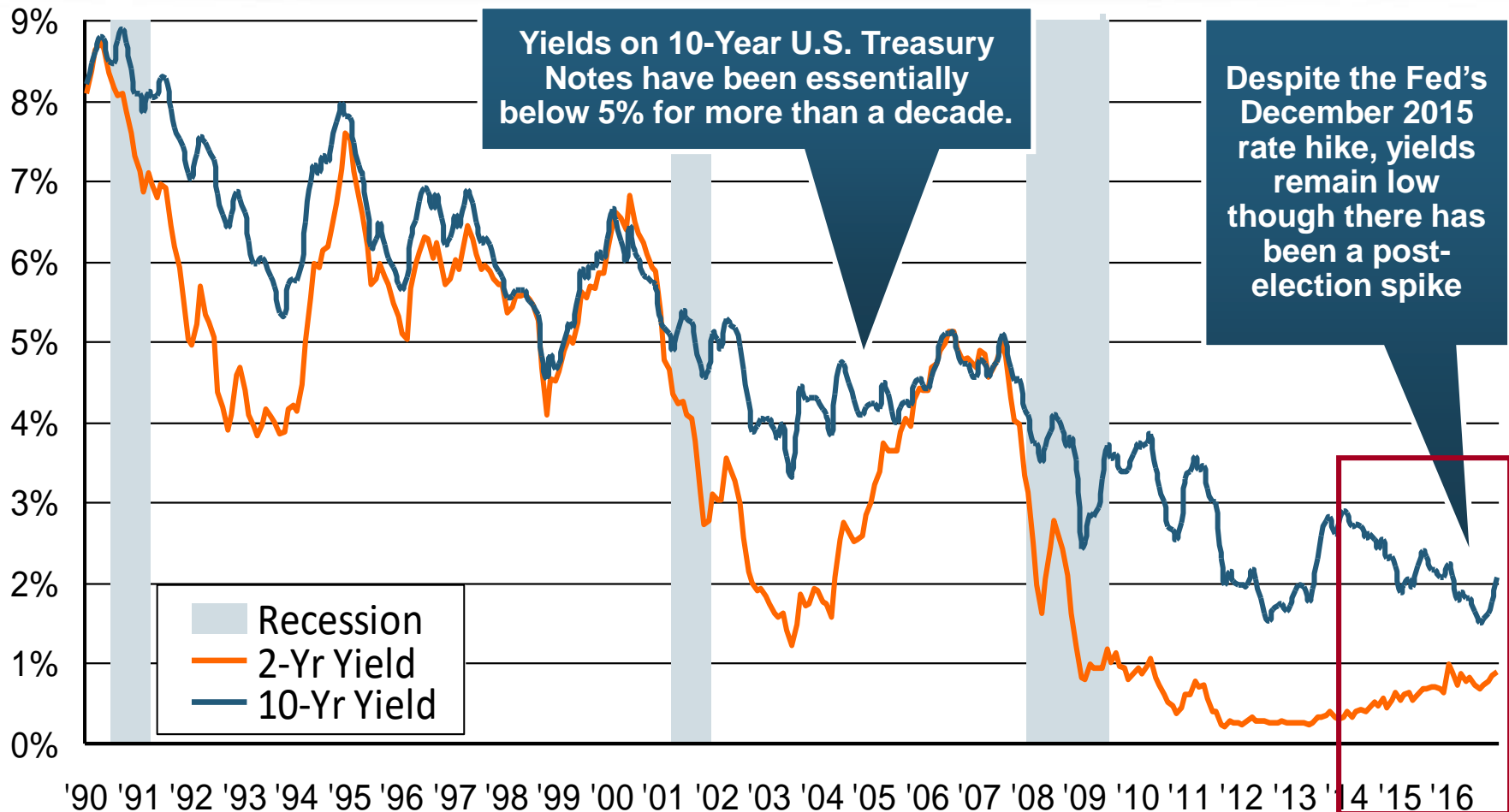
Investment earnings are still 19% below their 2007 pre-crisis peak

Due to persistently low interest rates, investment income fell in 2012, 2013 and 2014 but showed a small (1.9%) increase in 2015—another drop in 2016 seems likely.

*Annualized figure based on actual Q2:2016 net investment income earned of \$22.067B.

¹ Investment gains consist primarily of interest and stock dividends. Sources: ISO; Insurance Information Institute.

U.S. Treasury Security Yields: A Long Downward Trend, 1990–2016*

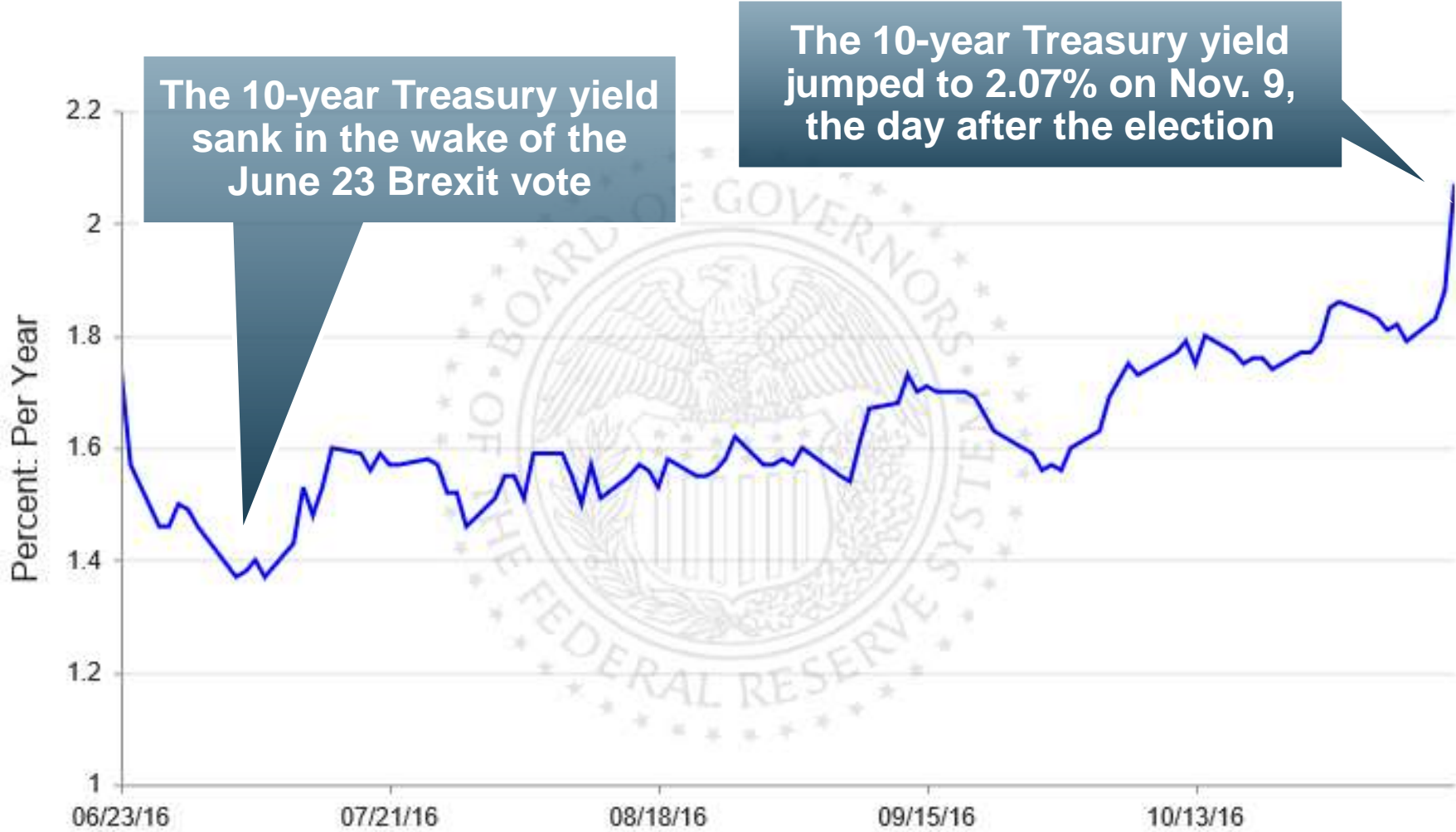


Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, constant maturity, nominal rates, through Oct. 2016; Nov. figure is as of Nov. 9.

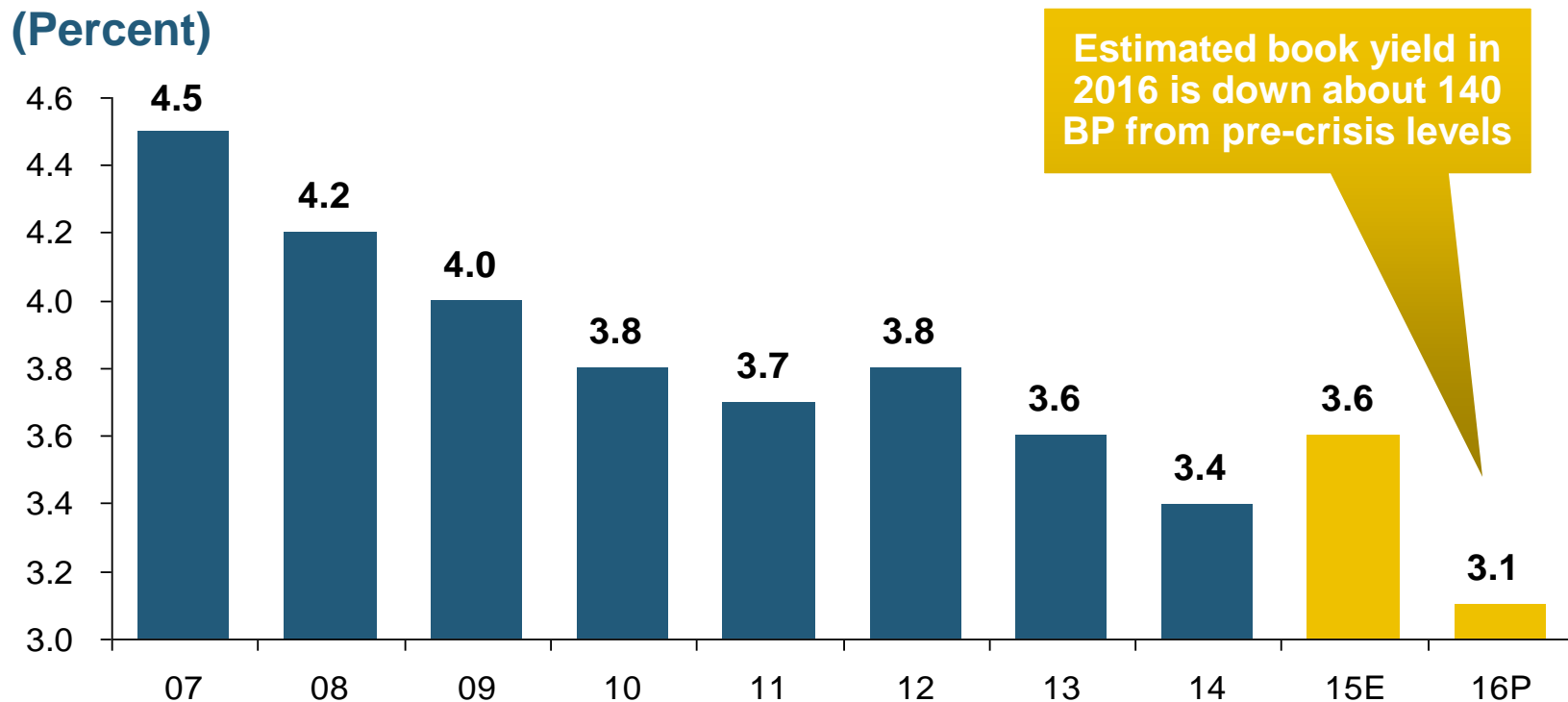
Sources: Federal Reserve Bank at <http://www.federalreserve.gov/releases/h15/data.htm>. National Bureau of Economic Research (recession dates); Insurance Information Institute.

Interest Rates Surged on News of the Trump Election Victory: 10-Year Treasury



Sources: Federal Reserve Bank at <http://www.federalreserve.gov/releases/h15/data.htm>; Insurance Information Institute.

Net Investment Yield on Property/ Casualty Insurance Invested Assets, 2007–2016P*



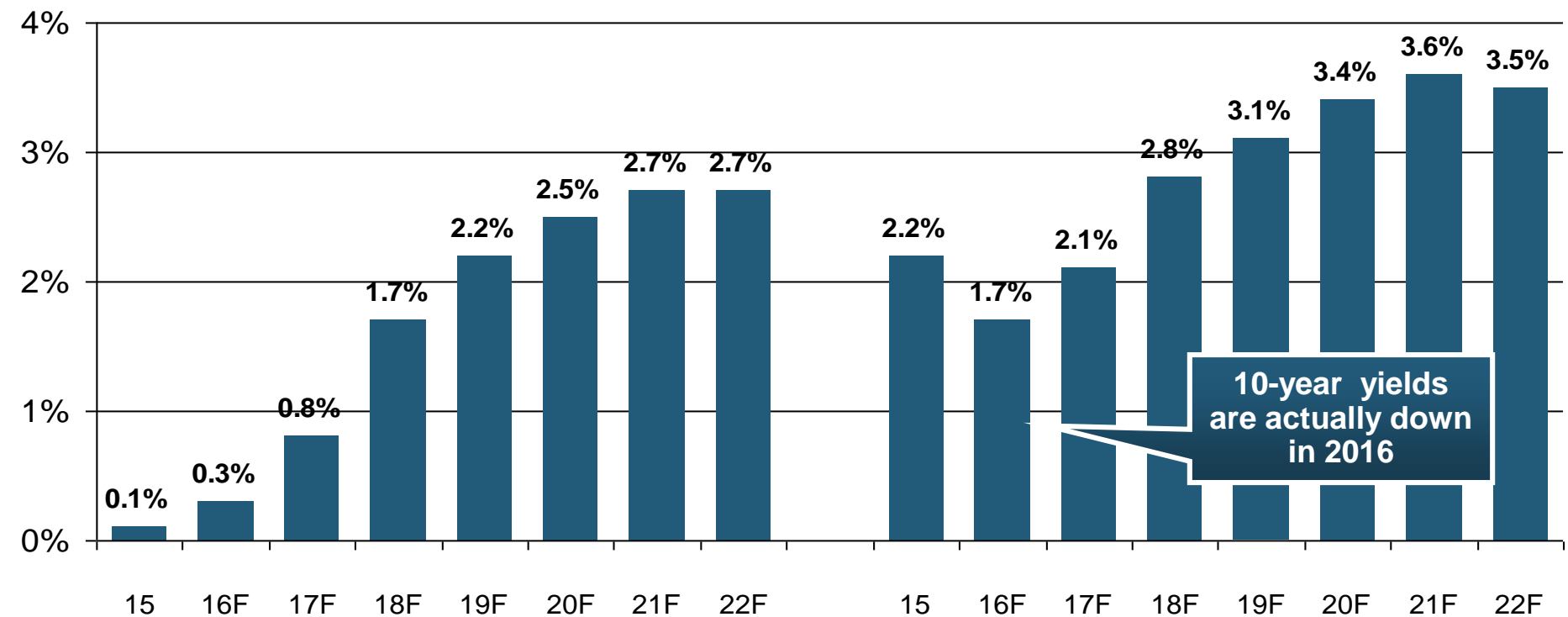
The yield on invested assets remains low relative to pre-crisis yields. The Fed's plan to raise interest rates in late 2015 has pushed up some yields, albeit quite modestly.

Interest Rate Forecasts: 2016 – 2021F

Yield (%)

3-Month Treasury

10-Year Treasury



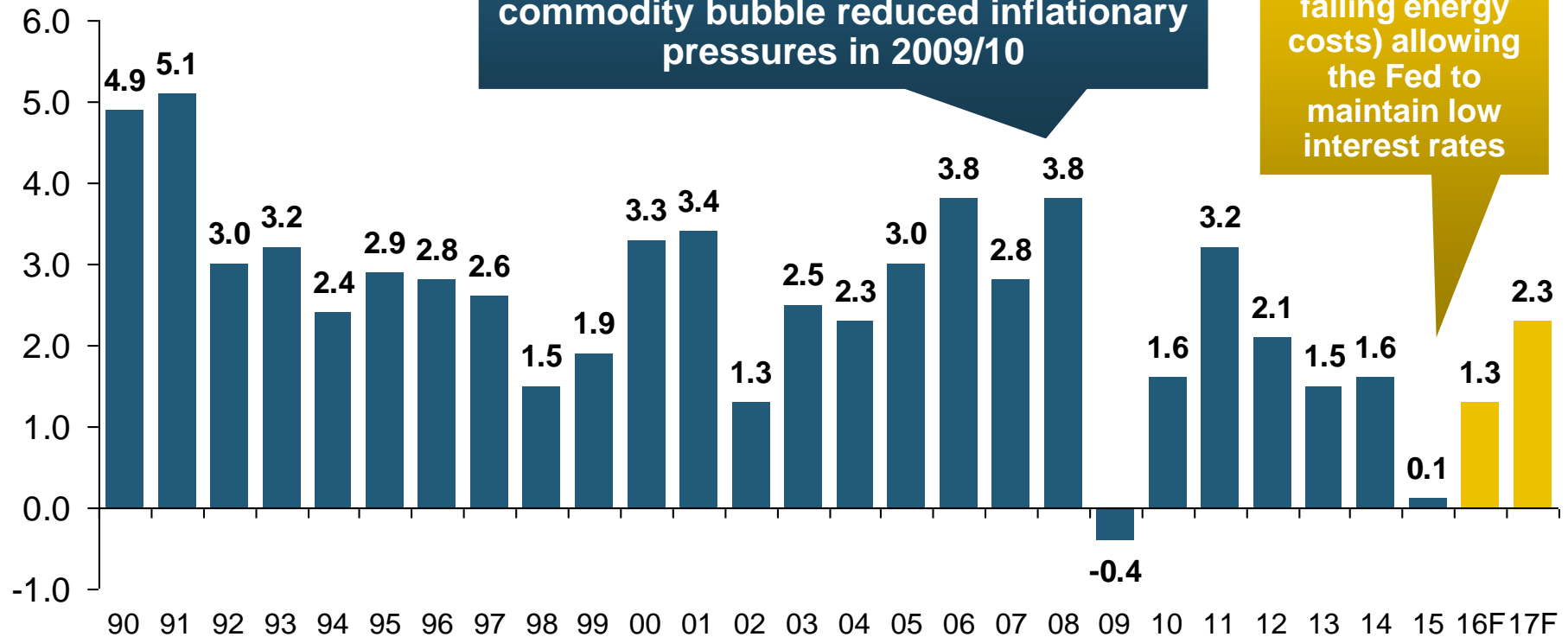
10-year yields are actually down in 2016

A full normalization of interest rates is unlikely until 2019, more than a decade after the onset of the financial crisis.

Sources: Blue Chip Economic Indicators (10/16 for 2016 and 2017; for 2018-2021 10/16 issue); Insurance Info. Institute.

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

Annual Inflation Rates (%)

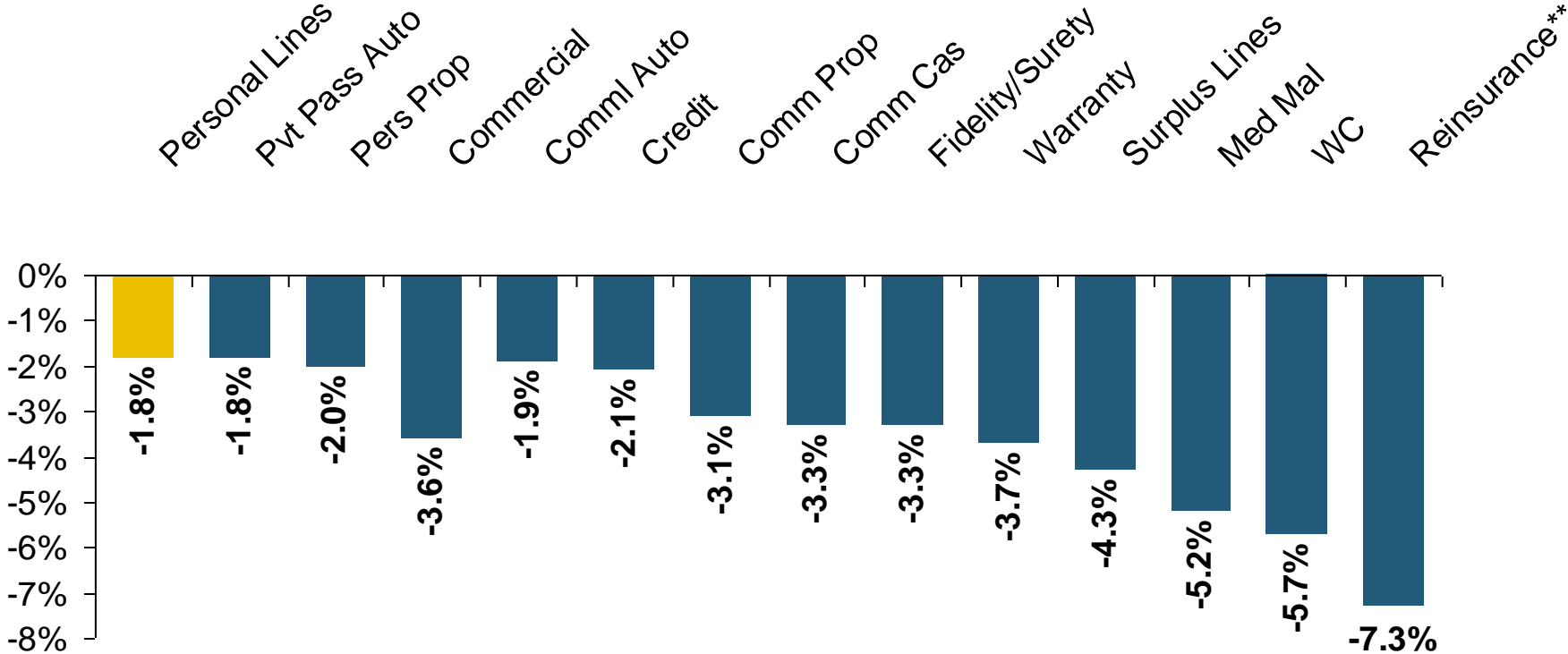


Inflation peaked at 5.6% in August 2008 on high energy and commodity crisis. The recession and the collapse of the commodity bubble reduced inflationary pressures in 2009/10

Inflationary expectations have slipped (due in part to falling energy costs) allowing the Fed to maintain low interest rates

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

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.

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

Annual Inflation Rates (%)



Inflation peaked at 5.6% in August 2008 on high energy and commodity crisis. The recession and the collapse of the commodity bubble reduced inflationary pressures in 2009/10

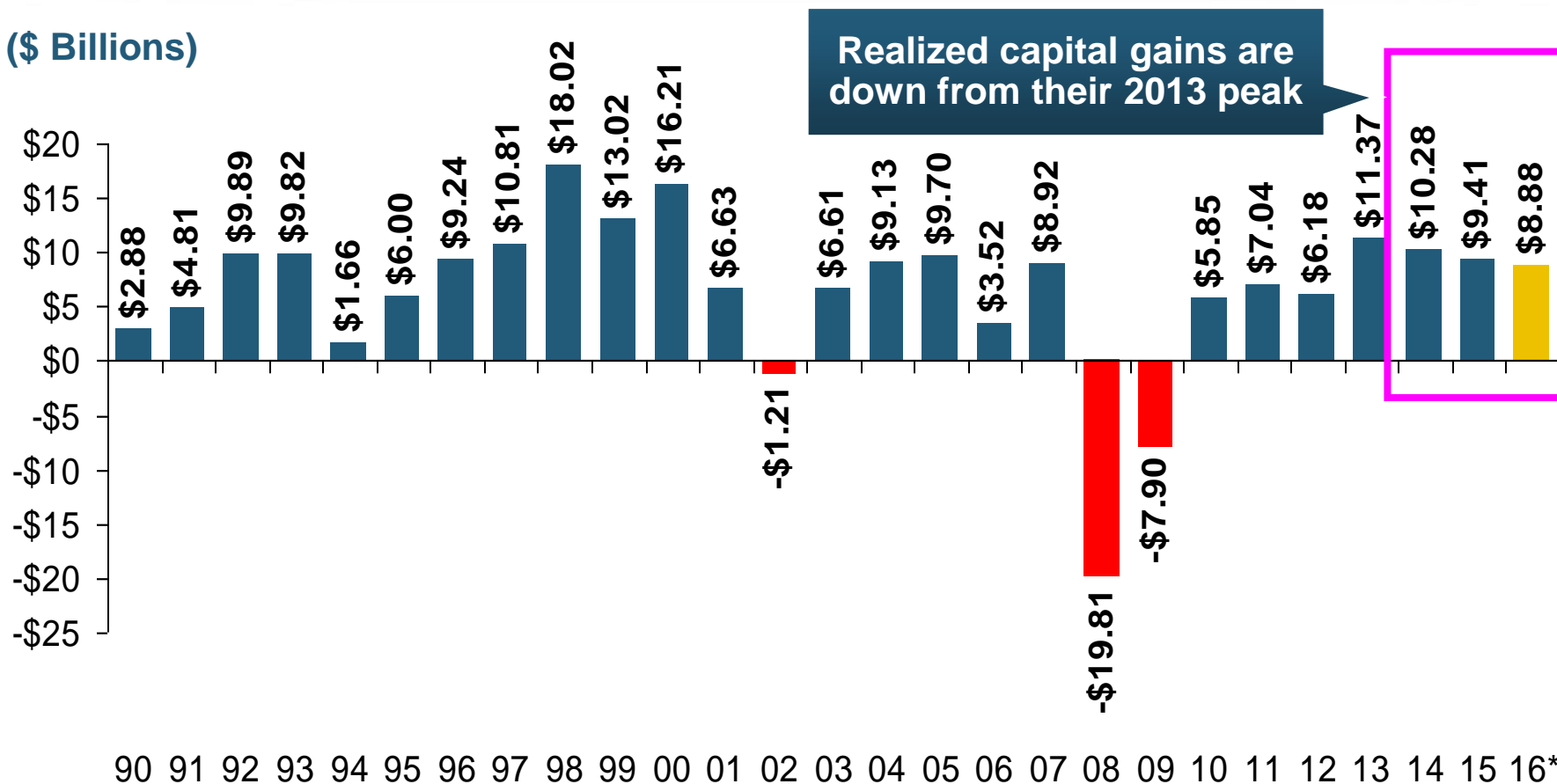
Inflationary expectations have slipped (due in part to falling energy costs) allowing the Fed to maintain low interest rates

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, 10/16 (forecasts).

P/C Insurer Net Realized Capital Gains/Losses, 1990-2016:Q2

(\$ Billions)

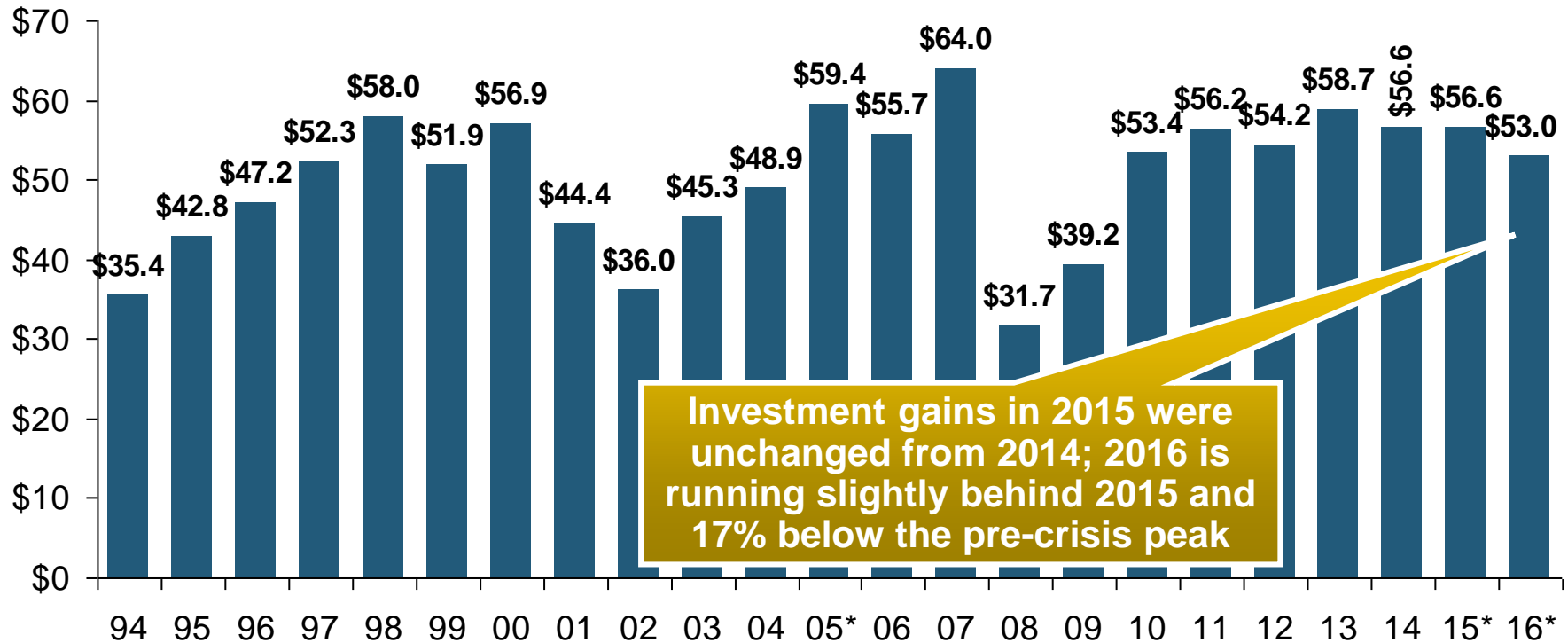


Insurers Posted Net Realized Capital Gains in 2010 - 2015 Following Two Years of Realized Losses During the Financial Crisis. Realized Capital Losses Were a Primary Cause of 2008/2009's Large Drop in Profits and ROE.

*Annualized based on actual of \$4.438B through Q2 2016
Sources: A.M. Best, ISO; Insurance Information Institute.

Property/Casualty Insurance Industry Investment Gain: 1994–2016:Q2¹

(\$ Billions)



Investment gains in 2015 were unchanged from 2014; 2016 is running slightly behind 2015 and 17% below the pre-crisis peak

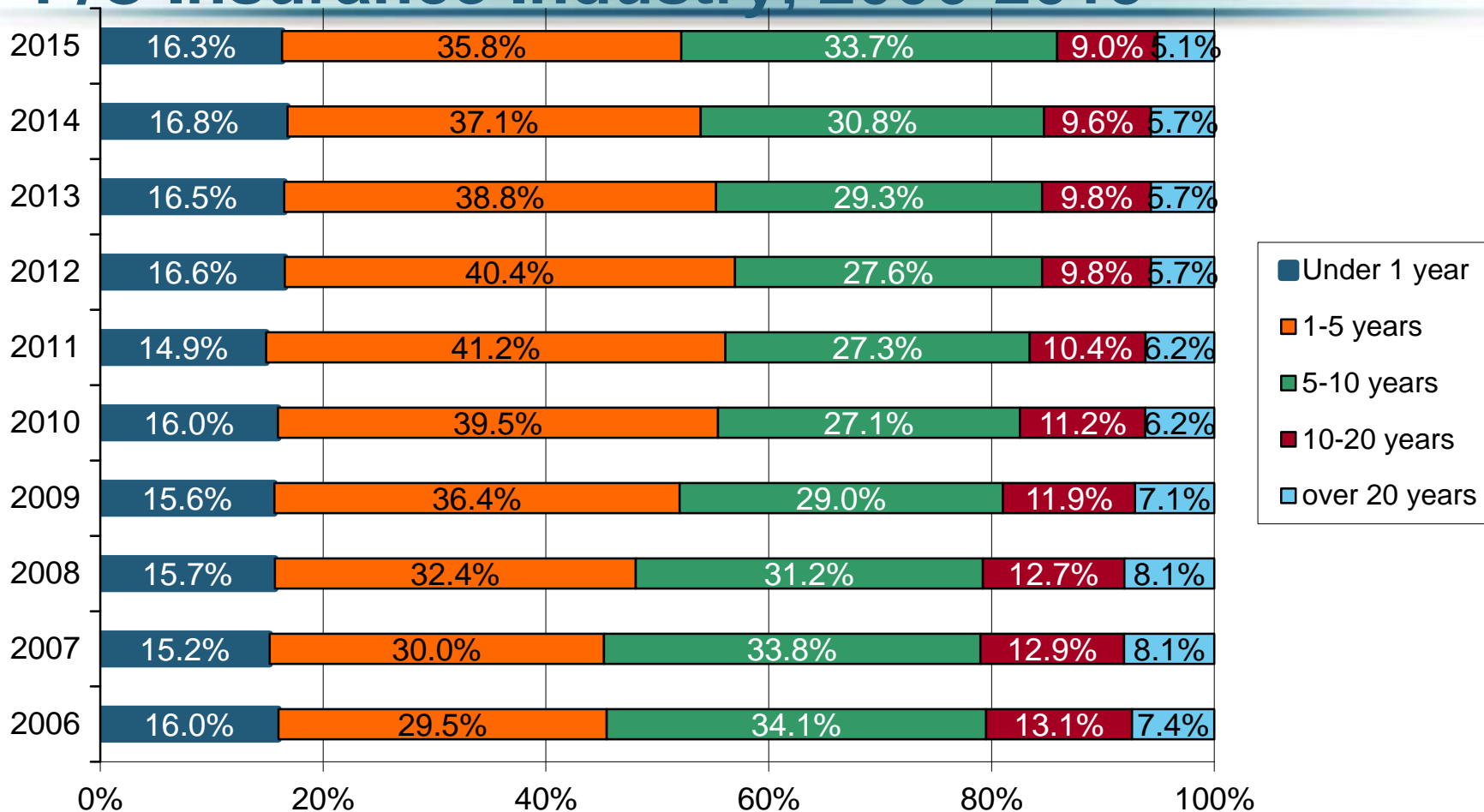
Total Investment Gains Were Flat in 2015 as Investment Income Rose Marginally and Realized Capital Gains Fell Slightly

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; 2016 figure is annualized based on actual Q2 2016 figure of \$26.505B.

Sources: ISO, SNL; Insurance Information Institute.

Distribution of Bond Maturities, P/C Insurance Industry, 2006-2015



Two main shifts over these years. From 2008 to 2011-12, from bonds with longer maturities to bonds with shorter maturities. But beginning in 2013, the reverse. Note, however, that the percentages in bonds with maturities over 10 years continues to drop.



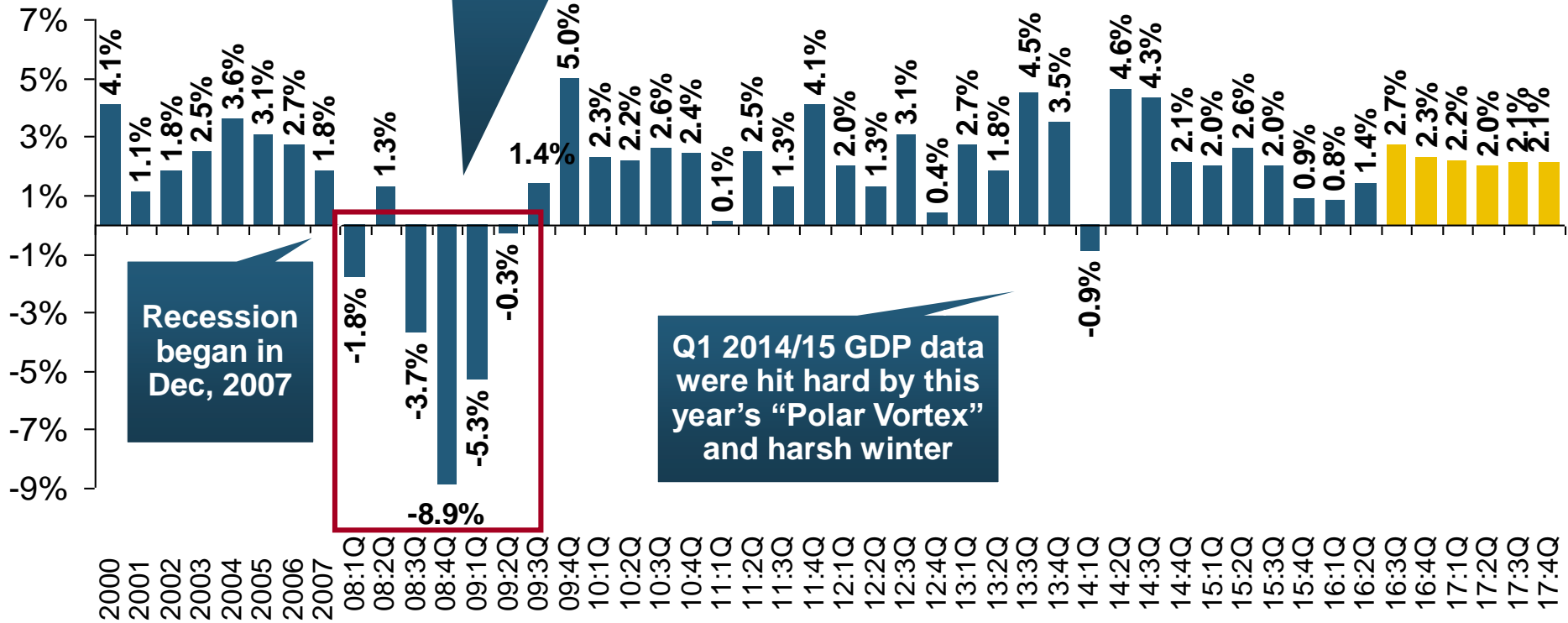
THE ECONOMY

**The Strength of the Economy Will Greatly
Influence Insurer Exposure Base
Across Most Lines**

US Real GDP Growth*

Real GDP Growth (%)

The Q4:2008 decline was the steepest since the Q1:1982 drop of 6.8%



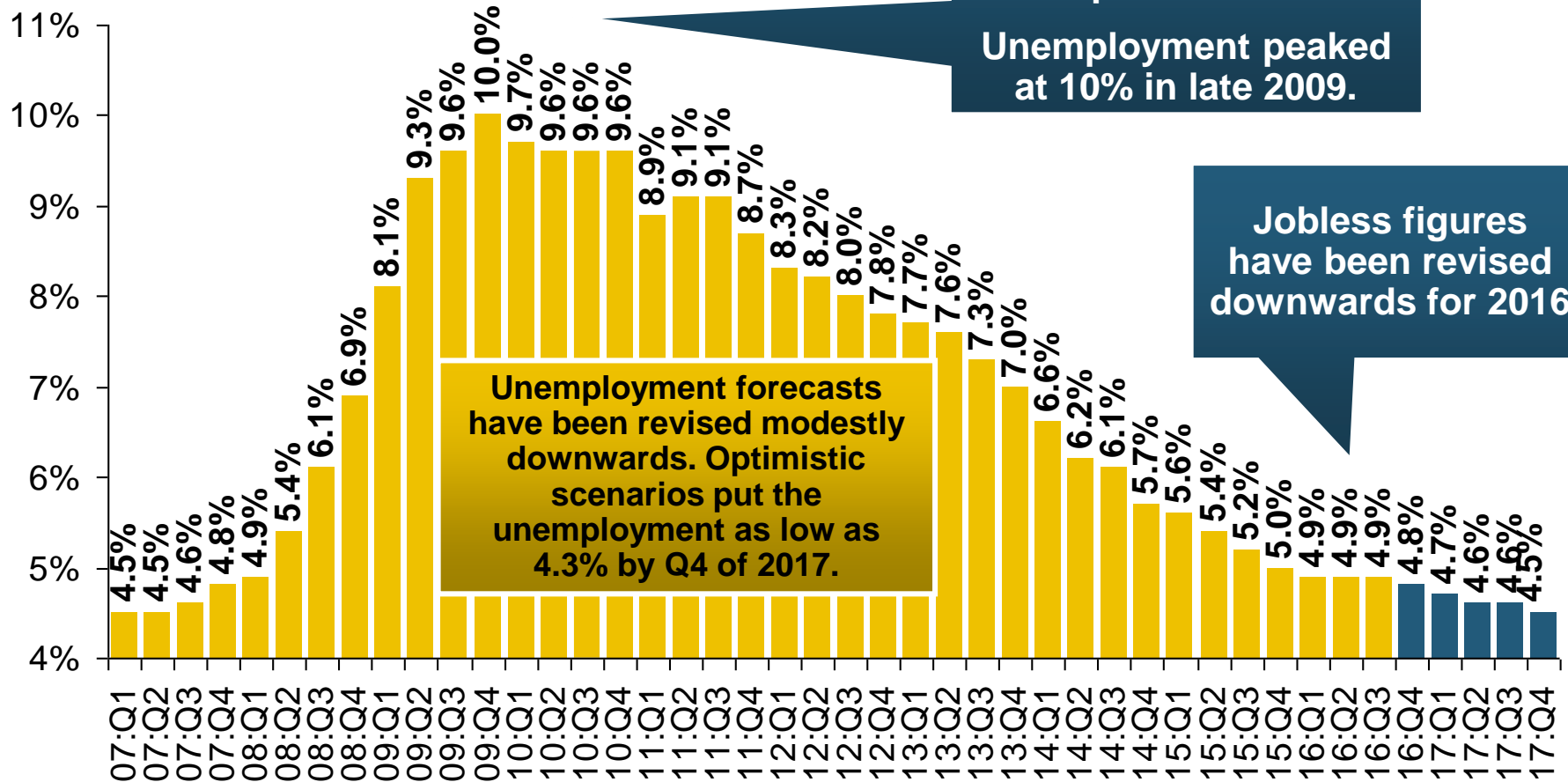
Demand for Insurance Should Increase in 2016 as GDP Growth Continues at a Steady, Albeit Moderate Pace and Gradually Benefits the Economy Broadly

* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 10/16; Insurance Information Institute.

