



P/C Insurance Industry Overview & Outlook

A Story of Growth and Strength in an Uncertain World

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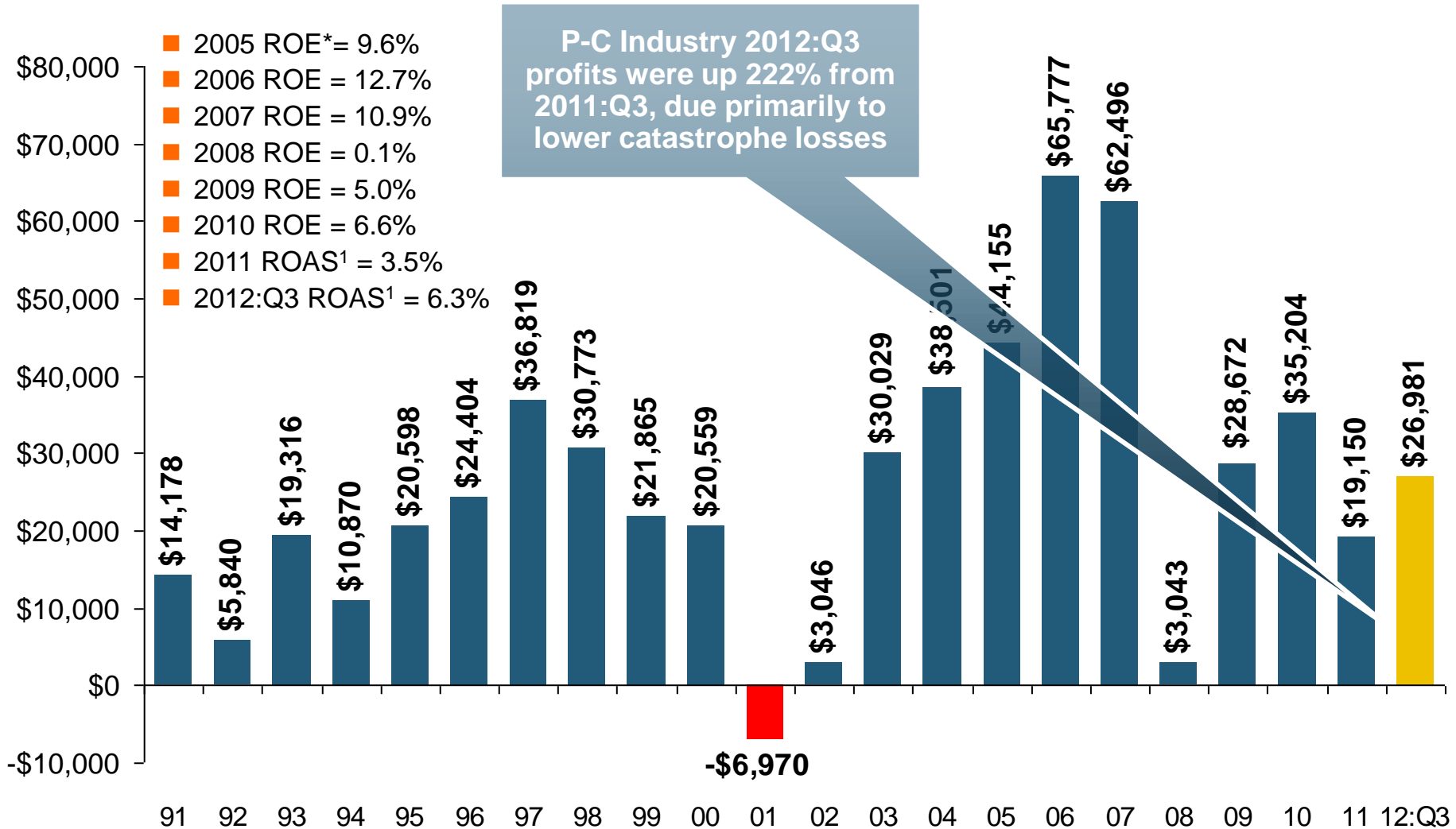
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P/C Insurance Industry Financial Overview

**Profit Recovery in 2012 After
High CAT Losses; Ultimate
Impact of Sandy Still Unclear**

P/C Net Income After Taxes 1991–2012:Q3 (\$ Millions)



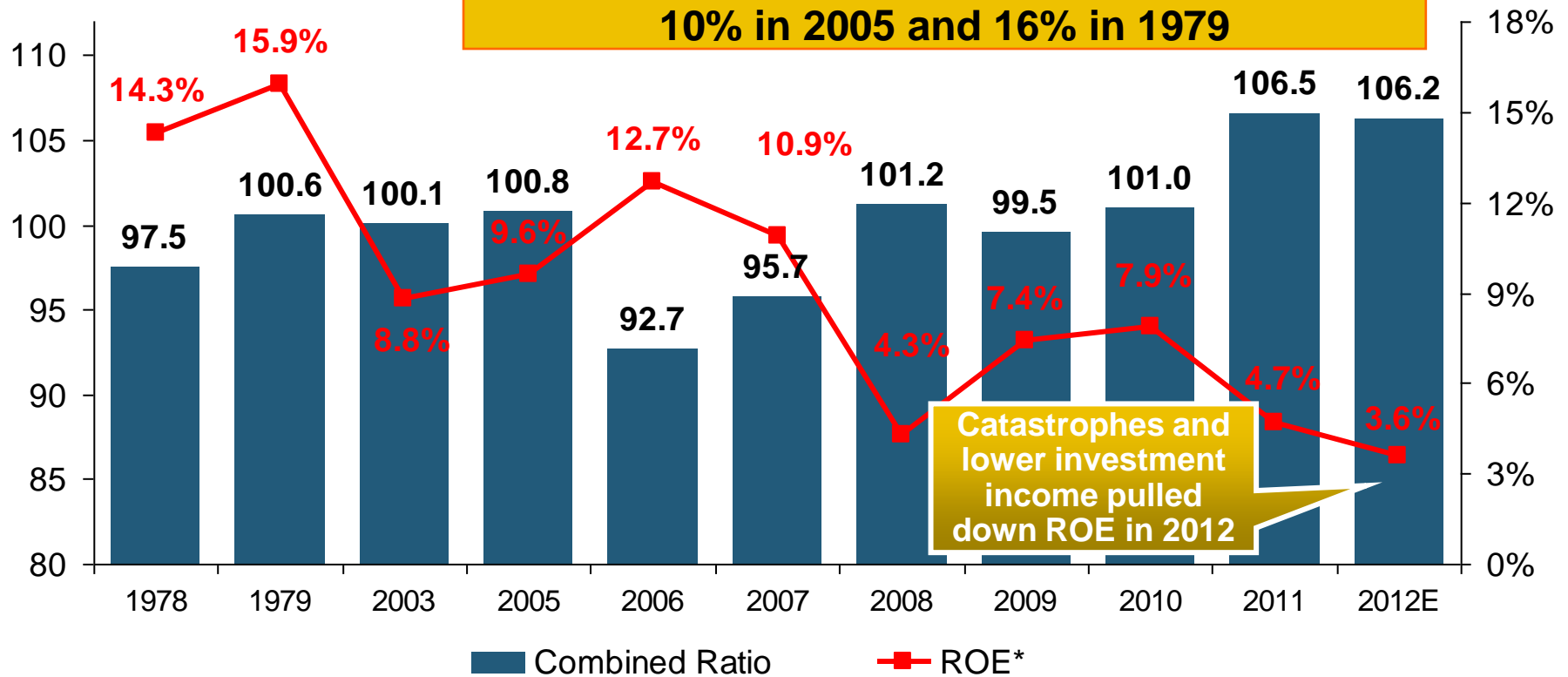
* ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 6.6% ROAS through 2012:Q3, 4.6% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009.

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

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

Combined Ratio / ROE

A combined ratio of about 100 generates an ROE of ~6.6% in 2012, ~7.5% ROE in 2009/10, 10% in 2005 and 16% in 1979

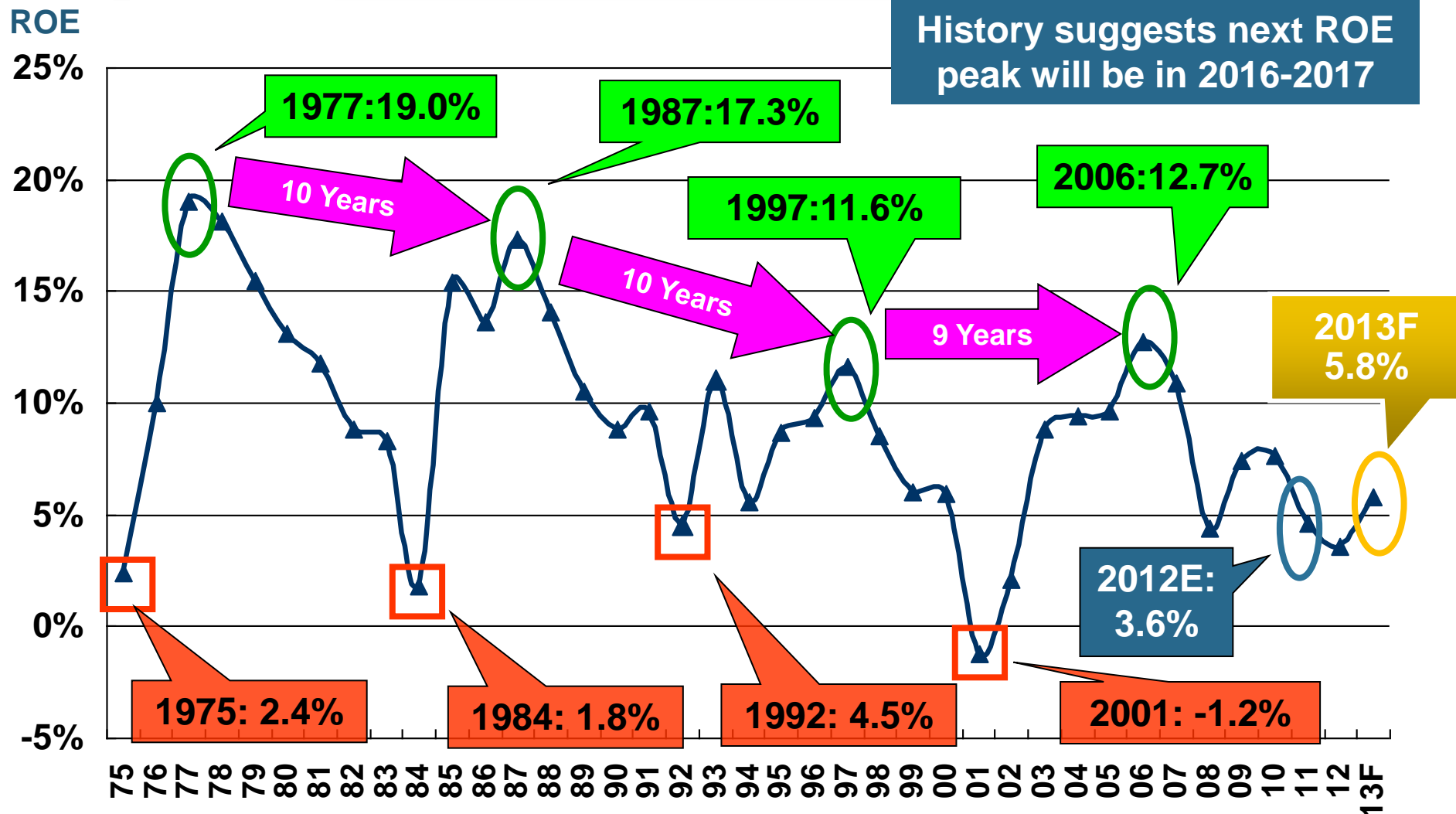


Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2008 -2012 figures are return on average surplus and exclude mortgage and financial guaranty insurers. 2012:Q3 combined ratio including M&FG insurers is 100.9, 2011 combined ratio including M&FG insurers is 108.2, ROAS = 3.5%.

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

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



*Profitability = P/C insurer ROEs. 2011 figure is an estimate based on ROAS data. Note: Data for 2008-2012 exclude mortgage and financial guaranty insurers. 2012:Q3 ROAS = 6.2% including M&FG.
 Source: Insurance Information Institute; NAIC, ISO, A.M. Best.

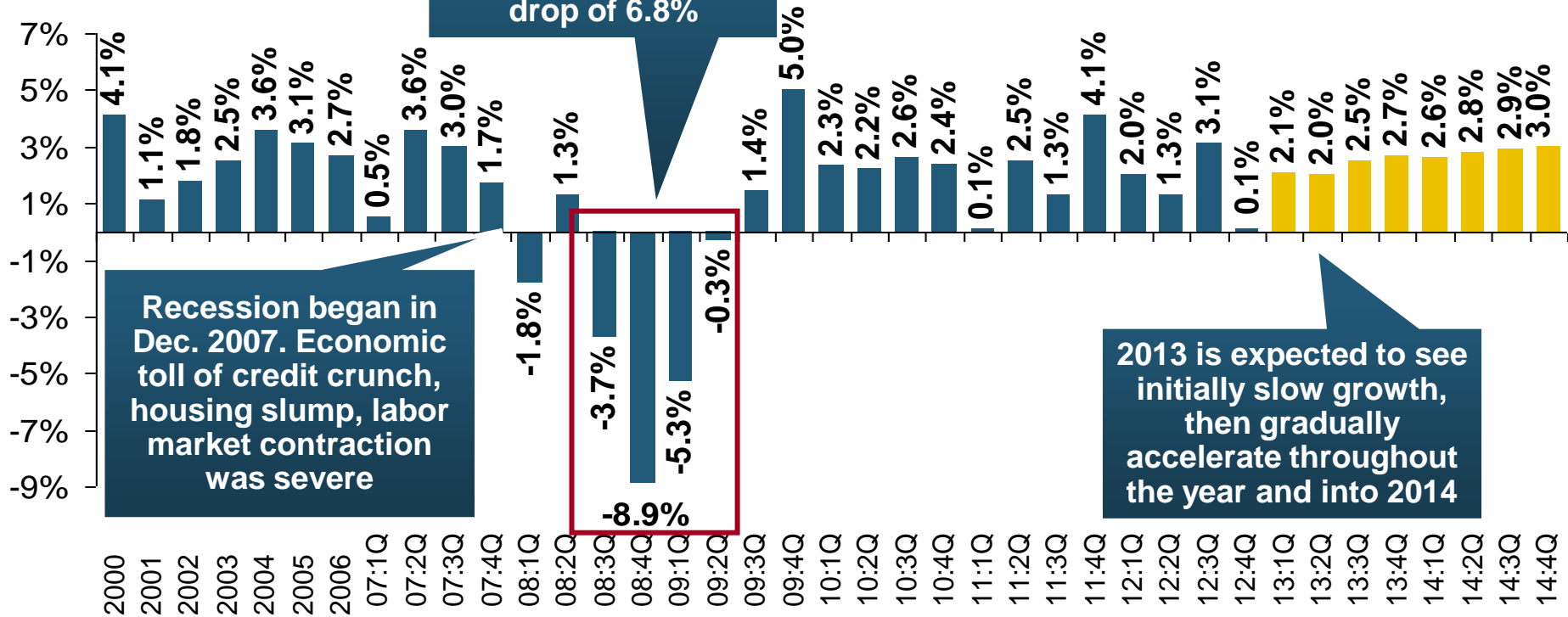


The Strength of the Economy Will Influence P/C Insurer Growth Opportunities

**Growth Will Expand Insurer Exposure
Base Across Most Lines**

US Real GDP Growth*

Real GDP Growth (%)

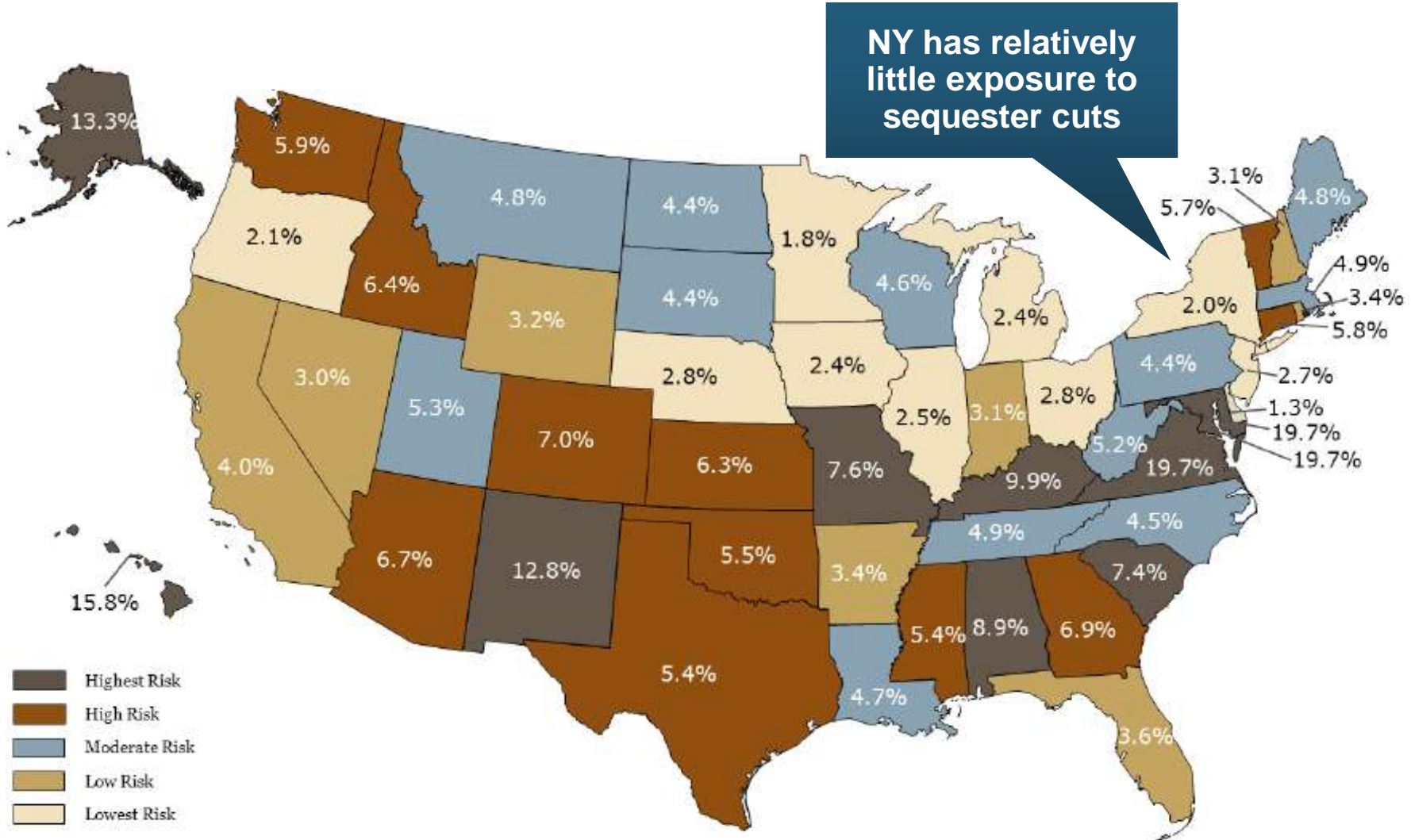


Demand for Insurance Continues To Be Impacted by Sluggish Economic Conditions, but the Benefits of Even Slow Growth Will Compound and Gradually Benefit the Economy Broadly

* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 3/13; Insurance Information Institute.

Federal Spending as a Share of State GDP: Vulnerability to Sequestration Varies

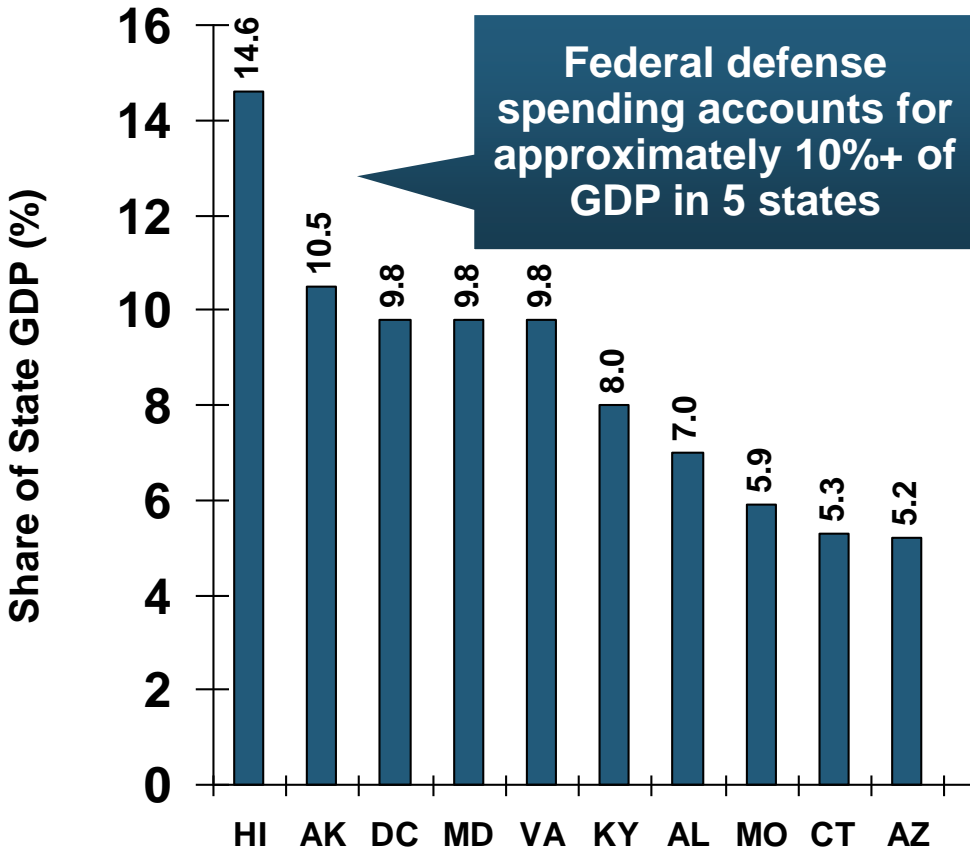


Sources: Pew Center on the States (2012) *Impact of the Fiscal Cliff on the States*; Wells Fargo; Insurance Information Institute.

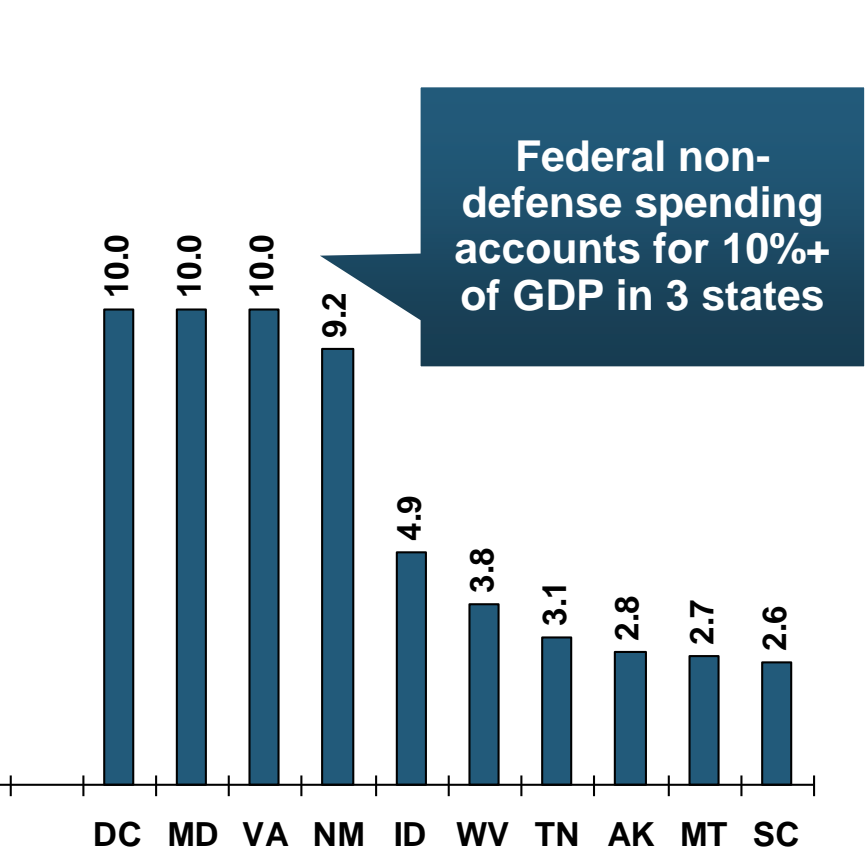
Defense and Non-Defense Federal Spending as a Share of State GDP: Top 10 States*



Defense Spending



Non-Defense Spending



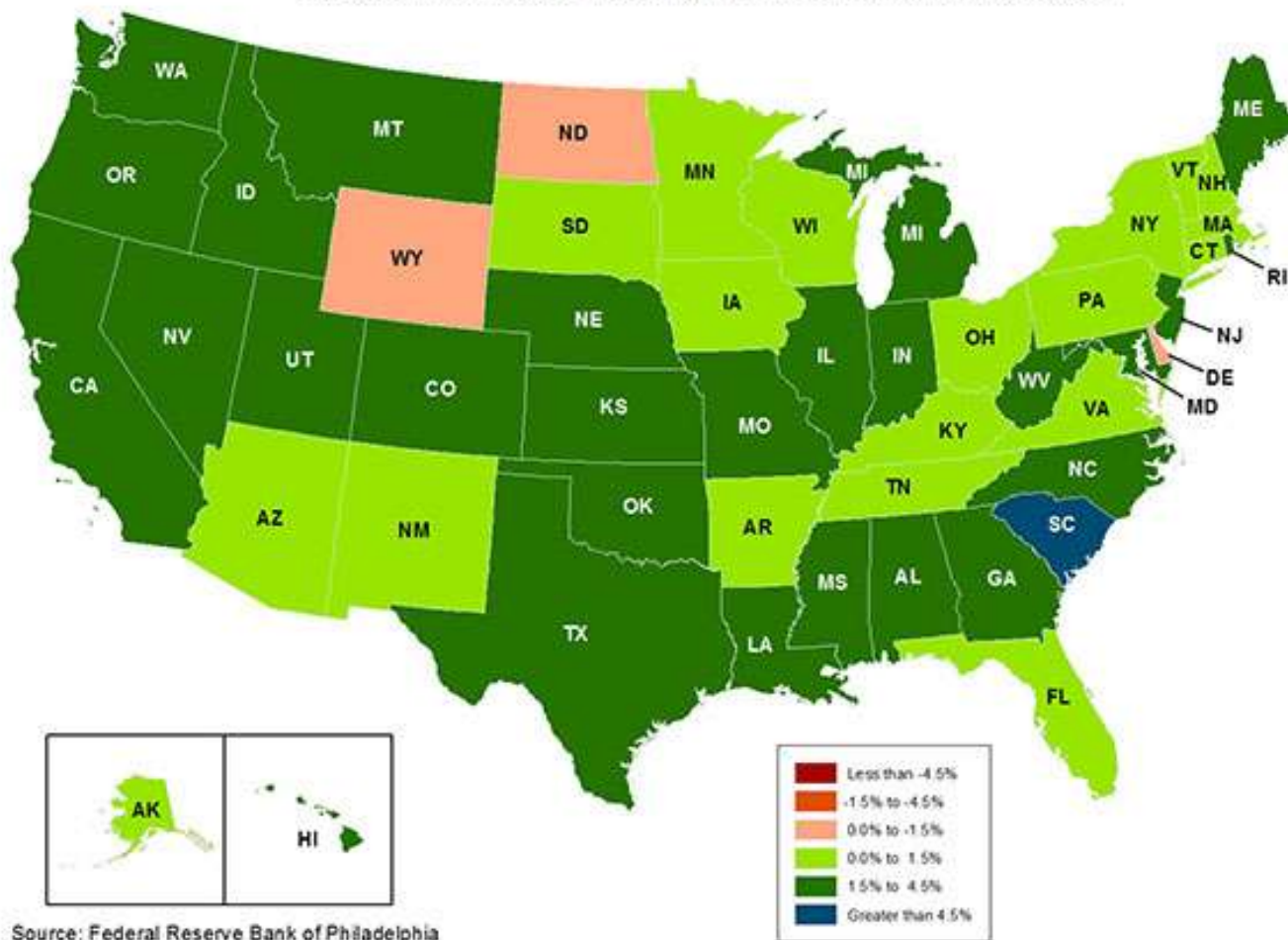
Sequestration Could Adversely Impact Commercial Insurance Exposures Directly at Defense Contractors and Indirectly in Impacted Communities

*As of 2010.

Sources: Pew Center on the States (2012) *Impact of the Fiscal Cliff on the States*; Wells Fargo Securities; Insurance Information Institute.

State-by-State Leading Indicators through 2013:Q1

October 2012 State Leading Indexes: 6-Month Forecast



Near-term growth forecasts vary widely by state

5 Fastest Growing States

South Carolina	6.97%
Michigan	4.32%
West Virginia	3.59%
Idaho	3.14%
Georgia	3.04%

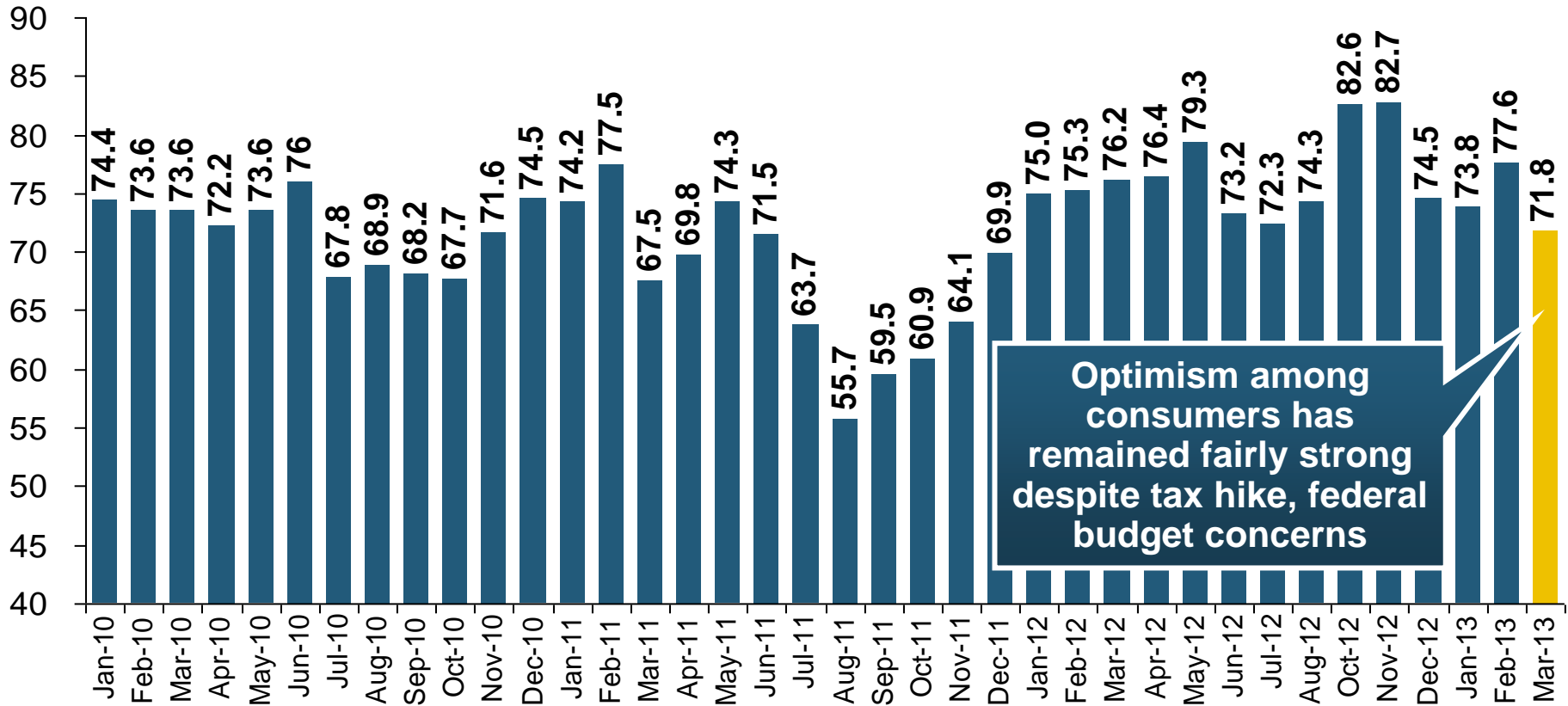
5 Slowest Growing States

Wyoming	-1.09%
Delaware	-0.24%
North Dakota	-0.19%
Vermont	0.09%
Minnesota	0.18%

Source: Federal Reserve Bank of Philadelphia

Consumer Sentiment Survey (1966 = 100)

January 2010 through March 2013

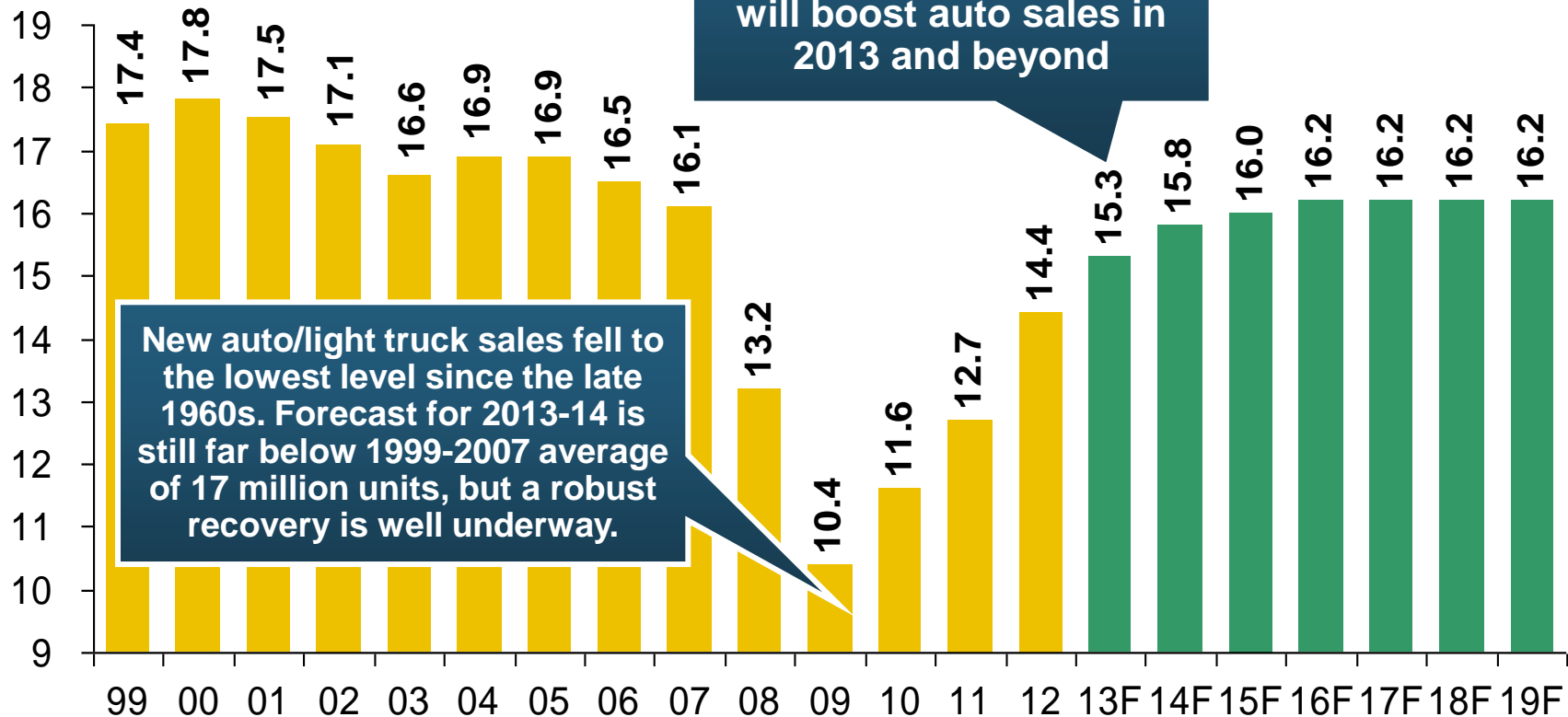


Optimism among consumers has remained fairly strong despite tax hike, federal budget concerns

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

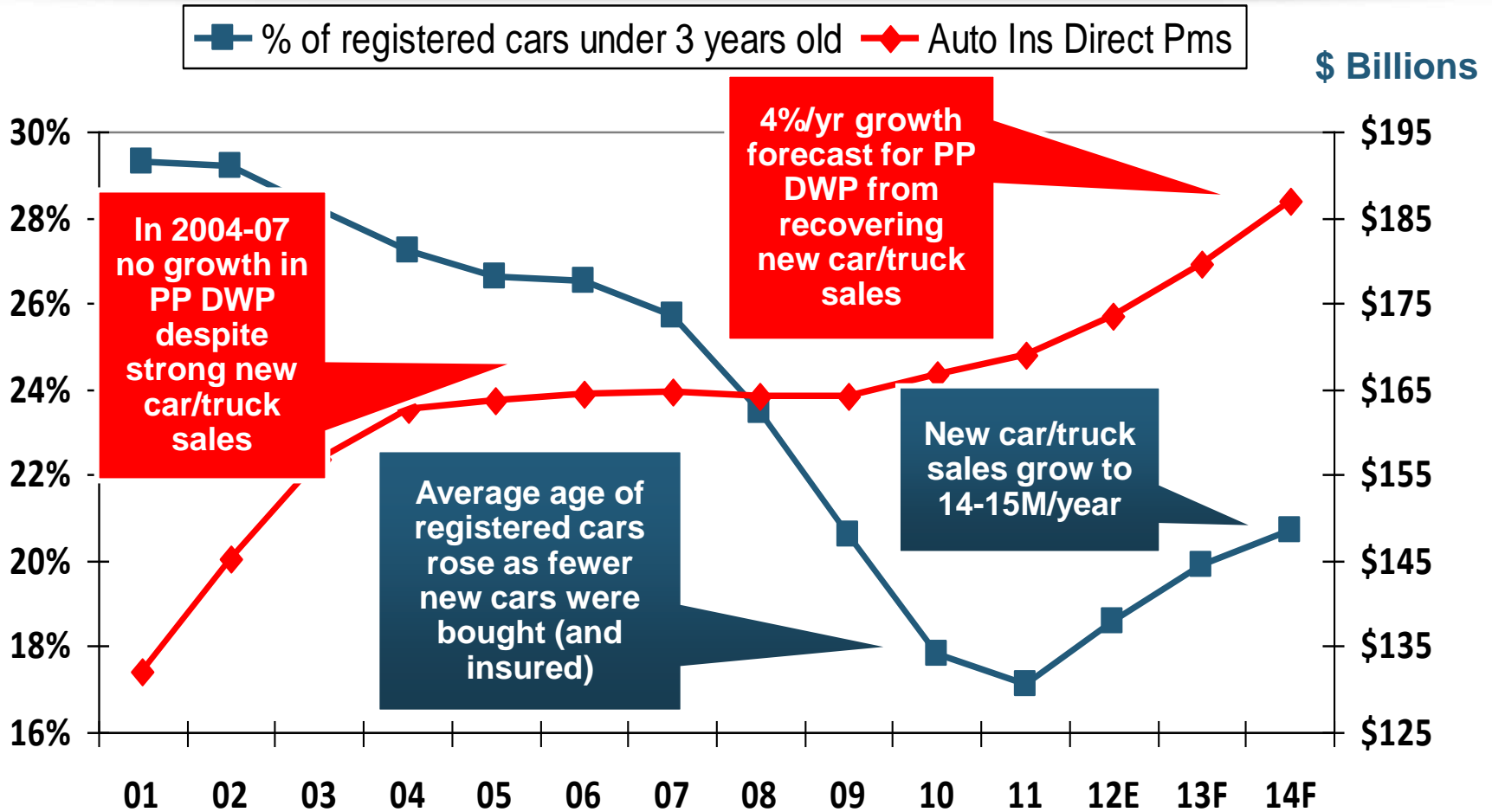
Auto/Light Truck Sales, 1999-2019F

(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.

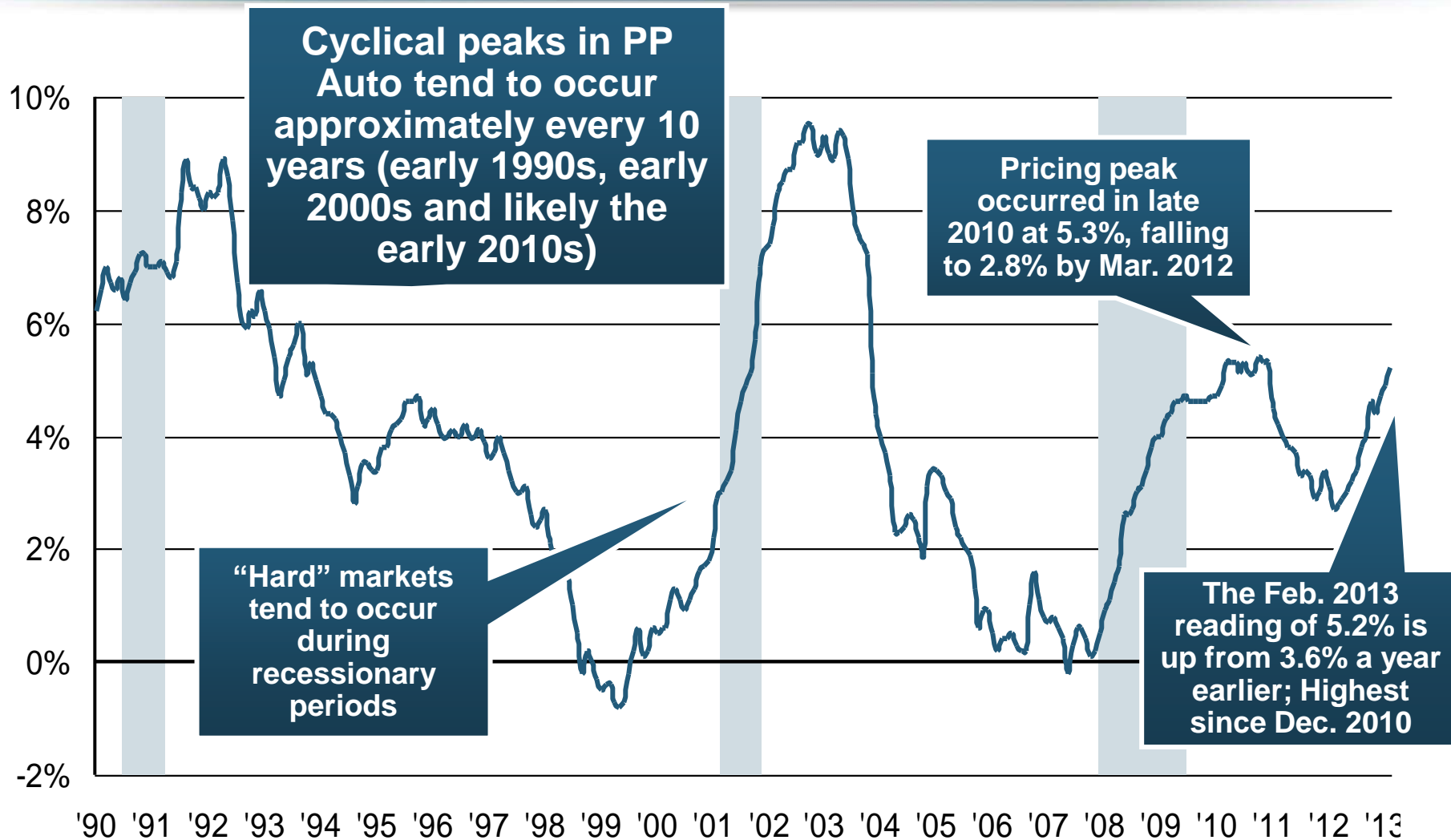
Personal Auto Insurance Direct Written Premiums vs. Recently-Registered Cars



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

Sources: AIPSO Facts (various issues); SNL Financial; Conning Research & Consulting, *Property-Casualty Forecast and Analysis*, First Quarter 2012; Insurance Information Institute.

Monthly Change* in Auto Insurance Prices, 1991–2013*



*Percentage change from same month in prior year; through Feb. 2013; 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 - February 2013

(Percent Change from same month, prior year)

6%

5%

4%

3%

2%

1%

0%

-1%

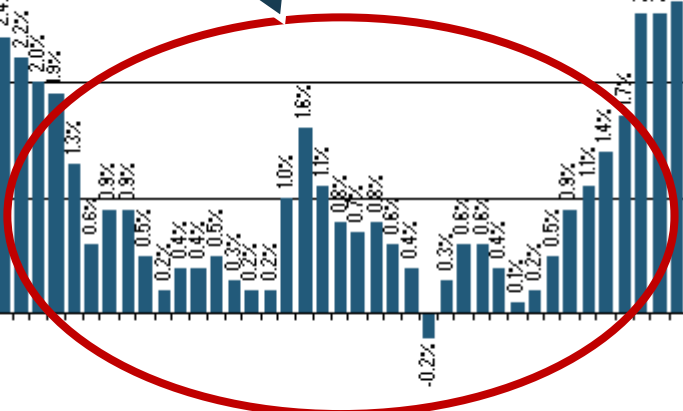
Jan 05, Feb 05, Mar 05, Apr 05, May 05, Jun 05, Jul 05, Aug 05, Sep 05, Oct 05, Nov 05, Dec 05, Jan 06, Feb 06, Mar 06, Apr 06, May 06, Jun 06, Jul 06, Aug 06, Sep 06, Oct 06, Nov 06, Dec 06, Jan 07, Feb 07, Mar 07, Apr 07, May 07, Jun 07, Jul 07, Aug 07, Sep 07, Oct 07, Nov 07, Dec 07, Jan 08, Feb 08, Mar 08, Apr 08, May 08, Jun 08, Jul 08, Aug 08, Sep 08, Oct 08, Nov 08, Dec 08, Jan 09, Feb 09, Mar 09, Apr 09, May 09, Jun 09, Jul 09, Aug 09, Sep 09, Oct 09, Nov 09, Dec 09, Jan 10, Feb 10, Mar 10, Apr 10, May 10, Jun 10, Jul 10, Aug 10, Sep 10, Oct 10, Nov 10, Dec 10, Jan 11, Feb 11, Mar 11, Apr 11, May 11, Jun 11, Jul 11, Aug 11, Sep 11, Oct 11, Nov 11, Dec 11, Jan 12, Feb 12, Mar 12, Apr 12, May 12, Jun 12, Jul 12, Aug 12, Sep 12, Oct 12, Nov 12, Dec 12, Jan 13, Feb 13

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

Pricing weakened materially in 2011 and early 2012 but has strengthened since then

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 gain in 2008.

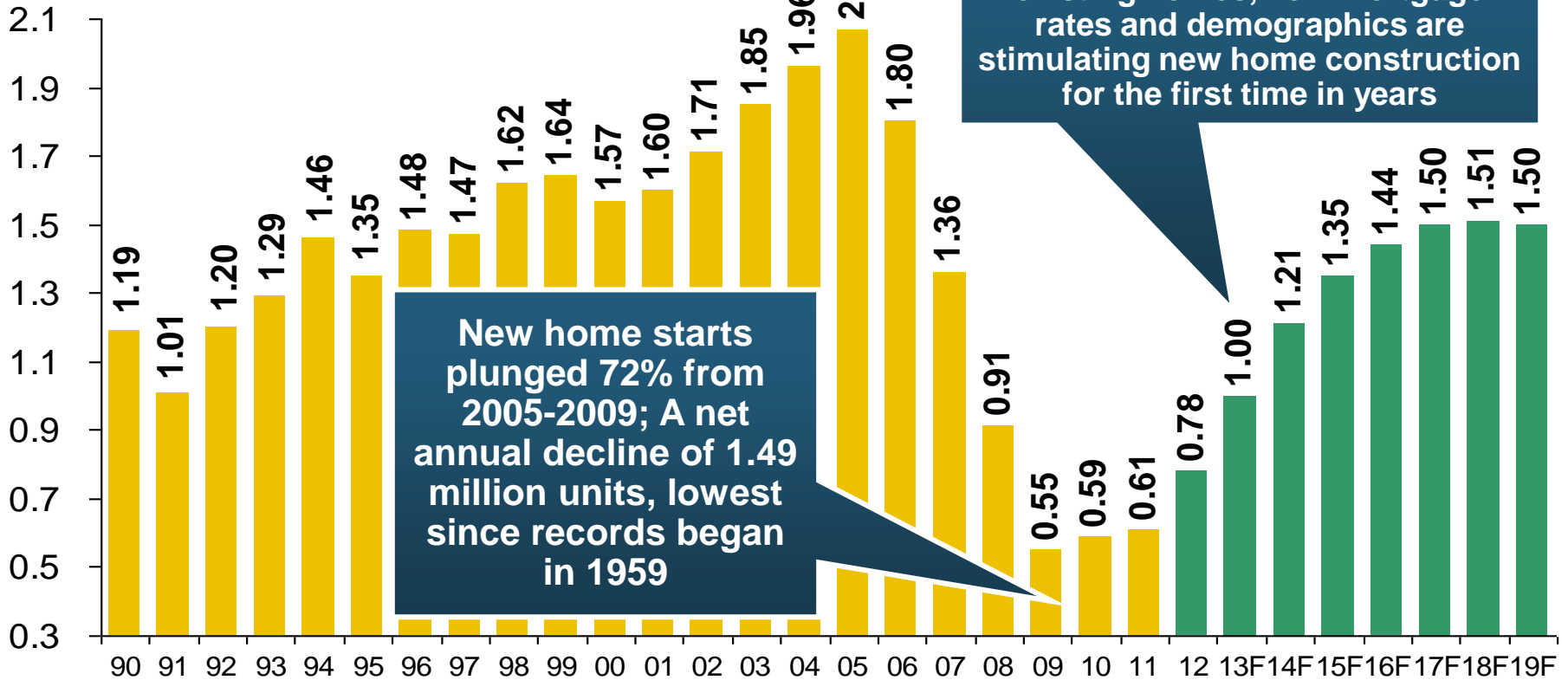
Underwriting performance remained strong even when prices were flat or falling due to improvements in underlying frequency and severity trends



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

New Private Housing Starts, 1990-2019F

(Millions of Units)

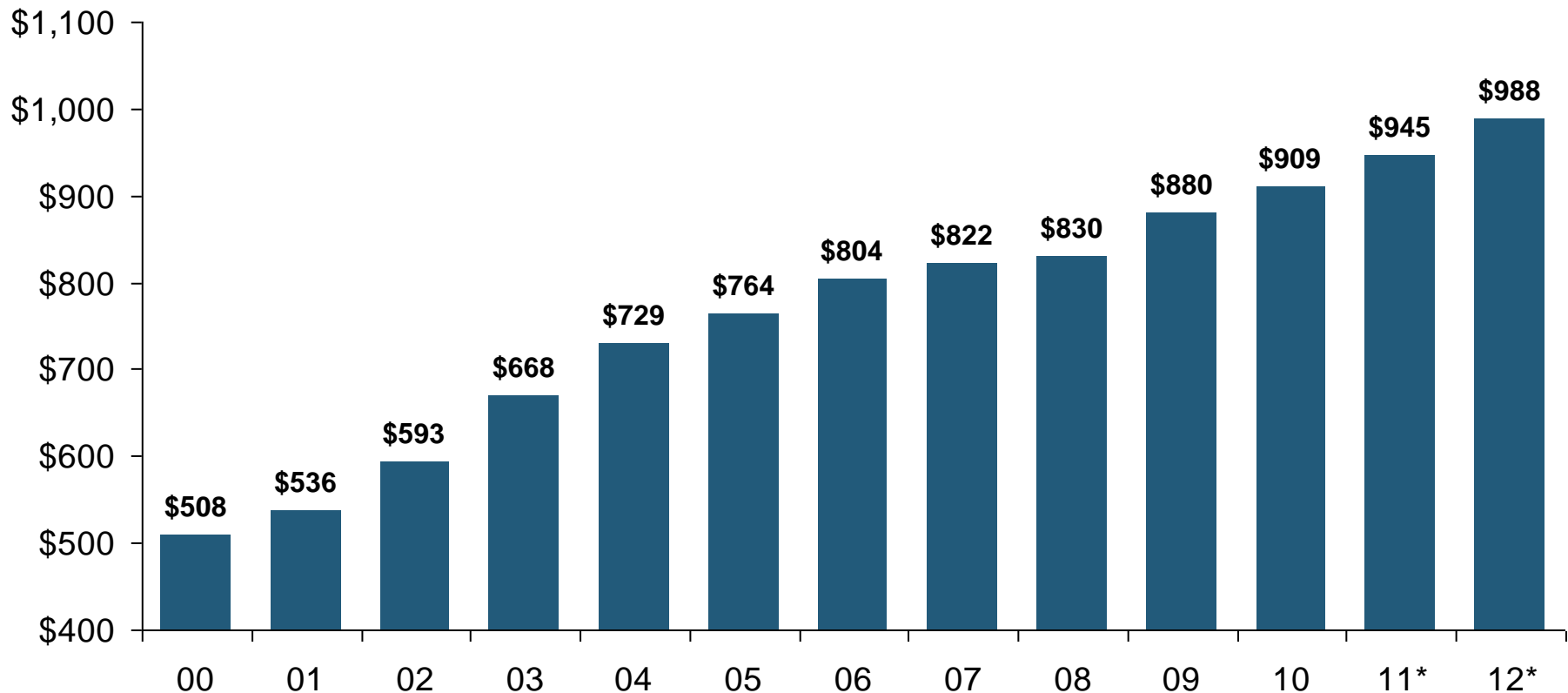


Job growth, low inventories of existing homes, low mortgage rates and demographics are stimulating new home construction for the first time in years

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

Homeowners Insurers Are Starting to See Meaningful Exposure Growth for the First Time Since 2005. Commercial Insurers with Construction Risk Exposure, Surety, Workers Comp Also Benefit

Average Premium for Home Insurance Policies**



Countrywide Home Insurance Expenditures Increased by an Estimated 4.0% in 2011 and 4.5% in 2012

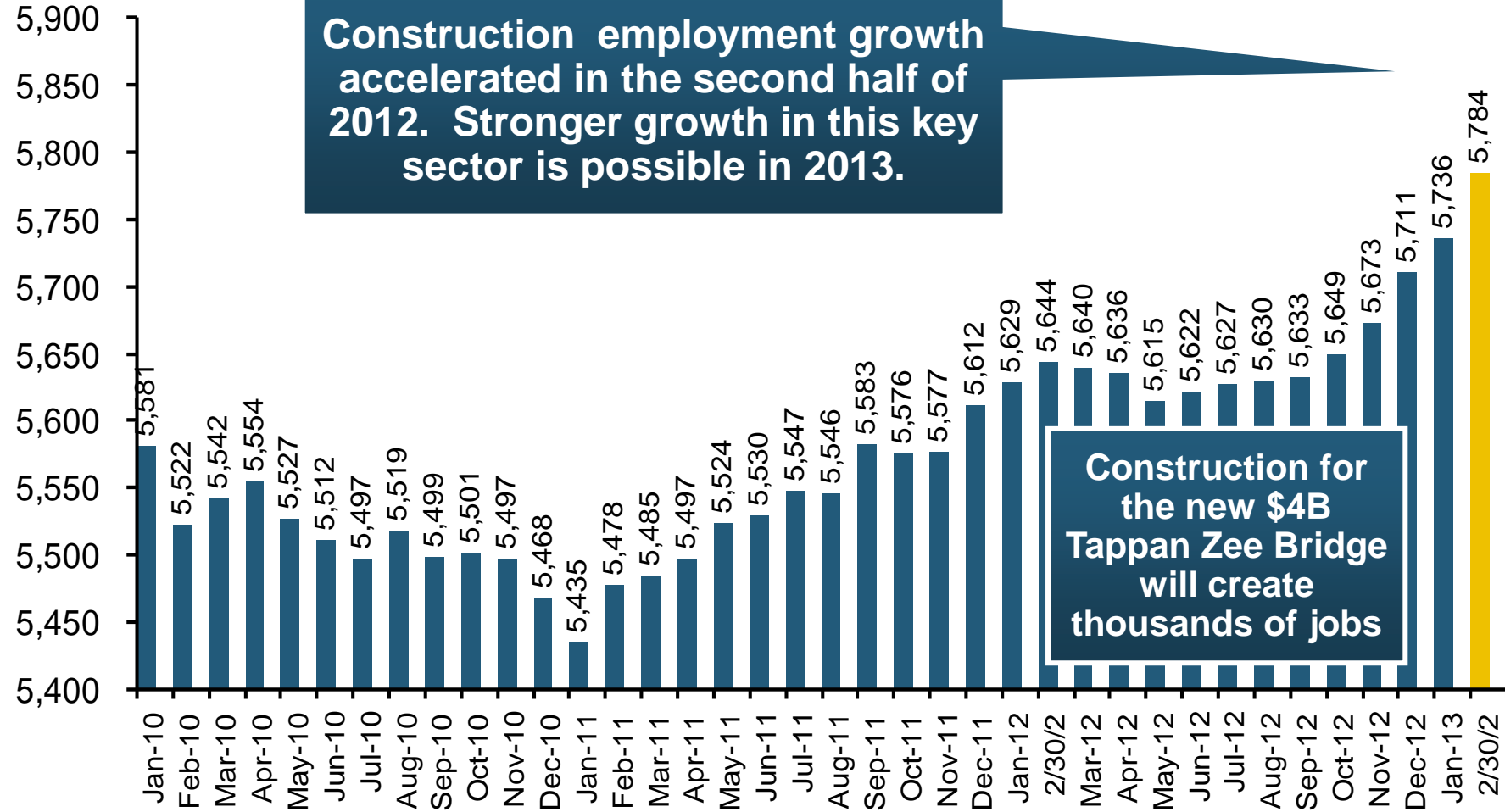
* Insurance Information Institute Estimates/Forecasts **Excludes state-run insurers.

Source: NAIC, Insurance Information Institute estimates for 2011-2012 based on CPI data and other data.

Construction Employment, Jan. 2010—February 2013*

(Thousands)

Construction employment growth accelerated in the second half of 2012. Stronger growth in this key sector is possible in 2013.

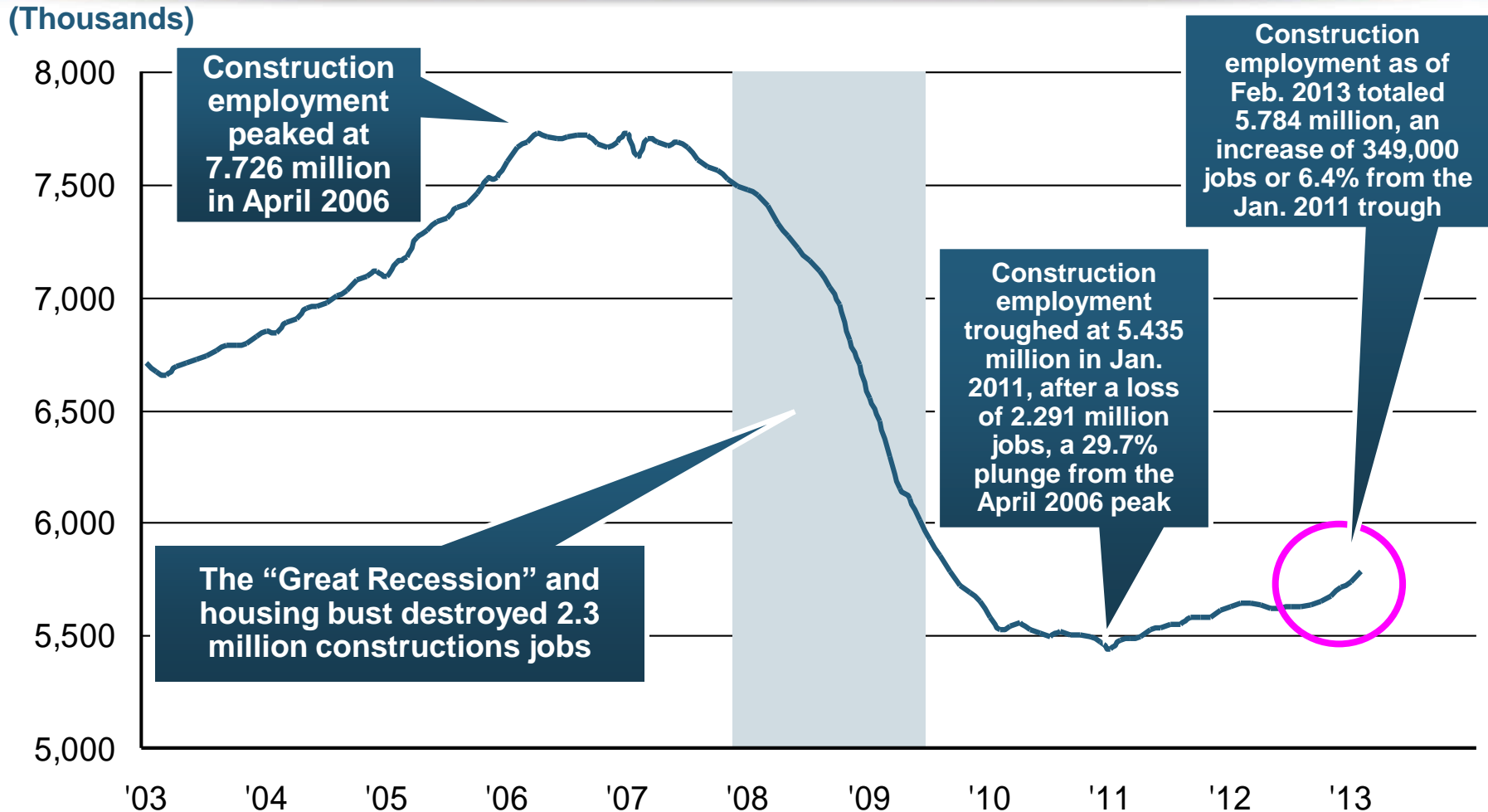


Construction for the new \$4B Tappan Zee Bridge will create thousands of jobs

*Seasonally adjusted

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

Construction Employment, Jan. 2003–Feb. 2013



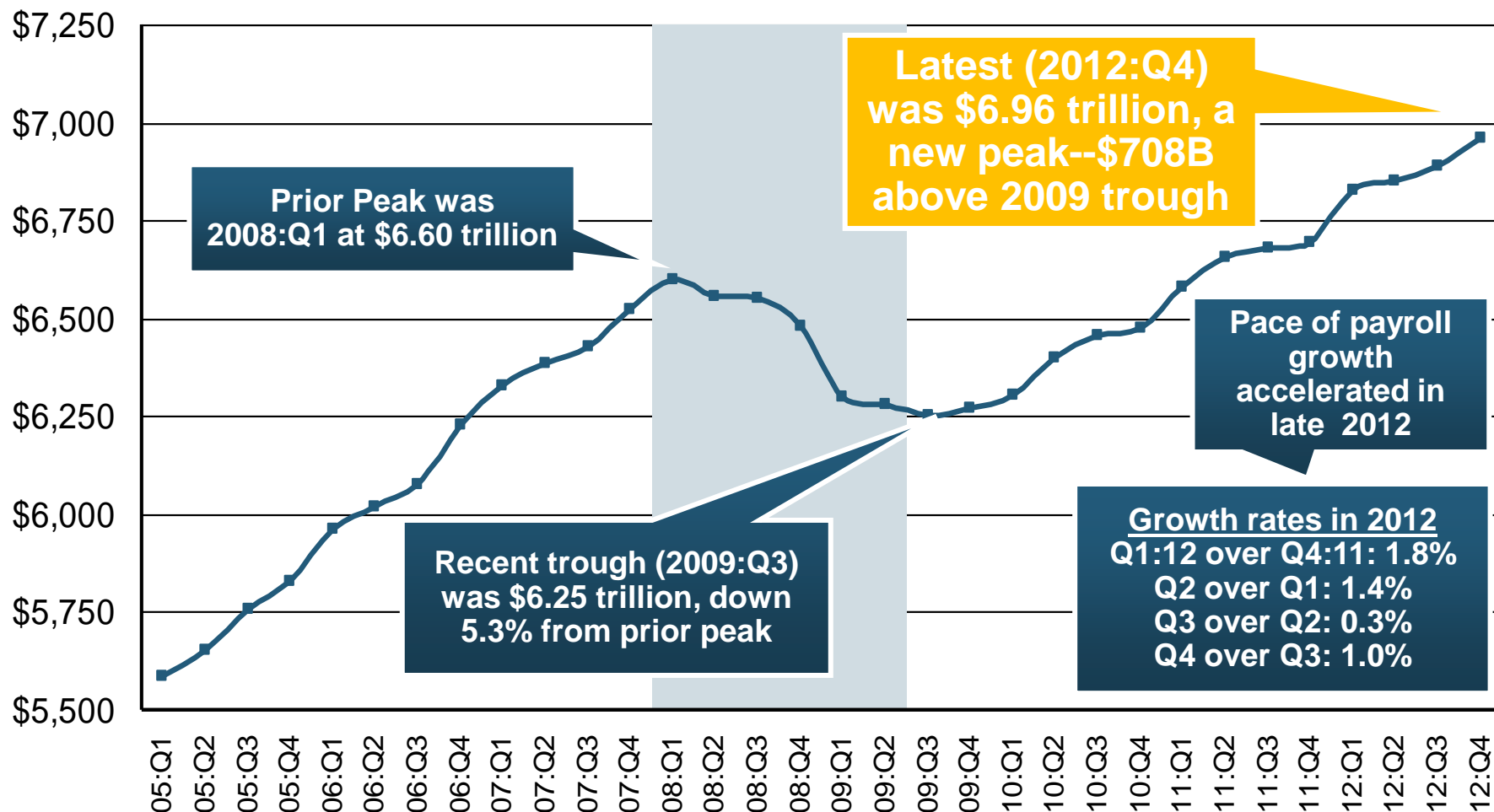
The Construction Sector Could Be a Growth Leader in 2013 and 2014 as the Housing Market and Private Investment Recover. Commercial Insurers Will Benefit.

Note: Recession indicated by gray shaded column.

