An Industry, an Economy and a Nation in Transition:

Impacts and Implications for P/C Insurance Markets

National Council on Compensation Insurance

Annual Issues Symposium

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Presentation Outline

- **U.S. Economic Overview and Outlook**
  - Summary and Consequences and Predictions for P/C Insurance
  - Labor Market "Deep Dive"
  - Economy as a Growth Engine for P/C Insurers
- **Summary of P/C Financial Performance**
  - Profits and Profitability
- **Presidential Politics and the P/C Insurance Industry**
  - The President, His Party and P/C Profitability
- **Will the Market Turn? Four Necessary Criteria:**
  - Underwriting Loss Trends
  - Capital/Capacity
  - Reinsurance Markets
  - Pricing Discipline
- **Other Contributing Factors to the Underwriting Cycle**
  - Investment Environment
  - Inflation

Economics 2012:
The World Is Changing

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

Enormous Consequences 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
  - Enormous regional differences persist
  - 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 Problems Do Not Cause Europe (or US) to Disintegrate**
- **Soft Landing in China**
- **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, severity in some 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)*
- **Industry Capacity Hits a New Record by Year-End 2012 (Barring Meg-CAT)**
- **Investment Environment Is/Remains Much More Favorable**
  - Return of realized capital gains as a profit driver
  - Interest rates remain low; Some upward pressure if economic strength surprises

Labor Market Trends

Is the Labor Market Finally Back on Track or Starting to Derail (Again)?

Pace of Job Gains Will Profoundly Influence WC Growth Trajectory

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

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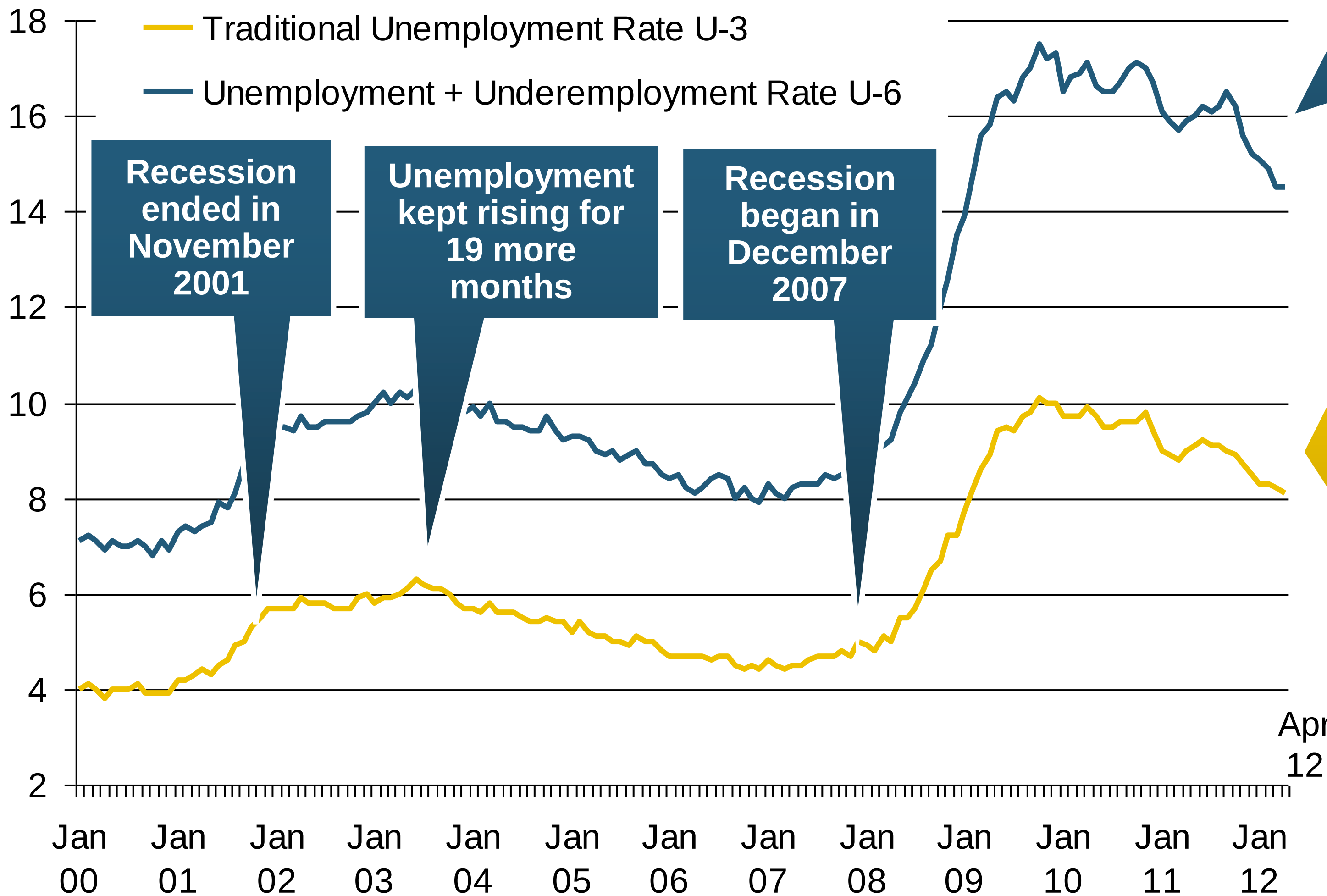
January 2000 through April 2012, Seasonally Adjusted (%)



U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 14.5% in Apr. 2012

Unemployment stood at 8.1% in April 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

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

Monthly Change in Private Employment

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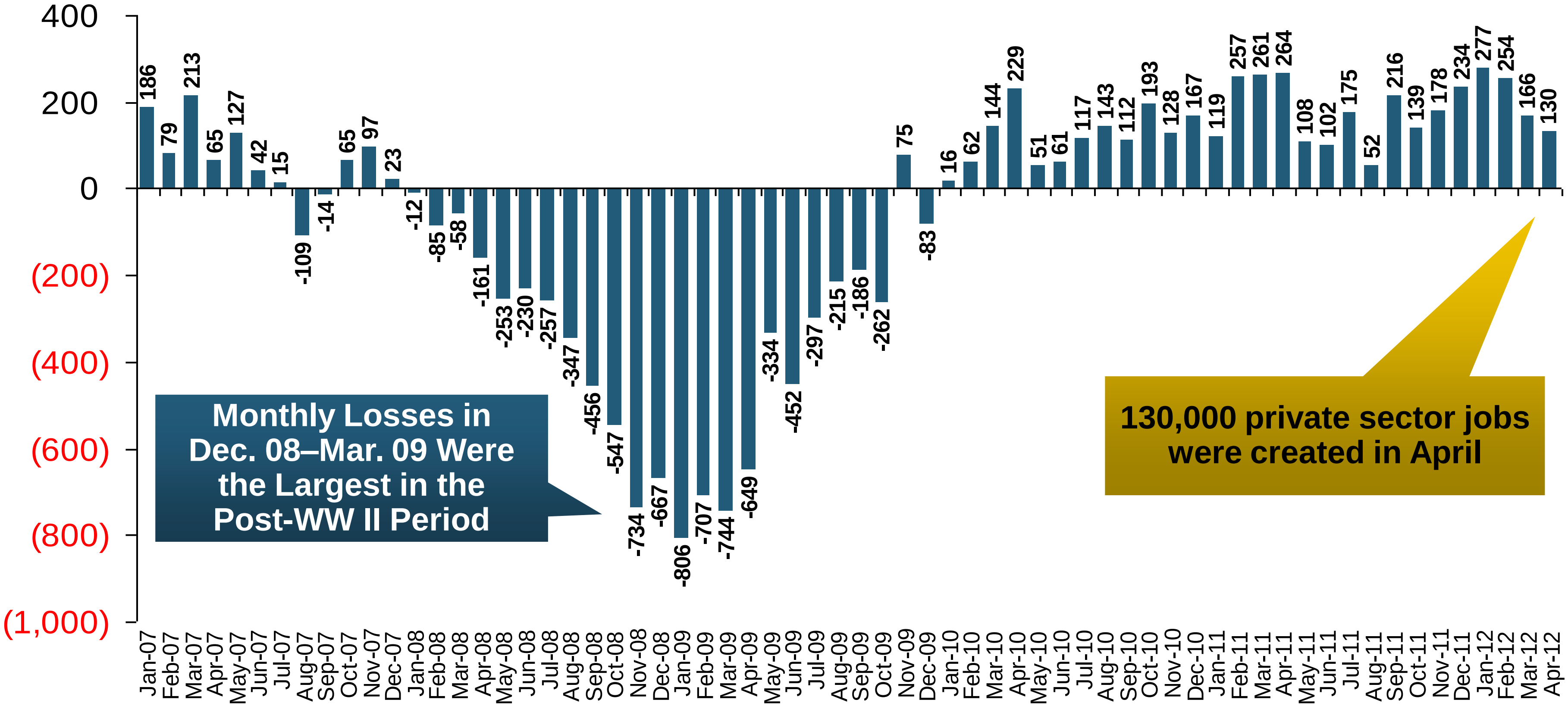
January 2008 through April 2012* (Thousands)



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—Apr. 2012

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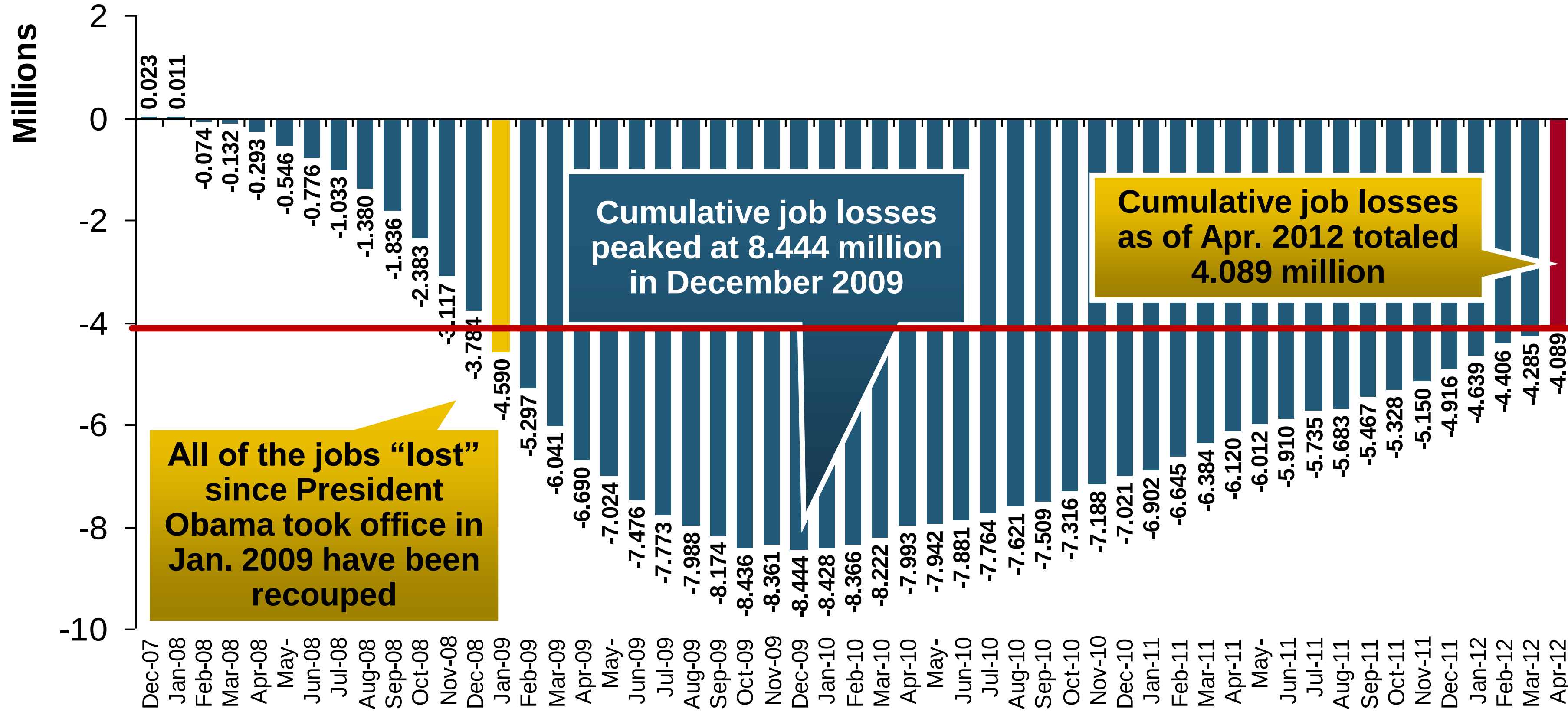
December 2007 through April 2012* (Millions)



Private Employers Added 4.36 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 Sector Employment: Jan. 2010—Apr. 2012

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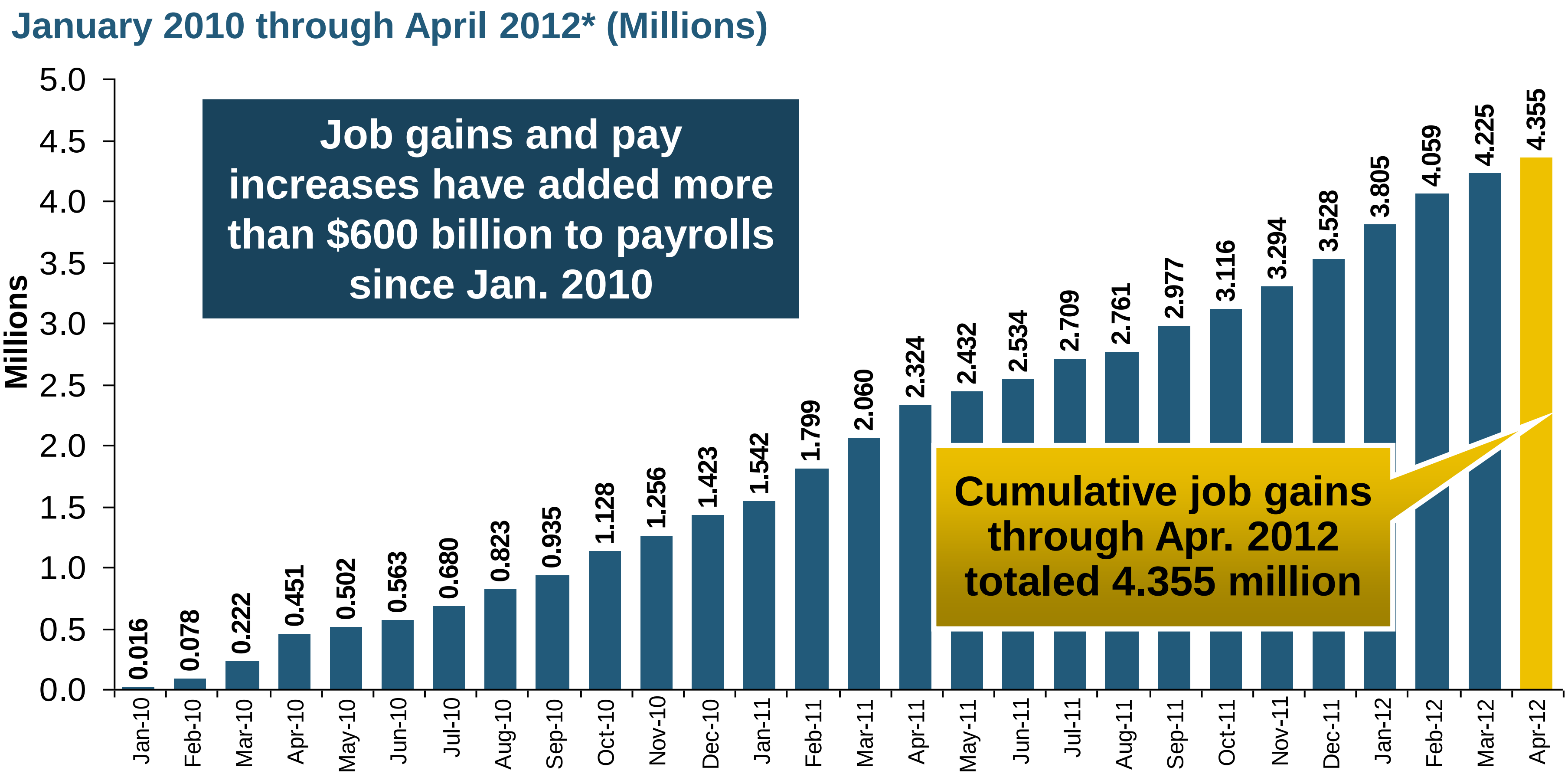

Private Employers Added 4.36 million Jobs Since Jan. 2010 After Having Shed 4.66 Million Jobs in 2009 and 3.81 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

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

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

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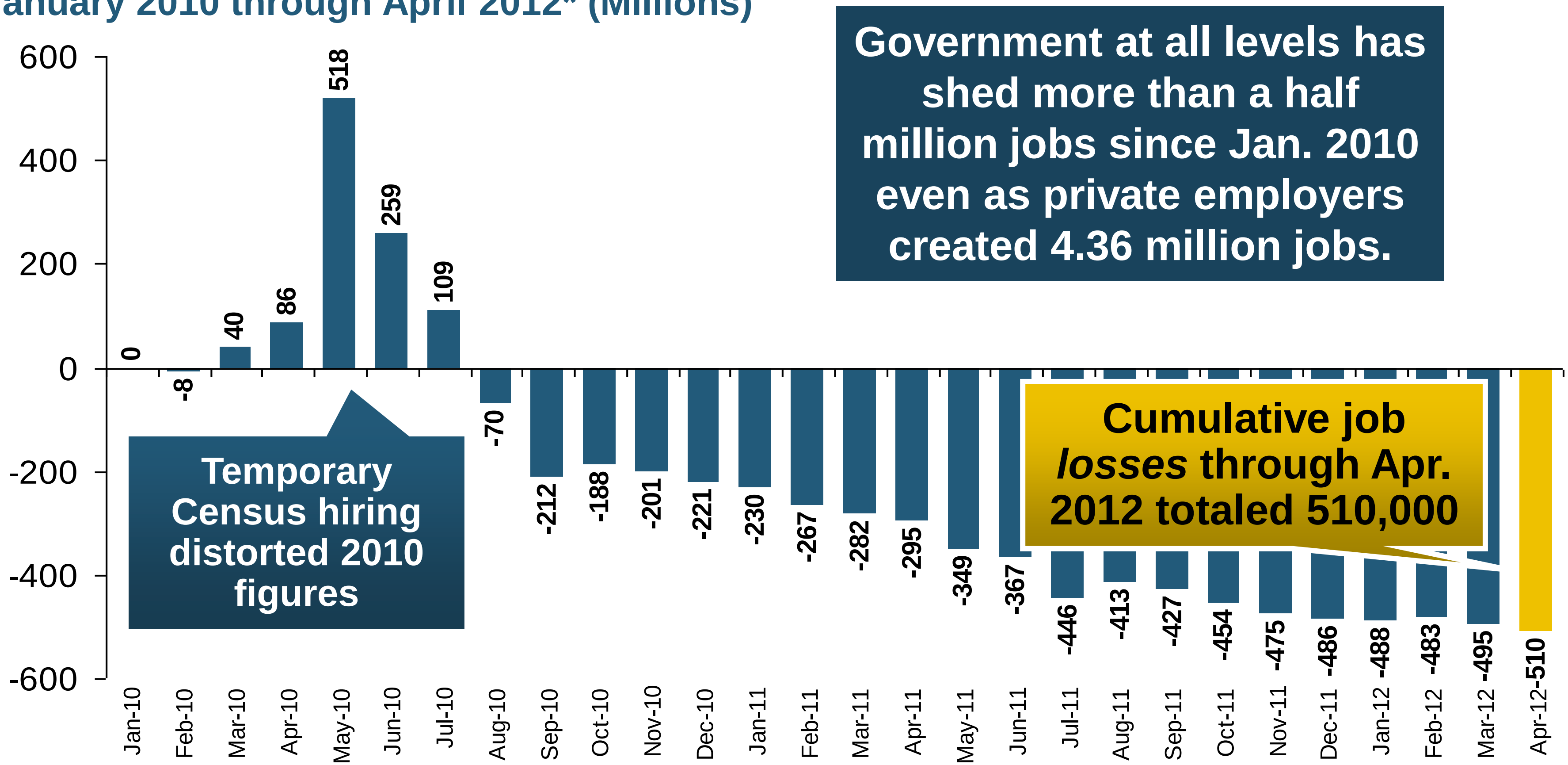
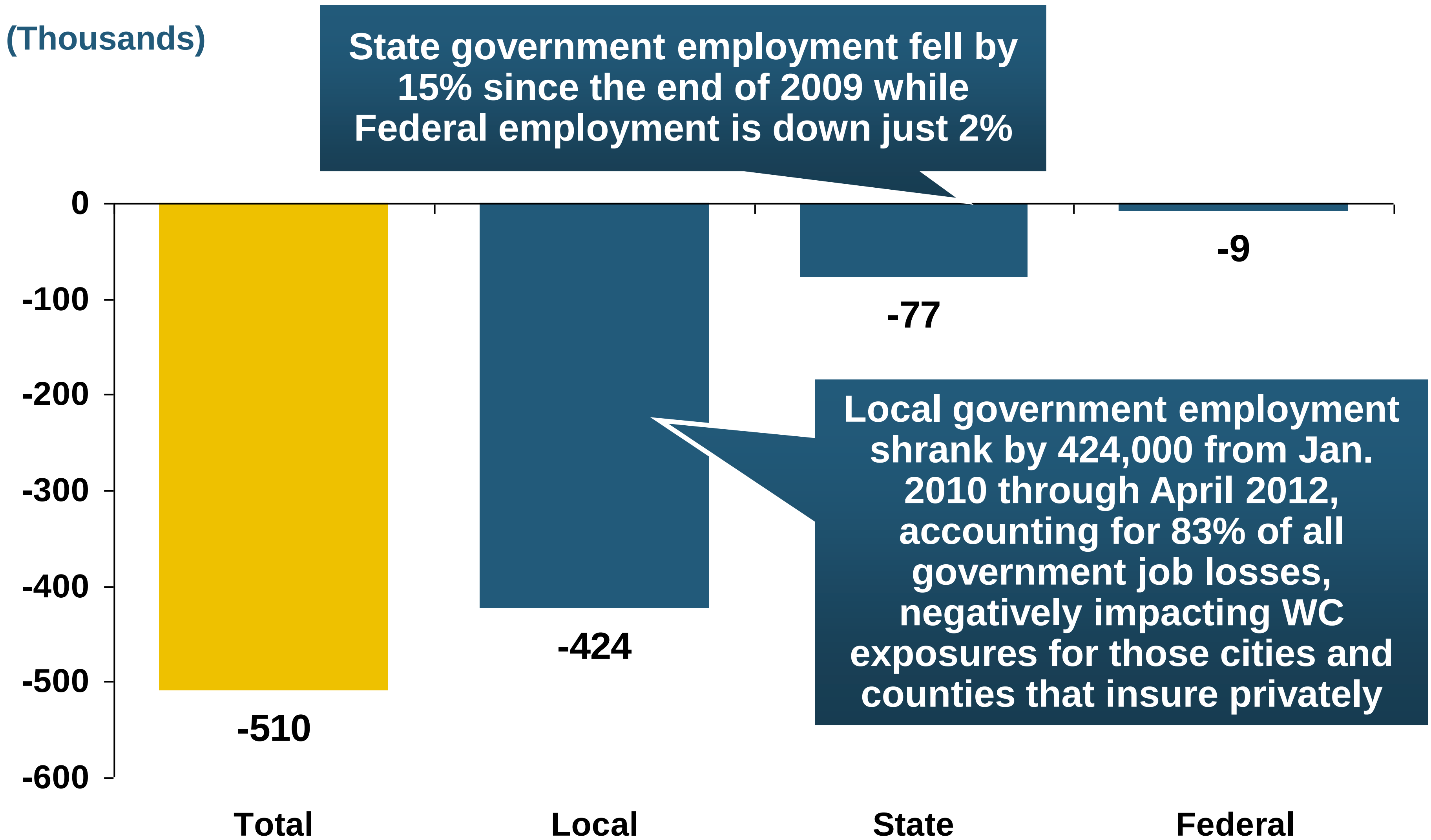
January 2010 through April 2012* (Millions)



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

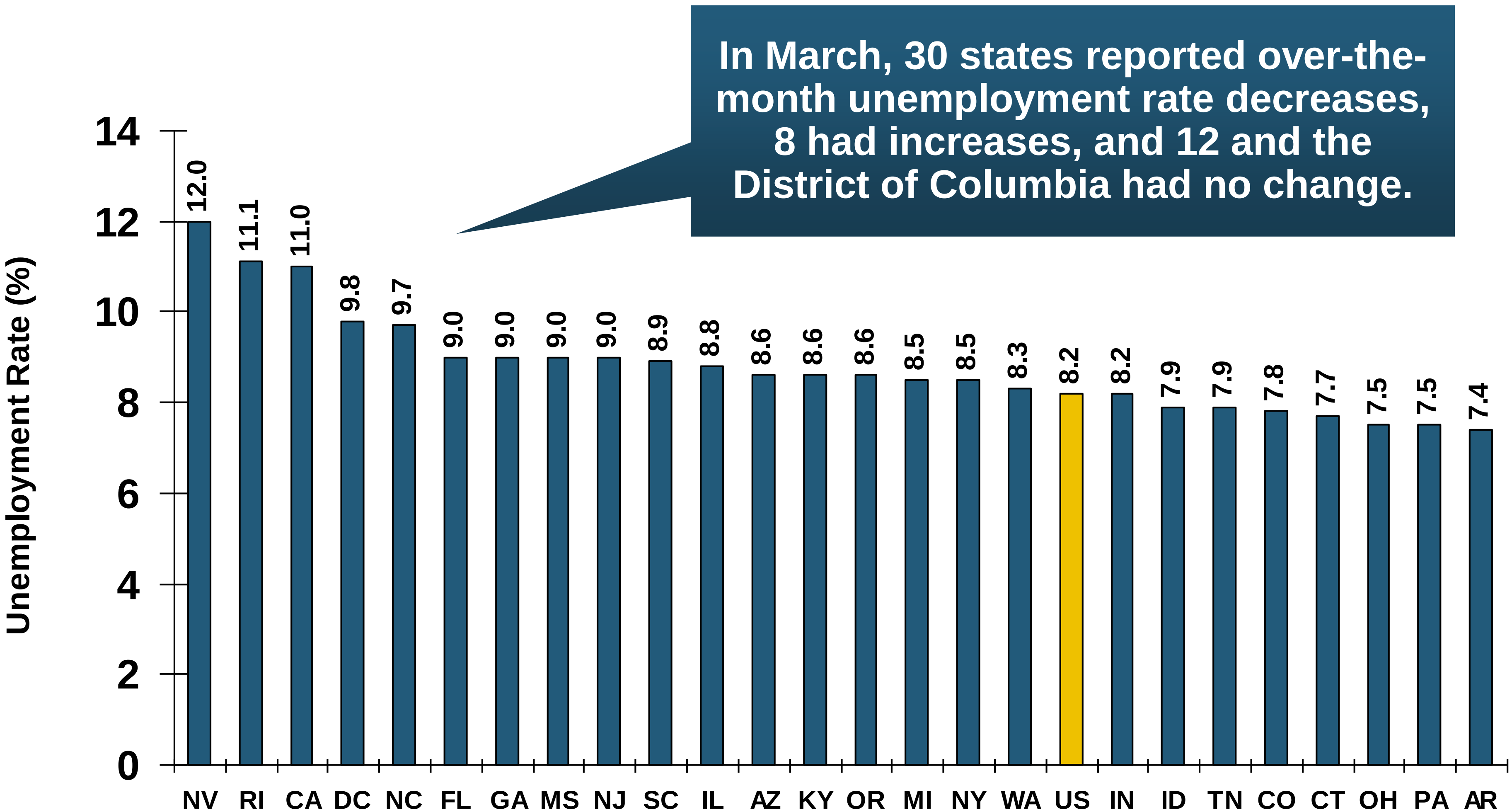
Source: US Bureau of Labor Statistics http://www.bls.gov/data/#employment; Insurance Information Institute

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



*Cumulative change from prior month; Base employment date is Dec. 2009: Fed
Source: US Bureau of Labor Statistics http://www.bls.gov/data/#employment; 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*

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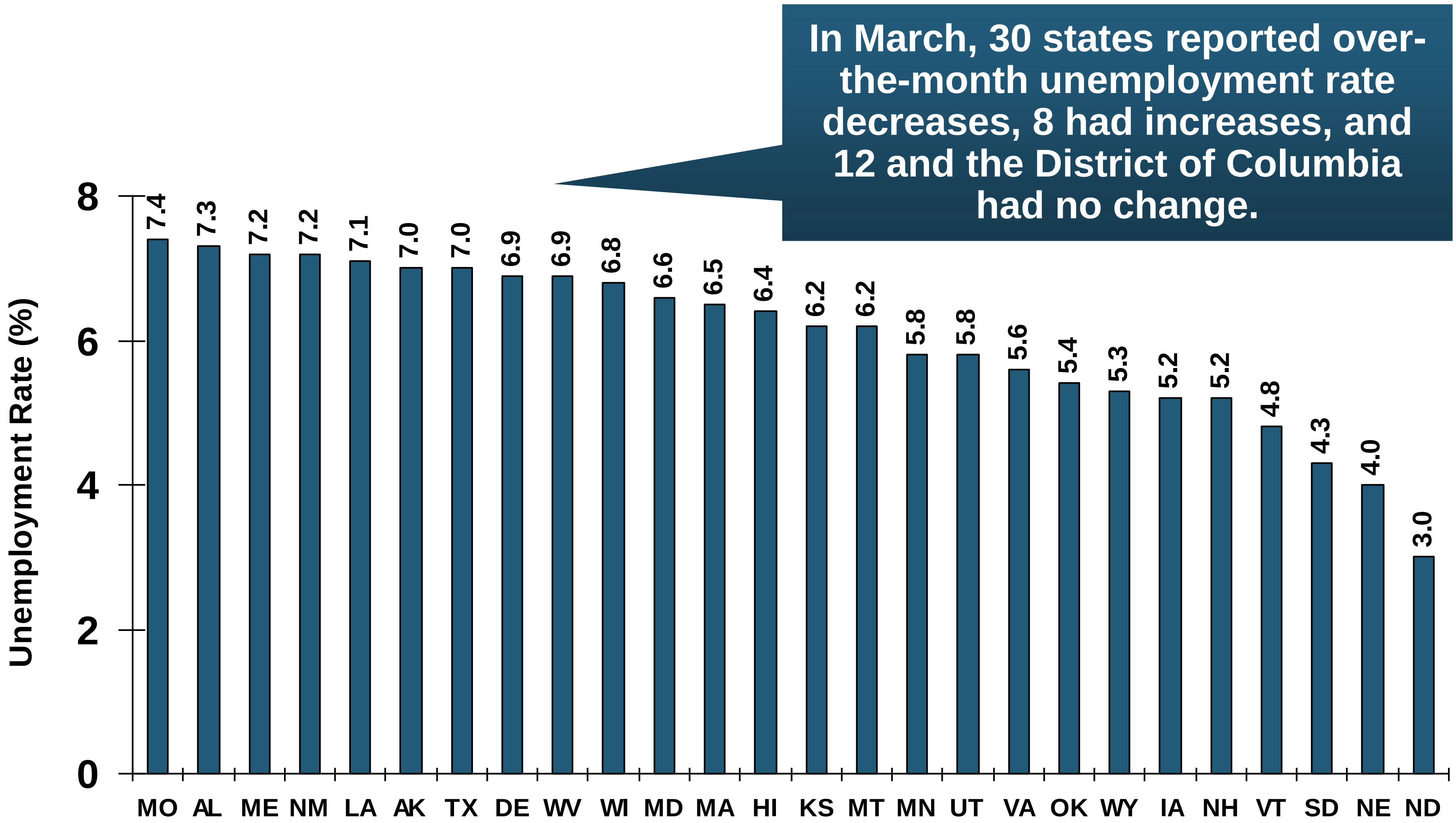

*Provisional figures for March 2012, seasonally adjusted.

