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An Industry and Economy in Transition:

Overview and Outlook for US and Maryland P/C Insurance Markets

Maryland I-Day

Towson, MD

April 24, 2012

Download at www.iii.org/presentations

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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

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- **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**

Insurance Industry Predictions for 2012

- **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)**

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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*

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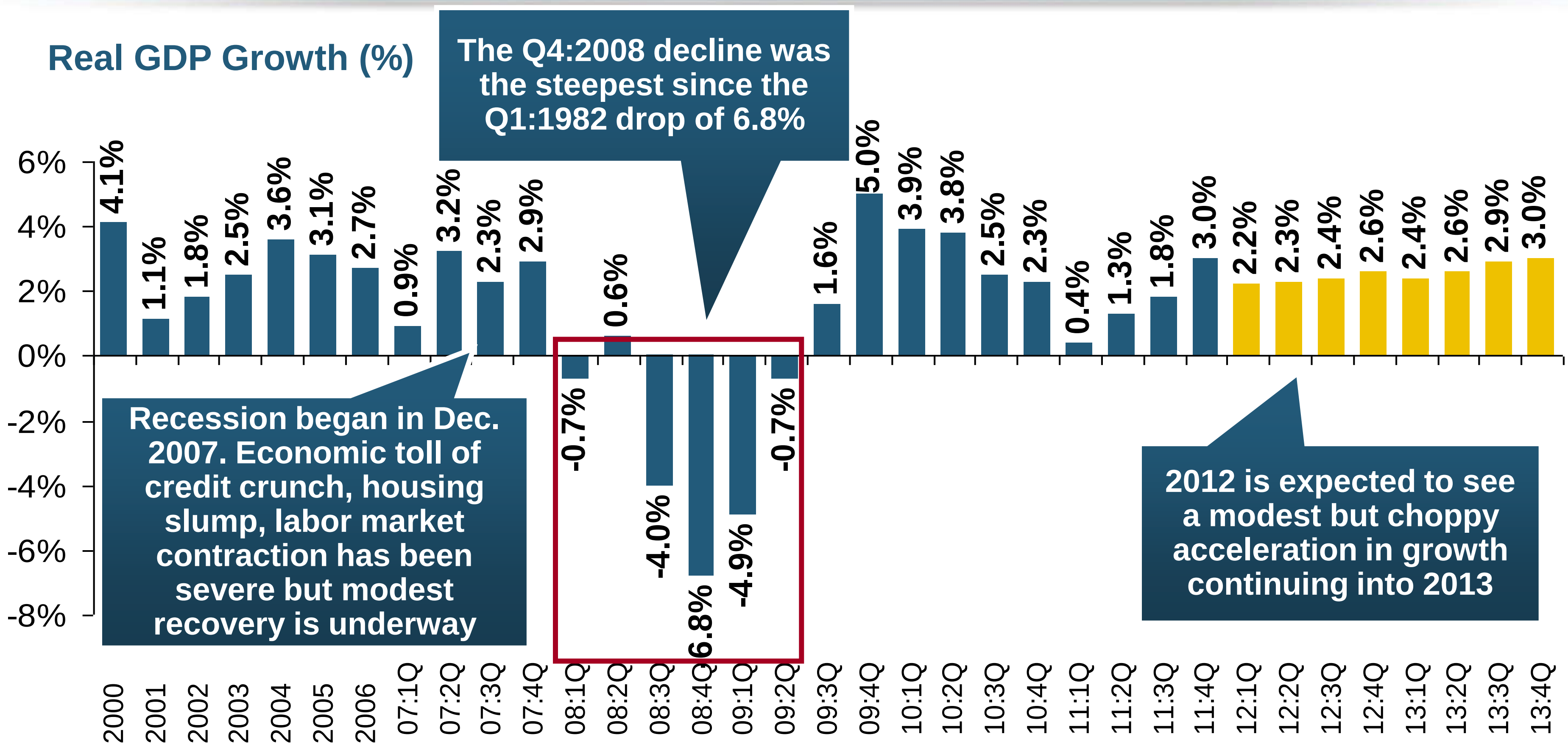

Demand for Insurance Continues To Be Impacted by Sluggish Economic Conditions, but the Benefits of Even Slow Growth Will Compound and Gradually Benefit the Economy Broadly

* Estimates/Forecasts from Blue Chip Economic Indicators.

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

Consumer Sentiment Survey *(1966 = 100)*

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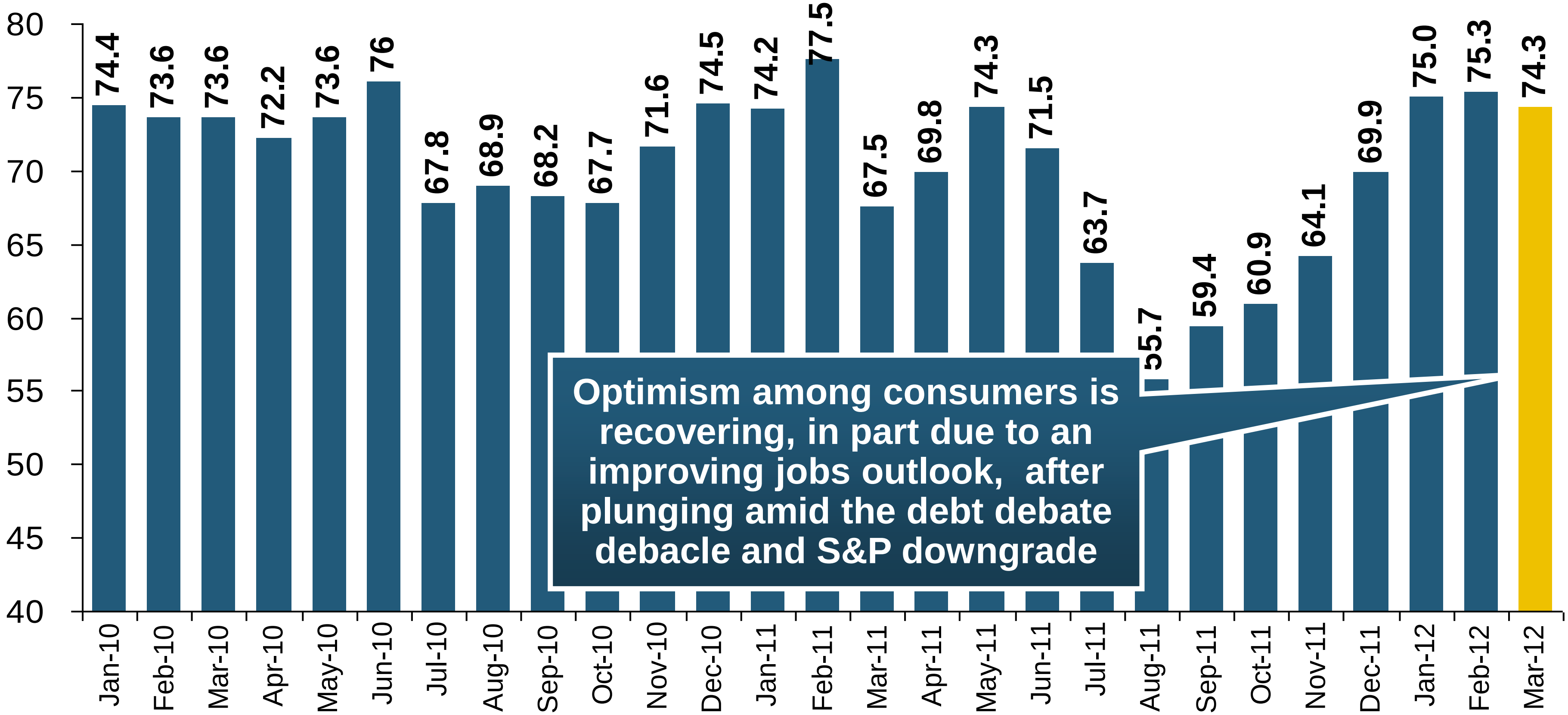
January 2010 through March 2012



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

Source: University of Michigan; Insurance Information Institute

Real GDP Growth vs. Real P/C Premium Growth: Modest Association

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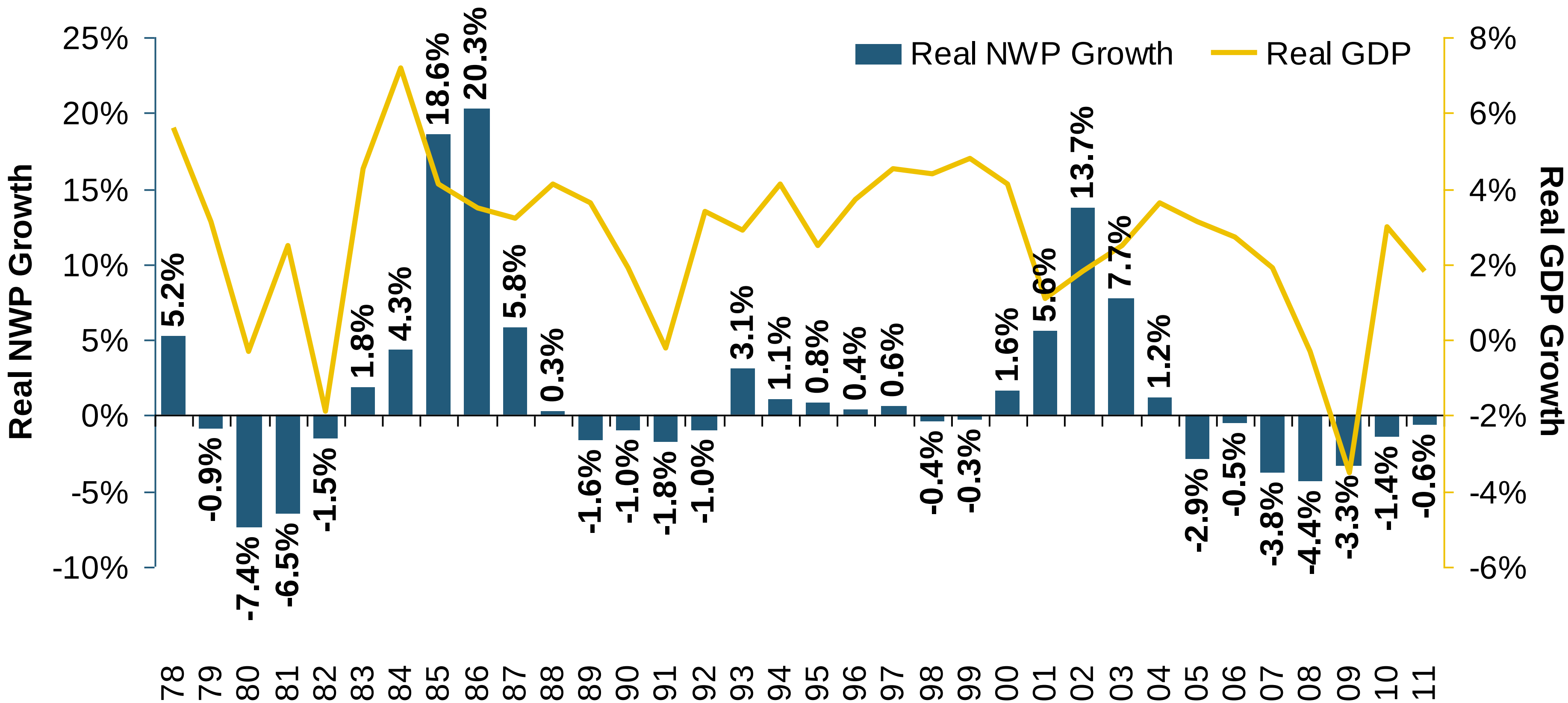
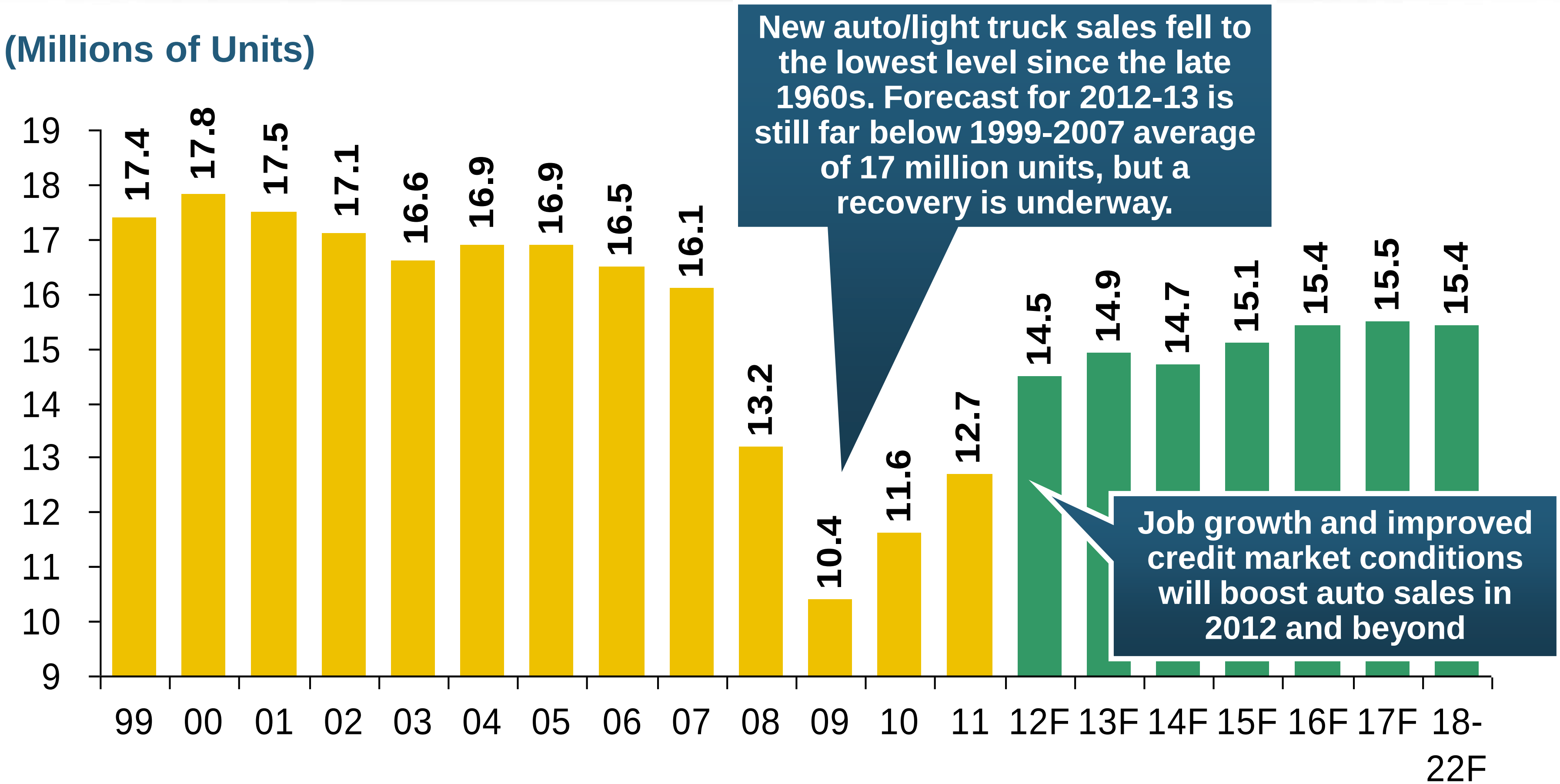
Real GDP Growth vs. Real P/C (%)



P/C Insurance Industry's Growth is Influenced Modestly by Growth in the Overall Economy

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

Auto/Light Truck Sales, 1999-2022F



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

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (10/11 and 4/12); Insurance Information Institute.

New Private Housing Starts, 1990-2022F

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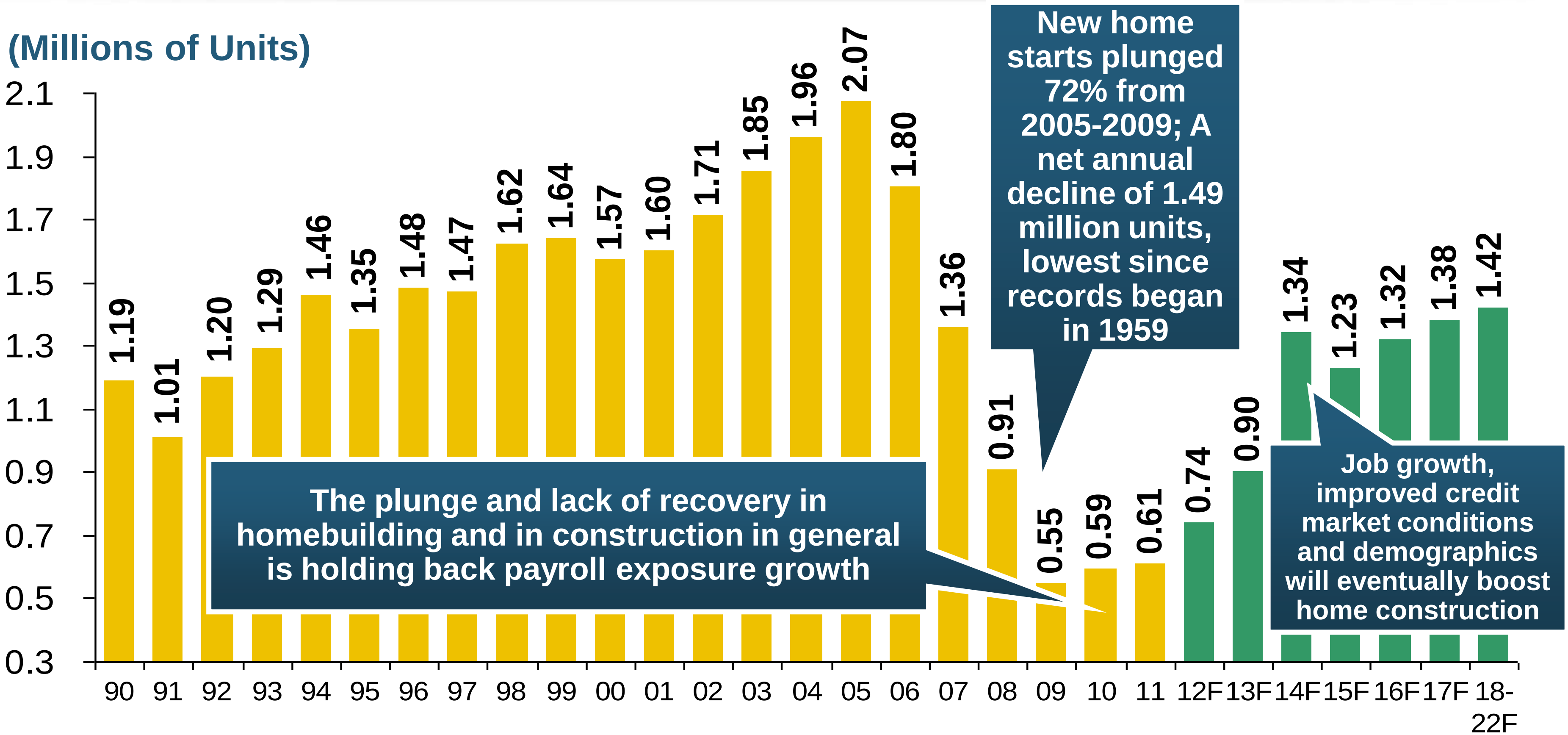

Little Exposure Growth Likely for Homeowners Insurers Until at least 2014. Also Affects Commercial Insurers with Construction Risk Exposure, Surety

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (10/11 and 4/12); Insurance Information Institute.

ISM Manufacturing Index
(Values > 50 Indicate Expansion)

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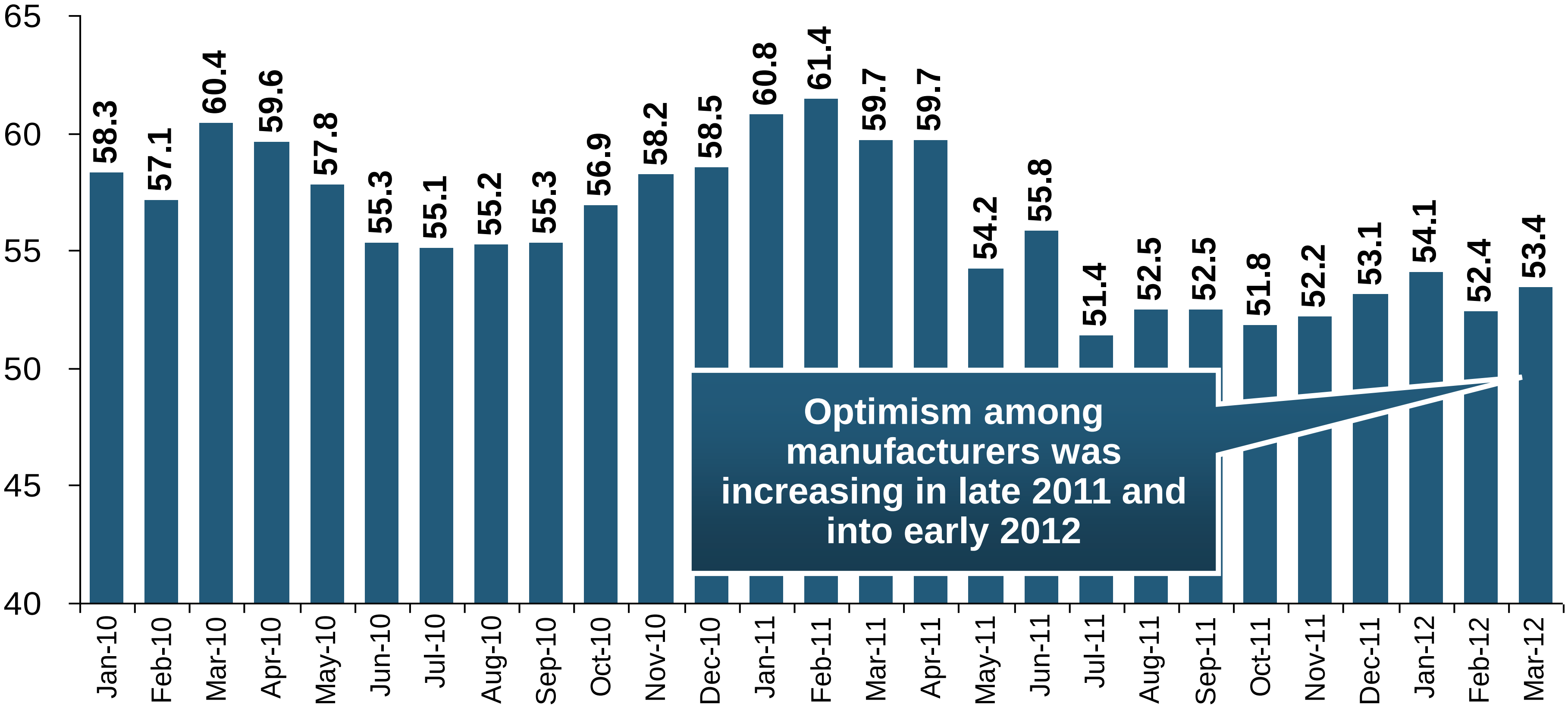
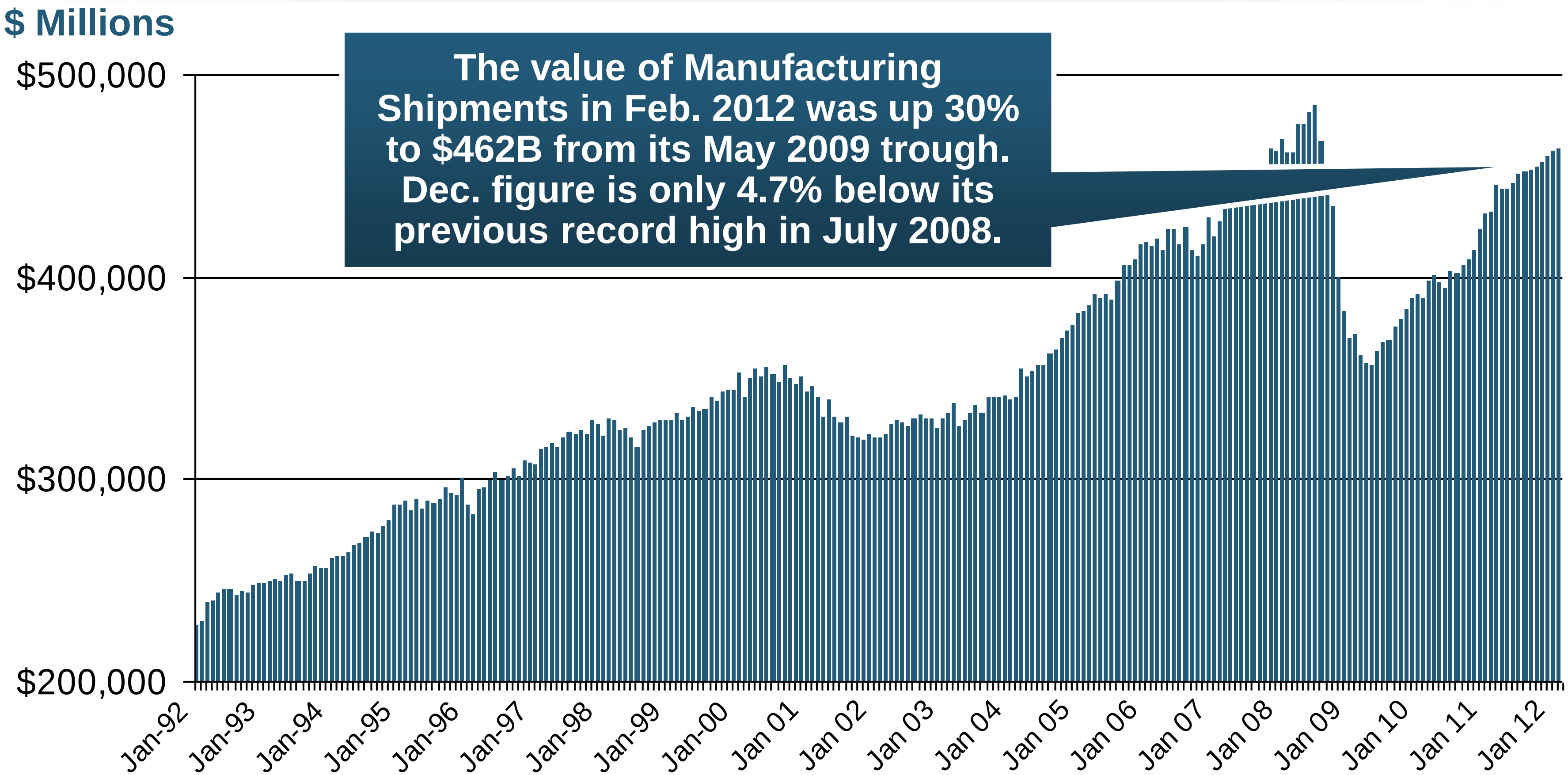
January 2010 through March 2012



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

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

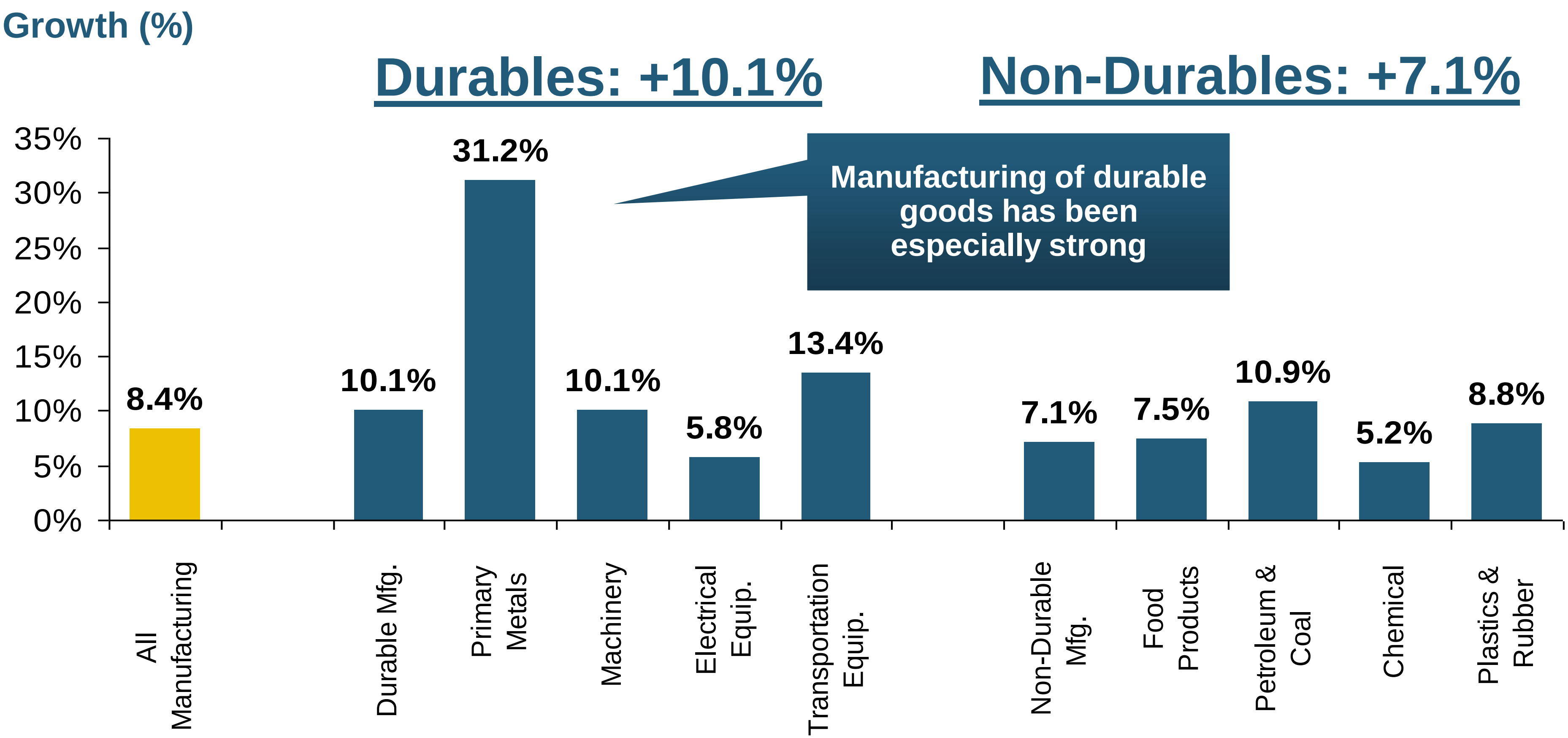
Dollar Value* of Manufacturers' Shipments Monthly, Jan. 1992—Feb. 2012



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

Manufacturing Growth for Selected Sectors, Jan. 2012 vs. Jan. 2011



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

*seasonally adjusted
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

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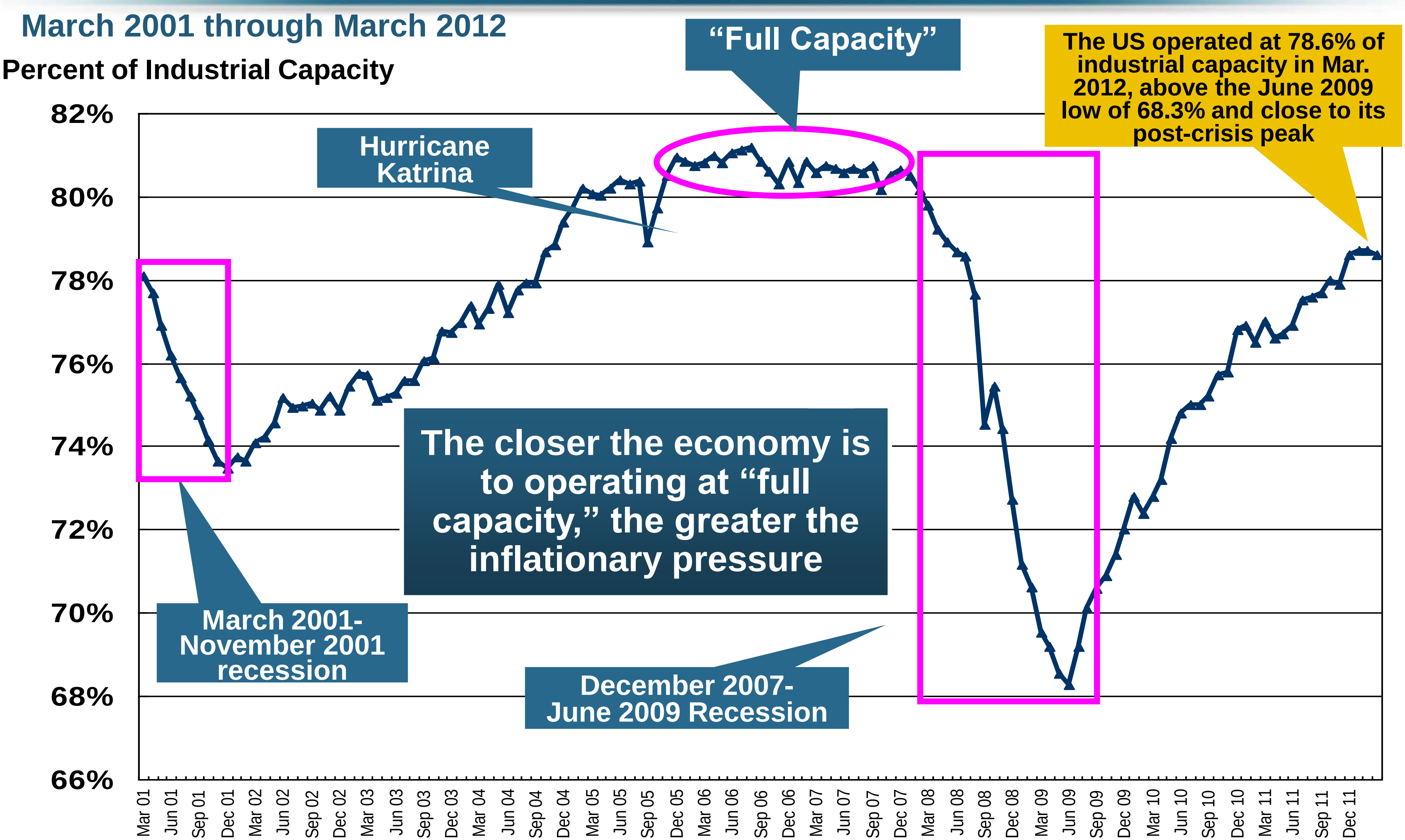

Source: Federal Reserve Board statistical releases at http://www.federalreserve.gov/releases/g17/Current/default.htm.

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

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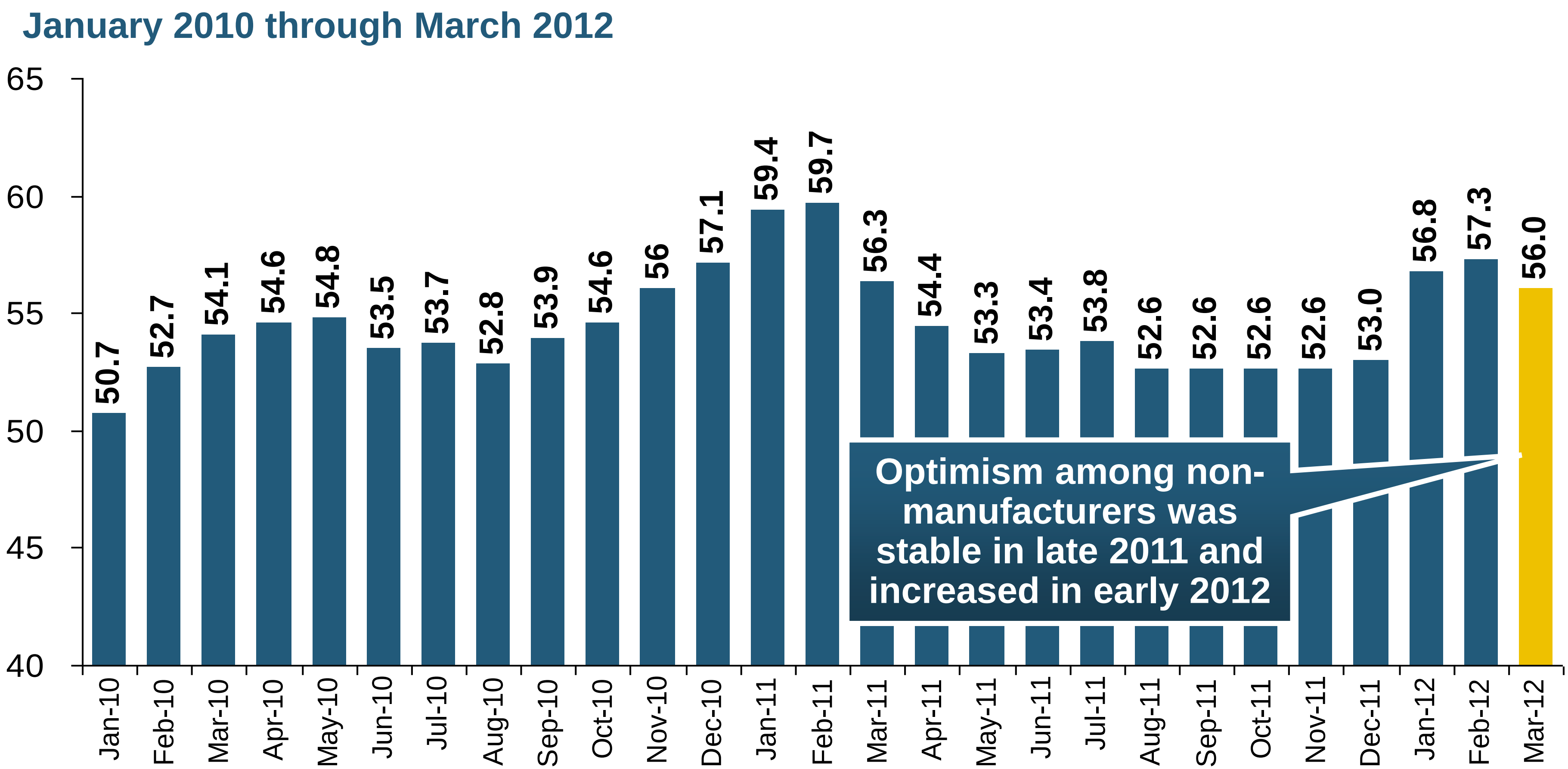

Non-manufacturing industries have been expanding and adding jobs. The question is whether this will continue.

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

Business Bankruptcy Filings, 1980-2011

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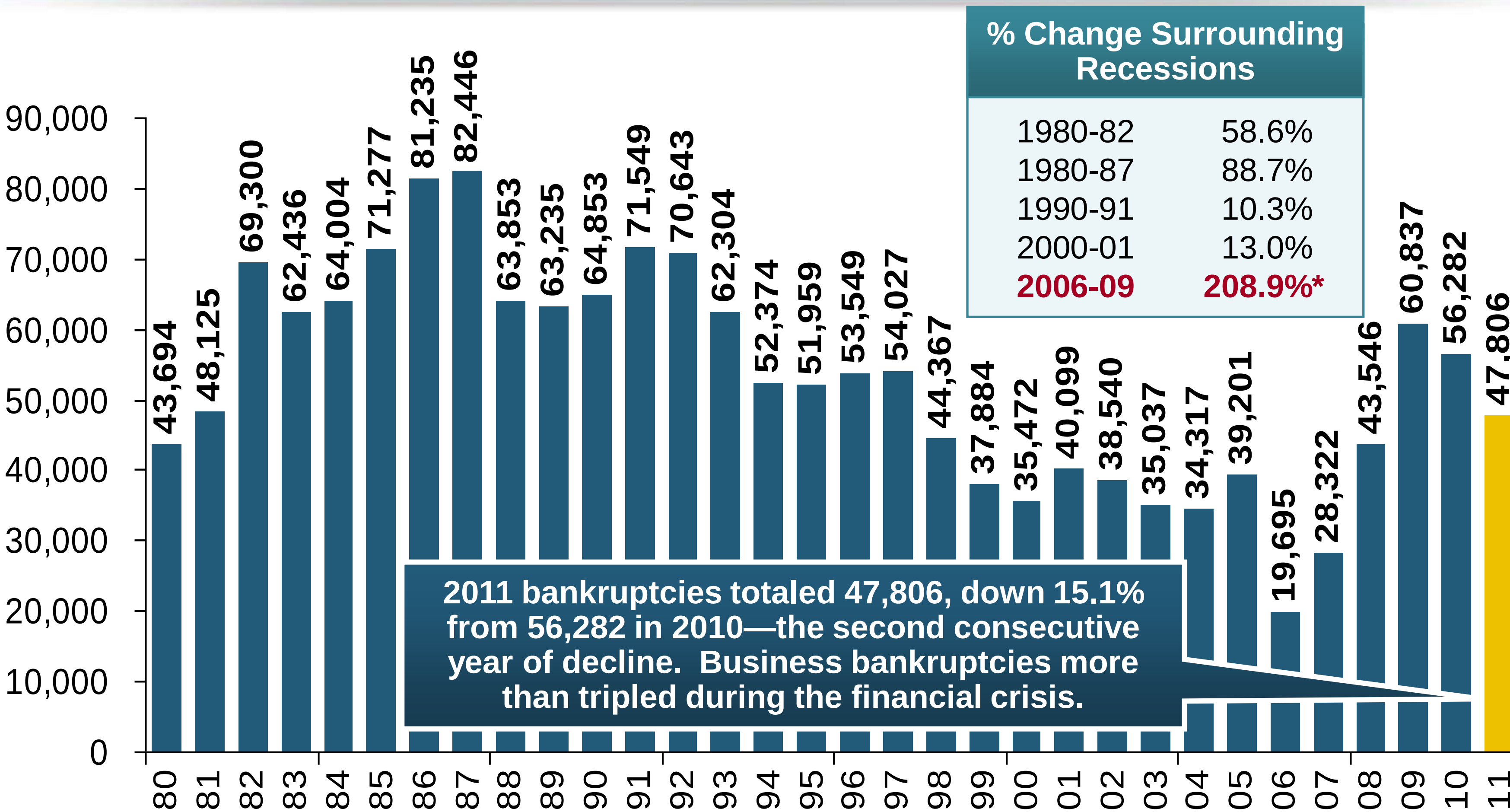

Significant Exposure Implications for All Commercial Lines as Business Bankruptcies Begin to Decline

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

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

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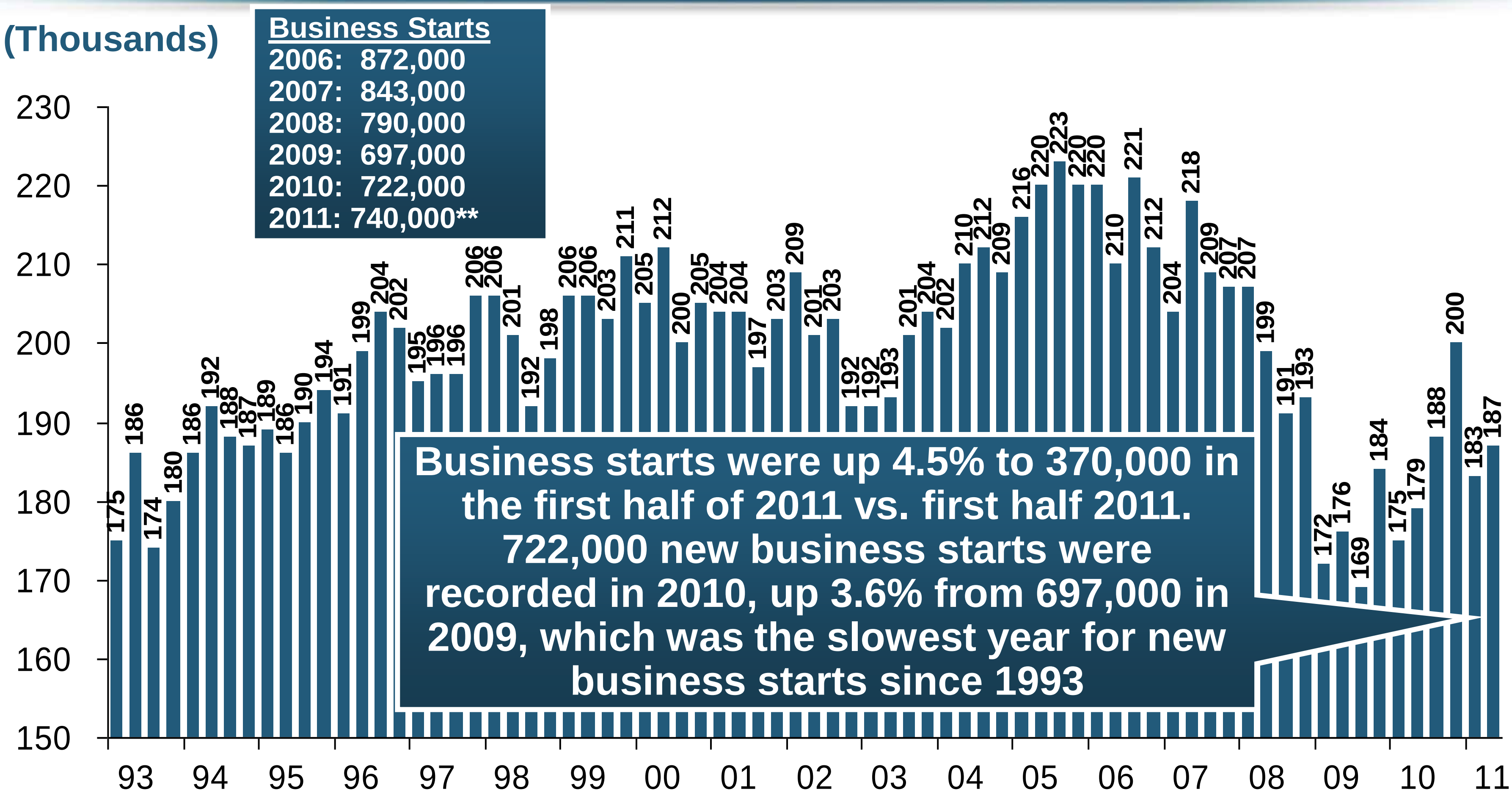

Business Starts Were Down Nearly 20% in the Recession, Holding Back Most Types of Commercial Insurance Exposure, But Are Recovering Slowly

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

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

12 Industries for the Next 10 Years: Insurance Solutions Needed

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

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

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Labor Market Trends

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

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

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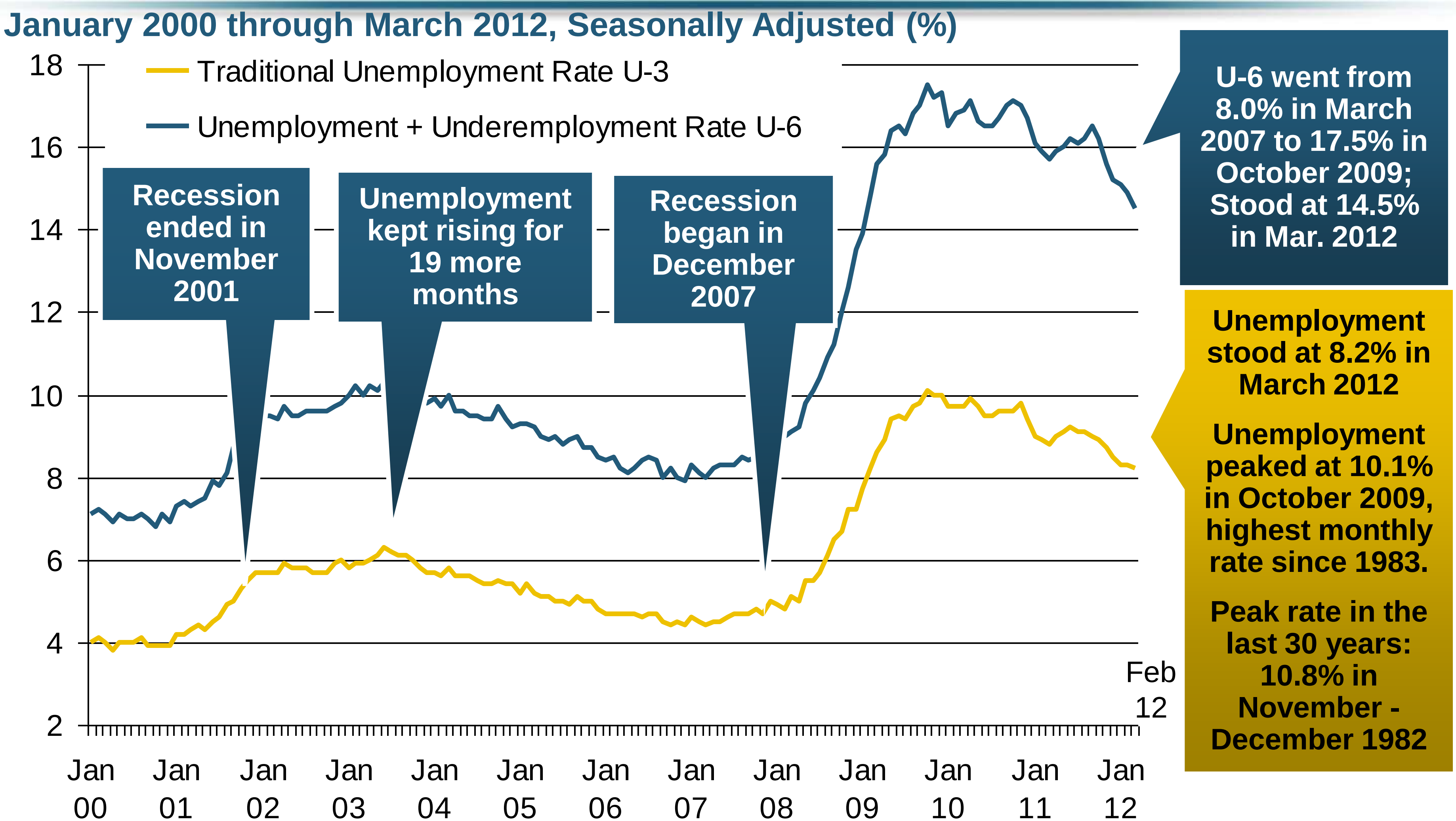

Stubbornly high unemployment and underemployment constrain overall economic growth, but the job market is now clearly improving

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

Monthly Change in Private Employment

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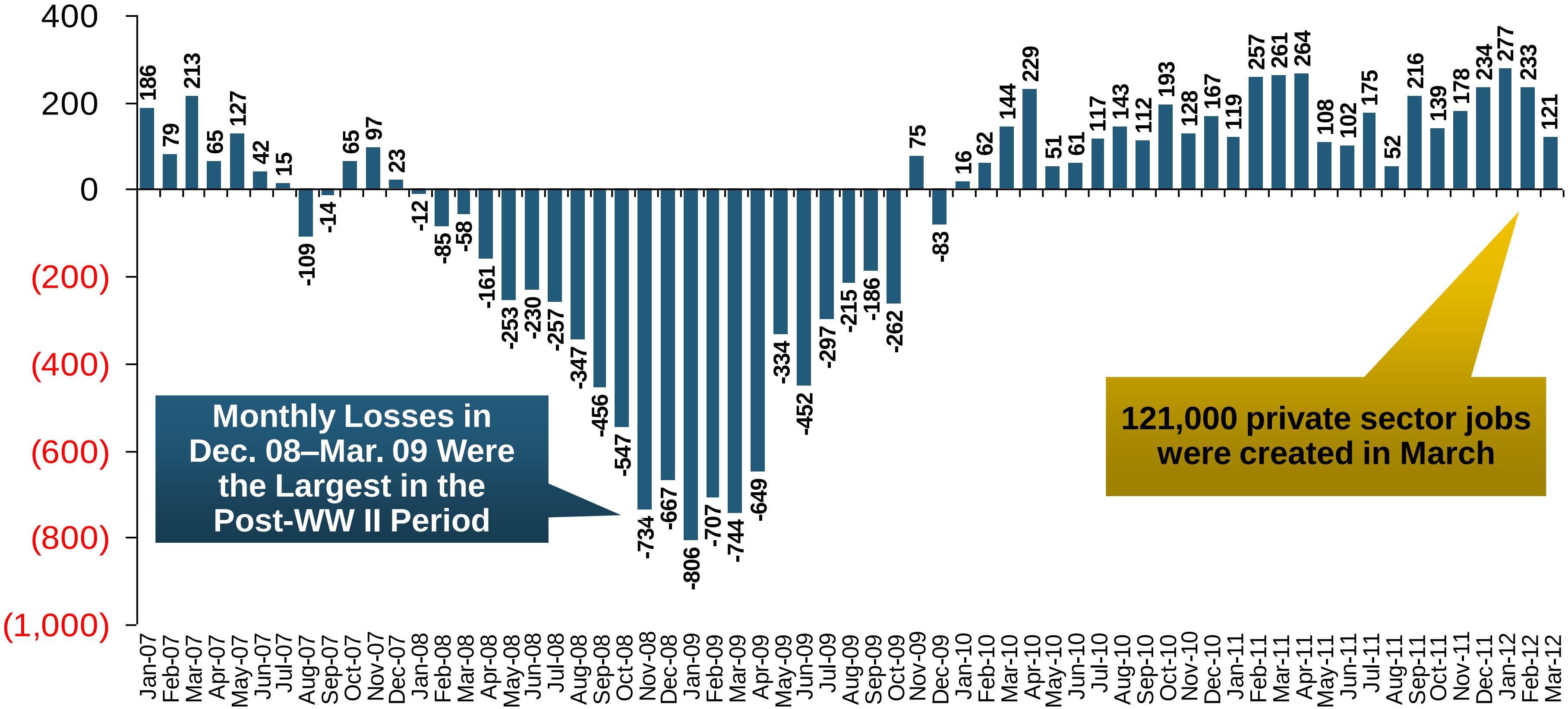
January 2008 through March 2012* (Thousands)

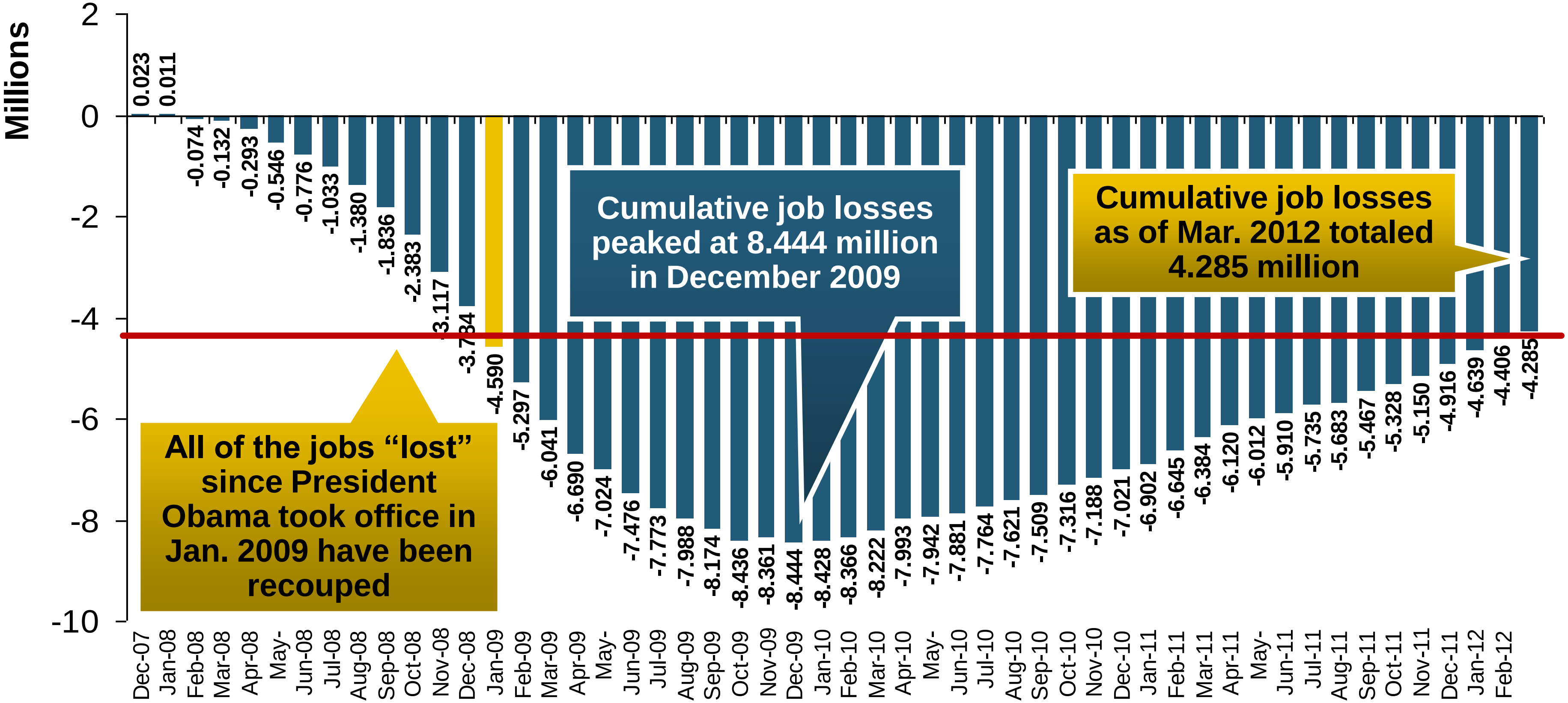


Private Employers Added 4.159 million Jobs Since Jan. 2010 After Having Shed 4.66 Million Jobs in 2009 and 3.81 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs

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

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

December 2007 through March 2012* (Millions)



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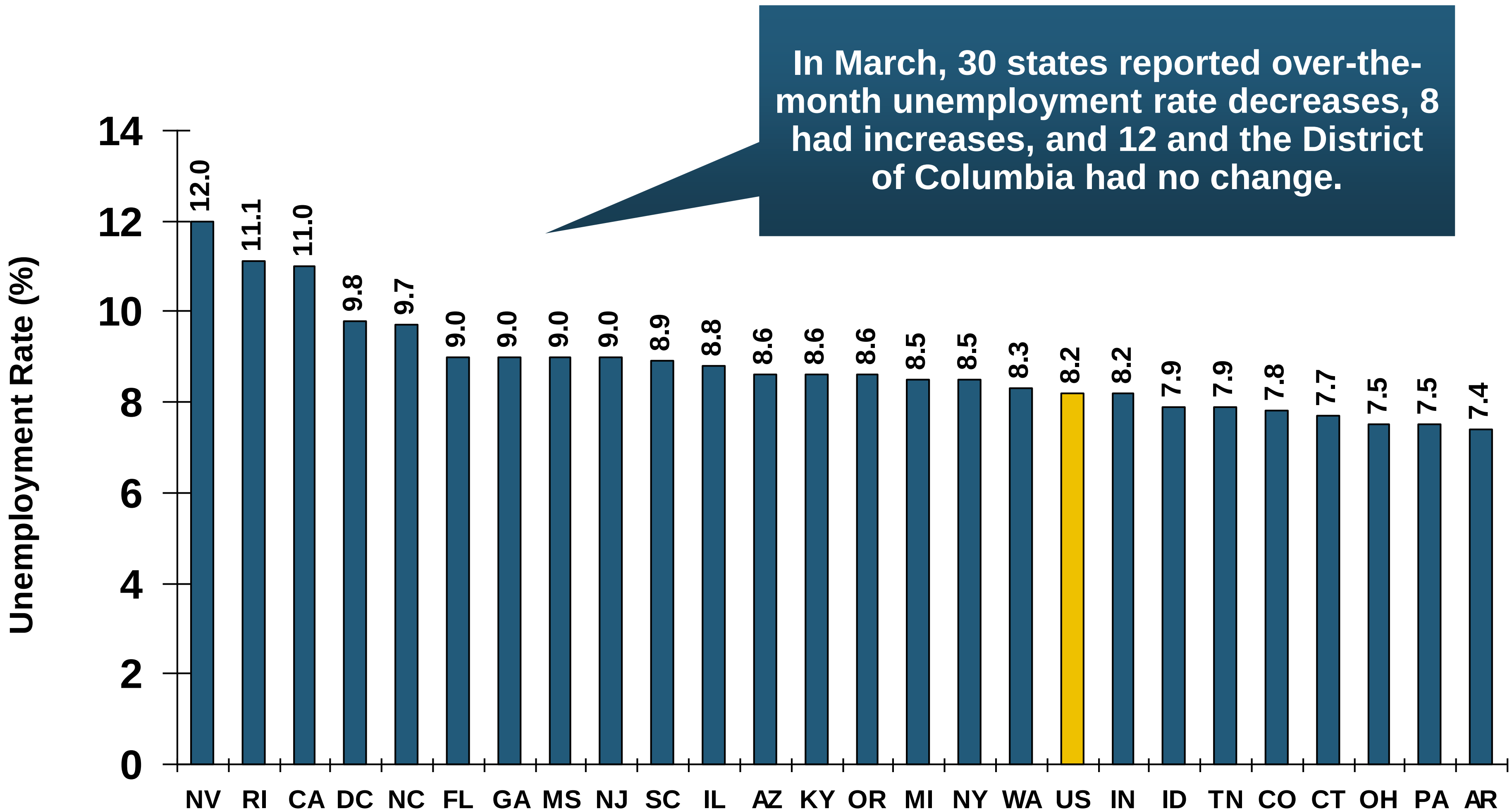
Source: US Bureau of Labor Statistics: http://www.bls.gov/ces/home.htm; Insurance Information Institute

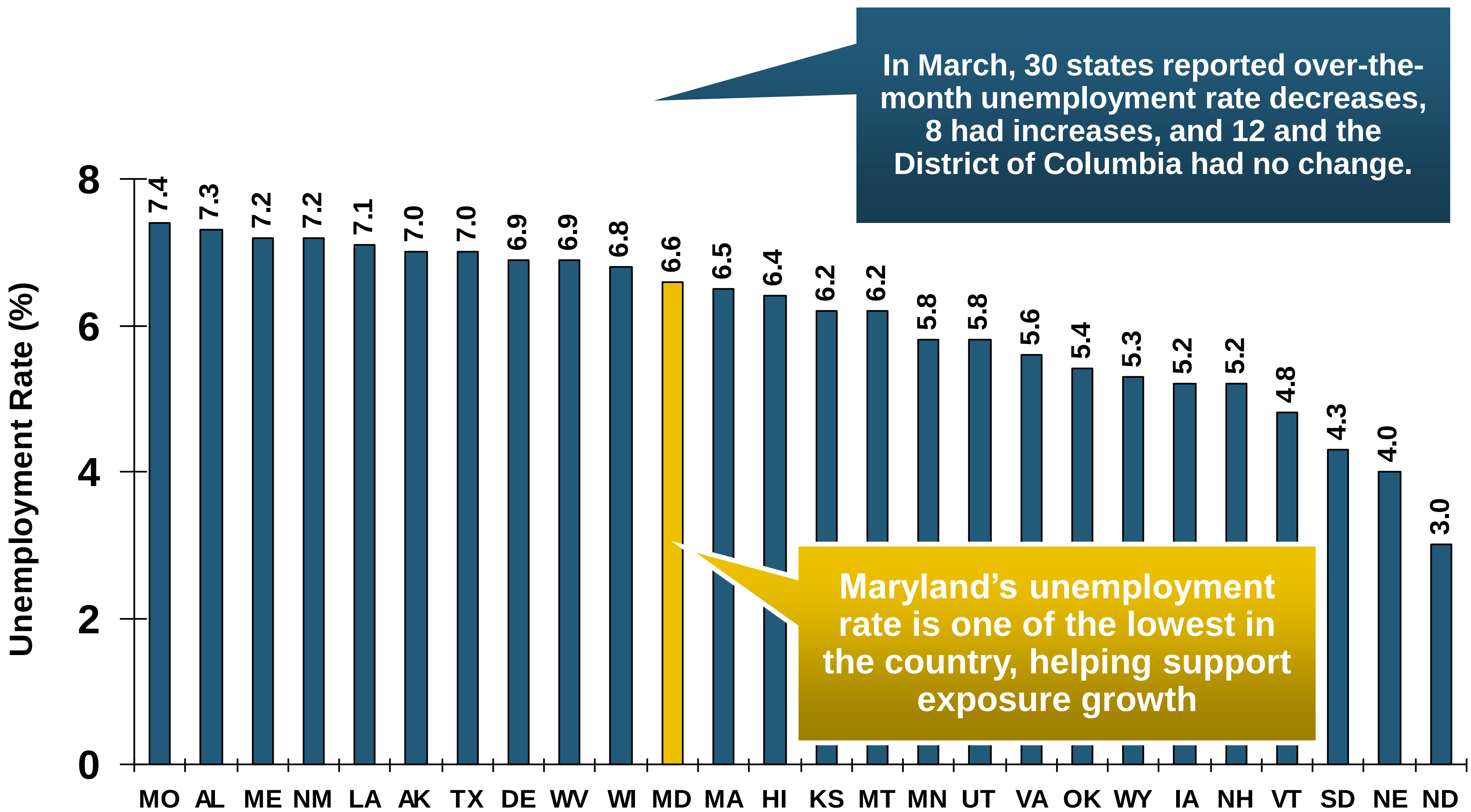
Unemployment Rates by State, March 2012: Highest 25 States*



*Provisional figures for March 2012, seasonally adjusted.

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

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

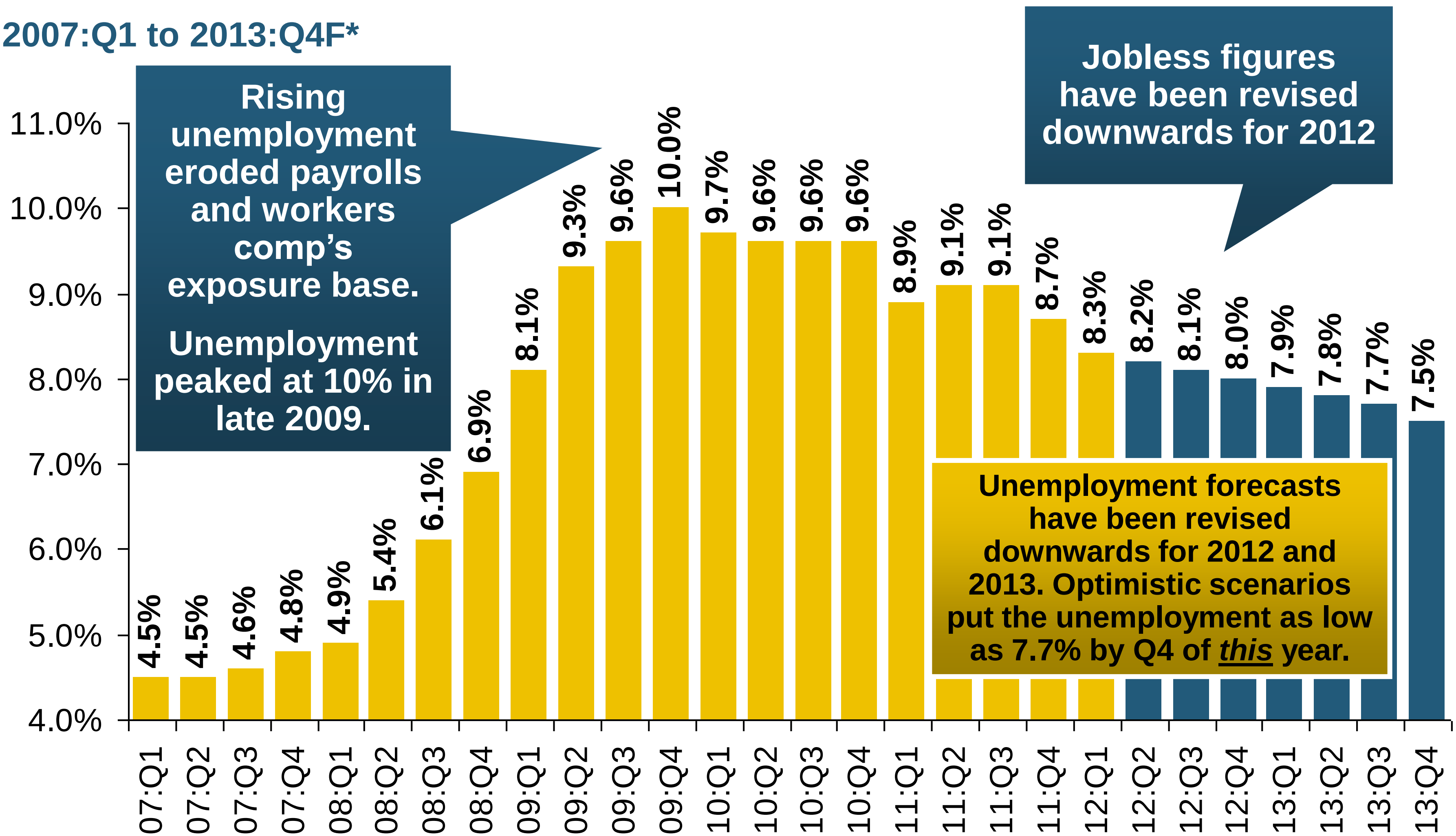


*Provisional figures for March 2012, seasonally adjusted.

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

US Unemployment Rate

2007:Q1 to 2013:Q4F*



* = actual; = forecasts

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

US Unemployment Rate Forecasts

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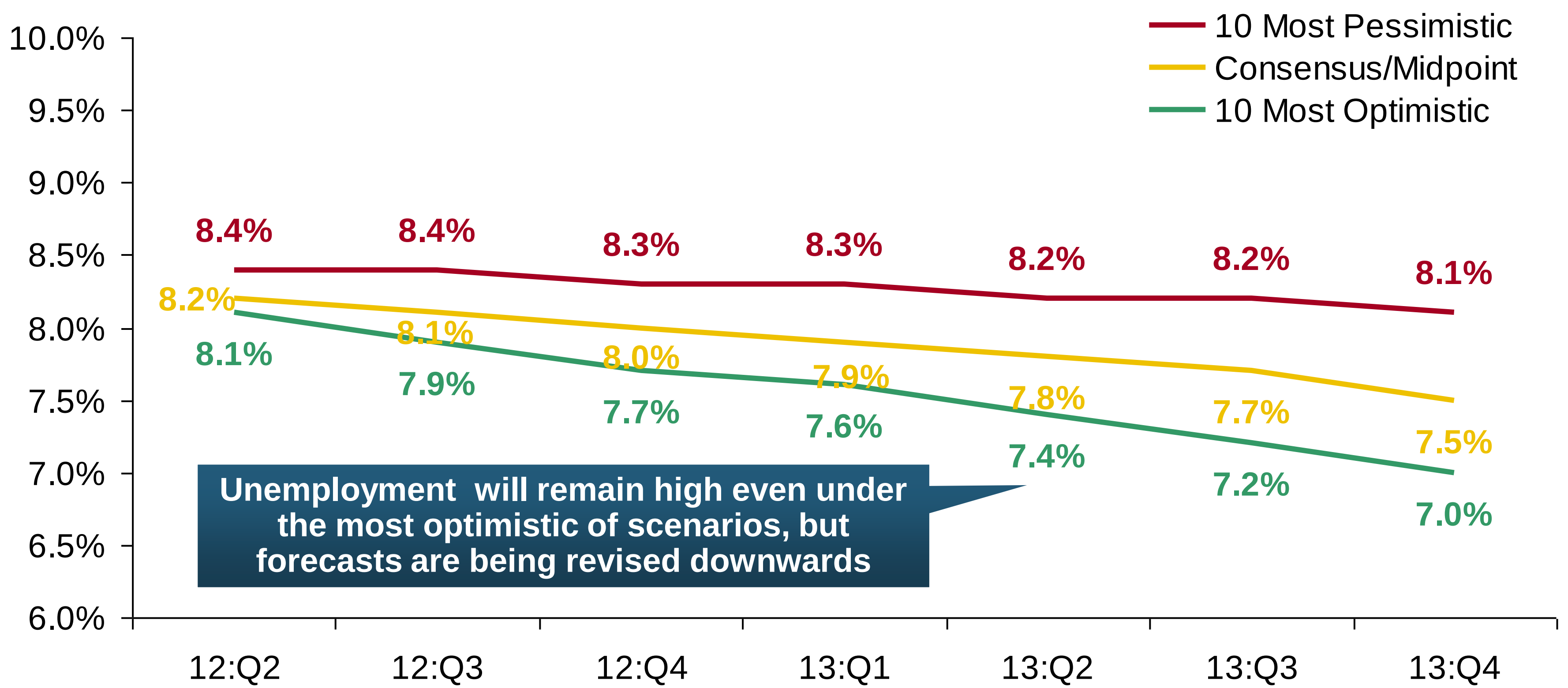
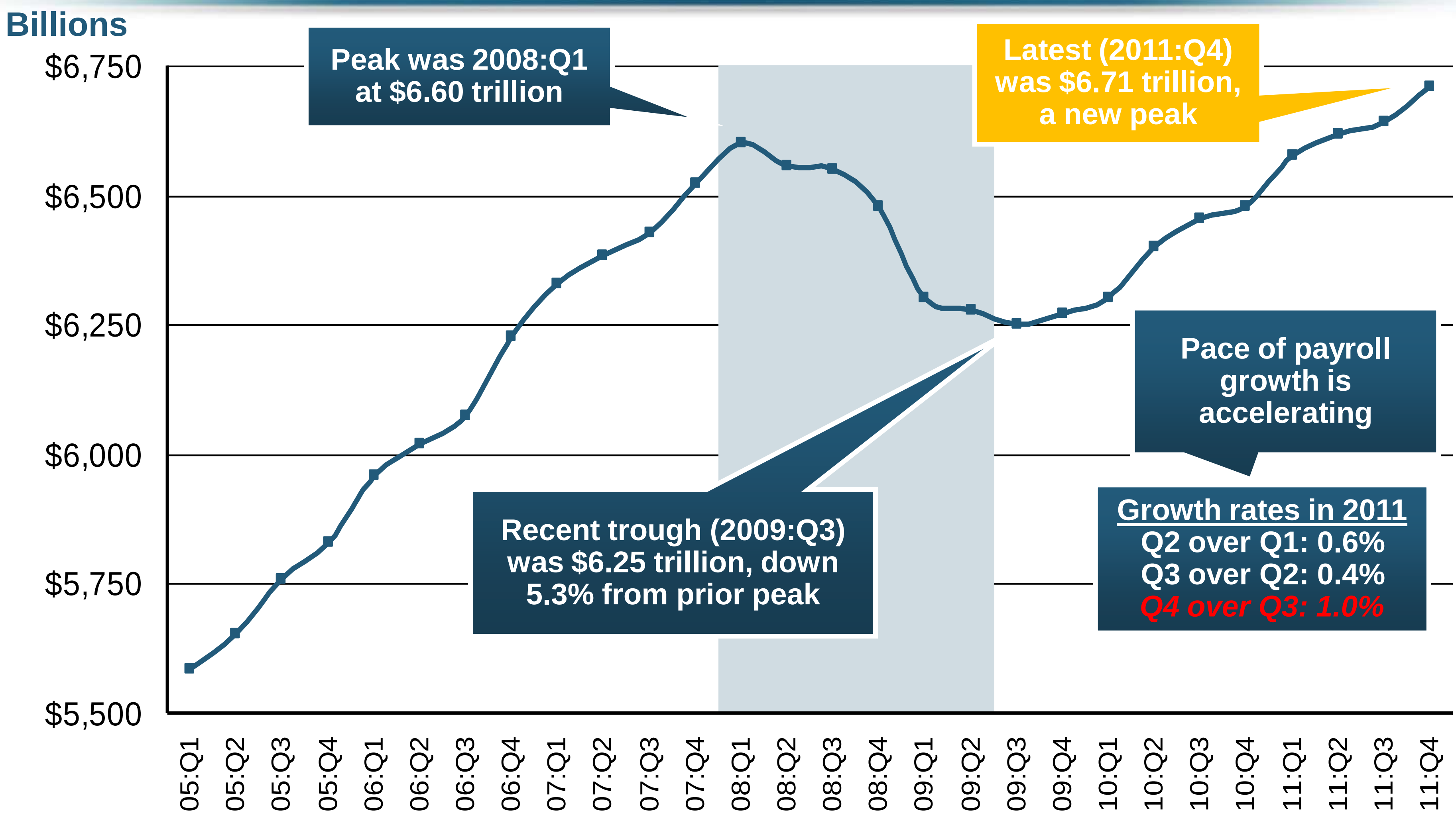
Quarterly, 2012:Q2 to 2013:Q4



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

Sources: Blue Chip Economic Indicators (4/12); Insurance Information Institute

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.