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

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2012:Q4

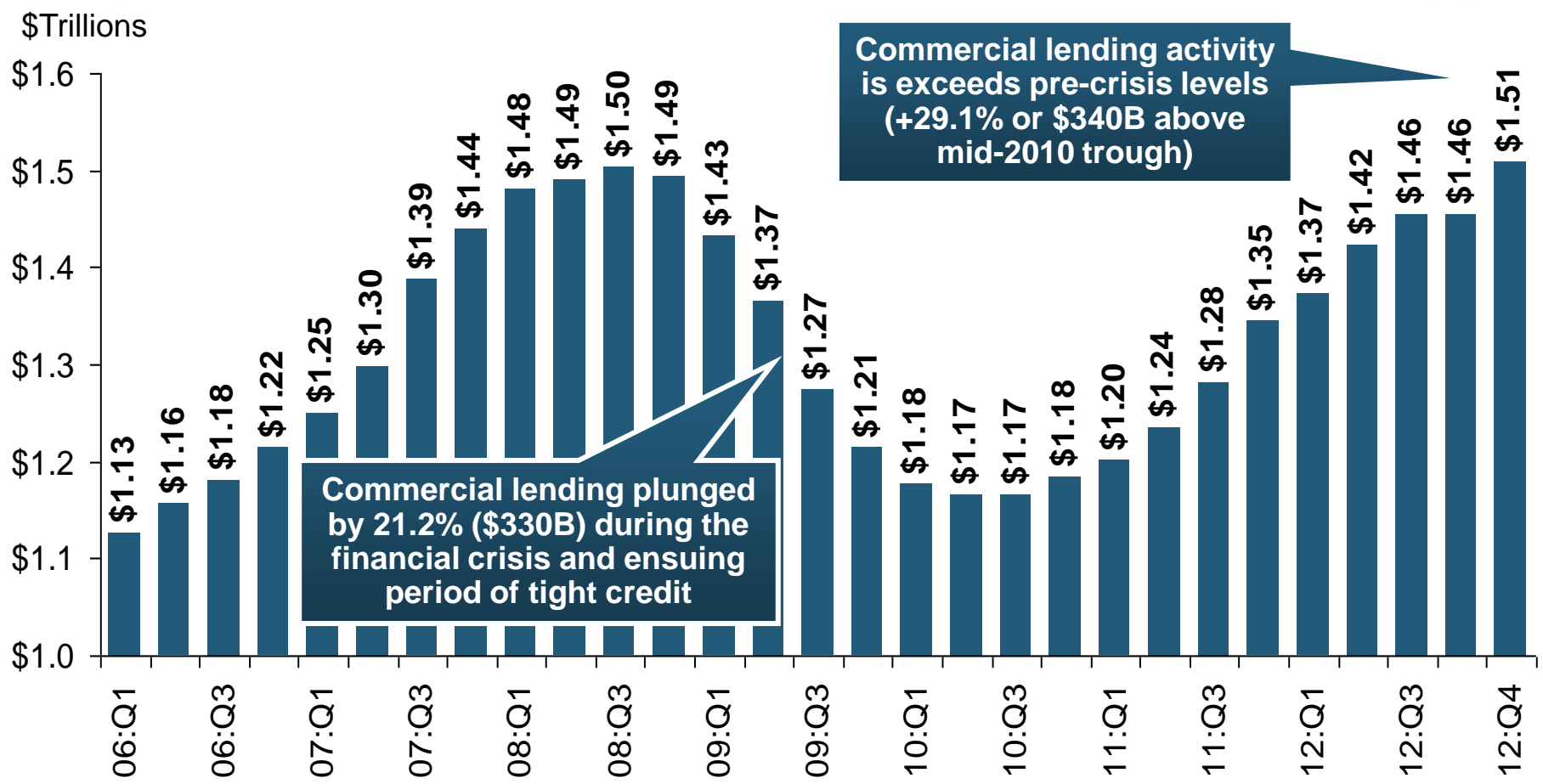
Billions



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.

Commercial & Industrial Loans Outstanding at FDIC-Insured Banks, Quarterly, 2006-2012:Q4*



Commercial lending activity is exceeds pre-crisis levels (+29.1% or \$340B above mid-2010 trough)

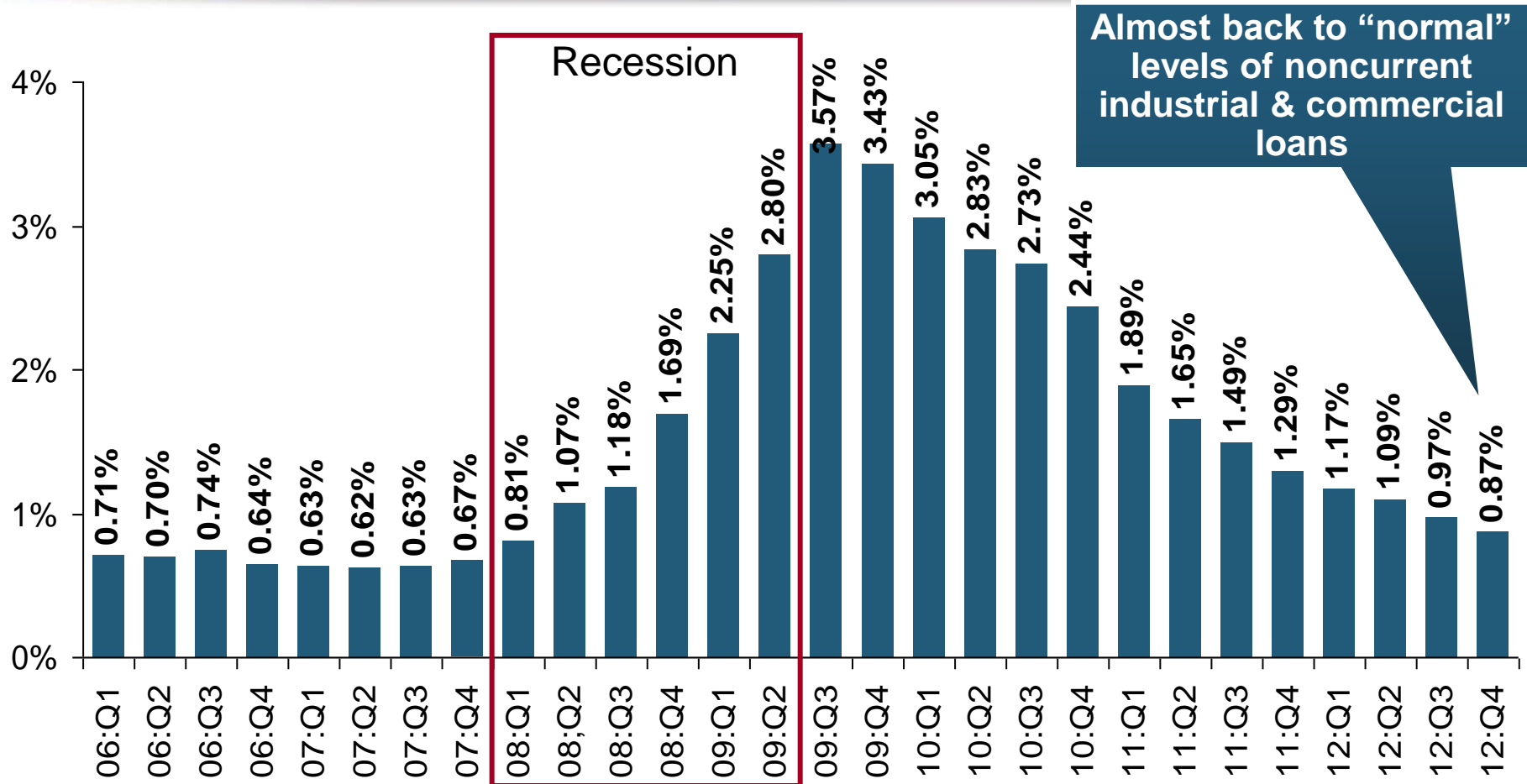
Commercial lending plunged by 21.2% (\$330B) during the financial crisis and ensuing period of tight credit

Outstanding Commercial Loan Volume Has Been Growing for Over Two Years and Is Now Nearly Back to Early Recession Levels. Bodes Very Well for the Creation of Current and Future Commercial Insurance Exposures

*Latest data as of 3/18/2013.

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, 2006-2012:Q4*



Almost back to “normal” levels of noncurrent industrial & commercial loans

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

*Latest data as of 3/18/2013.

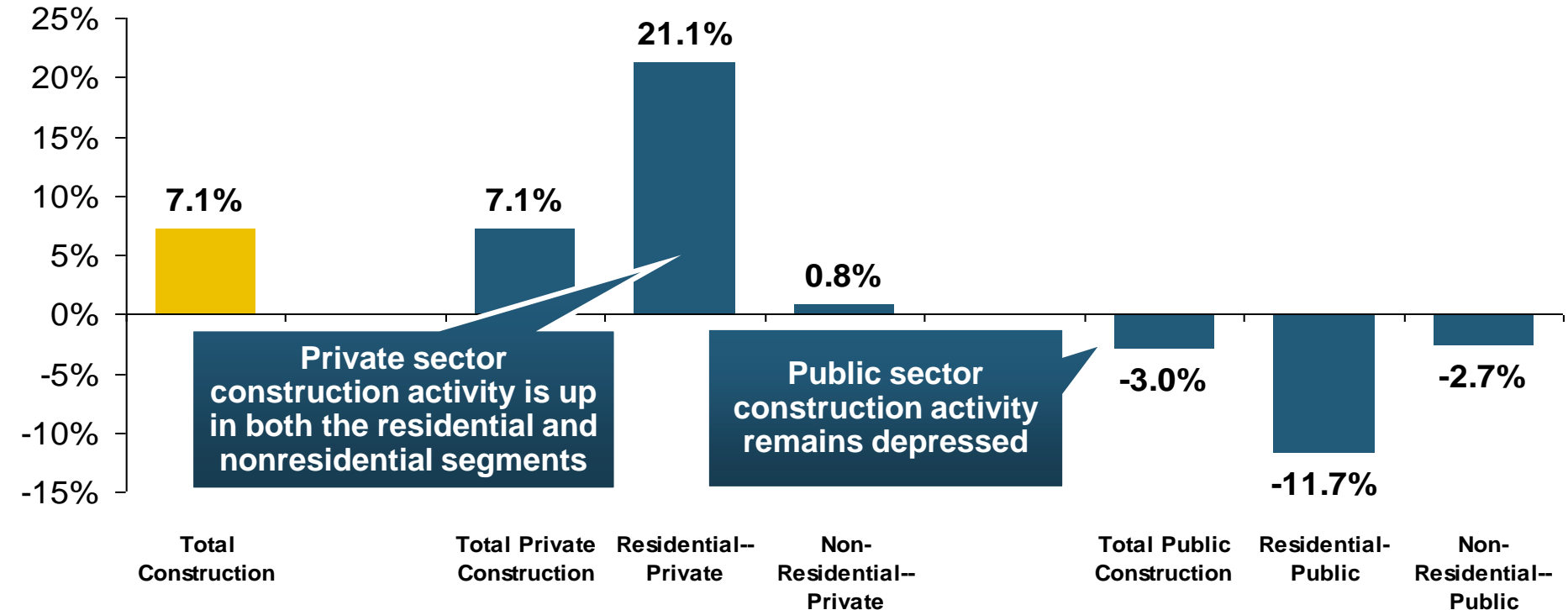
Source: FDIC at <http://www2.fdic.gov/qbp/> (Loan Performance spreadsheet); Insurance Information Institute.

Value of Construction Put in Place, January 2013 vs. January 2012*

Growth (%)

Private: +12.2%

Public: -3.0%



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

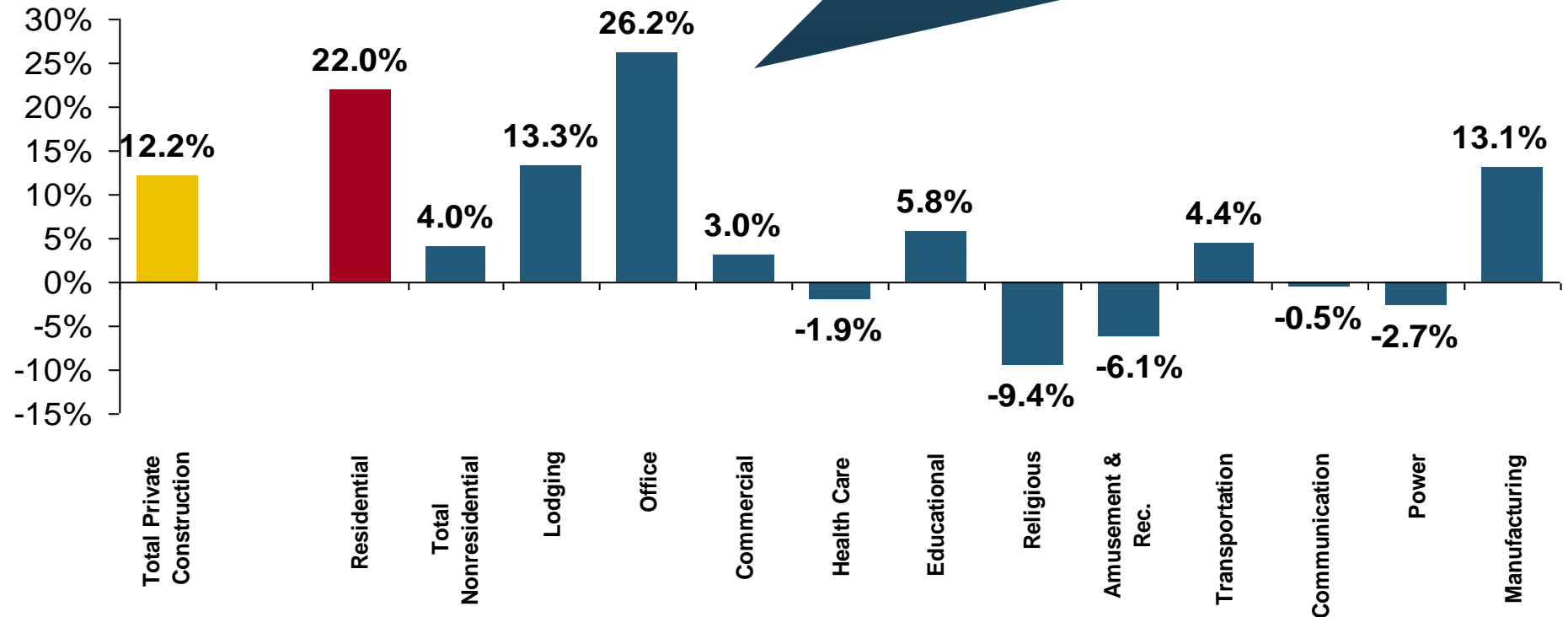
*seasonally adjusted

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

Value of Private Construction Put in Place, by Segment, Jan. 2013 vs. Jan. 2012*

Growth (%)

Led by the Residential Construction, Lodging, Office, and Manufacturing industries, Private sector construction activity is up across many segments after plunging during the “Great Recession”

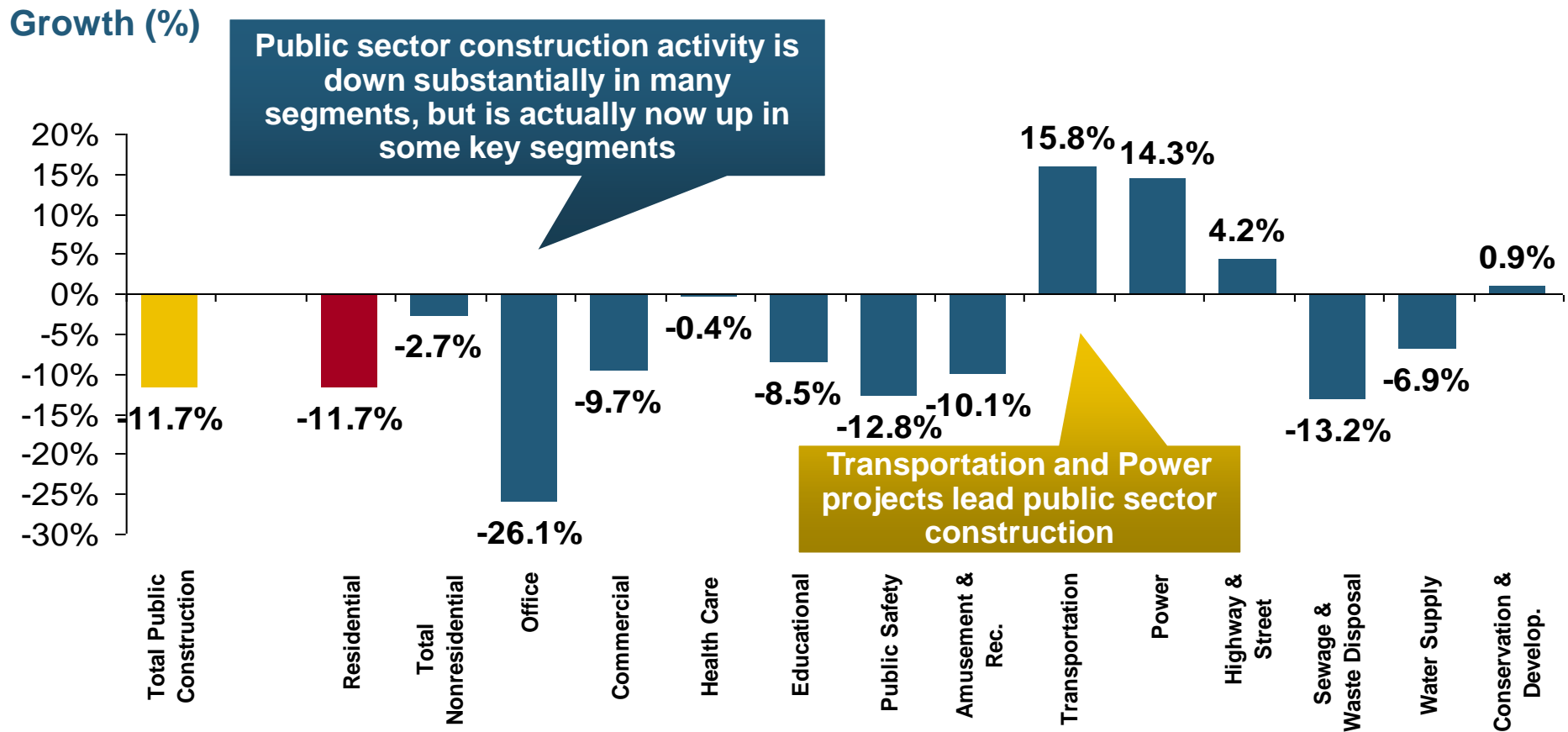


Private Construction Activity is Up in Most Segments, Including the Key Residential Construction Sector

*seasonally adjusted

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

Value of Public Construction Put in Place, by Segment, Jan. 2013 vs. Jan. 2012*



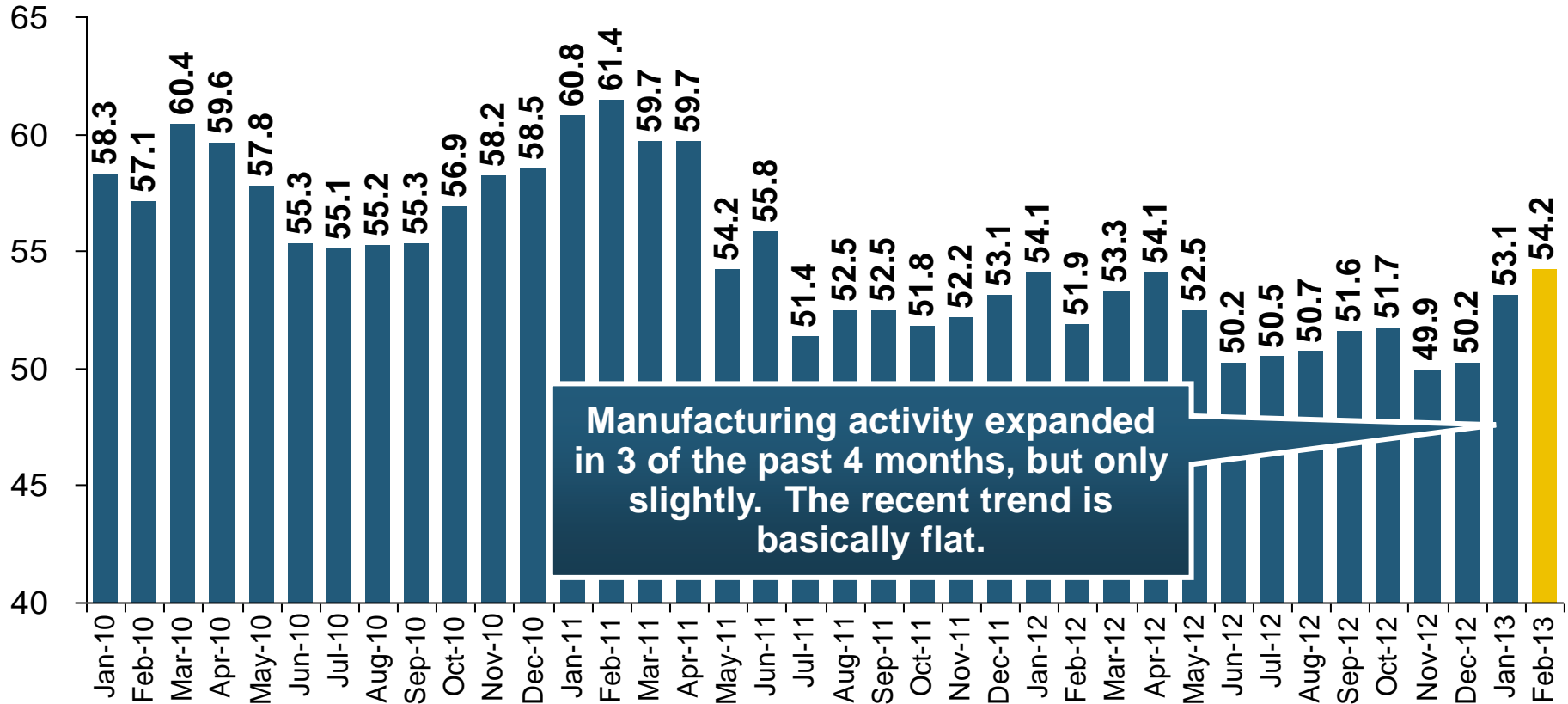
Public Construction Activity is Down in Many Segments as State and Local Budgets Remain Under Stress; Improvement Possible in 2013.

*seasonally adjusted

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

ISM Manufacturing Index (Values > 50 Indicate Expansion)

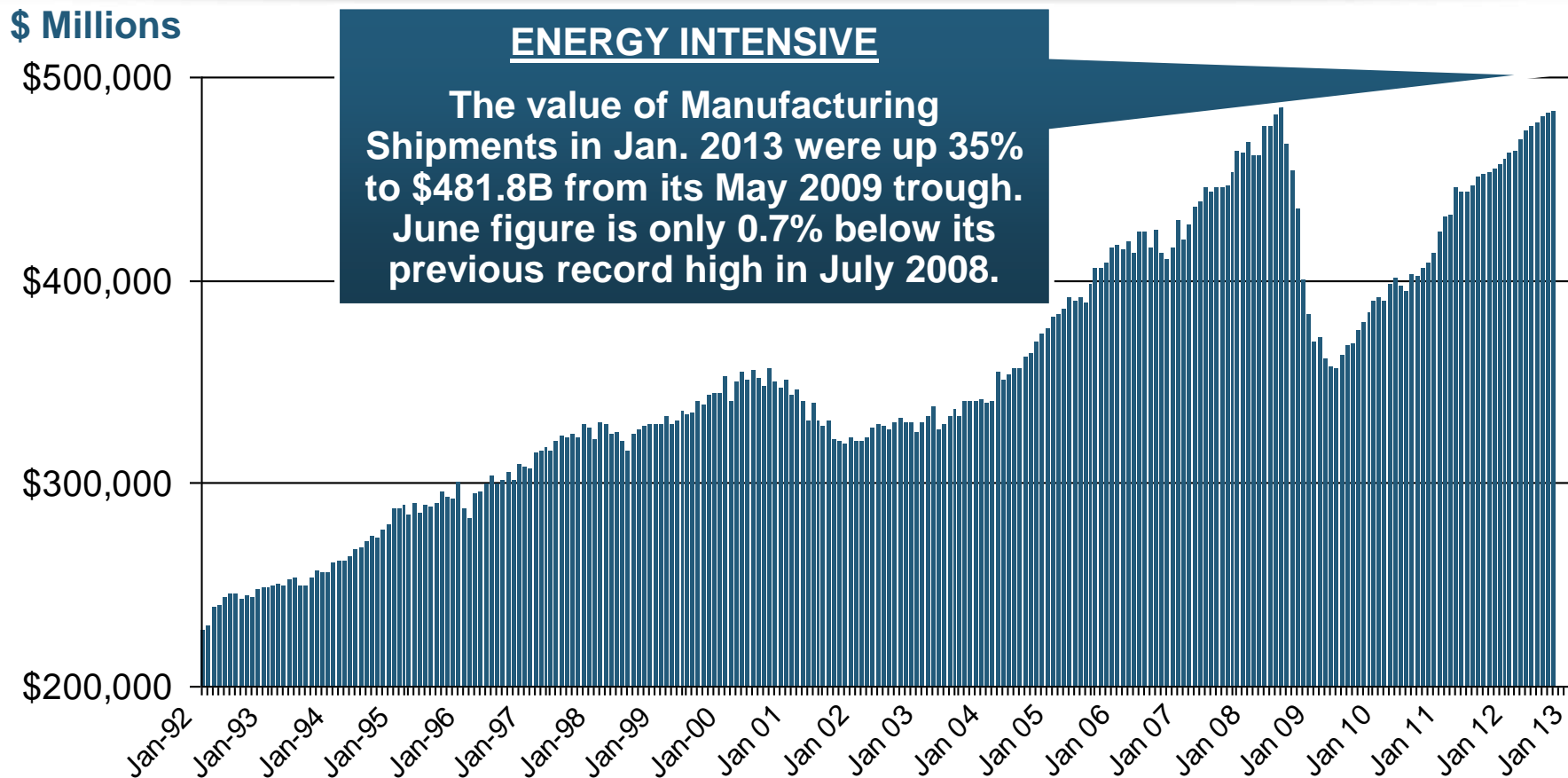
January 2010 through February 2013



Manufacturing activity expanded in 3 of the past 4 months, but only slightly. The recent trend is basically flat.

The manufacturing sector expanded for 33 of the 38 months from Jan. 2010 through Feb. 2013. The expectation is that this will continue.

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



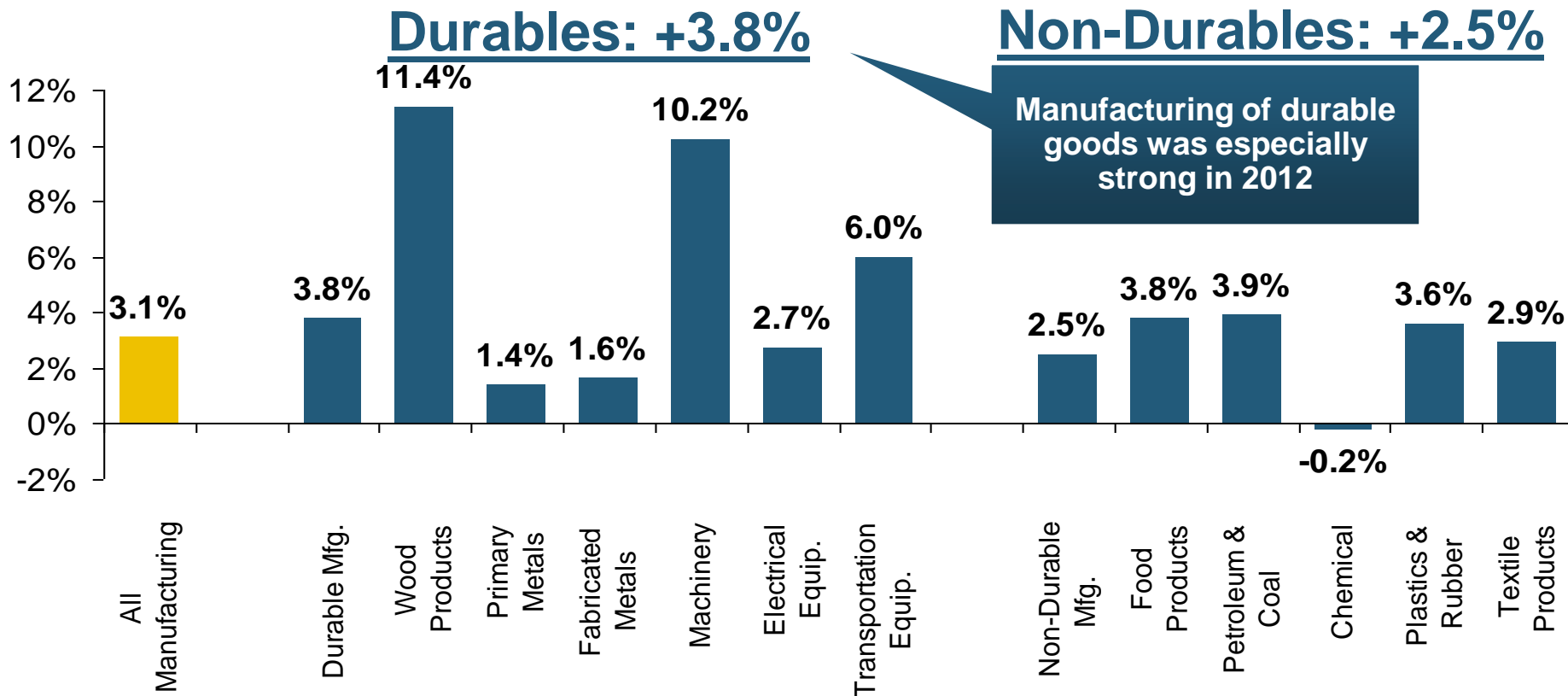
Monthly shipments are nearly back to peak (in July 2008, 8 months into the recession). Trough in May 2009. Growth from trough to Jan. 2013 was 35%. Manufacturing is an energy intensive activity and growth leads to gains in many commercial exposures: WC, Commercial Auto, Marine, Property and Various Liability Coverages

*seasonally adjusted

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

Manufacturing Growth for Selected Sectors, 2013 vs. 2012*

Growth (%)



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

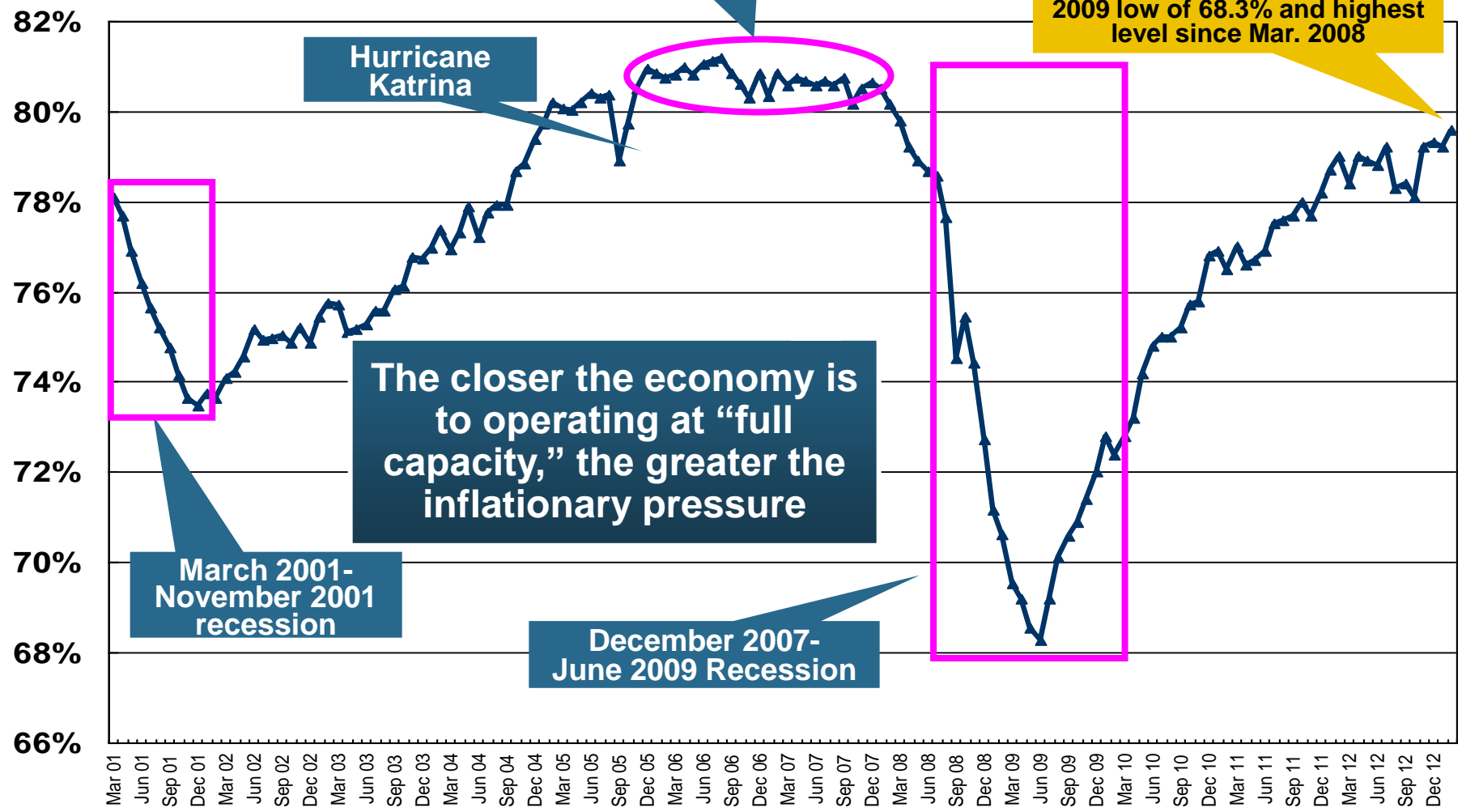
*Seasonally adjusted; Date are YTD comparing data through January 2013 to the same period in 2012.

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 February 2013

Percent of Industrial Capacity

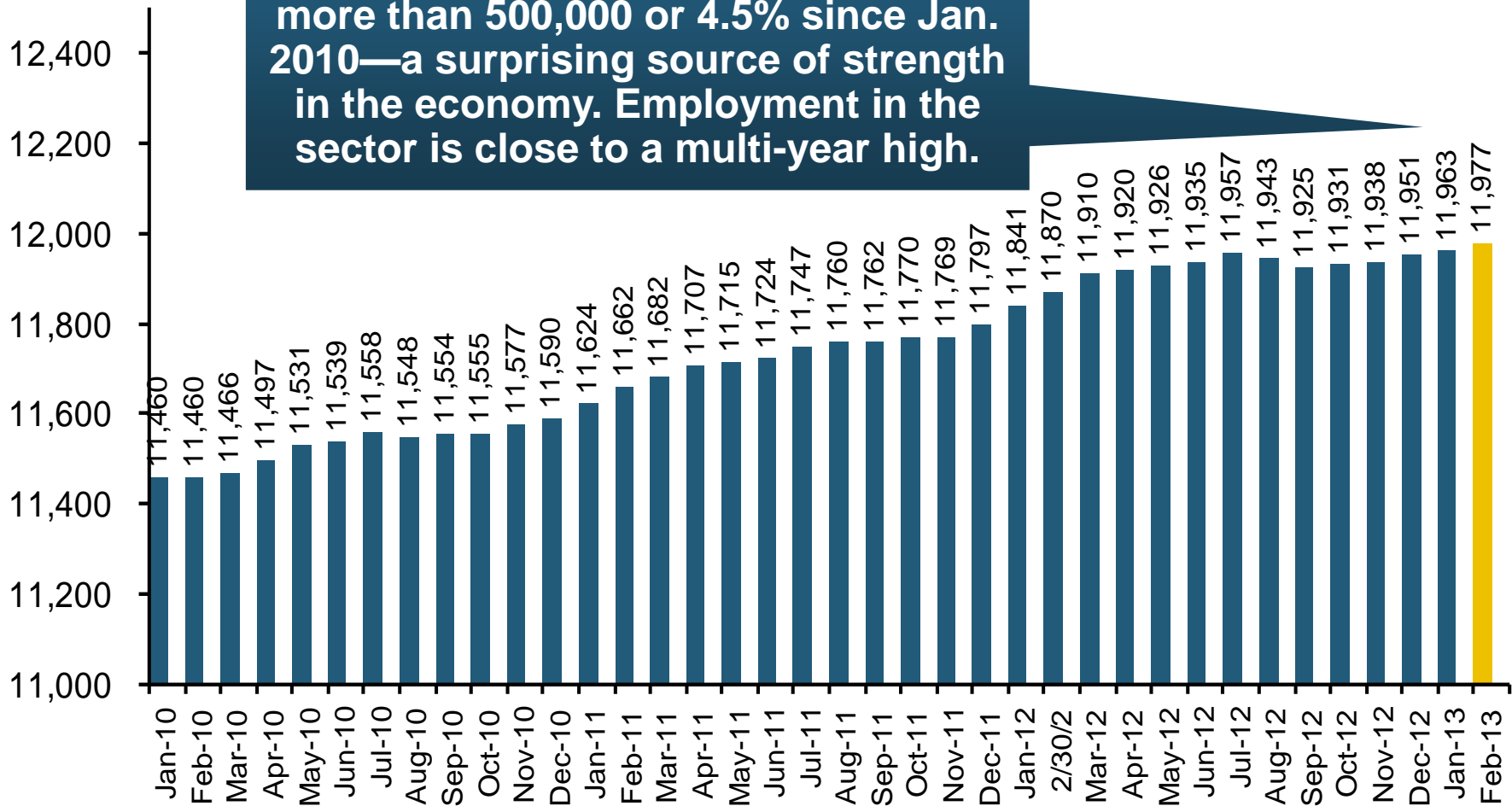


Source: Federal Reserve Board statistical releases at <http://www.federalreserve.gov/releases/q17/Current/default.htm>.

Manufacturing Employment, Jan. 2010—February 2013*

(Thousands)

Manufacturing employment is up by more than 500,000 or 4.5% since Jan. 2010—a surprising source of strength in the economy. Employment in the sector is close to a multi-year high.

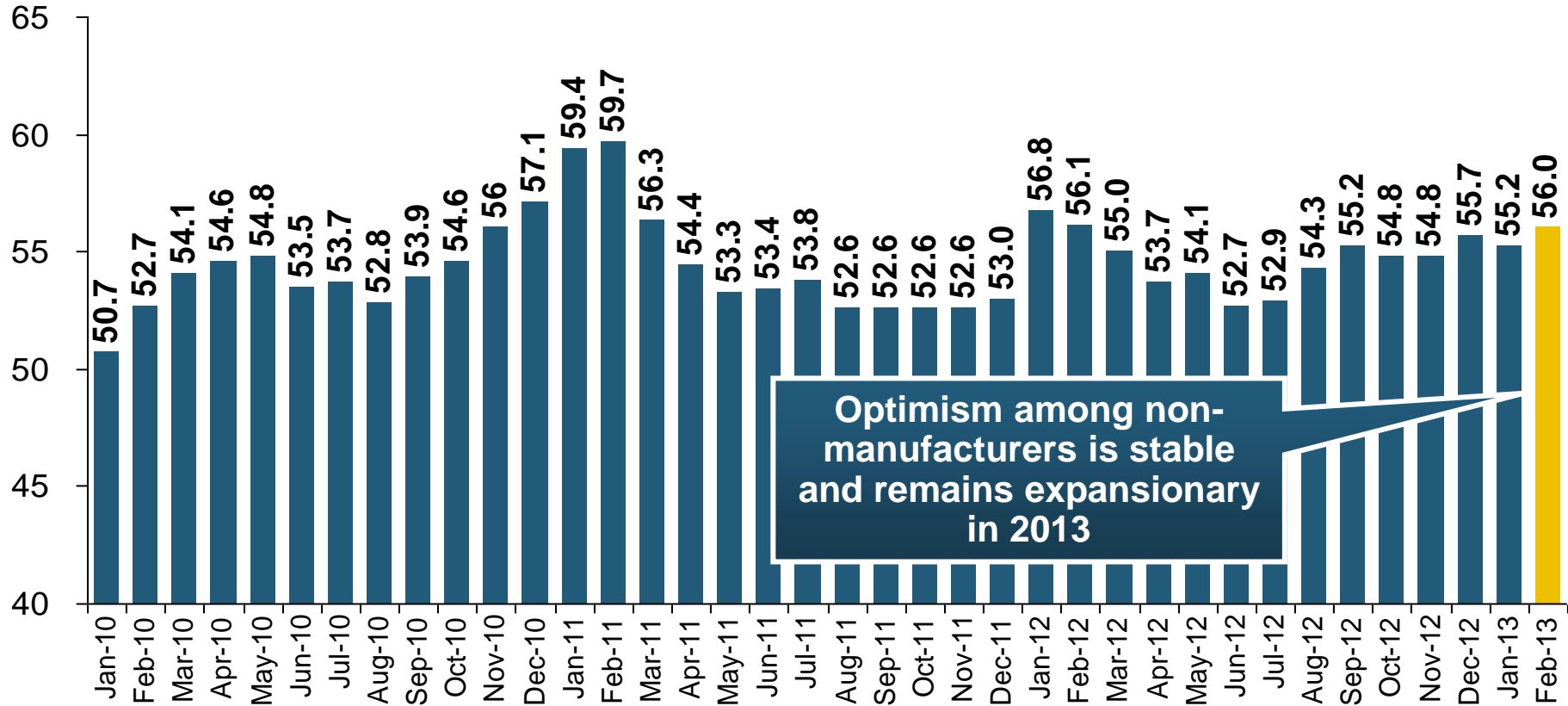


*Seasonally adjusted

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

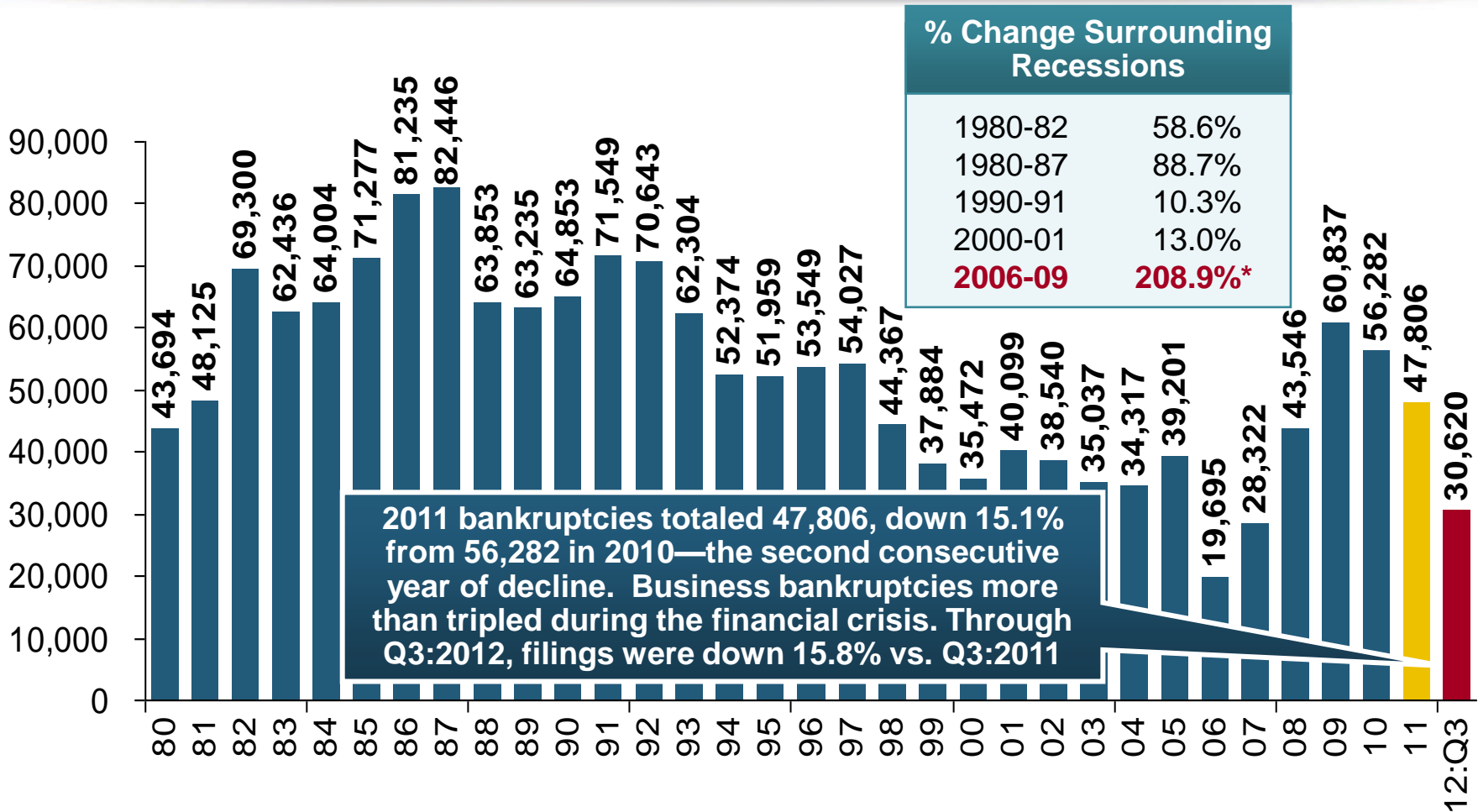
ISM Non-Manufacturing Index (Values > 50 Indicate Expansion)

January 2010 through February 2013



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

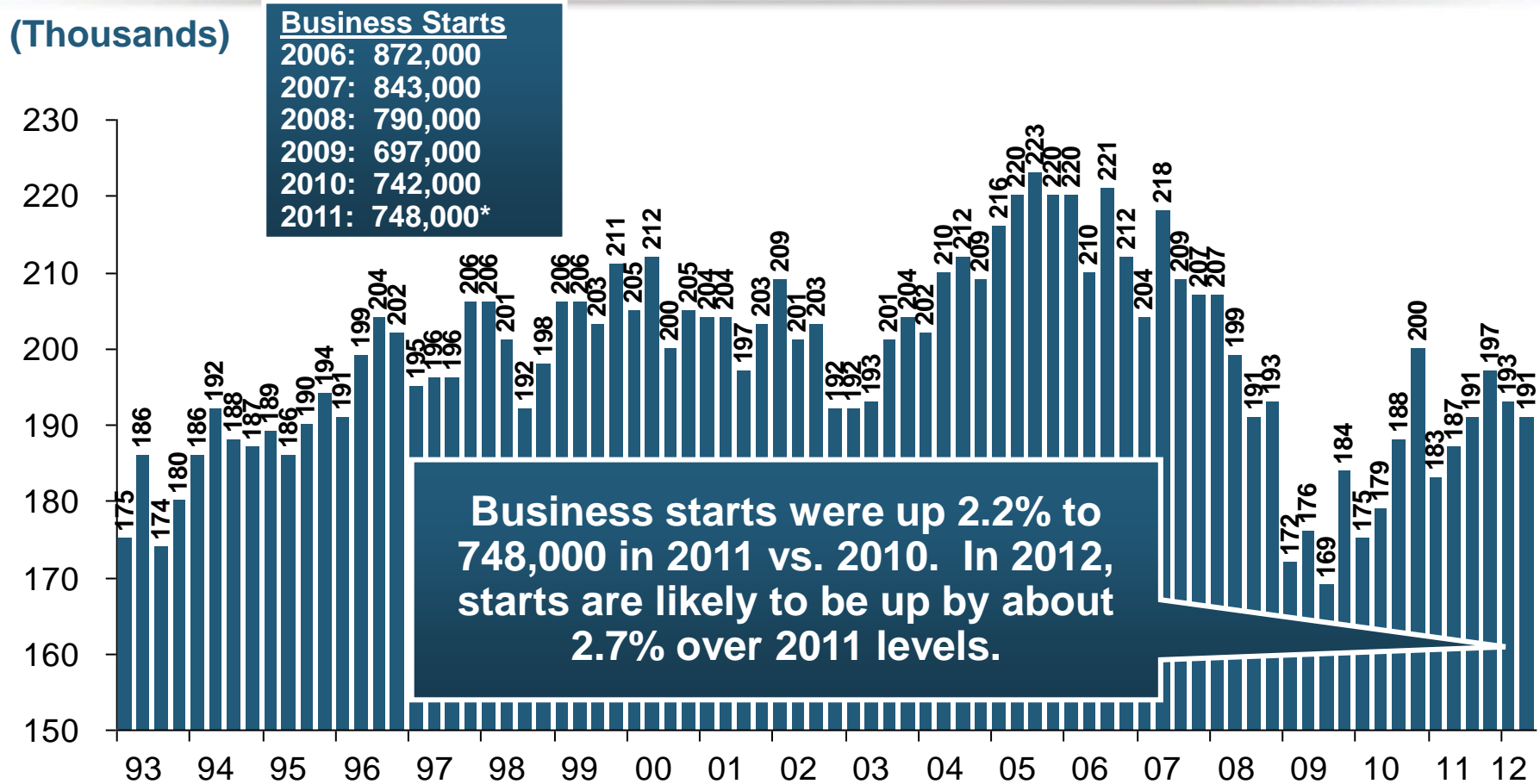
Business Bankruptcy Filings, 1980-2012:Q3



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

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

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



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

* Data through Jun. 30, 2012 are the latest available as of Feb. 6, 2013; Seasonally adjusted.

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

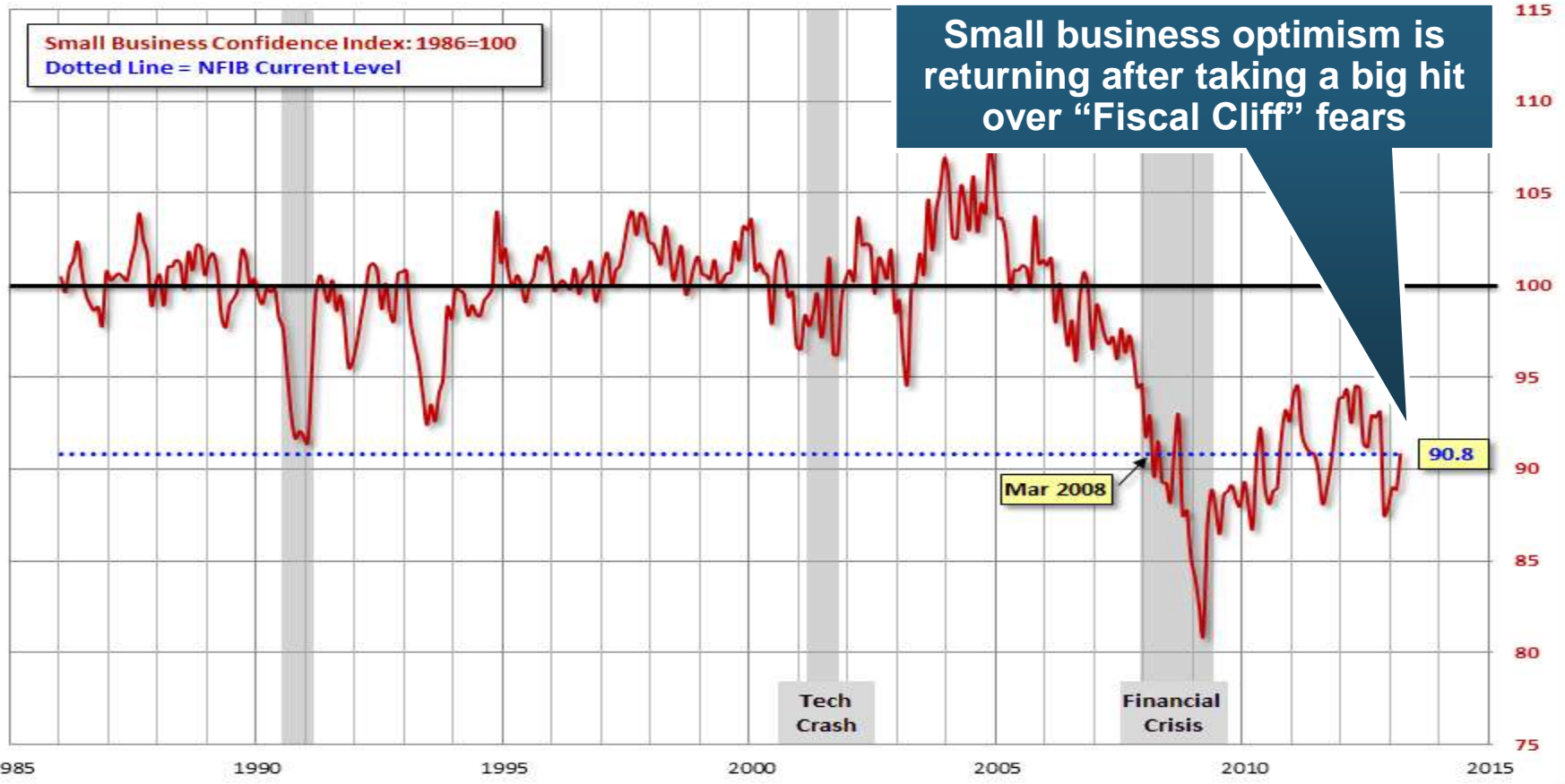
NFIB Small Business Optimism Index

January 1985 through February 2013

Data through
February 2013

NFIB Small Business Optimism Index with Recessions Highlighted

dshort.com
March 2013



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

Inourced Manufacturing

Export-Oriented Industries

Shipping (Rail, Marine, Trucking, Pipelines)



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



Hurricane Sandy Summary

**Sandy Will Become One of the
Most Expensive Events in
Insurance History**

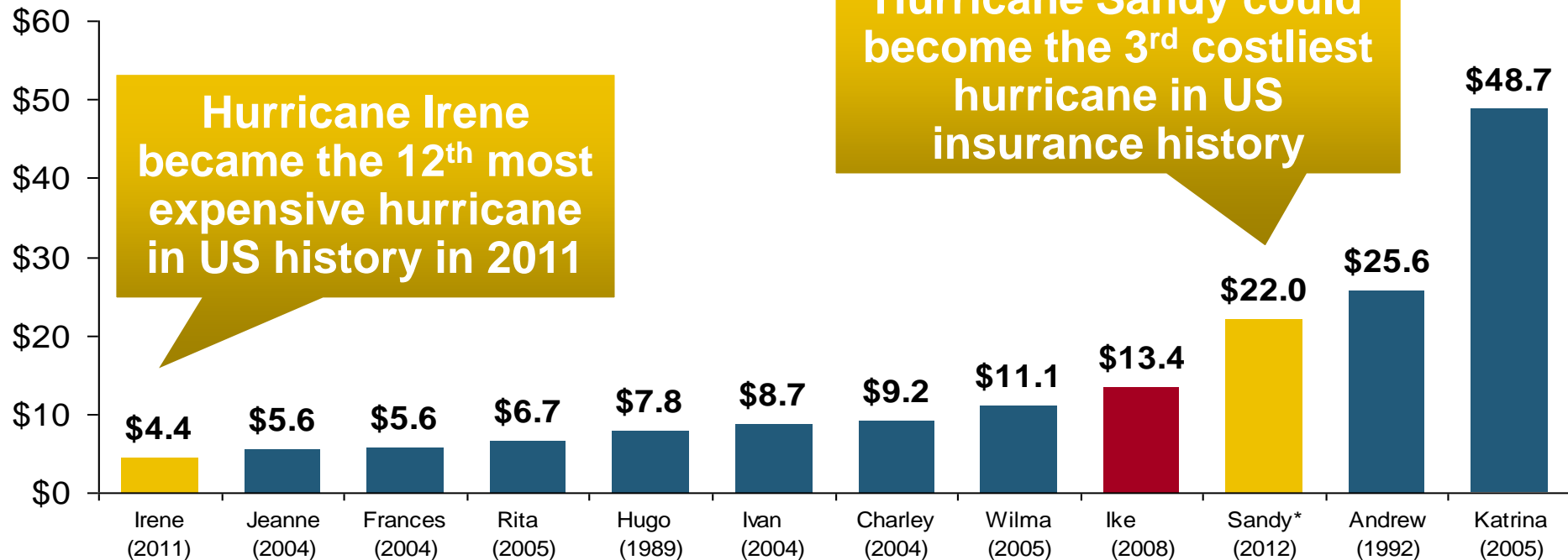
■ Catastrophe Communications: US & Global

- **U.S. Focus:** ~\$37-\$42B = 2nd Most Costliest Year Ever for Insured Catastrophe Loss (Behind 2005)
 - Economic Losses = \$101B
 - Crop = Additional ~\$16B (\$7B-\$8B privately insured)
 - NFIP Flood = Additional \$9B+
 - Flood losses/NFIP/FEMA has been the #1 communications “issue” in the wake of Sandy
- **Global Focus:** \$65B in Insured Losses → Well Below \$105B in 2011 but Above 10-Yr. Avg. of \$50B
 - Cats abroad did not drive media cycle in 2012, save ongoing Fukushima issues; Climate change
- **Market Consequences:** Primary & Reinsurance
 - Impacts on price, availability

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)

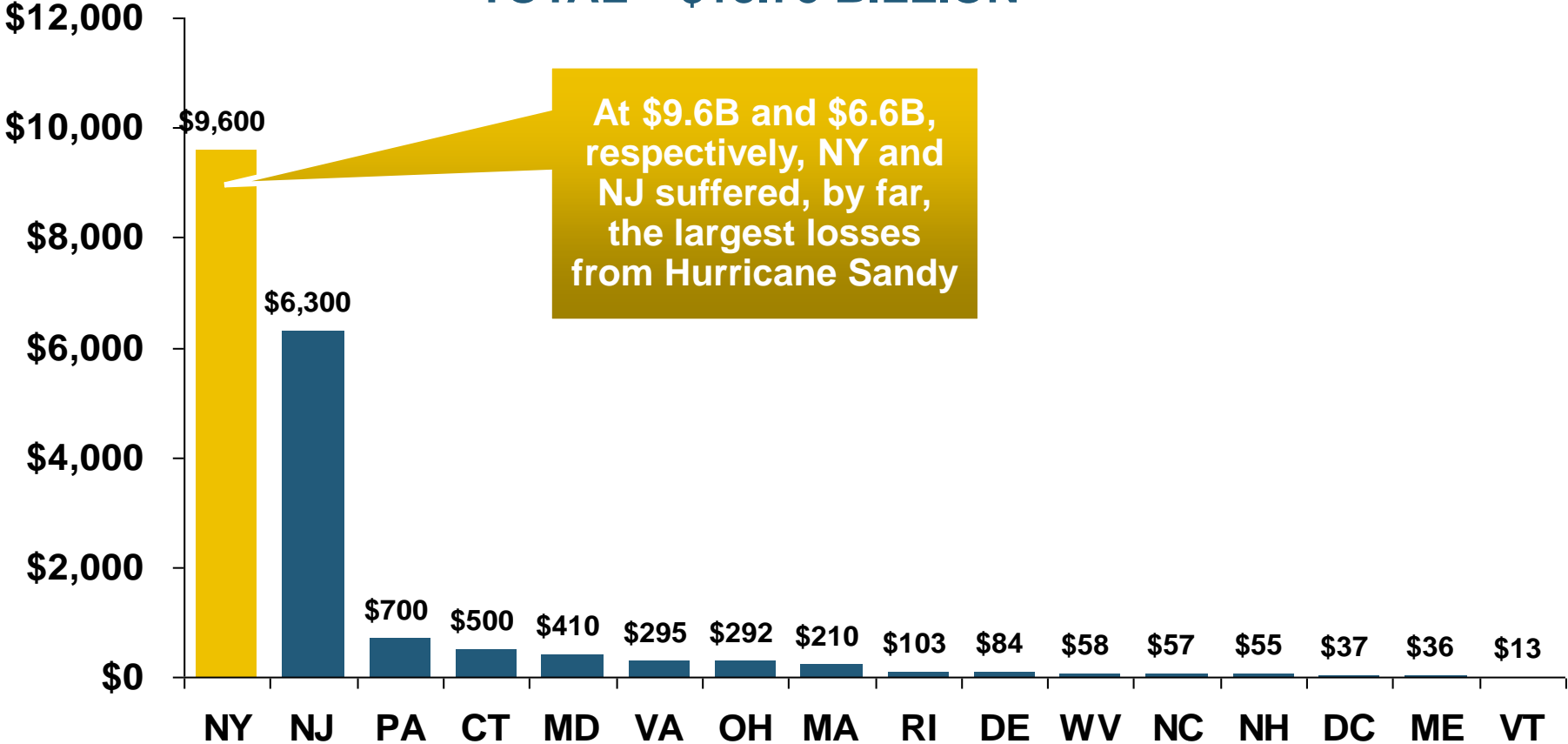


*Estimate as of 12/09/12 based on estimates of catastrophe modeling firms and reported losses as of 1/12/13. Estimates range up to \$25B.
Sources: PCS; Insurance Information Institute inflation adjustments to 2012 dollars using the CPI.

Hurricane Sandy: Claim Payments to Policyholders, by State

(\$ Thousands)

TOTAL = \$18.75 BILLION



At \$9.6B and \$6.6B, respectively, NY and NJ suffered, by far, the largest losses from Hurricane Sandy

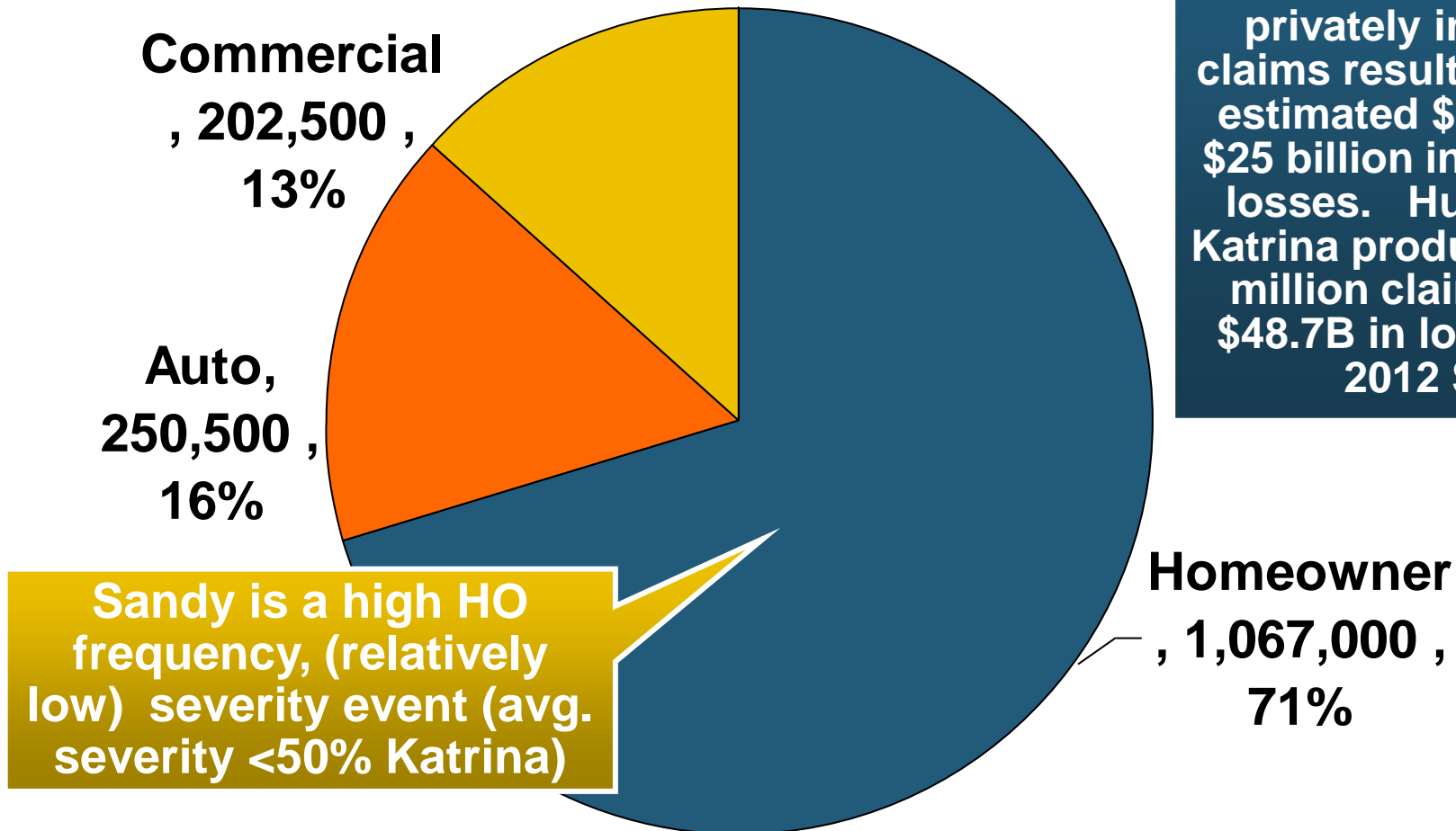
Insurers Will Pay at Least \$18.75 Billion to 1.52 Million Policyholders Across 15 States and DC in the Wake of Hurricane Sandy

Sources: Catastrophe loss data is for Catastrophe Serial No. 90 (Oct. 28 – 31, 2012) from PCS as of Jan. 18, 2013; Insurance Information Institute .

Hurricane Sandy: Number of Claims by Type*

Total Claims = 1.52 Million*

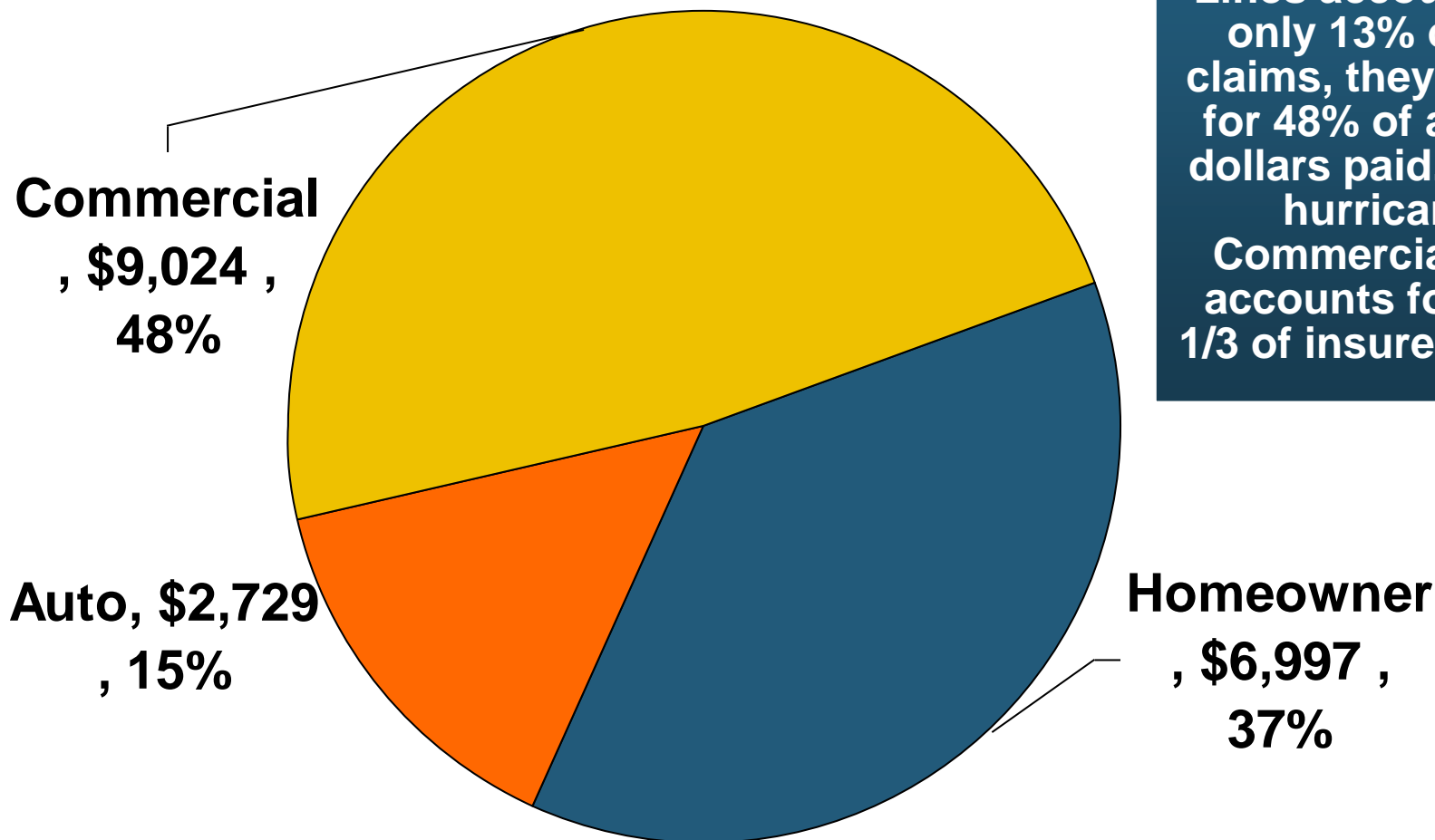
Hurricane Sandy resulted in an estimated 1.52 million privately insured claims resulting in an estimated \$18.75 to \$25 billion in insured losses. Hurricane Katrina produced 1.74 million claims and \$48.7B in losses (in 2012 \$)



*PCS claim count estimate s as of 1/18/13. Loss estimate represents PCS total (\$18.75B) and upper end of range estimates by risk modelers RMS, Eqecat and AIR. All figures exclude losses paid by the NFIP.
Source: PCS; AIR, Eqecat, AIR Worldwide; Insurance Information Institute.

