



Overview & Outlook for the P/C Insurance Industry for 2014 and Beyond

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■ Modest Growth Continues into 2014

- ◆ ~4.0% annual growth expected
- ◆ Growth is very similar in both commercial, personal lines
- ◆ Above trend growth in HO, WC, E&S, Mortgage, Cyber, Terror (?)
- ◆ Energy, Health, Agriculture; Some mfg./const. segments

■ ROE Growth: Rate Trends Allow for Margin Improvement

- ◆ Some premium/profit growth driven by advanced data analytics

■ Economic Growth → Exposure Formation = Wildcard

- ◆ Upside potential
- ◆ Enormous regional variations within the US

■ Large-Scale, Untapped Reservoirs of Risk

- ◆ Only 50-60% of US cat losses are insured
- ◆ Property residual market depopulation
- ◆ Flood post-NFIP reform (BW-12)
- ◆ Business interruption/Supply chain disruption & similar products

■ Tapering of Prior-Year Reserve Releases

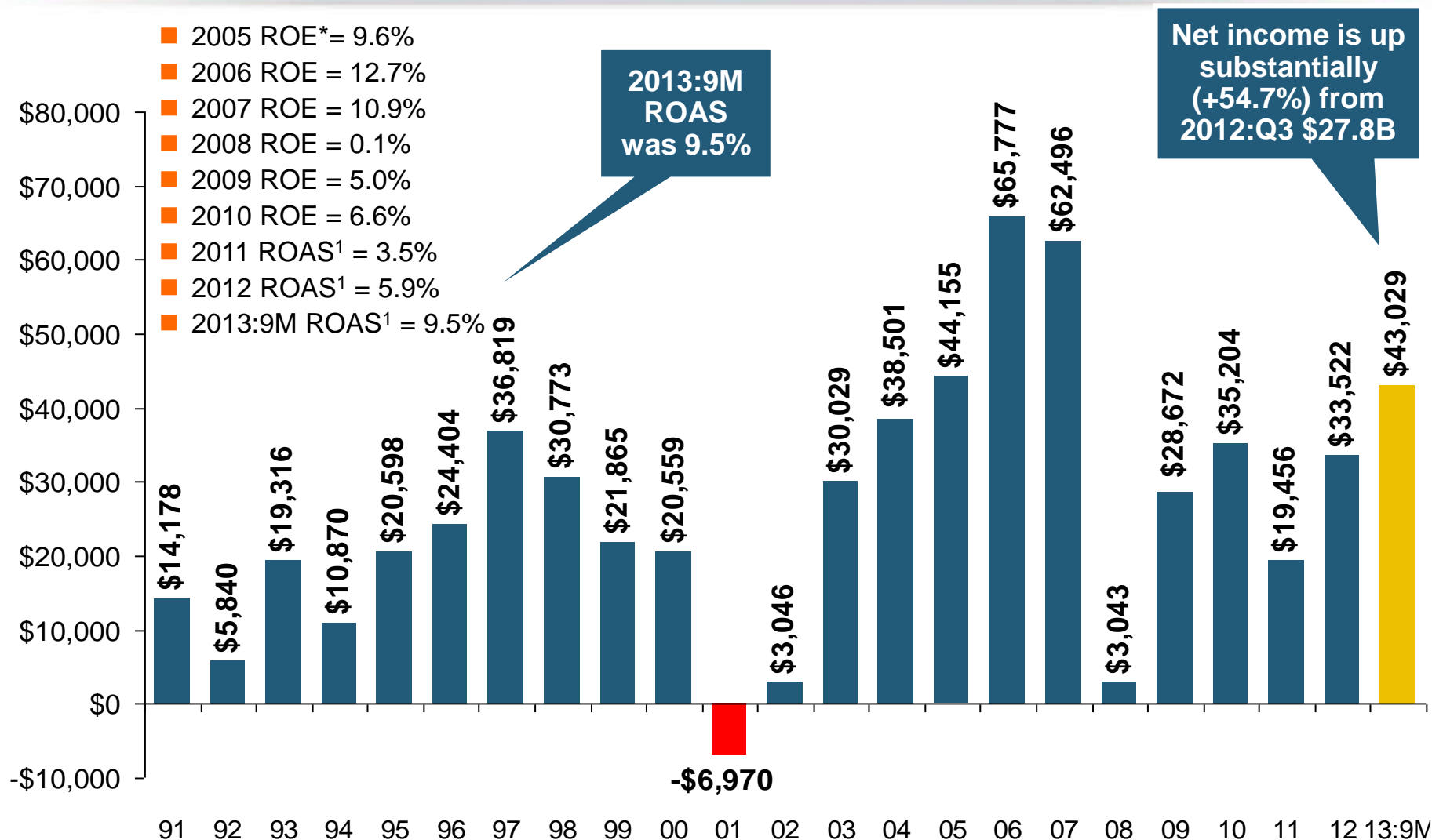
- ◆ The well will eventually run dry—adding to pricing pressure
- ◆ What do the woes of Tower tell us?

P/C Insurance Industry Financial Overview

**2013: Best Year in the
Post-Crisis Era**

**Performance Improved with
Lower CATs, Strong Markets**

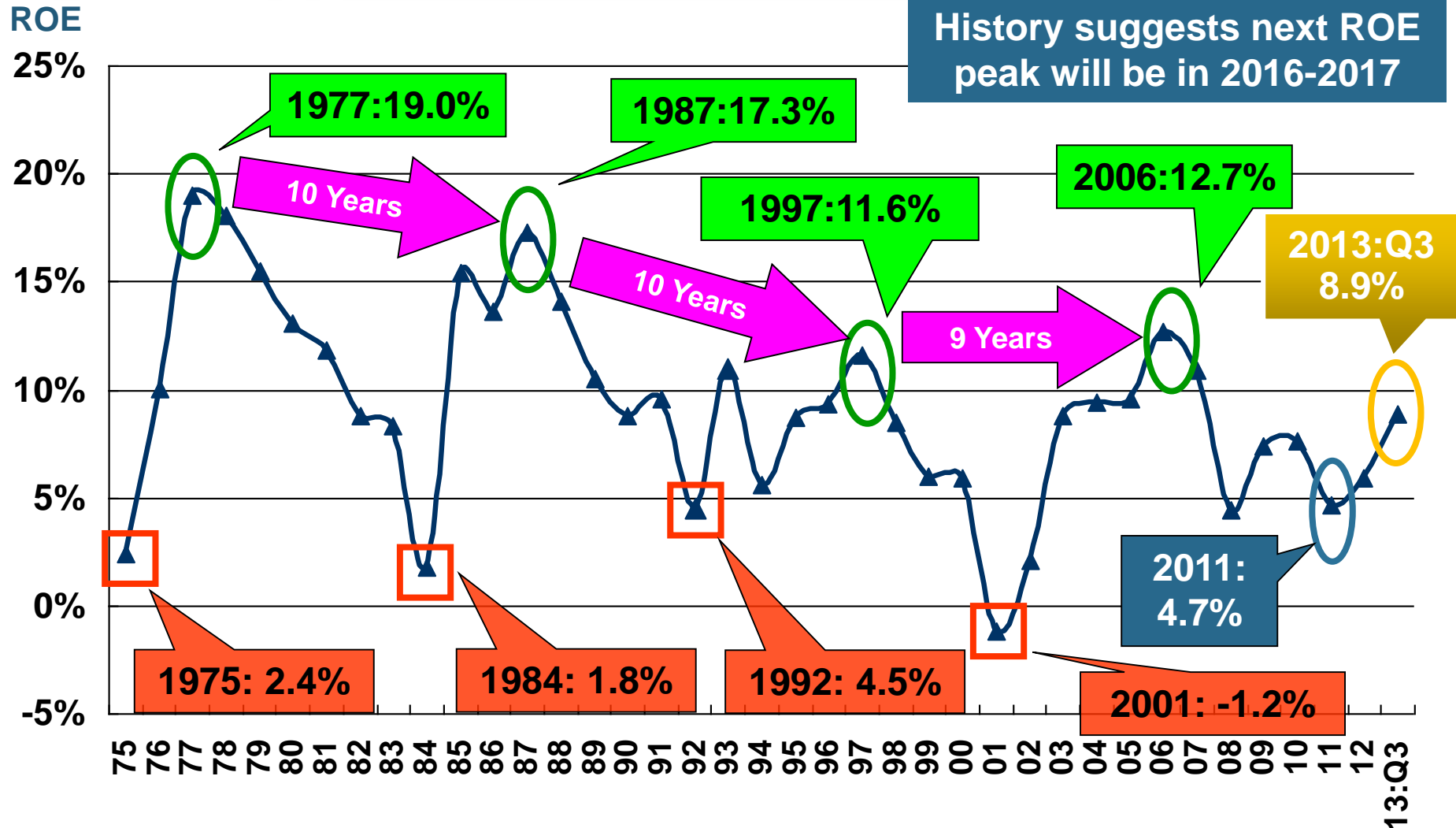
P/C Net Income After Taxes 1991–2013:Q3 (\$ Millions)



*ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 8.9% ROAS through 2013:Q3, 6.2% ROAS in 2012, 4.7% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009.

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

Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2013:Q3*



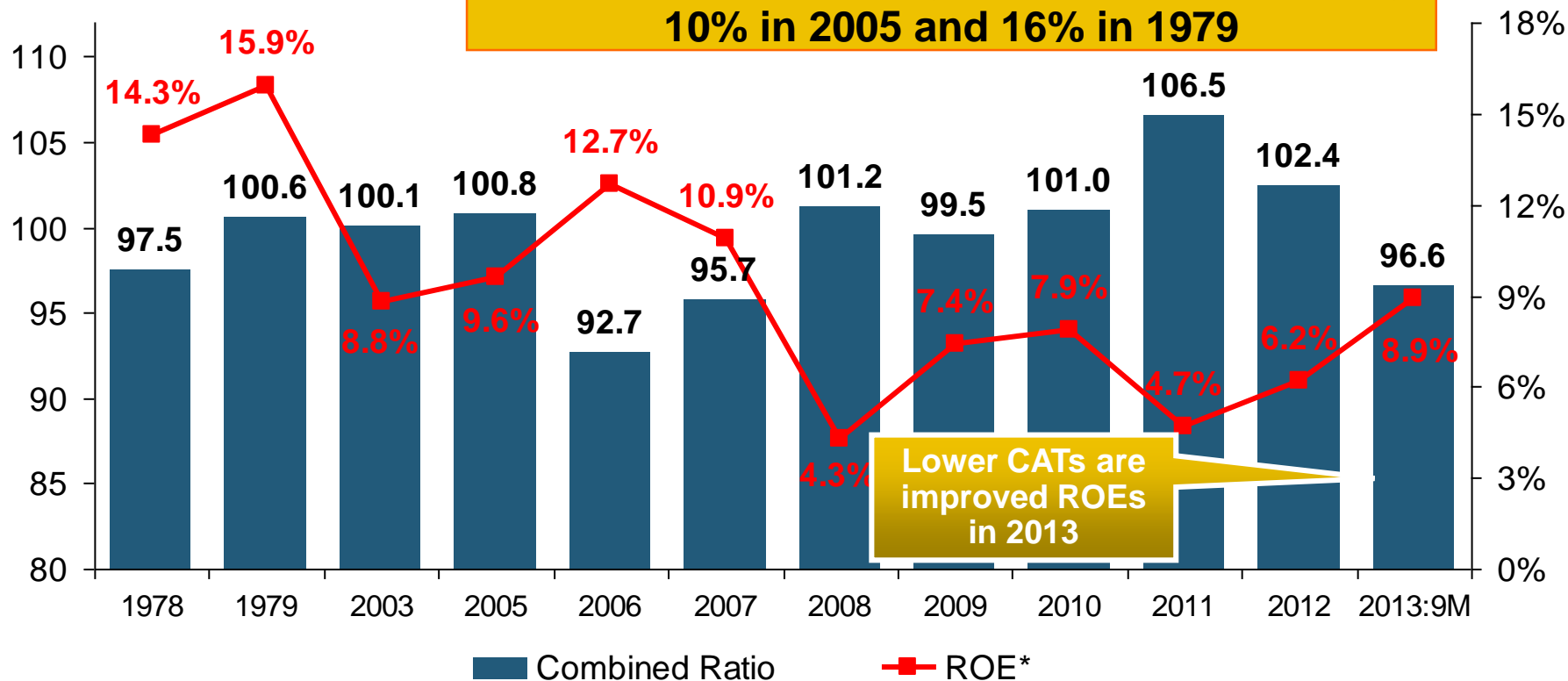
*Profitability = P/C insurer ROEs. 2011-13 figures are estimates based on ROAS data. Note: Data for 2008-2013 exclude mortgage and financial guaranty insurers.

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

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

Combined Ratio / ROE

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



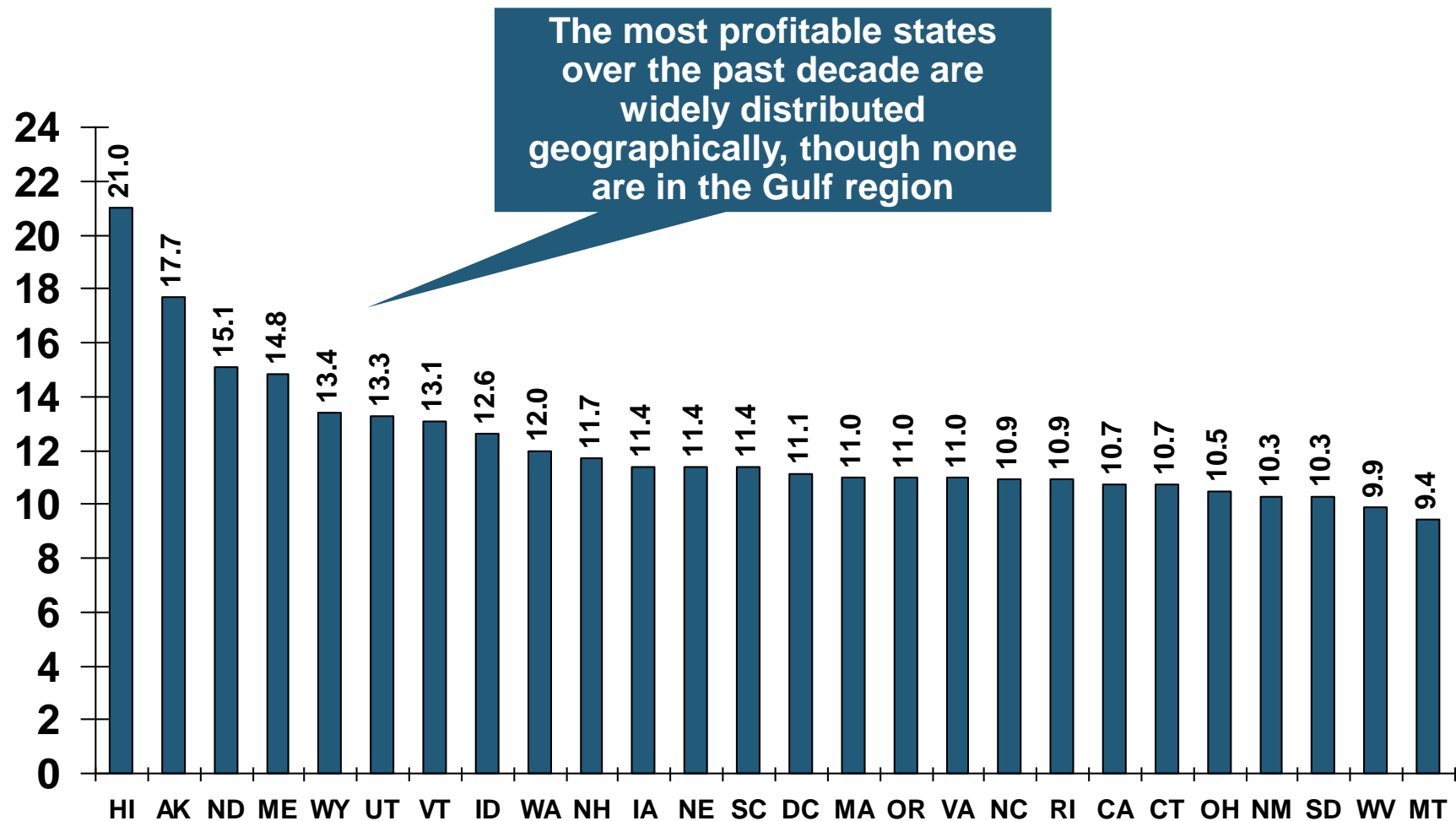
Lower CATs are improved ROEs in 2013

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

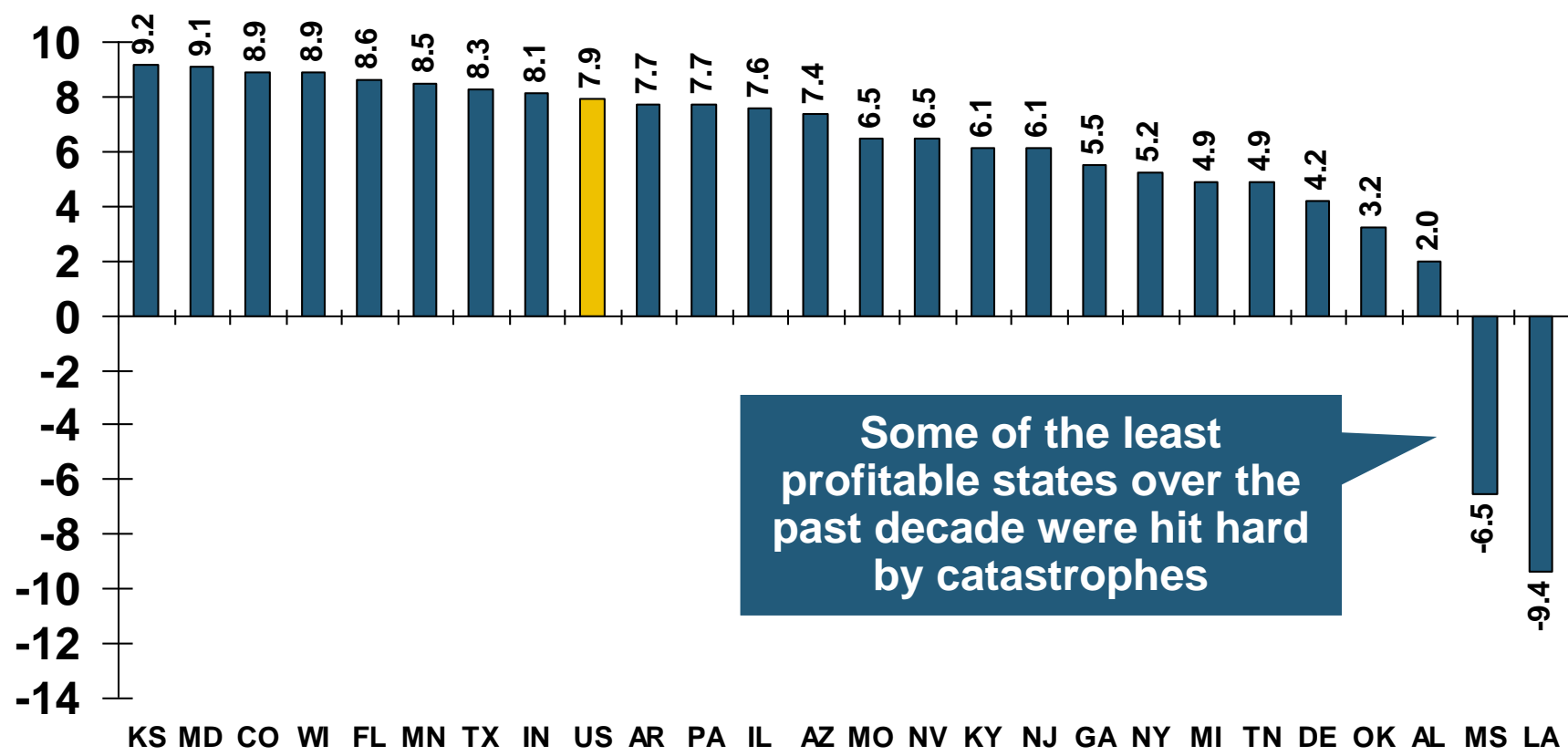
* 2008 -2013 figures are return on average surplus and exclude mortgage and financial guaranty insurers. 2013:9M combined ratio including M&FG insurers is 95.8; 2012 =103.2, 2011 = 108.1, ROAS = 3.5%.

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

RNW All Lines by State, 2003-2012 Average: Highest 25 States



RNW All Lines by State, 2003-2012 Average: Lowest 25 States





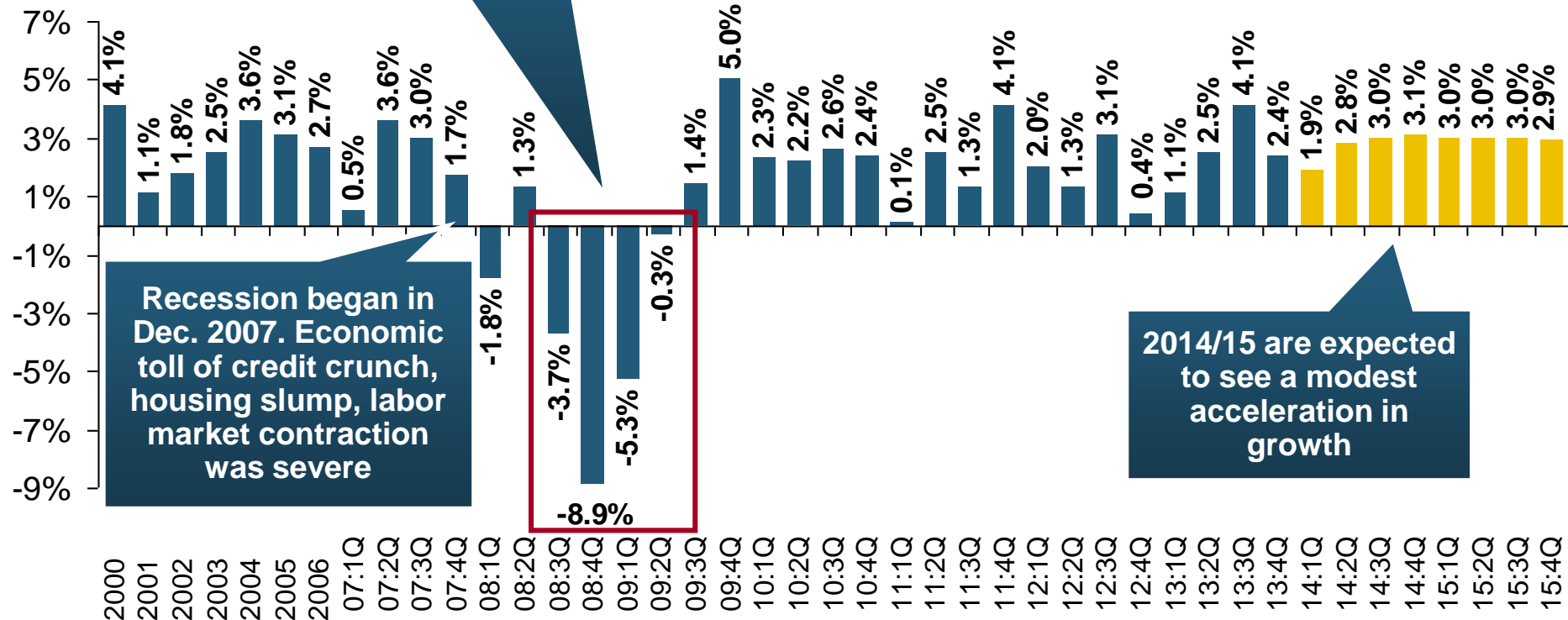
The Strength of the Economy Will Influence P/C Insurer Growth Opportunities

**Growth Will Expand Insurer Exposure
Base Across Most Lines—
*Especially Commercial Lines***

US Real GDP Growth*

Real GDP Growth (%)

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

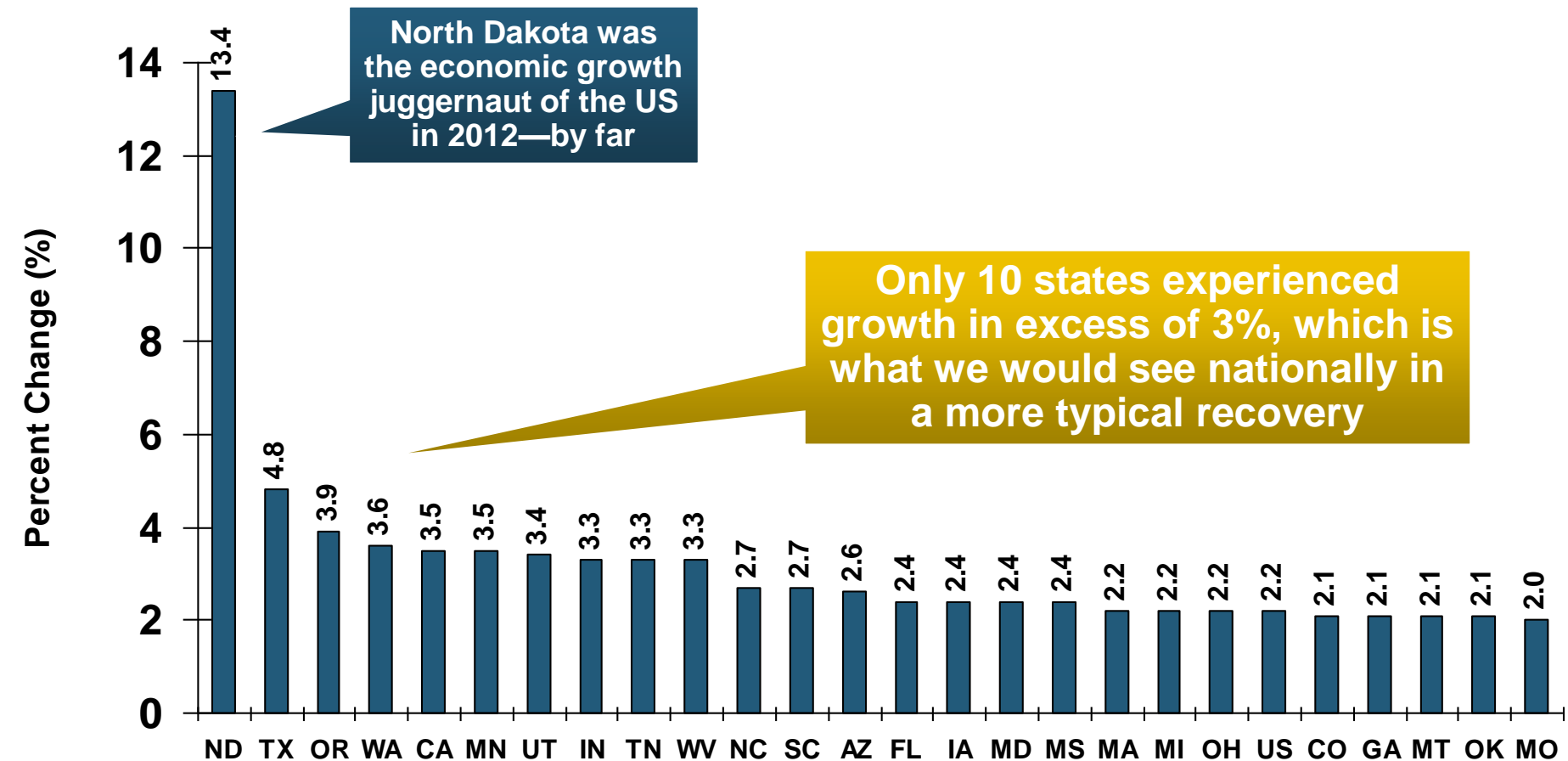


Demand for Insurance Should Increase in 2014/15 as GDP Growth Accelerates Modestly and Gradually Benefits the Economy Broadly

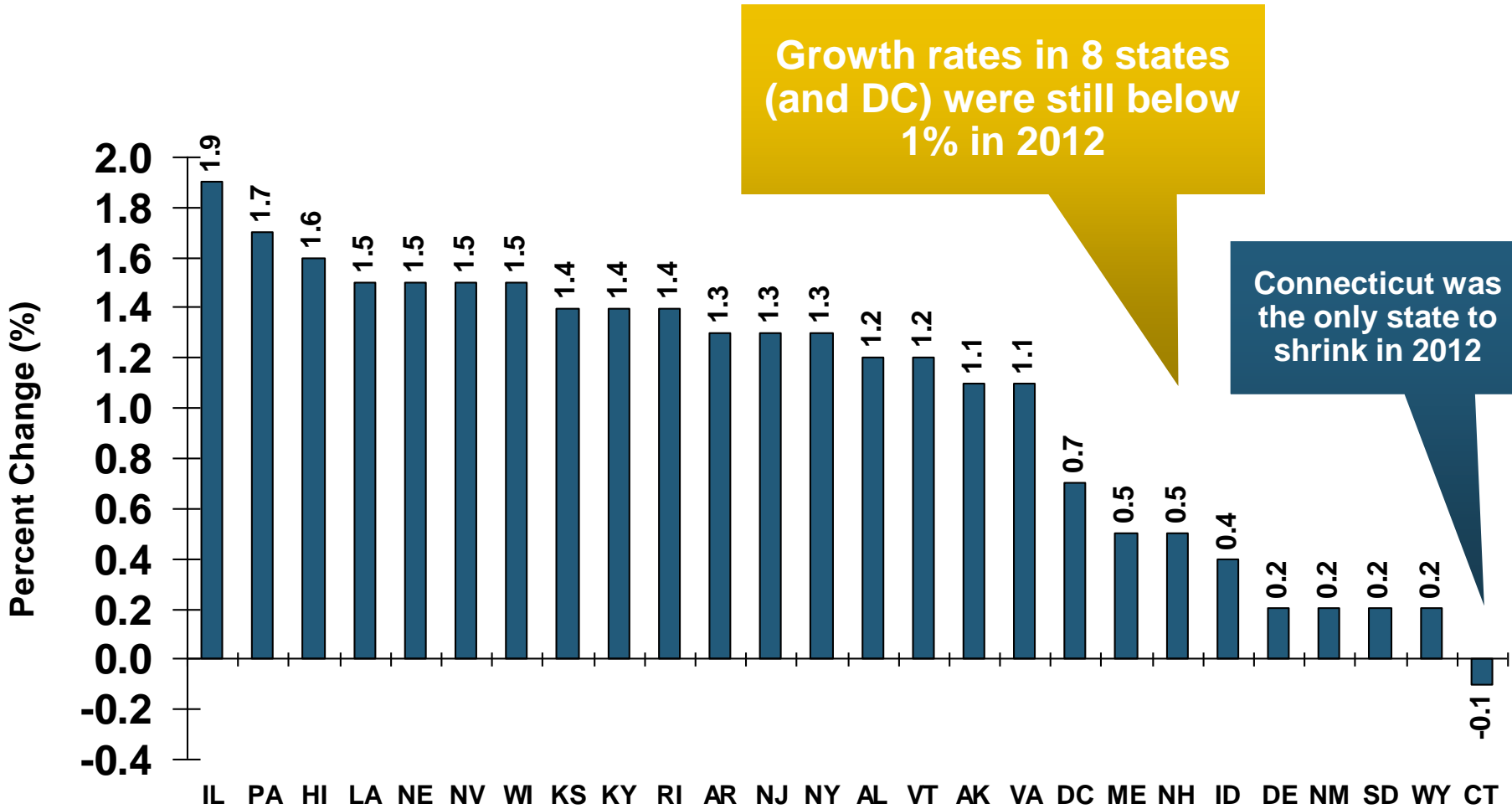
* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 3/14; Insurance Information Institute.

Real GDP by State Percent Change, 2012: Highest 25 States

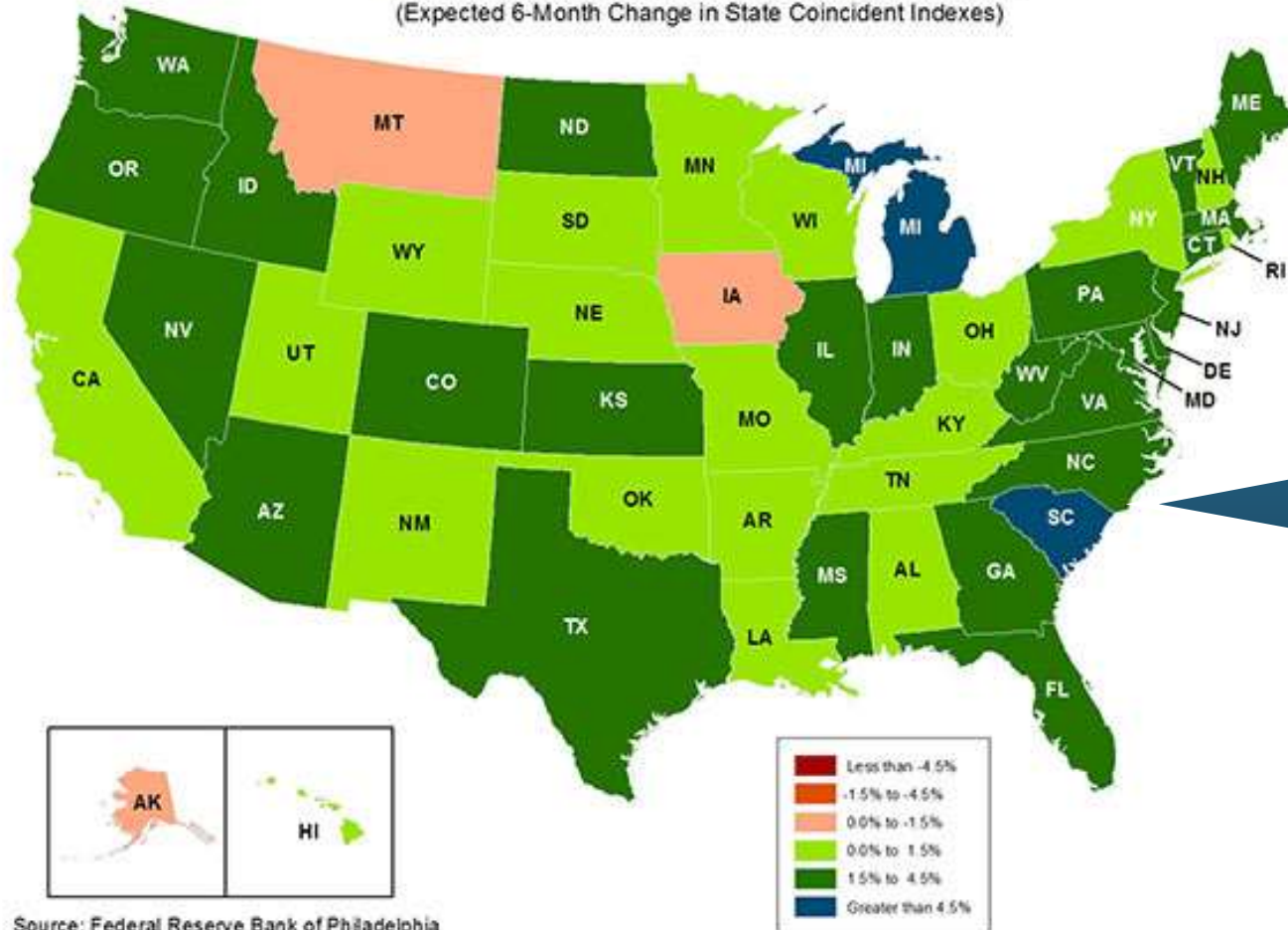


Real GDP by State Percent Change, 2012: Lowest 25 States



State-by-State Leading Indicators through 2014:Q2

December 2013 State Leading Indexes
(Expected 6-Month Change in State Coincident Indexes)

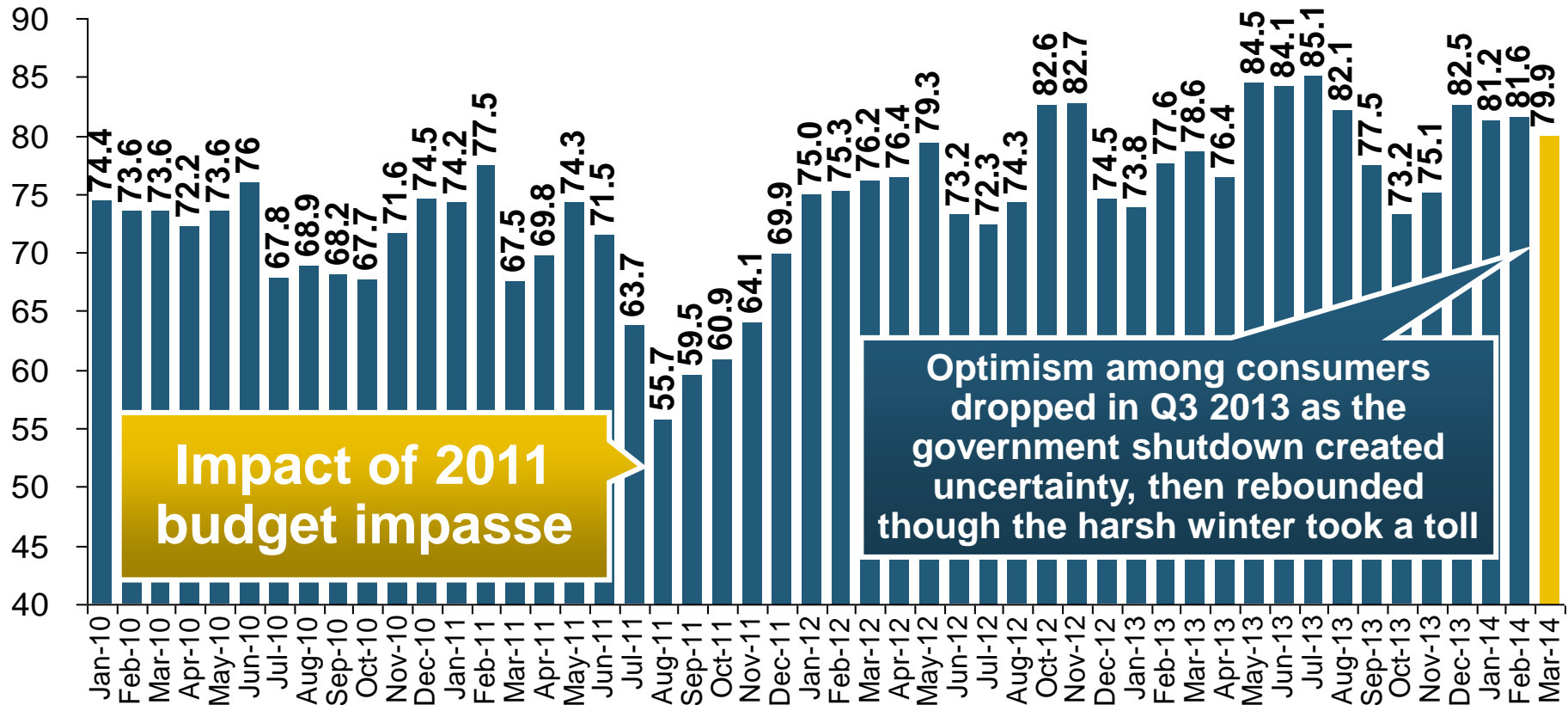


Source: Federal Reserve Bank of Philadelphia

The economic outlook for most of the US is positive for the first time in many years

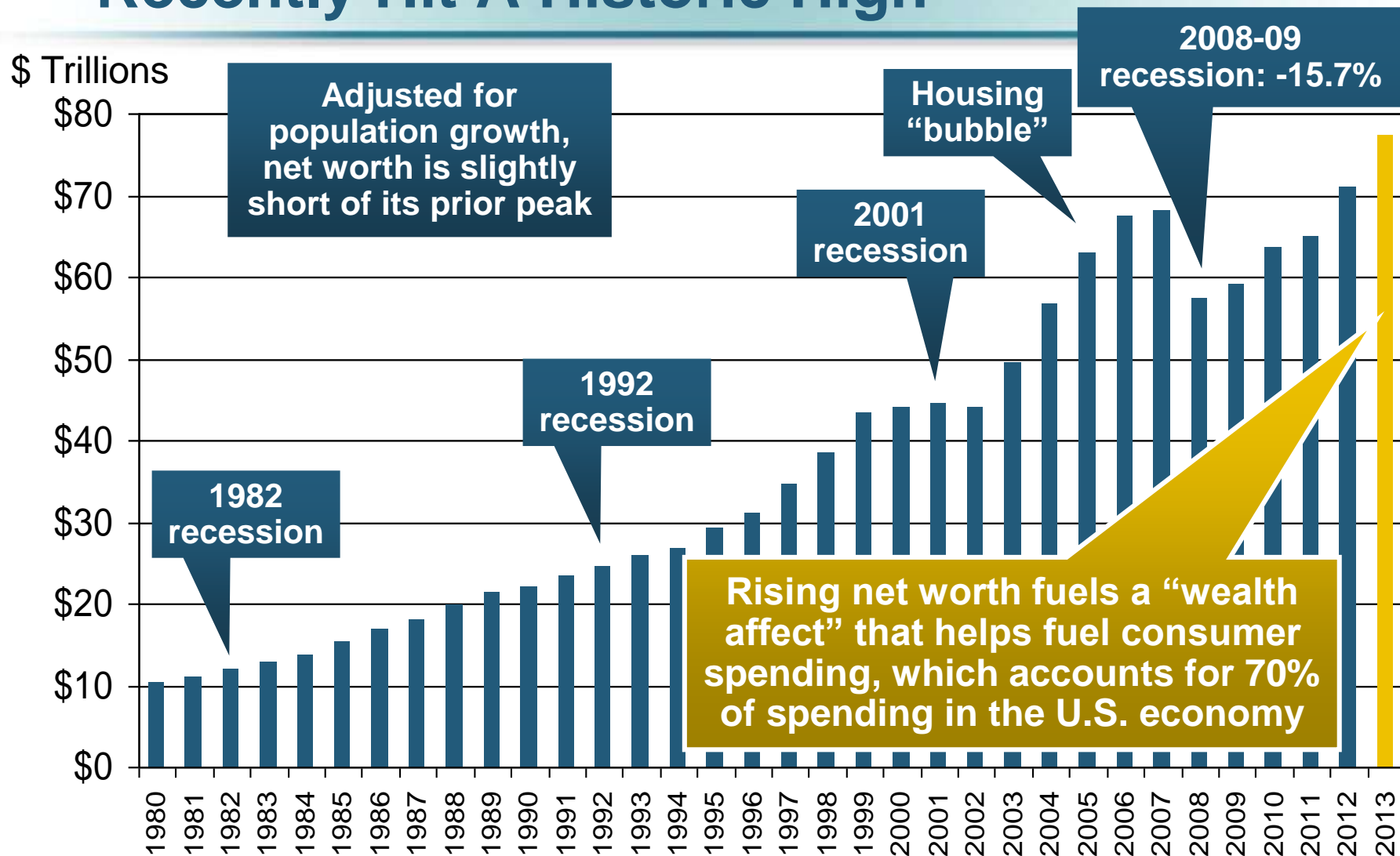
Consumer Sentiment Survey (1966 = 100)

January 2010 through March 2014



Consumer confidence has been low for years amid high unemployment, falling home prices and other factors adversely impact consumers, but improved substantially over the past 2+ years, though uncertainty in Washington sometimes takes a toll.

Net Worth of Households* Recently Hit A Historic High



*and nonprofit organizations. Data are as of year-end, except in 2013:Q3 (data posted on Dec 9, 2013).

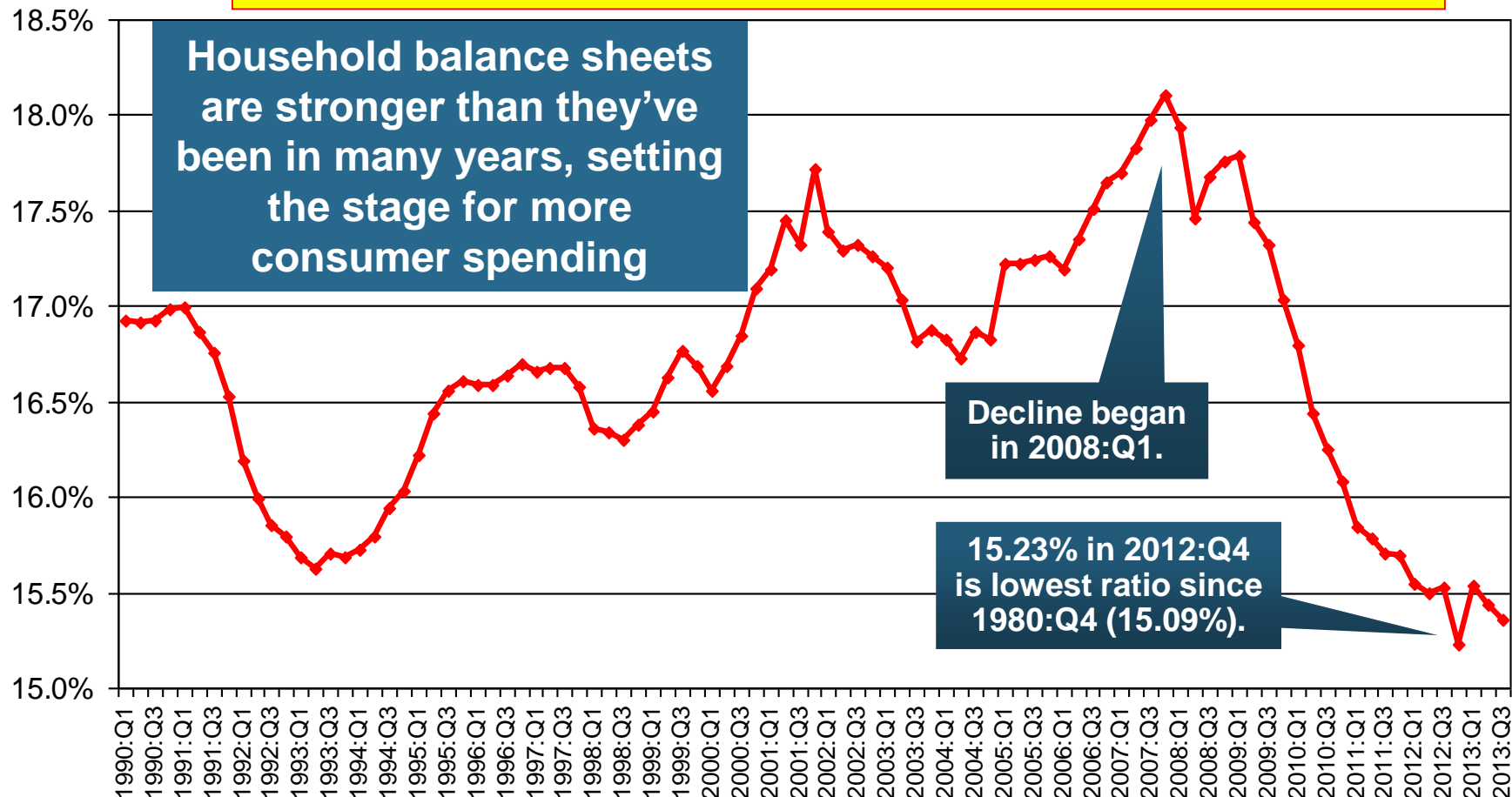
Next release March 6, 2014. Data not seasonally adjusted or inflation-adjusted

Source: Federal Reserve Board

Household Financial Obligations Ratio Recently Hit A Historic Low

Financial
Obligations
Ratio

Financial Obligations Ratio: debt service (mortgage and consumer debt), auto lease, residence rent, HO insurance, and property tax payments as % of personal disposable income.

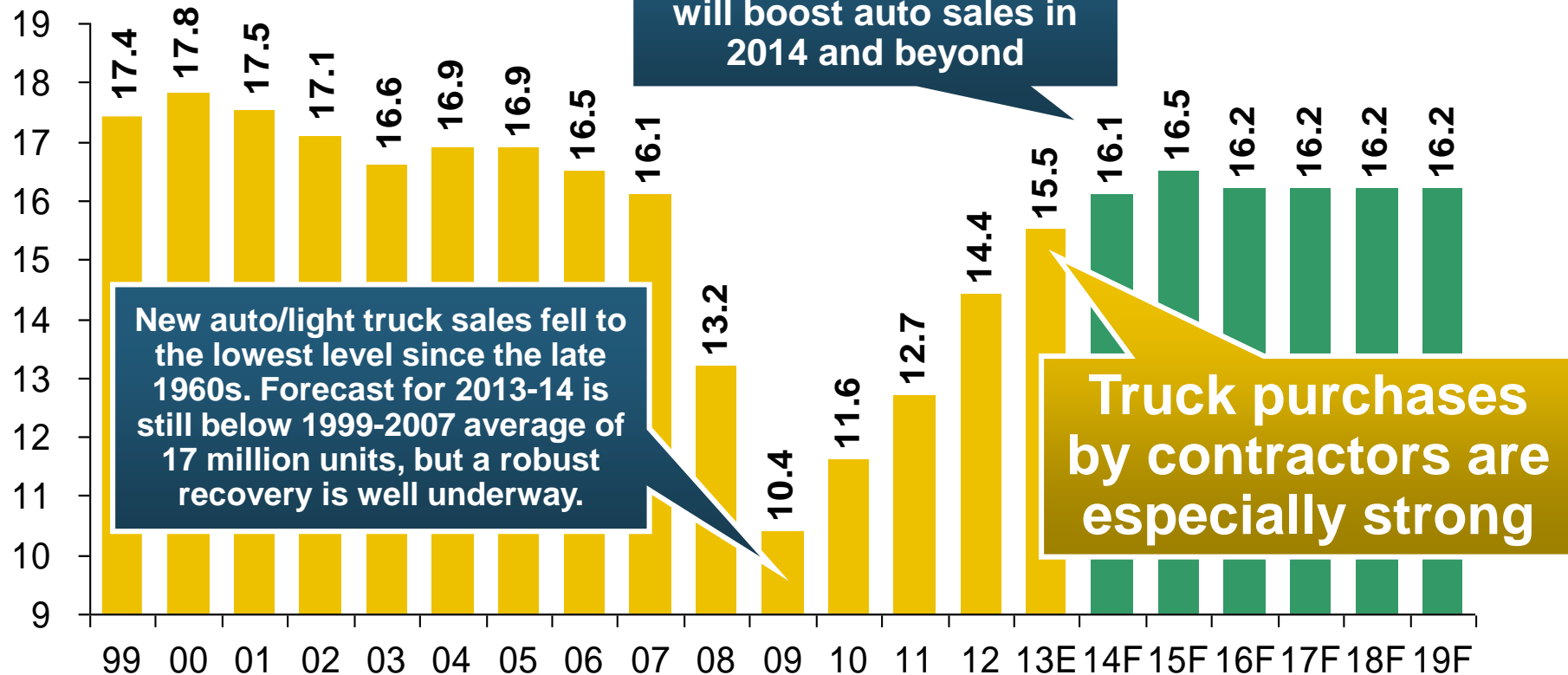


*through 2013:Q3 (data posted on Dec 13, 2013)

Source: Federal Reserve Board, at <http://www.federalreserve.gov/releases/housedebt>

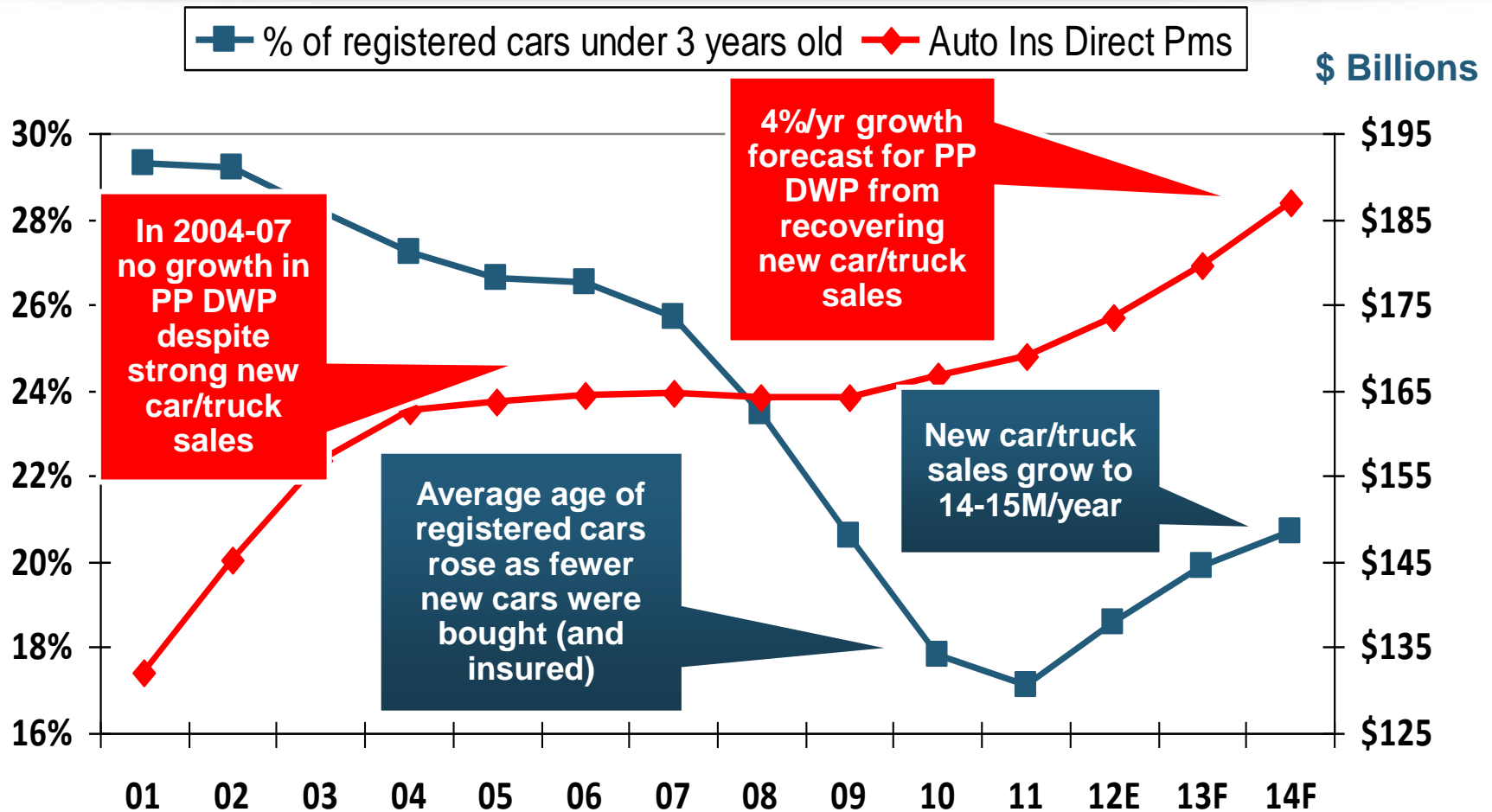
Auto/Light Truck Sales, 1999-2019F

(Millions of Units)



Car/Light Truck Sales Will Continue to Recover from the 2009 Low Point, Bolstering the Auto Insurer Growth and the Manufacturing Sector Along With Workers Comp Exposures

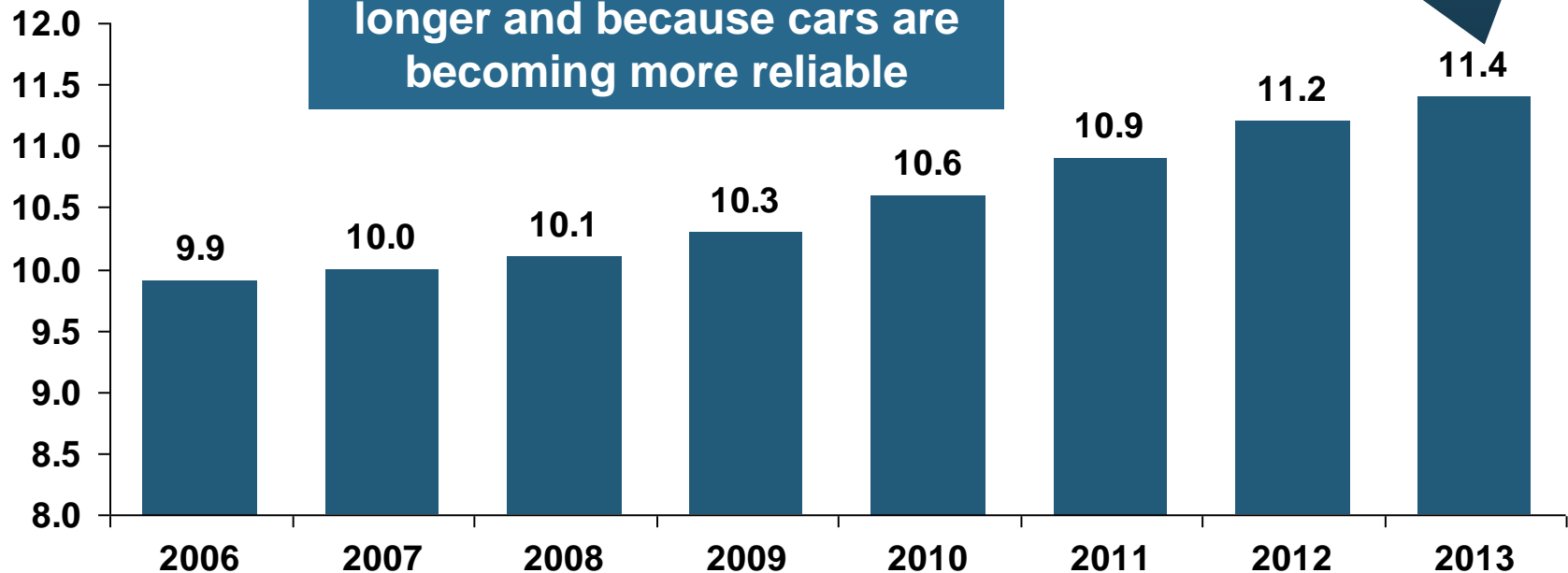
Personal Auto Insurance Direct Written Premiums vs. Recently-Registered Cars



**PP DWP, flat from 2004-2009, is rising again.
Conning forecasts growth at 3.5% in 2013 and 4.0% in 2014.**

Average Age of Vehicles on the Road, 2006—2013

Average Vehicle
Age (Years)

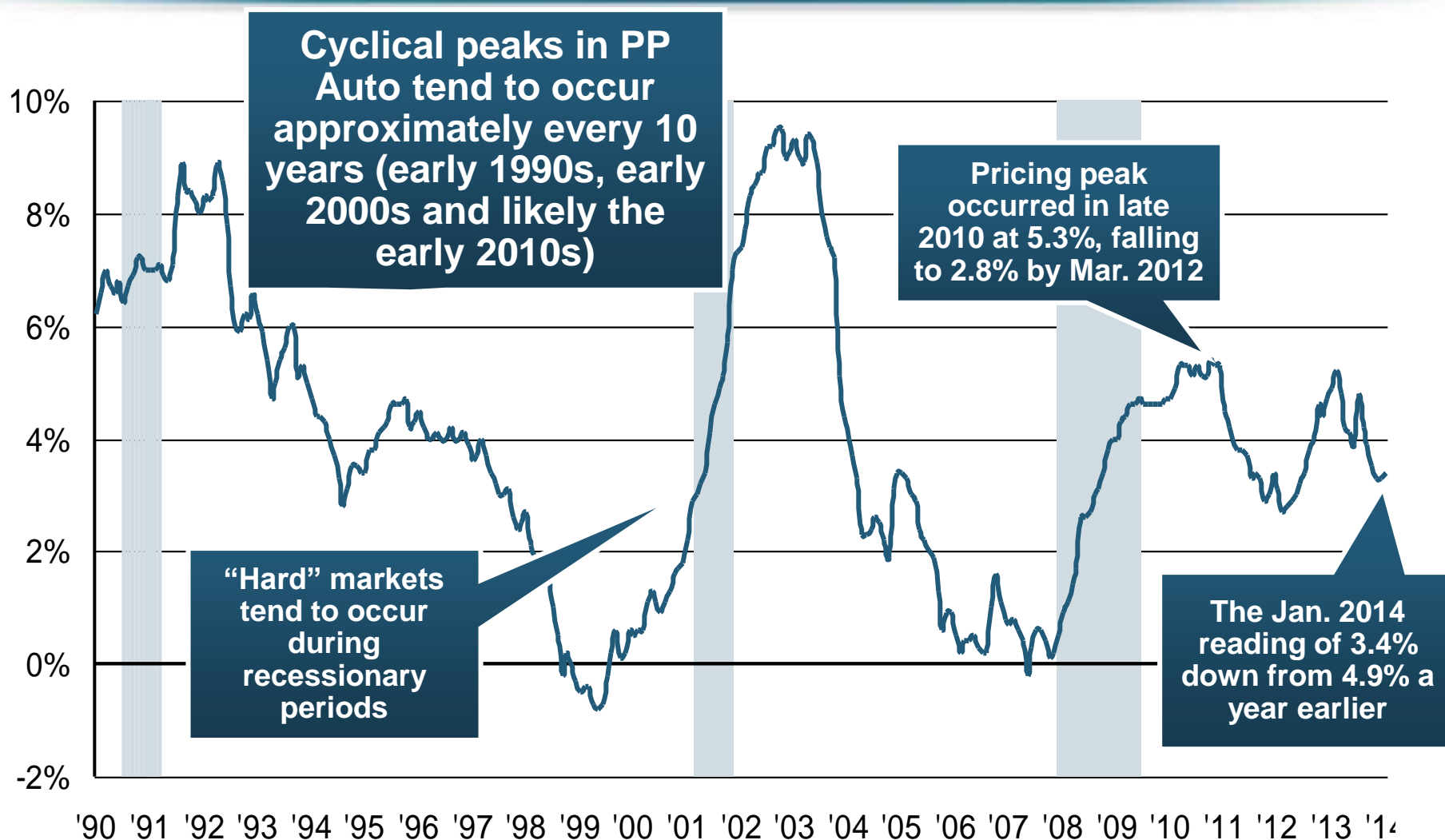


Average vehicle age continues to increase because the slow economy leads many drivers to keep cars on the road longer and because cars are becoming more reliable

The average vehicle age reached a record 11.4 years in 2013

The average age of a vehicle on the road is expected to continue to increase until 2018. By 2018, the number of vehicles 12+ years old is expected to rise 11.6% from 2013 and the number that are under 5 years old is expected to increase by 41%

Monthly Change* in Auto Insurance Prices, 1991–2014*



*Percentage change from same month in prior year; through January 2014; seasonally adjusted

Note: Recessions indicated by gray shaded columns.

Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

Monthly Change* in Auto Insurance Prices, January 2005 - December 2013

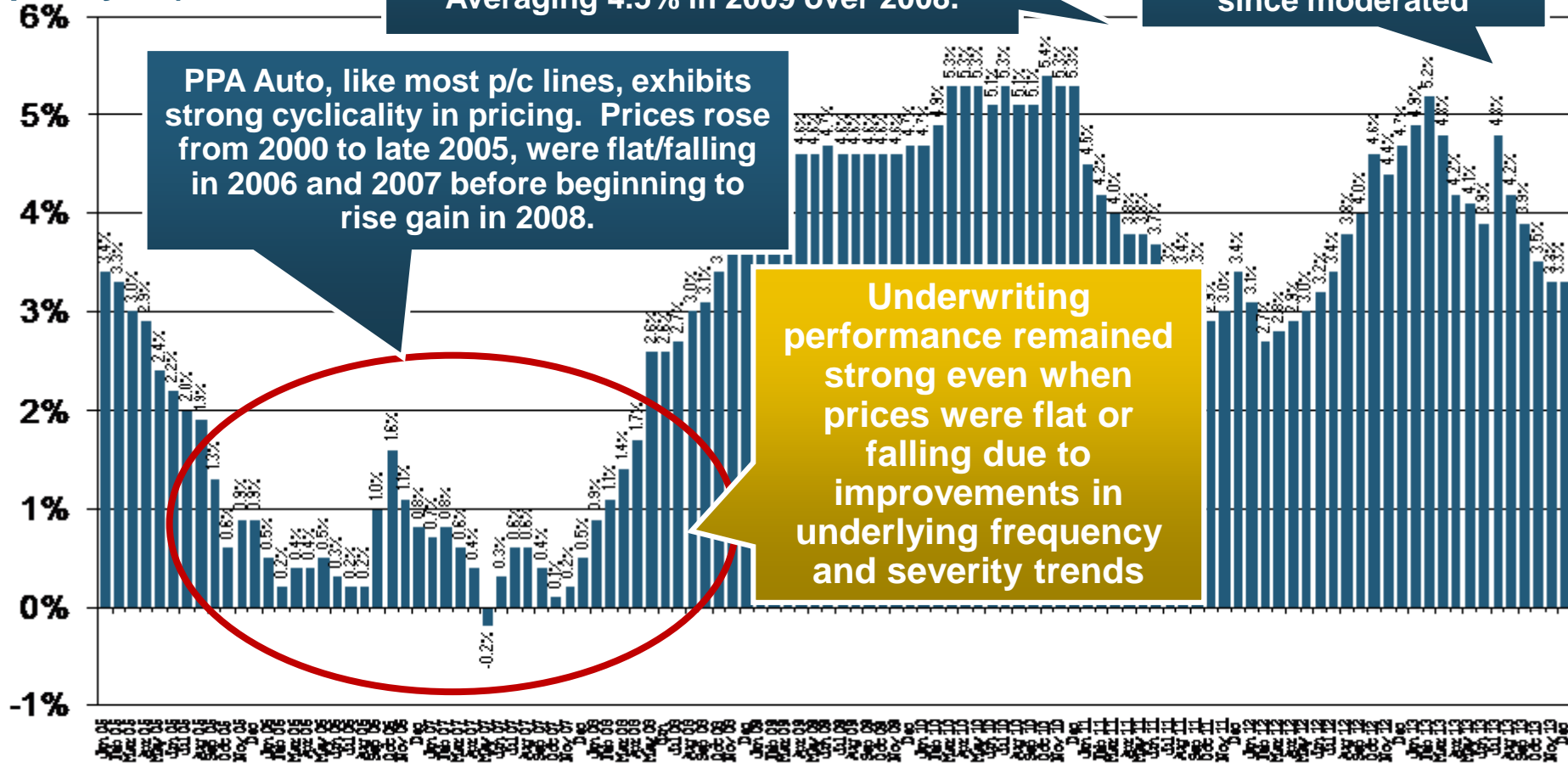
(Percent Change from same month, prior year)

Auto Insurance Price Increases Averaged 5.1% in 2010 over 2009, After Averaging 4.5% in 2009 over 2008.

Pricing weakened in 2011, strengthened in 2012/early 2013 but has since moderated

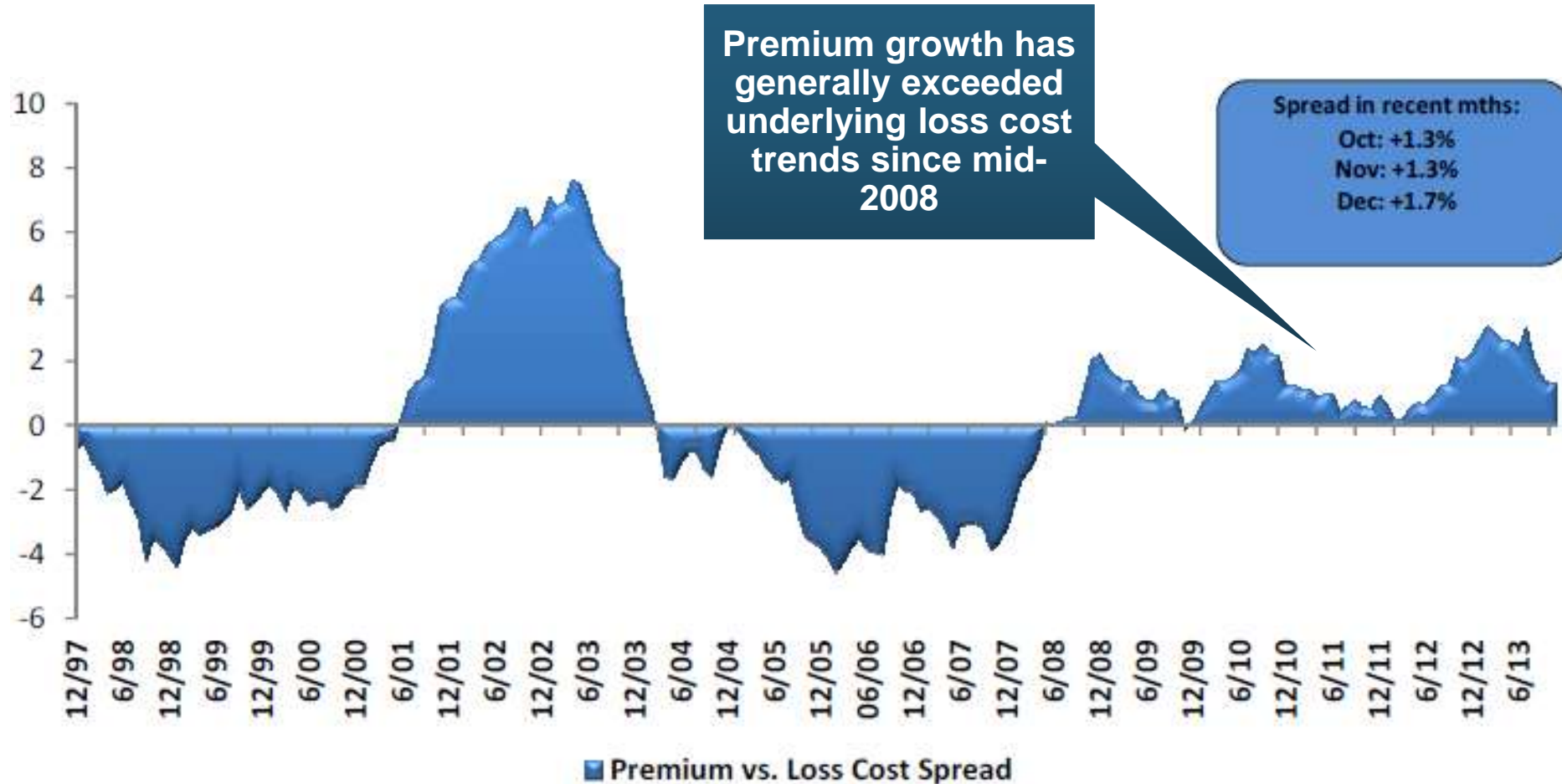
PPA Auto, like most p/c lines, exhibits strong cyclical in pricing. Prices rose from 2000 to late 2005, were flat/falling in 2006 and 2007 before beginning to rise again in 2008.

Underwriting performance remained strong even when prices were flat or falling due to improvements in underlying frequency and severity trends



*Percentage change from same month in prior year, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute

Private Passenger Auto: Premium Growth vs. Loss Cost Spread

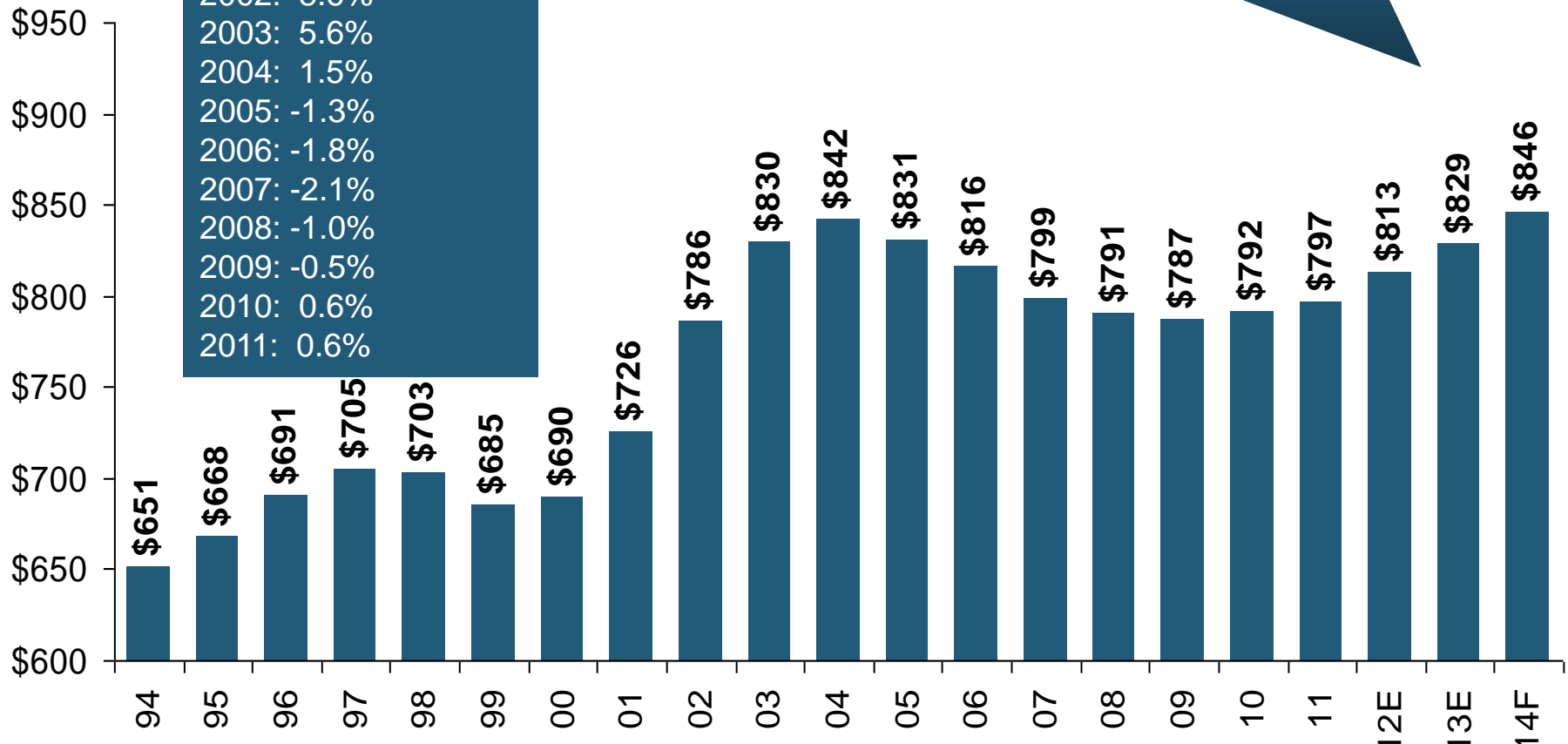


Average Expenditures* on Auto Insurance, 1994-2014F

Annual Pct Changes

2001: 5.2%
2002: 8.6%
2003: 5.6%
2004: 1.5%
2005: -1.3%
2006: -1.8%
2007: -2.1%
2008: -1.0%
2009: -0.5%
2010: 0.6%
2011: 0.6%

The average expenditure on auto insurance is lower today than it was in 2004

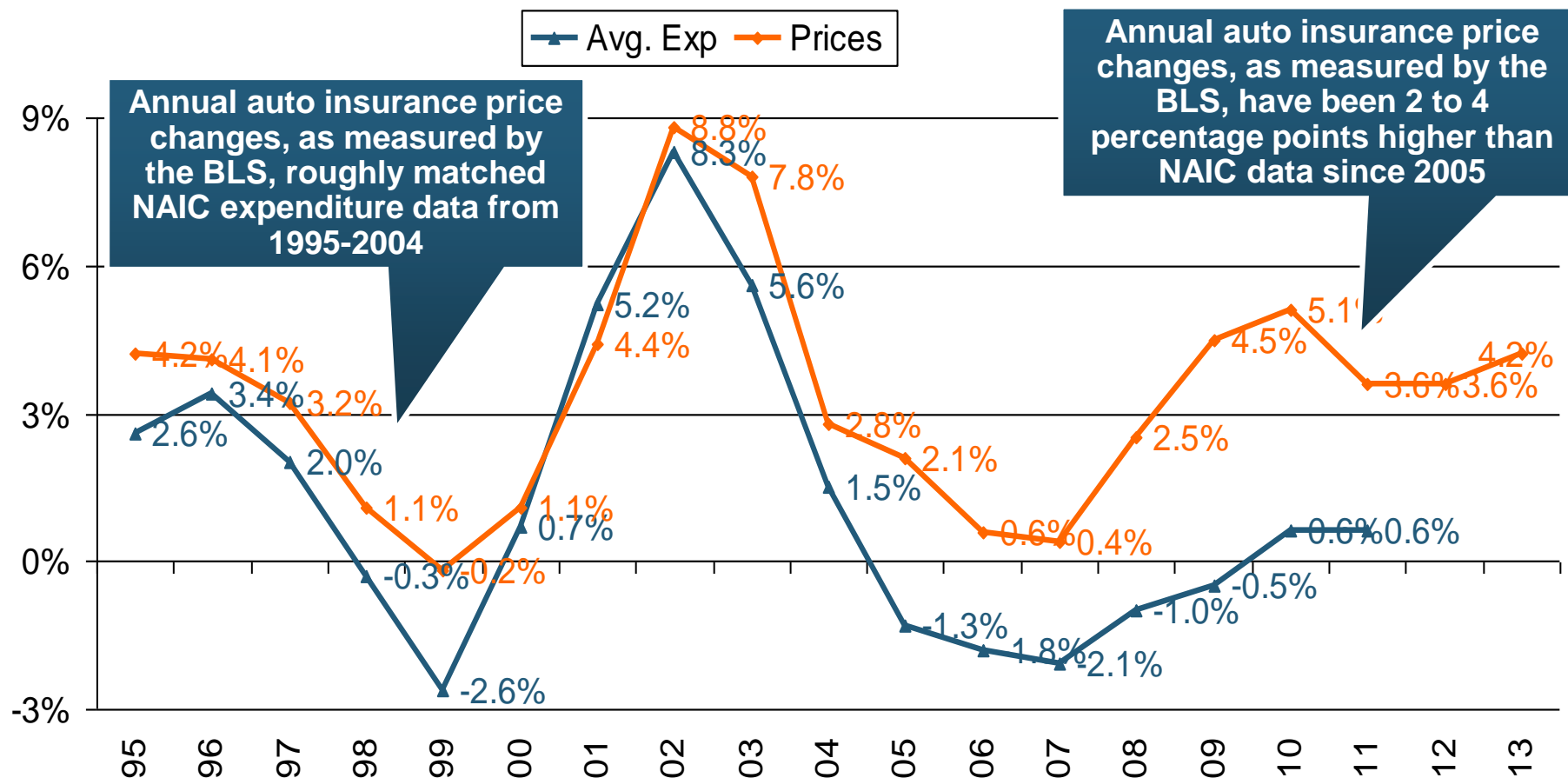


Across the U.S., auto insurance expenditures fell by 0.8% in 2008 and 0.5% in 2009 but rose 0.5% in 2010 and 0.8% in 2011. I.I.I. estimates for 2012-2014 are each +2.0%.

* The NAIC data are per-vehicle (actually, per car-year)

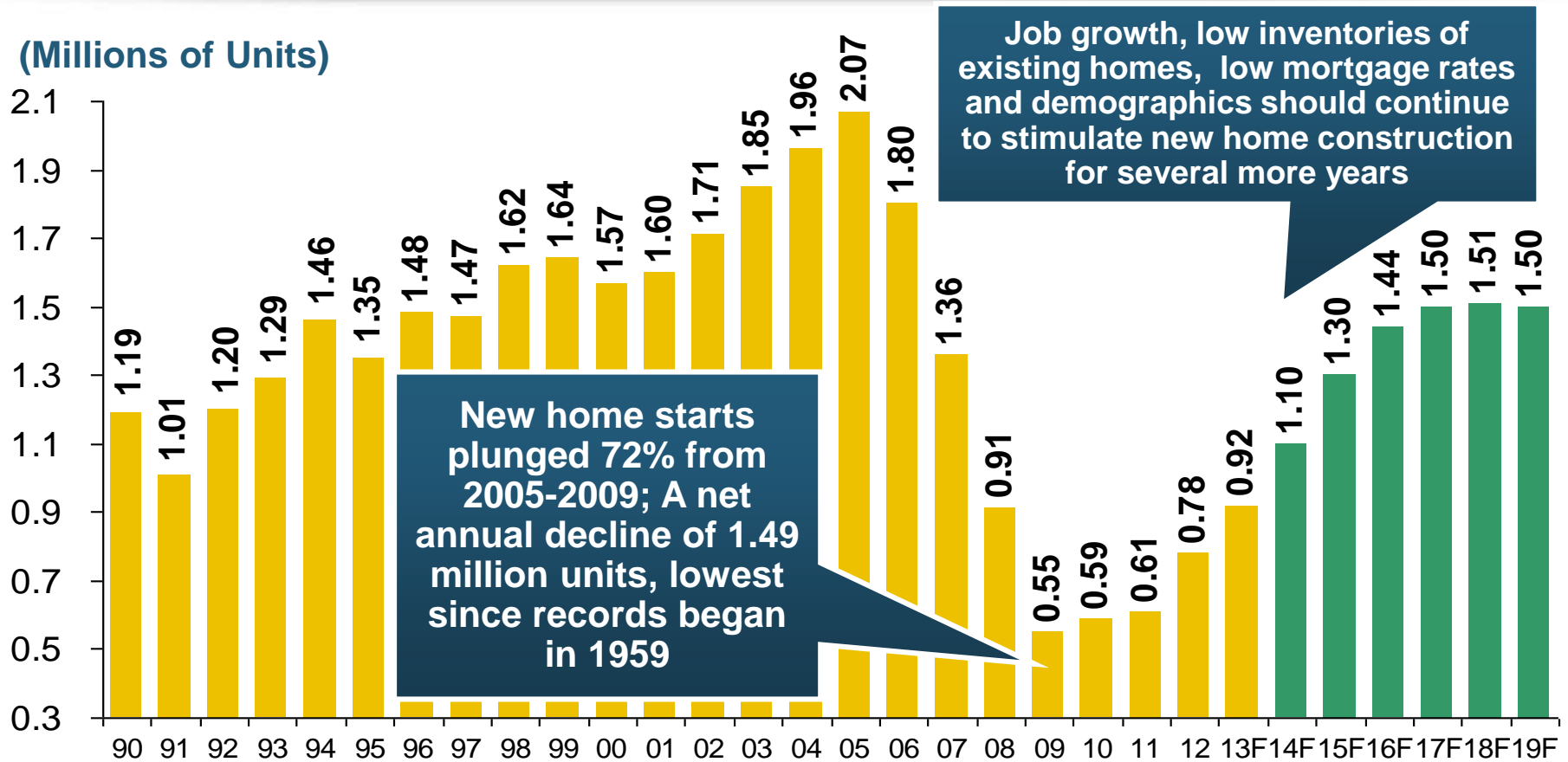
Sources: NAIC for 1994-2011; Insurance Information Institute estimates for 2012-2014 based on CPI and other data.

Annual Pct. Change in Avg. Expenditures on Auto Insurance, vs. Auto Insurance Prices, 1995-2011



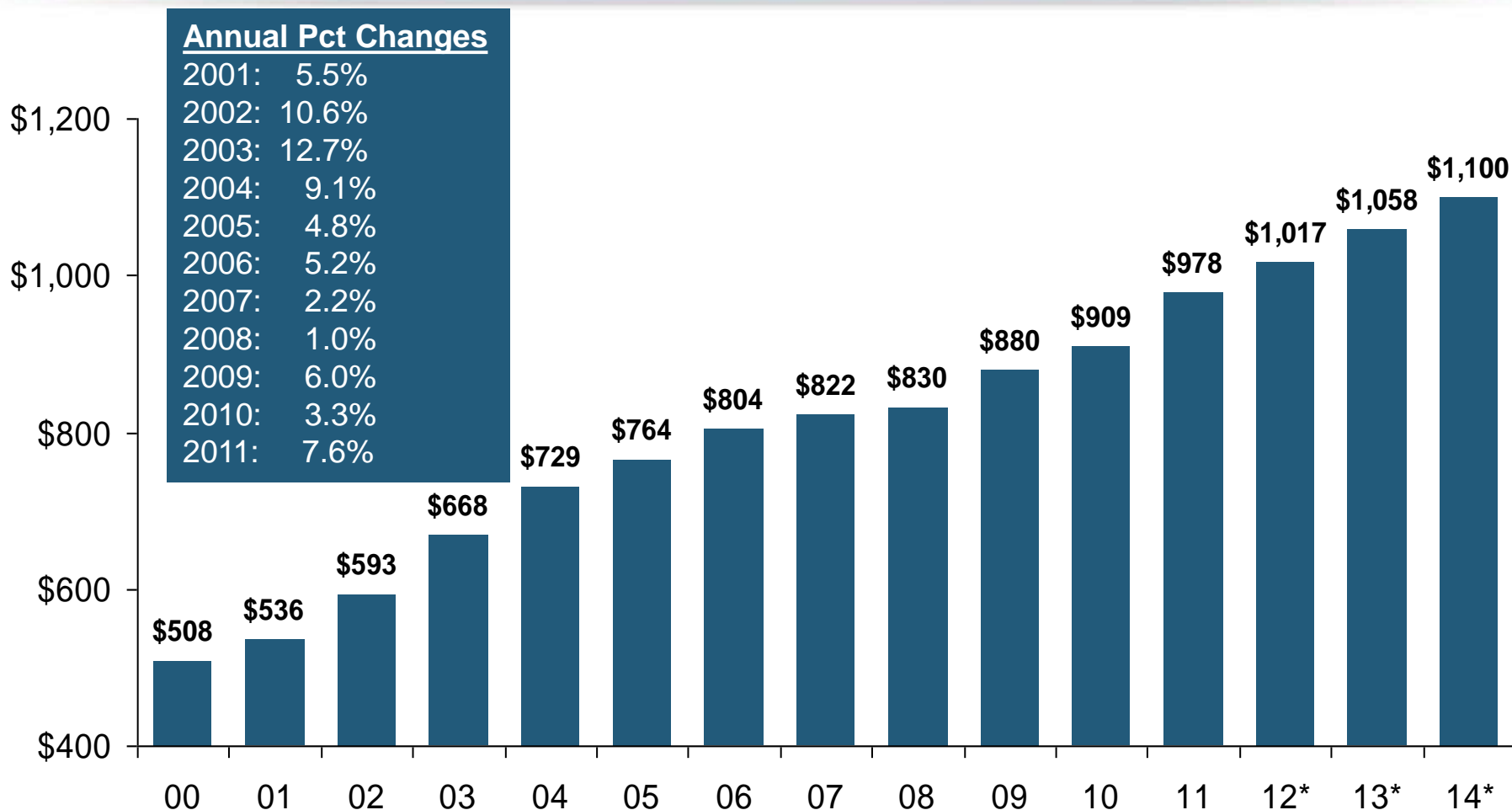
The gap since 2005 between price changes and expenditures on auto insurance might be due to buyers increasing deductibles, obtaining discounts, and other premium-reducing behavior.

New Private Housing Starts, 1990-2019F



Insurers Are Continue to See Meaningful Exposure Growth in the Wake of the “Great Recession” Associated with Home Construction: Construction Risk Exposure, Surety, Commercial Auto; Potent Driver of Workers Comp Exposure

Average Premium for Home Insurance Policies**



Across the U.S., home insurance expenditures rose by an estimated 4.0% in 2012-2014

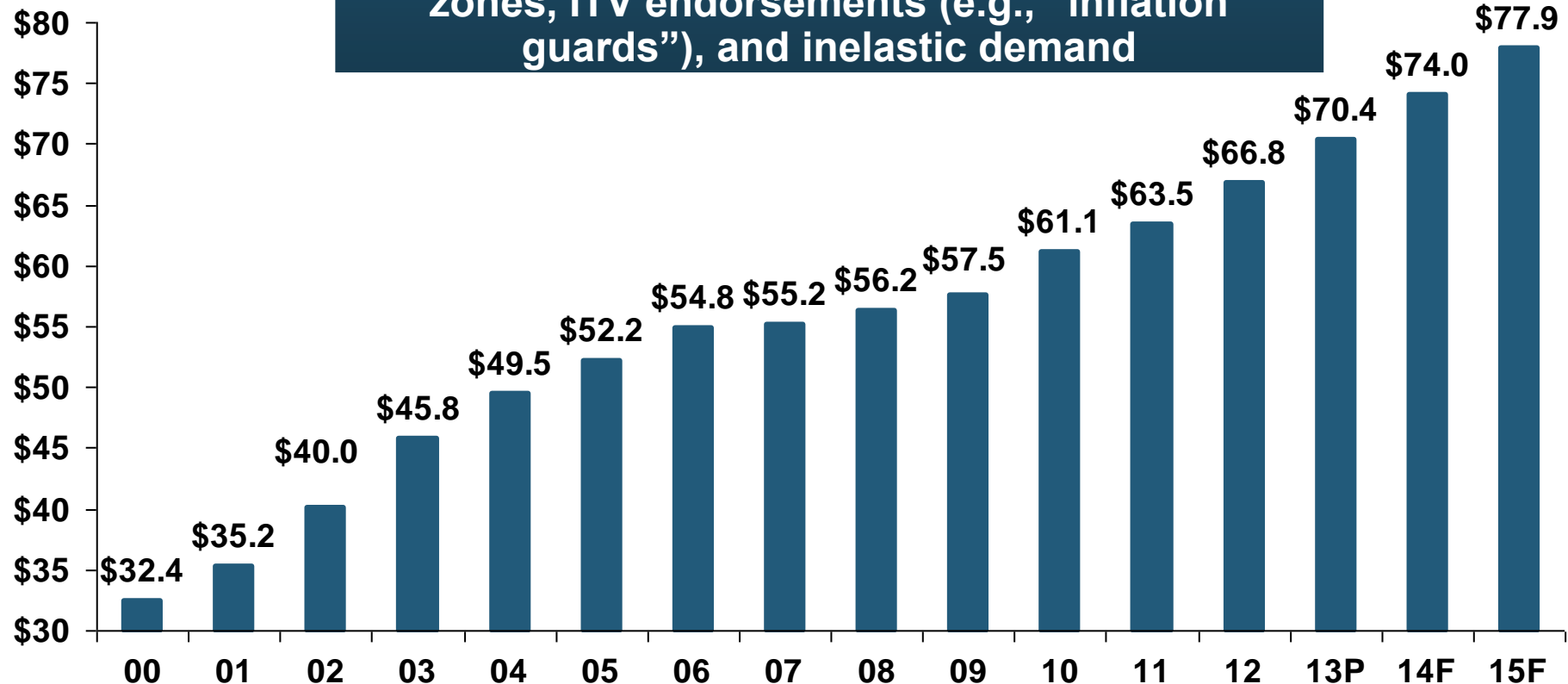
* Insurance Information Institute Estimates/Forecasts **Excludes state-run insurers.

Sources: NAIC; Insurance Information Institute estimates for 2012-2014 based on CPI data and other data.

Homeowners Insurance Net Written Premium, 2000–2015F

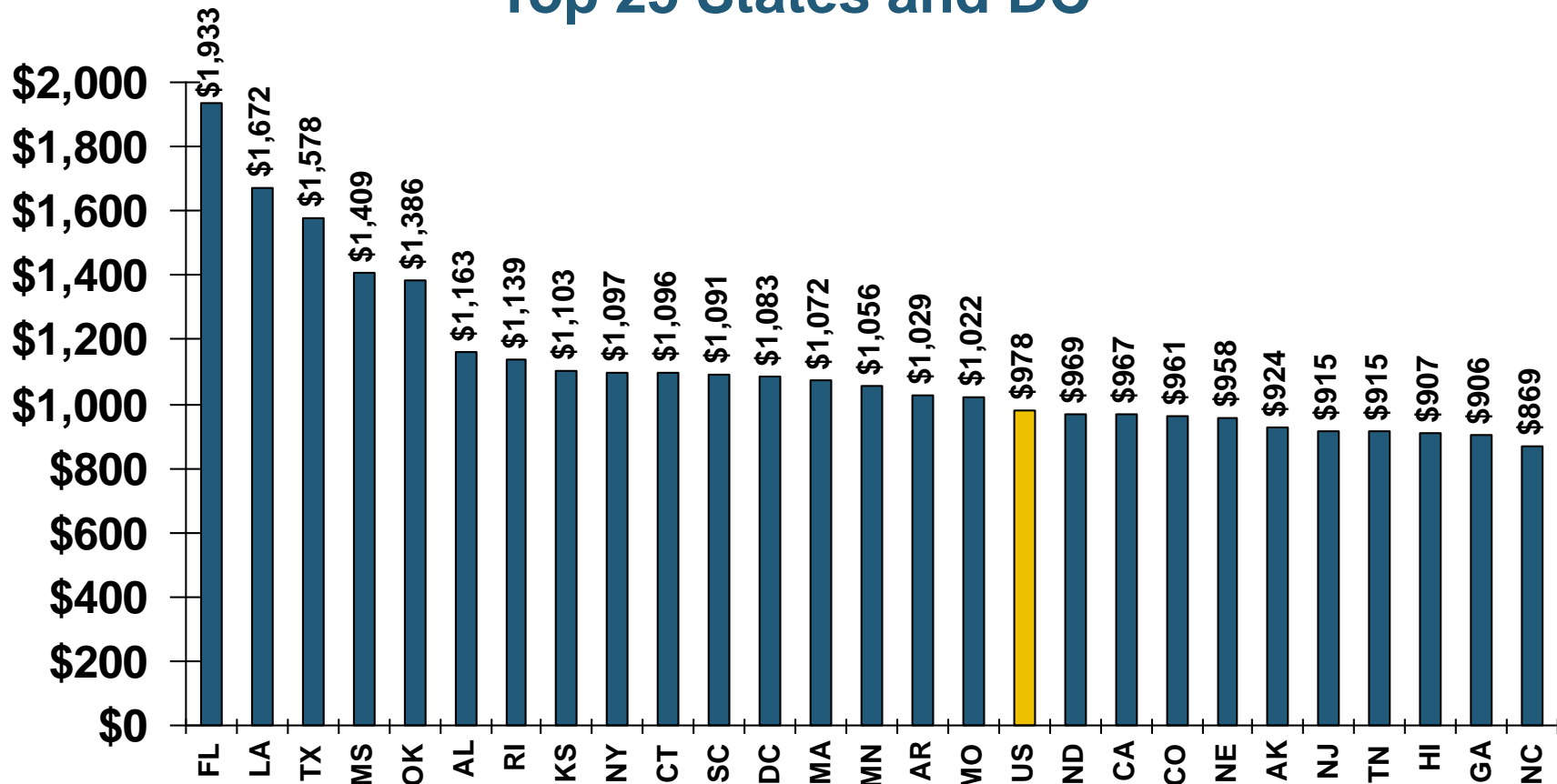
\$ Billions

Homeowners insurance NWP continues to rise (up 128% 2000-2013) despite very little unit growth during the real estate crash. Reasons include rate increases, especially in coastal zones, ITV endorsements (e.g., “inflation guards”), and inelastic demand



Average Premiums For Home Insurance By State, 2011* (1)

Top 25 States and DC



*Latest available.

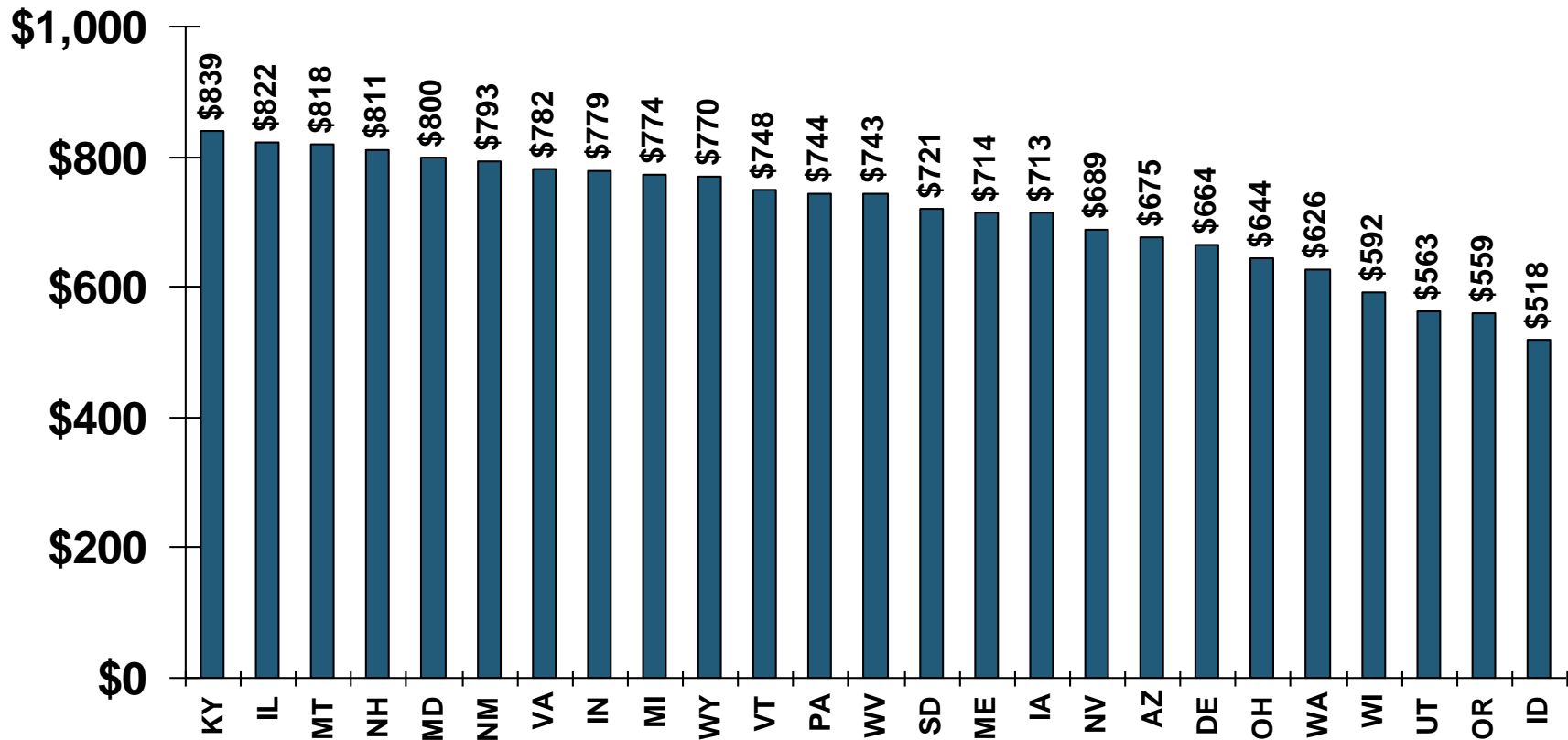
(1) Based on the HO-3 homeowner package policy for owner-occupied dwellings, 1 to 4 family units. Provides "all risks" coverage (except those specifically excluded in the policy) on buildings and broad named-peril coverage on personal property, and is the most common package written.

Note: Average premium=Premiums/exposure per house years. A house year is equal to 365 days insured coverage for a single dwelling.

Source: NAIC; Insurance Information Institute.

Average Premiums For Home Insurance By State, 2011* (1)

Bottom 25 States



• Latest available

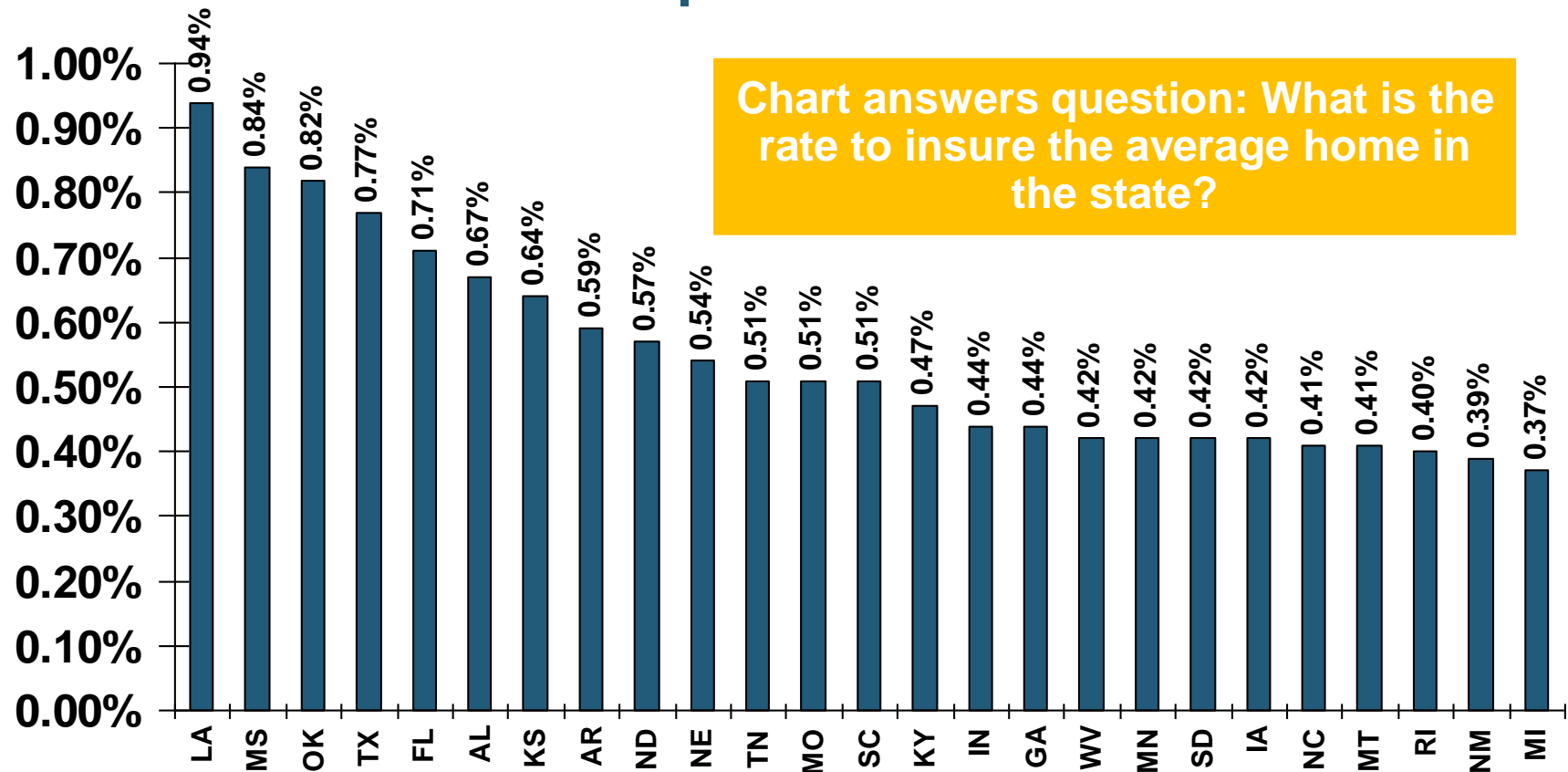
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Note: Average premium=Premiums/exposure per house years. A house year is equal to 365 days insured coverage for a single dwelling.

Source: © 2013 National Association of Insurance Commissioners (NAIC). Reprinted with permission. Further reprint or distribution strictly prohibited without written permission of NAIC.

Estimated Median Rate For Home Insurance By State, 2011* (1)

Top 25 States



*Latest available.

