An Industry and Economy in Transition:

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

Ohio Insurance Institute

Board of Directors Meeting

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Download at www.iii.org/presentations

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Presentation Outline

- U.S. Economic Overview and Outlook
  - Economy as a Growth Engine for P/C Insurers
  - Labor Market Review
- Summary of P/C Financial Performance
  - Focus on Ohio Markets
- Catastrophe Loss Developments & Trends
  - Global, US and Ohio
- Will the Market Turn? Four Necessary Criteria:
  - Underwriting Loss Trends
  - Capital/Capacity
  - Reinsurance Markets
  - Pricing Discipline
- Analysis by Key Line
- Other Contributing Factors to the Underwriting Cycle
  - Investment Environment
  - Tort/Casualty Environment
  - Inflation
- Q&A

Economics 2012: The World Is Changing

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

Potentially Enormous Benefits for P/C Insurers

Economic Outlook for 2012

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- **Economic Growth Will Accelerate Modestly in 2012/13, Beating Expectations**
  - No Double Dip Recession
  - Economy remains more resilient than most pundits presume
- **Consumer Confidence Will Continue to Improve**
- **Consumer Spending/Investment Will Continue to Expand**
- **Consumer and Business Lending Continue to Expand**
- **Housing Market Remains Weak, but Some Improvement Expected in 2012**
- **Inflation Remains Tame**
  - Runaway inflation highly unlikely but energy spike possible; Fed has things under control
- **Private Sector Hiring Remains Consistently Positive, Exceeds Expectations**
  - Unemployment dips below 8% by year's end
- **Sovereign Debt, Euro Currency/Economy, Muni Bond "Crises" Overblown**
- **European Recession in Milder than Commonly Presumed**
- **Soft Landing in China**
- ***Higher Oil Prices and Current Middle East Turmoil Pose Greater Risk to US Economy than in 2011***
- **Interest Rates Remain Low by Historical Standards; Edge Up by Year's End**
- **Stock and Bond Markets More Stable, Less Volatile**
- **Political Environment Is More Hospitable to Business Interests**
- **Obama Wins Re-Election Based on Improving Economy**

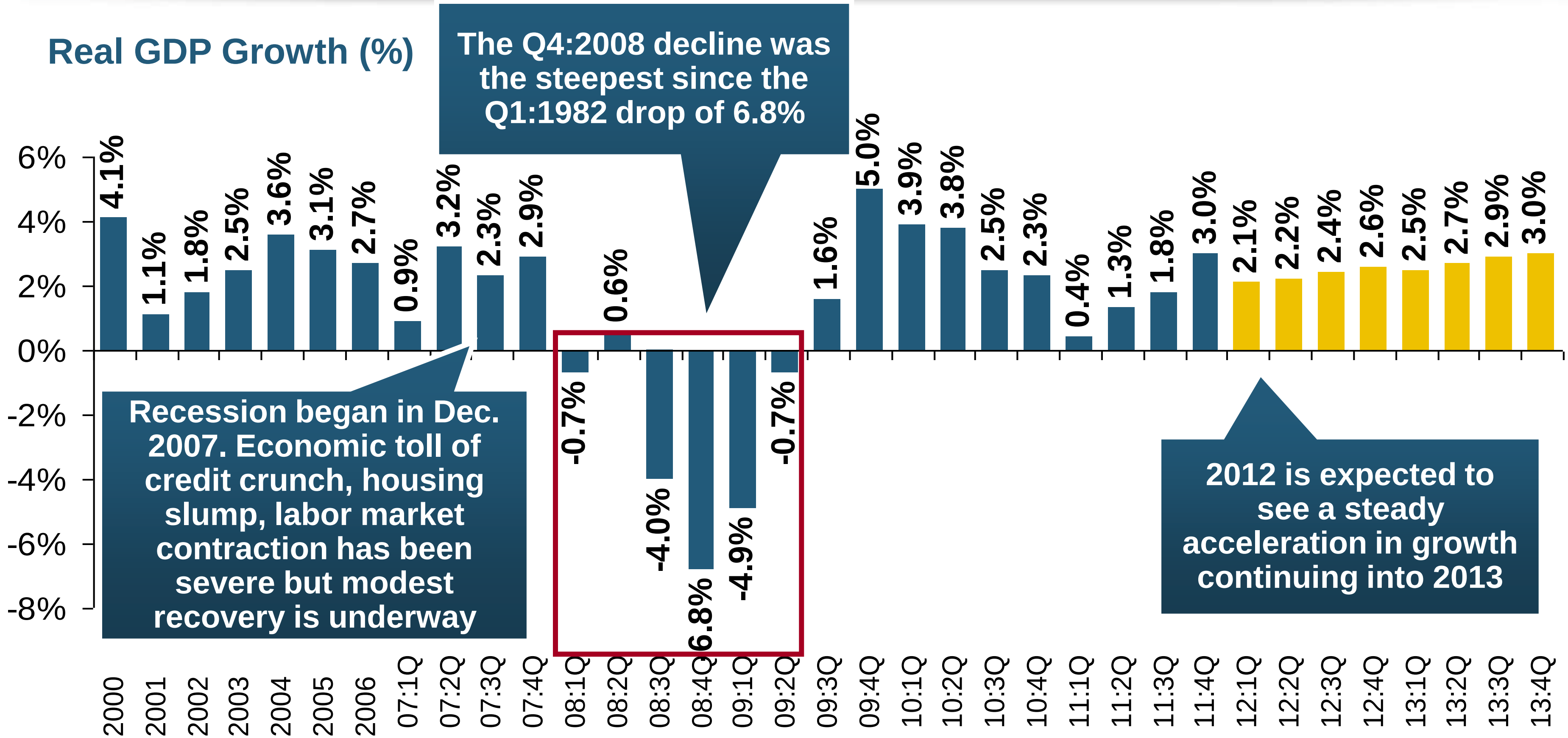
Insurance Industry Predictions for 2012

- **P/C Insurance Exposures Grow Robustly**
  - Personal and commercial exposure growth is certain in 2012; Strongest since 2004
  - But restoration of destroyed exposure will take until mid-decade
- **P/C Industry Growth in 2012 Will Be Strongest Since 2004**
  - Growth likely to exceed A.M. Best projection of +3.8% for 2012
  - No traditional “hard market” emerges in 2012
- **Underwriting Fundamentals Deteriorate Modestly**
  - Some pressure from claim frequency, in some severity in key lines
- **Increasing Private Sector Hiring Will Drive Payrolls/WC Exposures**
  - Wage growth is also positive and could modestly accelerate
  - WC will prove to be tough to fix from an underwriting perspective
- **Increase in Demand for Commercial Insurance Will Accelerate in 2012**
  - Includes workers comp, property, marine, many liability coverages
  - Laggards: inland marine, aviation, commercial auto, surety
  - Personal Lines: Auto leads, homeowners lags *(though HO leads in NPW growth due to rates)*
- **Investment Environment Is/Remains Much More Favorable**
  - Return of realized capital gains as a profit driver
  - Interest rates remain low; Some upward pressured if economic strength surprises
- **Industry Capacity Hits a New Record by Year-End 2012 (Barring Mega-CAT)**

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

Growth Will Expand Insurable Exposures and Help Absorb Excess Capital

US Real GDP Growth*



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 2/12; Insurance Information Institute.

Consumer Sentiment Survey *(1966 = 100)*

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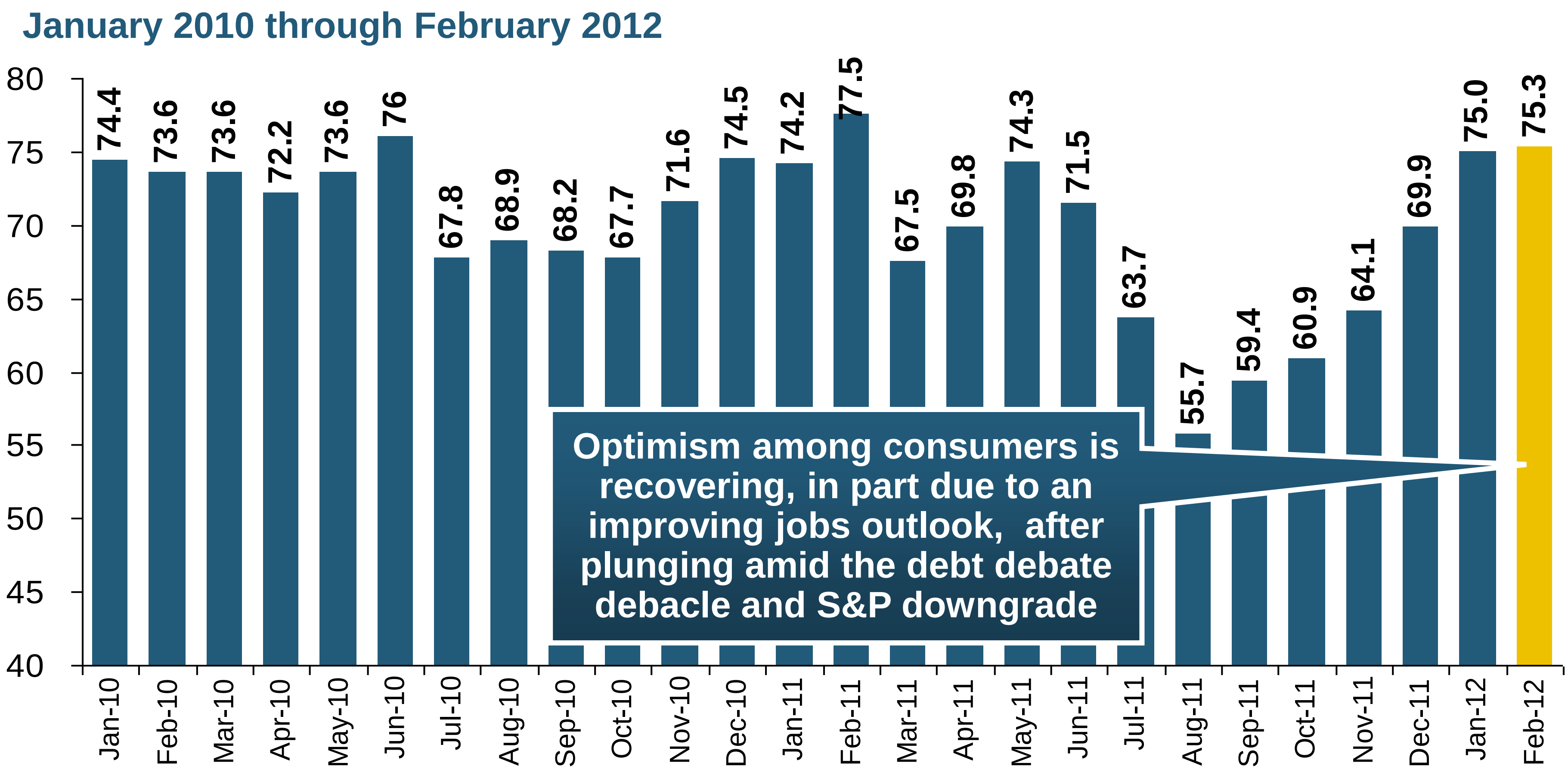
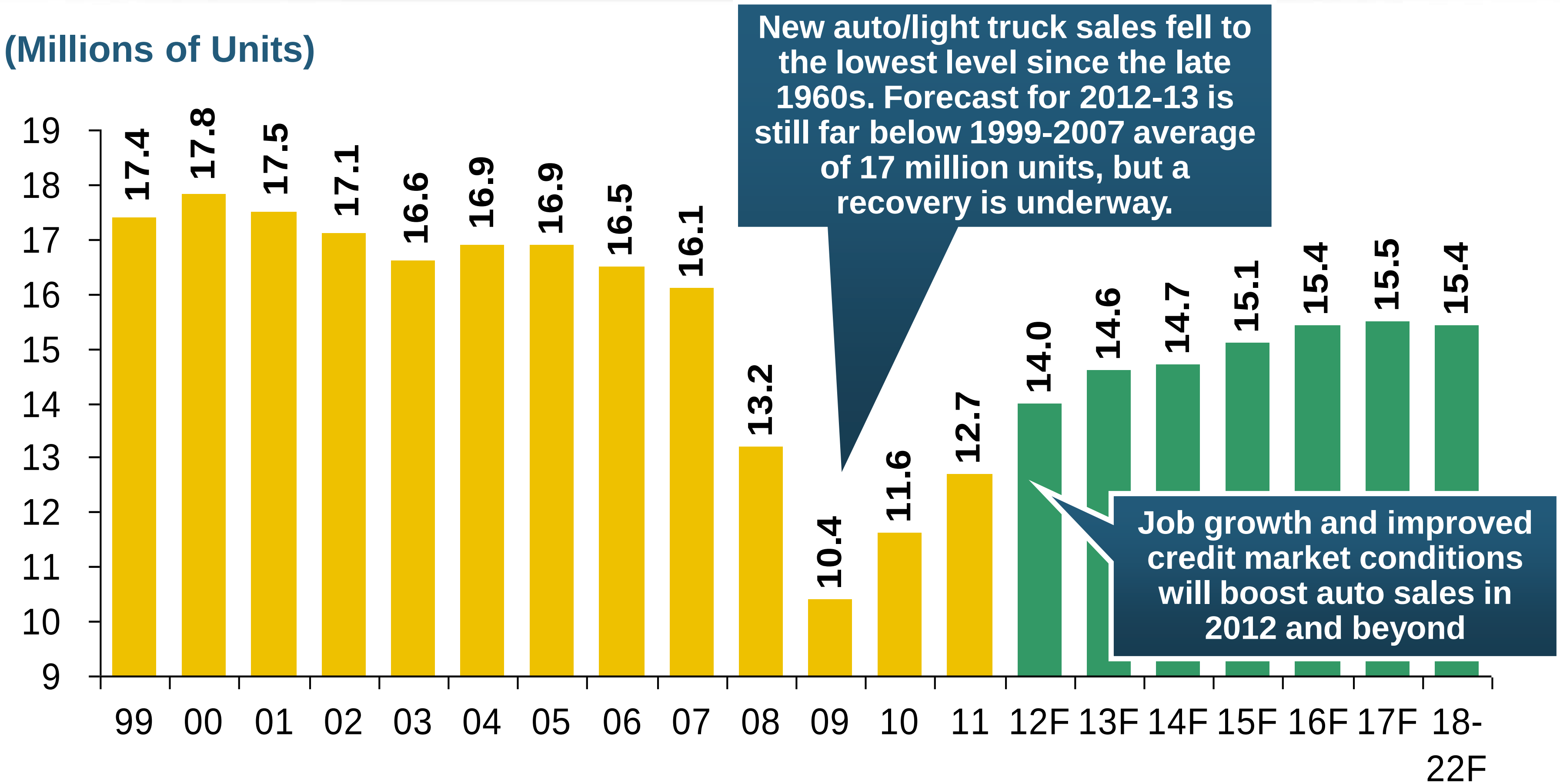


Consumer confidence has been low for years amid high unemployment, falling home prices and other factors adversely impact consumers, but improved substantially in late 2011 and early 2012

Source: University of Michigan; Insurance Information Institute

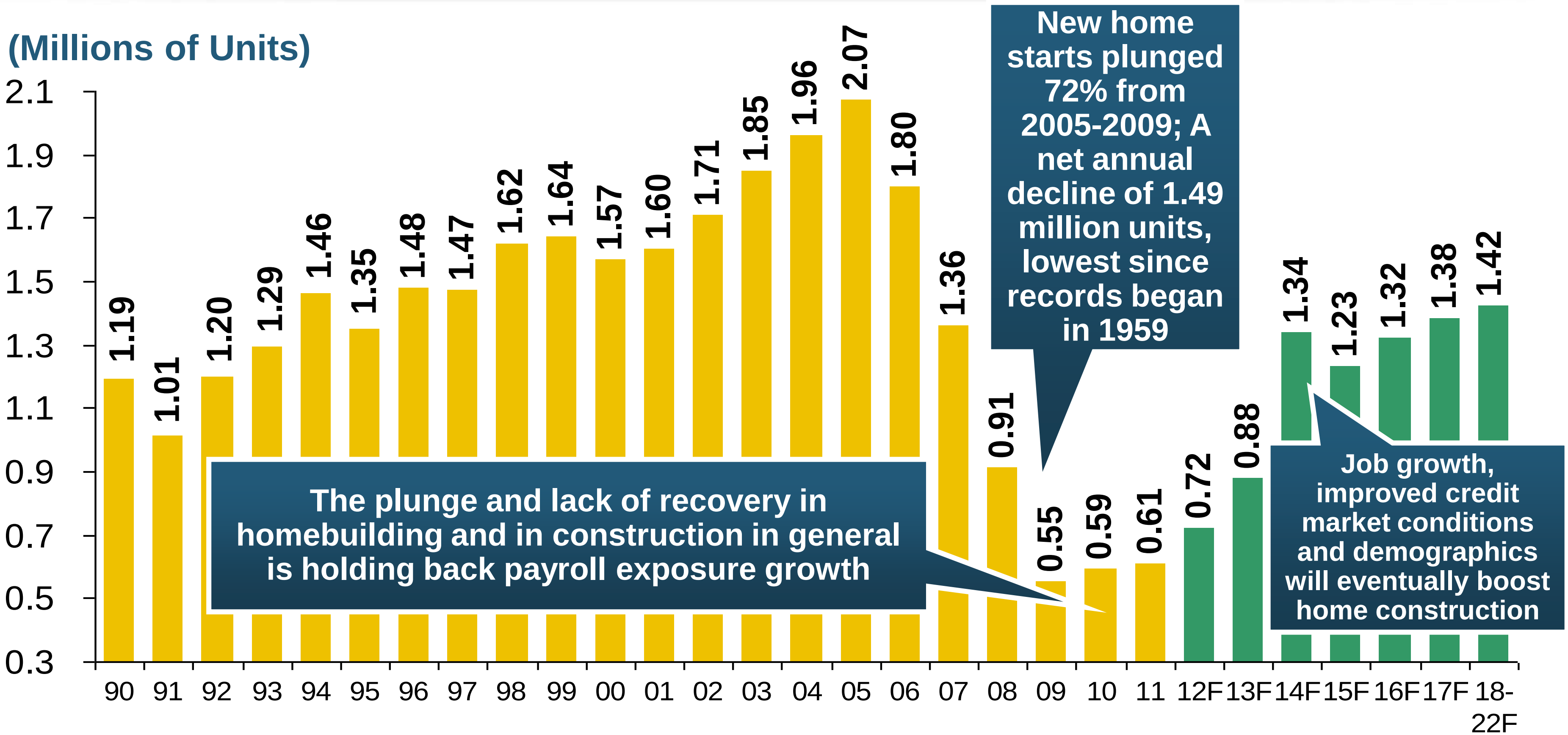
Auto/Light Truck Sales, 1999-2022F



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

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (10/11 and 2/12); Insurance Information Institute.

New Private Housing Starts, 1990-2022F



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

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (10/11 and 2/12); Insurance Information Institute.

ISM Manufacturing Index
(Values > 50 Indicate Expansion)

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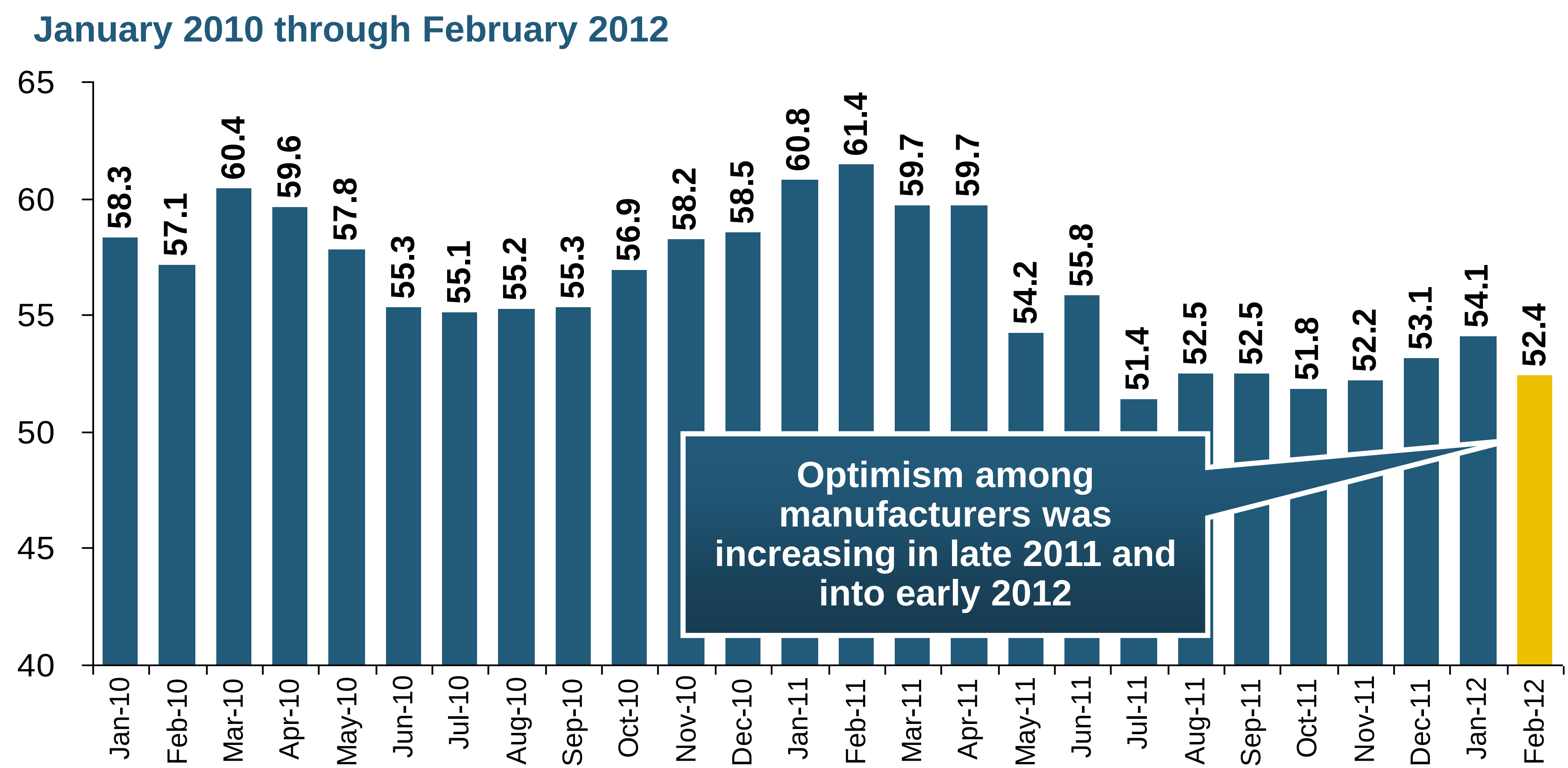
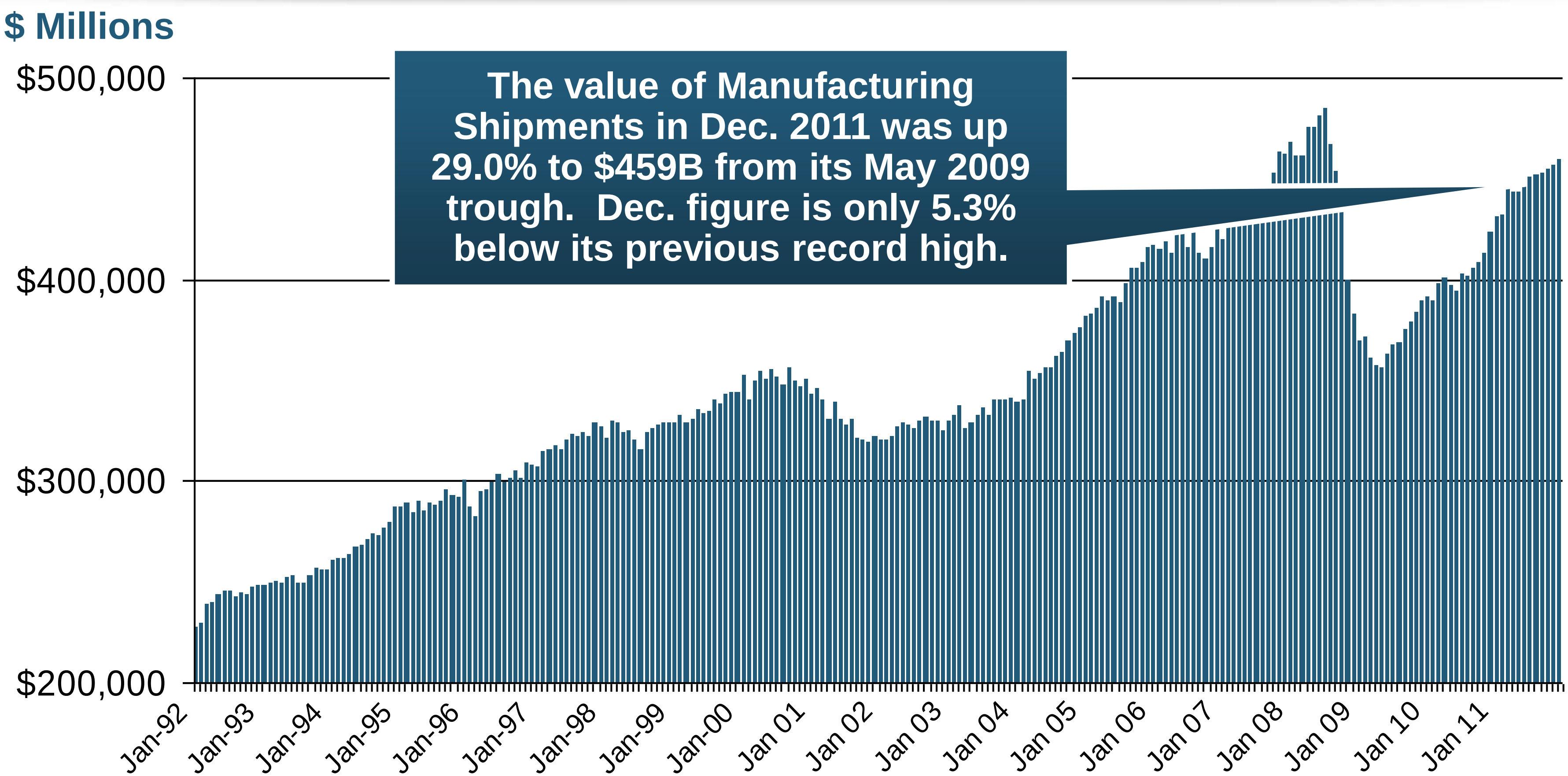


The manufacturing sector has been expanding and adding jobs. The question is whether this will continue.

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

Dollar Value* of Manufacturers' Shipments Monthly, Jan. 1992—Dec. 2011



Monthly shipments are nearly back to peak (in July 2008, 8 months into the recession). Trough in May 2009. Growth from trough to December 2011 was 29.0%. This growth leads to gains in many commercial exposures: WC, Commercial Auto, Property and Various Liability Coverages

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

Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures

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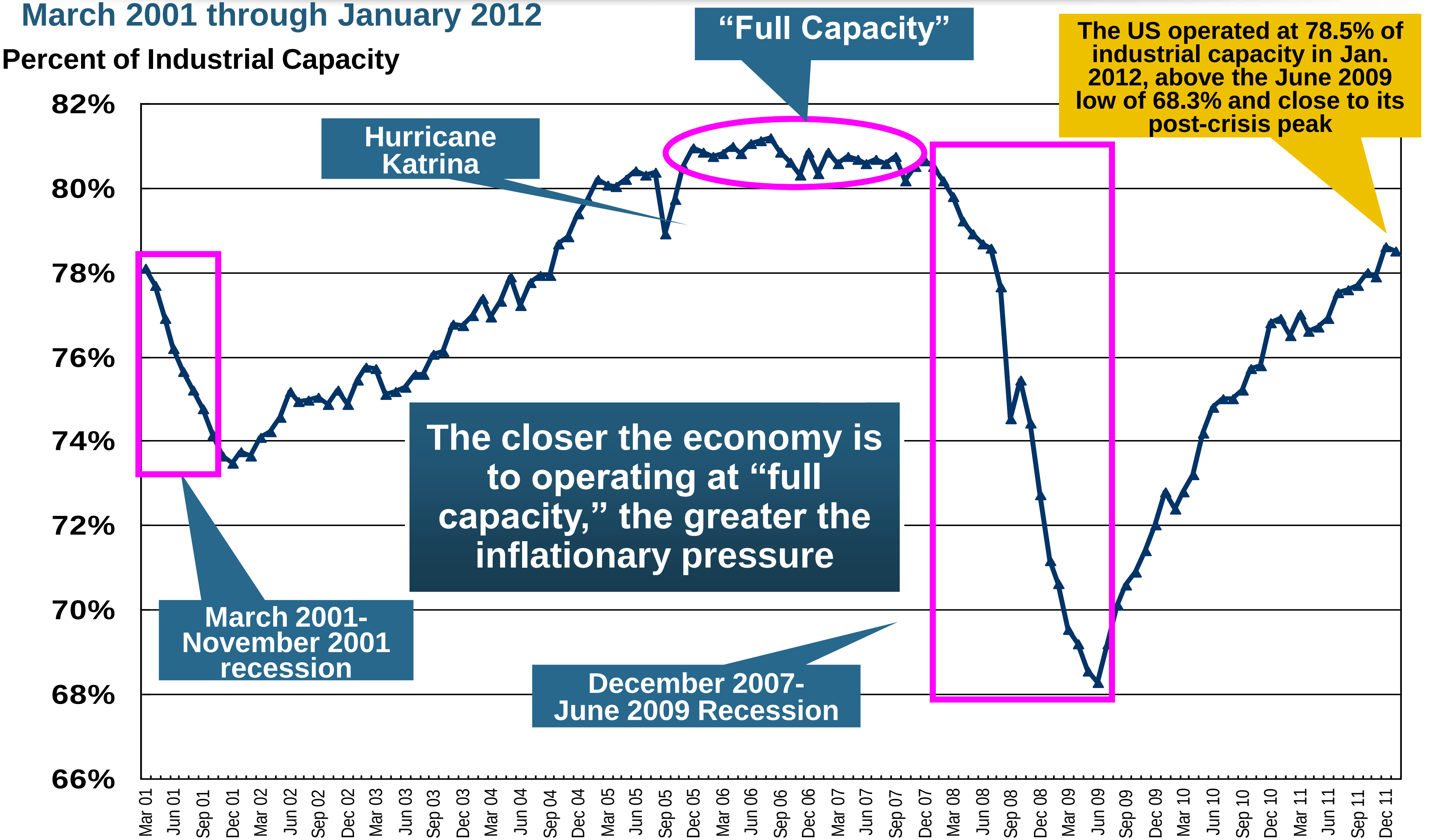
March 2001 through January 2012



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

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

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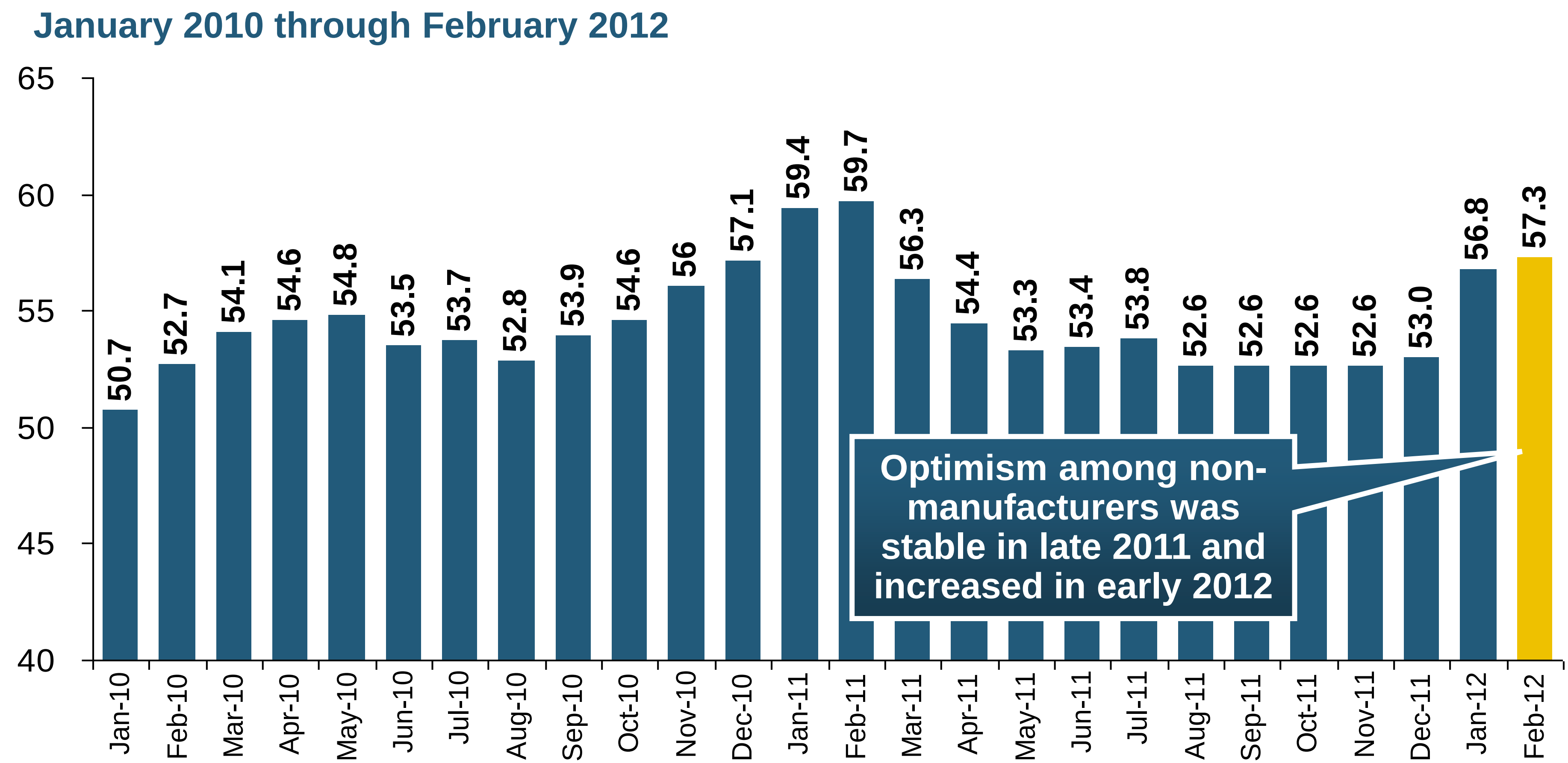
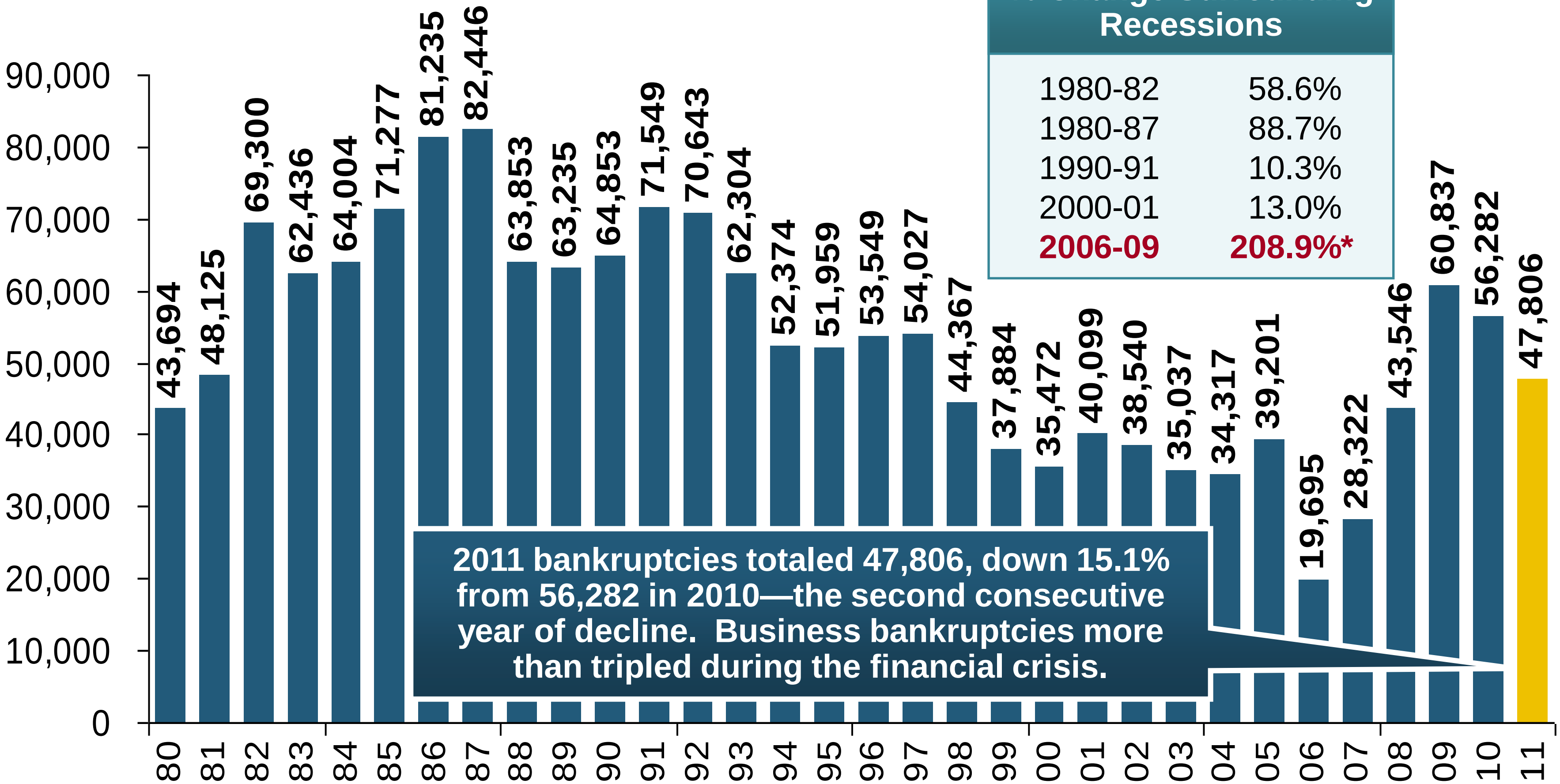


Non-manufacturing industries have been expanding and adding jobs. The question is whether this will continue.

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

Business Bankruptcy Filings, 1980-2011



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

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

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

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

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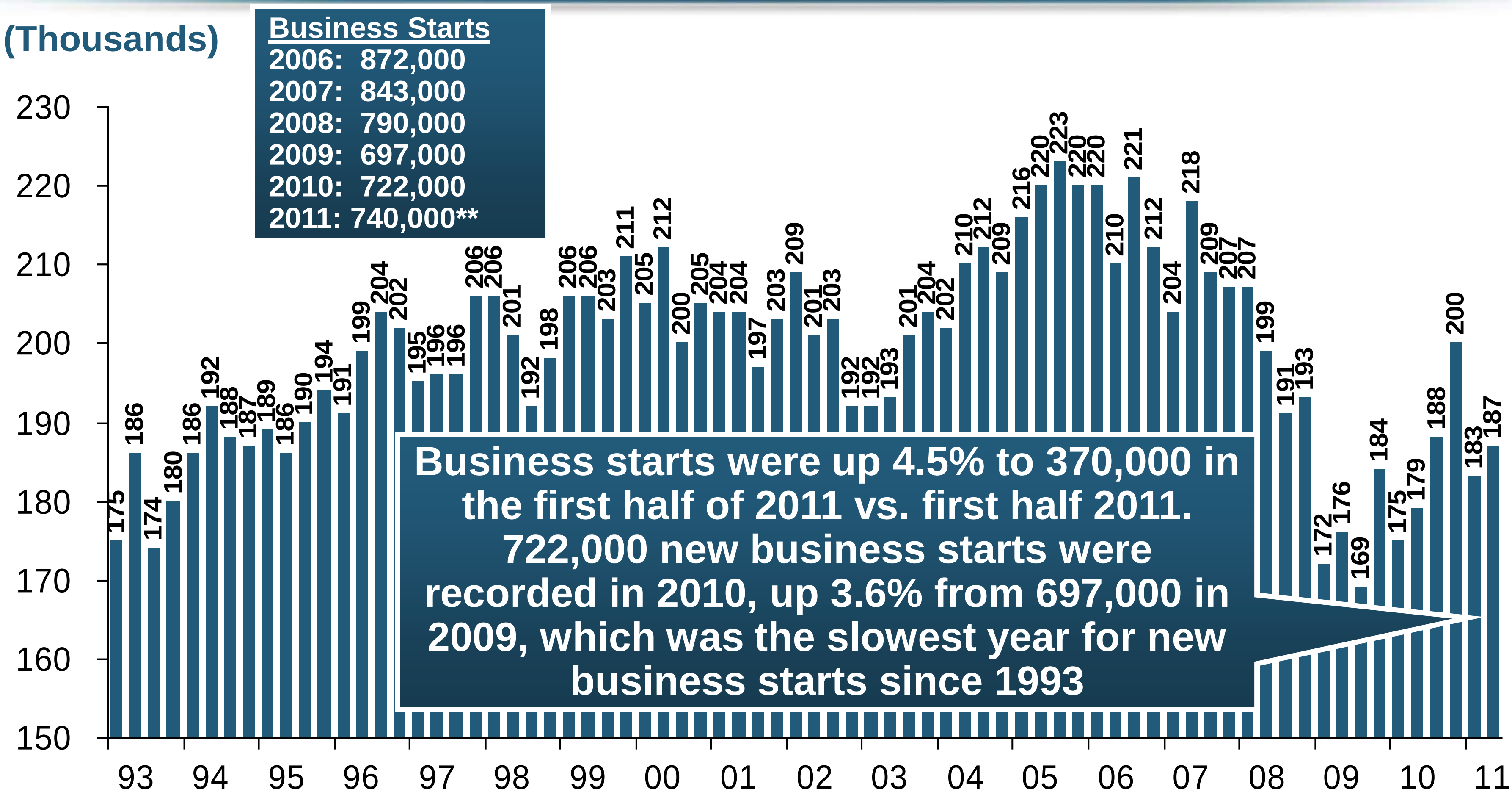

Business Starts Were Down Nearly 20% in the Recession, Holding Back Most Types of Commercial Insurance Exposure, But Are Recovering Slowly

* Data through June 30, 2011 are the latest available as of February 26, 2012; Seasonally adjusted; **Annualized based on 2011:H1 actual data.
Source: Bureau of Labor Statistics, http://www.bls.gov/news.release/cewbd.t08.htm.