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

US Unemployment Rate Forecast

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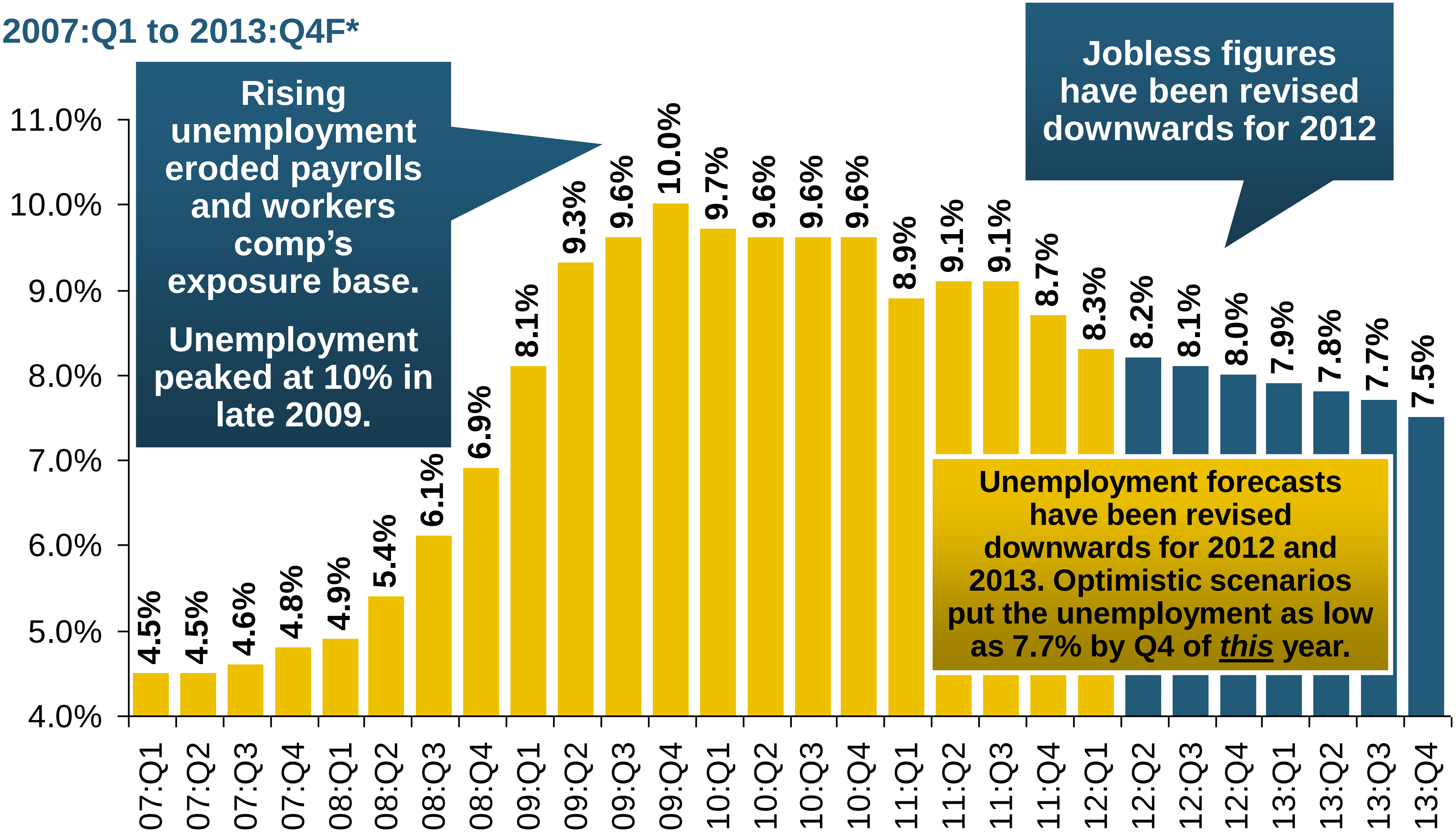
2007:Q1 to 2013:Q4F*



* = actual; = forecasts

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

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2012:Q1

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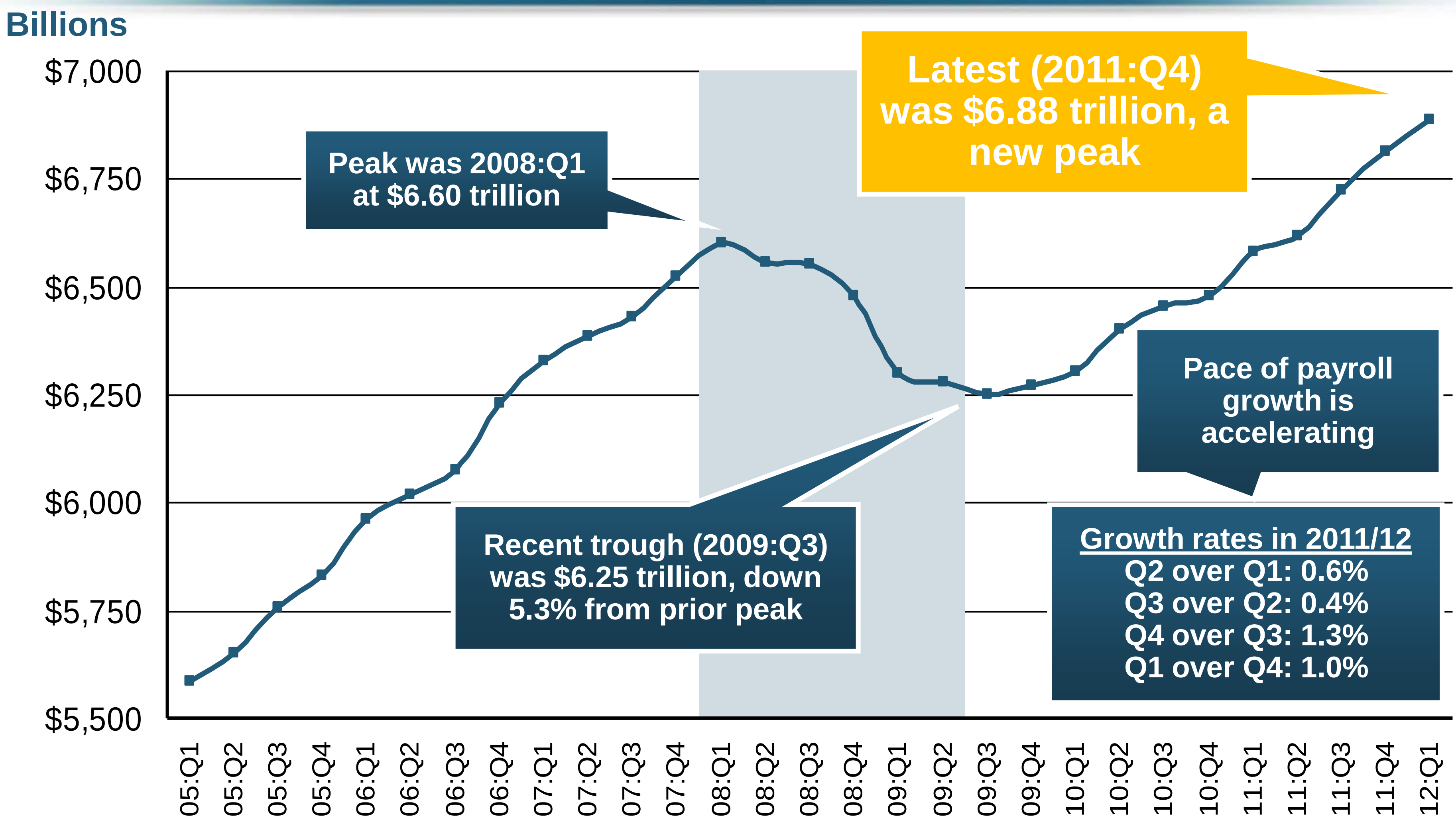
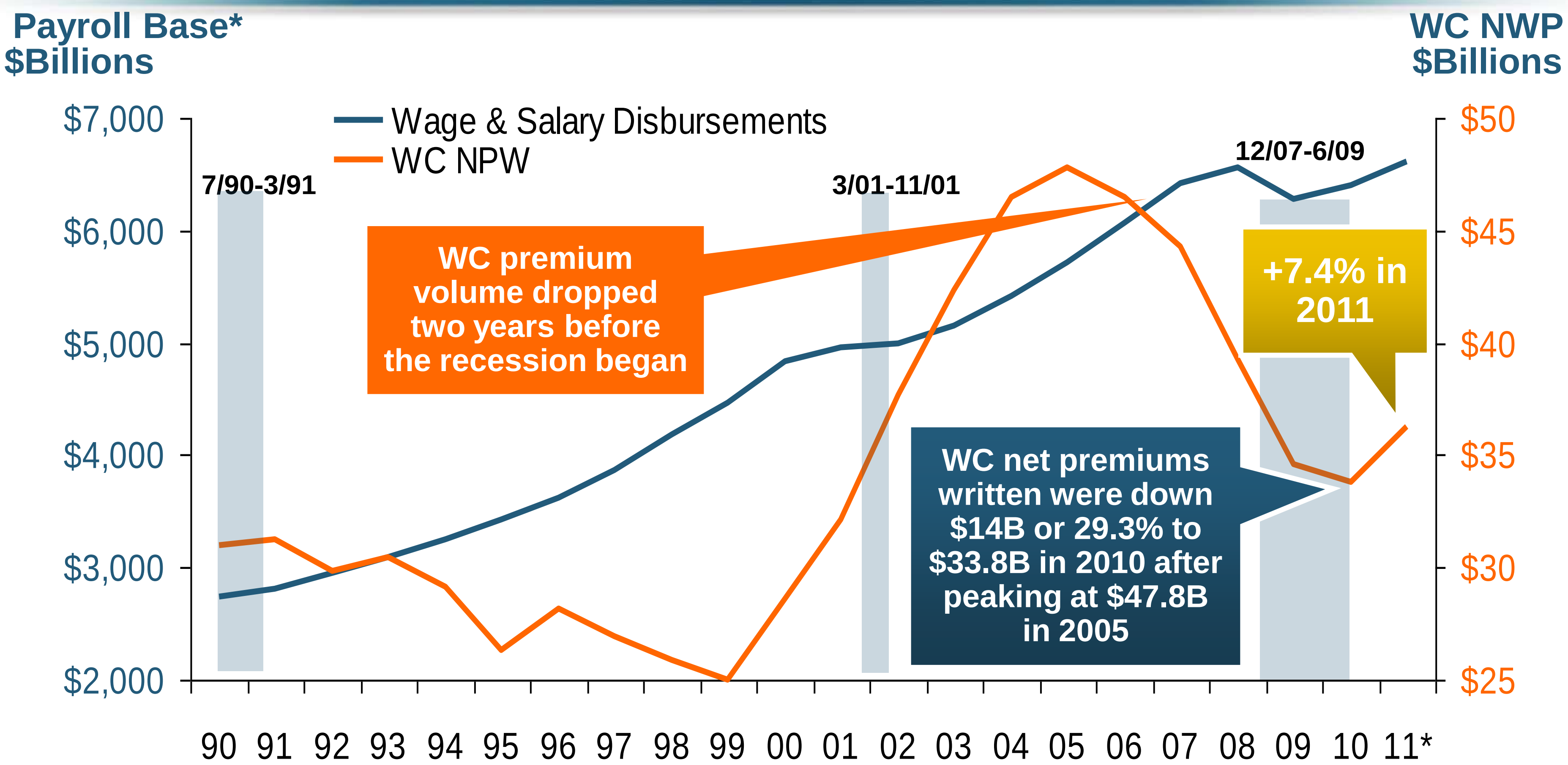


Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

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

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



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

*Private employment; Shaded areas indicate recessions. Payroll and WC premiums for 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.

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POSITIVE LABOR MARKET DEVELOPMENTS

Key Factors Driving Workers Compensation Exposure

Mass Layoff Announcements, Jan. 2002—Mar. 2012*

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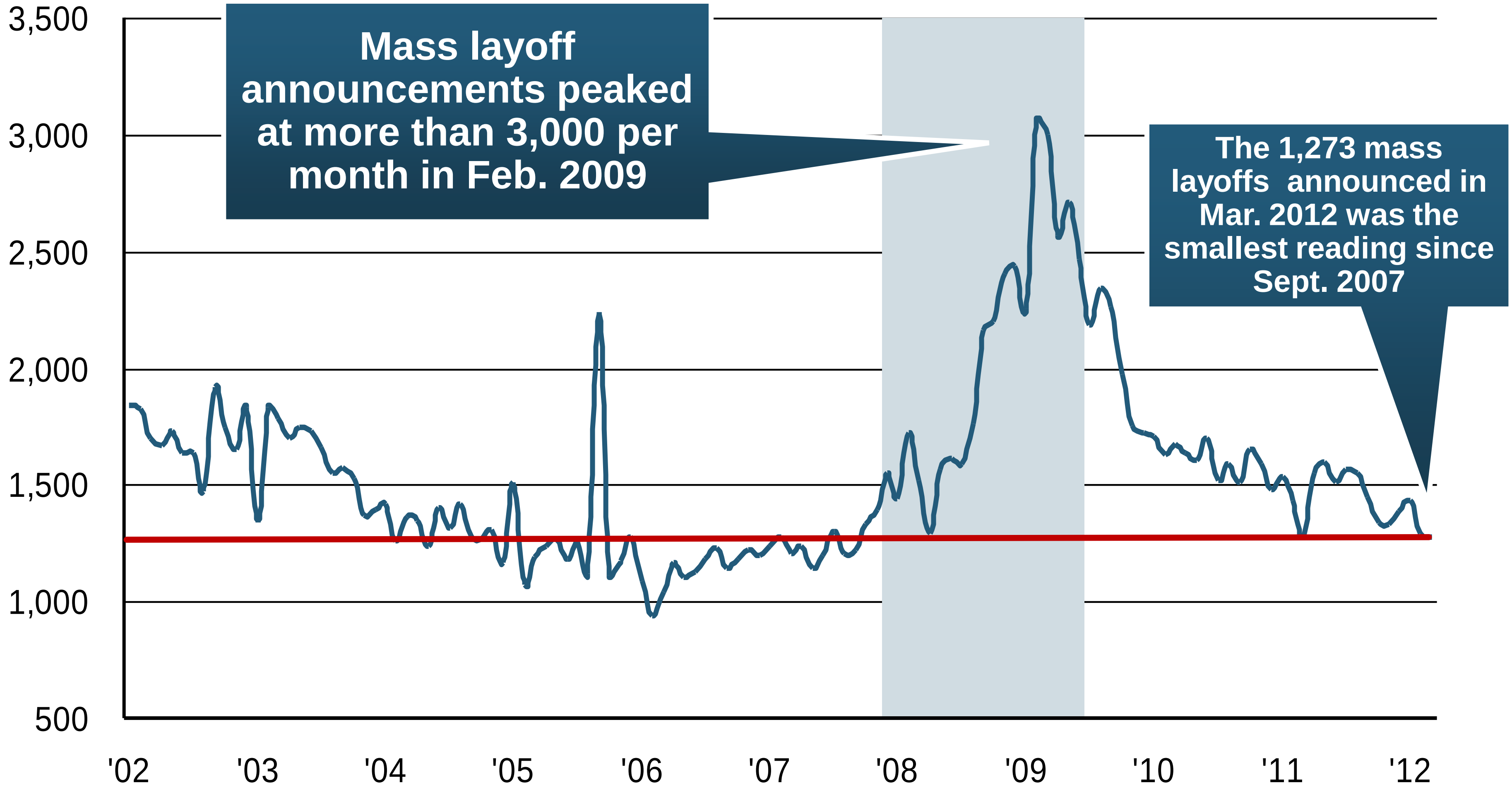

*Percentage change from same month in prior year; through March 2012; seasonally adjusted

Note: Recessions indicated by gray shaded columns.

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

Average Weekly Hours of All Private Workers, Mar. 2006—Apr. 2012

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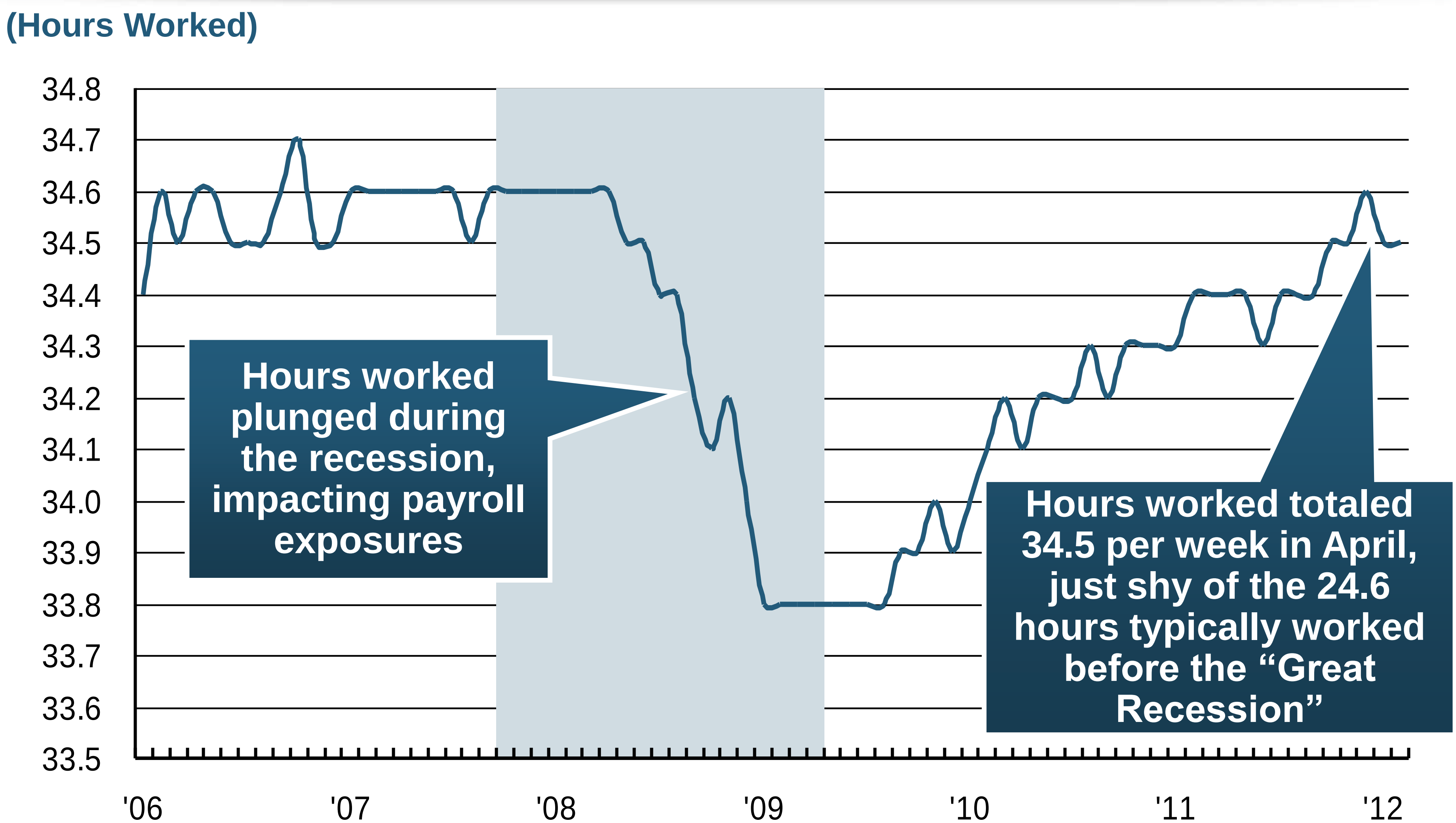

*Seasonally adjusted

Note: Recessions indicated by gray shaded columns.

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

Average Hourly Wage of All Private Workers, Mar. 2006—Apr. 2012

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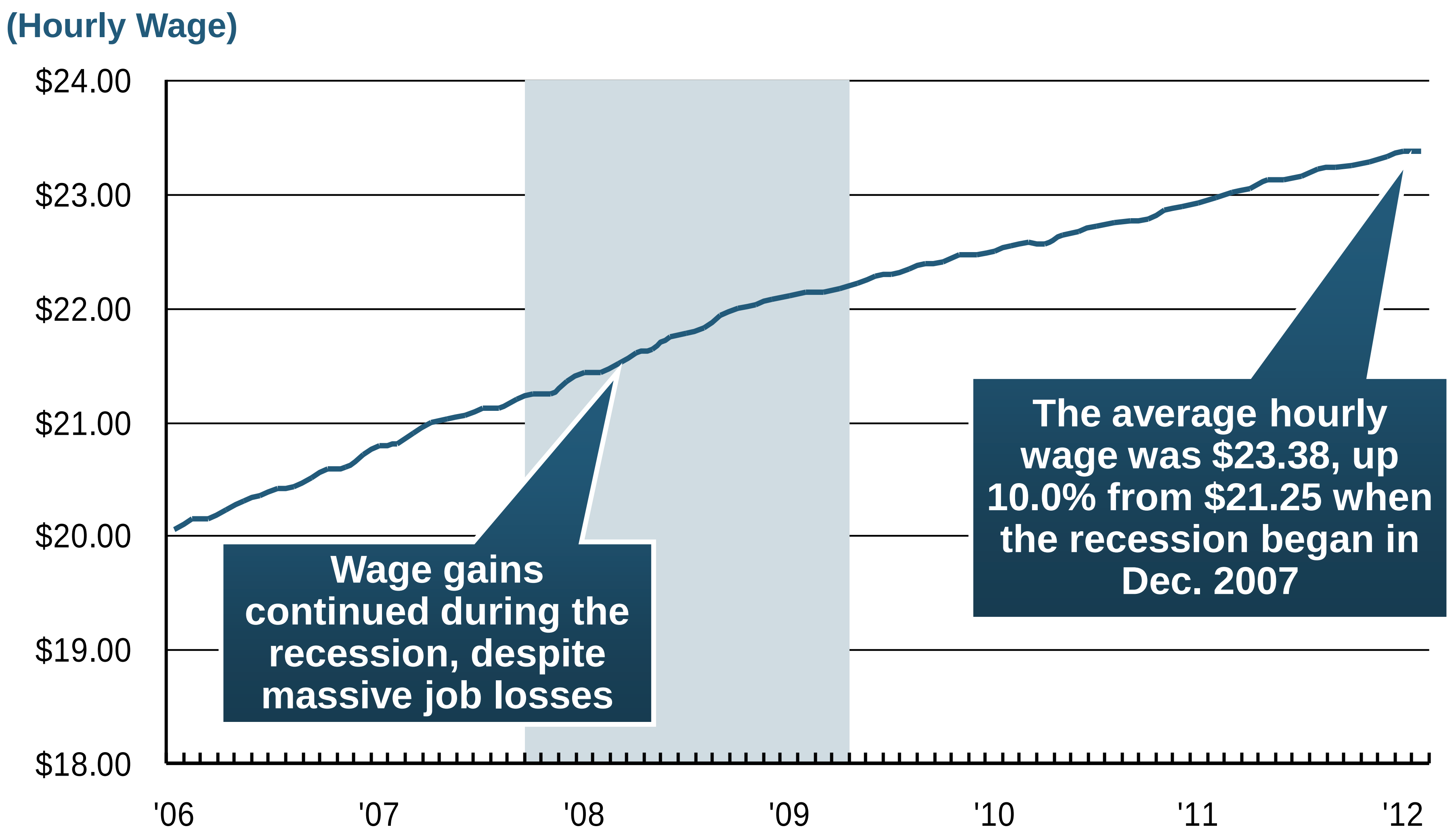
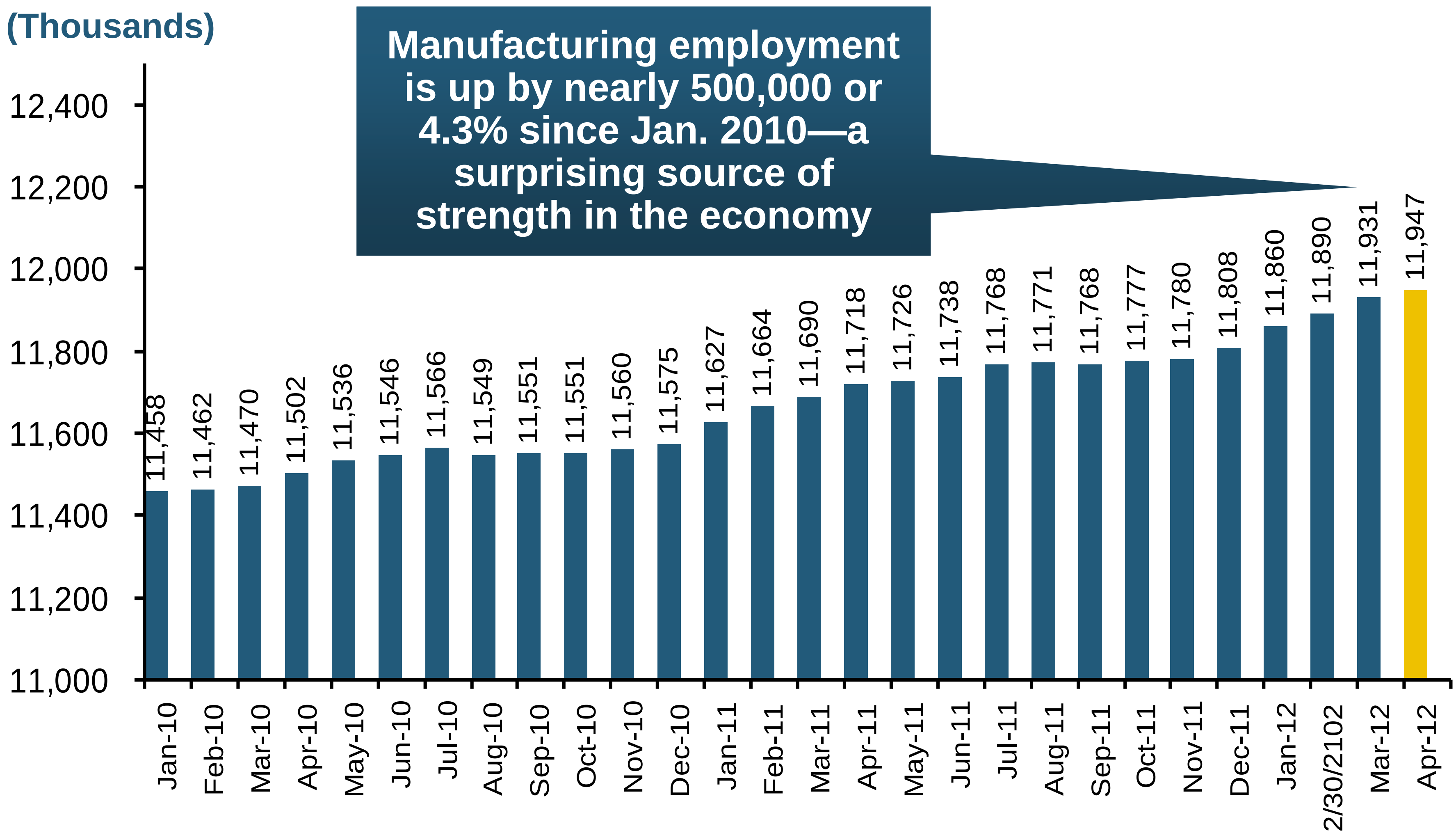


*Seasonally adjusted

Note: Recessions indicated by gray shaded columns.