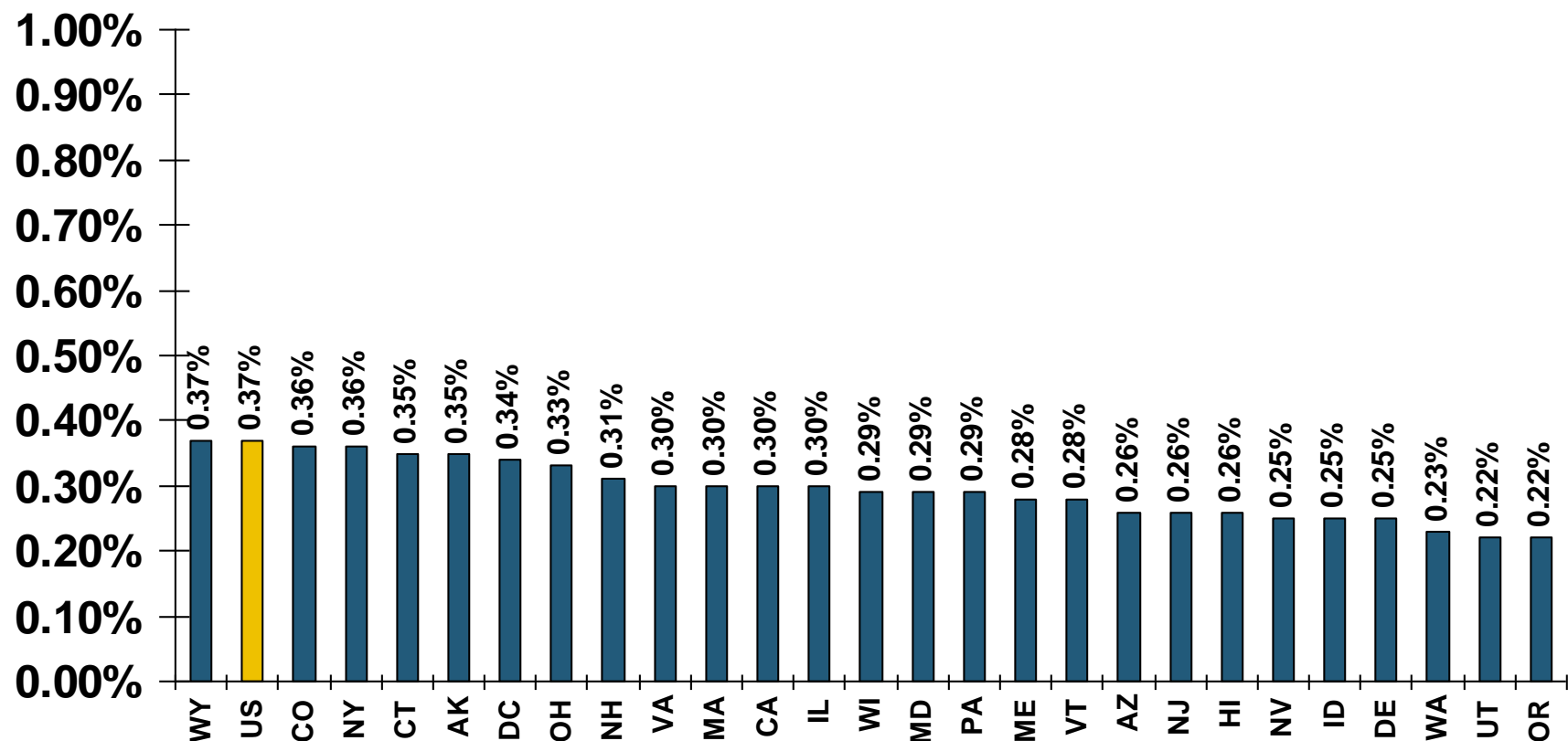
(1) Based on the HO-3 homeowner package policy for owner-occupied dwellings, 1 to 4 family units. Provides “all risks” coverage (except those specifically excluded in the policy) on buildings and broad named-peril coverage on personal property, and is the most common package written.

Note: Estimated median = average premium in median insurance range/estimated average insurance value in that range.

Source: Insurance Information Institute estimate from NAIC data.

Estimated Median Rate For Home Insurance By State, 2011* (1)

Bottom 25 States and DC



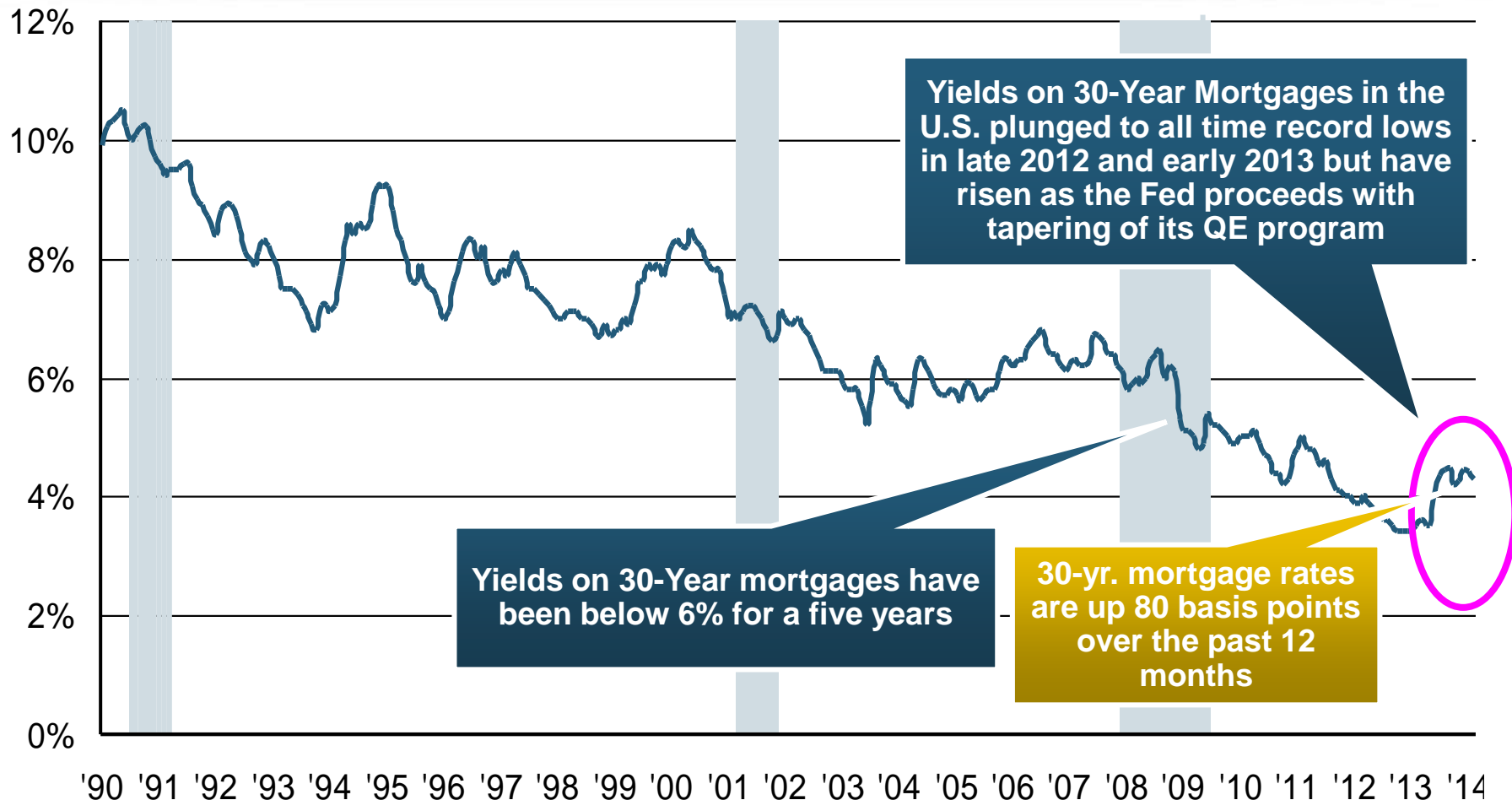
*Latest available.

(1) 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.

Note: Estimated median = average premium in median insurance range/estimated average insurance value in that range.

Source: Insurance Information Institute estimate from NAIC data.

Interest Rate on Convention 30-Year Mortgages: Headed Back Up, 1990–2014*



High mortgage interest should have only a marginal impact on home buying

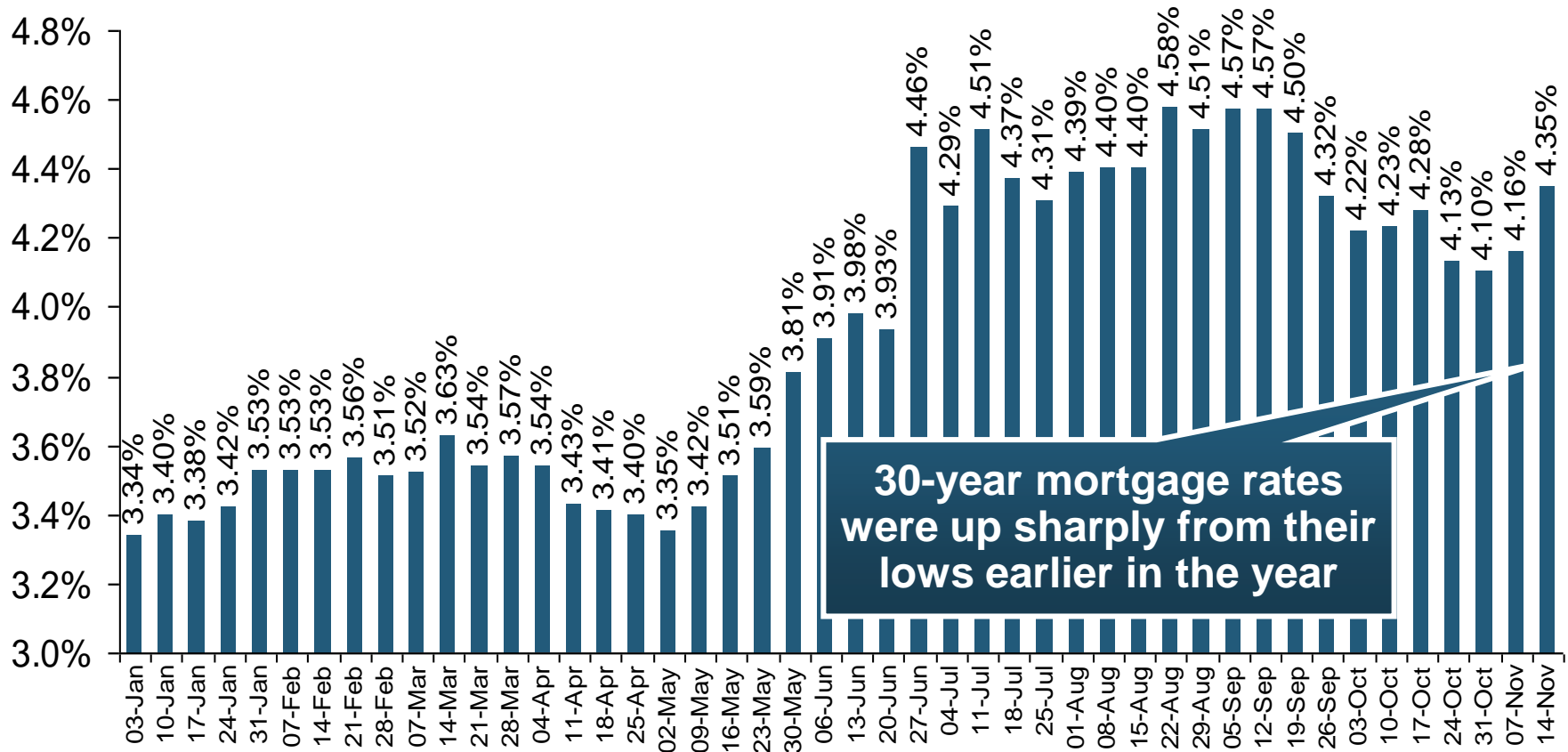
*Monthly, through February 2014.

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.

30-Year Mortgages in 2013 Are Rising: What Will Be the Impact on Construction?

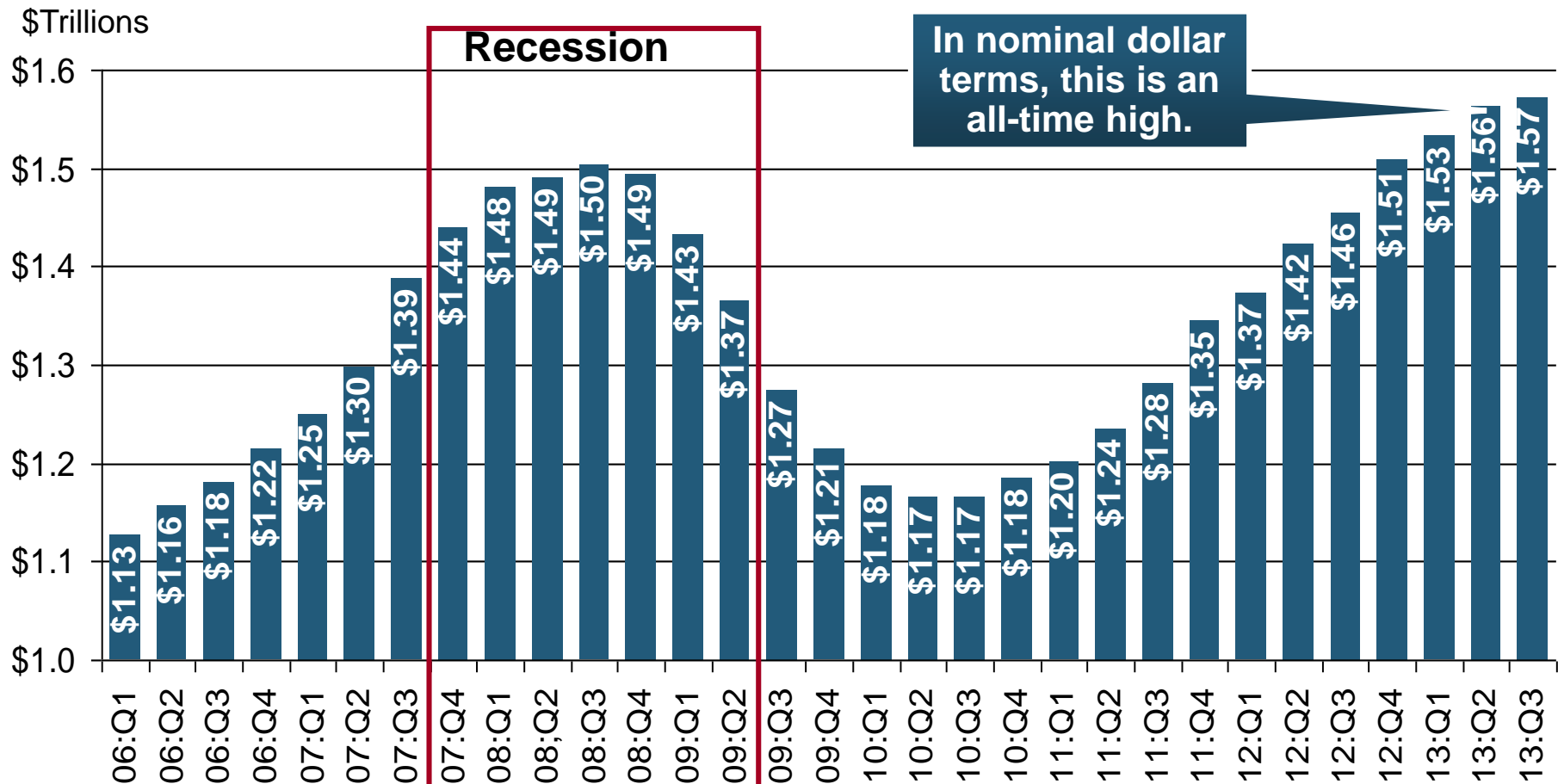


Mortgage Interest Rates Will Rise as Expectations Over the Fed's Tapering of QE3 Persist; Still Low by Historical Standards

*Weekly through November 14, 2013.

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

Commercial & Industrial Loans Outstanding at FDIC-Insured Banks, Quarterly, 2006-2013*

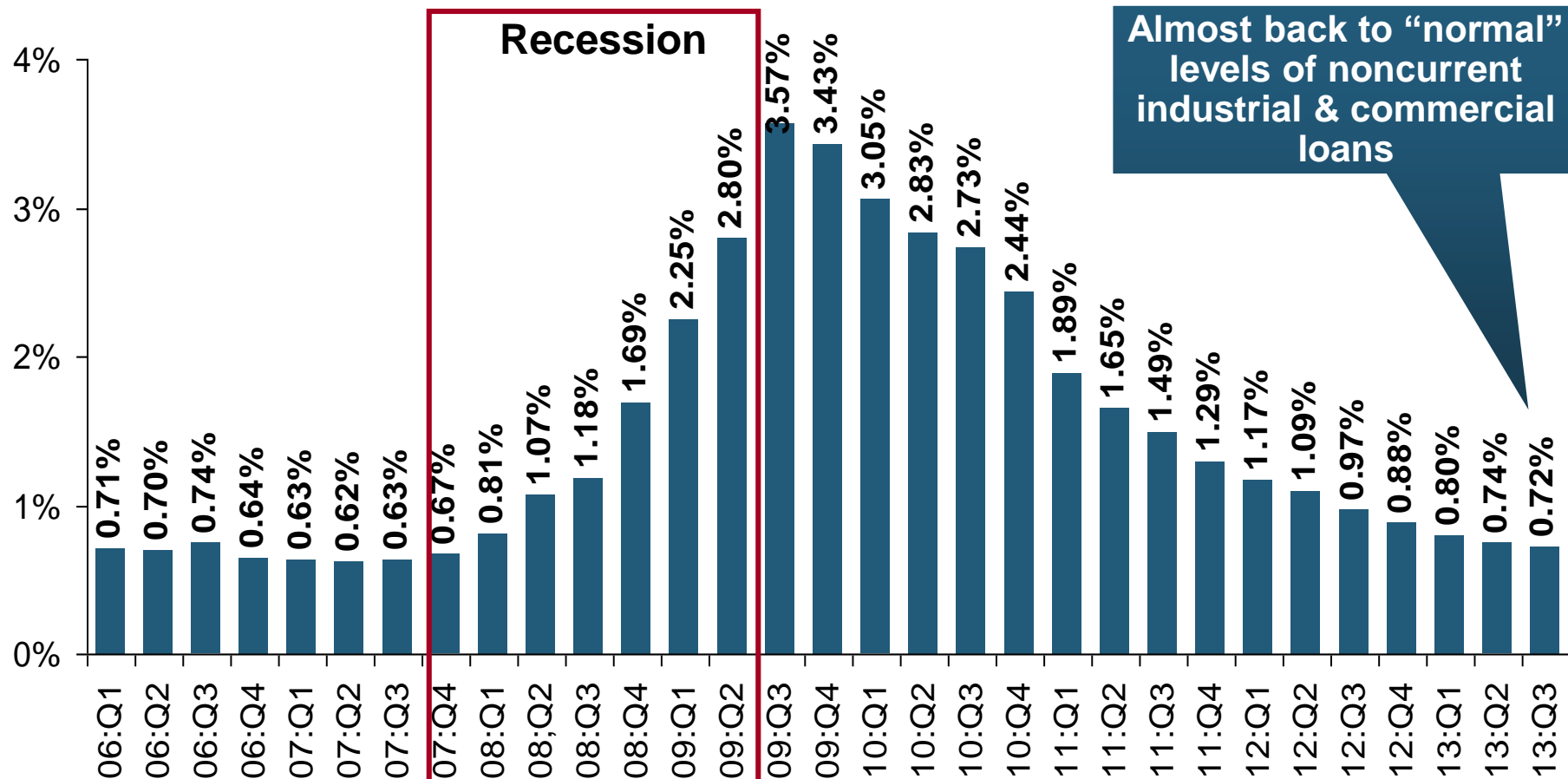


Outstanding loan volume has been growing for over two years and (as of year-end 2012) surpassed previous peak levels.

*Latest data as of 2/2/2014.

Source: FDIC at <http://www2.fdic.gov/qbp/> (Loan Performance spreadsheet); Insurance Information Institute.

Percent of Non-Current Commercial & Industrial Loans Outstanding at FDIC-Insured Banks, Quarterly, 2006:2013:Q3*



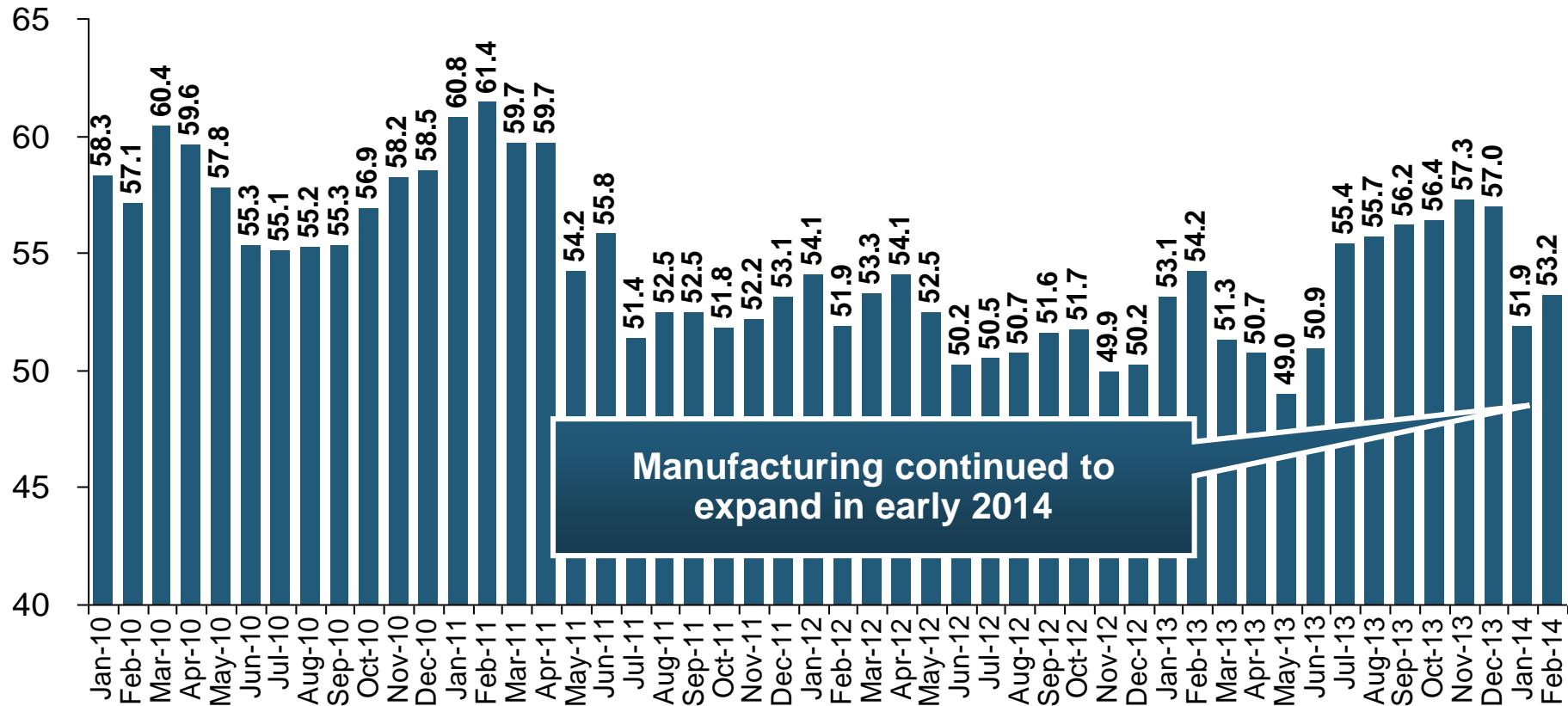
Non-current loans (those past due 90 days or more or in nonaccrual status) are nearly back to early-recession levels, fueling bank willingness to lend.

*Latest data as of 2/2/2014.

Source: FDIC at <http://www2.fdic.gov/qbp/> (Loan Performance spreadsheet); Insurance Information Institute.

ISM Manufacturing Index (Values > 50 Indicate Expansion)

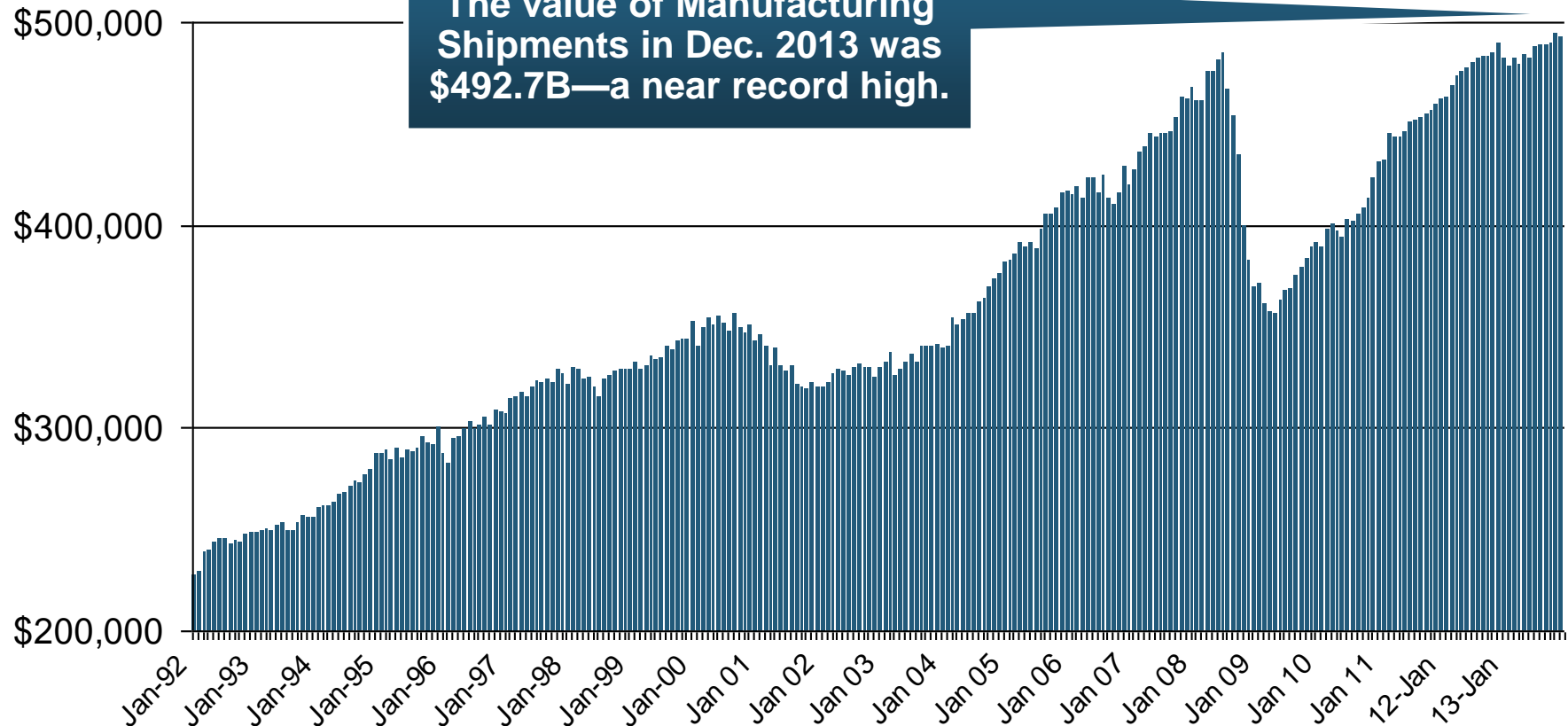
January 2010 through February 2014



The manufacturing sector expanded for 48 of the 50 months from Jan. 2010 through February 2014. Weakness in early 2014 stems largely from harsh winter weather and weakness in China.

Dollar Value* of Manufacturers' Shipments Monthly, Jan. 1992—Dec. 2013

\$ Millions



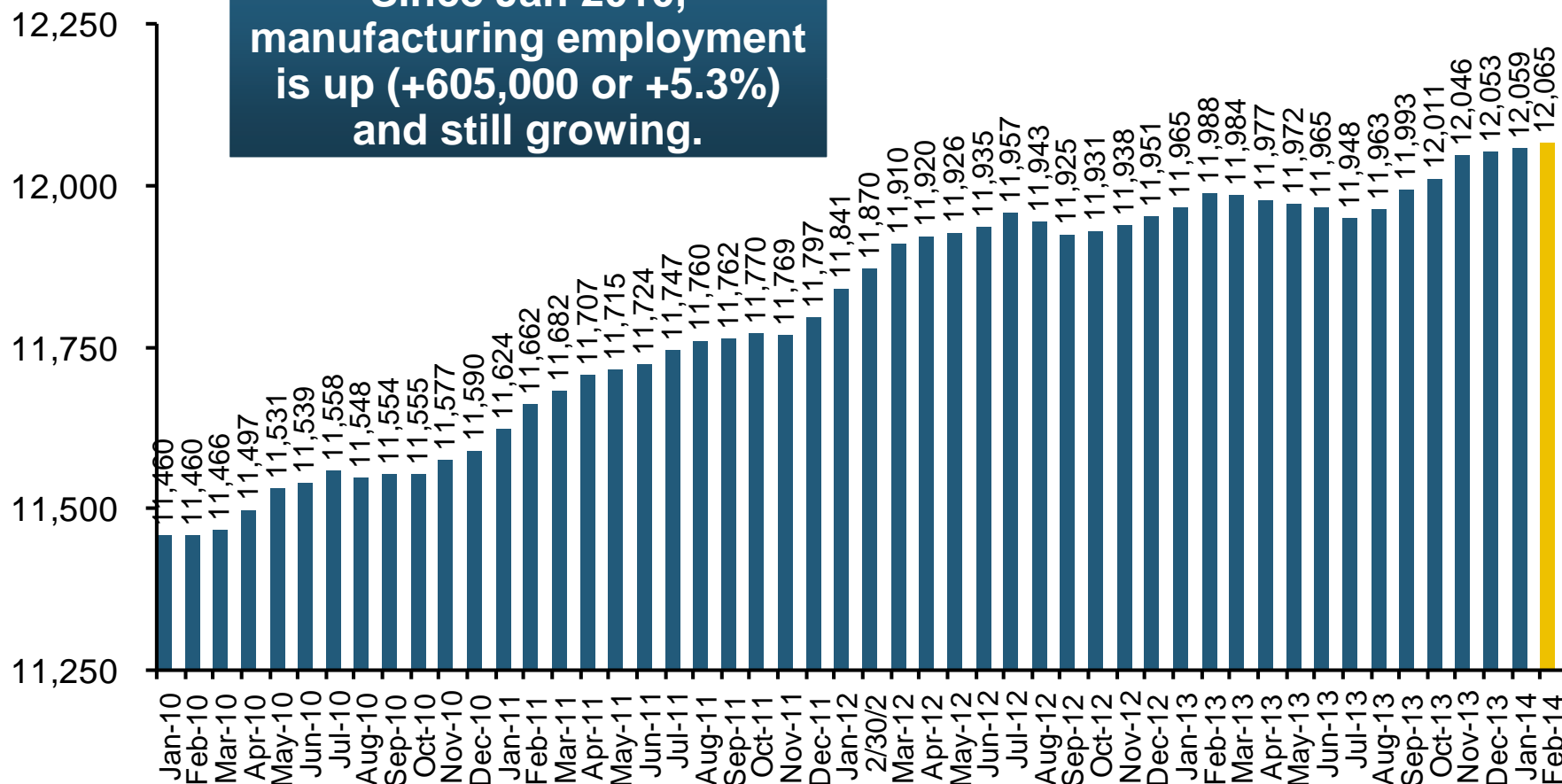
Monthly shipments in Dec. 2013 exceeded the pre-crisis (July 2008) peak. Manufacturing is energy-intensive and growth leads to gains in many commercial exposures: WC, Commercial Auto, Marine, Property, and various Liability Coverages.

*seasonally adjusted; Dec. 2013 is preliminary; data published February 4, 2014.

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

Manufacturing Employment, Jan. 2010—February 2014*

(Thousands)



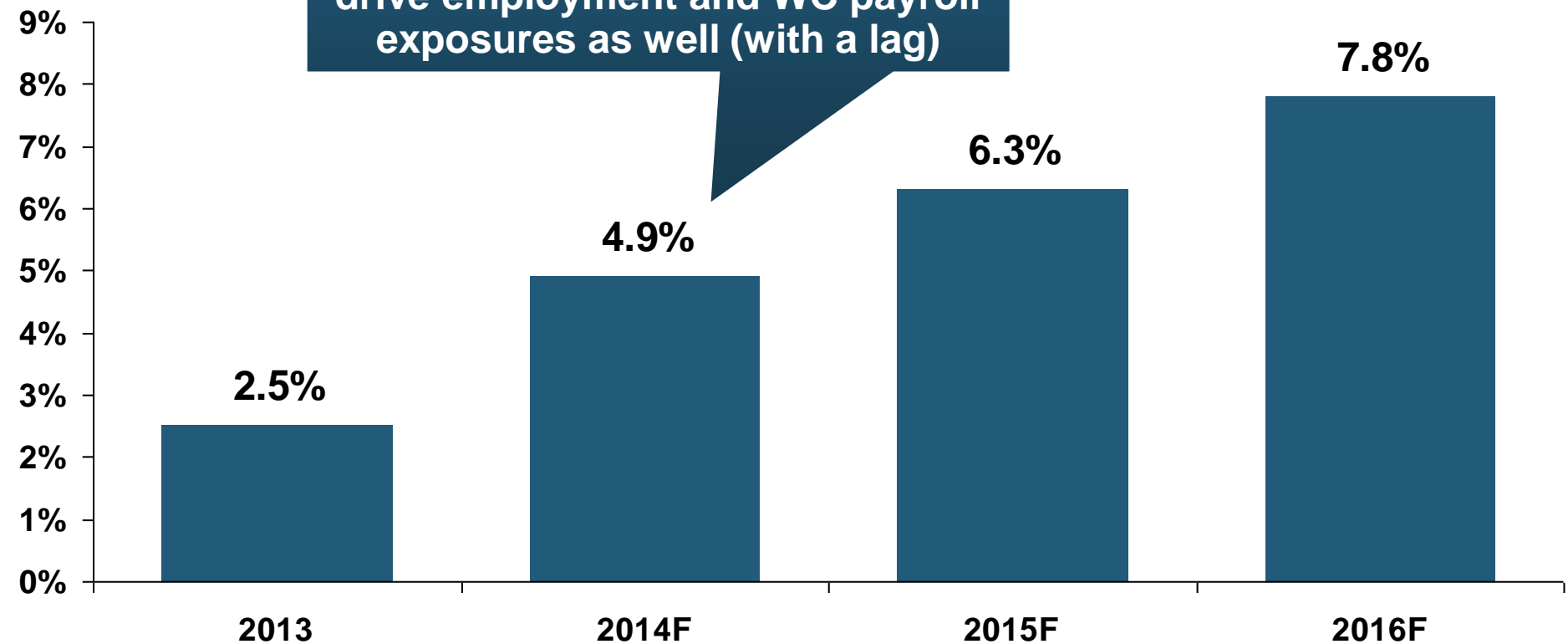
Manufacturing employment is a surprising source of strength in the economy. Employment in the sector is at a multi-year high.

*Seasonally adjusted; Jan. and Feb. 2014 are preliminary

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

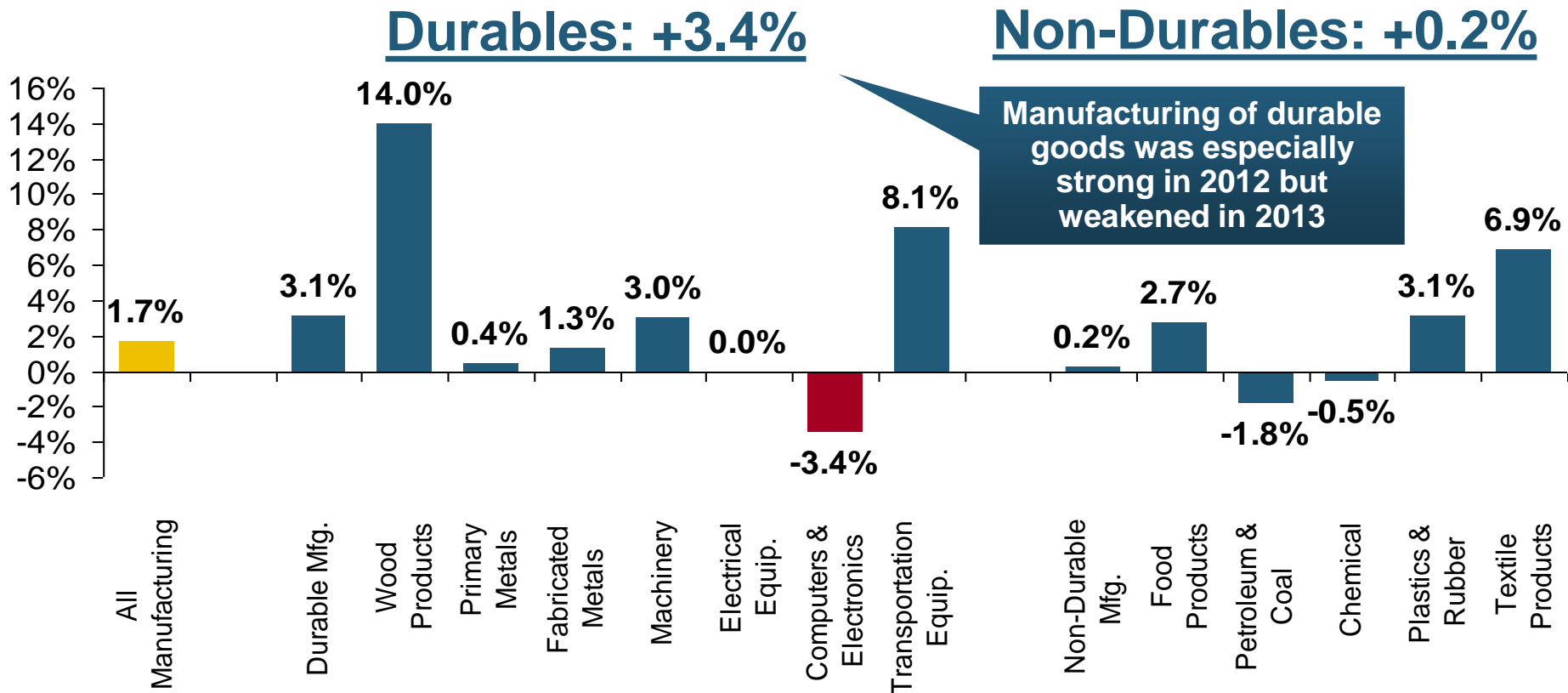
Business Investment: Expected to Accelerate, Fueling Commercial Exposure Growth

Accelerating business investment will be a potent driver of commercial property and liability insurance exposures and should drive employment and WC payroll exposures as well (with a lag)



Manufacturing Growth for Selected Sectors, 2013 vs. 2012*

Growth (%)



Manufacturing Is Expanding—Albeit Slowly—Across a Number 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 November 2013 to the same period in 2012.

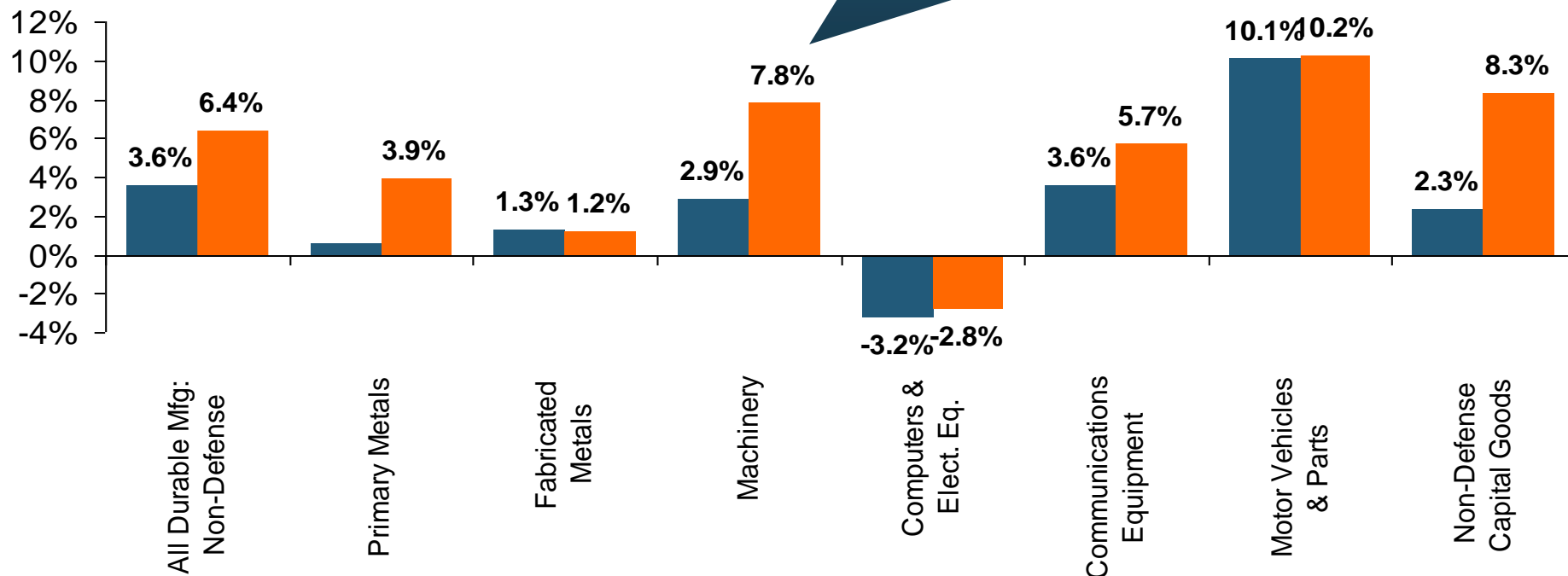
Source: U.S. Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders*, <http://www.census.gov/manufacturing/m3/>

Durable Manufacturing: New Order Growth and Shipments, 2013

Growth (%)

■ Shipments ■ New Orders

Most manufacturing sectors indicate order growth outstripping shipments, a favorable indicator for investment and expansion



Manufacturing Is Expanding: New orders exceed shipments which suggests the industry is in an expansionary phase

*Seasonally adjusted; Date are advance report YTD data comparing data through December 2013 to the same period in 2012.

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

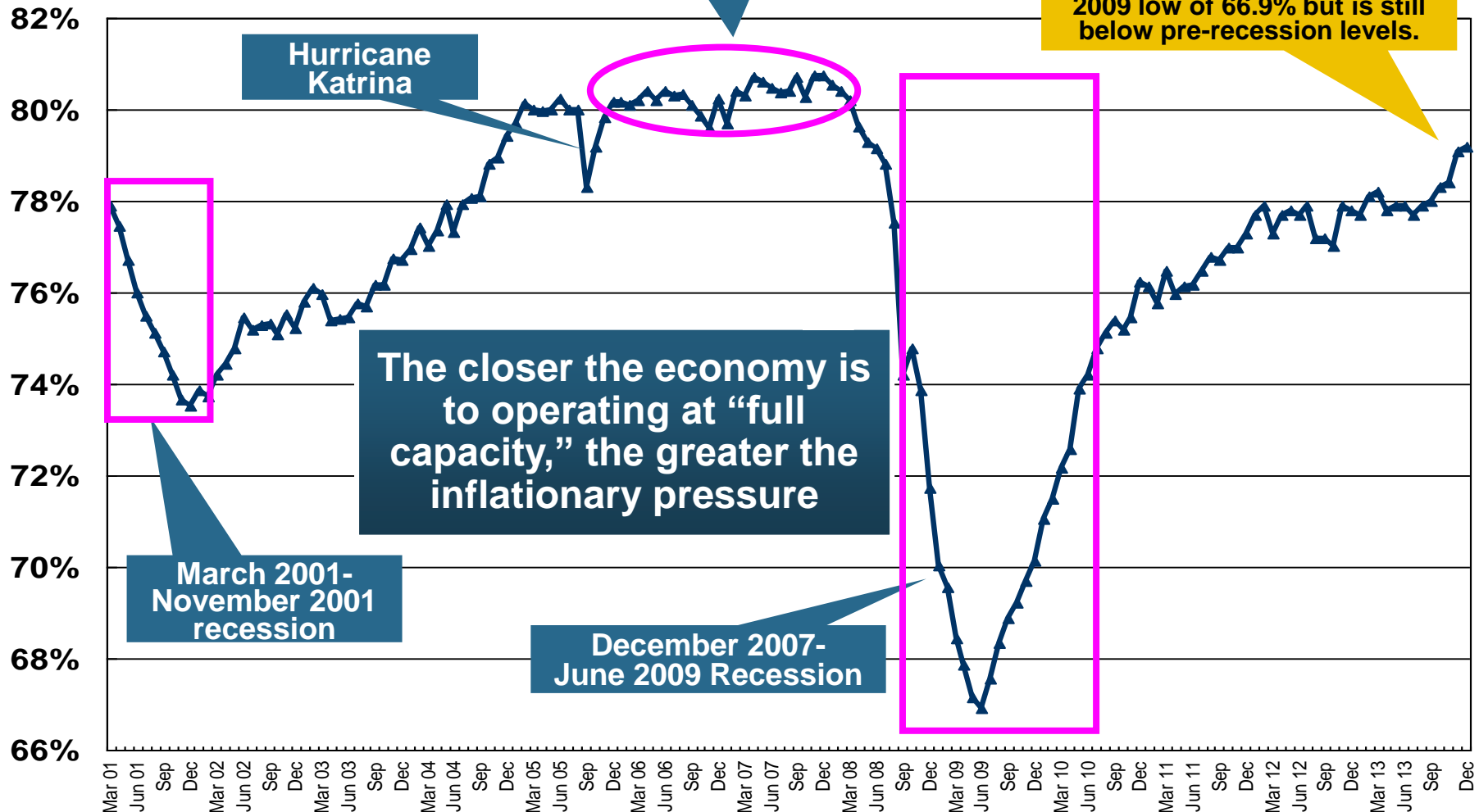
Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures

March 2001 through December 2013

“Full Capacity”

The US operated at 79.2% of industrial capacity in Dec. 2013, well above the June 2009 low of 66.9% but is still below pre-recession levels.

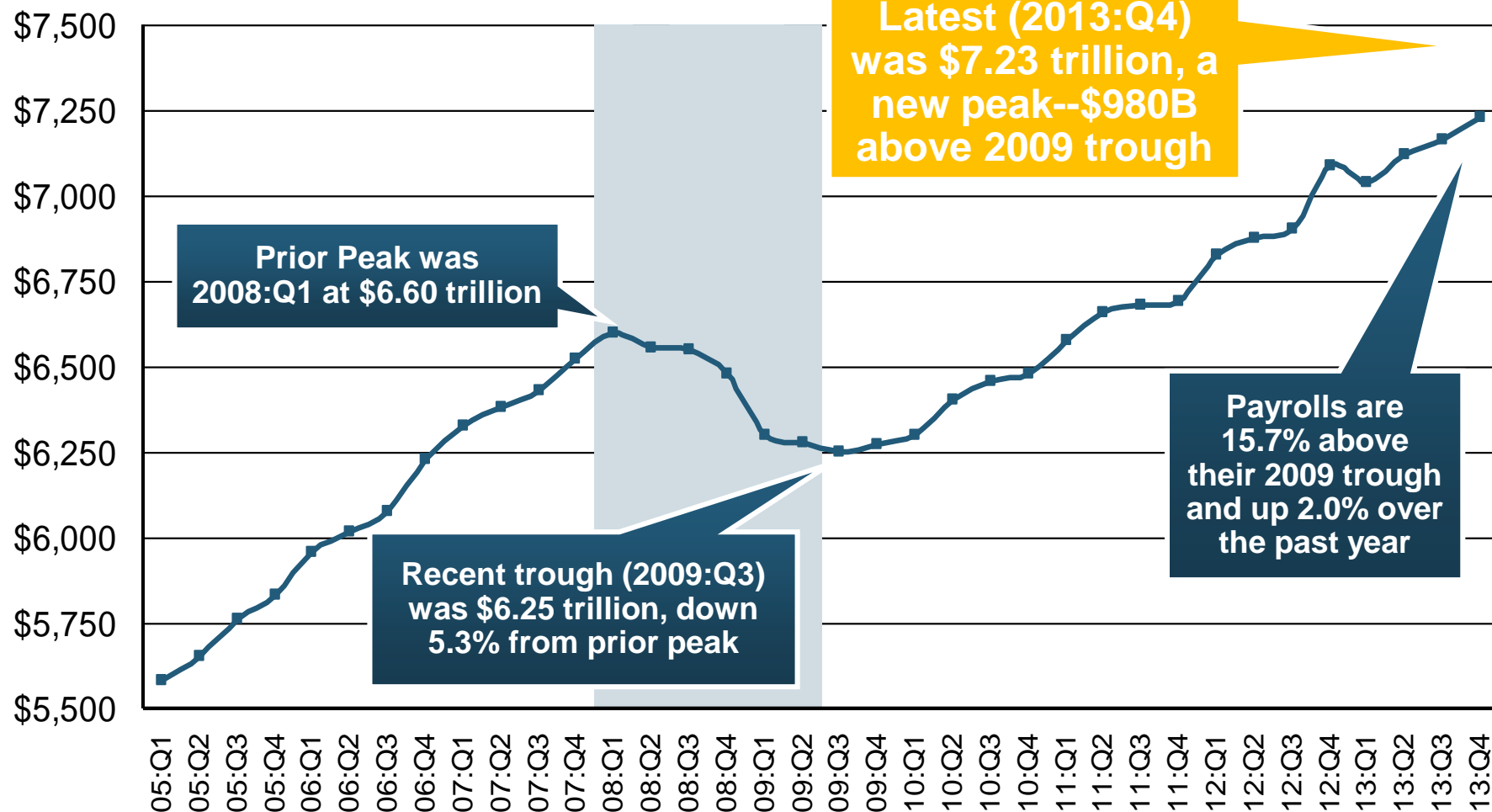
Percent of Industrial Capacity



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

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2013:Q4

Billions

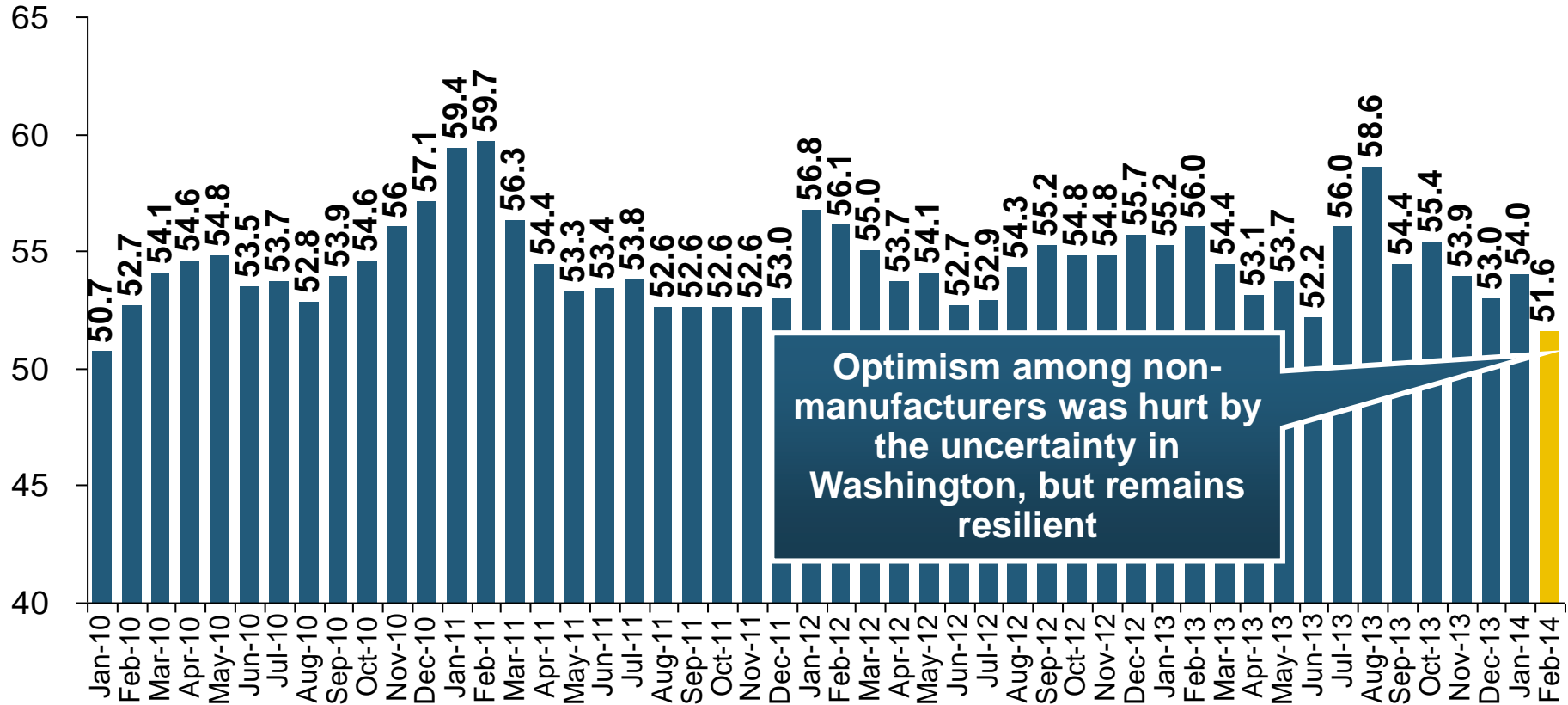


Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

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

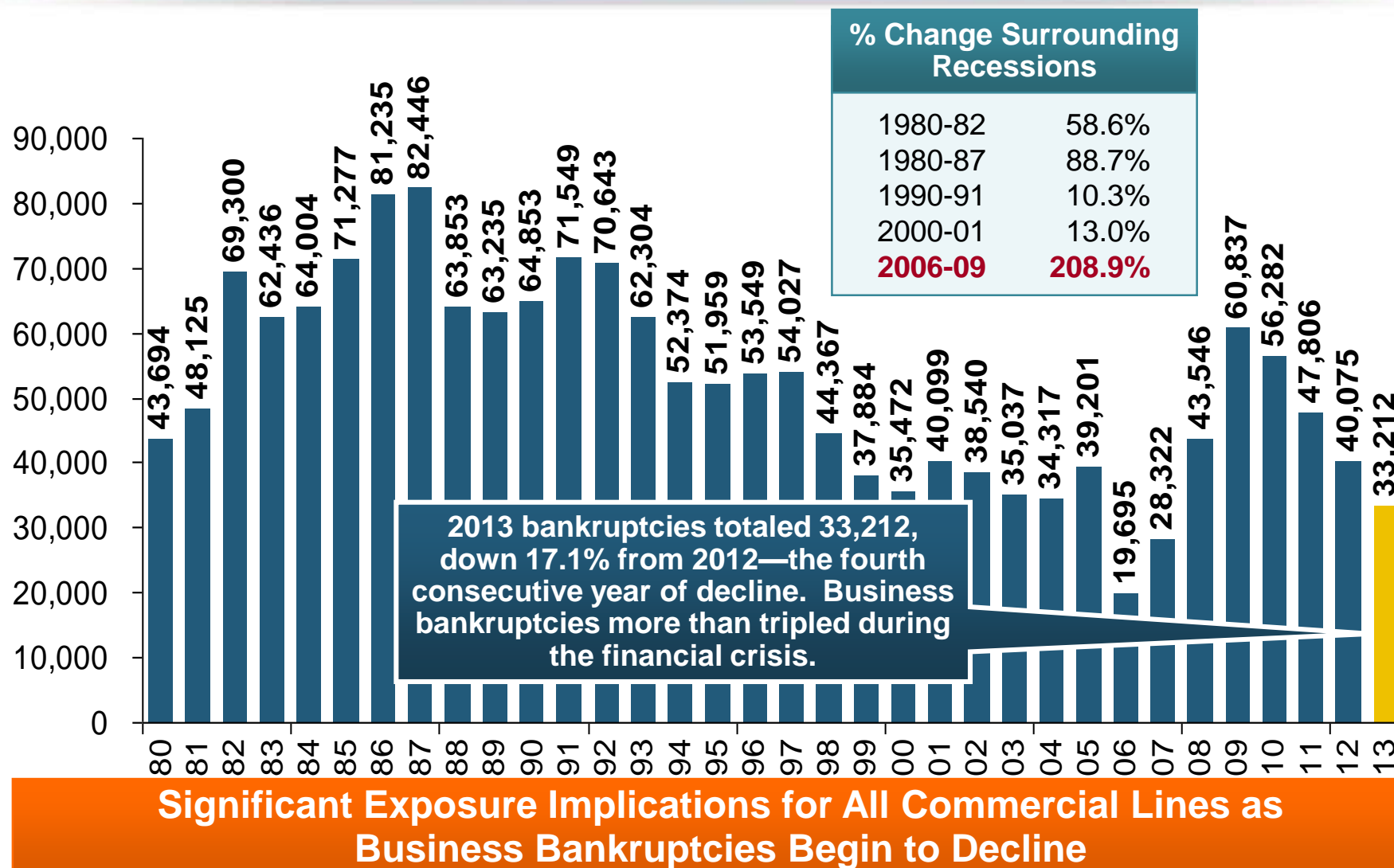
ISM Non-Manufacturing Index (Values > 50 Indicate Expansion)

January 2010 through February 2014



Non-manufacturing industries have been expanding and adding jobs. This trend is likely to continue through 2014.

Business Bankruptcy Filings, 1980-2013

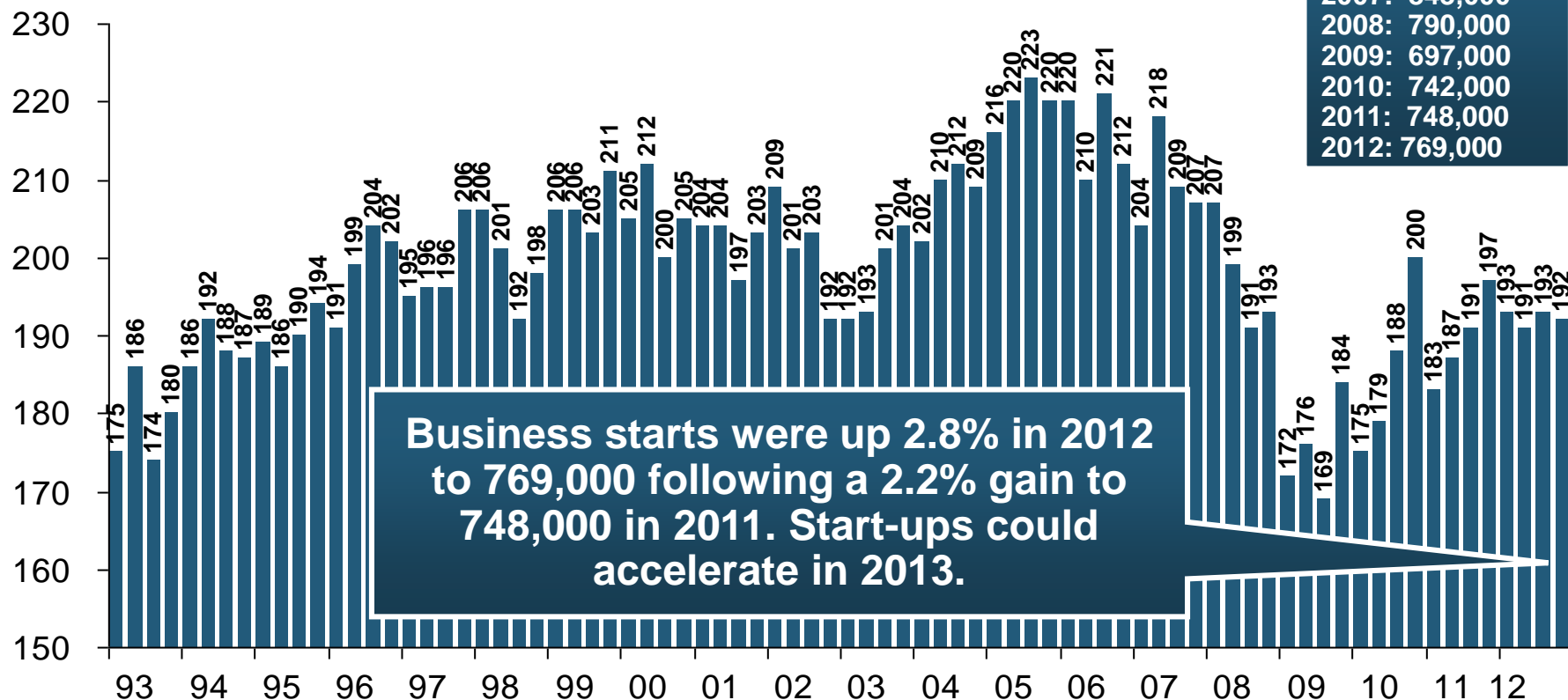


Sources: American Bankruptcy Institute (1980-2012) at

<http://www.abiworld.org/AM/AMTemplate.cfm?Section=Home&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=61633>; 2013 data from United States Courts at <http://news.uscourts.gov>; Insurance Information Institute.

Private Sector Business Starts, 1993:Q2 – 2012:Q4*

(Thousands)



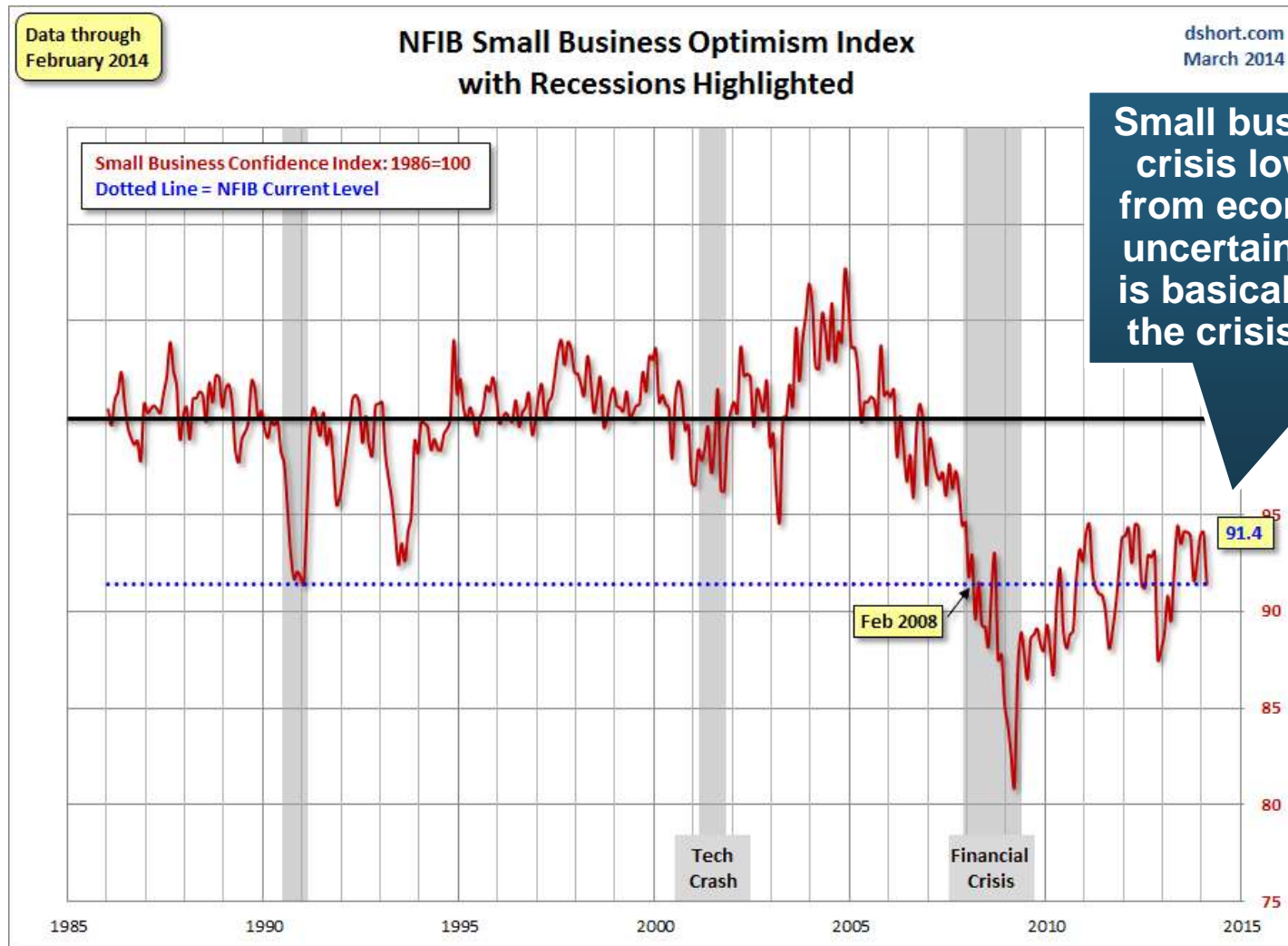
Business Starts Were Down Nearly 20% in the Recession, Holding Back Most Types of Commercial Insurance Exposure, But Are Recovering Slowly

* Data through Dec. 30, 2012 are the latest available as of Nov. 21, 2013; Seasonally adjusted.

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

NFIB Small Business Optimism Index

January 1985 through February 2014



Small business optimism is off crisis lows but still suffering from economic and regulatory uncertainty. Confidence today is basically where it was when the crisis began in Dec. 2007.

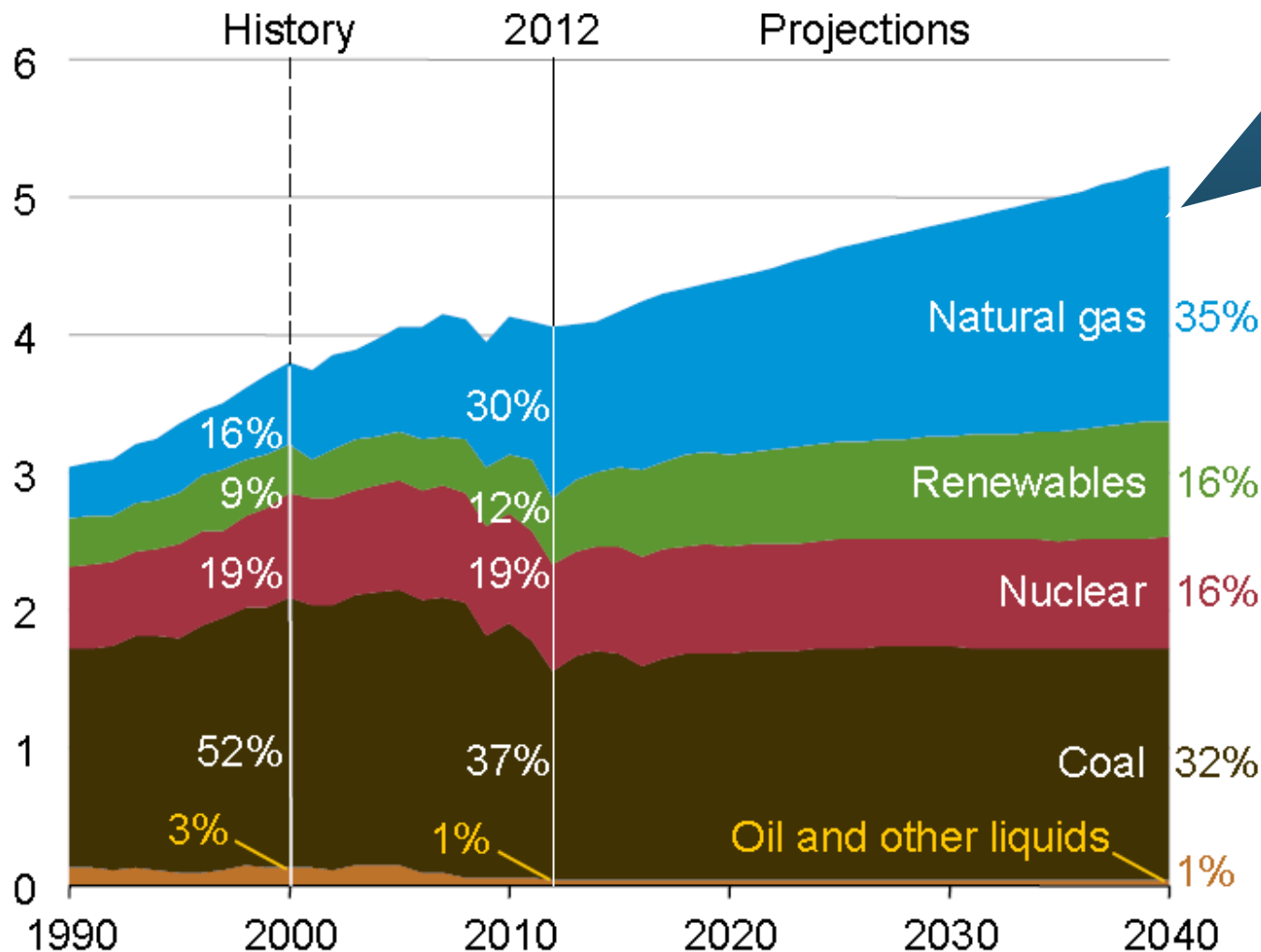
12 Industries for the Next 10 Years: Insurance Solutions Needed

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

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

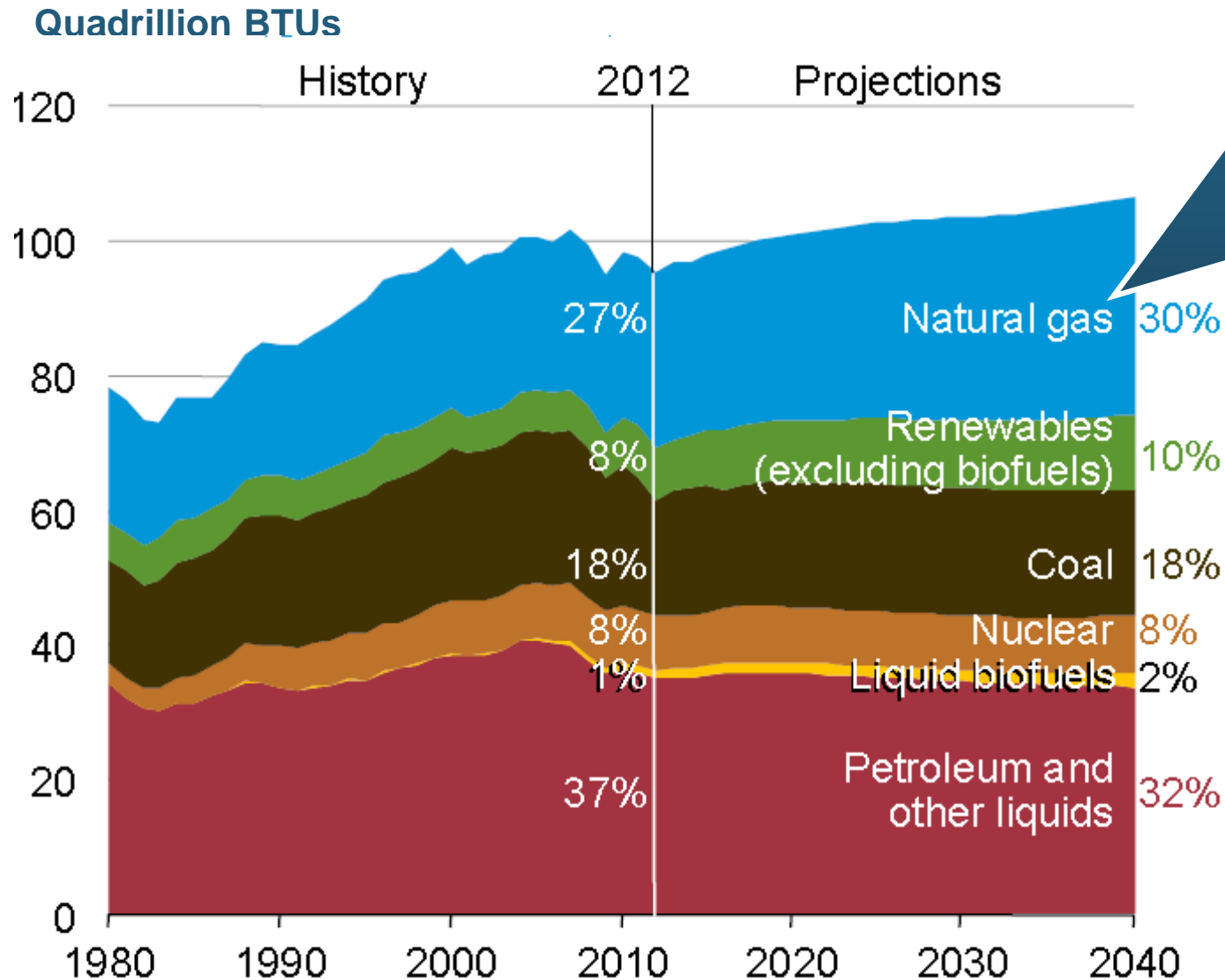
U.S. Electricity Generation by Fuel, 1990 - 2040

Trillions of kilowatt Hours



Electricity consumption in the US will rise steadily along with the fuel shares of natural gas and renewables

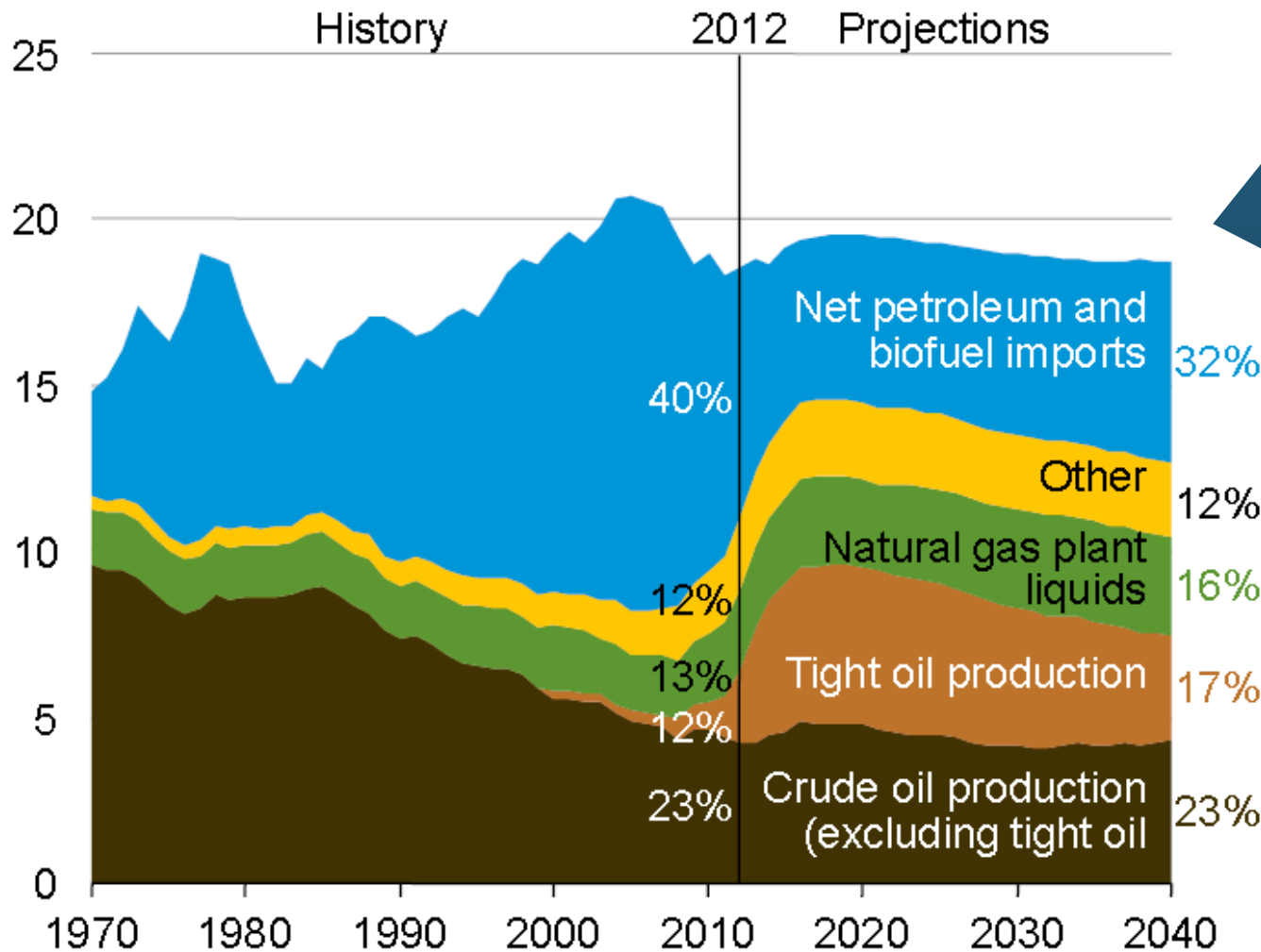
U.S. Primary Energy Consumption by Fuel, 1990 - 2040



Energy consumption in the US will rise steadily with natural gas fueling most of the additional consumption

U.S. Petroleum and Other Liquid Fuel Supplies by Source, 1990 - 2040

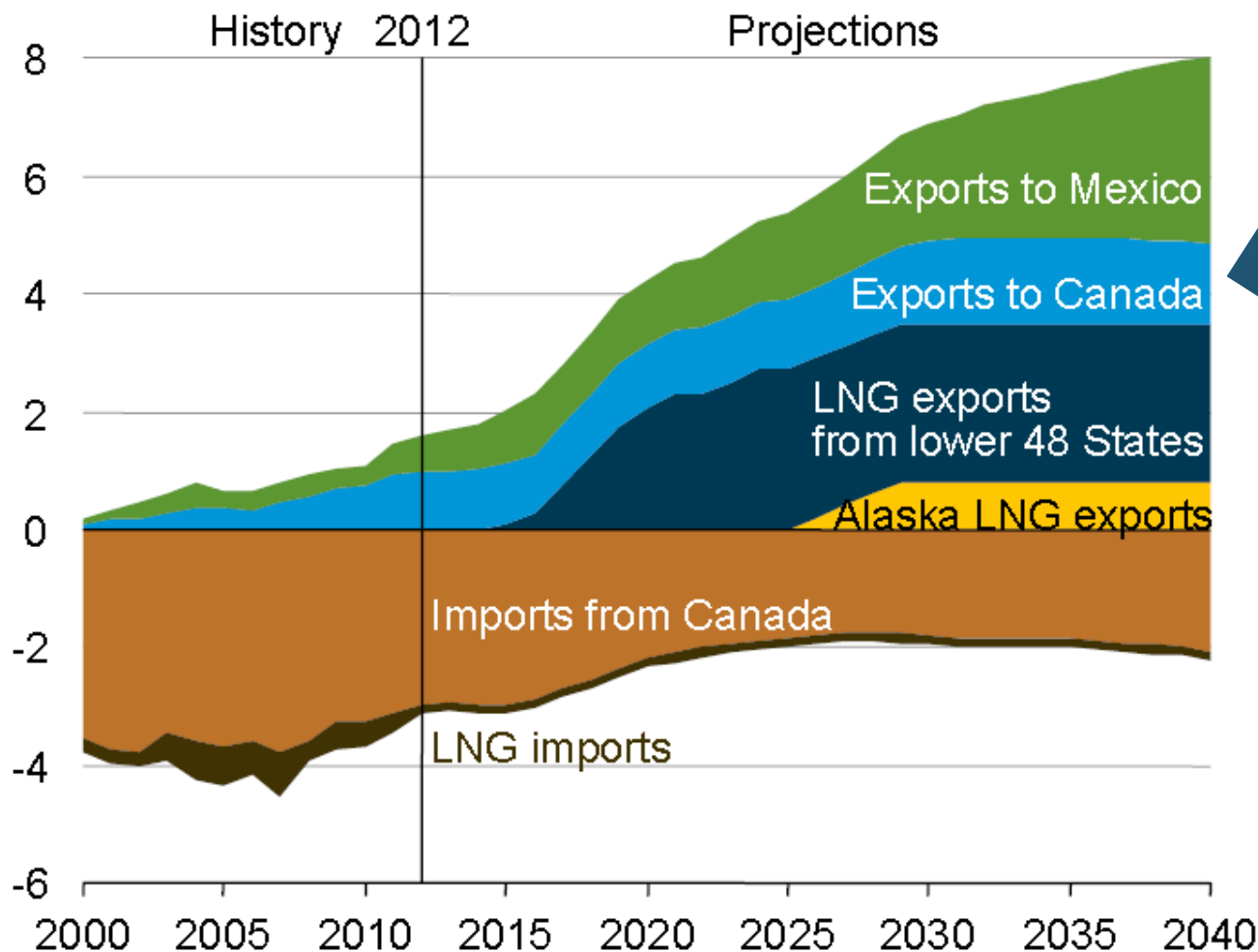
Millions of Barrels per Day



Liquid fuel consumption is expected to change little through 2040, though “tight” oil will account for a much larger share thereby reducing imports of petroleum products

U.S. Natural Gas Imports and Exports, 1990 - 2040

Trillions of Cubic Feet

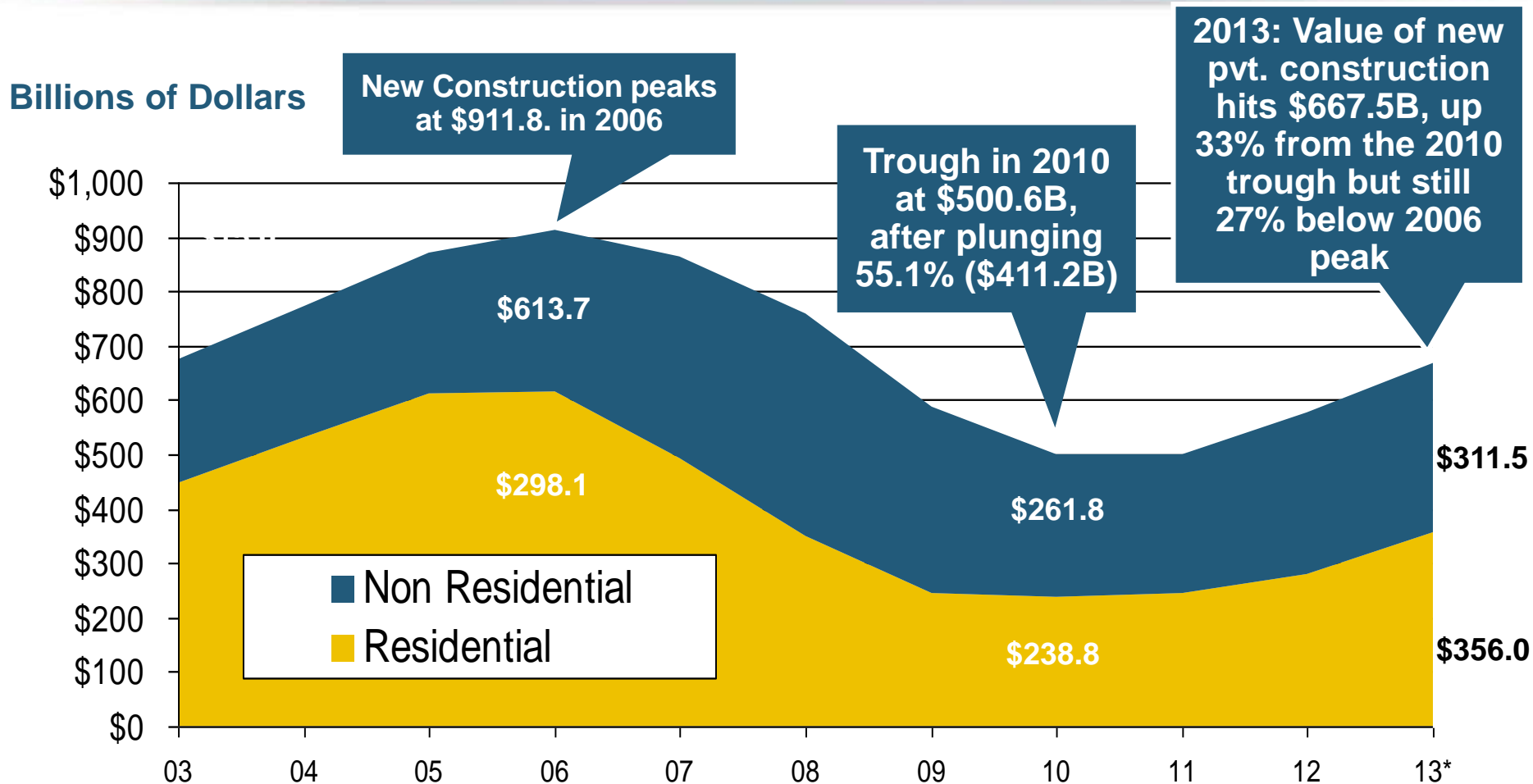


The US is now the largest gas producer in the world, though Russia is the largest exporter. The US needs to invest in its pipeline and LNG infrastructure and expedite regulatory approval to realize its full export potential

CONSTRUCTION INDUSTRY OVERVIEW & OUTLOOK

**The Construction Sector Is
Critical to the Economy and
the P/C Insurance Industry**

Value of New Private Construction: Residential & Nonresidential, 2003-2013*



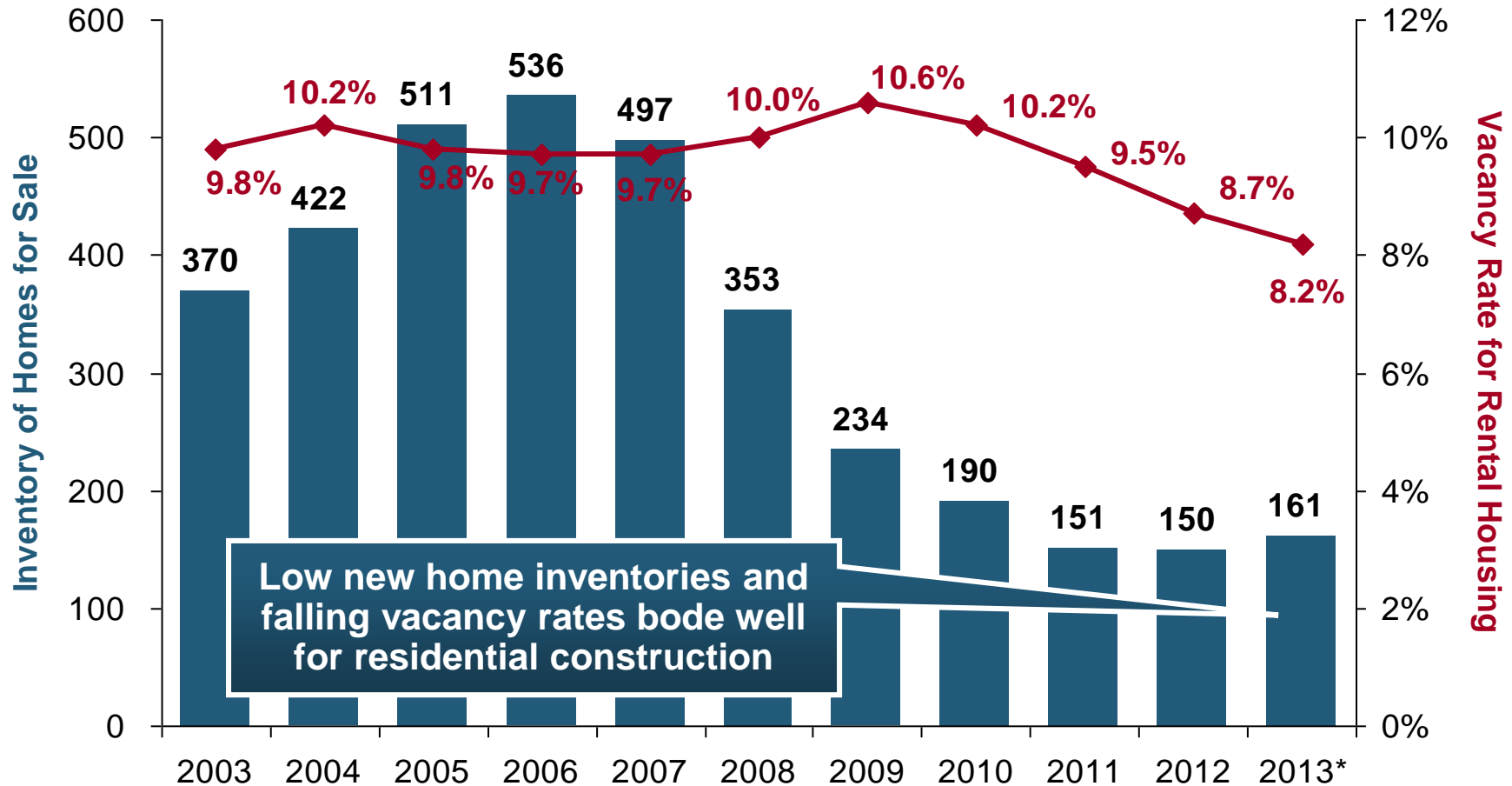
Private Construction Activity Is Moving in a Positive Direction though Remains Well Below Pre-Crisis Peak; Residential Dominates

*2013 figure is a seasonally adjusted annual rate as of December.

Sources: US Department of Commerce; Insurance Information Institute.

New Home Inventories and Rental Vacancy Rates, 2003-2013*

(Thousands)

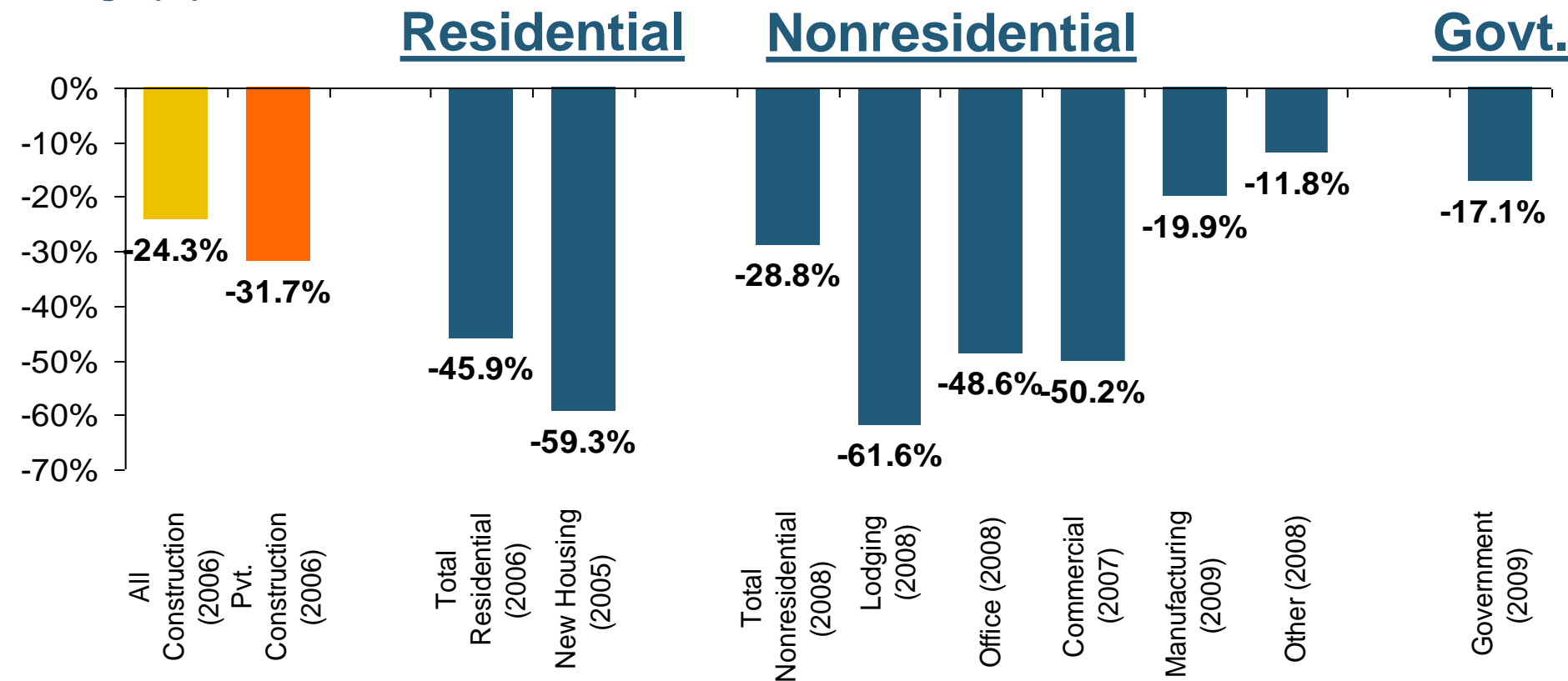


*2013 figure is a seasonally adjusted annual rate as of June.

Sources: US Department of Commerce; Insurance Information Institute.

Change from Peak in New Construction Expenditures to 2013*

Change (%)



Despite Recent Improvements, Construction Activity (and Employment) Remains Far Below Pre-Crisis Peaks

Note: Year in parentheses is the year of peak expenditure.

*2013 figure is a seasonally adjusted annual rate as of June.

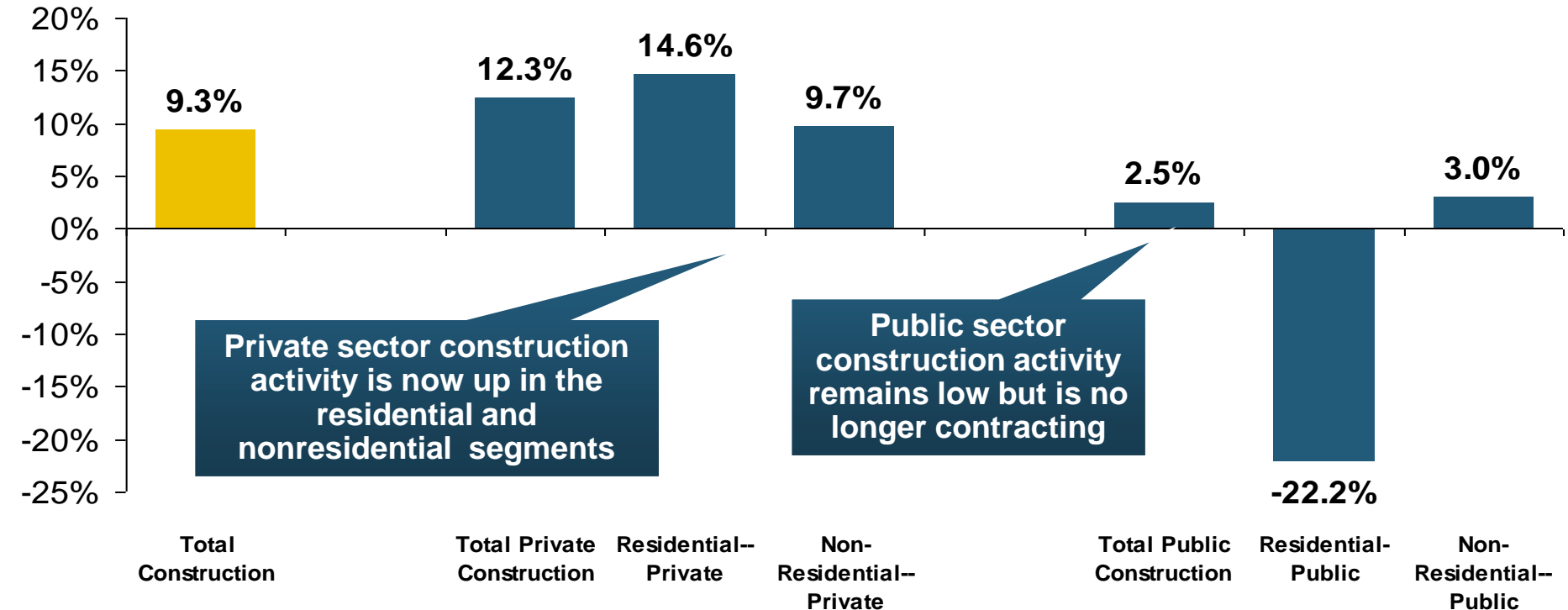
Sources: US Department of Commerce; Insurance Information Institute.

Value of Construction Put in Place, January 2014 vs. January 2013*

Growth (%)

Private: +12.3%

Public: +2.5%



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

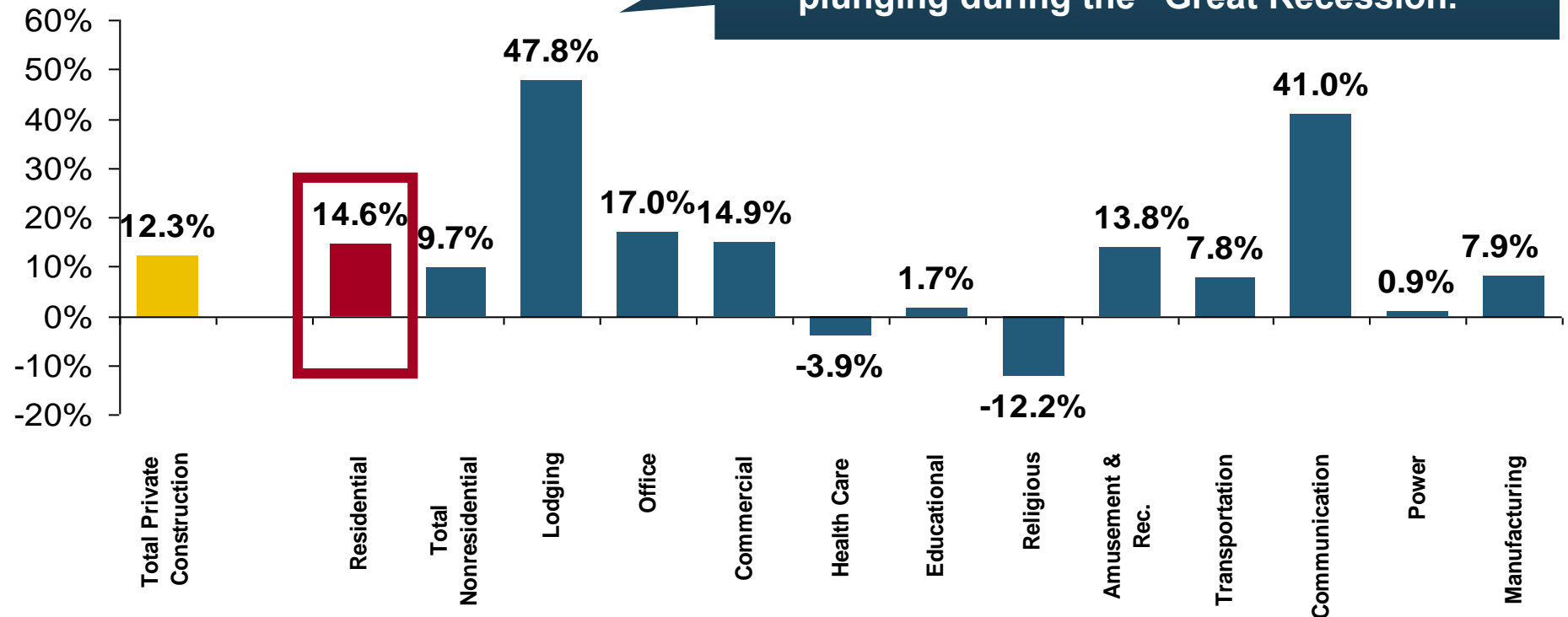
*seasonally adjusted

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, Jan. 2014 vs. Jan. 2013*

Growth (%)

Led by the Residential Construction, Lodging, Communication and Office segments, Private sector construction activity is rising after plunging during the "Great Recession."



