Is the World Becoming a Riskier Place?

Economic Overview and New York Insurance Market Outlook for 2012 & Beyond

New York Insurance Association
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Presentation Outline

- Review of Recent Events
  - What in the World is Going On?
- Summary of P/C Financial Performance
- New York State P/C Insurance Market Overview
- NY No-Fault (PIP) Update
  - Fraud Tax Update
- Catastrophe Loss Developments & Trends
  - US, Global
- 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
  - Tort/Casualty Environment
  - Inflation
  - Economic Environment
What in the World Is Going On?

Is the World Becoming a Riskier Place?

What Are the Implications for Insurance and Risk Management?
Uncertainty, Risk and Fear Abound

ECONOMIC & POLITICAL CONCERNS
- Global Economic Slowdown
- Echoes of the Financial Crisis
- European Sovereign Debt, Bank & Currency Crises
- Collapse of Major Financial Institutions
- US Debt and Budget Crisis, S&P Downgrade & Austerity
- Housing Crisis
- Persistently High Unemployment
- Inflation/Deflation
- Runaway Energy & Commodity Prices
- Political Upheaval in the Middle East
- Regulation
- China→Now the #2 Economy in the World
- 2012 Elections

CATASTROPHIC LOSS
- Japan, New Zealand, Turkey, Haiti, Chile Earthquakes
- Nuclear Fears
- US: Tornadoes, Flooding, Wildfires, Hurricanes, Winter Storms
- Manmade Disasters (e.g., Deepwater Horizon)
- Cyber Attacks
- Resurgent Terrorism Risk (e.g., Bin Laden, Gadhafi Killings)

Are “Black Swans” everywhere or does it just seem that way?
What is Going On in the US and Global Financial Markets?

1. Need for a Binding, Comprehensive Solution to Europe’s Debt Problems
   - *Big Fat Greek Debt Disaster*: On again, off again Greek debt agreement; New PM
   - *Roman Ruins*: Austerity measures now passed; New Prime Minister
   - Financial “Firewall” around Italy, Spain, Ireland, Portugal may be too small
   - Difficulties in managing multinational institutions and economic policies
   - ECB and individual member EU countries not all on same page
   - Solution: Unified strategy similar to TARP; Monetary easing
   - **OUTCOME**: Europeans will eventually stumble into a resolution

2. Realization that US Economic Growth Will Remain Lackluster
   - Q1 GDP just 0.4%; Q2 only 1.3%; Q3 still a subpar 2.5%; Acceleration unlikely
   - Job growth has been anemic for months and unemployment remains high at 9.1%
   - Markets remain extremely volatile and jittery; Housing/Debt hangover
   - **OUTCOME**: Tepid growth in the 2% - 2.5% range in 2012; Unemployment 8.5% - 9%

3. View that Washington is Dysfunctional and “Rudderless”
   - Lack of coherent, consistent medium and long term plan to deal with basic structural issues in the US economy (debt, taxes, employment, regulation, etc.)
   - No confidence that 2012 political cycle will resolve these problems

4. Economic Slowdown in Emerging Markets
   - China, other economies less able to stimulate global economy than in 2008
Déjà Vu? Lehman II?
Is This 2008 All Over Again?

Why Today is Not 2008 All Over Again

- The Situation Today is Very, Very Different from 2008
- Credit Markets Are Not Seizing; Some Contraction in Europe
- Bank Balance Sheets Are in Much Stronger Shape
  - Capital up, charge offs falling
- We Will Not Experience the Mega-Collapses/Near Collapses Like in 2008
  - No repeat of Lehman, AIG, Washington Mutual, Wachovia…
  - MF Global is not a “Systemically Important Financial Institution”
- Some Additional Regulatory Controls Are Now Place

What Would Be Helpful Now?

- Solution to European Bank/Sovereign Debt Problem (Thought We Had One!)
- Long-Term Fiscal and Monetary Policy Direction
- Fed on Aug. 9 stated rates would remain low “at least through mid-2013”
  - This is not only a signal that borrowing costs will remain low over an extended period of time and that inflation will remain muted; Also tells investors that they’ll need to take on risk in order to earn returns in the market.
  - Congress and the Administration need to remove regulatory and tax uncertainty ASAP and drive a pro-growth agenda
### Top 10 US Corporate Bankruptcies, by Asset Size

<table>
<thead>
<tr>
<th>Bankruptcy</th>
<th>Year</th>
<th>Asset Size (Bil $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>MF Global</td>
<td>2011</td>
<td>$691.1</td>
</tr>
<tr>
<td>Enron</td>
<td>2001</td>
<td>$327.9</td>
</tr>
<tr>
<td>WorldCom</td>
<td>2002</td>
<td>$103.9</td>
</tr>
<tr>
<td>General Motors</td>
<td>2009</td>
<td>$91.0</td>
</tr>
<tr>
<td>CIT Group</td>
<td>2009</td>
<td>$80.4</td>
</tr>
<tr>
<td>Enron</td>
<td>2001</td>
<td>$65.5</td>
</tr>
<tr>
<td>Conseco</td>
<td>2002</td>
<td>$61.4</td>
</tr>
<tr>
<td>MF Global</td>
<td>2011</td>
<td>$41.0</td>
</tr>
<tr>
<td>Chrysler</td>
<td>2009</td>
<td>$39.3</td>
</tr>
<tr>
<td>Thornburg Mortgage</td>
<td>2009</td>
<td>$36.5</td>
</tr>
</tbody>
</table>

The collapse of MF Global, run by Jon Corzine, a former Goldman Sachs CEO and NJ Governor and Senator, shows that the lessons of the financial crisis have not been learned by even some of Wall Street’s brightest and most experienced people.*

All 10 of the Biggest Bankruptcies in US History Occurred Within the Past 10 Years With Varied Effects on D&O Market. MF Global Was the 8th Largest Bankruptcy in US History.

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*MF Global filed for bankruptcy on October 31, 2011.
Source: Council of Insurance Agents and Brokers; Insurance Information Institute.
Profit Recovery Will Be Set Back by High CATs, Low Interest Rates, Diminishing Reserve Releases
P/C Net Income After Taxes
1991–2011:H1 ($ Millions)

- 2005 ROE* = 9.6%
- 2006 ROE = 12.7%
- 2007 ROE = 10.9%
- 2008 ROE = 0.3%
- 2009 ROAS¹ = 5.9%
- 2010 ROAS = 6.5%
- 2011:H1 ROAS = 1.7%

P-C Industry 2011:H1 profits were down 71.6% to $4.8B vs. 2010:H1, due to high catastrophe losses and as non-cat underwriting results deteriorated.

* ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 2.3% ROAS for 2011:H1, 7.5% 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

A combined ratio of about 100 generated ~7.5% ROE in 2009/10, 10% in 2005 and 16% in 1979.

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

* 2009 and 2010 figures are return on average statutory surplus. 2008 -2011 figures exclude mortgage and financial guaranty insurers. 2011H1 combined ratio including M&FG insurers is 110.5 , ROAS = 2.3%.

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 annualized ROAS for H1 data. Note: Data for 2008-2011 exclude mortgage and financial guaranty insurers. For 2011:H1 ROAS = 1.7% including M&FG. Source: Insurance Information Institute; NAIC, ISO, A.M. Best.
For 2011:H1 ROAS.
Source: Insurance Information Institute; NAIC, ISO.
Profitability and Growth in New York P/C Insurance Markets

Analysis by Line and Nearby State Comparisons
P/C Insurer profitability in NY is below that of the US overall over the past decade

US: 7.0%
NY: 3.6%

Sources: NAIC.

Average 2000-2009
US: 7.2%
NY: 8.5%

Sources: NAIC.
Commercial Auto profitability in AL is generally below the US average.

Average 2000-2009
US: 8.5%
NY: 6.1%

Sources: NAIC.

(Percent)

Average 2000-2009
US: 8.0%
NY: 4.3%

Sources: NAIC.

