Presentation Outline

- U.S. Economic Overview and Outlook
  - Economy as a Growth Engine for P/C Insurers
  - Labor Market Review
- Summary of P/C Financial Performance
  - US
  - Maryland
- Catastrophe Loss Developments & Trends
  - Global, US
- Will the Market Turn? Four Necessary Criteria:
  - Underwriting Loss Trends
  - Capital/Capacity
  - Reinsurance Markets
  - Pricing Discipline
- Analysis by Key Line
- Other Contributing Factors to the Underwriting Cycle
  - Investment Environment
  - Tort/Casualty Environment
  - Inflation
- Q&A
Economics 2012: The World Is Changing

2012 Is the First Year Since 2005 Where Economic Perceptions and Reality in the US Will Be Positive

Potentially Enormous Benefits for P/C Insurers
Economic Outlook for 2012

- Economic Growth Will Accelerate Modestly in 2012/13, Albeit Unevenly
  - No Double Dip Recession
  - Economy remains more resilient than most pundits presume
- Consumer Confidence Will Continue to Improve
- Consumer Spending/Investment Will Continue to Expand
- Consumer and Business Lending Continue to Expand
- Housing Market Remains Weak, but Some Improvement Expected by 2013
- Inflation Remains Tame
  - Runaway inflation highly unlikely but energy spike possible; Fed has things under control
- Private Sector Hiring Remains Consistently Positive
  - Unemployment dips below 8% by year’s end
- Sovereign Debt, Euro Currency/Economy, Muni Bond “Crises” Overblown
- European Recession in Milder than Commonly Presumed
- Soft Landing in China
- Higher Oil Prices and Current Middle East Turmoil Pose Greater Risk to US Economy than in 2011
- Interest Rates Remain Low by Historical Standards; Edge Up by Year’s End
- Stock and Bond Markets More Stable, Less Volatile
- Political Environment Is More Hospitable to Business Interests
P/C Insurance Exposures Grow Robustly
- Personal and commercial exposure growth is certain in 2012; Strongest since 2004
- But restoration of destroyed exposure will take until mid-decade

P/C Industry Growth in 2012 Will Be Strongest Since 2004
- Growth likely to exceed A.M. Best projection of +3.8% for 2012
- No traditional “hard market” emerges in 2012

Underwriting Fundamentals Deteriorate Modestly
- Some pressure from claim frequency, in some severity in key lines

Increasing Private Sector Hiring Will Drive Payrolls/WC Exposures
- Wage growth is also positive and could modestly accelerate
- WC will prove to be tough to fix from an underwriting perspective

Increase in Demand for Commercial Insurance Will Accelerate in 2012
- Includes workers comp, property, marine, many liability coverages
- Laggards: inland marine, aviation, commercial auto, surety
- Personal Lines: Auto leads, homeowners lags (though HO leads in NPW growth due to rates)

Investment Environment Is/Remains Much More Favorable
- Return of realized capital gains as a profit driver
- Interest rates remain low; Some upward pressured if economic strength surprises

Industry Capacity Hits a New Record by Year-End 2012 (Barring Mega-CAT)
The Strength of the Economy Will Influence P/C Insurer Growth Opportunities

Growth Will Expand Insurable Exposures and Help Absorb Excess Capital
US Real GDP Growth*

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

* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 4/12; Insurance Information Institute.
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.

Optimism among consumers is recovering, in part due to an improving jobs outlook, after plunging amid the debt debate debacle and S&P downgrade.

Source: University of Michigan; Insurance Information Institute
Real GDP Growth vs. Real P/C
Premium Growth: Modest Association

Sources: A.M. Best, US Bureau of Economic Analysis, Blue Chip Economic Indicators, 11/11; Insurance Information Institute

P/C Insurance Industry’s Growth is Influenced Modestly by Growth in the Overall Economy
Car/Light Truck Sales Will Continue to Recover from the 2009 Low Point, Bolstering the Auto Insurer Growth and the Manufacturing Sector.

New auto/light truck sales fell to the lowest level since the late 1960s. Forecast for 2012-13 is still far below 1999-2007 average of 17 million units, but a recovery is underway.

Job growth and improved credit market conditions will boost auto sales in 2012 and beyond.
New Home starts plunged 72% from 2005-2009; A net annual decline of 1.49 million units, lowest since records began in 1959.

The plunge and lack of recovery in homebuilding and in construction in general is holding back payroll exposure growth.

Job growth, improved credit market conditions and demographics will eventually boost home construction.

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

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (10/11 and 4/12); Insurance Information Institute.
ISM Manufacturing Index
(Values > 50 Indicate Expansion)

January 2010 through March 2012

The manufacturing sector has been expanding and adding jobs. The question is whether this will continue.

Optimism among manufacturers was increasing in late 2011 and into early 2012.

The value of Manufacturing Shipments in Feb. 2012 was up 30% to $462B from its May 2009 trough. Dec. figure is only 4.7% 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 February 2012 was 30%. This growth leads to gains in many commercial exposures: WC, Commercial Auto, Property and Various Liability Coverages.

*seasonally adjusted

Manufacturing is expanding across a wide range of sectors that will contribute to growth in insurable exposures including: WC, commercial property, commercial auto, and many liability coverages.

Manufacturing of durable goods has been especially strong.

*Seasonally adjusted
Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures

March 2001 through March 2012

Percent of Industrial Capacity

The closer the economy is to operating at “full capacity,” the greater the inflationary pressure.

The US operated at 78.6% of industrial capacity in Mar. 2012, above the June 2009 low of 68.3% and close to its post-crisis peak.

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

Business Bankruptcy Filings, 1980-2011

% Change Surrounding Recessions

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

2011 bankruptcies totaled 47,806, down 15.1% from 56,282 in 2010—the second consecutive year of decline. Business bankruptcies more than tripled during the financial crisis.

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

Sources: American Bankruptcy Institute at http://www.abiworld.org/AM/AMTemplate.cfm?Section=Home&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=61633; Insurance Information Institute
Business starts were down nearly 20% in the recession, holding back most types of commercial insurance exposure, but are recovering slowly.

* Data through June 30, 2011 are the latest available as of March 7, 2012; Seasonally adjusted.
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.
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

Unemployment stood at 8.2% in March 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

Private Employers Added 4.159 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


December 2007 through March 2012* (Millions)

Cumulative job losses peaked at 8.444 million in December 2009
Cumulative job losses as of Mar. 2012 totaled 4.285 million

All of the jobs “lost” since President Obama took office in Jan. 2009 have been recouped


*Provisional figures for March 2012, seasonally adjusted.

Unemployment Rates By State, March 2012: Lowest 25 States*

In March, 30 states reported over-the-month unemployment rate decreases, 8 had increases, and 12 and the District of Columbia had no change.

Maryland’s unemployment rate is one of the lowest in the country, helping support exposure growth.

*Provisional figures for March 2012, seasonally adjusted.
US Unemployment Rate

2007:Q1 to 2013:Q4F*

Rising unemployment eroded payrolls and workers comp’s exposure base. Unemployment peaked at 10% in late 2009.

Jobless figures have been revised downwards for 2012.

Unemployment forecasts have been revised downwards for 2012 and 2013. Optimistic scenarios put the unemployment as low as 7.7% by Q4 of this year.

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (4/12 edition); Insurance Information Institute.

* = actual; = forecasts
**US Unemployment Rate Forecasts**

Quarterly, 2012:Q2 to 2013:Q4

<table>
<thead>
<tr>
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<tr>
<td>8.2%</td>
<td>8.1%</td>
<td>8.0%</td>
<td>7.9%</td>
<td>7.8%</td>
<td>7.7%</td>
<td>7.5%</td>
</tr>
<tr>
<td>8.4%</td>
<td>8.4%</td>
<td>8.3%</td>
<td>8.3%</td>
<td>8.2%</td>
<td>8.2%</td>
<td>8.1%</td>
</tr>
</tbody>
</table>

Unemployment will remain high even under the most optimistic of scenarios, but forecasts are being revised downwards.