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

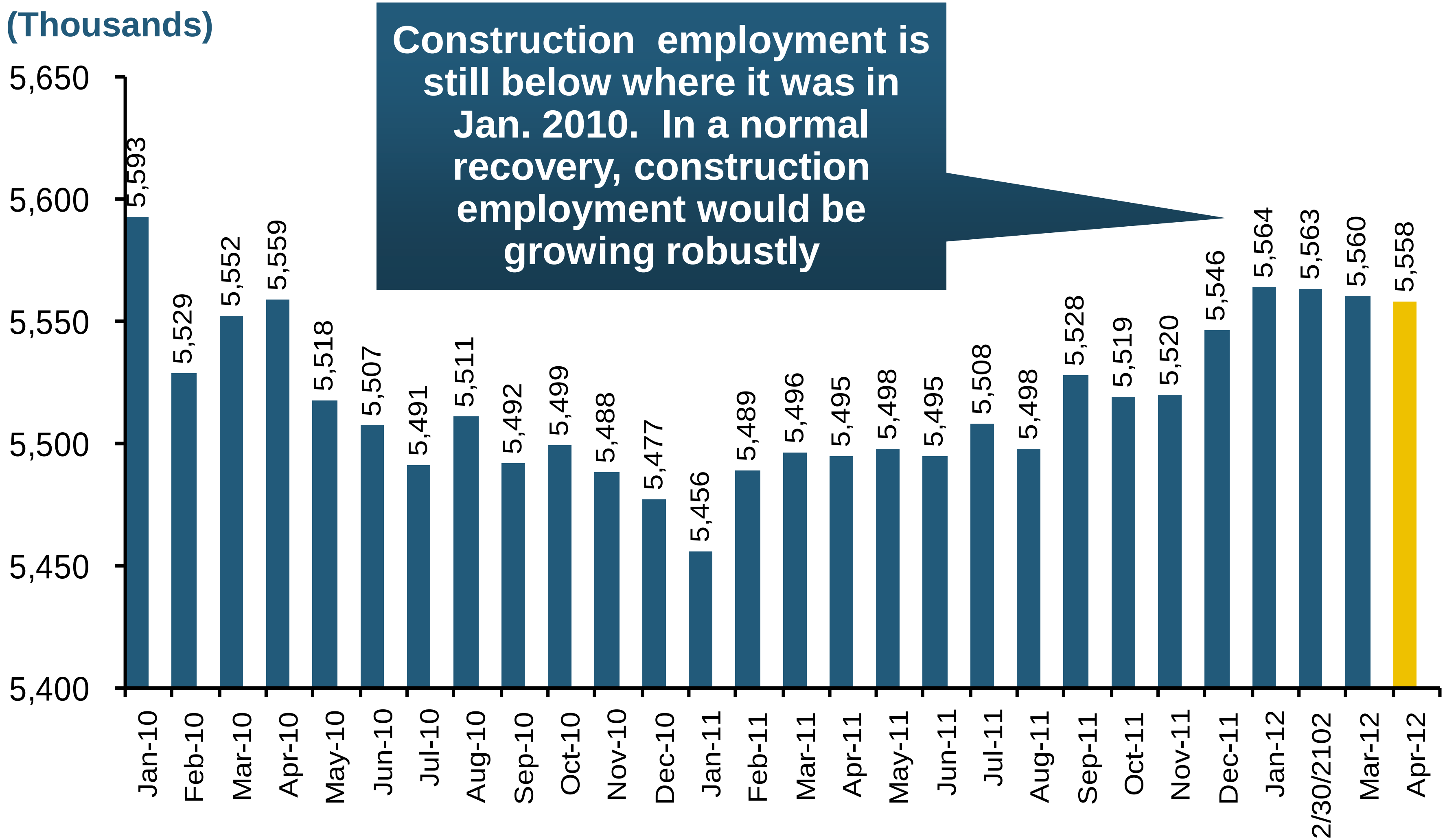
Manufacturing Employment, Jan. 2010—Apr. 2012*



*Seasonally adjusted

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

Construction Employment, Jan. 2010—Apr. 2012*



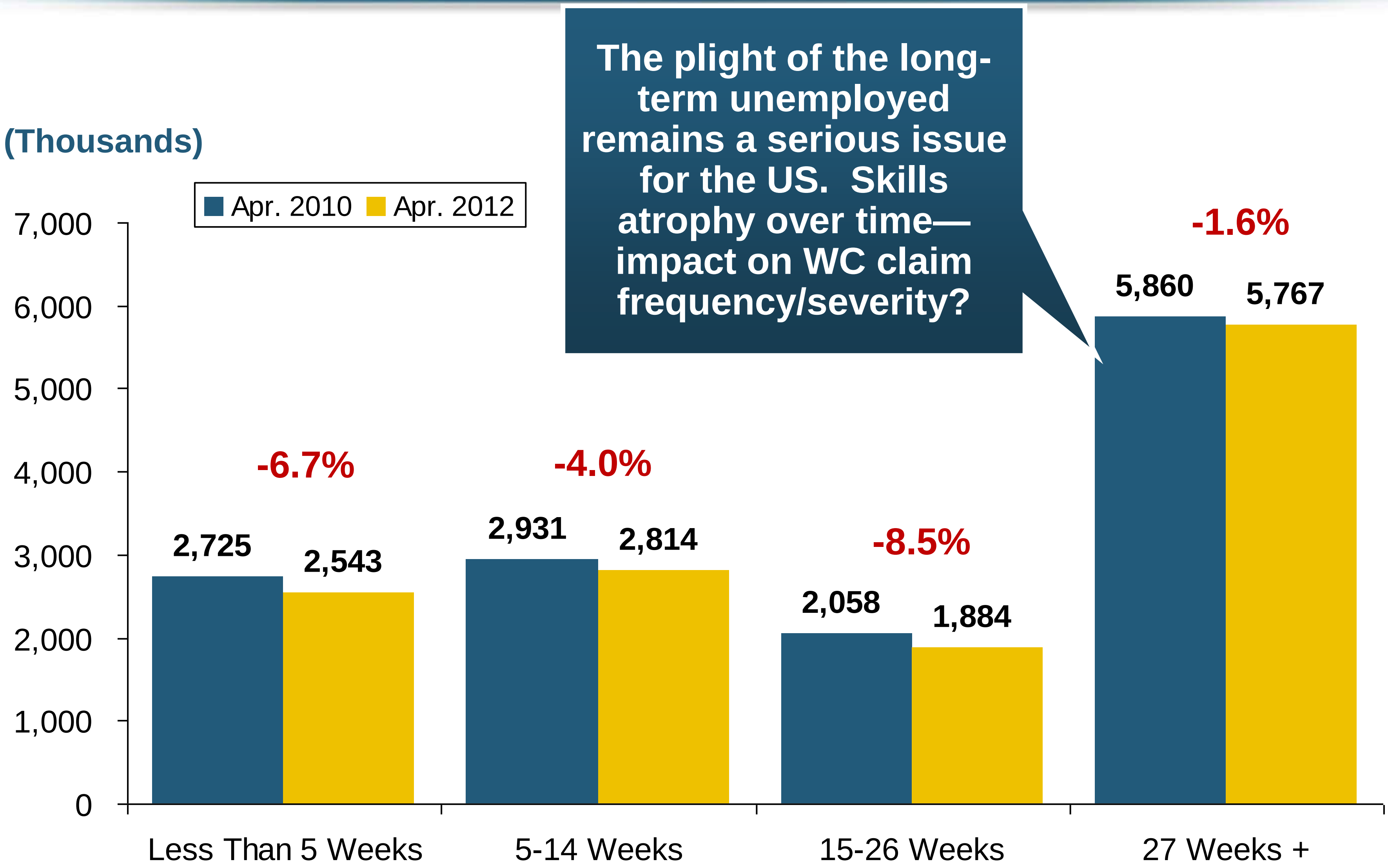
*Seasonally adjusted

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

ADVERSE LONG-TERM LABOR MARKET DEVELOPMENTS

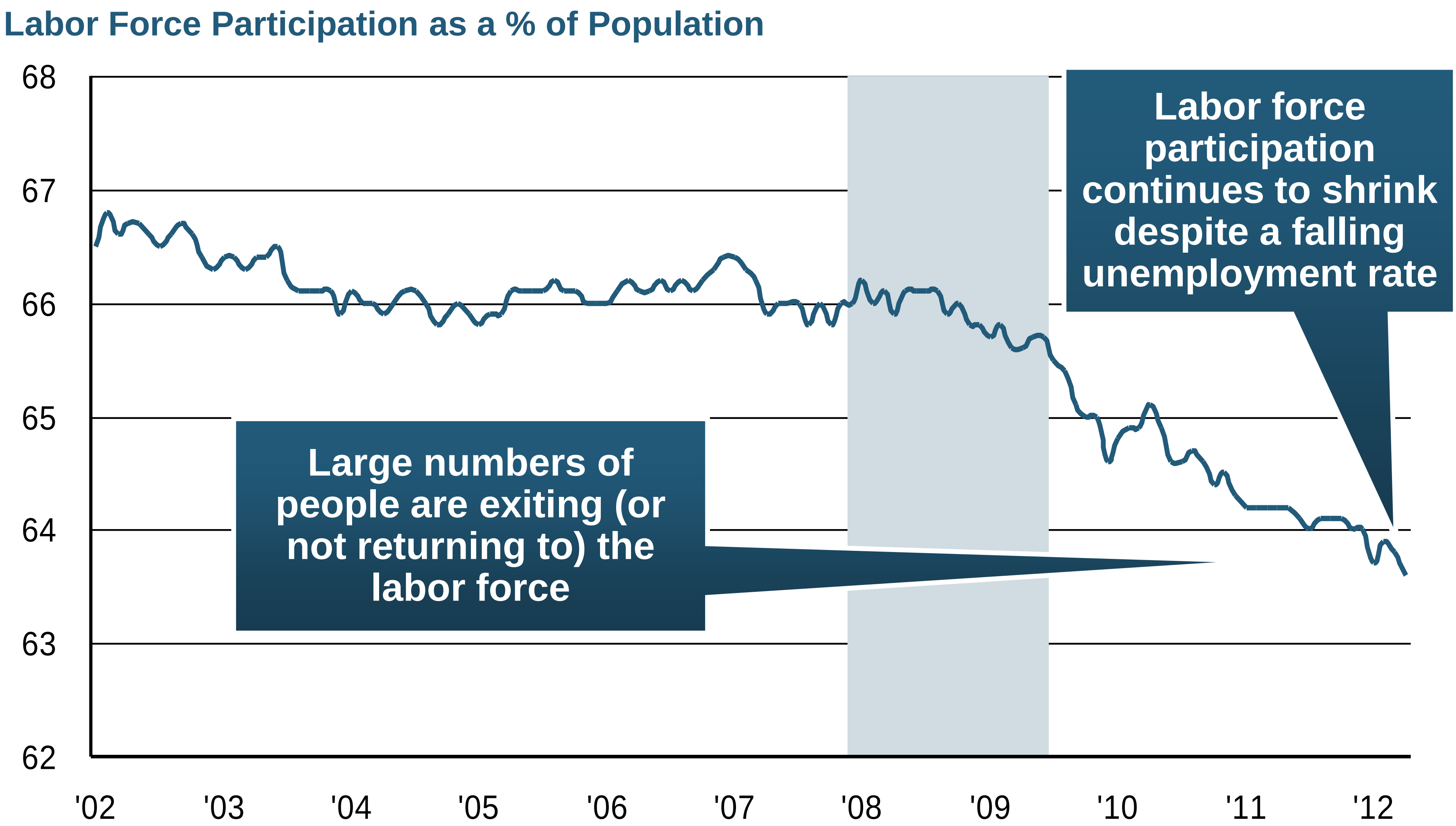
Key Factors Harming Workers Compensation Exposure and the Overall Economy

Duration of Unemployment, Apr. 2011 vs. Apr. 2012



Source: US Bureau of Labor Statistics at http://www.bls.gov/news.release/empsit.a.htm; Insurance Information Institute.

Labor Force Participation Rate, Jan. 2002—Apr. 2012*



*Defined as the percentage of working age persons in the population who are employed or actively seeking work.

Note: Recessions indicated by gray shaded columns.

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

Number of “Discouraged Workers”: Elevated, but Dropping

Jan 1994-Mar 2012

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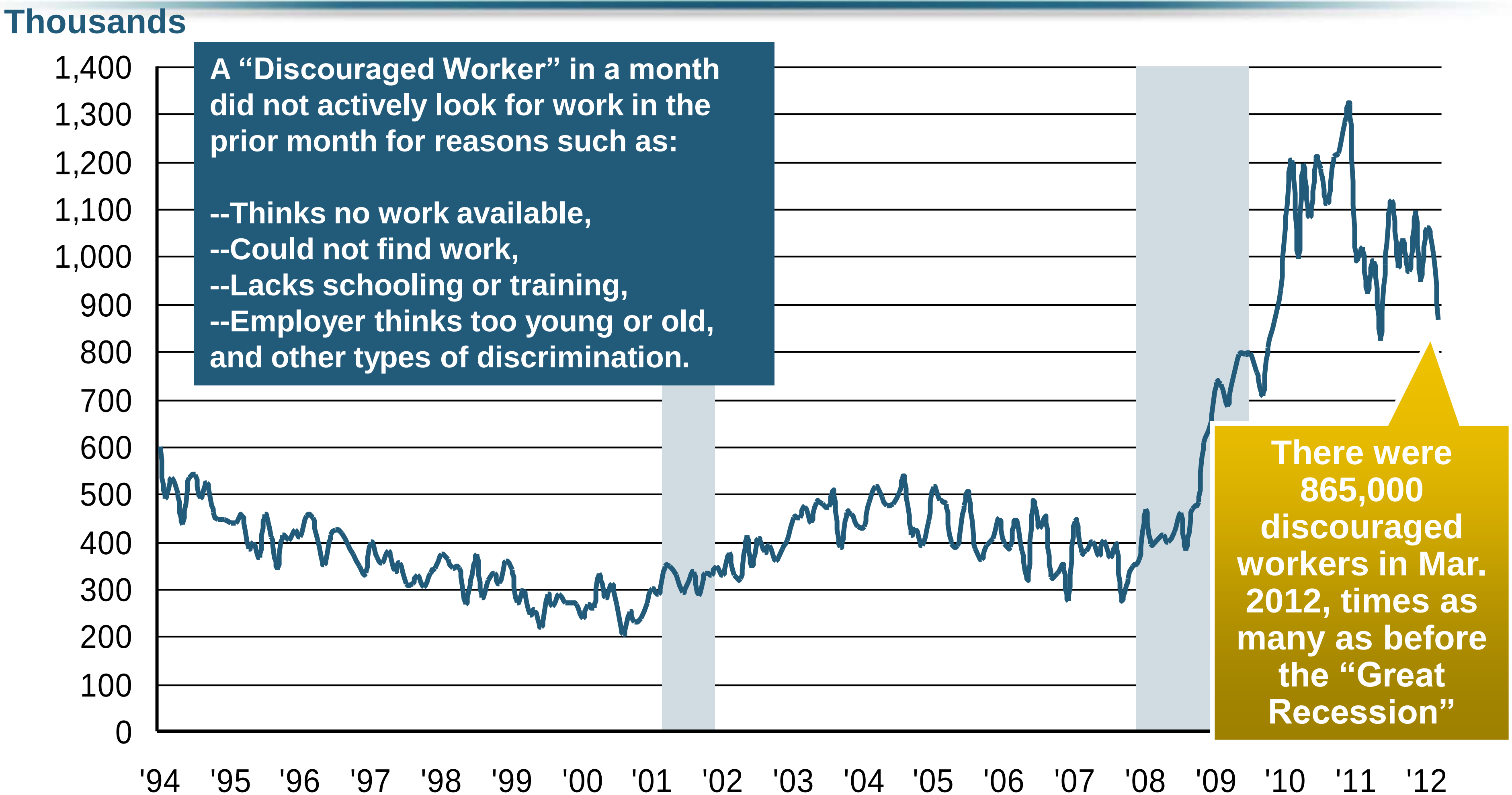

In recent good times, the number of discouraged workers ranged from 200,000-400,000 (1995-2000) or from 300,000-500,000 (2002-2007).

Notes: Recessions indicated by gray shaded columns. Data are seasonally adjusted.
Sources: Bureau of Labor Statistics; National Bureau of Economic Research (recession dates).

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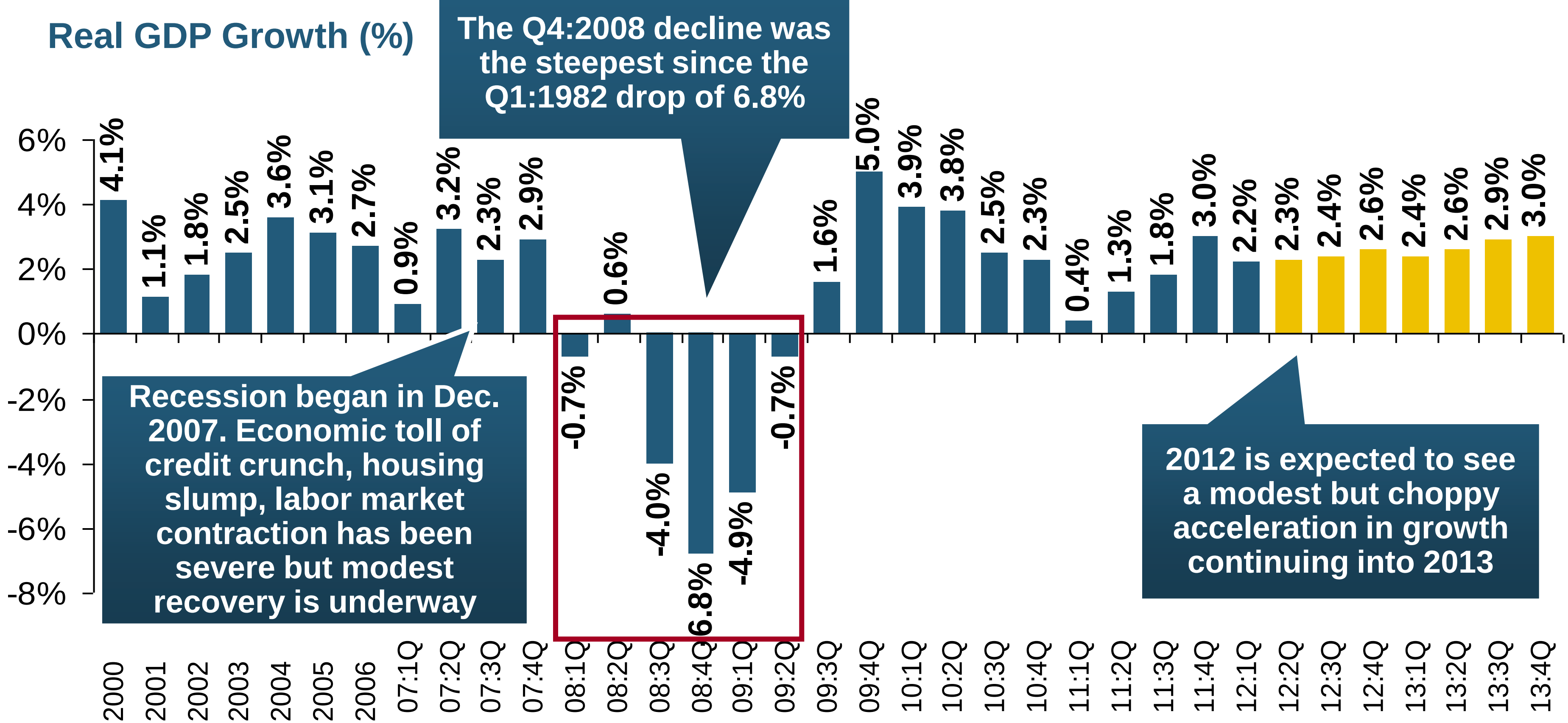
The Strength of the Economy Will Influence P/C Insurer Growth Opportunities

Growth Will Expand Workers Comp Payroll Exposure Base

America's Manufacturing Renaissance?

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 Sentiment Survey *(1966 = 100)*

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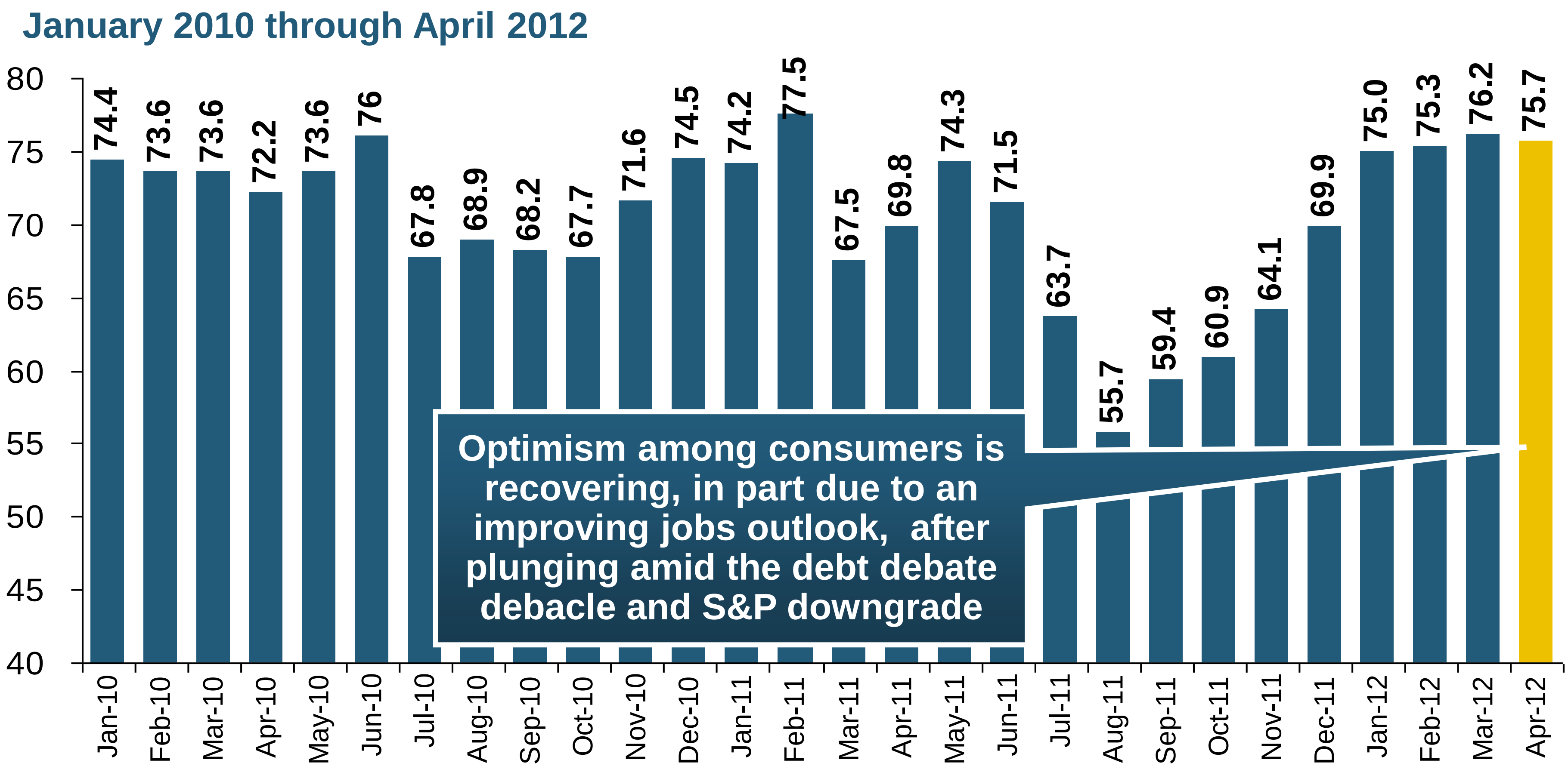

Consumer confidence has been low for years amid high unemployment, falling home prices and other factors adversely impact consumers, but improved substantially in late 2011 and early 2012

Source: University of Michigan; Insurance Information Institute

New Private Housing Starts, 1990-2022F

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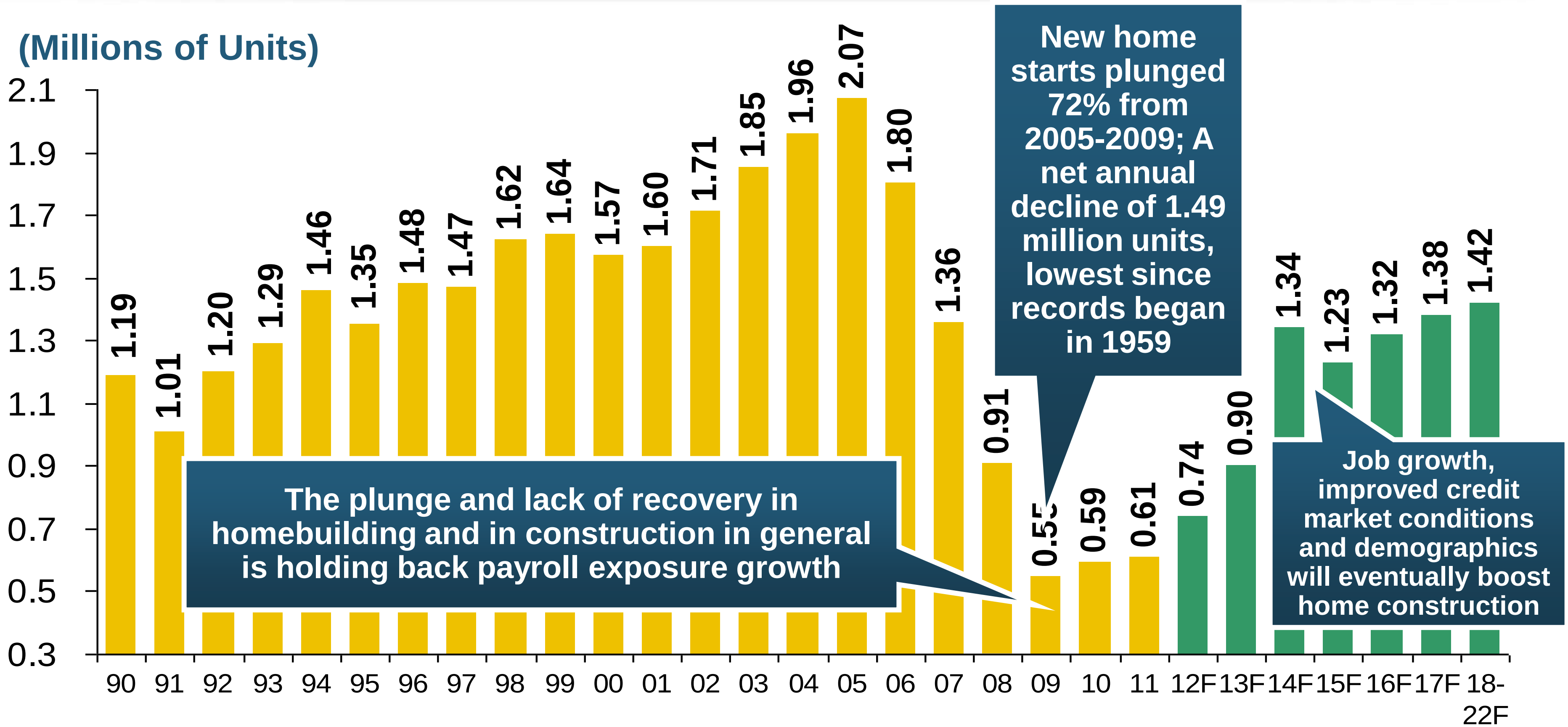


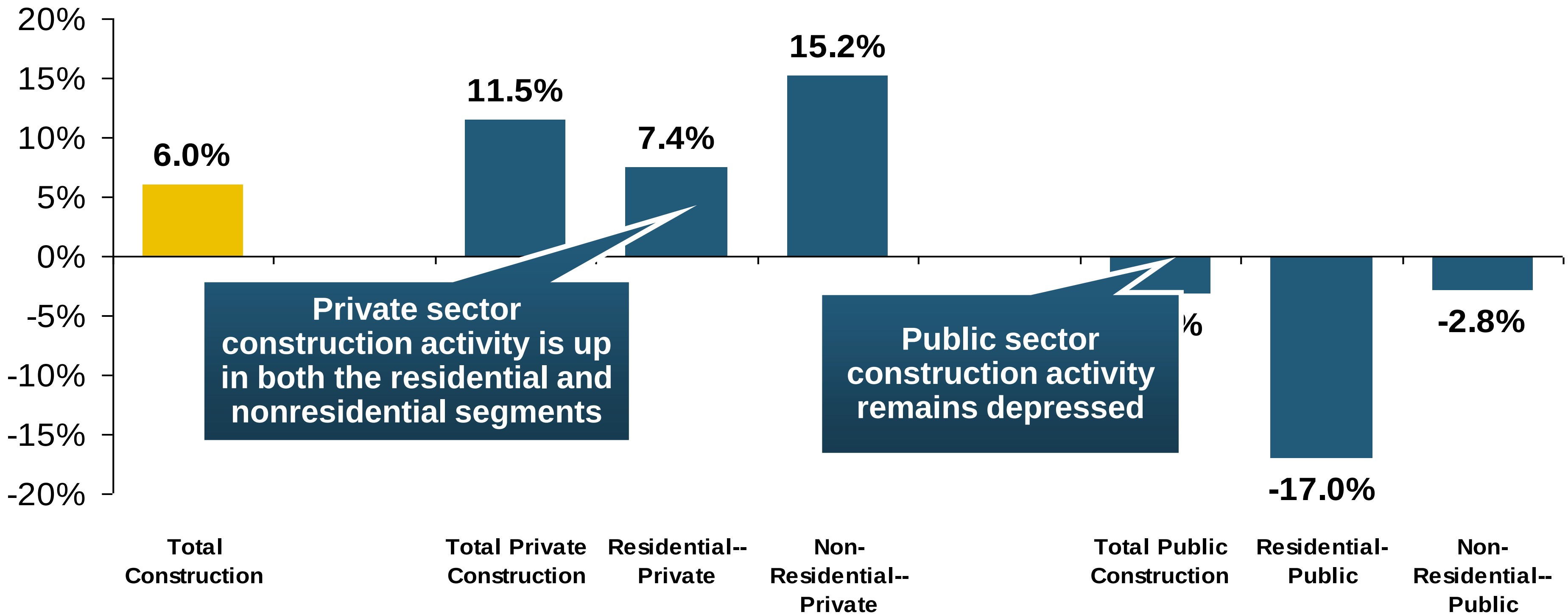
Little Exposure Growth Likely for Homeowners Insurers Until at least 2014. Also Affects Commercial Insurers with Construction Risk Exposure, Surety

