An Industry and Economy in Transition:
Overview and Outlook for US and Ohio
P/C Insurance Markets

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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

- 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*

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

Recession began in Dec. 2007. Economic toll of credit crunch, housing slump, labor market contraction has been severe but modest recovery is underway

2012 is expected to see a steady acceleration in growth continuing into 2013

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 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. Optimism among consumers is recovering, in part due to an improving jobs outlook, after plunging amid the debt debate debacle and S&P downgrade.

Source: University of Michigan; Insurance Information Institute
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

(Millions of Units)

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

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

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

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

The value of Manufacturing Shipments in Dec. 2011 was up 29.0% to $459B from its May 2009 trough. Dec. figure is only 5.3% below its previous record high.

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
Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures

March 2001 through January 2012

Percent of Industrial Capacity

82%
80%
78%
76%
74%
72%
70%
68%
66%

“Full Capacity”

The US operated at 78.5% of industrial capacity in Jan. 2012, above the June 2009 low of 68.3% and close to its post-crisis peak.

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

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

Business Bankruptcy Filings, 1980-2011

2011 bankruptcies totaled 47,806, down 15.1% from 56,282 in 2010—the second consecutive year of decline. Business bankruptcies more than tripled during the financial crisis.

% 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

Business Starts
2006: 872,000
2007: 843,000
2008: 790,000
2009: 697,000
2010: 722,000
2011: 740,000**

Business starts were up 4.5% to 370,000 in the first half of 2011 vs. first half 2011. 722,000 new business starts were recorded in 2010, up 3.6% from 697,000 in 2009, which was the slowest year for new business starts since 1993.

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.
### 12 Industries for the Next 10 Years: Insurance Solutions Needed

<table>
<thead>
<tr>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Care</td>
</tr>
<tr>
<td>Health Sciences</td>
</tr>
<tr>
<td>Energy (Traditional)</td>
</tr>
<tr>
<td>Alternative Energy</td>
</tr>
<tr>
<td>Petrochemical</td>
</tr>
<tr>
<td>Agriculture</td>
</tr>
<tr>
<td>Natural Resources</td>
</tr>
<tr>
<td>Technology (incl. Biotechnology)</td>
</tr>
<tr>
<td>Light Manufacturing</td>
</tr>
<tr>
<td>Insourced Manufacturing</td>
</tr>
<tr>
<td>Export-Oriented Industries</td>
</tr>
<tr>
<td>Shipping (Rail, Marine, Trucking)</td>
</tr>
</tbody>
</table>

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

January 2000 through January 2012, Seasonally Adjusted (%)

Traditional Unemployment Rate U-3
Unemployment + Underemployment Rate U-6

Recession ended in November 2001
Unemployment kept rising for 19 more months
Recession began in December 2007

Unemployment stood at 8.3% in January 2012
Unemployment peaked at 10.1% in October 2009; Stood at 15.1% in Jan. 2012

Unemployment kept rising for 19 more months
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 2008 through January 2012* (Thousands)


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

257,000 private sector jobs were created in January


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

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

2007:Q1 to 2013:Q4F*

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

Unemployment peaked at 10% in late 2009.

Jobless figures have been revised downwards for 2012.

Unemployment forecasts have been revised downwards for 2012 and 2013. Optimistic scenarios put the unemployment as low as 7.7% by Q4 of this year.

* = actual; ** = forecasts

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

December 2007 through January 2012* (Millions)


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)

