



Overview & Outlook for Commercial P/C Insurance: *Trends & Challenges for 2013 and Beyond*

**Insurance Information Institute
October 15, 2012**

Download at www.iii.org/presentations

Robert P. Hartwig, Ph.D., CPCU, President & Economist

Insurance Information Institute ♦ 110 William Street ♦ New York, NY 10038

Tel: 212.346.5520 ♦ Cell: 917.453.1885 ♦ bobh@iii.org ♦ www.iii.org

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

**Growth Will Expand Insurer Exposure
Base Across Most Lines**

***Construction Activity Awakening?
America's Manufacturing Renaissance?
Healthcare: Obamacare/RomneyCare?***

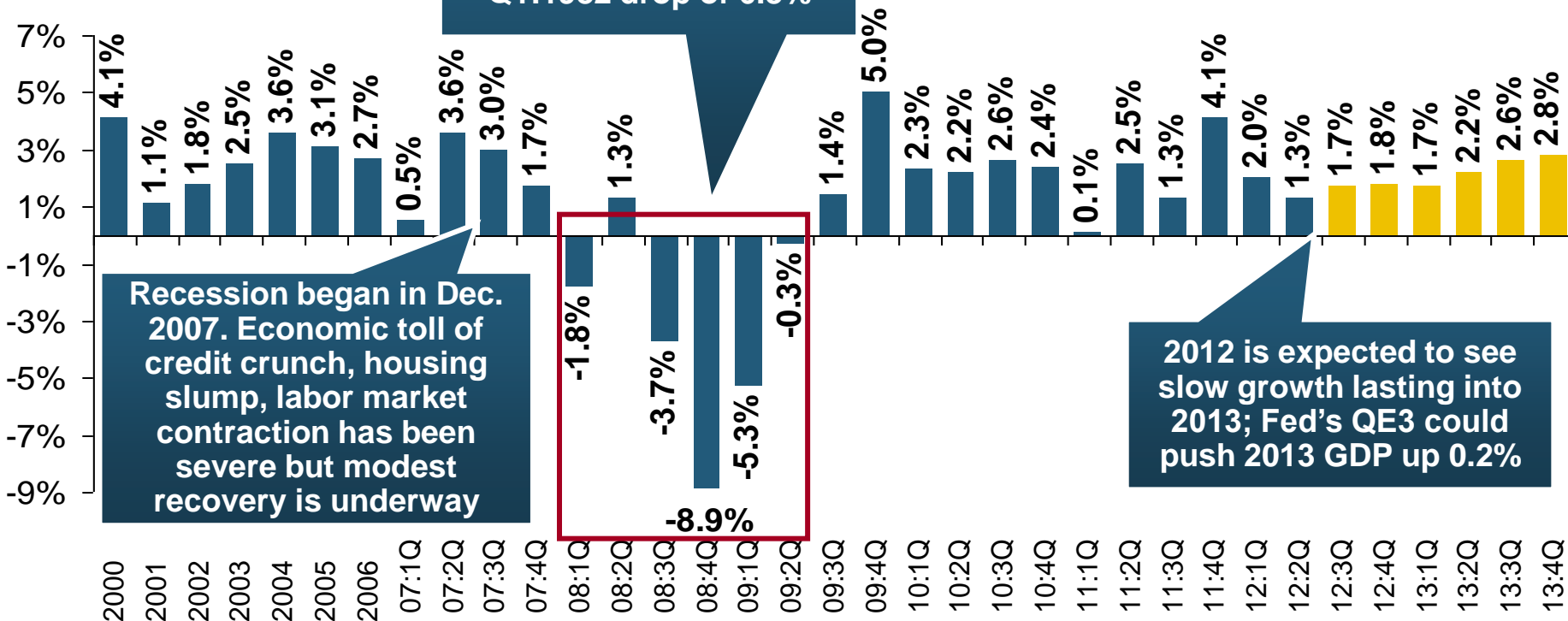
US Real GDP Growth*

Real GDP Growth (%)

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

Recession began in Dec. 2007. Economic toll of credit crunch, housing slump, labor market contraction has been severe but modest recovery is underway

2012 is expected to see slow growth lasting into 2013; Fed's QE3 could push 2013 GDP up 0.2%

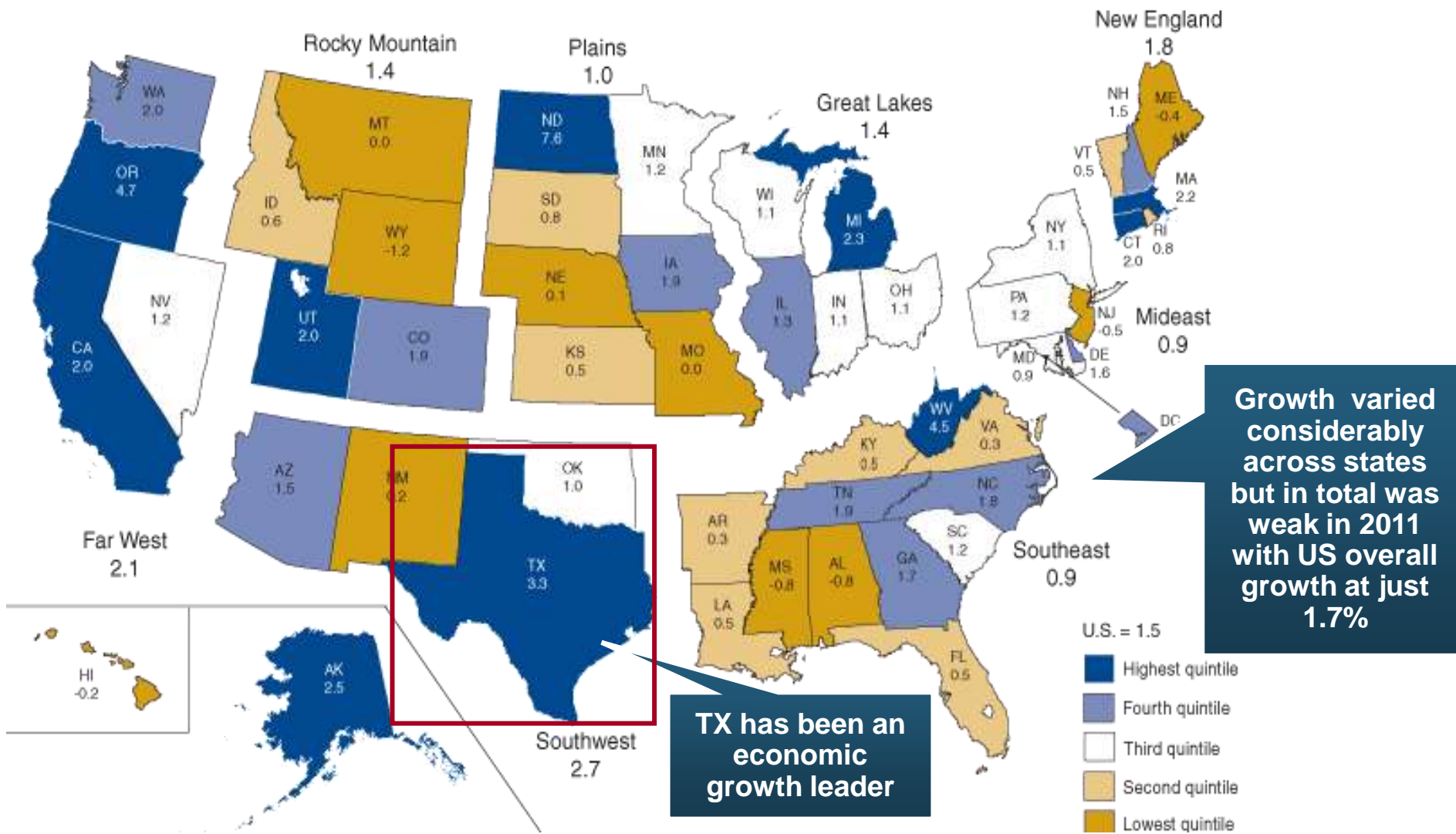


Demand for Insurance Continues To Be Impacted by Sluggish Economic Conditions, but the Benefits of Even Slow Growth Will Compound and Gradually Benefit the Economy Broadly

* Estimates/Forecasts from Blue Chip Economic Indicators.

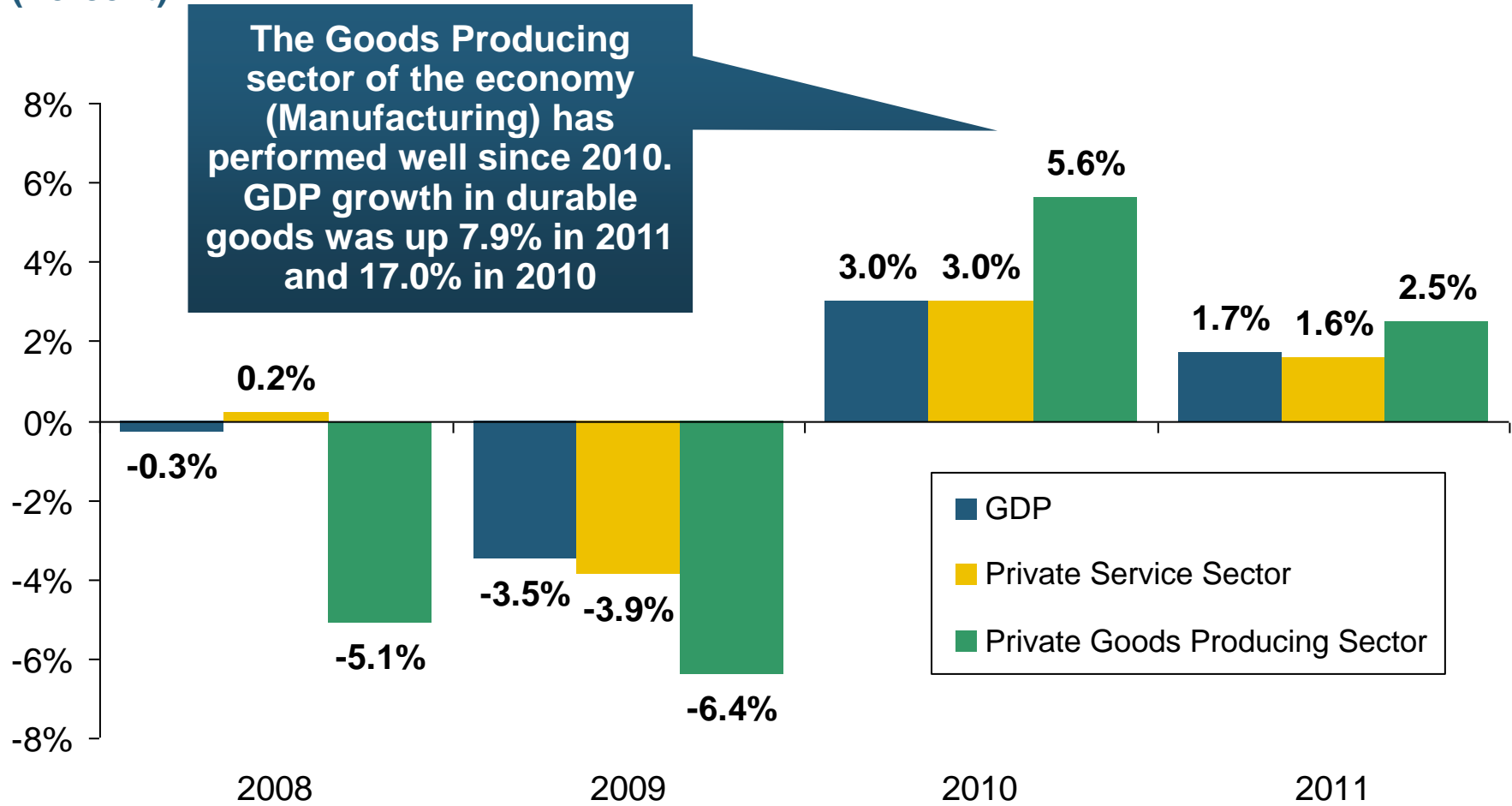
Source: US Department of Commerce, Blue Economic Indicators 10/12; Insurance Information Institute.

Percent Change in Real GDP by State, 2011



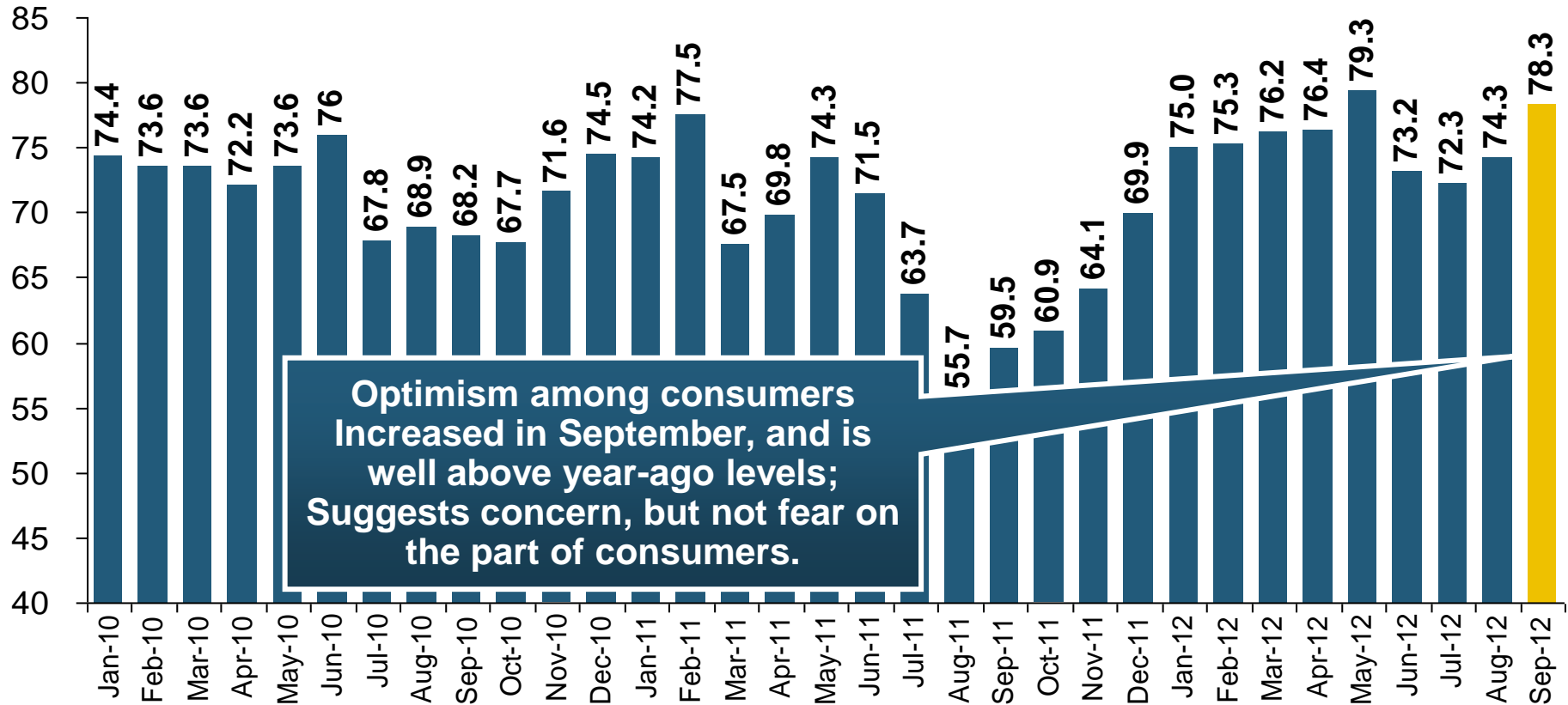
Annual Growth in Real GDP by Sector, 2008-2011

(Percent)



Consumer Sentiment Survey (1966 = 100)

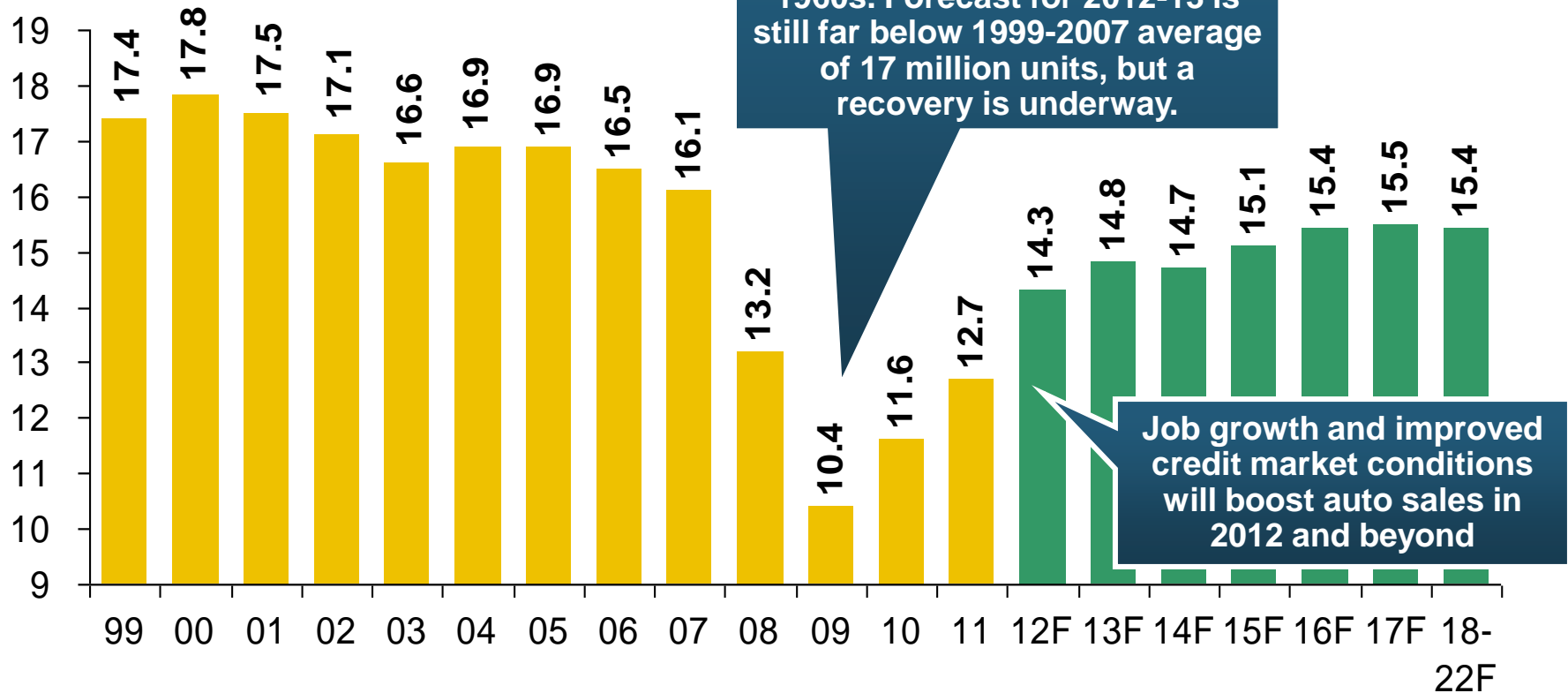
January 2010 through September 2012



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

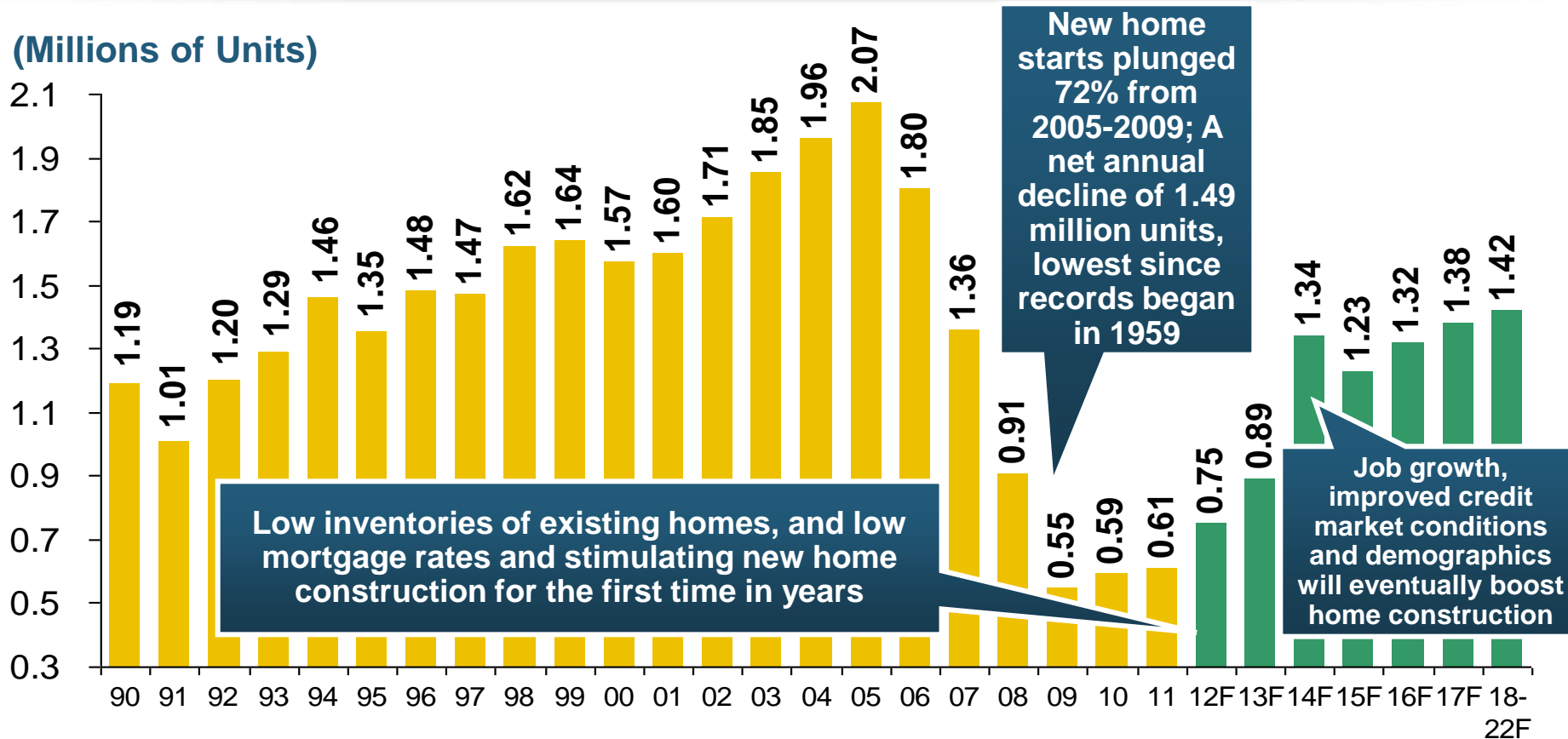
Auto/Light Truck Sales, 1999-2022F

(Millions of Units)



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

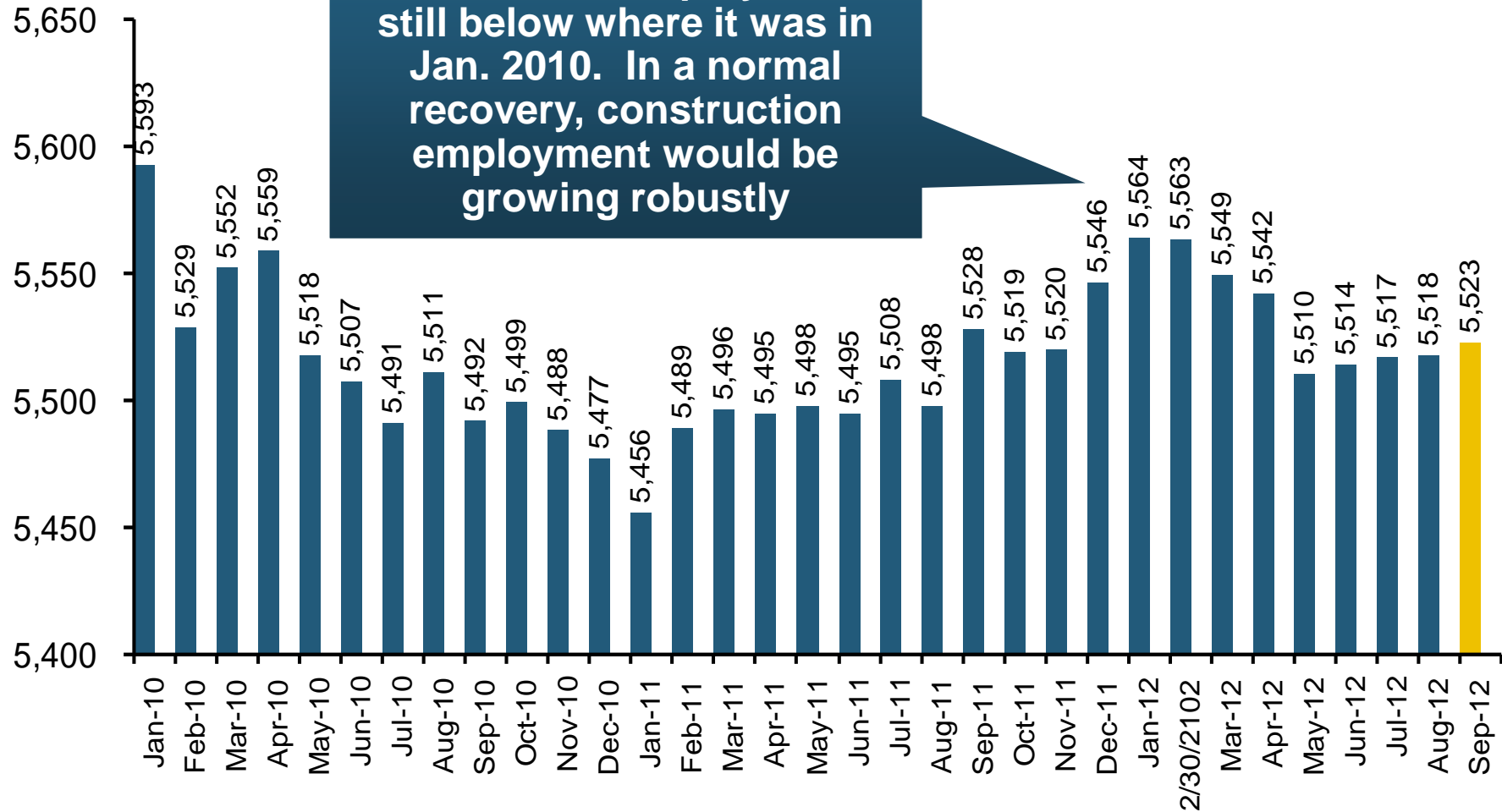
New Private Housing Starts, 1990-2022F



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

Construction Employment, Jan. 2010—September 2012*

(Thousands)



*Seasonally adjusted

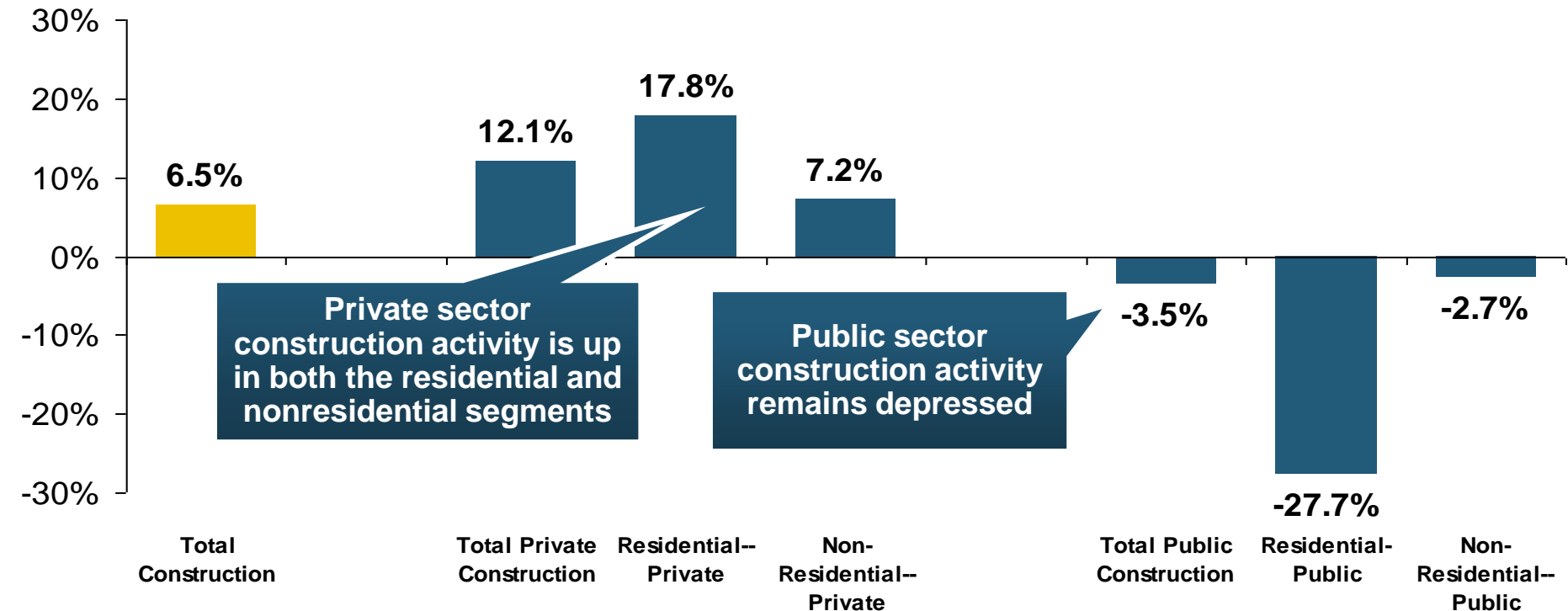
Sources: US Bureau of Labor Statistics at <http://data.bls.gov>; Insurance Information Institute.

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

Growth (%)

Private: +12.1%

Public: -3.5%



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

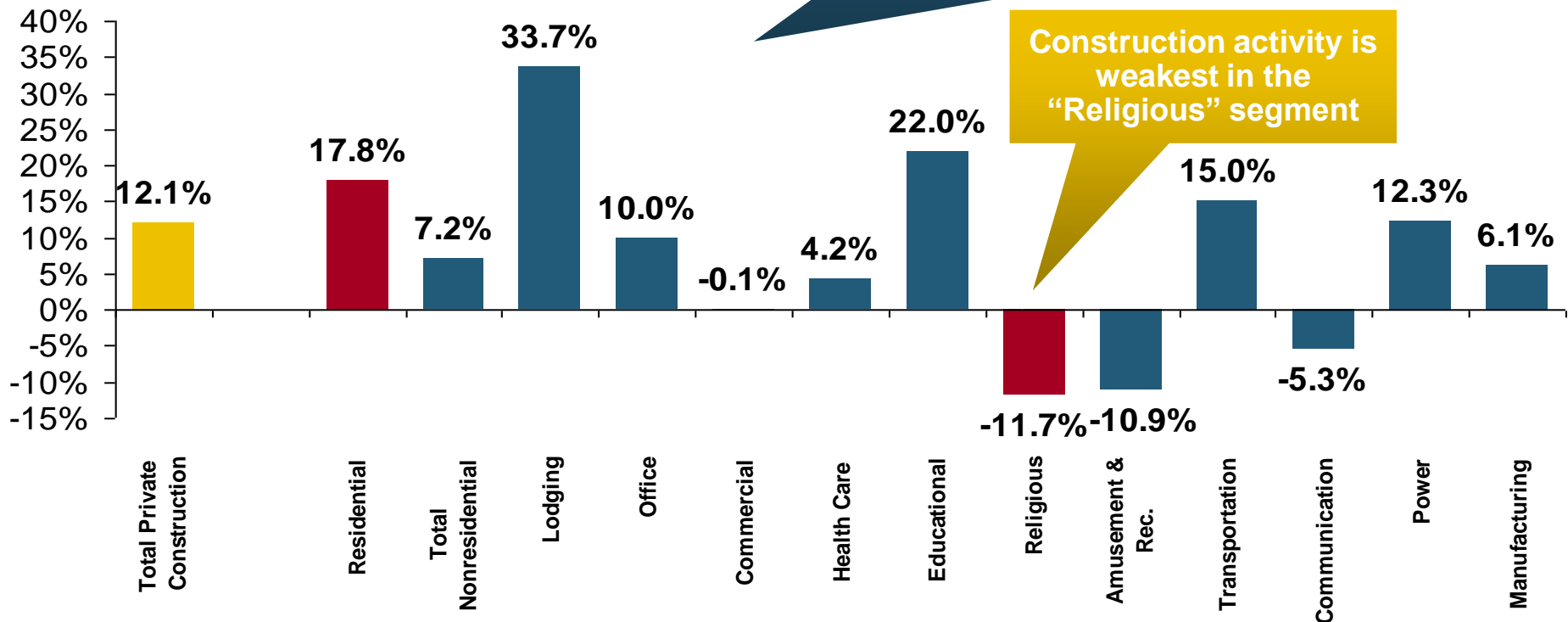
*seasonally adjusted

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

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

Growth (%)

Led by the Lodging and Power industries, Private sector construction activity is up by double digits in many segments after plunging during the “Great Recession”

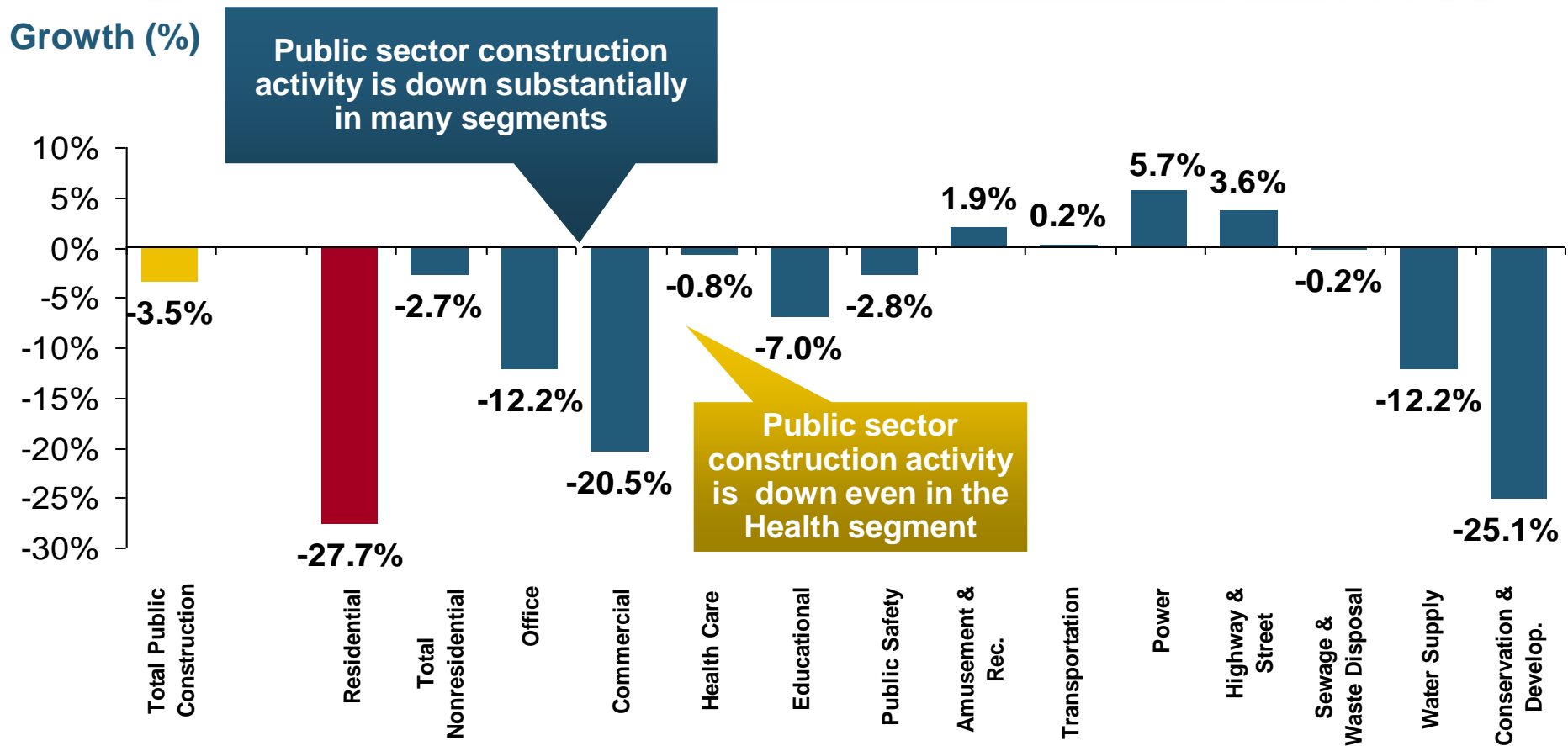


Private Construction Activity is Up in Most Segments, Including Residential Construction but Led by Lodging

*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, Aug. 2012 vs. Aug. 2011*



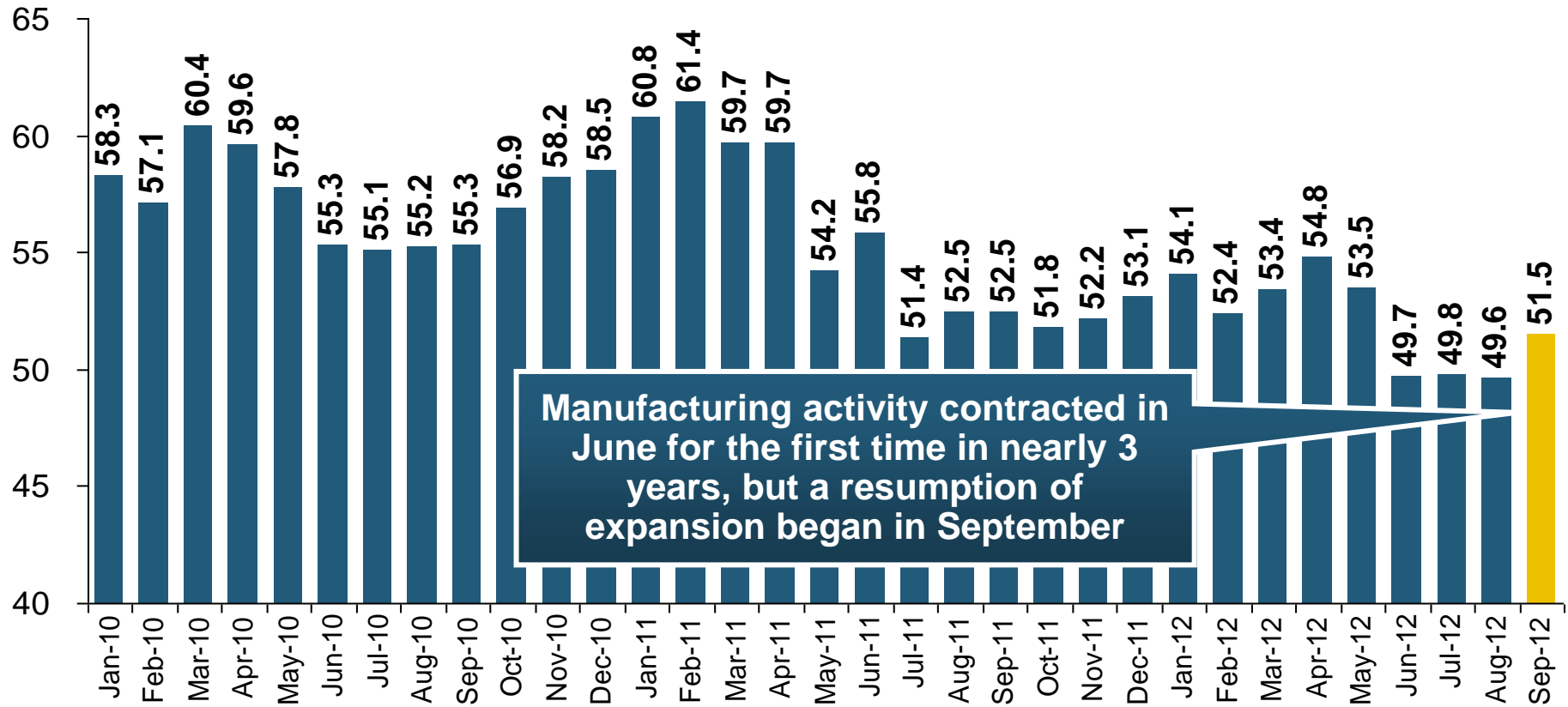
Public Construction Activity is Up Down in Many Segments as State, City and County Budgets Remain Under Stress

*seasonally adjusted

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

ISM Manufacturing Index (Values > 50 Indicate Expansion)

January 2010 through September 2012



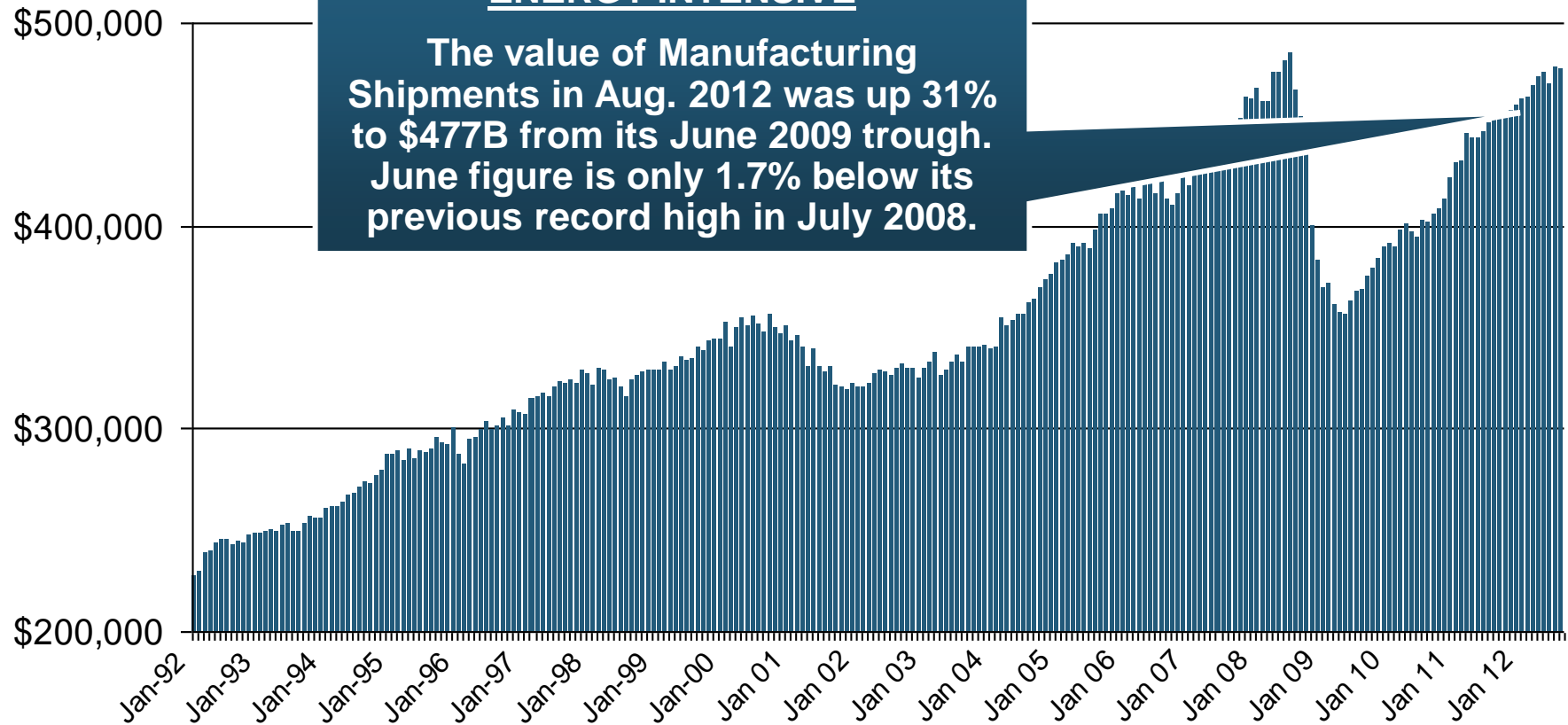
The manufacturing sector expanded for 35 of the 38 months from Jan. 2010 through Sept. 2012. The question is whether this will continue.

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

\$ Millions

ENERGY INTENSIVE

The value of Manufacturing Shipments in Aug. 2012 was up 31% to \$477B from its June 2009 trough. June figure is only 1.7% below its previous record high in July 2008.



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

*seasonally adjusted

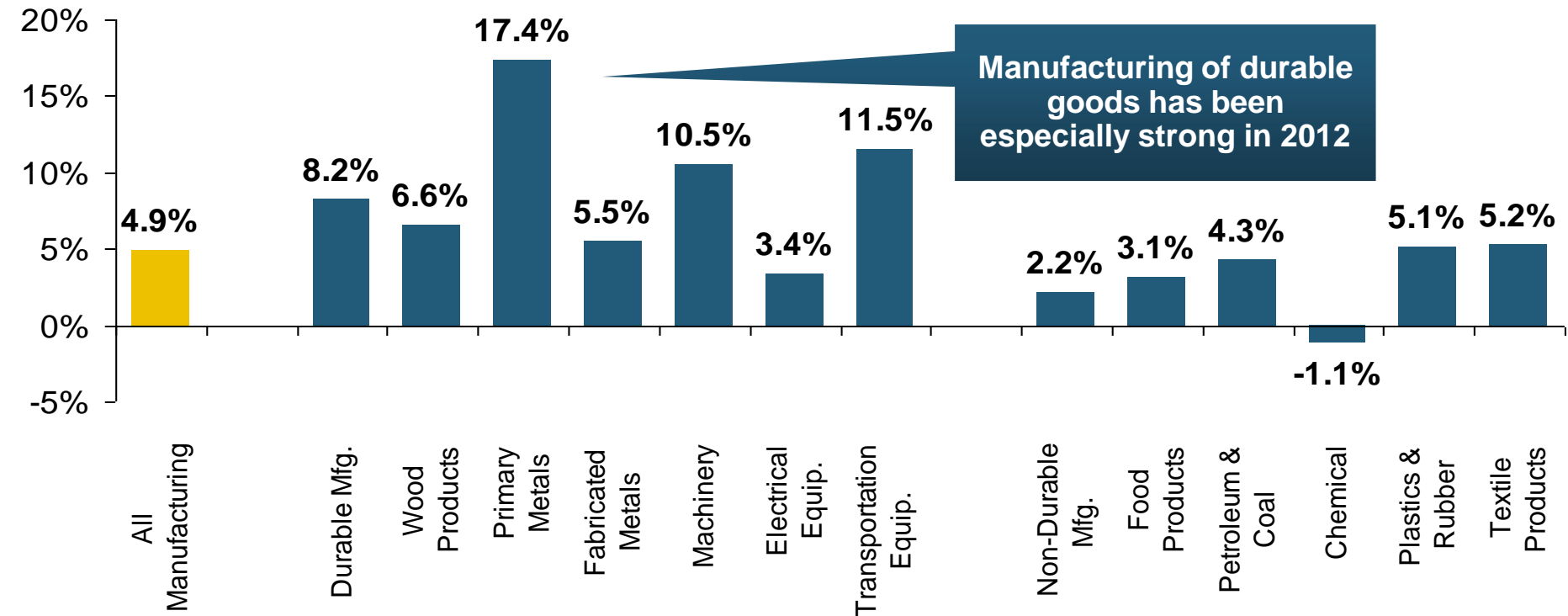
Source: U.S. Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders*, <http://www.census.gov/manufacturing/m3/>

Manufacturing Growth for Selected Sectors, 2012 vs. 2011*

Growth (%)

Durables: +8.2%

Non-Durables: +2.2%



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

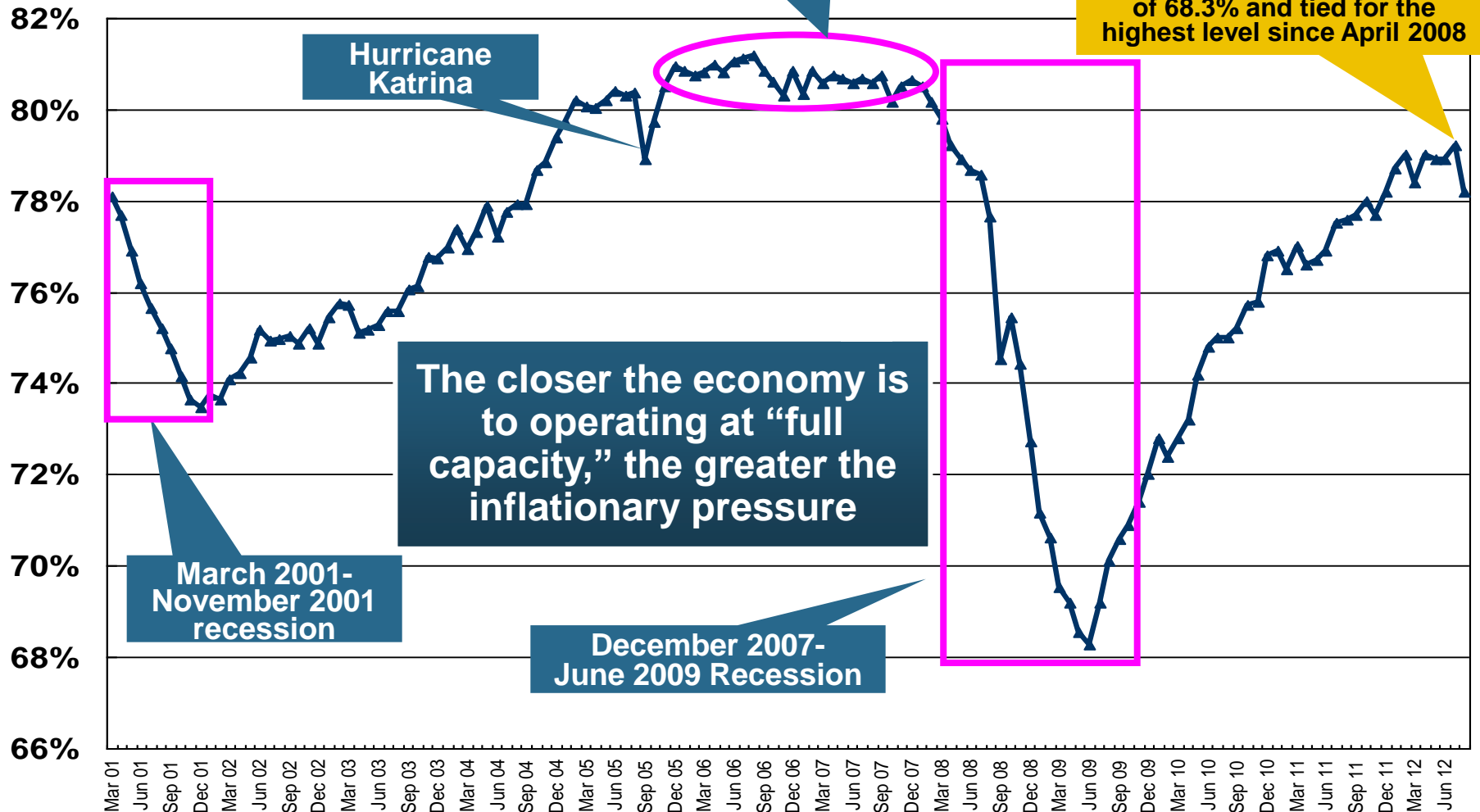
*Seasonally adjusted; Date are YTD comparing data through August 2012 to the same period in 2011.

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

Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures

March 2001 through August 2012

Percent of Industrial Capacity

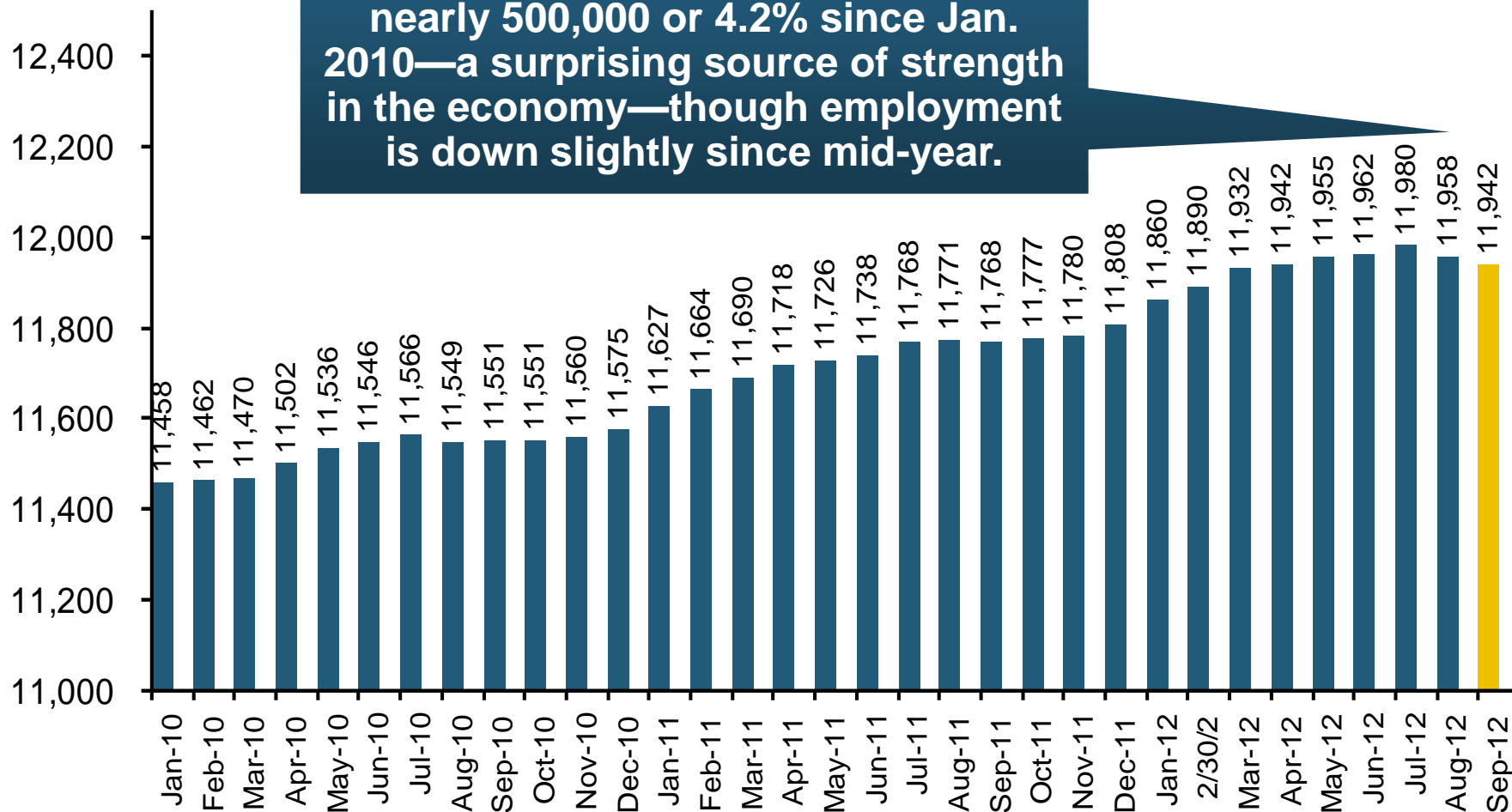


Source: Federal Reserve Board statistical releases at <http://www.federalreserve.gov/releases/q17/Current/default.htm>.

Manufacturing Employment, Jan. 2010—September 2012*

(Thousands)

Manufacturing employment is up by nearly 500,000 or 4.2% since Jan. 2010—a surprising source of strength in the economy—though employment is down slightly since mid-year.

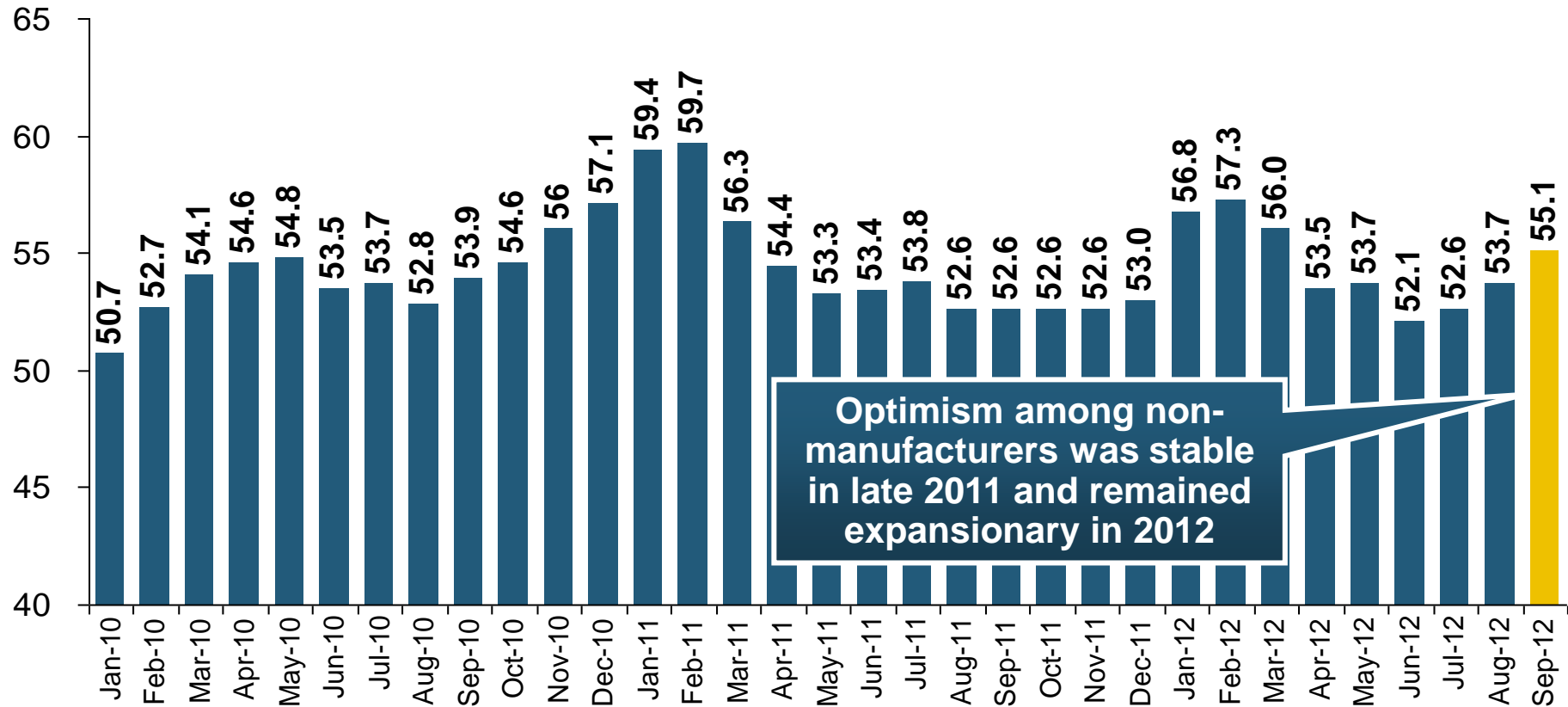


*Seasonally adjusted

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

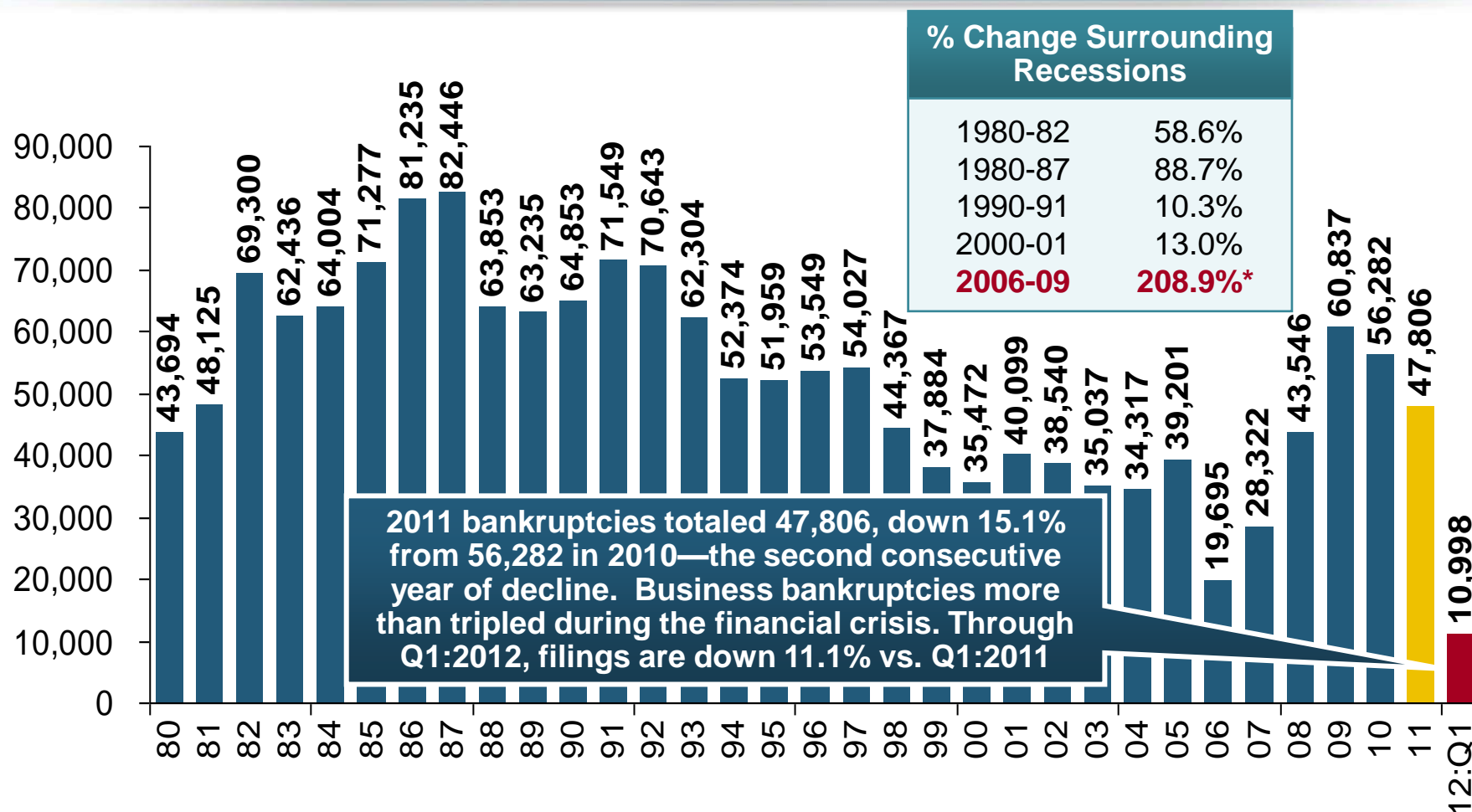
ISM Non-Manufacturing Index (Values > 50 Indicate Expansion)

January 2010 through September 2012



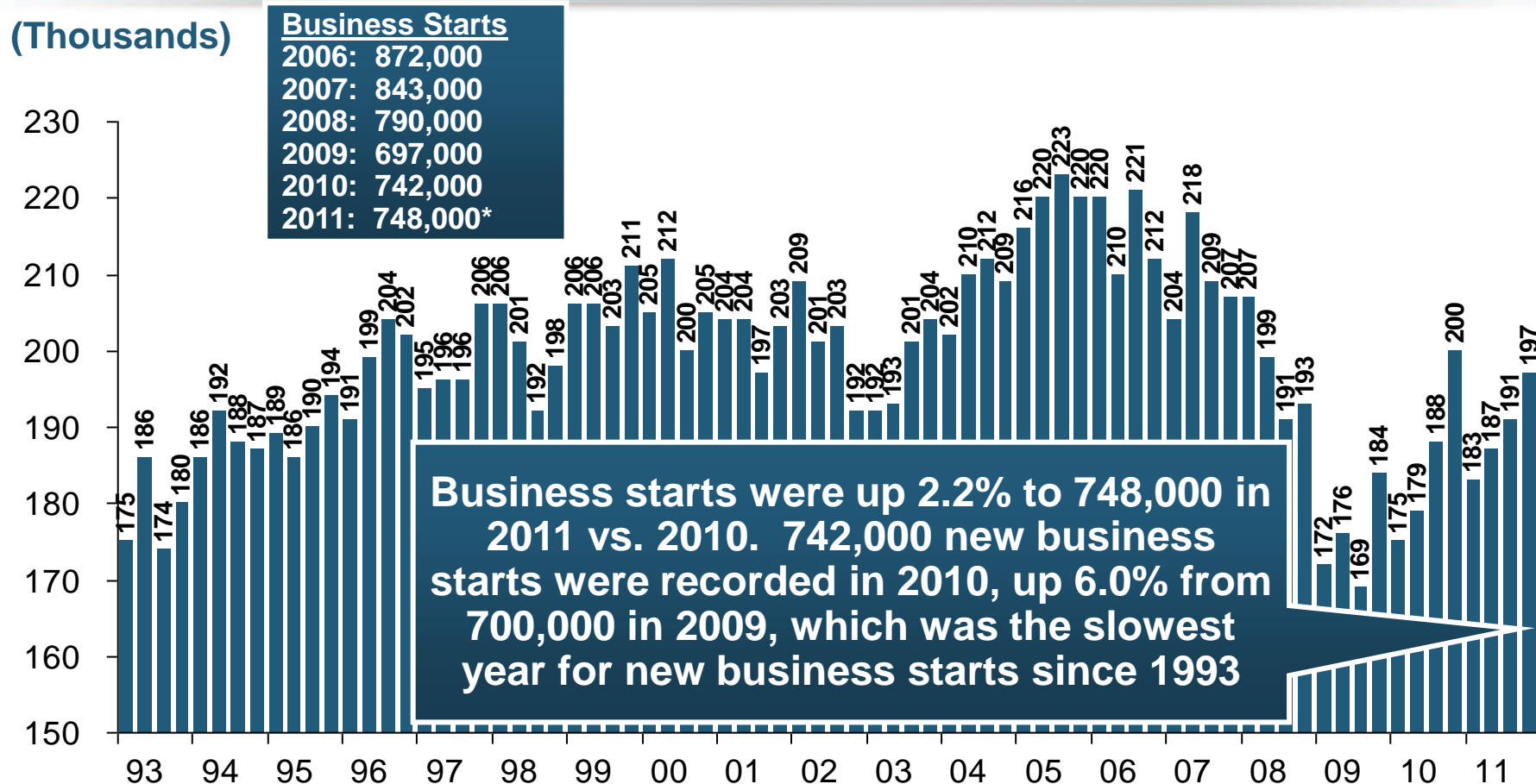
Non-manufacturing industries have been expanding and adding jobs. The question is whether this will continue.