US Unemployment Rate Forecast

2007:Q1 to 2017:Q4F*

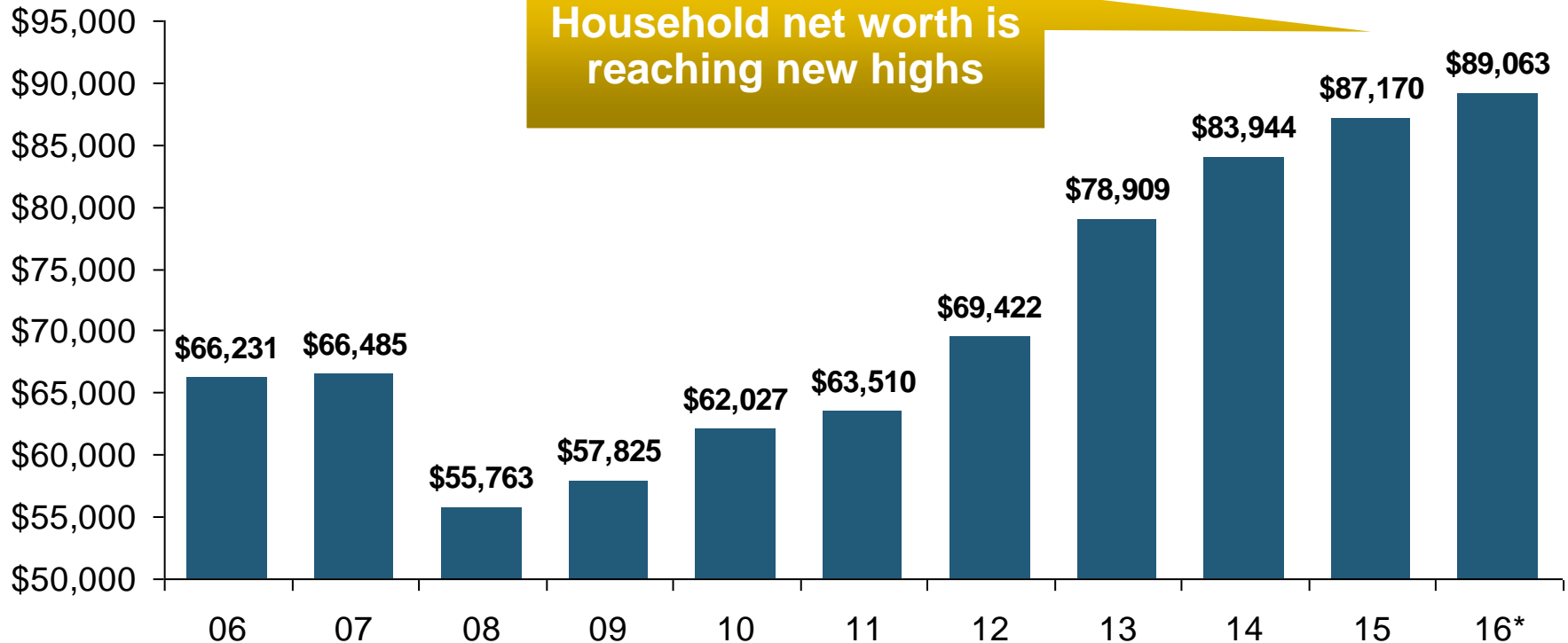


*  = actual;  = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (10/16 edition); Insurance Information Institute.

Household Net Worth: 2005–2016:Q2¹

(\$ Billions)

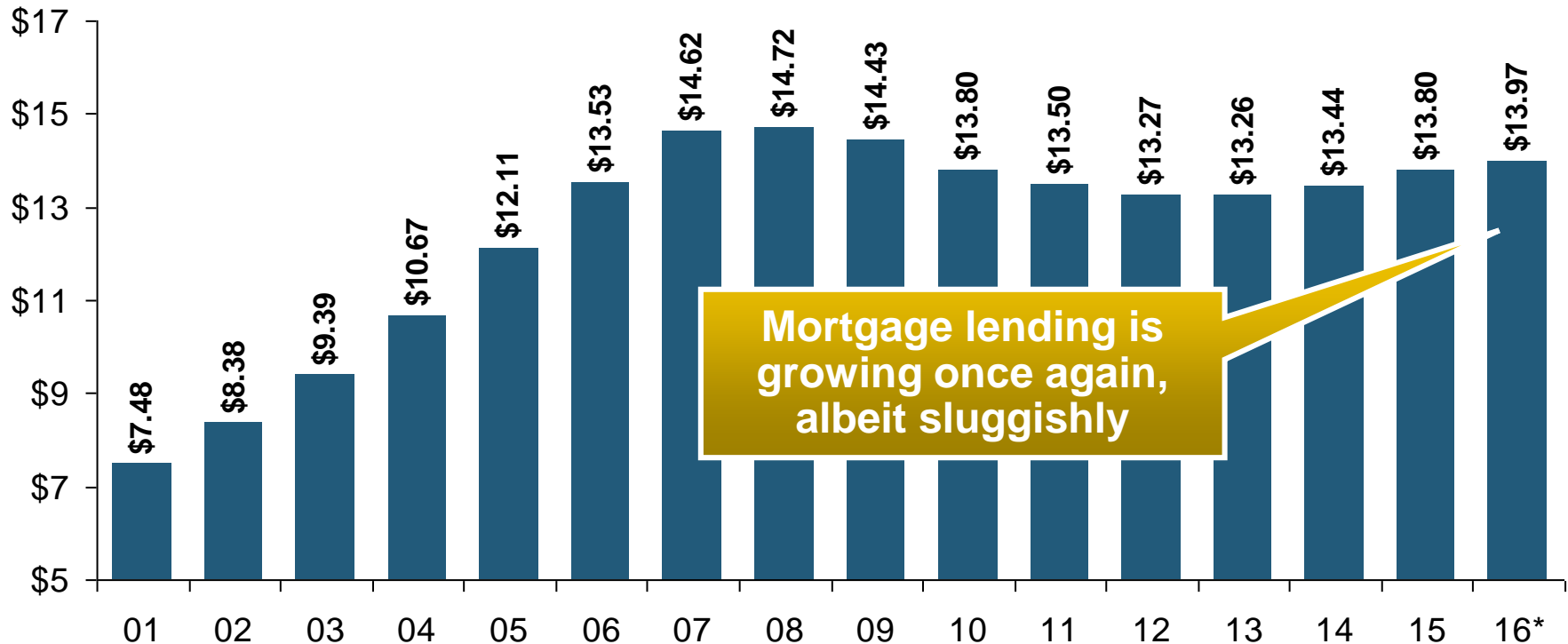


Household net worth continues to recover from the Great Recession and could accelerate. This would expand the “wealth effect” which is more pronounced among higher income households.

¹ Annualized and seasonally adjusted figure.
Sources: Federal Reserve; Insurance Information Institute.

Mortgage Debt Outstanding: 2001–2016:Q2¹

(\$ Billions)

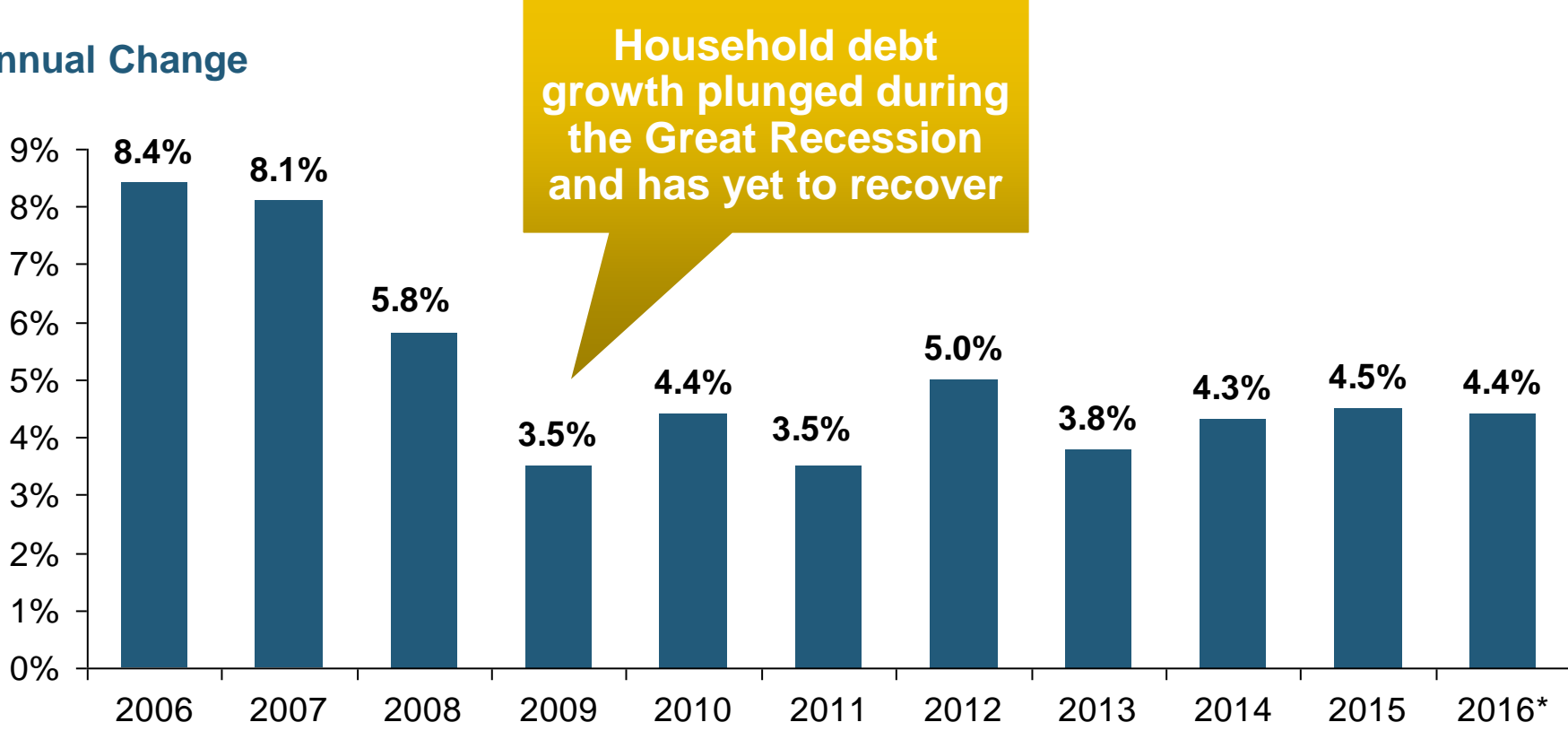


**Mortgage debt outstanding remains below pre-crisis levels.
Consumers have the capacity to resume more aggressive spending.**

¹ Annualized and seasonally adjusted figure as of Q2 2016.
Sources: Federal Reserve; Insurance Information Institute.

Annual Growth in Household Debt: 2006 – 2016:Q2*

Annual Change

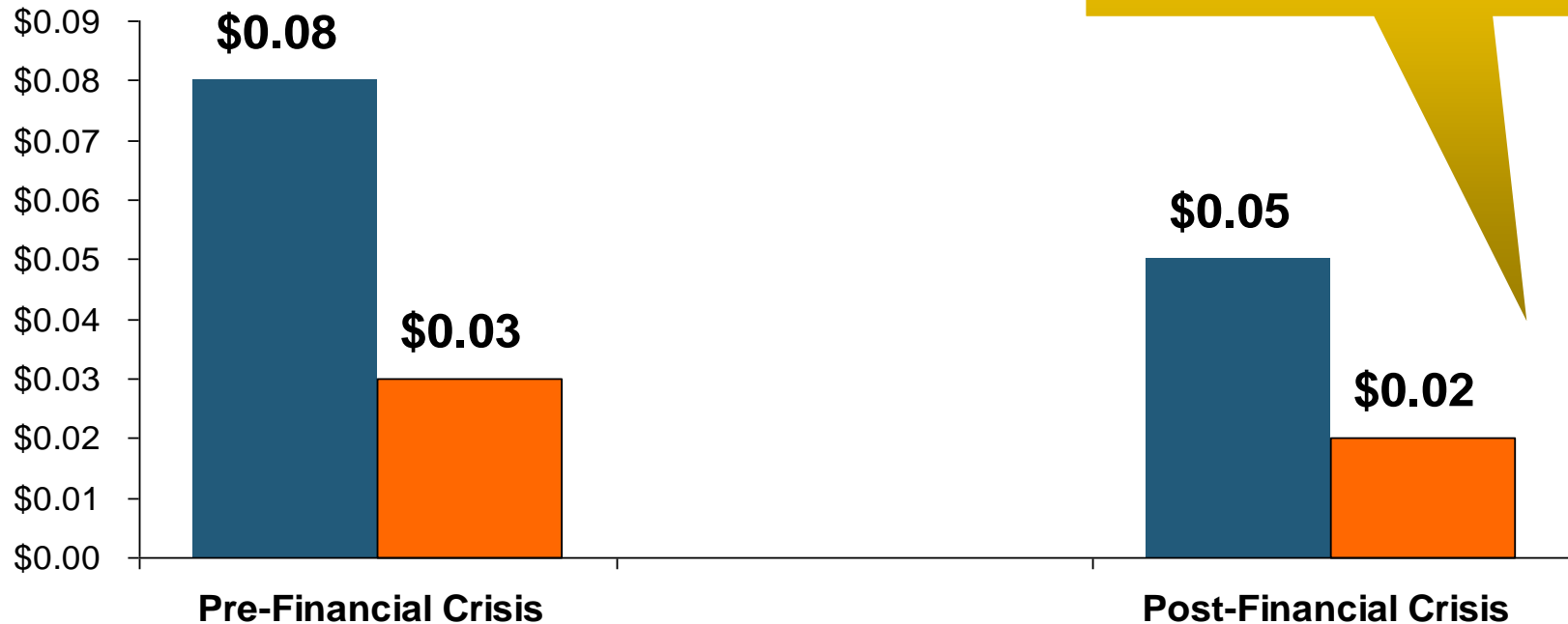


Household debt continues to expand but timidly, reflecting lingering economic uncertainties

¹ Annualized and seasonally adjusted figure.
Sources: Federal Reserve; Insurance Information Institute.

The Wealth Effect: Will Rising Home Prices and a Bull Market Push Up Spending?

(Percent)

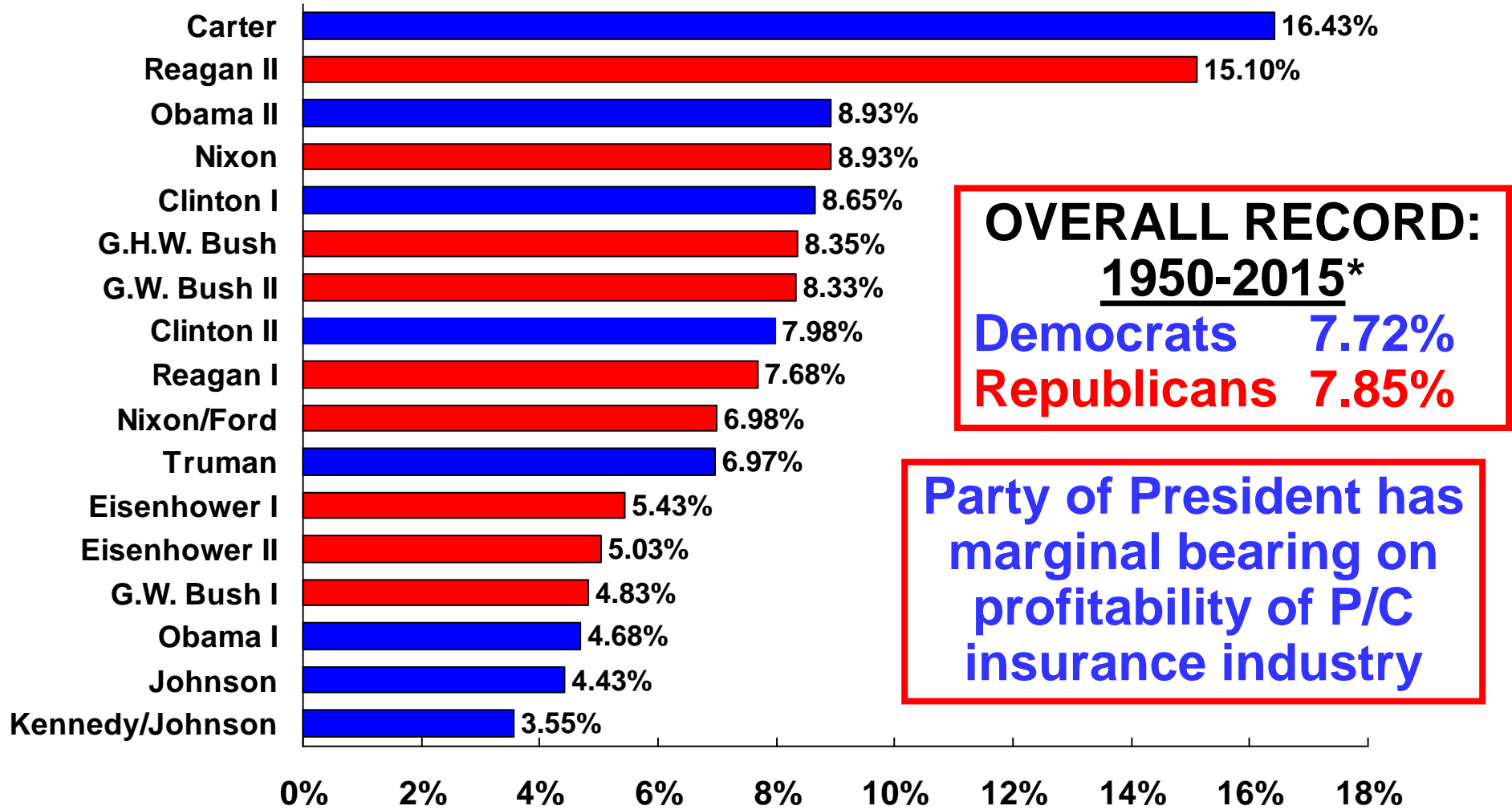


The wealth effect is diminished in the slow-growth, post-recession economy, but could it accelerate under a Trump Administration? High net worth families could ramp up spending

Profitability & Politics

***How Is Profitability Affected by
the President's Political Party?***

P/C Insurance Industry ROE by Presidential Administration, 1950-2015*



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



Trumponomics, Insurance and Politics

***How Might the Trump Presidency
Impact the Insurance Industry?***

Trump vs. Clinton: Issues that Matter to P/C Insurers

Issue	Trump	Clinton
Economy	<p>Supply Side-Like Philosophy: Lower taxes→Faster real GDP growth; Deficits likely grow as tax cuts are combined with targeted increased spending on Homeland Security, Defense, etc.</p>	<p>Keynesian Philosophy: More government spending on infrastructure, education, social services; Deficits likely increase as tax increases likely difficult to pass</p>
Interest Rates	<p>May trend higher with larger deficits; Shift from monetary policy to fiscal focus (tax cuts, government spending)</p>	<p>Status quo at the Fed; Net impact on interest rates unclear</p>
Taxes	<p>Favors lower tax rates for corporate and personal income tax rates; Tax code overhaul?</p>	<p>Unlikely to reduce taxes or embark on major overhaul of tax code</p>
International Trade	<p>Protectionist Tendencies (appeal primarily to manufacturing sector)</p>	<p>Has criticized Trans-Pacific Partnership but is a realist on international matters</p>
Tort System	<p>Doesn't like trial lawyers but seems to like filing lawsuits</p>	<p>Status Quo</p>
Health Care	<p>ACA should be repealed & replaced</p>	<p>Incremental Change</p>

Trump's Economic Plan & Other Key Factors Impacting Insurers

Issue	Analysis
Economy	Supply Side-Like Philosophy: Lower taxes→Faster real GDP growth; Deficits likely grow as tax cuts are combined with targeted increased spending on Homeland Security, Defense, etc. Seems in favor of heavy infrastructure spending.
Interest Rates	May trend higher with larger deficits; Shift from monetary policy to fiscal focus (tax cuts, government spending). Interest rates have spiked.
Taxes	Favors lower tax rates for corporate and personal income tax rates; Tax code overhaul? Seems likely.
International Trade	Protectionist Tendencies (appeal primarily to manufacturing sector). May be more pragmatic in his approach than anticipated.
Tort System	Scalia Supreme Court seat will be filled by a conservative justice; Likely more business friendly judge appointed to the federal bench
Health Care	ACA should be repealed & replaced. Willing to retain parts of Act: Pre-existing conditions; Children can remain on parent's plan until age 26.

Trump Administration: Likely Issues Impacting Insurers

■ Affordable Care Act (“Obamacare”)

- ◆ **“Repeal” is imminent, early in 2017**
 - Elimination of individual mandate seems certain
- ◆ **Certain provisions of the ACA will be retained**
 - Children can remain on parental policies until age 26
 - Can’t deny coverage based on pre-existing conditions
- ◆ **Possible changes**
 - Allow insurers to sell (and consumers to purchase) across state lines
 - Expansion of Medicare (possibly to age 55 for some)???
 - Will need to devise high-risk pools
 - Expansion of tax-qualified Health Savings Accounts
 - Tax Credits

Trump Administration: Likely Issues Impacting Insurers

■ Dodd-Frank

- ◆ Likely to be scaled back
- ◆ Insurers may find it easier to avoid bank-centric and Euro-centric regulation
- ◆ SIFI designations could be dropped
 - For Met, Pru and possibly AIG

■ Dept. of Labor Fiduciary Standard Rule

- Less onerous implementation of the rule possible

■ Climate and Energy

- Climate change no longer a priority
- Carbon-based and carbon emitting industries will benefit from reduced pressure on climate issue

Trump Administration: Likely Issues Impacting Insurers

■ Trade

- ◆ Has vowed to be tough in (re)negotiating trade deals
- ◆ Unlikely there is any stomach in Congress for all out trade wars with Mexico, China or other major trading partners
- ◆ A crescendo in protectionist sentiments would be a net negative for all industries, including (re)insurance and financial services in general
- ◆ Despite his election rhetoric, Trump is neither a protectionist nor an isolationist

■ Trade

- ◆ Likely to be hostile to *Corporate Inversions*
- ◆ Treatment of offshore tax havens in future tax reforms will be of interest

Trump Administration: Likely Issues Impacting Insurers

■ M&A Activity

- ◆ **Few implications for P/C or Life insurers, but health insurers could see a bumpy path, especially since the “replacement” for the ACA remains to be devised**
- ◆ **While businesses many have a freer hand to consolidate under Trump, that activity will have its limits**
- ◆ **Populist movements are not historically friendly to the accumulation of market power (Teddy Roosevelt—a Manhattanite, US President and “Trust Buster” and founder of the Progressive Party—which split from the Republican Party in 1912)**

Likely Issues Impacting High Net Worth Consumers

■ Taxes

- ◆ May push through across-the-board tax personal income tax cuts as part of or as a early step toward tax reform and simplification
- ◆ Lower corporate income taxes to restore international competitiveness on rates
- ◆ Elimination/reduction of ACA tax on investment earnings(?)

■ Interest Rates and Inflation

- ◆ Trump's fiscal policy (tax cuts couple with increased infrastructure and military spending) is potentially inflationary and will push up interest rates, a benefit for fixed income investors
- ◆ Lower corporate income taxes to restore international competitiveness on rates

Auto & Home Insurance: State of the Personal Lines Market

**Auto Frequency and Severity Are an
Immediate Challenge**

***Dearth of Major CATs (Until Recently),
Pricing Discipline Has Helped Home***

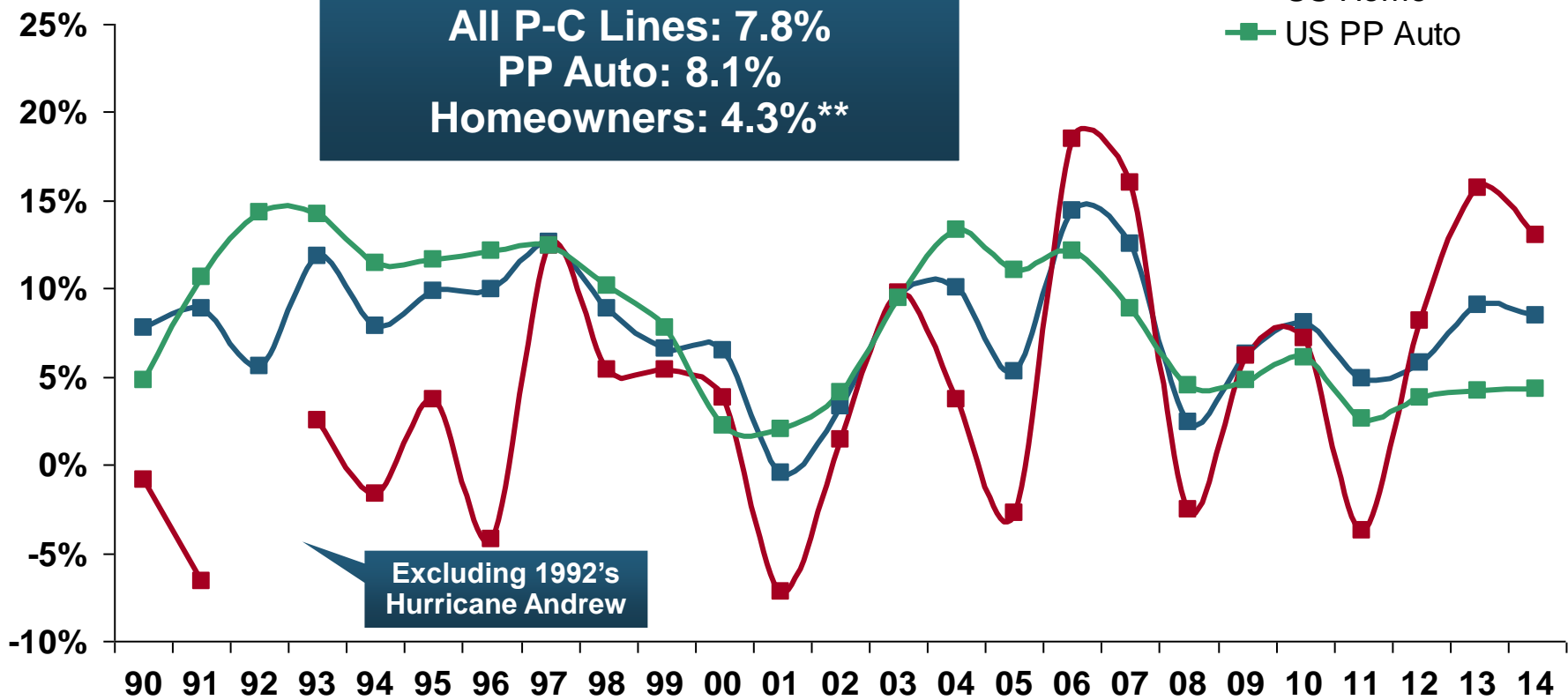
Return on Net Worth: All P-C Lines vs. Homeowners & Pvt. Pass. Auto, 1990-2014*

(Percent)

Average RNW: 1990-2013*
 All P-C Lines: 7.8%
 PP Auto: 8.1%
 Homeowners: 4.3%**

- US All Lines
- US Home
- US PP Auto

Excluding 1992's Hurricane Andrew



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

*Latest available.

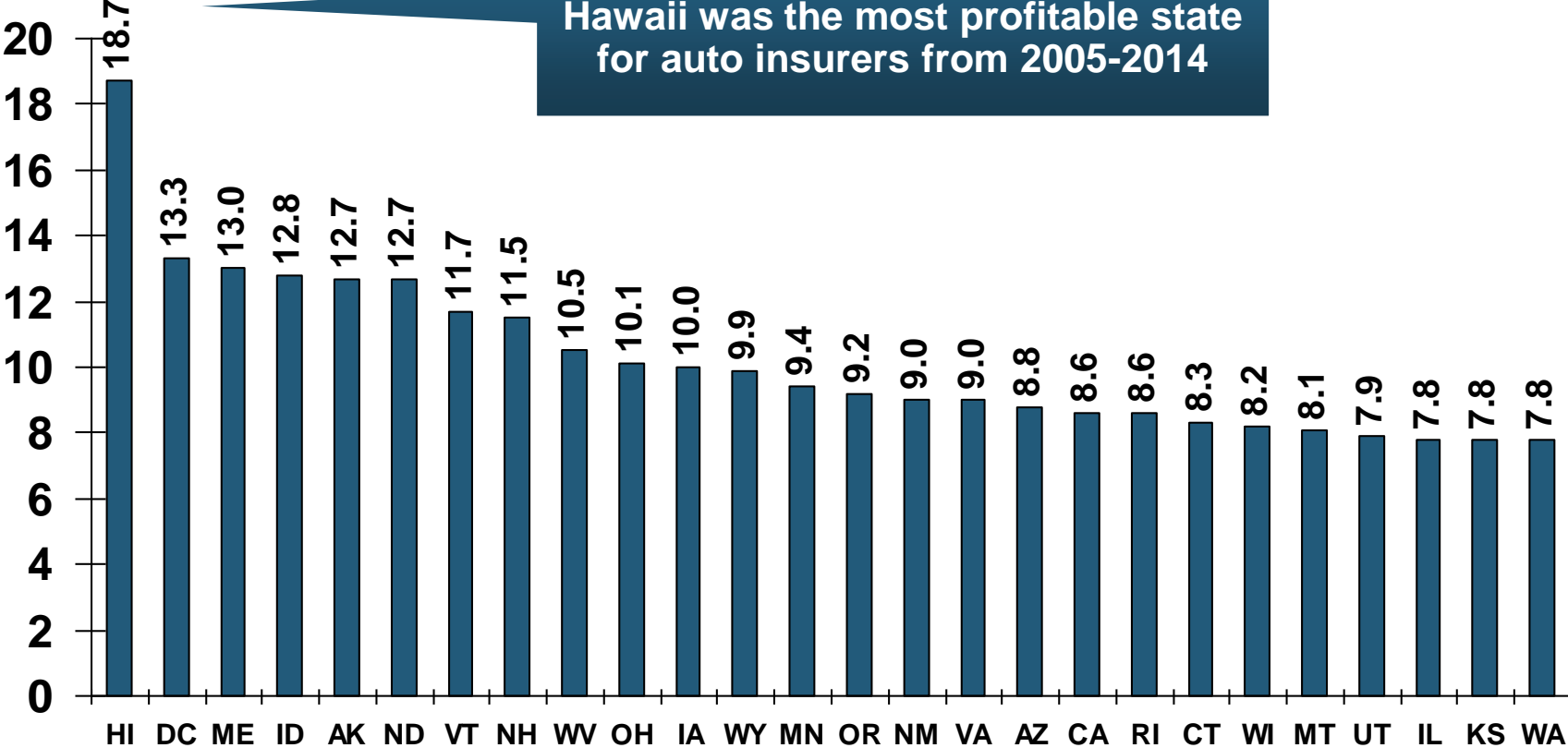
**Excludes 1992, the year of Hurricane Andrew. If 1992 is included the resulting homeowners RNW is 1.9%

Sources: NAIC; Insurance Information Institute.

