Catastrophes, Cyclicality and the Economy

Property/Casualty Insurance at the Crossroads

Insurance Information Institute
January 20, 2012

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Presentation Outline

- Review of Recent Events
  - What in the World is Going On?
- Summary of P/C Financial Performance
- Catastrophe Loss Developments & Trends
  - US, Global
- Will the Market Turn? Four Necessary Criteria:
  - Underwriting Loss Trends
  - Capital/Capacity
  - Reinsurance Markets
  - Pricing Discipline
- Other Contributing Factors to the Underwriting Cycle
  - Investment Environment
  - Tort/Casualty Environment
  - Inflation
- Economic Overview & Outlook
- Q&A

What in the World Is Going On?

Is the World Becoming a Riskier Place?

What Are the Implications for Insurance and Risk Management?

We Are Living in an Age of Elevated Global Economic Uncertainty

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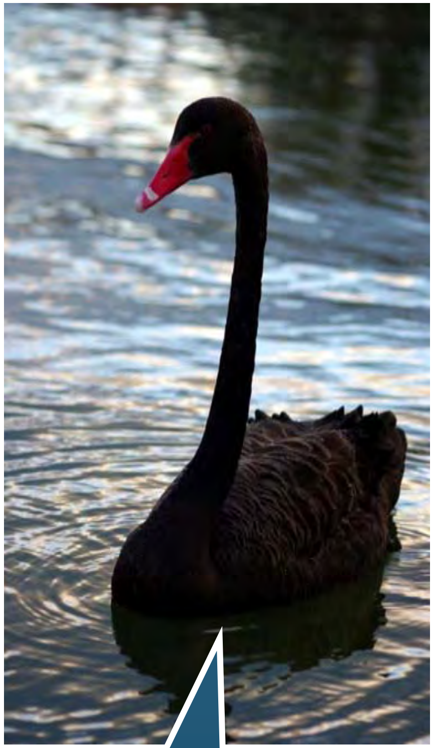
ECONOMIC & POLITICAL CONCERNS

- European Sovereign Debt, Bank & Currency Crises
- Global Economic Slowdown
- Echoes of the Financial Crisis & Financial Market Volatility
- Collapse of Major Financial Institutions
- U.S. Debt and Budget Crisis, S&P Downgrade & Tax Uncertainty
- Housing Crisis
- Persistently High Unemployment
- Inflation/Deflation
- Energy & Commodity Prices Volatility
- Political Upheaval in the Middle East (Arab Spring, Iran)
- Regulation & Regulatory Uncertainty
- New World Order: China's Economic and Military Ascendency
- 2012 US Elections & Political Brinksmanship

CATASTROPHIC LOSS

- Japan, New Zealand, Chile, Haiti Earthquakes
- Nuclear Fears (Japan, Germany, US)
- Floods (Thailand, US)
- U.S.: Tornadoes, Flooding, Wildfires, Hurricanes, Winter Storms
- Manmade Disasters (e.g., Deepwater Horizon)
- Cyber Attacks
- Resurgent Terrorism Risk (Bin Laden, Gadhafi, Kim Jong Il deaths)



Are "Black Swans" everywhere or does it just seem that way?

What is Going On in the US and Global Financial Markets?

1. **Need for a Binding, Comprehensive Solution to Europe's Debt Problems**
   - 15 of 17 Eurozone countries put on negative credit watch by S&P on Dec. 5
   - Current requires construction of a "fiscal union" to save Euro monetary union
   - Requires rewriting EU treaties to mandate strict Debt/GDP ratios (3%) with sanctions to be imposed on violators
   - Short-term Europe needs to build a financial "Firewall" (larger bailout fund) around Italy, Spain, Ireland, Portugal to avoid another "Big, Fat Greek Debt Disaster"
   - Solution: Unified strategy similar to TARP; Monetary easing; Binding fiscal pact
   - OUTCOME: Europeans will eventually stumble into a resolution
2. **Realization that US Economic Growth Will Remain Lackluster**
   - Q1 GDP just 0.4%; Q2 only 1.3%; Q3 still a subpar 1.8%; Acceleration likely
   - Job growth has been anemic for months and unemployment remains high at 8.5%
   - Markets remain extremely volatile and jittery; Housing/Debt hangover
   - OUTCOME: Tepid growth in the 2% - 2.5% range in 2012; Unemployment: 8% - 8.5%
3. **View that Washington is Dysfunctional and "Rudderless"**
   - Lack of coherent, consistent medium and long term plan to deal with basic structural issues in the US economy (debt, taxes, employment, regulation, etc.)
   - No confidence that 2012 political cycle will resolve these problems
4. **Economic Slowdown in Emerging Markets**
   - China, other economies less able to stimulate global economy than in 2008

Déjà Vu? Lehman II?
Is This 2008 All Over Again?

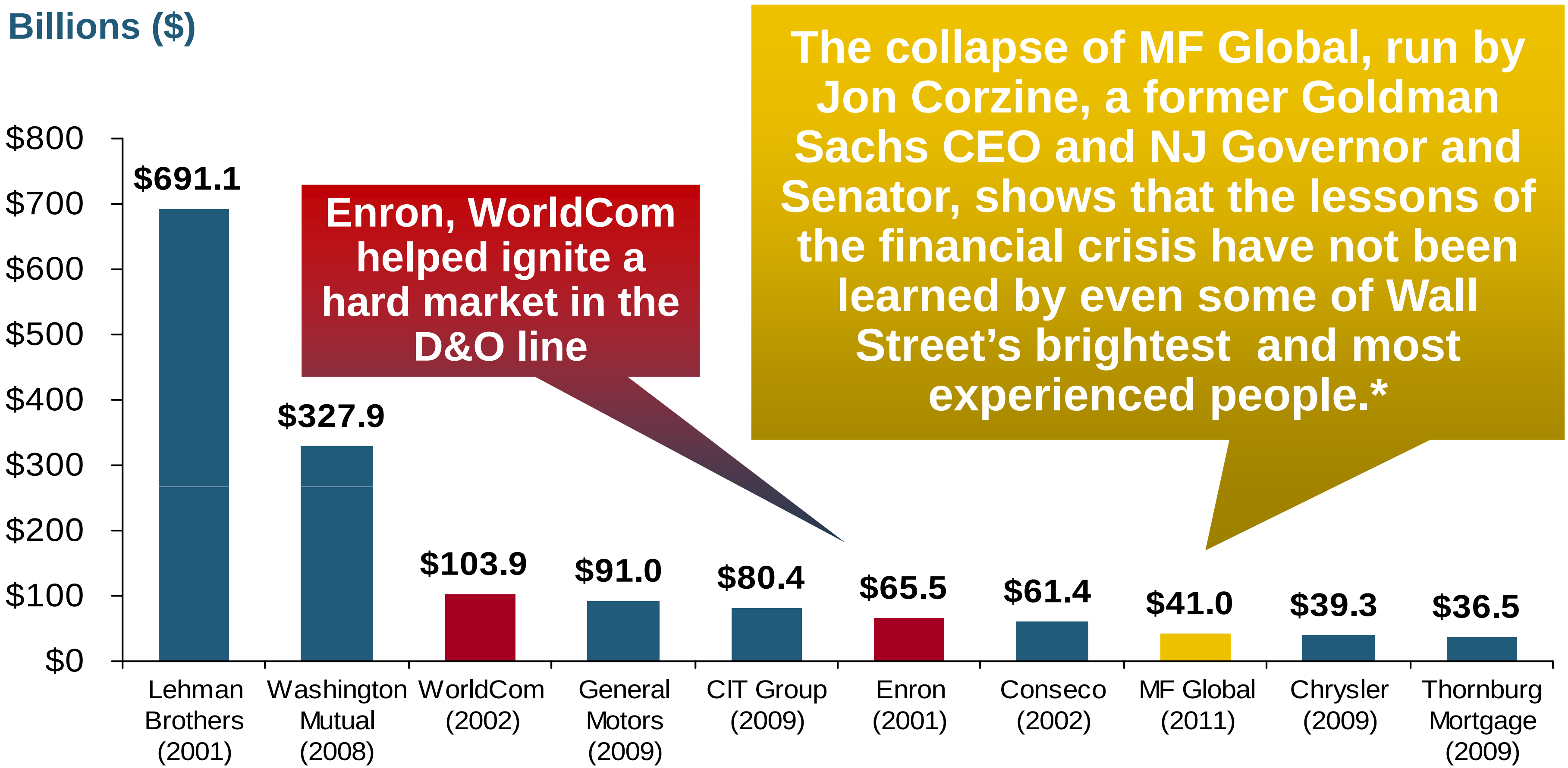
Why Today is Not 2008 All Over Again

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

What Would Be Helpful Now?

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

Top 10 US Corporate Bankruptcies, by Asset Size



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

*MF Global filed for bankruptcy on October 31, 2011.