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

Sources: Blue Chip Economic Indicators (4/12); Insurance Information Institute
Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2011:Q4

Billions

$6,750

$6,500

$6,250

$6,000

$6,750

$6,500

$6,250

$6,000

$5,750

$5,500

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

Sources: [http://research.stlouisfed.org/fred2/series/WASCUR](http://research.stlouisfed.org/fred2/series/WASCUR); National Bureau of Economic Research (recession dates); Insurance Information Institute.
P/C Insurance Industry
Financial Overview

Profit Recovery Was Set Back in 2011 by High Catastrophe Loss & Other Factors
P/C Industry 2011 profits were down 46% to $19.2B vs. 2010, due primarily to high catastrophe losses and as non-cat underwriting results deteriorated.

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

Sources: A.M. Best, ISO, Insurance Information Institute
A 100 Combined Ratio Isn’t What It Once Was: Investment Impact on ROEs

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

* 2008-2011 figures are return on average surplus and exclude mortgage and financial guaranty insurers. 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 – 2011*

*Profitability = P/C insurer ROEs are I.I.I. estimates. 2011 figure is an estimate based on ROAS data. Note: Data for 2008-2011 exclude mortgage and financial guaranty insurers. For 2011:Q3 ROAS = 3.5% including M&FG.
Source: Insurance Information Institute; NAIC, ISO, A.M. Best.

History suggests next ROE peak will be in 2016-2017

1975: 2.4%
1984: 1.8%
1992: 4.5%
2001: -1.2%
1997: 11.6%
2006: 12.7%
1977: 19.0%
1987: 17.3%
2011: 4.6%*
ROE: Property/Casualty Insurance vs. Fortune 500, 1987–2011*

P/C Profitability Is Both by Cyclicality and Ordinary Volatility

- Hugo
- Andrew
- Northridge
- Lowest CAT Losses in 15 Years
- Sept. 11
- 4 Hurricanes
- Katrina, Rita, Wilma
- Financial Crisis*

Sources: ISO, Fortune; Insurance Information Institute.
US P/C Insurers Missed Their Cost of Capital by an Average 6.7 Points from 1991 to 2002, but on Target or Better 2003-07, Fell Short in 2008-2010

The Cost of Capital is the Rate of Return Insurers Need to Attract and Retain Capital to the Business

* Return on average surplus in 2008-2011 excluding mortgage and financial guaranty insurers.
Source: The Geneva Association, Insurance Information Institute
For 2011:H1 ROAS.
Source: Insurance Information Institute; NAIC, ISO.
Profitability and Growth in Maryland P/C Insurance Markets

Analysis by Line and Nearby State Comparisons
P/C Insurer profitability in MD is above that of the US overall over the past decade
US: 7.1%
MD: 8.5%

Sources: NAIC.
RNW PP Auto: MD vs. U.S., 2001-2010

Sources: NAIC.
RNW Comm. Auto: MD vs. U.S., 2001-2010

Average 2001-2010

US: 9.2%

MD: 12.2%

Sources: NAIC.

Average 2001-2010
US: 9.2%
MD: 11.7%

Sources: NAIC.
RNW Homeowners: MD vs. U.S., 2001-2010

Average 2001-2010
US: 5.0%
MD: 9.4%

Sources: NAIC.
RNW Workers Comp: MD vs. U.S., 2001-2010

(Percent)

Average 2001-2010
US: 6.1%
MD: 4.1%

Sources: NAIC.
All Lines: 10-Year Average RNW MD & Nearby States

2001-2010

- Virginia: 11.8%
- D.C.: 11.7%
- Maryland: 8.5%
- New Jersey: 8.0%
- West Virginia: 7.5%
- U.S.: 7.1%
- Pennsylvania: 6.6%

Maryland All Lines profitability is above the US average and below the regional average.

Source: NAIC, Insurance Information Institute
PP Auto: 10-Year Average RNW MD & Nearby States

Maryland PP Auto profitability is above the US average and below the regional average.

Source: NAIC, Insurance Information Institute
## Top Ten Most Expensive And Least Expensive States For Automobile Insurance, 2009 (1)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Most expensive states</th>
<th>Average expenditure</th>
<th>Rank</th>
<th>Least expensive states</th>
<th>Average expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>District of Columbia</td>
<td>$1,128</td>
<td>1</td>
<td>North Dakota</td>
<td>$510</td>
</tr>
<tr>
<td>2</td>
<td>New Jersey</td>
<td>1,101</td>
<td>2</td>
<td>South Dakota</td>
<td>521</td>
</tr>
<tr>
<td>3</td>
<td>Louisiana</td>
<td>1,099</td>
<td>3</td>
<td>Iowa</td>
<td>532</td>
</tr>
<tr>
<td>4</td>
<td>New York</td>
<td>1,057</td>
<td>4</td>
<td>Idaho</td>
<td>555</td>
</tr>
<tr>
<td>5</td>
<td>Delaware</td>
<td>1,021</td>
<td>5</td>
<td>Nebraska</td>
<td>559</td>
</tr>
<tr>
<td>6</td>
<td>Florida</td>
<td>1,006</td>
<td>6</td>
<td>Kansas</td>
<td>578</td>
</tr>
<tr>
<td>7</td>
<td>Rhode Island</td>
<td>969</td>
<td>7</td>
<td>Wisconsin</td>
<td>591</td>
</tr>
<tr>
<td>8</td>
<td>Connecticut</td>
<td>952</td>
<td>8</td>
<td>Maine</td>
<td>598</td>
</tr>
<tr>
<td>9</td>
<td>Nevada</td>
<td>944</td>
<td>9</td>
<td>North Carolina</td>
<td>610</td>
</tr>
<tr>
<td>10</td>
<td>Maryland</td>
<td>929</td>
<td>10</td>
<td>Ohio</td>
<td>616</td>
</tr>
</tbody>
</table>

Maryland ranked 10th in 2009, with an average expenditure for auto insurance of $929.

(1) Based on average automobile insurance expenditures.

Source: © 2012 National Association of Insurance Commissioners.

Top 25 States

*Average auto insurance expenditure as a percentage of the 2009 median income for a family of four
Sources: Prepared by the Insurance Information Institute, based on data from the U.S. Census and the National Association of Insurance Commissioners.
Auto insurance in Maryland is very affordable, consuming just 0.91% of median family income—well below the 1.05% US average.
Commercial Auto: 10-Year Average RNW MD & Nearby States

2001-2010

- D.C.: 22.6%
- Virginia: 12.5%
- Maryland: 12.2%
- U.S.: 9.2%
- Pennsylvania: 8.7%
- New Jersey: 6.9%
- West Virginia: 6.7%

Maryland Commercial Auto profitability is above the US and regional average.

Source: NAIC, Insurance Information Institute
Maryland Commercial Multi-Peril profitability is above the US average and below the regional average.
Homeowners: 10-Year Average RNW MD & Nearby States

2001-2010

- D.C.: 19.5%
- Pennsylvania: 12.7%
- New Jersey: 12.5%
- Virginia: 12.2%
- Maryland: 9.4%
- U.S.: 5.0%
- West Virginia: 4.8%

Maryland Homeowners profitability is above the US average and below the regional average.

Source: NAIC, Insurance Information Institute
# Top Ten Most Expensive And Least Expensive States For Homeowners Insurance, 2009

Maryland ranked as the 25th most expensive state for homeowners insurance in 2009, with an average expenditure of $779.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Most expensive states</th>
<th>Average expenditure</th>
<th>Rank</th>
<th>Least expensive states</th>
<th>Average expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Texas (3)</td>
<td>$1,511</td>
<td>1</td>
<td>Idaho</td>
<td>$485</td>
</tr>
<tr>
<td>2</td>
<td>Florida (4)</td>
<td>1,460</td>
<td>2</td>
<td>Wisconsin</td>
<td>542</td>
</tr>
<tr>
<td>3</td>
<td>Louisiana</td>
<td>1,430</td>
<td>3</td>
<td>Oregon</td>
<td>544</td>
</tr>
<tr>
<td>4</td>
<td>Mississippi</td>
<td>1,185</td>
<td>3</td>
<td>Utah</td>
<td>544</td>
</tr>
<tr>
<td>5</td>
<td>Oklahoma</td>
<td>1,123</td>
<td>4</td>
<td>Washington</td>
<td>552</td>
</tr>
<tr>
<td>6</td>
<td>D.C.</td>
<td>1,069</td>
<td>5</td>
<td>Delaware</td>
<td>610</td>
</tr>
<tr>
<td>6</td>
<td>Rhode Island</td>
<td>1,069</td>
<td>6</td>
<td>Ohio</td>
<td>613</td>
</tr>
<tr>
<td>7</td>
<td>Massachusetts</td>
<td>1,035</td>
<td>7</td>
<td>Arizona</td>
<td>642</td>
</tr>
<tr>
<td>8</td>
<td>New York</td>
<td>1,021</td>
<td>8</td>
<td>Iowa</td>
<td>645</td>
</tr>
<tr>
<td>9</td>
<td>Connecticut</td>
<td>1,016</td>
<td>8</td>
<td>South Dakota</td>
<td>645</td>
</tr>
</tbody>
</table>

(1) States with the same premium receive the same rank.