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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 1991–2011 ($ Millions)

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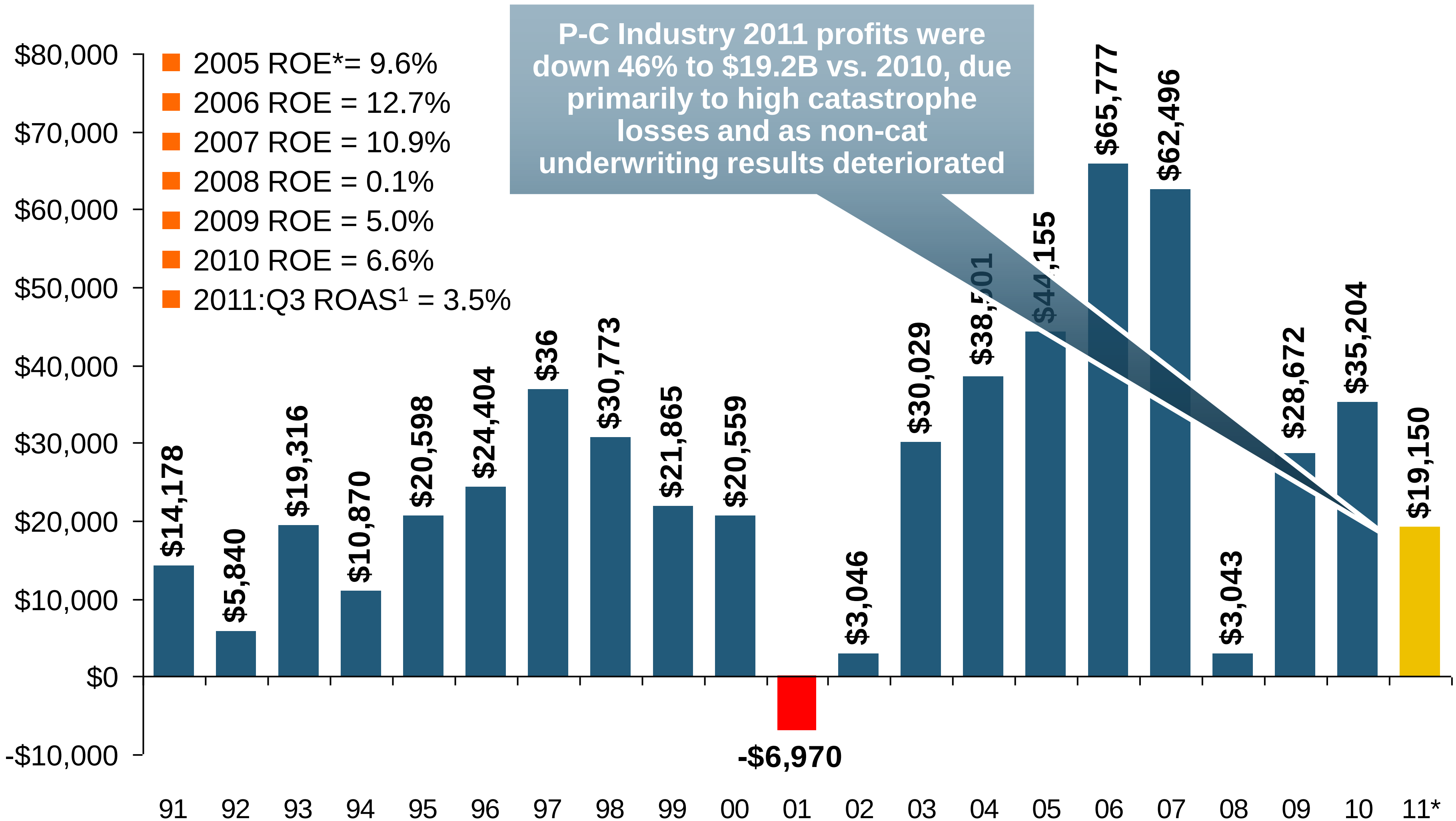

* ROE figures are GAAP; [1]Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 4.6% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009.

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

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

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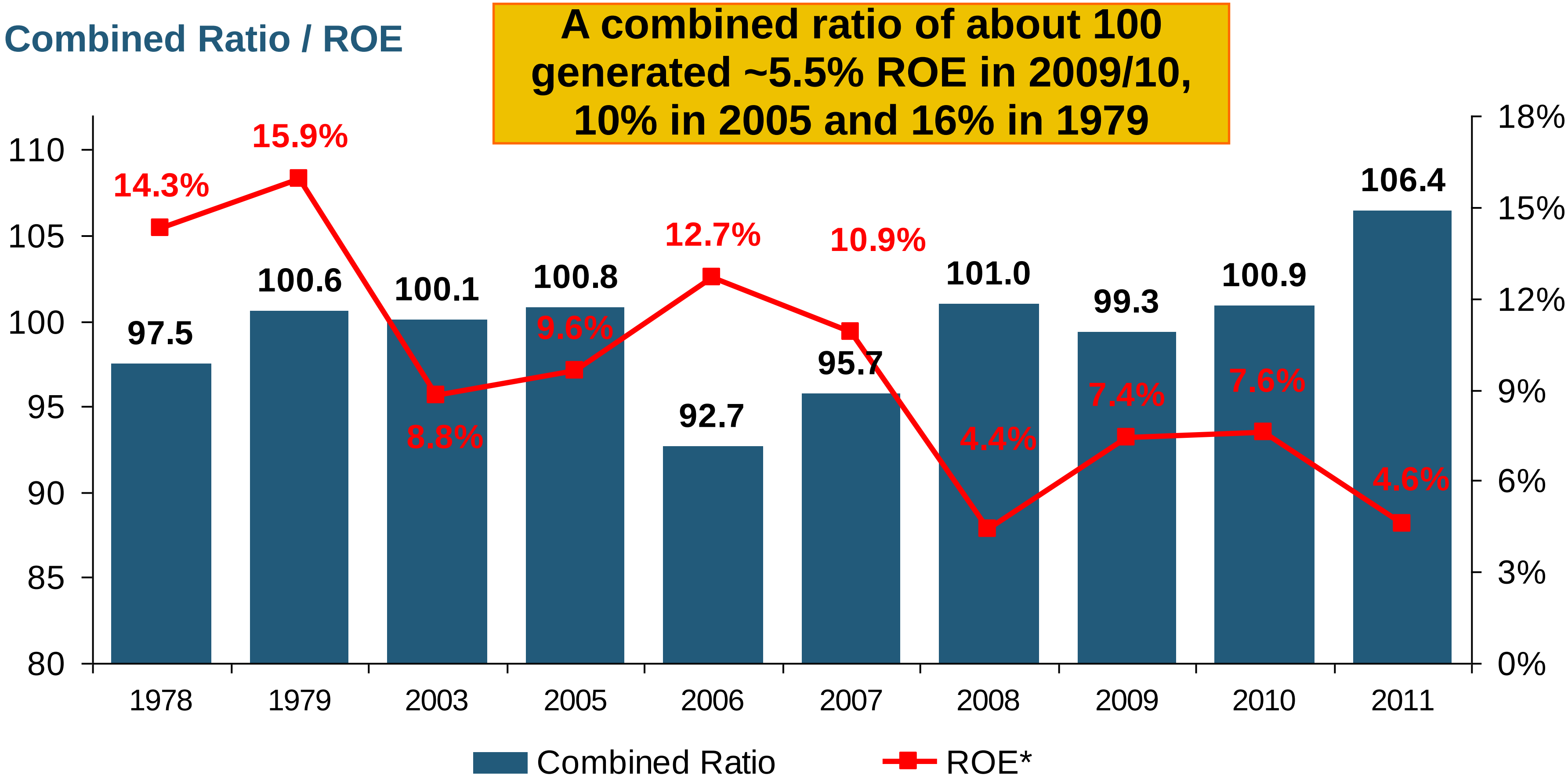
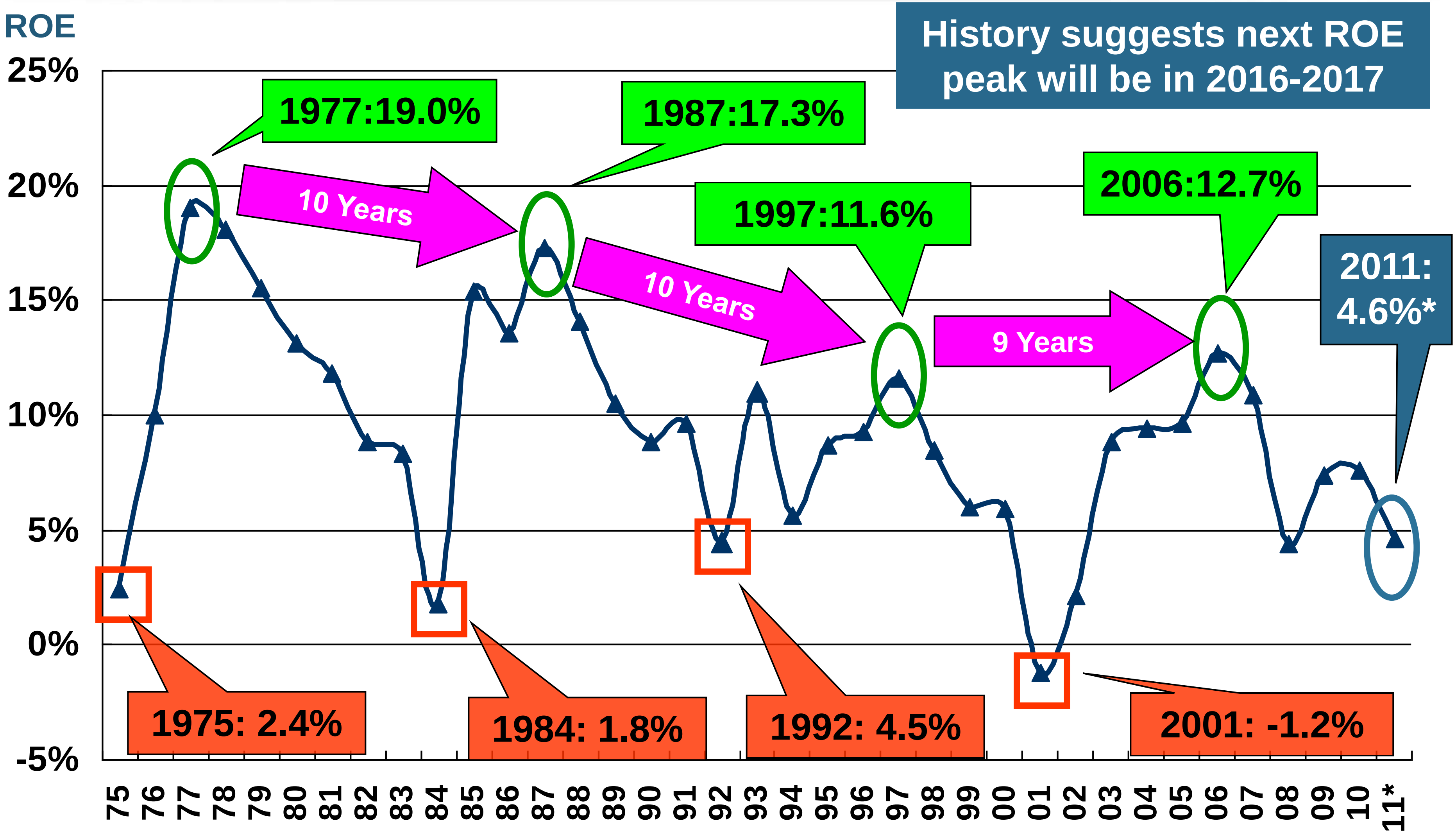


Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 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.

ROE: Property/Casualty Insurance vs. Fortune 500, 1987–2011*

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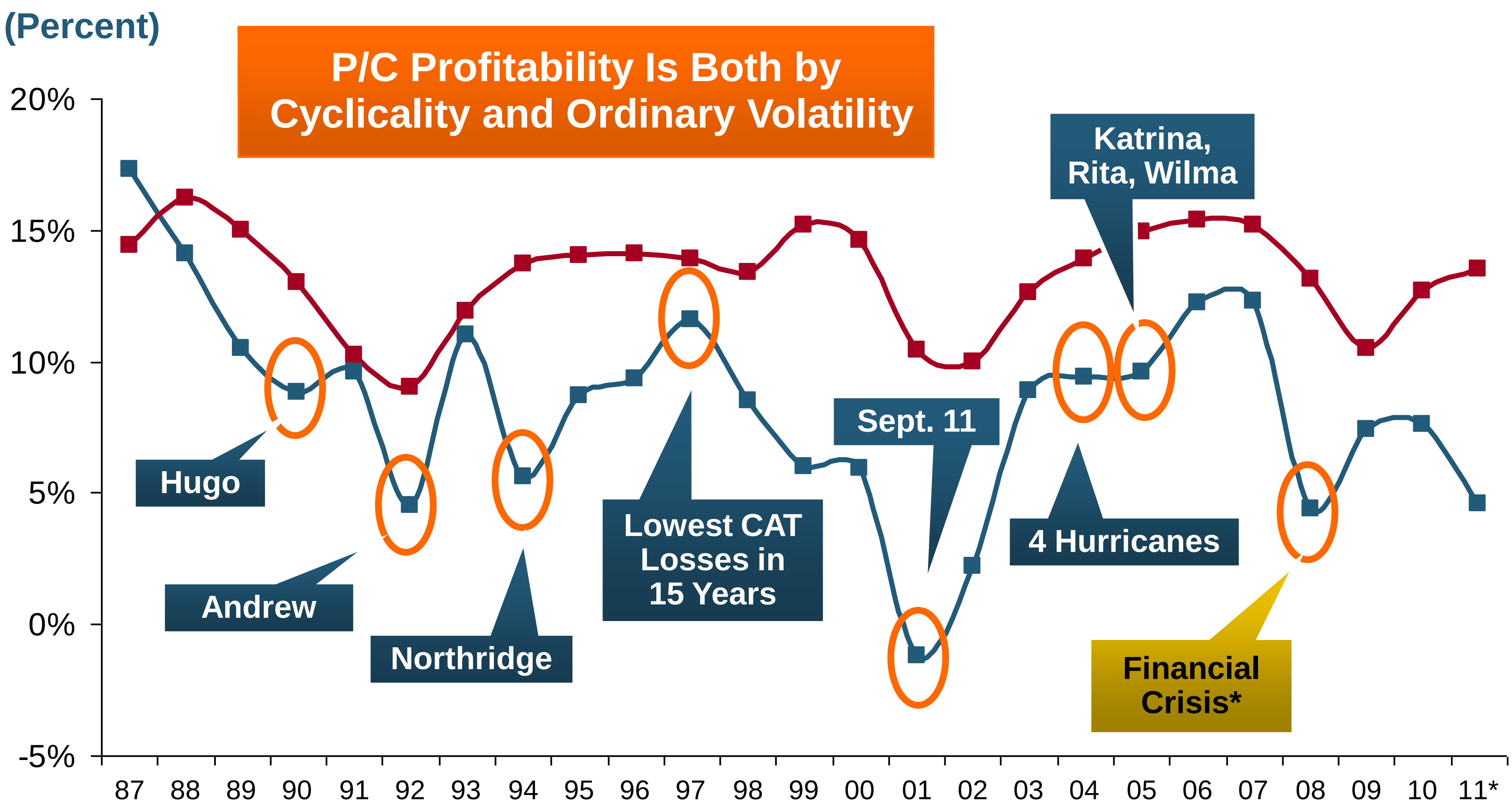
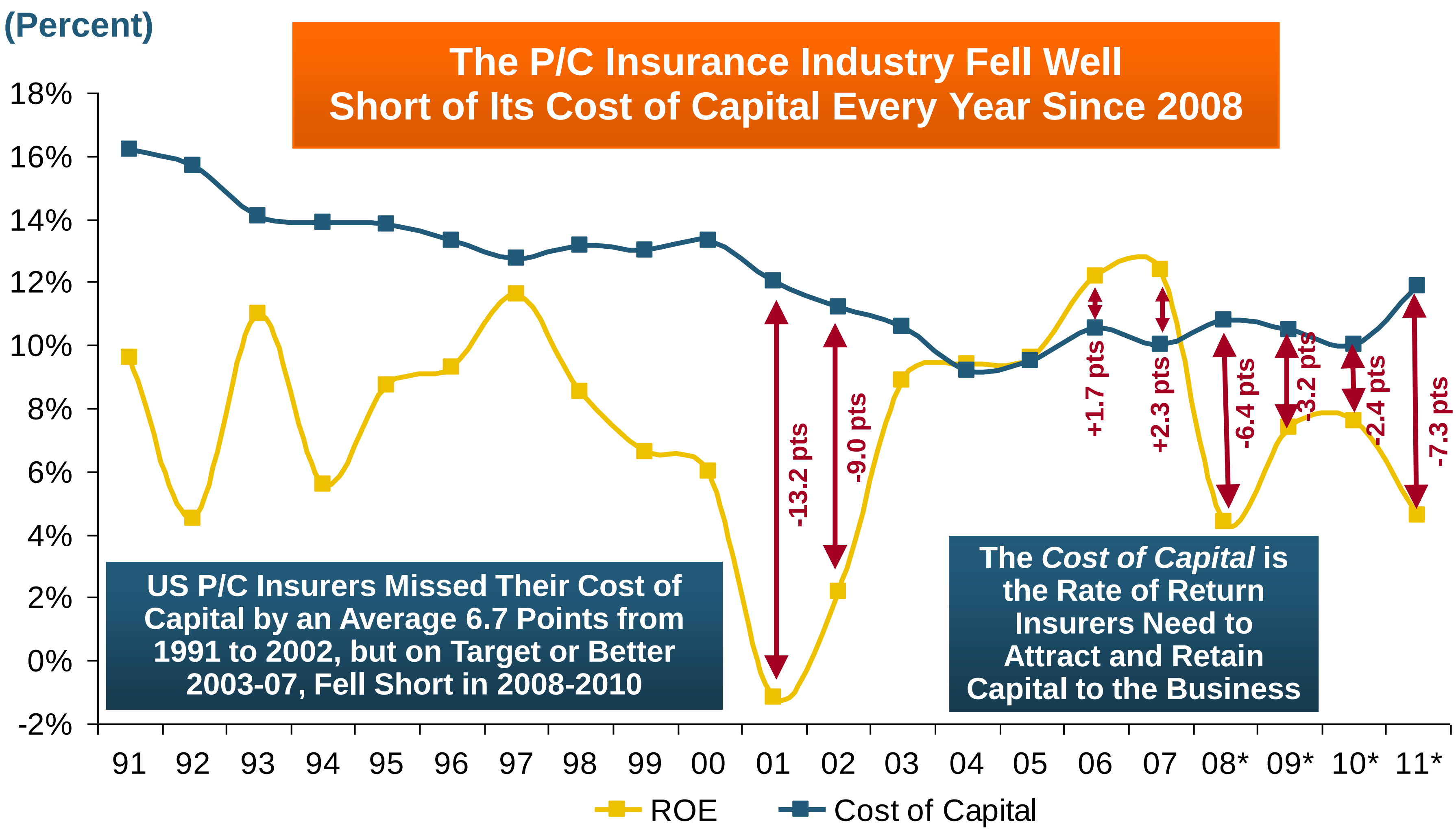


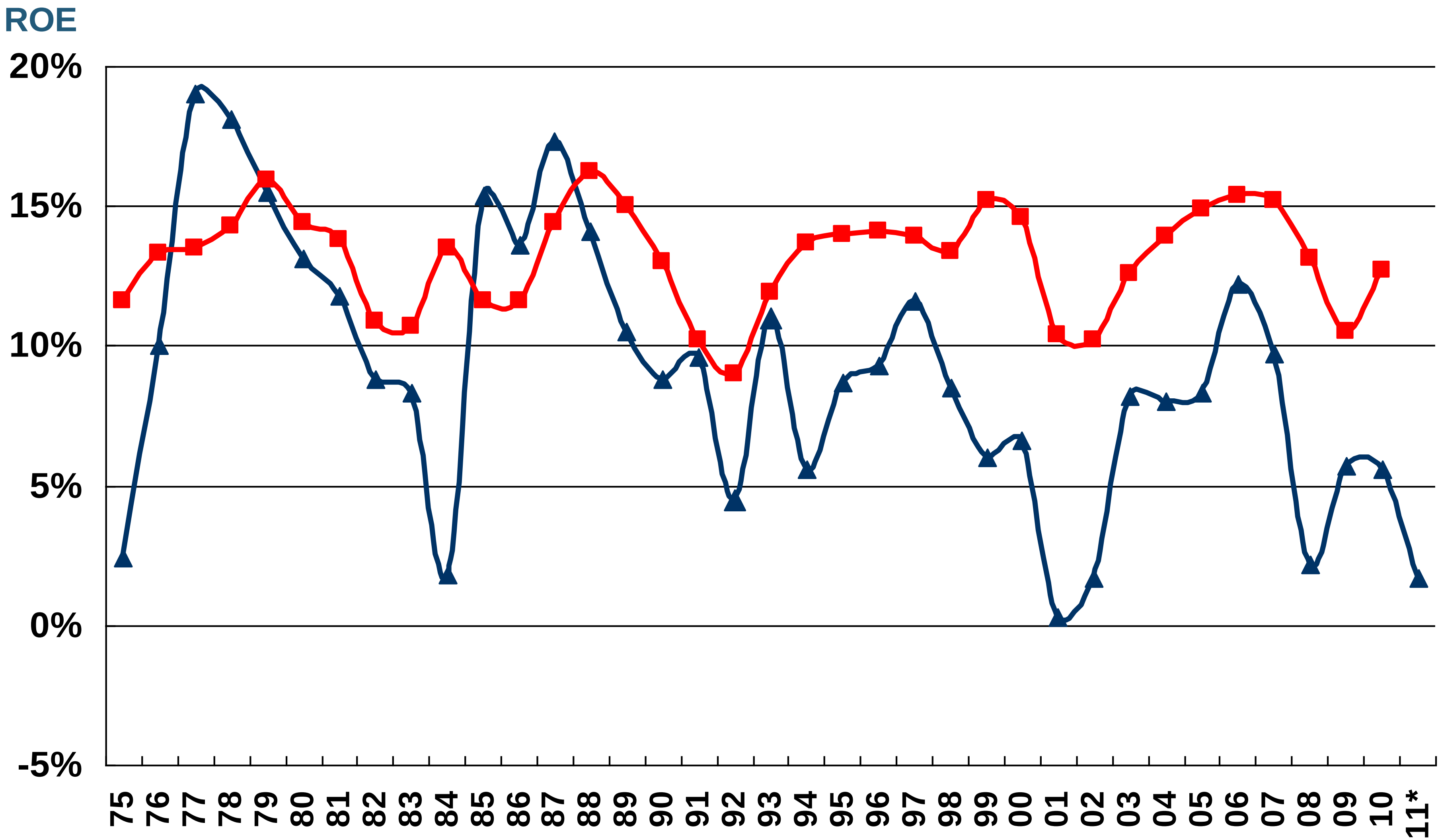
* Excludes Mortgage & Financial Guarantee in 2008 - 2011; 2012 Fortune 500 figure is an III estimate.
Sources: ISO, *Fortune*; Insurance Information Institute.

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



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

P/C Insurance Industry ROE vs. Fortune 500, 1975 – 2011*



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

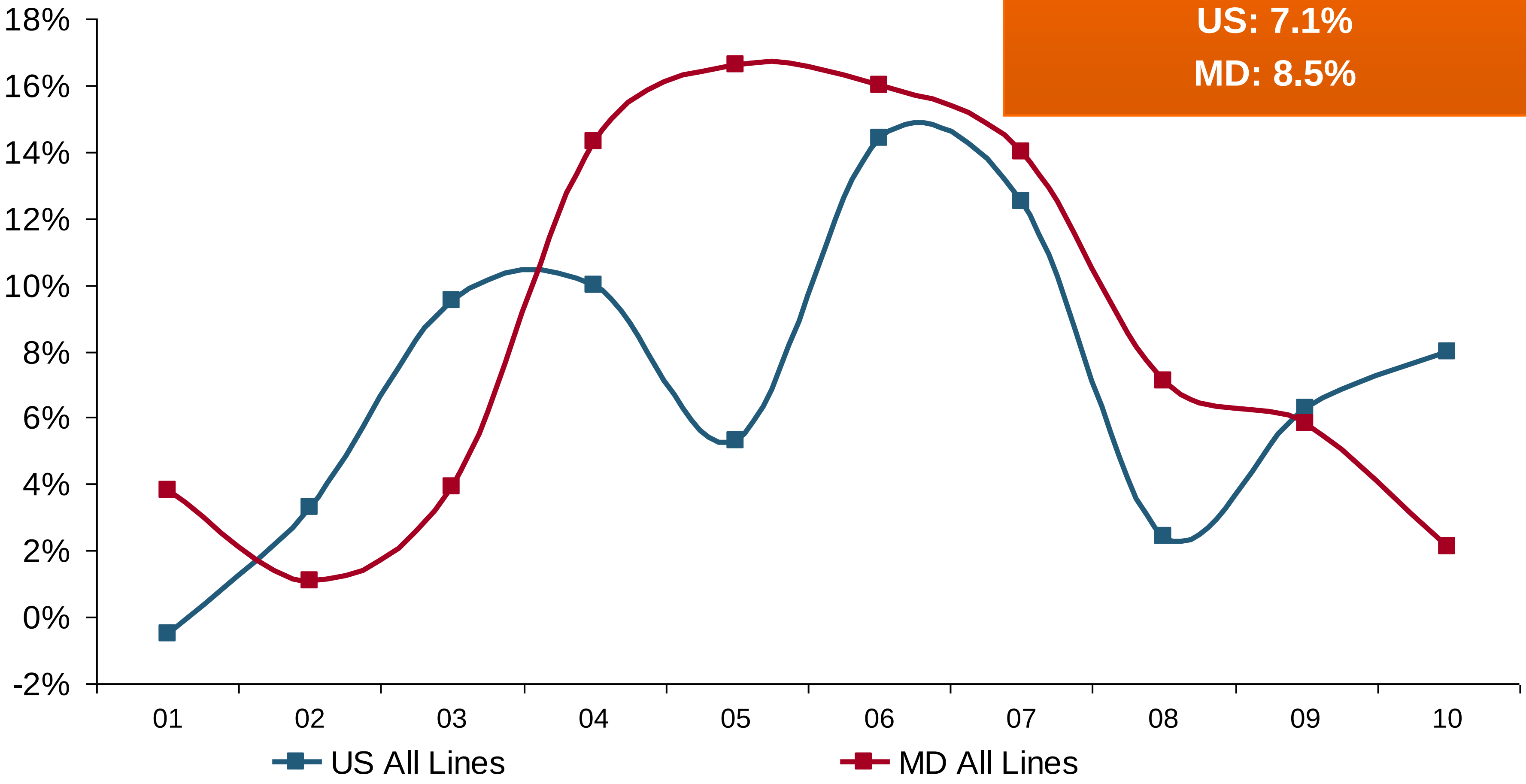
RNW All Lines: MD vs. U.S., 2001-2010

(Percent)

P/C Insurer profitability in MD is above that of the US overall over the past decade

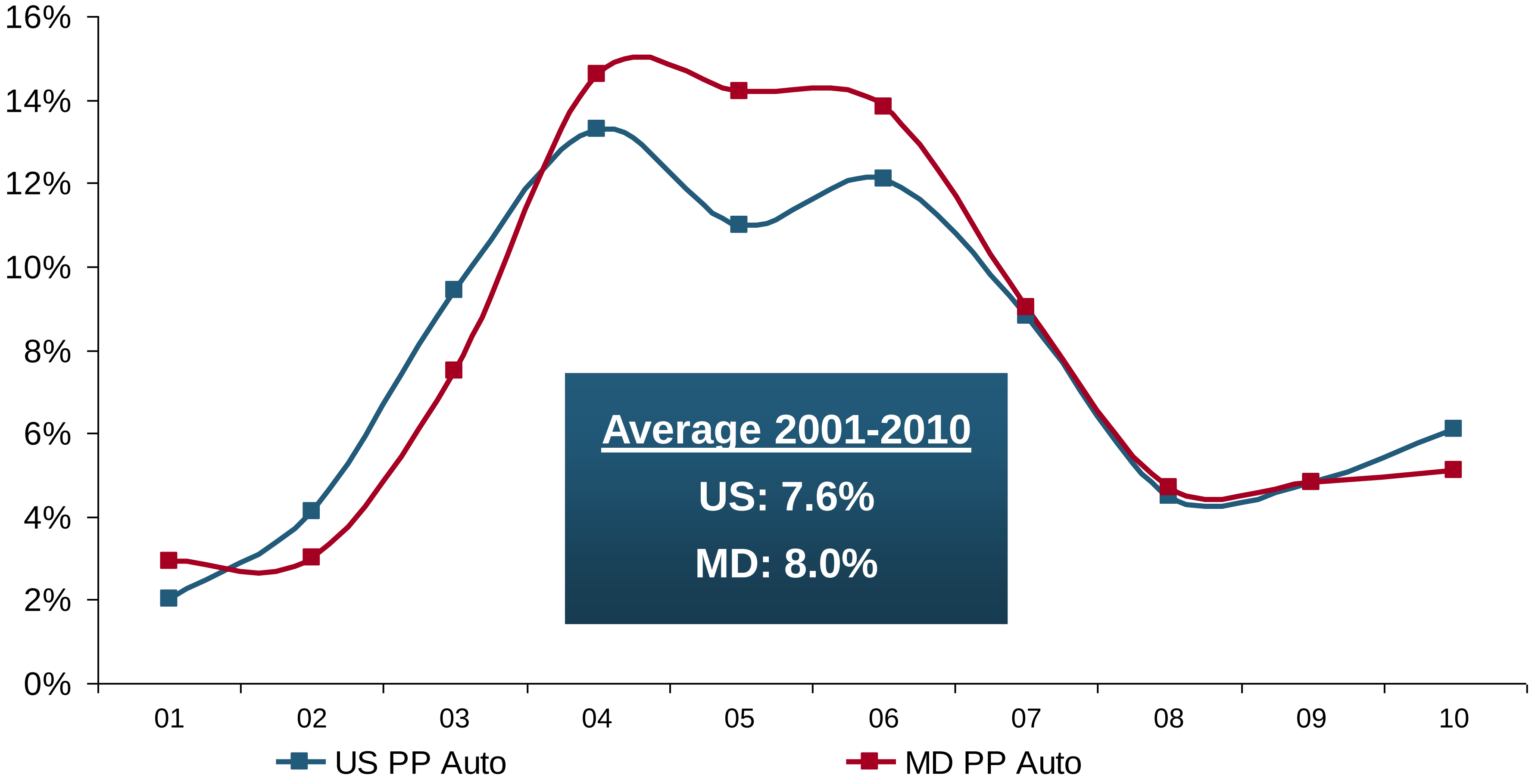
US: 7.1%

MD: 8.5%



Sources: NAIC.

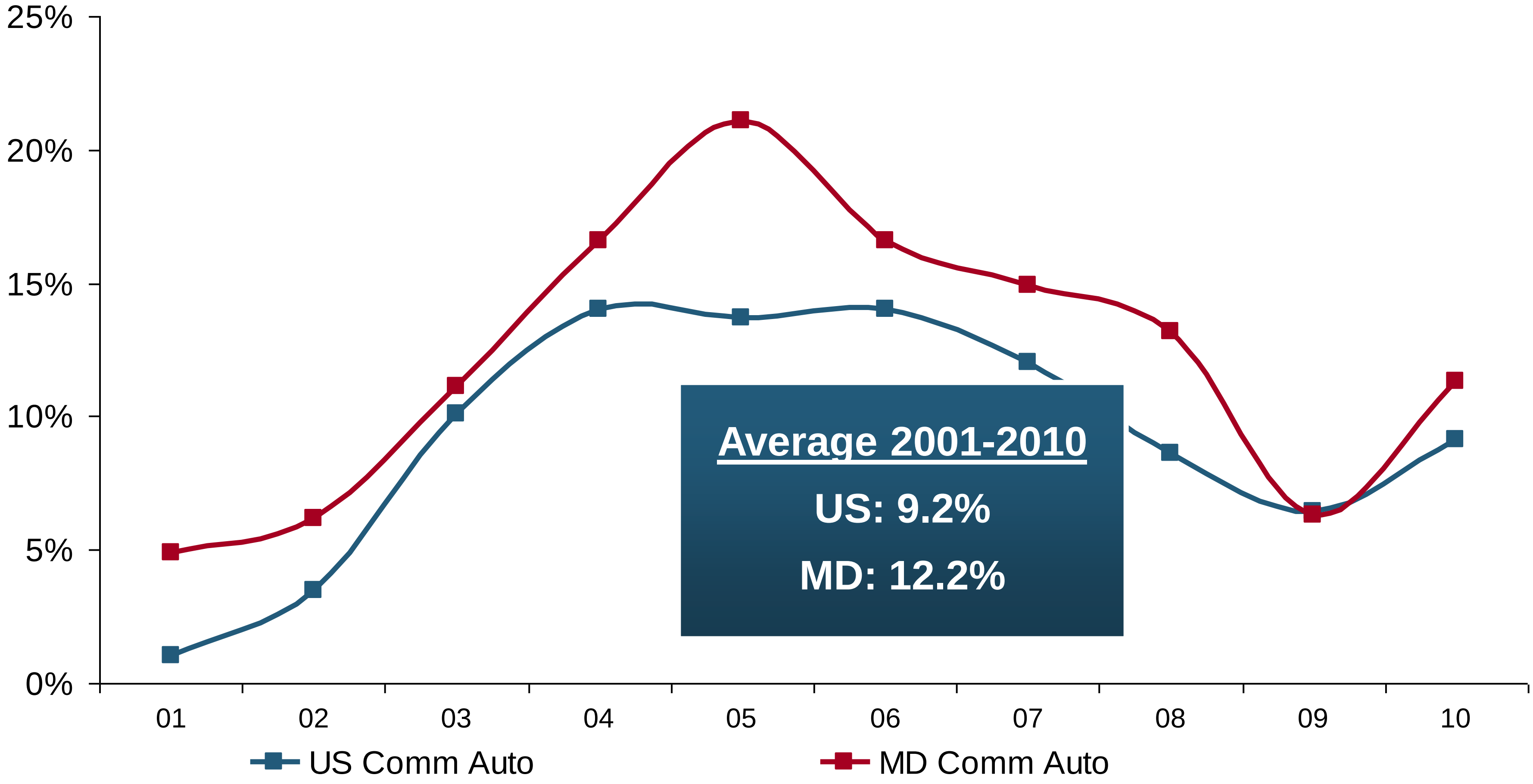
RNW PP Auto: MD vs. U.S., 2001-2010



Sources: NAIC.

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

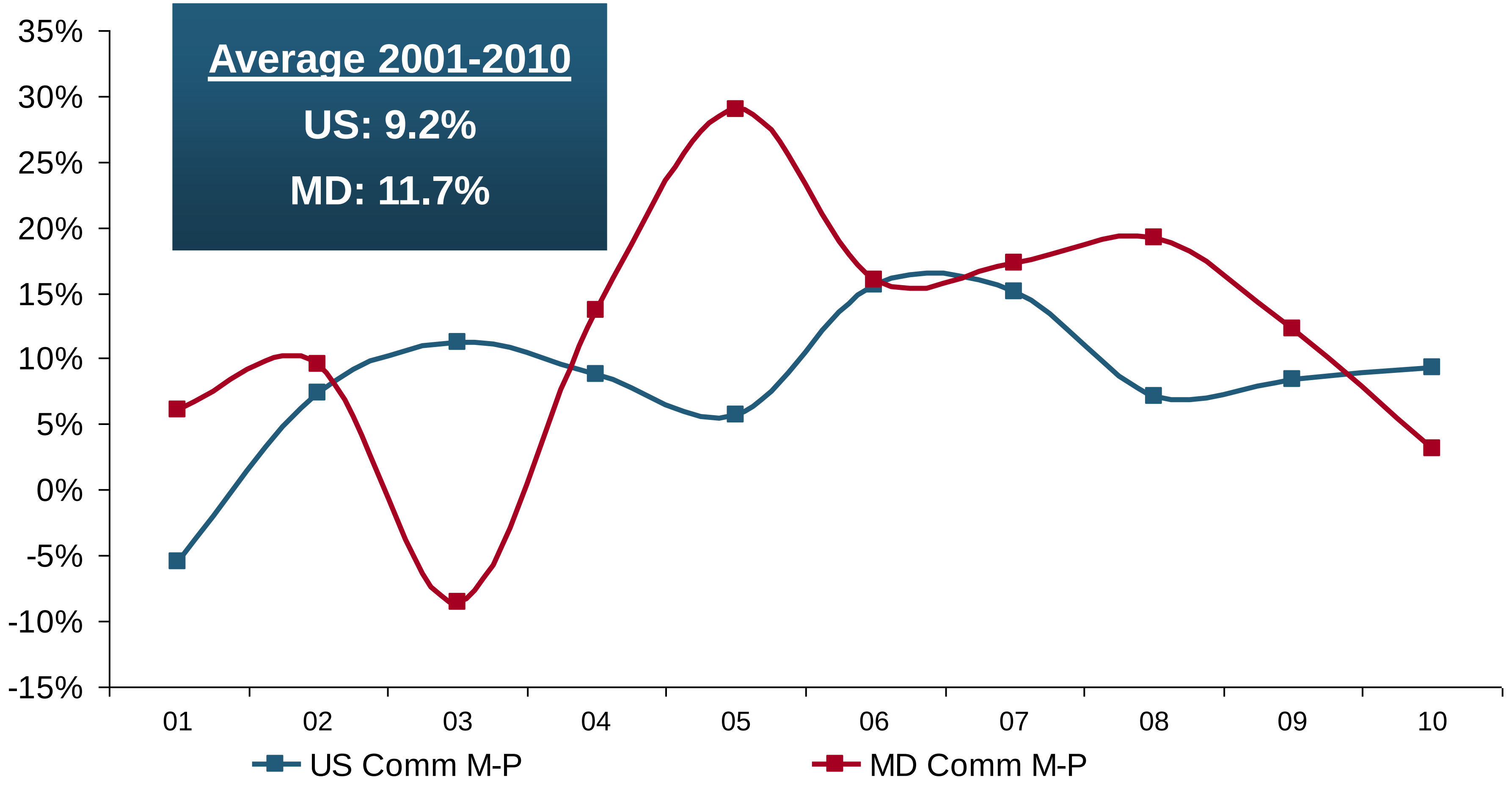
(Percent)



Sources: NAIC.

RNW Comm. Multi-Peril: MD vs. U.S., 2001-2010

(Percent)



Sources: NAIC.

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

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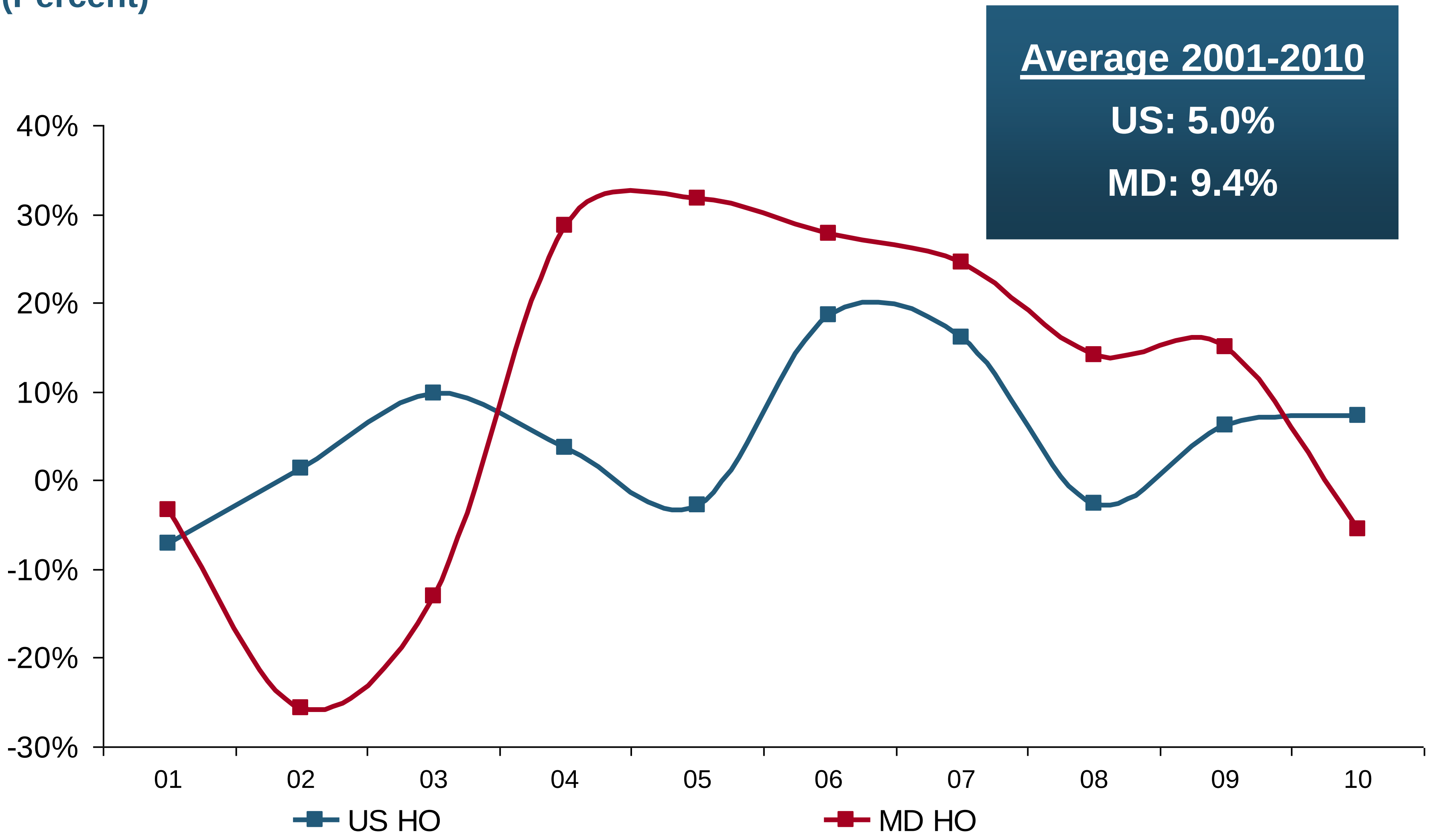
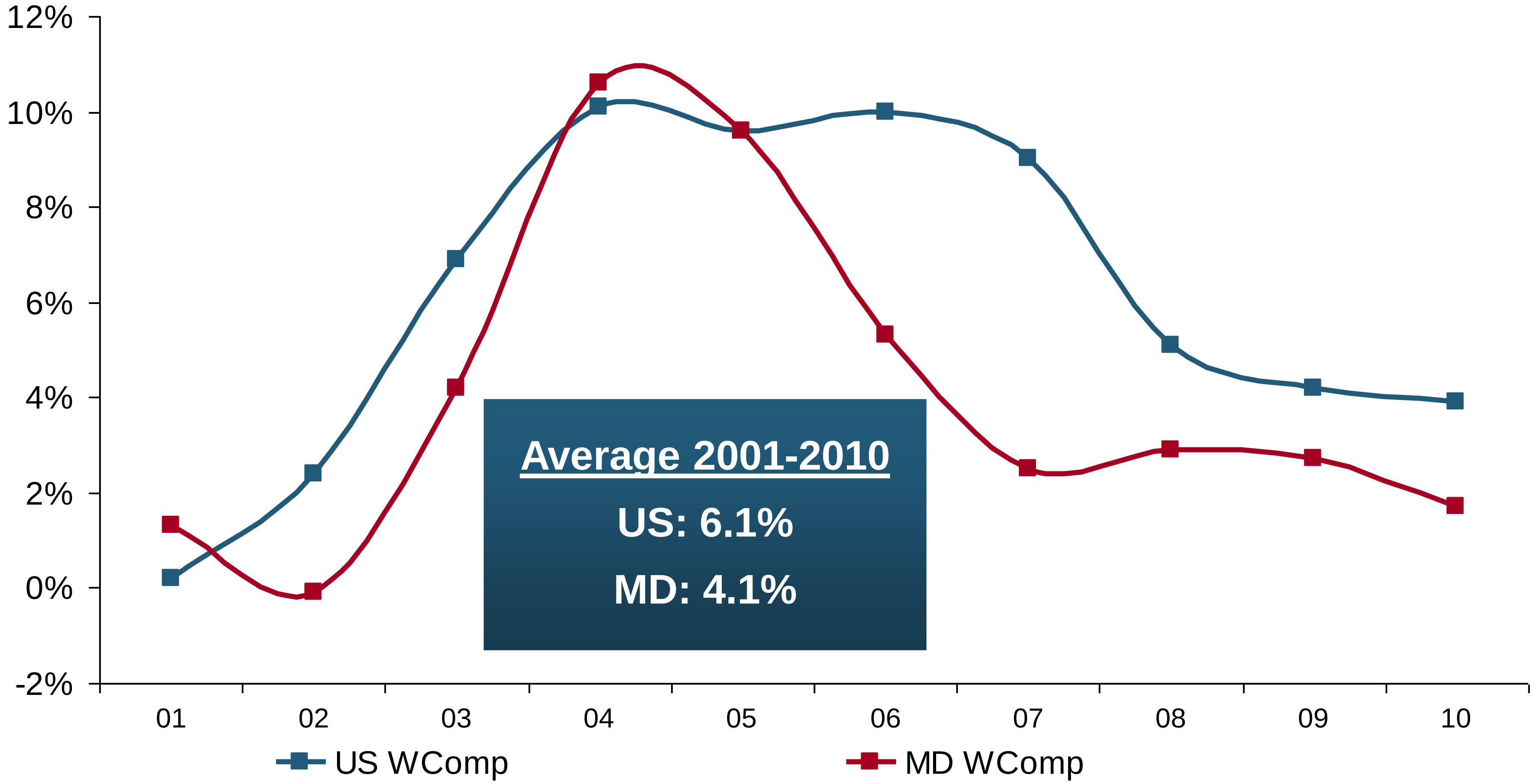
(Percent)



Sources: NAIC.

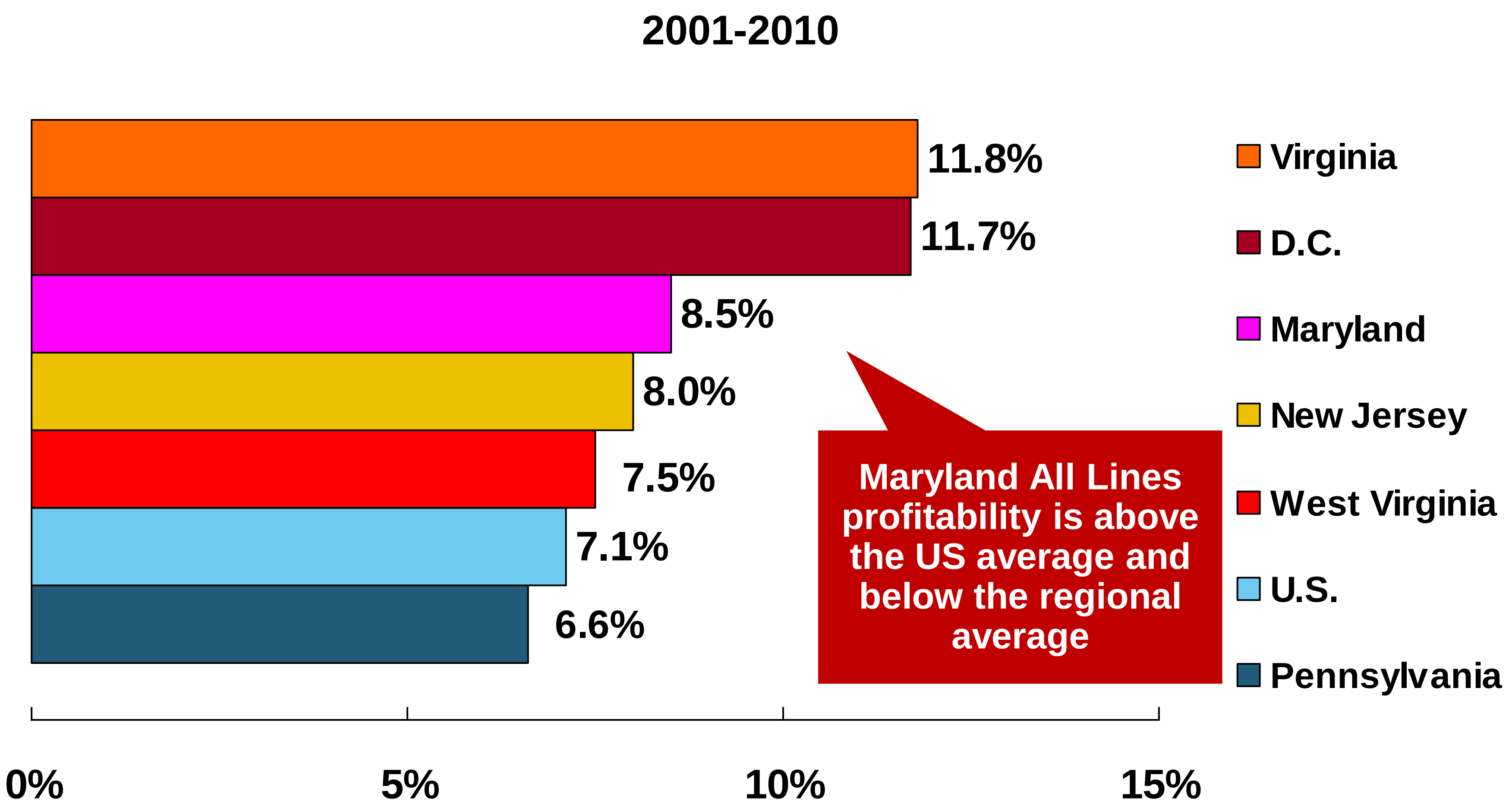
RNW Workers Comp: MD vs. U.S., 2001-2010

(Percent)



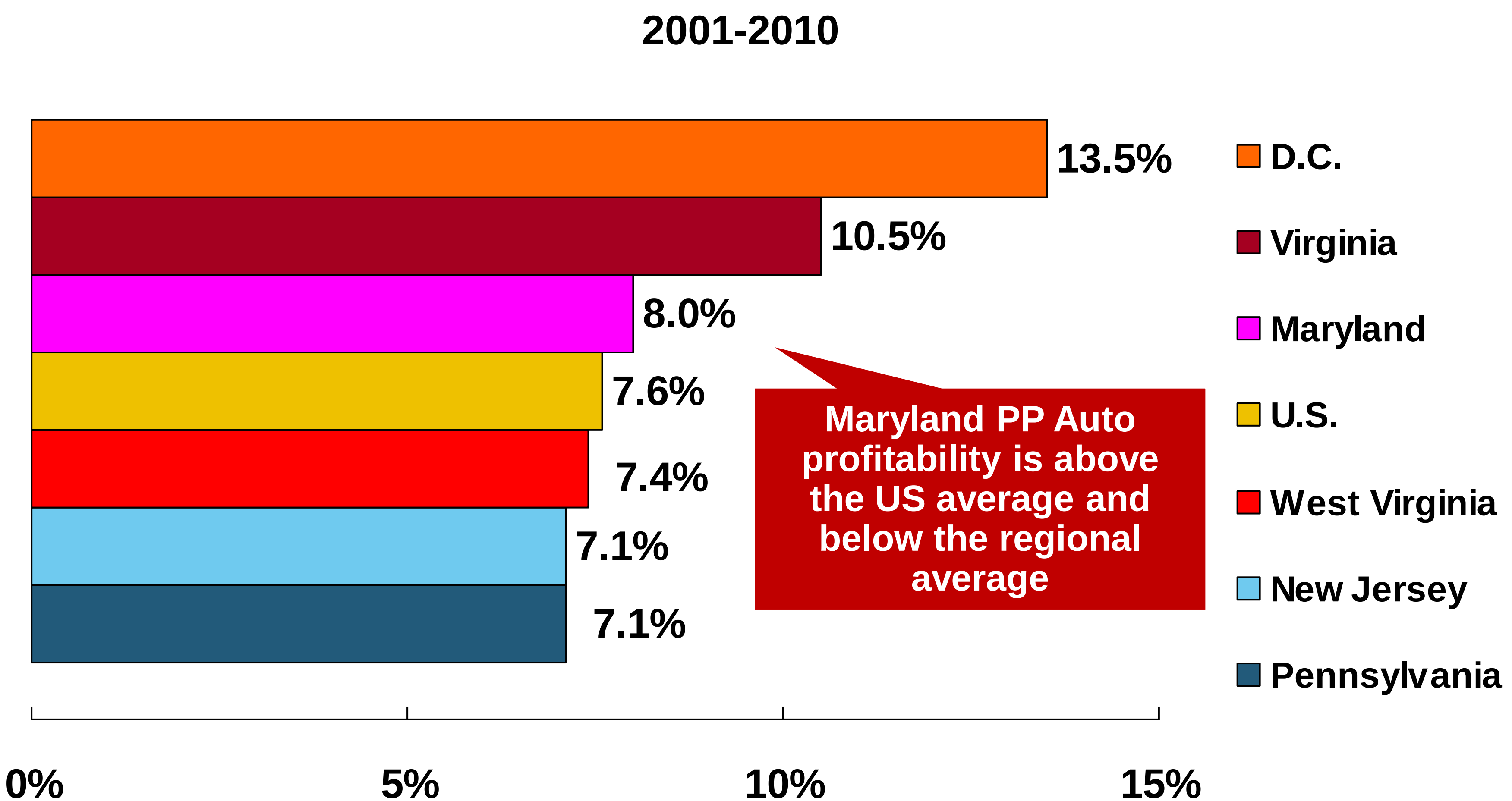
Sources: NAIC.

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



Source: NAIC, Insurance Information Institute

PP Auto: 10-Year Average RNW MD & Nearby States



Source: NAIC, Insurance Information Institute

Top Ten Most Expensive And Least Expensive States For Automobile Insurance, 2009 (1)

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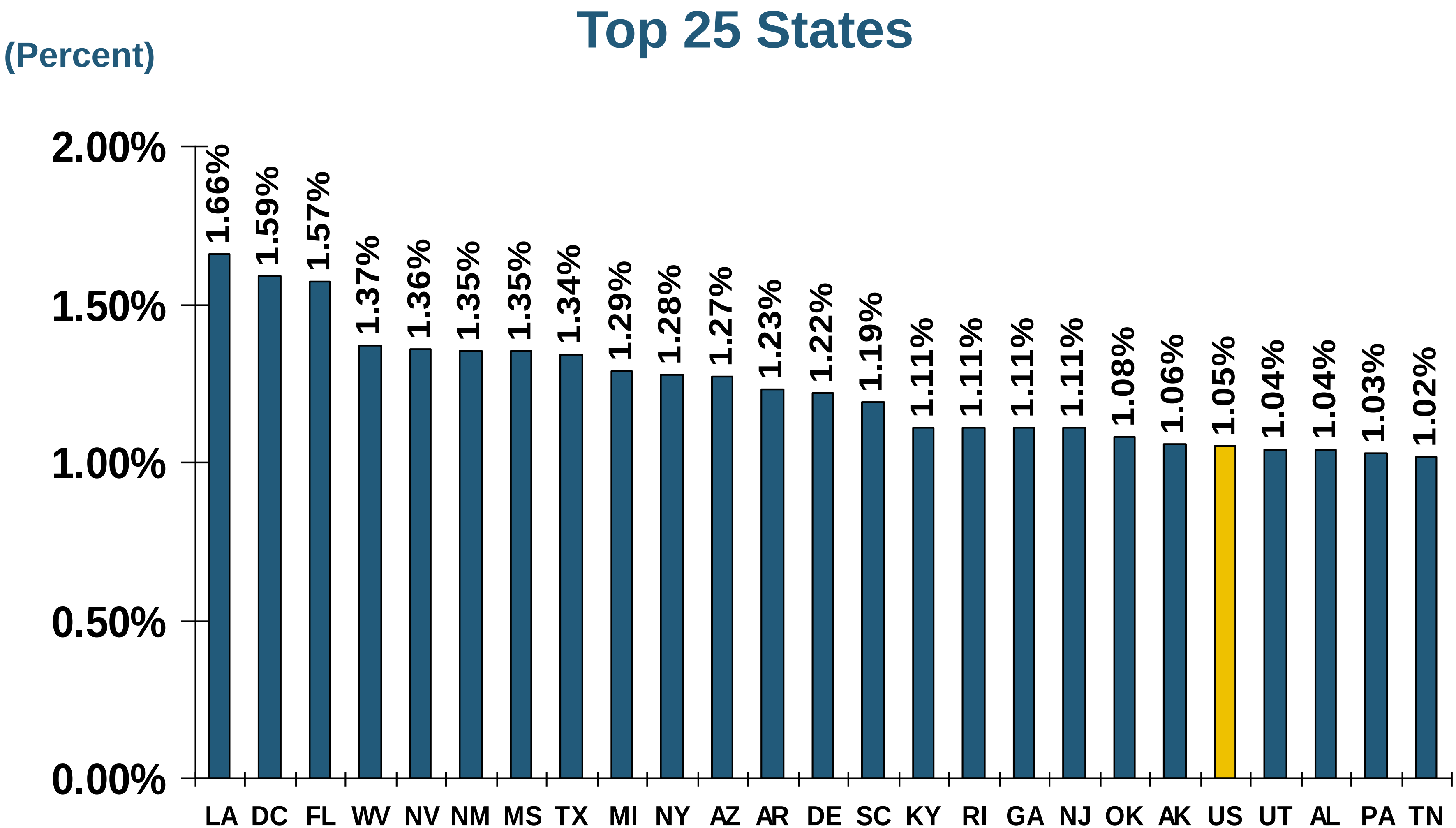
Rank	Most expensive states	Average expenditure	Rank	Least expensive states	Average expenditure
1	District of Columbia	$1,128	1	North Dakota	$510
2	New Jersey	1,101	2	South Dakota	521
3	Louisiana	1,099	3	Iowa	532
4	New York	1,057	4	Idaho	555
5	Delaware	1,021	5	Nebraska	559
6	Florida	1,006	6	Kansas	578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

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.

Ratio of Avg. Expenditure for Pvt. Passenger Auto Insurance to Median Family Income, 2009



*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.

Ratio of Avg. Expenditure for Pvt. Passenger Auto Insurance to Median Family Income, 2009

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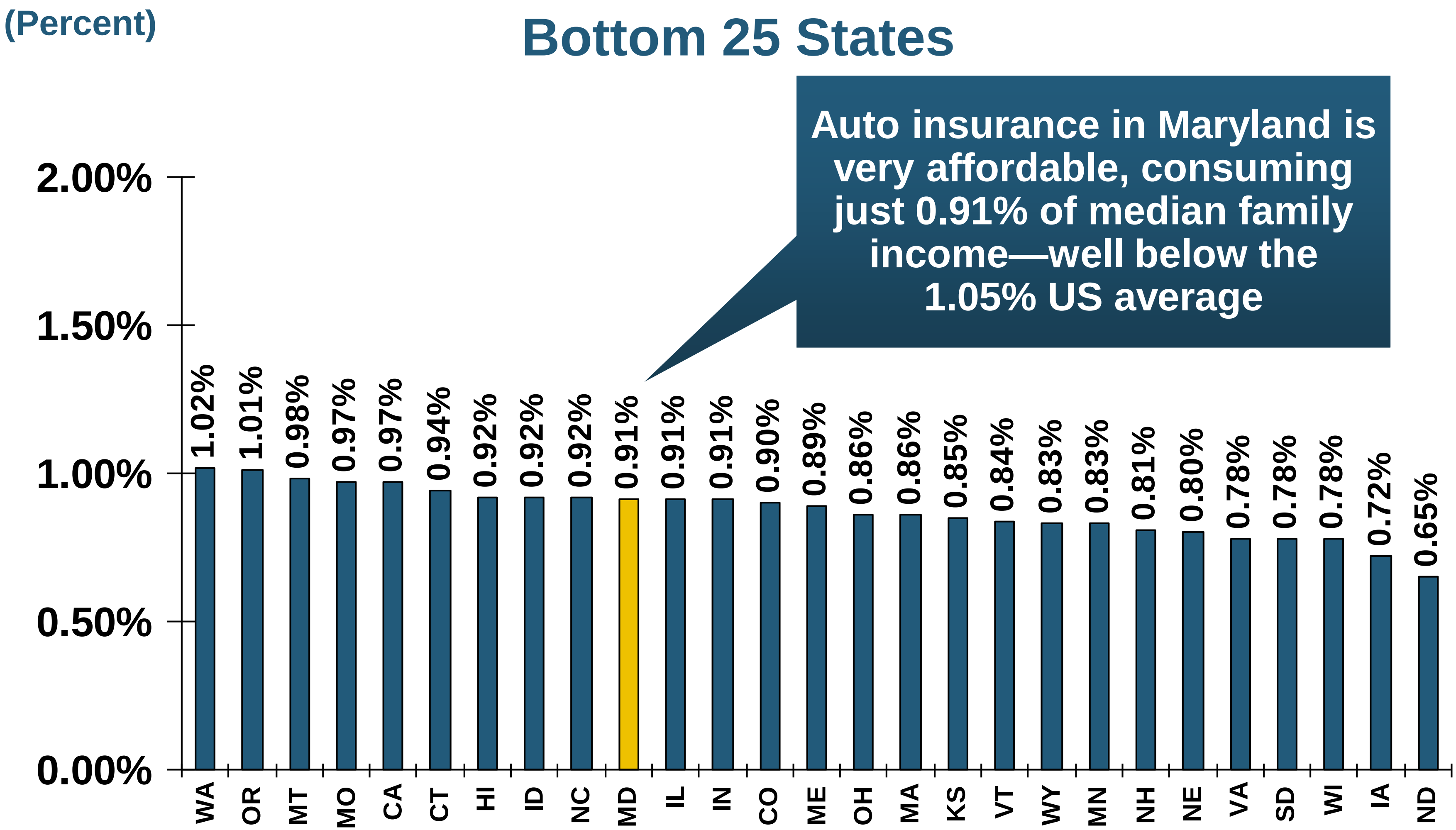
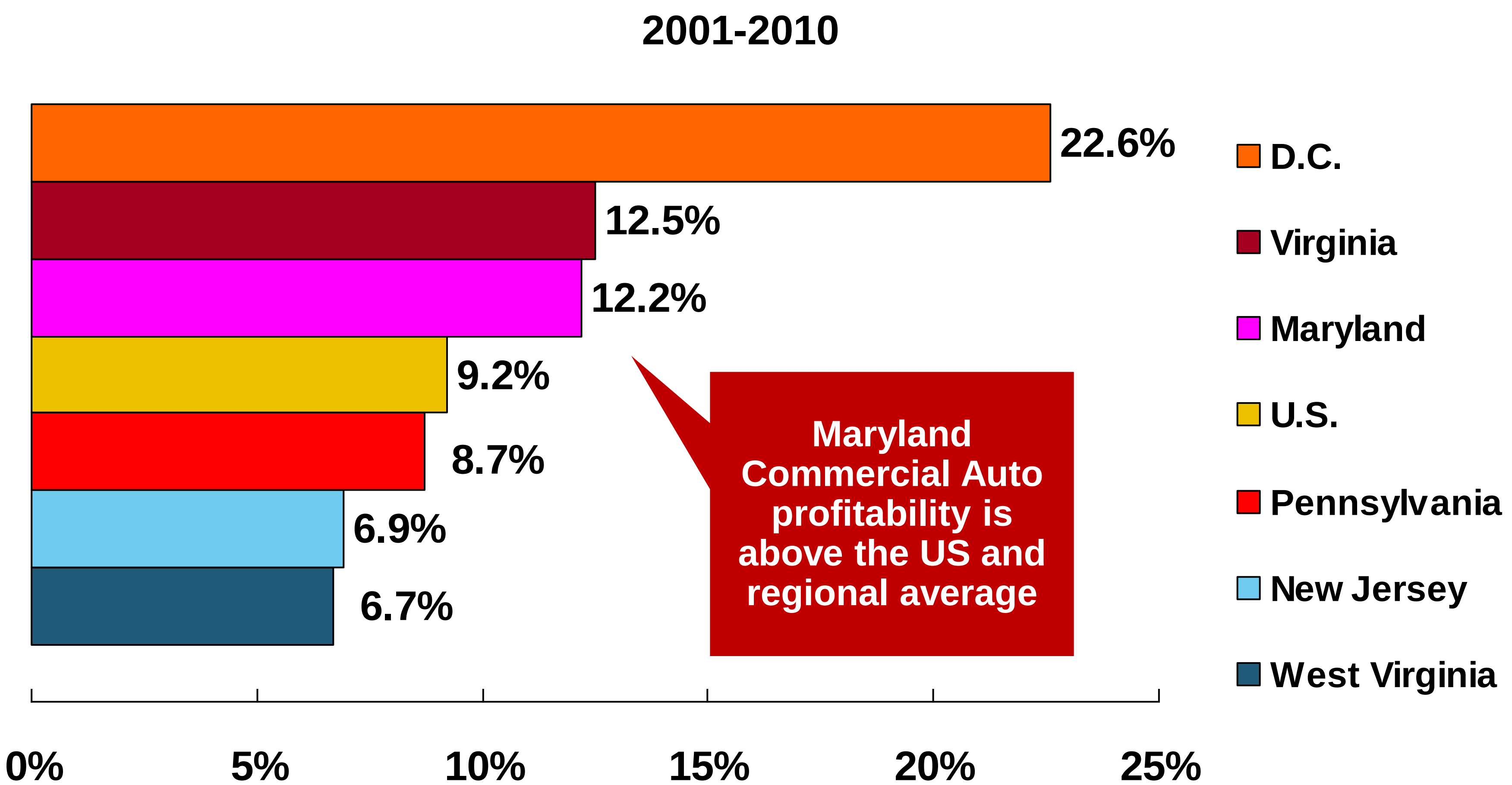


*Average auto insurance expenditure as a percentage of the 2009 median income for a family of four

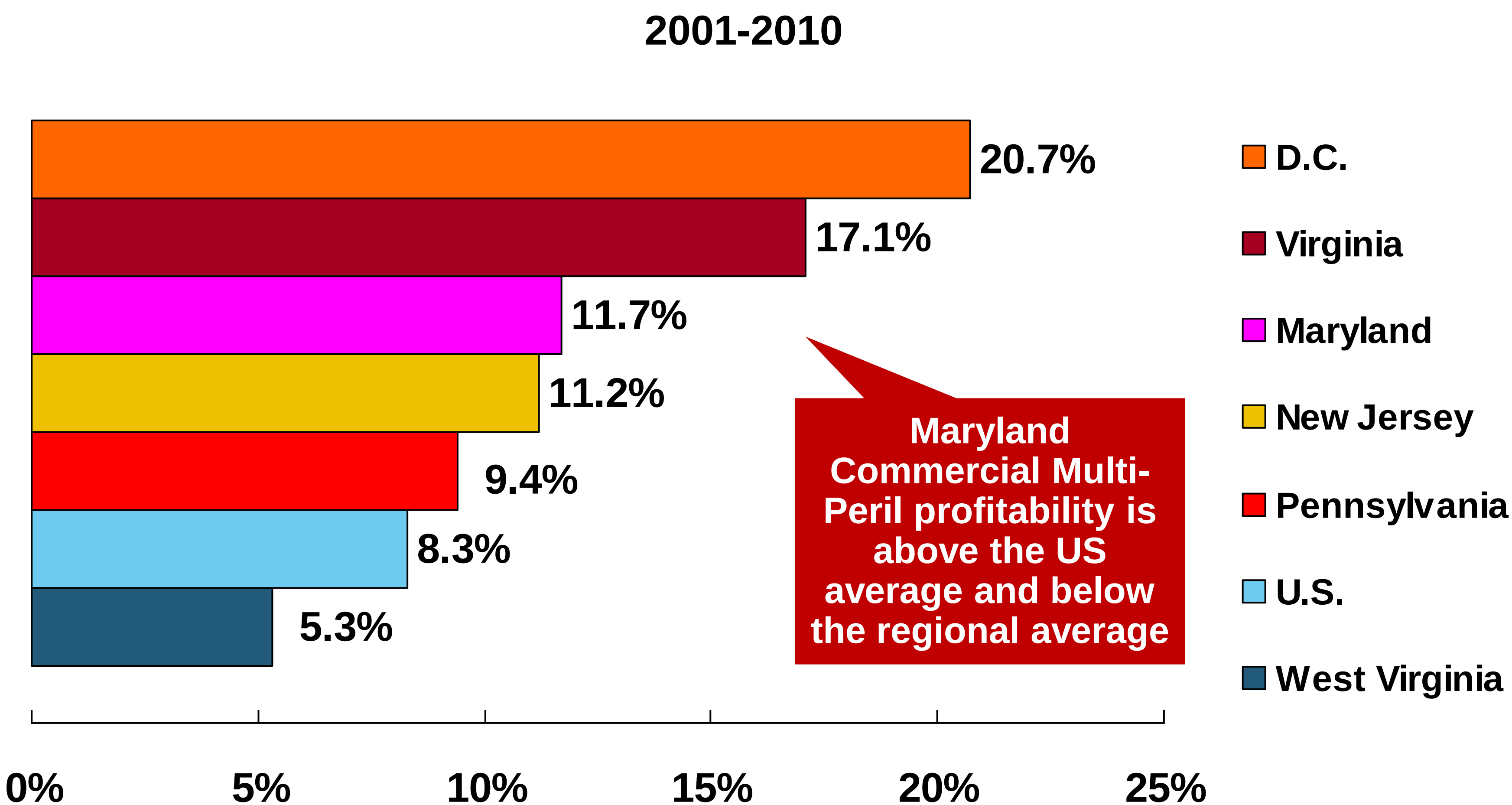
Sources: Prepared by the Insurance Information Institute, based on data from the U.S. Census and the National Association of Insurance Commissioners.

Comm. Auto: 10-Year Average RNW MD & Nearby States



Source: NAIC, Insurance Information Institute

Comm. M-P: 10-Year Average RNW MD & Nearby States



Source: NAIC, Insurance Information Institute

Homeowners: 10-Year Average RNW MD & Nearby States

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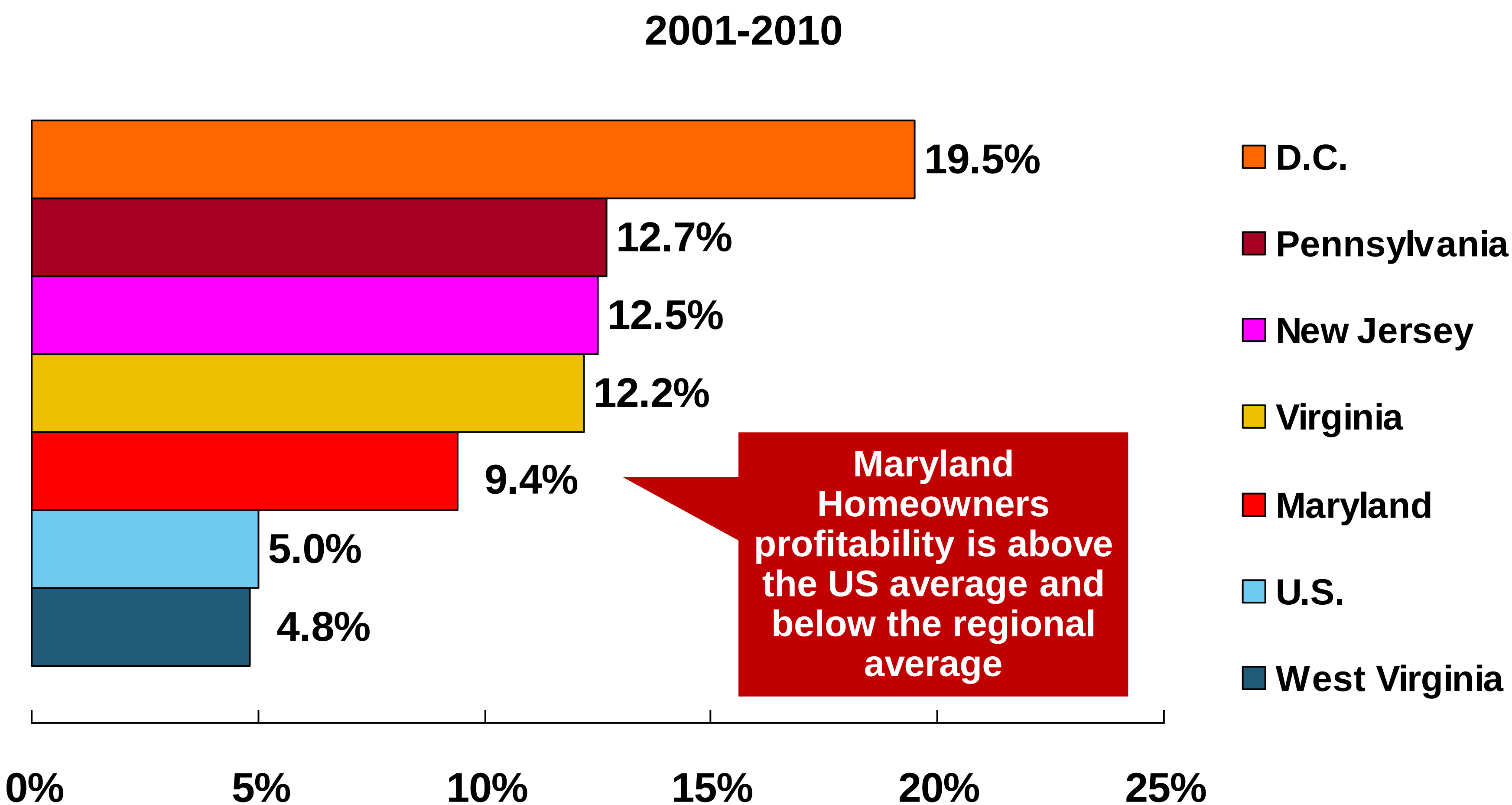

Source: NAIC, Insurance Information Institute

Top Ten Most Expensive And Least Expensive States For Homeowners Insurance, 2009 (1)

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

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

(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.