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

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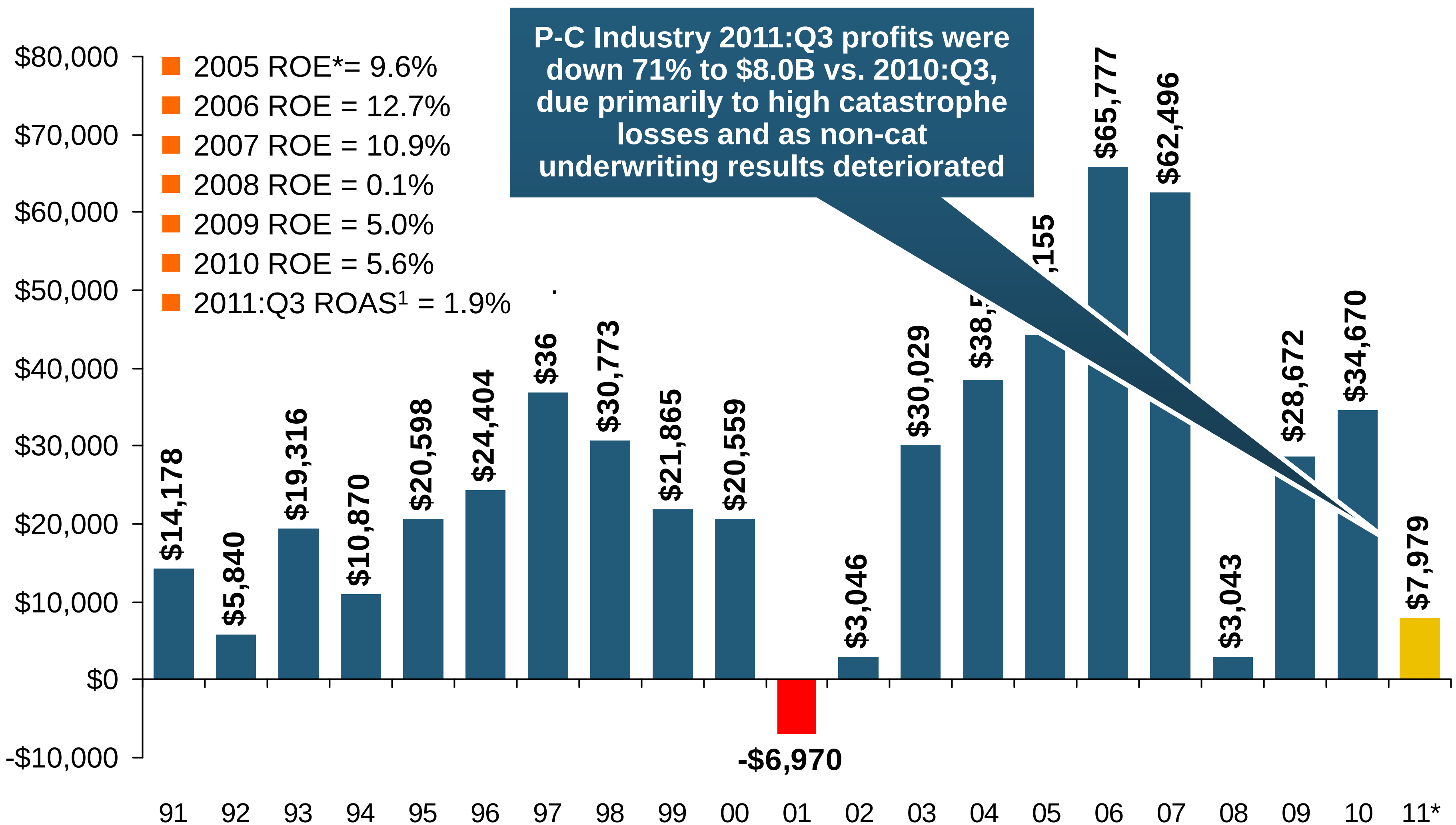
P/C Insurance Industry Financial Overview

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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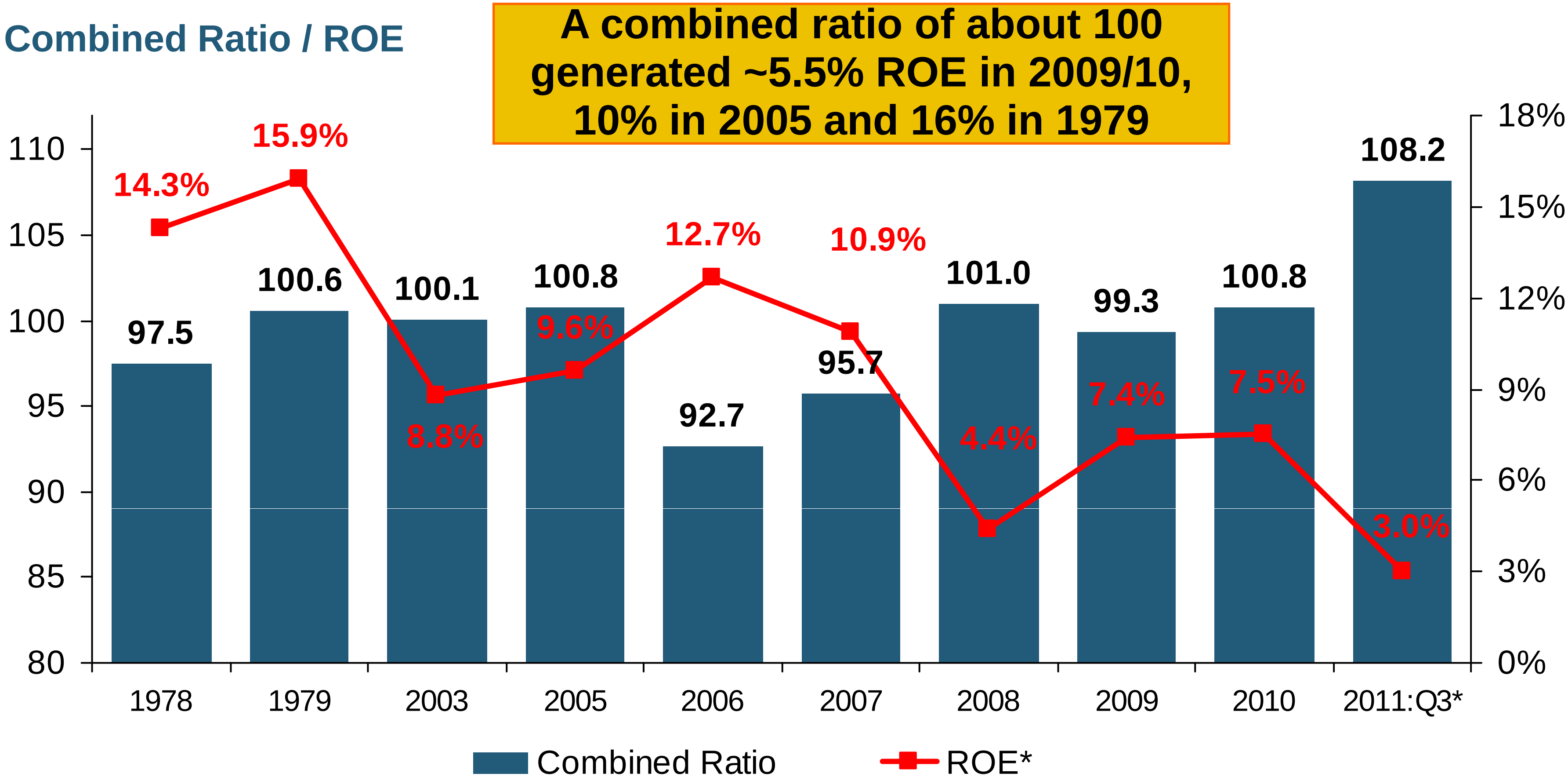
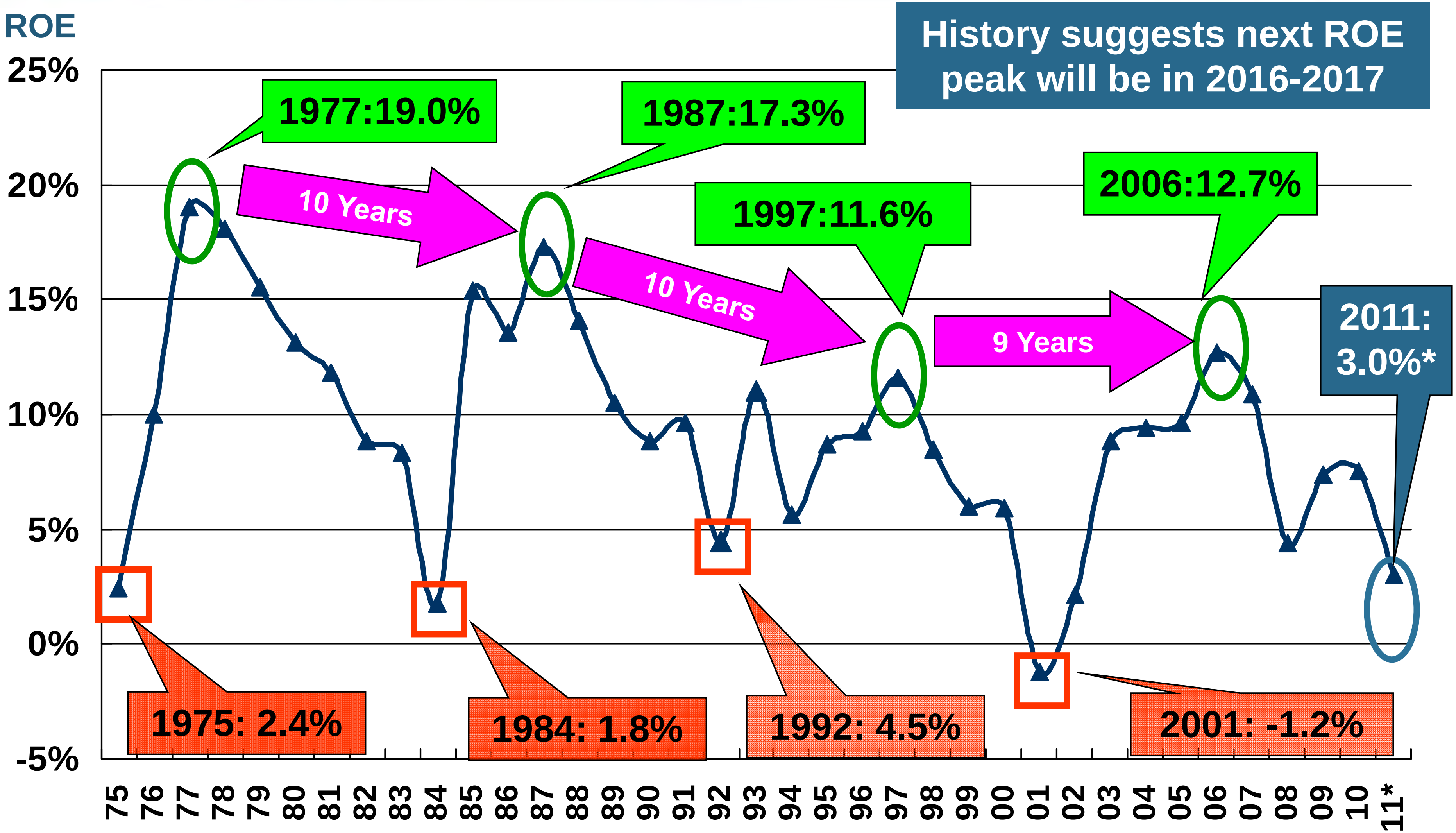


Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2008 -2011 figures are return on average surplus and exclude mortgage and financial guaranty insurers. 2011:Q3 combined ratio including M&FG insurers is 109.9, ROAS = 1.9%.