Hurricane Sandy: Insured Loss by Claim Type* (\$ Millions)

Total Claim Value = \$18.75 Billion*

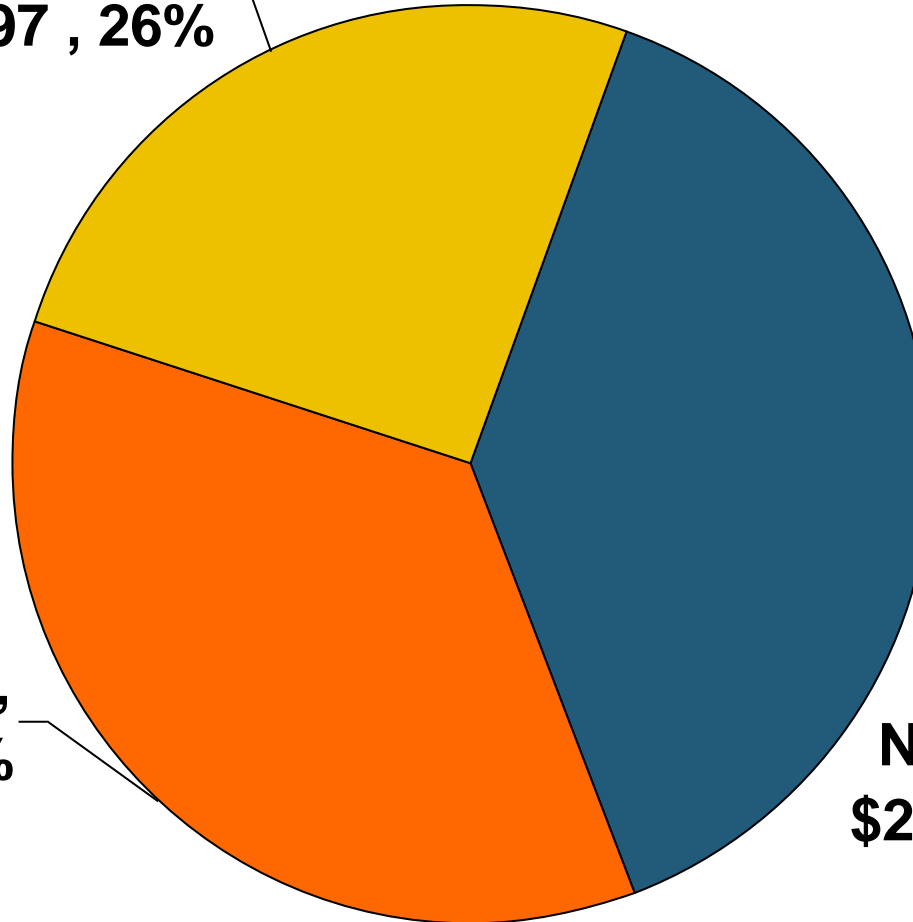


Although Commercial Lines accounted for only 13% of total claims, they account for 48% of all claim dollars paid. In most hurricanes, Commercial Lines accounts for about 1/3 of insured losses.

*PCS insured loss estimates as of 1/18/13. Catastrophe modeler estimates range up to \$25 billion. All figures exclude losses paid by the NFIP. Source: PCS; Insurance Information Institute.

Hurricane Sandy: Value of Homeowners Claims Paid, by State* (\$ Millions)

**All Other,
\$1,797 , 26%**



**New Jersey,
\$2,500 , 36%**

**New York,
\$2,700 , 38%**

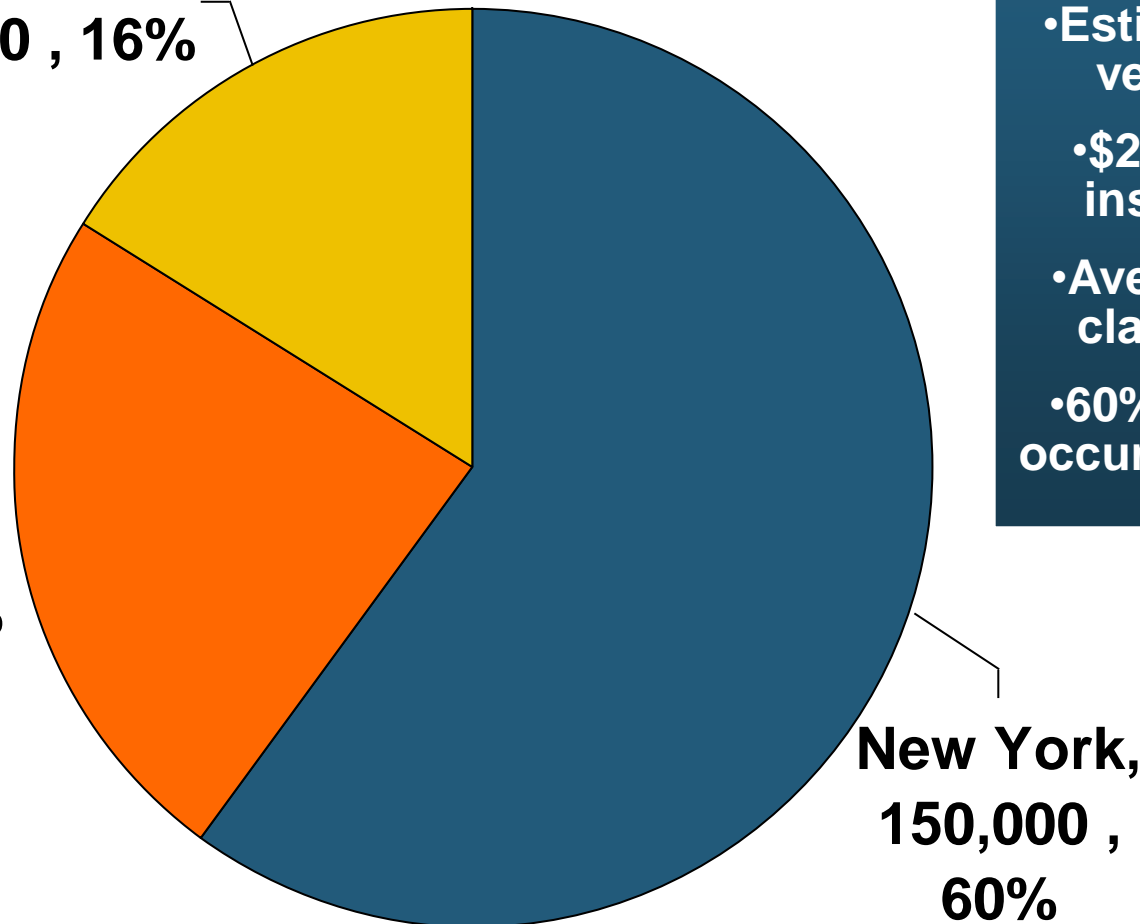
Hurricane Sandy

- Estimated 1,067,000 homeowners claims**
- \$7.0 billion in insured losses.
- Average loss per claim is \$6,558
- Claims in NJ estimated at \$2.5 billion (36%) and \$2.7 billion in NY (38%)

Hurricane Sandy: Number of Auto Claims by State*

**All Other,
40,500 , 16%**

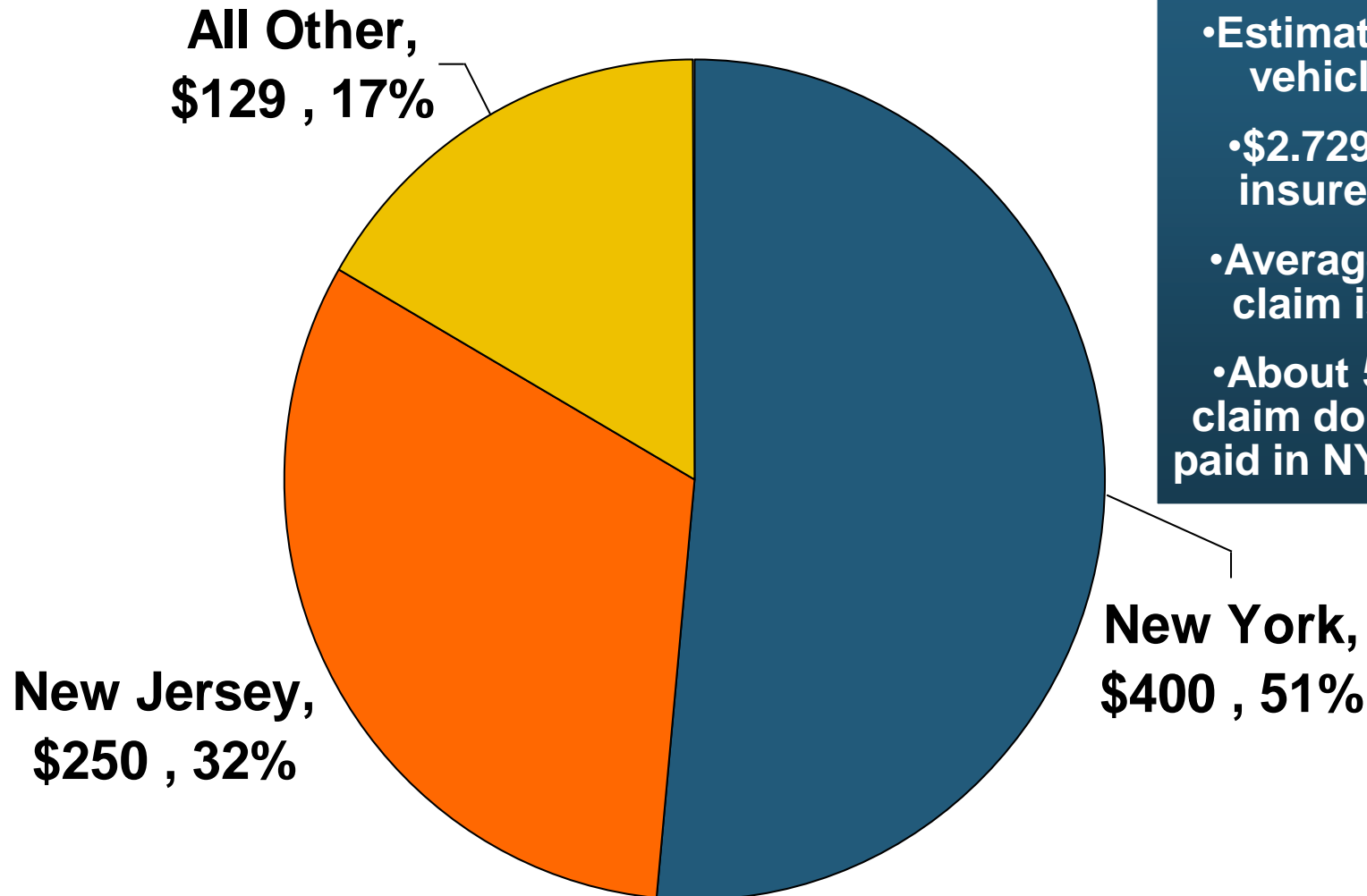
**New Jersey,
60,000 , 24%**



Hurricane Sandy

- Estimated 250,500 vehicle claims
- \$2.729 billion in insured losses.
- Average loss per claim is \$10,894
- 60% of the claims occurred in NY state.

Hurricane Sandy: Value of Auto Claims Paid, by State* (\$ Millions)

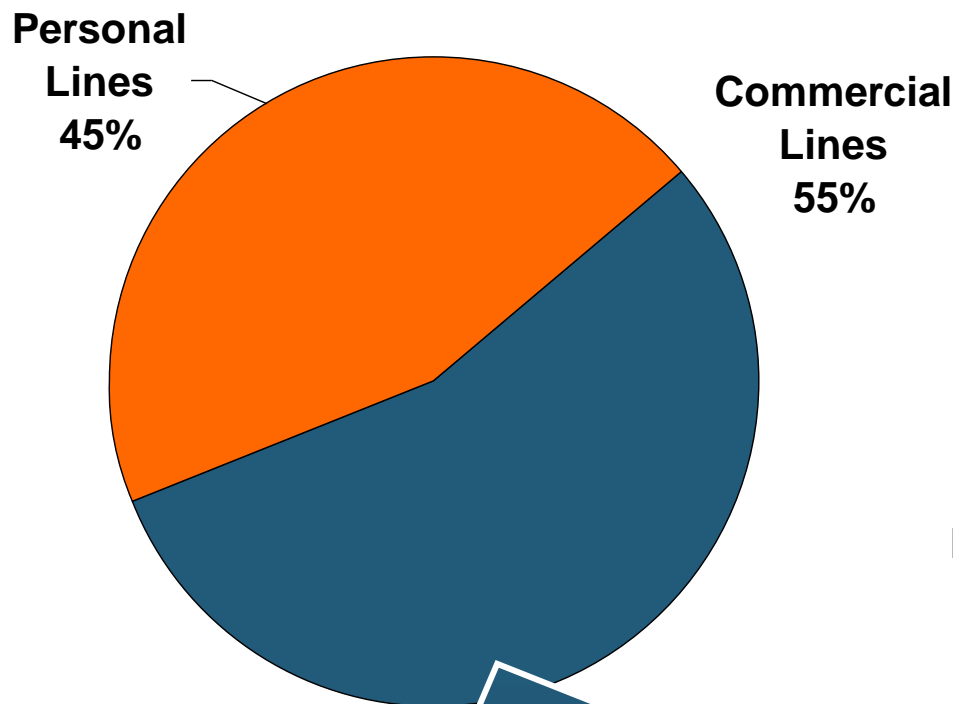


Hurricane Sandy

- Estimated 250,500 vehicle claims
- \$2.729 billion in insured losses.
- Average loss per claim is \$10,894
- About 50% of the claim dollars will be paid in NY, 32% in NJ.

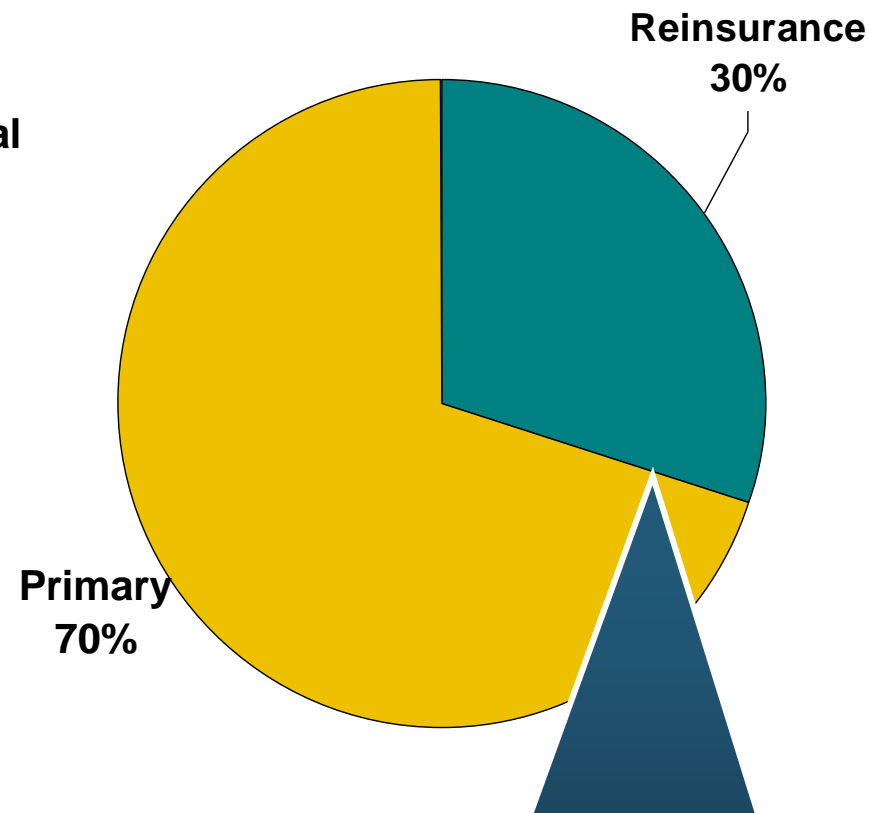
Hurricane Sandy: Loss Distribution by Commercial/Personal Lines and Reinsurance vs. Primary Insurer

Personal vs. Commercial Lines*



~55% of Sandy losses appear to be commercial lines, and ~45% personal, the opposite of the norm for hurricane losses

Primary vs. Reinsurer Share**

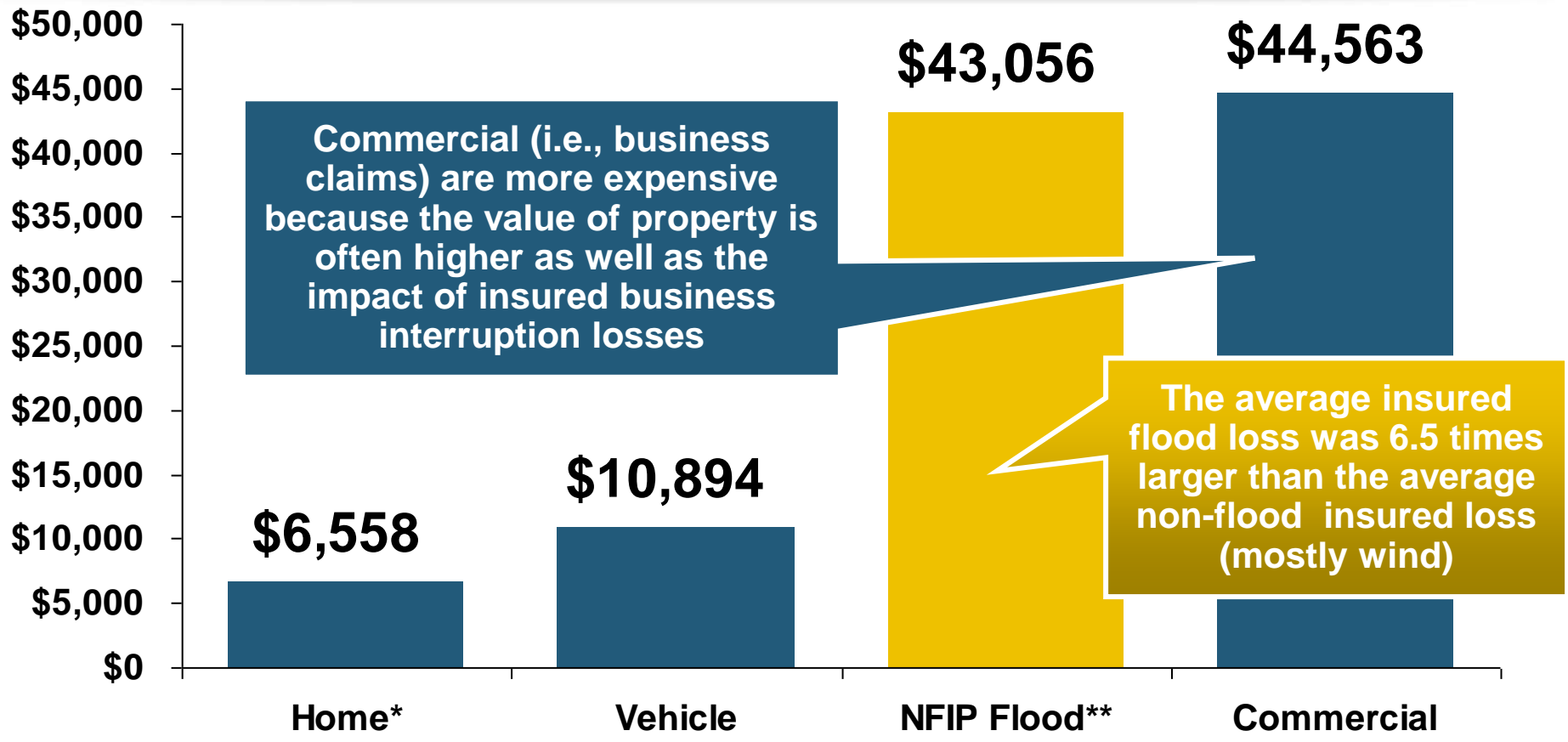


Reinsurers' share of Sandy losses appears to be in the 30% range, though this is highly preliminary

*Fitch Ratings assigns a range of 60-65% commercial and 35-40% personal lines., *Hurricane Sandy Update*, January 8, 2013.

**Source: Insurance Information Institute rough estimate based on company reports as of January 13, 2013. Actual number will vary.

Hurricane Sandy: Average Claim Payment by Type of Claim



Commercial (Business) Claims Were Nearly Seven Times More Expensive than Homeowners Claims; Vehicle Claims Were Unusually Expensive Due to Extensive Flooding

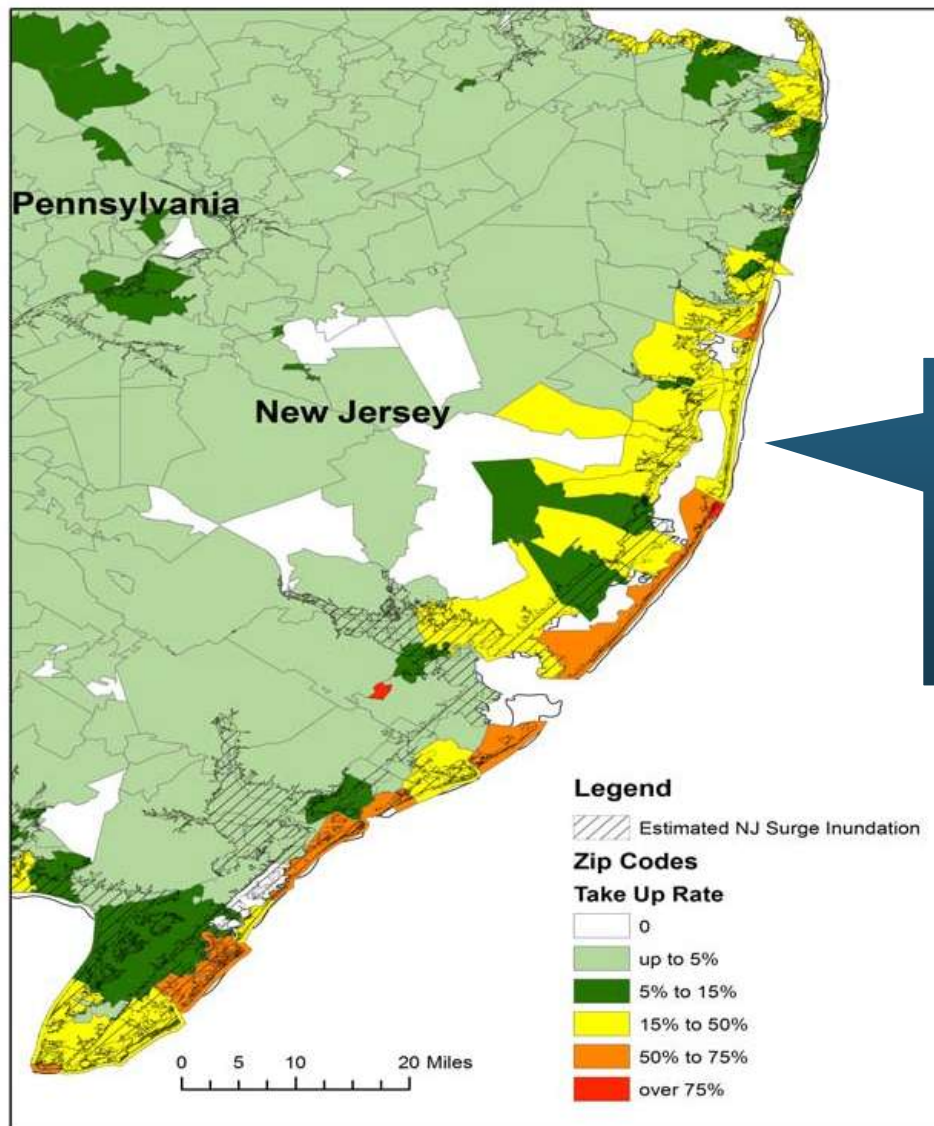
*Includes rental and condo policies (excludes NFIP flood). **As of Feb. 20, 2013.

Sources: Catastrophe loss data is for Catastrophe Serial No. 90 (Oct. 28 – 31, 2012) from PCS as of Jan. 18, 2013; Insurance Information Institute .

Hurricane Sandy: Flood Issues

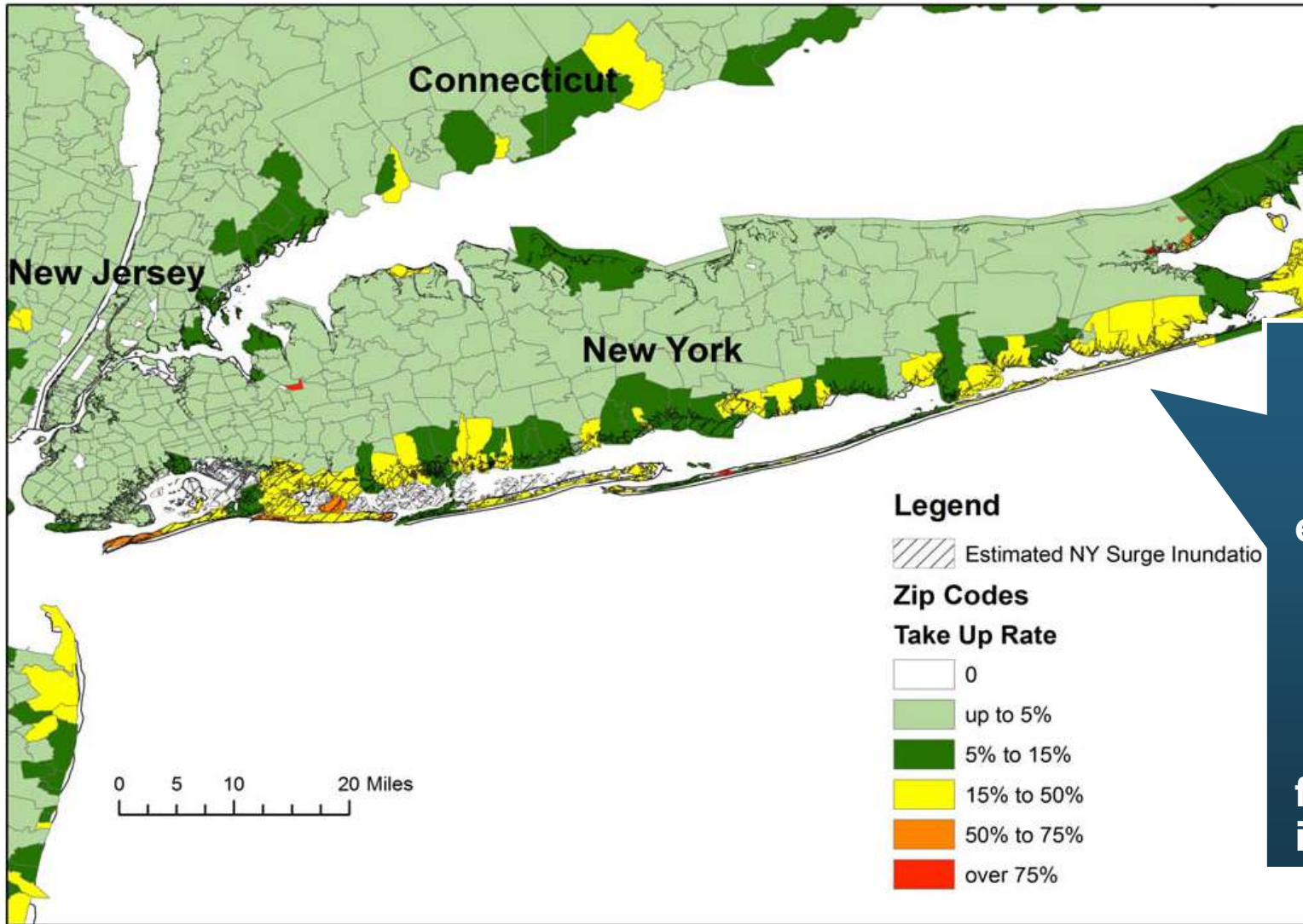
**Most of the Uninsured Direct
Losses Are Due to Flooding**

Residential NFIP Flood Take-Up Rates in NJ (2010) & Sandy Storm Surge



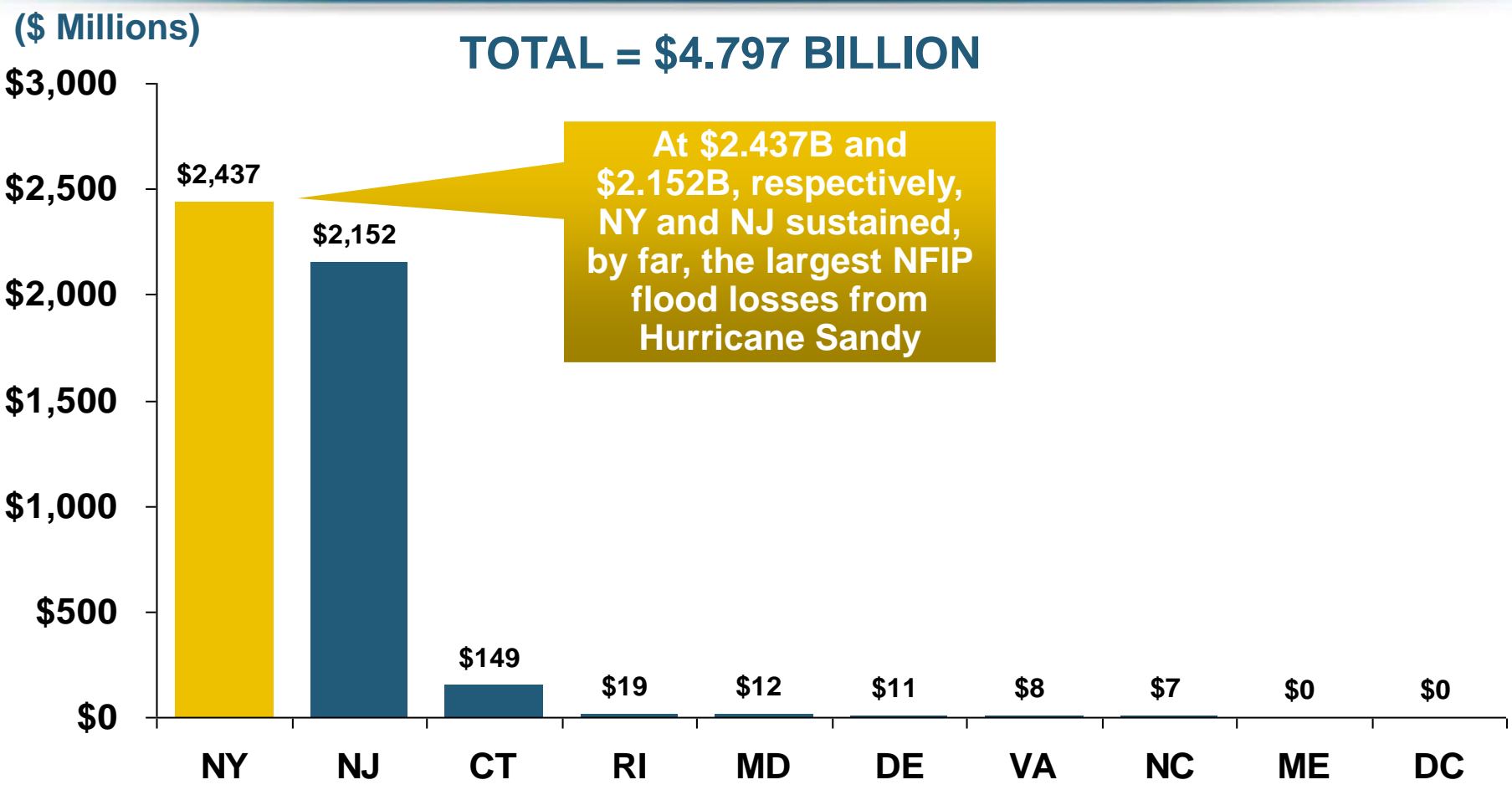
Flood coverage penetration rates were extremely low in many very vulnerable areas in NJ, with take-up rates far below 50% in many areas

Residential NFIP Flood Take-Up Rates in NY, CT (2010) & Sandy Storm Surge



Flood coverage penetration rates were extremely low in many very vulnerable areas of NY and CT, with take-up rates far below 50% in many areas

Hurricane Sandy: National Flood Insurance Program Payment, by State*

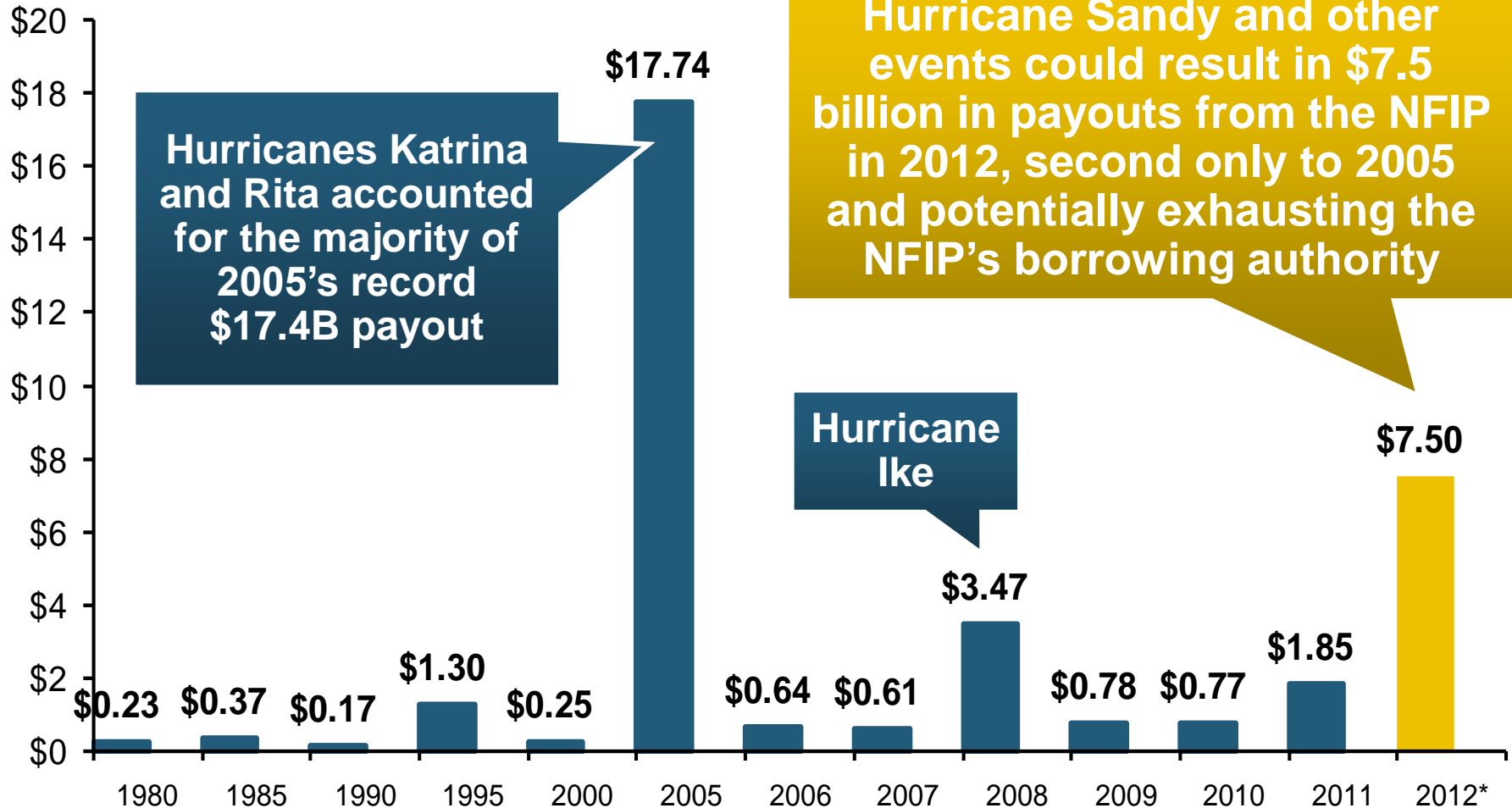


The NFIP Will Ultimately Likely Pay Close to \$7 Billion to 100,000 Policyholders Across 9 States and DC in the Wake of Hurricane Sandy

*As of February 20, 2013.
Sources: NFIP; Insurance Information Institute .

Flood Loss Paid by the National Flood Insurance Program, 1980-2012E

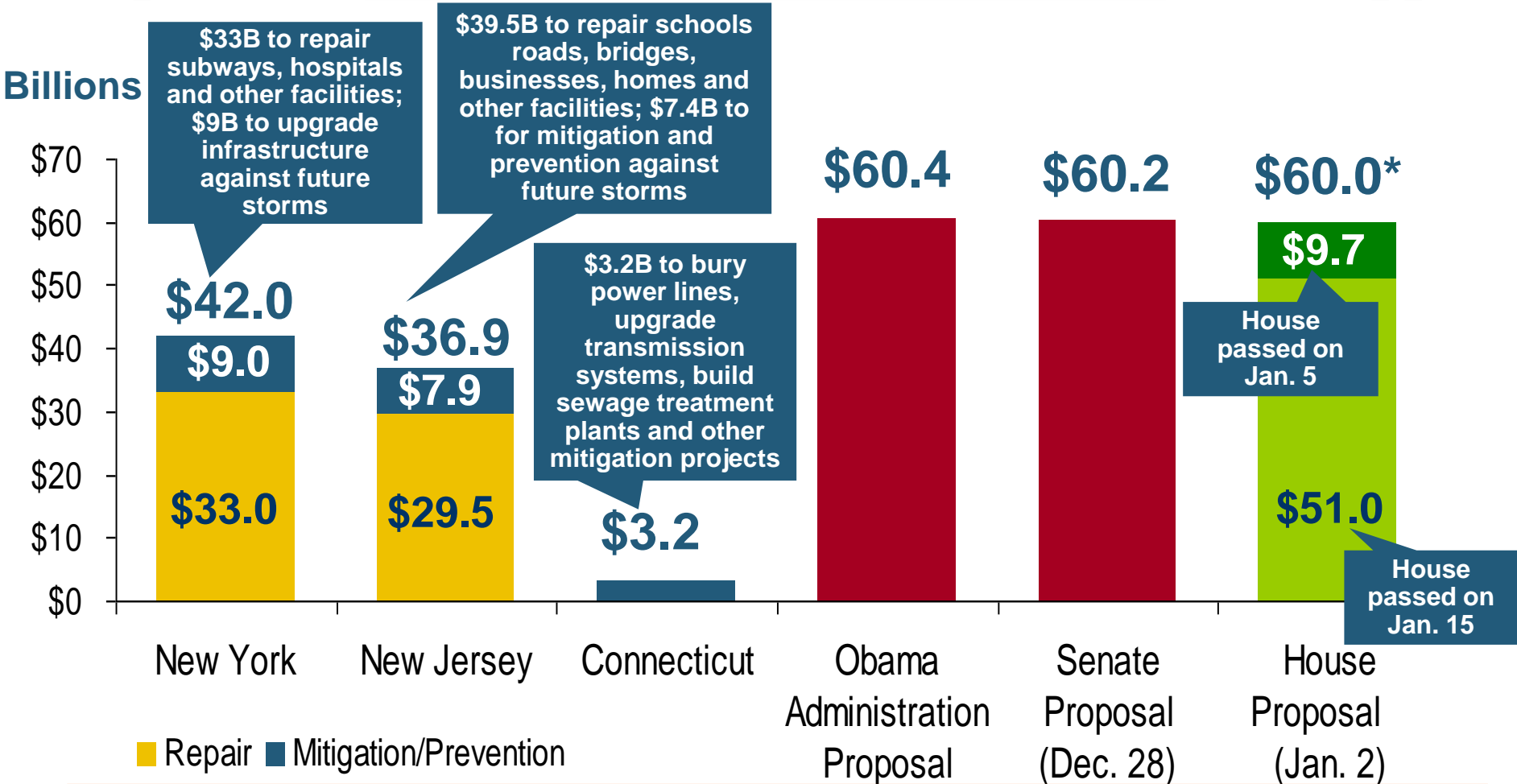
Billions (Original Values)



*Estimate as of 11/25/12.

Sources: Department of Homeland Security, Federal Emergency Management Agency, NFIP; Insurance Information Institute.

Federal Aid Requests for States With Greatest Sandy Impact & Federal Aid Proposals (as of 1/6/13)



States Requested Enormous Sums in Sandy Aid in the Middle of the "Fiscal Cliff" Debate, Causing Delays

*As of Jan. 2, 2013.

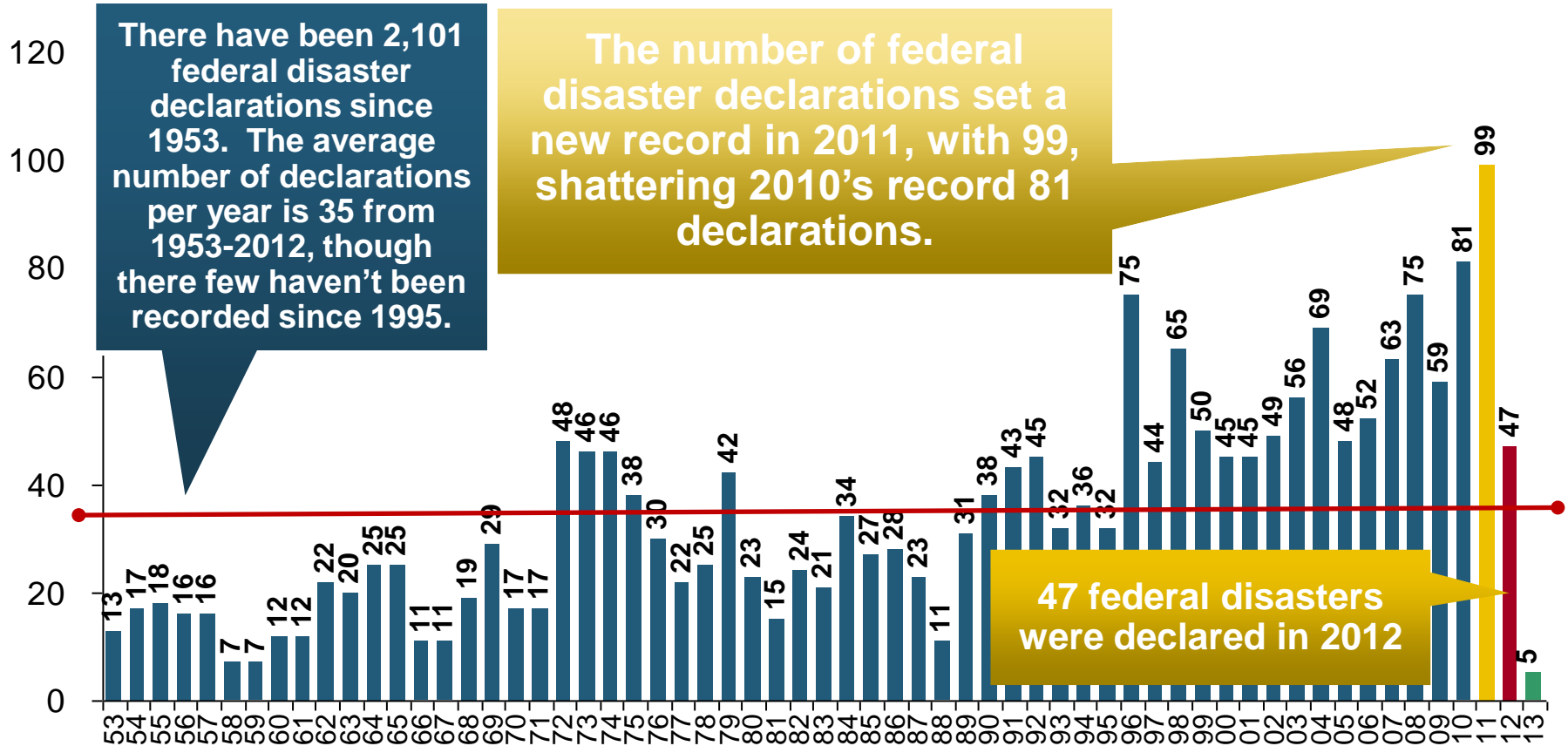
Source: *New York Times*, Dec. 6, 2012; Insurance Information Institute research.



Federal Disaster Declarations Patterns: 1953-2012

**Despite 11 Sandy Declarations,
Fewer Disasters Were Declared in
2012 than the Record Number of
Declarations in 2010 and 2011**

Number of Federal Disaster Declarations, 1953-2013*

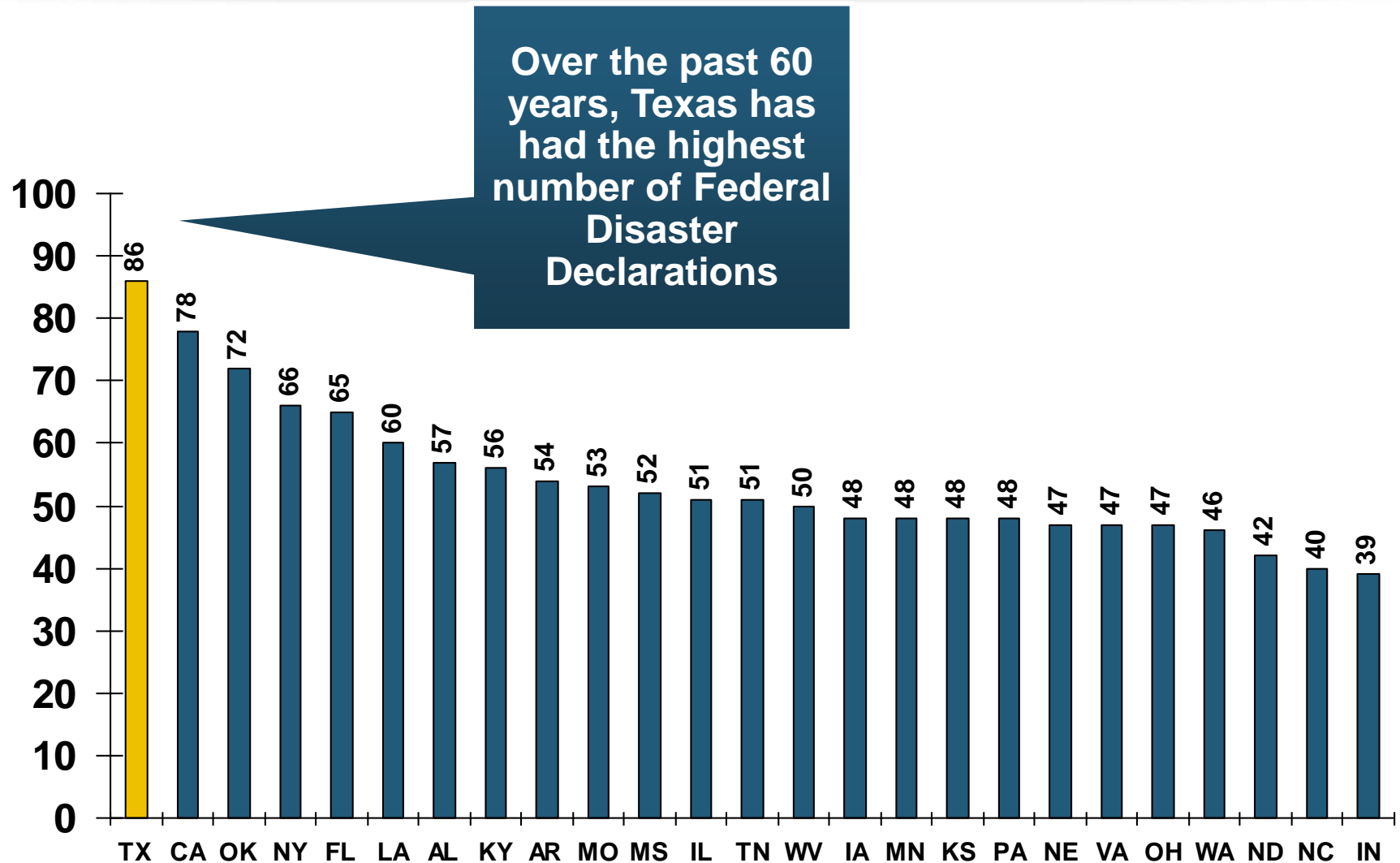


The Number of Federal Disaster Declarations Is Rising and Set New Records in 2010 and 2011. Hurricane Sandy Produced 13 Declarations in 2012/13.

*Through Mar. 16, 2013.

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

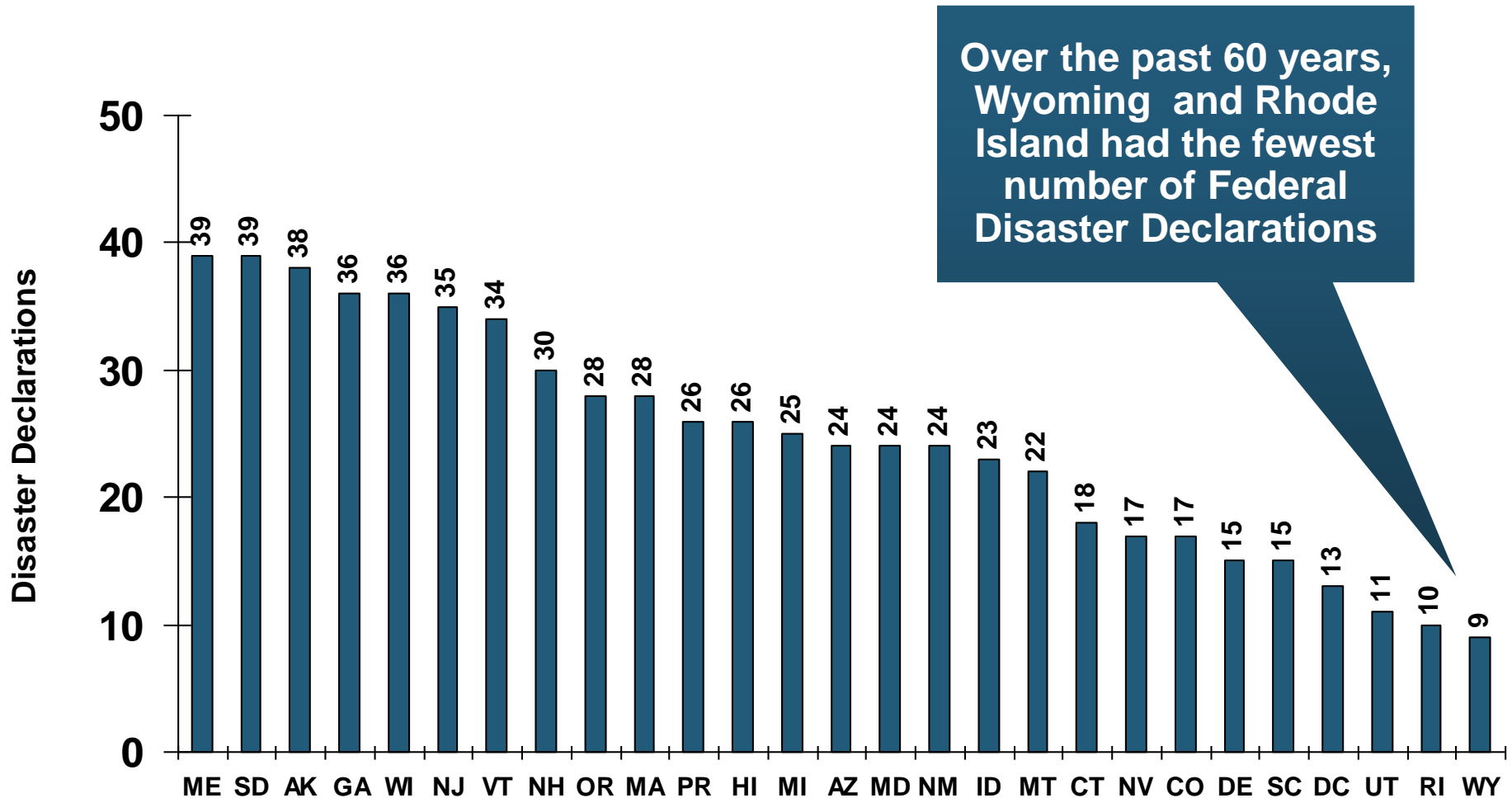
Federal Disasters Declarations by State, 1953 – 2013: Highest 25 States*



*Through Mar. 16, 2013. 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 – 2012: Lowest 25 States*



*Through Mar, 16, 2013. Includes Puerto Rico and the District of Columbia.

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

U.S. Insured Catastrophe Loss Update

**2012 Catastrophe Losses Were Close to
“Average” Until Sandy Hit
*2011 Was the 5th Most Expensive
Year on Record***

Natural Disaster Losses in the United States: 2012

As of January 1, 2013	Number of Events	Fatalities	Estimated Overall Losses (US \$m)	Estimated Insured Losses (US \$m)
Tropical Cyclone	4	143	52,240	26,360
Severe Thunderstorm	115	118	27,688	14,914
Drought	2	0	20,000	16,000[†]
Wildfire	38	13	1,112	595
Winter Storm	2	7	81	38
Flood	19	3	13	0^{††}
TOTALS	184	284	\$101,134	\$57,907

Source: MR NatCatSERVICE

† - Includes Federal Crop Insurance Losses. †† - Excludes federal flood.

Significant Natural Catastrophes, 2012

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



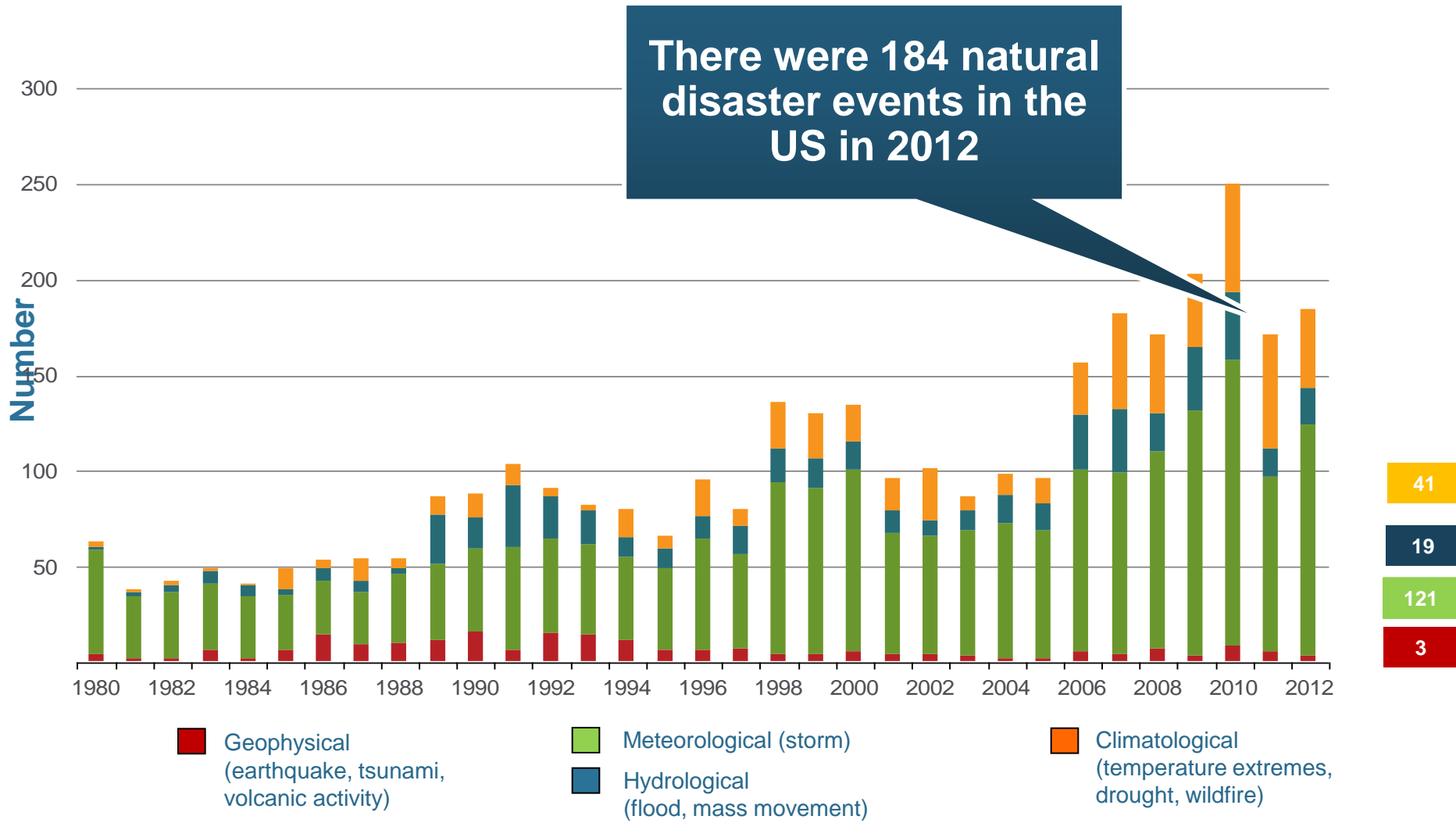
Date	Event	Estimated Economic Losses (US \$m)	Estimated Insured Losses (US \$m)
June – Sept 2012	Central US Drought	20,000	16,000 [†]
March 2 - 3	Thunderstorms	5,000	2,500
April 2 – 4	Thunderstorms	1,550	775
April 13- 15	Thunderstorms	1,800	910
April 28 – 29	Thunderstorms	4,500	2,500
May 25 – 30	Thunderstorms	3,400	1,700
June 6 – 7	Thunderstorms	1,400	1,000
June 11 – 13	Thunderstorms	1,900	950
June 28 – July 2	Thunderstorms	4,000	2,000
August 26 - 30	Hurricane Isaac	2,000	1,220
October 28 - 30	Hurricane Sandy	50,000	25,000 ^{††}

Source: MR NatCatSERVICE

[†] - Includes Federal Crop Insurance Losses.; ^{††} - Excludes NFIP losses.

Natural Disasters in the United States, 1980 – 2012

Number of Events (Annual Totals 1980 – 2012)



41
19
121
3

Losses Due to Natural Disasters in the US, 1980–2012 (Overall & Insured Losses)

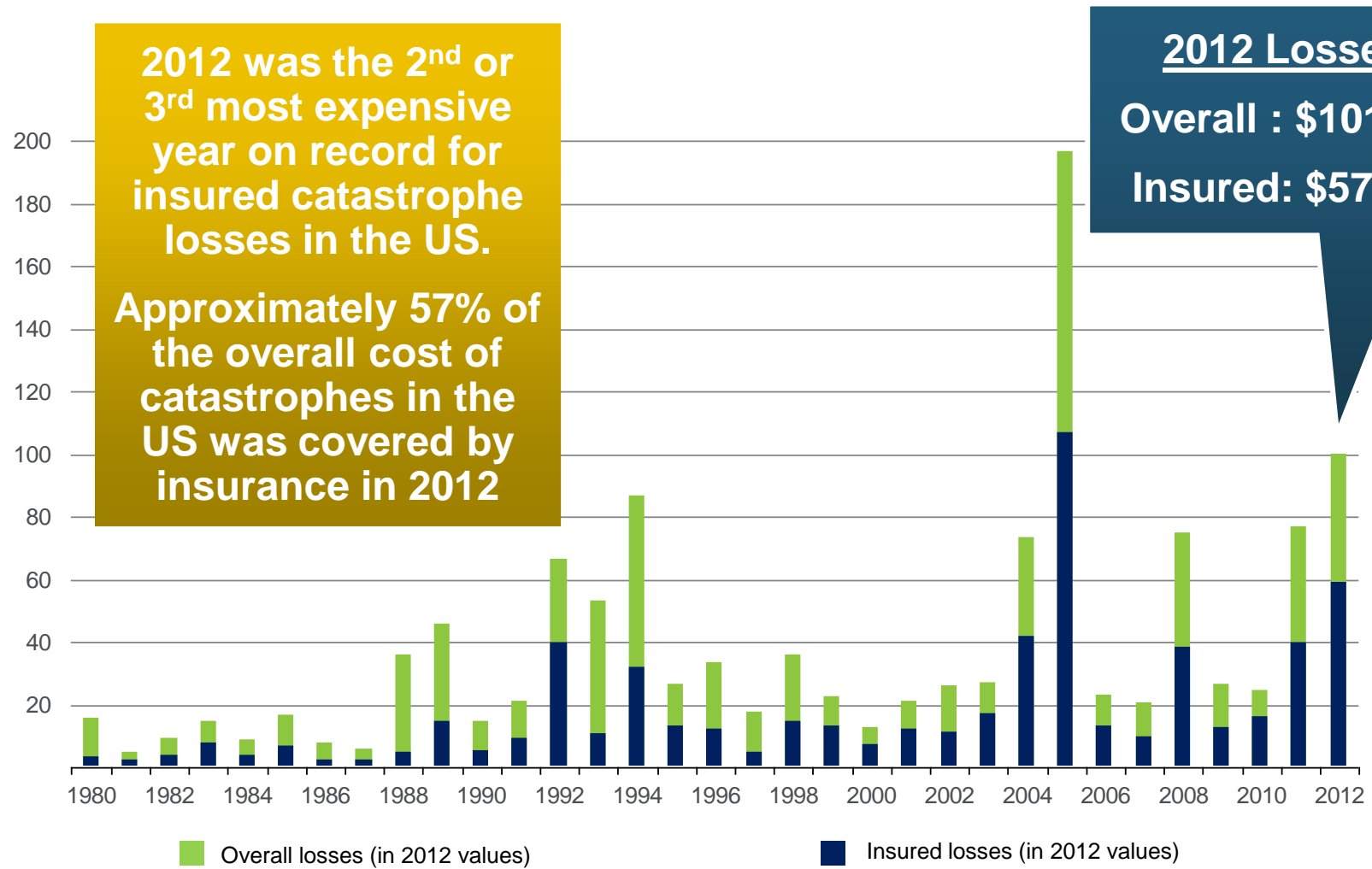
(Overall and Insured Losses)

(2012 Dollars, \$ Billions)

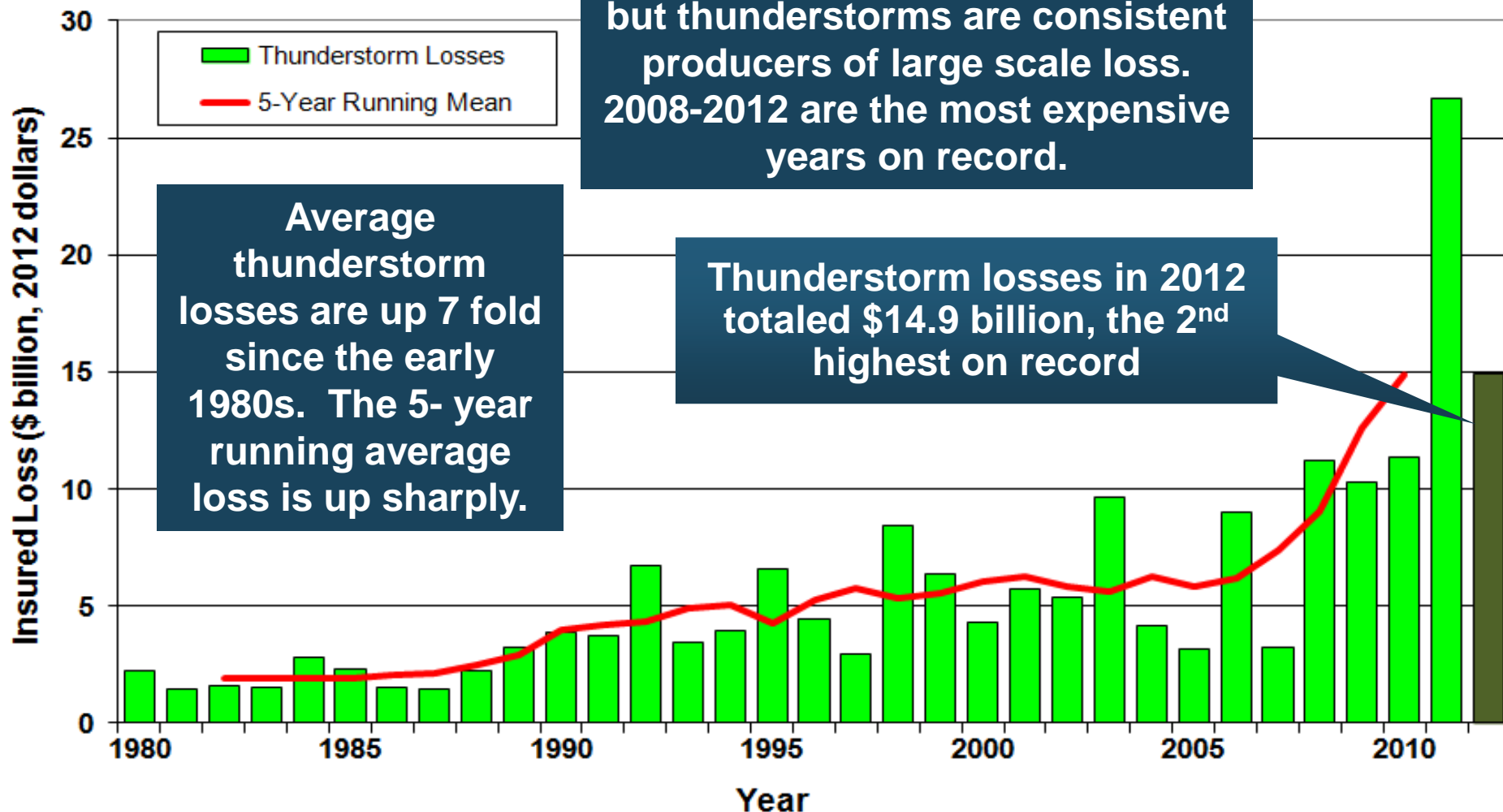
2012 was the 2nd or 3rd most expensive year on record for insured catastrophe losses in the US.