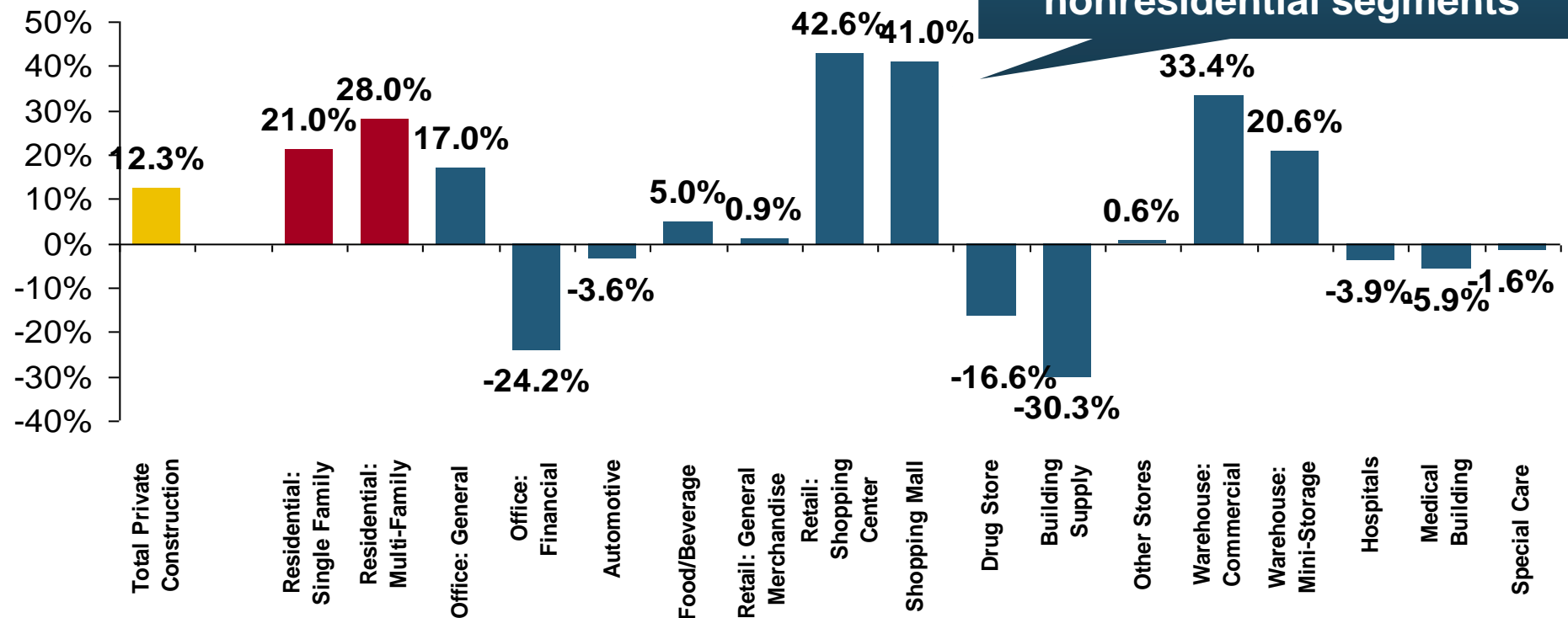
Private Construction Activity is Up in Most Segments, Including the Key Residential Construction Sector; Bodes Well for Early 2014

*seasonally adjusted

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

Private Construction by Segment/Project Type, Jan. 2014 vs. Jan. 2013*

Growth (%)



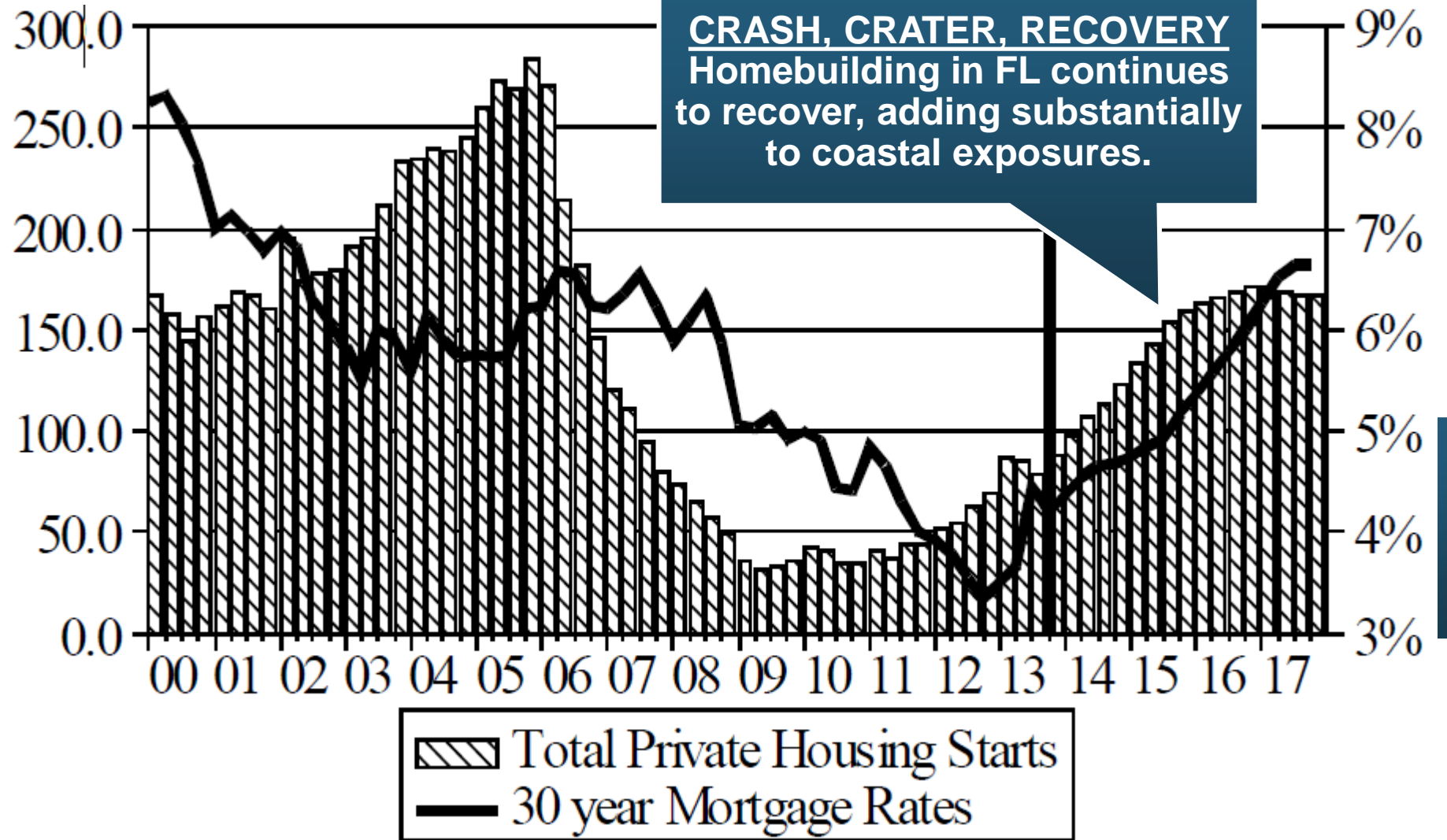
Private Construction Activity is Up in Many Segments, Including the Key Residential Construction Sector, But Down in a Few

*seasonally adjusted

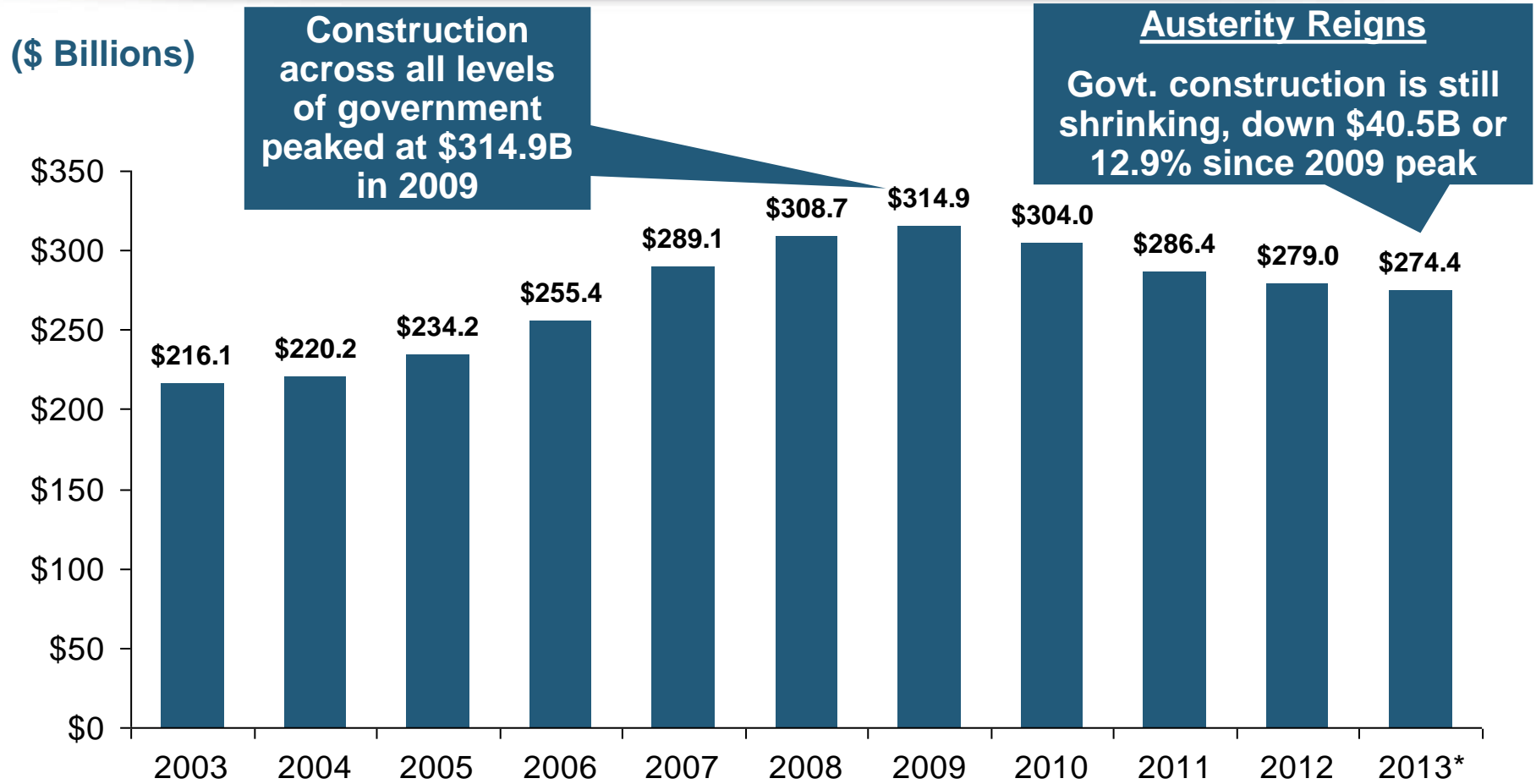
Source: U.S. Census Bureau, <http://www.census.gov/construction/c30/c30index.html> ; Insurance Information Institute.

Florida Total Private Housing Starts, 2000 – 2017F

(Thousands of Units)



Value of New Federal, State and Local Government Construction: 2003-2013*



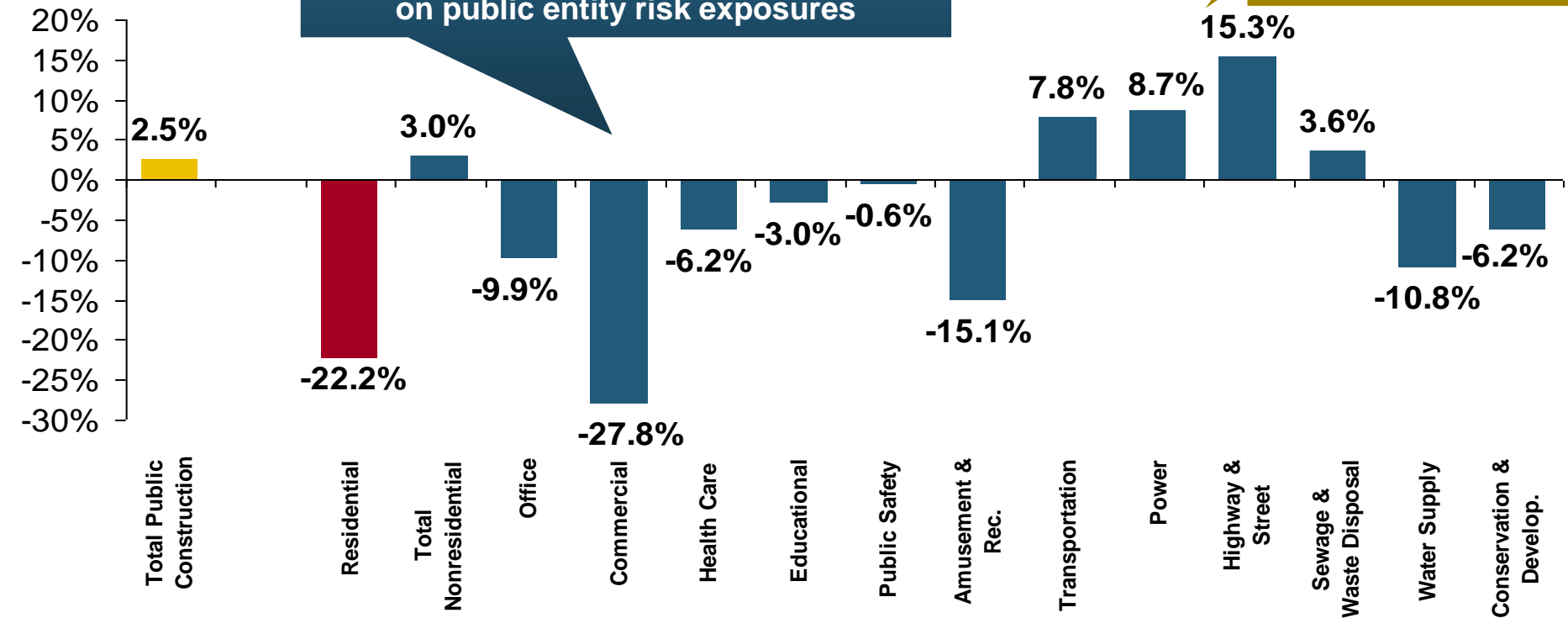
Government Construction Spending Peaked in 2009, Helped by Stimulus Spending, but Continues to Contract As State/Local Governments Grapple with Deficits and Federal Sequestration Takes Hold

*2013 figure is a seasonally adjusted annual rate as of December.

Sources: US Department of Commerce; Insurance Information Institute.

Value of Public Construction Put in Place, by Segment, Jan. 2014 vs. Jan. 2013*

Growth (%)



Public Construction Activity is Down in Many Segments as State and Local Budgets Remain Under Stress; Improvement Possible in 2014.

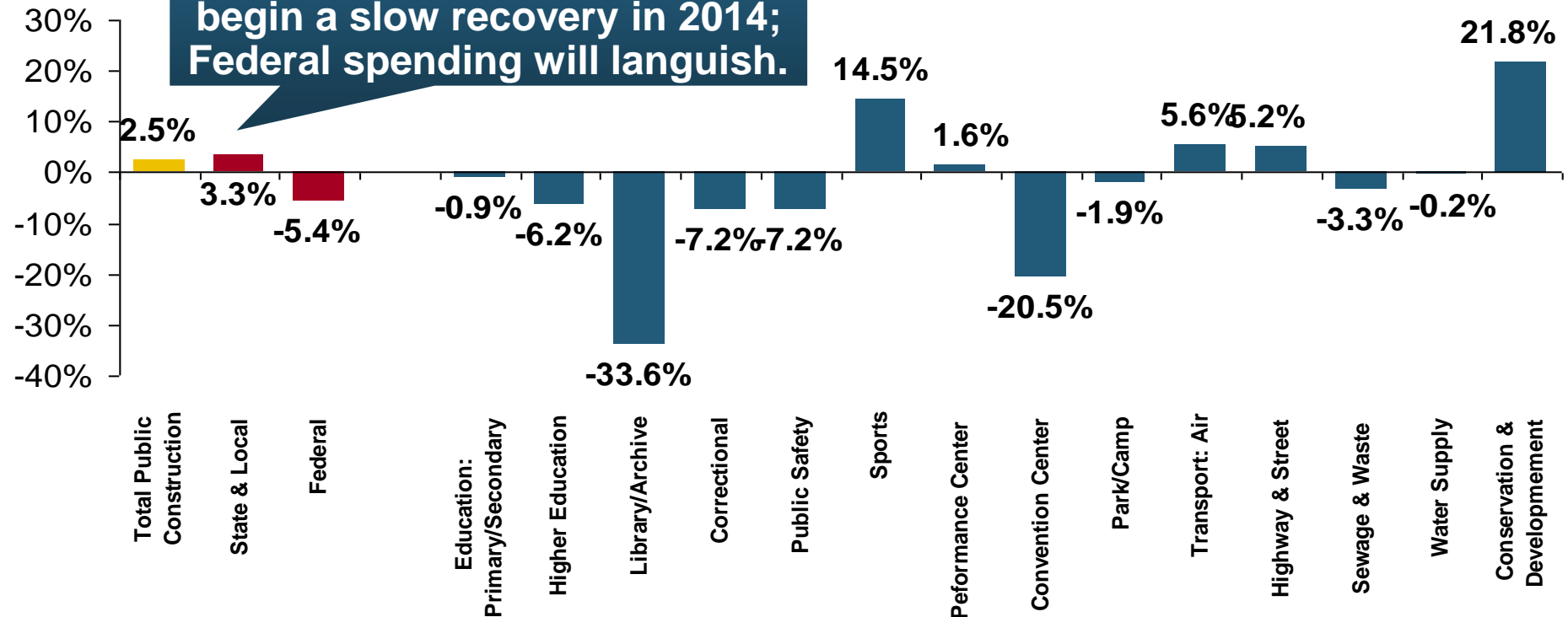
*seasonally adjusted

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

Public Construction by Segment/Project Type, Jan. 2014 vs. Jan. 2013*

Growth (%)

State and local public sector construction spending could begin a slow recovery in 2014; Federal spending will languish.

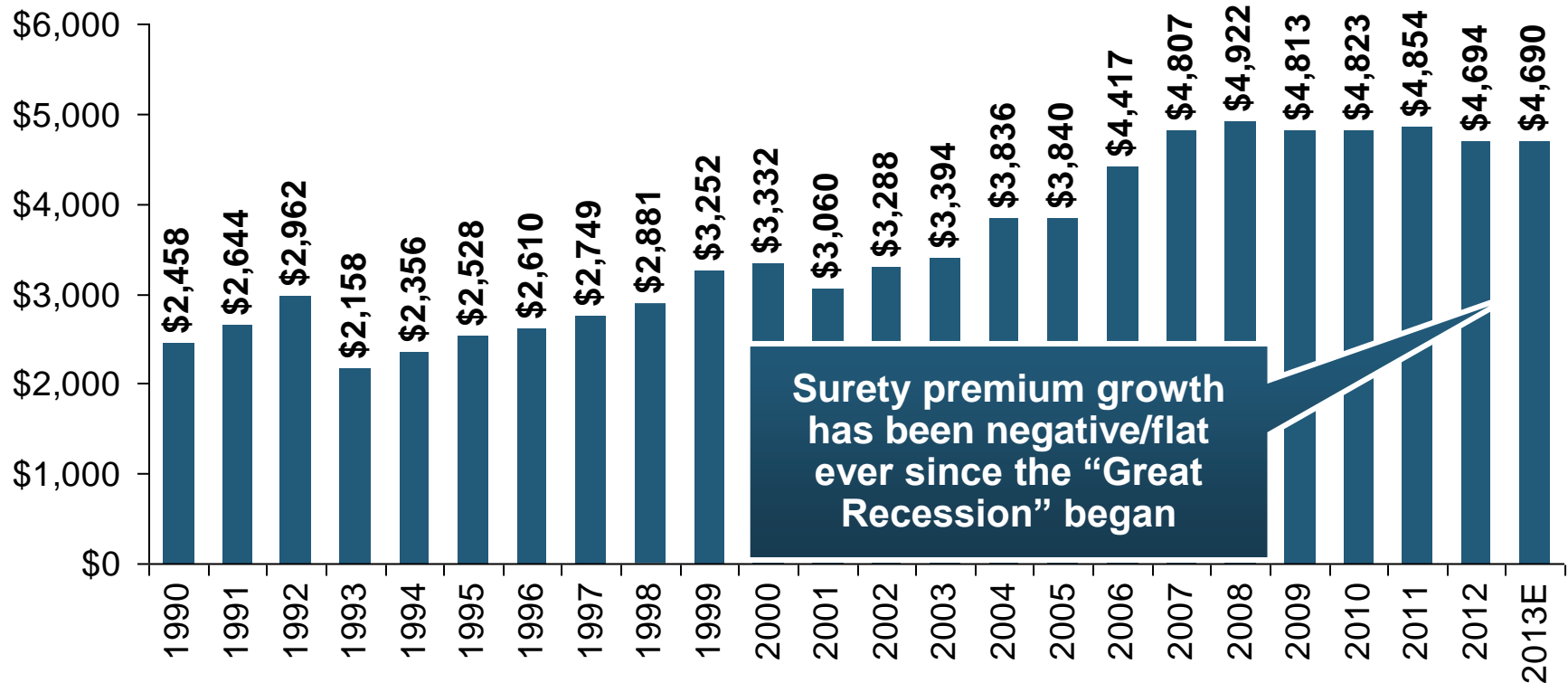


Public Construction Activity is Down in Most Segments as Governments Grapple with Budget Deficits and Pension Shortfalls

*seasonally adjusted

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

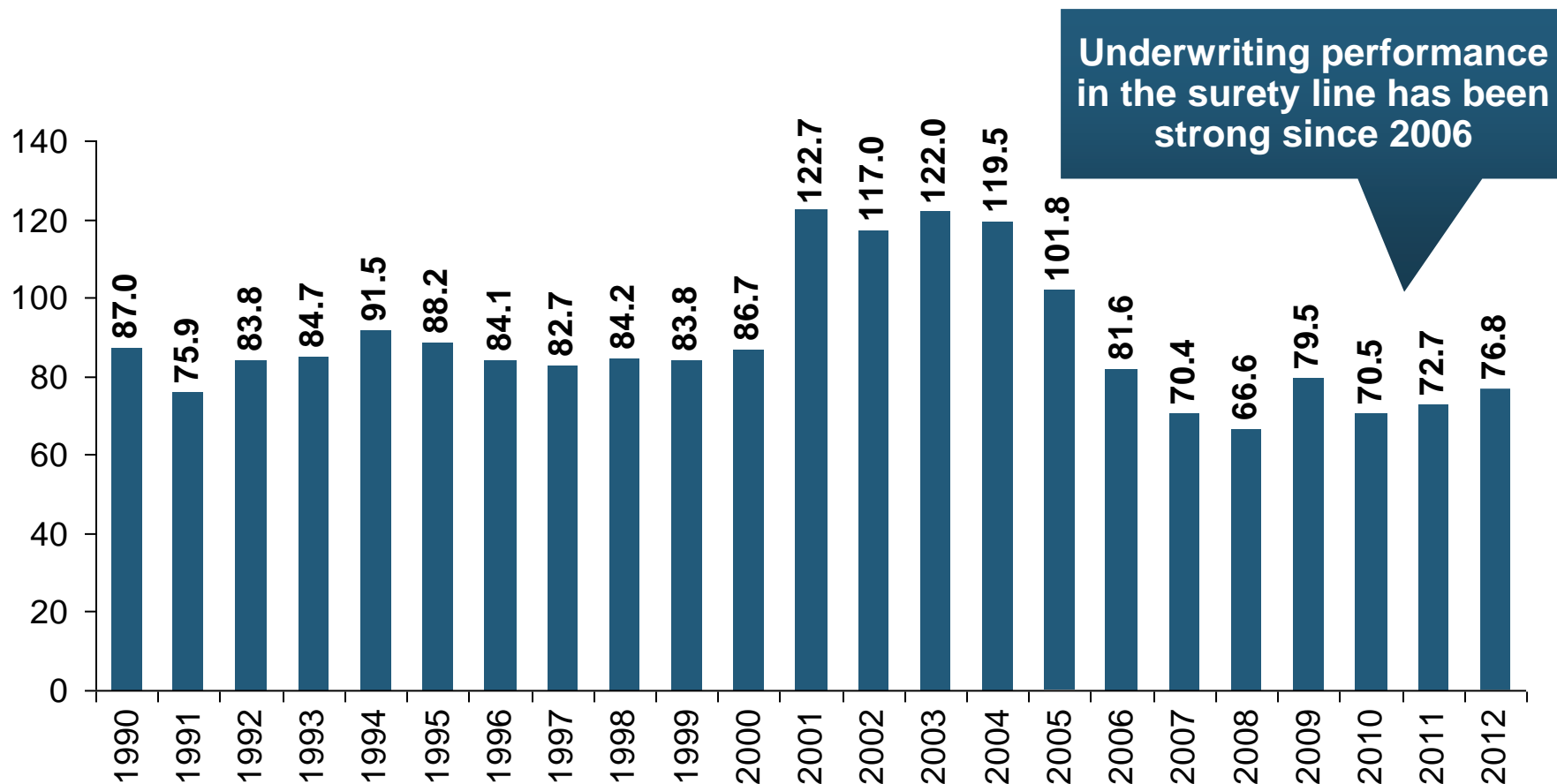
Surety, Net Premiums Written, 1990-2013E, (\$ millions)



Note: 1990-1992 includes Financial Guaranty.

Source: A.M. Best; Insurance Information Institute estimate for 2013 based on 9-month data from SNL Financial.

Surety Combined Ratio, 1990-2012*



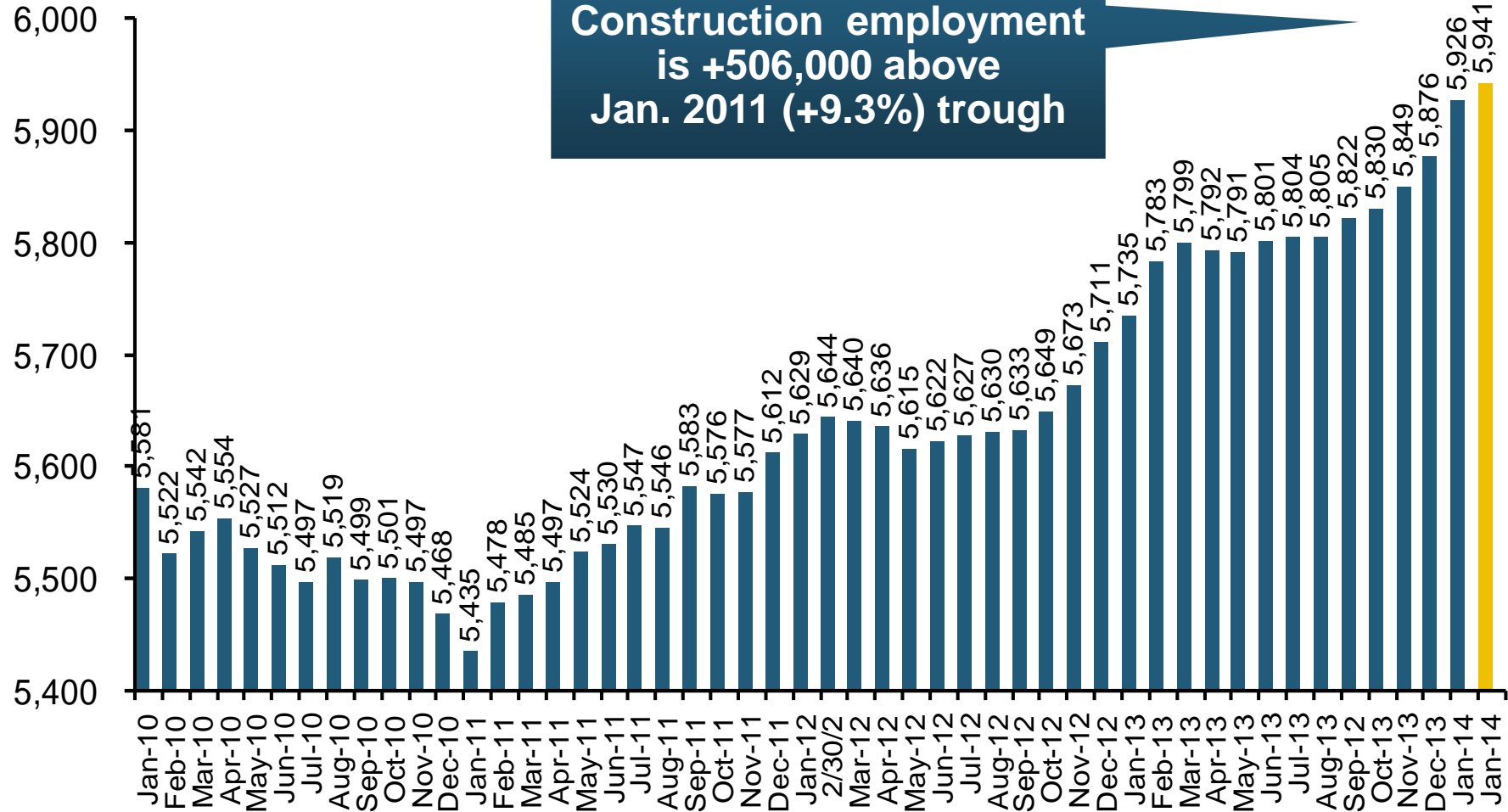
*Net basis.

Note: 1990-1992 includes Financial Guaranty.

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

Construction Employment, Jan. 2010—February 2014*

(Thousands)



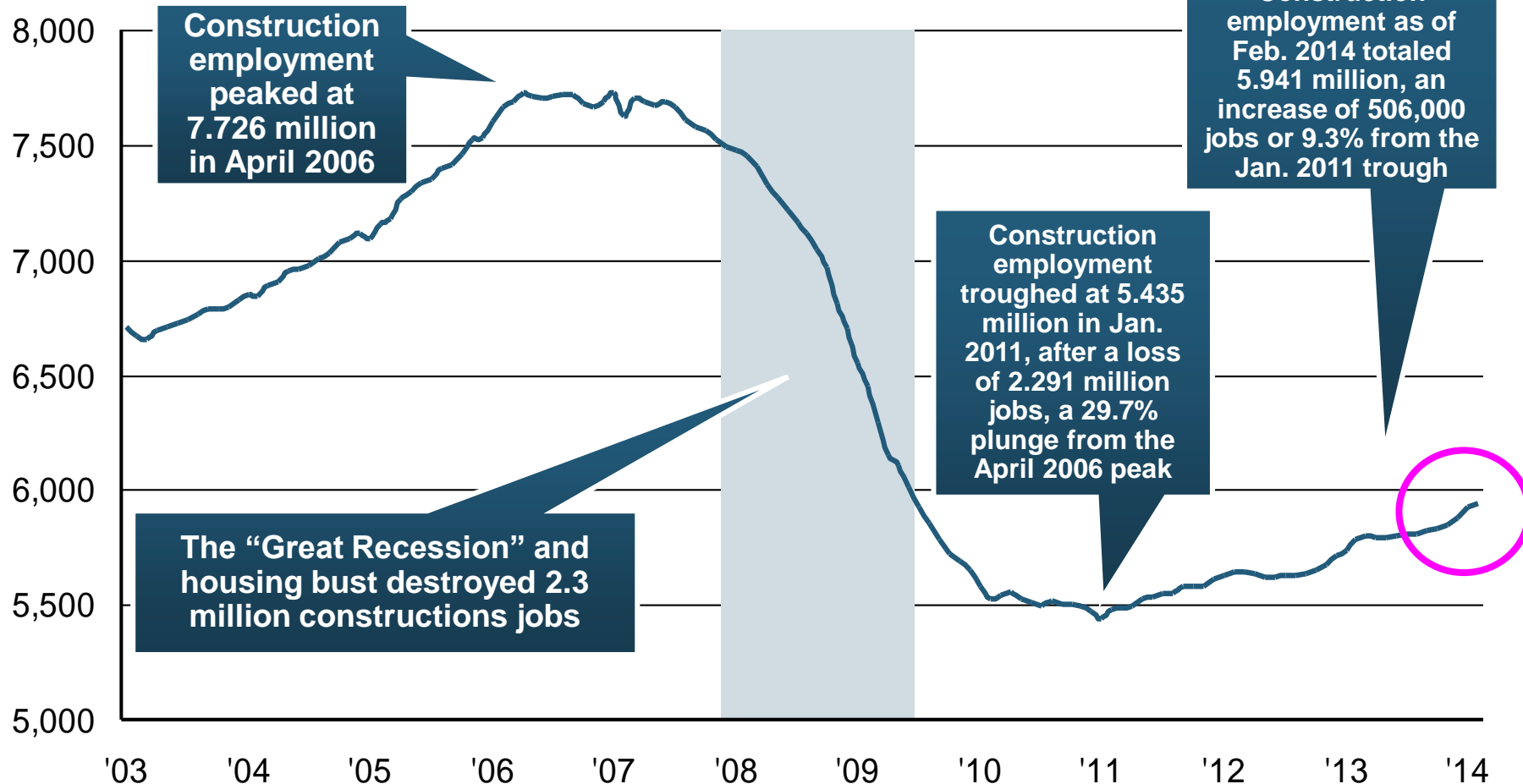
Construction and manufacturing employment constitute 1/3 of all payroll exposure.

*Seasonally adjusted.

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

Construction Employment, Jan. 2003–February 2014

(Thousands)



The Construction Sector Could Be a Growth Leader in 2014 as the Housing Market, Private Investment and Govt. Spending Recover. WC Insurers Will Benefit.

Note: Recession indicated by gray shaded column.

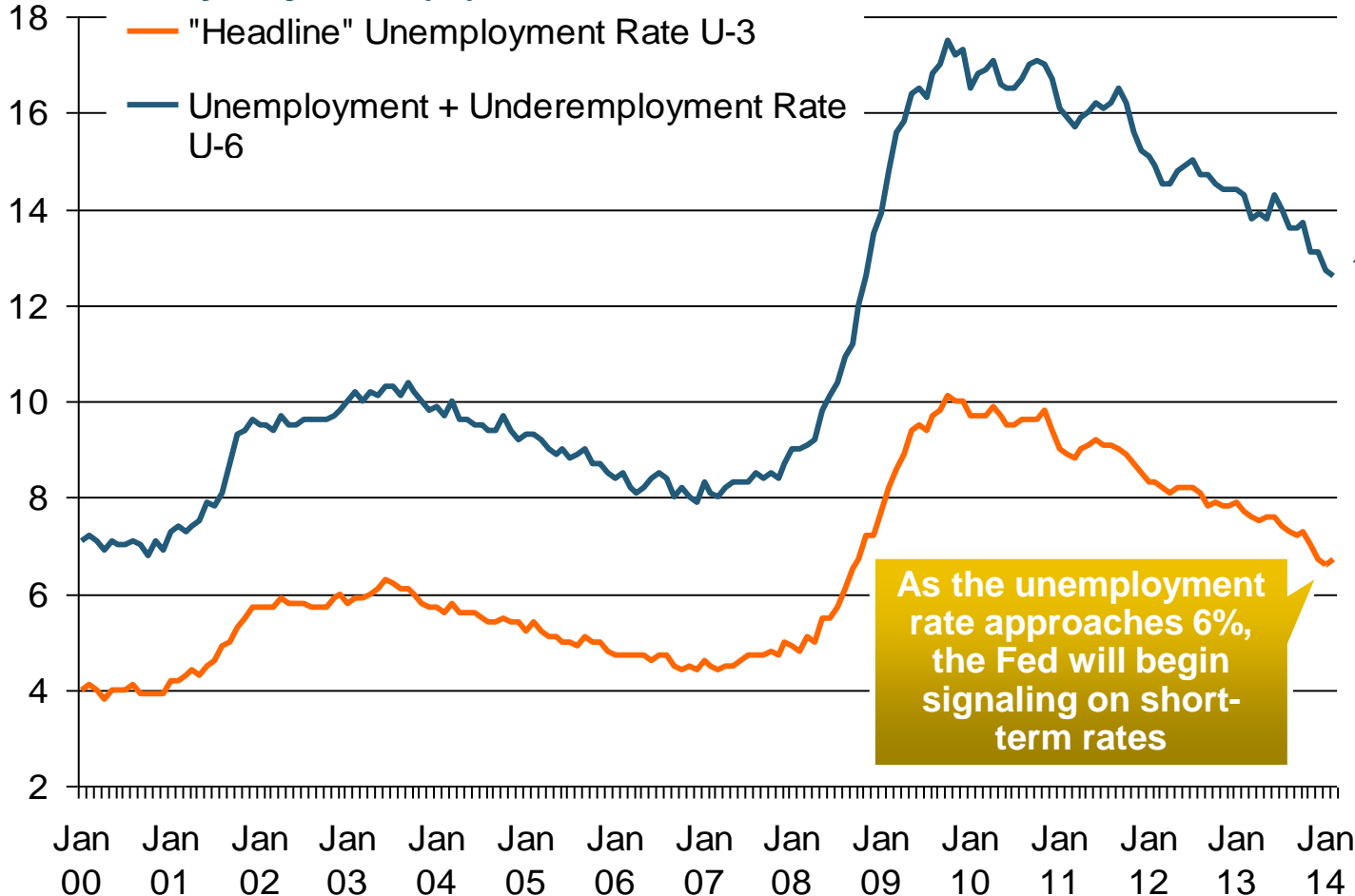
Sources: U.S. Bureau of Labor Statistics; Insurance Information Institute.

Labor Market Trends

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

Unemployment and Underemployment Rates: Still Too High, But Falling

January 2000 through February 2014,
Seasonally Adjusted (%)



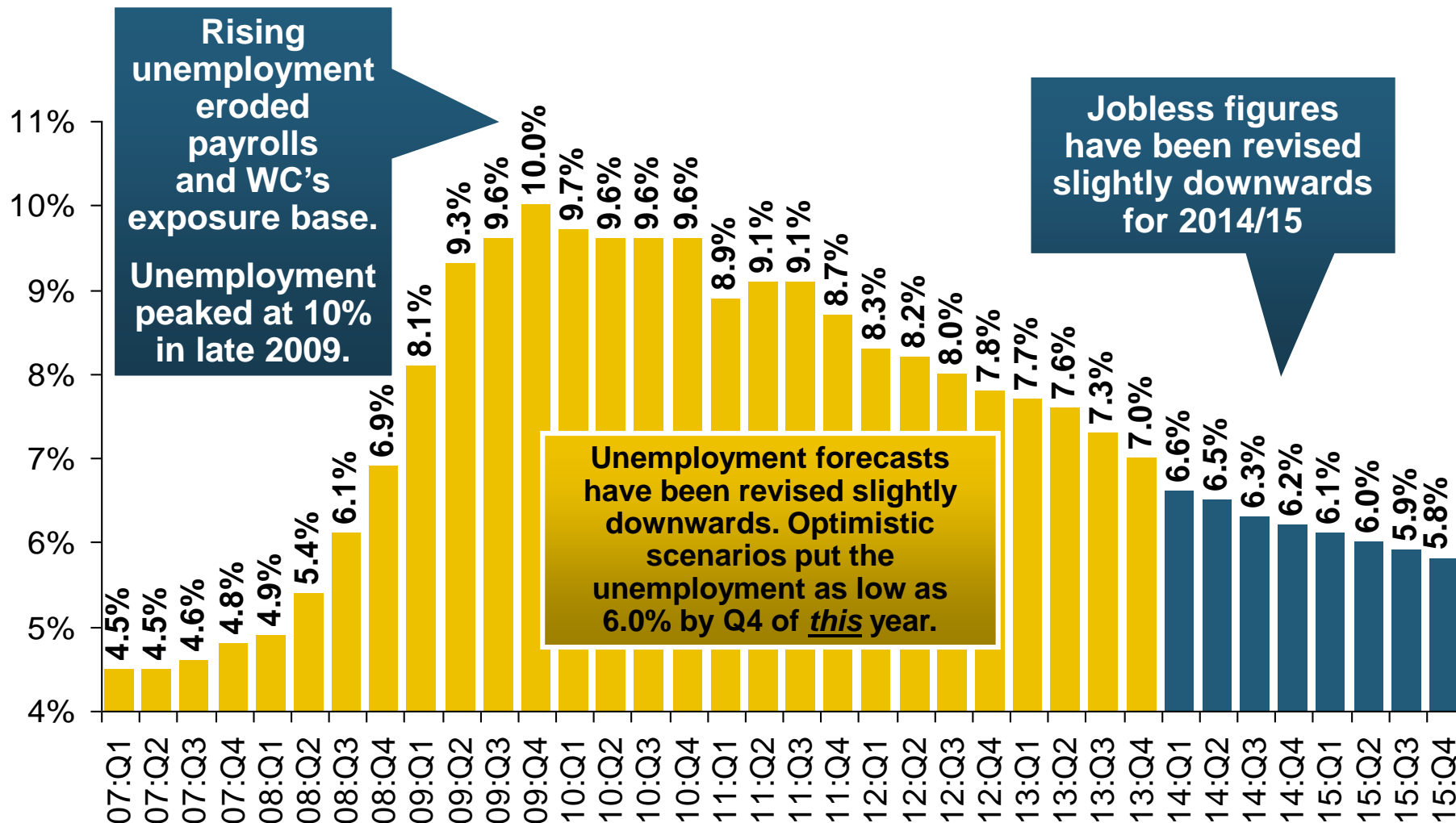
U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 12.6% in Feb. 2014. 8% to 10% is "normal."

"Headline" unemployment was 6.7% in February 2014. 4% to 6% is "normal."

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

US Unemployment Rate Forecast

2007:Q1 to 2015:Q4F*

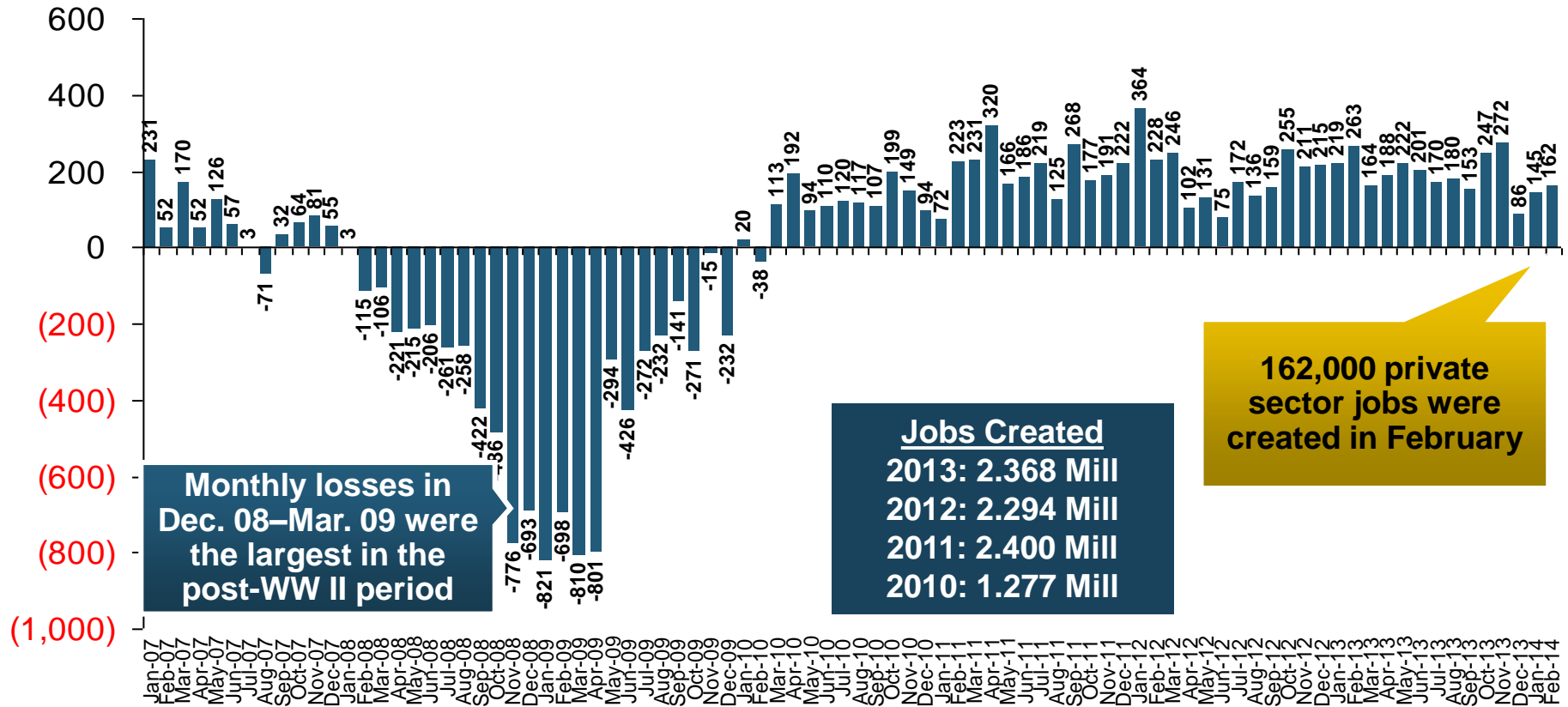


* ■ = actual; ■ = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (3/14 edition); Insurance Information Institute.

Monthly Change in Private Employment

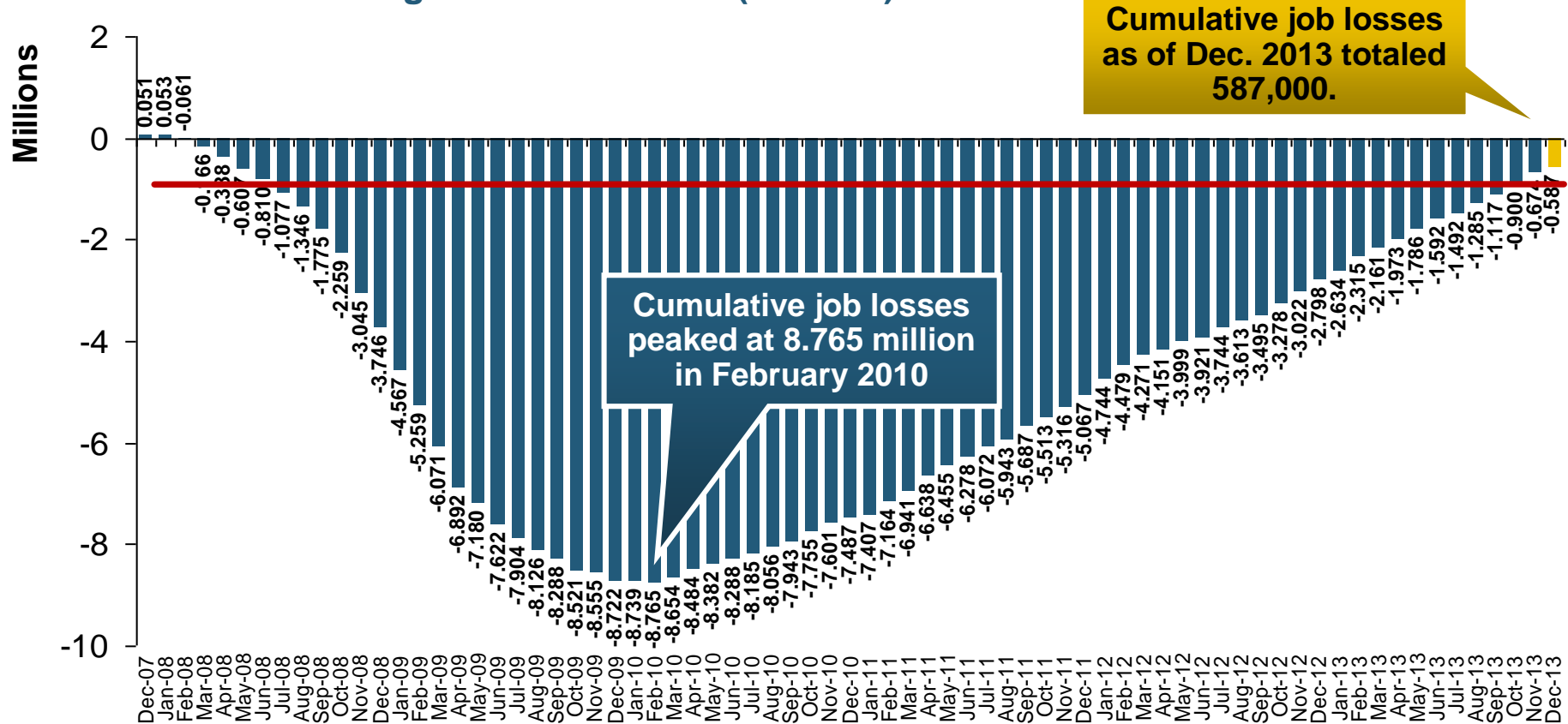
January 2007 through February 2014 (Thousands, Seasonally Adjusted)



Private Employers Added 8.34 million Jobs Since Jan. 2010 After Having Shed 5.01 Million Jobs in 2009 and 3.76 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

Cumulative Change in Private Employment: Dec. 2007—Dec. 2013

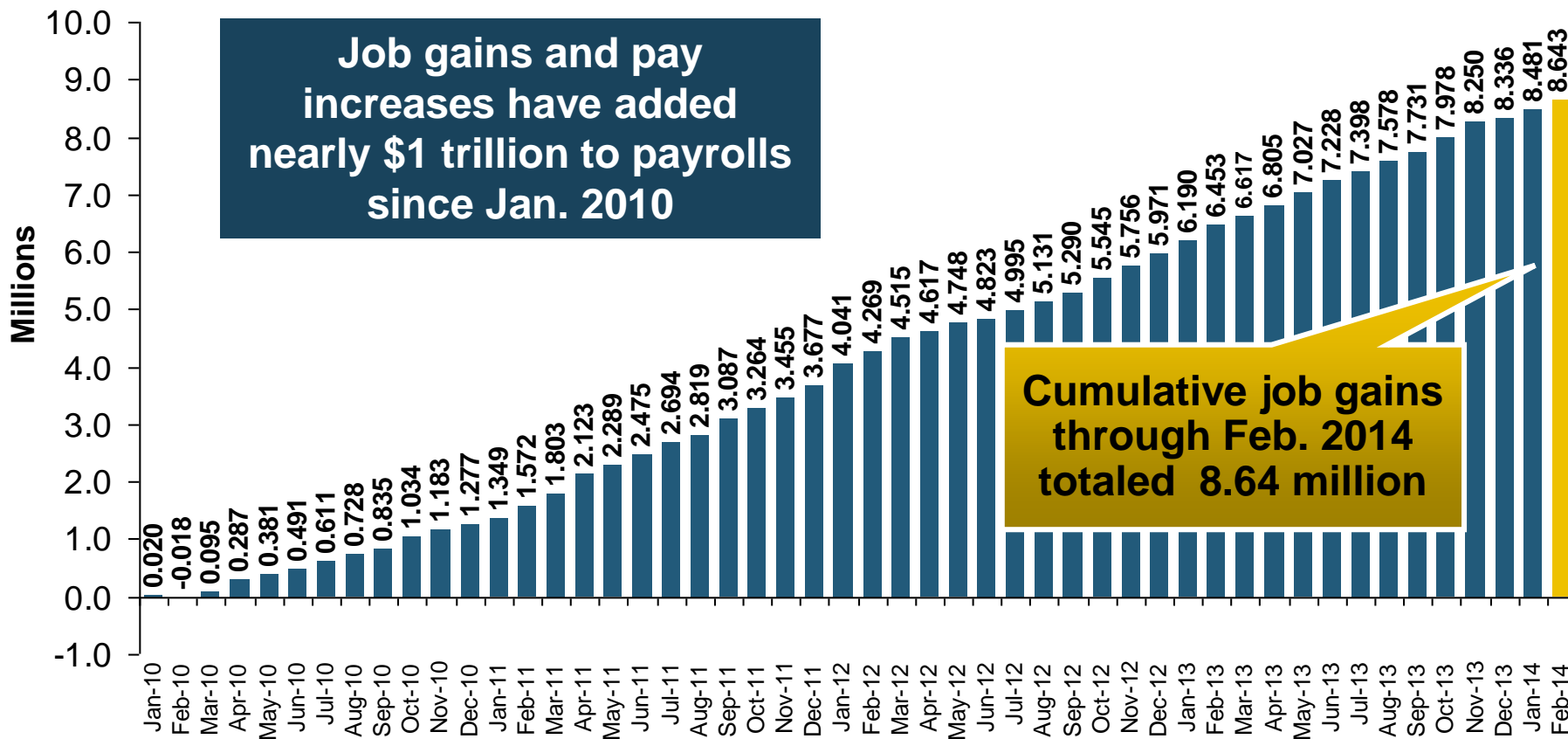
December 2007 through December 2013 (Millions)



Private Employers Added 8.14 million Jobs Since Jan. 2010 After Having Shed 4.98 Million Jobs in 2009 and 3.80 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

Cumulative Change in Private Sector Employment: Jan. 2010—Feb. 2014

January 2010 through February 2014* (Millions)

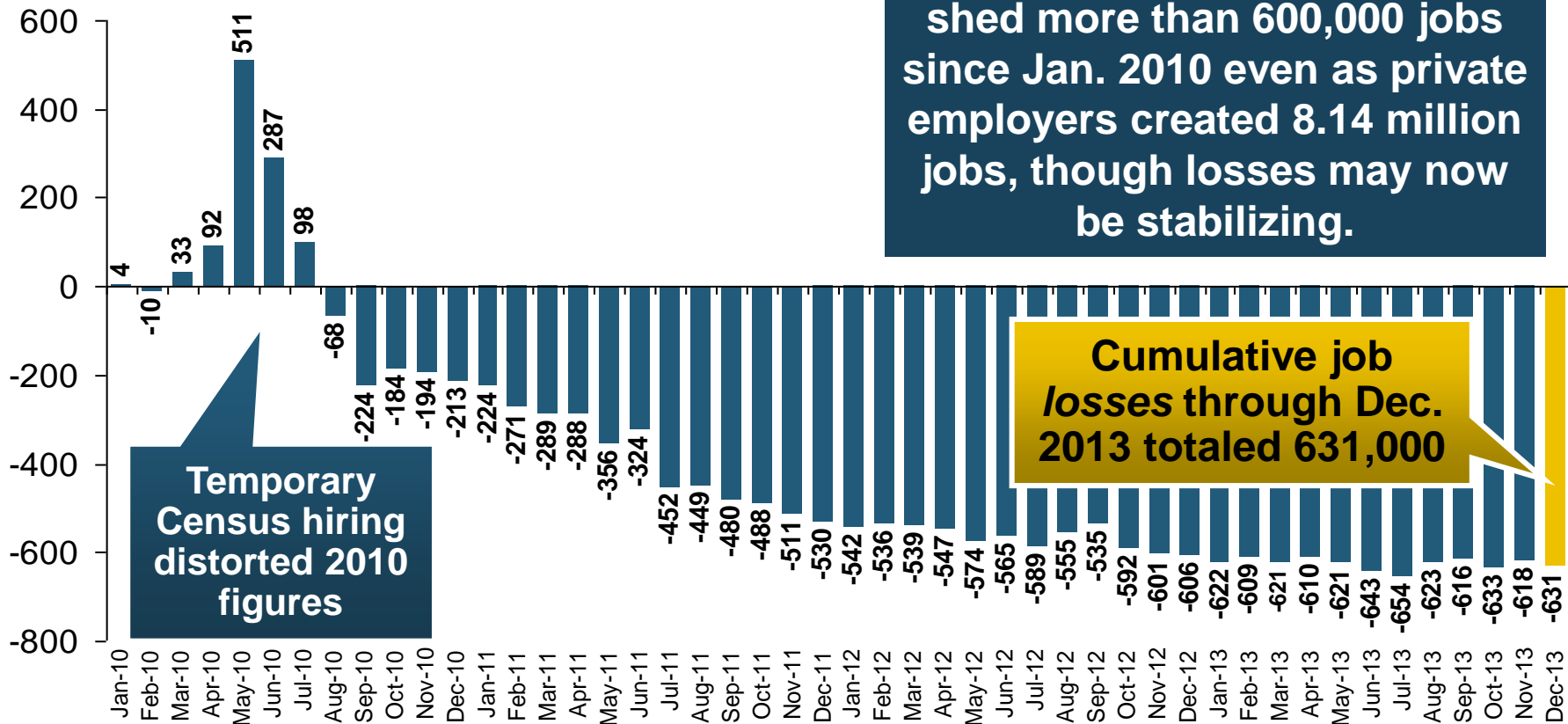


Private Employers Added 8.64 million Jobs Since Jan. 2010 After Having Shed 4.98 Million Jobs in 2009 and 3.80 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

Cumulative Change in Government Employment: Jan. 2010—Dec. 2013

January 2010 through Dec. 2013* (Millions)

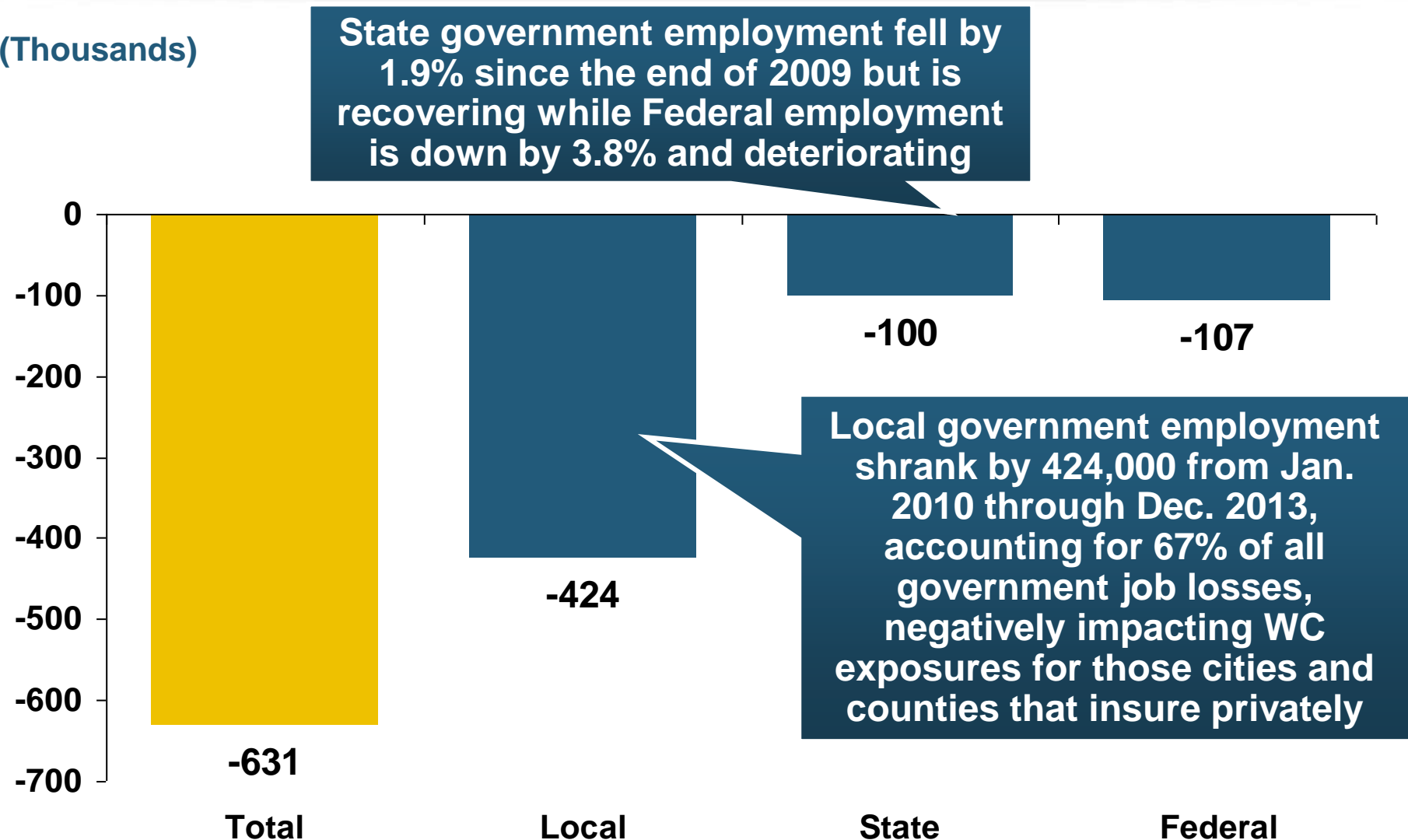
Government at all levels has shed more than 600,000 jobs since Jan. 2010 even as private employers created 8.14 million jobs, though losses may now be stabilizing.



Governments at All Levels are Under Severe Fiscal Strain As Tax Receipts Plunged and Pension Obligations Soared During the Financial Crisis: Sequestration Will Add to this Toll

Net Change in Government Employment: Jan. 2010—Dec. 2013*

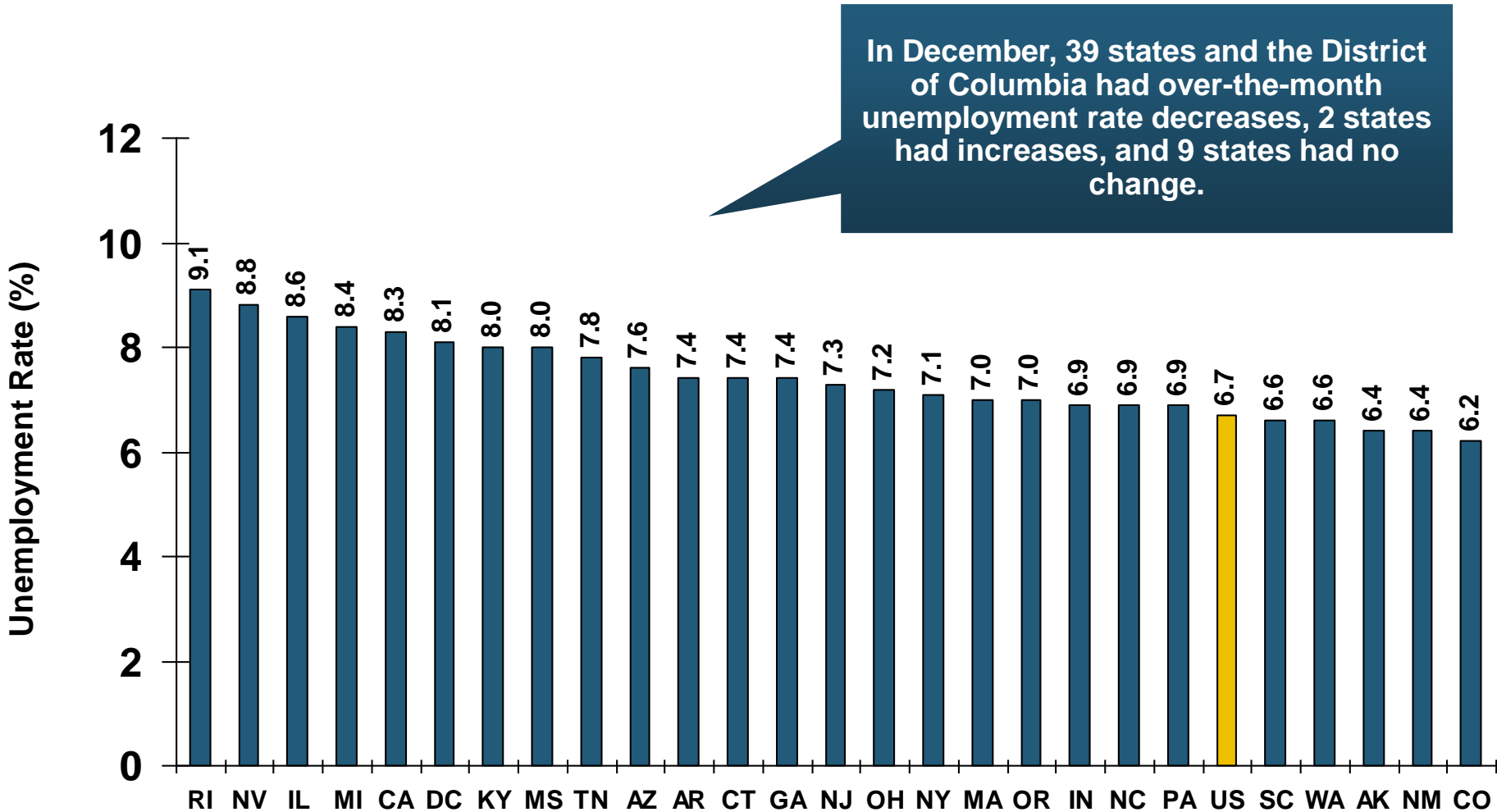
(Thousands)



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

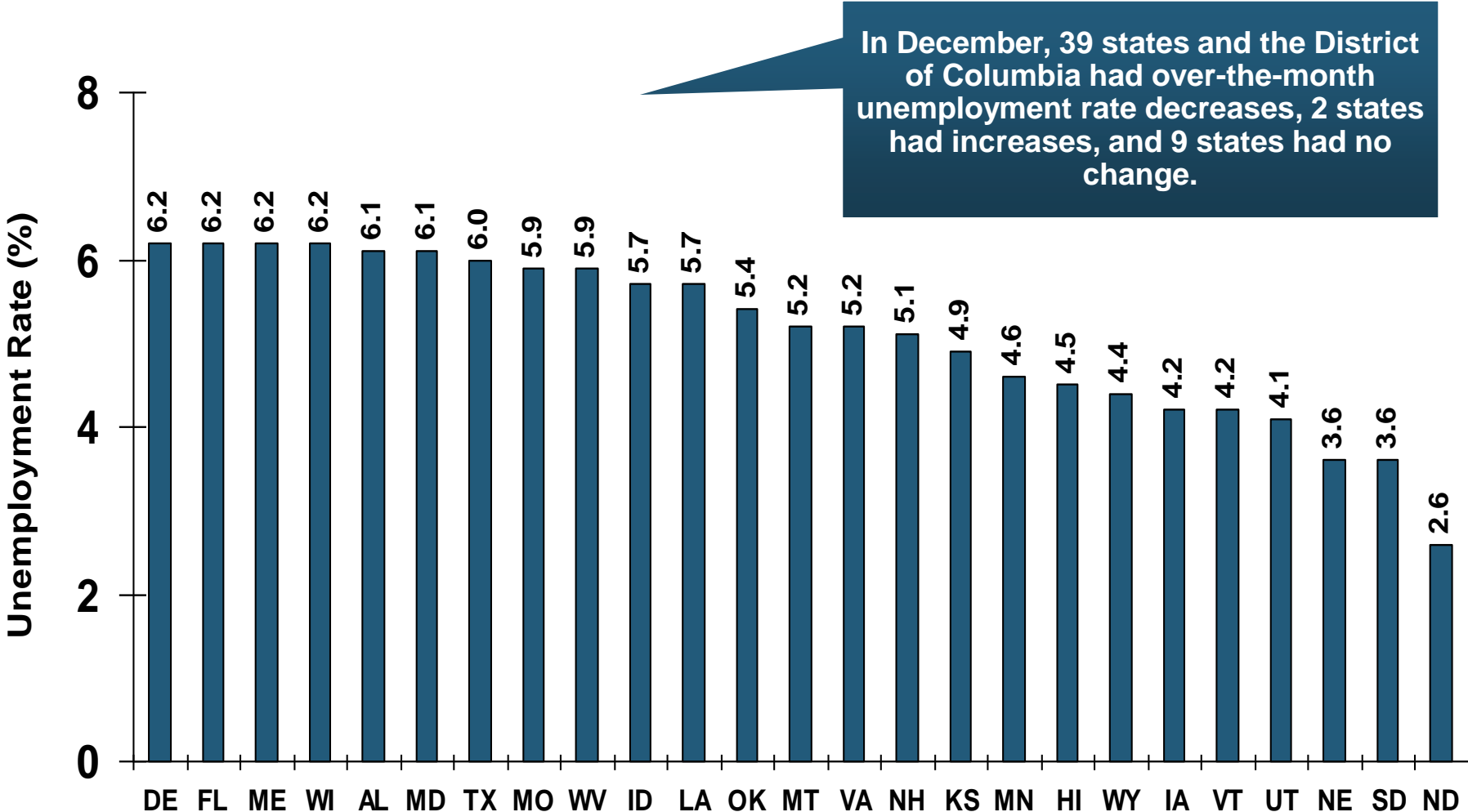
Source: US Bureau of Labor Statistics <http://www.bls.gov/data/#employment>; Insurance Information Institute

Unemployment Rates by State, December 2013: Highest 25 States*



*Provisional figures for December 2013, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Unemployment Rates by State, December 2013: Lowest 25 States*



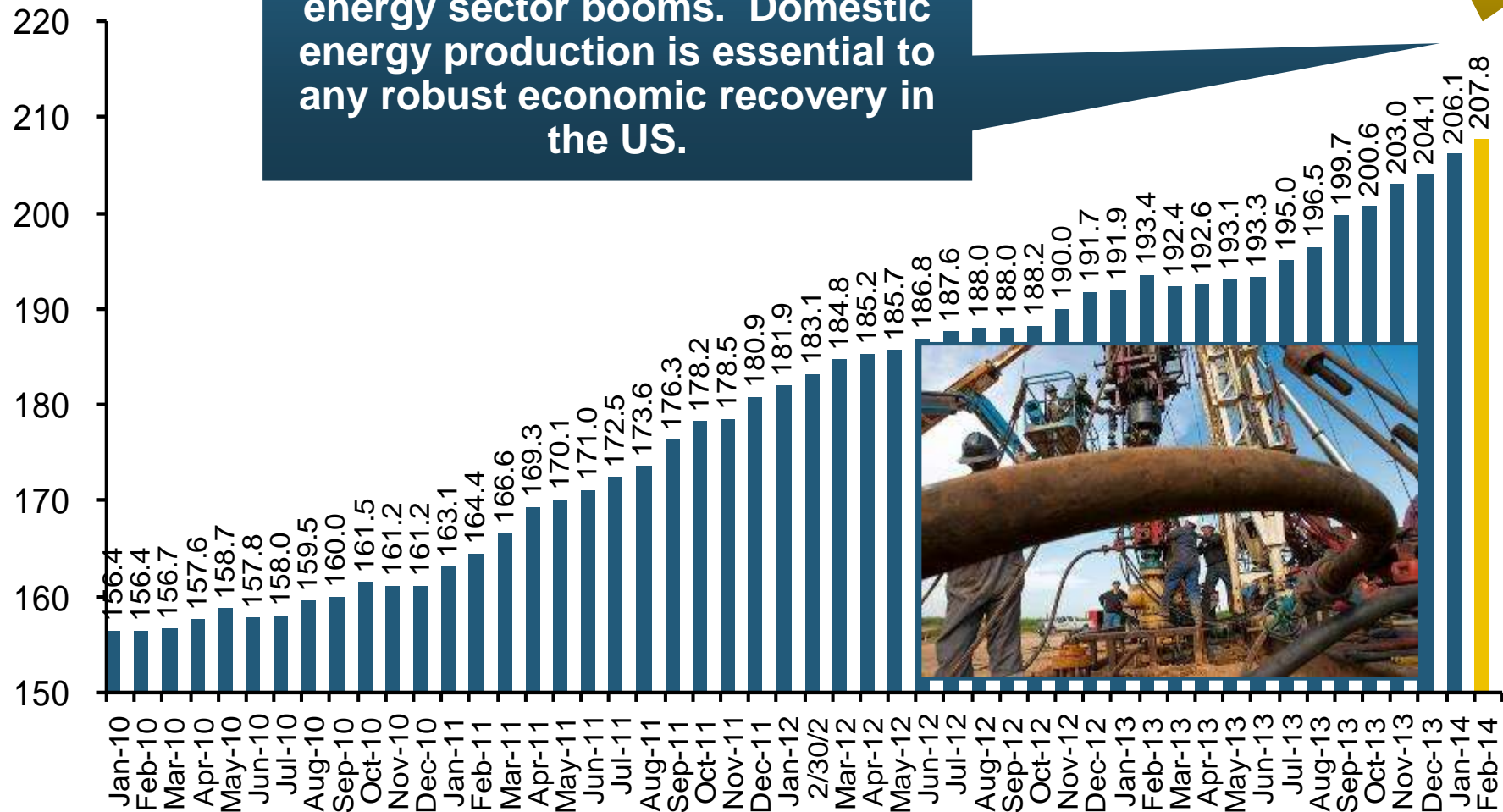
*Provisional figures for December 2013, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Oil & Gas Extraction Employment, Jan. 2010—Feb. 2014*

(Thousands)

Oil and gas extraction employment is up 32.9% since Jan. 2010 as the energy sector booms. Domestic energy production is essential to any robust economic recovery in the US.

Highest since Aug. 1986

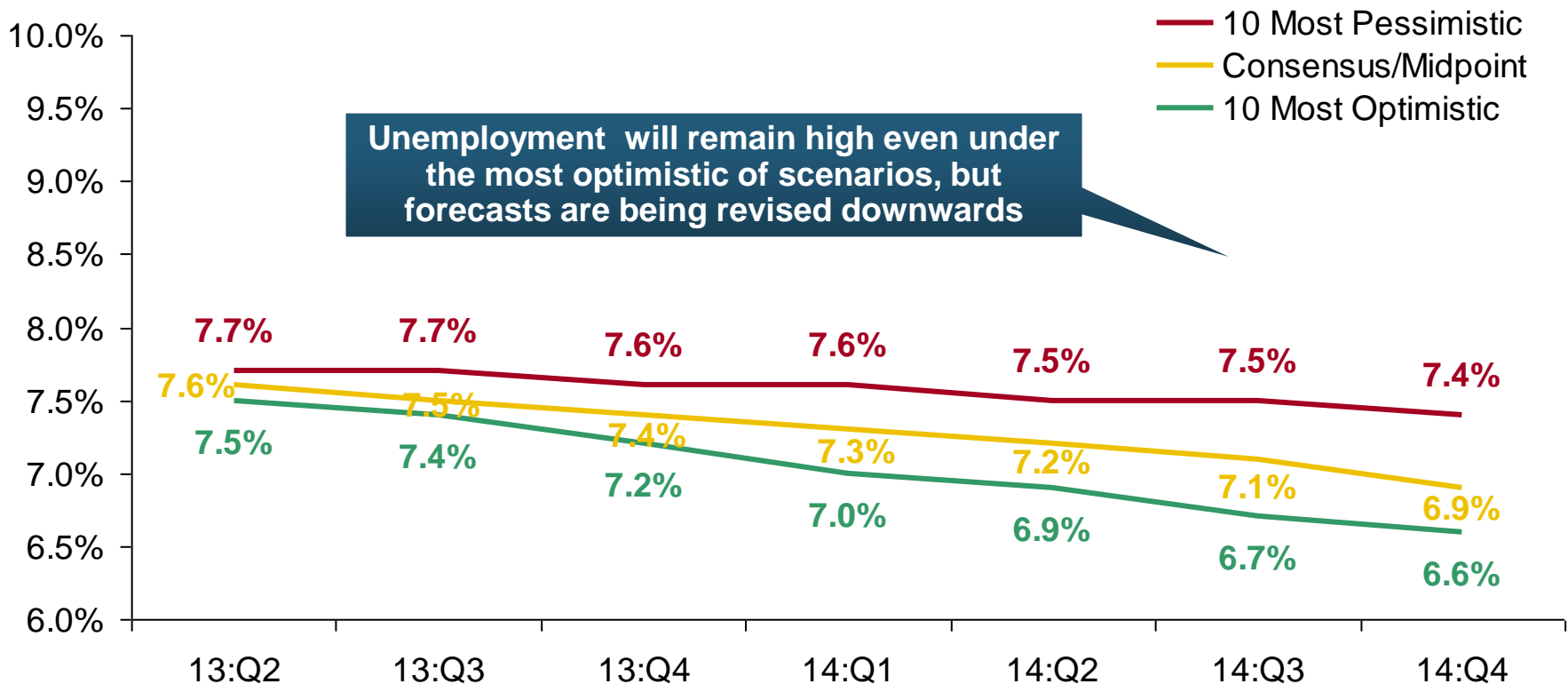


*Seasonally adjusted

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

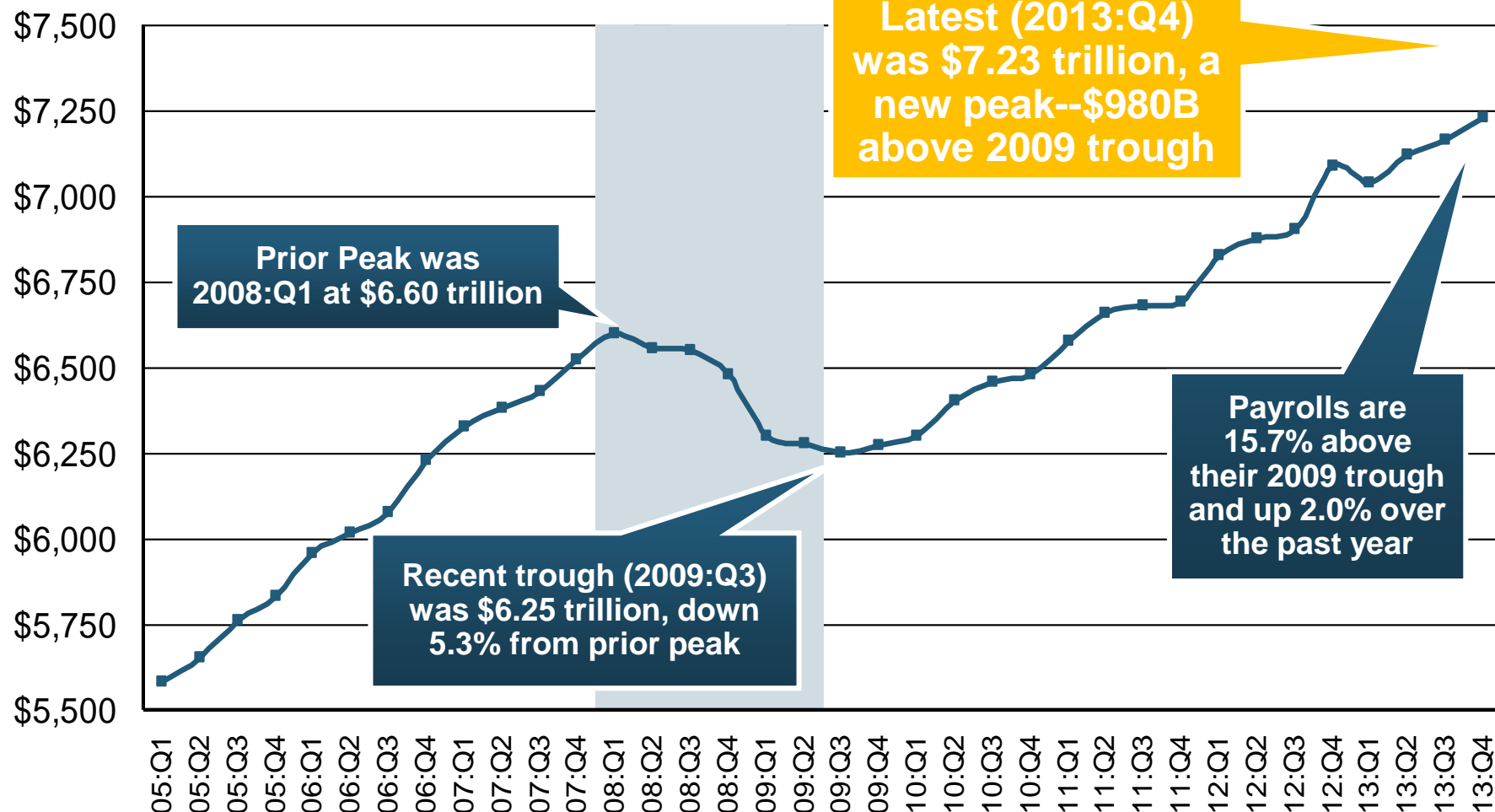
US Unemployment Rate Forecasts

Quarterly, 2013:Q1 to 2014:Q4



Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2013:Q4

Billions



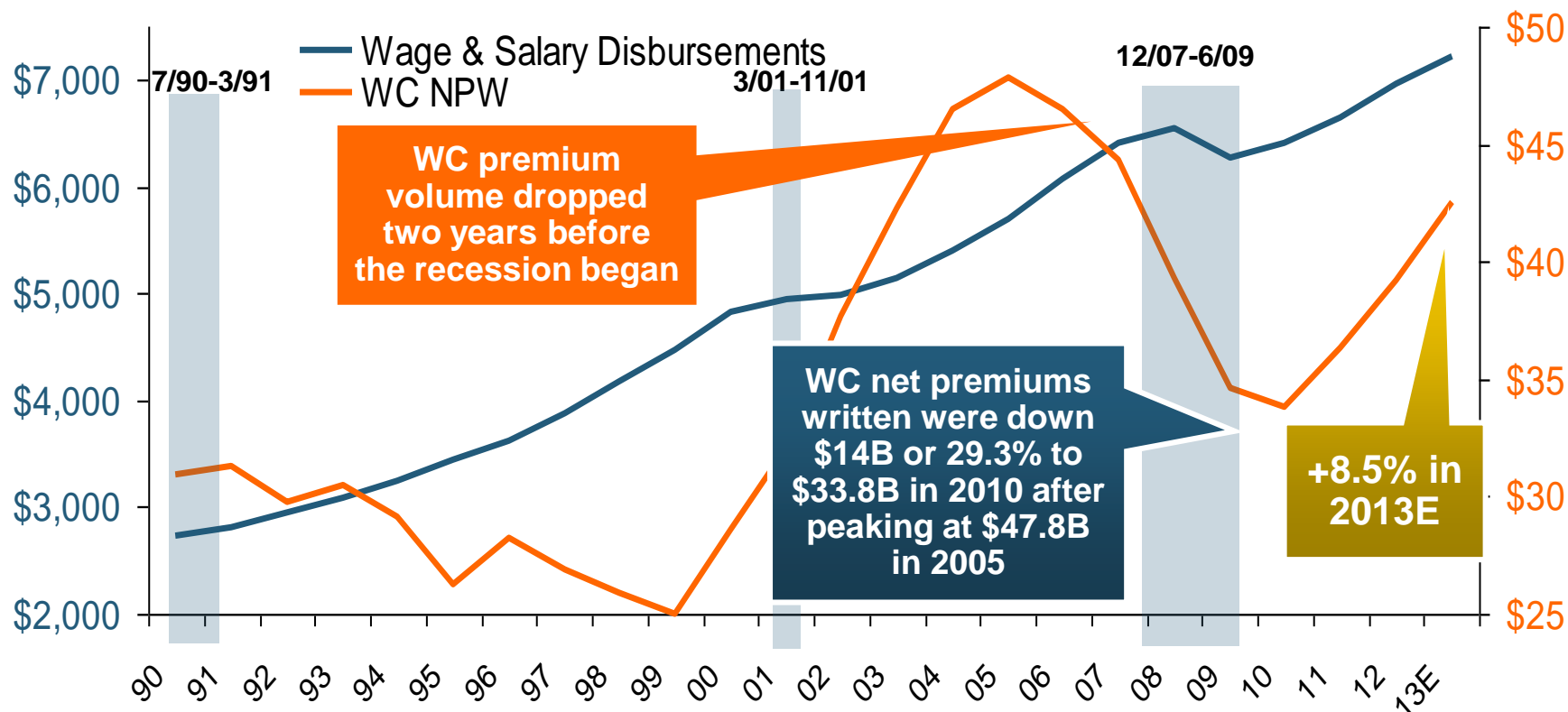
Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

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

Payroll vs. Workers Comp Net Written Premiums, 1990-2013E

Payroll Base*
\$Billions

WC NWP
\$Billions



Continued Payroll Growth and Rate Increases Suggest WC NWP Will Grow Again in 2014; +8.6% Growth Estimated for 2013

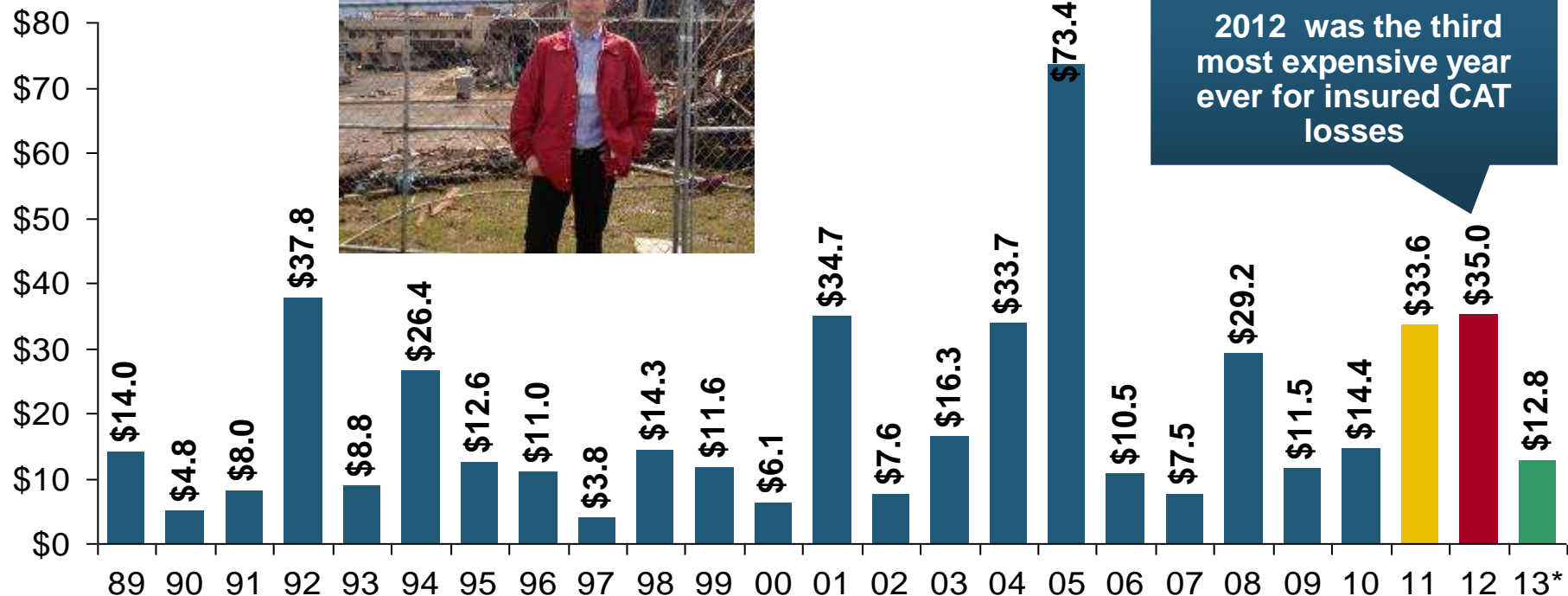
*Private employment; Shaded areas indicate recessions. WC premiums for 2012 are I.I.I. estimate based YTD 2013 actuals.
Sources: NBER (recessions); Federal Reserve Bank of St. Louis at <http://research.stlouisfed.org/fred2/series/WASCUR> ; NCCI; I.I.I.

U.S. Insured Catastrophe Loss Update

**2013 Was a Welcome Respite from the
High Catastrophe Losses in Recent Years**

U.S. Insured Catastrophe Losses

(\$ Billions, \$ 2012)



2012 was the third most expensive year ever for insured CAT losses

2012 Was the 3rd Highest Year on Record for Insured Losses in U.S. History on an Inflation-Adj. Basis. 2011 Losses Were the 6th Highest. YTD 2013 Running Well Below 2011 and 2012 YTD Totals.

Record tornado losses caused 2011 CAT losses to surge

*Through 12/31/13.

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.

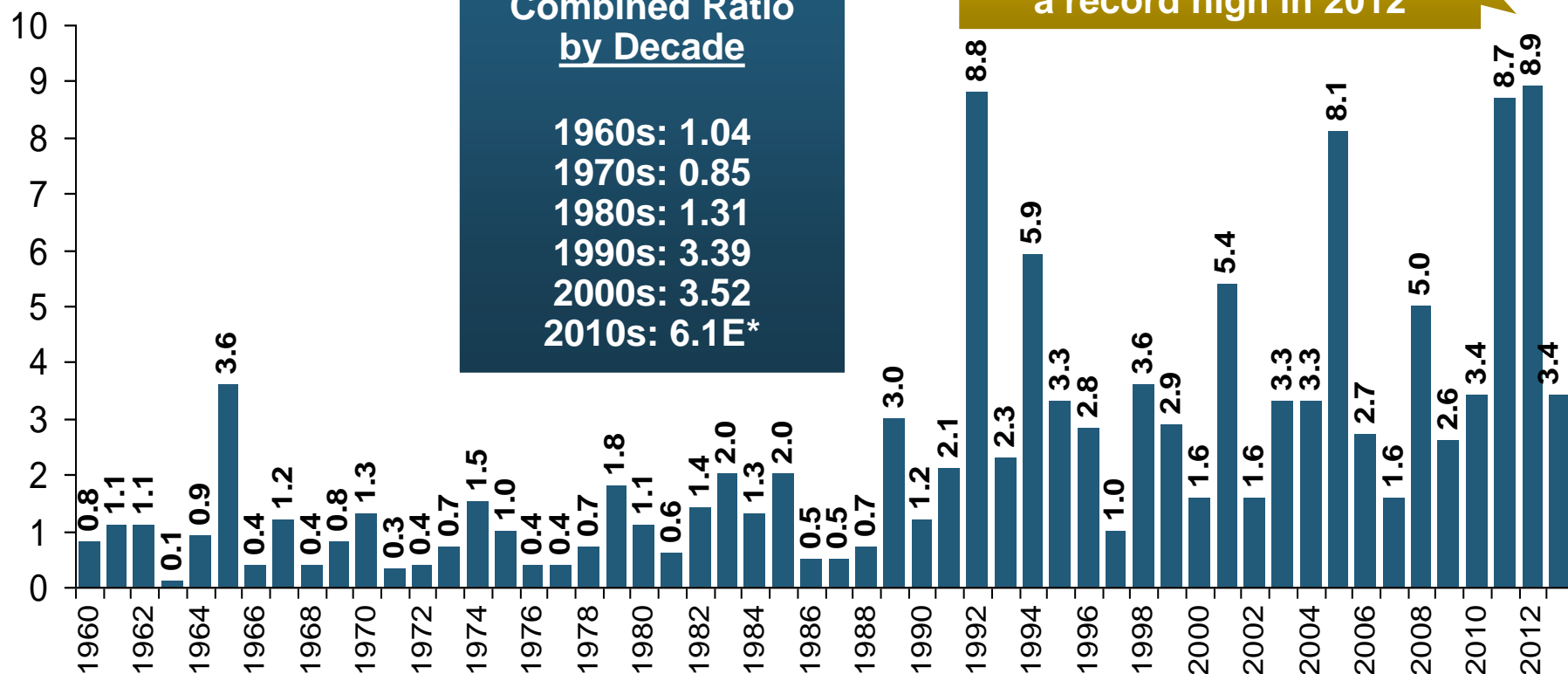
Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2013*

Combined Ratio Points

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

1960s: 1.04
1970s: 0.85
1980s: 1.31
1990s: 3.39
2000s: 3.52
2010s: 6.1E*

Catastrophe losses as a share of all losses reached a record high in 2012



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

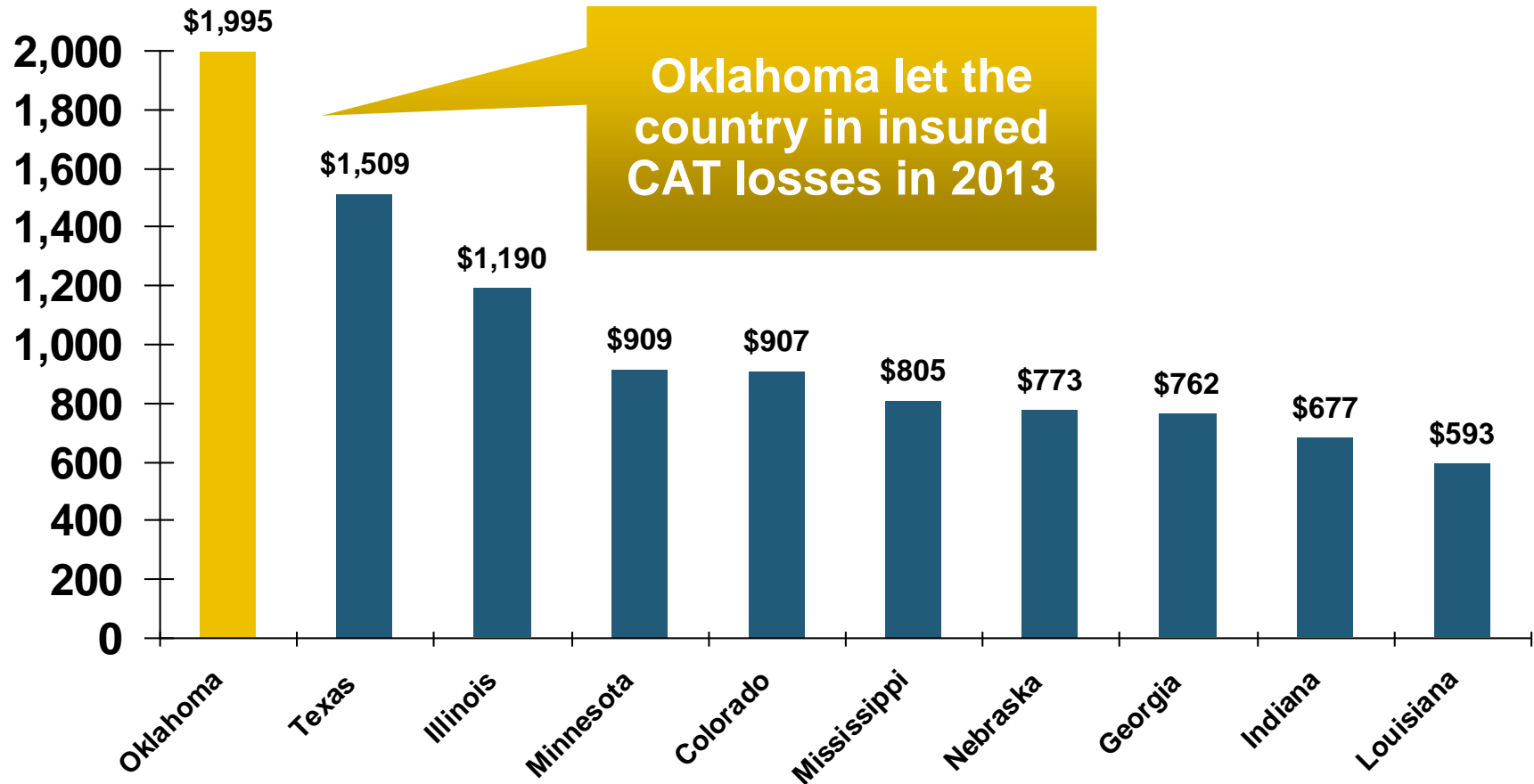
*2010s represent 2010-2013.

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 (1960-2011); A.M. Best (2012E) Insurance Information Institute.

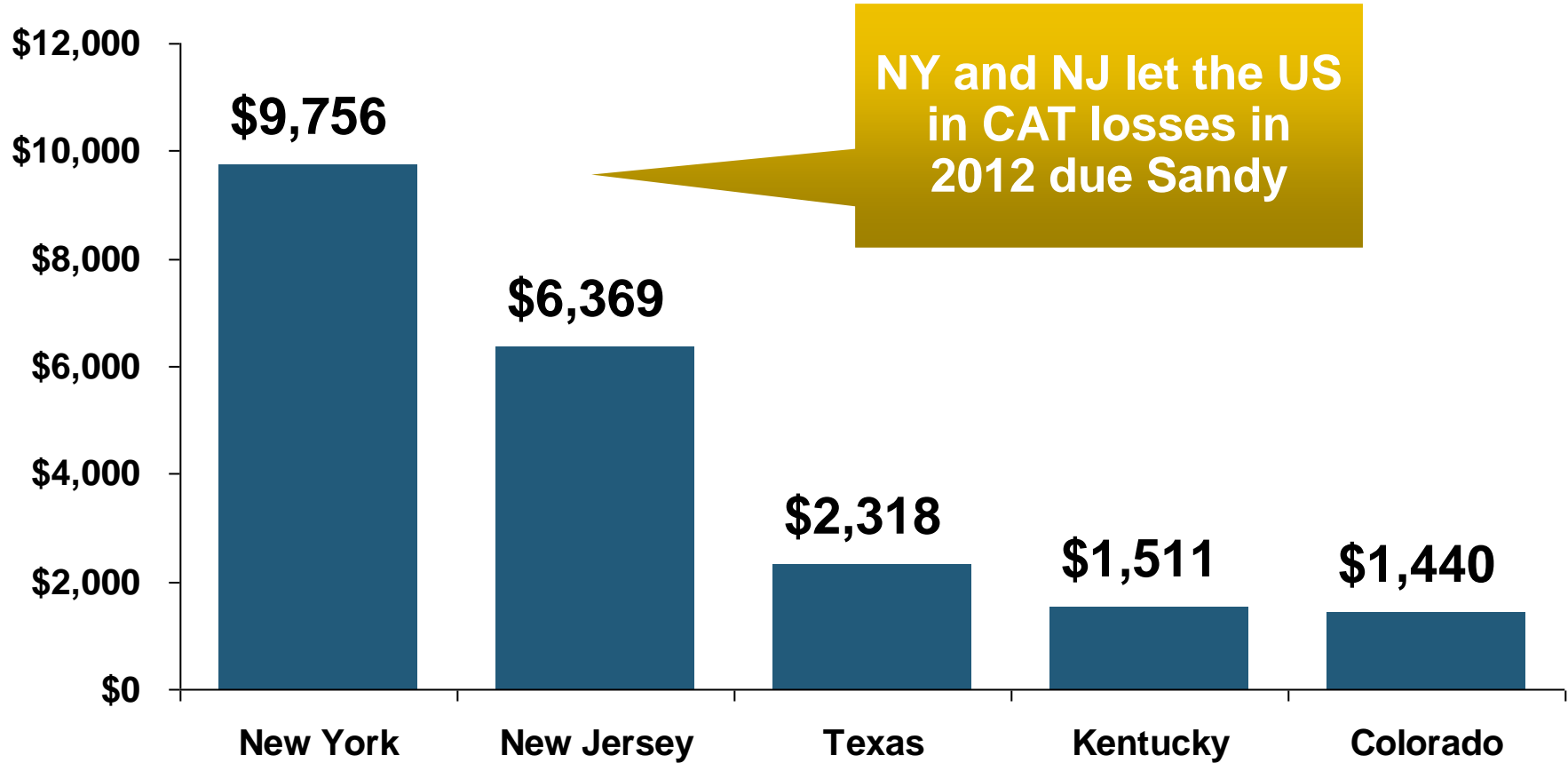
Top 10 States for Insured Catastrophe Losses, 2013

\$ Millions



Top 5 States by Insured Catastrophe Losses in 2012*

(2012, \$ Billions)



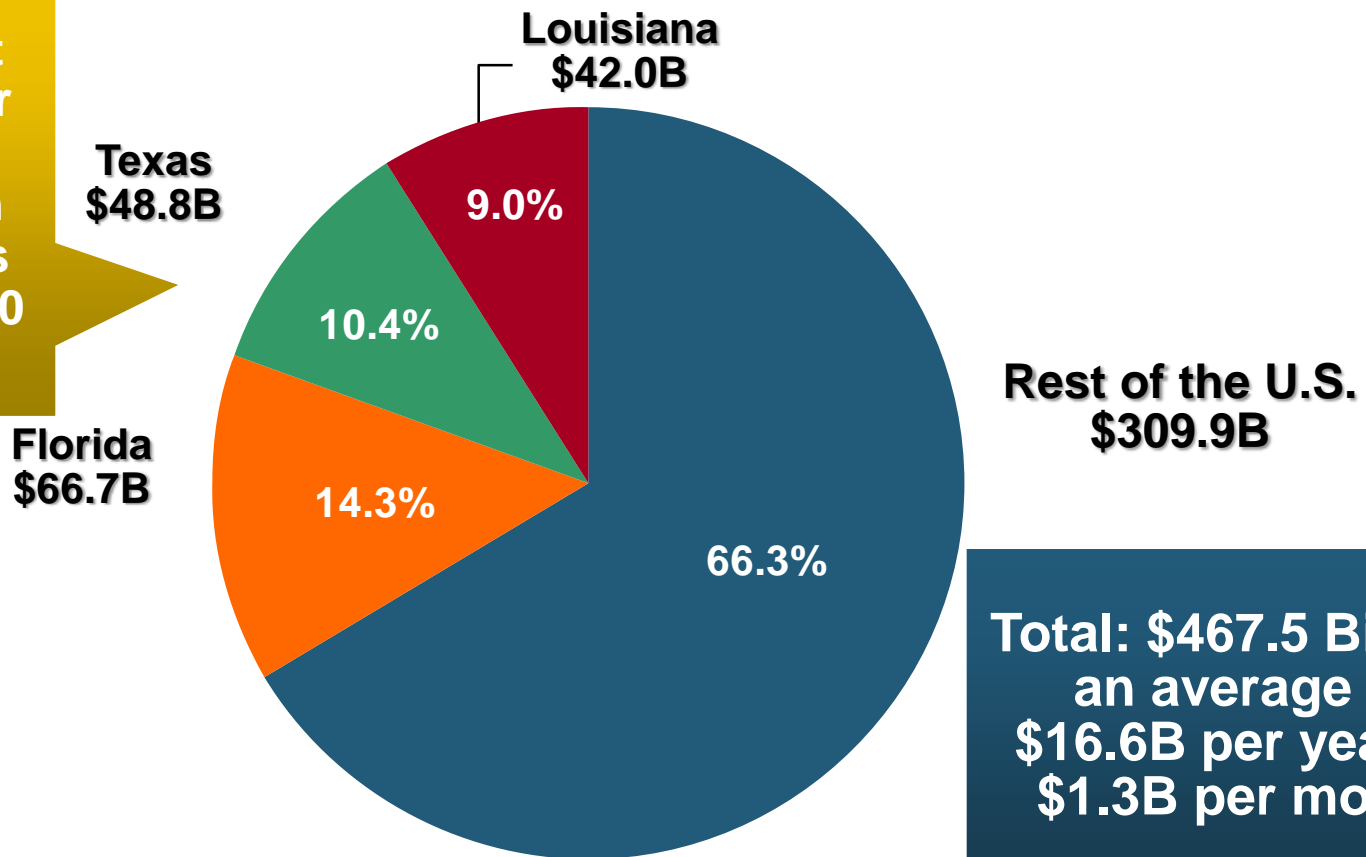
*Includes catastrophe losses of at least \$25 million.

Sources: PCS unit of ISO; Insurance Information Institute.

Top States by Inflation-Adjusted Insured Catastrophe Losses, 1983–2012

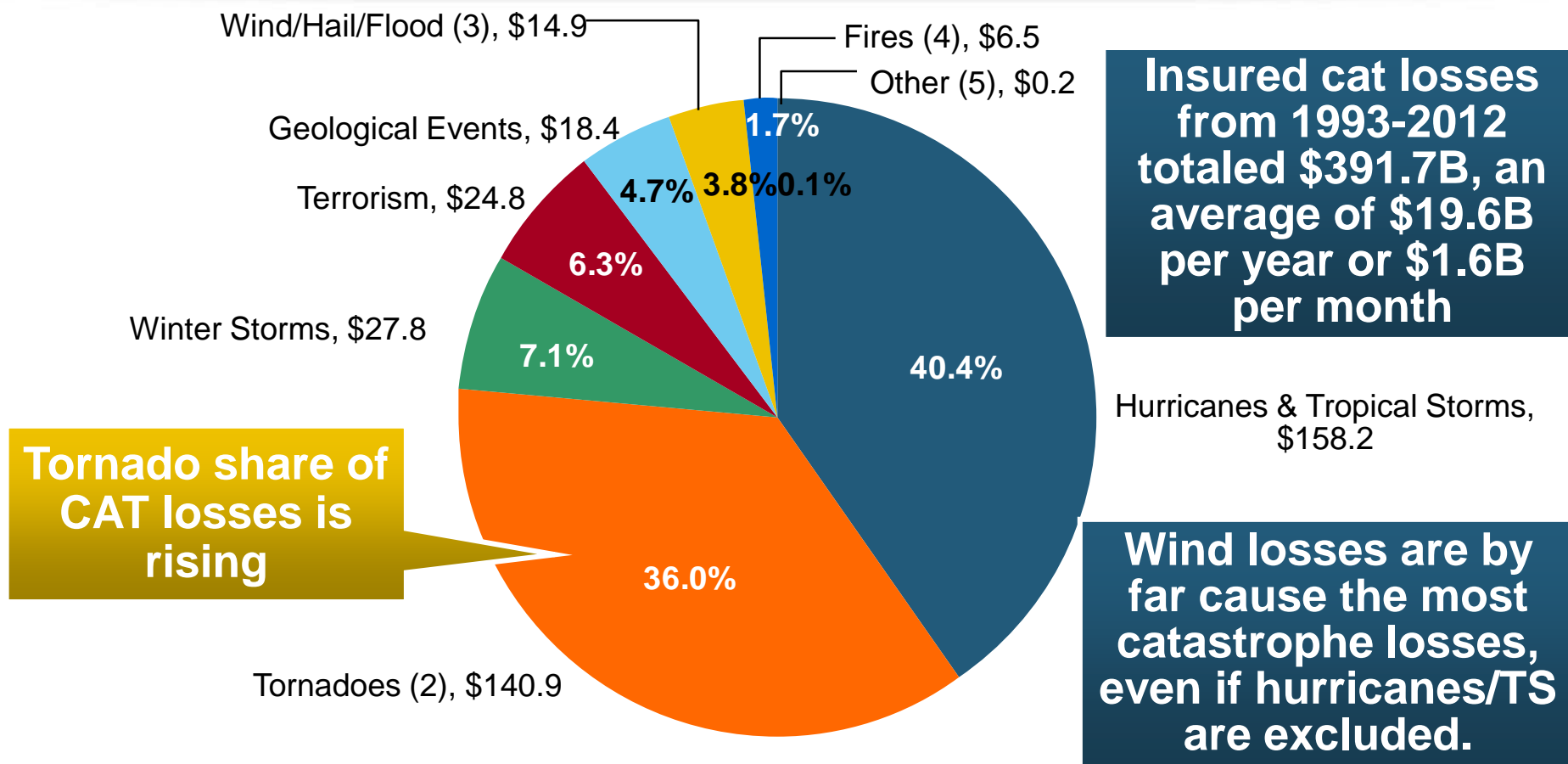
Over the Past 30 Years Florida Has Accounted for the Largest Share of Catastrophe Losses in the U.S., Followed by Texas and Louisiana

FL is the most costly state for CATs, with nearly \$67B in insured losses over the past 30 years



Total: \$467.5 Billion,
an average of
\$16.6B per year or
\$1.3B per month

Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1993–2012¹

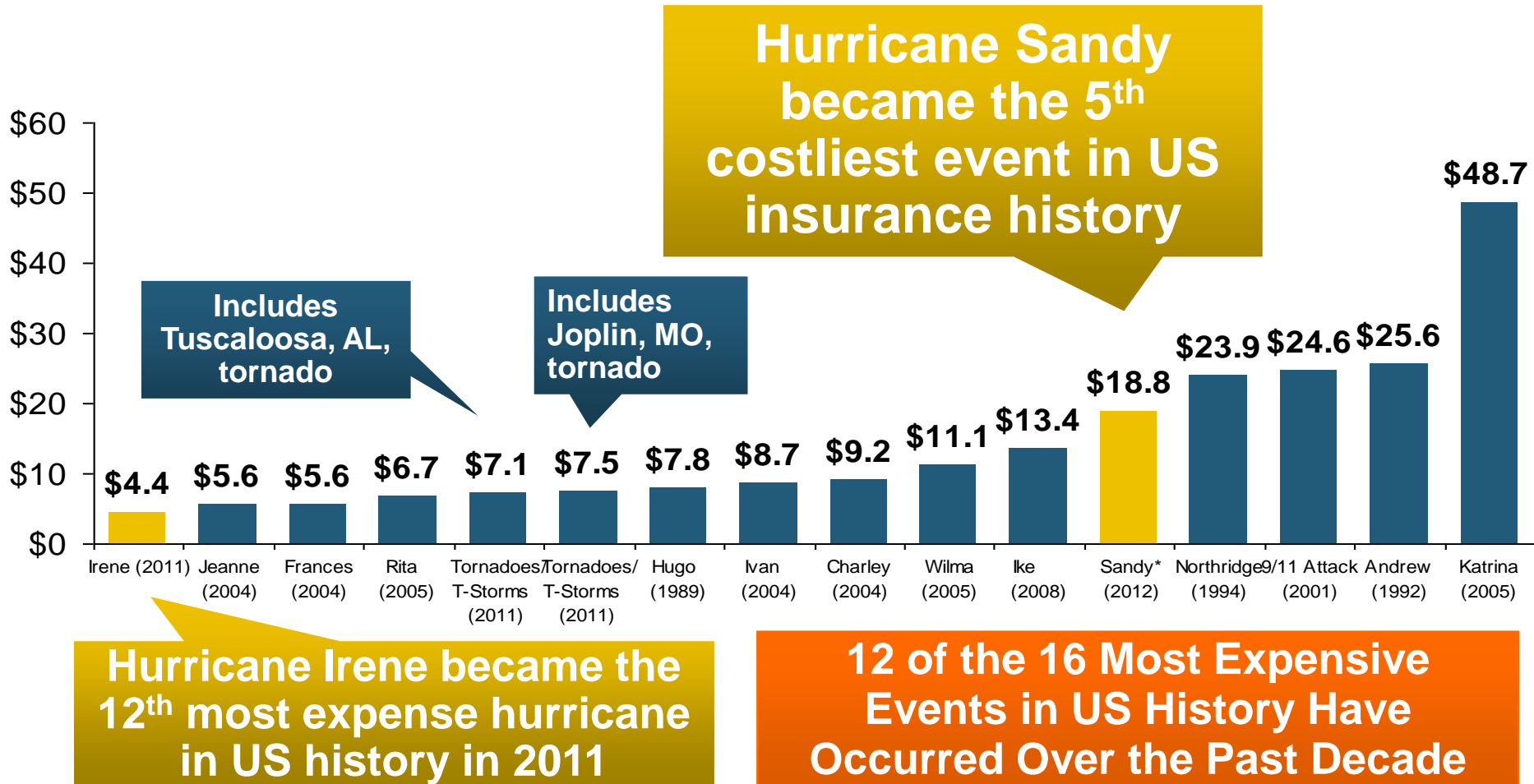


1. Catastrophes are defined as events causing direct insured losses to property of \$25 million or more in 2012 dollars.
2. Excludes snow.
3. Does not include NFIP flood losses
4. Includes wildland fires
5. Includes civil disorders, water damage, utility disruptions and non-property losses such as those covered by workers compensation.