(Average 2000-2009)

US: 4.7%
NY: 18.5%

Sources: NAIC.

(Average 2000-2009)

US: 6.4%
NY: 5.0%

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

2000-2009

- Vermont: 12.2%
- Connecticut: 11.1%
- Massachusetts: 10.9%
- New Jersey: 8.2%
- New York: 7.0%
- Pennsylvania: 6.7%
- U.S.: 3.6%

New York All Lines profitability is below the US and regional average.

Source: NAIC, Insurance Information Institute
NY PP Auto profitability is above the US and regional average.
### Top Ten Most Expensive and Least Expensive States for Automobile Insurance, 2008 (1)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Most expensive states</th>
<th>Average expenditure</th>
<th>Rank</th>
<th>Least expensive states</th>
<th>Average expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>D.C.</td>
<td>$1,126</td>
<td>1</td>
<td>North Dakota</td>
<td>$503</td>
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<tr>
<td>2</td>
<td>Louisiana</td>
<td>1,105</td>
<td>2</td>
<td>Iowa</td>
<td>519</td>
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<tr>
<td>3</td>
<td>New Jersey</td>
<td>1,081</td>
<td>3</td>
<td>South Dakota</td>
<td>520</td>
</tr>
<tr>
<td>4</td>
<td>Florida</td>
<td>1,055</td>
<td>4</td>
<td>Nebraska</td>
<td>547</td>
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<tr>
<td>5</td>
<td><strong>New York</strong></td>
<td>1,044</td>
<td>5</td>
<td>Idaho</td>
<td>562</td>
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<tr>
<td>6</td>
<td>Delaware</td>
<td>1,007</td>
<td>6</td>
<td>Kansas</td>
<td>576</td>
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<tr>
<td>7</td>
<td>Rhode Island</td>
<td>986</td>
<td>7</td>
<td>Wisconsin</td>
<td>581</td>
</tr>
<tr>
<td>8</td>
<td>Nevada</td>
<td>970</td>
<td>8</td>
<td>North Carolina</td>
<td>595</td>
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<tr>
<td>9</td>
<td>Connecticut</td>
<td>950</td>
<td>9</td>
<td>Maine</td>
<td>600</td>
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<tr>
<td>10</td>
<td>Maryland</td>
<td>922</td>
<td>10</td>
<td>Indiana</td>
<td>612</td>
</tr>
</tbody>
</table>

**New York ranked 5th in 2008, with an average expenditure for auto insurance of $1,007.**

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(1) Based on average automobile insurance expenditures.

Source: © 2010 National Association of Insurance Commissioners.
New York Commercial Auto profitability is below the US and regional average.
New York Commercial Multi-Peril profitability is below the US and regional average.
Homeowners: 10-Year Average RNW NY & Nearby States

2000-2009

- Connecticut: 19.9%
- New York: 18.5%
- Massachusetts: 17.4%
- Pennsylvania: 14.3%
- New Jersey: 13.7%
- Vermont: 11.9%
- U.S.: 4.7%

New York Homeowners profitability is above the US and regional average.

Source: NAIC, Insurance Information Institute
New York ranked as the 6th least expensive state for homeowners insurance in 2008, with an average expenditure of $983.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Most expensive states</th>
<th>Average expenditure</th>
<th>Rank</th>
<th>Least expensive states</th>
<th>Average expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Texas (3)</td>
<td>$1,460</td>
<td>1</td>
<td>Idaho</td>
<td>$387</td>
</tr>
<tr>
<td>2</td>
<td>Florida (4)</td>
<td>1,390</td>
<td>2</td>
<td>Utah</td>
<td>432</td>
</tr>
<tr>
<td>3</td>
<td>Louisiana</td>
<td>1,155</td>
<td>3</td>
<td>Oregon</td>
<td>439</td>
</tr>
<tr>
<td>4</td>
<td>Oklahoma</td>
<td>1,048</td>
<td>4</td>
<td>Washington</td>
<td>471</td>
</tr>
<tr>
<td>5</td>
<td>Massachusetts</td>
<td>1,026</td>
<td>5</td>
<td>Wisconsin</td>
<td>503</td>
</tr>
<tr>
<td>6</td>
<td>New York</td>
<td>983</td>
<td>6</td>
<td>Delaware</td>
<td>535</td>
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<tr>
<td>7</td>
<td>Connecticut</td>
<td>980</td>
<td>7</td>
<td>Ohio</td>
<td>565</td>
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<tr>
<td>8</td>
<td>Mississippi</td>
<td>980</td>
<td>8</td>
<td>Maine</td>
<td>572</td>
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<tr>
<td>9</td>
<td>D.C.</td>
<td>926</td>
<td>9</td>
<td>Pennsylvania</td>
<td>586</td>
</tr>
<tr>
<td>10</td>
<td>Kansas</td>
<td>916</td>
<td>10</td>
<td>Kentucky</td>
<td>601</td>
</tr>
</tbody>
</table>

(1) States with the same premium receive the same rank.
(2) Based on the HO-3 homeowner package policy for owner-occupied dwellings, 1 to 4 family units. Provides "all risks" coverage (except those specifically excluded in the policy) on buildings and broad named-peril coverage on personal property, and is the most common package written.
(3) The Texas Department of Insurance developed home insurance policy forms that are similar but not identical to the standard forms.
(4) Florida data excludes policies written by Citizen's Property Insurance Corporation, the state's insurer of last resort, and therefore are not directly comparable to other states.

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

Source: © 2010 National Association of Insurance Commissioners (NAIC). Reprinted with permission. Further reprint or distribution strictly prohibited without written permission of NAIC.
New York Workers Comp profitability is below the US average and regional average.
All Lines DWP Growth: NY vs. U.S., 2001-2010

(Percent)

Source: SNL Financial.

(Percent)

Source: SNL Financial.
Personal Lines DWP Growth: NY vs. U.S., 2001-2010

(Percent)

Source: SNL Financial.

(Percent)

Source: SNL Financial.
Homeowner’s MP DWP Growth: NY vs. U.S., 2001-2010

(Percent)

Source: SNL Financial.
New York No-Fault Update

Fraud and Abuse Have Cost New Yorkers Nearly $1 Billion Since 2005
New York State: Most Suspected Fraud Reports Involve No-Fault Claims

Average No-Fault Claim Severity, 2011:Q2*

MI, NJ, NY and FL currently are the largest states that have the most severe problems in their no-fault system.

NY has the 4th highest auto no-fault average claim cost (severity) in the US.

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:Q2.
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.

*2011 figures are for the 4 quarters ending 2011:Q2.
Sources: Insurance Information Institute research from ISO/PCI Fast Track data.
NY No-Fault (PIP) Claim Severity Has Trended Up Sharply Upward, 2005-2011E*

No-Fault claim severity (average cost per claim) shot up 47.5% ($2,791) in 2010 compared to 2004.

The Average Cost of New York No-Fault Claims Rose Rapidly in Recent Years

Source: Insurance Information Institute calculations and research from ISO/PCI Fast Track data.
New York No-Fault (PIP) Claim Frequency Is Trending Sharply Upward*

2008:Q1 through 2011:Q2

No-Fault claim frequency jumped by 27.3% between Q3:2008 and Q1:2011. It is unclear if the drop in Q2:2011 will be sustained.

The Number and Average Cost of NY No-Fault Claims Have Been Generally Rising Since 2004

*Claim frequency is defined as the number of claims per 100 earned car years.
Source: ISO/PCI Fast Track data; Insurance Information Institute
New York State No-Fault Claim Frequency and Severity, 1997–2011:Q2

No-Fault Claim Severity

Avg. Claim Severity is up 48% since 2004:Q4 though 2011:Q2

Avg. Claim Severity

No-Fault Claim Frequency

Claim Frequency was up 27% in 2011:Q1 from 2008:Q3

Claim Severity nearly reached a record high in 2010:Q2: $8,990

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**

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

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

*Middle month of quarter   **For the four quarters ending in quarter indicated
Sources: Insurance Information Institute calculations based on ISO/PCI Fast Track Data and BLS Medical Care CPI
NY’s no-fault fraud tax of $1,311 accounted for 15.1% of the average claim cost of $8,664 in 2010 and 10.2% of the average claim cost of $8,421 in 2011E.