Approximately 57% of the overall cost of catastrophes in the US was covered by insurance in 2012

2012 Losses
Overall : \$101.1B
Insured: \$57.9B

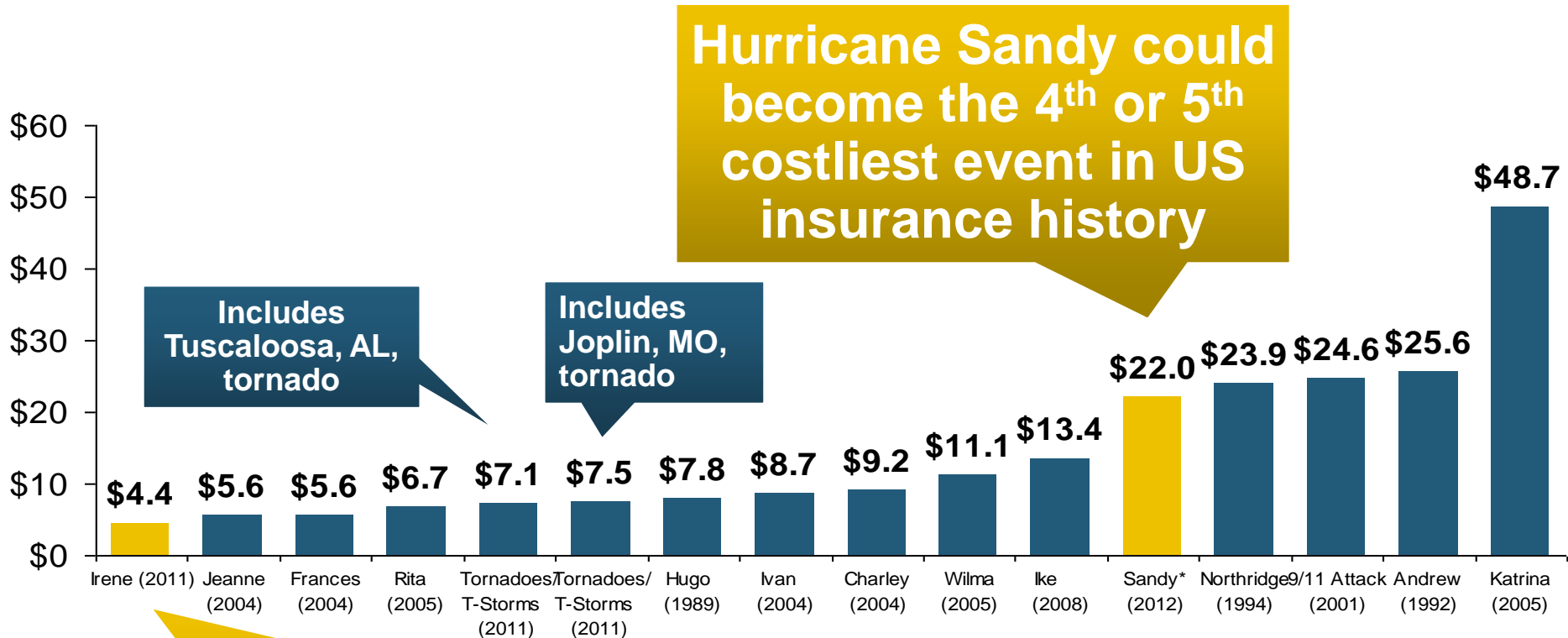


U.S. Thunderstorm Loss Trends, 1980 – 2012



Top 16 Most Costly Disasters in U.S. History

(Insured Losses, 2012 Dollars, \$ Billions)



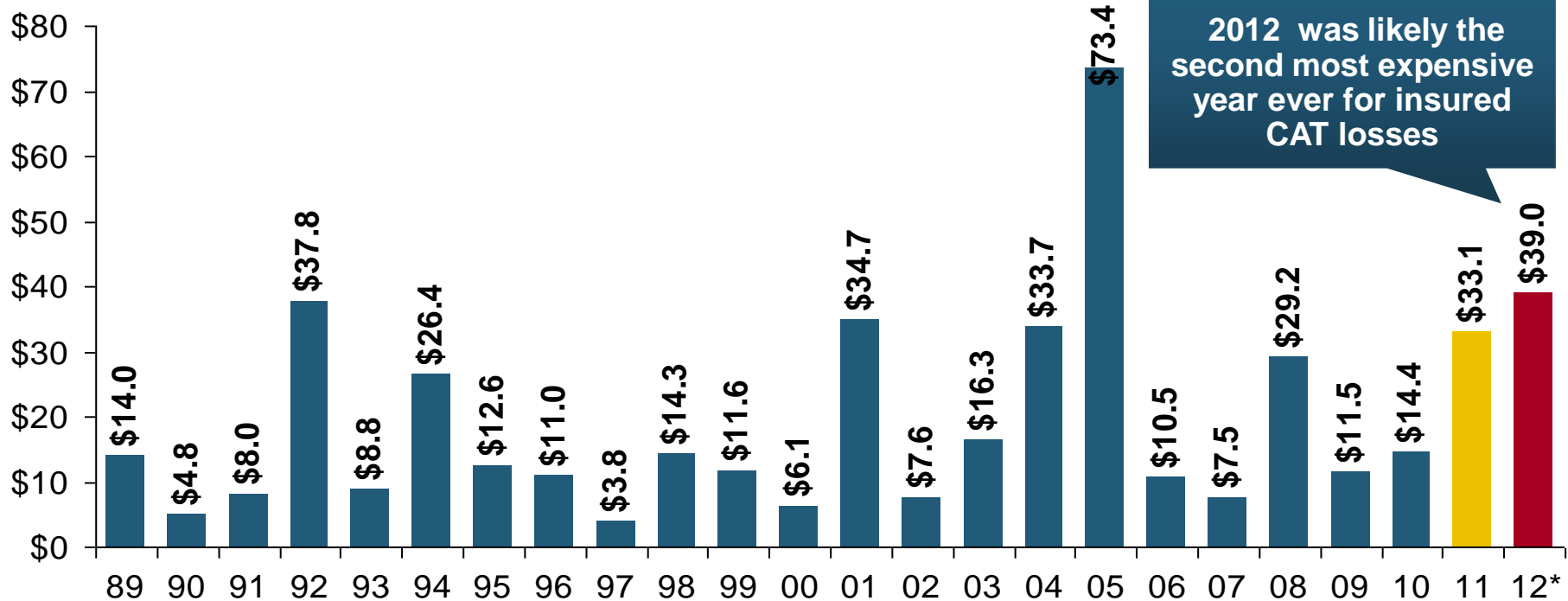
Hurricane Irene became the 12th most expensive hurricane in US history in 2011

12 of the 16 Most Expensive Events in US History Have Occurred Over the Past Decade

*Estimate as of 12/09/12 based on estimates of catastrophe modeling firms and reported losses as of 1/12/13. Estimates range up to \$25B. Sources: PCS; Insurance Information Institute inflation adjustments to 2012 dollars using the CPI.

US Insured Catastrophe Losses

(\$ Billions, 2012 Dollars)



2012 was likely the second most expensive year ever for insured CAT losses

US CAT Losses in 2012 Will Likely Become the 2nd or 3rd Highest in US History on An Inflation-Adjusted Basis (Pvt Insured). 2011 Losses Were the 5th Highest

Record Tornado Losses Caused 2011 CAT Losses to Surge

*As of 1/2/13. Includes \$20B gross loss estimate for Hurricane Sandy.

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.

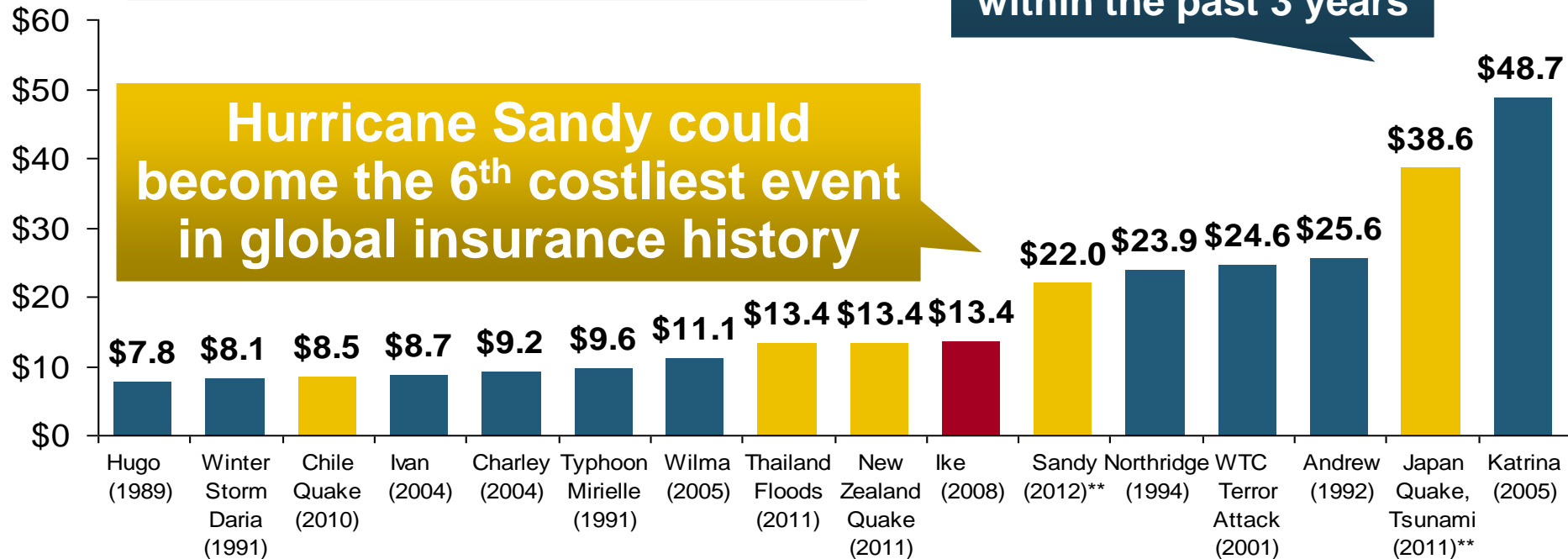
Top 16 Most Costly World Insurance Losses, 1970-2012*

(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

Hurricane Sandy could become the 6th costliest event in global insurance history

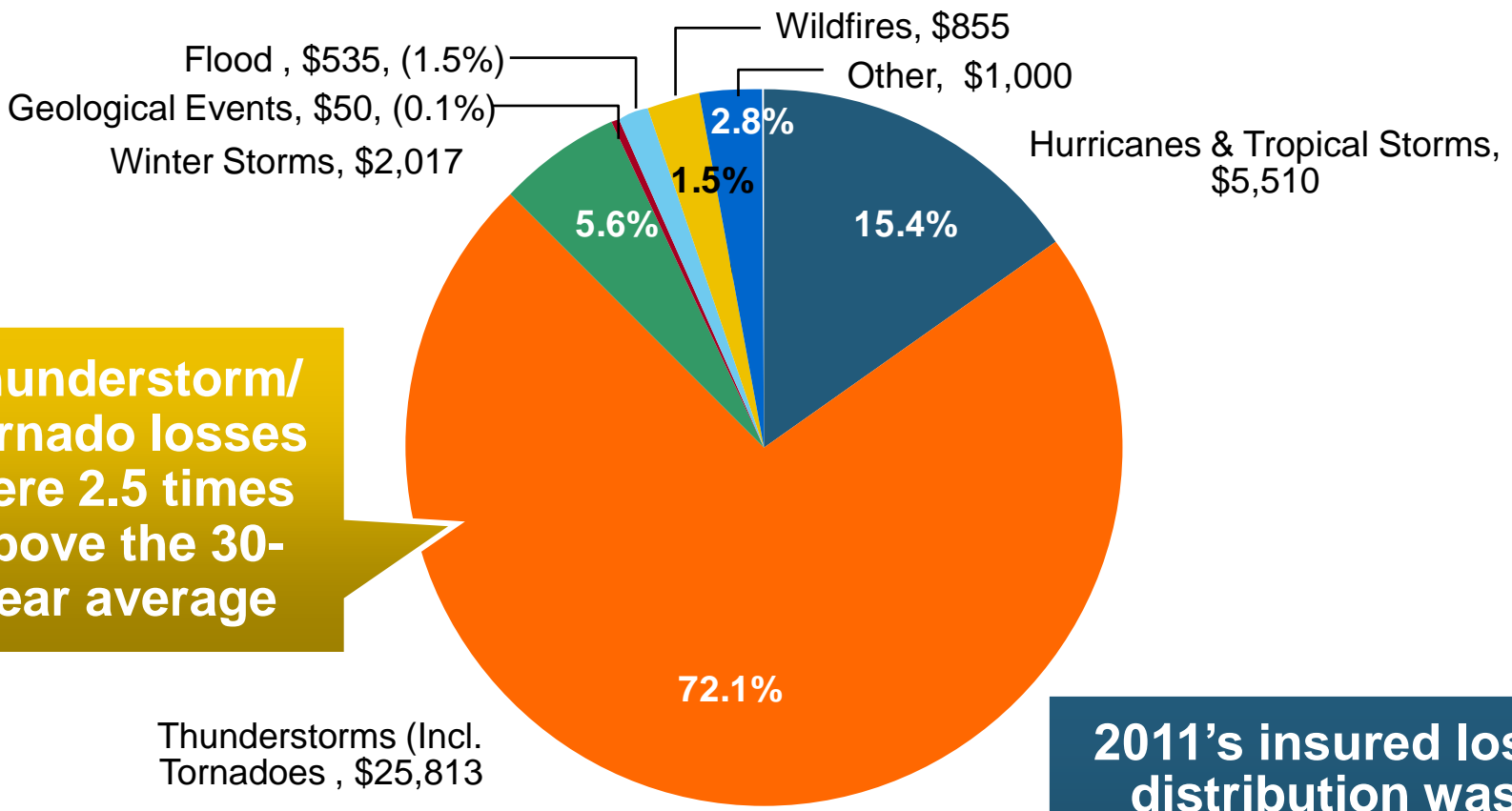


*Figures do not include federally insured flood losses.

**Estimate based on PCS value of \$18.75B as of 1/18/13 and assumption of upward development based on catastrophe modeler estimates ranging as high as \$25B.

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

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

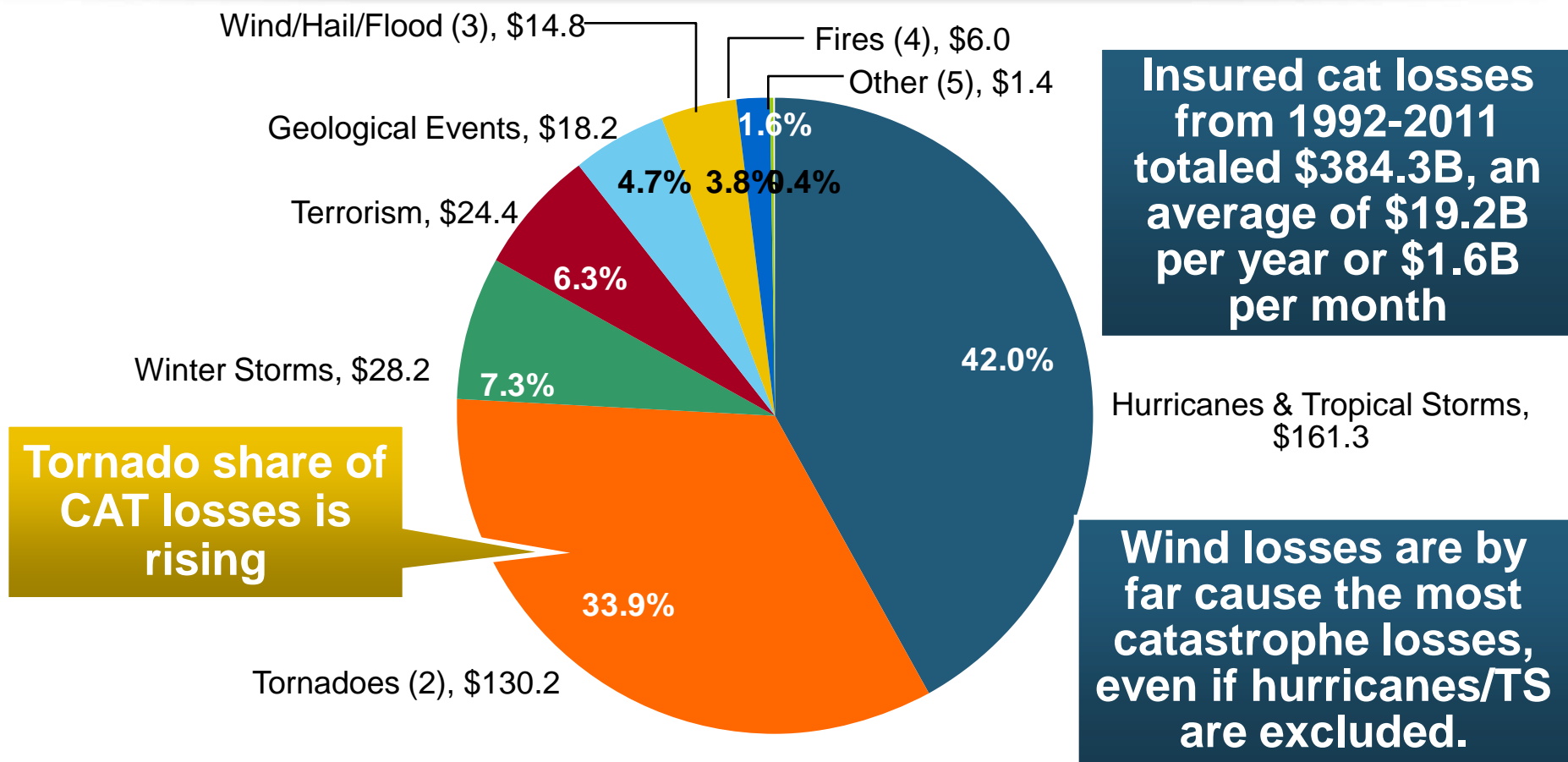


**Thunderstorm/
Tornado losses
were 2.5 times
above the 30-
year average**

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

Source: ISO's Property Claim Services Unit, Munich Re; Insurance Information Institute.

Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1992–2011¹



Insured cat losses from 1992-2011 totaled \$384.3B, an average of \$19.2B per year or \$1.6B per month

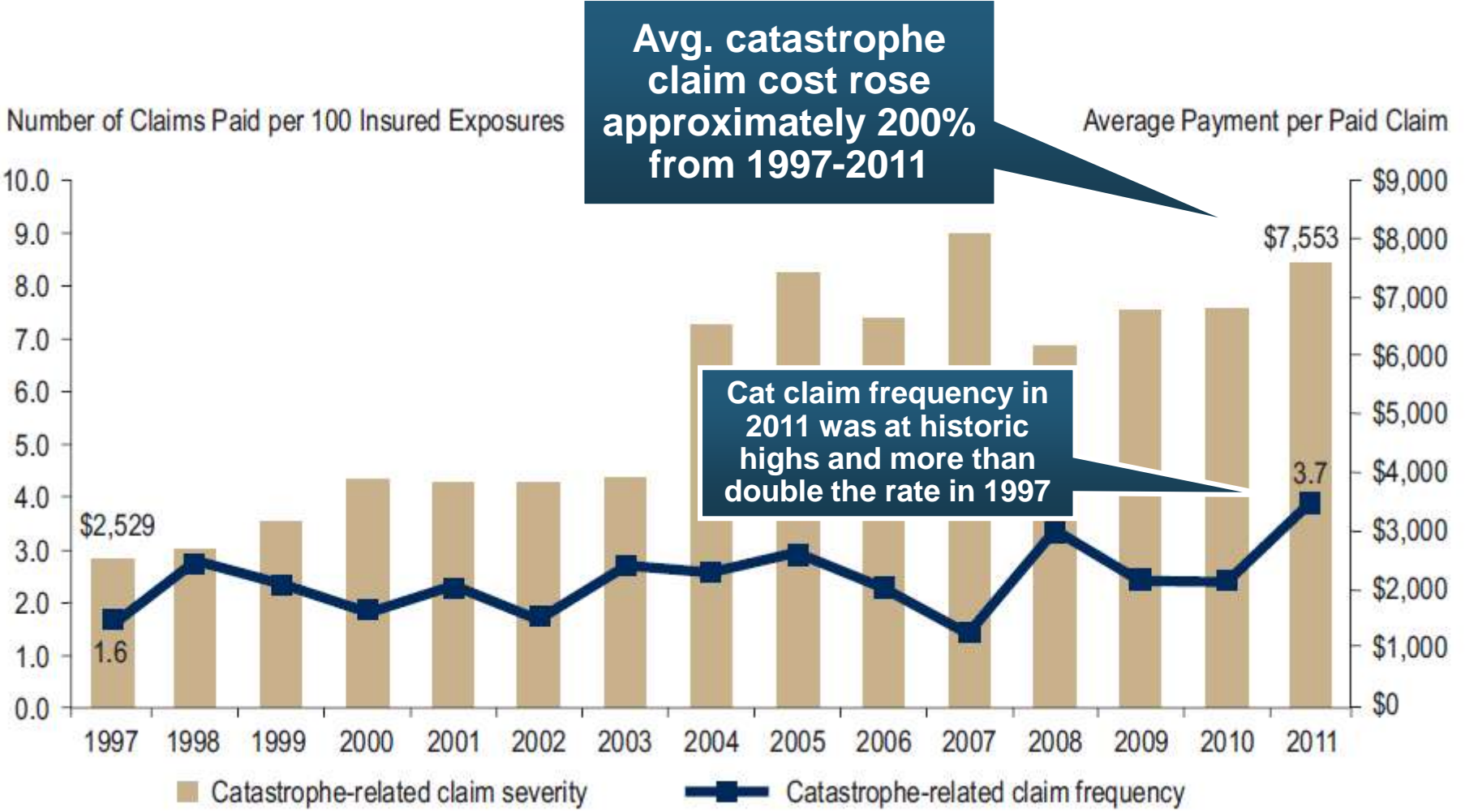
Tornado share of CAT losses is rising

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

1. Catastrophes are defined as events causing direct insured losses to property of \$25 million or more in 2009 dollars.
2. Excludes snow.
3. Does not include NFIP flood losses
4. Includes wildland fires
5. Includes civil disorders, water damage, utility disruptions and non-property losses such as those covered by workers compensation.

Source: ISO's Property Claim Services Unit.

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.

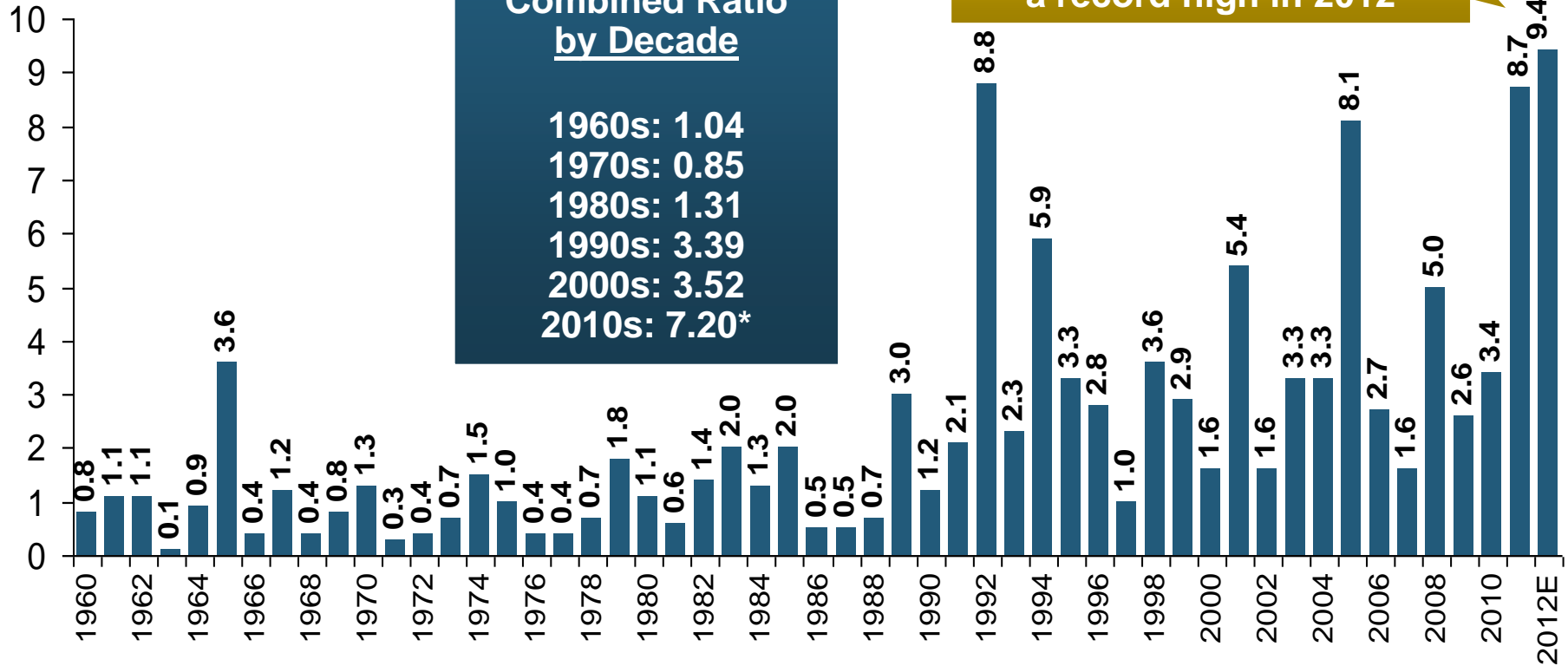
Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2012*

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: 7.20*

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

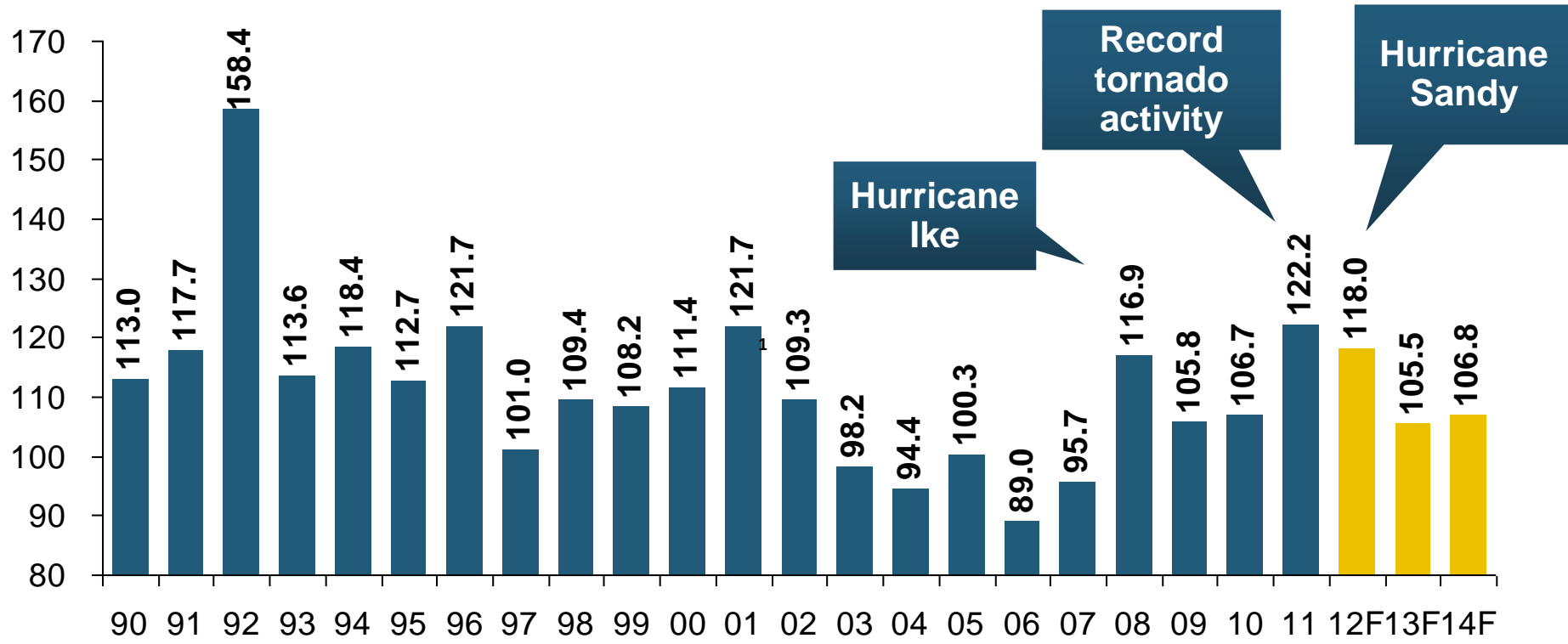


The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades

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.

Homeowners Insurance Combined Ratio: 1990–2014F



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

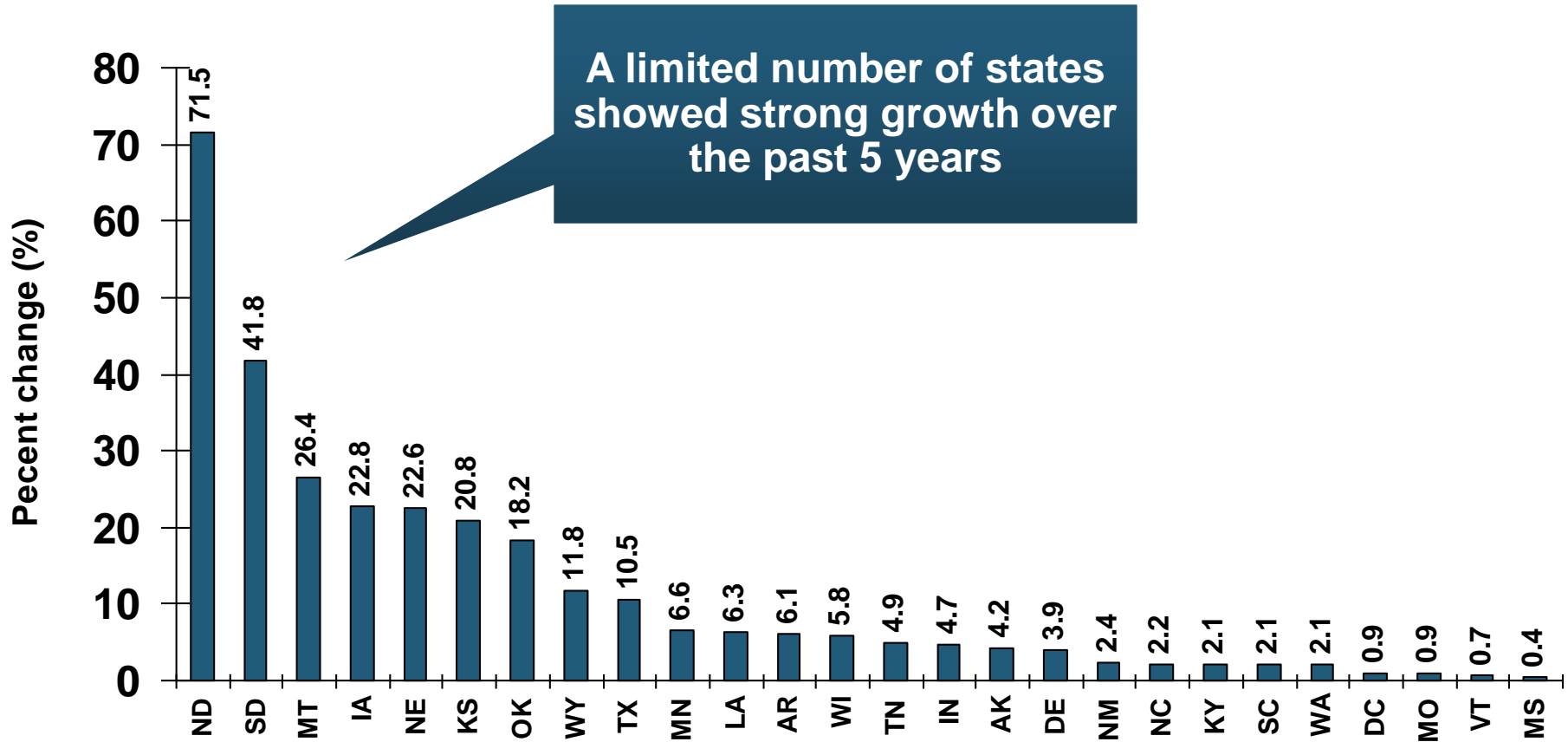


Growth Analysis by State and Business Segment

**Premium Growth Rates Vary
Tremendously by State**

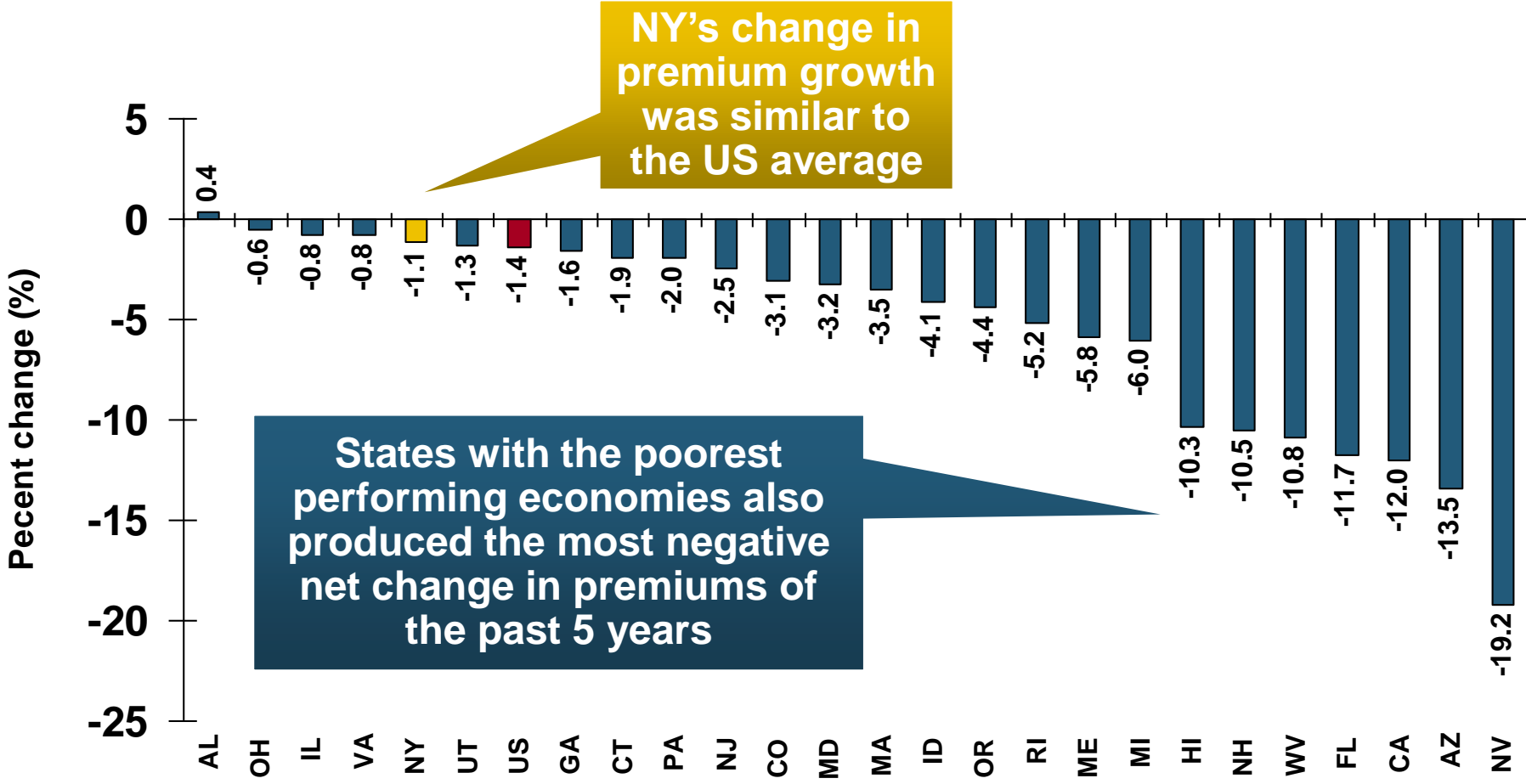
Direct Premiums Written: Total P/C Percent Change by State, 2006-2011*

Top 25 States



Direct Premiums Written: Total P/C Percent Change by State, 2006-2011*

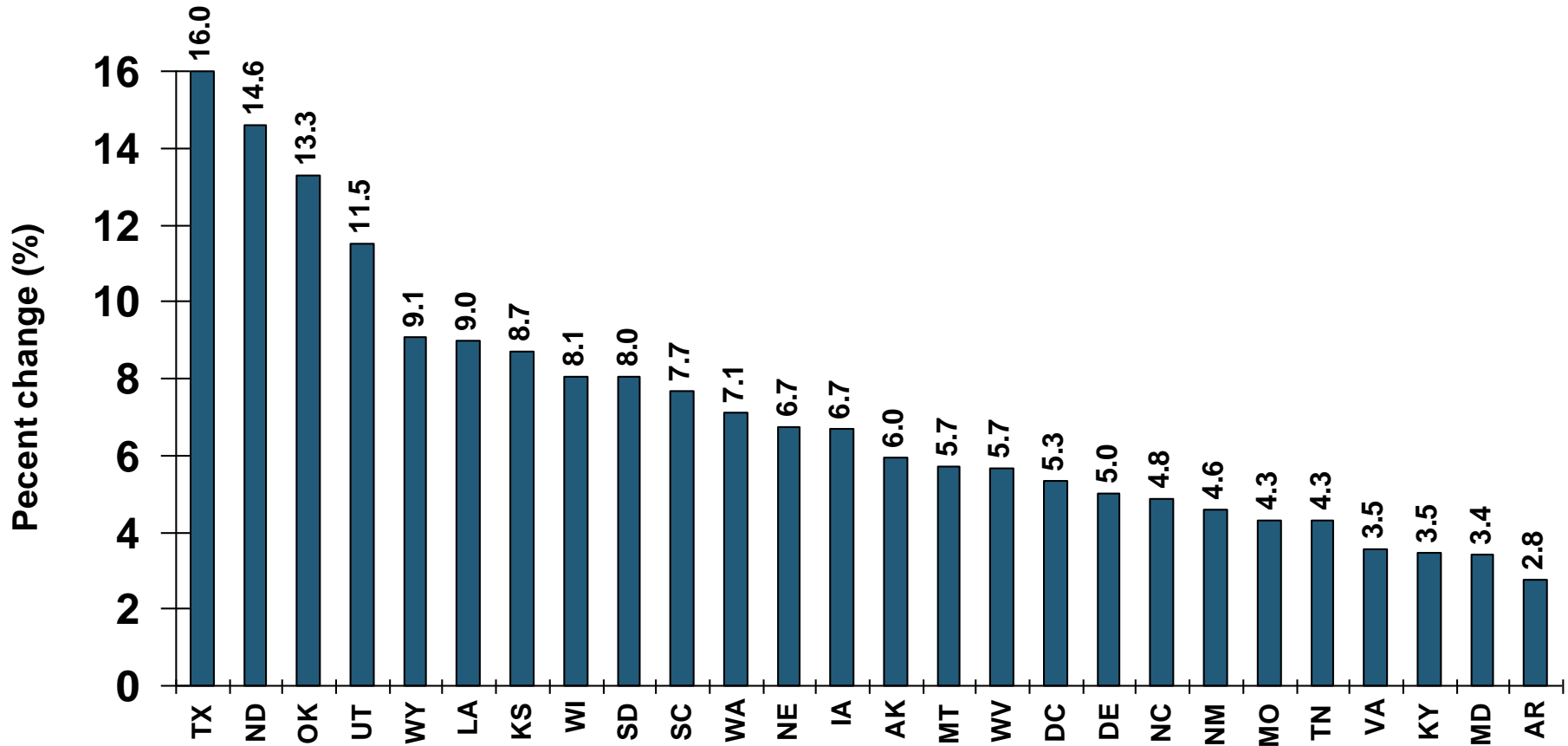
Bottom 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

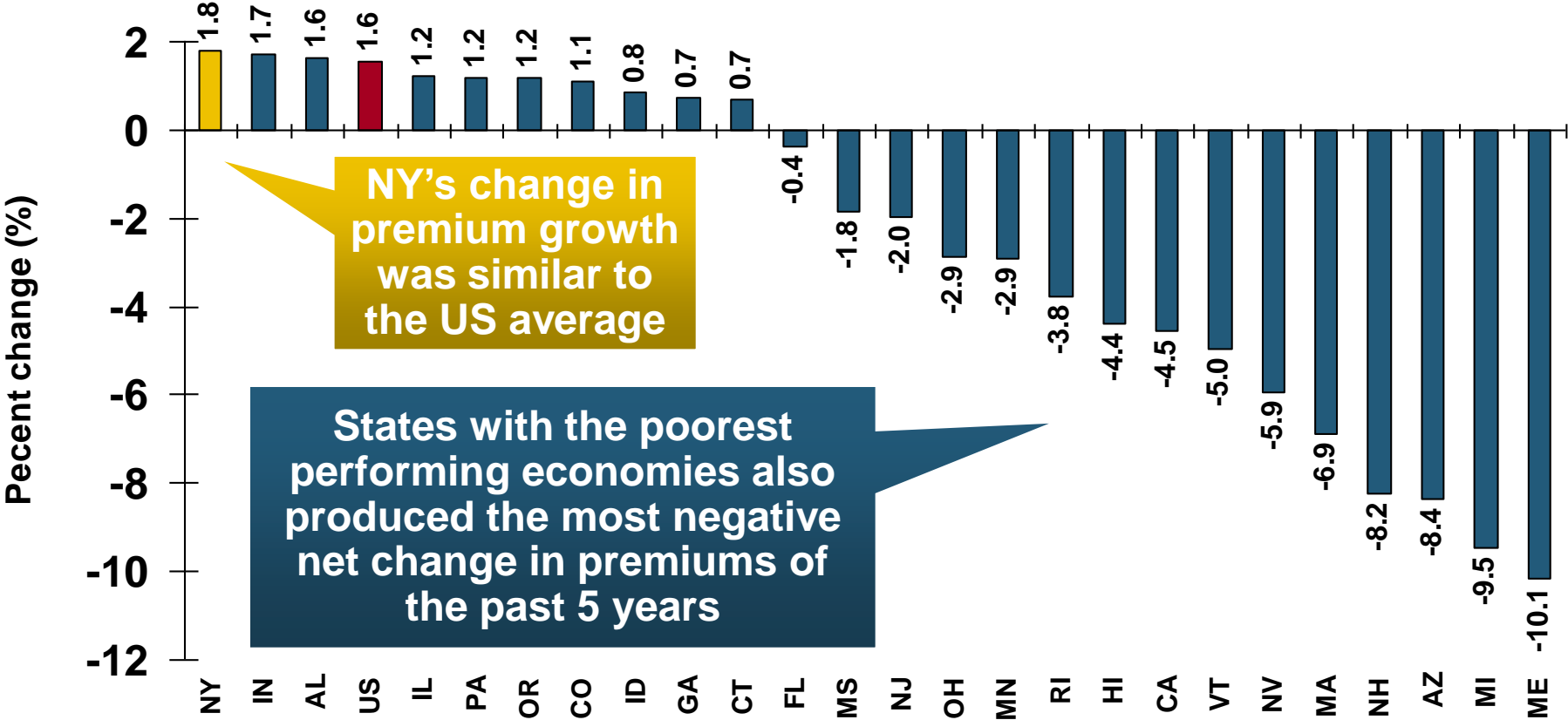
Direct Premiums Written: PP Auto Percent Change by State, 2006-2011*

Top 25 States



Direct Premiums Written: PP Auto Percent Change by State, 2006-2011*

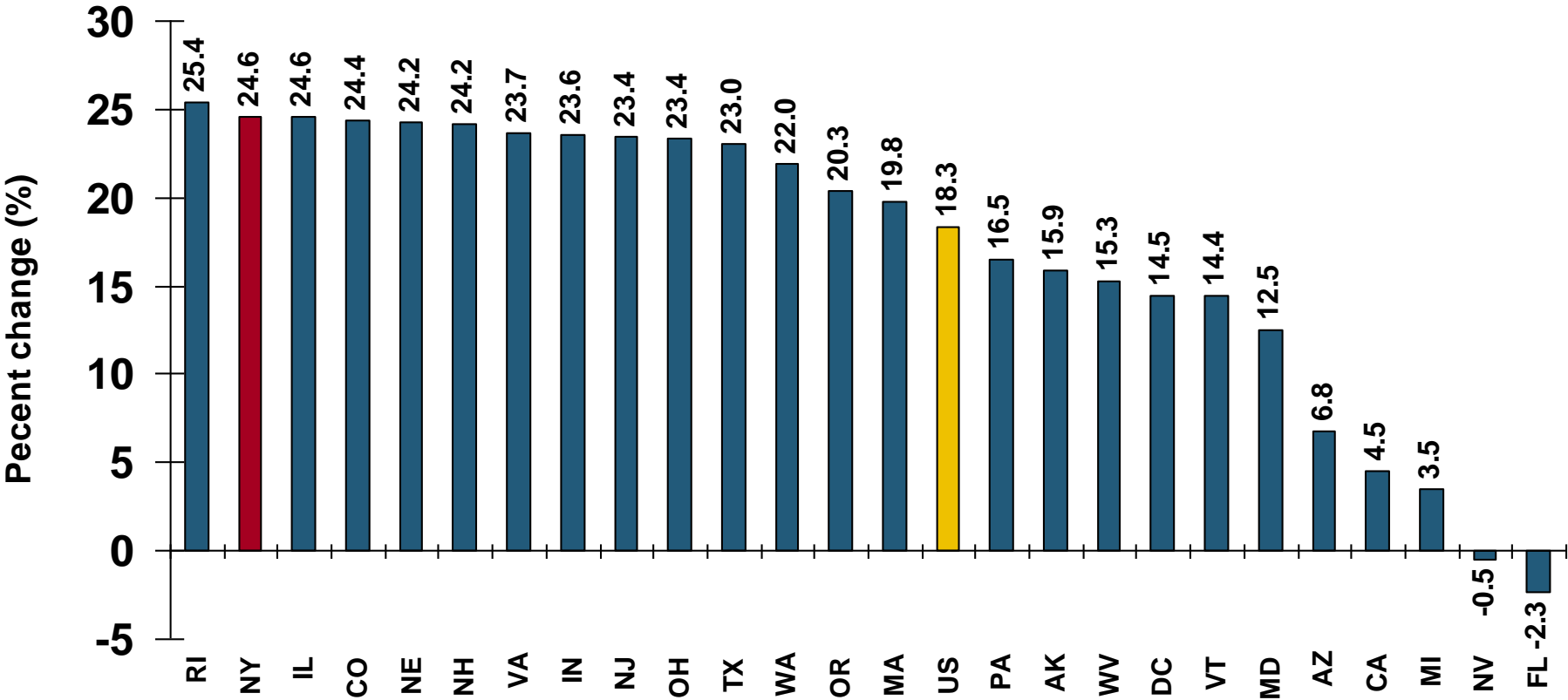
Bottom 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: Homeowners Percent Change by State, 2006-2011*

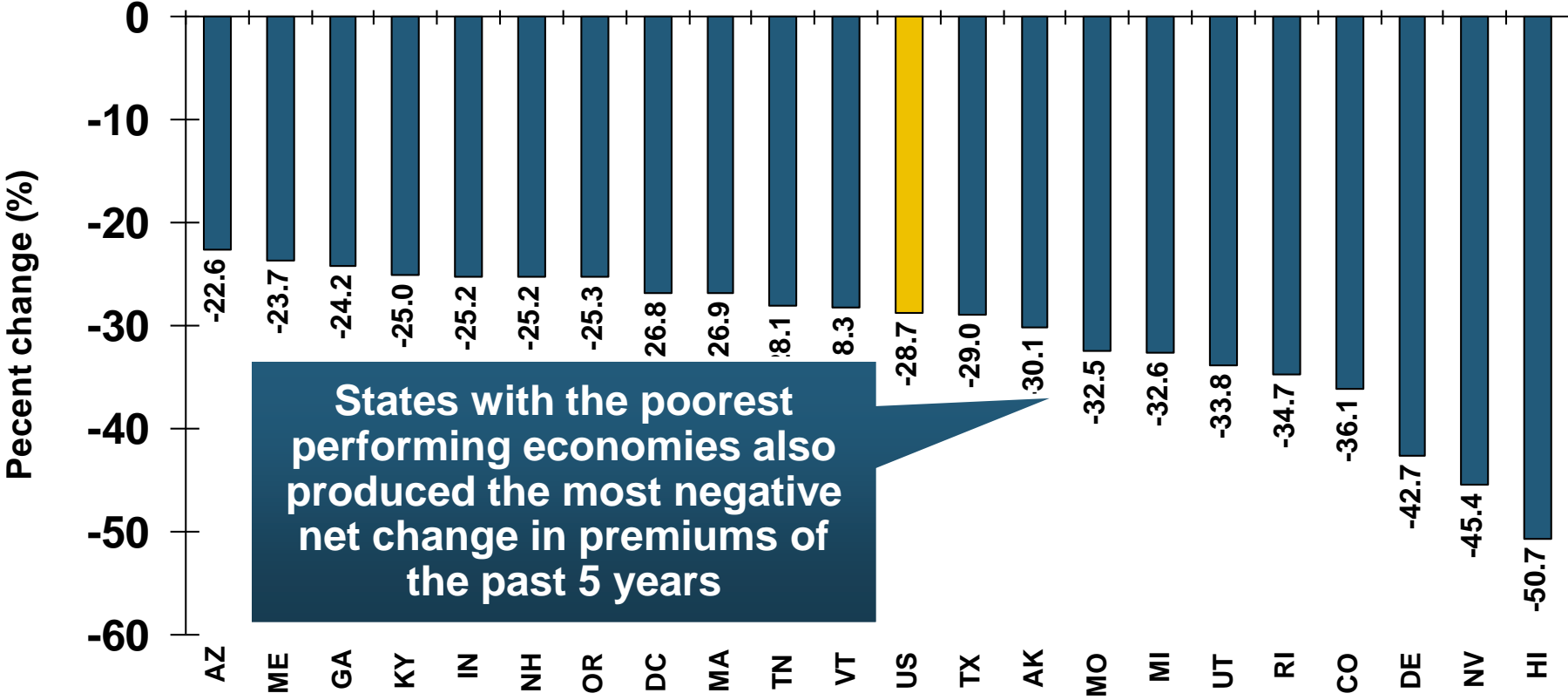
Top 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: Homeowners Percent Change by State, 2006-2011*

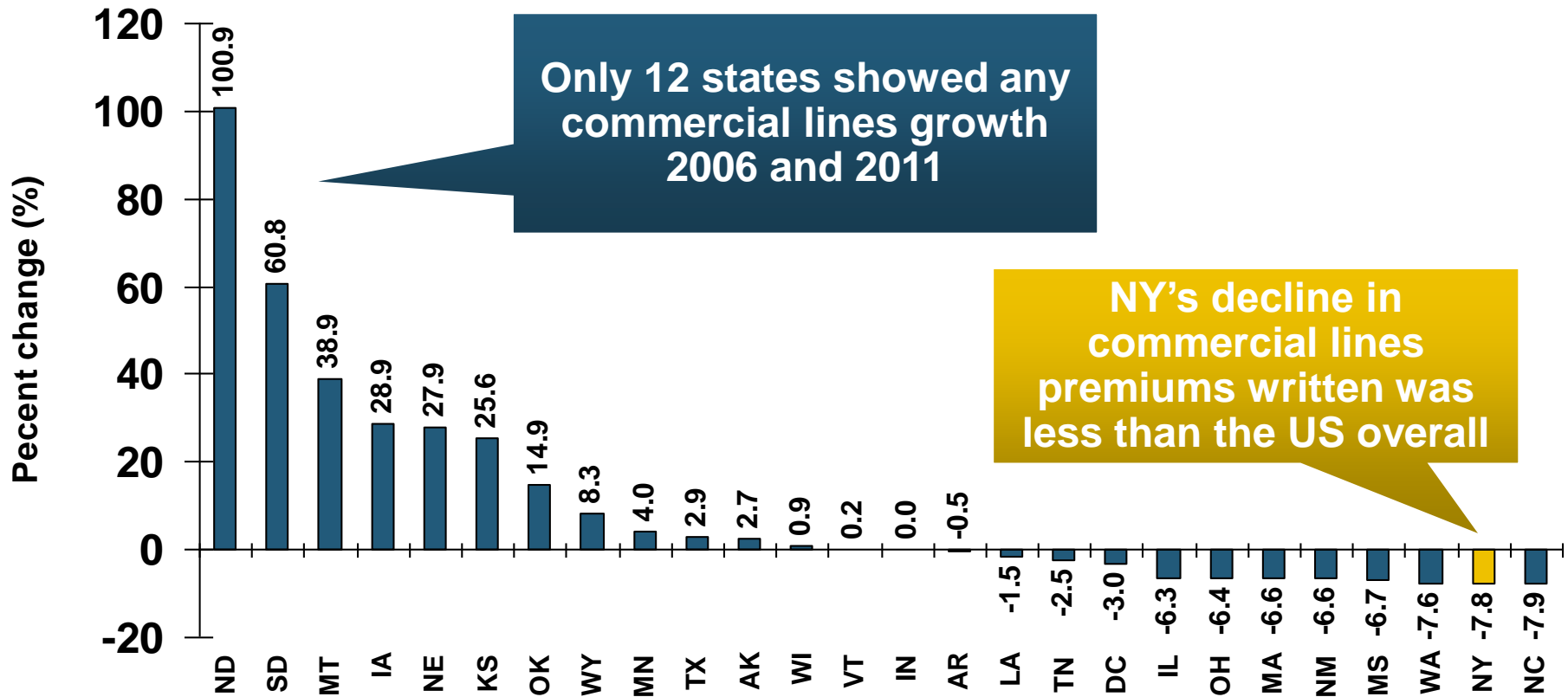
Bottom 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: Comm. Lines Percent Change by State, 2006-2011*

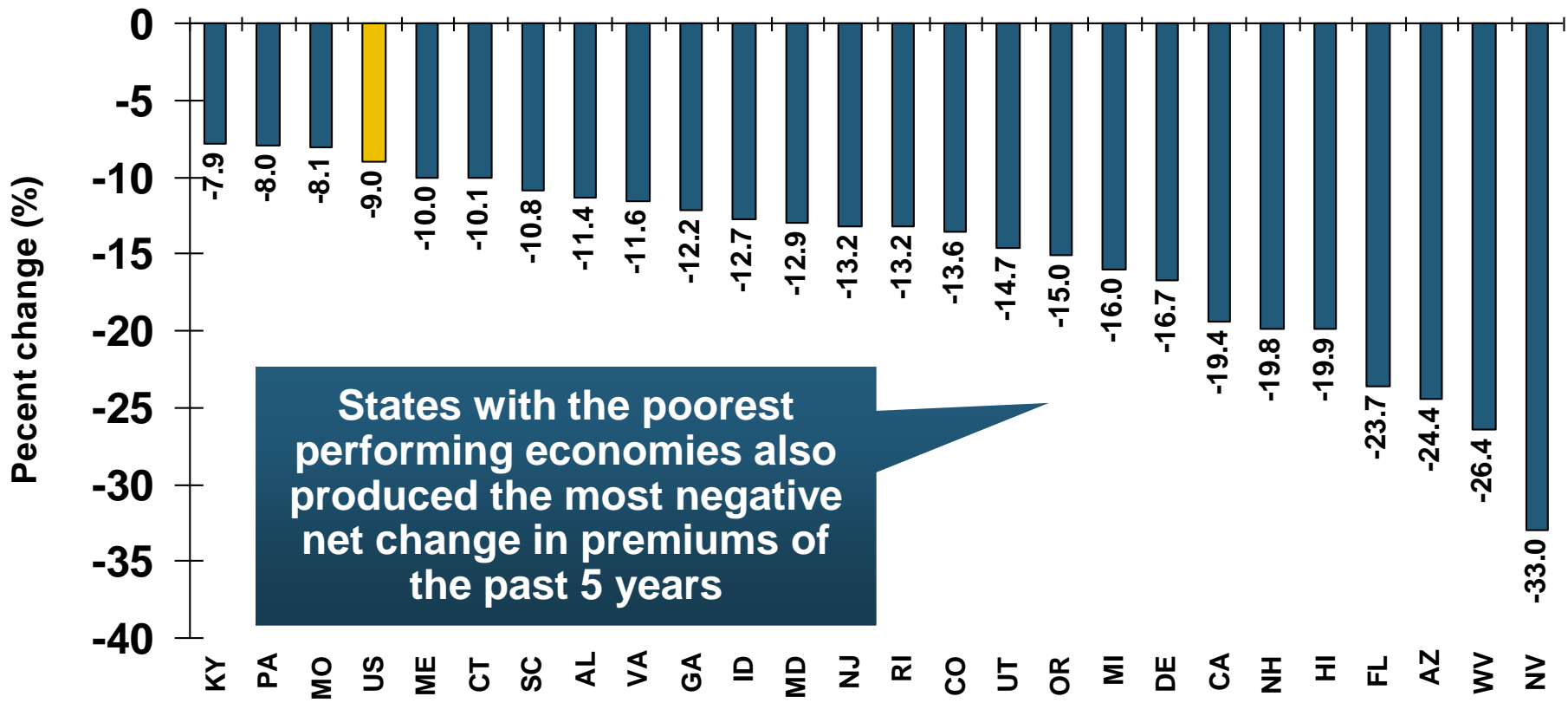
Top 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: Comm. Lines Percent Change by State, 2006-2011*

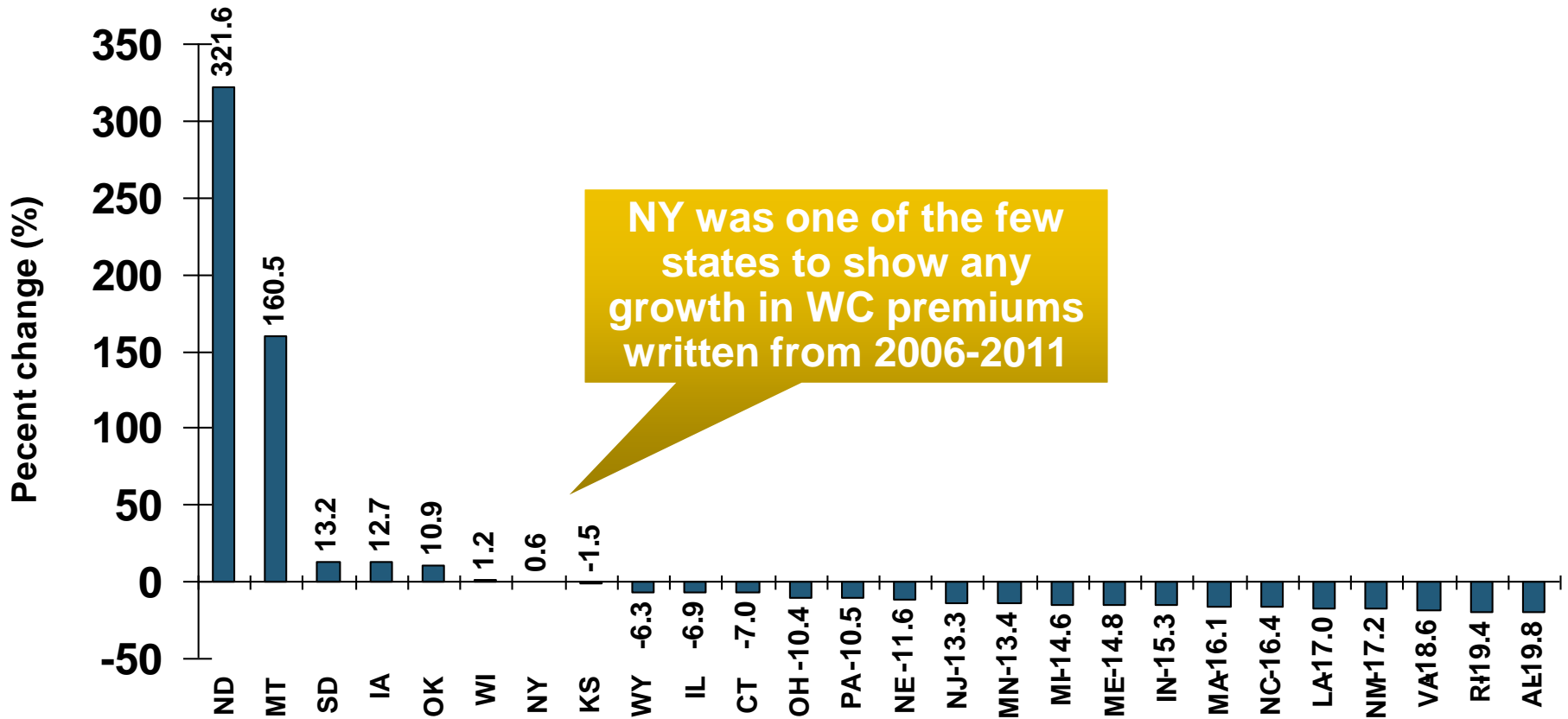
Bottom 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: Workers' Comp Percent Change by State, 2006-2011*

Top 25 States

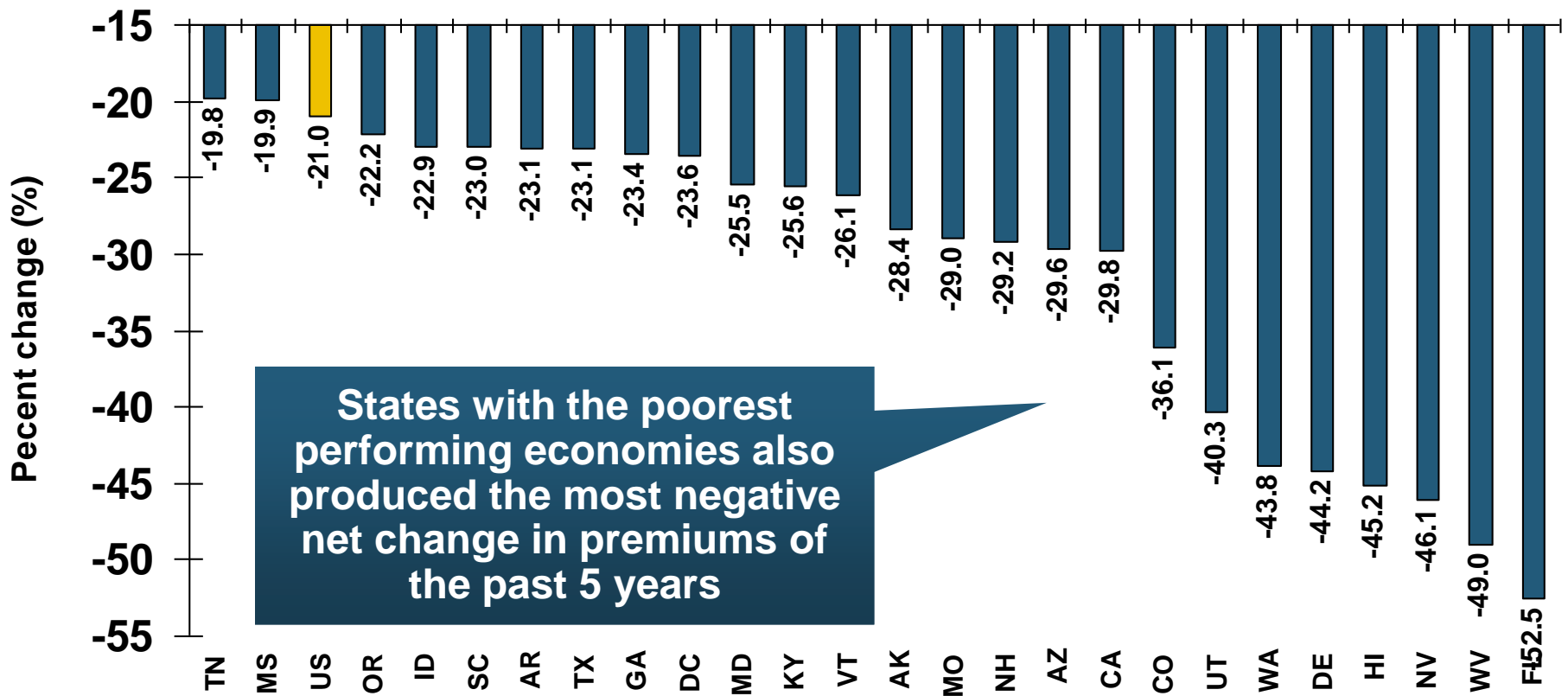


*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: Worker's Comp Percent Change by State, 2006-2011*

Bottom 25 States



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

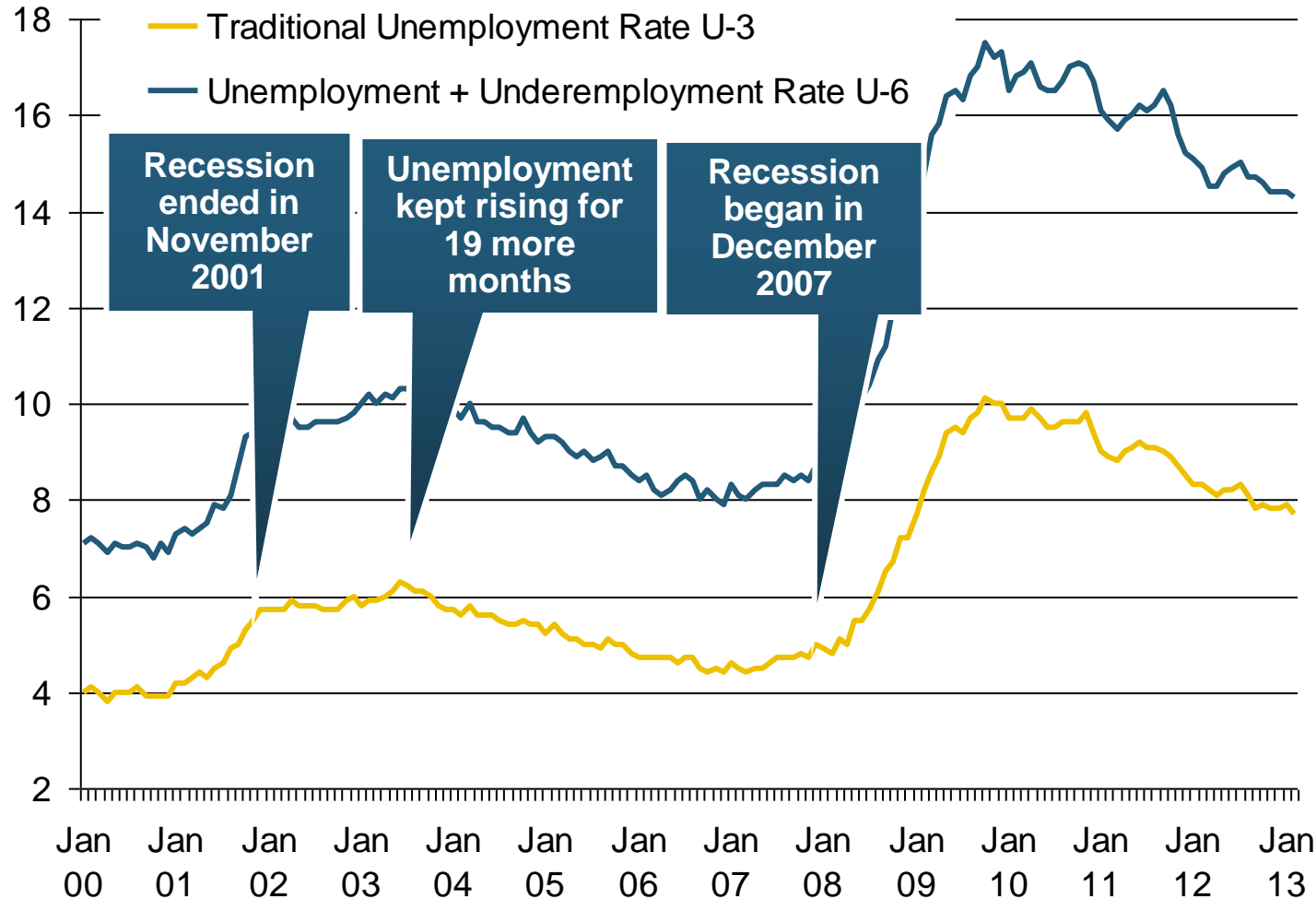
Sources: SNL Financial LC.; Insurance Information Institute.

Labor Market Trends

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

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

January 2000 through Feb. 2013, Seasonally Adjusted (%)



U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 14.3% in Feb. 2013

Unemployment stood at 7.7% in Feb. 2013—lowest in 4 years.