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

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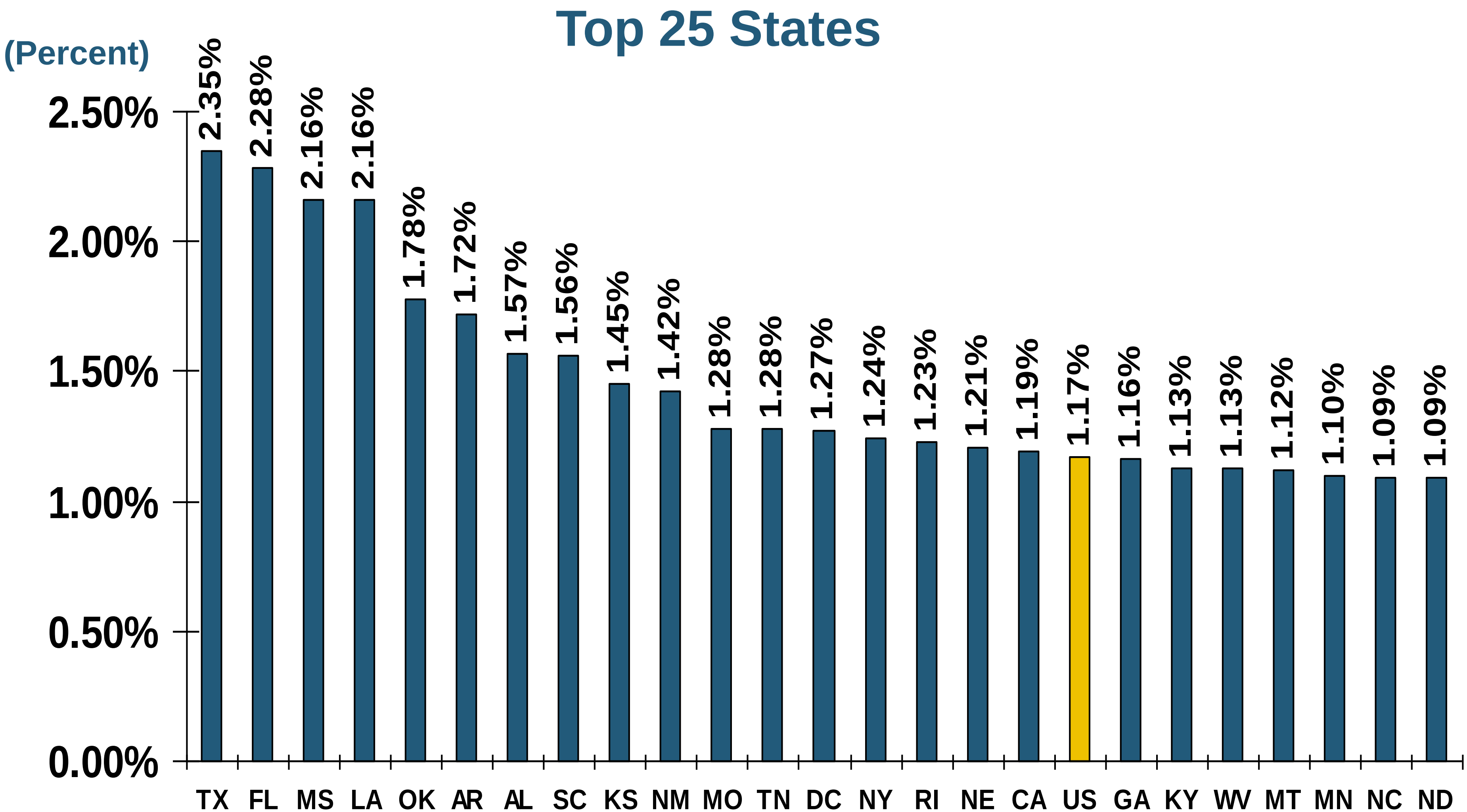
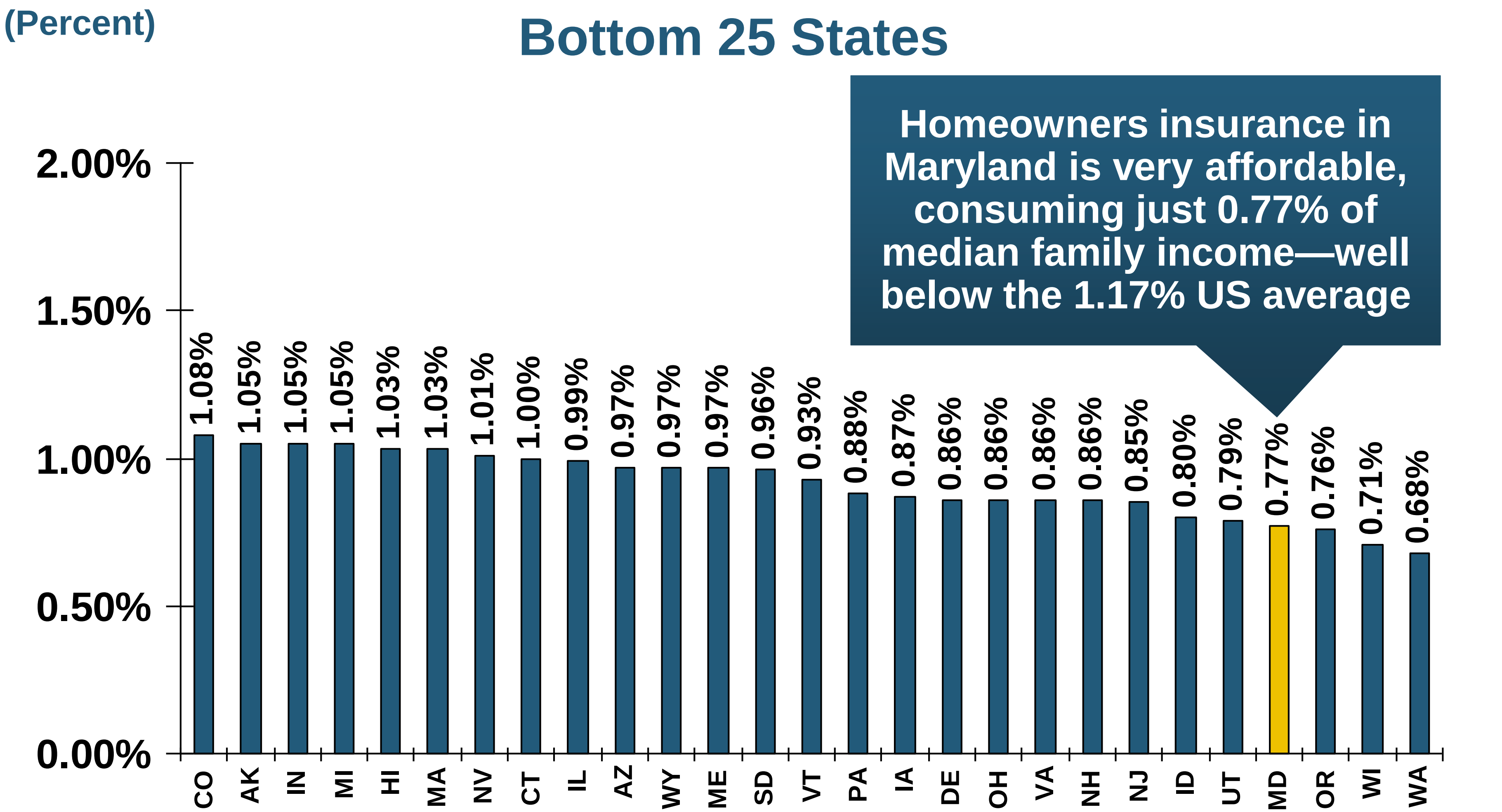


*Average homeowners insurance expenditure as a percentage of the 2009 median income for a family of four
Sources: Prepared by the Insurance Information Institute, based on data from the U.S. Census and the National Association of Insurance Commissioners.

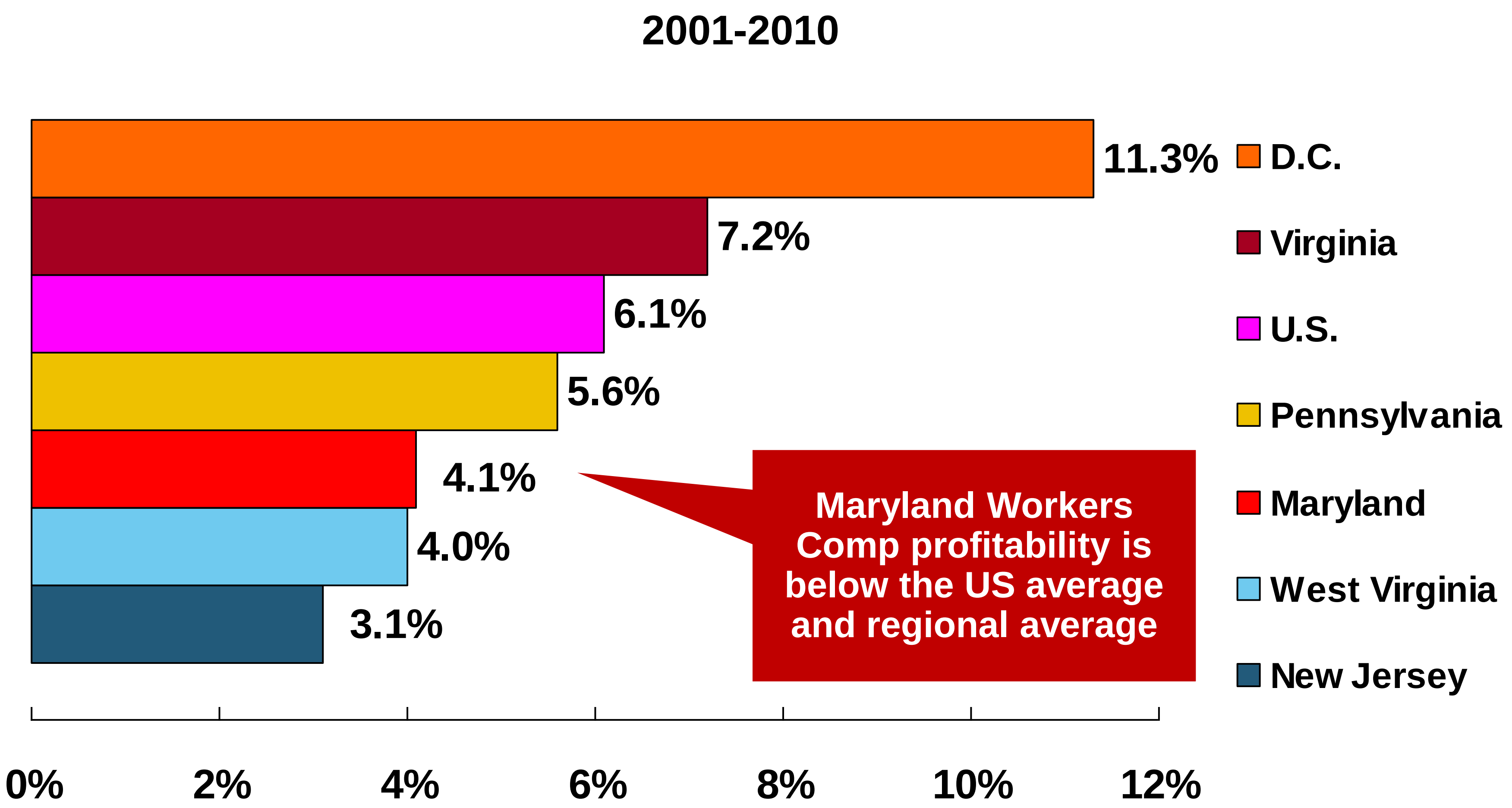
Ratio of Avg. Premium for Homeowners Insurance to Median Family Income, 2009



*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.

Workers Comp: 10-Year Average RNW MD & Nearby States



(1) Data not available.
Source: NAIC, Insurance Information Institute.

All Lines DWP Growth: MD vs. U.S., 2002-2011

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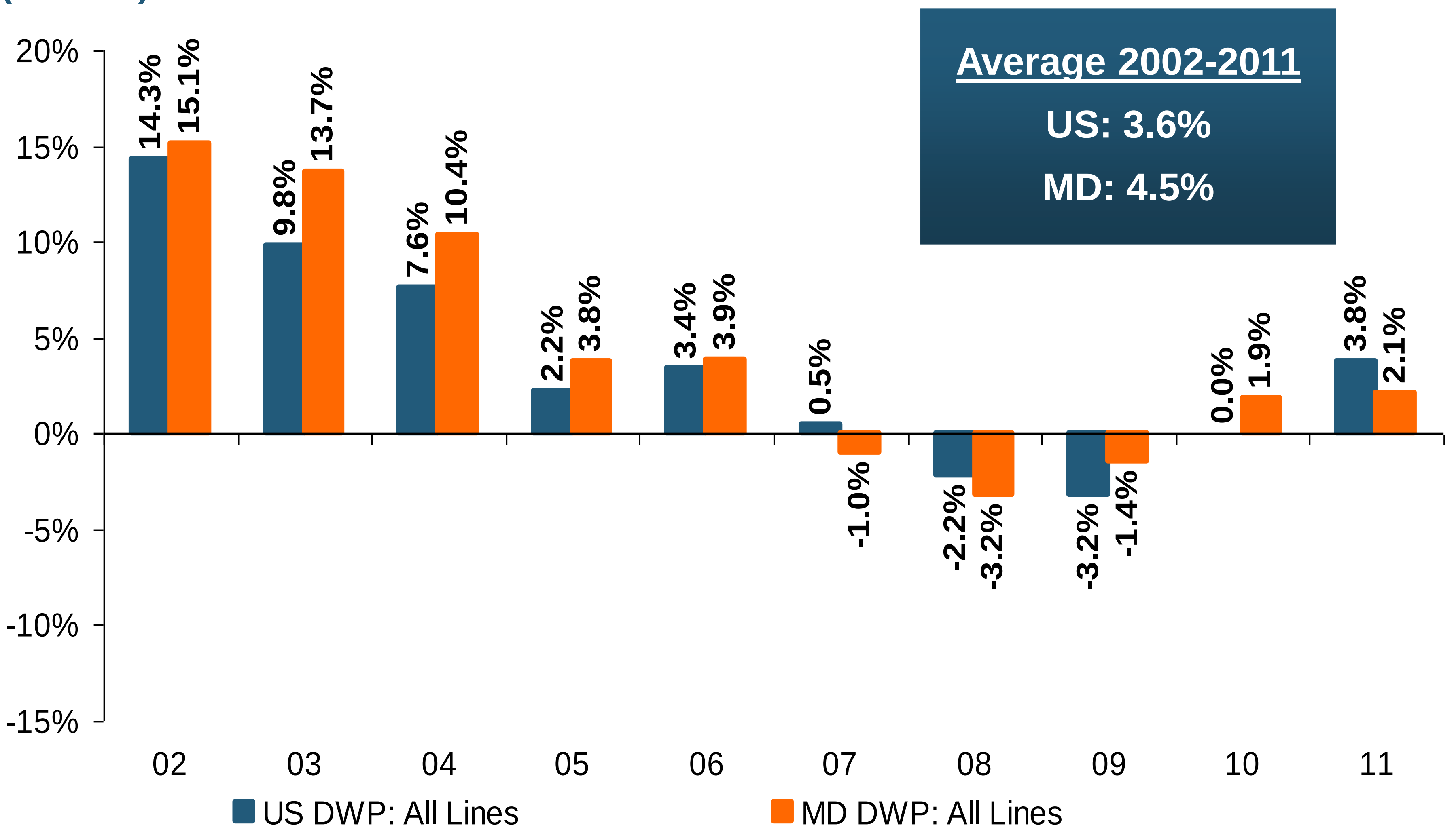
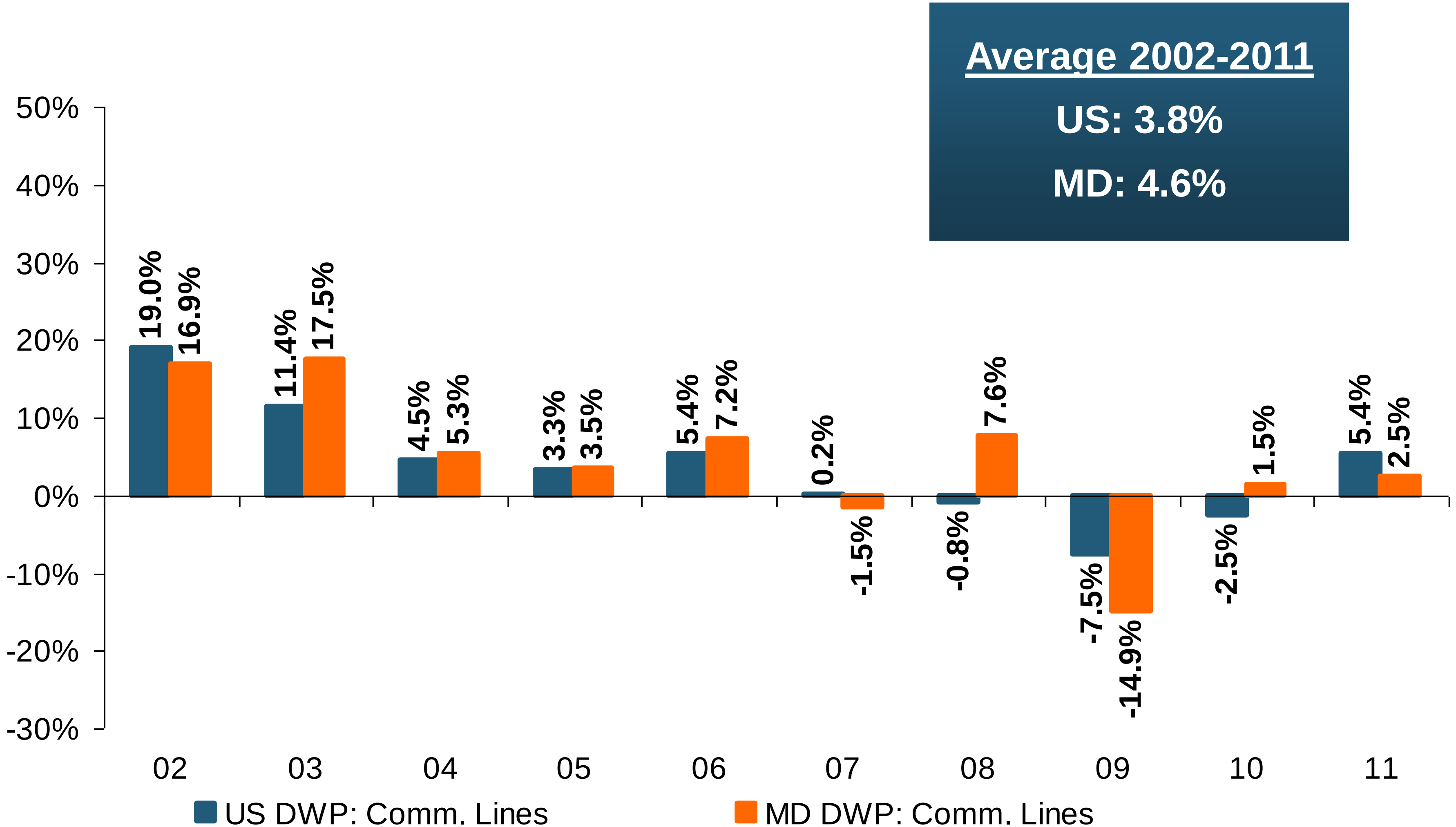
(Percent)



Source: SNL Financial.

Comm. Lines DWP Growth: MD vs. U.S., 2002-2011

(Percent)



Source: SNL Financial.

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

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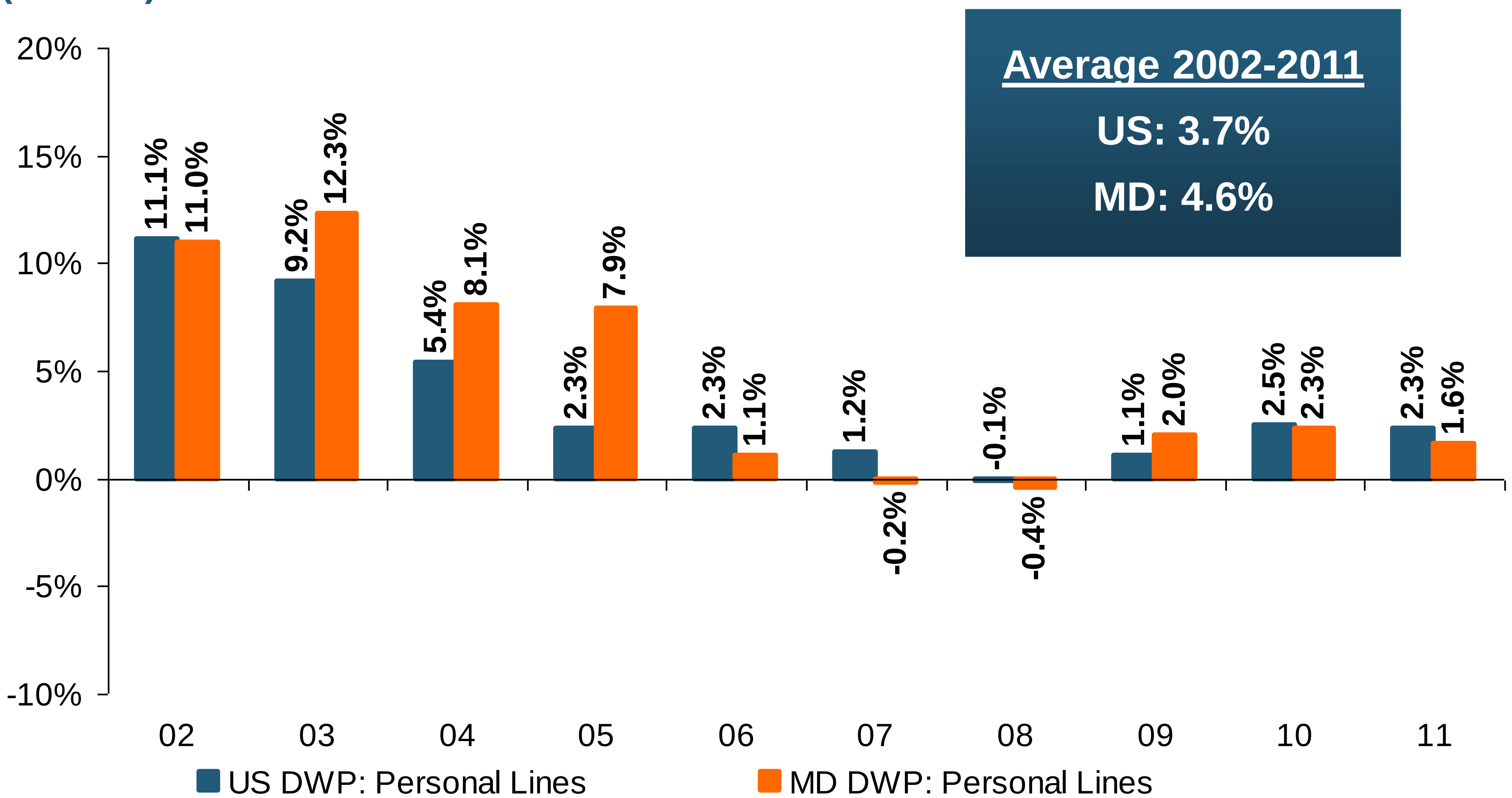
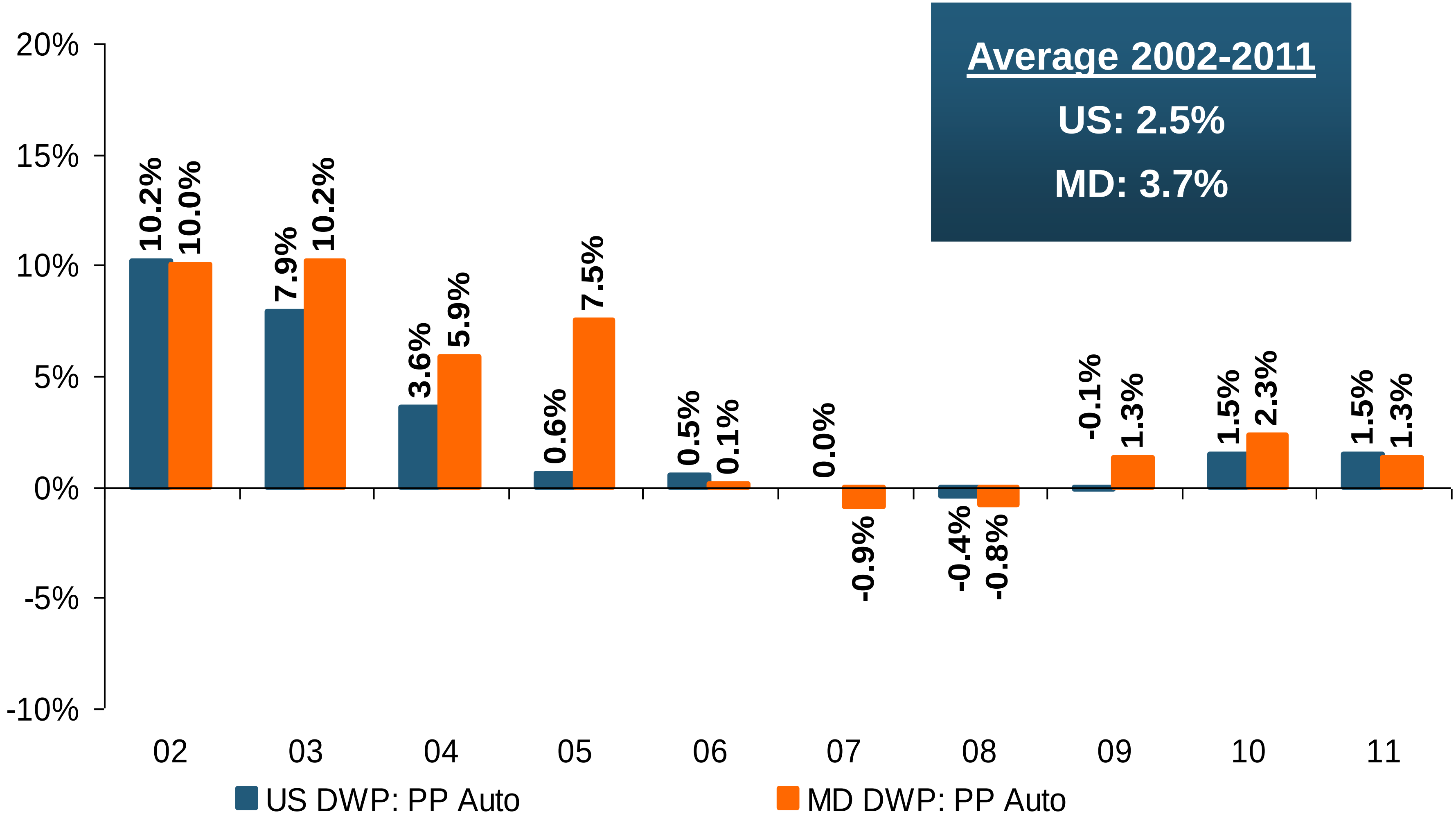
(Percent)



Source: SNL Financial.

Private Passenger Auto DWP Growth: MD vs. U.S., 2002-2011

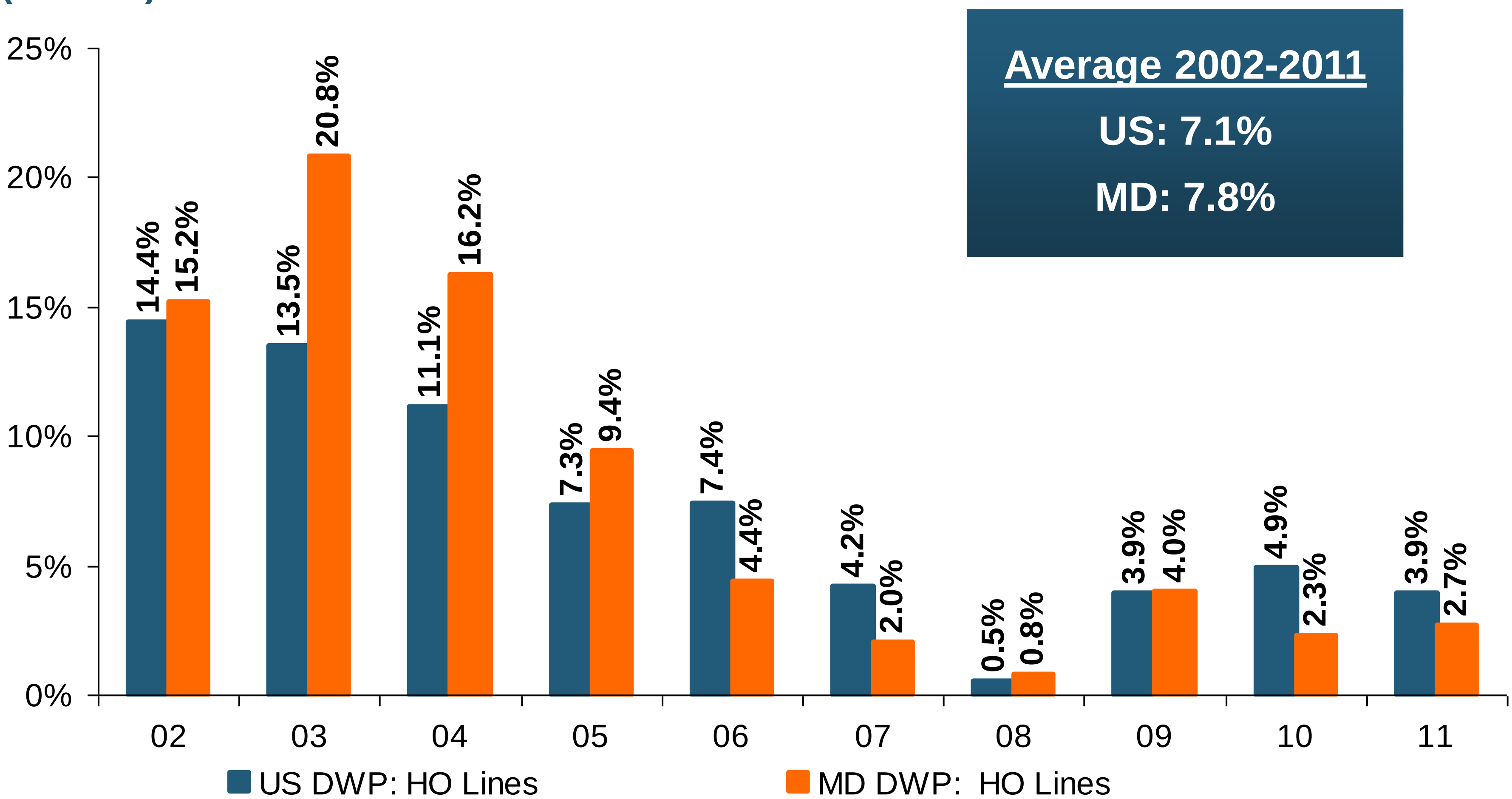
(Percent)



Source: SNL Financial.

Homeowner's MP DWP Growth: MD vs. U.S., 2002-2011

(Percent)



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

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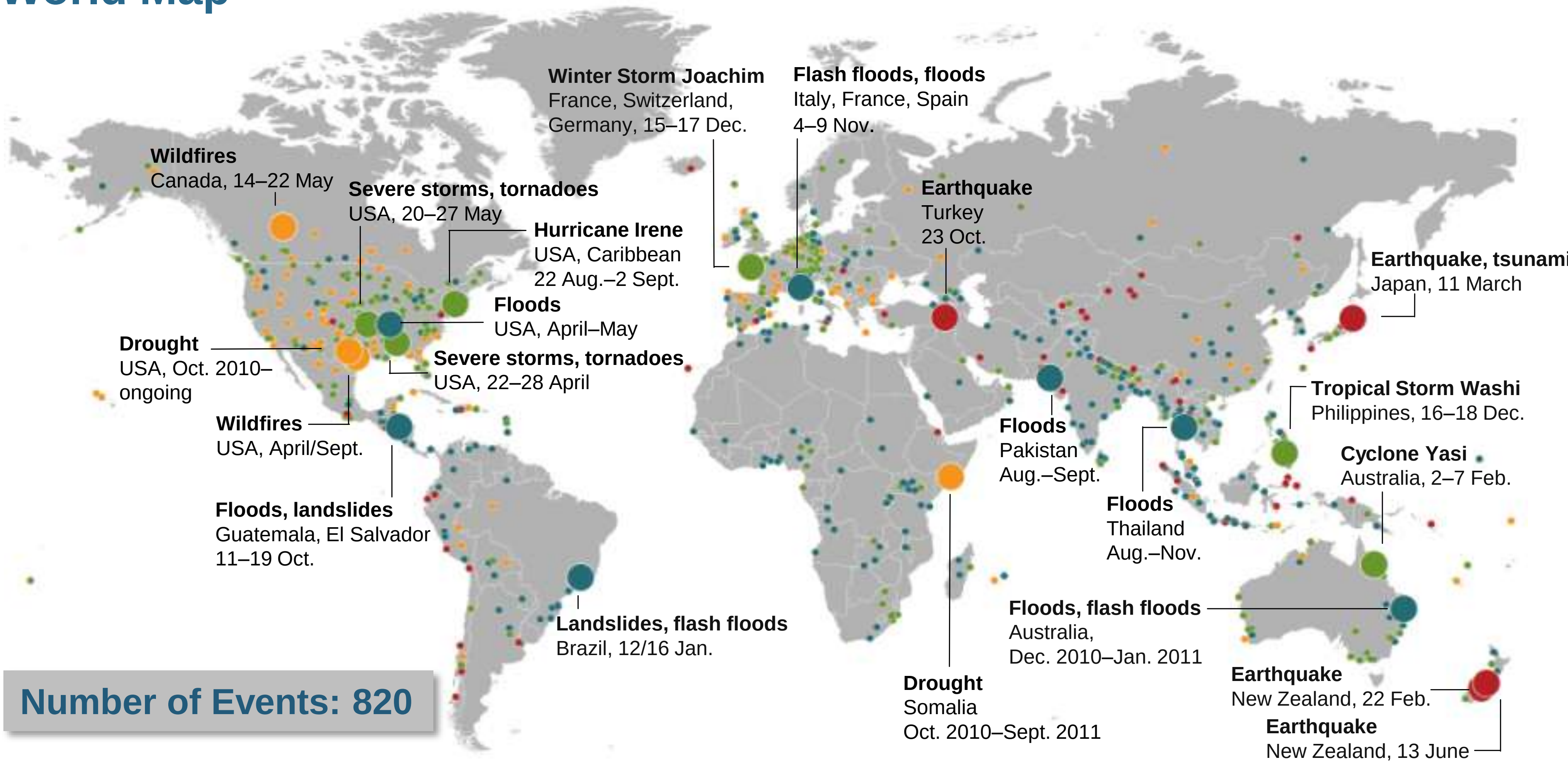
World Map



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

Source: MR NatCat*SERVICE*

Natural Catastrophes Worldwide, 2011

Overview and Comparison with Previous Years

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

Source: MR NatCat*SERVICE*

5 Costliest Natural Catastrophes Worldwide in Terms of Insured Losses, 2011 ($Mill)

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

Source: MR NatCat*SERVICE*

Natural Catastrophes Worldwide 2011

Insured losses US$ 105bn - Percentage distribution per continent

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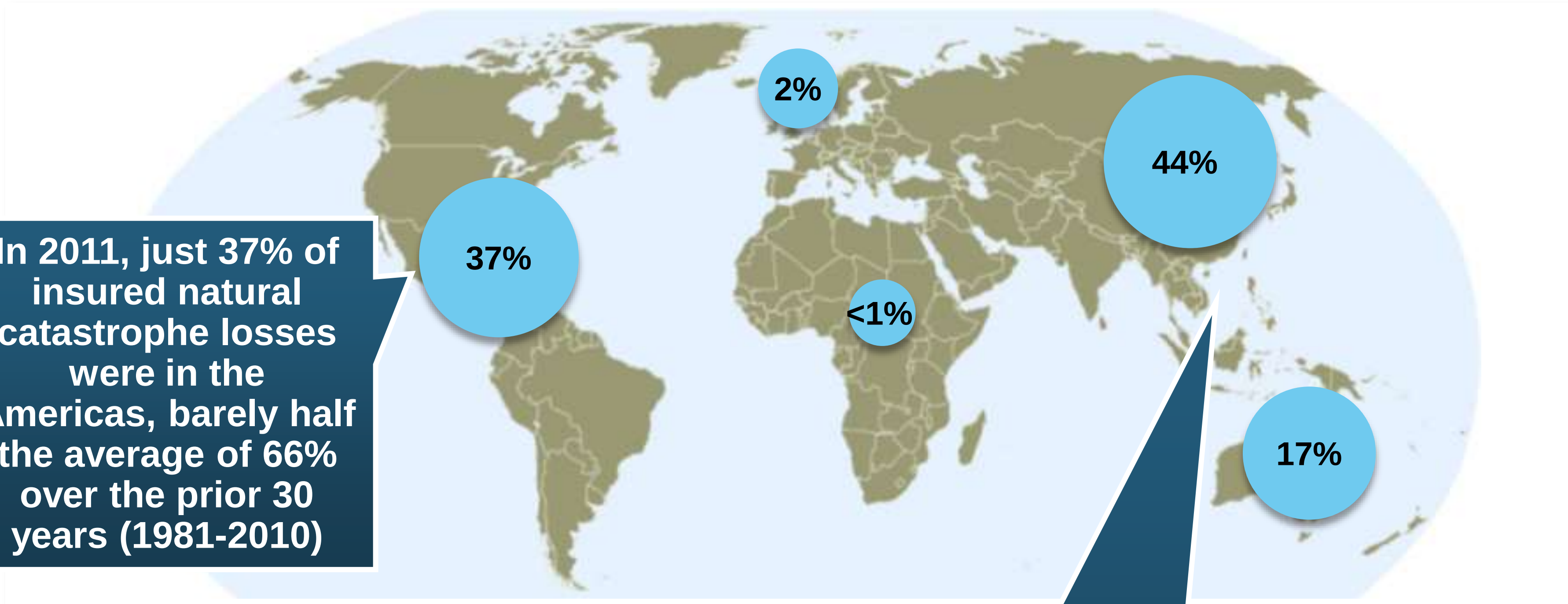

In 2011, just 37% of insured natural catastrophe losses were in the Americas, barely half the average of 66% over the prior 30 years (1981-2010)

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)

Continent	Insured losses US$ m
America (North and South America)	40,000
Europe	2,000
Africa	Minor damages
Asia	45,000
Australia/Oceania	18,000

Source: MR NatCat*SERVICE*

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

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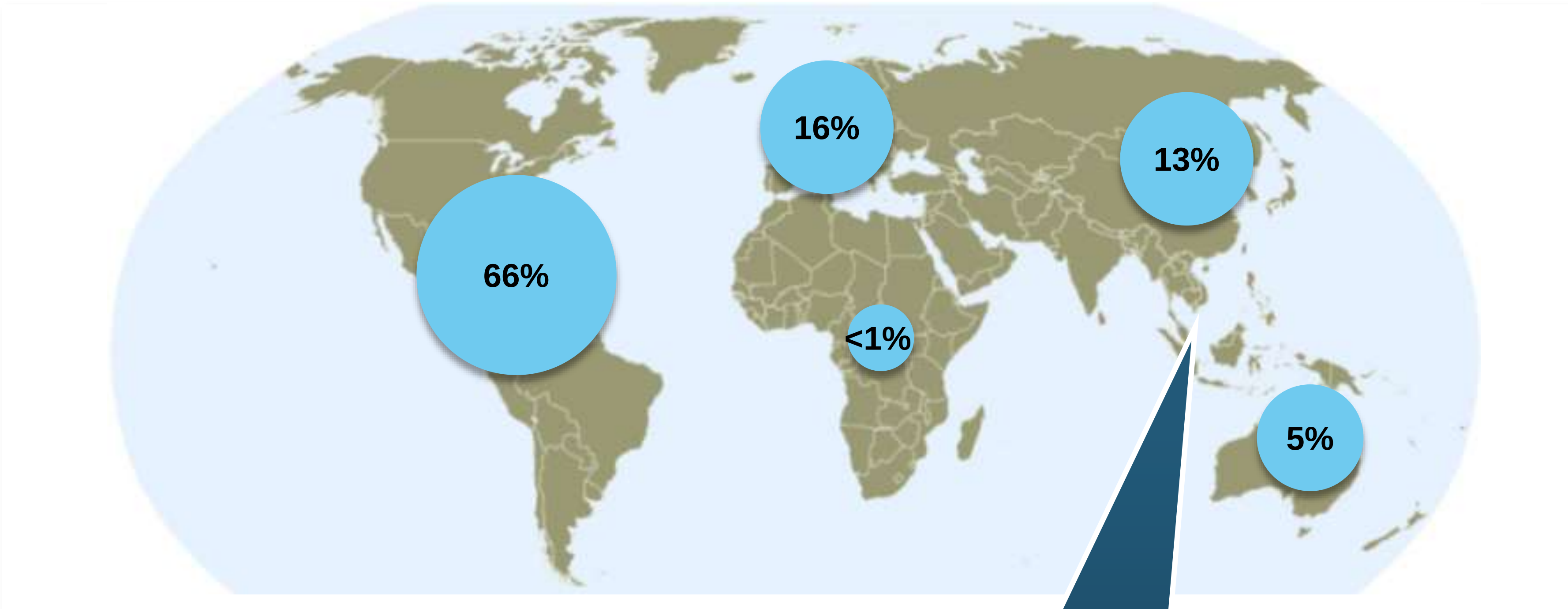

Continent	Insured losses US$ m
America (North and South America)	566,000
Europe	146,000
Africa	2,000
Asia	115,000
Australia/Oceania	41,000

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 NatCat*SERVICE*

Natural Catastrophes in Asia 1980 – 2011

Overall and insured losses in 2011 Dollars

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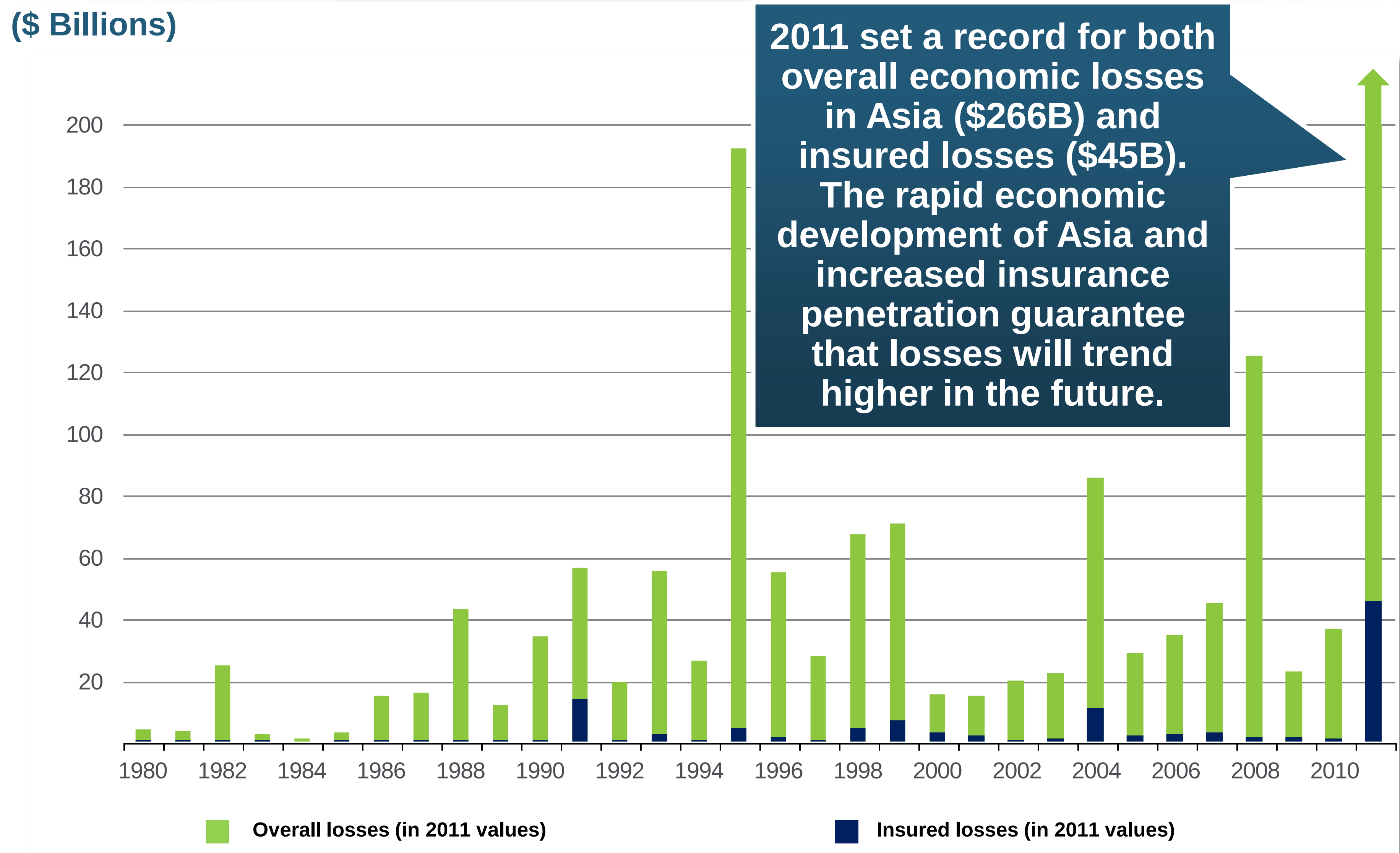

Source: MR NatCat*SERVICE*

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

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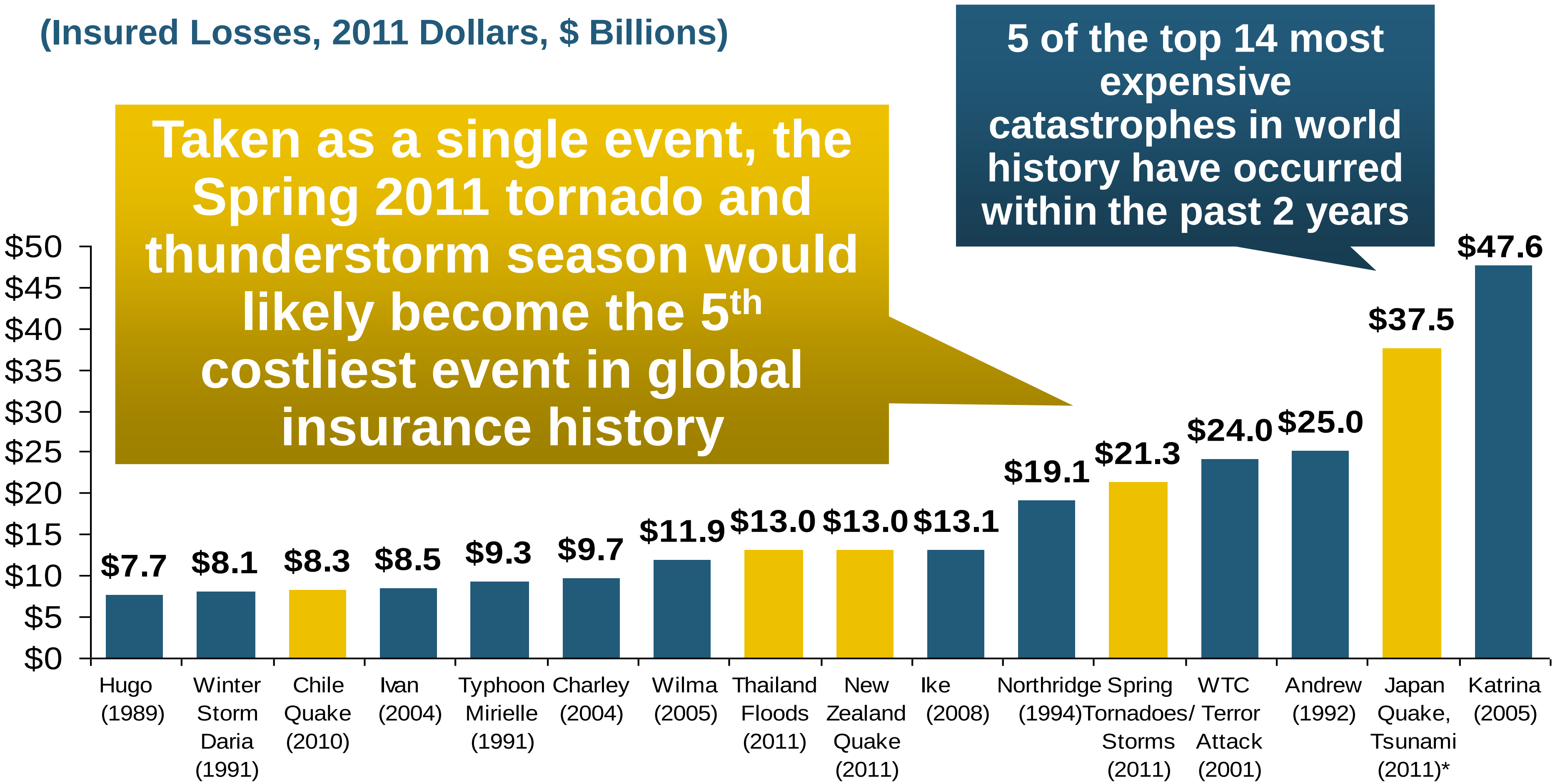
(Insured Losses, 2011 Dollars, $ Billions)



*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.

Worldwide Natural Disasters, 1980 – 2011

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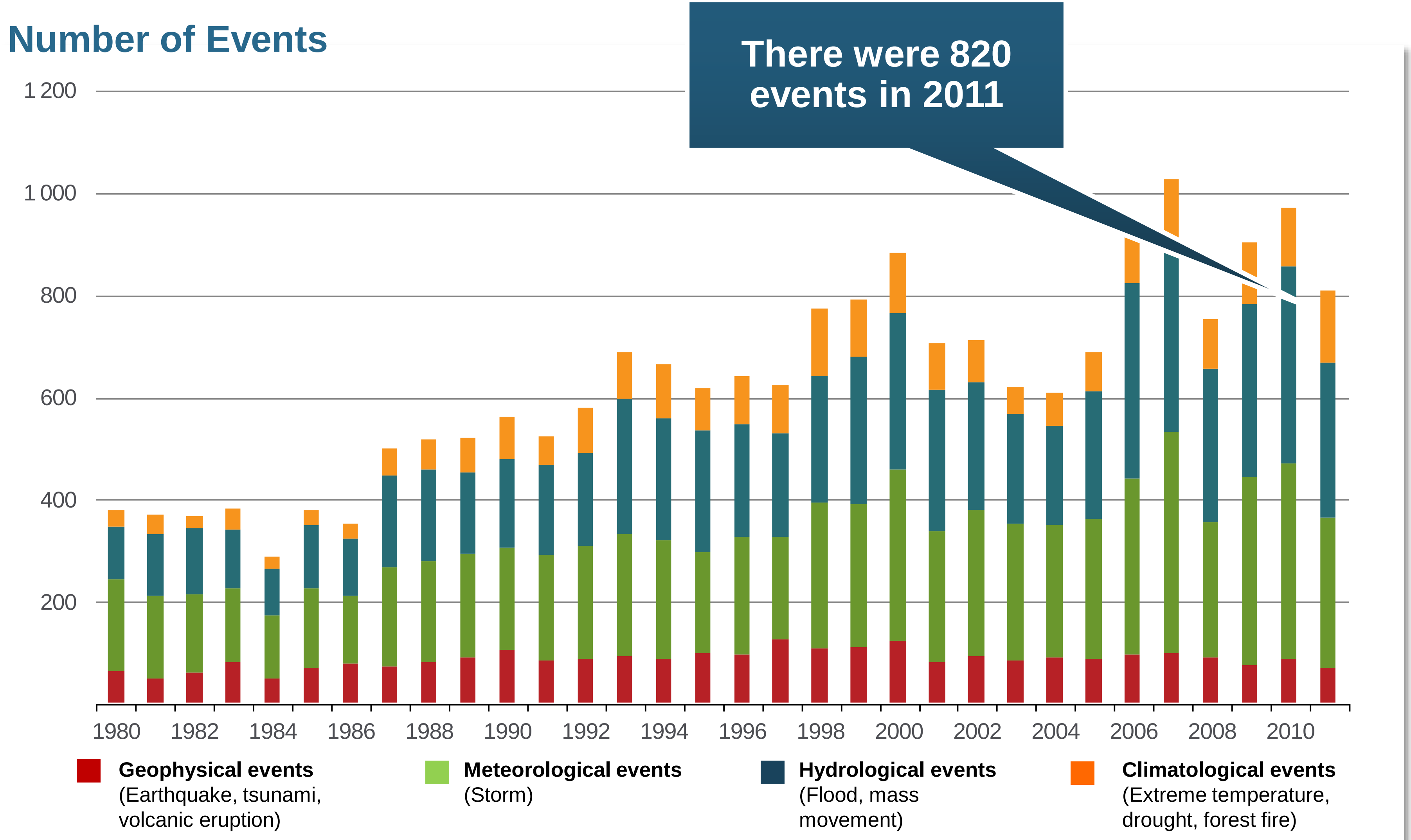

Source: MR NatCat*SERVICE*

Worldwide Natural Disasters 1980–2011, Overall and Insured Losses

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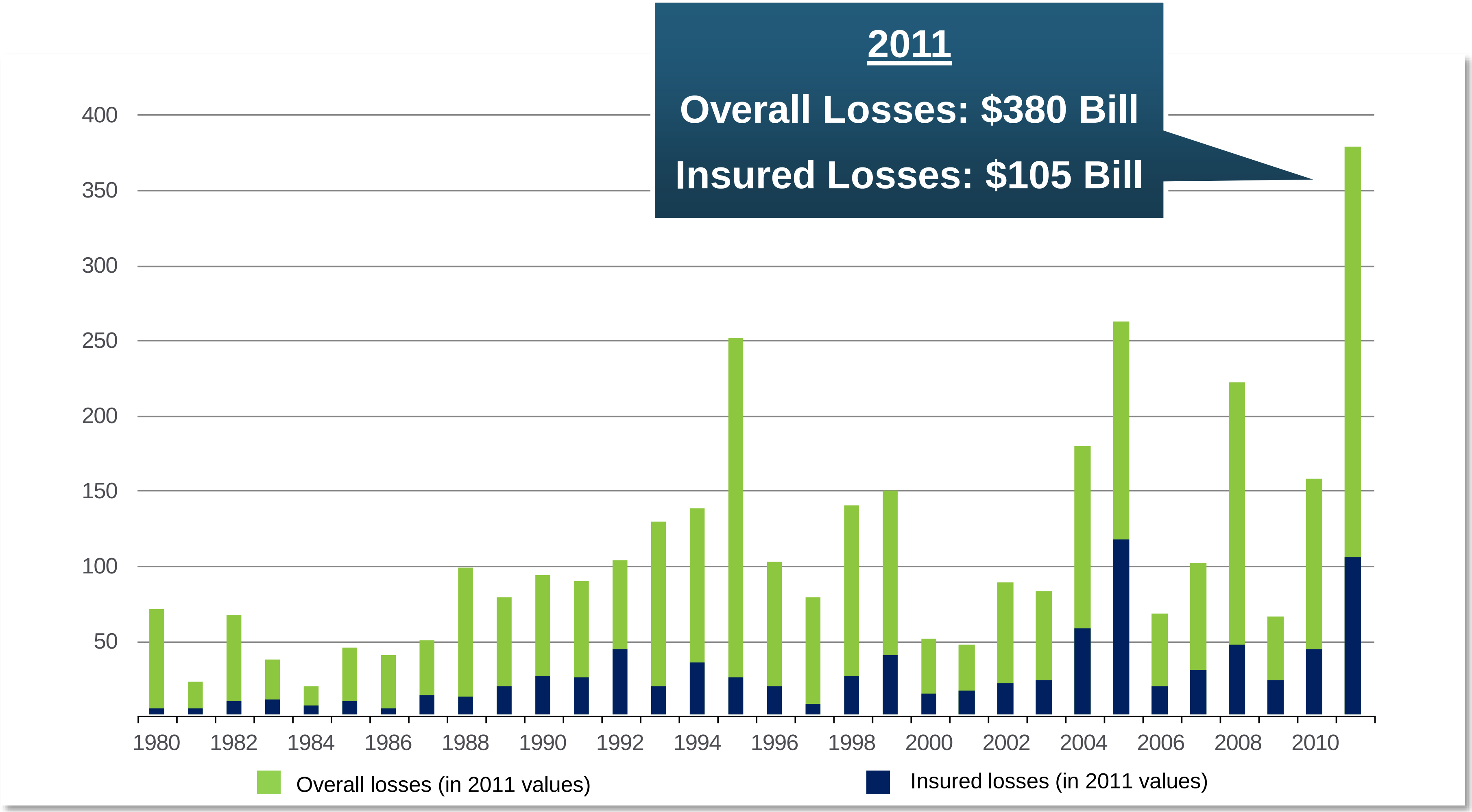
(Insured Losses, 2011 Dollars, $ Billions)



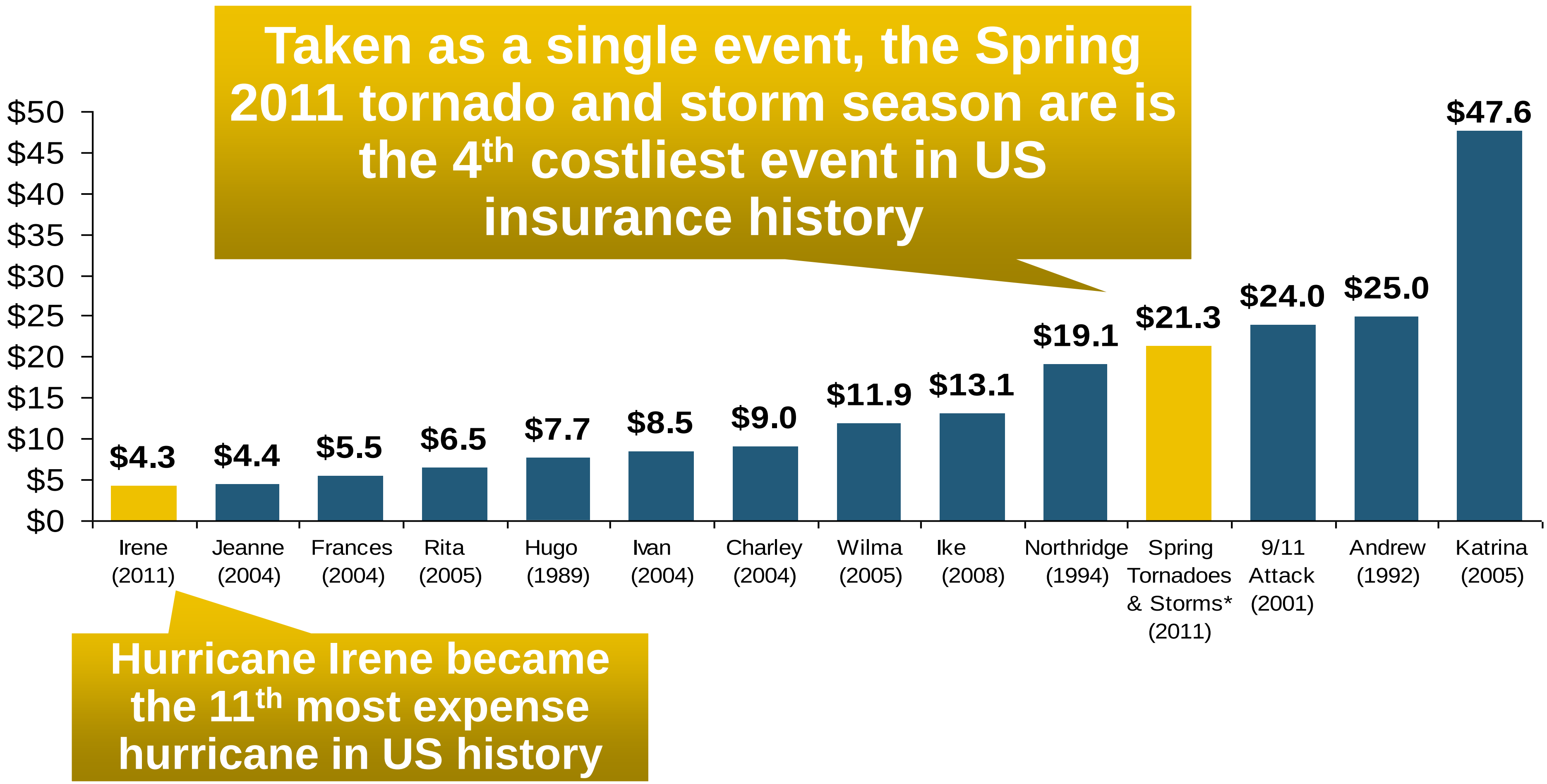
Source: MR NatCat*SERVICE*

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)

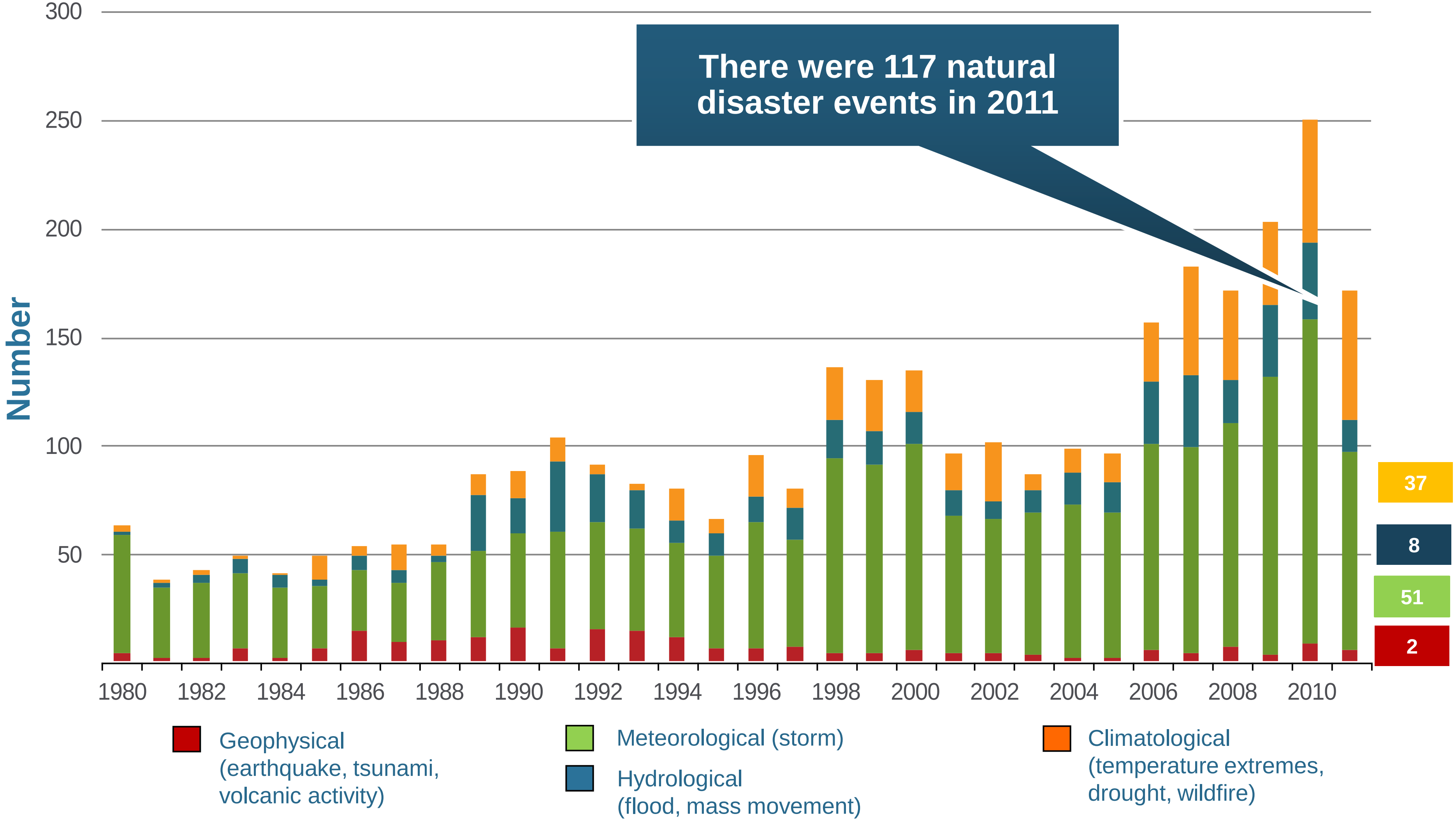


*Losses will actually be broken down into several "events" as determined by PCS. Includes losses for the period April 1 – June 30.

Sources: PCS; Insurance Information Institute inflation adjustments.

Natural Disasters in the United States, 1980 – 2011

Number of Events (Annual Totals 1980 – 2011)



Source: MR NatCat*SERVICE*

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

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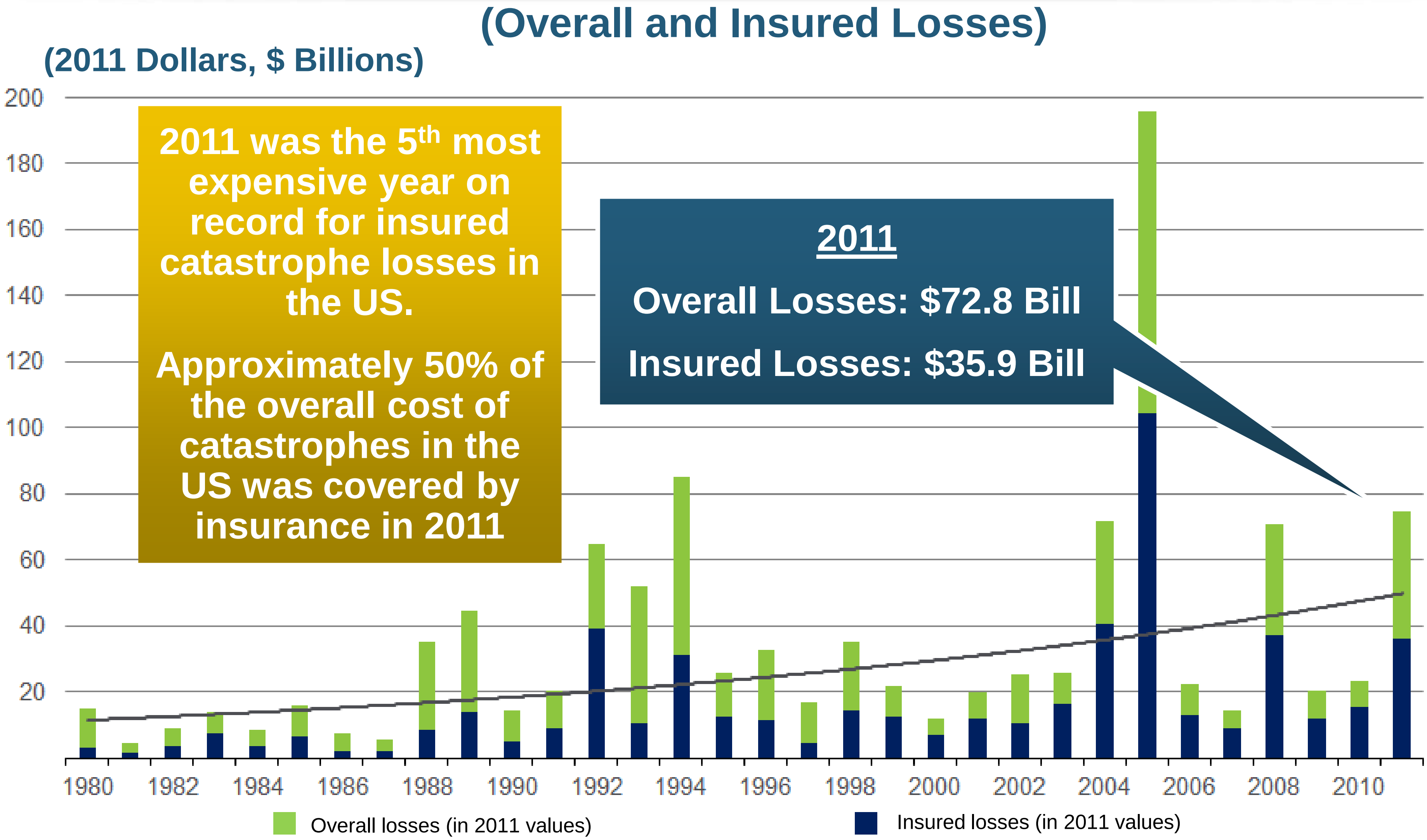

Source: MR NatCat*SERVICE*

US Insured Catastrophe Losses

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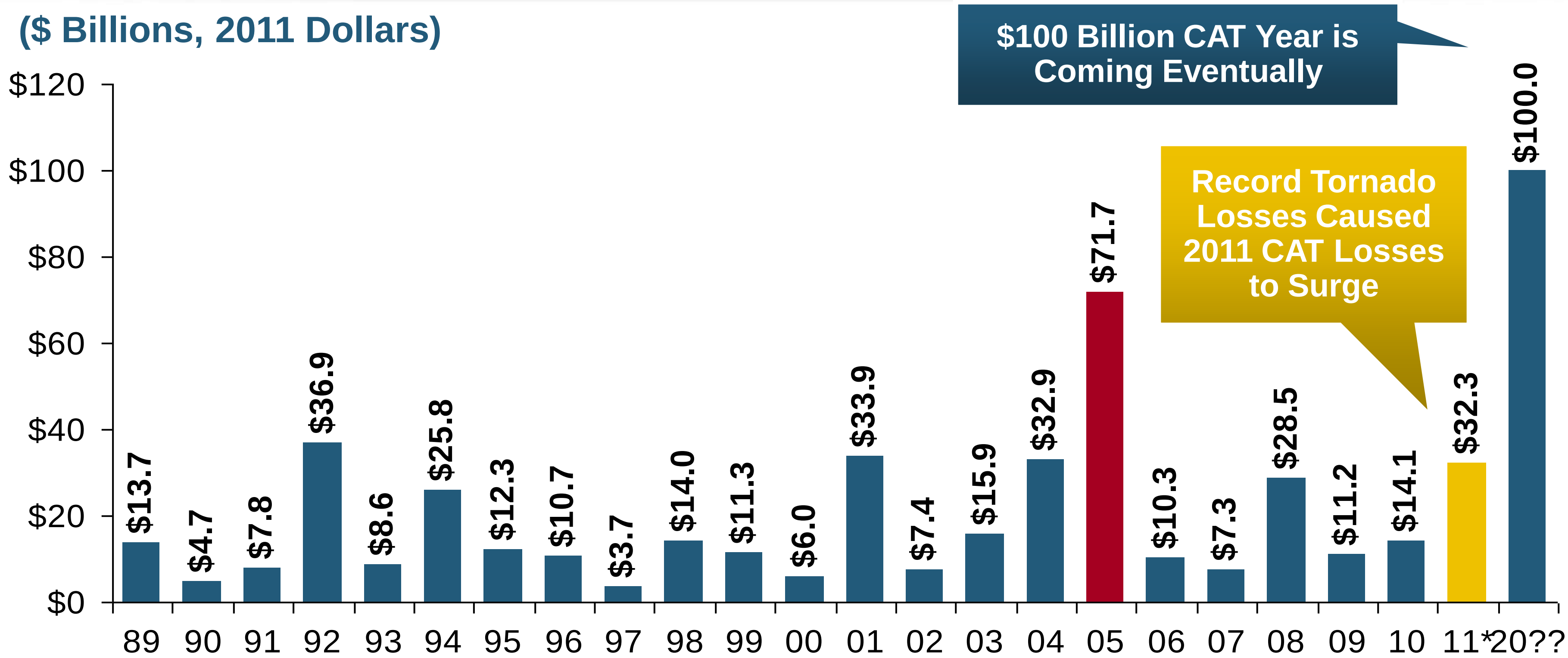

US CAT Losses in 2011 Were the 5th Highest in US History on An Inflation Adjusted Basis

*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.