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

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

Growth (%)

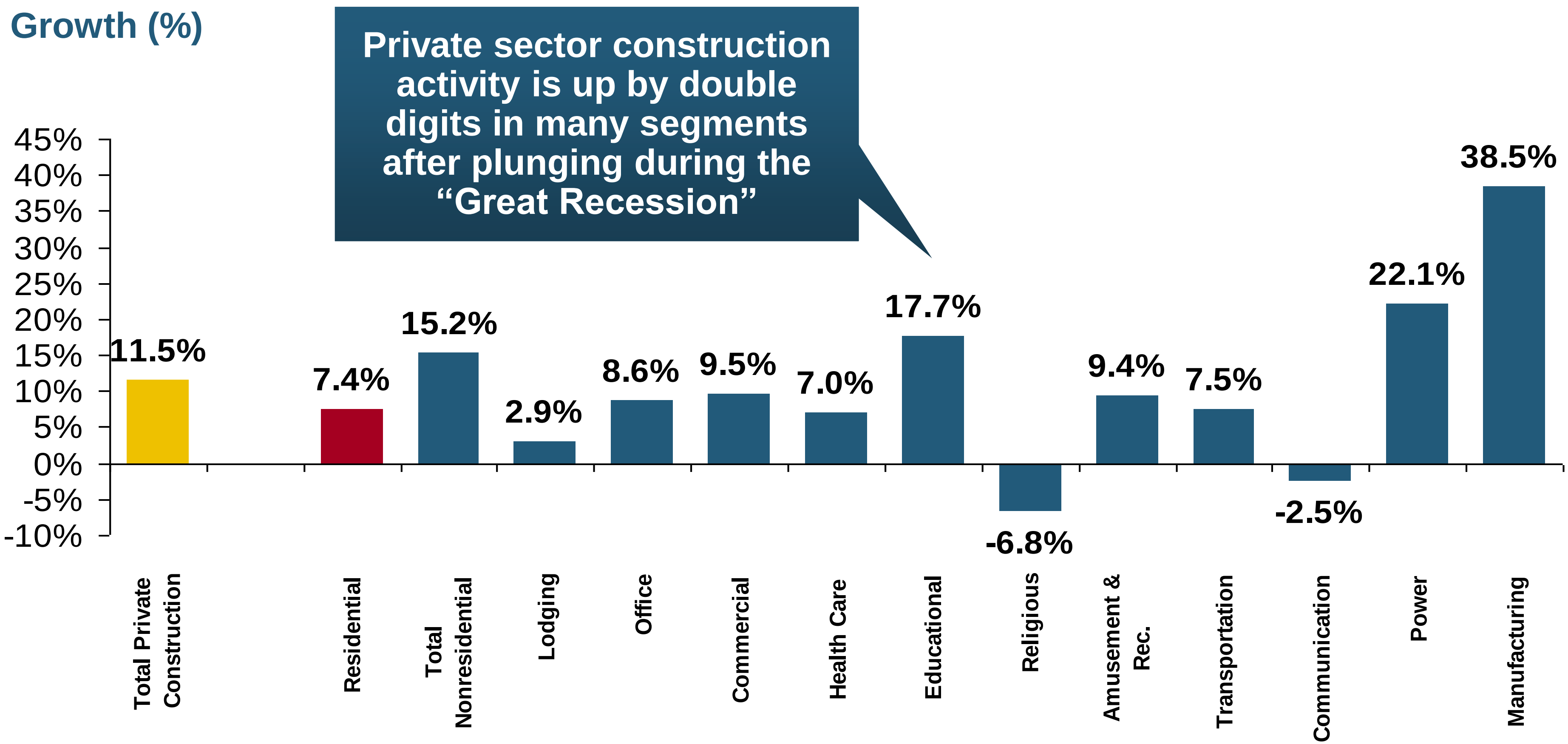
Private: +11.5% **Public: -3.2%**



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

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

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

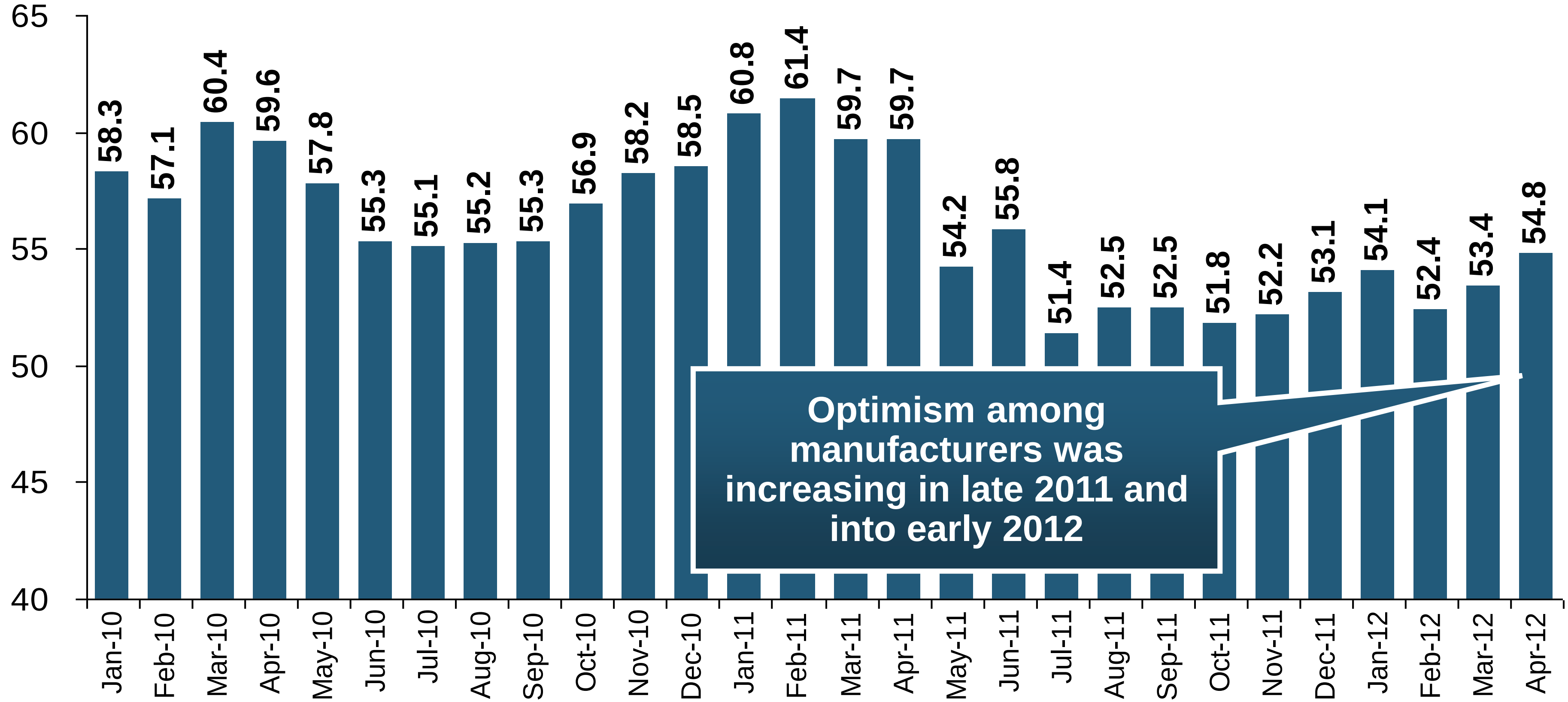


Private Construction Activity is Up in Most Segments, Including Residential Construction

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

ISM Manufacturing Index
(Values > 50 Indicate Expansion)

January 2010 through 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—Mar. 2012

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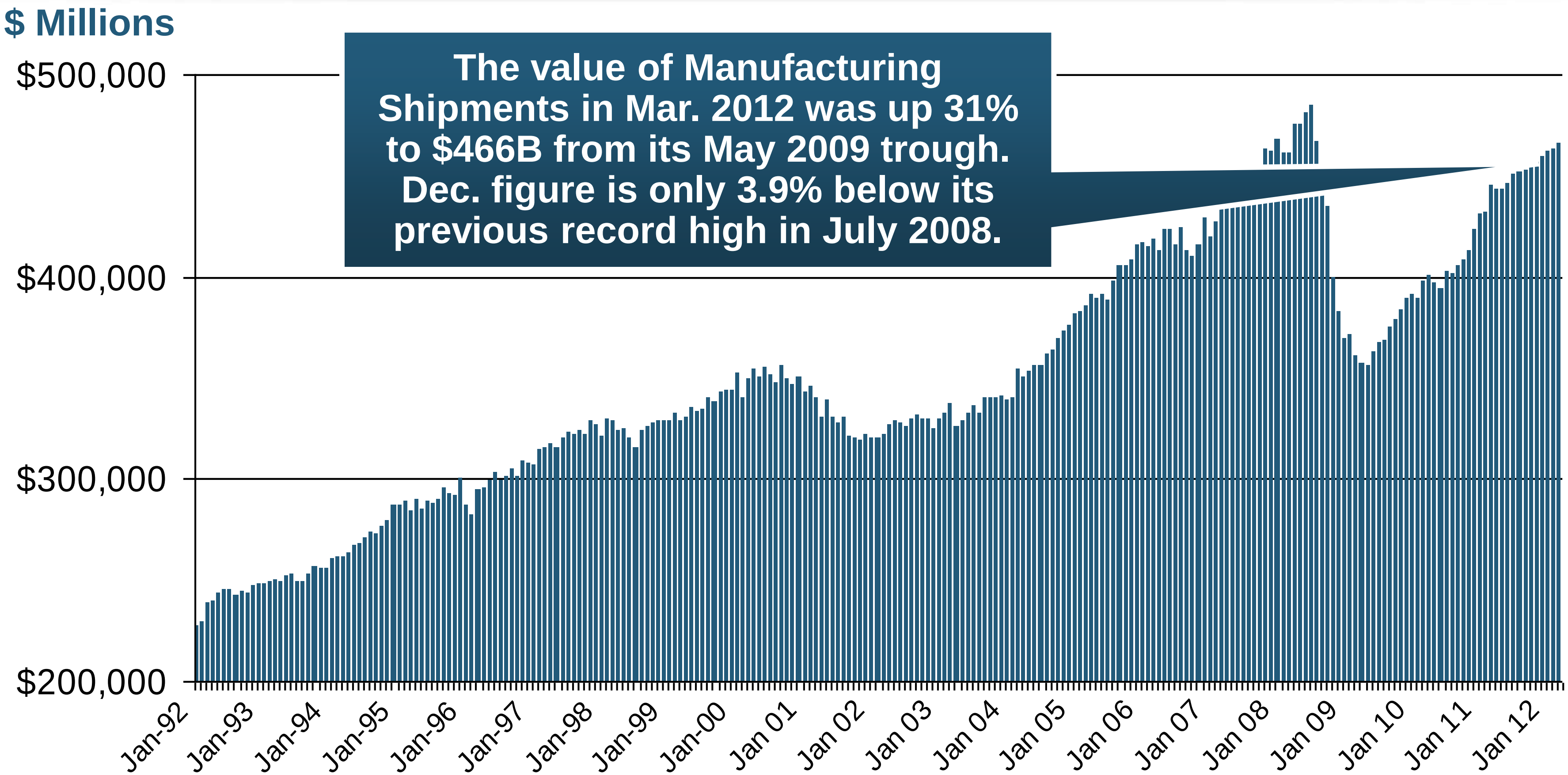

Monthly shipments are nearly back to peak (in July 2008, 8 months into the recession). Trough in May 2009. Growth from trough to March 2012 was 31%. This growth leads to gains in many commercial exposures: WC, Commercial Auto, Marine, Property and Various Liability Coverages

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

Manufacturing Growth for Selected Sectors, 2012 vs. 2011*

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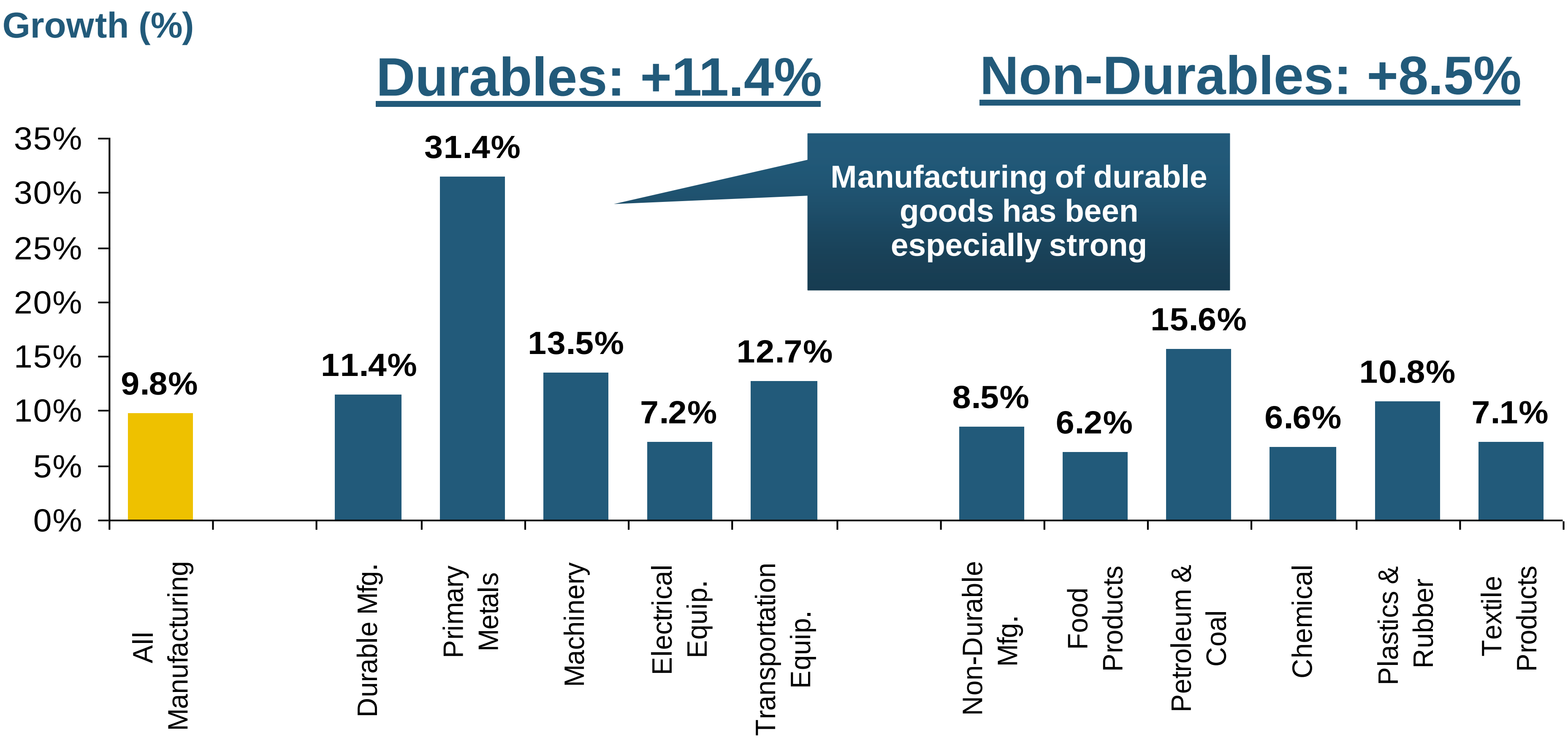

Manufacturing Is Expanding Across a Wide Range of Sectors that Will Contribute to Growth in Insurable Exposures Including: WC, Commercial Property, Commercial Auto and Many Liability Coverages

*Seasonally adjusted; Date are YTD comparing data through Feb. 2012 to the same period in 2011.
Source: U.S. Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders,* http://www.census.gov/manufacturing/m3/

Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures

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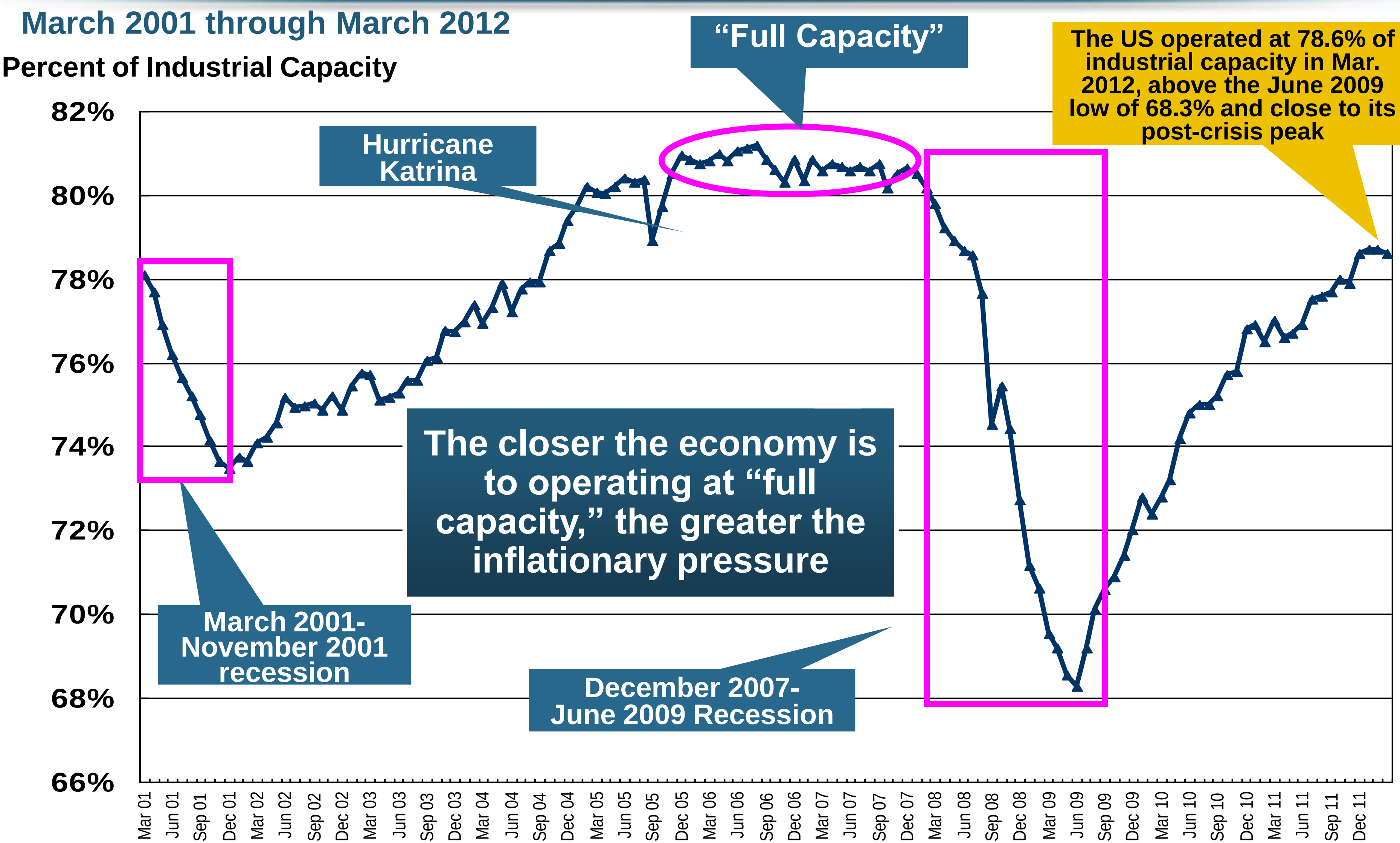

Source: Federal Reserve Board statistical releases at http://www.federalreserve.gov/releases/g17/Current/default.htm.

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

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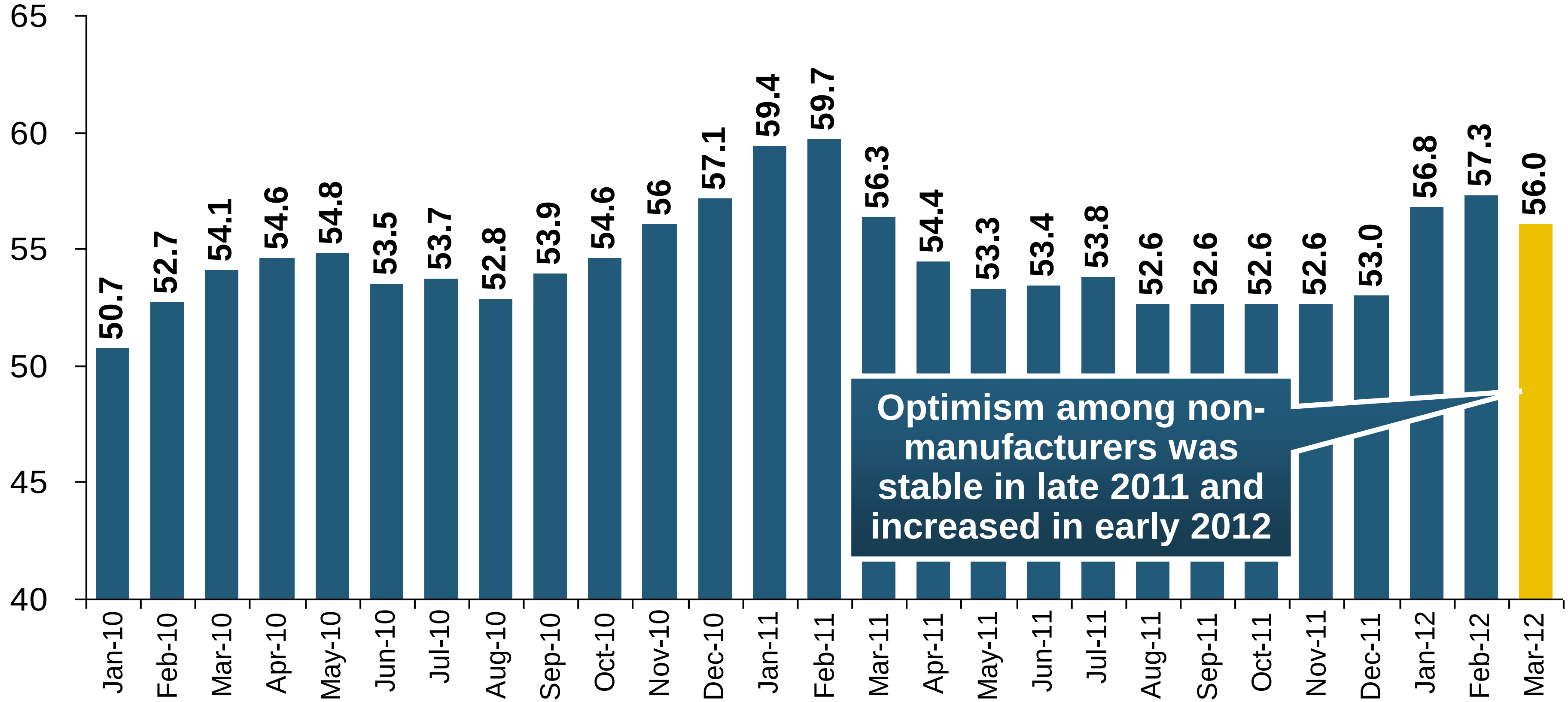
January 2010 through March 2012



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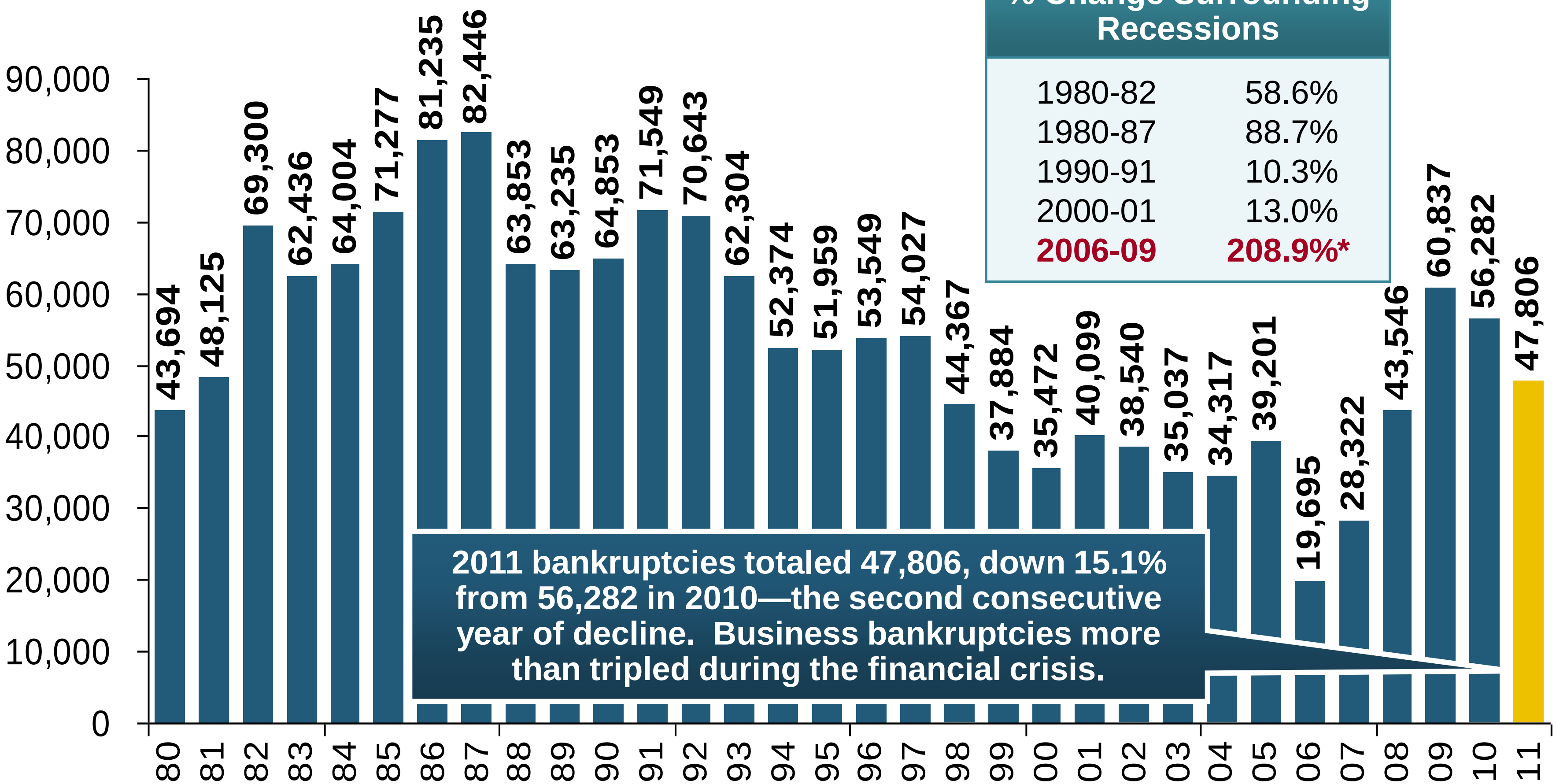
% Change Surrounding Recessions	
1980-82	58.6%
1980-87	88.7%
1990-91	10.3%
2000-01	13.0%
2006-09	**208.9%***



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

Sources: American Bankruptcy Institute 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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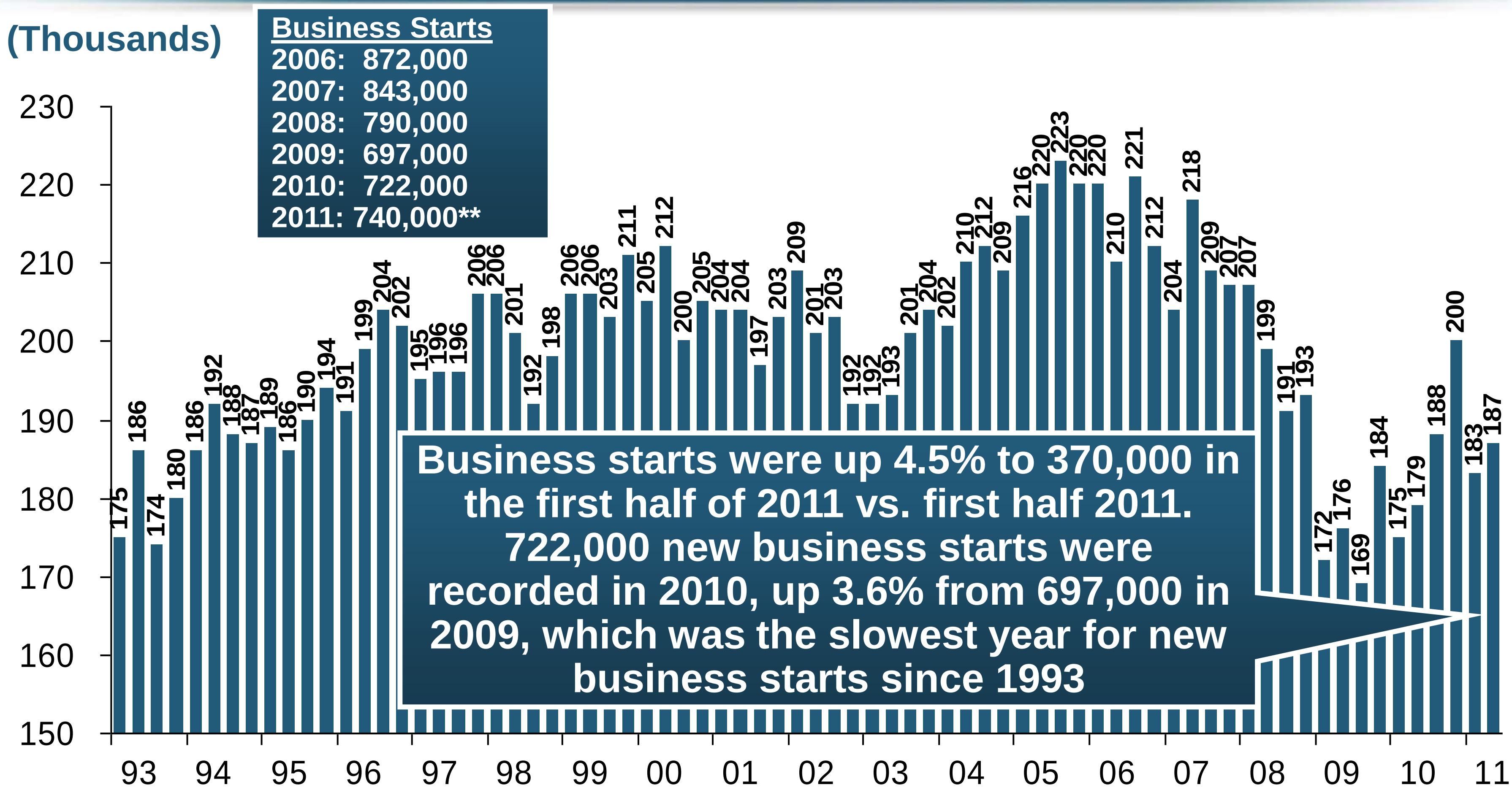