Source: ISO's Property Claim Services Unit.

Top 16 Most Costly Disasters in U.S. History

(Insured Losses, 2012 Dollars, \$ Billions)



*PCS estimate as of 4/12/13.

Sources: PCS; Insurance Information Institute inflation adjustments to 2012 dollars using the CPI.

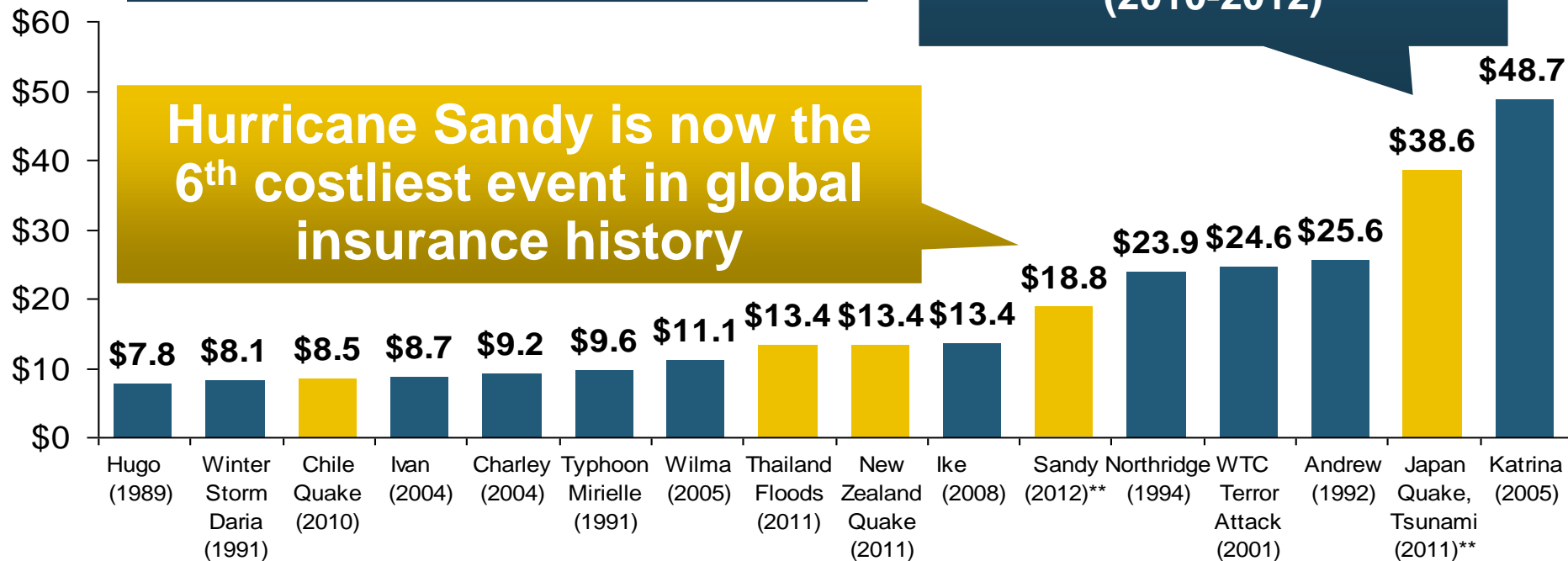
Top 16 Most Costly World Insurance Losses, 1970-2013*

(Insured Losses, 2012 Dollars, \$ Billions)

2012 insured CAT Losses totaled \$60B; Economic losses totaled \$140B, according to Swiss Re

5 of the top 14 most expensive catastrophes in world history have occurred within the past 3 years (2010-2012)

Hurricane Sandy is now the 6th costliest event in global insurance history



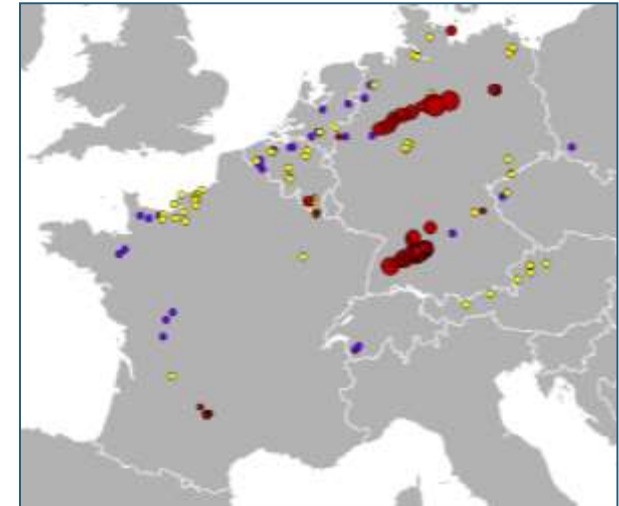
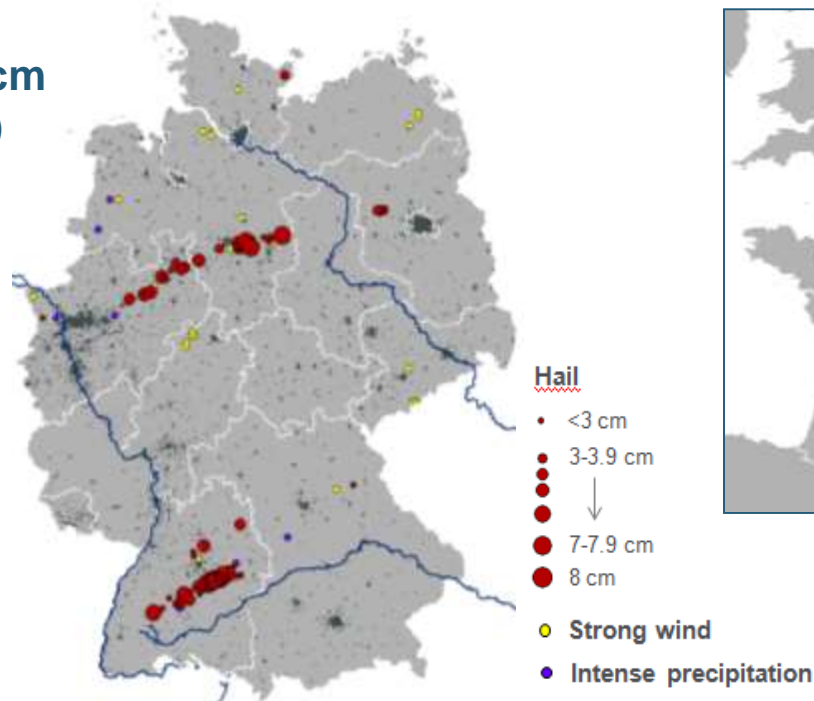
*Figures do not include federally insured flood losses.

**Estimate based on PCS value of \$18.75B as of 4/12/13.

Sources: Munich Re; Swiss Re; Insurance Information Institute research.

Hailstorm on July 27-28 in Germany Was Most Expensive CAT Worldwide in 2013!

Hailstones with
diameters up to 8 cm
(tennis ball \approx 7 cm)

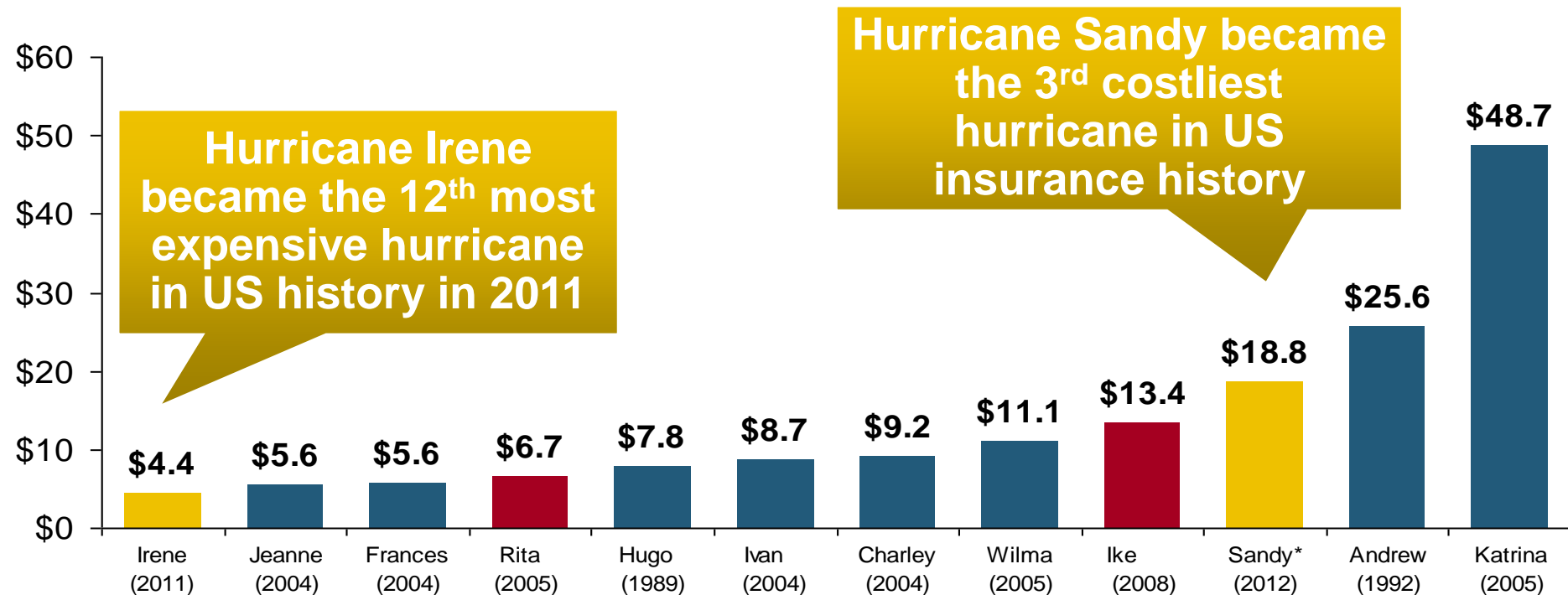


Region	Overall losses	Insured losses	Fatalities
Southwestern and Northern Germany	US\$ 4.8bn	US\$ 3.7bn	0

Top 12 Most Costly Hurricanes in U.S. History

(Insured Losses, 2012 Dollars, \$ Billions)

10 of the 12 most costly hurricanes in insurance history occurred over the past 9 years (2004—2012)

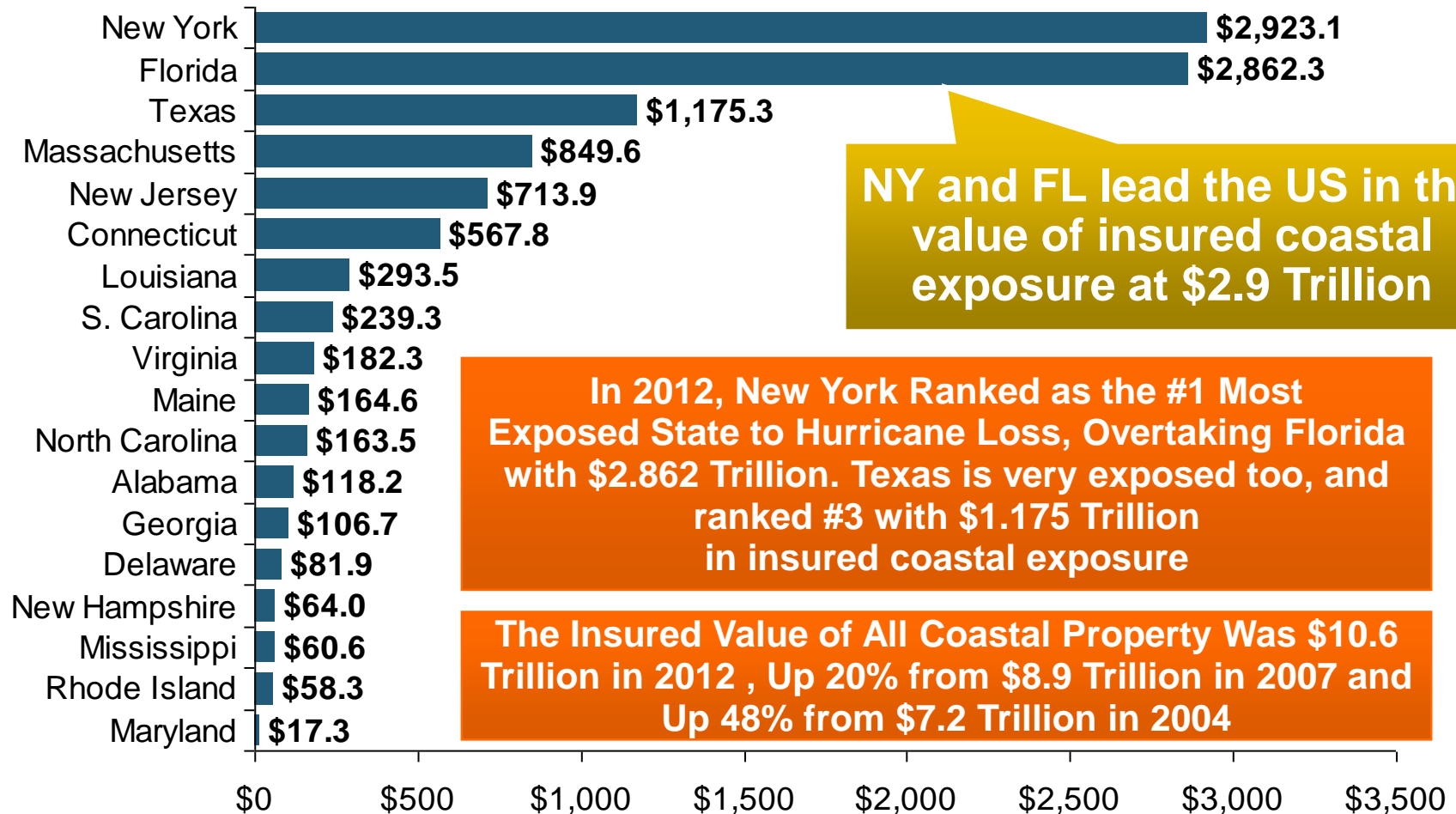


*PCS estimate as of 4/12/13.

Sources: PCS; Insurance Information Institute inflation adjustments to 2012 dollars using the CPI.

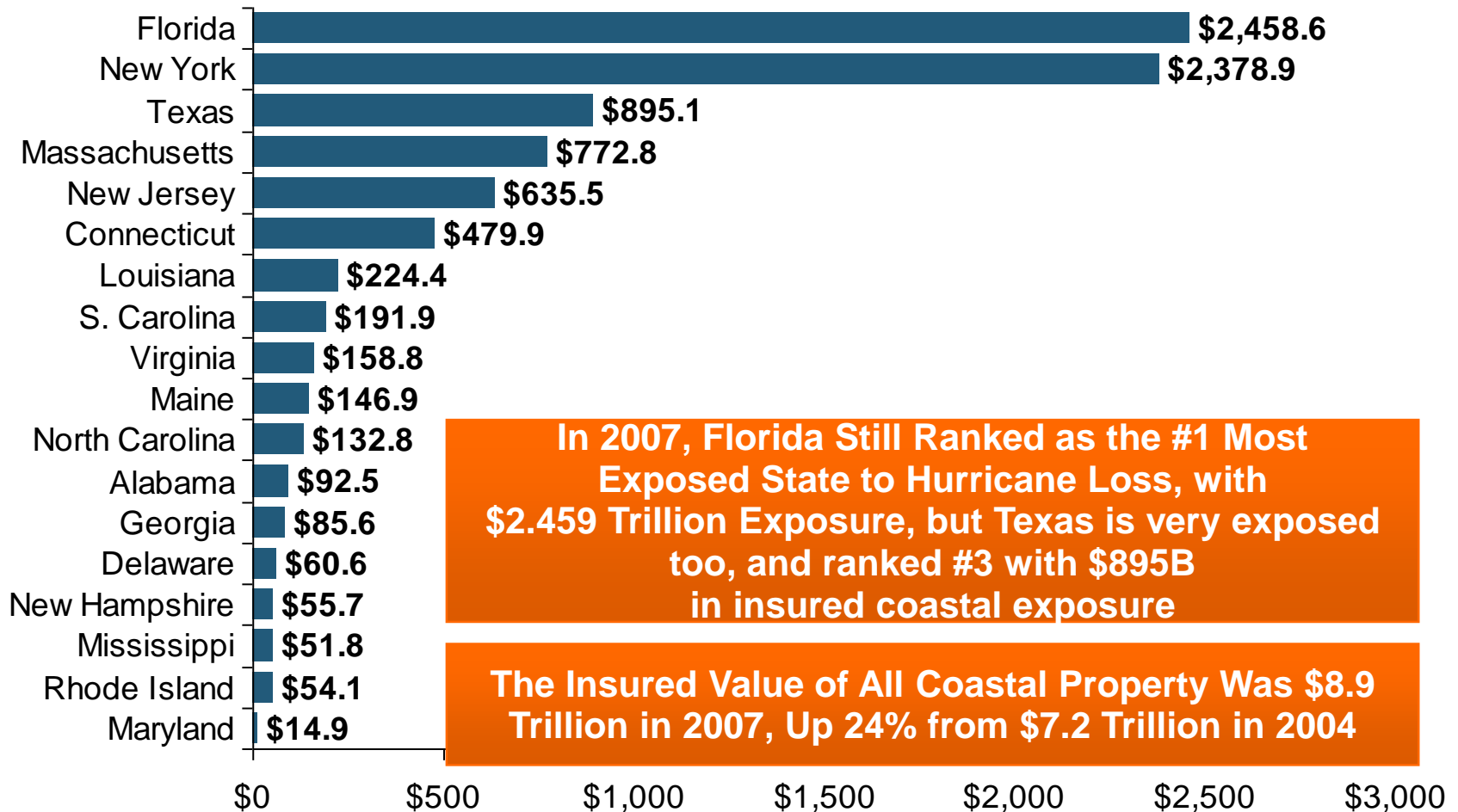
Total Value of Insured Coastal Exposure in 2012

(2012, \$ Billions)

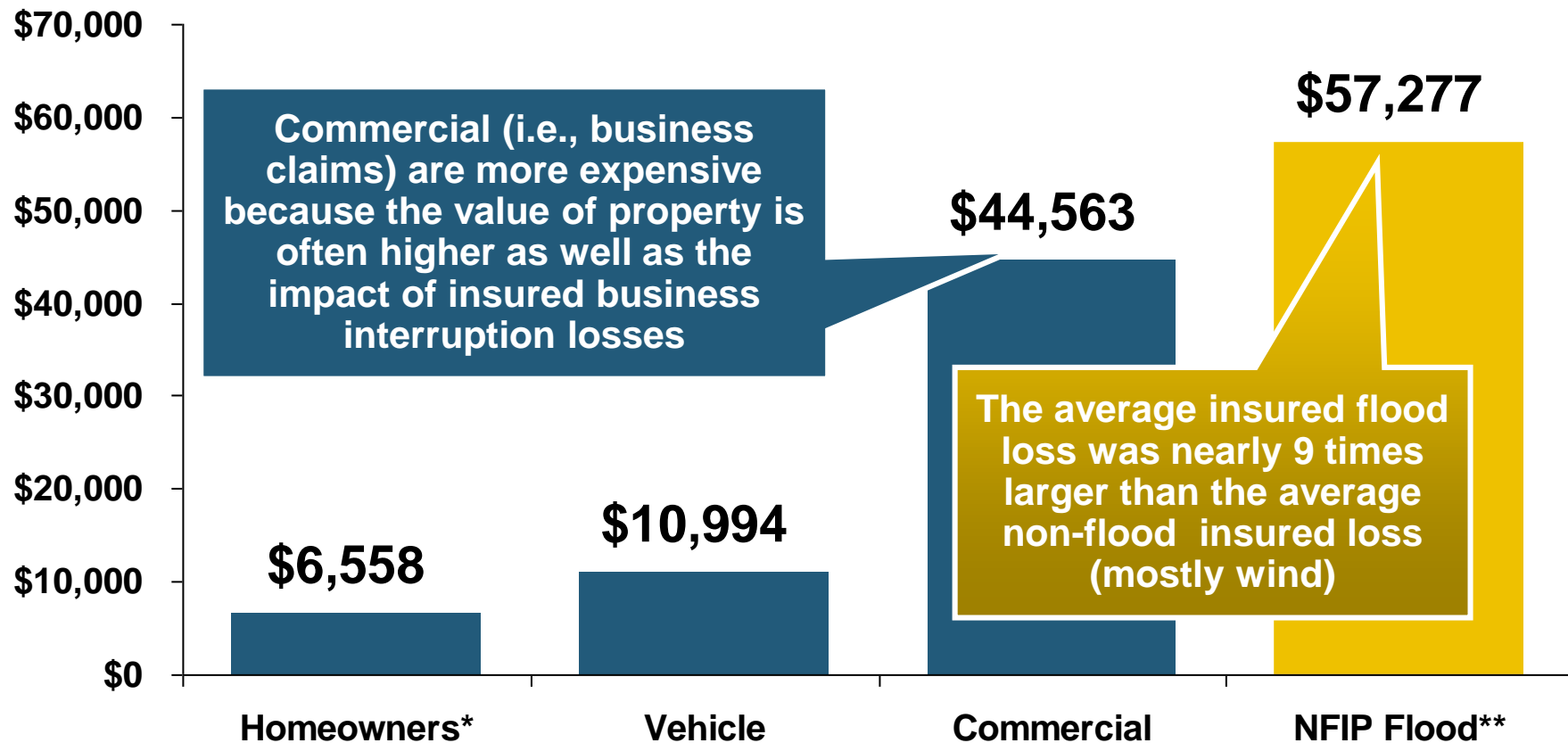


Total Value of Insured Coastal Exposure in 2007

(2007, \$ Billions)



Hurricane Sandy: Average Claim Payment by Type of Claim



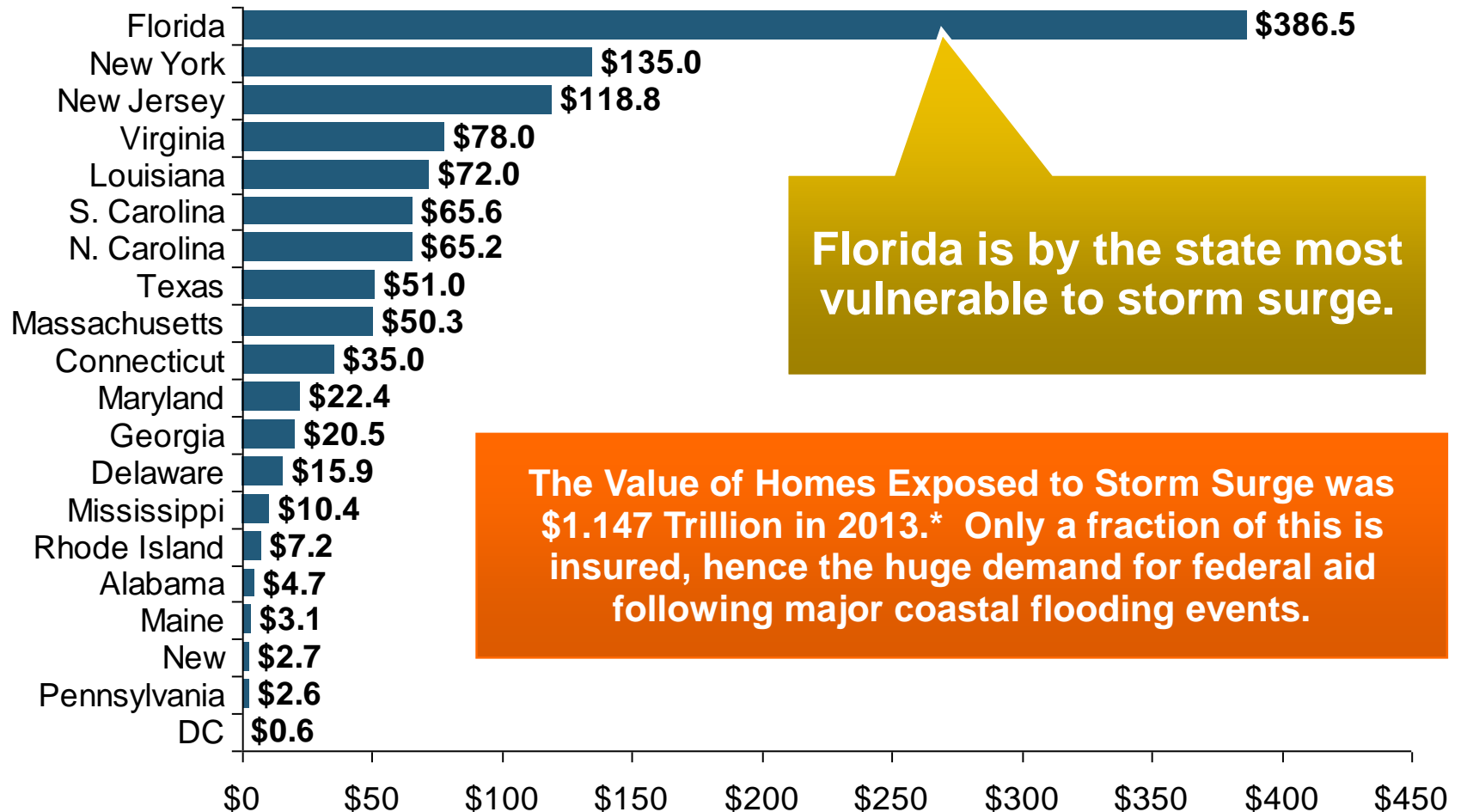
Post-Sandy, the I.I.I. worked very hard to make help media, consumers and regulators understand the distinction between a flood claim and a standard homeowners claim. *NFIP is \$24B in debt.*

*Includes rental and condo policies (excludes NFIP flood). **As of Oct. 31, 2013.

Sources: Catastrophe loss data is for Catastrophe Serial No. 90 (Oct. 28 – 31, 2012) from PCS as of March 2013; Insurance Information Institute.

Total Potential Home Value Exposure to Storm Surge Risk in 2013*

(\$ Billions)



*Insured and uninsured property. Based on estimated property values as of April 2013.

Source: *Storm Surge Report 2013*, CoreLogic.

Top 10 Winter Storm and Winter Damage Events in the US and Canada, 1980-2013*



Ranked by Insured Loss, in Millions of \$ 2013*

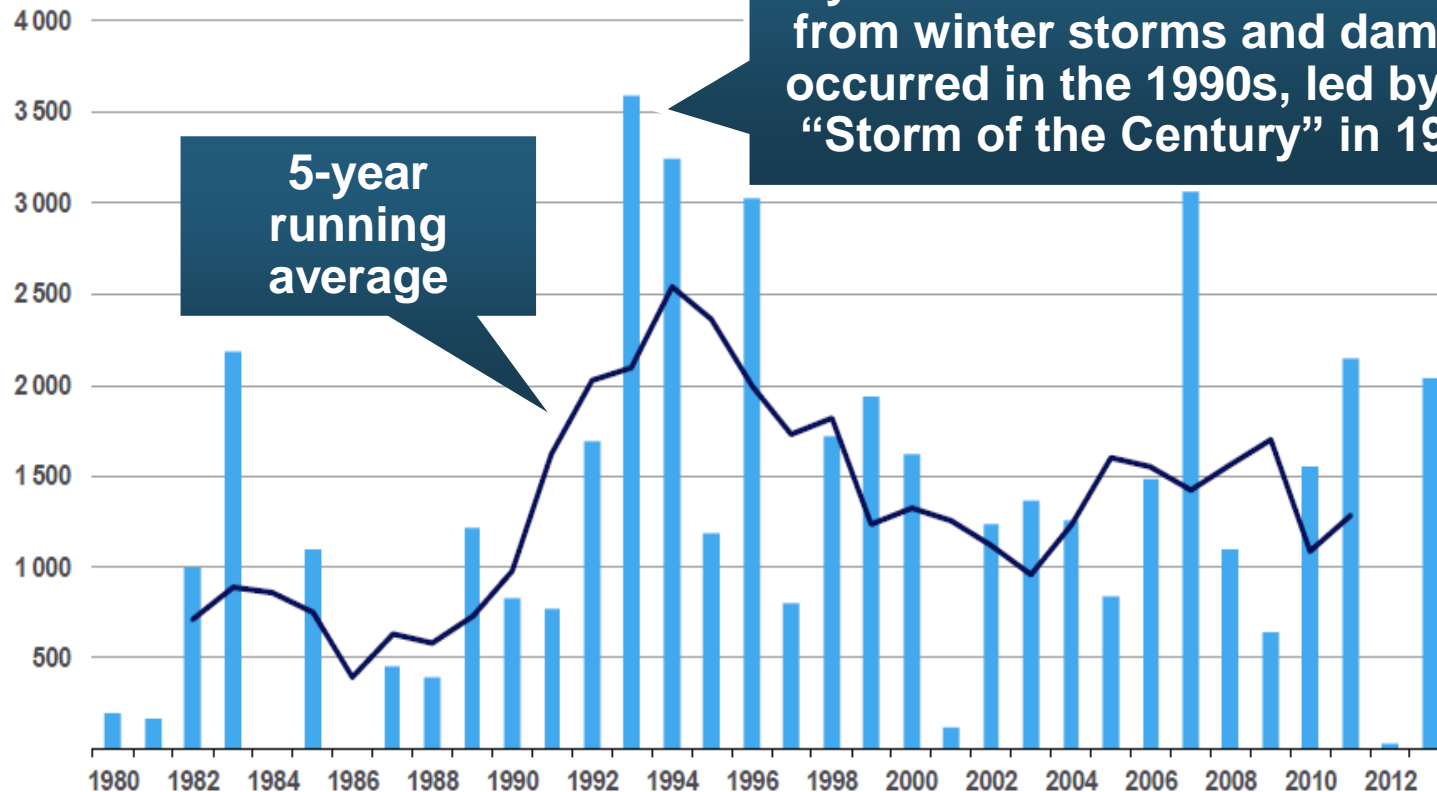
Period	Area	Economic Loss (in inflation-adjusted 2013 \$US mill)	Insured Loss (in inflation-adjusted 2013 \$US mill)	Fatalities
Mar. 11-14, 1993	CAN, USA	8,061	3,224	270
Dec. 17-30, 1983	USA	2,339	2,058	500
Apr. 13-17, 2007	CAN, USA	2,247	1,775	23
Dec. 10-13, 1992	USA	4,981	1,660	19
Jan. 5-12, 1998	CAN, USA	4,145	1,644	45
Feb. 10-12, 1994	USA	4,716	1,258	9
Jan. 17-20, 1994	USA	1,572	1,258	70
Apr. 7-11, 2013	USA	1,600	1,200	N/A
Jan. 1-4, 1999	CAN, USA	1,398	1,084	25
Jan. 31-Feb. 2, 2011	USA	1,346	1,010	36

*Top 10 events in original insured loss dollars were adjusted to and ranked by the Insurance Information Institute to 2013 inflation-adjusted values.

Sources: Munich Re NatCatSERVICE; Insurance Information Institute.

Winter Storm and Winter Damage Events in the US and Canada, 1980-2013 (2013 US\$)

Insured Losses (Millions, \$ 2013)



Three of the four most costly years ever for insured losses from winter storms and damage occurred in the 1990s, led by the “Storm of the Century” in 1993.

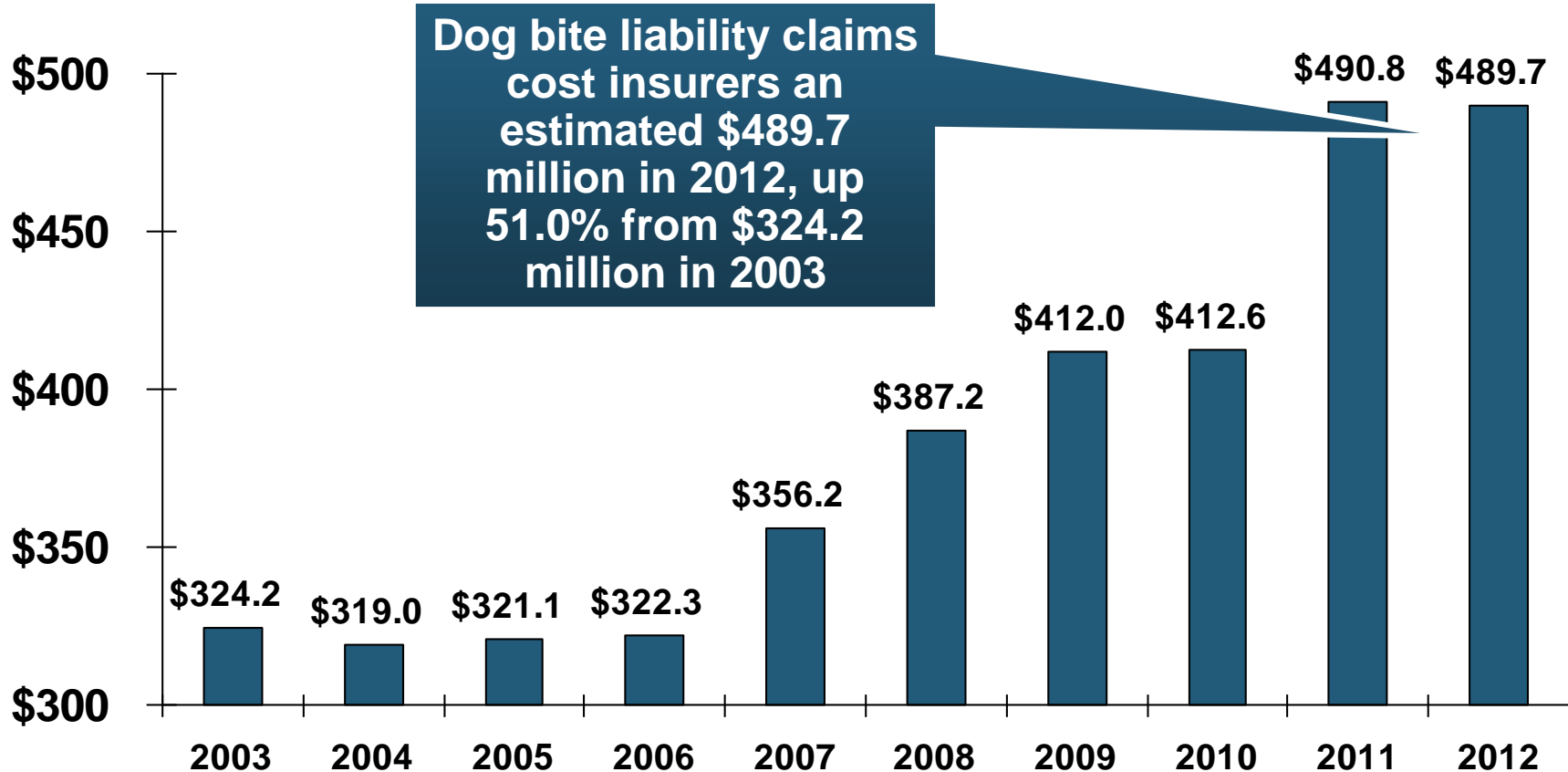
5-year
running
average

Insured
losses from
severe winter
events
totaled \$2
billion in
2013.

Insured winter storm and damage losses in Jan. 2014 already totaled \$1.5 billion. Continued severe weather since then makes it likely that 2014 will become one of the top 5 costliest winters since 1980.

Insured Homeowners Losses Due Dog Bite Liability Claims, 2003-2012

\$ Millions



The Increased Average Cost per Dog Bite Claim is Pushing Total Dog Bite Liability Claim Costs Higher Even as the Number of Claims Remains Relatively Flat

Natural Disaster Losses in the United States, by Type, 2013

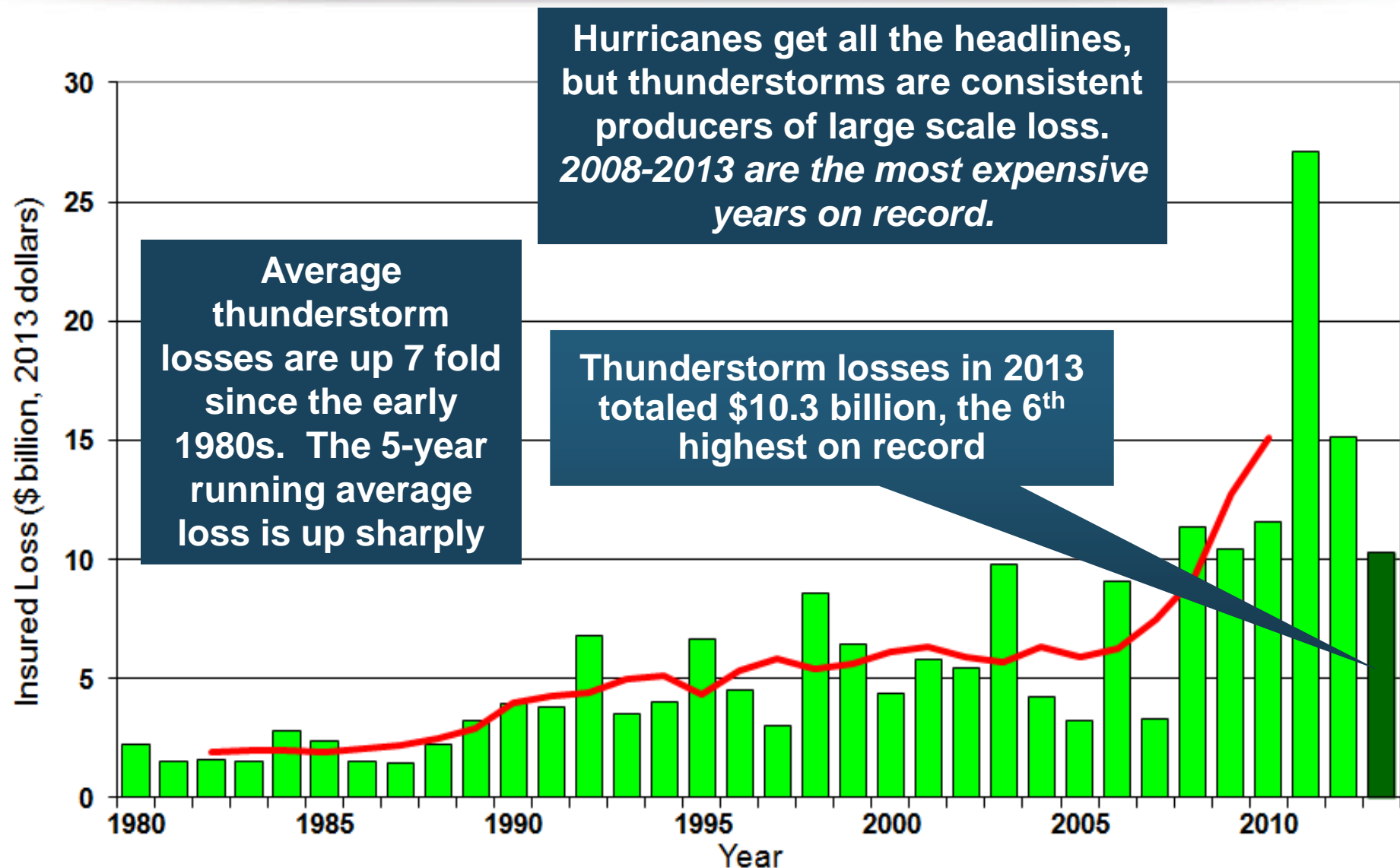
As of December 31, 2013	Number of Events	Fatalities	Estimated Overall Losses (US \$m)	Estimated Insured Losses (US \$m)
Severe Thunderstorm	69	110	16,341	10,274
Winter Storm	11	43	2,935	1,895
Flood	19	23	1,929	240
Earthquake & Geophysical	6	1	Minor	Minor
Tropical Cyclone	1	1	Minor	Minor
Wildfire, Heat, & Drought	22	29	620	385
Totals	128	207	21,825	12,794

Significant Natural Catastrophes, 2013

(Events with \$1 billion economic loss and/or 50 fatalities)

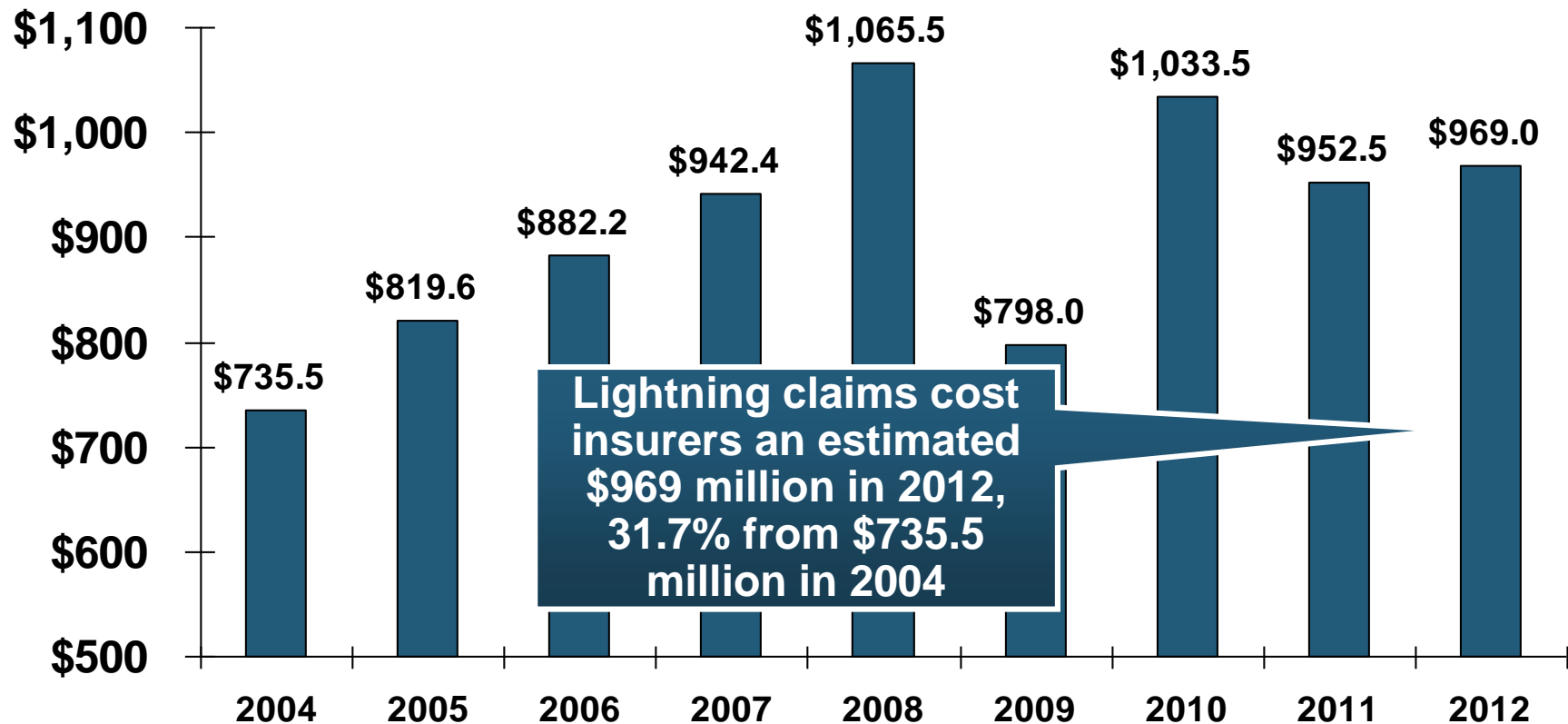
Date	Event	Estimated Economic Losses (US \$m)	Estimated Insured Losses (US \$m)
February 24 – 25	Winter Storm	1,300	690
March 18 – 19	Thunderstorms	2,200	1,600
April 7 – 11	Winter Storm	1,600	1,200
April 16 – 18	Thunderstorms	1,100	560
May 18 – 20	Thunderstorms	3,100	1,800
May 28 – 31	Thunderstorms	2,800	1,400
August 6 – 7	Thunderstorms	1,300	740
September 9 – 16	Flooding	1,500	160
November 17 - 18	Thunderstorms	1,300	931

U.S. Thunderstorm Insured Loss Trends, 1980 – 2013



Insured Homeowners Losses Due to Lightning, 2004-2012

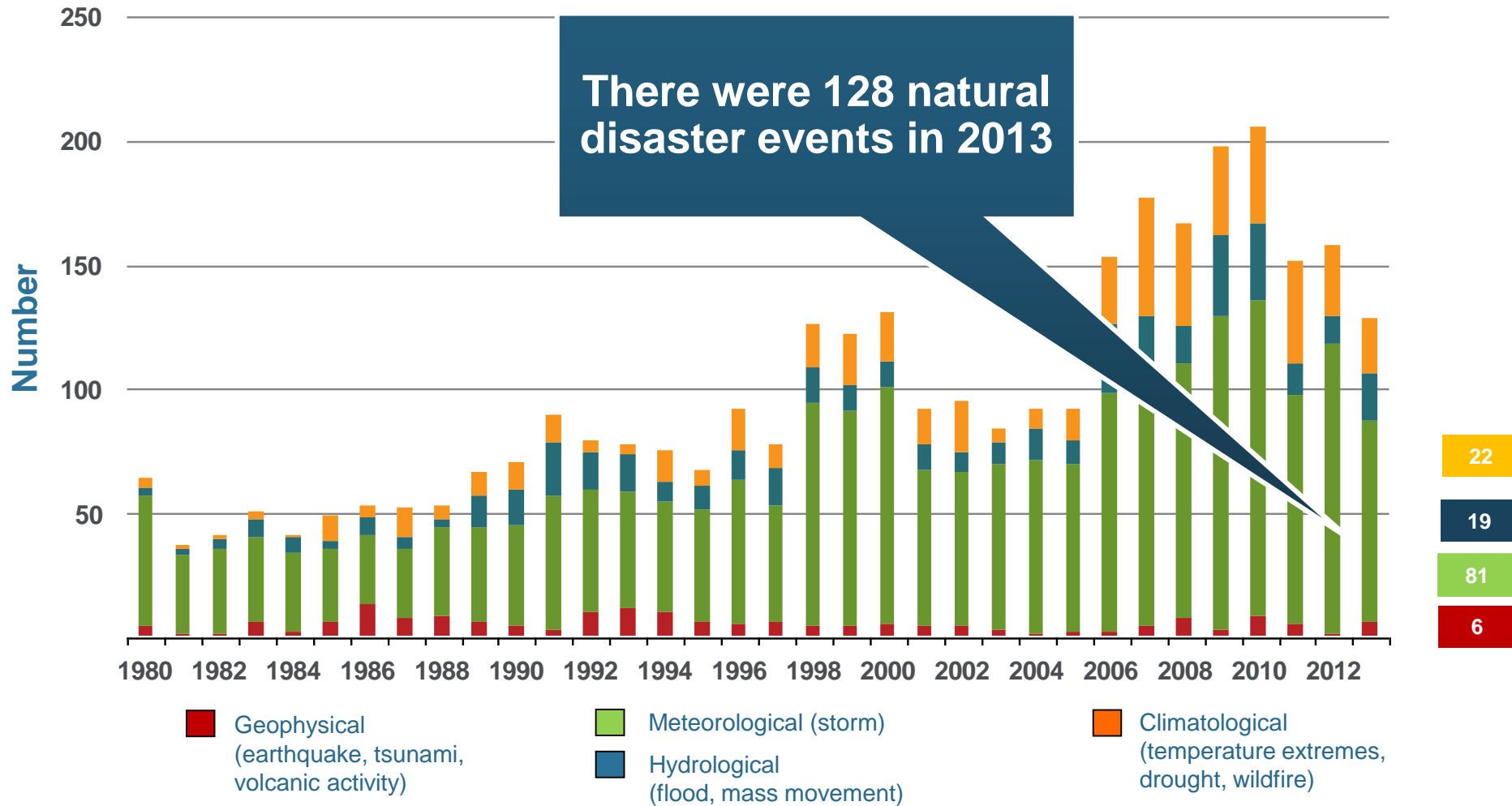
\$ Millions



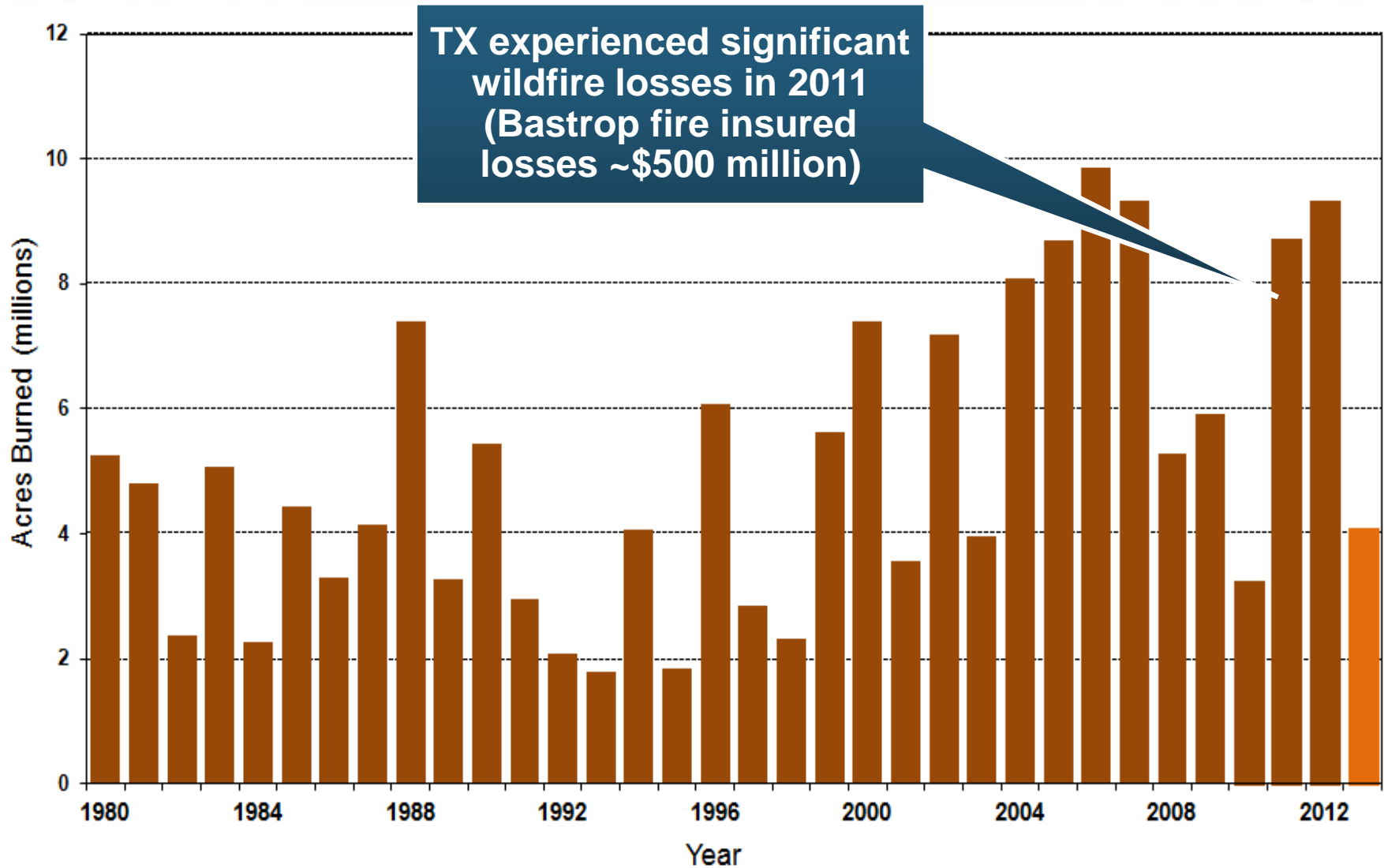
The Increased Number and Value of Expensive Electronic Devices in Homes is Pushing the Total Lightning Claim Costs Up Even as the Number of Lightning Claims Falls

Natural Disasters in the United States, 1980 – 2013

Number of Events (Annual Totals 1980 – 2013)

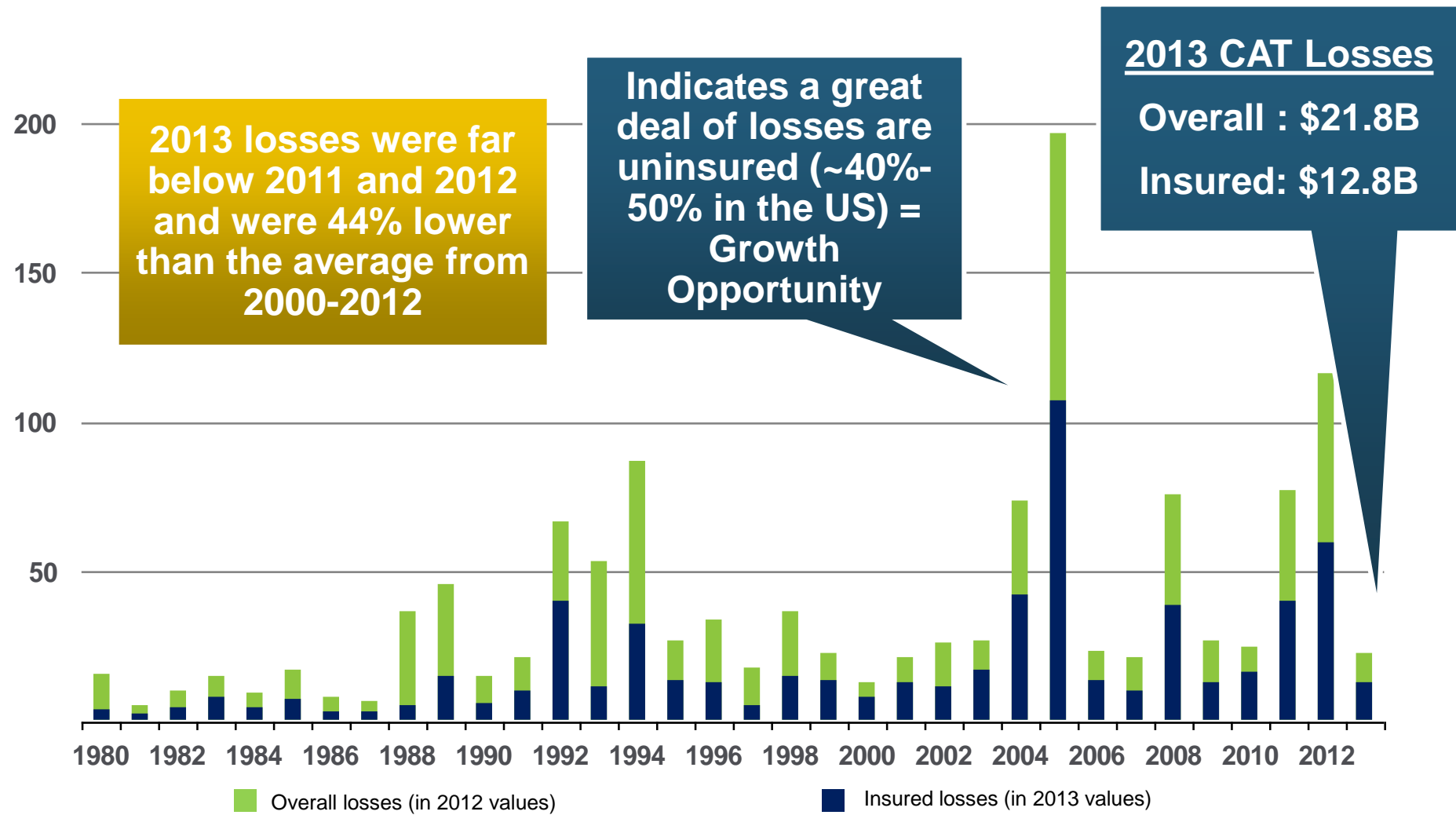


Number of Acres Burned in Wildfires, 1980 – 2013



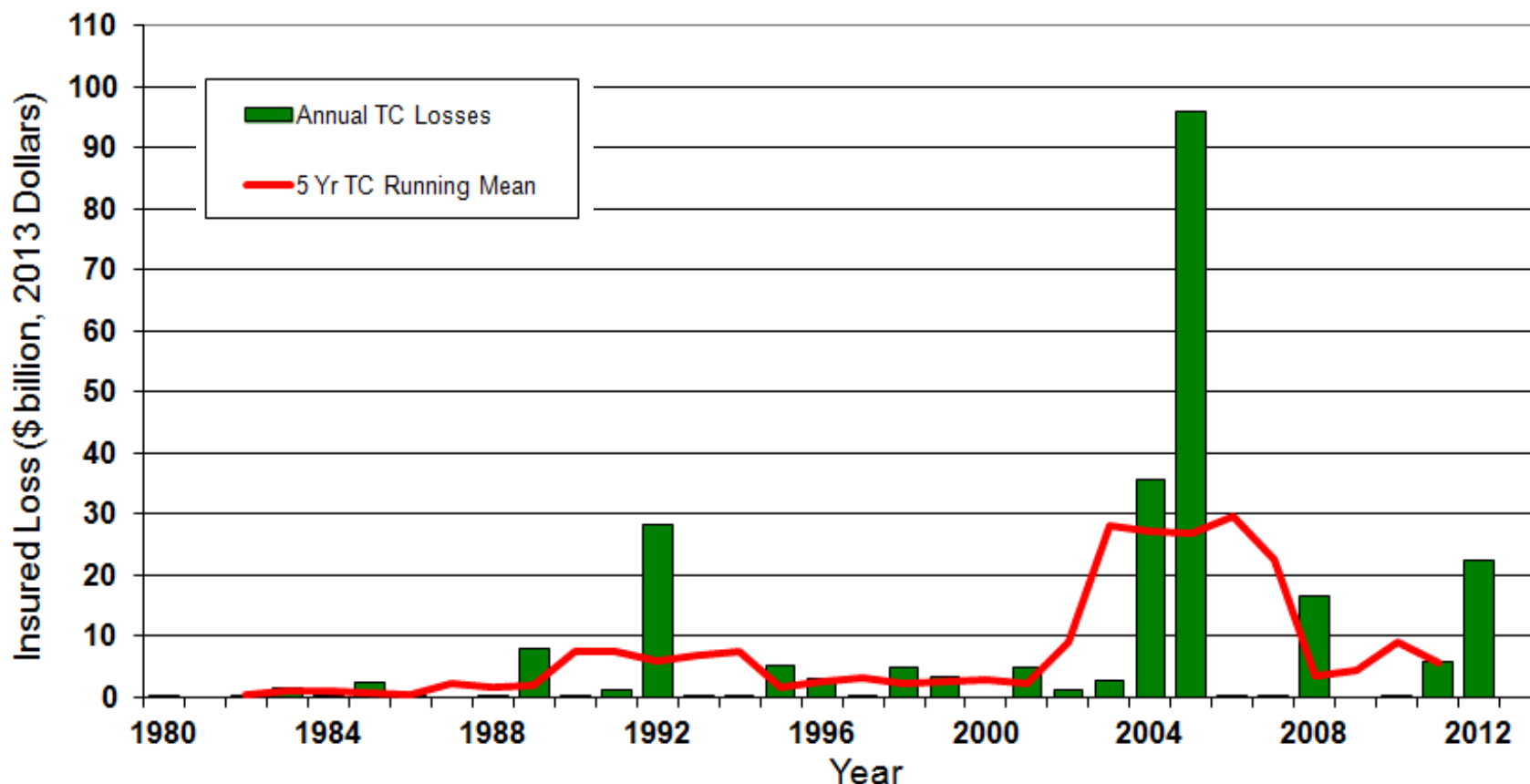
Losses Due to Natural Disasters in the US, 1980–2013

(2013 Dollars, \$ Billions) (Overall and Insured Losses)

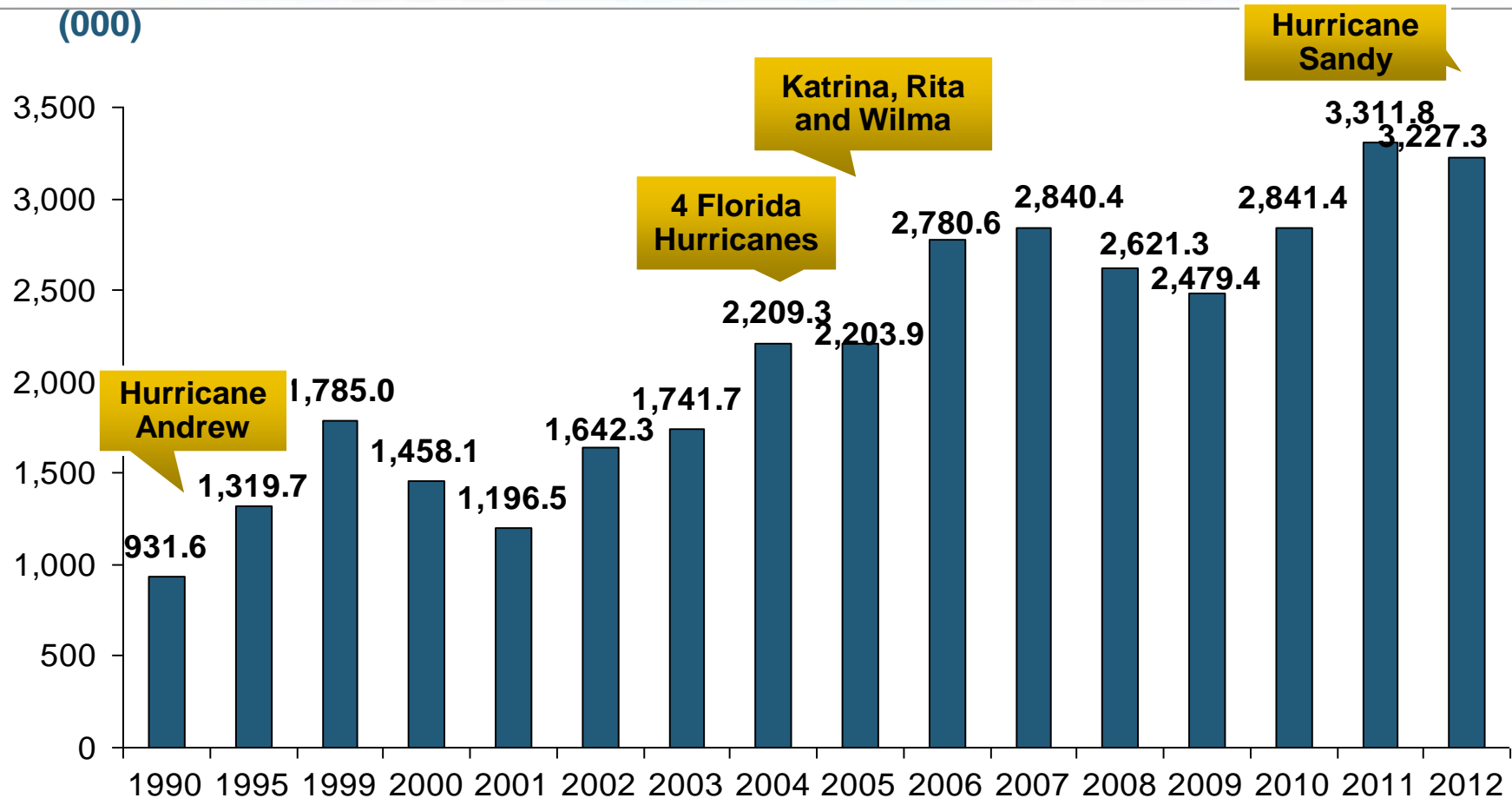


Insured US Tropical Cyclone Losses, 1980 - 2013

The current 5-year average (2008 - 2013) insured tropical cyclone loss is \$5.6 billion per year.

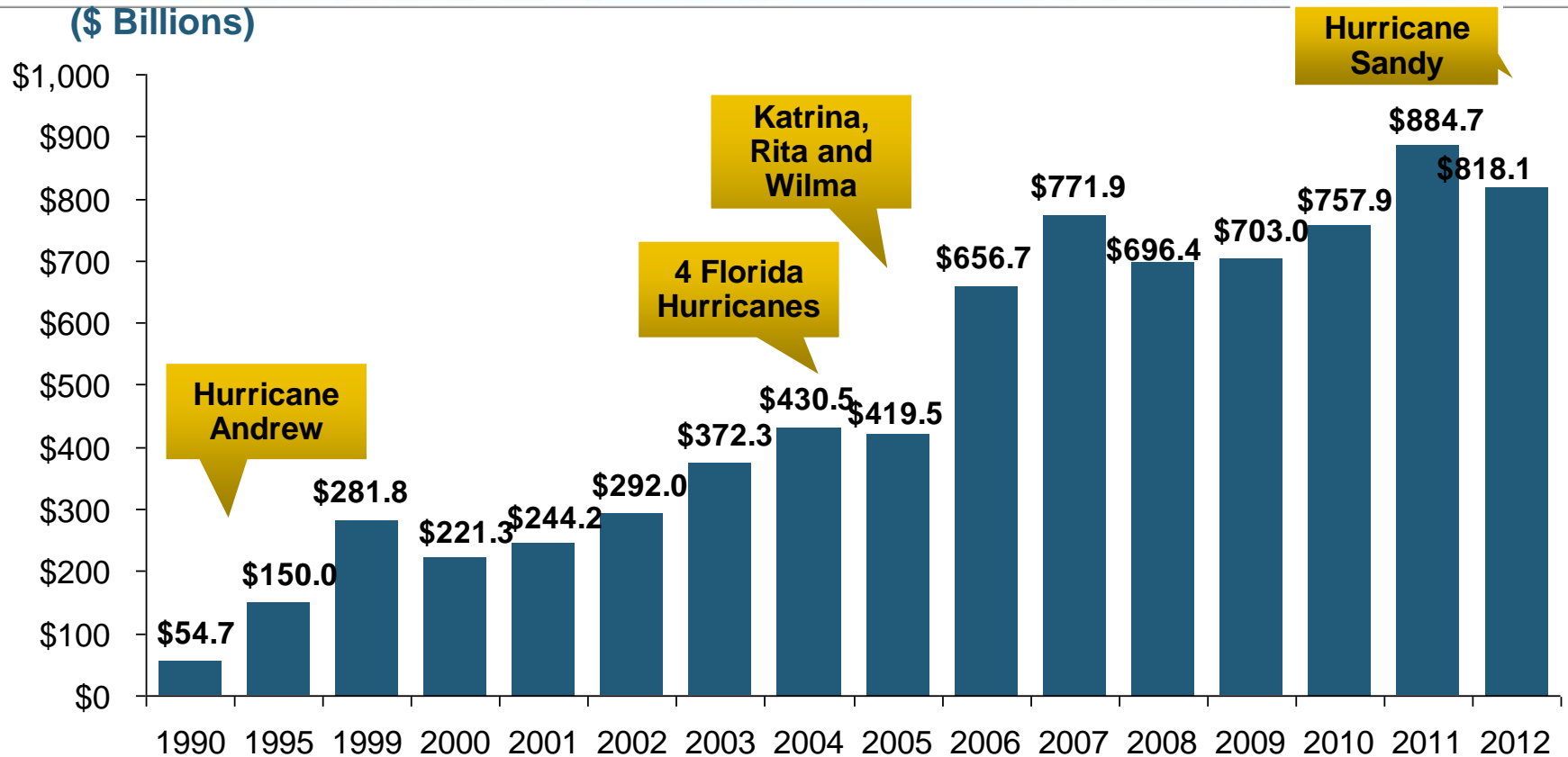


U.S. Residual Market: Total Policies In-Force (1990-2012) (000)



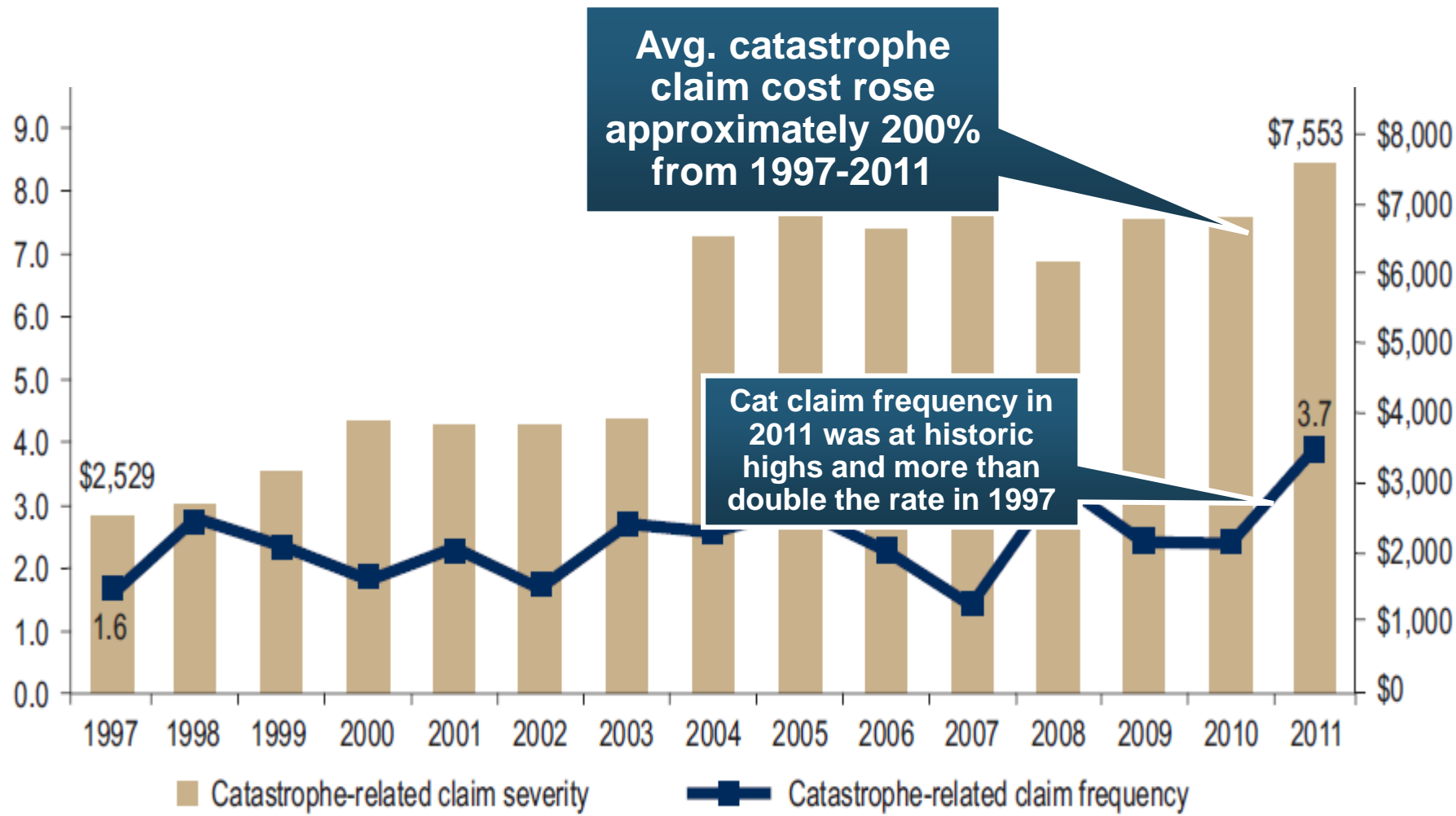
In the 23-year period between 1990 and 2012, the total number of policies in-force in the residual market (FAIR & Beach/Windstorm) Plans has more than tripled.

U.S. Residual Market Exposure to Loss (1990-2012) (\$ Billions)



In the 23-year period between 1990 and 2012, total exposure to loss in the residual market (FAIR & Beach/Windstorm) Plans has surged from \$54.7 billion in 1990 to \$818.1 billion in 2012.

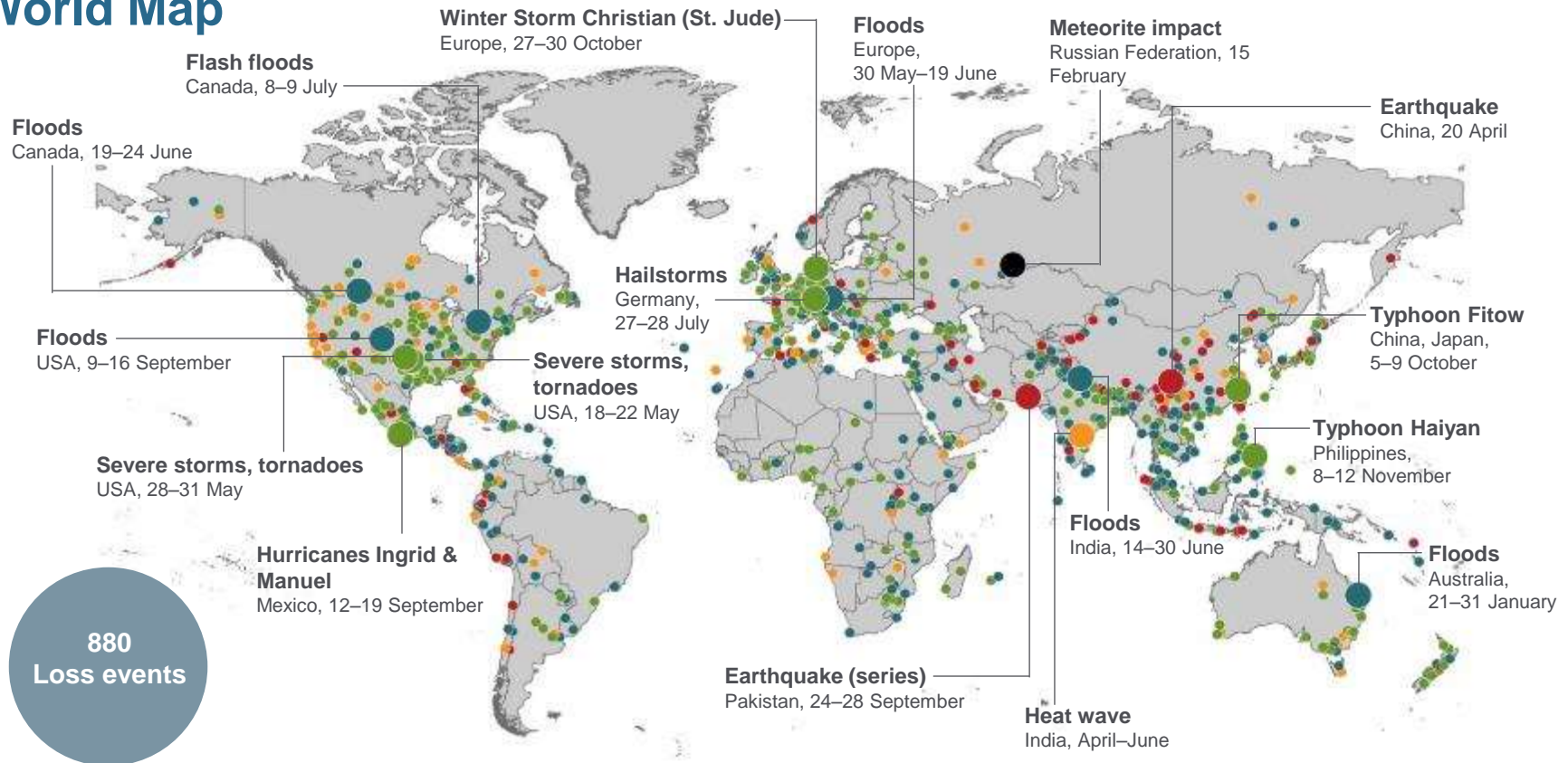
Homeowners Insurance Catastrophe-Related Claim Frequency and Severity, 1997—2012*



*All policy forms combined, countrywide.
Source: Insurance Research Council, *Trends in Homeowners Insurance Claims*, Sept. 2012 from ISO Fast Track data.

Natural Loss Events: Full Year 2013

World Map



○ **Natural catastrophes**

○ **Selection of significant
Natural catastrophes**

● **Geophysical events**
(earthquake, tsunami, volcanic activity)

● **Meteorological events**
(storm)

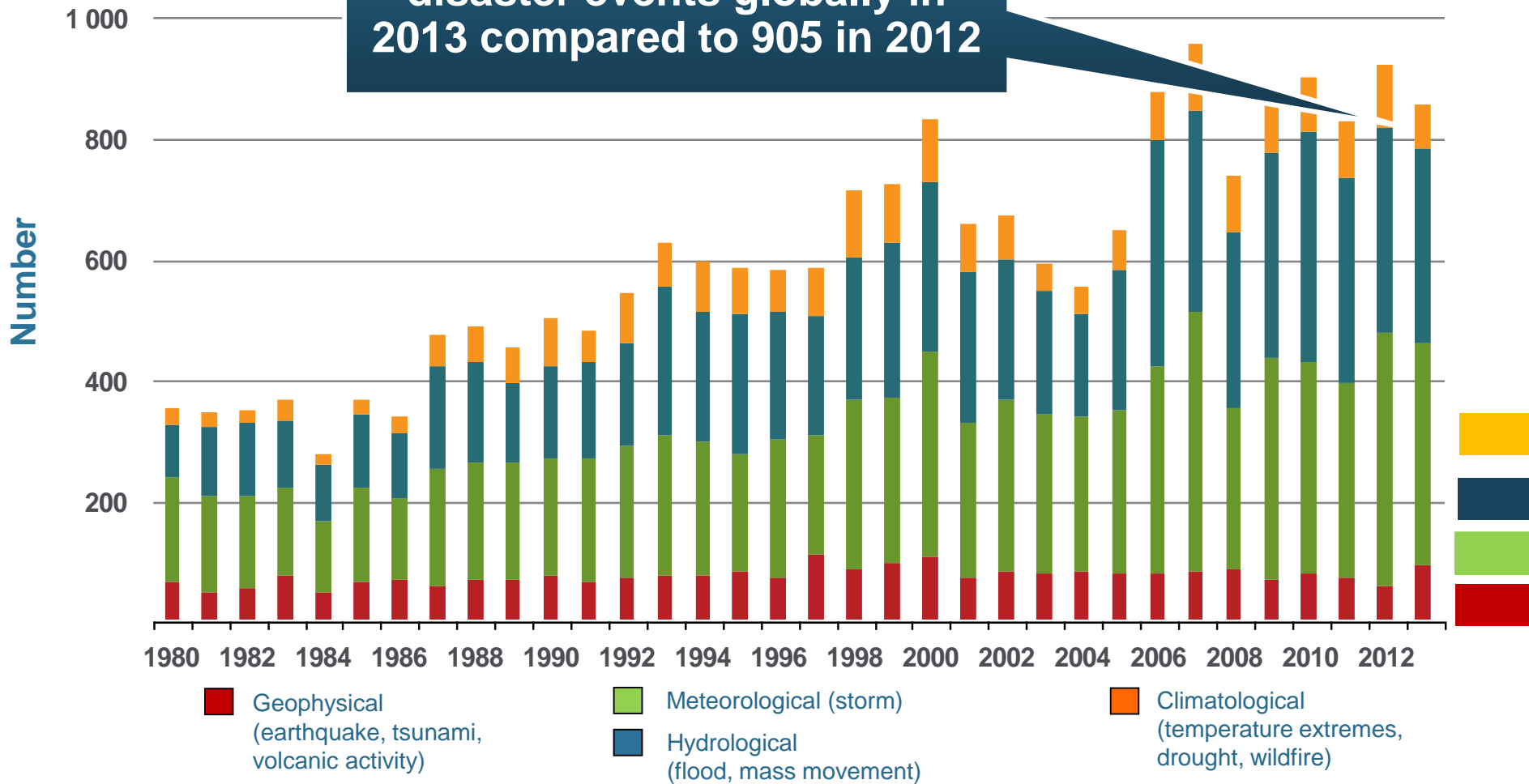
● **Hydrological events**
(flood, mass movement)

● **Climatological events**
(extreme temperature, drought, wildfire)

● **Extraterrestrial events**
(Meteorite impact)

Natural Disasters Worldwide, 1980 – 2013 (Number of Events)

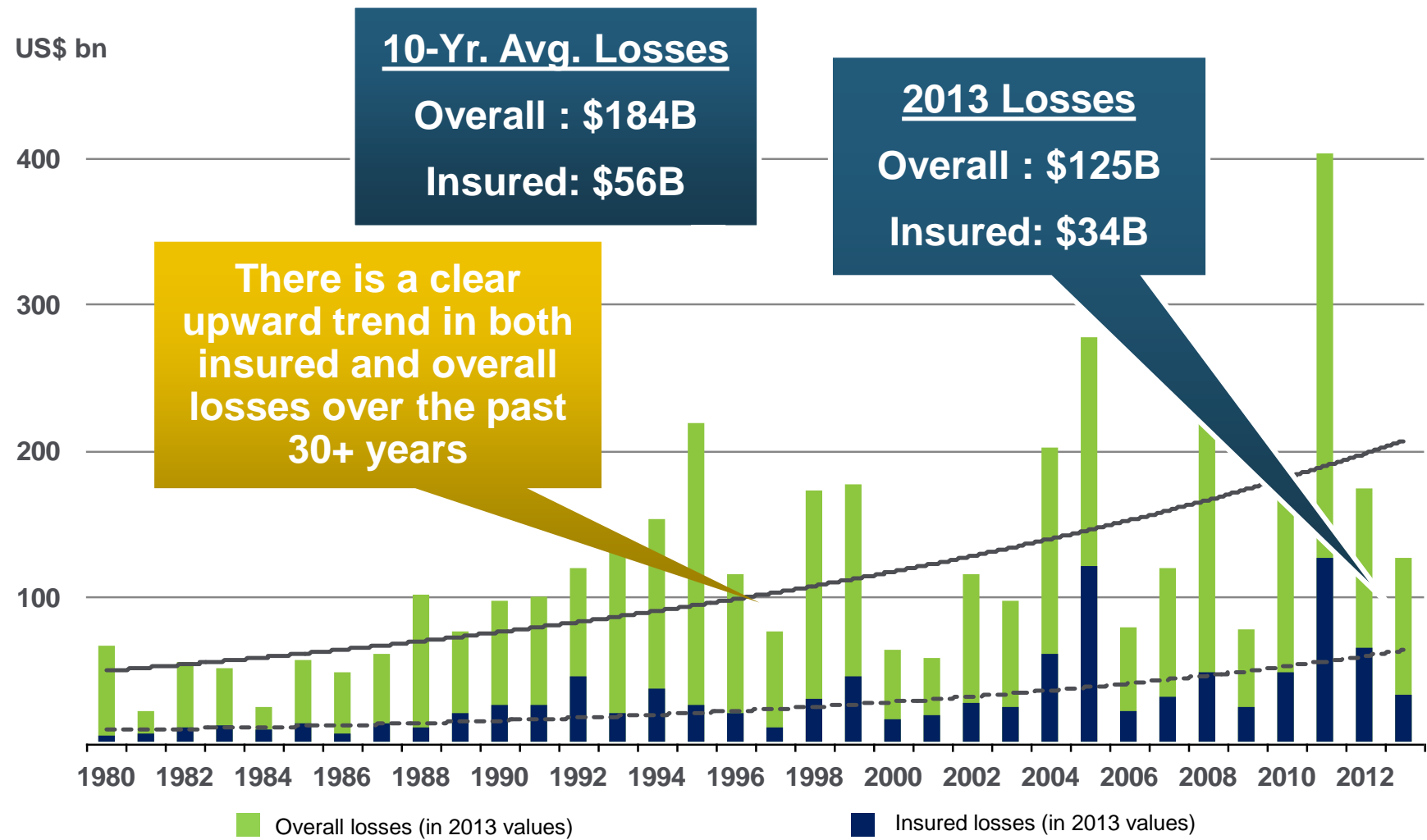
There were 880 natural
disaster events globally in
2013 compared to 905 in 2012



Losses Due to Natural Disasters Worldwide, 1980–2013 (Overall & Insured Losses)

(Overall and Insured Losses)

(2013 Dollars, \$ Billions)



Flood Insurance

I.I.I. Survey: Public Conflicted on Flood

- ***Flood Should Reflect True Risk***
 - ***Keep the Subsidies***
- ***Would Prefer to Purchase from Private Insurers***

Biggert-Waters: Media and Congressional Maelstrom

- **BW-12 Rate Increases to Phase Out Subsidies Began in 2013**
 - ◆ **Note: Only 20% of NFIP policies are subsidized**
- **Jan. 1, 2013: Non-Primary/Secondary Residences**
 - ◆ **Increases of 25% per year until full-risk rate achieved**
 - ◆ ***Reaction: Very muted; Vacation homes/wealthier owners***
- **Oct. 1, 2013: Subsidized Severe or Repetitive Loss Policies and Owners of Business/Non-Residential Properties**
 - ◆ **Increases of 25% per year until full-risk rate achieved**
 - ◆ ***Reaction: Huge consumer backlash, intense media coverage leading to a Congressional effort to delay BW-12 by 4 years (effectively killing it). Even Maxine Waters supports delay...***
- **Subsidy Lost if Policy Lapses, Severe Repeated, New Policy**
- **House and Senate Bills to Reduce Burden Need to be Reconciled**
- **Future Pvt. Insurer Flood Participation Impacted by BW-12 Debate**

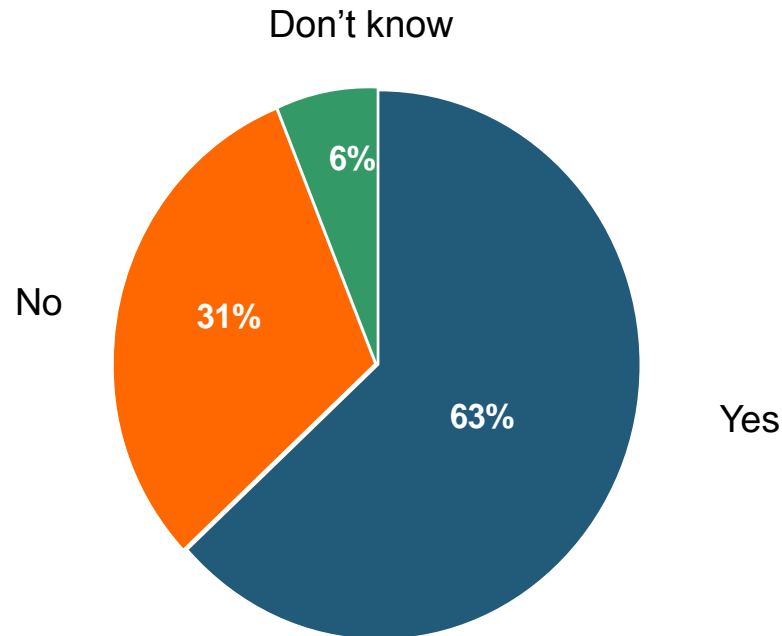
Summary of House Bill

(Passed March 4, 2014)

- 9 Premium classifications with increases capped at 18%
- \$25 surcharge on primary residences; \$250 for non-primary
- Restoration of “grandfather” clause allowing continued subsidies for homes that were compliant under old FEMA maps but no longer are
- Eliminates property sales trigger
- Reimburses home owners for successful FEMA map challenges
- Creates a “flood insurance advocate”
- Refunds policyholders who were charged higher rates under BW-12 for homes built before FEMA established flood-risk maps
- CBO scoring of bill said that it will not increase the deficit
 - ◆ Didn’t say that it would eliminate the current \$24 bill deficit

I.I.I. Poll: Flood Insurance

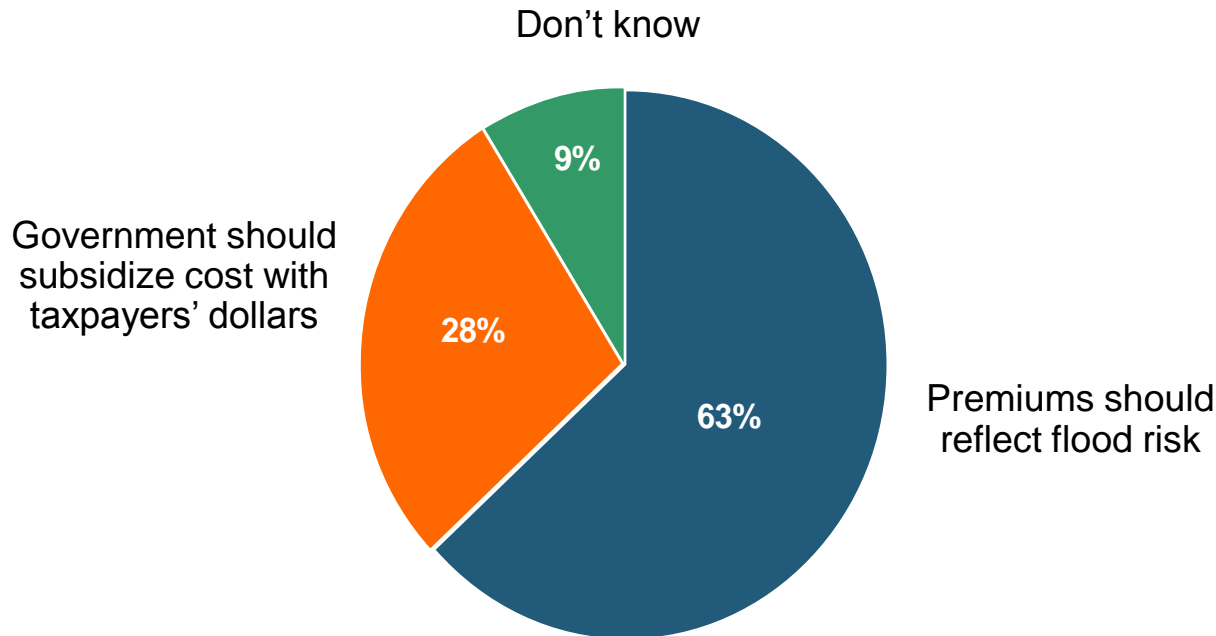
Q. Do you think it is fair that flood insurance premium increases are higher if people who live in high flood risk areas and rebuild their homes do not elevate them?



Almost two-thirds of Americans think that it is fair that flood insurance premiums be raised for people who live in high flood risk areas and rebuild their homes after a flood but do not elevate them.

I.I.I. Poll: Flood Insurance

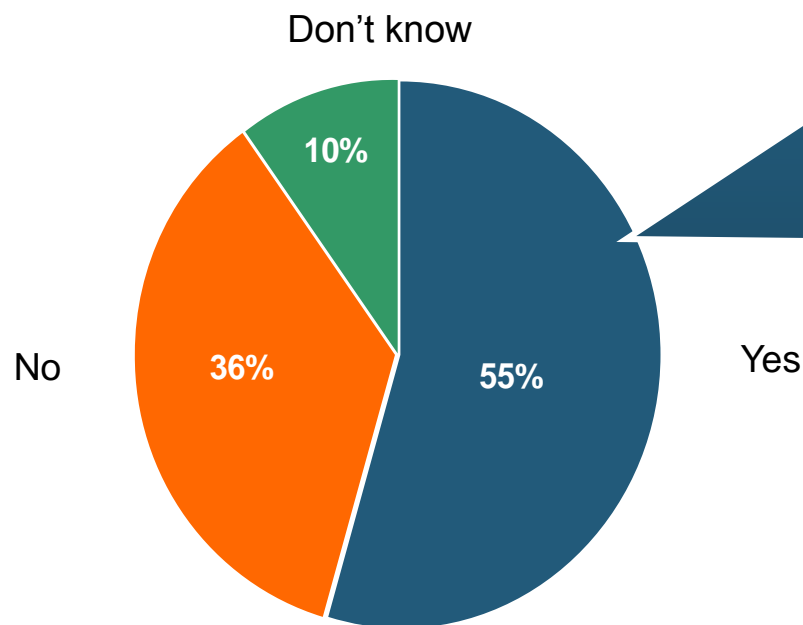
Q. Do you think flood insurance premiums should reflect the risk of flooding no matter what the cost or do you think the government should subsidize the cost of flood insurance with taxpayers' dollars?



Almost two-thirds of Americans think flood insurance premiums should be raised to reflect the risk of flooding.

I.I.I. Poll: Flood Insurance

Q. The federal government provides insurance coverage at taxpayer-subsidized rates for damage from floods through the National Flood Insurance Plan. A new law eliminates the subsidy and raises rates. Do you think the rate increase should be repealed?

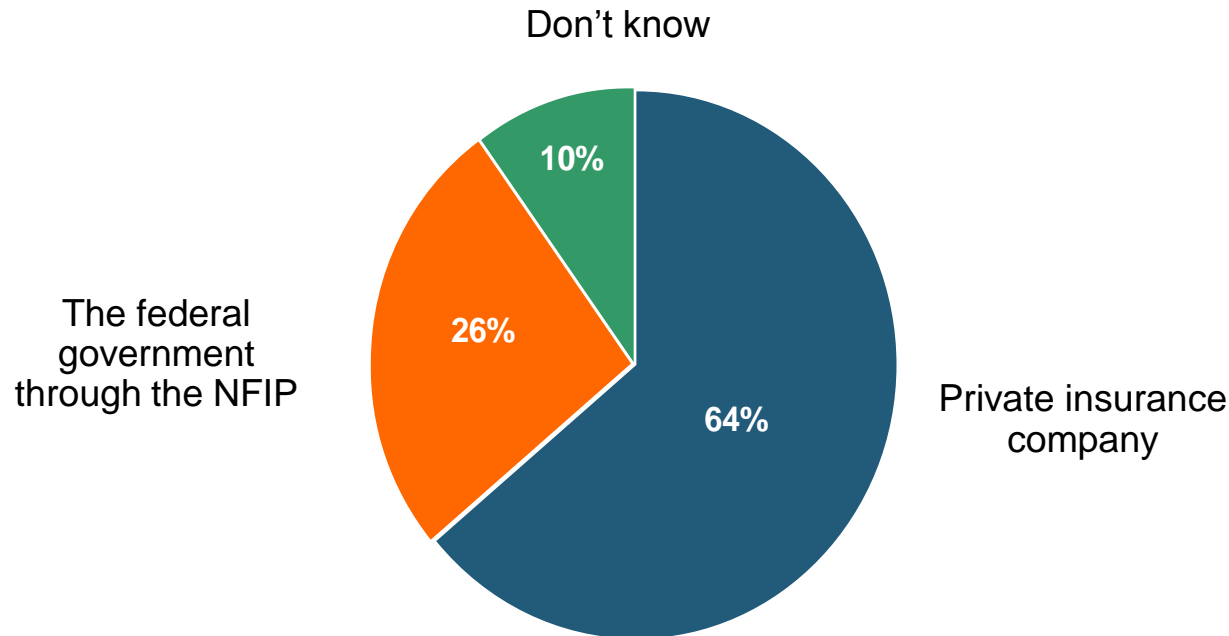


It is inconsistent for the public to support full-risk rates but maintain subsidies, but this exactly mirrors Congressional sentiments, with supporters of BW-12 and even Tea Party conservatives supporting continuation of the subsidies

More than half of Americans polled for the November 2013 Pulse thought that hikes in National Flood Insurance premiums should be repealed.

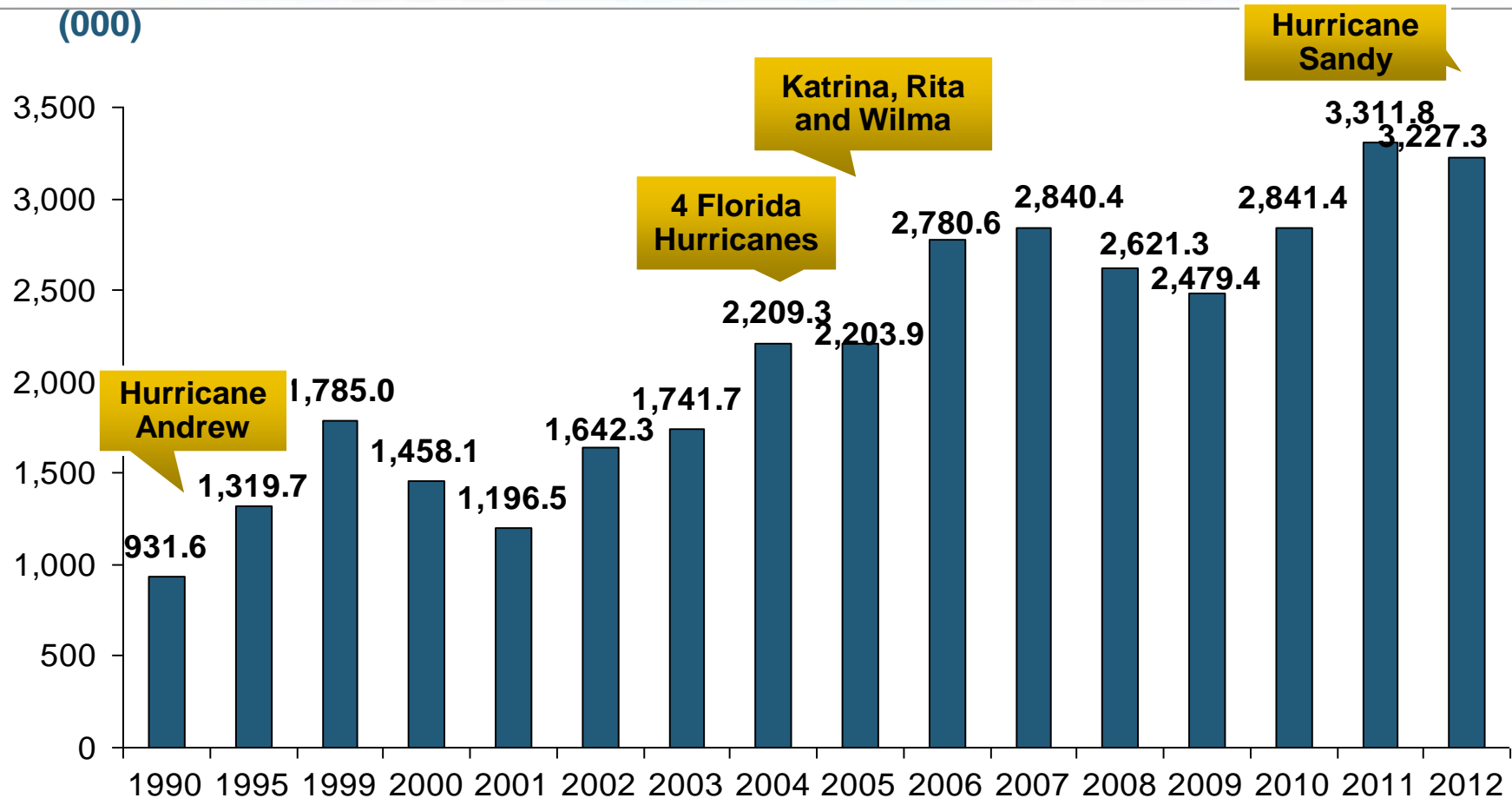
I.I.I. Poll: Flood Insurance

Q. If the costs were similar, would you prefer to buy flood insurance from a private insurance company or from the federal government through the National Flood Insurance Program?



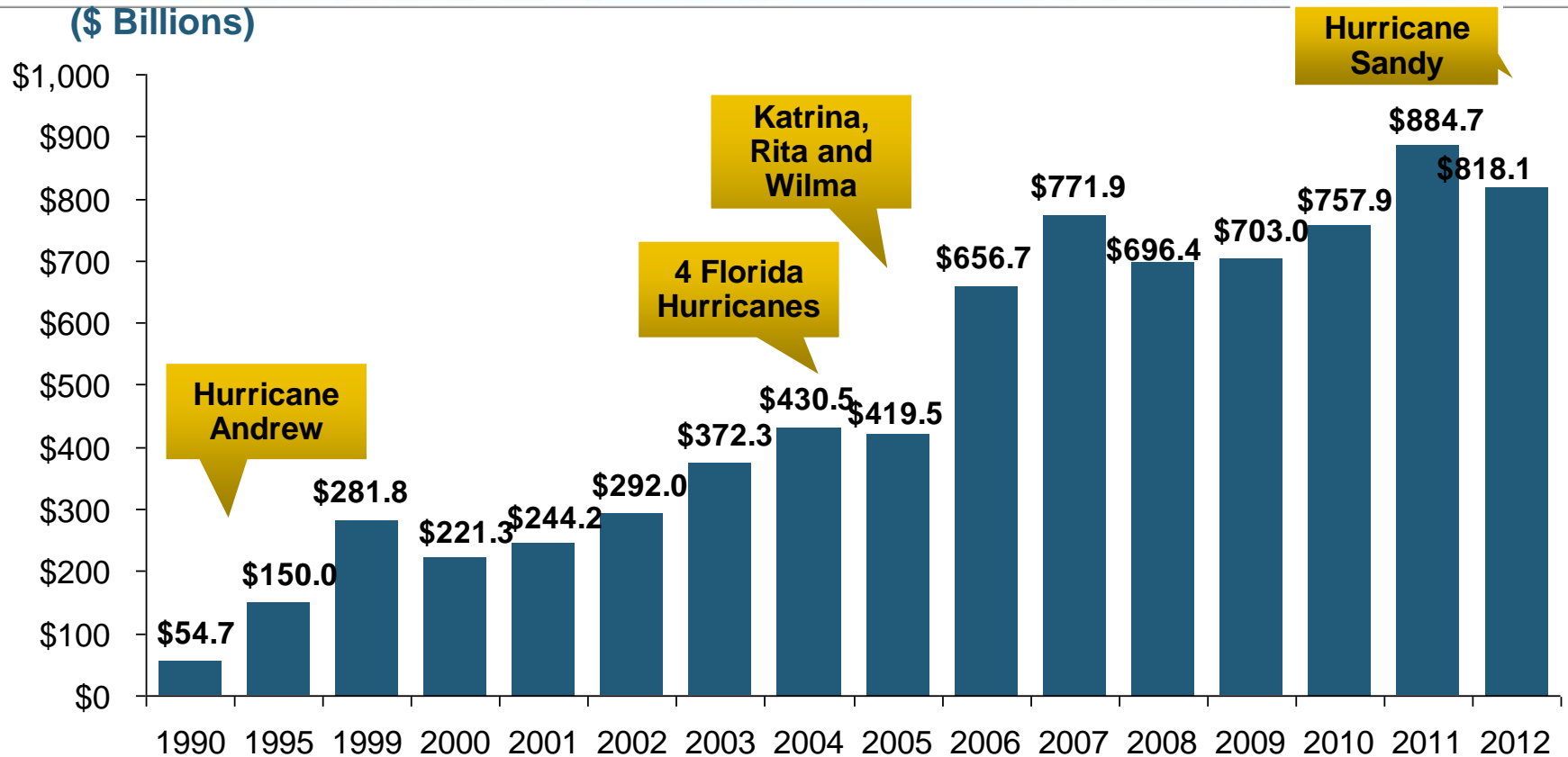
Six out of 10 Americans would prefer to buy flood insurance from a private insurance company as opposed to the federal government, if costs were similar.