RNW Pvt. Passenger Auto, 2005-2014

Average: Highest 25 States

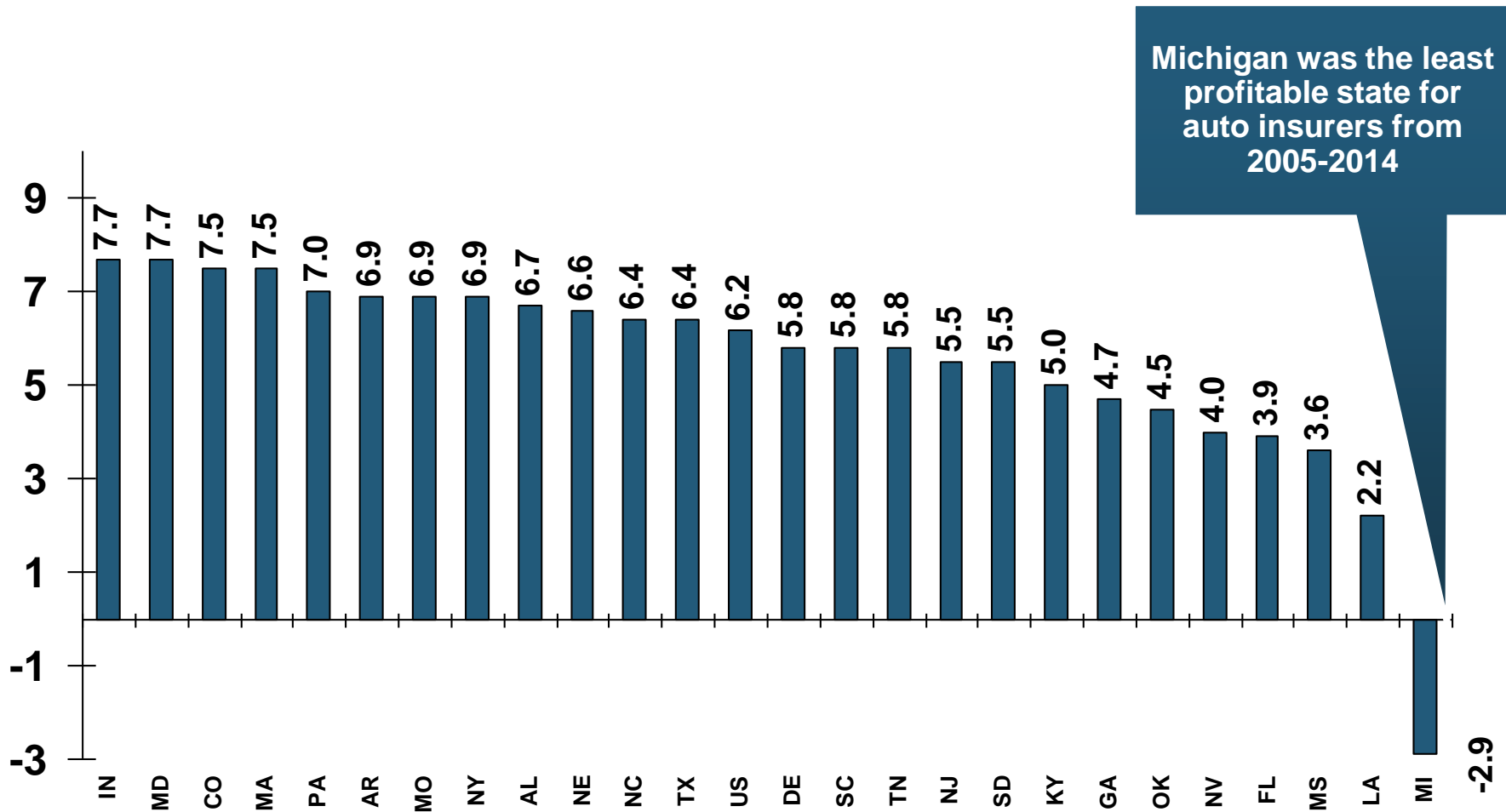
(Percent)



Sources: NAIC; Insurance Information Institute

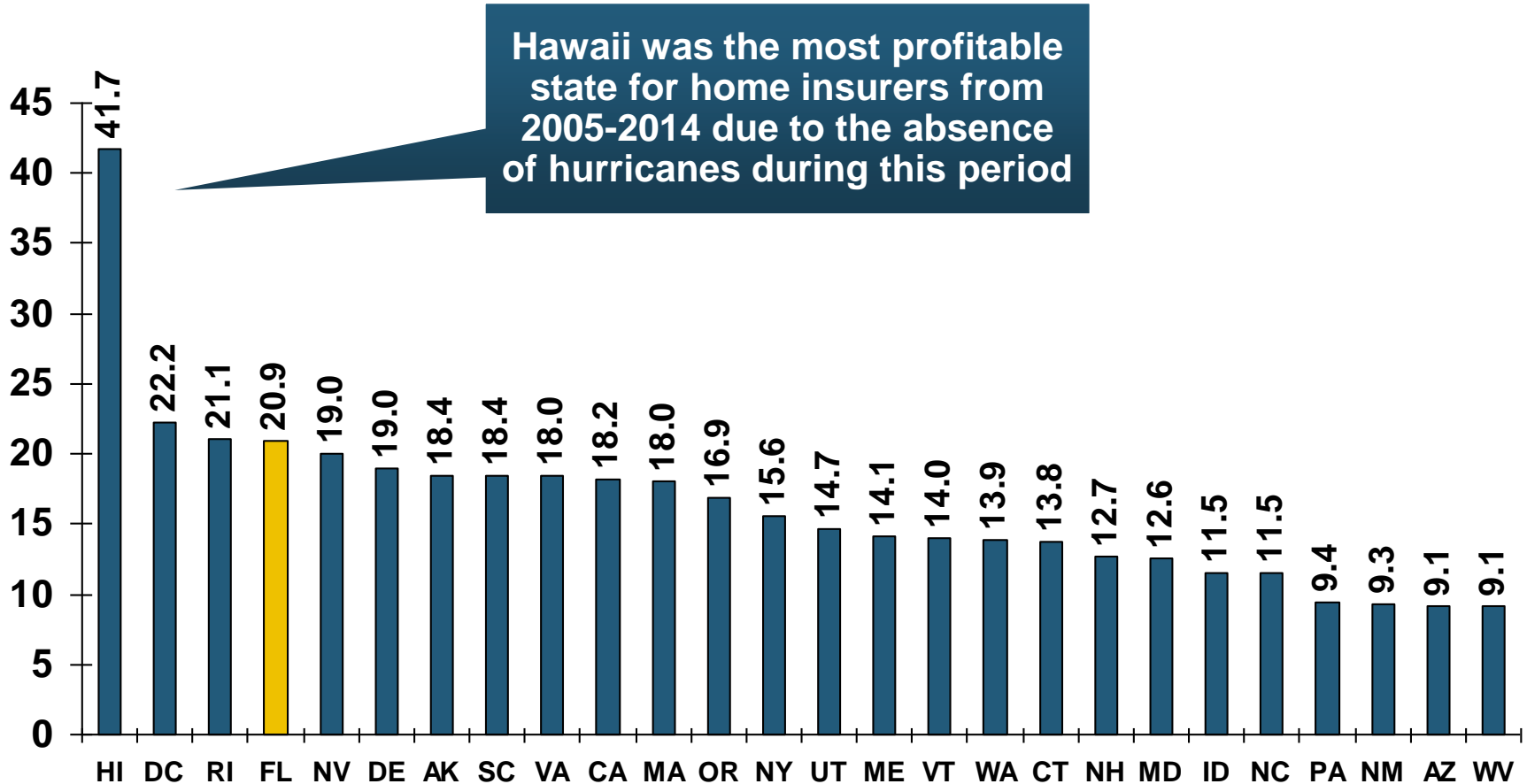
RNW Pvt. Passenger Auto, 2005-2014 Average: Lowest 25 States

(Percent)



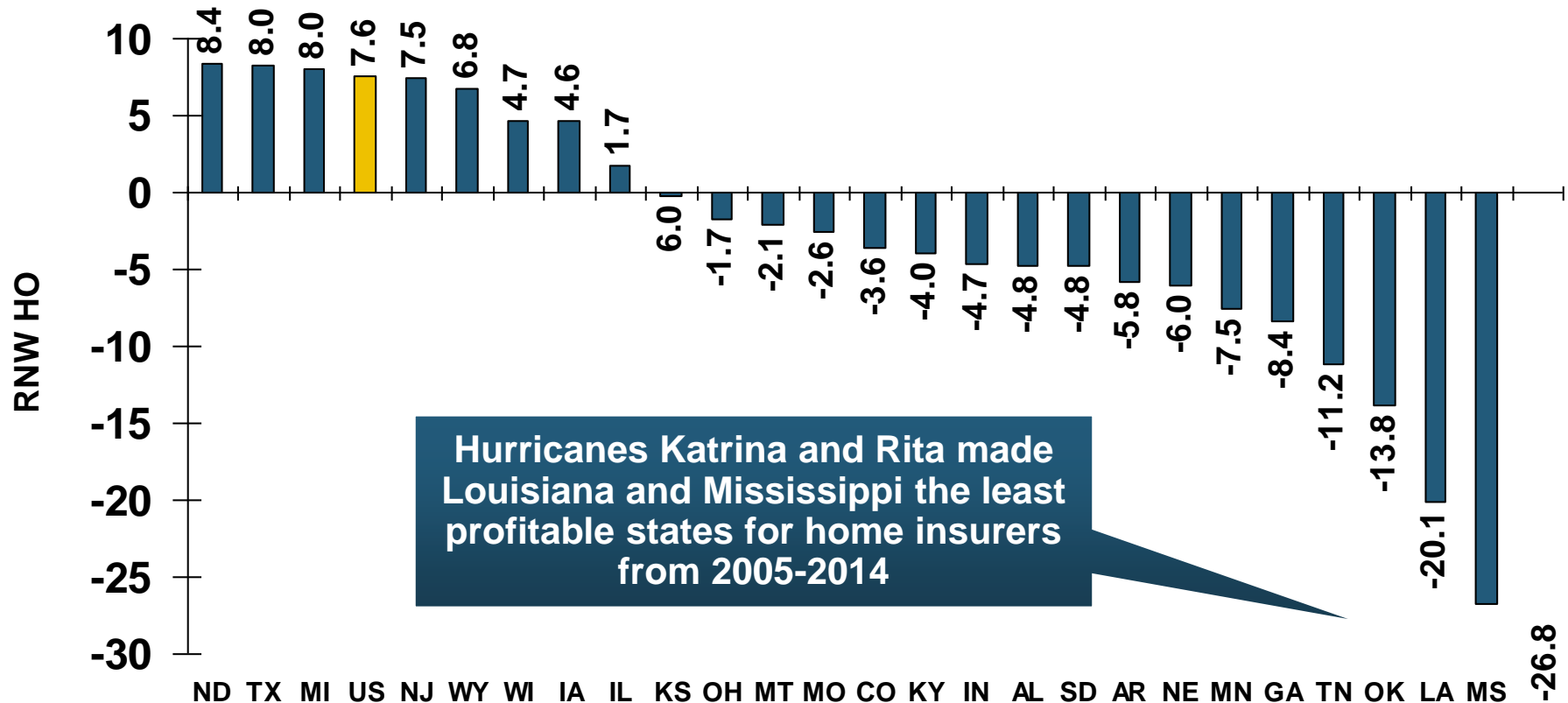
RNW Homeowners Insurance, 2005-2014 Average: Highest 25 States

(Percent)



RNW Homeowners Insurance, 2005-2014 Average: Lowest 25 States

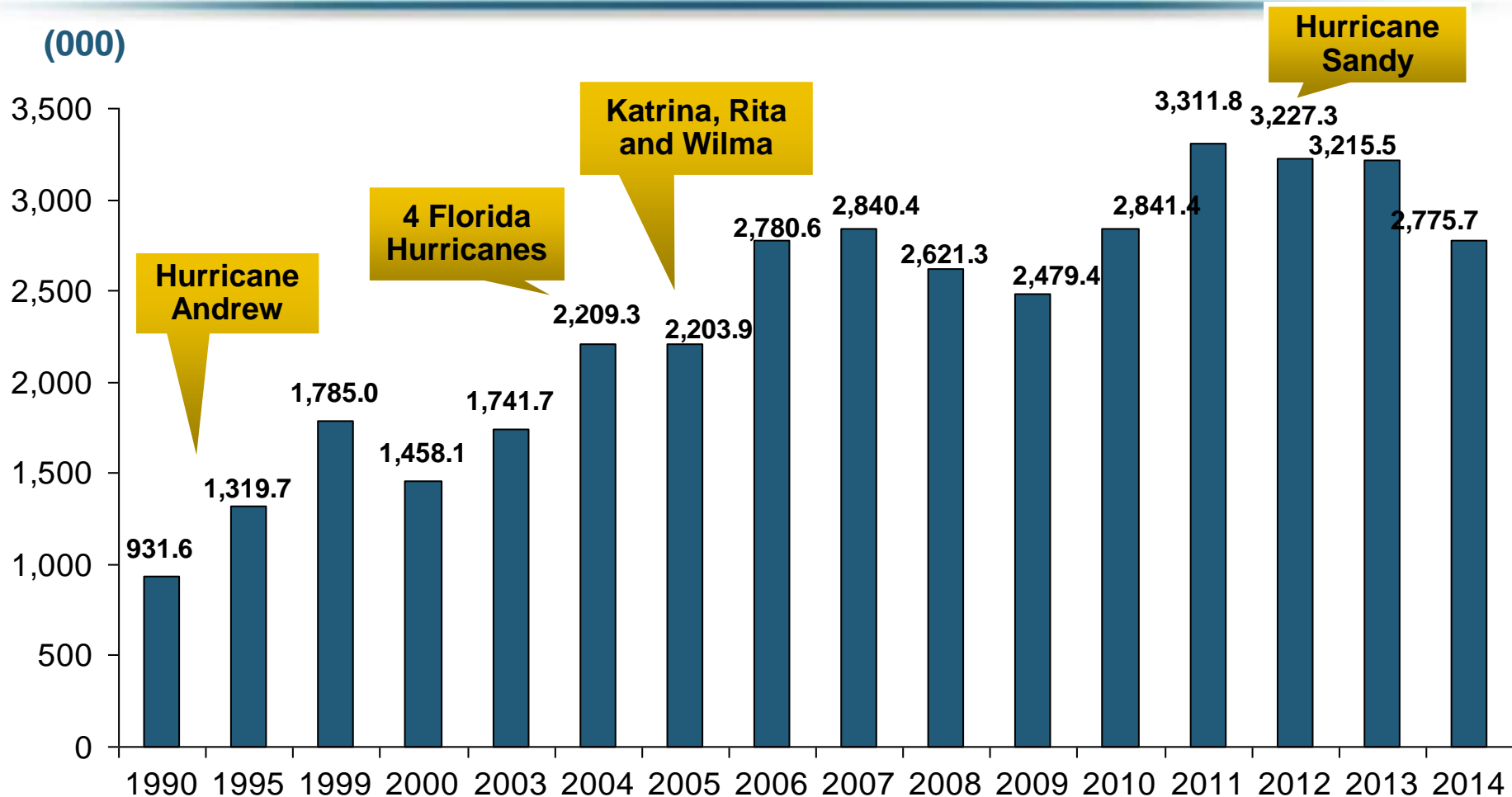
(Percent)



**Shifting Winds (and Waters):
Appetite for Coastal and Flood
Risks is Increasing**

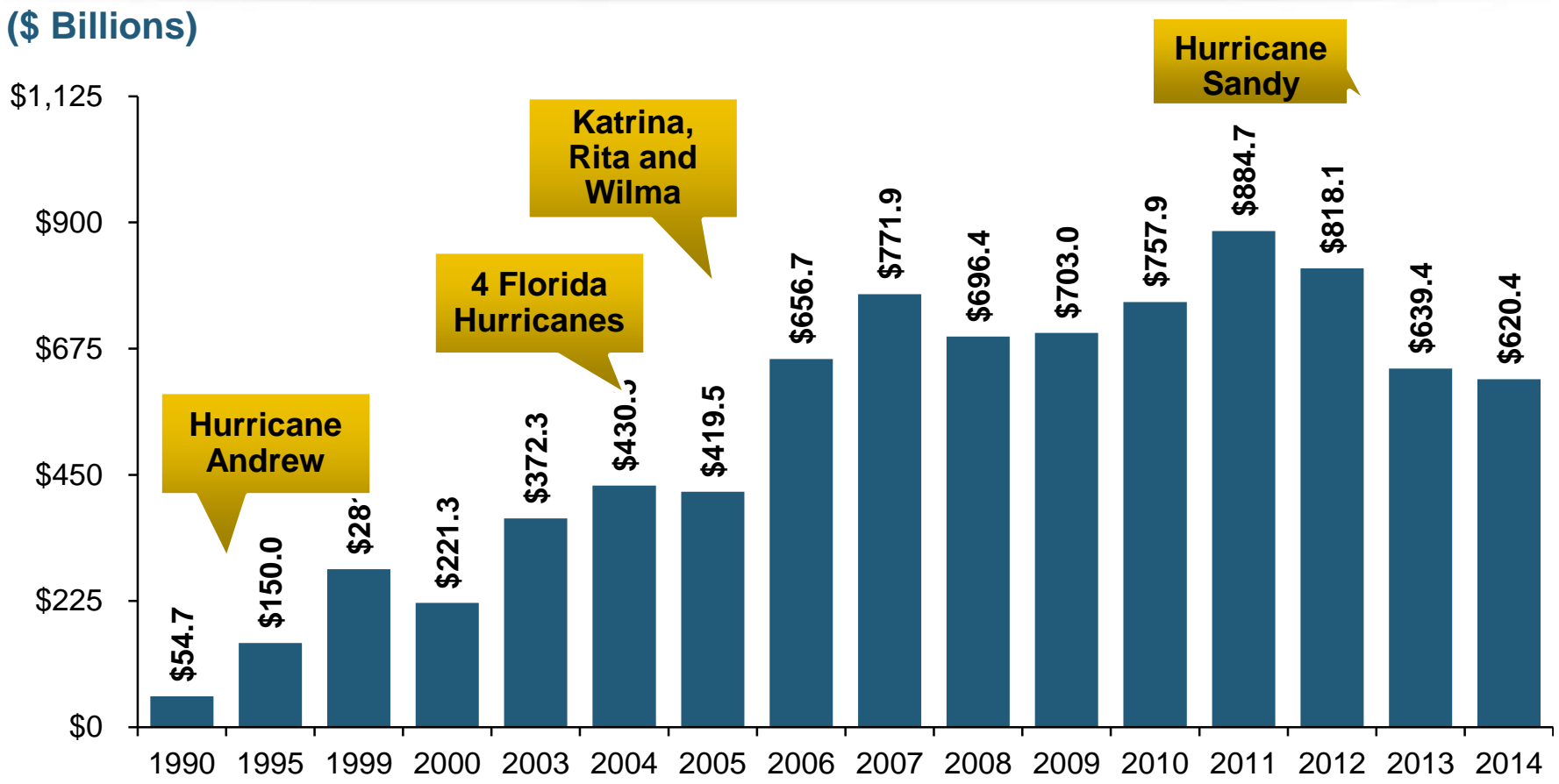
**Can Money Be Made in the Long-Run
in Hurricane Country?**

U.S. Residual Market: Total Policies In-Force (1990-2014) (000)



From 1990-2011 the total number of policies in-force in the residual market (FAIR & Beach/Windstorm) Plans more than tripled. In 2014, total policy counts fell dramatically to 2.78 million.

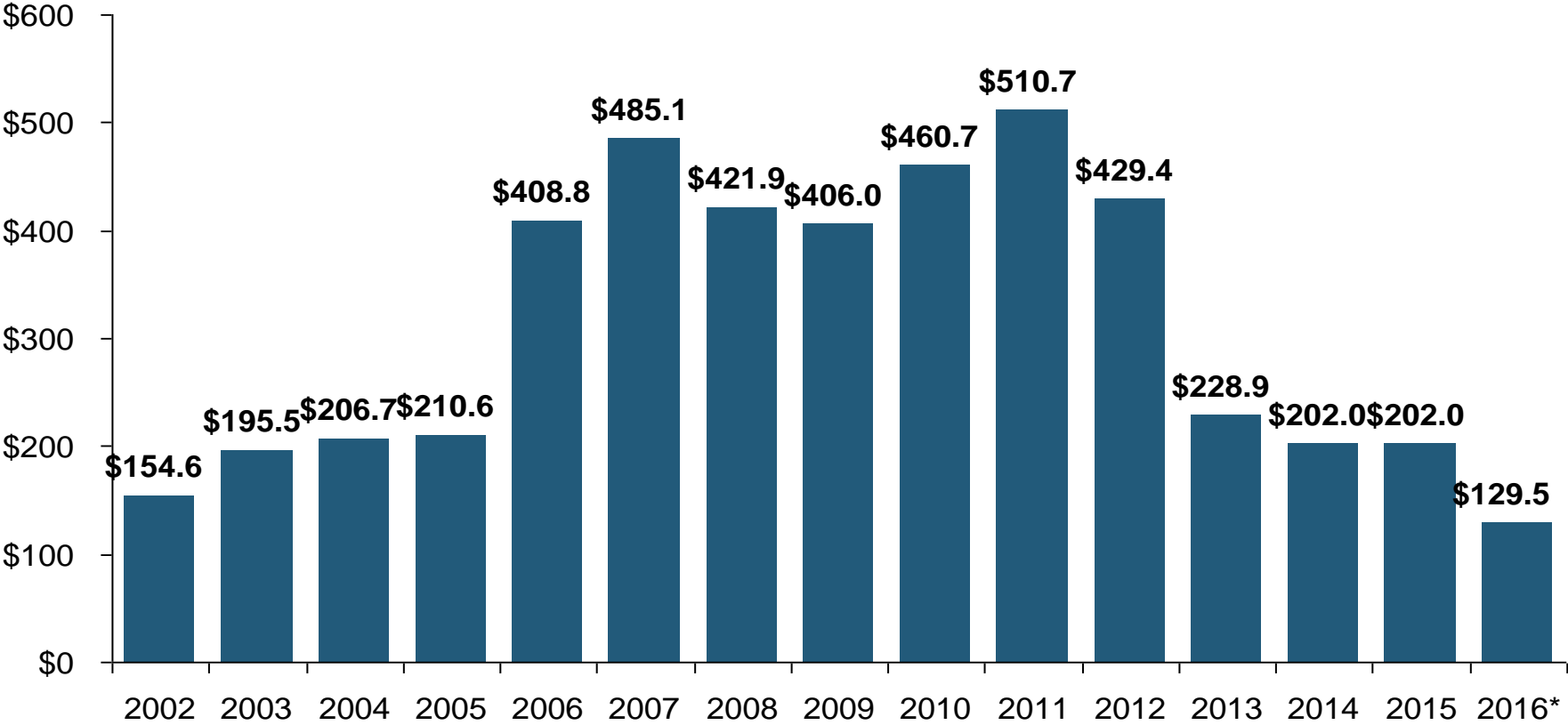
U.S. Residual Market Exposure to Loss (1990-2014) (\$ Billions)



Between 1990 and 2011, total exposure to loss in the residual market (FAIR & Beach/Windstorm) Plans surged to record levels. Between 2011 and 2014, exposure to loss has dropped by 30 percent.

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

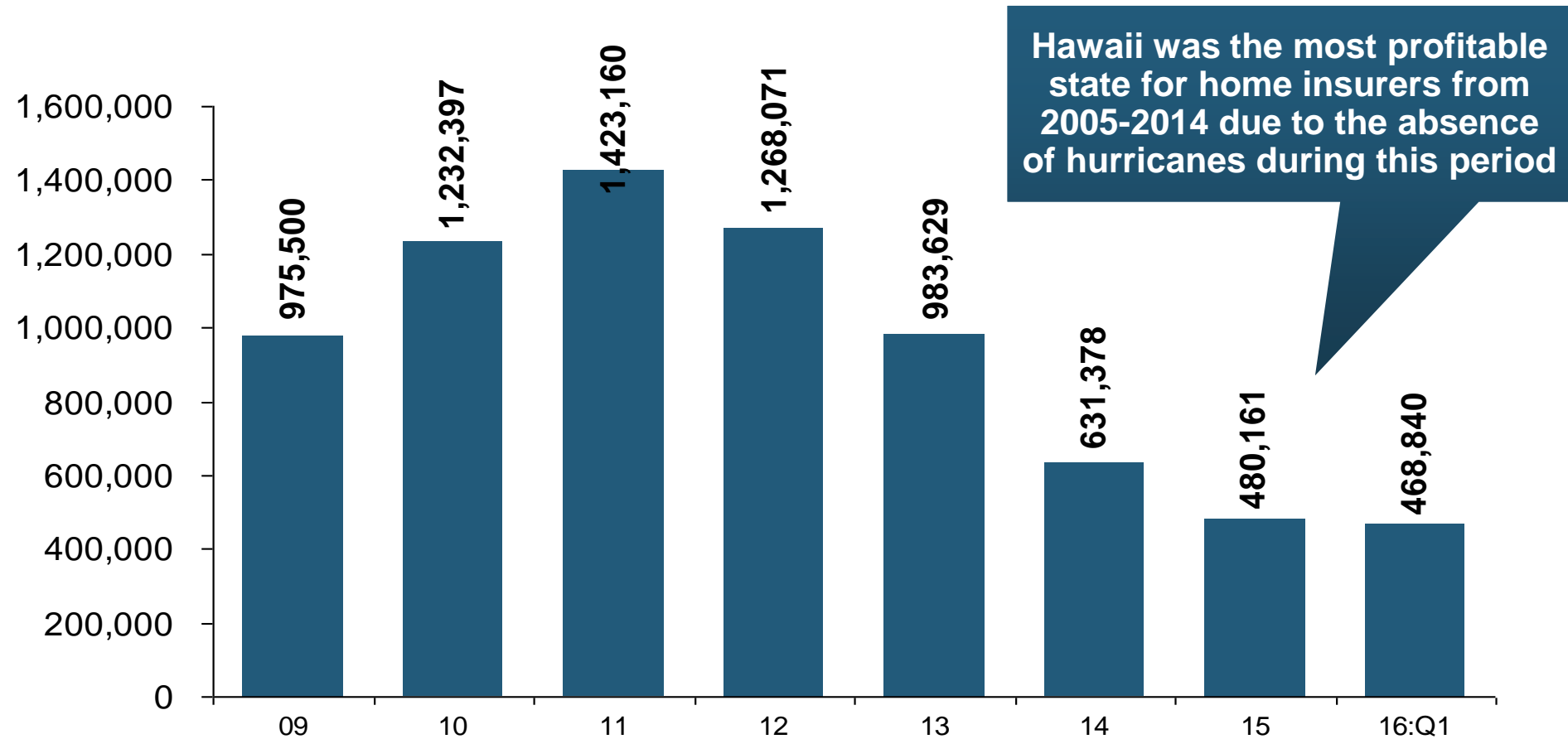
Florida Citizens Exposure to Loss (\$ Billions)



Total exposure to loss in Florida Citizens increased by 178 percent, from \$154.6 billion in 2002 to \$429.4 billion in 2012. Between 2012 and 2013 its exposure to loss dropped by nearly 50 percent.

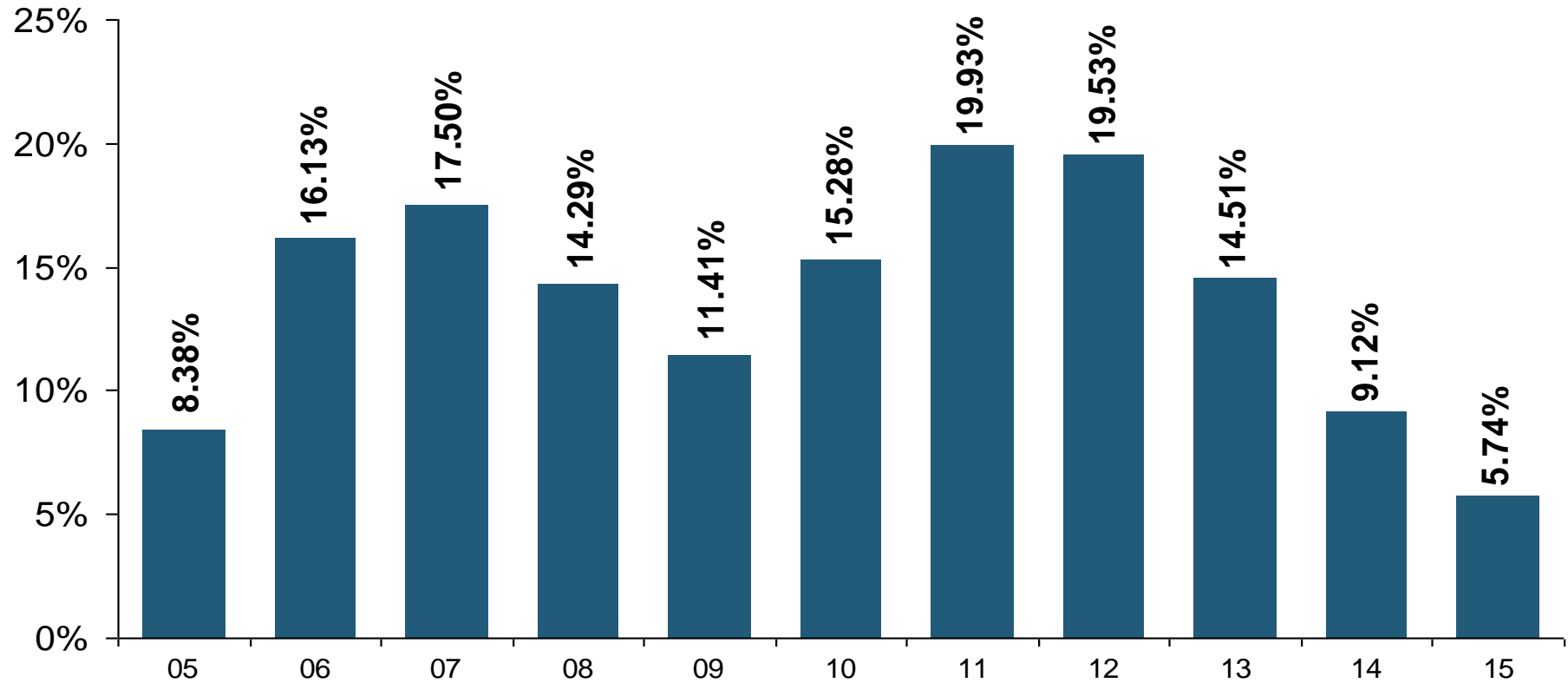
Source: PIPSO; Insurance Information Institute (I.I.I.).

Florida Citizens Policy Count, 2005 – 2016:Q1



FL Citizens policy count has shrunk significantly in recent years as more exposure as been assumed by private insurers

Florida Citizens Market Share, 2005 - 2015



FL Citizens market share has shrunk significantly in recent years as more exposure as been assumed by private insurers

Top 10 Residential Insurers in Florida in 2016*



Insurers	All Policies					
	Policies Inforce	Mkt Share	Total Insured Value	Mkt Share	Premiums Written	Mkt Share
Citizens Property Insurance Corporation	476,278	8%	\$132,466,938,724	6%	\$927,620,676	9%
Universal Property & Casualty Insurance Company	555,866	9%	127,681,935,941	6%	837,983,218	8%
Federated National Insurance Company	252,975	4%	101,677,408,312	5%	446,082,426	4%
Heritage Property & Casualty Insurance Company	266,846	4%	100,864,794,452	5%	594,443,549	6%
Security First Insurance Company	297,412	5%	82,684,726,156	4%	314,763,838	3%
United Property & Casualty Insurance Company	185,440	3%	77,806,957,793	4%	346,493,001	3%
Federal Insurance Company	32,875	1%	74,897,300,996	4%	188,196,599	2%
American Integrity Insurance Company of Florida	216,310	4%	69,537,760,471	3%	244,801,625	2%
St. Johns Insurance Company, Inc.	167,844	3%	68,771,548,463	3%	259,841,094	3%
Tower Hill Prime Insurance Company	143,769	2%	62,796,134,876	3%	232,491,177	2%
All Other Insurers	3,419,422	57%	1,236,260,574,155	58%	5,744,481,775	57%
Total	6,015,037	100%	\$2,135,446,080,339	100%	\$10,137,198,978	100%

Notes:

- 1) Includes admitted insurers (and Citizens) writing residential property statewide
- 2) State Farm Florida filed QUASR data as "trade secret" with the OIR beginning first quarter 2014. They represented \$172B in TIV on 12/31/13.

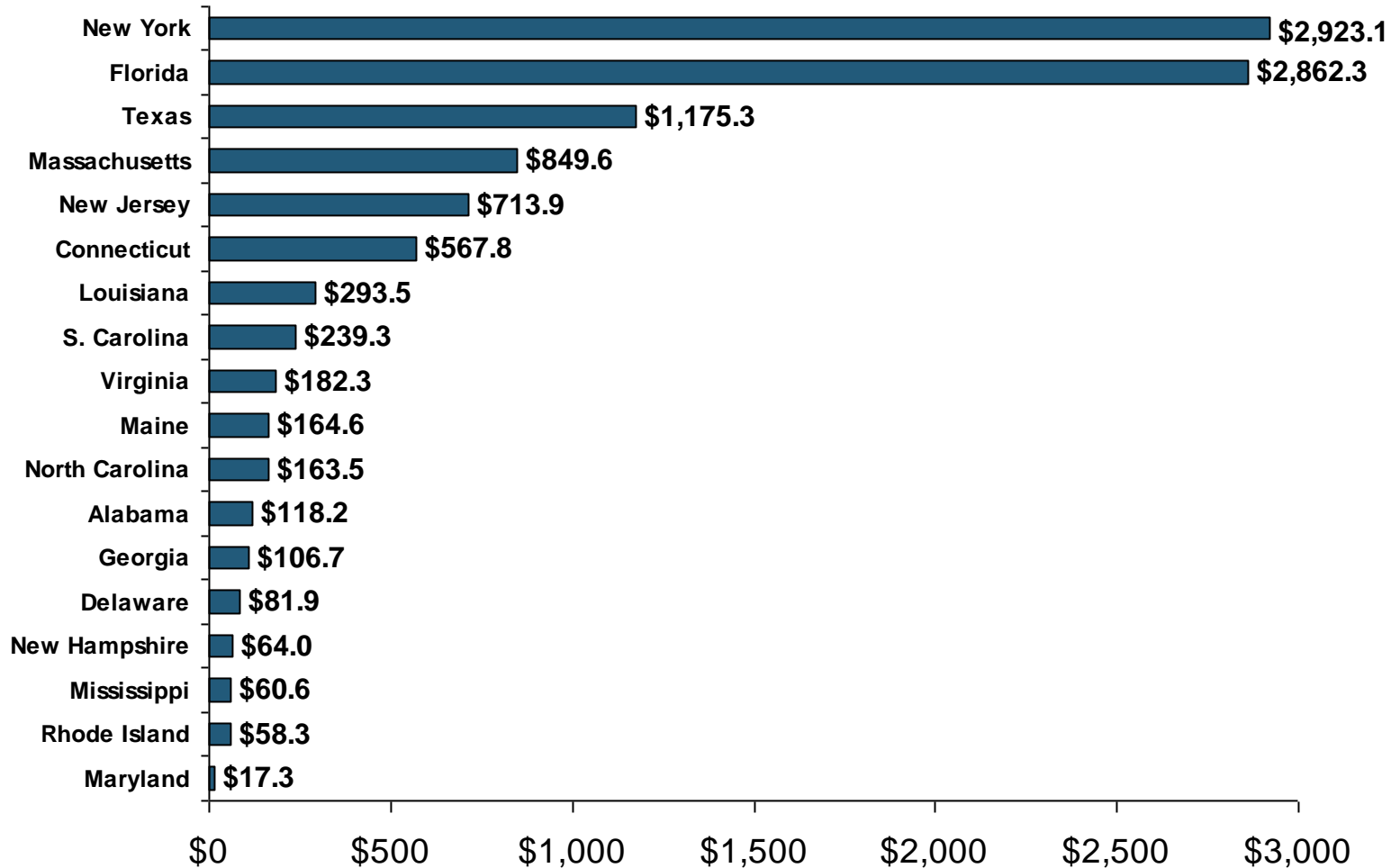
Note: Excludes State Farm Florida. SNL show SF Florida \$613.8 million and a market share of 7.0%

*As of 3/31/16.

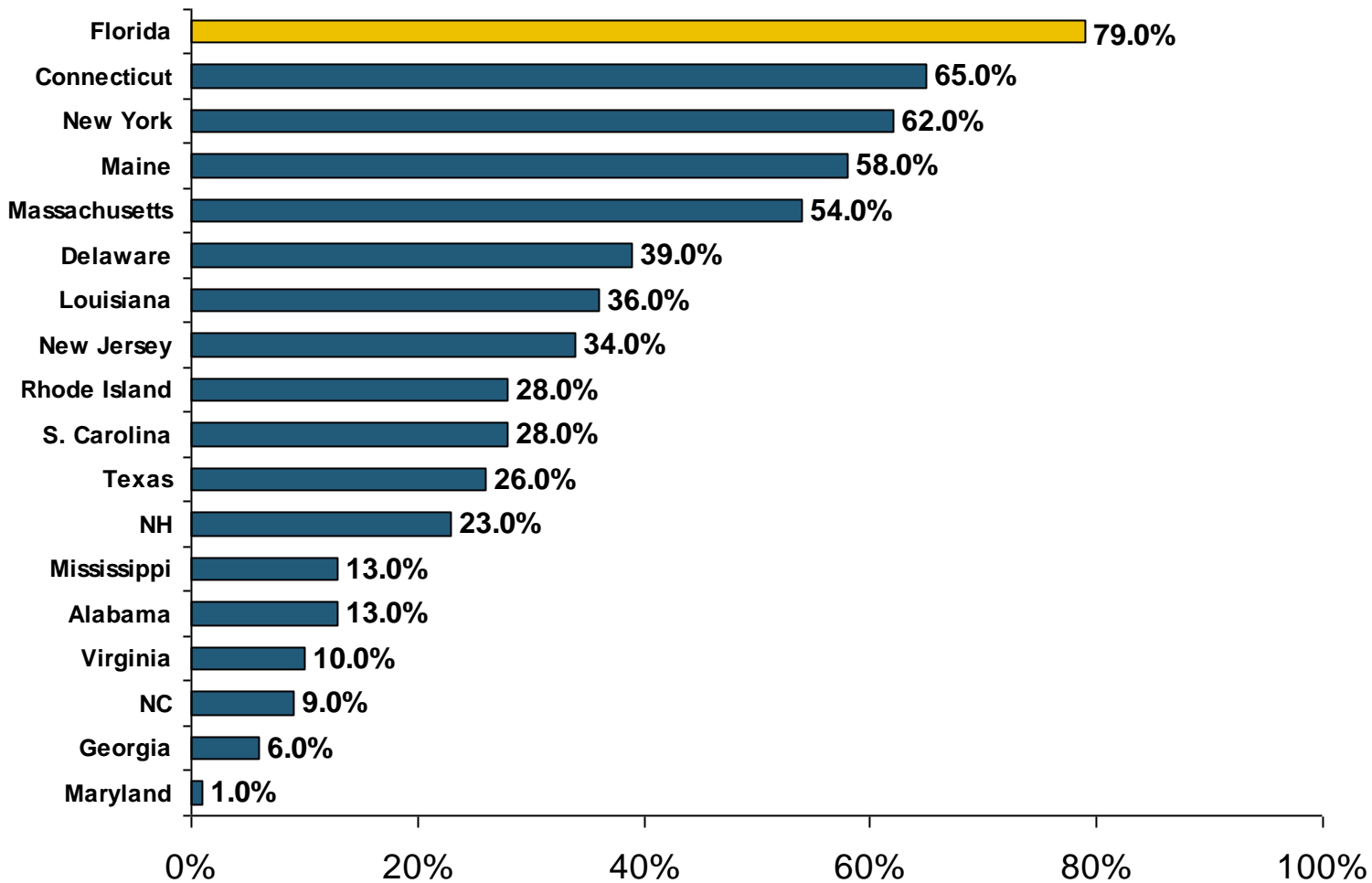
Source: Florida Citizens:

<https://www.citizensfla.com/documents/20702/93160/20160331+Market+Share+Report/ab841adc-d5fb-45ca-bff6-8dbd15d5cac5>

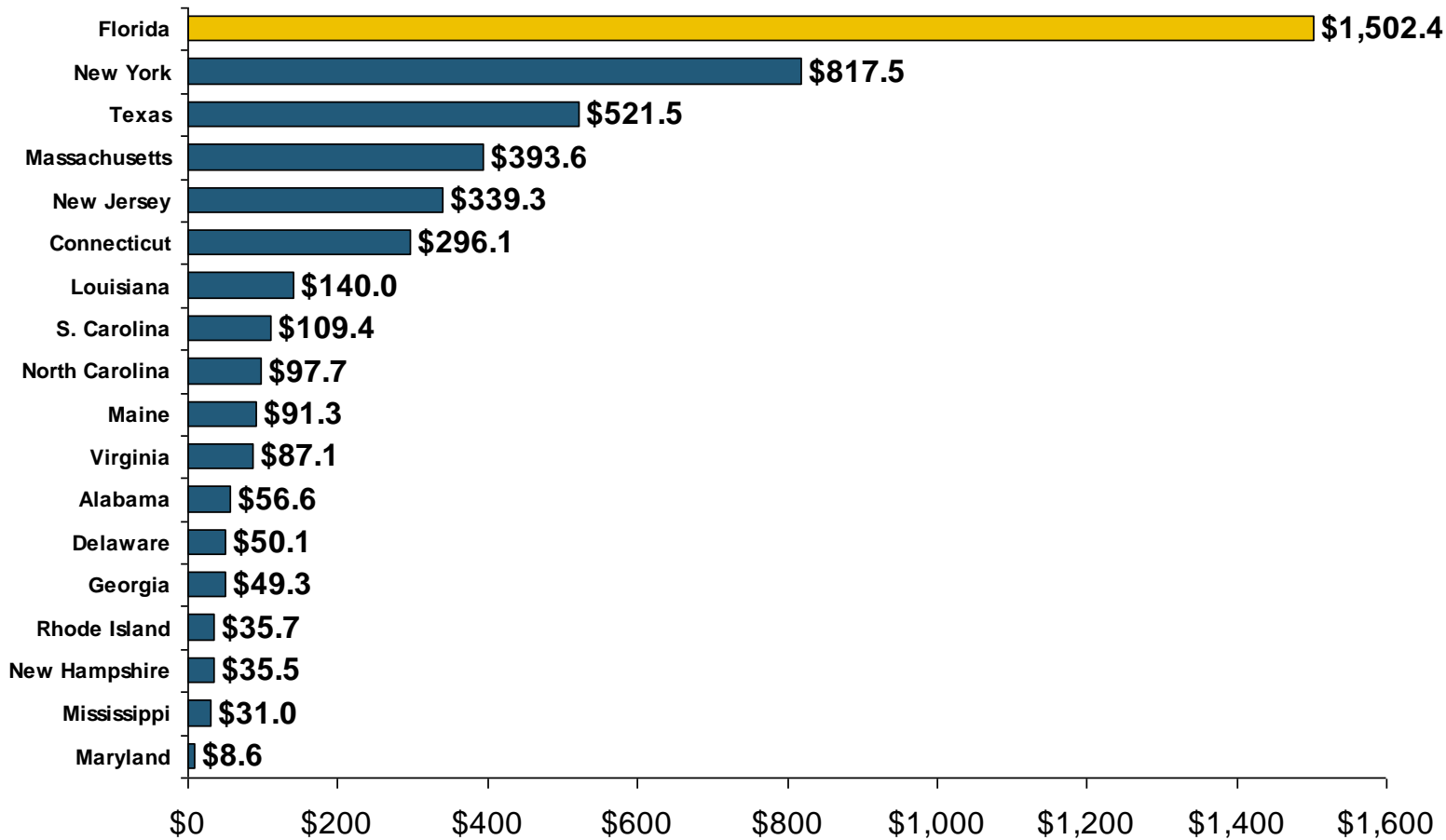
Total Value of Insured Coastal Exposure In 2012 (\$ Billions)