12 Industries for the Next 10 Years: Insurance Solutions Needed

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

Many industries are poised for growth, but many insurers do not write in these economic segments

Labor Market Trends

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

Unemployment and Underemployment Rates: Stubbornly High in 2011, But Falling

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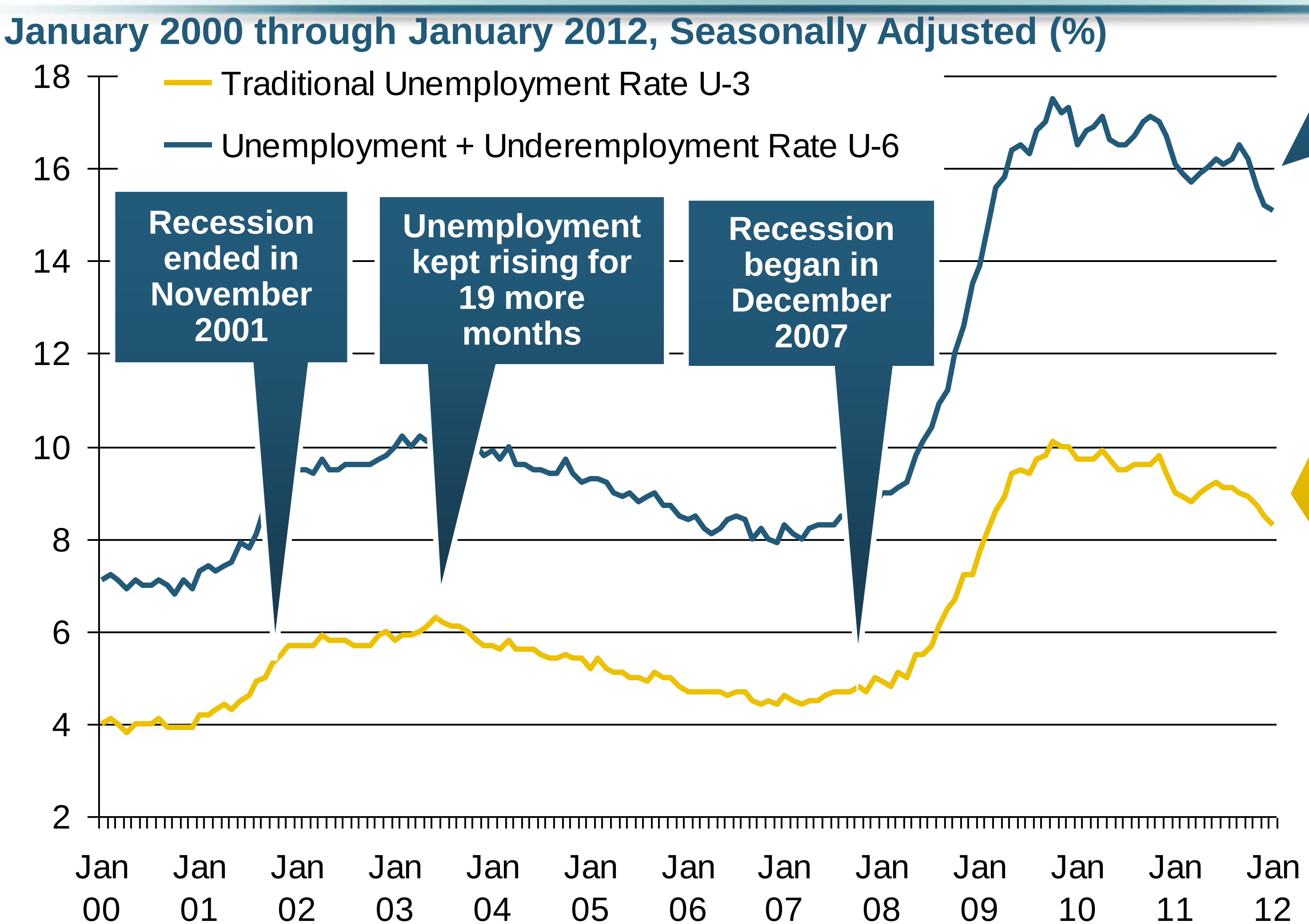

U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 15.1% in Jan. 2012

Unemployment stood at 8.3% in January 2012

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

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

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

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

Monthly Change in Private Employment

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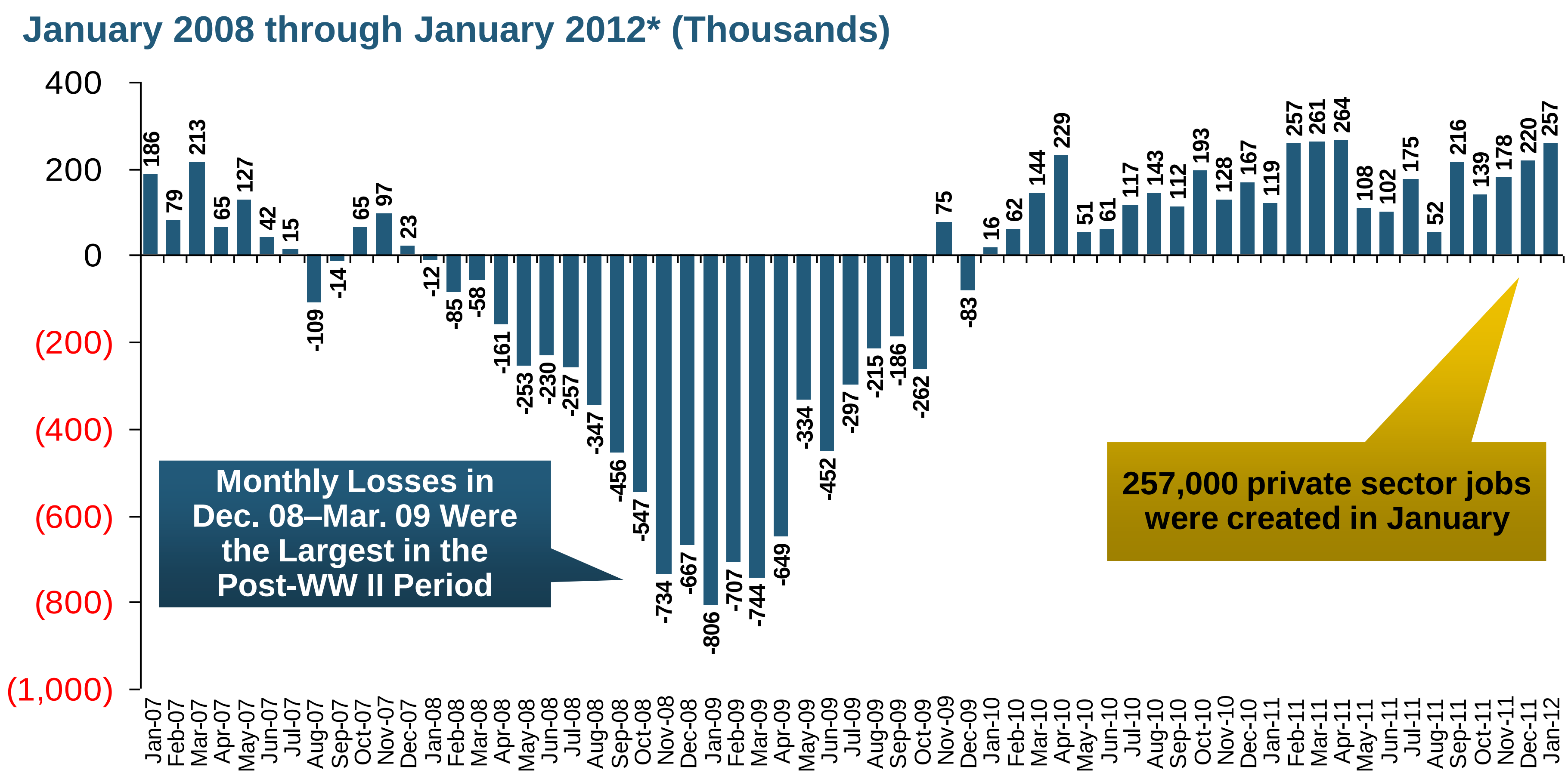
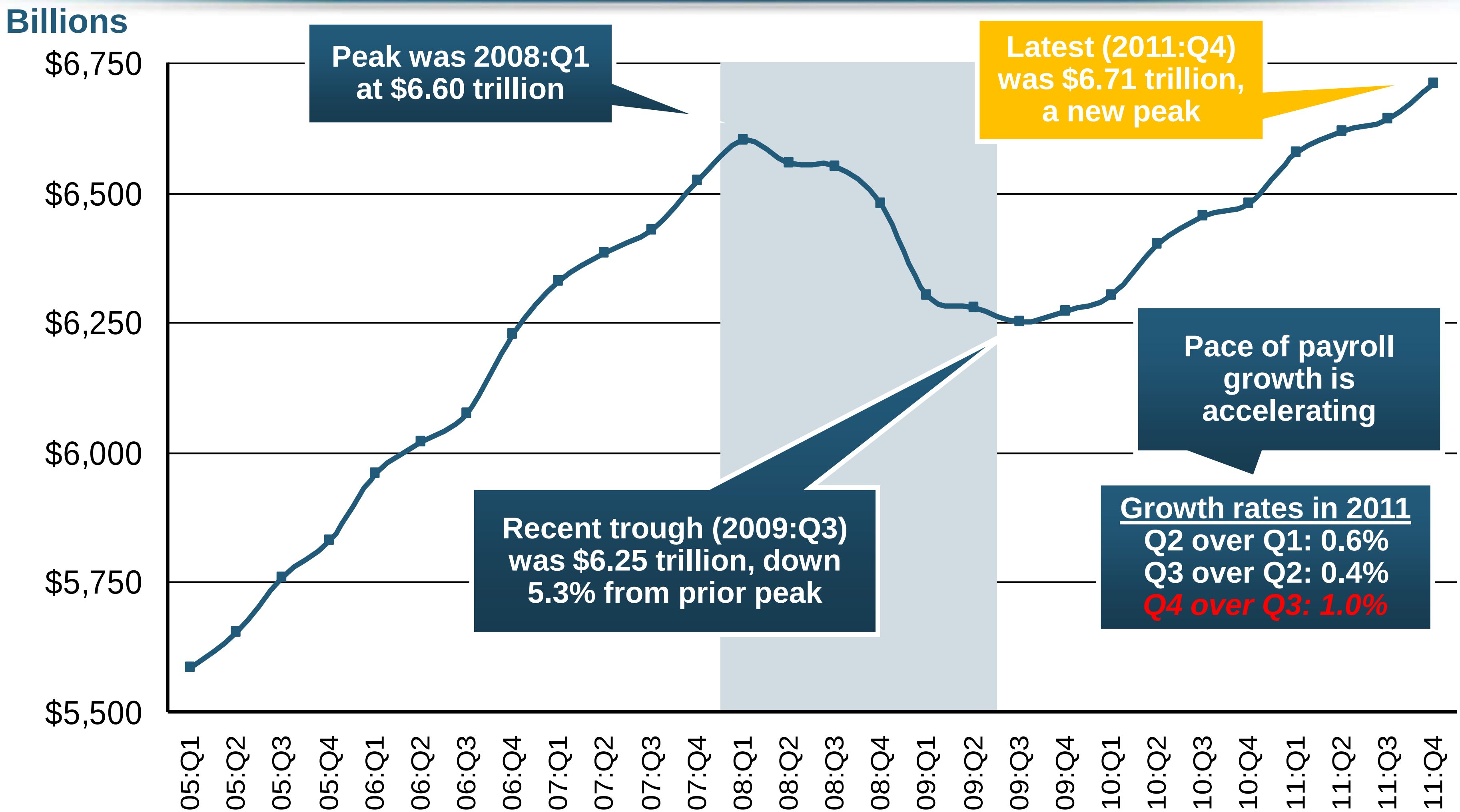


Private Employers Added 3.771 million Jobs Since Jan. 2010 After Having Shed 4.66 Million Jobs in 2009 and 3.81 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs

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

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.

Unemployment Rates by State, December 2011: Highest 25 States*

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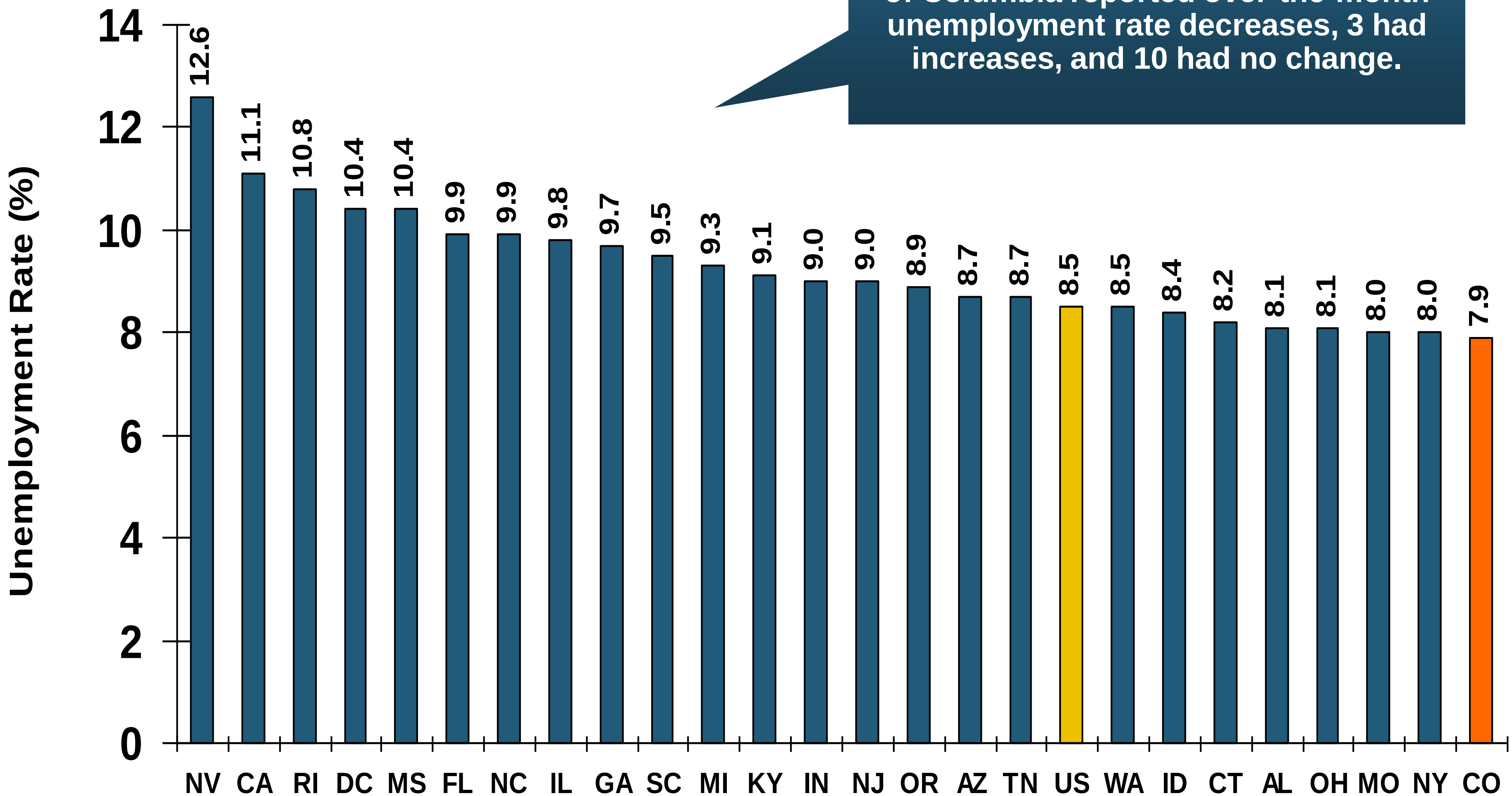
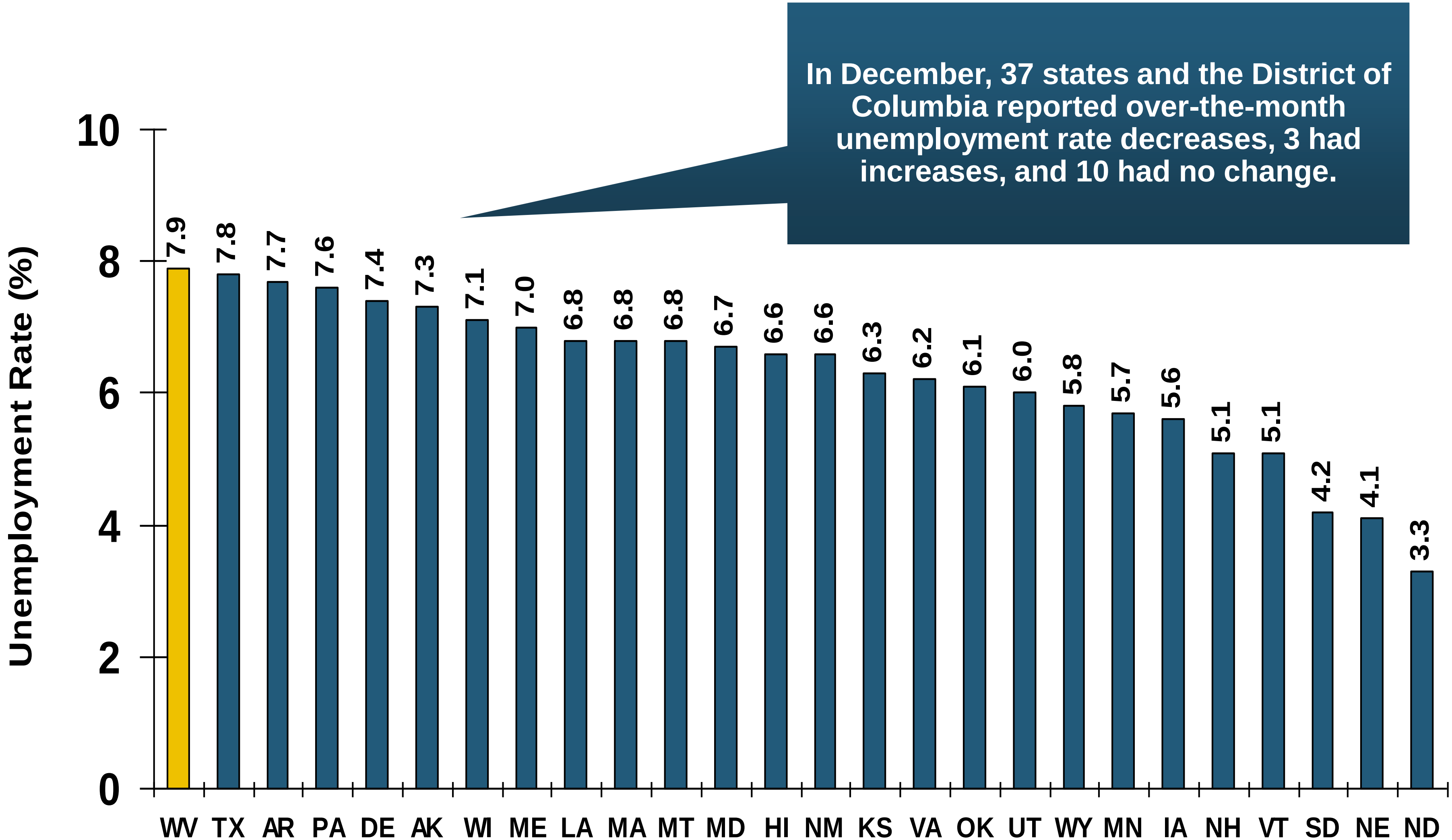
In December, 37 states and the District of Columbia reported over-the-month unemployment rate decreases, 3 had increases, and 10 had no change.



*Provisional figures for December 2011, seasonally adjusted.

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

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

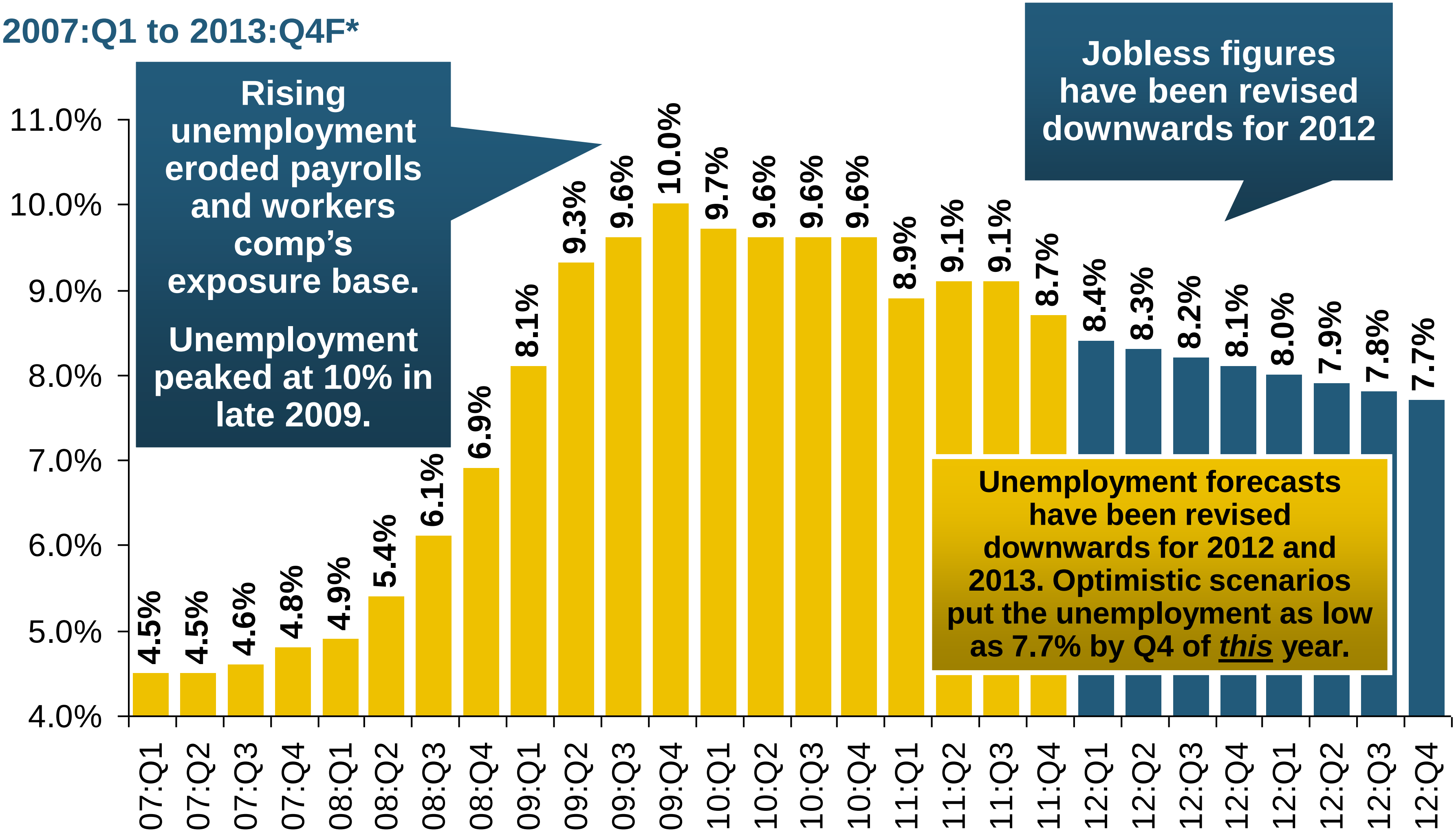


*Provisional figures for December 2011, seasonally adjusted.

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

US Unemployment Rate

2007:Q1 to 2013:Q4F*



* = actual; = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (2/12 edition); Insurance Information Institute (forecasts)

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

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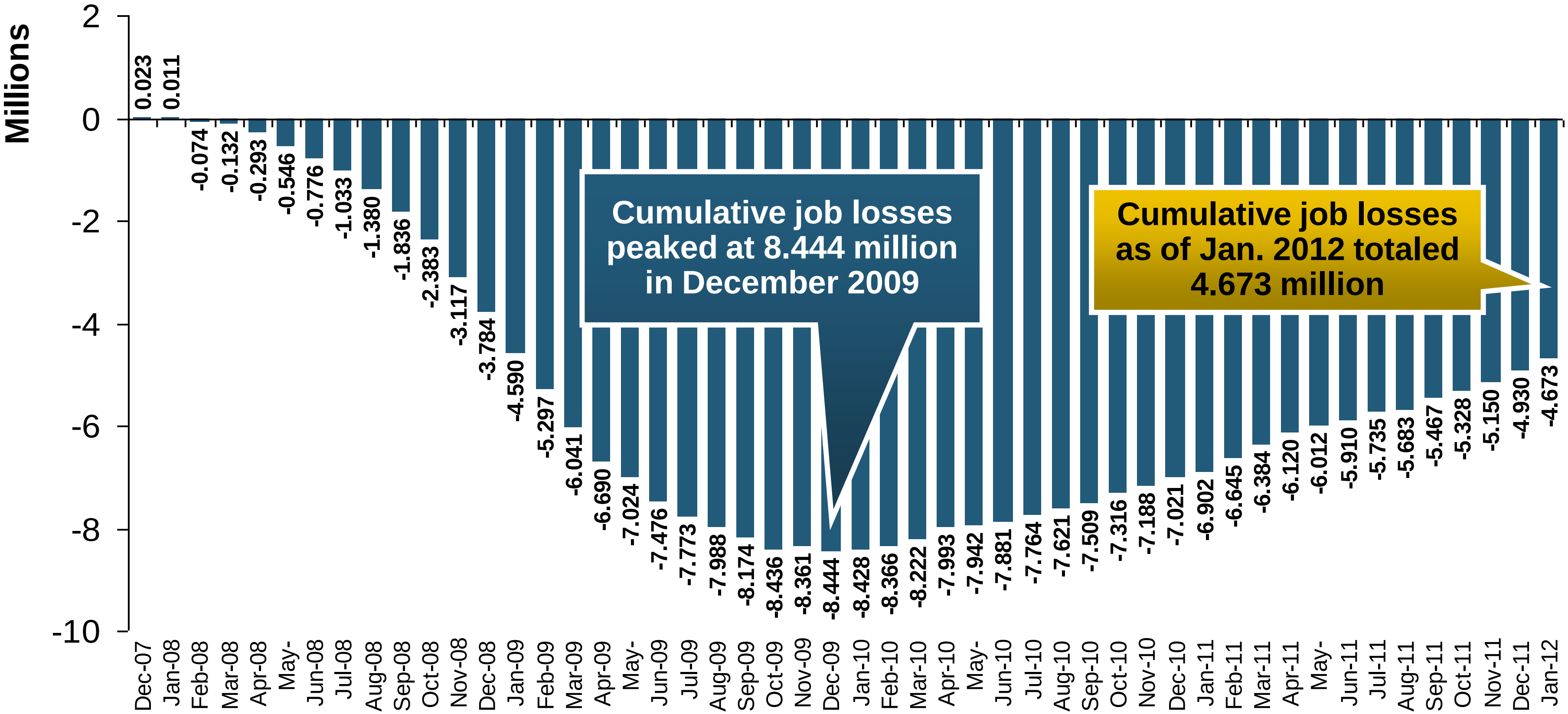
December 2007 through January 2012* (Millions)



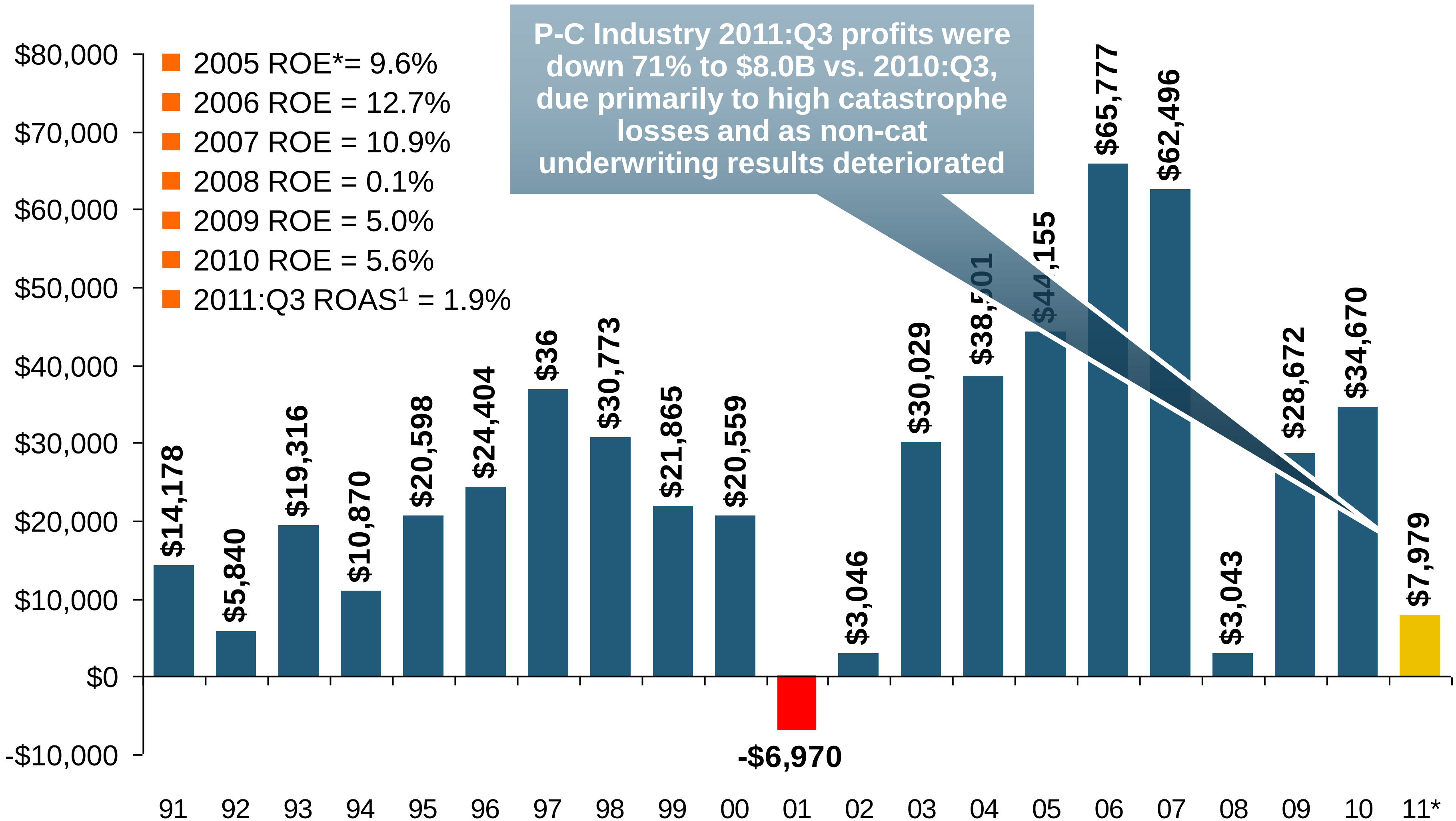
Private Employers Added 3.771 million Jobs Since Jan. 2010 After Having Shed 4.66 Million Jobs in 2009 and 3.81 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs

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

P/C Insurance Industry Financial Overview

Profit Recovery Was Set Back in 2011 by High Catastrophe Loss & Other Factors

P/C Net Income After Taxes 1991–2011:Q3 ($ Millions)



* ROE figures are GAAP; [1]Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 3.0% ROAS for 2011:Q3, 7.5% for 2010 and 7.4% for 2009.

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

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

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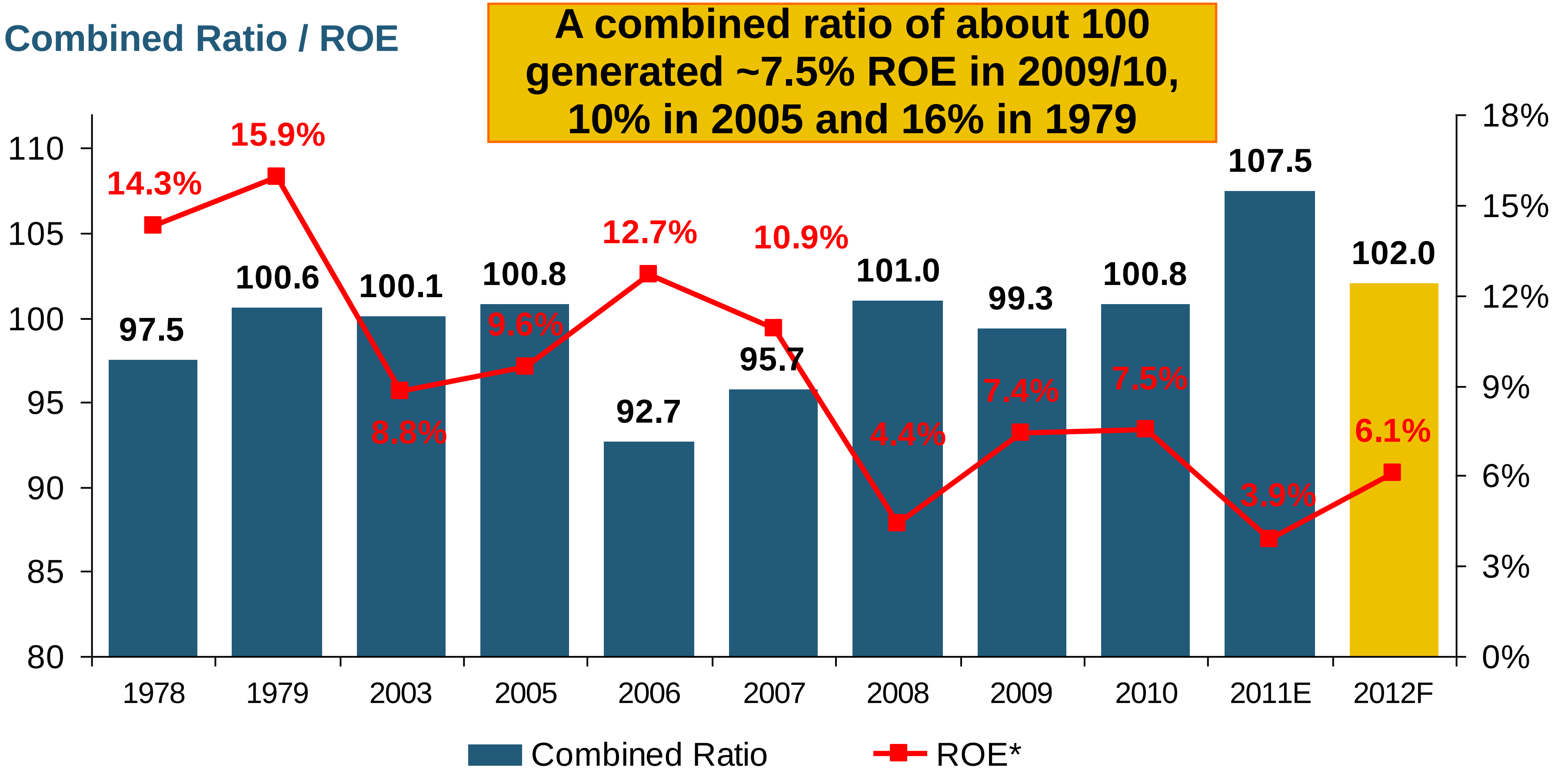
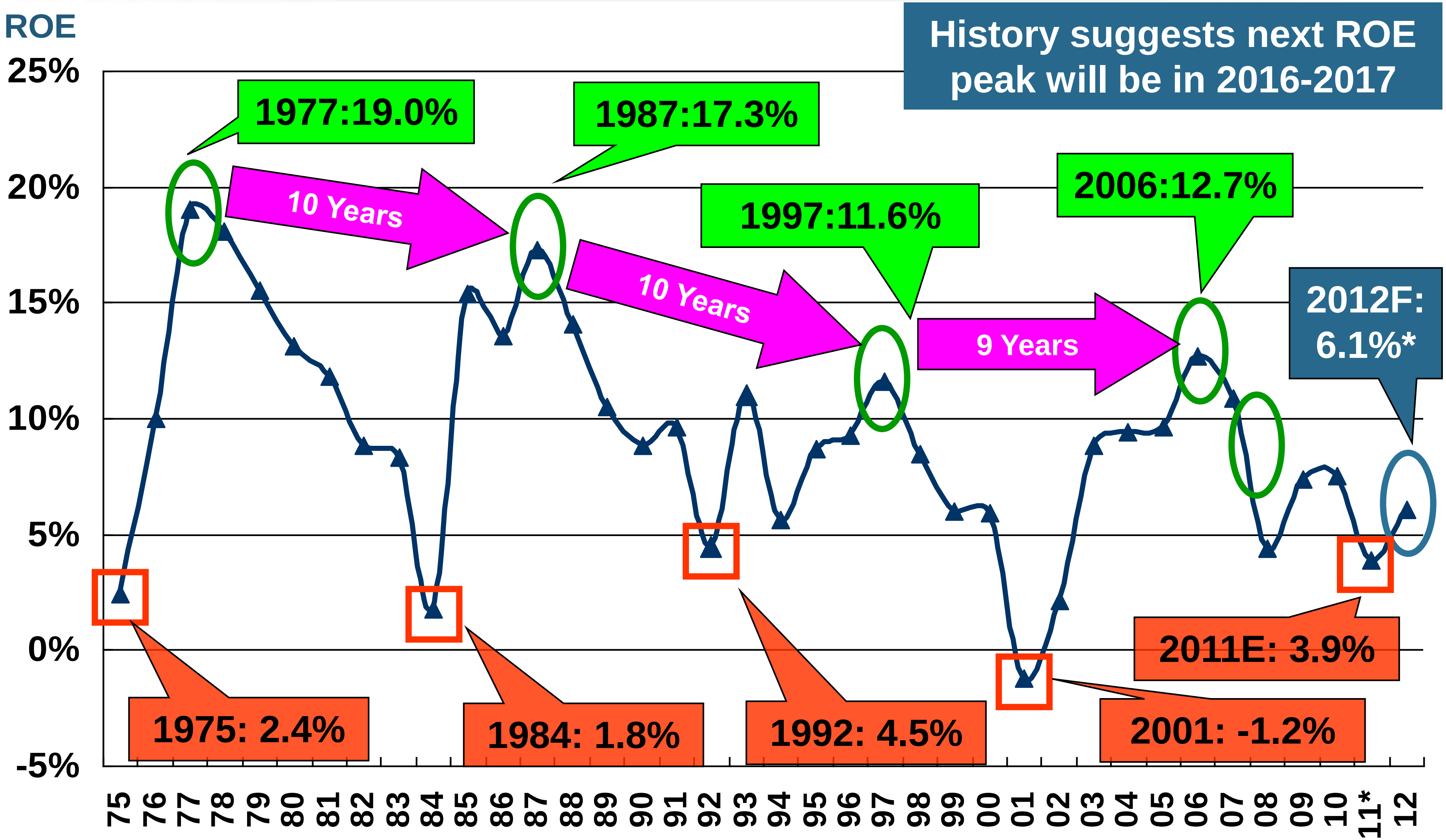


Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2008 -2010 figures are return on average surplus and exclude mortgage and financial guaranty insurers. 2011-12 combined ratios are A.M. Best estimate excl. M&FG insurers.
Source: Insurance Information Institute from A.M. Best and ISO data.

Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2012F*



*Profitability = P/C insurer ROEs. 2011-12 figures are A.M. Best estimates. Note: Data for 2008-2012 exclude mortgage and financial guaranty insurers. For 2011:Q3 ROAS = 1.9% including M&FG.

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

Profitability and Growth in Ohio P/C Insurance Markets

Analysis by Line and Nearby State Comparisons

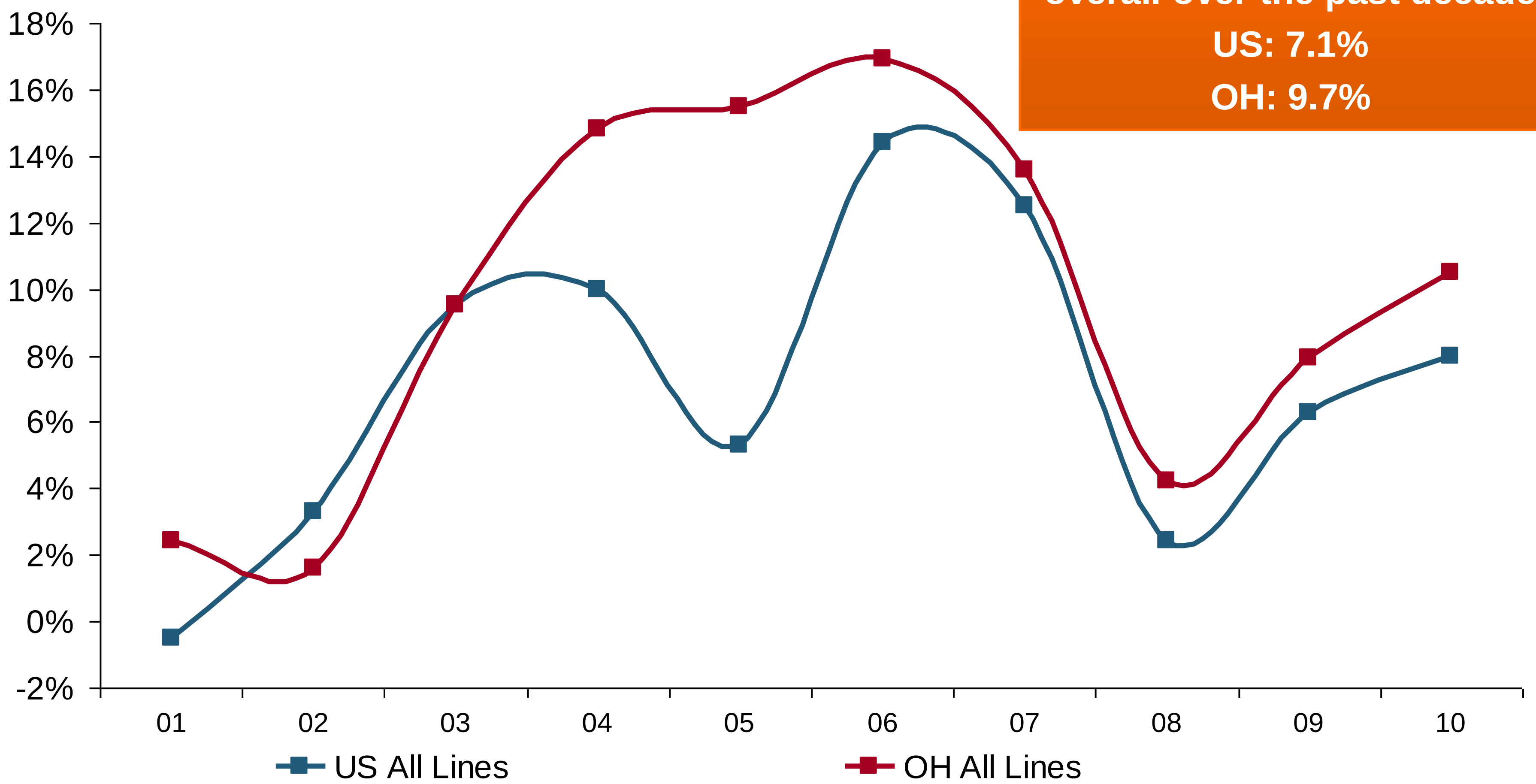
RNW All Lines: OH vs. U.S., 2001-2010

(Percent)

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

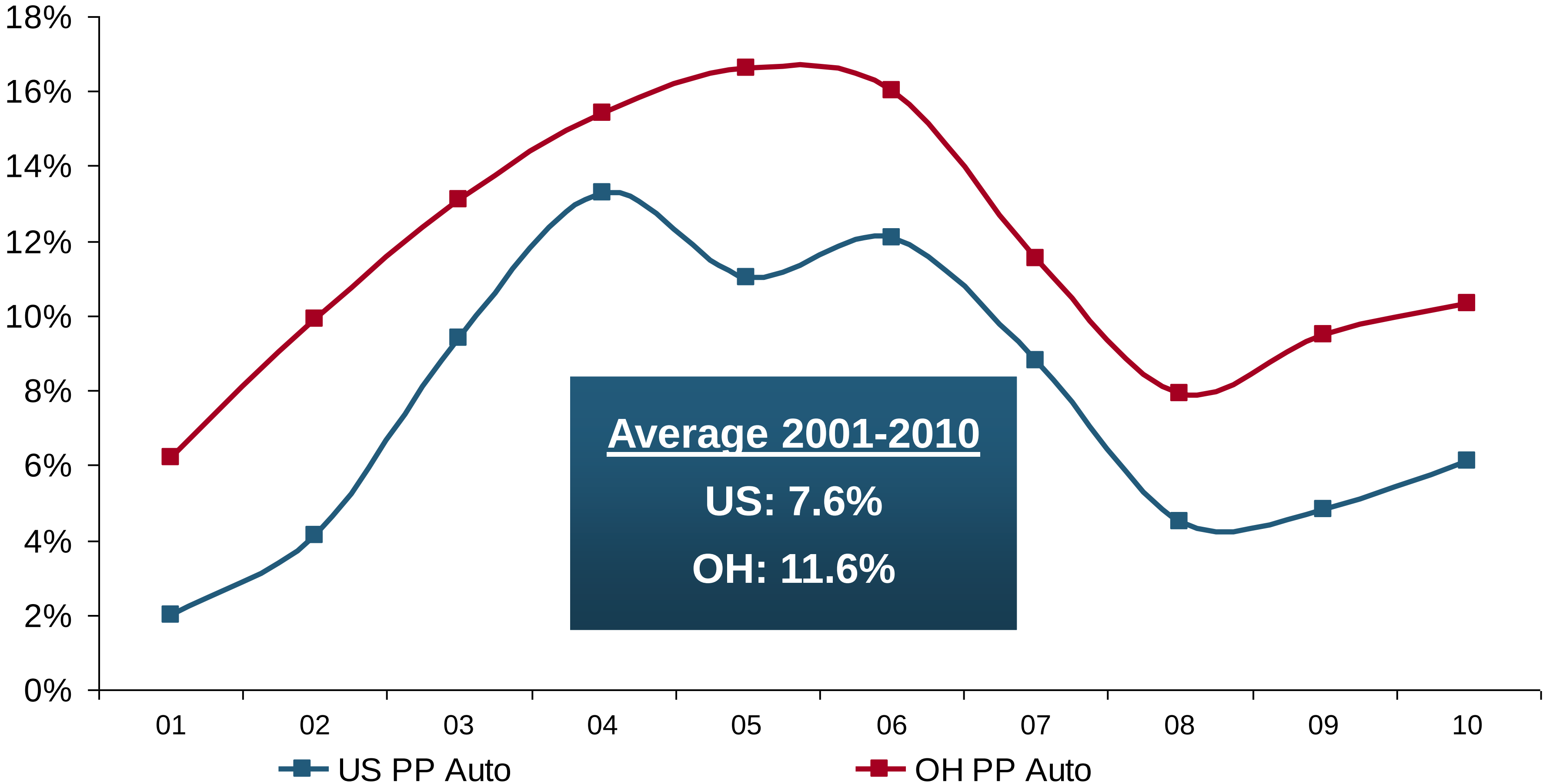
US: 7.1%

OH: 9.7%



Sources: NAIC.