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

Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2011*



*Profitability = P/C insurer ROEs are I.I.I. estimates. 2011 figure is an estimate based on annualized ROAS through Q3 data.
Note: Data for 2008-2011 exclude mortgage and financial guaranty insurers. For 2011:Q3 ROAS = 1.9% including M&FG.
Source: Insurance Information Institute; NAIC, ISO, A.M. Best.

ROE: Property/Casualty Insurance vs. Fortune 500, 1987–2011:Q3*

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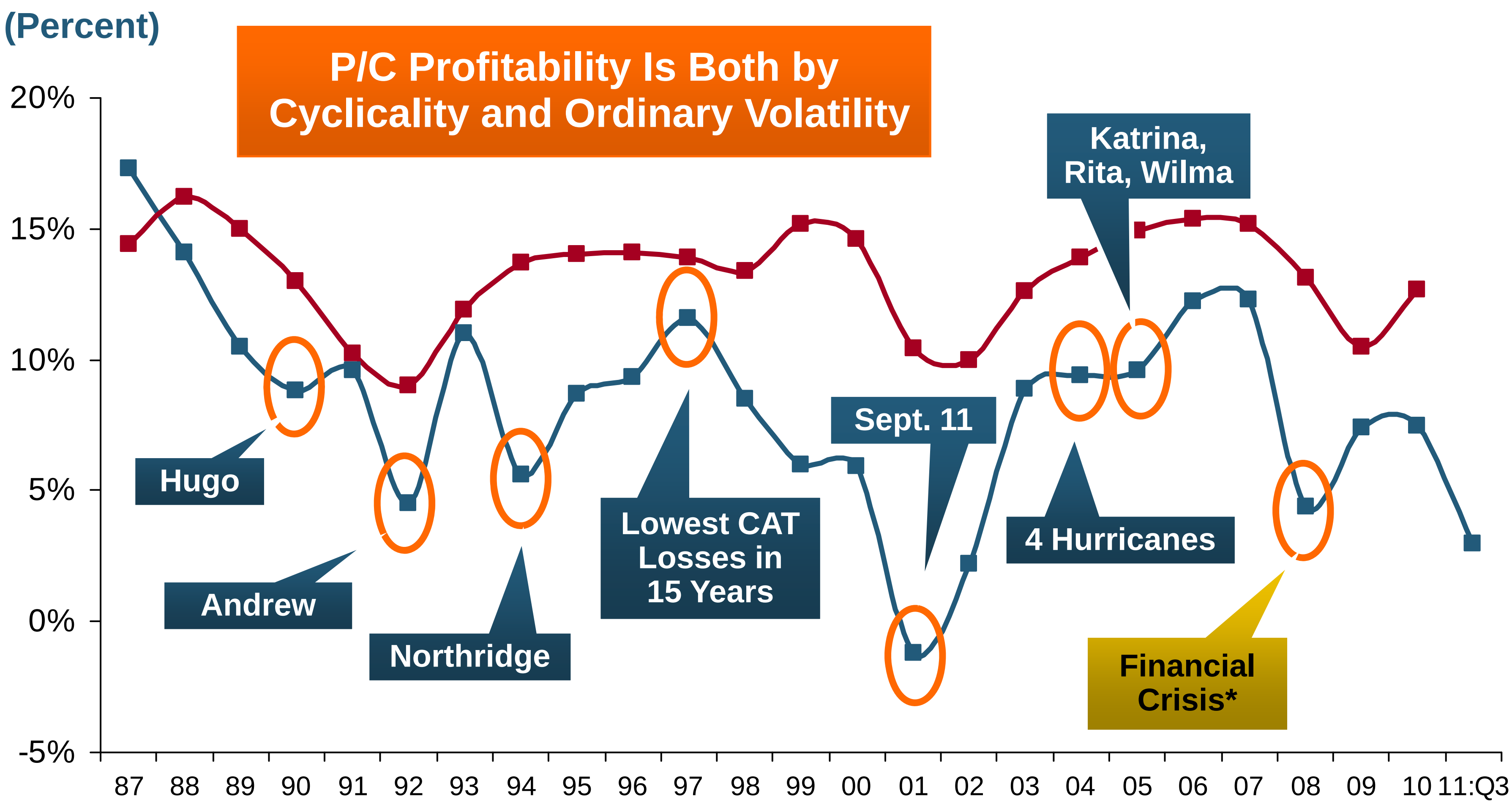
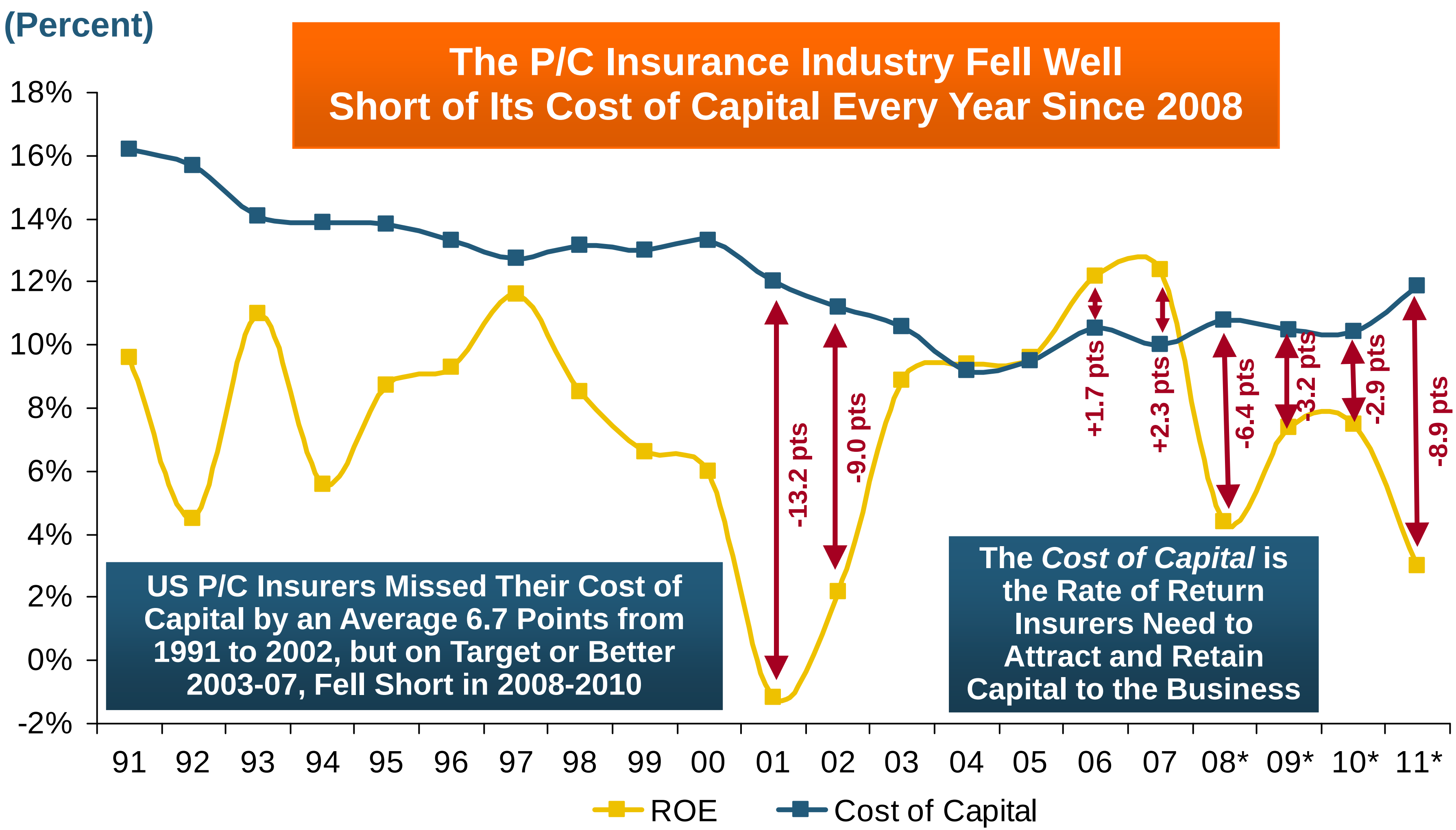


* Excludes Mortgage & Financial Guarantee in 2008 - 2011.
Sources: ISO, *Fortune*; Insurance Information Institute.