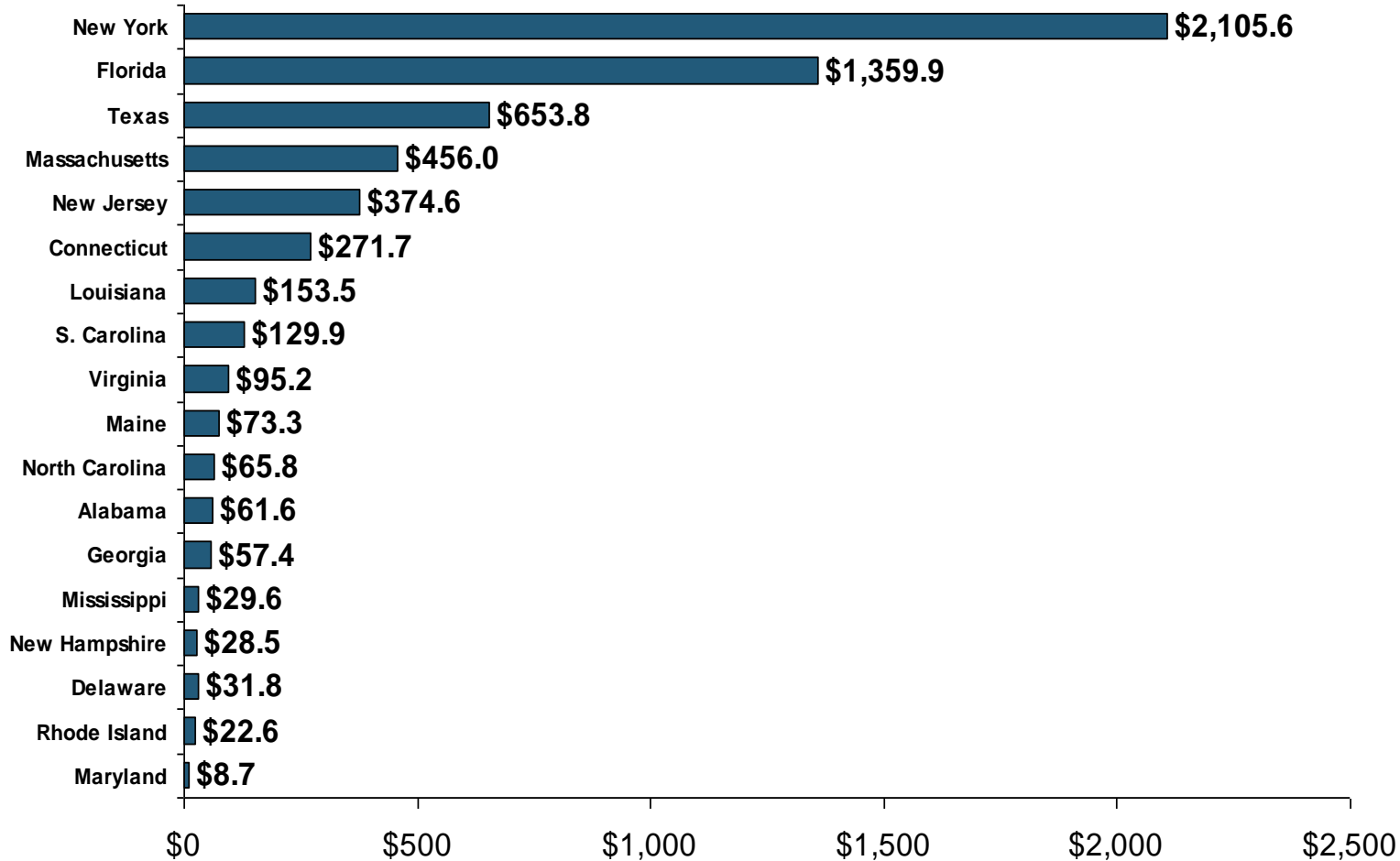
Insured Coastal Exposure As a % Of Statewide Insured Exposure In 2012



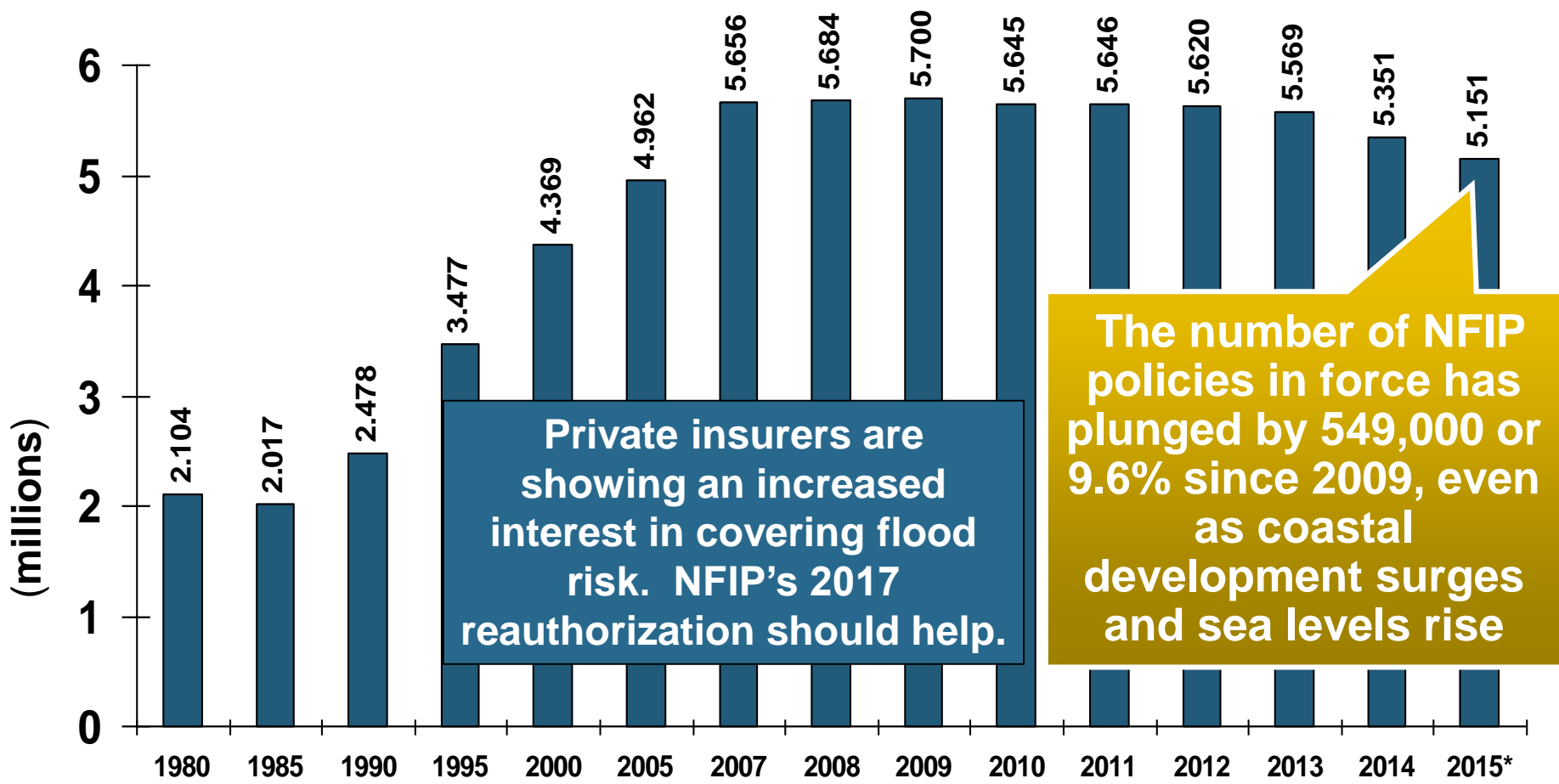
Value of Insured Residential Coastal Exposure In 2012 (\$ Billions)



Value Of Insured Commercial Coastal Exposure 2012 (\$ Billions)



Number of National Flood Insurance Program Policies in Force at Year-End, 1980-2015*



Private insurers are showing an increased interest in covering flood risk. NFIP's 2017 reauthorization should help.

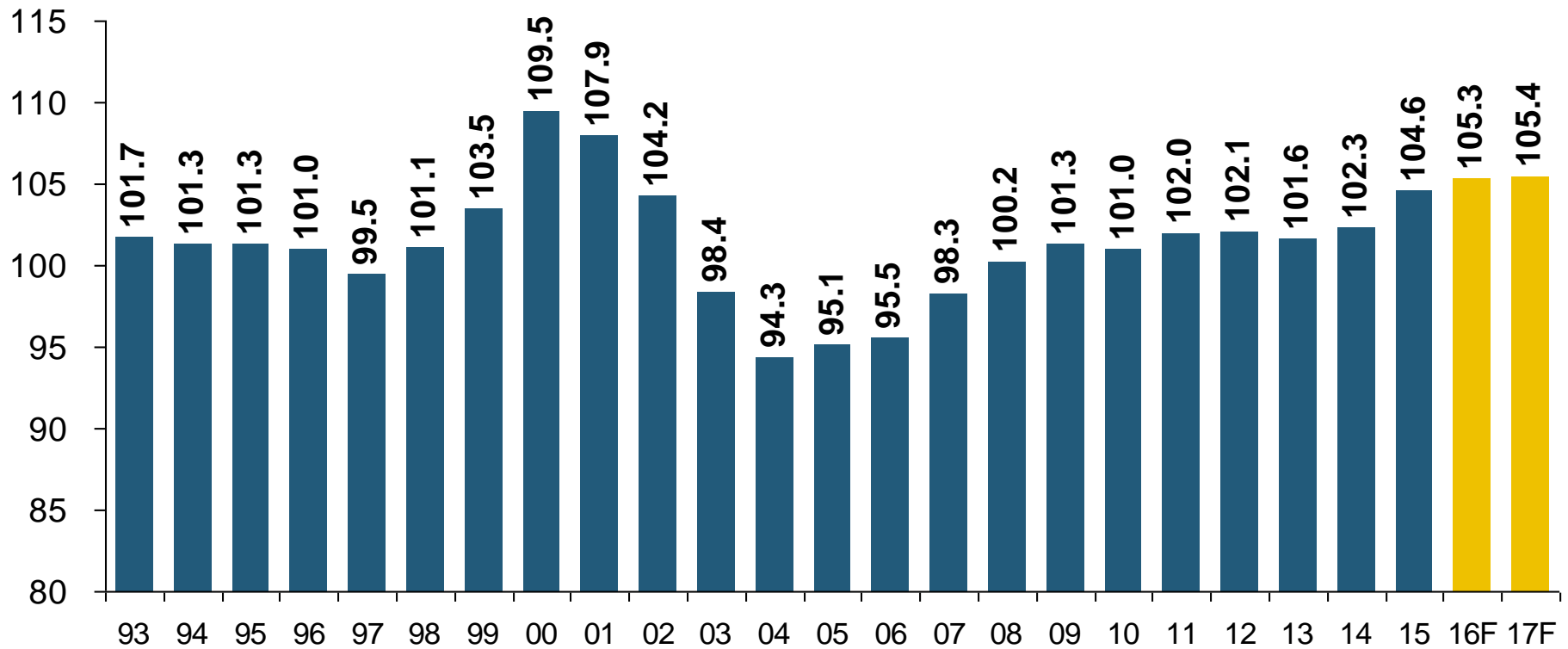
The number of NFIP policies in force has plunged by 549,000 or 9.6% since 2009, even as coastal development surges and sea levels rise

Source: National Flood Insurance Program.
 * As of July, 2015

Personal Lines Underwriting Performance

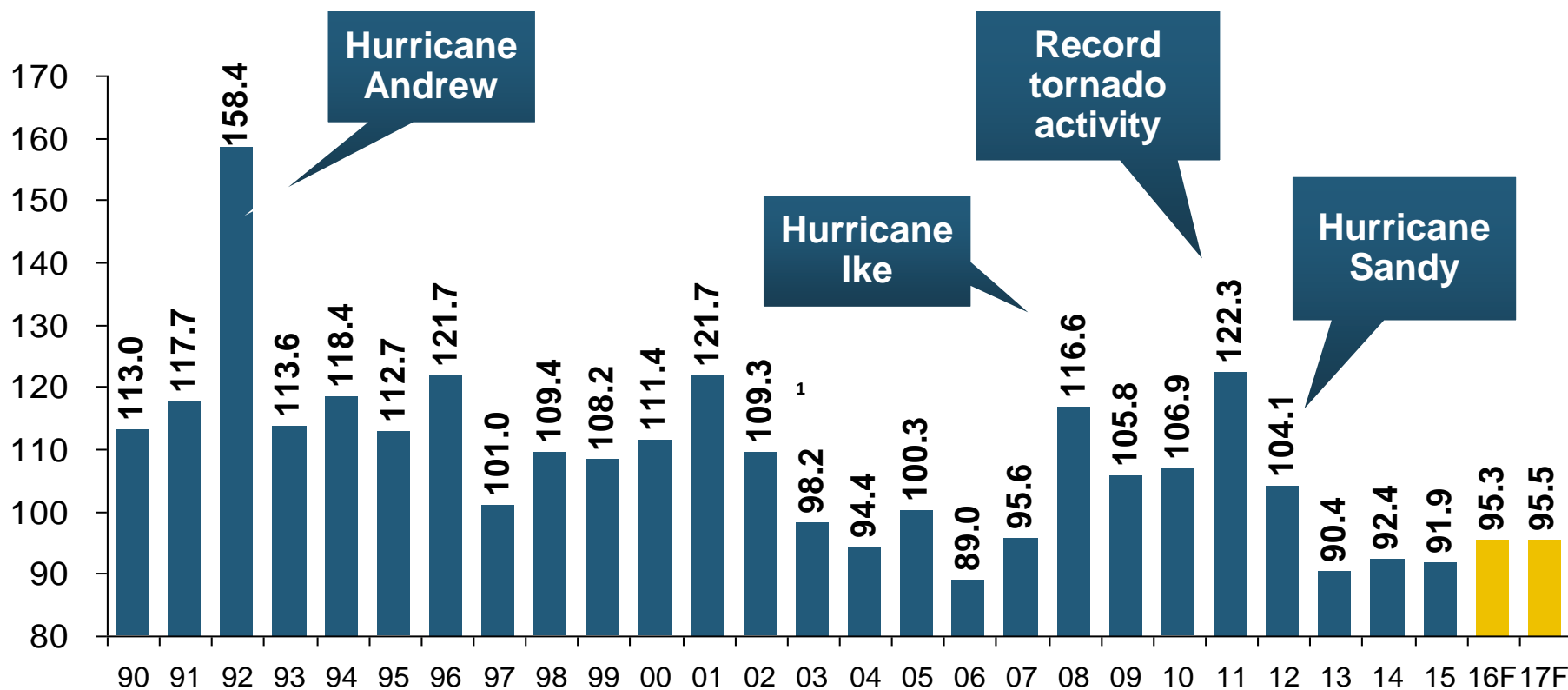
***Auto, Home Underwriting
Performance Exhibit Periods of
Both Stability and Volatility***

Private Passenger Auto Combined Ratio: 1993–2017F



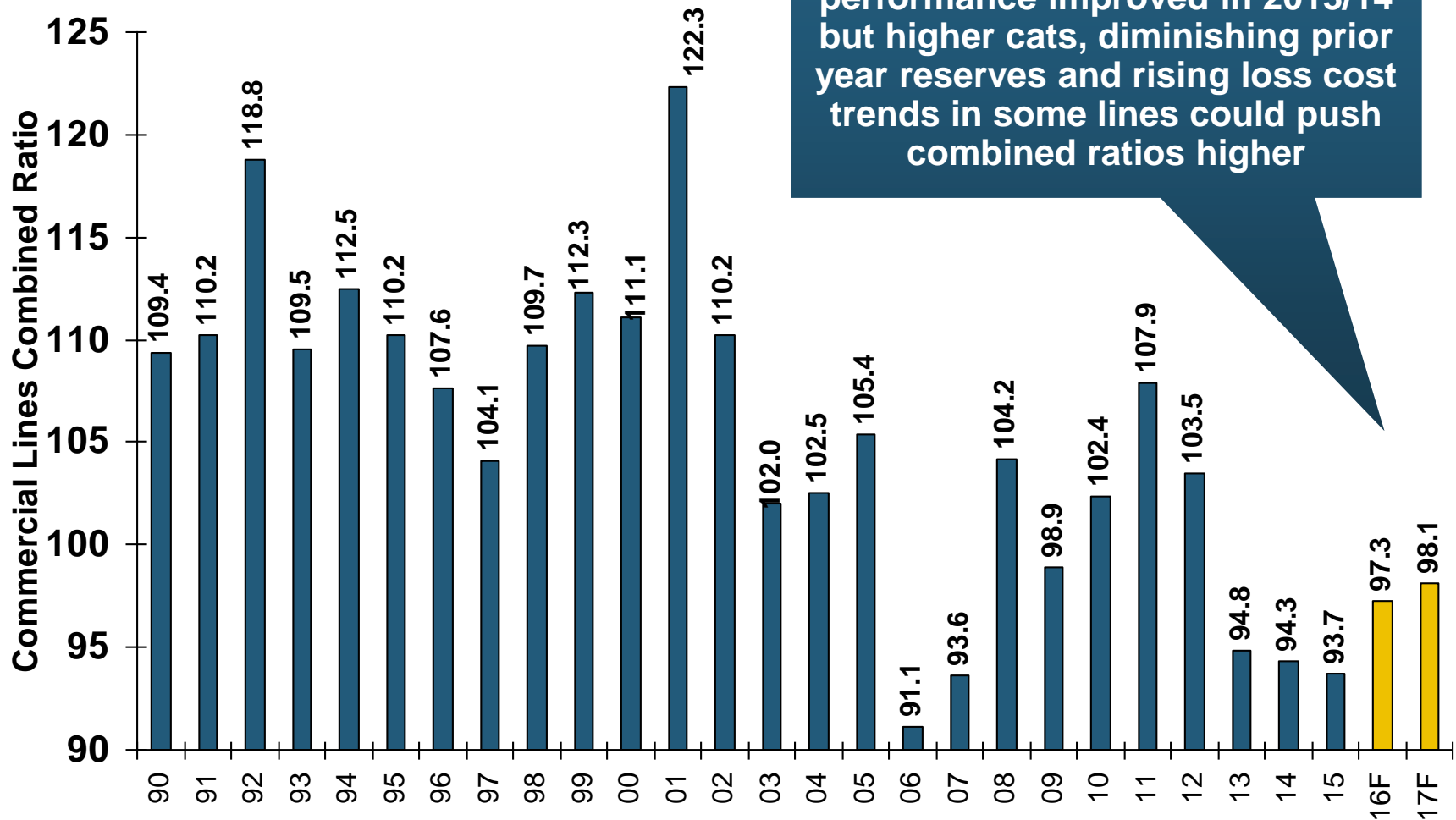
Private Passenger Auto Underwriting Performance Is Showing the Strains of Rising Frequency (and Severity) Trends in Many States

Homeowners Insurance Combined Ratio: 1990–2017F



Homeowners Performance Has Improved Markedly Since the 2011/12's Large Cat Losses. Extreme Regional Variation Can Be Expected Due to Local Catastrophe Loss Activity. Results in 2016 Will Be Impacted by Severe Spring Weather

Commercial Lines Combined Ratio, 1990-2017F*



Commercial lines underwriting performance improved in 2013/14 but higher cats, diminishing prior year reserves and rising loss cost trends in some lines could push combined ratios higher

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

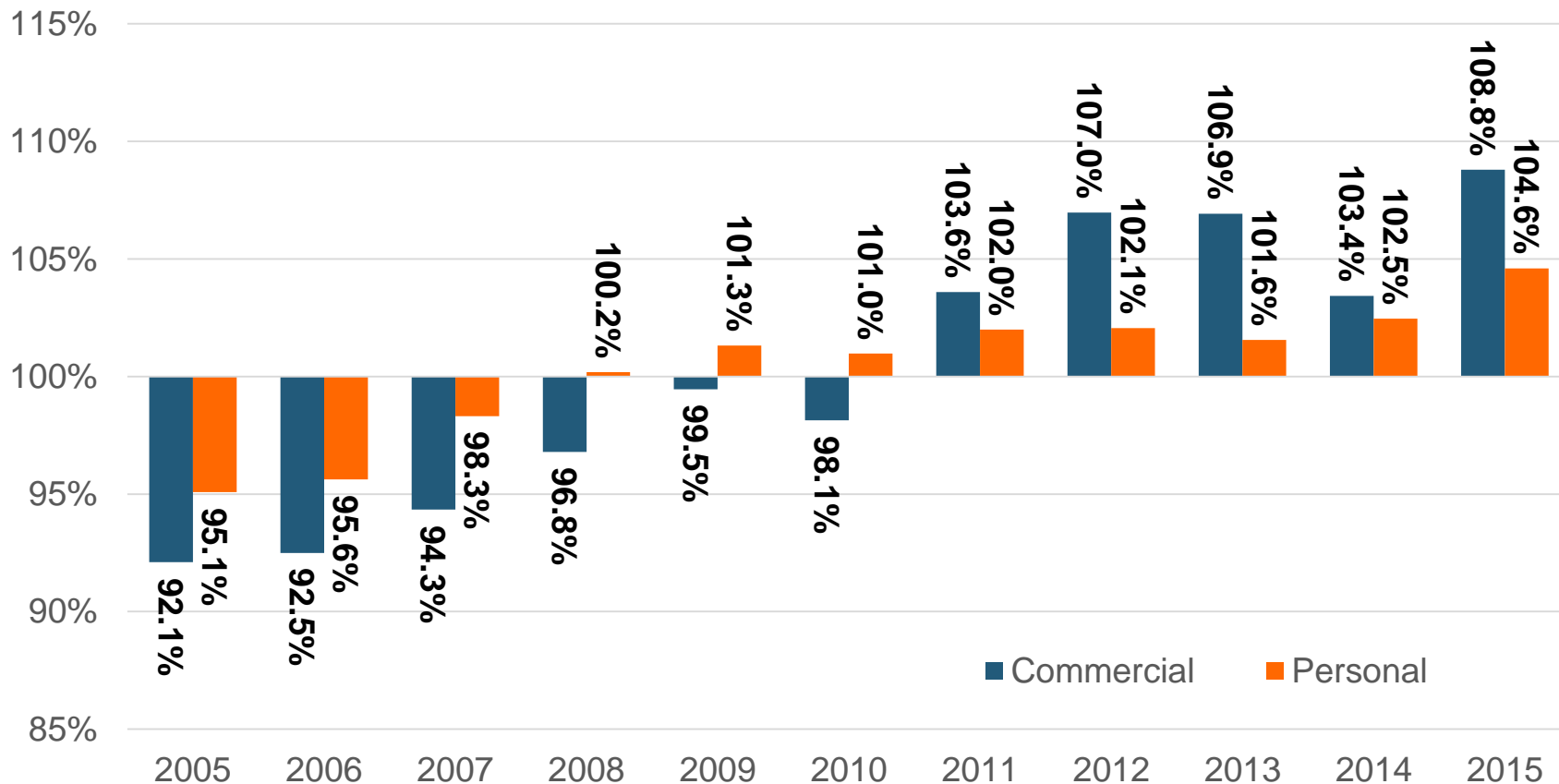
Source: A.M. Best (1990-2015); Conning (2016E-17F) Insurance Information Institute.

Claim Trends in Private Passenger Auto Insurance

**Rising Frequencies and Severities
in Many Coverages**

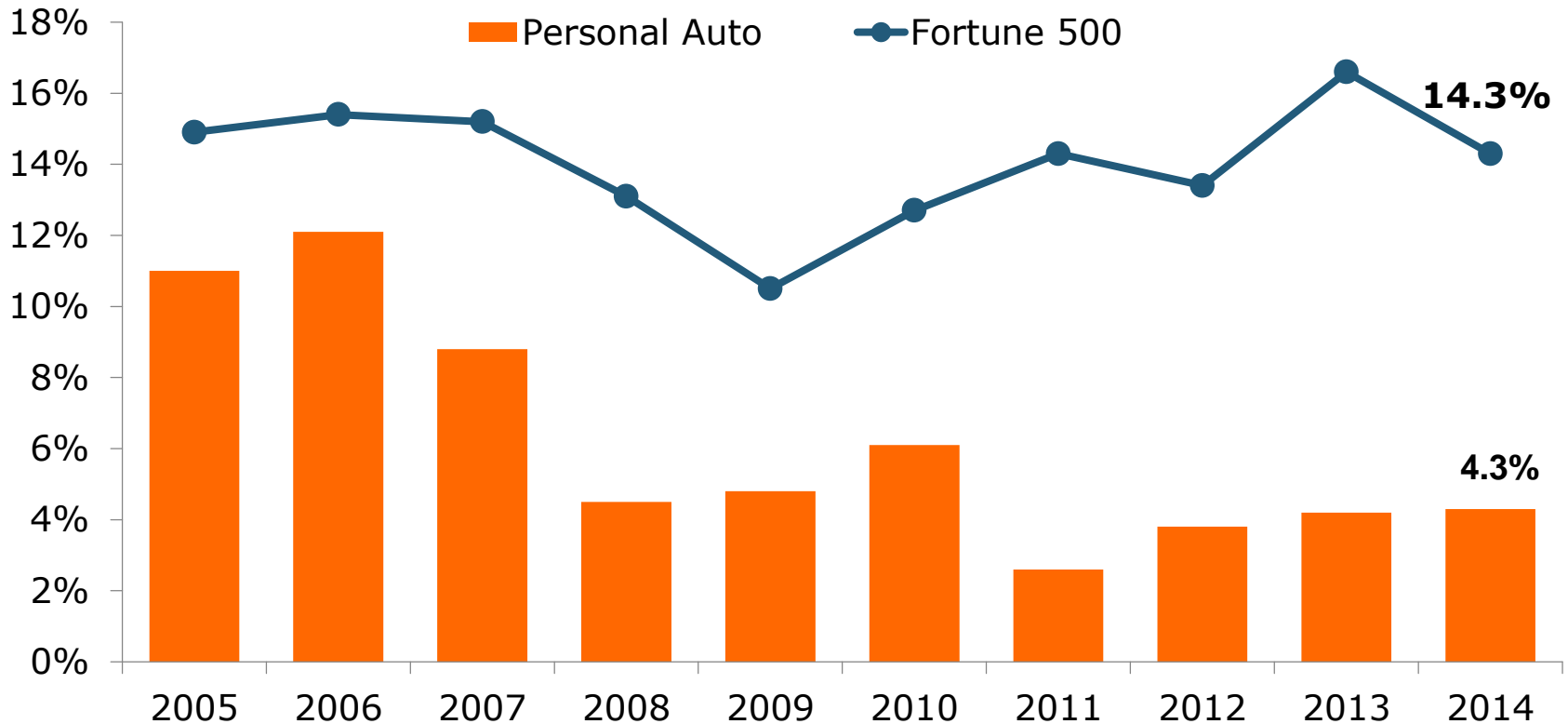
Will that Pattern Be Sustained?

Auto Insurance Net Combined Ratios, Yearly, 2005-2015



**Loss Ratios Have Been Rising for A Decade.
2015 Return on Net Worth Is Likely Close to Zero**

Return on Net Worth: Personal Auto, 2005–2014

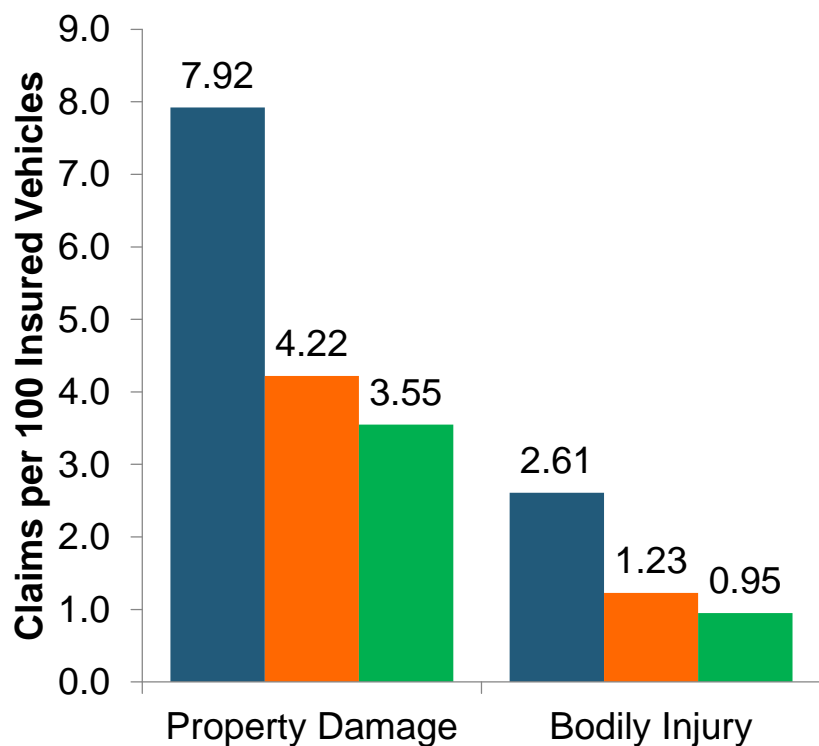


Auto Insurance Profitability Has Been Stuck at Low Levels.

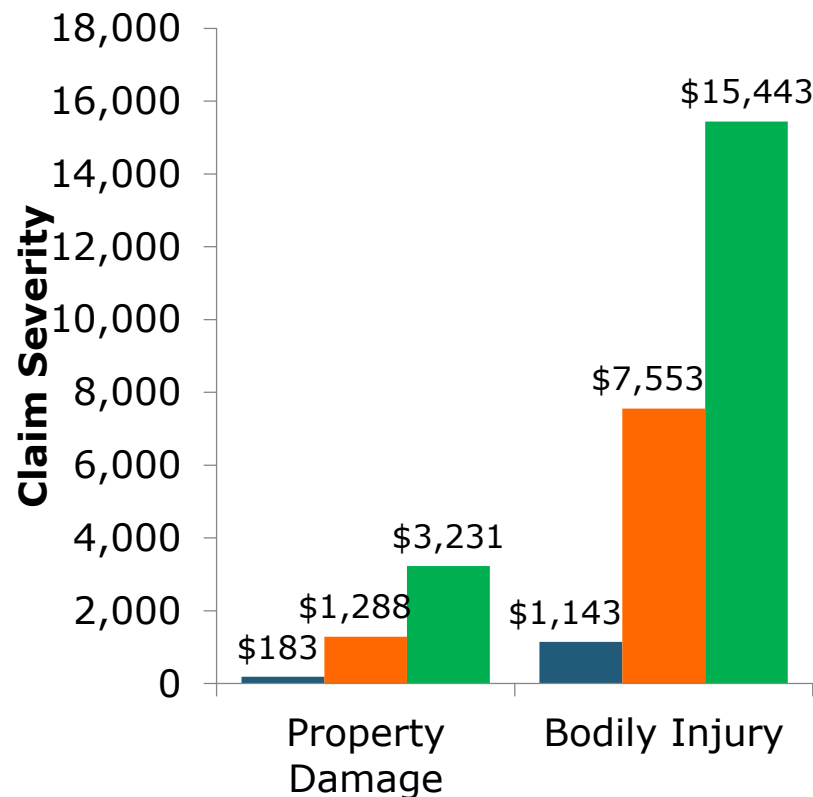
A Half Century of Auto Insurance: Frequency vs. Severity

In the Long Run, Frequency Falls. Severity Increases.

Frequency

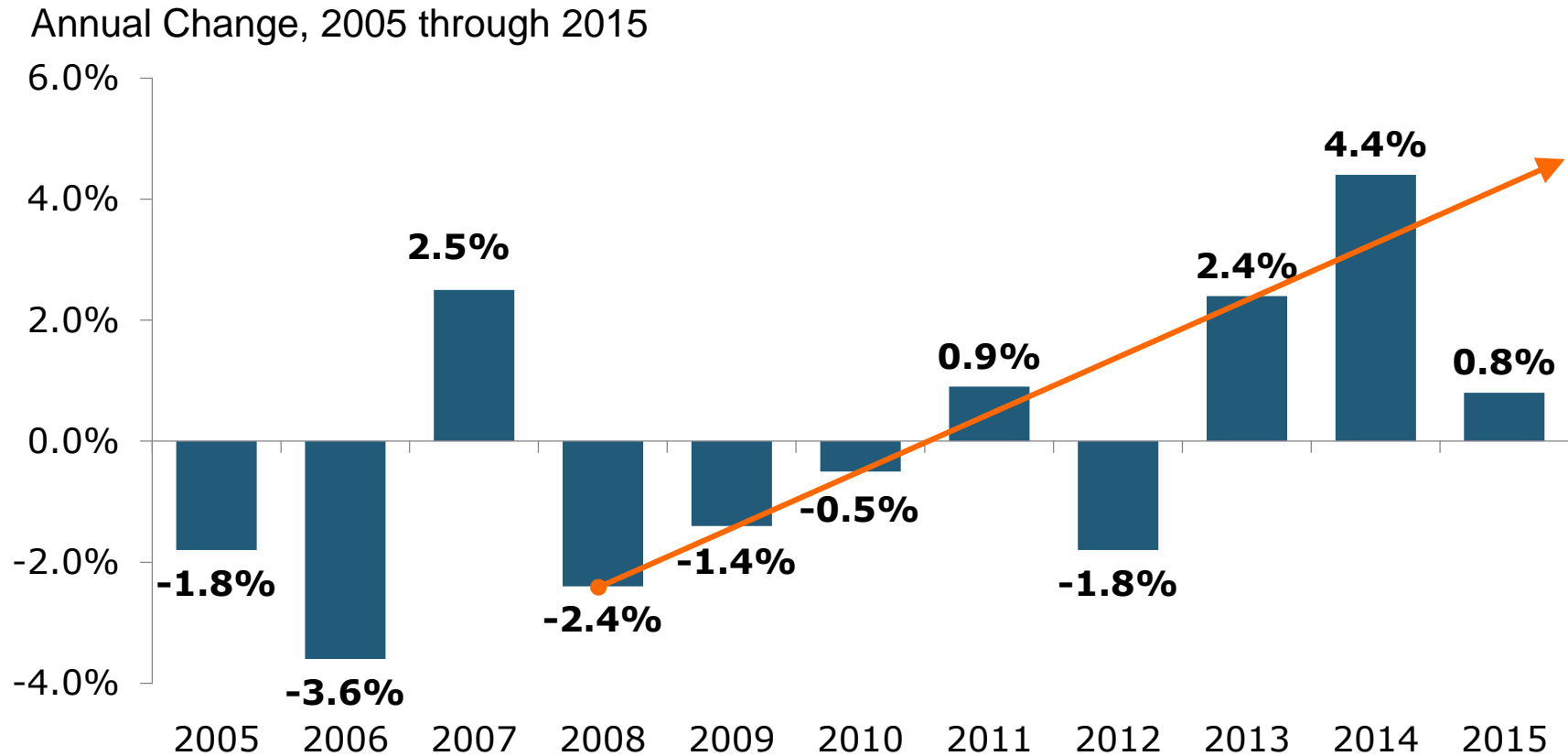


Severity



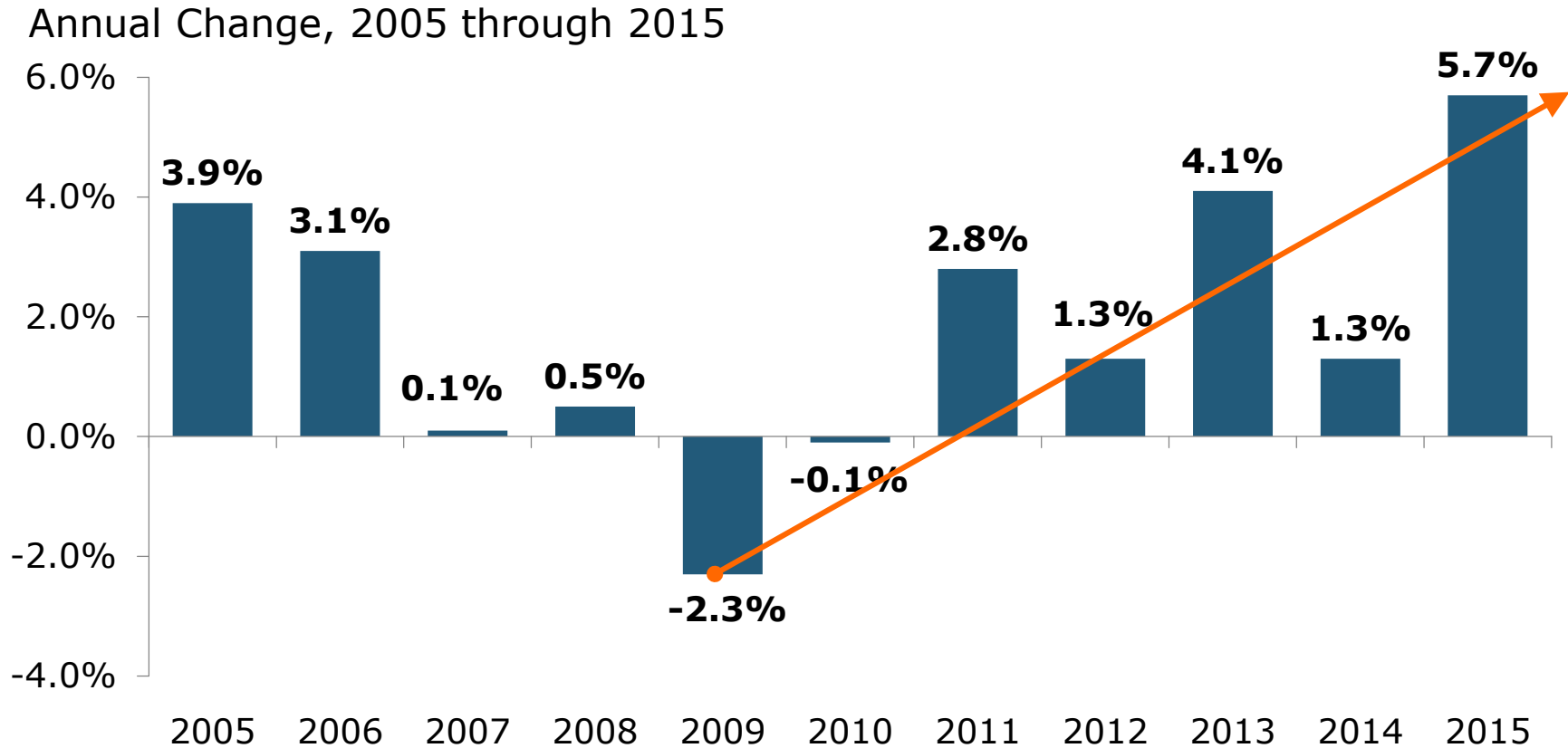
■ 1963 ■ 1988 ■ 2013

Collision Claims: Frequency Trending Higher in 2015



For a Long Time, Claim Frequency Was Falling, But Since 2010 This Trend Seems to Have Reversed.