The estimated per claim cost of no-fault fraud (a.k.a. Fraud Tax) was $1,311 in 2010 and $855 in 2011.


Source: Insurance Information Institute calculations and research from ISO/PCI Fast Track data.
New York’s No-Fault Fraud Tax: Estimated Aggregate Annual Cost, 2005-2011E ($ Millions)*

The total fraud tax levied on New York vehicle owners exceeded more than $200 million in 2010 for the second straight year.

NY’s no fault fraud tax burden soared by 241% between 2006 and 2009.

The total fraud tax levied on New York vehicle owners will total and estimated $136 million in 2011. The figure fell due to a drop in average claim severity and a flattening in frequency.

No-Fault Fraud Is Costing Honest New York State Drivers Hundreds of Millions of Dollars


Source: Insurance Information Institute calculations and research from ISO/PCI Fast Track data.
Cumulative No-Fault Fraud Has Cost Honest New York State Drivers and Their Insurers Nearly $1 Billion Since 2005

Source: Insurance Information Institute calculations and research from ISO/PCI Fast Track data.
Medical Cost Inflation Has Outpaced Overall Inflation Over 50 Years

A medical expense that cost $1,000 in 1961 would cost nearly $16,000 based on medical cost inflation trends over the past 50 years.

*Based on change from Feb. 2010 to Feb. 2011.
Source: Department of Labor (Bureau of Labor Statistics)
No-Fault Fraud Was Front Page News a Decade Ago in 2001

Figure 9.
January 27th, 2001

The scent of a scam

Driving in New York is war, casualties frequent. What better recovery for a car accident’s unfortunate victim than to lie in a darkened room, inhaling the sweet smells of pungent lotion? And what better than to get somebody else to pay for it?

In recent months, the claims department at a large property-casualty company has been getting a growing stream of claims for these services, known as aromatherapy. “It is a new, creative outlet for pain and discomfort,” a claim processor said. “They are being paid out of the foggy money from New York’s no-fault insurance laws.”

New York Post
Thursday, March 29, 2001
Page 30

Driving NYers Mad

Auto insurance is about to drive New Yorkers crazy.

Or, maybe, out of state.

As The Post’s Kenneth Lovett reported this week, New Yorkers are about to get socked with rate hikes as high as 26 percent.

Already, the Empire State boasts the second-highest rates in the nation. But Albany, it seems, won’t be happy until New York is No. 1.

Why? Because lawmakers refuse to clamp down on the abuses that drive up rates in the first place.

As Manhattan Institute Senior Fellow Steve Malanga outlines in detail on the previous page, an entire industry of scam artists — con men, disreputable doctors, unscrupulous lawyers — thrives in New York, bilking insurance carriers with fraudulent claims.

Insurance companies pay these claims even when they are not legitimate.

Which sends premiums soaring.

And this kind of fraud is higher here than in other states, thanks largely to New York’s no-fault insurance laws.

And, of course, to lawmakers who prefer not to fix those laws, which would risk the loss of political donations from the doctors and lawyers who milk the system and would be put out of business were it fixed.

Indeed, reform would be a cinch, were lawmakers inclined to act.

For example:

They could reduce the number of days claimants have to file claims, which now

DAILY NEWS
Friday, March 30, 2001
Page 46

Slam brakes on auto scams

As reported yesterday in the Daily News’ front-page story, “Highway Robbery,” auto insurance scams are adding $1 billion a year to drivers’ premiums in New York. That’s an extra $75 to $115 on every auto policy in the state — no matter how good, and honest, a motorist you are. Unless there is legislative reform, these bogus claims will drive rates even higher. The state Senate has acted.

Now it’s up to the Assembly.

Last year, New York’s claim costs jumped by 32%. In New Jersey — long the butt of bad-driver jokes — they dropped by 12%, primarily because Trenton passed auto insurance reforms in 1998. Who’s laughing now? While Jersey limits claims for certain exotic “medical” treatments, claimants in New York can milk insurance companies for such suspect treatments as aromatherapy and biofeedback.

Because of this, the average bodily injury accident claim in New York is an astonishing 64% higher than in any other state.

The Brooklyn district attorney’s office says Russian mobsters are behind many of the scams, setting up phony accidents and medical mills that rip off insurers. The gangs employ “runners” who recruit accident victims. The gangs also employ “co-conspirators” in “a bill sponsored by state

THE ECONOMIST
January 27th, 2001
Page 73

DRIVING in New York is war, casualties frequent. How better recovery for a car accident’s unfortunate victim than to lie in a darkened room, inhaling the sweet smells of pungent lotion? And what better than to get somebody else to pay for it?

In recent months, the claims department at a large property-casualty company has been getting a growing stream of claims for these services, known as aromatherapy. “It is a new, creative outlet for pain and discomfort,” a claim processor said. “They are being paid out of the foggy money from New York’s no-fault insurance laws.”

Suffice to say that they would like to try. What angers the insurers about the legal status of treatment in New York is that many claims must be paid, no questions asked. Far from being pre-approved, bills...
...And Urgent Calls for Reform

NEW YORK POST
THURSDAY, FEBRUARY 28, 2001
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POSTOPINION

Coming To N.Y.: America's Costliest Car Insurance

NEW YORK POST
THURSDAY, MARCH 29, 2001
PAGE 14

No-fault drives up rates

By KENNETH LOVETT
Post Correspondent
ALBANY — New York's no-fault ice system — consid-
erator behind the state's saw payments for ac-
whole is already close to $2,500 a year. The insurers
erty insurance departments by adopting regu-
an with airmen to who the rate required in the
la medical claims, is already fully defined the measure in court. This
state recently warned that New York is on
the verge of surpassing New Jersey as the
most expensive auto-insurance state.

Insurance Department says it is

Albany’s War on Drivers

Fraud’s making car insurance soar — but the Legislature won’t crack down

NEW YORK POST
THURSDAY, MARCH 29, 2001
PAGE 29

PAGE 1 OF 2

STEVEN MALANGA

THANKS to an epidemic of fraud, auto-insurance prices
are soaring statewide. Prosecutors, regulators and in-
surance investigators say they know how to stop this fraud — but they need the help of
Albany legislators in the form of stricter laws. And Albany, too, is probably responsible for a

nationwide wave of personal-injury claims. As a result, the New
York market has been hit hard.

Nationally, personal-injury costs have risen 33 percent in
free years — but in the Empire State costs rose by nearly double
that rate.

When they have to pay out
more in claims, insurers must
raise premiums or abandon the
New York market altogether.

Rates have been climbing for
several years now, and will soar
this year.

Within 45 days of an accident
that they have been
medical costs and hoping for
reimbursement for the care.

Pretent law lets those making a
claim wait 180 days, and many
scam artists use the time to dump
months of bills all at once on an
insurer. Since the company must
pay up within 30 days, that gives
it little time to sort through and
investigate a mountain of bills
received all at once.

"If an insurance company can
make a credible case that a claim
is suspicious, then it should be
Average Expenditure on Auto Insurance In NY State, 1997-2008*

NY ranked as the 2nd most expensive state during its no-fault crisis, falling to 5th by 2008

In the wake of NY’s first no-fault crisis, the average expenditure on auto insurance fell by $125 or 10.7% between 2004 and 2007, twice the 5.4% drop in the US overall.

*Latest available. Sources: NAIC; Insurance Information Institute.
In New York, a no-fault crisis pushed the cost of auto insurance up sharply in the early 2000s.

Auto insurance premiums paid by NY drivers dropped by nearly 7% or $762 million from the end of the last no-fault crisis in 2004 to 2008.