(2) Based on the HO-3 homeowner package policy for owner-occupied dwellings, 1 to 4 family units. Provides “all risks” coverage (except those specifically excluded in the policy) on buildings and broad named-peril coverage on personal property, and is the most common package written.

(3) The Texas Department of Insurance developed home insurance policy forms that are similar but not identical to the standard forms.

(4) Florida data excludes policies written by Citizen's Property Insurance Corporation, the state’s insurer of last resort, and therefore are not directly comparable to other states.

Note: Average premium=Premiums/exposure per house years. A house year is equal to 365 days of insured coverage for a single dwelling. The NAIC does not rank State Average Expenditures and does not endorse any conclusions drawn from this data.

Source: © 2011 National Association of Insurance Commissioners (NAIC). Reprinted with permission. Further reprint or distribution strictly prohibited without written permission of NAIC.
Top 25 States

Ratio of Avg. Premium for Homeowners Insurance to Median Family Income, 2009

*Average homeowners insurance expenditure as a percentage of the 2009 median income for a family of four

Sources: Prepared by the Insurance Information Institute, based on data from the U.S. Census and the National Association of Insurance Commissioners.
Homeowners insurance in Maryland is very affordable, consuming just 0.77% of median family income—well below the 1.17% US average.

* Average homeowners insurance expenditure as a percentage of the 2009 median income for a family of four.

Sources: Prepared by the Insurance Information Institute, based on data from the U.S. Census and the National Association of Insurance Commissioners.
Maryland Workers Comp profitability is below the US average and regional average.
All Lines DWP Growth: MD vs. U.S., 2002-2011

Average 2002-2011
US: 3.6%
MD: 4.5%

Source: SNL Financial.

Average 2002-2011

US: 3.8%
MD: 4.6%

Source: SNL Financial.
Personal Lines DWP Growth: MD vs. U.S., 2002-2011

Average 2002-2011
US: 3.7%
MD: 4.6%

Source: SNL Financial.

(Percent)

Average 2002-2011
US: 2.5%
MD: 3.7%

Source: SNL Financial.
Homeowner’s MP DWP Growth: MD vs. U.S., 2002-2011

Average 2002-2011
US: 7.1%
MD: 7.8%

Source: SNL Financial.
Global Catastrophe Loss Developments and Trends

2011 Rewrote Catastrophe Loss and Insurance History

But Will Losses Turn the Market?
Global Catastrophe Loss Summary: 2011

- **2011 Was the Highest Loss Year on Record for Economic Losses Globally**
  - Extraordinary accumulation of severe natural catastrophe: Earthquakes, tsunami, floods and tornadoes are the primary causes of loss

- **$380 Billion in Economic Losses Globally (New Record)**
  - New record, exceeding the previous record of $270B in 2005

- **$105 Billion in Insured Losses Globally**
  - 2011 losses were 2.5 times 2010 insured losses of $42B
  - Second only to 2005 on an inflation adjusted basis (new record on a unadjusted basis)
  - Over 5 times the 30-year average of $19B

- **$72.8 Billion in Economic Losses in the US**
  - Represents a 129% increase over the $11.8 billion amount through the first half of 2010

- **$35.9 Billion in Insured Losses in the US Arising from 171 CAT Events**
  - Fifth highest year on record
  - Represents 51% increase over the $23.8 billion total in 2010

Source: Munich Re; Insurance Information Institute.
Natural Loss Events, 2011

Number of Events: 820

- Natural catastrophes
- Selection of significant loss events (see table)
- Geophysical events (earthquake, tsunami, volcanic activity)
- Meteorological events (storm)
- Hydrological events (flood, mass movement)
- Climatological events (extreme temperature, drought, wildfire)

Source: MR NatCatSERVICE
## Natural Catastrophes Worldwide, 2011

### Overview and Comparison with Previous Years

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
<th>Average of the last 10 years 2001-2010</th>
<th>Average of the last 30 years 1981-2010</th>
<th>Top Year 1981-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of events</td>
<td>820</td>
<td>970</td>
<td>790</td>
<td>630</td>
<td>2007 (1,025)</td>
</tr>
<tr>
<td>Overall losses in US$ m</td>
<td>380,000</td>
<td>152,000</td>
<td>113,000</td>
<td>75,000</td>
<td>2005 (227,000)</td>
</tr>
<tr>
<td>(original values)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insured losses in US$ m</td>
<td>105,000</td>
<td>42,000</td>
<td>35,000</td>
<td>19,000</td>
<td>2005 (101,000)</td>
</tr>
<tr>
<td>(original values)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fatalities</td>
<td>27,000</td>
<td>296,000</td>
<td>106,000</td>
<td>69,000</td>
<td>2010 (296,000)</td>
</tr>
</tbody>
</table>

Source: MR NatCatSERVICE
## 5 Costliest Natural Catastrophes Worldwide in Terms of Insured Losses, 2011 ($Mill)

<table>
<thead>
<tr>
<th>Date</th>
<th>Region</th>
<th>Event</th>
<th>Fatalities</th>
<th>Overall losses US$ m</th>
<th>Insured losses US$ m</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 11</td>
<td>Japan</td>
<td>Earthquake, tsunami</td>
<td>15,840</td>
<td>210,000</td>
<td>35,000-40,000</td>
</tr>
<tr>
<td>Feb. 22</td>
<td>New Zealand</td>
<td>Earthquake</td>
<td>181</td>
<td>16,000</td>
<td>13,000</td>
</tr>
<tr>
<td>Aug. 1–Nov. 15</td>
<td>Thailand</td>
<td>Floods, landslides</td>
<td>813</td>
<td>40,000</td>
<td>10,000</td>
</tr>
<tr>
<td>Apr. 22-28</td>
<td>USA</td>
<td>Severe storms/tornadoes</td>
<td>350</td>
<td>15,000</td>
<td>7,300</td>
</tr>
<tr>
<td>Aug. 22-Sep. 2</td>
<td>USA, Caribbean</td>
<td>Hurricane Irene</td>
<td>55</td>
<td>15,000</td>
<td>7,000</td>
</tr>
</tbody>
</table>

Source: MR NatCatSERVICE © 2011 Munich Re
In 2011, just 37% of insured natural catastrophe losses were in the Americas, barely half the average of 66% over the prior 30 years (1981-2010).

<table>
<thead>
<tr>
<th>Continent</th>
<th>Insured losses US$ m</th>
</tr>
</thead>
<tbody>
<tr>
<td>America (North and South America)</td>
<td>40,000</td>
</tr>
<tr>
<td>Europe</td>
<td>2,000</td>
</tr>
<tr>
<td>Africa</td>
<td>Minor damages</td>
</tr>
<tr>
<td>Asia</td>
<td>45,000</td>
</tr>
<tr>
<td>Australia/Oceania</td>
<td>18,000</td>
</tr>
</tbody>
</table>

In 2011, 61% of insured natural catastrophe losses were in the Asia/Pacific region, nearly 3.5 times the average of 13% over the prior 30 years (1981-2010).