Business Bankruptcy Filings, 1980-2012: Q1



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

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



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

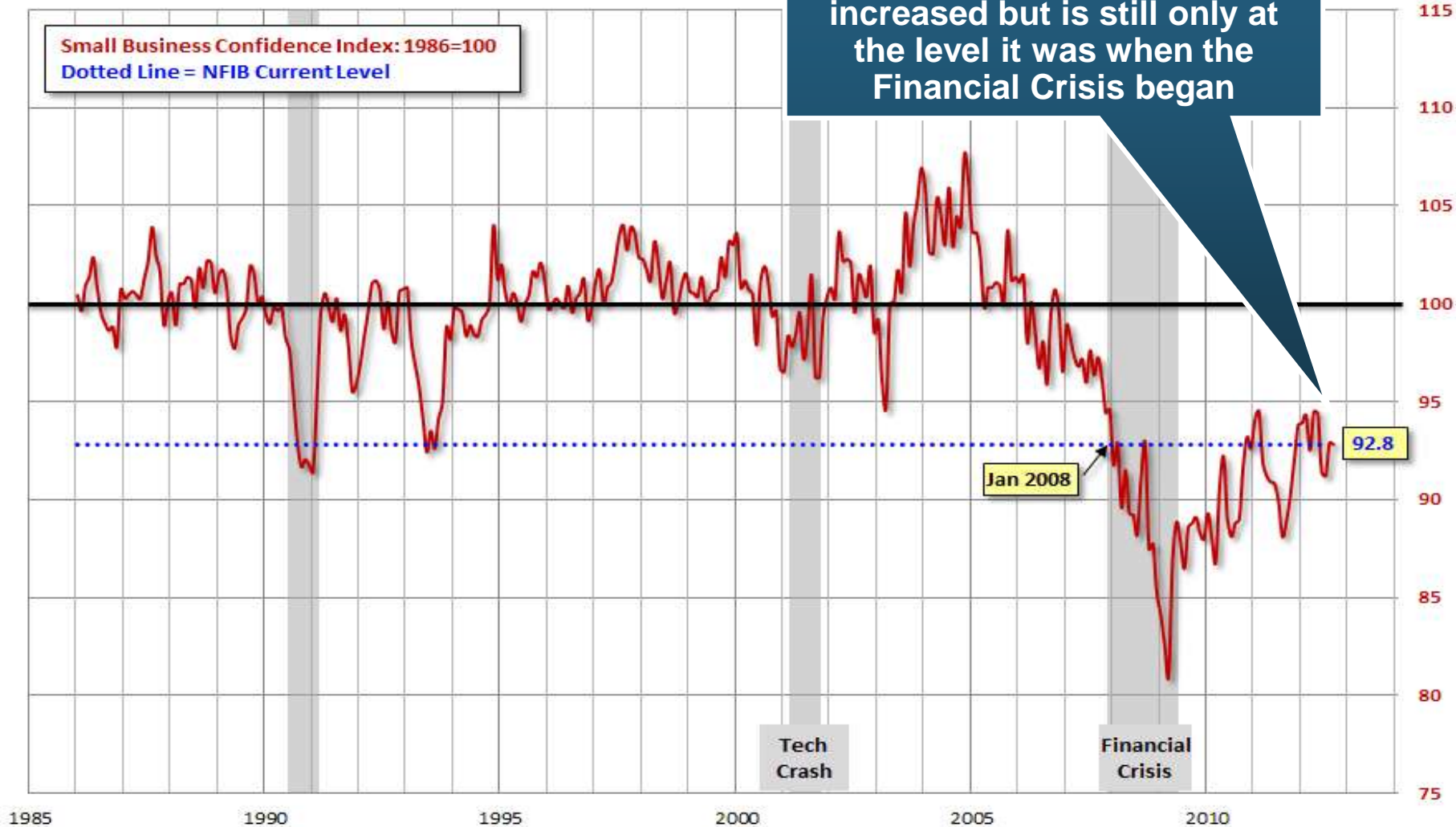
* Data through Dec. 31, 2011 are the latest available as of Oct. 3, 2012; Seasonally adjusted.

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

NFIB Small Business Optimism Index

January 1985 through September 2012

Small business optimism has increased but is still only at the level it was when the Financial Crisis began



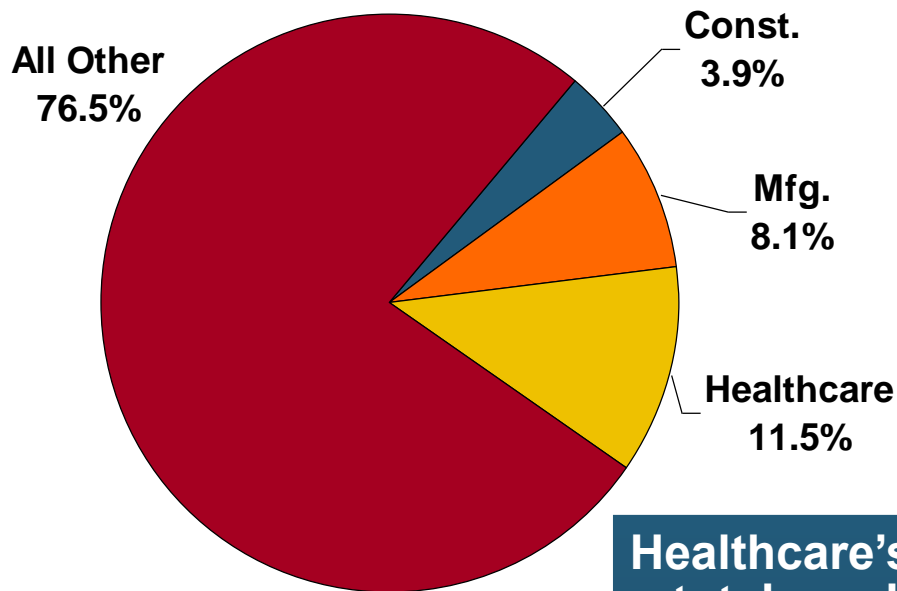
12 Industries for the Next 10 Years: Insurance Solutions Needed

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

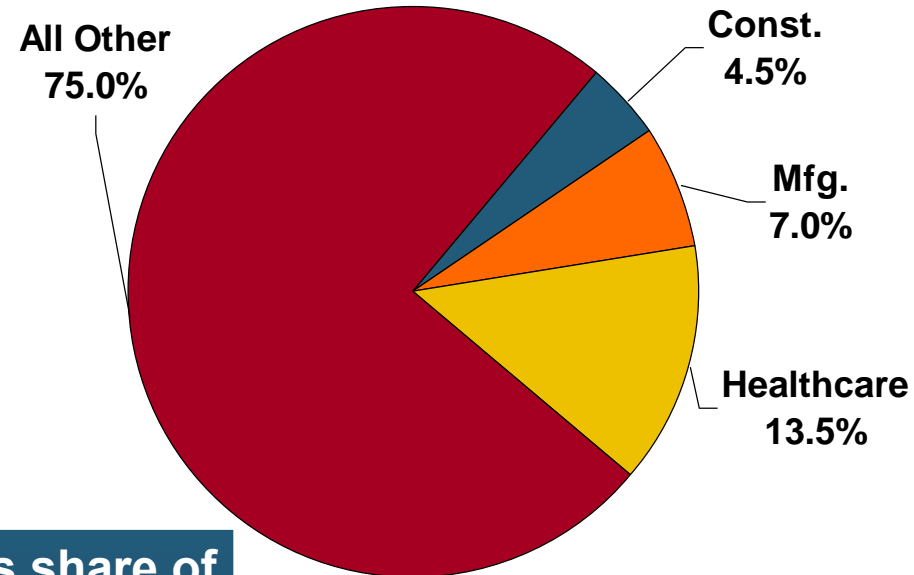
Many industries are poised for growth, though insurers' ability to capitalize on these industries varies widely

Employment Shares: 2010 vs. 2010F for Healthcare, Construction and Mfg.

2010



2020F

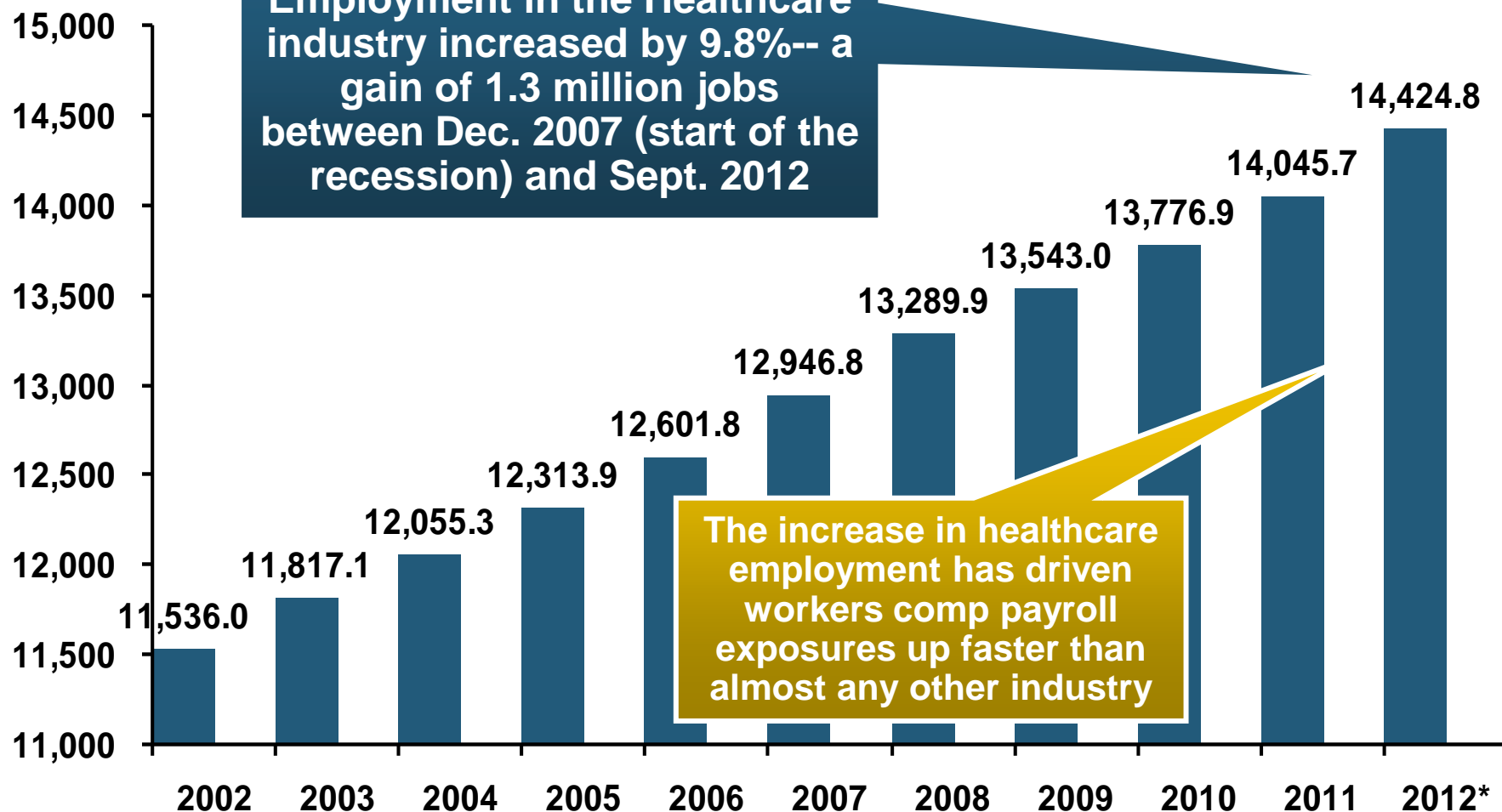


Healthcare's share of total employment will increase from 11.5% in 2010 to 13.5% in 2020—a gain of nearly 2 million jobs*

*Includes "Social Assistance" employment.

Healthcare Employment, 2002—September 2012*

(Thousands)



*Seasonally adjusted

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

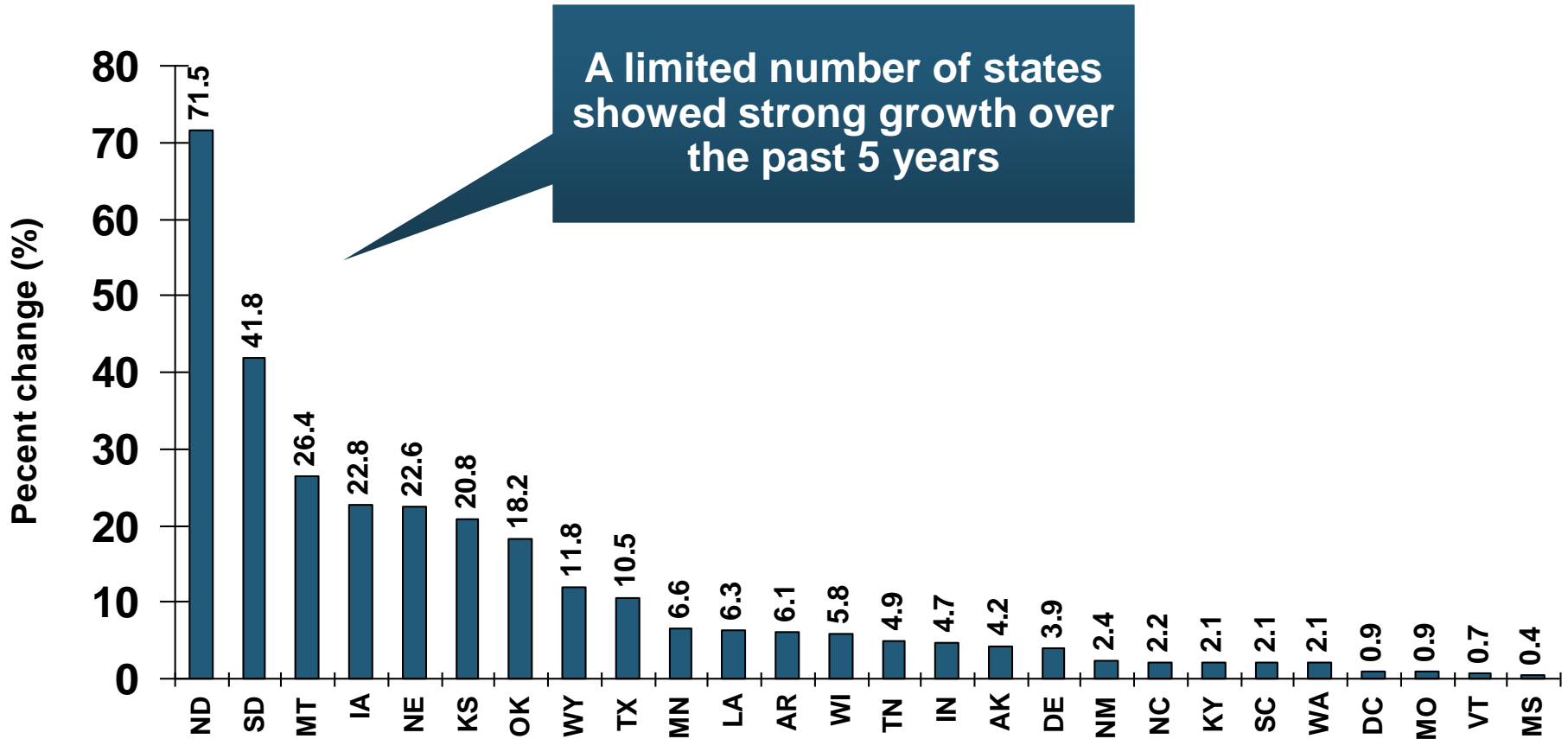


Growth Analysis by State and Business Segment

Premium Growth Rates Vary Tremendously by State

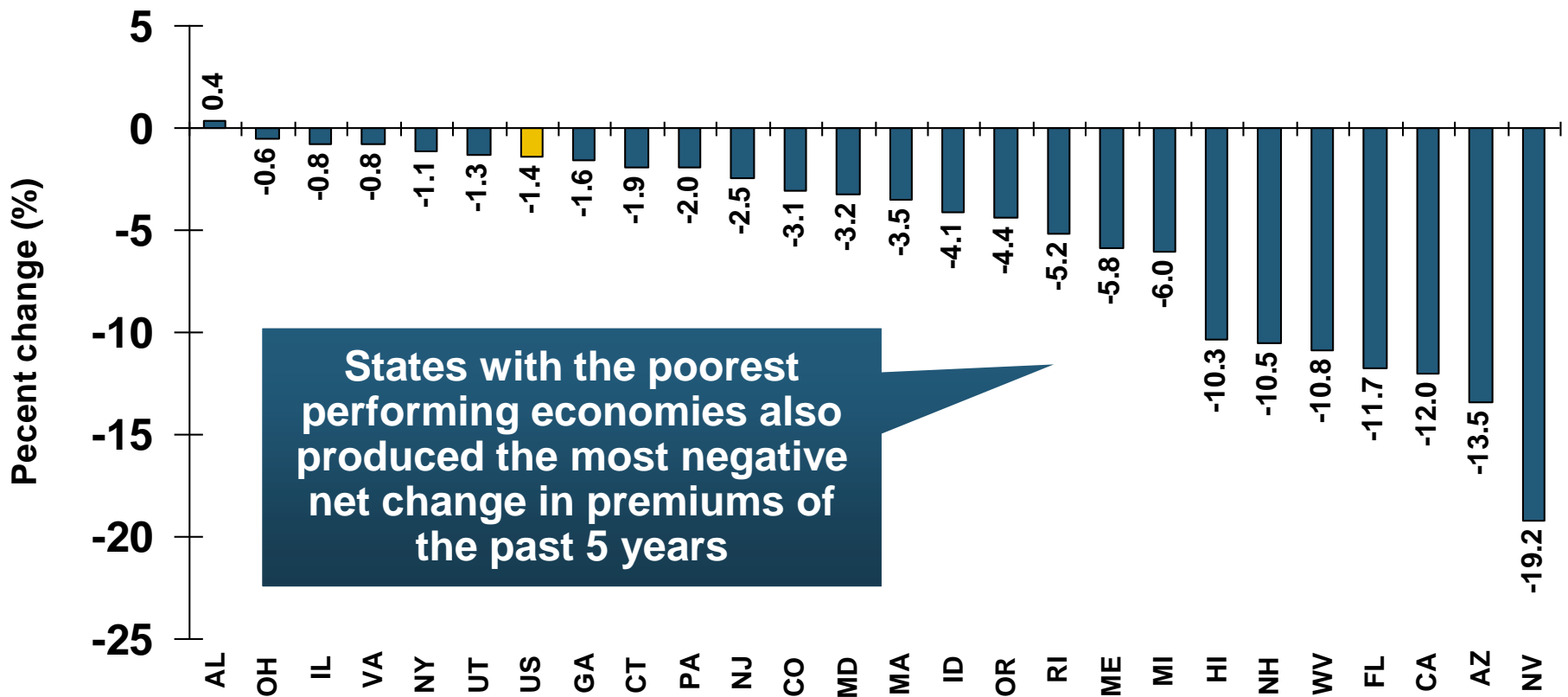
Direct Premiums Written: Total P/C Percent Change by State, 2006-2011

Top 25 States



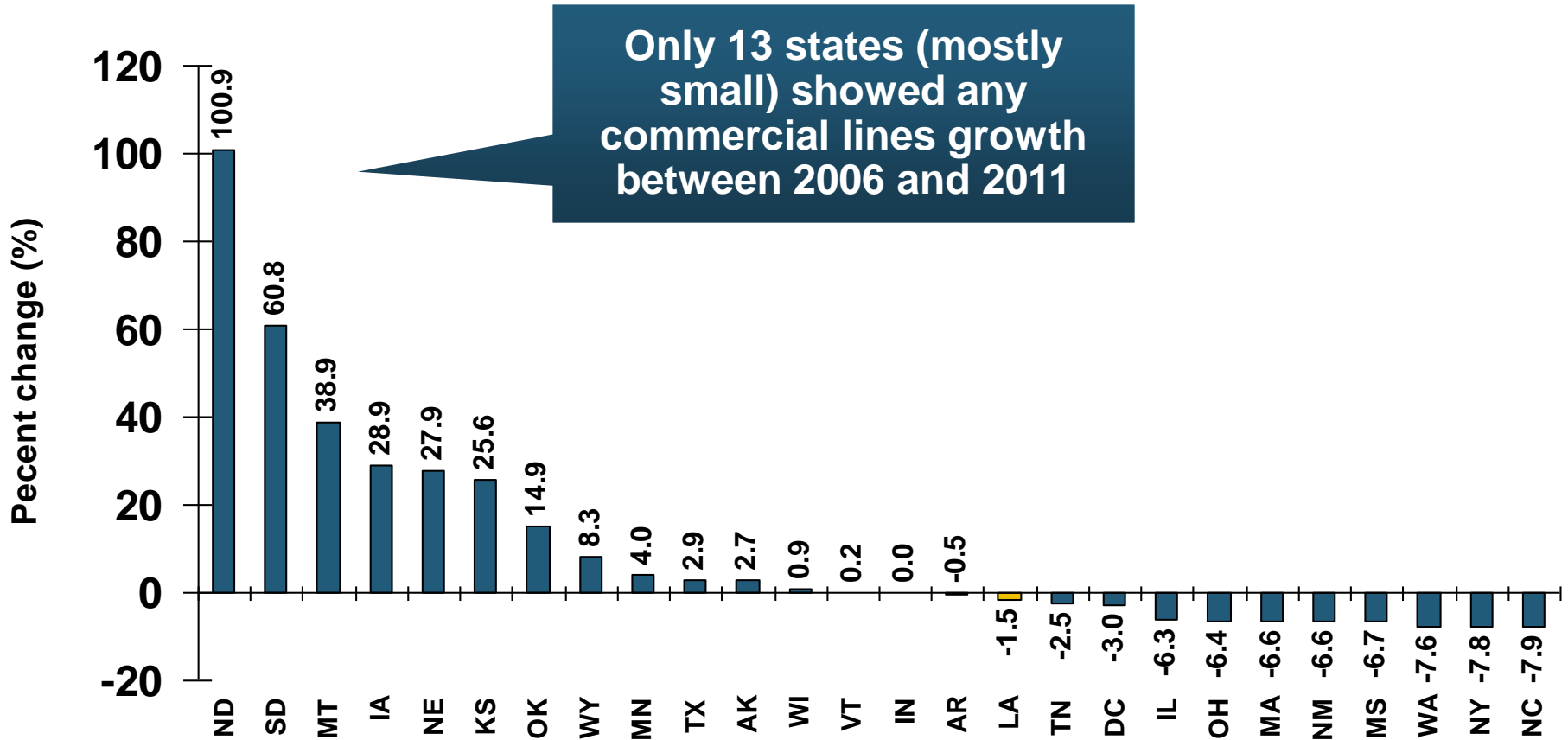
Direct Premiums Written: Total P/C Percent Change by State, 2006-2011

Bottom 25 States



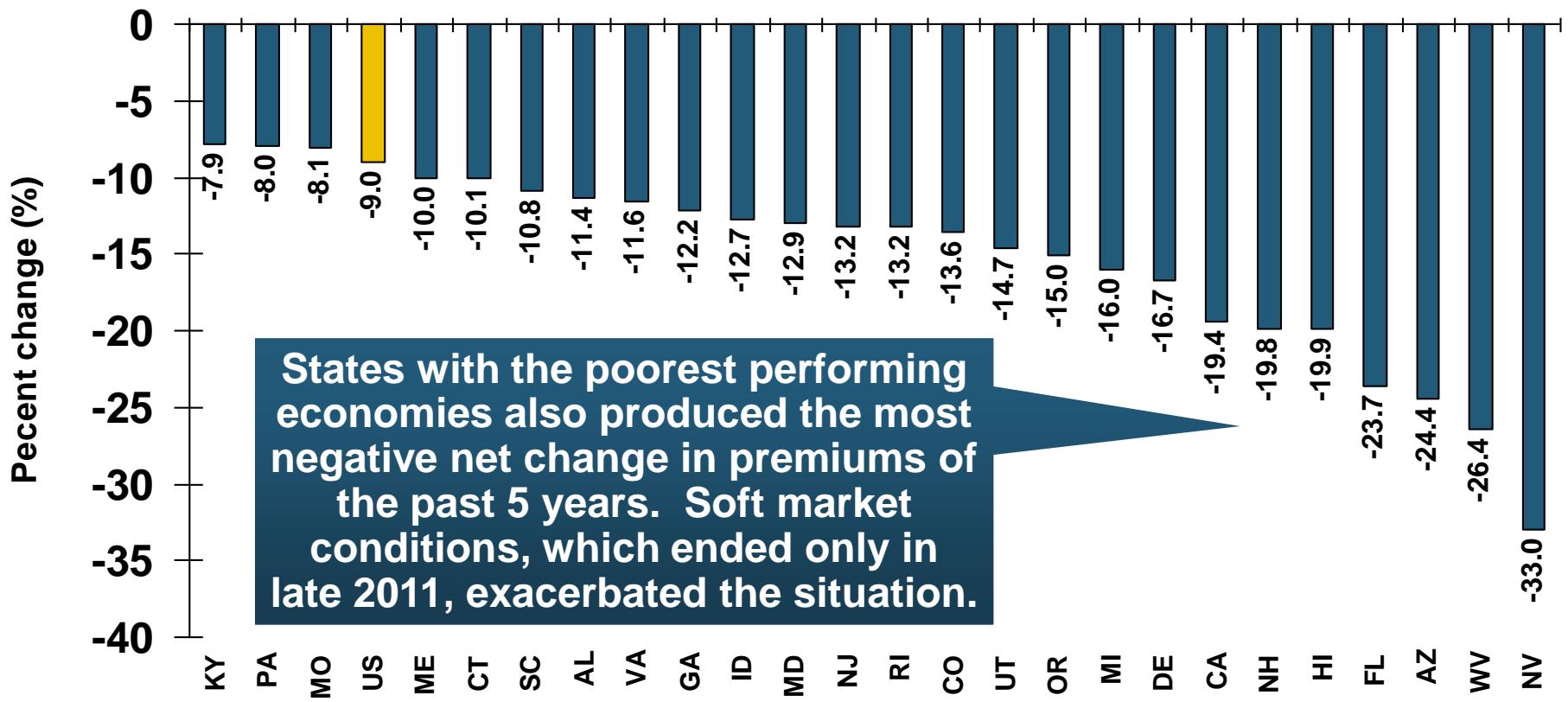
Direct Premiums Written: Comm Lines Percent Change by State, 2006-2011

Top 25 States



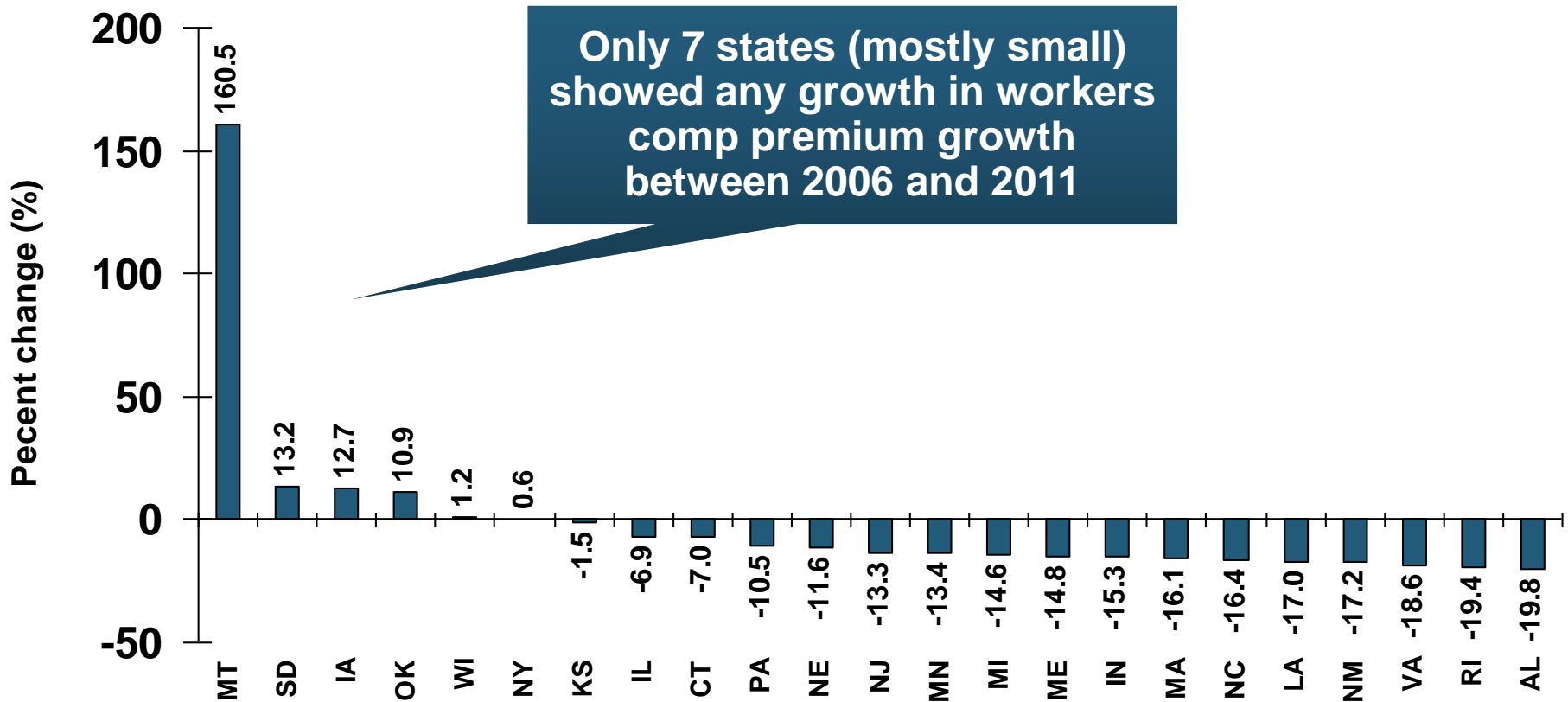
Direct Premiums Written: Comm. Lines Percent Change by State, 2006-2011

Bottom 25 States



Direct Premiums Written: Workers' Comp Percent Change by State, 2006-2011*

Top 23 States

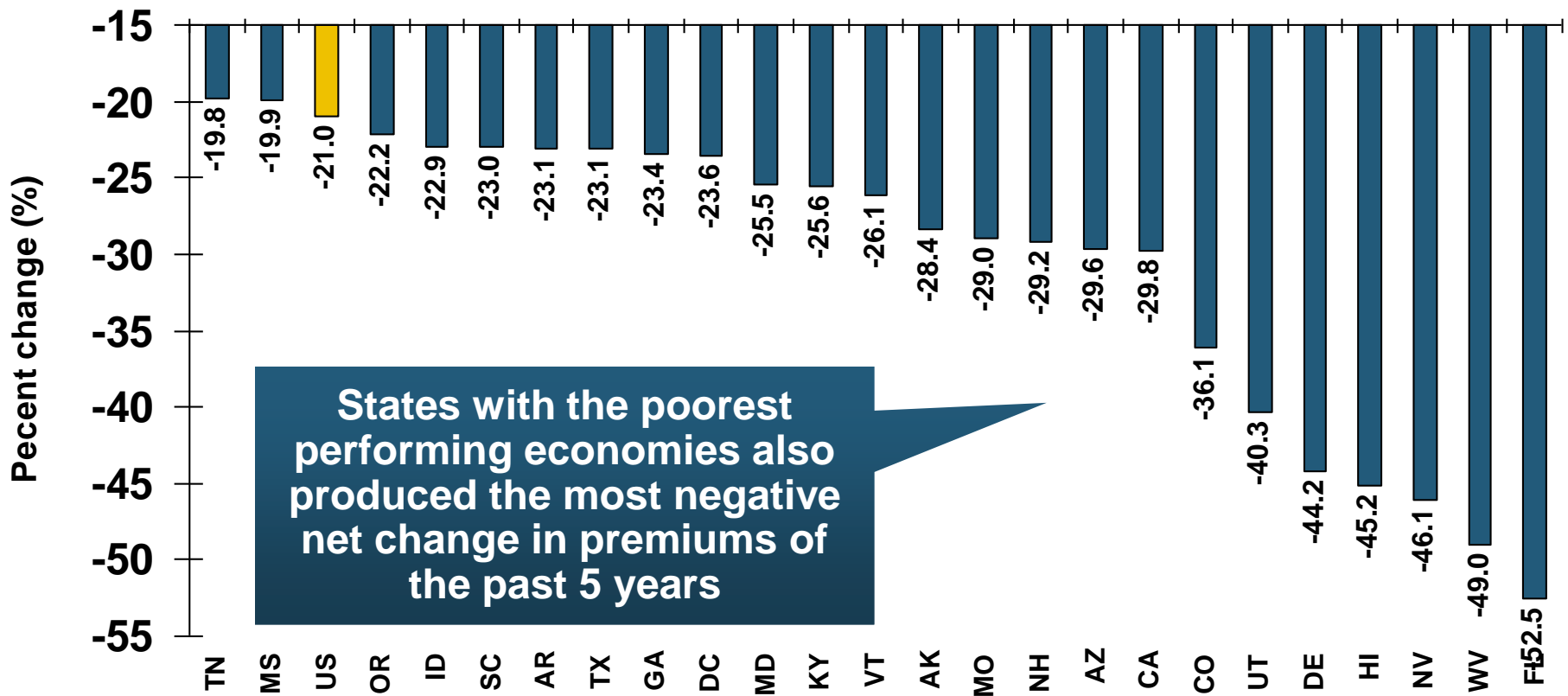


*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

Sources: SNL Financial, LLC.; Insurance Information Institute.

Direct Premiums Written: Worker's Comp Percent Change by State, 2006-2011*

Bottom 25 States



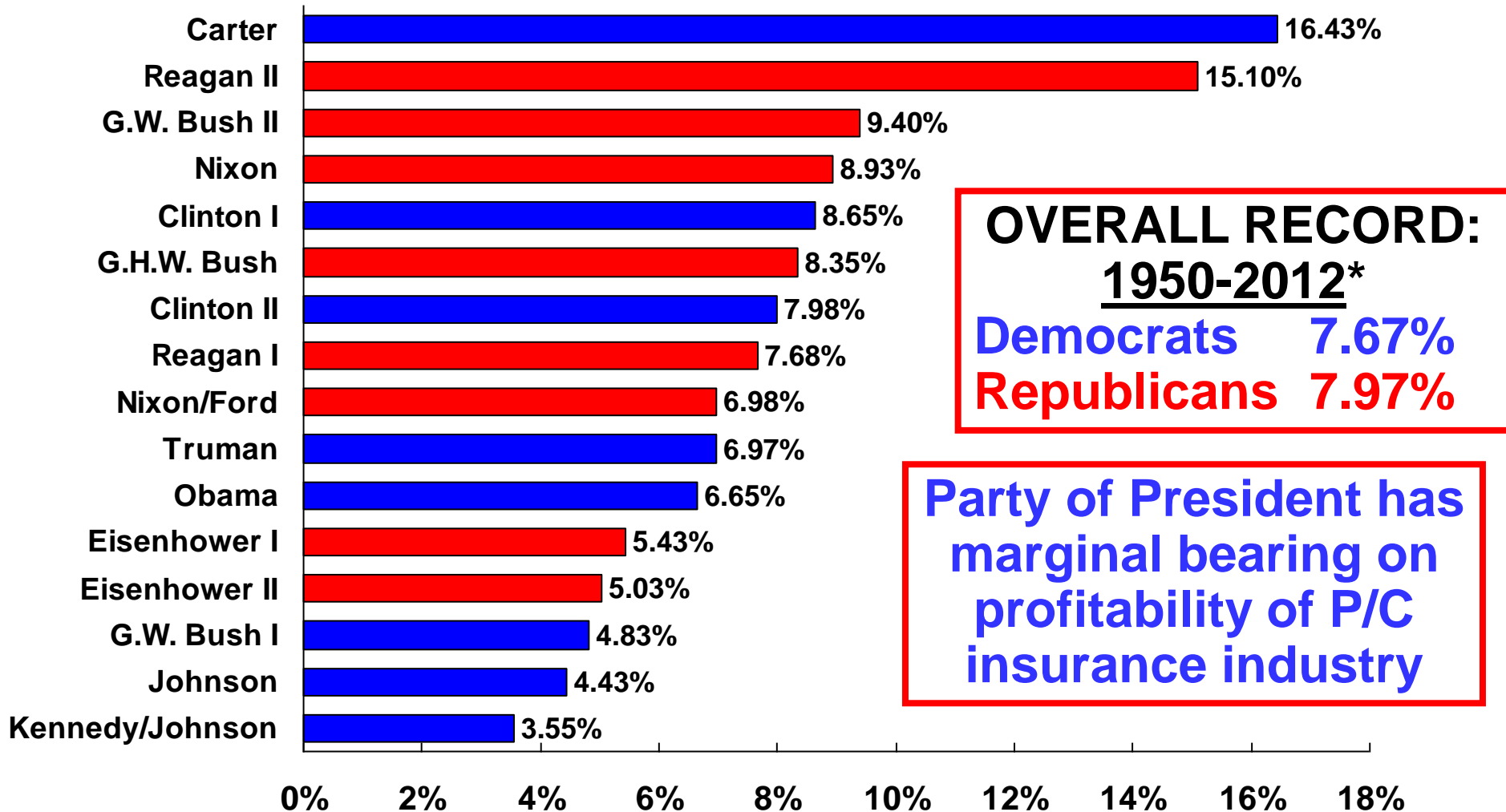
*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

Sources: SNL Financial LC.; Insurance Information Institute.

Presidential Politics & the P/C Insurance Industry

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

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



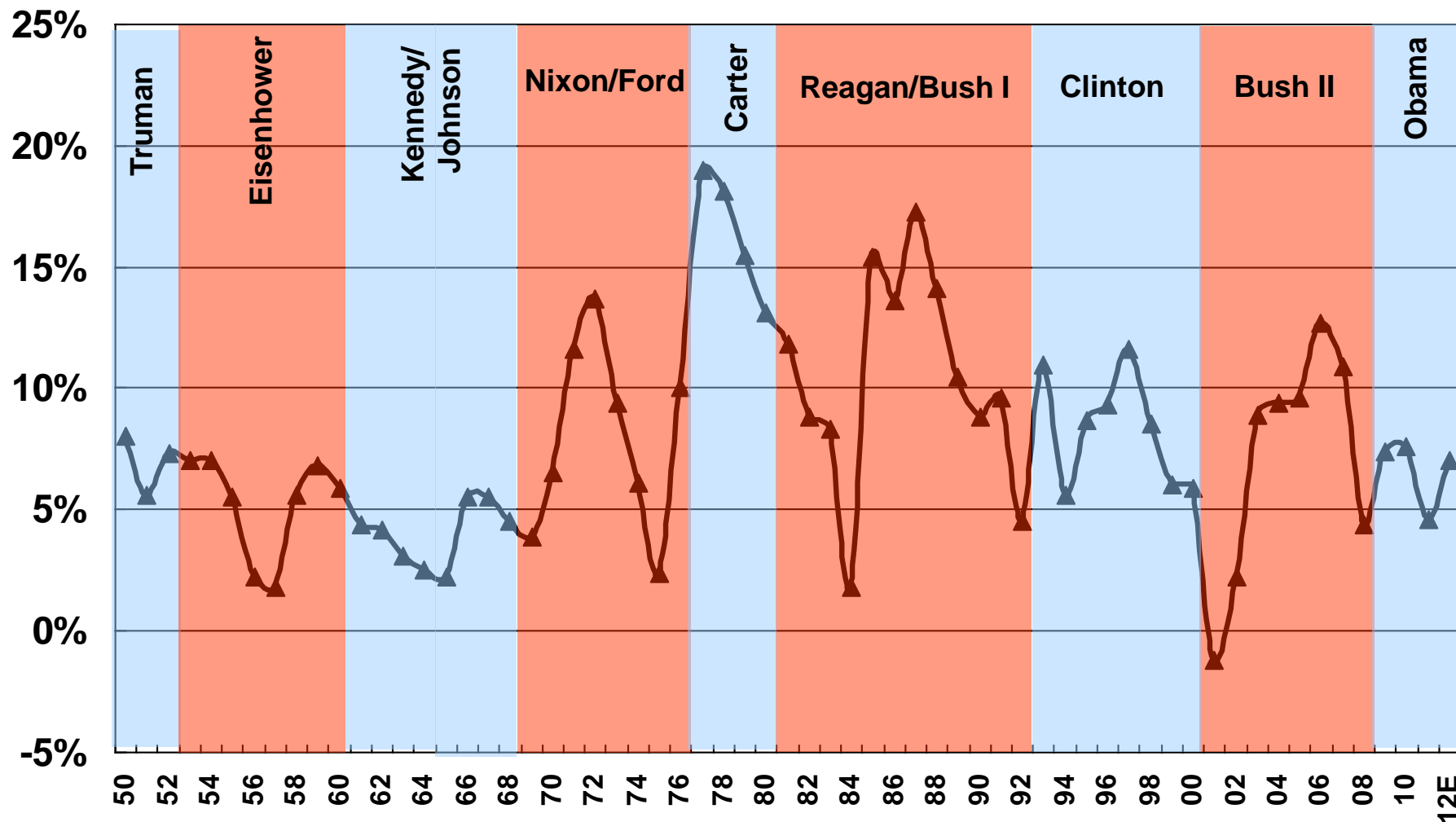
*Truman administration ROE of 6.97% based on 3 years only, 1950-52; ROEs for the years 2008 forward exclude mortgage and financial guaranty segments. Estimated ROE for 2012 = 7.0%.

Source: Insurance Information Institute

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

BLUE = Democratic President

RED = Republican President



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

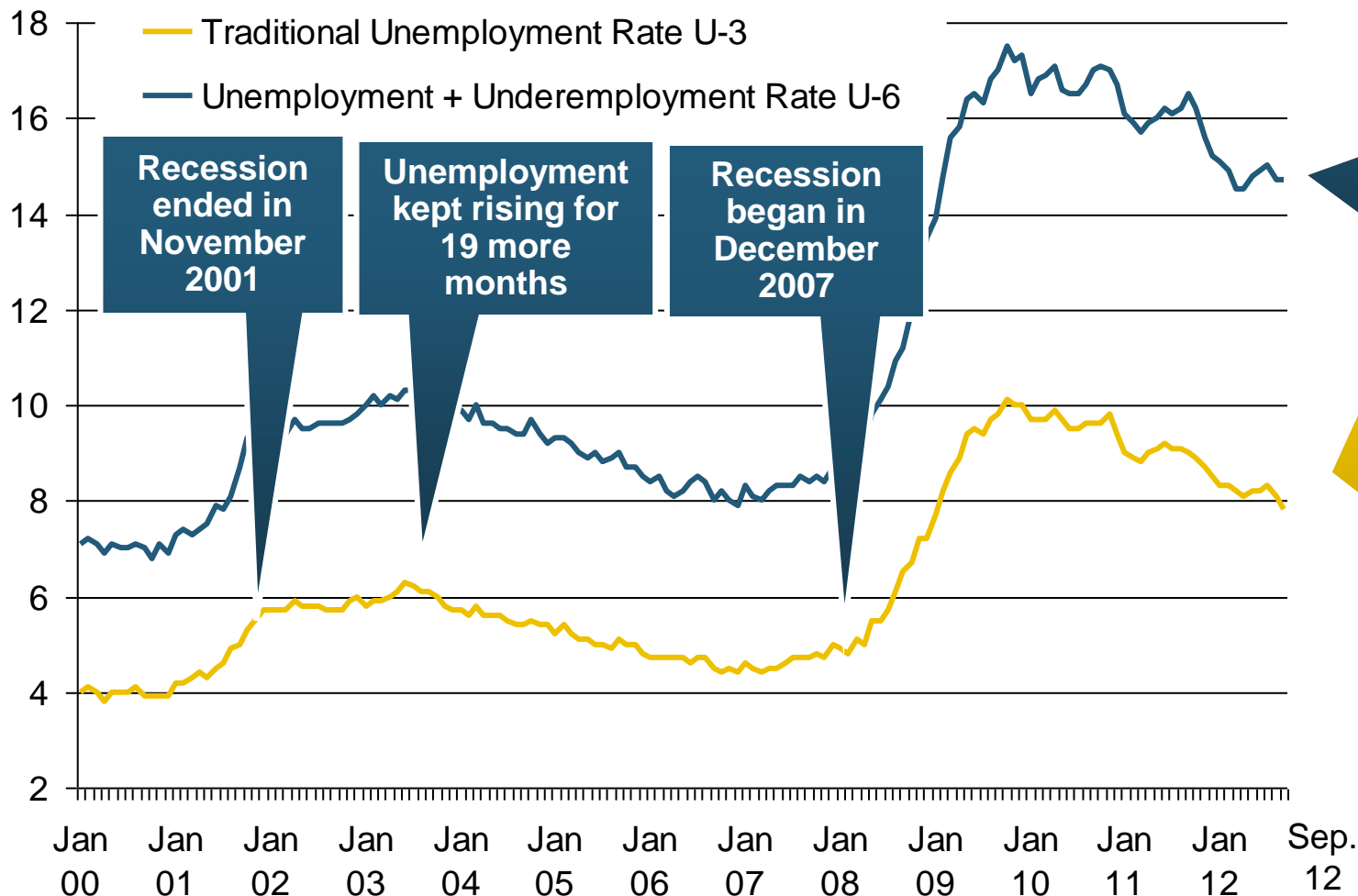
Source: Insurance Information Institute

Labor Market Trends

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

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

January 2000 through Sept. 2012, Seasonally Adjusted (%)



U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 14.7% in Aug. 2012

Unemployment stood at 7.8% in Aug. 2012

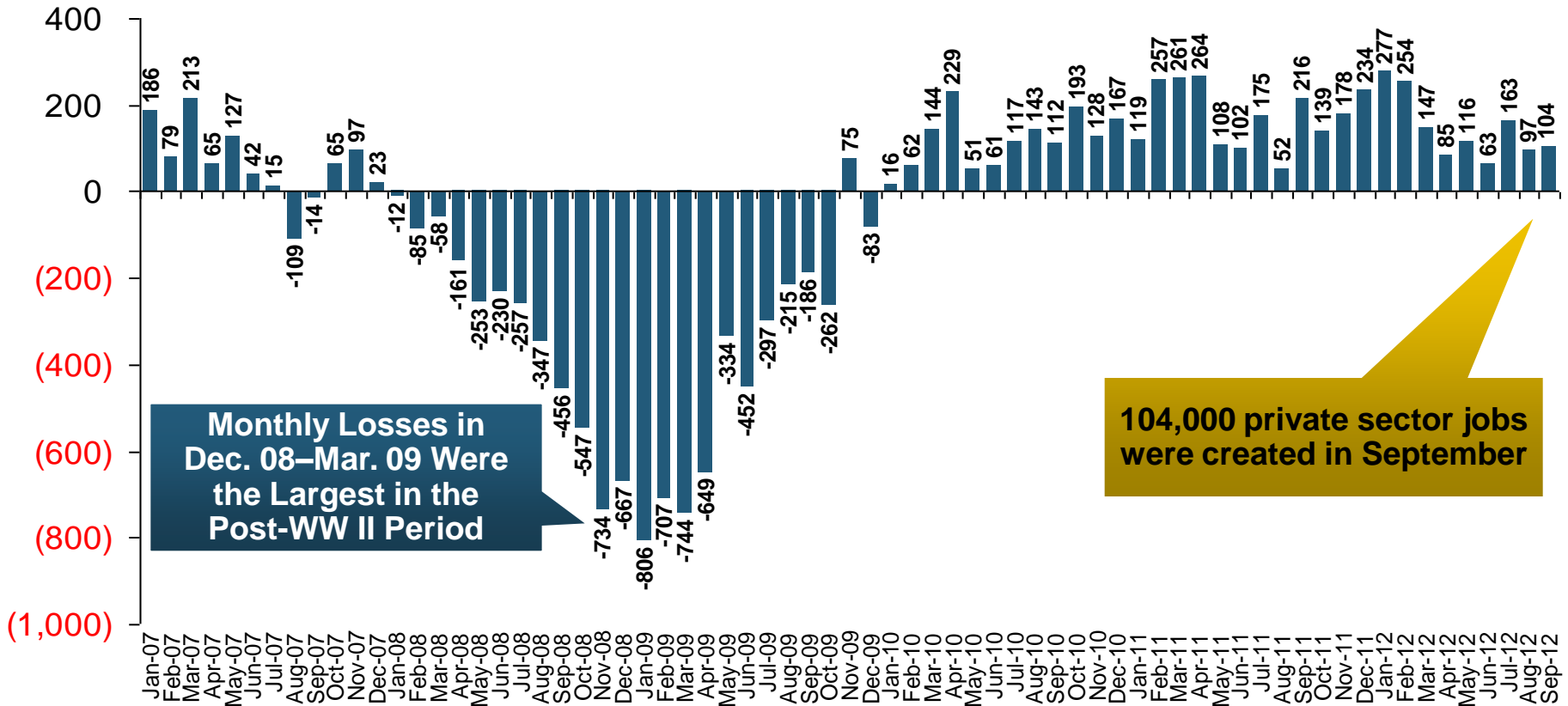
Unemployment peaked at 10.1% in October 2009, highest monthly rate since 1983.

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

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

Monthly Change in Private Employment

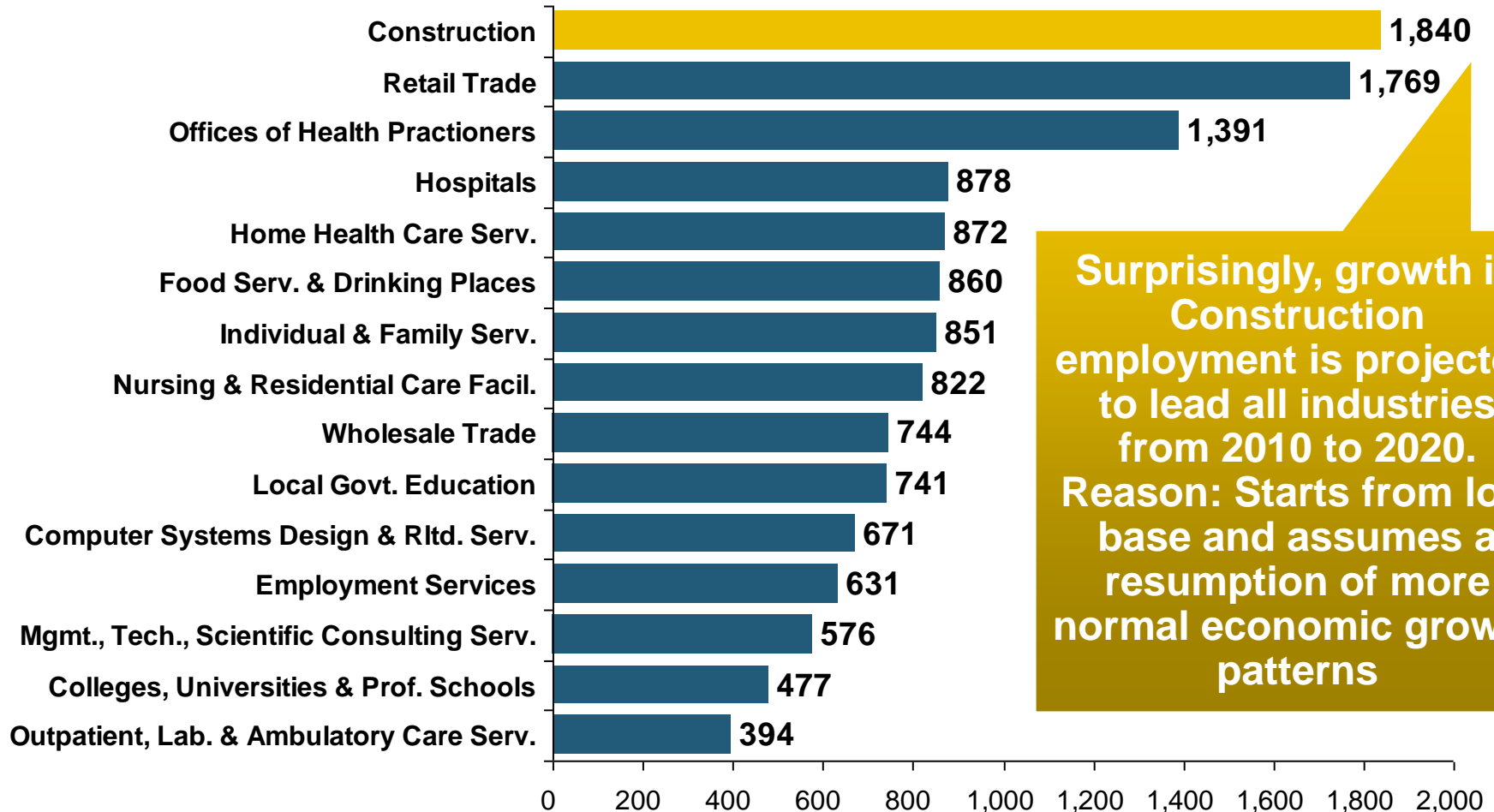
January 2008 through Sept. 2012 (Thousands)



Private Employers Added 4.83 million Jobs Since Jan. 2010 After Having Shed 4.66 Million Jobs in 2009 and 3.81 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

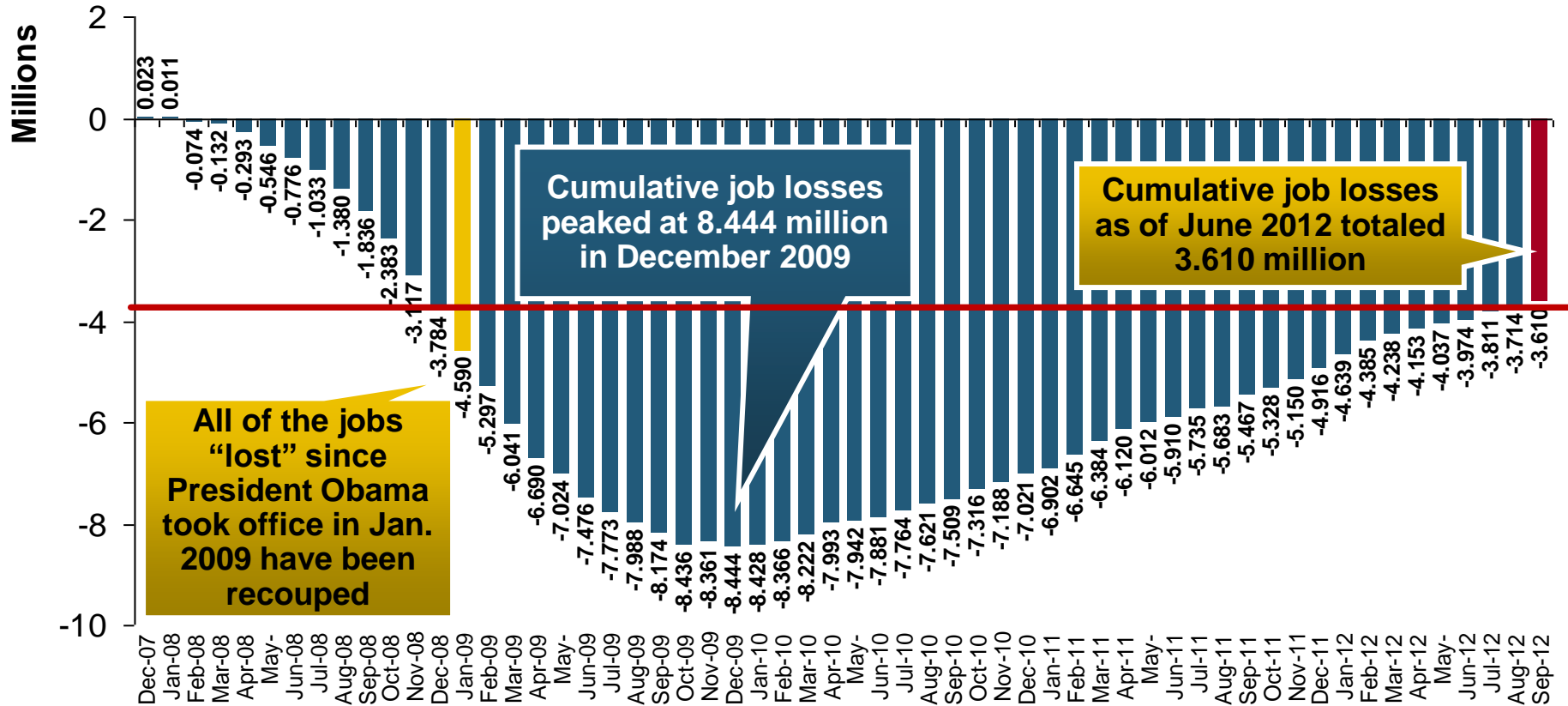
Top 15 Industries with Largest Projected Growth in Wage and Salary Employment: 2010-2020P

(Thousands)



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

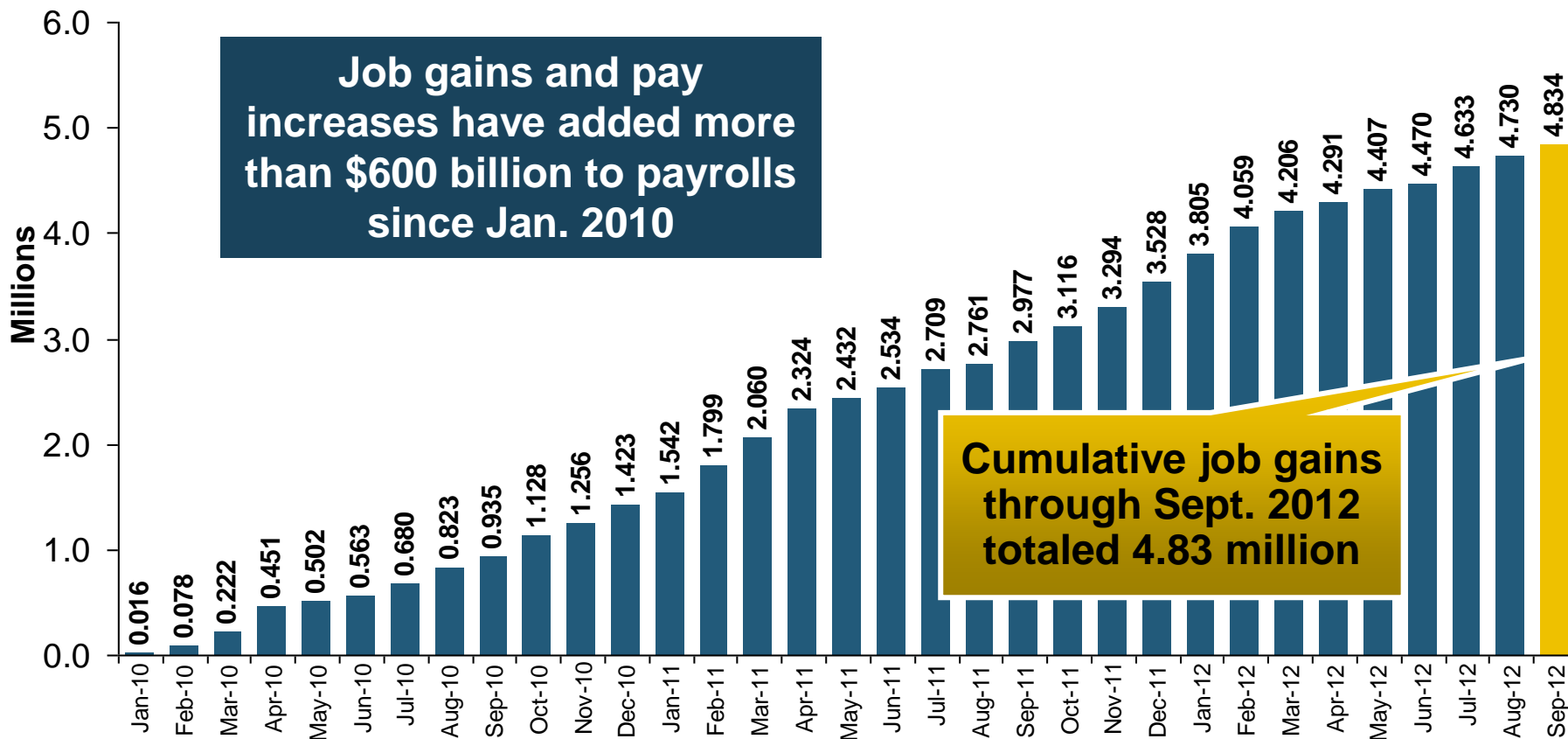
December 2007 through September 2012 (Millions)



Private Employers Added 4.83 million Jobs Since Jan. 2010 After Having Shed 4.66 Million Jobs in 2009 and 3.81 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

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

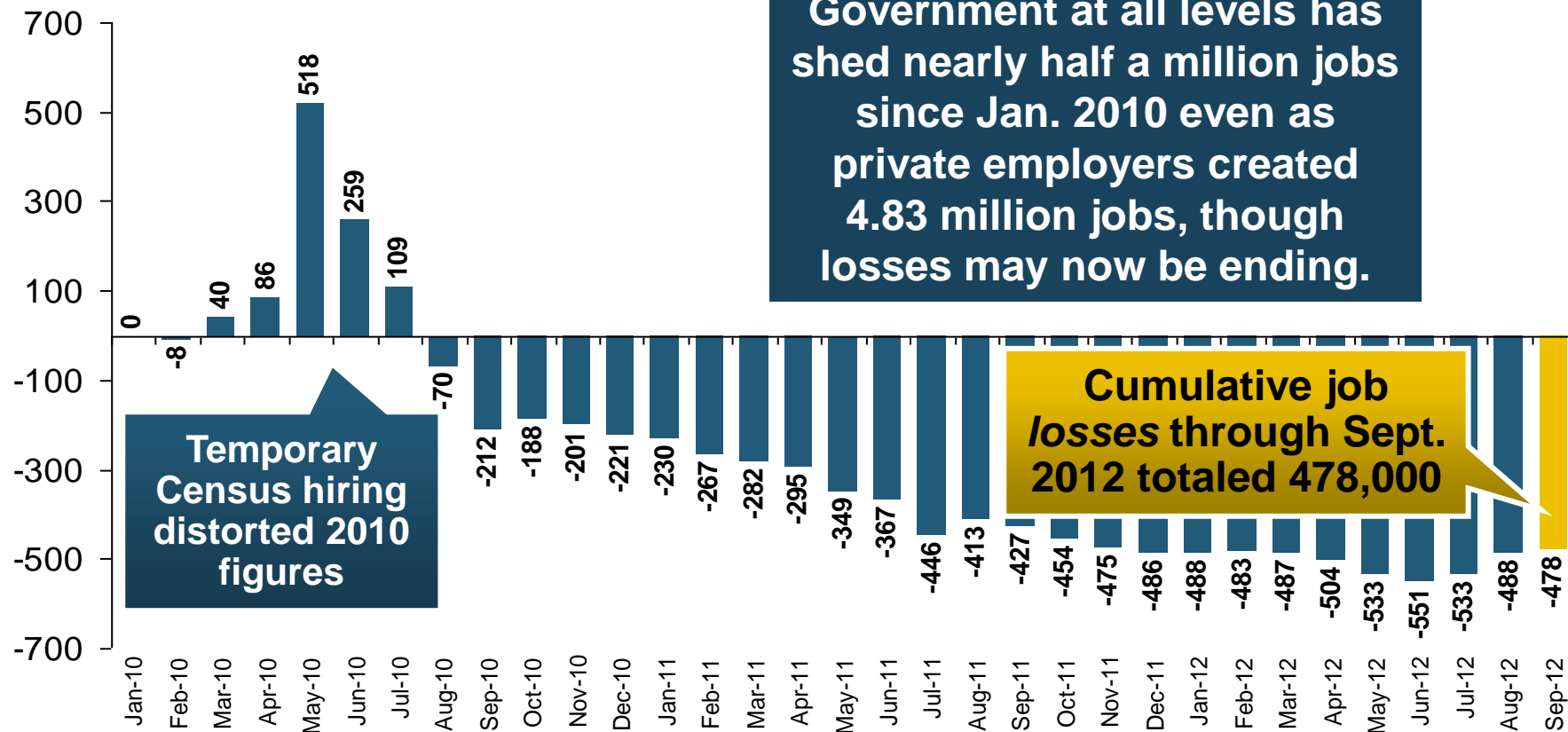
January 2010 through September 2012* (Millions)