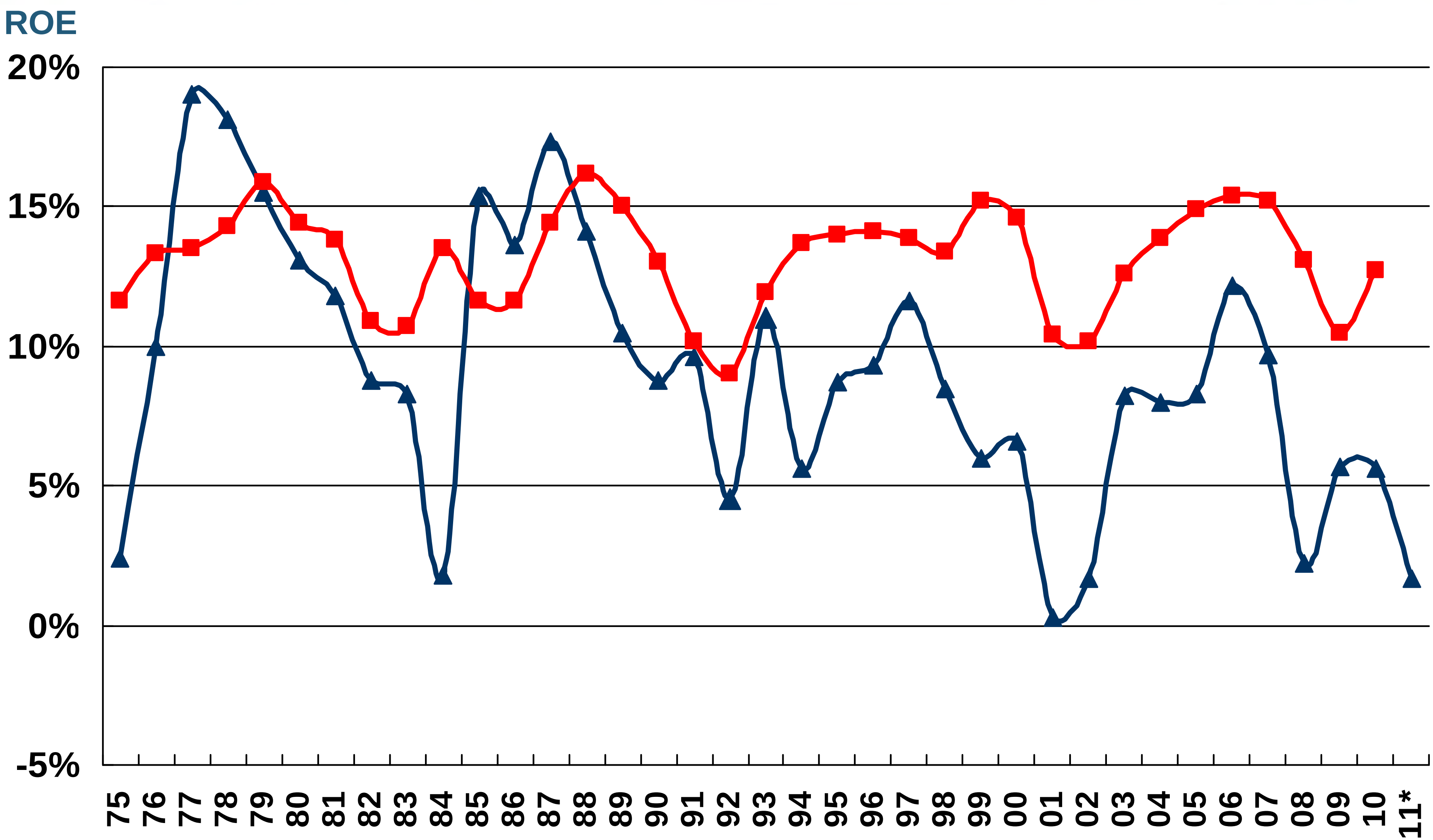
ROE vs. Equity Cost of Capital: U.S. P/C Insurance:1991-2011*



* Return on average surplus used as proxy for ROE in 2008-2011 and excluding mortgage and financial guaranty insurers for these years. Change in model methodology in 2011 increased cost of capital by approximately 90 basis points.

Source: The Geneva Association, Insurance Information Institute

P/C Insurance Industry ROE vs. Fortune 500, 1975 – 2011*



For 2011:H1 ROAS.

Source: Insurance Information Institute; NAIC, ISO.

Global Catastrophe Loss Developments and Trends

2011 Will Rewrite 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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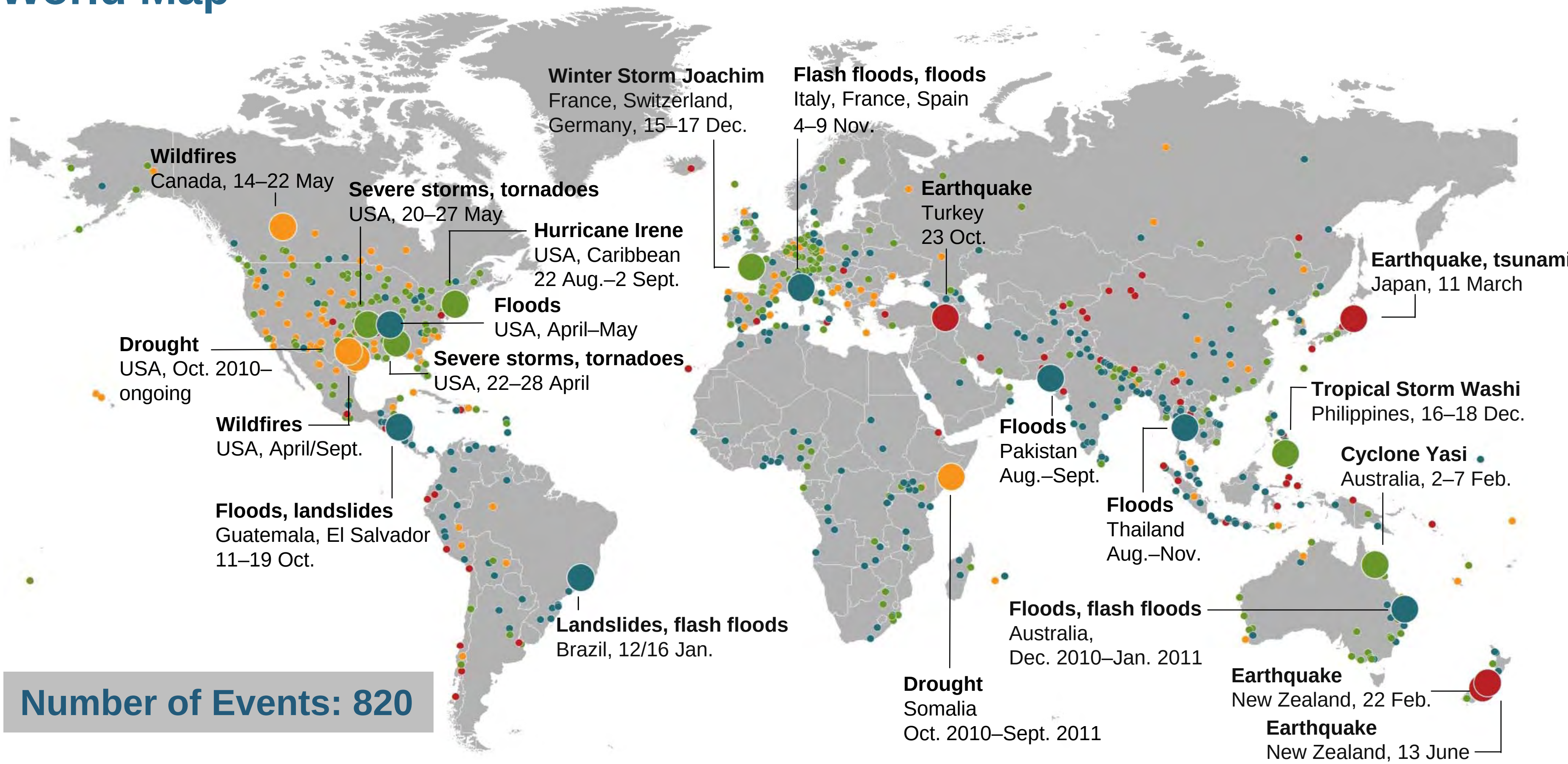
World Map



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 NatCat*SERVICE*

Natural Catastrophes Worldwide, 2011

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Overview and Comparison with Previous Years

	2011	2010	Average of the last 10 years 2001-2010	Average of the last 30 years 1981-2010	Top Year 1981-2010
Number of events	820	970	790	630	**2007 (1,025)**
Overall losses in US$ m (original values)	380,000	152,000	113,000	75,000	**2005 (227,000)**
Insured losses in US$ m (original values)	105,000	42,000	35,000	19,000	**2005 (101,000)**
Fatalities	27,000	296,000	106,000	69,000	**2010 (296,000)**

Source: MR NatCat*SERVICE*

5 Costliest Natural Catastrophes Worldwide in Terms of Insured Losses, 2011 ($Mill)

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Date	Region	Event	Fatalities	Overall losses US$ m	Insured losses US$ m
March 11	Japan	Earthquake, tsunami	15,840	210,000	35,000-40,000
Feb. 22	New Zealand	Earthquake	181	16,000	13,000
Aug. 1 – Nov. 15	Thailand	Floods, landslides	813	40,000	10,000
Apr. 22-28	USA	Severe storms/ tornadoes	350	15,000	7,300
Aug. 22 - Sep. 2	USA, Caribbean	Hurricane Irene	55	15,000	7,000