Source: MR NatCatSERVICE
Natural Catastrophes Worldwide 1980 – 2011
Insured losses US$ 870bn - Percentage distribution per continent

<table>
<thead>
<tr>
<th>Continent</th>
<th>Insured losses US$ m</th>
</tr>
</thead>
<tbody>
<tr>
<td>America (North and South America)</td>
<td>566,000</td>
</tr>
<tr>
<td>Europe</td>
<td>146,000</td>
</tr>
<tr>
<td>Africa</td>
<td>2,000</td>
</tr>
<tr>
<td>Asia</td>
<td>115,000</td>
</tr>
<tr>
<td>Australia/Oceania</td>
<td>41,000</td>
</tr>
</tbody>
</table>

In 2011, 61% of natural catastrophe losses were in the Asia/Pacific region, nearly 3.5 times the average of 13% over the prior 30 years (1981-2010)

Source: MR NatCatSERVICE
Natural Catastrophes in Asia 1980 – 2011
Overall and insured losses in 2011 Dollars

2011 set a record for both overall economic losses in Asia ($266B) and insured losses ($45B). The rapid economic development of Asia and increased insurance penetration guarantee that losses will trend higher in the future.
Top 16 Most Costly World Insurance Losses, 1970-2011**

(Insured Losses, 2011 Dollars, $ Billions)

**Figures do not include federally insured flood losses.

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

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

5 of the top 14 most expensive catastrophes in world history have occurred within the past 2 years.
Worldwide Natural Disasters, 1980 – 2011

Number of Events

There were 820 events in 2011

- Geophysical events (Earthquake, tsunami, volcanic eruption)
- Meteorological events (Storm)
- Hydrological events (Flood, mass movement)
- Climatological events (Extreme temperature, drought, forest fire)

Source: MR NatCatSERVICE
Worldwide Natural Disasters 1980–2011, Overall and Insured Losses

(Insured Losses, 2011 Dollars, $ Billions)

Overall Losses: $380 Bill
Insured Losses: $105 Bill

Source: MR NatCatSERVICE

© 2011 Munich Re
U.S. Insured Catastrophe Loss Update

2011 Was One of the Most Expensive Years on Record
Top 14 Most Costly Disasters in U.S. History

(Insured Losses, 2011 Dollars, $ Billions)

*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.
There were 117 natural disaster events in 2011.
Losses Due to Natural Disasters in the US, 1980–2011 (Overall & Insured Losses)

2011 was the 5th most expensive year on record for insured catastrophe losses in the US.

Approximately 50% of the overall cost of catastrophes in the US was covered by insurance in 2011.

2011
Overall Losses: $72.8 Bill
Insured Losses: $35.9 Bill

Source: MR NatCatSERVICE
© 2011 Munich Re
US CAT Losses in 2011 Were the 5th Highest in US History on An Inflation Adjusted Basis

*PCS figure as of April 6, 2012.
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.

$100 Billion CAT Year is Coming Eventually

Record Tornado Losses Caused 2011 CAT Losses to Surge
## Natural Disaster Losses in the United States: 2011

<table>
<thead>
<tr>
<th>As of Jan. 1, 2012</th>
<th>Number of Events</th>
<th>Fatalities</th>
<th>Estimated Overall Losses (US $m)</th>
<th>Estimated Insured Losses (US $m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Severe Thunderstorm</td>
<td>69</td>
<td>617</td>
<td>46,548</td>
<td>25,813</td>
</tr>
<tr>
<td>Winter Storm</td>
<td>9</td>
<td>67</td>
<td>2,708</td>
<td>2,017</td>
</tr>
<tr>
<td>Flood</td>
<td>14</td>
<td>20</td>
<td>2,705</td>
<td>535</td>
</tr>
<tr>
<td>Earthquake</td>
<td>5</td>
<td>1</td>
<td>257</td>
<td>50</td>
</tr>
<tr>
<td>Tropical Cyclone</td>
<td>3</td>
<td>0</td>
<td>10,700</td>
<td>5,510</td>
</tr>
<tr>
<td>Wildfire</td>
<td>58</td>
<td>15</td>
<td>1,922</td>
<td>855</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>33</td>
<td>8,000</td>
<td>1,000</td>
</tr>
</tbody>
</table>

Source: MR NatCatSERVICE
2011’s Most Expensive Catastrophes, Insured Losses

- **Thunderstorms, Apr. 22-26**: $7,300
- **Thunderstorms, May 20-27**: $6,900
- **Hurricane Irene, Aug. 26-28**: $5,000
- **Thunderstorms, Apr. 3-5**: $2,000
- **Thunderstorms, Apr. 8-11**: $1,510
- **Thunderstorms, Apr. 14-16**: $1,400
- **Thunderstorms, Jun. 16-22**: $1,200
- **Texas Drought, 2011**: $1,000
- **Thunderstorms, Jul. 10-14**: $980
- **Winter Storm, Jan. 31-Feb. 3**: $975
- **Thunderstorms, Aug. 18-19**: $840
- **Thunderstorms, Apr. 19-20**: $830
- **Wildfire, Sep. 4-19**: $530
- **Flooding, April**: $500

**Includes $1.65B in AL, mostly in the Tuscaloosa and Birmingham areas**

- Includes approximately $2B in losses for May 22 Joplin tornado

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

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.

Thermidstorm losses in 2011 totaled a record $25.8 billion.

Hurricanes get all the headlines, but thunderstorms are consistent producers of large scale loss. 2008-2011 are the most expensive years on record.

Average thunderstorm losses are up more than 5 fold since the early 1980s.

Source: Property Claims Service, MR NatCatSERVICE
Insured winter storm losses in 2011 totaled $2.0 billion. Average winter storm losses have nearly doubled since the early 1980s.
8.3 millions acres were burned by wildfires in 2011, one of the worst years on record, causing $855 in insured losses.
Notable Wildfires in 2011

- Worst wildfire year on record in Texas due to persistent drought.

- **Spring:** Over 3 million acres burned in west Texas from 12 major seats of fire. Over 200 homes and businesses destroyed, $50 million insured loss.

- **September:** Bastrop County Complex Fire near San Antonio destroys over 1,600 homes, insured loss of $530 million.

Source: FEMA

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

- Hurricanes & Tropical Storms, $5,510 (72.1%)
- Thunderstorms (Incl. Tornadoes), $25,813 (15.4%)
- Wildfires, $855 (5.6%)
- Other, $1,000 (1.5%)
- Winter Storms, $2,017 (2.8%)
- Flood, $535 (1.5%)
- Geological Events, $50 (0.1%)

Thunderstorm/Tornado losses were 2.5 times above the 30-year average.

2011’s insured loss distribution was unusual with tornado and thunderstorm accounting for the vast majority of loss.

Source: ISO’s Property Claim Services Unit, Munich Re; Insurance Information Institute.
Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1990–2011:H1

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.

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

Tornado share of CAT losses is rising

Wind/Hail/Flood (3), $12.7
Fires (4), $9.0
Geological Events, $18.5
Terrorism, $24.9
Winter Storms, $30.0
Tornadoes (2), $119.5
Hurricanes & Tropical Storms, $160.5
Federal Disaster Declarations Patterns: 1953-2012

Records Were Set for Federal Disaster Declarations in 2010 and 2011—Most Declarations Were Unrelated to Tropical Activity
The number of federal disaster declarations set a new record in 2011, with 99, shattering 2010’s record 81 declarations.

The number of federal disaster declarations is rising and set new records in 2010 and 2011.

*Through April 22, 2012.

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

Over the past nearly 60 years, Texas has had the highest number of Federal Disaster Declarations.

Disaster Declarations

AL has had 56 federal disaster declarations since 1953, nearly one per year, and has had 1 so far in 2012.

*Through Apr. 18, 2012.
Over the past nearly 60 years, Utah and Rhode Island had the fewest number of Federal Disaster Declarations.

MD has had 22 federal disaster declarations since 1953, roughly one every 3 years, though there were 2 declarations in both 2010 and 2011.


SPRING 2012 TORNADO & SEVERE STORM OUTBREAK

2012 Is Off to a Worrisome Start, But a Repeat of 2011 Is Unlikely
2012 Tornado Losses Is Off to a Ominous Beginning. First Half 2011 Insured Losses from Tornadoes and Thunderstorms Topped $21B.

Tornadoes claimed 550 lives in 2011, the most since 1925.

559 tornadoes have been recorded so far this year*

*Through April 19, 2012.

There were 1,897 tornadoes in the US in 2011 far above average, but well below 2008’s record.

2012 count is running ahead of 2011.

*Through April 17, 2012.
Source: [http://www.spc.noaa.gov/wcm/](http://www.spc.noaa.gov/wcm/)
1,894 tornadoes killed 552 people in 2011, including at least 340 on April 26 mostly in the Tuscaloosa area, and 130 in Joplin on May 22.
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.

There were 18,685 “Wind Damage” reports through Dec. 27, causing extensive damage to homes and businesses.
There were 29,996 severe weather reports in 2011; including 1,894 tornadoes; 9,417 “Large Hail” reports and 18,685 high wind events.
Large Hail, 9,417, 31%
Wind Damage, 18,685, 63%
Tornadoes, 1,894, 6%

Tornadoes accounted for just 6% of all Severe Weather Reports but more than 550 deaths in 2011, the most in 75 years.