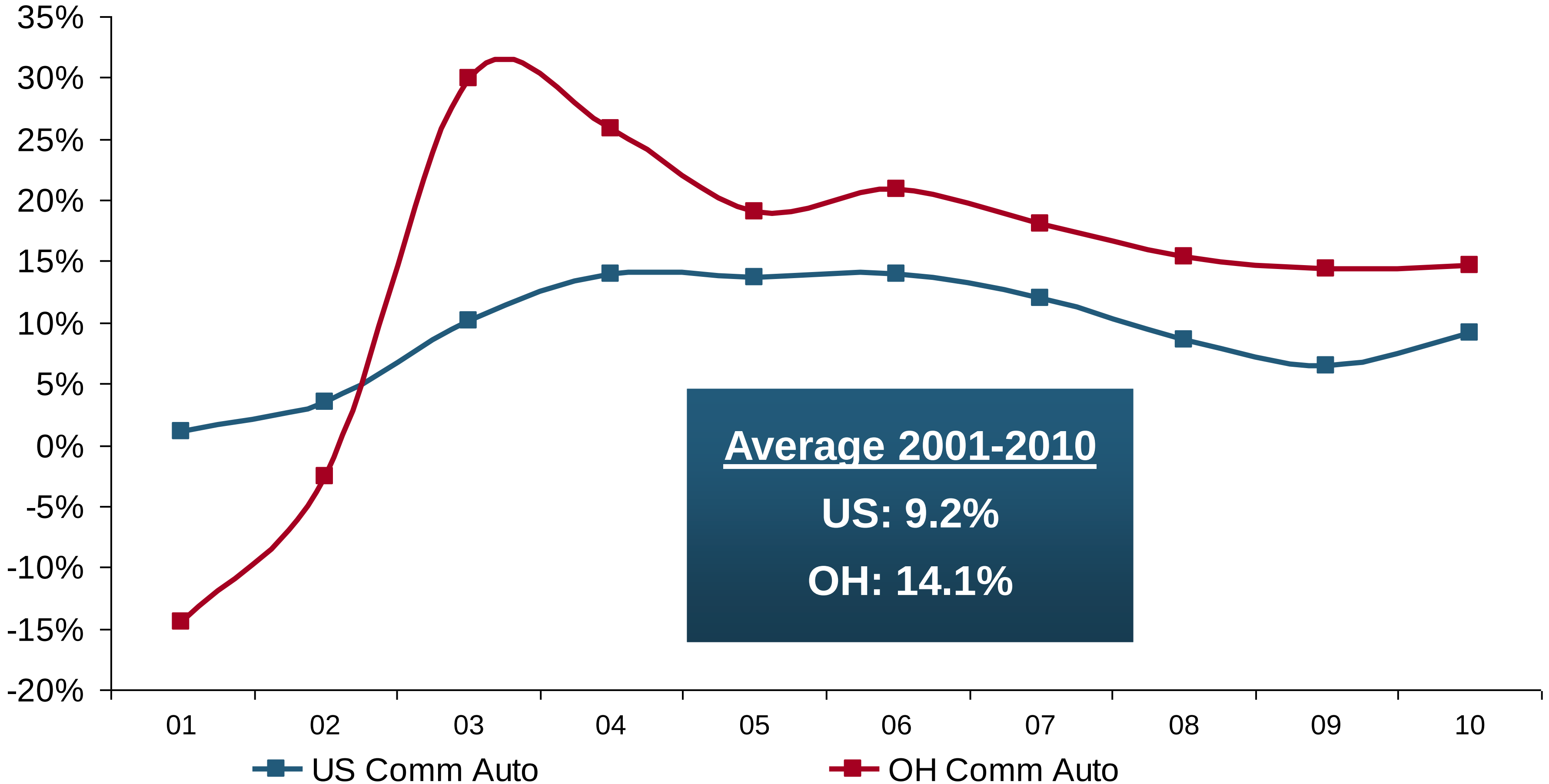
RNW PP Auto: OH vs. U.S., 2001-2010



Sources: NAIC.

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

(Percent)



Sources: NAIC.

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

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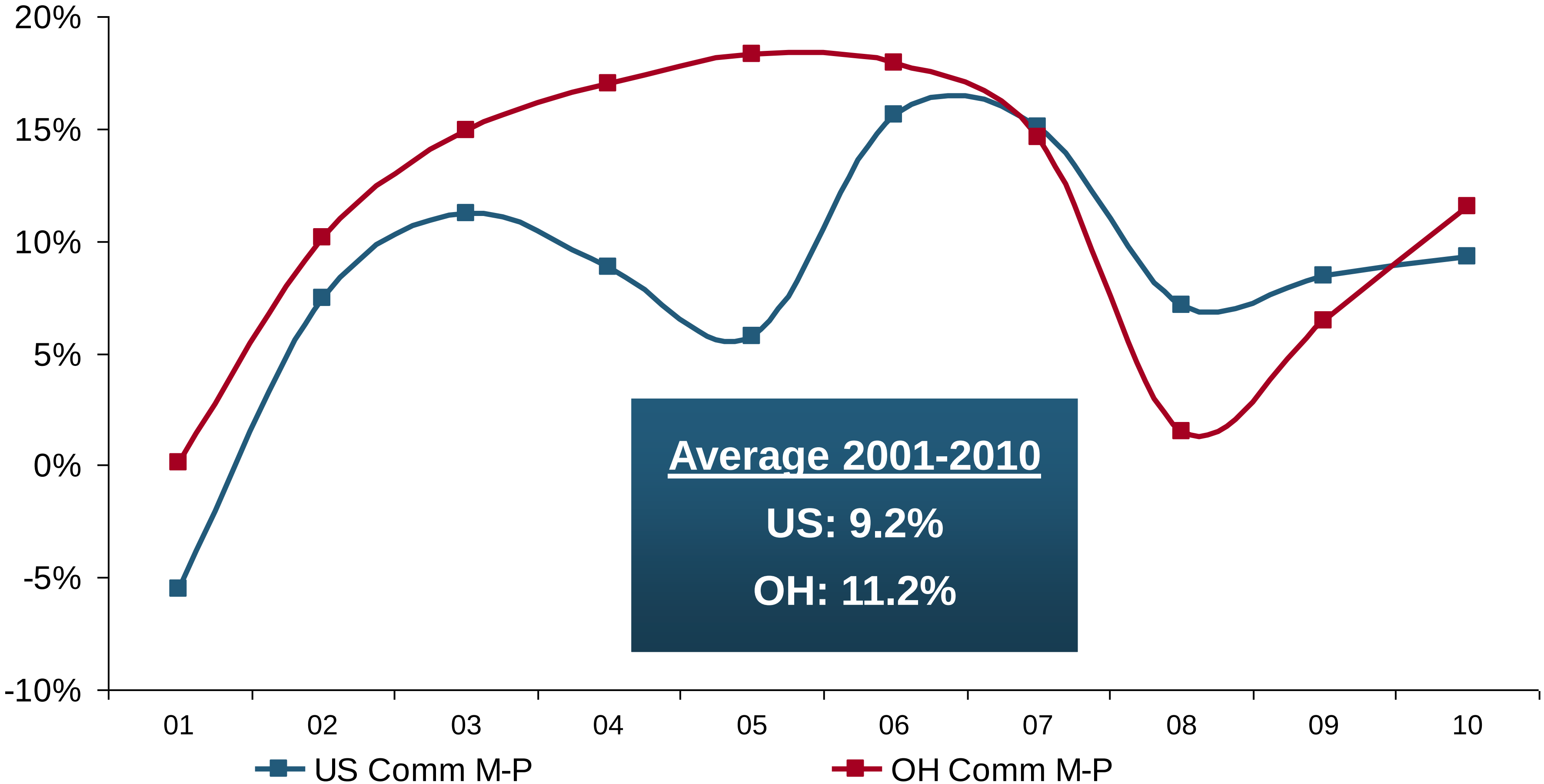
(Percent)



Sources: NAIC.

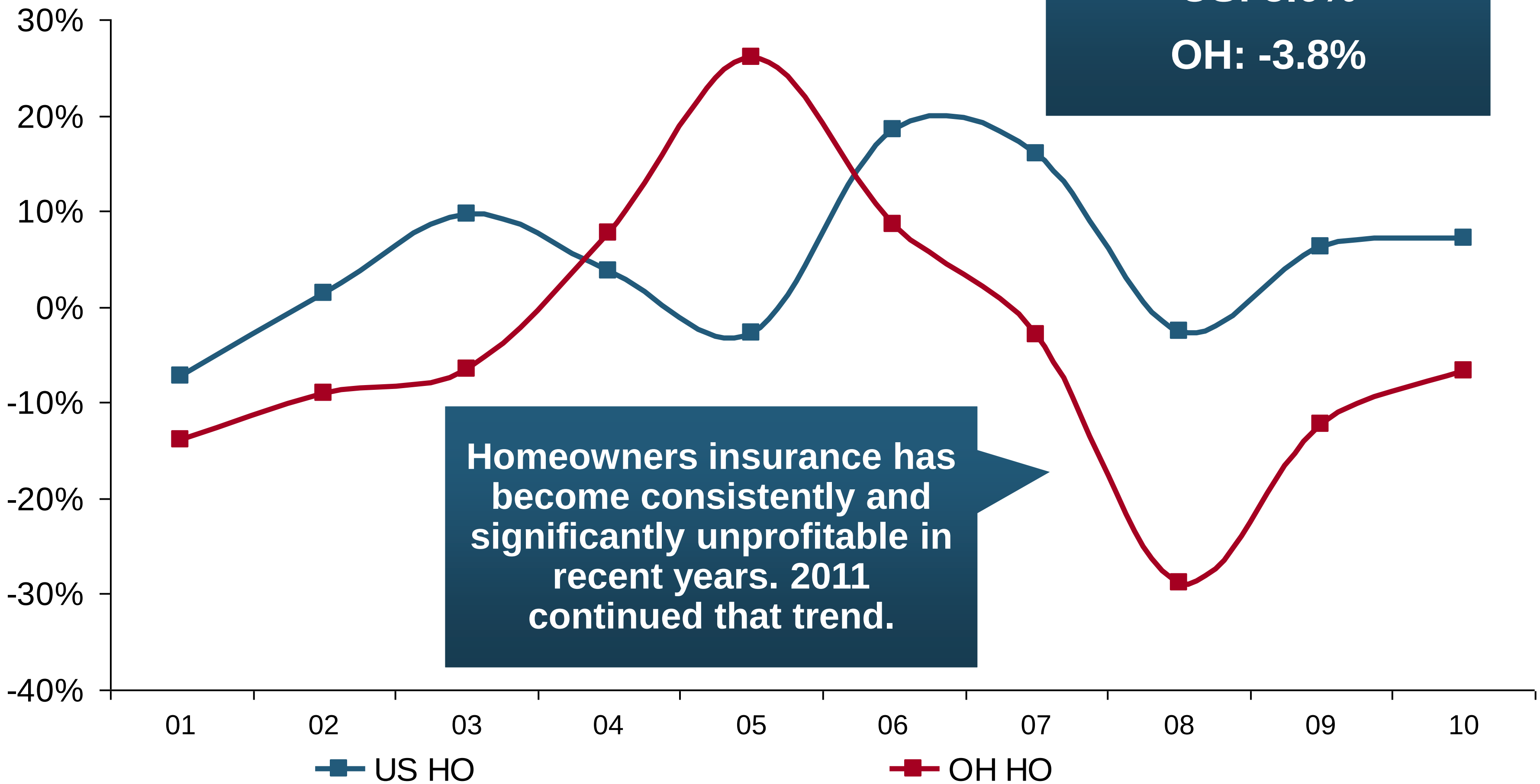
RNW Homeowners: OH vs. U.S., 2001-2010

(Percent)

Average 2001-2010

US: 5.0%

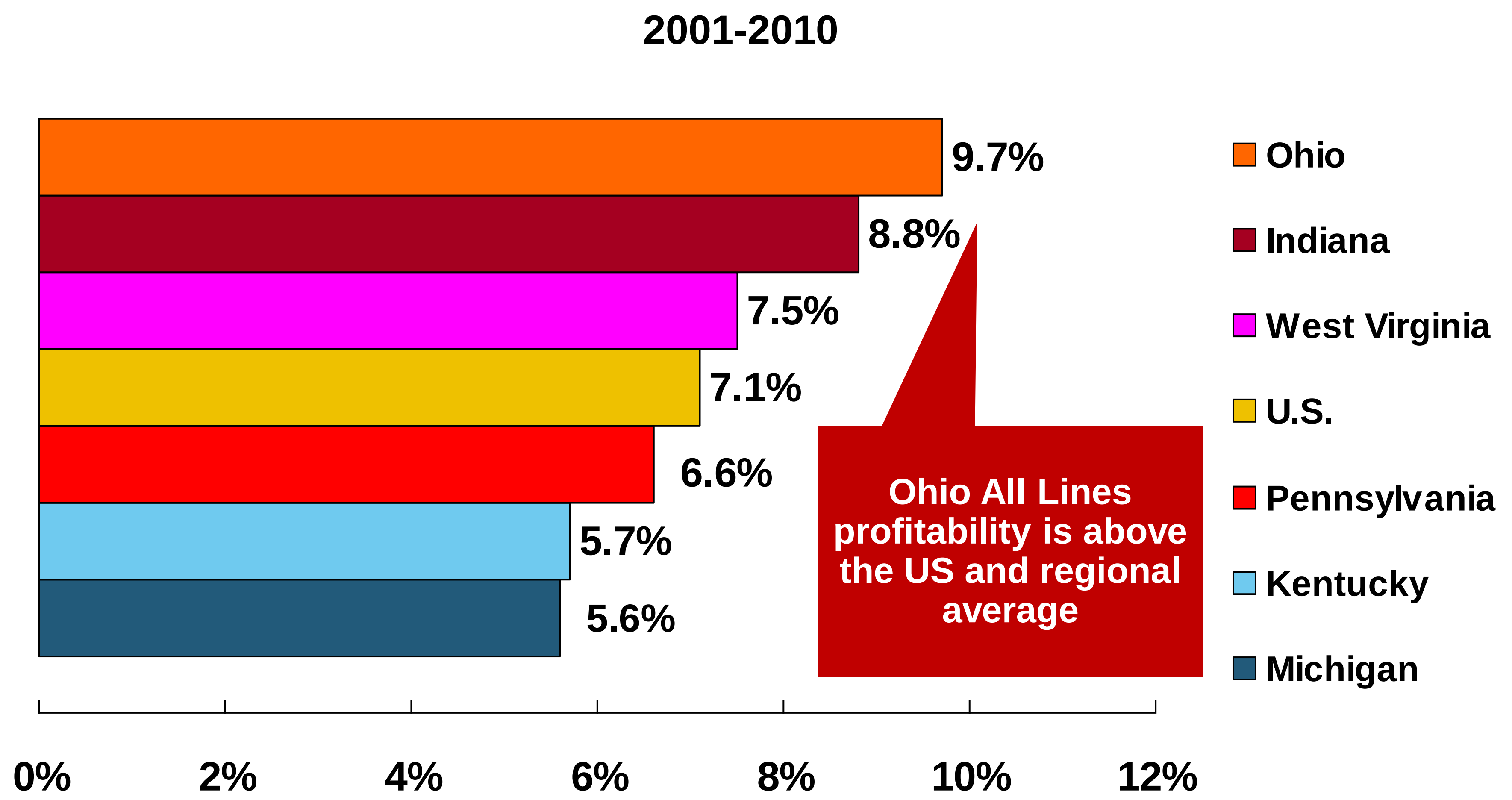
OH: -3.8%



Homeowners insurance has become consistently and significantly unprofitable in recent years. 2011 continued that trend.

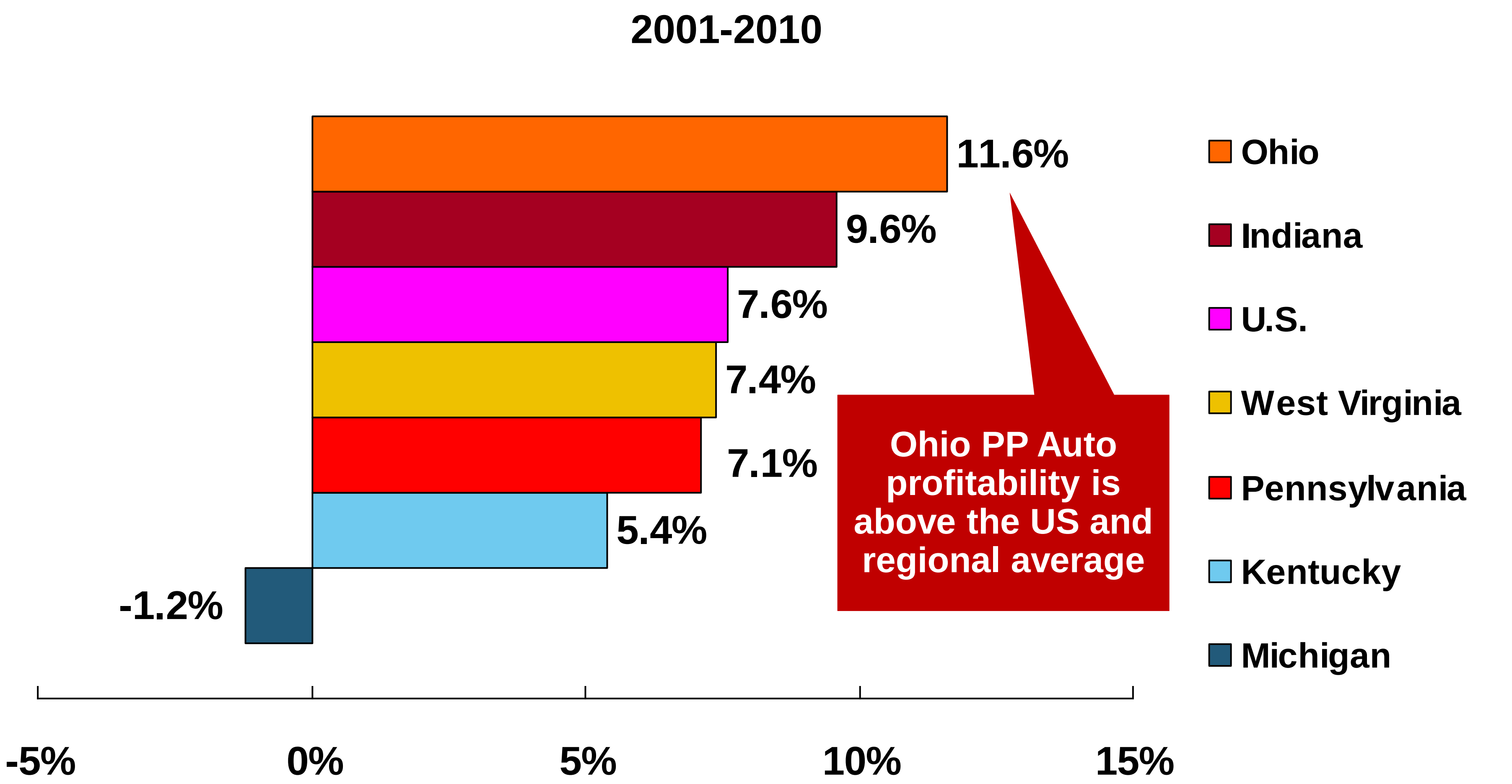
Sources: NAIC.

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



Source: NAIC, Insurance Information Institute

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



Source: NAIC, Insurance Information Institute

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

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

Ohio ranked 10th least expensive in 2009, with an average expenditure for auto insurance of $616.

(1) Based on average automobile insurance expenditures.

Source: © 2012 National Association of Insurance Commissioners.

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

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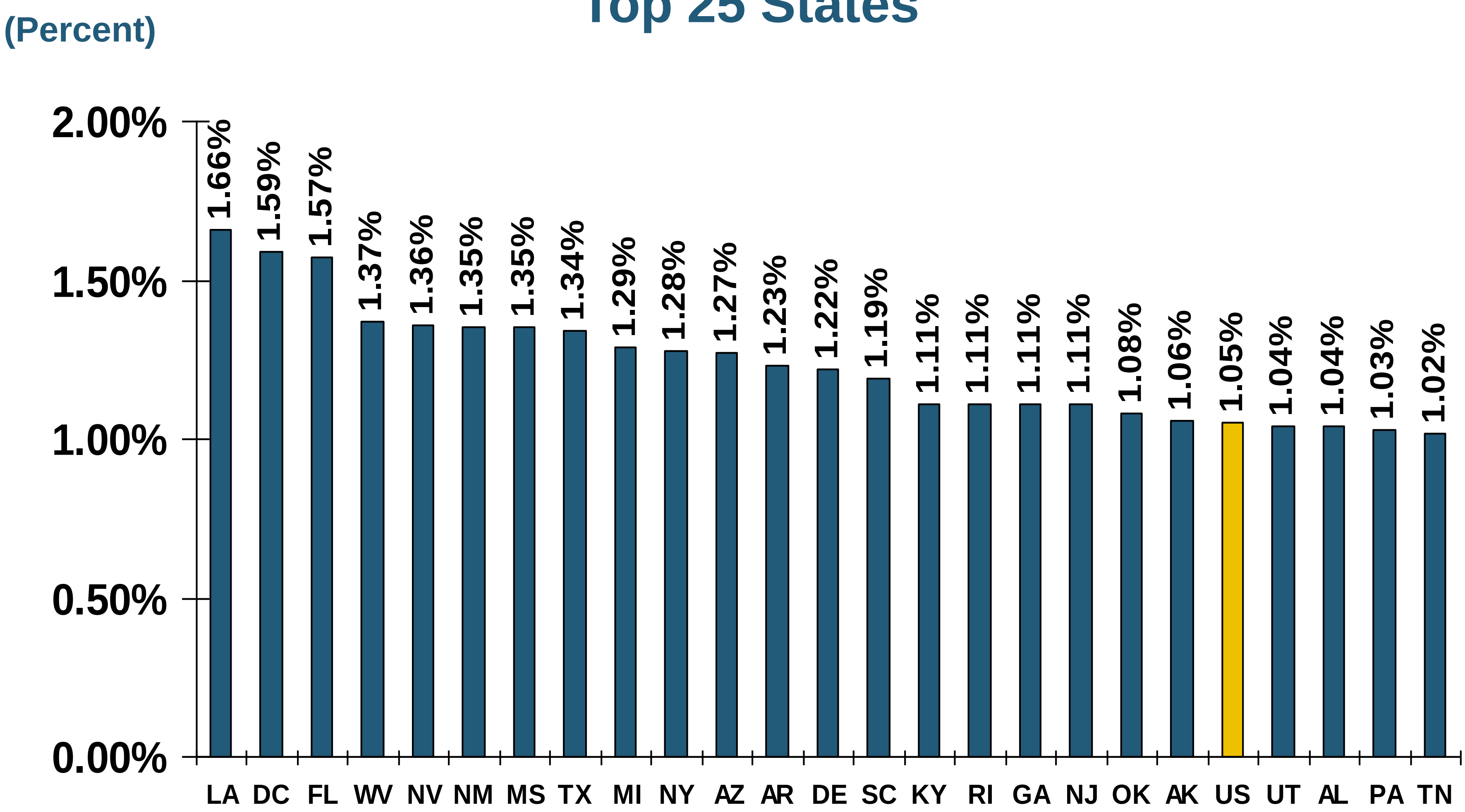
Top 25 States



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

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

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

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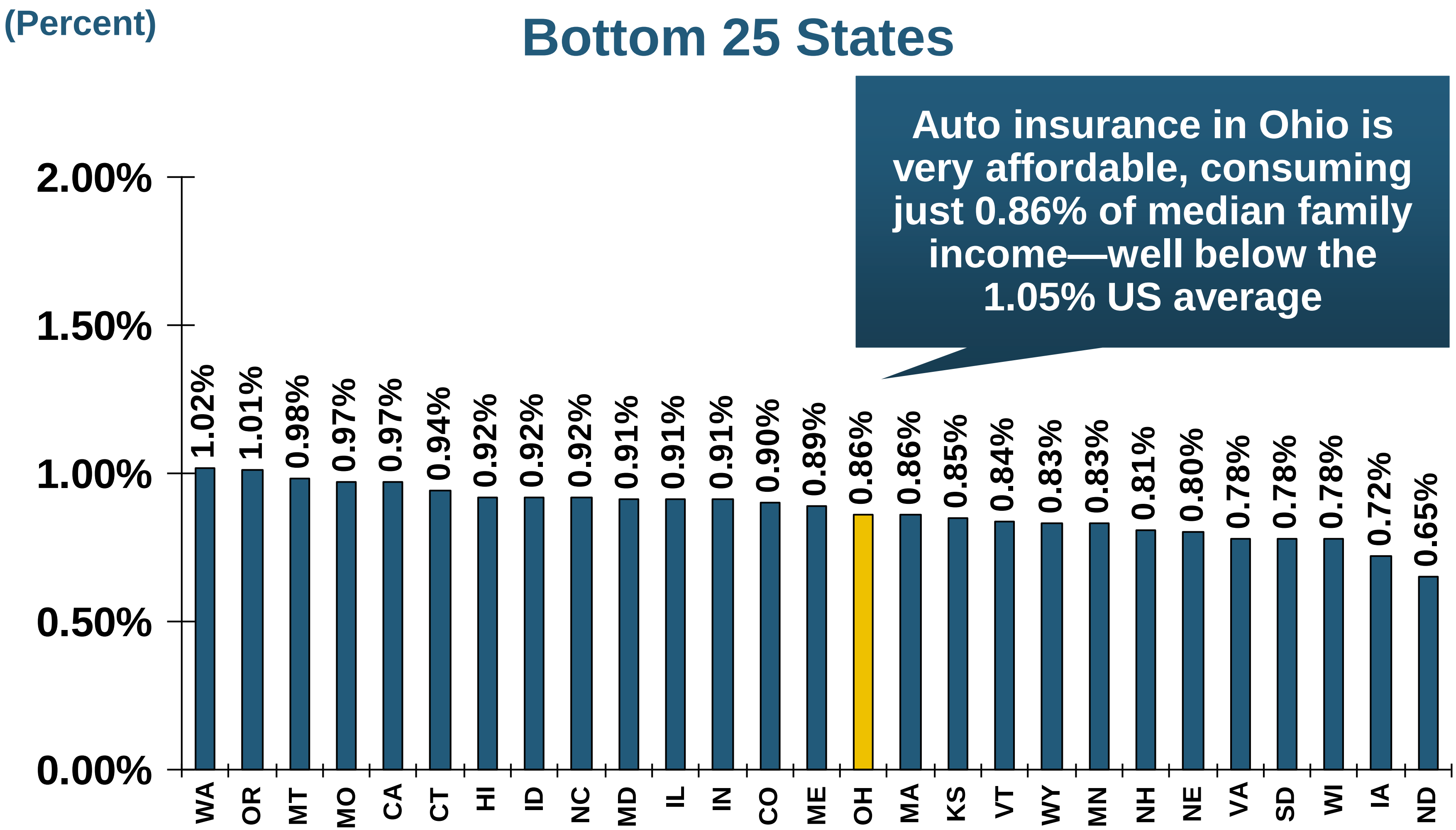
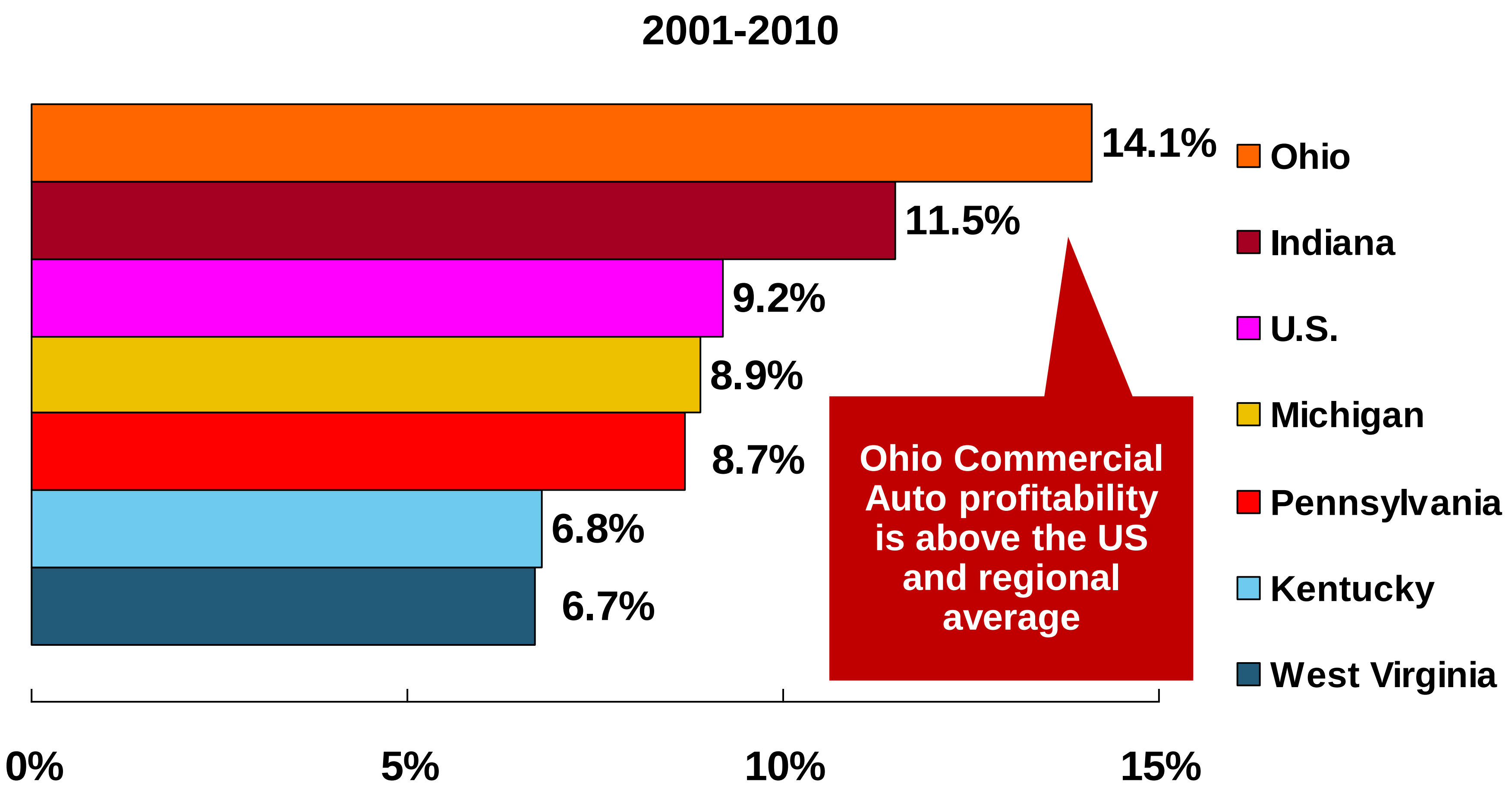
Bottom 25 States



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

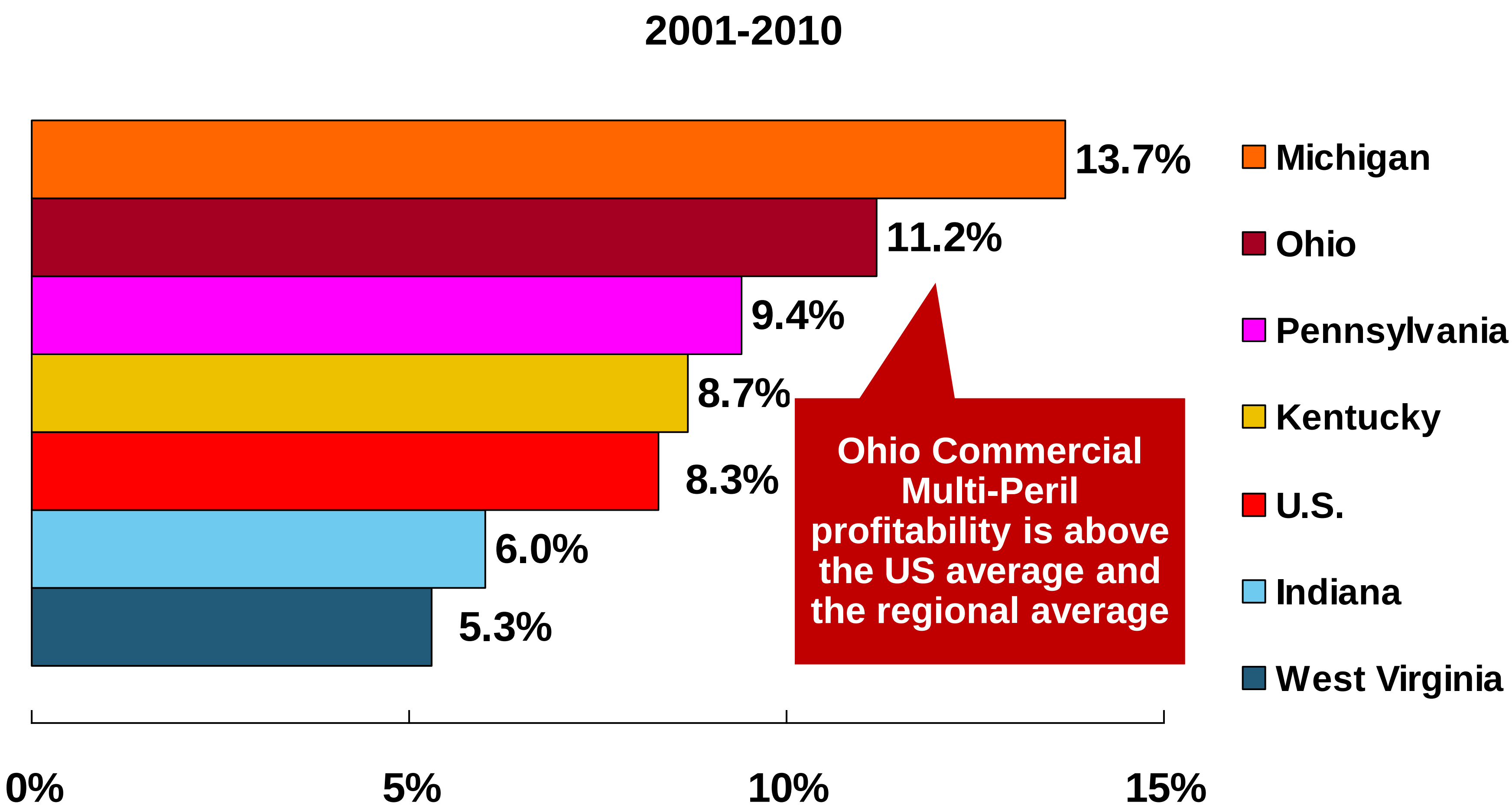
Sources: Prepared by the Insurance Information Institute, based on data from the U.S. Census and the National Association of Insurance Commissioners.

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



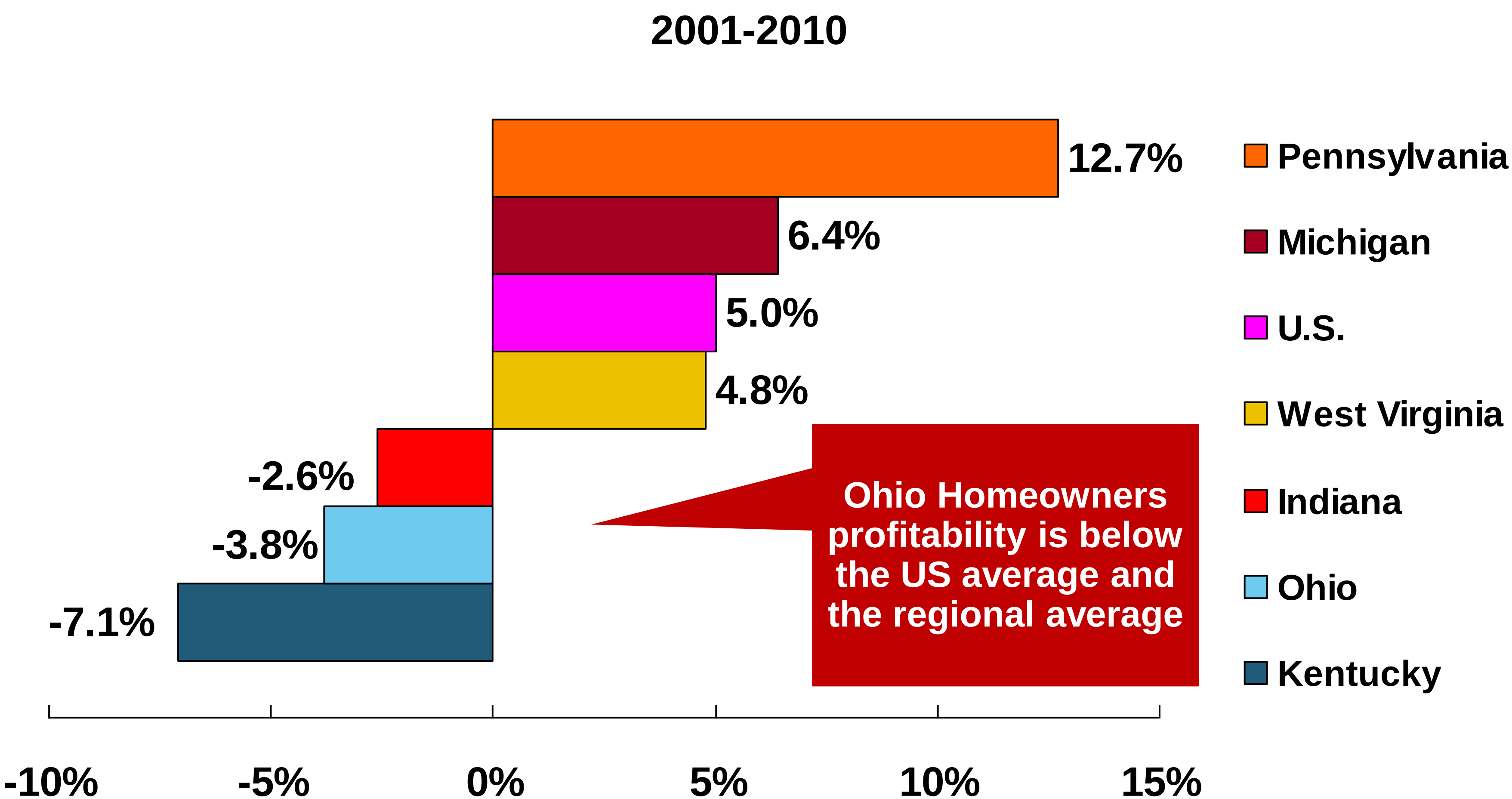
Source: NAIC, Insurance Information Institute

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



Source: NAIC, Insurance Information Institute

Homeowners: 10-Year Average RNW OH & Nearby States



Source: NAIC, Insurance Information Institute

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

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Ohio ranked as the 6th least expensive state for homeowners insurance in 2009, with an average expenditure of $613.

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

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

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

Source: © 2011 National Association of Insurance Commissioners (NAIC). Reprinted with permission. Further reprint or distribution strictly prohibited without written permission of NAIC.