Private Employers Added 4.83 million Jobs Since Jan. 2010 After Having Shed 4.66 Million Jobs in 2009 and 3.81 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

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

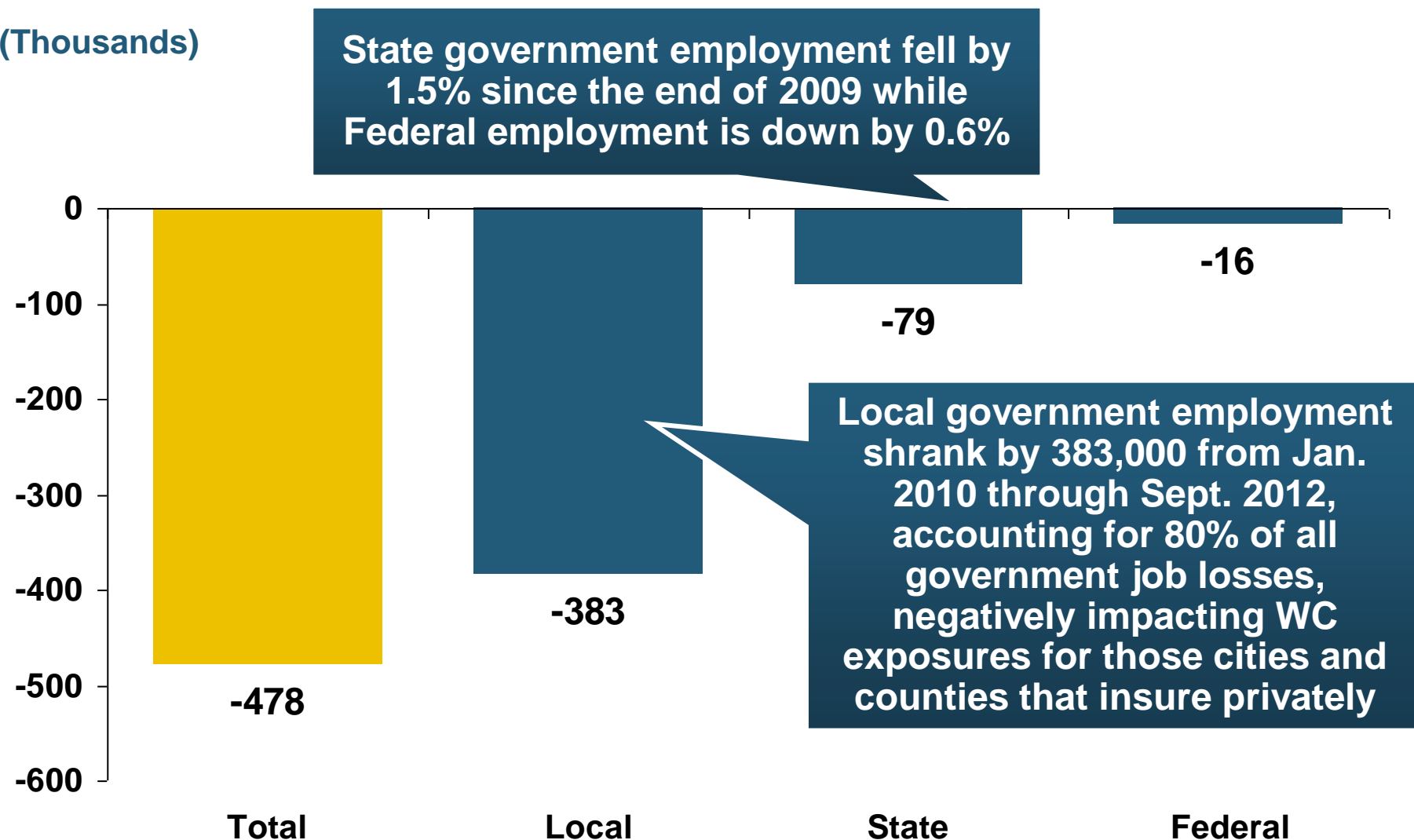
January 2010 through Sept. 2012* (Millions)



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

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

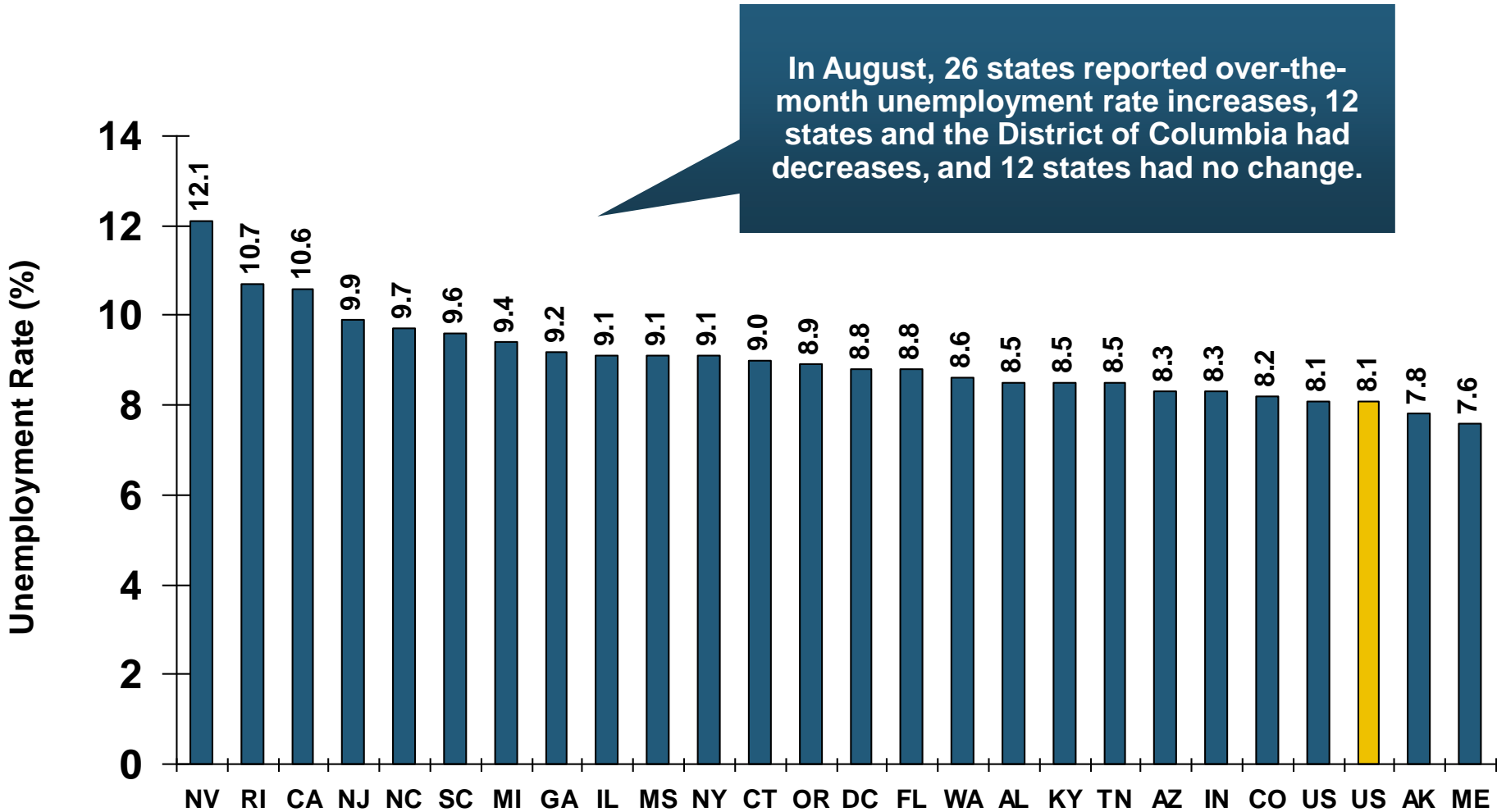
(Thousands)



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

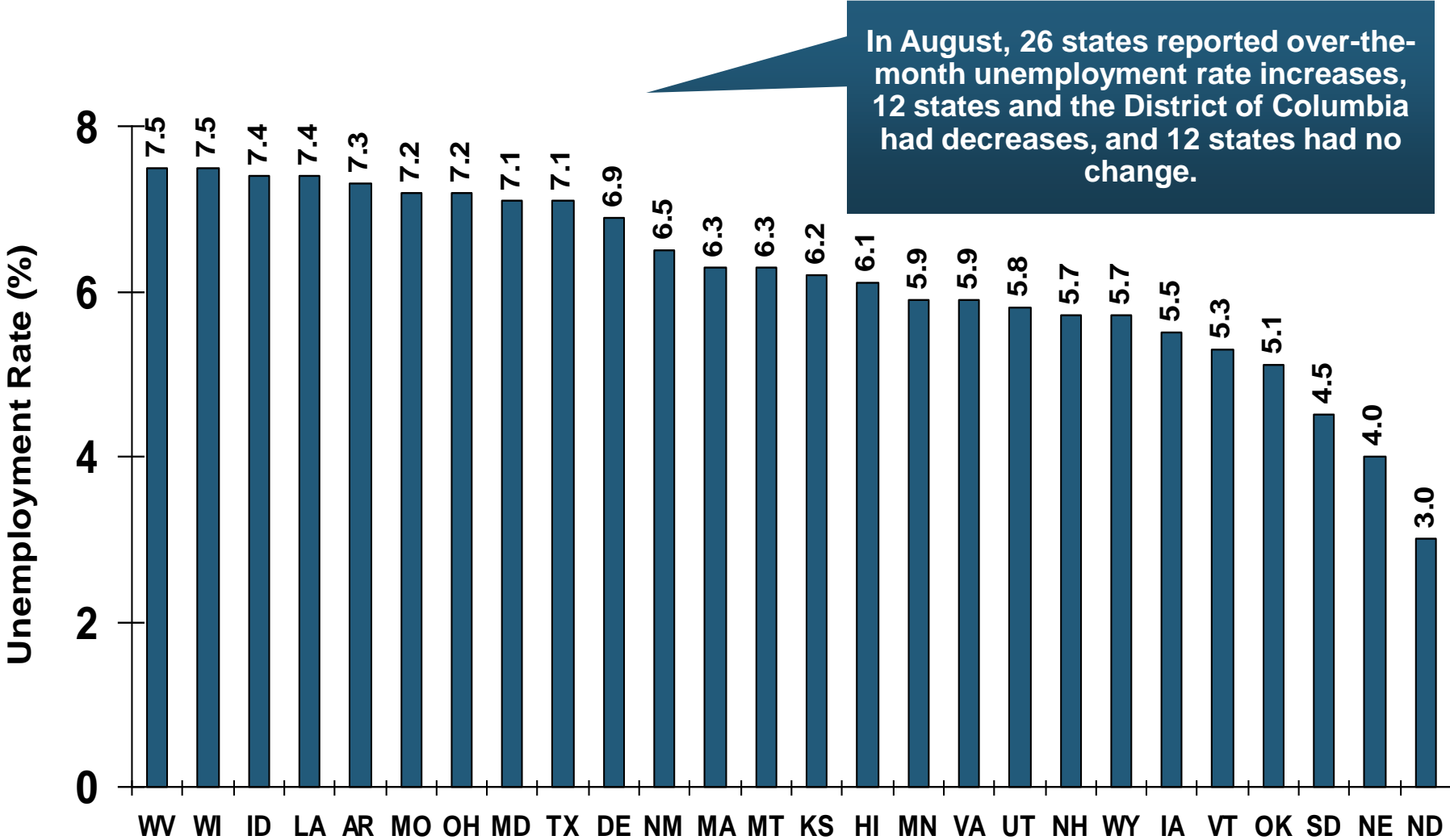
Source: US Bureau of Labor Statistics <http://www.bls.gov/data/#employment>; Insurance Information Institute

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



*Provisional figures for August 2012, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

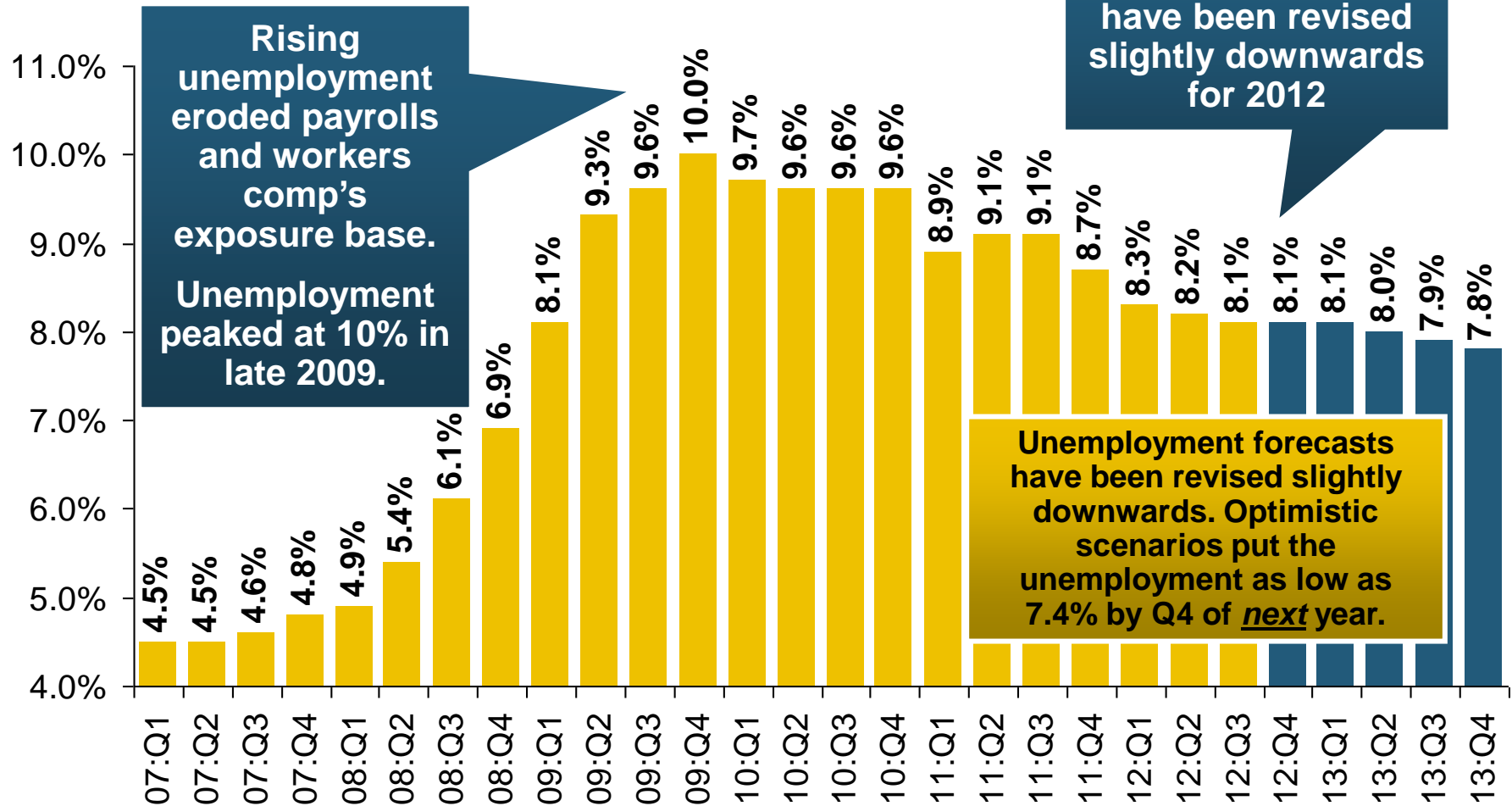
Unemployment Rates by State, August 2012: Lowest 25 States*



*Provisional figures for August 2012, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

US Unemployment Rate Forecast

2007:Q1 to 2013:Q4F*

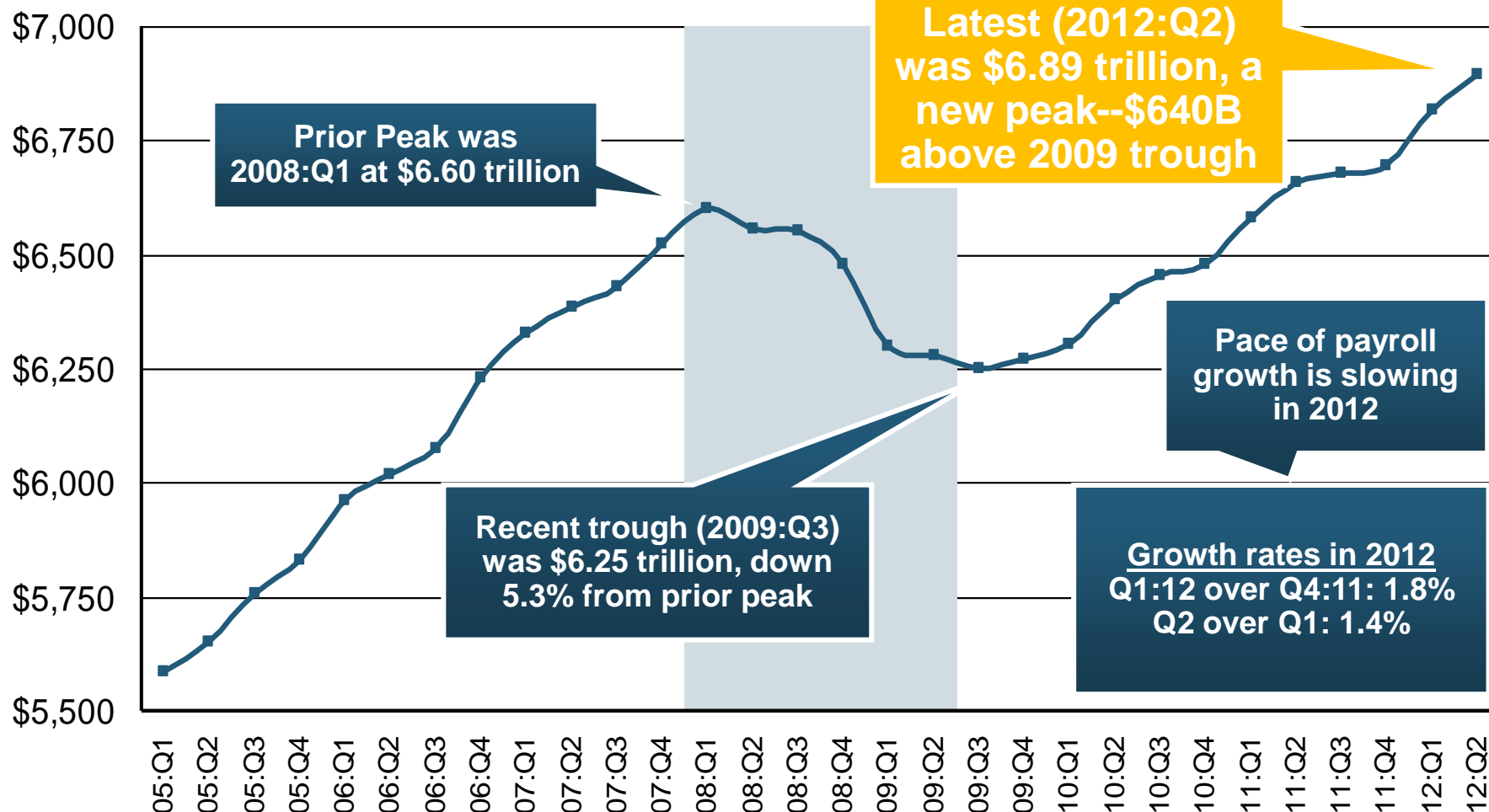


* ■ = actual; ■ = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (10/12 edition); Insurance Information Institute.

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

Billions



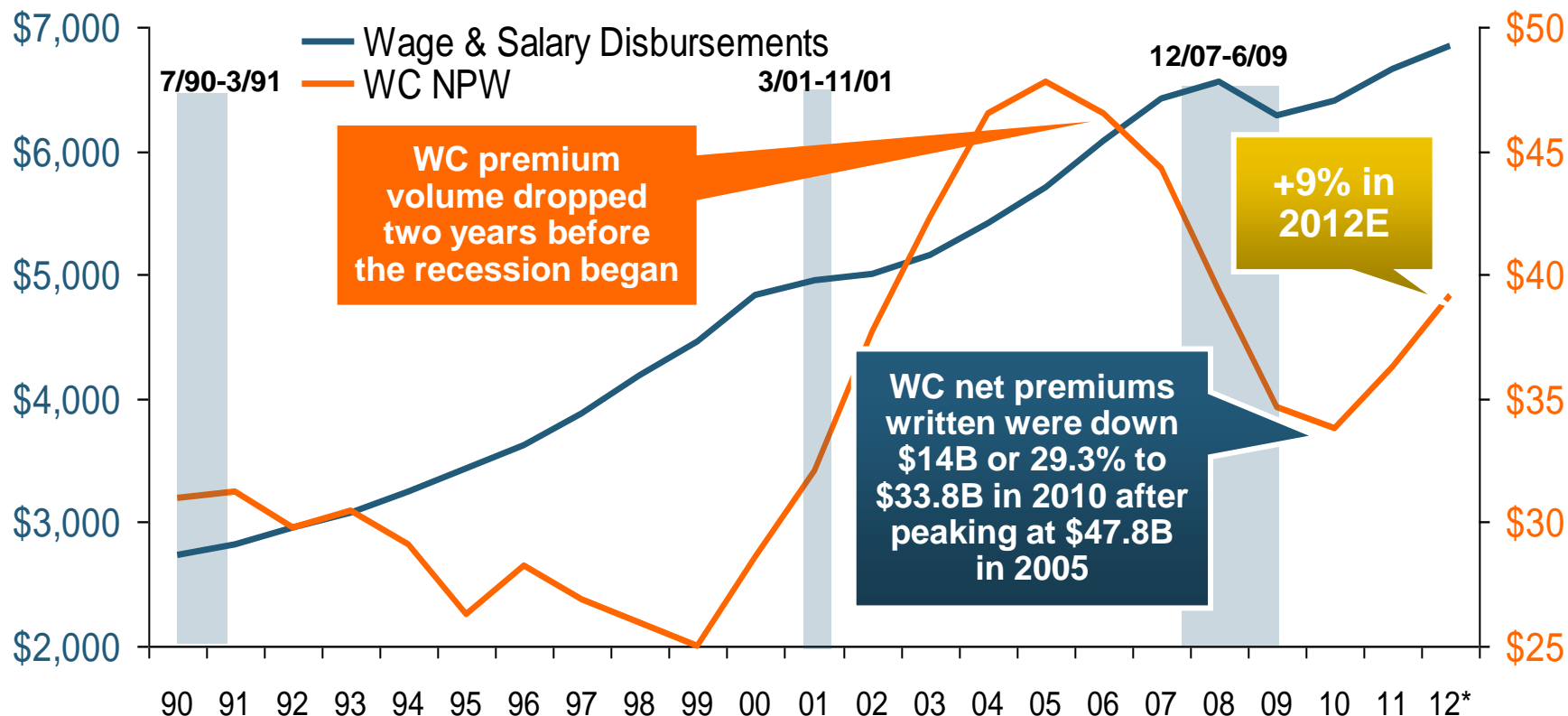
Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

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

Payroll vs. Workers Comp Net Written Premiums, 1990-2012E

Payroll Base*
\$Billions

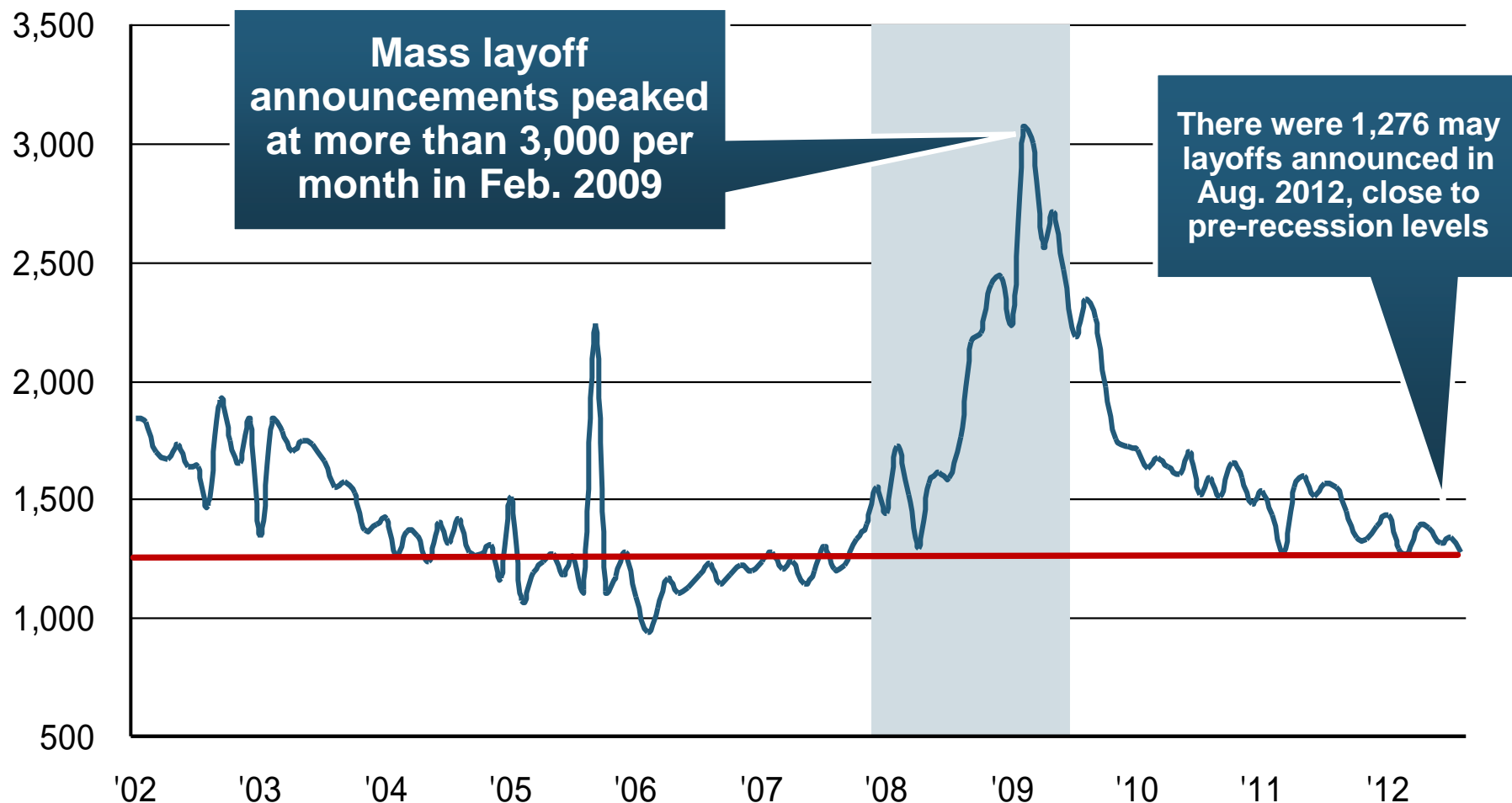
WC NWP
\$Billions



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

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

Mass Layoff Announcements, Jan. 2002—August 2012*



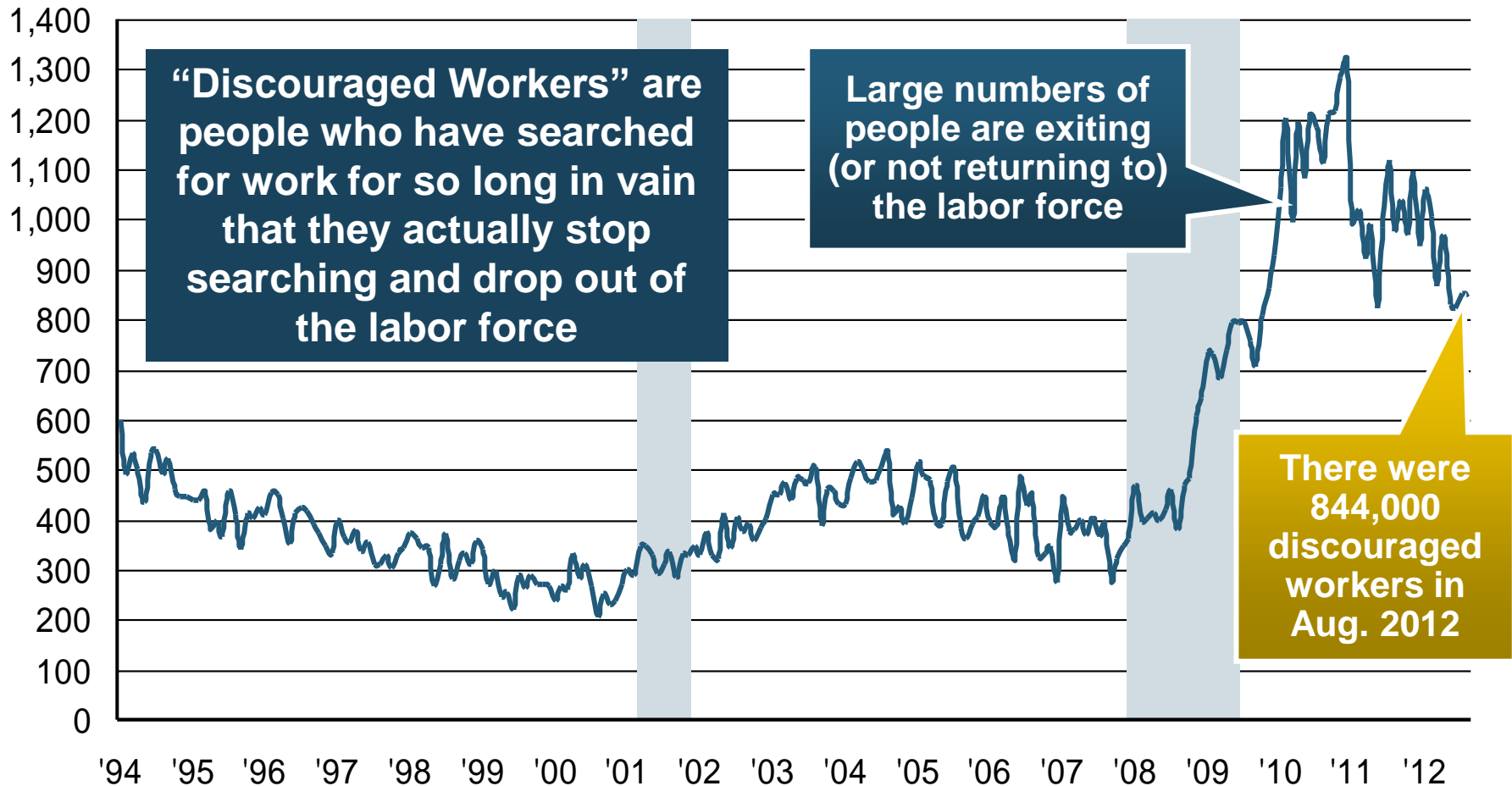
*Seasonally adjusted.

Note: Recessions indicated by gray shaded columns.

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

Number of “Discouraged Workers,” Jan. 2002—August 2012

Thousands



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

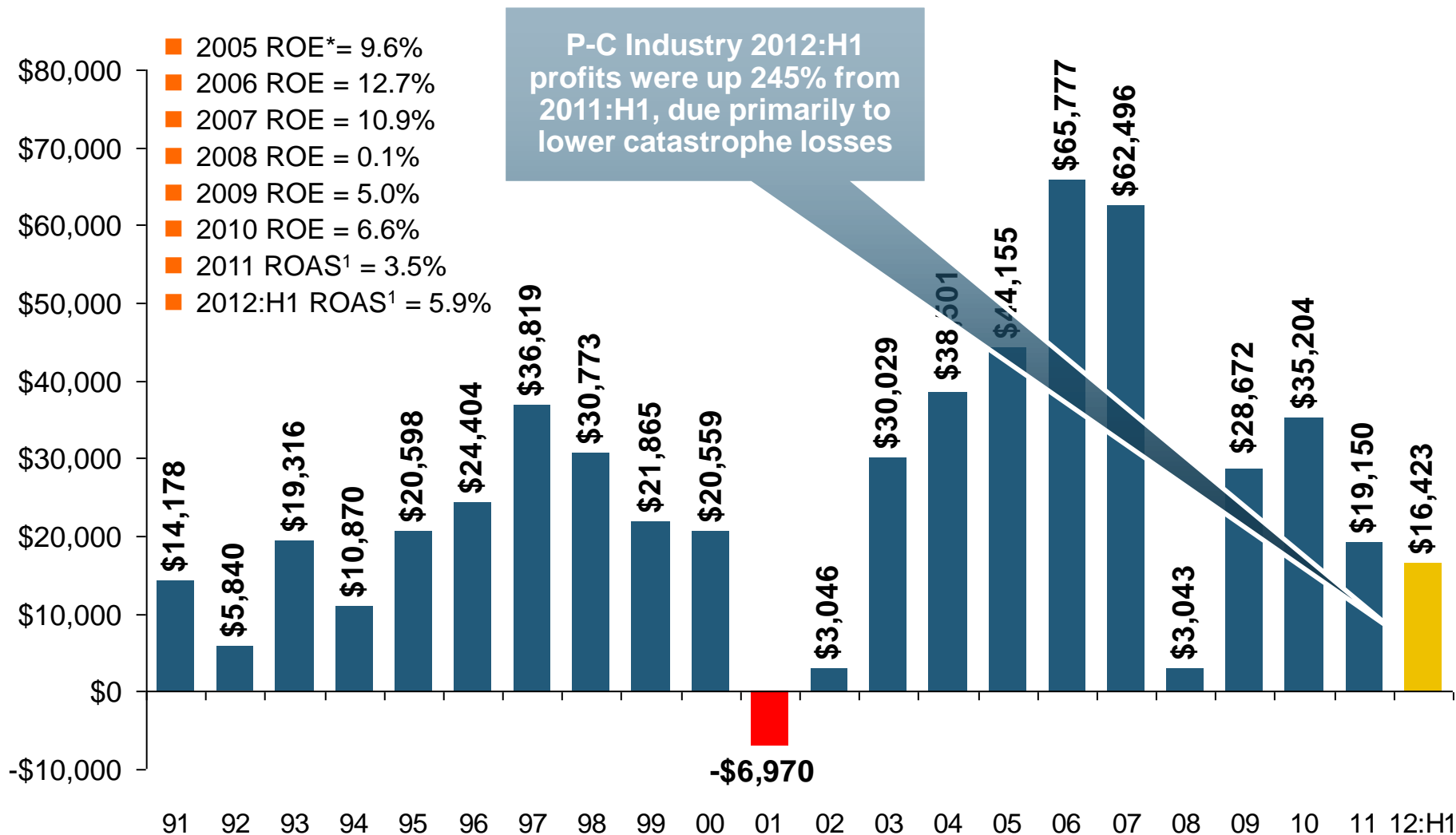
Notes: Recessions indicated by gray shaded columns. Data are seasonally adjusted.

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

P/C Insurance Industry Financial Overview

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

P/C Net Income After Taxes 1991–2012:Q2 (\$ Millions)



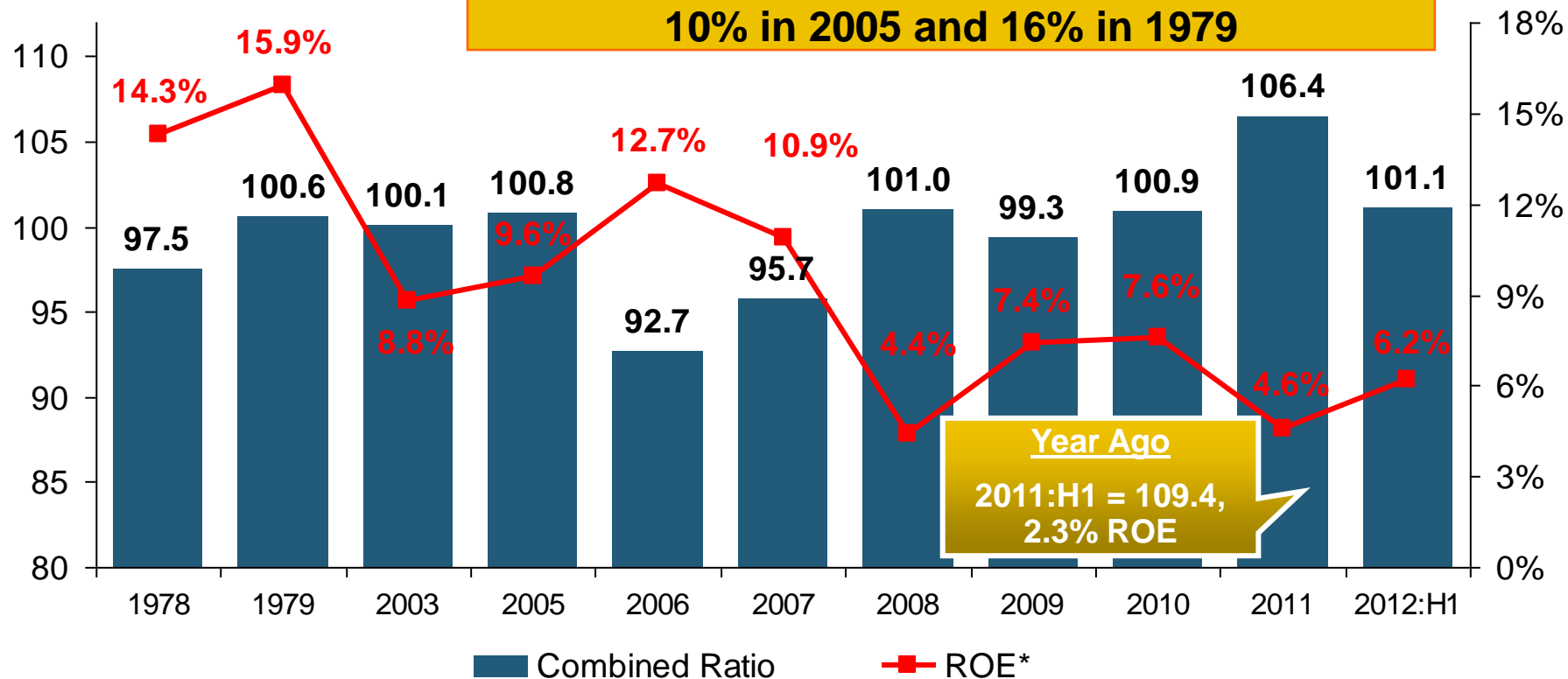
* ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 6.2% ROAS for 2012:H1, 4.6% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009.

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

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

Combined Ratio / ROE

A combined ratio of about 100 generates an ROE of ~7.0% in 2012, ~7.5% ROE in 2009/10, 10% in 2005 and 16% in 1979

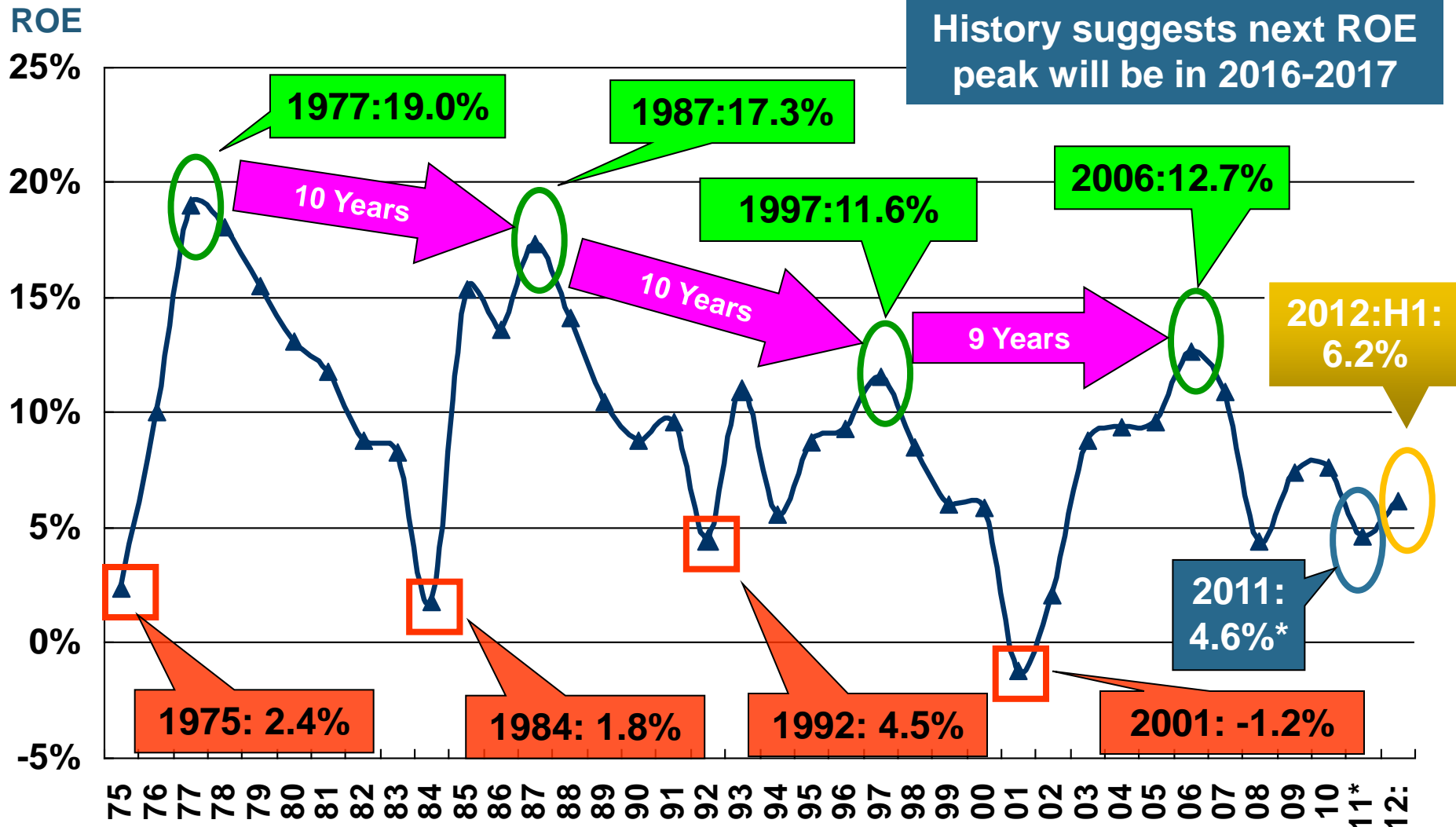


Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2008 -2012 figures are return on average surplus and exclude mortgage and financial guaranty insurers. 2012:H1 combined ratio including M&FG insurers is 102.2, ROAS = 5.9%; 2011 combined ratio including M&FG insurers is 108.2, ROAS = 3.5%.

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

Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2012:H1*

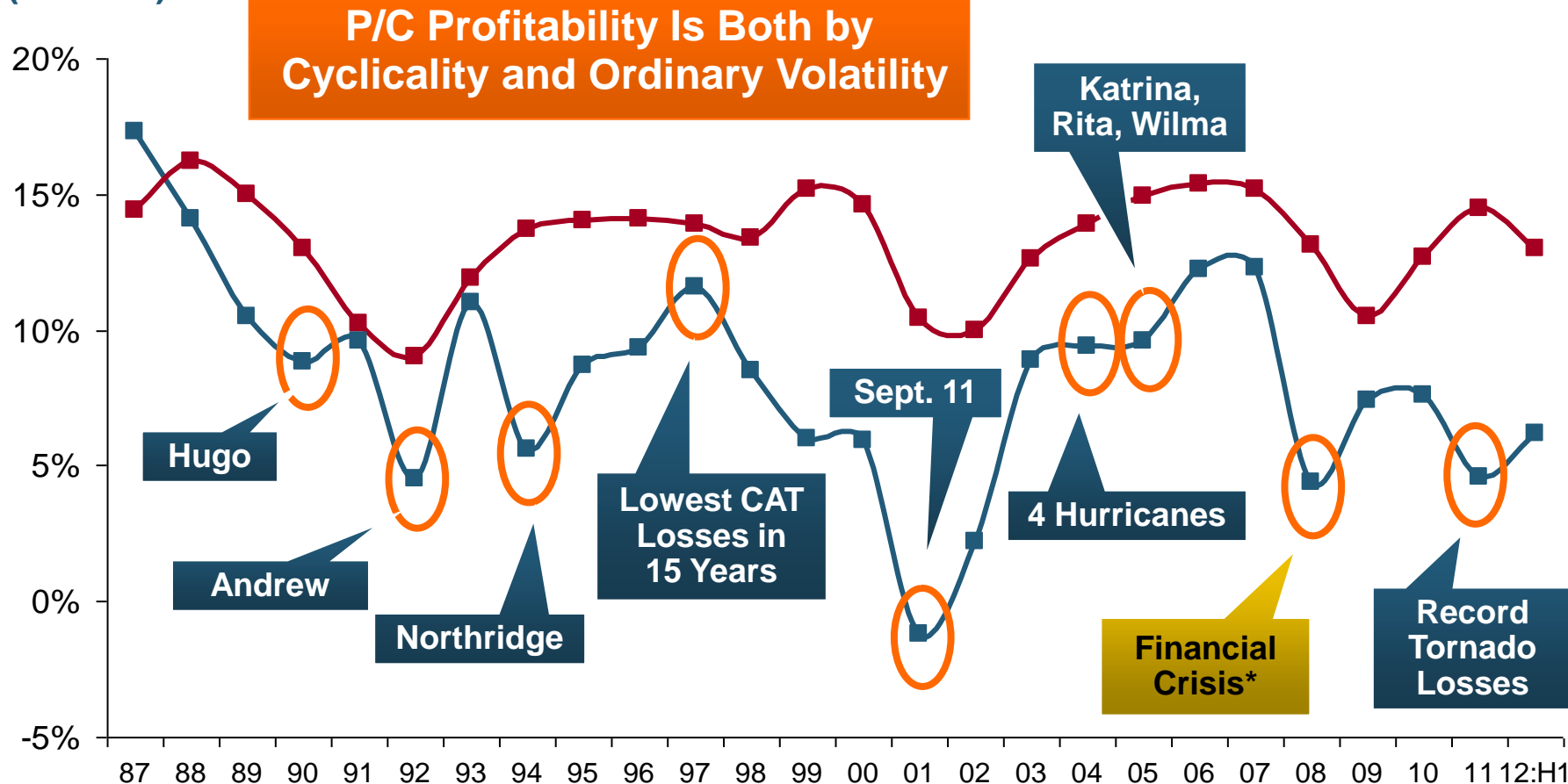


*Profitability = P/C insurer ROEs. 2011 figure is an estimate based on ROAS data. Note: Data for 2008-2012 exclude mortgage and financial guaranty insurers. 2012:H1 ROAS = 5.9% including M&FG.

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

ROE: Property/Casualty Insurance vs. Fortune 500, 1987–2012:H1*

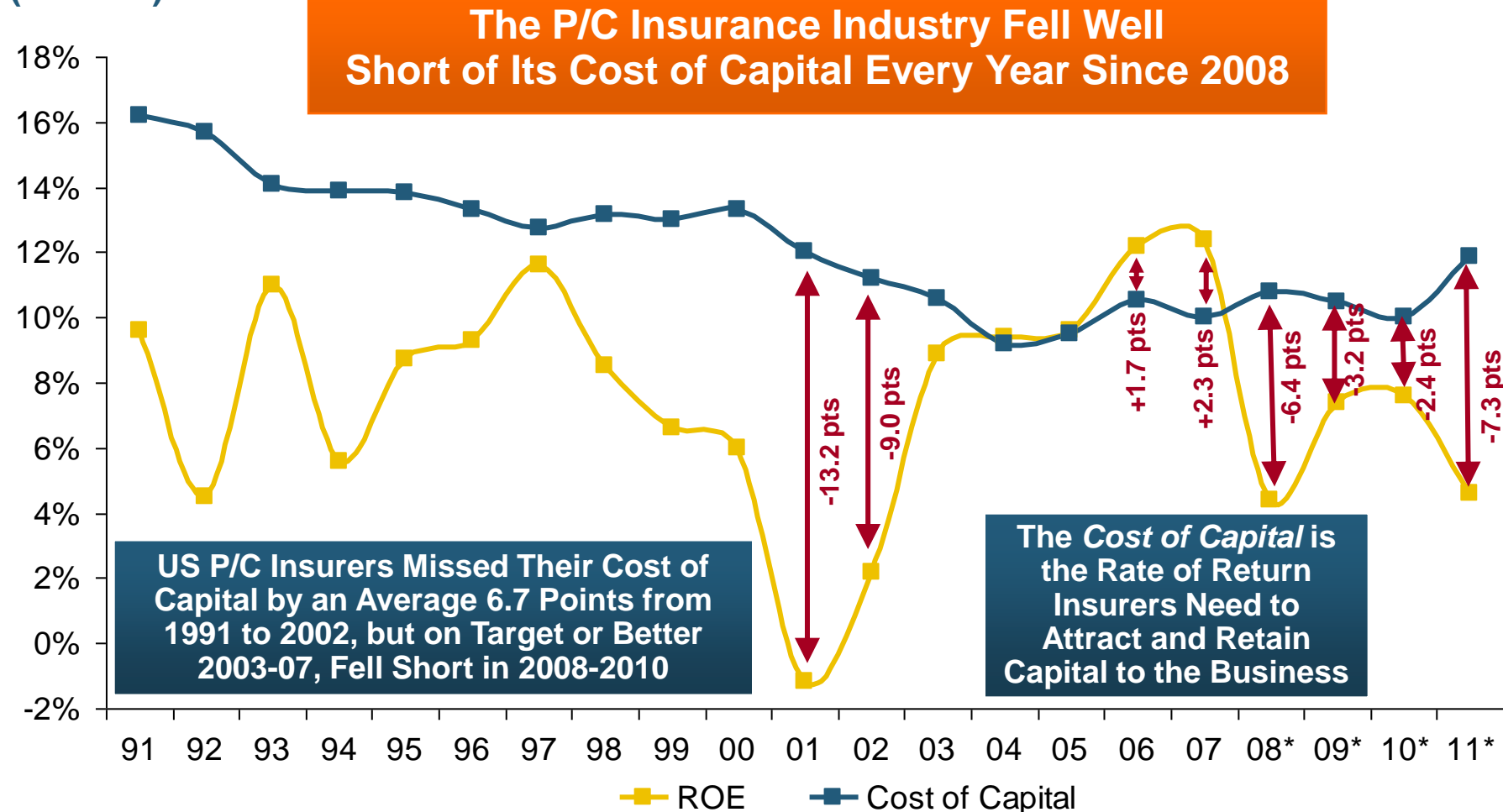
(Percent)



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

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

(Percent)



* Return on average surplus in 2008-2011 excluding mortgage and financial guaranty insurers.

Source: The Geneva Association, Insurance Information Institute

Global Catastrophe Loss Developments and Trends

**2011 Rewrote Catastrophe Loss and
Insurance History, But 2012 Cats
Are Down Substantially**

Global Catastrophe Loss Summary: First Half 2012

- **\$12B in *Insured* Losses Globally (Down from 85% from \$81.7B in 2011:H1)**
 - ◆ Few extraordinarily severe natural catastrophe events experienced in 2011: Earthquakes, tsunami, floods and tornadoes
 - ◆ Despite drop from 2011, total is still 18% above 30-yr. average (in 2011 \$) of \$10.2B
 - ◆ There were 450 nat cat events globally and 3,500 fatalities
- **\$26B in *Economic* Losses Globally (Down from Record \$302B in 2011:H1)**
 - ◆ Represents a 91% decline; Also 40% below 30-yr. average (in 2011 \$) of \$43.3B
- **\$9.3 Billion in *Insured* Losses in the US Arising from 90 CAT Events**
 - ◆ Down 62% from \$24.4B in 2011:H1; Loss is close to long-term average
 - ◆ Represents 80%+ of global total
 - ◆ Mild winter helped keep first half losses down
 - ◆ Thunderstorm (includes tornado, hail and wind damage) accounted for \$8.8B or 95% of first half insured losses and represent the third most expensive spring thunderstorm ever
- **\$14.6 Billion in *Economic* Losses in the US**
 - ◆ Down from approximately \$75B in 2011:H1

Top 16 Most Costly World Insurance Losses, 1970-2011**

(Insured Losses, 2011 Dollars, \$ Billions)

Taken as a single event, the Spring 2011 tornado and thunderstorm season would likely become the 5th costliest event in global insurance history

5 of the top 14 most expensive catastrophes in world history have occurred within the past 2 years



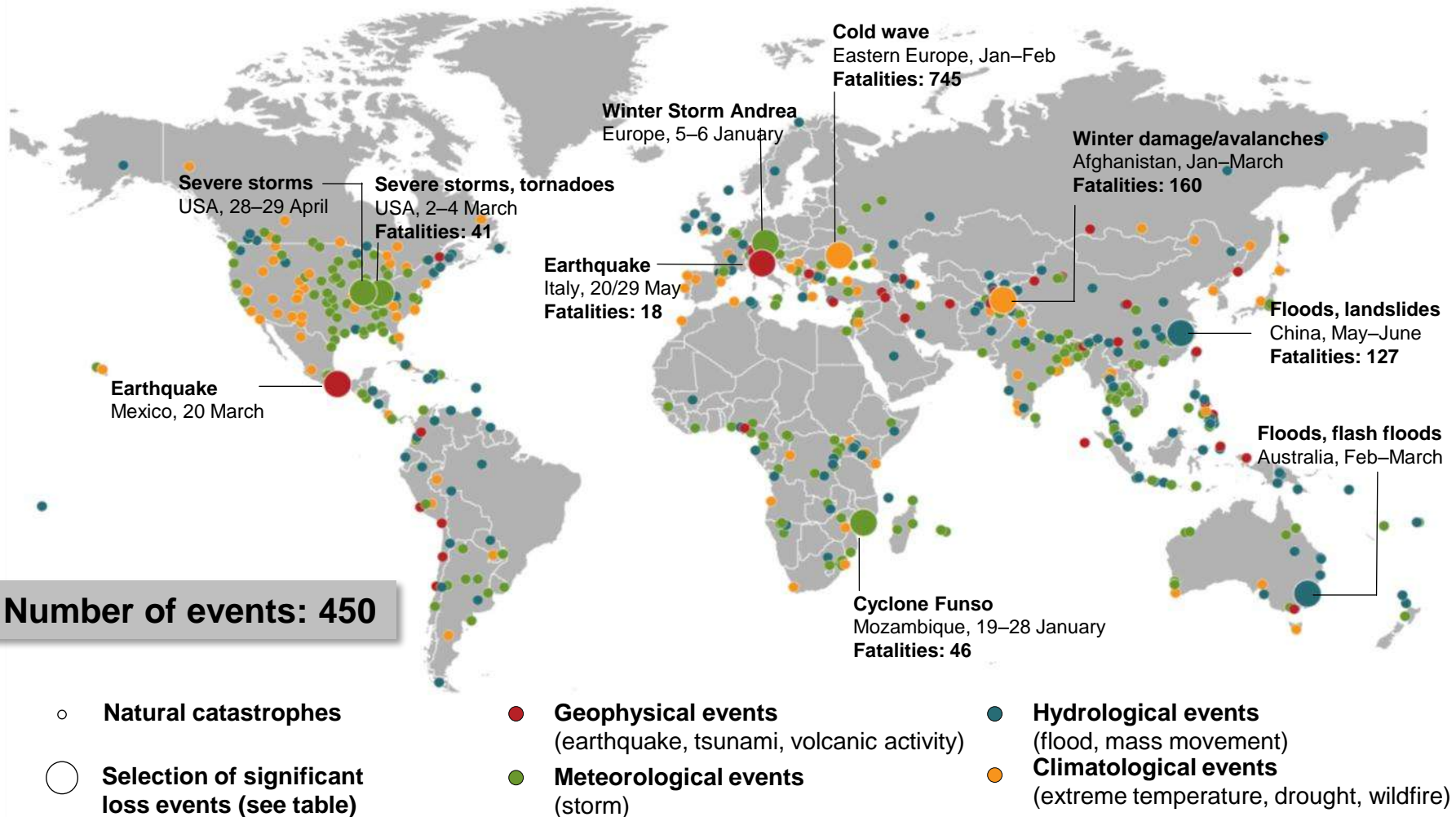
*Average of range estimates of \$35B - \$40B as of 1/4/12; Privately insured losses only.

**Figures do not include federally insured flood losses.

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

Natural Loss Events: First Half 2012

World Map



U.S. Insured Catastrophe Loss Update

**2012 Catastrophe Losses Were Close to
“Average” in the First Half of 2012
*2011 Was the 5th Most Expensive
Year on Record***

US Catastrophe Loss Summary: First Half 2012

■ \$13.8 Billion in *Insured* Losses in the US Arising from ~90 CAT Events

- ◆ Down 51% from \$25.7B in 2011:H1; But loss is still 44% above average over past 10 yrs.
- ◆ Represents 80%+ of global total
- ◆ Mild winter helped keep first half losses down
- ◆ T-storm (includes tornado, hail and wind damage) accounted for est. \$11.9B or 95% of first half insured losses and represent the 3rd most expensive spring t-storm season ever

■ ~\$19.6 Billion in *Economic* Losses in the US

- ◆ Down from approximately \$75B in 2011:H1

■ Mild Winter Helped Keep First Half Insured Losses Down

- ◆ Lack of heavy precipitation limited spring flood but exacerbated drought conditions

■ Severe Droughts Now Impacting Central and Southwest Parts of US

- ◆ Two major wildfires in Colorado in June caused record \$500 mill damage in the state
- ◆ Largest wildfire in New Mexico history occurred in May
- ◆ Insured crop losses could be high in 2012

■ Mild Hurricane Season

- ◆ Season got off to an early start, but insured losses are not large by historical standards

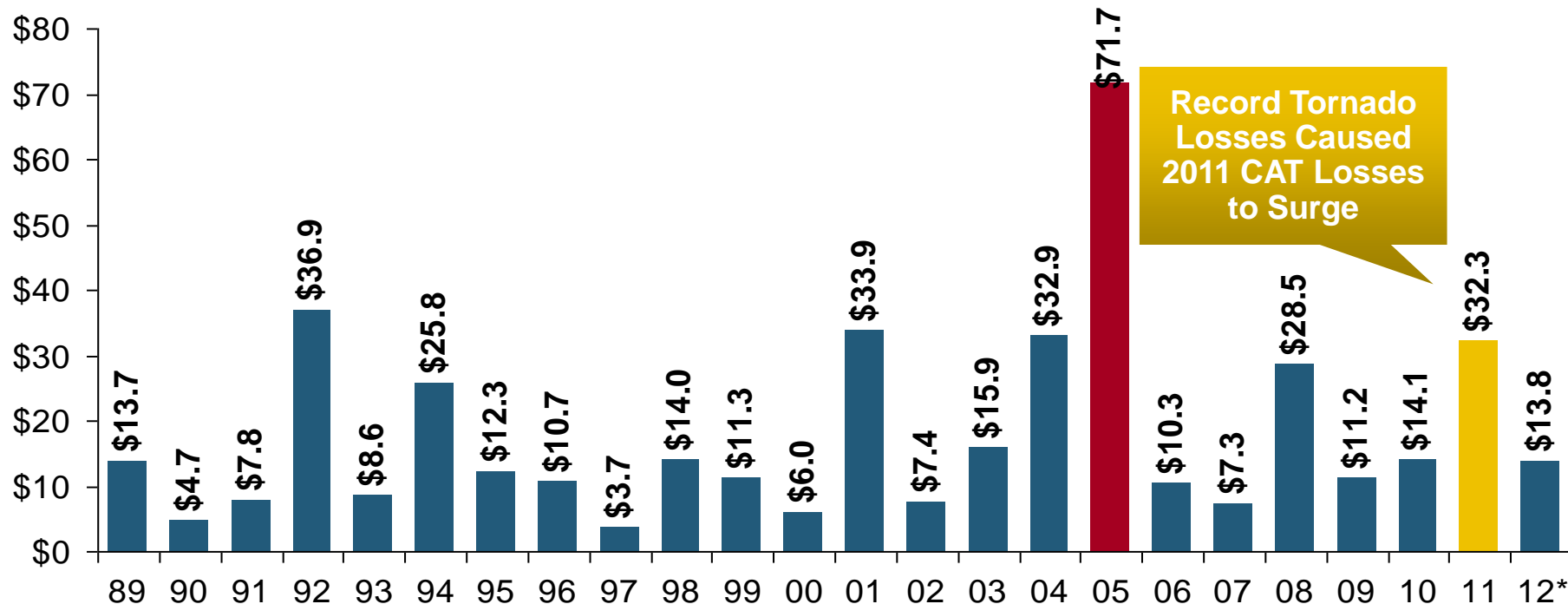
**Isaac likely in the lower
end of modeled loss
range of \$600M to \$2B**

Natural Disaster Losses in the United States: First Half 2012

As of July 1, 2012	Number of Events	Fatalities	Estimated Overall Losses (US \$m)	Estimated Insured Losses (US \$m)
Severe Thunderstorm	56	69	13,550	8,760
Winter Storm	3	3	80	38
Flood	6	0	12	Minor
Earthquake	1	0	0	0
Tropical Cyclone	2	1	100	50
Wildfire	22	6	875	500
Totals	90	79	14,617	9,348

US Insured Catastrophe Losses

(\$ Billions, 2011 Dollars)



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

H1 2012 CAT losses were down \$11.9B or 49% from \$24.4B in H1 2011

*PCS figure for H1 2012 (stated in 2012 dollars).

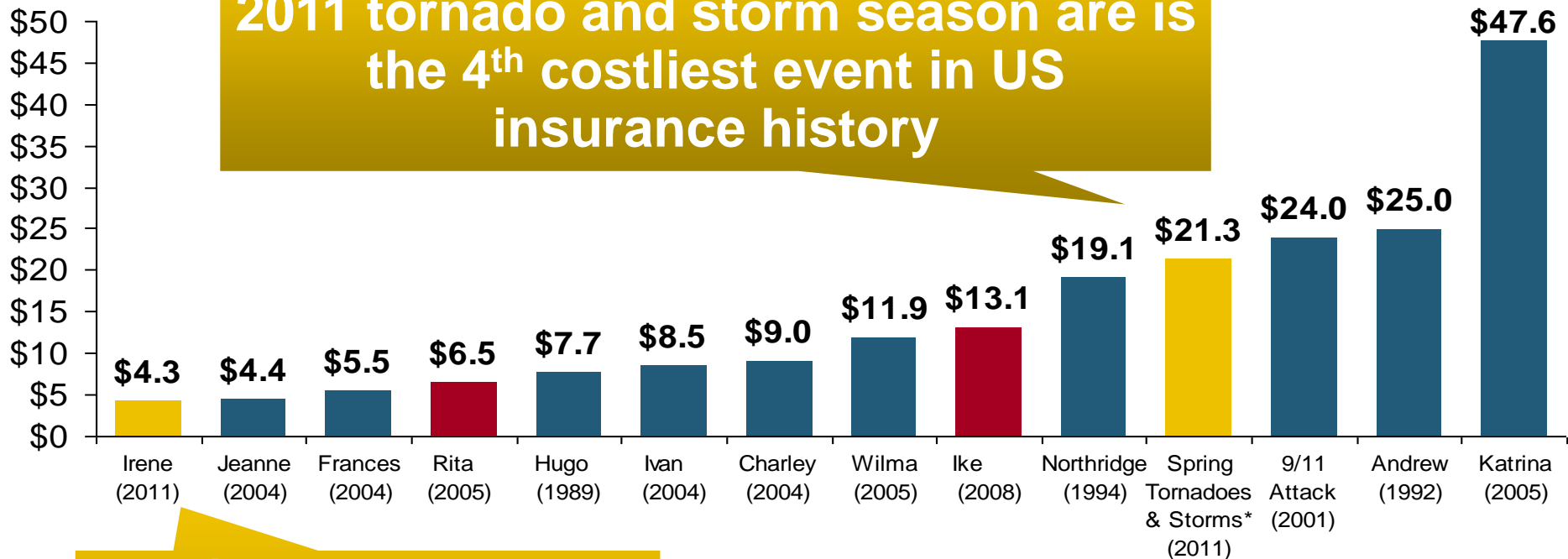
Note: 2001 figure includes \$20.3B for 9/11 losses reported through 12/31/01 (\$25.9B 2011 dollars). Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = \$12.2B (\$15.6B in 2011 dollars.)