Maryland’s 2011 and 2012 YTD Severe Storm Loss Summary

Tornadoes, Hail and Severe Thunderstorms Took their Toll
There were 254 severe weather reports in MD in 2011

MARYLAND
Total Reports = 254
Tornadoes = 18 (Red)
Hail Reports = 62 (Green)
Wind Reports = 174 (Blue)

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2011_annual_summary.html#
Severe Weather Reports in Maryland, January 1—April 19, 2012

There have been 5 severe weather reports in MD so far in 2012

MARYLAND

Total Reports = 5
Tornadoes = 0 (Red)
Hail Reports = 1 (Green)
Wind Reports = 4 (Blue)

The BIG Question: When Will the Market Turn?

Are Catastrophes and Other Factors Pressuring Insurance Markets?
## Criteria Necessary for a “Market Turn”: All Four Criteria Must Be Met

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Status</th>
<th>Comments</th>
</tr>
</thead>
</table>
| Sustained Period of Large Underwriting Losses | Early Stage, Inevitable                     | 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)  
• Prior-year reserve releases continue to reduce u/w losses, boost ROEs, though more modestly |
| Material Decline in Surplus/Capacity          | Entered 2011 At Record High; Only Small Decline | Surplus hit a record $565B as of 3/31/11  
• Fell just 1.6% through 12/31/11 from 12/31/10  
• Will likely see new record in 2012  
• Little excess capacity remains in reinsurance markets  
• Modest growth in demand for insurance is insufficient to absorb much excess capacity |
| Tight Reinsurance Market                      | Somewhat in Place                           | 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      | Some Firming esp. in Property, WC           | Commercial lines pricing trends have turned from negative to flat and now positive, esp. Property & WC;  
• Competition remains intense as many seek to maintain market share |

Sources: Barclays Capital; Insurance Information Institute.
1. UNDERWRITING

Have Underwriting Losses Been Large Enough for Long Enough to Turn the Market?
As Recently as 2001, Insurers Paid Out Nearly $1.16 for Every $1 in Earned Premiums

Heavy Use of Reinsurance Lowered Net Losses

Relatively Low CAT Losses, Reserve Releases

Relatively Low CAT Losses, Reserve Releases

Cyclical Deterioration

Avg. CAT Losses, More Reserve Releases

Higher CAT Losses, Shrinking Reserve Releases, Toll of Soft Market

As Recently as 2001, Insurers Paid Out Nearly $1.16 for Every $1 in Earned Premiums

Heavy Use of Reinsurance Lowered Net Losses

Relatively Low CAT Losses, Reserve Releases

Relatively Low CAT Losses, Reserve Releases

Cyclical Deterioration

Avg. CAT Losses, More Reserve Releases

Higher CAT Losses, Shrinking Reserve Releases, Toll of Soft Market


Sources: A.M. Best, ISO.
Cumulative underwriting deficit from 1975 through 2011 is $479B

Underwriting losses in 2011 totaled $36.5B, the largest since 2001

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.
Reserve Releases Are Continuing Strong in 2010 But Should Begin to Taper Off in 2011

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: Barclay’s Capital; A.M. Best.
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 and 2011.
Note: Data for 1920–1934 based on stock companies only.
Sources: Insurance Information Institute research from A.M. Best Data.
<table>
<thead>
<tr>
<th>Line of Business</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Auto Liability</td>
<td>-$1.8B</td>
</tr>
<tr>
<td>Homeowners</td>
<td>-$0.2</td>
</tr>
<tr>
<td>Other Liab (incl. Prod Liab)</td>
<td>$4.0</td>
</tr>
<tr>
<td>Workers Compensation</td>
<td>$8.2</td>
</tr>
<tr>
<td>Commercial Multi Peril</td>
<td>$1.5</td>
</tr>
<tr>
<td>Commercial Auto Liability</td>
<td>$0.0</td>
</tr>
<tr>
<td>Medical Malpractice</td>
<td>-$4.0</td>
</tr>
<tr>
<td>Reinsurance—Nonprop Assumed</td>
<td>$3.4</td>
</tr>
<tr>
<td>All Other Lines*</td>
<td>-$2.2</td>
</tr>
<tr>
<td><strong>Total Core Reserves</strong></td>
<td>$8.9</td>
</tr>
<tr>
<td>Asbestos &amp; Environmental</td>
<td>$7.4</td>
</tr>
<tr>
<td><strong>Total P/C Industry</strong></td>
<td>$16.3B</td>
</tr>
</tbody>
</table>

Financial Strength & Underwriting

Cyclical Pattern is P-C Impairment History is Directly Tied to Underwriting, Reserving & Pricing
The Number of Impairments Varies Significantly Over the P/C Insurance Cycle, With Peaks Occurring Well into Hard Markets

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

Source: A.M. Best; Insurance Information Institute

2011 impairment rate was 0.91%, up from 0.67% in 2010; the rate is slightly higher than the 0.82% average since 1969
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.

- Deficient Loss Reserves/Inadequate Pricing: 40.3%
- Sign. Change in Business: 3.6%
- Reinsurance Failure: 4.0%
- Investment Problems (Overstatement of Assets): 8.6%
- Affiliate Impairment: 7.3%
- Alleged Fraud: 7.8%
- Catastrophe Losses: 7.1%
- Rapid Growth: 13.6%
- Misc.: 7.8%

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

Insurers are true survivors—not just of natural catastrophes but also economic ones.

Many US Insurers Are Close to a Century Old or Older

Sources: Insurance Information Institute research from National Bureau of Economic Research data.
Performance by Segment: Personal Lines
While homeowners insurance has grown faster than auto over the past decade, auto is generally more profitable.
Homeowners Line Could Deteriorate in 2011 Due to Large Cat Losses. Extreme Regional Variation Can Be Expected Due to Local Catastrophe Loss Activity

Sources: A.M. Best (1990-2012E); Insurance Information Institute.
Private Passenger Auto accounts for 34% of Industry Premiums and Remains the Profit Juggernaut of the P/C Insurance Industry

Sources: A.M. Best (1990-2012F); Insurance Information Institute.
Claim Trends in Auto Insurance

Frequency and Severity Trends Are Mixed But On Net Have Deteriorated
MD Private Passenger Auto: Frequency & Severity Trends by Coverage Type

Frequency and severity trends in Maryland are generally favorable

(Percent)

Source: ISO/PCI; Insurance Information Institute
US Bodily Injury: Severity Trend Rising, Frequency Decline Has Ended

Annual Change, 2005 through 2011

Cost Pressures Will Increase if BI Severity Frequency Increases Continue

Source: ISO/PCI Fast Track data; Insurance Information Institute
US Property Damage Liability: Severity is Up, Frequency Nearly Flat Since 2009

Annual Change, 2005 through 2011

Severity/Frequency Trends Were Stable Through 2010, But Rising Severity in 2011 Is a Concern

Source: ISO/PCI Fast Track data; Insurance Information Institute
US No-Fault (PIP) Liability: Severity Trend Remains Adverse*

Annual Change, 2005 through 2011

Multiple States Are Experiencing Severe Fraud and Abuse Problems in their No-Fault Systems, Especially FL, MI, NY and NJ

*No-fault states included are: FL, HI, KS, KY, MA, MI, MN, NY, ND and UT.
Source: ISO/PCI Fast Track data; Insurance Information Institute
US Collision Coverage: Frequency and Severity Trends Are Up in 2011

Annual Change, 2005 through 2011

The Recession, High Fuel Prices Have Helped Temper Frequency and Severity, But this Trend Will Likely Be Reversed Based on Evidence from Past Recoveries

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

Annual Change, 2005 through 2011

Severe weather is a principal cause of the spike in both frequency and severity in 2011

Weather Creates Volatility for Comprehensive Coverage; Recession Has Helped Push Down Frequency and Temper Severity, But This Factor Will Weaken as Economy Recovers

- Severe weather is a principal cause of the spike in both frequency and severity in 2011.
- Weather Creates Volatility for Comprehensive Coverage; Recession Has Helped Push Down Frequency and Temper Severity, But This Factor Will Weaken as Economy Recovers.