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

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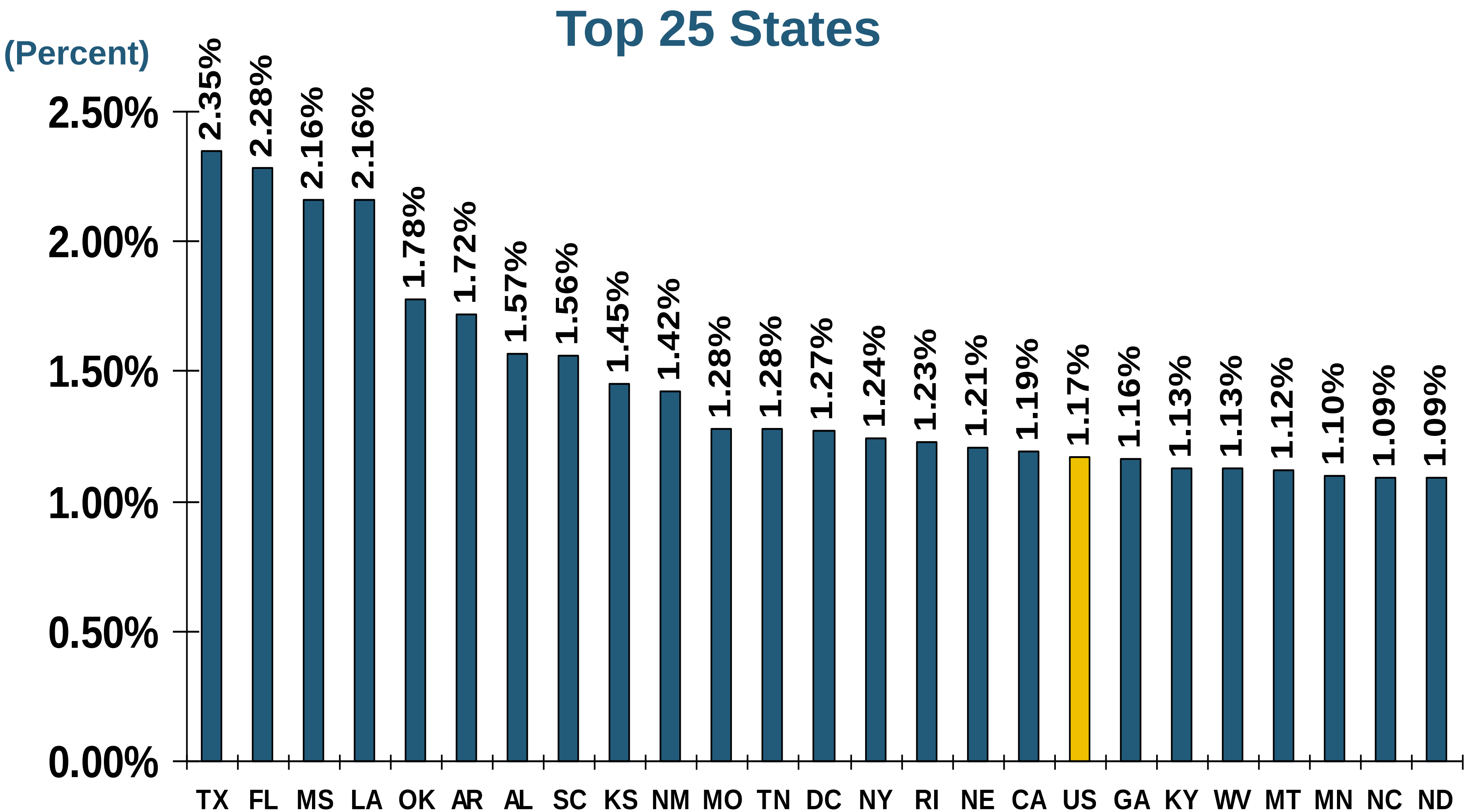

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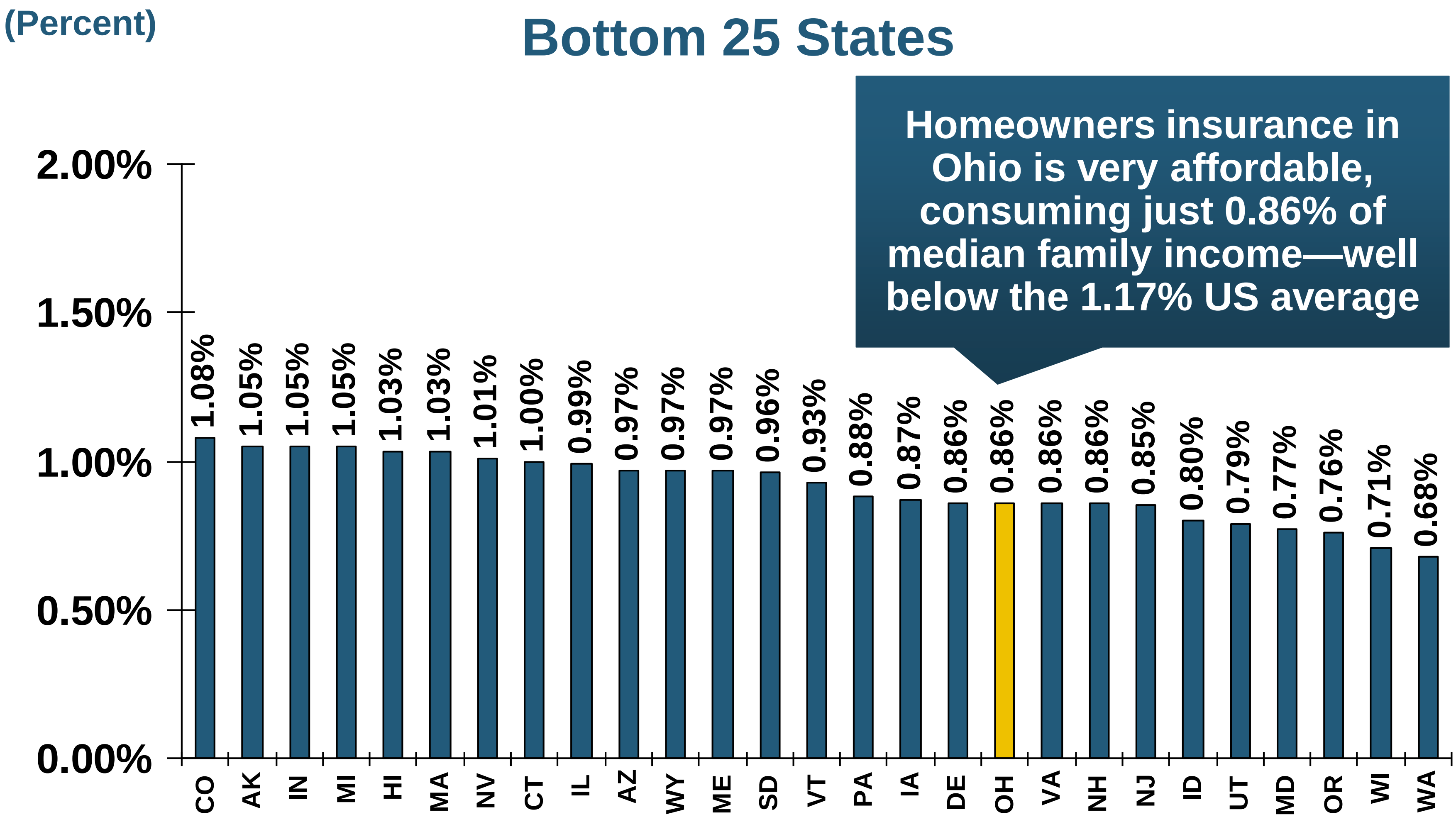

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All Lines DWP Growth: OH vs. U.S., 2001-2010

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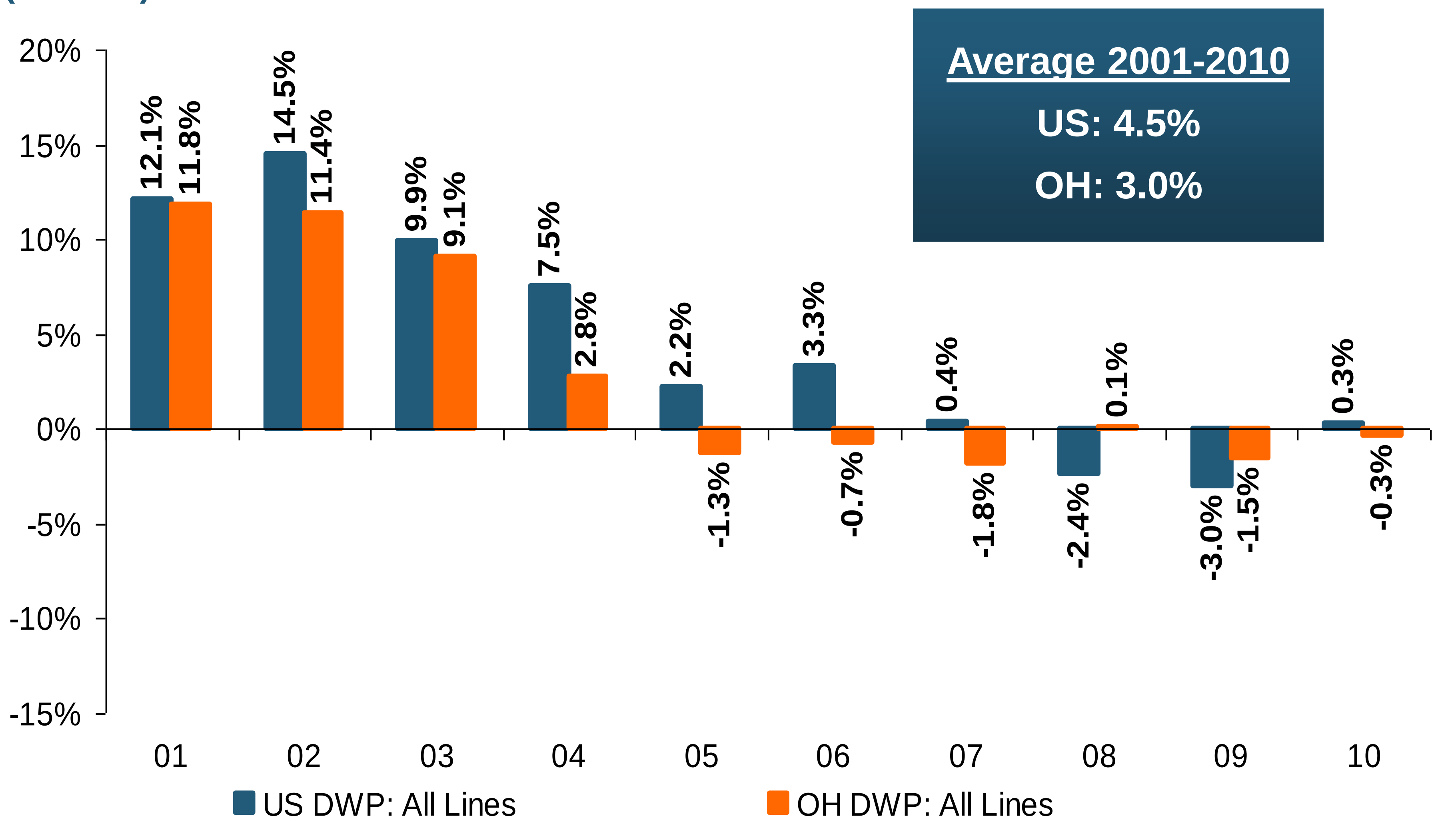
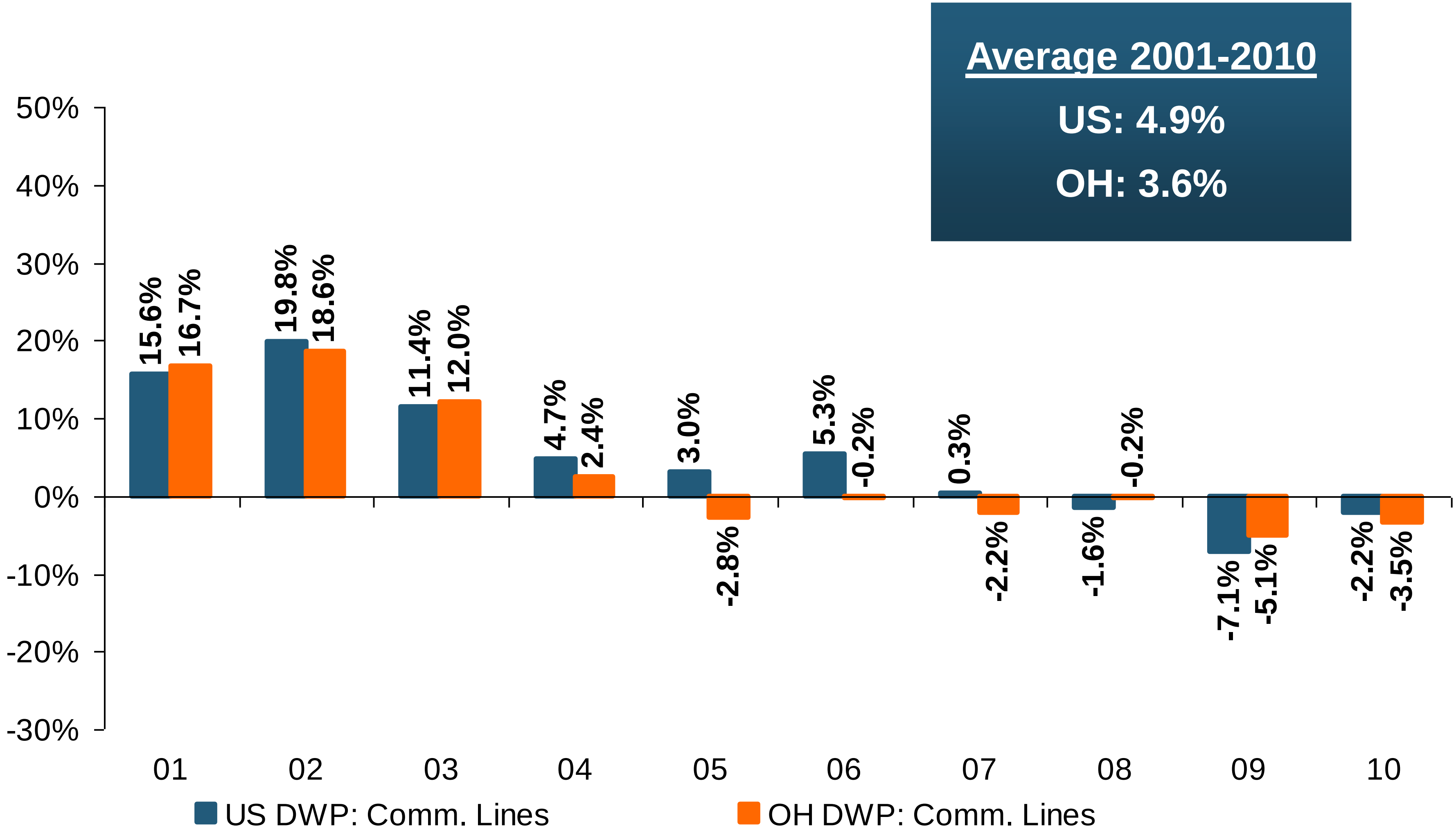
(Percent)



Source: SNL Financial.

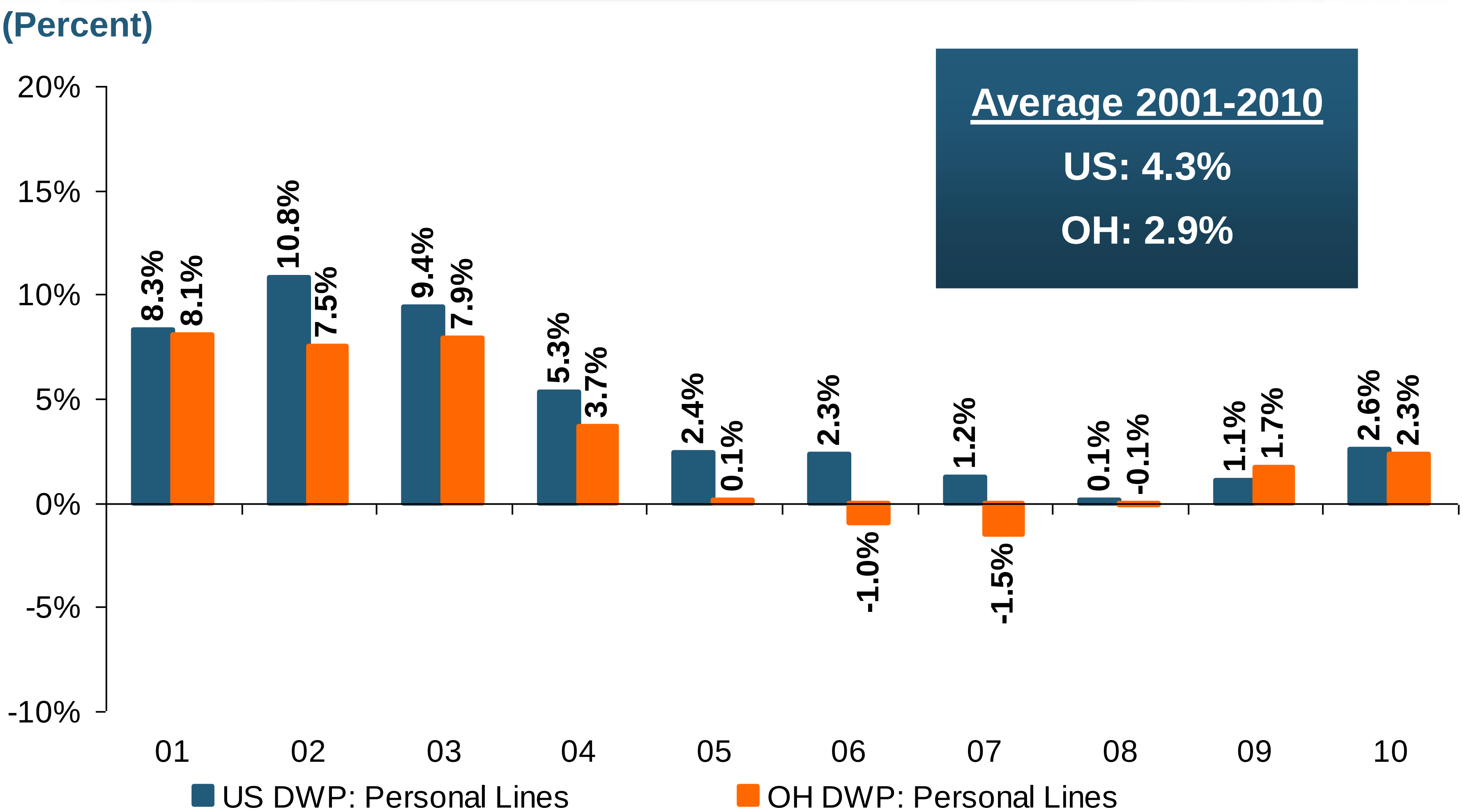
Comm. Lines DWP Growth: OH vs. U.S., 2001-2010

(Percent)



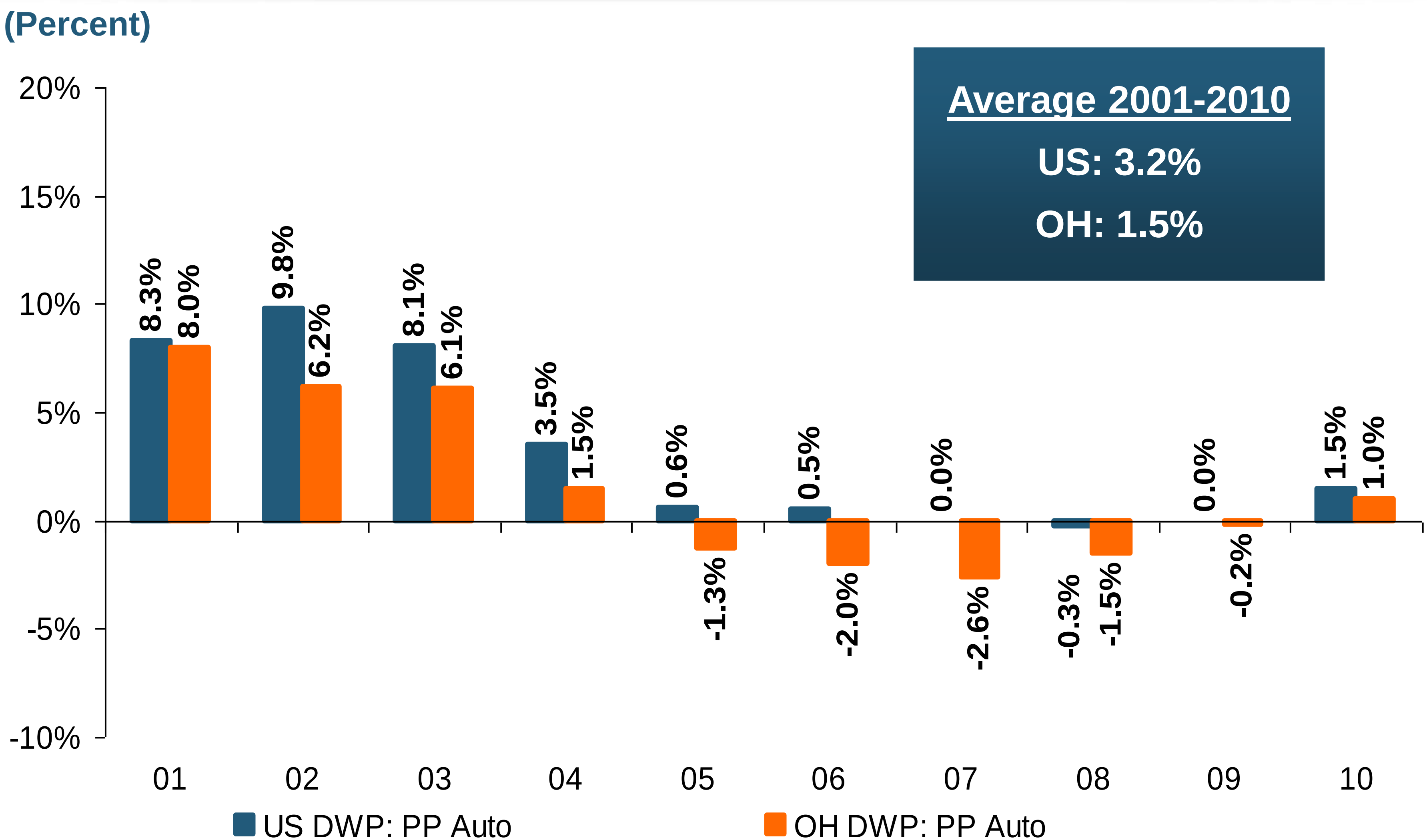
Source: SNL Financial.

Personal Lines DWP Growth: OH vs. U.S., 2001-2010



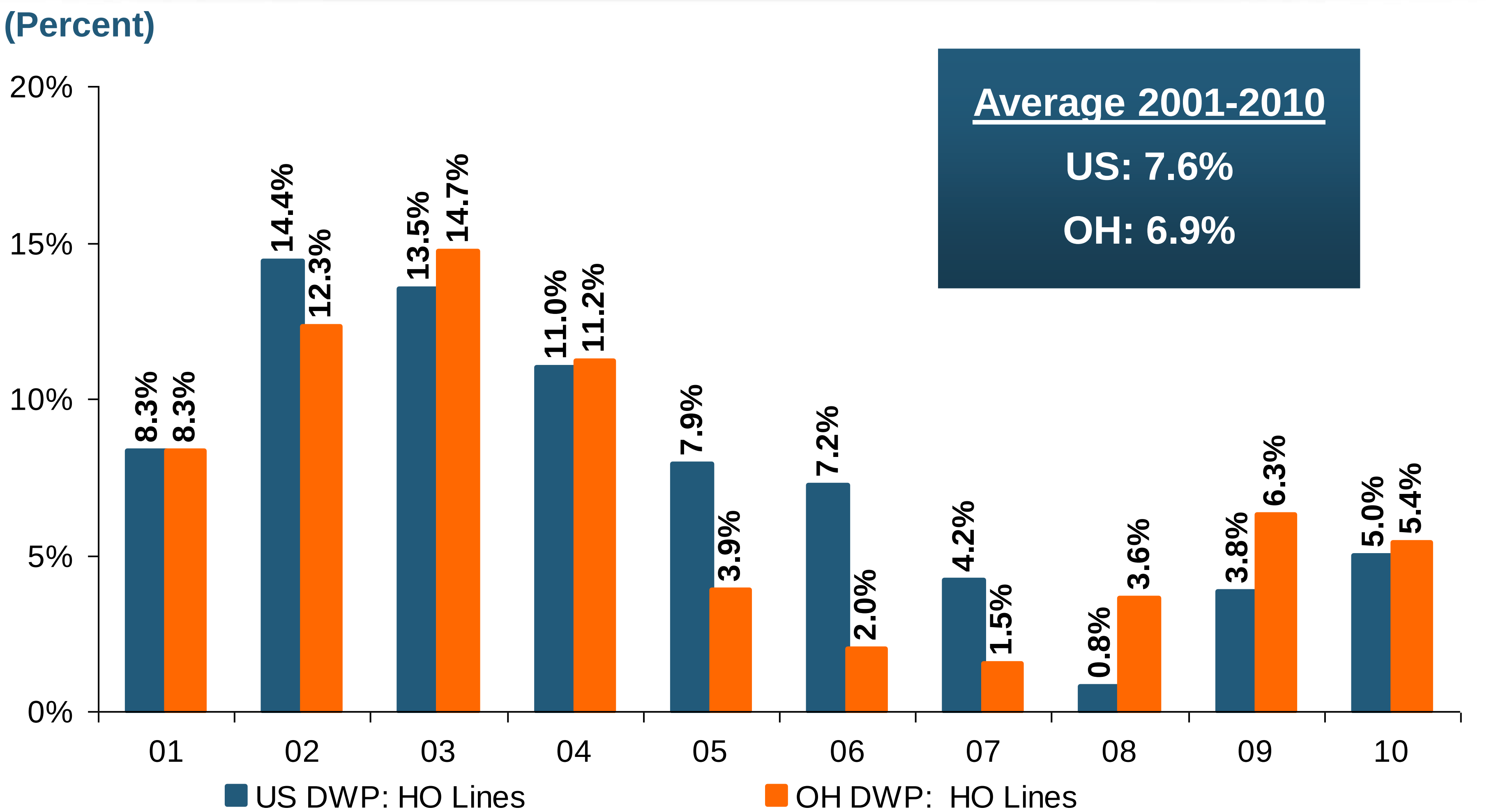
Source: SNL Financial.

Private Passenger Auto DWP Growth: OH vs. U.S., 2001-2010



Source: SNL Financial.

Homeowner's MP DWP Growth: OH vs. U.S., 2001-2010



Source: SNL Financial.

Global Catastrophe Loss Developments and Trends

2011 Rewrote Catastrophe Loss and Insurance History

But Will Losses Turn the Market?

Global Catastrophe Loss Summary: 2011

- **2011 Was the *Highest* Loss Year on Record for Economic Losses Globally**
  - Extraordinary accumulation of severe natural catastrophe: Earthquakes, tsunami, floods and tornadoes are the primary causes of loss
- **$380 Billion in *Economic* Losses Globally (New Record)**
  - New record, exceeding the previous record of $270B in 2005
- **$105 Billion in *Insured* Losses Globally**
  - 2011 losses were 2.5 times 2010 insured losses of $42B
  - Second only to 2005 on an inflation adjusted basis (new record on a unadjusted basis)
  - Over 5 times the 30-year average of $19B
- **$72.8 Billion in *Economic* Losses in the US**
  - Represents a 129% increase over the $11.8 billion amount through the first half of 2010
- **$35.9 Billion in *Insured* Losses in the US Arising from 171 CAT Events**
  - Fifth highest year on record
  - Represents 51% increase over the $23.8 billion total in 2010

Source: Munich Re; Insurance Information Institute.

Natural Loss Events, 2011

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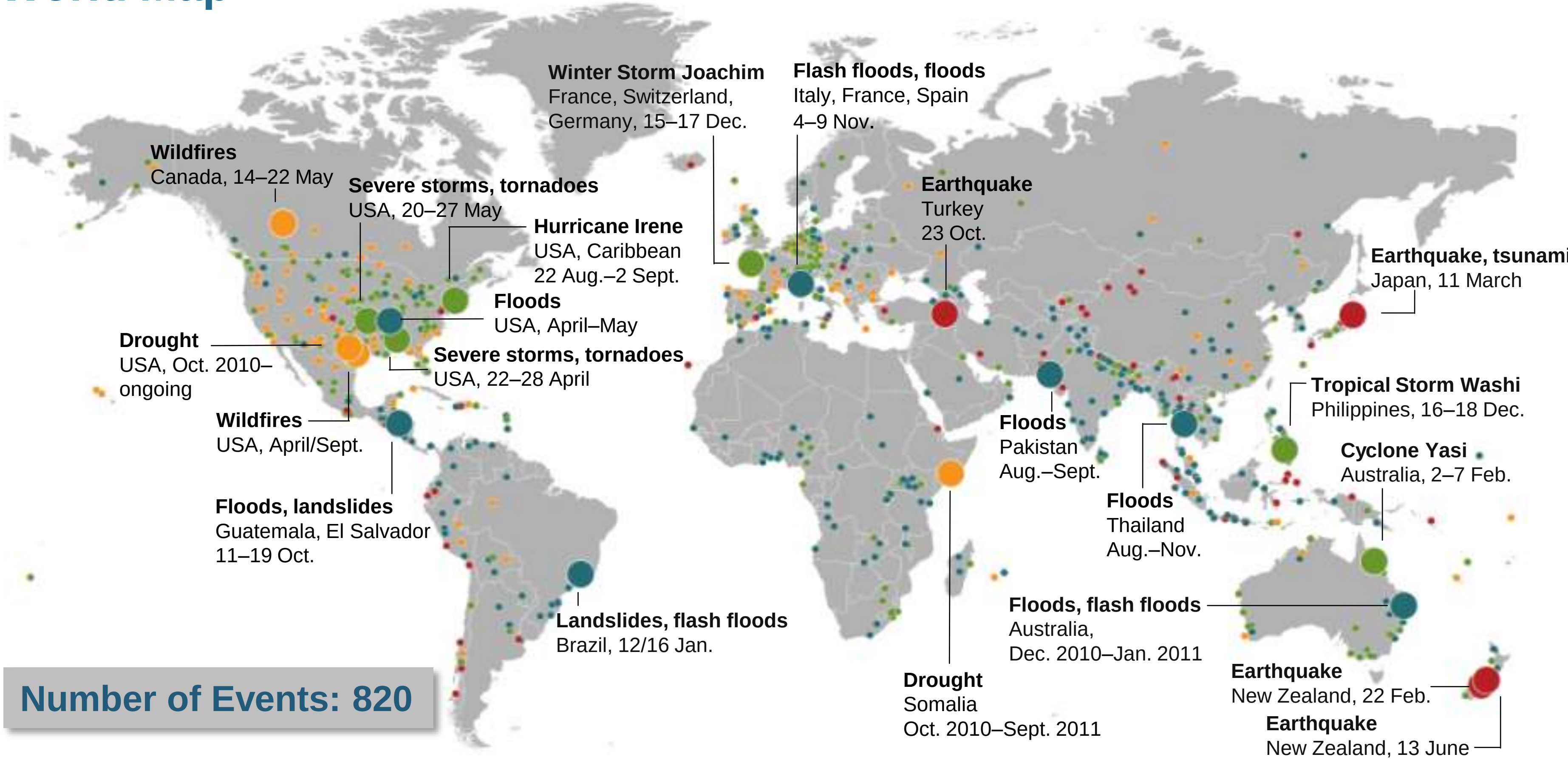
World Map



○ **Natural catastrophes**

◯ **Selection of significant loss events (see table)**

Geophysical events (earthquake, tsunami, volcanic activity)

Meteorological events (storm)

Hydrological events (flood, mass movement)

Climatological events (extreme temperature, drought, wildfire)

Source: MR NatCat*SERVICE*

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

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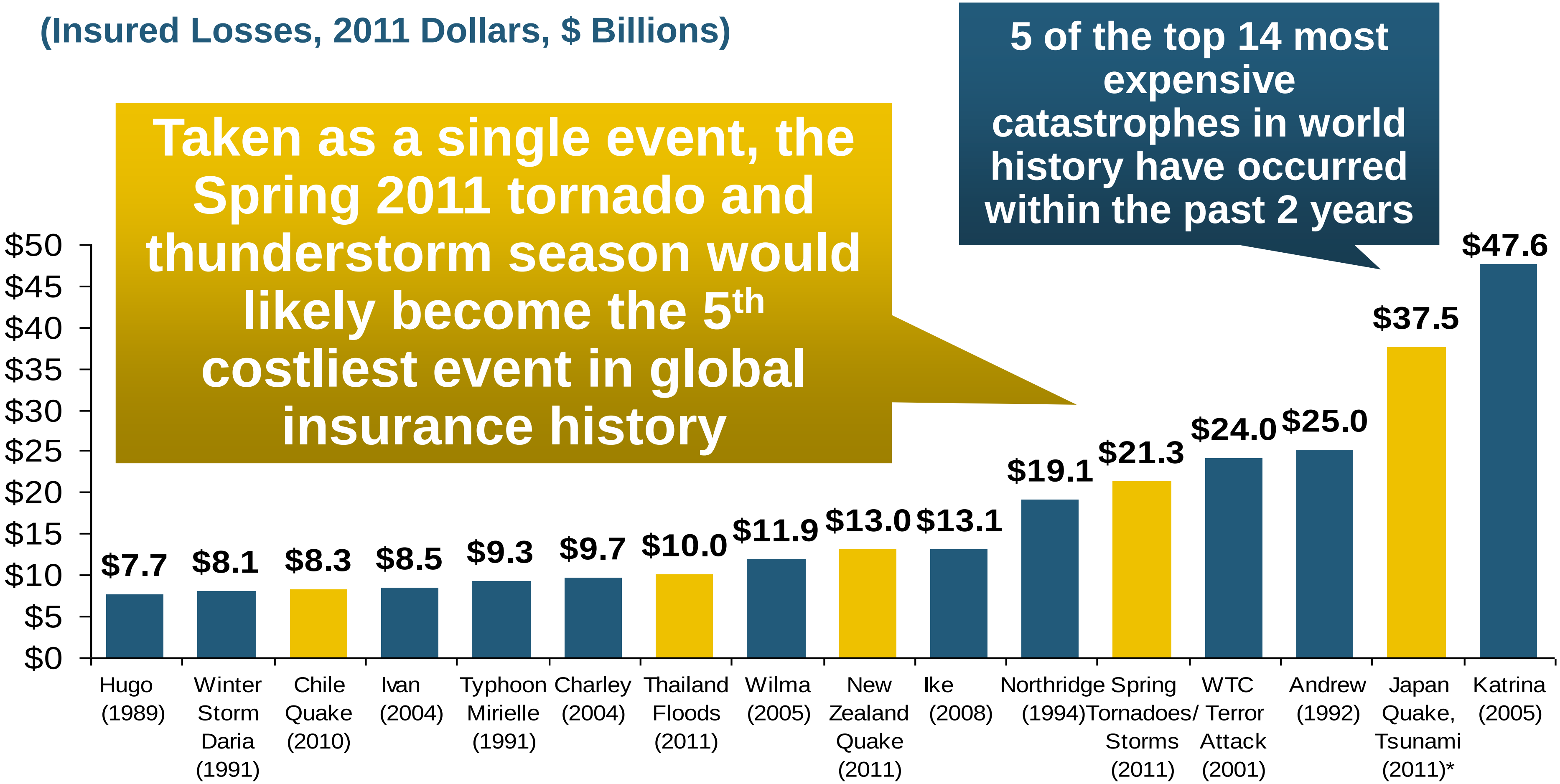

*Average of range estimates of $35B - $40B as of 1/4/12; Privately insured losses only.

**Figures do not include federally insured flood losses.

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

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U.S. Insured Catastrophe Loss Update

2011 Was One of the Most Expensive Years on Record

Top 14 Most Costly Disasters in U.S. History

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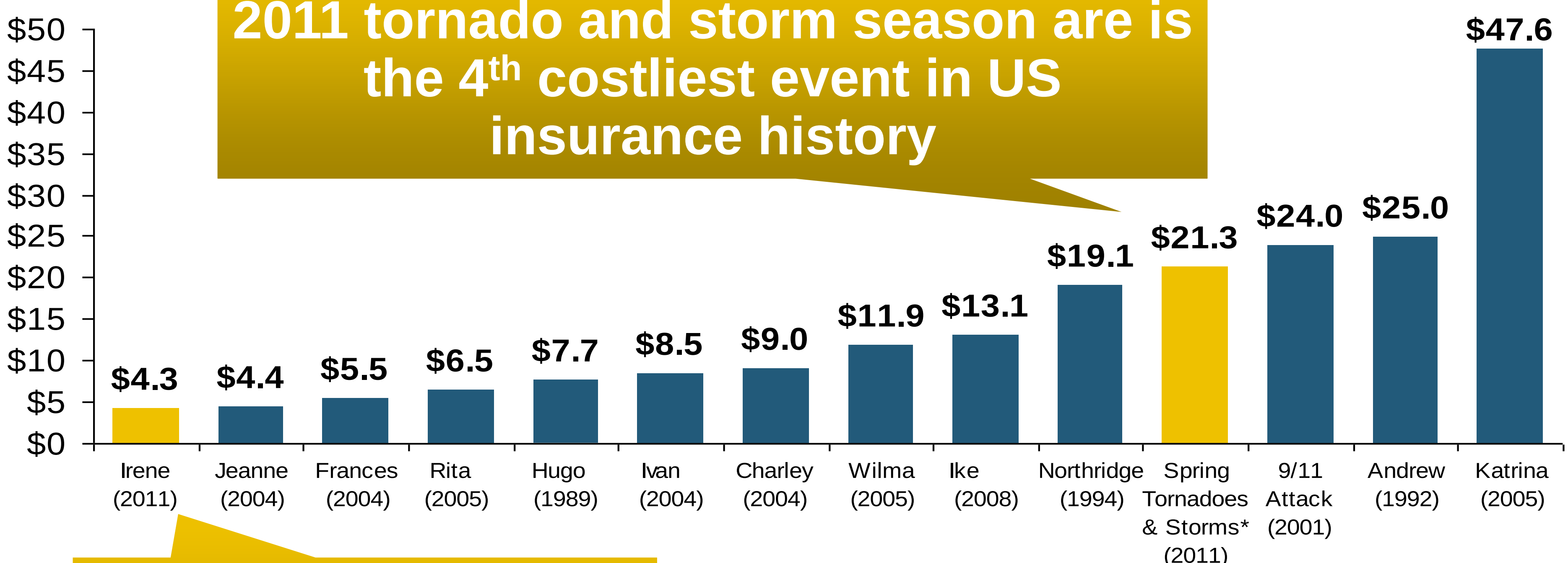
(Insured Losses, 2011 Dollars, $ Billions)

Taken as a single event, the Spring 2011 tornado and storm season are is the 4th costliest event in US insurance history



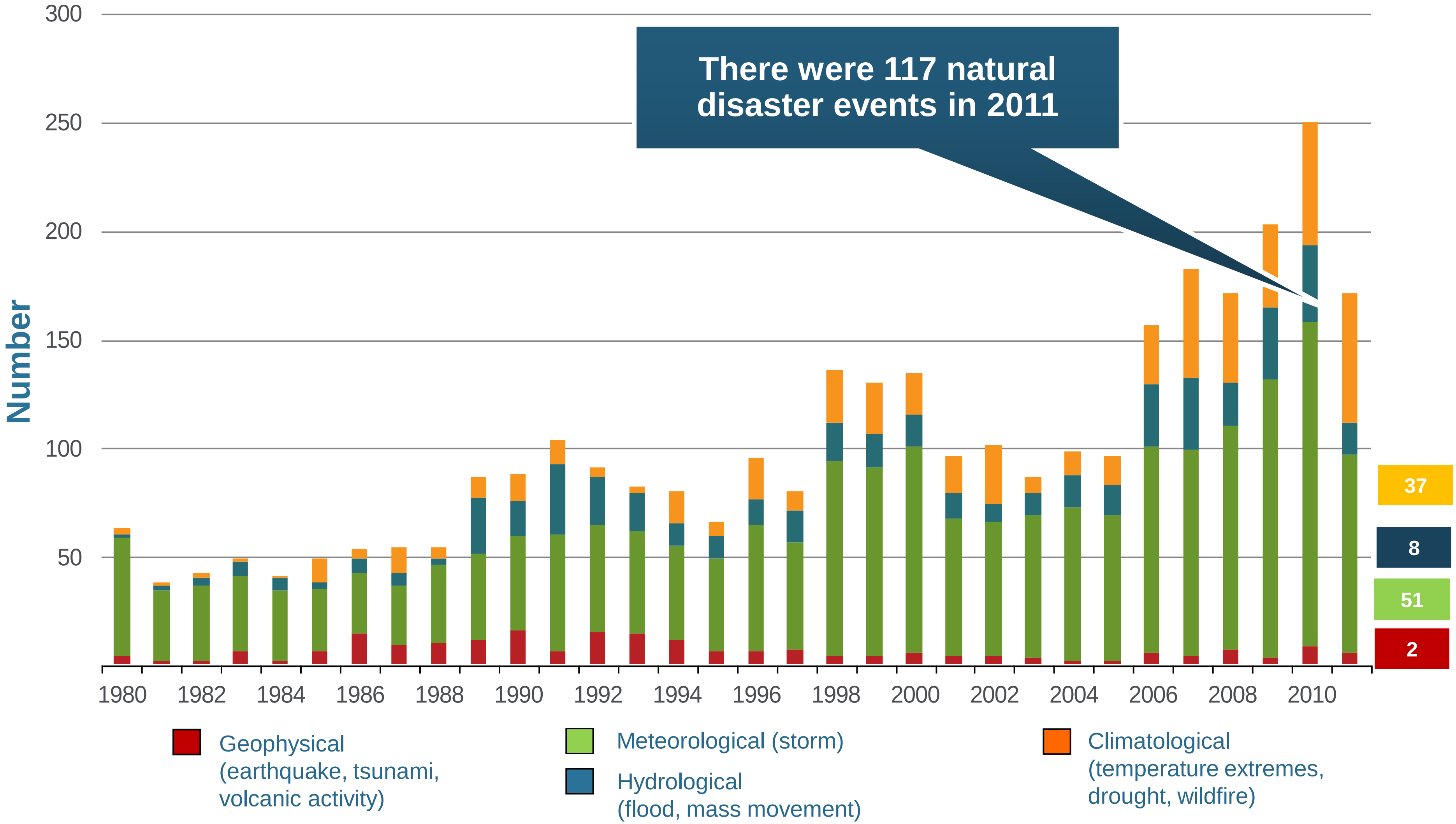
Hurricane Irene became the 11th most expense hurricane in US history

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

Sources: PCS; Insurance Information Institute inflation adjustments.