Natural Disaster Losses in the United States: 2011

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

Source: MR NatCat*SERVICE*

2011's Most Expensive Catastrophes, Insured Losses

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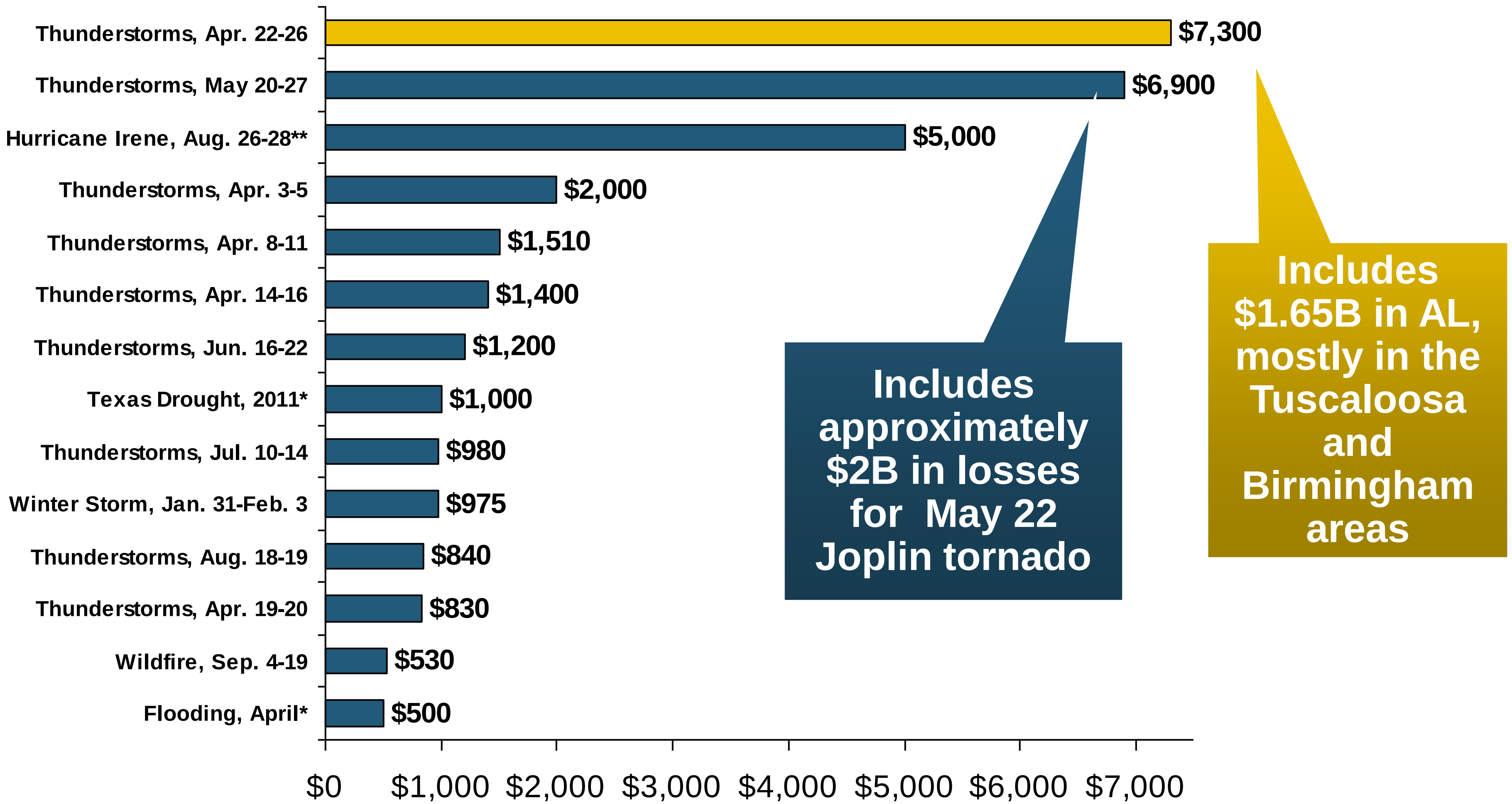
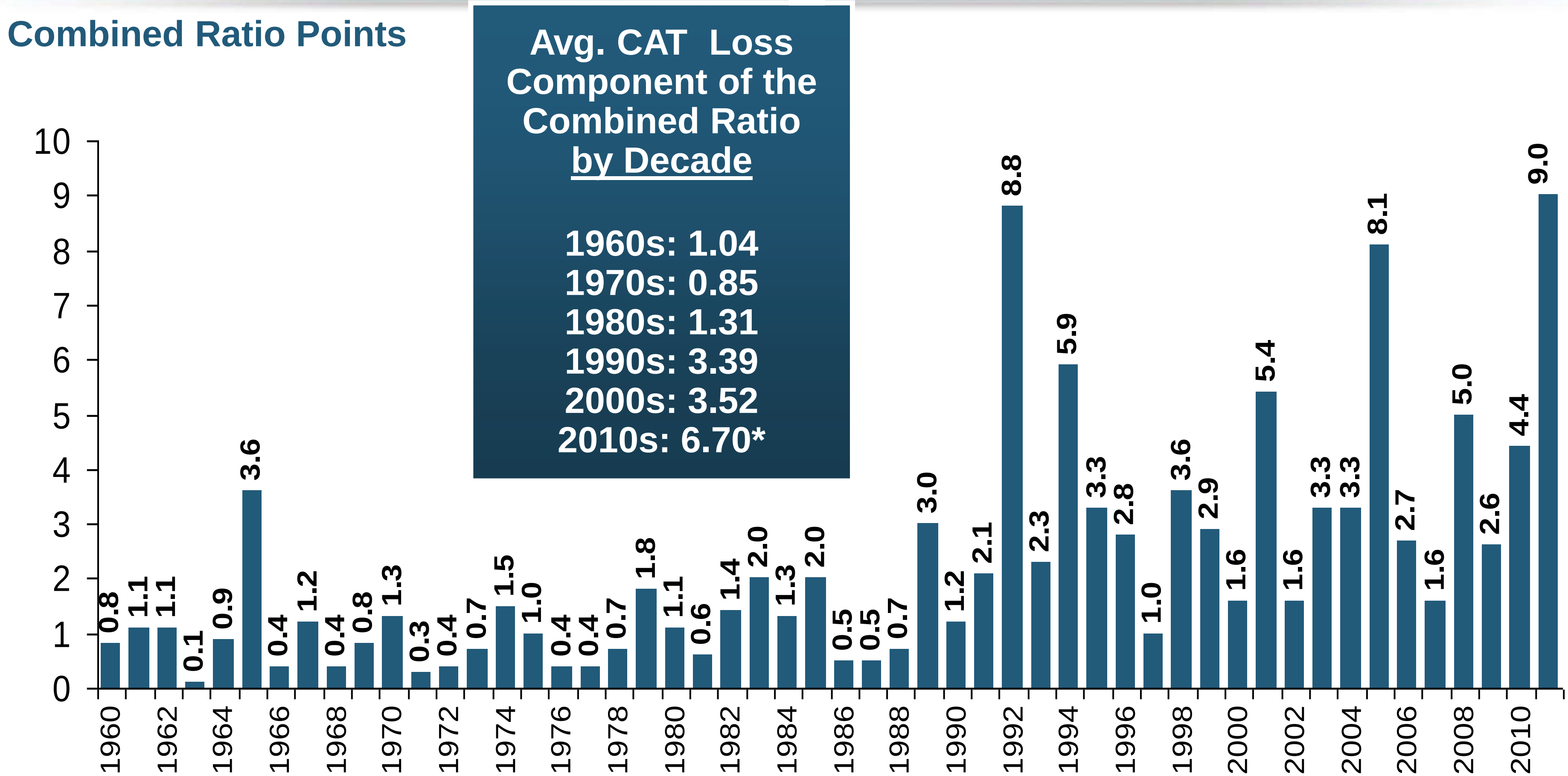


**Includes $700 million in flood losses insured through the National Flood Insurance Program.
Source: PCS except as noted by "*" which are sourced to Munich Re; Insurance Information Institute.

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



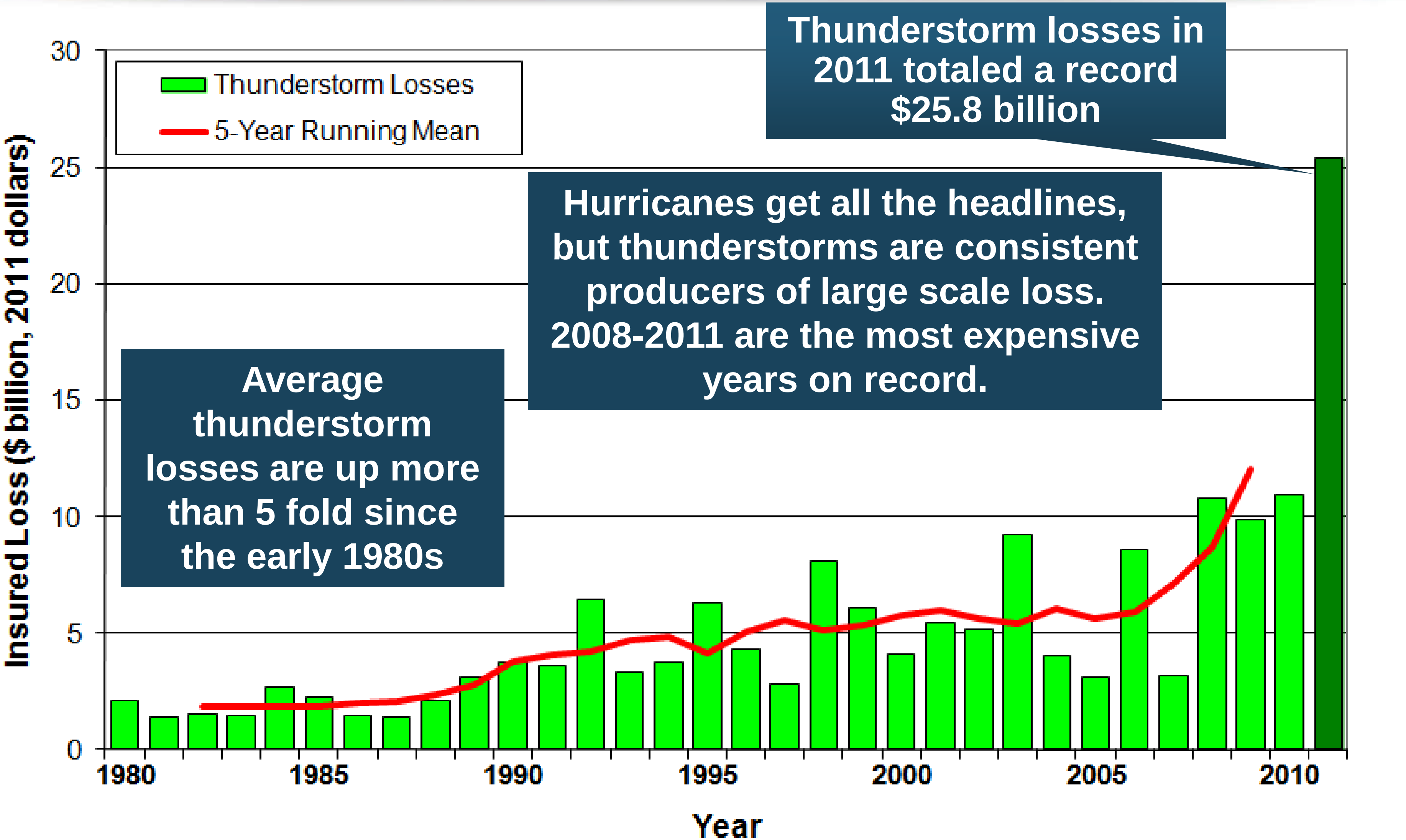
The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades

*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.

U.S. Thunderstorm Loss Trends, 1980 – 2011



Source: Property Claims Service, MR NatCat*SERVICE*

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

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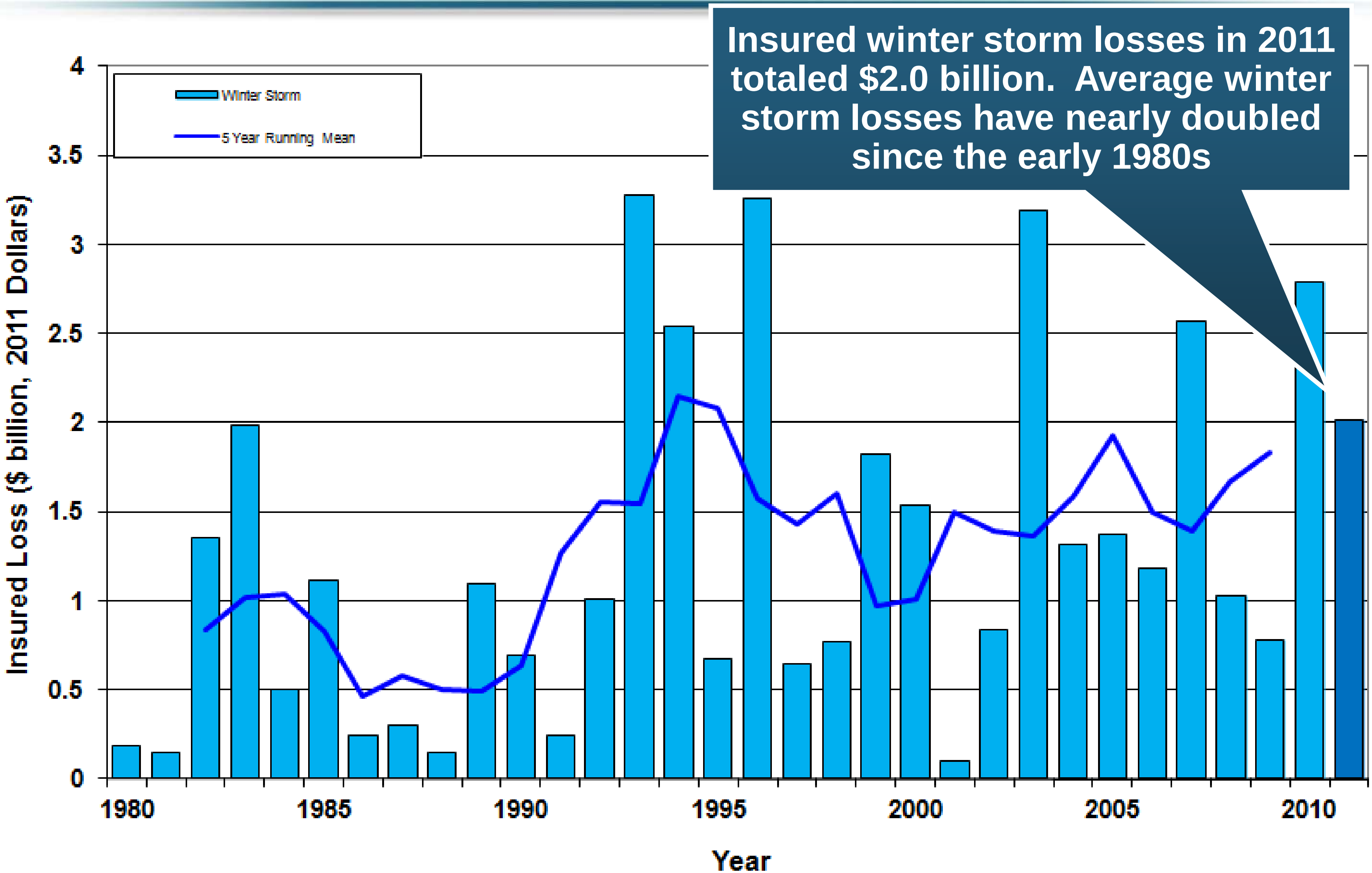

Source: Property Claims Service, MR NatCat*SERVICE*

U.S. Acreage Burned by Wildfires, 1980 – 2011

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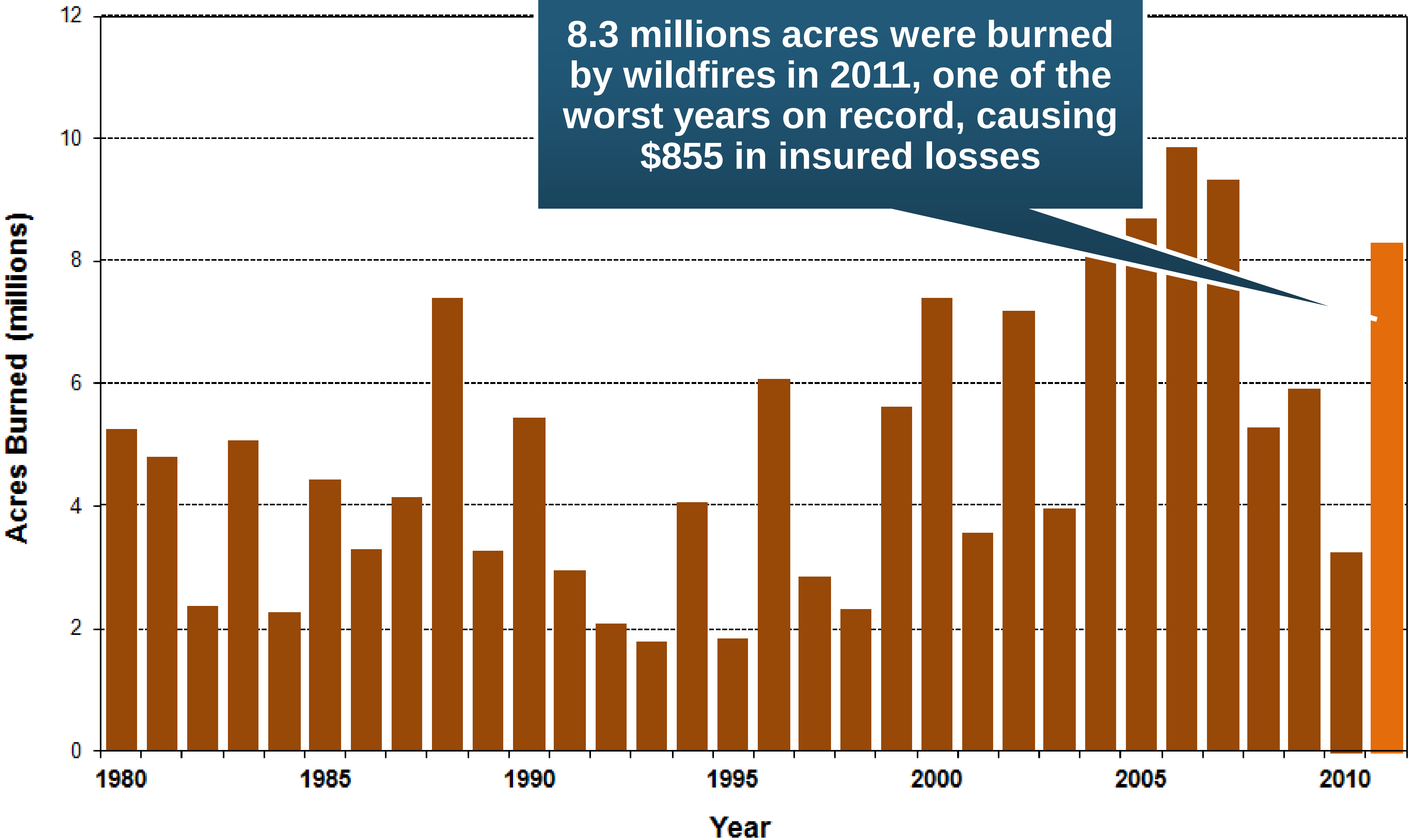


8.3 millions acres were burned by wildfires in 2011, one of the worst years on record, causing $855 in insured losses

Source: National Forest Service, MR Nat*CatSERVICE*

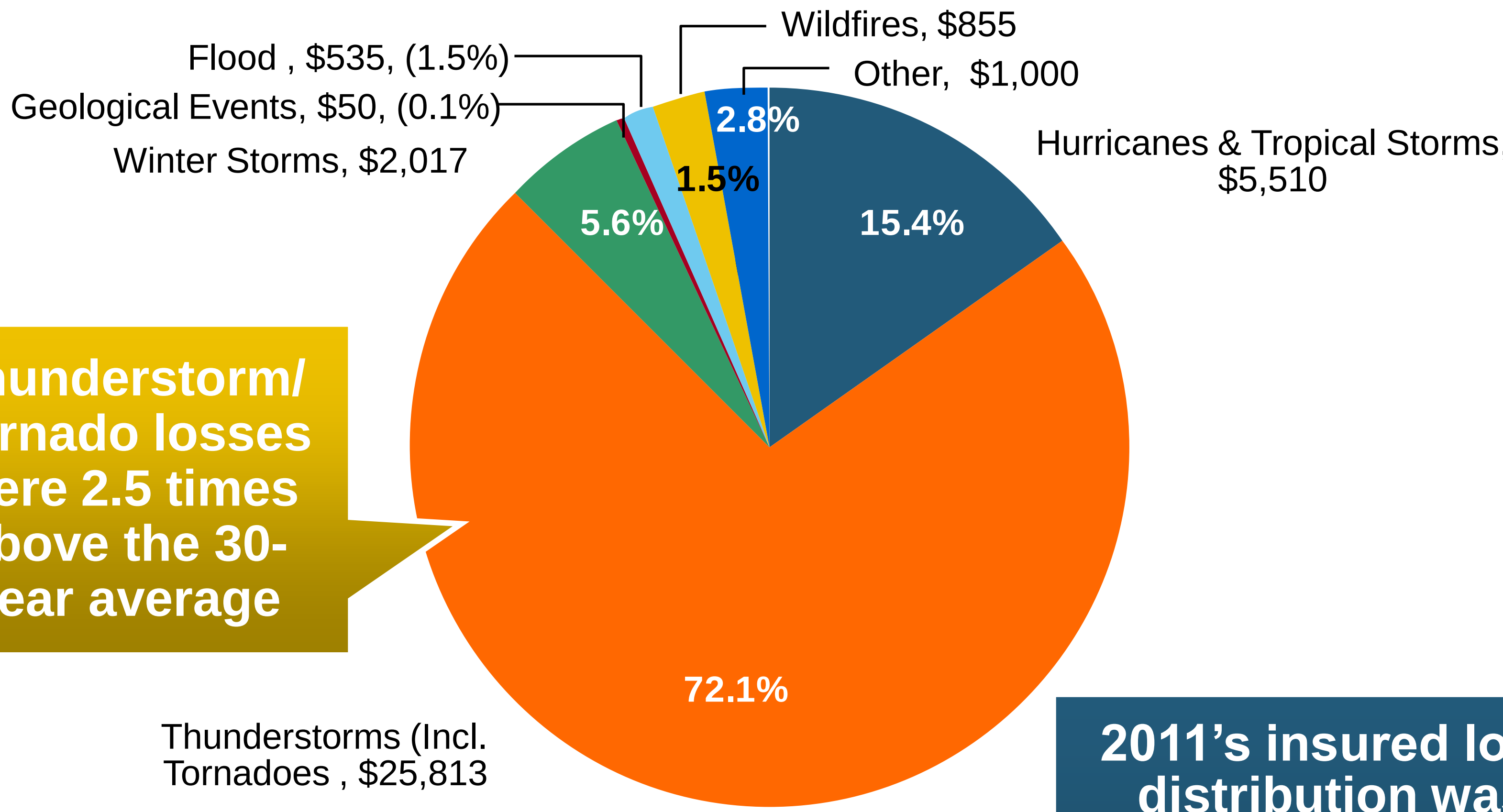
81

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

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

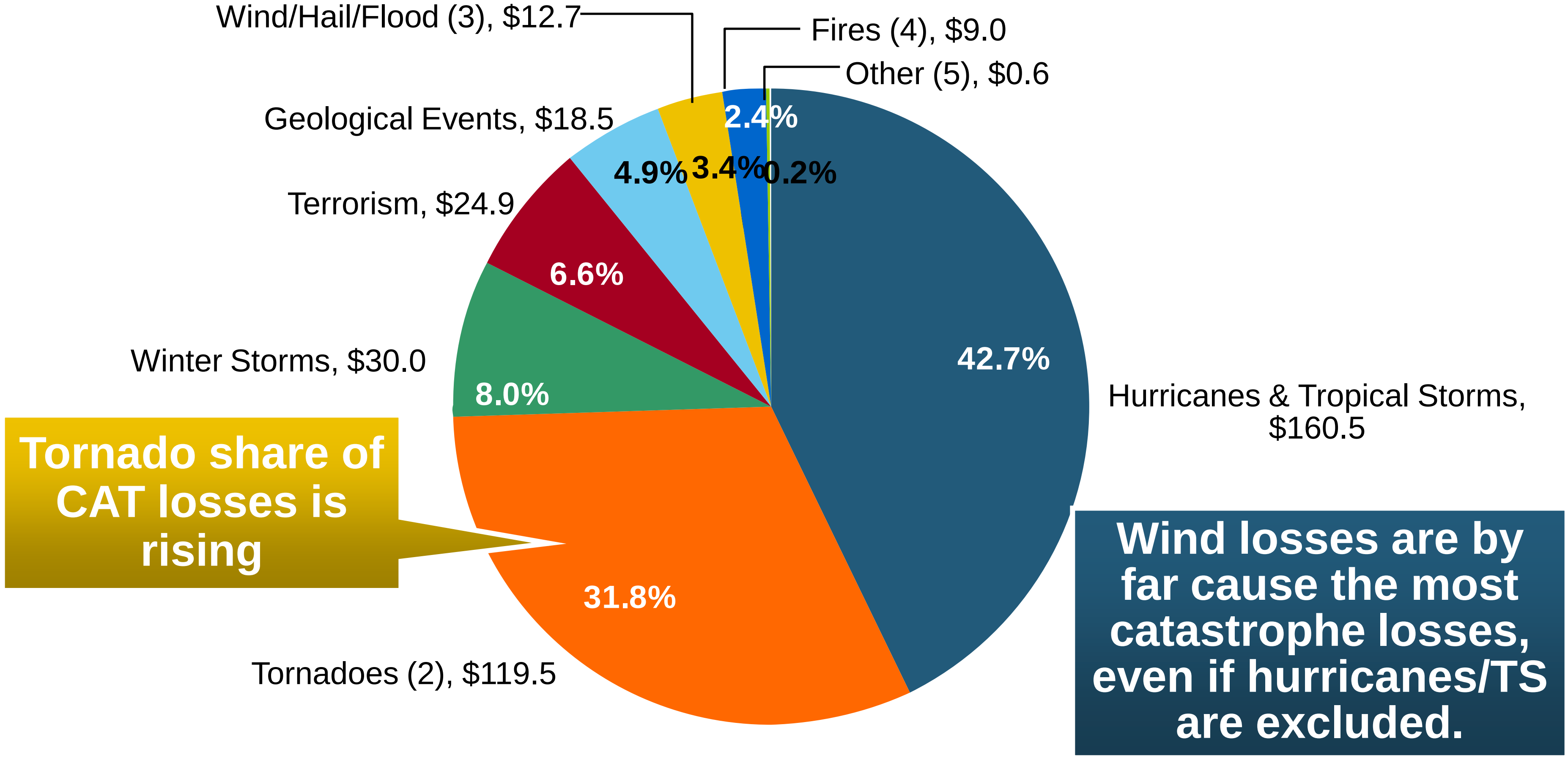


Thunderstorm/ Tornado losses were 2.5 times above the 30-year average

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]



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*

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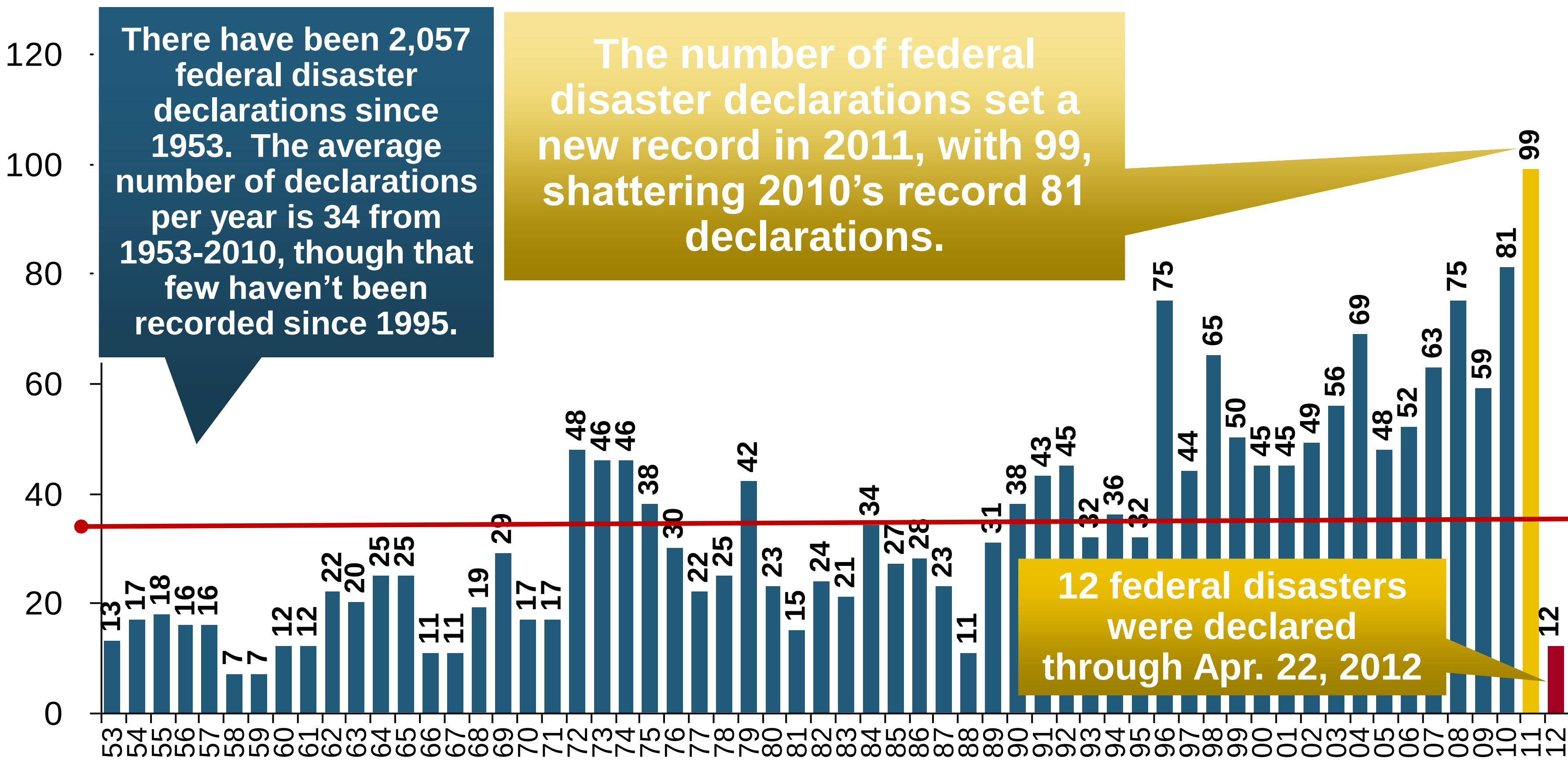
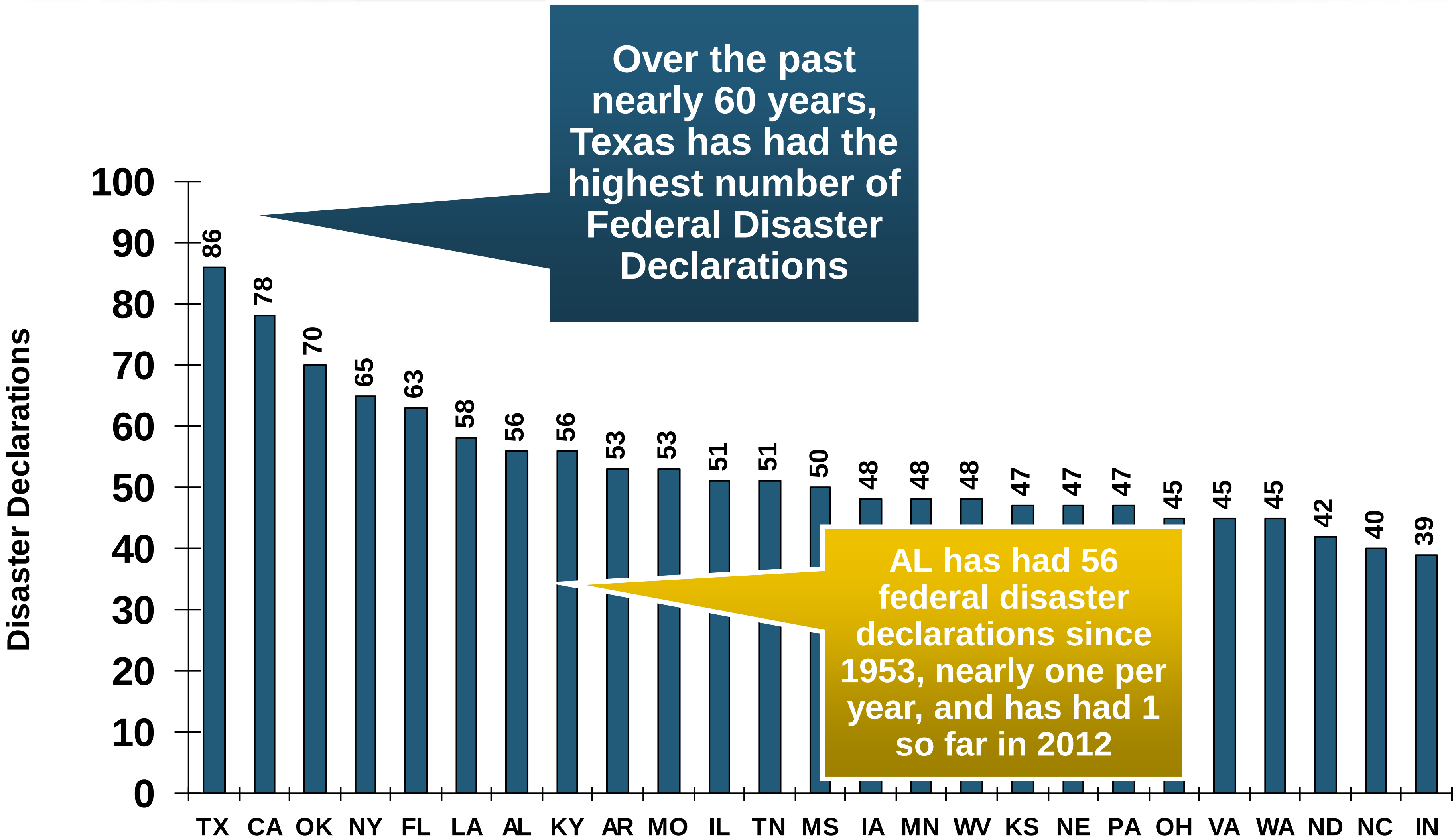


The Number of Federal Disaster Declarations Is Rising and Set New Records in 2010 *and* 2011

*Through April 22, 2012.

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

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



*Through Apr. 18, 2012.

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

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

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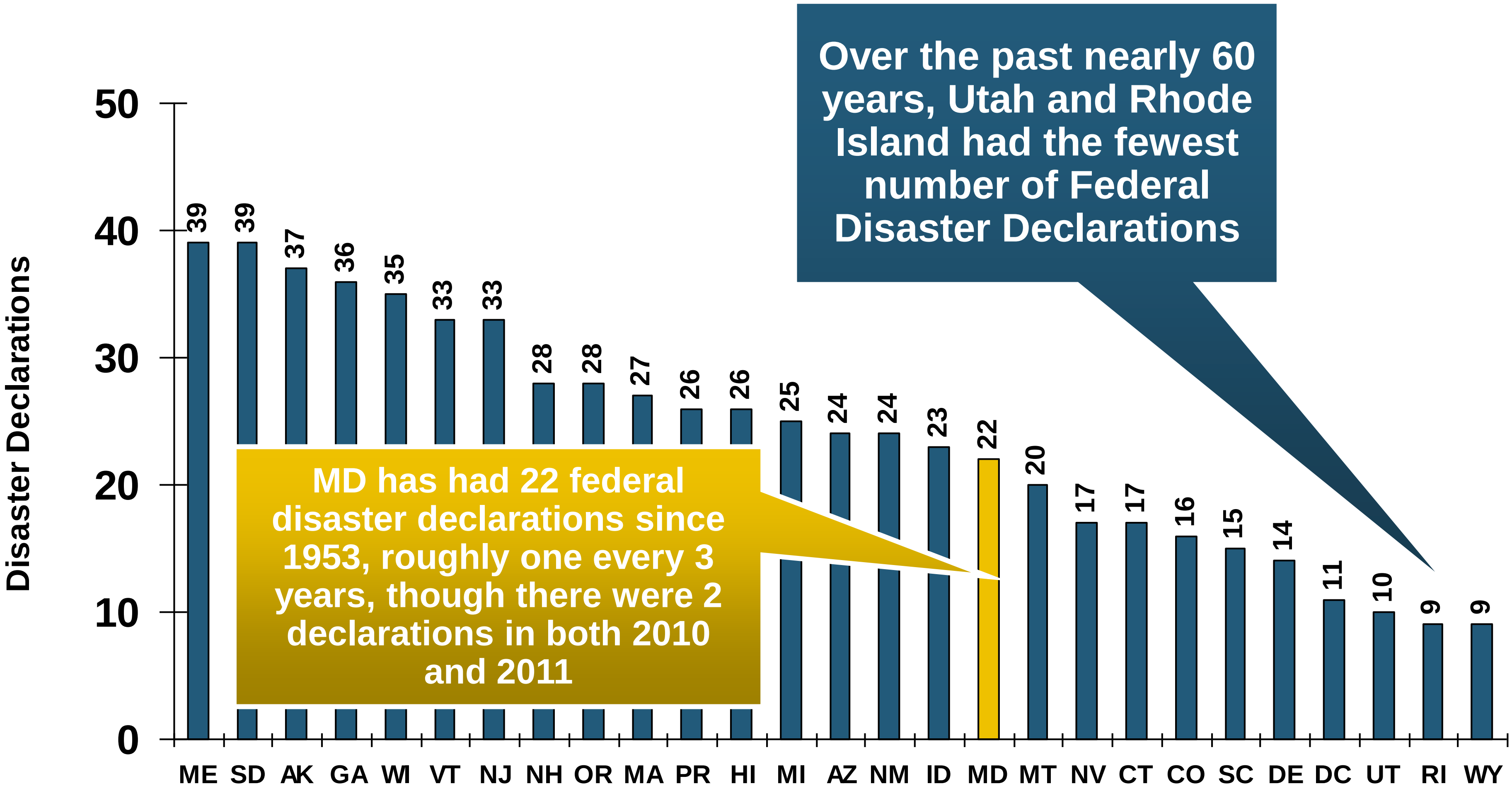

*Through Apr. 22, 2012. Includes Puerto Rico and the District of Columbia.

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

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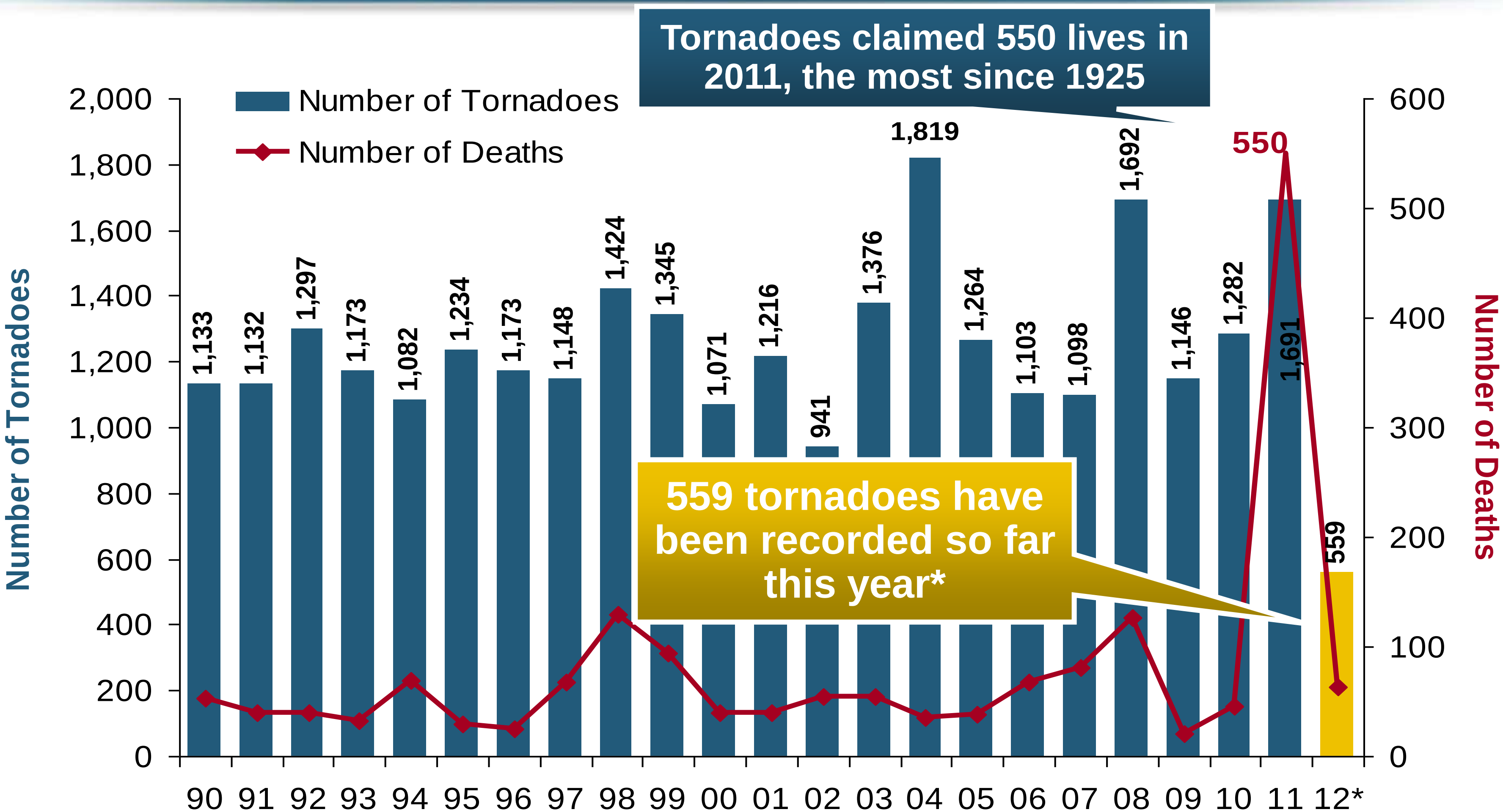
SPRING 2012 TORNADO & SEVERE STORM OUTBREAK

2012 Is Off to a Worrisome Start, But a Repeat of 2011 Is Unlikely

Number of Tornadoes and Related Deaths, 1990 – 2012*

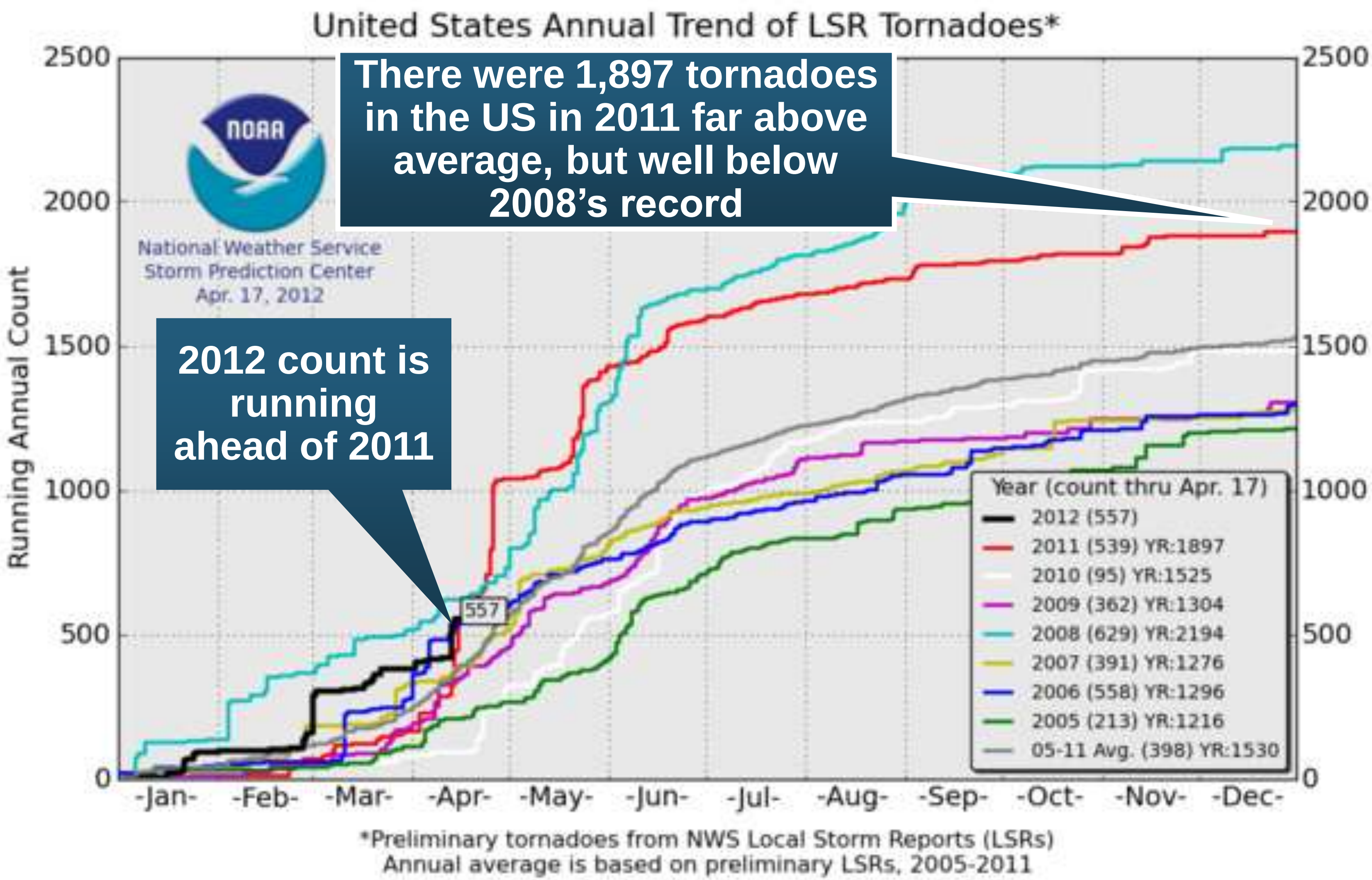


2012 Tornado Losses Is Off to a Ominous Beginning. First Half 2011 Insured Losses from Tornadoes and Thunderstorms Topped $21B.

*Through April 19, 2012.

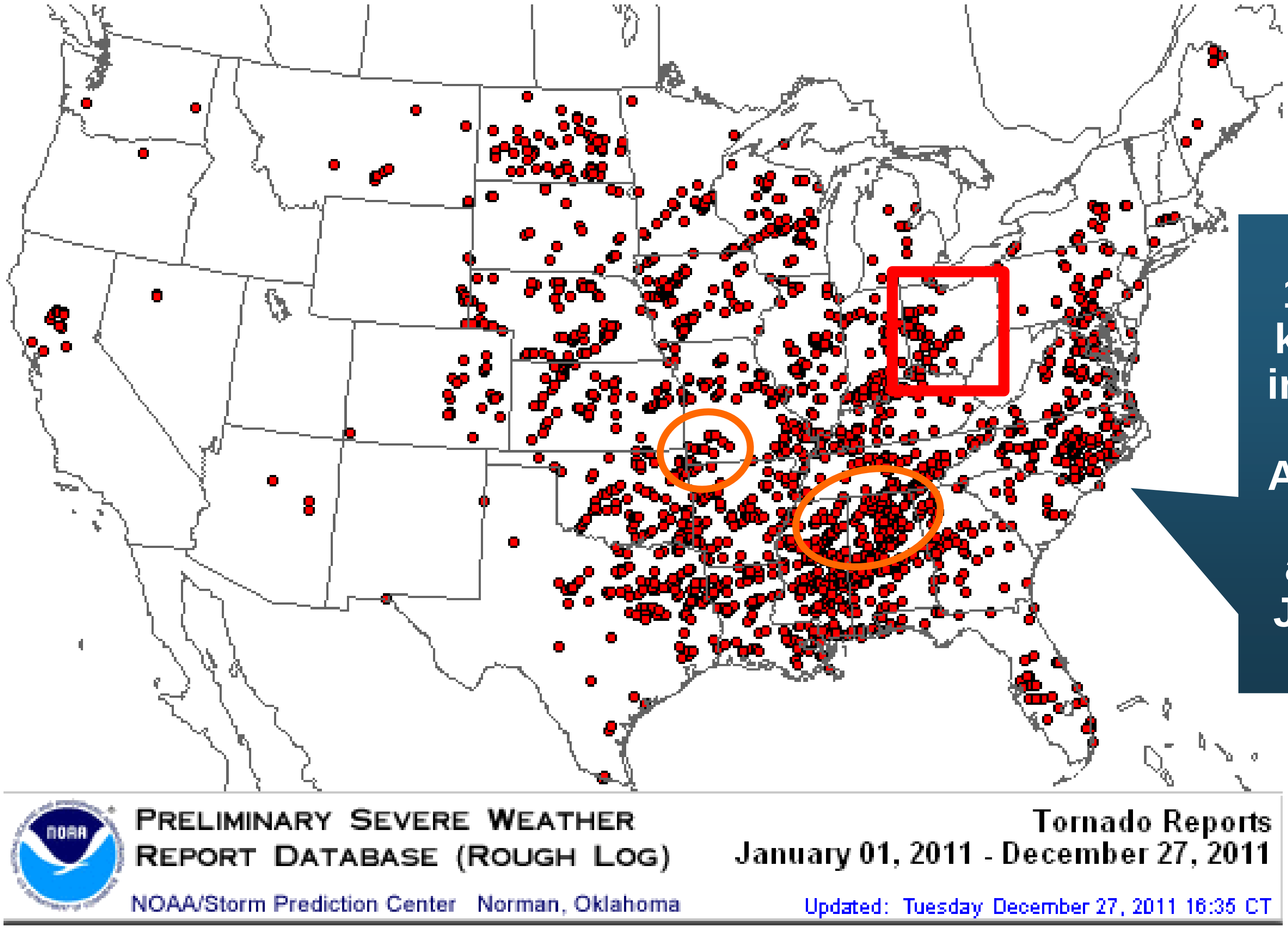
Source: U.S. Department of Commerce, Storm Prediction Center, National Weather Service at http://www.spc.noaa.gov/climo/online/monthly/newm.html

U.S. Tornado Count, 2005-2012*



*Through April 17, 2012.
Source: http://www.spc.noaa.gov/wcm/

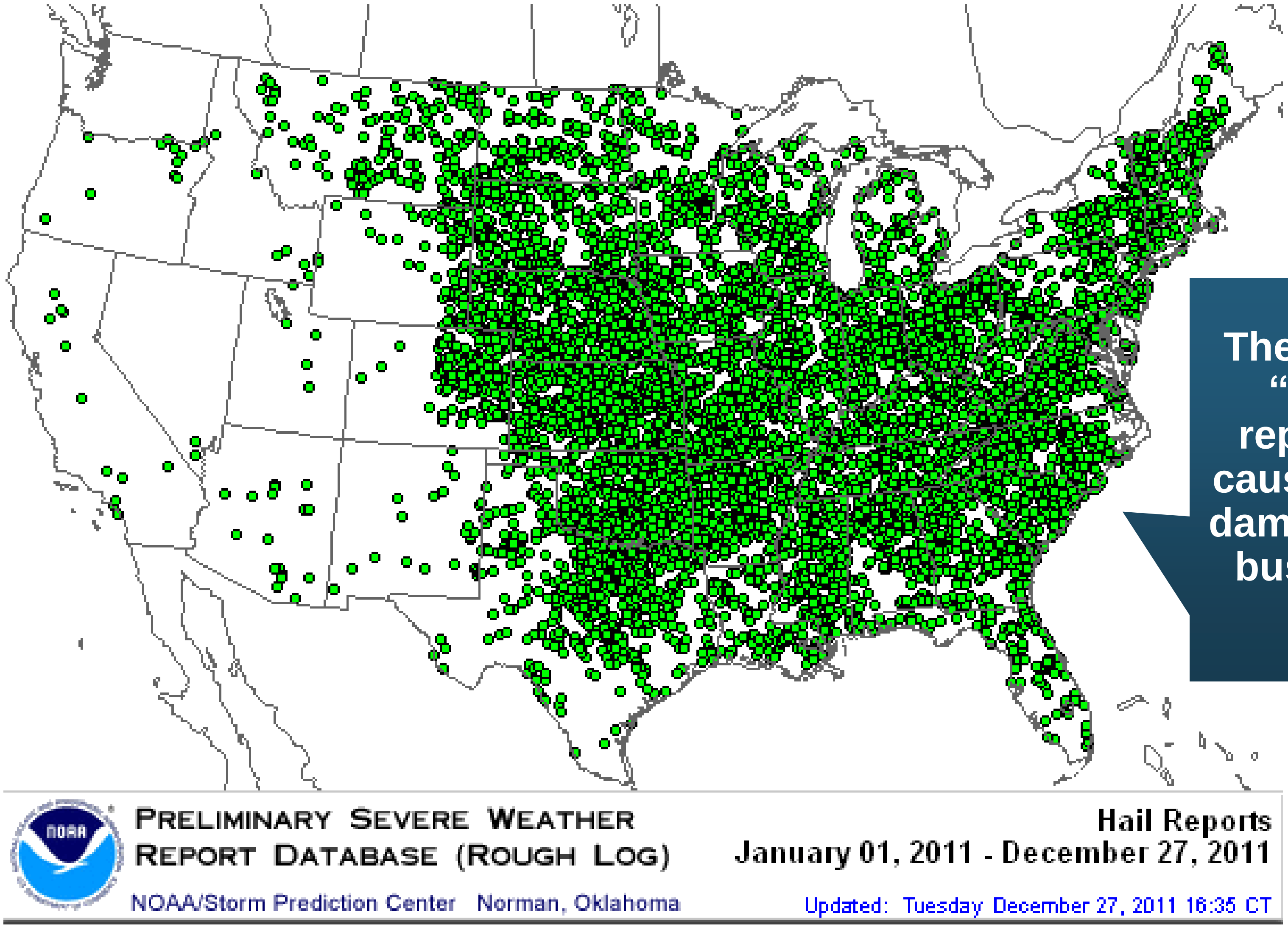
Location of Tornadoes in the US, 2011



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

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2011_annual_summary.html#

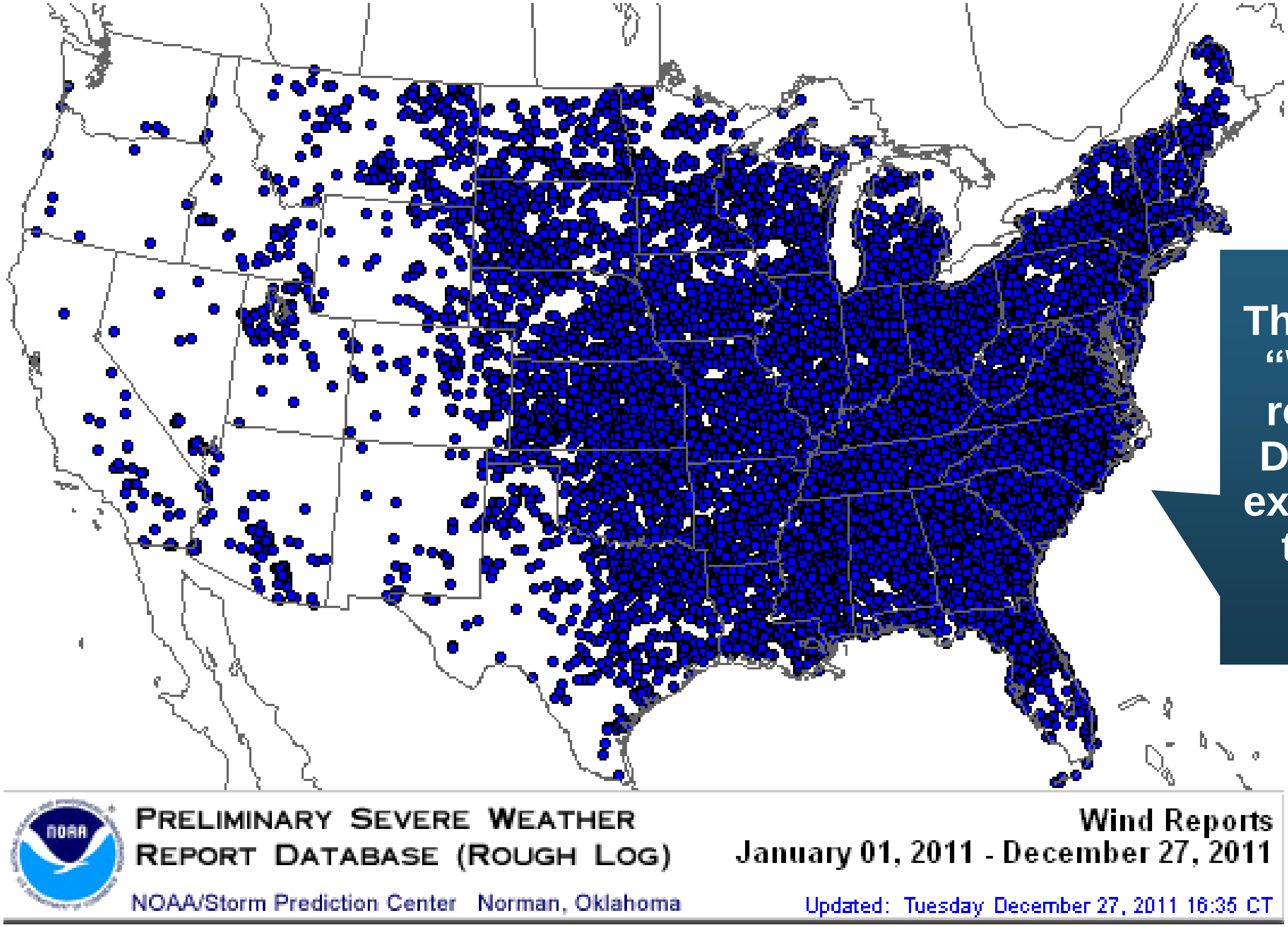
Location of Large Hail Reports in the US, 2011



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

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2011_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

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2011_annual_summary.html#

Severe Weather Reports, 2011

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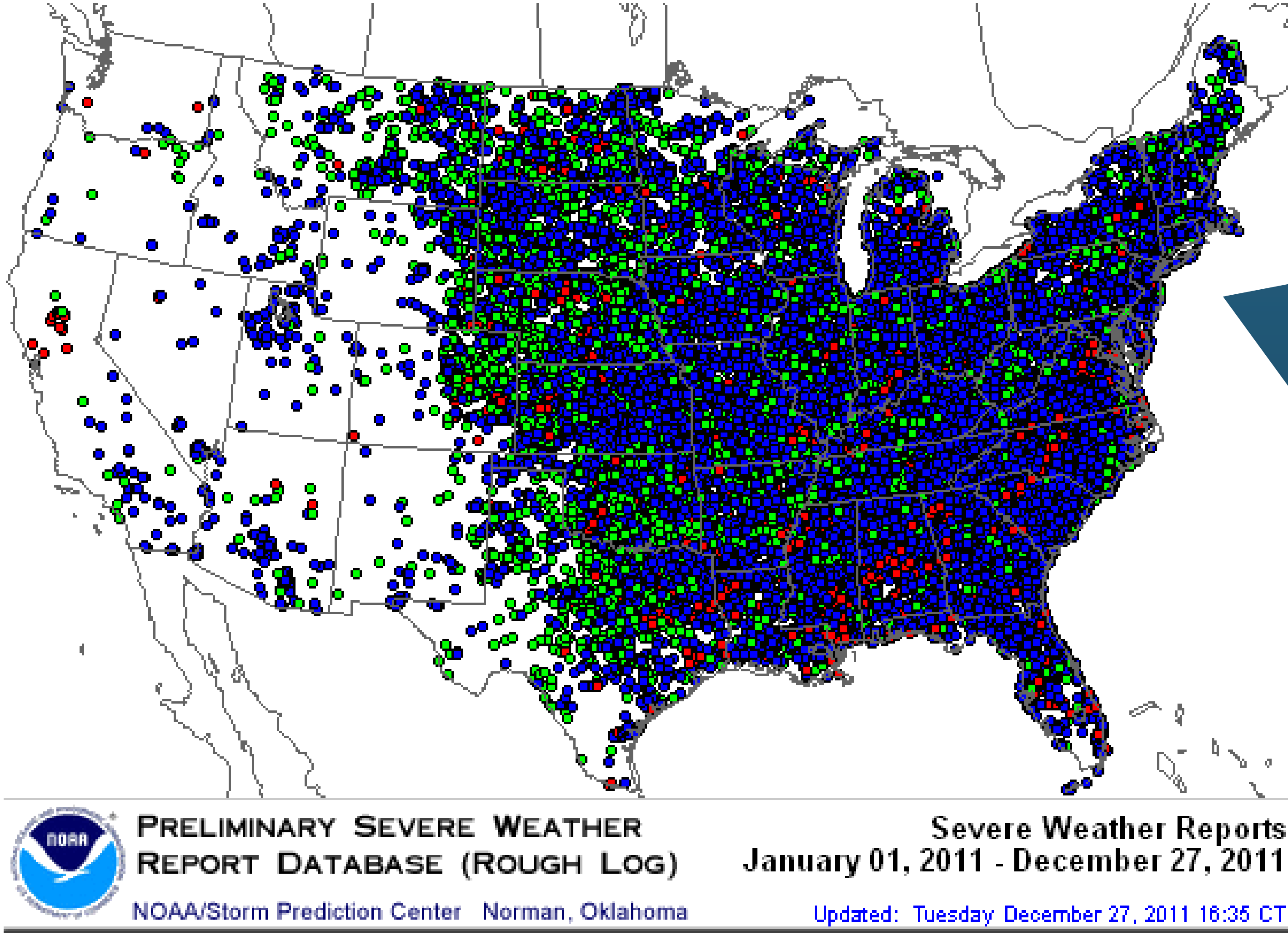
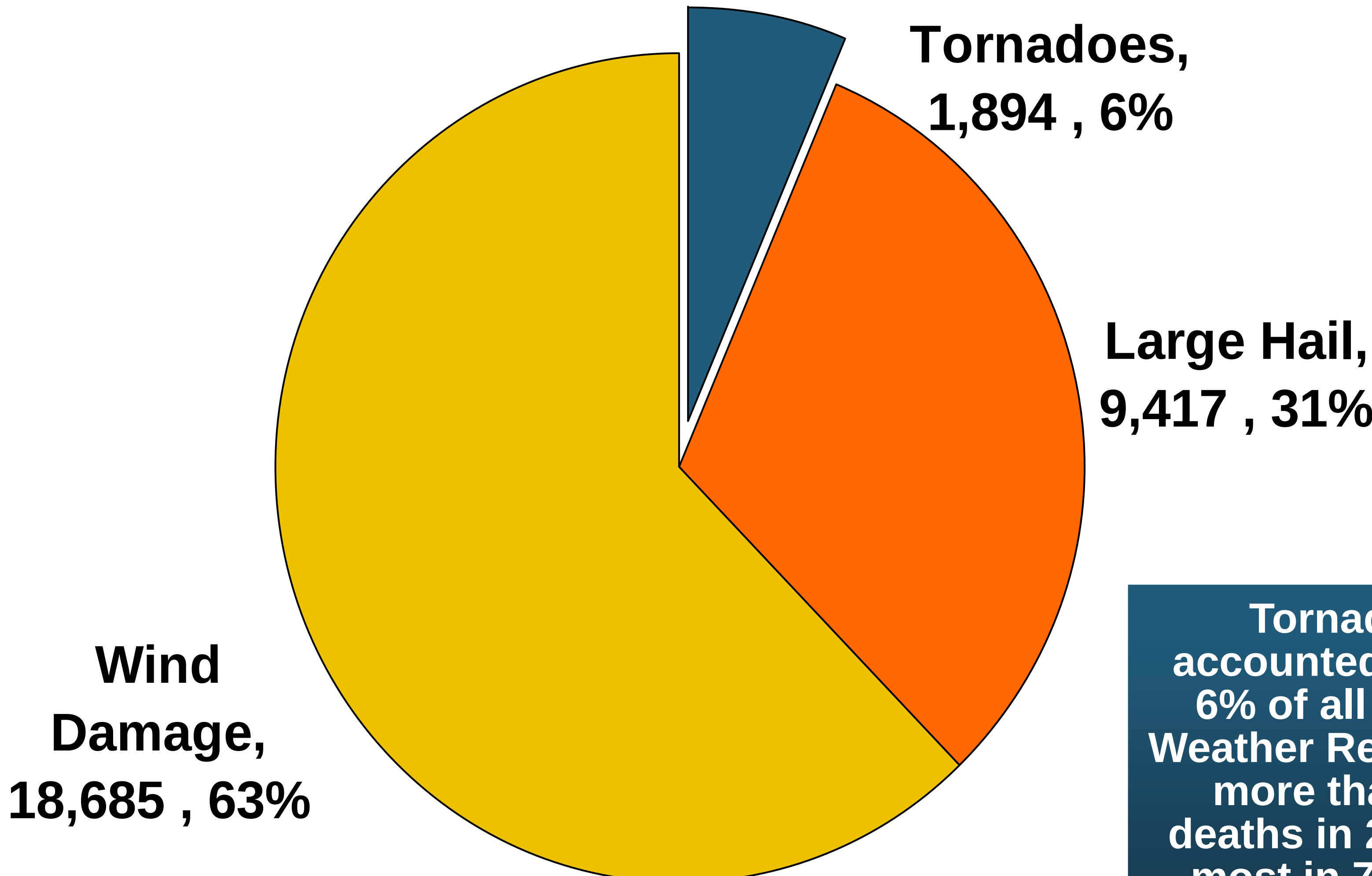


There were 29,996 severe weather reports in 2011; including 1,894 tornadoes; 9,417 "Large Hail" reports and 18,685 high wind events

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2011_annual_summary.html#

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



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

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2011_annual_summary.html#

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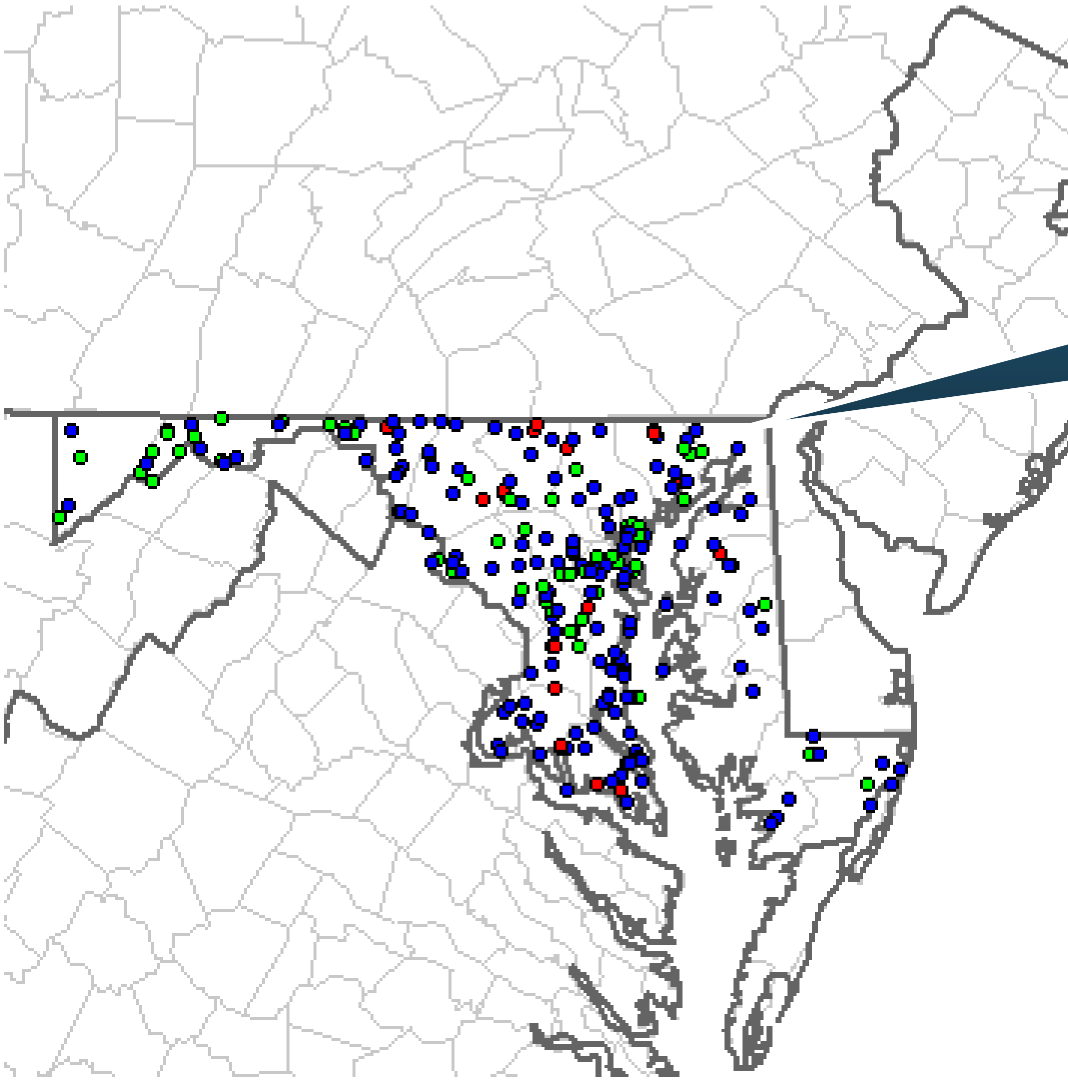
Maryland's 2011 and 2012 YTD Severe Storm Loss Summary

Tornadoes, Hail and Severe Thunderstorms Took their Toll

Severe Weather Reports in Maryland, January 1—December 31, 2011



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

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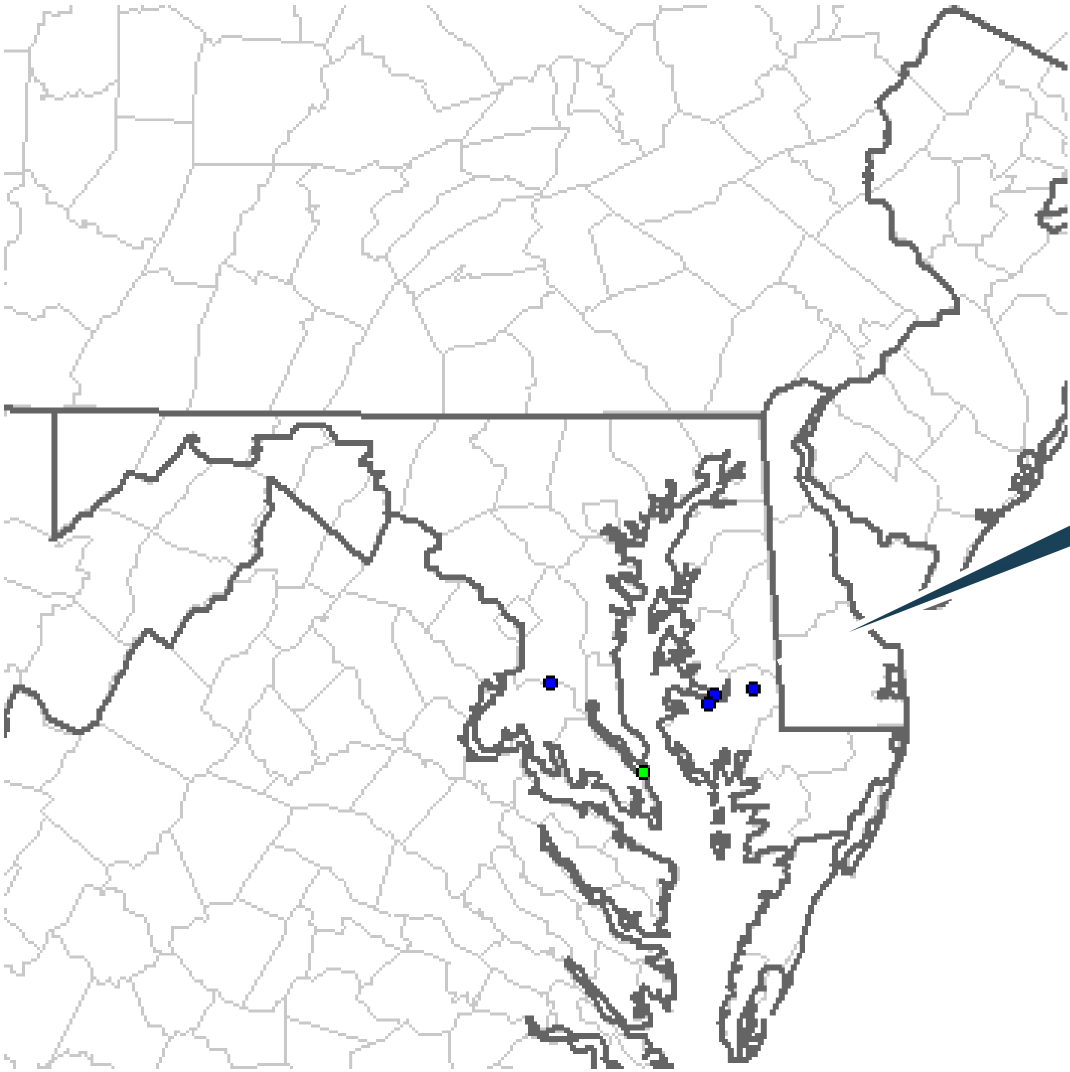

There have been 5 severe weather reports in MD so far in 2012

<u>MARYLAND</u>

Total Reports = 5

Tornadoes = 0 (Red)

Hail Reports = 1 (Green)

Wind Reports = 4 (Blue)

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2011_annual_summary.html#

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*

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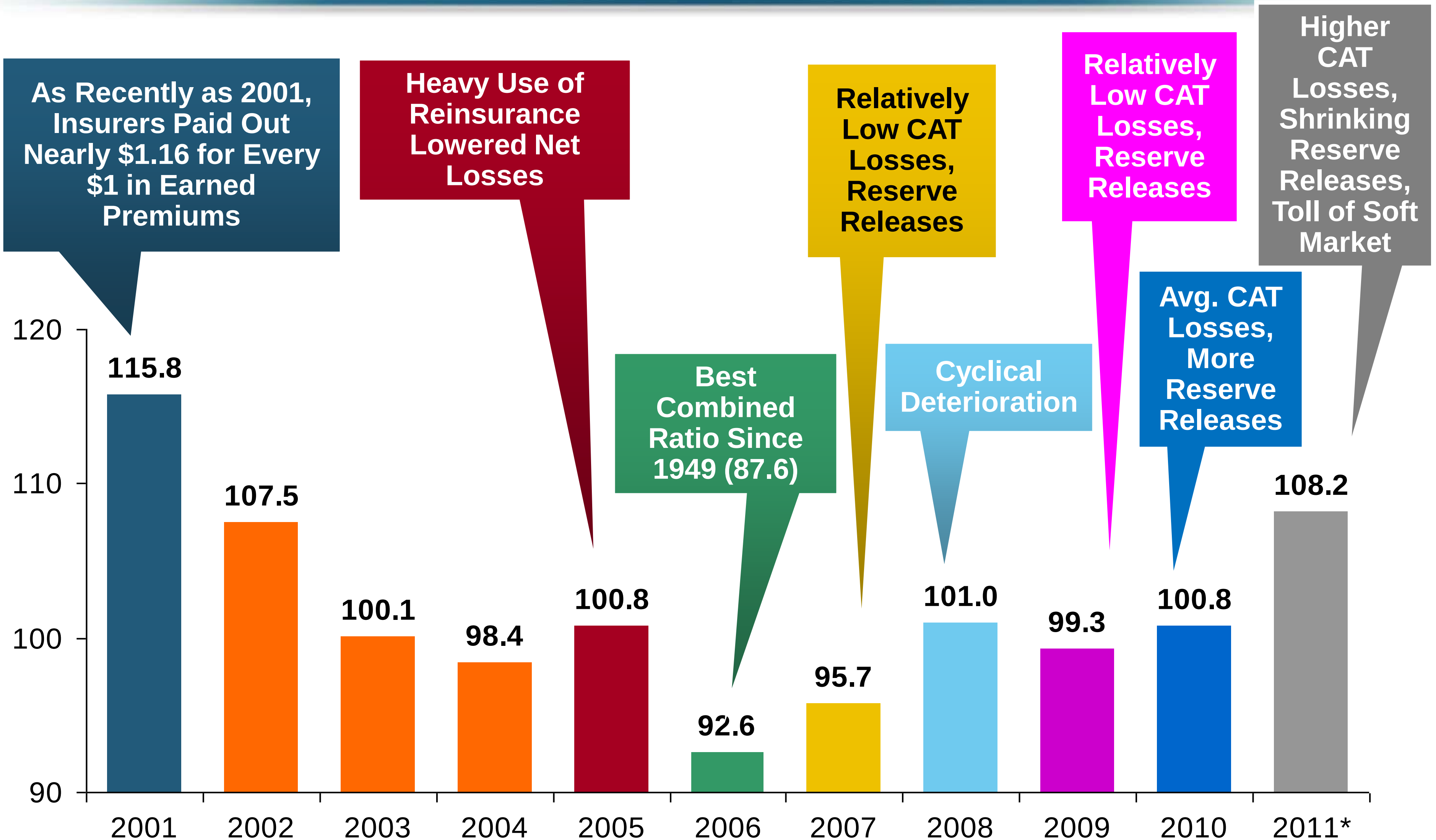
Criteria	Status	Comments
Sustained Period of Large Underwriting Losses	*Early Stage, Inevitable*	•Apart from 2011 CAT losses, overall p/c underwriting losses remain modest •Combined ratios (ex-CATs) still in low 100s (vs. 110+ at onset of last hard market) •Prior-year reserve releases continue to reduce 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?