Savings achieved in New York’s fraud crackdown were quickly passed along to drivers.

Source: NAIC; Insurance Information Institute.
Average Expenditure on Auto Insurance, NY State vs. US: 1997-2008*

NY ranked as the 2nd most expensive state during the last crisis, falling to 4th by 2007

In the wake of NY’s first no-fault crisis, the average expenditure on auto insurance in NY state fell by $128 or 10.9% between 2004 and 2008, much more than the 6.4% drop in the US overall.

*Latest available.
Source: National Association of Insurance Commissioners.
Global Catastrophe Loss Developments and Trends

2011 Will Rewrite Catastrophe Loss and Insurance History

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

- **2011 Is Already (as of June 30) the *Highest* Loss Year on Record Globally**
  - Extraordinary accumulation of severe natural catastrophe: Earthquakes, tsunami, floods and tornadoes are the primary causes of loss

- **$260 Billion in *Economic* Losses Globally**
  - New record for the first six months, exceeding the previous record of $220B in 2005
  - Economy is more resilient than most pundits presume

- **$55 Billion in *Insured* Losses Globally**
  - More than double the first half 2010 amount
  - Over 4 times the 10-year average

- **$27 Billion in *Economic* Losses in the US**
  - Represents a 129% increase over the $11.8 billion amount through the first half of 2010

- **$17.3 Billion in *Insured* Losses in the US Arising from 100 CAT Events**
  - Represents a 162% increase over the $6.6 billion amount through the first half of 2010
Natural Loss Events, January – September 2011

World Map

Number of events: 550

- 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 NatCatSERVICE
# Worldwide Natural Disasters 2011

Significant Natural Disasters (January – September only)

<table>
<thead>
<tr>
<th>Period</th>
<th>Loss event</th>
<th>Affected area</th>
<th>Overall losses*</th>
<th>Insured losses*</th>
<th>Fatalities*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 2010–Jan 2011</td>
<td>Floods, flash floods</td>
<td>Australia (Queensland)</td>
<td>7,300</td>
<td>2,550</td>
<td>29</td>
</tr>
<tr>
<td>12/16 Jan.</td>
<td>Landslides, flash floods</td>
<td>Brazil (State of Rio de Janeiro)</td>
<td>**</td>
<td>**</td>
<td>1,350</td>
</tr>
<tr>
<td>3 Feb.</td>
<td>Cyclone Yasi</td>
<td>Australia (Queensland)</td>
<td>2,000</td>
<td>1,000</td>
<td>1</td>
</tr>
<tr>
<td>22 Feb.</td>
<td>Earthquake</td>
<td>New Zealand (Christchurch)</td>
<td>25,000</td>
<td>13,000</td>
<td>181</td>
</tr>
<tr>
<td>11 March</td>
<td>Earthquake, tsunami</td>
<td>Japan (esp. northeastern Honshu)</td>
<td>210,000</td>
<td>~30,000</td>
<td>15,800 (3,800 missing)</td>
</tr>
<tr>
<td>22–28 April</td>
<td>Severe storms, tornadoes</td>
<td>USA (esp. AL, Tuscaloosa)</td>
<td>12,000</td>
<td>7,300</td>
<td>350</td>
</tr>
<tr>
<td>April–May</td>
<td>Floods</td>
<td>USA (esp. Ohio River, Mississippi River, Missouri River)</td>
<td>2,600</td>
<td>**</td>
<td>9</td>
</tr>
<tr>
<td>April/Sept.</td>
<td>Wildfires</td>
<td>USA (TX)</td>
<td>1,500</td>
<td>680</td>
<td>4</td>
</tr>
<tr>
<td>14–22 May</td>
<td>Wildfires</td>
<td>Canada (Alberta, Slave Lake)</td>
<td>&gt;1,500</td>
<td>720</td>
<td>1</td>
</tr>
<tr>
<td>20–27 May</td>
<td>Severe storms, tornadoes</td>
<td>USA (esp. MO, Joplin)</td>
<td>9,000</td>
<td>5,900</td>
<td>176</td>
</tr>
<tr>
<td>13 June</td>
<td>Earthquake</td>
<td>New Zealand (Christchurch)</td>
<td>**</td>
<td>**</td>
<td>1</td>
</tr>
<tr>
<td>Aug.–Sept.</td>
<td>Floods, landslides</td>
<td>Thailand, Cambodia, Vietnam</td>
<td>**</td>
<td>**</td>
<td>370</td>
</tr>
<tr>
<td>Aug.–Sept.</td>
<td>Floods</td>
<td>Pakistan</td>
<td>**</td>
<td>**</td>
<td>445</td>
</tr>
<tr>
<td>22 Aug.–2 Sept.</td>
<td>Hurricane Irene</td>
<td>USA, Caribbean</td>
<td>15,000</td>
<td>7,000</td>
<td>54</td>
</tr>
</tbody>
</table>

*As at October 2011
**Loss assessment still in progress

Source: MR NatCatSERVICE
Worldwide Natural Disasters 2011
% Distribution of Insured Losses Per Continent (January – June only)

Insured losses 2011 (January – June only): US$ 60bn

<table>
<thead>
<tr>
<th>Continent</th>
<th>Insured losses [US$ m] in 2011 Jan - June</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>minor</td>
</tr>
<tr>
<td>America</td>
<td>17,800</td>
</tr>
<tr>
<td>Asia</td>
<td>30,080</td>
</tr>
<tr>
<td>Australia/Oceania</td>
<td>12,900</td>
</tr>
<tr>
<td>Europe</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: MR NatCatSERVICE
Worldwide Natural Disasters, 1980-2011
% Distribution of Insured Losses Per Continent (January – June only)


<table>
<thead>
<tr>
<th>Continent</th>
<th>Insured losses [US$ m] Jan – June only</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>1,000</td>
</tr>
<tr>
<td>America</td>
<td>237,200</td>
</tr>
<tr>
<td>Asia</td>
<td>45,100</td>
</tr>
<tr>
<td>Australia/Oceania</td>
<td>25,100</td>
</tr>
<tr>
<td>Europe</td>
<td>80,900</td>
</tr>
</tbody>
</table>

Source: MR NatCatSERVICE

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

(Insured Losses, 2010 Dollars, $ Billions)

*Through June 20, 2011. 2011 disaster figures are estimates; Figures include federally insured flood losses, where applicable.
Sources: Swiss Re sigma 1/2011; AIR Worldwide, RMS, Eqecat; Insurance Information Institute.

3 of the top 15 most expensive catastrophes in world history have occurred in the past 18 months.
Worldwide Natural Disasters, 1980 – 2011*

There were 355 events through the first 6 months of 2011

*2011 figure is through June 30.
Source: MR NatCatSERVICE
Global Natural Disasters 1980–2011, Overall and Insured Losses*

First Half 2011
Overall Losses: $265 Bill
Insured Losses: $60 Bill

*2011 figure is through June 30.
Source: MR NatCatSERVICE

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U.S. Insured Catastrophe Loss Update

2011 CAT Losses Already Greatly Exceed All of 2010 and Will Become One of the Most Expensive Years on Record
US Insured Catastrophe Losses

2000s: A Decade of Disaster
2000s: $193B (up 117%)
1990s: $89B

2011 Will Become the 5th or 6th Most Expensive Year in History for Insured Catastrophe Losses in the US

*Estimate through Oct. 31, 2011.
Note: 2001 figure includes $20.3B for 9/11 losses reported through 12/31/01. Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = $12.2B.
Sources: Property Claims Service/ISO; Insurance Information Institute.
Top 12 (13?) Most Costly Disasters in U.S. History

(Insured Losses, 2010 Dollars, $ Billions)

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

*IncludLosses will actually be broken down into several “events” as determined by PCS.
Sources: PCS; Insurance Information Institute inflation adjustments.
Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2011:H1*

 Avg. CAT Loss Component of the Combined Ratio by Decade

1960s: 1.04  
1970s: 0.85  
1980s: 1.31  
1990s: 3.39  
2000s: 3.52  
2010s: 4.15*  

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

*Insurance Information Institute estimates for 2010 and 2011:H1  
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.
There were 98 natural disaster events in the first half of 2011.