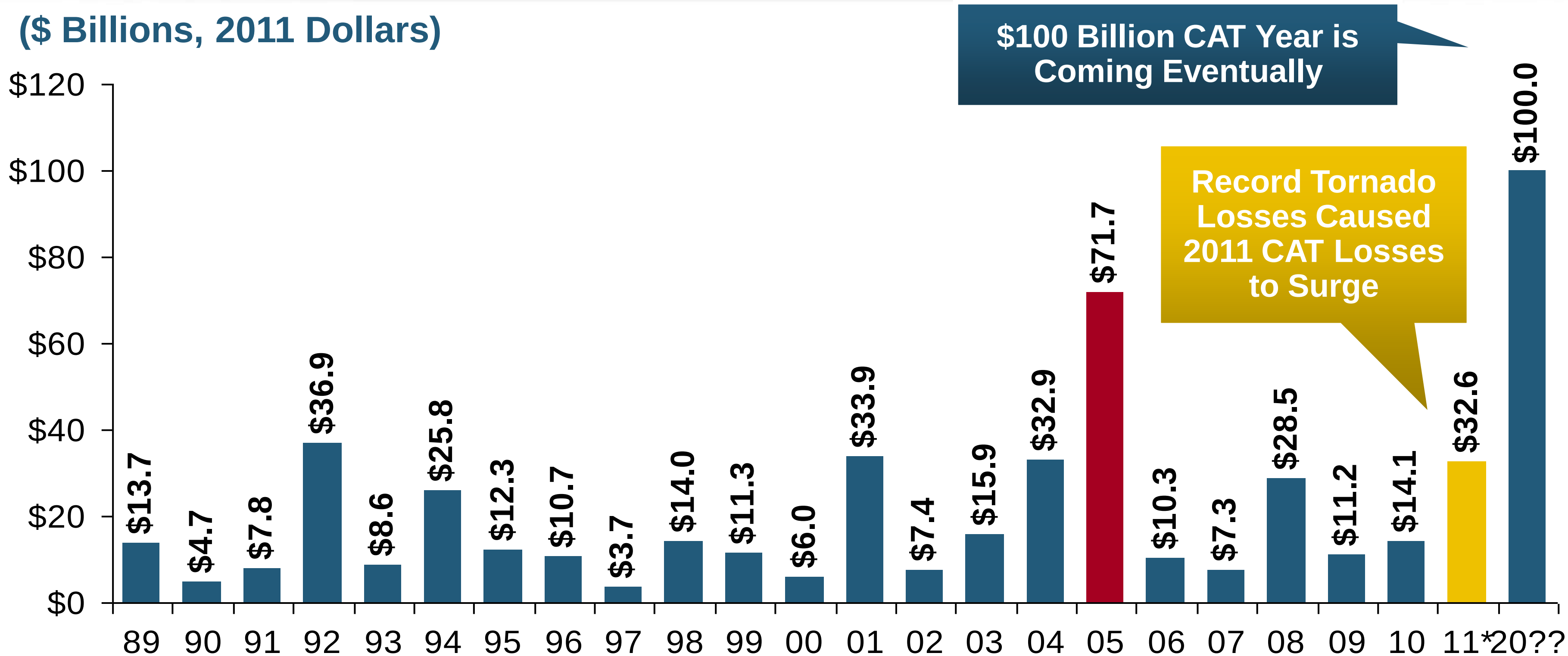
Natural Disasters in the United States, 1980 – 2011

Number of Events (Annual Totals 1980 – 2011)



Source: MR NatCat*SERVICE*

US Insured Catastrophe Losses



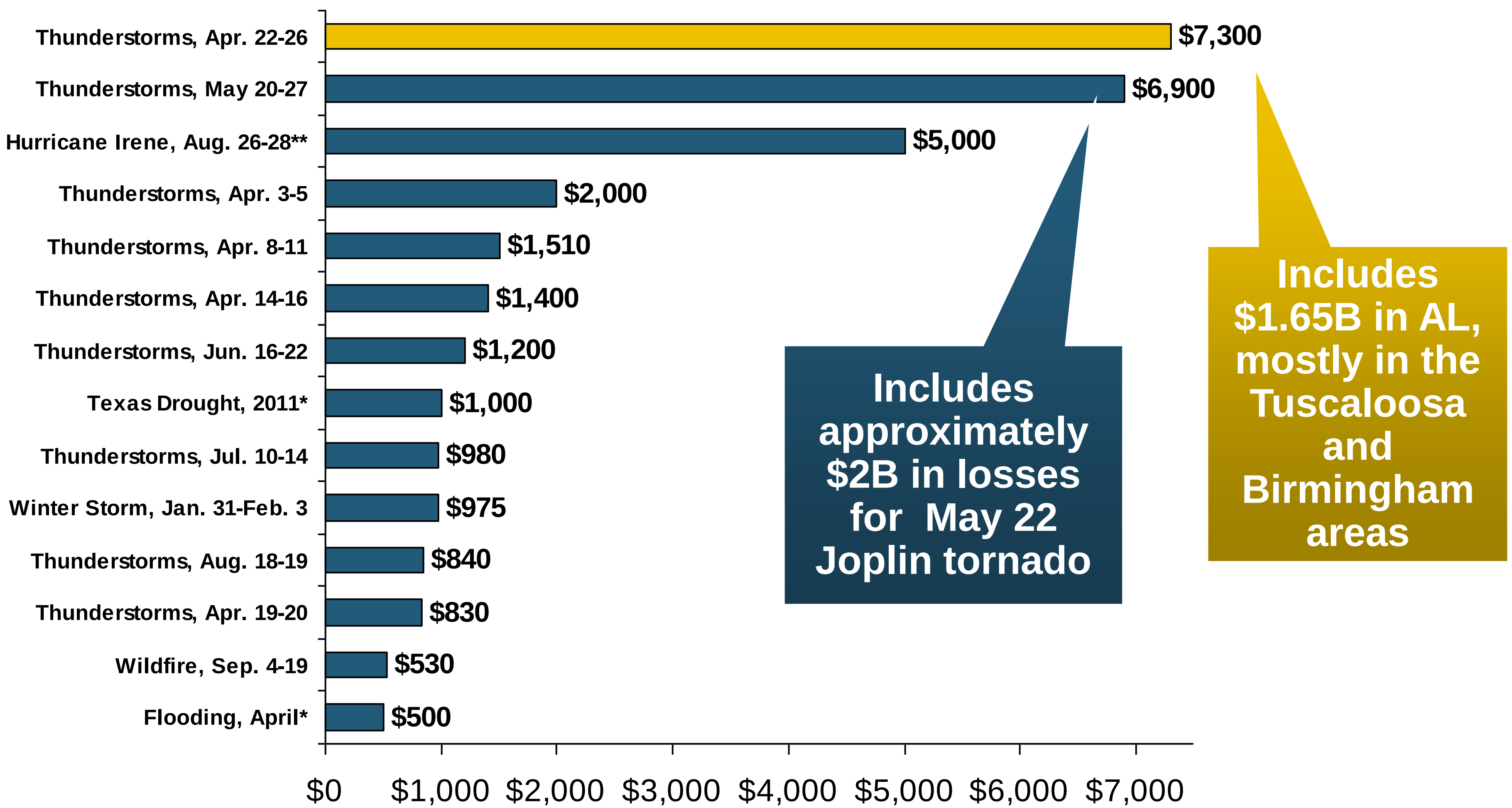
US CAT Losses in 2011 Were the 5th Highest in US History on An Inflation Adjusted Basis

*PCS estimate through Sept. 30, 2011.

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.

2011's Most Expensive Catastrophes, Insured Losses



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

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

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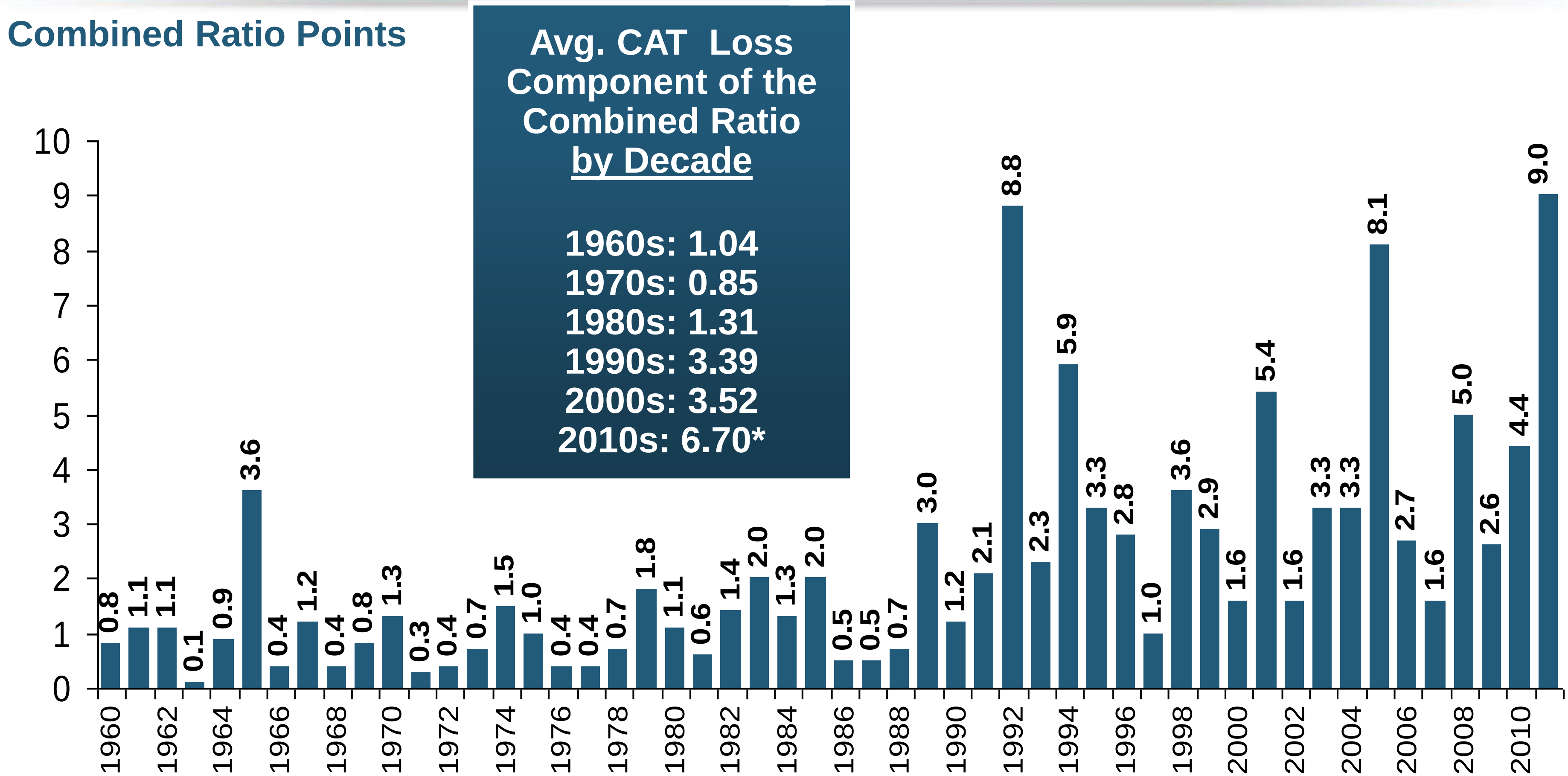

The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades

*Insurance Information Institute estimates for 2010 and 2011 based on A.M. Best data.

Notes: Private carrier losses only. Excludes loss adjustment expenses and reinsurance reinstatement premiums. Figures are adjusted for losses ultimately paid by foreign insurers and reinsurers.

Source: ISO; Insurance Information Institute.

U.S. Thunderstorm Loss Trends, 1980 – 2011

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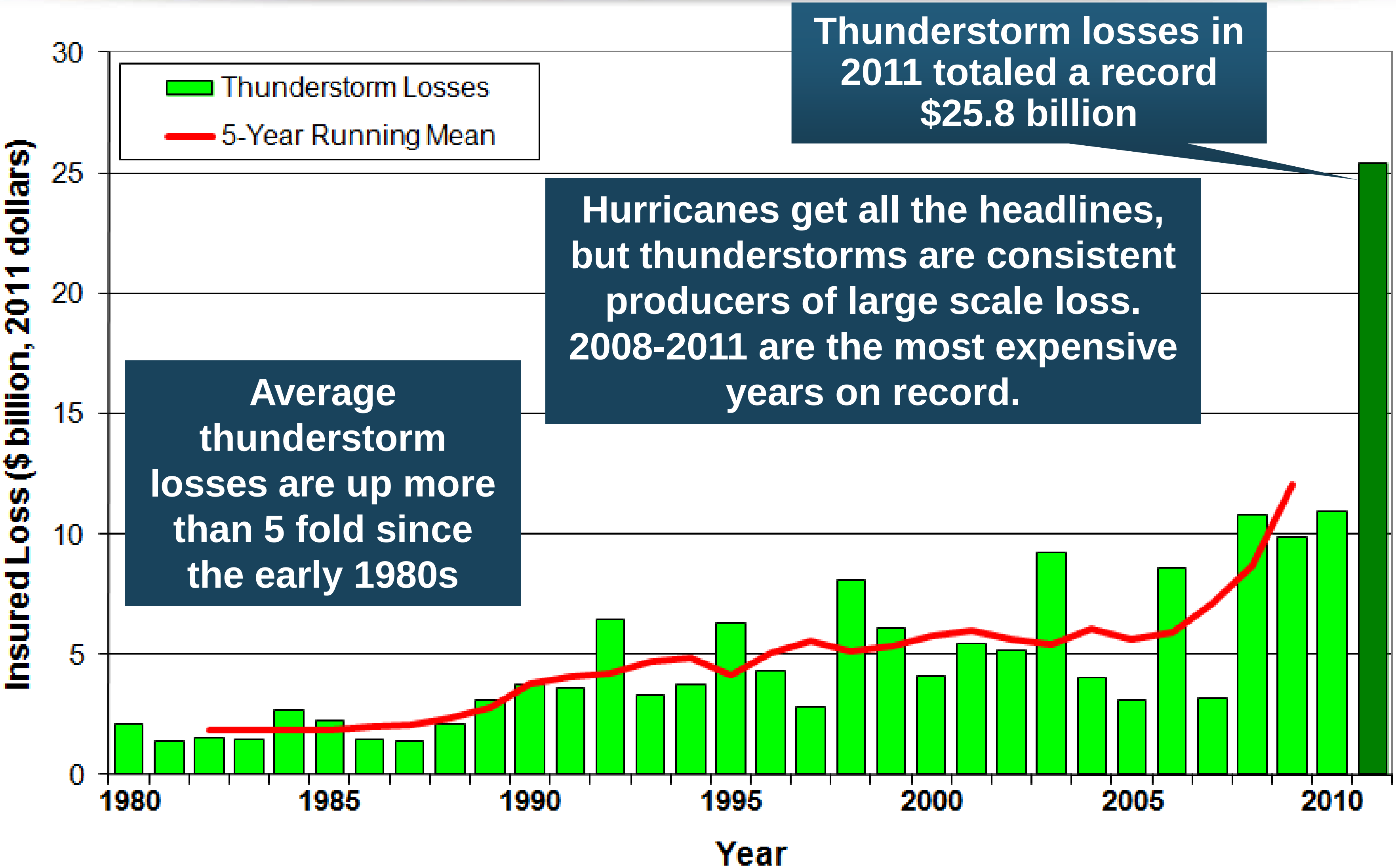
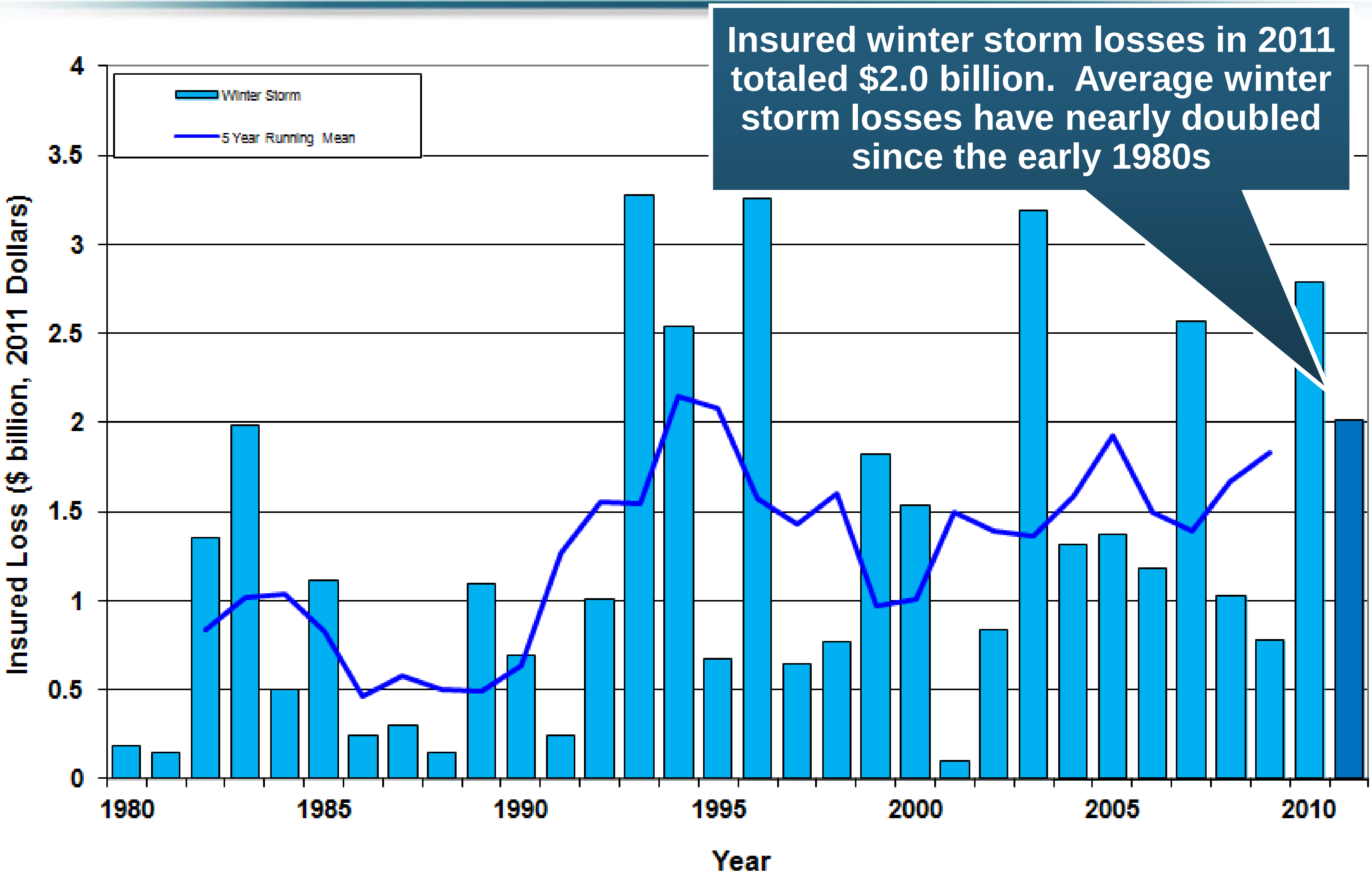
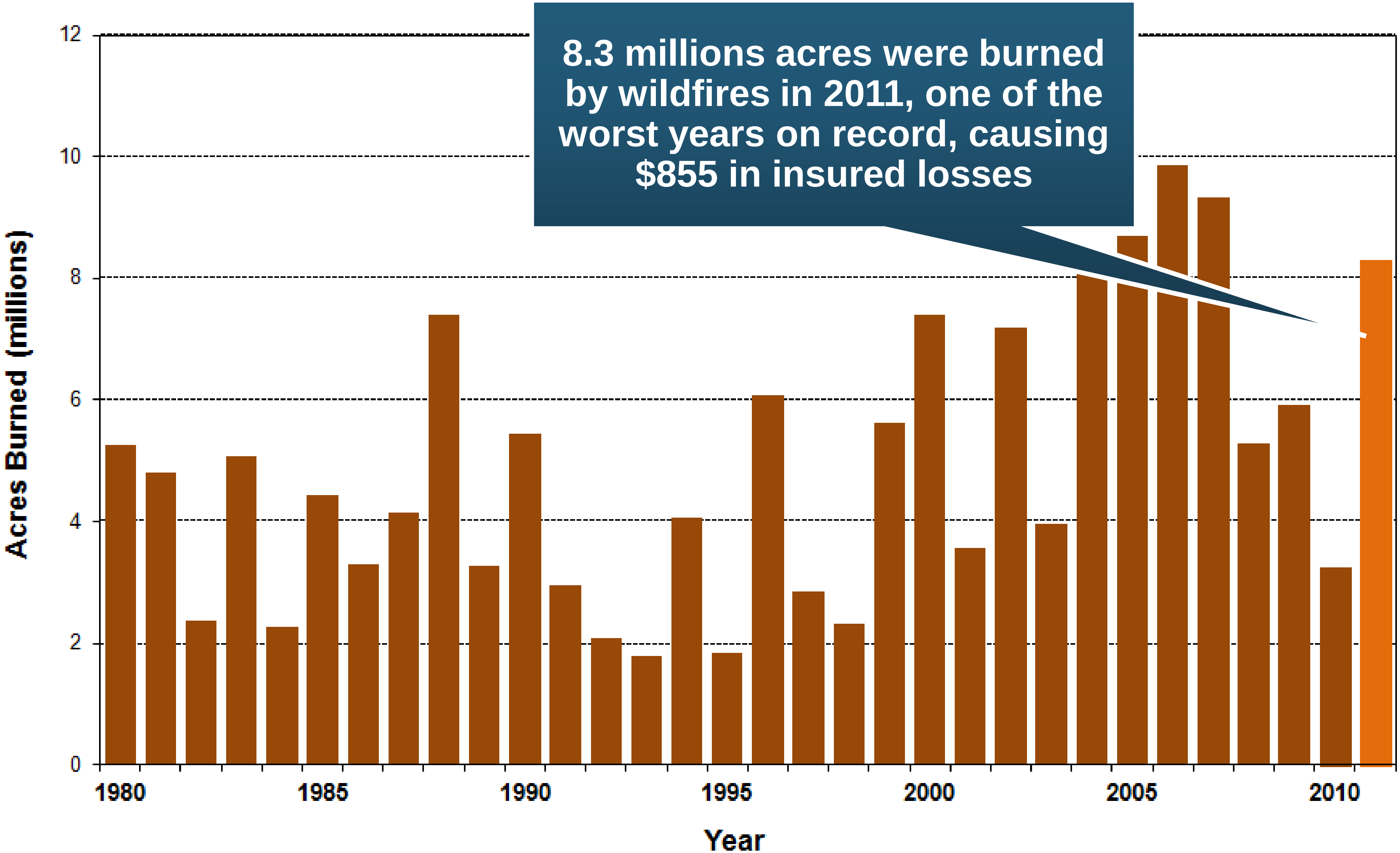


U.S. Winter Storm Loss Trends, 1980 – 2011



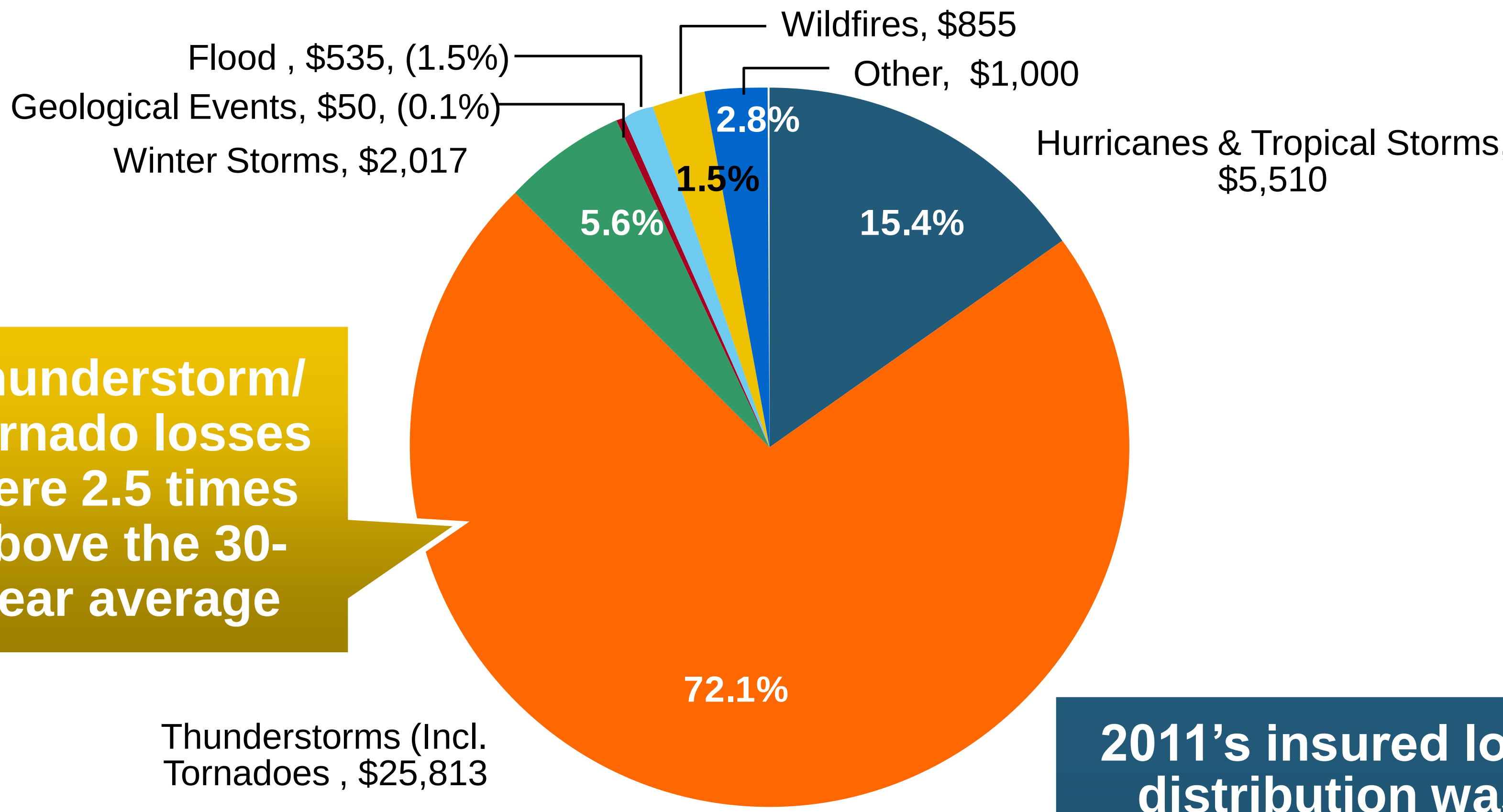
Source: Property Claims Service, MR NatCat*SERVICE*

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



Source: National Forest Service, MR NatCat*SERVICE*

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.

2011: Nowhere to Run, Nowhere to Hide

Most of the Country East of the Rockies Suffered Severe Weather in 2011, Impacting Most Insurers

Number of Federal Disaster Declarations, 1953-2012*

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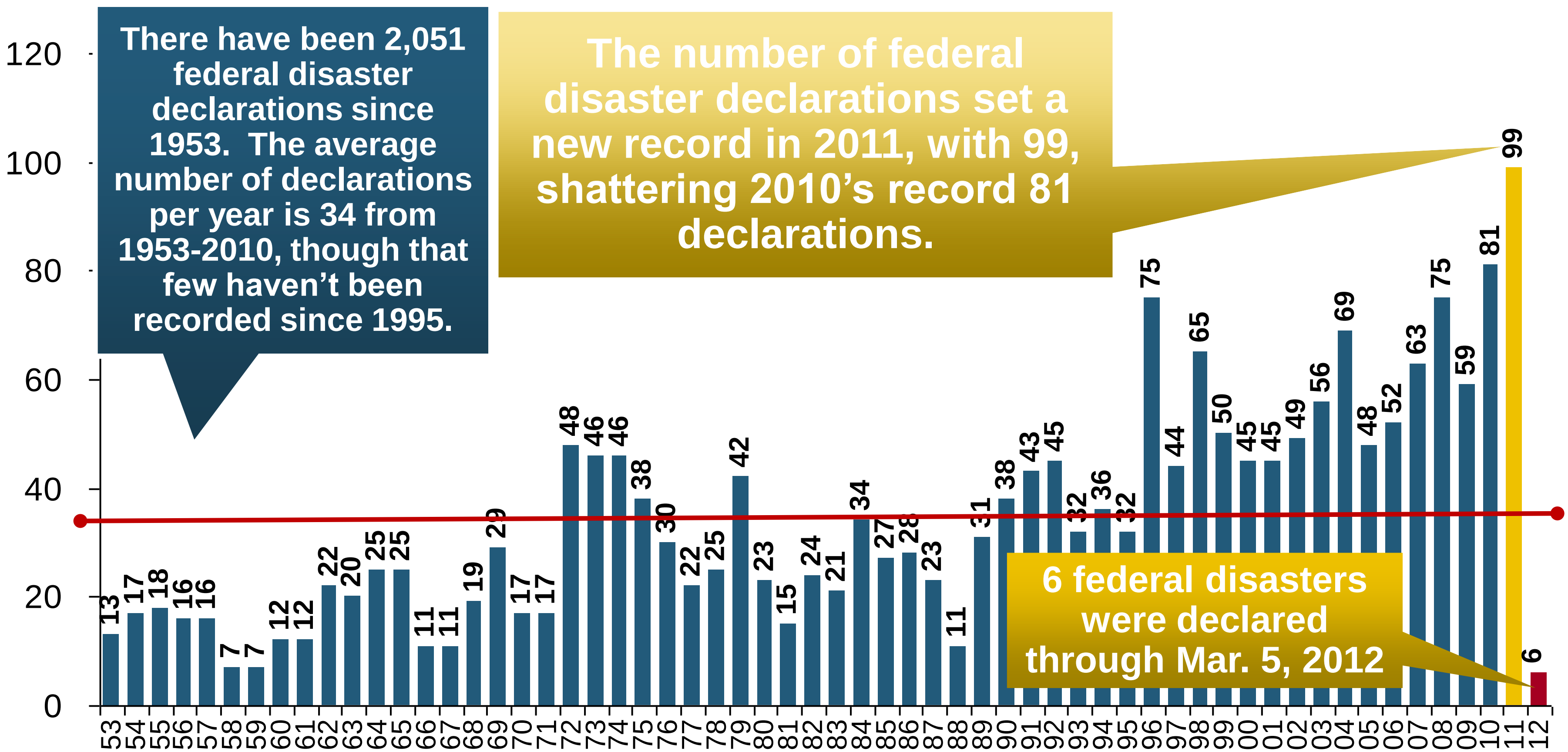
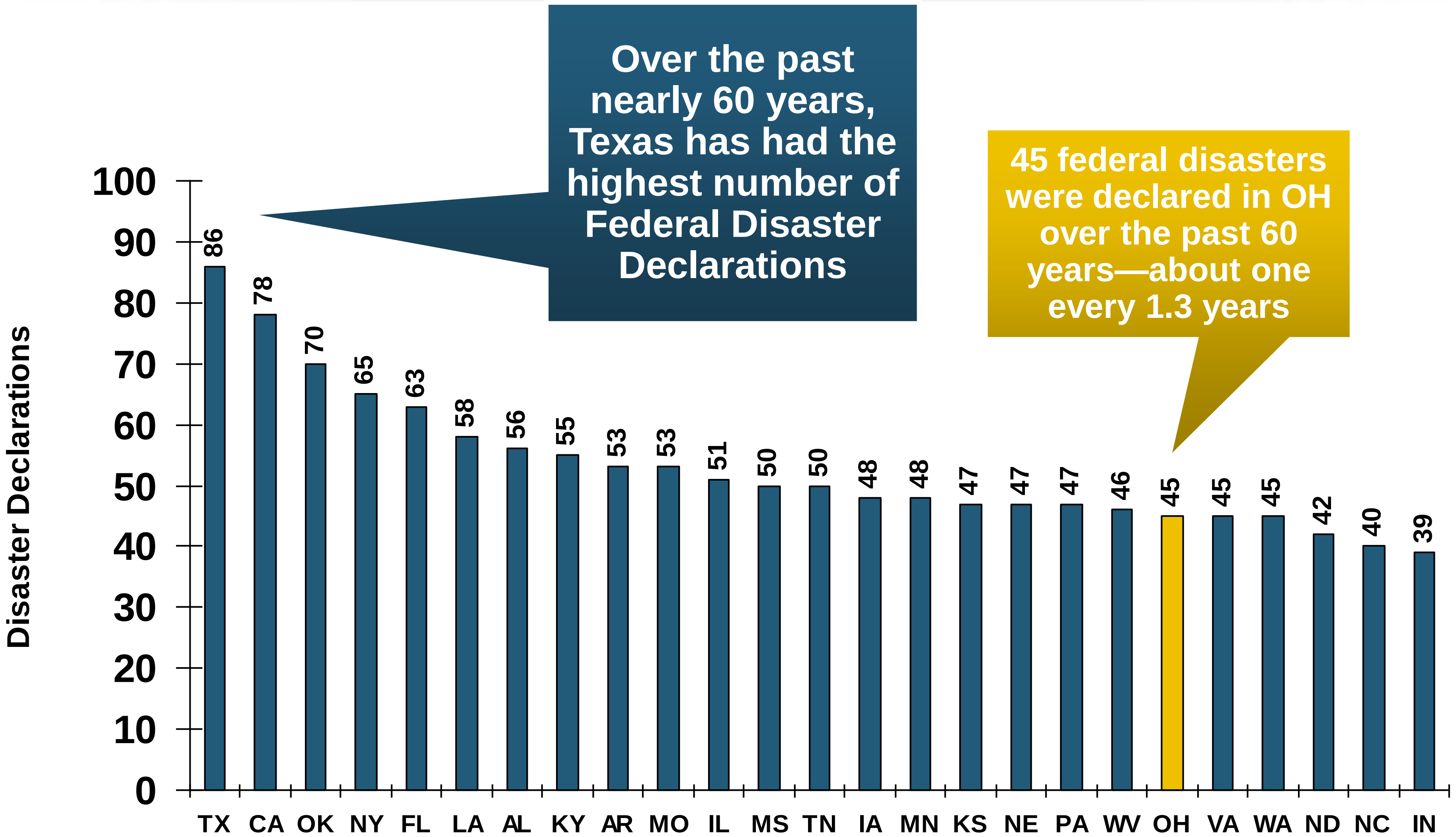


The Number of Federal Disaster Declarations Is Rising and Set a New Record in 2011

*Through March 5, 2012.

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

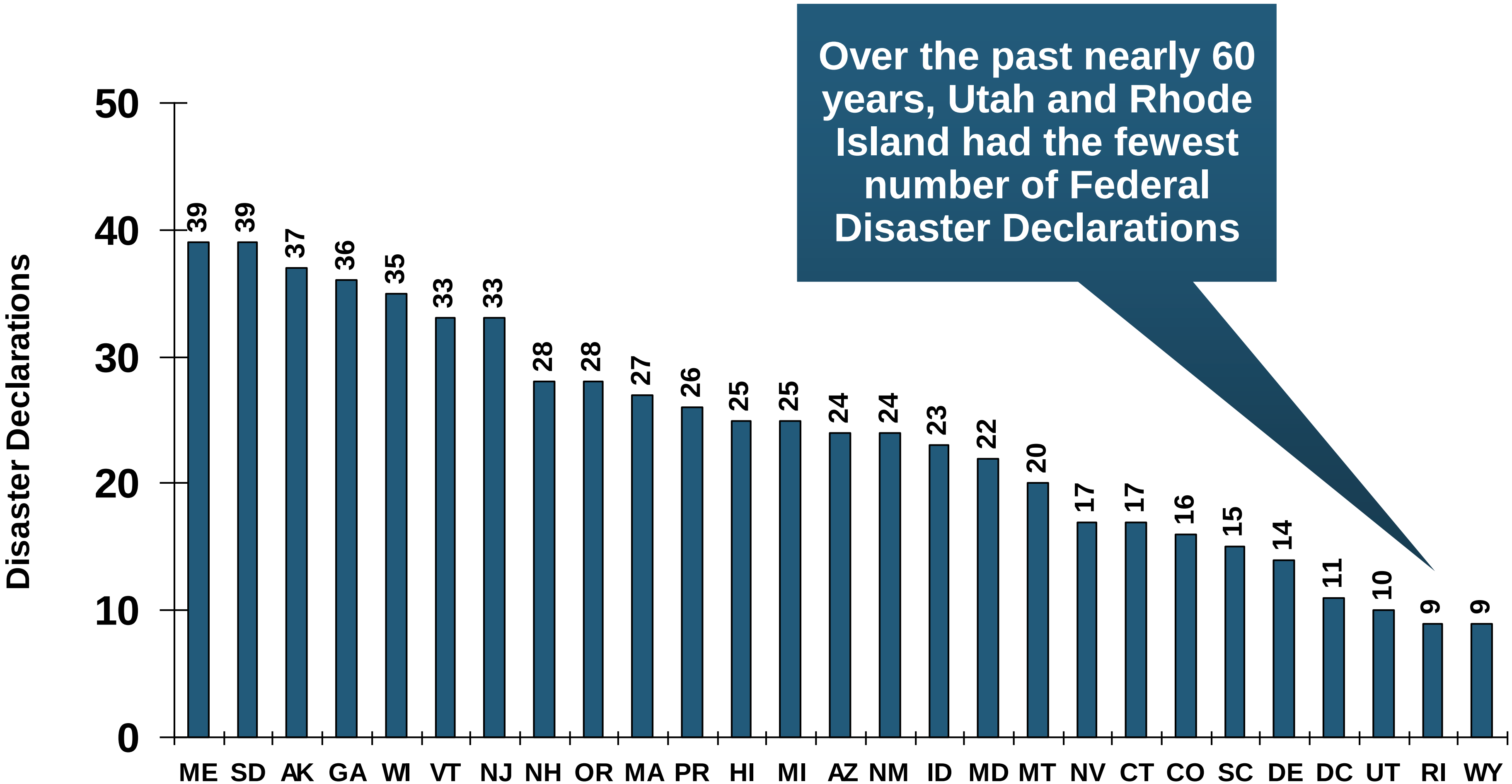
Federal Disasters Declarations by State, 1953 – 2012: Highest 25 States*



*Through Mar. 5, 2012.

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

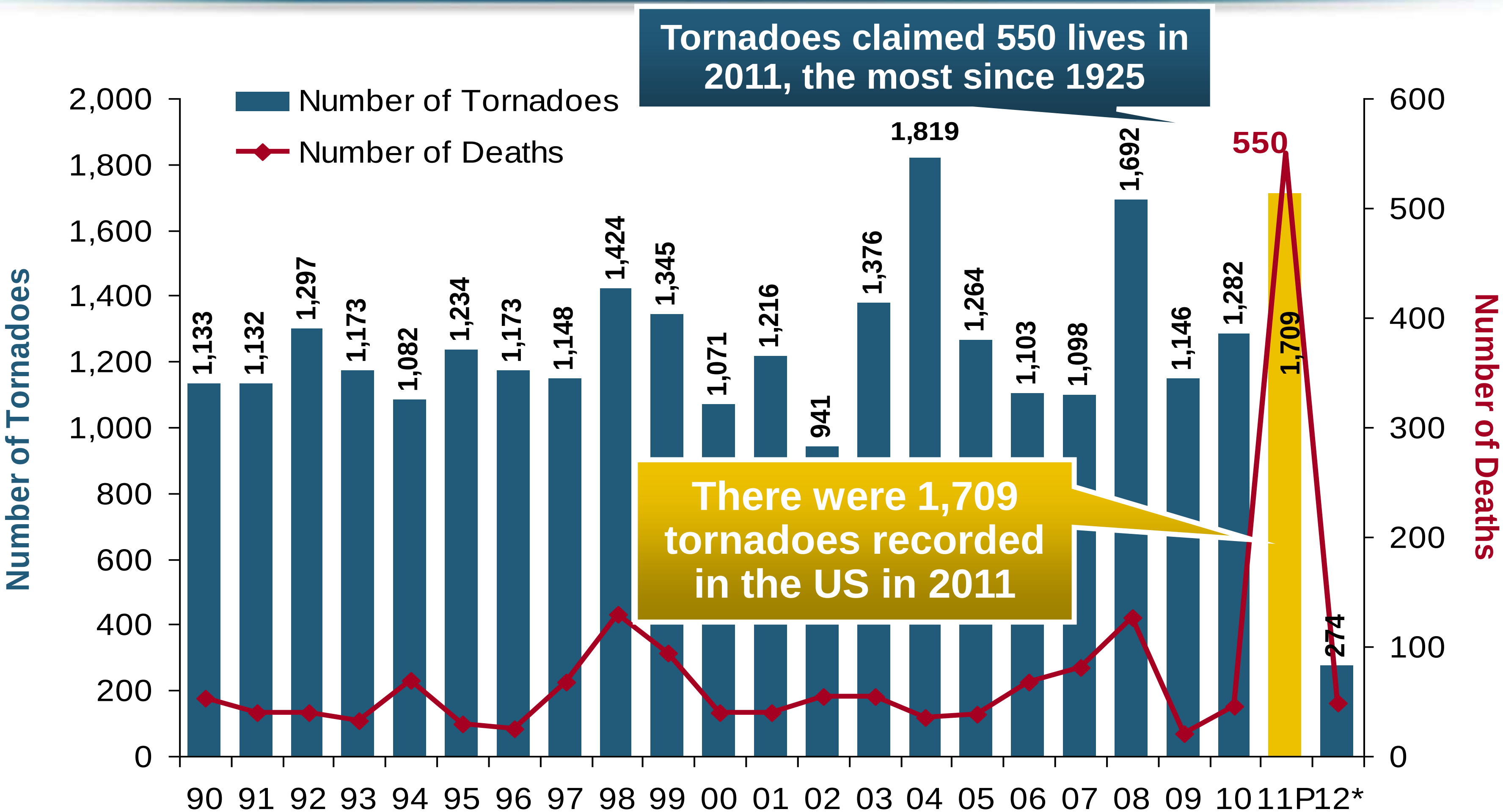
Federal Disasters Declarations by State, 1953 – 2012: Lowest 25 States*



*Through Mar. 5, 2012. Includes Puerto Rico and the District of Columbia.

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

Number of Tornadoes and Related Deaths, 1990 – 2012*



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

*Through March 6, 2012.