U.S. Residual Market: Total Policies In-Force (1990-2012) (000)



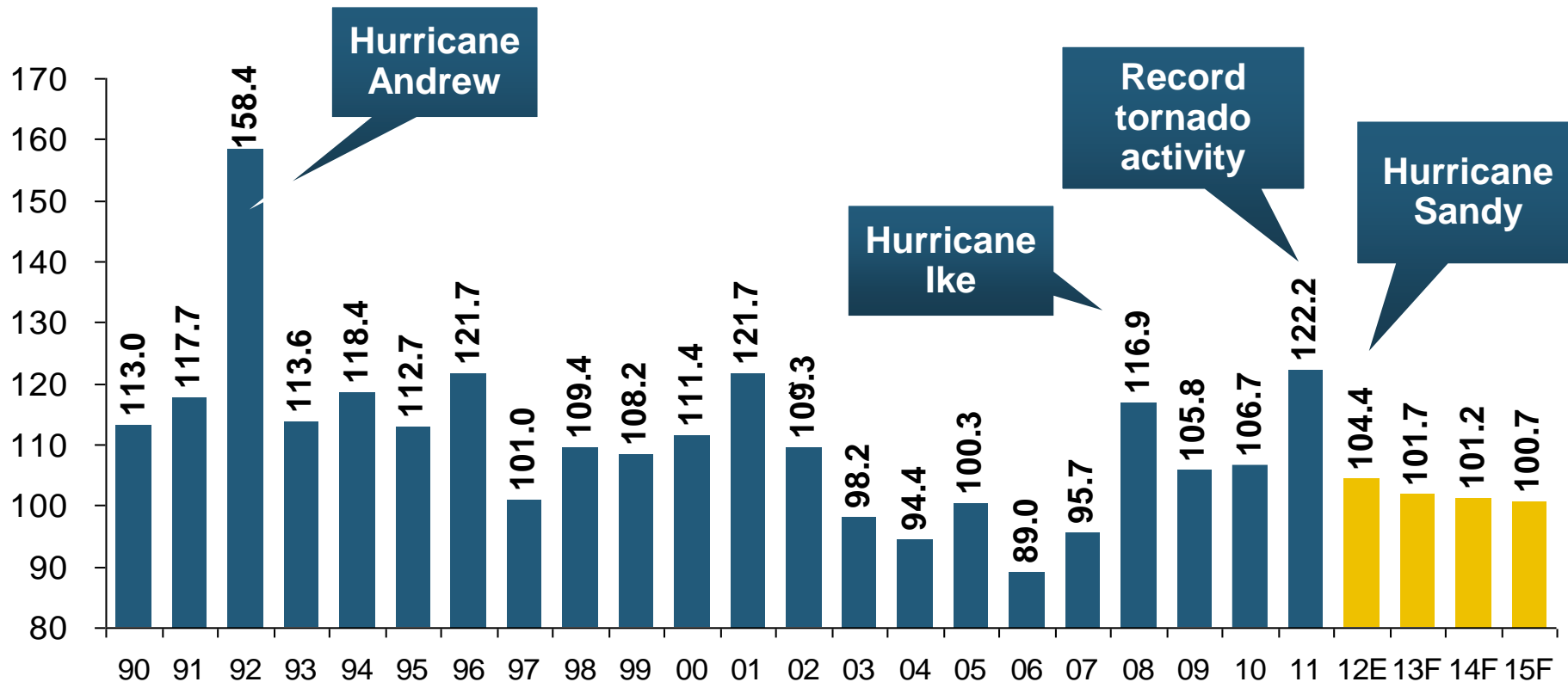
In the 23-year period between 1990 and 2012, the total number of policies in-force in the residual market (FAIR & Beach/Windstorm) Plans has more than tripled.

U.S. Residual Market Exposure to Loss (1990-2012) (\$ Billions)



In the 23-year period between 1990 and 2012, total exposure to loss in the residual market (FAIR & Beach/Windstorm) Plans has surged from \$54.7 billion in 1990 to \$818.1 billion in 2012.

Homeowners Insurance Combined Ratio: 1990–2015F



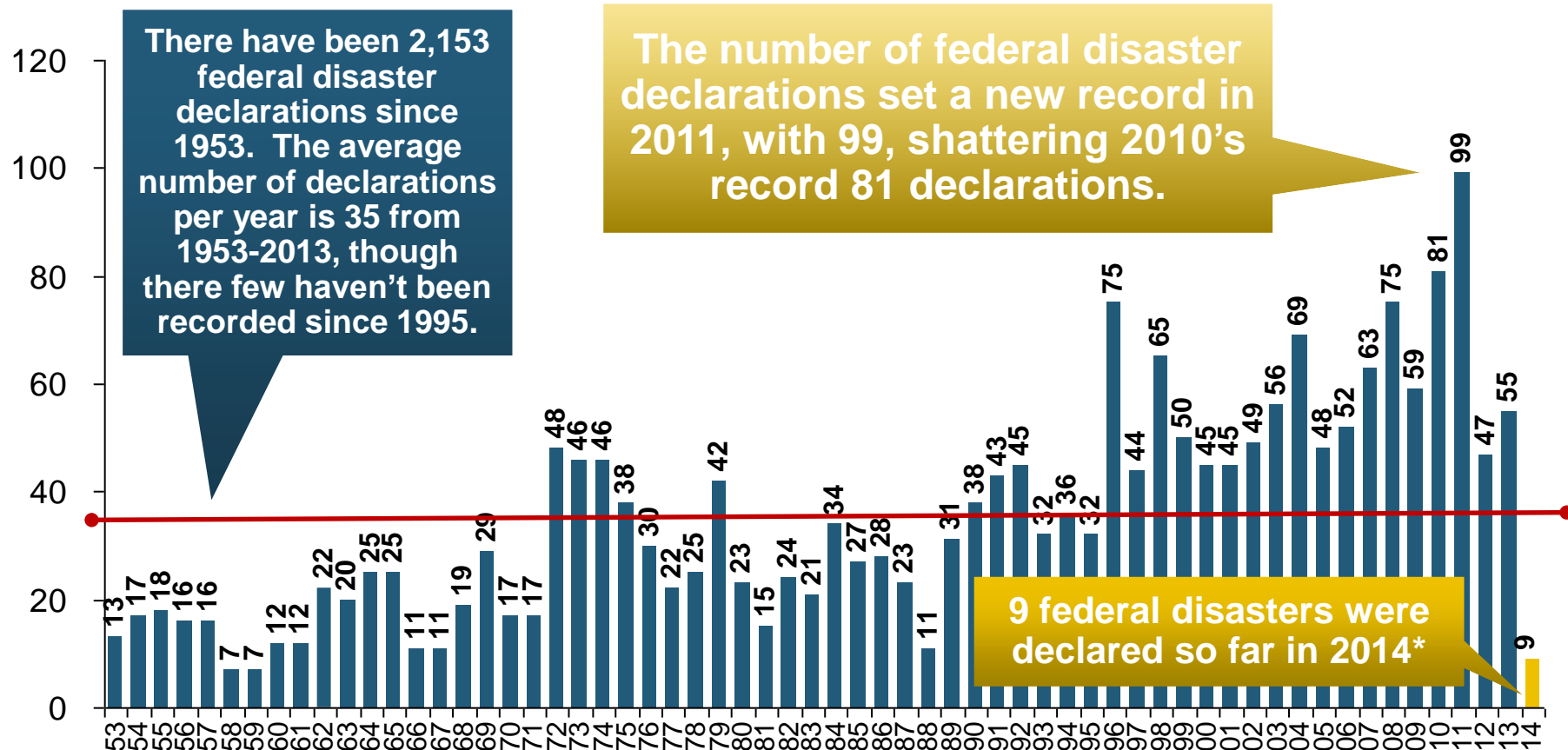
Homeowners Performance in 2011/12 Impacted by Large Cat Losses. Extreme Regional Variation Can Be Expected Due to Local Catastrophe Loss Activity



Federal Disaster Declarations Patterns: 1953-2013

**Disaster Declarations Set New
Records in Recent Years**

Number of Federal Major Disaster Declarations, 1953-2014*

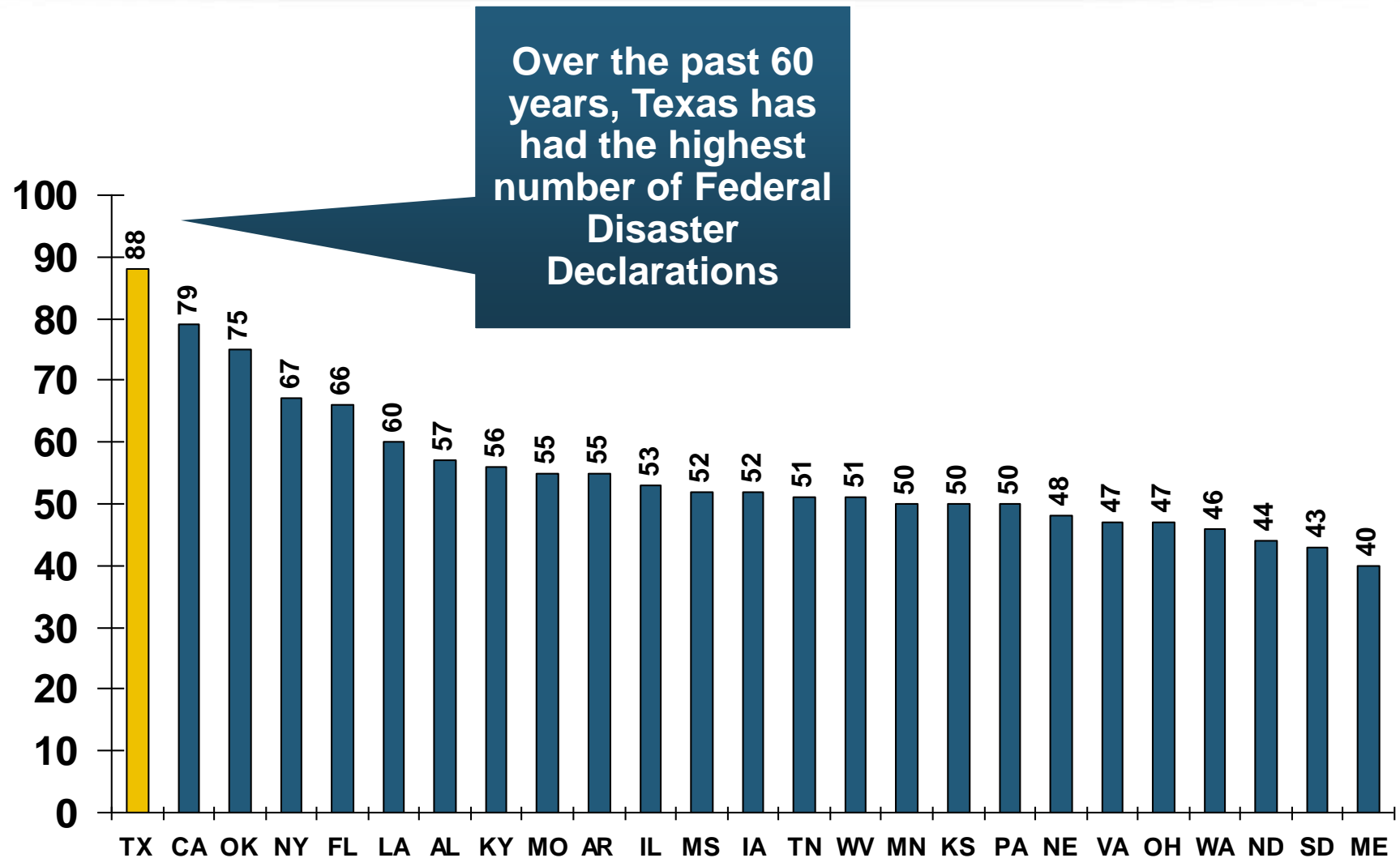


The Number of Federal Disaster Declarations Is Rising and Set New Records in 2010 *and* 2011 Before Dropping in 2012/13

*Through March 2, 2014.

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

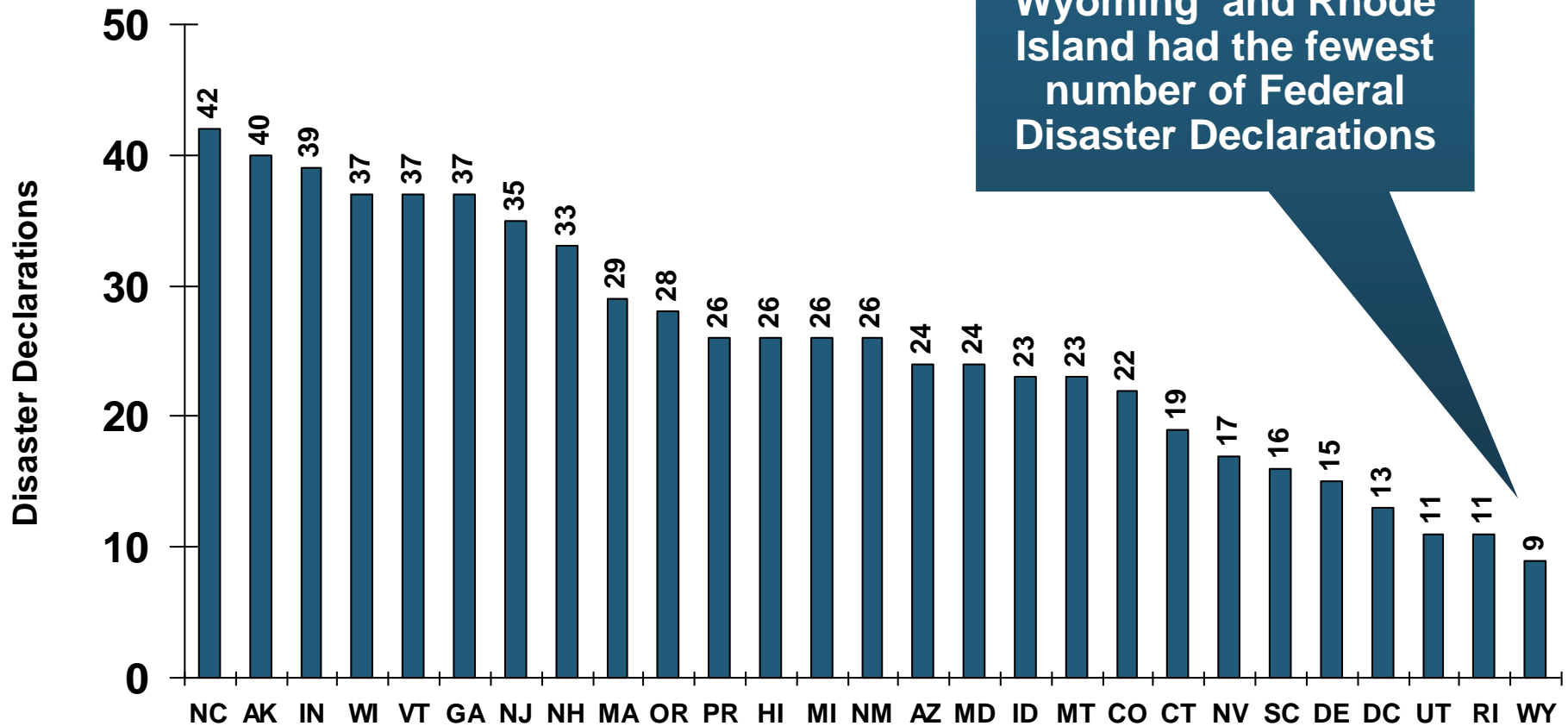
Federal Disasters Declarations by State, 1953 – 2014: Highest 25 States*



*Through March 2, 2014. Includes Puerto Rico and the District of Columbia.

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

Federal Disasters Declarations by State, 1953 – 2014: Lowest 25 States*



*Through March 2, 2014. Includes Puerto Rico and the District of Columbia.

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

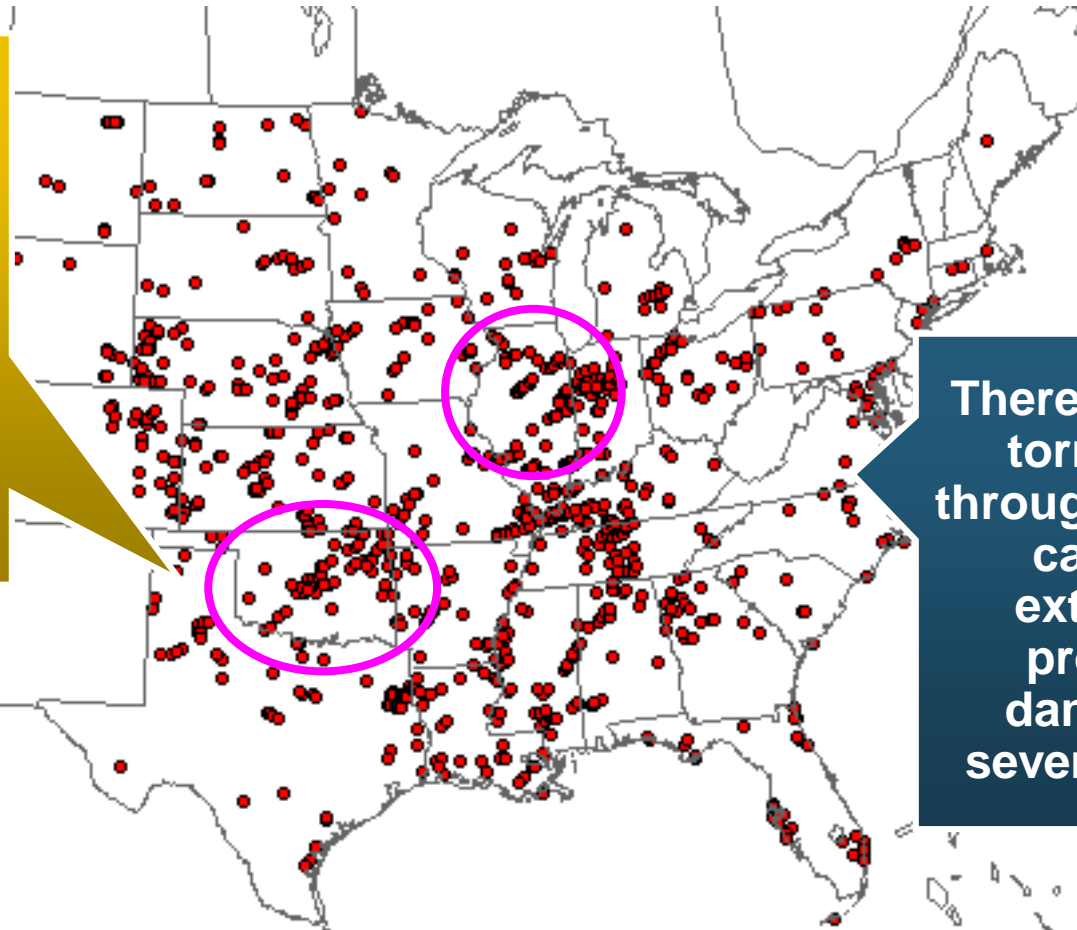


SEVERE WEATHER REPORT UPDATE: 2013

*Damage from Tornadoes, Large Hail
and High Winds Keep Insurers Busy*

Location of Tornado Reports in 2013

A deadly EF-5 tornado in May in Moore, OK, produced insured losses of \$1.575 billion. November tornadoes in the Midwest like produced \$1B in insured losses.



There were 943 tornadoes through Dec. 31, causing extensive property damage in several states



PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

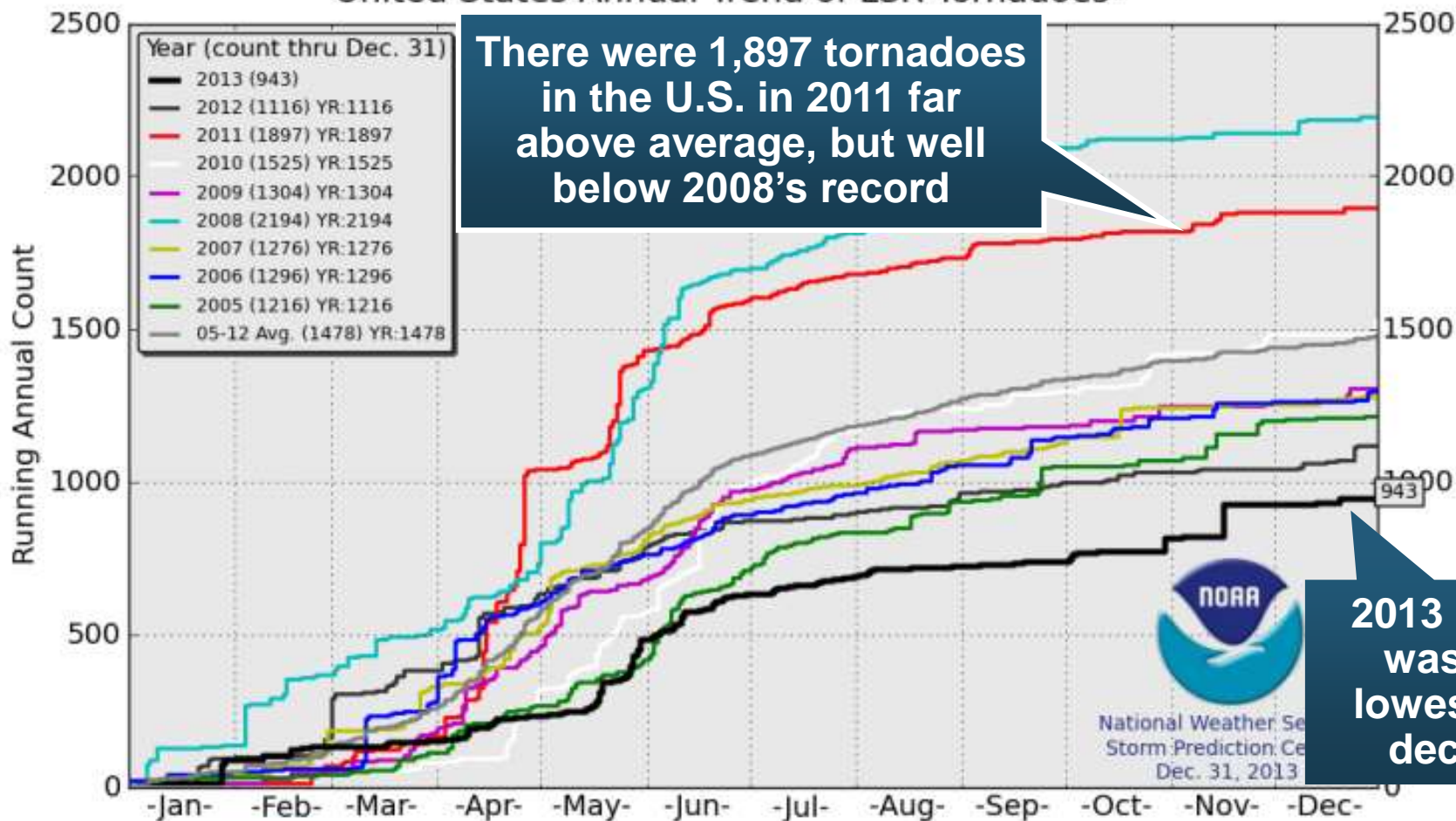
NOAA/Storm Prediction Center Norman, Oklahoma

Tornado Reports
January 01, 2013 - December 31, 2013

Updated: Tuesday December 31, 2013 16:17 CT

U.S. Tornado Count, 2005-2013*

United States Annual Trend of LSR Tornadoes*

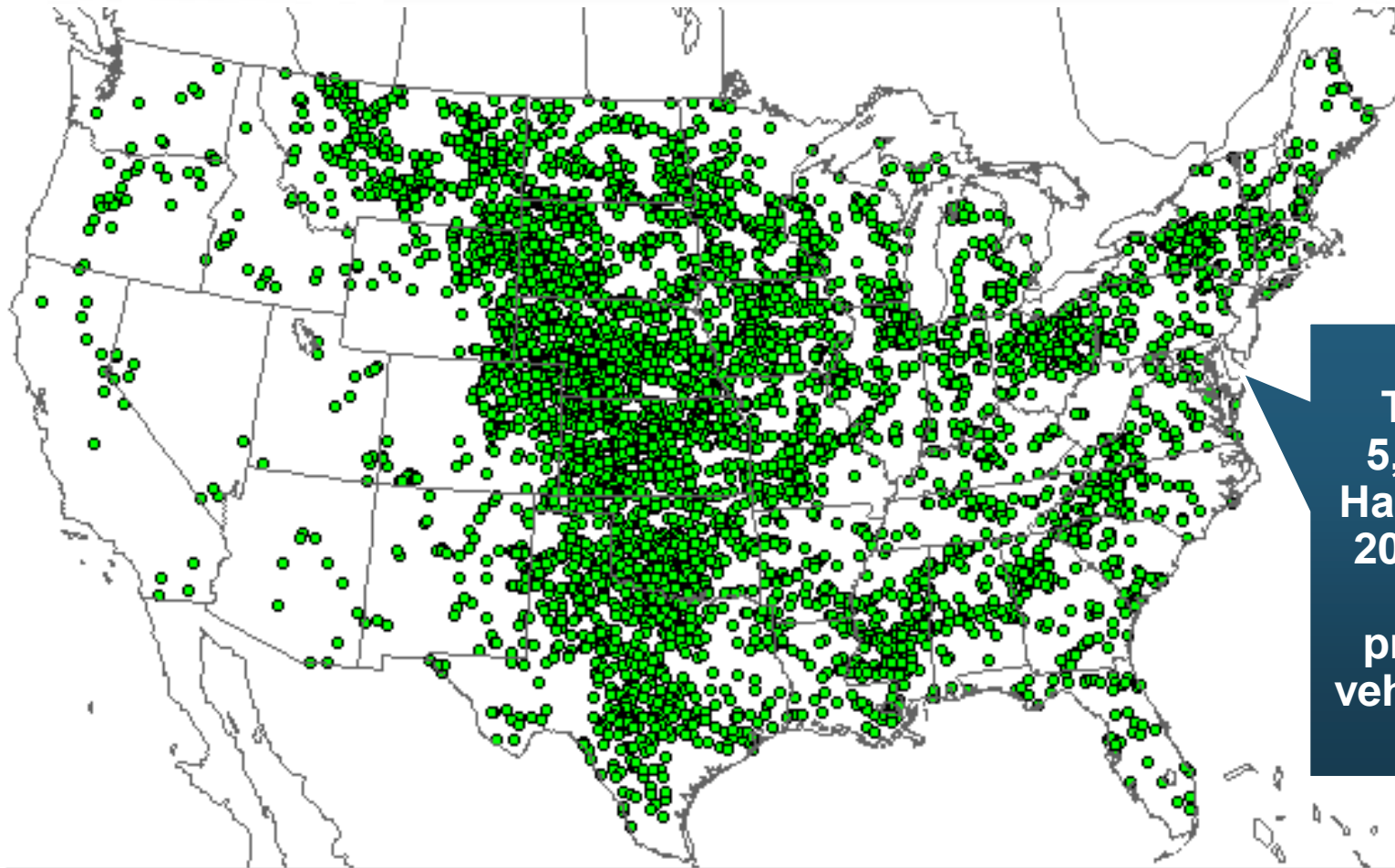


*Preliminary tornadoes from NWS Local Storm Reports (LSRs)
Annual average is based on preliminary LSRs, 2005-2012

*Through Dec. 31, 2013.

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

Location of Large Hail Reports: 2013



There were
5,457 “Large
Hail” reports in
2013, causing
extensive
property and
vehicle damage



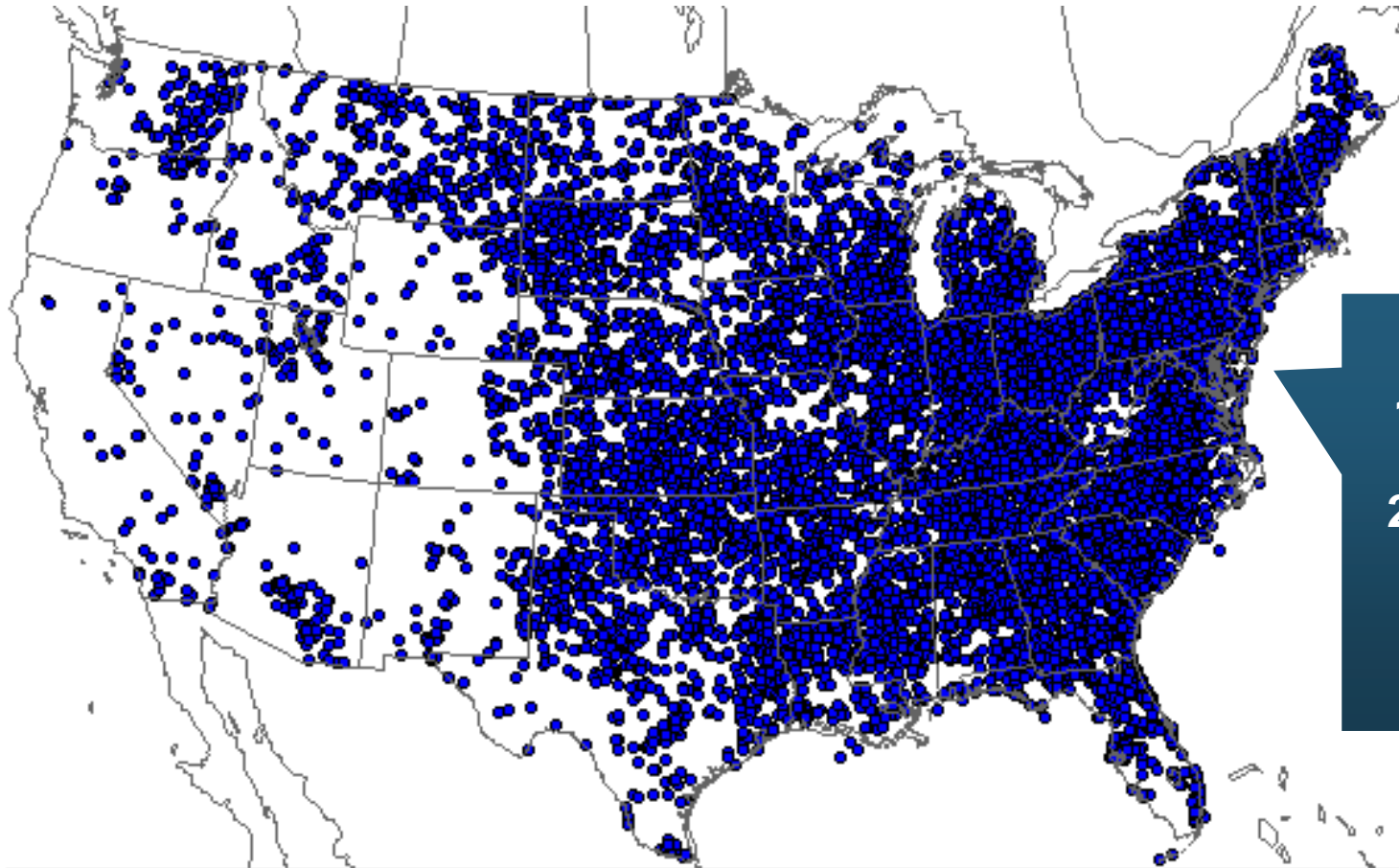
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Hail Reports
January 01, 2013 - December 31, 2013

Updated: Tuesday December 31, 2013 16:17 CT

Location of High Wind Reports: 2013



There were
12,942 “Wind
Damage” in
2013, causing
extensive
property
damage



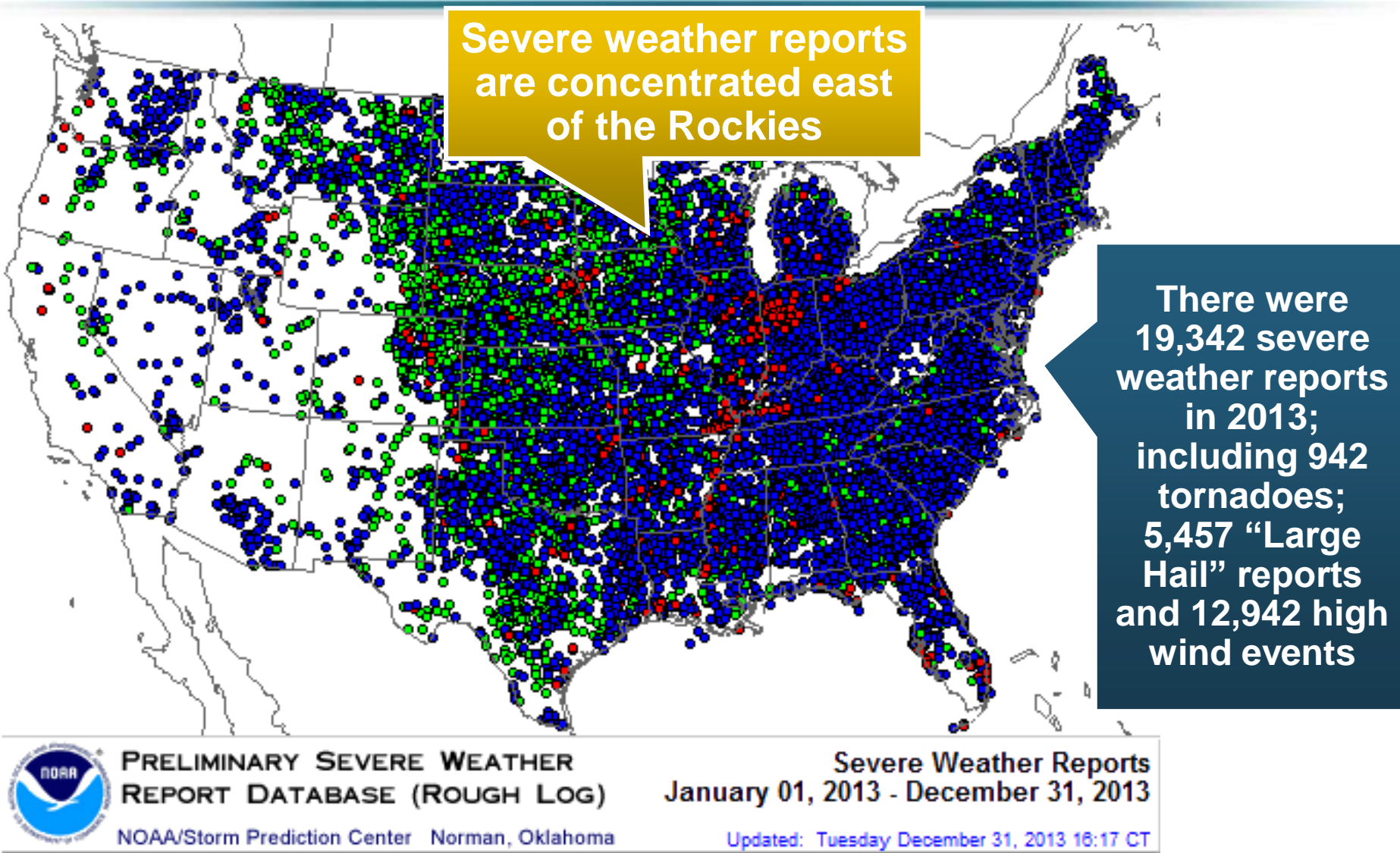
PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Wind Reports
January 01, 2013 - December 31, 2013

Updated: Tuesday December 31, 2013 16:17 CT

Severe Weather Reports: 2013



Terrorism Update

**Down to the Wire? Boston Bombings
Underscore the Need for Extension of
the Terrorism Risk Insurance Program**

***Download III's Terrorism Insurance Report at:
[http://www.iii.org/white_papers/terrorism-
risk-a-constant-threat-2013.html](http://www.iii.org/white_papers/terrorism-risk-a-constant-threat-2013.html)***

Terrorism Risk Insurance Program

- Reauthorization Was a Major Industry Initiative for 2013 Even Before Boston
- I.I.I. Testified at First Congressional Hearing on 9/11/12
 - ◆ Provided testimony at NYC hearing on 6/17/13
- I.I.I. Accelerated Planned Study on Terrorism Risk and Insurance in the Wake of Boston and Was Well Received
 - ◆ *Terrorism: A Constant Threat* issued in June 2013



■ Boston Marathon Bombing Has Helped Focus Attention in Congress on TRIPRA and its Looming Expiration

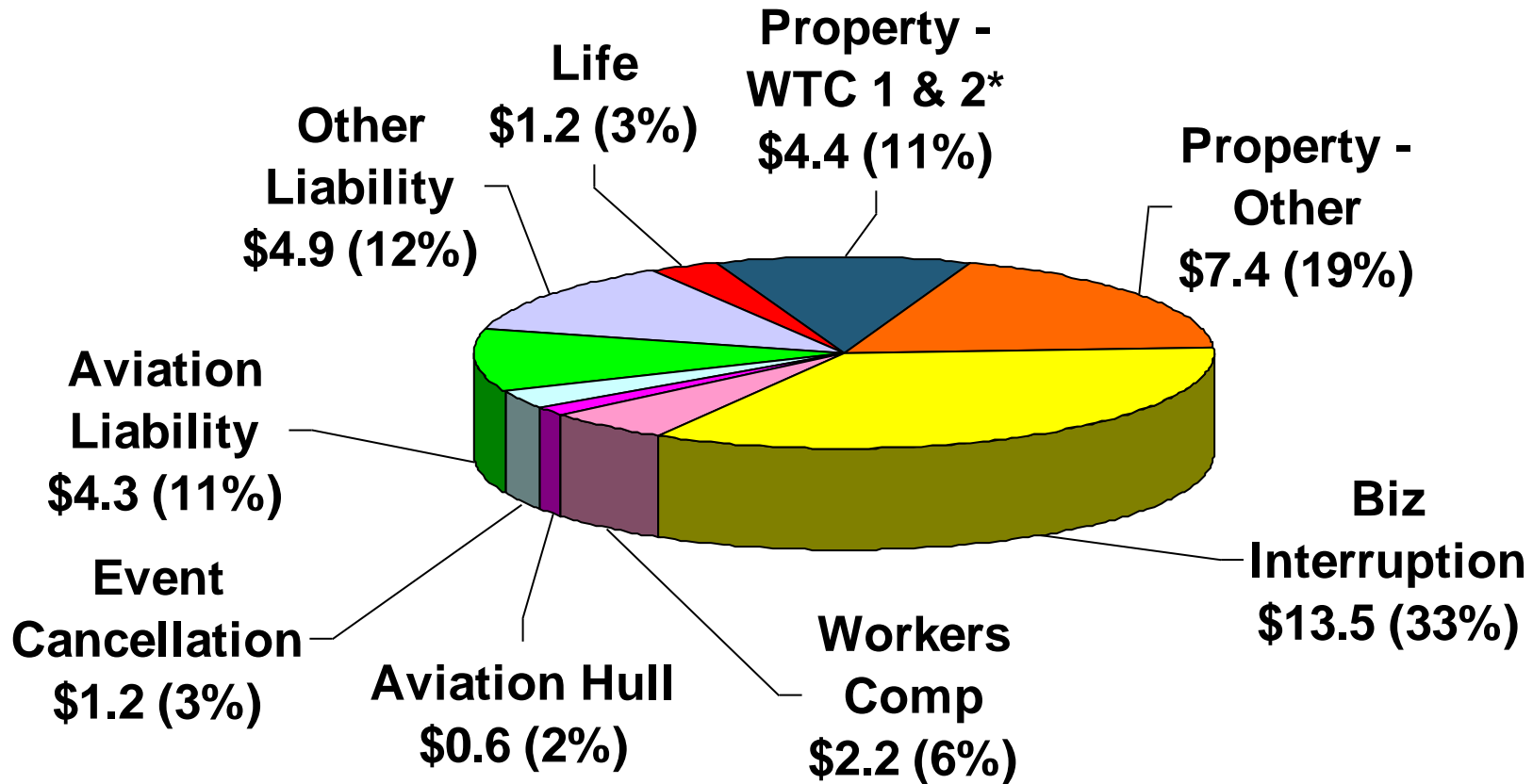
- ◆ Act expires 12/31/14
- ◆ Exclusionary language will likely be inserted for post-1/1/2014 renewals and will likely lead to significant media interest (educational opportunity)
- ◆ Numerous headwinds; not a priority issue in 2013 in Congress
- ◆ 3 extension bills introduced in 2013—2 since Boston

■ Media Interest Soared

- ◆ I.I.I. was conducting its first interviews within minutes after live-tweeting (nearly) from the scene; TV interest was high
- ◆ Local, national and international media focused on this topic for the first time in any significant way since TRIA's inception in late 2002
- ◆ Inquiries revealed very little/no understanding (or even awareness) outside insurance industry and business owners
- ◆ Certification process caused confusion

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

(\$ Billions)



Total Insured Losses Estimate: \$40.0B**

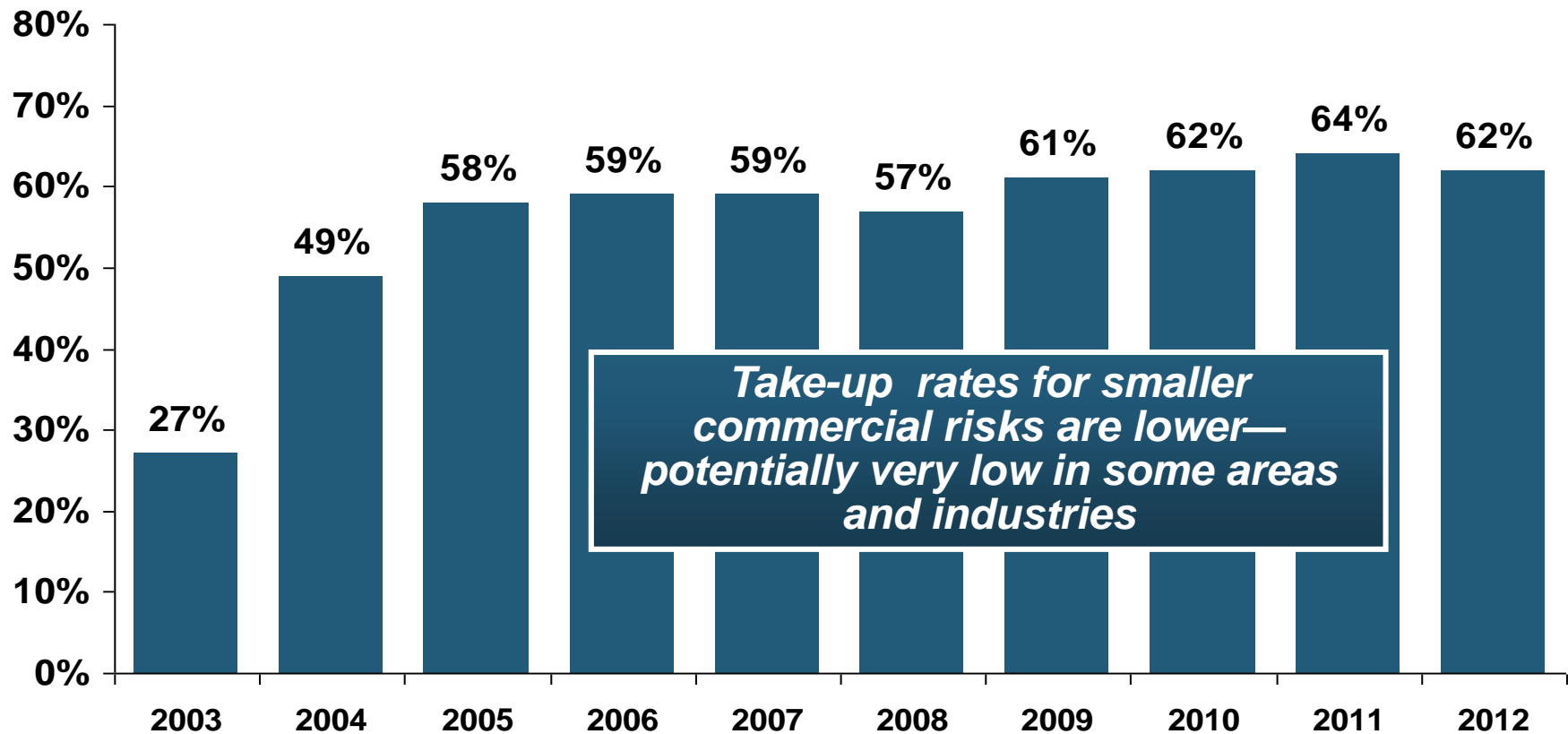
*Loss total does not include March 2010 New York City settlement of up to \$657.5 million to compensate approximately 10,000 Ground Zero workers or any subsequent settlements.

**\$32.5 billion in 2001 dollars.

Source: Insurance Information Institute.

- **Difficult Reauthorization Battle Ahead**
 - ◆ Very difficult to overcome antigovernment/small government, Tea Party forces in the House
 - ◆ Most Committee members in both houses weren't around in 2007
- **House Hearings in 2012; House and Senate in Sept. 2013**
- **If Reauthorized, Insurer Participation Likely Increased**
- **Some Have Attacked TRIA as “Corporate Welfare”**
 - ◆ In reality the taxpayer is 100% protected
 - ◆ NFIP, Crop programs have led to misconceptions
- **Emphasizing Benefits to Employees Under WC is Key**
- **Misperception by Some that Terrorism is Urban Issue**
- ***Growth Opportunity: Standalone Cover if No Reauthorization***
 - ◆ *Though limited capacity will not be sufficient to meet need*

Terrorism Insurance Take-up Rates, By Year, 2003-2012



In 2003, the first year TRIA was in effect, the terrorism take-up rate was 27 percent. Since then, it has increased steadily, remaining in the low 60 percent range since 2009.

- **3 TRIA Reauthorization Bills Introduced in 2013**
- **Bumpy Road to Reauthorization Ahead**
 - ◆ **Senate: Generally supportive based on 9/25 hearing**
 - ◆ **House: Democrats supportive; Republicans skeptical but some seem willing to support reauthorization based on 11/13 hearing**
 - **Analogies to Affordable Care Act often mentioned by Republicans**
- **House Committee Proposals Likely to Involve:**
 - ◆ **Increase in trigger (from current \$100 million)**
 - ◆ **Increasing individual comp. retentions (from current 20% of DPE)**
 - ◆ **Also possible: Simple industry aggregate or NBCR only proposal**
- **I.I.I.: Success of Current Structure & Taxpayer Protections**
- **Also Focused on Importance of Small/Medium Insurers**
- **Limitations of Capacity in the Absence of TRIA**
- ***Media in 2014 Wants Stories of Economic Disruption***

Terrorism Risk Insurance Program

- Testified before Senate Banking Cmte. in Sept. 2013
- Testified before House Financial Services Nov. 2013
- Provided testimony at NYC hearing on June 2013
- I.I.I. Accelerated Planned Study on Terrorism Risk and Insurance in the Wake of Boston and Hearings; Was Well Received and Widely Circulated
- Working with Trades, Congressional Staff, GAO & Others

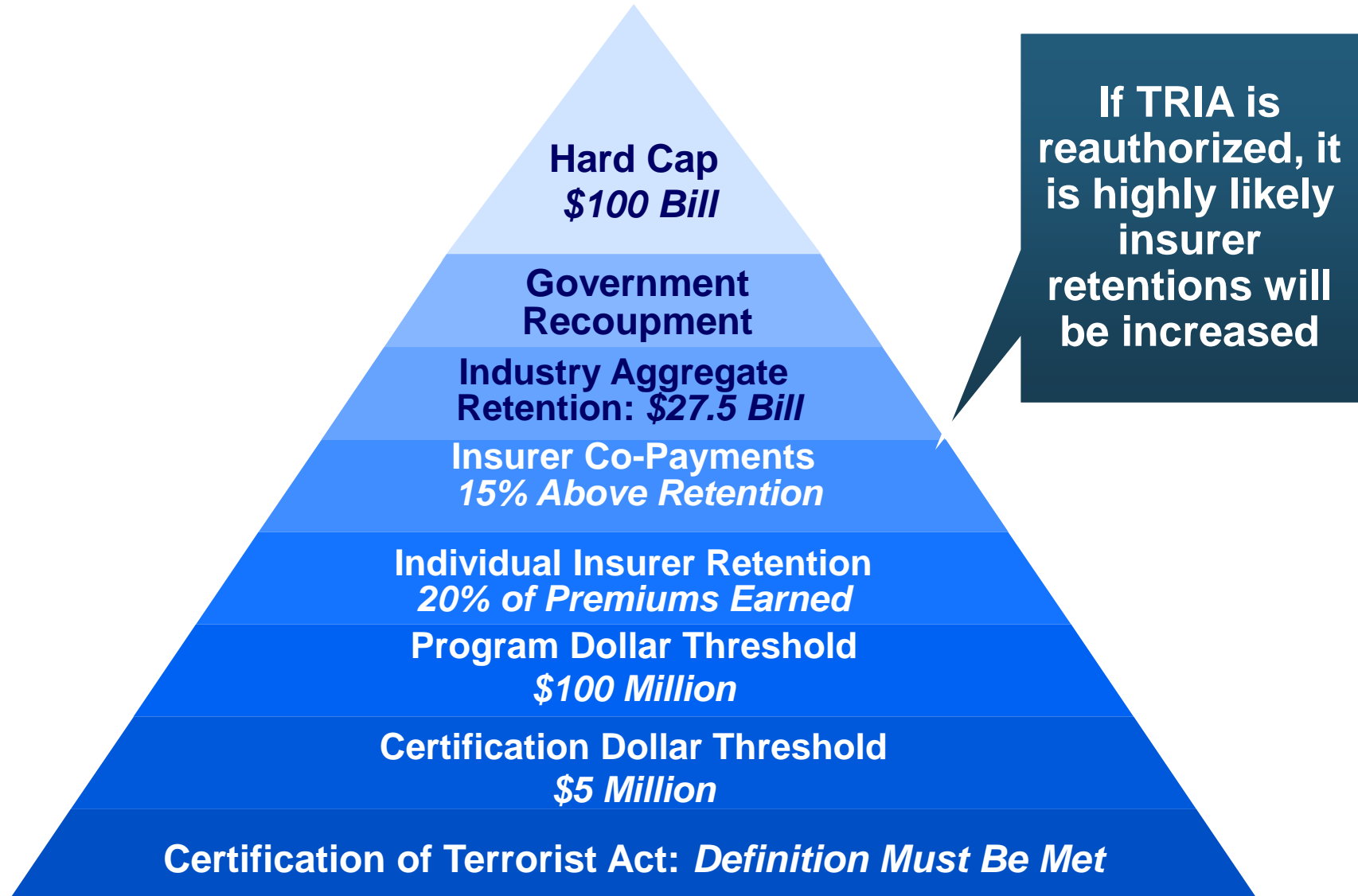


Senate Banking Committee, 9/25/13



House Financial Services
Subcommittee, 11/13/13

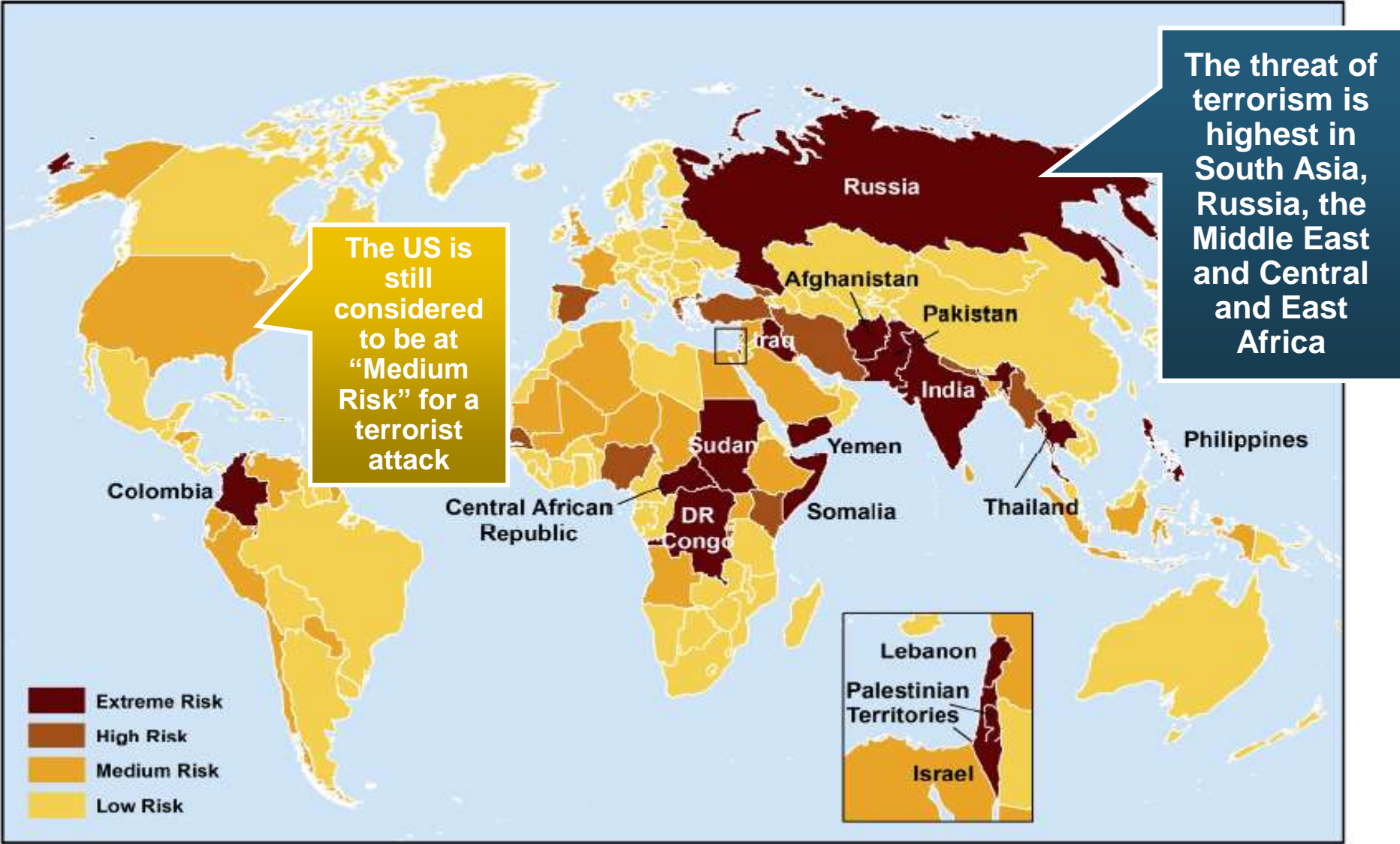
Pyramid of Taxpayer Protection: Strong, Stable, Sound and Secure



Summary of Terrorism Risk Insurance Program Extension Bills Introduced in 2013

Bill	Summary
<p>•H.R. 508: “<i>Terrorism Risk Insurance Act of 2002 Reauthorization Act of 2013</i>”</p> <p>•Introduced Feb. 5 by Rep. Michael Grimm (D-NY)</p>	<ul style="list-style-type: none"> •5-Year Extension (through 2019) •Extend recoupment period for any TRIA assistance from 2017 to 2019
<p>•H.R. 2146: “<i>Terrorism Risk Insurance Program Reauthorization Act of 2013</i>”</p> <p>•Introduced May 23 by Rep. Michael Capuano (D-MA)</p>	<ul style="list-style-type: none"> •10-Year Extension (through 2024) •Extend recoupment period for any TRIA assistance from 2017 to 2024 •Requires President’s Working Group on Financial Markets (PWGFM) to issue reports on long-term availability and affordability of terrorism insurance in 2017, 2020 and 2023 •Reports to be drafted with consultation from NAIC and representatives of the insurance and securities industries and policyholders
<p>•H.R. 1945: “<i>Fostering Resilience to Terrorism Act of 2013</i>”</p> <p>•Introduced May 9 by Rep. Benny Thompson (D-MS)</p>	<ul style="list-style-type: none"> •10-Year Extension (through 2024) •Recoupment period changed to 2024 •Would transfer responsibility for certification of a “act of terrorism” to the Secretary of Homeland Security from Secretary of Treasury. •PWGFM to issue reports in 2017, 2020 and 2023 •Requires Sec. of DHS to provide insureds with “timely homeland security information, including terrorism risk information, at the appropriate level of classification and information on best practices to foster resilience to an act of terrorism.”

Terrorist Risk Index



Sources: Maplecroft Terrorism Risk Index; (2011); Guy Carpenter; Insurance Information Institute.

Terrorism Violates Traditional Requirements for Insurability

Requirement	Definition	Violation
Estimable Frequency	<ul style="list-style-type: none">• Insurance requires large number of observations to develop predictive rate-making models (an actuarial concept known as credibility)	<ul style="list-style-type: none">• Very few data points• Terror modeling still in infancy, untested.• Inconsistent assessment of threat
Estimable Severity	<ul style="list-style-type: none">• Maximum possible/ probable loss must be at least estimable in order to minimize “risk of ruin” (insurer cannot run an unreasonable risk of insolvency though assumption of the risk)	<ul style="list-style-type: none">• Potential loss is virtually unbounded.• Losses can easily exceed insurer capital resources for paying claims.• Extreme risk in workers compensation and statute forbids exclusions.

Terrorism Violates Traditional Requirements for Insurability (cont'd)

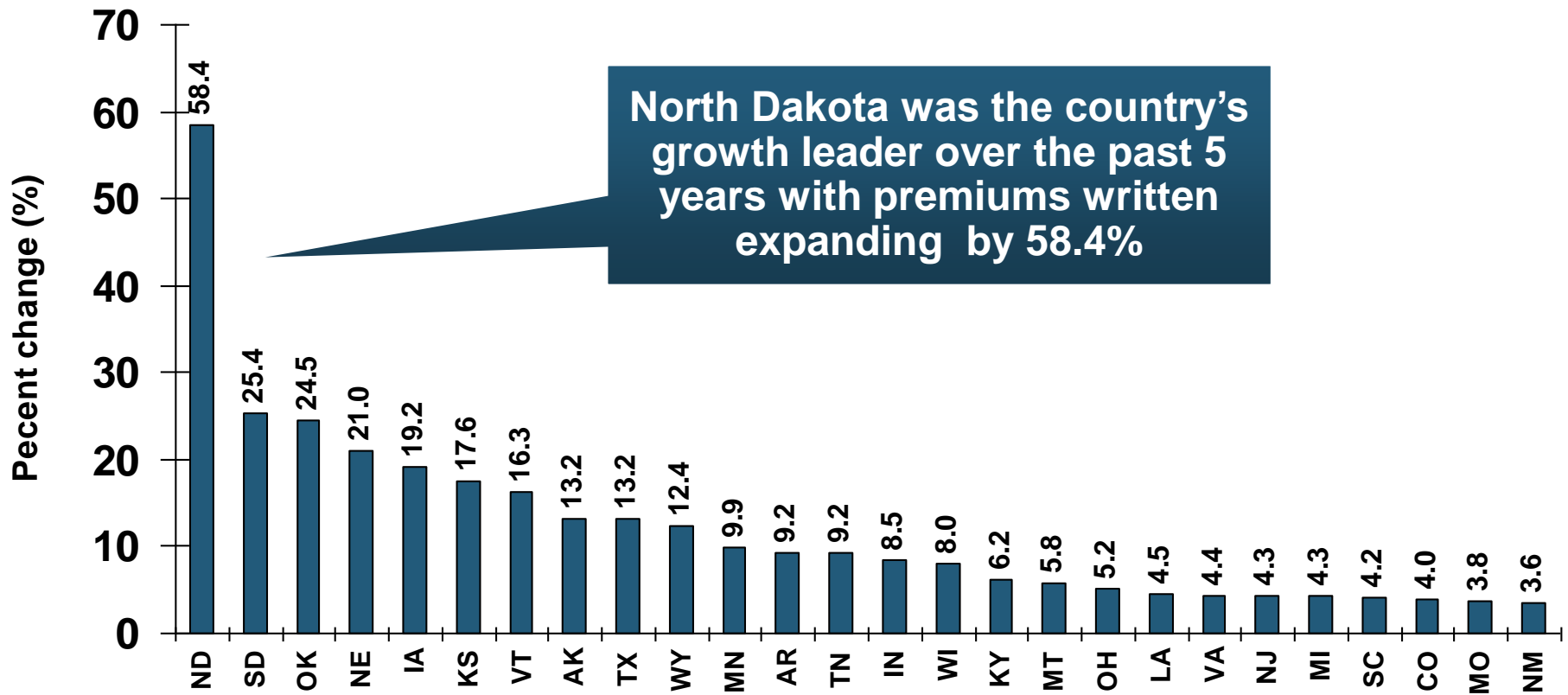
Requirement	Definition	Violation
Diversifiable Risk	<ul style="list-style-type: none"> •Must be able to spread/distribute risk across large number of risks •“Law of Large Numbers” helps makes losses manageable and less volatile 	<ul style="list-style-type: none"> •Losses likely highly concentrated geographically or by industry (e.g., WTC, power plants)
Random Loss Distribution/ Fortuity	<ul style="list-style-type: none"> •Probability of loss occurring must be purely random and fortuitous •Events are individually unpredictable in terms of time, location and magnitude 	<ul style="list-style-type: none"> •Terrorism attacks are planned, coordinated and deliberate acts of destruction •Dynamic target shifting from “hardened targets” to “soft targets” •Terrorist adjust tactics to circumvent new security measures •Actions of US and foreign govts. may affect likelihood, nature and timing of attack

Growth Analysis by State and Business Segment

**Premium Growth Rates Vary
Tremendously by State**

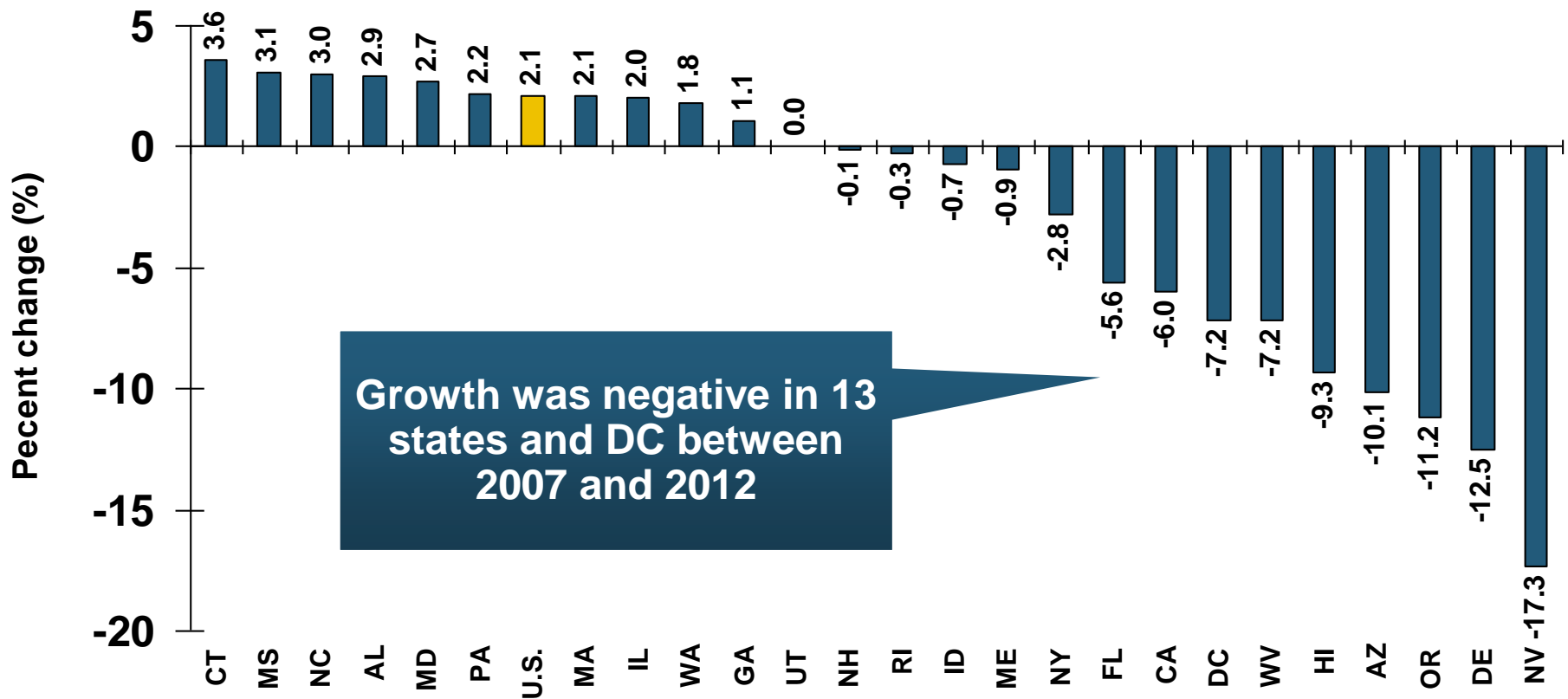
Direct Premiums Written: Total P/C Percent Change by State, 2007-2012*

Top 25 States



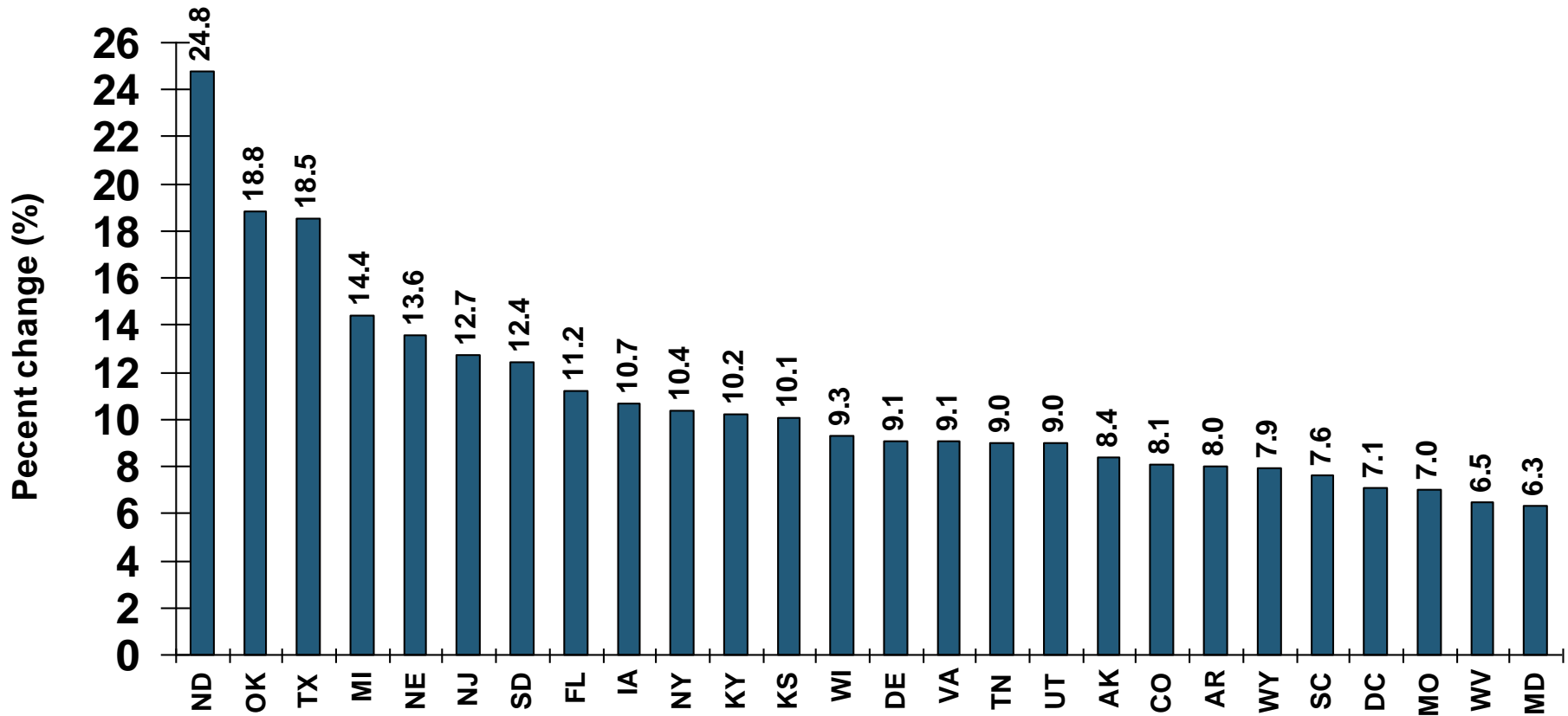
Direct Premiums Written: Total P/C Percent Change by State, 2007-2012*

Bottom 25 States



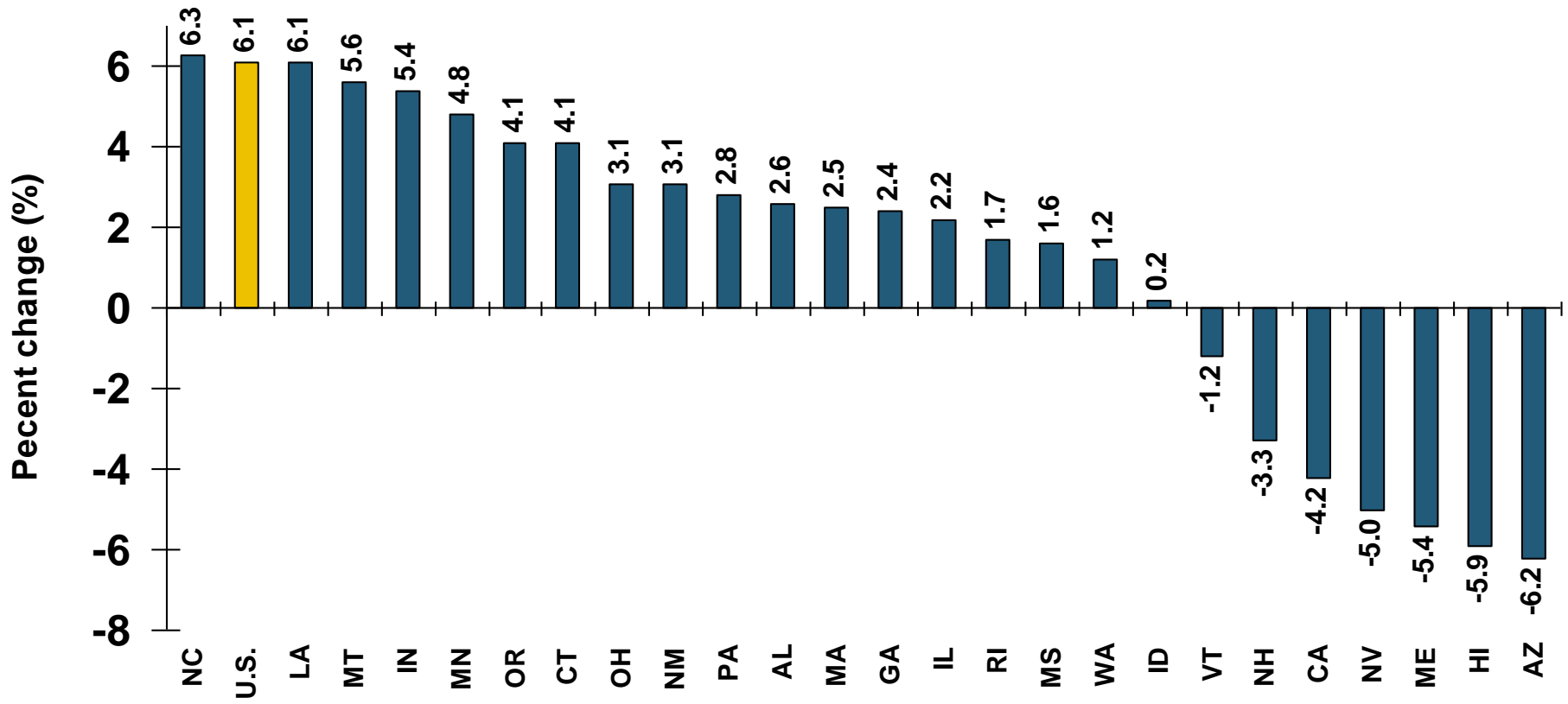
Direct Premiums Written: PP Auto Percent Change by State, 2007-2012*

Top 25 States



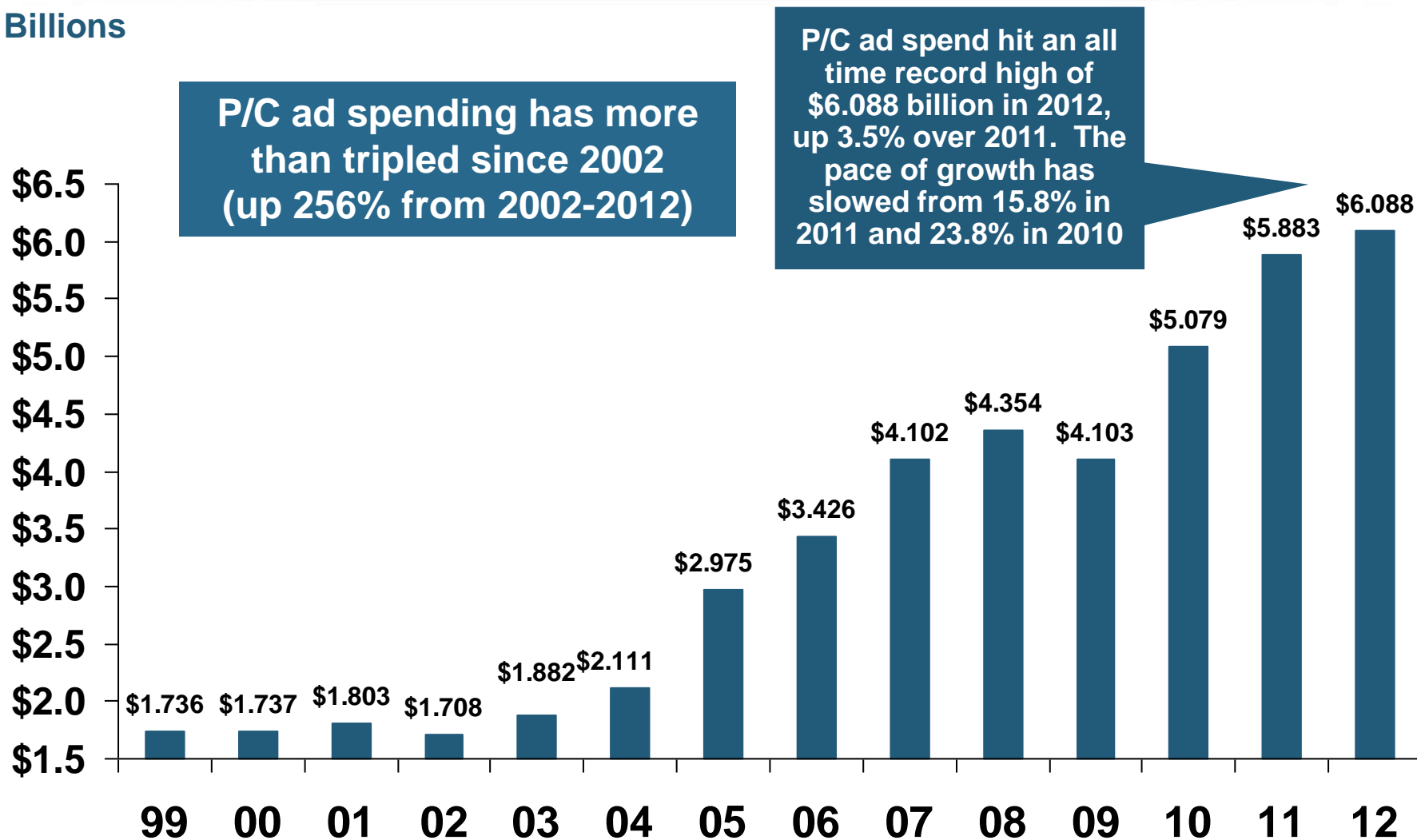
Direct Premiums Written: PP Auto Percent Change by State, 2007-2012*

Bottom 25 States



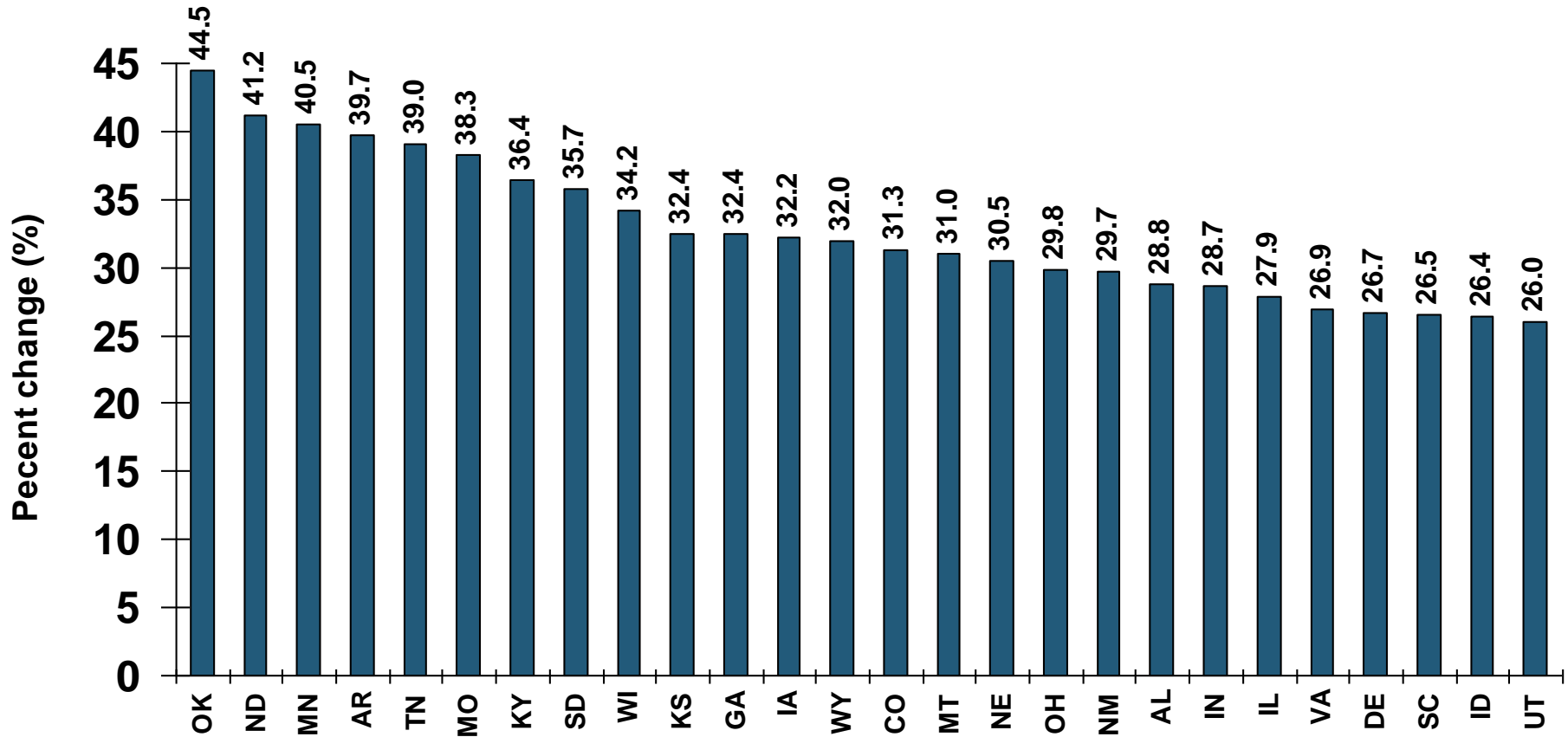
Advertising Expenditures by P/C Insurance Industry, 1999-2012

\$ Billions



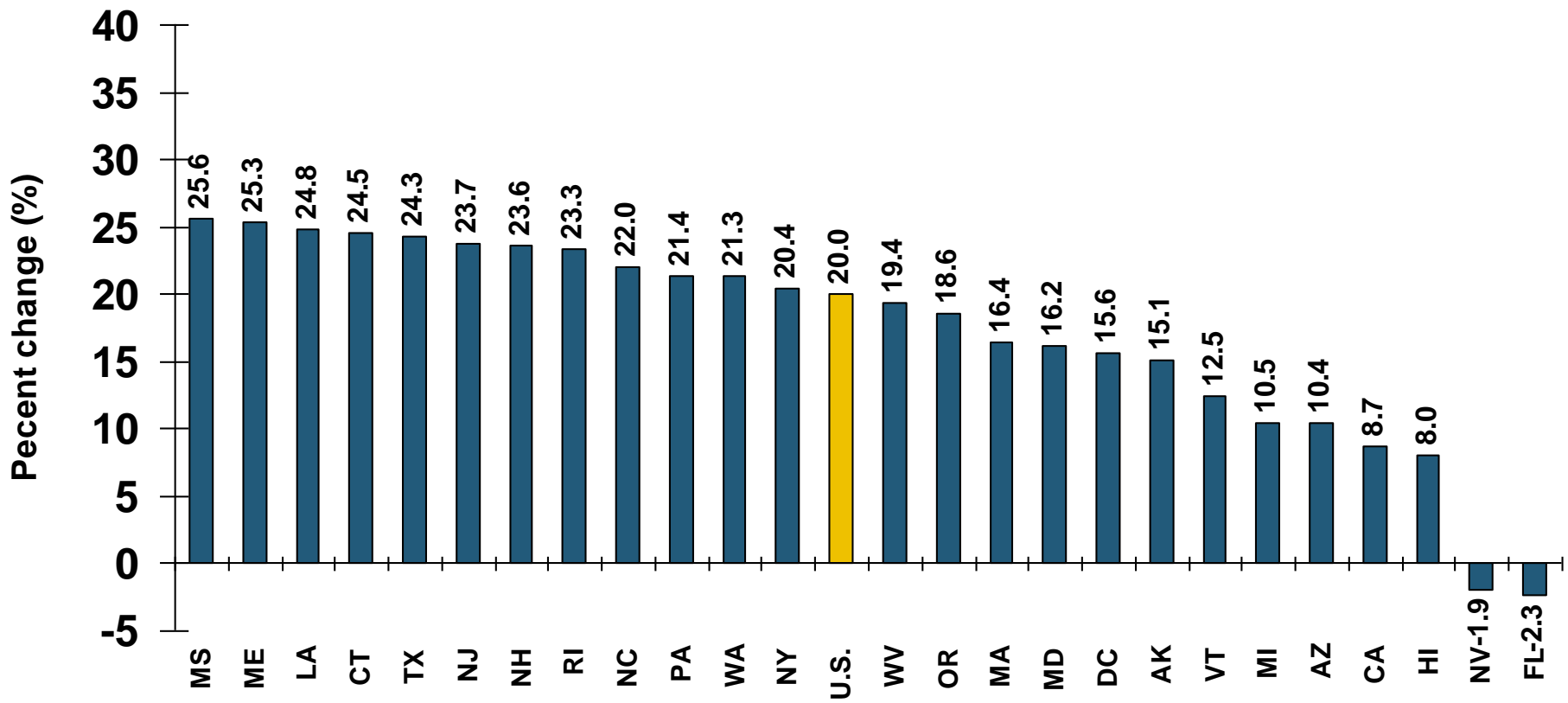
Direct Premiums Written: Homeowners Percent Change by State, 2007-2012*

Top 25 States



Direct Premiums Written: Homeowners Percent Change by State, 2007-2012*

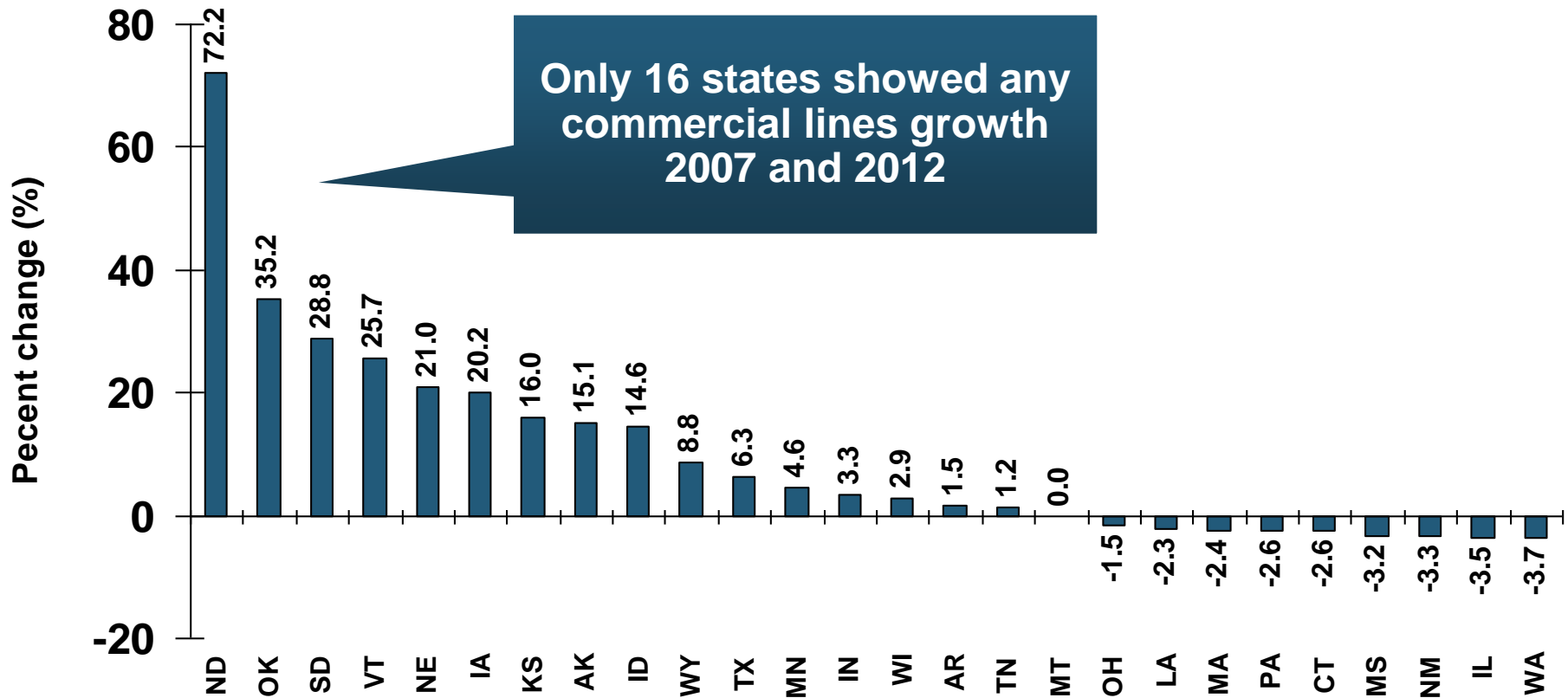
Bottom 25 States



Sources: SNL Financial LLC.; Insurance Information Institute.

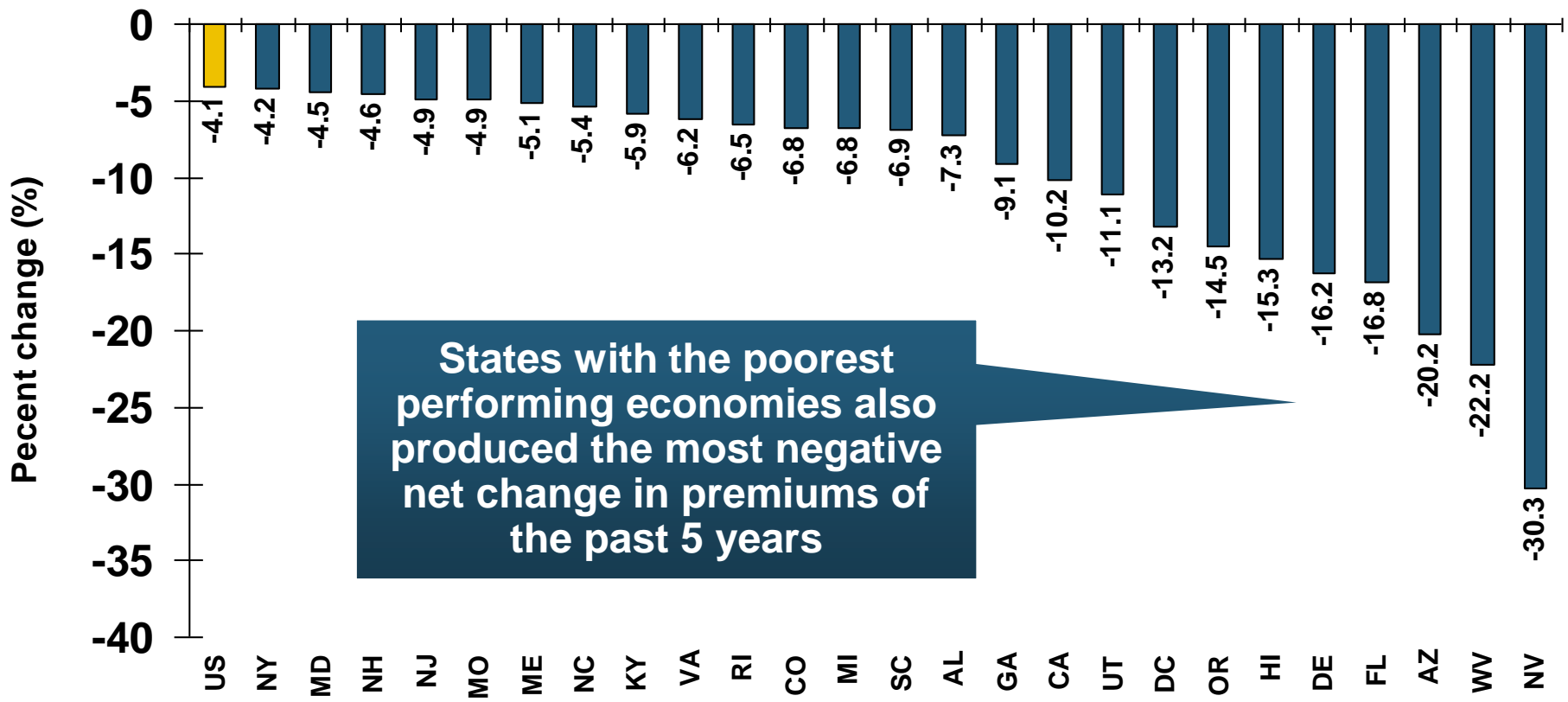
Direct Premiums Written: Comm. Lines Percent Change by State, 2007-2012*

Top 25 States



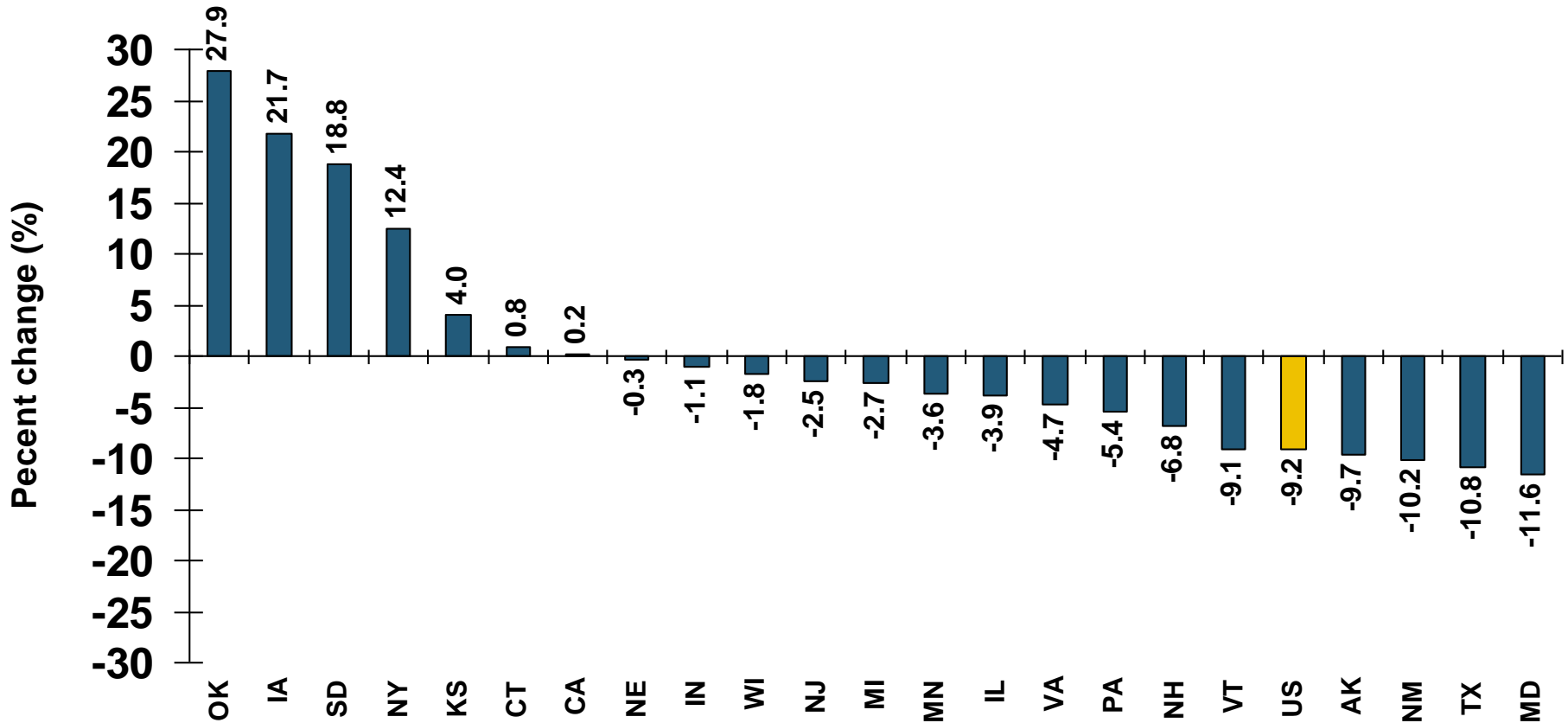
Direct Premiums Written: Comm. Lines Percent Change by State, 2007-2012*

Bottom 25 States



Direct Premiums Written: Workers' Comp Percent Change by State, 2007-2012*

Top 25 States

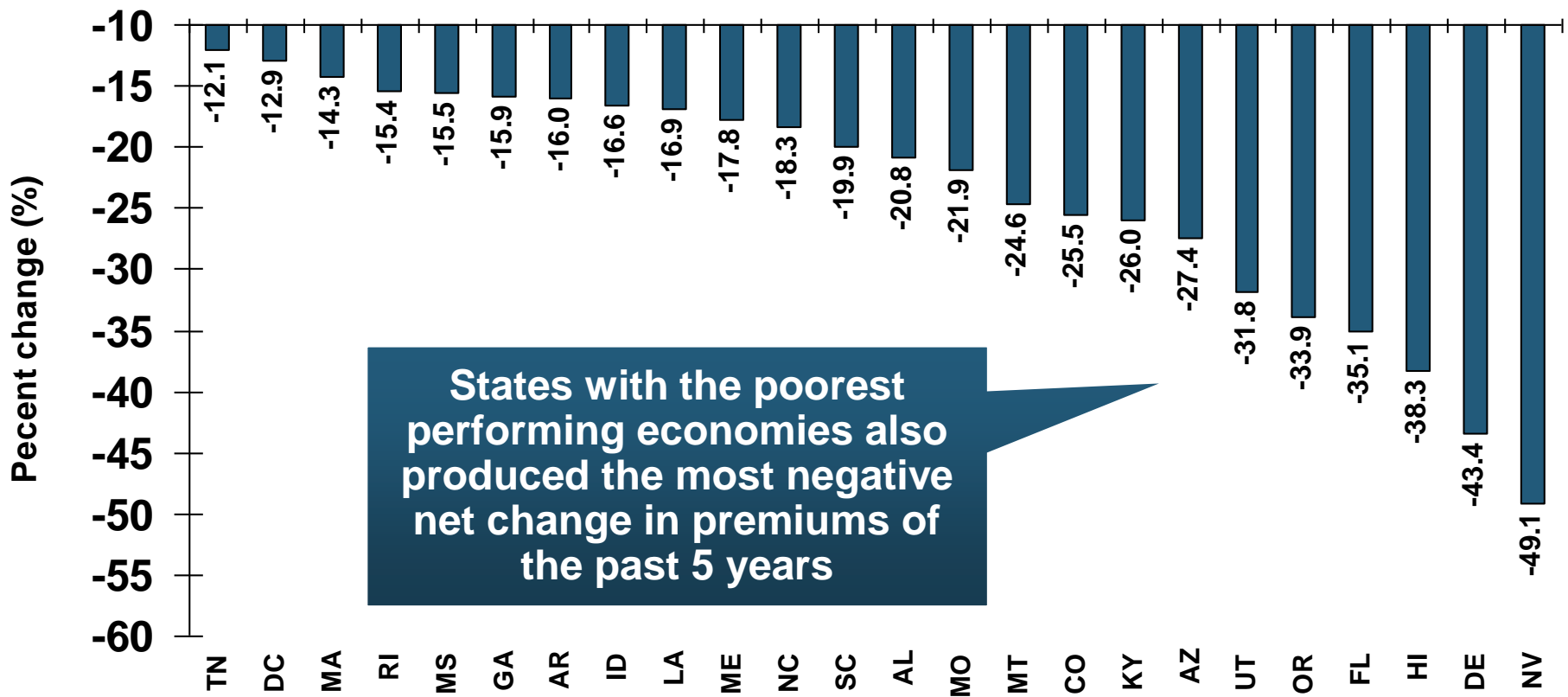


*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: Worker's Comp Percent Change by State, 2007-2012*

Bottom 25 States



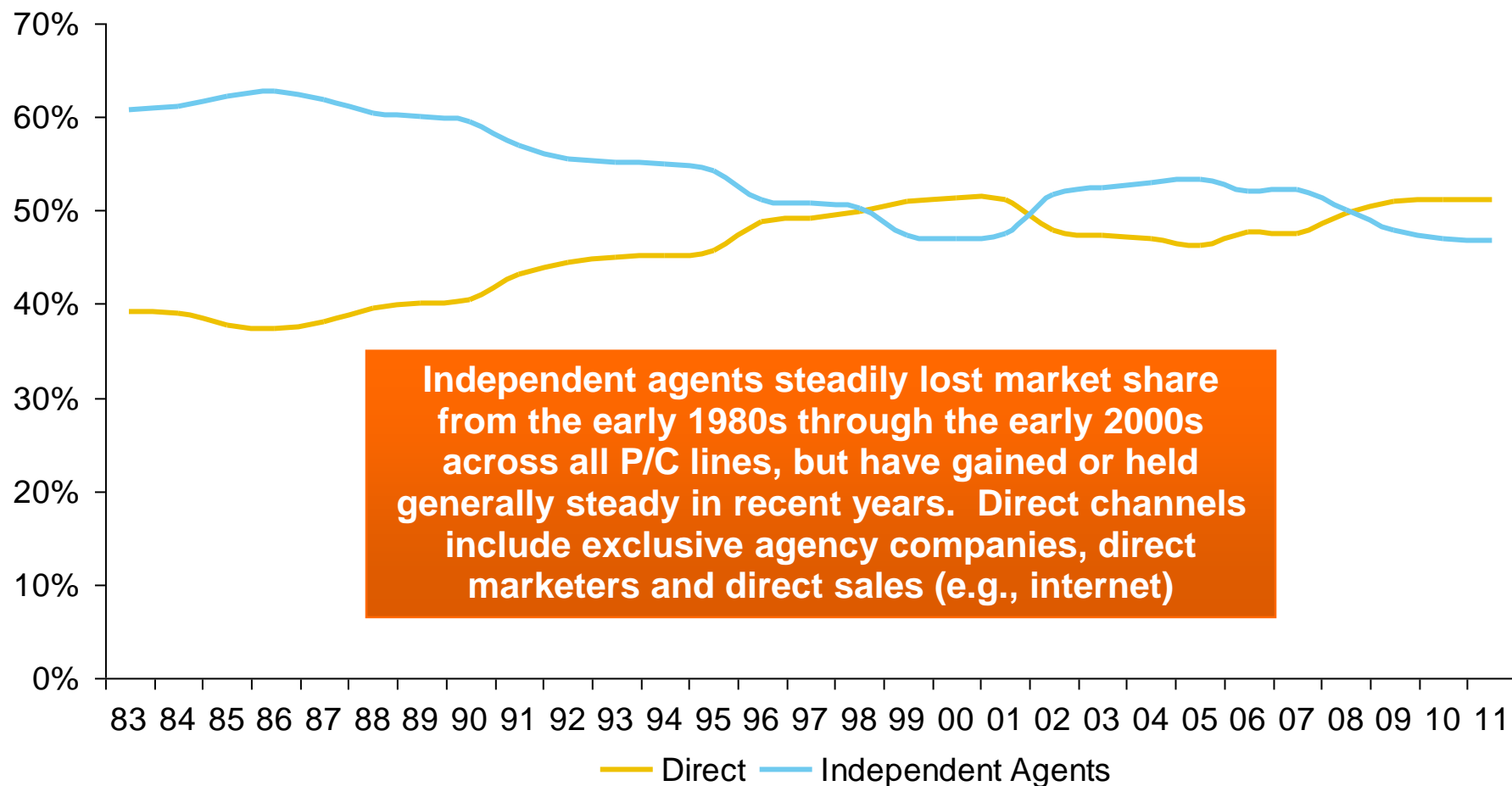
*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

Sources: SNL Financial LC.; Insurance Information Institute.