Source: ISO/PCI Fast Track data; Insurance Information Institute
### Increase in No-Fault Claim Severity: Selected States, 2004-2011

<table>
<thead>
<tr>
<th>State</th>
<th>2004</th>
<th>2011</th>
<th>Percentage Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Michigan</td>
<td>$24,385</td>
<td>$36,710</td>
<td>+50.5%</td>
</tr>
<tr>
<td>New Jersey</td>
<td>$12,136</td>
<td>$17,766</td>
<td>+46.4%</td>
</tr>
<tr>
<td>New York</td>
<td>$5,871</td>
<td>$7,897</td>
<td>+34.5%</td>
</tr>
<tr>
<td>Florida</td>
<td>$6,674</td>
<td>$9,478</td>
<td>+42.0%</td>
</tr>
<tr>
<td>Minnesota</td>
<td>$5,198</td>
<td>$7,094</td>
<td>+36.5%</td>
</tr>
</tbody>
</table>

The no-fault systems in MI, NJ, NY, FL, and MN are under stress due to rising fraud and abuse, which leads to higher premiums for honest drivers.

Sources: Insurance Information Institute research from ISO/PCI Fast Track data.
Florida’s No-Fault Fraud Tax: Estimated Aggregate Annual Cost, 2009-2011E ($ Millions)

The total fraud tax levied on Florida vehicle owners is an estimated $658 million in 2011.

Unscrupulous Medical Providers and Attorneys Are Costing Honest Florida Drivers Hundreds of Millions of Dollars

*2011 estimate is based on data through Q2:2011.
Source: Insurance Information Institute calculations and research from ISO/PCI and AIPSO data.
New York State No-Fault Claim Frequency and Severity, 1997–2011:Q4

No-Fault Claim Severity

Avg. Claim Severity is up 42% since 2004:Q4 though 2011:Q4

Avg. Claim Severity

No-Fault Claim Frequency

Source: Insurance Information Institute calculations and research from ISO/PCI Fast Track data.
New York’s No-Fault Fraud Problem, Paid Claims Severity**

No-fault fraud and abuse has resulted in claim severity increases far in excess of the general increase in the cost of medical care.

Average NY PIP Claim Severity, Indexed to 2004:Q4=100

*Middle month of quarter  **For the four quarters ending in quarter indicated
Sources: Insurance Information Institute calculations based on ISO/PCI Fast Track Data and BLS Medical Care CPI
Several States Including NY Have Severe and Growing Problems With Rampant Fraud and Abuse in their No-Fault Systems. Claim Severities Are Up Sharply.

*Average of the four quarters ending 2011:Q3.
Source: ISO/PCI Fast Track data; Insurance Information Institute.
Performance by Segment: Commercial Lines
A.M. Best Commercial Lines Outlook: Negative (as of January 2012)

- Underwriting Margins Pressured
  - Will recent rate increases hold?
- Loss Reserve Redundancies Fade
- Historically Low Investment Yields

OFFSETTING FACTORS

- Capitalization Still Solid
- Emergence of Sophisticated Price Monitoring and Underwriting Tools
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

Sources: A.M. Best Insurance Information Institute.
Commercial Multi-Peril Underwriting Performance is Expected to Improve in 2012 Assuming Normal Catastrophe Loss Activity

*2011-12 figures are A.M. Best estimate/forecast for the combined liability and non-liability components.

Sources: A.M. Best; Insurance Information Institute.
Inland Marine Combined Ratio: 1999–2012F

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

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

Sources: A.M. Best; Insurance Information Institute.
Medical Malpractice Combined Ratio vs. All Lines Combined Ratio, 1991-2012F

- Med Mal Insurers in 2011 paid out $0.87 in loss and expense for every $1 they earned in premiums.

- In 2001, med mal insurers paid out $1.55 for every dollar earned.

- The dramatic improvement over the past decade has restored med mal’s viability.

Source: AM Best, Insurance Information Institute
Workers Comp Underwriting Results Are Deteriorating Markedly and the Worst They Have Been in a Decade

Sources: A.M. Best; Insurance Information Institute.
Workers Compensation Operating Environment

The Weak Economy and Soft Market Have Made the Workers Comp Operating Increasingly Challenging
Workers Comp Medical Claim Costs Continue to Rise

Average Medical Cost per Lost-Time Claim

Cumulative Change = 238% (1991-2010p)

Does smaller pace of increase suggest that small med-only claims are becoming lost-time claims?

Accident Year

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>91</td>
<td>$8.2</td>
<td>+1.9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>92</td>
<td>$8.4</td>
<td></td>
<td>+8.9%</td>
<td></td>
</tr>
<tr>
<td>93</td>
<td>$8.9</td>
<td></td>
<td></td>
<td>+6.6%</td>
</tr>
<tr>
<td>94</td>
<td>$9.4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>95</td>
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<td>10p</td>
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</table>

2010p: Preliminary based on data valued as of 12/31/2010
1991-2008: Based on data through 12/31/2008, developed to ultimate
Based on the states where NCCI provides ratemaking services; Excludes the effects of deductible policies
Workers Comp Indemnity Claim Costs Decline in 2010

Claiming behavior has changed significantly. Large numbers of lost time, low severity claims have entered the system—claims that previously were medical only, driving down average indemnity costs per claim.

Average Indemnity Cost per Lost-Time Claim

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<td>$22.0</td>
<td>$23.0</td>
<td>$22.3</td>
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</table>

2010p: Preliminary based on data valued as of 12/31/2010
1991–2008: Based on data through 12/31/2008, developed to ultimate
Based on the states where NCCI provides ratemaking services
Excludes the effects of deductible policies
Workers Compensation Premium Continues Its Sharp Decline

Net Written Premium

$ Billions

31.0 31.3 29.8 30.5 29.1 26.3 25.2 24.2 23.3 22.3 25.0 26.1 29.2 31.1 34.7 37.8 38.6 37.6 33.8 30.3 29.9


Source: 1990–2009 Private Carriers, Best's Aggregates & Averages; 2010p, NCCI
1996–2010p State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements
State Funds available for 1996 and subsequent

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

Peak was 2008:Q1 at $6.60 trillion

Recent trough (2009:Q3) was $6.25 trillion, down 5.3% from prior peak

Latest (2011:Q4) was $6.71 trillion, a new peak

Growth rates in 2011
Q2 over Q1: 0.6%
Q3 over Q2: 0.4%
Q4 over Q3: 1.0%

Pace of payroll growth is accelerating

Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.
Sources: http://research.stlouisfed.org/fred2/series/WASCUR; National Bureau of Economic Research (recession dates); Insurance Information Institute.
Payroll vs. Workers Comp Net Written Premiums, 1990-2011

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

*Private employment; Shaded areas indicate recessions. Payroll and WC premiums for 2011 is I.I.I. estimate
Sources: NBER (recessions); Federal Reserve Bank of St. Louis at [http://research.stlouisfed.org/fred2/series/WASCUR](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

Cumulative 1990–1993
+36.3%

Cumulative 1994–1999
-27.8%

Cumulative 2000–2003
+17.1%

Cumulative 2004–2011
-26.2%

*States approved through 4/8/11.
Note: Countrywide approved changes in advisory rates, loss costs and assigned risk rates as filed by applicable rating organization.
Source: NCCI.
Workers Comp Rate Changes, 2008:Q4 – 2011:Q4

The Q4 2011 WC rate change was the largest among all major commercial lines.
Direct Premiums Written: Worker’s Comp Percent Change by State, 2005-2010*

Top 25 States

Only 7 (small) states showed growth in workers comp premium volume between 2005 and 2010

Workers Comp DPW in MD dropped 14.7% from between 2005 and 2010

*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.
Sources: SNL Financial LC.; Insurance Information Institute.
Direct Premiums Written: Worker’s Comp Percent Change by State, 2005-2010*

Bottom 25 States

States with the poorest performing economies also produced the most negative net change in premiums of the past 5 years

Workers Comp DPW plunged 28.7% from between 2005 and 2010

*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.
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)

Surplus as of 12/31/11 was $550.3 down 2.5% from the record $564.7B as of 3/31/11, but still up 25.9% ($113.2B) from the crisis trough of $437.1B at 3/31/09. Pre-crisis peak was $521.8 as of 9/30/07. Surplus as of 12/31/11 was 5.5% above 2007 peak.

“Surplus” is a measure of underwriting capacity. It is analogous to “Owners Equity” or “Net Worth” in non-insurance organizations.