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

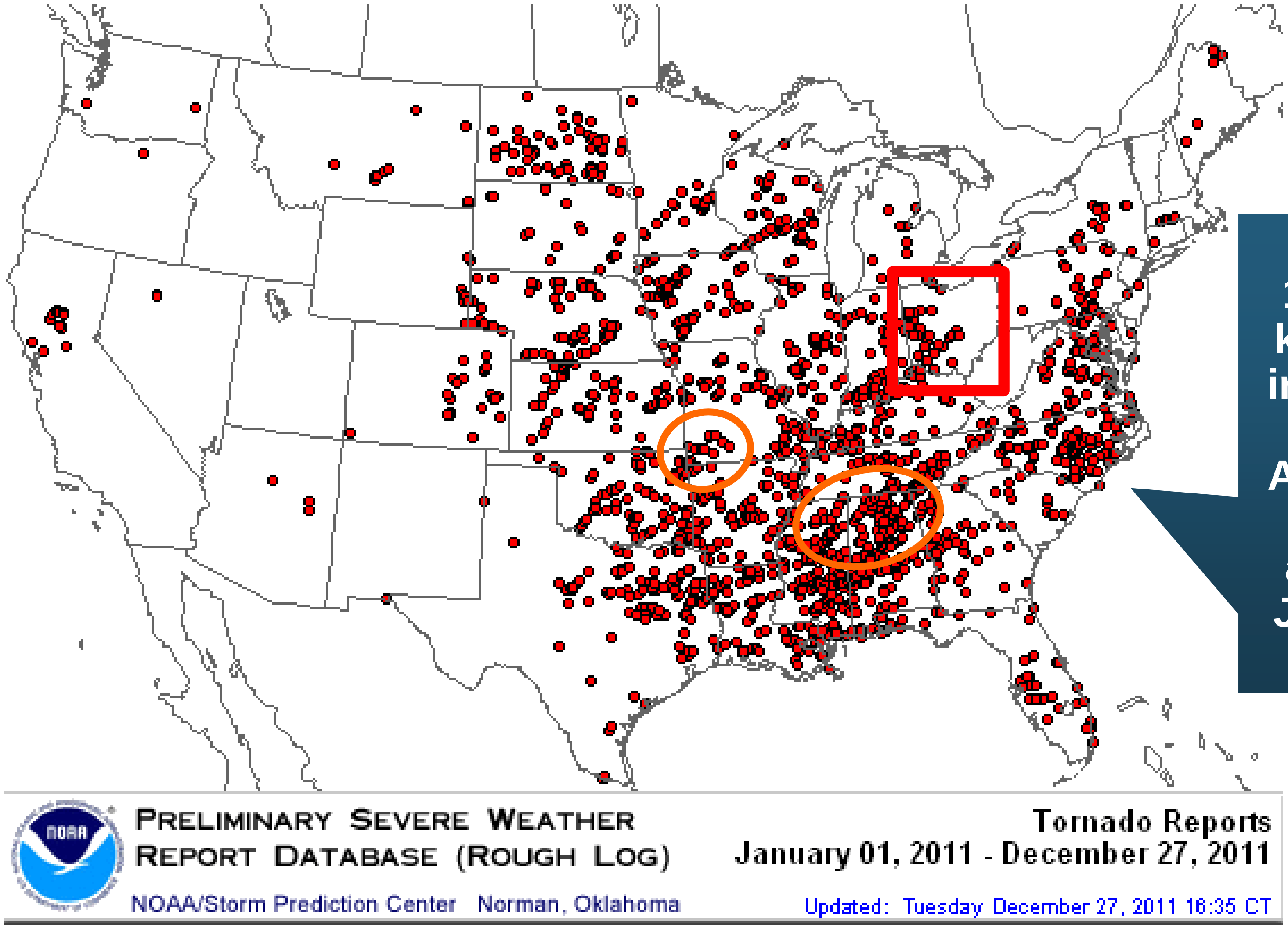
Insurers Making a Difference in Impacted Communities

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

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

Source: Insurance Information Institute

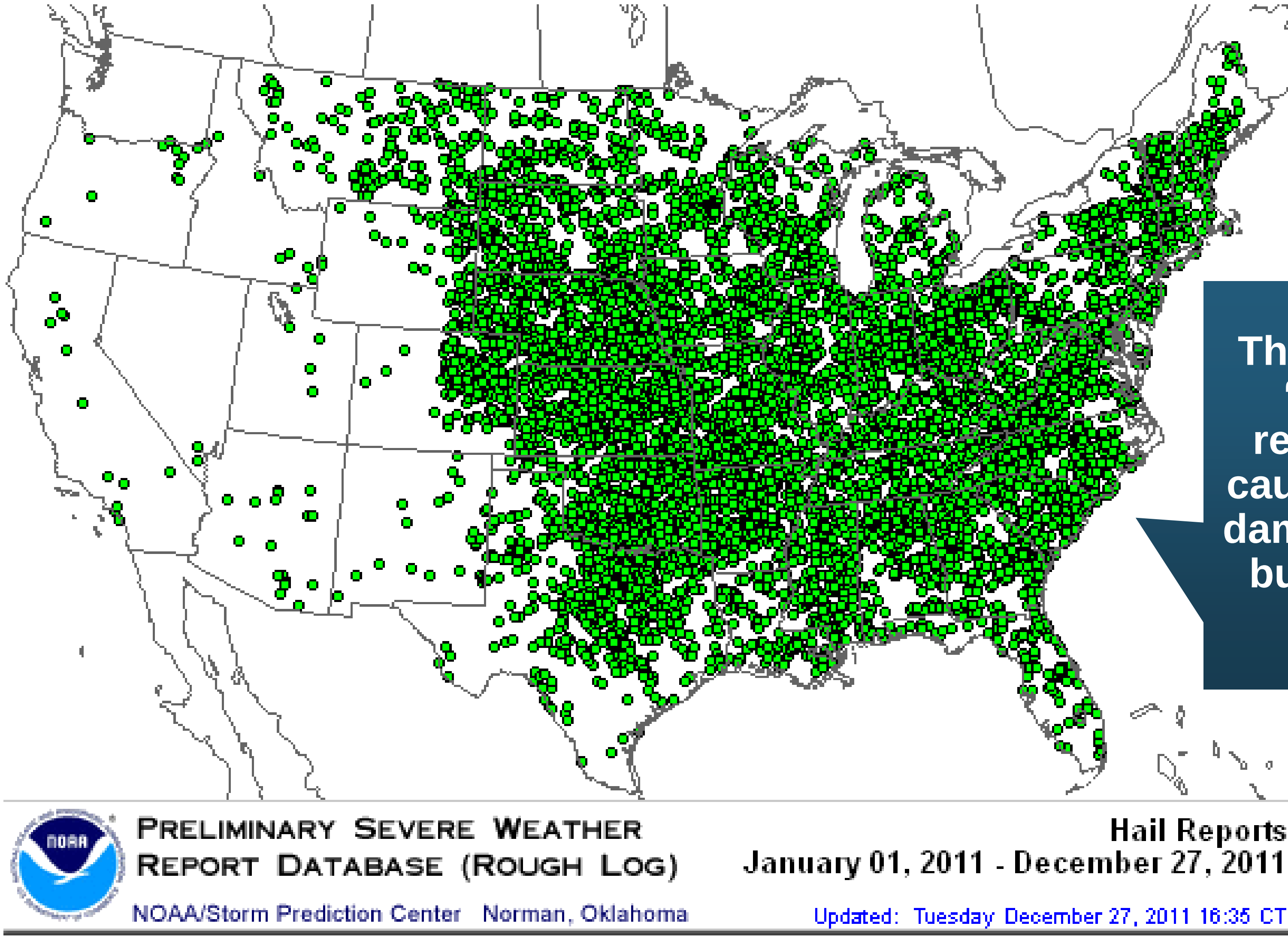
Location of Tornadoes in the US, 2011



1,894 tornadoes killed 552 people in 2011, including at least 340 on April 26 mostly in the Tuscaloosa area, and 130 in Joplin on May 22

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

Location of Large Hail Reports in the US, 2011



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

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

Location of Wind Damage Reports in the US, 2011

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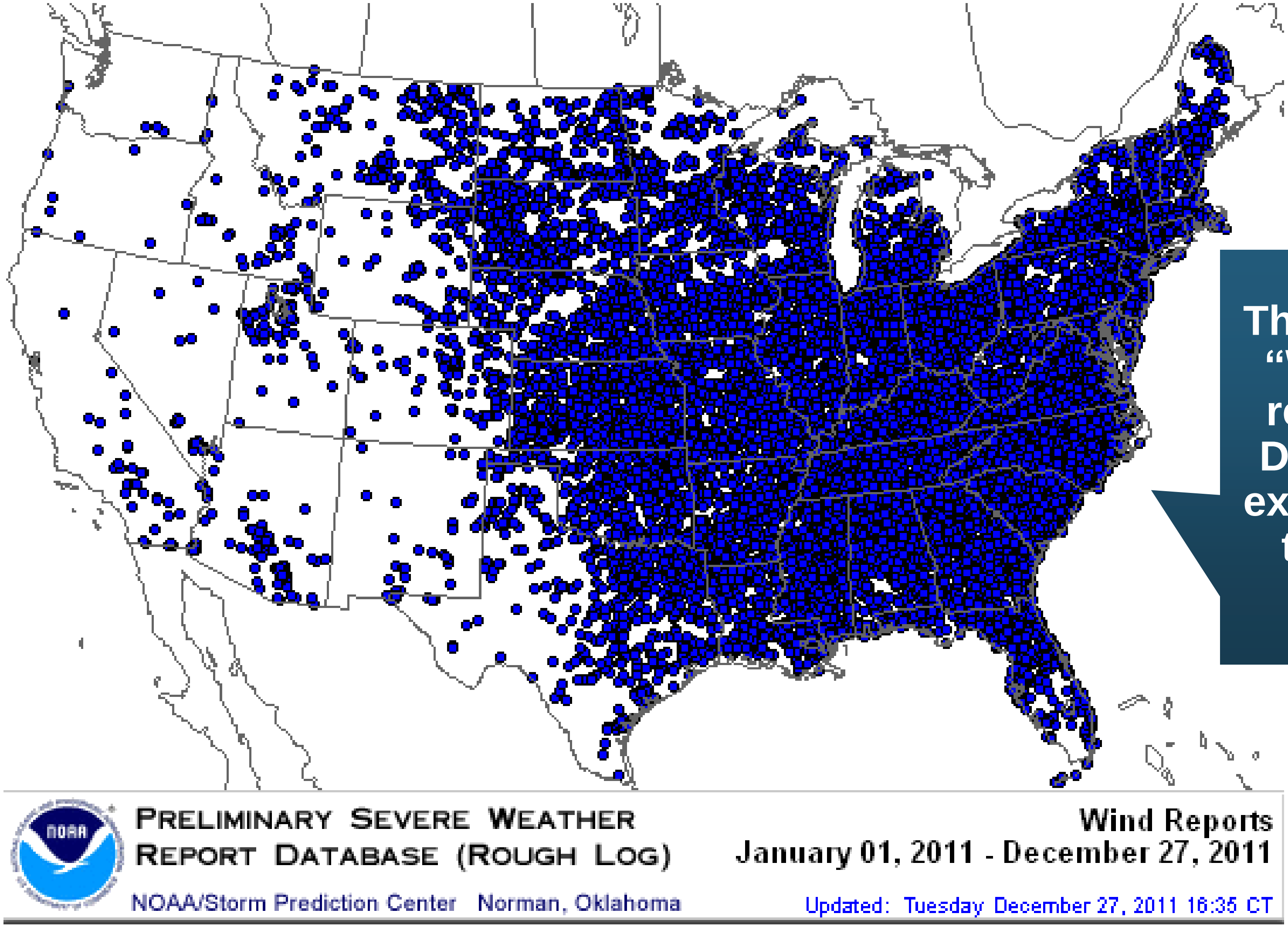
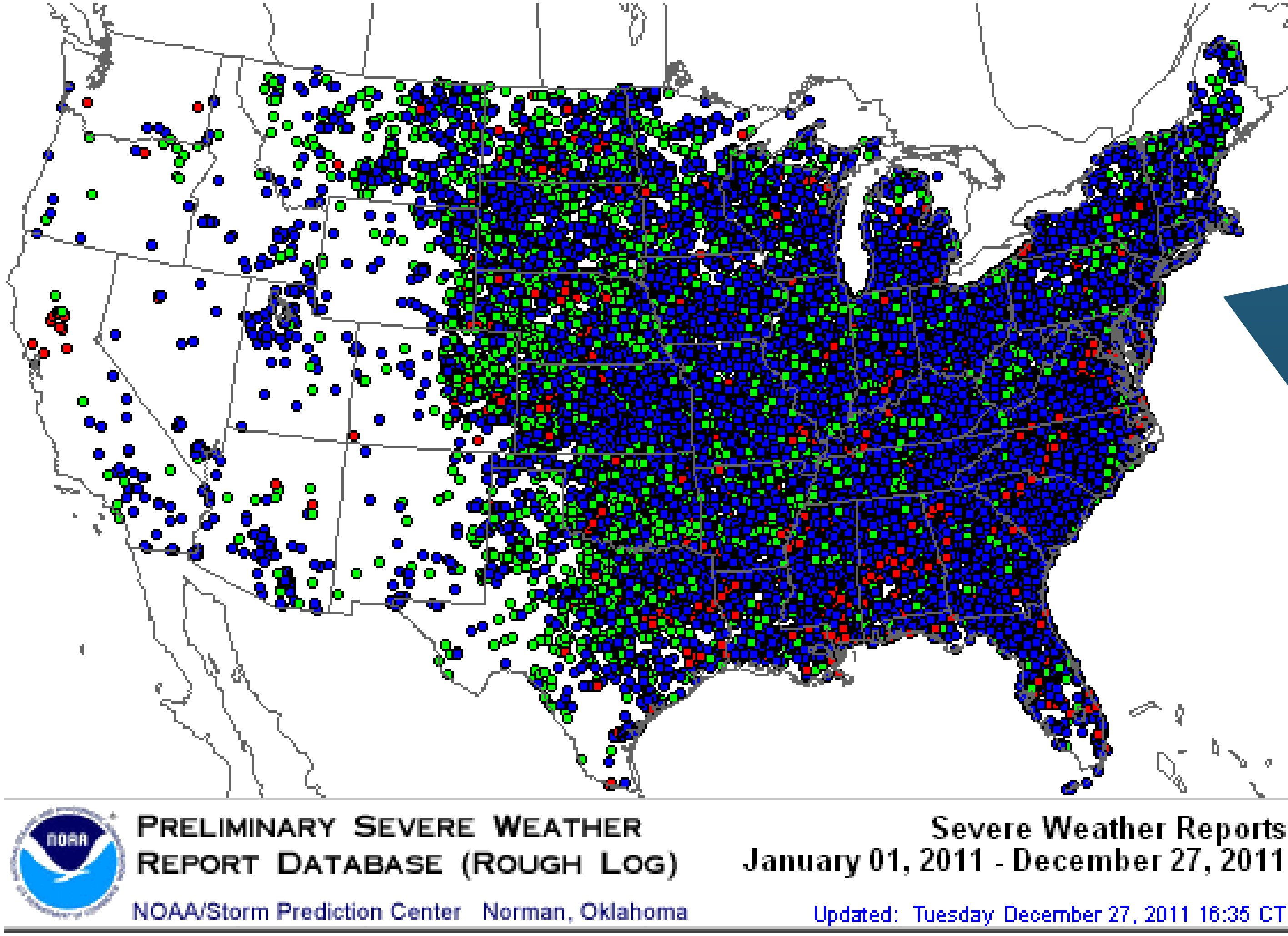


There were 18,685 "Wind Damage" reports through Dec. 27, causing extensive damage to homes and, businesses

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

Severe Weather Reports, 2011



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

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

Ohio's Catastrophe Loss History: 2011

Ohio May Not Be a Coastal State, but It is No Stranger to Catastrophe

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

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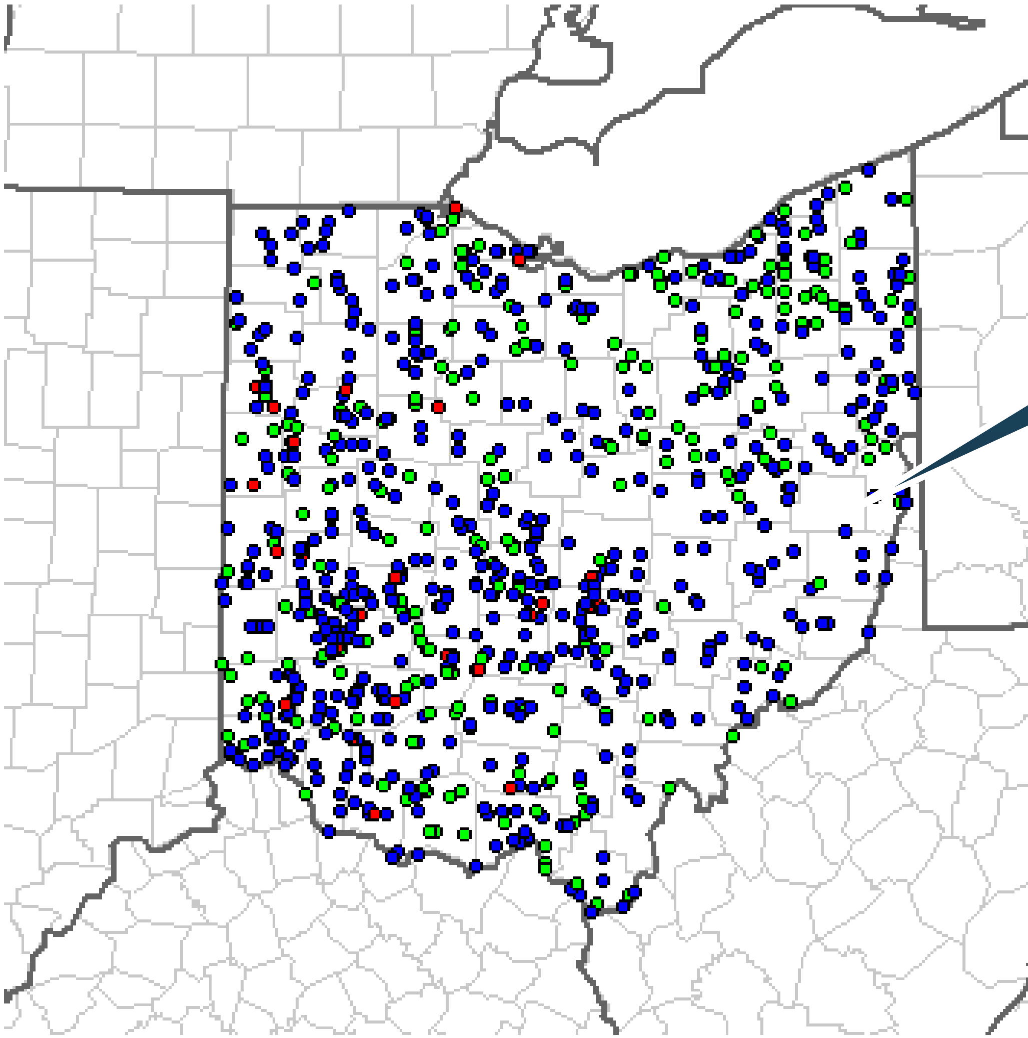

There were 1,050 severe weather reports in OH in 2011

OHIO

Total Reports = 1,050

Tornadoes = 34 (Red)

Hail Reports = 322 (Green)

Wind Reports = 694 (Blue)

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

Severe Weather Reports in OH, January 1—March 6, 2012

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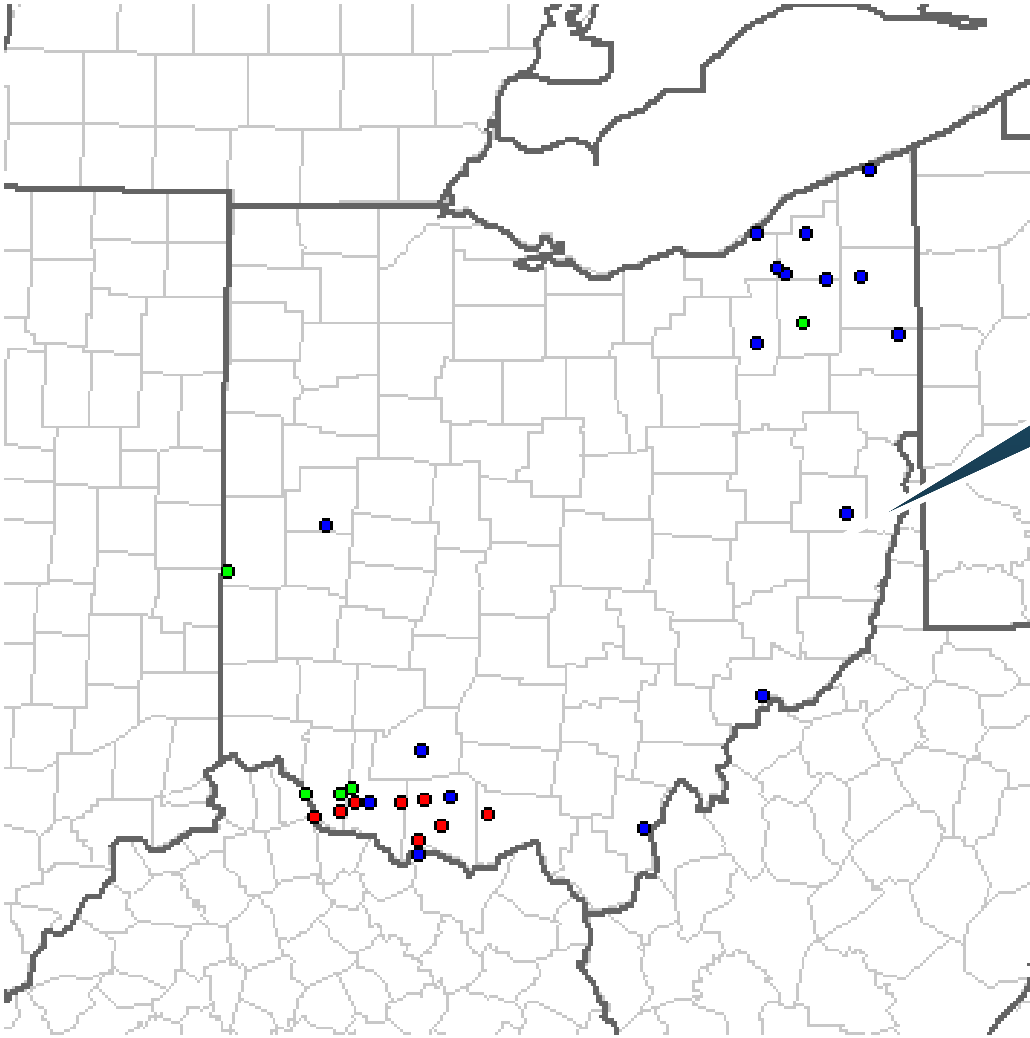

There have been 32 severe weather reports in OH so far in 2012

OHIO

Total Reports =32

Tornadoes = 8 (Red)

Hail Reports = 5 (Green)

Wind Reports = 19 (Blue)

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2012_annual_summary.html#

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The BIG Question: When Will the Market Turn?

Are Catastrophes and Other Factors Pressuring Insurance Markets?

Criteria Necessary for a "Market Turn": *All Four Criteria Must Be Met*

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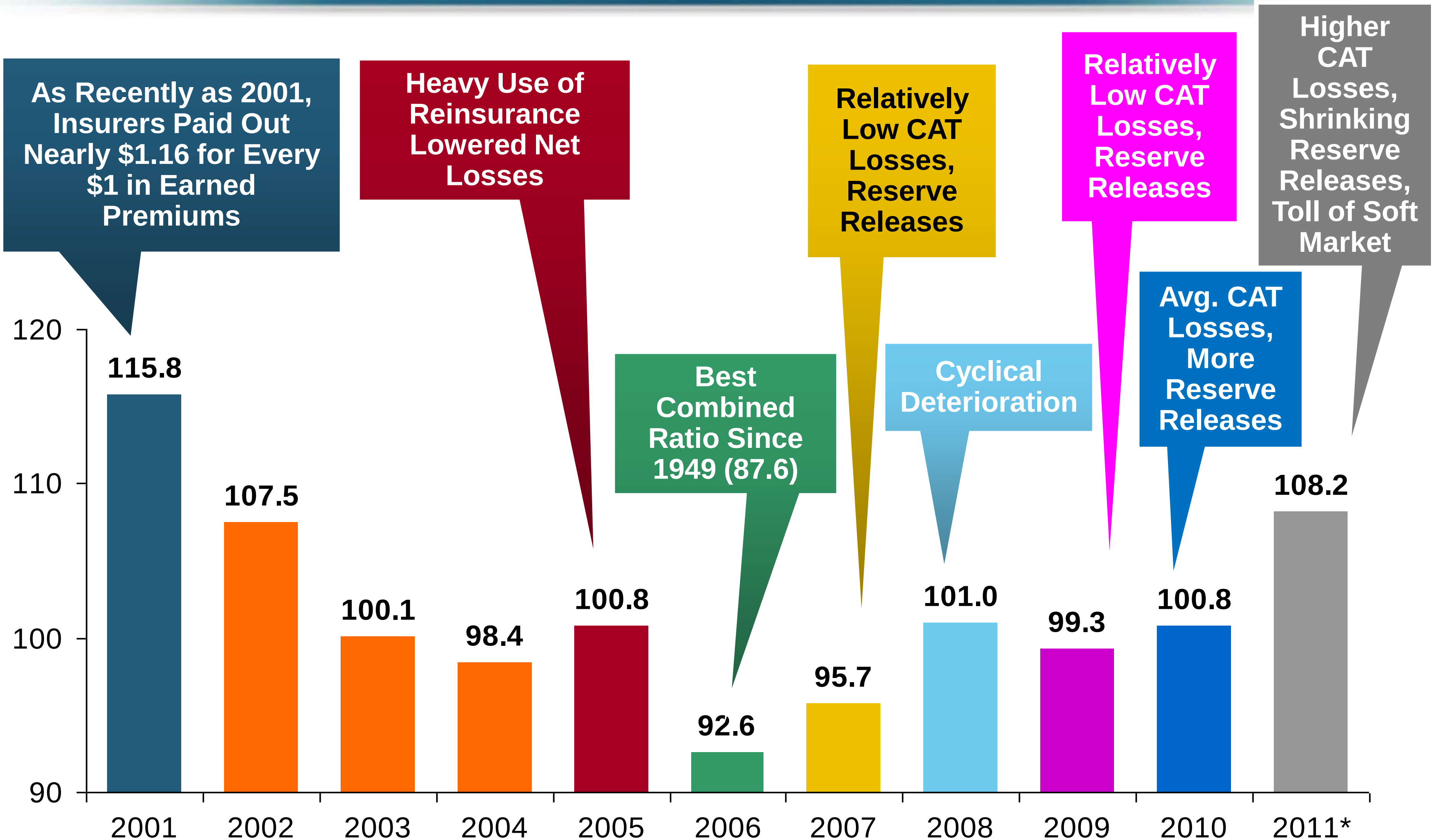
Criteria	Status	Comments
Sustained Period of Large Underwriting Losses	*Early Stage, Inevitable*	•Apart from 2011 CAT losses, overall p/c underwriting losses remain modest •Combined ratios (ex-CATs) still in low 100s (vs. 110+ at onset of last hard market) •Prior-year reserve releases continue to reduce u/w losses, boost ROEs, though more modestly
Material Decline in Surplus/ Capacity	*Entered 2011 At Record High; Since Fallen*	•Surplus hit a record $565B as of 3/31/11 •Fell by 4.6% through 9/30/11 (latest available) •Little excess capacity remains in reinsurance markets •Weak growth in demand for insurance is insufficient to absorb much excess capacity
Tight Reinsurance Market	*Somewhat in Place*	•Much of the global "excess capacity" was eroded by cats •Higher prices in Asia/Pacific •Modestly higher pricing for US risks
Renewed Underwriting & Pricing Discipline	*Some Firming esp. in Property, WC*	•Commercial lines pricing trends have turned from negative to flat or up in some lines (property, WC); Casualty is flat. •Competition remains intense as many seek to maintain market share

Sources: Barclays Capital; Insurance Information Institute.

1. UNDERWRITING

Have Underwriting Losses Been Large Enough for Long Enough to Turn the Market?

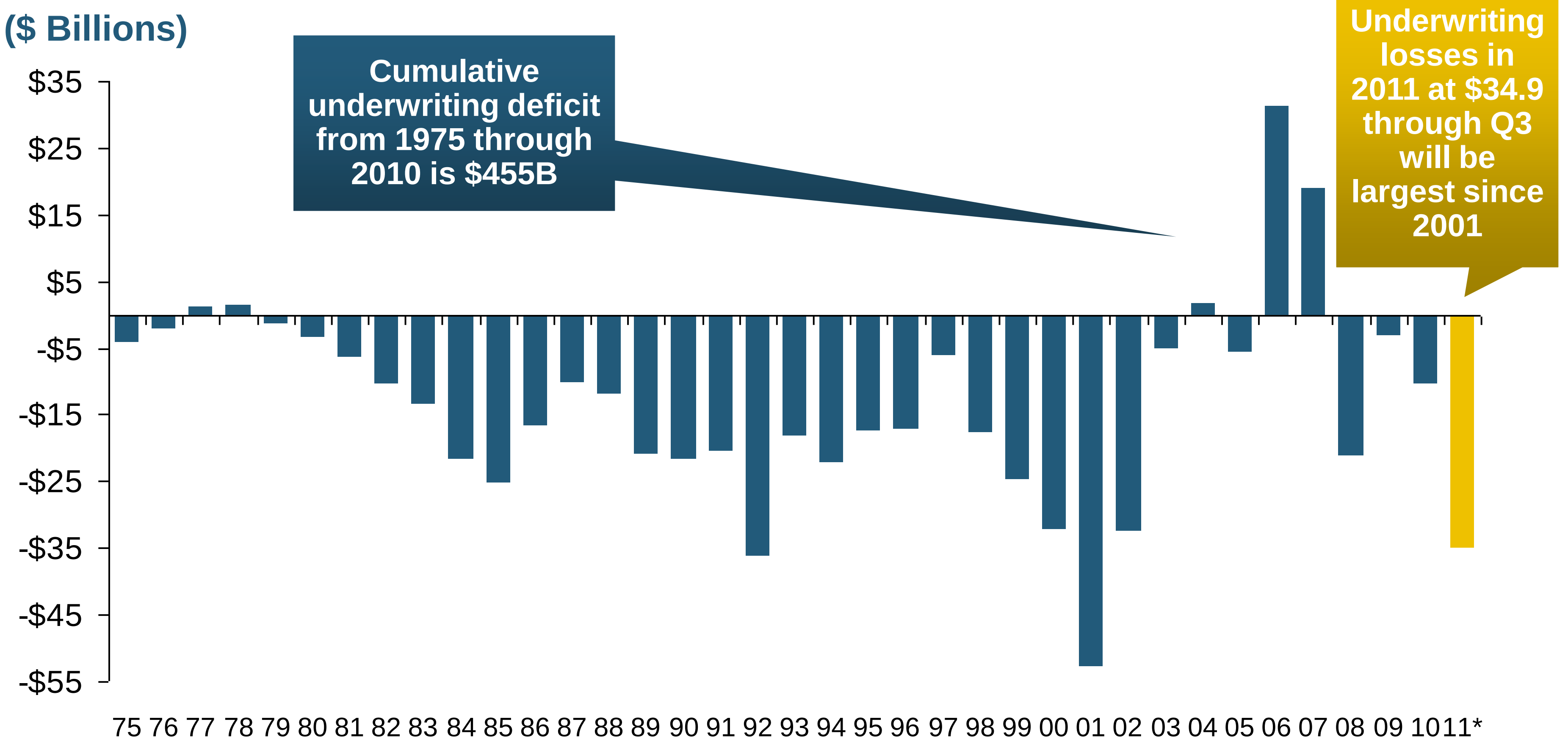
P/C Insurance Industry Combined Ratio, 2001–2011:Q3*



* Excludes Mortgage & Financial Guaranty insurers 2008--2011. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=109.9

Sources: A.M. Best, ISO.

Underwriting Gain (Loss) 1975–2011*



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

* Includes mortgage and financial guaranty insurers in all years

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

P/C Reserve Development, 1992–2013F

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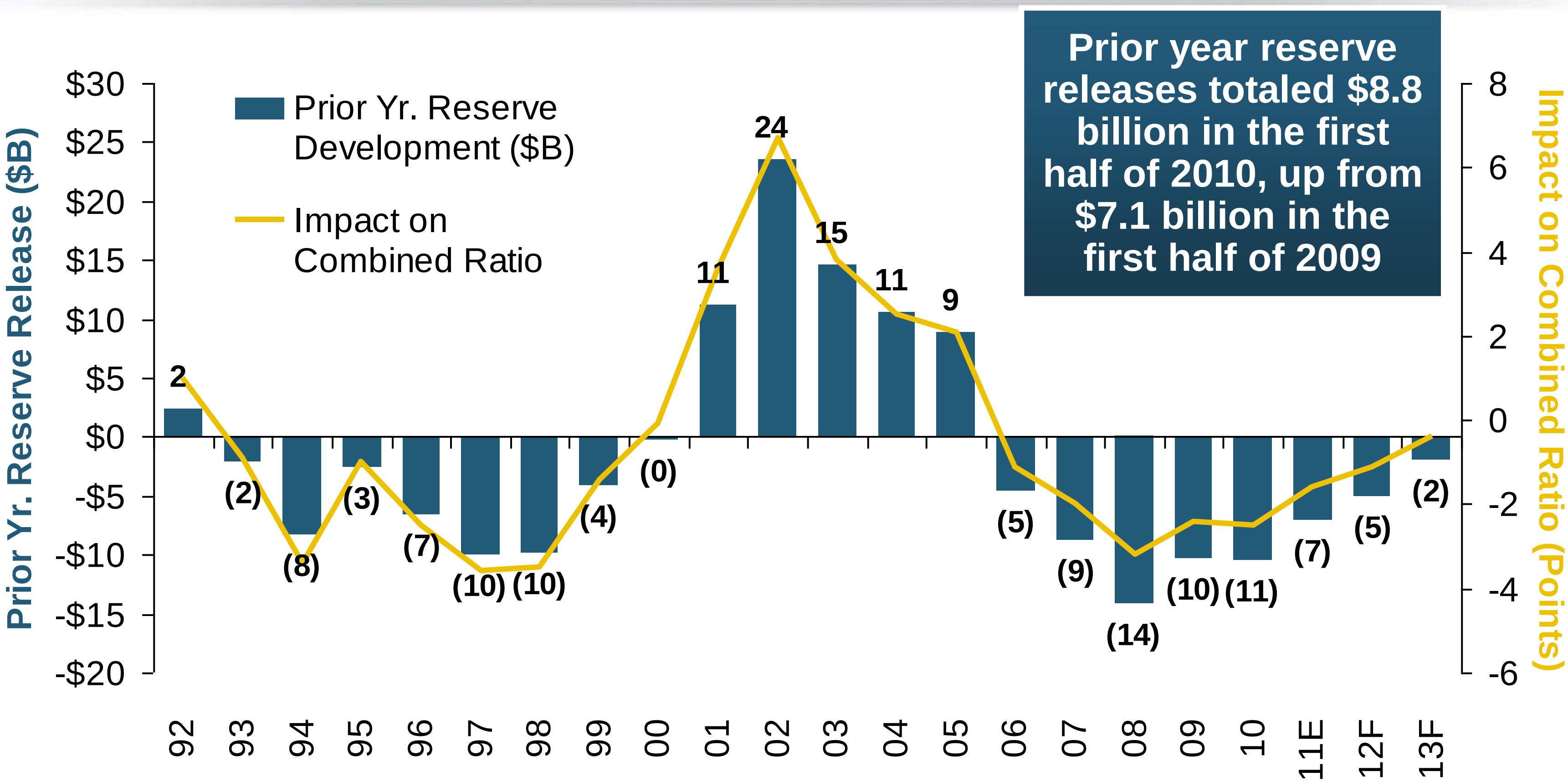

Reserve Releases Remained Strong in 2010 But Tapered Off in 2011. Releases Are Expected to Further Diminish in 2012 and 2103

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.

Financial Strength & Underwriting

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

P/C Insurer Impairments, 1969–2011

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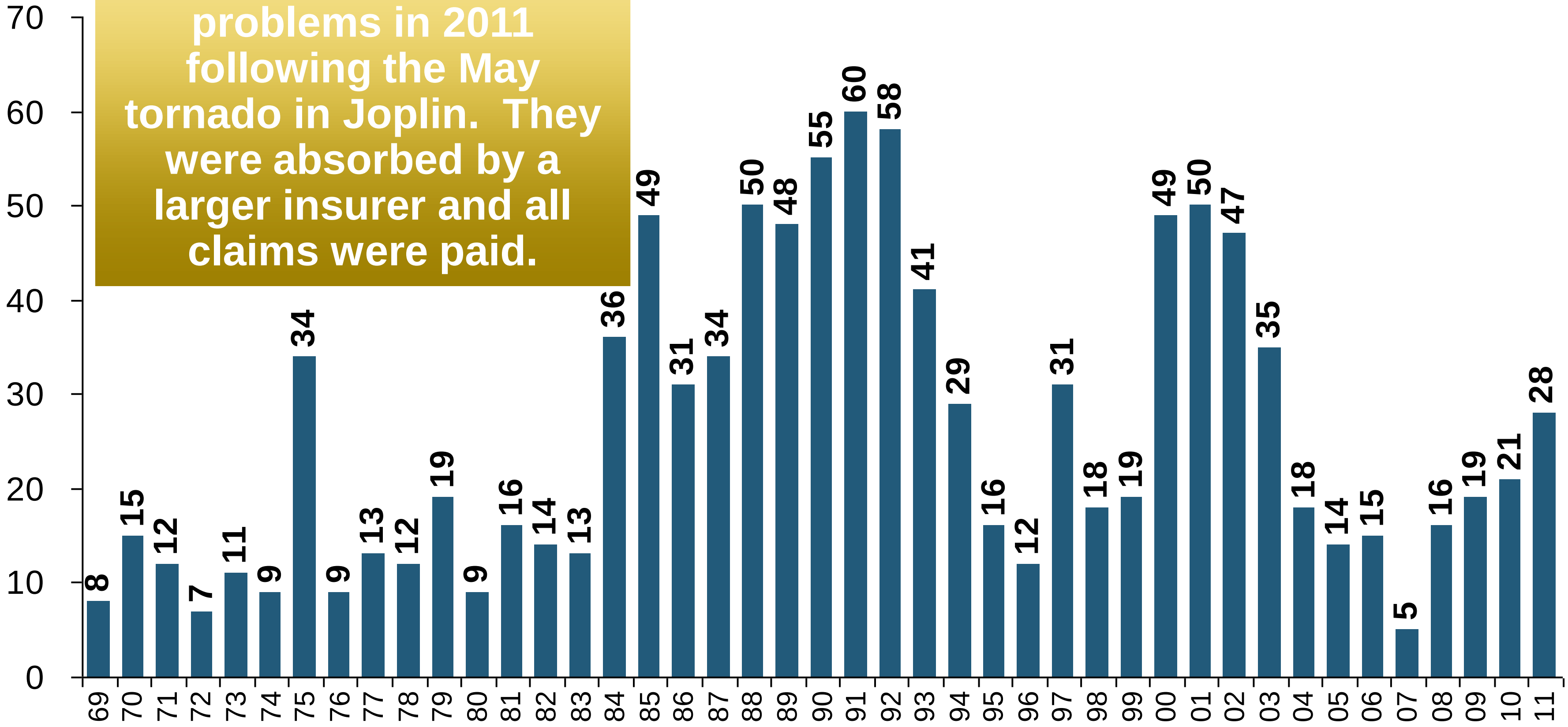
3 small insurers in Missouri did encounter problems in 2011 following the May tornado in Joplin. They were absorbed by a larger insurer and all claims were paid.

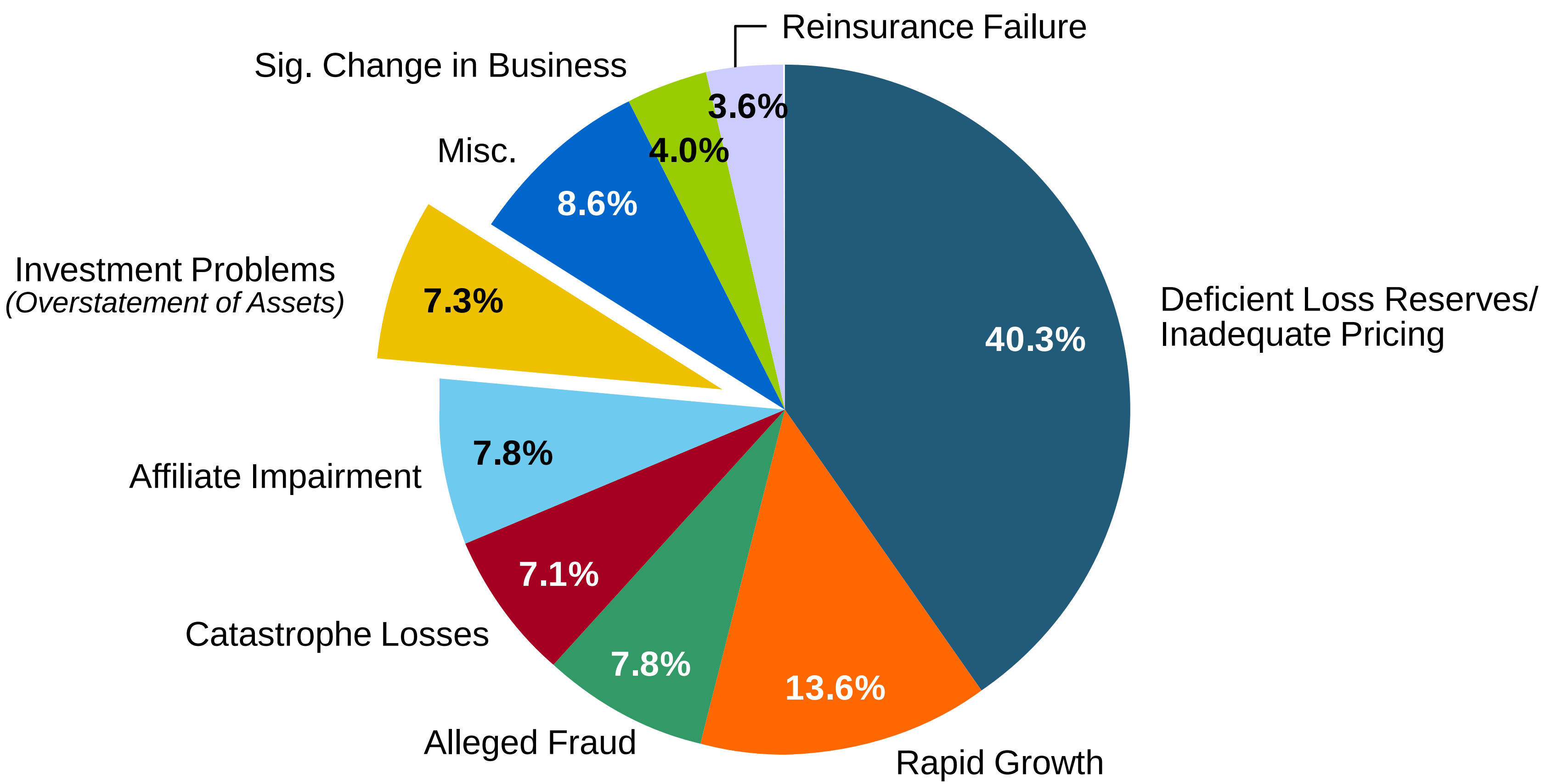


The Number of Impairments Varies Significantly Over the P/C Insurance Cycle, With Peaks Occurring Well into Hard Markets

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

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

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



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

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

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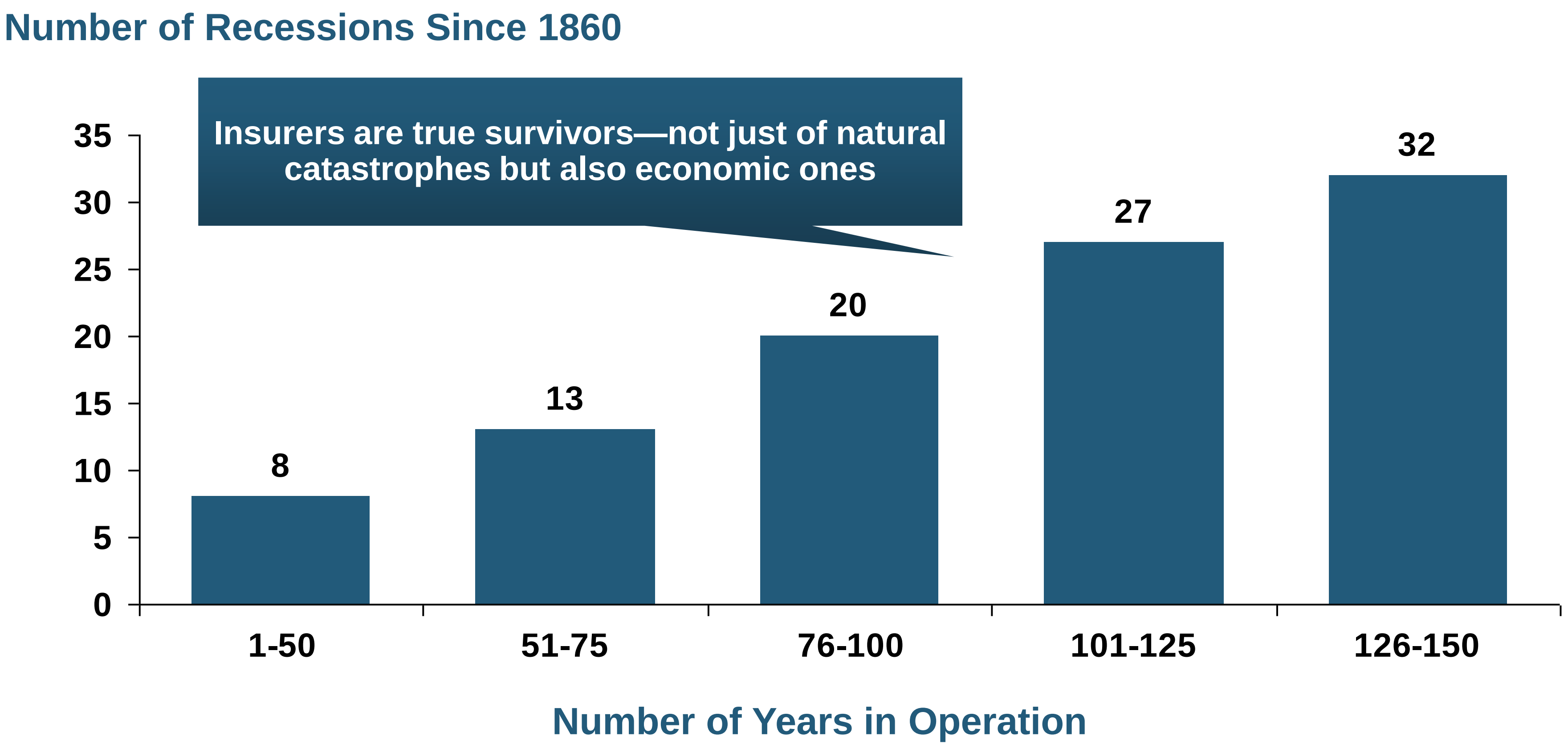
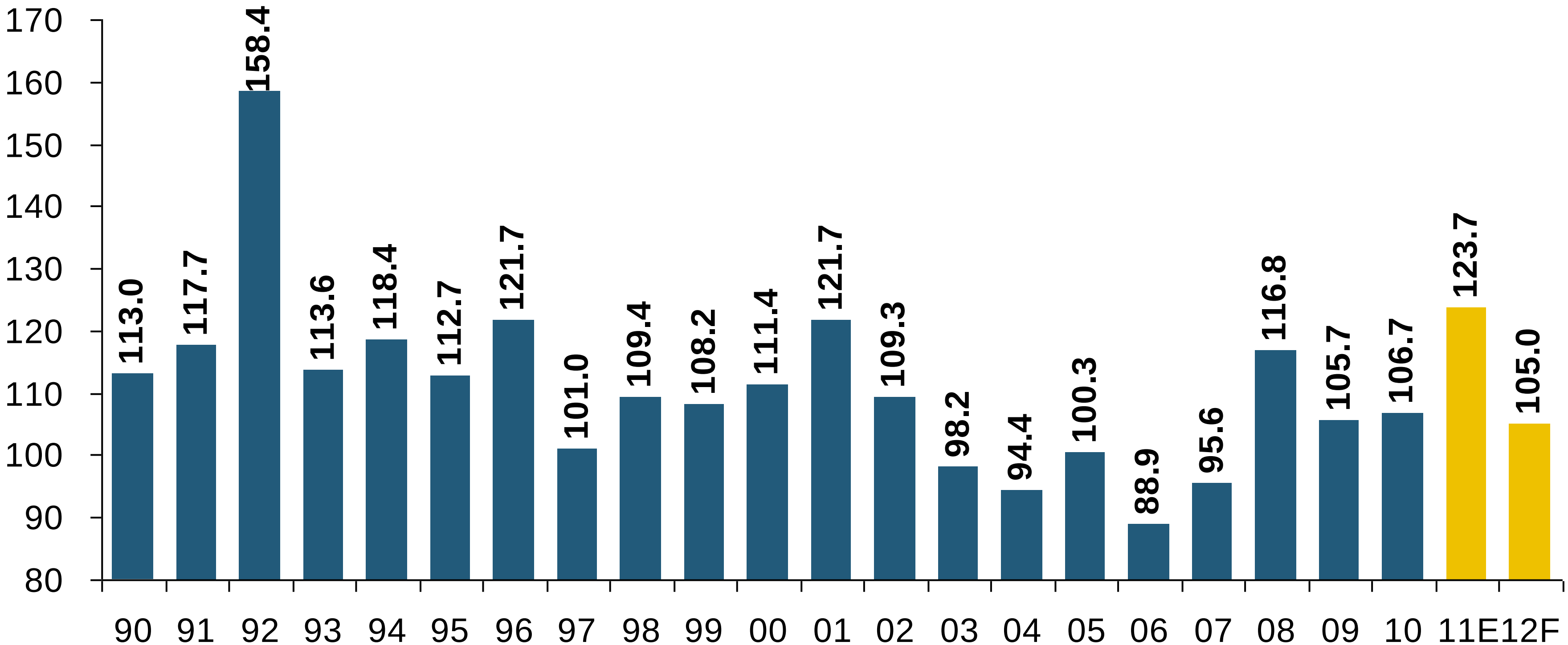


Many US Insurers Are Close to a Century Old or Older

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

Performance by Segment: Personal Lines

Homeowners Insurance Combined Ratio: 1990–2012F



Homeowners Line Could Deteriorate in 2011 Due to Large Cat Losses. Extreme Regional Variation Can Be Expected Due to Local Catastrophe Loss Activity

Sources: A.M. Best (1990-2012E); Insurance Information Institute.