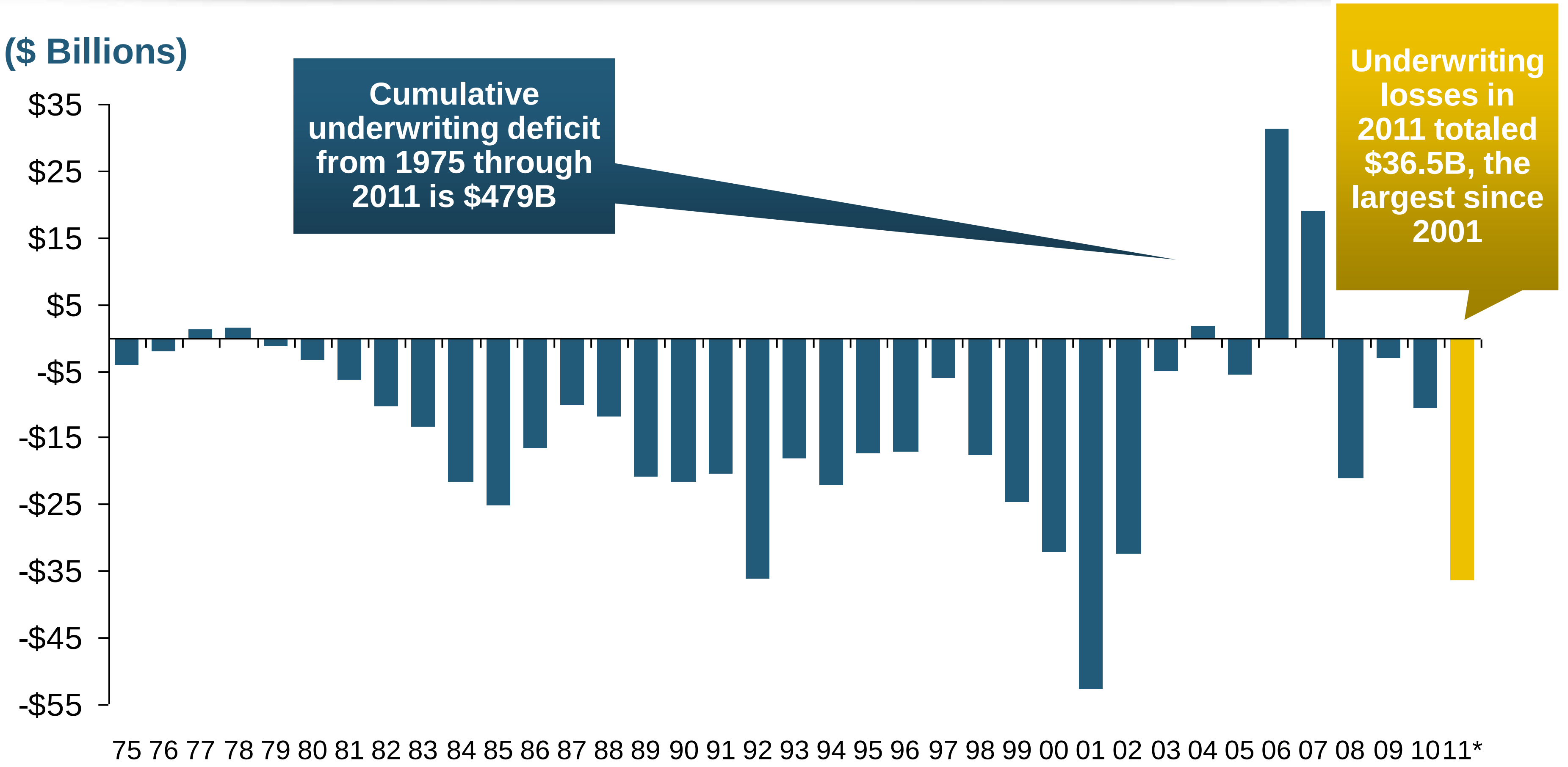
P/C Insurance Industry Combined Ratio, 2001–2011*



* Excludes Mortgage & Financial Guaranty insurers 2008--2011. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=106.4

Sources: A.M. Best, ISO.

Underwriting Gain (Loss) 1975–2011E*

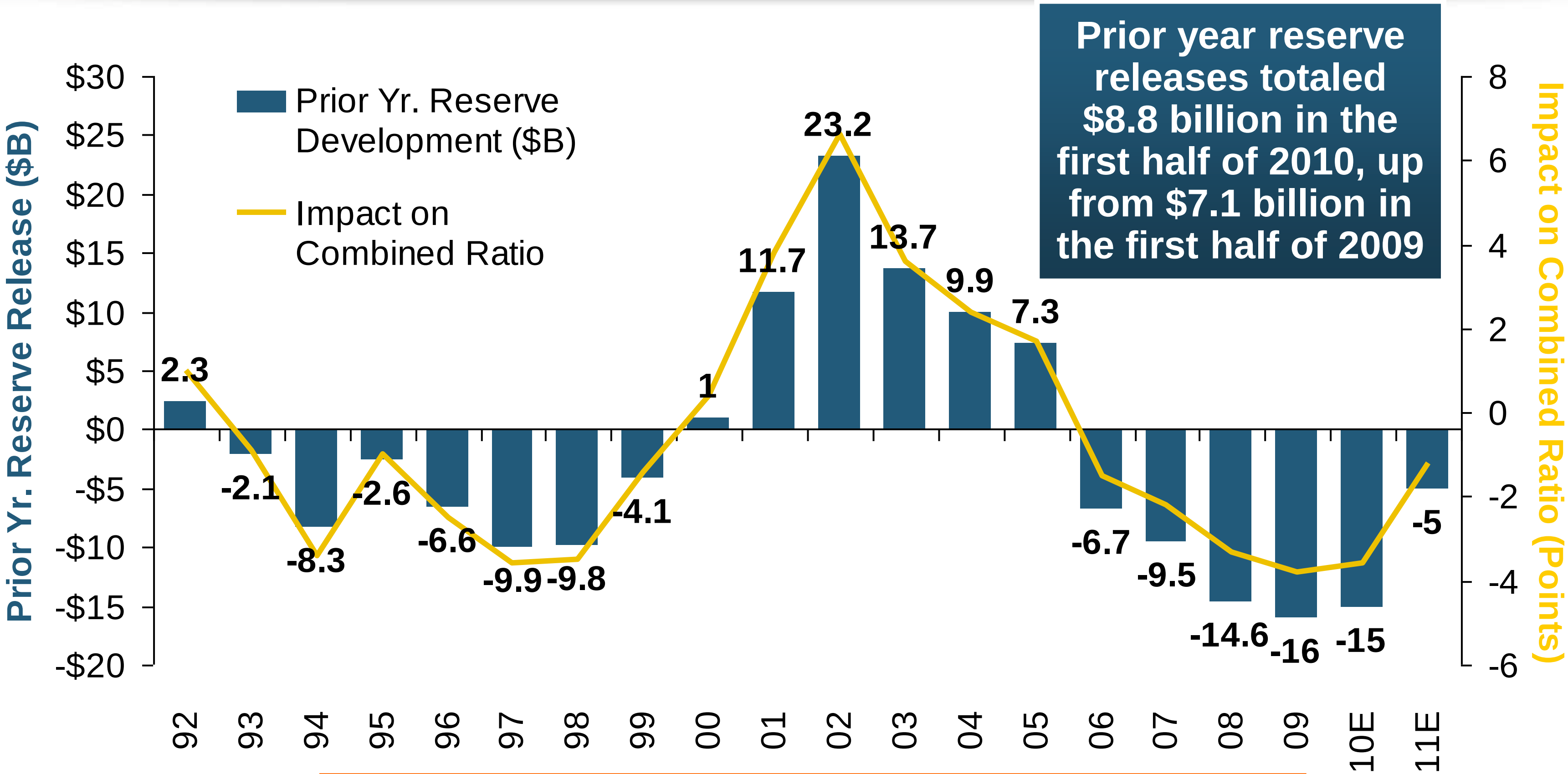


Large Underwriting Losses Are *NOT* Sustainable in Current Investment Environment

* Includes mortgage and financial guaranty insurers in all years

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

P/C Reserve Development, 1992–2011E

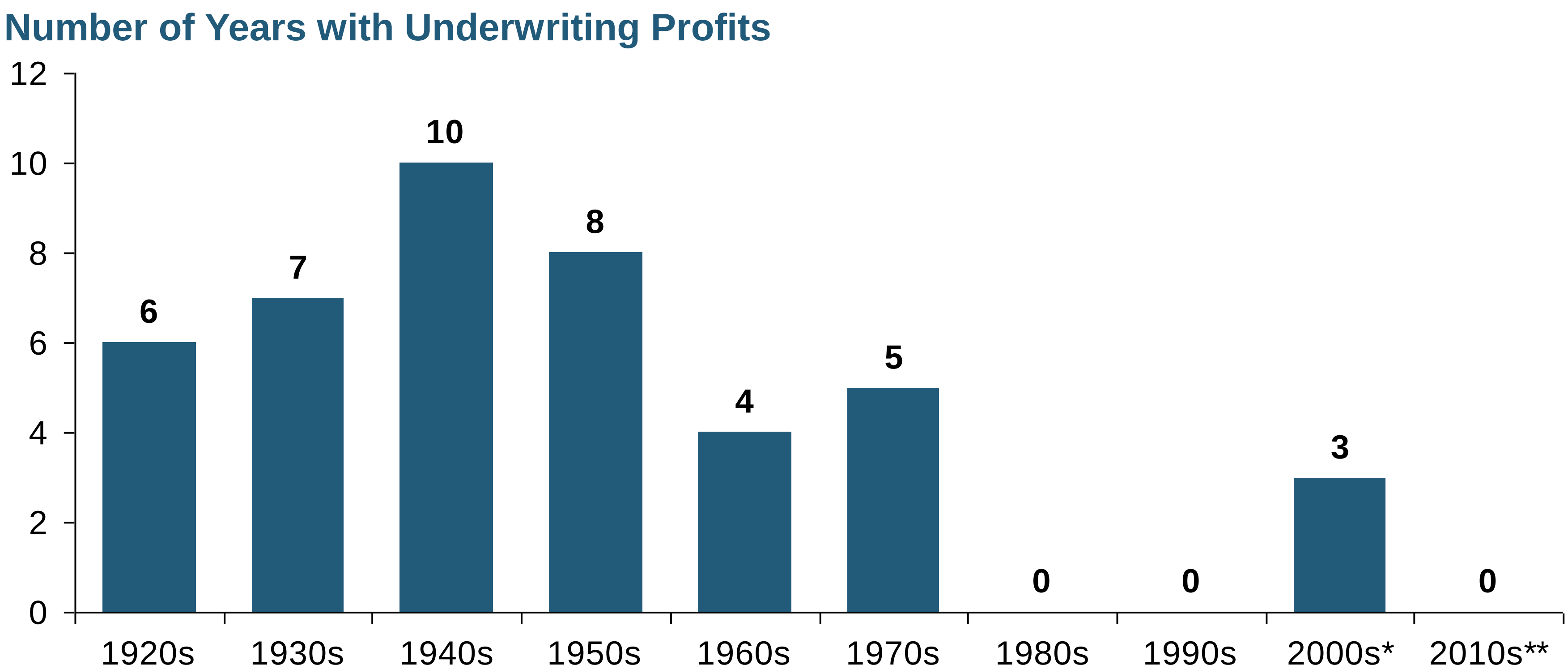


Reserve Releases Are Continuing Strong in 2010 But Should Begin to Taper Off in 2011

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



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.

P/C Estimated Loss Reserve Deficiency/ (Redundancy), Excl. Statutory Discount

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Line of Business	2011
Personal Auto Liability	-$1.8B
Homeowners	-$0.2
Other Liab (incl. Prod Liab)	$4.0
Workers Compensation	$8.2
Commercial Multi Peril	$1.5
Commercial Auto Liability	$0.0
Medical Malpractice	-$4.0
Reinsurance—Nonprop Assumed	$3.4
All Other Lines*	-$2.2
Total Core Reserves	**$8.9**
Asbestos & Environmental	$7.4
Total P/C Industry	**$16.3B**

Source: A.M. Best, *P/C Review/Preview 2012;* Insurance Information Institute. *Excluding mortgage and financial guaranty segments.

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Financial Strength & Underwriting

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

P/C Insurer Impairments, 1969–2011

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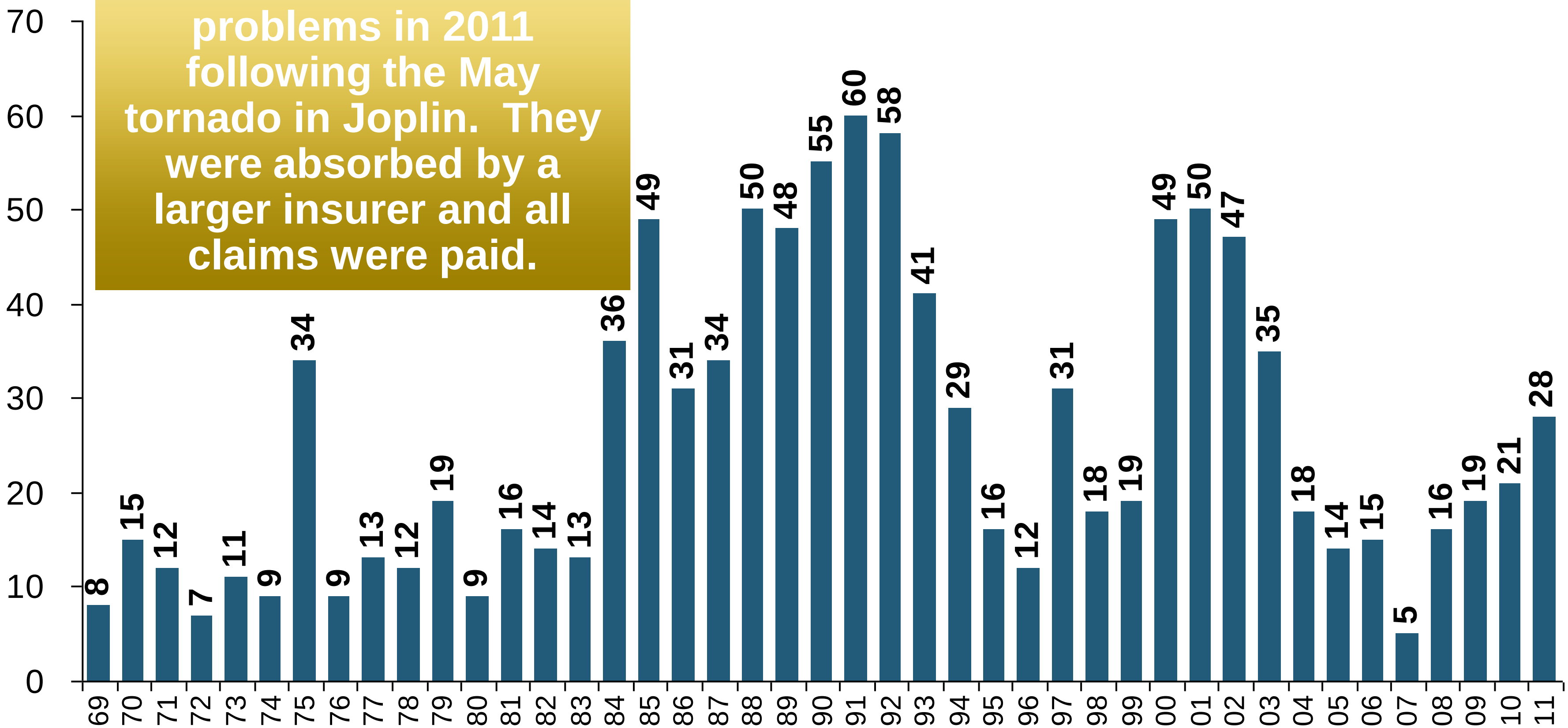
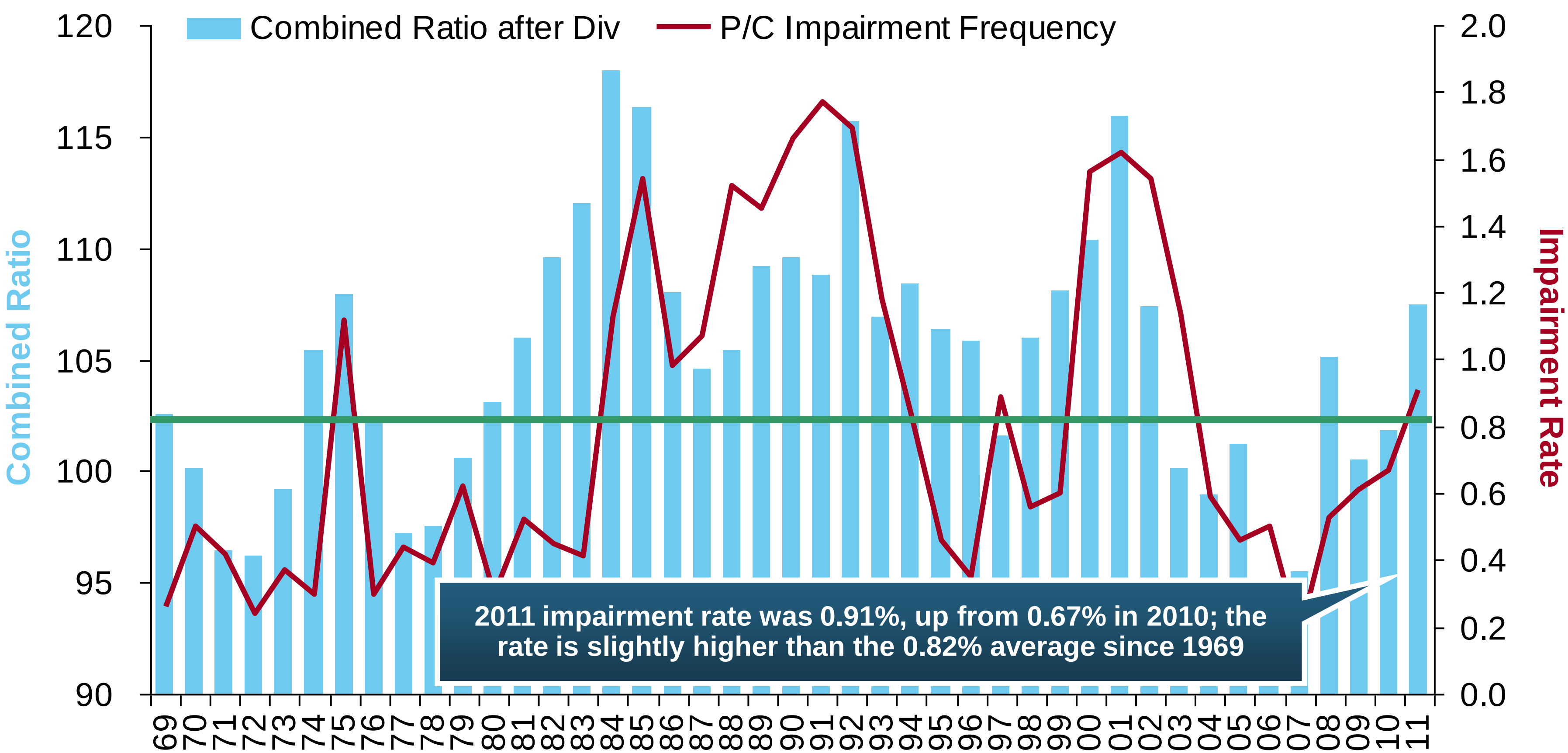
3 small insurers in Missouri did encounter problems in 2011 following the May tornado in Joplin. They were absorbed by a larger insurer and all claims were paid.



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

Source: A.M. Best Special Report “1969-2011 Impairment Review,” January 23, 2012; Insurance Information Institute.

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

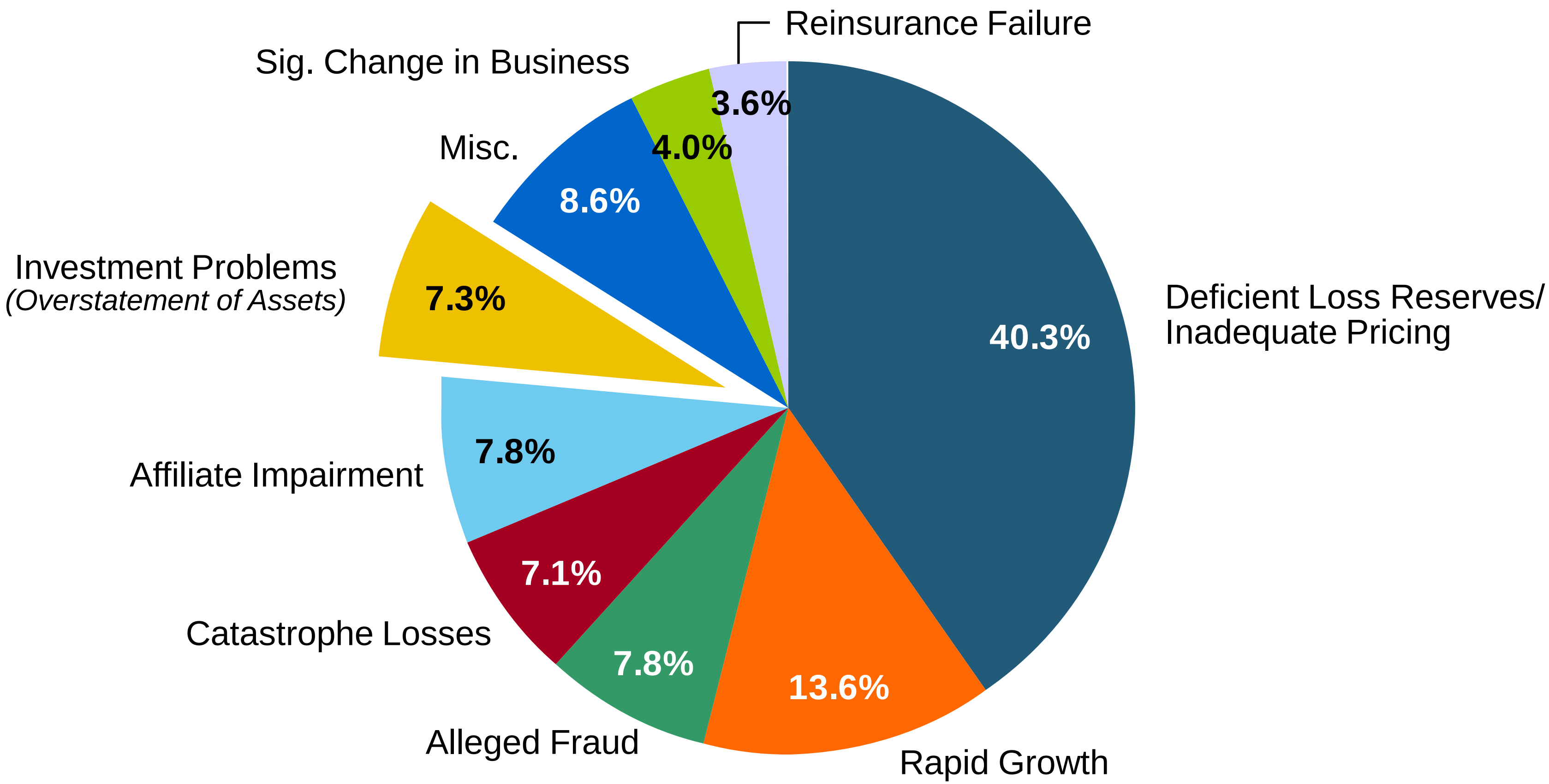


Impairment Rates Are Highly Correlated With Underwriting Performance and Reached Record Lows in 2007; Recent Increase Was Associated Primarily With Mortgage and Financial Guaranty Insurers and Not Representative of the Industry Overall

Source: A.M. Best; Insurance Information Institute

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

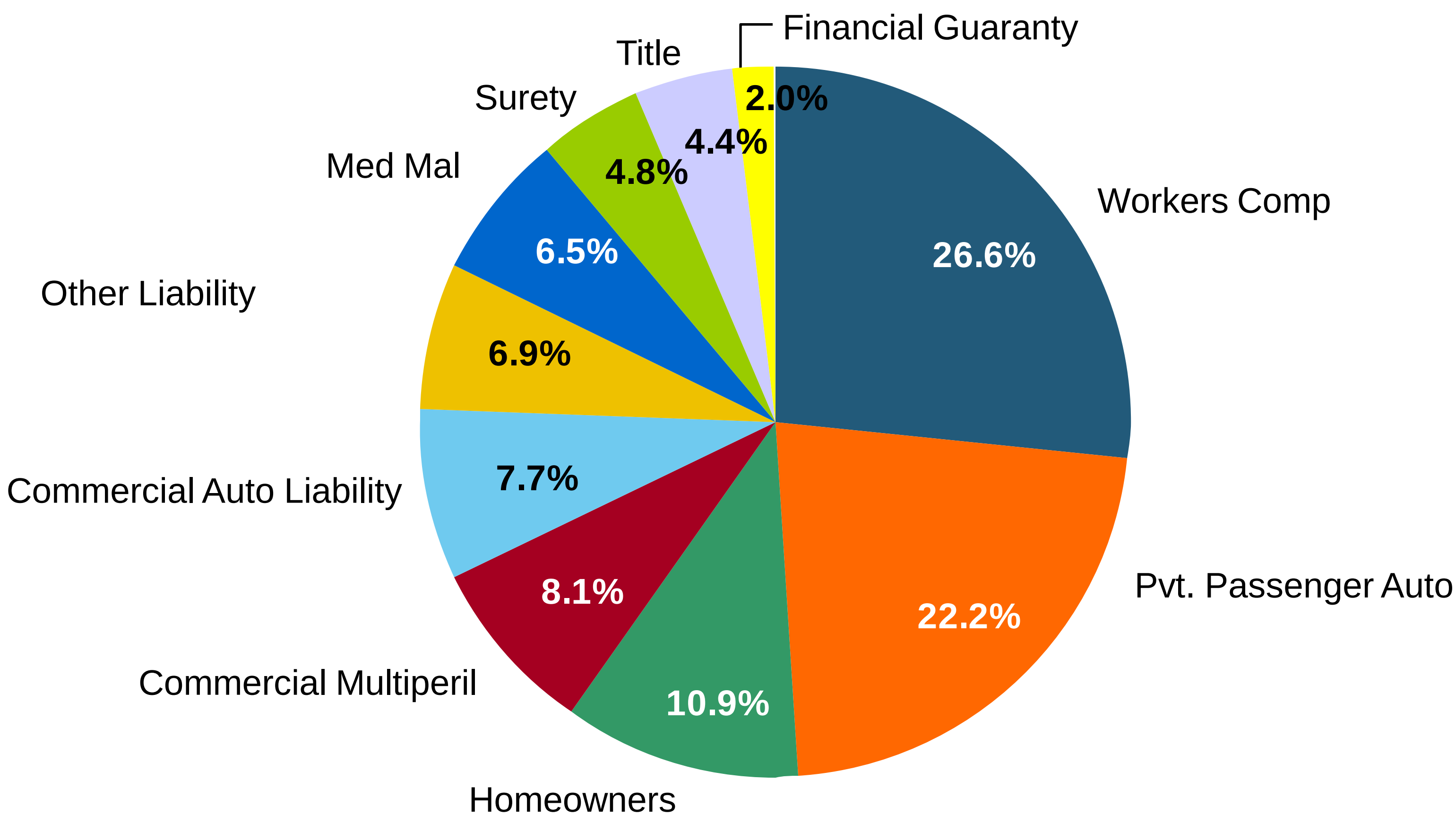
Historically, Deficient Loss Reserves and Inadequate Pricing Are By Far the Leading Cause of P-C Insurer Impairments. Investment and Catastrophe Losses Play a Much Smaller Role



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

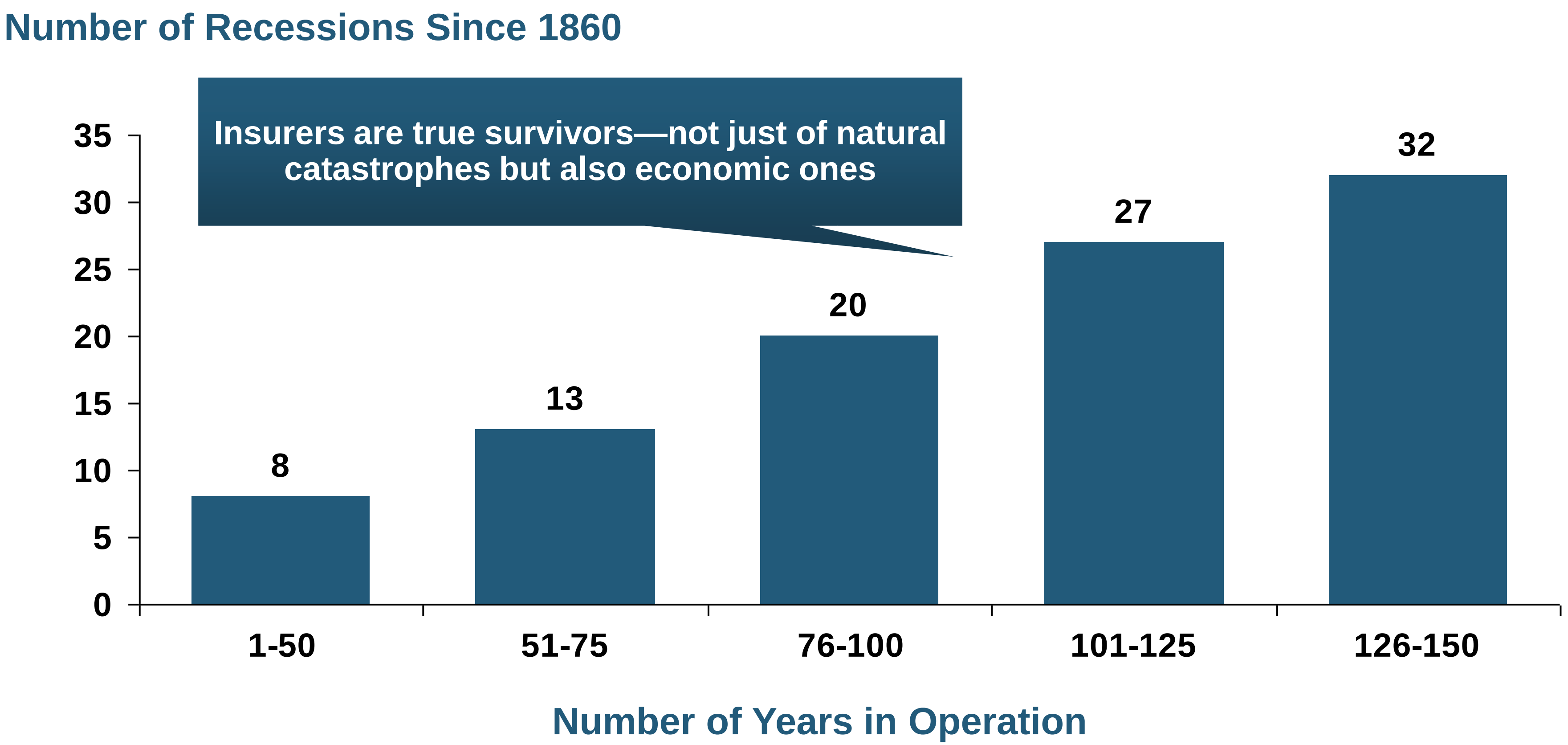
Top 10 Lines of Business for US P/C Impaired Insurers, 2000–2010

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



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

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



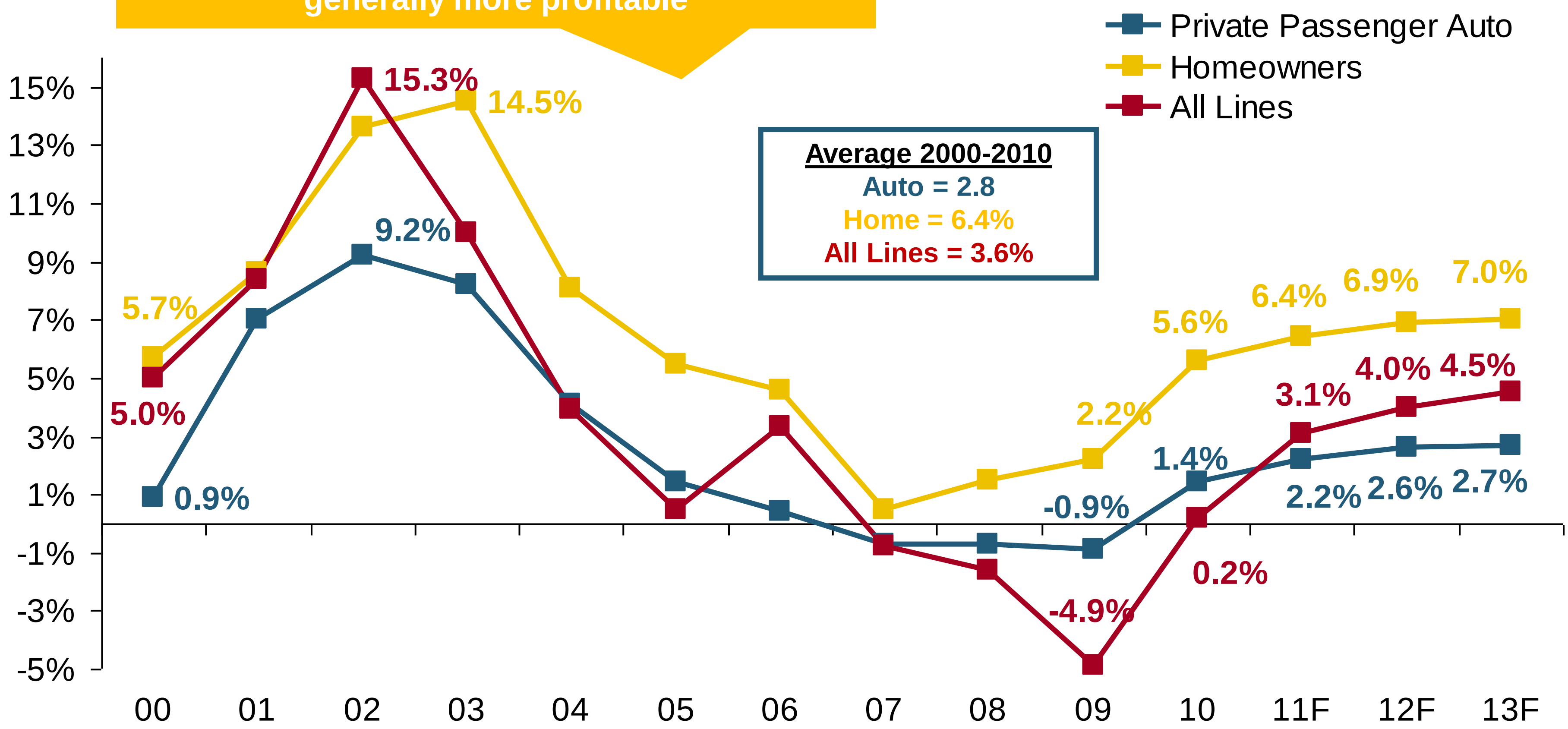
Many US Insurers Are Close to a Century Old or Older

Sources: Insurance Information Institute research from National Bureau of Economic Research data.

Performance by Segment: Personal Lines

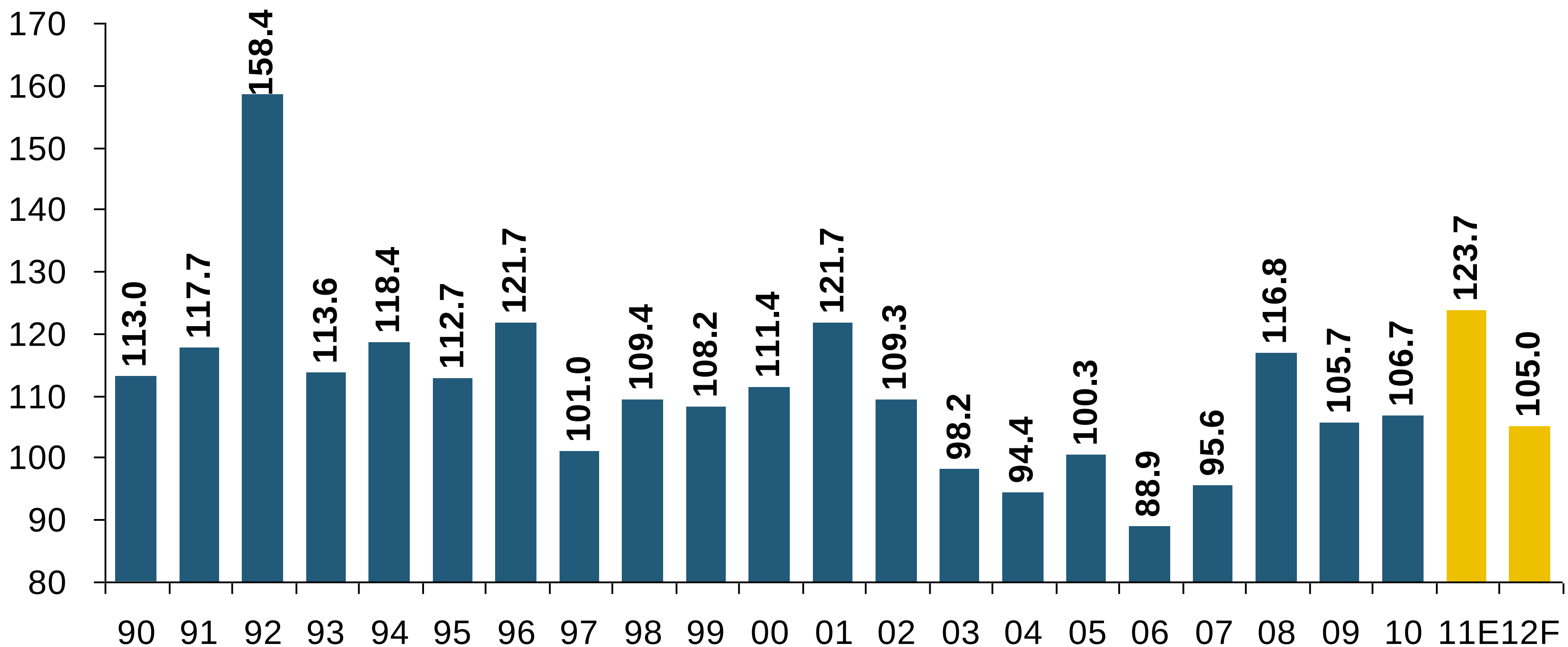
Auto & Home vs. All Lines, Net Written Premium Growth, 2000–2013F

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



Sources: A.M. Best (historical); Insurance Information Institute (2011F-2013F).

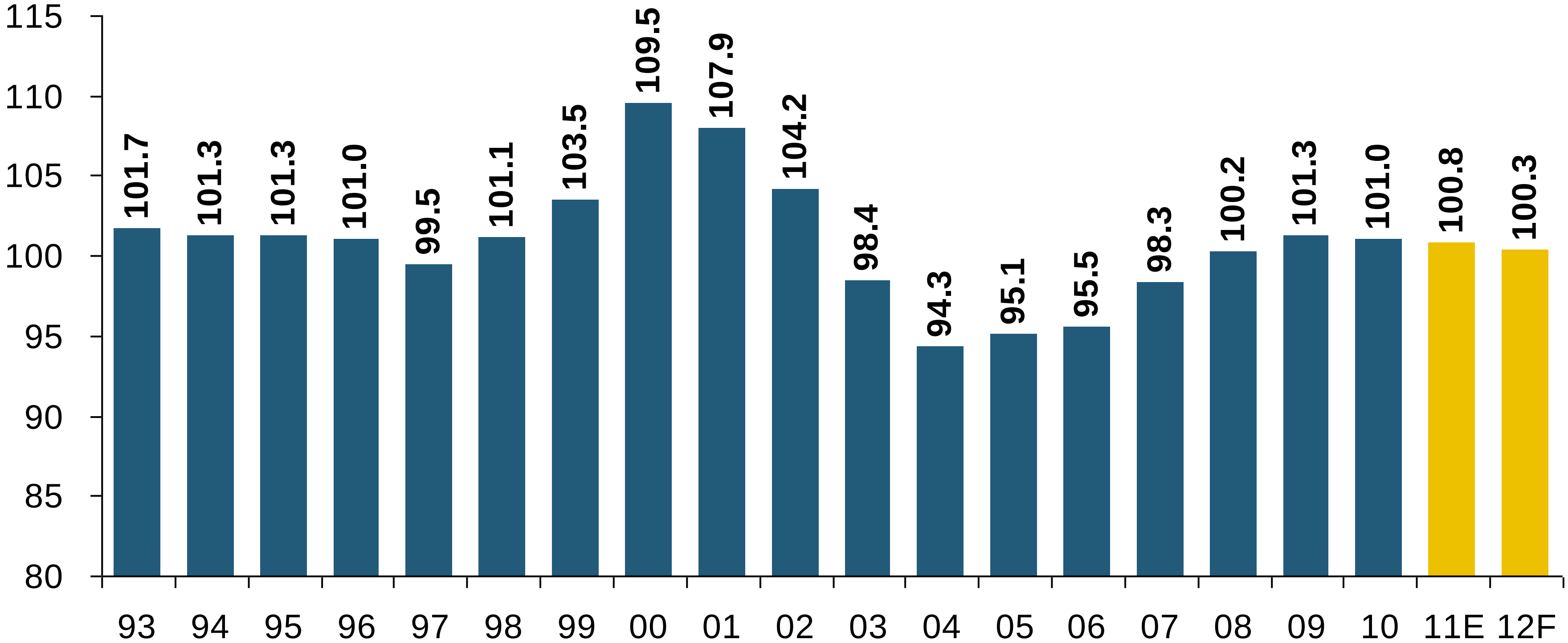
Homeowners Insurance Combined Ratio: 1990–2012F



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 Combined Ratio: 1993–2012P



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

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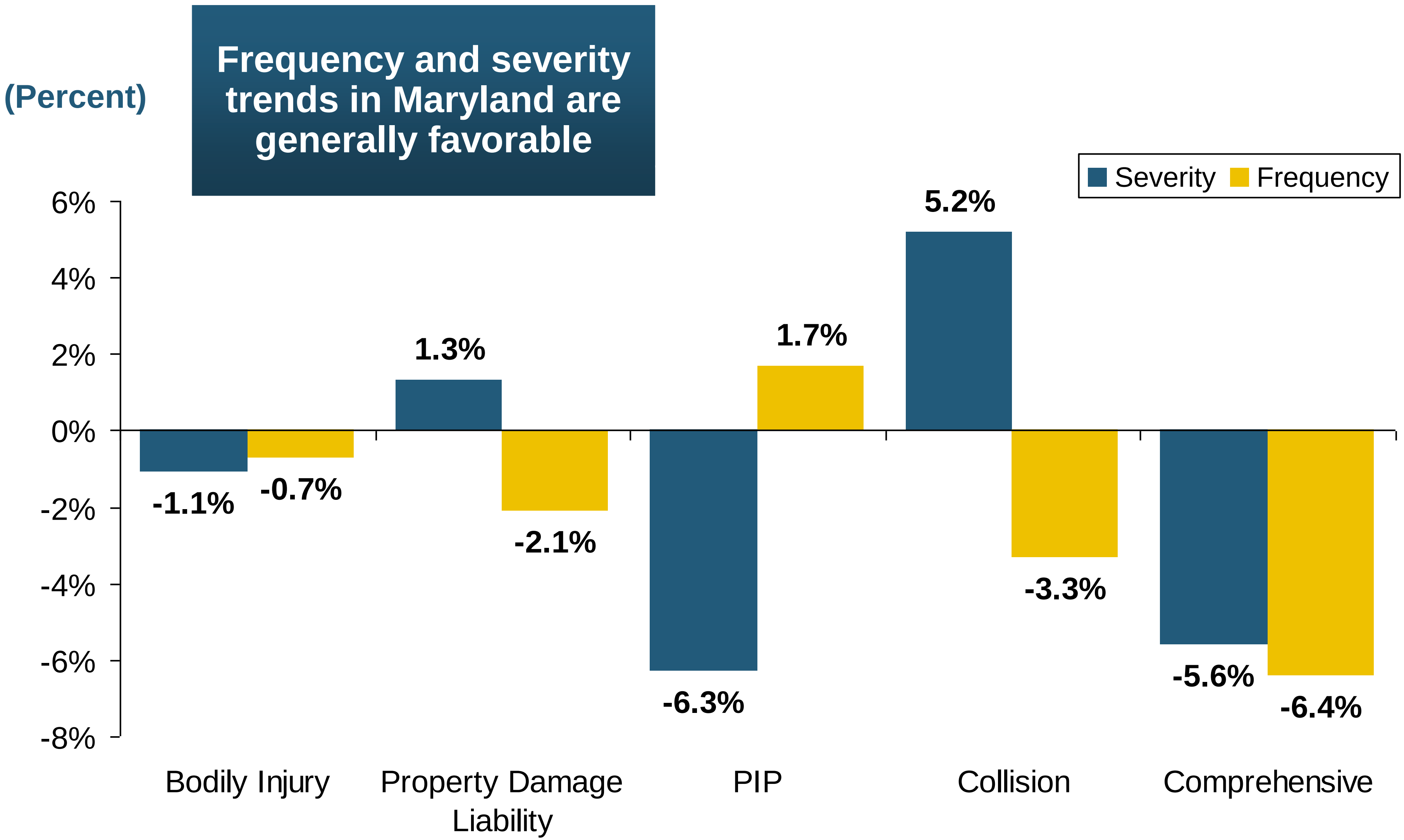
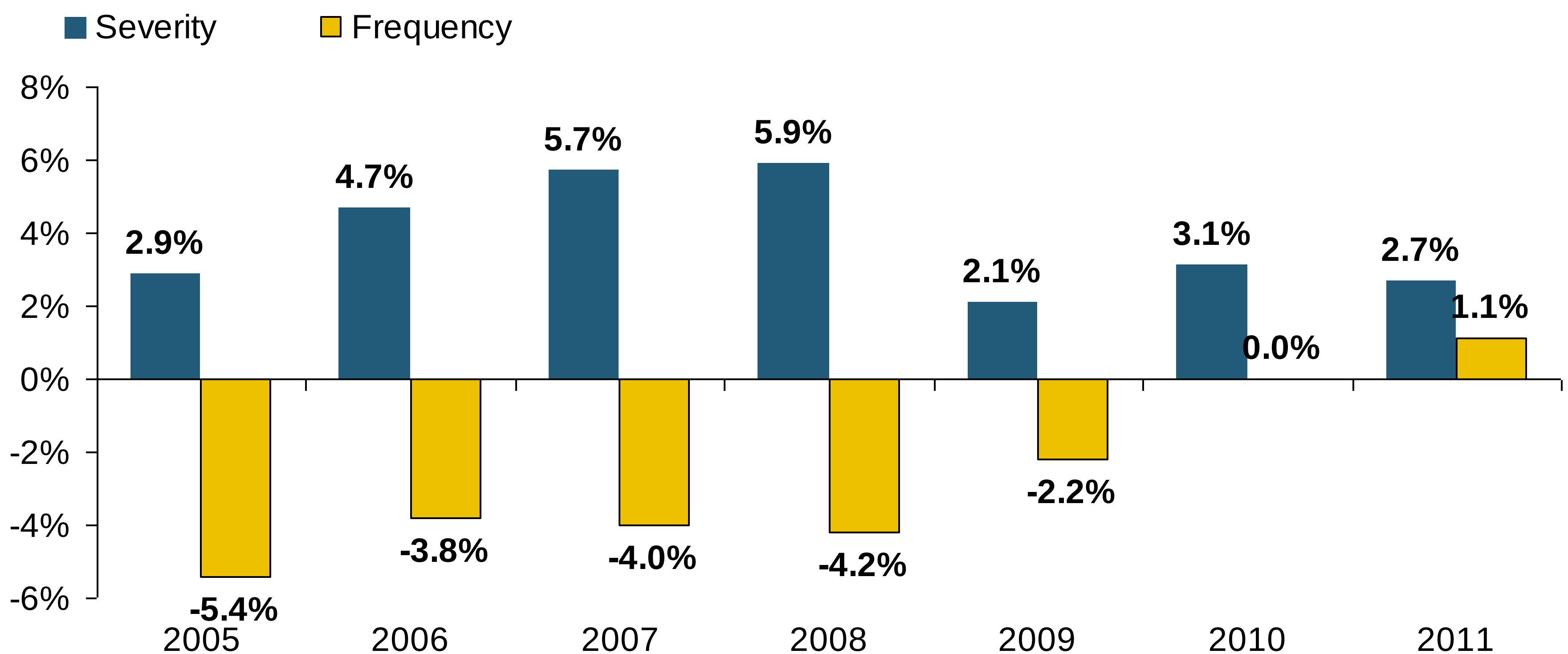


Source: ISO/PCI; Insurance Information Institute

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

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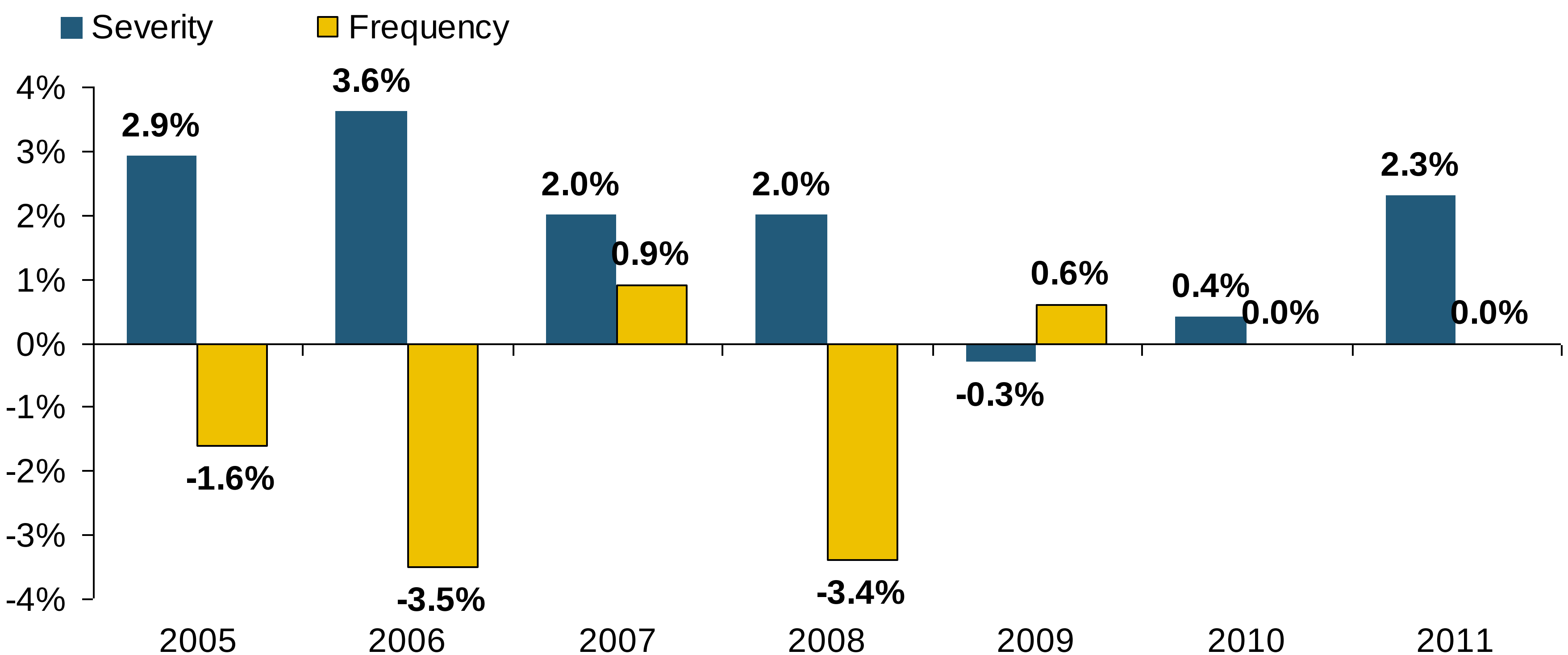
Annual Change, 2005 through 2011

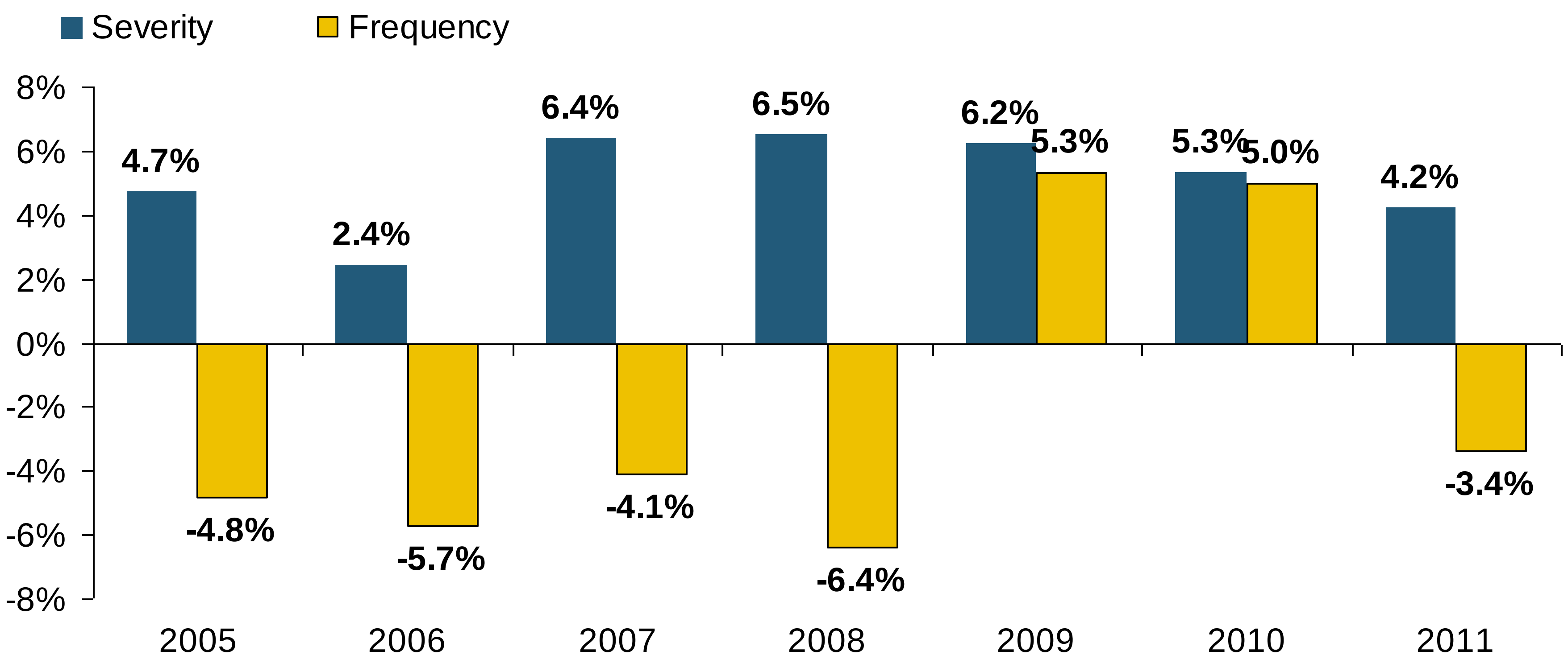


Severity/Frequency Trends Were Stable Through 2010, But Rising Severity in 2011 Is a Concern

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

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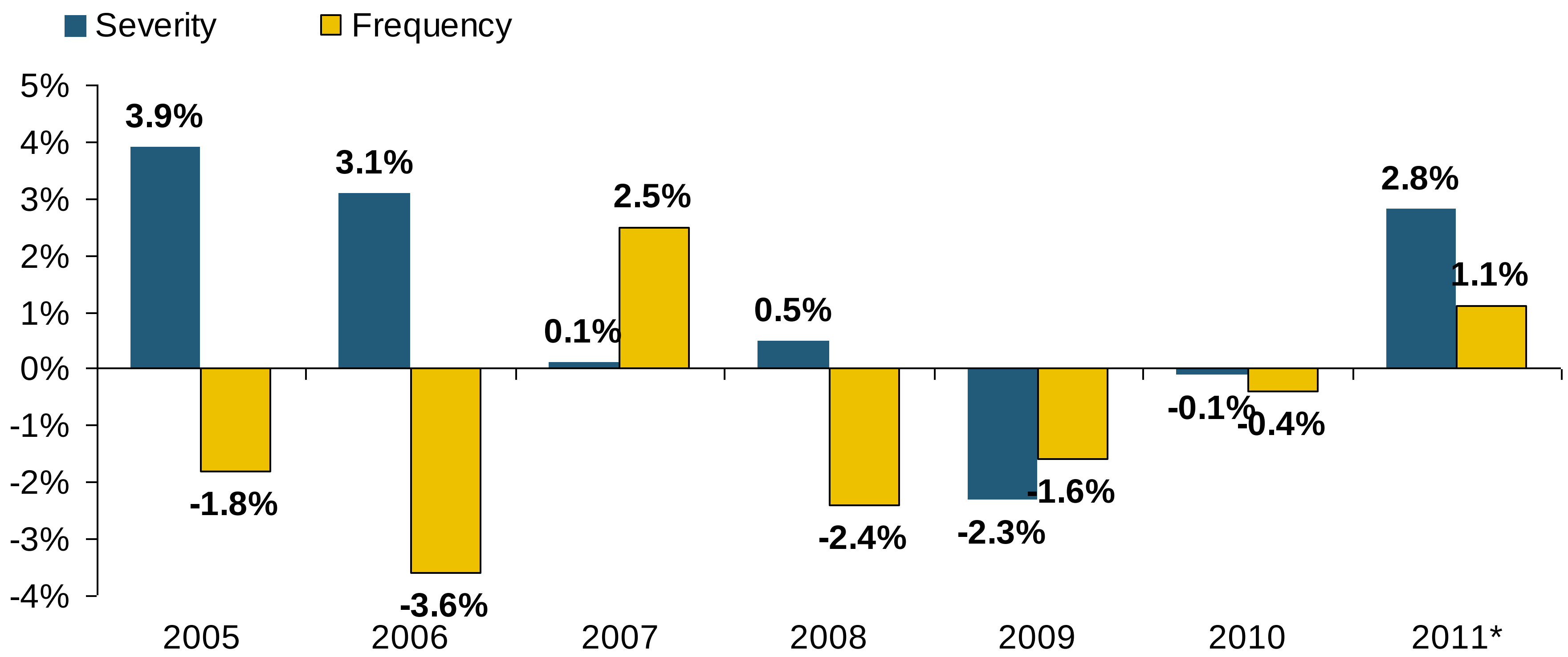
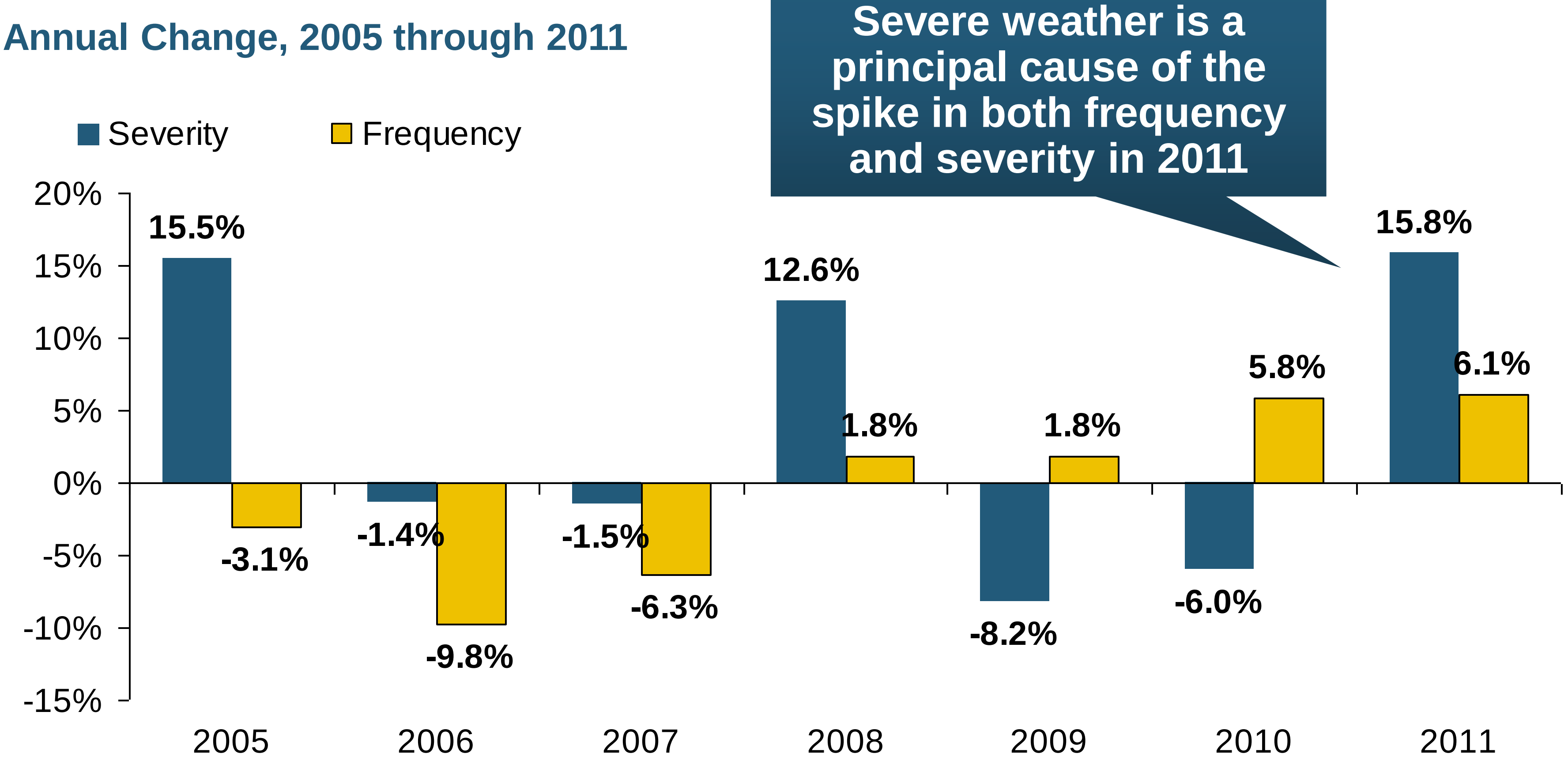
Annual Change, 2005 through 2011



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

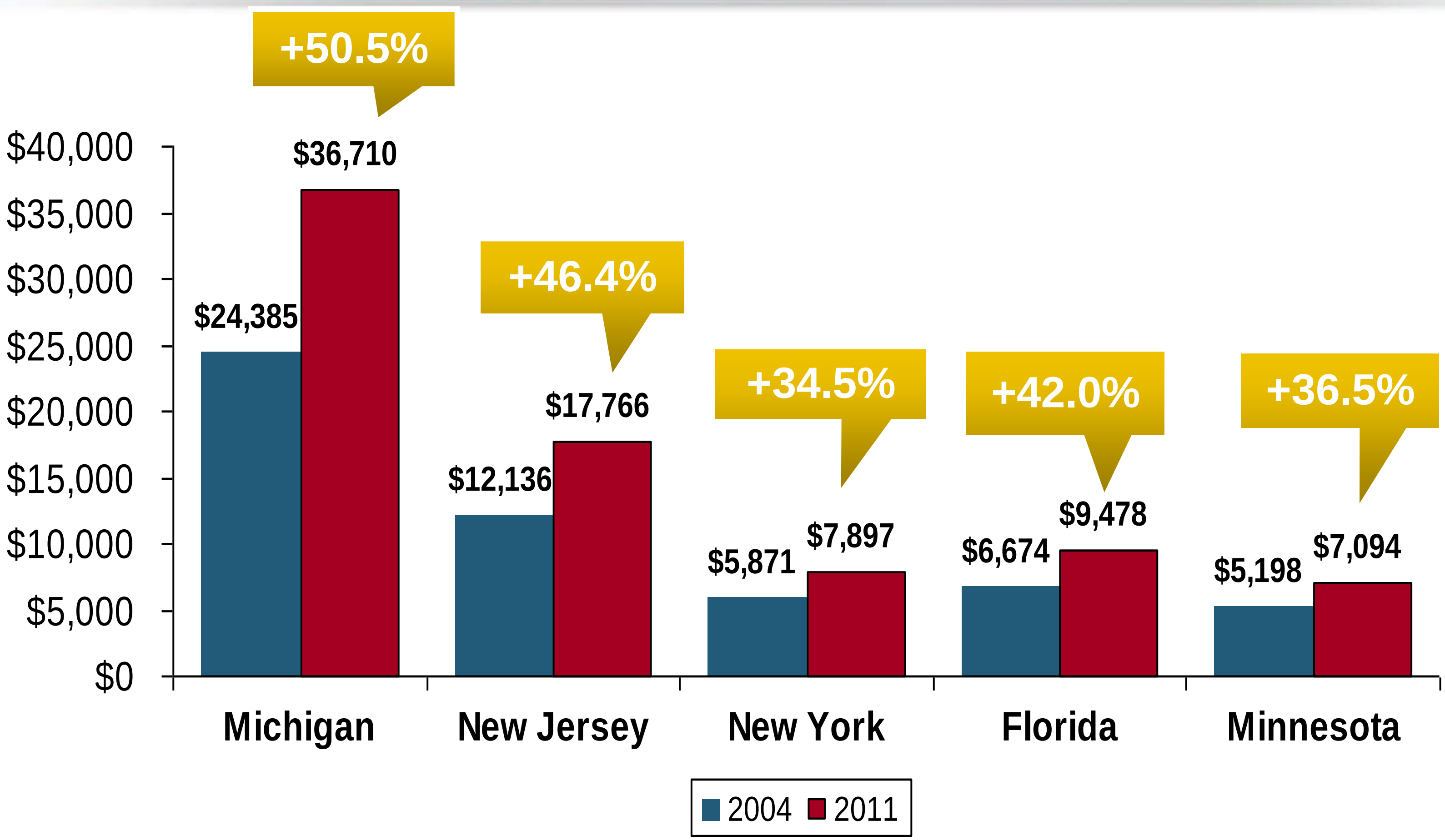
US Comprehensive Coverage: Frequency & Severity Trends in 2011 Were Unfavorable



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

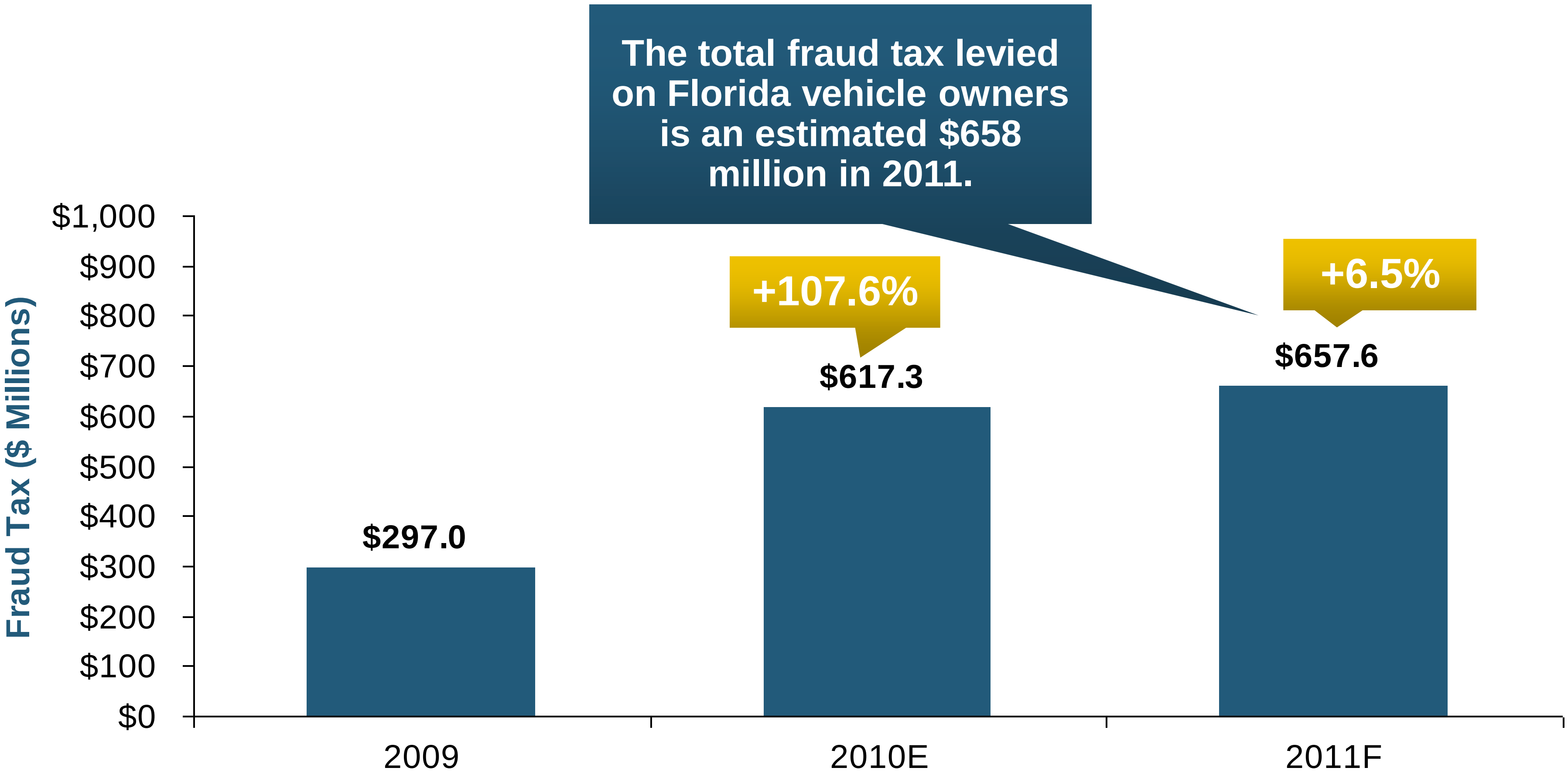
Increase in No-Fault Claim Severity: Selected States, 2004-2011



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)

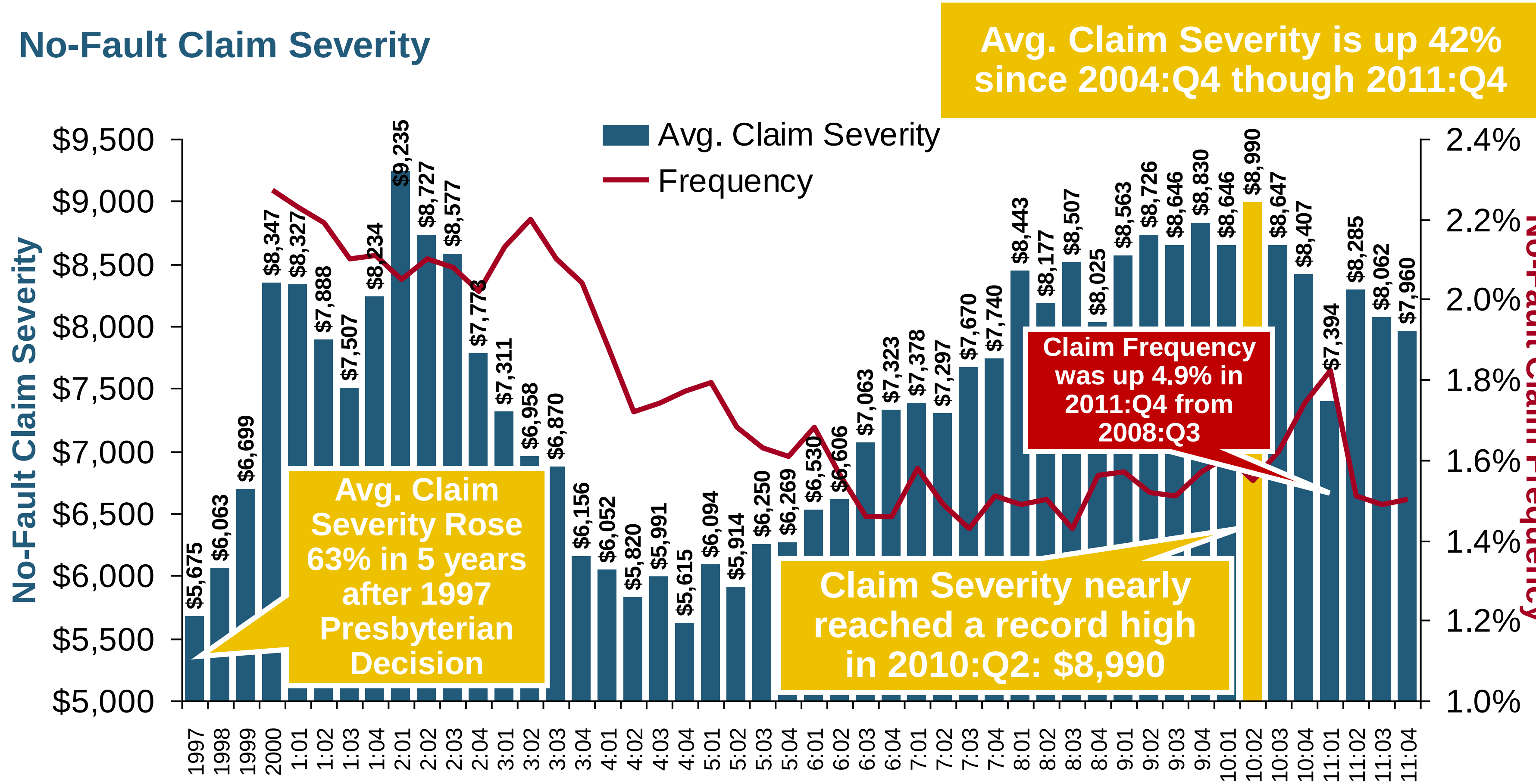


Unscrupulous Medical Providers and Attorneys Are Costing Honest Florida Drivers Hundreds of Millions of Dollars

*2011 estimate is based on data through Q2:2011.