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Income After Taxes ($ Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>$14,178</td>
</tr>
<tr>
<td>1992</td>
<td>$5,840</td>
</tr>
<tr>
<td>1993</td>
<td>$19,316</td>
</tr>
<tr>
<td>1994</td>
<td>$10,870</td>
</tr>
<tr>
<td>1995</td>
<td>$20,598</td>
</tr>
<tr>
<td>1996</td>
<td>$24,404</td>
</tr>
<tr>
<td>1997</td>
<td>$30,773</td>
</tr>
<tr>
<td>1998</td>
<td>$21,865</td>
</tr>
<tr>
<td>1999</td>
<td>$20,559</td>
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<td>2000</td>
<td>$36</td>
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<td>2001</td>
<td>$30,029</td>
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<td>2002</td>
<td>$38,501</td>
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<td>2003</td>
<td>$43,155</td>
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<td>2004</td>
<td>$65,777</td>
</tr>
<tr>
<td>2005</td>
<td>$62,496</td>
</tr>
<tr>
<td>2006</td>
<td>$3,043</td>
</tr>
<tr>
<td>2007</td>
<td>$34,670</td>
</tr>
<tr>
<td>2008</td>
<td>$7,979</td>
</tr>
<tr>
<td>2009</td>
<td>$28,672</td>
</tr>
<tr>
<td>2010</td>
<td>$3,046</td>
</tr>
<tr>
<td>2011:Q3</td>
<td>$7,979</td>
</tr>
</tbody>
</table>

### ROE Figures
- 2005 ROE* = 9.6%
- 2006 ROE = 12.7%
- 2007 ROE = 10.9%
- 2008 ROE = 0.1%
- 2009 ROE = 5.0%
- 2010 ROE = 5.6%
- 2011:Q3 ROAS\(^1\) = 1.9%

### Notes
- P-C Industry 2011:Q3 profits were down 71% to $8.0B vs. 2010:Q3, due primarily to high catastrophe losses and as non-cat underwriting results deteriorated.
- 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

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

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

* 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.

History suggests next ROE peak will be in 2016-2017

1977: 19.0%
1987: 17.3%
1997: 11.6%
2006: 12.7%
2012F: 6.1%*
2011E: 3.9%
Profitability and Growth in Ohio P/C Insurance Markets

Analysis by Line and Nearby State Comparisons
P/C Insurer profitability in OH is above that of the US overall over the past decade
US: 7.1%
OH: 9.7%
RNW PP Auto: OH vs. U.S., 2001-2010

Average 2001-2010
US: 7.6%
OH: 11.6%

Sources: NAIC.

(Percent)

Average 2001-2010
US: 9.2%
OH: 14.1%

Sources: NAIC.

<table>
<thead>
<tr>
<th>Year</th>
<th>US Comm M-P</th>
<th>OH Comm M-P</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>9.2%</td>
<td>11.2%</td>
</tr>
</tbody>
</table>

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

Average 2001-2010
US: 5.0%
OH: -3.8%

Sources: NAIC.
Ohio All Lines profitability is above the US and regional average.

Source: NAIC, Insurance Information Institute
Ohio PP Auto profitability is above the US and regional average.
# Top Ten Most Expensive And Least Expensive States For Automobile Insurance, 2009 (1)

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

**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.

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.

(Percent)

**Bottom 25 States**

Auto insurance in Ohio is very affordable, consuming just 0.86% of median family income—well below the 1.05% US average.

*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.*
Ohio Commercial Auto profitability is above the US and regional average.
Ohio Commercial Multi-Peril profitability is above the US average and the regional average.
Homeowners: 10-Year Average RNW OH & Nearby States

2001-2010

-10% -5% 0% 5% 10% 15%

Pennsylvania 12.7%
Michigan 6.4%
U.S. 5.0%
West Virginia 4.8%
Ohio -2.6%
Indiana -3.8%
Kentucky -7.1%

Ohio Homeowners profitability is below the US average and the regional average.

Source: NAIC, Insurance Information Institute
### Top Ten Most Expensive And Least Expensive States For Homeowners Insurance, 2009 (1)

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

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

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

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

Source: © 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

Top 25 States

*Average homeowners 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.
Homeowners insurance in Ohio is very affordable, consuming just 0.86% of median family income—well below the 1.17% US average.
All Lines DWP Growth: OH vs. U.S., 2001-2010

Source: SNL Financial.

Average 2001-2010

US: 4.9%
OH: 3.6%

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

Source: SNL Financial.

Average 2001-2010
US: 4.3%
OH: 2.9%
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.