Source: MR NatCat*SERVICE*

Natural Catastrophes Worldwide 2011

Insured losses US$ 105bn - Percentage distribution per continent

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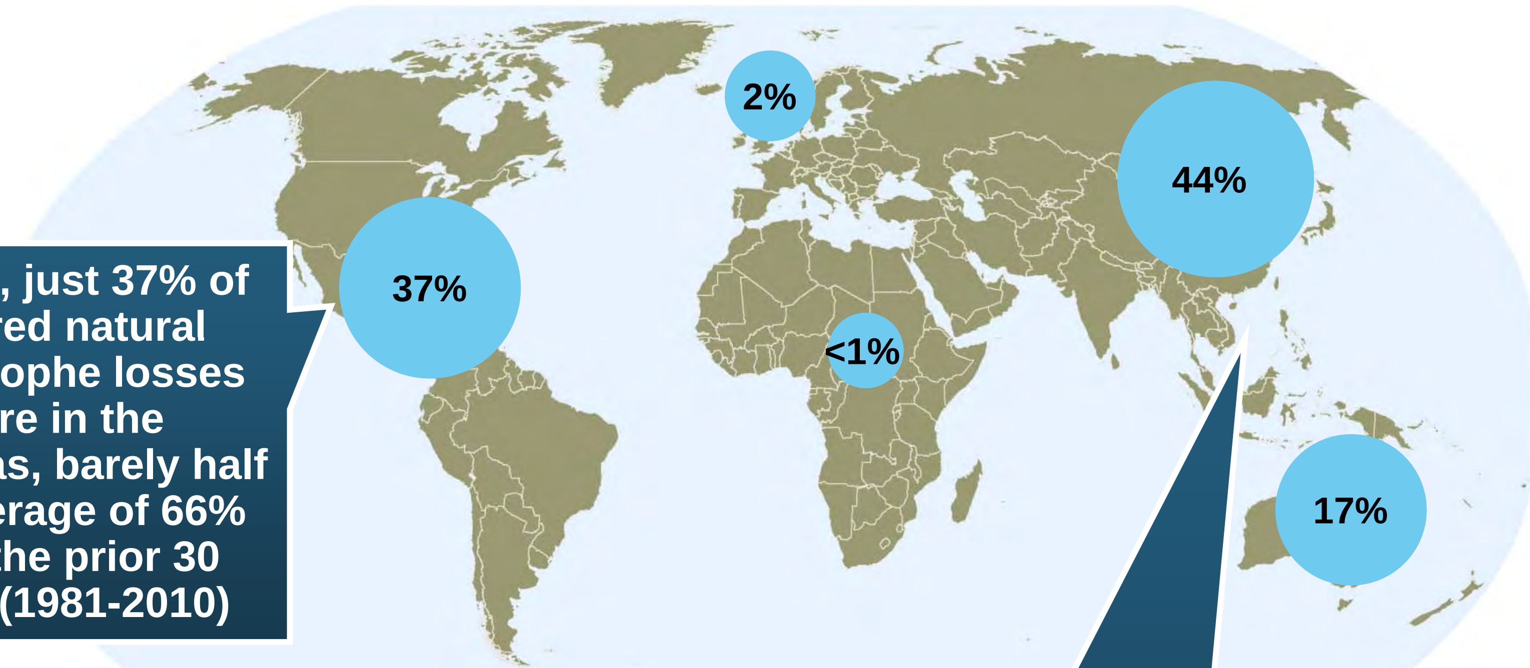

In 2011, just 37% of insured natural catastrophe losses were in the Americas, barely half the average of 66% over the prior 30 years (1981-2010)

Continent	Insured losses US$ m
America (North and South America)	40,000
Europe	2,000
Africa	Minor damages
Asia	45,000
Australia / Oceania	18,000

In 2011, 61% of insured natural catastrophe losses were in the Asia/Pacific region, nearly 3.5 times the average of 13% over the prior 30 years (1981-2010)

Source: MR NatCat*SERVICE*

Natural Catastrophes Worldwide 1980 – 2011
Insured losses US$ 870bn - Percentage distribution per continent

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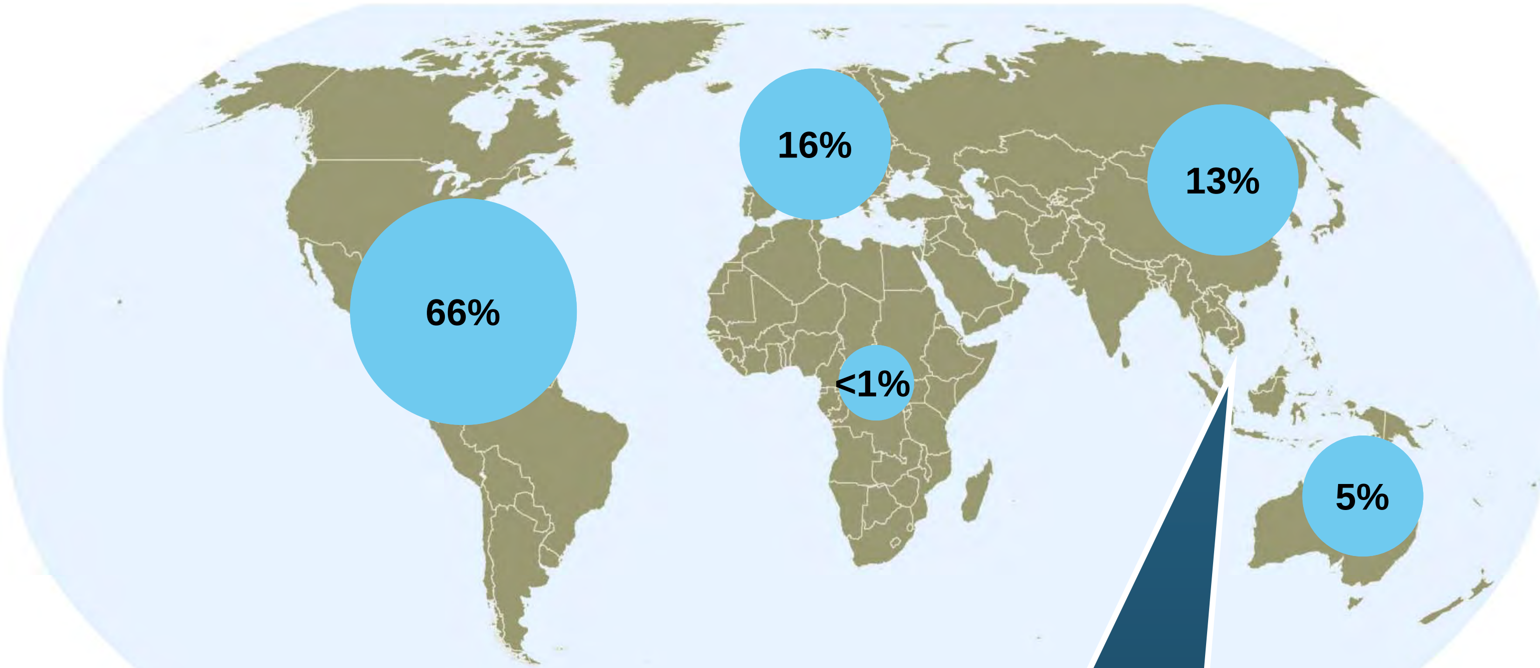

Continent	Insured losses US$ m
America (North and South America)	566,000
Europe	146,000
Africa	2,000
Asia	115,000
Australia / Oceania	41,000

In 2011, 61% of natural catastrophe losses were in the Asia/Pacific region, nearly 3.5 times the average of 13% over the prior 30 years (1981-2010)

Source: MR NatCat*SERVICE*

Natural Catastrophes in Asia 1980 – 2011

Overall and insured losses in 2011 Dollars

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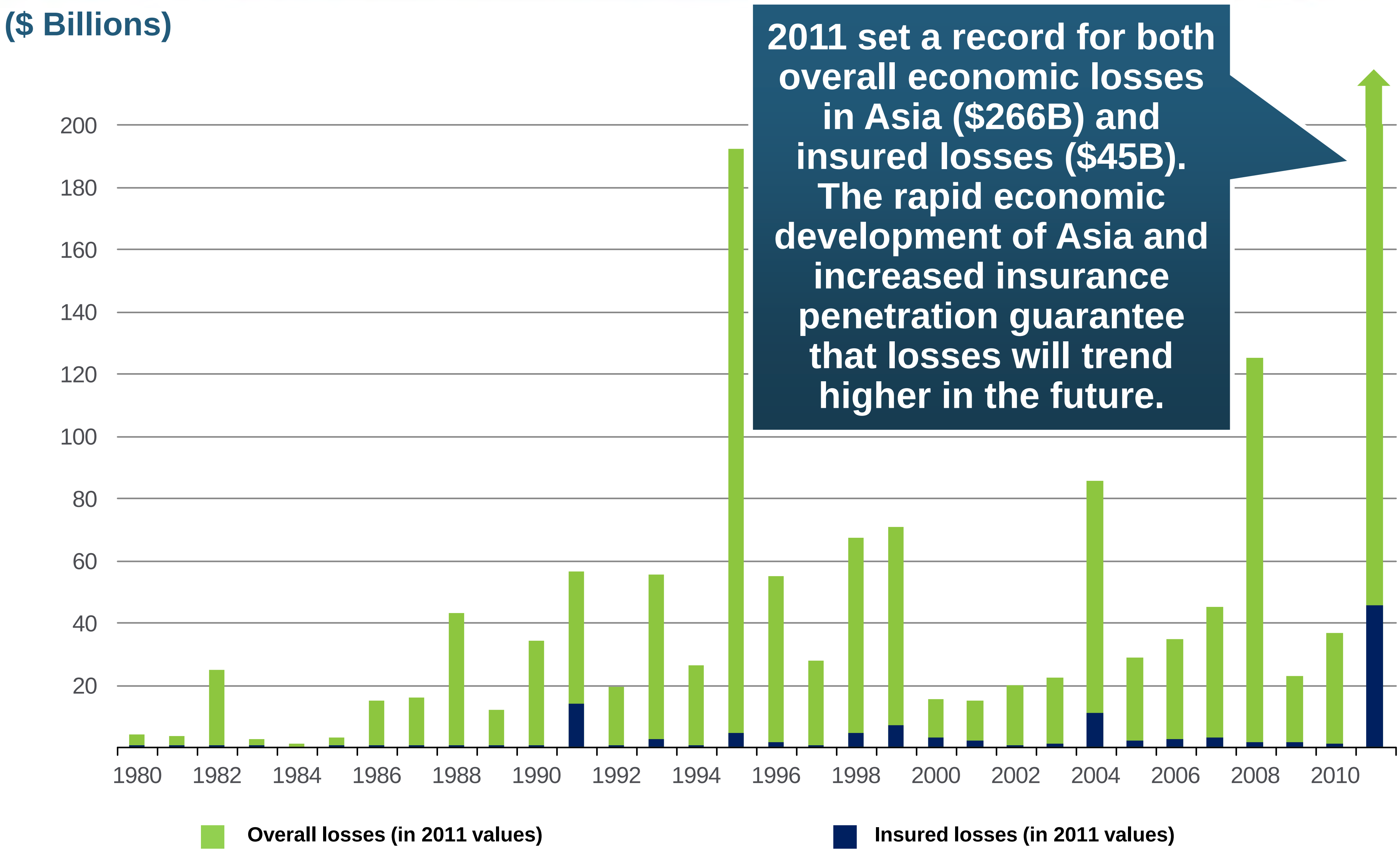