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

Top 14 Most Costly Disasters in U.S. History

(Insured Losses, 2011 Dollars, \$ Billions)

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



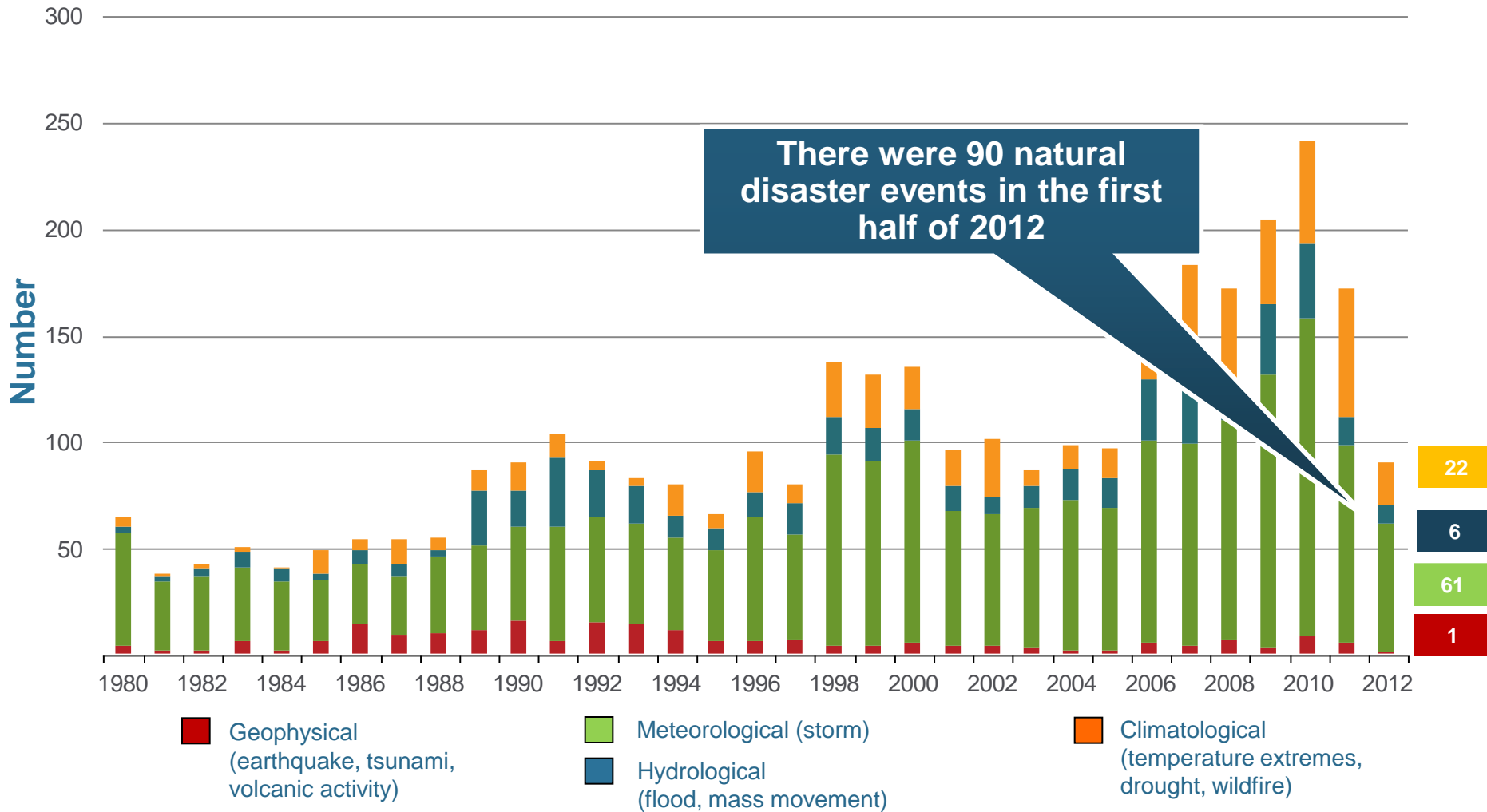
Hurricane Irene became the 11th most expensive hurricane in US history

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

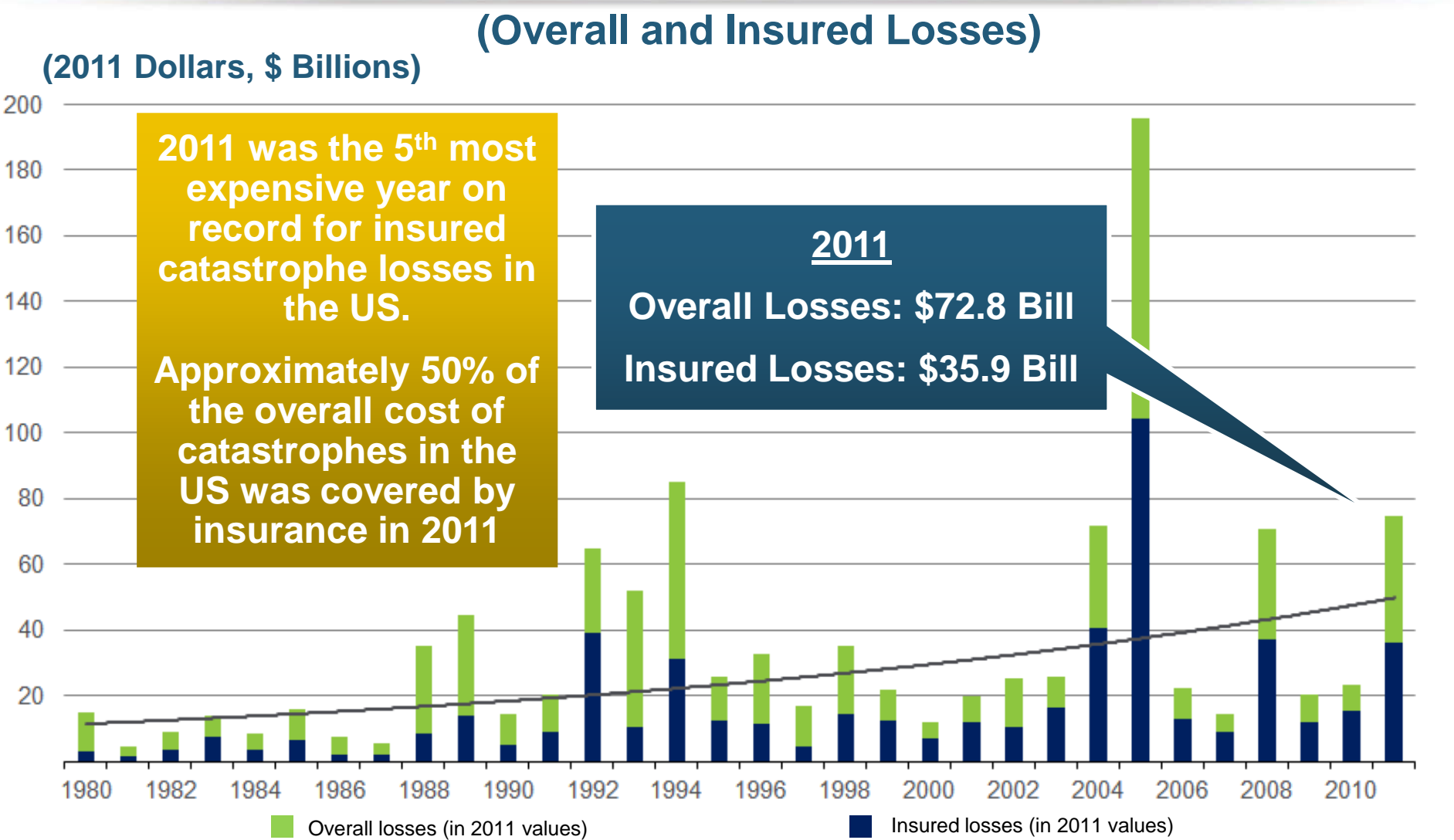
Sources: PCS; Insurance Information Institute inflation adjustments.

Natural Disasters in the United States, 1980 – 2012:H1

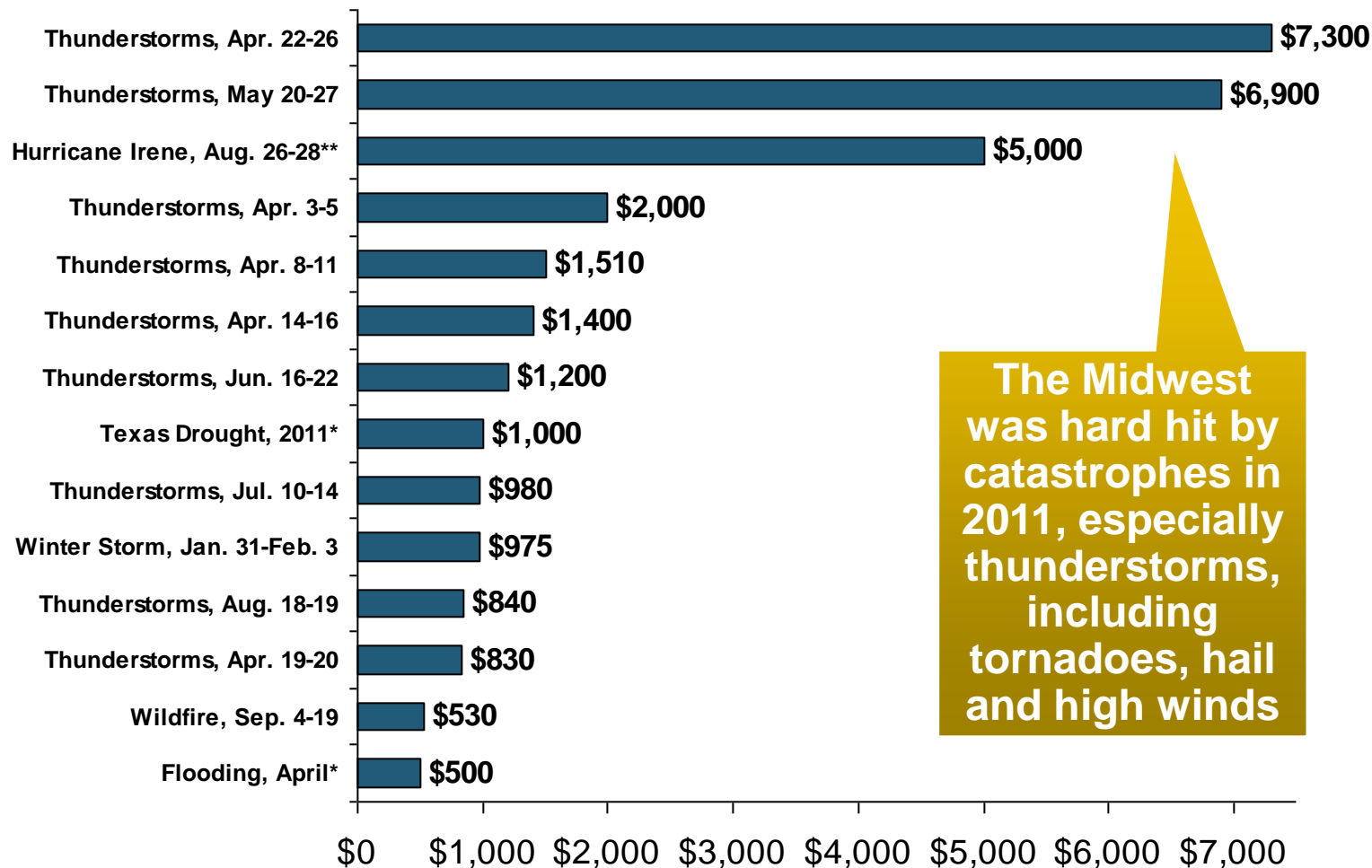
Number of Events (Annual Totals 1980 – 2011 and First Half 2012)



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



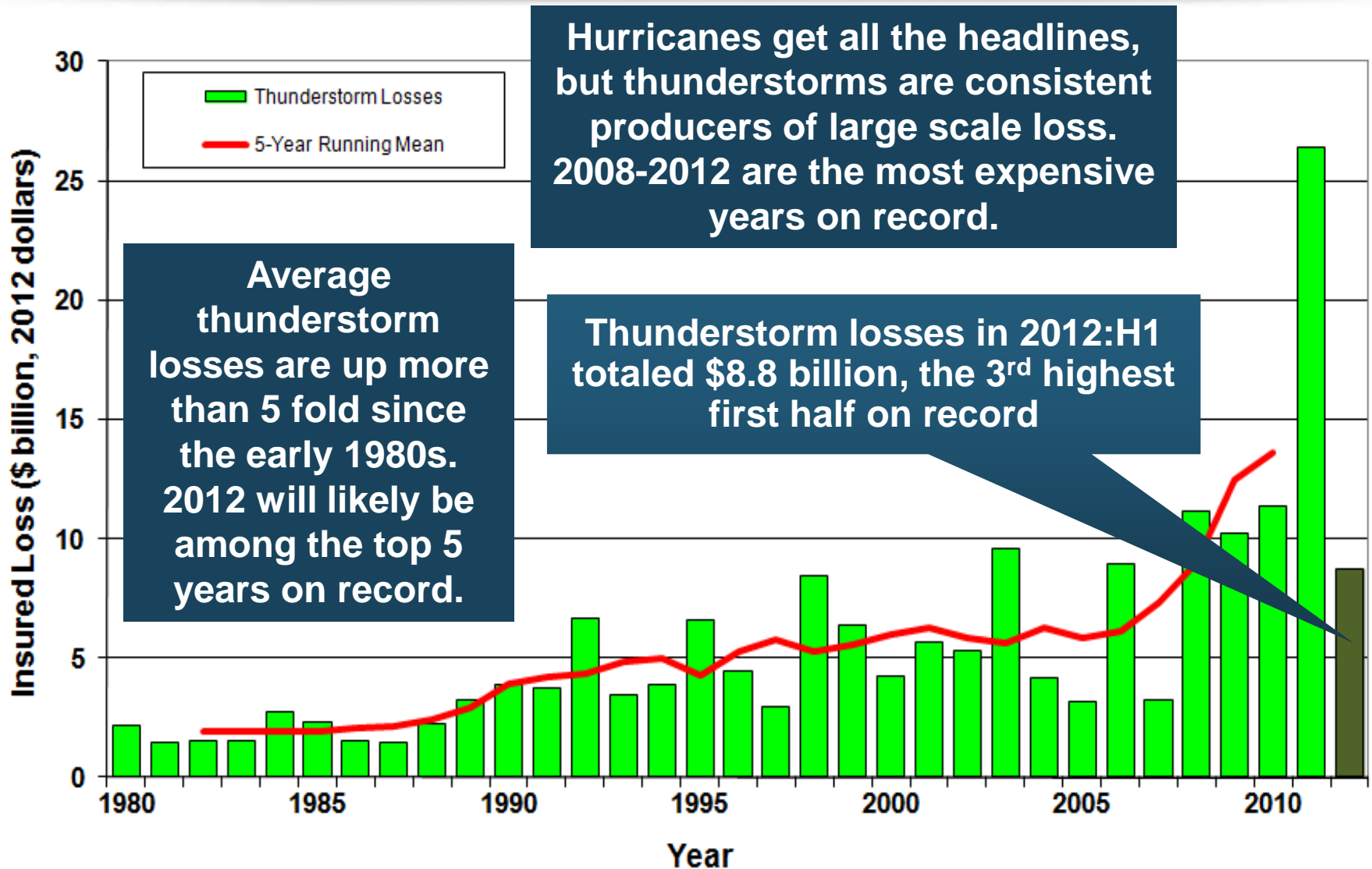
2011's Most Expensive Catastrophes, Insured Losses



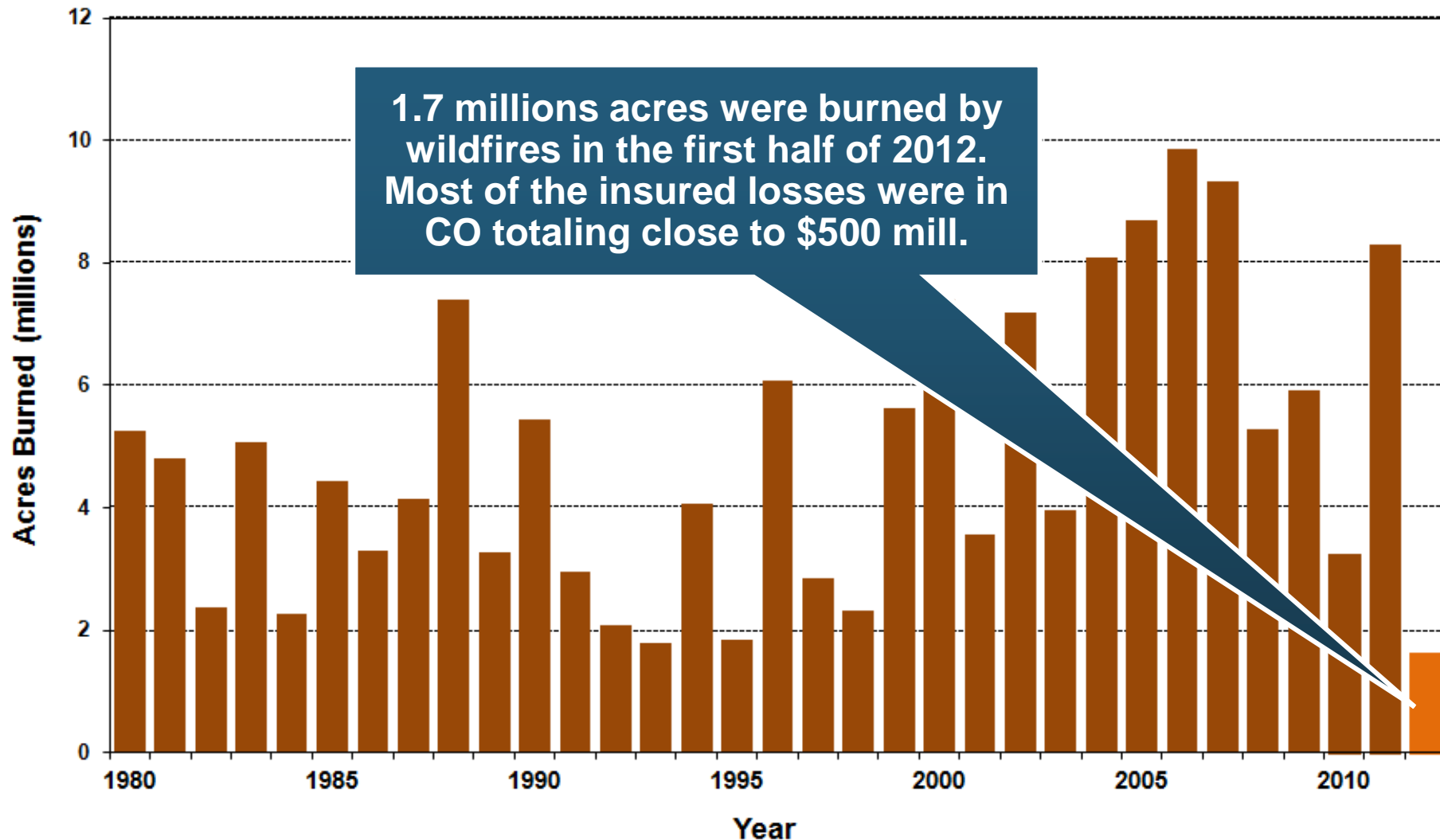
**Includes \$700 million in flood losses insured through the National Flood Insurance Program.

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

U.S. Thunderstorm Loss Trends, 1980 – 2012:H1



U.S. Acreage Burned by Wildfires, 1980 – 2012*



*Through June 30.

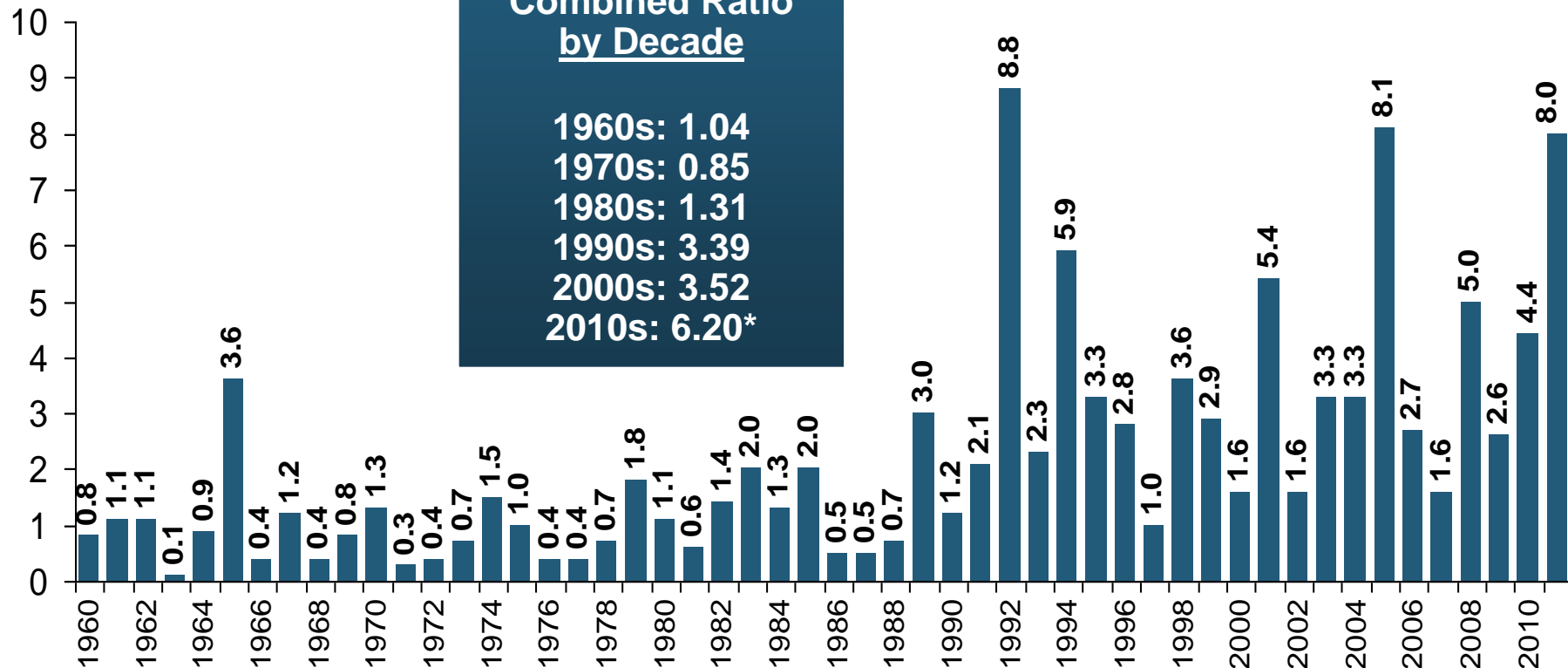
Source: National Forest Service, MR NatCatSERVICE

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

Combined Ratio Points

**Avg. CAT Loss
Component of the
Combined Ratio
by Decade**

1960s: 1.04
1970s: 0.85
1980s: 1.31
1990s: 3.39
2000s: 3.52
2010s: 6.20*



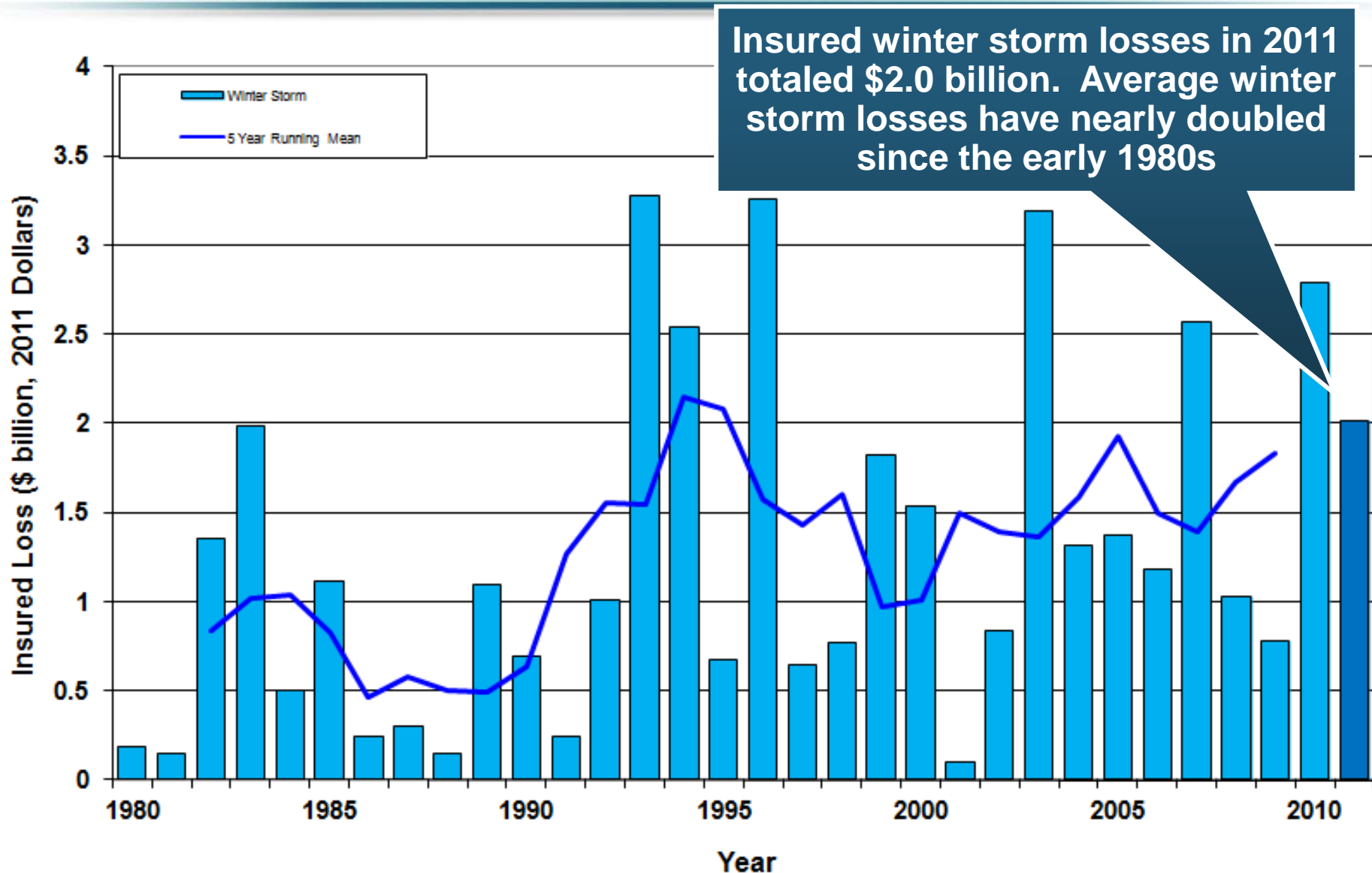
The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades

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

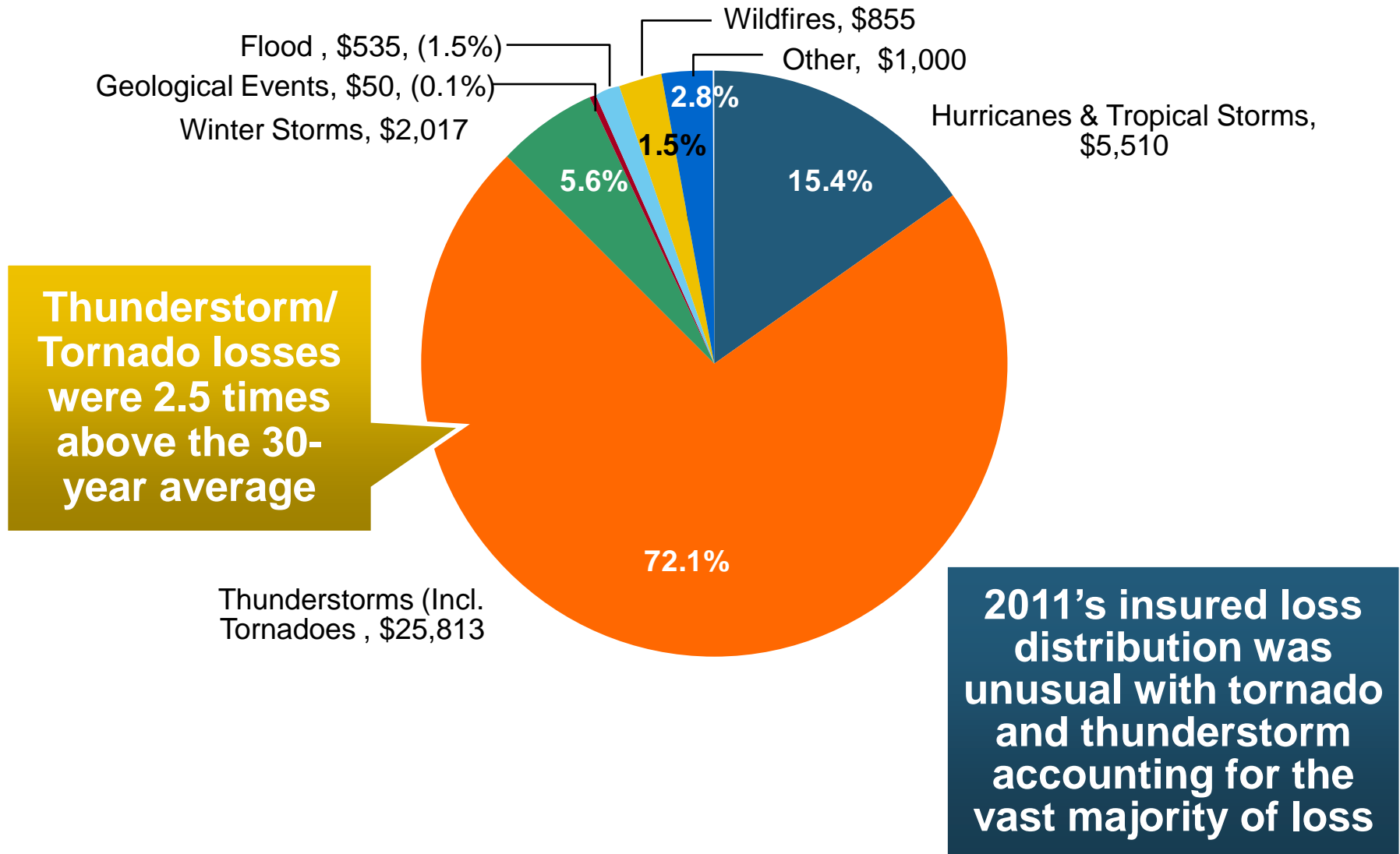
Notes: Private carrier losses only. Excludes loss adjustment expenses and reinsurance reinstatement premiums. Figures are adjusted for losses ultimately paid by foreign insurers and reinsurers.

Source: ISO; Insurance Information Institute.

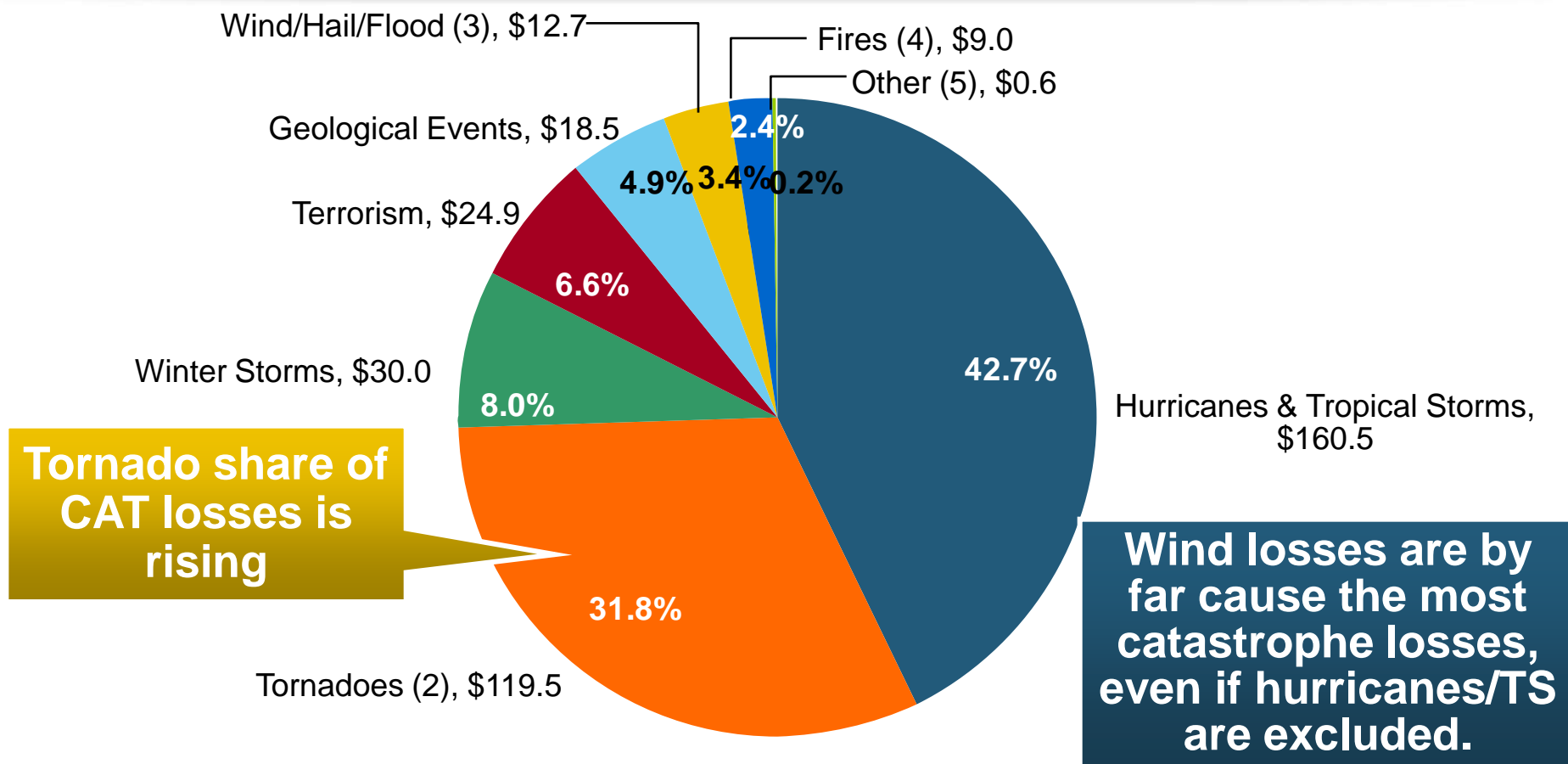
U.S. Winter Storm Loss Trends, 1980 – 2011



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



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



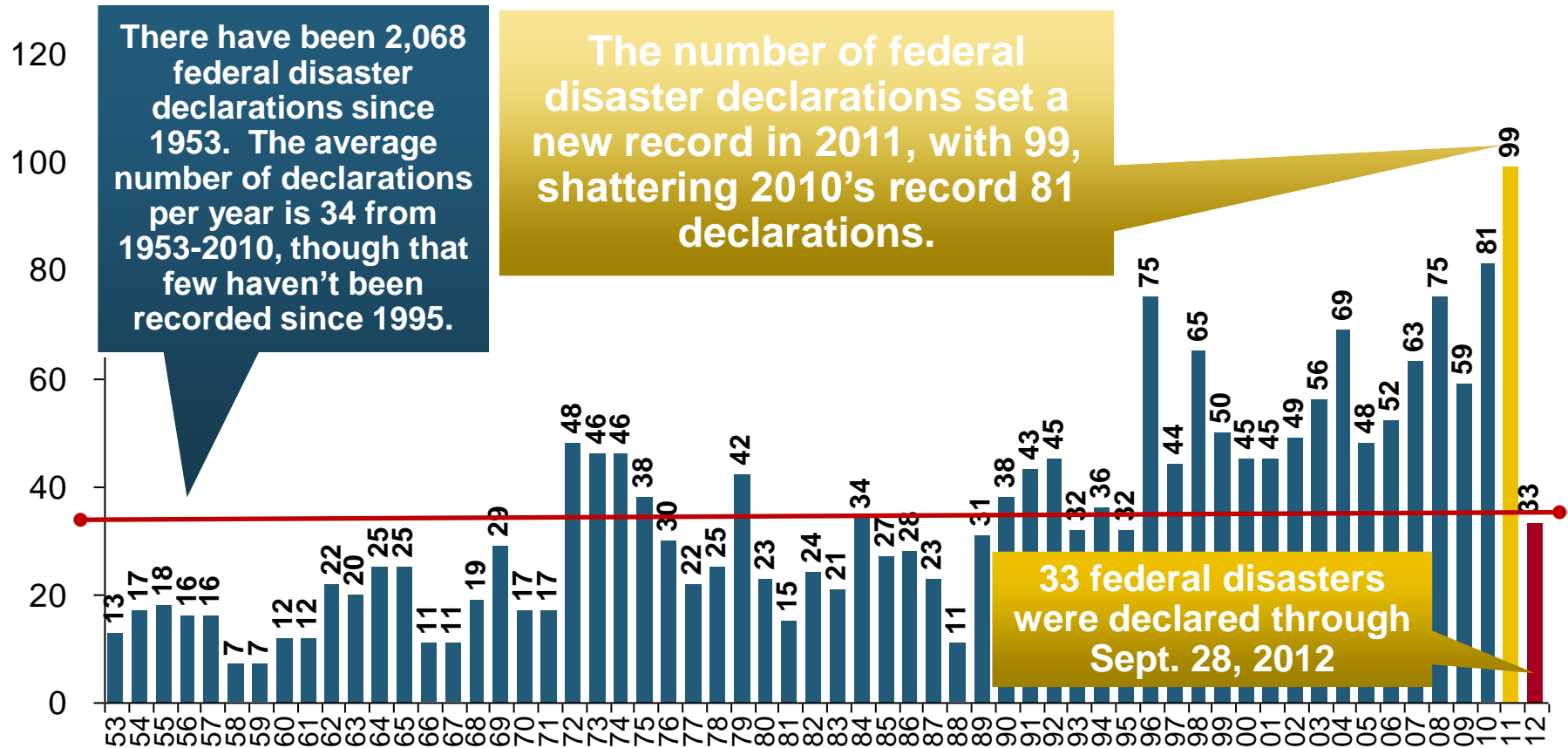
1. Catastrophes are defined as events causing direct insured losses to property of \$25 million or more in 2009 dollars.
2. Excludes snow.
3. Does not include NFIP flood losses
4. Includes wildland fires
5. Includes civil disorders, water damage, utility disruptions and non-property losses such as those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

Source: ISO's Property Claim Services Unit.

Federal Disaster Declarations Patterns: 1953-2012

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

Number of Federal Disaster Declarations, 1953-2012*

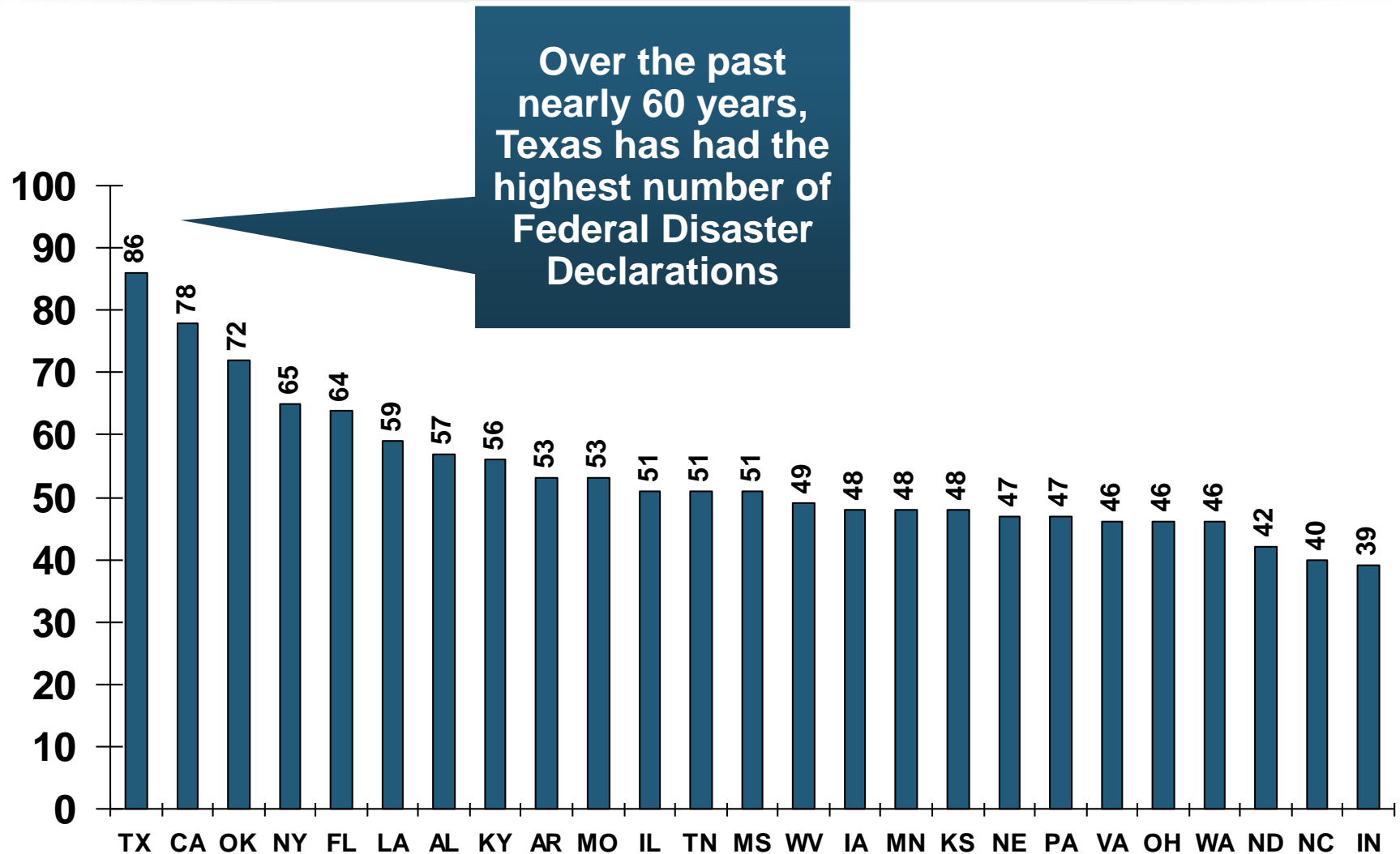


The Number of Federal Disaster Declarations Is Rising and Set New Records in 2010 *and* 2011

*Through Sept. 28, 2012.

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

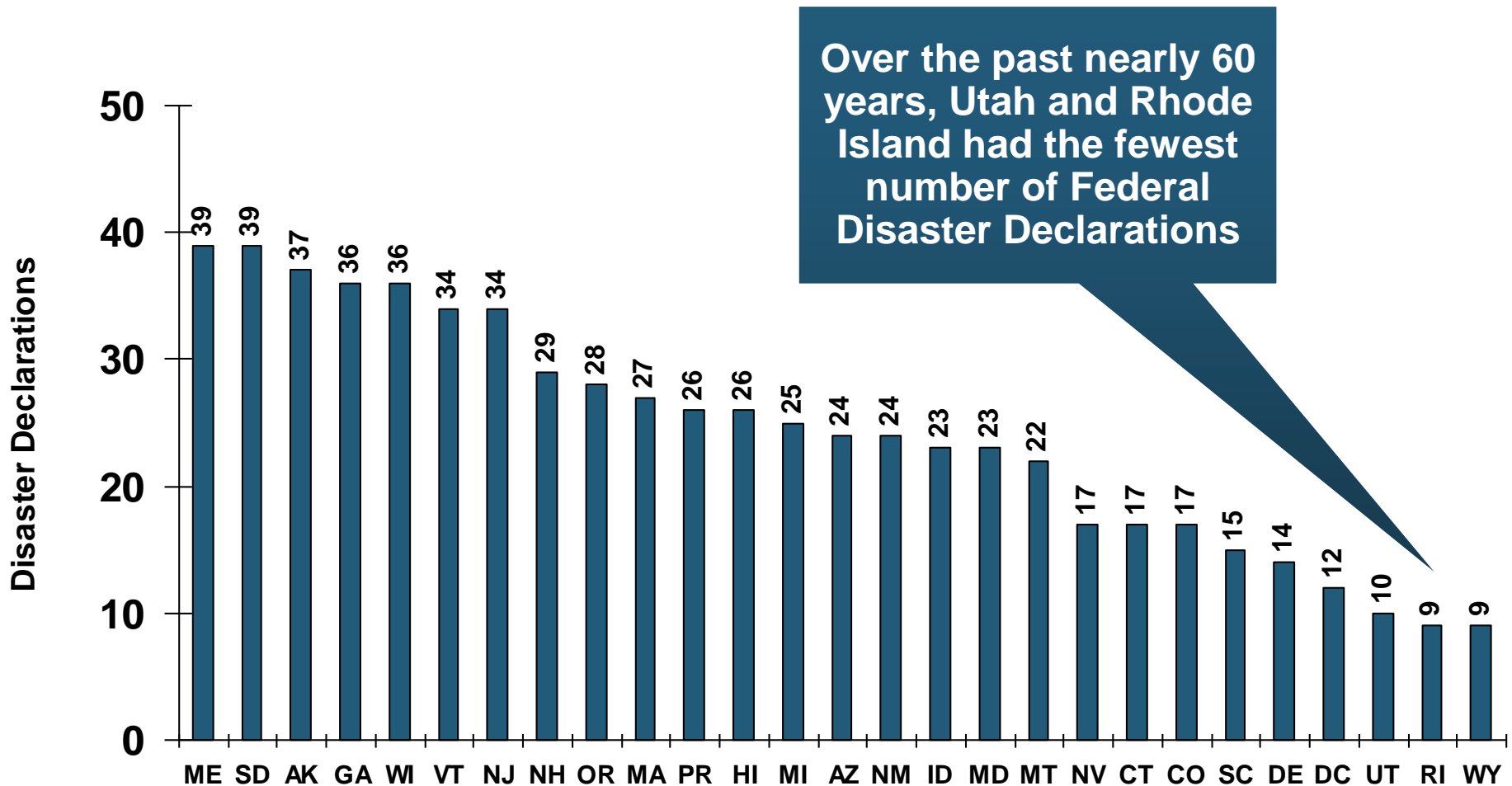
Federal Disasters Declarations by State, 1953 – 2012: Highest 25 States*



*Through Sept. 28, 2012. 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 – 2012: Lowest 25 States*



*Through Sept. 28, 2012. Includes Puerto Rico and the District of Columbia.

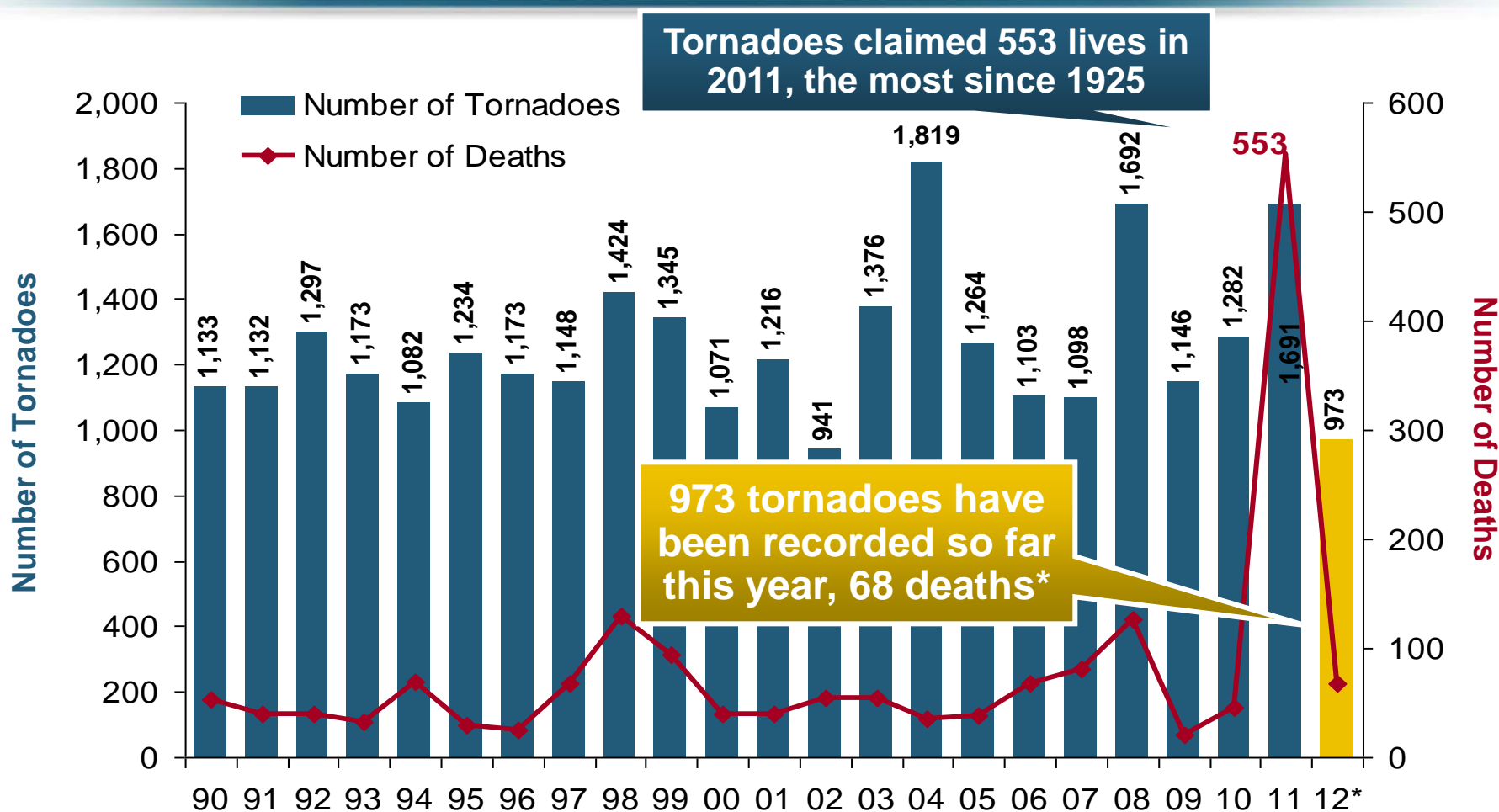
Source: FEMA: http://www.fema.gov/news/disaster_totals_annual.fema; Insurance Information Institute.



2012 TORNADO & SEVERE STORM SUMMARY

**2012 Got Off to a Worrisome Start,
But Is No Repeat of 2011**

Number of Tornadoes and Related Deaths, 1990 – 2012*

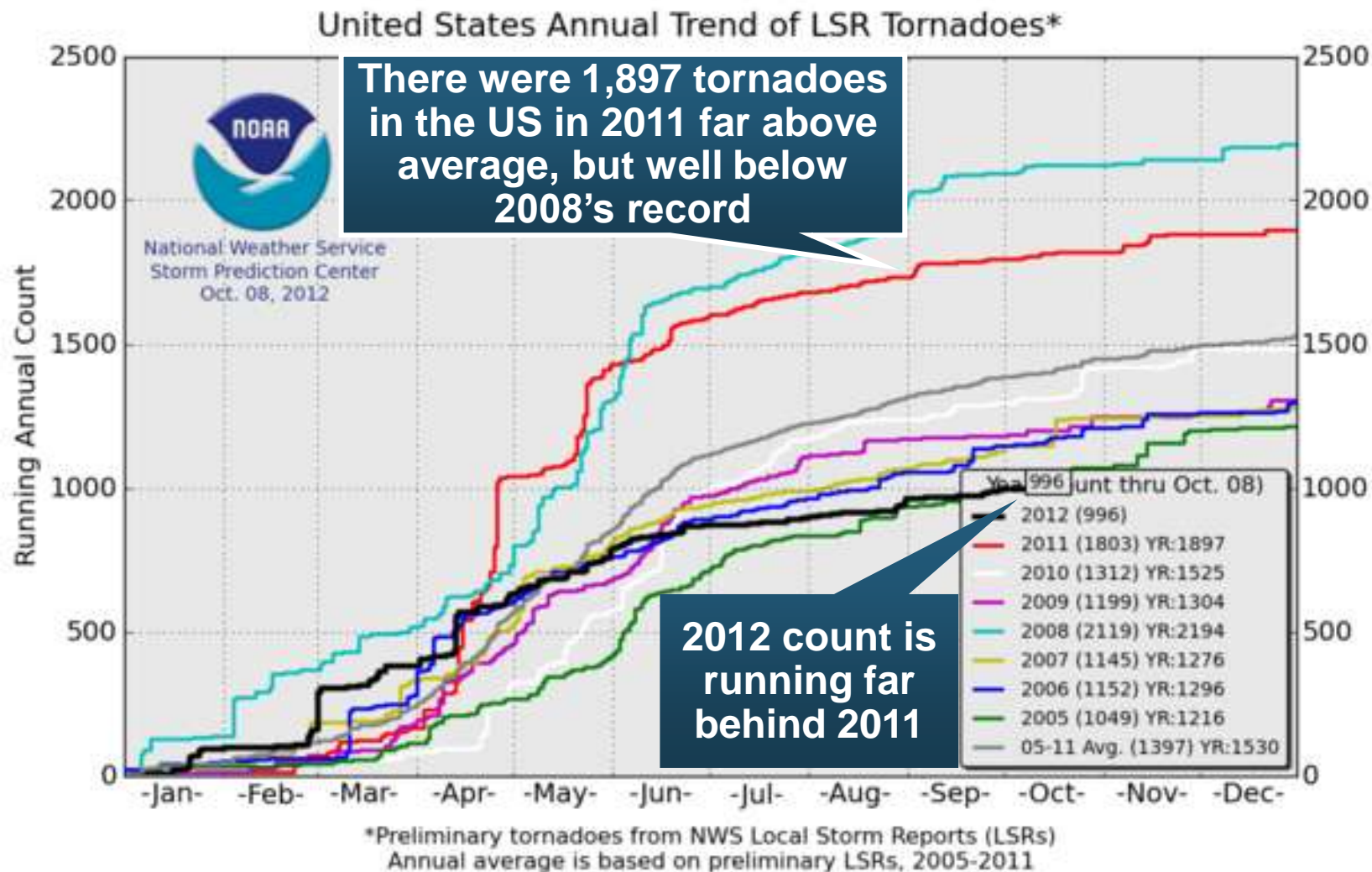


2012 Tornado Losses Got Off to an Ominous Beginning, but Slowed. First Half 2012 Insured Losses from Tornadoes and Thunderstorms Totaled \$8.8B.

*Through Sept.23, 2012.

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

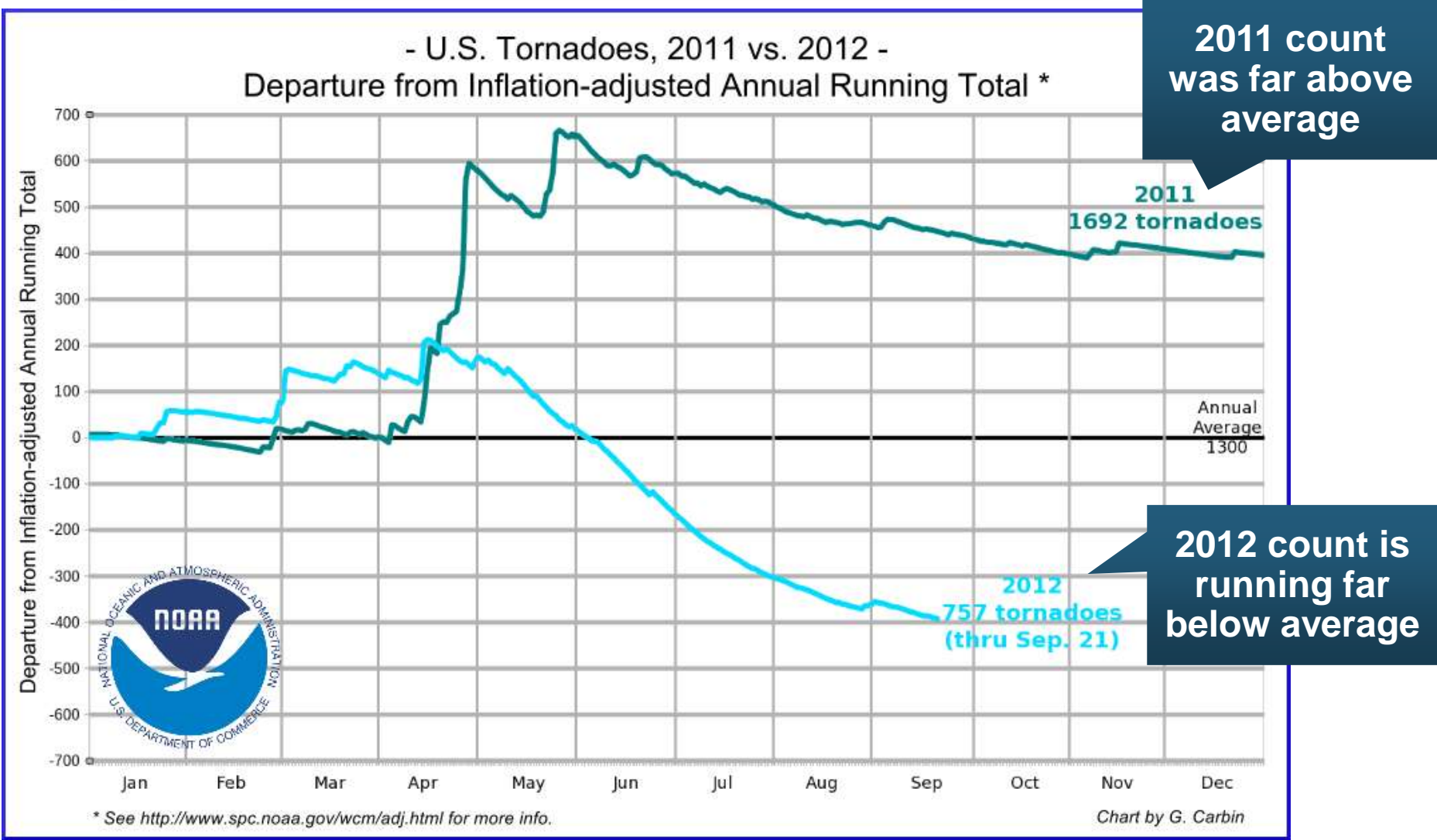
U.S. Tornado Count, 2005-2012*



*Through Oct. 8, 2012.

Source: <http://www.spc.noaa.gov/wcm/>

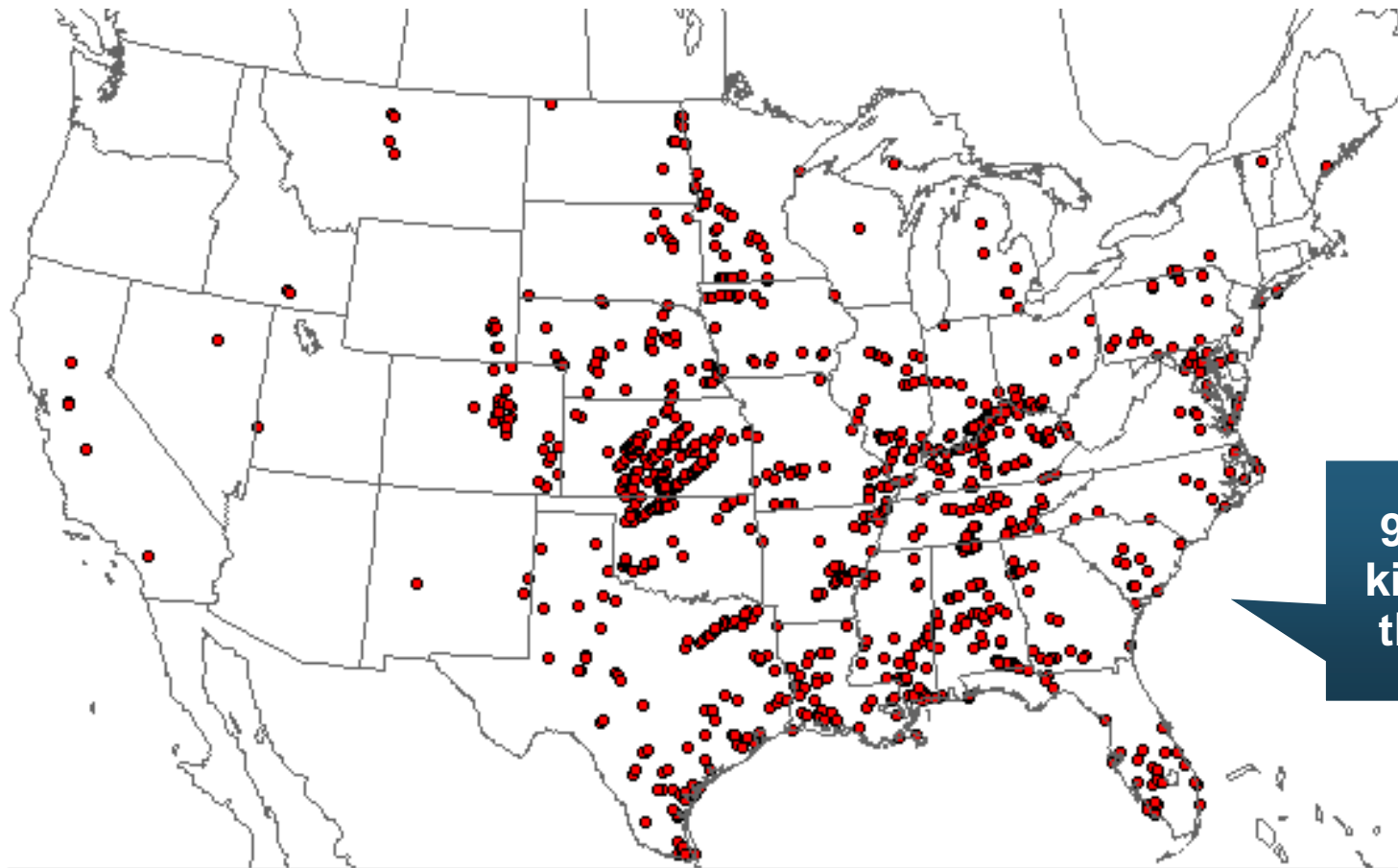
U.S. Tornado Count, Departure from Inflation-Adjusted Running Total, 2011 vs. 2012*



*Through Sept. 21, 2012.