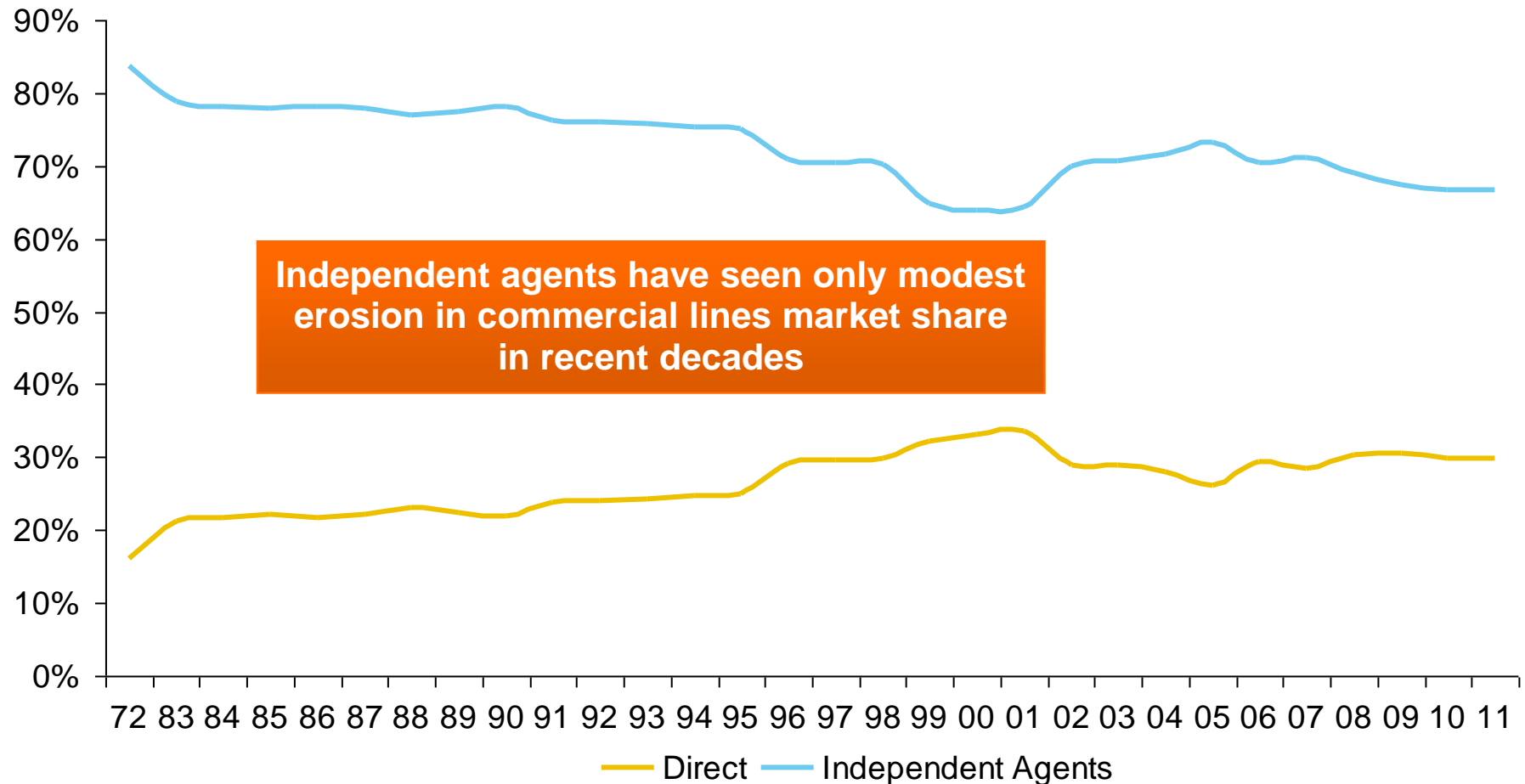
Distribution Trends

**Distribution by Channel Type
Continues to Evolve Around
the World**

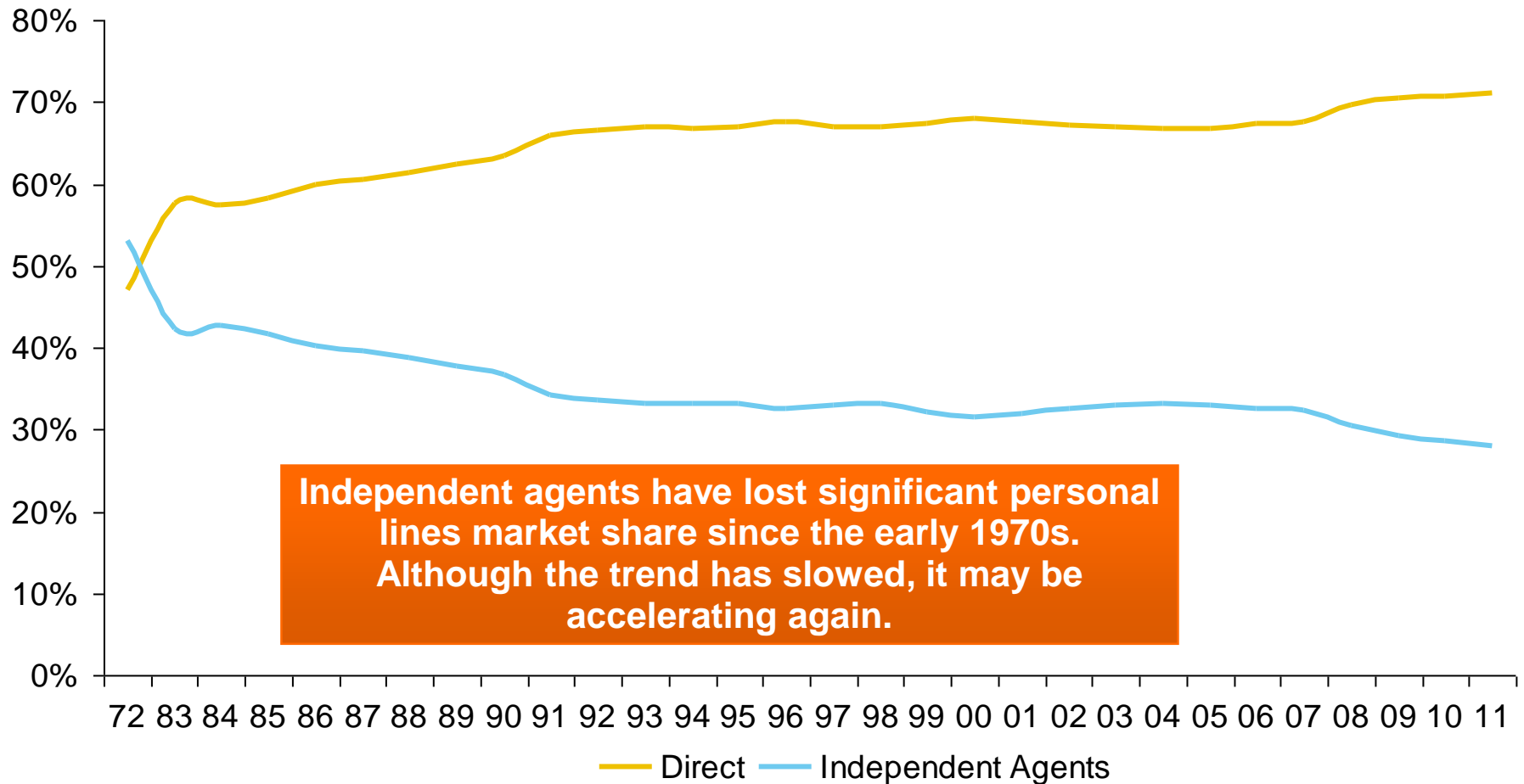
All P/C Lines Distribution Channels, Direct vs. Independent Agents



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



Personal Lines Distribution Channels, Direct vs. Independent Agents



The BIG Question: Where Is the Market Heading?

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

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

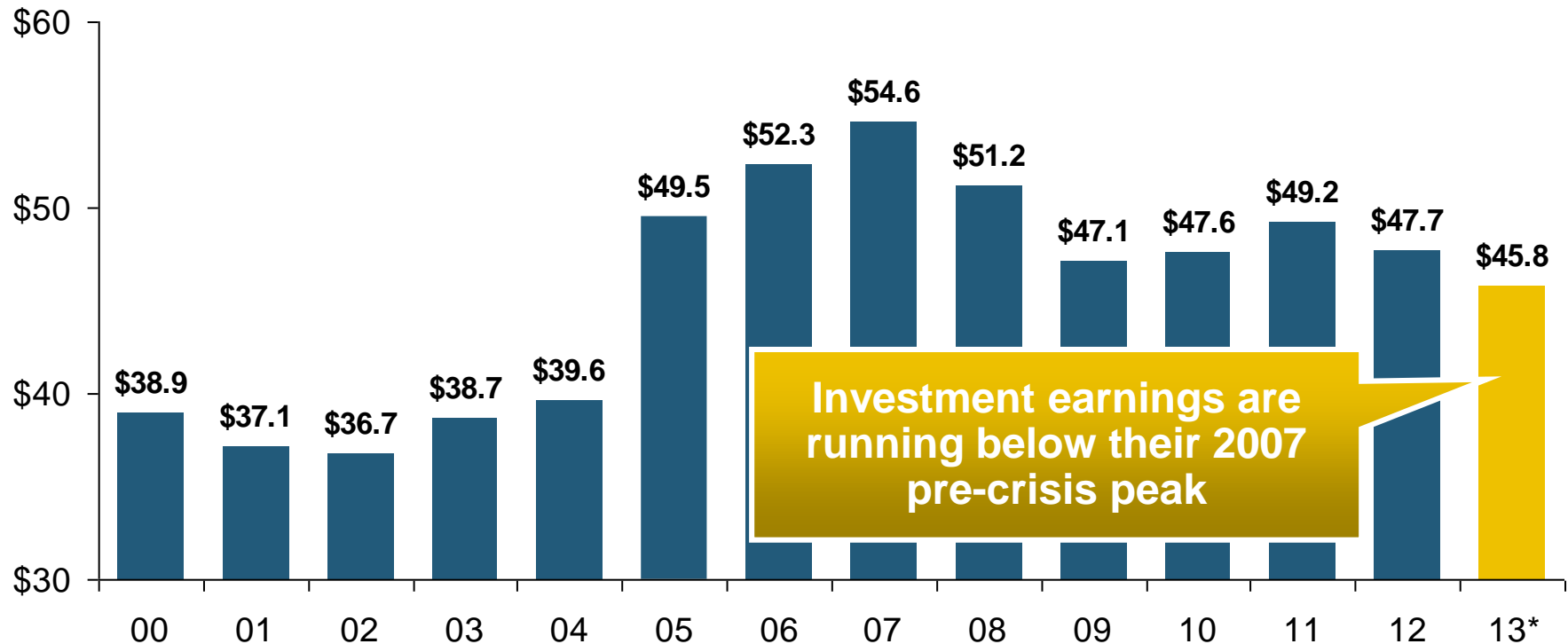
INVESTMENTS: THE NEW REALITY

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

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

Property/Casualty Insurance Industry Investment Income: 2000–2013*¹

(\$ Billions)



Investment Income Fell in 2012 and is Falling in 2013 Due to Persistently Low Interest Rates, Putting Additional Pressure on (Re) Insurance Pricing

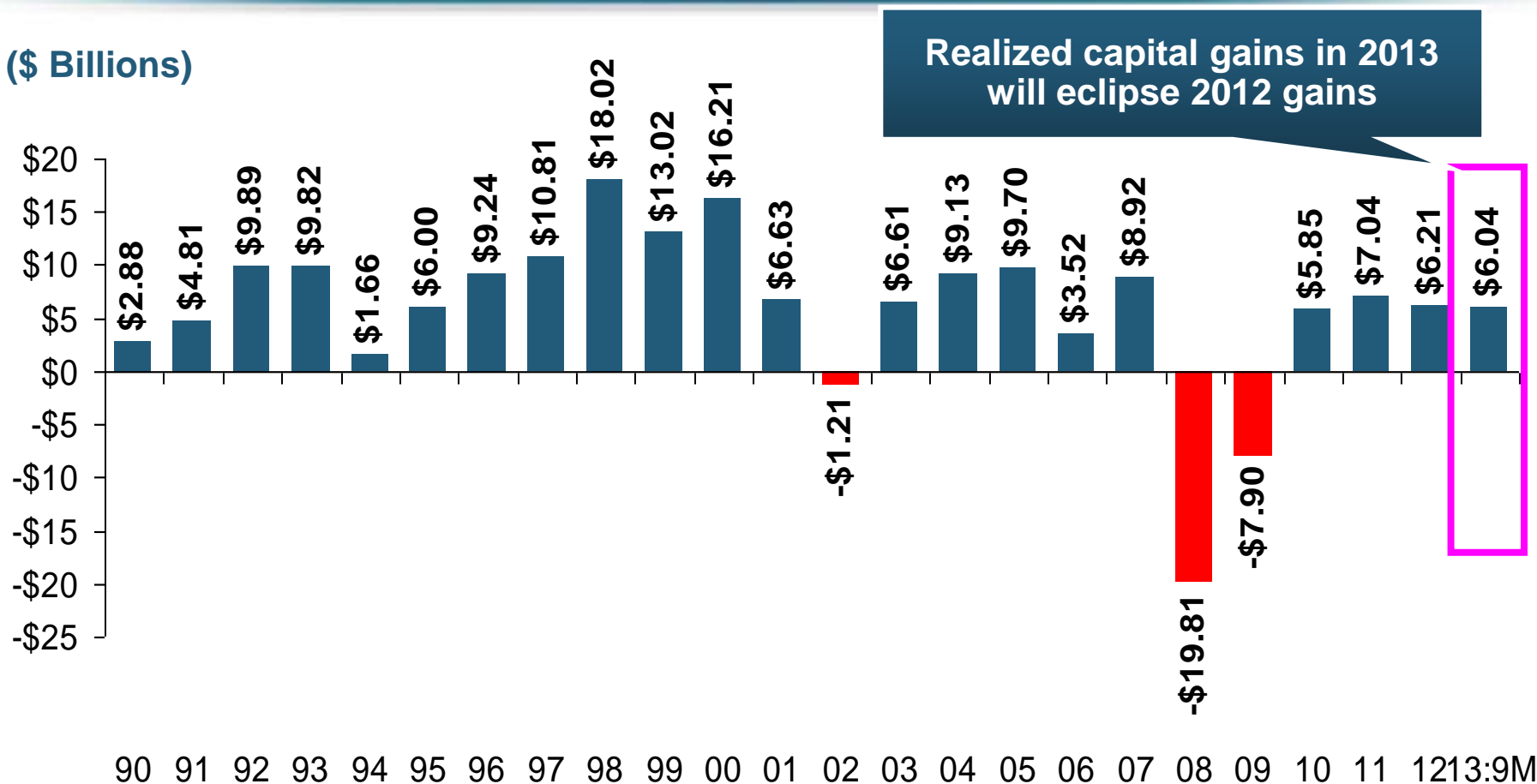
¹ Investment gains consist primarily of interest and stock dividends..

*Estimate based on annualized actual 9M:2013 investment income of \$34.338B.

Sources: ISO; Insurance Information Institute.

P/C Insurer Net Realized Capital Gains/Losses, 1990-2013:Q3

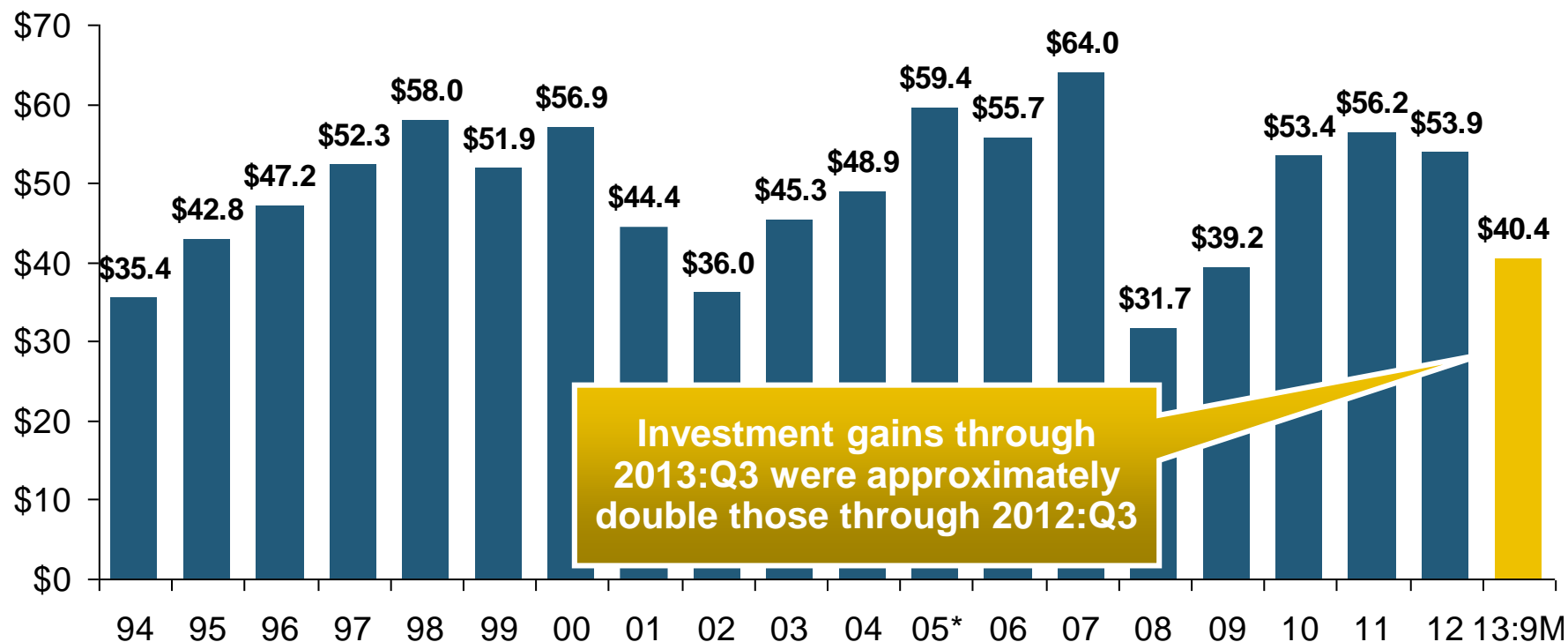
(\$ Billions)



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

Property/Casualty Insurance Industry Investment Gain: 1994–2013:Q3¹

(\$ Billions)



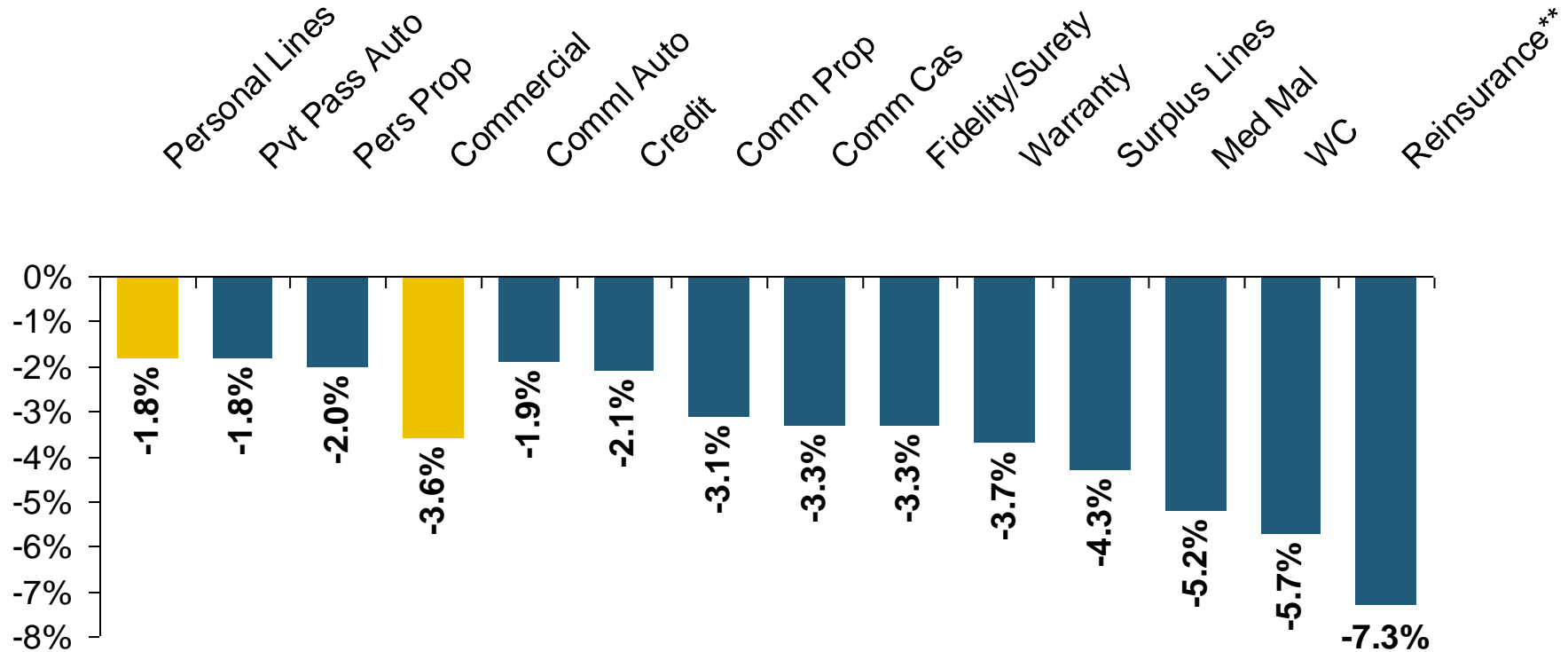
Investment Income Continued to Fall in 2013 Due to Low Interest Rates but Realized Investment Gains Were Up Sharply; The Financial Crisis Caused Investment Gains to Fall by 50% in 2008

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*



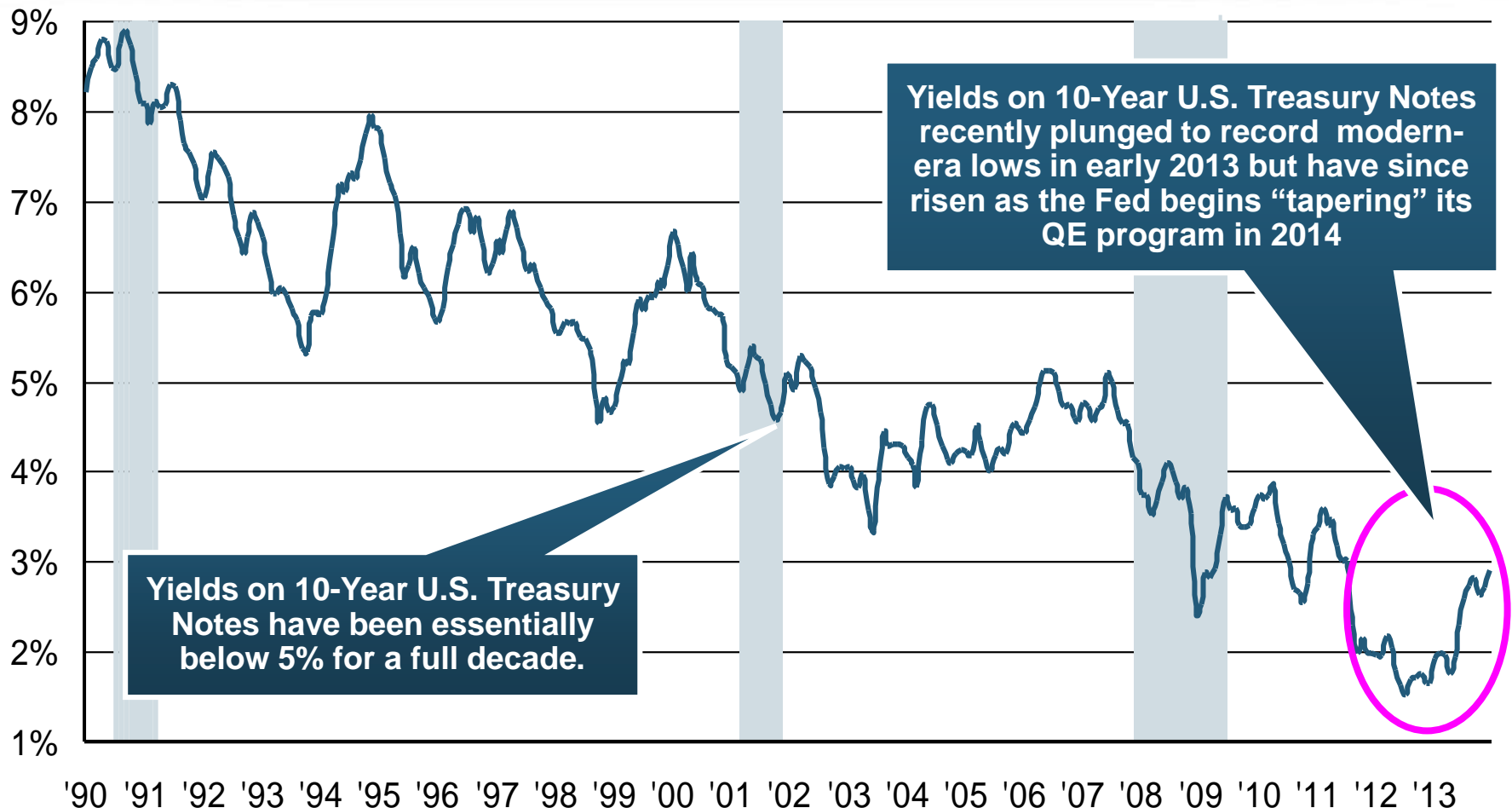
Lower Investment Earnings Place a Greater Burden on Underwriting and Pricing Discipline

*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, 1990–2013*



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.

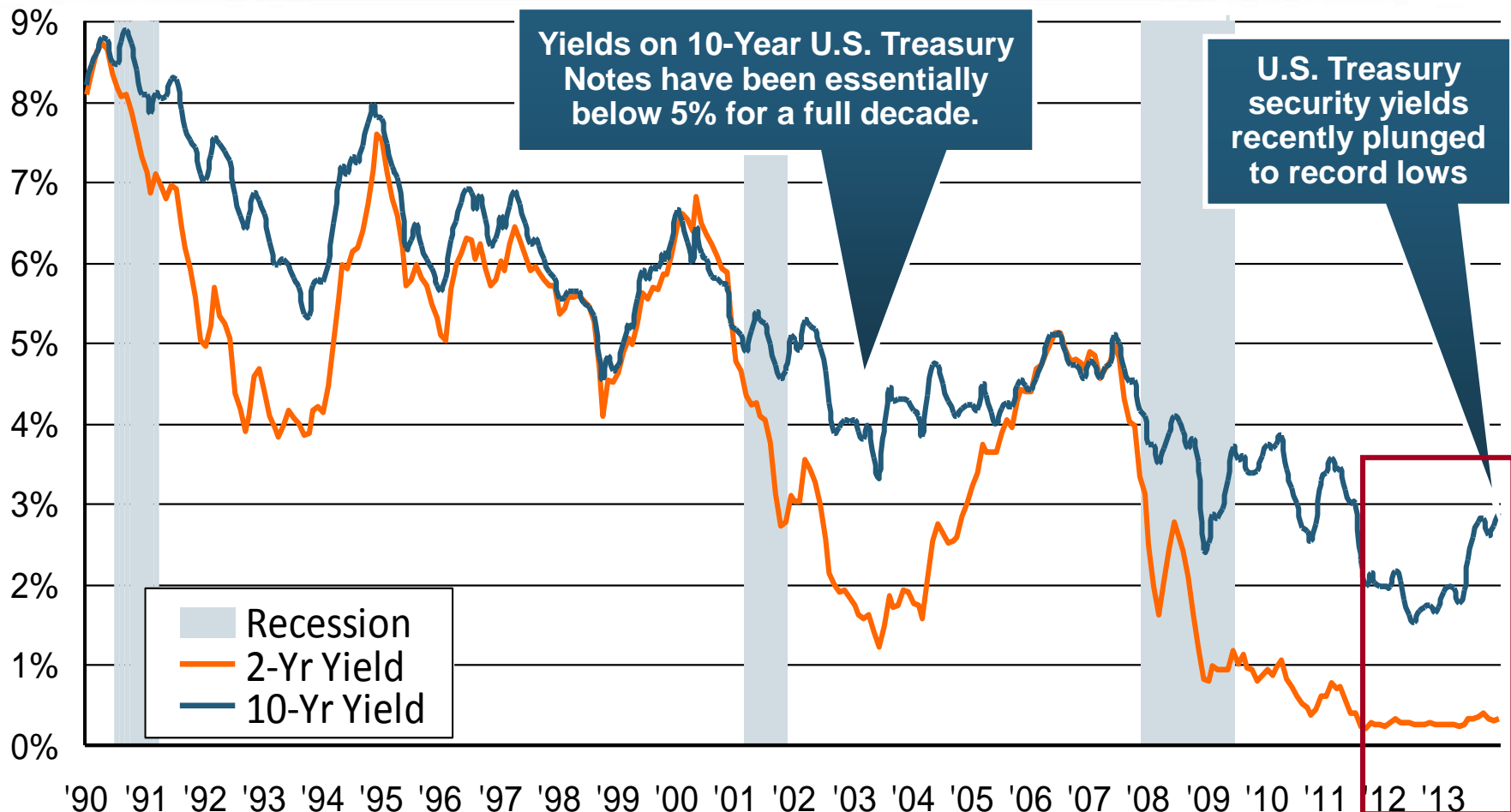
*Monthly, through December 2013.

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.

U.S. Treasury Security Yields: A Long Downward Trend, 1990–2013*

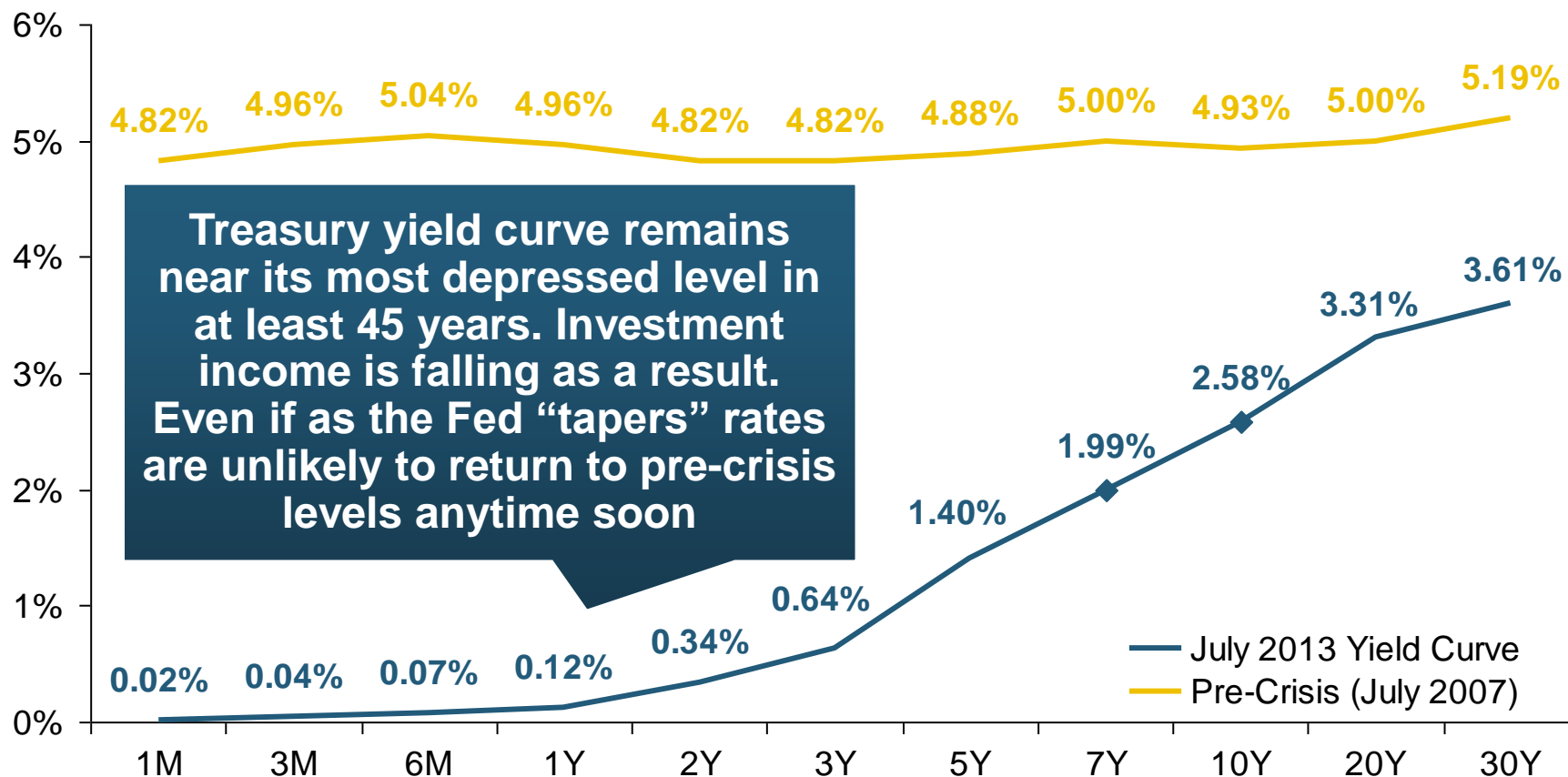


Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, constant maturity, nominal rates, through December 2013.

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

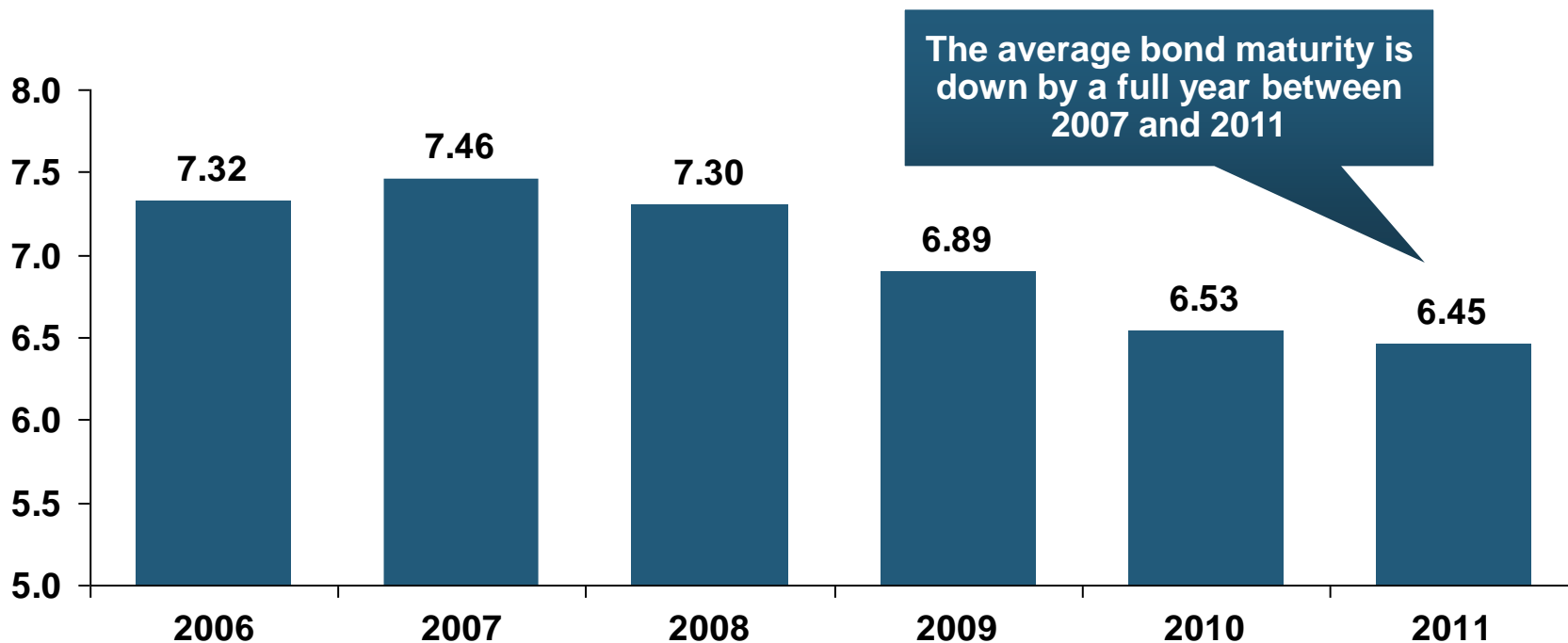
Treasury Yield Curves: Pre-Crisis (July 2007) vs. July 2013



The Fed Is Actively Signaling that it Is Determined to Keep Rates Low Until Unemployment Drops Below 6.5% or Until Inflation Expectations Exceed 2.5%; Low Rates Add to Pricing Pressure for Insurers.

Average Maturity of Bonds Held by US P/C Insurers, 2006—2011*

Average Maturity (Years)

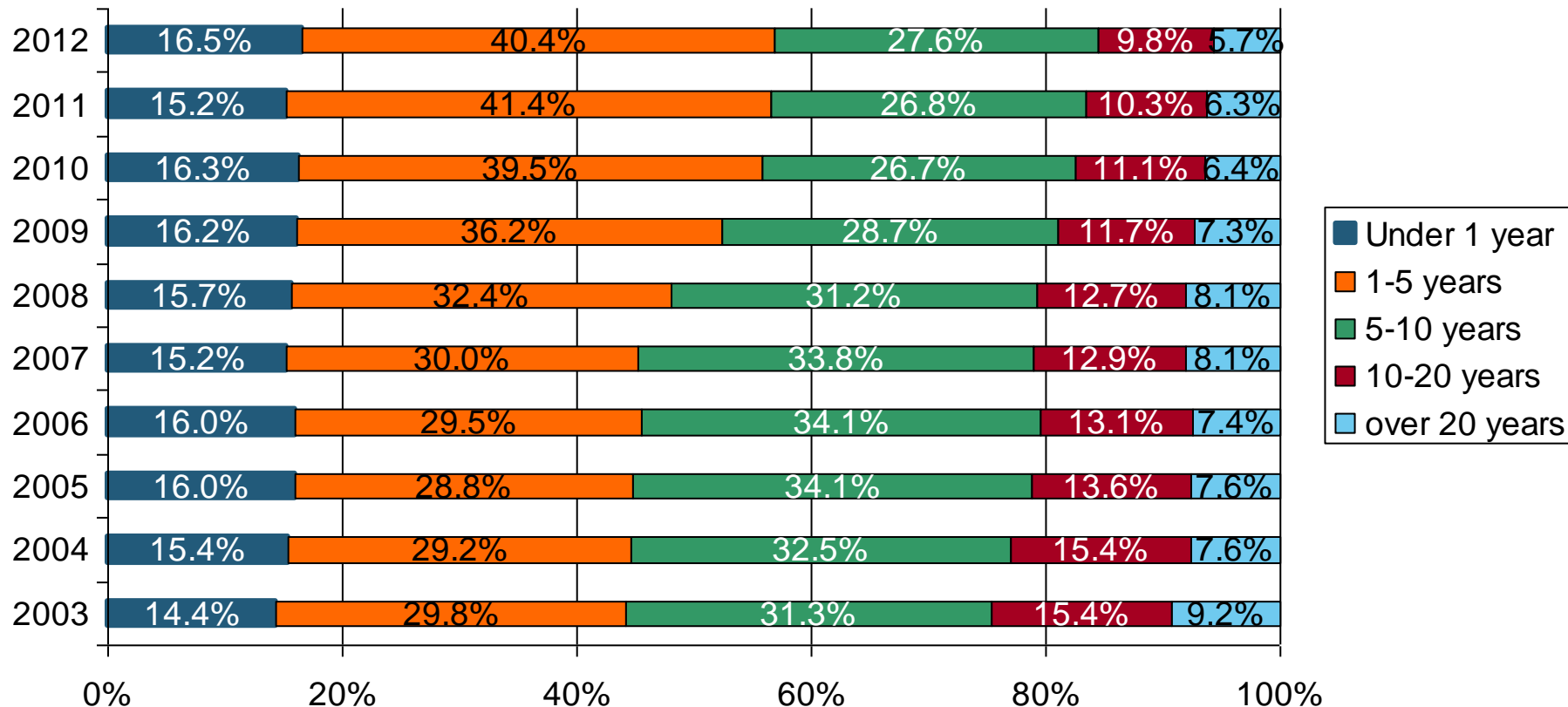


Falling Average Maturity (and Duration) of the P/C Industry's Bond Portfolio is Contributing to the Drop in Investment Income Along With Lower Yields

*Year-end figures. Latest available.

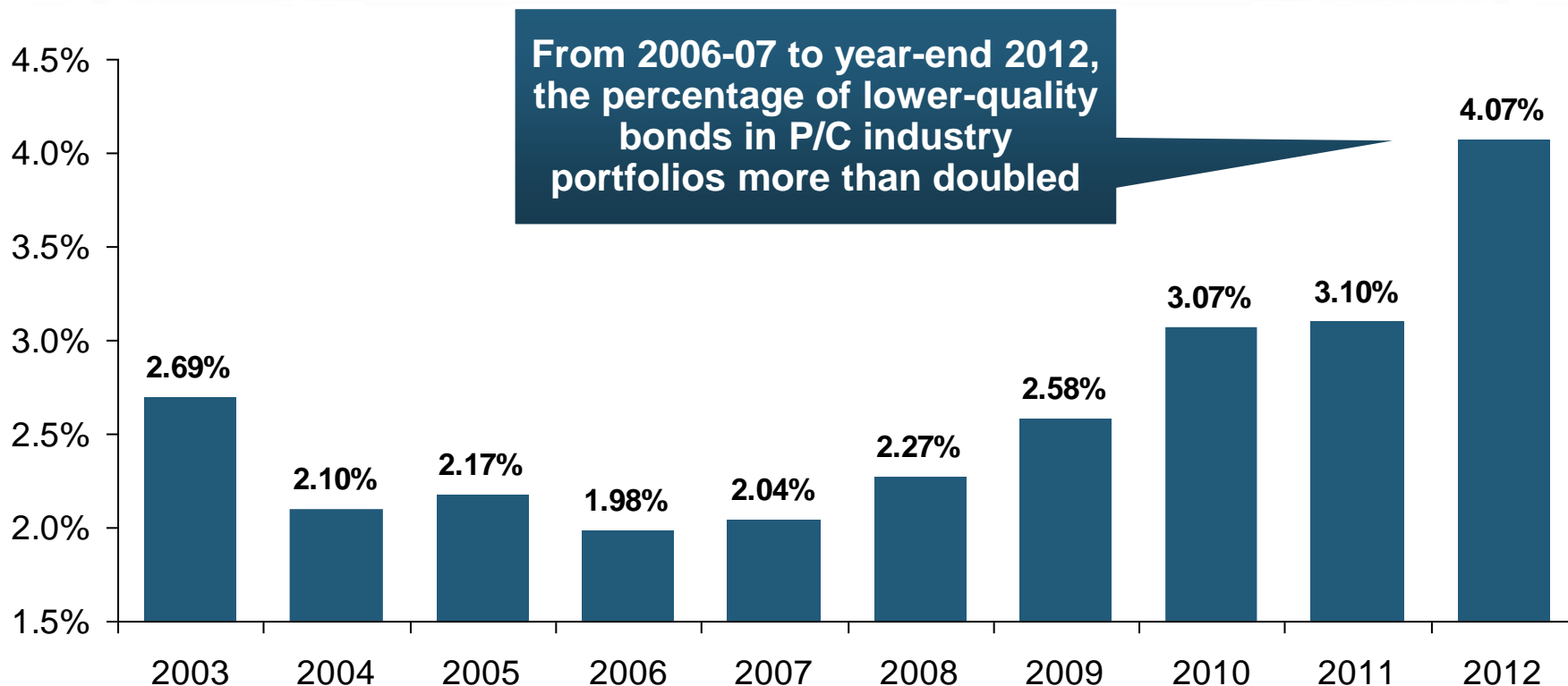
Sources: Insurance Information Institute calculations based on A.M. Best data.

Distribution of Bond Maturities, P/C Insurance Industry, 2003-2012



The main shift over these years has been from bonds with longer maturities to bonds with shorter maturities. The industry first trimmed its holdings of over-10-year bonds (from 24.6% in 2003 to 15.5% in 2012) and then trimmed bonds in the 5-10-year category (from 31.3% in 2003 to 27.6% in 2012). Falling average maturity of the P/C industry's bond portfolio is contributing to a drop in investment income along with lower yields.

Bonds Rated NAIC Quality Category 3-6 as a Percent of Total Bonds, 2003–2012

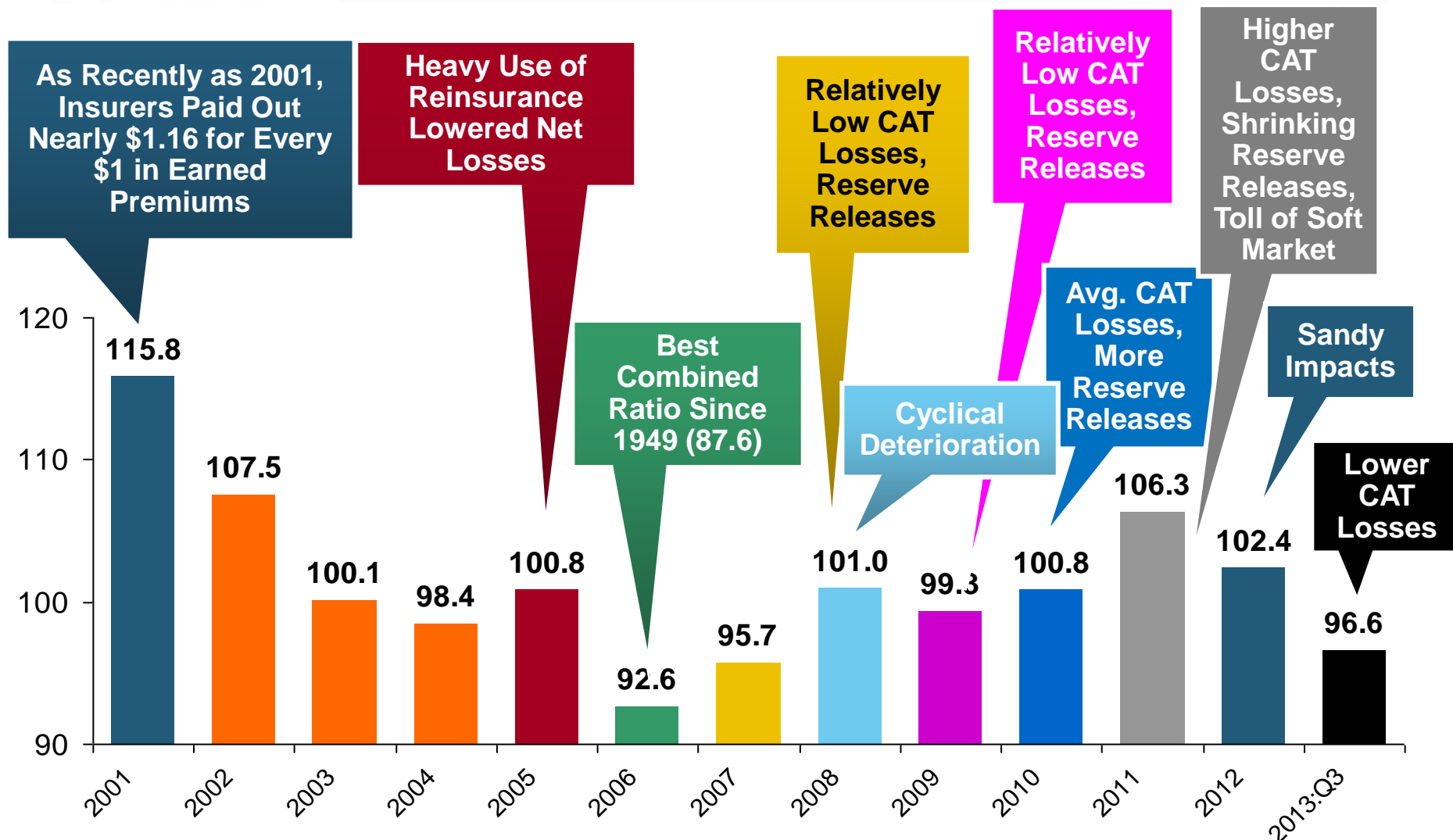


There are many ways to capture higher yields on bond portfolios. One is to accept greater risk, as measured by NAIC bond ratings. The ratings range from 1 to 6, with the highest quality rated 1. Even in 2012, over 95% of the industry's bonds were rated 1 or 2.

1. UNDERWRITING

**Underwriting Losses in 2013
Much Improved After High
Catastrophe Losses in 2011/12**

P/C Insurance Industry Combined Ratio, 2001–2013:Q3*

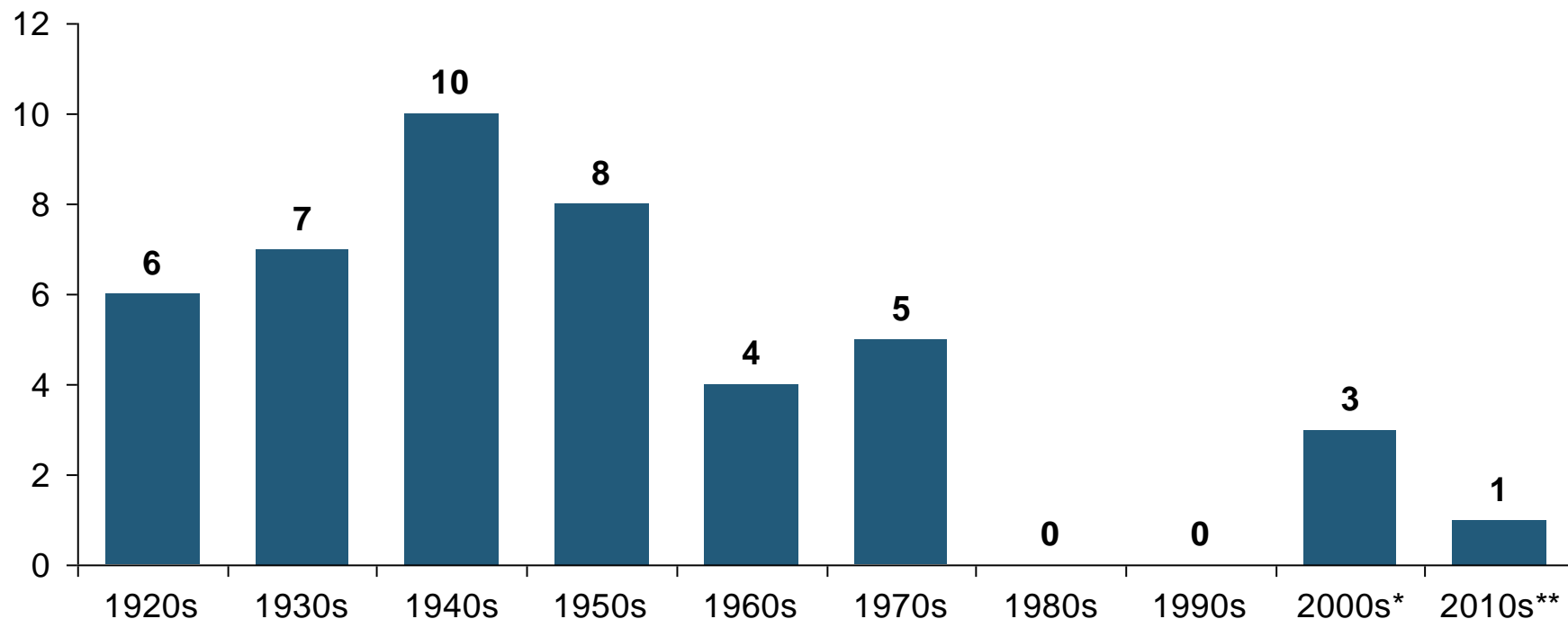


* Excludes Mortgage & Financial Guaranty insurers 2008--2012. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.1, 2012=103.2; 2013:Q3 = 95.8.

Sources: A.M. Best, ISO.

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

Number of Years with Underwriting Profits



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

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

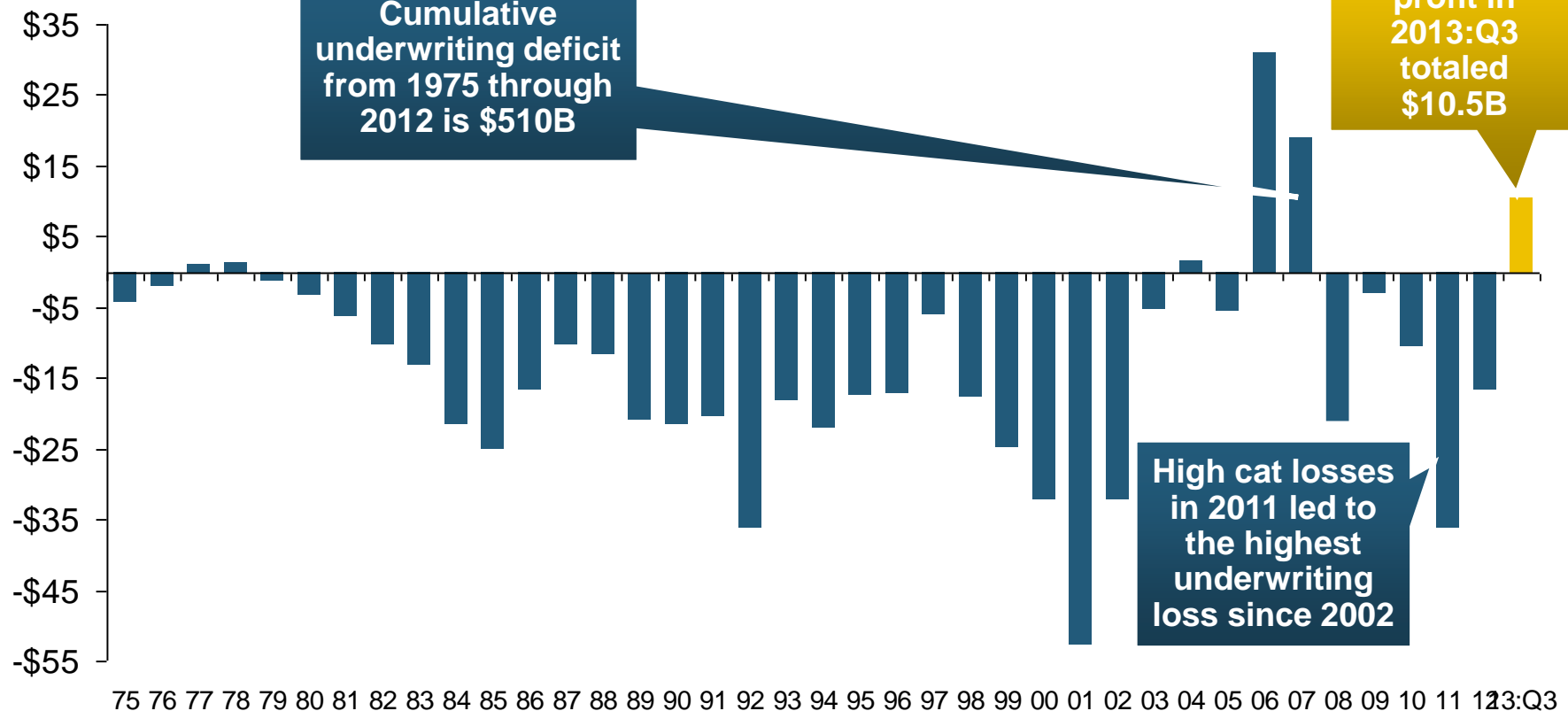
**Data for the 2010s is for the period 2010 through 2013.

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

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

Underwriting Gain (Loss) 1975–2013:Q3*

(\$ Billions)



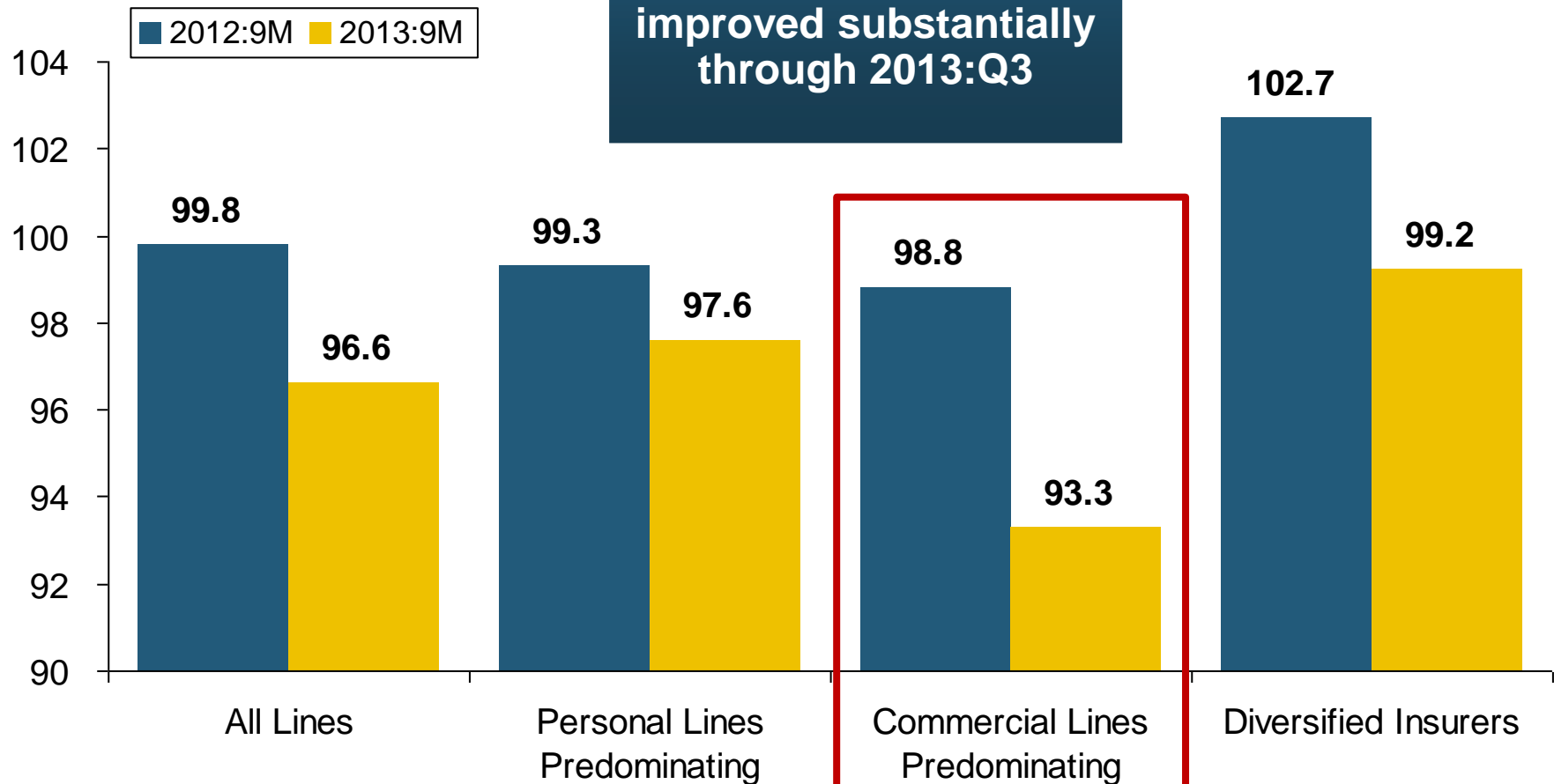
**Large Underwriting Losses Are *NOT* Sustainable
in Current Investment Environment**

* Includes mortgage and financial guaranty insurers in all years.

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

Combined Ratios by Predominant Business Segment, 2013:9M vs. 2012:9M*

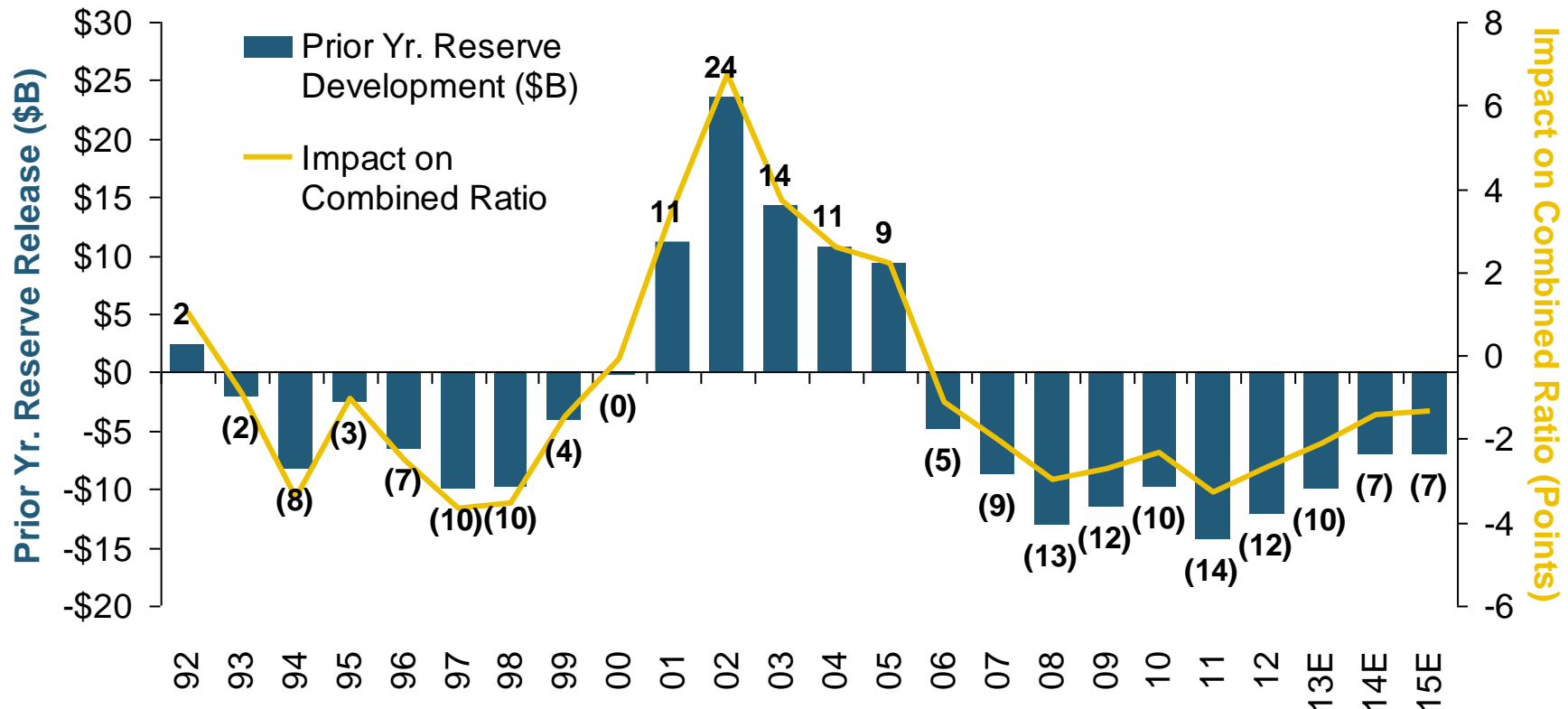
(Percent)



*Excludes mortgage and financial guaranty insurers.

Source: ISO/PCI; Insurance Information Institute

P/C Reserve Development, 1992–2015E



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.

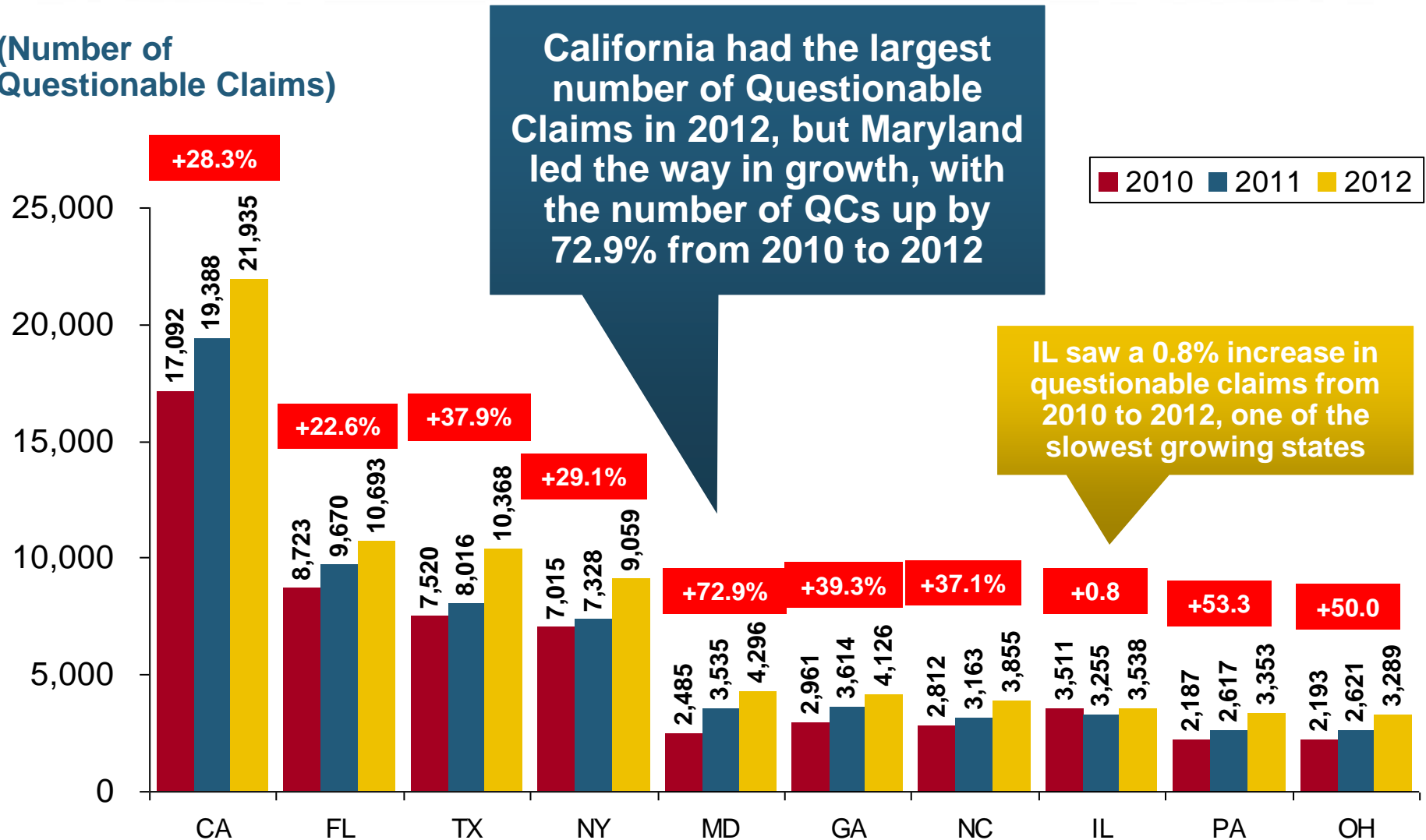
Sources: A.M. Best, ISO, Barclays Research (estimates).

Questionable Claims: On the Rise

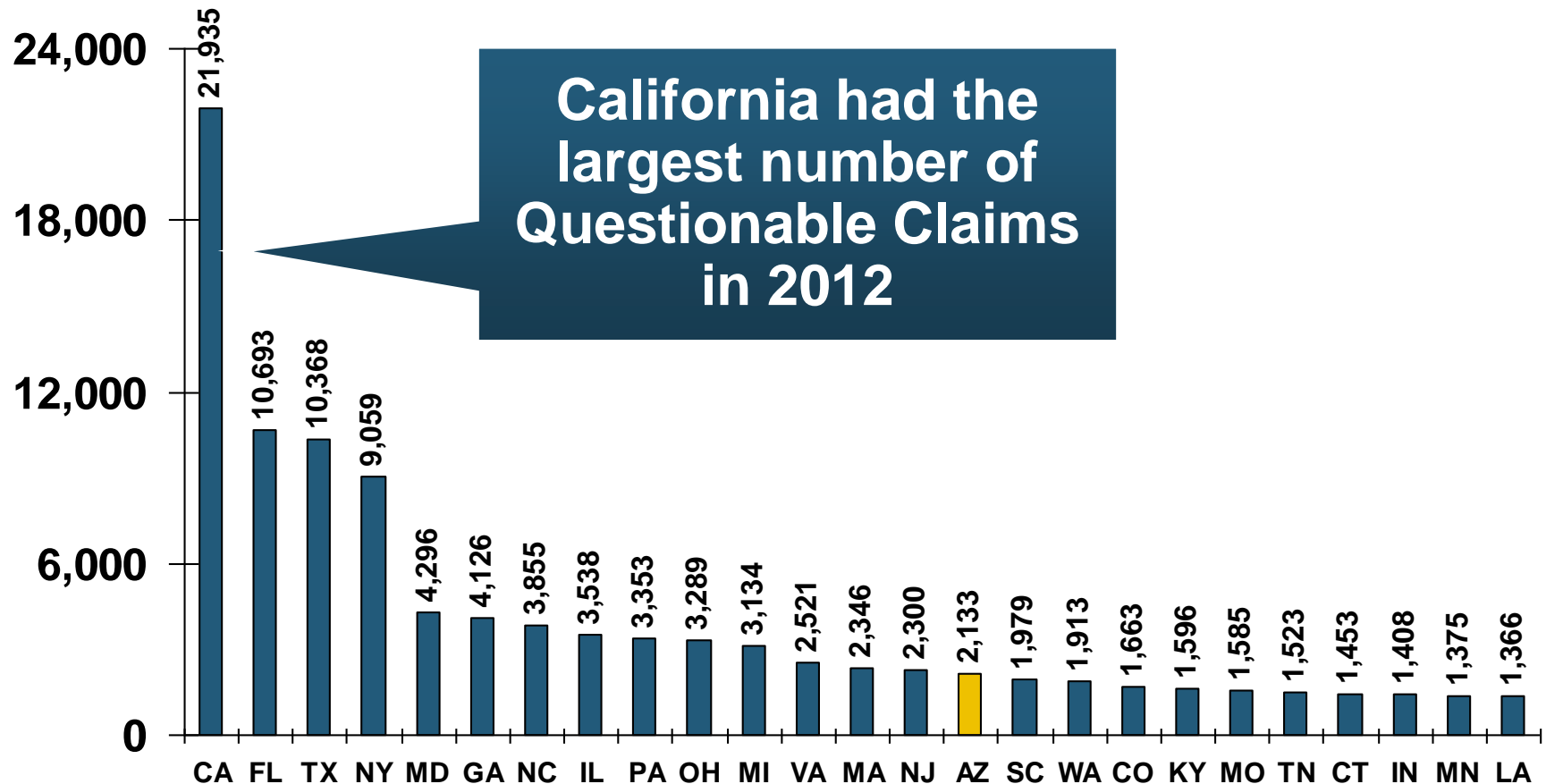
**Fraud Concerns:
More Questionable Claims in
Most State and Across Most
Lines of Insurance**

Questionable Claims, Top 10 Loss States, All Lines: 2010–2012

(Number of
Questionable Claims)

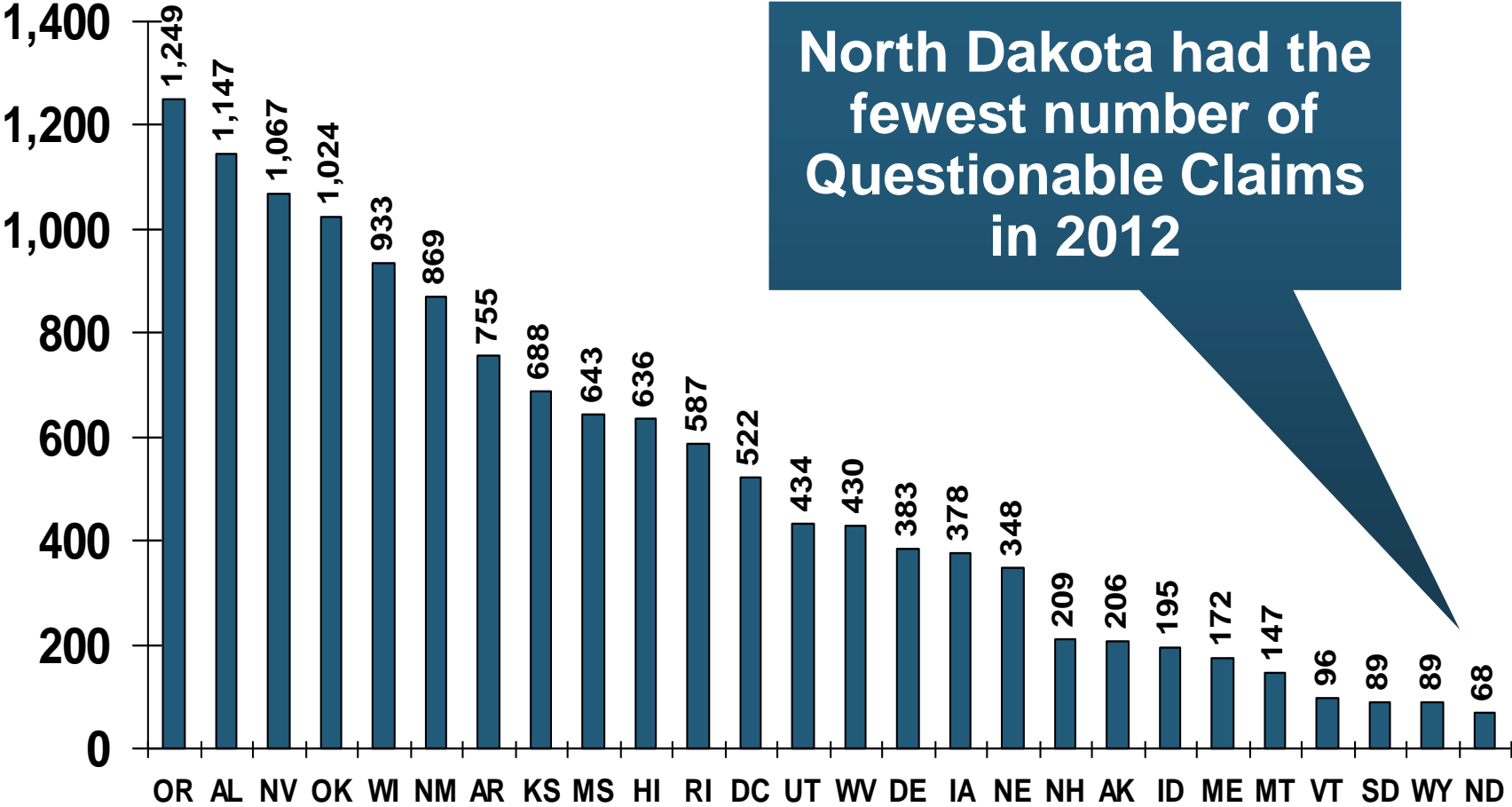


Total Number of Questionable Claims by State, 2012: Highest 25 States



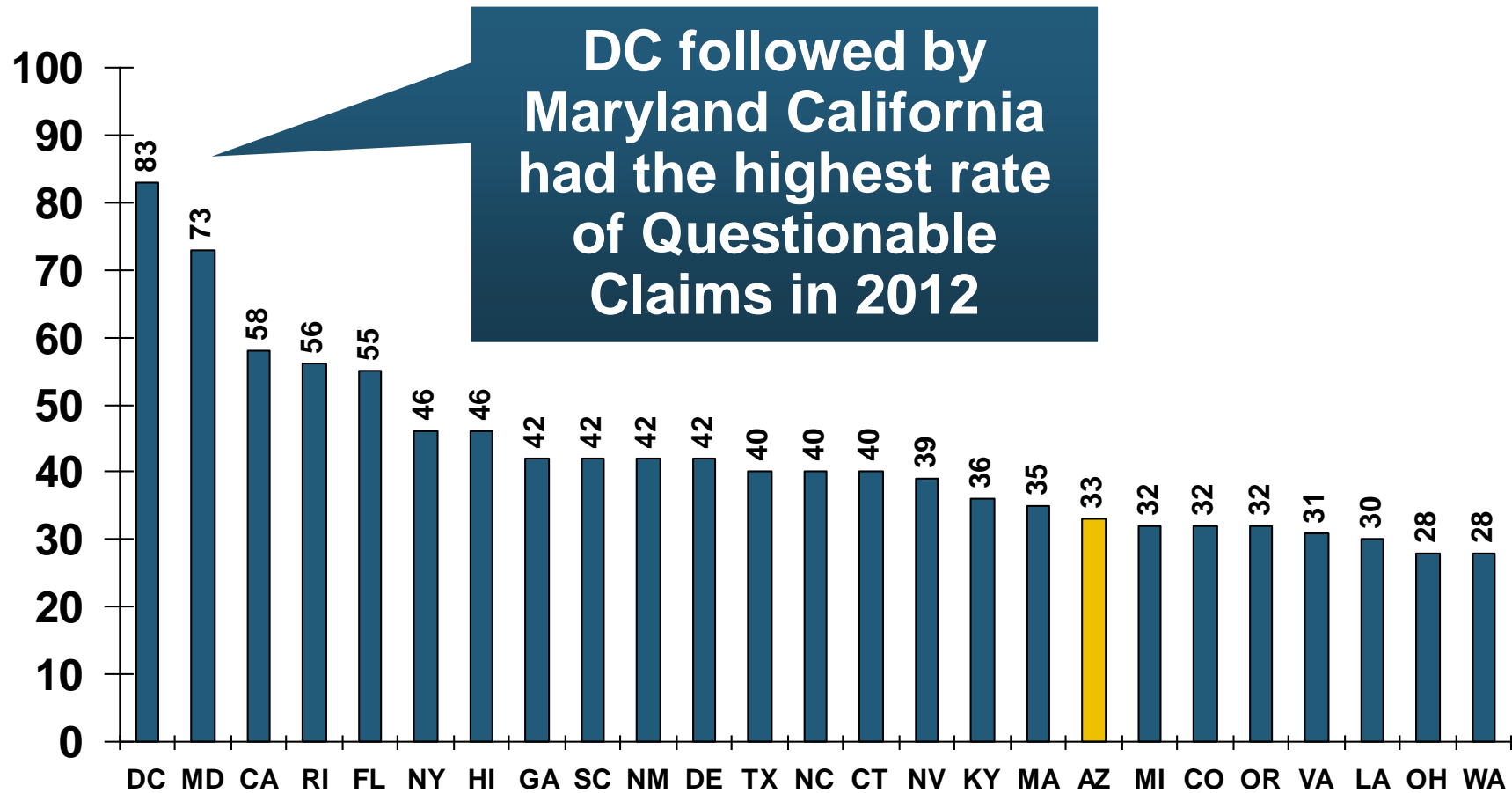
Total Number of Questionable Claims by State, 2012: Highest 25 States

North Dakota had the fewest number of Questionable Claims in 2012

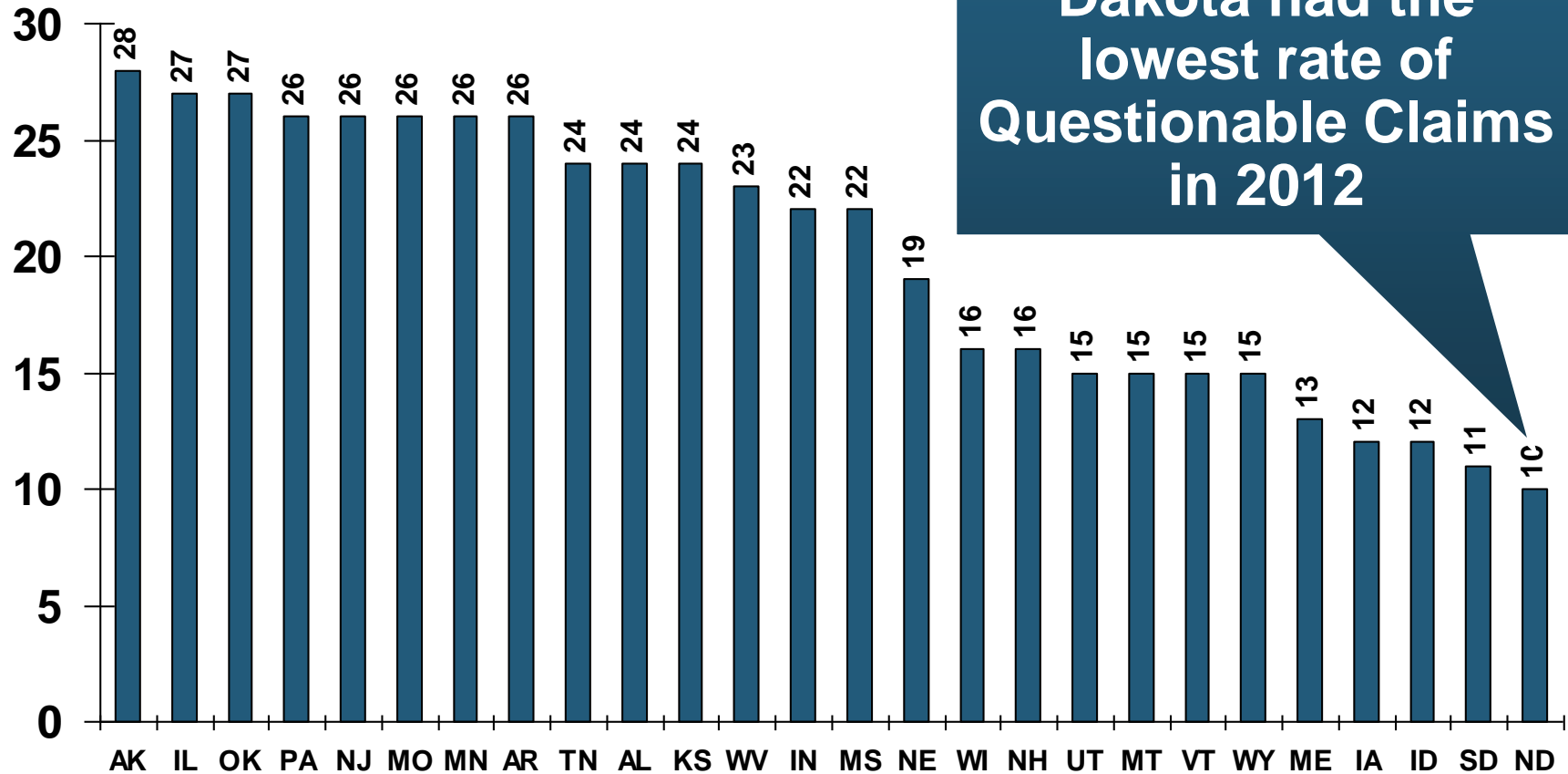


Sources: NICB; Insurance Information Institute.

Total Number of Questionable Claims by State, per 100K Persons, 2012: Highest 25 States

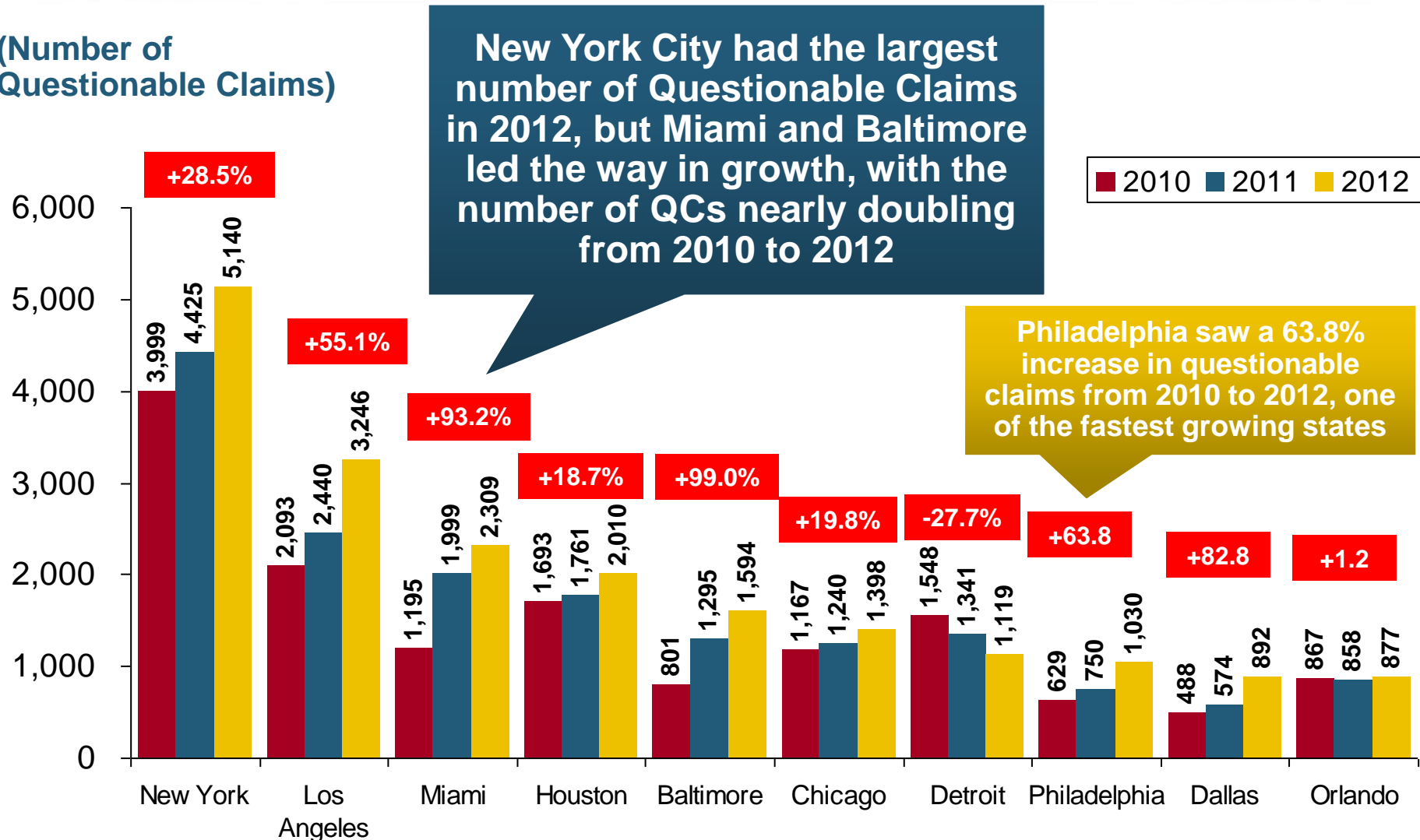


Total Number of Questionable Claims by State, per 100K Persons, 2012: Lowest 25 States



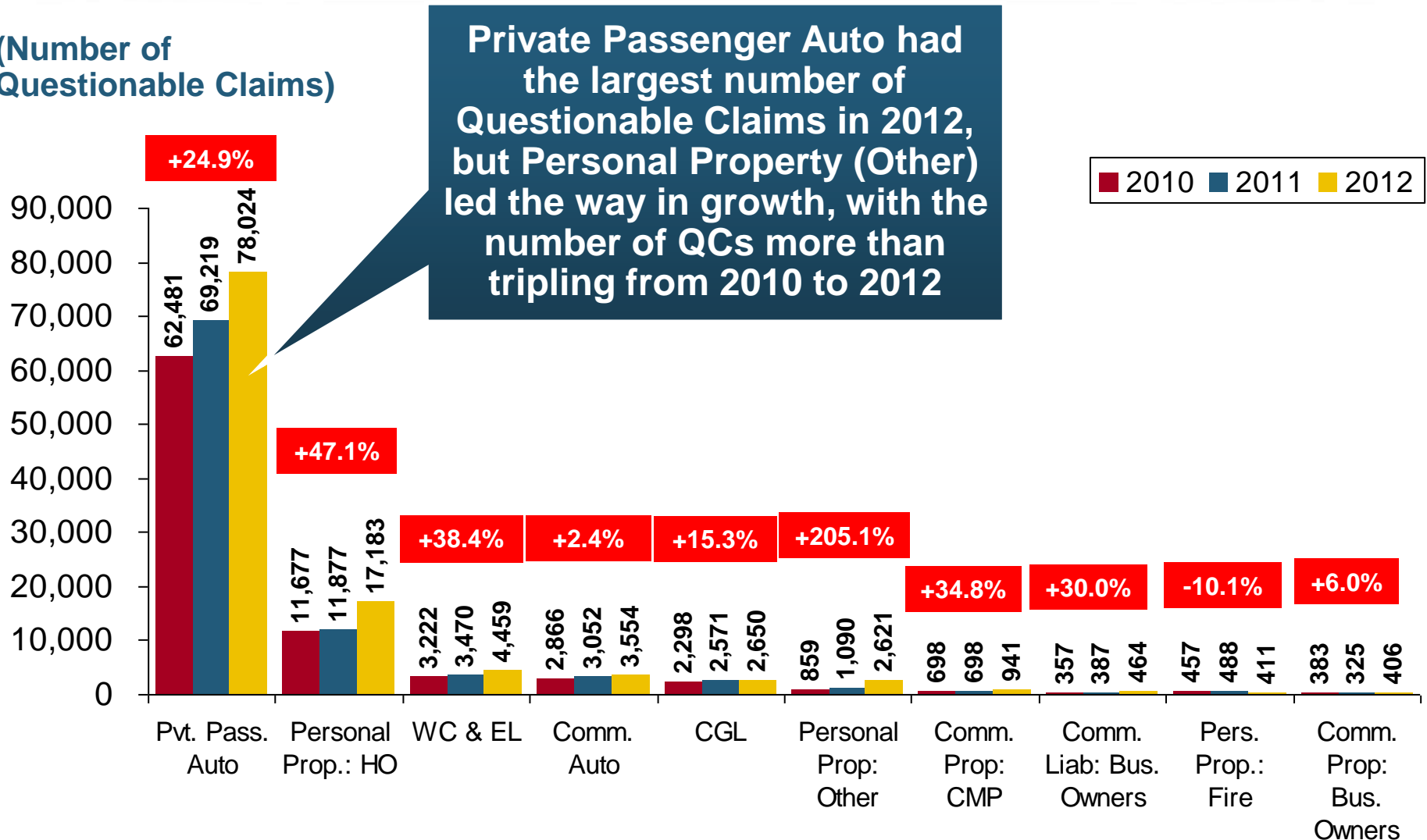
Questionable Claims, Top 10 Loss Cities, All Lines: 2010–2012

(Number of
Questionable Claims)



Questionable Claims, Top 10 Policy Types: 2010–2012

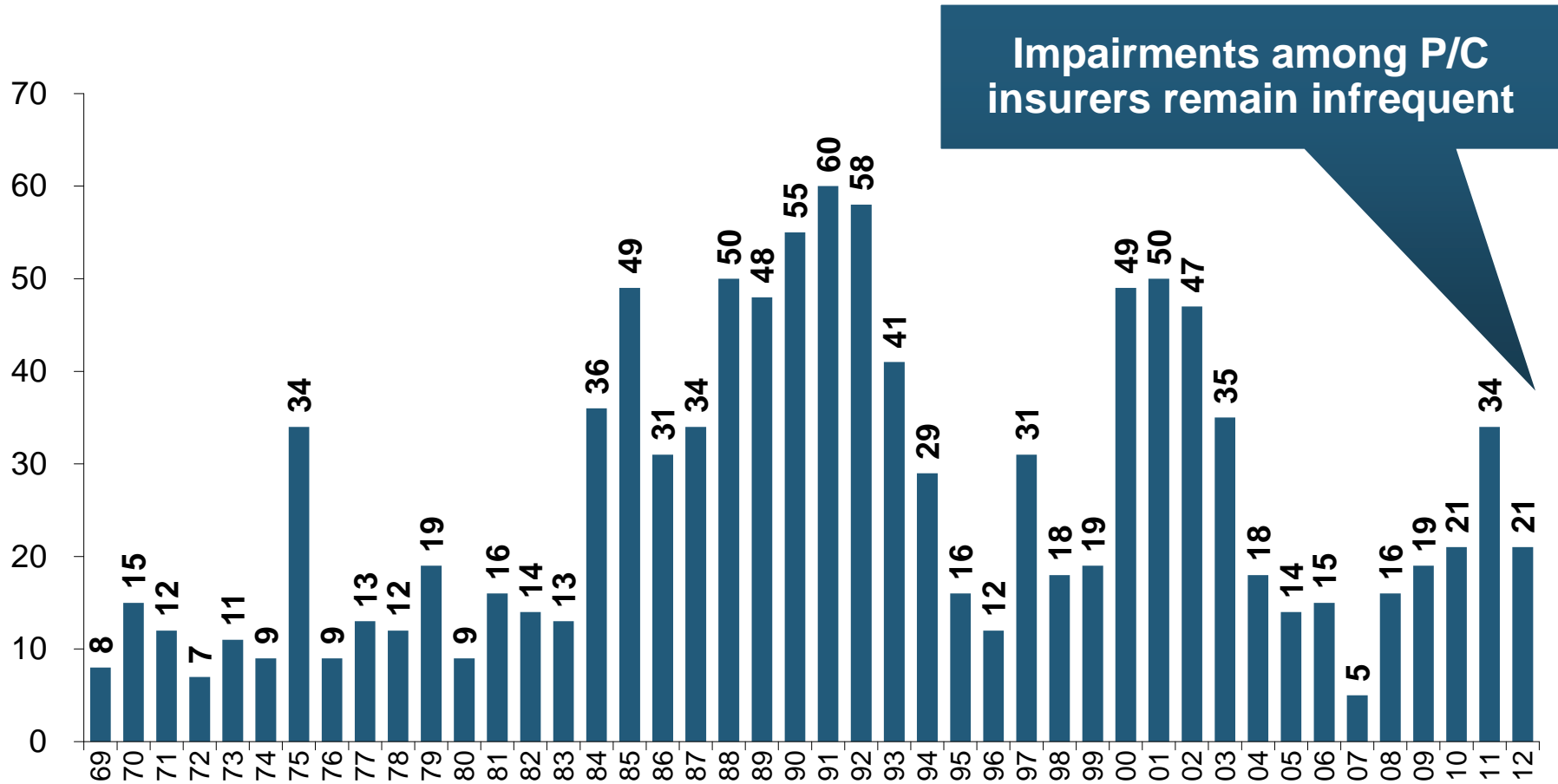
(Number of
Questionable Claims)



Financial Strength & Underwriting

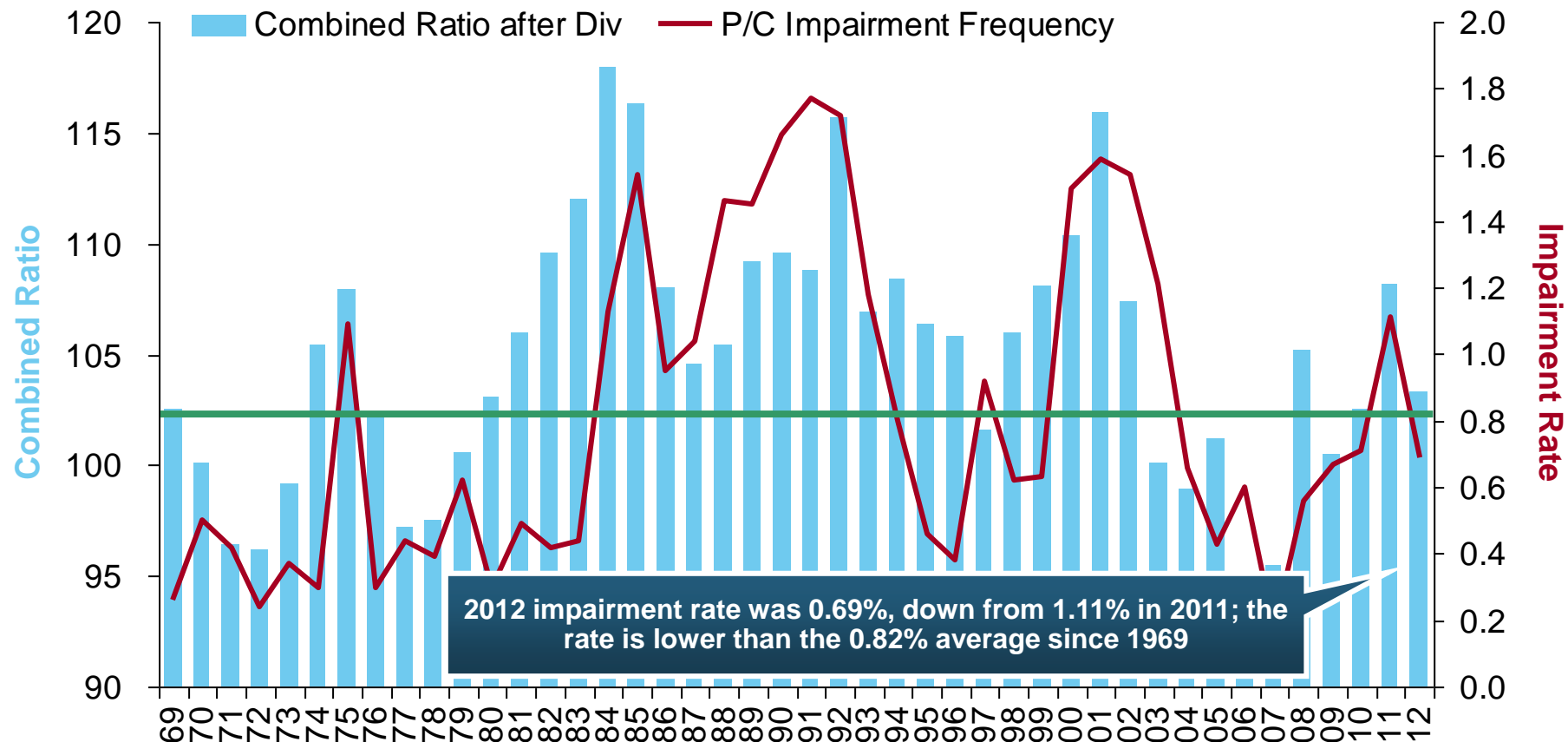
**Cyclical Pattern is P-C Impairment
History is Directly Tied to
Underwriting, Reserving & Pricing**

P/C Insurer Impairments, 1969–2012



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

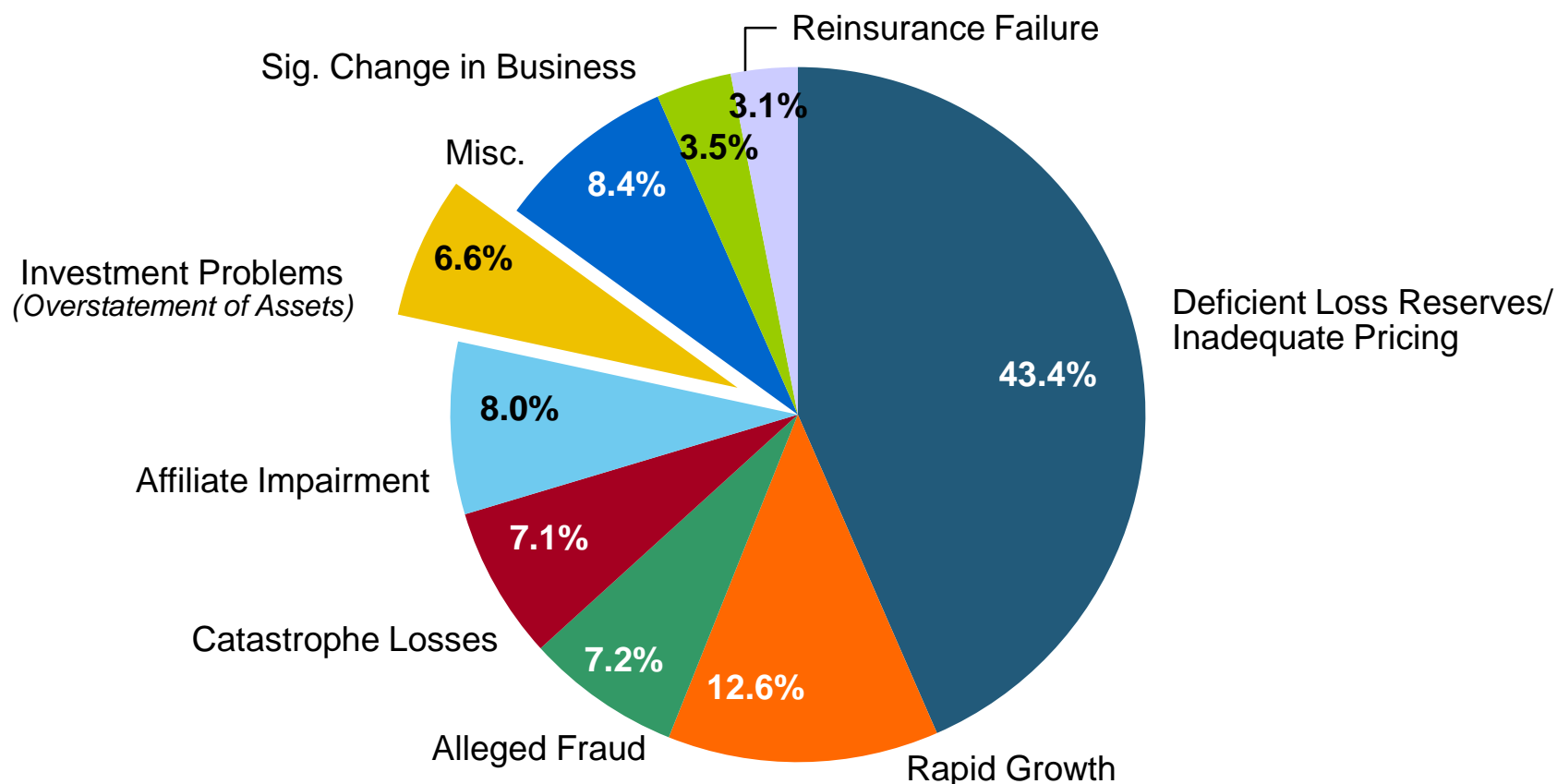
P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2012



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

Reasons for US P/C Insurer Impairments, 1969–2012

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



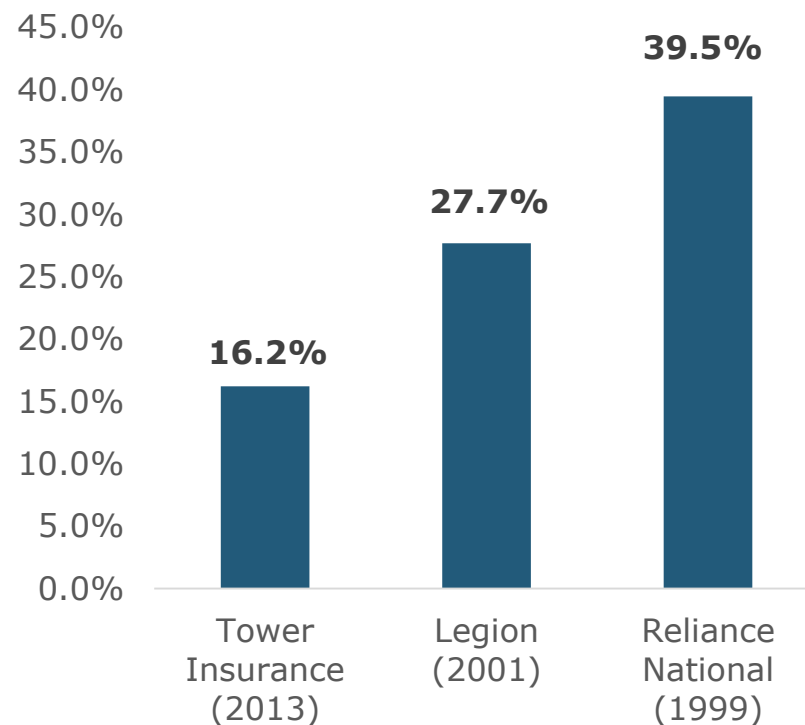
Source: A.M. Best Special Report "Pace of P/C Impairments Slowed in 2012; Auto Writers, RRGs Continued to Struggle," June 2013; Insurance Information Institute.

Rapid Growth 'A Leading Cause' of Impairment

“The leading causes of impairment are deficient loss reserves (inadequate pricing) and **rapid growth**, together comprising more than 50 percent of annual impairments.”

- A.M. Best, 2013

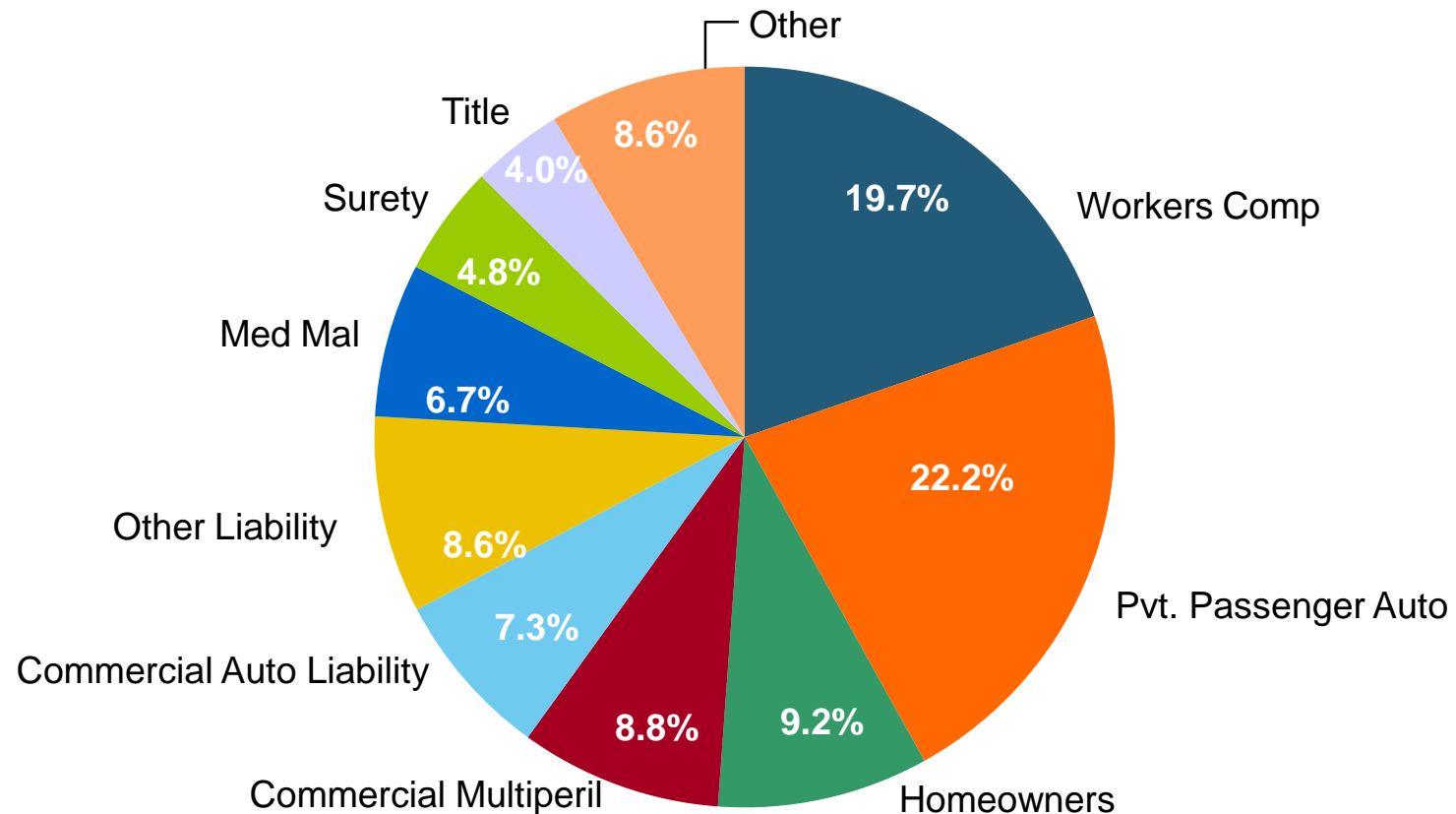
Annualized Growth in
Final Years



Source: SNL Financial, Insurance Information Institute.