*Through June 30.
Source: MR NatCatSERVICE
Thunderstorm losses in the first half of 2011 totaled $16.4 billion, a new annual record through just 6 months.

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

Average thunderstorm losses are up more than 8 fold since the early 1980s.

*Through June 30, 2011.
Source: Property Claims Service, MR NatCatSERVICE
Insured winter storm losses in 2011 totaled $1.4 billion and are up 50% since 1980.

Source: Property Claims Service, MR NatCatSERVICE
2011 could be a severe year for wildfire damage. Acres burned through June 30 already exceed all of 2010.
Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1990–2011: H1

Wind/Hail/Flood (3), $12.7
Geological Events, $18.5
Terrorism, $24.9
Winter Storms, $30.0
Tornadoes (2), $119.5

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

Tornado share of CAT losses is rising

42.7%
31.8%
8.0%
6.6%
4.9%
3.4%
2.4%
0.2%

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.
The number of federal disaster declarations set a new record in 2011, with 93 declarations through Nov. 13. It is no wonder that FEMA is broke!

There have been 2,043 federal disaster declarations since 1953. The average number of declarations per year is 34 from 1953-2010, though that few haven’t been recorded since 1995.

The Number of Federal Disaster Declarations Is Rising and Set a New Record in 2011

*Through November 13, 2011.
Over the past nearly 60 years, Texas has had the highest number of Federal Disaster Declarations.

NY’s 2011 Declarations
- 2/18: Severe Winter Storm
- 6/10: Severe Storms, Flooding, Tornadoes, Straight Line Winds
- 8/31: Hurricane Irene
- 9/13: Remnants of TS Lee
- 10/29: Snowtober Storm???

NY has had 65 federal disaster declarations since 1953, approximately 1 per year, BUT has had 4 so far in 2011.

Over the past nearly 60 years, Wyoming, Utah and Rhode Island had the fewest number of Federal Disaster Declarations.

Federal Disasters Declarations by State, 1953 – Nov. 13, 2011: Lowest 25 States*

*Includes Puerto Rico and the District of Columbia.
SPRING 2011 TORNADO & SEVERE STORM OUTBREAK

2011 Losses Are Putting Pressure on US P/C Insurance Markets
Number of Tornadoes and Related Deaths, 1990 – 2011*

Tornadoes have already claimed more than 500 lives

There were 1,805 tornadoes recorded in the US by Oct. 13

Insurers Expect to Pay at Least $2 Billion Each for the April 2011 Tornadoes in Alabama and a Similar Amount for the May Storms in Joplin

*2011 is preliminary data through October 13.
There were 1,819 tornadoes in the US in 2011 through Oct. 29, far above average, but well below 2008’s record.

Deadly and costly April/May spike

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

*Preliminary tornadoes from NWS Local Storm Reports (LSRs)
Annual average is based on preliminary LSRs, 2005-2010

*Through October 29.
Insurers Making a Difference in Impacted Communities

Destroyed home in Tuscaloosa. Insurers will pay some 165,000 claims totaling $2 billion in the Tuscaloosa/Birmingham areas alone.

Presentation of a check to Tuscaloosa Mayor Walt Maddox to the Tuscaloosa Storm Recovery Fund

Source: Insurance Information Institute
Location of Tornadoes in the US, January 1—October 13, 2011

1,805 tornadoes killed 546 people through Oct. 13, including at least 340 on April 26 mostly in the Tuscaloosa area, and 130 in Joplin on May 22.

Location of Large Hail Reports in the US, January 1—October 13, 2011

There were 9,287 “Large Hail” reports through Oct. 13, 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#
There were 18,293 “Wind Damage” reports through Oct. 13, causing extensive damage to homes and businesses.

Severe Weather Reports, January 1—October 13, 2011

There have been 29,385 severe weather reports through Oct. 13; including 1,805 tornadoes; 9,287 “Large Hail” reports and 18,293 high wind events.
Number of Severe Weather Reports in US, by Type: January 1—October 13, 2011

- Tornadoes, 1,805, 6%
- Large Hail, 9,287, 32%
- Wind Damage, 18,293, 62%

Tornadoes accounted for just 6% of all Severe Weather Reports through October 13 but more than 500 deaths.

New York’s Catastrophe
Loss History: 2011

NY May Not Be a Gulf Coastal State, but It is No Stranger to Catastrophe
Severe Weather Reports in New York, January 1—November 9, 2011

There were 639 severe weather reports in NY through Nov. 9

**MN**  
**Total Reports = 639**  
Tornadoes = 15 (Red)  
Hail Reports = 197 (Green)  
Wind Reports = 427 (Blue)

The BIG Question: When Will the Market Turn?

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

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Status</th>
<th>Comments</th>
</tr>
</thead>
</table>
| Sustained Period of Large Underwriting Losses | Early Stage, Inevitable | • Apart from Q2:2011, overall p/c underwriting losses remain modest  
  • Combined ratios (ex-Q2 CATs) still in low 100s (vs. 110+ at onset of last hard market)  
  • Prior-year reserve releases continue reduce u/w losses, boost ROEs |
| Material Decline in Surplus/Capacity | Entered 2011 At Record High; Since Fallen | • Surplus hit a record $565B as of 3/31/11  
  • Fell by 1% in Q2 2011  
  • Little excess capacity remains in reinsurance markets  
  • Weak 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 in Property, WC | • Commercial lines pricing trends turning from negative to flat or up in some lines (property, WC)  
  • Competition remains intense as many seek to maintain market share |

Sources: Barclays Capital; Insurance Information Institute.
Do the Property Catastrophe Events of 2011 Impact Casualty Markets?

- Unlikely that Record 2011 Property CAT Loss Will Impact Casualty Markets in Any Material Way, Including Professional Liability Lines

- Global P/C & Reinsurance Industries Entered 2011 w/ Record Capital
  - Events so far in 2011 are earnings events, rather than capital events

- Natural Catastrophe and Casualty Risks Are Largely Uncorrelated
  - Risks are different
  - Geographically, mostly distinct primary carriers: Japan-Australia-NZ-US
  - Casualty markets generally don’t influence property markets

- Property and Casualty Risks Are Largely Siloed


- Casualty Markets Have Their Own Issues
  - Tort environment
  - Inflation
  - Public policy
1. UNDERWRITING

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

Heavy Use of Reinsurance Lowered Net Losses

Relatively Low CAT Losses, Reserve Releases

Relatively Low CAT Losses, Reserve Releases

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

Best Combined Ratio Since 1949 (87.6)

Cyclical Deterioration

Avg. CAT Losses, More Reserve Releases

Sources: A.M. Best, ISO.; III Estimated for 2011:H1 (Q1 actual ex-M&FG was 102.2).
Underwriting Gain (Loss) 1975–2011*

Cumulative underwriting deficit from 1975 through 2010 is $455B

Underwriting losses in 2011 will be much larger: $24.1B based on H1 data

The industry recorded a $10.4B underwriting loss in 2010 compared to $3.0B in 2009

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

* Includes mortgage and financial guaranty insurers in all years. 2011 figure is actual H1 underwriting losses of $24.098 billion.
Sources: A.M. Best, ISO; Insurance Information Institute.
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

---

total to 4 years with an underwriting 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.
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 Are Remained 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.
Financial Strength & Underwriting

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

P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2010

2010 impairment rate was 0.35%, down from 0.65% in 2009 and near the record low of 0.17% in 2007; Rate is still less than one-half the 0.81% average since 1969

Impairment Rates Are Highly Correlated With Underwriting Performance and Reached Record Lows in 2007

Source: A.M. Best; Insurance Information Institute
Historically, Deficient Loss Reserves and Inadequate Pricing Are By Far the Leading Cause of P-C Insurer Impairments. Investment and Catastrophe Losses Play a Much Smaller Role.