Source: <http://www.spc.noaa.gov/wcm/>

Location of Tornadoes in the US, 2012*



998 tornadoes
killed 68 people
through Oct. 4



PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

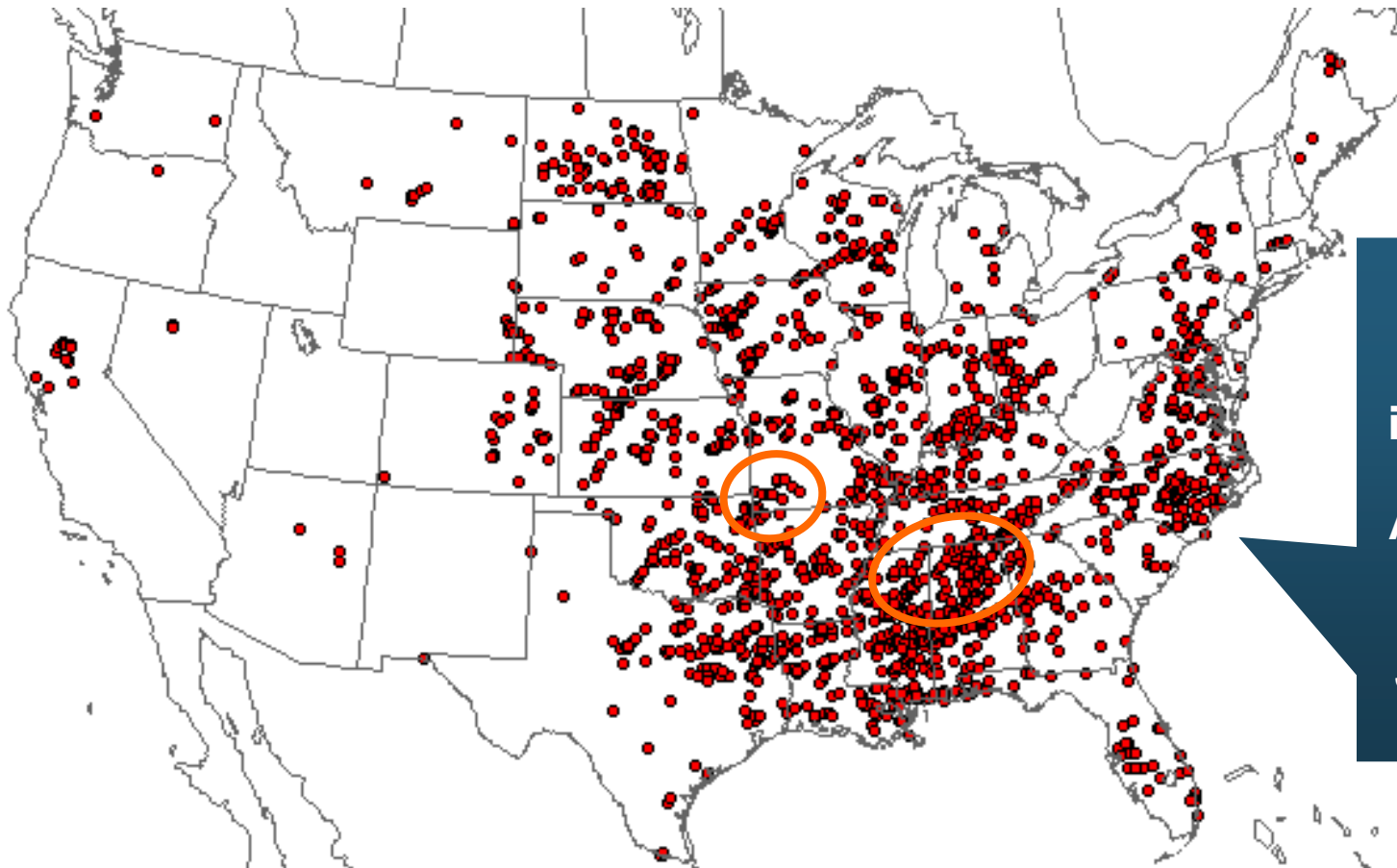
Tornado Reports
January 01, 2012 - October 04, 2012

Updated: Thursday October 04, 2012 16:58 CT

*Through Oct. 4, 2012.

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2012_annual_summary.html#

Location of Tornadoes in the US, 2011



1,894 tornadoes killed 553 people in 2011, including at least 340 on April 26 mostly in the Tuscaloosa area, and 130 in Joplin on May 22



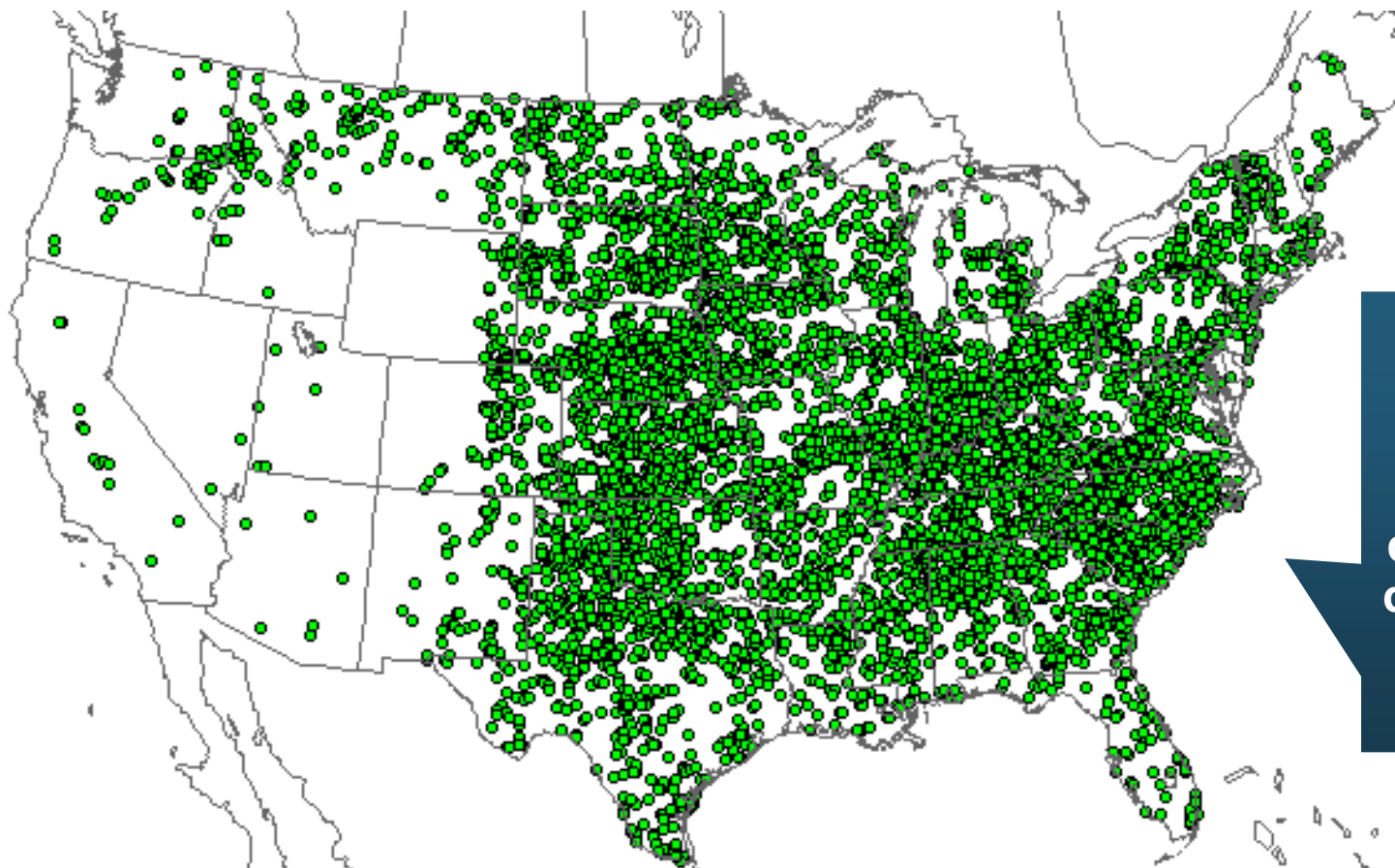
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Tornado Reports
January 01, 2011 - December 27, 2011

Updated: Tuesday December 27, 2011 16:35 CT

Location of Large Hail Reports in the US, 2012*



There were 6,886
“Large Hail”
reports through
Oct. 4, 2012,
causing extensive
damage to homes,
businesses and
vehicles



PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

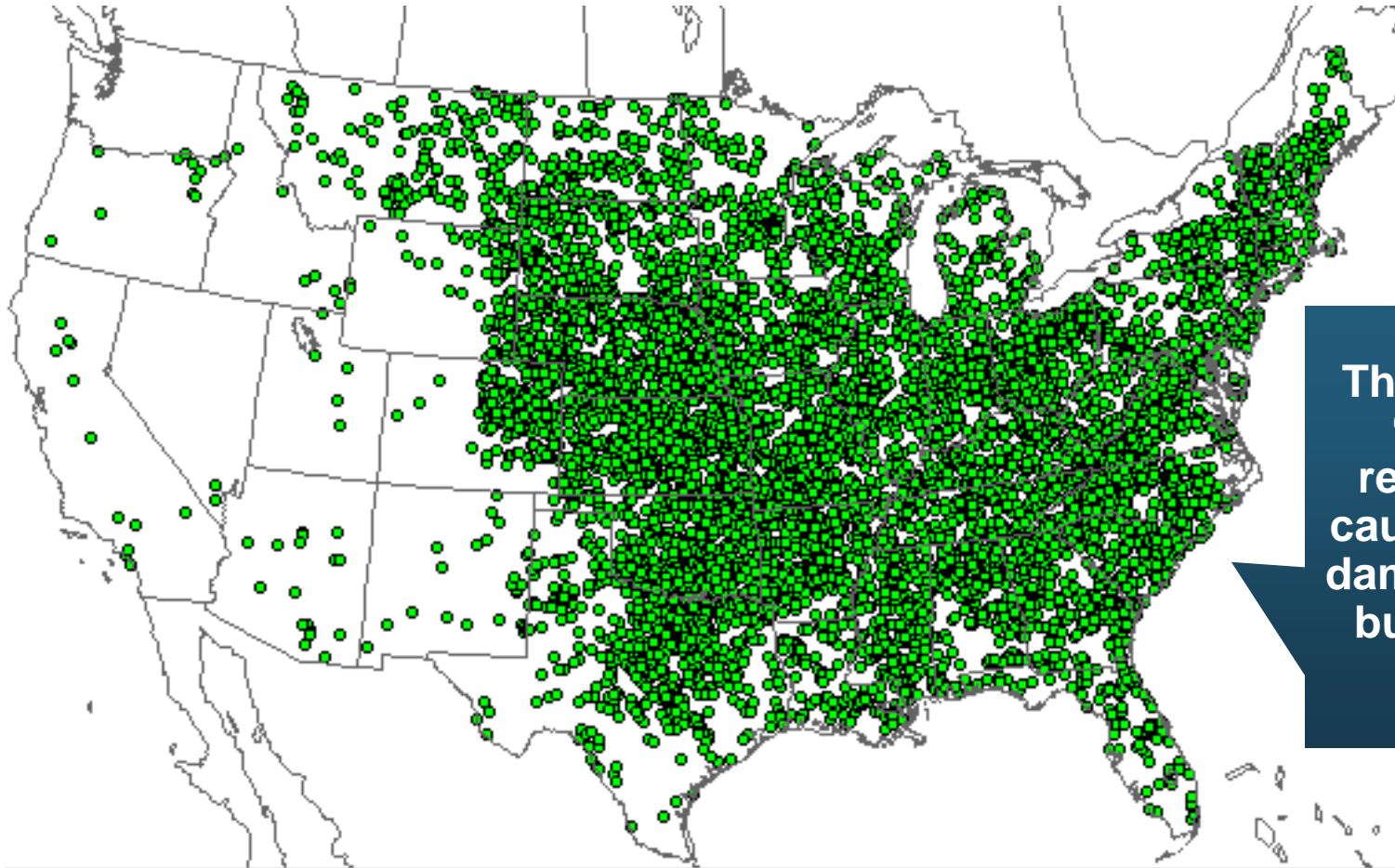
Hail Reports
January 01, 2012 - October 04, 2012

Updated: Thursday October 04, 2012 16:58 CT

*Through Oct. 4, 2012.

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2012_annual_summary.html#

Location of Large Hail Reports in the US, 2011



There were 9,417
“Large Hail”
reports in 2011,
causing extensive
damage to homes,
businesses and
vehicles



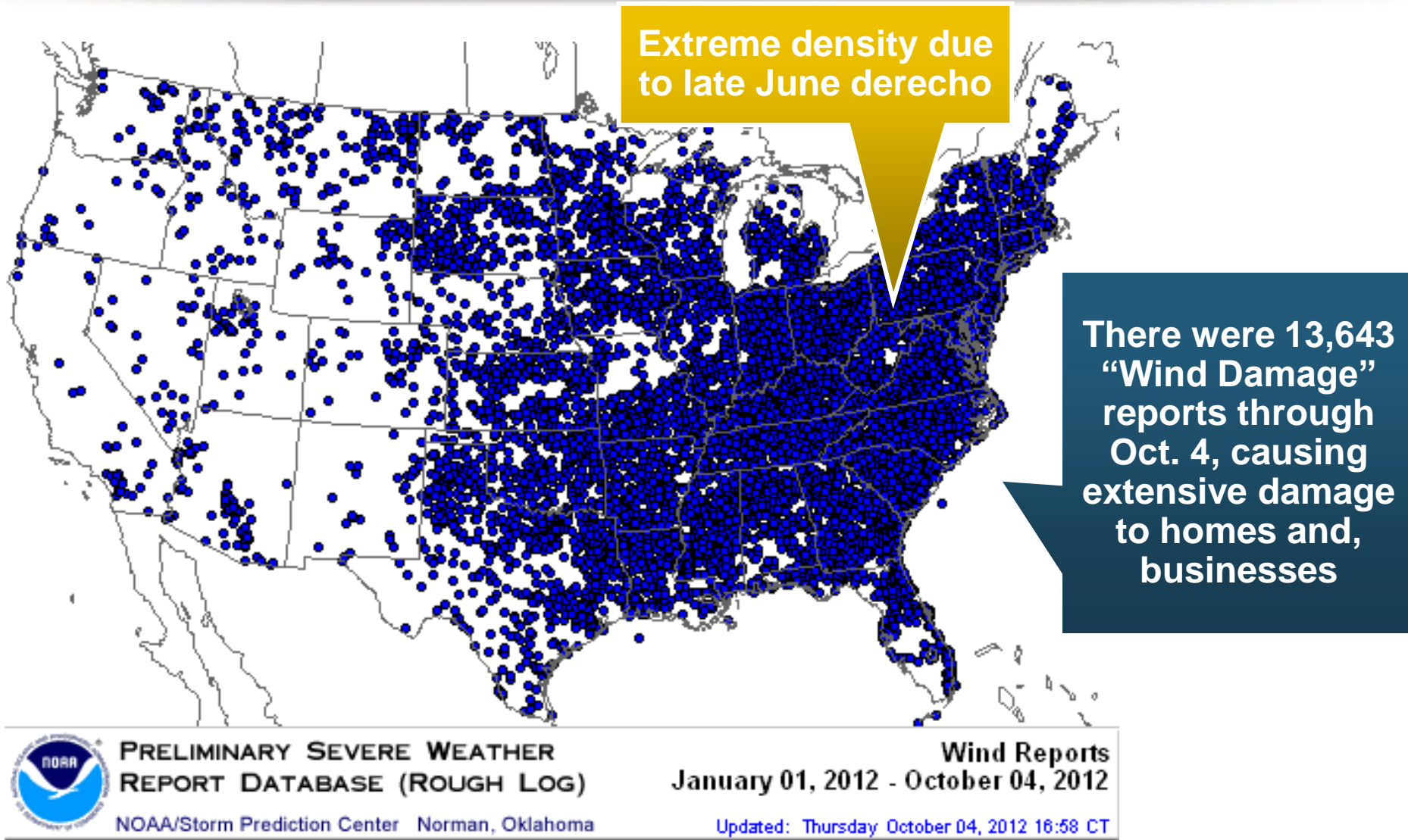
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Hail Reports
January 01, 2011 - December 27, 2011

Updated: Tuesday December 27, 2011 16:35 CT

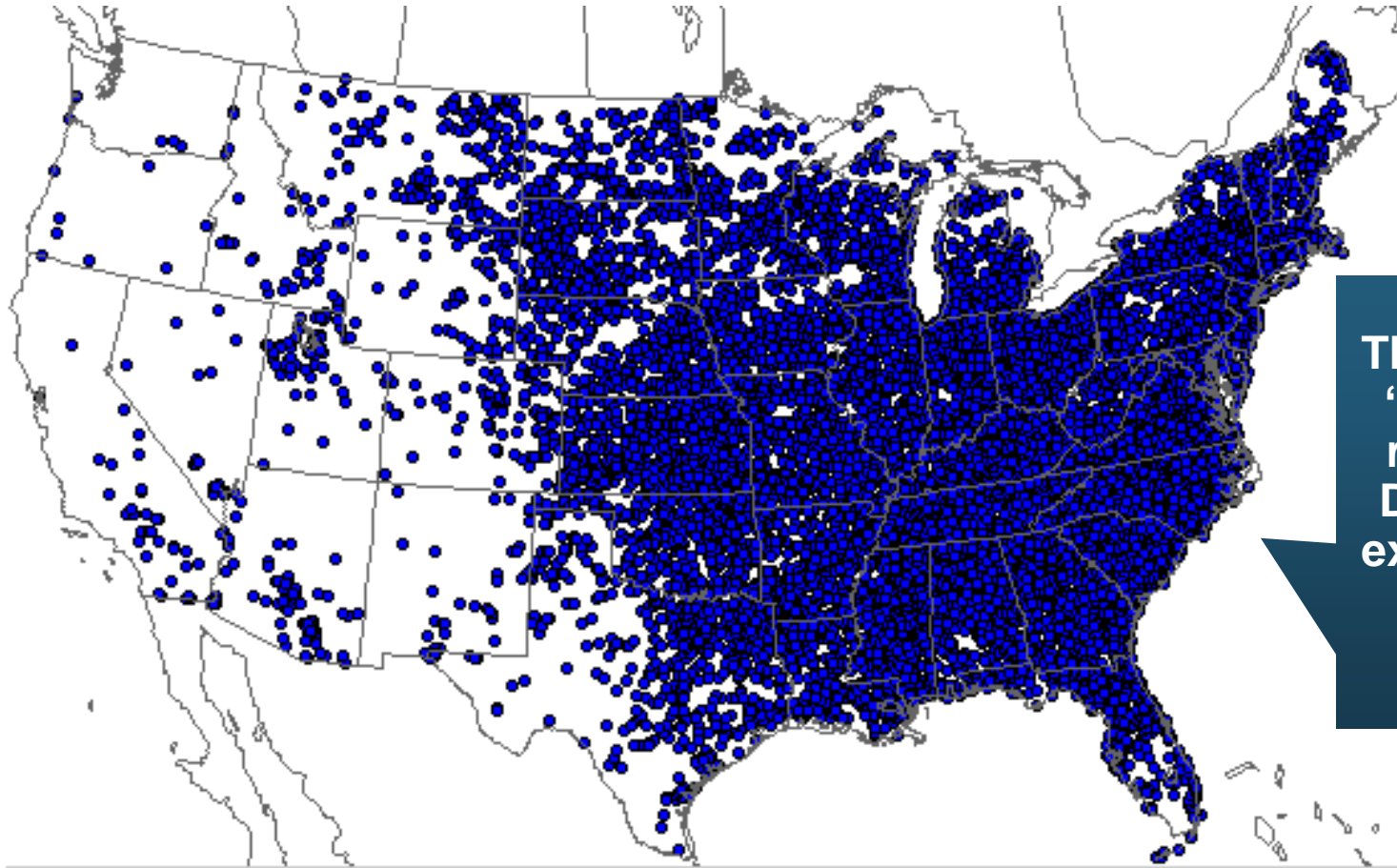
Location of Wind Damage Reports in the US, 2012*



*Through Oct. 4, 2012.

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2012_annual_summary.html#

Location of Wind Damage Reports in the US, 2011



There were 18,685
“Wind Damage”
reports through
Dec. 27, causing
extensive damage
to homes and,
businesses



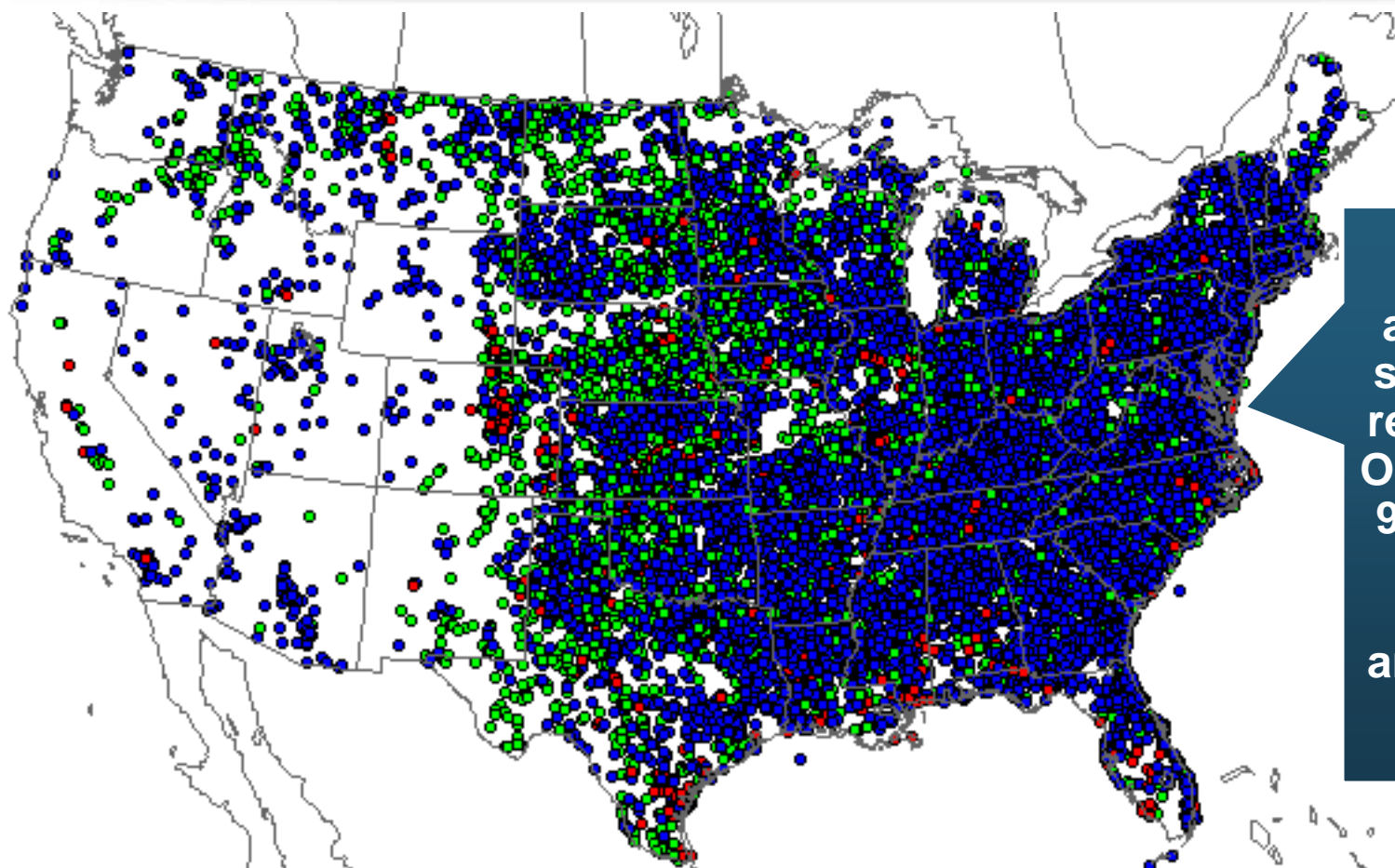
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Wind Reports
January 01, 2011 - December 27, 2011

Updated: Tuesday December 27, 2011 16:35 CT

Severe Weather Reports, 2012*



There were already 21,529 severe weather reports through Oct. 4; including 998 tornadoes; 6,886 “Large Hail” reports and 13,643 high wind events



PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

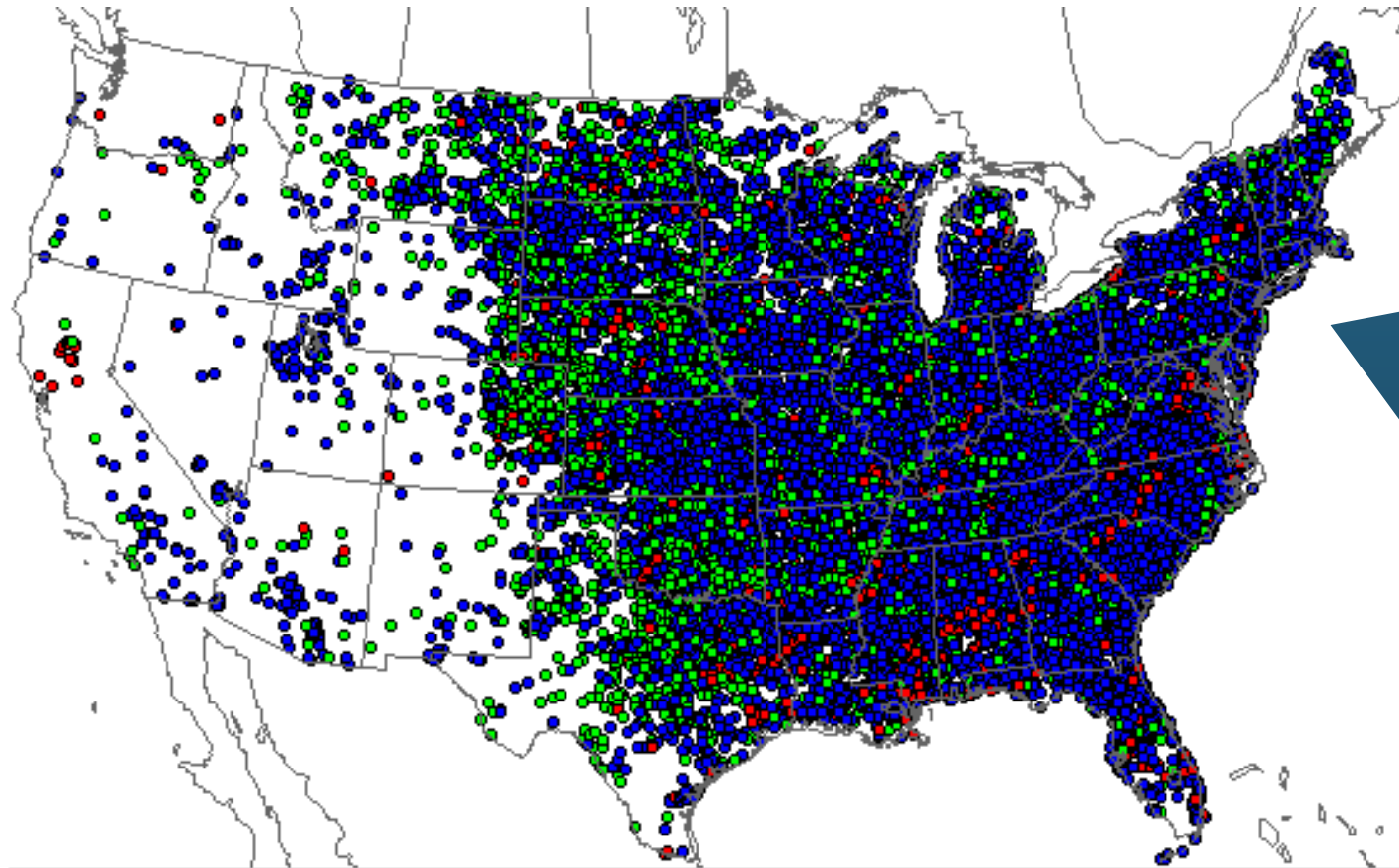
Severe Weather Reports
January 01, 2012 - October 04, 2012

Updated: Thursday October 04, 2012 16:58 CT

*Through Oct. 4, 2012.

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2012_annual_summary.html#

Severe Weather Reports, 2011



There were
29,996 severe
weather reports
in 2011;
including 1,894
tornadoes;
9,417 “Large
Hail” reports
and 18,685 high
wind events



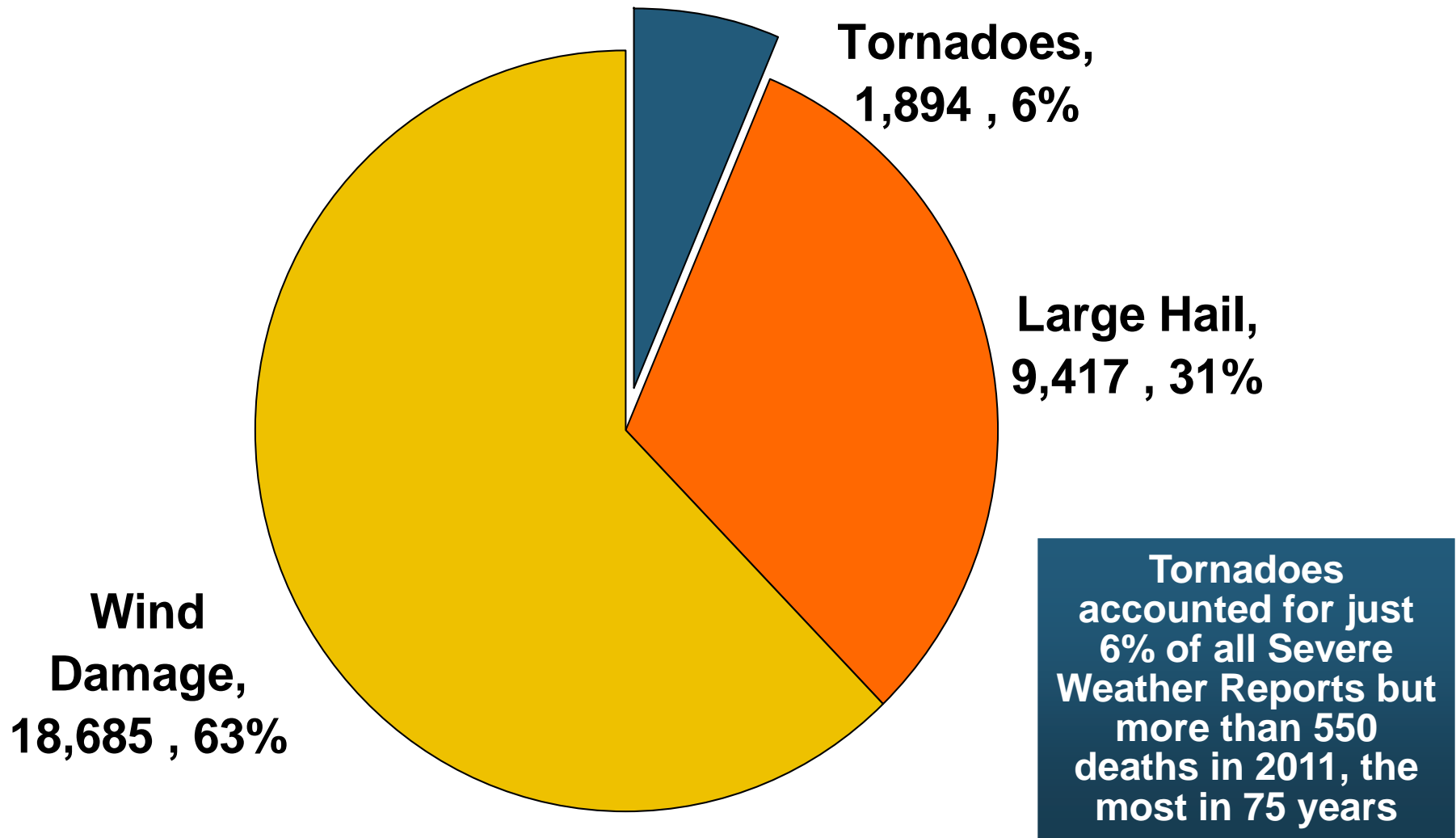
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

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

Updated: Tuesday December 27, 2011 16:35 CT

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



The BIG Question: Where Is the Market Heading?

**Catastrophes and Other Factors Are
Pressuring Insurance Markets**

***New Factor: Record Low Interest
Rates Are Contributing to
Underwriting and Pricing Pressures***

Historical Criteria for a “Market Turn”: Low Interest Rates Add New Pressure

Criteria	Status	Comments
Sustained Period of Large Underwriting Losses	<i>Large in 2011, Modest in 2012; Will Likely Grow</i>	<ul style="list-style-type: none"> • Apart from 2011 CAT losses, overall p/c underwriting losses remain modest • Combined ratios (ex-CATs) still in low 100s (vs. 110+ at onset of last hard market); CR= 101.1 in H1:2012 (ex-M&FG) • Prior-year reserve releases continue to reduce u/w losses, boost ROEs, though more modestly
Material Decline in Surplus/ Capacity	<i>Only Small Decline Due to 2011 Cats; Record Highs in 2012</i>	<ul style="list-style-type: none"> • Surplus fell 0.5% as of 6/30/12 from 3/31 record \$570.7B • Fell 1.6% in 2011 due to CATs • Little excess capacity remains in reinsurance markets • Modest growth in demand for insurance should begin to absorb some capacity
Tight Reinsurance Market	<i>Somewhat in Place</i>	<ul style="list-style-type: none"> • Much of the global “excess capacity” was eroded by cats • Higher prices in Asia/Pacific • Modestly higher pricing for US risks
Renewed Underwriting & Pricing Discipline	<i>Firming Broad, Sustained, esp. in Property, WC</i>	<ul style="list-style-type: none"> • Commercial lines pricing trends have turned from negative to flat and now positive, esp. Property & WC; • Markets remain competitive in most segments

INVESTMENTS: THE NEW REALITY

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

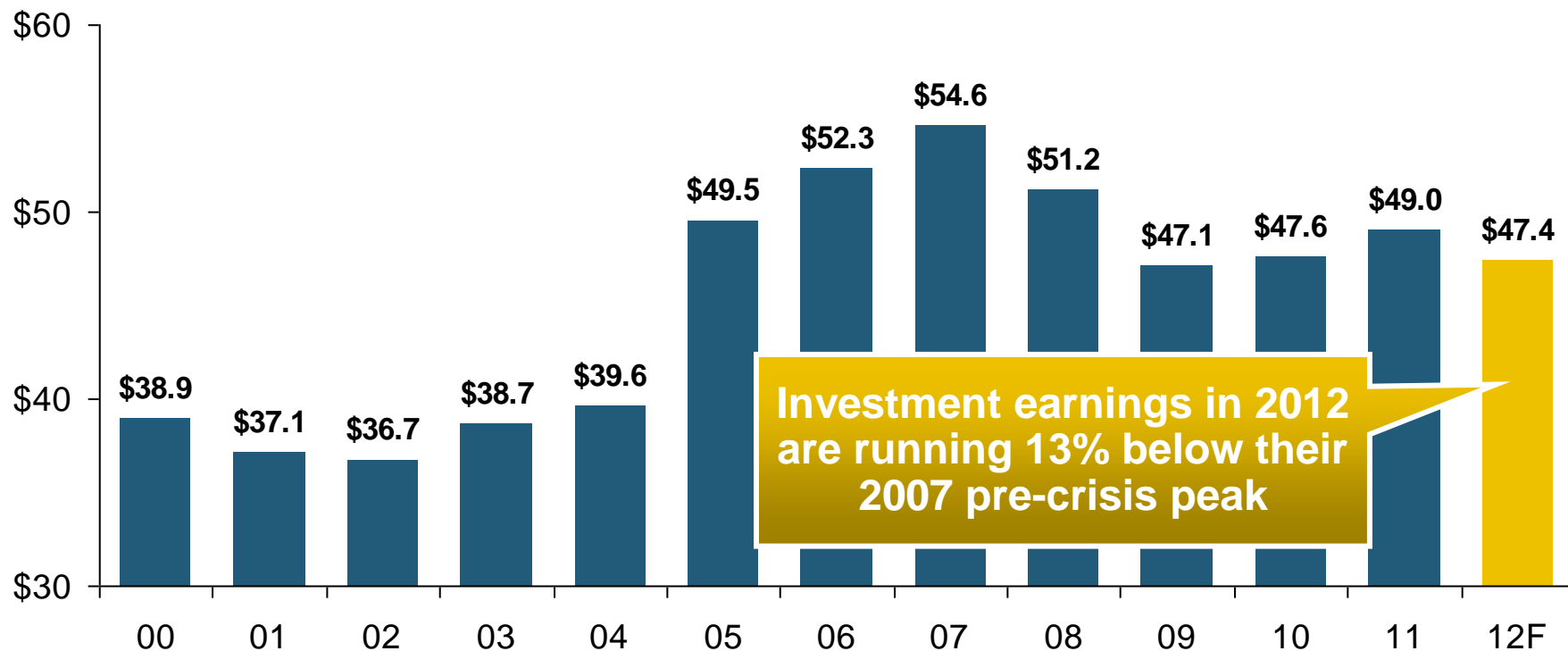
***Depressed Yields Will Necessarily
Influence Underwriting & Pricing***

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

- **No Expectation that Rates Would Be:**
 - ◆ **Pushed to Such Low Levels**
 - ◆ **Pushed Down so Rapidly**
 - ◆ **Held to Such Low Levels for So Long**
 - ◆ **Suppressed via Unprecedented Aggressiveness of the Federal Reserve**
 - **Use of traditional and unconventional tools (QE)**
 - **Unconventional 's policies couldn't be anticipated, esp. QE1, 2, and 3 (QE 4 Ever???)**
- **Competitive Pressure→Protracted Soft Market**
- **Ability to Release Prior Reserves Eased Urgency**
- **Realization of Capital Gains**

Property/Casualty Insurance Industry Investment Income: 2000–2012F¹

(\$ Billions)



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

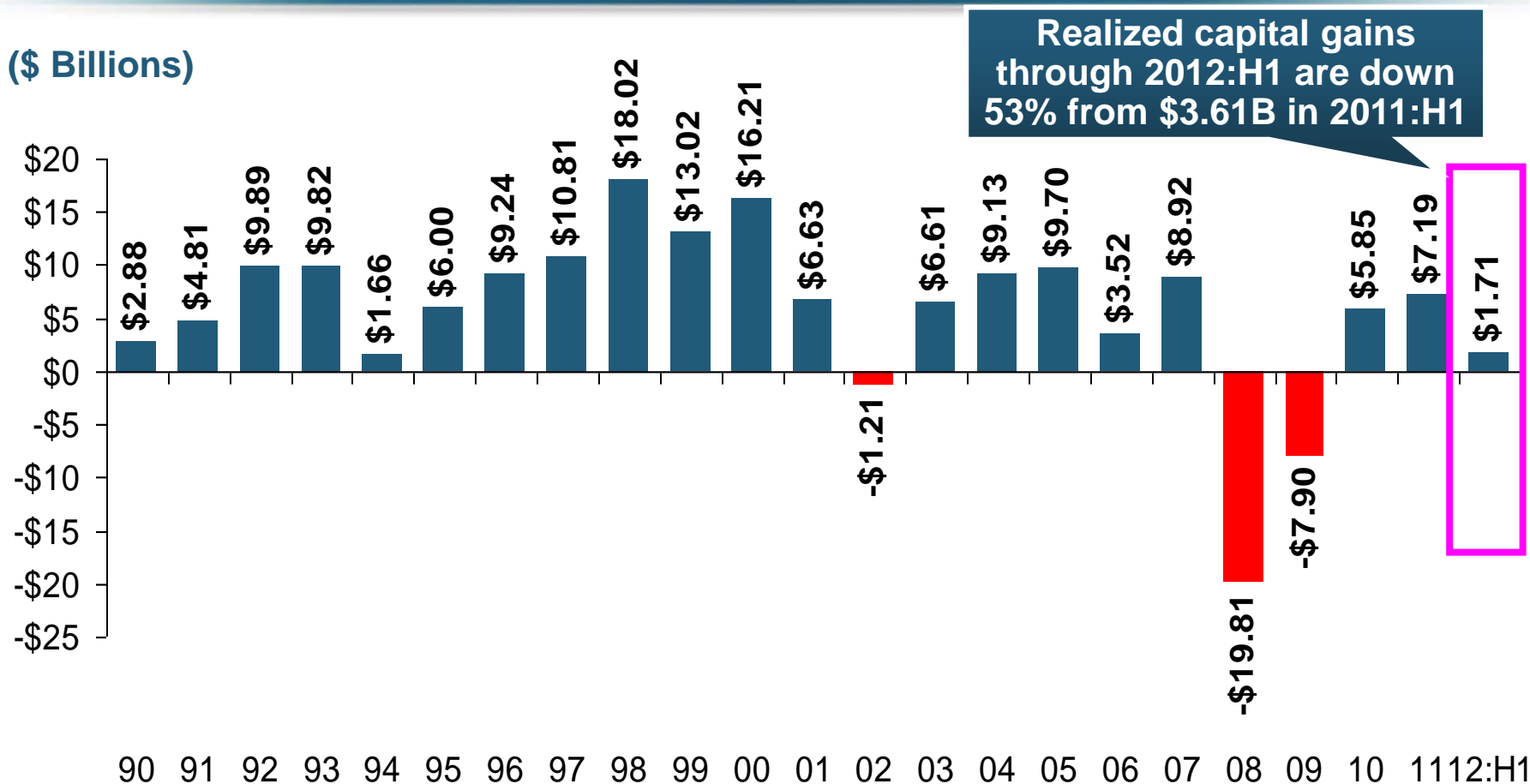
¹ Investment gains consist primarily of interest and stock dividends.

*2012F is based on annualized H1:2012 actual figure of \$23.718B.

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

P/C Insurer Net Realized Capital Gains/Losses, 1990-2012:H1

(\$ Billions)



Insurers Posted Net Realized Capital Gains in 2010, 2011 and 2012 Following Two Years of Realized Losses During the Financial Crisis. Realized Capital Losses Were the Primary Cause of 2008/2009's Large Drop in Profits and ROE

Property/Casualty Insurance Industry Investment Gain: 1994–2012F¹

(\$ Billions)

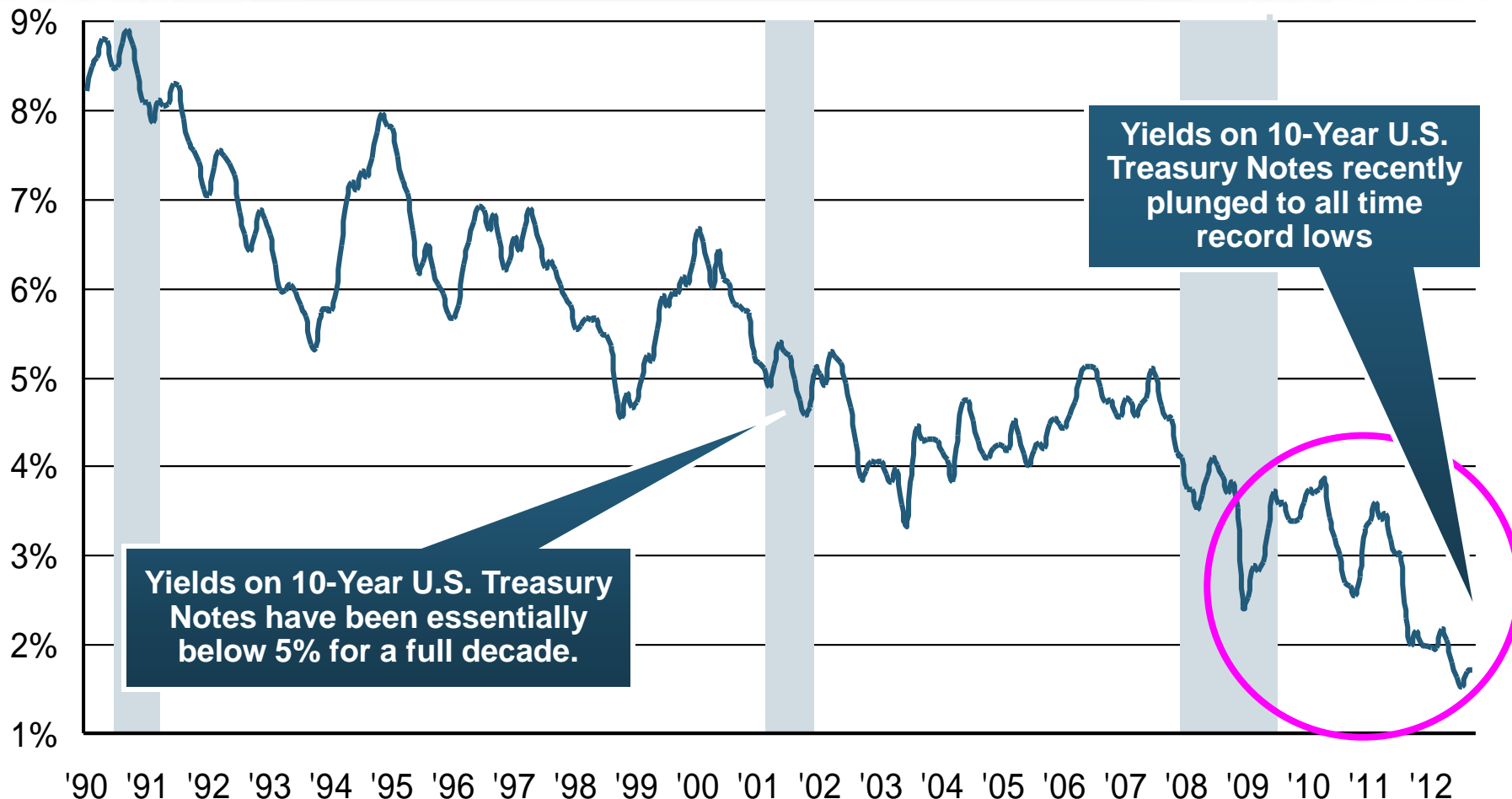


Investment Gains Are Slipping in 2012 as Low Interest Rates Reduce Investment Income and Lower Realized Investment Gains; The Financial Crisis Caused Investment Gains to Fall by 50% in 2008

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

* 2005 figure includes special one-time dividend of \$3.2B; 2012F figure is III estimate based on annualized actual H1:2012 result of \$25.424B.
Sources: ISO; Insurance Information Institute.

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



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

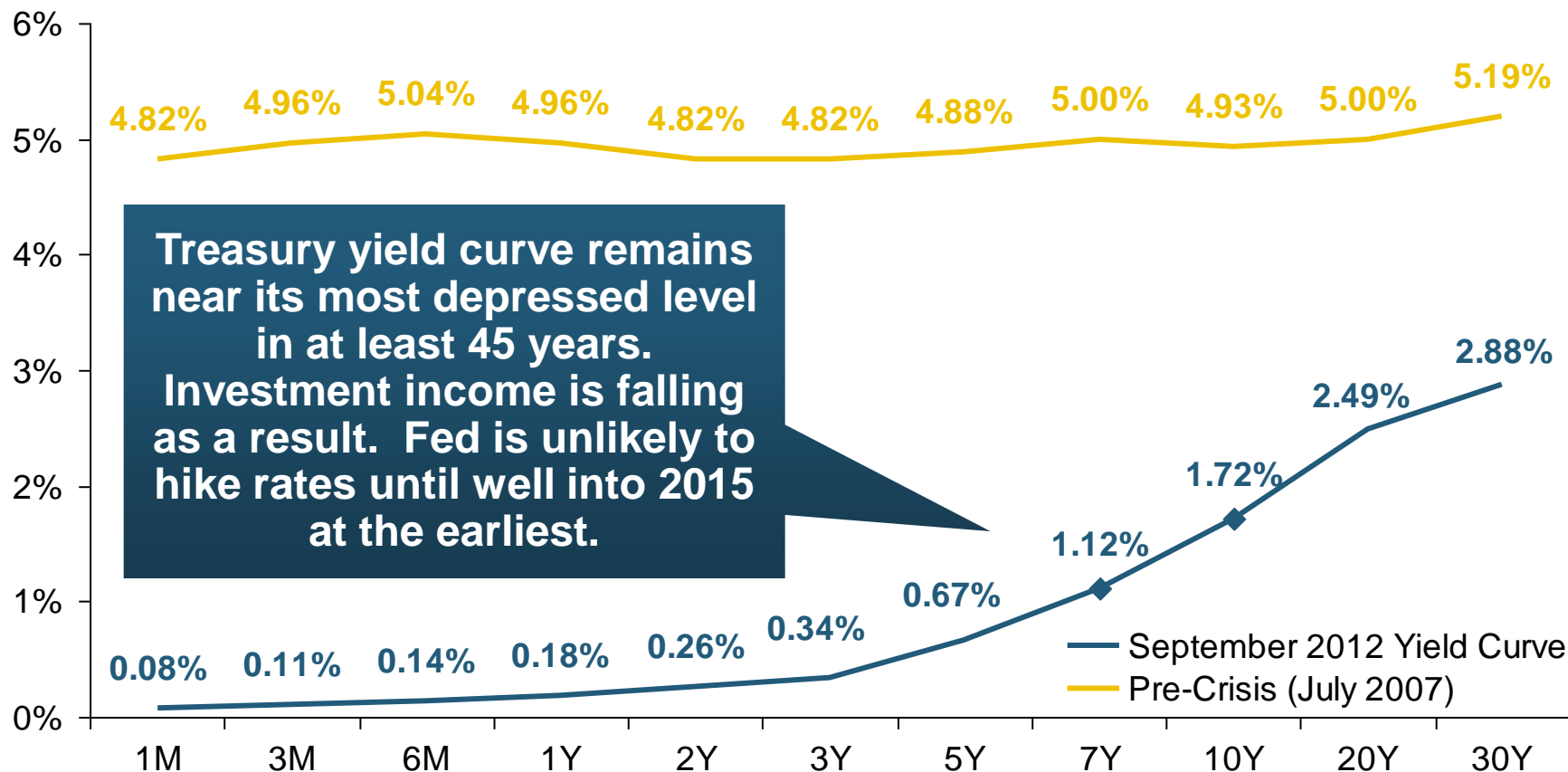
*Monthly, through Sept. 2012.

Note: Recessions indicated by gray shaded columns.

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

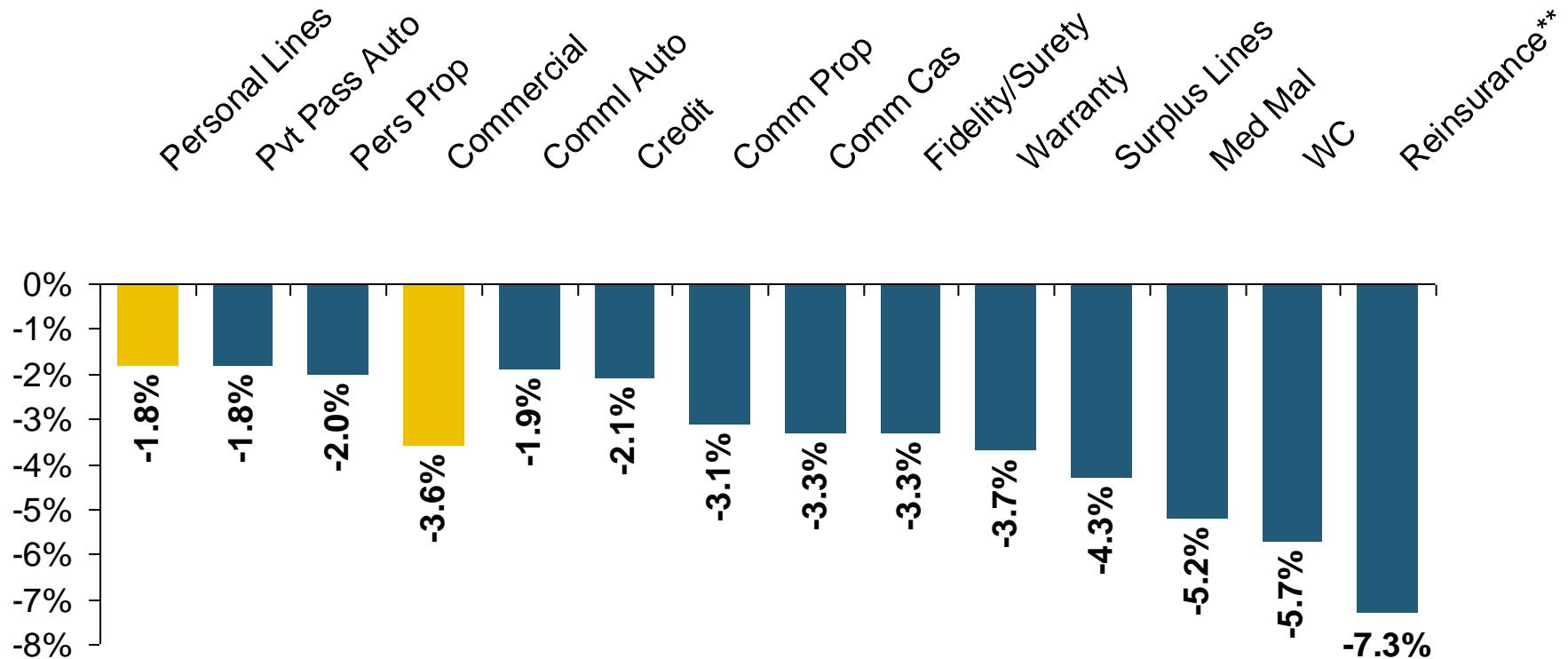
National Bureau of Economic Research (recession dates); Insurance Information Institutes.

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



The Fed Is Actively Signaling that it Is Determined to Keep Rates Low Through Mid-2015; This Adds to Pricing Pressure for Insurers.

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

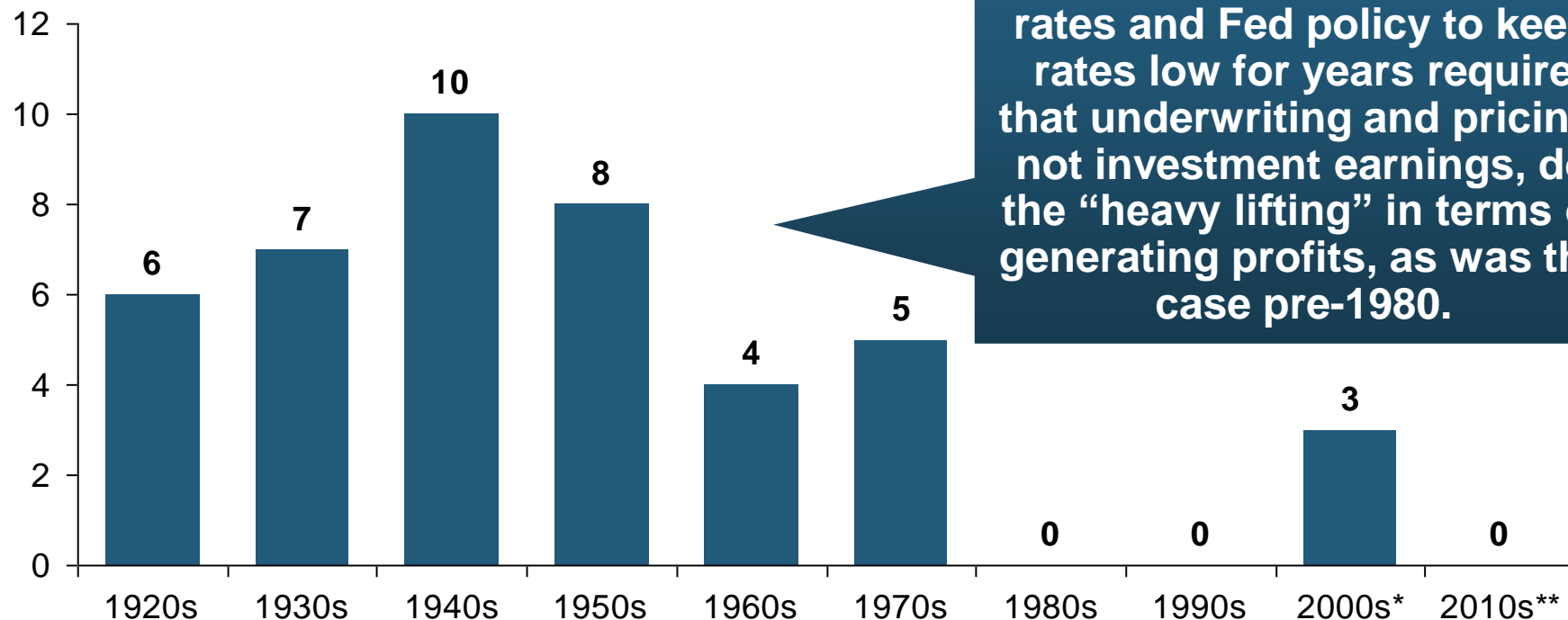
*Based on 2008 Invested Assets and Earned Premiums

**US domestic reinsurance only

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

Number of Years with Underwriting Profits by Decade, 1920s–2010s

Number of Years with Underwriting Profits



Underwriting Profits Were Common Before the 1980s (40 of the 60 Years Before 1980 Had Combined Ratios Below 100) – But Then They Vanished. Not a Single Underwriting Profit Was Recorded in the 25 Years from 1979 Through 2003

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

**Data for the 2010s includes 2010–2012E.

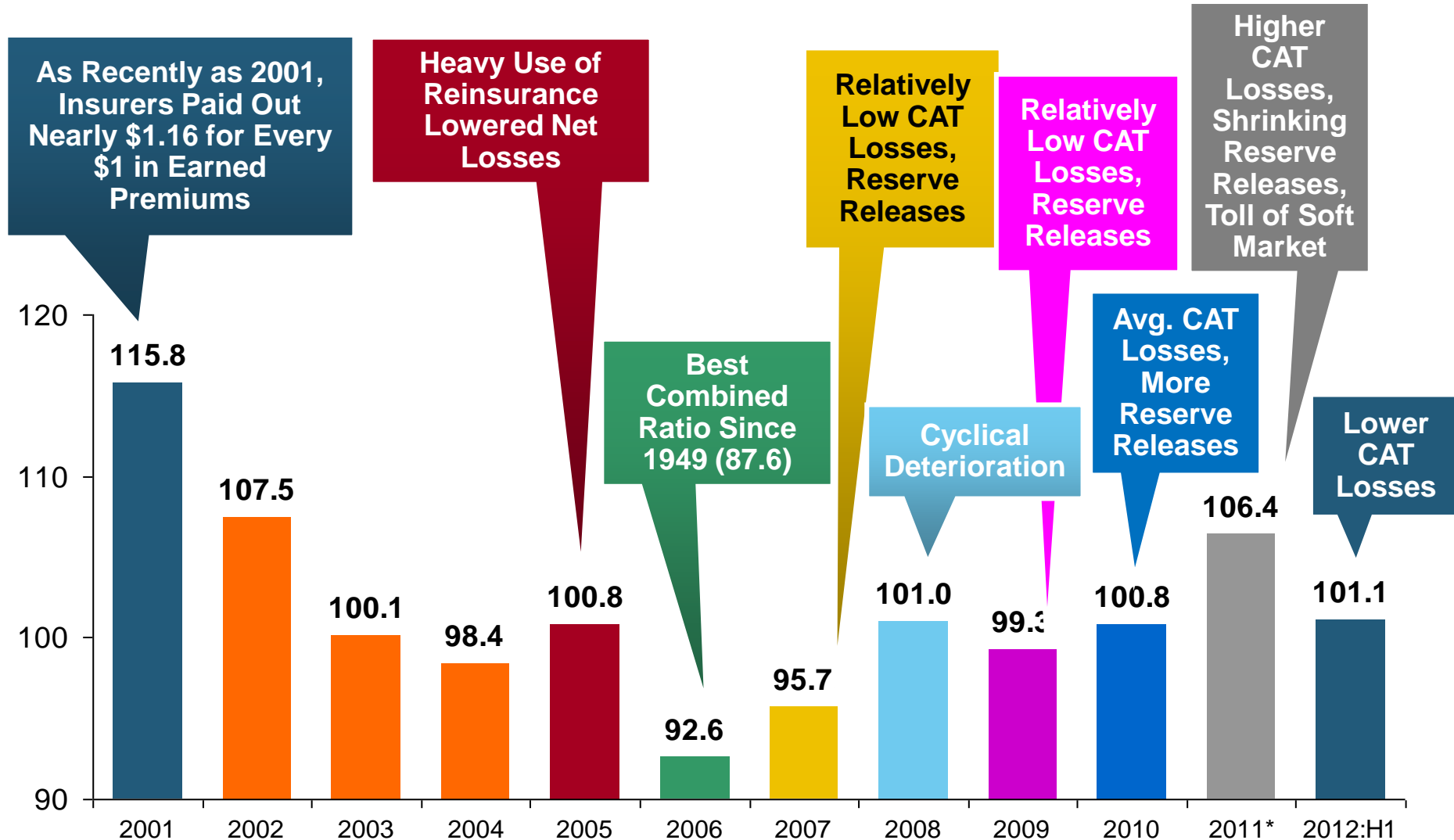
Note: Data for 1920–1934 based on stock companies only.

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

1. UNDERWRITING

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

P/C Insurance Industry Combined Ratio, 2001–2012:H1*

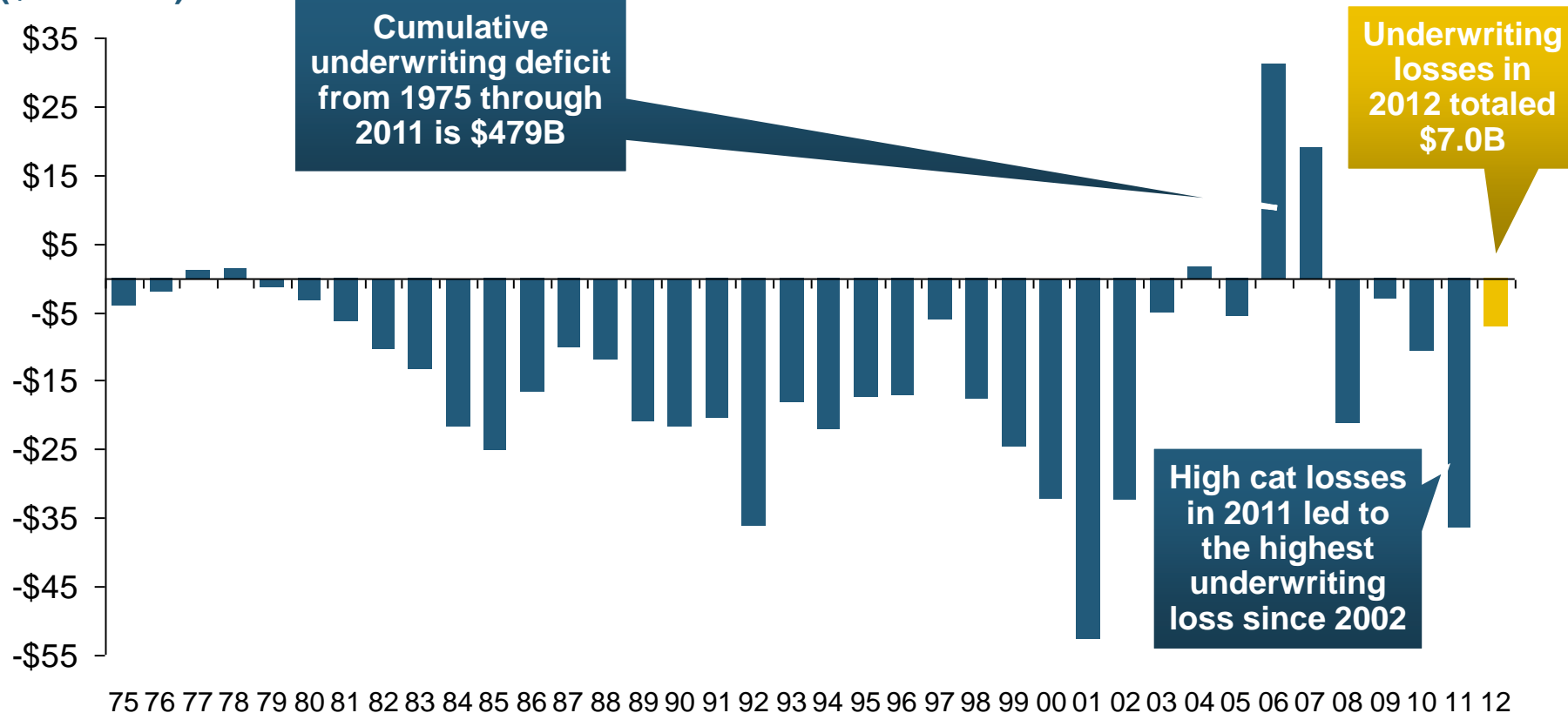


* Excludes Mortgage & Financial Guaranty insurers 2008--2012. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.2; 2012:H1=102.2.

Sources: A.M. Best, ISO.