Source: MR NatCat*SERVICE*

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

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(Insured Losses, 2011 Dollars, $ Billions)

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

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

*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.

Worldwide Natural Disasters, 1980 – 2011

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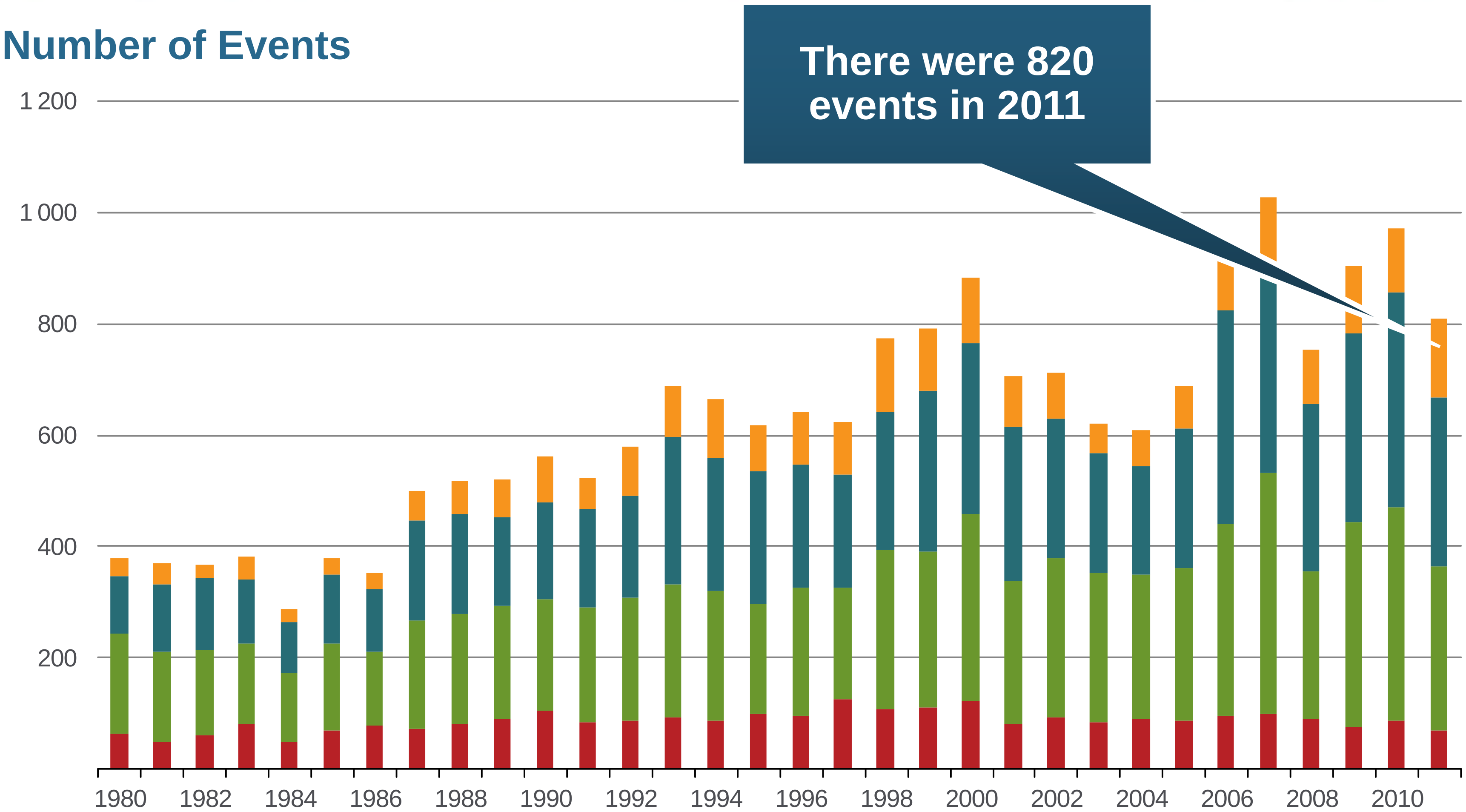


Geophysical events (Earthquake, tsunami, volcanic eruption)

Meteorological events (Storm)

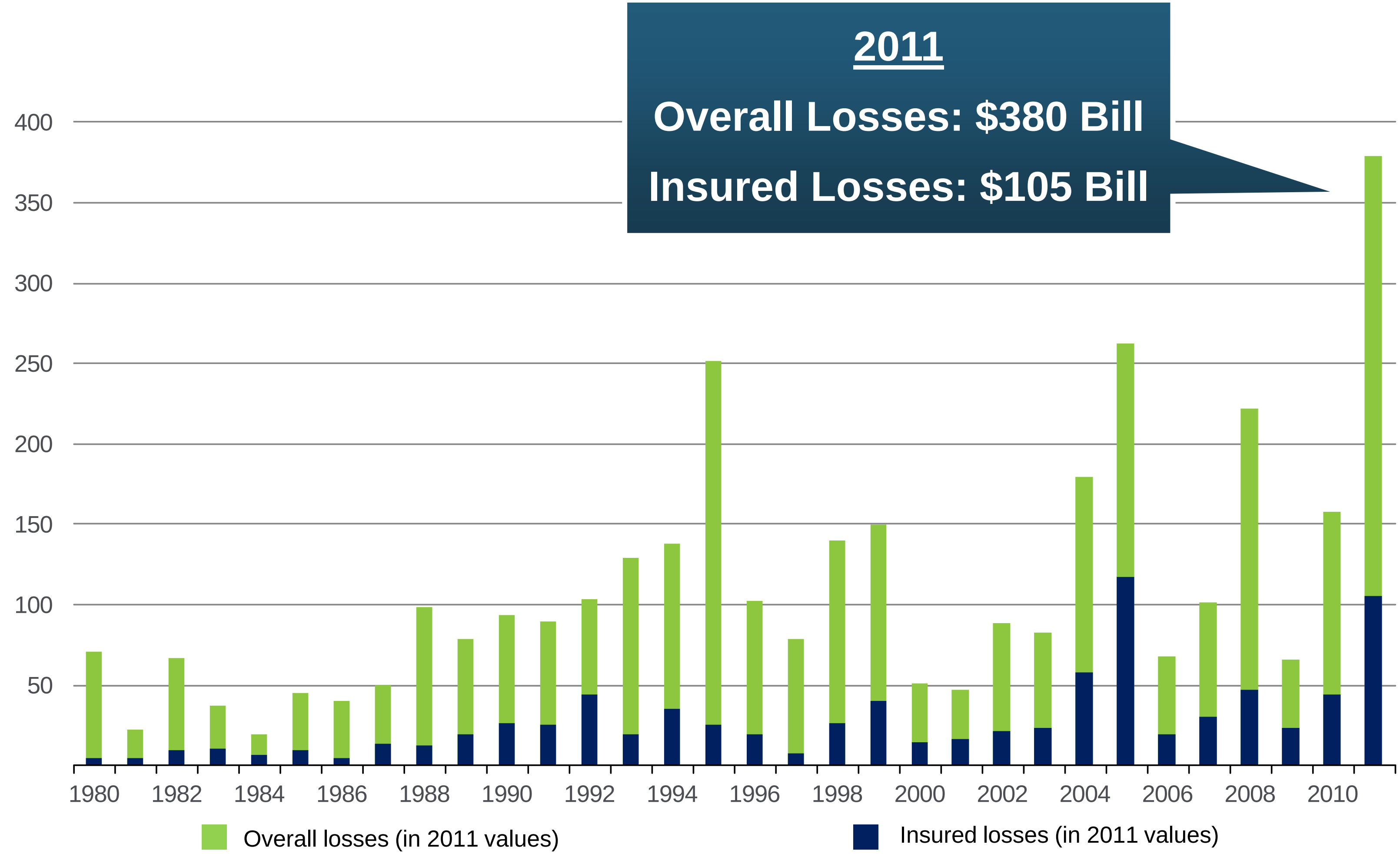
Hydrological events (Flood, mass movement)

Climatological events (Extreme temperature, drought, forest fire)