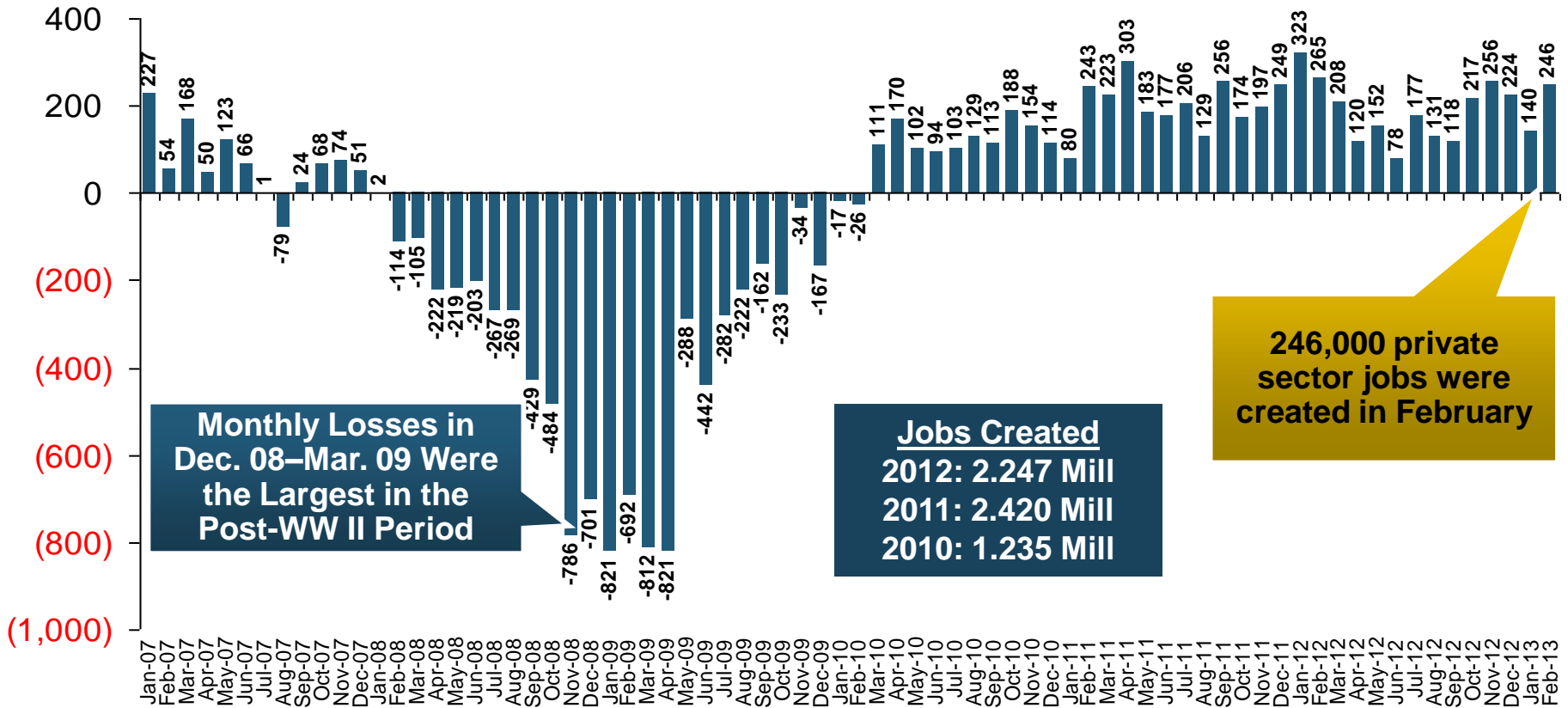
Unemployment peaked at 10.1% in October 2009, highest monthly rate since 1983.

Peak rate in the last 30 years: 10.8% in November - December 1982

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

Monthly Change in Private Employment

January 2007 through Feb. 2013 (Thousands)



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

Jobs Created
 2012: 2.247 Mill
 2011: 2.420 Mill
 2010: 1.235 Mill

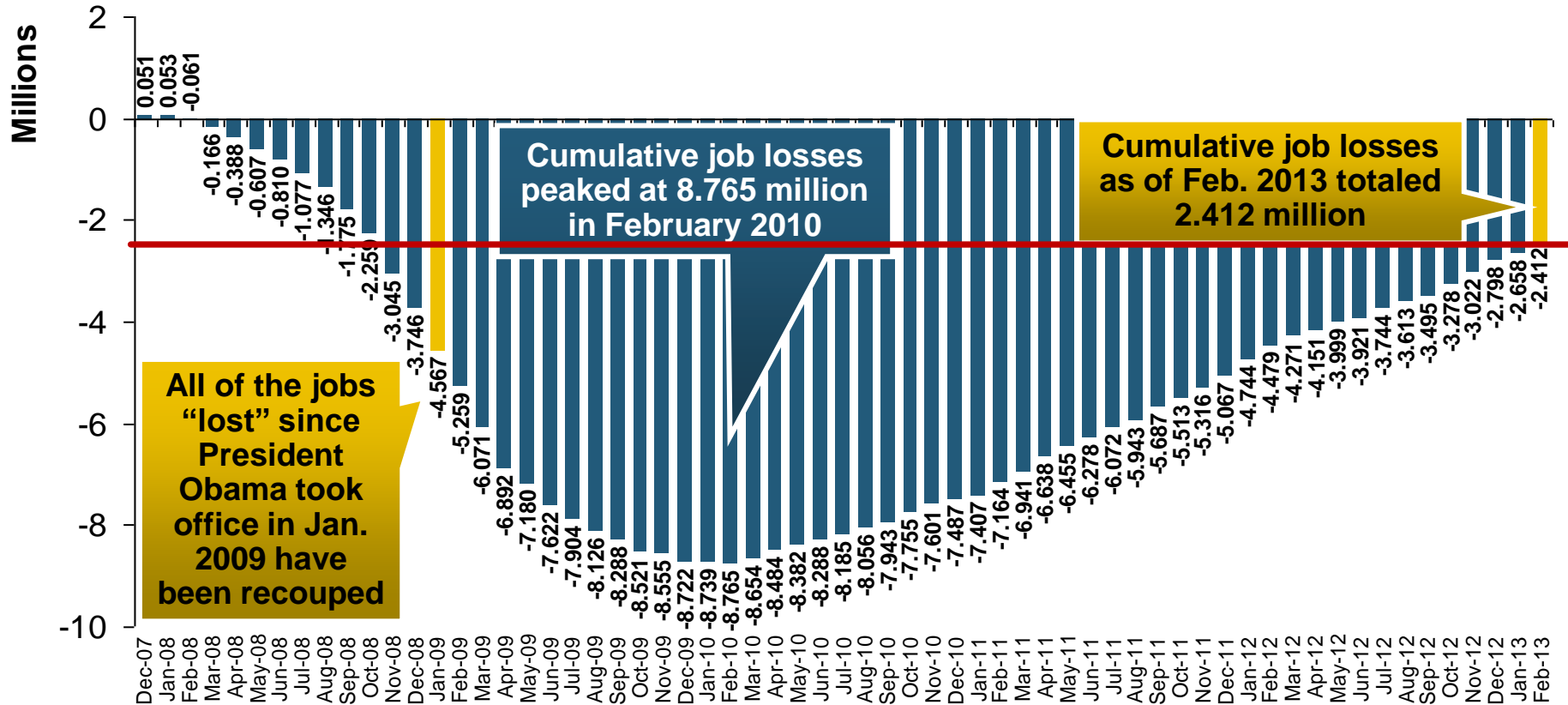
246,000 private sector jobs were created in February

Private Employers Added 6.31 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)

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

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

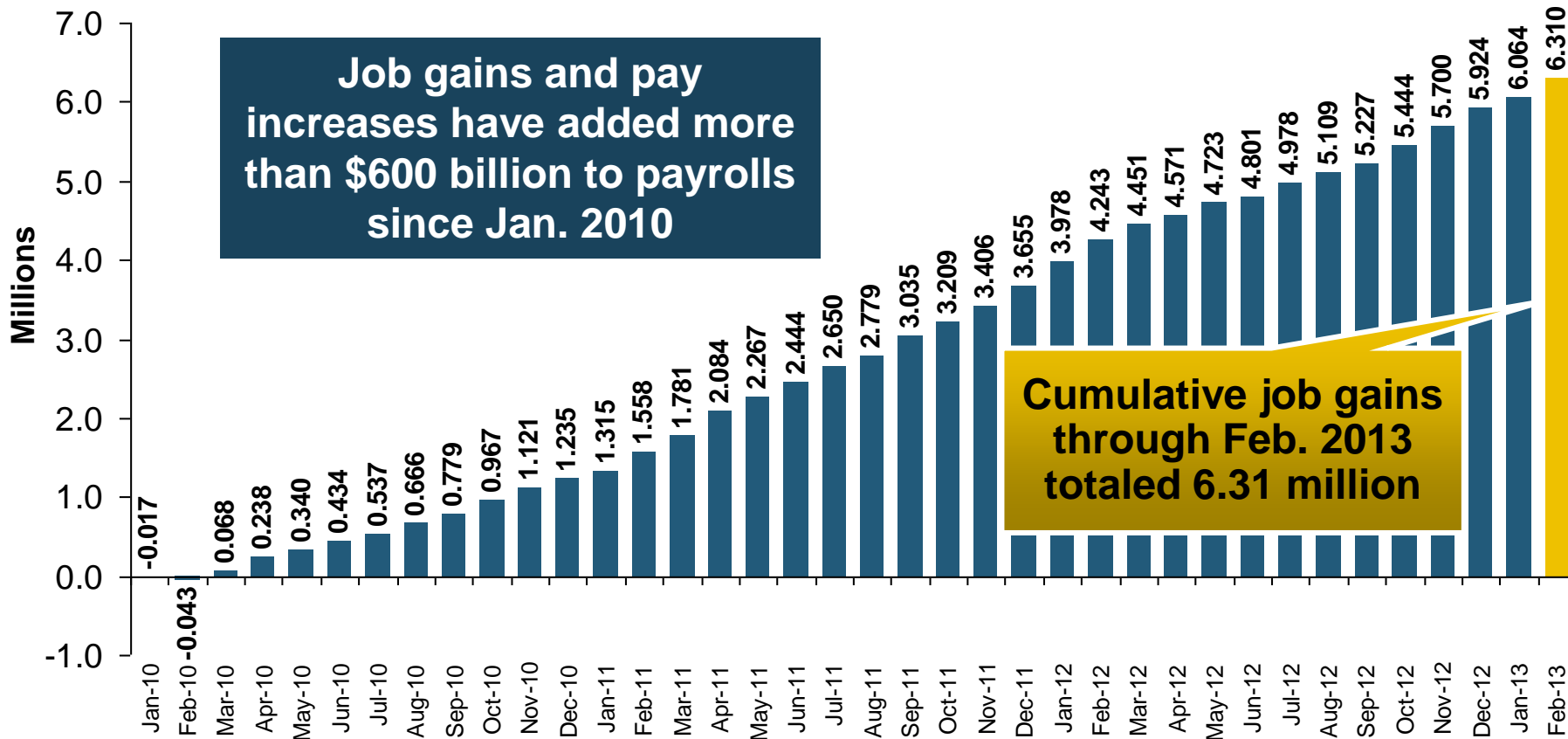
December 2007 through February 2013 (Millions)



Private Employers Added 6.31 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. 2013

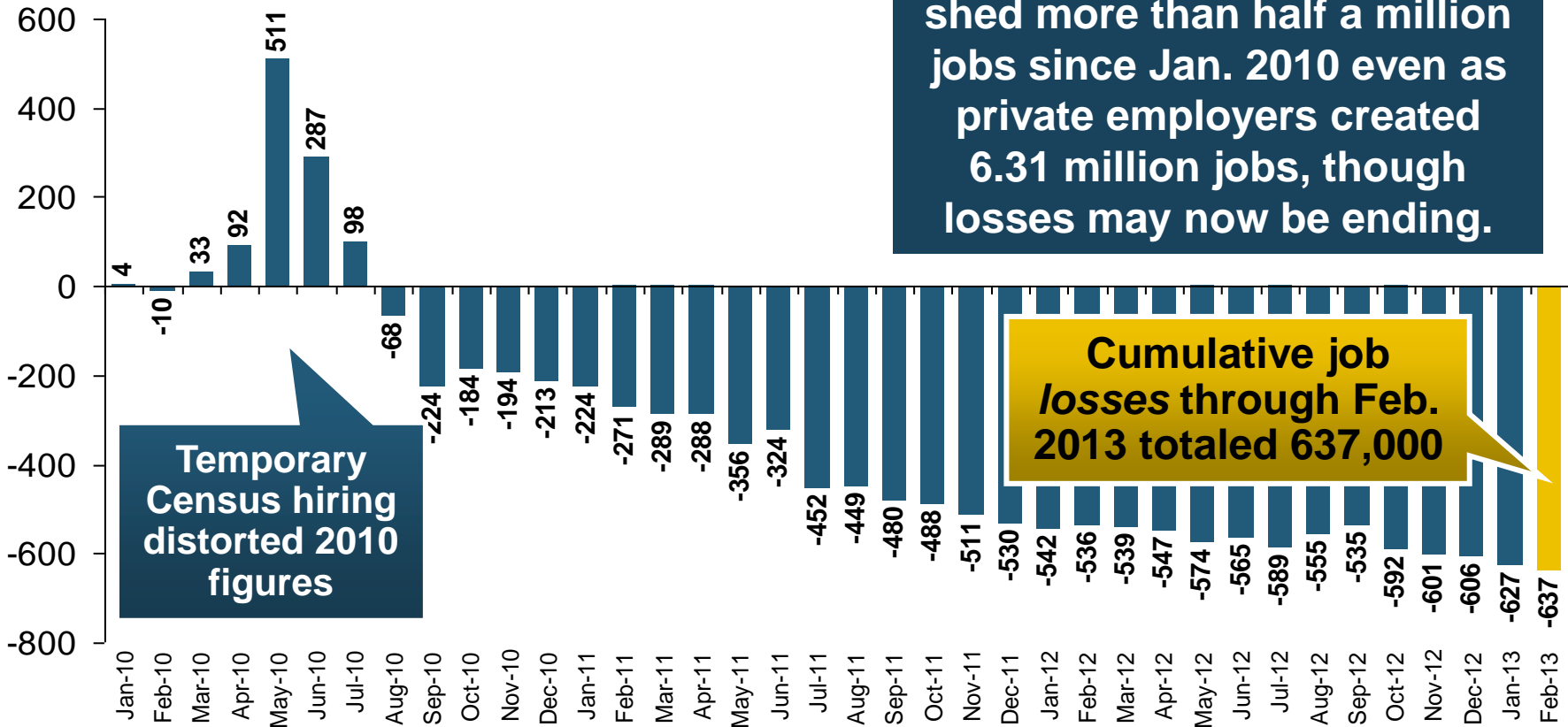
January 2010 through February 2013* (Millions)



Private Employers Added 6.31 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—Feb. 2013

January 2010 through Feb. 2013* (Millions)



Government at all levels has shed more than half a million jobs since Jan. 2010 even as private employers created 6.31 million jobs, though losses may now be ending.

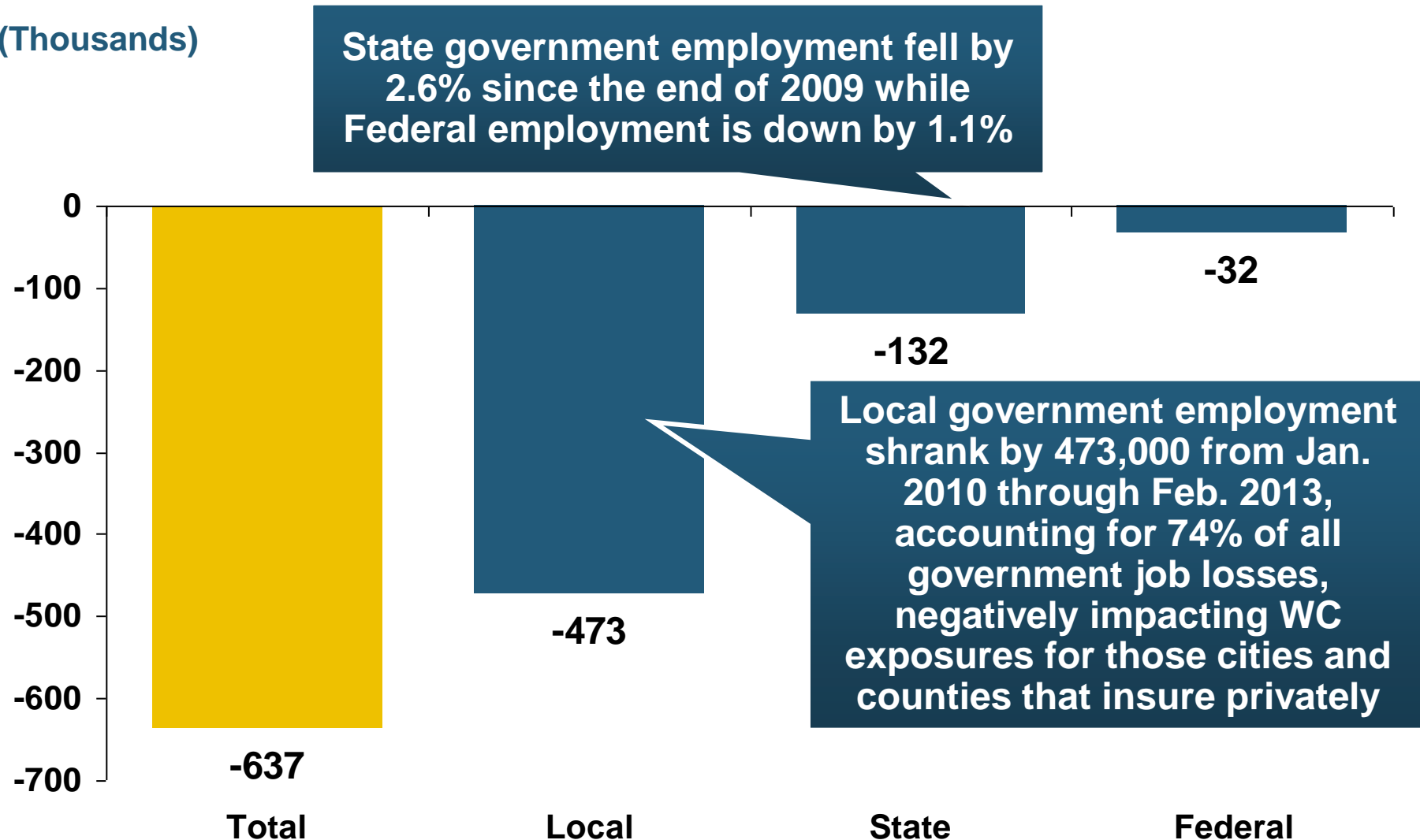
Temporary Census hiring distorted 2010 figures

Cumulative job losses through Feb. 2013 totaled 637,000

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—Feb. 2013*

(Thousands)



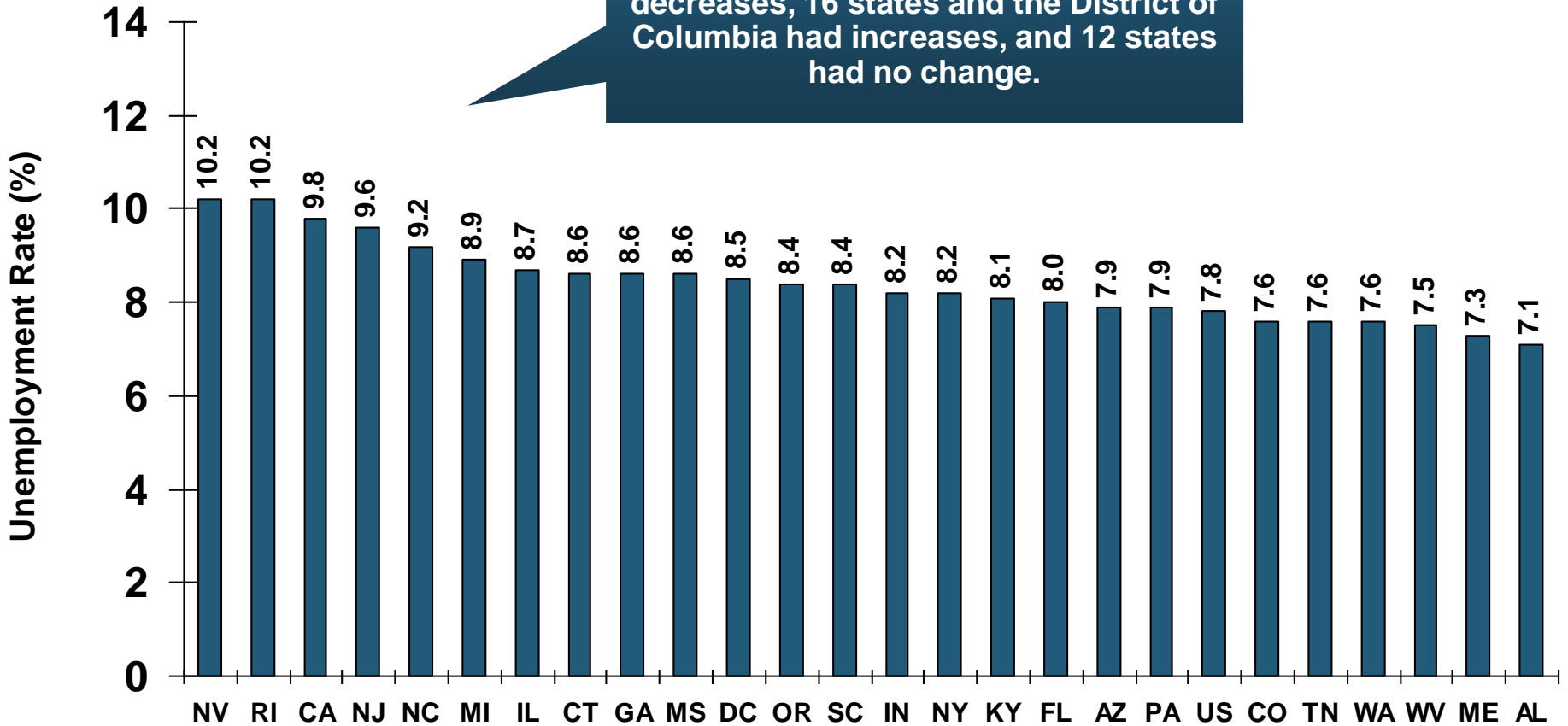
*Cumulative change from prior month; Base employment date is Dec. 2009.

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

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



In December, 22 states reported over-the-month unemployment rate decreases, 16 states and the District of Columbia had increases, and 12 states had no change.



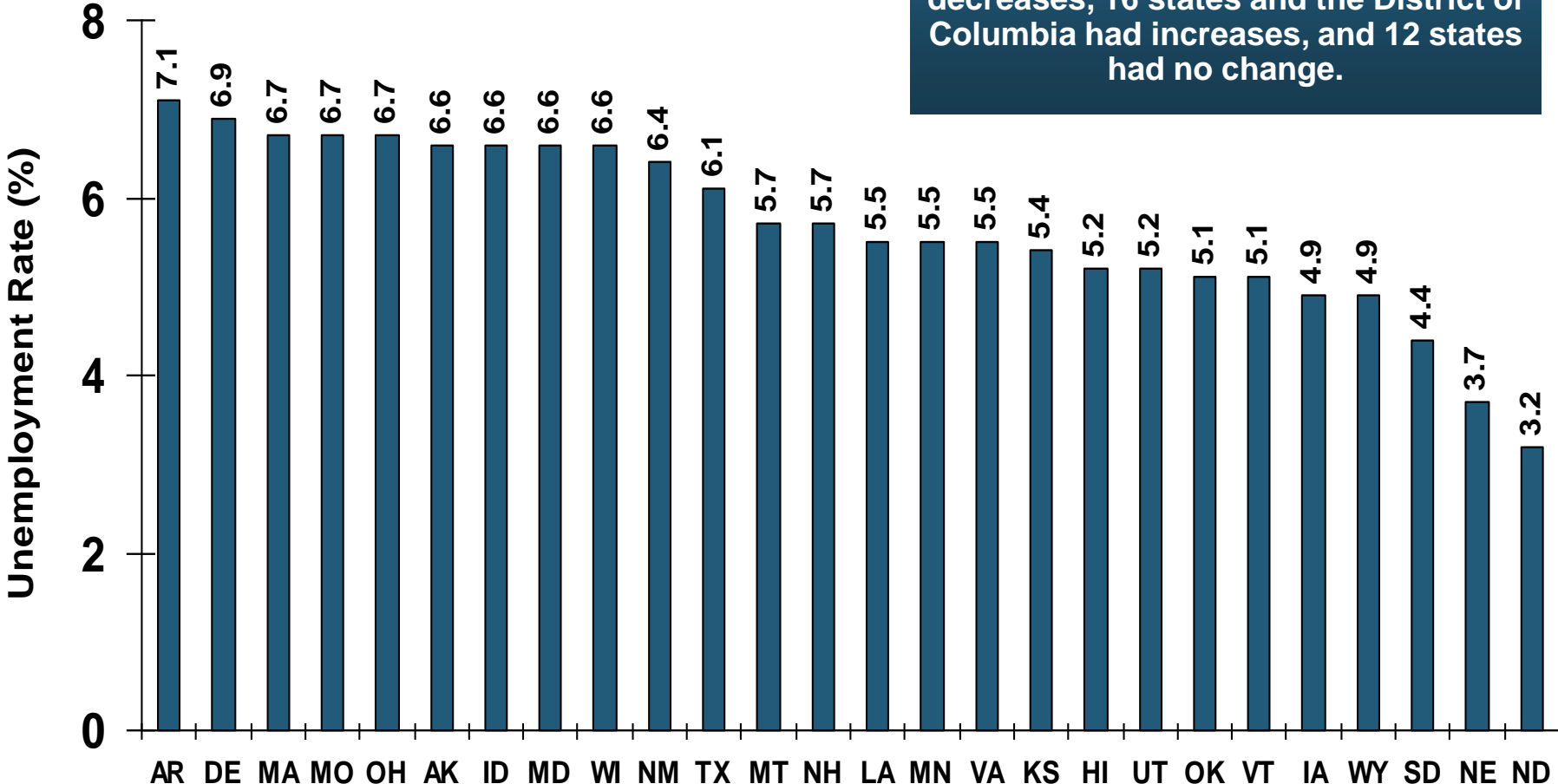
*Provisional figures for December 2012, seasonally adjusted.

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

Unemployment Rates by State, December 2012: Lowest 25 States*



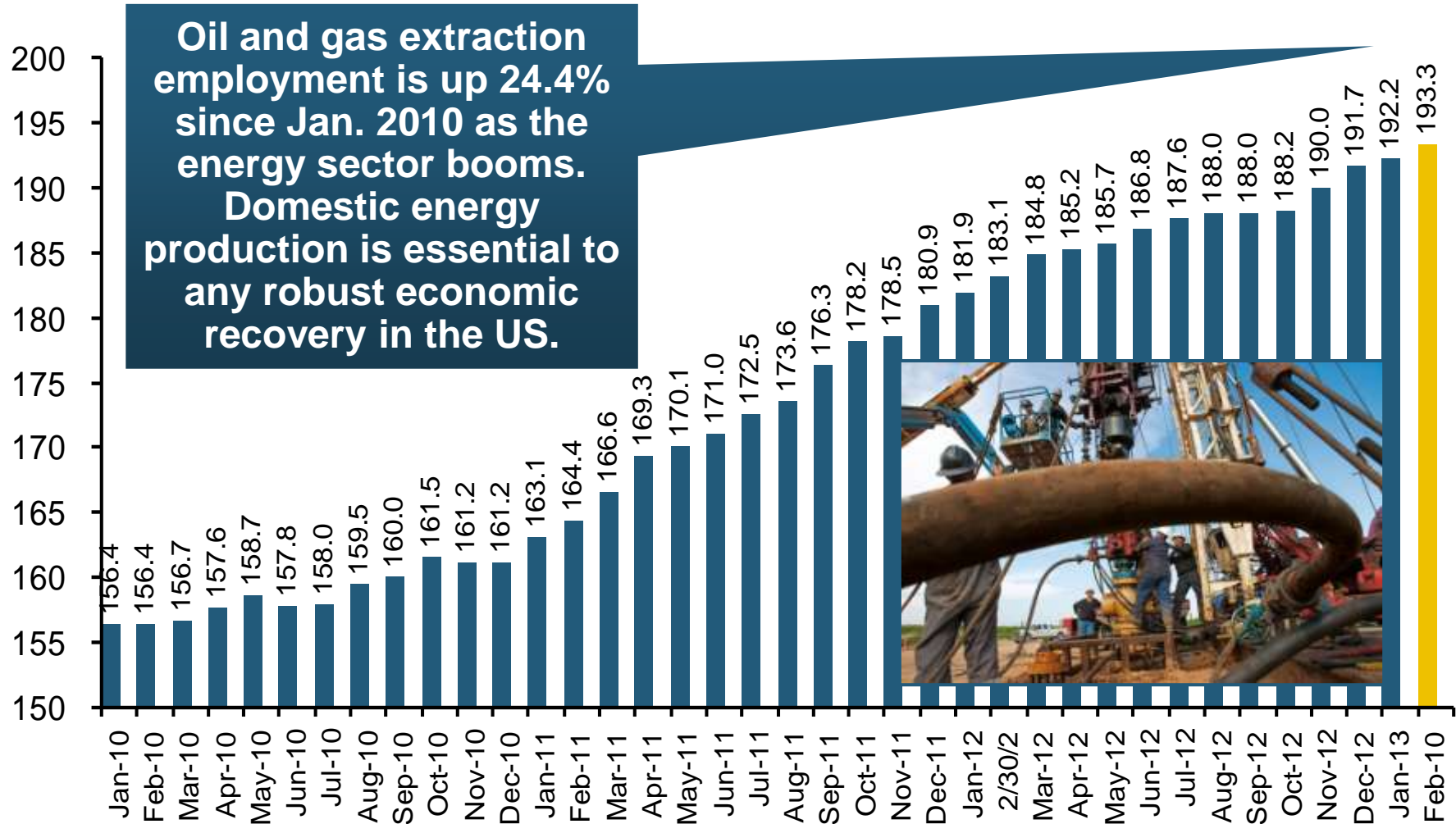
In December, 22 states reported over-the-month unemployment rate decreases, 16 states and the District of Columbia had increases, and 12 states had no change.



*Provisional figures for December 2012, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Oil & Gas Extraction Employment, Jan. 2010—February 2013*

(Thousands)

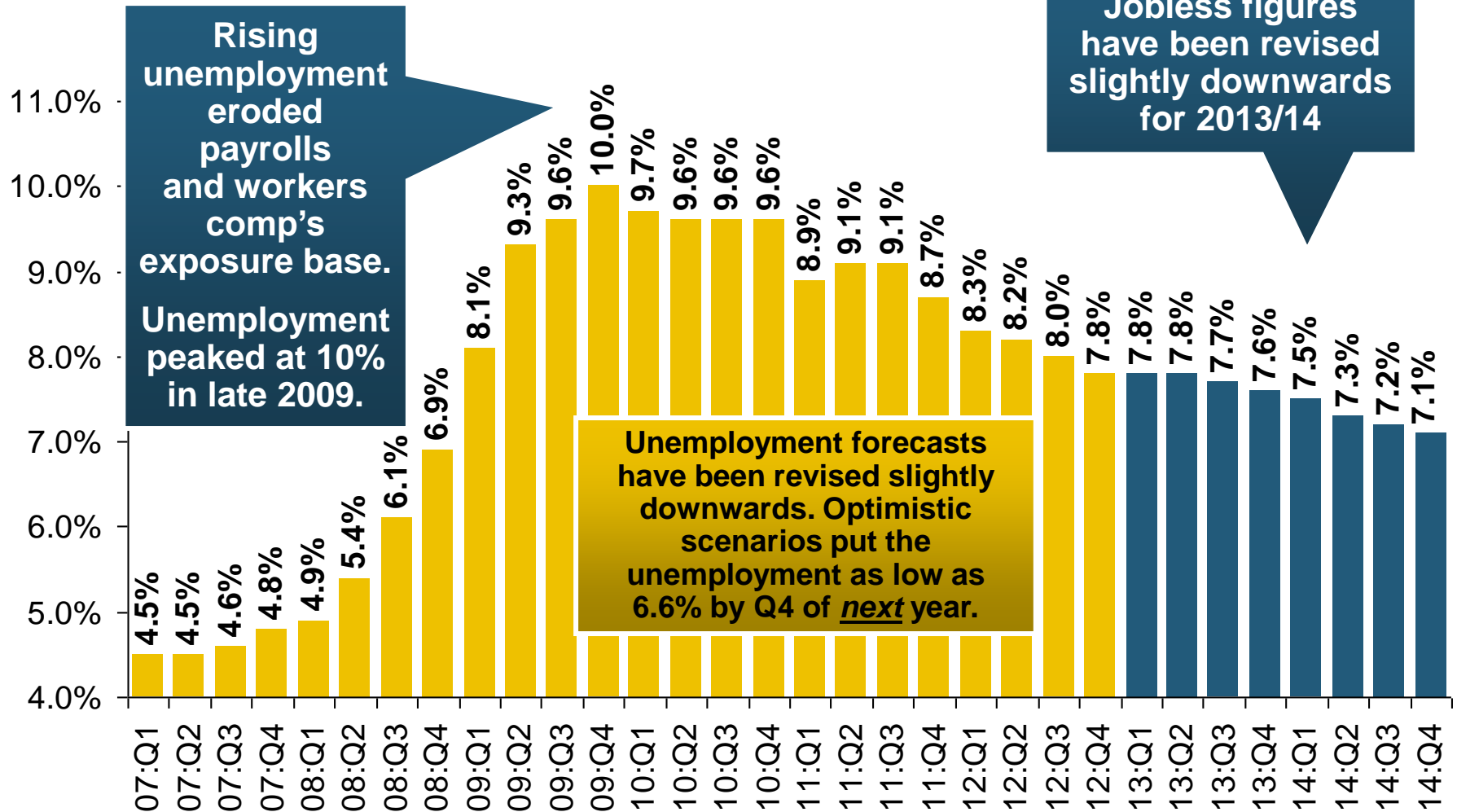


*Seasonally adjusted

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

US Unemployment Rate Forecast

2007:Q1 to 2014:Q4F*

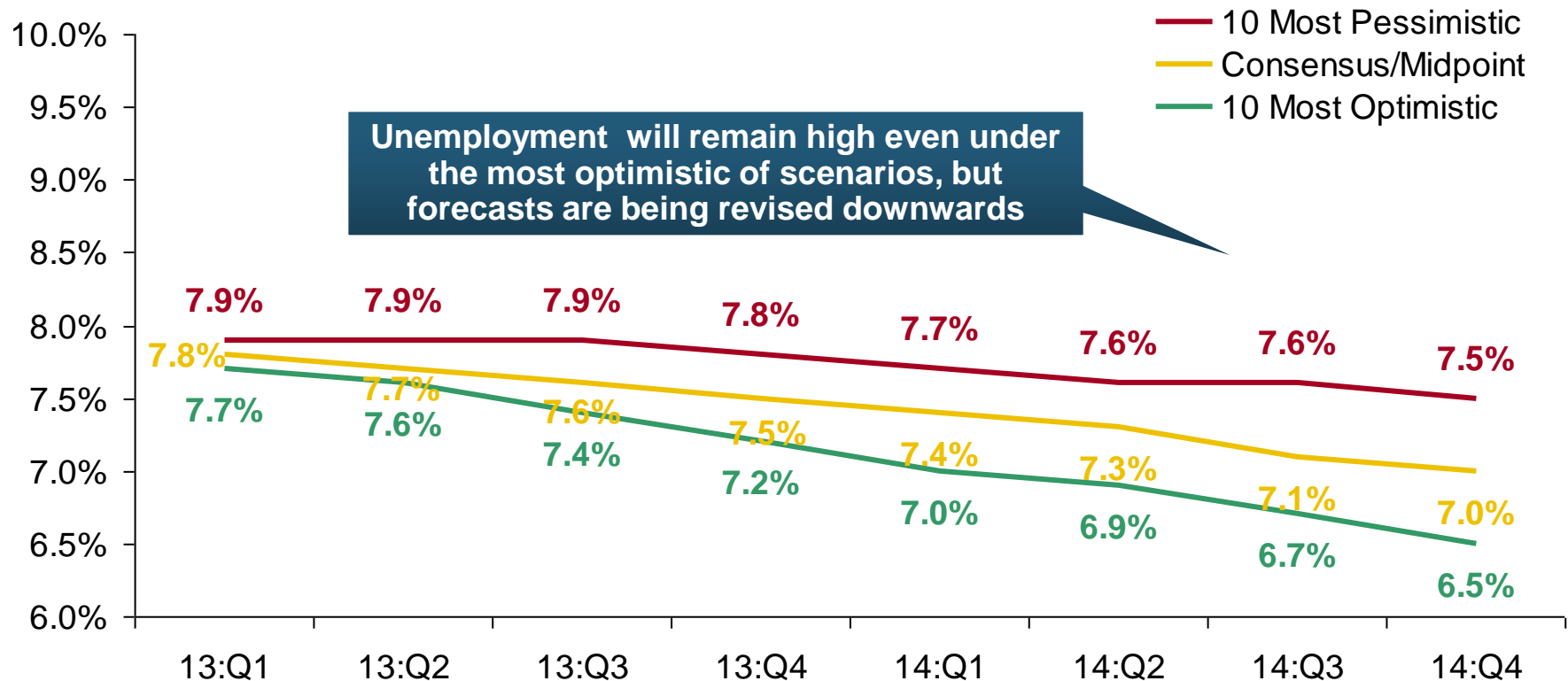


* ■ = actual; ■ = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (3/13 edition); Insurance Information Institute.

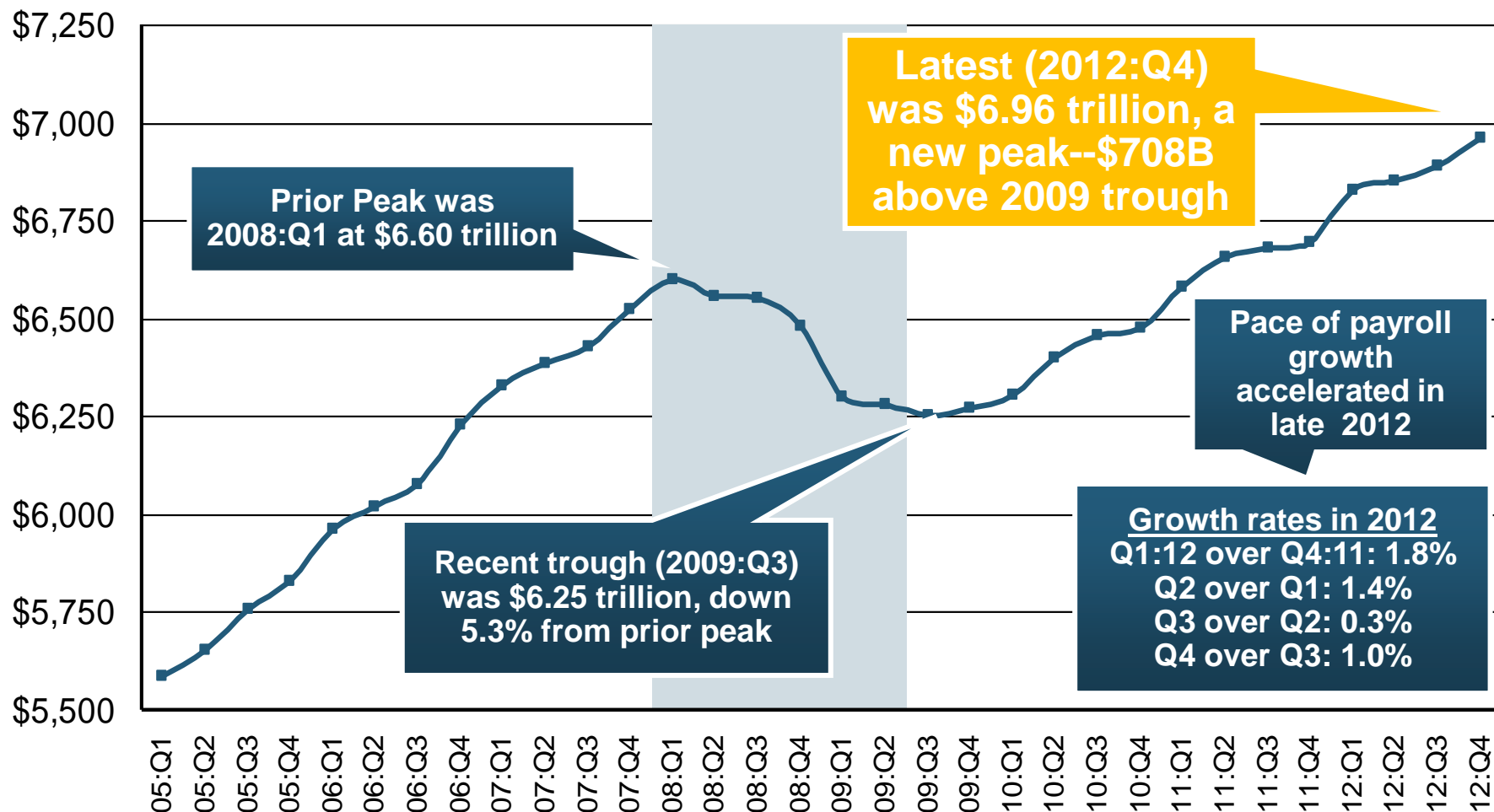
US Unemployment Rate Forecasts

Quarterly, 2013:Q1 to 2014:Q4



Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2012:Q4

Billions



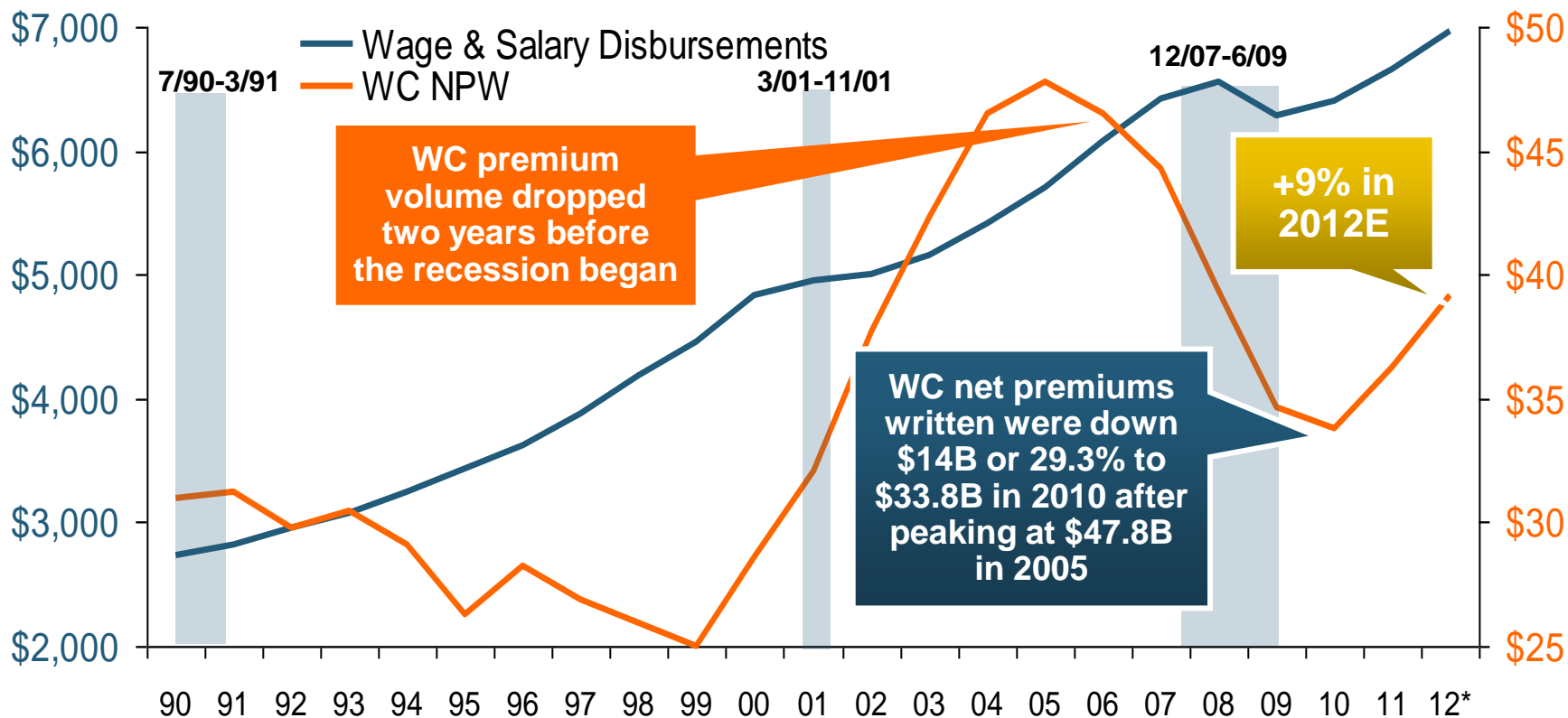
Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

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, 1990-2012E

Payroll Base*
\$Billions

WC NWP
\$Billions



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

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

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***

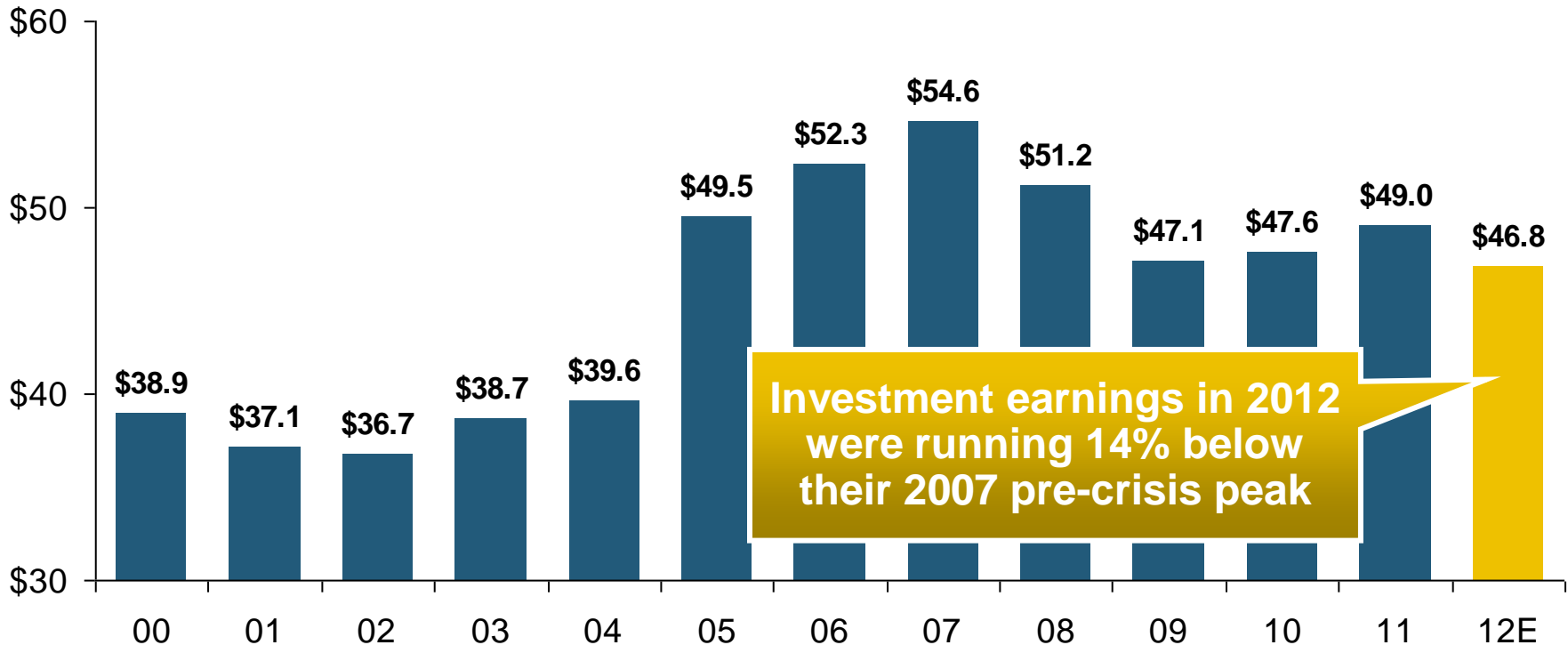
INVESTMENTS: THE NEW REALITY

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

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

Property/Casualty Insurance Industry Investment Income: 2000–2012E¹

(\$ Billions)

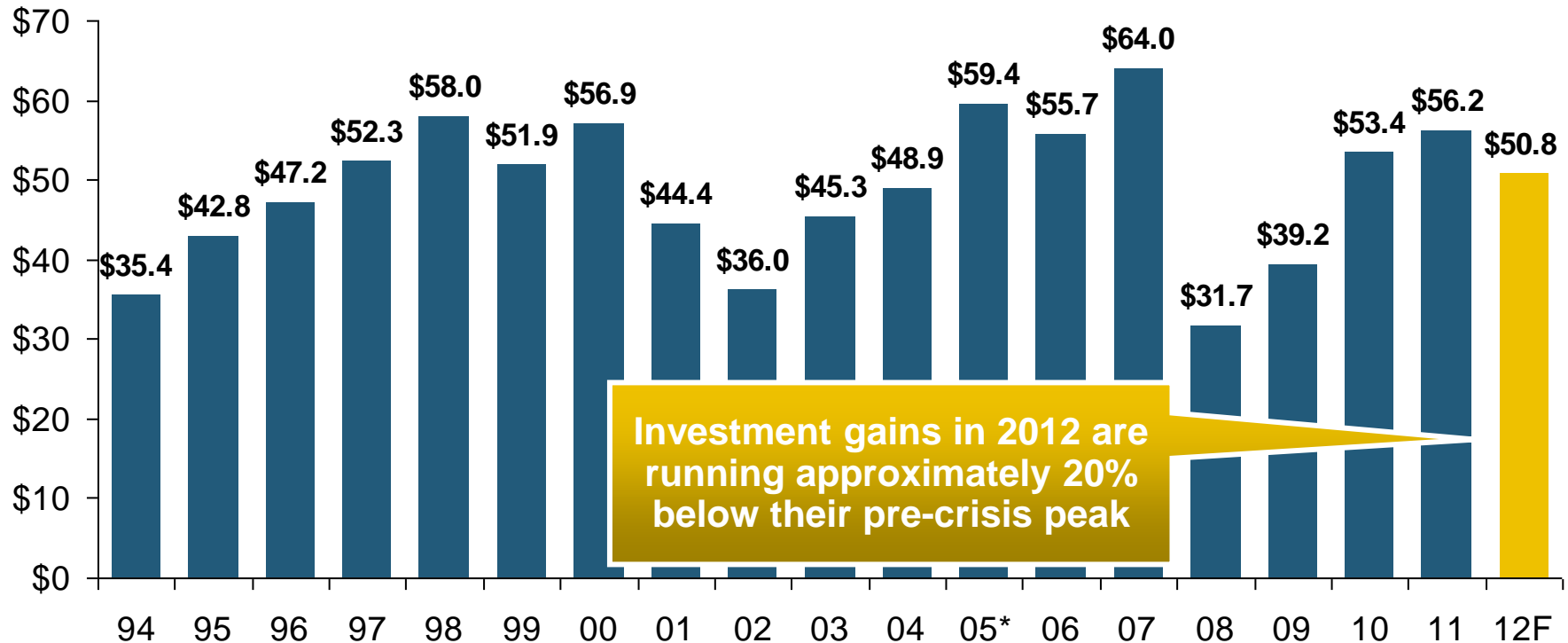


Investment Income Fell in 2012 Due to Persistently Low Interest Rates, Putting Additional Pressure on (Re) Insurance Pricing

¹ Investment gains consist primarily of interest and stock dividends.
*2012F is based on annualized 9M:2012 actual figure of \$35.131B.
Sources: ISO; Insurance Information Institute.

Property/Casualty Insurance Industry Investment Gain: 1994–2012F¹

(\$ Billions)



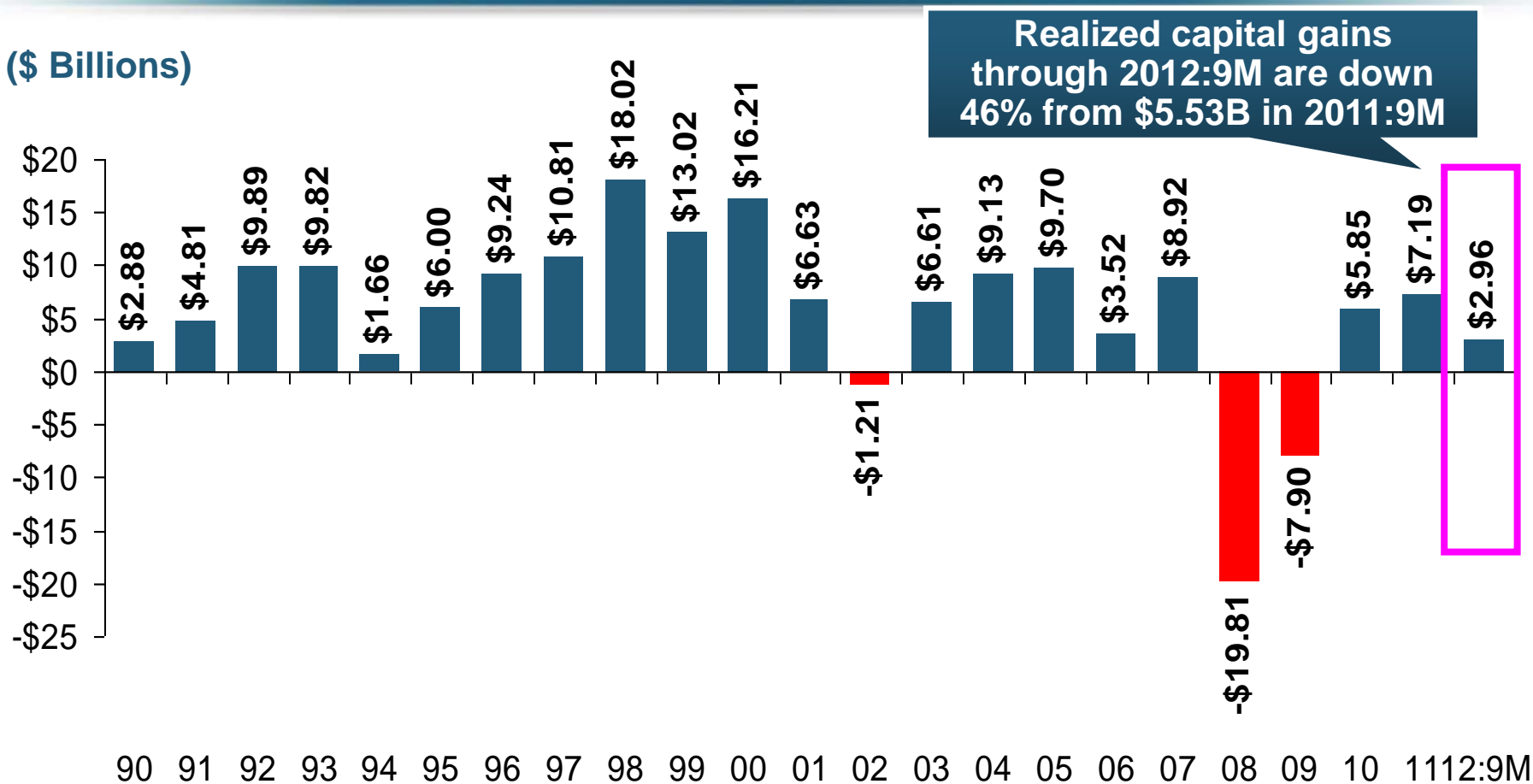
Investment Gains Are Slipping in 2012 as Low Interest Rates Reduce Investment Income and Lower Realized Investment Gains; The Financial Crisis Caused Investment Gains to Fall by 50% in 2008

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

* 2005 figure includes special one-time dividend of \$3.2B; 2012F figure is III estimate based on annualized actual 9M:2012 result of \$38.089B.
Sources: ISO; Insurance Information Institute.

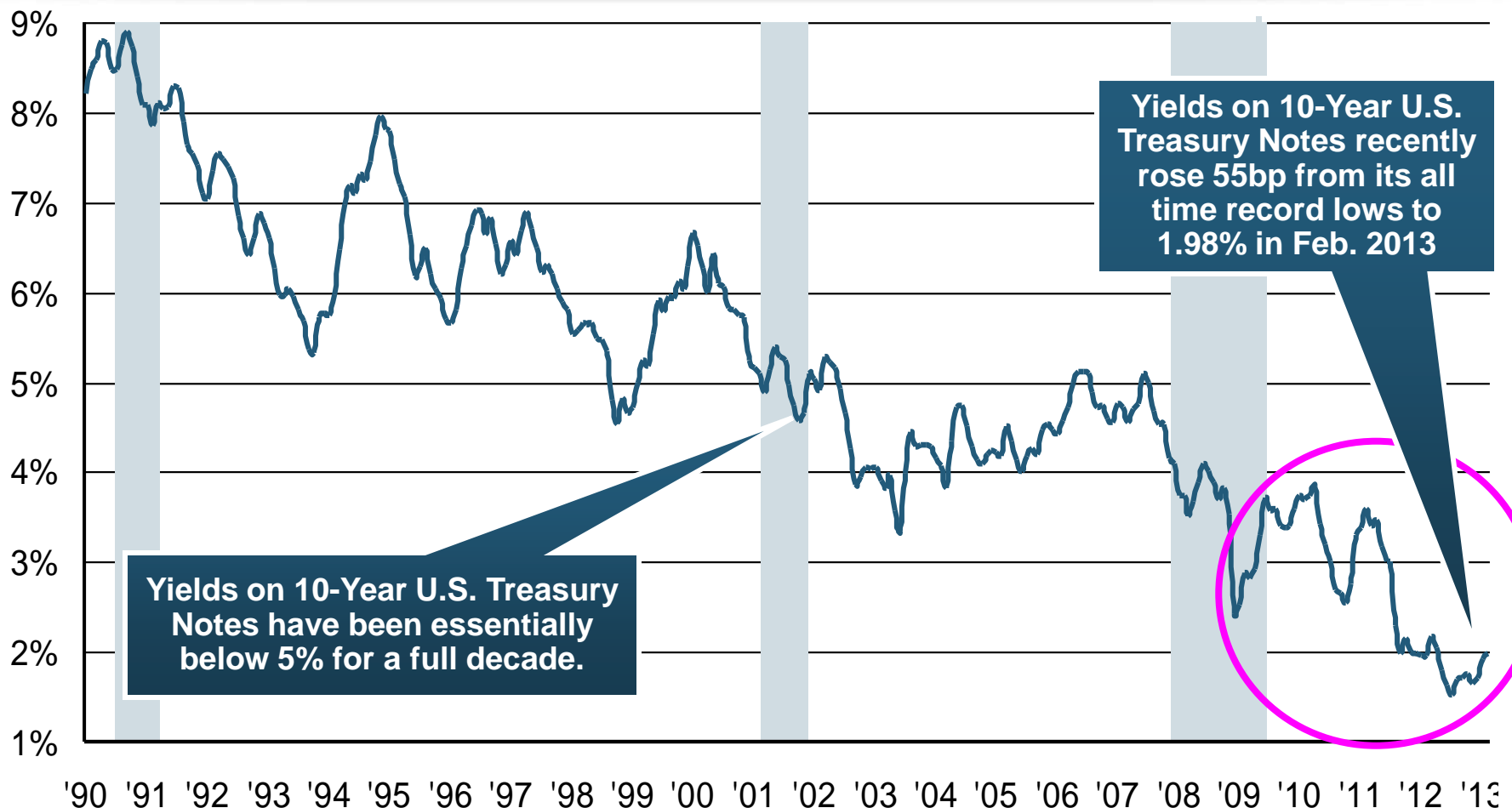
P/C Insurer Net Realized Capital Gains/Losses, 1990-2012:Q3

(\$ 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

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.

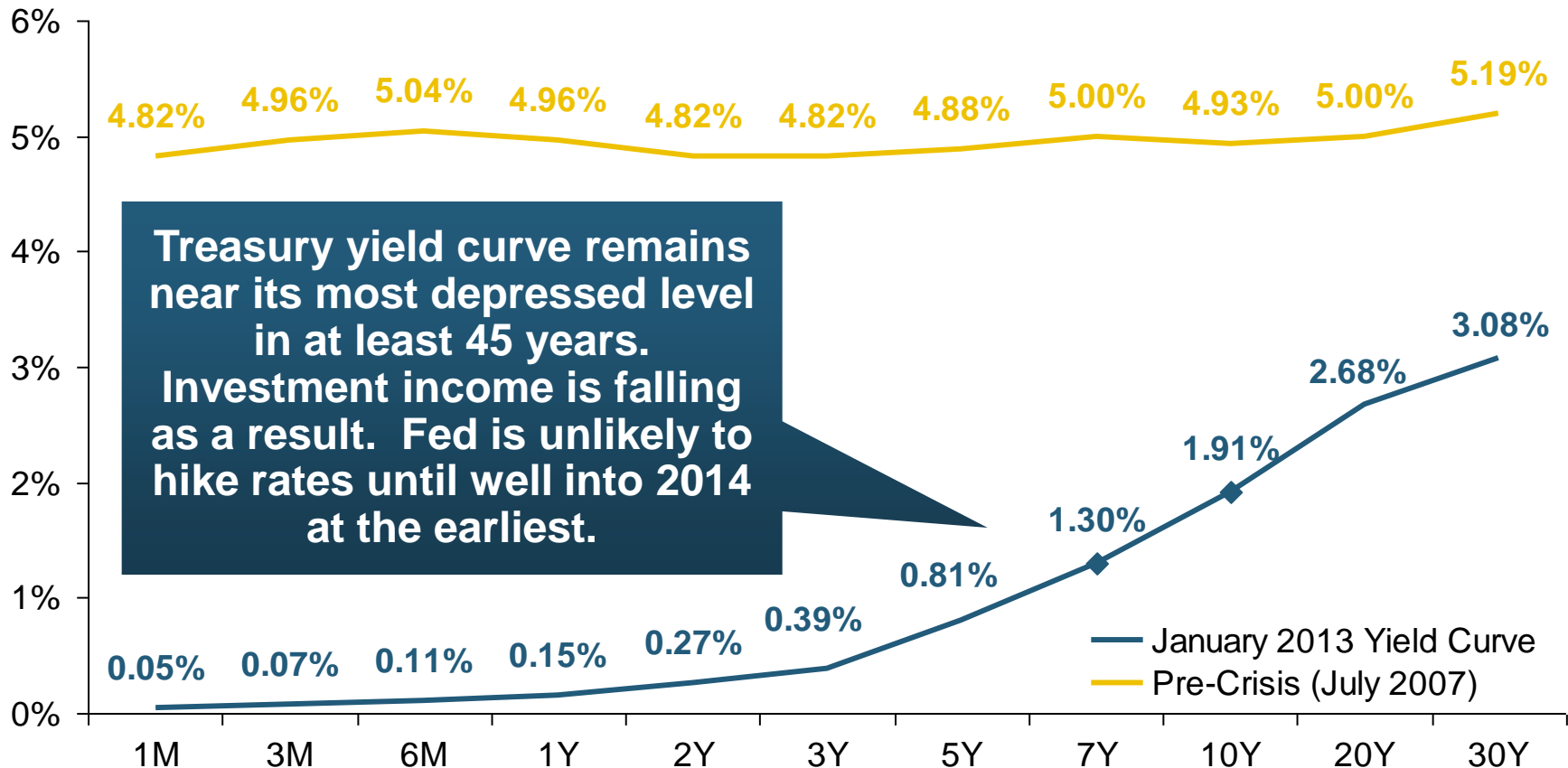
*Monthly, through Feb. 2013.

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.

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

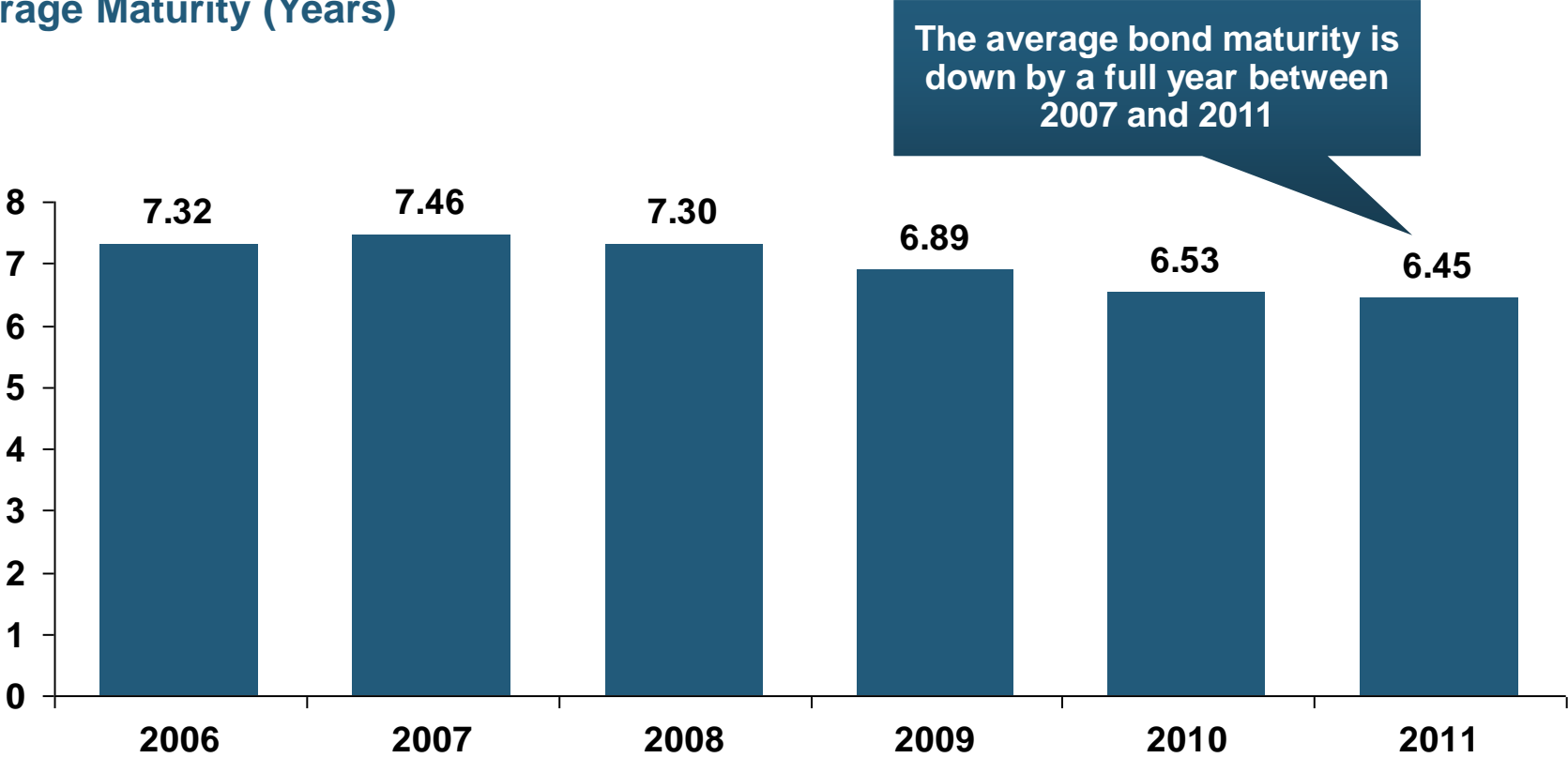


Treasury yield curve remains near its most depressed level in at least 45 years. Investment income is falling as a result. Fed is unlikely to hike rates until well into 2014 at the earliest.