Business Starts Were Down Nearly 20% in the Recession, Holding Back Most Types of Commercial Insurance Exposure, But Are Recovering Slowly

* 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

Presidential Politics & the P/C Insurance Industry

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

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

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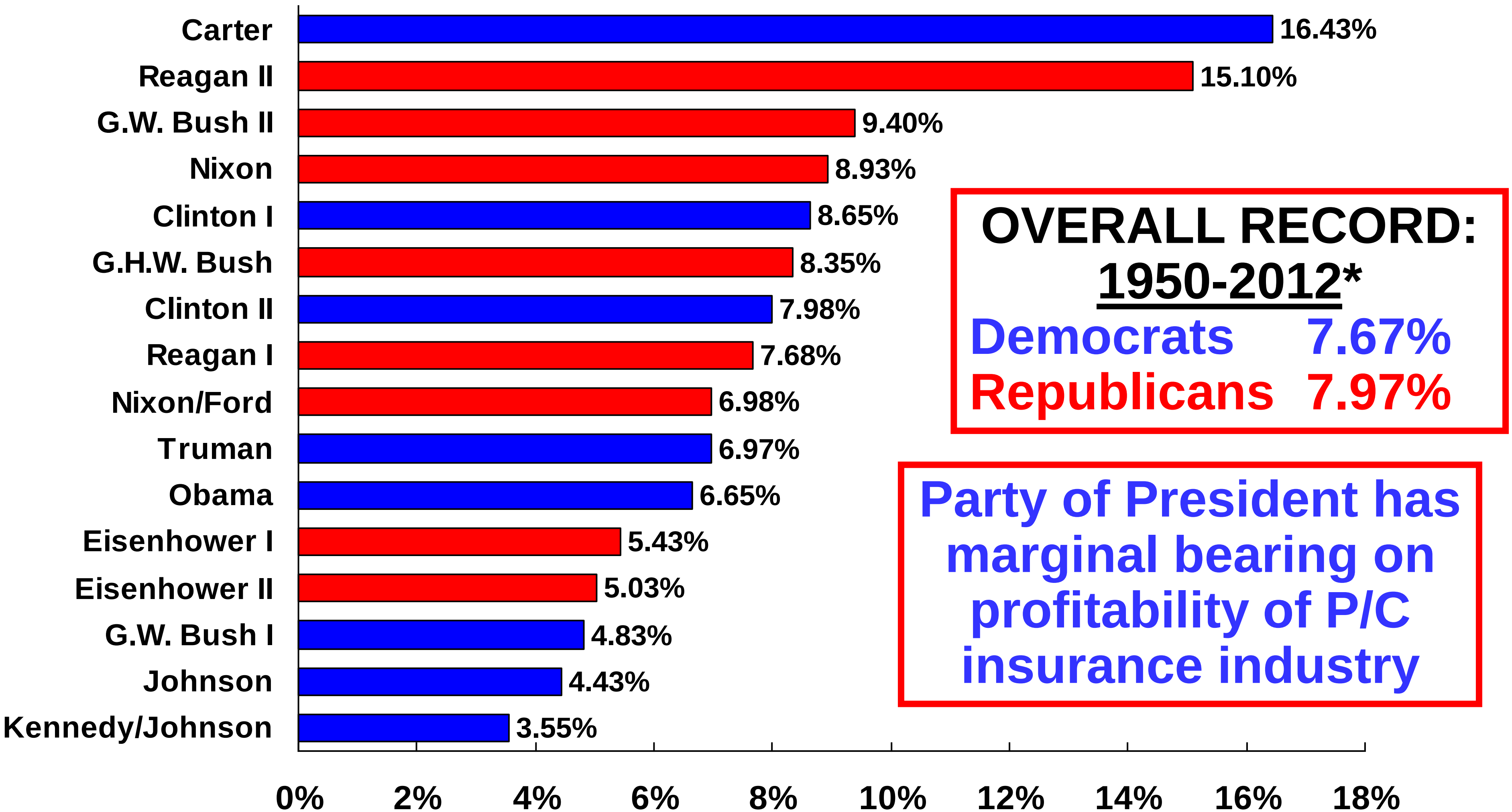

*Truman administration ROE of 6.97% based on 3 years only, 1950-52; ROEs for the years 2008 forward exclude mortgage and financial guaranty segments. Estimated ROE for 2012 = 7.0%.

Source: Insurance Information Institute

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

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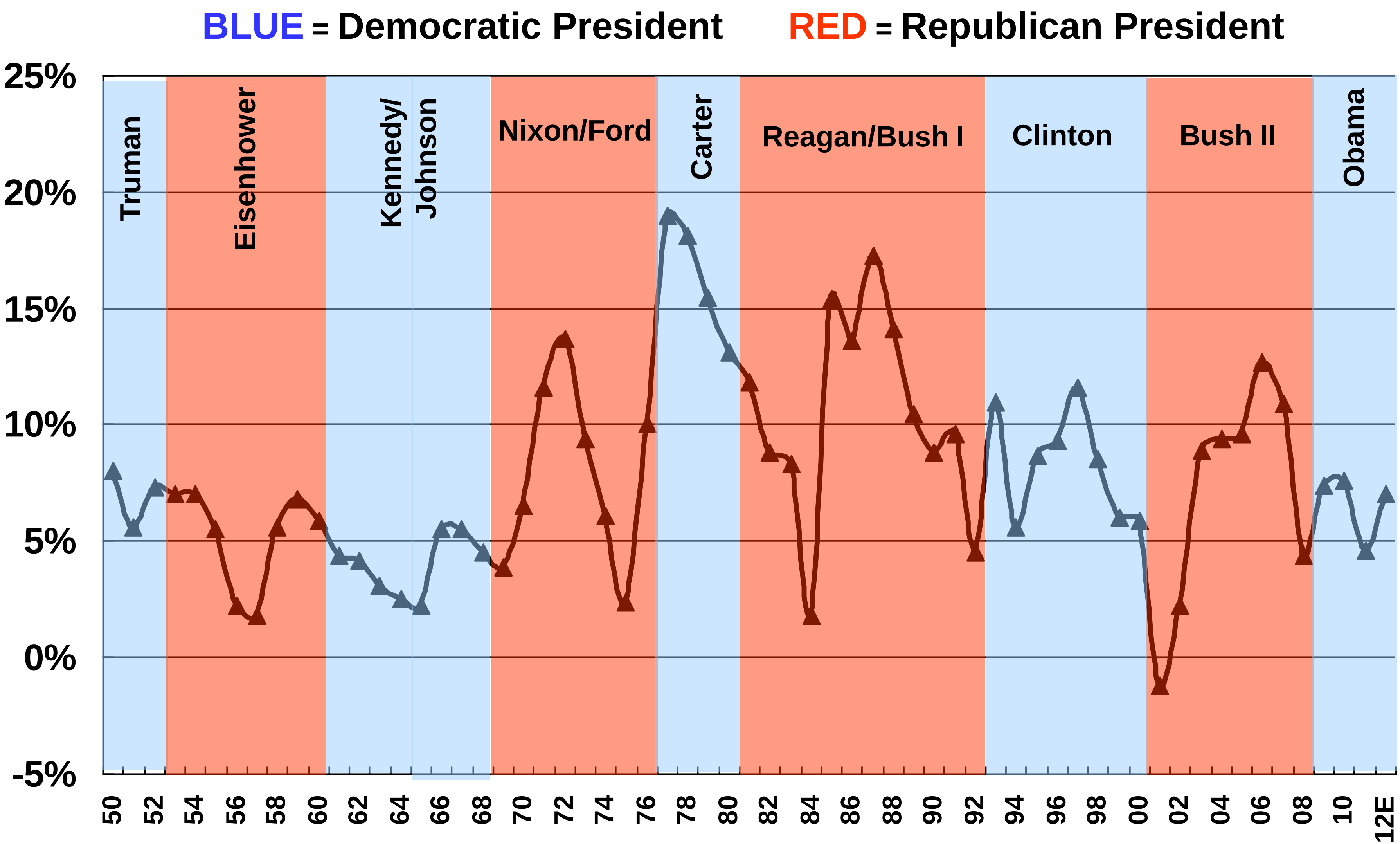

*ROEs for the years 2008 forward exclude mortgage and financial guaranty segments; Estimated 2012 ROE = 7.0%

Source: Insurance Information Institute

Election 2012: Political Issues Impacting Insurers

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- **Presidential Race Is Tight**
- **Potential for Senate to Flip Republican**
- **Affordable Care Act/Health Care Reform (ObamaCare)**
  - Romney, Republicans generally vow to repeal the Act
  - Complete repeal is unlikely as several popular ACA provisions are already implemented
  - Supreme Court will rule on the constitutionality of the Act in June; Outcome uncertain
- **Dodd-Frank Act/Financial Services Reform & Implementation**
  - Republicans refer to DFA as a "confidence killer" and want it scaled back
  - Outright repeal is highly unlike irrespective of election outcome
  - Systemic criteria have been developed; Designations in late 2012
  - Financial Stability Oversight Council: Current/future composition impacted by election
  - Changes to DFA and/or implementation will have little impact on P/C insurers
- **Key Committee Shifts Possible**
  - **Senate Banking Chair:** Tim Johnson (D-SD) → Richard Shelby (R-AL)
  - **House Finl. Svcs. Chair:** Spencer Bachus (R-AL) → Jeb Hensarling (R-TX) (term limits)
    - If House flipped Chair would go to Maxine Waters (D-CA)
- **Federal Insurance Office**
  - If Romney wins, he will appoint a new Treasury Secretary
  - FIO leadership, staffing, agenda and budget could be impacted
  - Secretary Geithner likely to step down after election even if Obama is re-elected
- **Agent Licensing, NFIP**

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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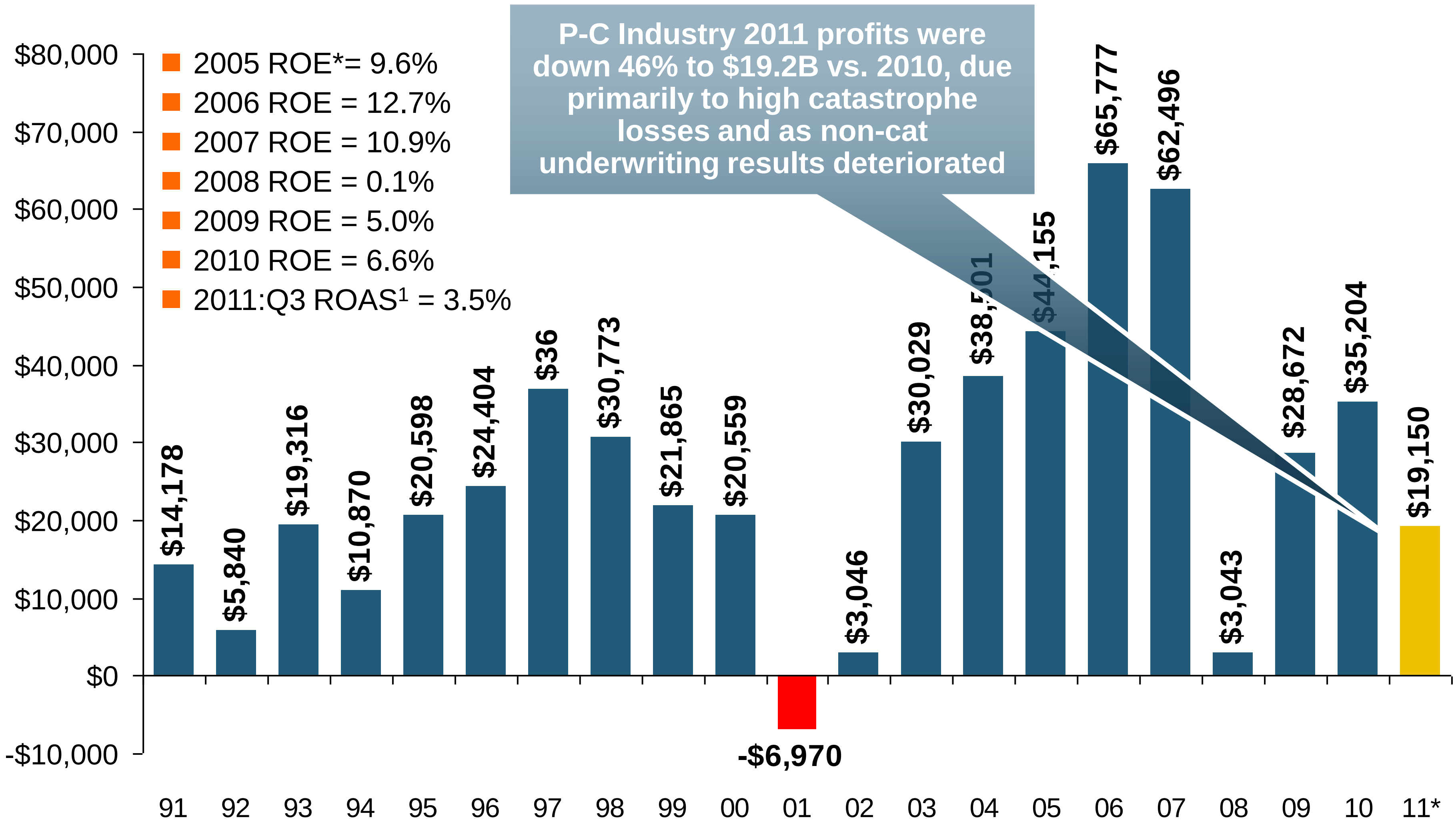

* ROE figures are GAAP; [1]Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 4.6% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009.

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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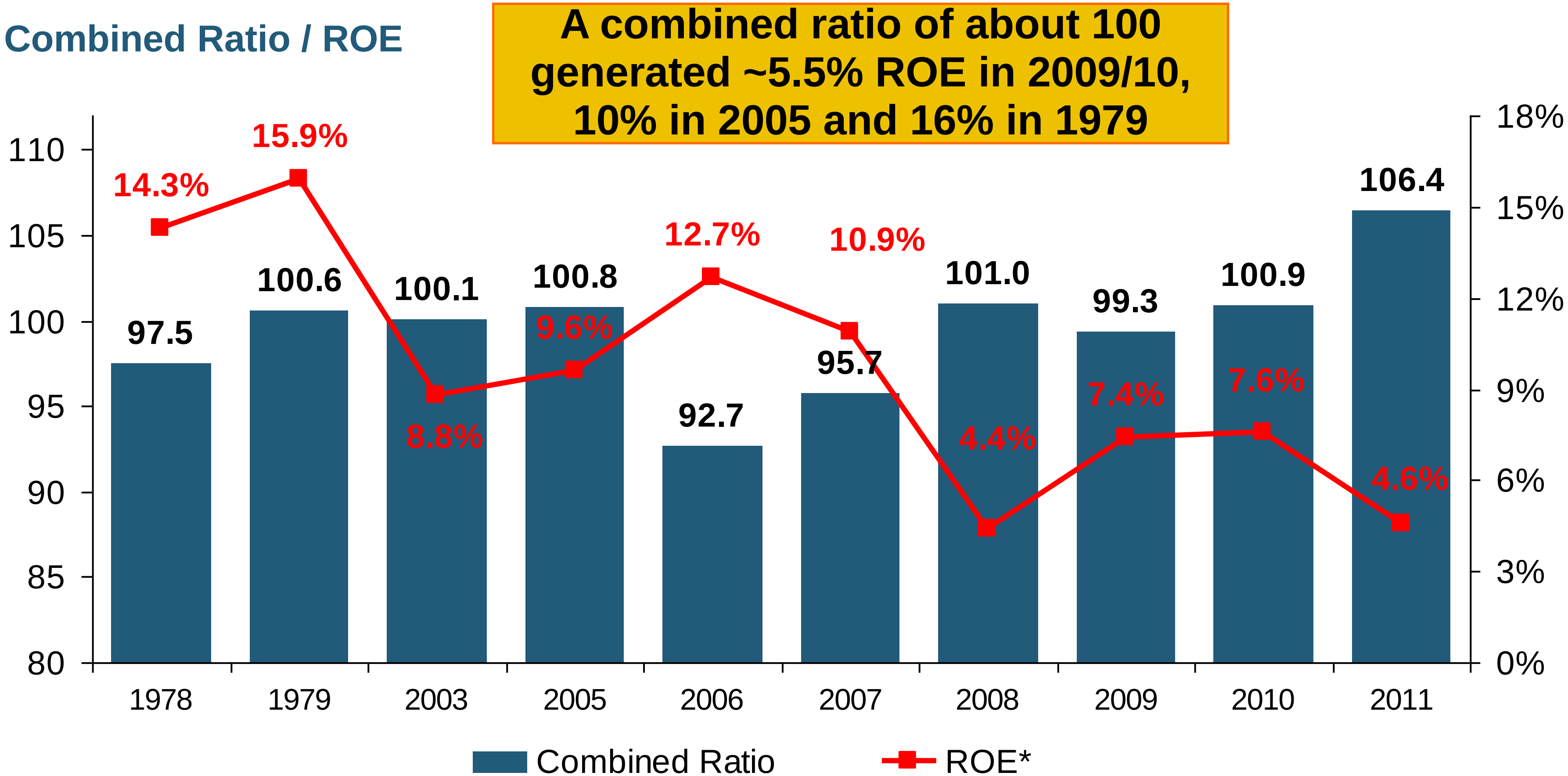

Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 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*

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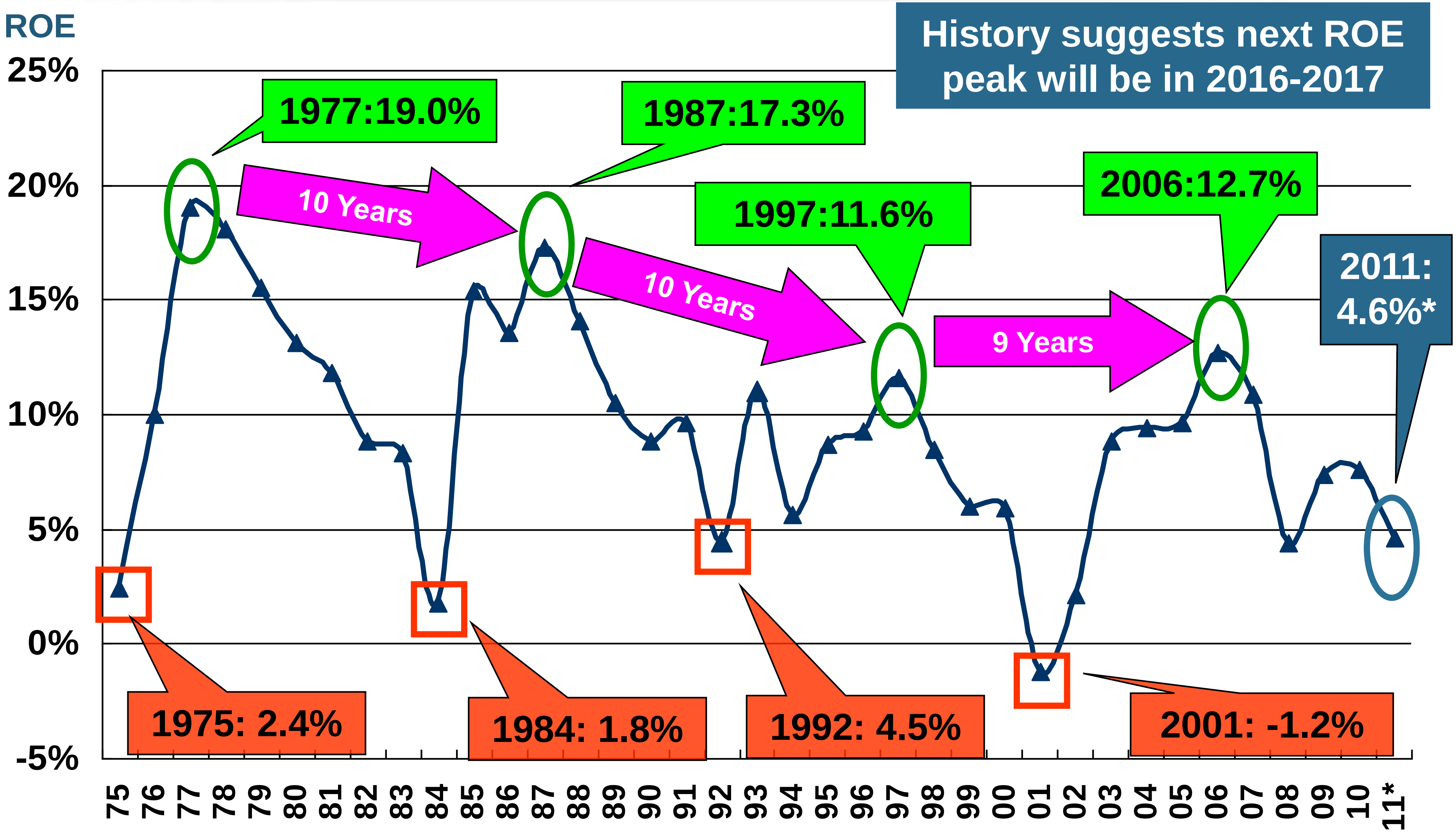
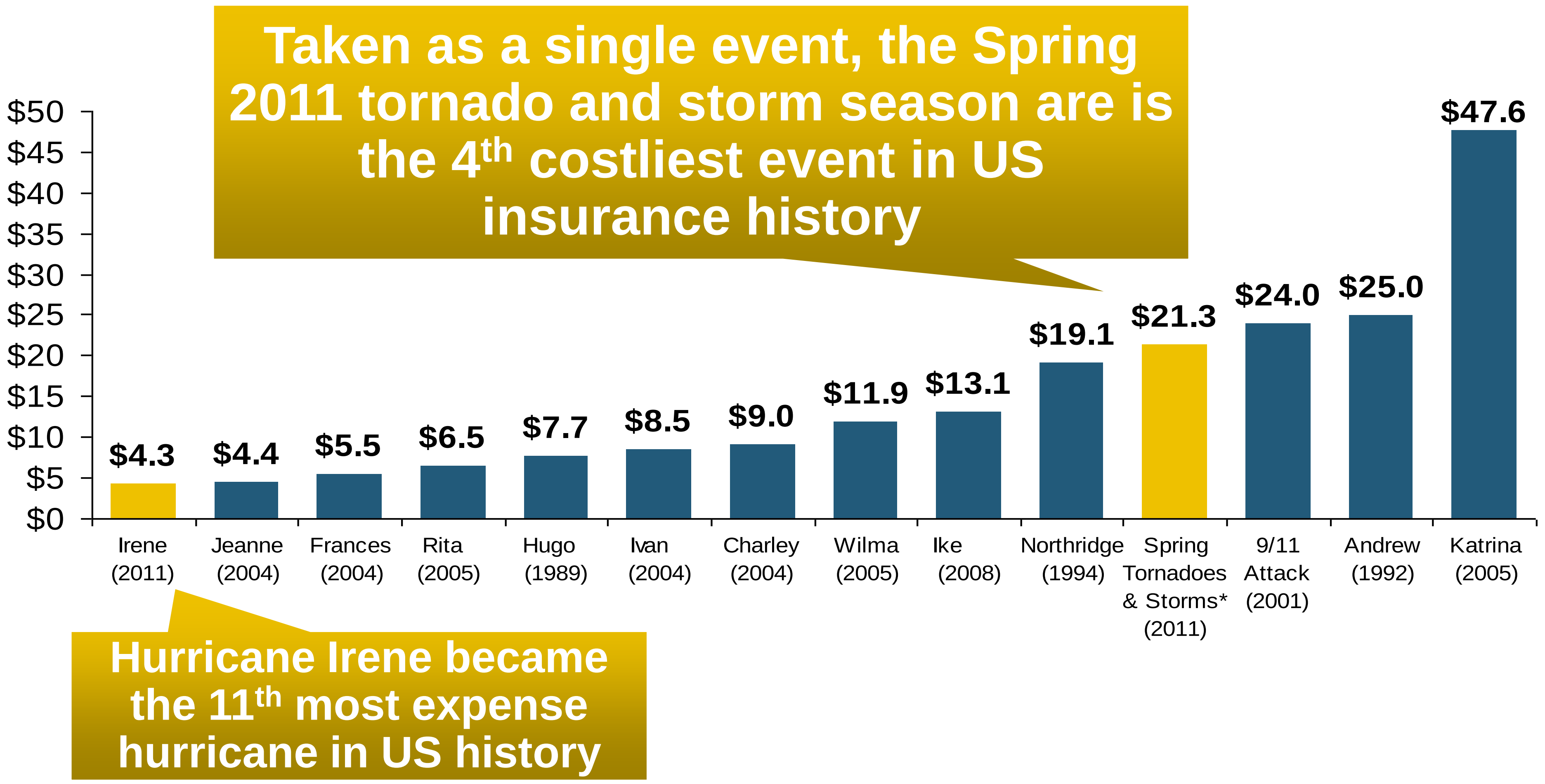


*Profitability = P/C insurer ROEs are I.I.I. estimates. 2011 figure is an estimate based on ROAS data. Note: Data for 2008-2011 exclude mortgage and financial guaranty insurers. For 2011:Q3 ROAS = 3.5% including M&FG.
Source: Insurance Information Institute; NAIC, ISO, A.M. Best.

Top 14 Most Costly Disasters in U.S. History

INSURANCE INFORMATION INSTITUTE

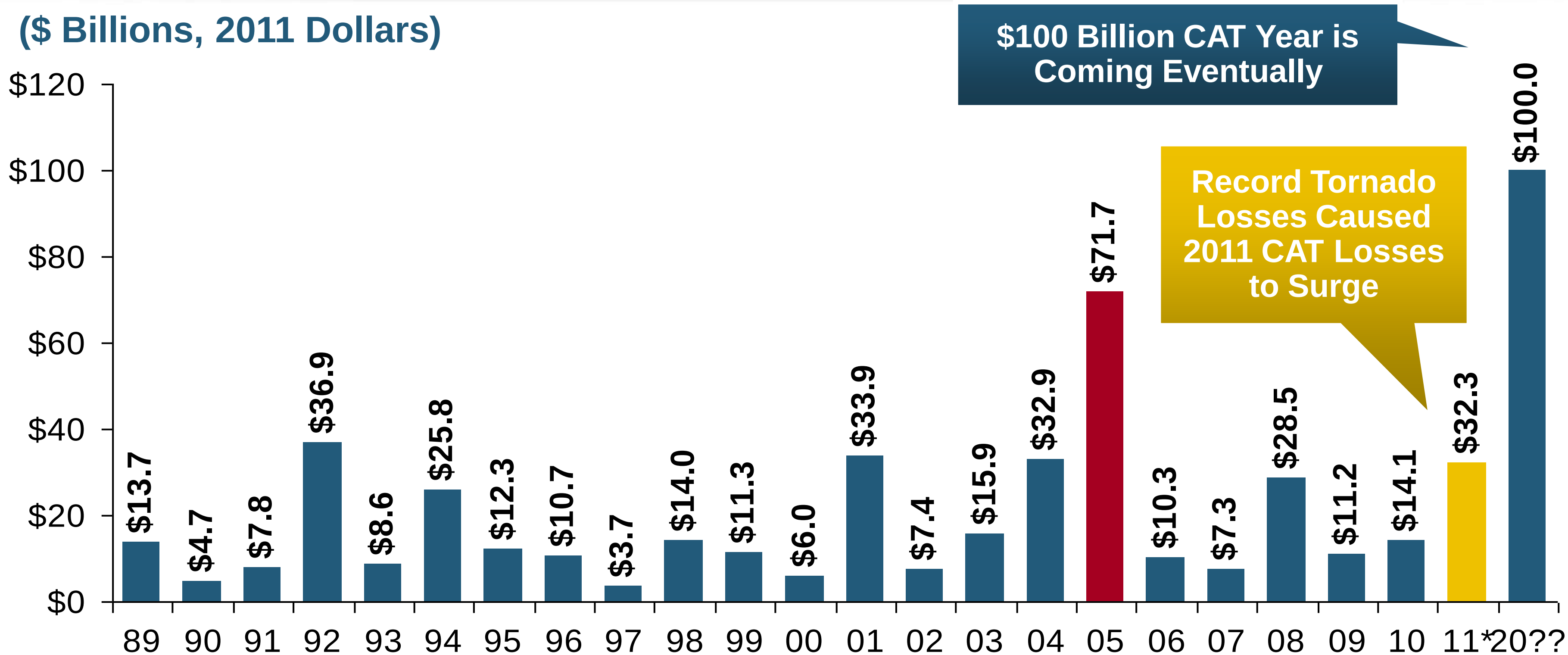
(Insured Losses, 2011 Dollars, $ Billions)



*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.

US Insured Catastrophe Losses



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.