Private Passenger Auto Combined Ratio: 1993–2012P

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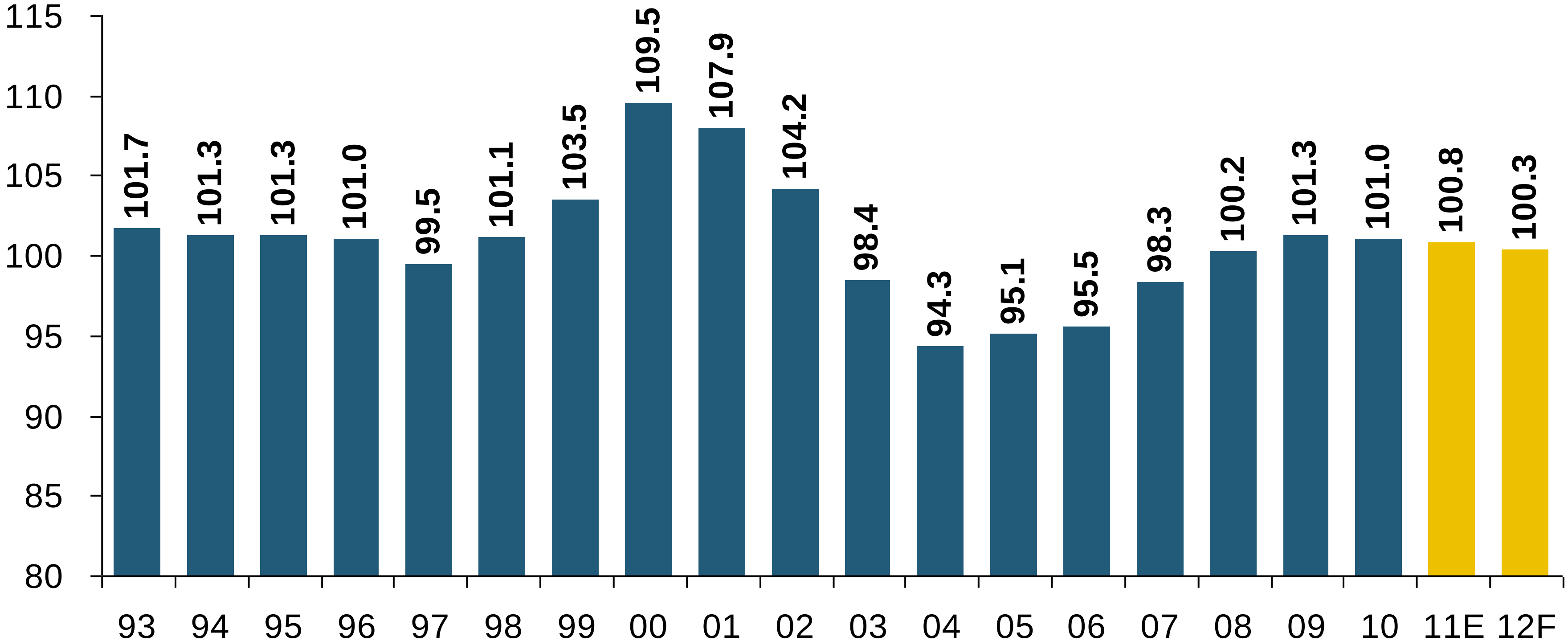

Private Passenger Auto Accounts for 34% of Industry Premiums and Remains the Profit Juggernaut of the P/C Insurance Industry

Sources: A.M. Best (1990-2012F); Insurance Information Institute.

Performance by Segment: Commercial Lines

Commercial Lines Combined Ratio, 1990-2012F*

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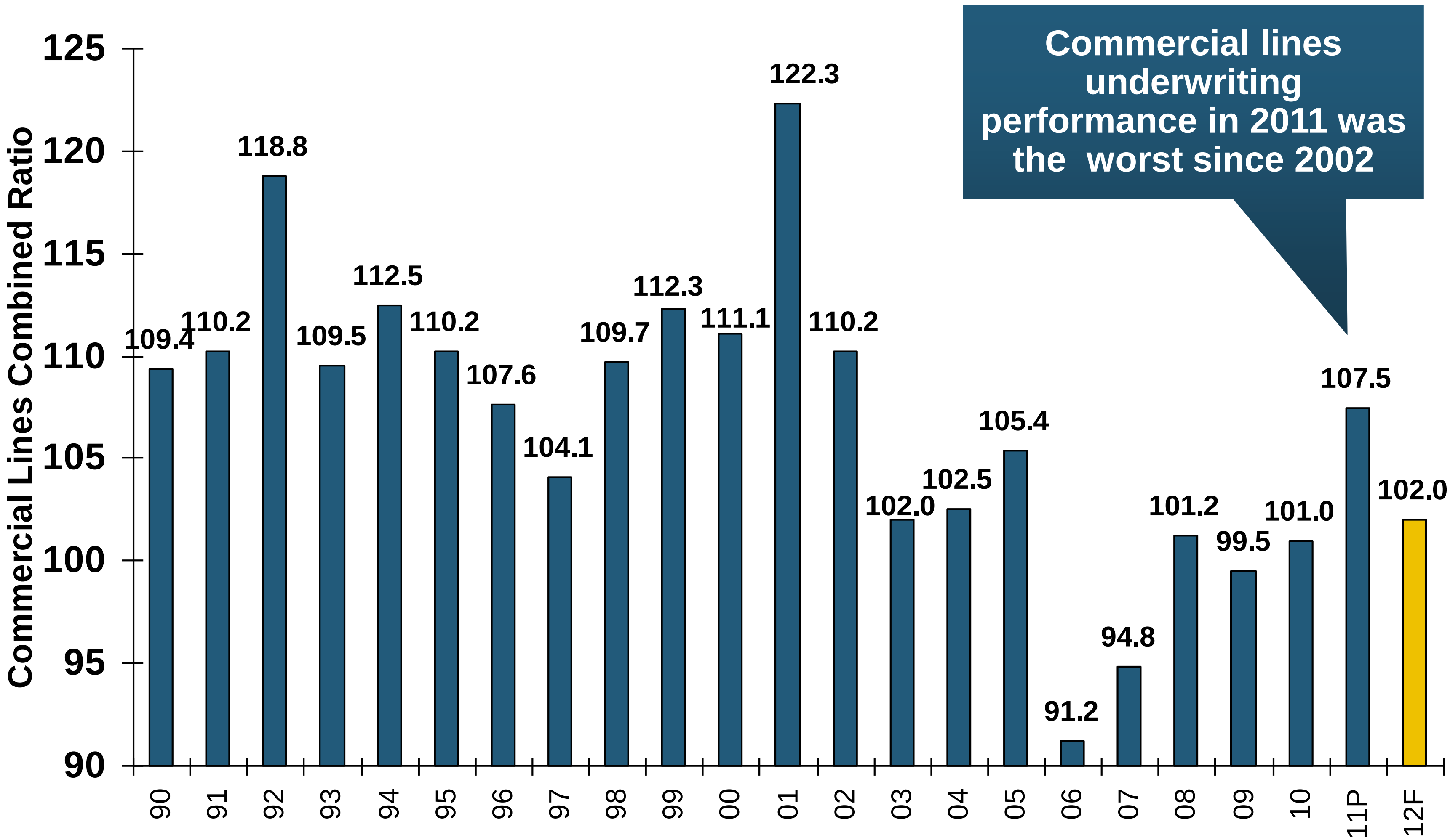

*2007-2012 figures exclude mortgage and financial guaranty segments.
Source: A.M. Best; Insurance Information Institute

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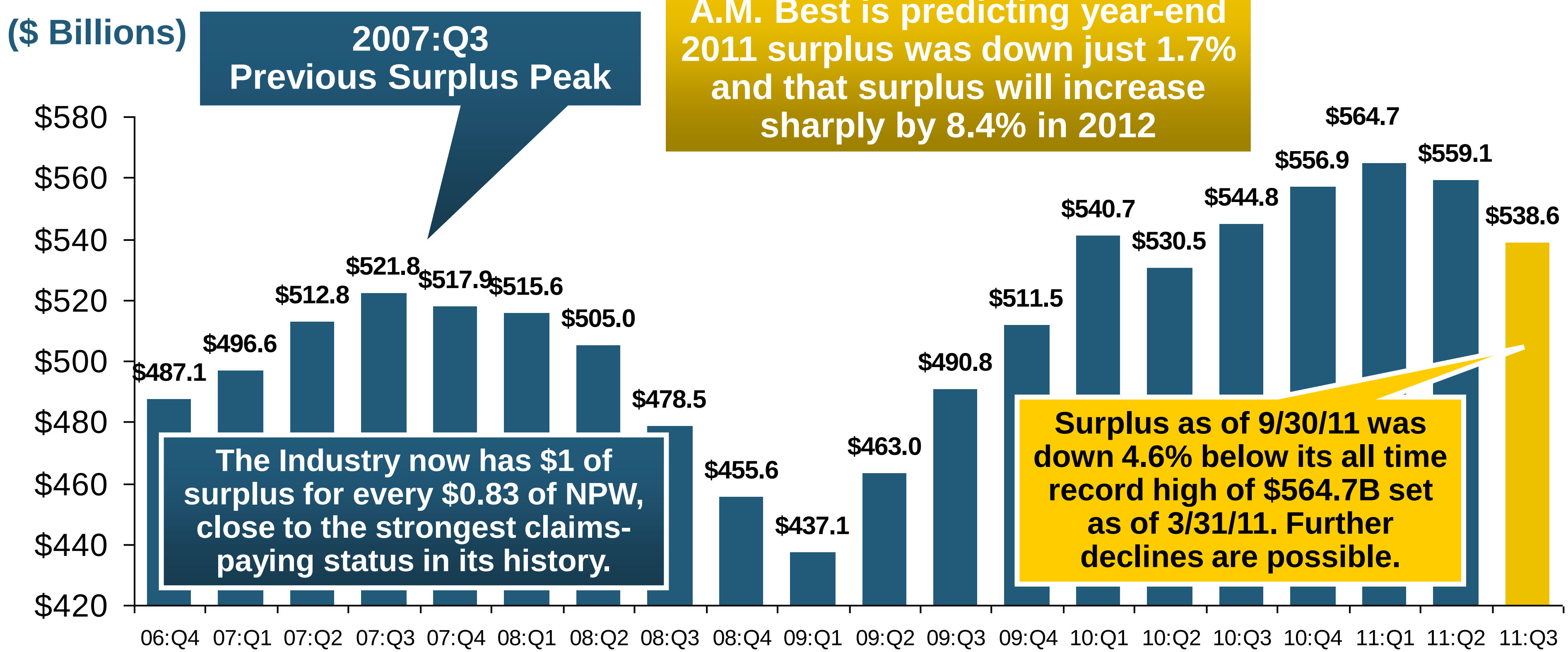
2. SURPLUS/CAPITAL/CAPACITY

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

Policyholder Surplus, 2006:Q4–2011:Q3



Quarterly Surplus Changes Since 2011:Q1 Peak

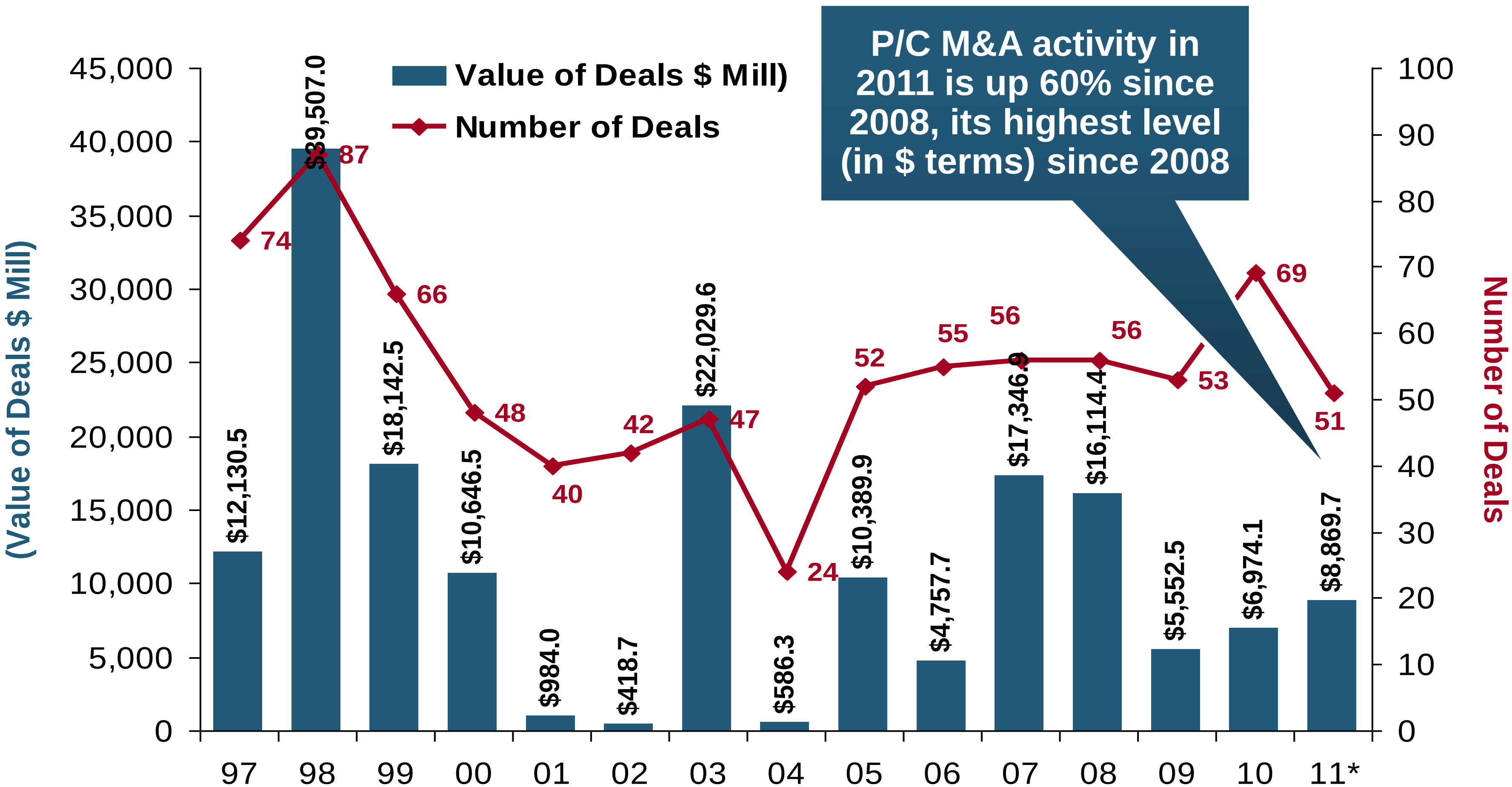
11:Q2: -$5.6B (-1.0%)

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

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

Sources: ISO, A.M .Best.

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



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

*2011 data are through December 1.

Source: SNL Securities; Insurance Information Institute.

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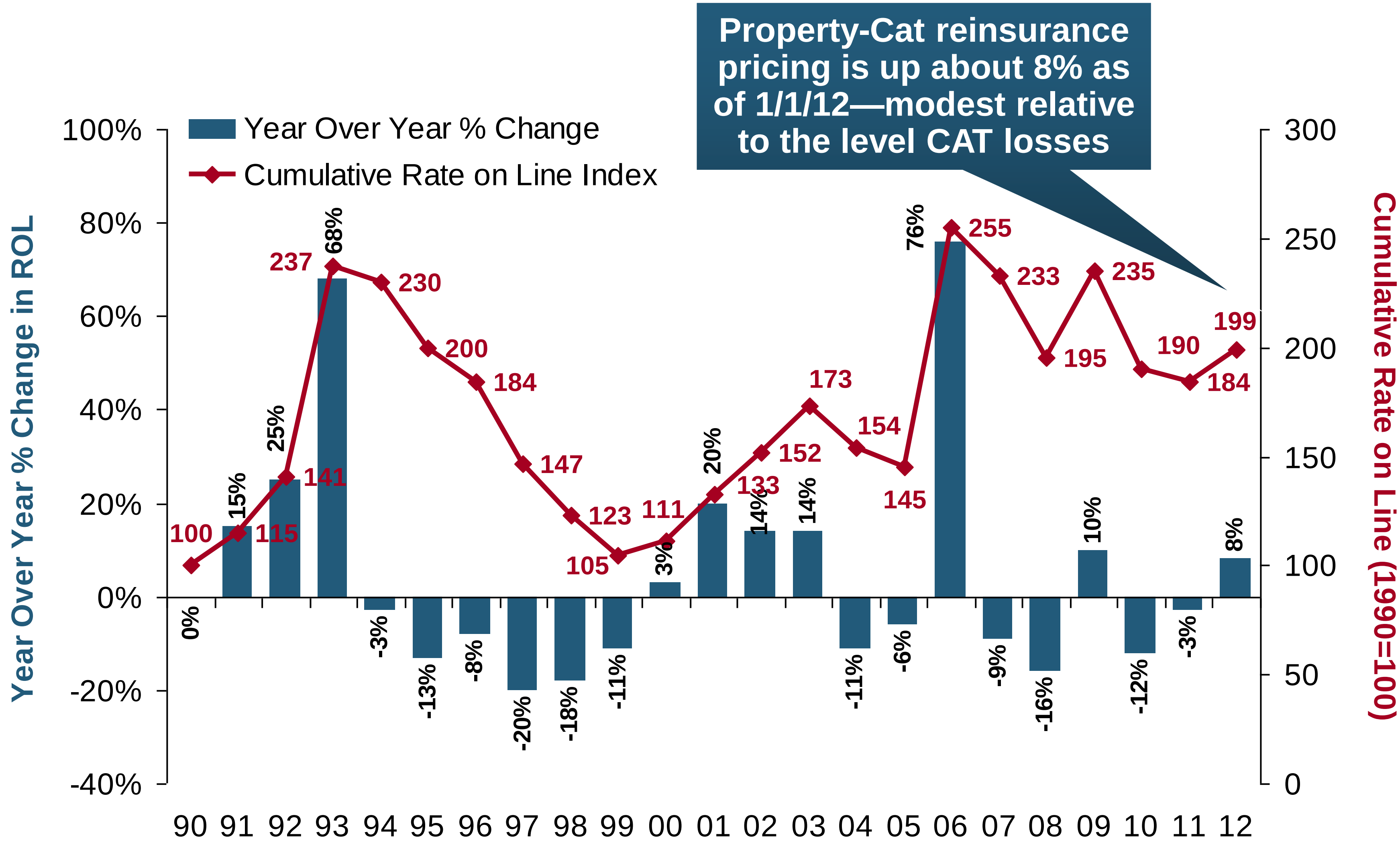
3. REINSURANCE MARKET CONDITIONS

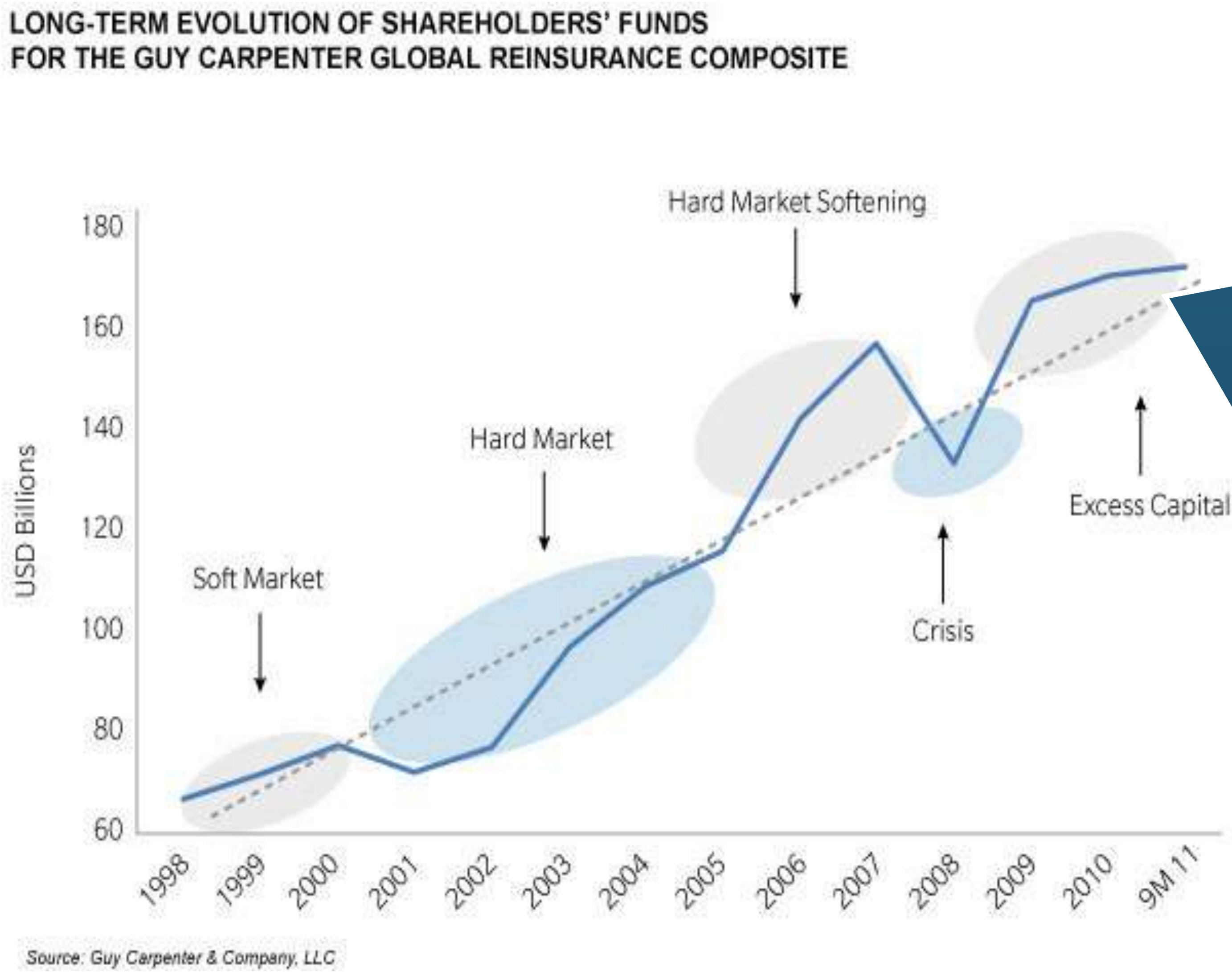
Record Global Catastrophes Activity is Pressuring Pricing

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



Sources: Guy Carpenter; Insurance Information Institute.

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



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

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

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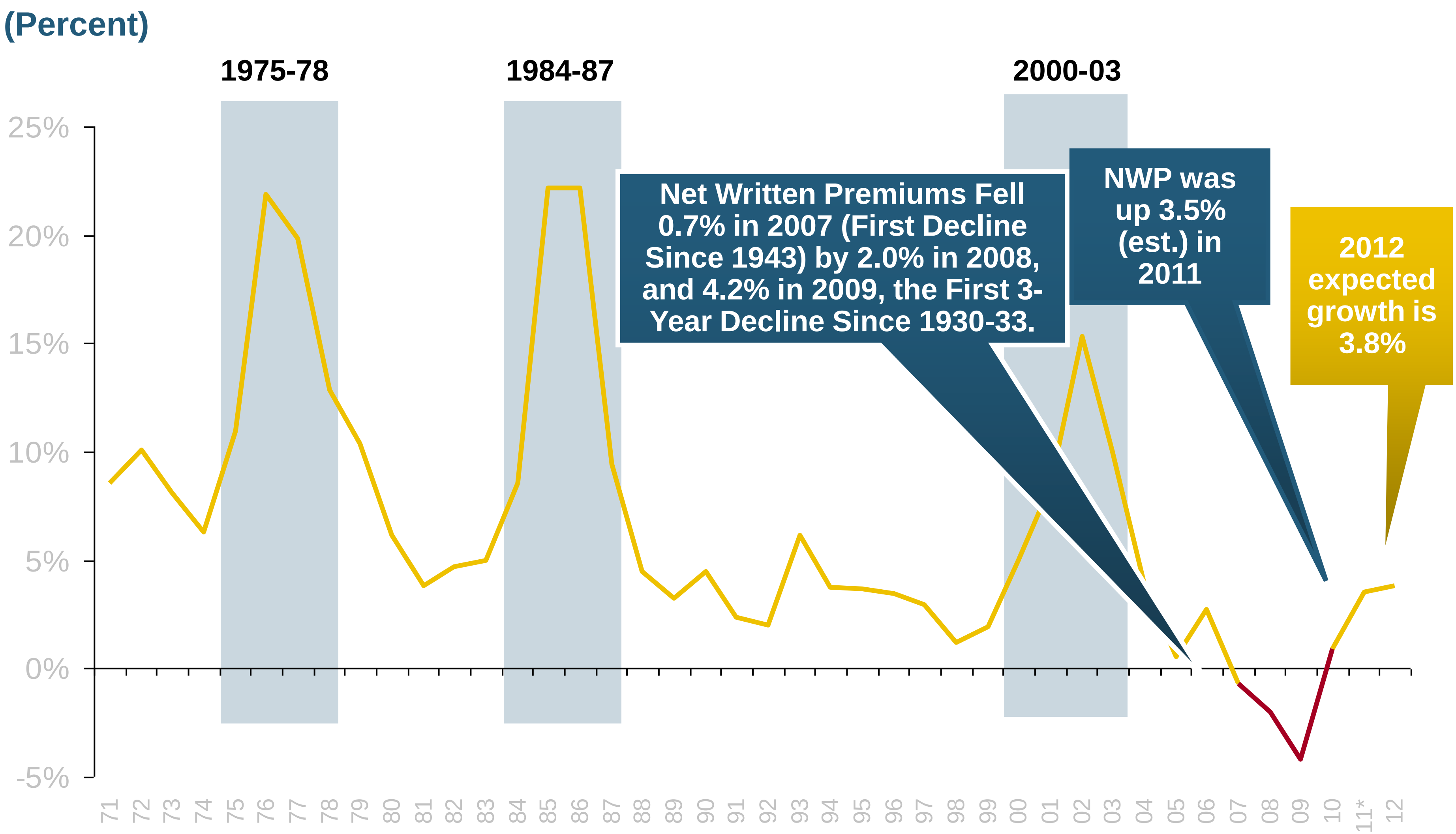
4. RENEWED PRICING DISCIPLINE

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

Soft Market Persisted into Early 2011 but Growth Returned: More in 2012?



*2011 and 2012 figures are A.M. Best Estimates

Shaded areas denote "hard market" periods

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

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

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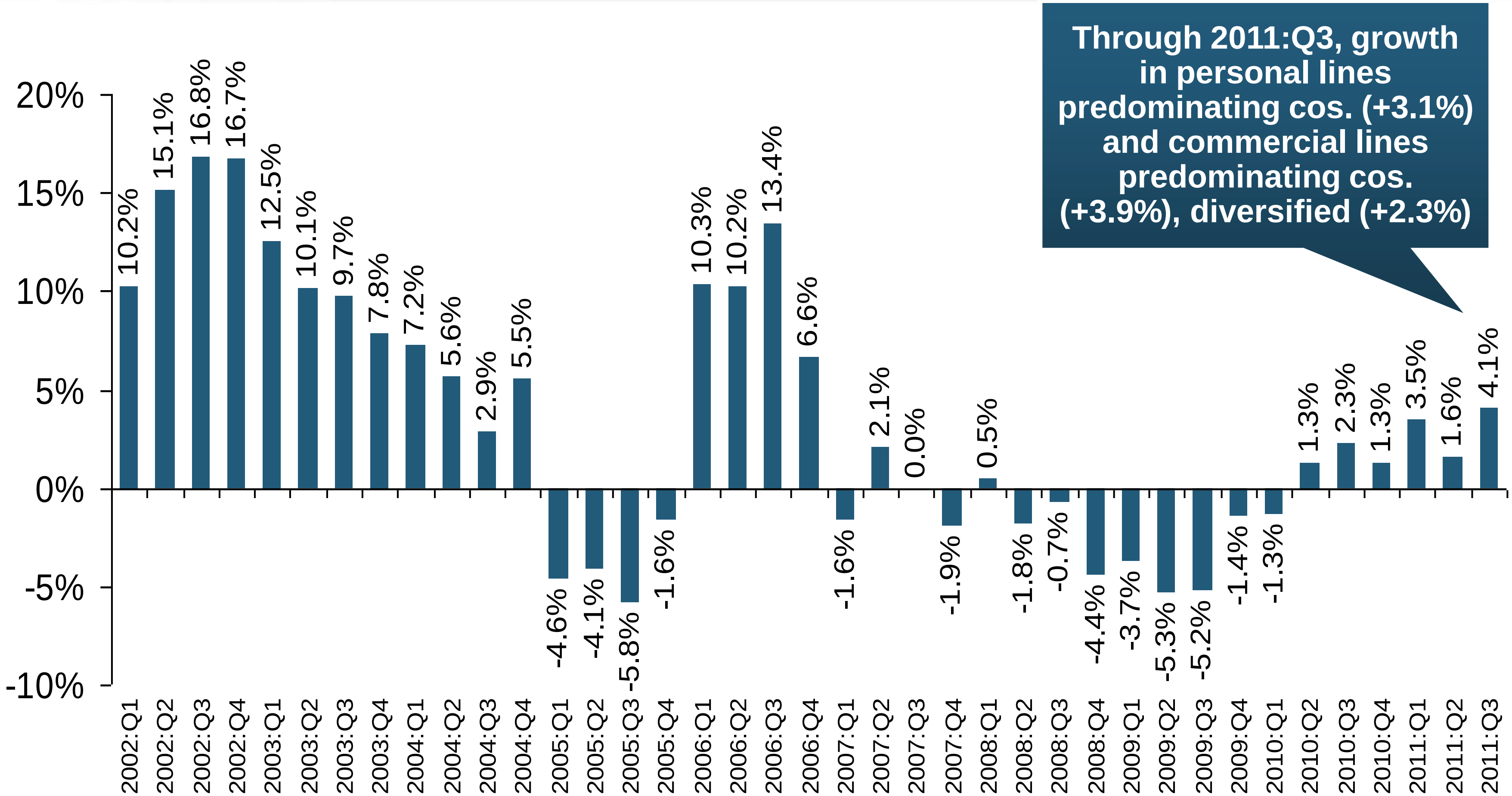
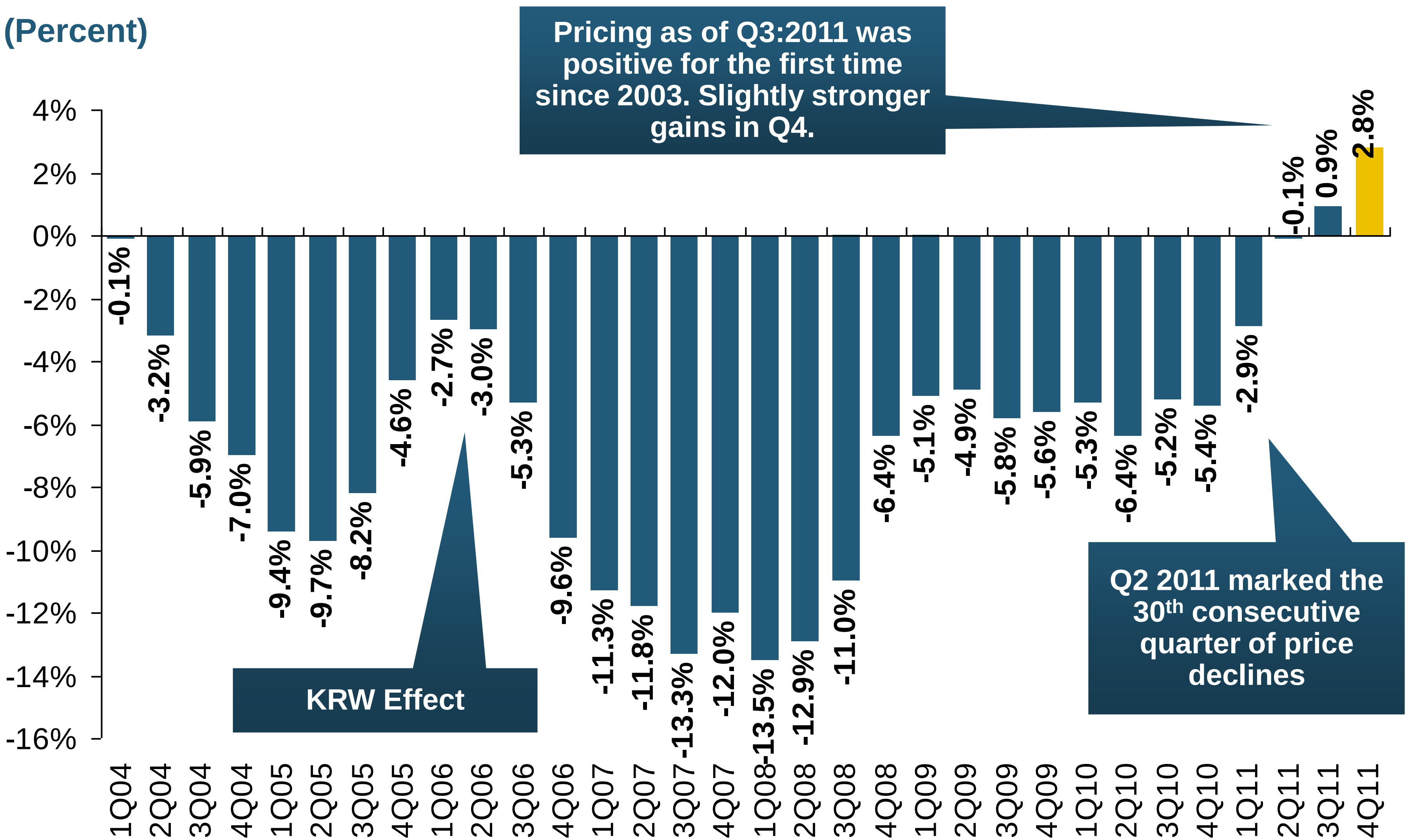


Finally! Back-to-back quarters of net written premium growth (vs. the same quarter, prior year)

Sources: ISO, Insurance Information Institute.

Average Commercial Rate Change, All Lines, (1Q:2004–4Q:2011)



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

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

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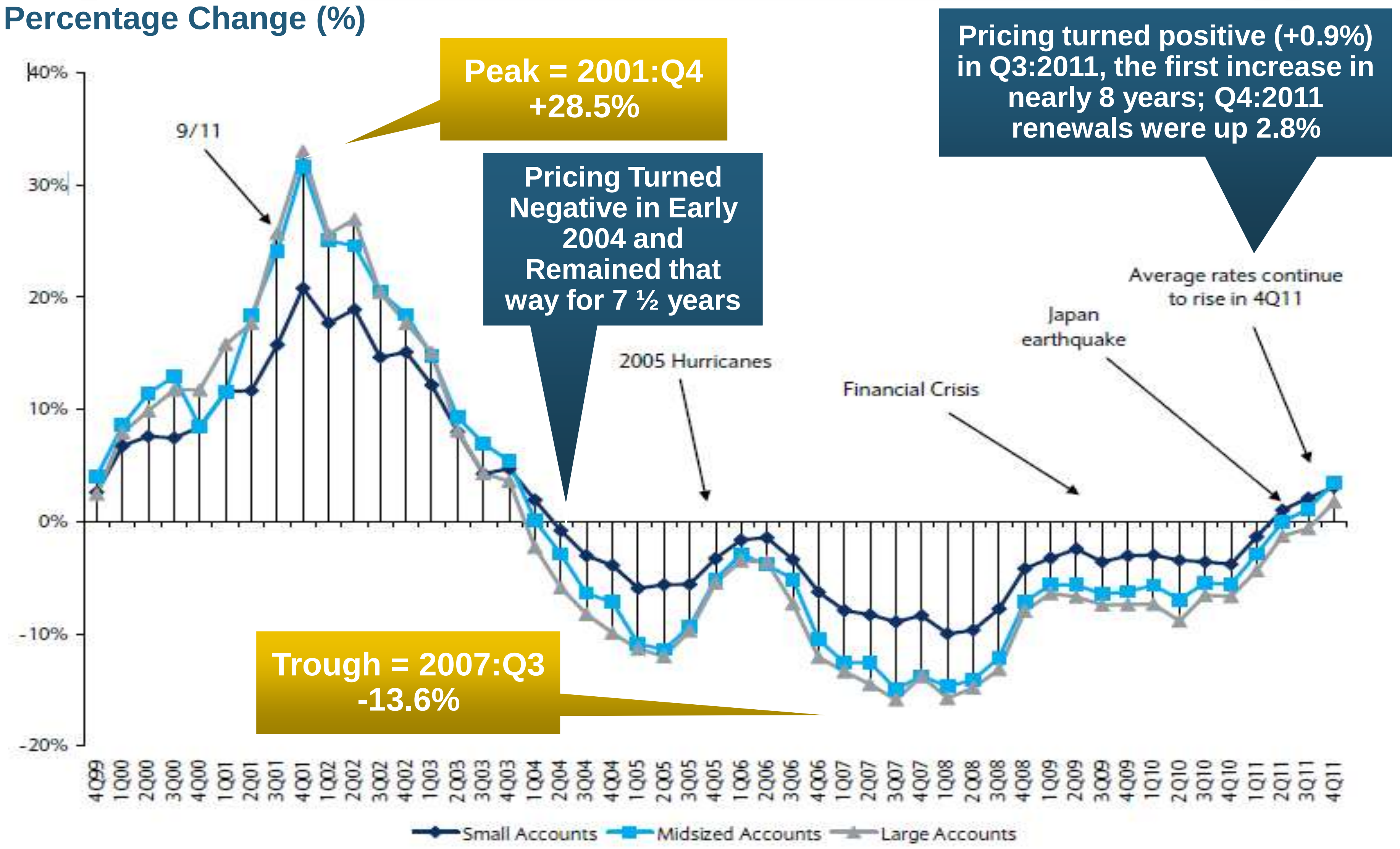

Source: Council of Insurance Agents and Brokers; Barclay's Capital; Insurance Information Institute.