Average 2001-2010
US: 7.6%
OH: 6.9%
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

Number of Events: 820

- Natural catastrophes
- Geophysical events (earthquake, tsunami, volcanic activity)
- Hydrological events (flood, mass movement)
- Selection of significant loss events (see table)
- Meteorological events (storm)
- Climatological events (extreme temperature, drought, wildfire)

Source: MR NatCatSERVICE
Top 16 Most Costly World Insurance Losses, 1970-2011**

(Insured Losses, 2011 Dollars, $ Billions)

*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.

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

5 of the top 14 most expensive catastrophes in world history have occurred within the past 2 years
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

(Insured Losses, 2011 Dollars, $ Billions)

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

Sources: PCS; Insurance Information Institute inflation adjustments.
Natural Disasters in the United States, 1980 – 2011
Number of Events (Annual Totals 1980 – 2011)

There were 117 natural disaster events in 2011

Number


37 8 51 2

Geophysical (earthquake, tsunami, volcanic activity)
Meteorological (storm)
Hydrological (flood, mass movement)
Climatological (temperature extremes, drought, wildfire)

Source: MR NatCatSERVICE
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

- Thunderstorms, Apr. 22-26: $7,300
- Thunderstorms, May 20-27: $6,900
- Hurricane Irene, Aug. 26-28**: $5,000
- Thunderstorms, Apr. 3-5: $2,000
- Thunderstorms, Apr. 8-11: $1,510
- Thunderstorms, Apr. 14-16: $1,400
- Thunderstorms, Jun. 16-22: $1,200
- Texas Drought, 2011*: $1,000
- Thunderstorms, Jul. 10-14: $980
- Winter Storm, Jan. 31-Feb. 3: $975
- Thunderstorms, Aug. 18-19: $840
- Thunderstorms, Apr. 19-20: $830
- Wildfire, Sep. 4-19: $530
- Flooding, April*: $500

**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*

*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.
Thunderstorm losses in 2011 totaled a record $25.8 billion

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

Average thunderstorm losses are up more than 5 fold since the early 1980s

Source: Property Claims Service, MR NatCatSERVICE
Insured winter storm losses in 2011 totaled $2.0 billion. Average winter storm losses have nearly doubled since the early 1980s.
8.3 millions acres were burned by wildfires in 2011, one of the worst years on record, causing $855 in insured losses.
U.S. Insured Catastrophe Losses by Cause of Loss, 2011 ($ Millions)

- Hurricanes & Tropical Storms, $5,510 (72.1%)
- Thunderstorms (Incl. Tornadoes), $25,813 (5.6%)
- Wildfires, $855 (2.8%)
- Other, $1,000 (1.5%)
- Flood, $535 (1.5%)
- Geological Events, $50 (0.1%)
- Winter Storms, $2,017

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
The number of federal disaster declarations set a new record in 2011, with 99, shattering 2010’s record 81 declarations.

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

*Through March 5, 2012.
Over the past nearly 60 years, Texas has had the highest number of Federal Disaster Declarations. 45 federal disasters were declared in OH over the past 60 years—about one every 1.3 years.

Disaster Declarations

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

<table>
<thead>
<tr>
<th>State</th>
<th>Disaster Declarations</th>
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<tr>
<td>ME</td>
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Over the past nearly 60 years, Utah and Rhode Island had the fewest number of Federal Disaster Declarations.
Number of Tornadoes and Related Deaths, 1990 – 2012*

Tornadoes claimed 550 lives in 2011, the most since 1925

There were 1,709 tornadoes recorded in the US in 2011

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

*Through March 6, 2012.
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
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.

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

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)

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

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)

The BIG Question:
When Will the Market Turn?