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)



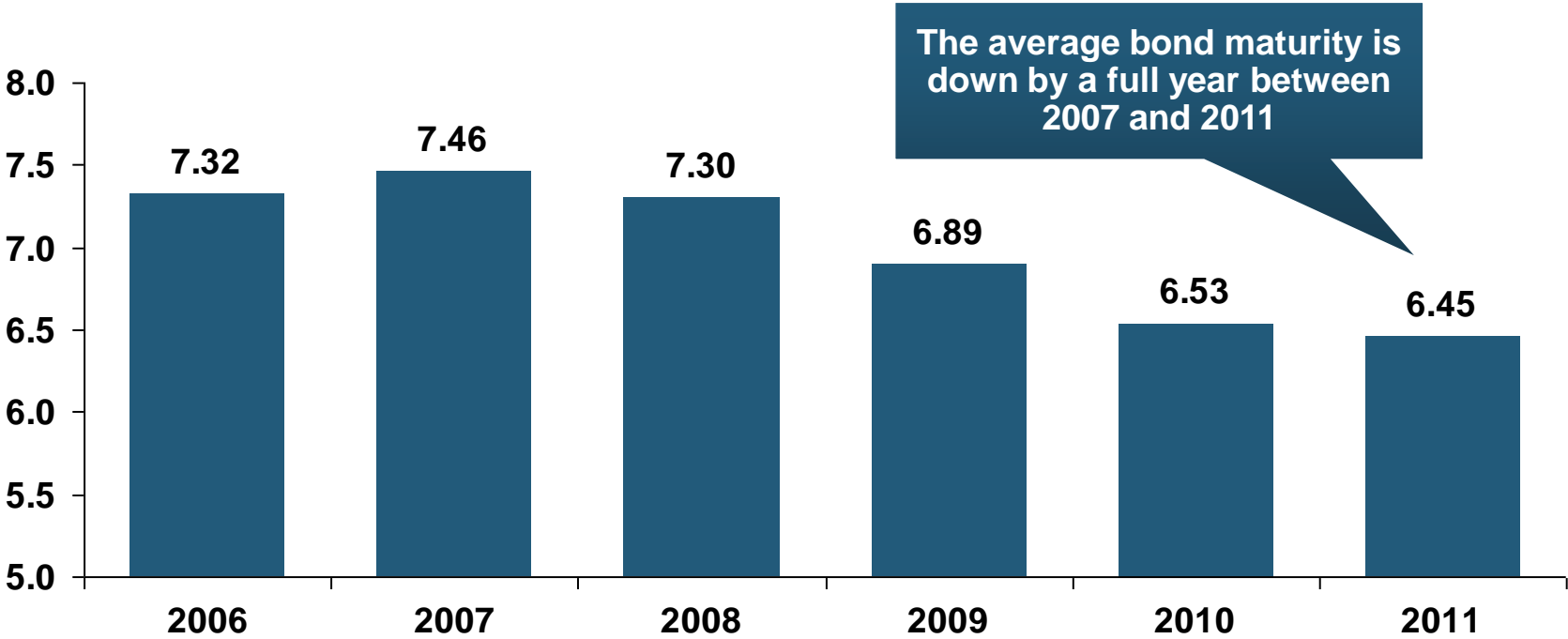
Falling Average Maturity (and Duration) of the P/C Industry's Bond Portfolio is Contributing to a Drop in Investment Income Along With Lower Yields

*Year-end figures. Latest available.

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

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

Average Maturity (Years)

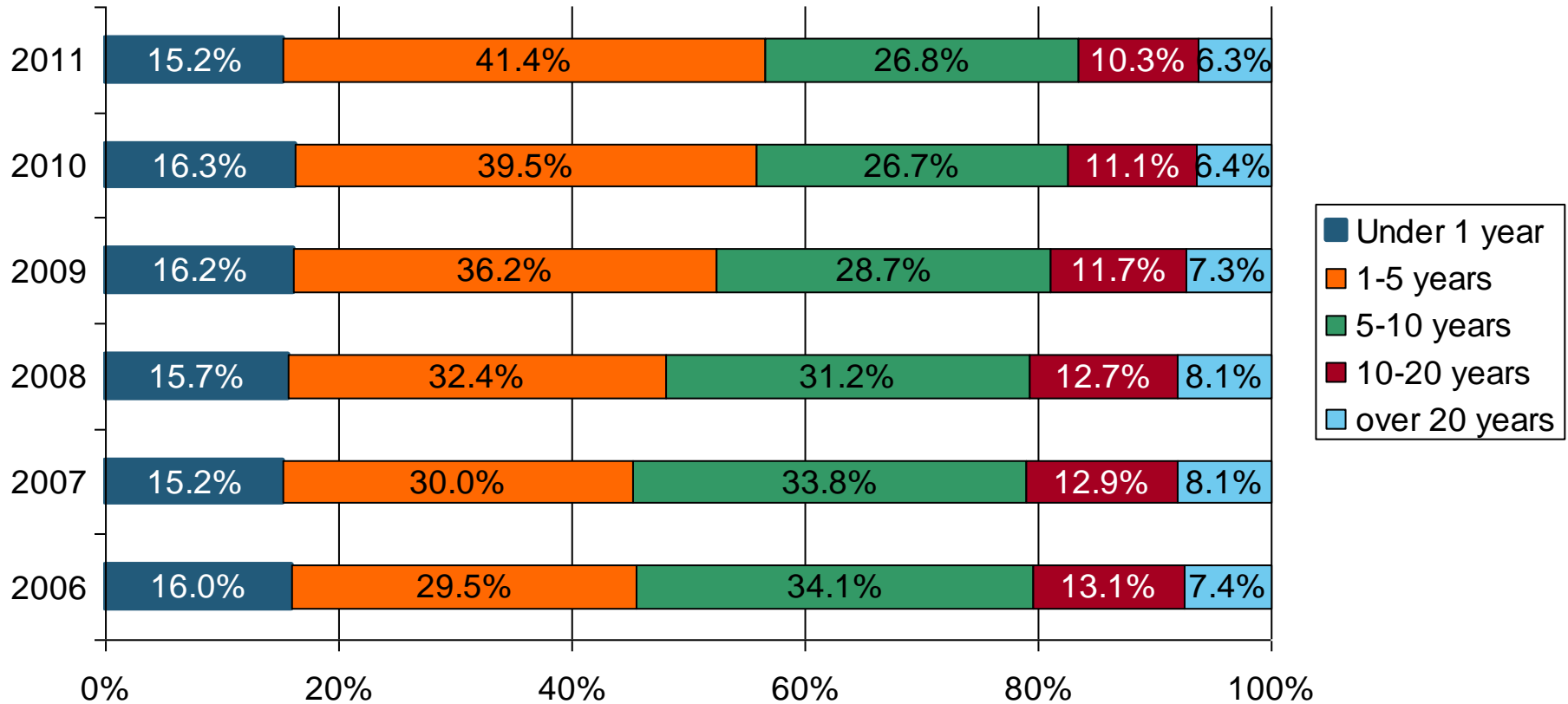


Falling Average Maturity (and Duration) of the P/C Industry's Bond Portfolio is Contributing to the Drop in Investment Income Along With Lower Yields

*Year-end figures. Latest available.

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

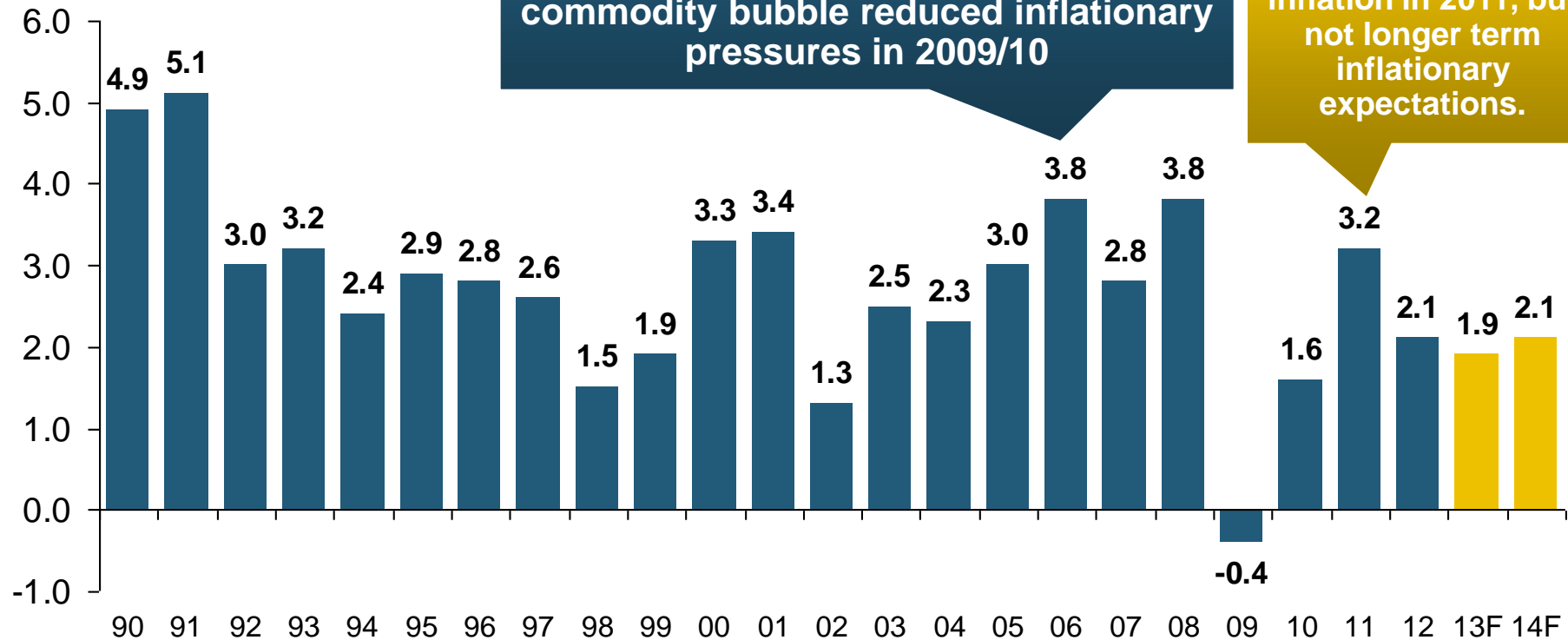
Distribution of Bond Maturities, P/C Insurance Industry, 2006-2011



The main shift over these 6 years has been from bonds with 5-10 years of maturity to bonds with 1-5 years of maturity. The industry also slightly trimmed its holdings of bonds in the 10-20-year maturity category and bonds in the longest-maturity category.

Annual Inflation Rates, (CPI-U, %), 1990–2014F

Annual Inflation Rates (%)

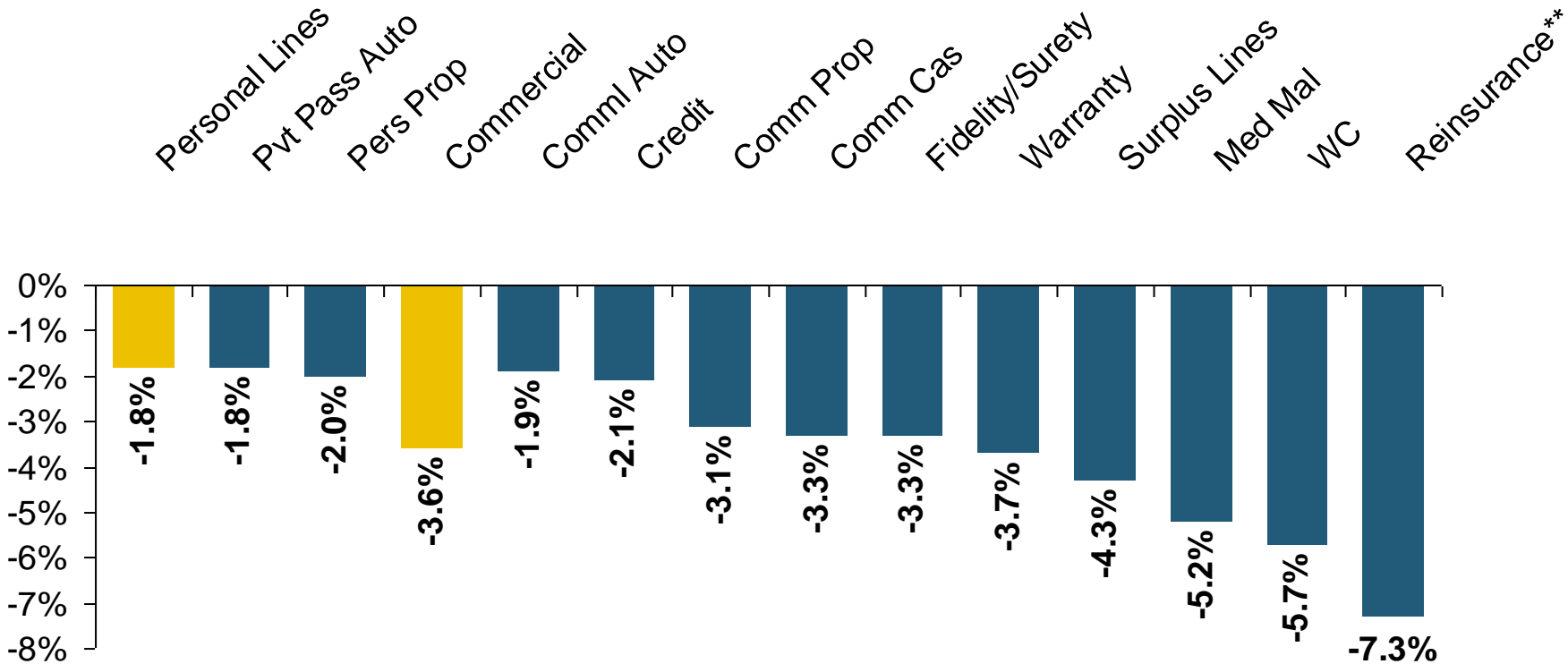


Inflation peaked at 5.6% in August 2008 on high energy and commodity crisis. The recession and the collapse of the commodity bubble reduced inflationary pressures in 2009/10

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

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

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

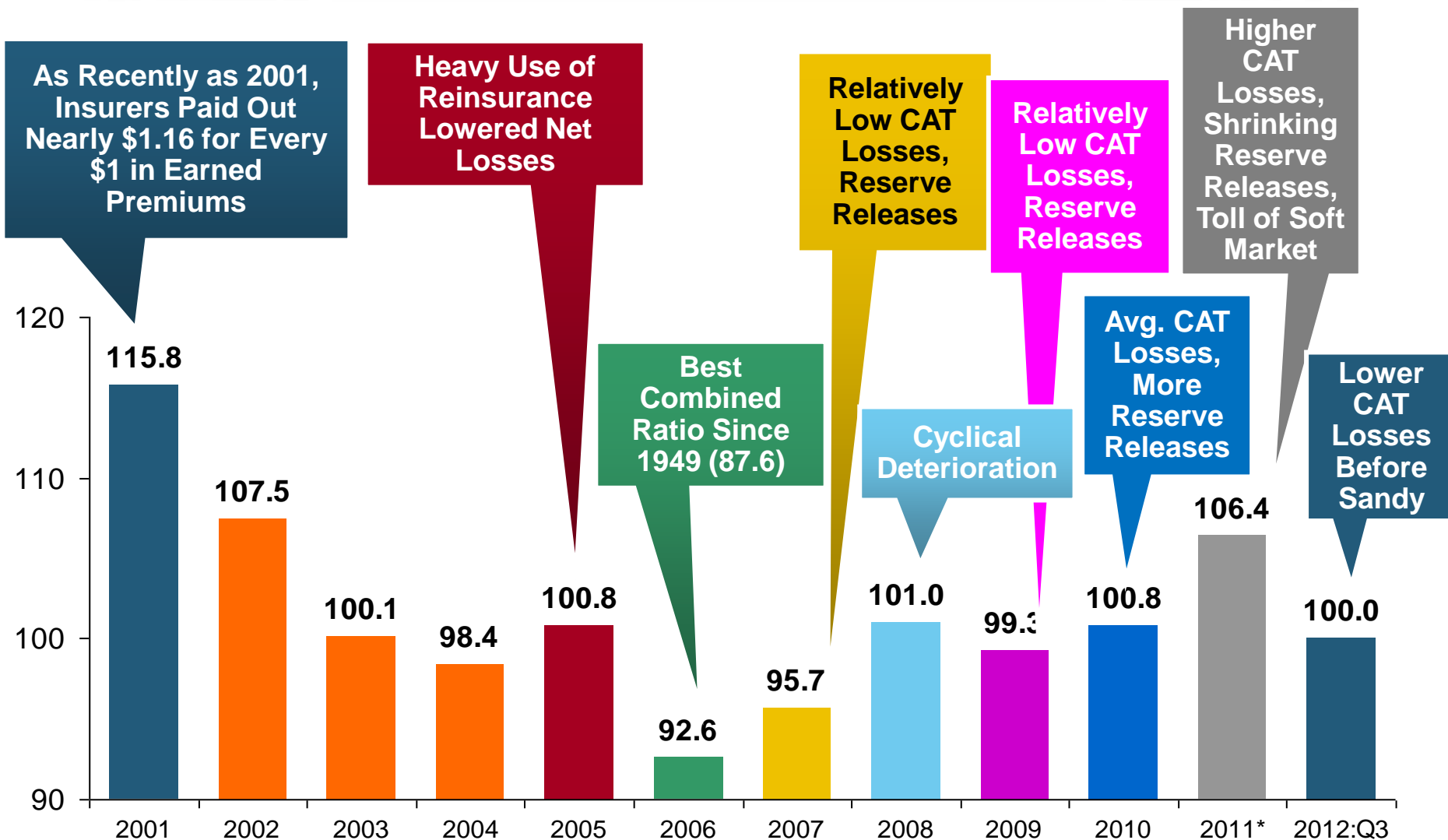
**US domestic reinsurance only

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

1. UNDERWRITING

**Underwriting Losses in 2011
and 2012 Are Elevated by High
Catastrophe Losses**

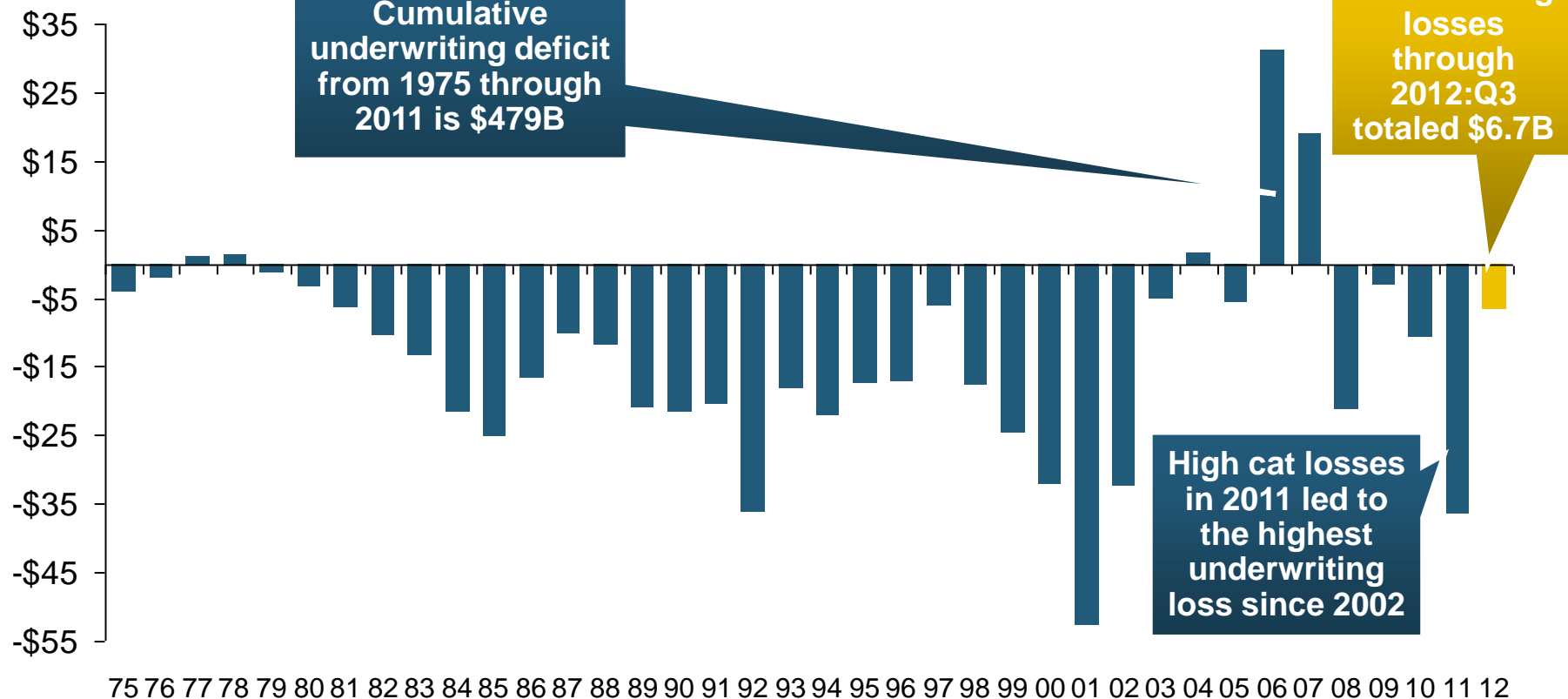
P/C Insurance Industry Combined Ratio, 2001–2012:Q3*



* Excludes Mortgage & Financial Guaranty insurers 2008--2012. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.2; 2012:Q3=100.0.
Sources: A.M. Best, ISO.

Underwriting Gain (Loss) 1975–2012:Q3*

(\$ Billions)



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

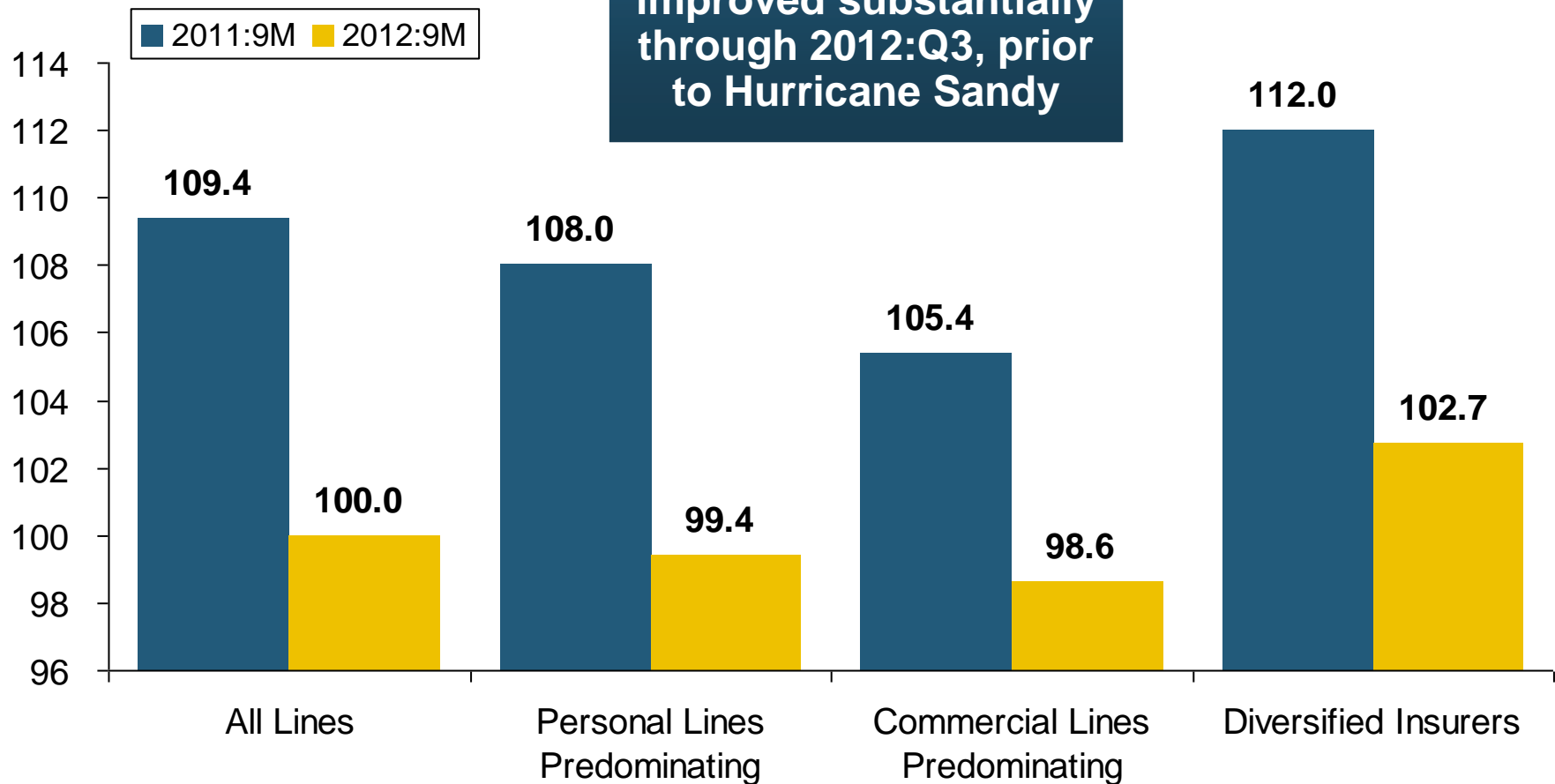
* Includes mortgage and financial guaranty insurers in all years.

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

Combined Ratios by Predominant Business Segment, 2012:9 Mos. vs. 2011:9 Mos.*

(Percent)

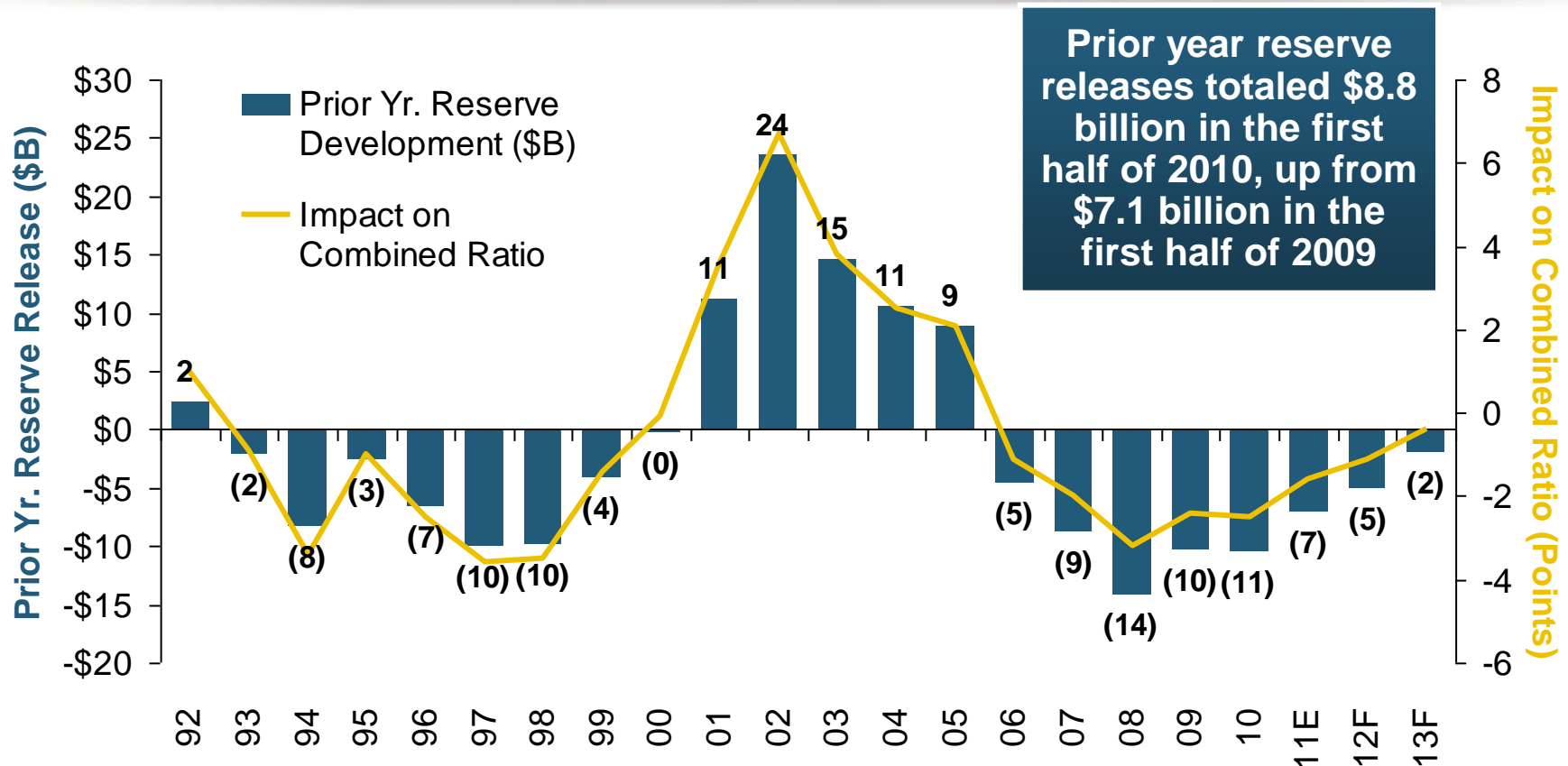
The combined ratios for both personal and commercial lines improved substantially through 2012:Q3, prior to Hurricane Sandy



*Excludes mortgage and financial guaranty insurers.

Source: ISO/PCI; Insurance Information Institute

P/C Reserve Development, 1992–2013F



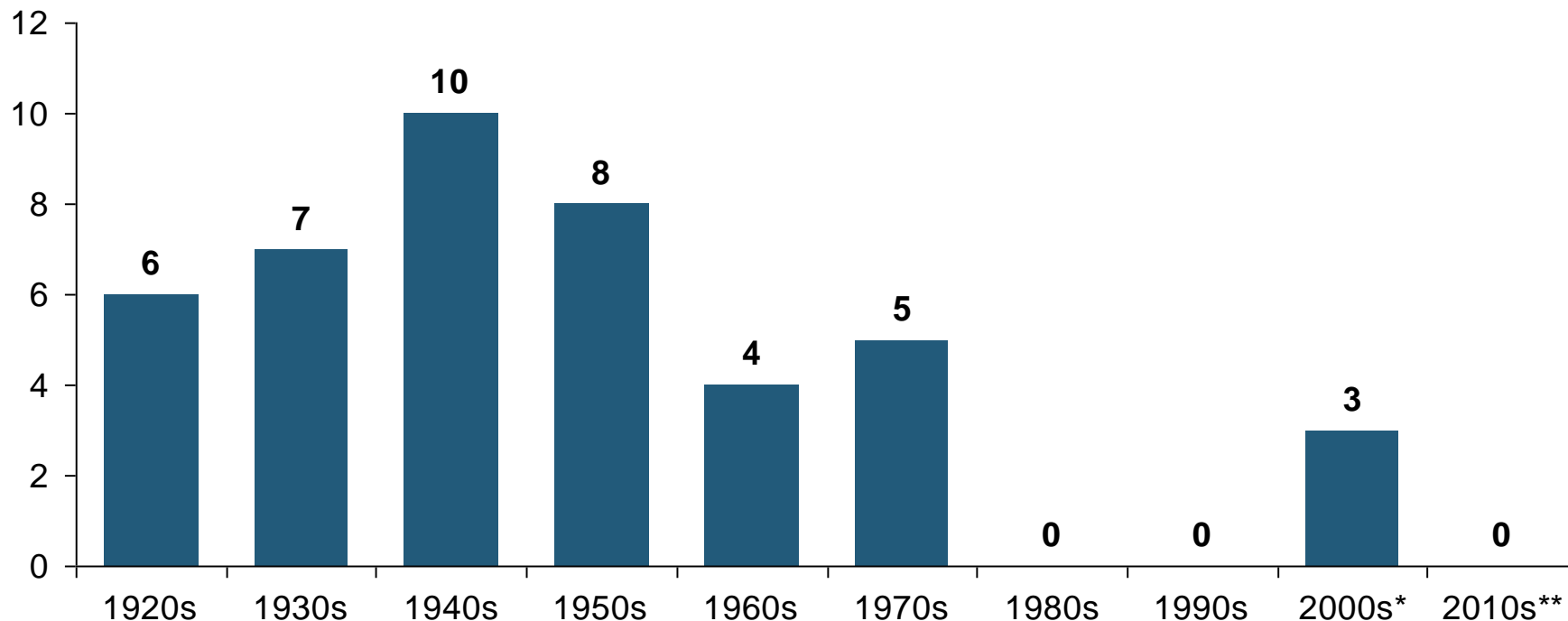
Reserve Releases Remained Strong in 2010 But Tapered Off in 2011. Releases Are Expected to Further Diminish in 2012 and 2103

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

Sources: Barclays Capital; A.M. Best.

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

Number of Years with Underwriting Profits



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

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

**Data for the 2010s includes 2010 and 2011.

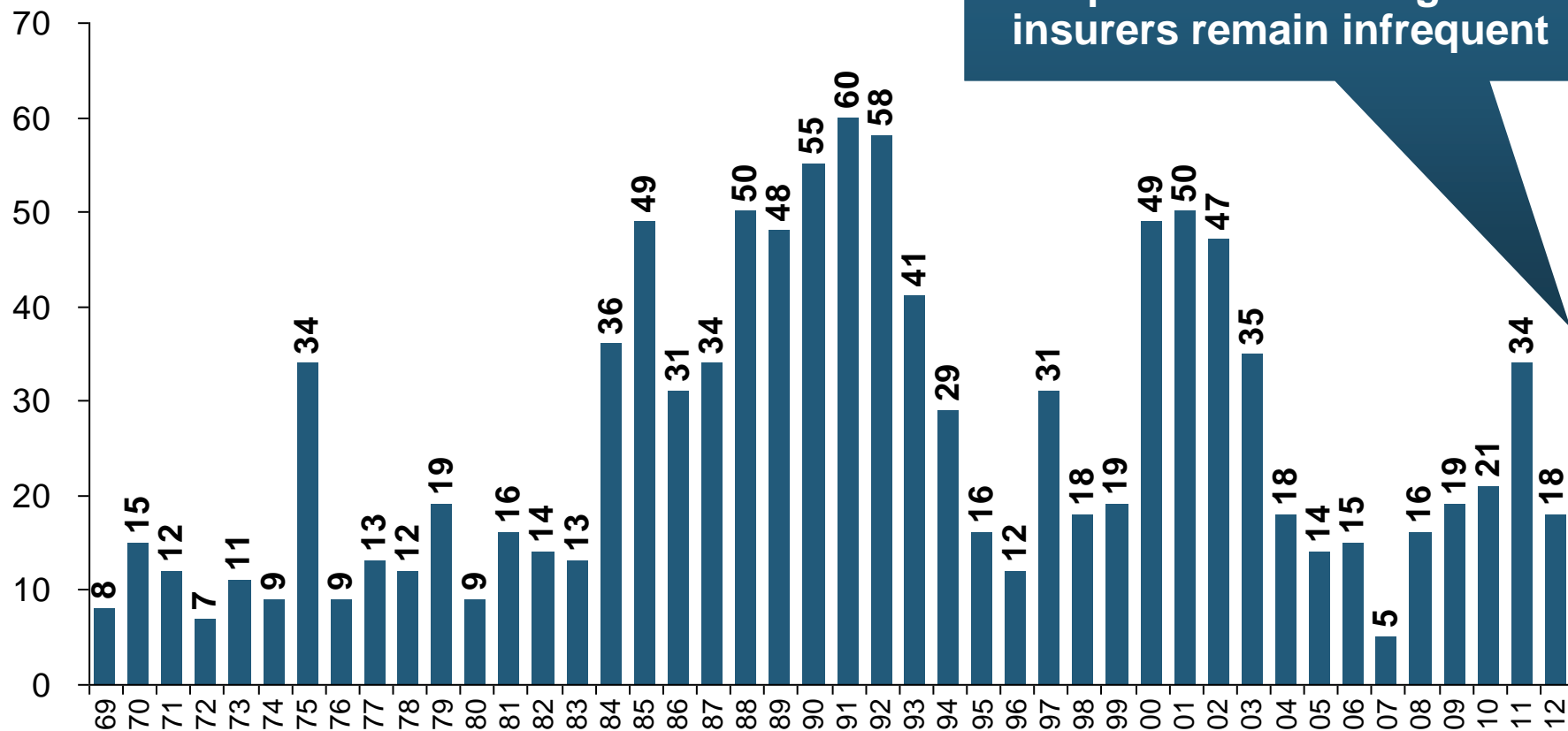
Note: Data for 1920–1934 based on stock companies only.

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

Financial Strength & Underwriting

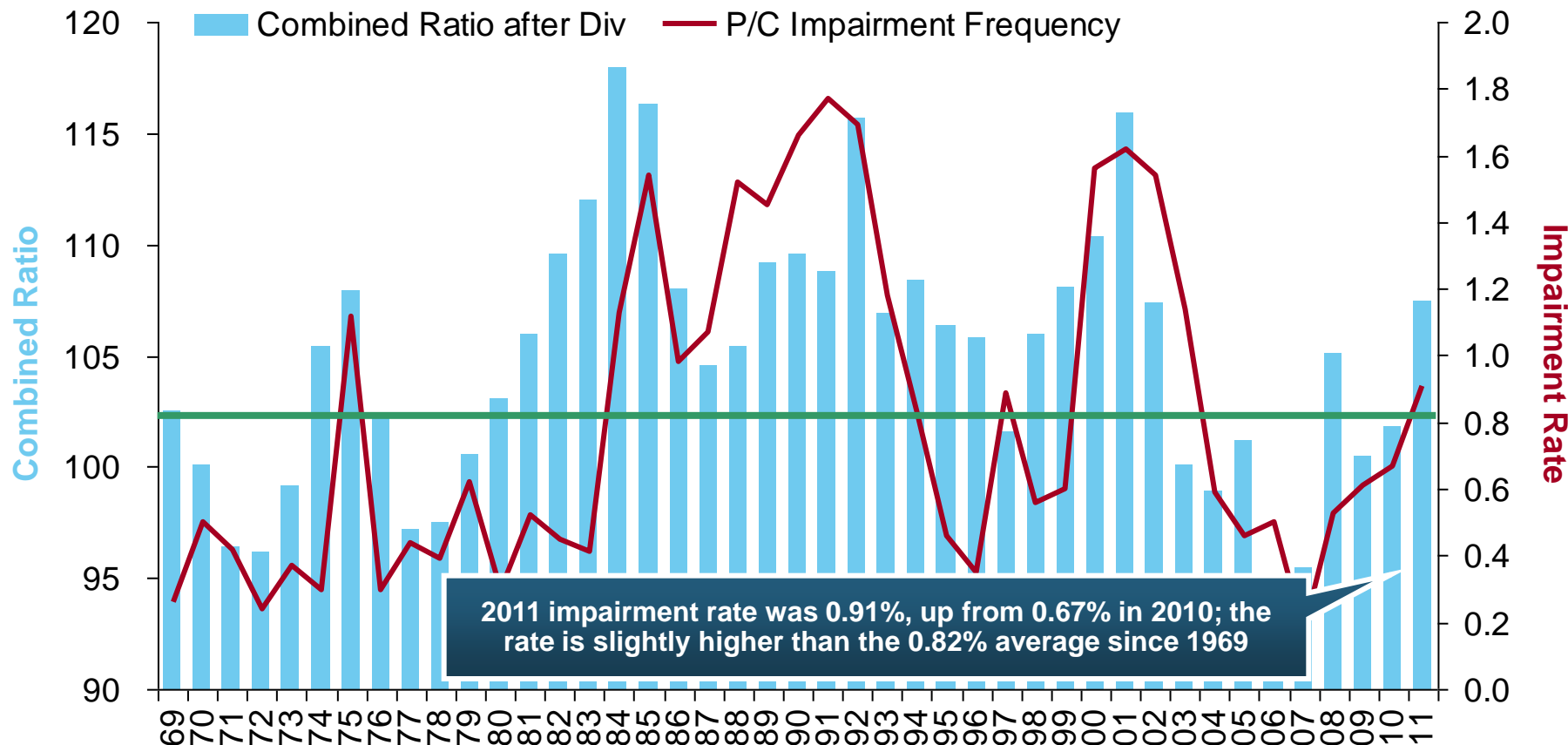
**Cyclical Pattern is P-C Impairment
History is Directly Tied to
Underwriting, Reserving & Pricing**

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, 1969-2011

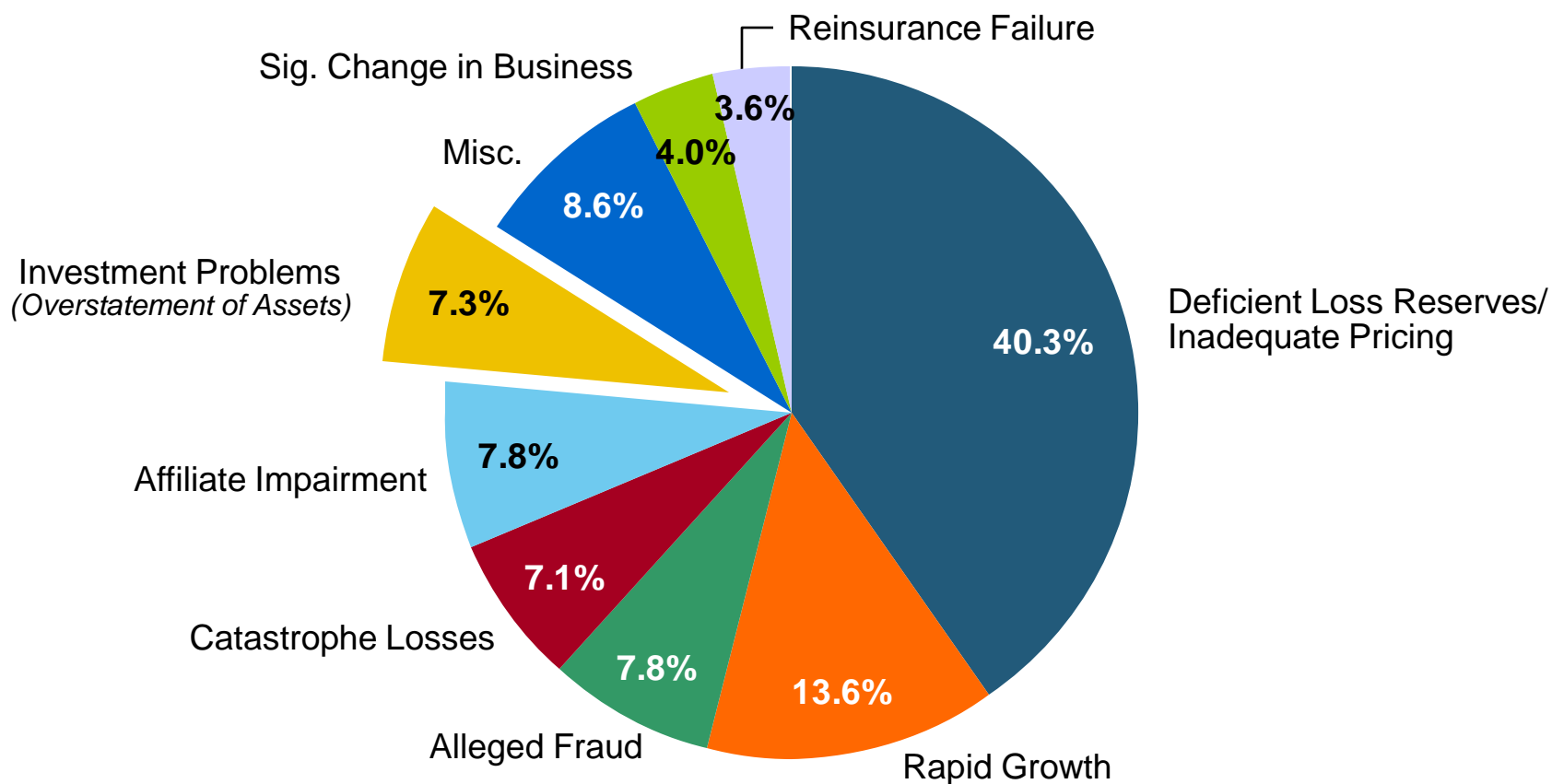


2011 impairment rate was 0.91%, up from 0.67% in 2010; the rate is slightly higher than the 0.82% average since 1969

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

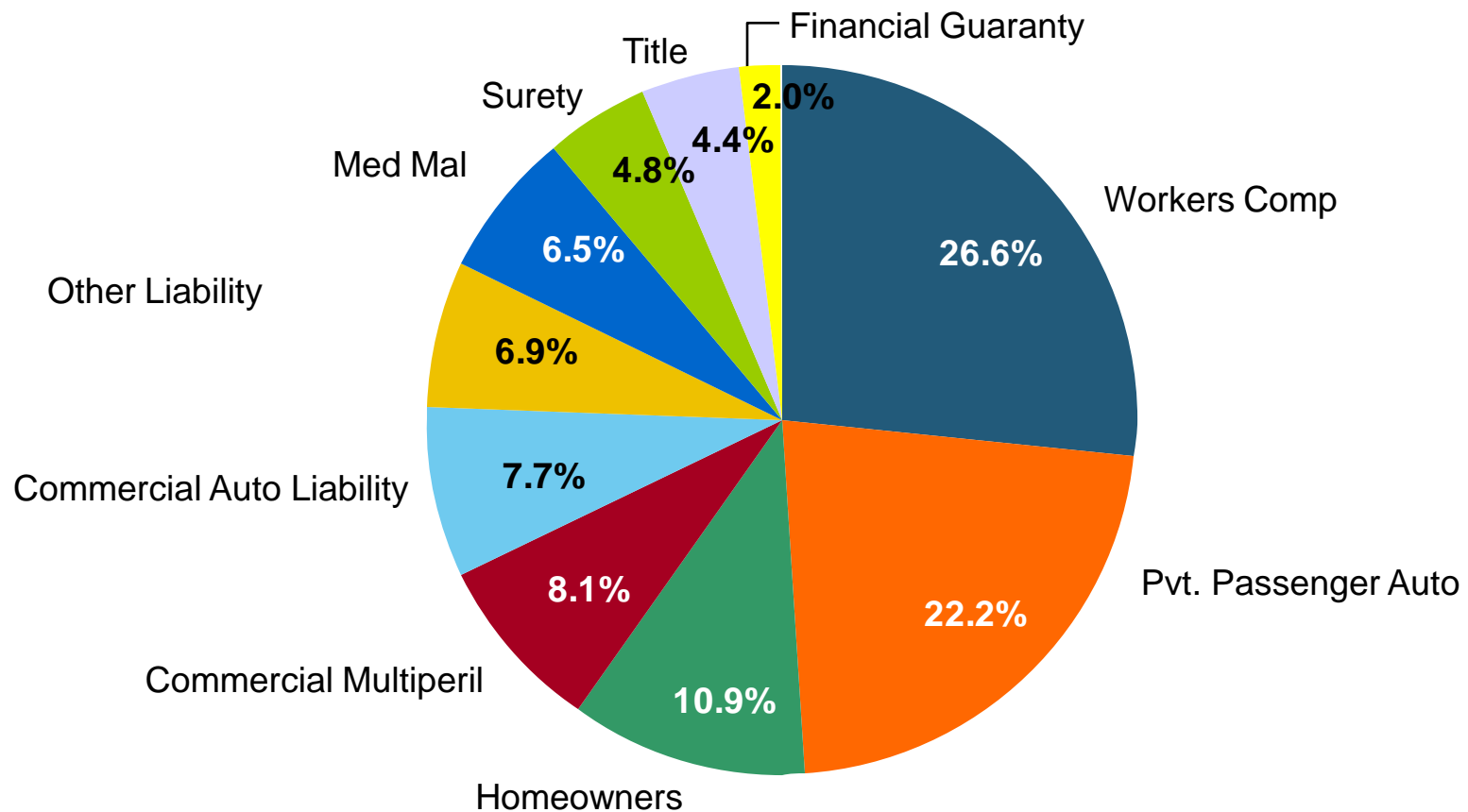
Reasons for US P/C Insurer Impairments, 1969–2010

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



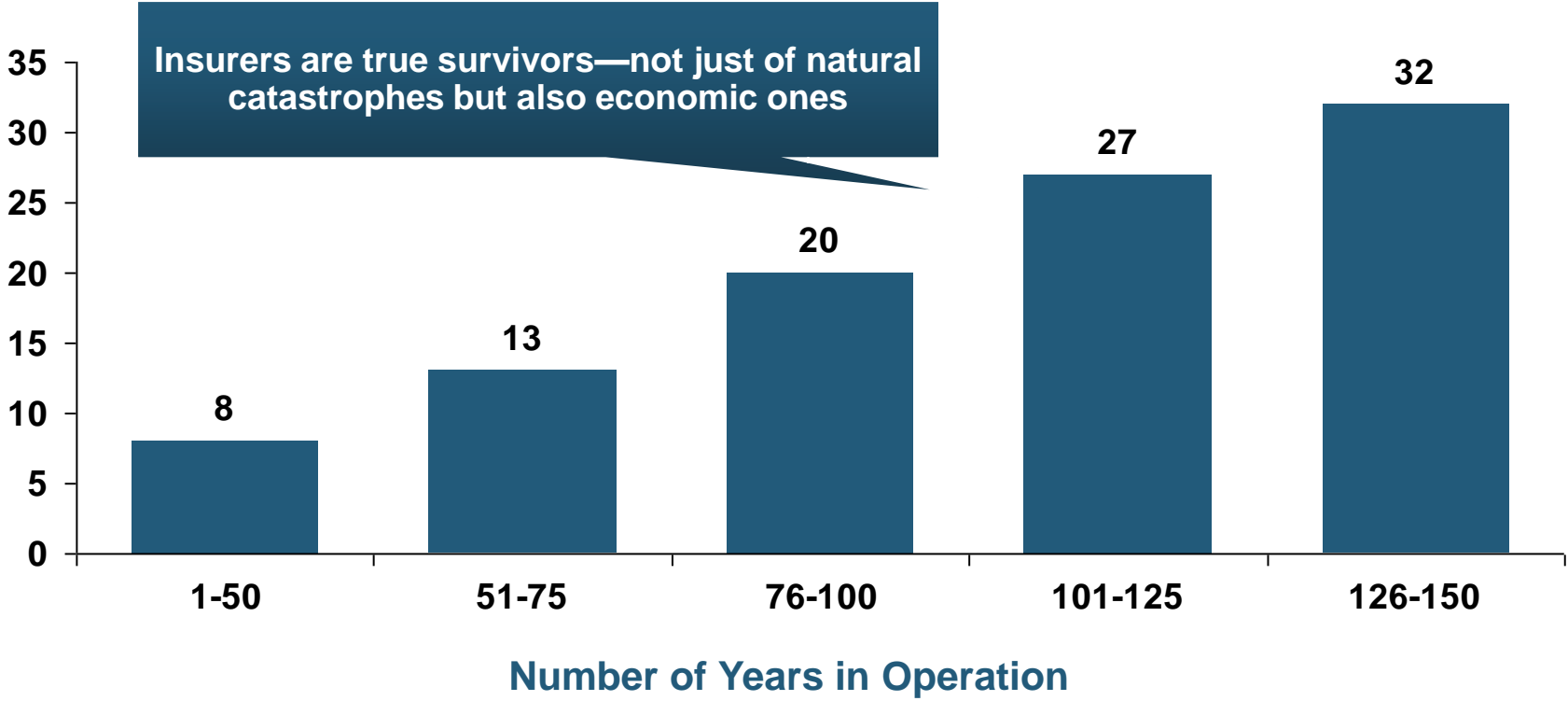
Top 10 Lines of Business for US P/C Impaired Insurers, 2000–2010

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



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

Number of Recessions Since 1860



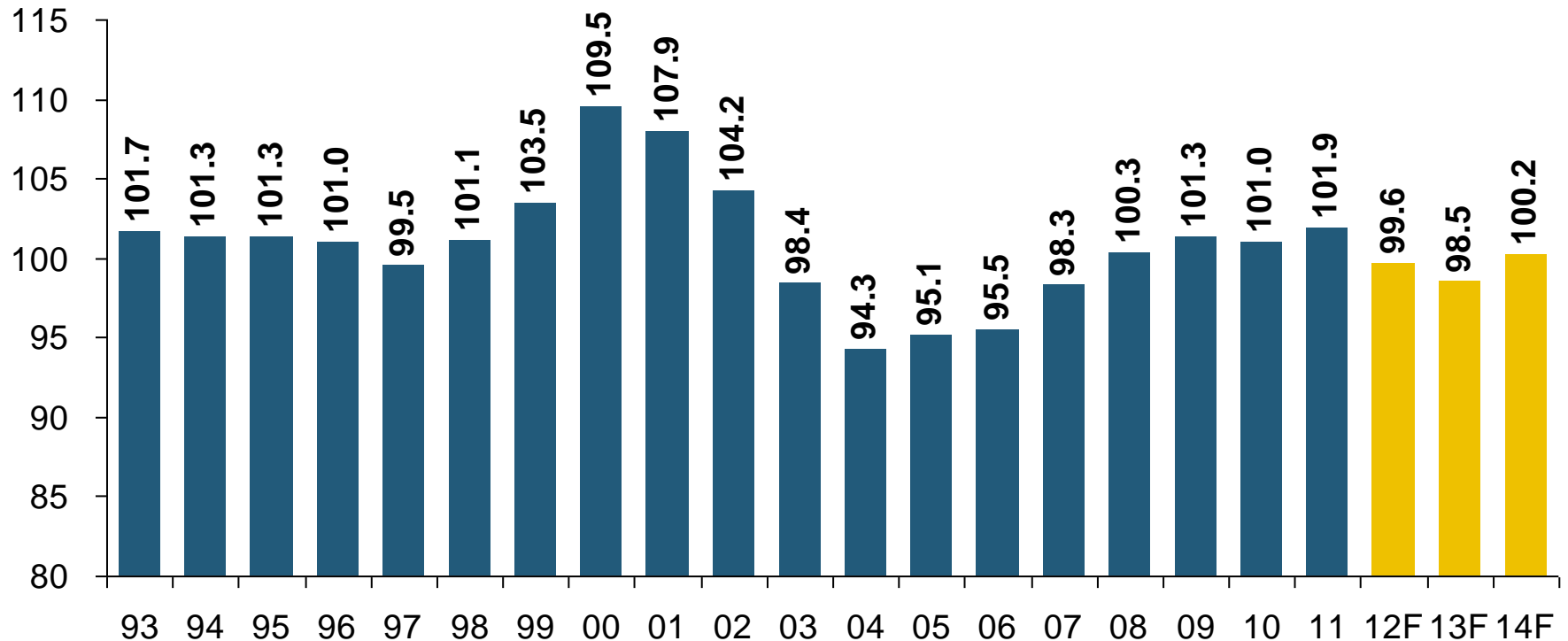
Insurers are true survivors—not just of natural catastrophes but also economic ones

Many US Insurers Are Close to a Century Old or Older

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

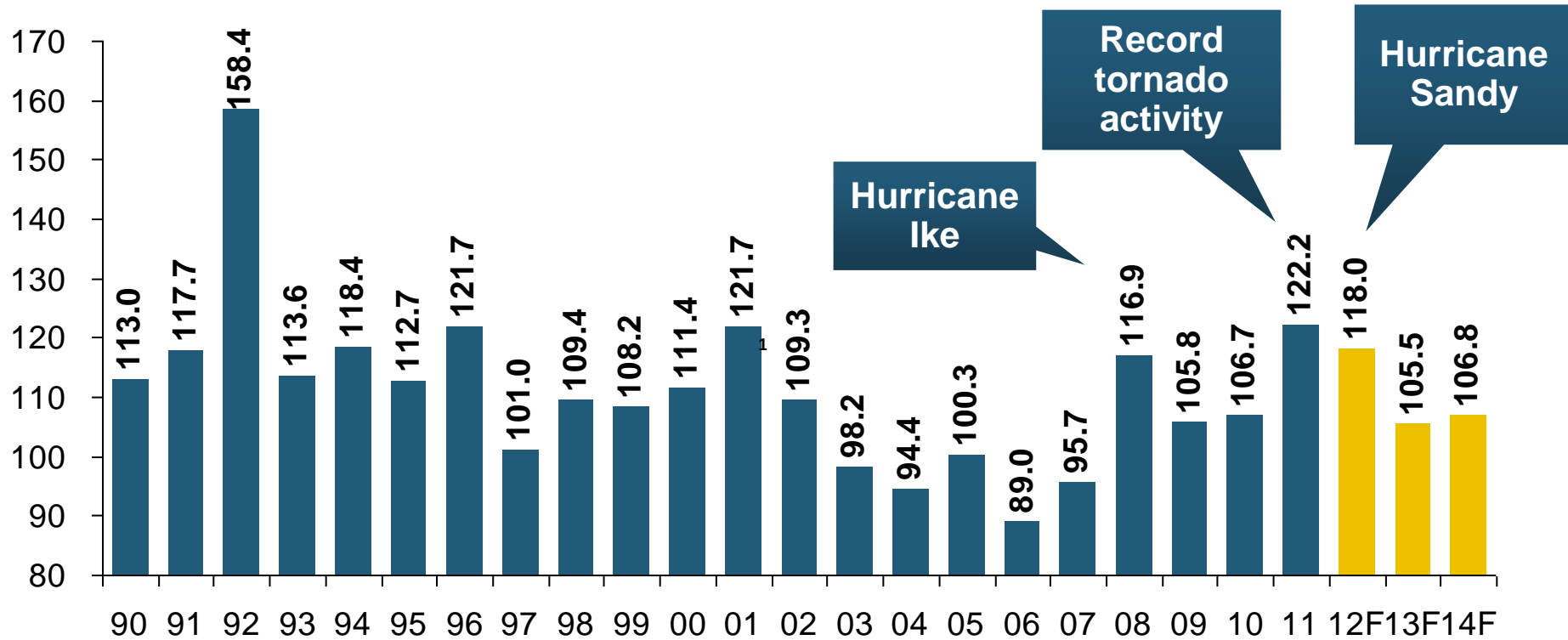
Performance by Segment

Private Passenger Auto Combined Ratio: 1993–2014F



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

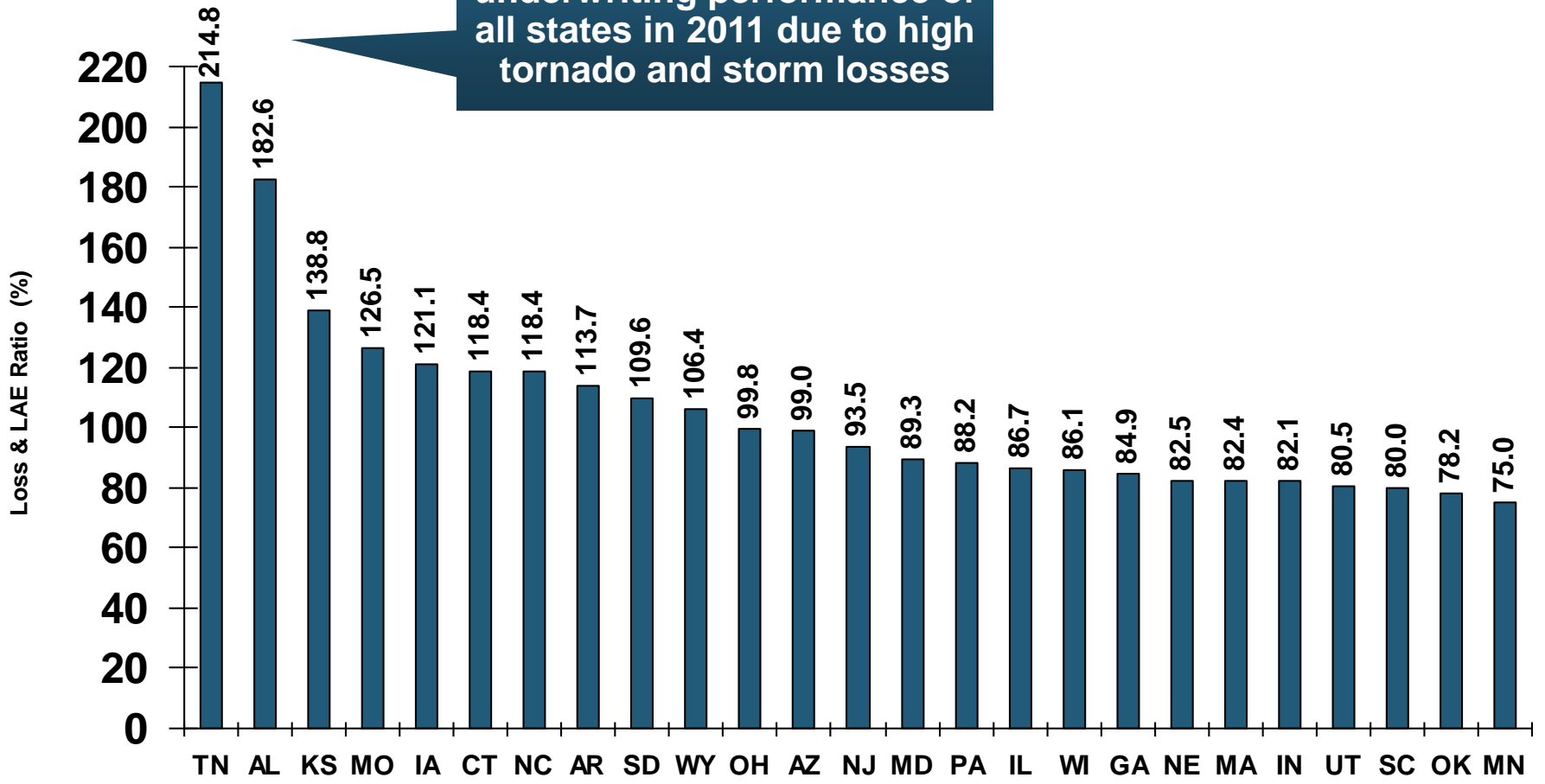
Homeowners Insurance Combined Ratio: 1990–2014F



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

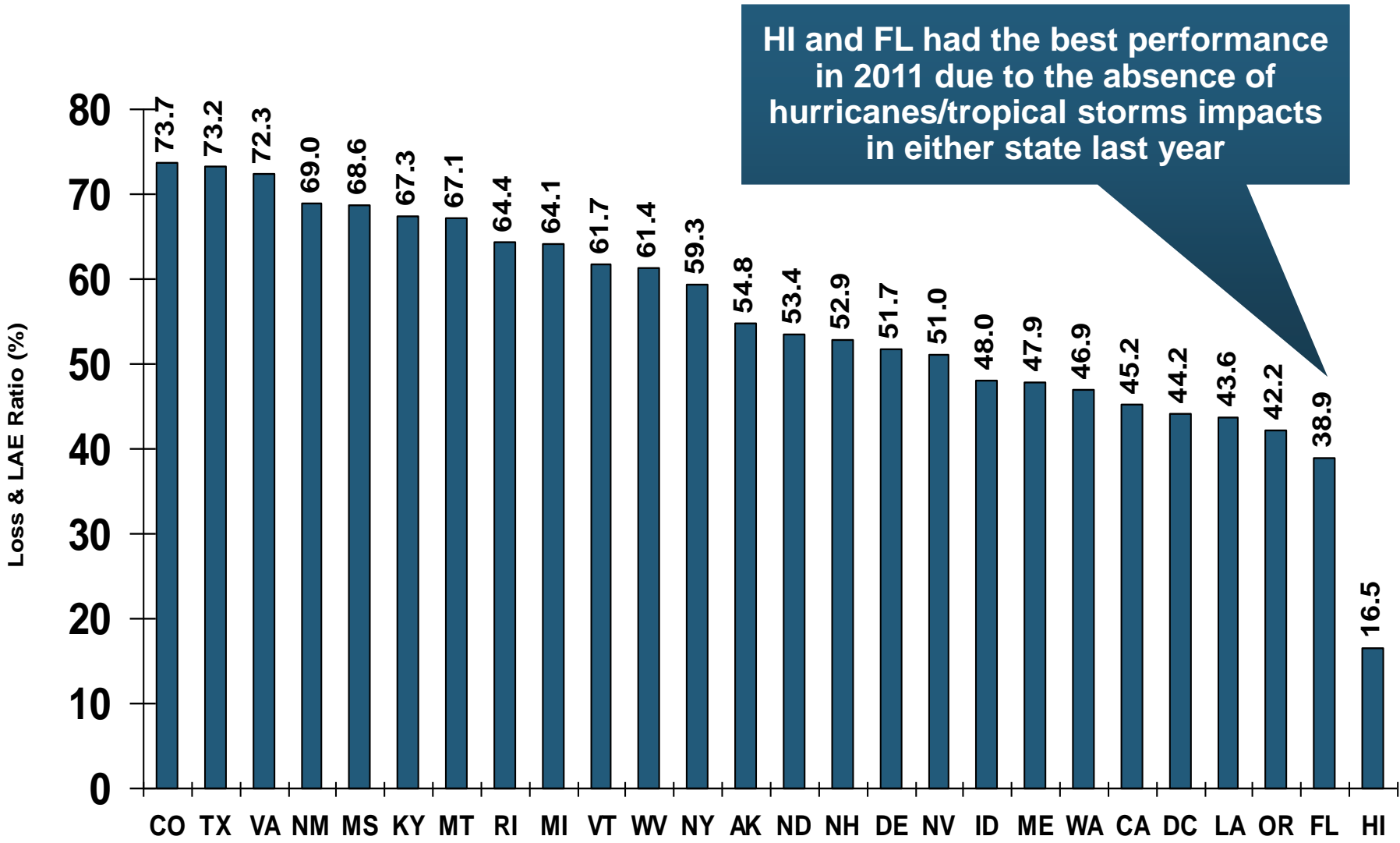
Homeowners Multi-Peril Loss & LAE Ratio, 2011: Highest 25 States

TN and AL had the worst underwriting performance of all states in 2011 due to high tornado and storm losses



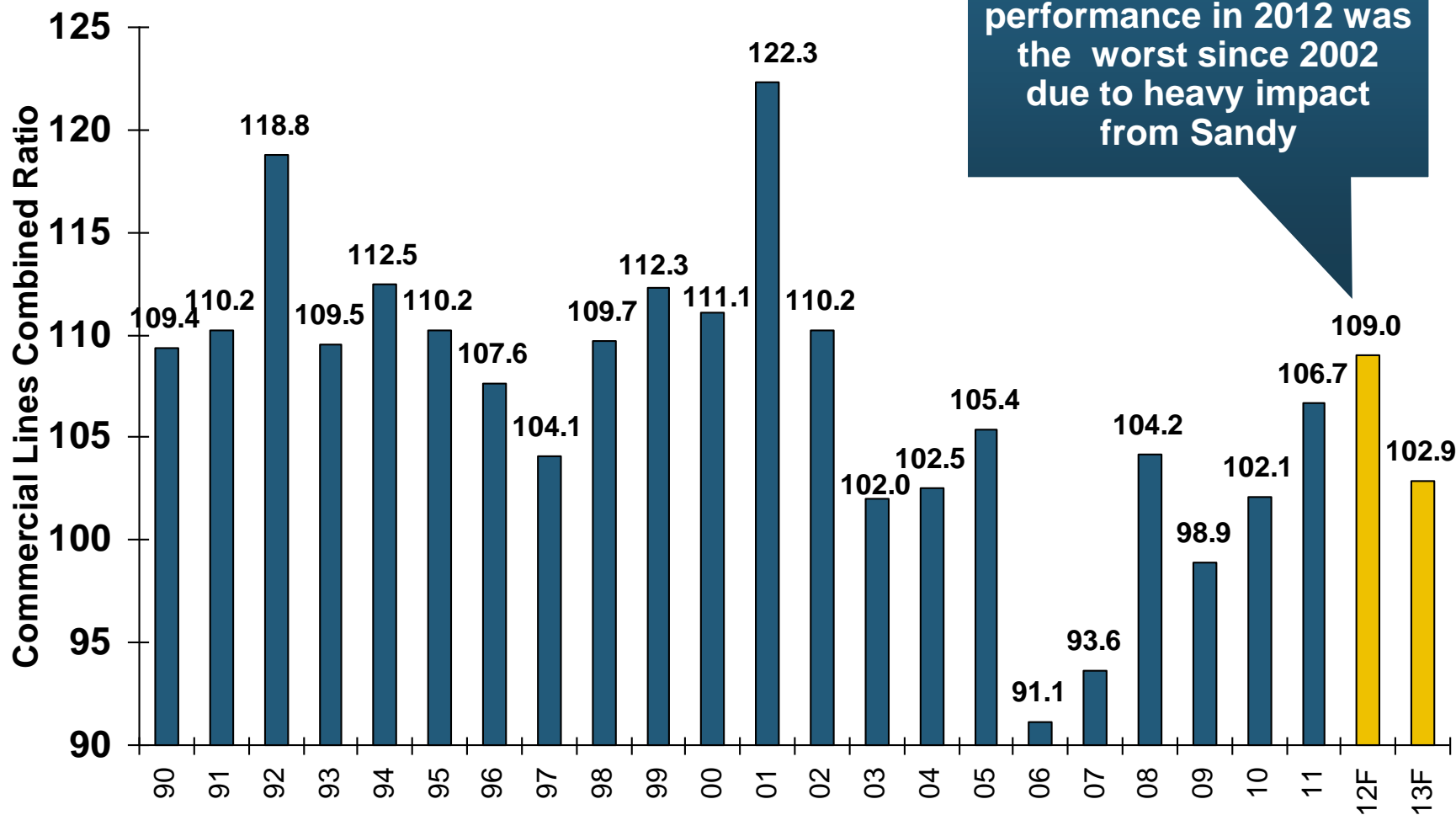
Sources: SNL Financial; Insurance Information Institute.