Change in Commercial Rate Renewals, by Line: 2011:Q4

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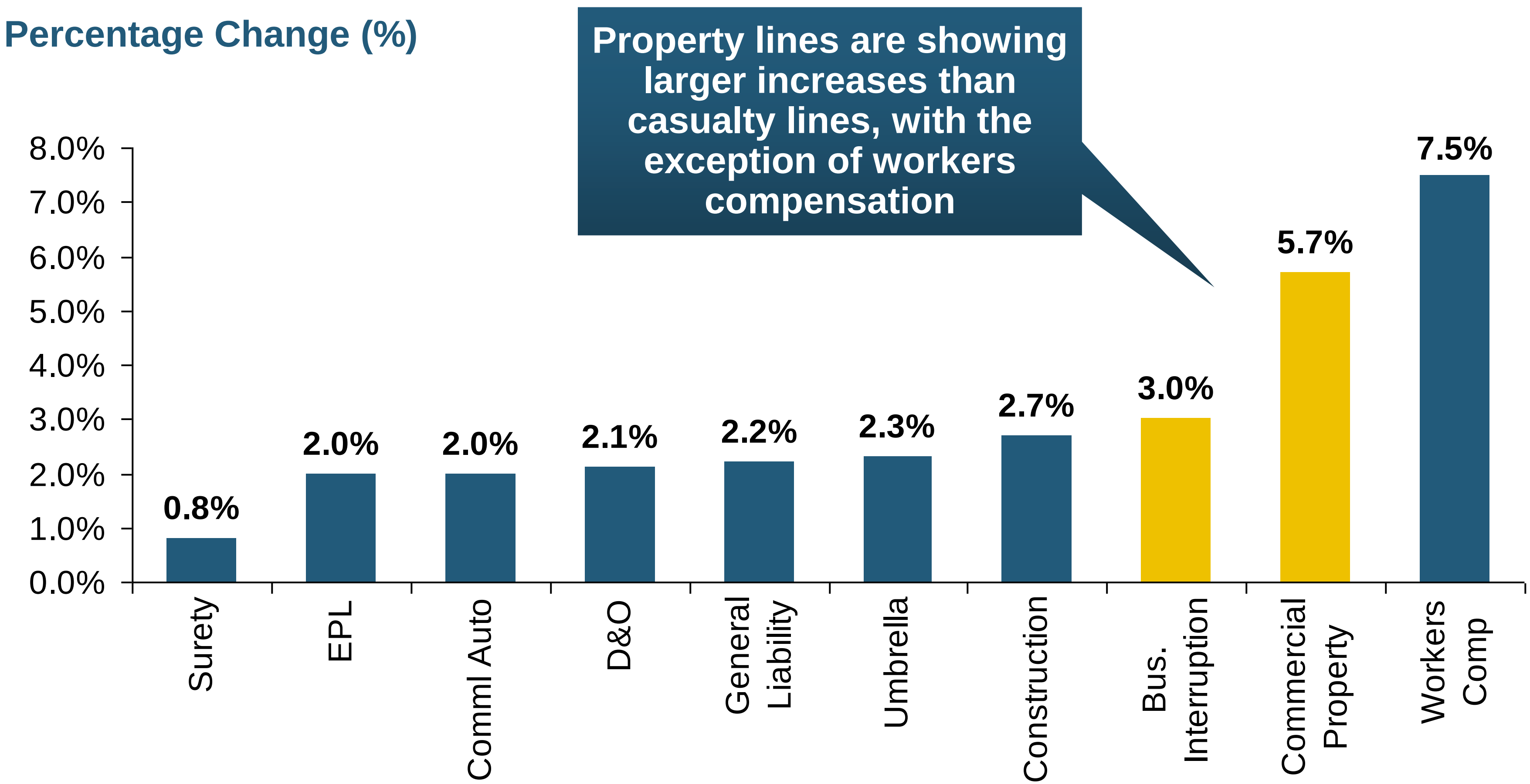

Major Commercial Lines Renewed Uniformly Upward in Q4:2011 for Only the Second Time Since 2003; Property Lines & Workers Comp Leading the Way

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

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

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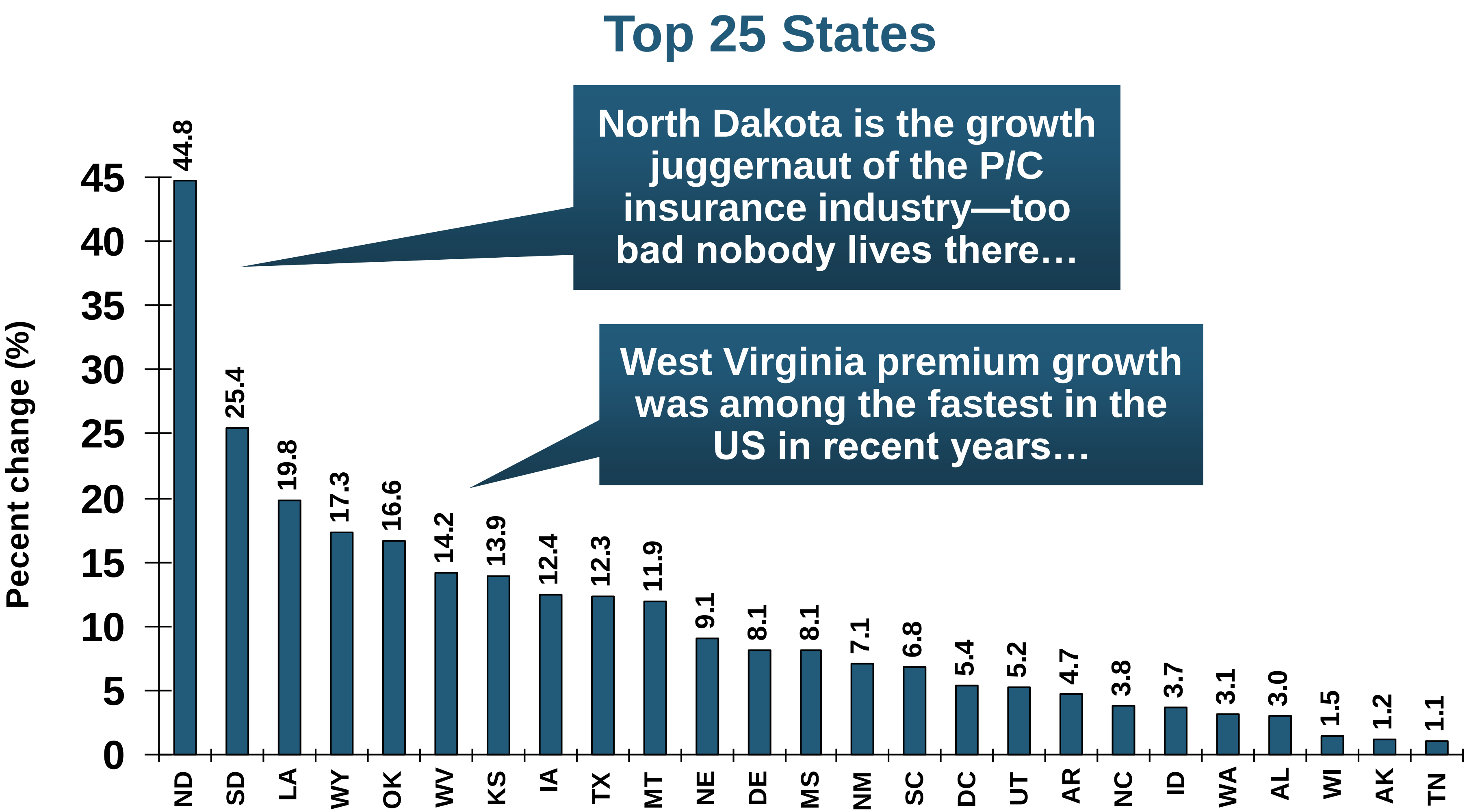
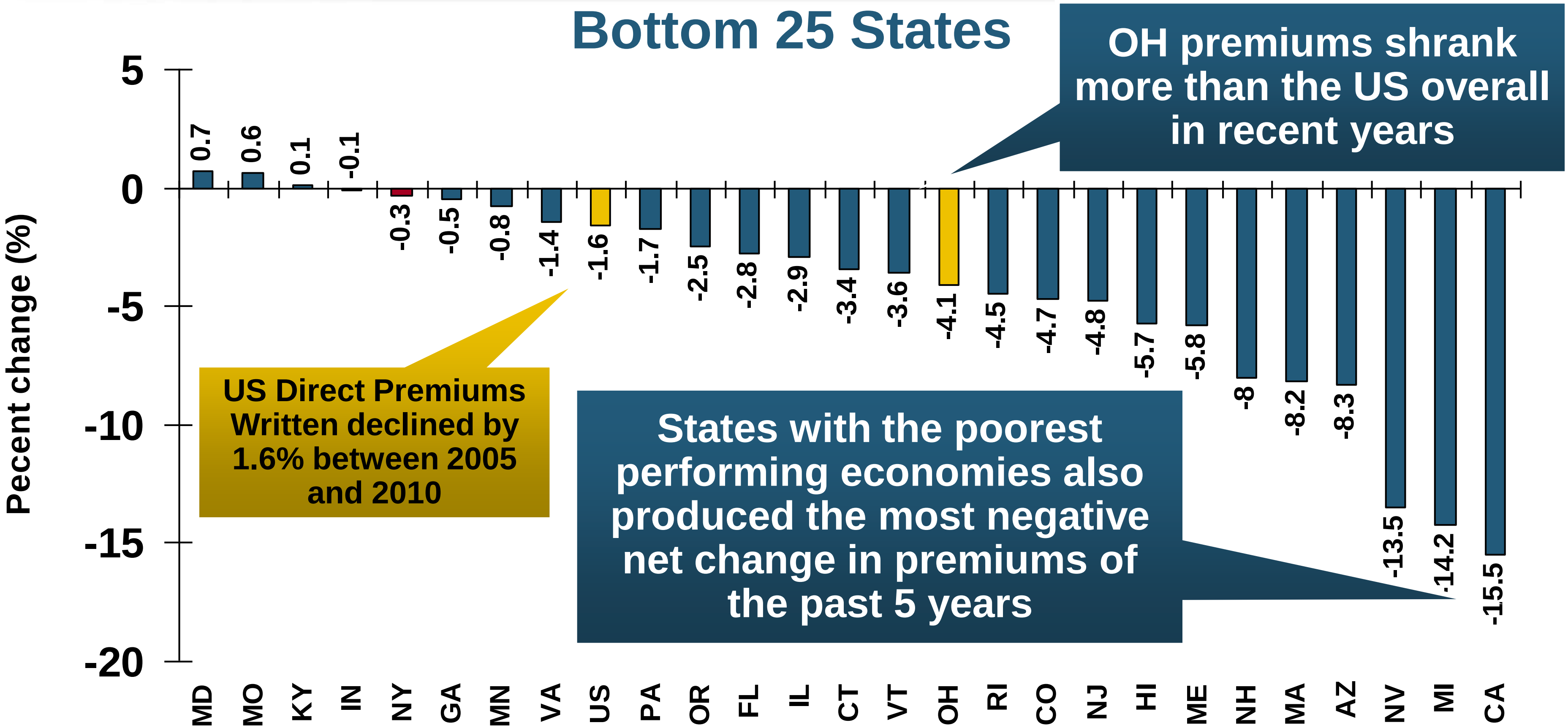


Sources: SNL Financial LC.; Insurance Information Institute.

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



Sources: SNL Financial LC; Insurance Information Institute.

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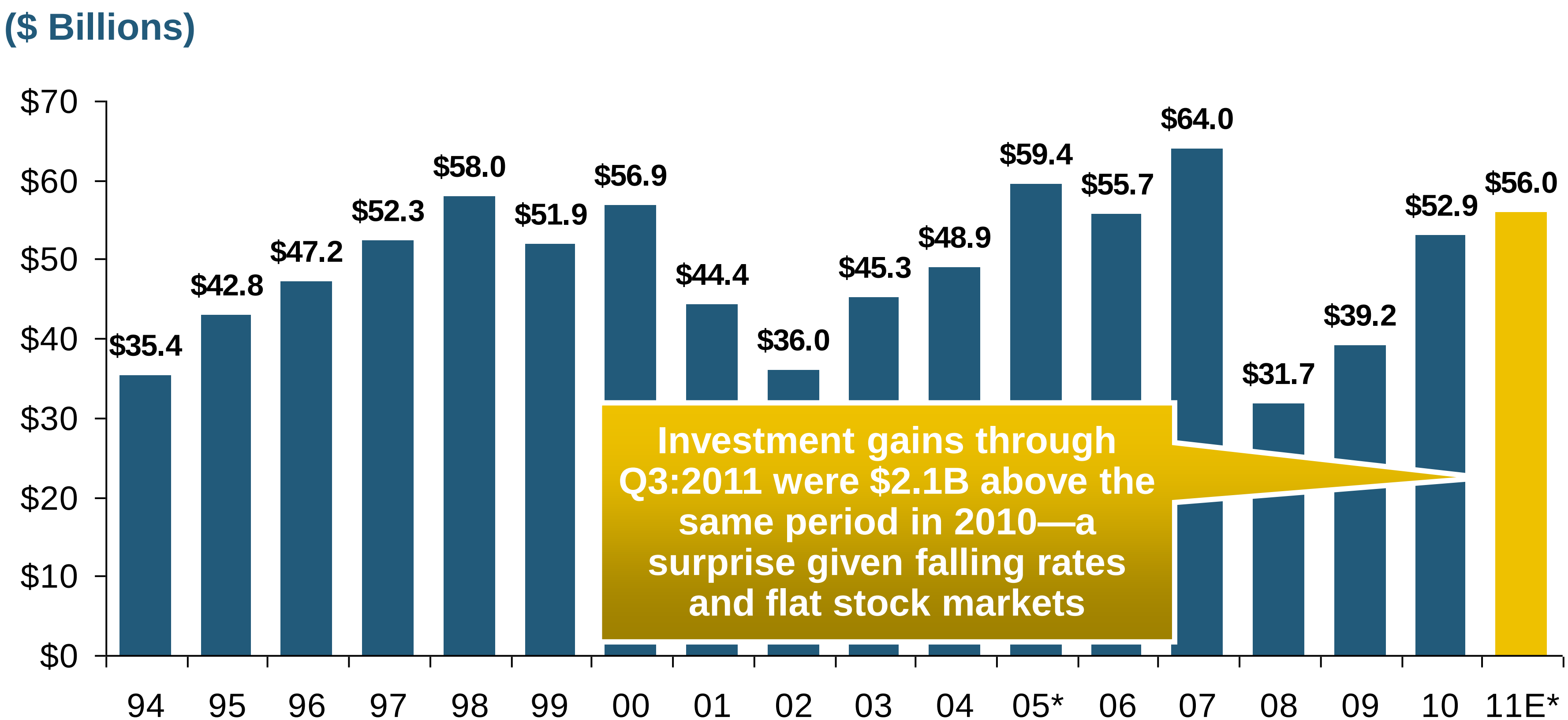
INVESTMENTS: THE NEW REALITY

Investment Performance is a Key Driver of Profitability

Does It Influence Underwriting or Cyclicality?

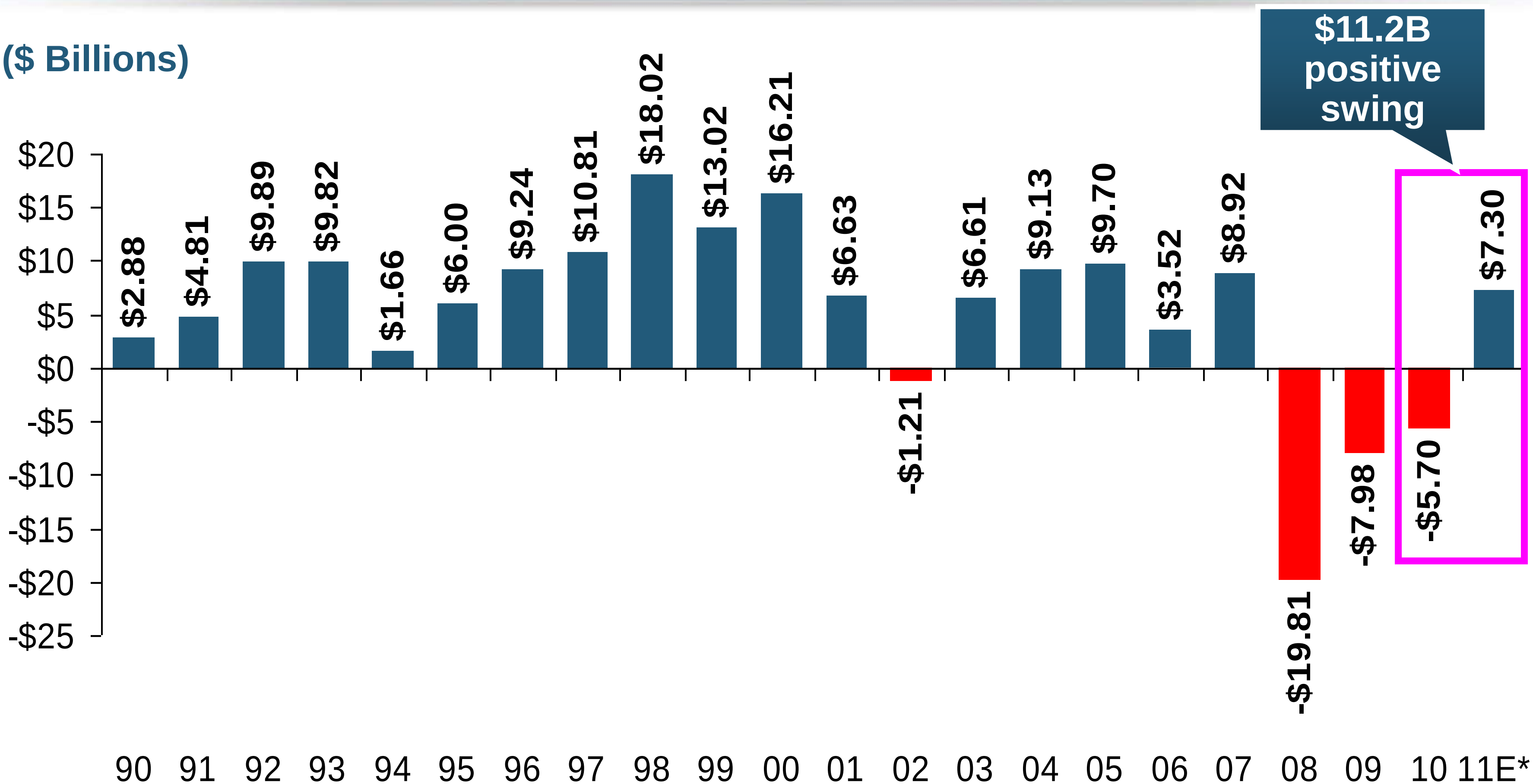
Property/Casualty Insurance Industry Investment Gain: 1994–2011E[1]



Investment Gains in 2011 Were Surprisingly Robust. Investment Gains Recovered Significantly Due to Realized Investment Gains; The Financial Crisis Caused Investment Gains to Fall by 50% in 2008

[1] Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.
* 2005 figure includes special one-time dividend of $3.2B; 2011 figure is annualized based 2011:Q3 actual of $42.0B.
Sources: ISO; Insurance Information Institute.

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



Insurers Posted Net Realized Capital Gains in 2011 for the First Time Since 2007. Realized Capital Losses Were the Primary Cause of 2008/2009's Large Drop in Profits and ROE

*2011 is an estimate based on annualized actual 2011 9-month figure of $5.5B.
Sources: A.M. Best, ISO, Insurance Information Institute.

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

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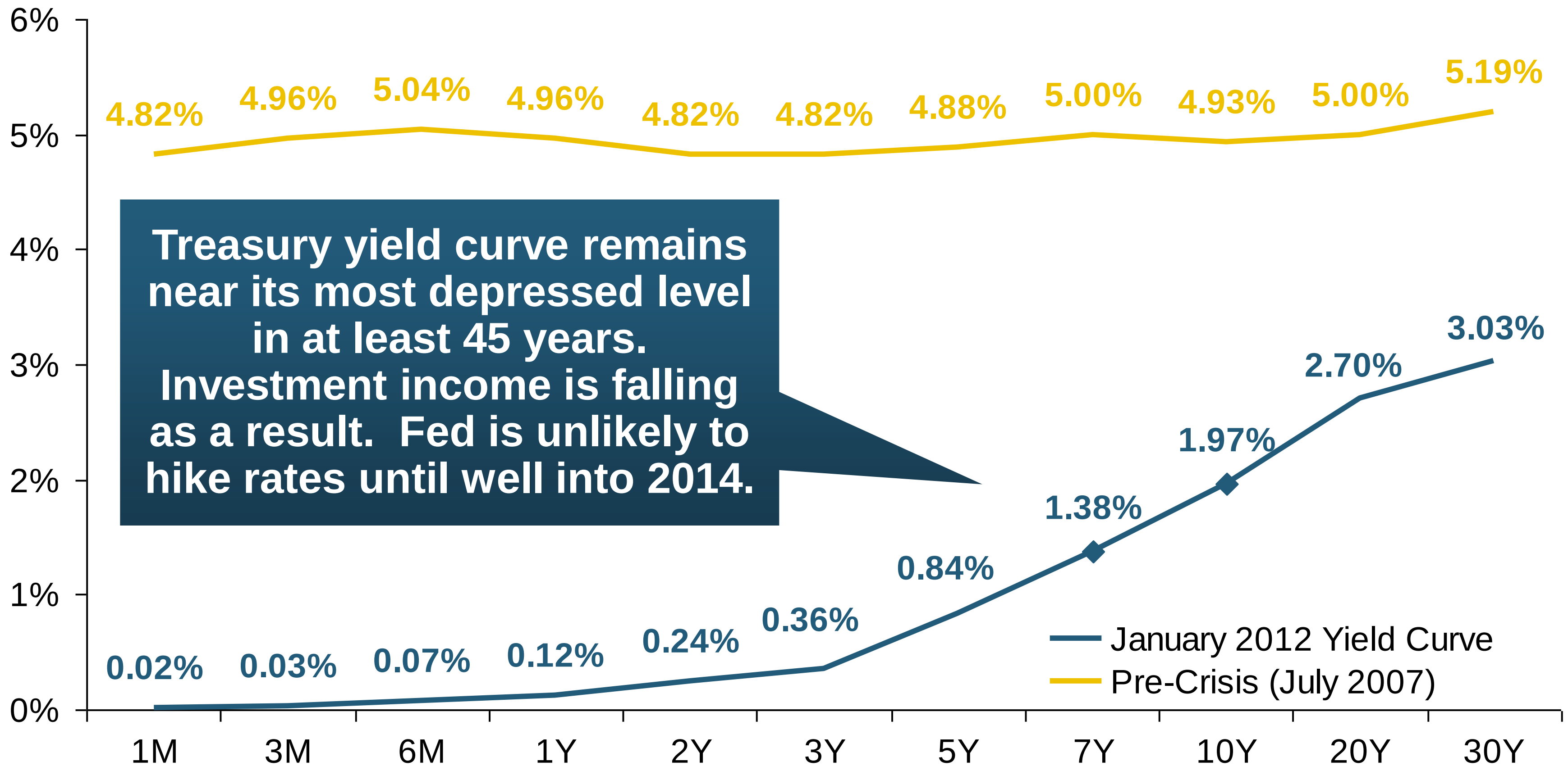
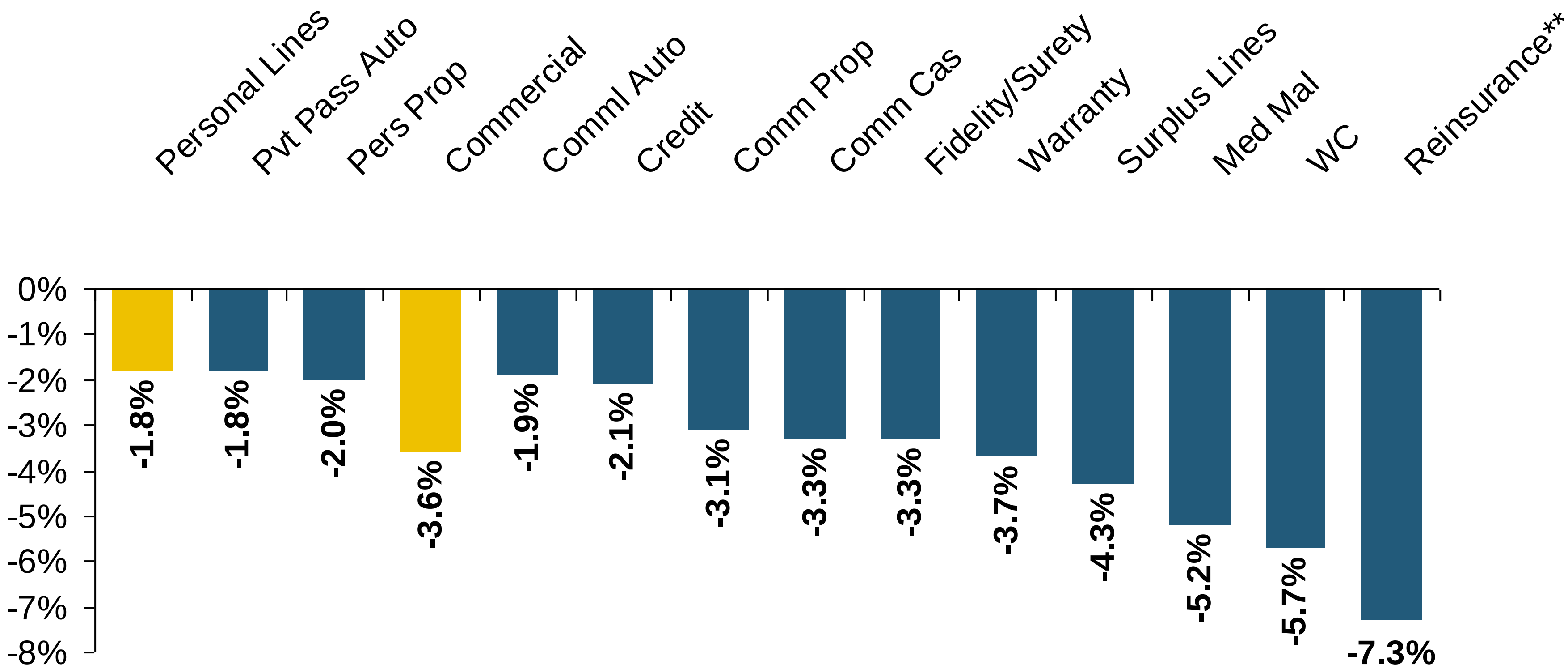


The Fed Is Actively Signaling that it Is Determined to Keep Rates Low Through Late 2014

Source: Federal Reserve Board of Governors; Insurance Information Institute.

Reduction in Combined Ratio Necessary to Offset 1% Decline in Investment Yield to Maintain Constant ROE, by Line*



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

*Based on 2008 Invested Assets and Earned Premiums

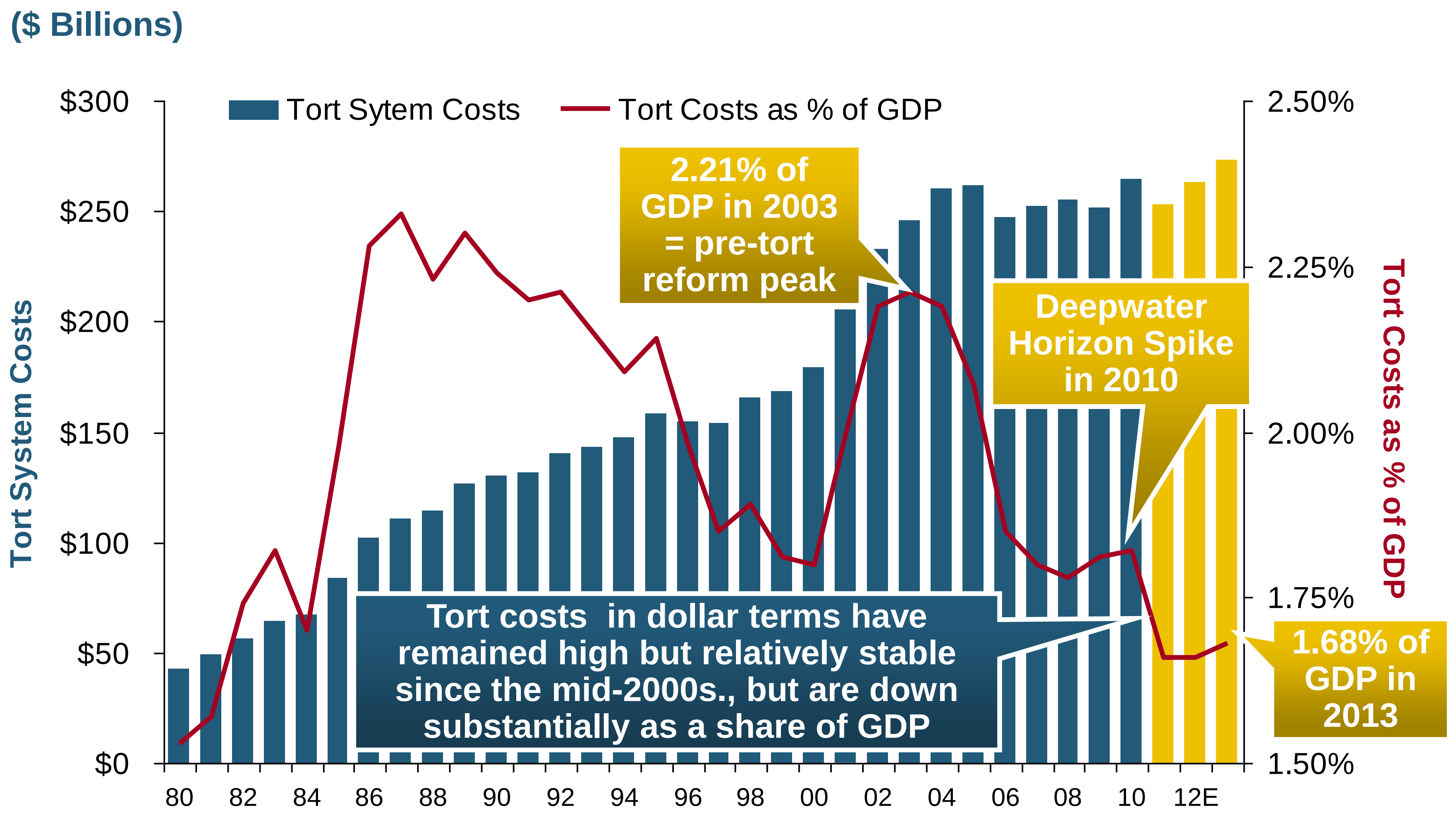
**US domestic reinsurance only

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

Shifting Legal Liability & Tort Environment

Is the Tort Pendulum Swinging Against Insurers?

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



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

Business Leaders Ranking of Liability Systems in 2010

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Best States

1. Delaware
2. North Dakota
3. Nebraska
4. Indiana
5. Iowa
6. Virginia
7. Utah
8. Colorado
9. Massachusetts
10. South Dakota

New in 2010

- North Dakota
- Massachusetts
- South Dakota

Drop-offs

- Maine
- Vermont
- Kansas

Midwest/West has mix of good and bad states.

Worst States

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

Newly Notorious

- New Mexico
- Montana
- Arkansas

Rising Above

- **Texas**
- South Carolina
- Hawaii

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

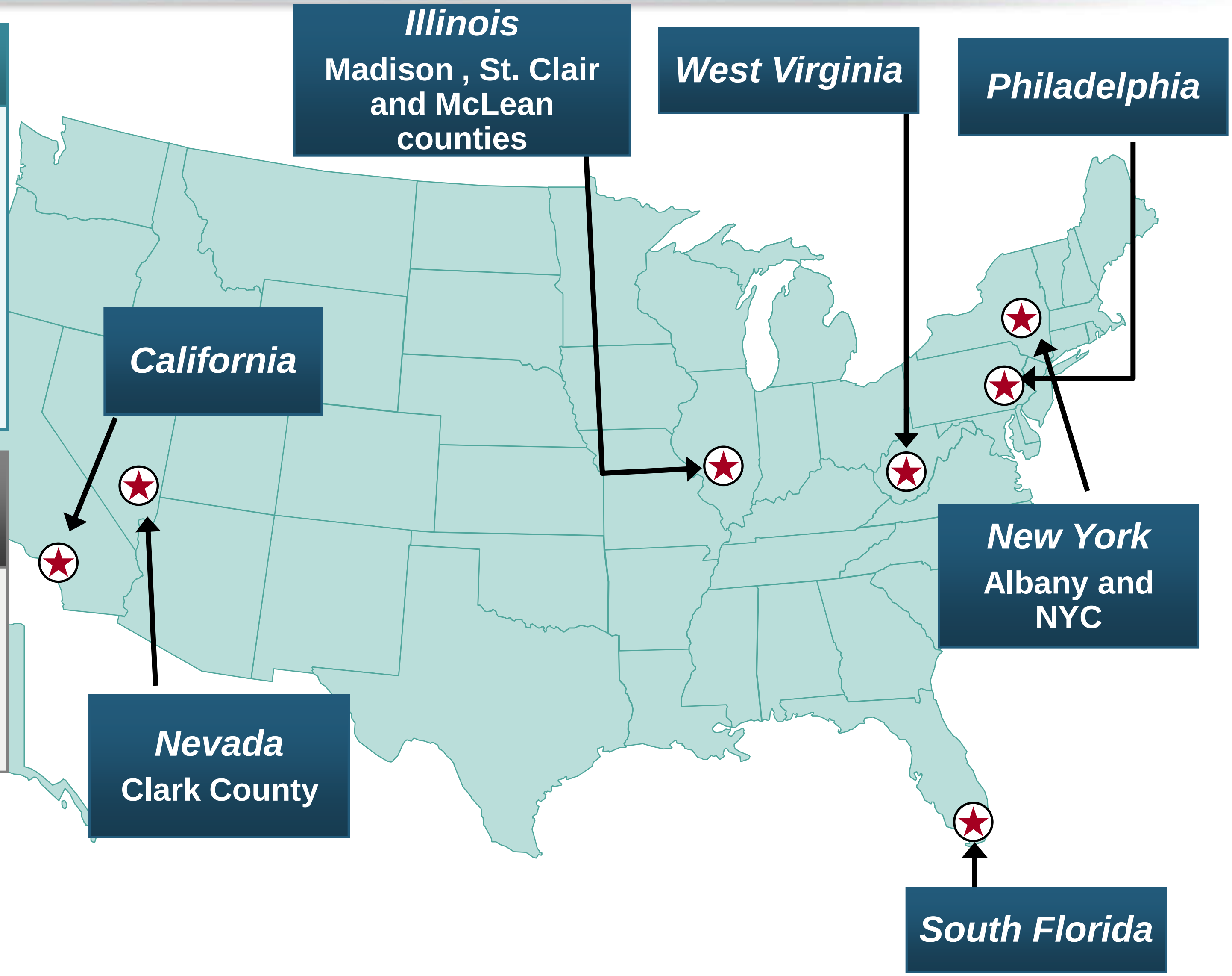
The Nation's Judicial Hellholes: 2011

Watch List

- Eastern District of Texas
- Cook County, IL
- Southern NJ
- Franklin County, AL
- Smith County, MS
- Louisiana

Dishonorable Mention

- MI Supreme Court
- AK Supreme Court
- MO Supreme Court



Source: American Tort Reform Association; Insurance Information Institute

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Inflation

Is it a Threat to Claim Cost Severities

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

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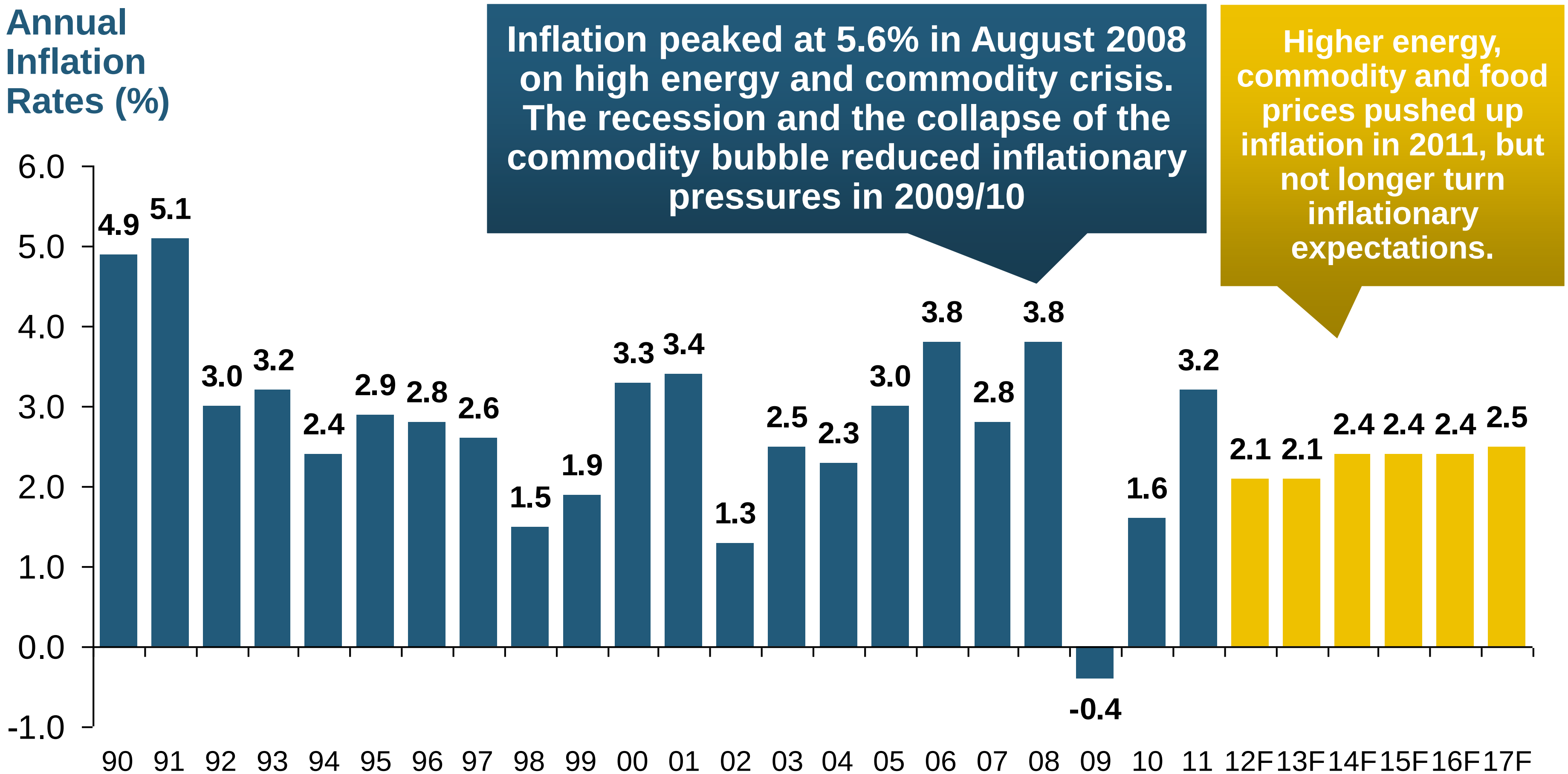
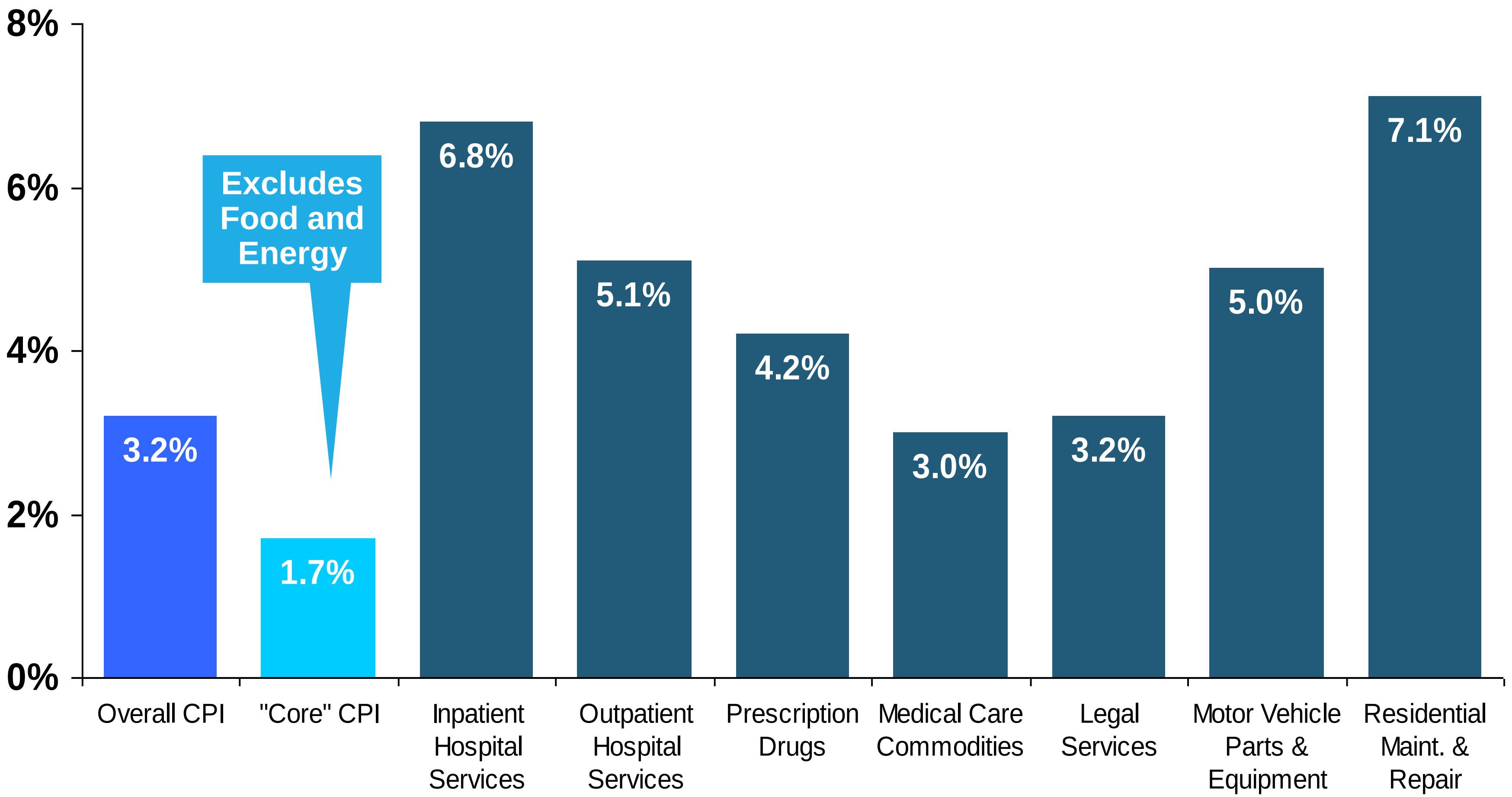


The slack in the U.S. economy suggests that inflationary pressures should remain subdued for an extended period of times. Energy, health care and commodity prices, plus U.S. debt burden, remain longer-run concerns

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators, 10/11 and 1/12 (forecasts).

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

Price Level Change: 2011 vs. 2010



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

Sources: Bureau of Labor Statistics; Insurance Information Institute.

Insurance Information Institute Online:

www.iii.org

Thank you for your time
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