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

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

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

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

Many US Insurers Are Close to a Century Old or Older

Sources: Insurance Information Institute research from National Bureau of Economic Research data.
Performance by Segment: Commercial Lines
Homeowners Insurance Combined Ratio: 1990–2011P

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 (1990-2010); Insurance Information Institute (2011P).
Private Passenger Auto Accounts for 34% of Industry Premiums and Remains the Profit Juggernaut of the P/C Insurance Industry

Sources: A.M. Best (1990-2010); Insurance Information Institute (2011P).
Commercial lines in 2011 will likely experience record their worst underwriting performance since 2002.

Source: 2011 RIMS Benchmark Survey; A.M. Best; Insurance Information Institute
Workers Comp Underwriting Results Are Deteriorating Markedly and the Worst They Have Been in a Decade

Sources: A.M. Best (1994-2010); Insurance Information Institute (2011P).
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*

Surplus as of 6/30/11 was a near-record $559.1 billion down 1% from the record $564.7 billion as of 3/31/11, but up 27.9% ($122 billion) from the crisis trough of $437.1 billion at 3/31/09. Prior peak was $521.8 billion as of 9/30/07. Surplus as of 6/30/11 was 7.1% above 2007 peak.

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

The Premium-to-Surplus Ratio Stood at $0.78:$1 as of 6/30/11, a near record low (at least in recent history)**

* As of 6/30/11.

Surplus as of 6/30/11 fell by 1% below its all time record high of $564.7B set as of 3/31/11. Further declines are likely.

The Industry now has $1 of surplus for every $0.78 of NPW—the strongest claims-paying status in its history.

Quarterly Surplus Changes Since 2007:Q3 Peak

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Change (Billions)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>09:Q3</td>
<td>-$31.0B (-5.9%)</td>
<td></td>
</tr>
<tr>
<td>09:Q4</td>
<td>-$10.3B (-2.0%)</td>
<td></td>
</tr>
<tr>
<td>10:Q1</td>
<td>+$18.9B (+3.6%)</td>
<td></td>
</tr>
<tr>
<td>10:Q2</td>
<td>+$8.7B (+1.7%)</td>
<td></td>
</tr>
<tr>
<td>10:Q3</td>
<td>+$23.0B (+4.4%)</td>
<td></td>
</tr>
<tr>
<td>10:Q4</td>
<td>+$35.1B (+6.7%)</td>
<td></td>
</tr>
<tr>
<td>11:Q1</td>
<td>+$42.9B (+8.2%)</td>
<td></td>
</tr>
<tr>
<td>11:Q2</td>
<td>+$37.3B (+7.1%)</td>
<td></td>
</tr>
</tbody>
</table>

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

Sources: ISO, A.M. Best.
Implied Excess (Deficit) Capital Assuming Premium/Surplus Ratio = 0.9:1

Excess/(Deficit) Capital (Policyholder Surplus)

2006/07: Low CAT losses, strong underwriting results since 1940s increase capital
2009-10: End of financial crisis, rising asset prices, modest u/w losses push capital to record levels
2005: Katrina, Rita, Wilma produce record CAT losses
2008: Financial crisis causes sharp drop in capital


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 Globally Among P/C Insurers Remains Subdued: Little Capacity Leaving

Sources: Conning Research; Insurance Information Institute.
Paid-in Capital, 2005–2010

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

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

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Surplus Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>6/30/1989</td>
<td>Hurricane Hugo</td>
<td>3.3%</td>
</tr>
<tr>
<td>6/30/1992</td>
<td>Hurricane Andrew</td>
<td>9.6%</td>
</tr>
<tr>
<td>12/31/93</td>
<td>Northridge Earthquake</td>
<td>6.9%</td>
</tr>
<tr>
<td>6/30/01</td>
<td>Sept. 11 Attacks</td>
<td>10.9%</td>
</tr>
<tr>
<td>6/30/04</td>
<td>Florida Hurricanes</td>
<td>6.2%</td>
</tr>
<tr>
<td>6/30/05</td>
<td>Hurricane Katrina</td>
<td>13.8%</td>
</tr>
<tr>
<td>Financial Crisis</td>
<td>as of 3/31/09**</td>
<td>16.2%</td>
</tr>
</tbody>
</table>

* Ratio is for end-of-quarter surplus immediately prior to 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*

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

Surplus growth still exceeds premium growth, suggesting an ongoing build-up of capacity in early 2011

* 2011 NWP and Surplus figures are % changes as of H1:11 vs. H1:10.
Sources: A.M. Best, ISO, Insurance Information Institute
The premium-to-surplus ratio (a measure of leverage) hit a record low at just 0.76:1 in 2010. It has decreased as PHS grows more quickly than NPW, with the effect of holding down profitability.

Record High P-S Ratio was 2.7:1 in 1974

Record Low P-S Ratio was 0.76:1 as of 12/31/10, rising slightly to 0.78:1 as of 6/30/11

The Premium-to-Surplus Ratio in 2011:H1 Implies that P/C Insurers Held $1 in Surplus Against Each $0.78 Written in Premiums. In 1974, Each $1 of Surplus Backed $2.70 in Premium.

*2011 data are as of 6/30/11.
Sources: Insurance Information Institute calculations from A.M. Best data.
3. REINSURANCE MARKET CONDITIONS

Record Global Catastrophes Activity is Pressuring Pricing
Significant Market Losses, 1985-2011*

Reinsurers’ share of major market losses was exceptionally high in 2010 and early 2011.

REINSURANCE PRICING TRENDS
- Property/CAT reinsurance prices are up substantially in Asia/Pacific markets
- US pricing is up 10-15%, but ex-Florida closer to flat

Source: Holborn; RAA.

* 2011 events are as of March 31 and are preliminary and may change as loss estimates are refined further.
Significant Market Losses by Event, 1985-2011*

Reinsurers are bearing a very high share of recent catastrophe losses. Losses are putting pressure on property cat reinsurance prices in affected regions. The impact for US property catastrophe pricing is uncertain.

Source: Holborn, RAA. *2011 events as of March 31 are preliminary and may change as loss estimates are refined further.
Global Reinsurance Capital, 2007-2011:H1

Global reinsurance market capacity is down in mid-2011 due to large catastrophe losses.

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.
A modest increase in global property catastrophe reinsurance pricing was evident in June 1 renewals in the wake of record global catastrophe losses. Larger increase could occur for the Jan.1, 2012 renewals.

Source: Guy Carpenter, GC Capital Ideas.com, September 26, 2011.
4. RENEWED PRICING DISCIPLINE

Is There Evidence of a Broad and Sustained Shift in Pricing?
Soft Market Persisted in 2010 but Growth Returned: More in 2011?

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

2011:H1 growth was +2.6%

NWP was up 0.9% in 2010

*2011 figure is for H1 vs. 2010:H1.

Shaded areas denote “hard market” periods

Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute.
Positive premium growth continued into through the first half of 2011.

Pricing and more stable exposure environment are contributing to consistent positive growth in recent quarters (vs. the same quarter, prior year)

Sources: ISO, Insurance Information Institute.
Average Commercial Rate Change, All Lines, (1Q:2004–3Q:2011)

(Percents)

Pricing as of Q3:2011 is positive for the first time since 2003

Q2 2011 marked the 30th consecutive quarter of price declines

Source: Council of Insurance Agents & Brokers; Insurance Information Institute
Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2011:Q3

- Peak = 2001:Q4
  - +28.5%
- Pricing turned positive (+0.9%) in Q3:2011, the first increase in nearly 7 years (Q4:2003)
- Trough = 2007:Q3
  - -13.6%
- Pricing Turned Negative in Early 2004 and Has Been Negative Ever Since
- KRW Effect: No Lasting Impact

Source: Council of Insurance Agents and Brokers; Insurance Information Institute.
Despite Q3:2011 gain of 0.9%, pricing today is where it was in late 2000 (pre-9/11)

Downward pricing pressure still evident for large accounts, down 0.6% in Q3:2011

Source: Council of Insurance Agents and Brokers; Insurance Information Institute.
Change in Commercial Rate Renewals, by Line: 2011:Q3

Percentage Change (%)


Source: Council of Insurance Agents and Brokers; Insurance Information Institute.
Workers Comp Rate Changes, 2008:Q4 – 2011:Q3

The Q3 2011 WC rate change was the largest among all major commercial lines.