Homeowners Multi-Peril Loss & LAE Ratio, 2011: Lowest 25 States



Sources: SNL Financial; Insurance Information Institute.

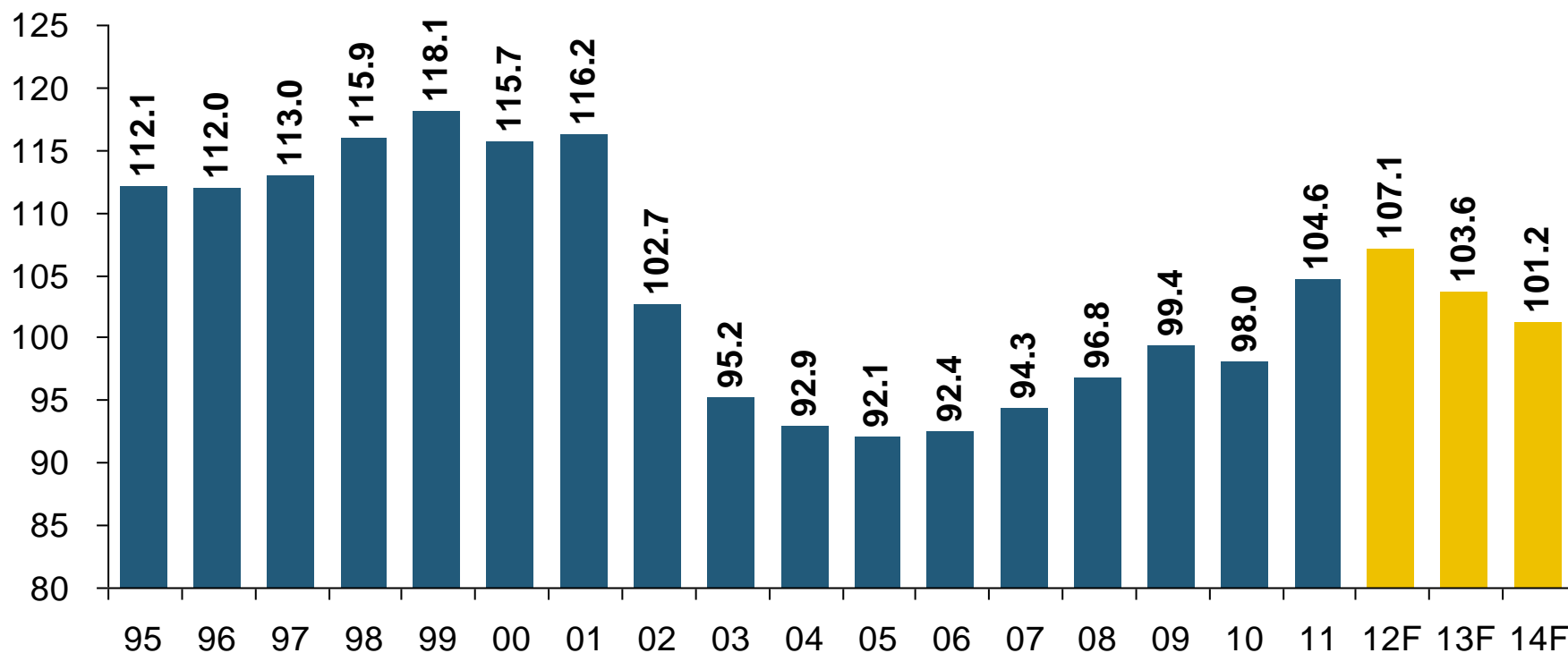
Commercial Lines Combined Ratio, 1990-2013F*



*2007-2013F figures exclude mortgage and financial guaranty segments.

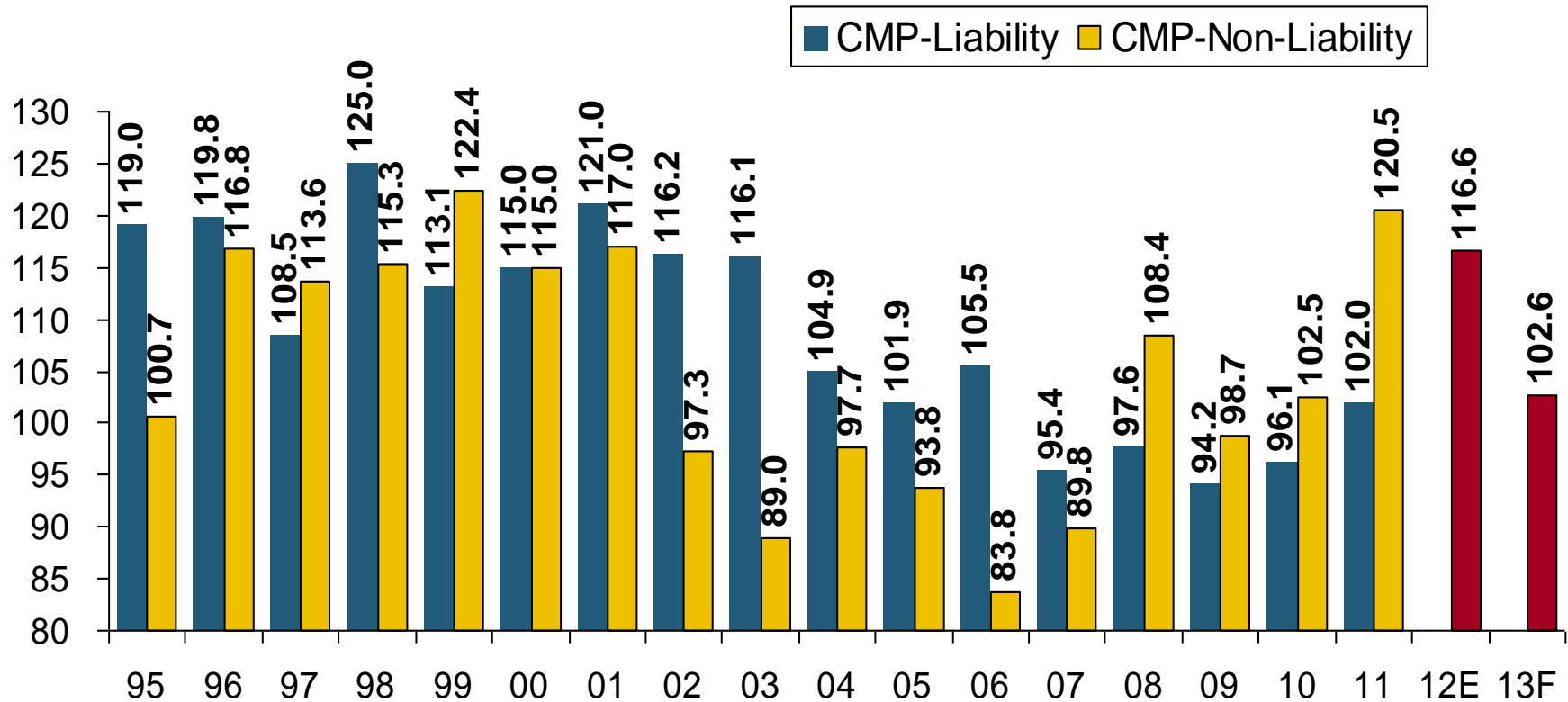
Source: A.M. Best; Insurance Information Institute

Commercial Auto Combined Ratio: 1993–2014F



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

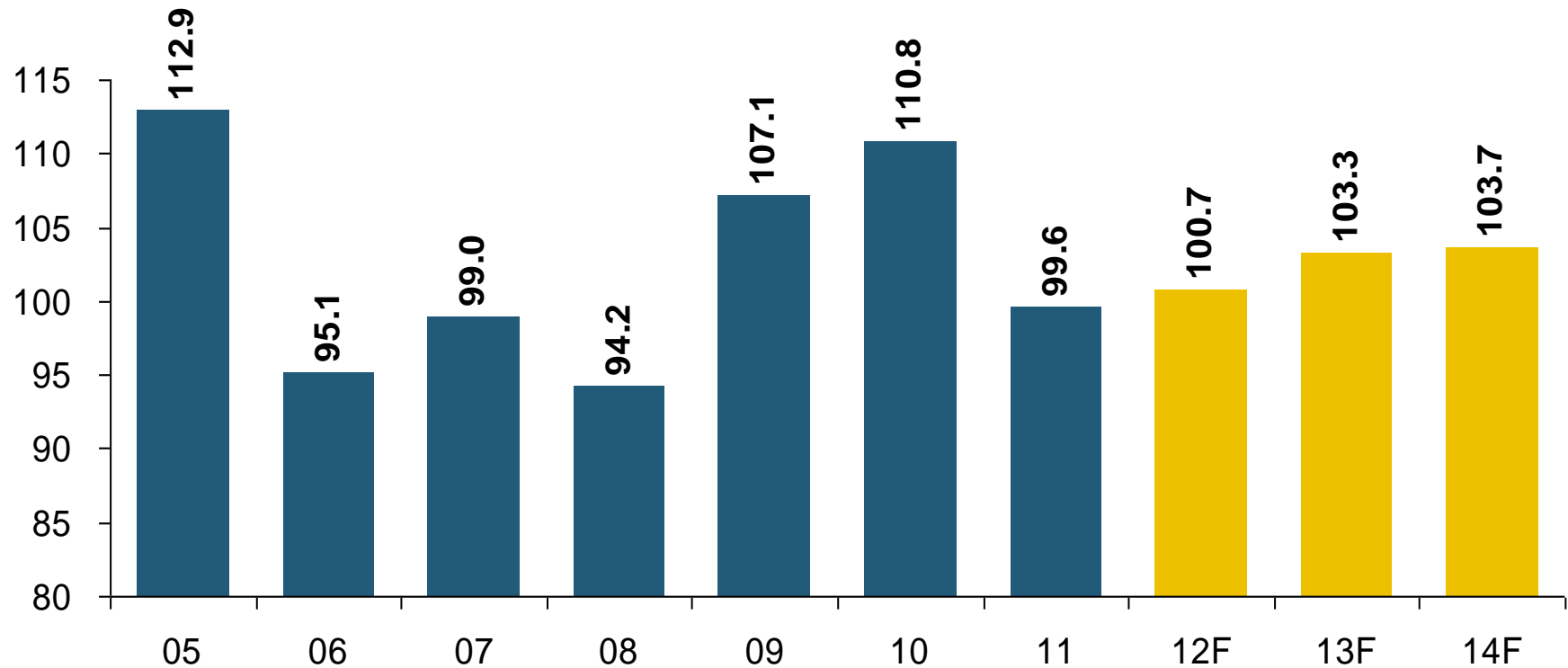
Commercial Multi-Peril Combined Ratio: 1995–2013F



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

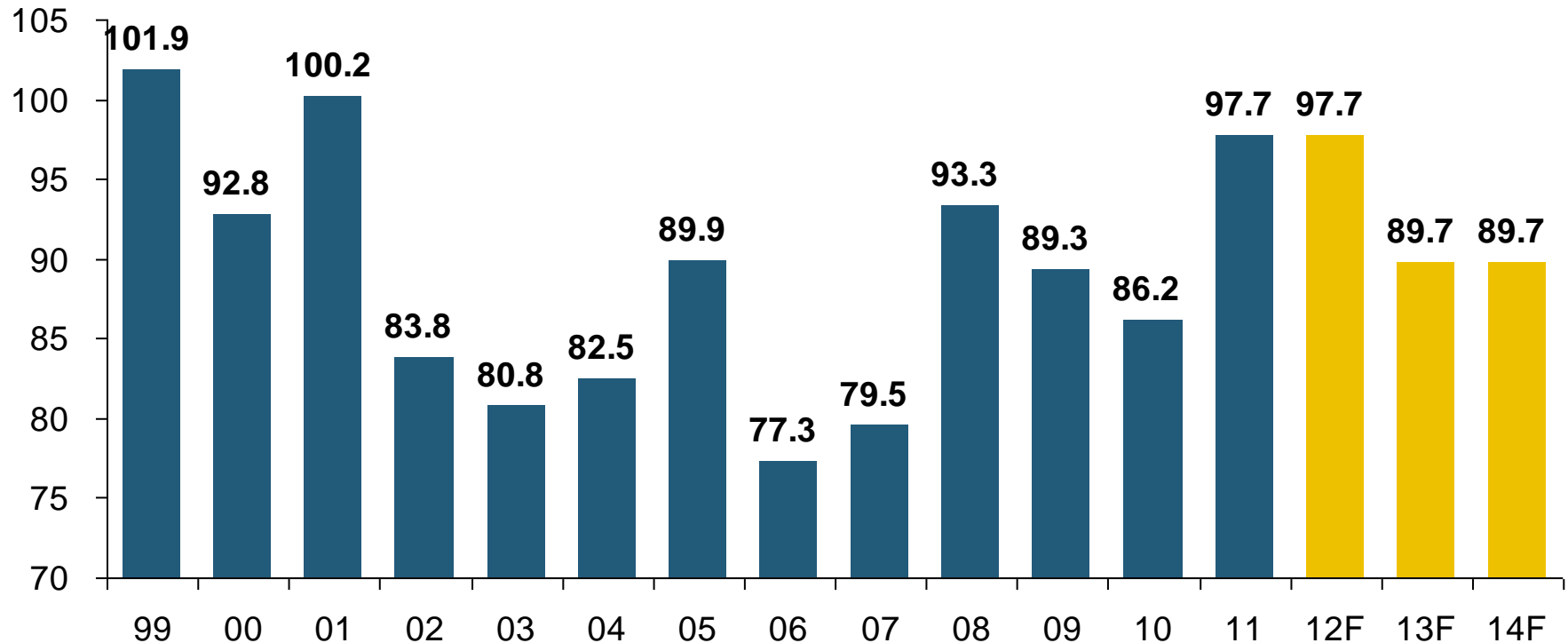
*2012-2013 figures are A.M. Best estimate/forecast for the combined liability and non-liability components.
Sources: A.M. Best; Insurance Information Institute.

General Liability Combined Ratio: 2005–2014F



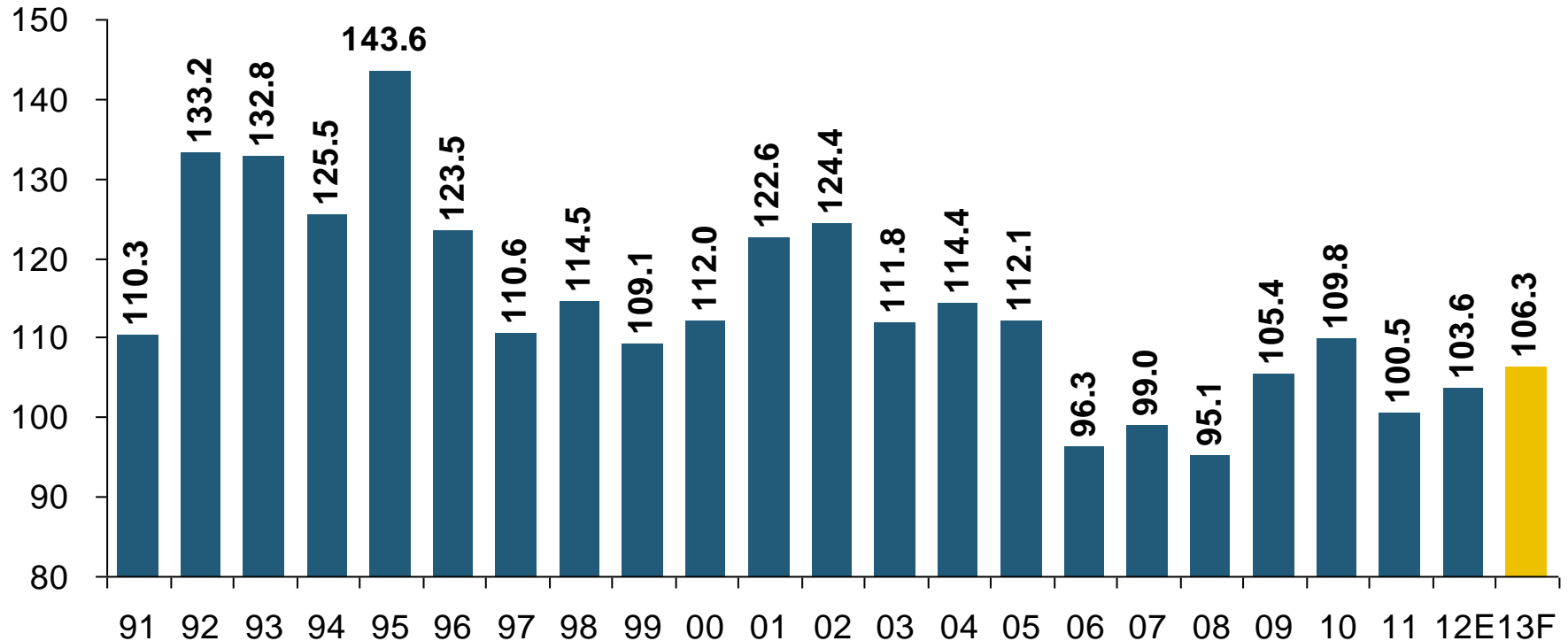
**Commercial General Liability Underwriting
Performance Has Been Volatile in Recent Years**

Inland Marine Combined Ratio: 1999–2014F



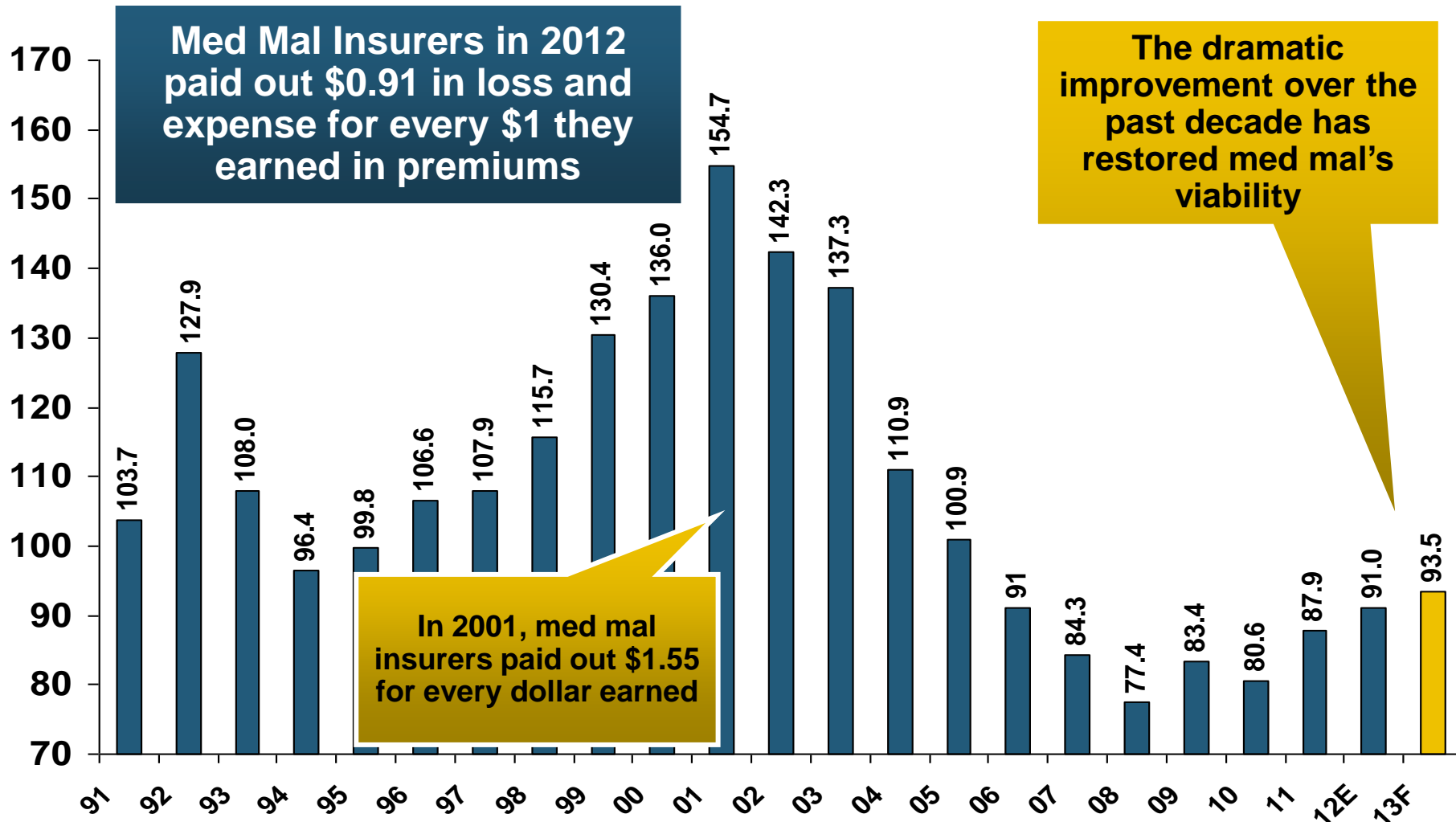
Inland Marine is Expected to Remain Among the Most Profitable of All Lines

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

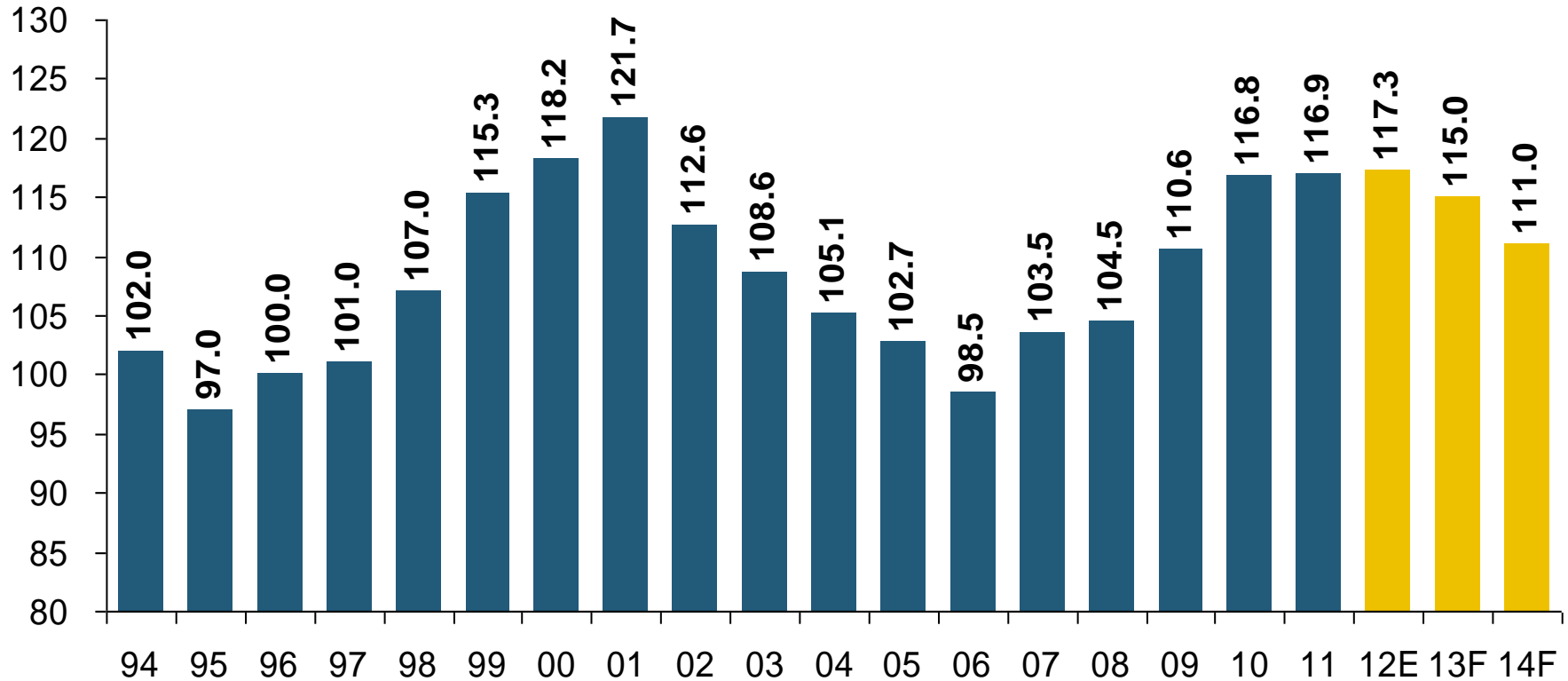
Medical Malpractice Combined Ratio vs. All Lines Combined Ratio, 1991-2013F



Workers Compensation Operating Environment

**The Weak Economy and Soft Market Have
Made the Workers Comp Operating
Increasingly Challenging**

Workers Compensation Combined Ratio: 1994–2014F



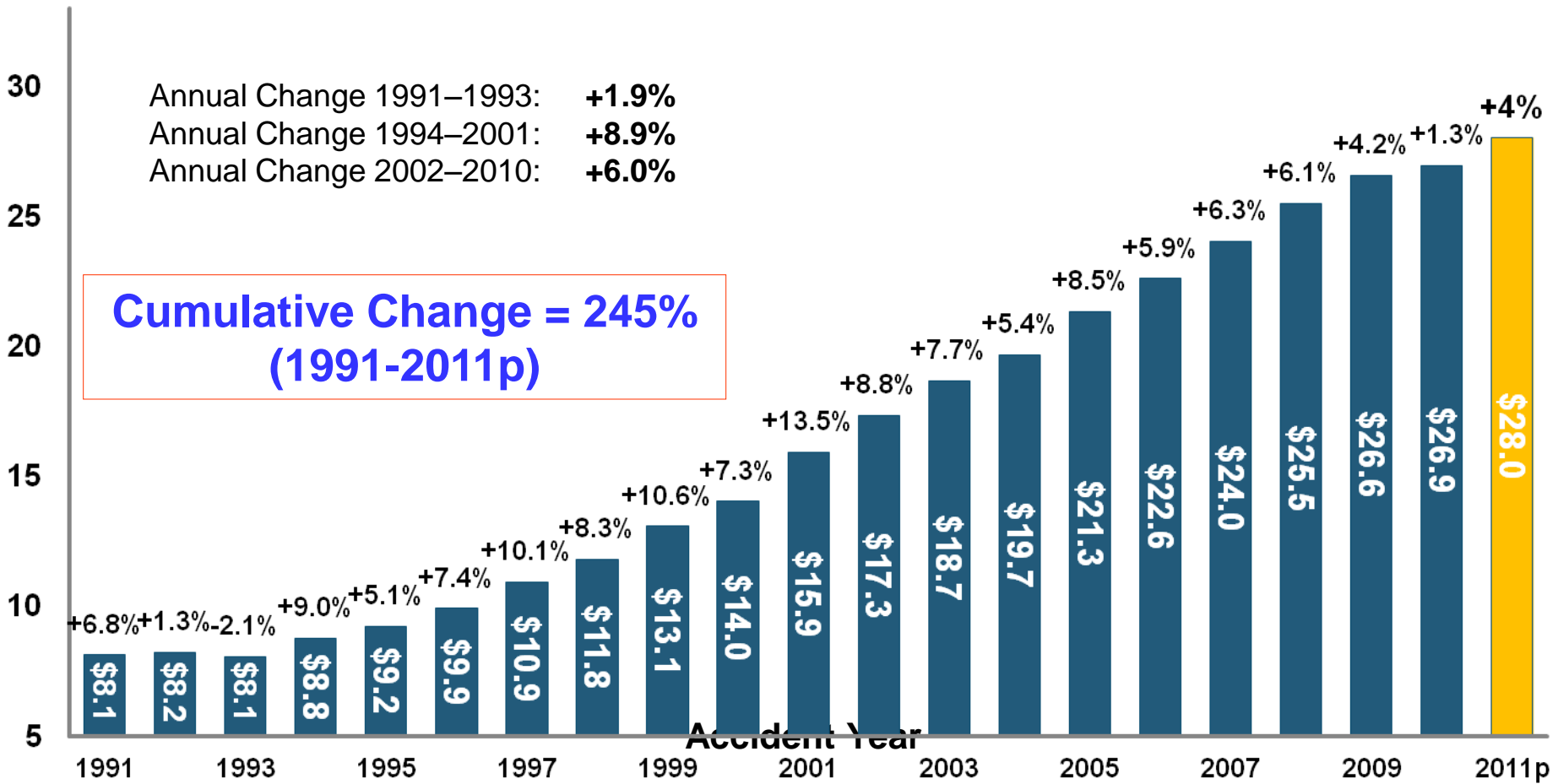
Workers Comp Results Should Begin to Improve in 2013. Underwriting Results Deteriorated Markedly from 2007-2012 and Were the Worst They Had Been in a Decade.

Workers Compensation Medical Severity Moderate Increase in 2011



Average Medical Cost per Lost-Time Claim

Medical Claim Cost (\$000s)



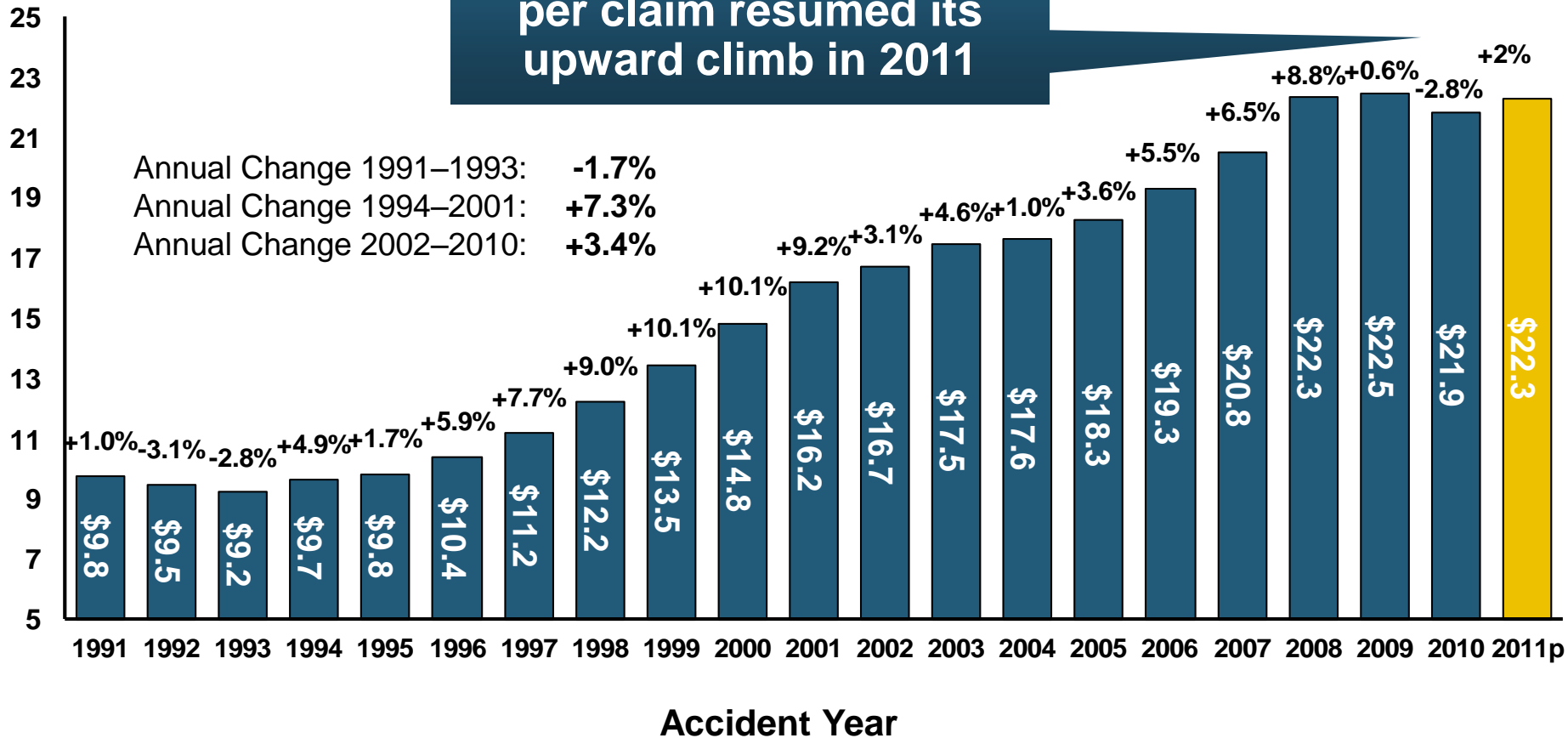
2011p: Preliminary based on data valued as of 12/31/2011
 1991-2010: Based on data through 12/31/2010, developed to ultimate
 Based on the states where NCCI provides ratemaking services; Excludes high deductible policies

Workers Comp Indemnity Claim Costs: Modest Increase in 2011

Average Indemnity Cost per Lost-Time Claim

Indemnity Claim Cost (\$ 000s)

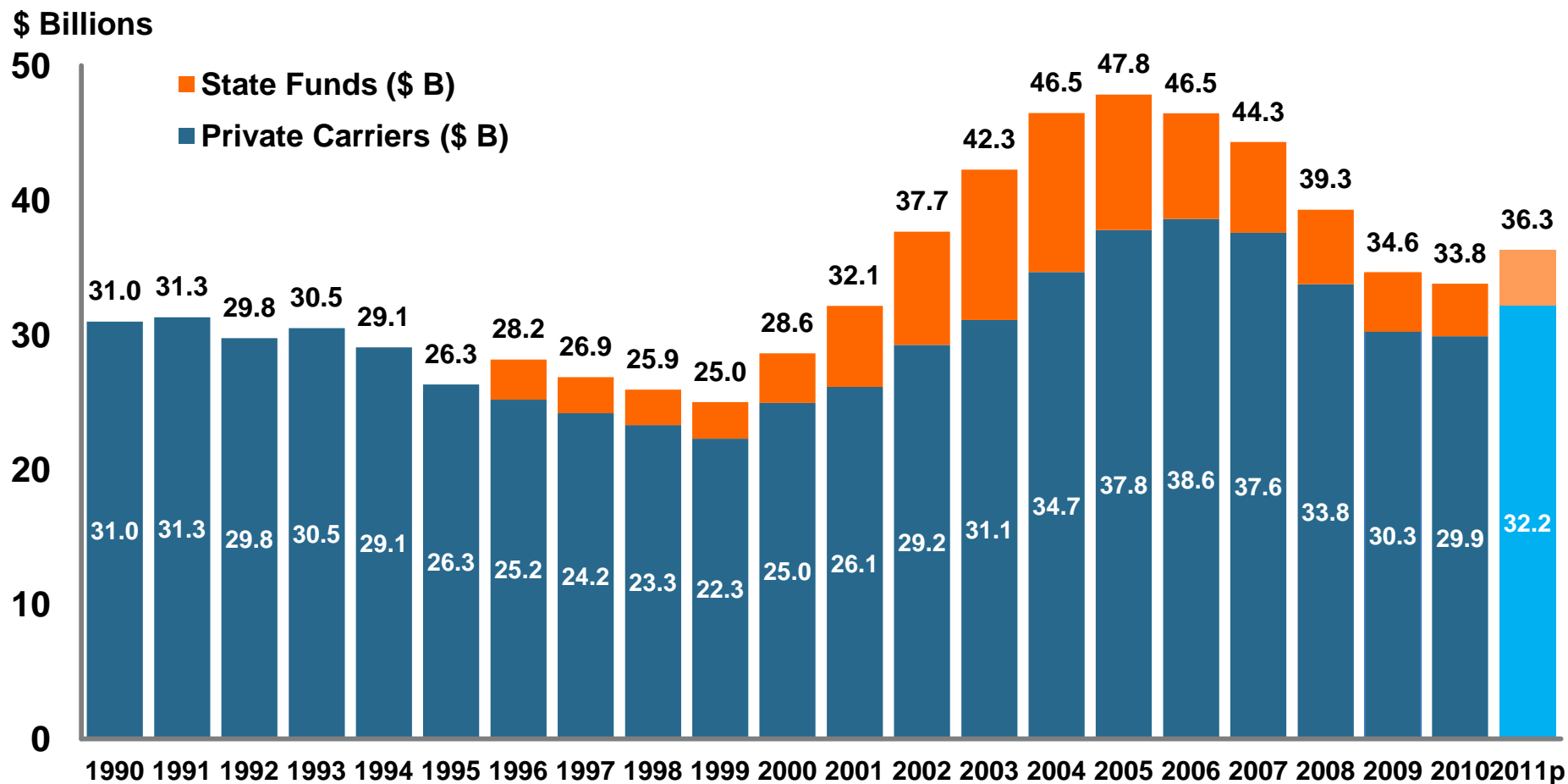
Average indemnity costs per claim resumed its upward climb in 2011



2010p: Preliminary based on data valued as of 12/31/2011
 1991–2010: Based on data through 12/31/2010, developed to ultimate
 Based on the states where NCCI provides ratemaking services
 Excludes high deductible policies

Workers Compensation Premium: First Increase in Years

Net Written Premium



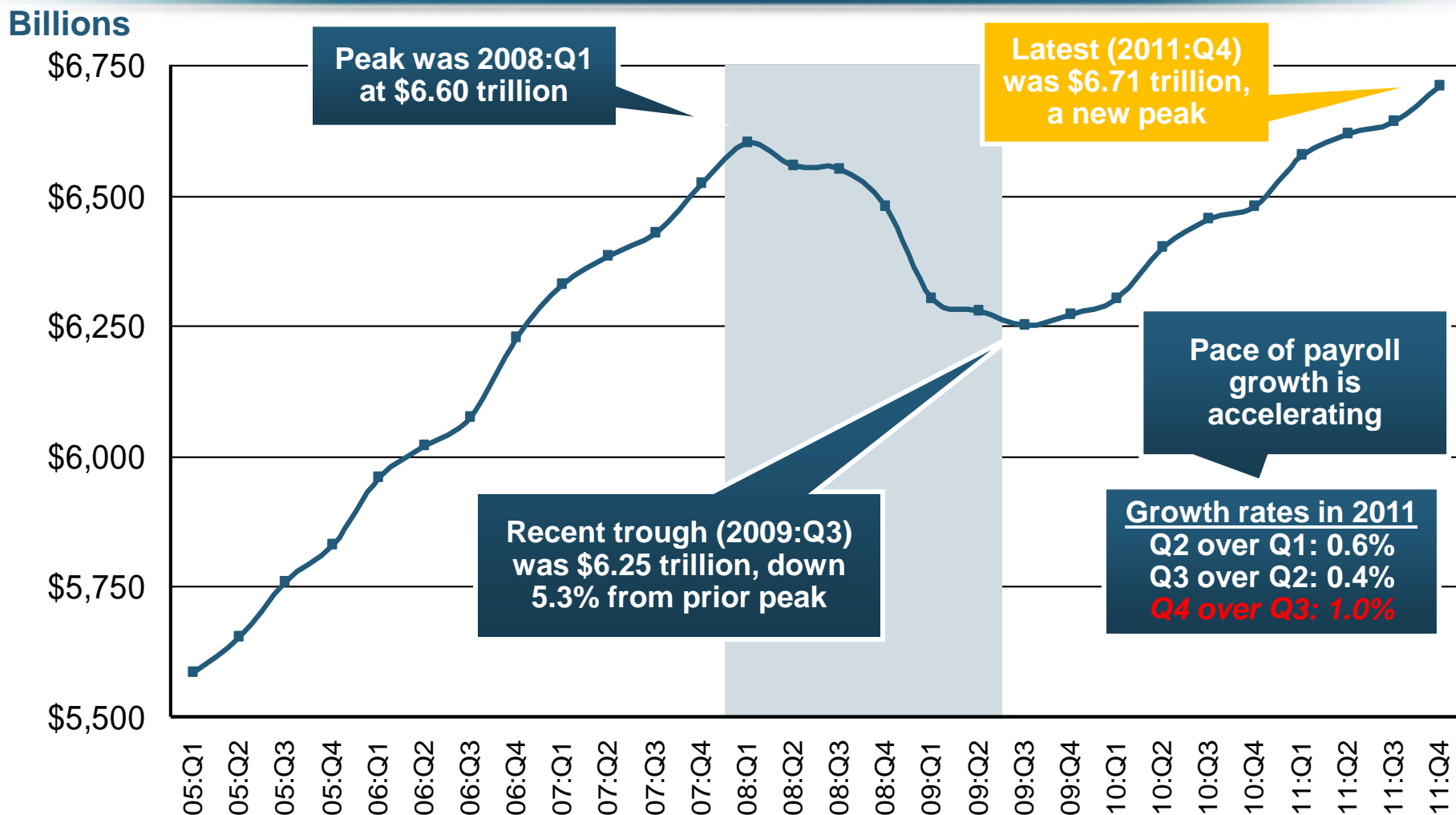
p Preliminary

Source: 1990–2010 Private Carriers, *Best's Aggregates & Averages*; 2011p, NCCI

1996–2011p State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

State Funds available for 1996 and subsequent

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



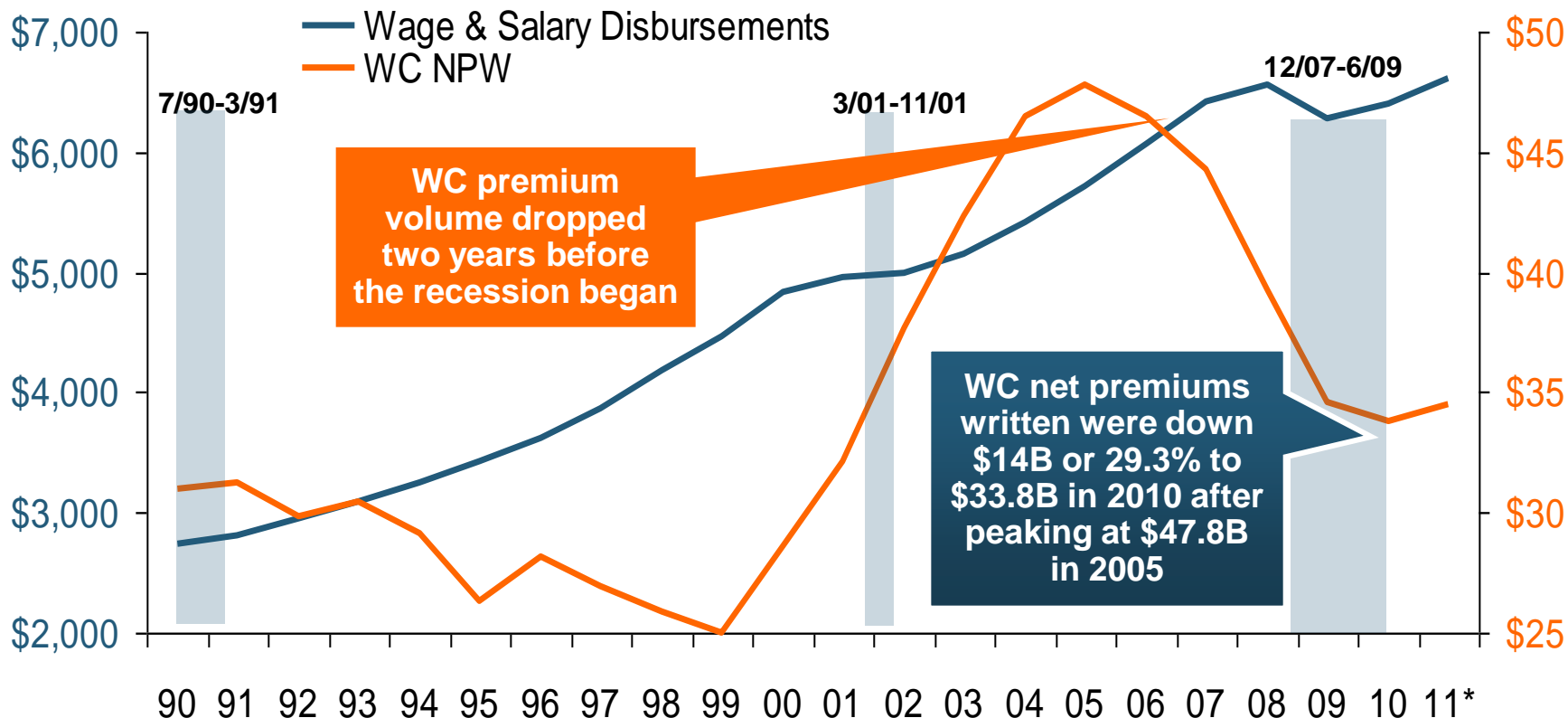
Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

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

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

Payroll Base*
\$Billions

WC NWP
\$Billions



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

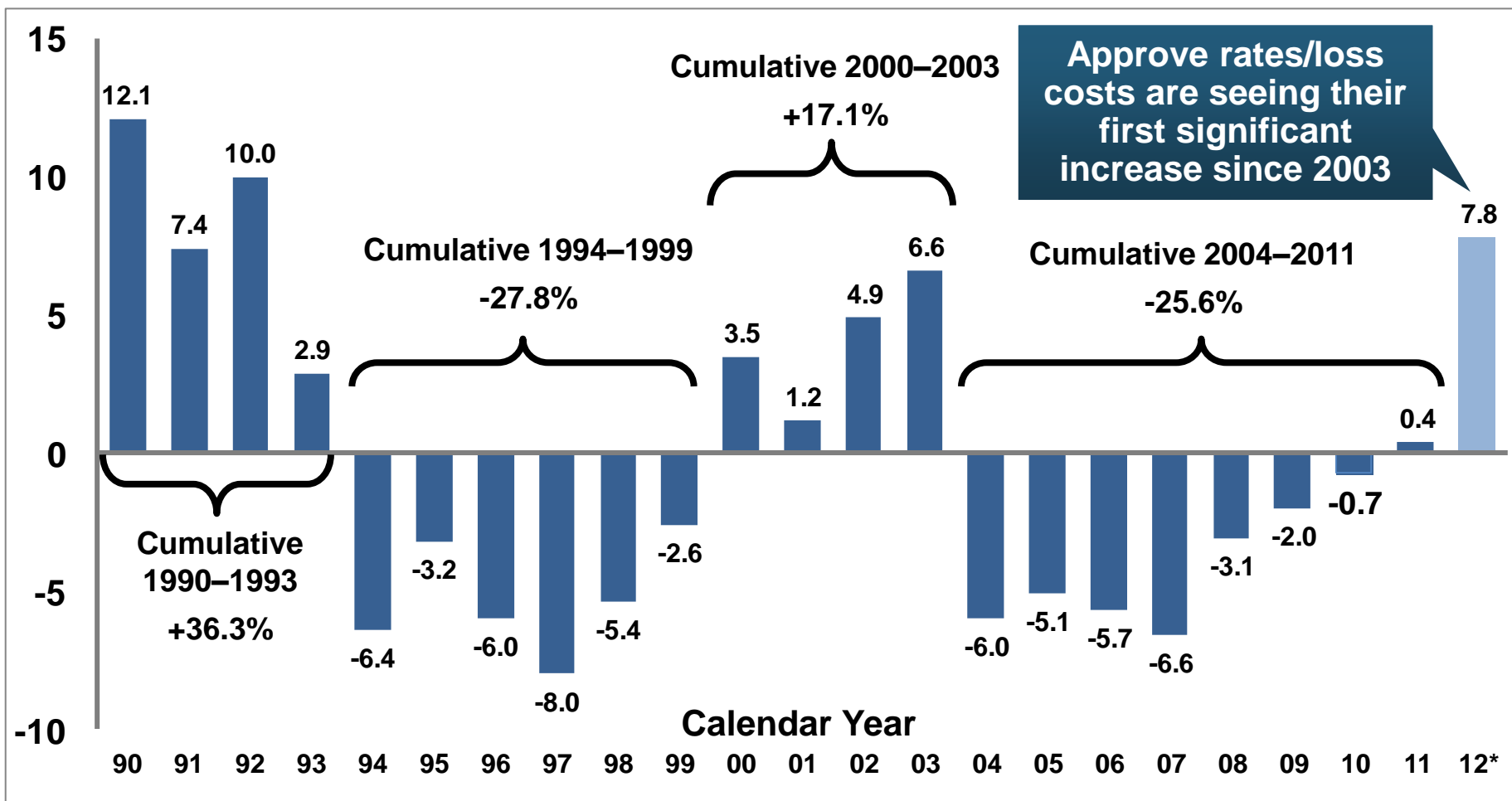
*Private employment; Shaded areas indicate recessions. Payroll and WC premiums for 2011 is I.I.I. estimate

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

Average Approved Bureau Rates/Loss Costs

History of Average WC Bureau Rate/Loss Cost Level Changes

Percent



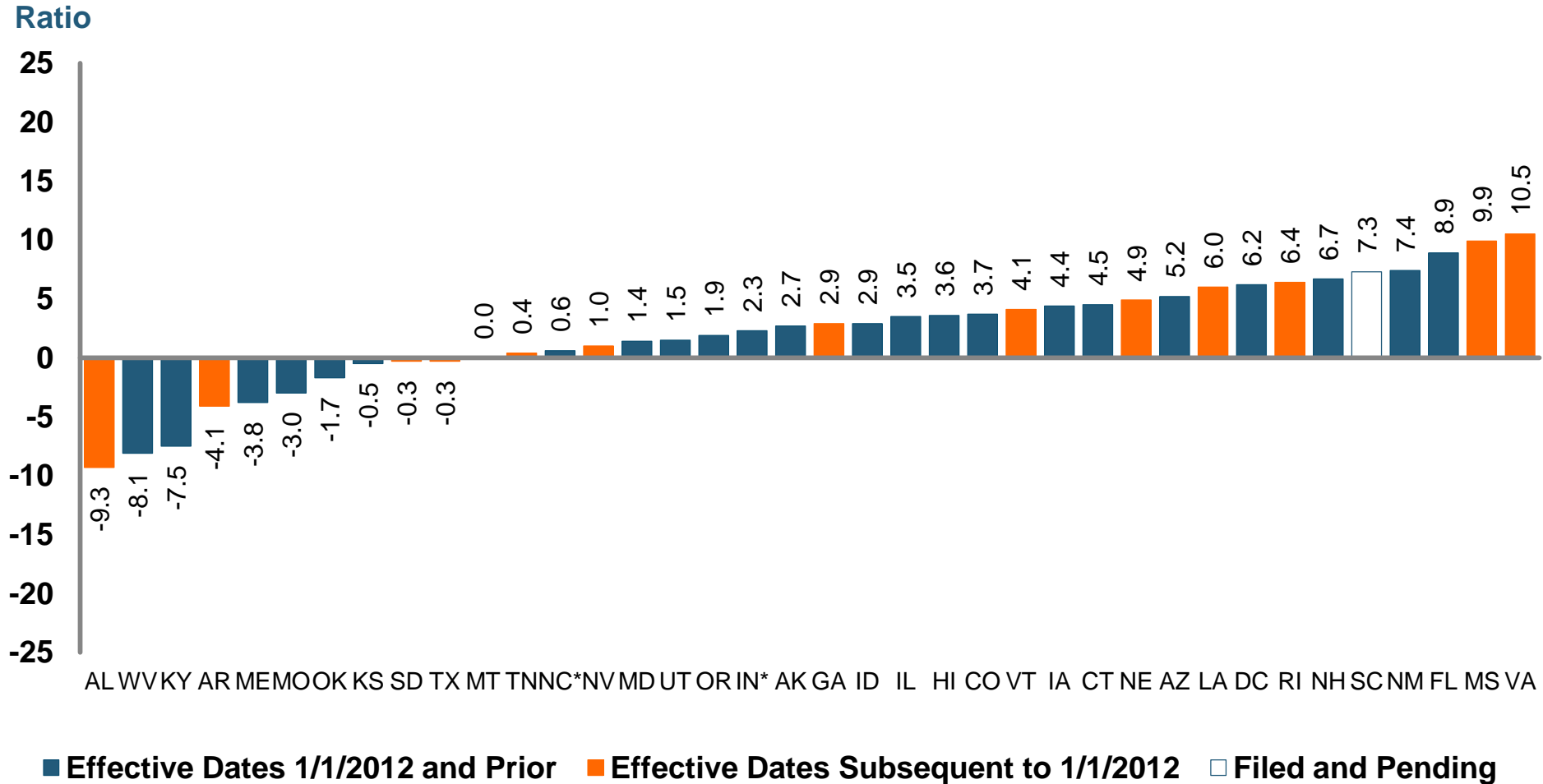
*States approved through 7/31/12.

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

Source: NCCI.

Current NCCI Voluntary Market Filed Rate/Loss Cost Changes

(Excludes Law-Only Filings)

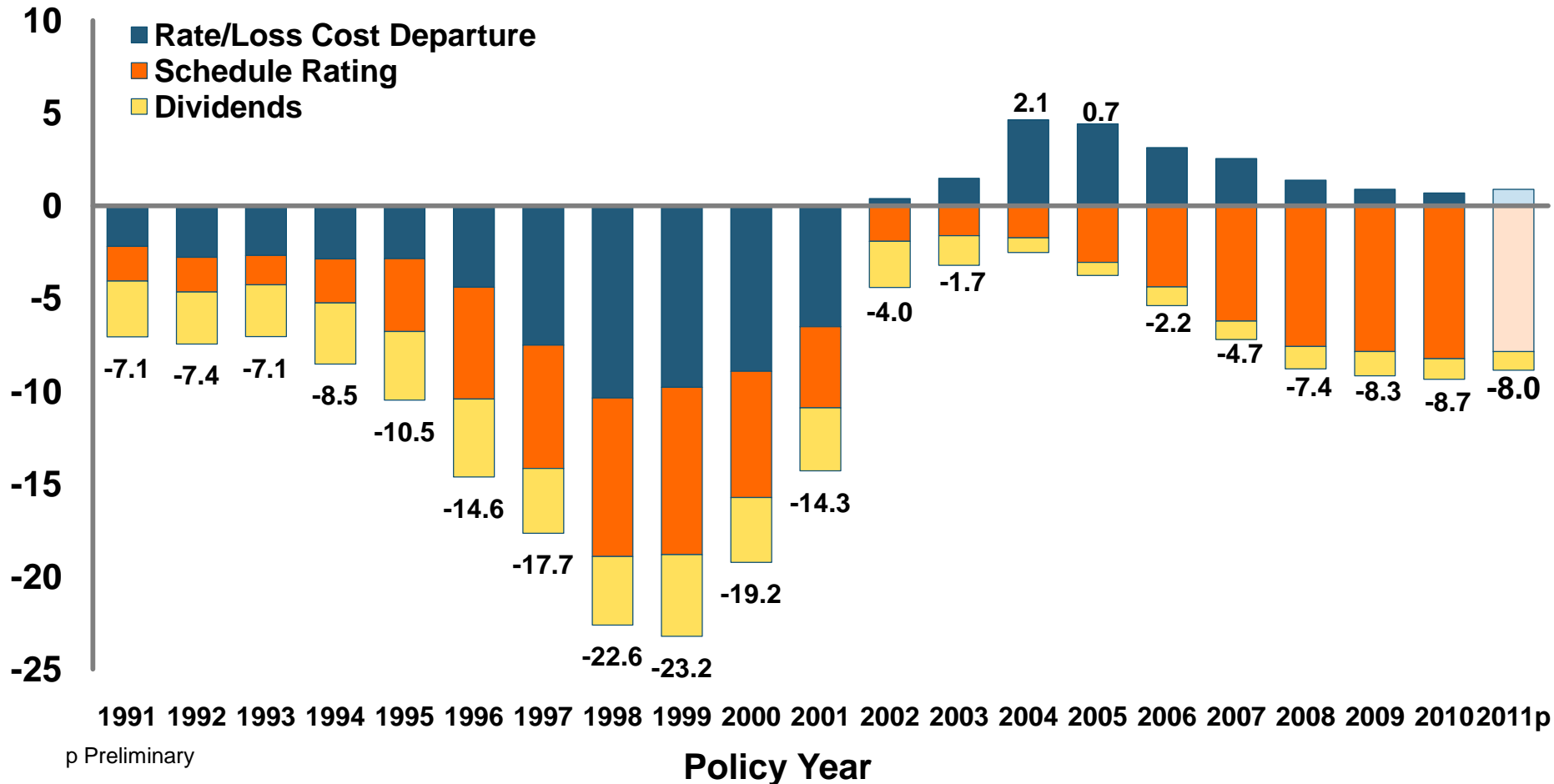


*IN and NC filed in cooperation with state rating bureau
Source: NCCI

Impact of Discounting on Workers Compensation Premium

NCCI States—Private Carriers

Percent



p Preliminary

Dividend ratios are based on calendar year statistics

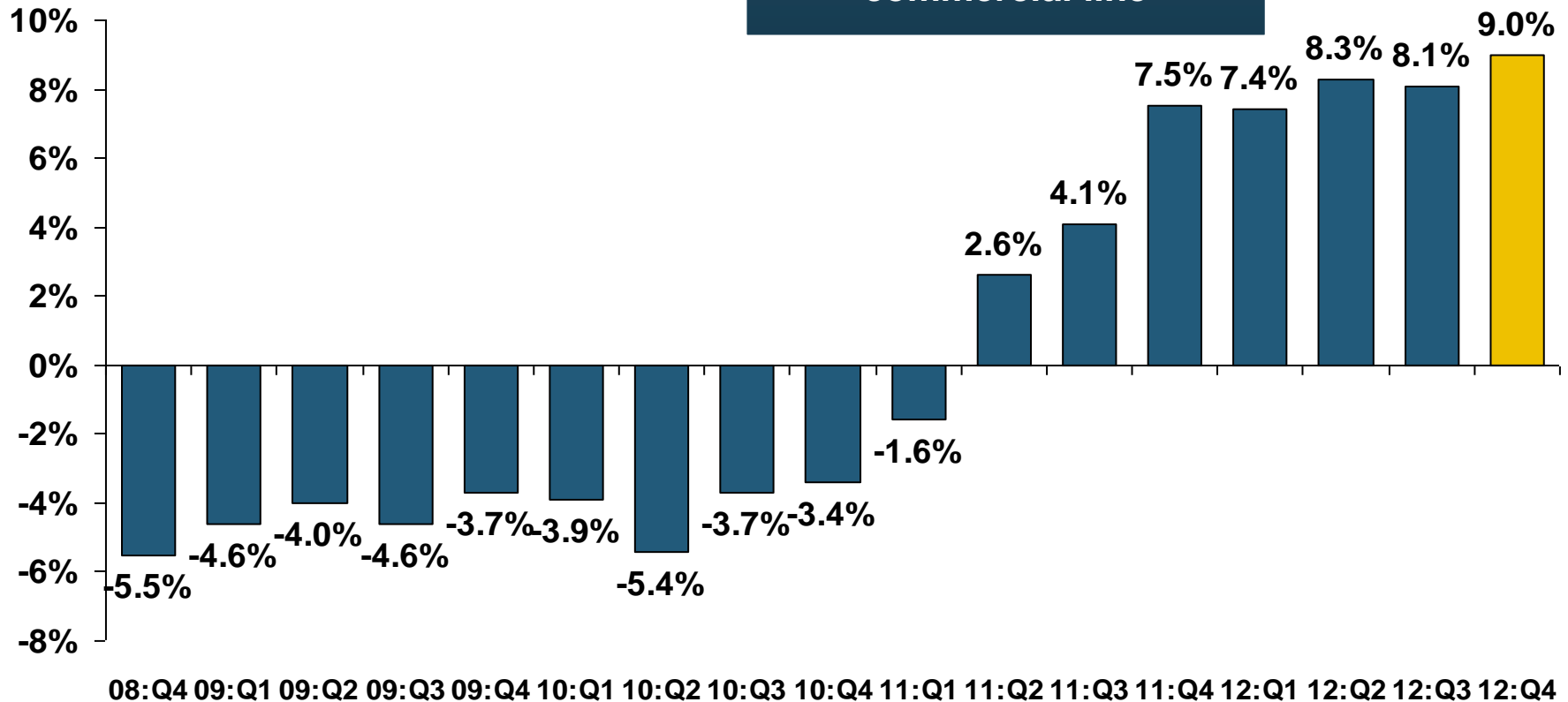
NCCI benchmark level does not include an underwriting contingency provision

Based on data through 12/31/2011 for the states where NCCI provides ratemaking services

Source: NCCI.

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

(Percent Change)



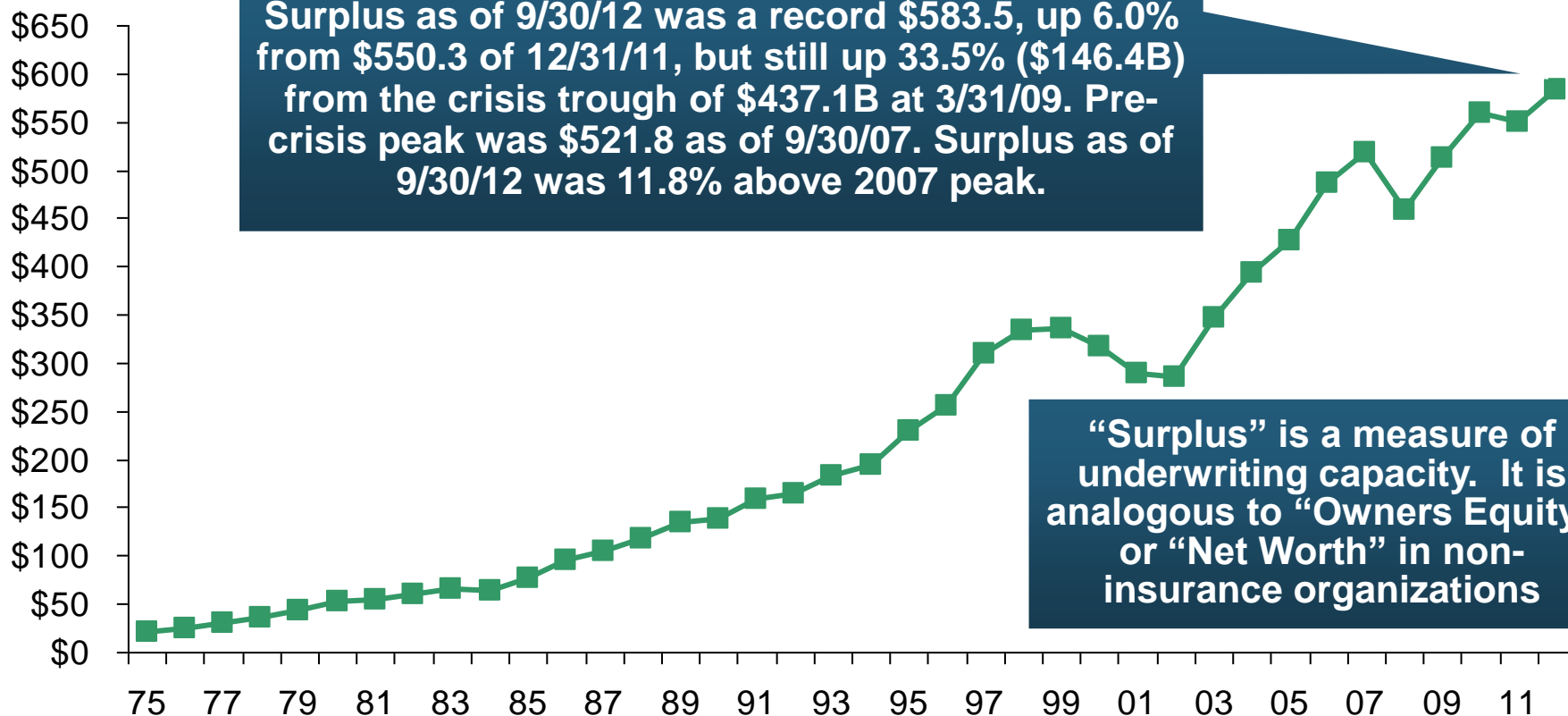
Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
 Source: Council of Insurance Agents and Brokers; Information Institute.

2. SURPLUS/CAPITAL/CAPACITY

**How Will Large Catastrophe Losses
Impact Capacity?**

US Policyholder Surplus: 1975–2012*

(\$ Billions)



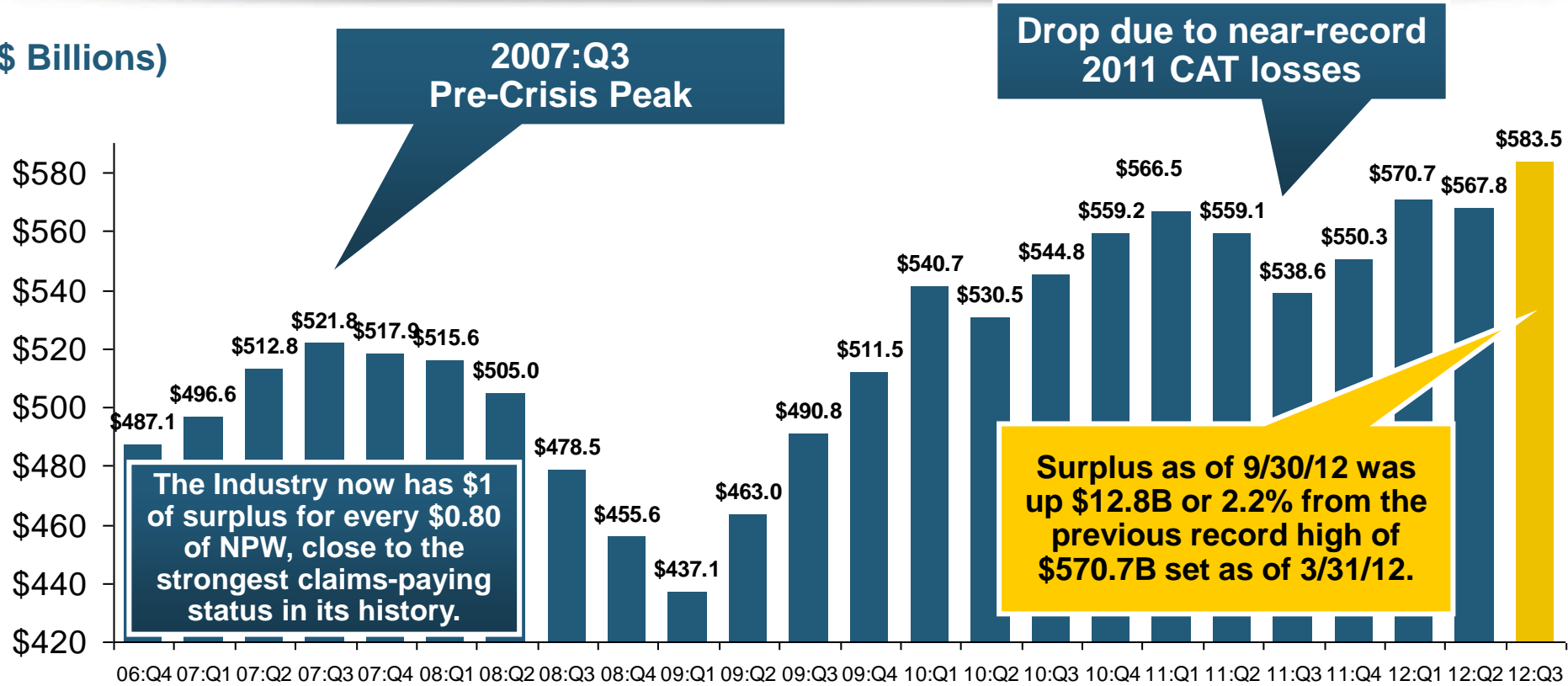
The Premium-to-Surplus Ratio Stood at \$0.80:\$1 as of 9/30/12, A Near Record Low (at Least in Recent History)*

* As of 9/30/12.