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.
Policyholder Surplus, 2006:Q4–2011:Q4

($ Billions)

2007:Q3 Previous Surplus Peak

Surplus as of 12/31/11 was down 2.5% below its all time record high of $564.7B set as of 3/31/11. A new record high in 2012 is possible.

The Industry now has $1 of surplus for every $0.80 of NPW, close to the strongest claims-paying status in its history.

*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.

Sources: ISO, A.M. Best.

Quarterly Surplus Changes Since 2011:Q1 Peak

11:Q2: -$5.6B (-1.0%)
11:Q3: -$26.1B (-4.6%)
11:Q4: -$14.3B (-2.5%)

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

Source: Insurance Information Institute calculations from A.M. Best and ISO data.
M&A Activity in the US P/C Insurance Industry, 1997-2011*

M&A Activity in the P/C Insurance Industry Remains Well Below its 1990s Peak

*2011 data are through December 1.
Source: SNL Securities; Insurance Information Institute.

($ Billions)

2005 2006 2007 2008 2009 2010 2011

$14.4 $3.8 $3.2 $12.3 $6.6 $22.5 $4.9 $2.2

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

Paid-in capital for insurance operations rose by $27.4B in 2010, the largest on record dating back to 1959

Very little new capital entered the industry in 2011

Source: ISO; Insurance Information Institute.
Ratio of Insured Loss to Surplus for Largest Capital Events Since 1989*

* Ratio is for end-of-quarter surplus immediately after the event. Date shown is end of quarter prior to event.
** Date of maximum capital erosion; As of 9/30/09 (latest available) ratio = 5.9%

Source: PCS; Insurance Information Institute

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The Financial Crisis at its Peak Ranks as the Largest “Capital Event” Over the Past 20+ Years

<table>
<thead>
<tr>
<th>Event</th>
<th>Percent</th>
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</thead>
<tbody>
<tr>
<td>Hurricane Hugo</td>
<td>3.3%</td>
</tr>
<tr>
<td>Hurricane Andrew</td>
<td>9.6%</td>
</tr>
<tr>
<td>Northridge Earthquake</td>
<td>6.9%</td>
</tr>
<tr>
<td>Sept. 11 Attacks</td>
<td>10.9%</td>
</tr>
<tr>
<td>Florida Hurricanes</td>
<td>6.2%</td>
</tr>
<tr>
<td>Hurricane Katrina</td>
<td>13.8%</td>
</tr>
<tr>
<td>Financial Crisis</td>
<td>16.2%</td>
</tr>
<tr>
<td>Tornados &amp; Severe Storms</td>
<td>3.8%</td>
</tr>
</tbody>
</table>
Historically, Hard Markets Follow When Surplus “Growth” is Negative*

* 2011 NWP and Surplus figures are % changes as of Q4:11 vs. Q4:10.
Sources: A.M. Best, ISO, Insurance Information Institute

Historically, Hard Markets Follow When Surplus “Growth” is Negative*

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

Surplus growth was positive until Q1:2011 but is now down slightly

2008 surplus plunge did not lead to a hard market
The premium-to-surplus ratio (a measure of leverage) hit a record low at just 0.76:1 in 2010. It has decreased as PHS grows more quickly than NPW, with the effect of holding down profitability.

Record Low P-S Ratio was 0.76:1 as of 12/31/10, rising slightly to 0.80:1 as of 12/31/11

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

*2011 data are as of 12/31/11.
Sources: Insurance Information Institute calculations from A.M. Best data.
3. REINSURANCE MARKET CONDITIONS

Record Global Catastrophes Activity is Pressuring Pricing
Global Property Catastrophe Rate on Line Index, 1990—2012 (as of Jan. 1)

Property-Cat reinsurance pricing is up about 8% as of 1/1/12—modest relative to the level CAT losses

Sources: Guy Carpenter; Insurance Information Institute.
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.
Reinsurers Paid a High Proportion of Insured Losses Arising from Major Catastrophic Events Around the World in Recent Years

Source: Insurance Information Institute from reinsurance share percentages provided in RAA, ABIR and CEA press release, Jan. 13, 2011.
Is There Evidence of a Broad and Sustained Shift in Pricing?
Premium Growth Is Up Modestly: More in 2012?

(Percent)

1975-78 1984-87 2000-03

Net Written Premiums Fell 0.7% in 2007 (First Decline Since 1943) by 2.0% in 2008, and 4.2% in 2009, the First 3-Year Decline Since 1930-33.

2011 growth was +3.3%

NWP was up 0.9% in 2010

Shaded areas denote “hard market” periods
Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute.
Finally! Back-to-back quarters of net written premium growth (vs. the same quarter, prior year)

Sources: ISO, Insurance Information Institute.
Growth in Net Written Premium by Segment, 2011 vs. 2010

Personal lines insurer growth decelerated as auto pricing moderated even has homeowners insurance rates rose.

Commercial lines growth improved dramatically as a 7-year long soft market came to an end and an improving economy bolstered demand.

<table>
<thead>
<tr>
<th>Segment</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Lines</td>
<td>1.3%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Personal Lines Predominating</td>
<td>3.8%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Commercial Lines Predominating</td>
<td>4.3%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Diversified Insurers</td>
<td>-2.3%</td>
<td>2.4%</td>
</tr>
</tbody>
</table>

Source: ISO/PCI; Insurance Information Institute
Monthly Change* in Auto Insurance Prices, 1991–2012*

Cyclical peaks in PP Auto tend to occur approximately every 10 years (early 1990s, early 2000s and likely the early 2010s)

Pricing peak occurred in 2010 at 5.1%, falling to 2.8% by Mar. 2012

"Hard" markets tend to occur during recessionary periods

The Feb. 2012 reading of 2.7% was the lowest since July 2008

*Percentage change from same month in prior year; through March 2012; 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 Commercial Rate Change, All Lines, (1Q:2004–4Q:2011)

(Percents)

-3.2%  -5.9%  -7.0%  -9.4%  -9.7%  -8.2%  -4.6%  -2.7%  -3.0%  -5.3%  -9.6%  -11.3%  -11.8%  -13.3%  -12.0%  -13.5%  -12.9%  -6.4%  -5.1%  -4.9%  -5.8%  -5.6%  -5.3%  -5.4%  -5.4%  -2.9%  -0.1%  0.9%  2.8%

Source: Council of Insurance Agents & Brokers (1Q04-4Q11); Insurance Information Institute

Pricing as of Q3:2011 was positive for the first time since 2003. Slightly stronger gains in Q4.

Q2 2011 marked the 30th consecutive quarter of price declines

KRW Effect
Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2011:Q4

Percentage Change (%)

Peak = 2001:Q4 +28.5%

Pricing turned positive (+0.9%) in Q3:2011, the first increase in nearly 8 years; Q4:2011 renewals were up 2.8%

Pricing Turned Negative in Early 2004 and Remained that way for 7 ½ years

Trough = 2007:Q3 -13.6%

Source: Council of Insurance Agents and Brokers; Barclay’s Capital; Insurance Information Institute.
Despite Q4:2011 gain of 2.8%, pricing today is where it was in late 2000 (pre-9/11)

Upward pricing pressure is small for large accounts, 1.8% in Q4:2011, vs. 3.1% for small accounts and 3.5% for medium accounts.
Global Reinsurance Capital, 2007-2011:H1

Reinsurer Capital

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<thead>
<tr>
<th>Year</th>
<th>Capital</th>
<th>% Change</th>
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<tr>
<td>2007</td>
<td>$411</td>
<td>-17%</td>
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<tr>
<td>2008</td>
<td>$342</td>
<td>-17%</td>
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<td>2009</td>
<td>$402</td>
<td>18%</td>
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<tr>
<td>2010</td>
<td>$470</td>
<td>17%</td>
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<tr>
<td>2011:H1</td>
<td>$445</td>
<td>-5%</td>
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</tbody>
</table>

High Global Catastrophe Losses Have Had a Modest Adverse Impact on Global Reinsurance Market Capacity

Source: Aon Reinsurance Market Outlook, September 2011 from Individual Company and AonBenfield Analytics; Insurance Information Institute.
Change in Commercial Rate Renewals, by Line: 2011:Q4

Major Commercial Lines Renewed Uniformly Upward in Q4:2011 for Only the Second Time Since 2003; Property Lines & Workers Comp Leading the Way