Collision Claims: Severity Trending Higher in 2009-2015



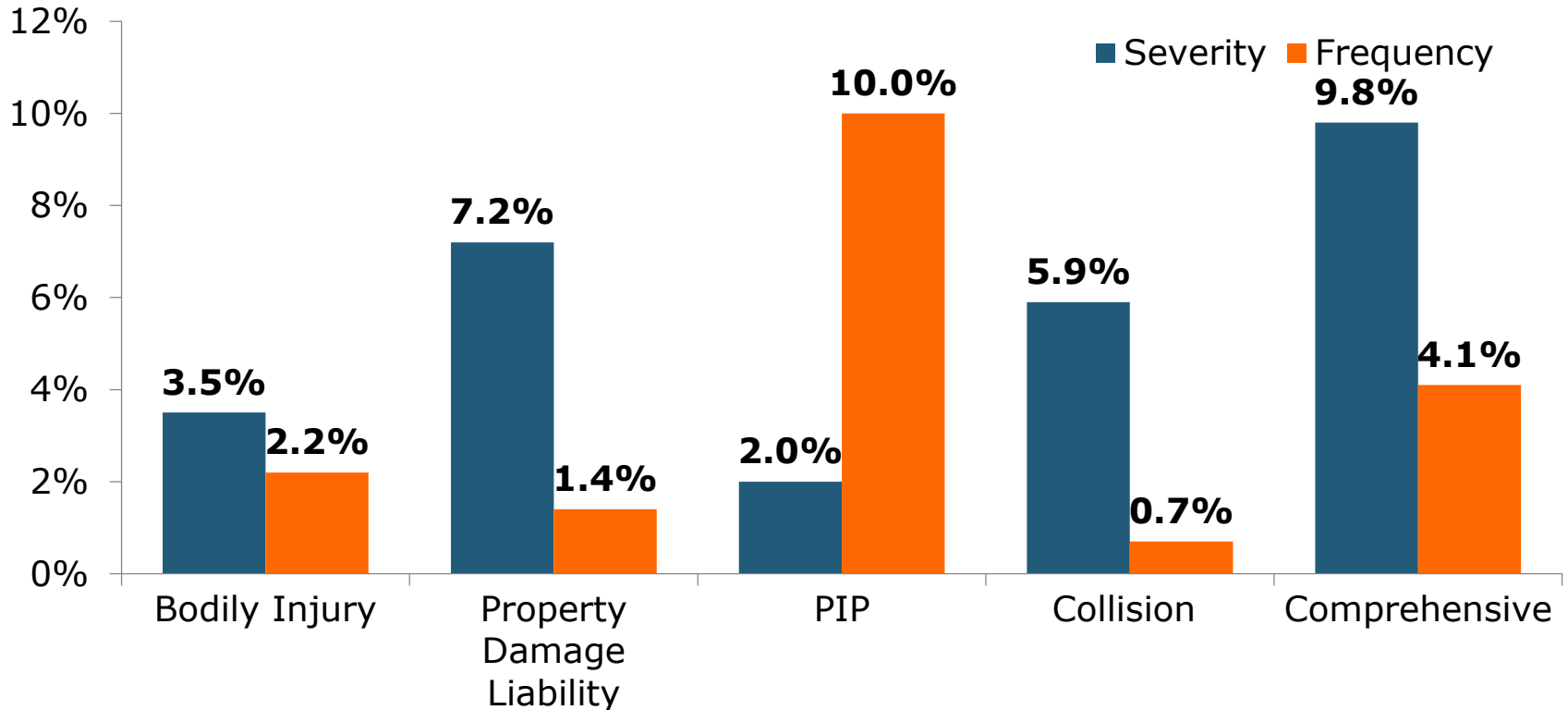
The Great Recession and High Fuel Prices Helped to Temper Claim Severity, But These forces Have Clearly Reversed, Consistent with Experience from Past Recoveries.

Some Comments on Frequency and Severity Trends and Insurance Markets

- Over the long run, falling frequency and rising severity are the norm in auto insurance (personal and commercial)
- The phenomenon of falling frequency and rising severity is not confined to auto lines
- It is almost a “Law of Insurance Physics”
- The same trends have been observed in many lines for decades:
 - ◆ Workers Comp Aviation Marine
 - ◆ Fire Life
- Lines of insurance that do not follow this pattern tend to manifest/suffer from certain economic defects:
 - ◆ Adverse Selection and Moral Hazard (e.g., Health, Flood, some Coastal Property markets, Social Security Disability)
 - ◆ Some of these defects are attributable to subsidies, others to informational asymmetries (less of an issue in auto)

Why Personal Auto Loss Ratios are Rising: Severity & Frequency by Coverage, 2016* vs. 2015

Annual Change, 2016*
Over 2015



Frequency and Severity Rose Are Rising Across All Personal Coverage Types in 2016

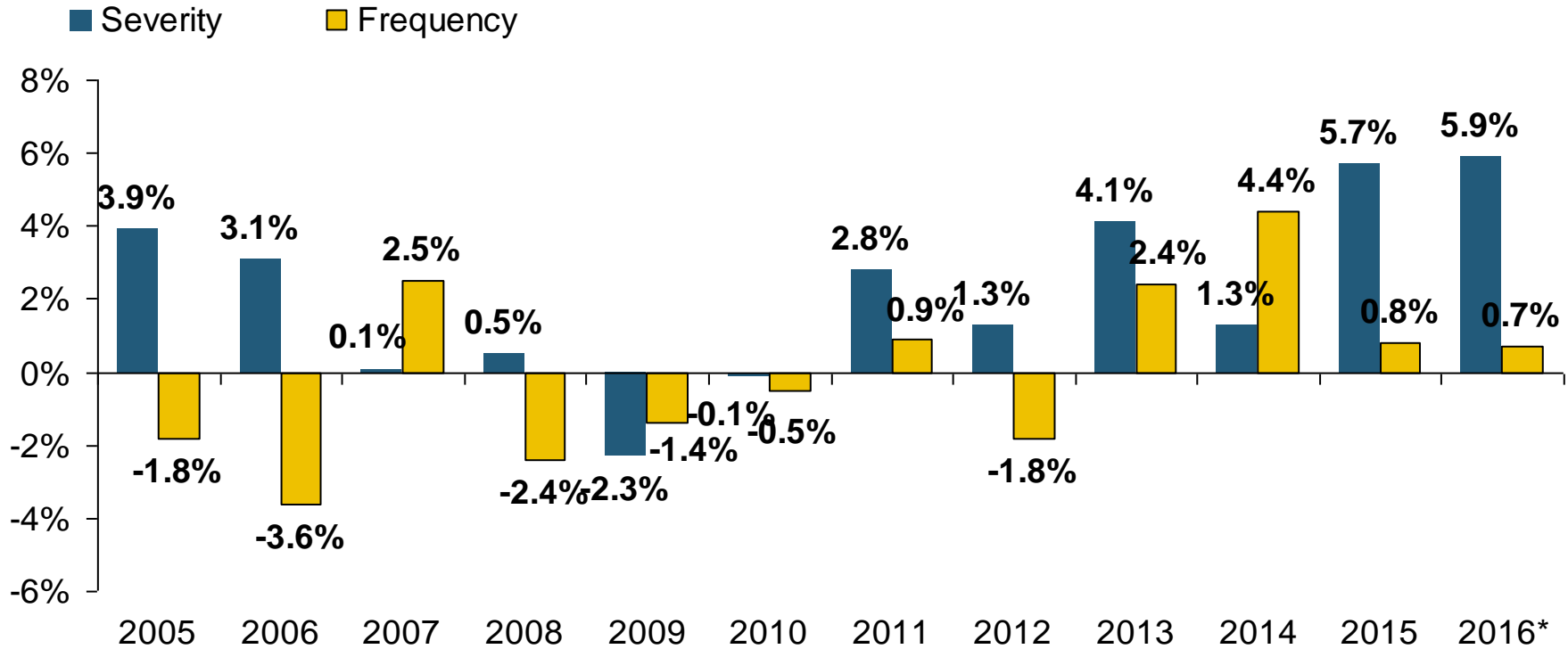
*Data are for the 4 quarters ending in 2016:Q2.

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

Collision Coverage: Severity & Frequency Trends Are Both Higher in 2016



Annual Change, 2005 through 2016*

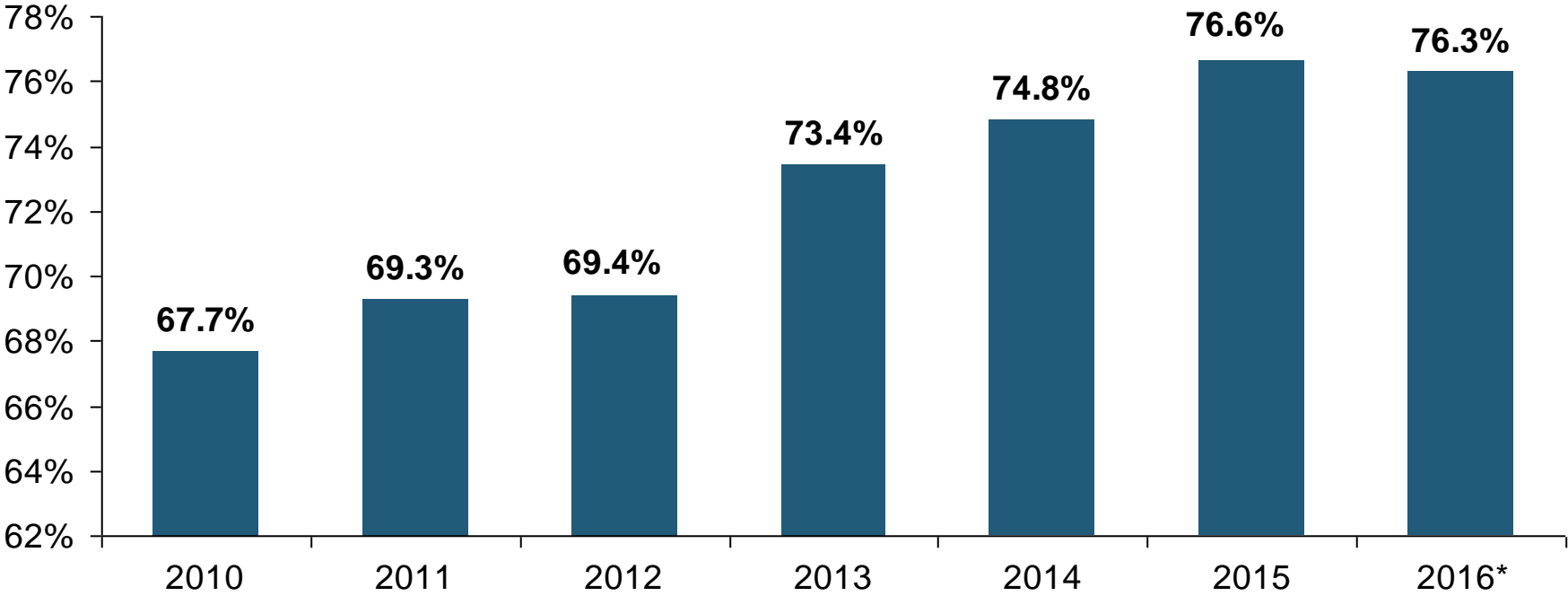


The Recession, High Fuel Prices Helped Temper Frequency and Severity, But this Trend Has Clearly Reversed, Consistent with Experience from Past Recoveries

*Four quarters ending with 2016 Q2.
 Source: ISO/PCI Fast Track data; Insurance Information Institute

Collision Loss Ratio Trending Upward: Private Passenger Auto, 2010 – 2016*

Loss Ratio

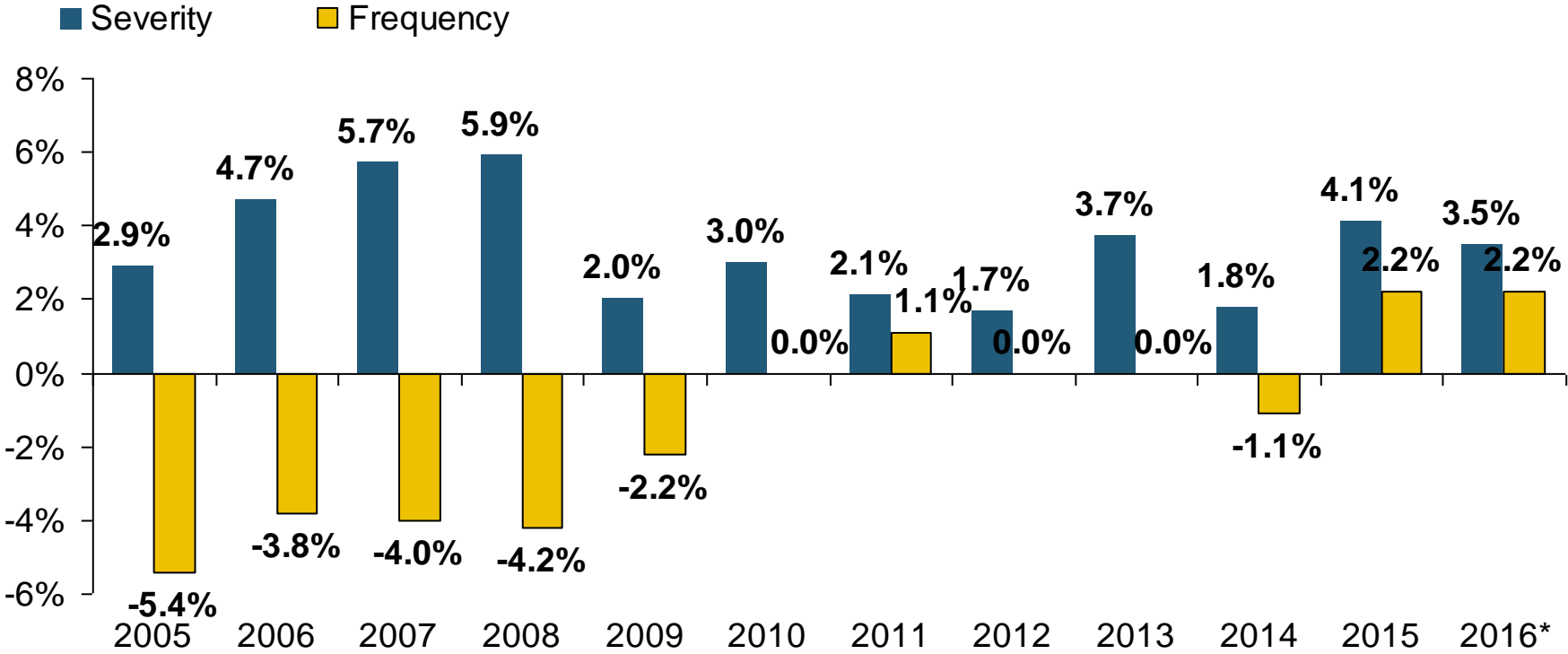


Collision Loss Ratios are Trending Steadily Upward

*2016 figure is for the 4 quarters ending in 2016:Q2.
Source: ISO/PCI *Fast Track* data; Insurance Information Institute

Bodily Injury: Severity Trend Is Up, Frequency Decline Has Ended—Rising?

Annual Change, 2005 through 2016*

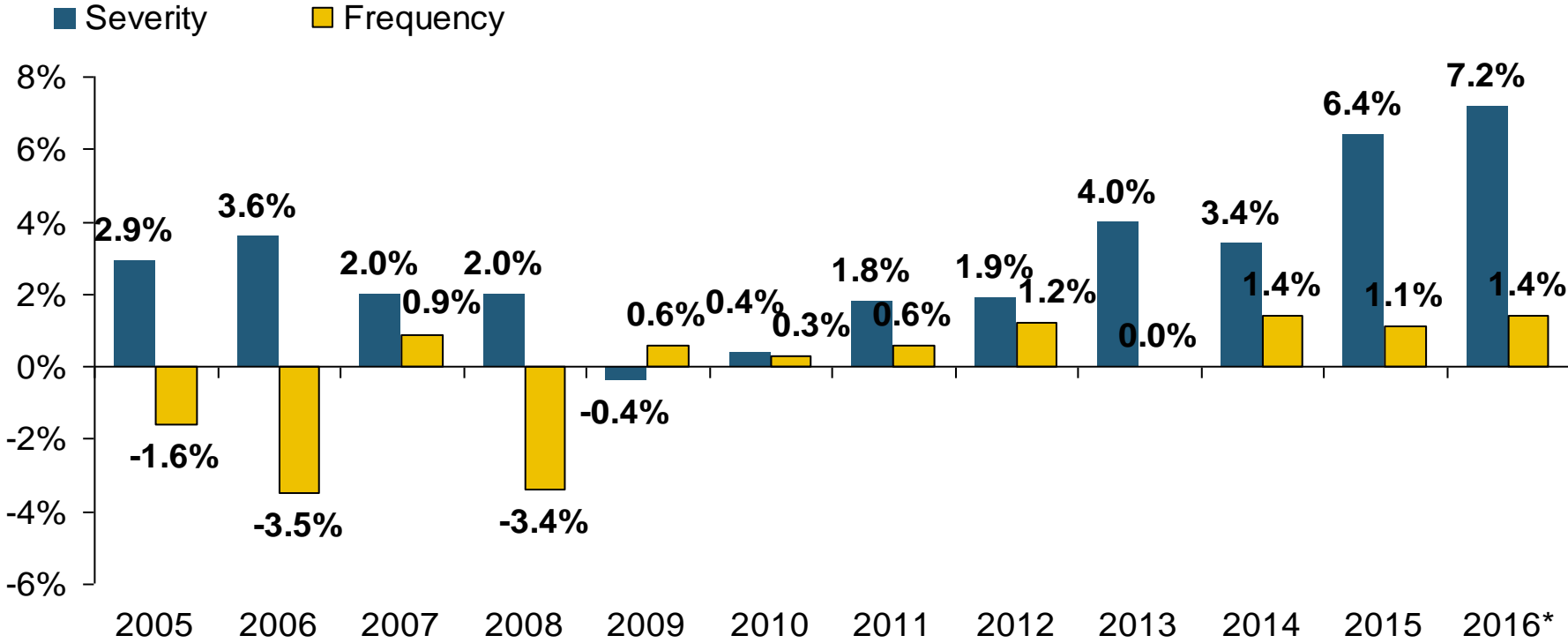


Cost Pressures Will Increase if BI Frequency and Severity Trends Persist

*2016 figure is for the 4 quarters ending 2016:Q2.
 Source: ISO/PCI *Fast Track* data; Insurance Information Institute

Property Damage Liability: Severity and Frequency Are Up

Annual Change, 2005 through 2016*



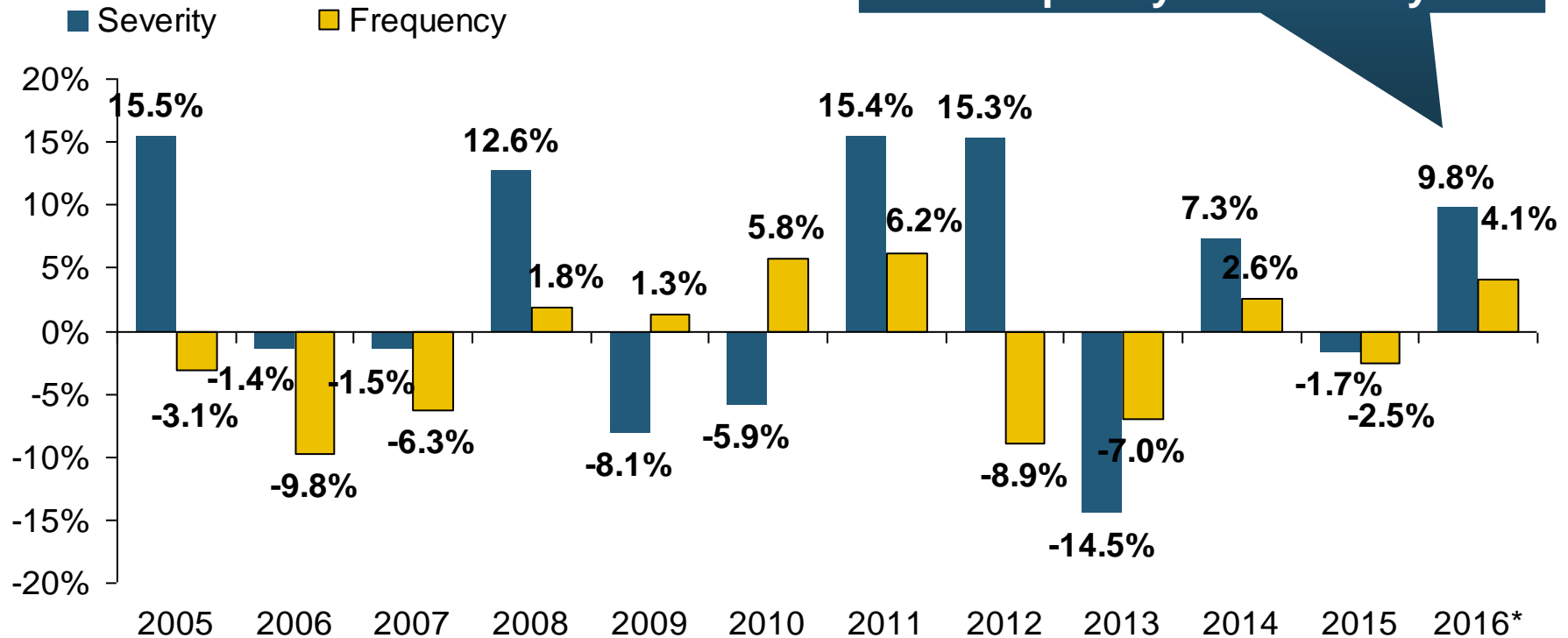
Severity/Frequency Trends Have Been Volatile, But Rising Severity since 2011 Is a Concern

*2016 figure is for the 4 quarters ending 2016:Q2.
 Source: ISO/PCI *Fast Track* data; Insurance Information Institute

Comprehensive Coverage: Frequency and Severity Trends Are Volatile

Annual Change, 2005 through 2016*

Severe weather is a principal cause of the spikes in both frequency and severity



Weather Creates Volatility for Comprehensive Coverage

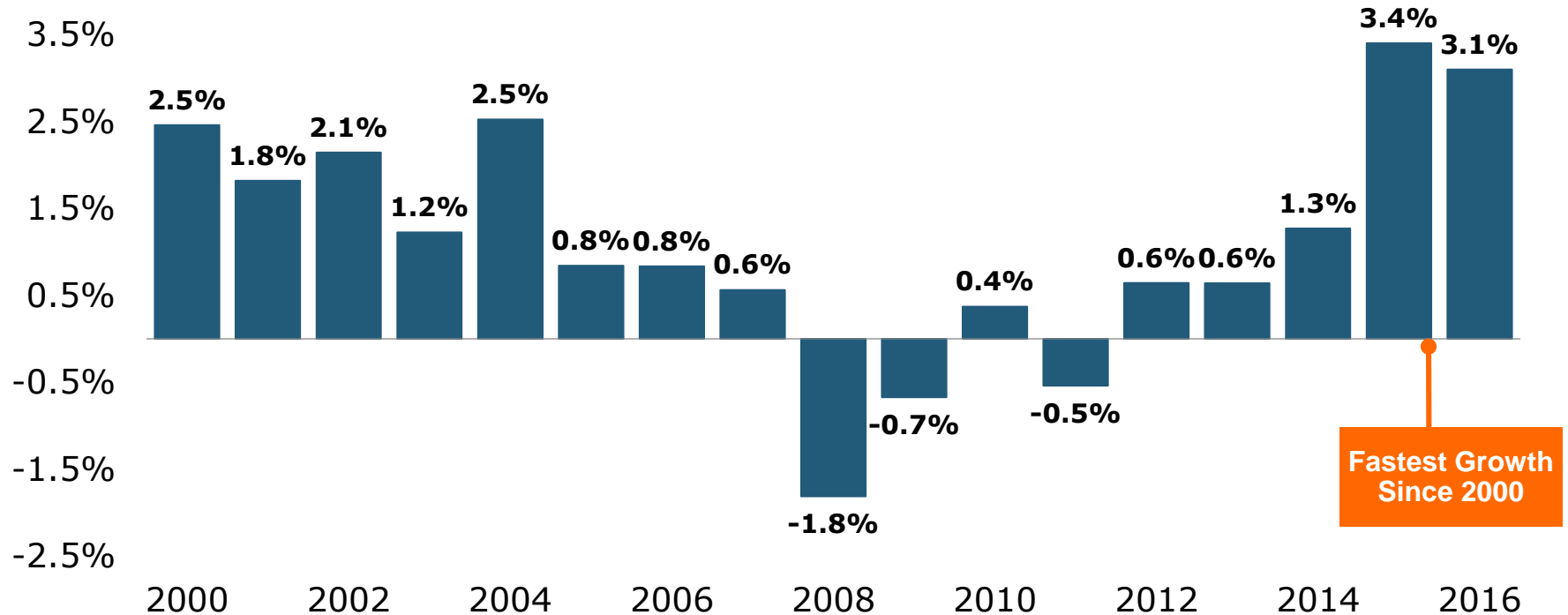
*2016 figure is for the 4 quarters ending 2016:Q2.
Source: ISO/PCI Fast Track data; Insurance Information Institute

A Few Factors Driving Adverse Private Passenger Auto Loss Trends

**More People Driving, More Miles
Driven, Lower Gas Prices,
Higher Speed Limits...**

America is Driving More Again: 2000-2016

Percent Change, Miles Driven*



Fastest Growth
Since 2000

Tremendous Growth In Miles Driven. The More People Drive, The More Frequently They Get Into Accidents.

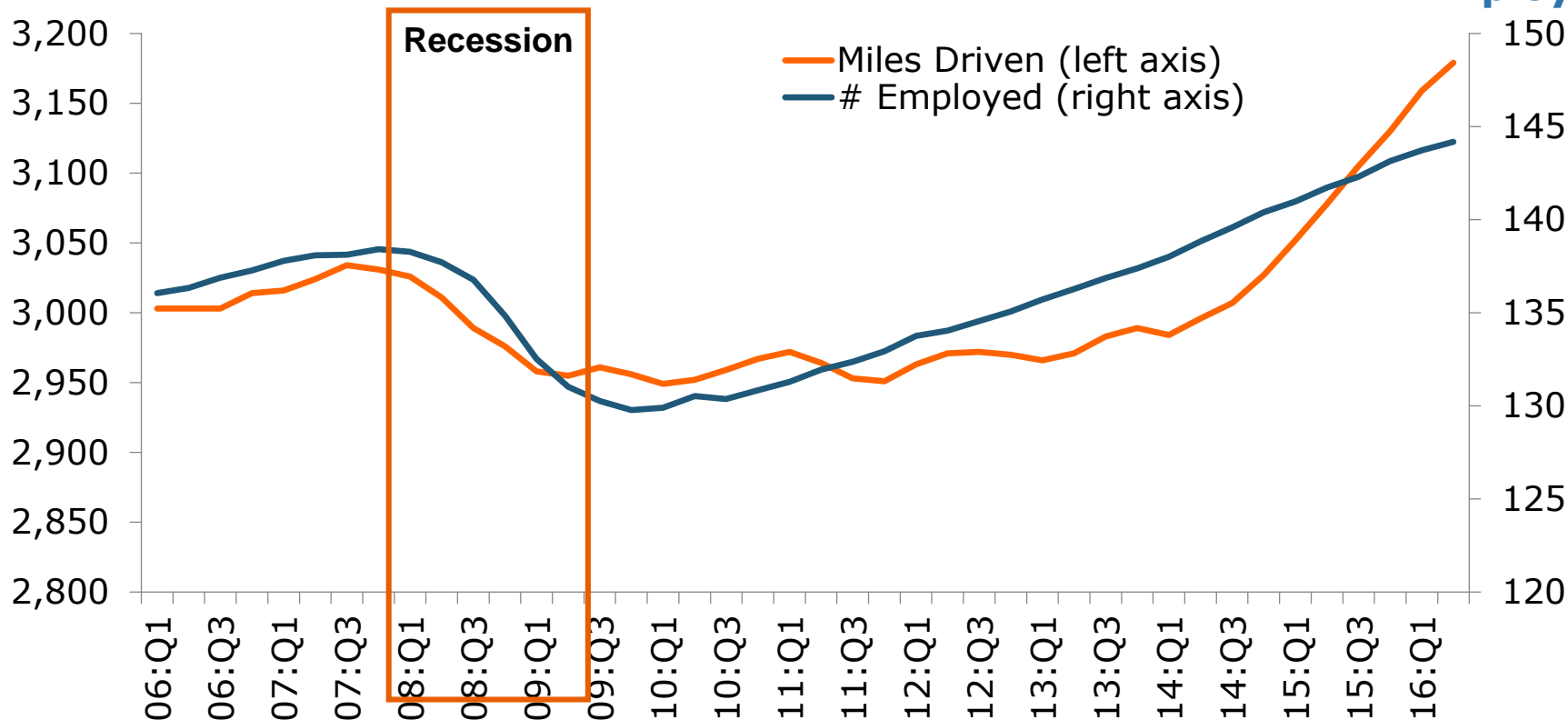
*2000-2015: Moving 12-month total vs. prior year. 2016 data through July 2016, the latest available, vs. July 2015.

Sources: [Federal Highway Administration](#); National Bureau of Economic Research (recession dates); Insurance Information Institute.

Why Are People Driving More Miles? Is it Jobs? 2006-2016:Q2

**Billions of Miles Driven
in Prior Year**

**Millions
Employed**

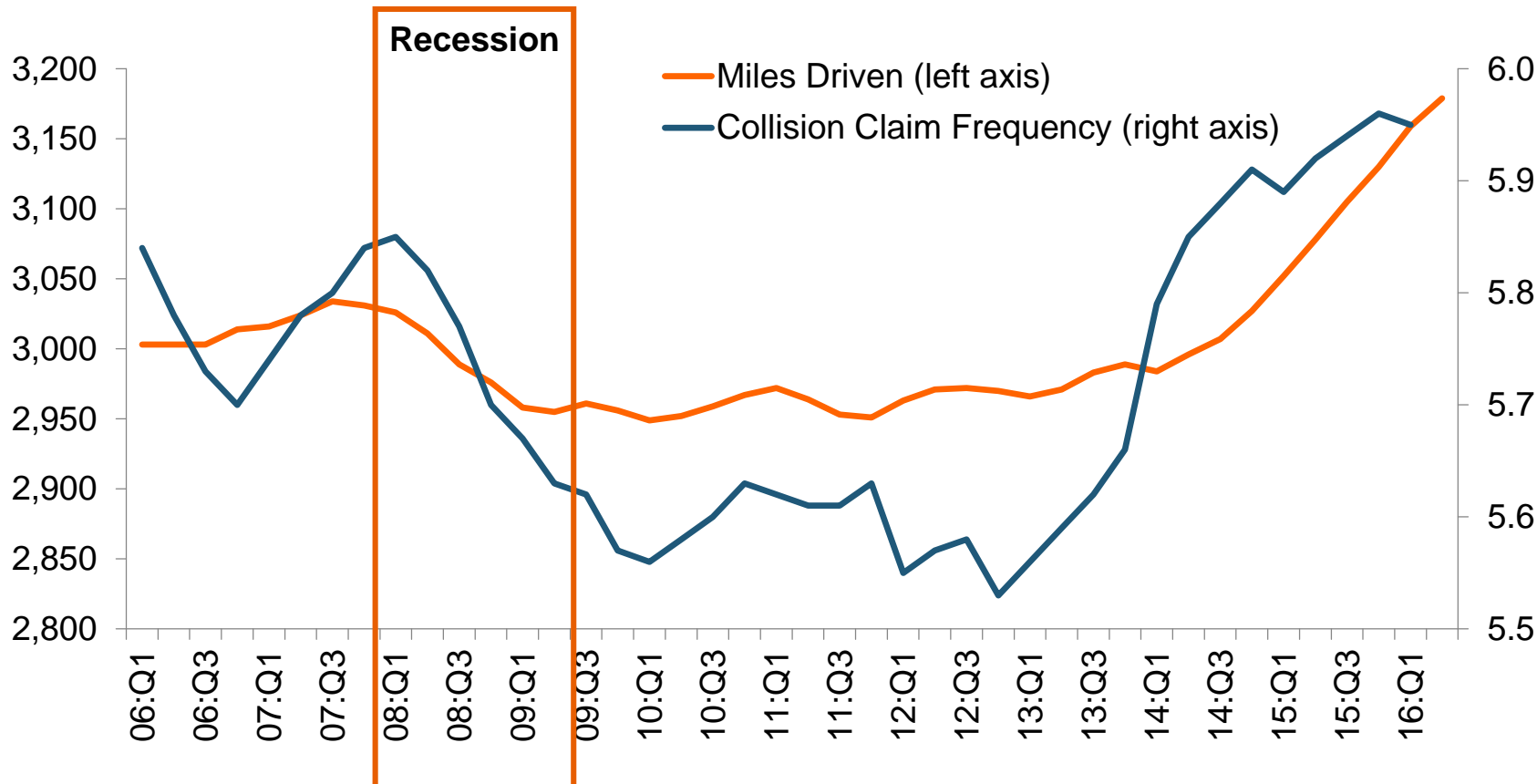


**People Drive to and from Work and Drive to Entertainment.
Out of Work, They Curtail Their Movement.**

More Miles Driven → More Collisions, 2006-2016:Q2

Billions of Miles
Driven in Prior Year

Overall Collision Claims
Per 100 Insured Vehicles



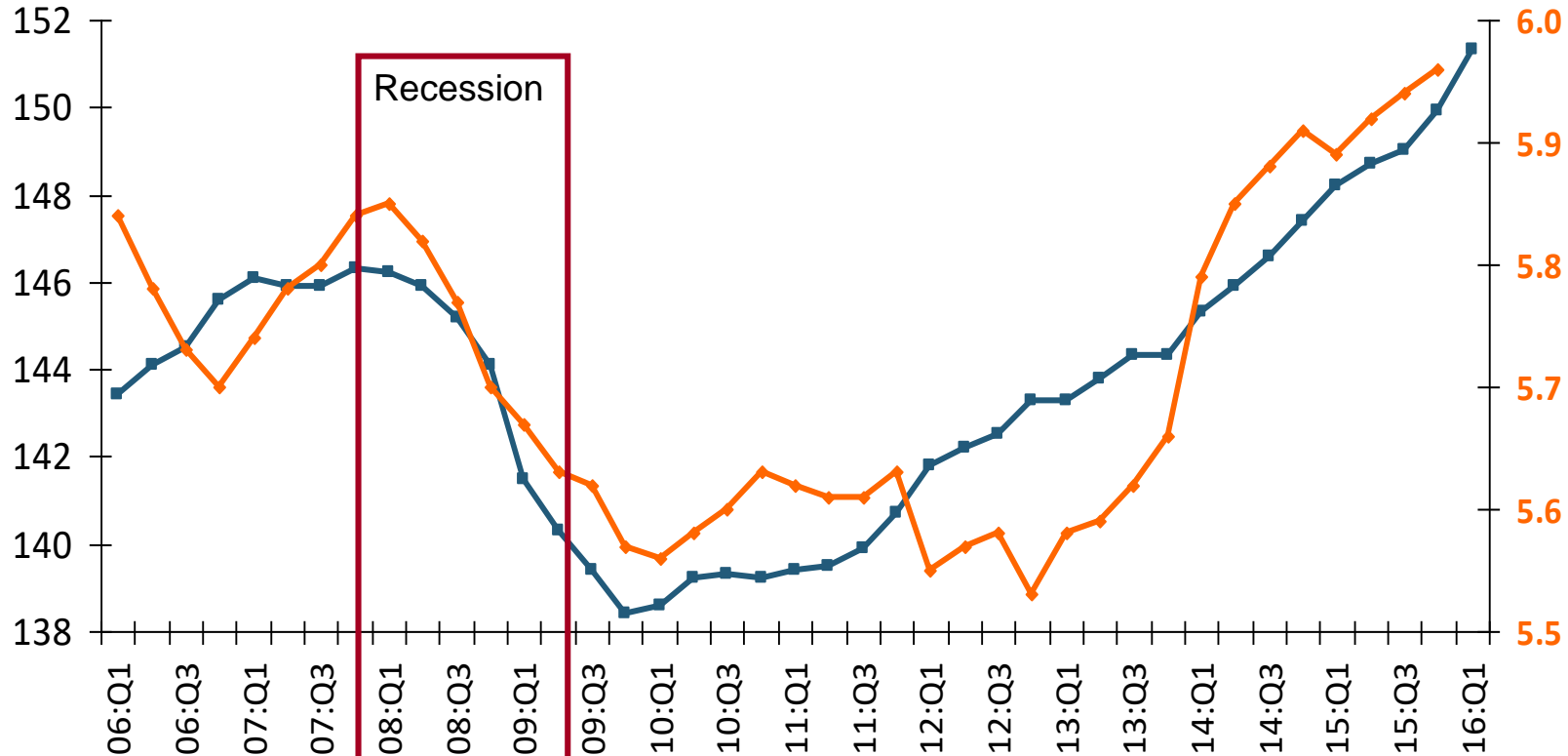
The More Miles People Drive, the More Likely They are to Get in an Accident, Helping Drive Claim Frequency Higher.