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*

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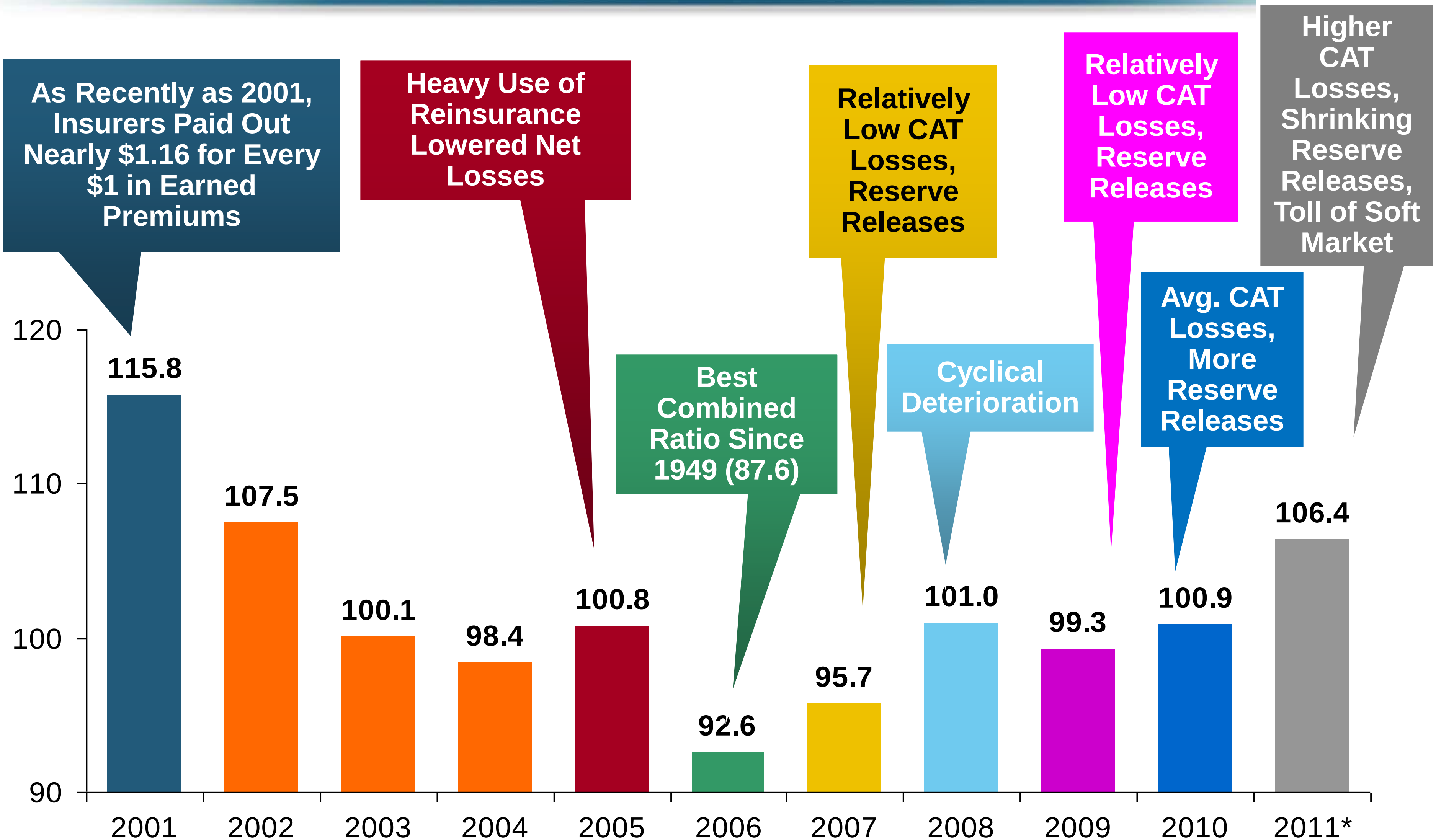
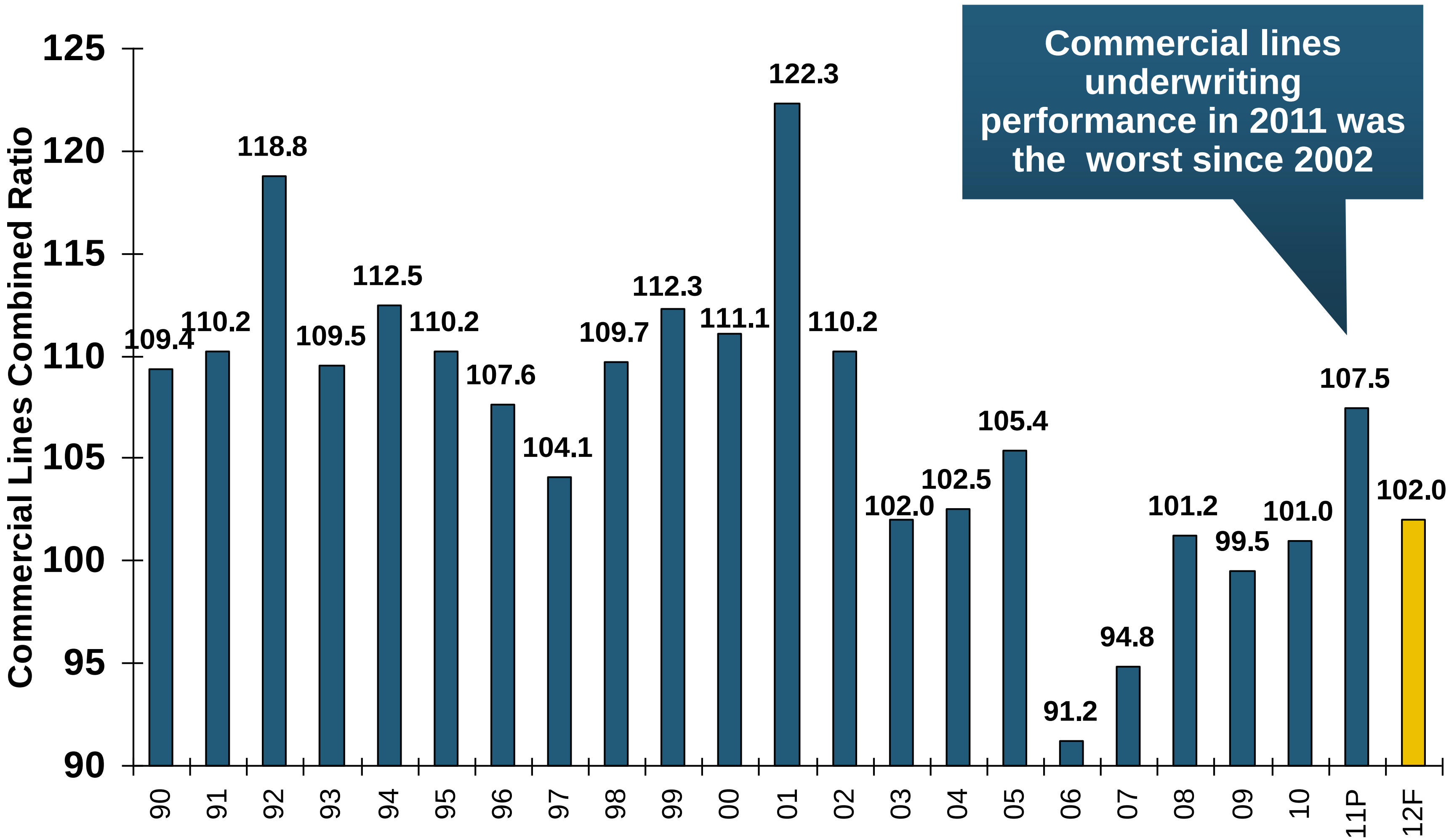


* Excludes Mortgage & Financial Guaranty insurers 2008--2011. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=106.4

Sources: A.M. Best, ISO.

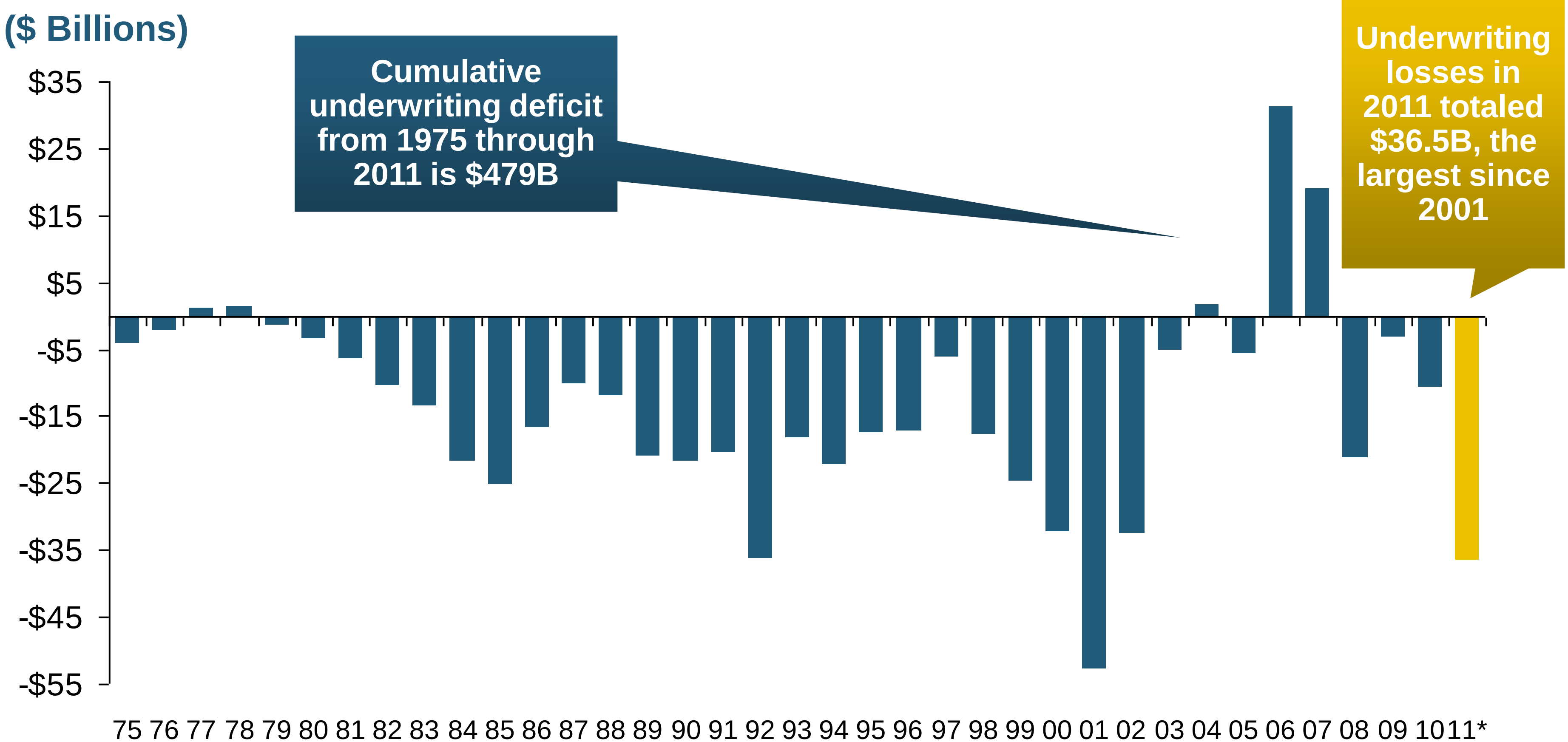
Commercial Lines Combined Ratio, 1990-2012F*



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

Source: A.M. Best; Insurance Information Institute

Underwriting Gain (Loss) 1975–2011*



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, 1992–2013F

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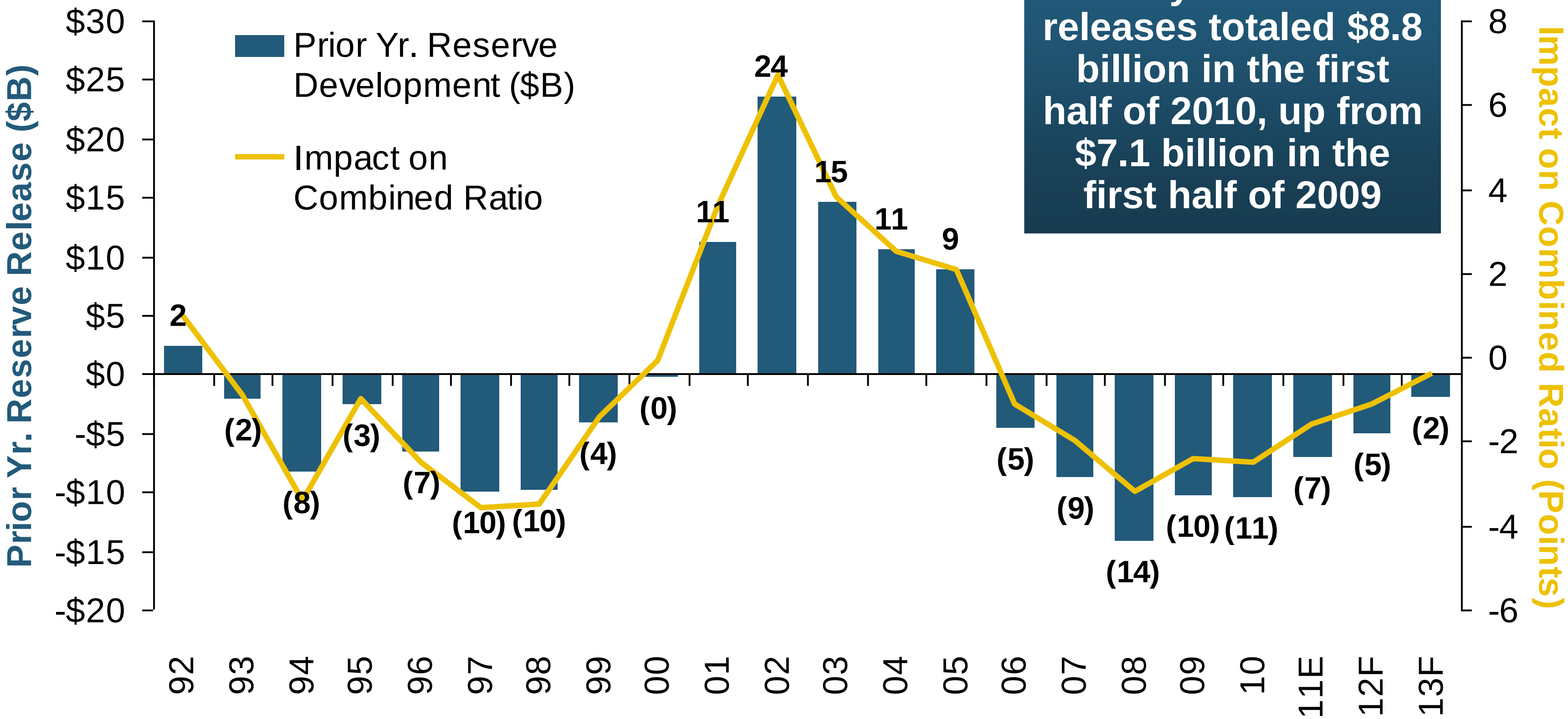
Prior year reserve releases totaled $8.8 billion in the first half of 2010, up from $7.1 billion in the first half of 2009



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

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

Sources: Barclays Capital; A.M. Best.

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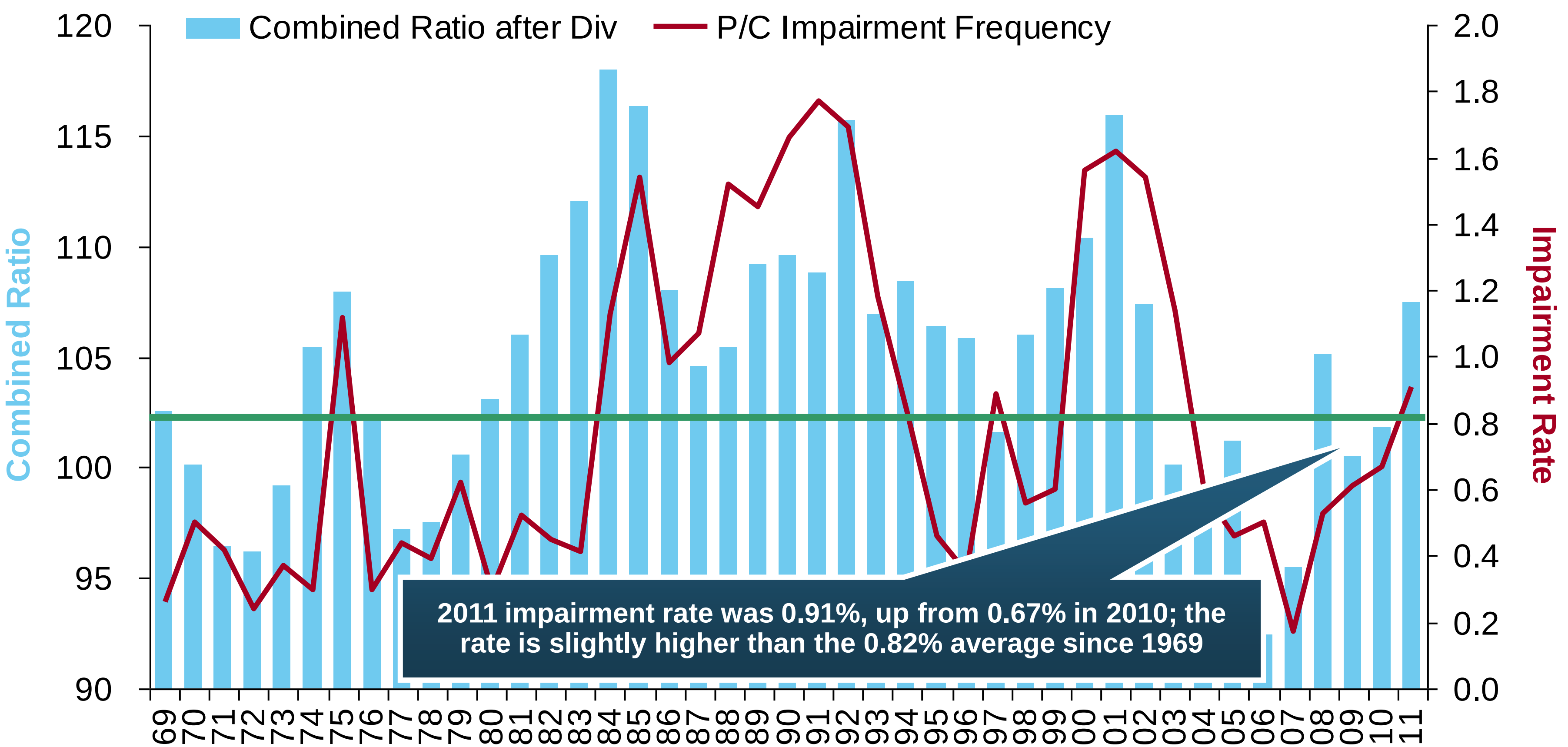
Financial Strength & Underwriting

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

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

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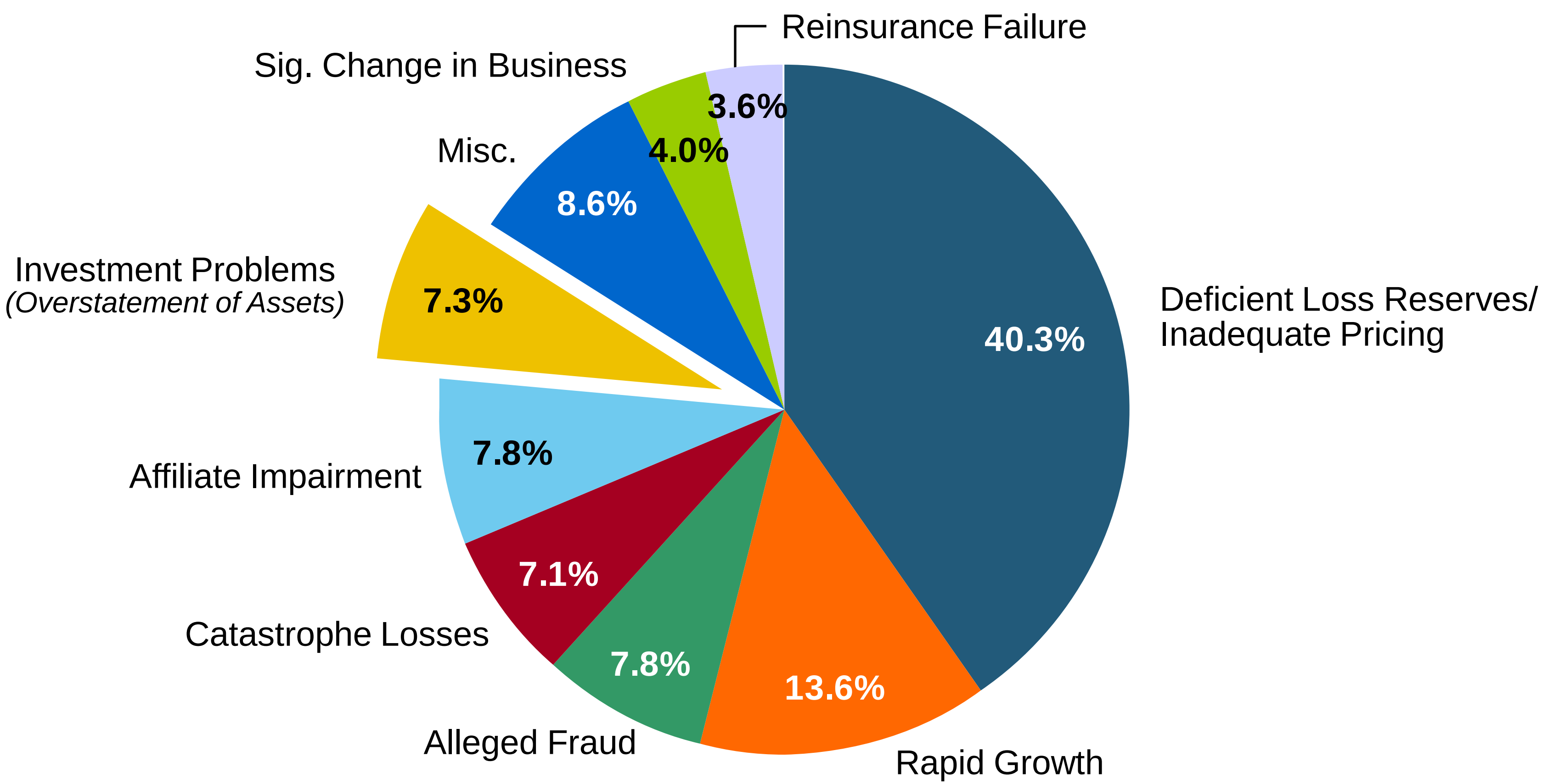
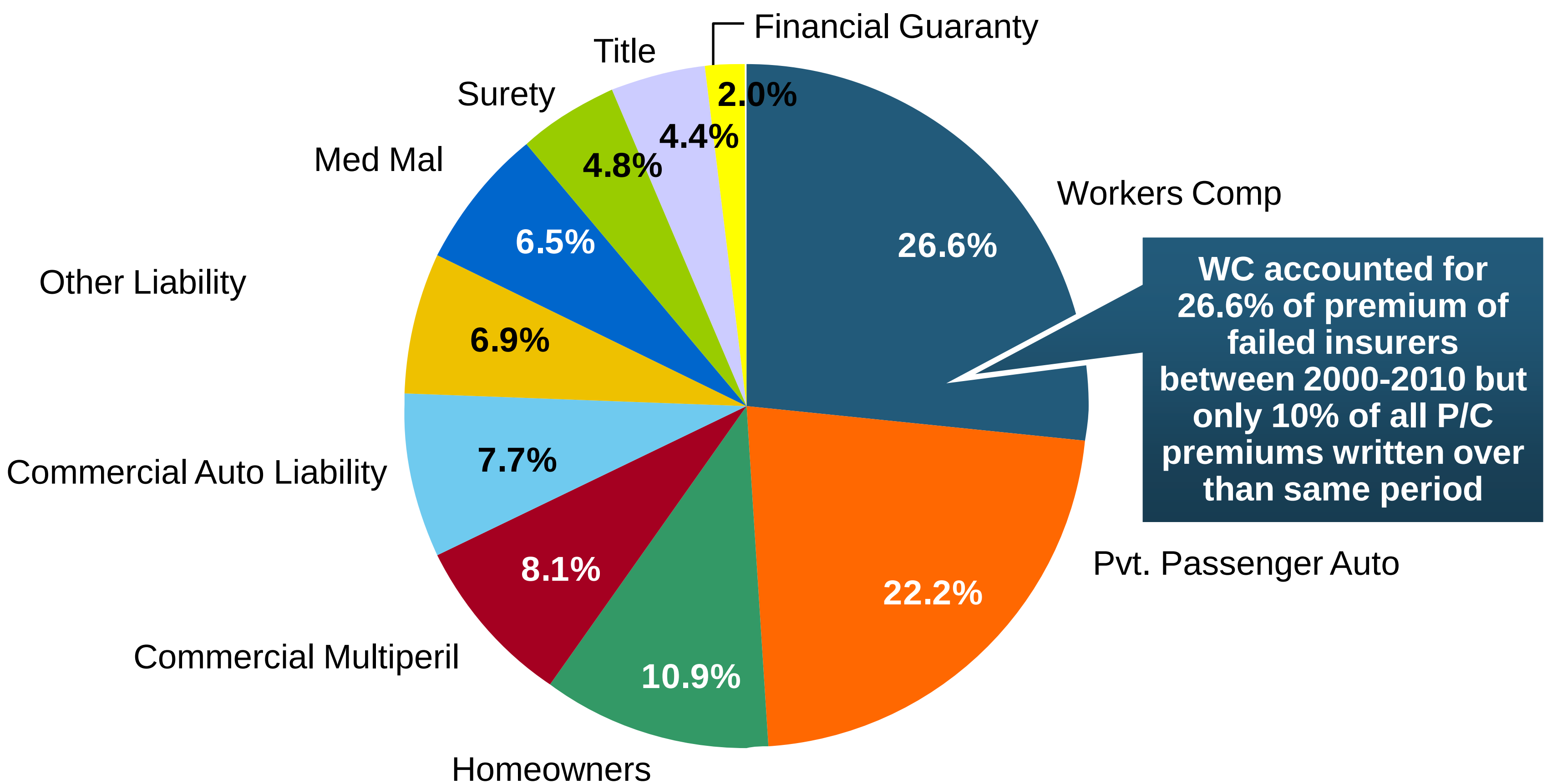
Historically, Deficient Loss Reserves and Inadequate Pricing Are By Far the Leading Cause of P-C Insurer Impairments. Investment and Catastrophe Losses Play a Much Smaller Role



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 Accounted for More than 25% of the Premium Volume of Impaired Insurers Over the Past Decade



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

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2. SURPLUS/CAPITAL/CAPACITY

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

Policyholder Surplus, 2006:Q4–2011:Q4

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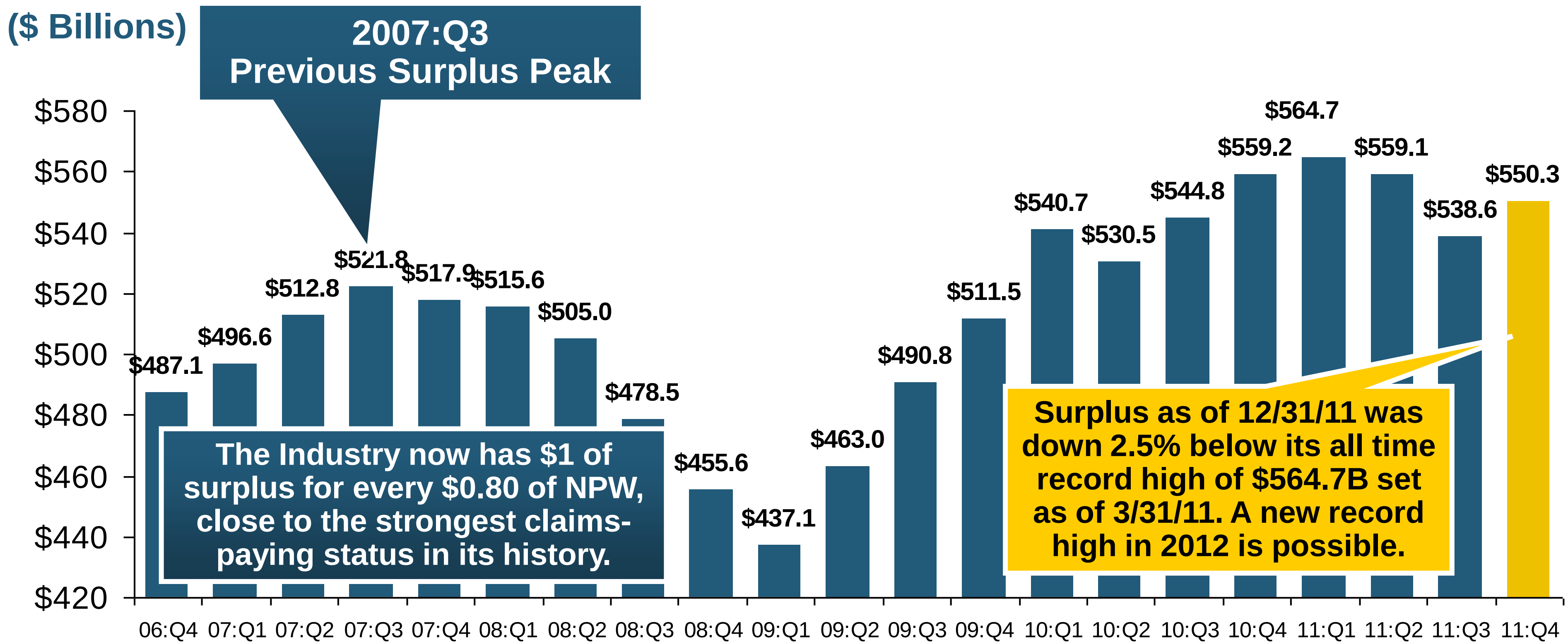


*Includes $22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business in early 2010.