Source: MR NatCat*SERVICE*

Worldwide Natural Disasters 1980–2011, Overall and Insured Losses

(Insured Losses, 2011 Dollars, $ Billions)



Source: MR NatCat*SERVICE*

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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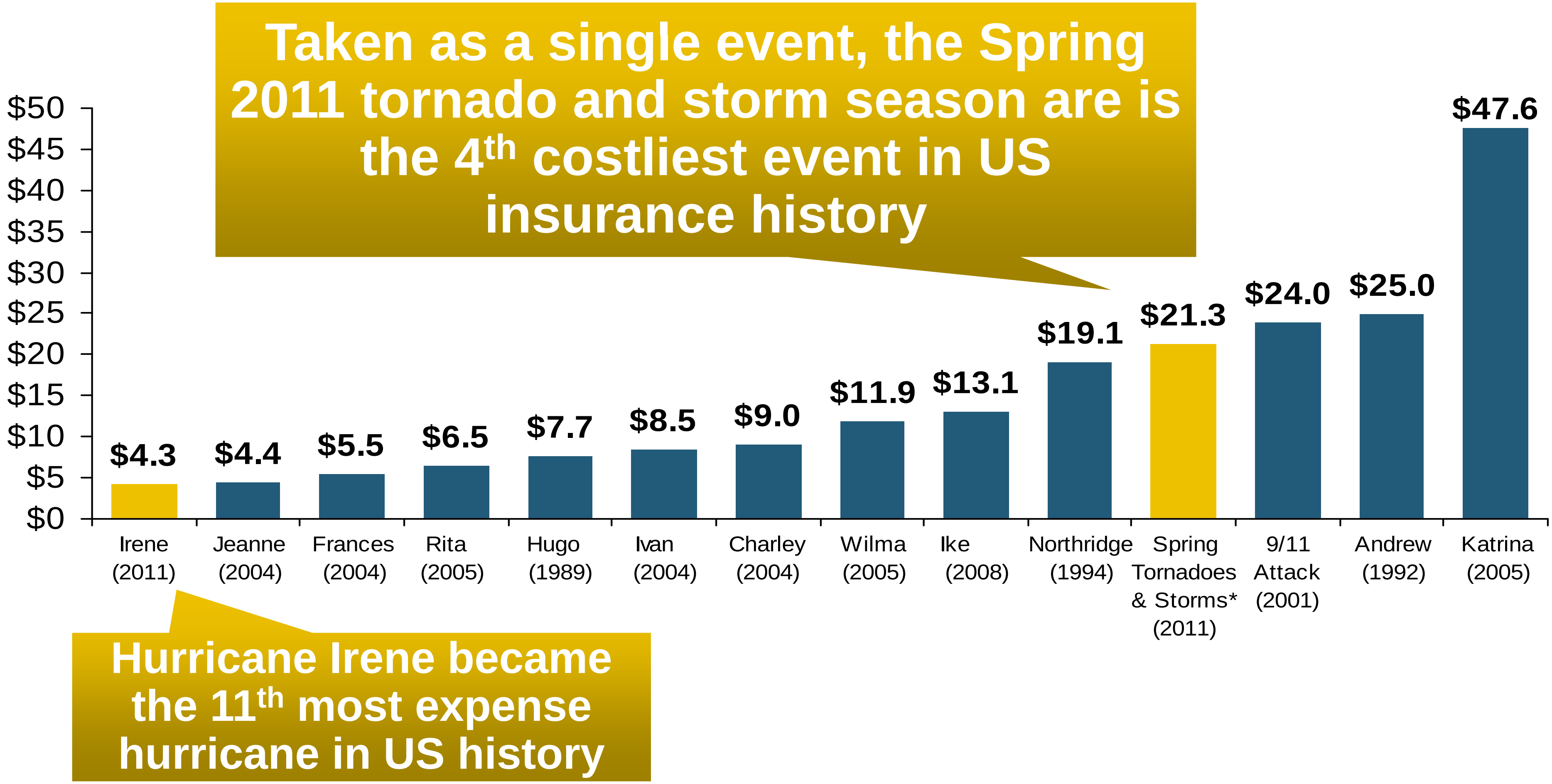
(Insured Losses, 2011 Dollars, $ Billions)

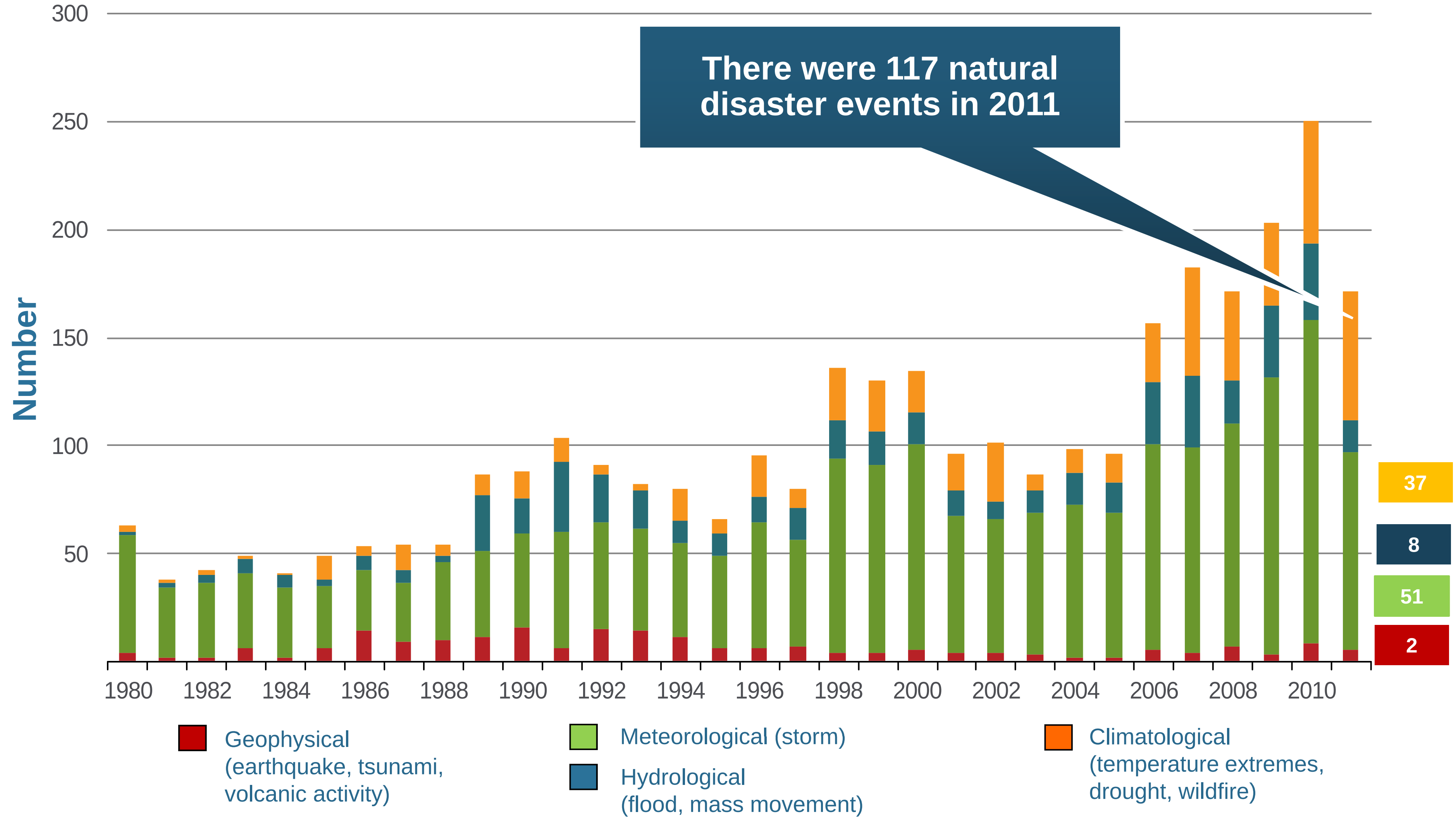


*Losses will actually be broken down into several "events" as determined by PCS. Includes losses for the period April 1 – June 30.

Sources: PCS; Insurance Information Institute inflation adjustments.