More People Working and Driving => More Collisions, 2006-2016

Number
Employed,
Millions

■ Number Employed (left scale) ◆ Collision Claim Frequency (right scale)

Overall
Collision Claims
Per 100 Insured
Vehicles



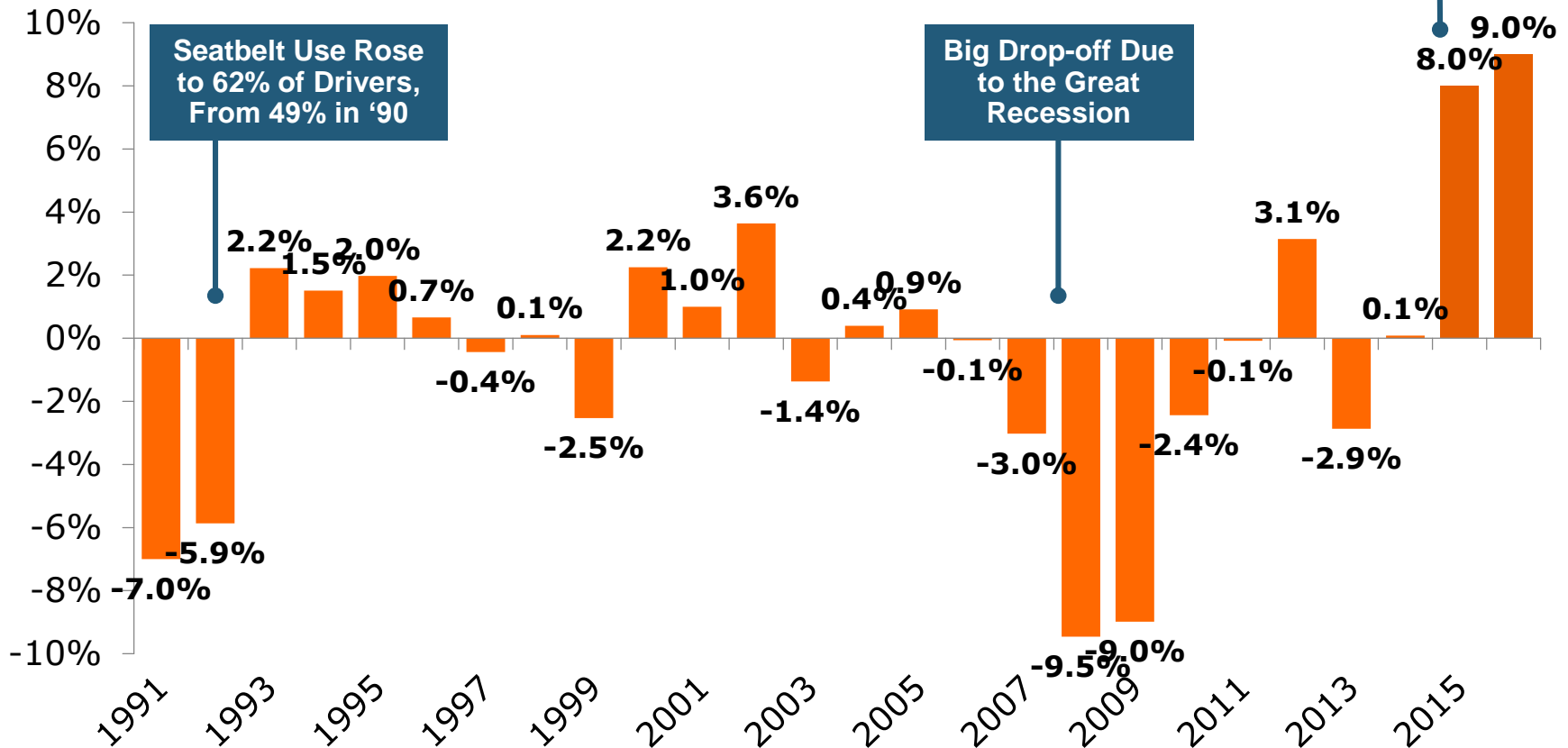
When people are out of work, they drive less. When they get jobs, they drive to work, helping drive claim frequency higher.

Sources: Seasonally Adjusted Employed from Bureau of Labor Statistics; Rolling Four-Qtr Avg. Frequency from Insurance Services Office; Insurance Information Institute.

Severity: Driving Fatalities are Rising

On Track for 18% Increase in Two Years

Annual Change in Motor Vehicle Deaths



Seatbelt Use Rose to 62% of Drivers, From 49% in '90

Big Drop-off Due to the Great Recession

Driving Has Been Getting Safer for Decades, But Recent Trend is Discouraging—38,300 Deaths in 2015.

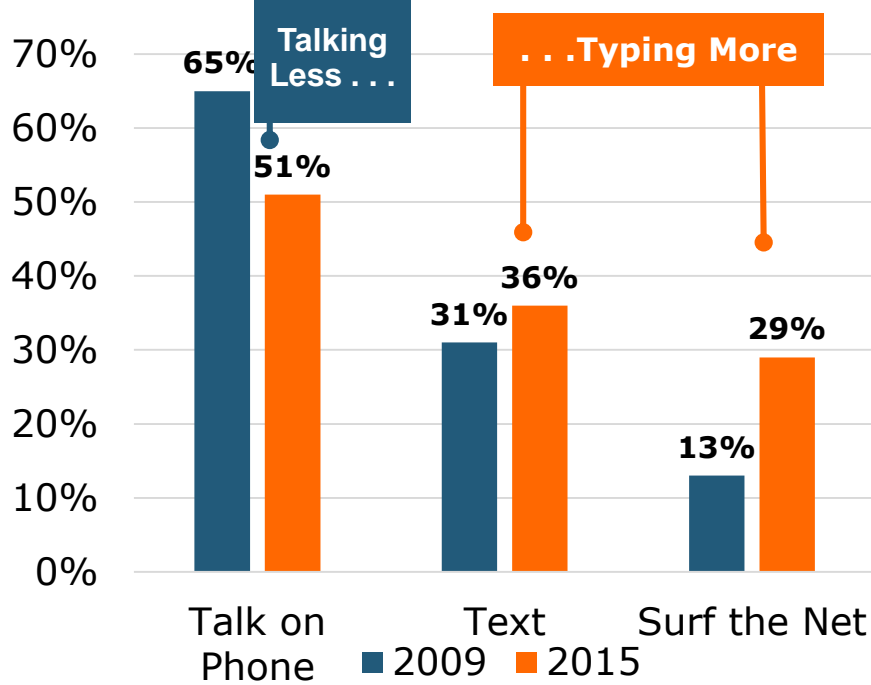
Sources: National Safety Council, Insurance Information Institute.

What About Distractions?

It's A Problem. But Is It Growing?

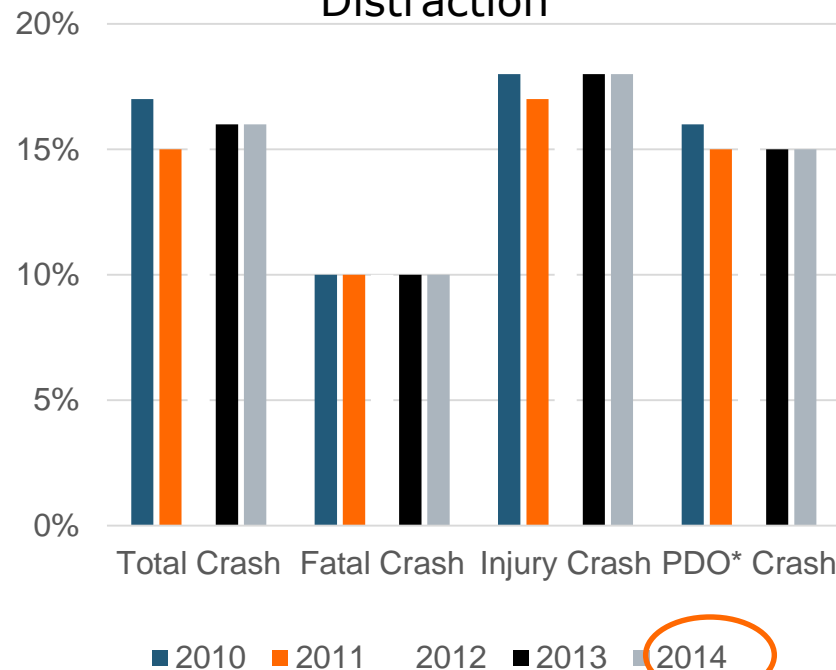
What We Do Behind The Wheel

Percentage of Drivers Who . . .



But Impact Is Not Clear

Percentage of Crashes Involving Distraction

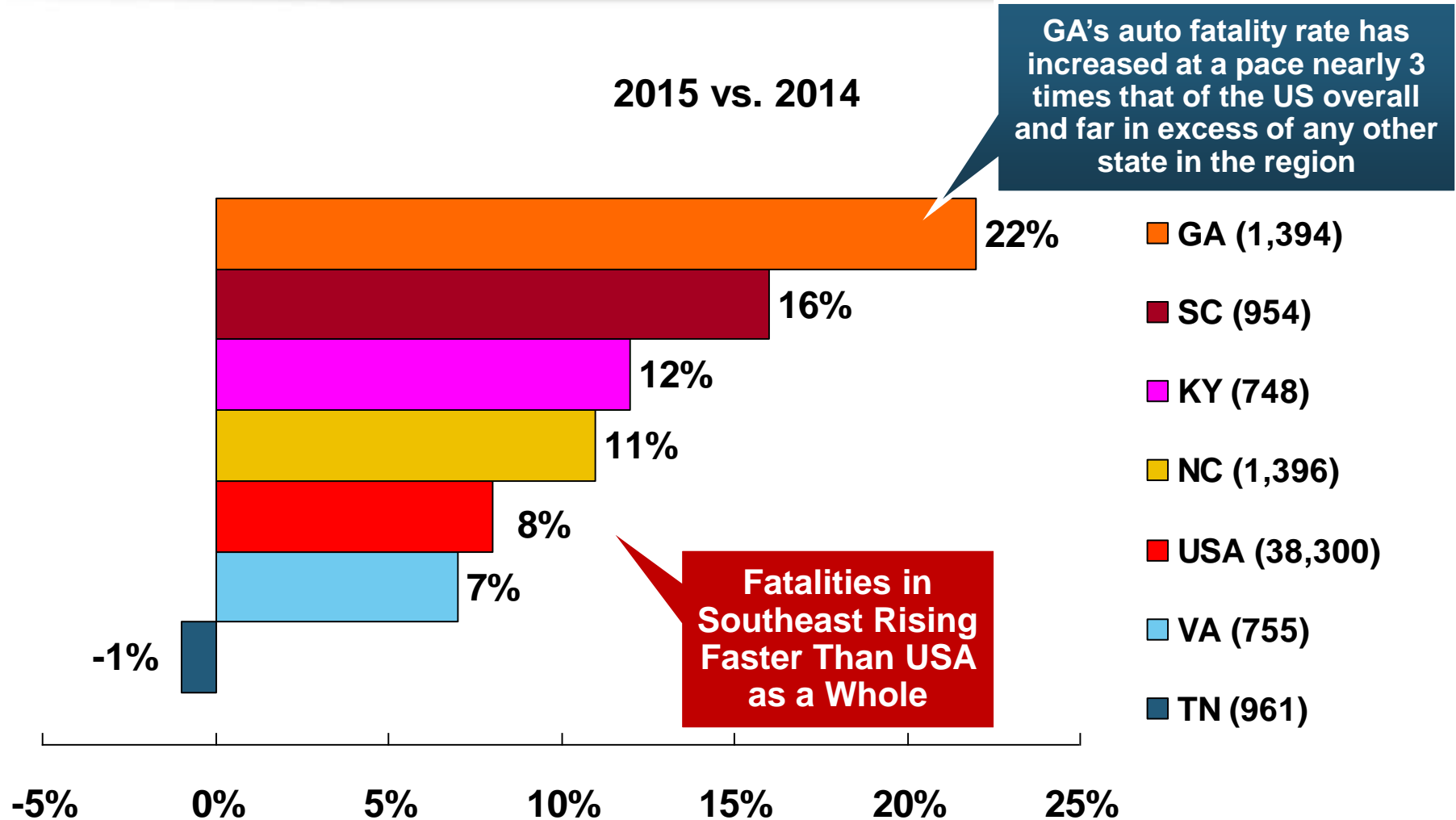


* Property Damage Only.

SOURCES: State Farm, National Highway Transportation Safety Administration (distraction.gov)

Most Recent Year

Change in Auto Fatalities by State: Especially Severe in Georgia

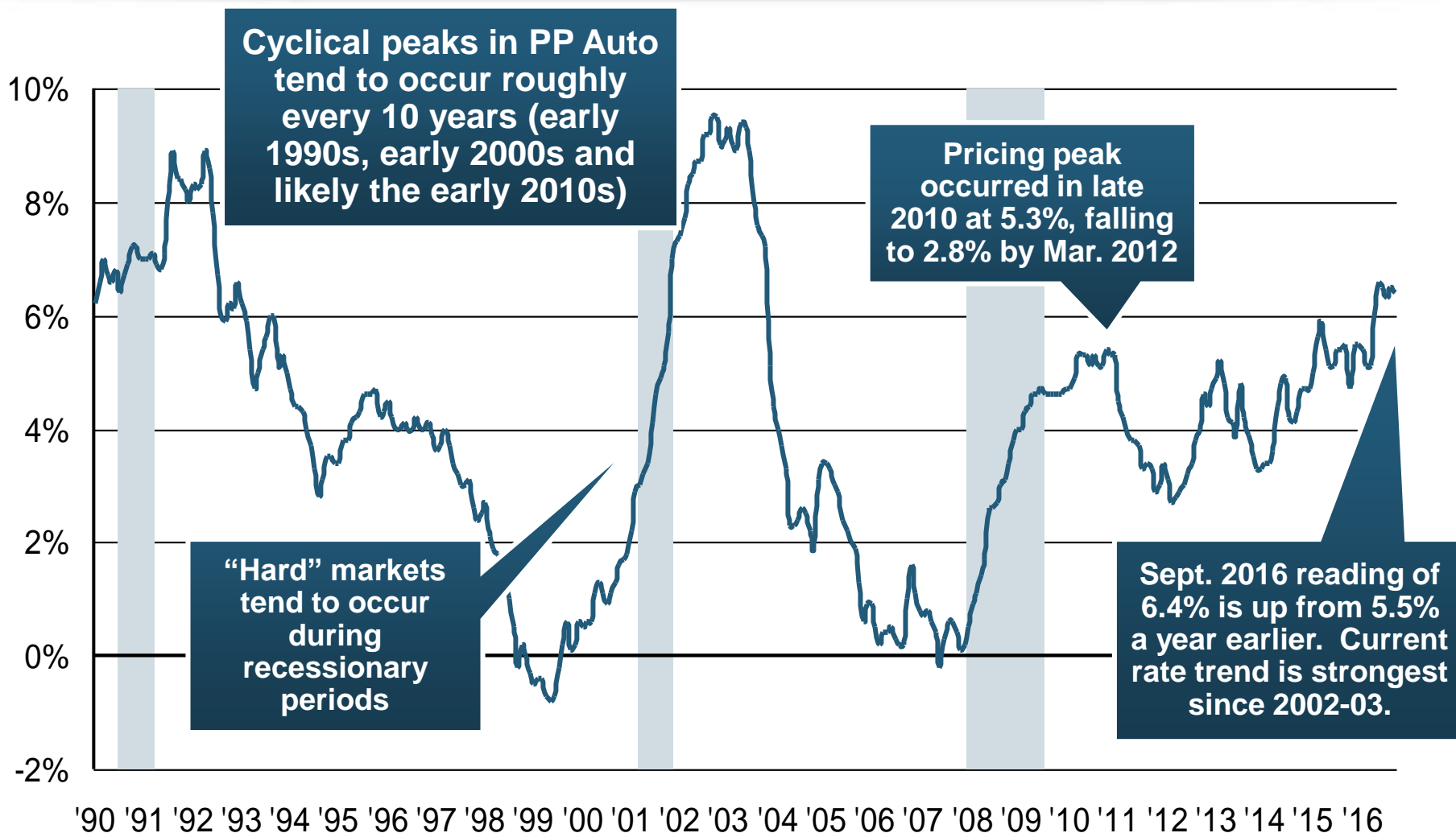


SOURCE: Estimates from National Safety Council.

Personal Lines Growth Drivers

**Rate and Exposure are Both
Presently Important
Growth Drivers**

Monthly Change in Auto Insurance Prices, 1991–2016*

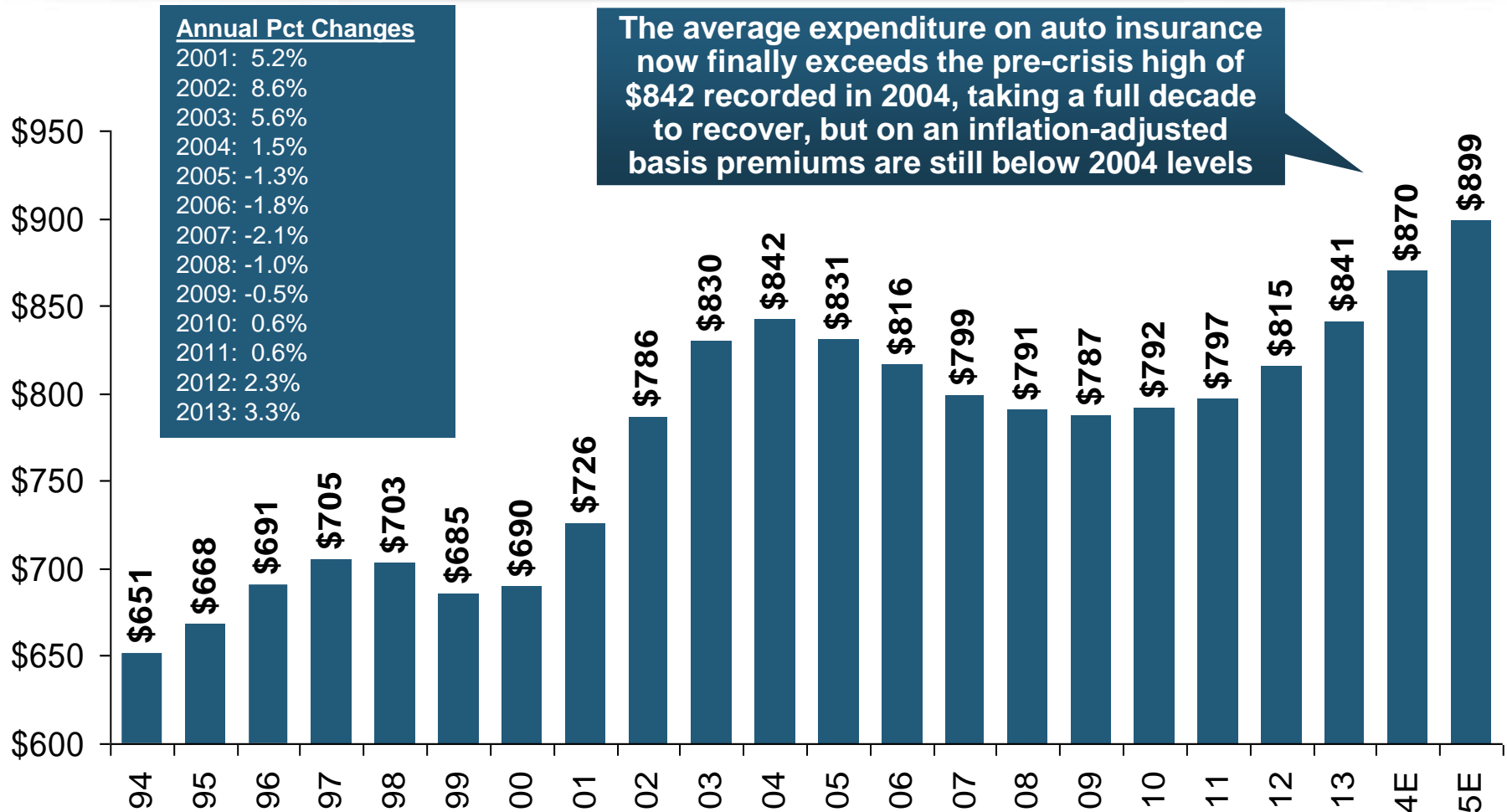


*Percentage change from same month in prior year; through Sept. 2016; seasonally adjusted

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, 1994-2015E

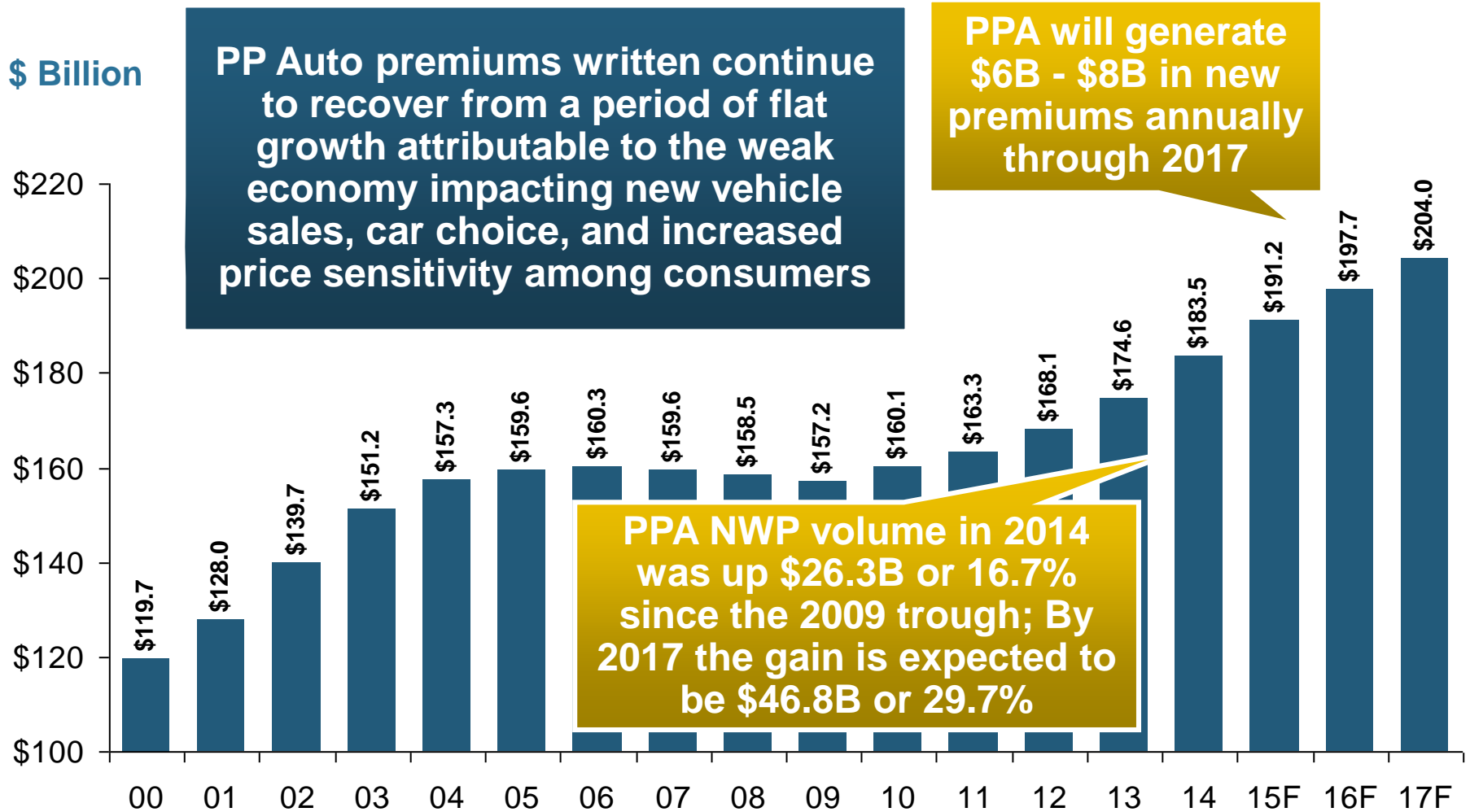


Across the U.S., auto insurance expenditures fell by 0.8% in 2008 and 0.5% in 2009 but rose 0.5% in 2010, 0.8% in 2011, 2.3% in 2012 and 3.3% in 2013; I.I.I. estimate is for +3.4% in 2014 and 2015.

* The NAIC data are per-vehicle (actually, per insured car-year)

Sources: NAIC for 1994-2013; Insurance Information Institute estimates for 2014-2015 based on CPI and other data.

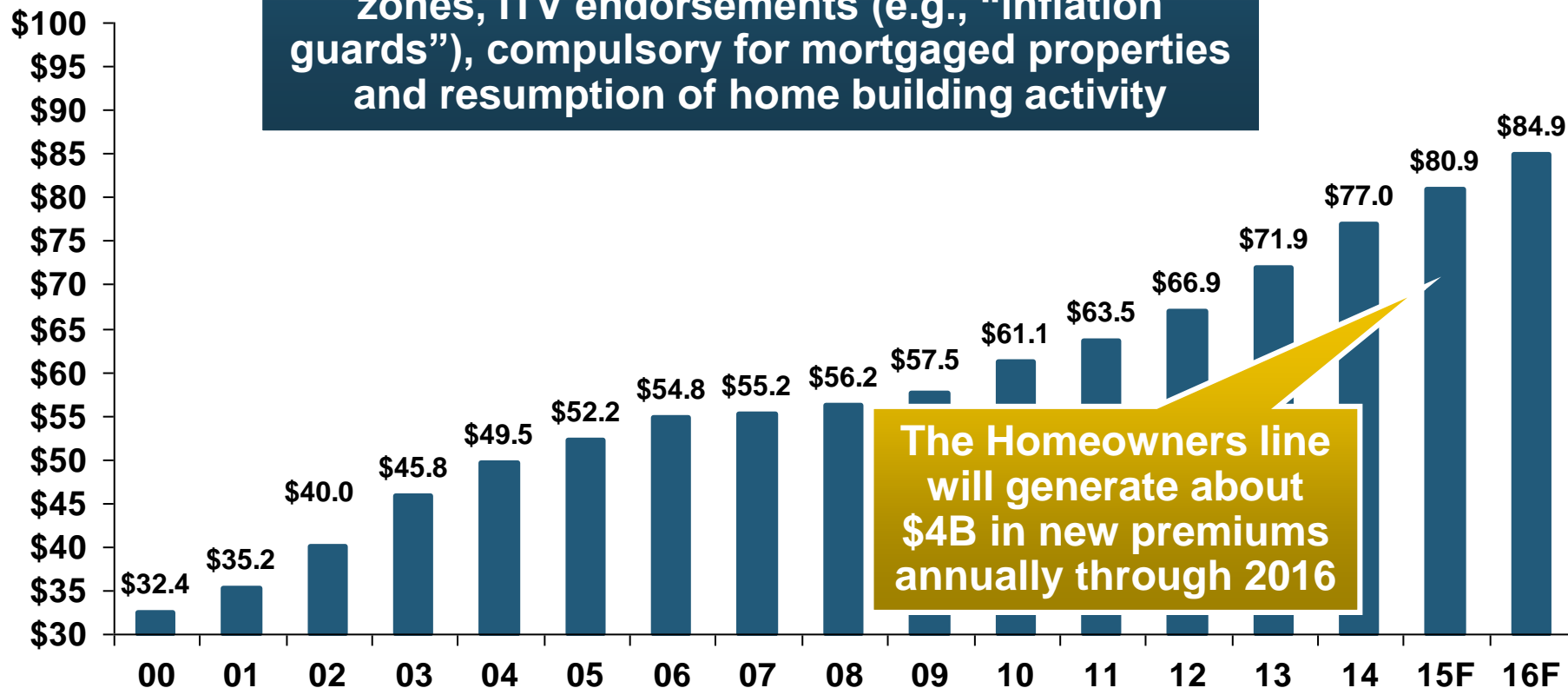
Private Passenger Auto Insurance Net Written Premium, 2000–2017F



Homeowners Insurance Net Written Premium, 2000–2016F

\$ Billions

Homeowners insurance NWP continues to rise (up 150% 2000-2015F) despite very little unit growth during the real estate crash. Reasons include rate increases, especially in coastal zones, ITV endorsements (e.g., “inflation guards”), compulsory for mortgaged properties and resumption of home building activity

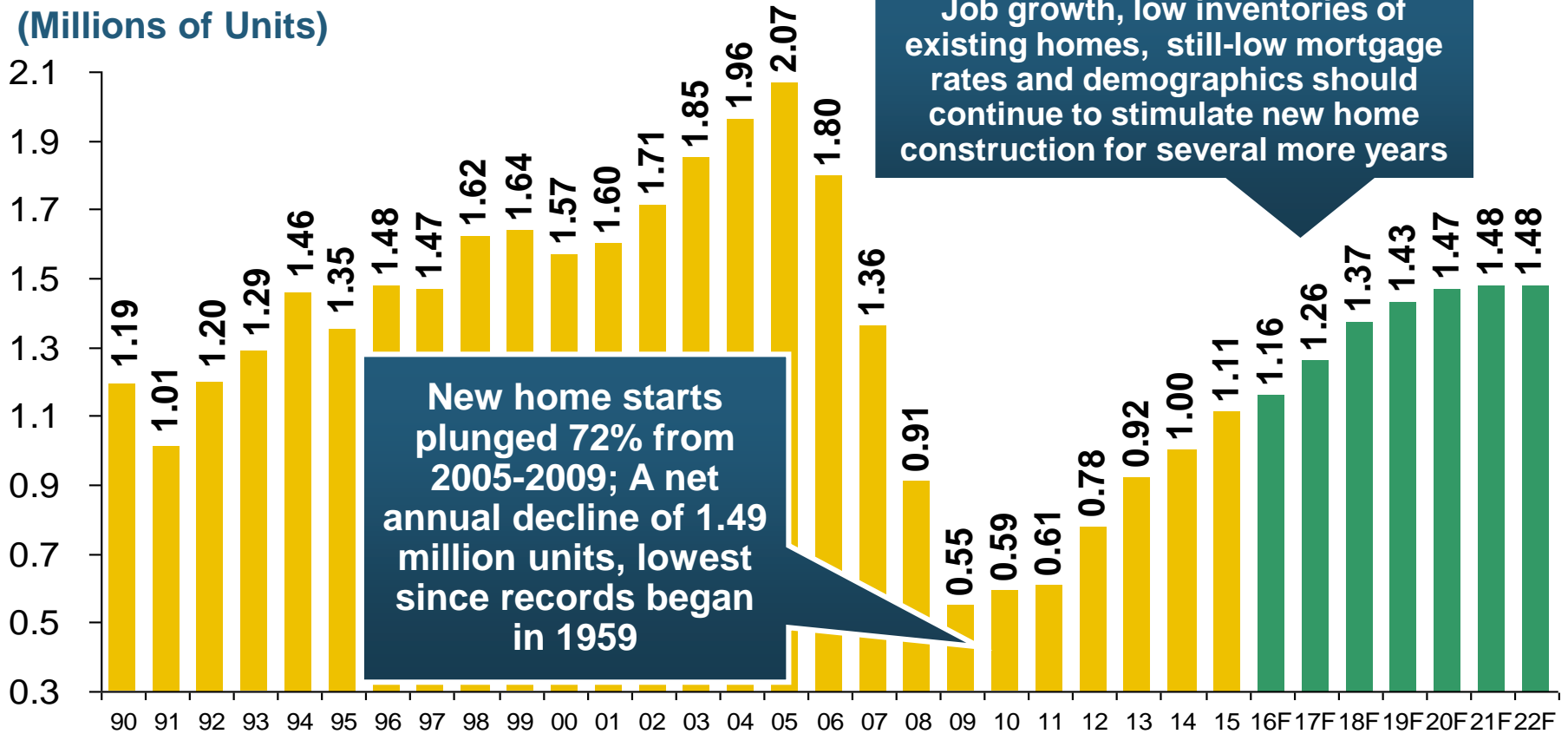


Personal Lines: Economic and Demographic Considerations

Auto, Home Are Sensitive to Underlying Economic Conditions

New Private Housing Starts, 1990-2022F

(Millions of Units)



Job growth, low inventories of existing homes, still-low mortgage rates and demographics should continue to stimulate new home construction for several more years

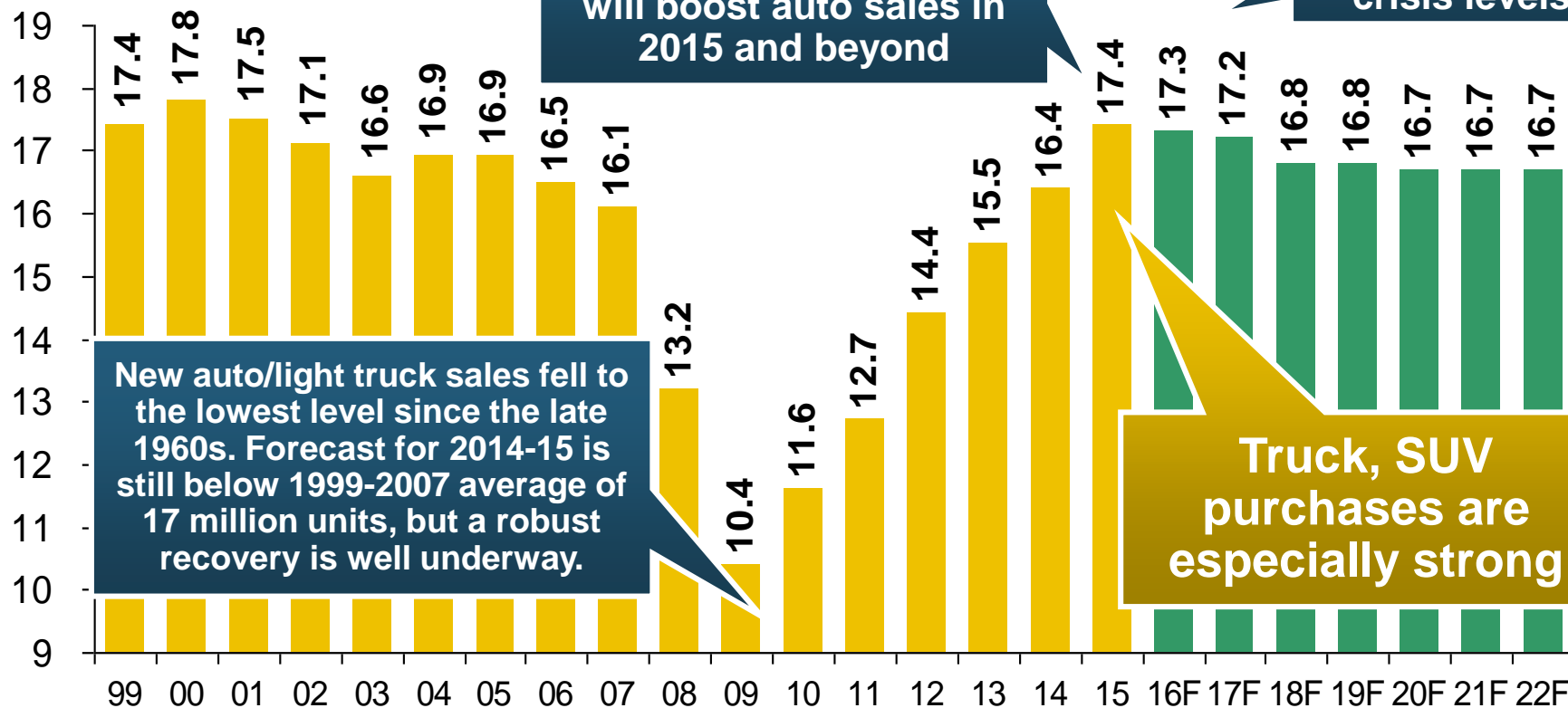
New home starts plunged 72% from 2005-2009; A net annual decline of 1.49 million units, lowest since records began in 1959

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 (11/16 for 2016-17; 10/16 for 2018-22F; Insurance Information Institute.