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

<table>
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<th>Criteria</th>
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<th>Comments</th>
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| 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?
As Recently as 2001, Insurers Paid Out Nearly $1.16 for Every $1 in Earned Premiums

Heavy Use of Reinsurance Lowered Net Losses

Relatively Low CAT Losses, Reserve Releases

Relatively Low CAT Losses, Reserve Releases

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

As of 2001, Insurers Paid Out Nearly $1.16 for Every $1 in Earned Premiums

Combined Ratio Since 1949 (87.6)

Best Combined Ratio Since 1949 (87.6)

Cyclical Deterioration

Avg. CAT Losses, More Reserve Releases

Relatively Low CAT Losses, Reserve Releases

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


Sources: A.M. Best, ISO.
Underwriting Gain (Loss) 1975–2011*

Cumulative underwriting deficit from 1975 through 2010 is $455B

Underwriting losses in 2011 at $34.9 through Q3 will be largest since 2001

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


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

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.

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.
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: 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 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*

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

Source: A.M. Best; Insurance Information Institute

Commercial lines underwriting performance in 2011 was the worst since 2002.
2. SURPLUS/CAPITAL/CAPACITY

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

A.M. Best is predicting year-end 2011 surplus was down just 1.7% and that surplus will increase sharply by 8.4% in 2012.

Surplus as of 9/30/11 was down 4.6% below its all time record high of $564.7B set as of 3/31/11. Further declines are possible.

Quarterly Surplus Changes Since 2011:Q1 Peak

11:Q2: -$5.6B (-1.0%)  11:Q3: -$26.1B (-4.6%)

The Industry now has $1 of surplus for every $0.83 of NPW, close to the strongest claims-paying status in its history.

*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*

P/C M&A activity in 2011 is up 60% since 2008, its highest level (in $ terms) since 2008

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.
3. REINSURANCE MARKET CONDITIONS

Record Global Catastrophes Activity is Pressuring Pricing
Global Property Catastrophe Rate on Line Index, 1990—2012 (as of Jan. 1)

Property-Cat reinsurance pricing is up about 8% as of 1/1/12—modest relative to the level CAT losses.

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.
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?

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

NWP was up 3.5% (est.) in 2011

2012 expected growth is 3.8%

*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.
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)

Pricing as of Q3:2011 was positive for the first time since 2003. Slightly stronger gains in Q4.

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

Source: Council of Insurance Agents & Brokers (1Q04-4Q11); Insurance Information Institute
Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2011:Q4

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

Pricing turned positive (+0.9%) in Q3:2011, the first increase in nearly 8 years; Q4:2011 renewals were up 2.8%.

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

Peak = 2001:Q4 +28.5%

Trough = 2007:Q3 -13.6%
Change in Commercial Rate Renewals, by Line: 2011:Q4

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

Property lines are showing larger increases than casualty lines, with the exception of workers compensation.

Percentage Change (%)

Surety: 0.8%
EPL: 2.0%
Comml Auto: 2.0%
D&O: 2.1%
General Liability: 2.2%
Umbrella: 2.3%
Construction: 2.7%
Bus. Interruption: 3.0%
Commercial Property: 5.7%
Workers Comp: 7.5%

Source: Council of Insurance Agents and Brokers; Insurance Information Institute.
Direct Premiums Written: All P/C Lines
Percent Change by State, 2005-2010

Top 25 States

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

West Virginia premium growth was among the fastest in the US in recent years…

Sources: SNL Financial LC.; Insurance Information Institute.
States with the poorest performing economies also produced the most negative net change in premiums of the past 5 years.

OH premiums shrank more than the US overall in recent years.

US Direct Premiums Written declined by 1.6% between 2005 and 2010.
INVESTMENTS: THE NEW REALITY

Investment Performance is a Key Driver of Profitability

*Does It Influence Underwriting or Cyclicality?*
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.

*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 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.

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

**Best States**

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

**Worst States**

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

**New in 2010**

- North Dakota
- Massachusetts
- South Dakota

**Drop-offs**

- Maine
- Vermont
- Kansas

**Midwest/West has mix of good and bad states.**

**Newly Notorious**

- New Mexico
- Montana
- Arkansas

**Rising Above**

- Texas
- South Carolina
- Hawaii

Inflation

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

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.

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 turn inflationary expectations.

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

Thank you for your time and your attention!

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