Quarterly Surplus Changes Since 2011:Q1 Peak

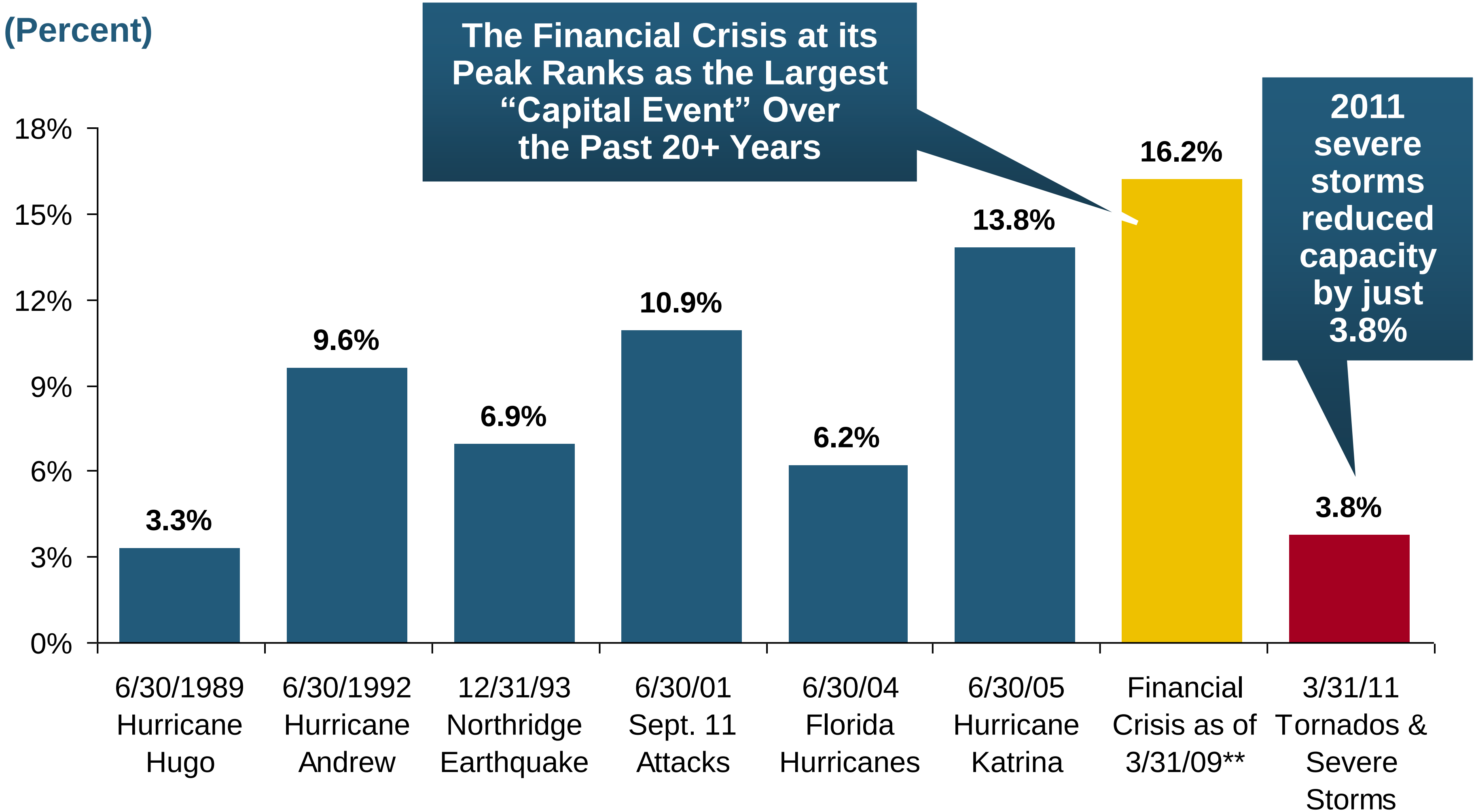
11:Q2: -$5.6B (-1.0%)

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

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

Sources: ISO, A.M .Best.

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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3. REINSURANCE MARKET CONDITIONS

Record Global Catastrophes Activity is Pressuring Pricing

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

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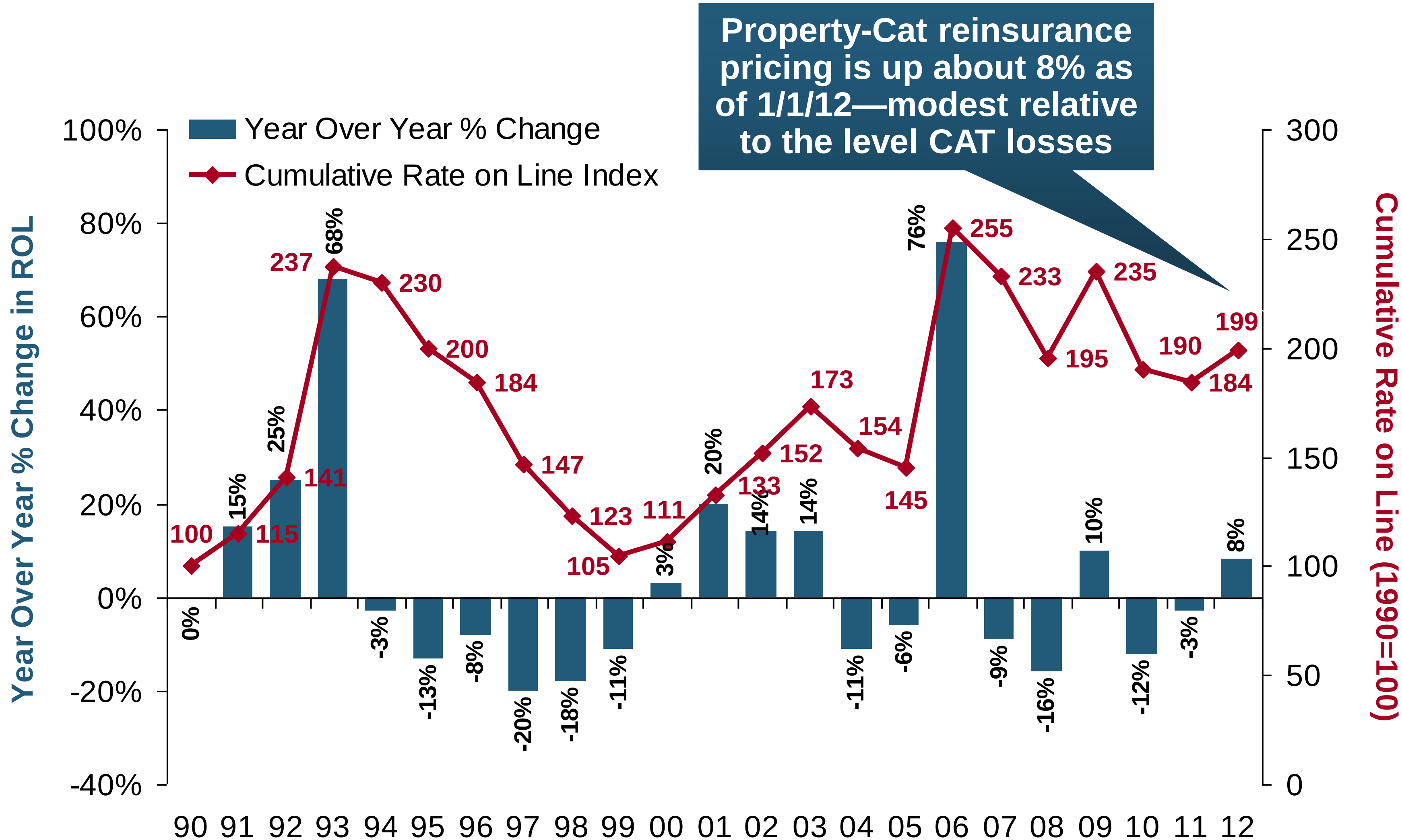

Sources: Guy Carpenter; Insurance Information Institute.

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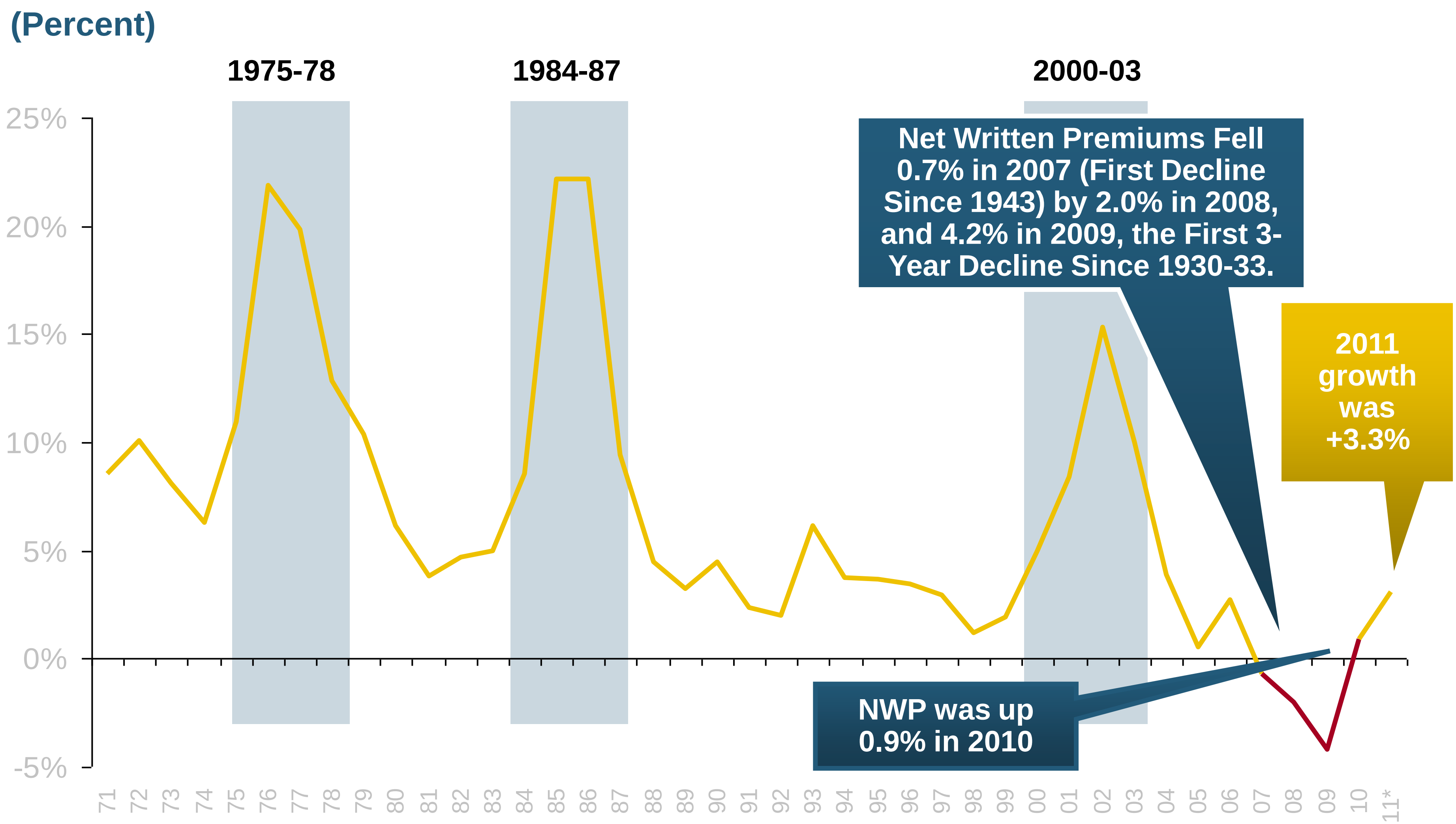
4. RENEWED PRICING DISCIPLINE

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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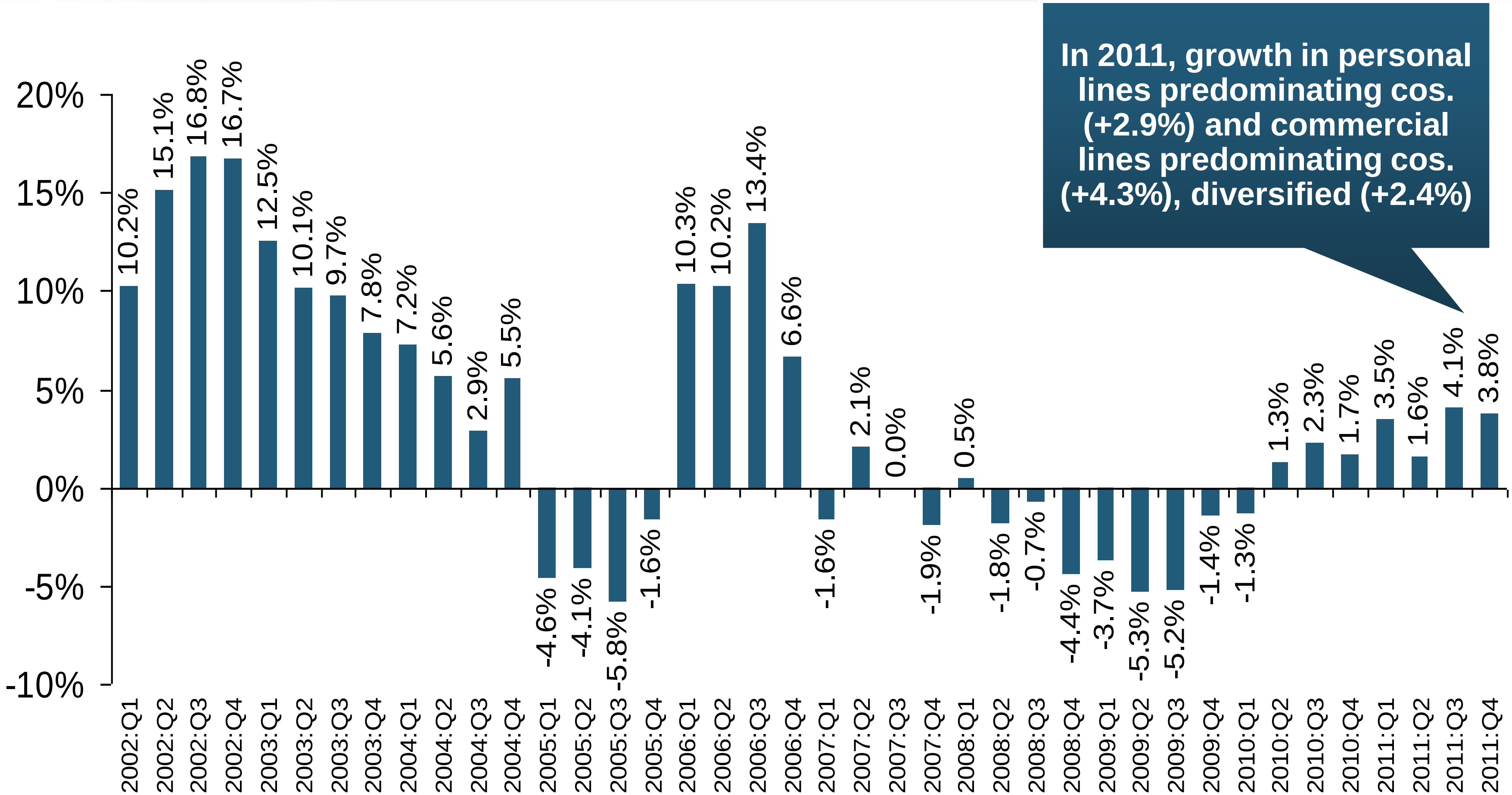

Finally! Back-to-back quarters of net written premium growth (vs. the same quarter, prior year)

Sources: ISO, Insurance Information Institute.

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

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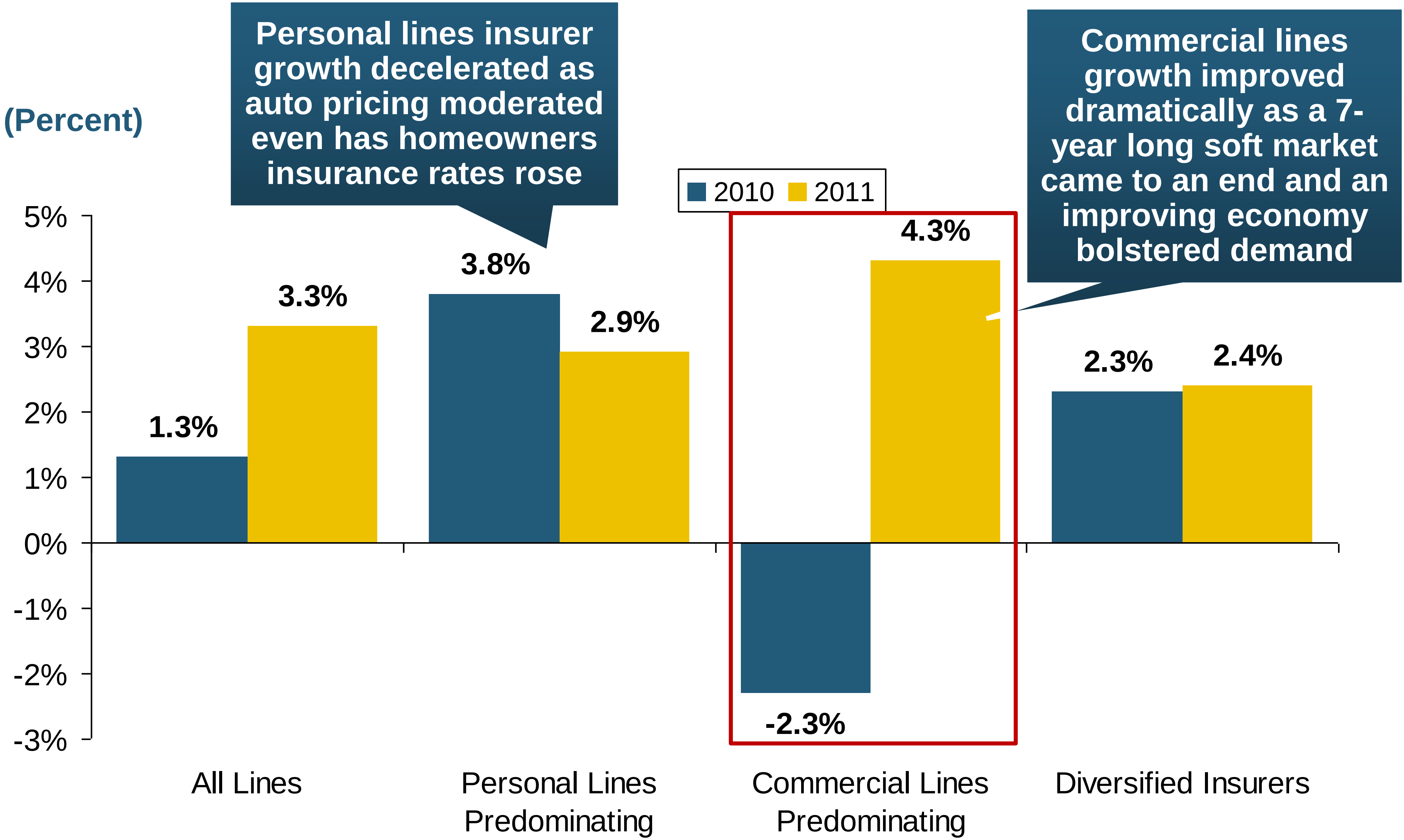
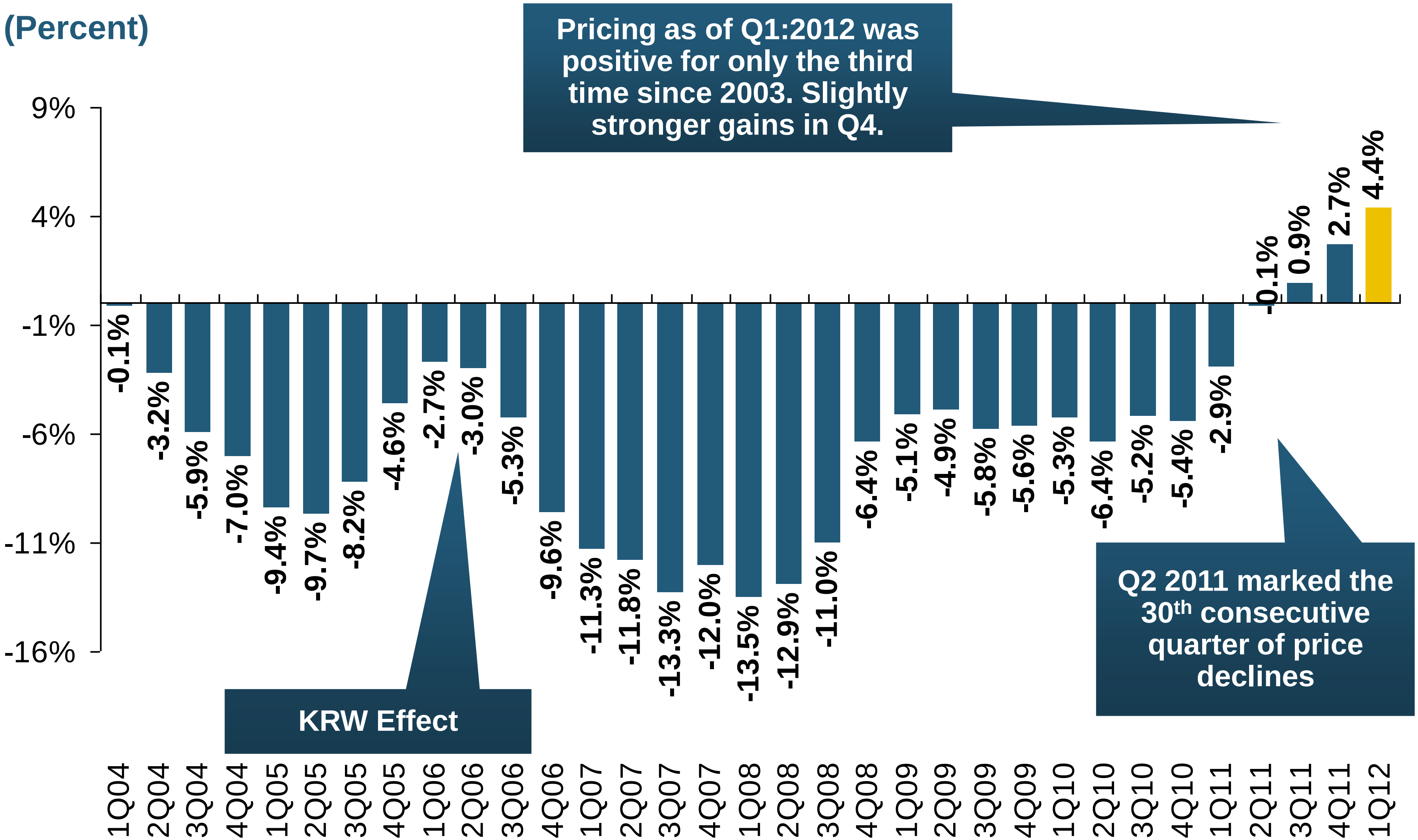


Source: ISO/PCI; Insurance Information Institute

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



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

Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2012:Q1

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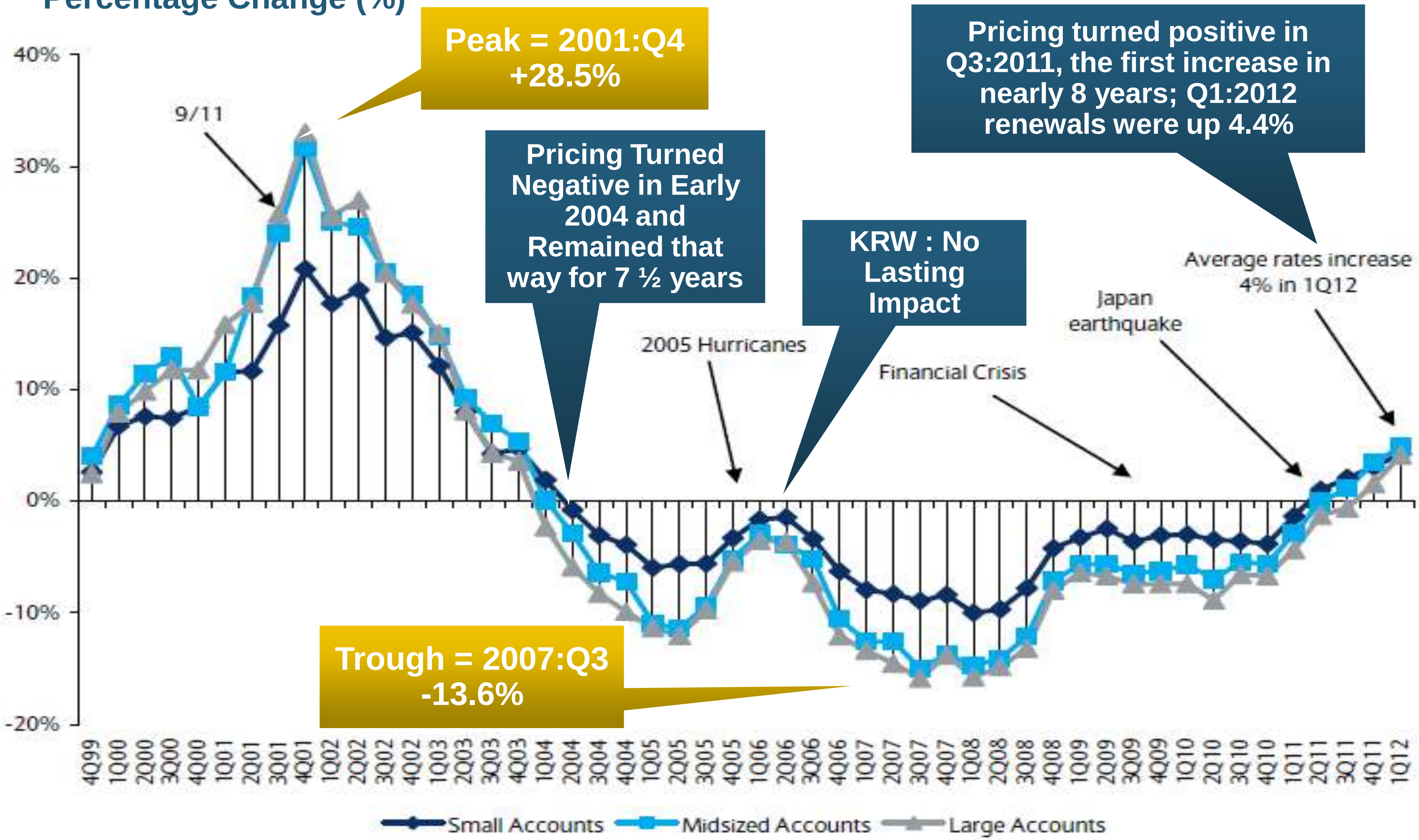
Percentage Change (%)



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

Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2012:Q1

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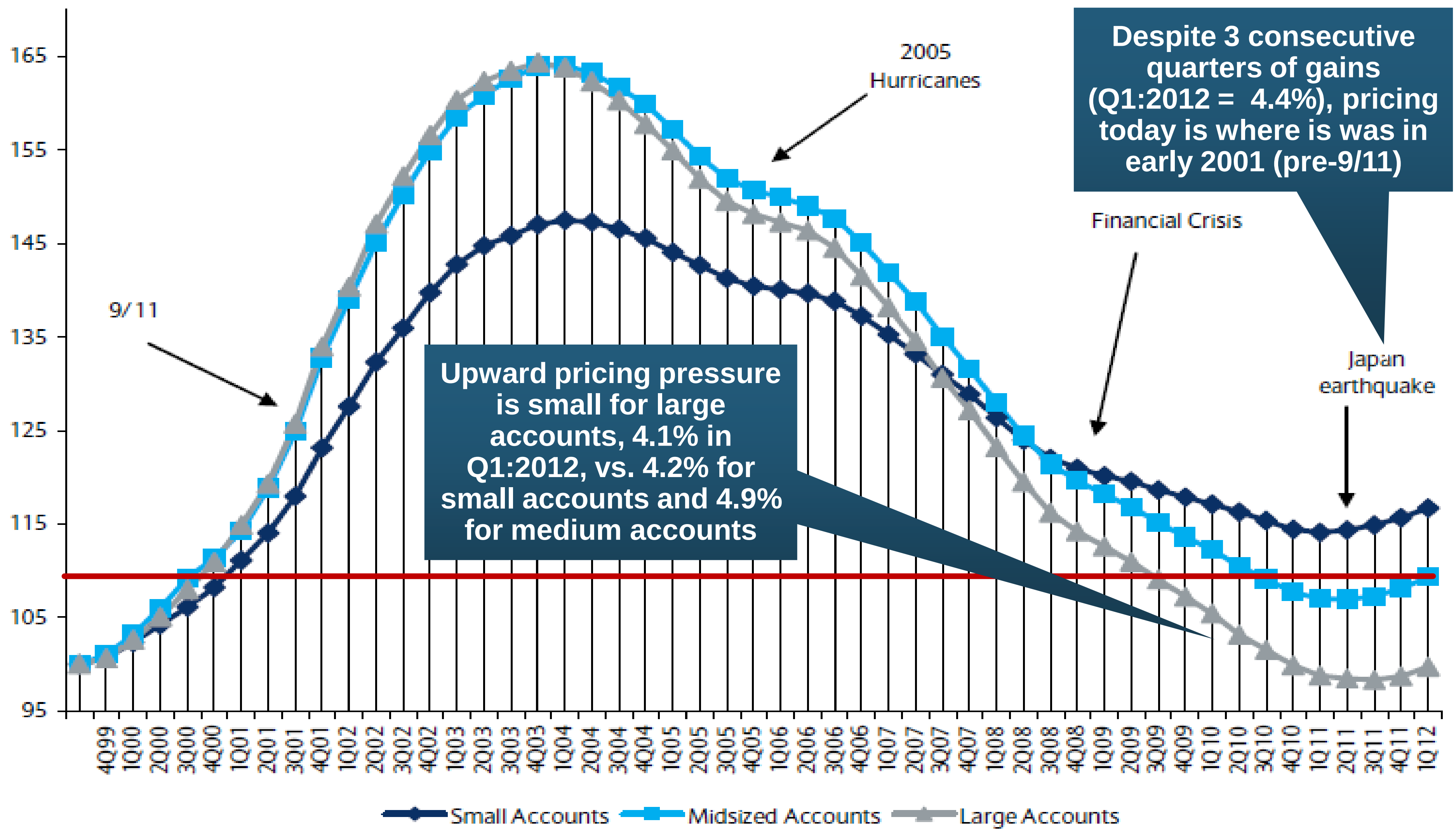
1999:Q4 = 100