Source: Council of Insurance Agents and Brokers; Information Institute.
The cost of risk cannot continue to fall as actual results deteriorate.

*Insurance Information Institute estimates for 2011.
Source: 2011 RIMS Benchmark Survey; A.M. Best; Insurance Information Institute
Management & Professional Liability Costs Account for 9% - 13% of the Risk Dollar

Firms w/Revenues < $1 Billion

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

Firms w/Revenues > $1 Billion

- Liability Premiums, 10%
- Liability Retained Losses, 12%
- Retained Property Losses, 8%
- Property Premiums, 13%
- Total Mgmt. Liability, 5%
- WC Premiums, 6%
- WC Retained Losses, 21%
- Total Prof. Liability Costs, 3%

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

Top 25 States

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

Sources: SNL Financial LC.; Insurance Information Institute.
Direct Premiums Written: All P/C Lines Percent Change by State, 2005-2010

Bottom 25 States

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

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

Sources: SNL Financial LC; Insurance Information Institute.
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?
Investment Gains Recovered Significantly in 2010 Due to Realized Investment Gains; The Financial Crisis Caused Investment Gains to Fall by 50% in 2008

2011 investment gains are likely to come in below 2010 due to lower interest rates and poor stock market returns.

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.
Treasury Yield Curves: Pre-Crisis (July 2007) vs. Sept. 2011*

The Treasury yield curve remains near its most depressed level in at least 45 years. Investment income is falling as a result. Fed is unlikely to hike rates until well into 2013.

The End of the Fed’s Quantitative Easing Is Unlikely to Push Interest Rates Up Substantially Given Ongoing Economic Weakness

*Average of daily rates.
Sources: Board of Governors of the United States Federal Reserve Bank; Insurance Information Institute.
Treasury Yield Curves Before and After S&P Downgrade

Treasury actually fell in the wake of the S&P downgrade, despite (theoretically) higher risk

S&P’s Downgrade on August 5th Did Not Increase the Borrowing Costs of the US Government. In Fact, Treasury Yields Fell Afterwards

*Average of daily rates.
Sources: Board of Governors of the United States Federal Reserve Bank; 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.
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

Tort Costs Have Remained High but Relatively Stable Since the mid-2000s. As a Share of GDP they Should Fall as the Economy Expands.

Sources: Towers Watson, 2010 Update on US Tort Cost Trends, Appendix 1A
## 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

### 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

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Midwest/West has mix of good and bad states.

The Nation’s Judicial Hellholes: 2010

Watch List
- Madison County, IL
- Atlantic County, NJ
- St. Landry Parish, LA
- District of Columbia
- NYC and Albany, NY

Dishonorable Mention
- MI Supreme Court
- City of St. Louis
- CO Supreme Court

Source: American Tort Reform Association; Insurance Information Institute

Medical malpractice 1999: $2,887, 2003: $3,499, 2008: $3,722

*Award trends in wrongful deaths of adult males.
Source: Jury Verdict Research; Insurance Information Institute.
Sum of Top 10 Jury Awards 2004-2010

Inflation

Is it a Threat to Claim Cost Severities
Annual Inflation Rates, (CPI-U, %), 1990–2017F

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

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

The slack in the U.S. economy suggests that inflation should not heat up before 2012, but other forces (commodity prices, inflation in countries from which we import, etc.), plus U.S. debt burden, remain longer-run concerns.

Medical Cost Inflation Has Outpaced Overall Inflation Over 50 Years

A claim that cost $1,000 in 1961 would cost nearly $16,000 based on medical cost inflation trends over the past 50 years.

*Based on change from Feb. 2011 to Feb. 2010 (latest available)
Source: Department of Labor (Bureau of Labor Statistics)
Regulatory Environment & Financial Services Reform

Insurers Not as Impacted as Banks, But Dodd-Frank Implementation Has Been a Concern for Insurers
Pennsylvania’s regulatory environment got a grade of “C” in 2010.

Source: Heartland Institute, May 2011

Not Graded: District of Columbia
Dodd-Frank & Insurance One Year: Status Report

Expectations vs. Reality
Financial Stability Oversight Council—Slow to Consider Insurer Concerns

- FSOC deliberates largely behind closed doors
- Criteria and process for designation of Systemically Important Financial Institutions (SIFIs) were not announced until October 12, 2011
  - Possible that small number of US insurers will be designated as SIFIs
- Operated/deliberated until late September 2011 without a voting member representing the insurance industry
  - Roy Woodall, approved by Senate in Sept. 27, 2011, is the sole voting representative for the entire p/c and life insurance industry (was Kentucky Ins. Comm. 1966-1967; Worked in other insurance trade posts, Treasury)
- Two non-voting FSOC members represent insurance interests:
  - FIO Director Michael McGraith (started June 1, 2011)
  - Missouri Insurance Director John Huff (started in Sept. 2010)
    - Not allowed to brief fellow regulators on FSOC discussions

Source: Insurance Information Institute (I.I.I.) updates and research
The Dodd-Frank Act and Systemic Importance

- **All Banks with Assets > $50B Considered Systemically Important**
- **Non-Bank Financial Groups with Global Consolidated Assets > $50B Will Be Examined for Systemic Riskiness, But Not Automatically Labeled as a Systemically Important Financial Institution (SIFI)**
  - Foreign firms with assets in the US exceeding $50 billion will also fall under review
- **If Firm Exceeds the $50B Threshold, a 3-Stage Test Applies**
  - **STAGE 1**: Non-Banks Financial Groups with $50B+ Assets Will Be Evaluated on Five “Uniform Quantitative Thresholds,” at Least One of Which Will Have to Be Met to Trigger a Further (Stage 2) Review Potentially Leading to a SIFI Designation
    - **Leverage**: Would have to be leveraged more than 15:1 (insurers unlikely to trigger)
    - **ST Debt-to-Assets**: Would have to a ratio of ST debt (less than 12 months to maturity) to consolidate assets exceeding 10%
    - **Debt**: Have total debt exceeding $20 billion (i.e., loans borrowed and bond issues)
    - **Derivative Liabilities**: Have derivative liabilities exceeding $3.5 billion
    - **Credit Default Swaps**: Have more than $30 billion CDS outstanding for which the nonbank financial firm is the reference entity (i.e., CDS written against firm’s failure)
- **Thresholds Considered to Be Guideposts**
  - Not all companies that breach a barrier will be deemed systemically important
  - Regulators retain right to include firms that do meet any of the criteria

Dodd-Frank Implementation: SYSTEMIC RISK CRITERIA (continued)

The Dodd-Frank Act and Systemic Importance

- **STAGE 2**: Analysis of Firms Triggering Uniform Quantitative Thresholds
  - Firms triggering one or more of the quantitative thresholds in Stage 1 will be analyzed using publicly available information in order to conduct a more thorough review
  - No data call will be required at this stage
  - Firms viewed as potentially systemically important (candidate SIFIs) will subject to a Stage 3 analysis

- **STAGE 3**: Analysis of Candidate Systemically Important Financial Institutions
  - Firms deemed in Stage 2 to be potentially systemically important will be subjected to more detailed analysis including data not available during the Stage 2 analysis
  - Stage 3 firms will be notified by the FSOC that they are under consideration and will have the opportunity to contest their consideration