Underwriting Gain (Loss) 1975–2012:H1*

(\$ Billions)

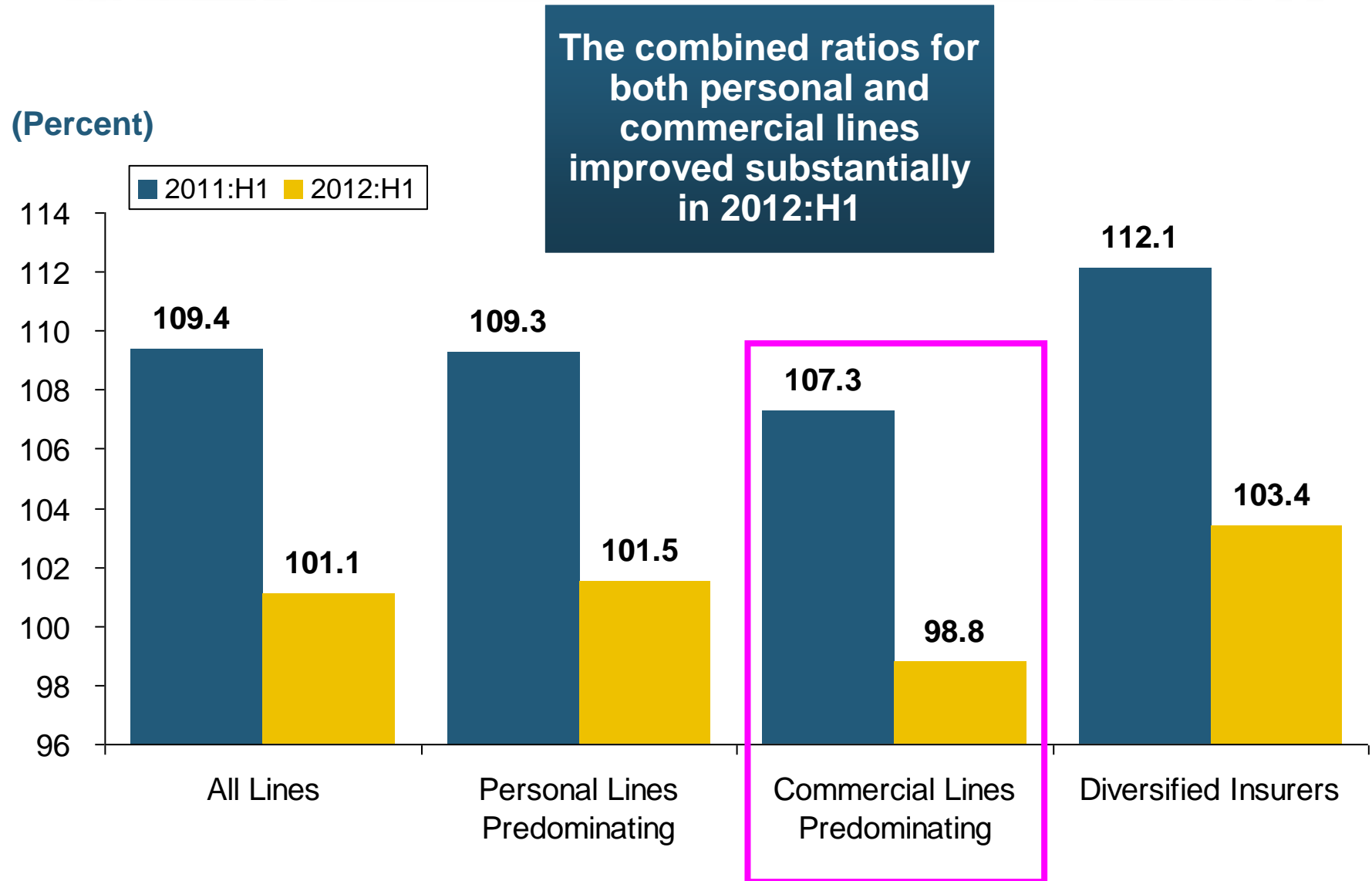


**Large Underwriting Losses Are *NOT* Sustainable
in Current Investment Environment**

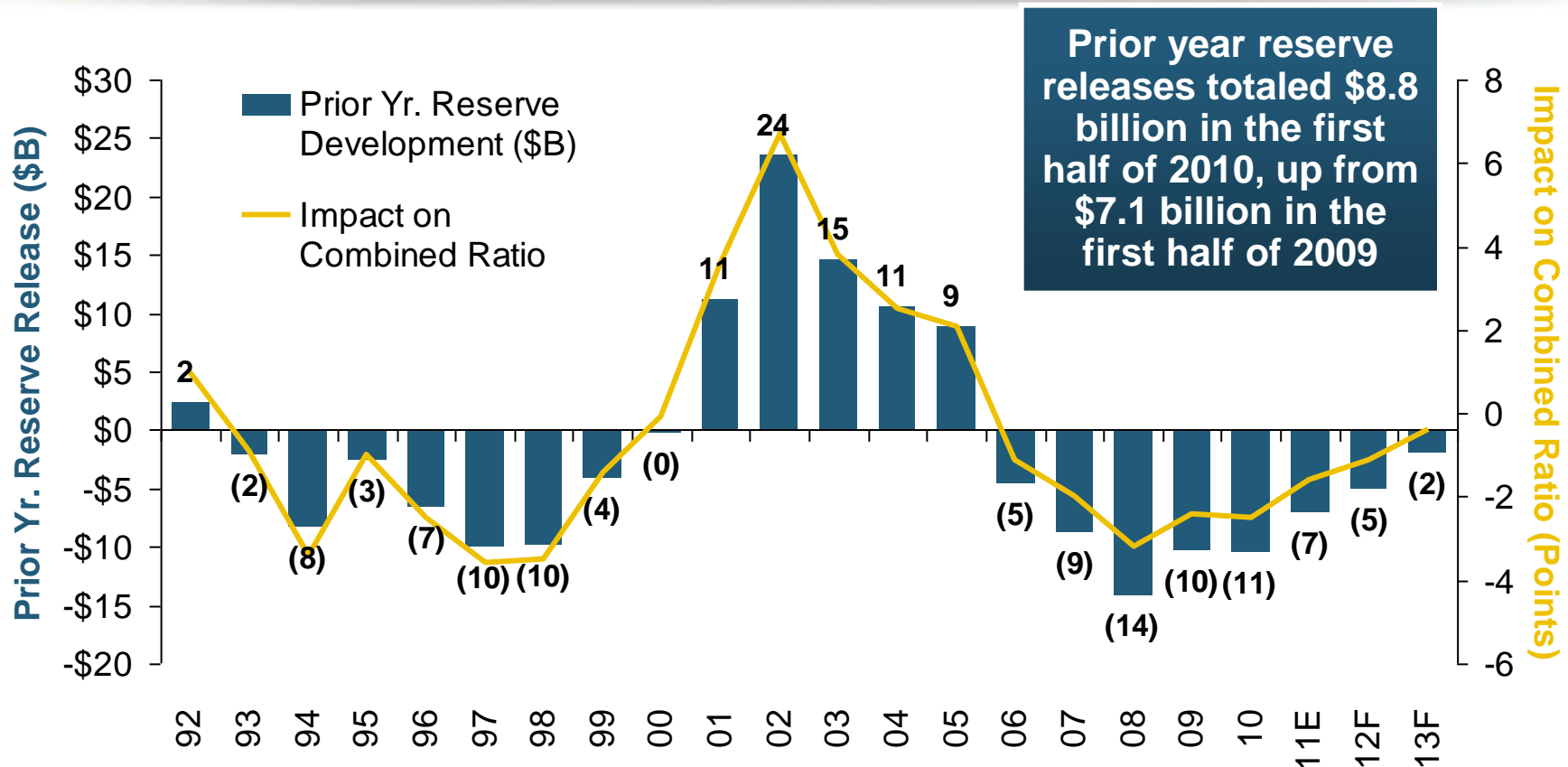
* Includes mortgage and financial guaranty insurers in all years.

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

Combined Ratios by Predominant Business Segment, 2012:H1 vs. 2011:H1



P/C Reserve Development, 1992–2013F



Reserve Releases Remained Strong in 2010 But Tapered Off in 2011. Releases Are Expected to Further Diminish in 2012 and 2103

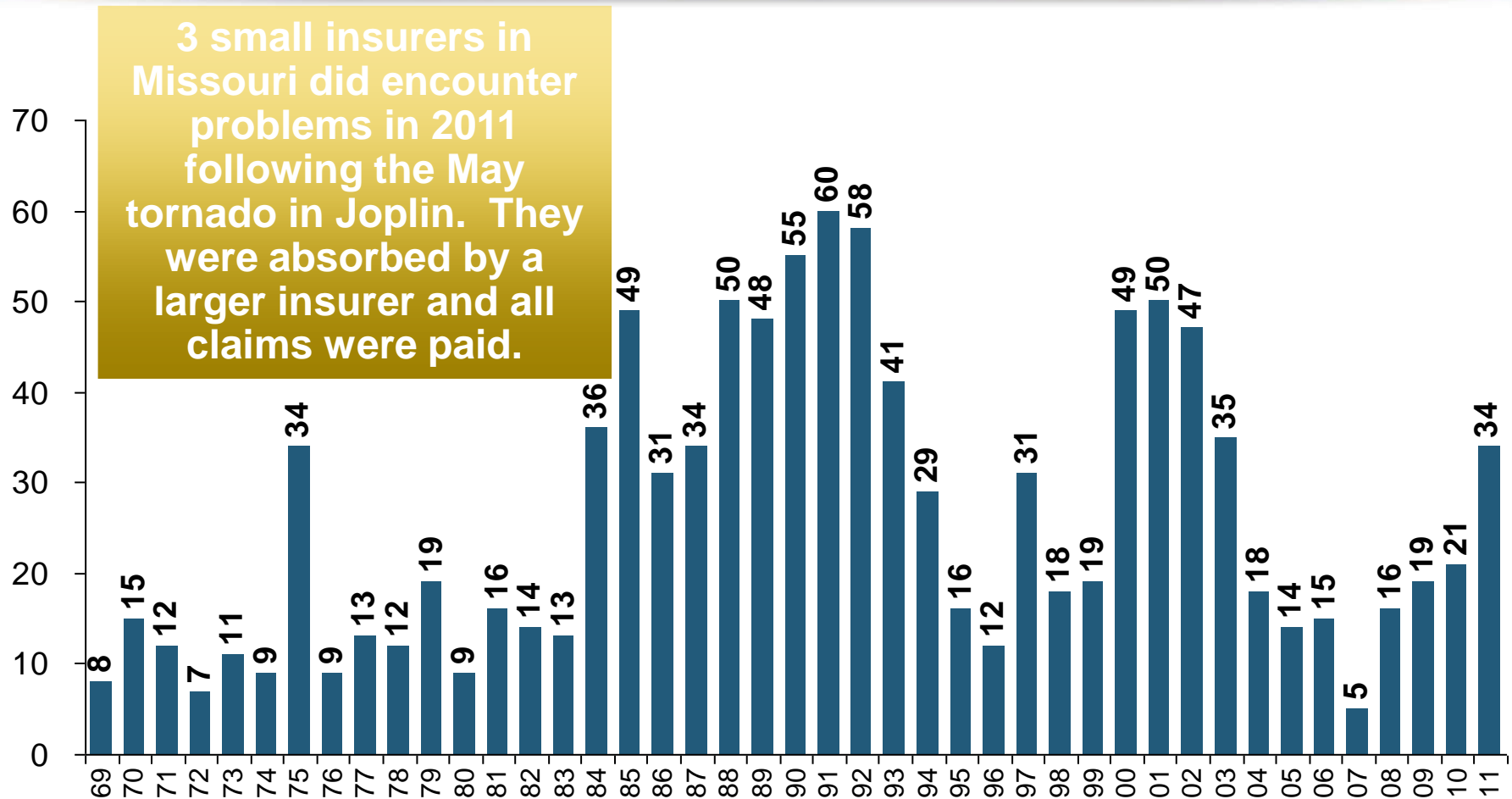
Note: 2005 reserve development excludes a \$6 billion loss portfolio transfer between American Re and Munich Re. Including this transaction, total prior year adverse development in 2005 was \$7 billion. The data from 2000 and subsequent years excludes development from financial guaranty and mortgage insurance.

Sources: Barclays Capital; A.M. Best.

Financial Strength & Underwriting

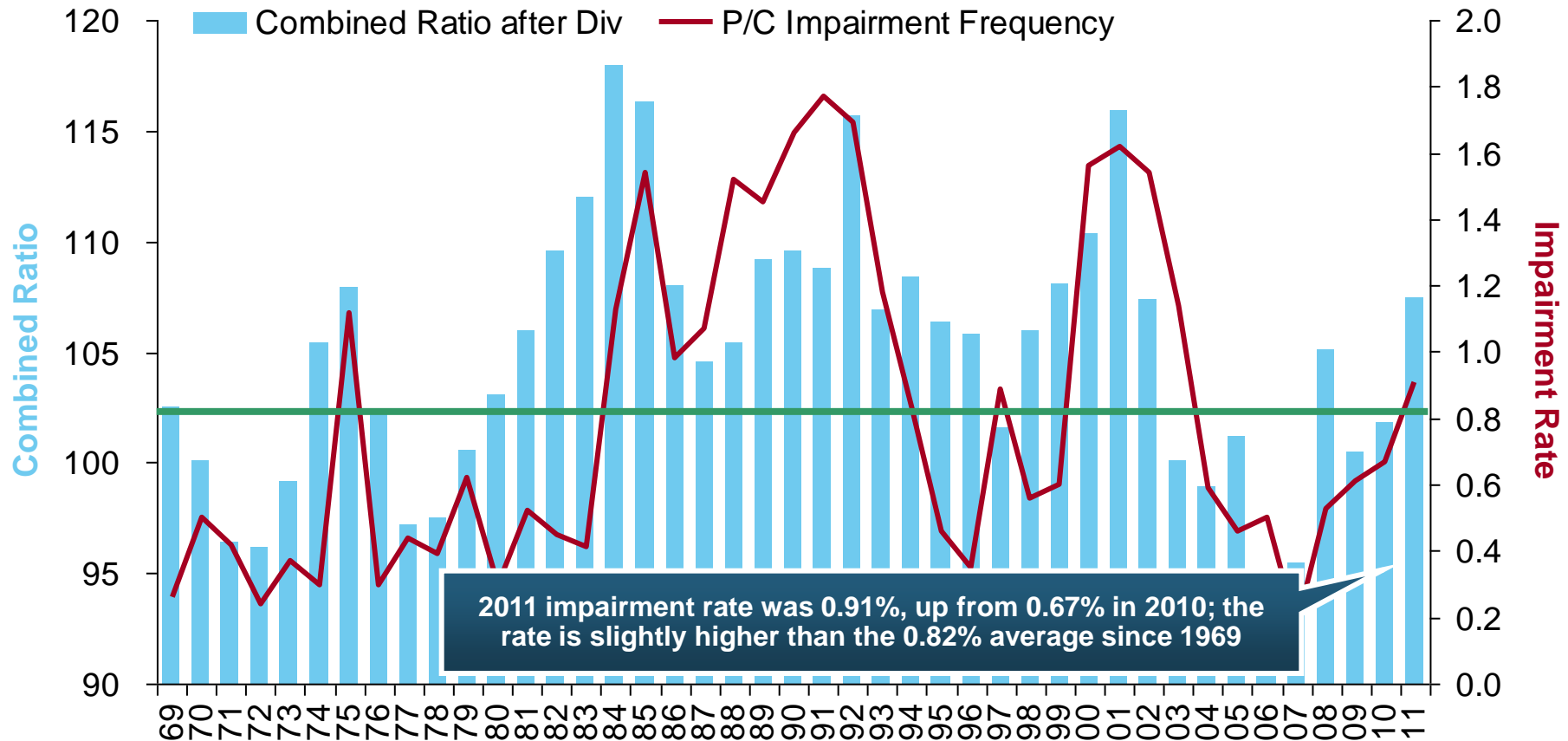
**Cyclical Pattern is P-C Impairment
History is Directly Tied to
Underwriting, Reserving & Pricing**

P/C Insurer Impairments, 1969–2011



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

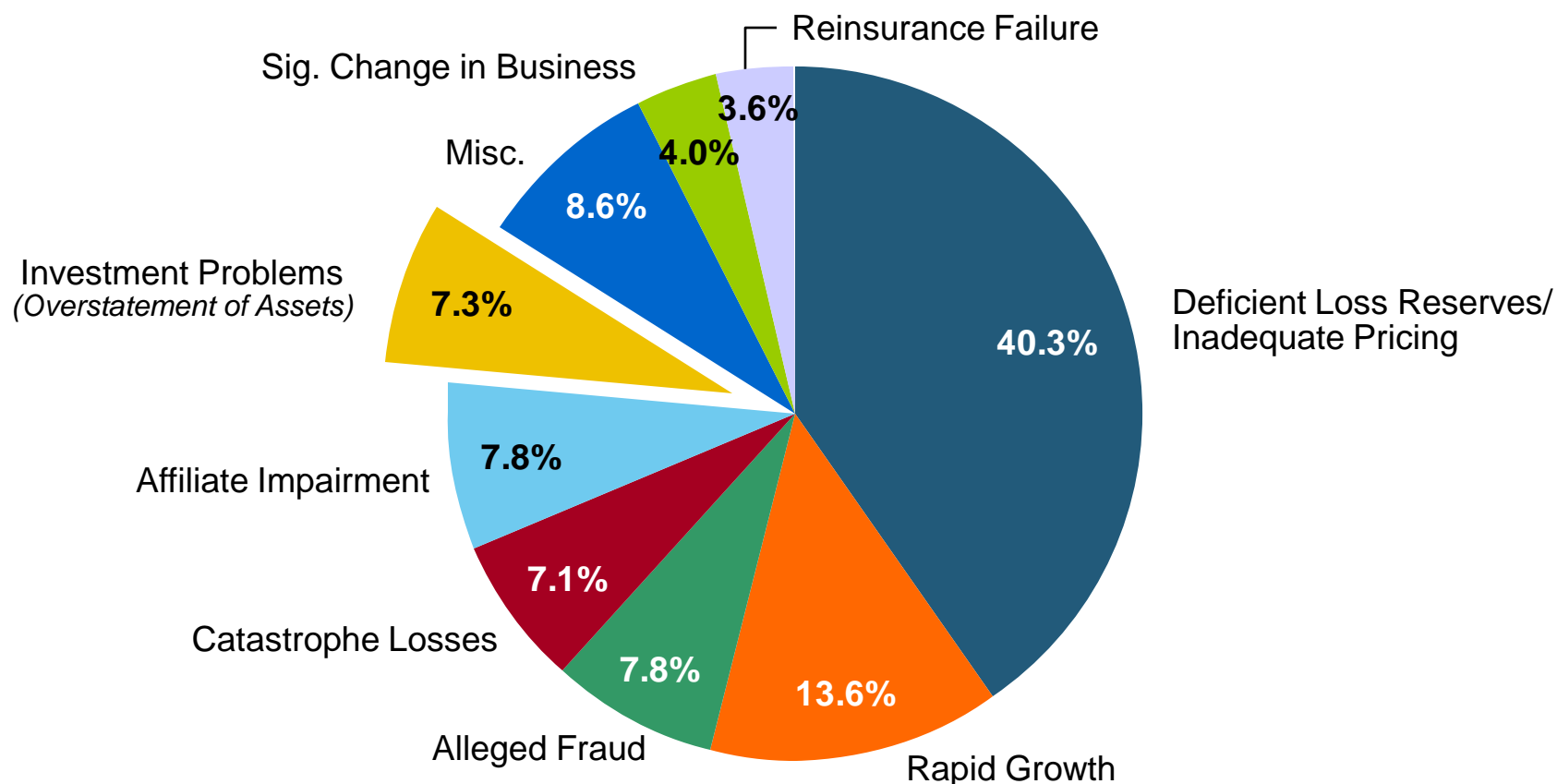
P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2011



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

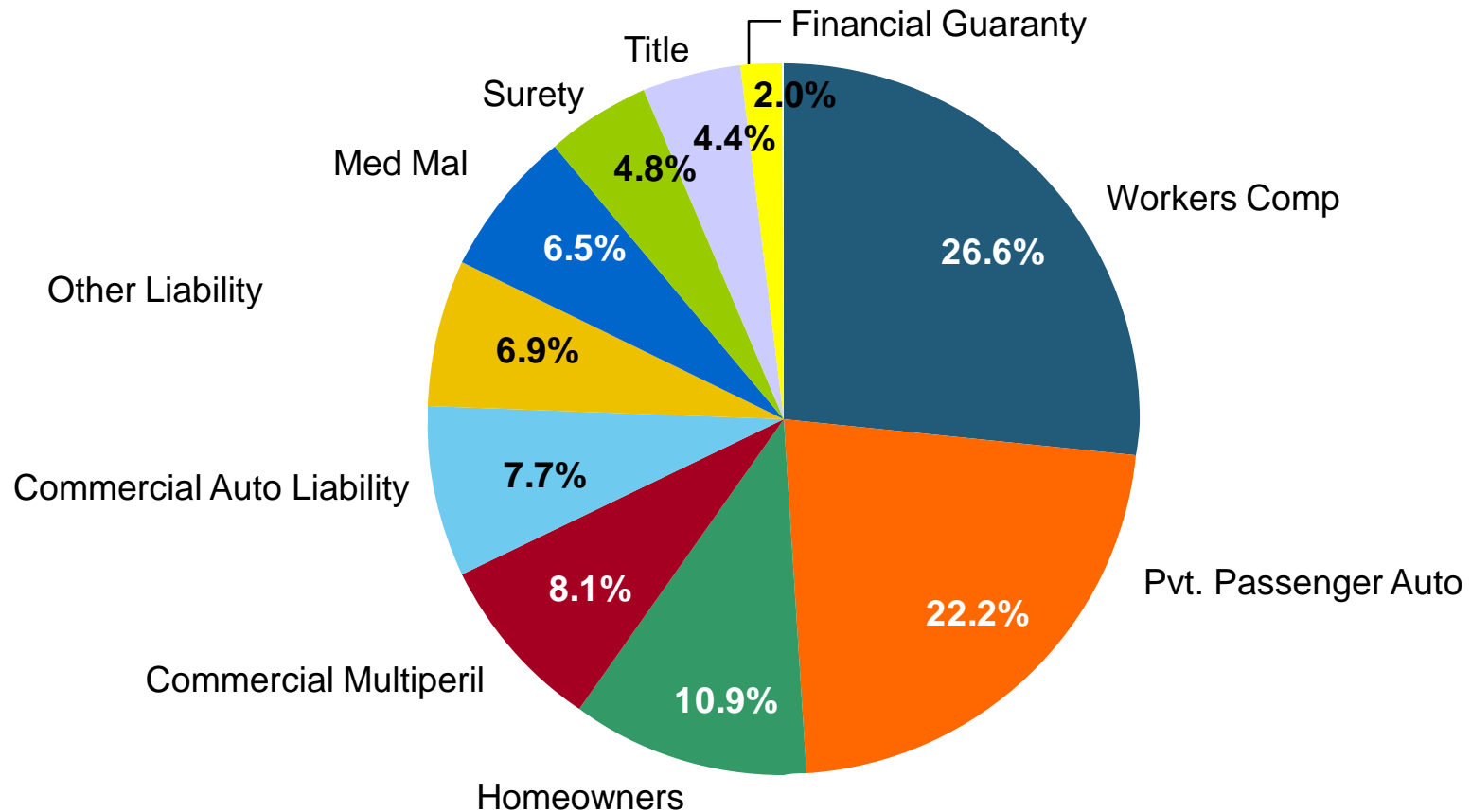
Reasons for US P/C Insurer Impairments, 1969–2010

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



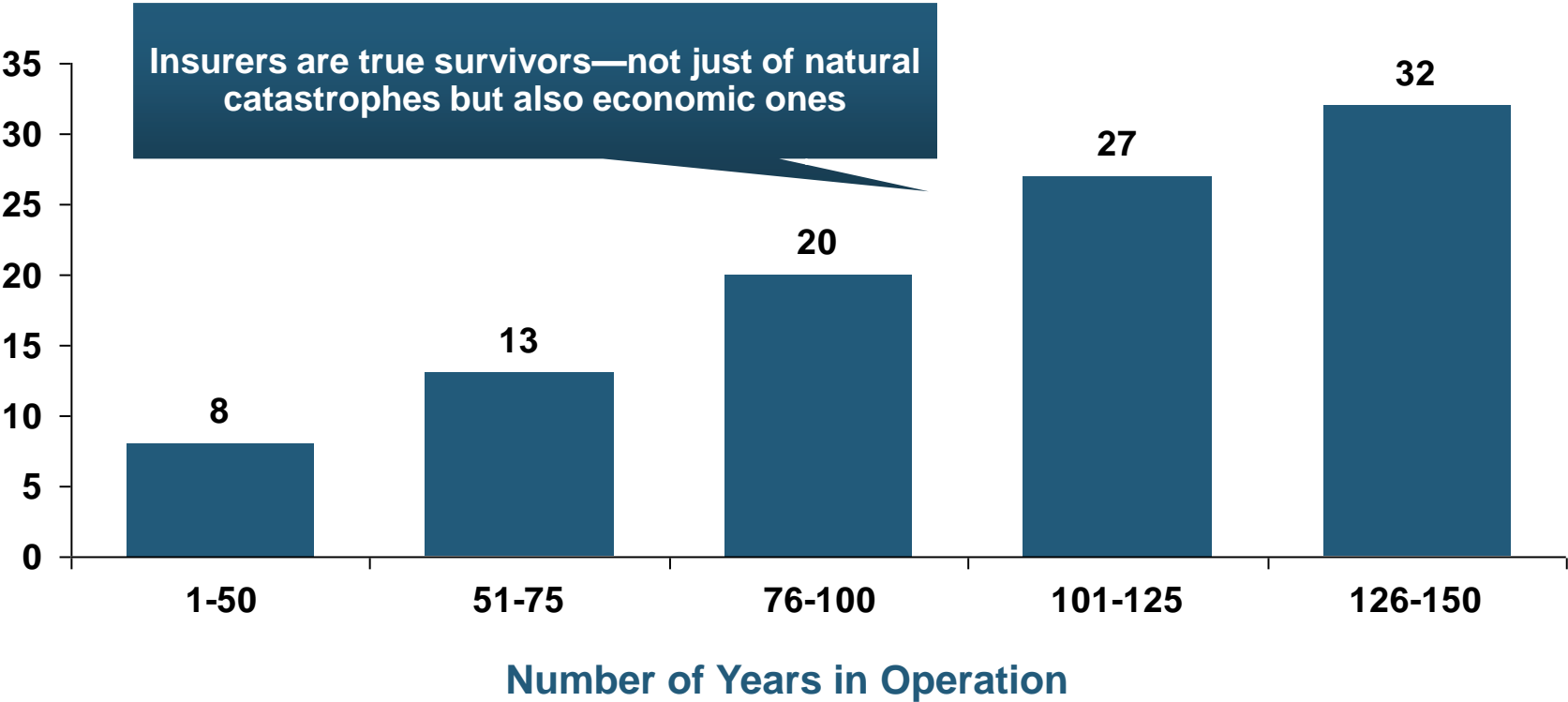
Top 10 Lines of Business for US P/C Impaired Insurers, 2000–2010

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



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

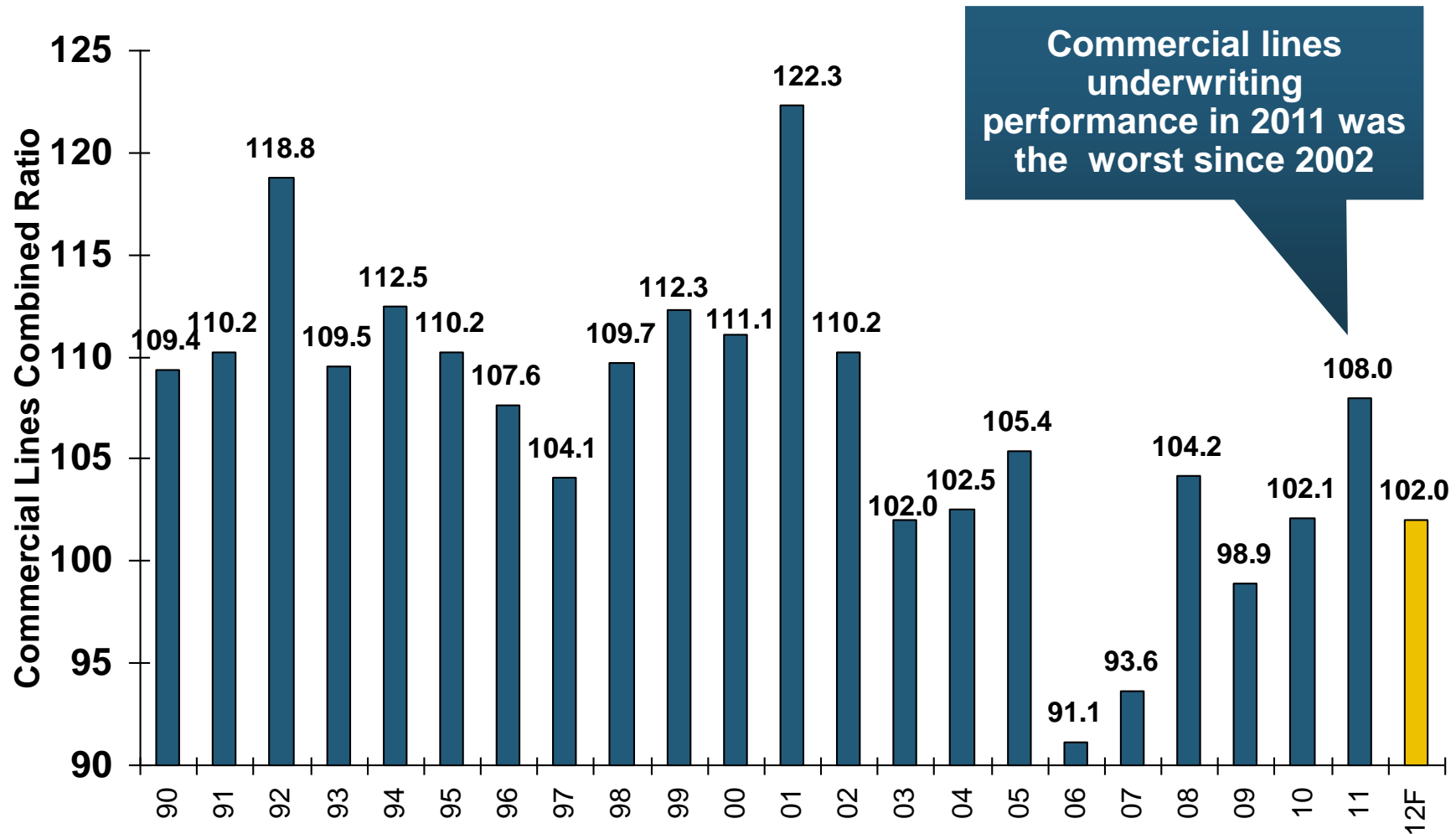
Number of Recessions Since 1860



Many US Insurers Are Close to a Century Old or Older

Performance by Segment

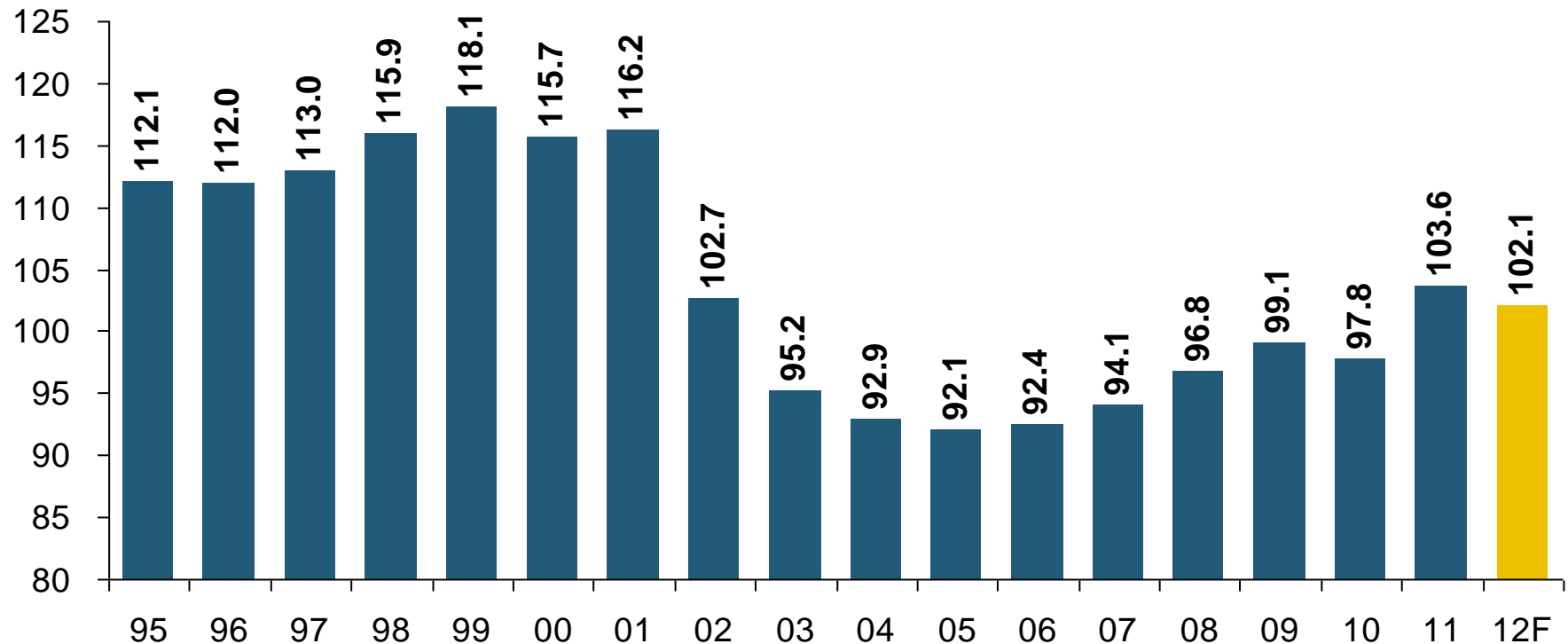
Commercial Lines Combined Ratio, 1990-2012F*



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

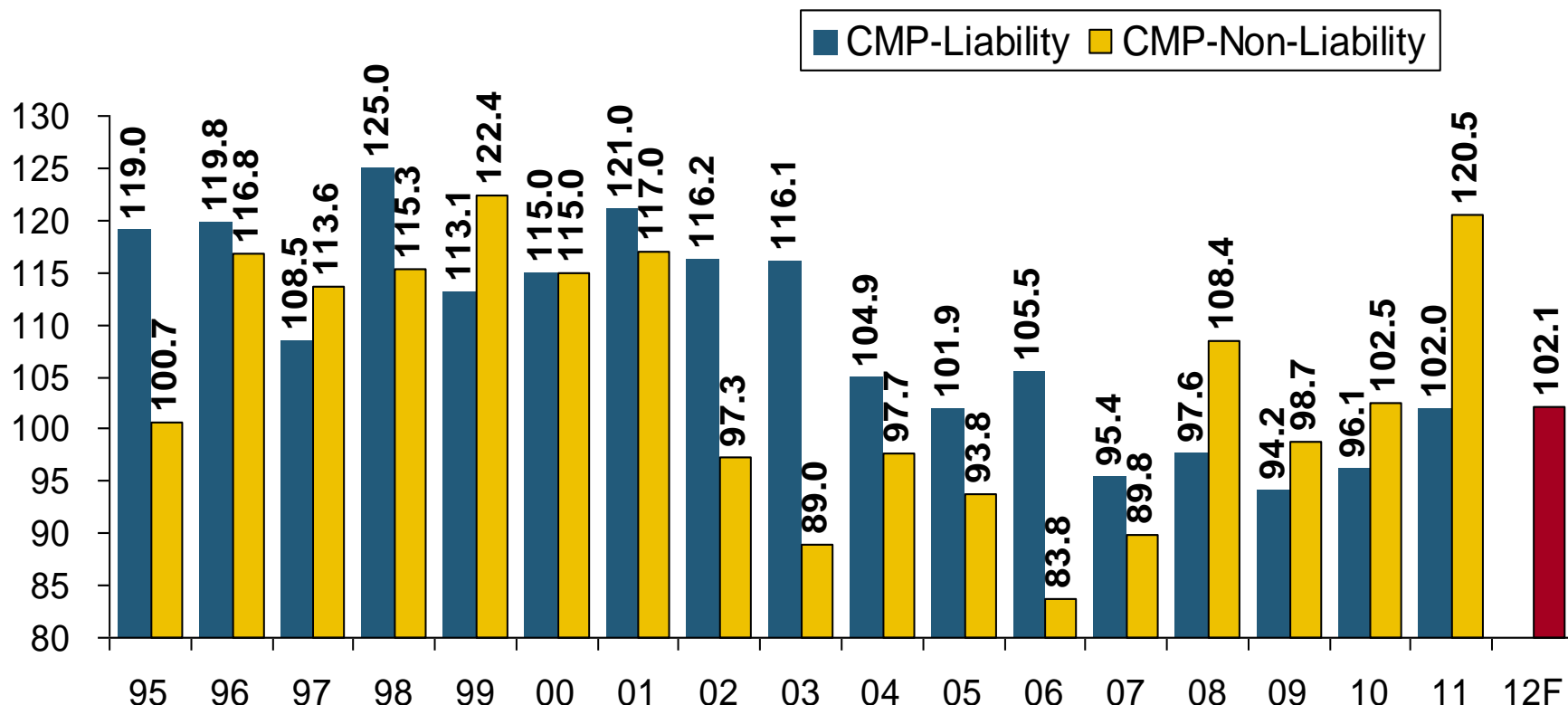
Source: A.M. Best; Insurance Information Institute

Commercial Auto Combined Ratio: 1993–2012F



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

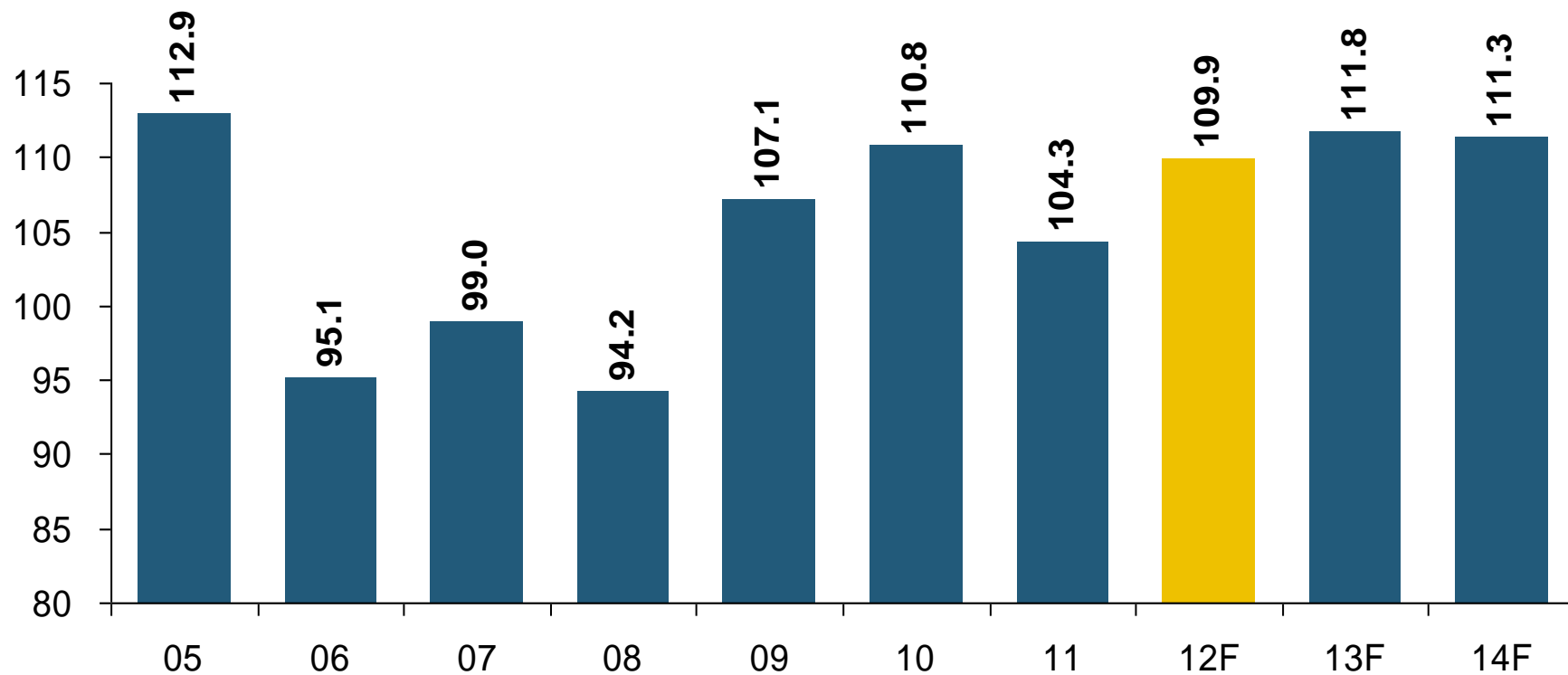
Commercial Multi-Peril Combined Ratio: 1995–2012F



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

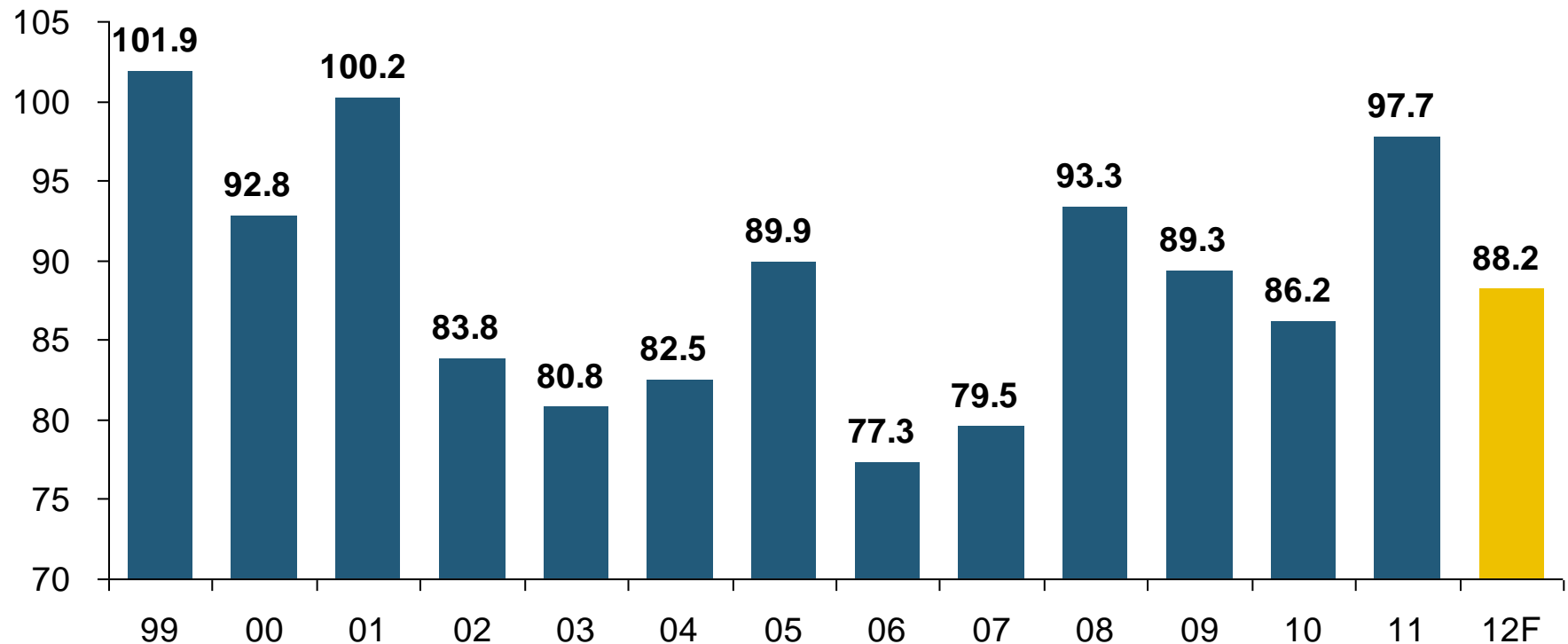
*2012 figures are A.M. Best estimate/forecast for the combined liability and non-liability components.
Sources: A.M. Best; Insurance Information Institute.

General Liability Combined Ratio: 2005–2014F



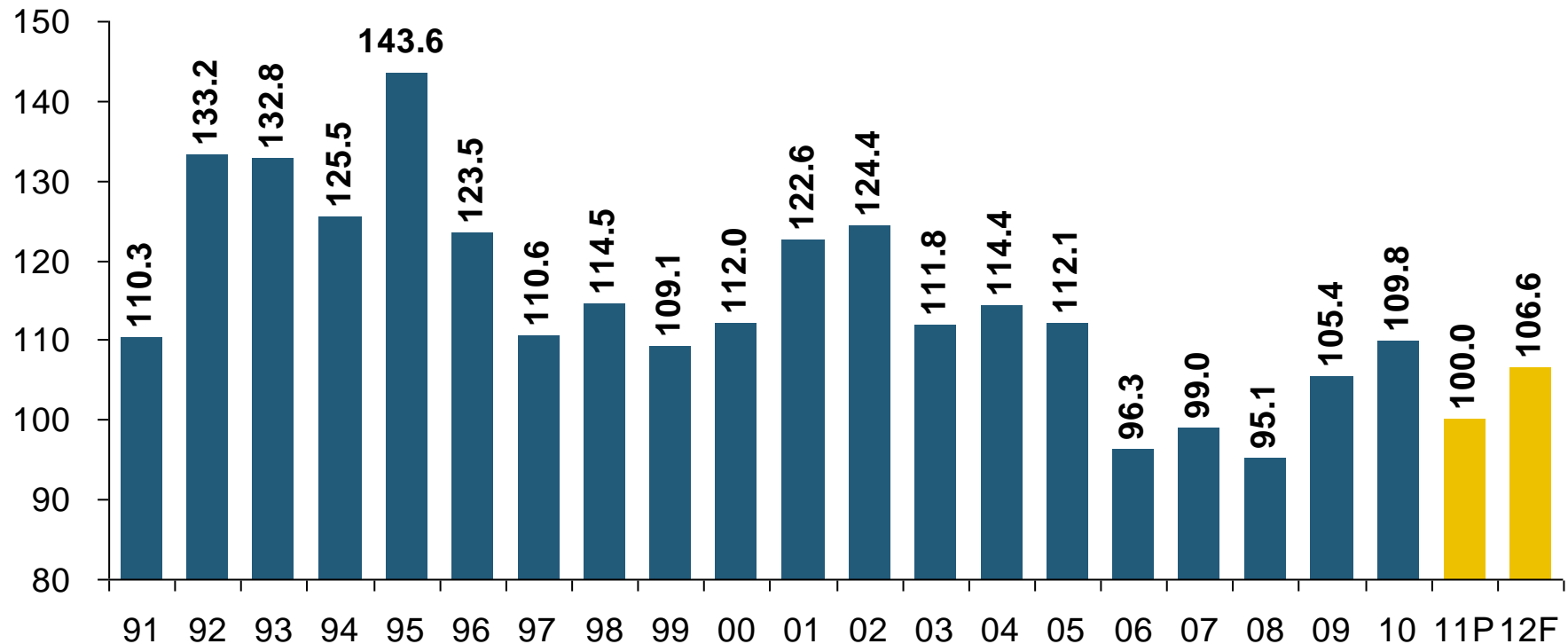
**Commercial General Liability Underwriting
Performance Has Deteriorated in Recent Years**

Inland Marine Combined Ratio: 1999–2012F



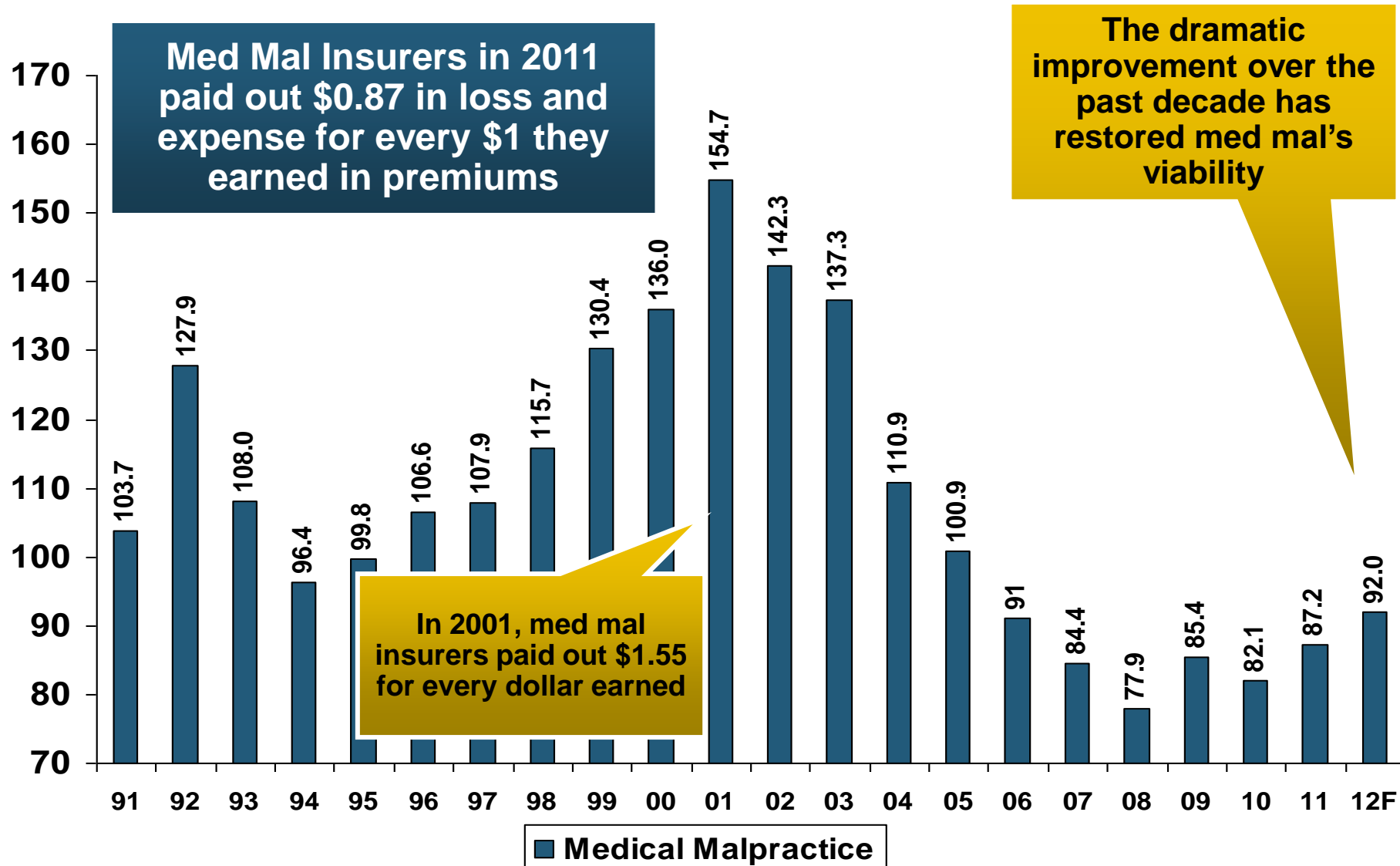
Inland Marine is Expected to Remain Among the Most Profitable of All Lines

Other & Products Liability Combined Ratio: 1991–2012F

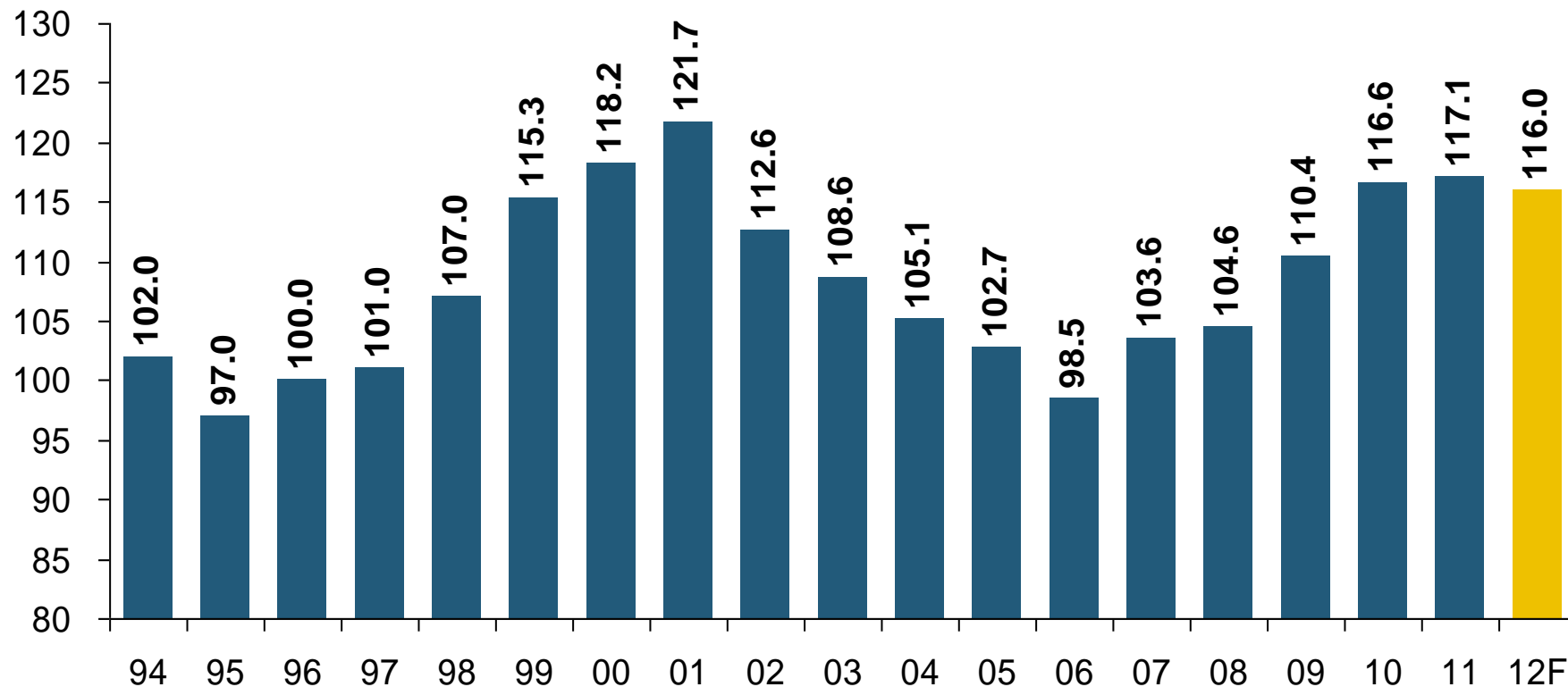


Liability Lines Have Performed Better in the Post-Tort Reform Era (~2005), but There Has Been Some Deterioration in Recent Years

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



Workers Compensation Combined Ratio: 1994–2012F



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

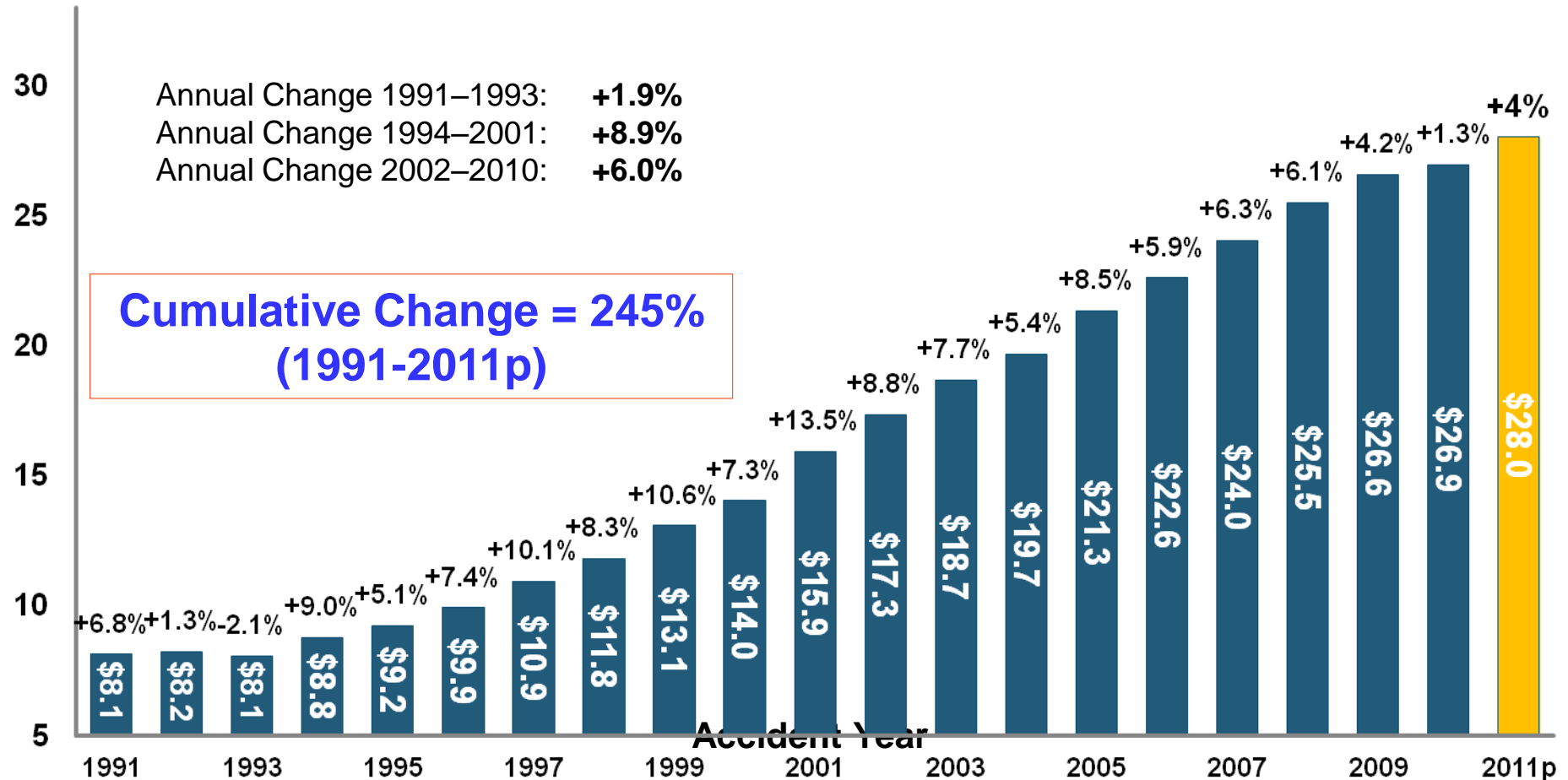
Workers Compensation Operating Environment

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

Workers Compensation Medical Severity Moderate Increase in 2011

Average Medical Cost per Lost-Time Claim

Medical
Claim Cost (\$000s)

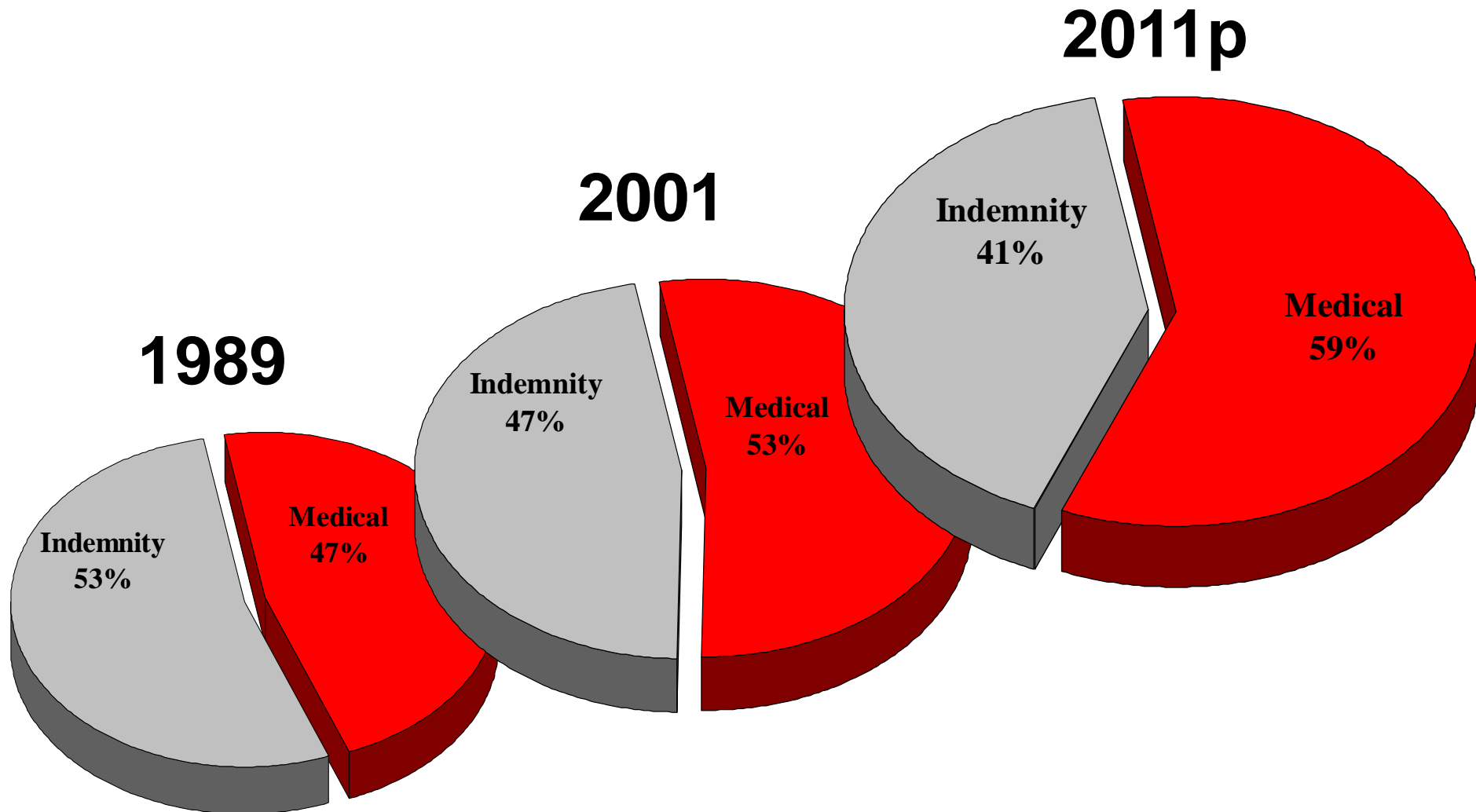


2011p: Preliminary based on data valued as of 12/31/2011

1991-2010: Based on data through 12/31/2010, developed to ultimate

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

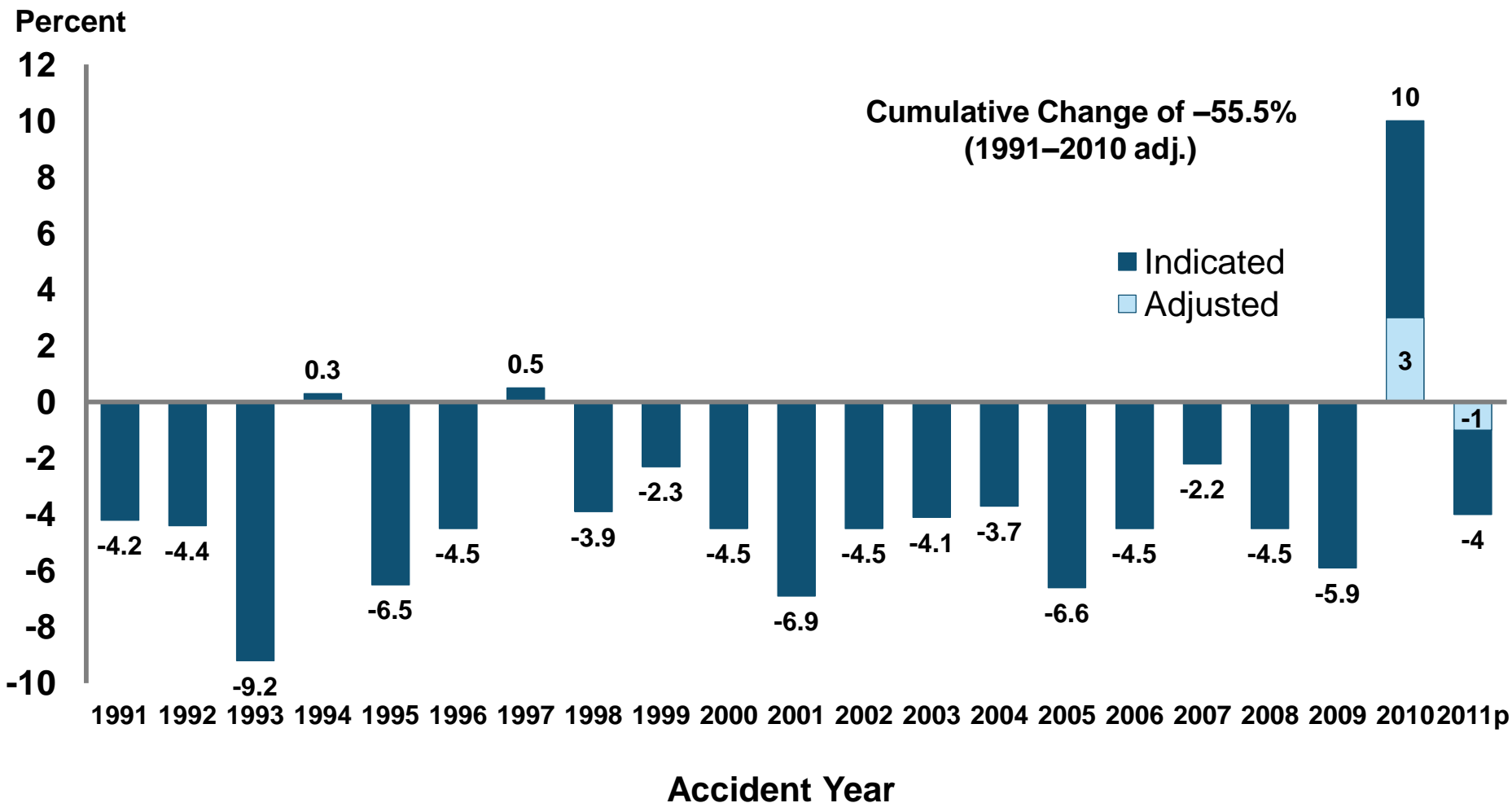
Med Costs Share of Total Costs is Increasing Steadily



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

Workers Compensation Lost-Time Claim Frequency Declined in 2011

Lost-Time Claims



2011p: Preliminary based on data valued as of 12/31/2011

1991–2010: Based on data through 12/31/2010, developed to ultimate

Based on the states where NCCI provides ratemaking services, 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

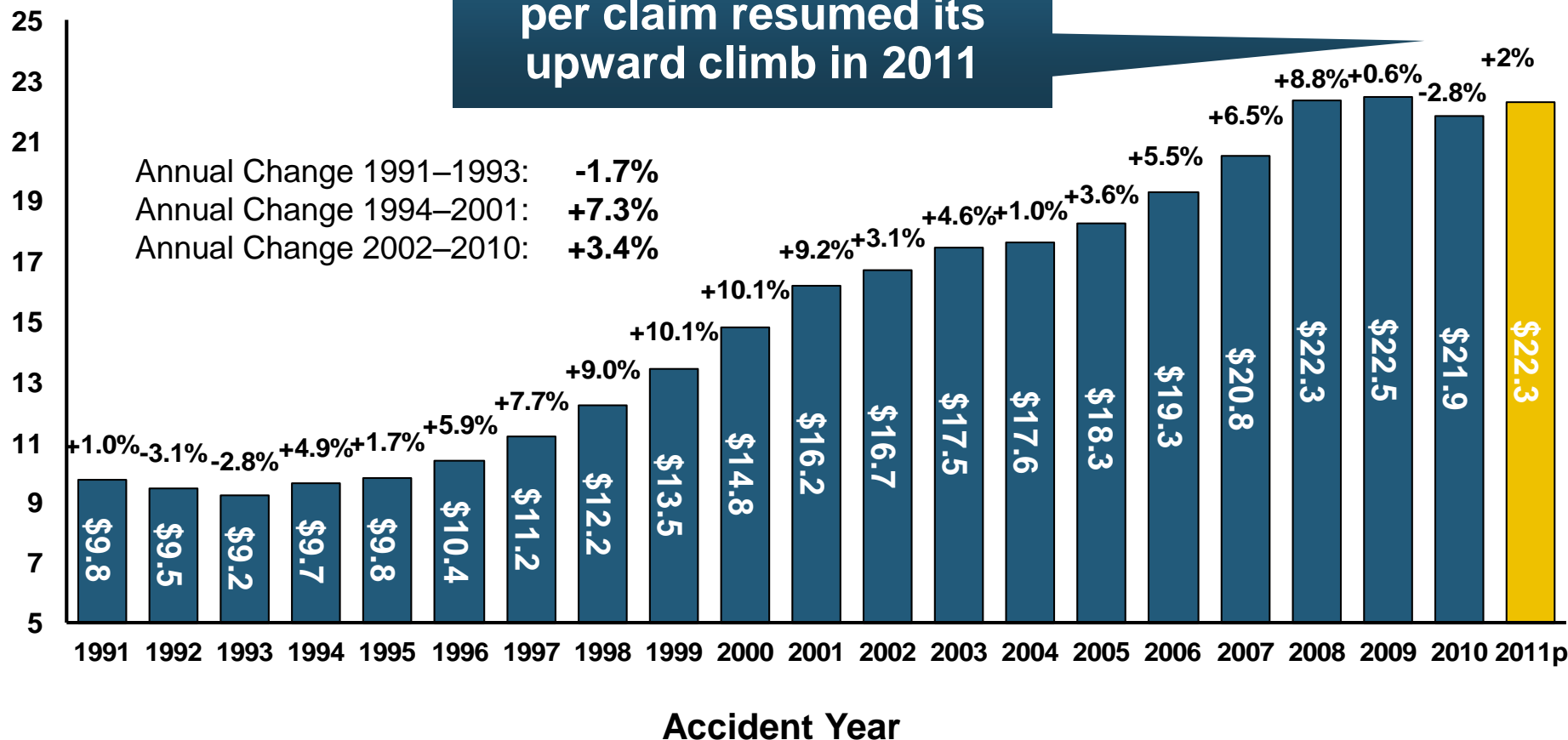
Source: NCCI.