Source: Insurance Information Institute calculations and research from ISO/PCI and AIPSO data.

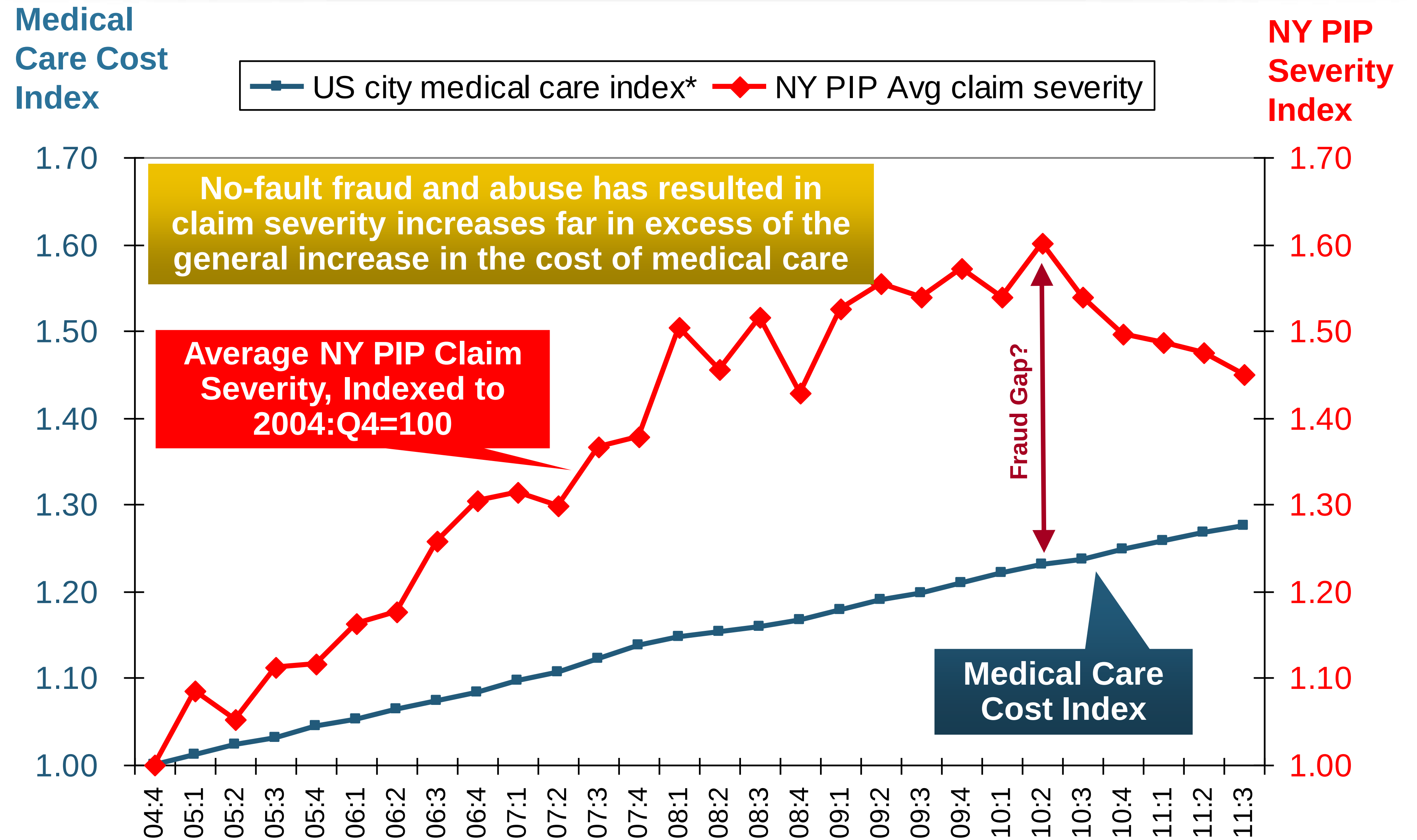
New York State No-Fault Claim Frequency and Severity, 1997–2011:Q4



About 10% of No-Fault Claim Costs in 2011 Were Estimated to Be Attributable to Fraud and Abuse

Source: Insurance Information Institute calculations and research from ISO/PCI Fast Track data.

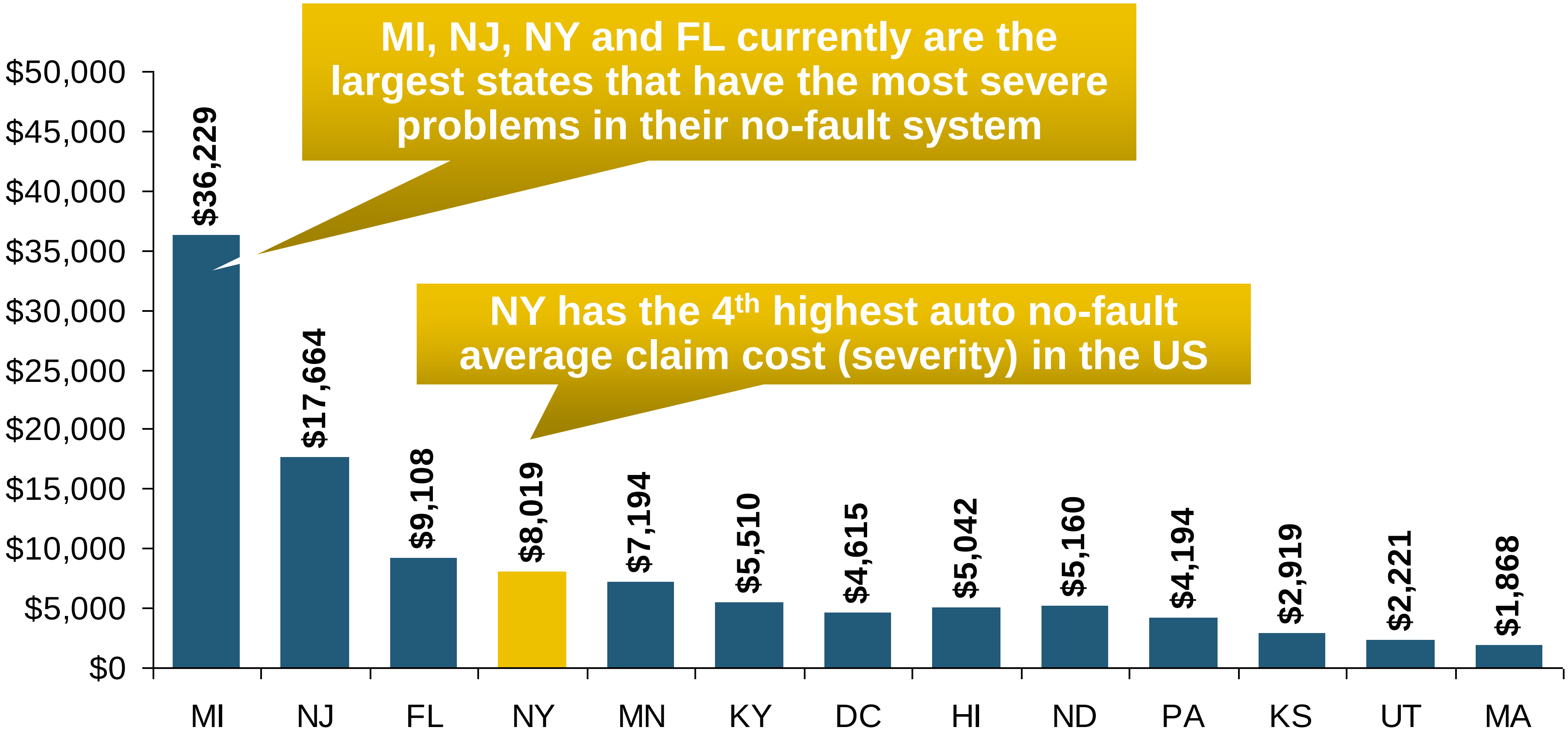
New York's No-Fault Fraud Problem, Paid Claims Severity**



*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

Average No-Fault Claim Severity, 2011:Q3*



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

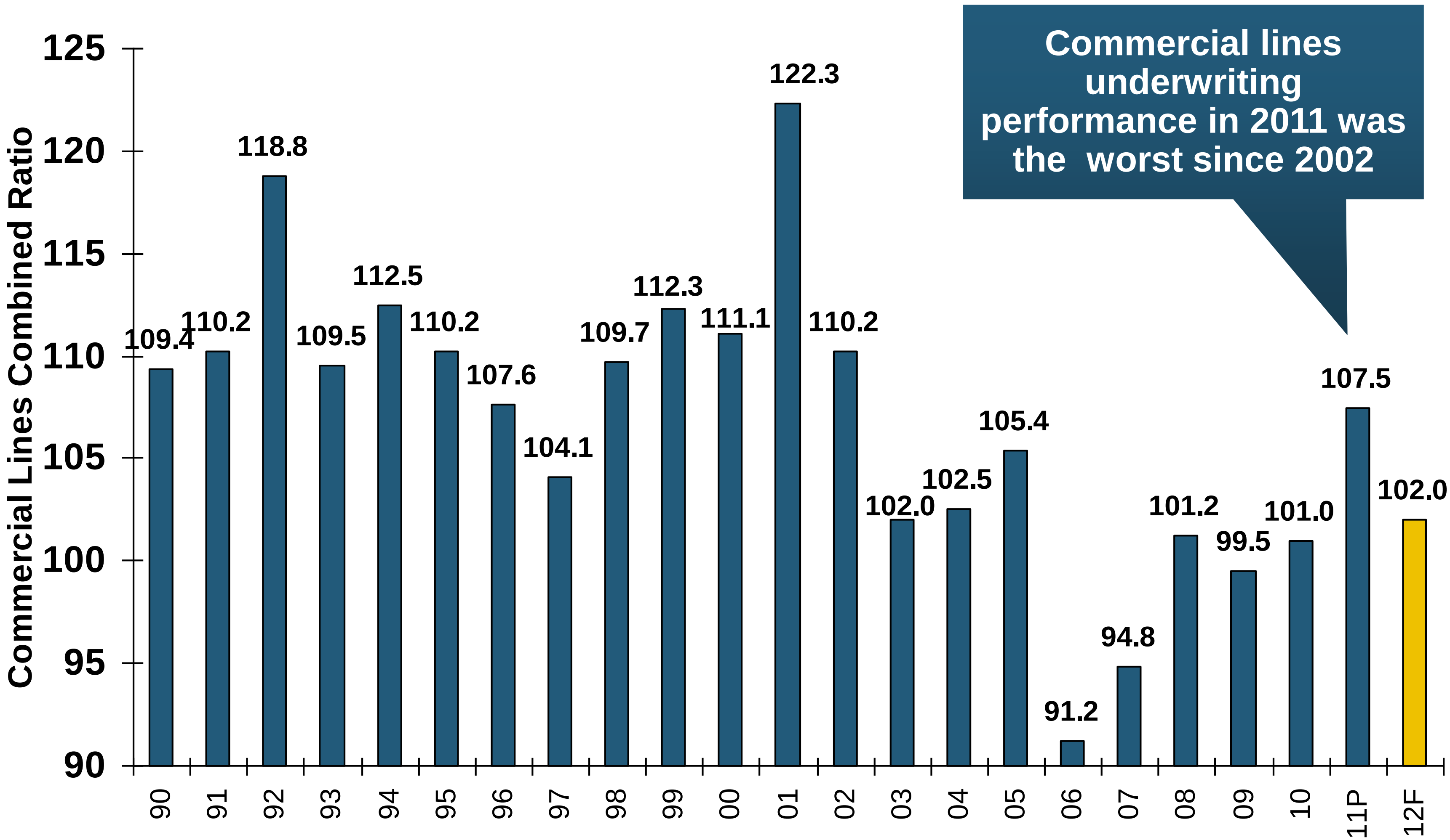
A.M. Best Commercial Lines Outlook: Negative (as of January 2012)

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

OFFSETTING FACTORS

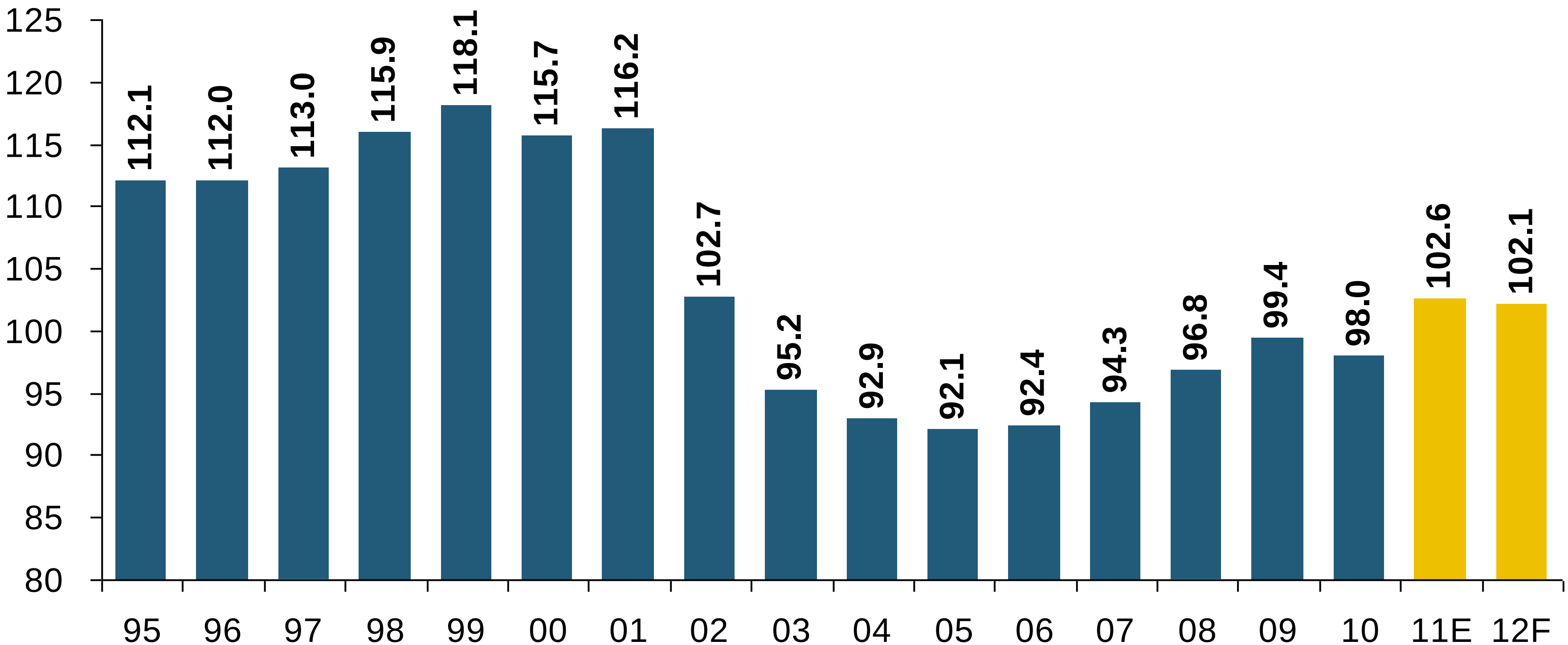
- **Capitalization Still Solid**
- **Emergence of Sophisticated Price Monitoring and Underwriting Tools**

Commercial Lines Combined Ratio, 1990-2012F*



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

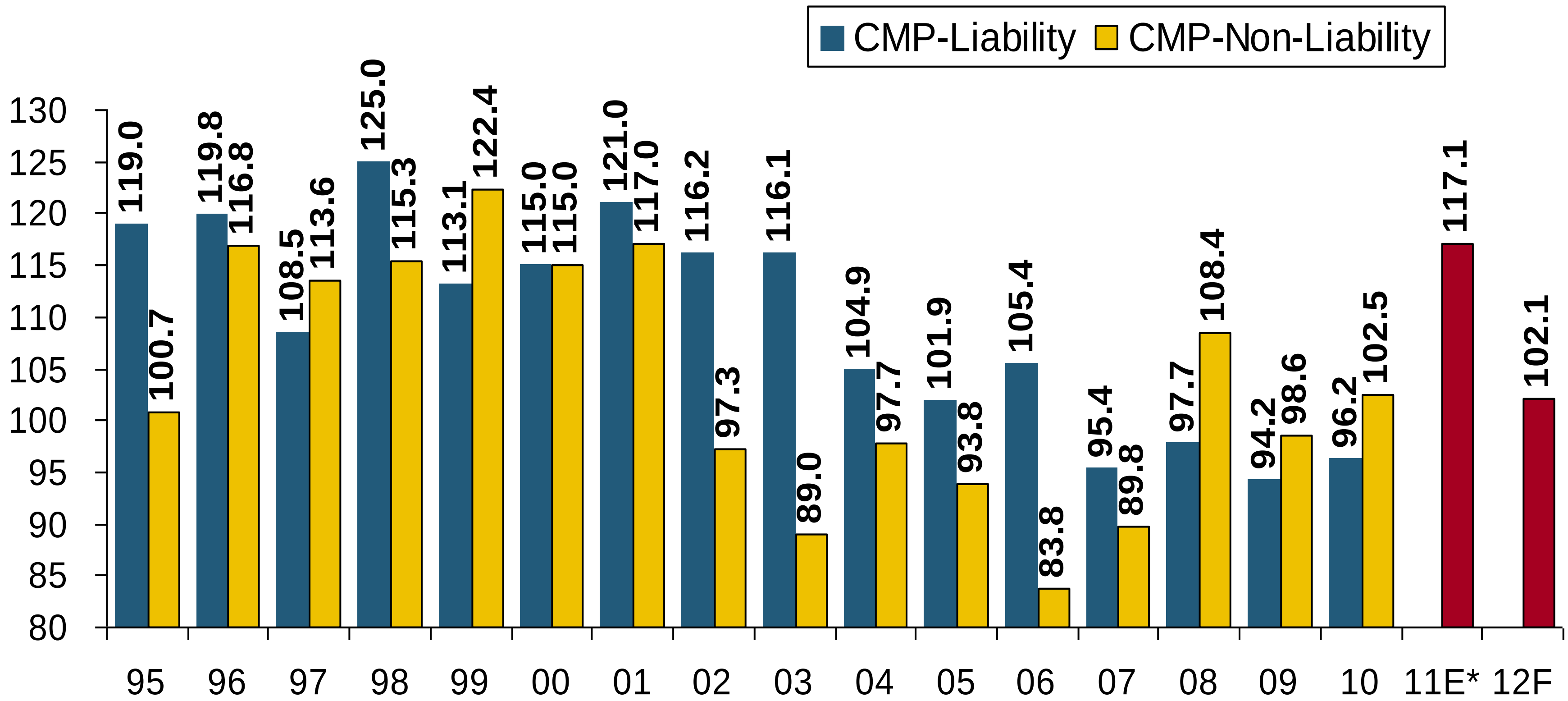
Commercial Auto Combined Ratio: 1993–2012F



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

Sources: A.M. Best Insurance Information Institute.

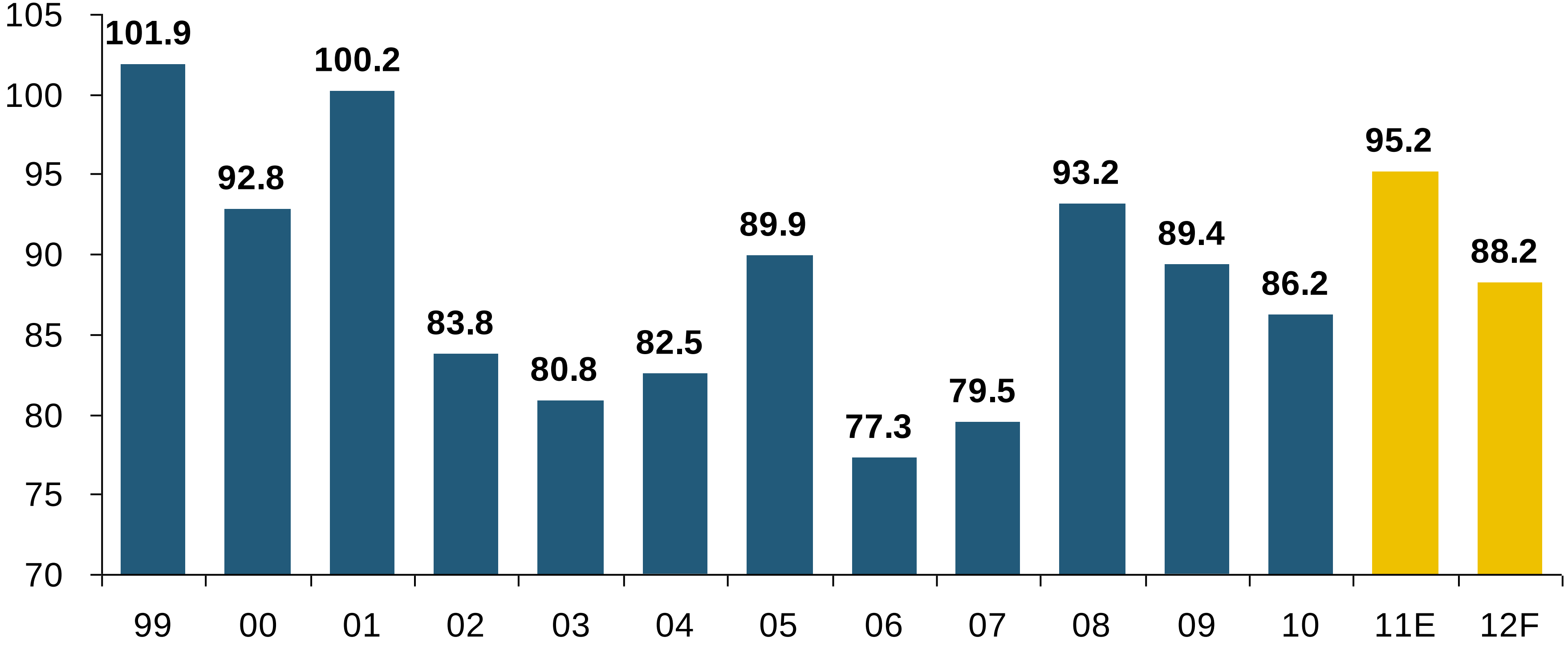
Commercial Multi-Peril Combined Ratio: 1995–2012F



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.

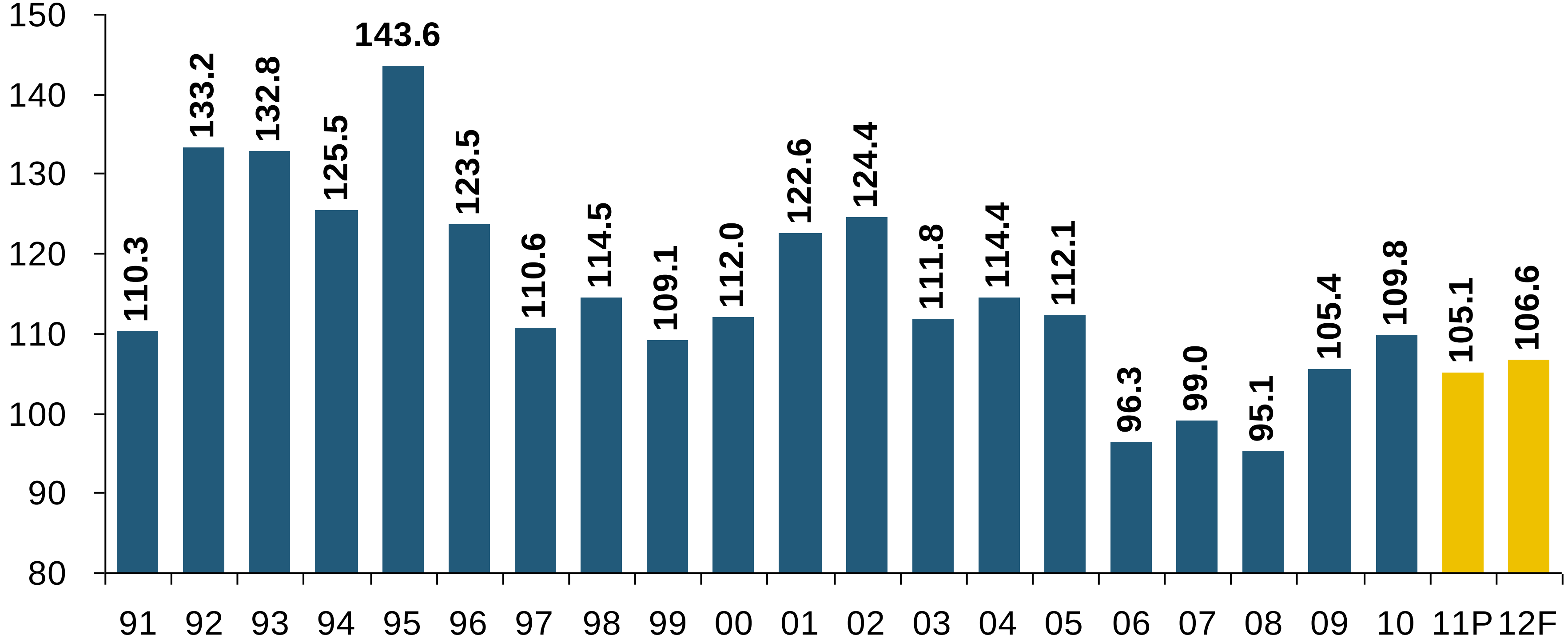
Inland Marine Combined Ratio: 1999–2012F



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

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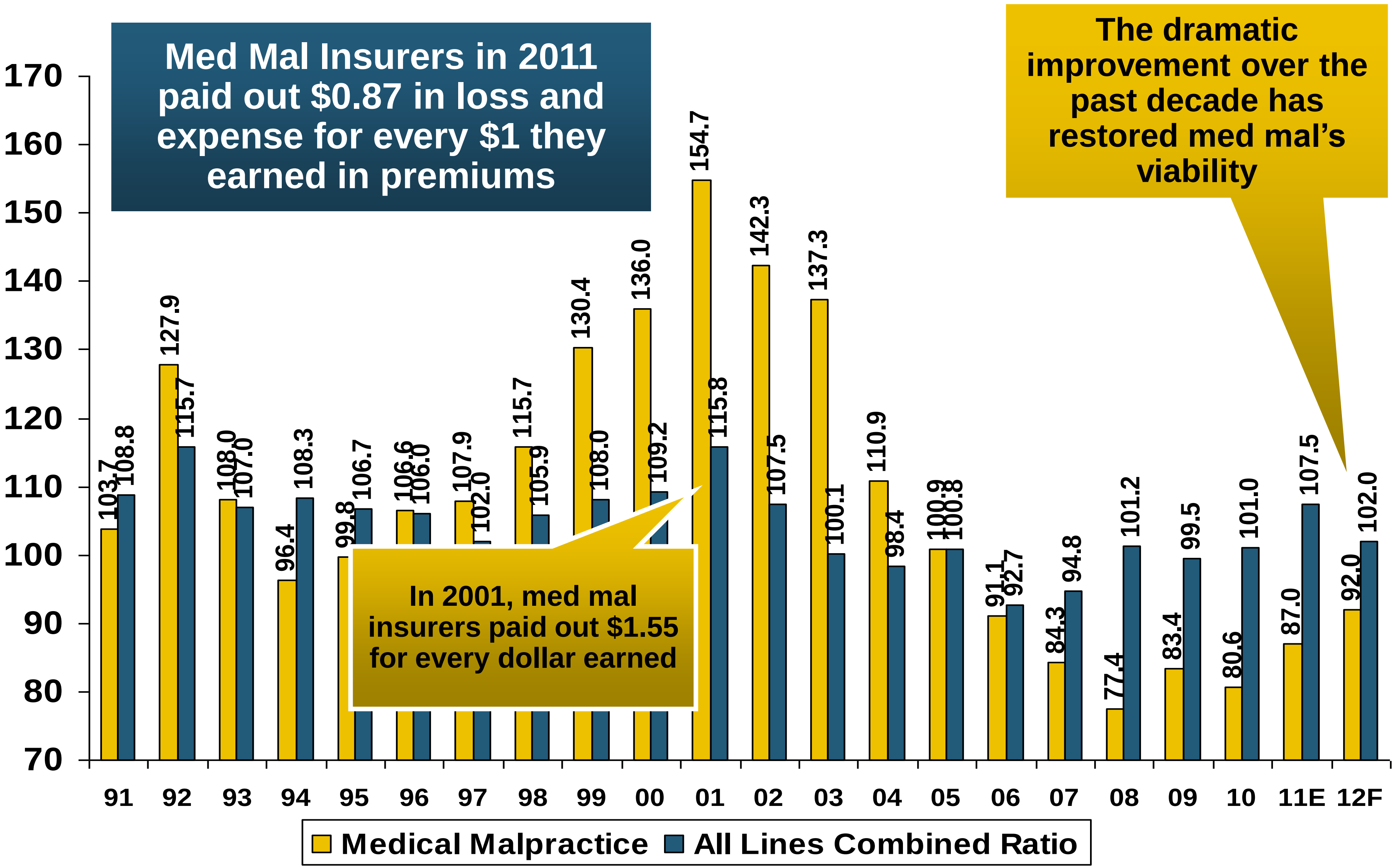
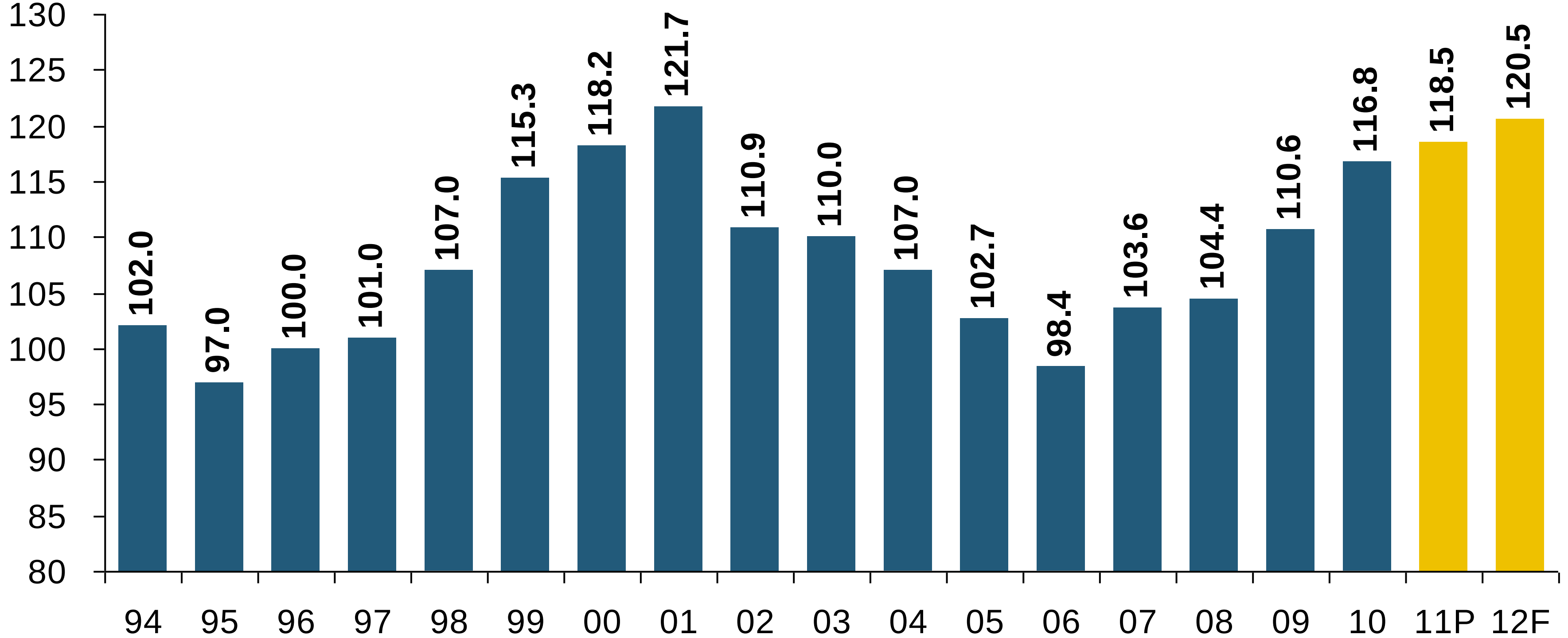


Source: AM Best, Insurance Information Institute

Workers Compensation Combined Ratio: 1994–2012F



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

Sources: A.M. Best ; 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

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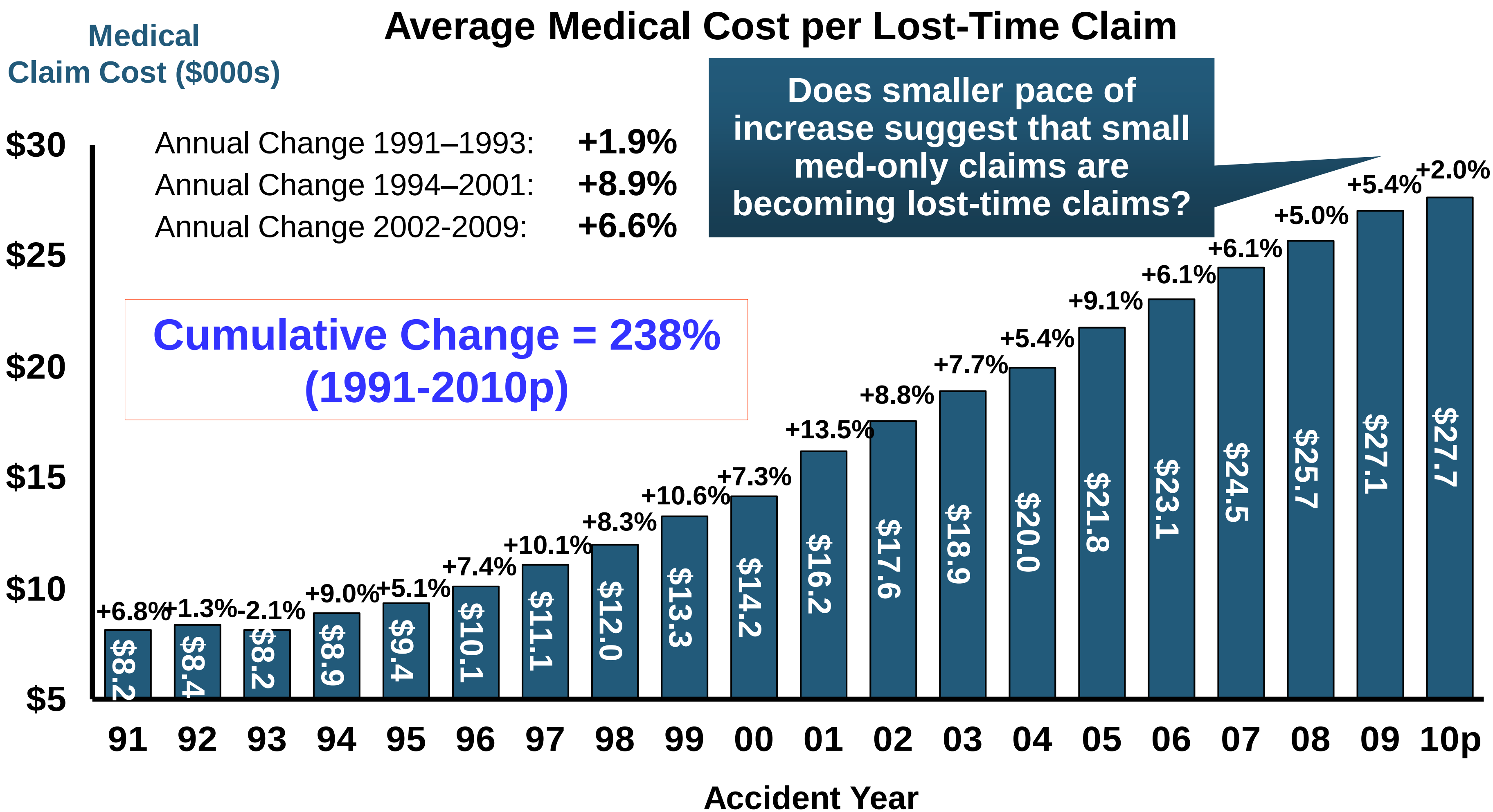

2010p: Preliminary based on data valued as of 12/31/2010
1991-2008: Based on data through 12/31/2008, developed to ultimate
Based on the states where NCCI provides ratemaking services; Excludes the effects of deductible policies

Workers Comp Indemnity Claim Costs Decline in 2010

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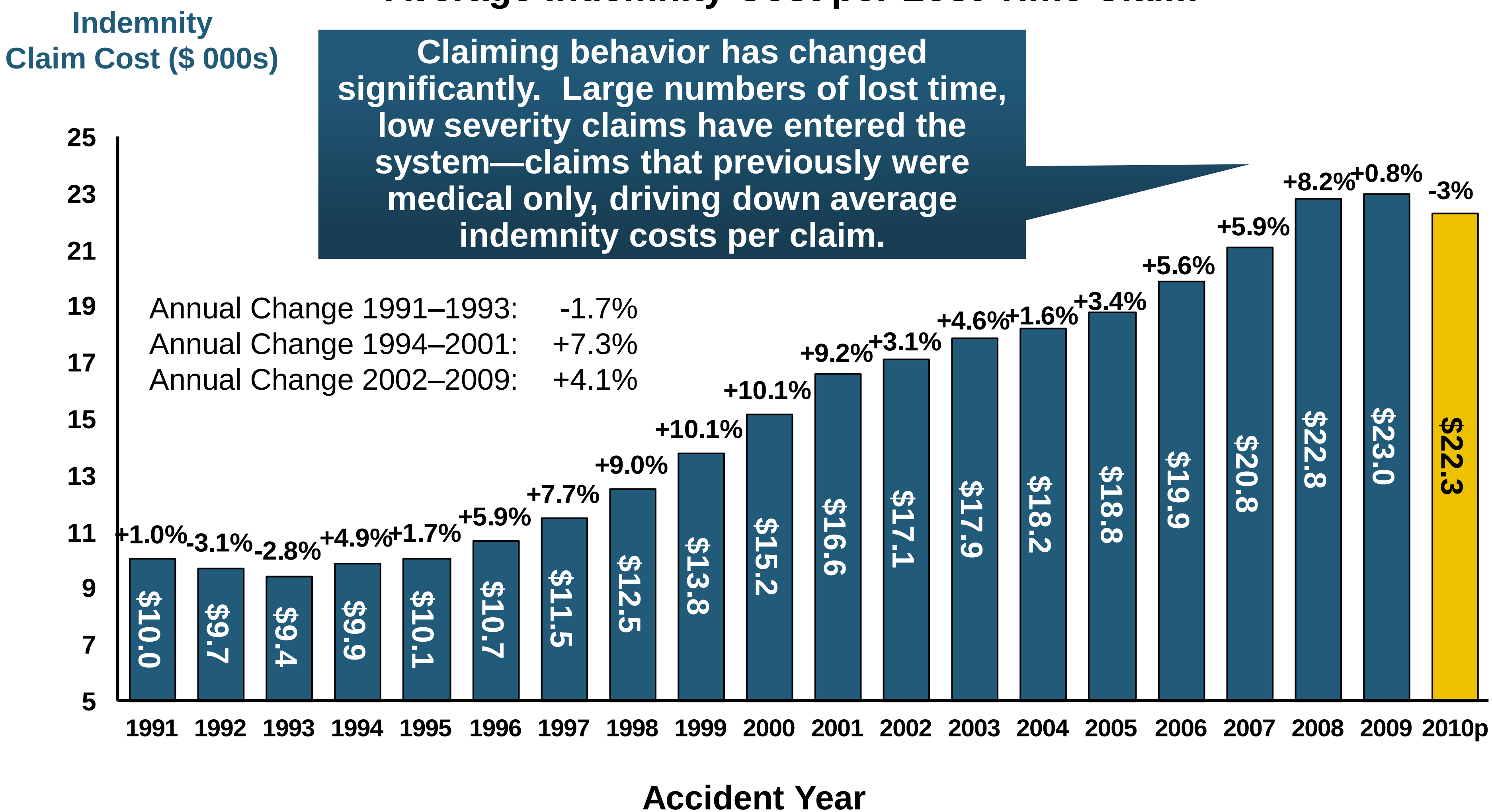
Average Indemnity Cost per Lost-Time Claim



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

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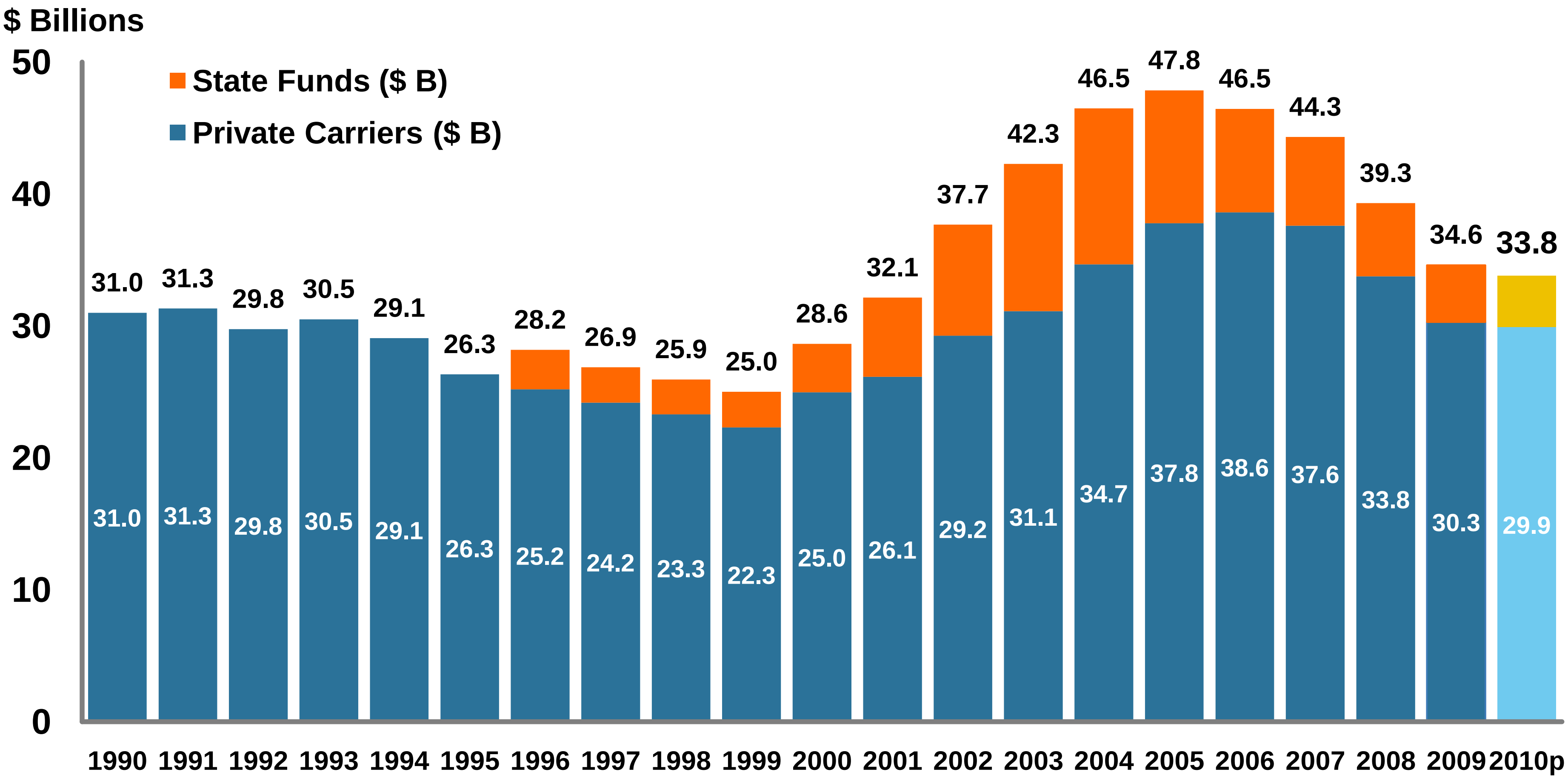
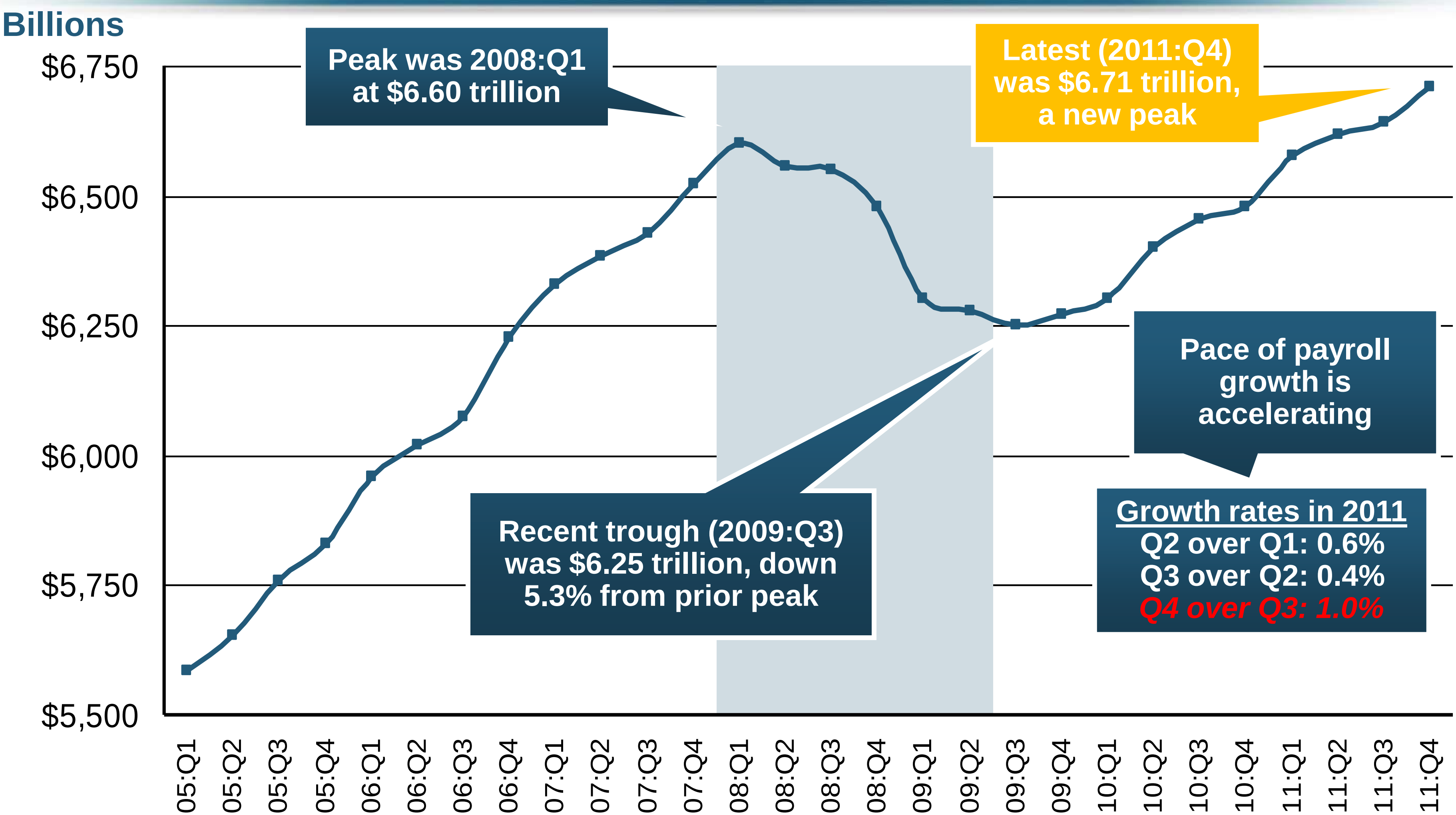
Net Written Premium



p Preliminary

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

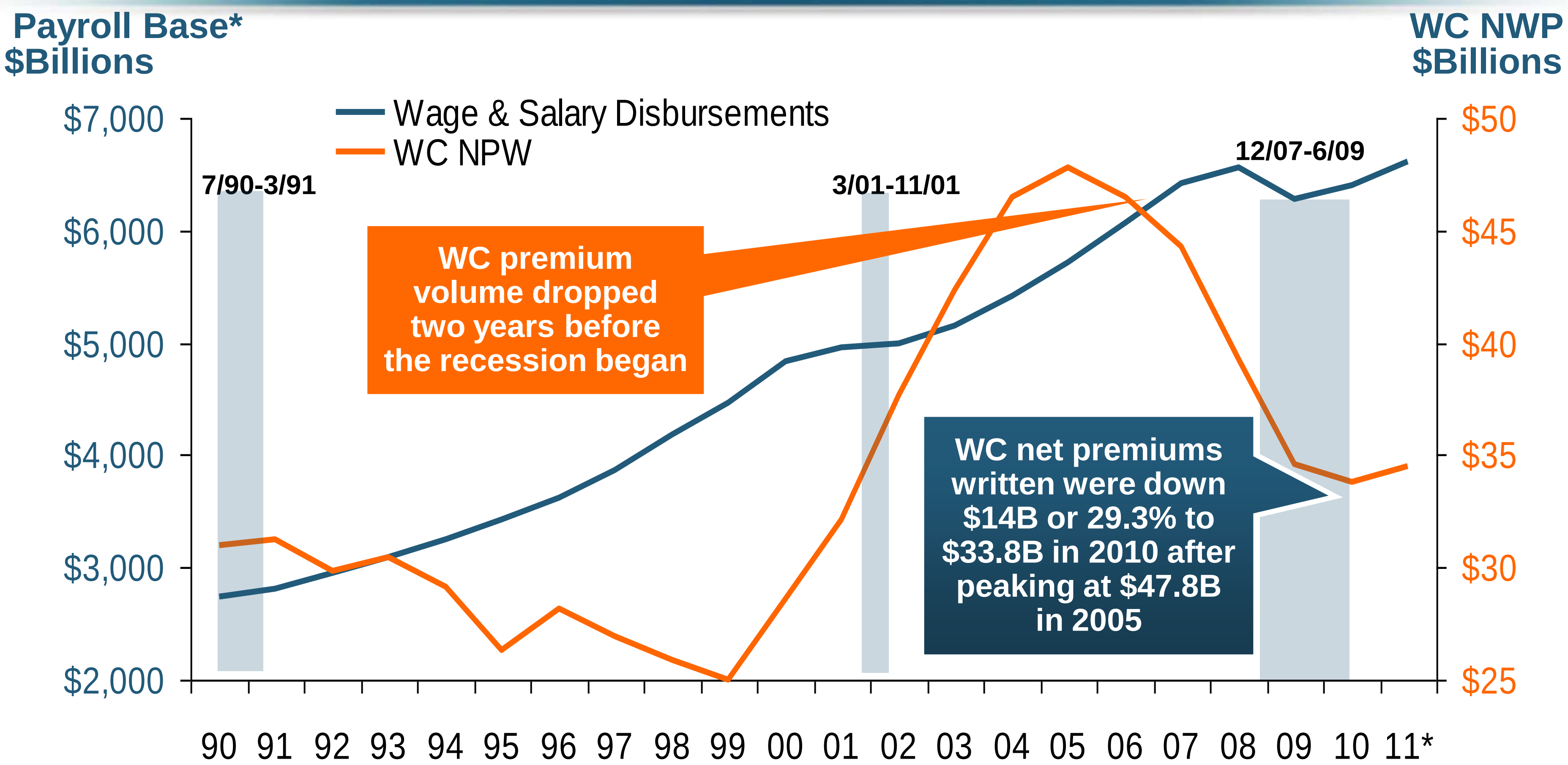
Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2011:Q4



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

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

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

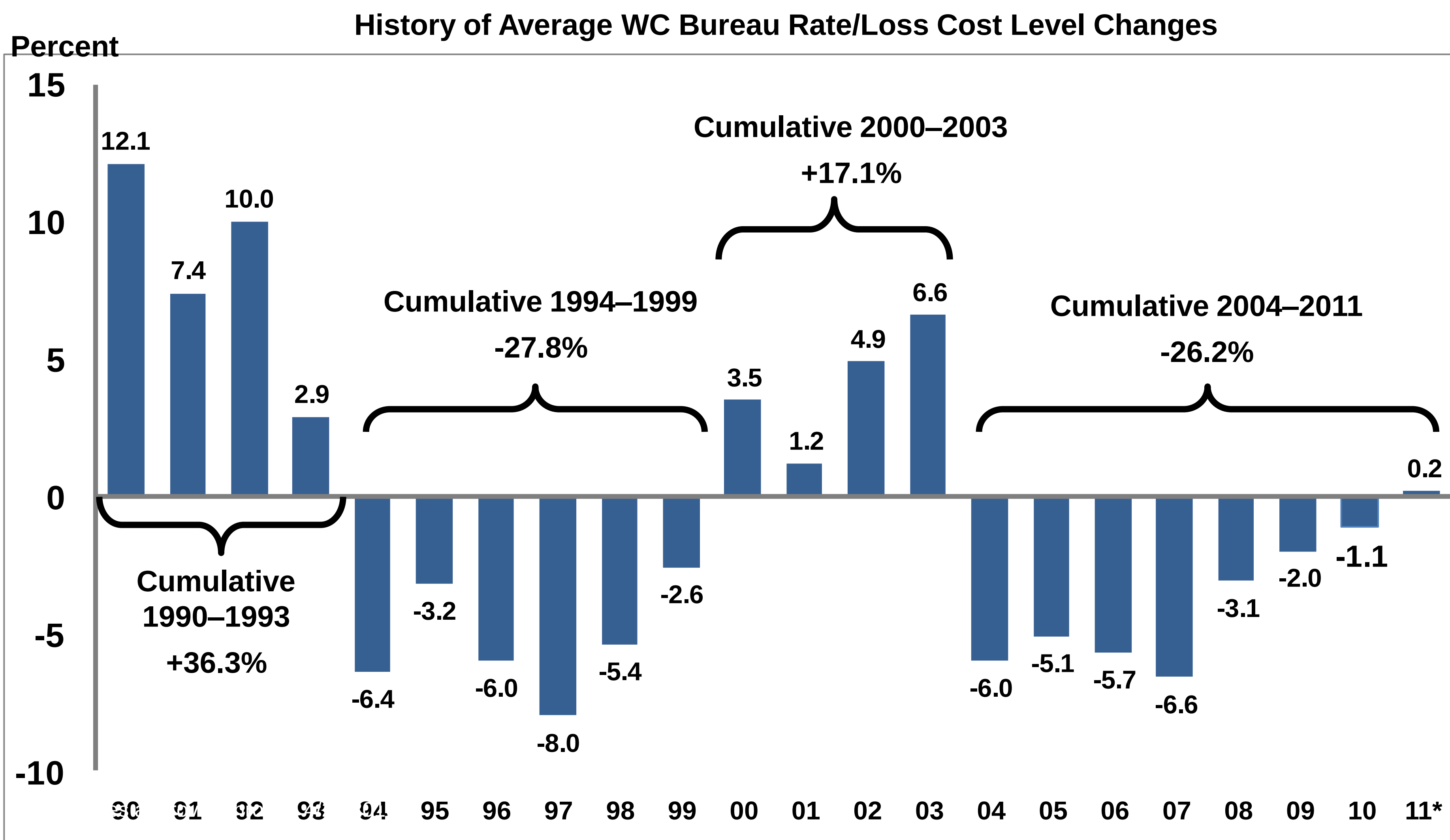


Resumption of payroll growth and rate increases suggests WC NWP will grow again in 2012

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

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

Average Approved Bureau Rates/Loss Costs

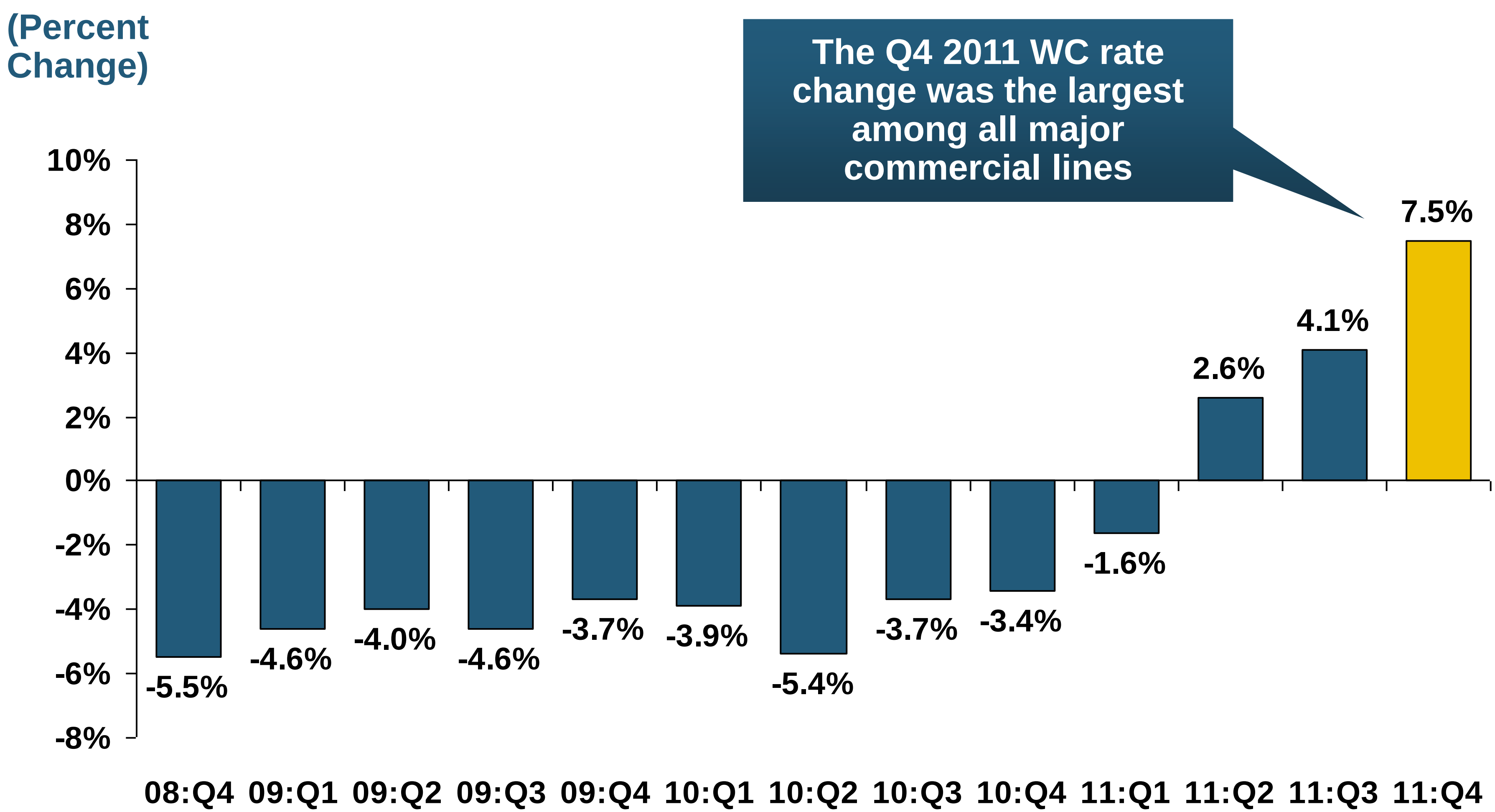


*States approved through 4/8/11.

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

Source: NCCI.

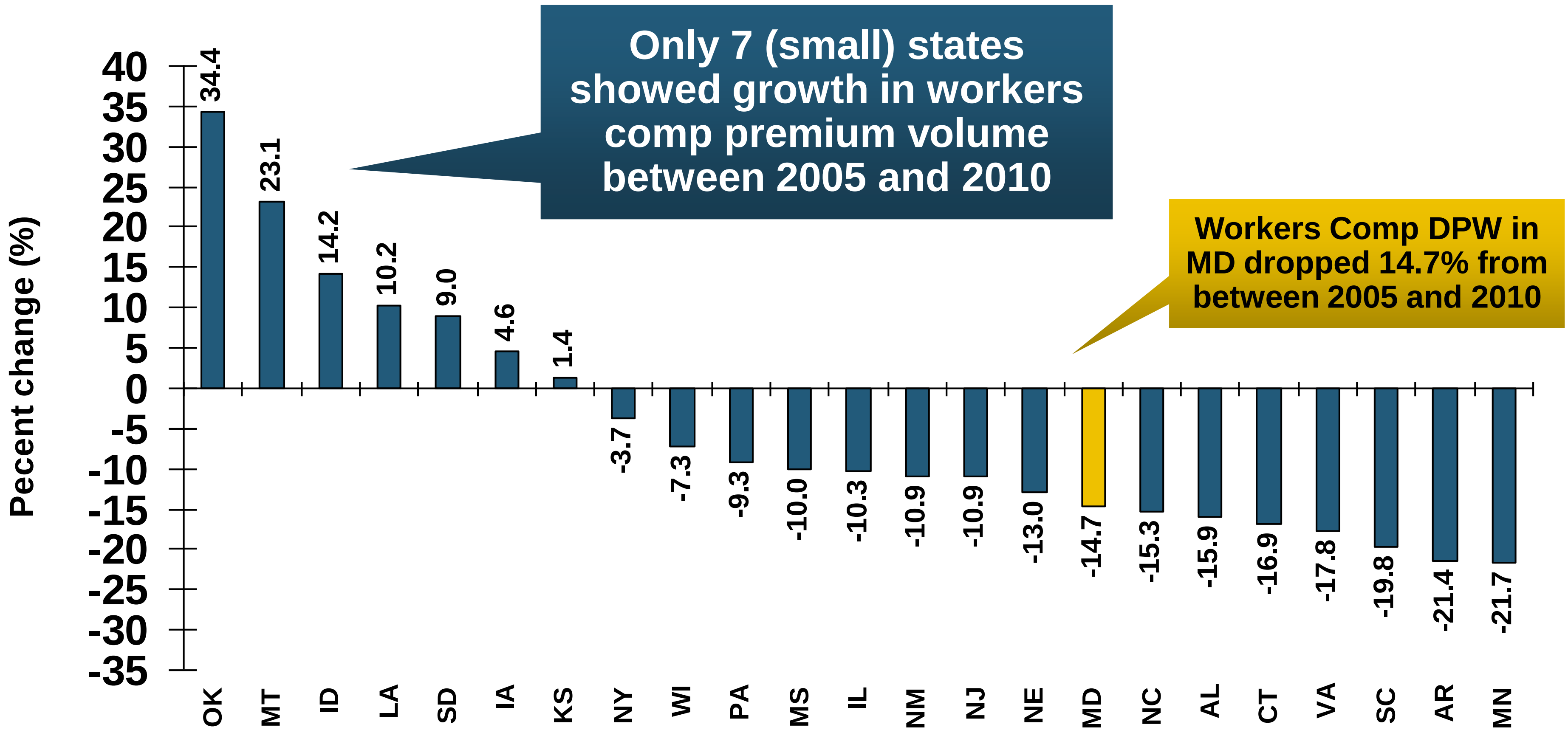
Workers Comp Rate Changes, 2008:Q4 – 2011:Q4



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

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

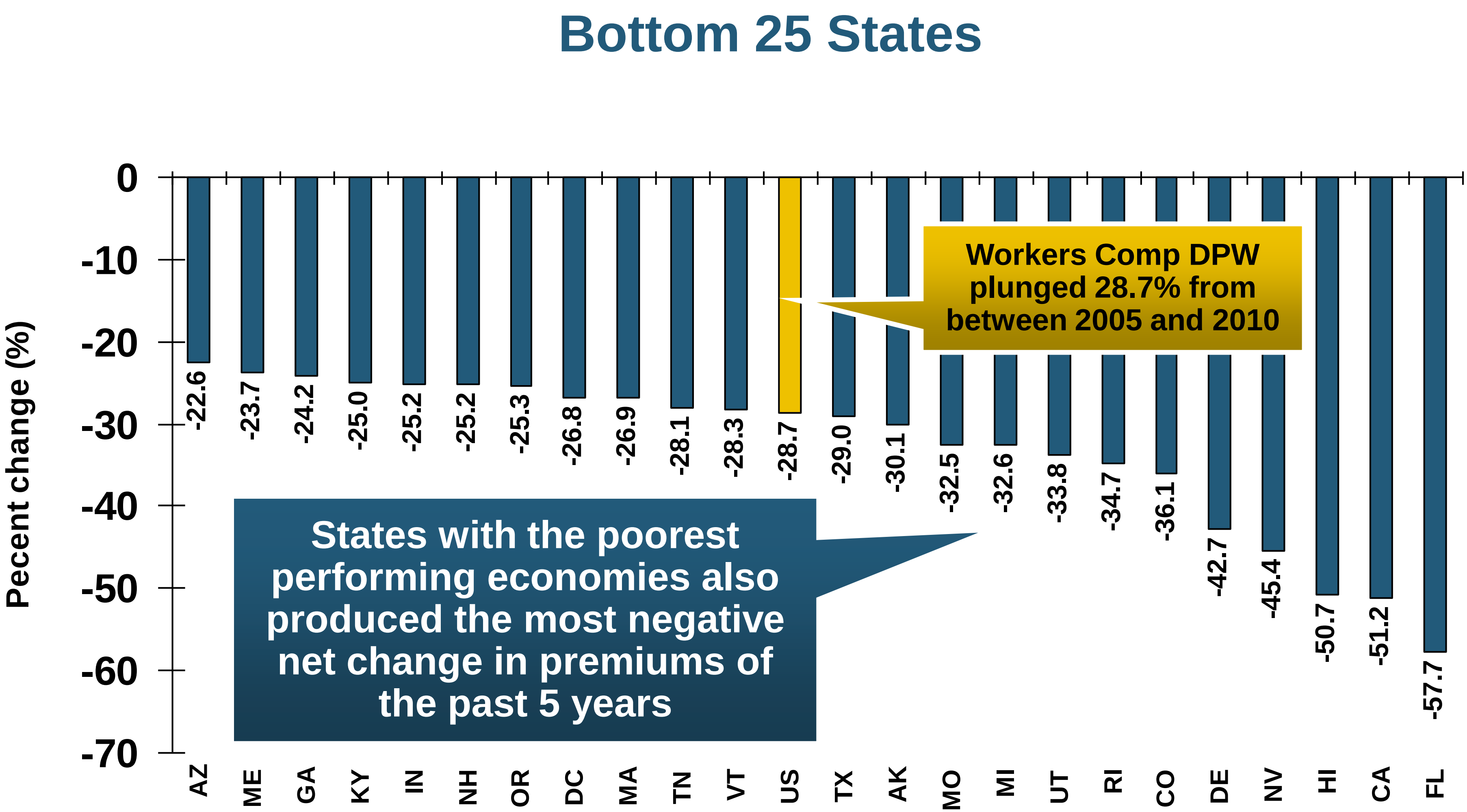
Top 25 States



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

Sources: SNL Financial LC.; Insurance Information Institute.

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



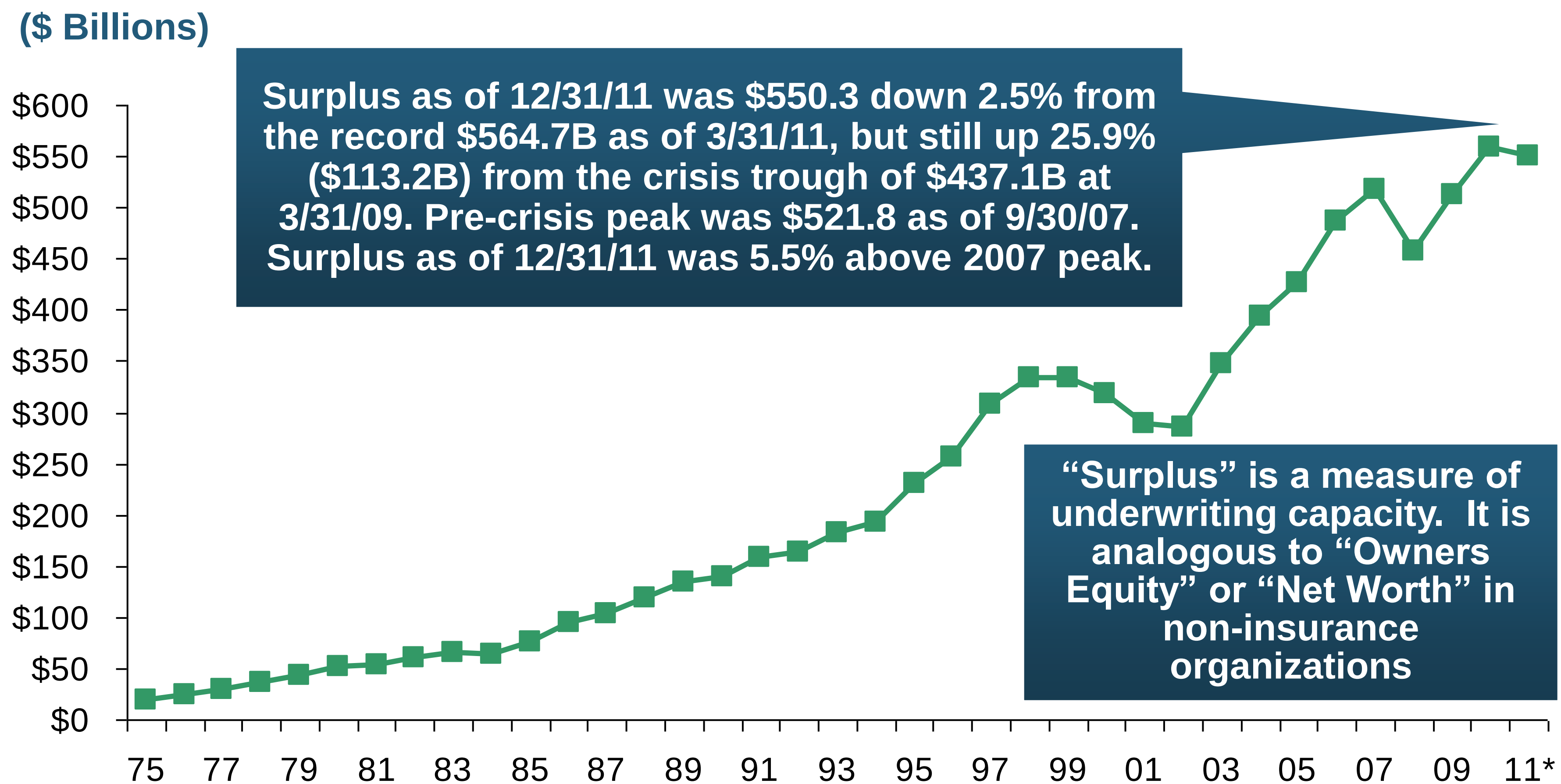
*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

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*



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:Q4–2011:Q4

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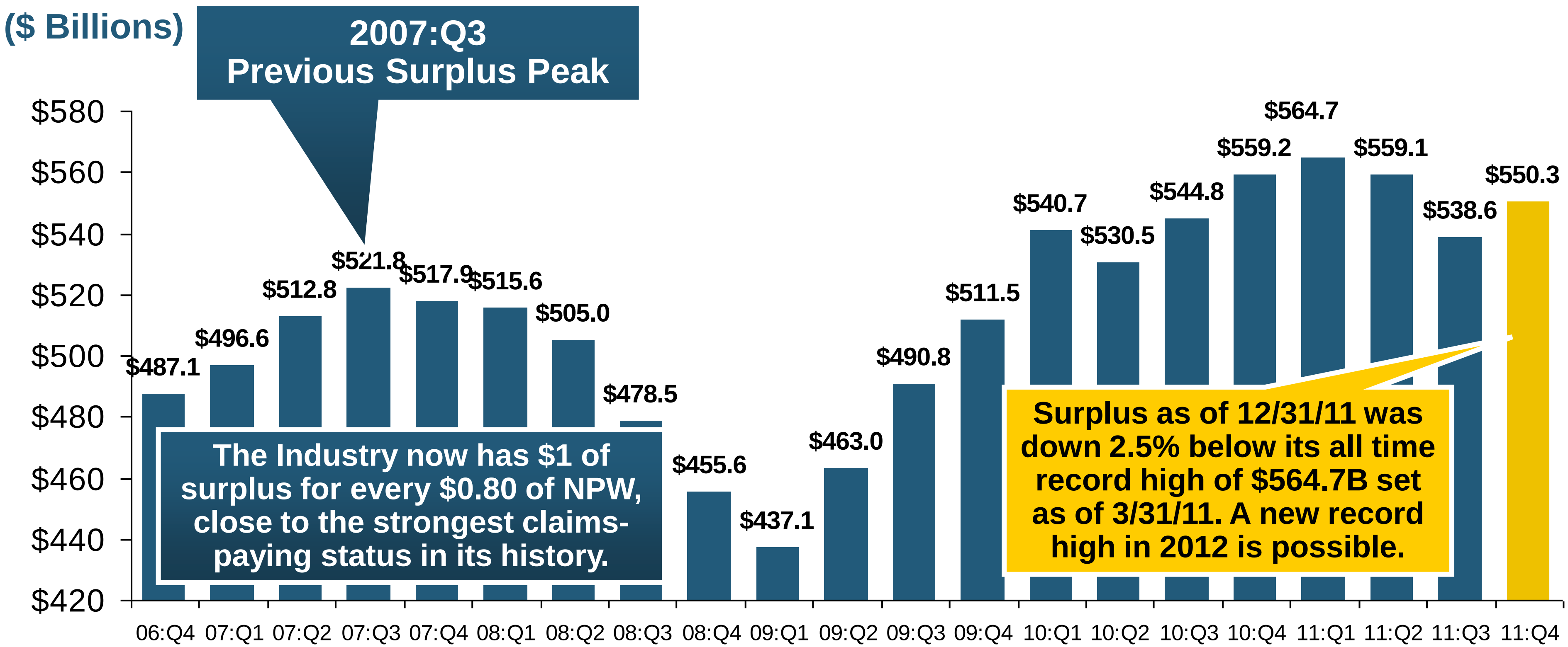

*Includes $22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business in early 2010.