Top 10 Lines of Business for US P/C Impaired Insurers, 2000–2012

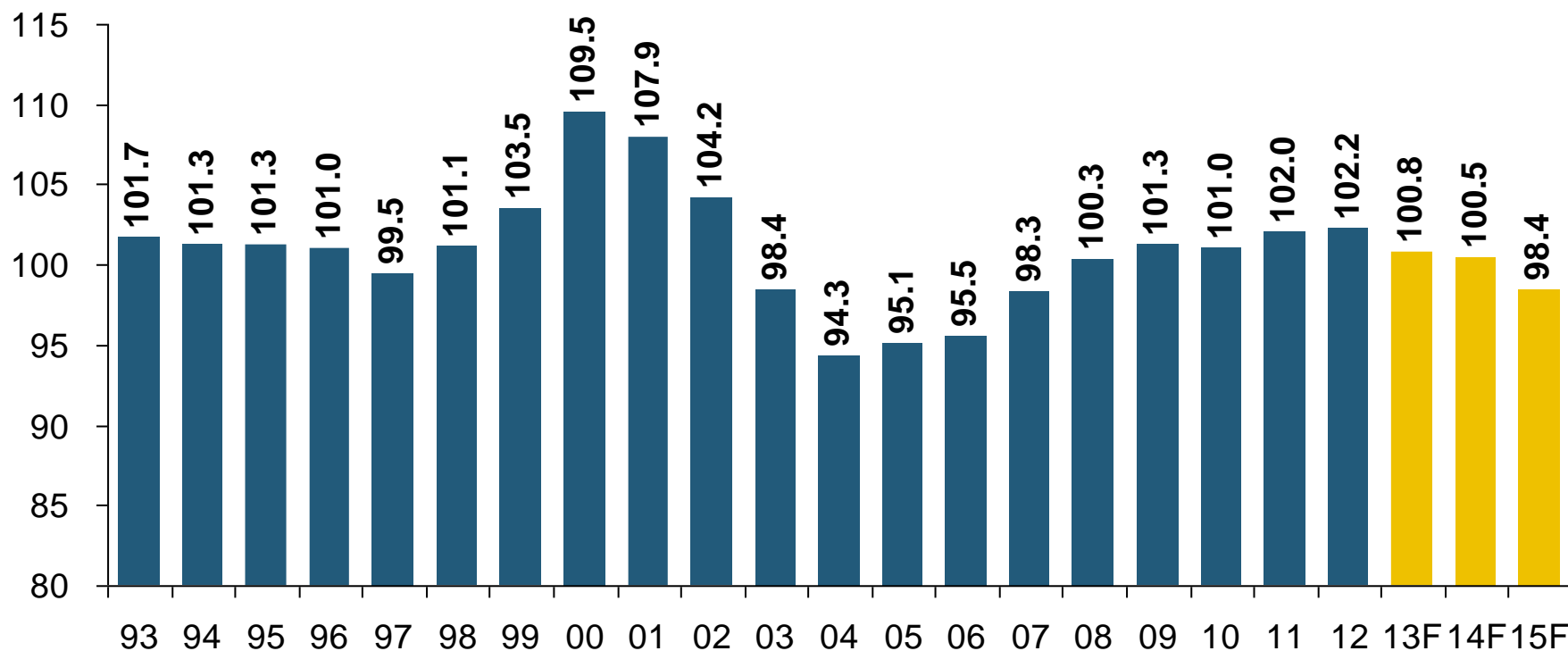
Workers Comp and Pvt. Passenger Auto Account for More Than 40 Percent of the Impaired Insurers Since 2000



Source: A.M. Best Special Report "Pace of P/C Impairments Slowed in 2012; Auto Writers, RRGs Continued to Struggle," June 2013; Insurance Information Institute.

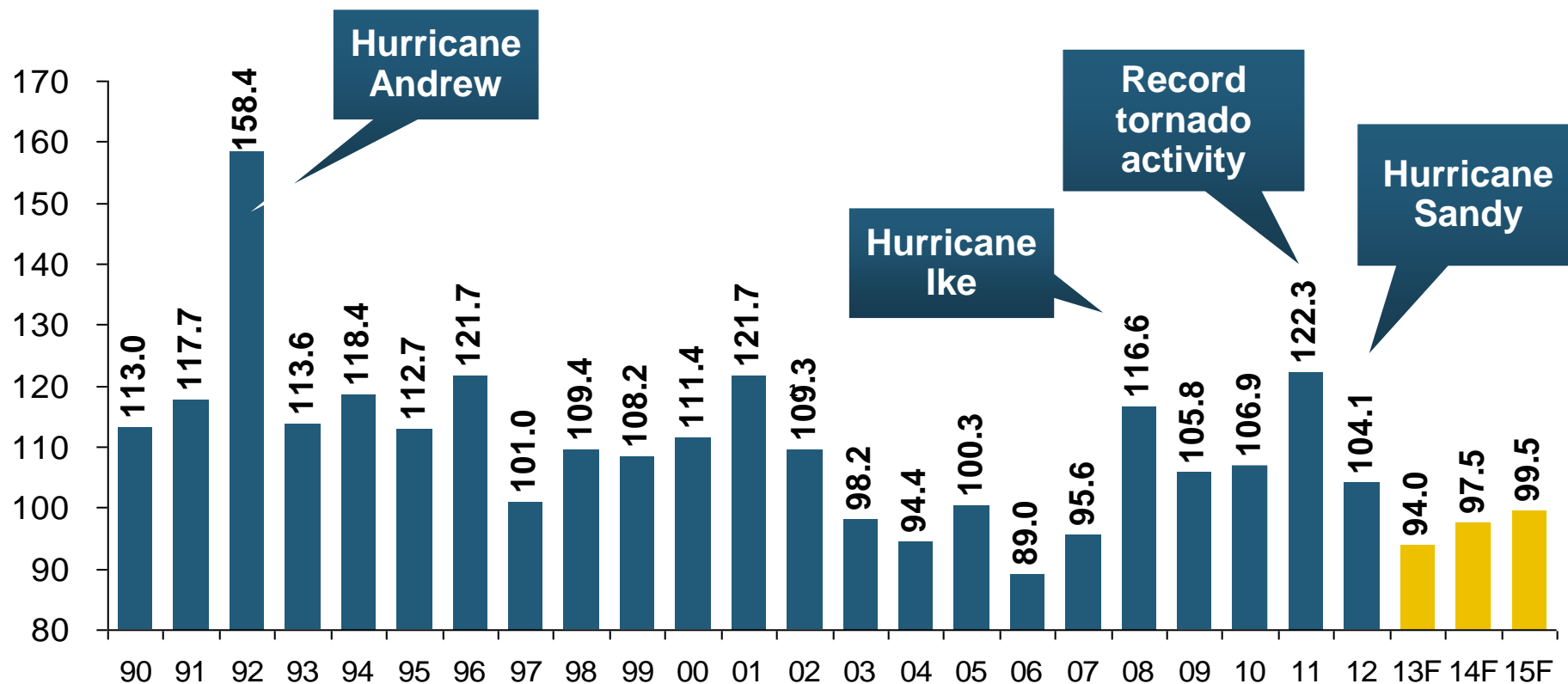
Performance by Segment

Private Passenger Auto Combined Ratio: 1993–2015F



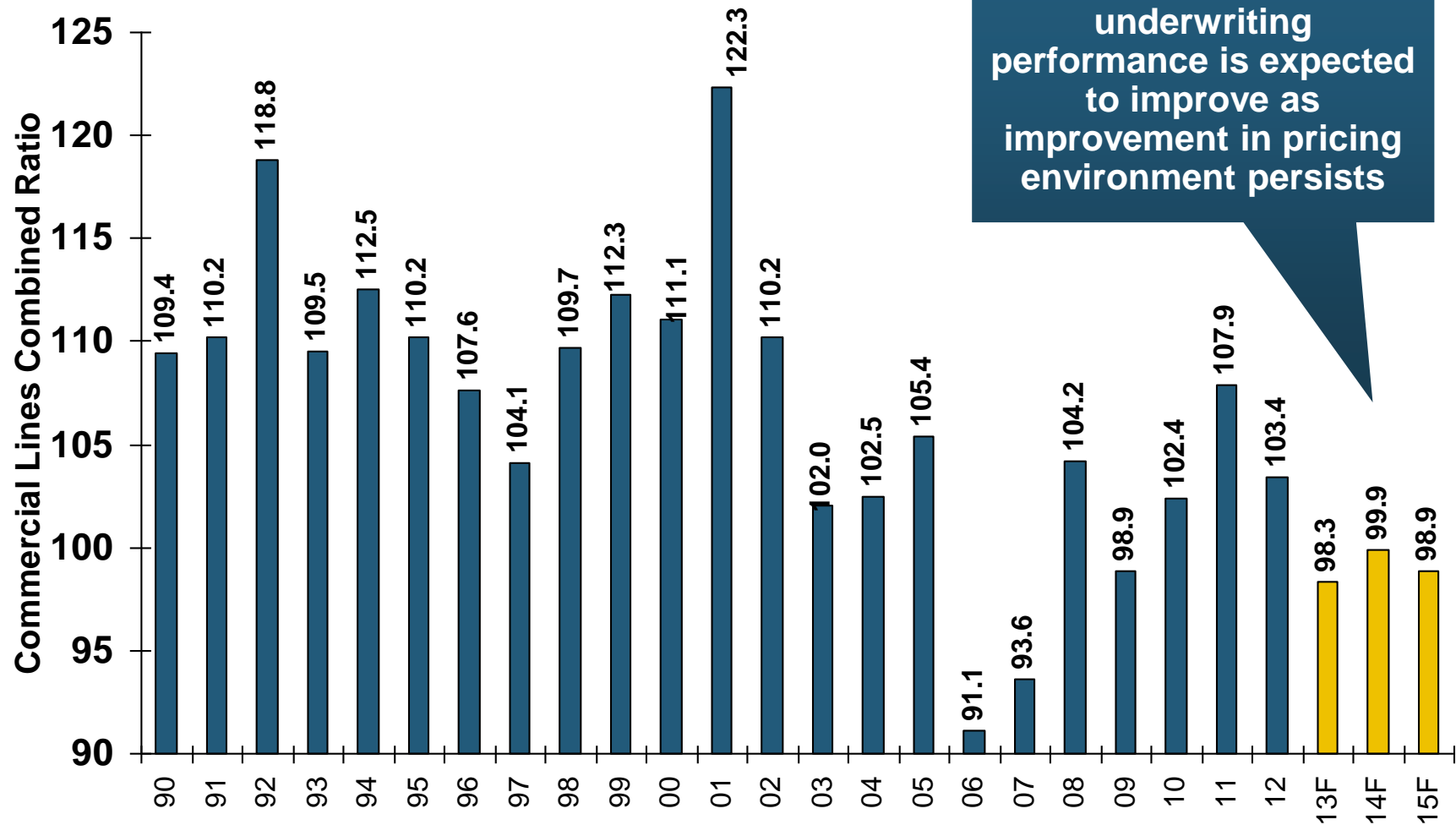
Private Passenger Auto Accounts for 34% of Industry Premiums and Remains the Profit Juggernaut of the P/C Insurance Industry

Homeowners Insurance Combined Ratio: 1990–2015F



Homeowners Performance in 2011/12 Impacted by Large Cat Losses. Extreme Regional Variation Can Be Expected Due to Local Catastrophe Loss Activity

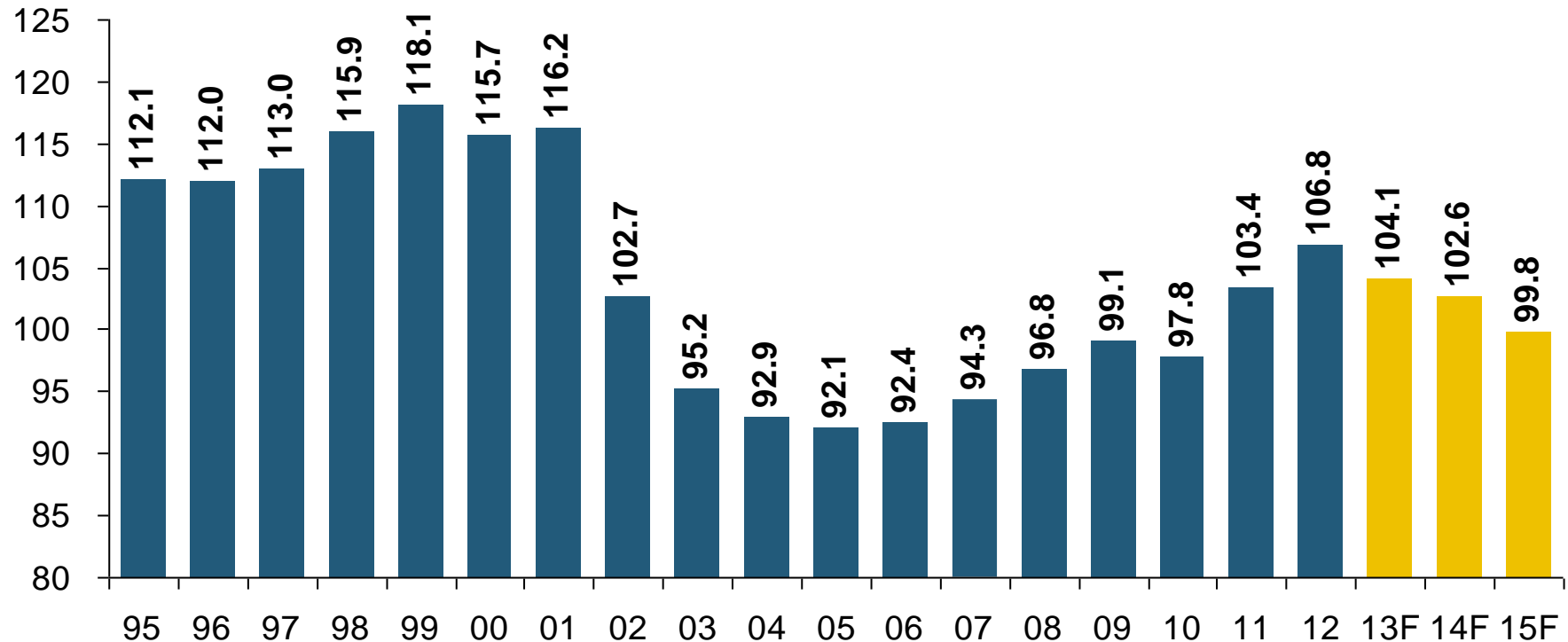
Commercial Lines Combined Ratio, 1990-2015F*



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

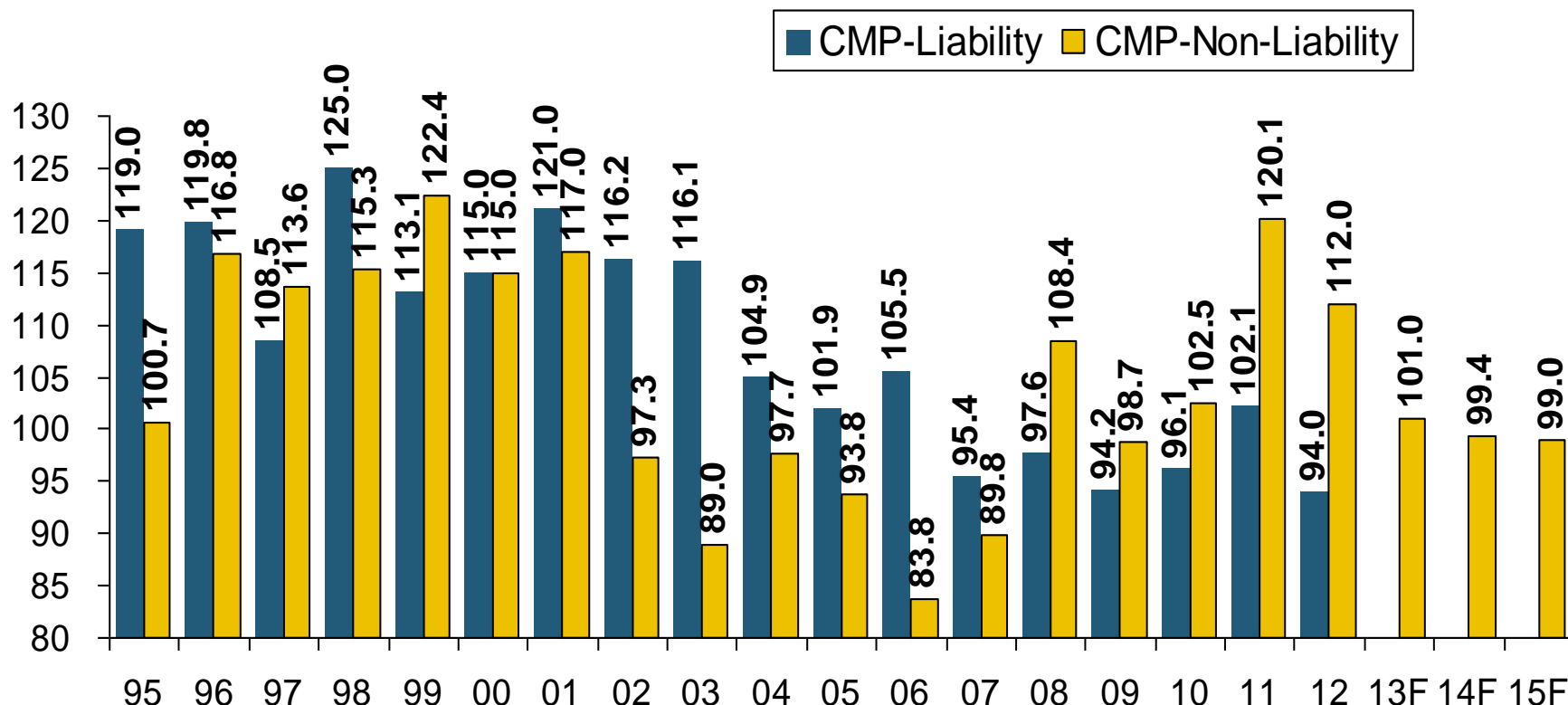
Source: A.M. Best (1990-2014F); Conning (2015F) Insurance Information Institute.

Commercial Auto Combined Ratio: 1993–2015F



Commercial Auto is Expected to Improve as Rate Gains Outpace Any Adverse Frequency and Severity Trends

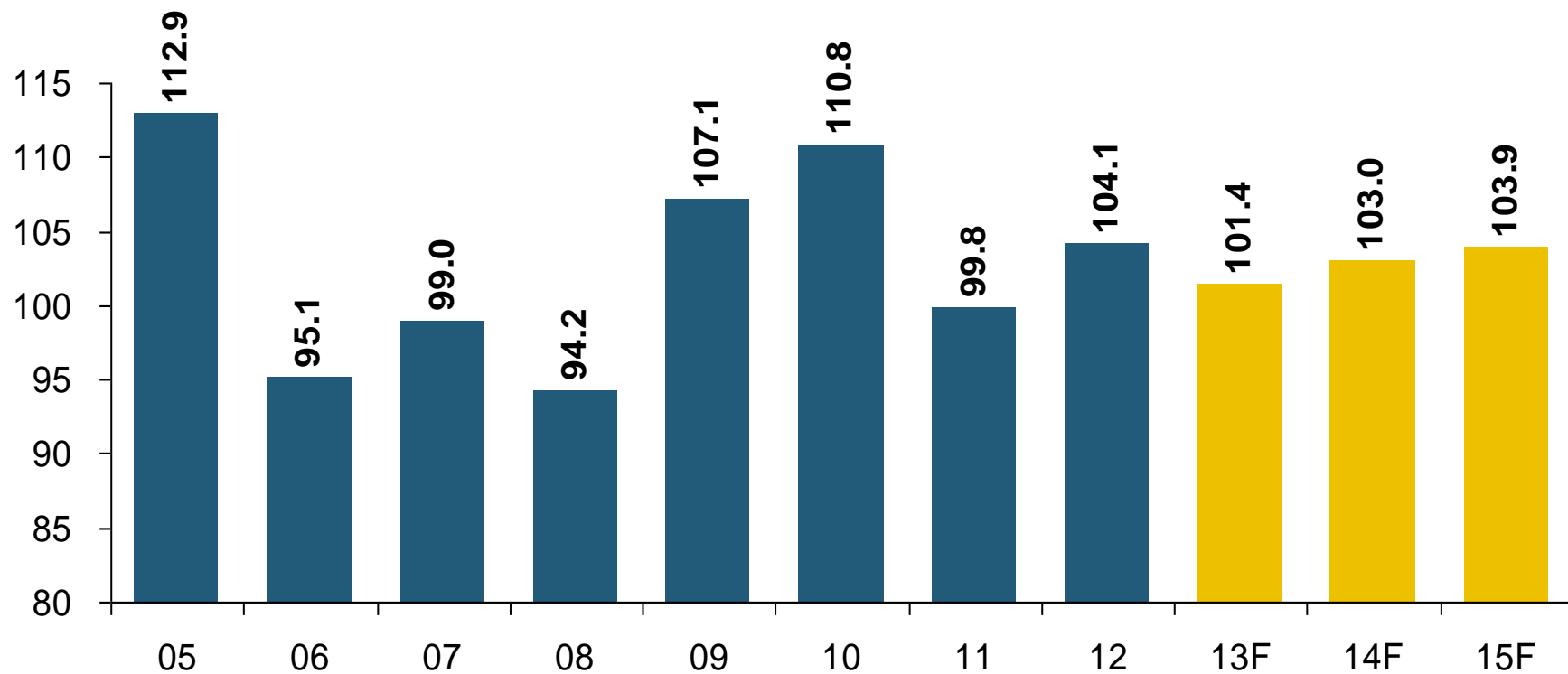
Commercial Multi-Peril Combined Ratio: 1995–2015F



Commercial Multi-Peril Underwriting Performance is Expected to Improve in 2013 Assuming Normal Catastrophe Loss Activity

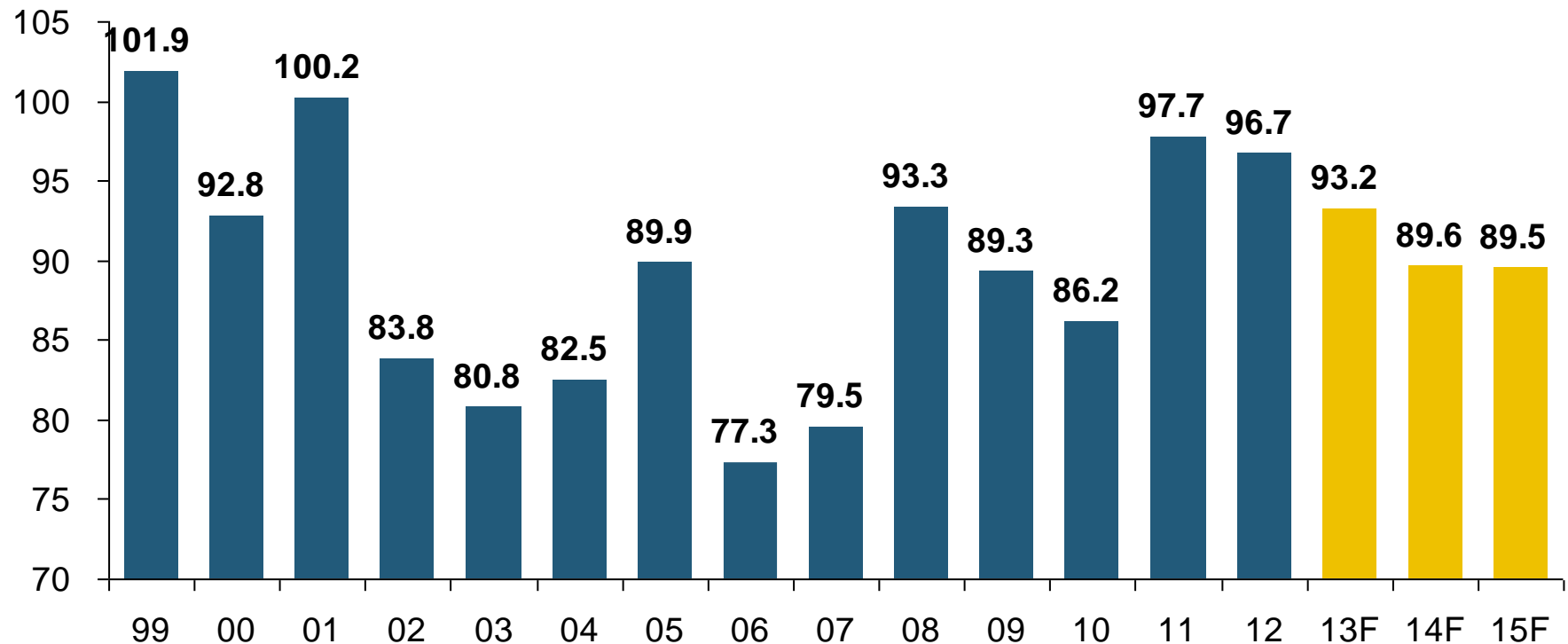
*2013F-2012F figures are Conning figures for the combined liability and non-liability components..
Sources: A.M. Best; Conning; Insurance Information Institute.

General Liability Combined Ratio: 2005–2015F



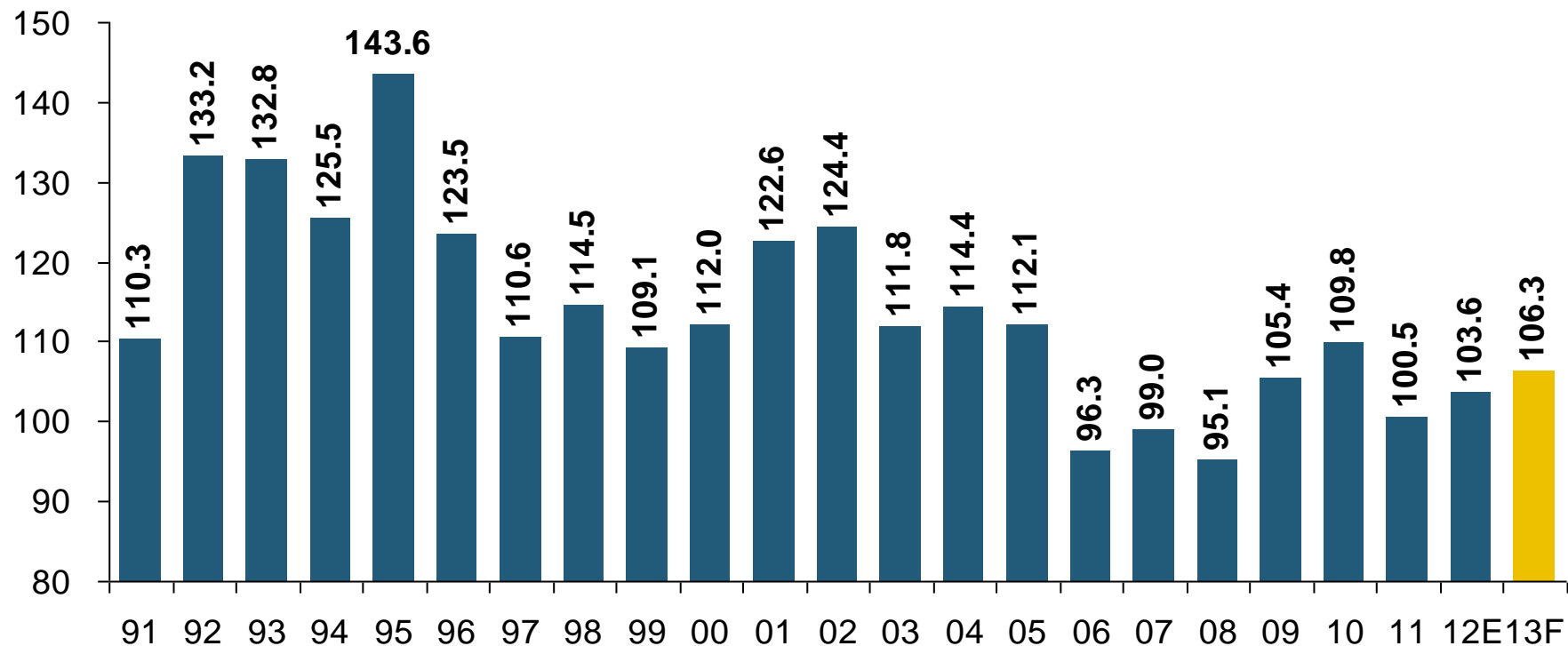
**Commercial General Liability Underwriting
Performance Has Been Volatile in Recent Years**

Inland Marine Combined Ratio: 1999–2015F



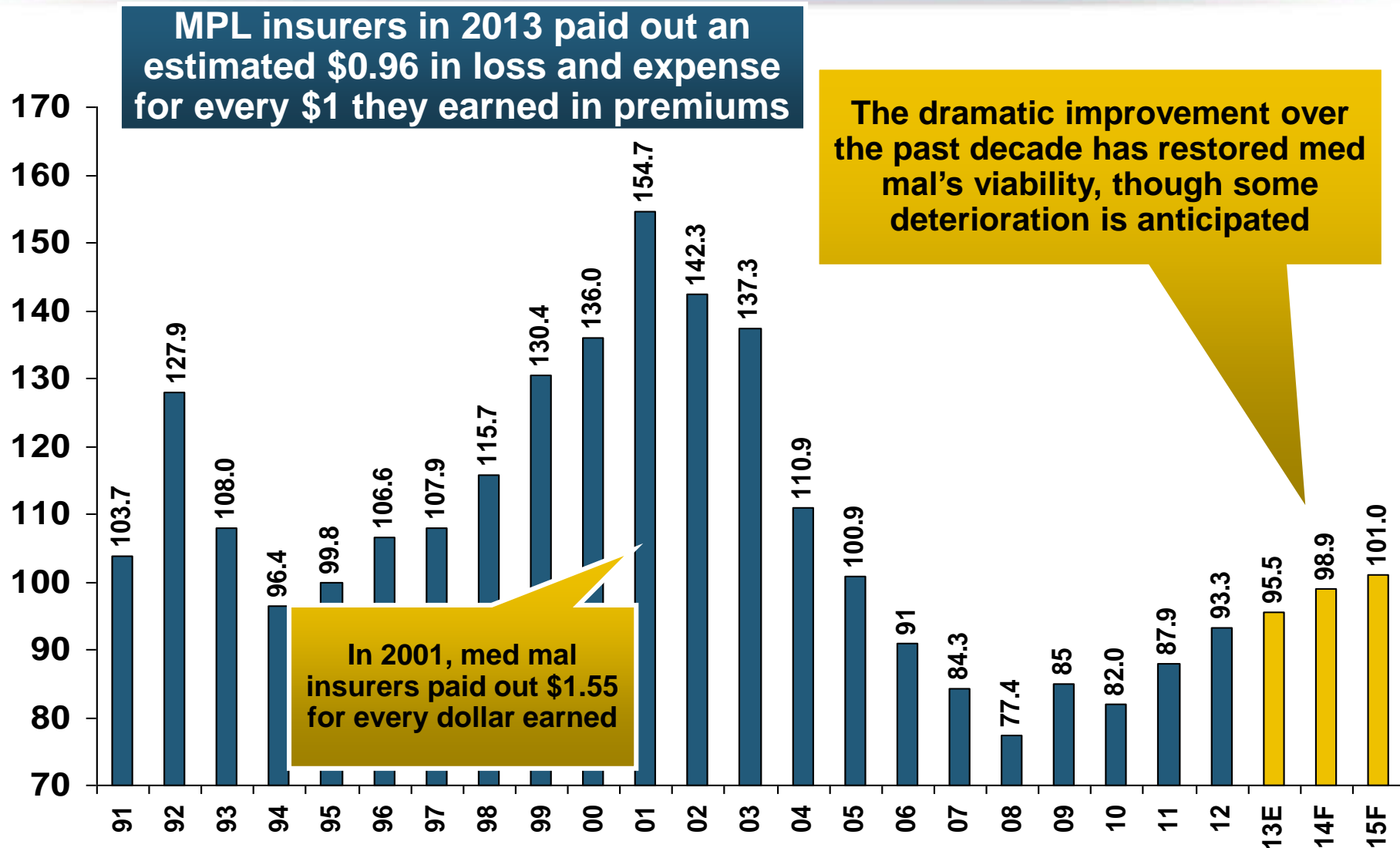
Inland Marine is Expected to Remain Among the Most Profitable of All Lines

Other & Products Liability Combined Ratio: 1991–2013F



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

Medical Malpractice Combined Ratio vs. All Lines Combined Ratio, 1991-2015F

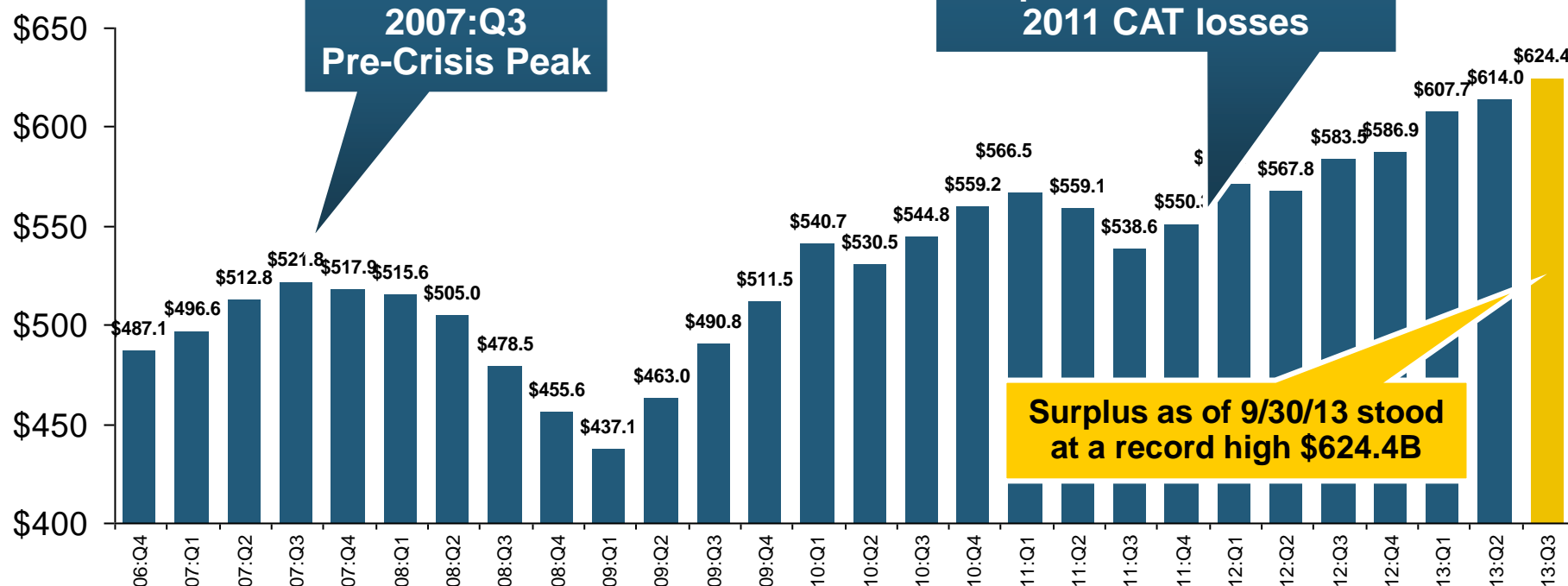


2. SURPLUS/CAPITAL/CAPACITY

**2013 Recorded Yet Another
Record High**

Policyholder Surplus, 2006:Q4–2013:Q3

(\$ Billions)



The industry now has \$1 of surplus for every \$0.78 of NPW, close to the strongest claims-paying status in its history.

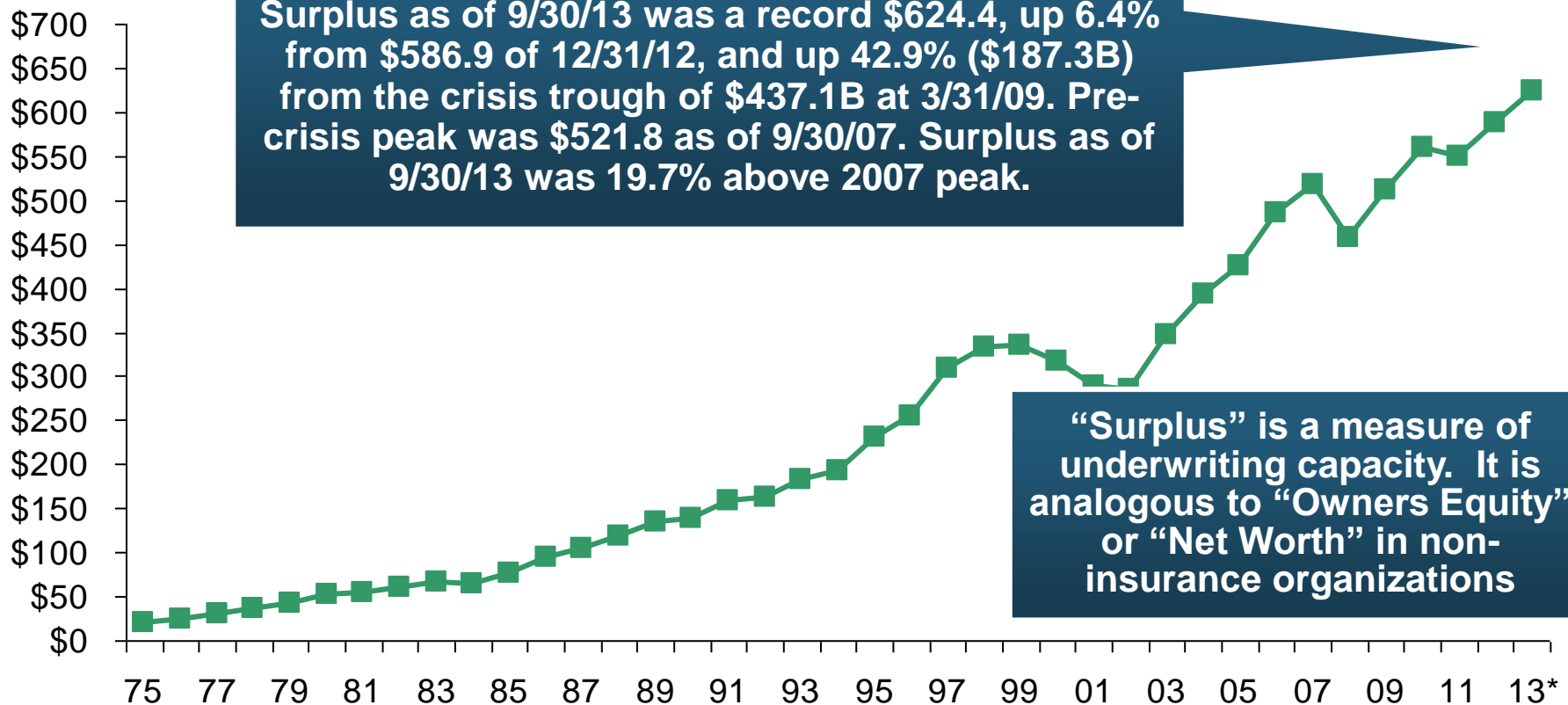
2010:Q1 data includes \$22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business.

Sources: ISO, A.M. Best.

The P/C insurance industry entered 2014 in very strong financial condition.

US Policyholder Surplus: 1975–2013*

(\$ Billions)



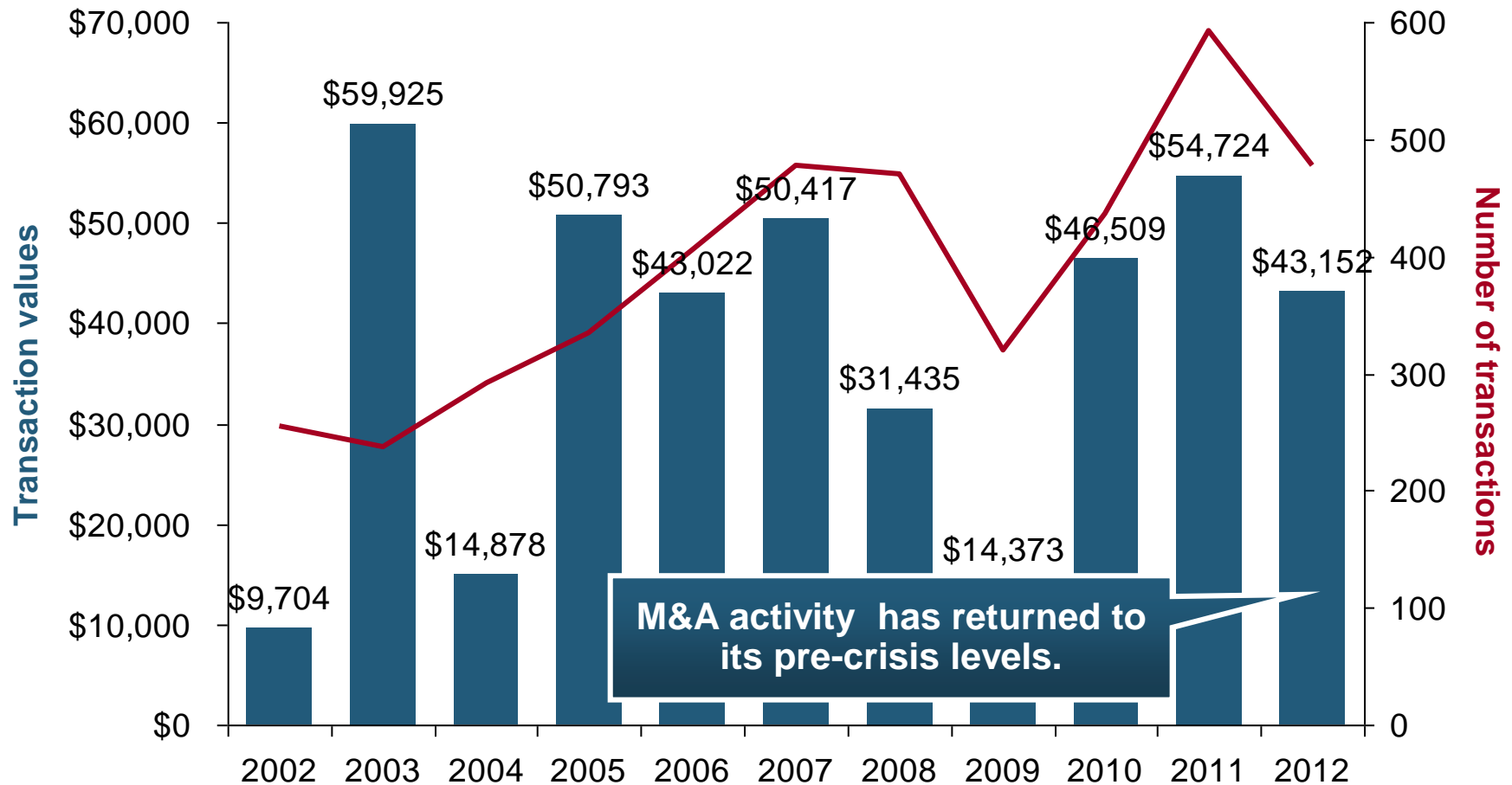
The Premium-to-Surplus Ratio Stood at \$0.78:\$1 as of 9/30/13, a Near Record Low (at Least in Recent History)*

* As of 9/30/13.

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

U.S. INSURANCE MERGERS AND ACQUISITIONS, 2002-2012 (1)

(\$ Millions)



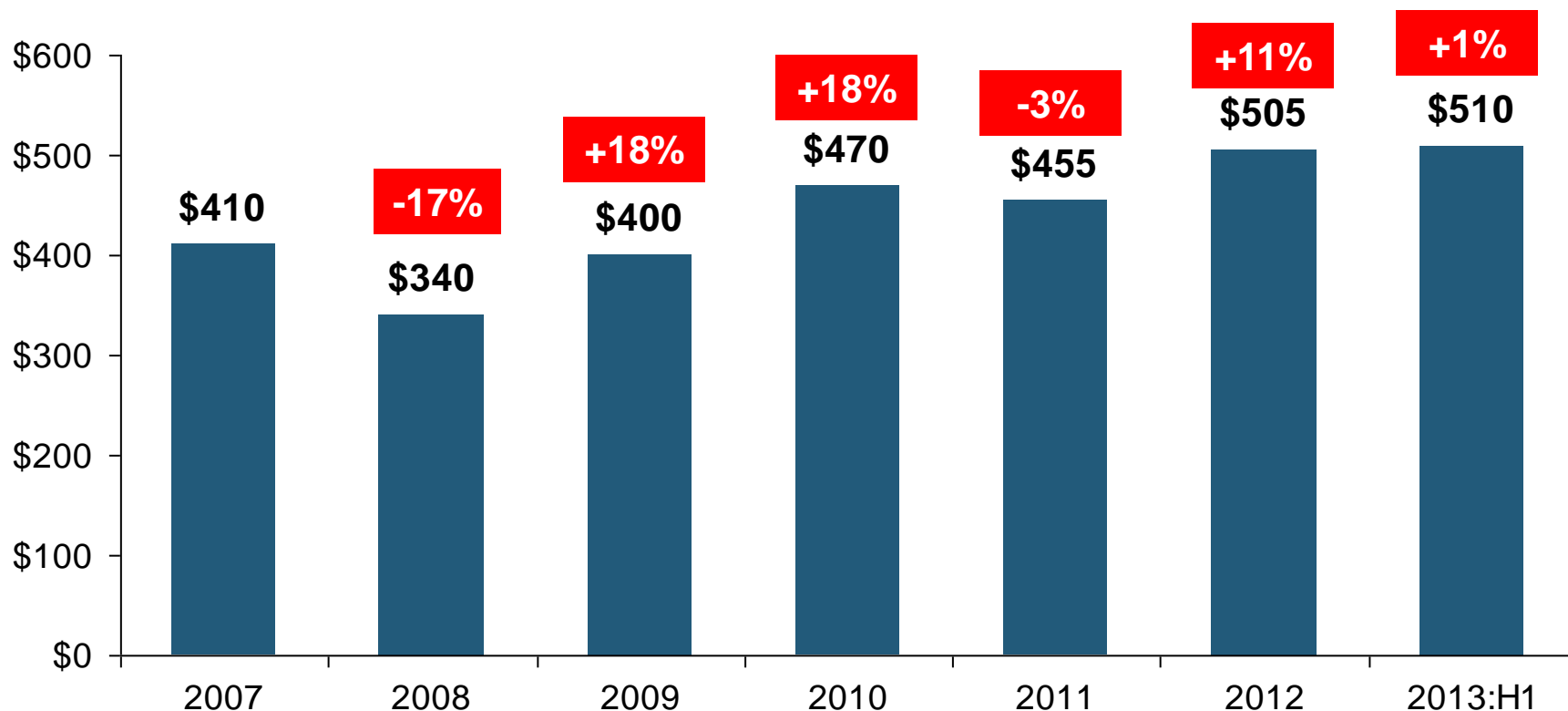
(1) Includes transactions where a U.S. company was the acquirer and/or the target.

3. REINSURANCE MARKET CONDITIONS

**Ample Capacity as
Alternative Capital is
Transforming the Market**

Global Reinsurer Capital, 2007-2013:H1*

(\$ Billions)

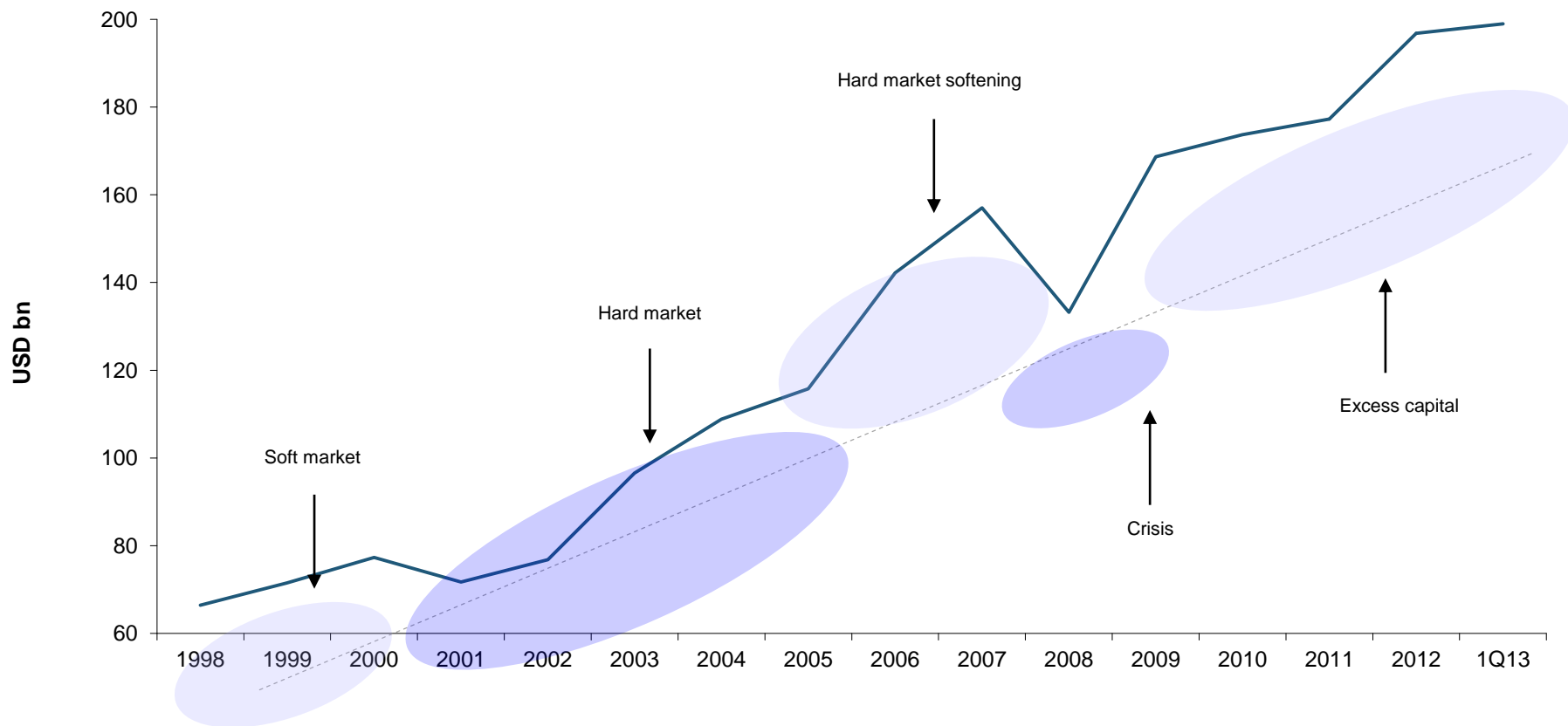


Global Reinsurance Capital Has Been Trending Generally Upward Since the Global Financial Crisis, a Trend that Seems Likely to Continue

*Includes both traditional and non-traditional forms of reinsurance capital.

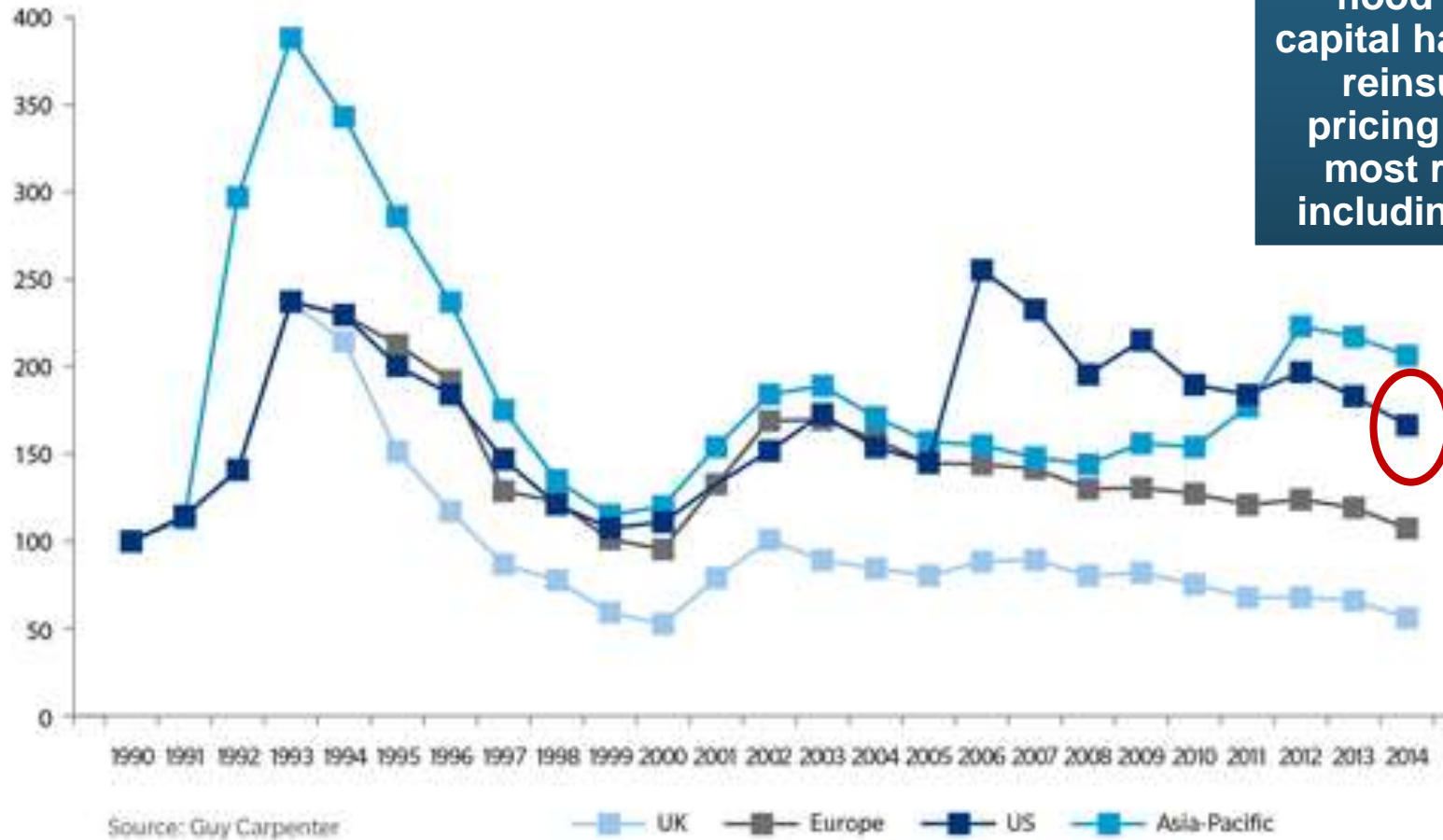
Source: Aon Benfield Aggregate study for the 6 months ending June 2013; Insurance Information Institute.

Long-Term Evolution of Shareholders' Funds for the Guy Carpenter Global Reinsurance Composite



Reinsurance Pricing: Rate-on-Line Index by Region, 1990 – 2014*

F-10 | REGIONAL PROPERTY CATASTROPHE ROL INDEX – 1990 TO 2014



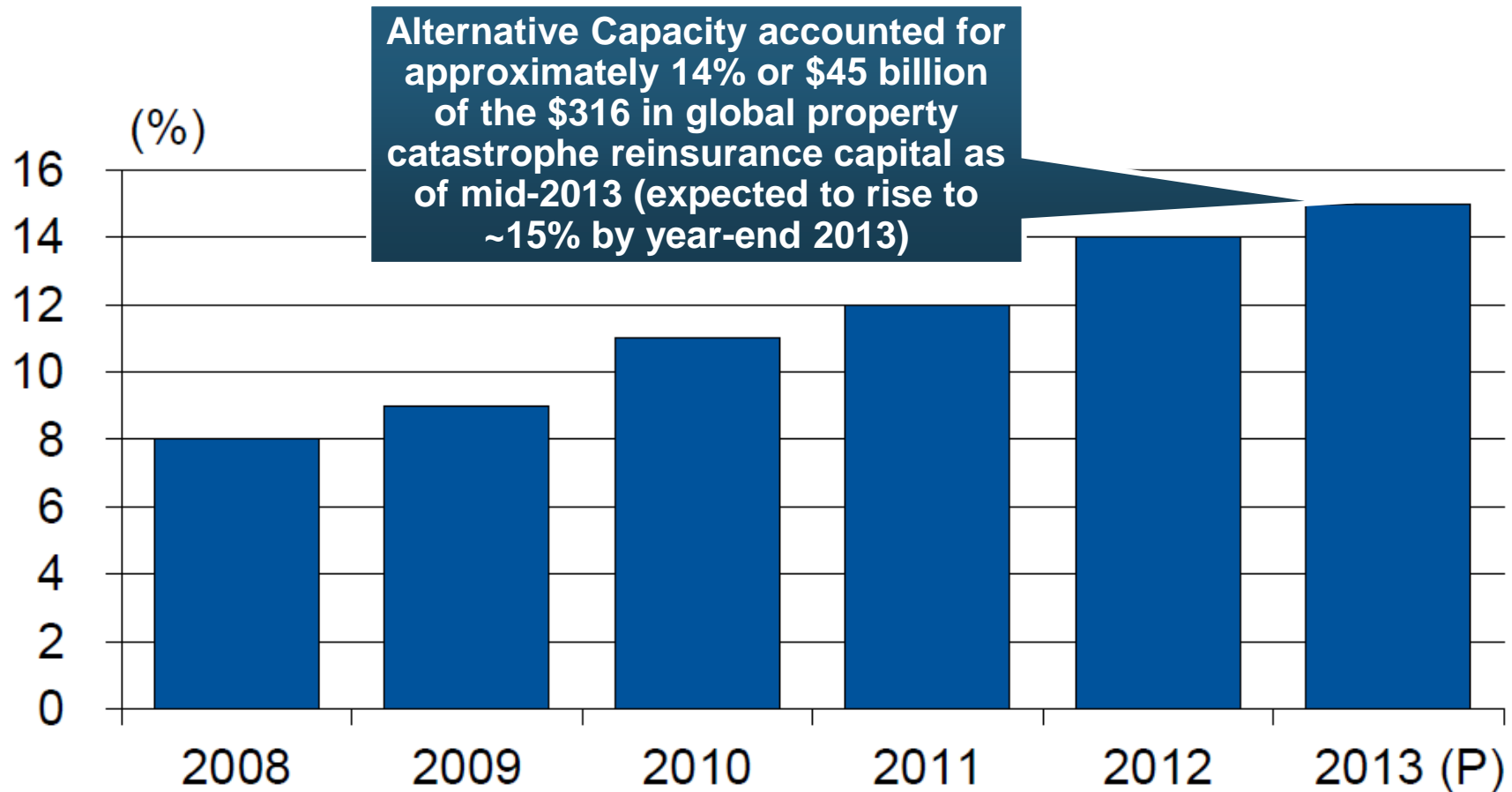
Lower CATs and a flood of new capital has pushed reinsurance pricing down in most regions, including the US

*As of Jan. 1.

Source: Guy Carpenter

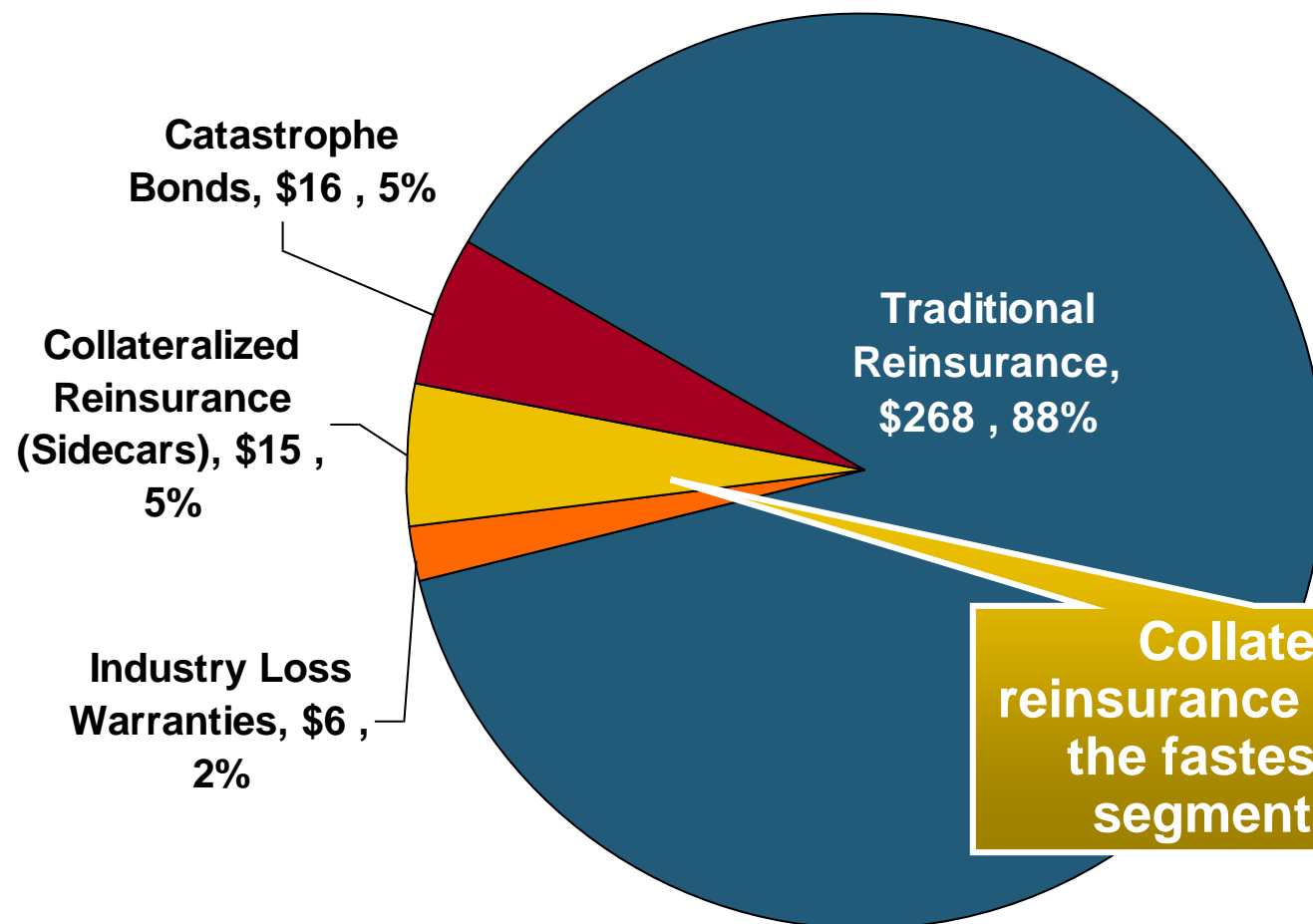
Alternative Capacity as a Percentage of Global Property Catastrophe Reinsurance Limit

(As of Year End)



Property Catastrophe Reinsurance Capacity by Source as of Mid-2013 (\$ Bill)

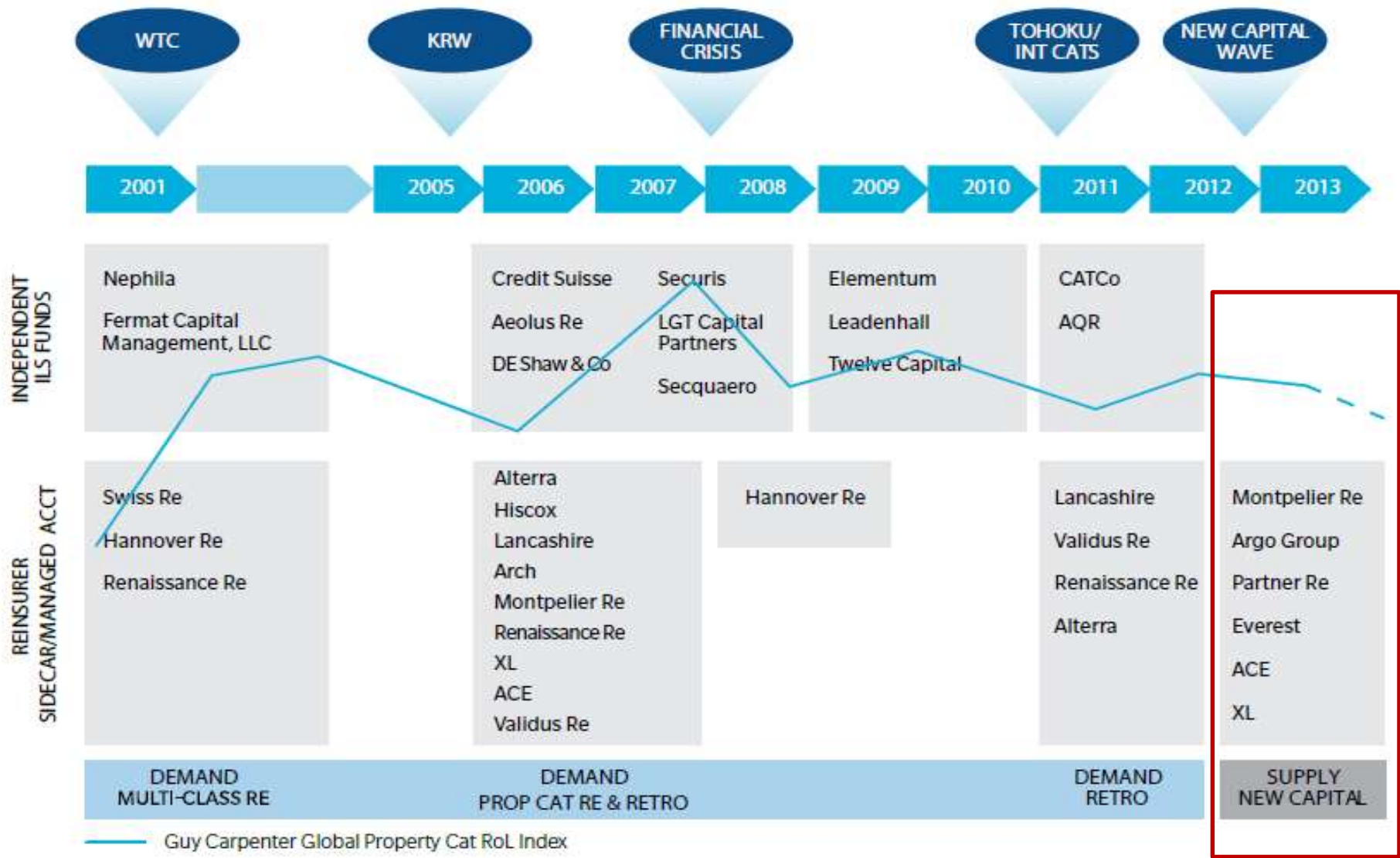
Total = \$316 Billion*



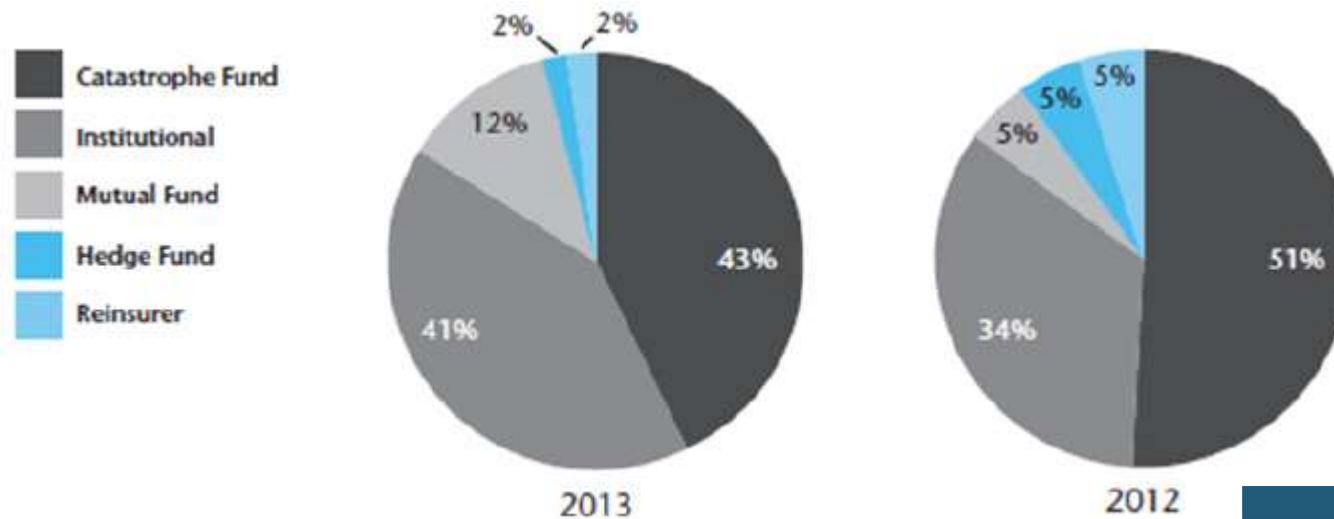
“Convergence Capital” accounted for an estimated \$45B or 14% of total property catastrophe reinsurance capacity as of mid-2013, up \$10B over the past 18 months (since 1/1/12). Penetration of this type of capacity is growing

Collateralized reinsurance (sidecars) is the fastest growing segment recently

Alternative Capacity Development, 2001—2013:H1



Investor by Category, 2013 vs. 2012*



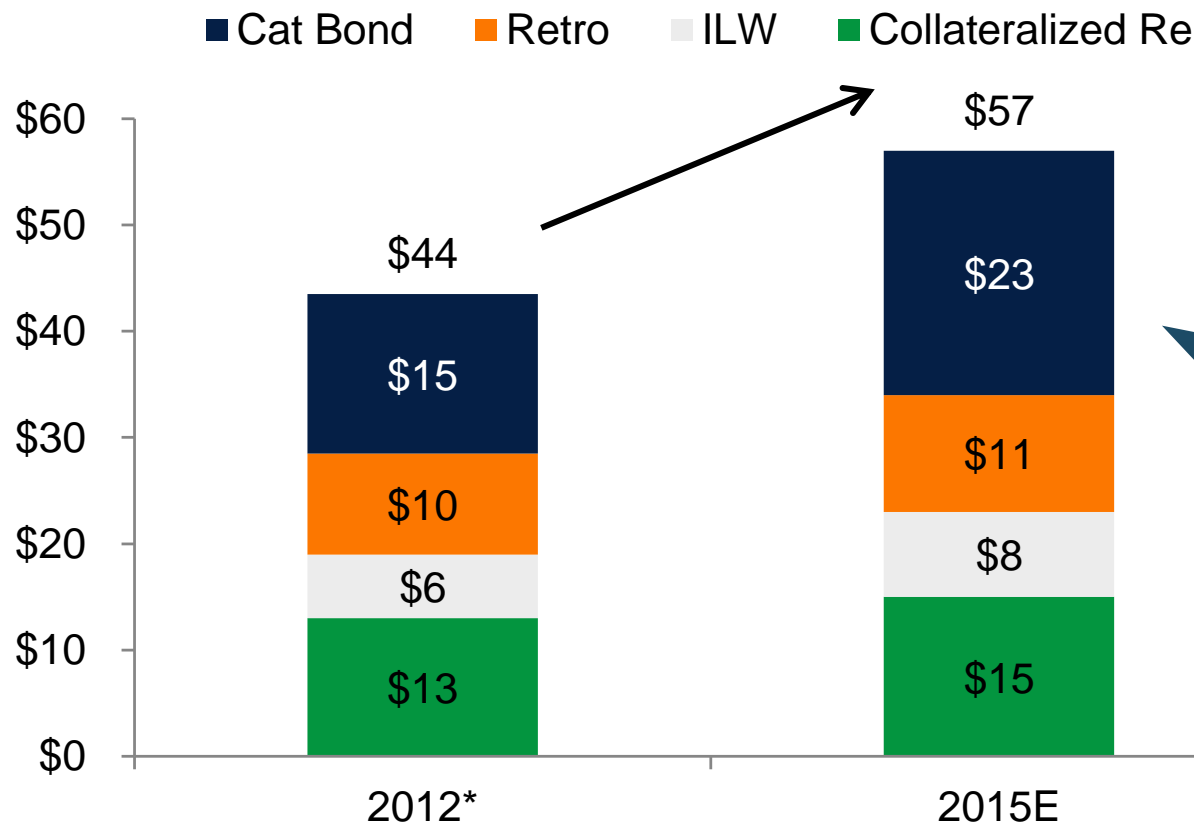
**Institutional
Investors are
accounting for a
larger share of
alternative
reinsurance
investors**

*As of June 30 each year.

Source: Aon Benfield Securities; Insurance Information Institute.

Non-Traditional Property Catastrophe Limits by Type, YE 2012 vs. YE 2015E

NON-TRADITIONAL P/CAT LIMITS BY TYPE

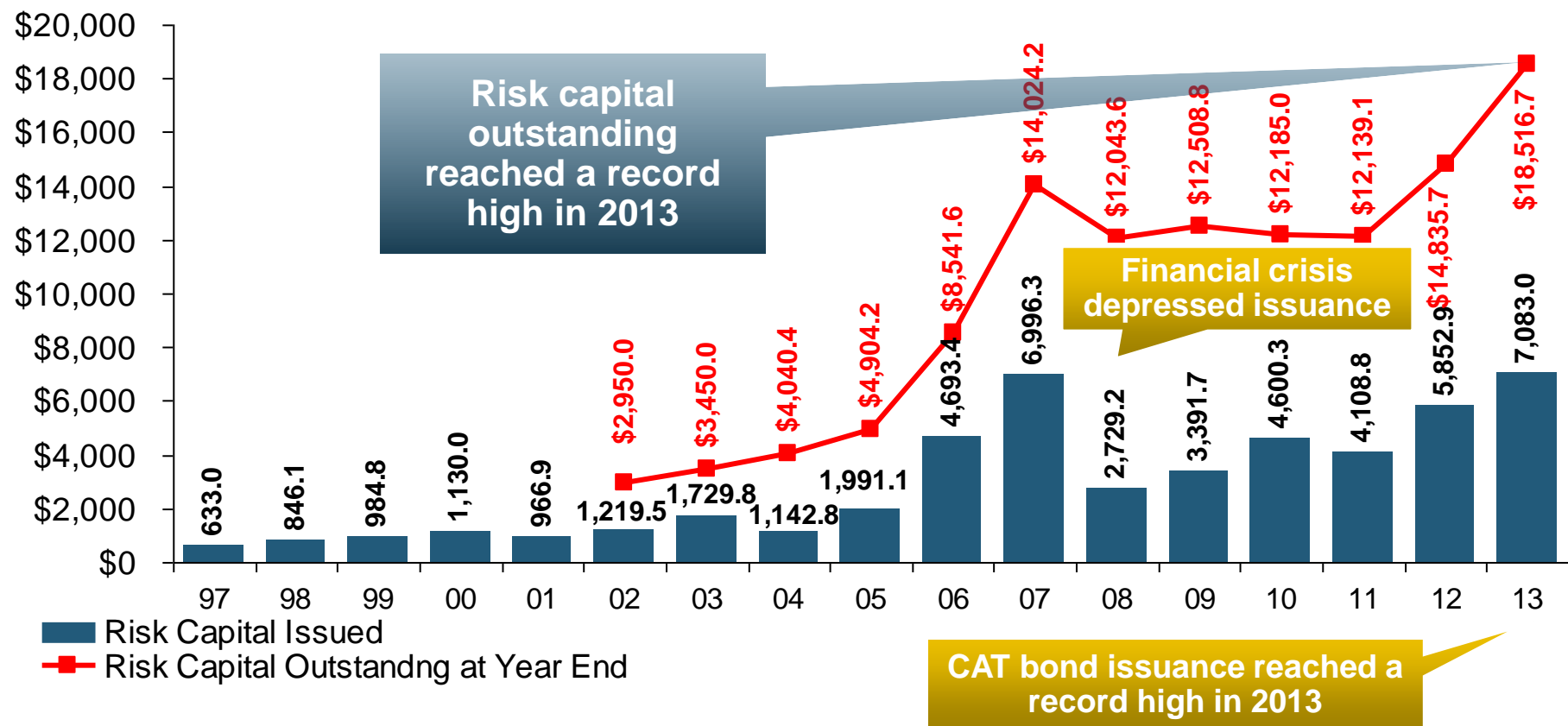


Alternative capital is expected to rise by 30% by YE 2015 and will ultimately account for 20-30% of total reinsurance spend, according to Guy Carpenter

Source: Guy Carpenter; *As Of Mar-2013

Catastrophe Bonds: Issuance and Outstanding, 1997- 2013*

Risk Capital Amount (\$ Millions)



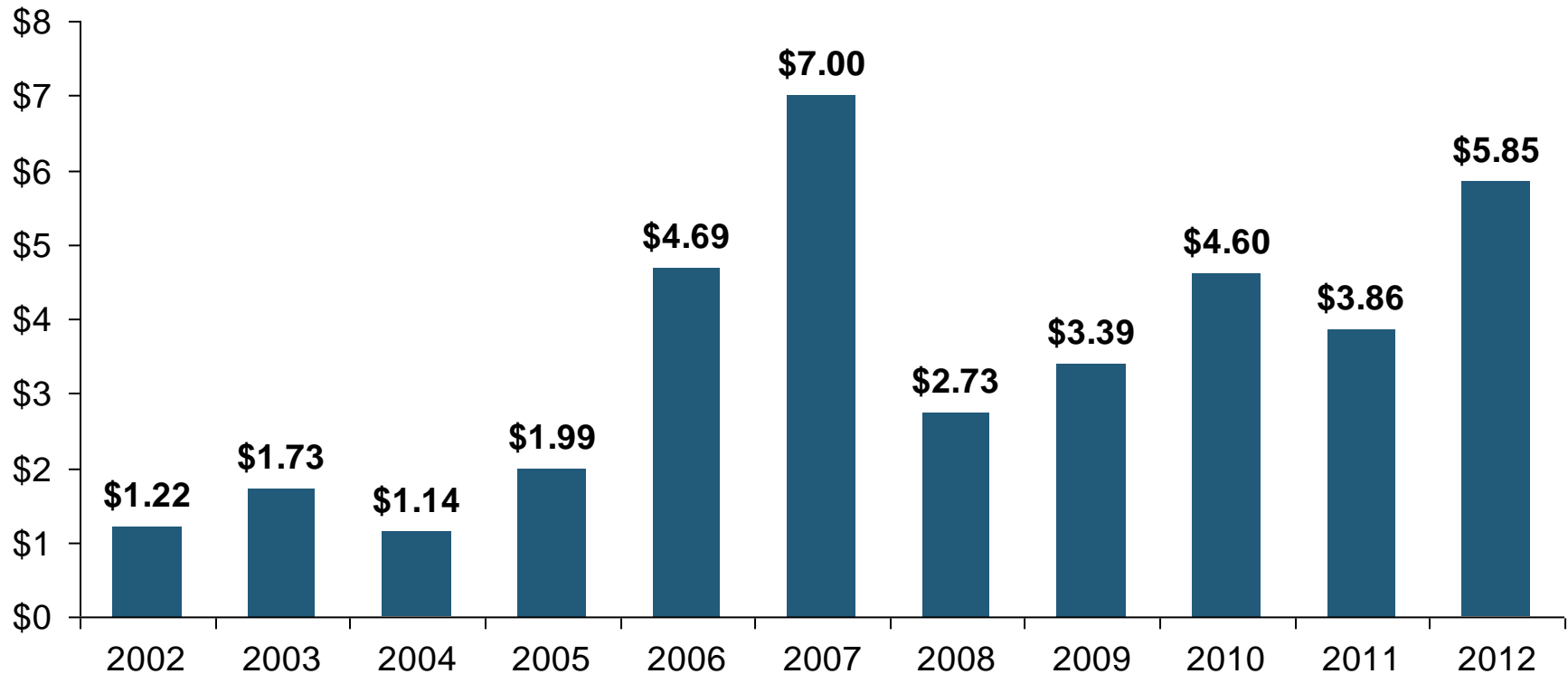
Catastrophe Bond Issuance Is Approaching Pre-Crisis Levels While Risk Capital Outstanding Stands at an All-Time Record

*Through Dec. 31, 2013.

Source: Guy Carpenter; Insurance Information Institute.

CATASTROPHE BONDS, ANNUAL RISK CAPITAL ISSUED, 2002-2012

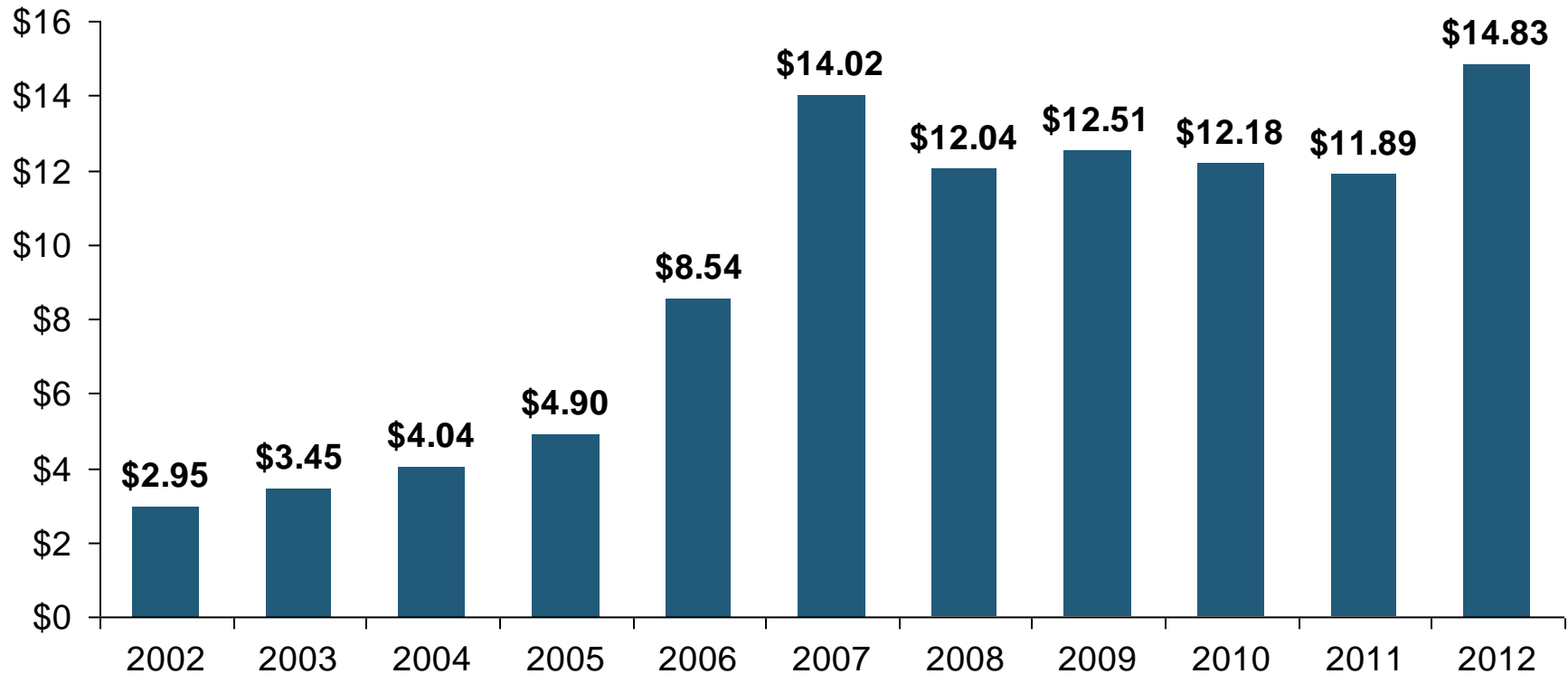
(\$ Billions)



Note

CATASTROPHE BONDS, RISK CAPITAL OUTSTANDING, 2002-2012

(\$ Billions)



Note

Catastrophe Bond Issuances, First Half 2013

Sponsor	Transaction	Amount (\$ Mil.)	2013 Issue Date	Peril
Cincinnati Insurance Group	Skyline Re Ltd.	61.2	January	U.S. Earthquake and Thunderstorm
Nationwide Mutual	Caelus Re 2013	270	March	U.S. Hurricane and Earthquake
Citizens Property Insurance	Everglades Re	250	March	Florida Hurricane
State Farm	Merna Re IV	300	April	U.S. Earthquake
Nationwide Mutual	Caelus Re 2013	320	April	U.S. Hurricane and Earthquake
North Carolina JUA/IUA	Tar Heel Re	500	April	North Carolina Hurricane
Turkish Catastrophe Insurance Pool	Bosphorus 1 Re	400	April	Turkey Earthquake
Louisiana Citizens	Pelican Re	140	May	Louisiana Hurricane
American Coastal Insurance Company	Armor Re	183	May	Florida Hurricane
Travelers	Long Point Re III	300	May	Northeast U.S. Hurricane
Florida Municipal Insurance Trust	Sunshine Re	20	May	Florida Hurricane
Allianz	Blue Danube II	175	May	Earthquake
USAA	Residential Re	300	May	U.S. Hurricane, Earthquake, Thunderstorm
Southern Oak	Oak Leaf Re	30	May	Florida Hurricane
Allstate	Sanders Re	350	May	U.S. Hurricane and Earthquake
Amlin AG	Tramline Re II	75	June	U.S. Hurricane/Canada Earthquake
Munich Re	Queen Street VIII Re	75	June	U.S. Hurricane/Australia Cyclone
Assurant	Ibis Re II	185	June	U.S. Hurricane

Sidecar Transactions (Post-Sandy) and Hedge Fund-Backed Reinsurers

Sidecar Transactions — Post Hurricane Sandy

Sponsor	Transaction	Capital (\$ Mil.)	Date
Lancashire	Saltire Re I	250	November 2012
Alterra	New Point V	247	December 2012
RenRe	Upsilon Re II	185	January 2013
Argo	Harambee Re	N.A.	January 2013
Validus	AlphaCat Re 2013	230	January 2013
Everest Re	Mt. Logan Re	250	January 2013
PartnerRe	Lorenz Re	75	March 2013
ACE	Altair Re	95	April 2013

N.A. – Not available.

Source: Company press releases and filings.

Sidecars (collateralized reinsurance) are the fastest growing alternative capital segment, account for about 15% or \$5 bill of total property catastrophe reinsurance capital

More hedge fund money is coming into the business

Hedge Fund-Backed Reinsurers

Company	Initial Capital (\$ Mil.)	Operations Date	Major Investors
AQR Re Ltd.	260	Jan. 2012	AQR Capital Management, LLC
Greenlight Capital Re, Ltd.	212	April 2006	Greenlight Capital
PaCRe, Ltd.	500	April 2012	Paulson & Co., Validus
S.A.C. Re Holdings Ltd.	500	July 2012	S.A.C. Capital Advisors, Capital Z Partners III LP
Third Point Reinsurance Co. Ltd.	750	Jan. 2012	Third Point LLC, Kelso & Co, Pine Brook Road Partners

Source: Company press releases and filings.

(Re) Insurers Investing in Insurance Linked Securities (ILS) Fund Managers

(Re)insurer	Asset Manager/Fund
Alleghany	Ares Management
Allied World	Aeolus Capital Management
Amlin	Leadenhall Capital Partners
Aspen Re	Cartesian Iris Re
Hannover Re	Leine Investment
Lancashire	Saltire Management
Montpelier Re	Blue Capital Management
Munich Re	MEAG Munich Ergo
RenaissanceRe	RenaissanceRe Ventures
SCOR	Atropos
Transatlantic	Pillar Capital Holdings
Validus	AlphaCat Fund
XL	Stone Point Capital

Several (re)insurers have formed asset managers or invested in independent asset managers that are focused on managing catastrophe/ILS funds for outside investors. These asset managers invest third party capital in instruments with returns linked to property catastrophe reinsurance retrocession and ILS contracts.

- **Alternative Reinsurance Here to Stay**

- Capital markets have effectively discovered reinsurance another “asset class,” in part due to Federal Reserve’s unprecedented actions since the financial crisis to keep interest rates low across the entire yield curve.
- A convergence of the reinsurance and capital markets persists with many companies both providing and using alternative forms of risk transfer to supplement the traditional balance sheet, transforming several reinsurers into risk asset managers. These structures include catastrophe bonds (cat bonds), collateralized quota-share reinsurance vehicles (sidecars), industry loss warranties (ILWs), hedge fund-supported reinsurers and asset managers investing in insurance-linked securities (ILS).

- **Property Catastrophe Drives Market:**

- The nature of property catastrophe risk as being highly modeled and commoditized serves as an important economic force driving its transfer into the capital markets. Casualty (re)insurance lines have had limited movement into the alternative reinsurance market thus far, as the less standardized and more specialized nature of these longer term risks makes them better suited for more permanent traditional capacity providers.

Alternative Reinsurance Capital Summary (continued)

- **Strong Investor Demand**

- Comparatively high potential returns of catastrophe risk through cat bonds and sidecar investments are particularly attractive to investors, although this spread has been shrinking due to increased investor demand. However, the lack of correlation between catastrophe losses and returns on other major asset classes should continue to contribute to strong demand from investors, which include hedge funds, private equity and institutional investors.

- **Shock (i.e., Large Loss) Event Could Alter Market**

- One area of uncertainty is how investors would react to an environment of *less favorable catastrophe risk spreads* or a *large unexpected catastrophe loss*, either of which could cause capital to retreat. This risk is likely higher for hedge fund capital, as pension fund capital tends to be more permanent, given their long-term investment outlook and more diversified risk exposure.

- **Mixed Impact to Reinsurers' Ratings:**

- Fitch views the growth and acceptance of alternative reinsurance as a mixed impact for the credit quality of reinsurers' ratings. Favorably, these products can be used to manage reinsurers' exposure and capital and serve as a source of fee income. Negatively, alternative coverage represents competition for traditional reinsurers that, in conjunction with the strong overall capitalization of the reinsurance industry, have worked to notably dampen reinsurance pricing

Alternative Reinsurance Capital Summary (continued)



- **Sponsors Benefit From New Issuance:**

- As investor demand has continued to grow for catastrophe bonds, sponsors have been able to offer deals at considerably lower coupon rates and with increasingly favorable structures that suit individual company needs. These market conditions are likely to drive further issuance of cat bonds in the near term if (re)insurers believe they can produce a cost-effective alternative to supplement their reinsurance program. As of midyear, 2013 is on track to produce a record amount of catastrophe bond issuance.

- **Sidecars Continue to Provide Capacity:**

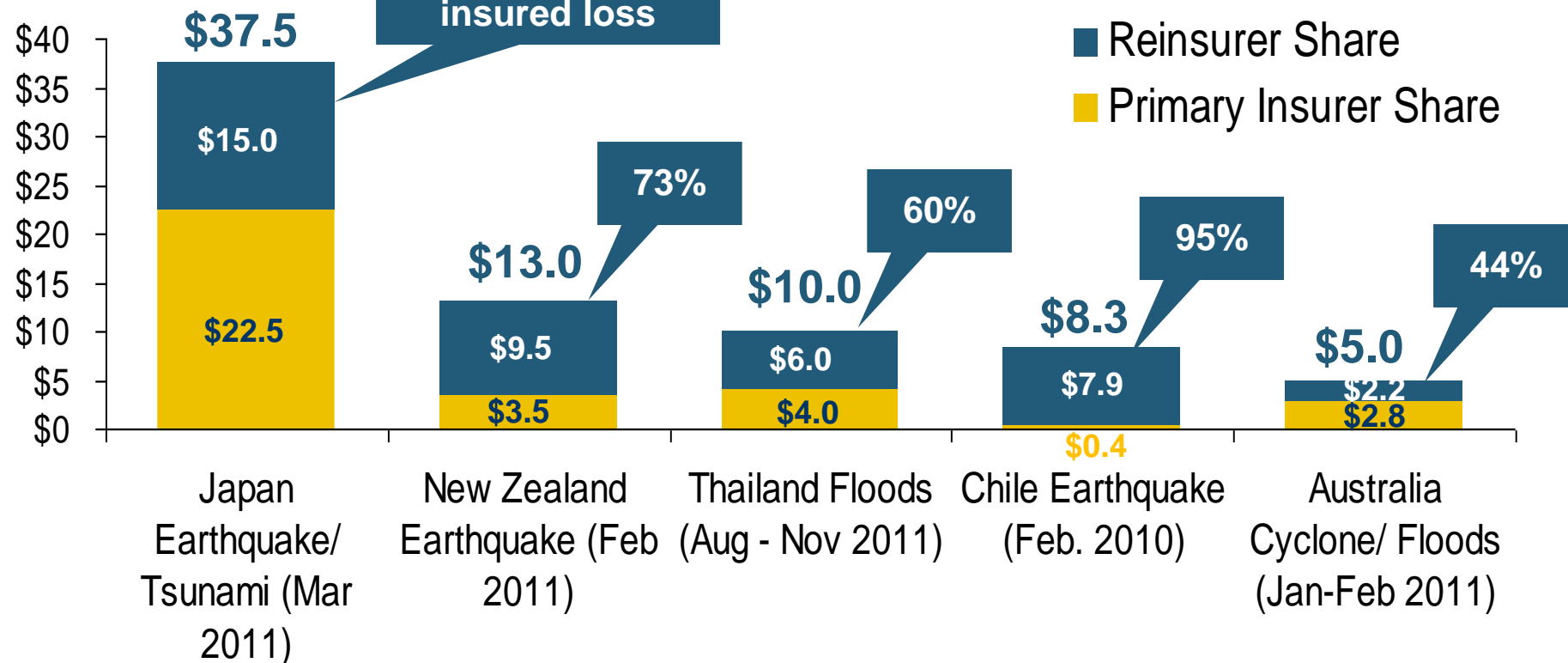
- Several sidecars emerged late in 2012 and early into 2013 following Hurricane Sandy. These vehicles were opportunistically seeking to capitalize on any potential improvements in property catastrophe pricing. However, they also represented several newer entrants into the alternative reinsurance space looking to participate in what continues to be an important and growing segment of the reinsurance market.

Questions Arising from Influence of Alternative Capital

- **Could Pension Fund Money Swamp Traditional Capacity?**
 - ◆ US private pension funds hold ~\$7 trillion in assets
 - ◆ 2% allocation = \$140 billion
 - ◆ Global property cat capital = ~\$316 bill as of mid-2013
- **Do New Investors Have a Lower Cost of Capital?**
 - ◆ New capacity expects 6-8% rate of return compared to 8-10% for traditional reinsurance, according to Dowling & Partners
- **Will Reinsurance Pricing Become More Closely Linked to Interest Rates?**
- **Terms and Conditions Could Weaken**
 - ◆ Multi-year deals

Reinsurer Share of Recent Significant Market Losses

Billions of 2011
Dollars



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

Alternative Capital: Important Definitions

Alternative Reinsurance Market

Alternative reinsurance is effectively any form of managing and transferring (re)insurance risk through the use of the capital markets rather than the traditional reinsurance market. These nontraditional structures commonly include catastrophe bonds (cat bonds), collateralized quota-share reinsurance vehicles (sidecars) and industry loss warranties (ILWs).

Alternatives to traditional reinsurance essentially began following Hurricane Andrew, with the introduction of exchange traded insurance options in 1992, the first cat bond in 1994, and later sidecars in 2001, following the events of Sept. 11, 2001. However, the market began to grow significantly following Hurricane Katrina in 2005, as (re)insurers were essentially forced to increase issuances of catastrophe bonds and expand the use of sidecars in order to absorb underwriting capacity as retrocession availability became more scarce and expensive.

Catastrophe Bonds

Cat bonds are bonds issued by an insurer with a condition that if the issuer suffers a catastrophe loss greater than a specified amount, the obligation to pay interest/principal is deferred or forgiven, thus effectively prompting a default on the bond. Cat bonds allow sponsors (most often a (re)insurer) to transfer a portion of its catastrophe risk to the capital markets through securities purchased by investors and actively traded in the secondary market.

Favorably for the sponsor, cat bonds offer collateralized (most often invested in U.S. Treasury Money Market Funds) protection that is locked in at a fixed cost over multiple years (typically two to four years). This allows the (re)insurer to be less subject to changing reinsurance market conditions. For the investor, cat bonds offer a comparatively high yield and an opportunity to diversify their portfolios. This is due to the lack of correlation between catastrophe losses and returns on other major asset classes that are tied to more macroeconomic and financial market conditions.

Sidecars

Sidecars are special-purpose reinsurers that provide dedicated collateralized quota-share reinsurance, often for a single ceding company that transfers a portion of its underwriting risk (and related capital investment), and in turn receives a ceding commission. They also can be a source of fee income for the reinsurers that underwrite or provide management services to such third-party risk vehicles.

Sidecar vehicles are often established by traditional reinsurers as a means to tap into the external capacity offered by the capital markets from hedge funds, investment banks, private equity and other opportunistic investors and increase the efficiency and diversification of the company's reinsurance program. They typically have a limited life expectancy and are often wound up when market conditions deteriorate, after which any remaining capital funds are returned to investors and the sponsor.

Industry Loss Warranties

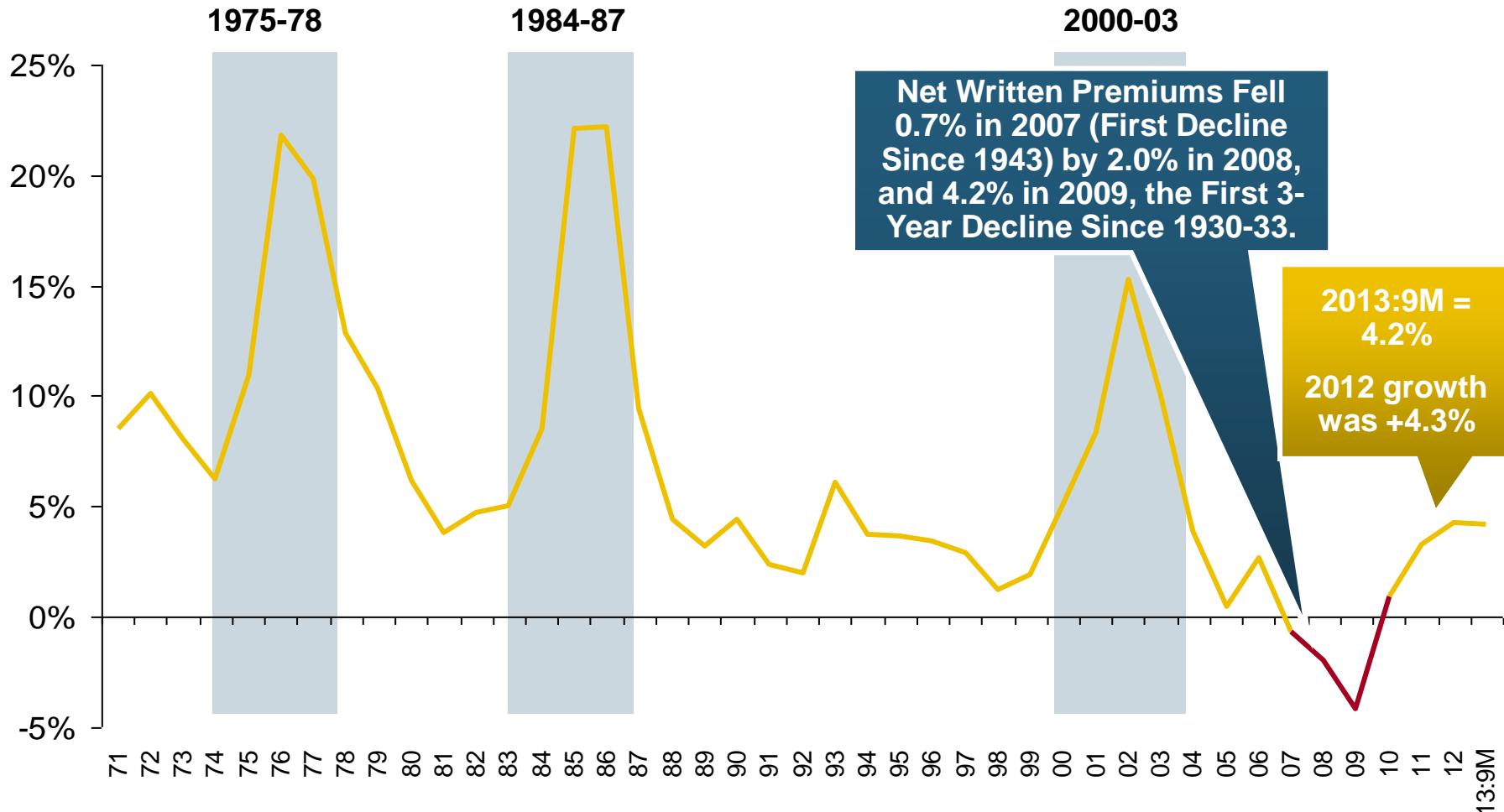
ILWs are a type of private reinsurance or derivative contract through which one party (often an insurer) will purchase protection based on the total loss arising from an event to the entire insurance industry rather than their own losses. The buyer pays a premium to the company that writes the ILW cover (often a reinsurer or hedge fund) and in return receives coverage for a specified limit if industry losses exceed the predefined amount under the ILW trigger.