Source: Council of Insurance Agents and Brokers; Insurance Information Institute.
The cost of risk cannot continue to fall as actual results deteriorate.
How the Risk Dollar is Spent (2011)

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

Firms w/Revenues < $1 Billion

- Liability Premiums, 21%
- Liability Retained Losses, 13%
- WC Premiums, 6%
- WC Retained Losses, 9%
- Total Mgmt. Liab., 13%
- Total Prof. Liability Costs, 8%
- Property Premiums, 21%
- Retained Property Losses, 3%

Firms w/Revenues > $1 Billion

- Liability Premiums, 10%
- Liability Retained Losses, 12%
- WC Premiums, 6%
- WC Retained Losses, 21%
- Total Mgmt. Liab., 6%
- Total Prof. Liability Costs, 3%
- Property Premiums, 13%
- Retained Property Losses, 8%

Source: 2011 RIMS Benchmark Survey, Advisen; Insurance Information Institute
## Direct Premiums Written: All P/C Lines
### Percent Change by State, 2005-2010

### Top 25 States

<table>
<thead>
<tr>
<th>State</th>
<th>Percent Change (%)</th>
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<tbody>
<tr>
<td>ND</td>
<td>44.8</td>
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<td>SD</td>
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<td>LA</td>
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<td>NM</td>
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<td>ID</td>
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<td>WA</td>
<td>3.1</td>
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<tr>
<td>AL</td>
<td>3.0</td>
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<tr>
<td>WI</td>
<td>1.5</td>
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<tr>
<td>AK</td>
<td>1.2</td>
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<tr>
<td>TN</td>
<td>1.1</td>
</tr>
</tbody>
</table>

North Dakota is the growth juggernaut of the P/C insurance industry—too bad nobody lives there…

West Virginia premium growth was among the fastest in the US in recent years…

Sources: SNL Financial LC.; Insurance Information Institute.
Bottom 25 States

States with the poorest performing economies also produced the most negative net change in premiums of the past 5 years.

US Direct Premiums Written declined by 1.6% between 2005 and 2010.

MD premiums were flat between 2005-2010.

Sources: SNL Financial LC; Insurance Information Institute.
Distribution Trends

Distribution by Channel Type Continues to Evolve
Independent agents steadily lost market share from the early 1980s through the early 2000s across all P/C lines, but have gained or held generally steady in recent years. Direct channels include exclusive agency companies, direct marketers and direct sales (e.g., internet).
Independent agents have lost significant personal lines market share since the early 1970s. Although the trend has slowed, it may be accelerating again.

Source: Insurance Information Institute; based on data from Conning and A.M. Best.
Independent agents have seen only modest erosion in commercial lines market share in recent decades.

Source: Insurance Information Institute; based on data from Conning and A.M. Best.
Other Cycle-Influencing Factors

Could Other Factors Act as a Catalyst to Turn the Market?
INVESTMENTS: THE NEW REALITY

Investment Performance is a Key Driver of Profitability

*Does It Influence Underwriting or Cyclicality?*
Insurers Have Not Yet Fully Adapted to a Persistently Low Interest Rate Environment

- No Expectation that Rates Would Be:
  - Pushed to Such Low Levels
  - Pushed Down so Rapidly
  - Held to Such Low Levels for So Long
  - Suppressed via Unprecedented Aggressiveness of the Federal Reserve
    - Use of traditional and unconventional tools (QE)
    - Unconventional ’s policies couldn’t be anticipated, esp. QE1, 2 (3?)

- Competitive Pressure → Protracted Soft Market
- Ability to Release Prior Reserves Eases Urgency
- Realization of Capital Gains
Investment Income in 2011 Was Surprisingly Strong, Though Investment Income Is Likely to Weaken in 2012 Due to Persistently Low Interest Rates

Investment earnings in 2011 were 10.3% below their 2007 pre-crisis peak

1 Investment gains consist primarily of interest and stock dividends.
*2012F-201F based on Conning projections.
Sources: ISO; Conning Research & Consulting; Insurance Information Institute.
Investment Gains in 2011 Were Surprisingly Robust. Investment Gains Recovered Significantly in 2011 Due to Realized Investment Gains; The Financial Crisis Caused Investment Gains to Fall by 50% in 2008

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

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

Sources: ISO; Insurance Information Institute.
Insurers Posted Net Realized Capital Gains in 2010 and 2011 After Following Two Years of Realized Losses During the Financial Crisis. Realized Capital Losses Were the Primary Cause of 2008/2009’s Large Drop in Profits and ROE

Sources: A.M. Best, ISO, Insurance Information Institute.
Yields on 10-Year U.S. Treasury Notes have been essentially below 5% for nearly a decade.

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 February 2012. Note: Recessions indicated by gray shaded columns.
National Bureau of Economic Research (recession dates); Insurance Information Institutes.

<table>
<thead>
<tr>
<th></th>
<th>1M</th>
<th>3M</th>
<th>6M</th>
<th>1Y</th>
<th>2Y</th>
<th>3Y</th>
<th>5Y</th>
<th>7Y</th>
<th>10Y</th>
<th>20Y</th>
<th>30Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-Crisis (July 2007)</td>
<td>4.82%</td>
<td>4.96%</td>
<td>5.04%</td>
<td>4.96%</td>
<td>4.82%</td>
<td>4.82%</td>
<td>4.88%</td>
<td>5.00%</td>
<td>4.93%</td>
<td>5.00%</td>
<td>5.19%</td>
</tr>
<tr>
<td>March 2012 Yield Curve</td>
<td>0.06%</td>
<td>0.08%</td>
<td>0.14%</td>
<td>0.19%</td>
<td>0.34%</td>
<td>0.51%</td>
<td>1.02%</td>
<td>1.56%</td>
<td>2.17%</td>
<td>2.94%</td>
<td>3.28%</td>
</tr>
</tbody>
</table>

The Treasury yield curve remains near its most depressed level in at least 45 years. Investment income is falling as a result. The Fed is unlikely to hike rates until well into 2014.

The Fed is actively signaling that it is determined to keep rates low through late 2014.

Source: Federal Reserve Board of Governors; Insurance Information Institute.
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.
Is the Tort Pendulum Swinging Against Insurers?
Over the Last Three Decades, Total Tort Costs as a % of GDP Appear Somewhat Cyclical, 1980-2013E

Tort costs in dollar terms have remained high but relatively stable since the mid-2000s, but are down substantially as a share of GDP.

Sources: Towers Watson, 2011 Update on US Tort Cost Trends, Appendix 1A
Commercial Lines Tort Costs: Insured vs. Self-(Un)Insured Shares, 1973-2010

Billions of Dollars

1973: Commercial Tort Costs Totaled $6.49B, 94% was insured, 6% self-(un)insured

1985: $46.6B 74.5% insured, 25.5% self-(un)insured

1995: $83.6B 69.5% insured, 30.5% self-(un)insured

2005: $143.5B 66.4% insured, 33.6% self-(un)insured

2009: $126.5B 64.4% insured, 35.6% self-(un)insured

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

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 2010

### Best States

1. Delaware
2. North Dakota
3. Nebraska
4. Indiana
5. Iowa
6. Virginia
7. Utah
8. Colorado
9. Massachusetts
10. South Dakota

### Worst States

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

### New in 2010

- North Dakota
- Massachusetts
- South Dakota

### Drop-offs

- Maine
- Vermont
- Kansas

### Newly Notorious

- New Mexico
- Montana
- Arkansas

### Rising Above

- Texas
- South Carolina
- Hawaii

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*Midwest/West has mix of good and bad states.*

The Nation’s Judicial Hellholes: 2011

**Watch List**
- Eastern District of Texas
- Cook County, IL
- Southern NJ
- Franklin County, AL
- Smith County, MS
- Louisiana

**Dishonorable Mention**
- MI Supreme Court
- AK Supreme Court
- MO Supreme Court

Source: American Tort Reform Association; Insurance Information Institute
Inflation

Is it a Threat to Claim Cost Severities
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.

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

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.

Higher energy, commodity and food prices pushed up inflation in 2011, but not longer turn inflationary expectations.

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators, 10/11 and 4/12 (forecasts).
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

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

A claim that cost $1,000 in 1961 would cost nearly $17,500 based on medical cost inflation trends over the past 51 years.

Source: Department of Labor (Bureau of Labor Statistics)
Thank you for your time and your attention!

Twitter: twitter.com/bob_hartwig

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