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

Change in Commercial Rate Renewals, by Line: 2012:Q1

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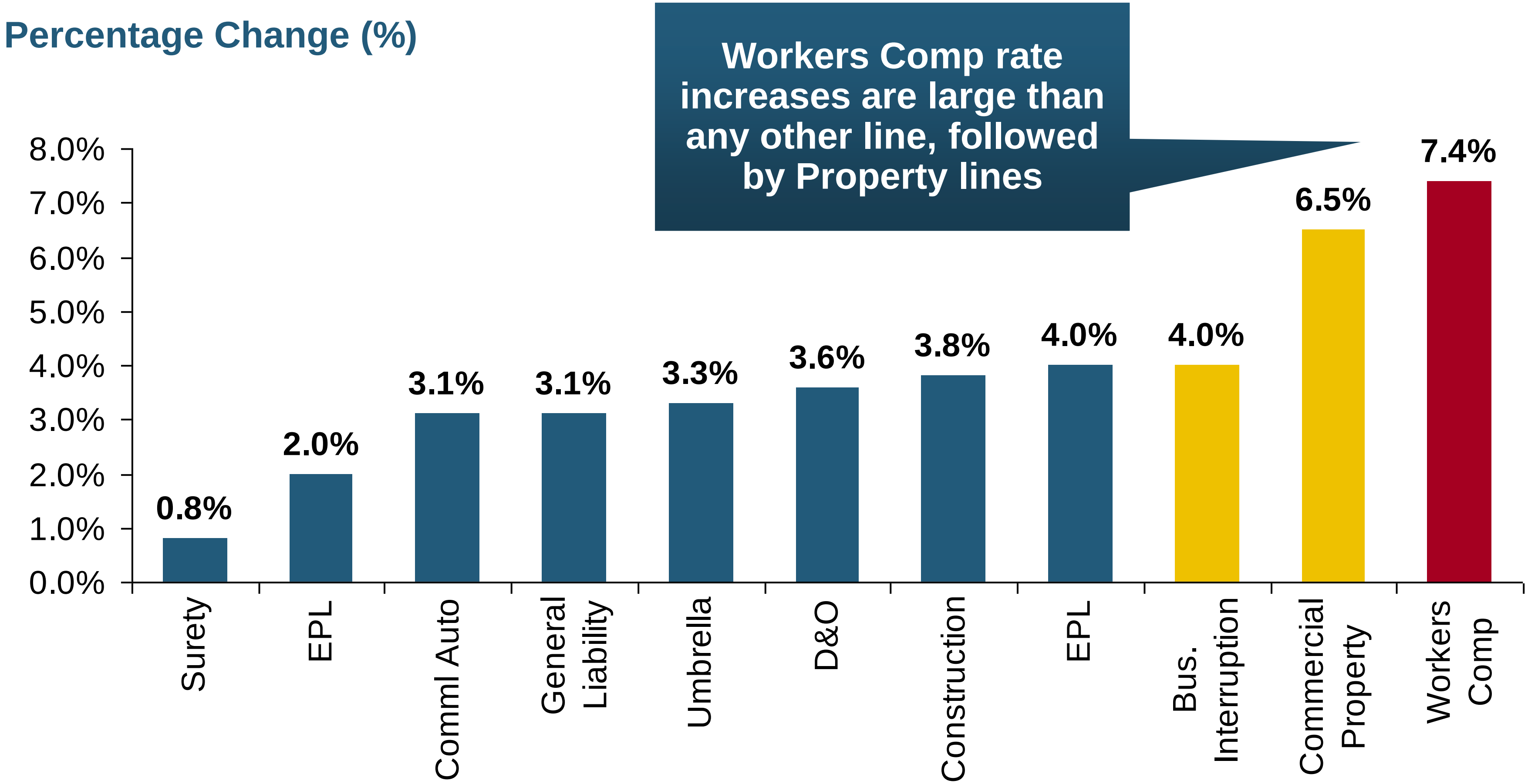

Major Commercial Lines Renewed Uniformly Upward in Q1:2012 for Only the Third Time Since 2003; Property Lines & Workers Comp Leading the Way

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

Workers Comp Rate Changes, 2008:Q4 – 2012:Q1

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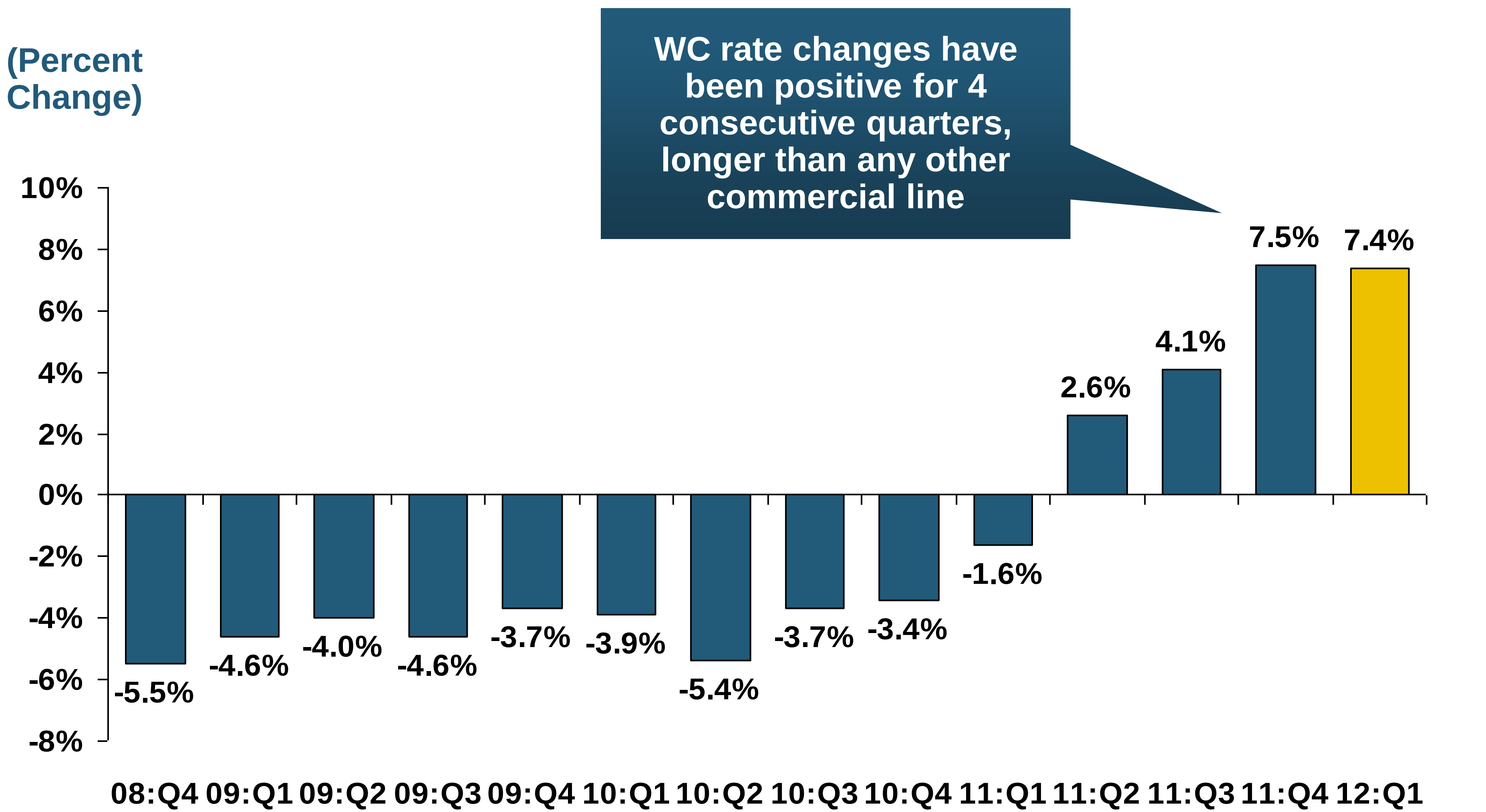

Source: Council of Insurance Agents and Brokers; Information Institute.

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]

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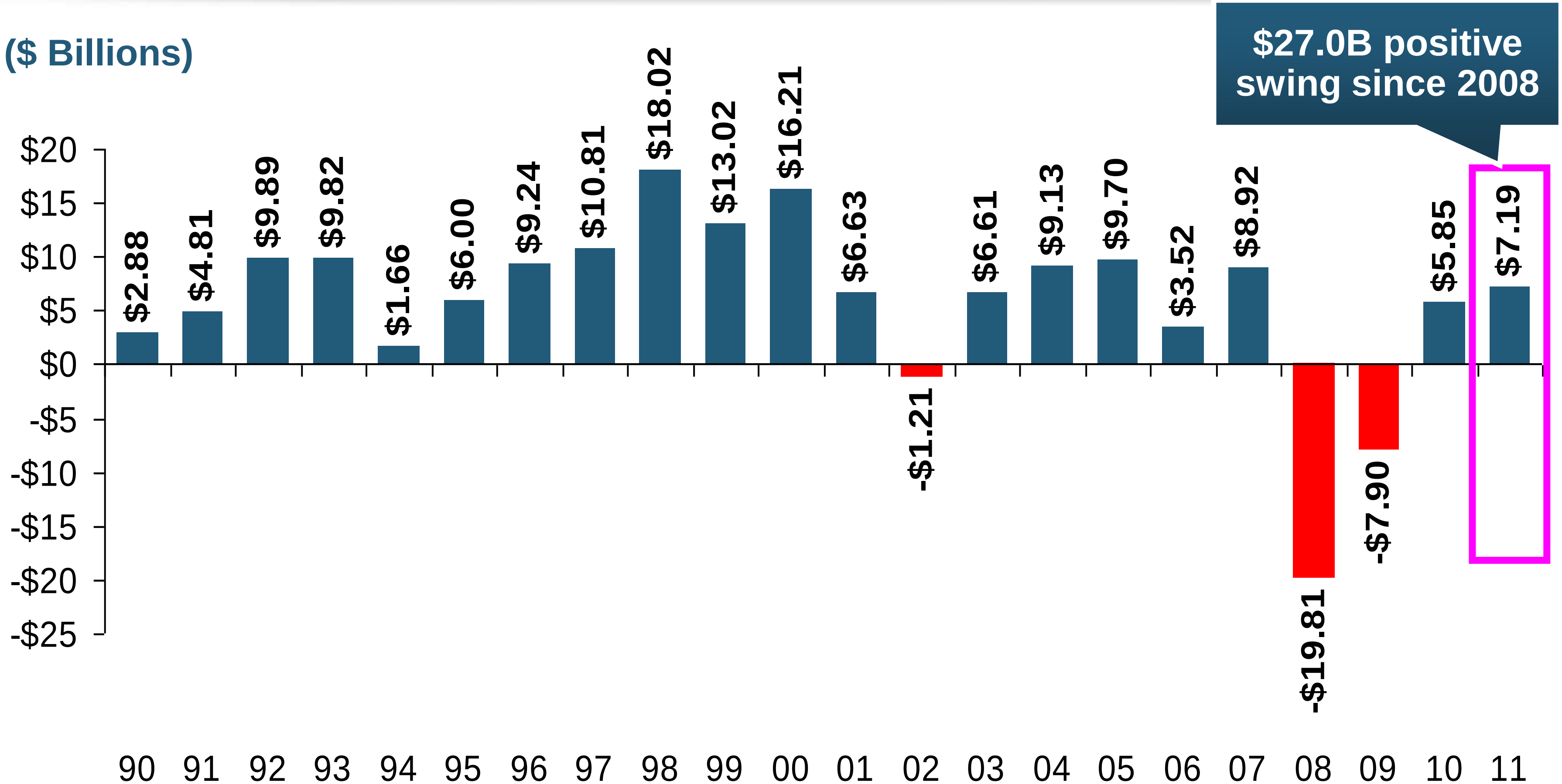
Investment Income in 2011 Was Surprisingly Strong, Though Investment Income Is Likely to Weaken in 2012 Due to Persistently Low Interest Rates

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

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.

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

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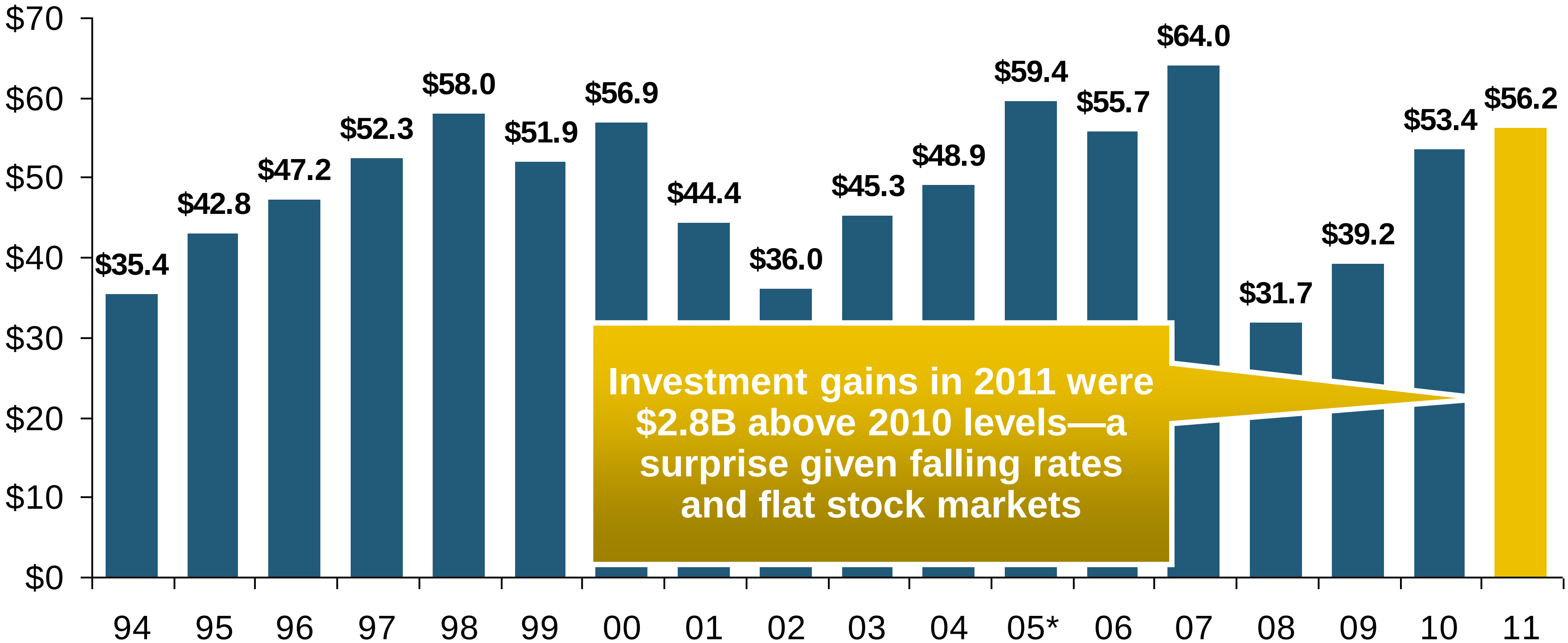
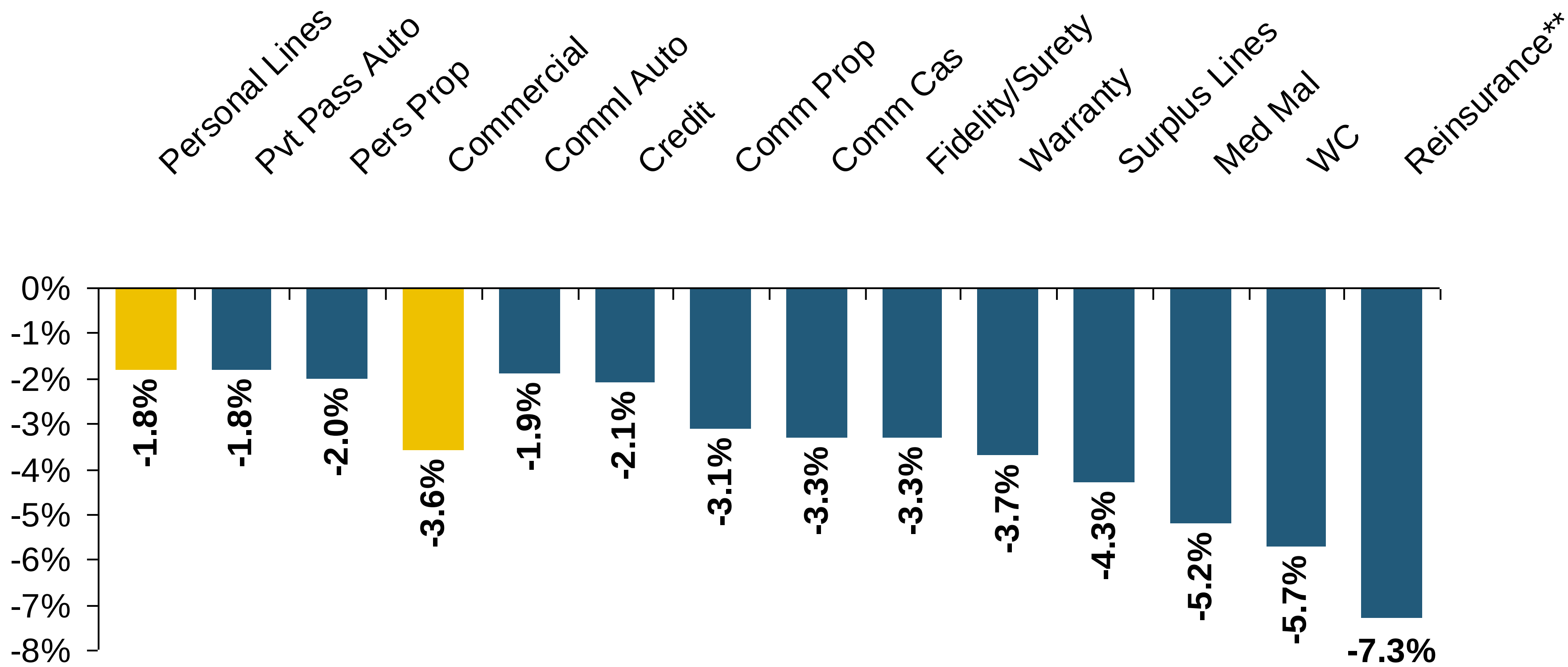
($ Billions)



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.

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.

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

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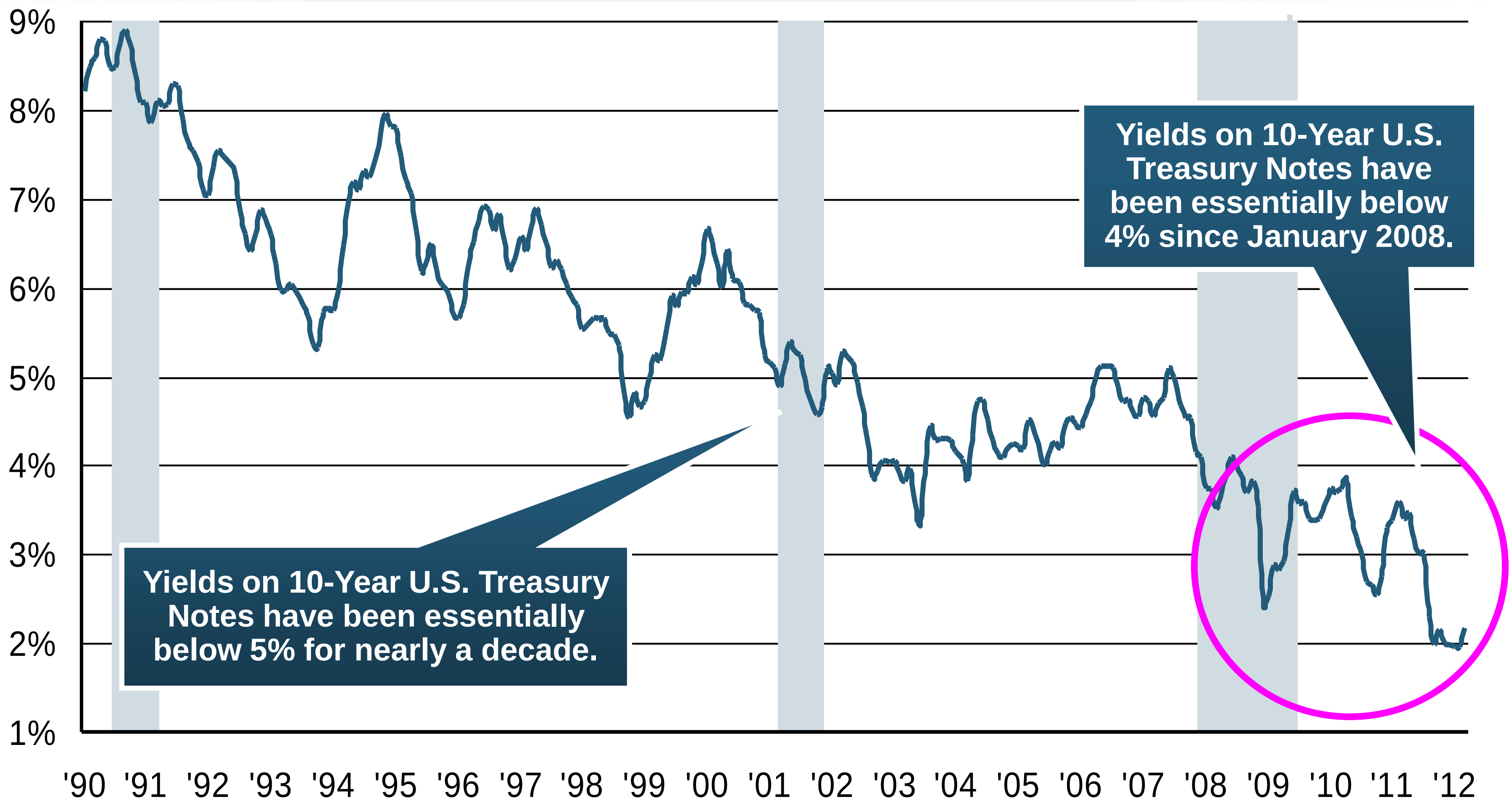

Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

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

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

Inflation

Is it a Threat to Claim Cost Severities

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

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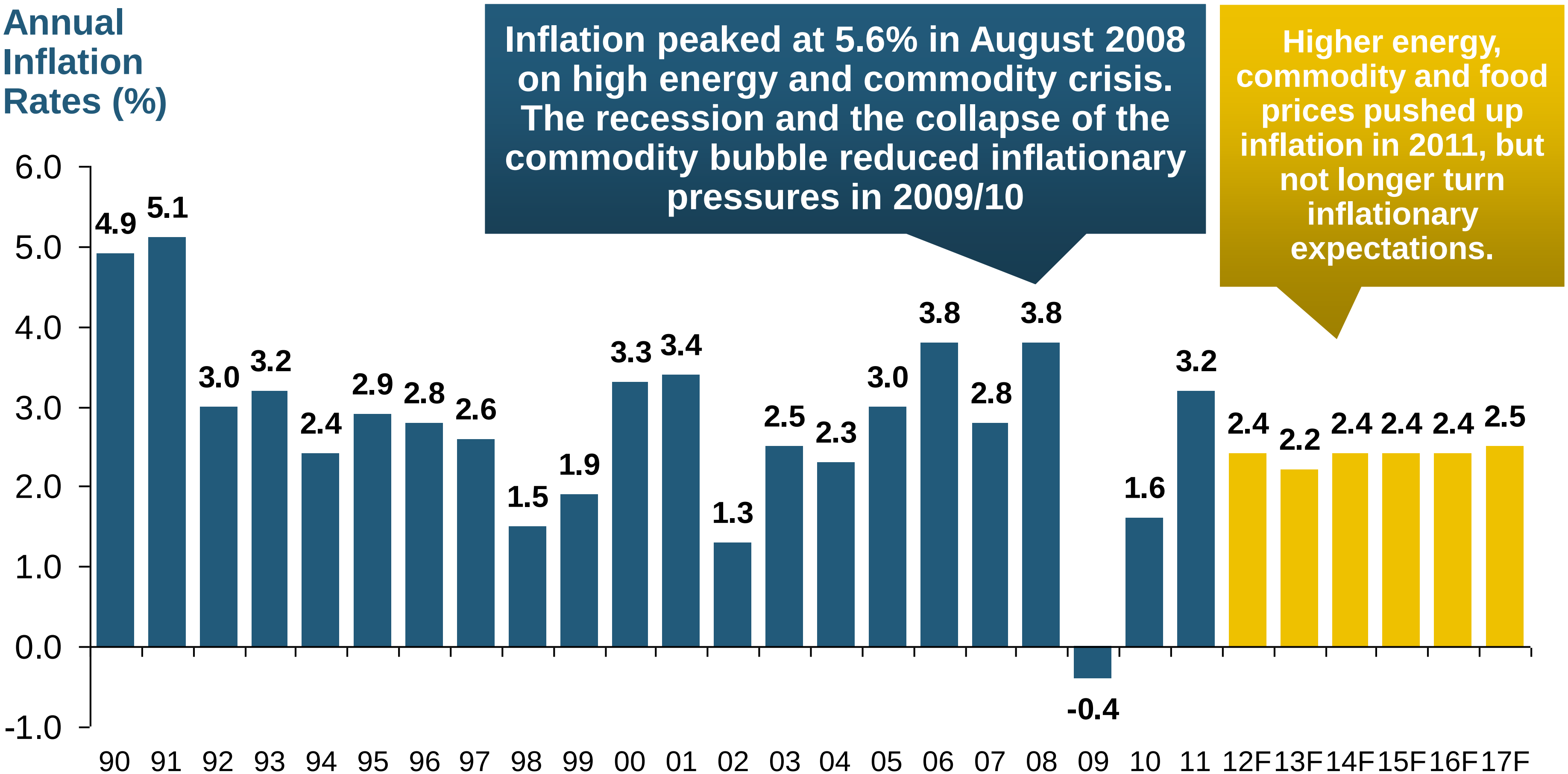
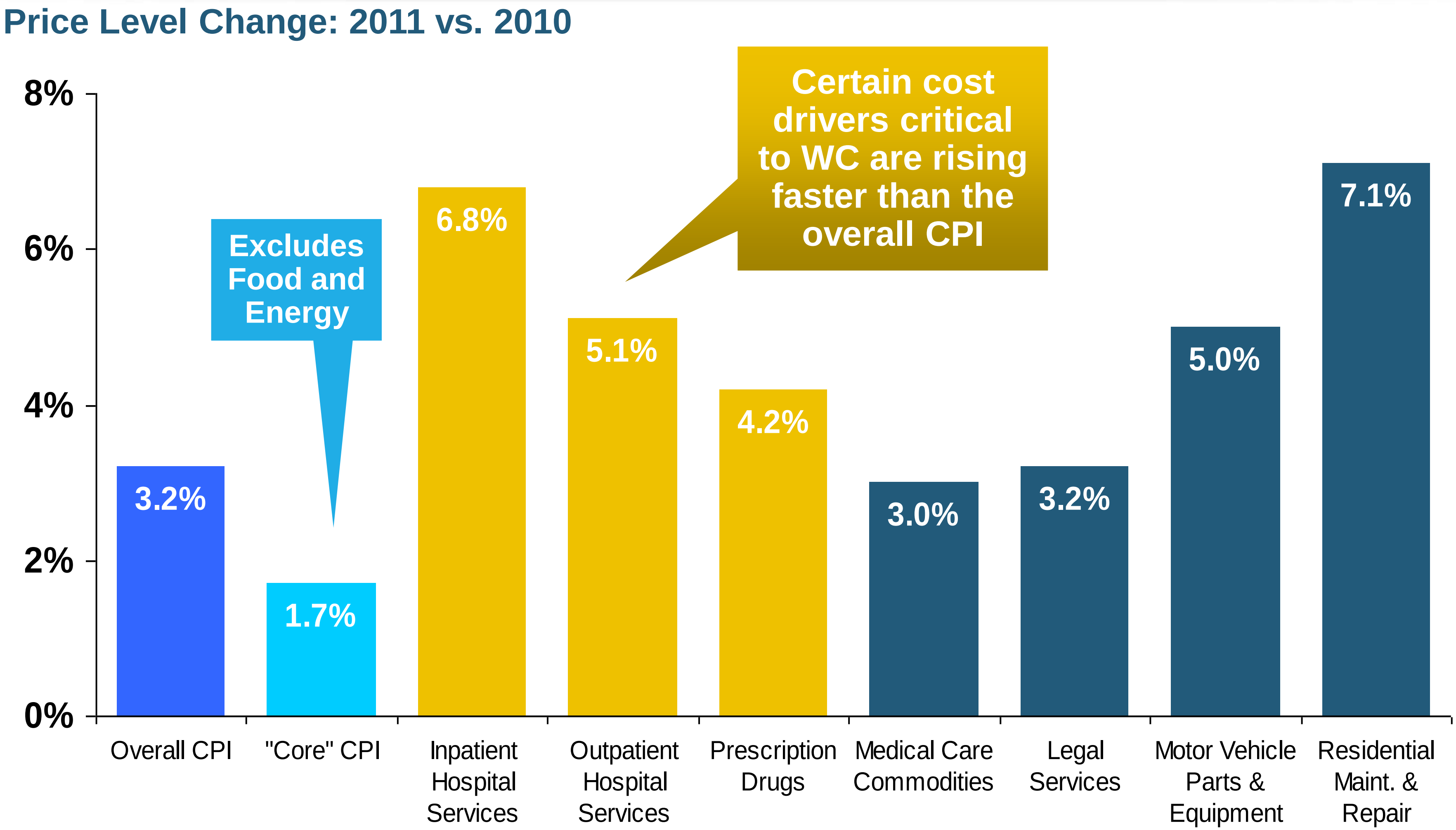


The slack in the U.S. economy suggests that inflationary pressures should remain subdued for an extended period of times. Energy, health care and commodity prices, plus U.S. debt burden, remain longer-run concerns

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



Healthcare costs are a major WC, 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.

Insurance Information Institute Online:

www.iii.org

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