4. RENEWED PRICING DISCIPLINE

**Commercial Renewal Pricing
Remains Generally Positive**

Net Premium Growth: Annual Change, 1971—2013:Q3

(Percent)



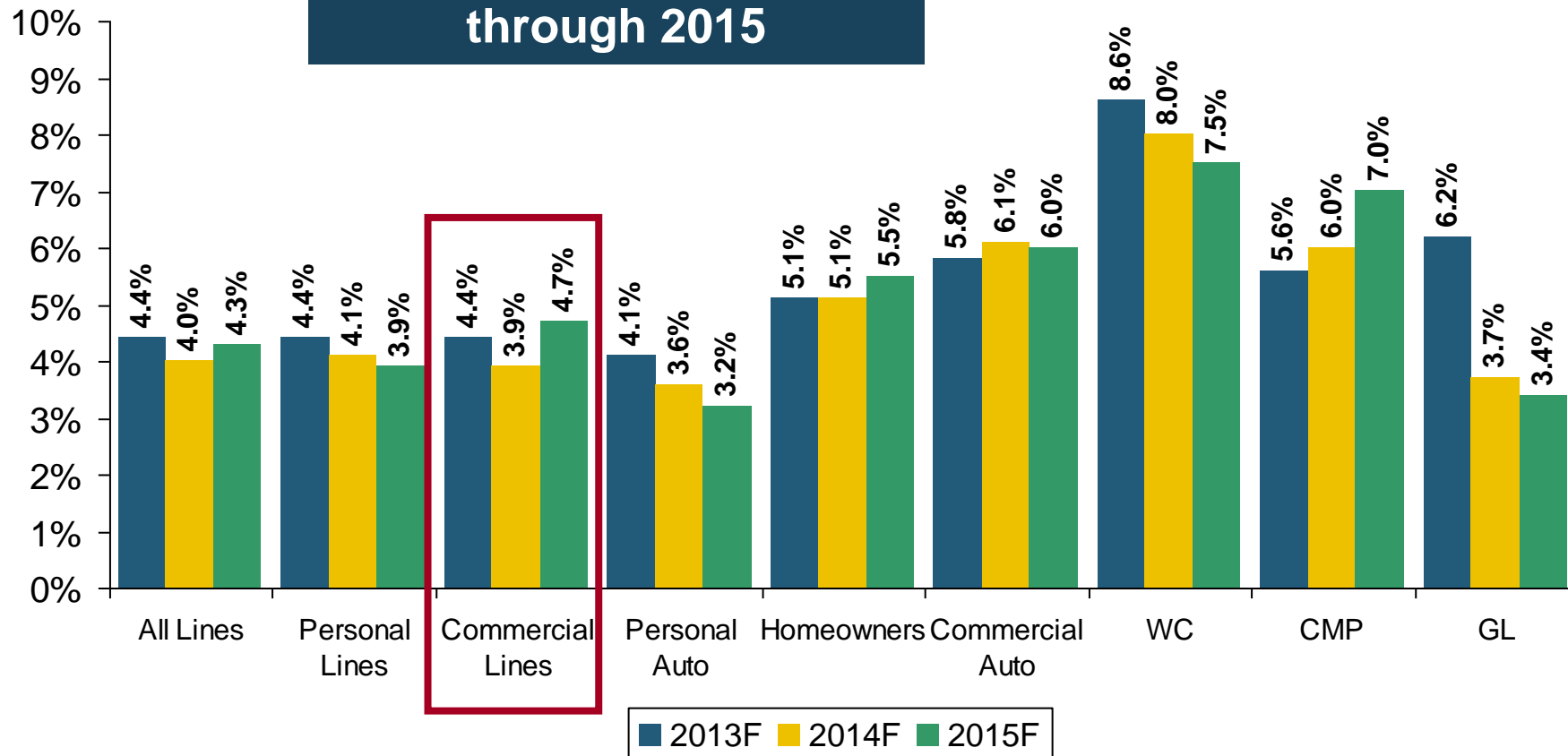
Shaded areas denote "hard market" periods

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

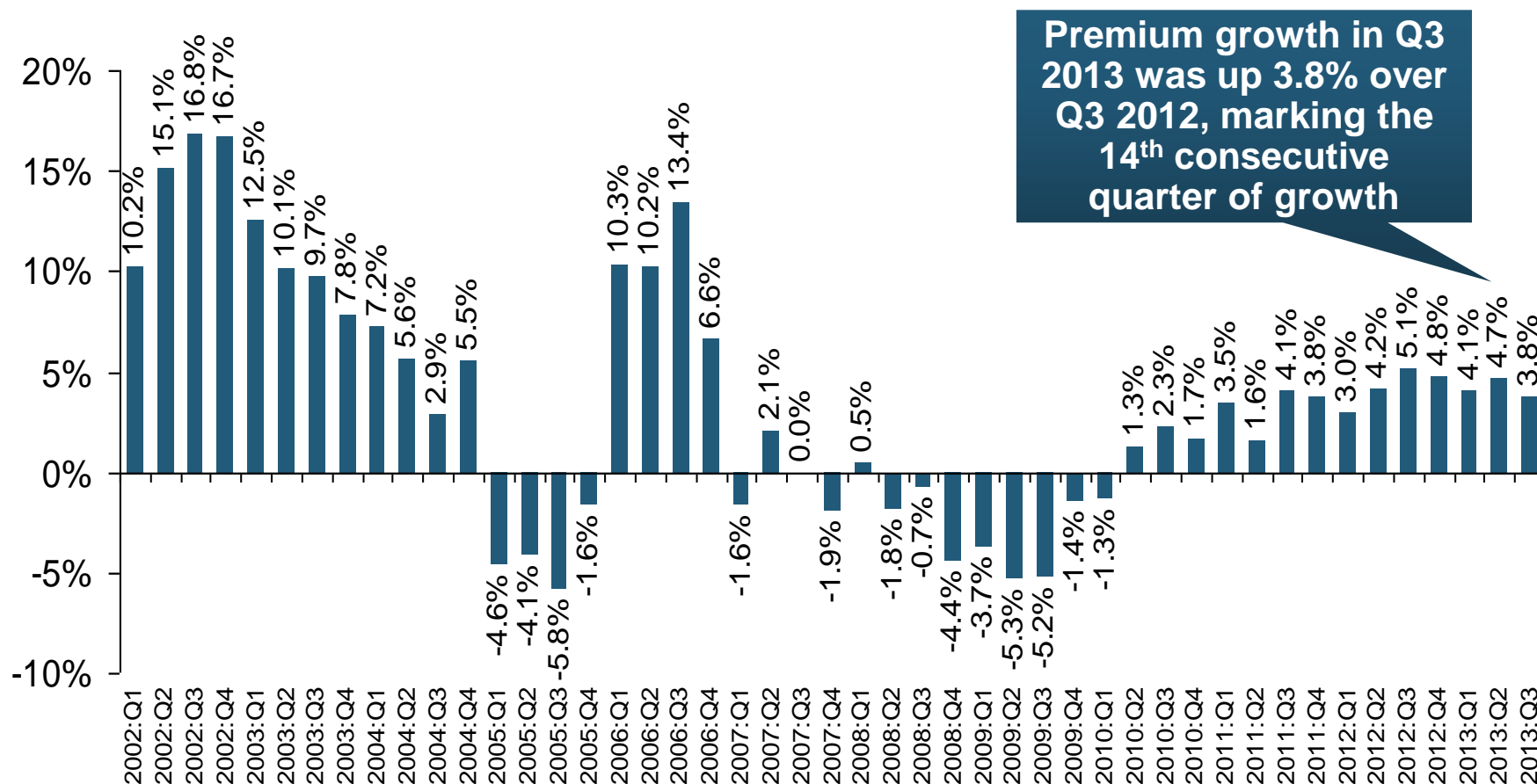
Growth in Direct Written Premium by Line, 2013-2015F*

(Percent)

P/C growth is expected
to remain fairly stable
through 2015



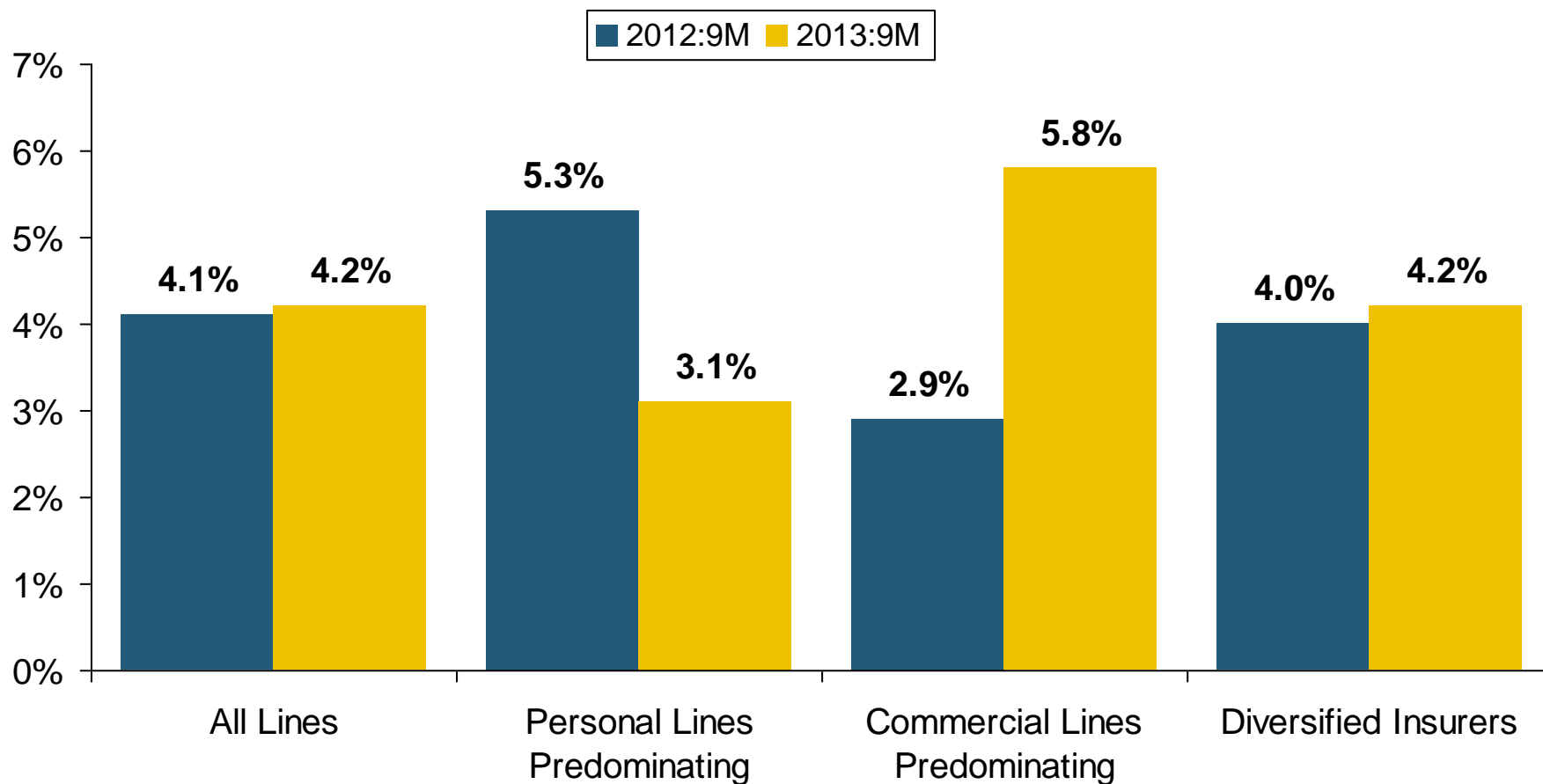
P/C Net Premiums Written: % Change, Quarter vs. Year-Prior Quarter



**Sustained Growth in Written Premiums
(vs. the same quarter, prior year) Will Continue into 2014**

Growth in Net Written Premium by Segment, 2013:9M vs. 2012:9M*

(Percent)

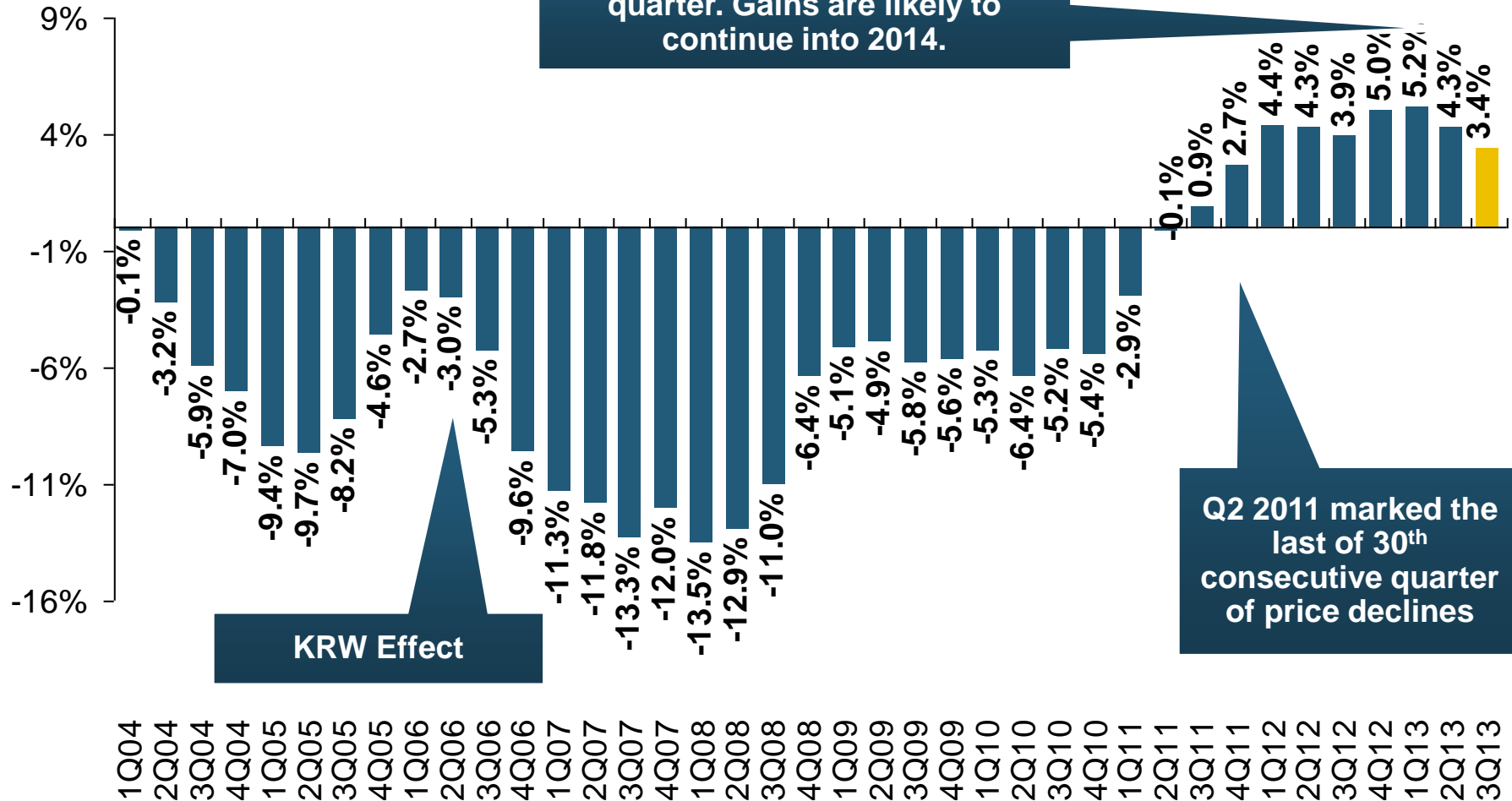


*Excludes mortgage and financial guaranty insurers.

Source: ISO/PCI; Insurance Information Institute

Average Commercial Rate Change, All Lines, (1Q:2004–3Q:2013)

(Percent)



Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents & Brokers; Insurance Information Institute

Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2013:Q3

Percentage Change (%)

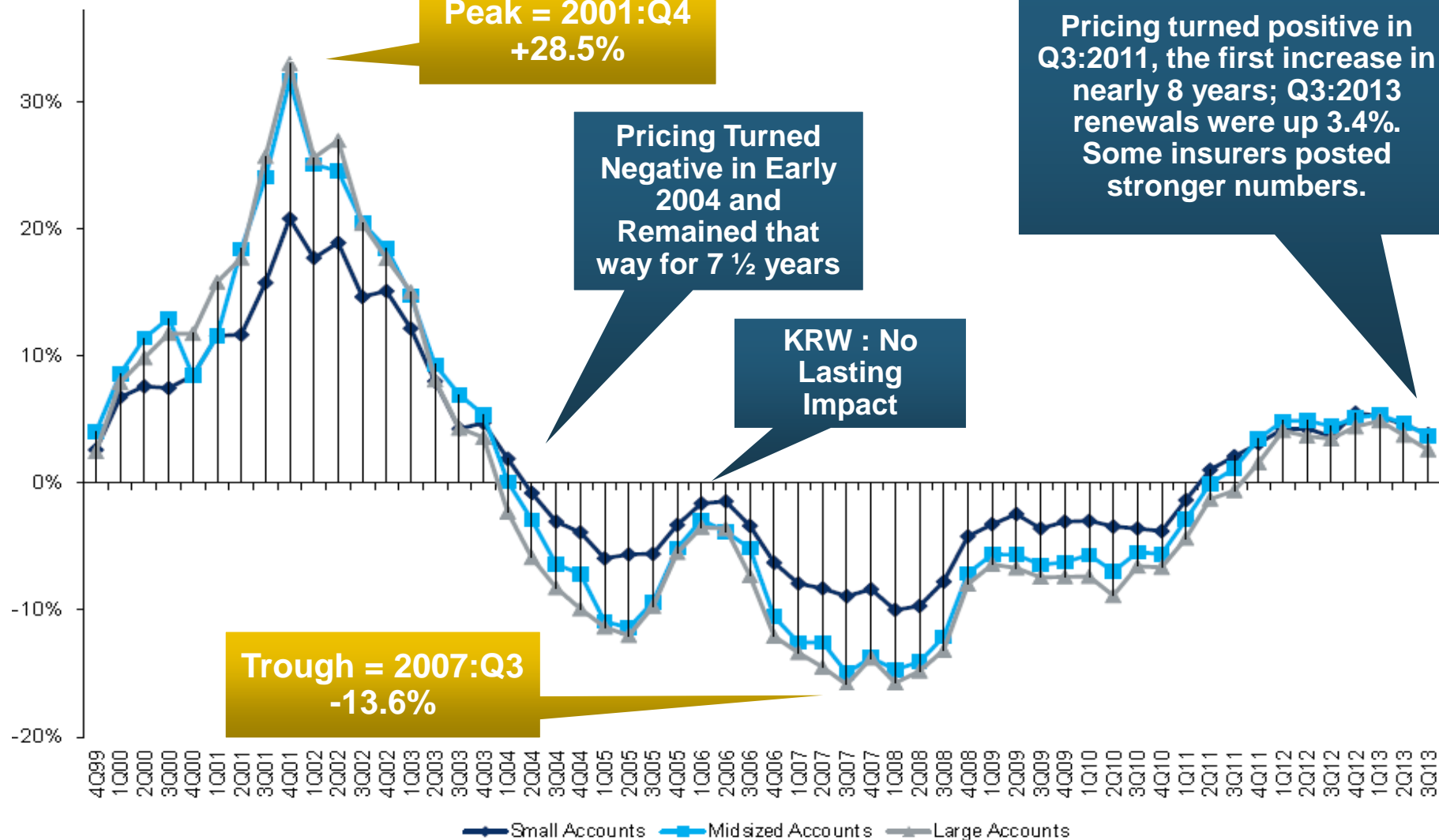
**Peak = 2001:Q4
+28.5%**

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

**KRW : No
Lasting
Impact**

**Pricing turned positive in
Q3:2011, the first increase in
nearly 8 years; Q3:2013
renewals were up 3.4%.
Some insurers posted
stronger numbers.**

**Trough = 2007:Q3
-13.6%**

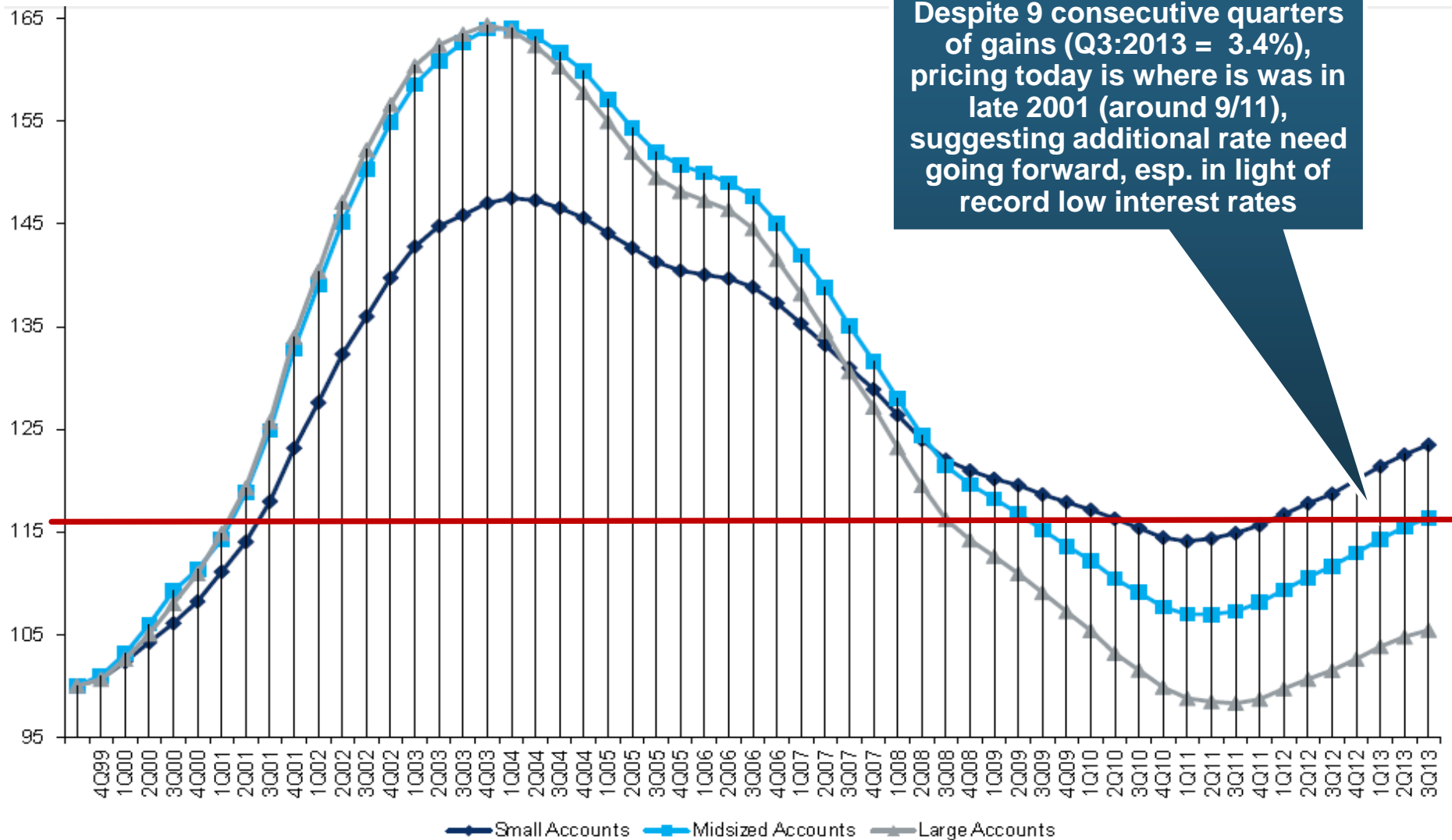


Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.

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

Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2013:Q3

1999:Q4 = 100

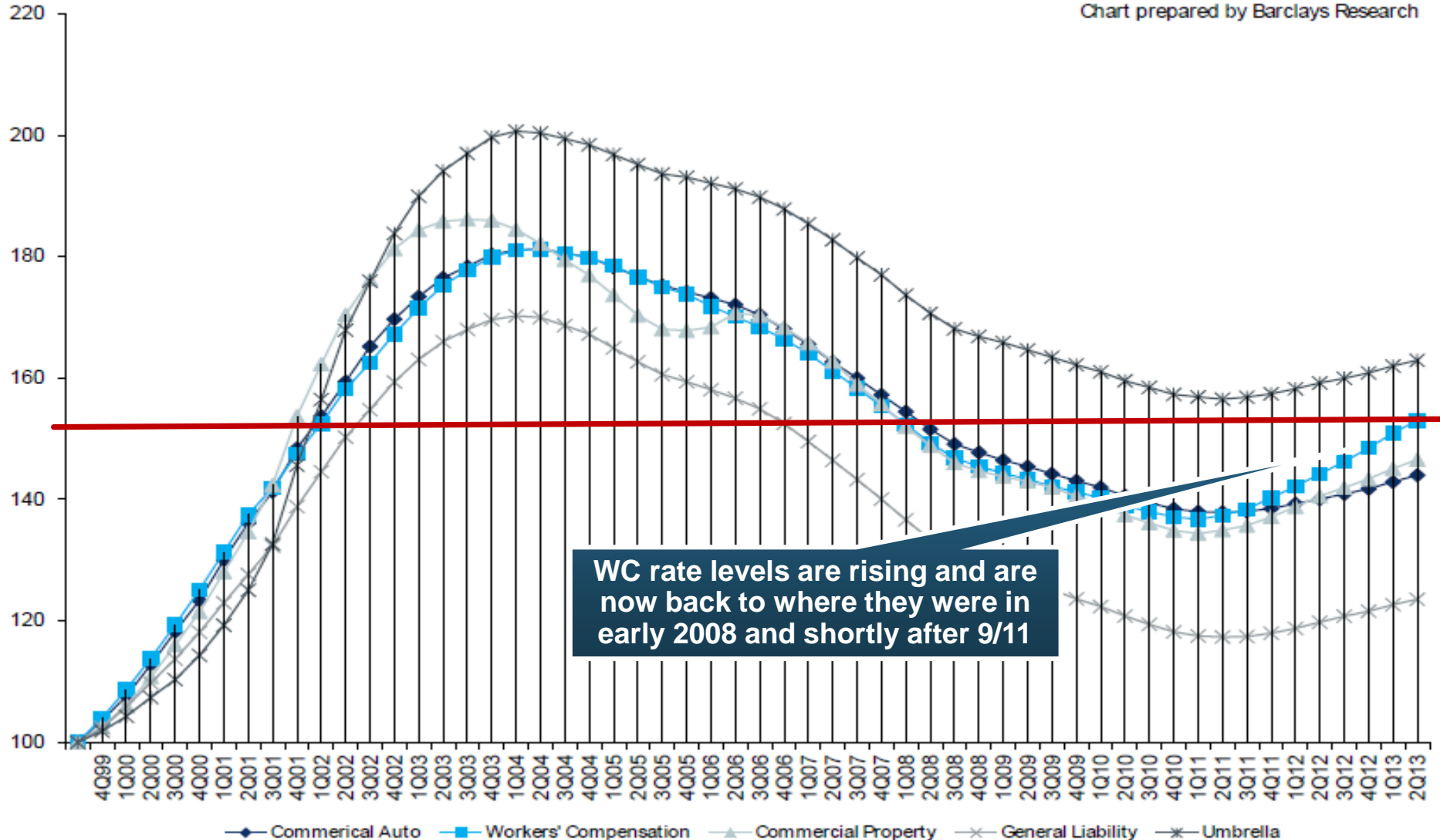


Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents and Brokers; Barclay's Capital; Insurance Information Institute.

Cumulative Qtrly. Commercial Rate Changes, by Line: 1999:Q4 to 2013:Q2

1999:Q4 = 100

Chart prepared by Barclays Research

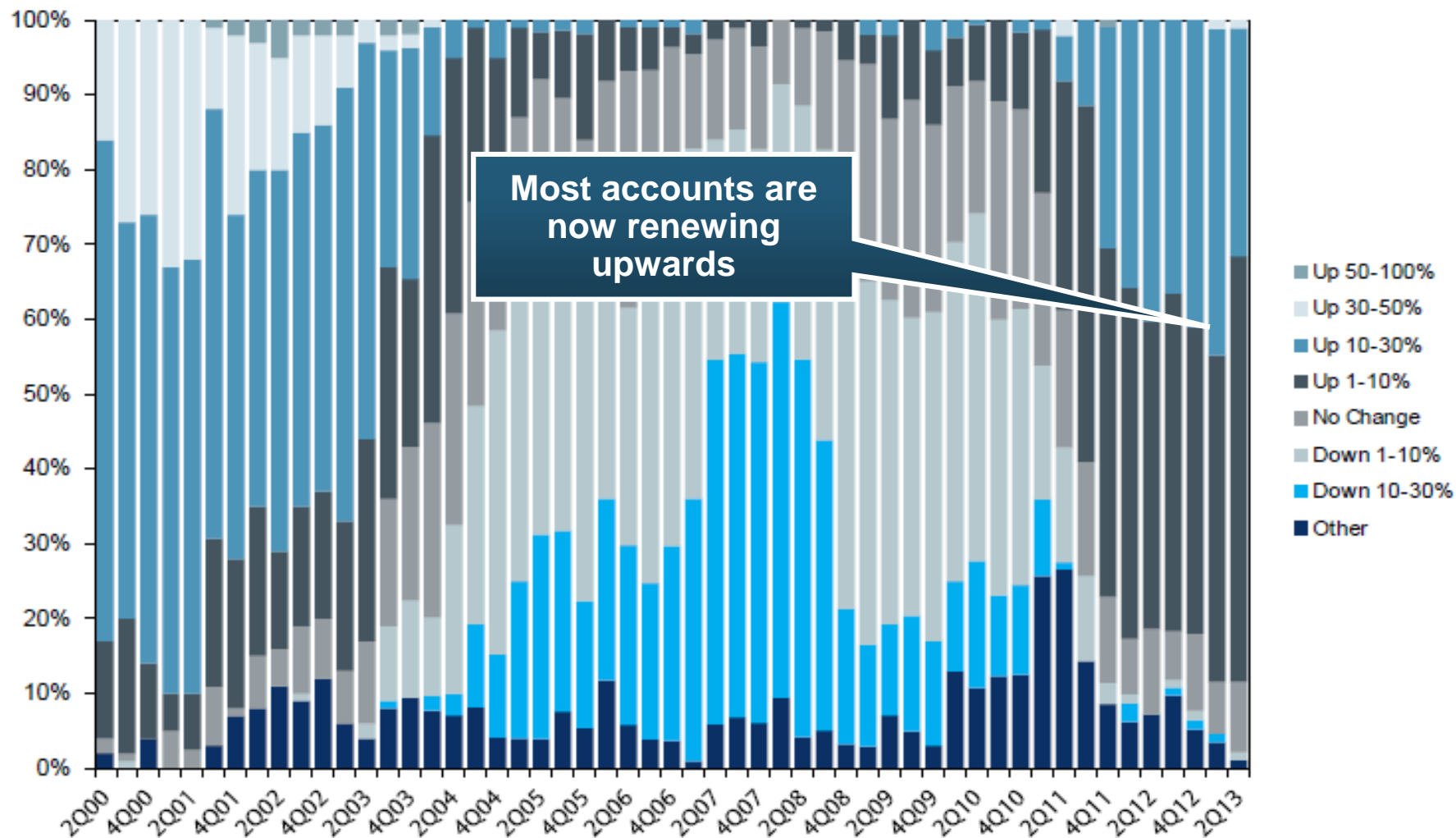


WC rate levels are rising and are now back to where they were in early 2008 and shortly after 9/11

Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents and Brokers; Barclay's Capital; Insurance Information Institute.

Workers Comp. Quarterly Rate Changes, by Line: 2000:Q1 to 2013:Q2

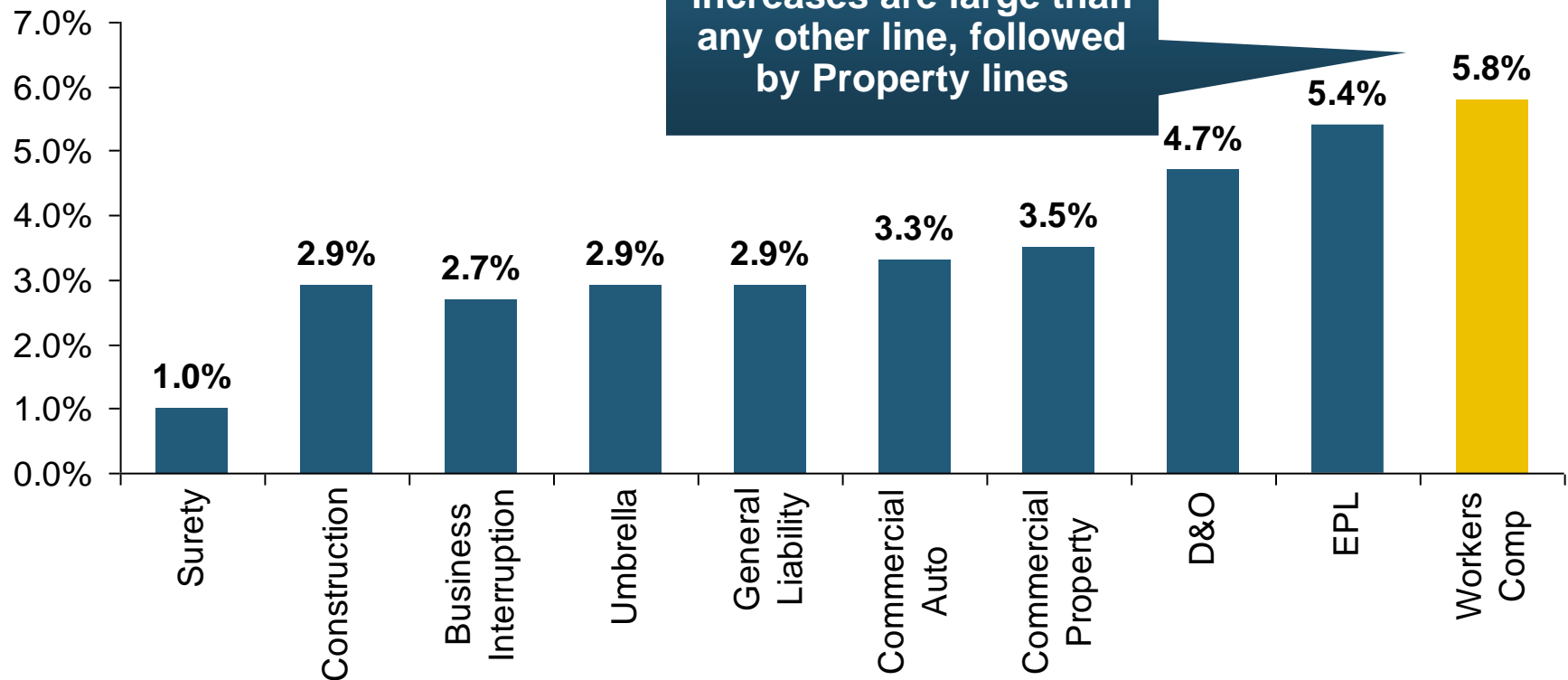
1999:Q4 = 100



Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents and Brokers; Barclay's Capital; Insurance Information Institute.

Change in Commercial Rate Renewals, by Line: 2013:Q3

Percentage Change (%)

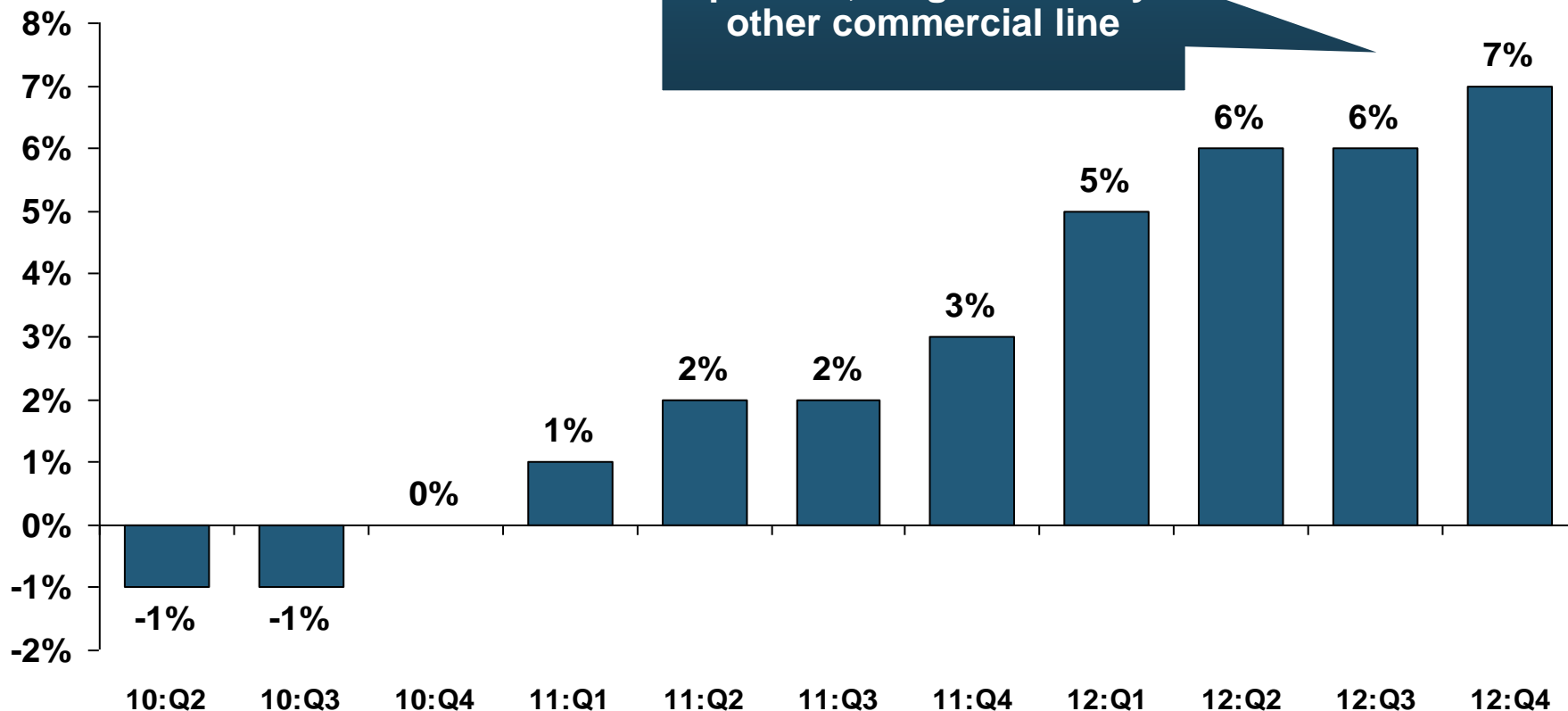


Major Commercial Lines Renewed Uniformly Upward in Q3:2013 for the 9th Consecutive Quarter; Property Lines & Workers Comp Leading the Way; Cat Losses and Low Interest Rates Provide Momentum Going Forward

Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents and Brokers; Insurance Information Institute.

CLIPS: Change in Written Price Level: All Lines, 2010:Q2 – 2012:Q4

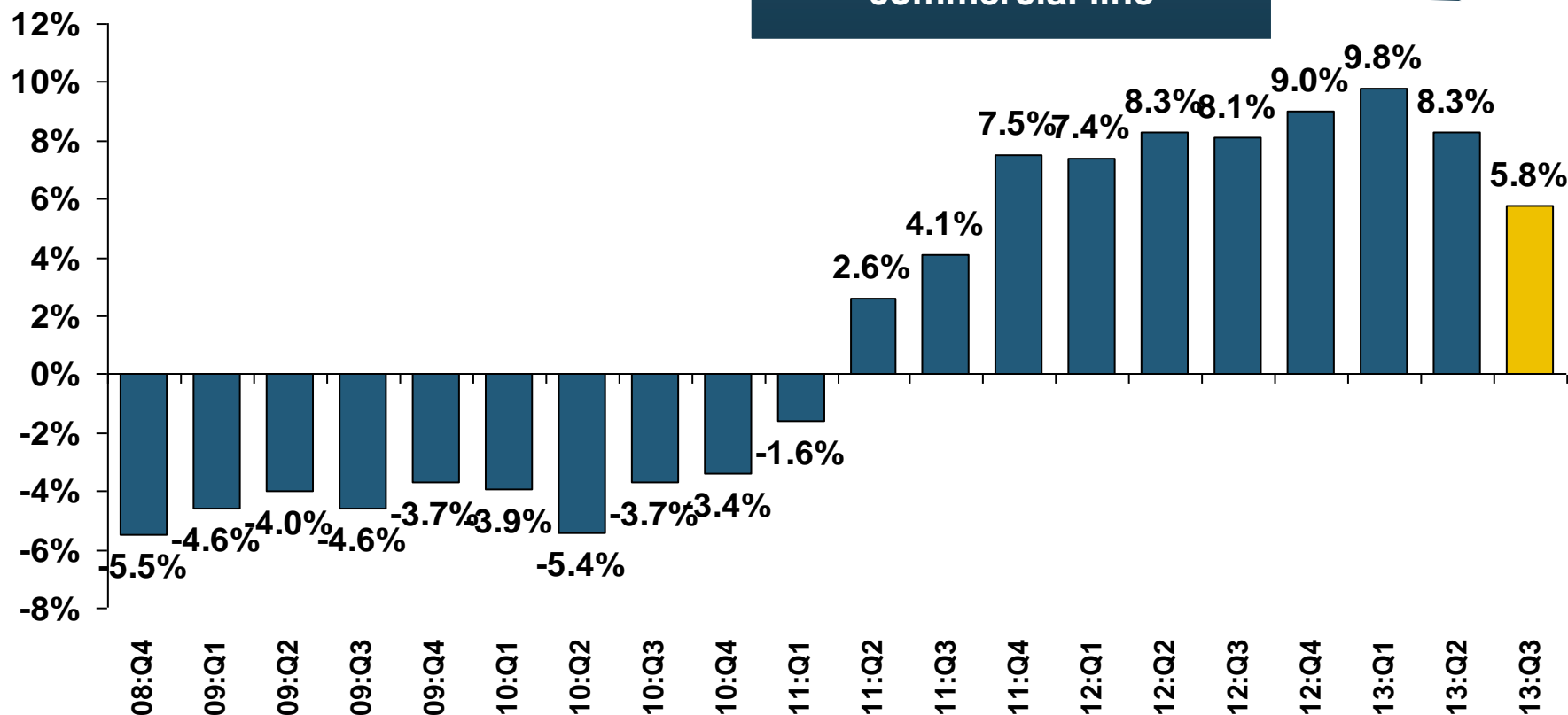
(Percent
Change)



Note: Towers Watson data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.

Workers Comp Rate Changes, 2008:Q4 – 2013:Q3

(Percent
Change)



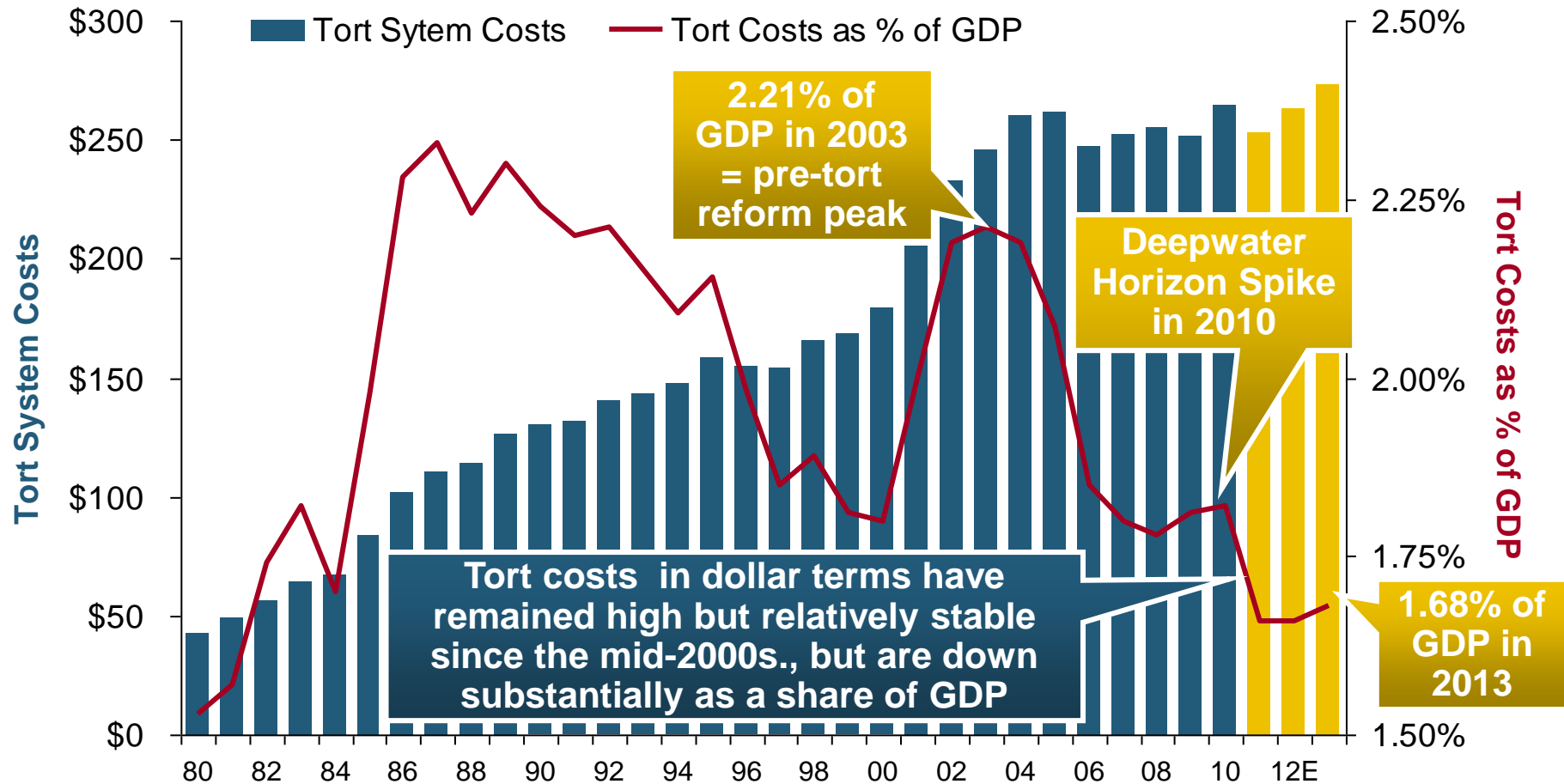
Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents and Brokers; Information Institute.

Shifting Legal Liability & Tort Environment

Is the Tort Pendulum Swinging Against Insurers?

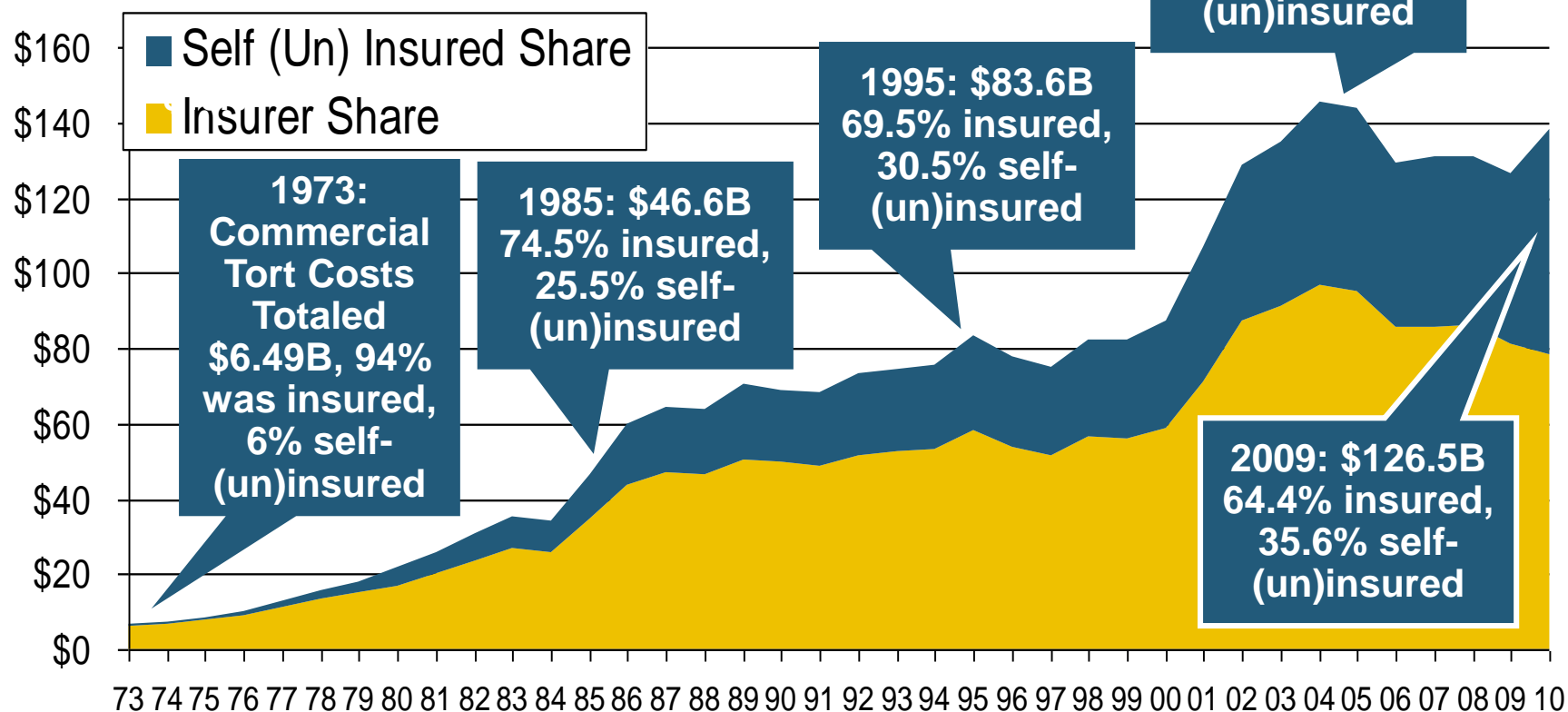
Over the Last Three Decades, Total Tort Costs as a % of GDP Appear Somewhat Cyclical, 1980-2013E

(\$ Billions)



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

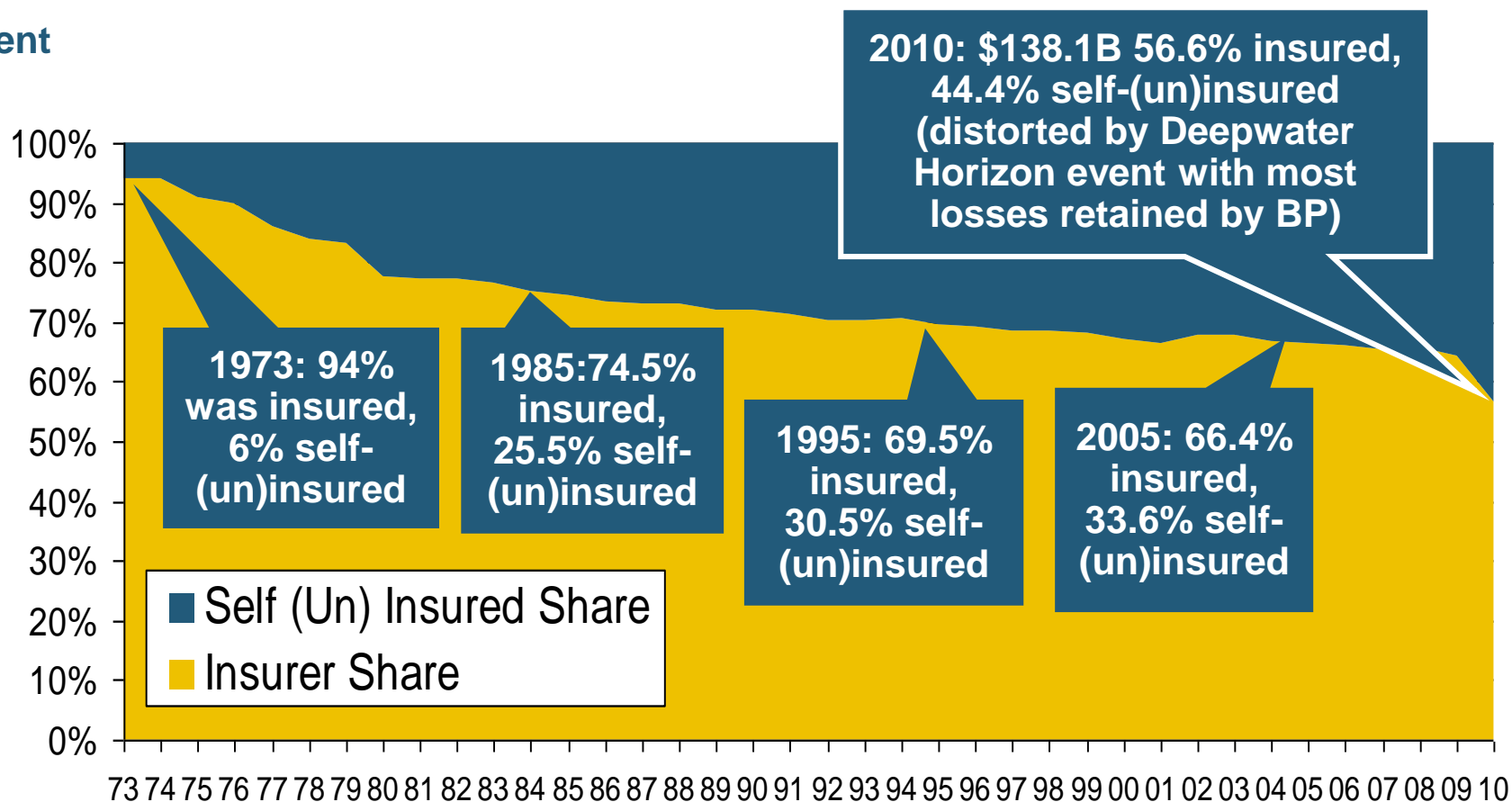
Billions of Dollars



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

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

Percent



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

Business Leaders Ranking of Liability Systems in 2012

■ Best States

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

New in 2012

- Wyoming
- Minnesota
- Kansas
- Idaho

Drop-offs

- Indiana
- Colorado
- Massachusetts
- South Dakota

■ Worst States

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

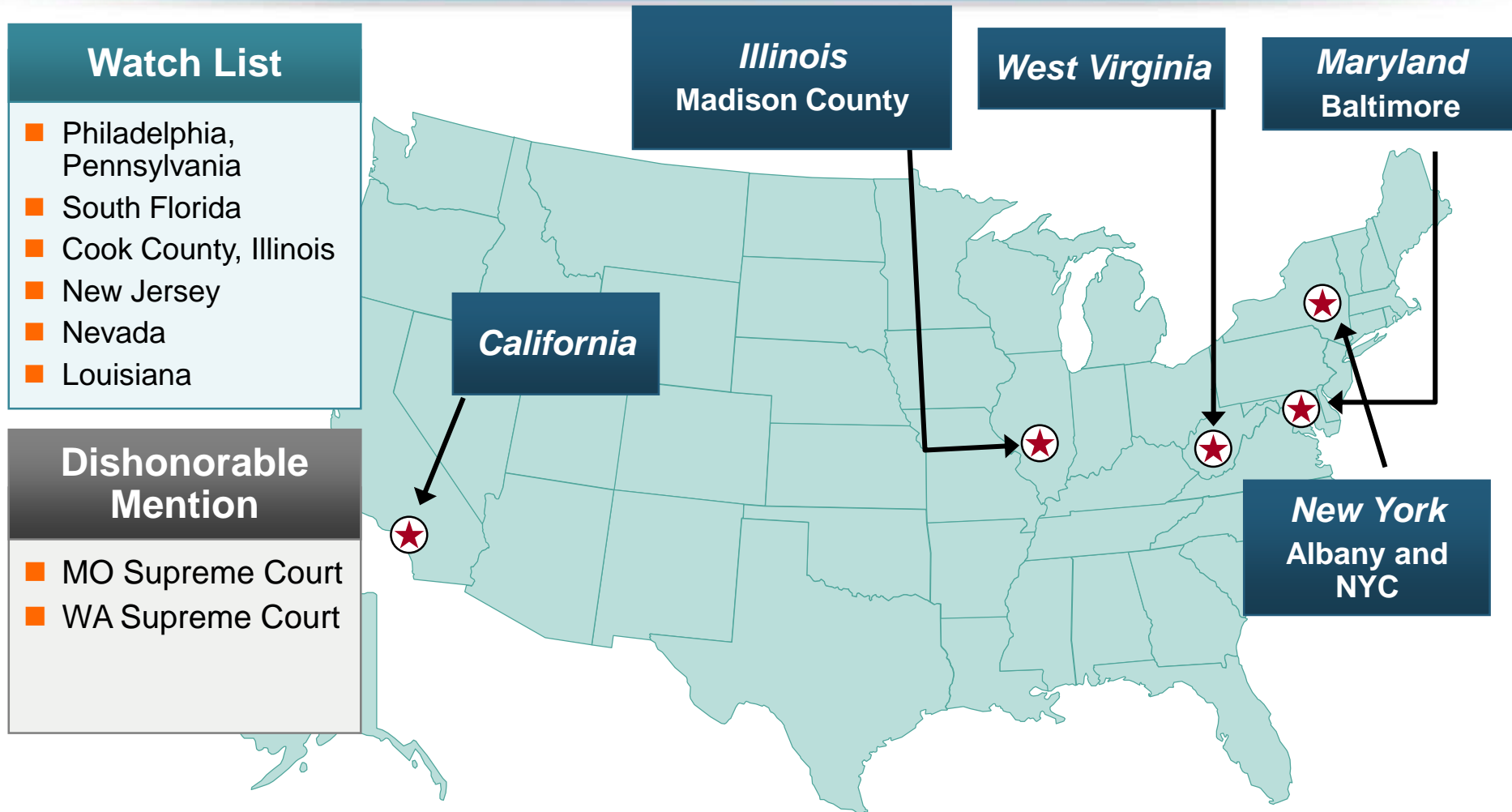
Newly Notorious

- Oklahoma

Rising Above

- Arkansas

The Nation's Judicial Hellholes: 2012/2013



CYBER RISK

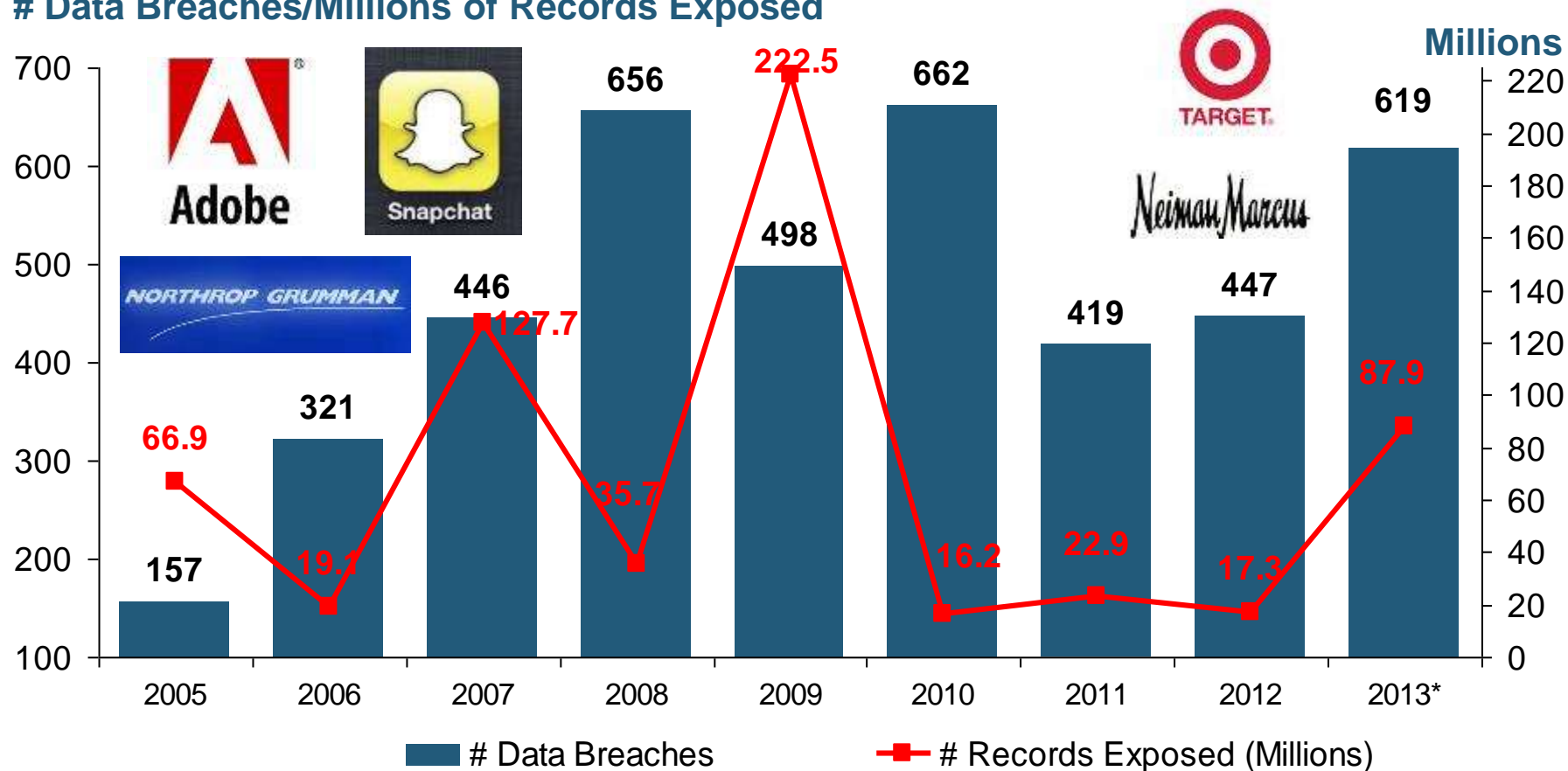
**Cyber Risk is a Rapidly Emerging
Exposure for Businesses Large
and Small in Every Industry**

NEW III White Paper:

http://www.iii.org/assets/docs/pdf/paper_CyberRisk_2013.pdf

Data Breaches 2005-2013, by Number of Breaches and Records Exposed

Data Breaches/Millions of Records Exposed

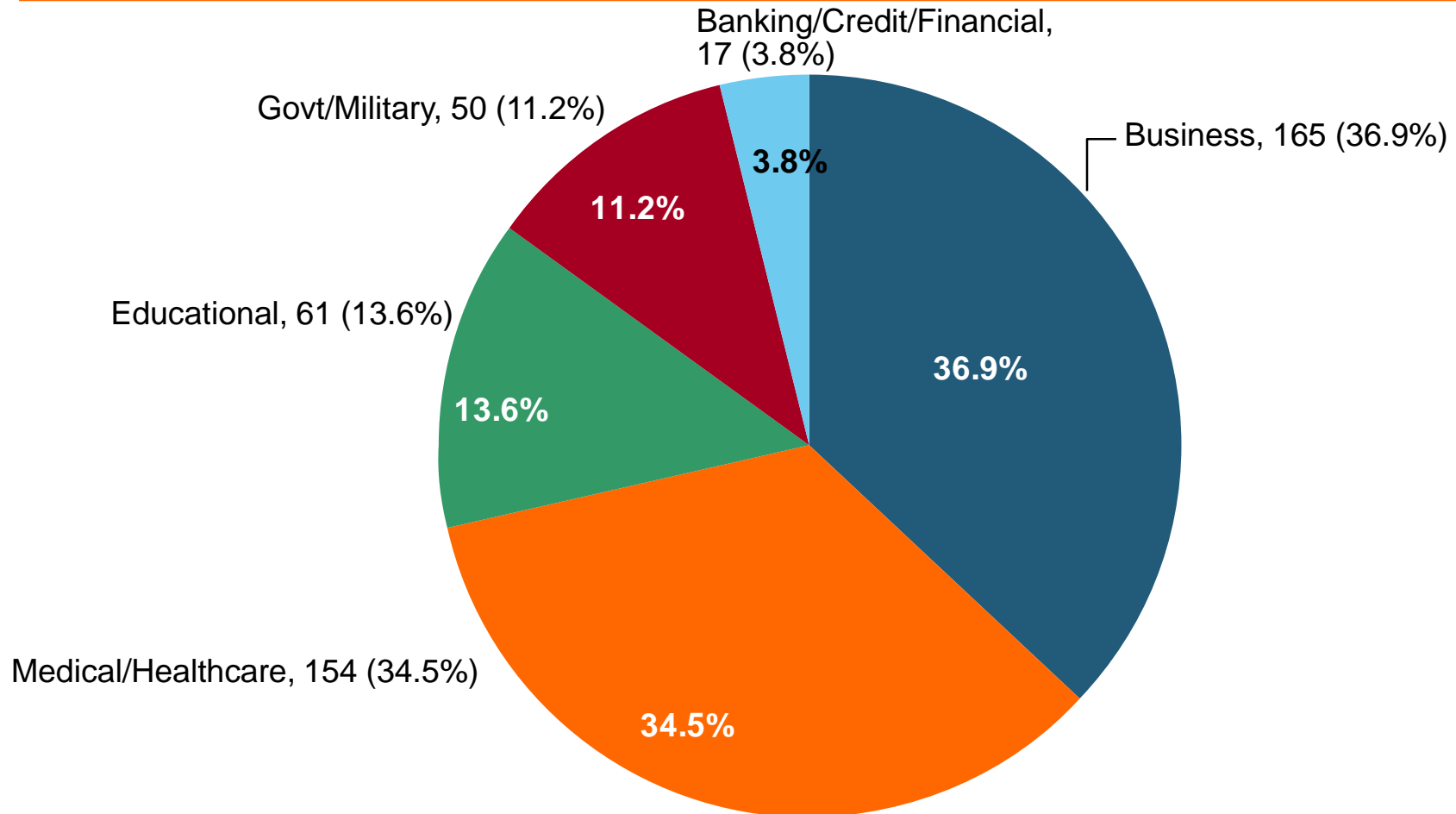


The Total Number of Data Breaches (+38%) and Number of Records Exposed (+408%) in 2013 Soared

* 2013 figures as of Jan. 1, 2014 from the ITRC updated to an additional 30 million records breached (Target) as disclosed in Jan. 2014.
Source: Identity Theft Resource Center.

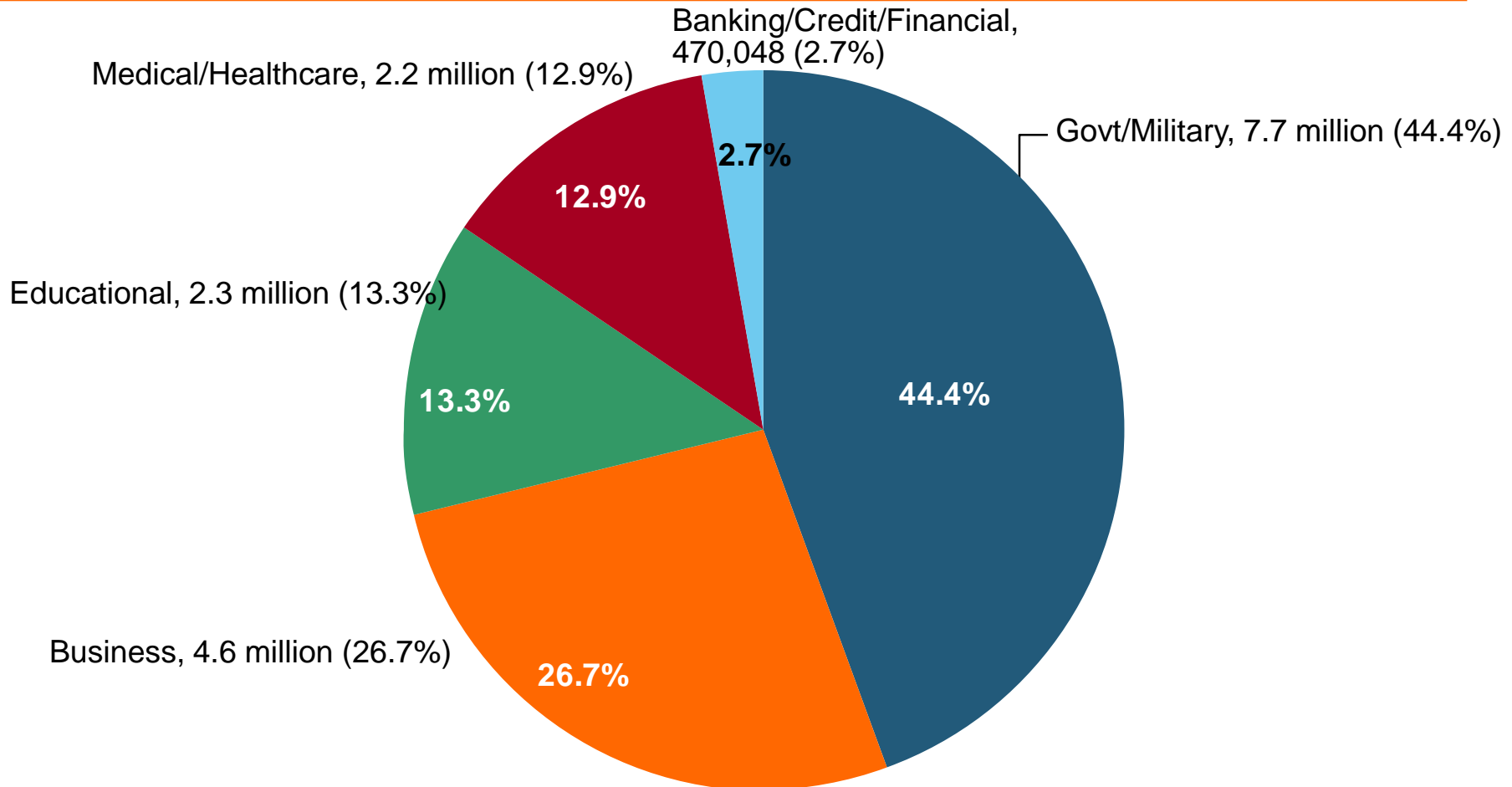
2012 Data Breaches By Business Category, By Number of Breaches

The majority of the 447 data breaches in 2012 affected business and medical/healthcare organizations, according to the Identity Theft Resource Center.



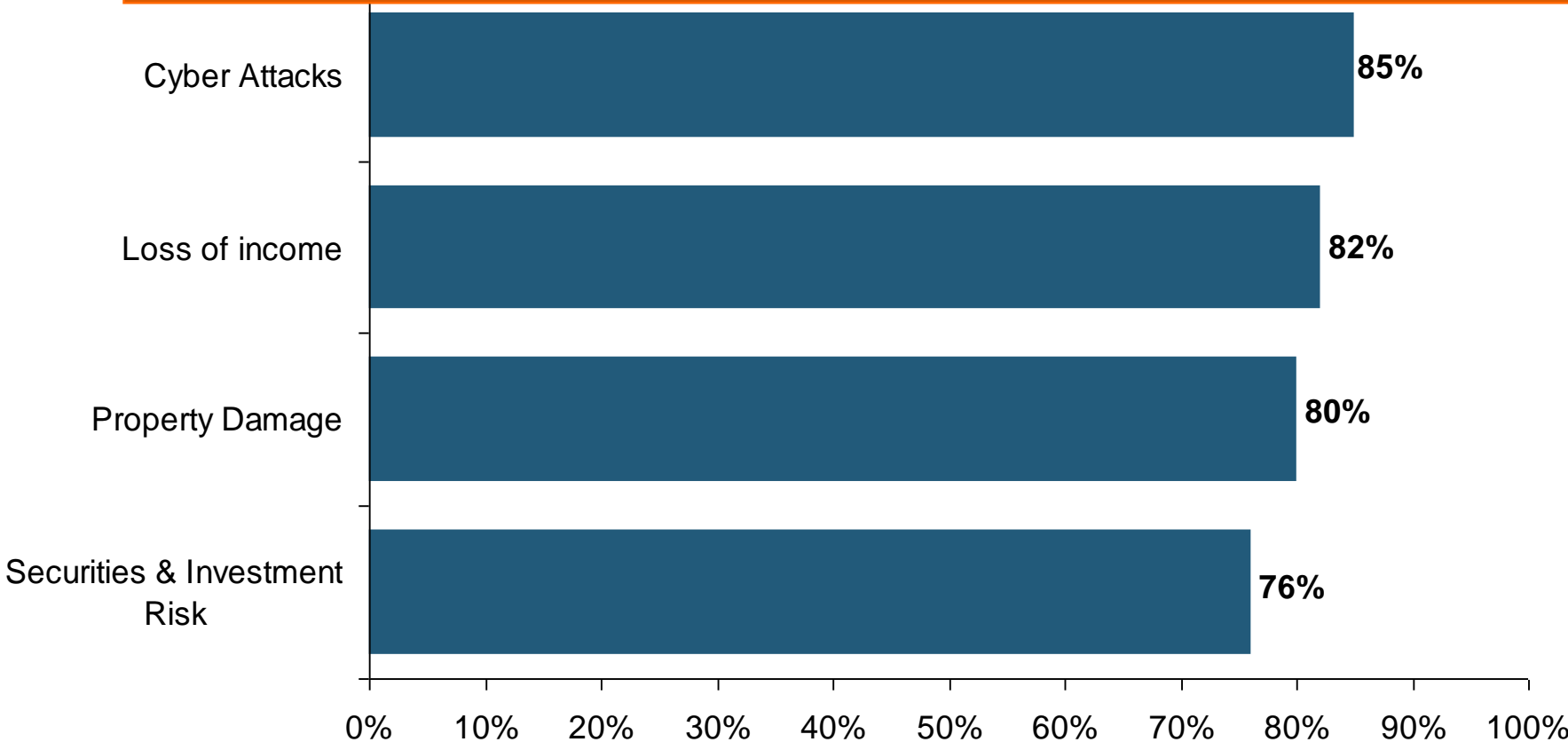
2012 Data Breaches By Category, By Number of Records Exposed

Government/Military and Business organizations accounted for the majority of records exposed by data breaches during 2012.



AIG Survey: Cyber Attacks Top Concern Among Execs

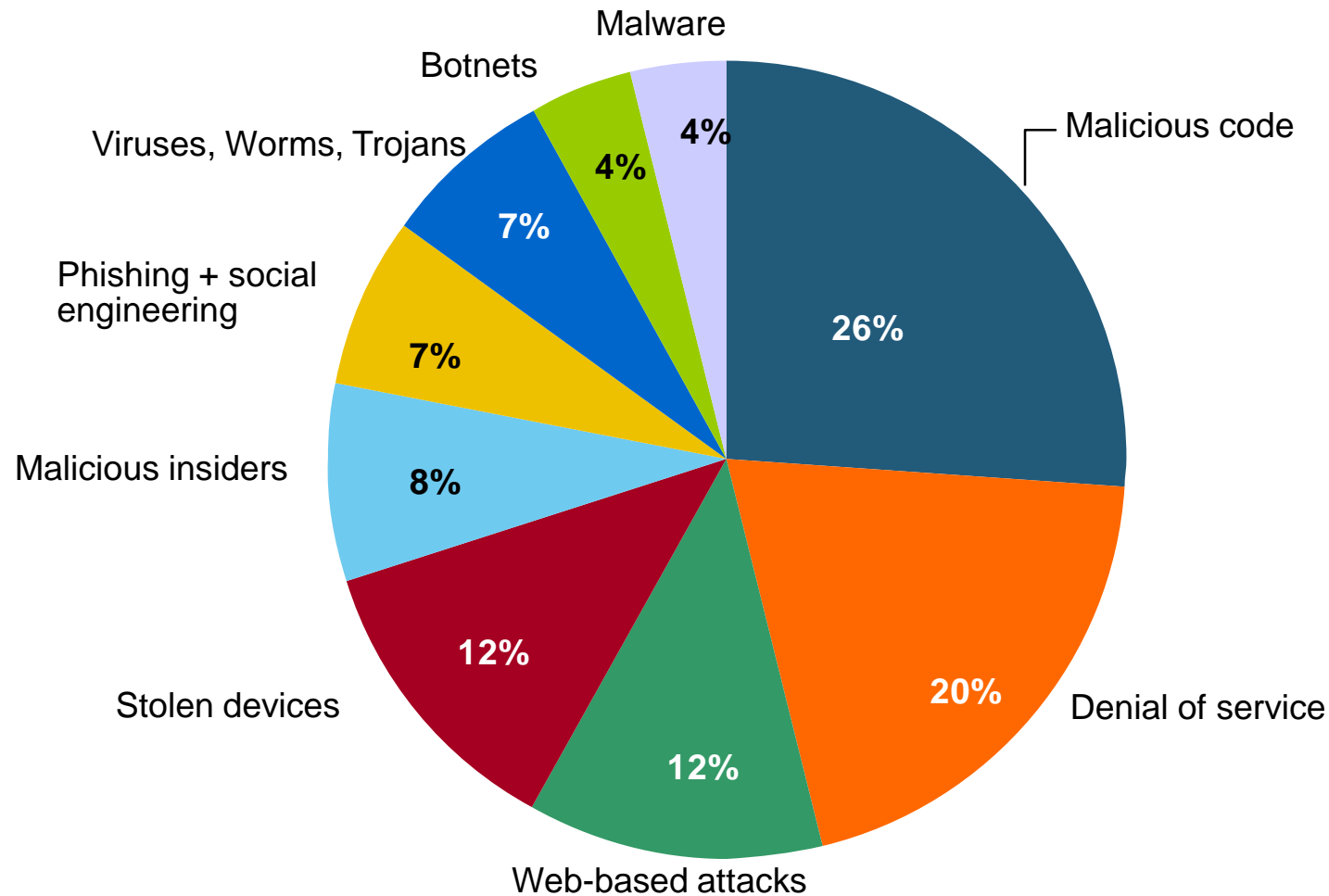
While companies are focused on managing a variety of business risks, cyber attacks are a top concern. Some 85% of 258 executives surveyed said they were very or somewhat concerned about cyber attacks on their businesses.



Source: Penn Schoen Berland on behalf of American International Group.

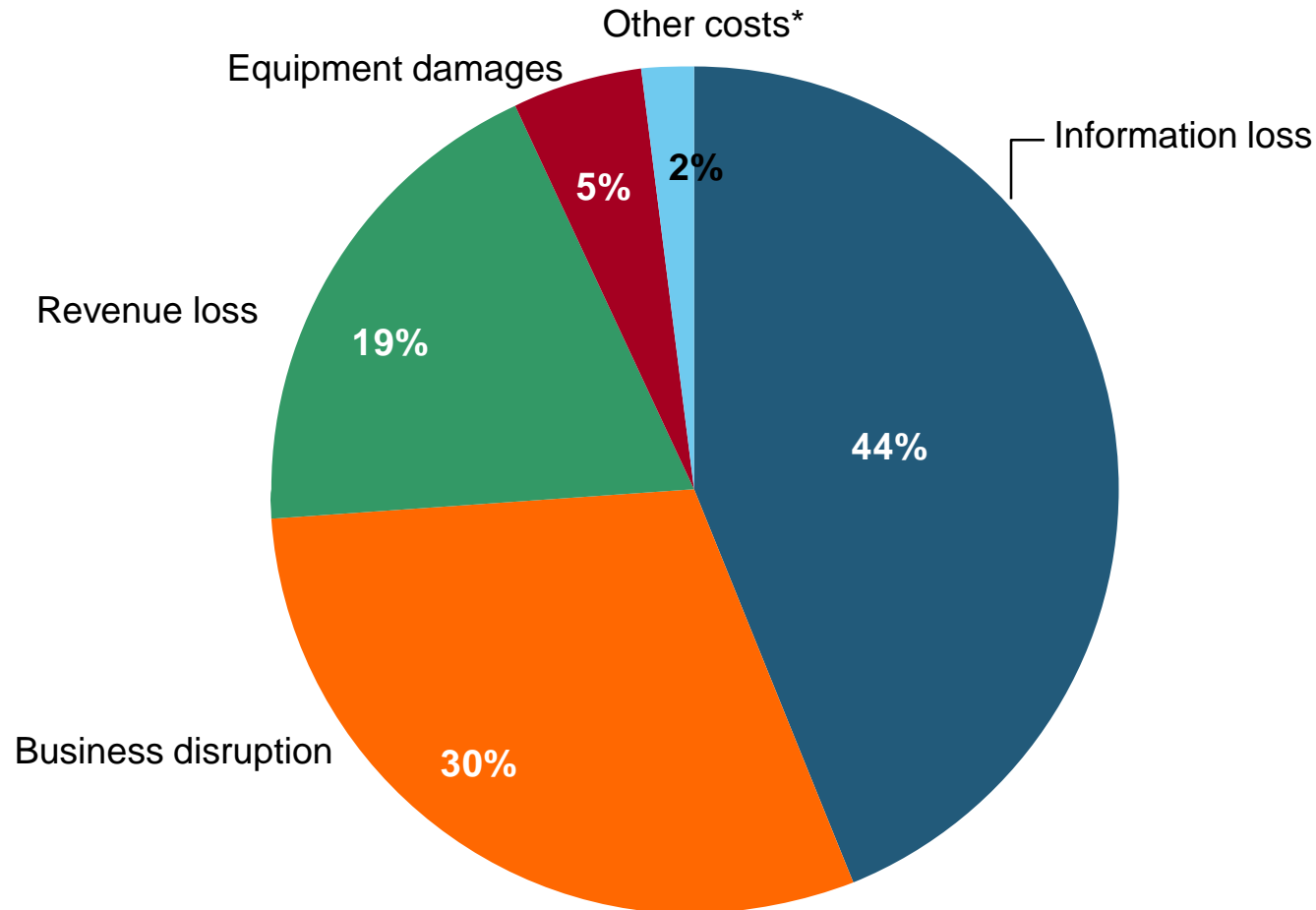
The Most Costly Cyber Crimes, Fiscal Year 2012

Malicious code, denial of service and web-based attacks account for more than 58 percent of the total annualized cost of cyber crime experienced by 56 companies.



External Cyber Crime Costs: Fiscal Year 2012

Information loss (44%) and business disruption or lost productivity (30%) account for the majority of external costs due to cyber crime.



* Other costs include direct and indirect costs that could not be allocated to a main external cost category

Source: 2012 Cost of Cyber Crime: United States, Ponemon Institute.

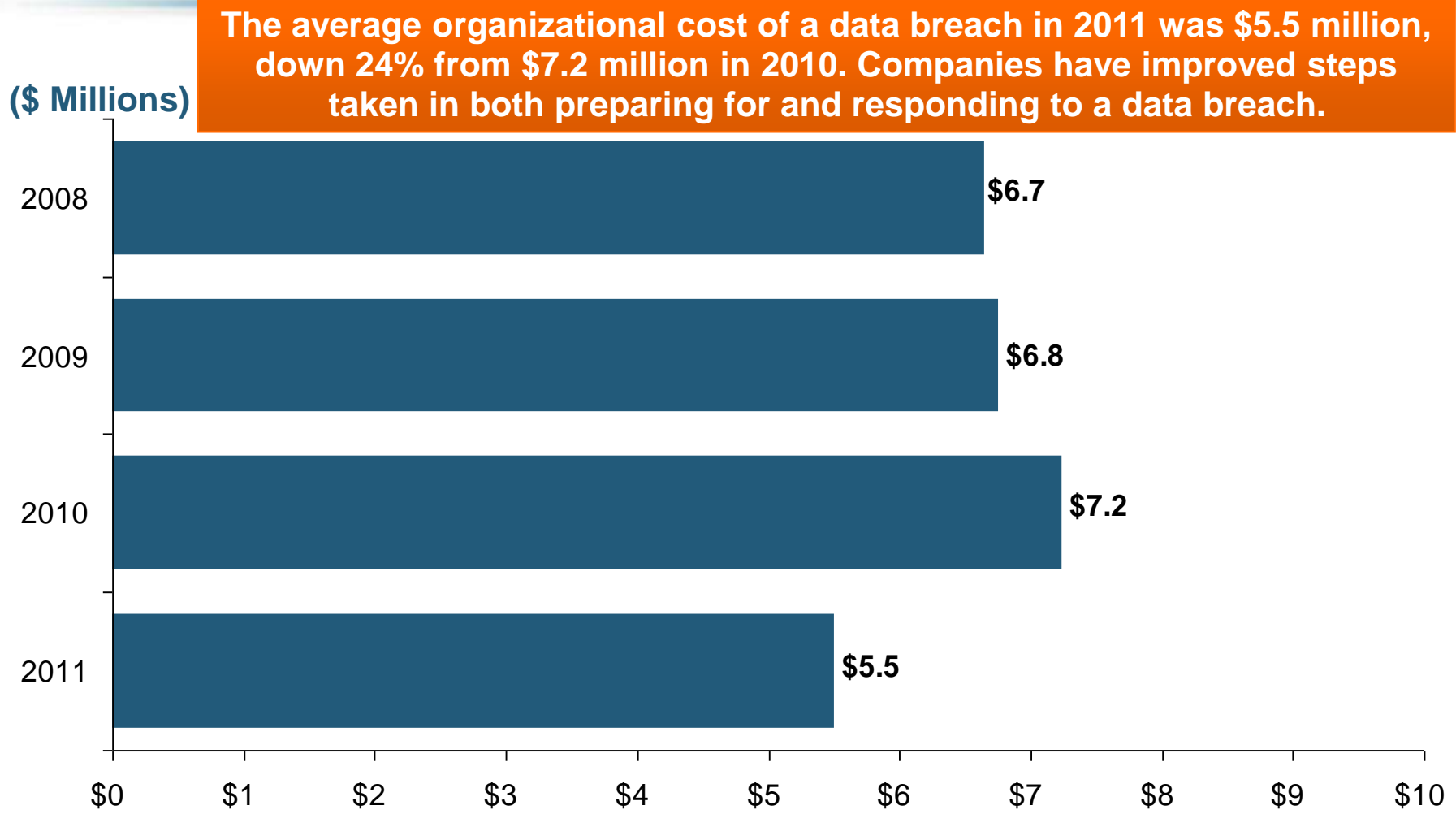
High Profile Data Breaches, 2012-2013

Date	Company	Description of Breach
Mar 2013*	South Korean banks, media cos	Cyber attack causes computers to crash at South Korean banks and media companies, paralyzing bank machines across the country. No immediate reports of records compromised.
July 2012	Yahoo	Security breach at Yahoo in which some 450,000 passwords lifted and posted to the Internet.
July 2012	eHarmony	Online dating site eHarmony confirms security breach in which some 1.5 million user names and passwords compromised.
July 2012	LinkedIn	Social networking site LinkedIn reportedly targeted in hacker attack that saw 6.5 million hashed passwords posted to the Internet.
April 2012	Utah Dept of Technology Services	Utah Department of Technology notifies of a March 30 breach of a server containing personal data including social security numbers for about 780,000 Medicaid patient claims. Breach traced to Eastern Europe hackers.
Mar 2012	Global Payments	Credit card processor Global Payments confirms hacker attack has compromised the payment card numbers of around 1.5 million cardholders.
Mar 2012	CA Dept of Child Support Services	Officials announce that four computer storage devices containing personal information for about 800,000 adults and children in California's child support system were lost by IBM and Iron Mountain Inc.
Jan 2012	Zappos	Online shoe retailer Zappos announces that information, such as names, addresses and passwords on as many as 24 million customers illegally accessed.
Jan 2012	NY State Electric + Gas Co	Security breach at NYSEG that allowed unauthorized access to NYSEG customer data, containing social security numbers, dates of birth and bank account numbers, exposing 1.8 million records.

*March 2013 attack is not part of ITRC research.

Sources: Identity Theft Resource Center, <http://www.idtheftcenter.org/ITRC%20Breach%20Report%202012.pdf>; Insurance Information Institute (I.I.I.) research.

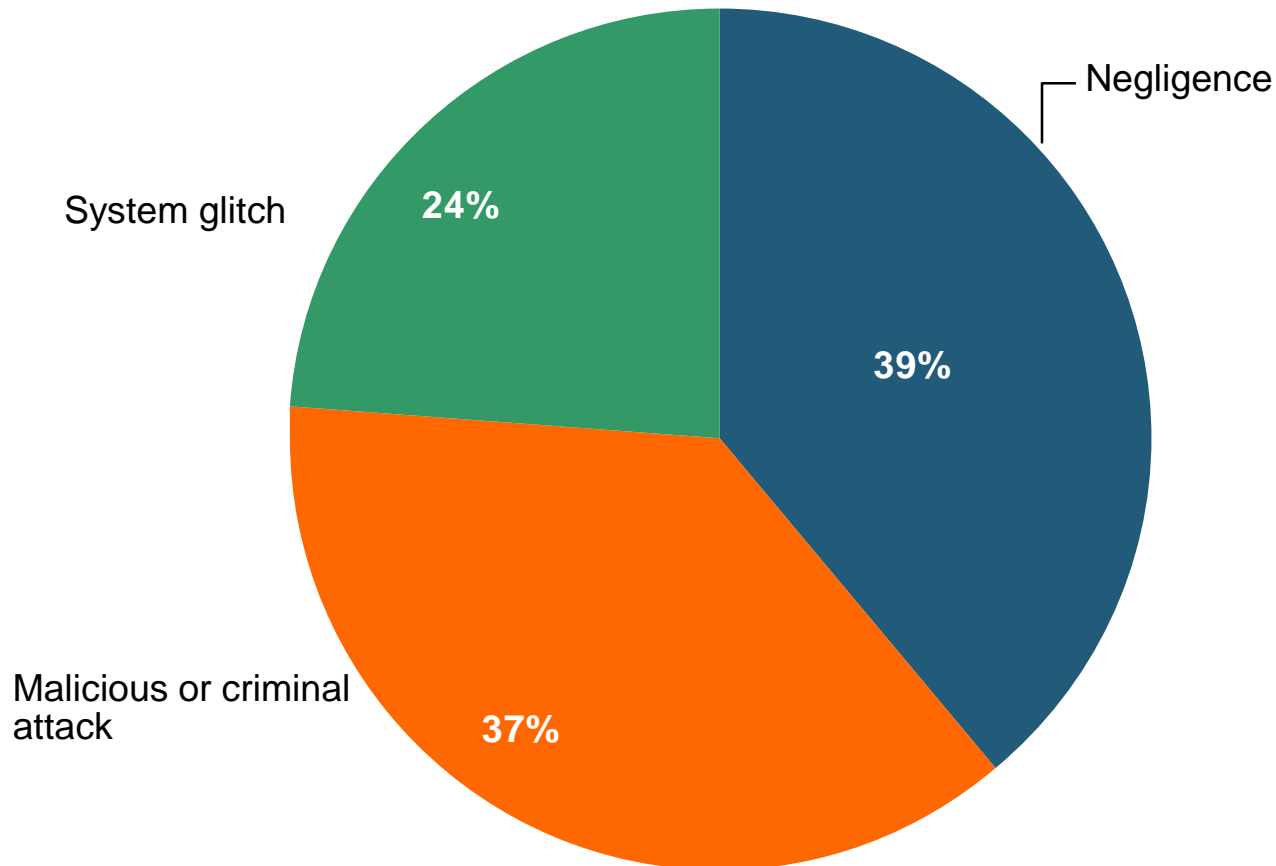
Average Organizational Cost of a Data Breach, 2008-2011* (\$ Millions)



*Findings of this benchmark study pertain to the actual data breach experiences of 49 U.S. companies from 14 different industry sectors, all of which participated in the 2011 study. Total breach costs include: lost business resulting from diminished trust or confidence of customers ;costs related to detection, escalation, and notification of the breach; and ex-post response activities, such as credit report monitoring.
Source: 2011 Annual Study: U.S. Cost of a Data Breach, the Ponemon Institute.

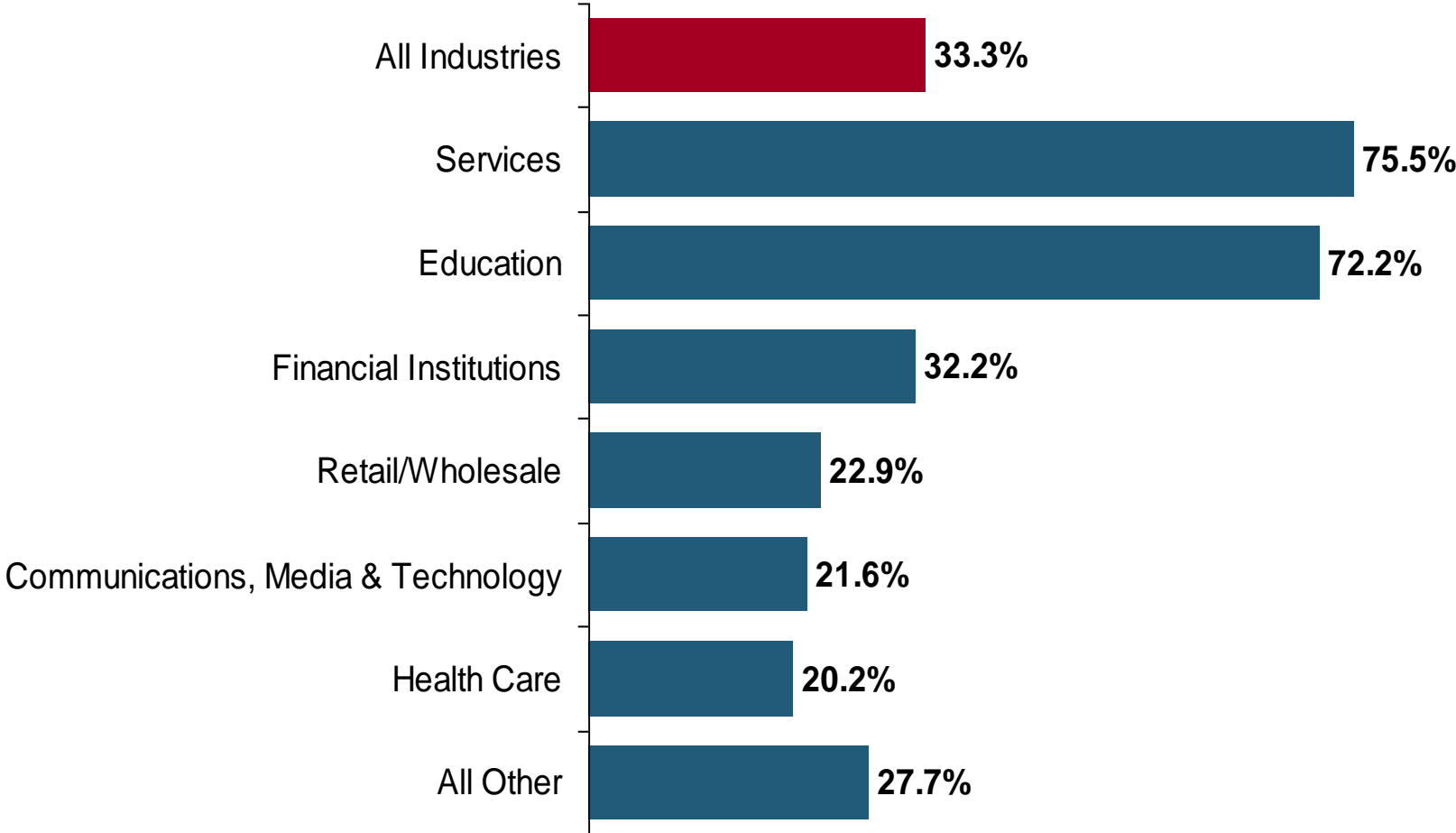
Main Causes of Data Breach

Negligent employees and malicious attacks are most often the cause of the data breach. Some 39 percent of incidents involve a negligent employee or contractor, while 37 percent concern a malicious or criminal attack.



Marsh: Increase in Purchase of Cyber Insurance Among U.S. Companies, 2012

Interest in cyber insurance continues to climb. The number of companies purchasing cyber insurance increased 33 percent from 2011 to 2012.

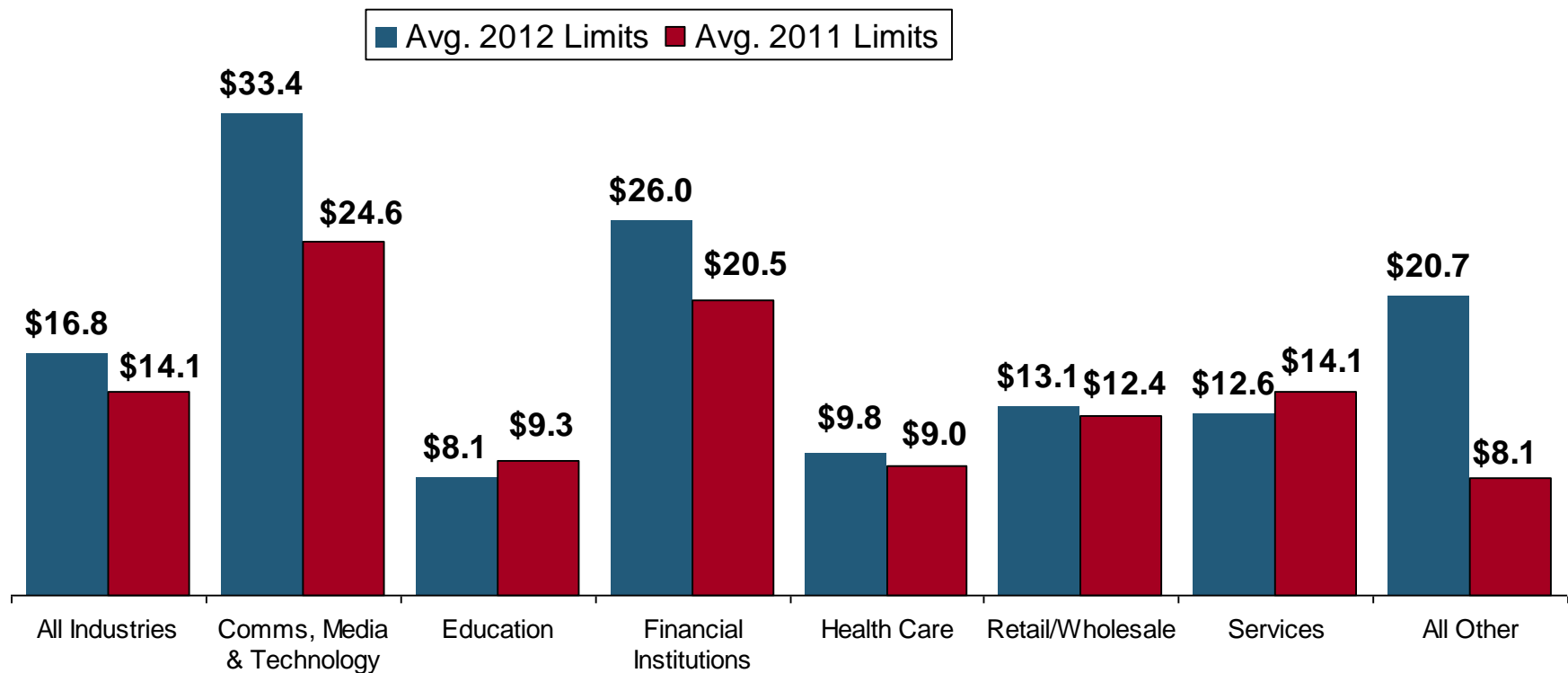


Source: Marsh Global Analytics, Marsh Risk Management Research Briefing, March 2013

Marsh: Total Limits Purchased, By Industry – Cyber Liability, All Revenue Size

Cyber insurance limits purchased in 2012 averaged \$16.8 million across all industries, an increase of nearly 20% over 2011.

(\$ Millions)

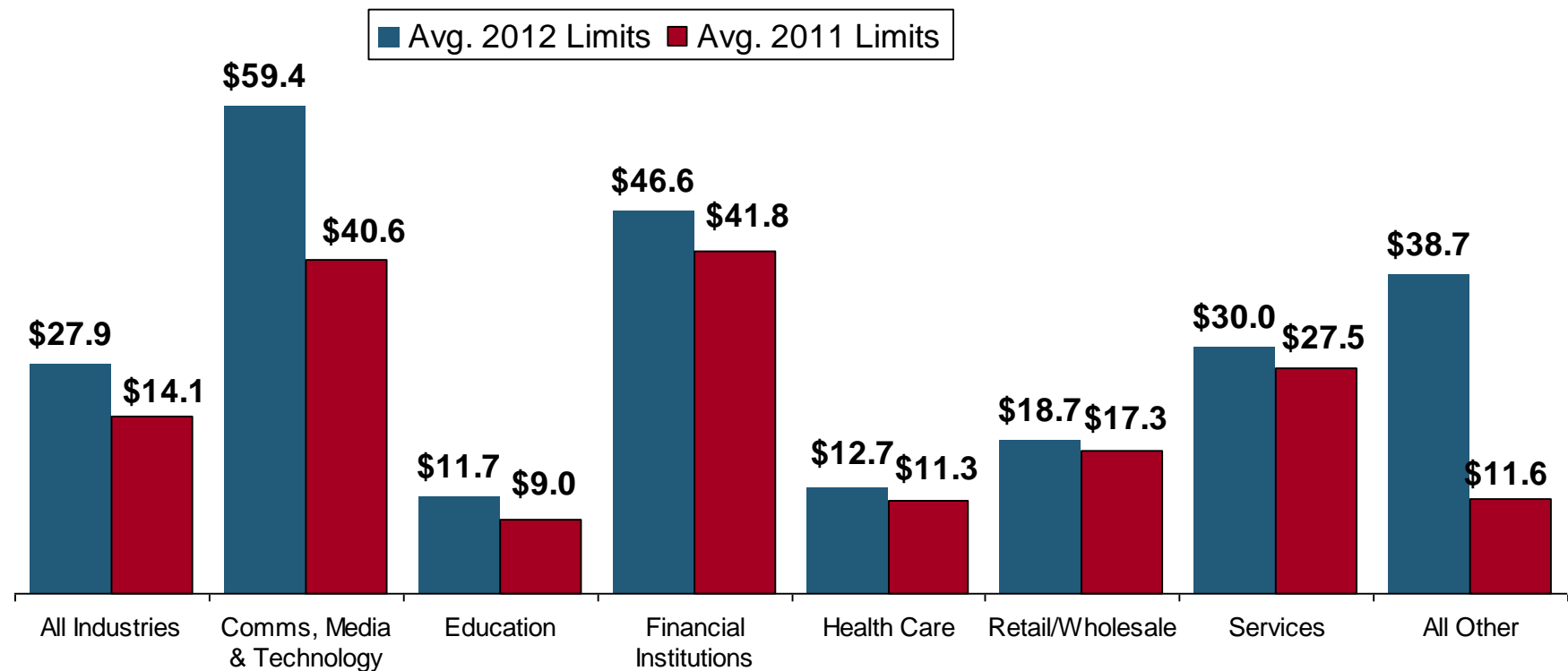


Source: Marsh Global Analytics, Marsh Risk Management Research Briefing, March 2013

Marsh: Total Limits Purchased, By Industry – Cyber Liability, Revenue \$1 Billion+

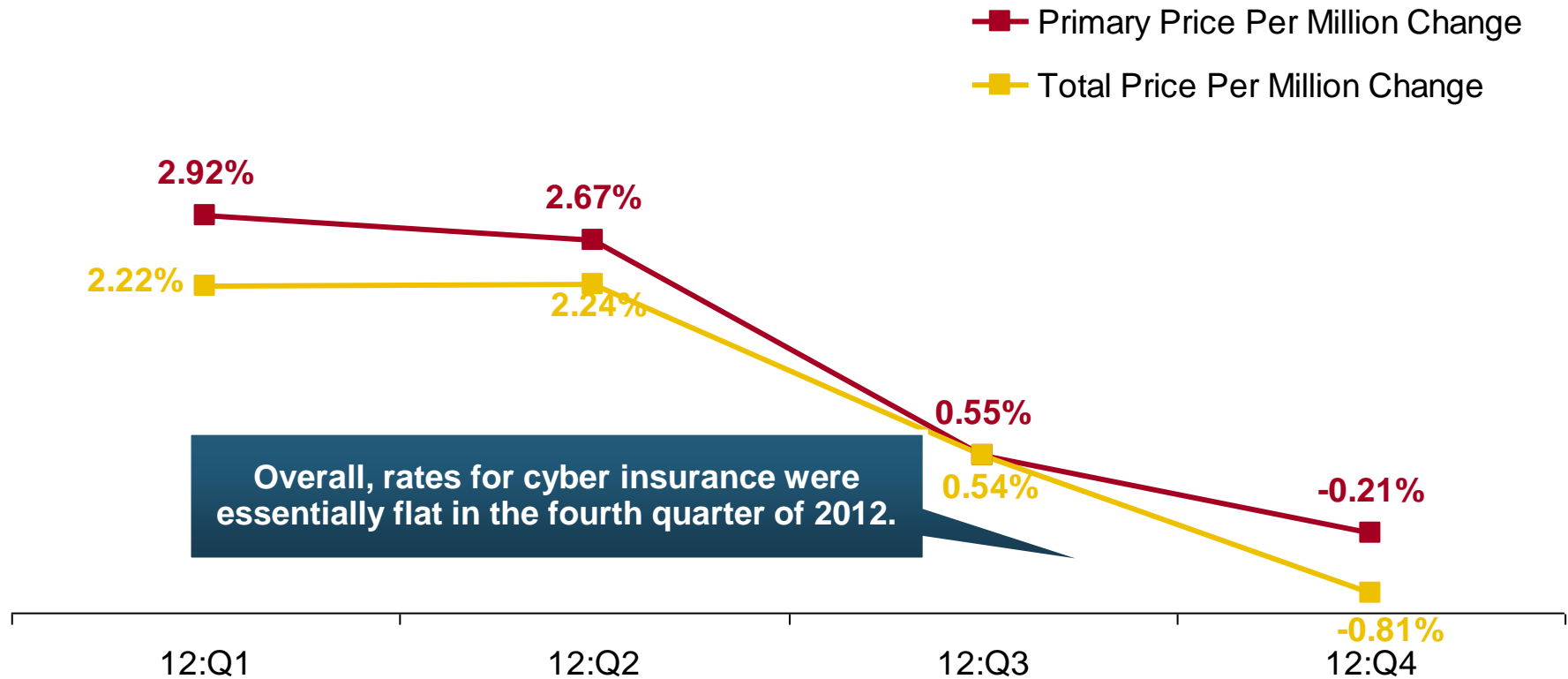
Among larger companies, average cyber insurance limits purchased in 2012 increased nearly 30% over 2011.

(\$ Millions)



Source: Marsh Global Analytics, Marsh Risk Management Research Briefing, March 2013

Cyber Liability: Historical Rate (price per million) Changes



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and your attention!*

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