Quarterly Surplus Changes Since 2011:Q1 Peak

11:Q2: -$5.6B (-1.0%)

11:Q3: -$26.1B (-4.6%)

11:Q4: -$14.3B (-2.5%)

Sources: ISO, A.M .Best.

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

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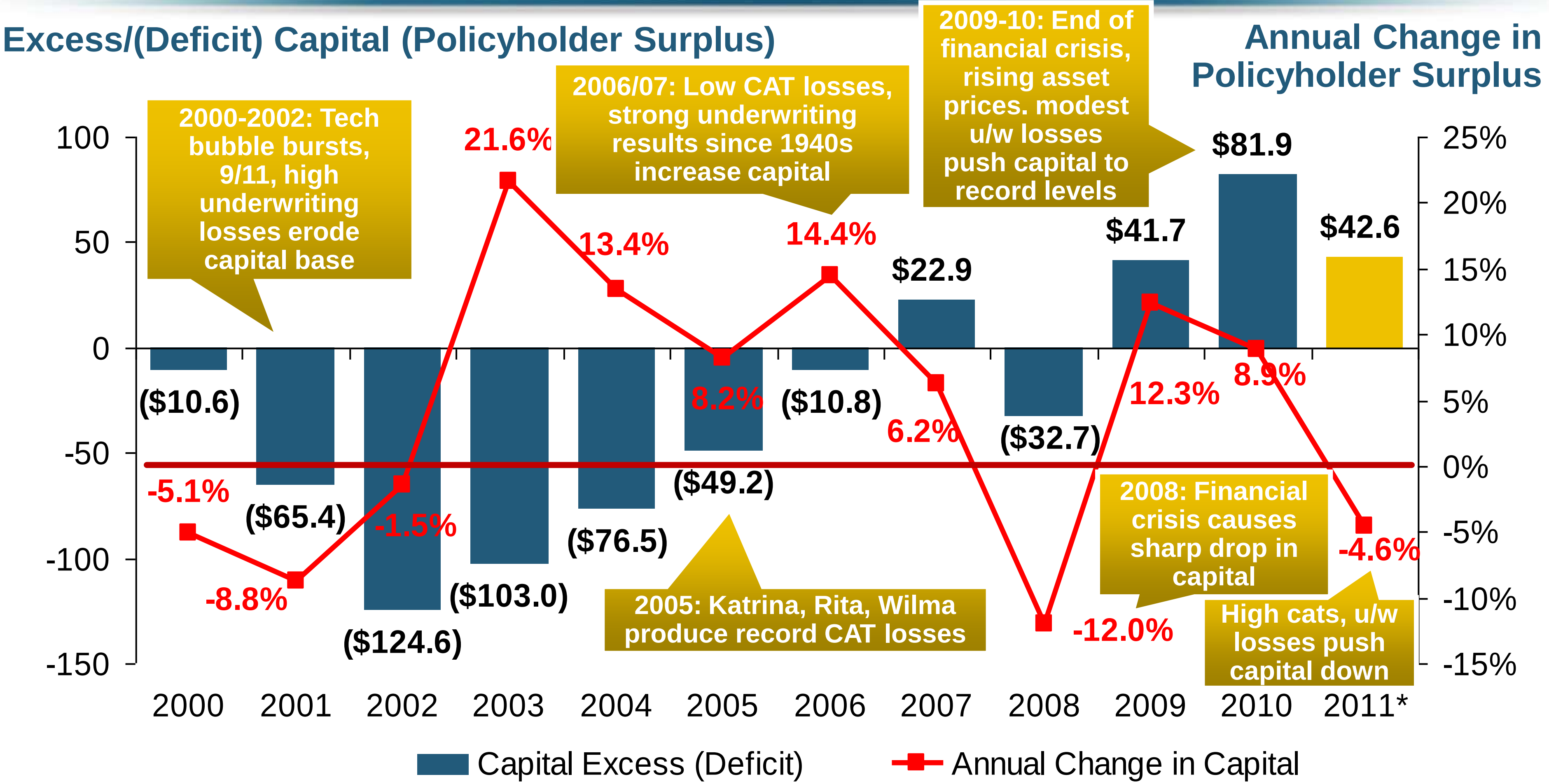
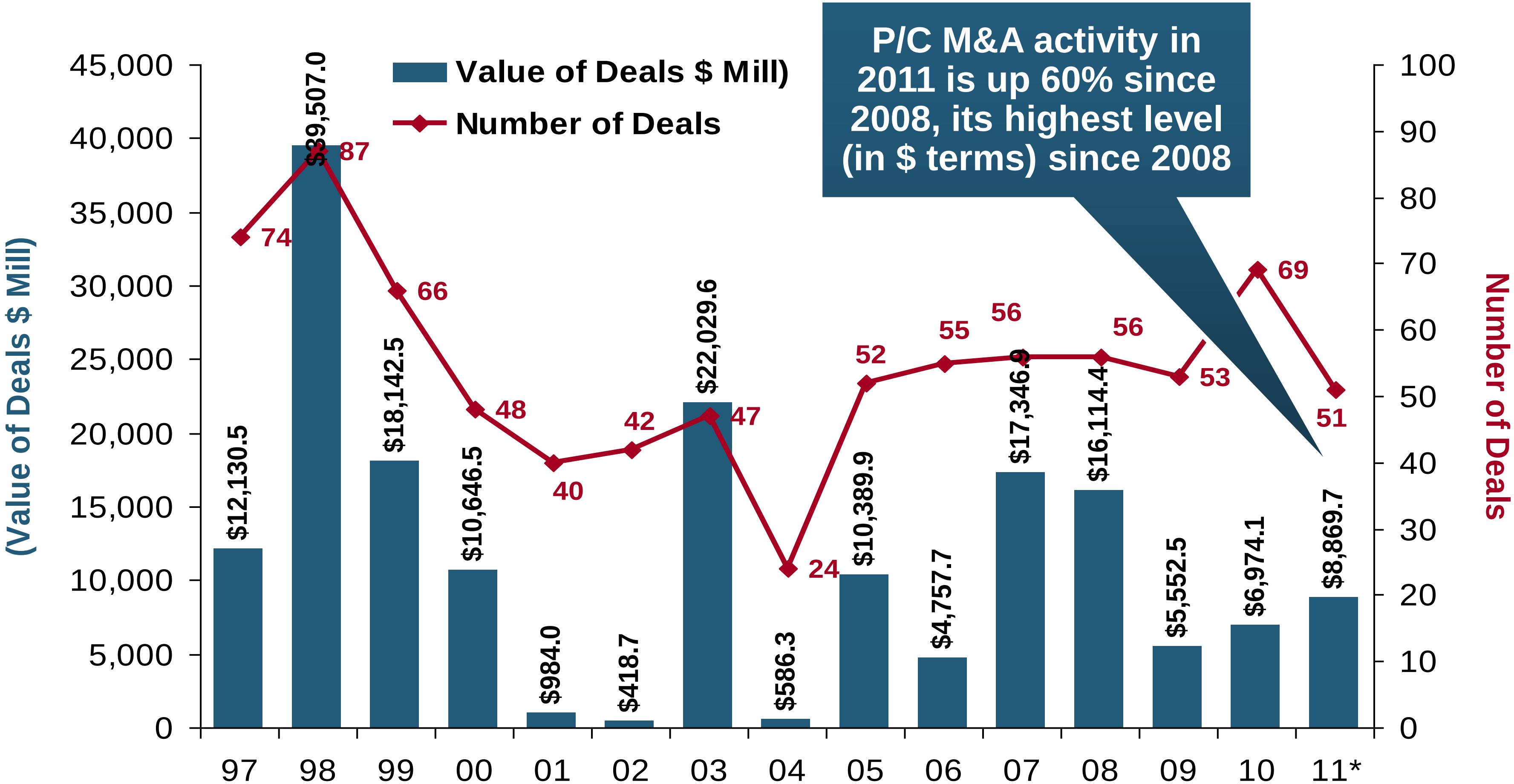


Record Policyholder Surplus (Capital) Resulted in Significant Excess Capital in the P/C Insurance Sector in 2010. Deteriorating Underwriting Losses, Higher CAT Activity, More Modest Market Returns Shrank Excess Capital in 2011 by Nearly Half.

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

* Net Premiums Written

M&A Activity in the US P/C Insurance Industry, 1997-2011*



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

*2011 data are through December 1.

Source: SNL Securities; Insurance Information Institute.

Paid-in Capital, 2005–2011

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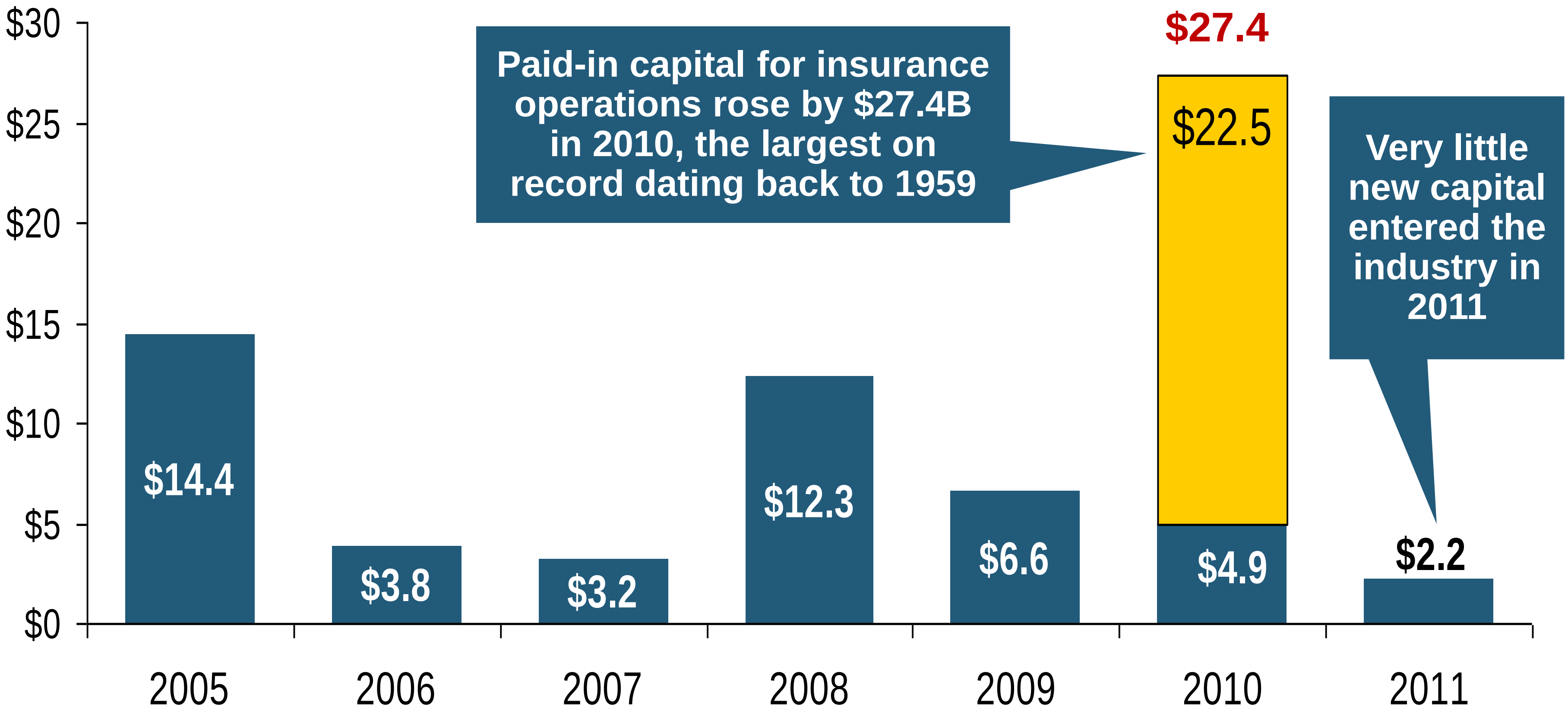
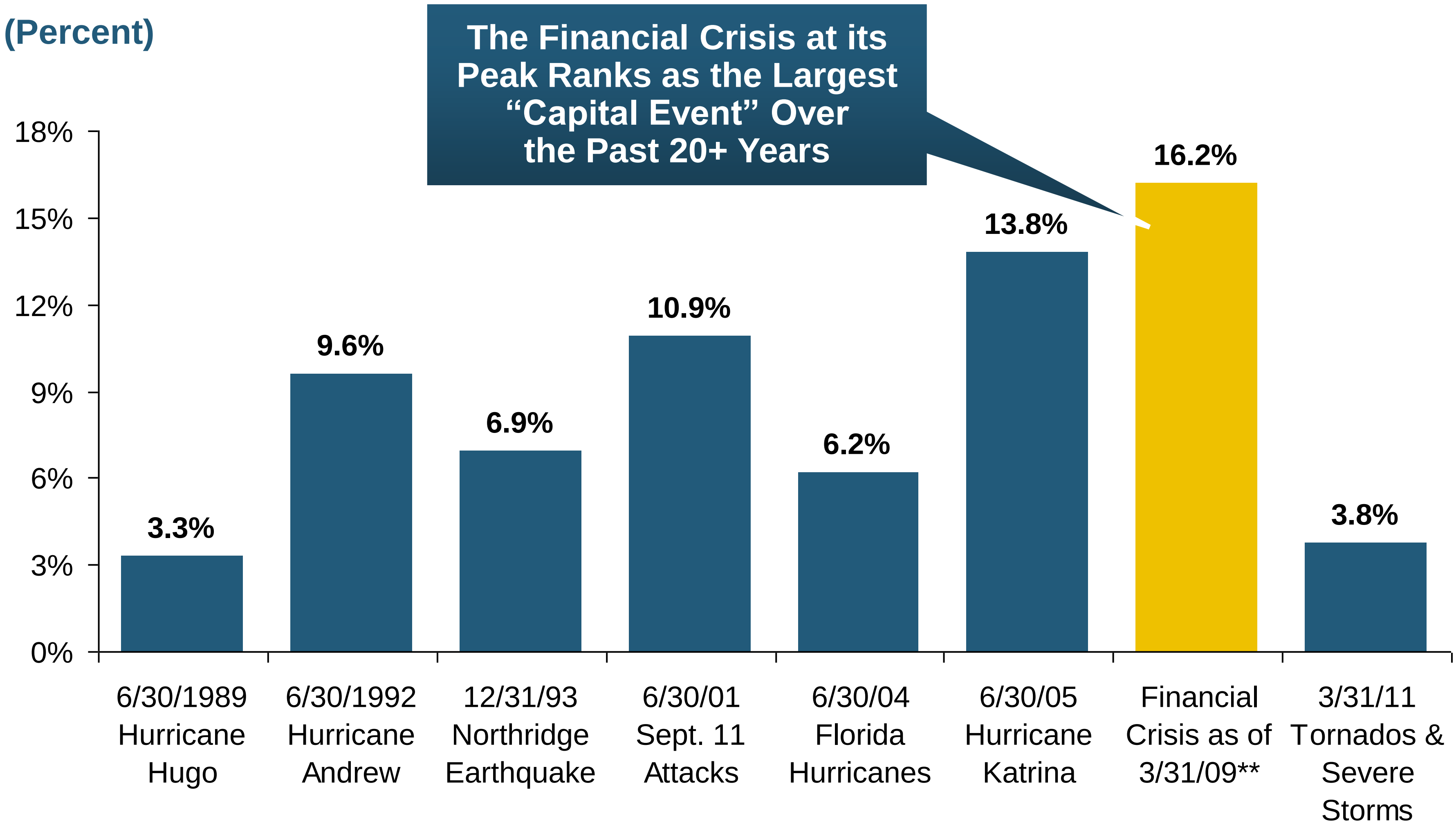
($ Billions)



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

Source: ISO; Insurance Information Institute.

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

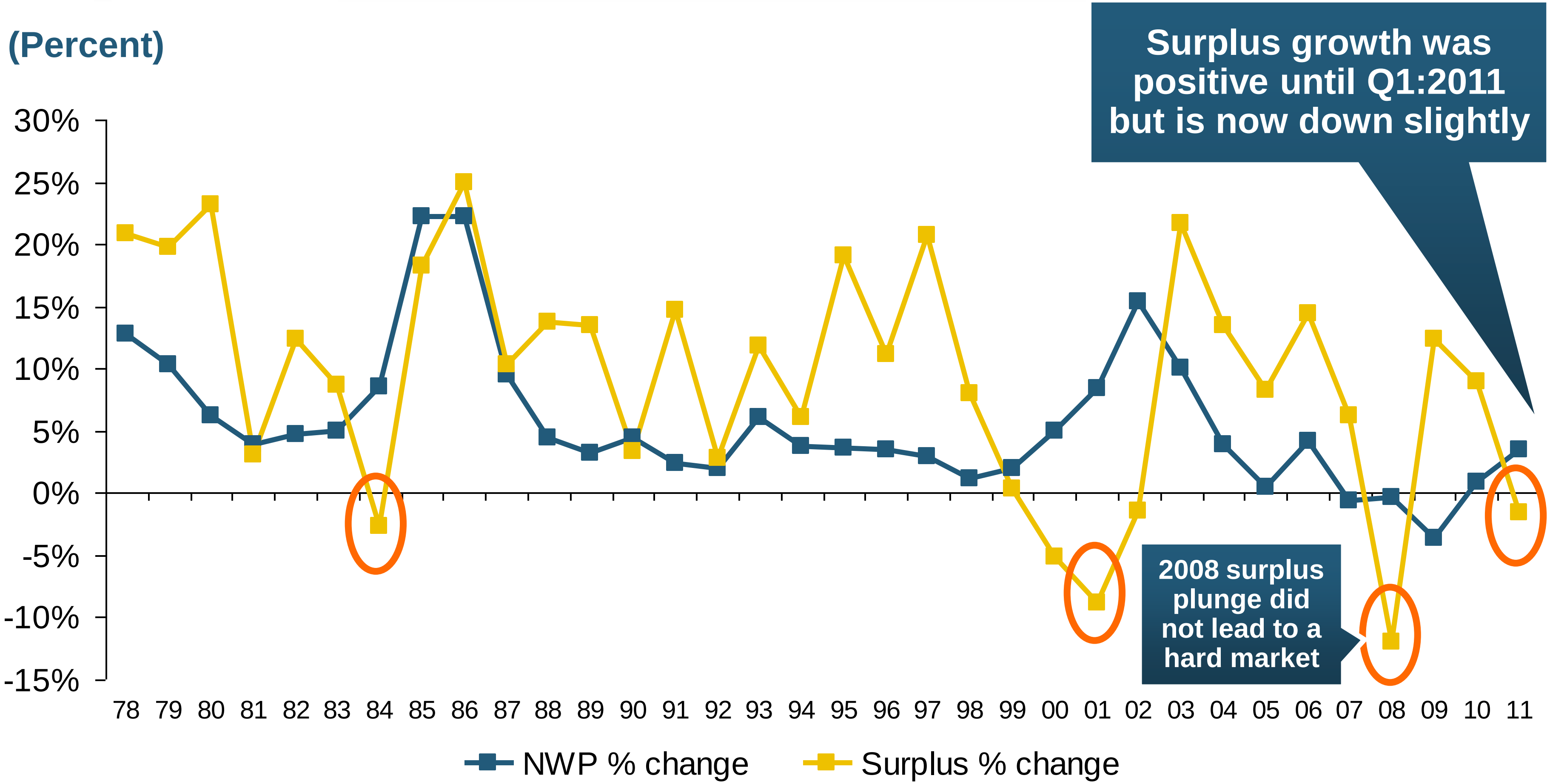


* Ratio is for end-of-quarter surplus immediately after the event. Date shown is end of quarter prior to event

** Date of maximum capital erosion; As of 9/30/09 (latest available) ratio = 5.9%

Source: PCS; Insurance Information Institute

Historically, Hard Markets Follow When Surplus "Growth" is Negative*

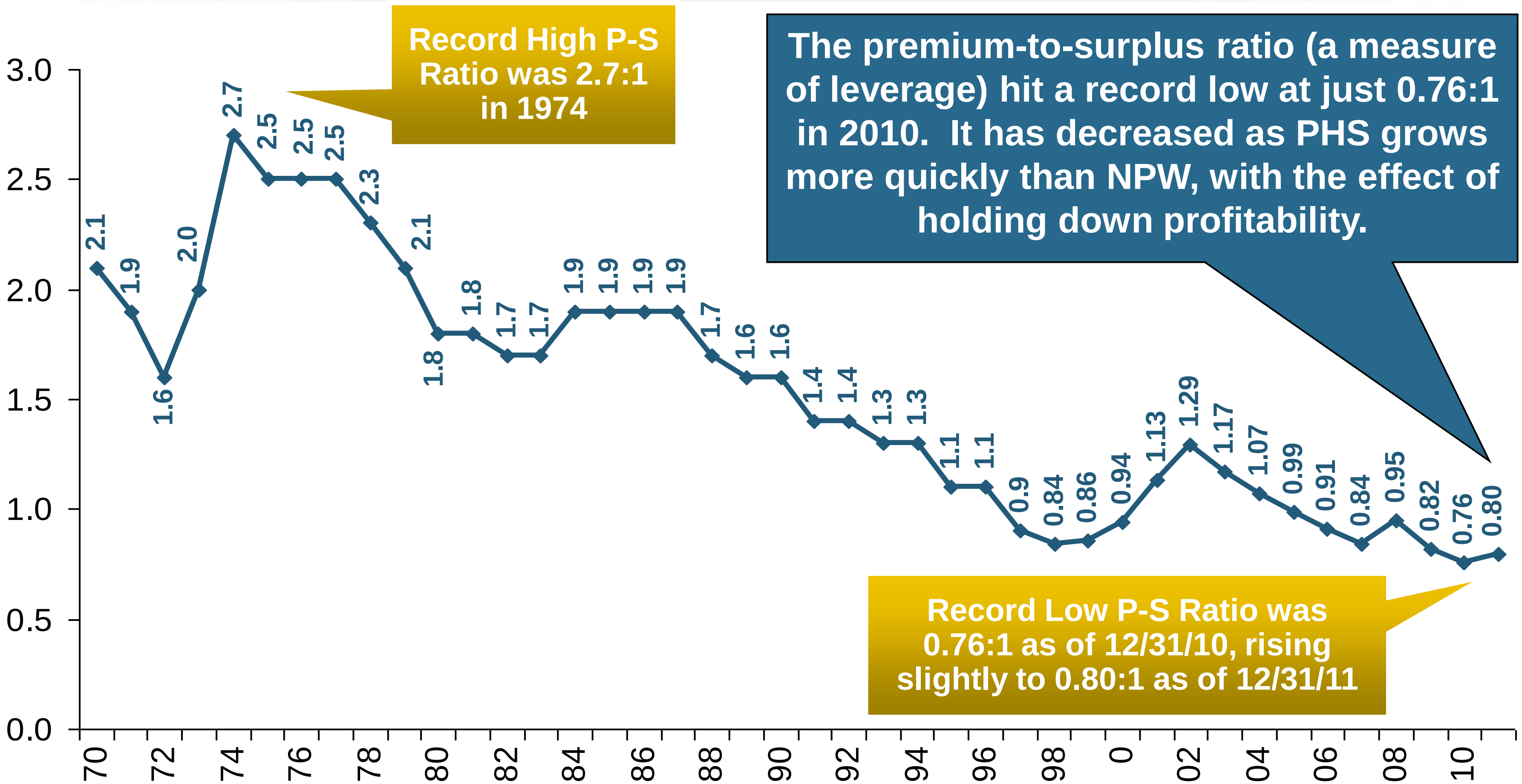


Sharp Decline in Capacity is a Necessary but Not Sufficient Condition for a True Hard Market

* 2011 NWP and Surplus figures are % changes as of Q4:11 vs. Q4:10.

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

Ratio of Net Premiums Written to Policyholder Surplus, 1970-2011*



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.

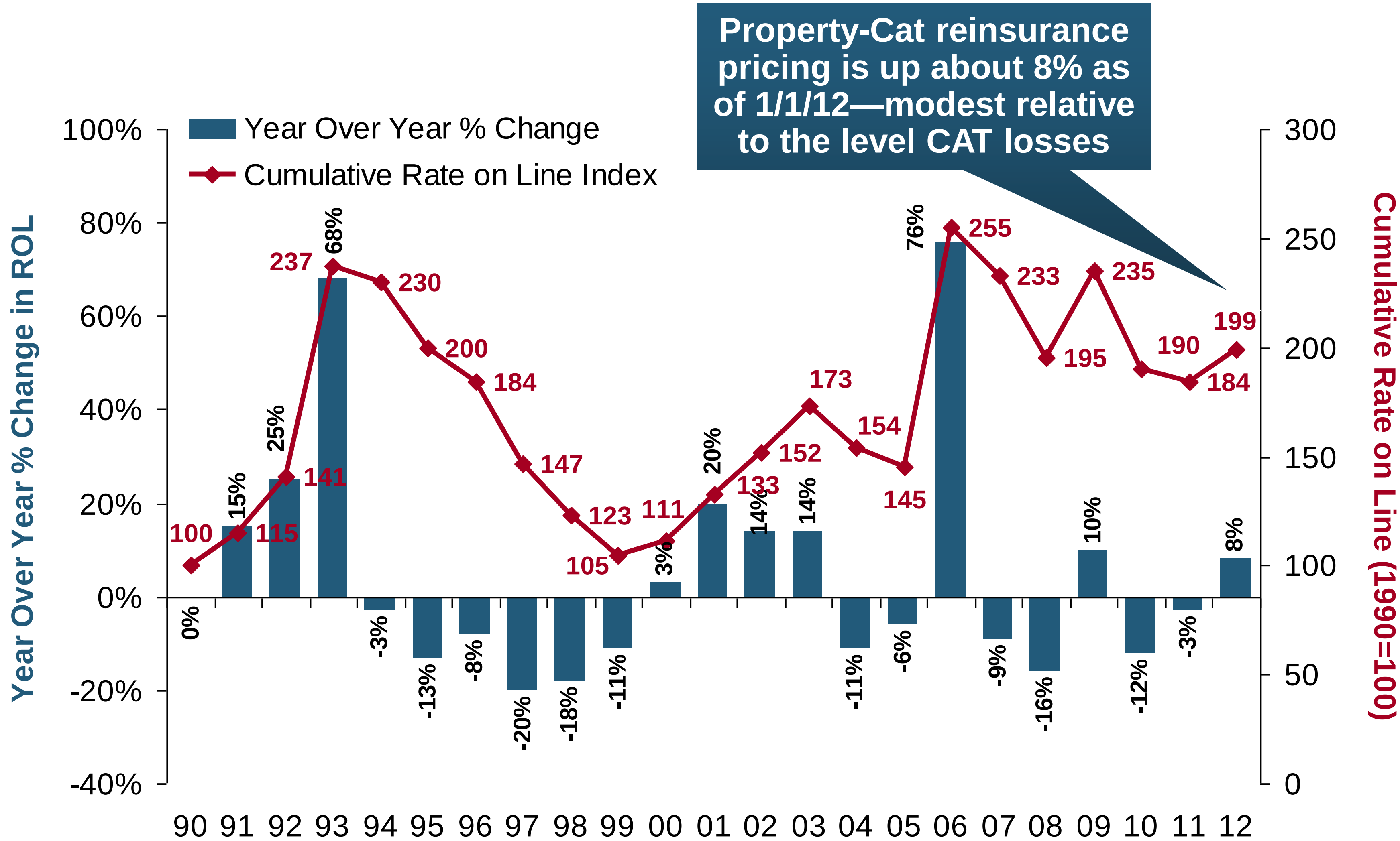
*2011 data are as of 12/31/11.

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)



Sources: Guy Carpenter; Insurance Information Institute.

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

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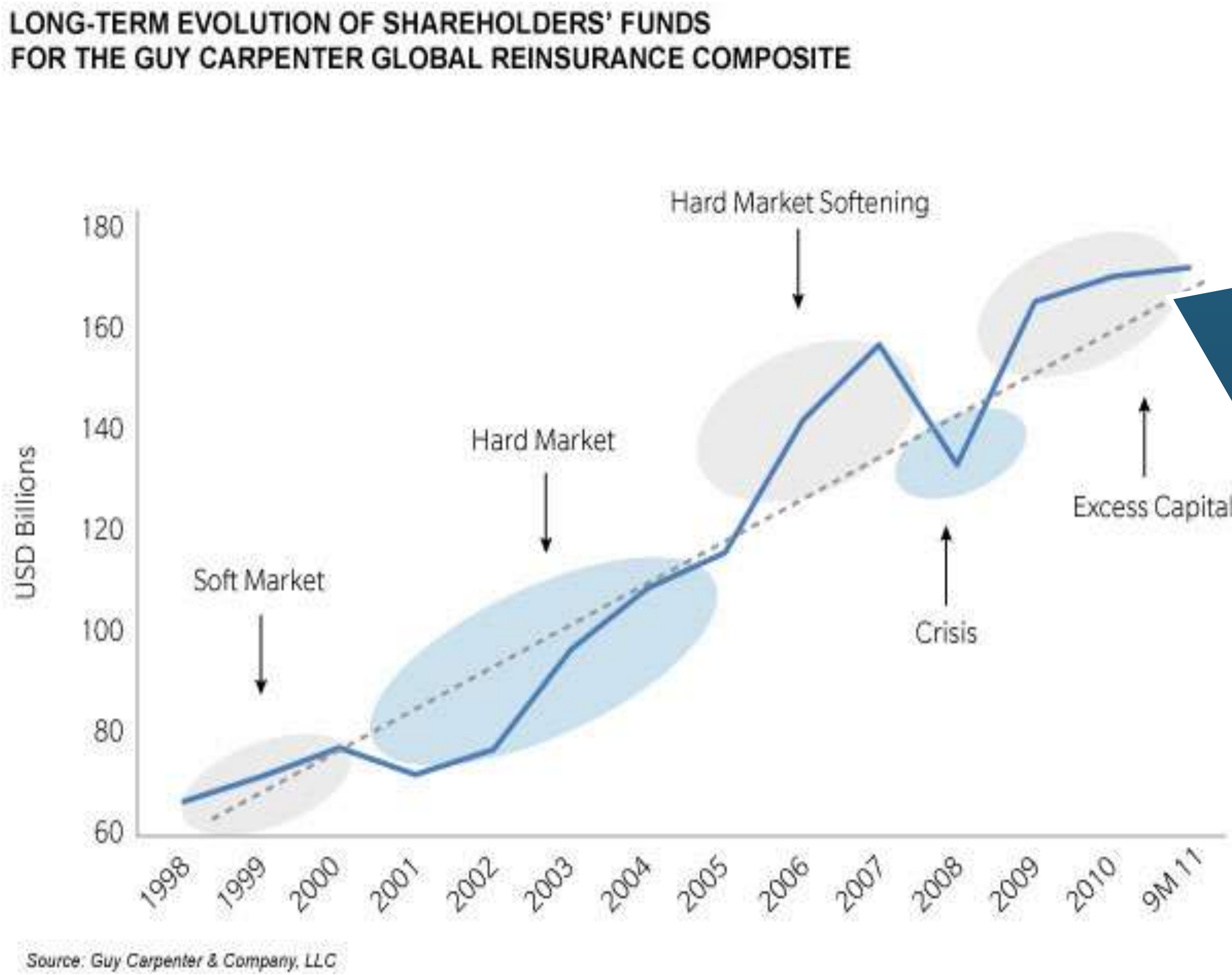
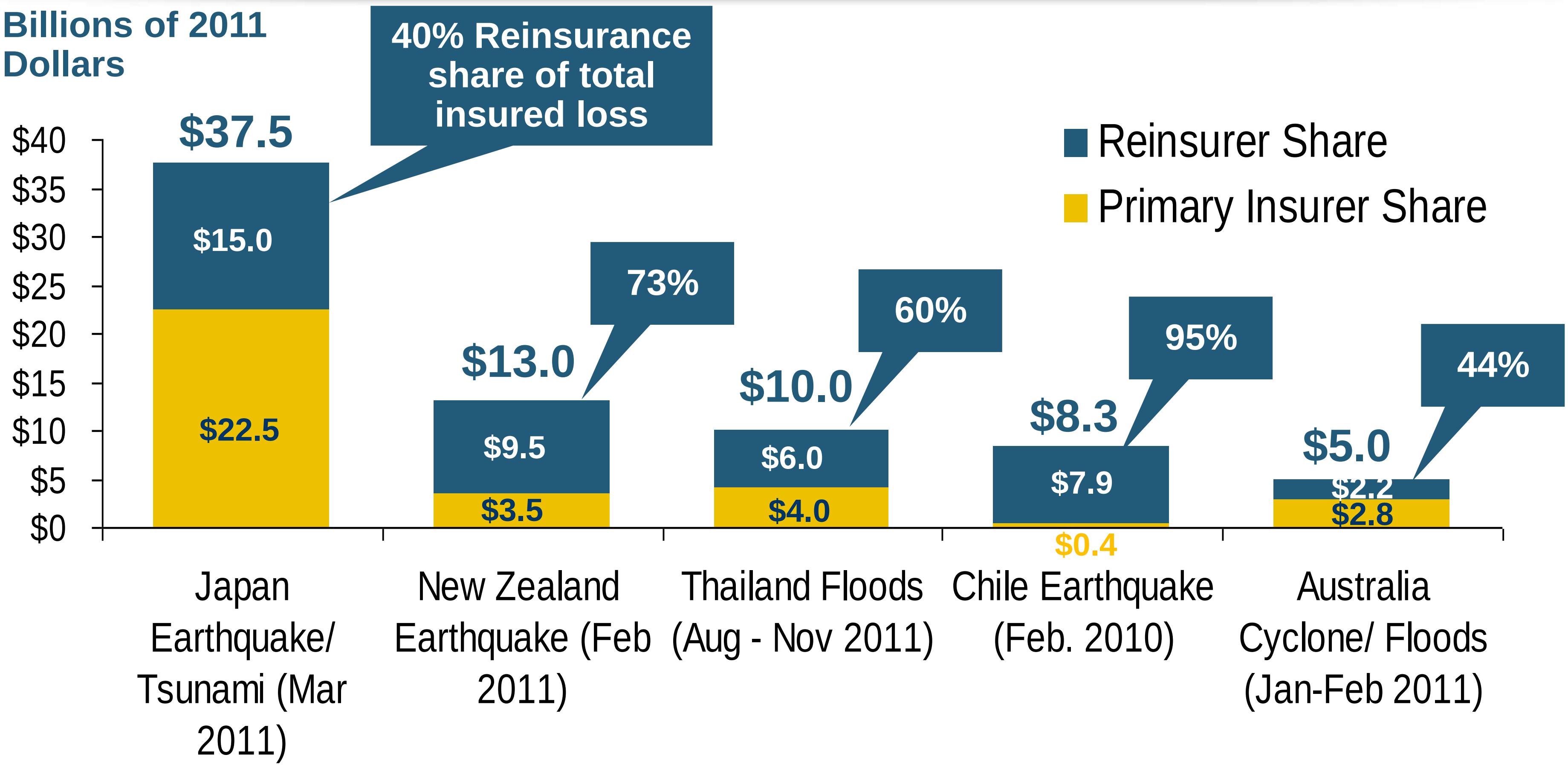


Most excess reinsurance capacity was removed from the market in 2011, but there does not appear to be a shortage, leading to modest increases in 2012 reinsurance renewals except in areas hit hard by CATs.

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

Reinsurer Share of Recent Significant Market Losses



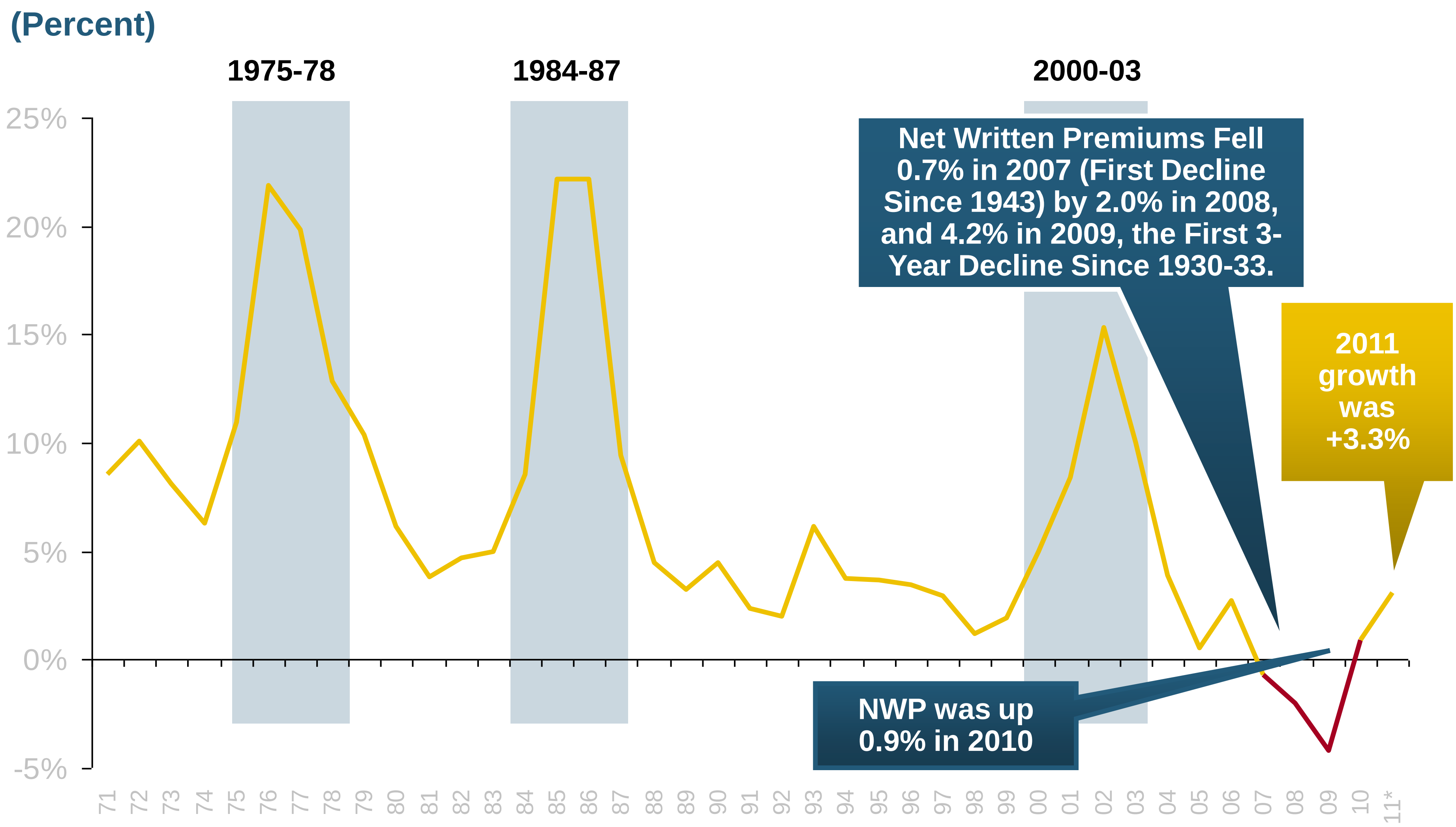
Reinsurers Paid a High Proportion of Insured Losses Arising from Major Catastrophic Events Around the World in Recent Years

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

4. RENEWED PRICING DISCIPLINE

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

Premium Growth Is Up Modestly: More in 2012?



Shaded areas denote "hard market" periods
Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute.

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

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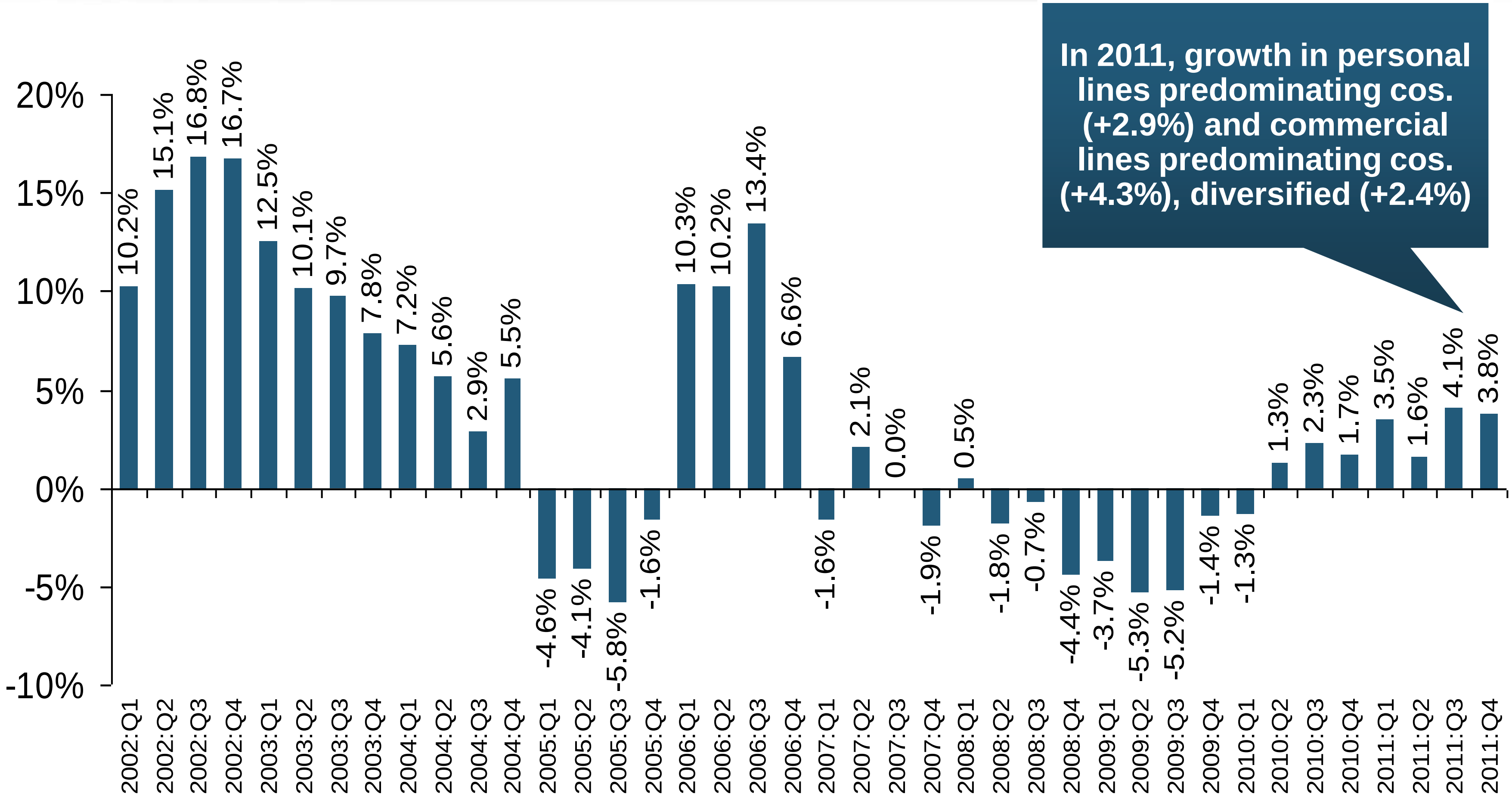
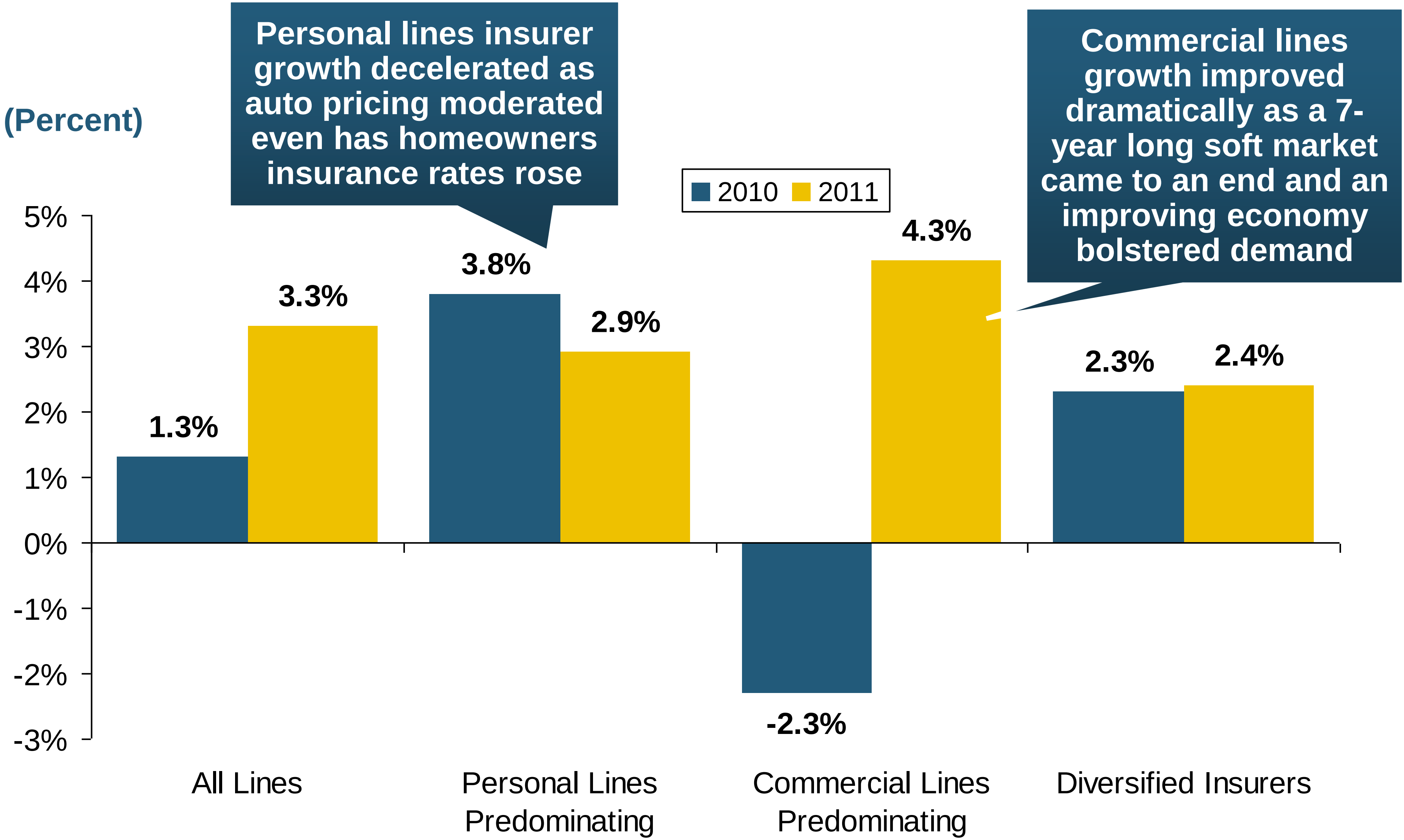


Finally! Back-to-back quarters of net written premium growth (vs. the same quarter, prior year)

Sources: ISO, Insurance Information Institute.

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



Source: ISO/PCI; Insurance Information Institute

Monthly Change* in Auto Insurance Prices, 1991–2012*

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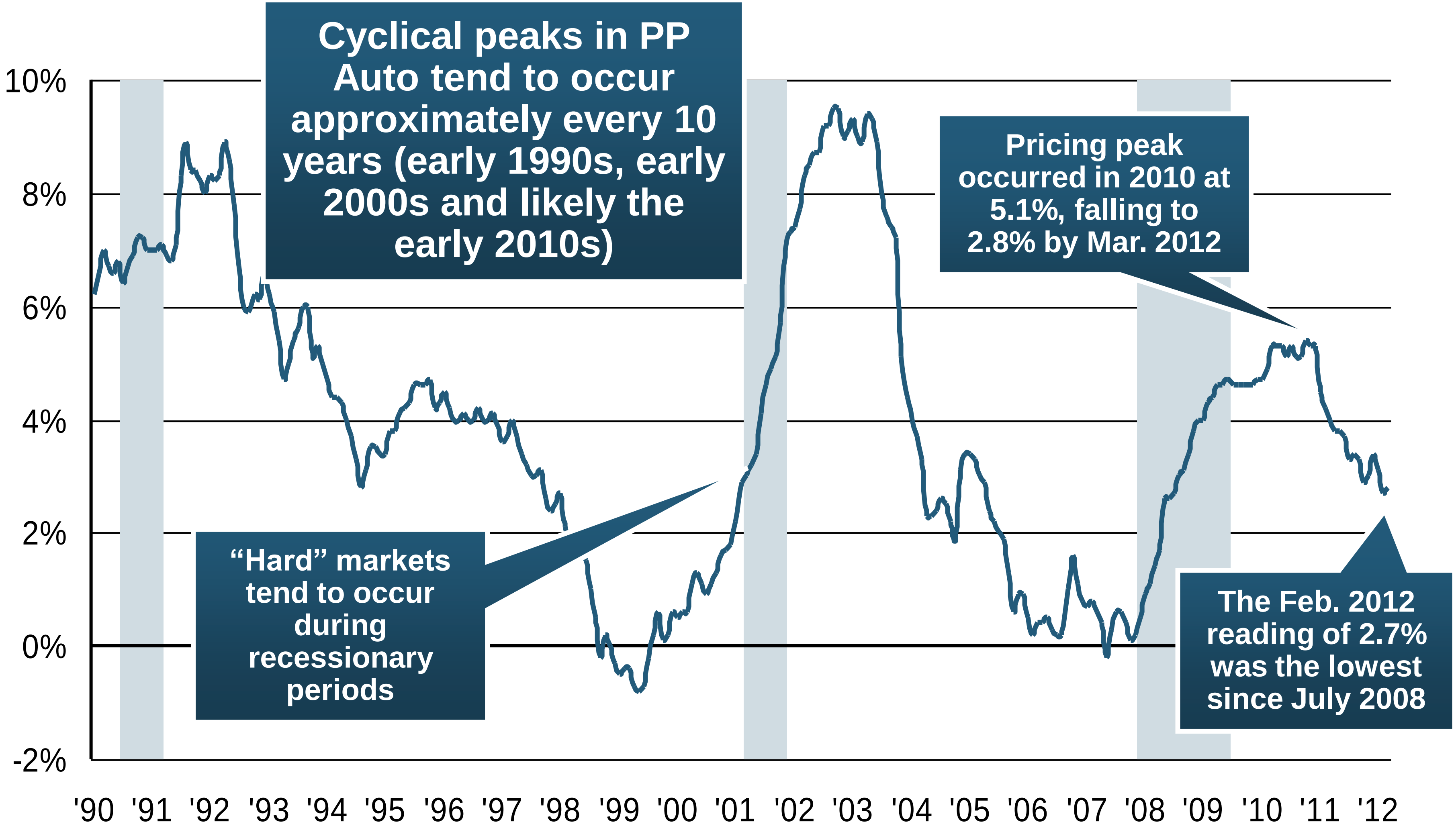
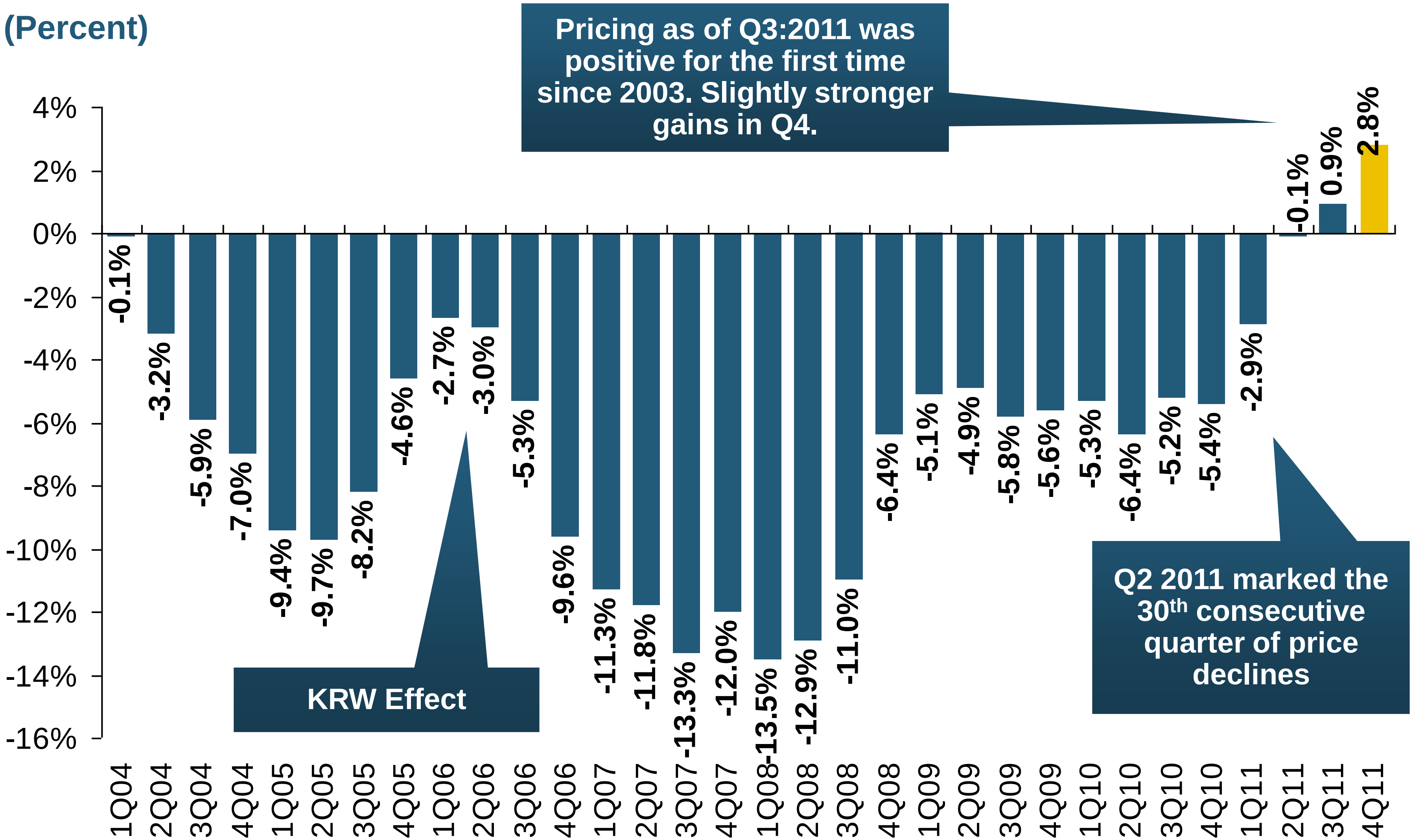


*Percentage change from same month in prior year; through March 2012; seasonally adjusted

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)



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

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

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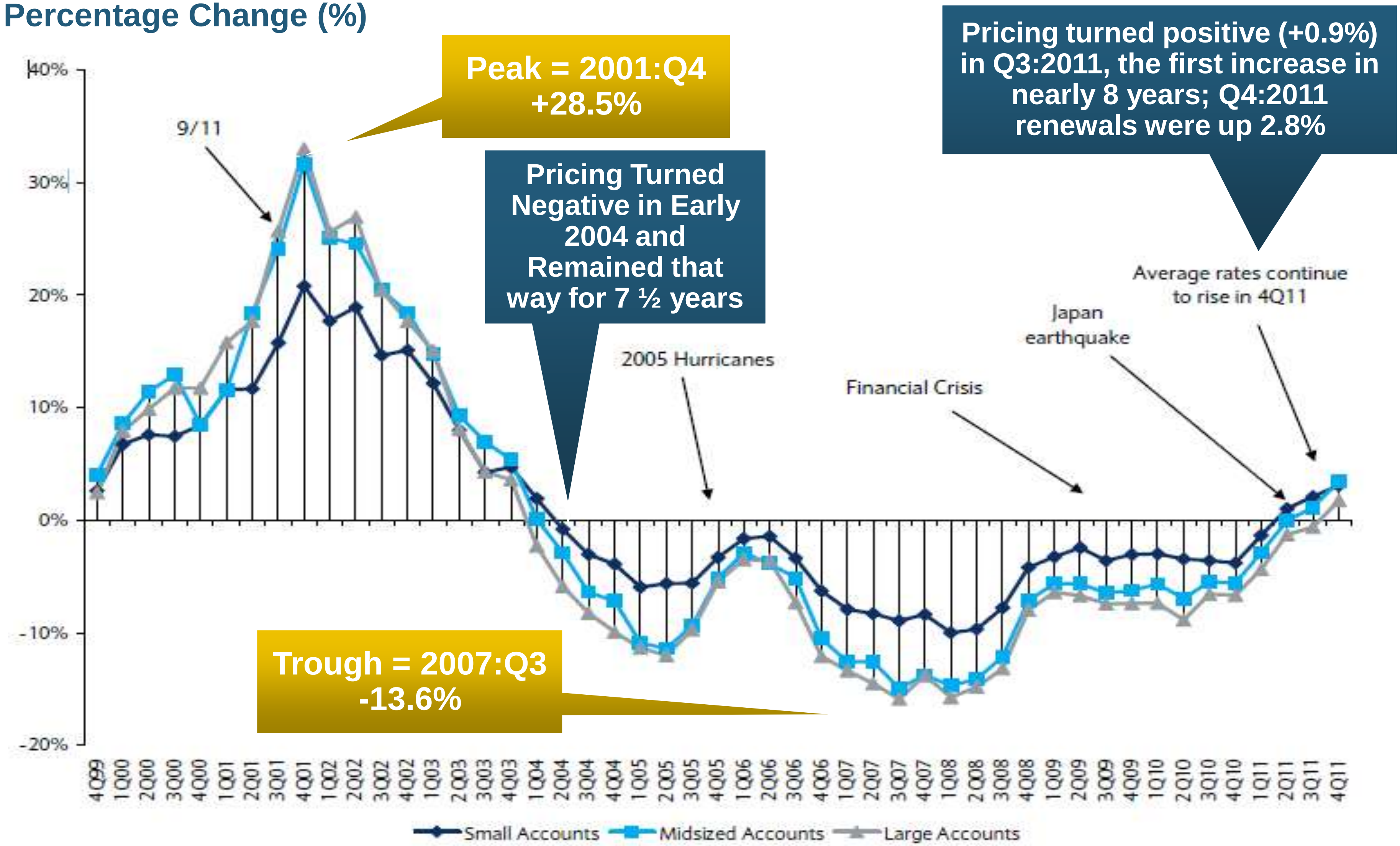

Source: Council of Insurance Agents and Brokers; Barclay's Capital; Insurance Information Institute.

Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2011:Q4

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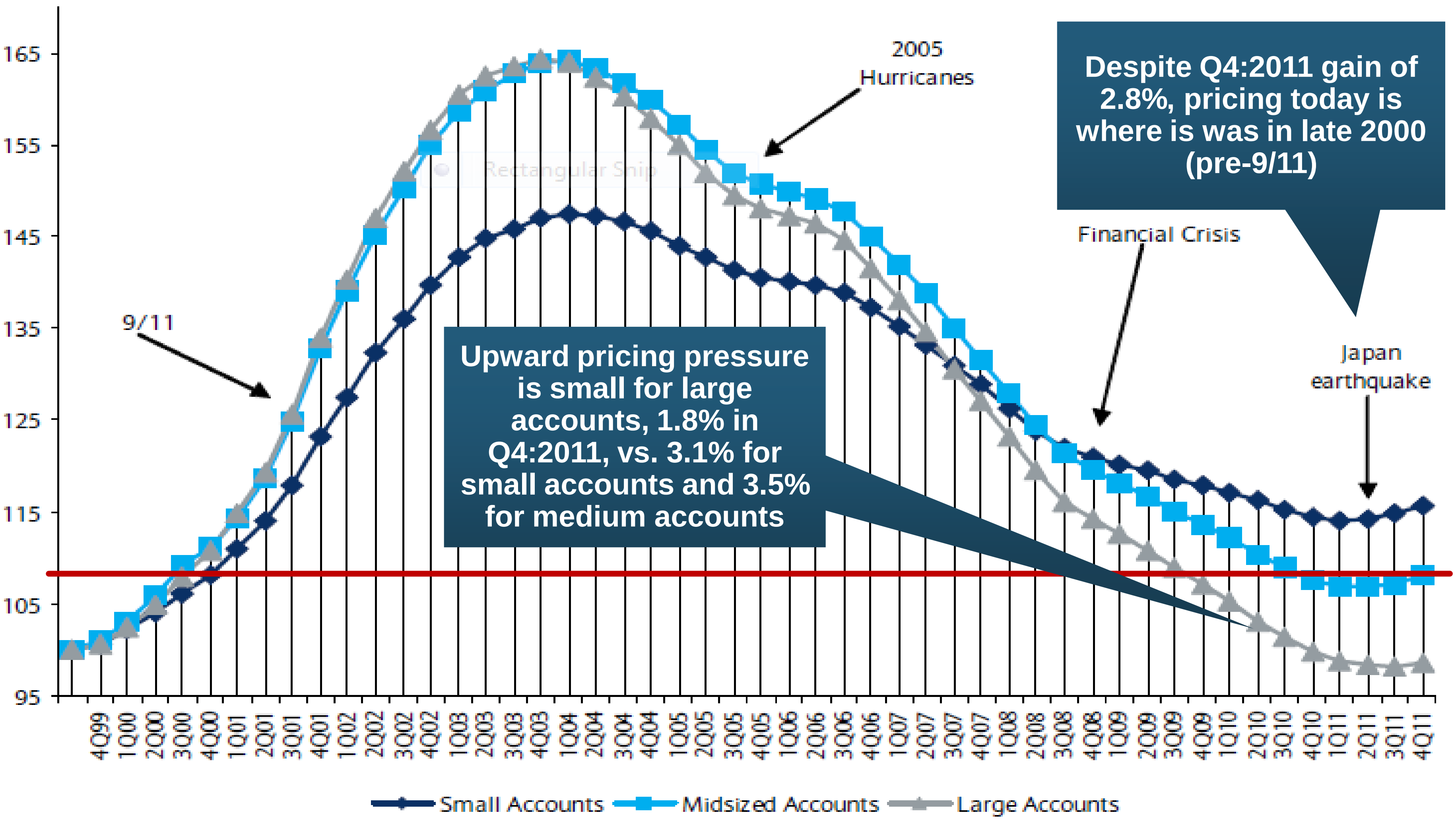
1999:Q4 = 100



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

Global Reinsurance Capital, 2007-2011:H1

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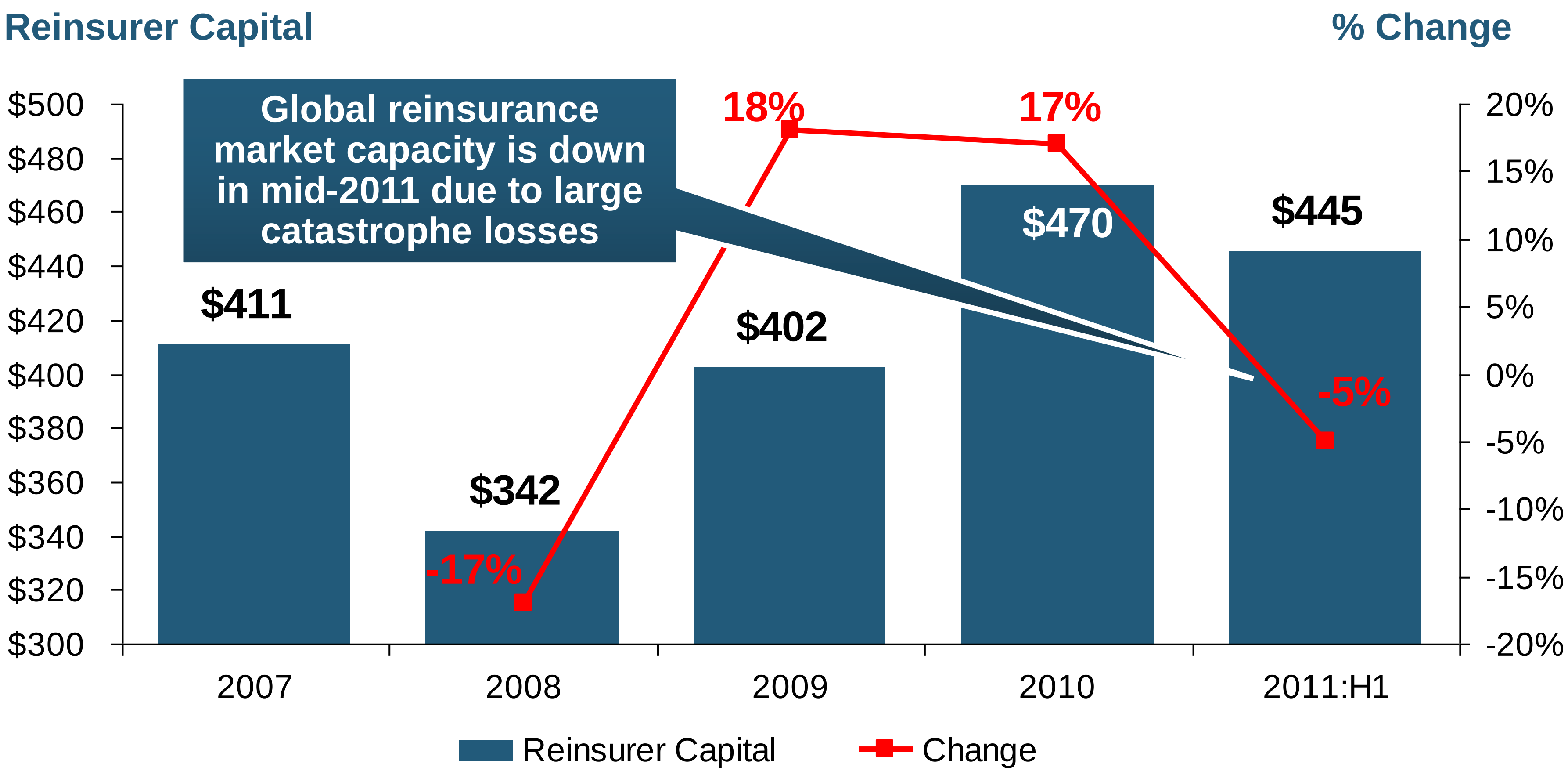
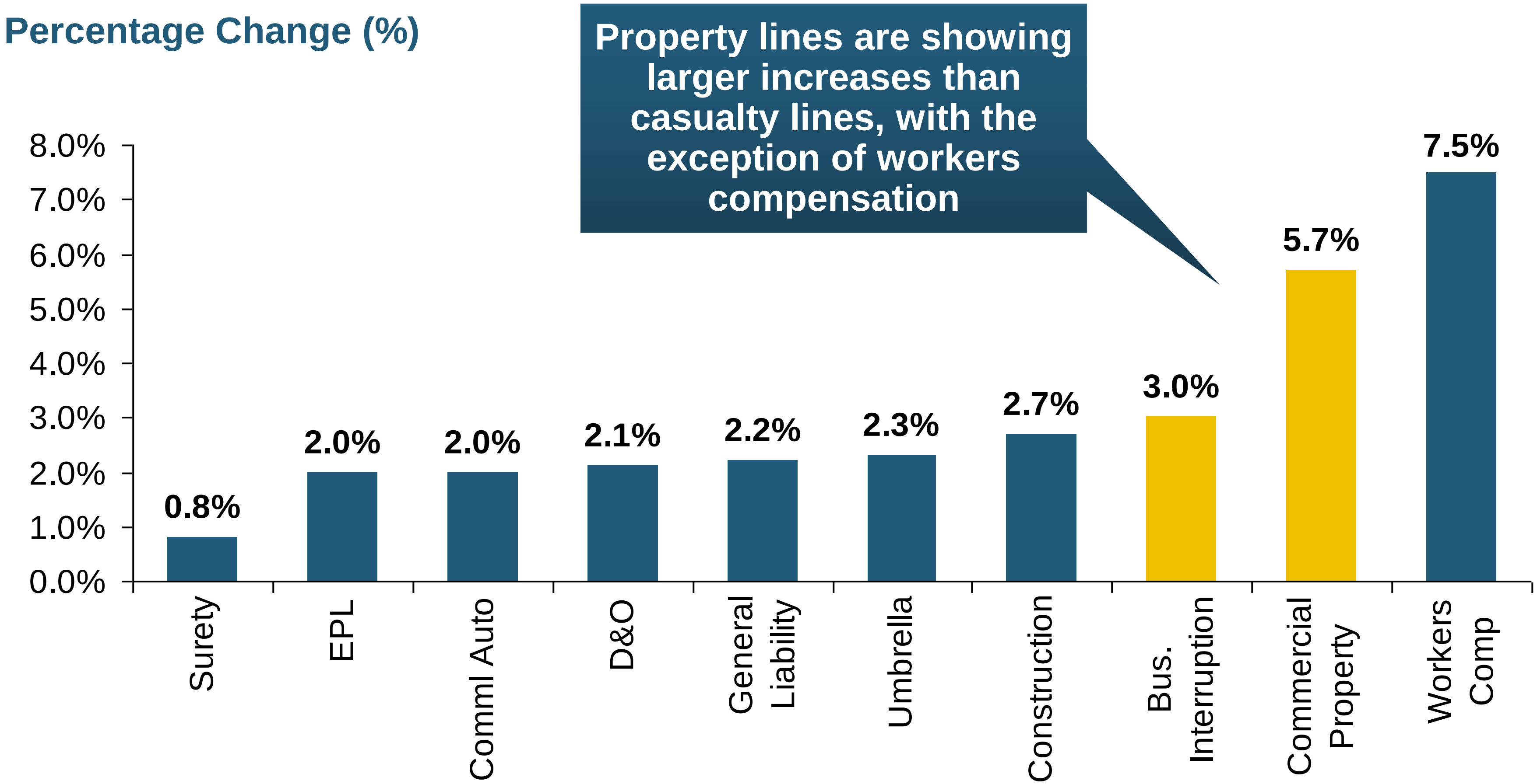


High Global Catastrophe Losses Have Had a Modest Adverse Impact on Global Reinsurance Market Capacity

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.