Auto/Light Truck Sales, 1999-2022F

(Millions of Units)



Job growth and improved credit market conditions will boost auto sales in 2015 and beyond

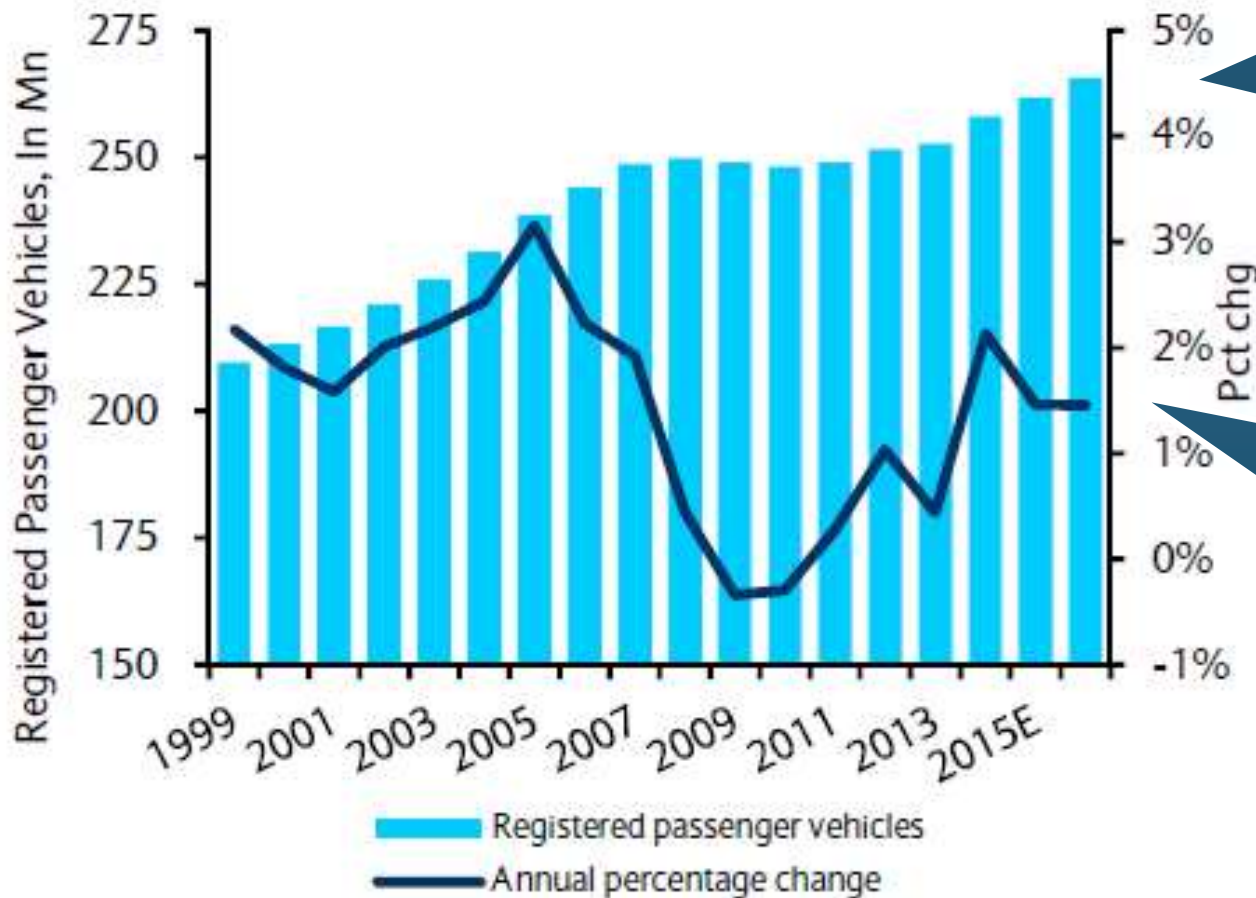
Sales have returned to pre-crisis levels

New auto/light truck sales fell to the lowest level since the late 1960s. Forecast for 2014-15 is still below 1999-2007 average of 17 million units, but a robust recovery is well underway.

Truck, SUV purchases are especially strong

Yearly car/light truck sales will likely continue at current levels, in part replacing cars that were held onto in 2008-12. PP Auto premium might grow by 3.5% - 5%.

Number of Registered Passenger Vehicles in US, 1999 – 2015E



Vehicle registrations are growing once again and now finally exceed pre-crisis peak

Vehicle registrations are expected to increase at an annual rate of about 1.5% per year in 2015 and 2016

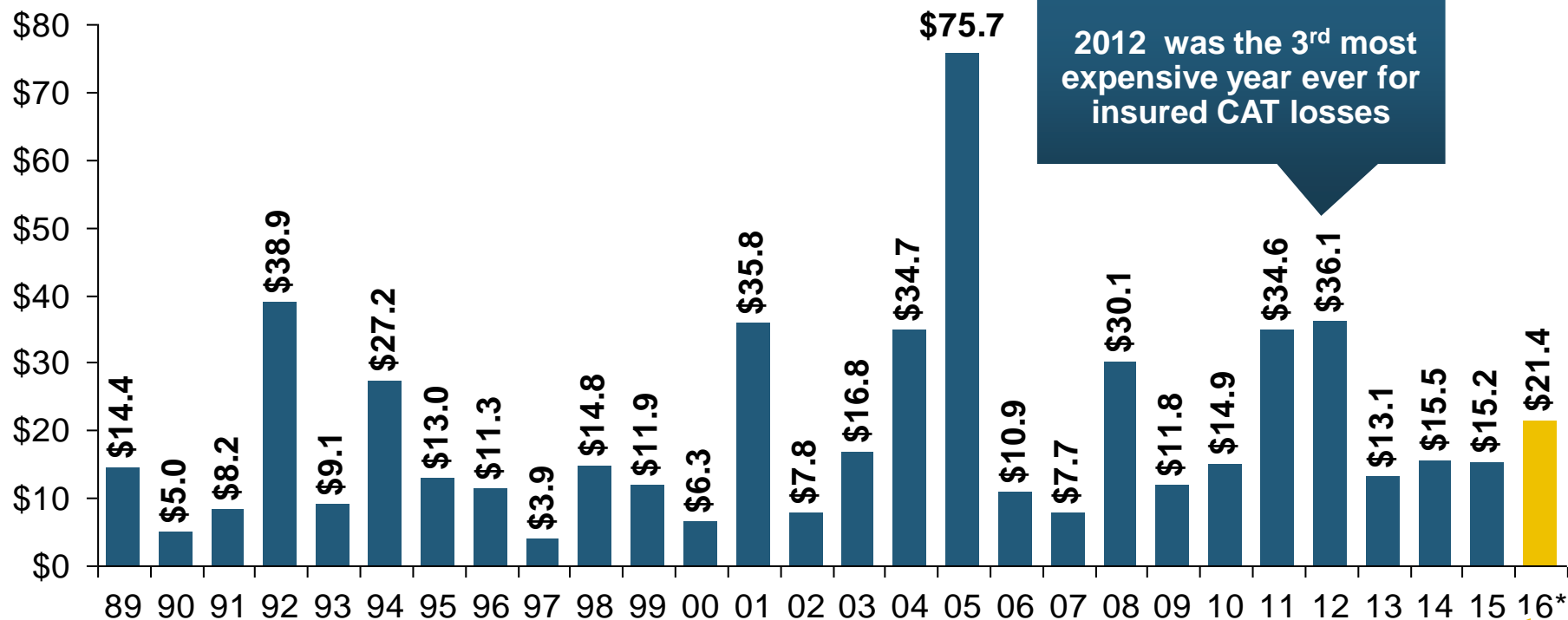
Insured Catastrophe Losses

**2013/14 and YTD 2015 Experienced Below
Average CAT Activity After Very High CAT
Losses in 2011/12**

***Winter Storm Losses Far Above Average in
2014 and 2015***

U.S. Insured Catastrophe Losses

(\$ Billions, \$ 2015)



2012 was the 3rd most expensive year ever for insured CAT losses

2013/14/15 Were Welcome Respite from 2011/12, among the Costliest Years for Insured Disaster Losses in US History. 2016 Is Off to a Costlier Start.

2016 will be the heaviest cat year since 2012. Figure includes a \$4.4B est. for Hurricane Matthew

*Through 10/20/16. 2016 figure stated in 2016 dollars. Figure includes \$17 in known loss plus an estimate of \$4.4B for Hurricane Matthew.

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.)

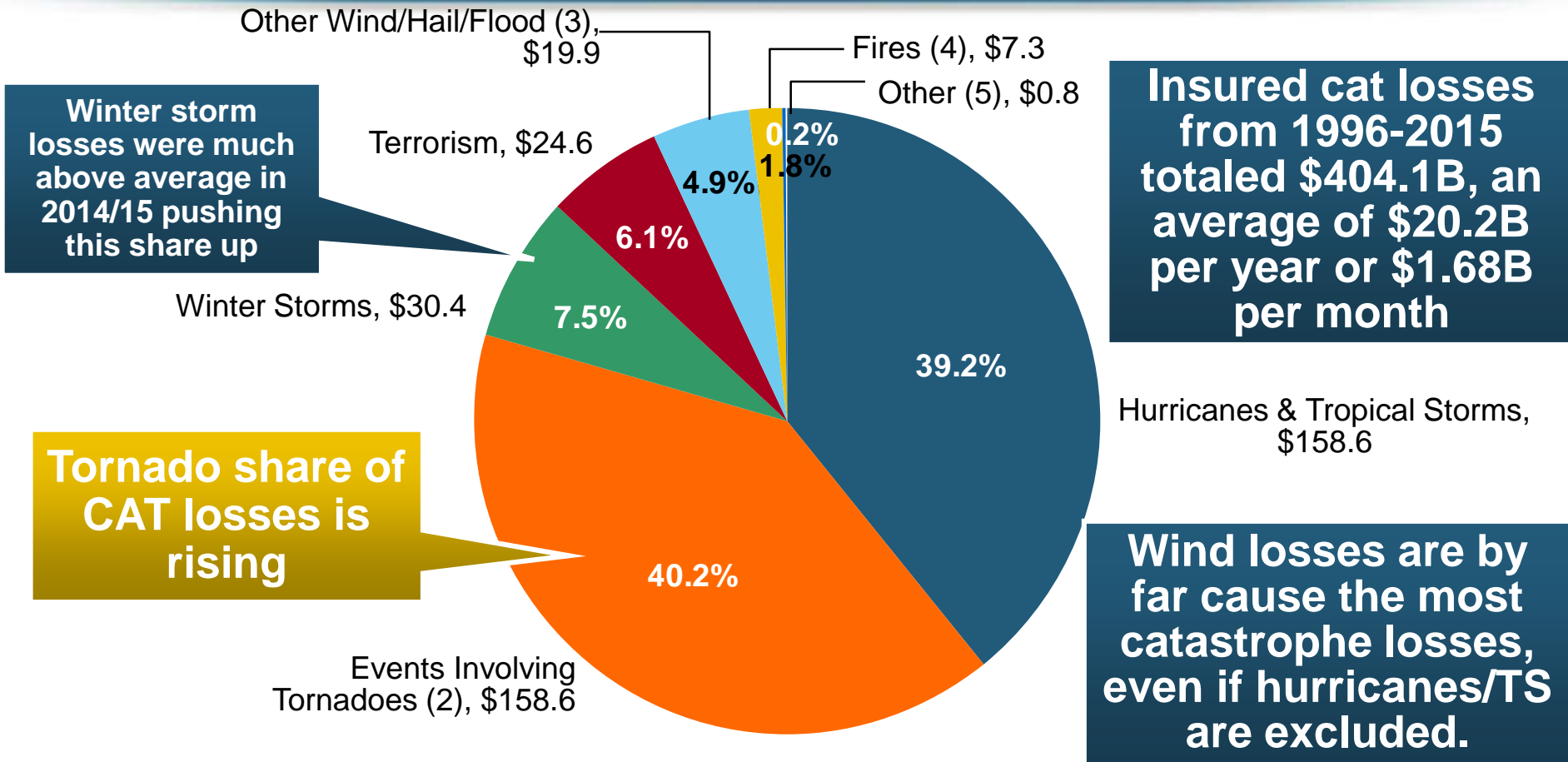
Sources: Property Claims Service/ISO; Insurance Information Institute.

Top 5 Insured Catastrophe Losses of 2016*

Cat No.	Period	States	Storm Family	Estimated Loss \$
1625	Apr 10 - 15	FL, TX	Wind and Thunderstorm Event	2,995,100,000
1621	23-Mar	TX	Wind and Thunderstorm Event	1,688,500,000
1628	Apr 29 / May 3	AR, GA, IL, IN, MD, MO, NC, OK, TX, VA, WV	Wind and Thunderstorm Event	1,187,040,000
1644	Aug 11 - 15	LA, MS	Wind and Thunderstorm Event	1,058,870,000
1620	Mar 17 - 18	AL, AR, FL, LA, MS, TX	Wind and Thunderstorm Event	920,105,000

*As of Oct. 20. No official estimate for Hurricane Matthew was yet available from PCS.
Source: Property Claim Services division of Verisk Analytics as of Oct. 20, 2015.

Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1996–2015¹



Winter storm losses were much above average in 2014/15 pushing this share up

Insured cat losses from 1996-2015 totaled \$404.1B, an average of \$20.2B per year or \$1.68B per month

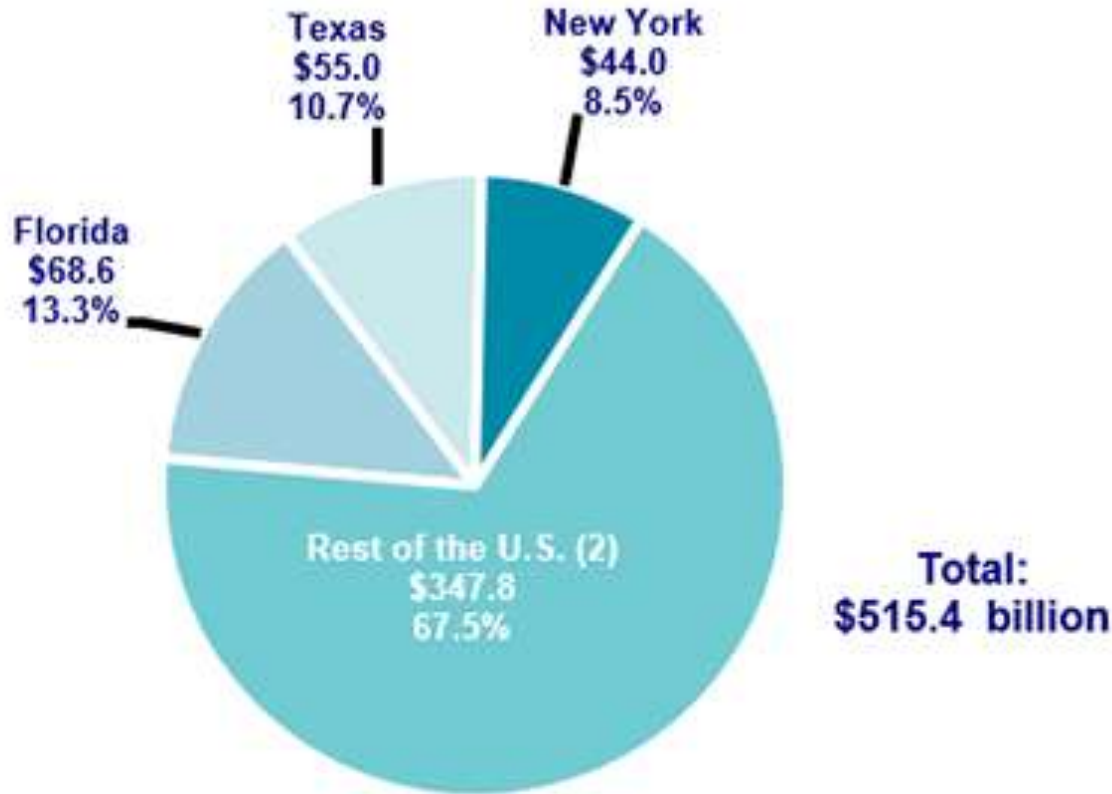
Tornado share of CAT losses is rising

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 2015 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.

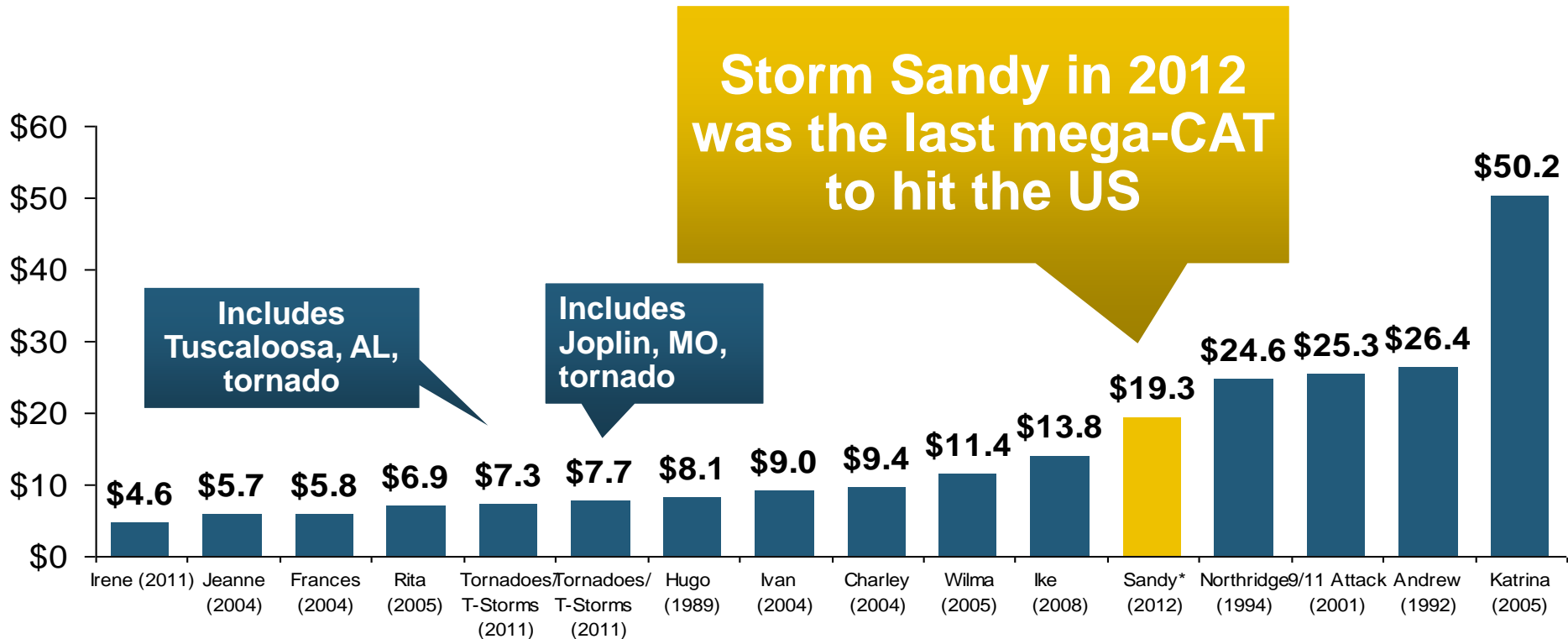
Top 3 States for Insured Catastrophe Losses, 1996-2015 (in 2015 Dollars)



Texas, Florida and New York lead the country in insured catastrophe losses over the past 20 years. These 3 states accounted for nearly 1/3 of all insured catastrophe losses over the past two decades

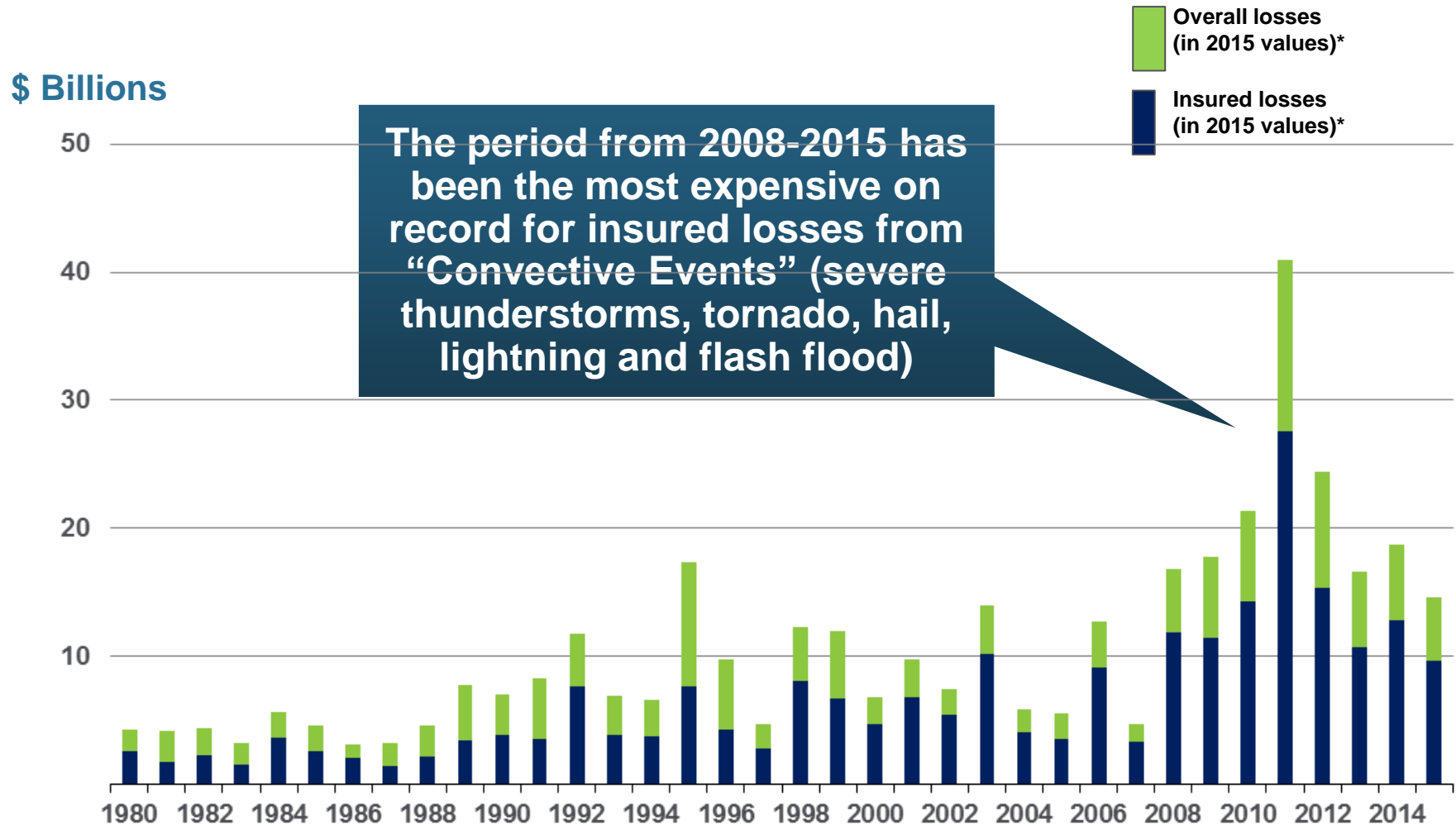
Top 16 Most Costly Disasters in U.S. History—Katrina Still Ranks #1

(Insured Losses, 2014 Dollars, \$ Billions)



12 of the 16 Most Expensive Events in US History Have Occurred Since 2004

Convective Loss Events in the US Overall and insured losses, 1980 – 2015



*Losses adjusted to inflation based on CPI

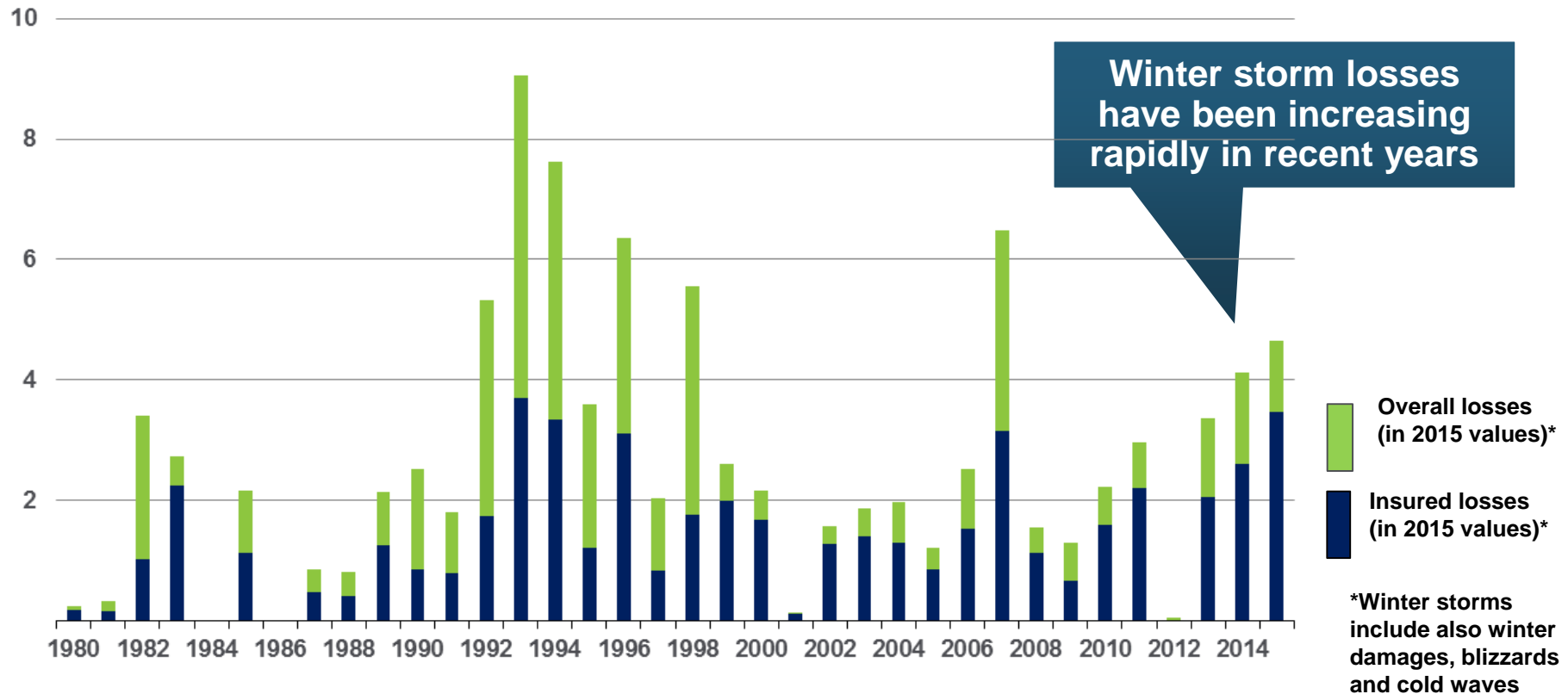
Source: Geo Risks Research, NatCatSERVICE

Analysis contains:

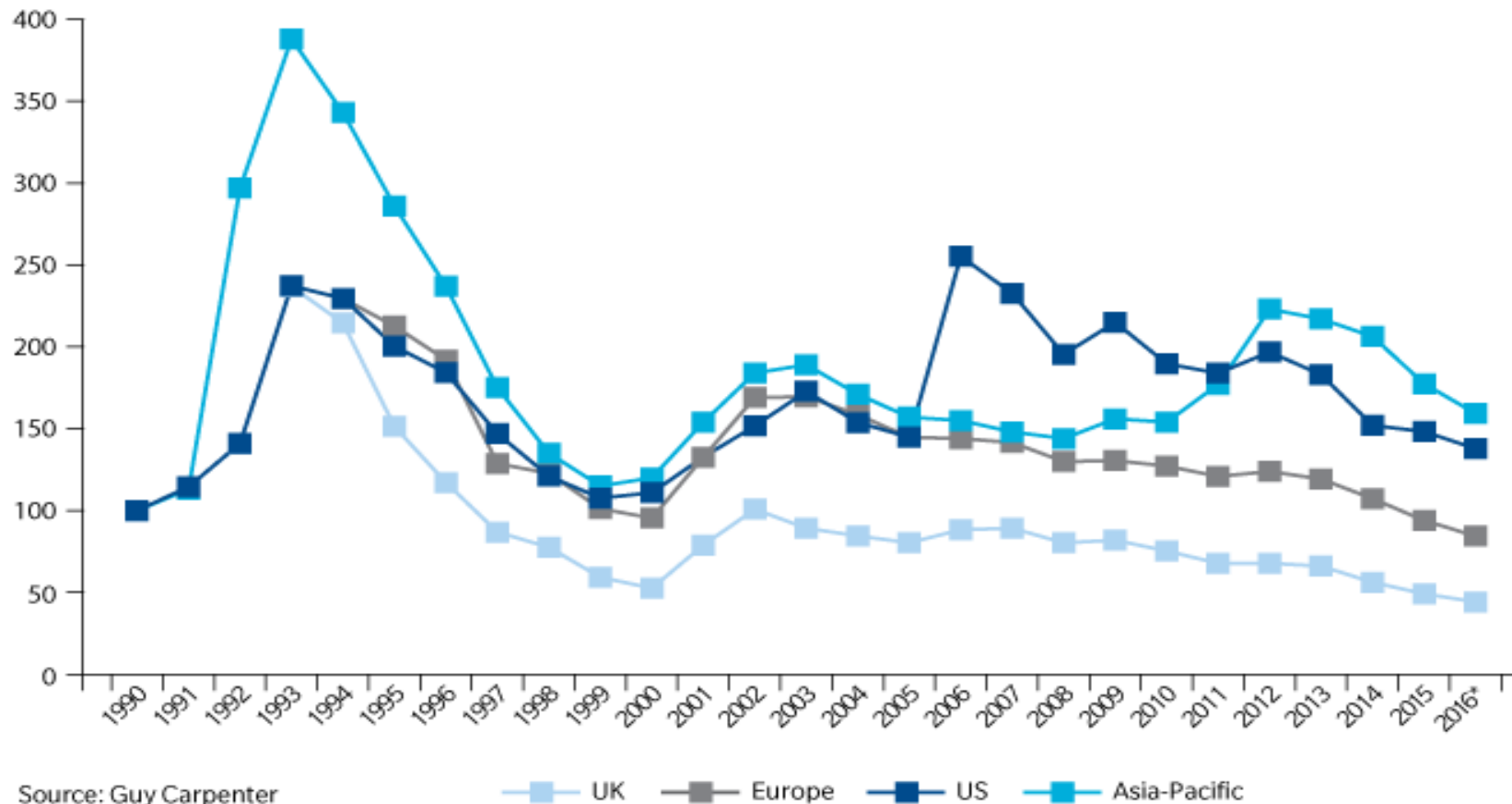
severe storm, tornado, hail, flash flood and lightning

Winter Storm Losses in the US 1980 – 2015 (Overall and Insured Losses)*

\$ Billions



Regional Property Catastrophe ROL Index: 1990 – 2016



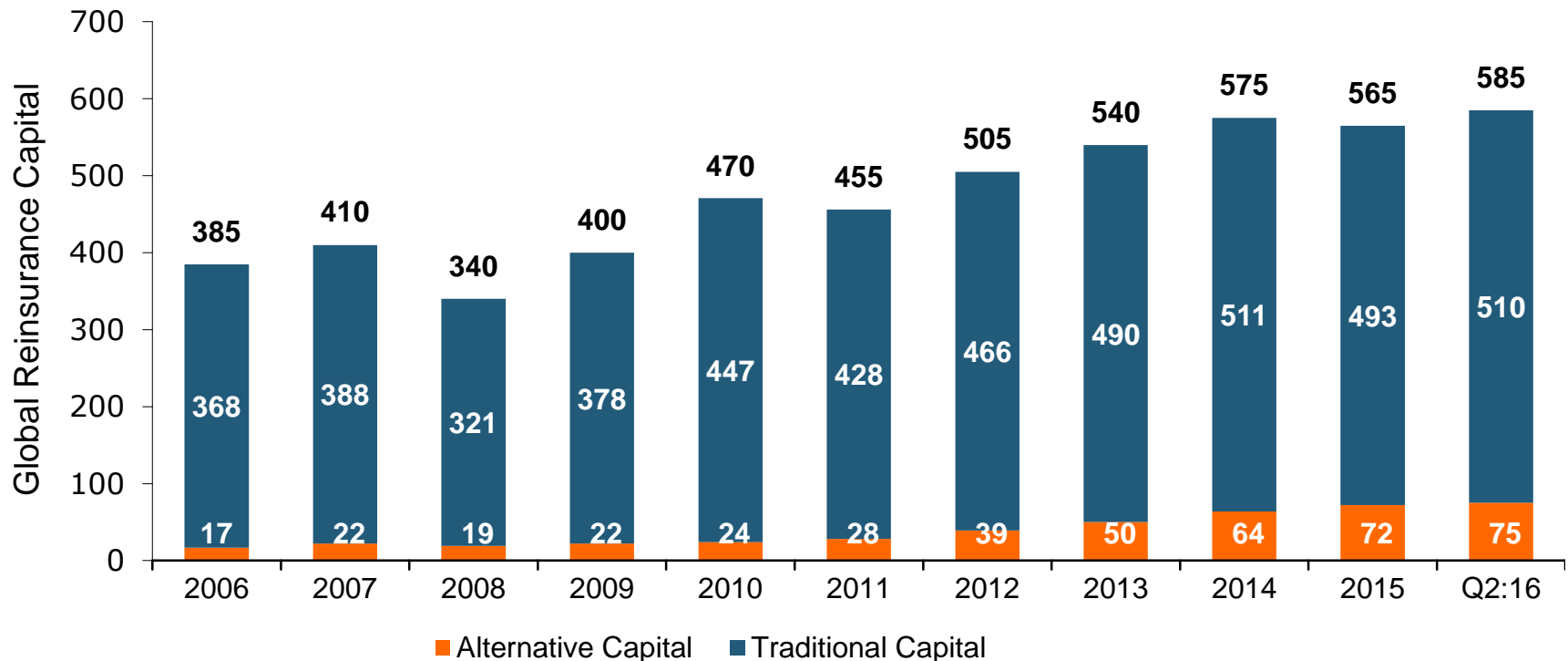
Source: Guy Carpenter

Record traditional capacity, alternative capital and low CAT activity have pressured reinsurance prices; ROEs are down only very modestly

Source: Guy Carpenter; Insurance Information Institute.

Alternative Capital Potentially Disrupting the Bank Account

(Billions of USD)



Alternative capacity has grown 263% since 2008. It has more than tripled in the past six years.

INDUSTRY DISRUPTORS

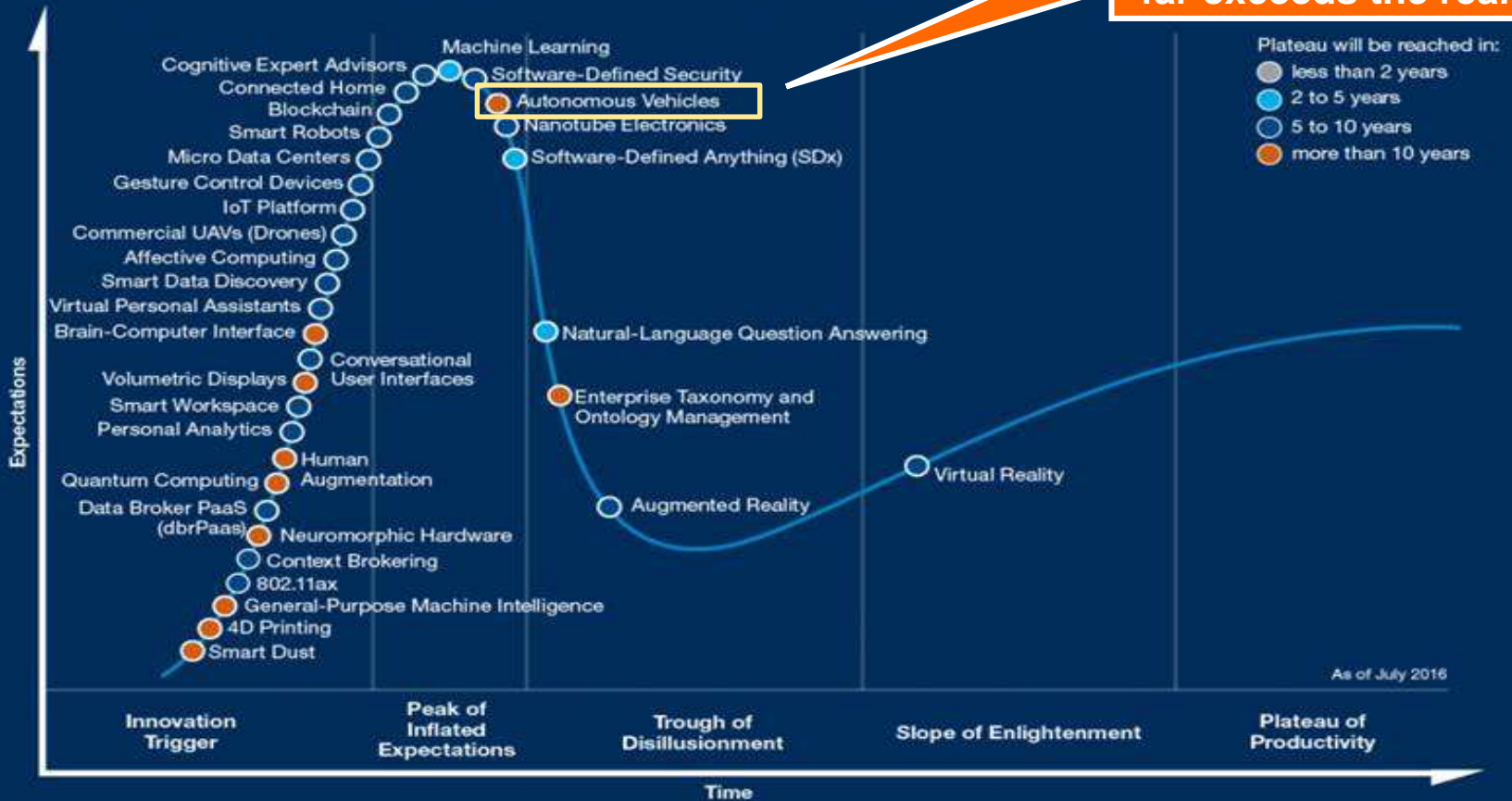
**Technology, Society and
the Economy Are All
Changing at a Rapid Pace**

***Reality vs. Drinking the
Silicon Valley Kool Aid***

The Sharing Economy Has Grown— And Attracted Political Scrutiny

There's no question that the hype around autonomous vehicles far exceeds the reality

Emerging Technology Hype Cycle for 2016



Source: Gartner
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On-Demand/Sharing/Peer-to-Peer Economy Impacts Many Lines of Insurance

- The “On-Demand” Economy is or will impact many segments of the economy important to P/C insurers
 - ◆ Auto (personal and commercial)
 - ◆ Homeowners/Renters
 - ◆ Many Liability Coverages
 - ◆ Professional Liability
 - ◆ Workers Comp
- Many unanswered insurance questions
- Insurance solutions are increasingly available to fill the many insurance gaps that arise



U B E R



Data Breaches 2005-2015, by Number of Breaches and Records Exposed

Data Breaches/Millions of Records Exposed



The total number of data breaches (+27.5%) hit a record high of 783 in 2014, exposing 85.6 million records. Through June 30, this year has seen 117.6 million records exposed in 400 breaches.*

*Figures as of June 30, 2015, from the Identity Theft Resource Center, <http://www.idtheftcenter.org/images/breach/ITRCBreachReport2015.pdf>



AUTO TECHNOLOGY & THE FUTURE OF AUTO INSURANCE

**The Road to Fully Autonomous Vehicles:
Long, Dark and Full of Potholes**

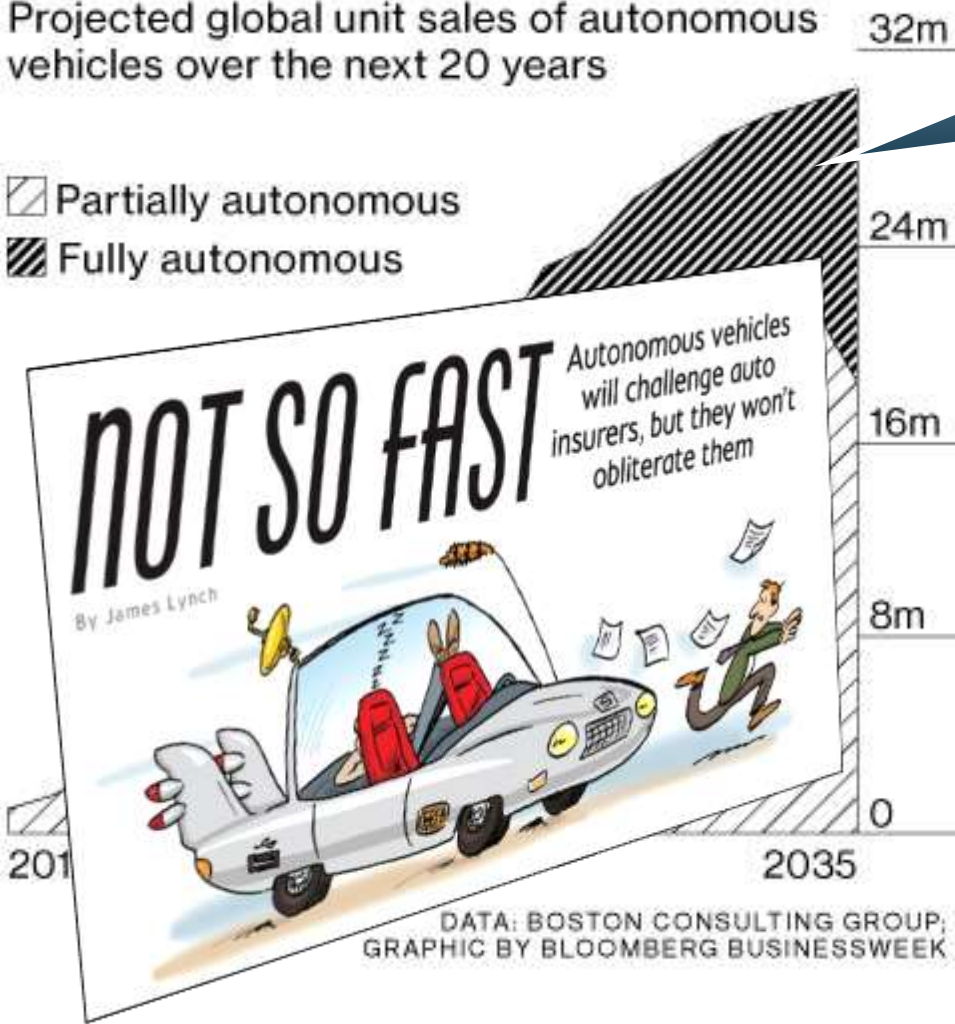
***Tales of the Death of Auto Insurance Are
Greatly Exaggerated***

Media is Obsessed with Driverless Vehicles: Often Predicting the Demise of Auto Insurance

Hands-Free

Projected global unit sales of autonomous vehicles over the next 20 years

- ▨ Partially autonomous
- ▩ Fully autonomous



By 2035, it is estimated that 25% of new vehicle sales could be fully autonomous models

Questions

- Are auto insurers monitoring these trends?
- How are they reacting?
- Will Google take over the industry?
- Will the number of auto insurers shrink?
- How will liability shift?