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

Policyholder Surplus, 2006:Q4–2012:Q3

(\$ Billions)



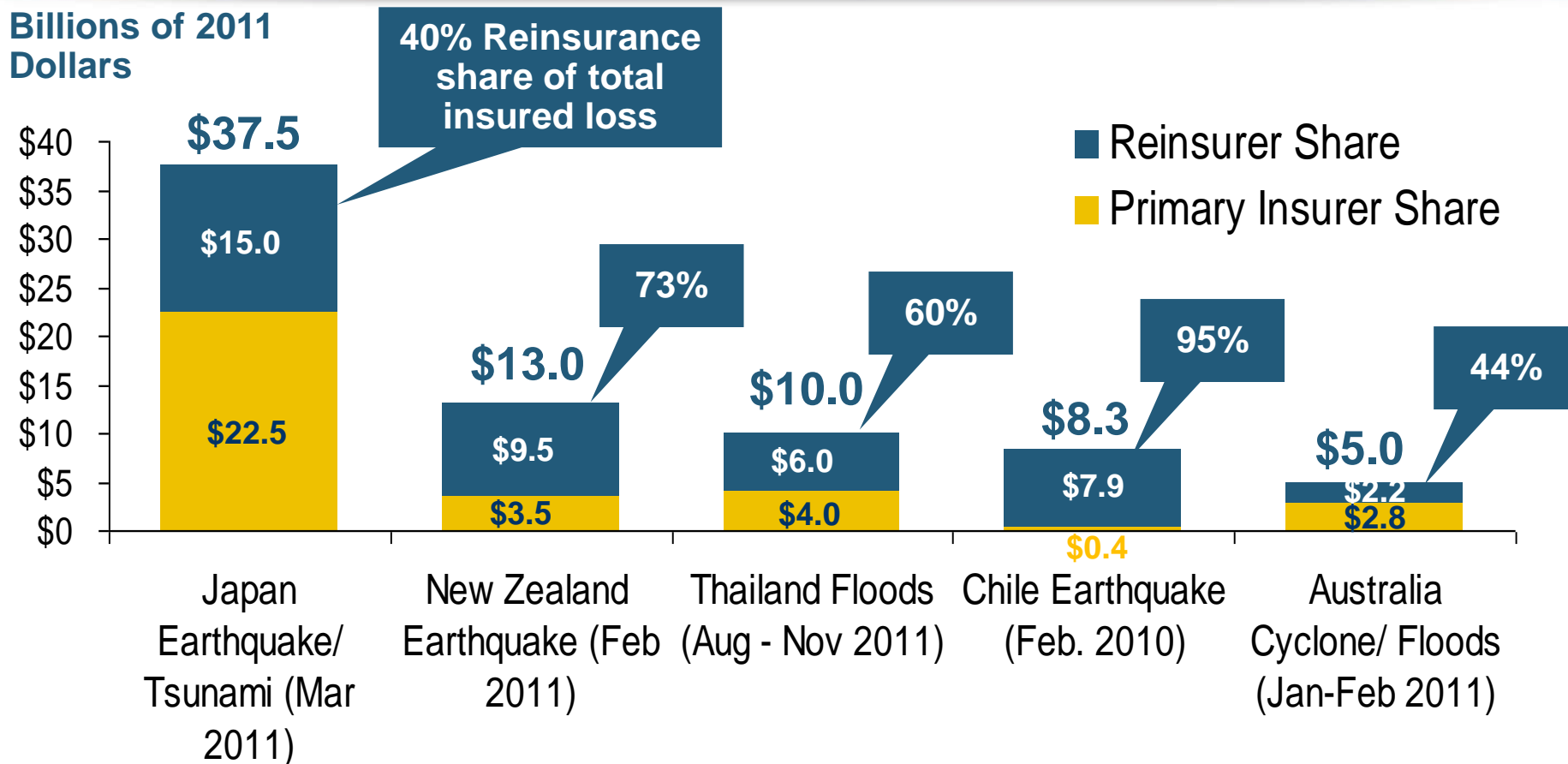
*Includes \$22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business in early 2010.

The P/C Insurance Industry Both Entered and Emerged from the 2012 Hurricane Season Very Strong Financially. There is No Insurance Industry "Fiscal Cliff"

3. REINSURANCE MARKET CONDITIONS

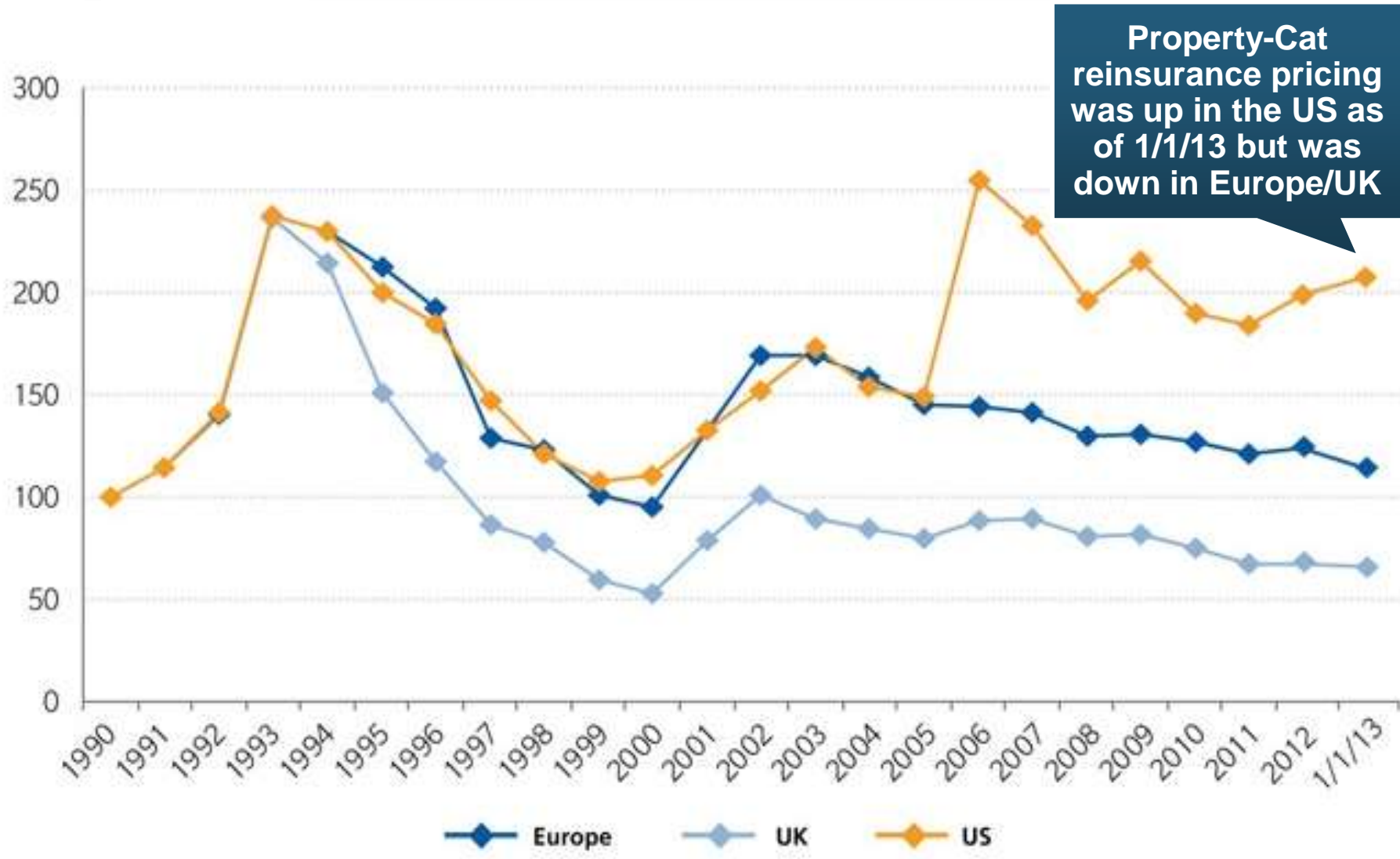
**Record Global
Catastrophes Activity is
Pressuring Pricing**

Reinsurer Share of Recent Significant Market Losses



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

Regional Property Catastrophe Rate on Line Index, 1990—2013 (as of January 1)



Sources: Guy Carpenter; Insurance Information Institute.

4. RENEWED PRICING DISCIPLINE

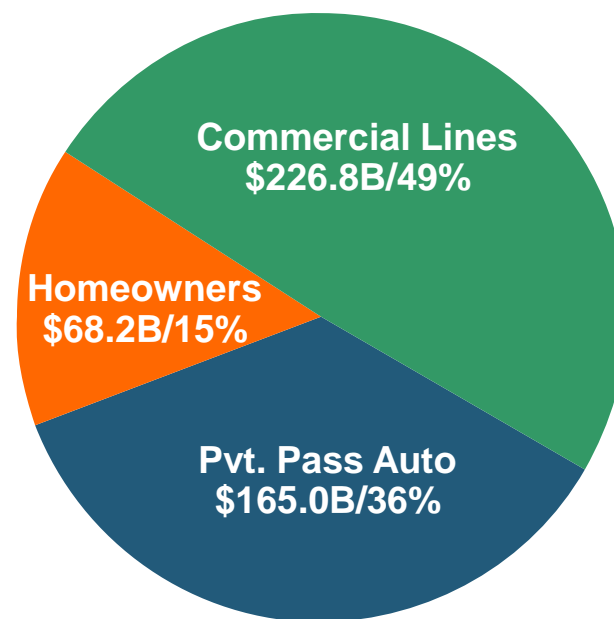
**Evidence of a Broad and
Sustained Shift in Pricing**

Distribution of Direct Premiums Written by Segment/Line, 2010

Distribution Facts

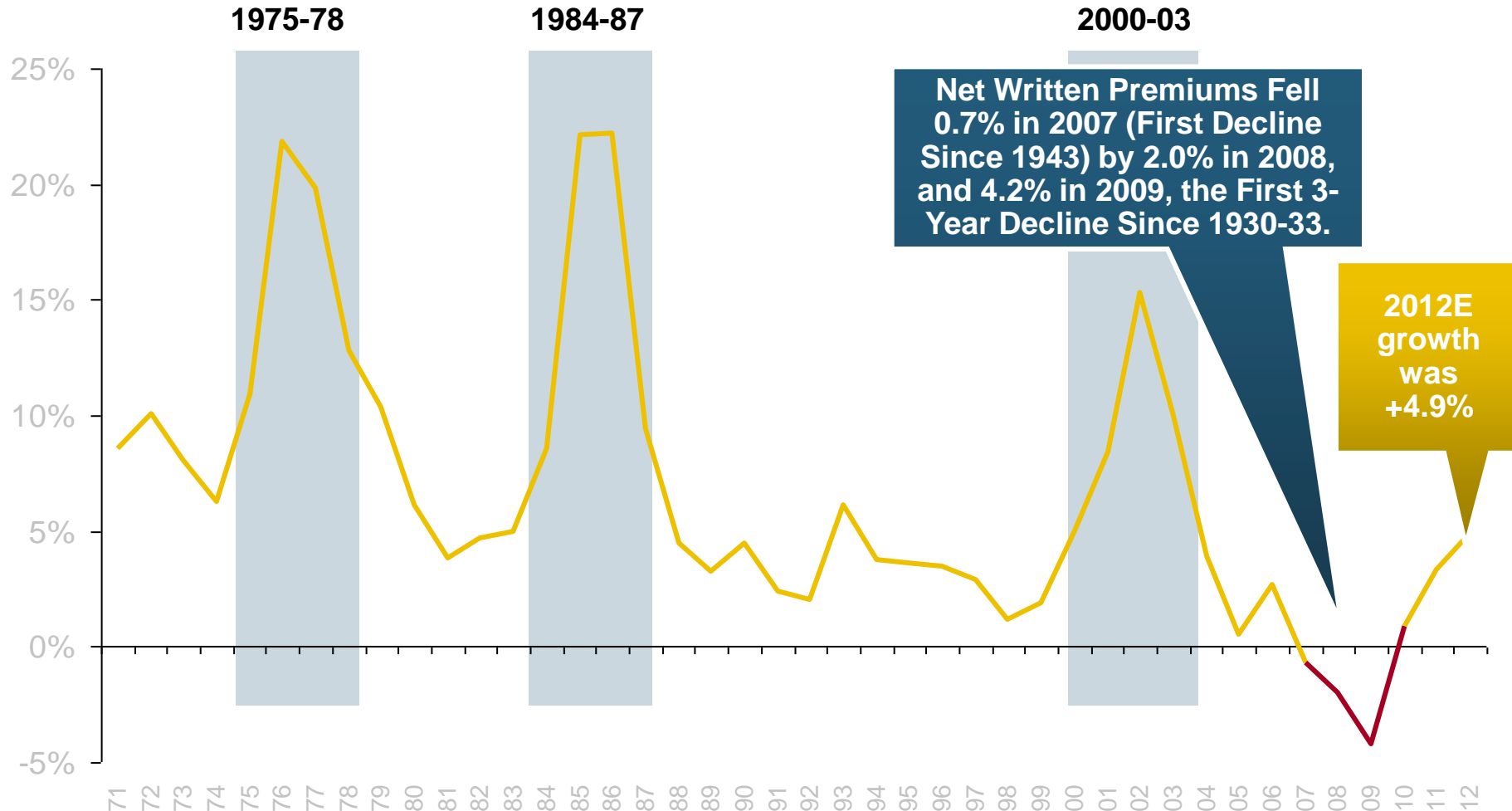
- Personal/Commercial lines split has been about 50/50 for many years; Personal Lines overtook Commercial Lines in 2010
- Pvt. Passenger Auto is by far the largest line of insurance and is currently the most important source of industry profits
- Billions of additional dollars in homeowners insurance premiums are written by state-run residual market plans

2010



Net Premium Growth: Annual Change, 1971—2012E

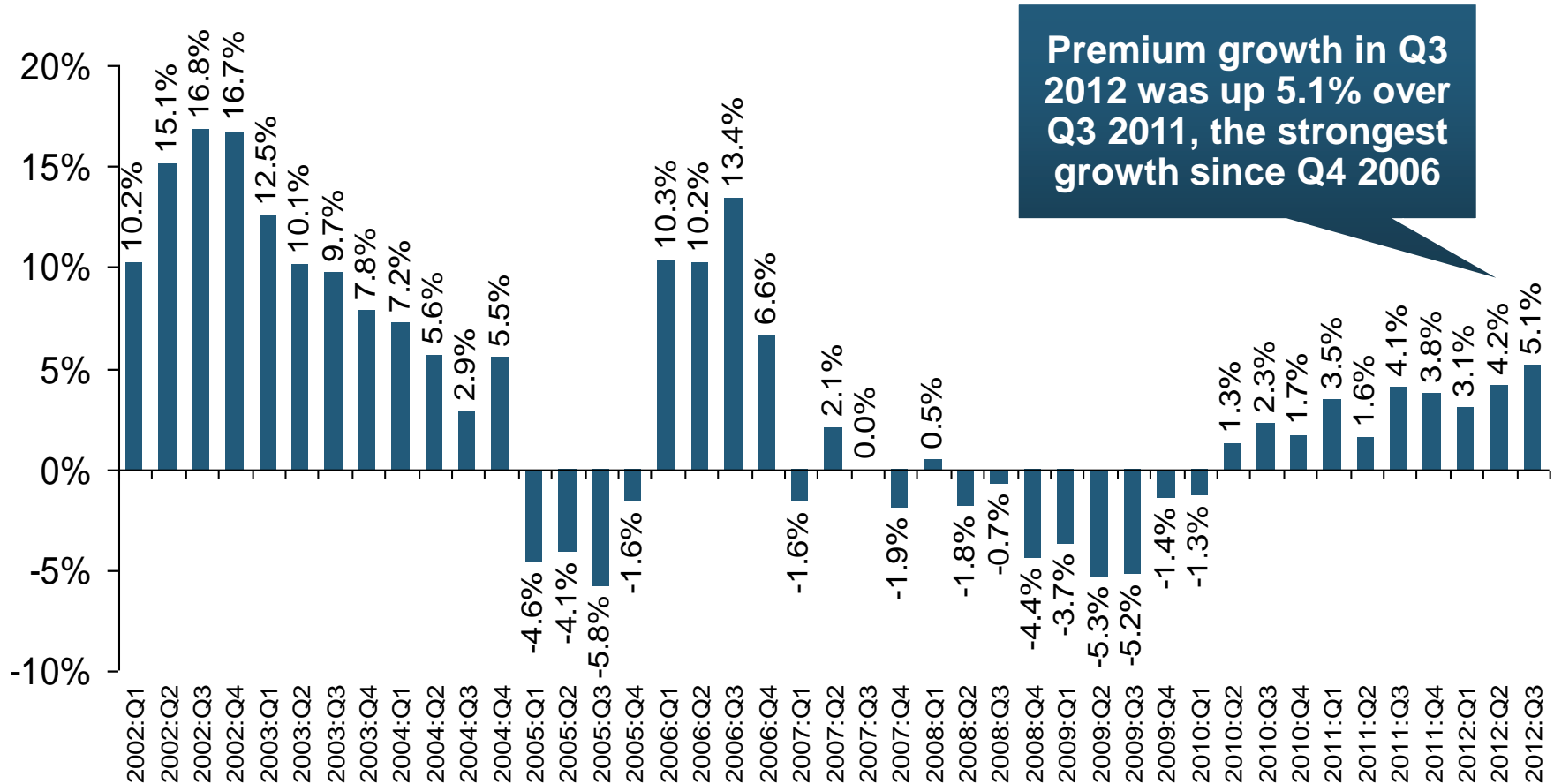
(Percent)



Shaded areas denote “hard market” periods

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

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

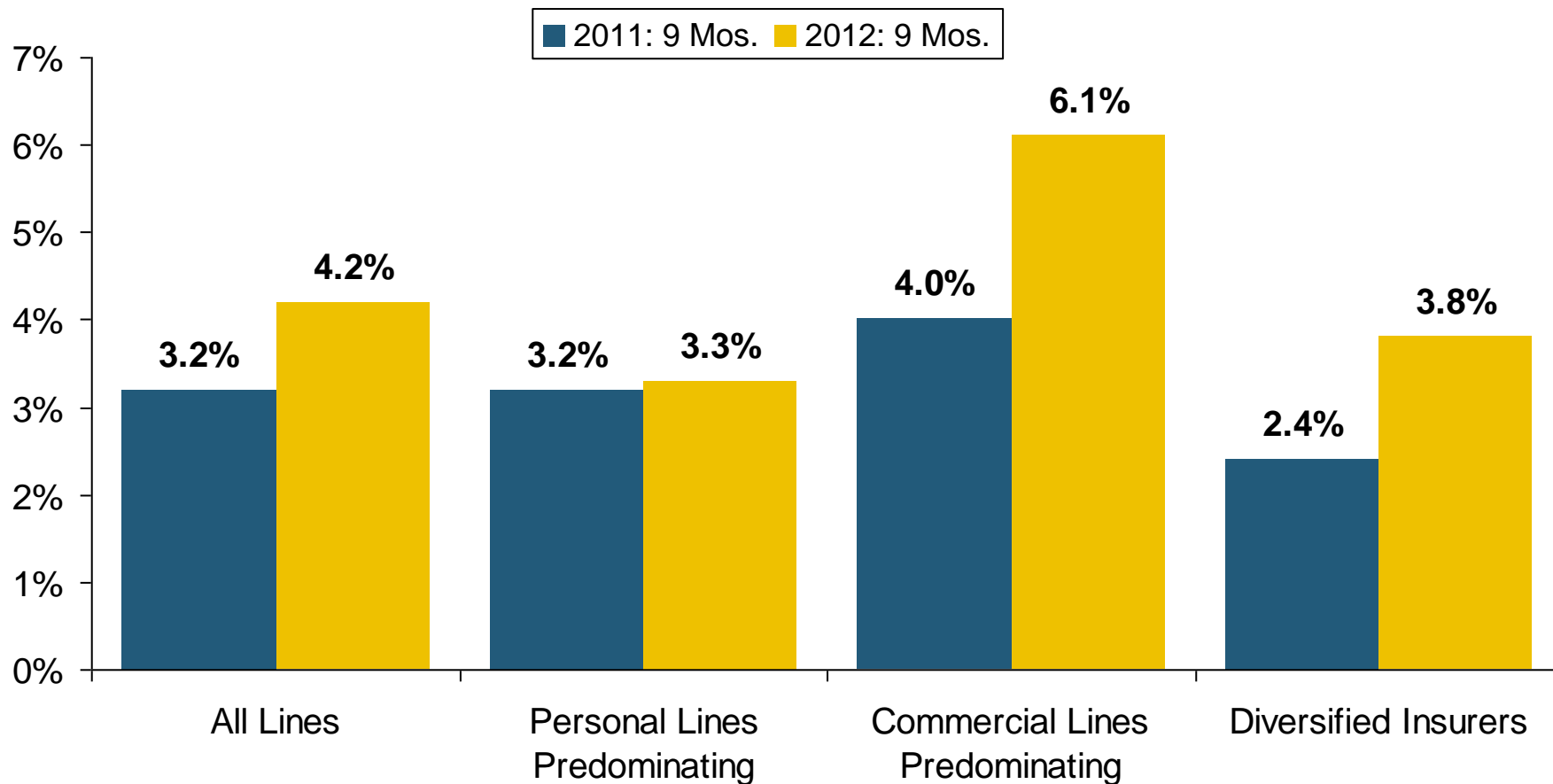


Premium growth in Q3 2012 was up 5.1% over Q3 2011, the strongest growth since Q4 2006

**Sustained Growth in Written Premiums
(vs. the same quarter, prior year) Will Continue into 2013**

Growth in Net Written Premium by Segment, 2012:9 Mos. vs. 2011:9 Mos.*

(Percent)

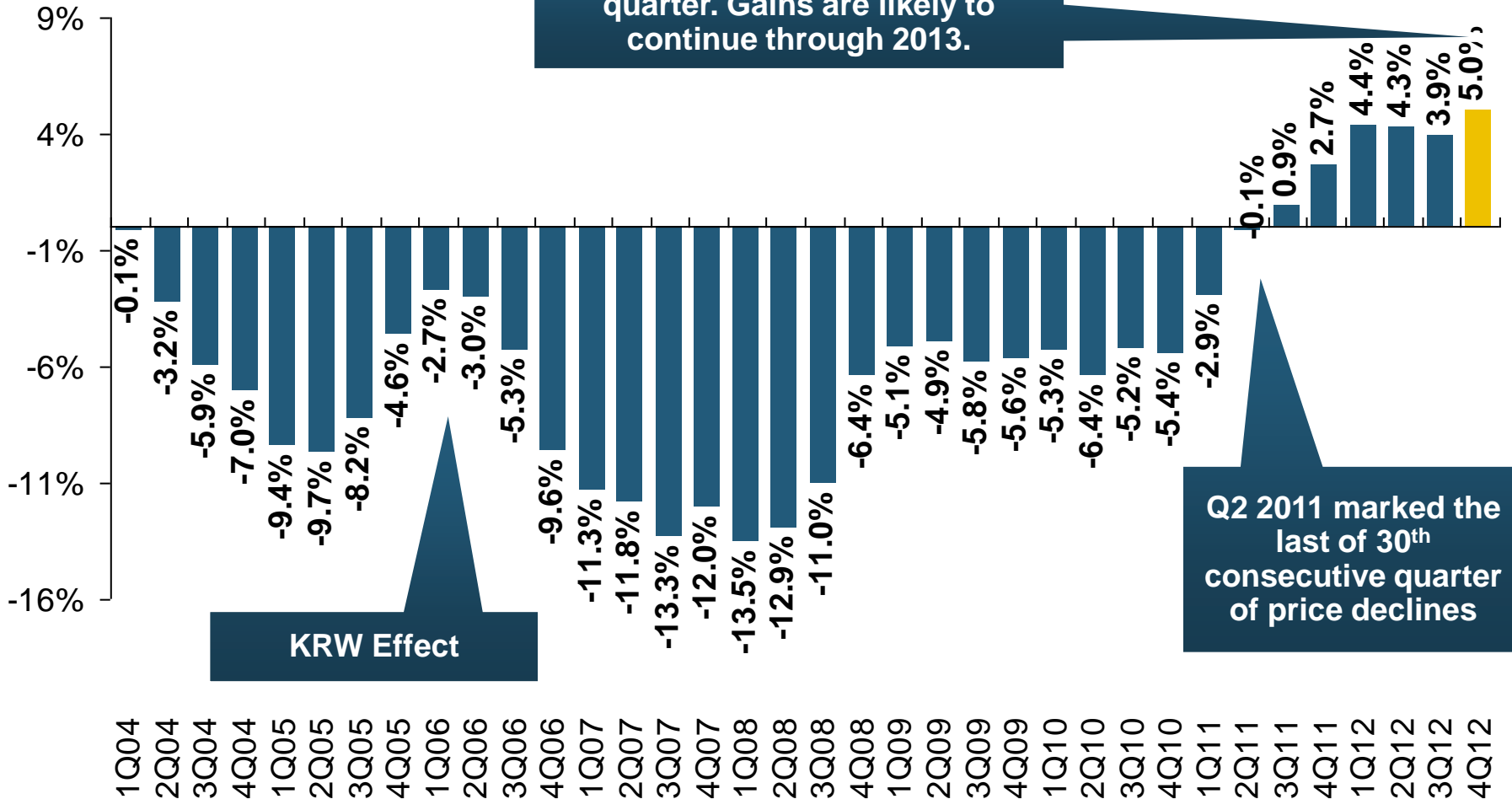


*Excludes mortgage and financial guaranty insurers.

Source: ISO/PCI; Insurance Information Institute

Average Commercial Rate Change, All Lines, (1Q:2004–4Q:2012)

(Percent)



Pricing as of Q4:2012 was positive for the 6th consecutive quarter. Gains are likely to continue through 2013.

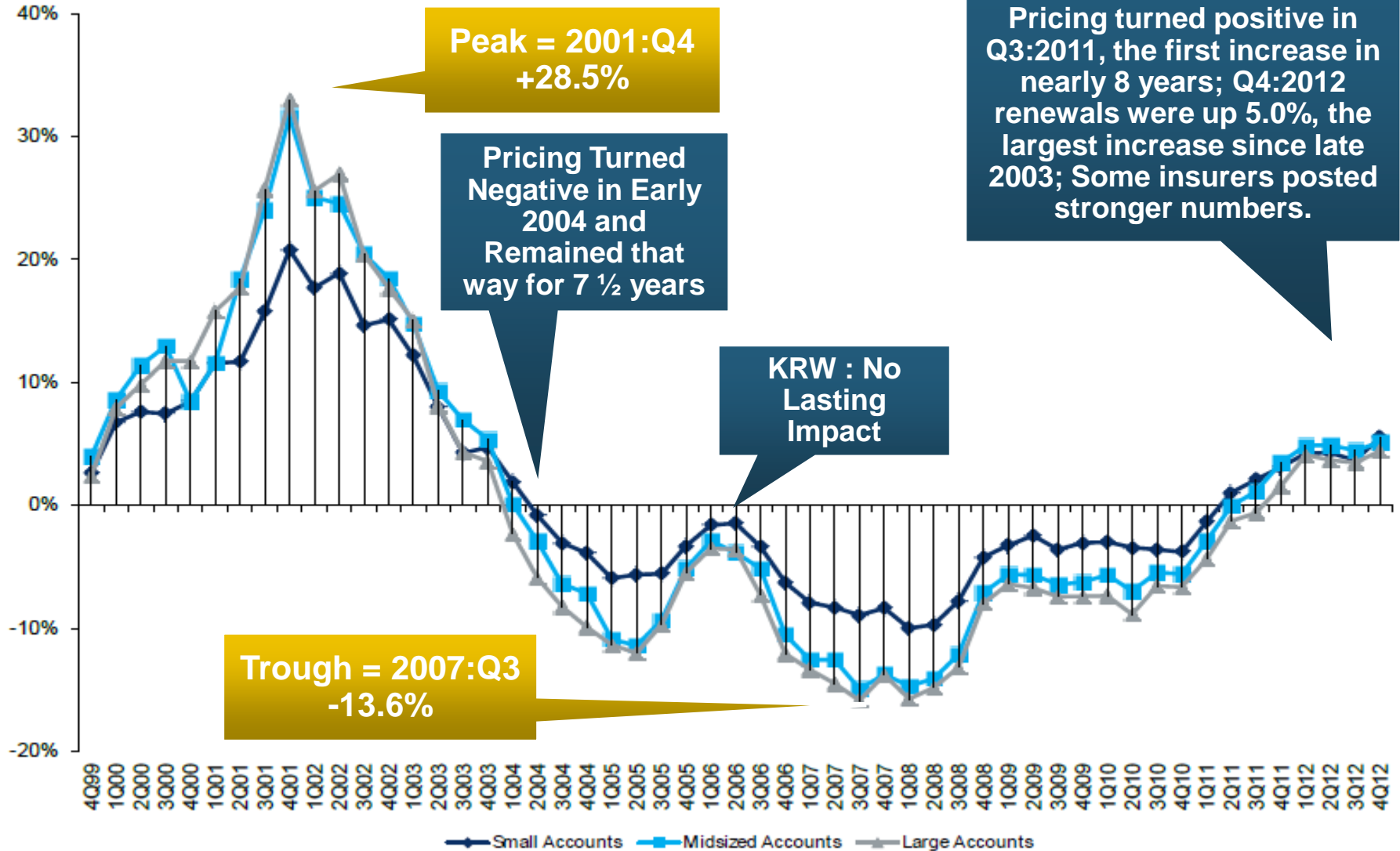
KRW Effect

Q2 2011 marked the last of 30th consecutive quarter of price declines

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 2012:Q4

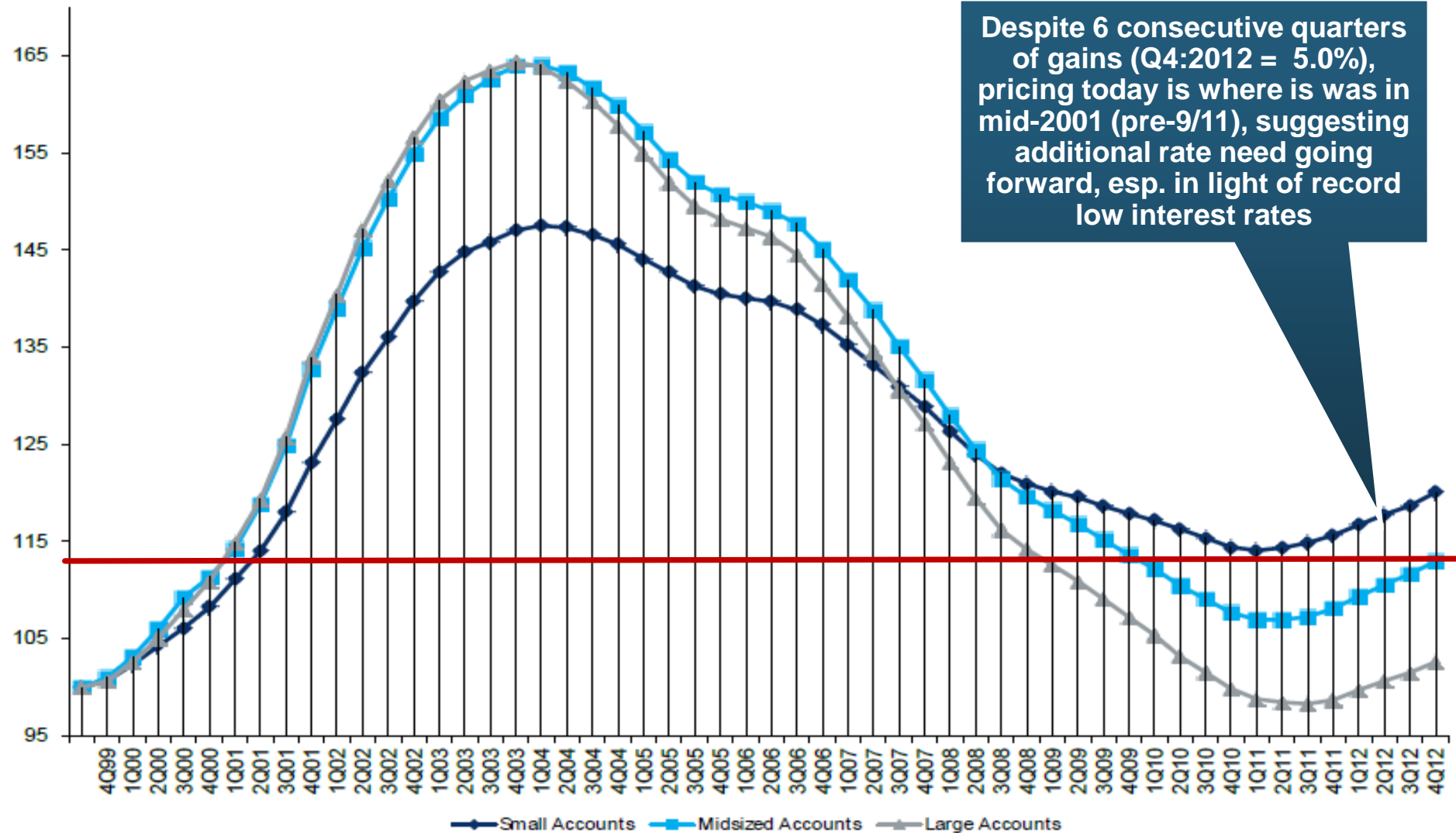
Percentage Change (%)



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; Barclay's Capital; Insurance Information Institute.

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

1999:Q4 = 100

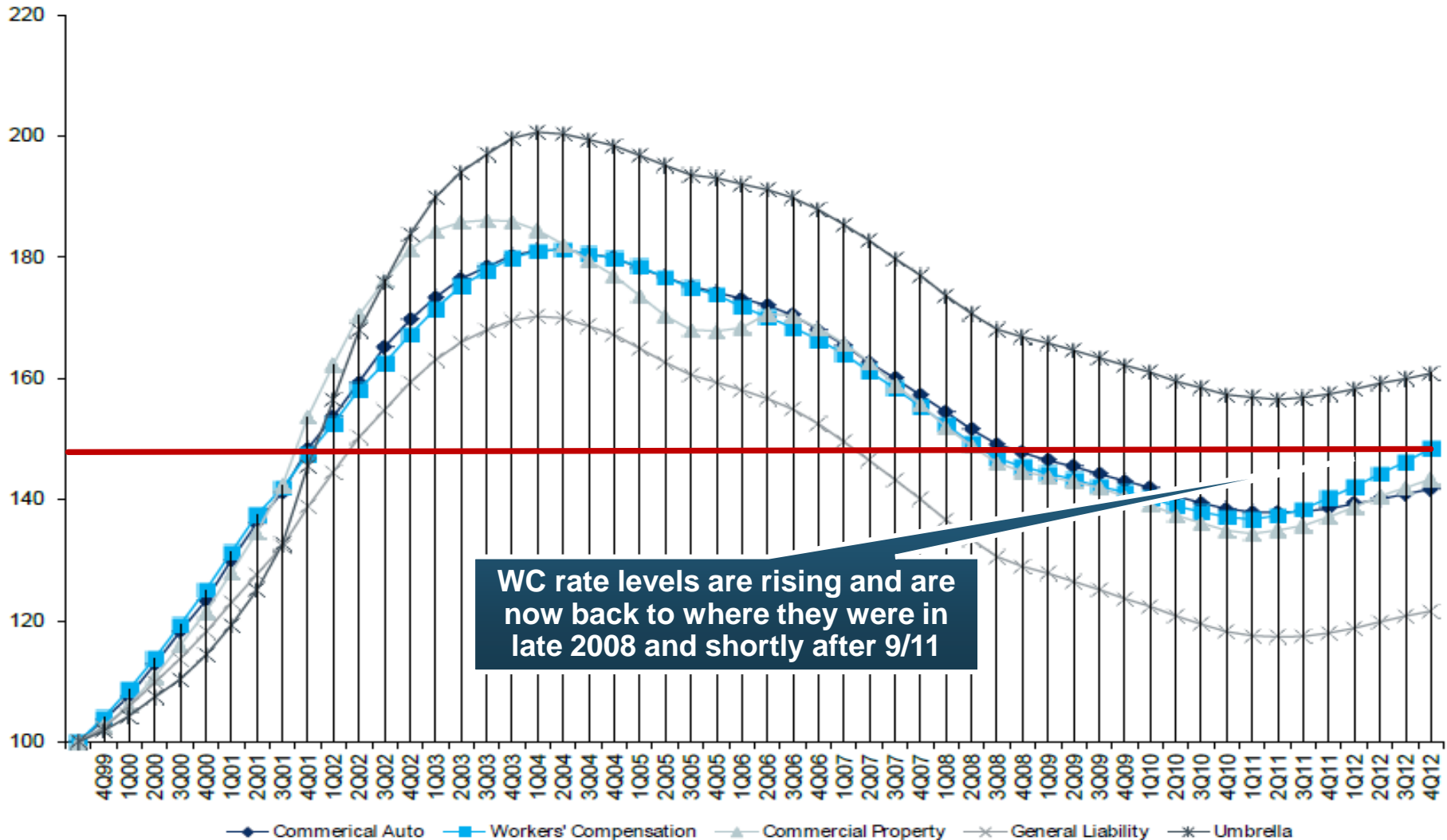


Despite 6 consecutive quarters of gains (Q4:2012 = 5.0%), pricing today is where it was in mid-2001 (pre-9/11), suggesting additional rate need going forward, esp. in light of record low interest rates

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 2012:Q4

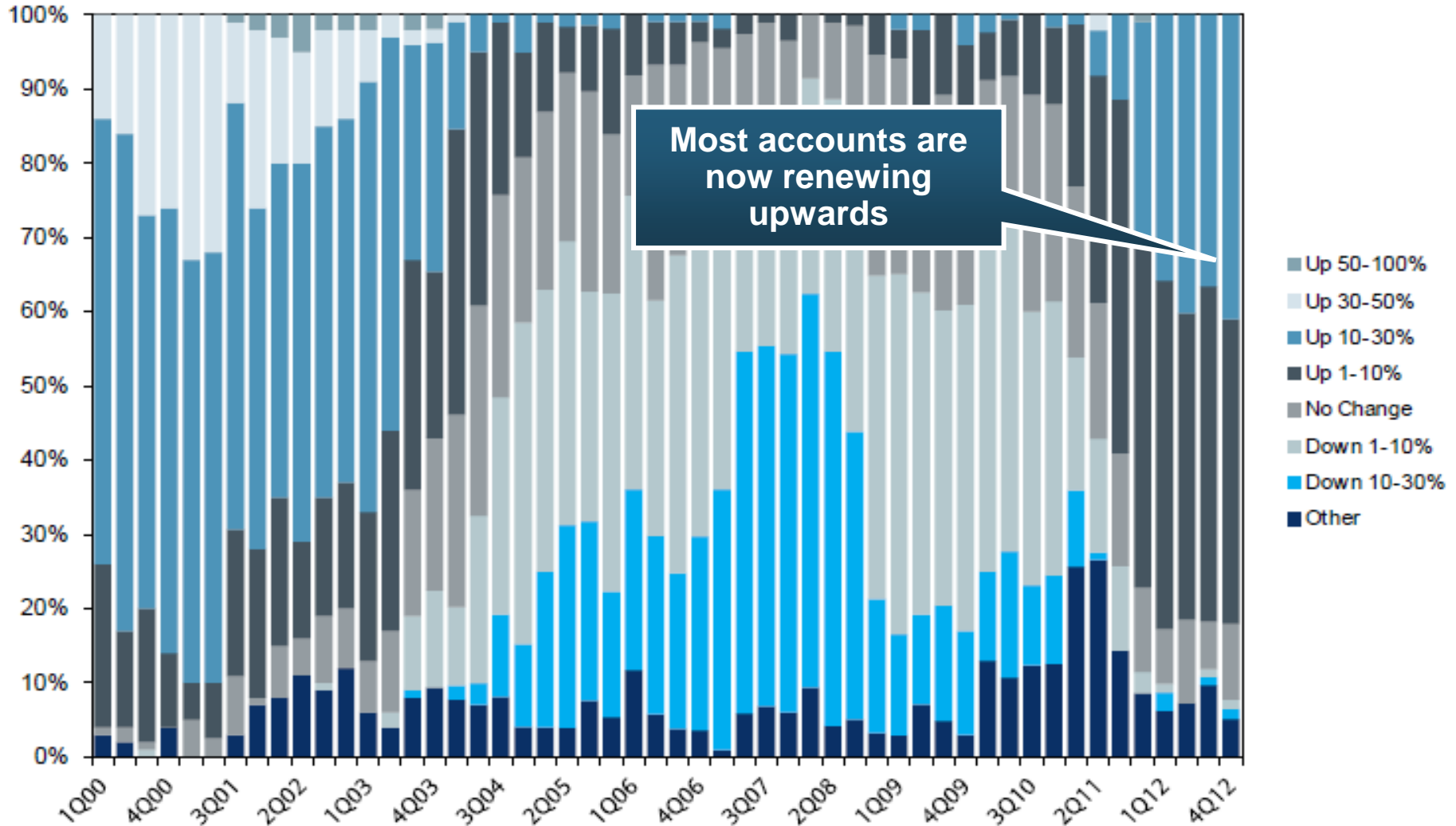
1999:Q4 = 100



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.

Workers Comp. Quarterly Rate Changes, by Line: 2000:Q1 to 2012:Q4

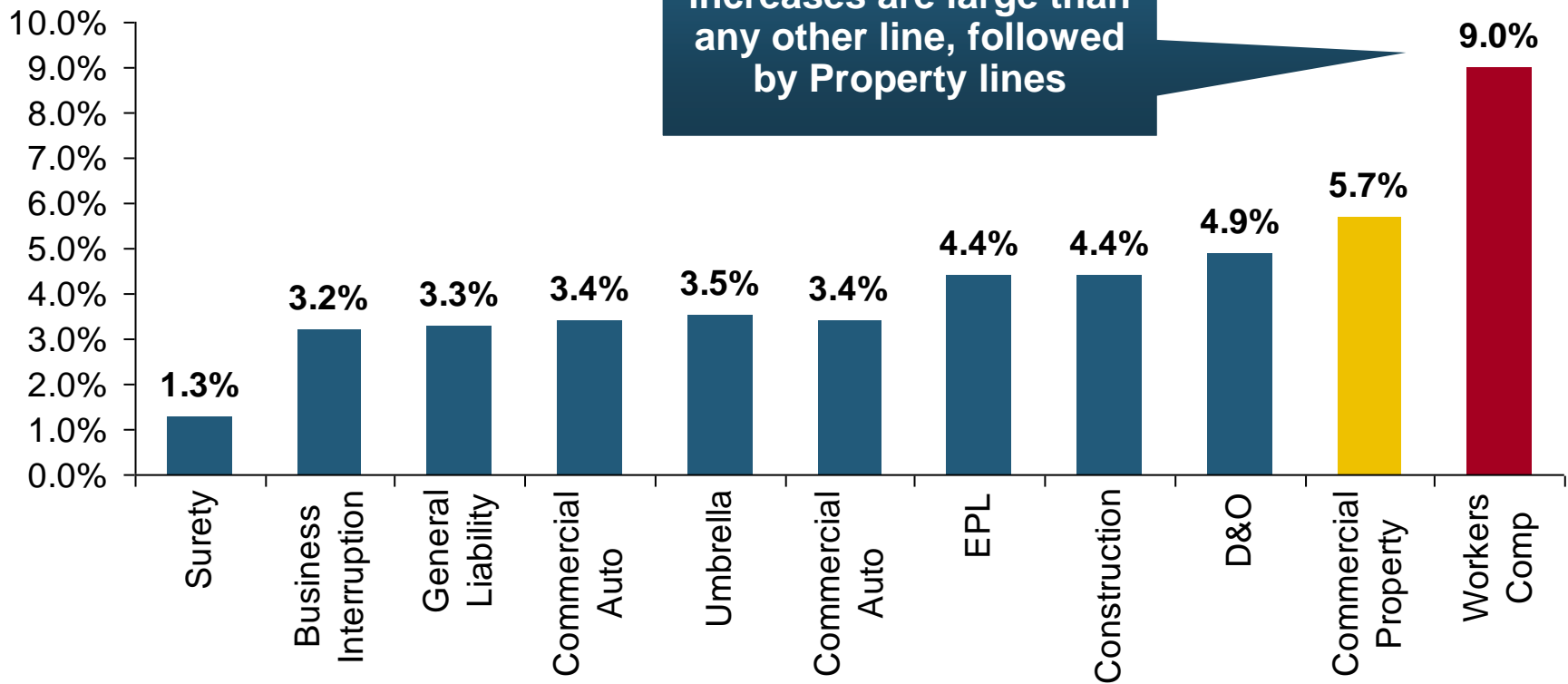
1999:Q4 = 100



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: 2012:Q4

Percentage Change (%)

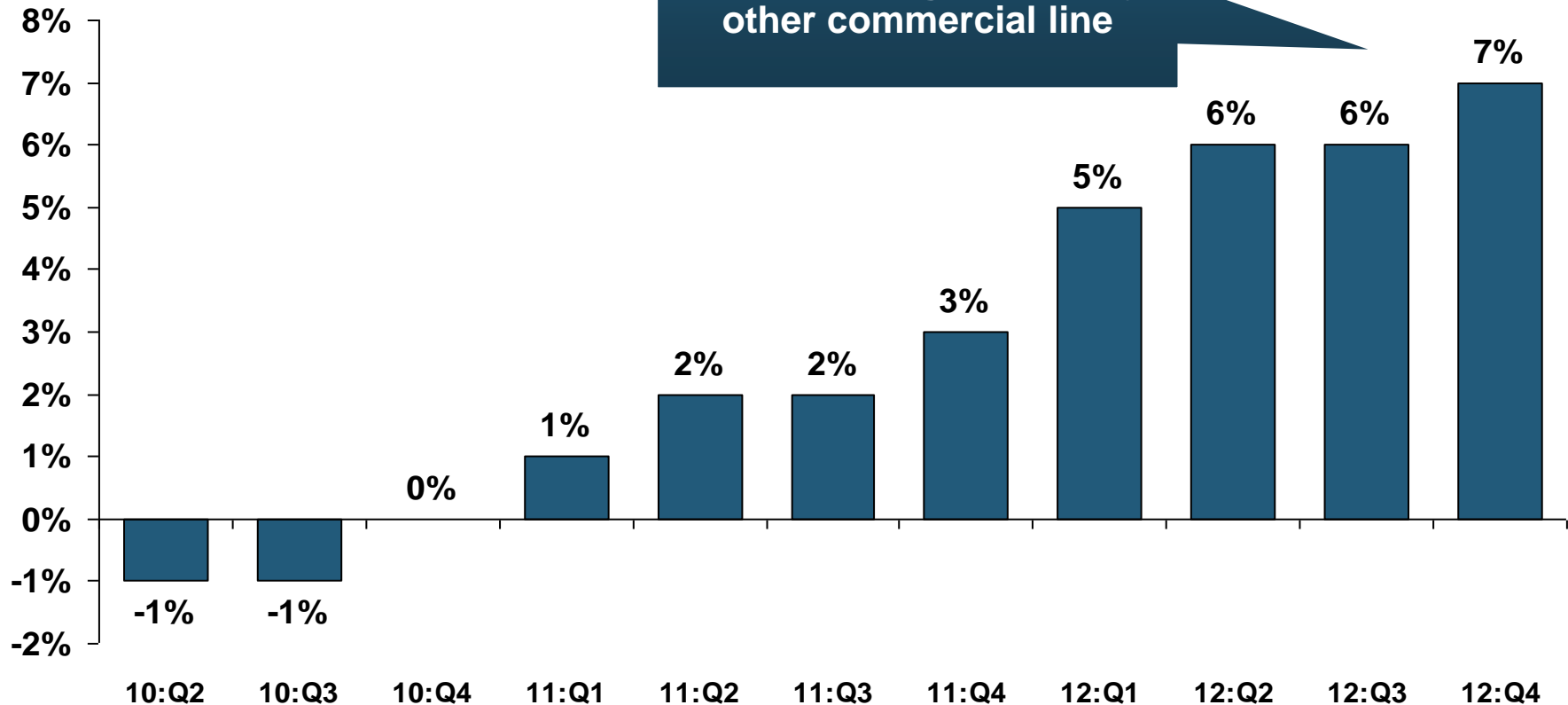


Major Commercial Lines Renewed Uniformly Upward in Q4:2012 for the Sixth Consecutive Quarter; Property Lines & Workers Comp Leading the Way; Cat Losses and Low Interest Rates Provide Momentum Going Forward

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

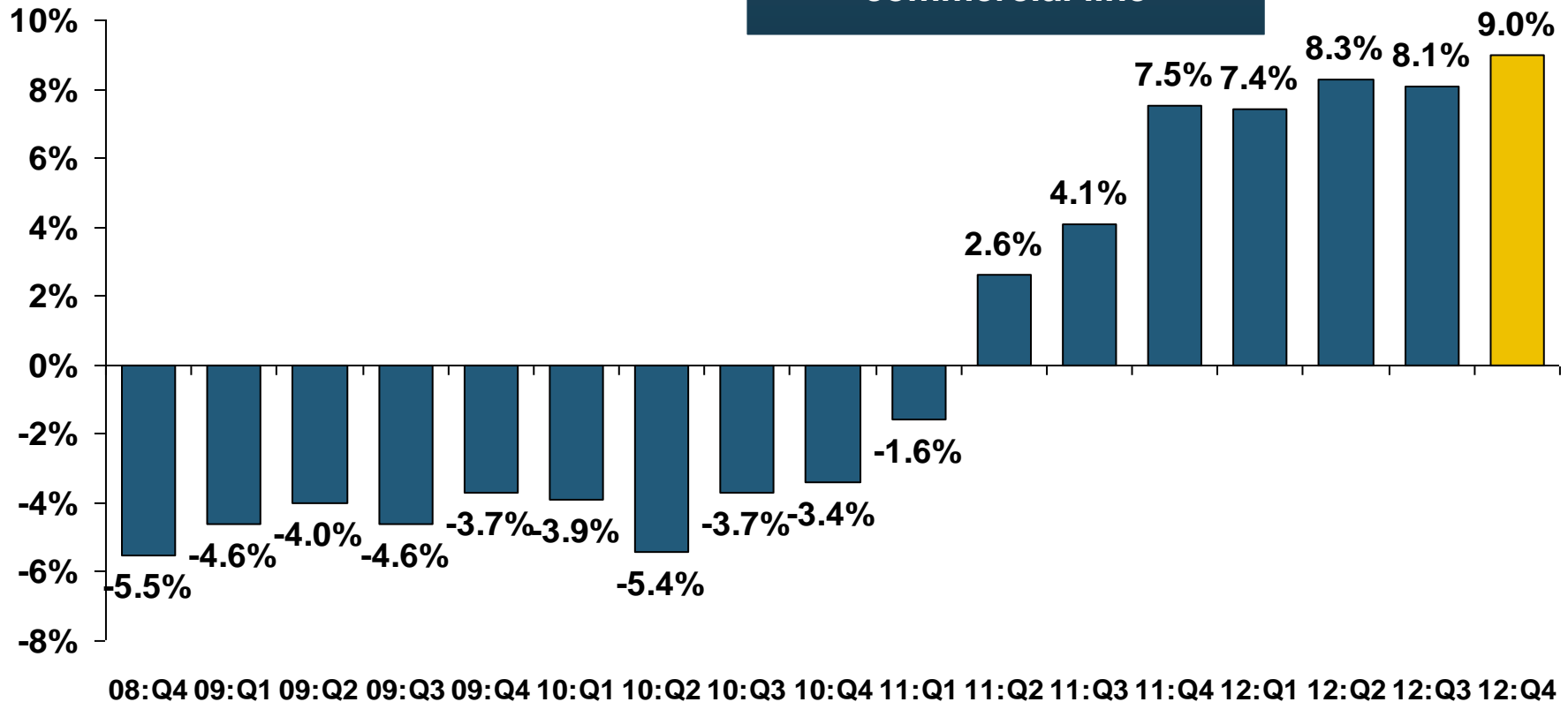
(Percent
Change)



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 – 2012:Q4

(Percent Change)



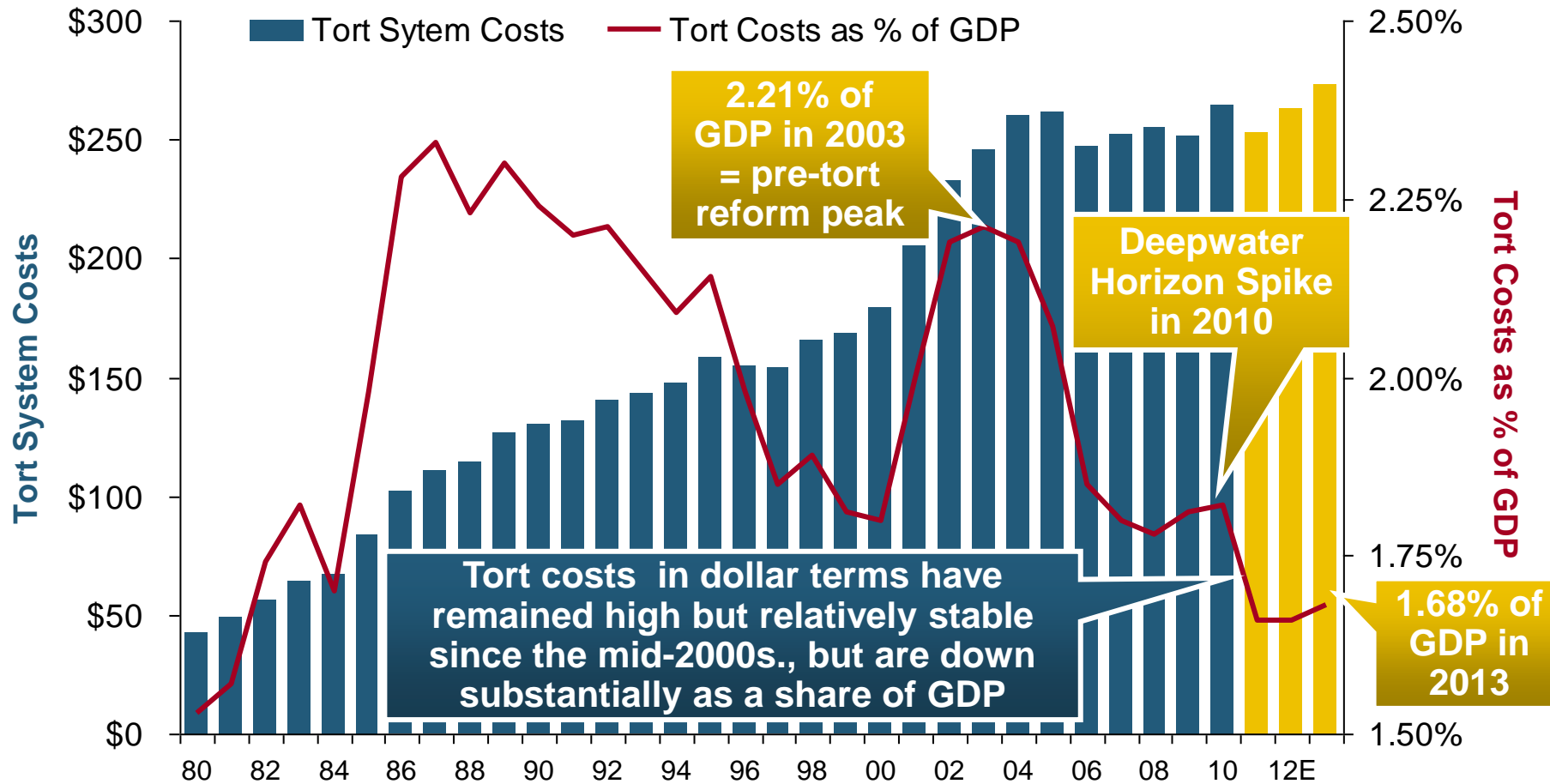
Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
 Source: Council of Insurance Agents and Brokers; Information Institute.

Shifting Legal Liability & Tort Environment

Is the Tort Pendulum Swinging Against Insurers?

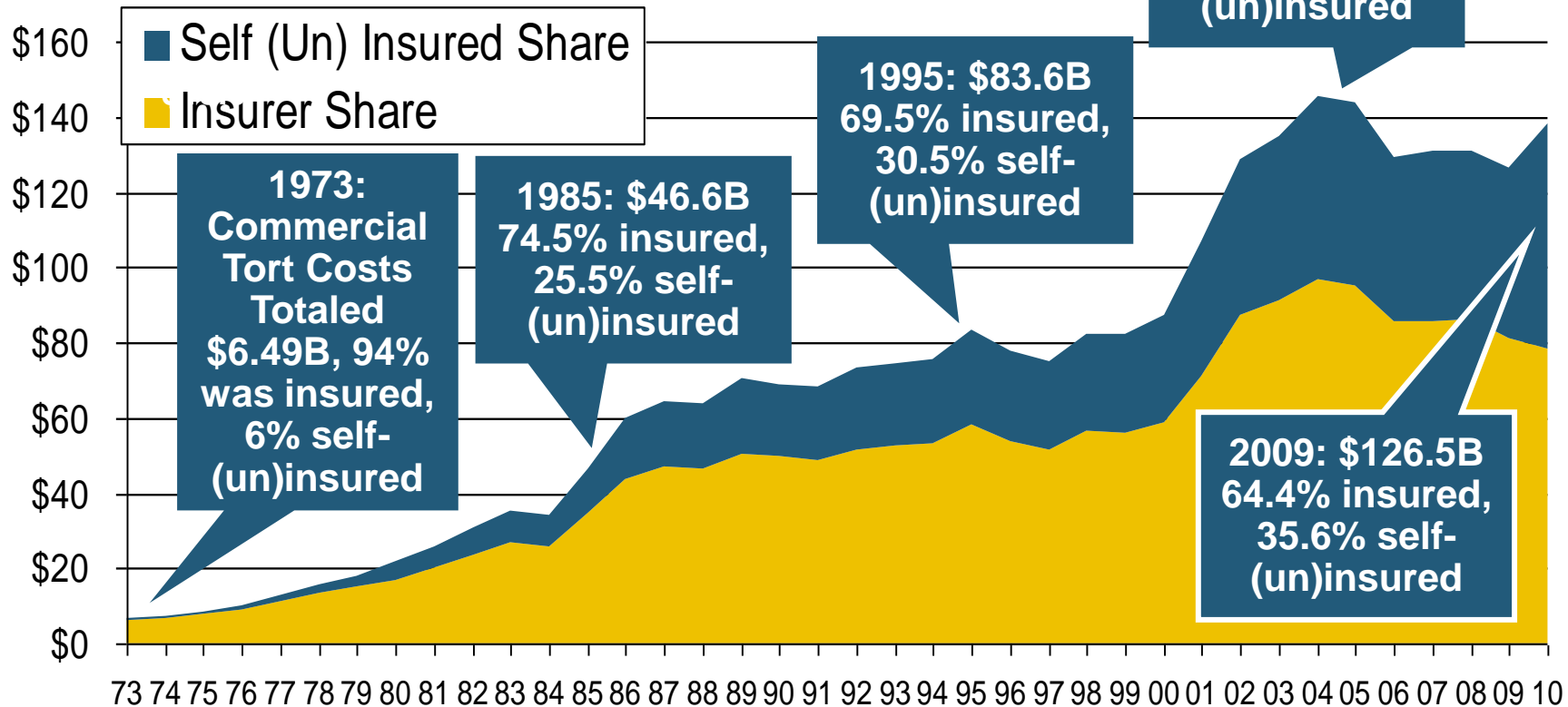
Over the Last Three Decades, Total Tort Costs as a % of GDP Appear Somewhat Cyclical, 1980-2013E

(\$ Billions)



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

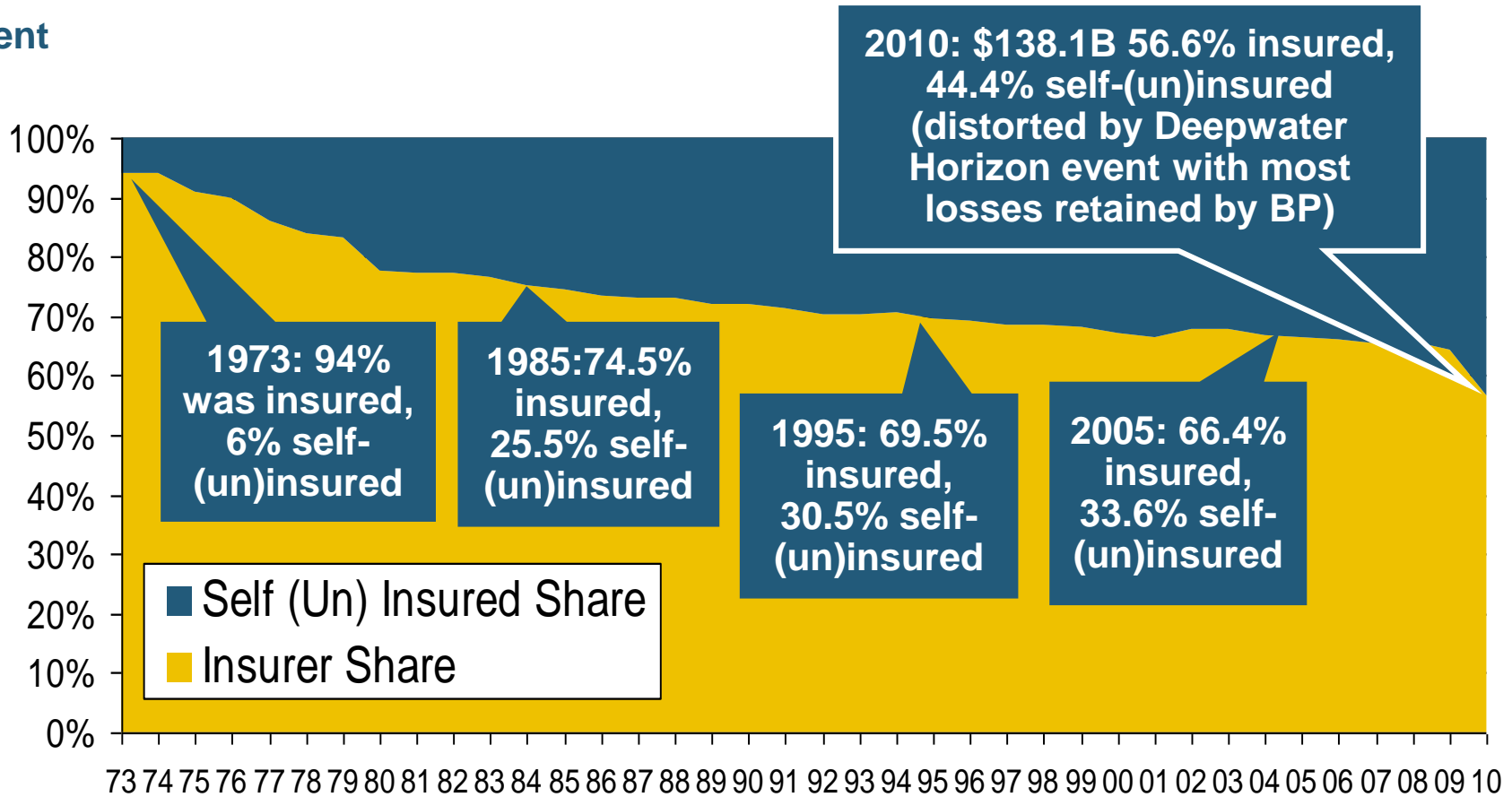
Billions of Dollars



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



2010: \$138.1B 56.6% insured, 44.4% self-(un)insured (distorted by Deepwater Horizon event with most losses retained by BP)

1973: 94% was insured, 6% self-(un)insured

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

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

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

■ Self (Un) Insured Share
■ Insurer Share

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

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

Business Leaders Ranking of Liability Systems in 2012

Best States

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

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

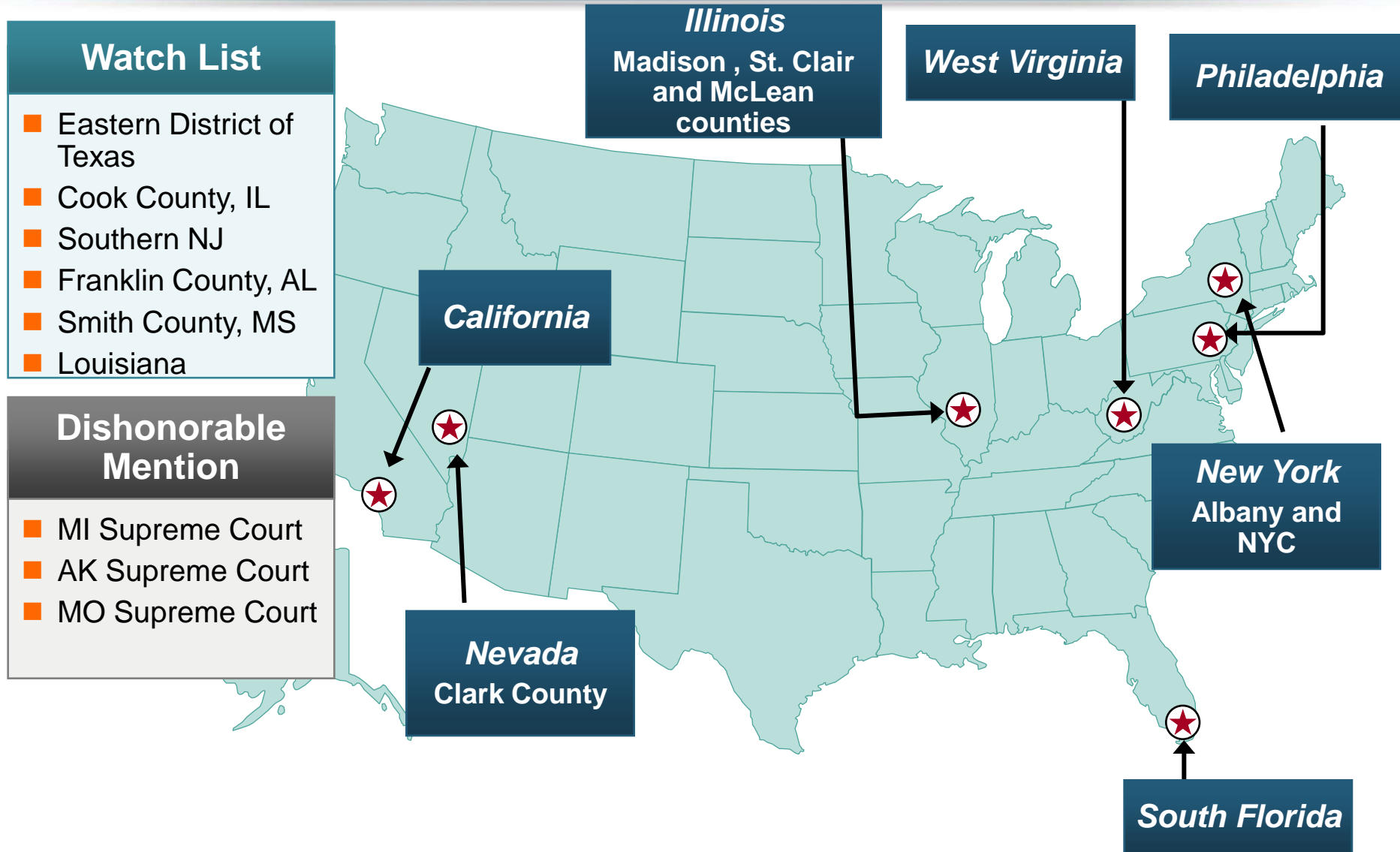
- Oklahoma

Rising Above

- Arkansas

10. Iowa

The Nation's Judicial Hellholes: 2011



Insurance Information Institute Online:

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*Thank you for your time
and your attention!*

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