Cost of Risk vs. Commercial Lines Combined Ratio

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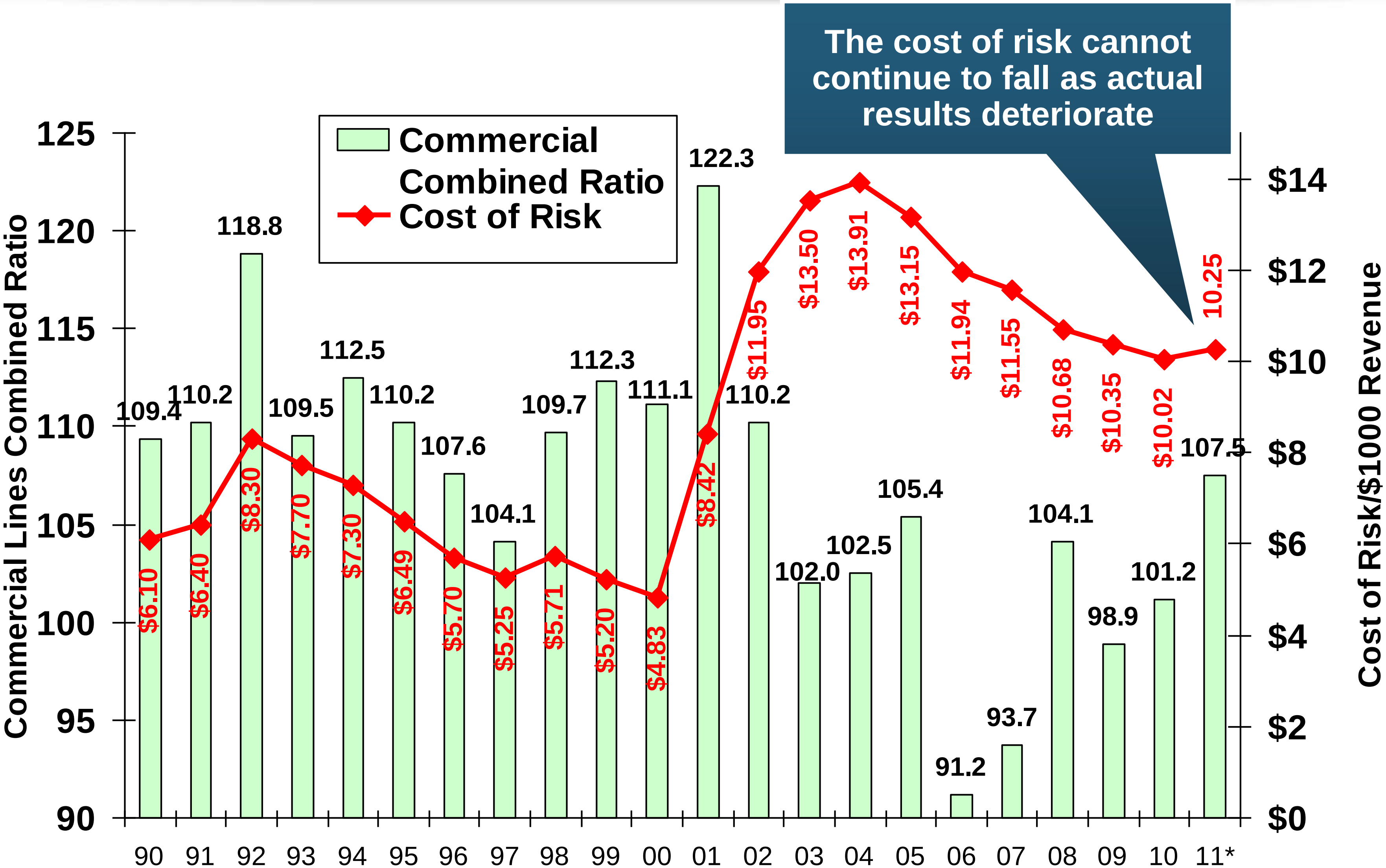

*Insurance Information Institute estimates for 2011.

Source: 2011 RIMS Benchmark Survey; A.M. Best; Insurance Information Institute

How the Risk Dollar is Spent (2011)

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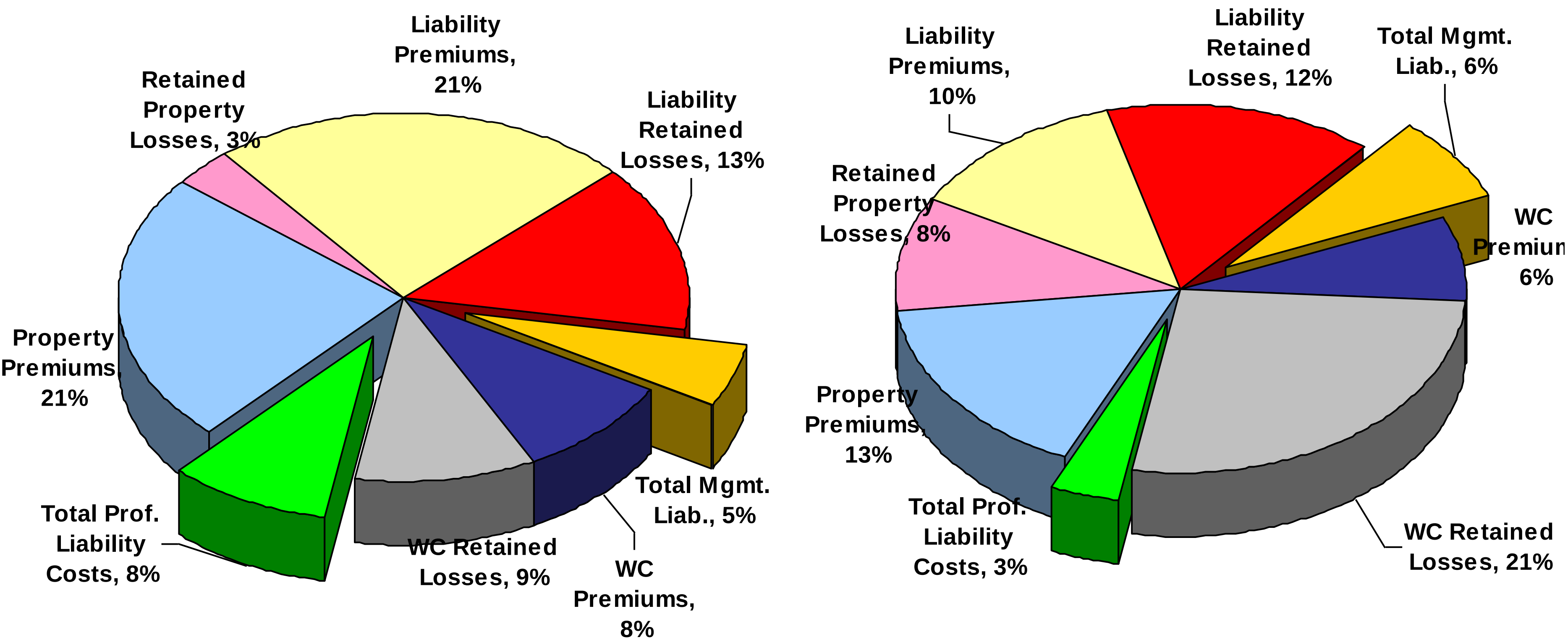
Management & Professional Liability Costs Account for 9% - 13% of the Risk Dollar

Firms w/Revenues < $1 Billion

Firms w/Revenues > $1 Billion



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

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

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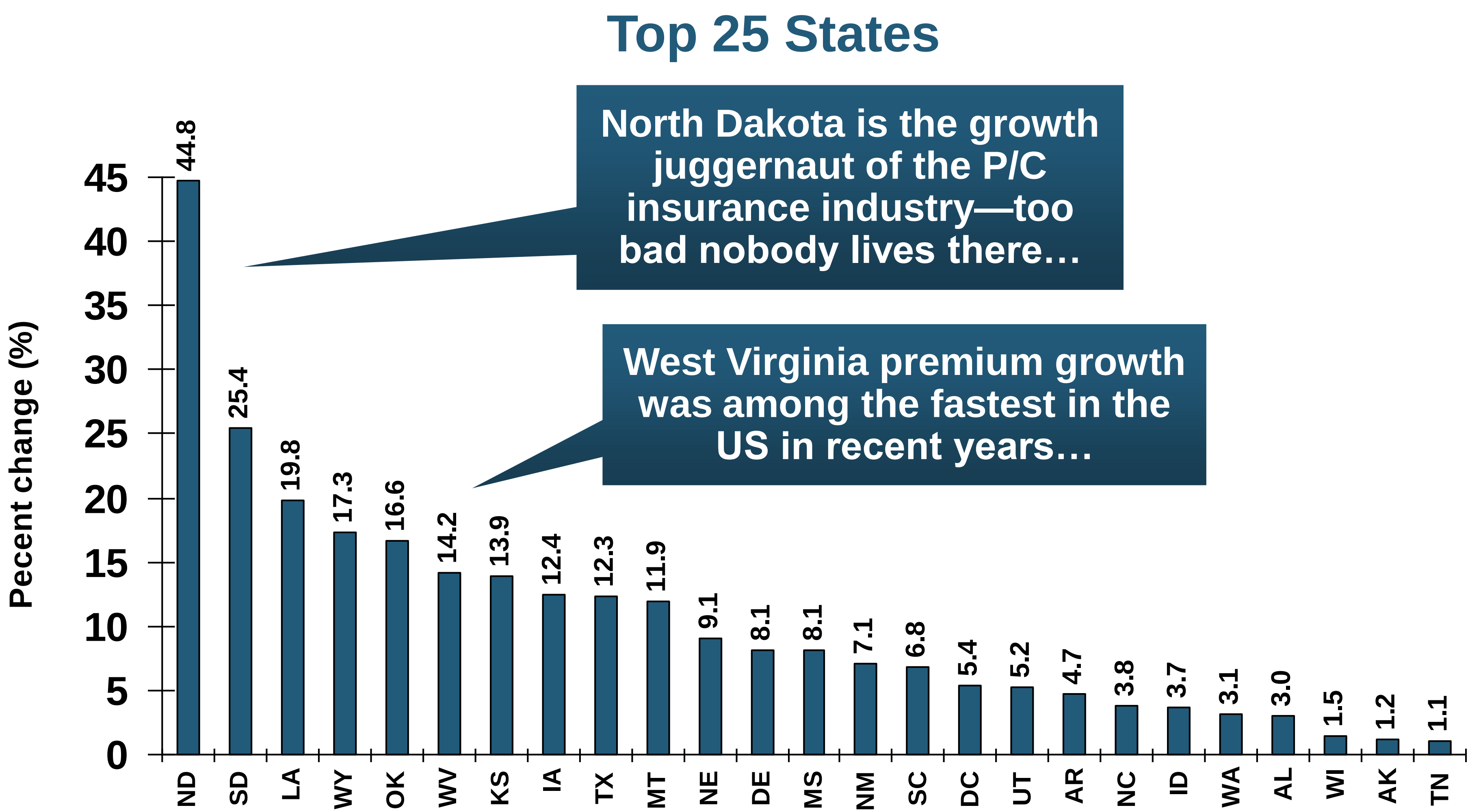
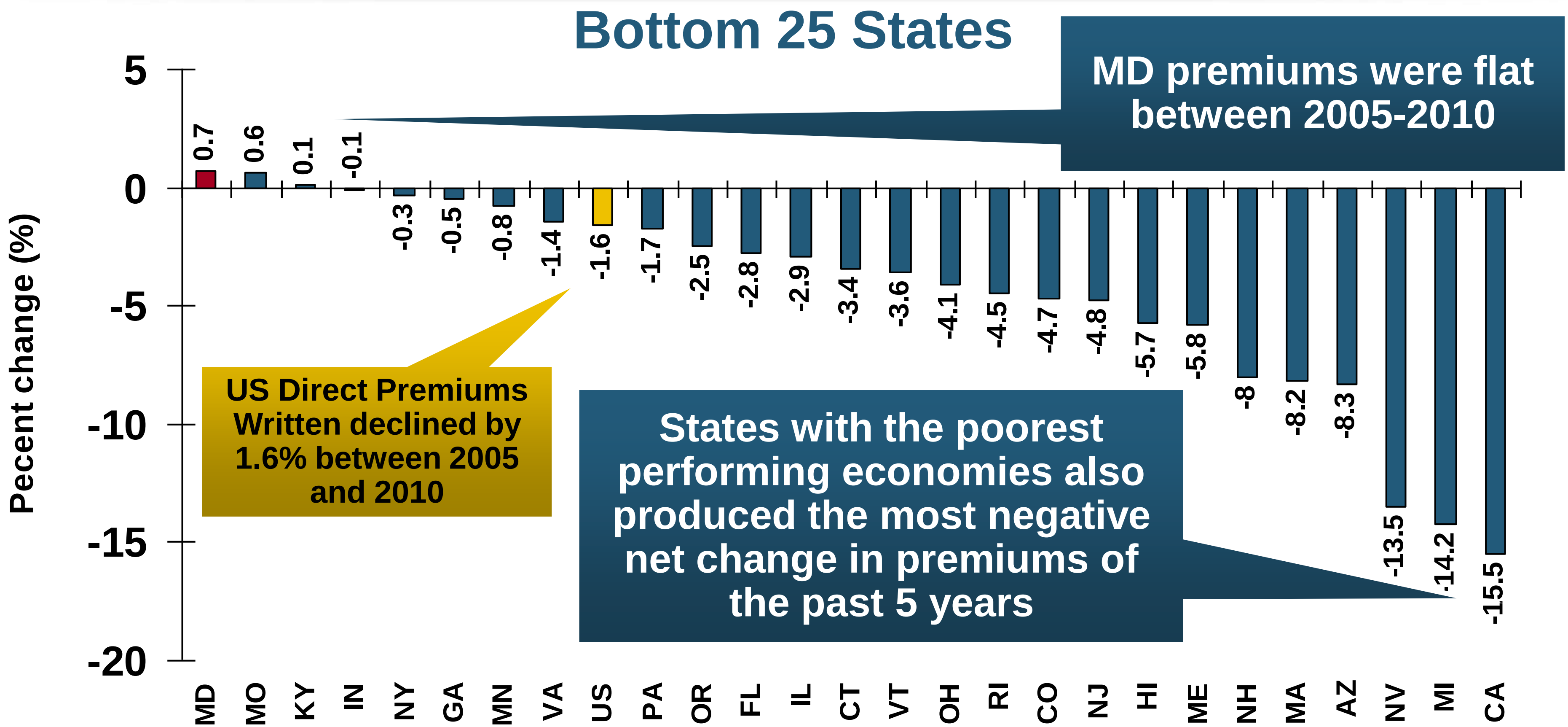


Sources: SNL Financial LC.; Insurance Information Institute.

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



Sources: SNL Financial LC; Insurance Information Institute.

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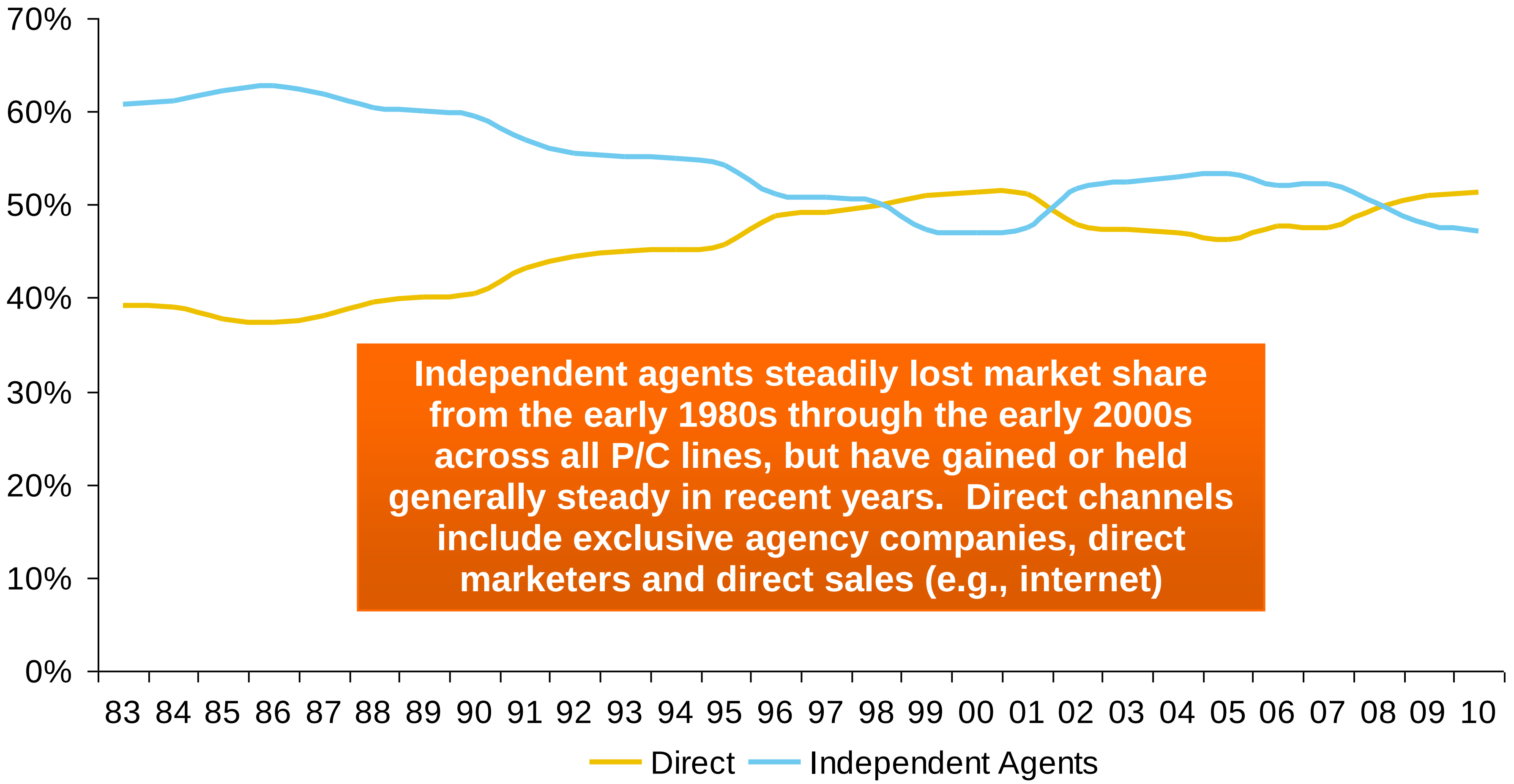
Distribution Trends

Distribution by Channel Type Continues to Evolve

All P/C Lines Distribution Channels, Direct vs. Independent Agents



Source: Insurance Information Institute; based on data from Conning and A.M. Best.

Personal Lines Distribution Channels, Direct vs. Independent Agents

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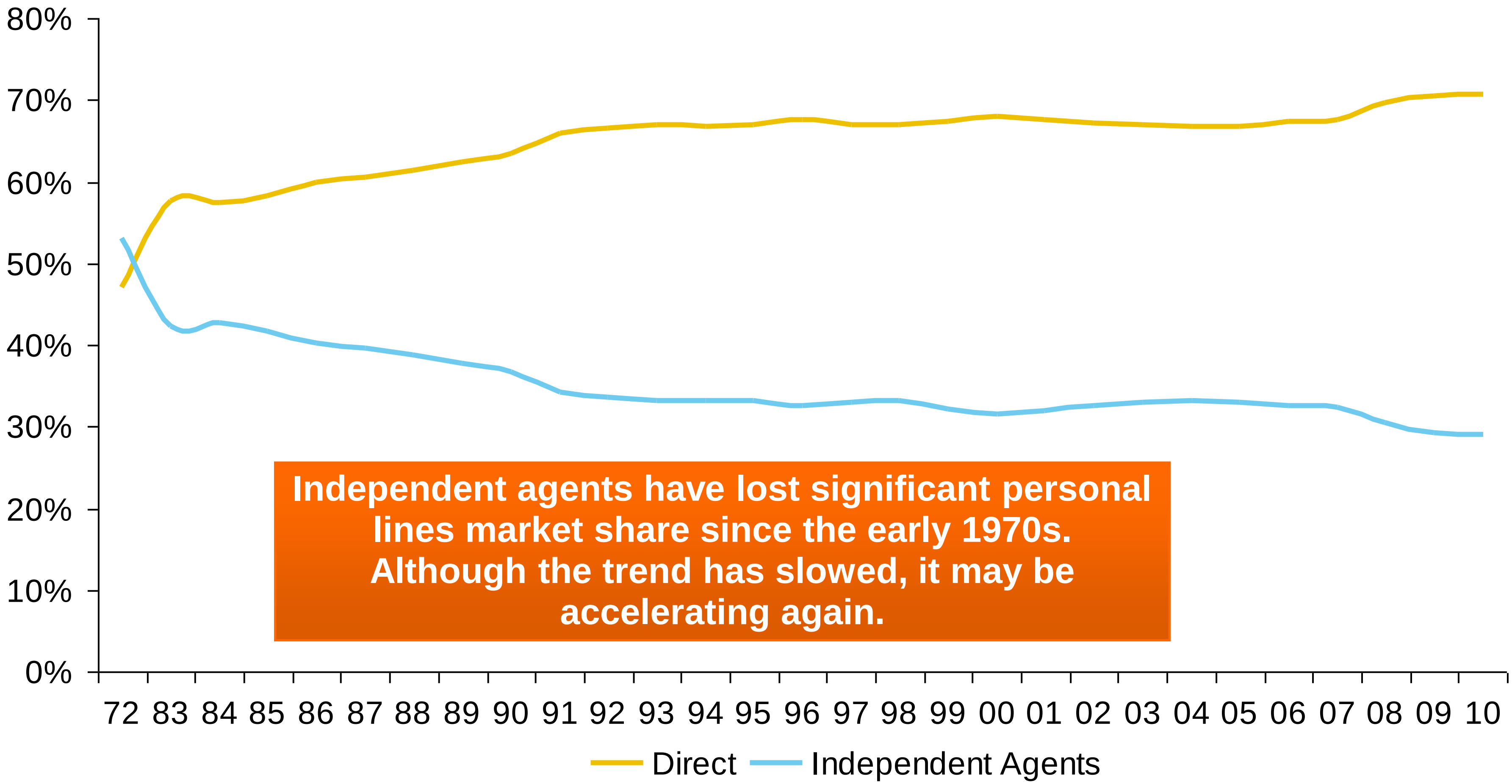

Source: Insurance Information Institute; based on data from Conning and A.M. Best.

Commercial P/C Distribution Channels, Direct vs. Independent Agents

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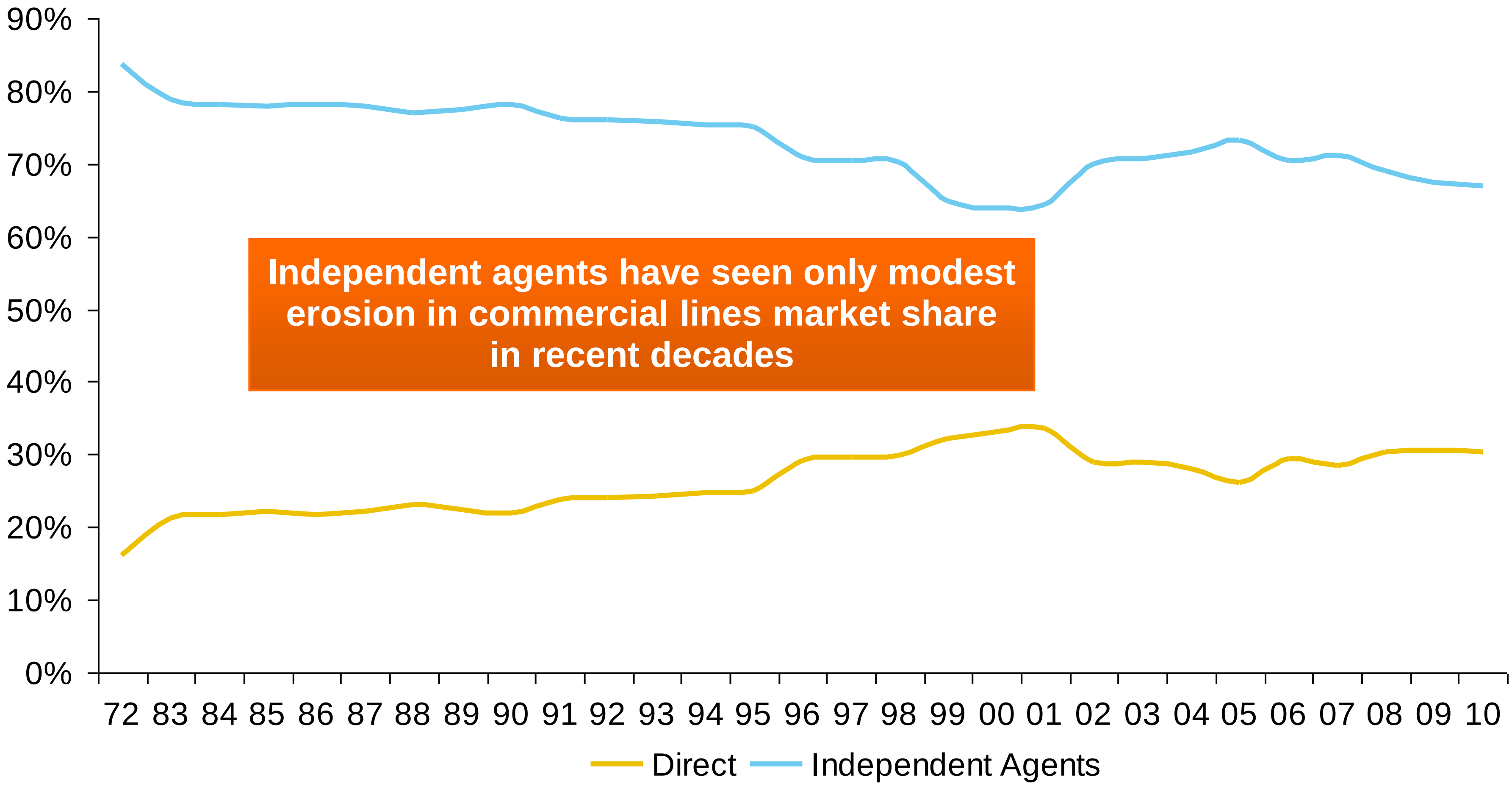

Source: Insurance Information Institute; based on data from Conning and A.M. Best.

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

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

Property/Casualty Insurance Industry Investment Income: 2000–2013F[1]

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

[1] Investment gains consist primarily of interest and stock dividends.
*2012F-201F based on Conning projections.
Sources: ISO; Conning Research & Consulting; Insurance Information Institute.

Property/Casualty Insurance Industry Investment Gain: 1994–2011:Q4[1]

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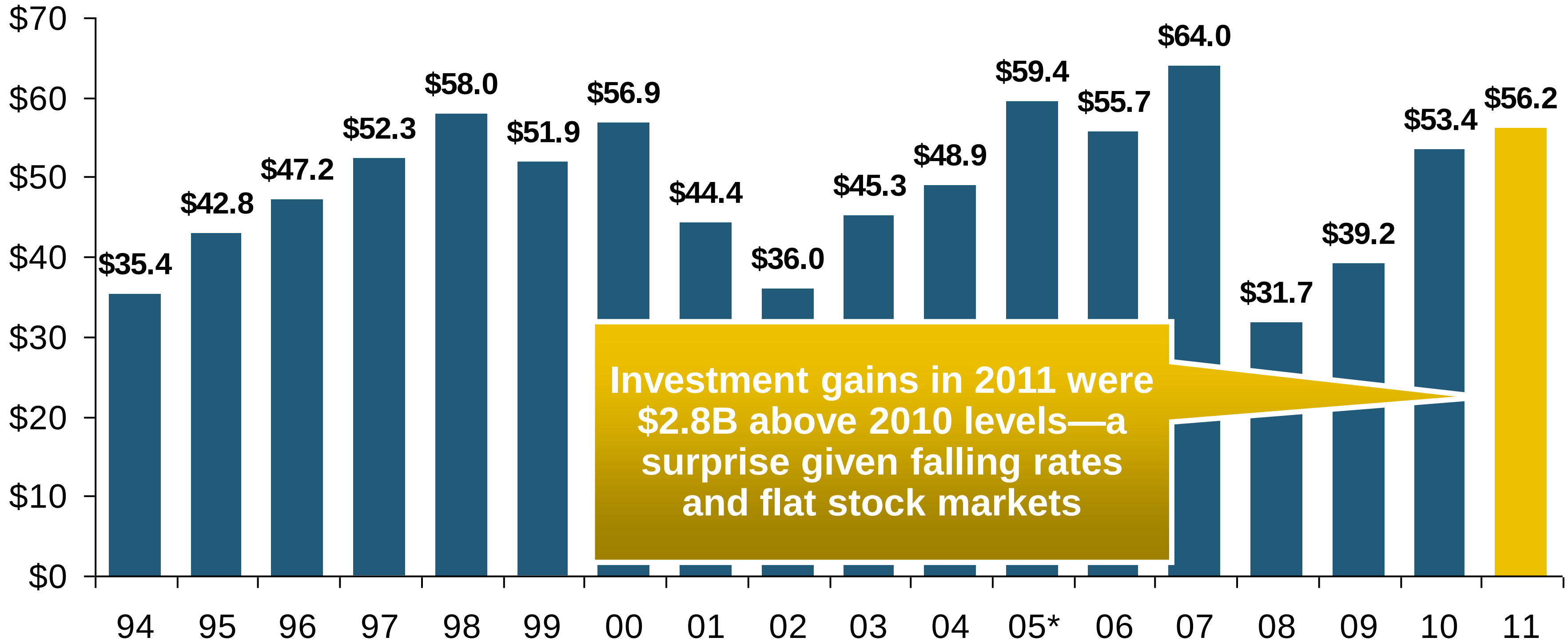
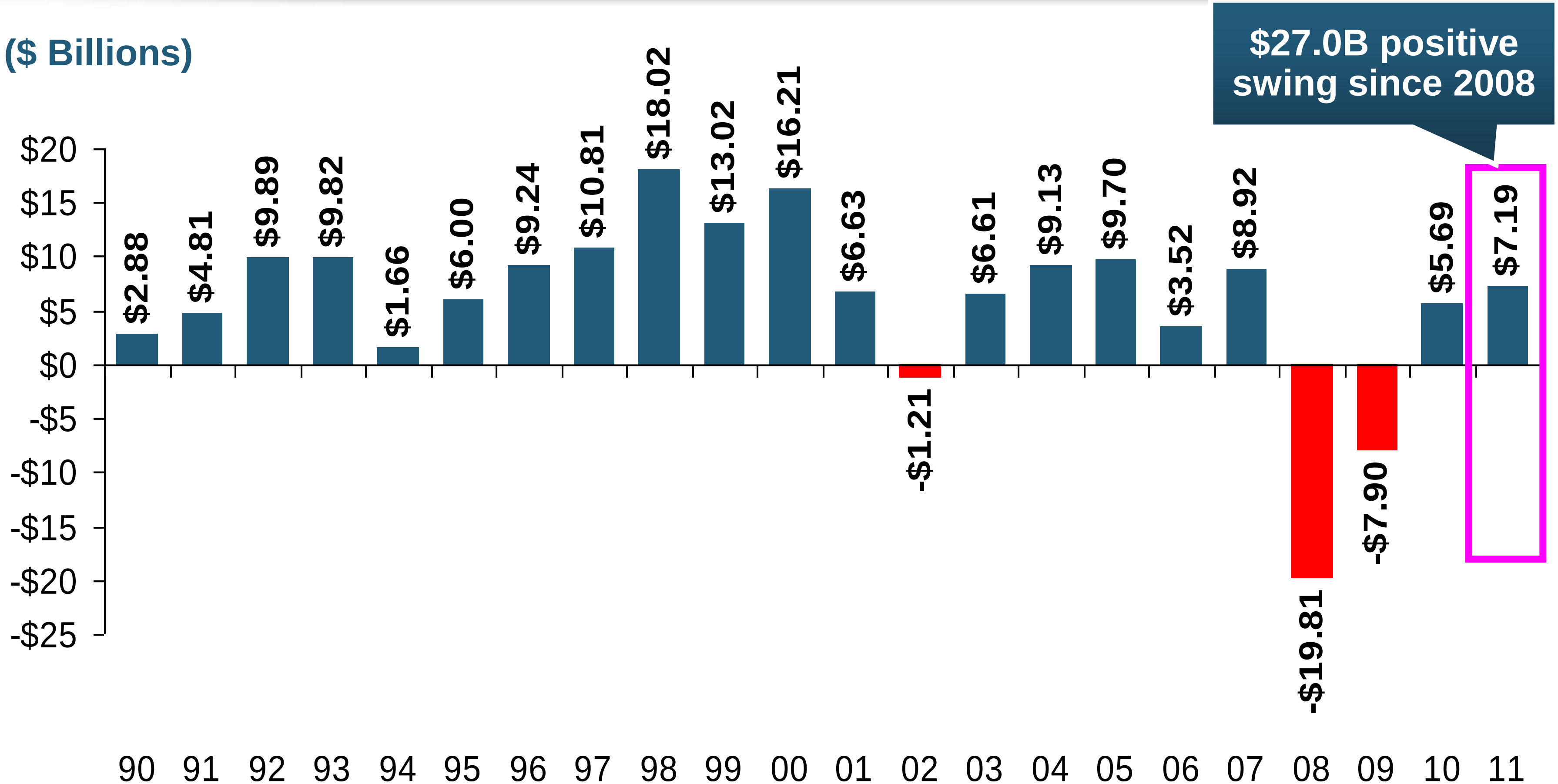
($ Billions)



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.

P/C Insurer Net Realized Capital Gains/Losses, 1990-2011



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

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

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

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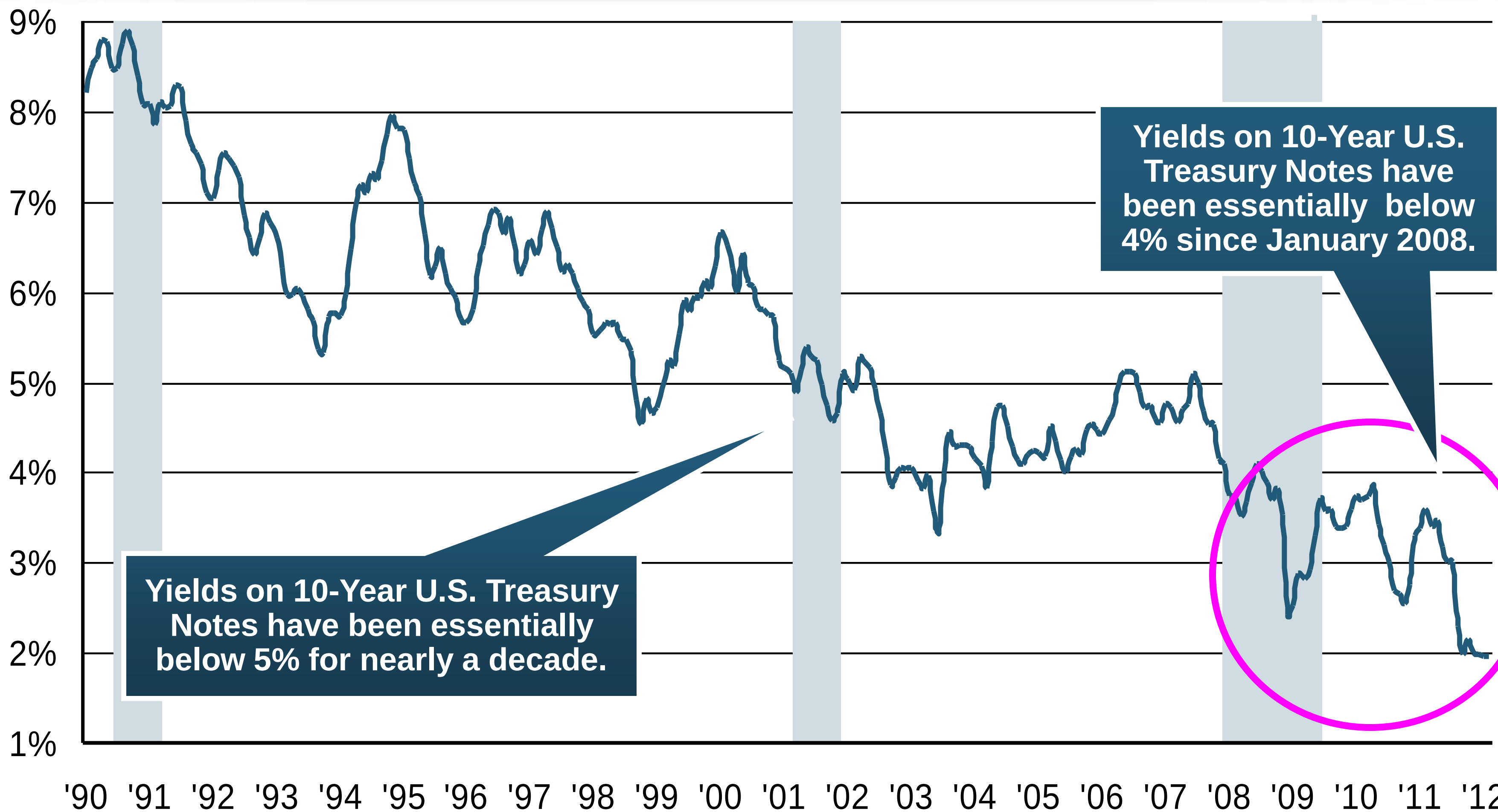
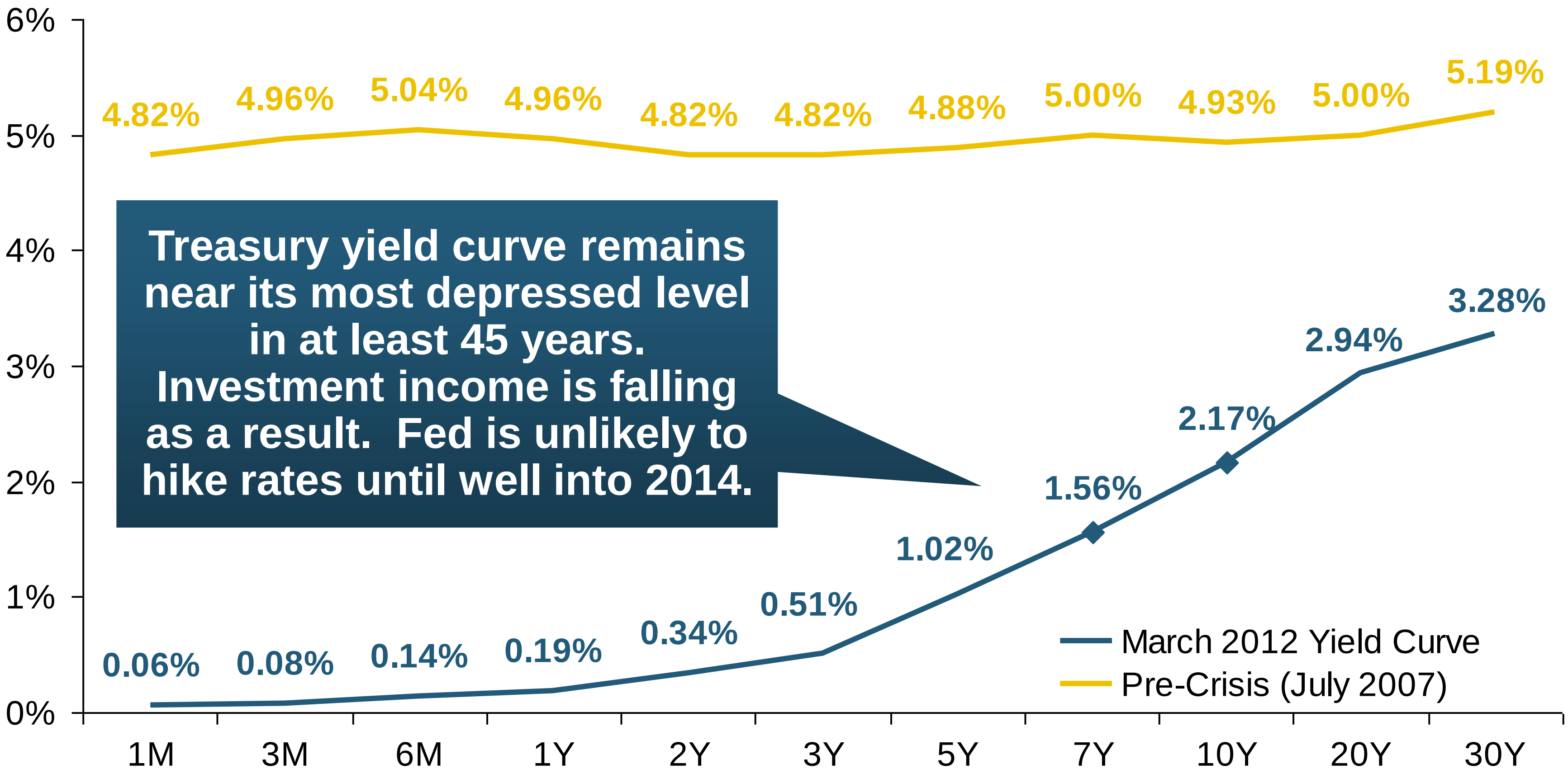


Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

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

Sources: Federal Reserve Bank at http://www.federalreserve.gov/releases/h15/data/Monthly/H15_TCMNOM_Y10.txt
National Bureau of Economic Research (recession dates); Insurance Information Institutes.

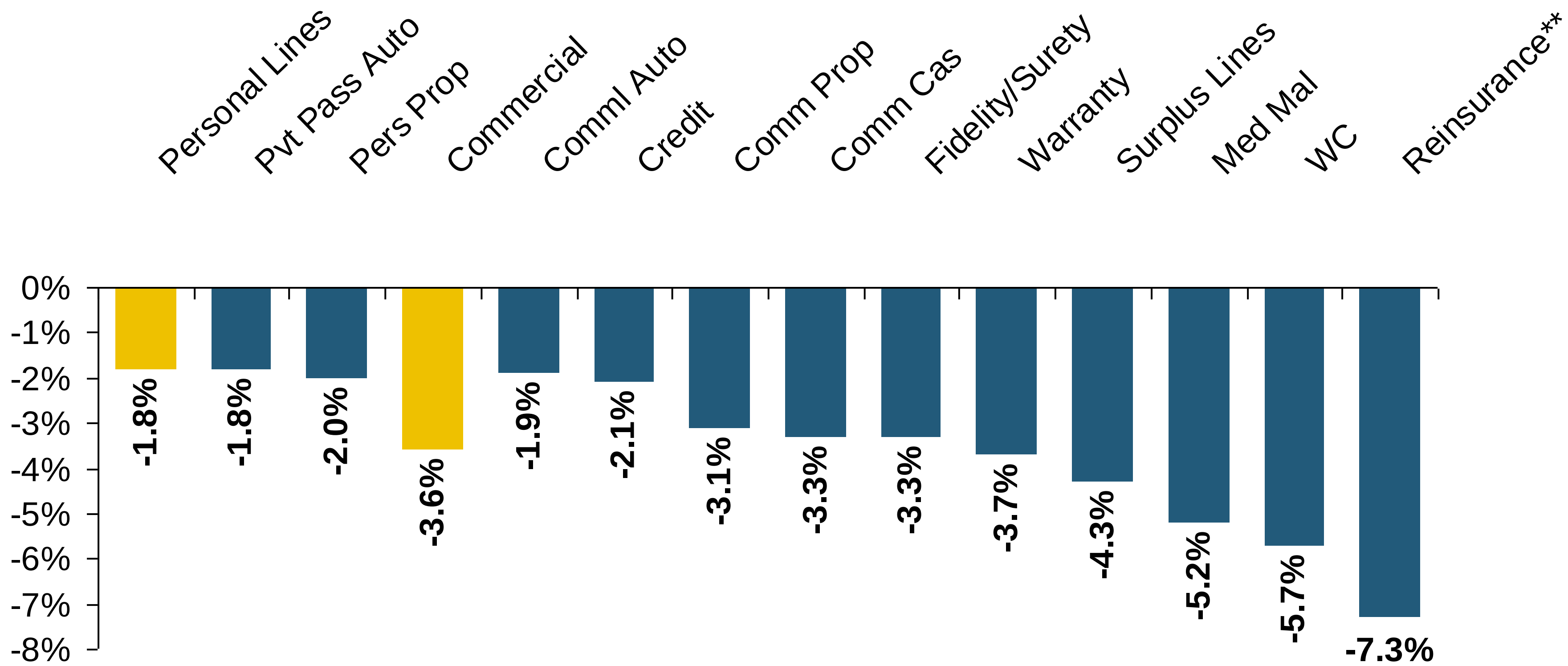
Treasury Yield Curves: Pre-Crisis (July 2007) vs. Mar. 2012



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.

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.

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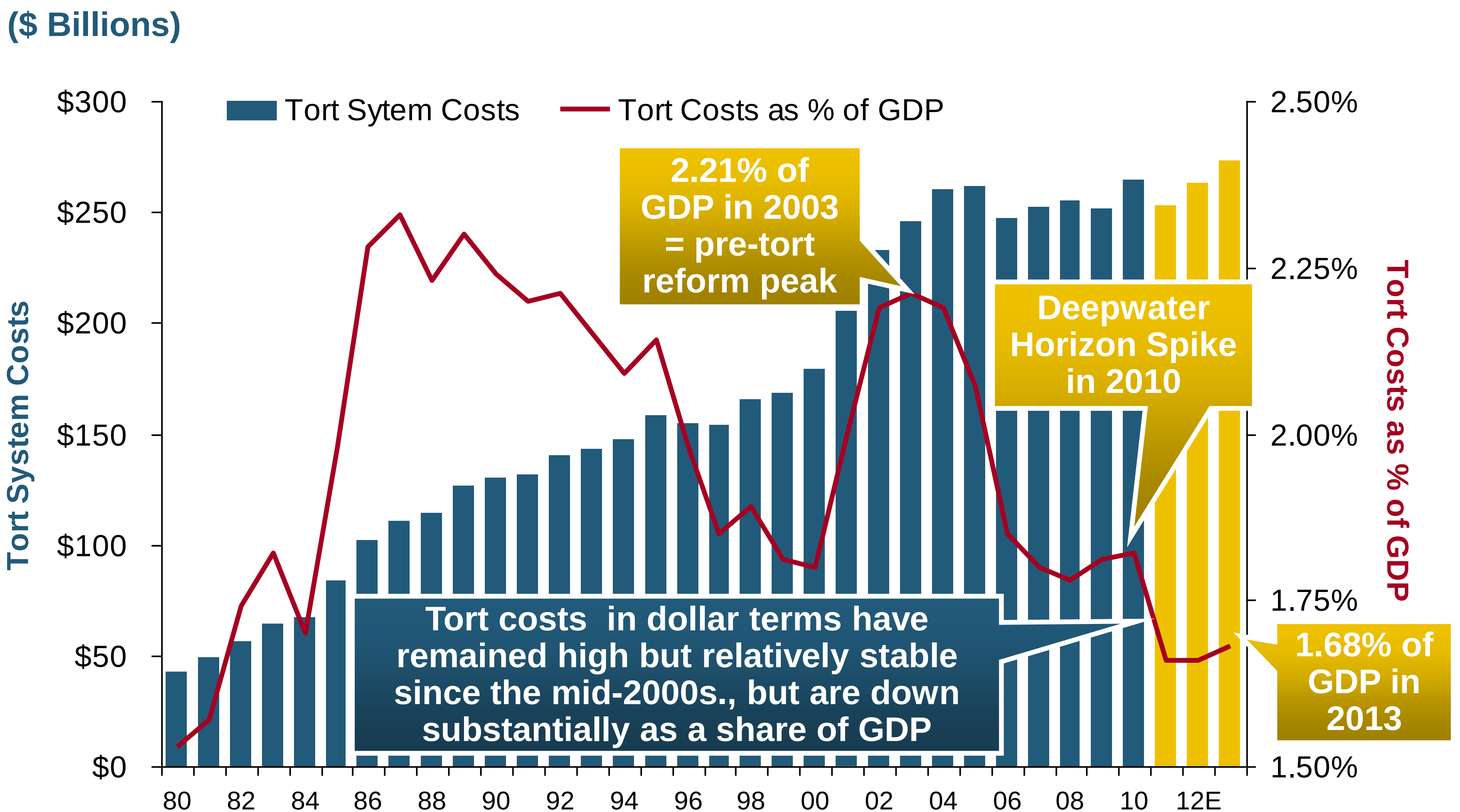
Shifting Legal Liability & Tort Environment

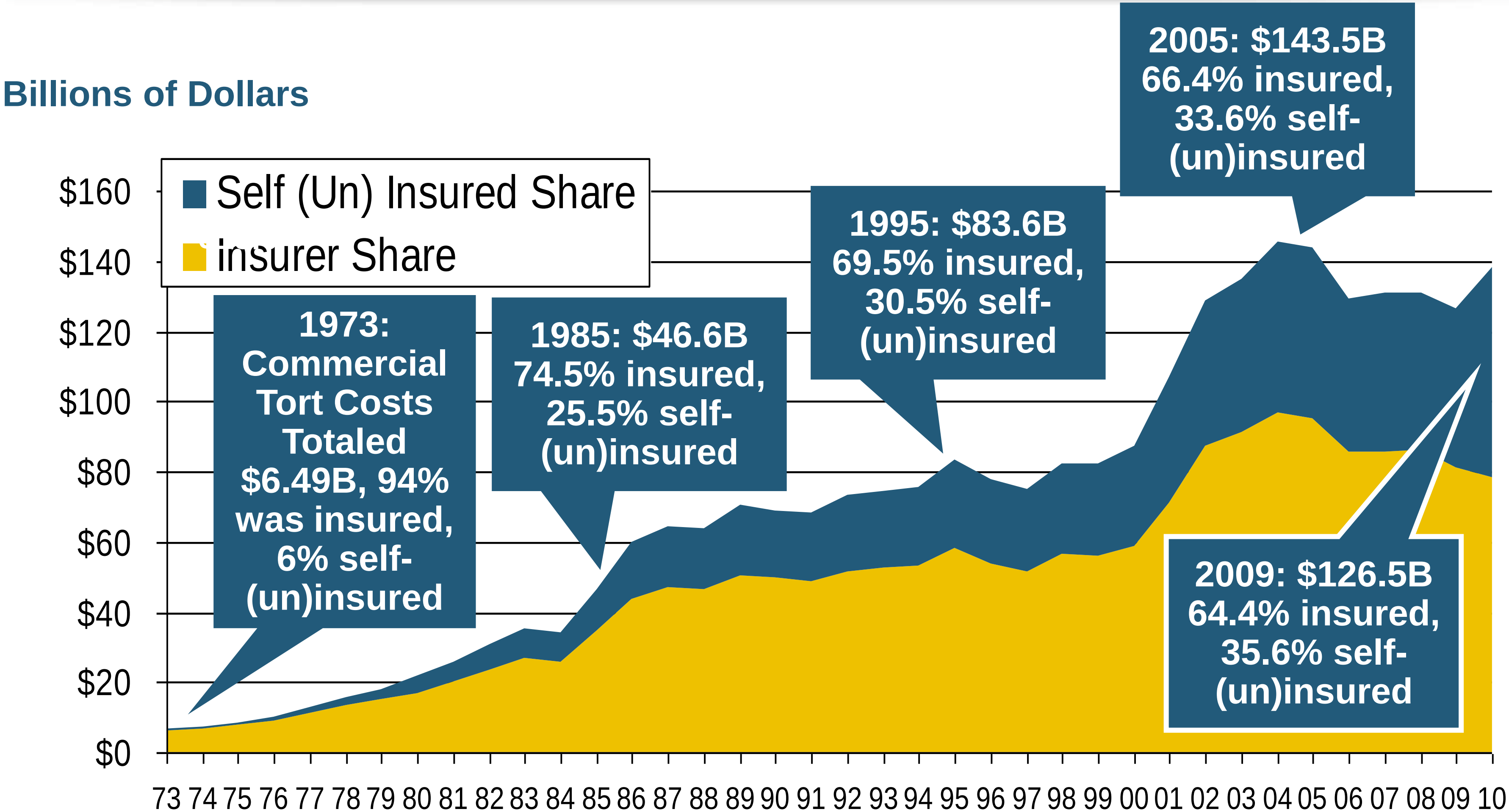
Is the Tort Pendulum Swinging Against Insurers?

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



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

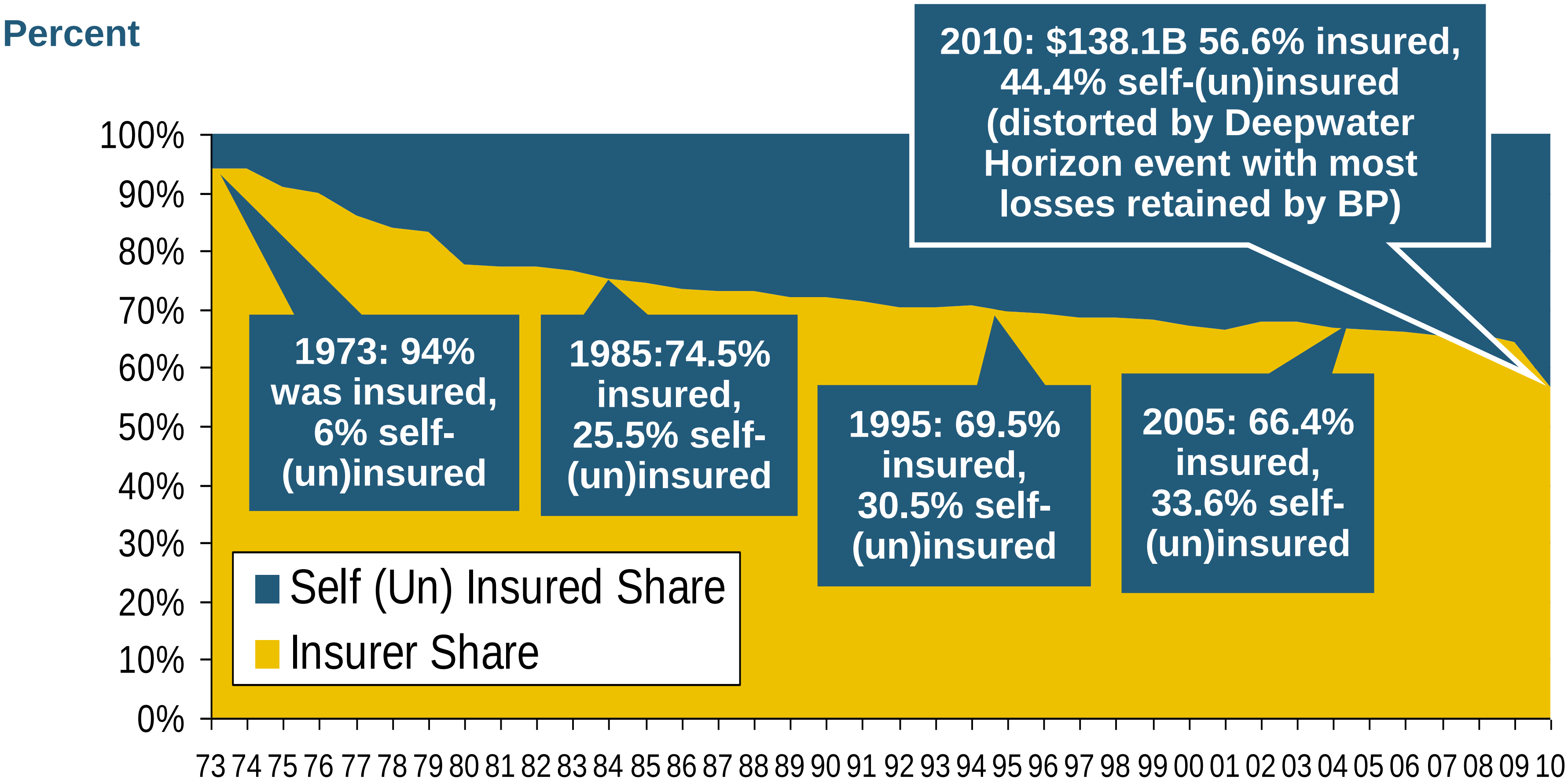
Commercial Lines Tort Costs: Insured vs. Self-(Un)Insured Shares, 1973-2010



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

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

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



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

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

Business Leaders Ranking of Liability Systems in 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

New in 2010

- North Dakota
- Massachusetts
- South Dakota

Drop-offs

- Maine
- Vermont
- Kansas

Midwest/West has mix of good and bad states.

Worst States

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

Newly Notorious

- New Mexico
- Montana
- Arkansas

Rising Above

- **Texas**
- South Carolina
- Hawaii

Source: US Chamber of Commerce 2010 State Liability Systems Ranking Study; Insurance Info. Institute.

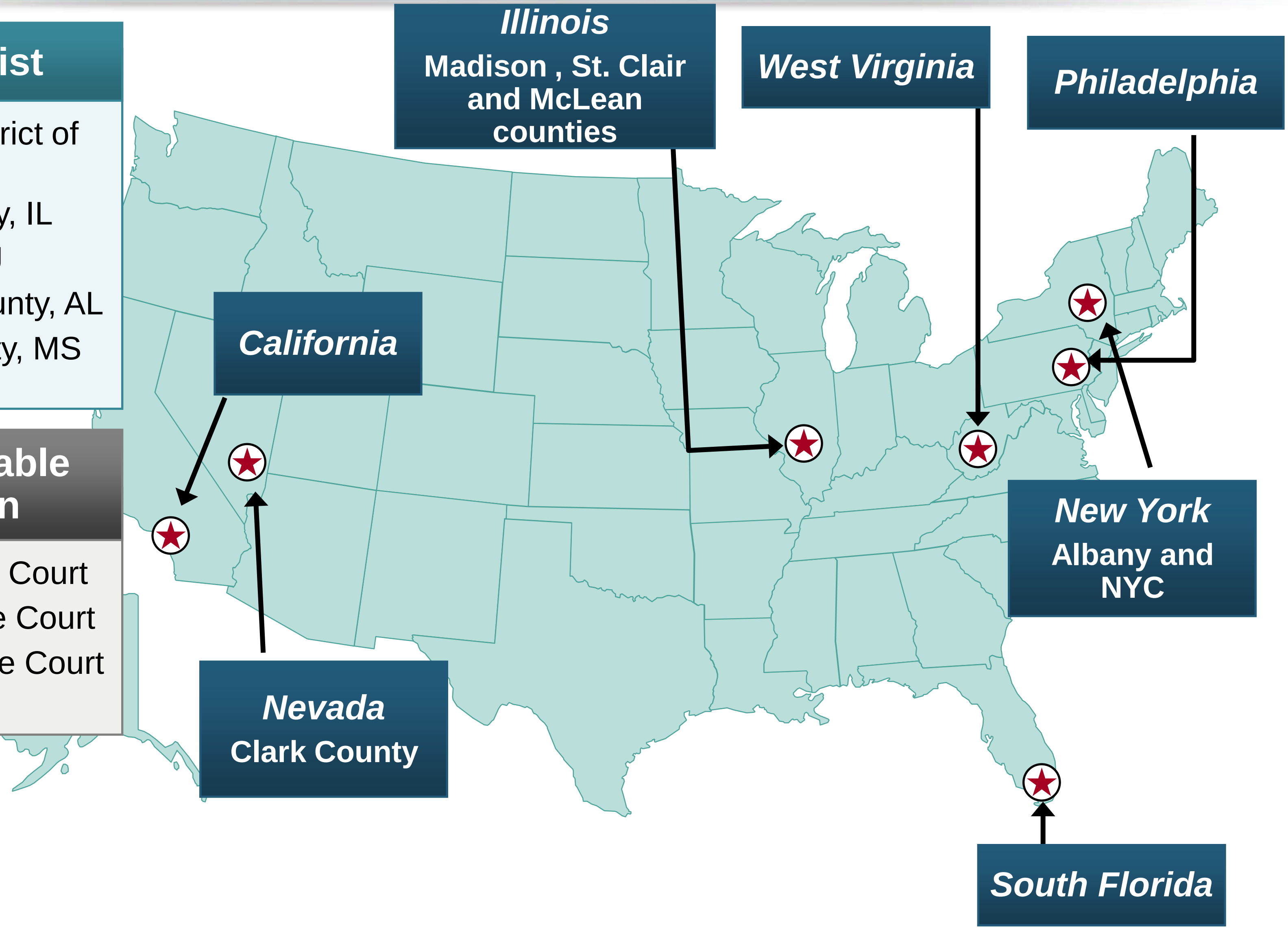
The Nation's Judicial Hellholes: 2011

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

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Inflation

Is it a Threat to Claim Cost Severities

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

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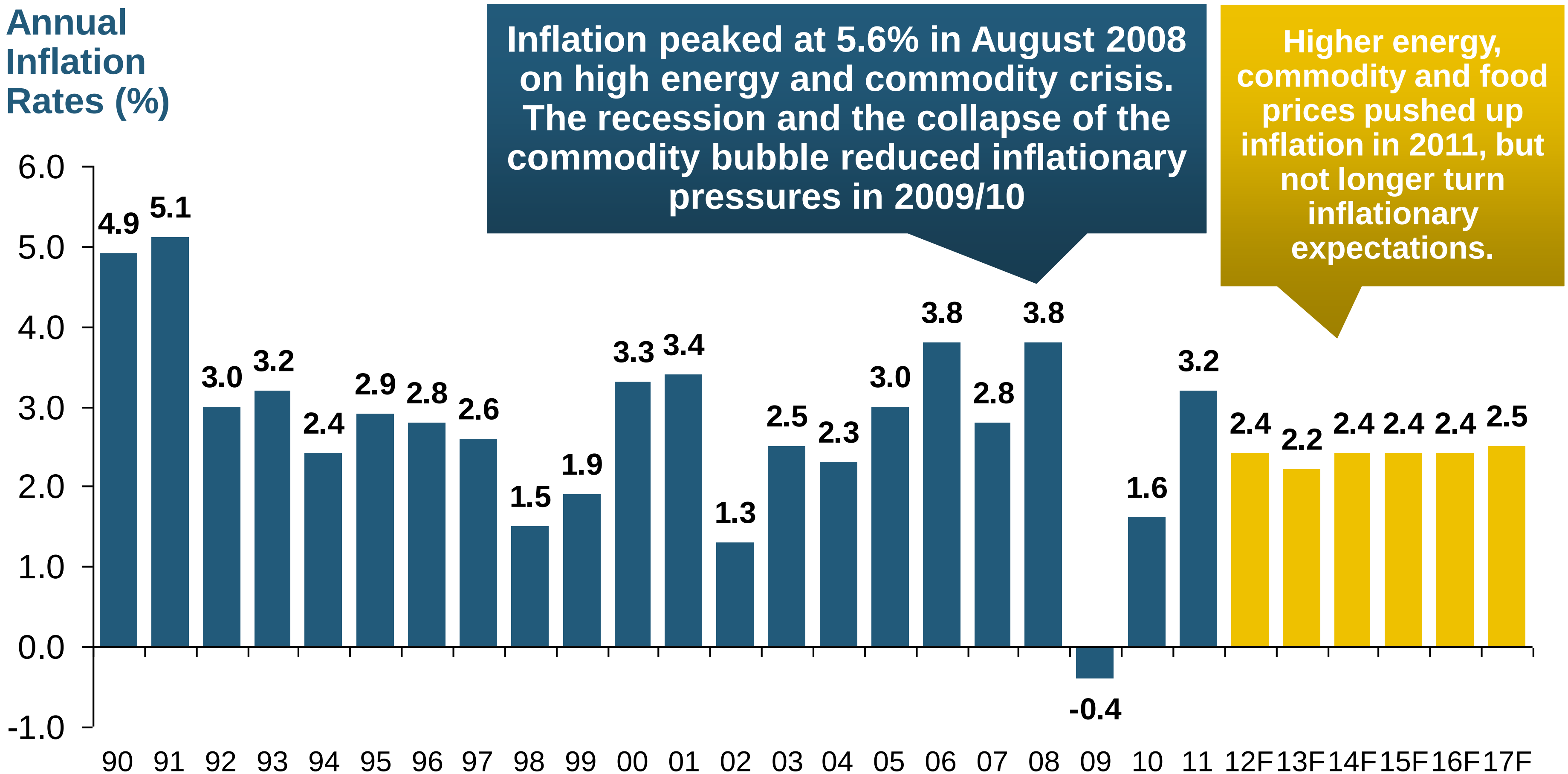

The slack in the U.S. economy suggests that inflationary pressures should remain subdued for an extended period of times. Energy, health care and commodity prices, plus U.S. debt burden, remain longer-run concerns

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

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

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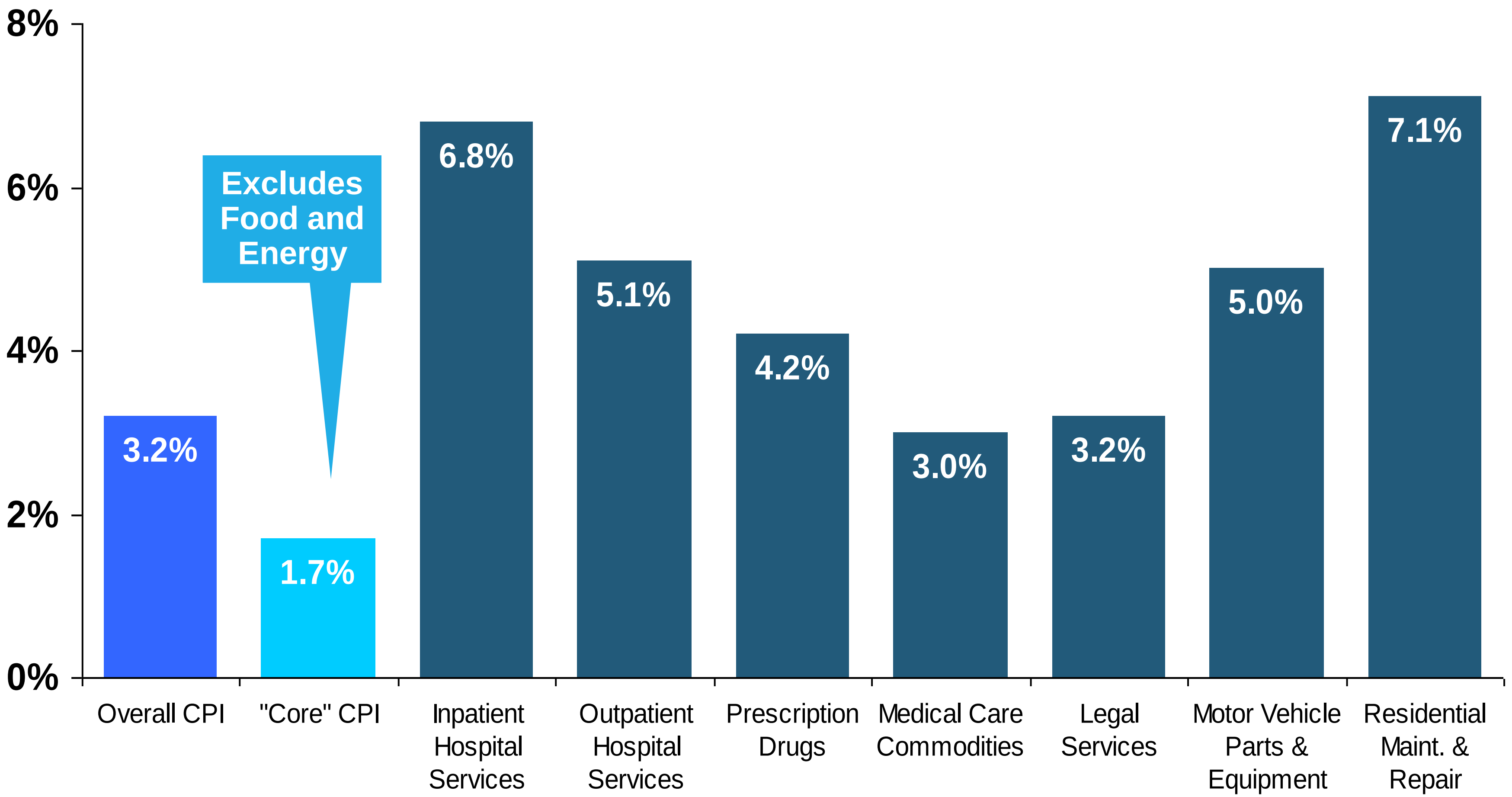
Price Level Change: 2011 vs. 2010



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

Sources: Bureau of Labor Statistics; Insurance Information Institute.

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

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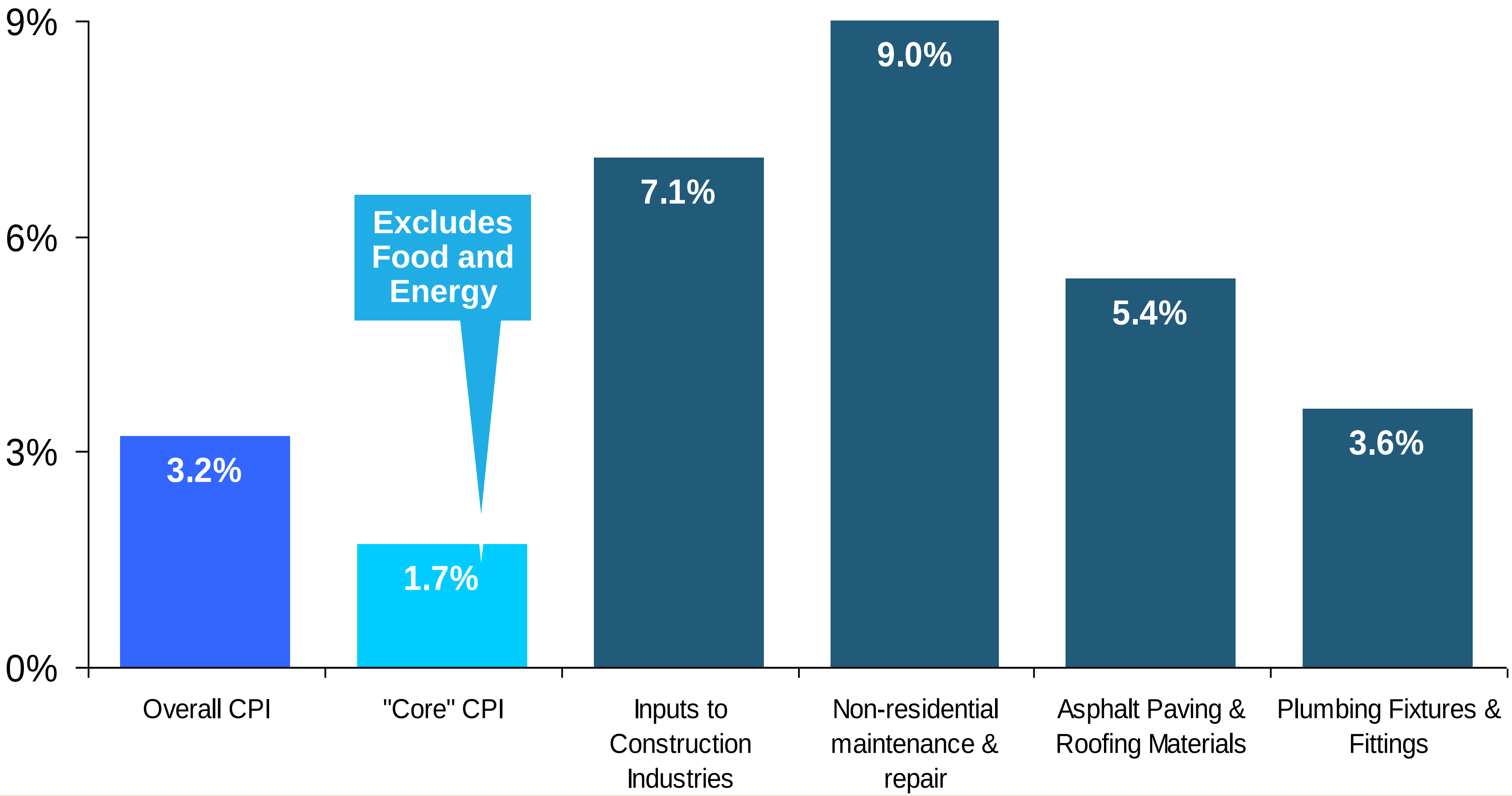
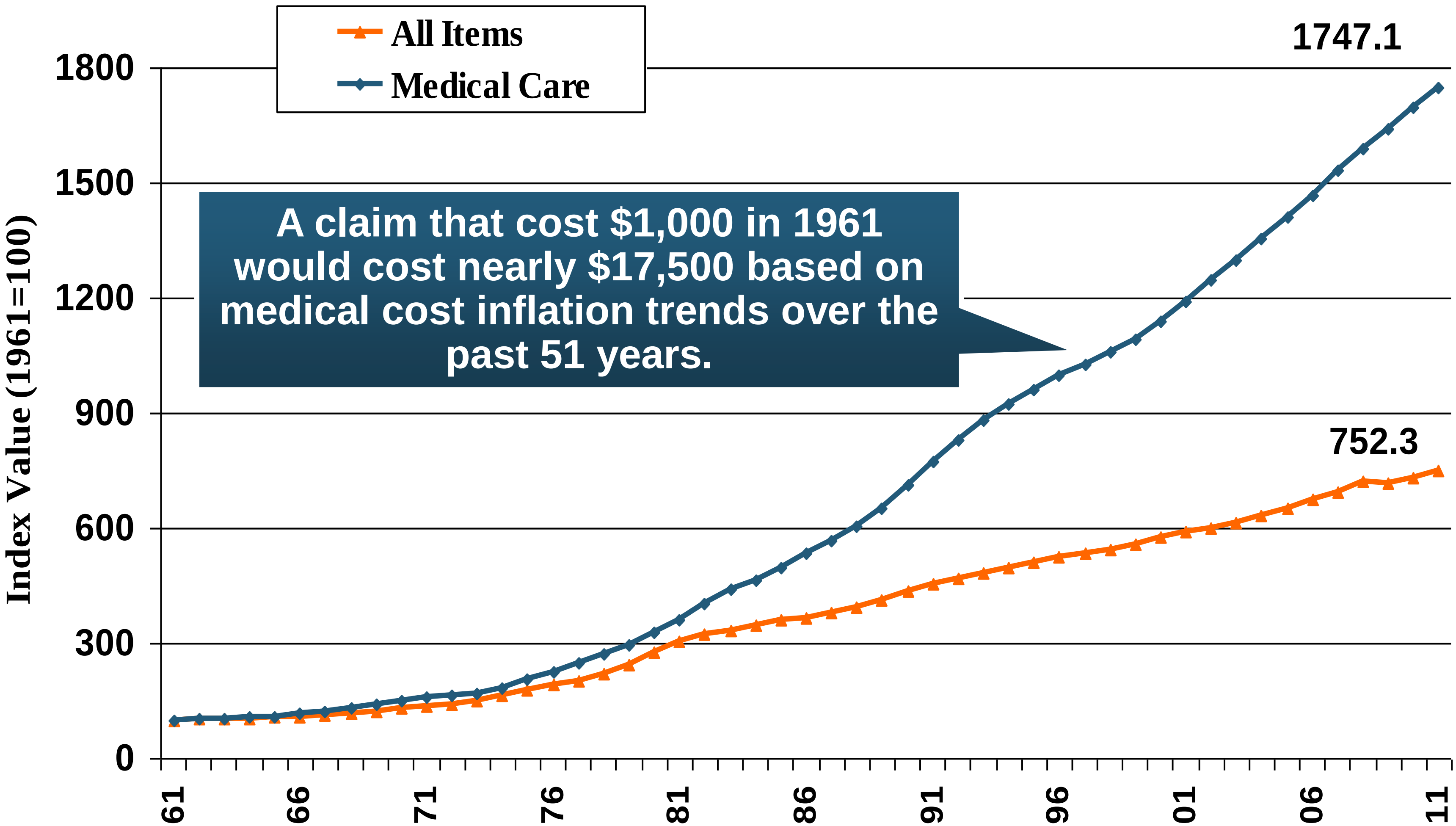
Price Level Change: 2011 vs. 2010



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

Sources: Bureau of Labor Statistics; Insurance Information Institute.

Medical Cost Inflation Has Outpaced Overall Inflation For Over 50 Years



Source: Department of Labor (Bureau of Labor Statistics)

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