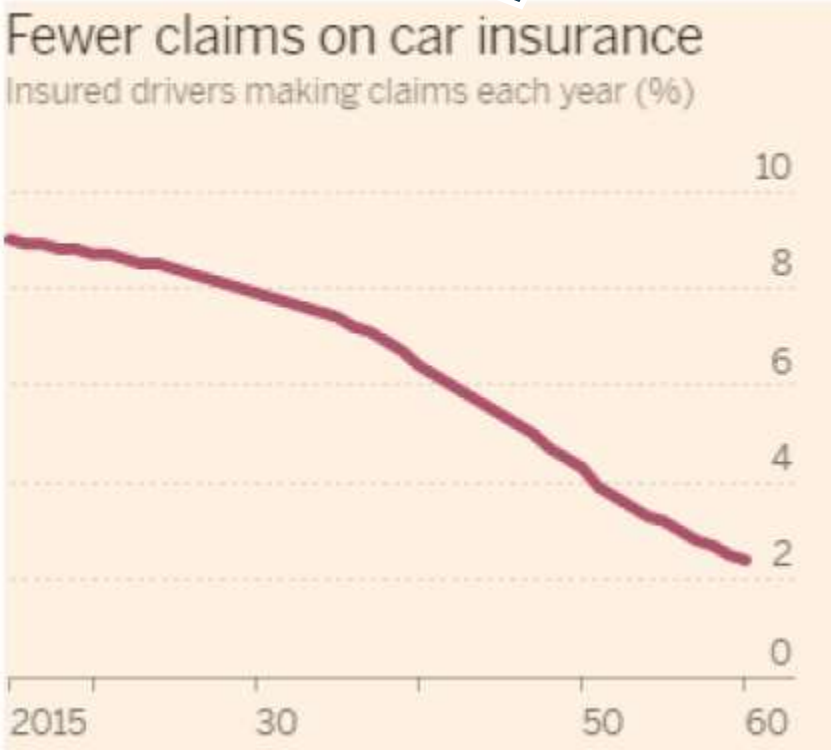
DATA: BOSTON CONSULTING GROUP;
GRAPHIC BY BLOOMBERG BUSINESSWEEK

Source: Boston Consulting Group.

Media is Obsessed with Driverless Vehicles: Often Predicting the Demise of Auto Insurance

Some are predicting that the rise of autonomous vehicles will reduce claim frequency by 75% or more...

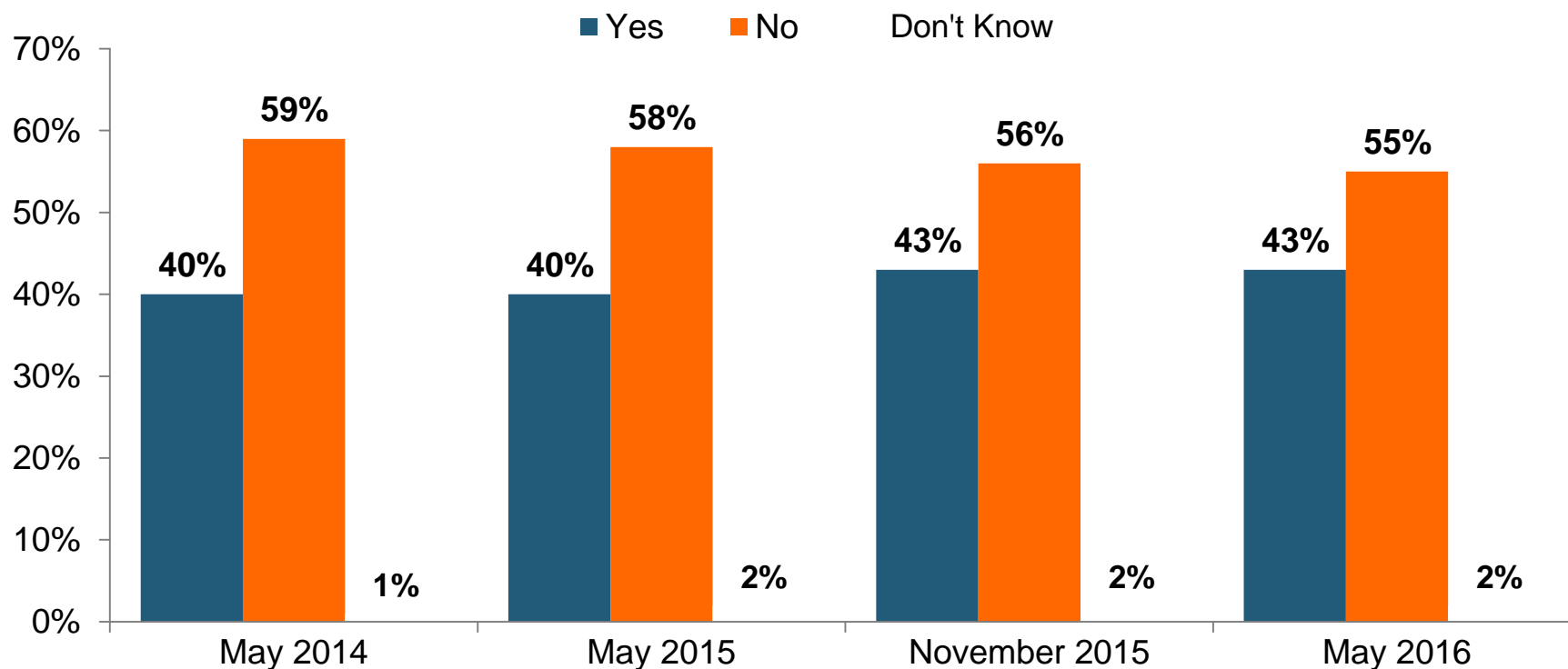
„,„and that this technology will cause average auto insurance premiums to plunge



Source: Autonomous Consulting as cited in the Financial Times: "Cost of Car Insurance to Plunge With Rise of Driverless Vehicles, June 28, 2016.

I.I.I. Poll: Driverless Cars

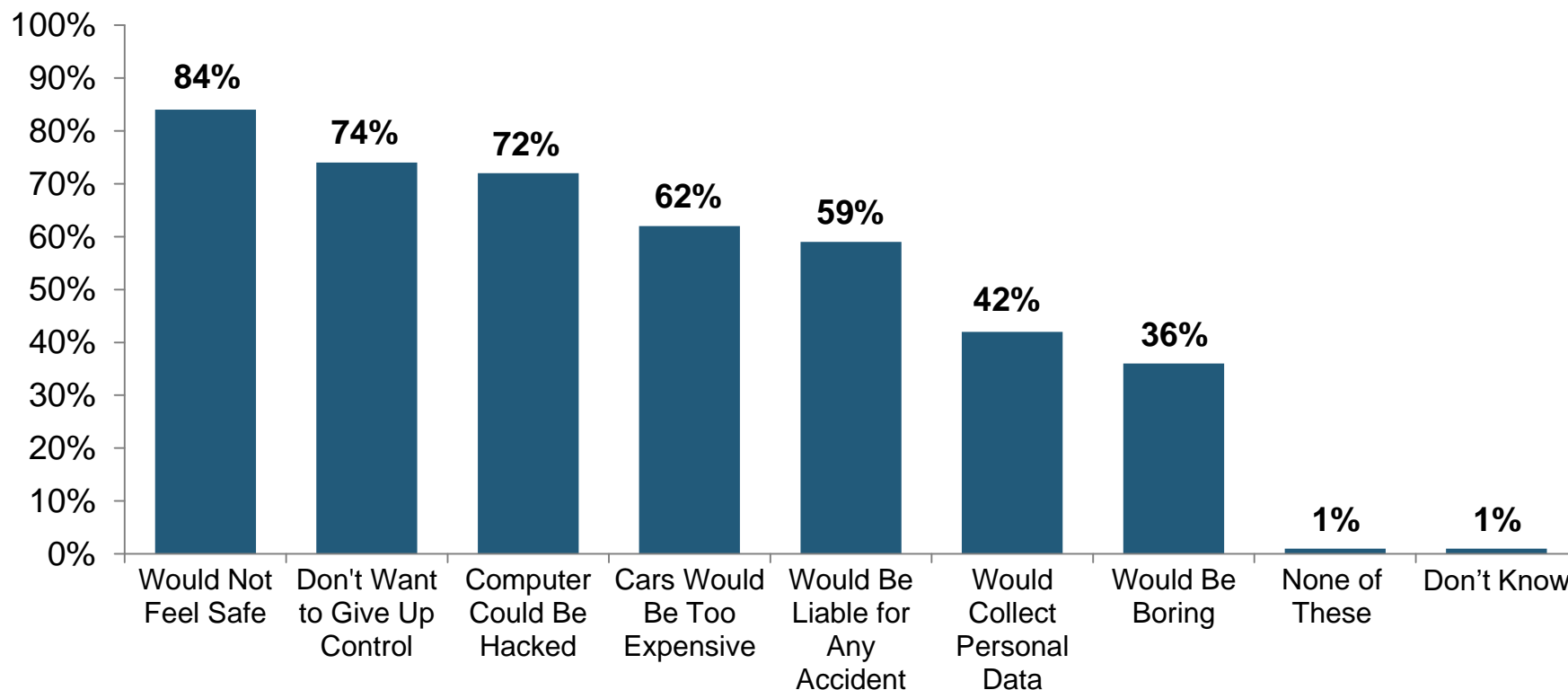
Q. Would you be willing to ride in a driverless car?



**The Percentage Willing to Ride in a Driverless Car Remains at 43%;
71% of People Over 64 Were Unwilling to Ride.**

I.I.I. Poll: Driverless Cars

Why Americans Would Not Want to Ride in a Driverless Car, May 2016¹



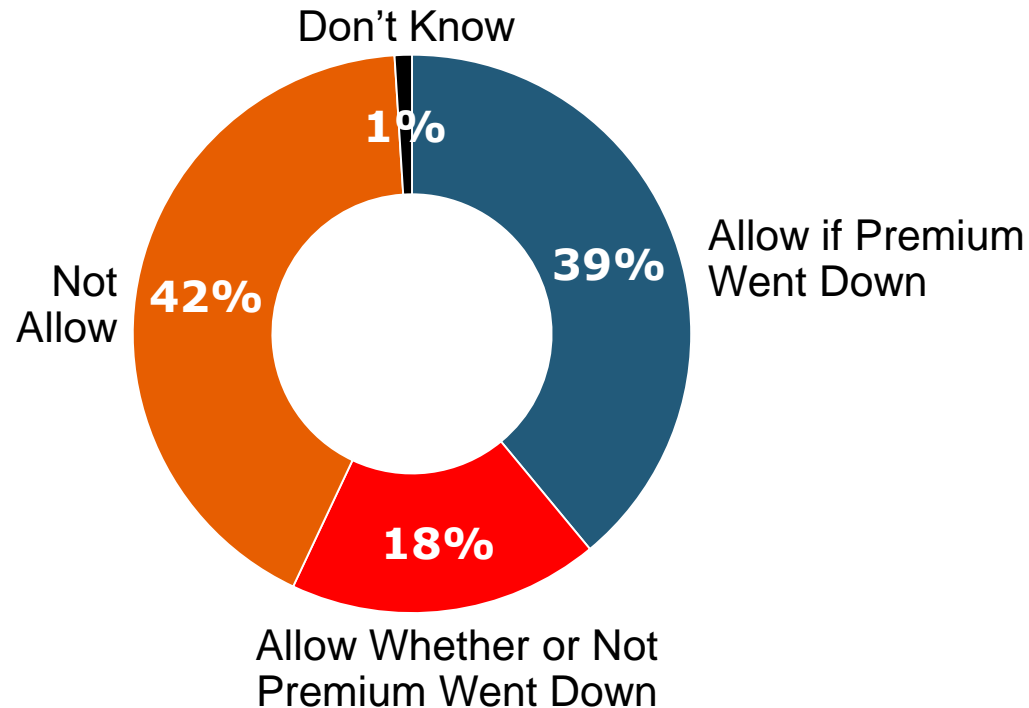
Safety Concerns Are Paramount Among Those Who Would Avoid Driverless Cars.

¹ Based on those who would not ride in a driverless car. Respondents could give more than one answer. Source: Insurance Information Institute Annual *Pulse* Survey.

I.I.I. Poll: Telematics— Consumers Still Hesitant



Would you allow your auto insurer to collect information about how and when you drive in order to set your auto insurance premium?



More Than Half of Auto Policyholders Would Allow Their Insurer to Collect Their Driving Information in Order to Set Premiums.

¹Asked of those who have auto insurance.

Source: Insurance Information Institute Annual *Pulse* Survey.

Telematics for Your Home: The Internet of Things

- The home is the next frontier for telematics
- Rapidly becoming a crowded space
- How and with whom will insurers partner?
- Can control increasing array of household systems remotely



- ◆ Heat, A/C
- ◆ Fire, CO detection
- ◆ Security Systems
- ◆ Cameras/Monitors
- ◆ Appliances
- ◆ Lighting

- Technology is adaptive

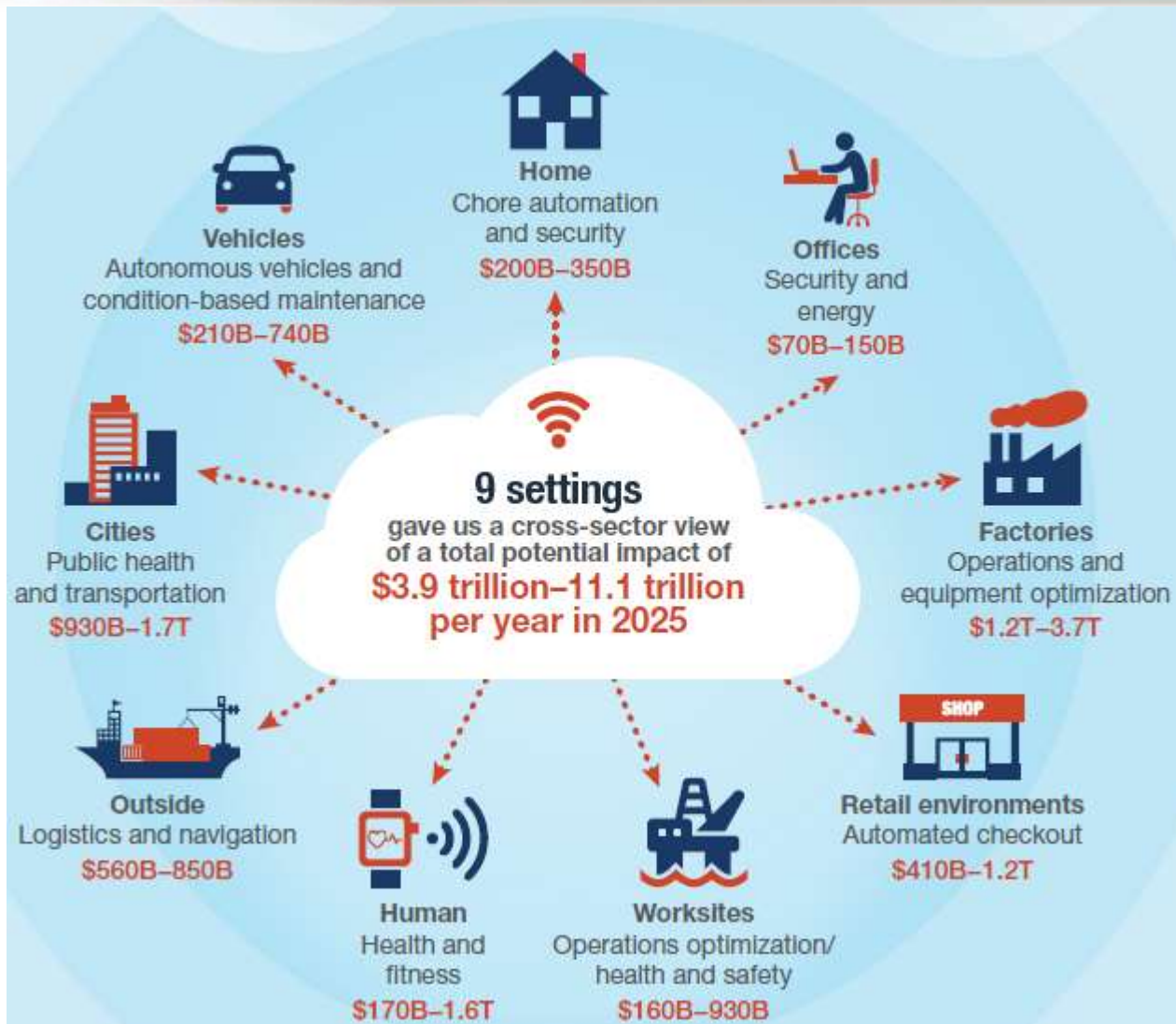
- ◆ *Uses sensors and algorithms to learn about you*



THE ‘INTERNET OF THINGS’

Capturing Economic Value Amid a Shifting Insurer Value Chain

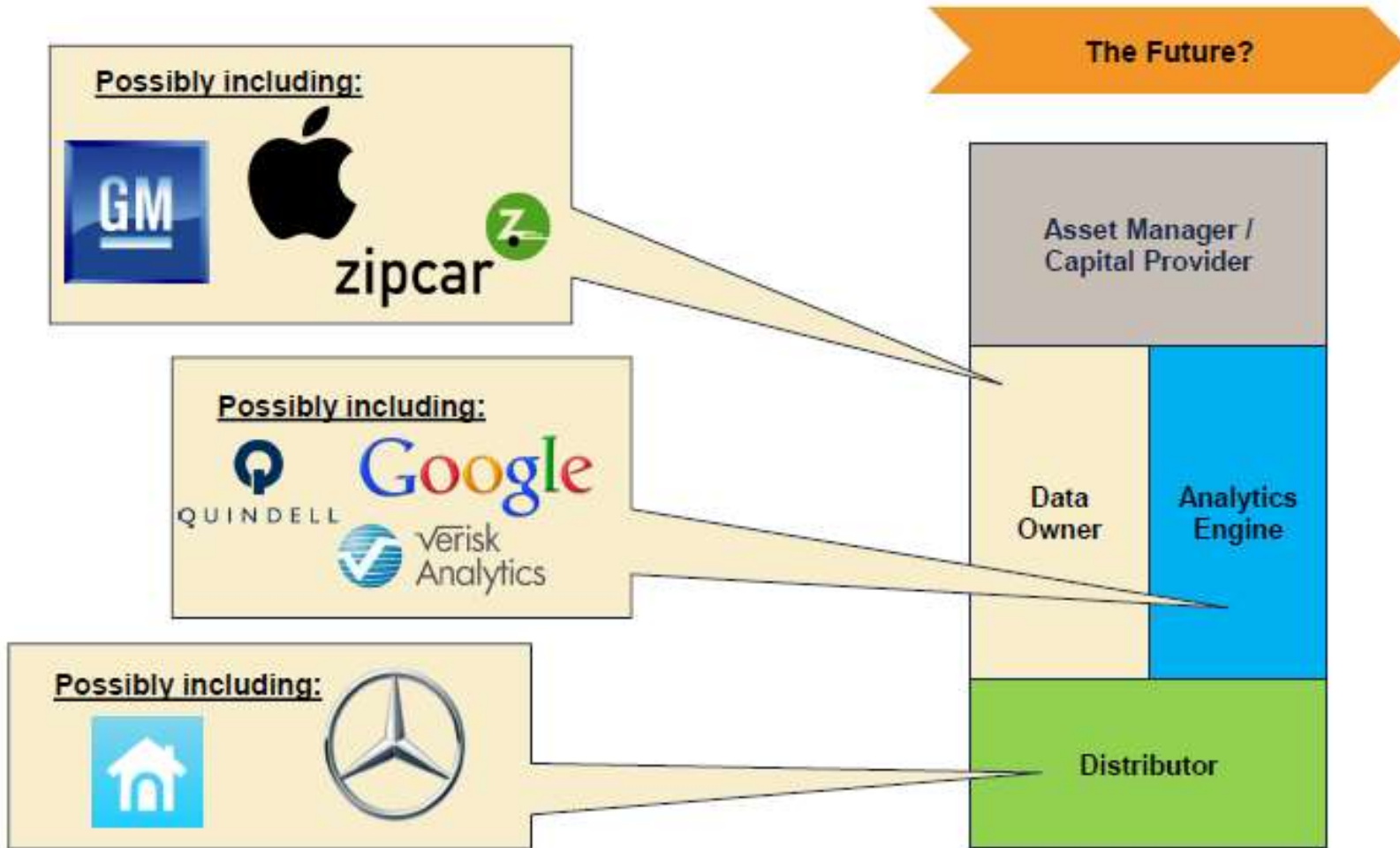
The Internet of Things and the Insurance Industry



Sources: McKinsey Global Institute, *The Internet of Things: Mapping the Value Beyond the Hype*, June 2015; Insurance Information Institute.

- The “Internet of Things” will create trillions in economic value throughout the global economy by 2025
- What opportunities, challenges will this create for insurers?
- What are the impact on the insurance industry “value chain”?

The Internet of Things and the Insurance Industry Value Chain



**Who owns the data? Where does it flow? Who does the analytics?
Who is the capital provider?**

The (Re)Insurance Value Chain

Where Could Disruption Lie?



Most Links in the Value Chain Have the Potential to Be Disrupted in Next 10 Years.



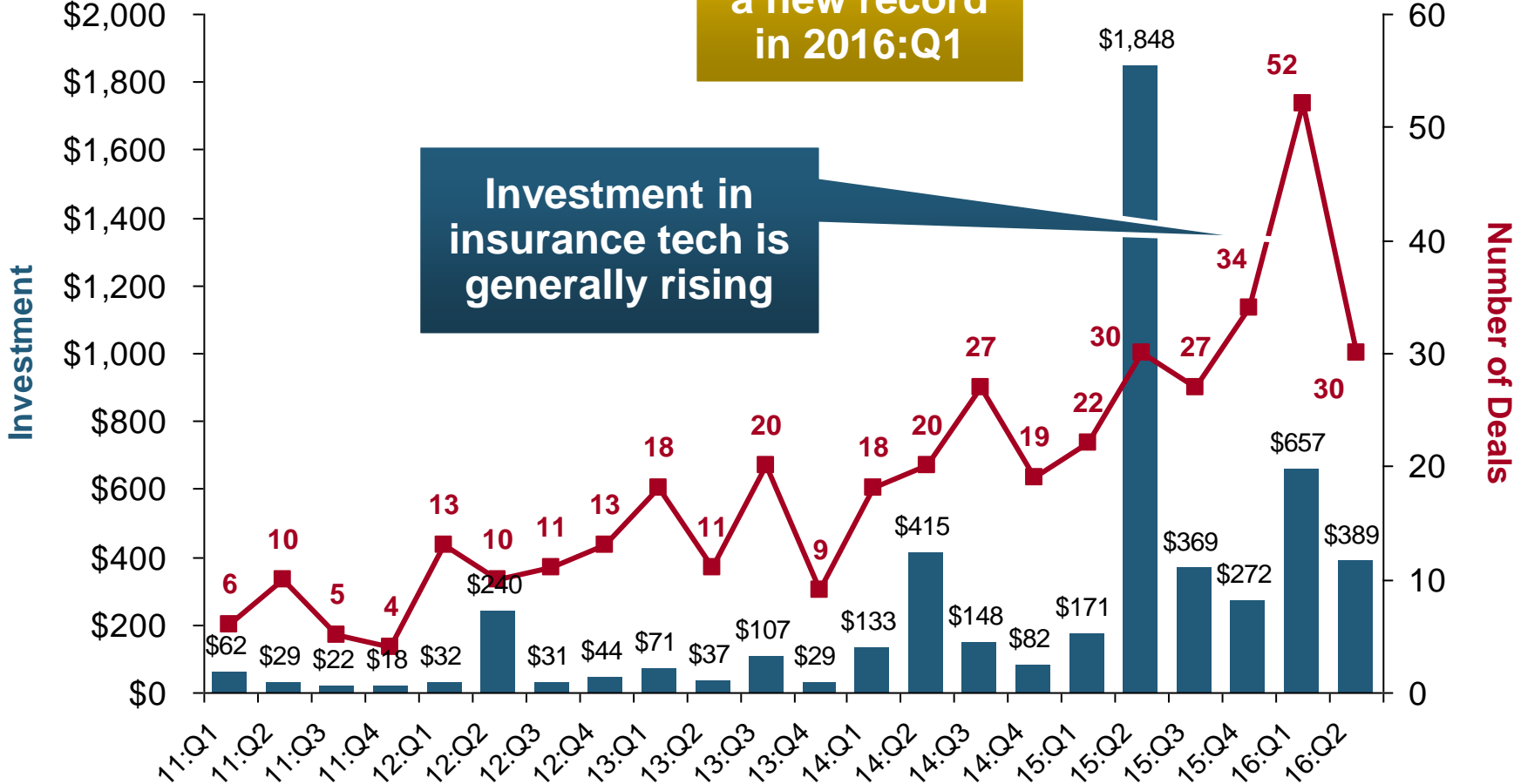
INSURANCE TECHNOLOGY: *FIN TECH ZEROES IN*

Number and Value of Deals Is Increasing

In Search of the Elusive Insurance 'Unicorn'

Insurance Technology Financing Trend: Change Is Coming

(\$ Millions)



Source: CB Insights at <https://www.cbinsights.com/blog/insurance-tech-overview-q1-2016/>; Insurance Information Institute.

The Internet

Will It Disrupt Marketing?

■ Lead Generators

- ◆ InsWeb, NetQuote, Insurance.com
- ◆ Site allows comparison shopping, sells lead to insurer

■ Call Center Agencies

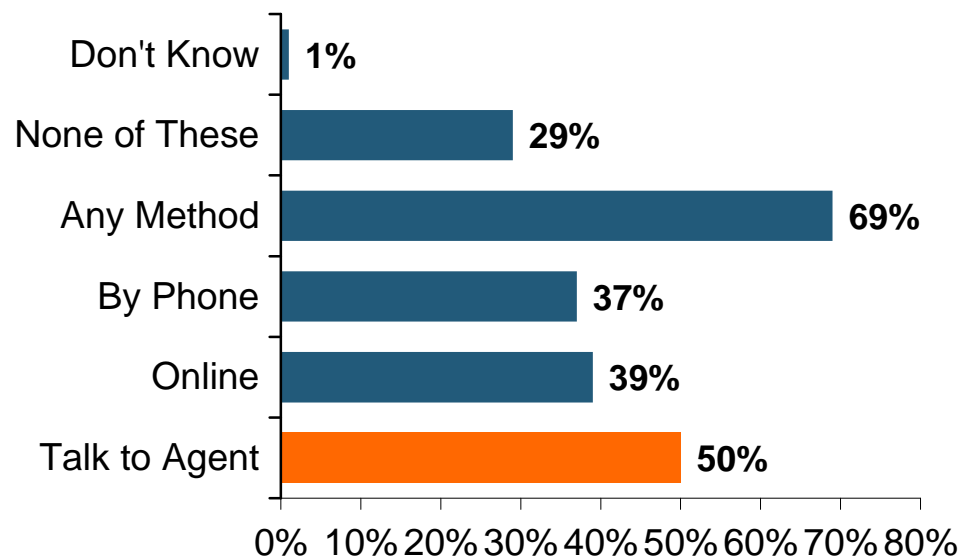
- ◆ SelectQuote, Goji
- ◆ Call center employs agents

■ Digital agencies

- ◆ Esurance, Policy Genius
- ◆ Quote and buy online

But Customers Still Like Agents

■ Did You Compare Prices When Your Auto Policy Was Up for Renewal?



Pricing Disruptor: The Fragmented Risk

- The Insurance Contract Is Being Split into Tiny Pieces.
 - ◆ By-peril HO insurance – Rate Water, Theft Liability Risk Separately
 - ◆ The Sharing/“On-Demand” Economy – Personal Exposures Become Commercial Exposures, Then Switch Back
 - ◆ Pay By Mile Insurance – Exposure Basis for Auto – Vehicle-Mile Replaces Vehicle-Year
- Expect More As
 - ◆ Computers Get Stronger
 - ◆ Data Storage Gets Cheaper
 - ◆ Information Collection Grows



metromile



The Internet of Things

▲ Gathering Big Data Affects

- ◆ Underwriting
- ◆ Pricing
- ◆ Claims

▲ Monitoring Could Affect

- ◆ Loss Control
- ◆ Pricing?



Apple iWatch



fitbit

Swiss Re InsurTech Accelerator
Disrupt the world of Re/Insurance. Come be a part of InsurTech Accelerator

The Insurers Investing in Internet of Things Startups

Insurer	Internet of Things Startup Investments

As For The Future...



IoT Could (Will) Disrupt UW, Claims, Loss Control

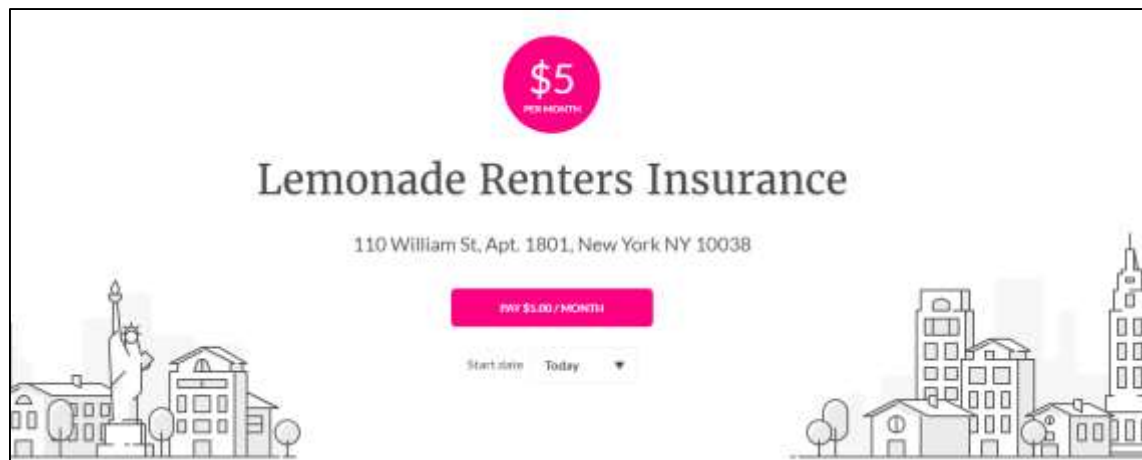


Peer-to-Peer (P2P) Insurance

Taking on the Entire Value Chain

The Business Model

- Resembles Mutuals/ Reciprocal
- 20% of Premium to Expenses, 80% to Cover Risk.
- Risk Pool for Each Charity
- Leftover Pool Money Goes to Charity.
- May Deter Fraud – You Wouldn't Cheat Your Favorite Charity!



Lemonade Chief Behavioral Officer

- Dan Ariely: “If you tried to create a system to bring out the worst in humans, it would look a lot like the insurance of today.”

Lemonade's P2P Model

Example: Renters' Insurance (HO-4)

- Attractive Graphics, Simple Explanations of a Basic ISO Form

What's Covered



FIRE AND SMOKE

A faulty Christmas light or your attempt at deep frying can cause some smoke and fire damage. We cover you for both.



BAD WEATHER

Wind, lightning, and hail are scary. You're covered for all of them. Flood insurance isn't part of the basic policy.



PROPERTY AND VALUABLES

If your stuff is stolen or damaged, this is the maximum amount you can claim. This includes basic coverage for jewelry, watches, and artwork. If you own luxury items, you might want to increase their coverage below. If you have family members living with you, we recommend setting \$10,000 per person.

\$10,000




LEGAL EXPENSES AND LIABILITY

If someone gets hurt on your property and decides to take legal action, this is the maximum amount we'll pay to cover legal expenses and medical costs.

\$100,000


Coverage Amounts



PROPERTY AND VALUABLES

If your stuff is stolen or damaged, this is the maximum amount you can claim. This includes basic coverage for jewelry, watches, and artwork. If you own luxury items, you might want to increase their coverage below. If you have family members living with you, we recommend setting \$10,000 per person.

\$10,000



LEGAL EXPENSES AND LIABILITY

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\$100,000

HOMEOWNERS
HO 00 04 05 11

HOMEOWNERS 4 – CONTENTS BROAD FORM

AGREEMENT

We will provide the insurance described in this policy in return for the premium and compliance with all applicable provisions of this policy.

DEFINITIONS

A. In this policy, "you" and "your" refer to the "named insured" shown in the Declarations and the spouse if a resident of the same household. "We", "us" and "our" refer to the Company providing this insurance.

2. "Bodily injury" means bodily harm, sickness or disease, including required care, loss of services and death that results.

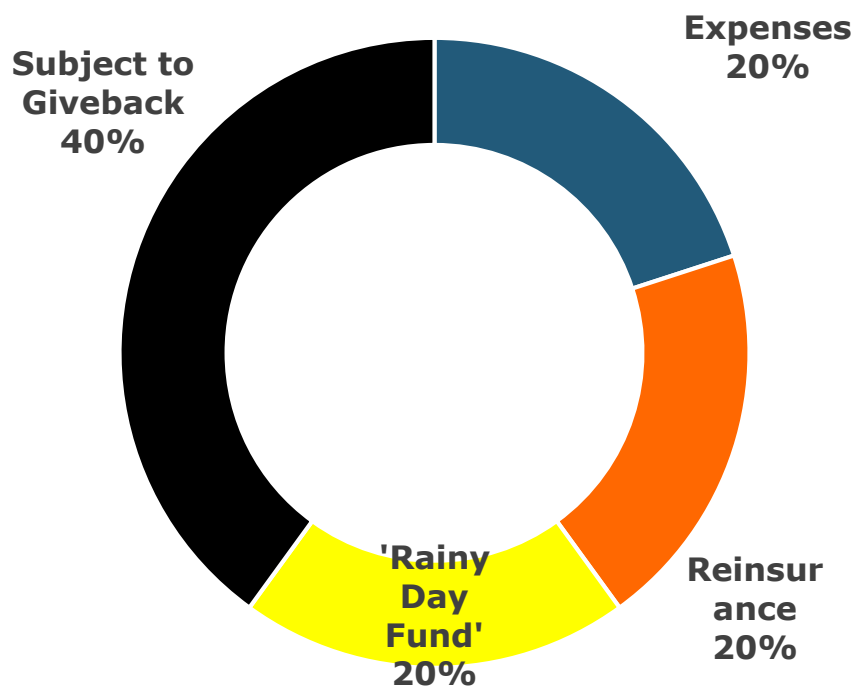
3. "Business" means:

- a.** A trade, profession or occupation engaged in on a full-time, part-time or occasional basis; or
- b.** Any other activity engaged in for money or other compensation, except the following:
 - (1)** One or more activities not described in

Lemonade's P2P Model

Questions...

Who Holds the Risk?



Other Questions

- How Are Charitable Pools Separated?
- Who Gets the Float?
 - ◆ Insurer, Reinsurer or Charity?
- Who Gets the Tax Deduction (Worth More Than the Float)?
- The Giveback Occurs on June 20 – 4 Equal Payments Over 4 Years – (Active Policies Only)

Insurance Information Institute Online:

www.iii.org

*Thank you for your time
and your attention!*

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