Workers Comp Indemnity Claim Costs: Modest Increase in 2011

Average Indemnity Cost per Lost-Time Claim

Indemnity
Claim Cost (\$ 000s)

Average indemnity costs
per claim resumed its
upward climb in 2011

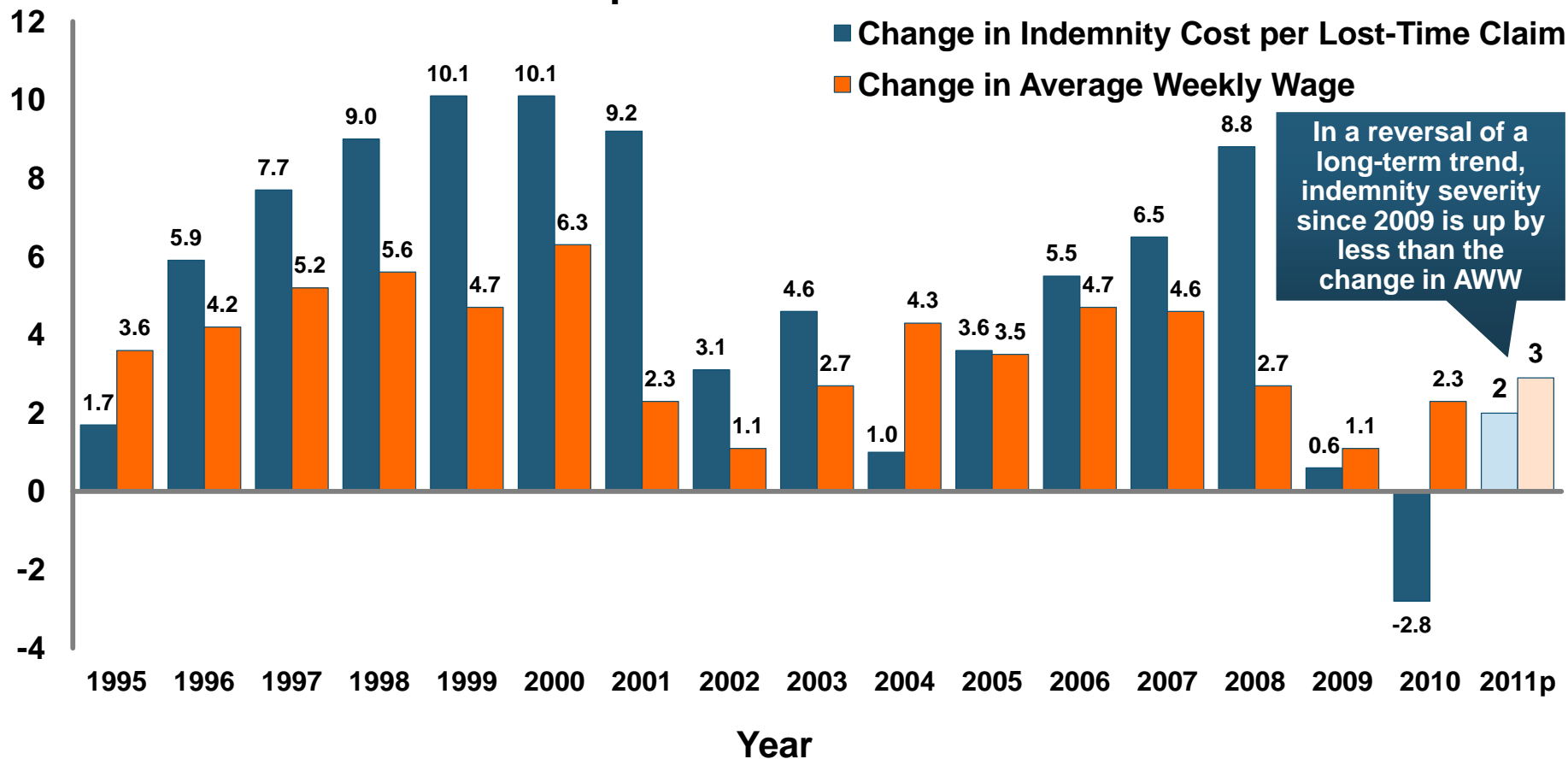


2010p: Preliminary based on data valued as of 12/31/2011
1991–2010: Based on data through 12/31/2010, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes high deductible policies

Workers Compensation Indemnity Severity: Modest Increase in 2011

Average Indemnity Cost per Lost-Time Claim

Percent Change



p Preliminary

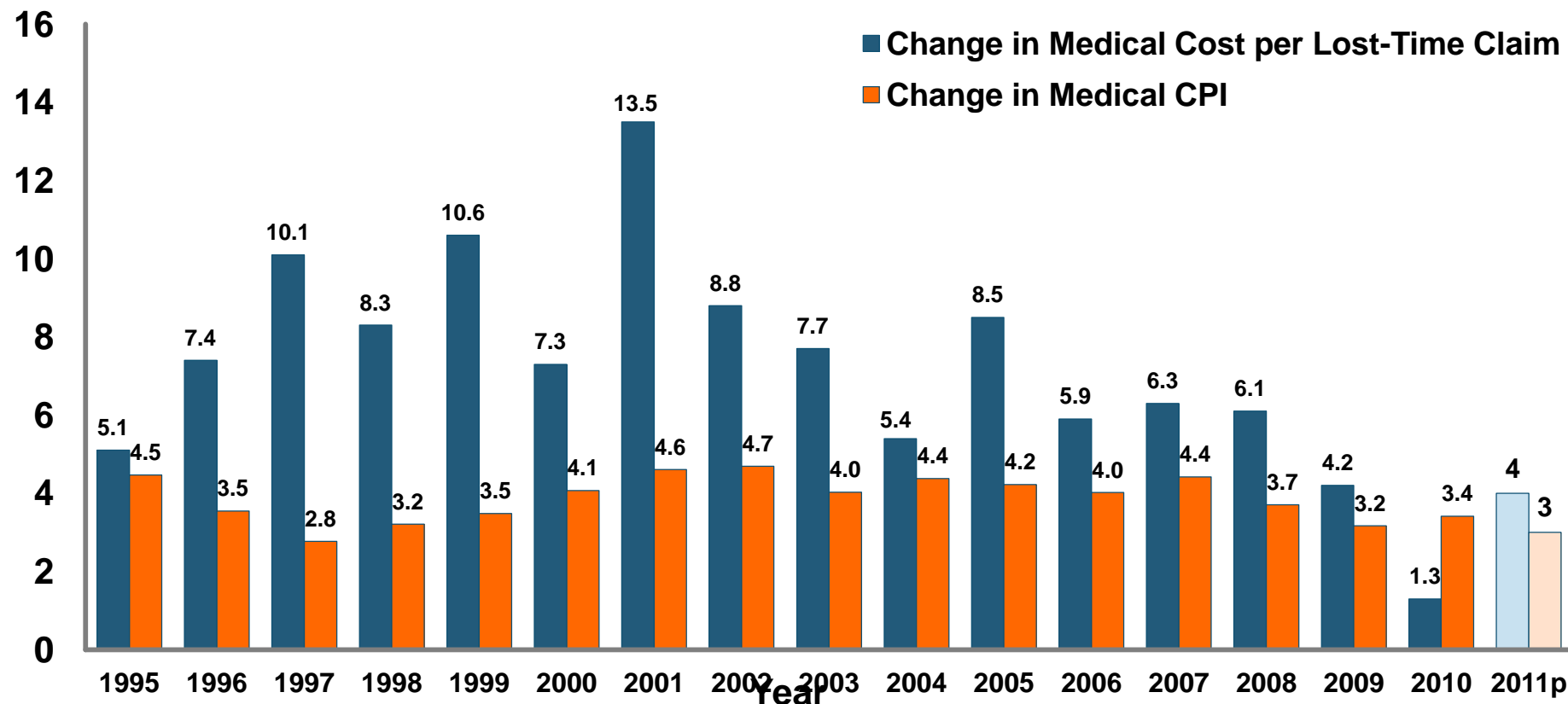
Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies

Source: Average Weekly Wage 1995–2008: Quarterly Census of Employment and Wages, Economy.com; 2009–2011p, NCCI
Accident year indemnity severity—NCCI states, NCCI.

Workers Compensation Medical Severity Moderate Increase in 2011

Average Medical Cost per Lost-Time Claim vs. Medical CPI

Percent Change



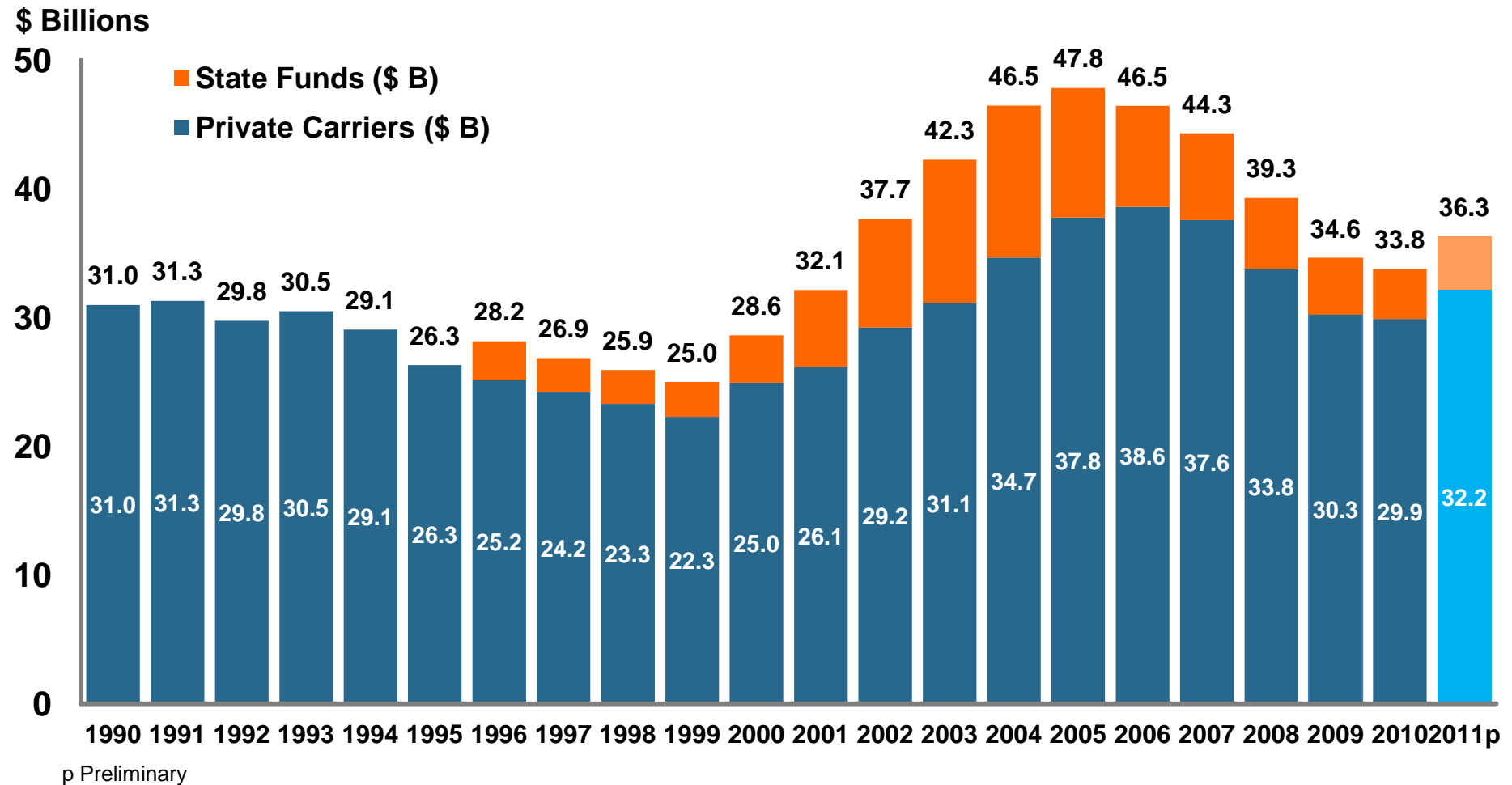
p Preliminary

Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies

Source: Medical CPI—All states, Economy.com; Accident year medical severity—NCCI states, NCCI

Workers Compensation Premium: First Increase in Years

Net Written Premium



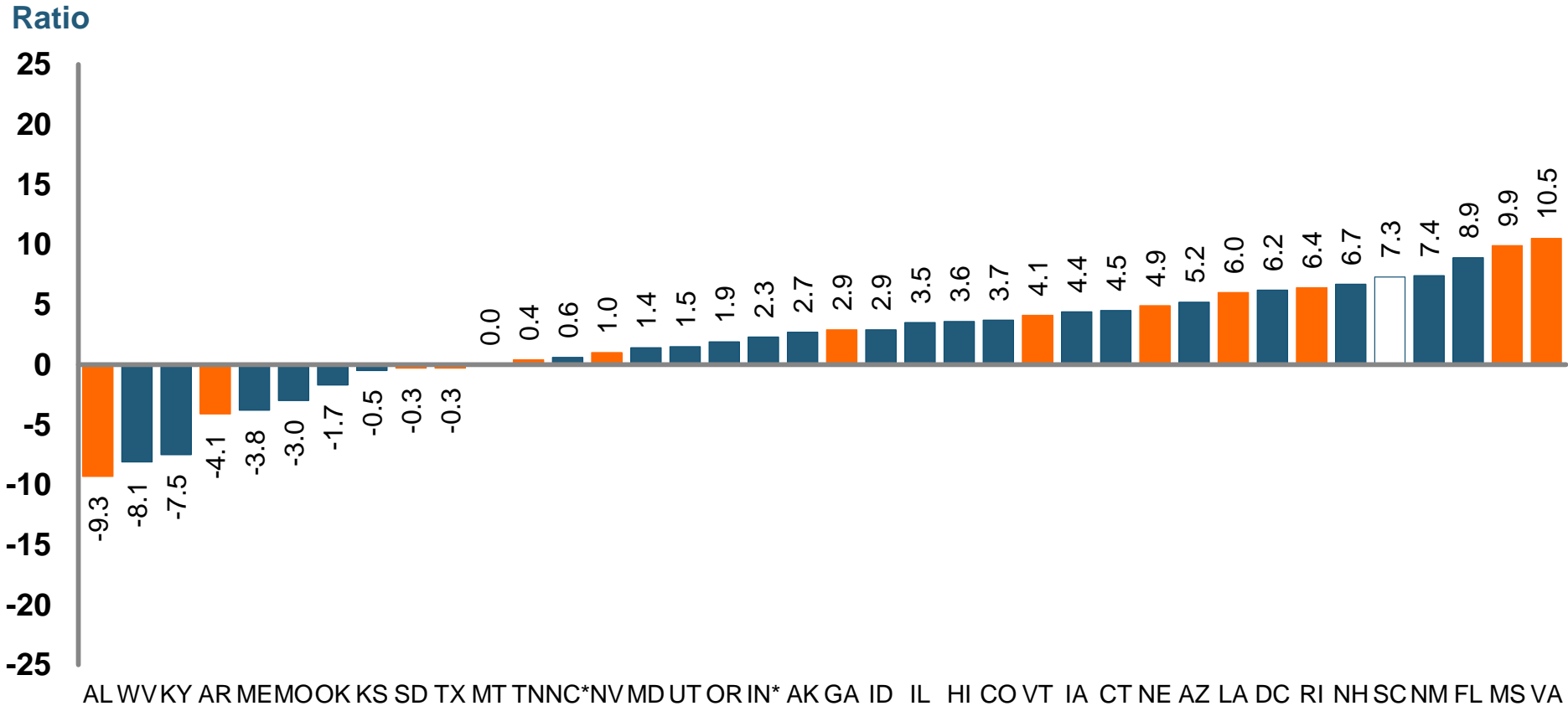
Source: 1990–2010 Private Carriers, *Best's Aggregates & Averages*; 2011p, NCCI

1996–2011p 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

Current NCCI Voluntary Market Filed Rate/Loss Cost Changes

(Excludes Law-Only Filings)

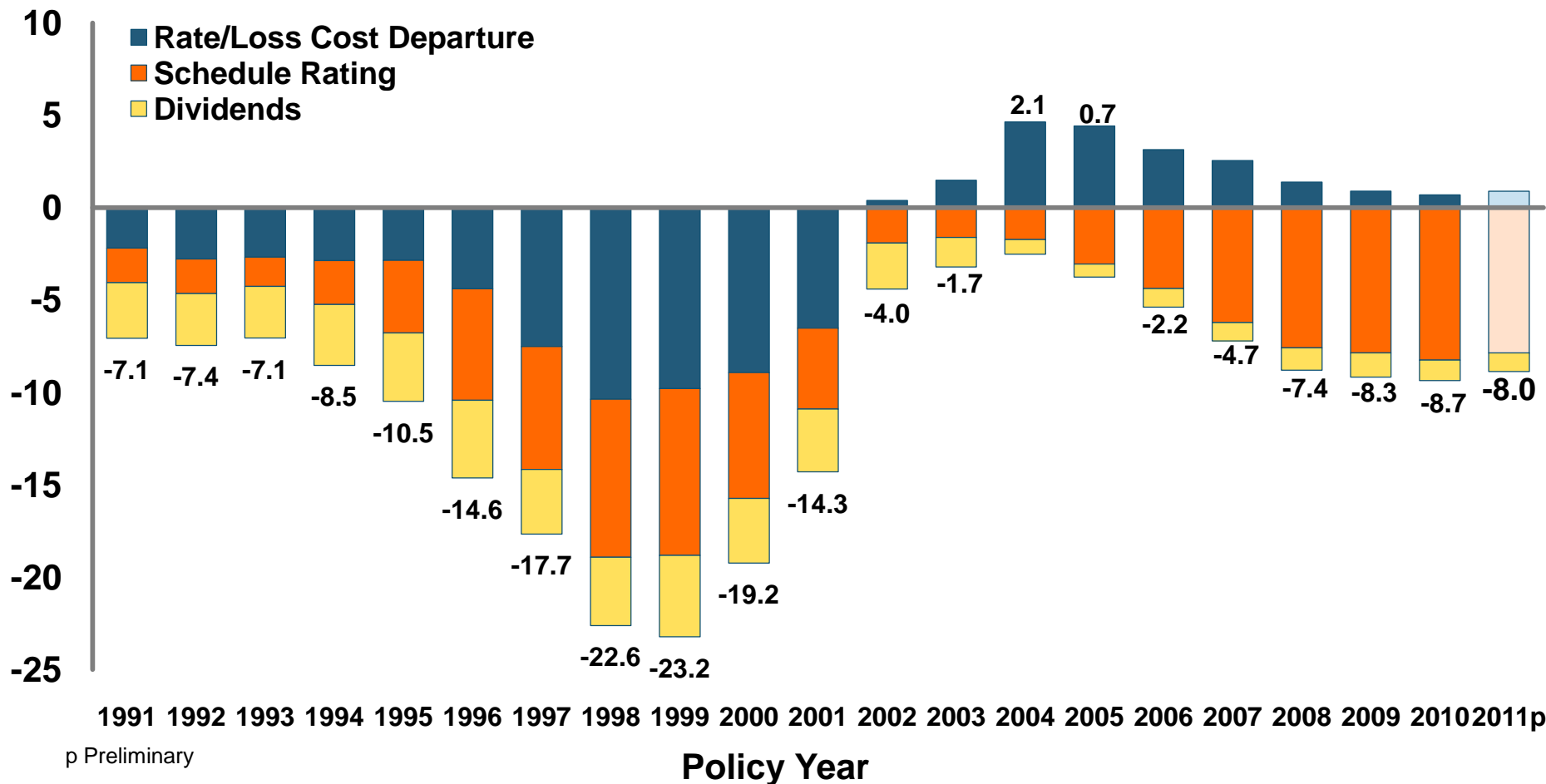


■ Effective Dates 1/1/2012 and Prior ■ Effective Dates Subsequent to 1/1/2012 □ Filed and Pending

Impact of Discounting on Workers Compensation Premium

NCCI States—Private Carriers

Percent



p Preliminary

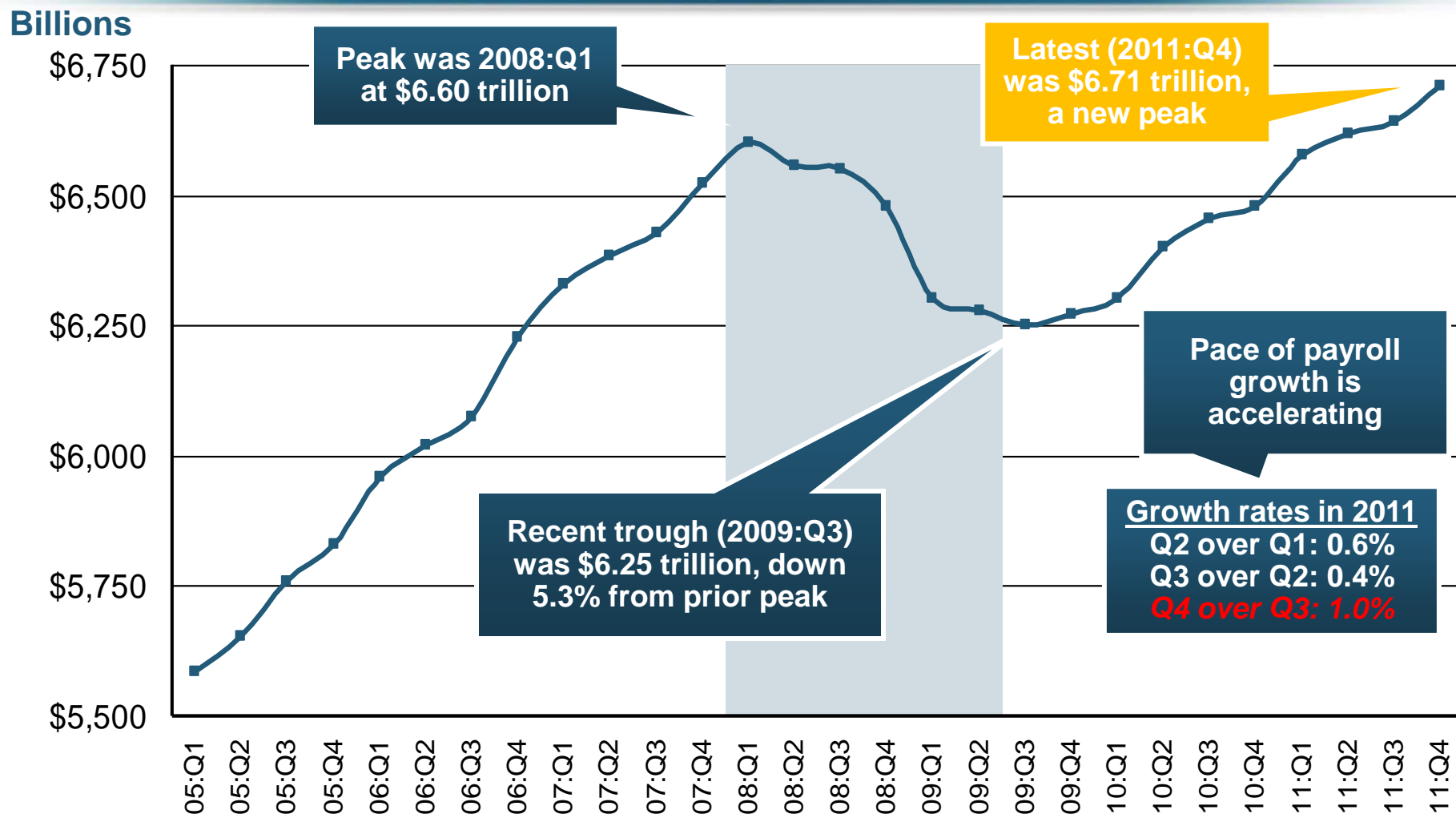
Dividend ratios are based on calendar year statistics

NCCI benchmark level does not include an underwriting contingency provision

Based on data through 12/31/2011 for the states where NCCI provides ratemaking services

Source: NCCI.

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



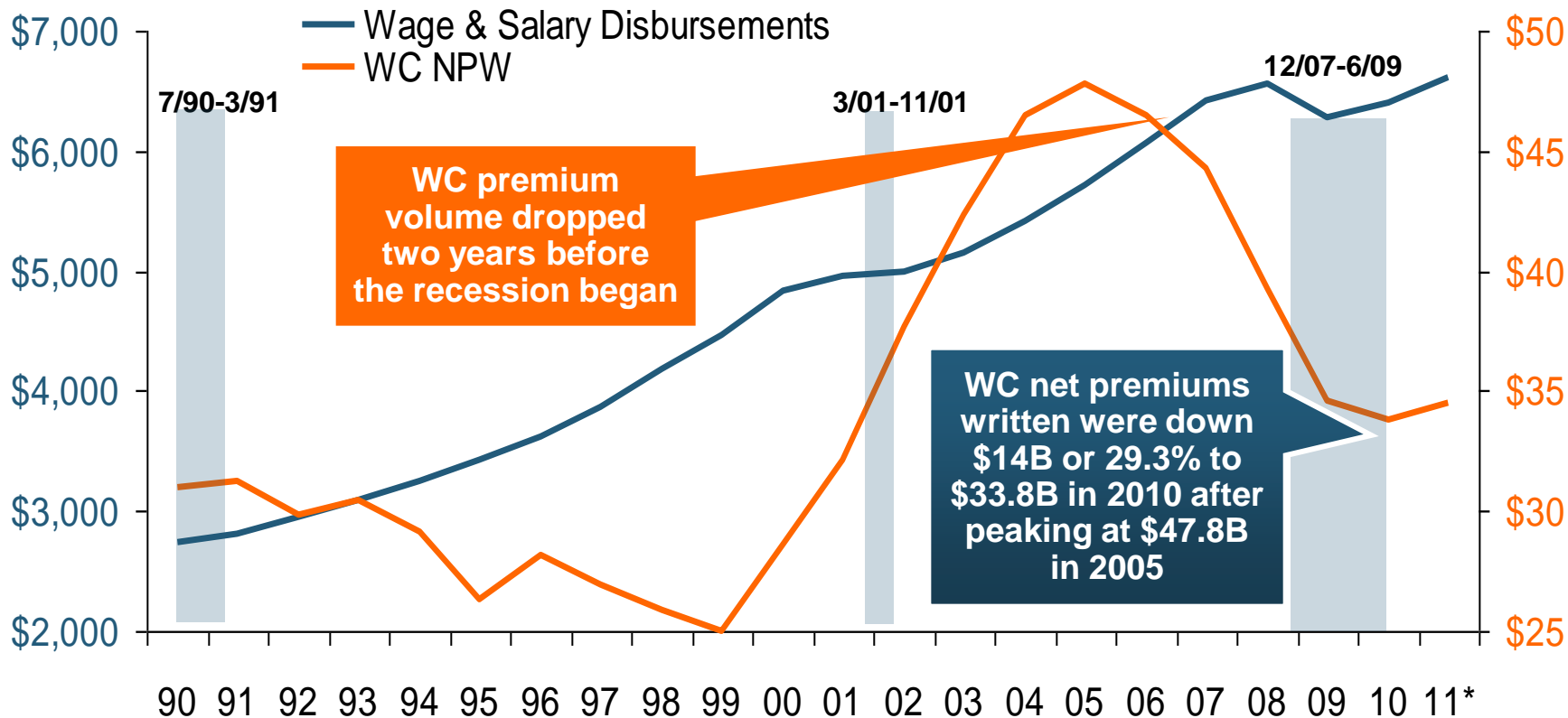
Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

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

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

Payroll Base*
\$Billions

WC NWP
\$Billions



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

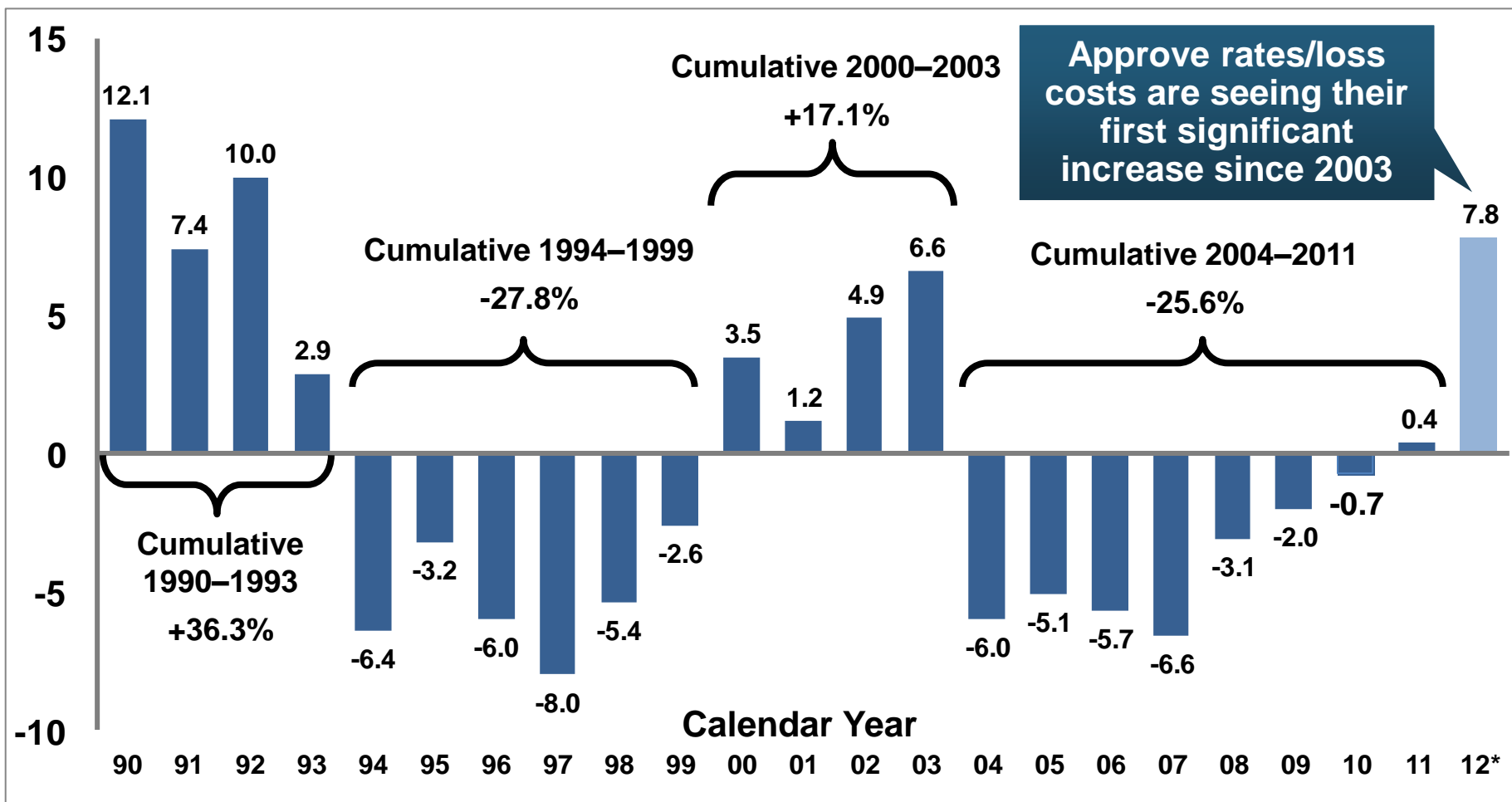
*Private employment; Shaded areas indicate recessions. Payroll and WC premiums for 2011 is I.I.I. estimate

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

Average Approved Bureau Rates/Loss Costs

History of Average WC Bureau Rate/Loss Cost Level Changes

Percent



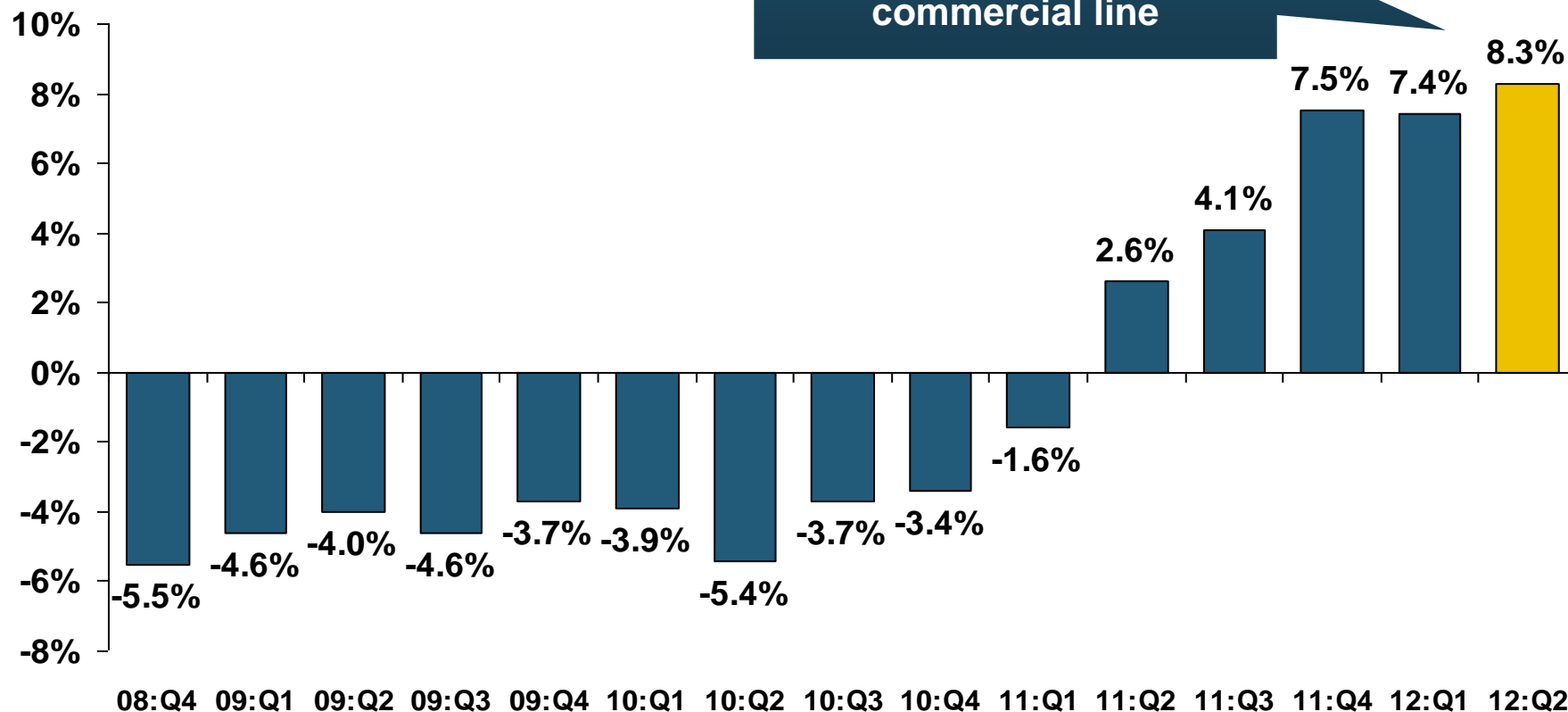
*States approved through 7/31/12.

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

Source: NCCI.

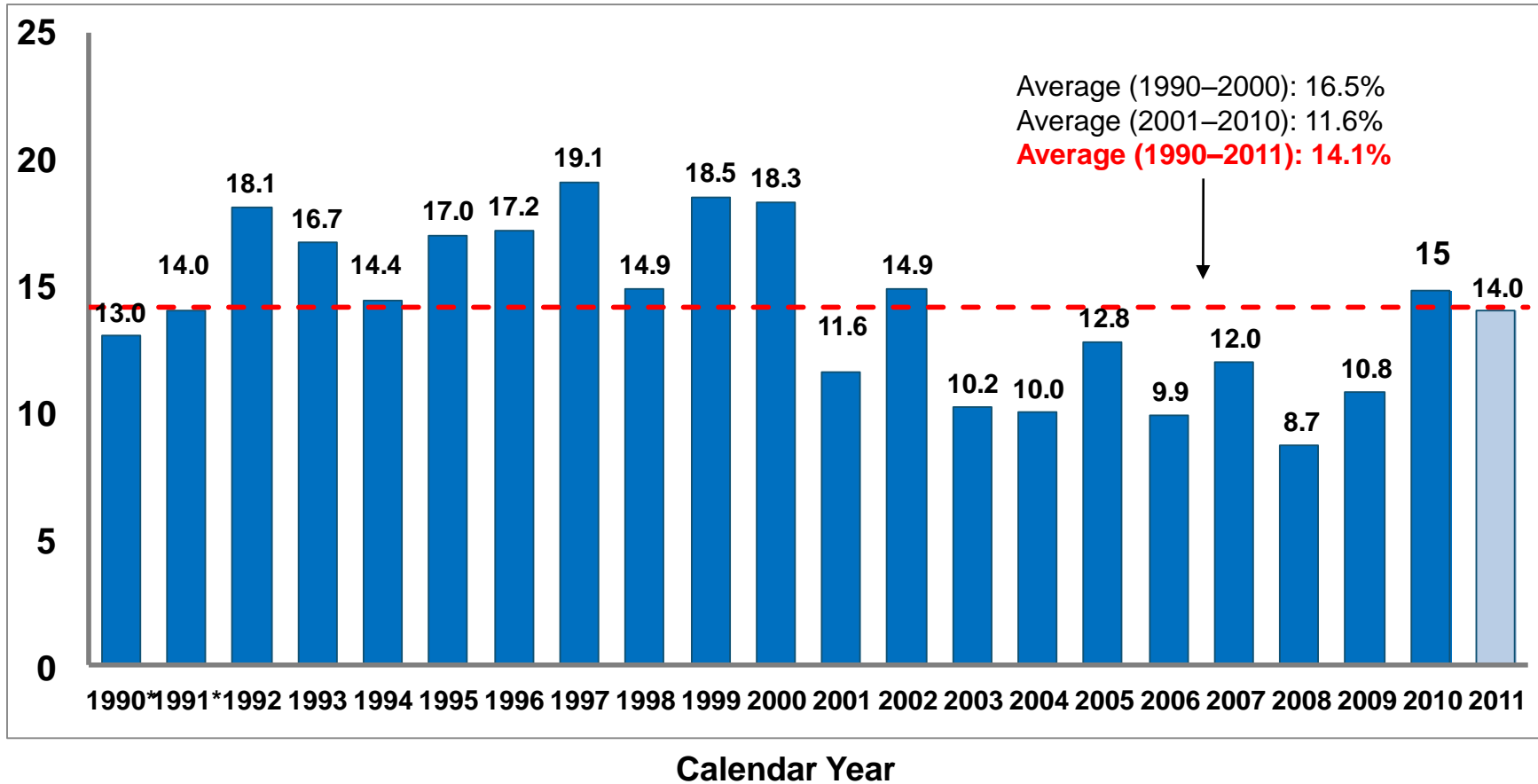
Workers Comp Rate Changes, 2008:Q4 – 2012:Q2

(Percent
Change)



Workers Compensation Investment Returns

Investment Gain on Insurance Transactions-to-Premium Ratio Private Carriers



p=Preliminary

Source: 1990–2009, Annual Statement Data; 2010p, NCCI

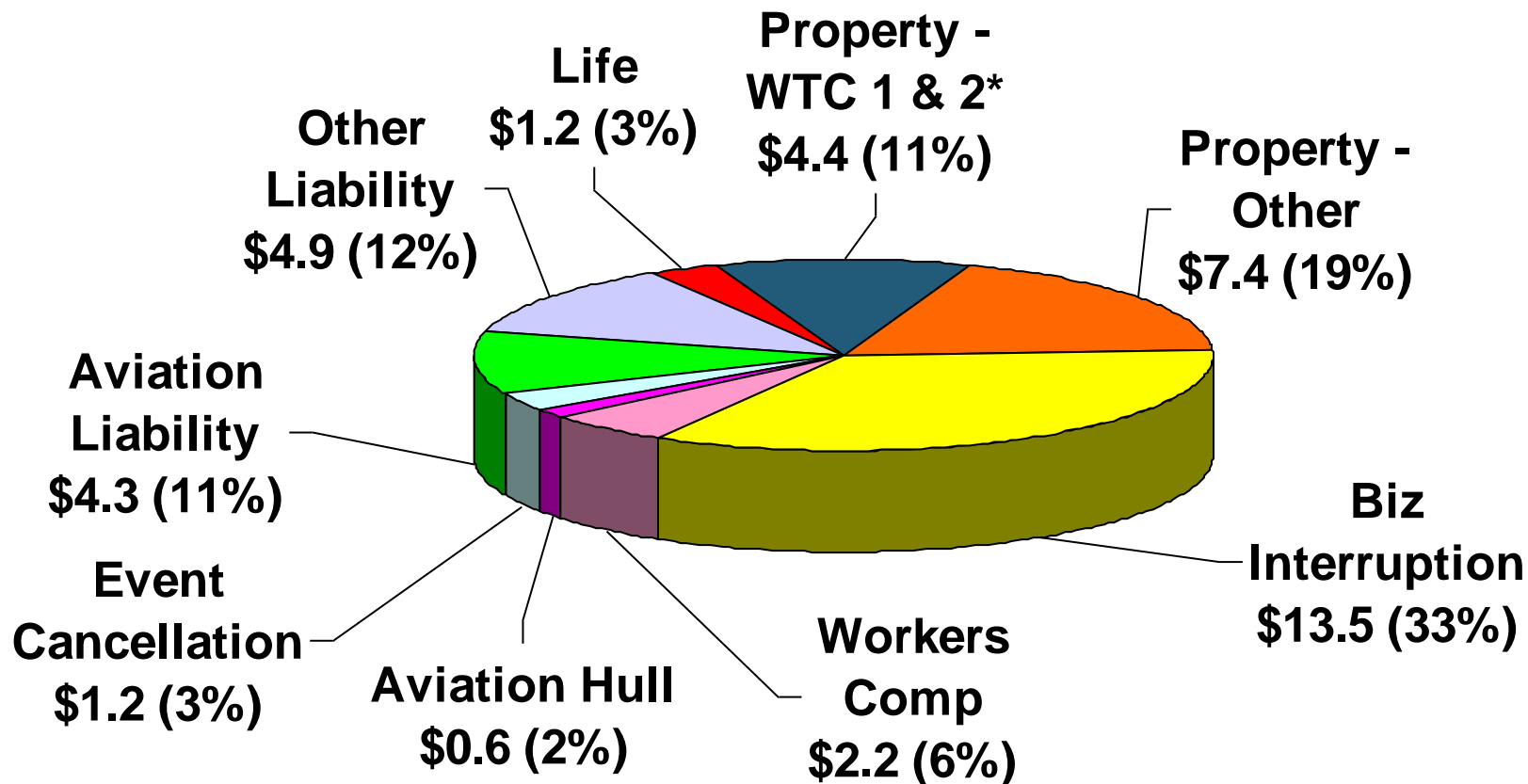
Investment Gain on Insurance Transactions includes Other Income

*Adjusted to include realized capital gains to be consistent with 1992 and after

Source: NCCI

Loss Distribution by Type of Insurance from Sept. 11 Terrorist Attack (\$ 2011)

(\$ Billions)



Total Insured Losses Estimate: \$40.0B**

*Loss total does not include March 2010 New York City settlement of up to \$657.5 million to compensate approximately 10,000 Ground Zero workers or any subsequent settlements.

**\$32.5 billion in 2001 dollars.

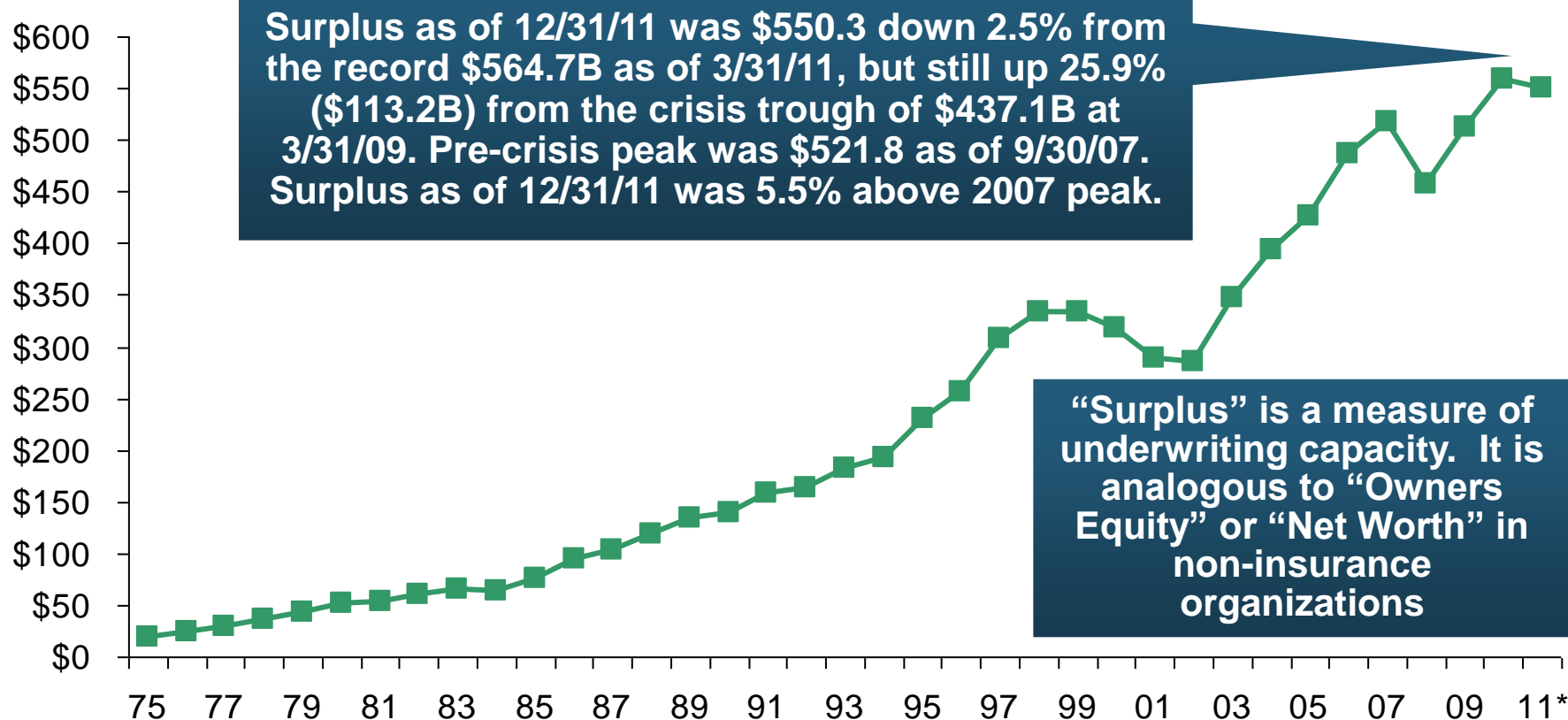
Source: Insurance Information Institute.

2. SURPLUS/CAPITAL/CAPACITY

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

US Policyholder Surplus: 1975–2011*

(\$ Billions)



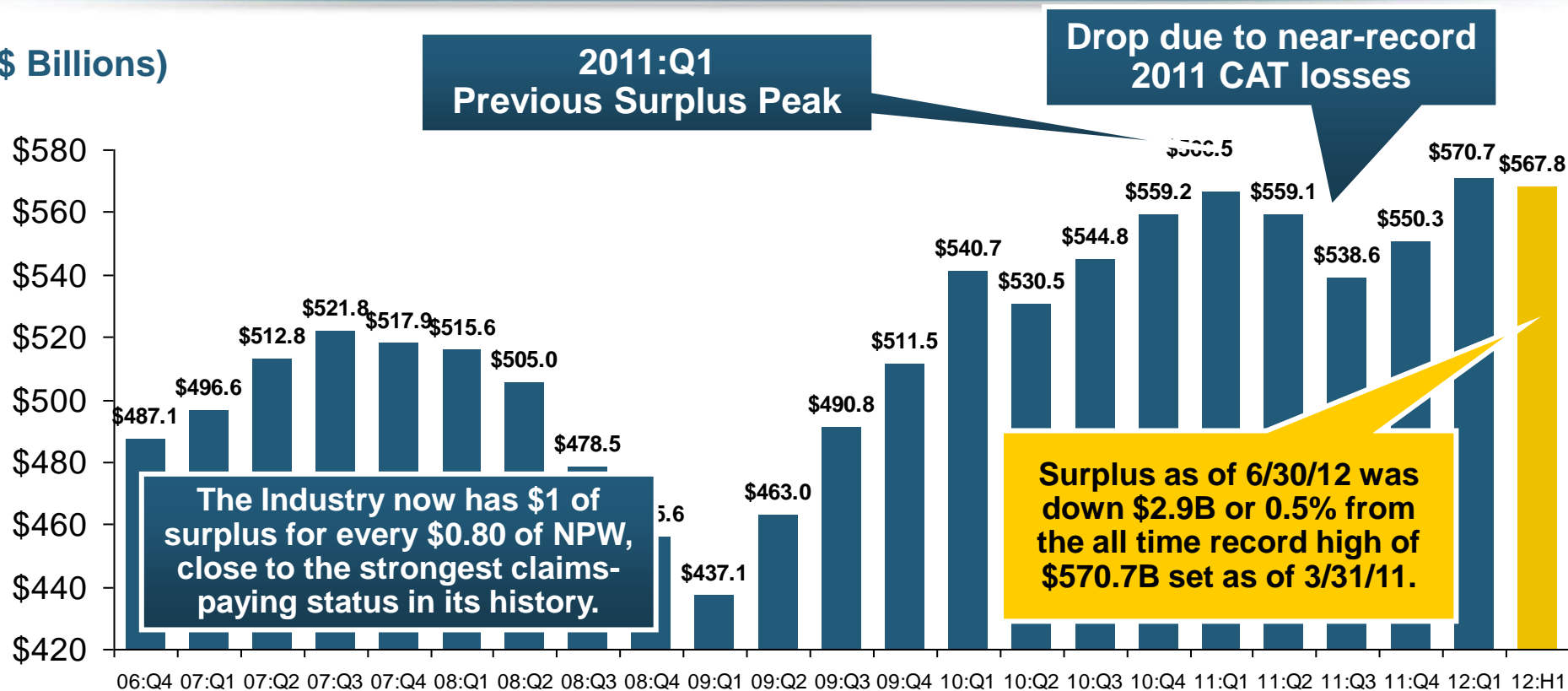
The Premium-to-Surplus Ratio Stood at \$0.80:\$1 as of 12/31/11, A Near Record Low (at Least in Recent History)*

* As of 12/31/11.

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

Policyholder Surplus, 2006:Q4–2012:H1

(\$ Billions)



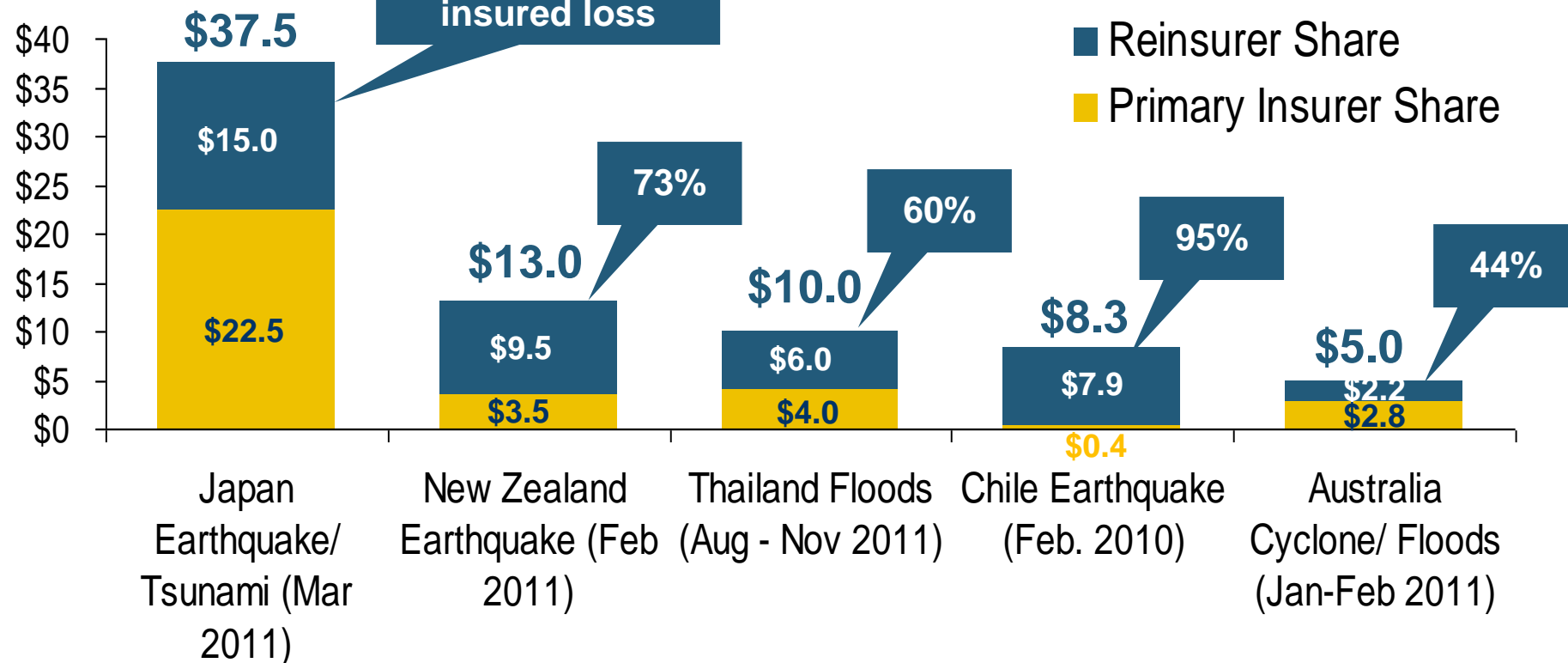
*Includes \$22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business in early 2010.

3. REINSURANCE MARKET CONDITIONS

**Record Global
Catastrophes Activity is
Pressuring Pricing**

Reinsurer Share of Recent Significant Market Losses

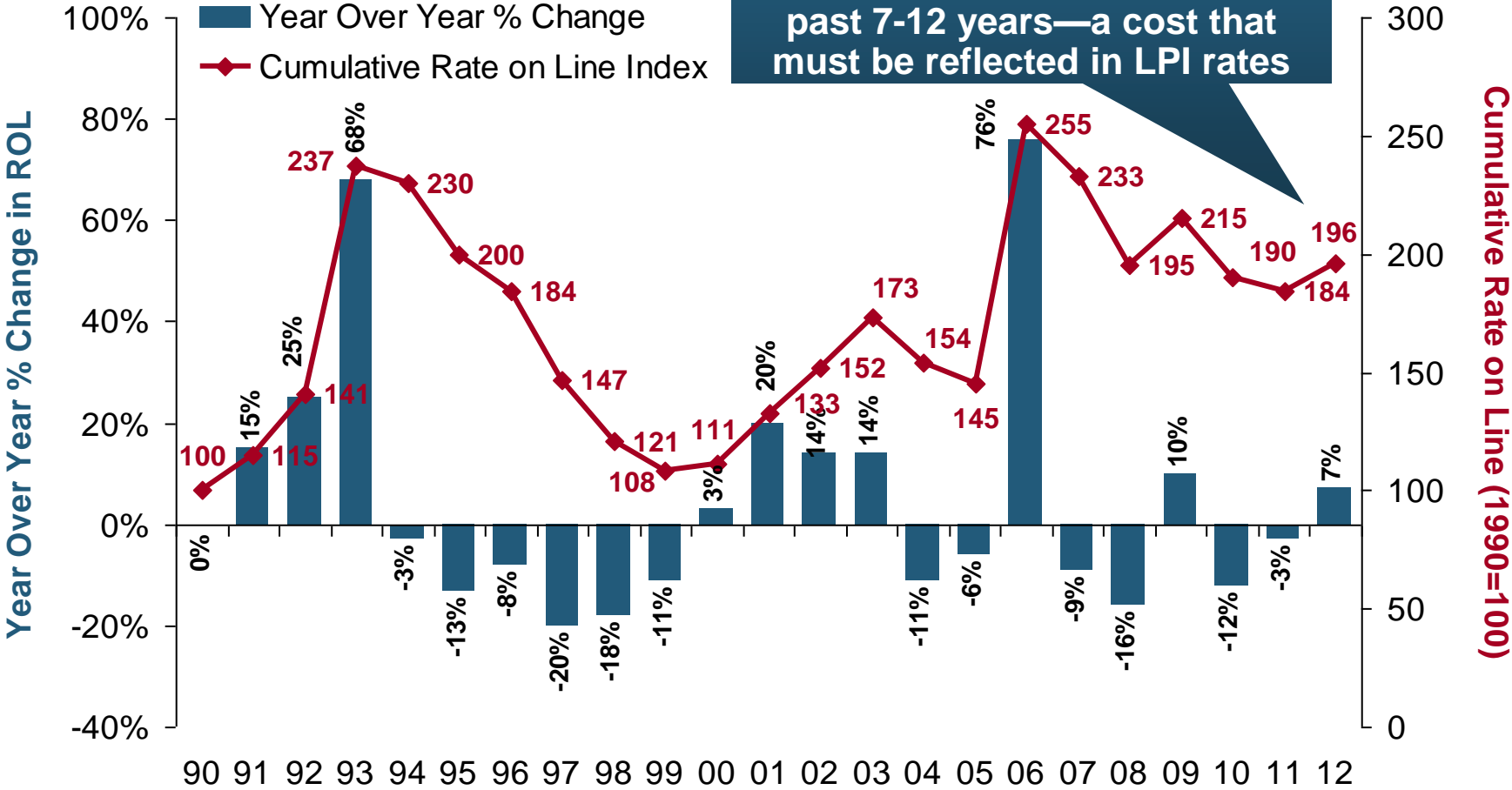
Billions of 2011
Dollars



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

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

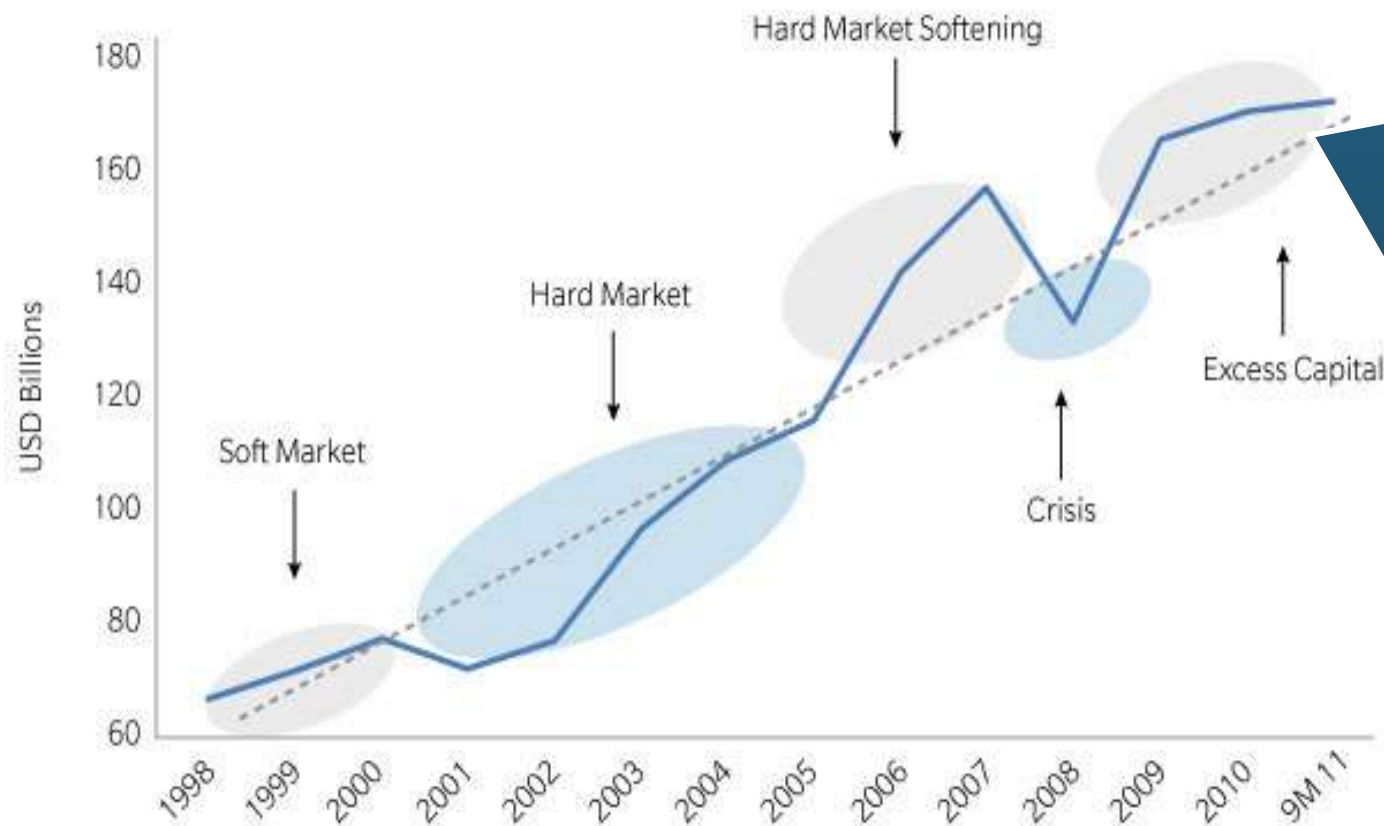
Property-Cat reinsurance pricing is up about 7% as of 7/1/12 but much more over the past 7-12 years—a cost that must be reflected in LPI rates



Sources: Guy Carpenter; Insurance Information Institute.