- **SIFI DESIGNATION PROCEDURE**: 2-Stage Voting Procedure by FSOC is Required Before a Final SIFI Designation is Made
  - At the conclusion of the Stage 3, FSOC has the authority to propose a firm be designated as a SIFI
  - Requires 2/3 majority vote of FSOC members, including affirmation of the Chair (Treasury Secretary)
  - Potential SIFI firm will be given written explanation for the determination
  - Firm can request a hearing to contest the determination
  - Final determination requires another 2/3 majority of FSOC members and affirmation of the Chair

Dodd-Frank Implementation: FSOC MEMBERS

The Dodd-Frank Act and Systemic Importance

Members of the Financial Stability Oversight Council

- There are 10 voting members of the FSCO

- Treasury Secretary and FSOC Chair: Timothy Geithner
- Federal Reserve Chairman: Ben Bernanke
- Securities & Exchange Commission Chairman: Mary Shapiro
- Commodities Futures Trading Commission Chairman: Gary Gensler
- National Credit Union Administration Chairman: Debbie Matz
- (Acting) Comptroller of the Currency: John Walsh
- Federal Housing Finance Agency (Acting) Director: Edward DeMarco
- Consumer Financial Protection Bureau Director: Position is Currently Vacant
- Independent Insurance Expert: Roy Woodall
  - There are 2 nonvoting members of the FSOC representing insurance interests
  - Federal Insurance Office Director Mike McGraith
  - John Huff, Director of the Missouri Insurance Department

Members of the Federal Advisory Committee on Insurance

Members Announced on November 2, 2011:

- David Birnbaum, Economist and Executive Director, Center for Economic Justice
- Michael Considine, Commissioner, Commonwealth of the Pennsylvania Department of Insurance
- Jacqueline Cunningham, Commissioner, State of Virginia Bureau of Insurance
- John Degnan, Senior Advisor to the CEO of the Chubb Corporation
- Brian Duperreault, President and Chief Executive Officer, Marsh & McLennan Companies
- Loretta Fuller, Chief Executive Officer, Insurance Solutions Associates
- Scott E. Harrington, Alan B. Miller Professor in the Health Care Management and Insurance and Risk Management departments at the Wharton School, University of Pennsylvania
- Benjamin Lawsky, Superintendent of Financial Services, State of New York
- Thomas Leonardi, Commissioner of the Connecticut Department of Insurance
- Monica Lindeen, State of Montana Commissioner of Securities and Insurance and State Auditor
- Christopher Mansfield, Senior Vice President and General Counsel, Liberty Mutual Group
- Sean McGovern, Director and General Counsel, Lloyd’s North America
- Theresa Miller, Administrator, State of Oregon Insurance Division
- Michael E. Sproule, Executive VP and Chief Financial Officer, New York Life Insurance Co.
- Bill White, Commissioner, District of Columbia Department of Insurance

Federal Insurance Office Update: Activity Update

- FIO’s First Director Did Not Assume Office Until June 1, 2011
  - Former Illinois Insurance Director Michael McGraith
  - Small staff (10-12) and modest budget
  - McGraith has made few appearances or public comments

- Study on State of Insurance Regulation Due Jan. 21, 2012
  - Report will likely review previously identified inefficiencies and strengths of current regulatory system with an eye toward modernization.

- Treasury Will Likely Exert Heavy Influence on the Report

Source: Insurance Information Institute (I.I.I.) updates and research
The Strength of the Economy Will Influence P/C Insurer Growth Opportunities

Growth Would Also Help Absorb Excess Capital
Recession began in Dec. 2007. Economic toll of credit crunch, housing slump, labor market contraction has been severe but modest recovery is underway.

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

2011 got off to a sluggish start, but growth is expected to proceed at a more modest, though still relatively weak pace through 2012.

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 11/11; Insurance Information Institute.
2011 Financial Overview
State Economic Growth Varied in 2010

Hard hit Midwest and Northeast states finally entering recovery in 2010

Texas had one of the stronger economies in 2010 and has generally outperformed during the economic downturn
New Private Housing Starts, 1990-2022F

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

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

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

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

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (10/11 and 11/11); Insurance Information Institute.
New auto/light truck sales fell to the lowest level since the late 1960s. Forecast for 2011-12 is still far below 1999-2007 average of 17 million units, but a recovery is underway.

Job growth and improved credit market conditions will boost auto sales in 2011 and beyond.

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 11/11); Insurance Information Institute.
Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures

The US operated at 77.5% of industrial capacity in July 2011, above the June 2009 low of 68.3%

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

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

Source: Institute for Supply Management; Insurance Information Institute
Consumer Sentiment Survey (1966 = 100)

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Optimism among consumers plunged amid the debt debate debacle and S&P downgrade.

Consumer confidence has been low for years amid high unemployment, falling home prices and other factors adversely impact consumers.

Source: University of Michigan; Insurance Information Institute
In 2009:Q1 a net of 165,000 businesses disappeared. By 2010:Q3 73,000 new ones appeared, returning us to the level first attained three years before, in 2007:Q3.

Sources: U.S. Bureau of Labor Statistics; Insurance Information Institute
Business Bankruptcy Filings, 1980-2011:H1

2010 bankruptcies totaled 56,282, down 7.5% from 60,837 in 2009—which were up 40% from 2008 and the most since 1993. 2011:H1 filings are down 15.1% from 2010:Q2.

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
722,000 new business starts were recorded in 2010, up 3.6% from 697,000 in 2009, which was the slowest year for new business starts since 1993.

* Data through December 31, 2010 are the latest available as of September 8, 2011; Seasonally adjusted
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<tr>
<td>Technology (incl. Biotechnology)</td>
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<tr>
<td>Light Manufacturing</td>
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<tr>
<td>Export-Oriented Industries</td>
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<tr>
<td>Shipping (Rail, Marine, Trucking)</td>
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Many industries are poised for growth, but many insurers do not write in these economic segments.
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 2011

January 2000 through October 2011, Seasonally Adjusted (%)

Traditional Unemployment Rate U-3

Unemployment + Underemployment Rate U-6

Recession ended in November 2001

Unemployment kept rising for 19 more months

Recession began in December 2007

U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 16.2% in Oct. 2011

Unemployment stood at 9.0% in October

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 will constrain overall economic growth

Monthly Change in Private Employment

January 2008 through October 2011* (Thousands)


104,000 private sector jobs were created in October

Professional Business Services, Health Care, and Trade, Transportation & Utilities) were the job growth leaders in the past year.

There is a great deal of variation in employment growth by industry, indicating a very uneven and slow recovery.

Monthly Change Employment*

January 2008 through October 2011* (Thousands)

The job gain and loss figures in 2010 were severely distorted by the hiring and termination of temporary Census workers. In 2010, 1.178 million nonfarm jobs were created.

Monthly Losses in Dec. 08–Mar. 09 Were the Largest in the Post-WW II Period

Job Losses Since the Recession Began in Dec. 2007 Peaked at 8.4 Mill in Dec. 09; 13.9 Million People are Now Defined as Unemployed

In September, 25 states reported over-the-month unemployment rate decreases, 14 had increases, and 11 and the District of Columbia had no change.

*Provisional figures for September 2011, seasonally adjusted.

Unemployment Rates By State, September 2011: Lowest 25 States*

In September, 25 states reported over-the-month unemployment rate decreases, 14 had increases, and 11 and the District of Columbia had no change.

*Provisional figures for September 2011, seasonally adjusted.
## US Unemployment Rate

### 2007:Q1 to 2012:Q4F*

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<td>4.5%</td>
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<td>4.8%</td>
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* = actual;  = forecasts

**Rising unemployment eroded payrolls and workers comp’s exposure base.**

Unemployment peaked at 10% in late 2009.

Jobless figures have been revised upwards for 2011/12

Unemployment forecasts remain stubbornly high through 2011, but still imply millions of new jobs will be created.

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (11/11); Insurance Information Institute
Thank you for your time and your attention!

Twitter: twitter.com/bob_hartwig

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