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

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



Source: Guy Carpenter & Company, LLC

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

4. RENEWED PRICING DISCIPLINE

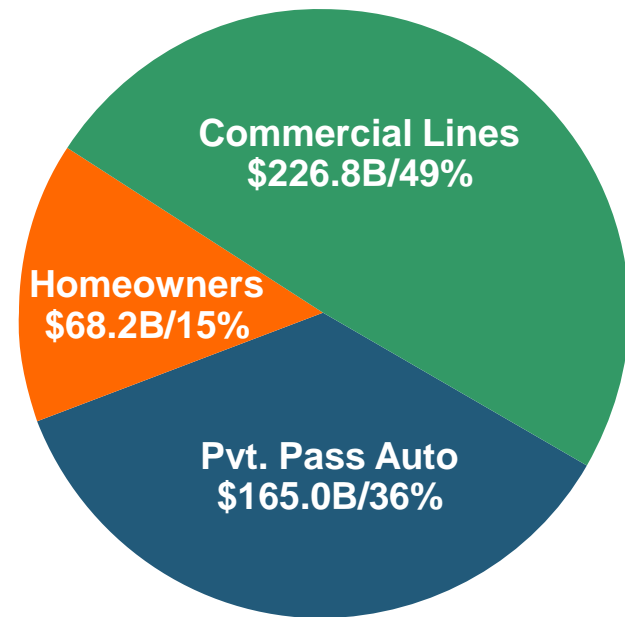
**Is There Evidence of a Broad
and Sustained Shift in Pricing?**

Distribution of Direct Premiums Written by Segment/Line, 2010

Distribution Facts

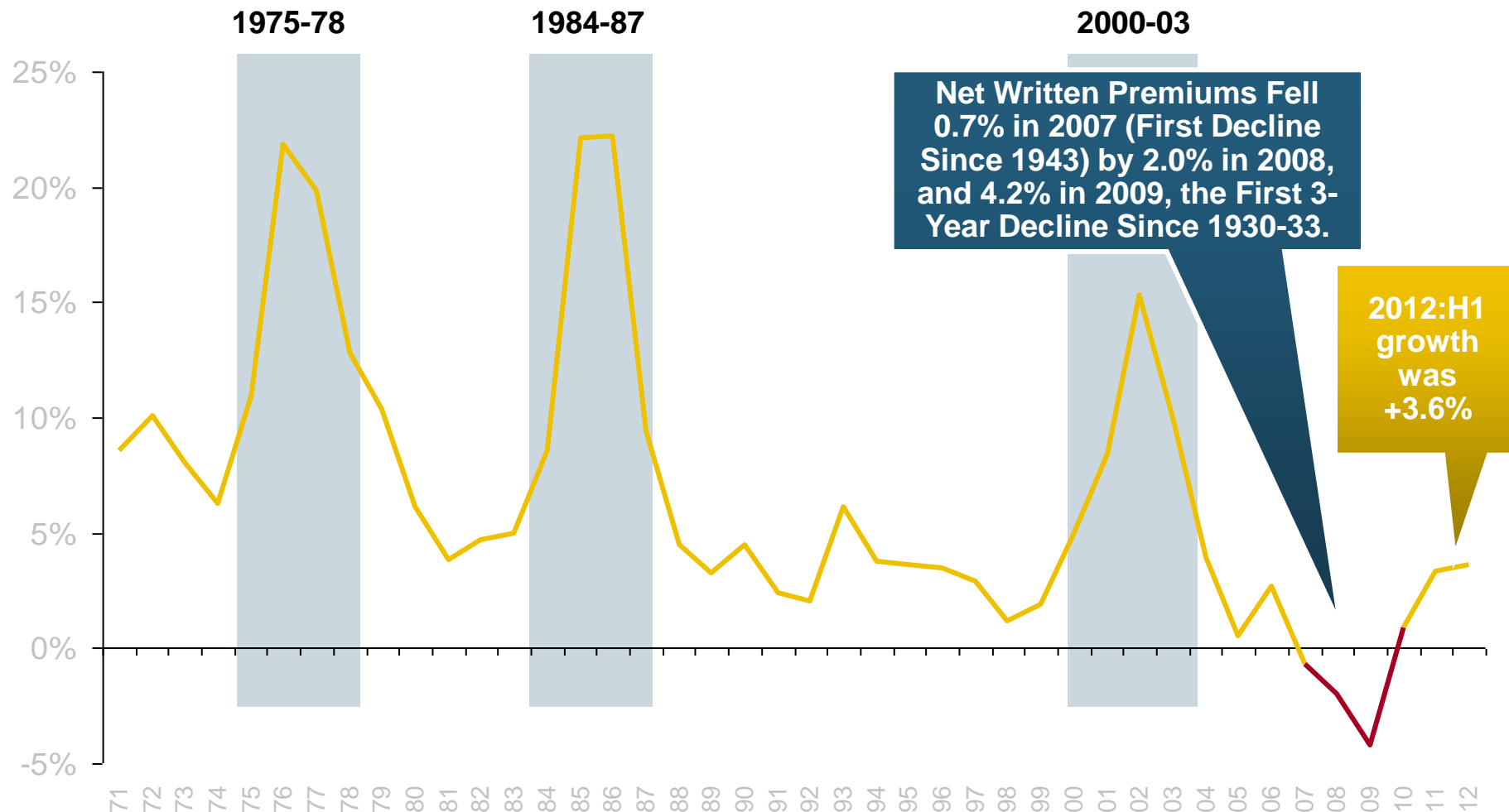
- Personal/Commercial lines split has been about 50/50 for many years; Personal Lines overtook Commercial Lines in 2010
- Pvt. Passenger Auto is by far the largest line of insurance and is currently the most important source of industry profits
- Billions of additional dollars in homeowners insurance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

2010



Net Premium Growth: Annual Change, 1971—2012:H1

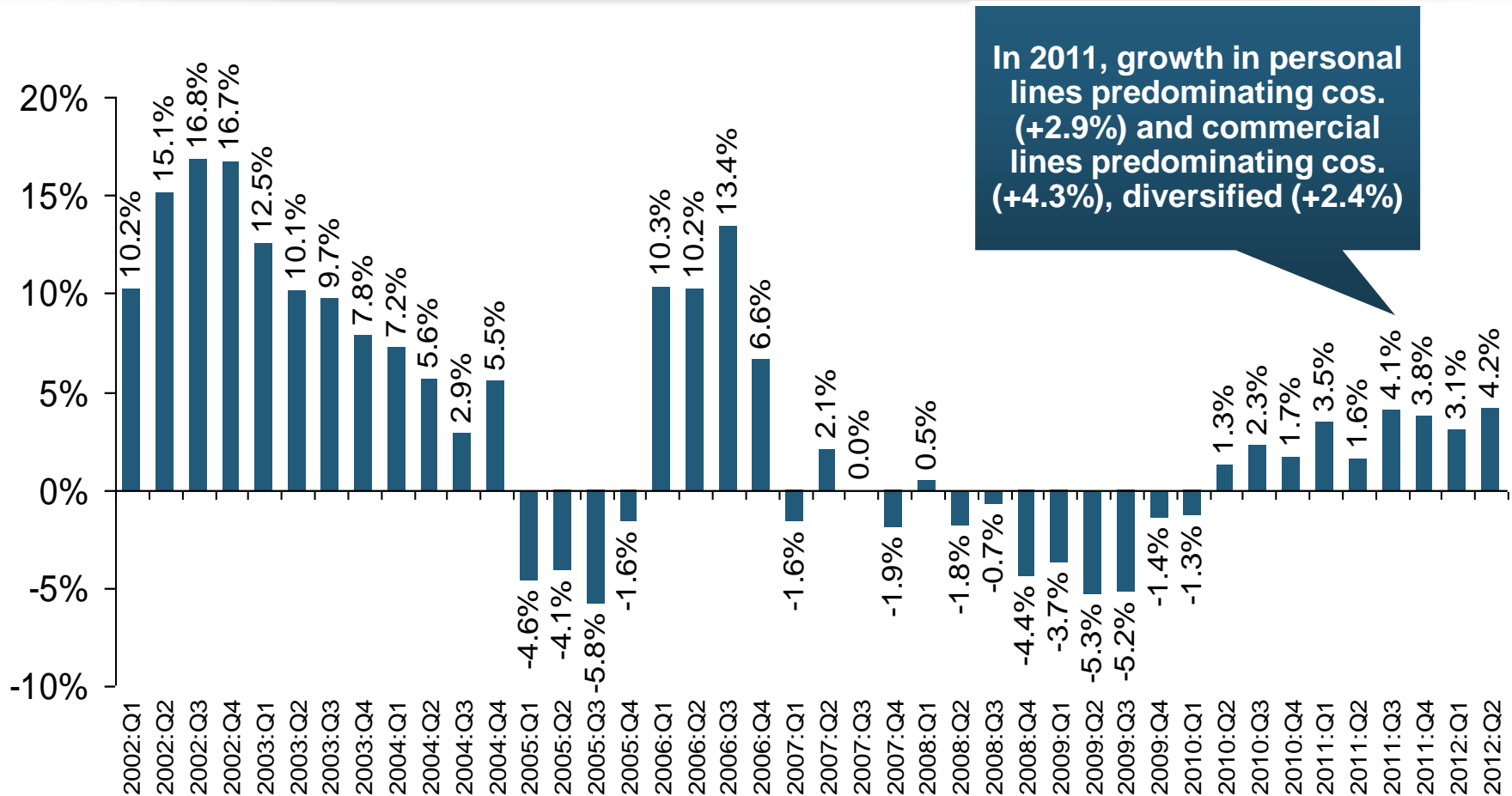
(Percent)



Shaded areas denote "hard market" periods

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

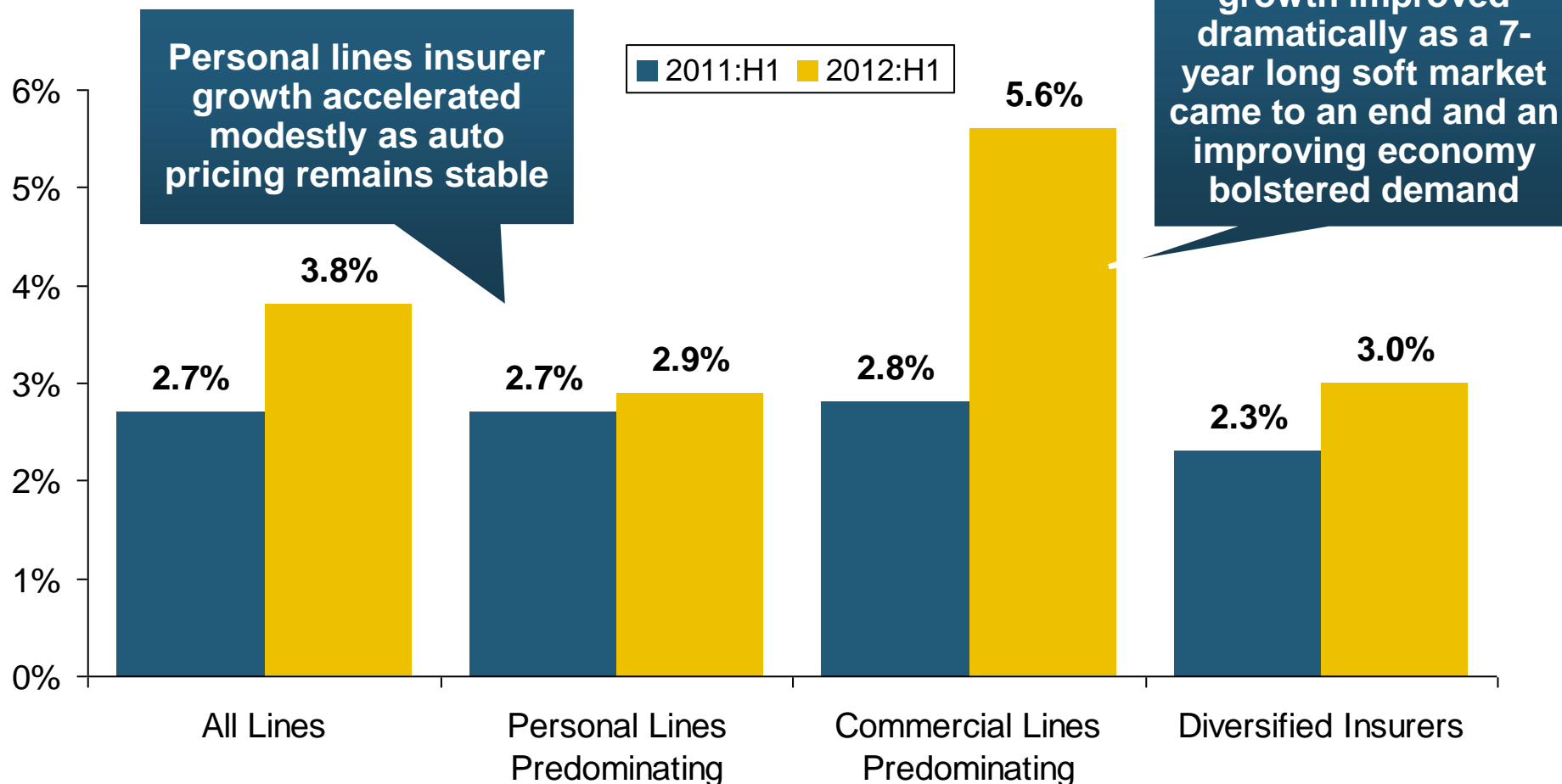
P/C Net Premiums Written: % Change, Quarter vs. Year-Prior Quarter



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

Growth in Net Written Premium by Segment, 2012:H1 vs. 2011:H1*

(Percent)



*Excludes mortgage and financial guaranty insurers.

Source: ISO/PCI; Insurance Information Institute

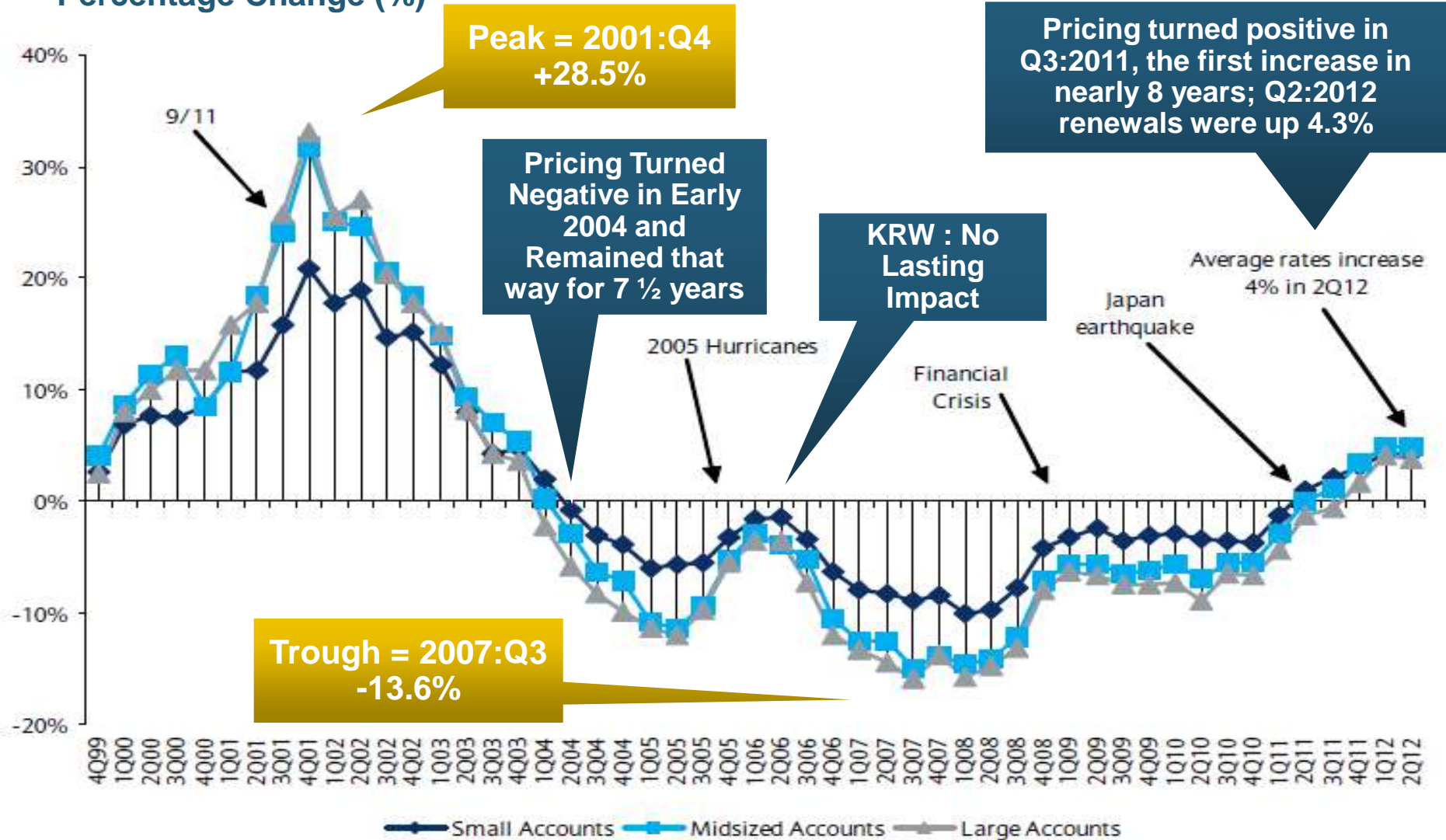
Average Commercial Rate Change, All Lines, (1Q:2004–2Q:2012)

(Percent)



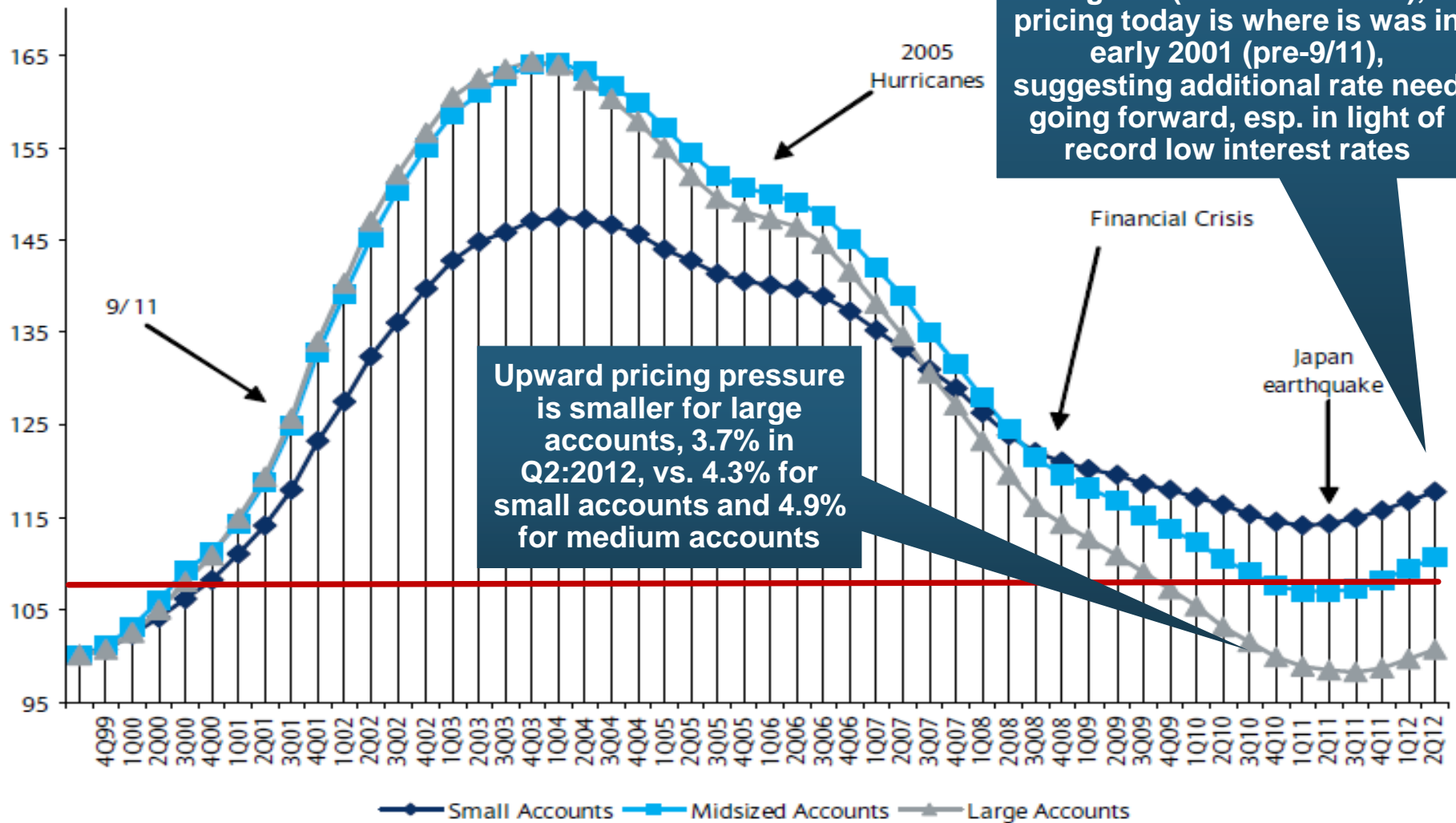
Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2012:Q2

Percentage Change (%)



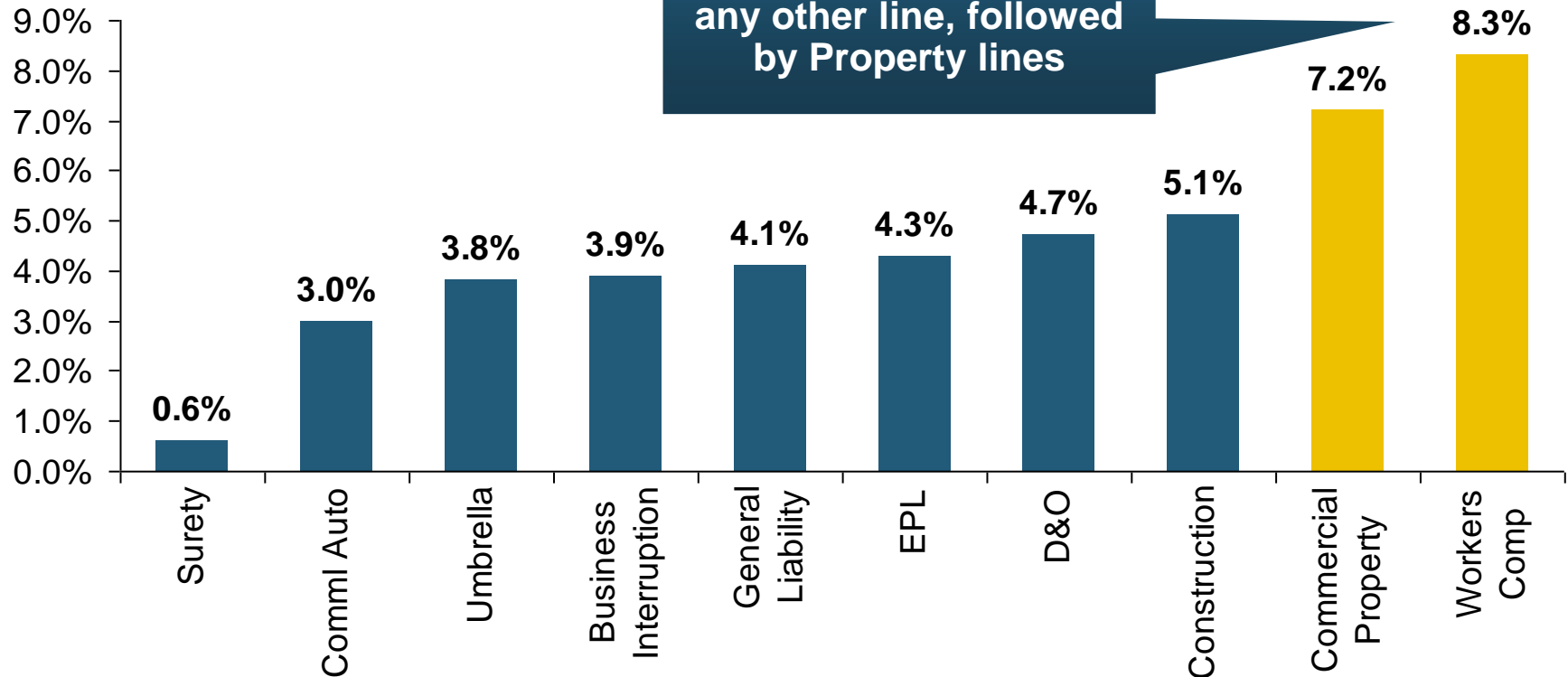
Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2012:Q2

1999:Q4 = 100



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

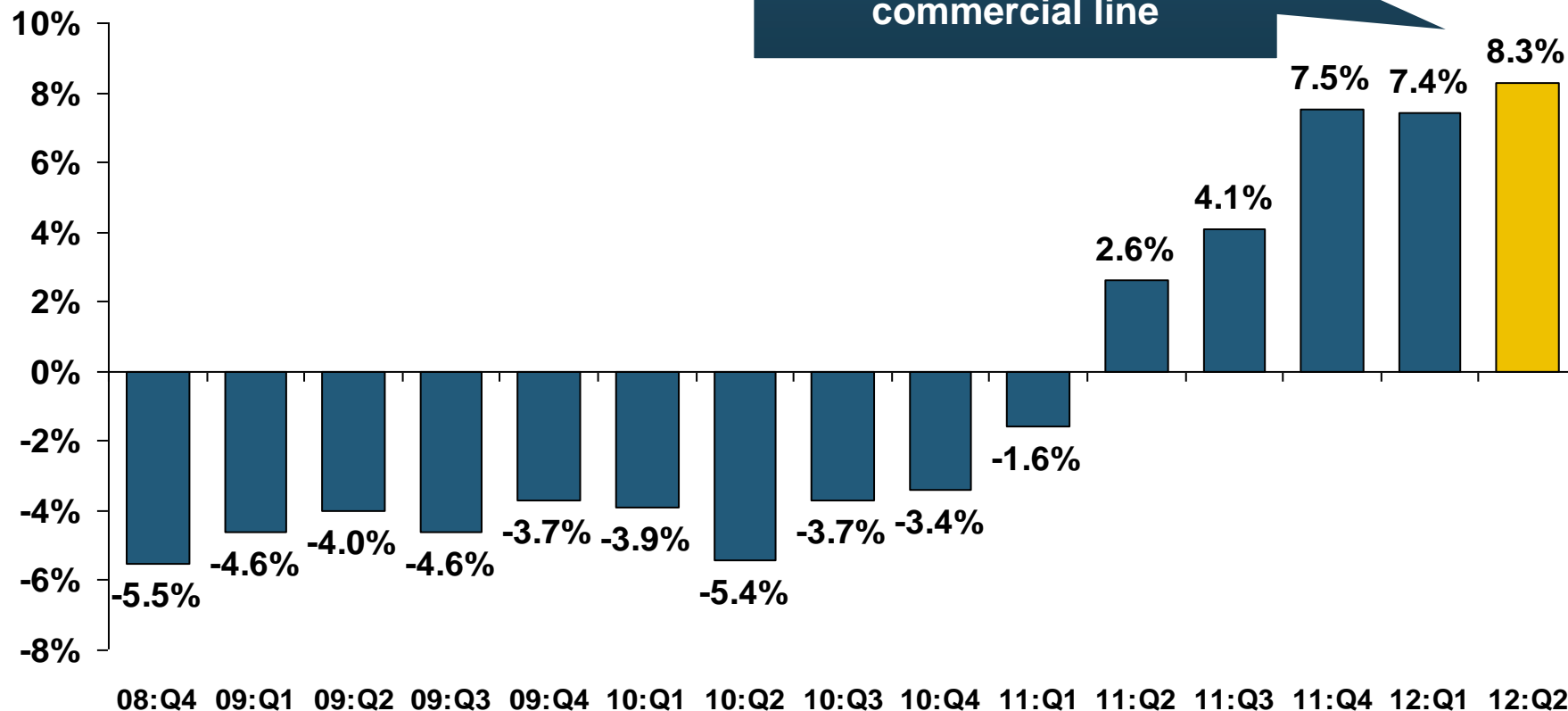
Percentage Change (%)



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

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

(Percent
Change)



Major Product Lines: Willis Rate Outlook

Property CAT	Flat
Property: Non-CAT	-5% to -10%
Casualty	+3% to +7.5%
Umbrella	Flat to +7.5%
Excess	+2% to +15%
Workers' Compensation	+2.5% to +7.5%, up to +20% in California
Auto Liability	+2% to +5%
Employee Benefits	+8% to +10%

Professional Liability Lines: Willis Rate Outlook

Cyber Risk: Renewals	Flat to -3%
Cyber Risk: First-Time Buyers	Competitive
D&O: Overall	Flat to +10%
D&O: Large Public Companies	Flat to +10% on primary, flat to +5% on excess
D&O: Other Public Companies	Flat to +10% on primary, flat to +5% on excess
D&O: Private Companies	Flat to +15%
D&O: Nonprofit Entities	Flat to +5%, health care +10%
EPL: Overall	Flat to 10%
EPL: Large Global Companies	Flat to +10% on primary, +5% on excess layers
EPL: Mid-Size to Large Domestic Firms	Flat to +10% on primary, +5% on excess layers
EPL: Private and Nonprofit Entities	Flat to 10%
EPL: Smaller Employers (less than 200 emp.)	+5% to +15%
E&O: Good Loss Experience	+5% or more
E&O: Poor Loss Experience	+10 to 25%
Fidelity: Overall	Flat to +10%
Fidelity: Comprehensive Crime: <ul style="list-style-type: none"> • Middle Market and Fortune 100 • Fortune 500 	<ul style="list-style-type: none"> • Flat to +5% • Flat to +10%
Fidelity: Financial Institution Bonds: <ul style="list-style-type: none"> • Small to Mid-Sized • Regional to Large Institutions 	<ul style="list-style-type: none"> • Flat to +10% • Flat to +10%
Fiduciary: Overall	Flat to +15%
Fiduciary: Companies with large concentration of their stock in their employee benefit plans	Flat to +15% on primary, flat to excess layers
Fiduciary: Companies without company stock in their plans	Flat to +5%, flat on excess layers
Fiduciary: ESOP-owned firms	+5% to +10%
Fiduciary: Private and Nonprofit entities	+5% to +15%
Health Care Professional: Overall	Flat to -5%
Health Care Professional: Long-term care providers	Flat to +12.5%

Source: Willis, *Marketplace Realities* 2013, October 2012 at ::

[http://www.willis.com/documents/publications/Marketplace Realities/Marketplace Realities 2013_v8.pdf](http://www.willis.com/documents/publications/Marketplace_Realities/Marketplace_Realities_2013_v8.pdf)

Specialty Lines: Willis Rate Outlook

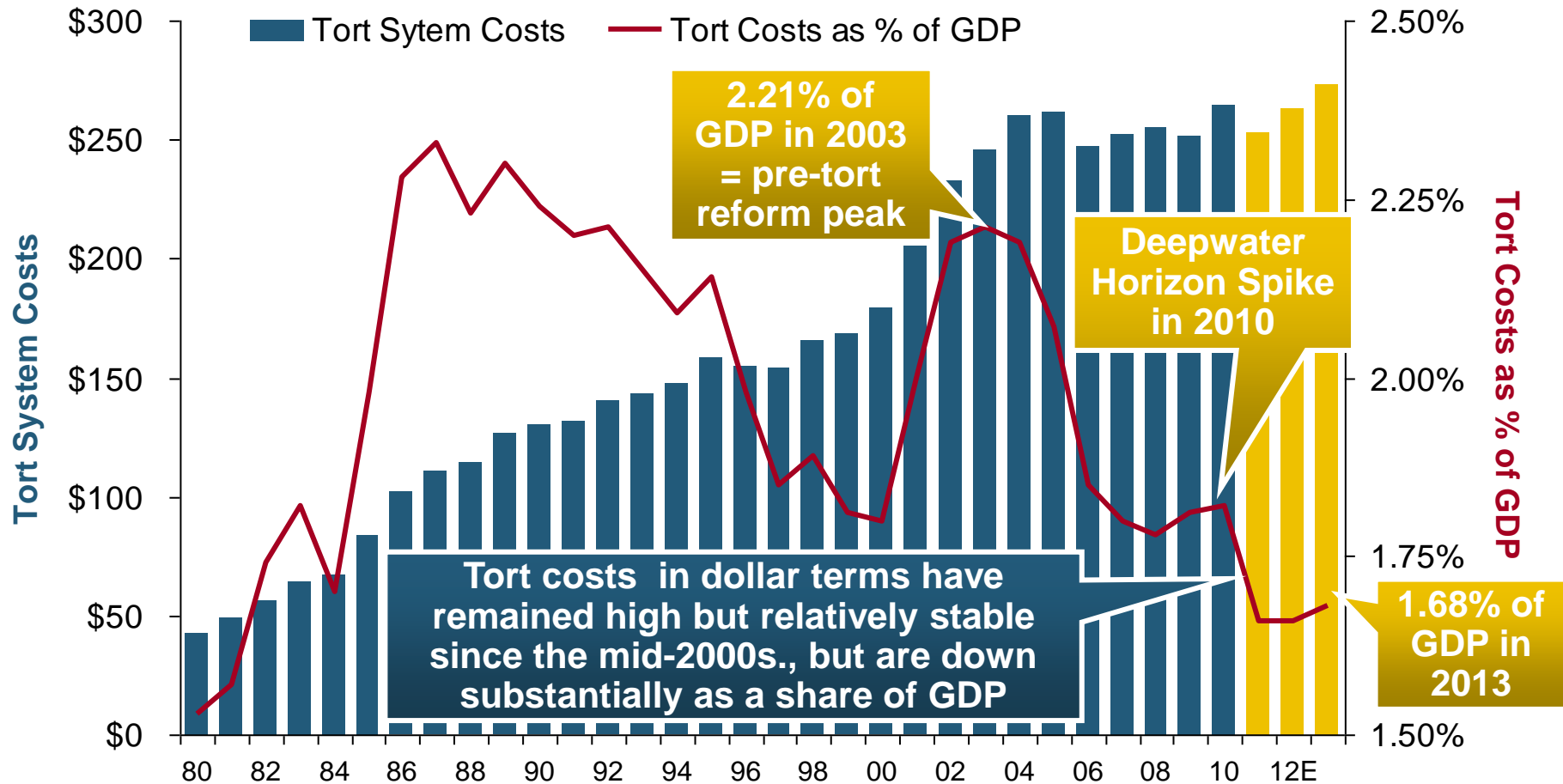
Airline • Premium • Rates • Exposures	<ul style="list-style-type: none"> • -5% to -15% • Flat to -25% • -10% to +20%
Aerospace	Flat to -25%
Corporate Aviation	-5% to -15%
Construction: General Liability	+3% to +10%
Construction: Excess Liability	+5% to +12%
Construction: Workers' Compensation	+3% to +10% (state-by-state increases could be higher)
Construction: Builders Risk	Flat to +10%, higher in high catastrophe areas
Construction: Project Insurance (Wrap-Ups)	Primary and excess rates remain flat with significant variation depending on job size, type of work and location
Energy: Downstream	Generally modest prices
Energy: Upstream	Generally modest prices
Environmental: Contractors Pollution Liability	-5% to +10%
Environmental: Pollution Legal Liability (including combined GL/PLL)	-10% to +10%
Environmental: Environmental Professional Liability (including CPL)	-5% to +15%
Environmental: Financial Assurance Instruments (USTs, Closure, Performance Bonus)	Flat to +10%
Environmental: Clean Cost Cap	+10% to +20% (if available)
Special Contingency Risks	Flat to +10%
Marine	Modest hikes in Hull, soft conditions elsewhere
Political Risk	Flat to slightly decreasing
Surety	Moderate fluctuations within an overall softening market
Terrorism	Flat to +10%
Trade Credit	Flat to -10%

Shifting Legal Liability & Tort Environment

Will the Tort Pendulum Swinging Against Insurers?

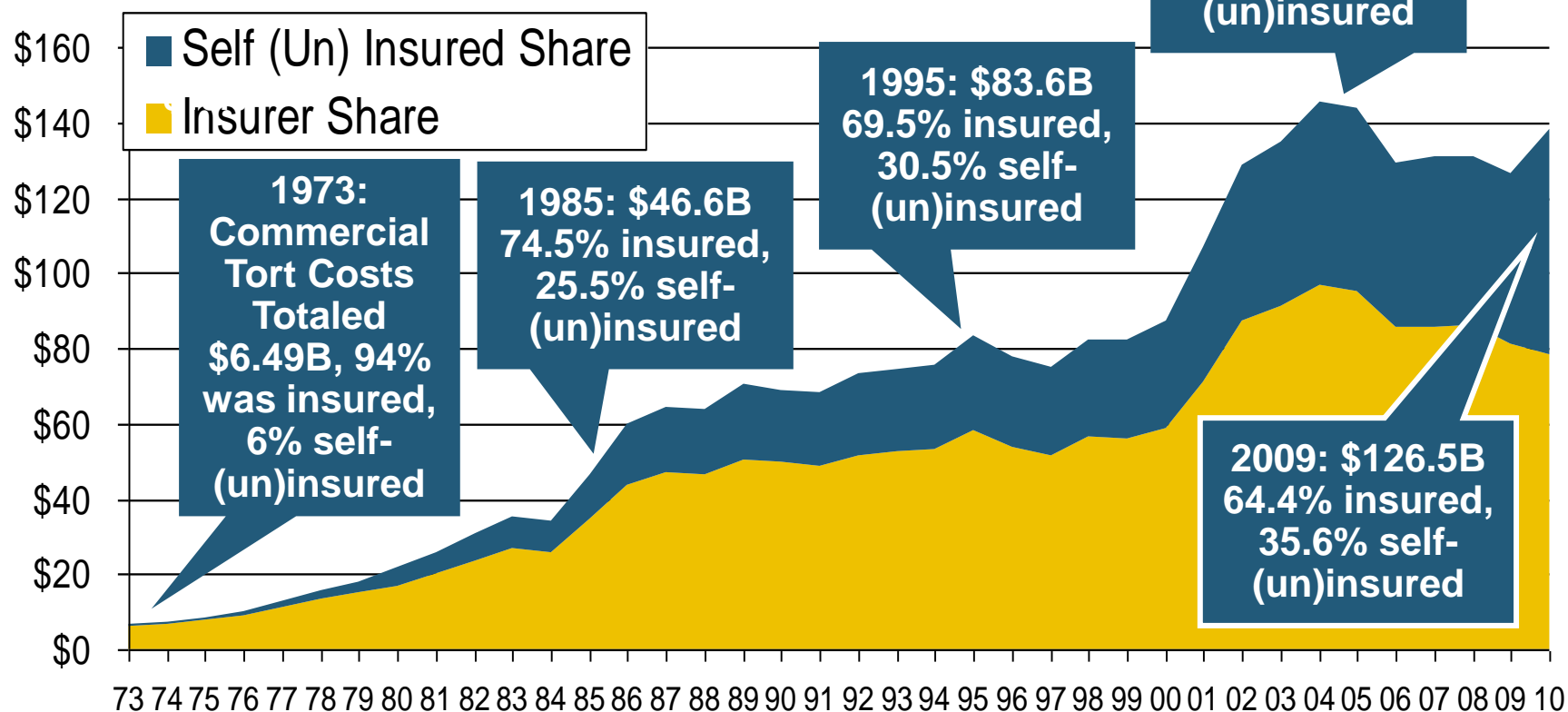
Over the Last Three Decades, Total Tort Costs as a % of GDP Appear Somewhat Cyclical, 1980-2013E

(\$ Billions)



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

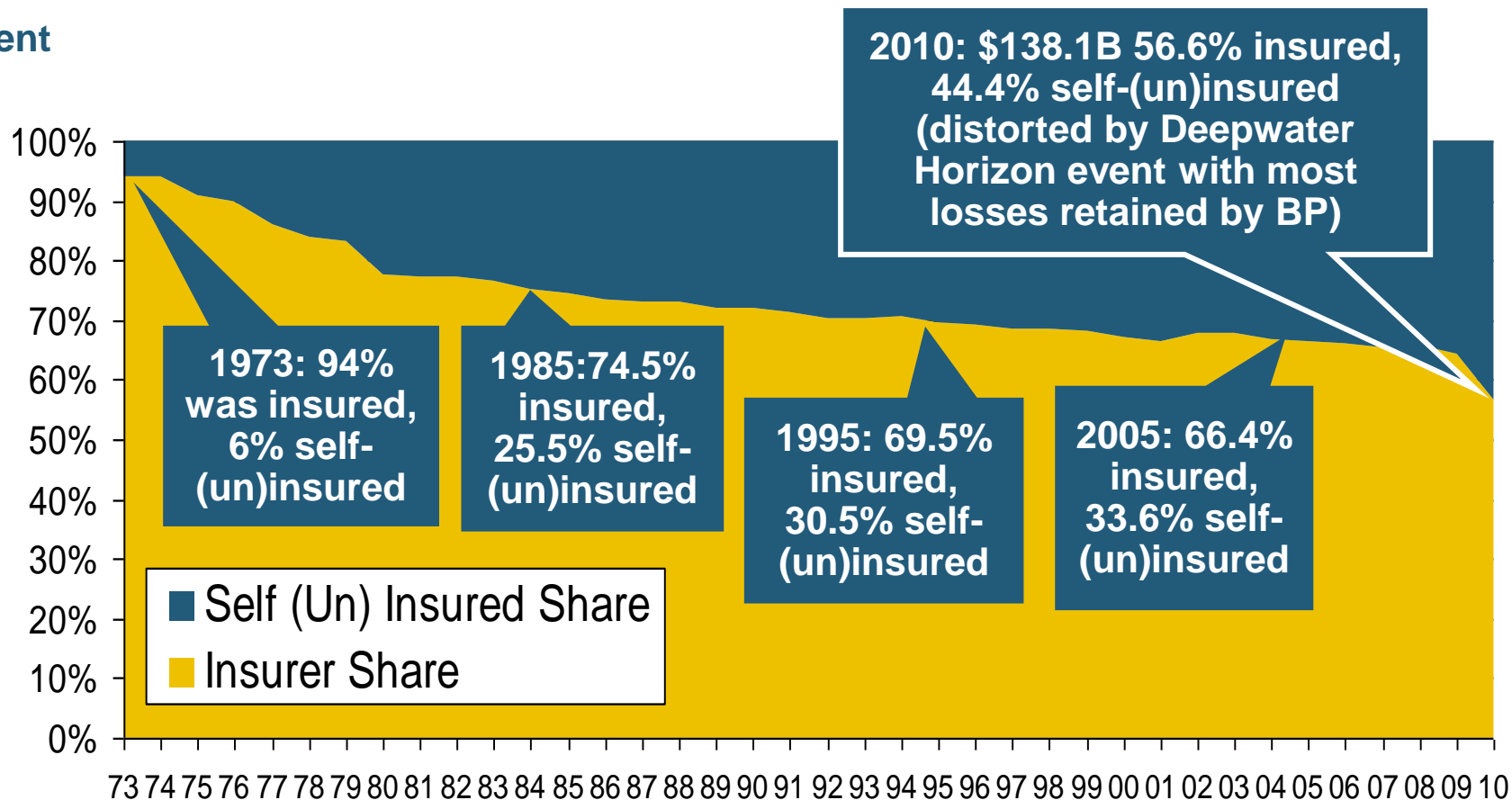
Billions of Dollars



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

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

Percent



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

Business Leaders Ranking of Liability Systems in 2012

■ Best States

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

New in 2012

- Wyoming
- Minnesota
- Kansas
- Idaho

Drop-offs

- Indiana
- Colorado
- Massachusetts
- South Dakota

10. Iowa

■ Worst States

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

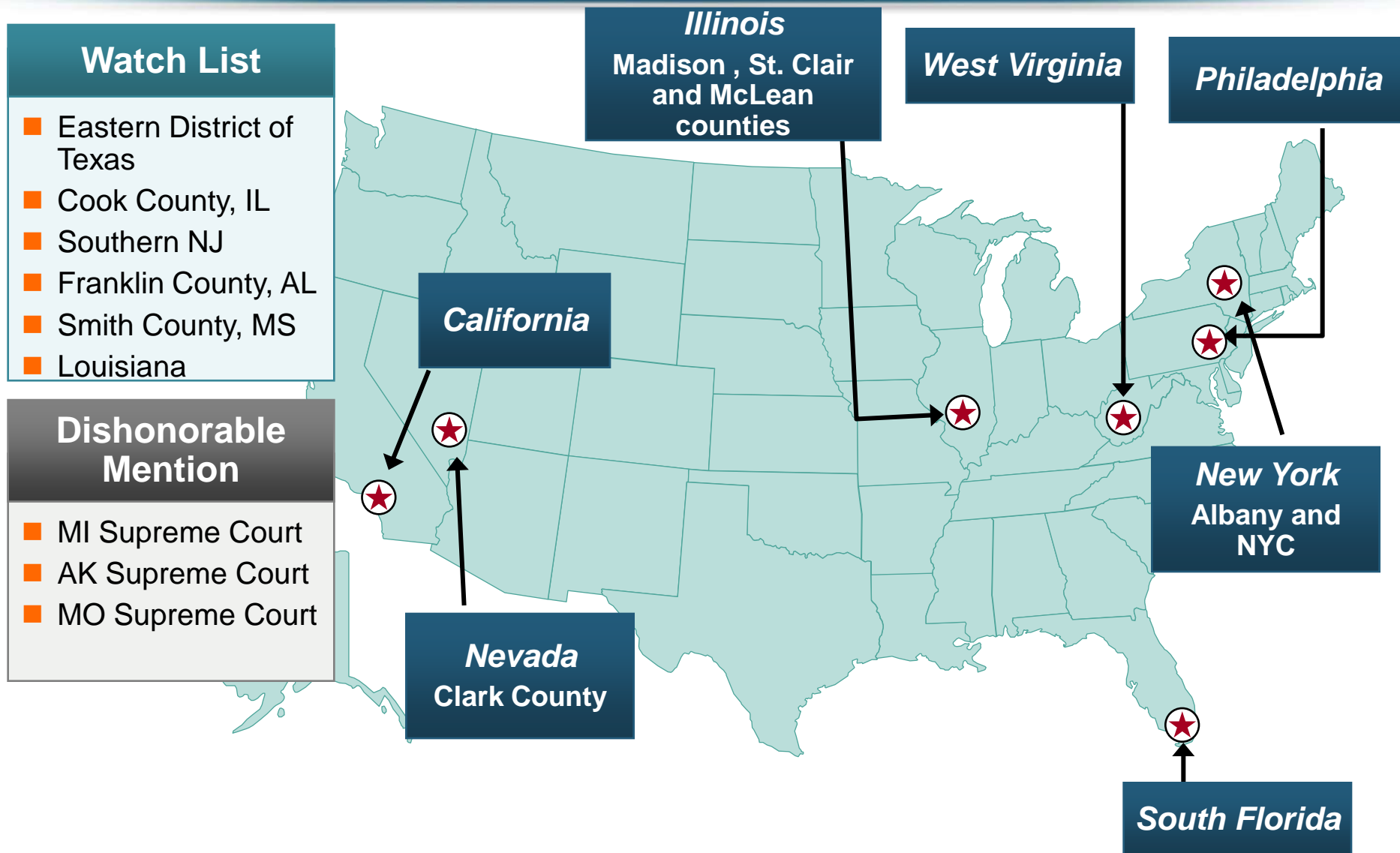
Newly Notorious

- Oklahoma

Rising Above

- Arkansas

The Nation's Judicial Hellholes: 2011

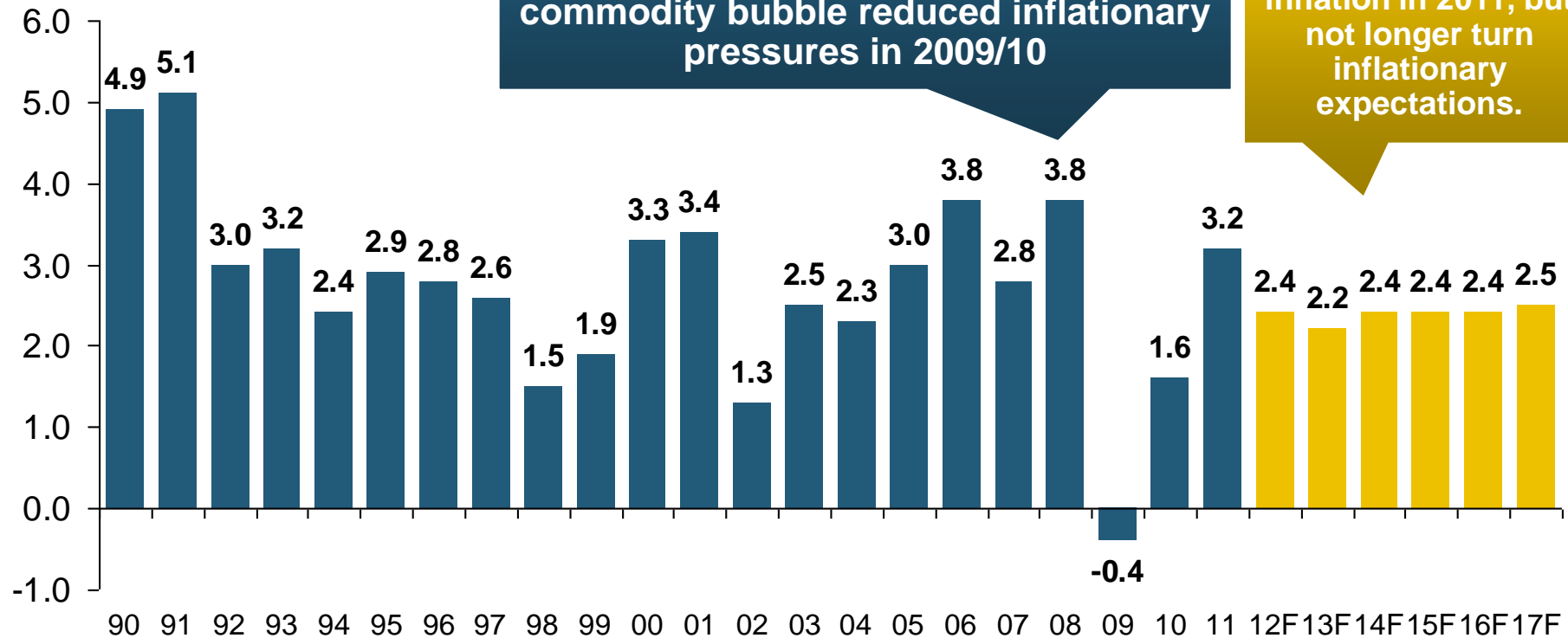


Inflation

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

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

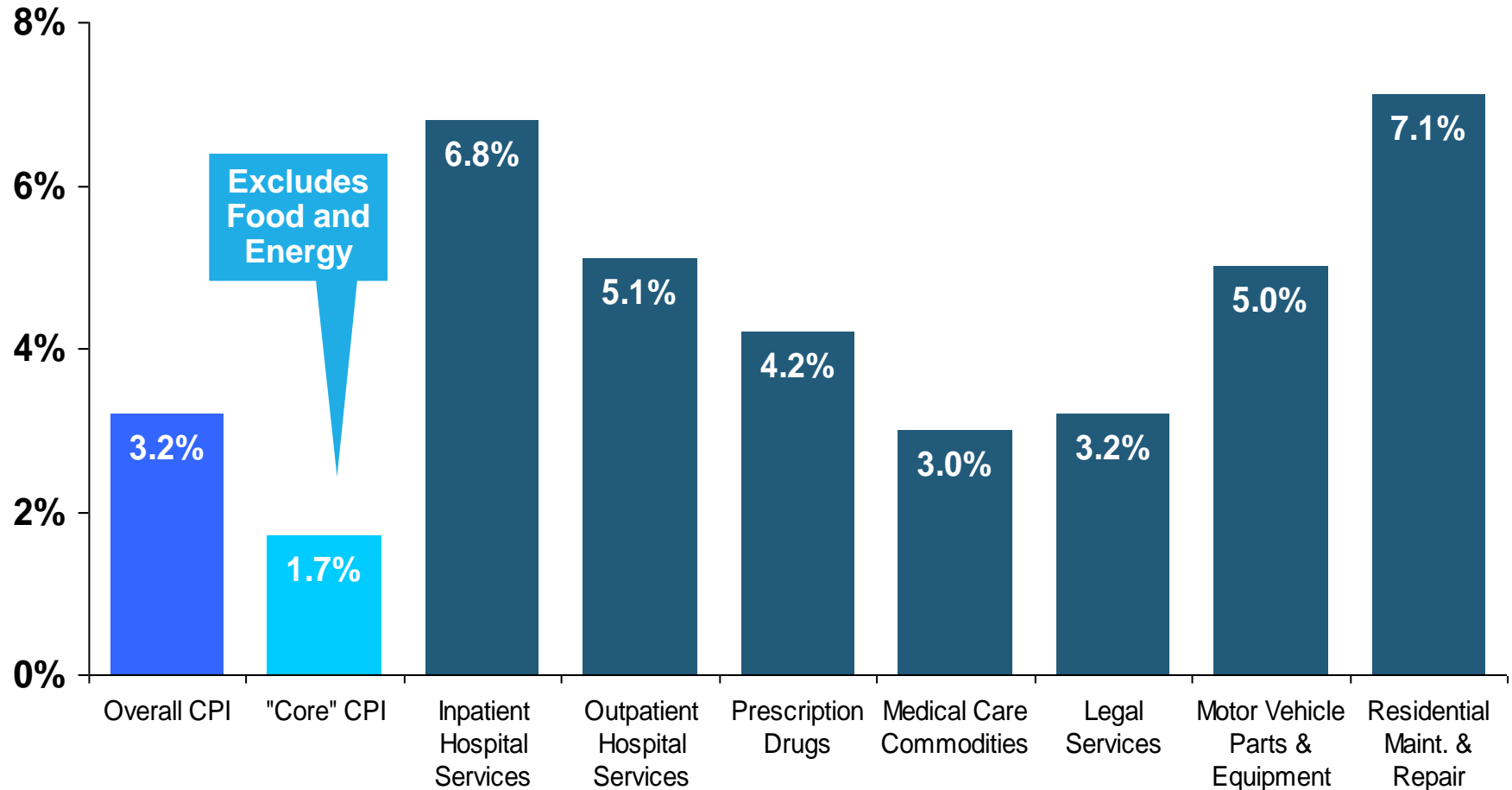
Annual Inflation Rates (%)



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

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

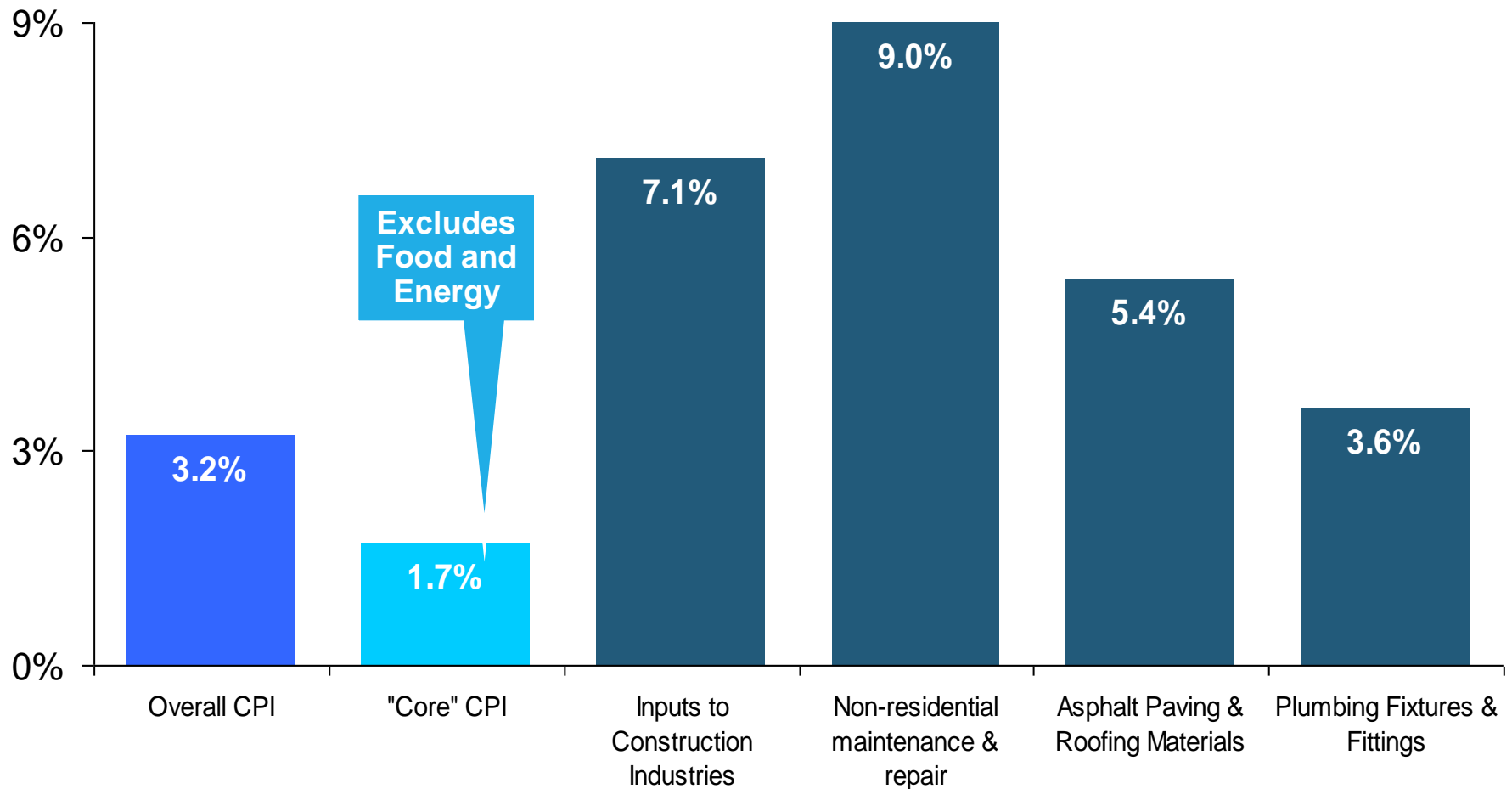
Price Level Change: 2011 vs. 2010



Healthcare costs are a major liability, med pay, and PIP claim cost driver. They are likely to grow faster than the CPI for the next few years, at least

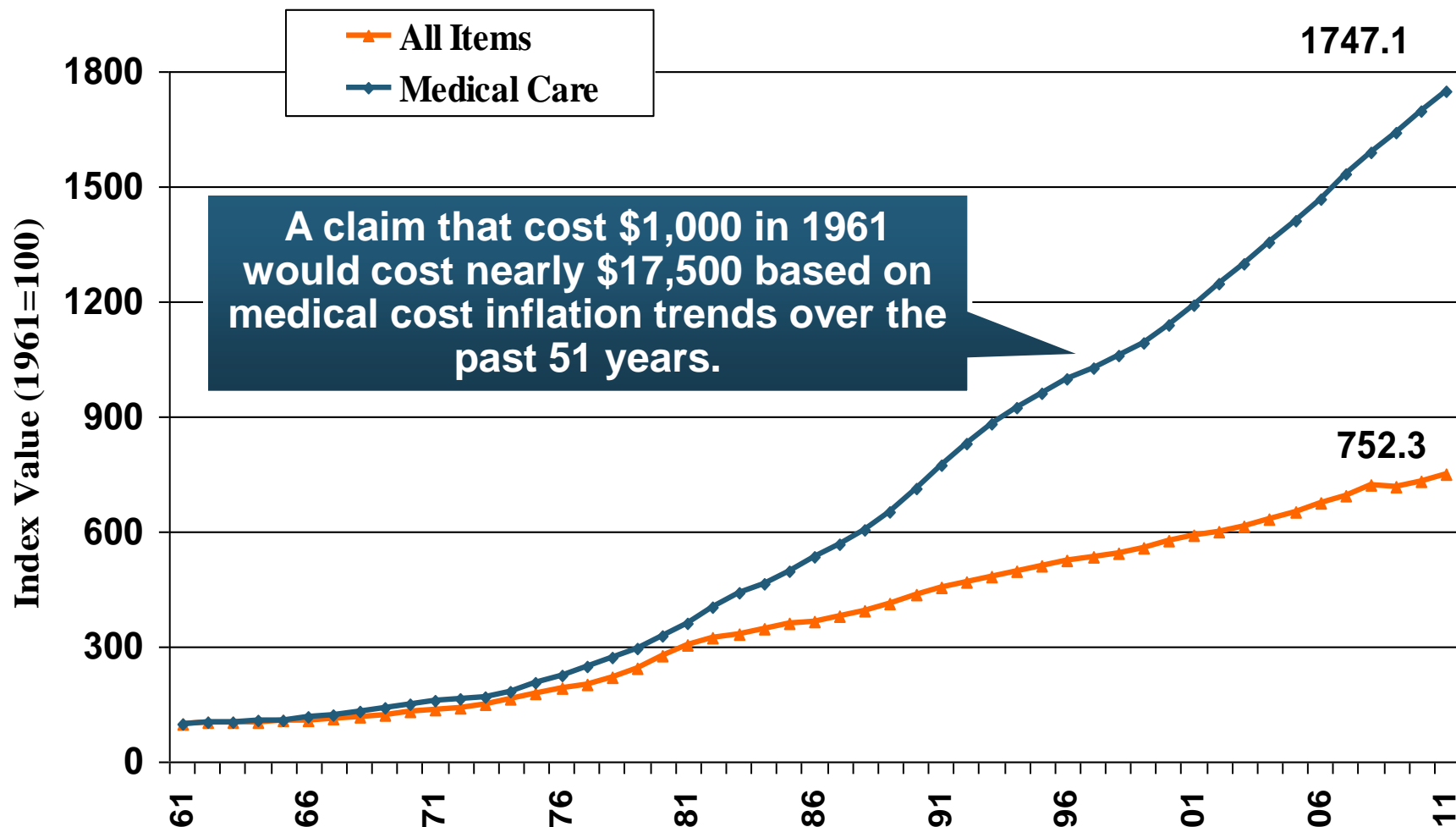
P/C Commercial Property Insurance Claim Cost Drivers Grow Faster than the Overall CPI Suggests

Price Level Change: 2011 vs. 2010



Copper prices spiked and retreated in 2011. In July its price was 33% higher than a year earlier; by November it cost 8% less than in November 2010.

Medical Cost Inflation Has Outpaced Overall Inflation For Over 50 Years



Source: Department of Labor (Bureau of Labor Statistics)

Insurance Information Institute Online:

www.iii.org

***Thank you for your time
and your attention!***

Twitter: twitter.com/bob_hartwig

Download at www.iii.org/presentations