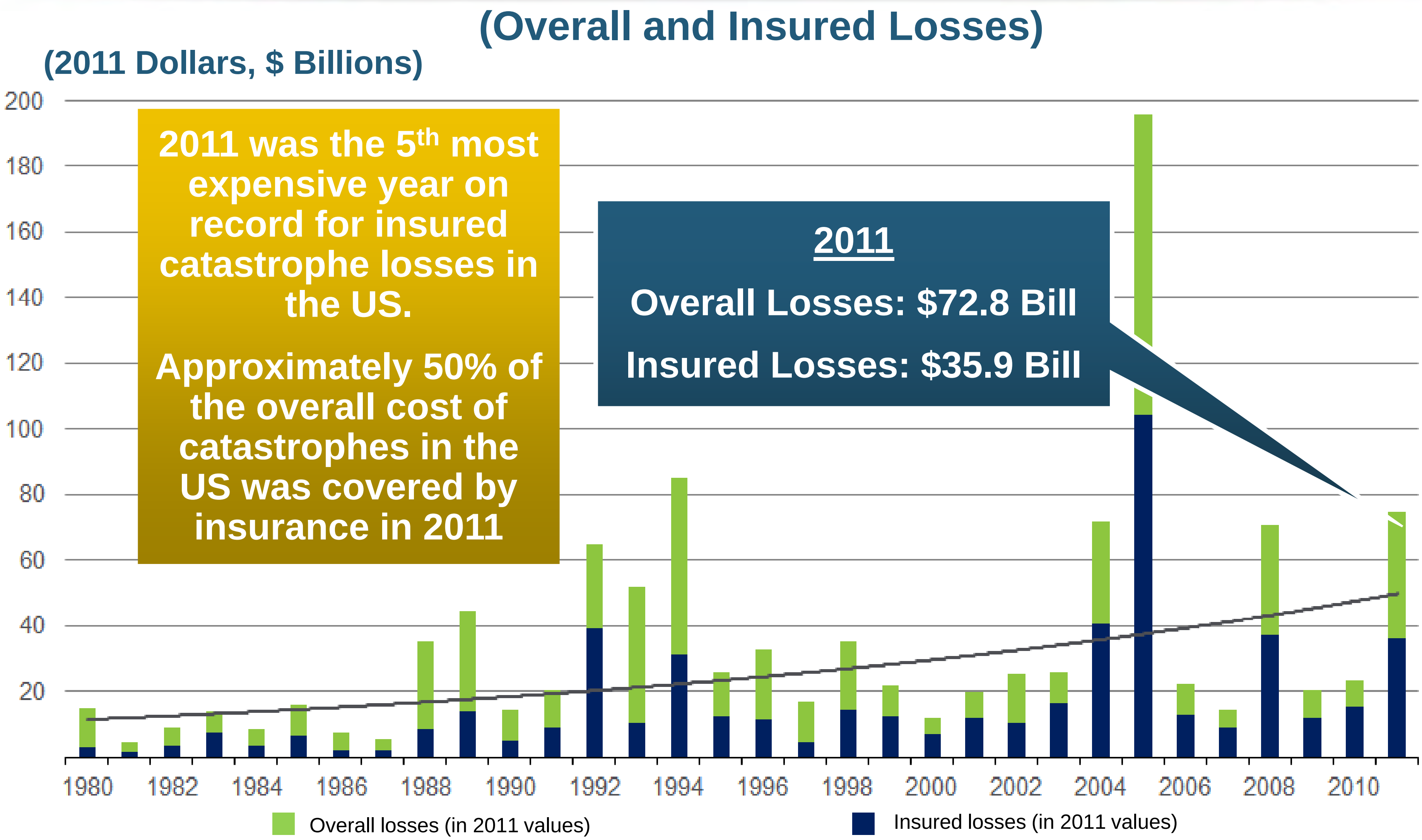
Natural Disasters in the United States, 1980 – 2011

Number of Events (Annual Totals 1980 – 2011)



Source: MR NatCat*SERVICE*

Losses Due to Natural Disasters in the US, 1980–2011 (Overall & Insured Losses)



Source: MR NatCat*SERVICE*

US Insured Catastrophe Losses

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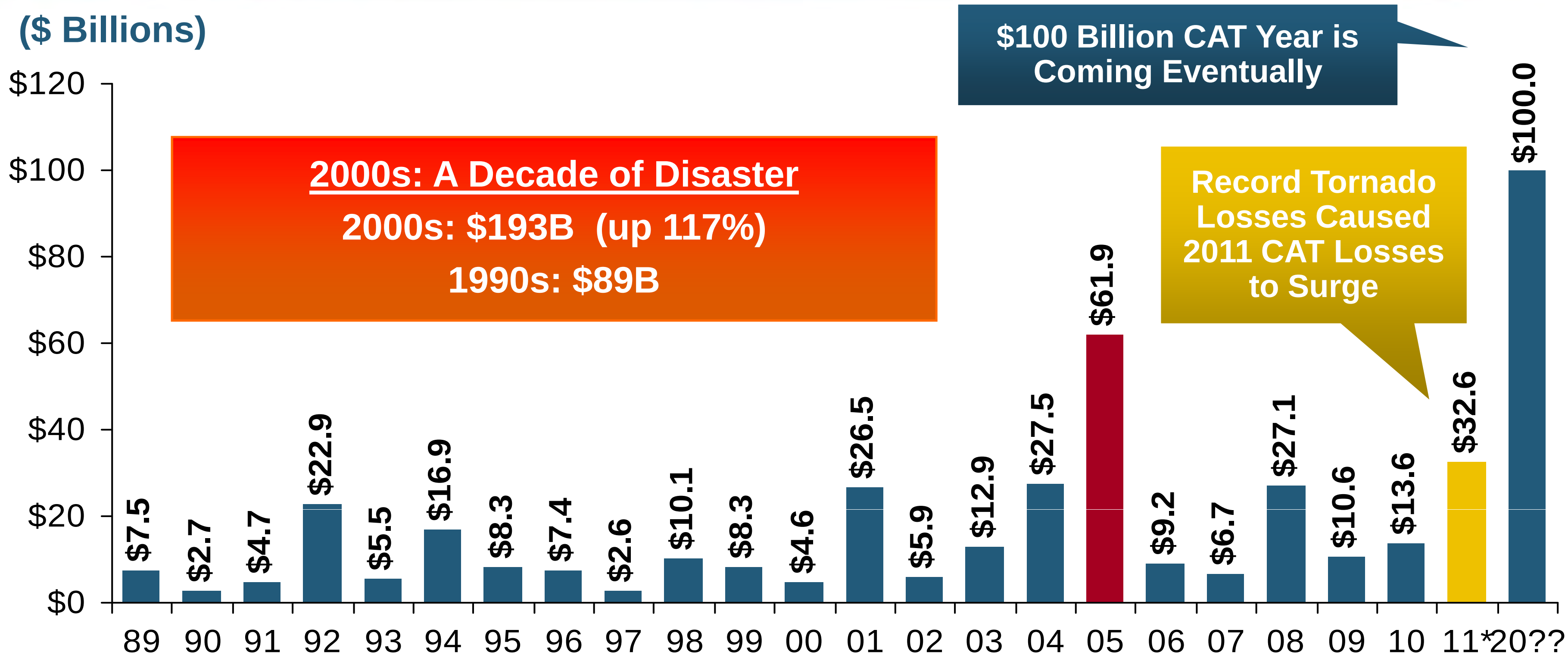


US CAT Losses Already Exceed Losses from All of 2010. Even Modest Hurricane Losses Will Make 2011 Among the Most Expensive Ever for CATs

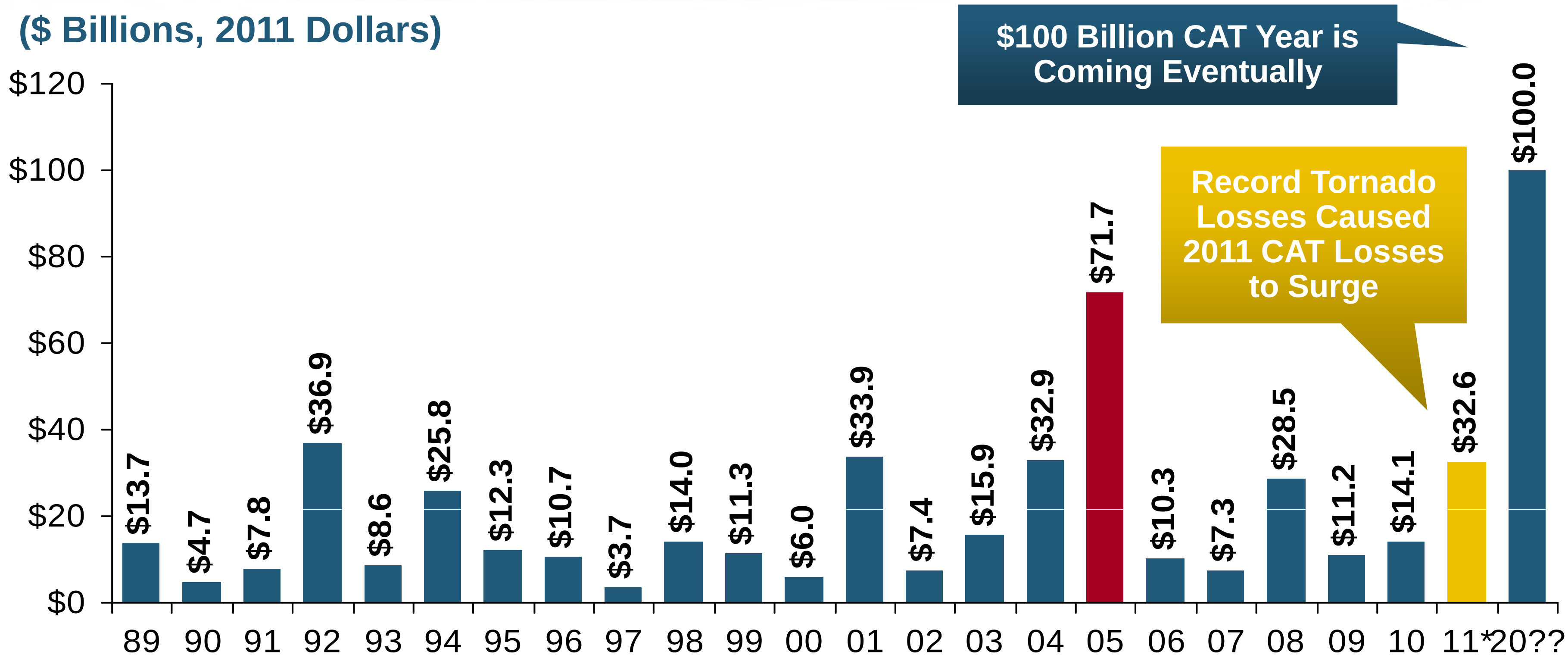
*PCS estimate through Sept. 30, 2011.

Note: 2001 figure includes $20.3B for 9/11 losses reported through 12/31/01. Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = $12.2B.

Sources: Property Claims Service/ISO; Insurance Information Institute.

US Insured Catastrophe Losses

($ Billions, 2011 Dollars)



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.

Natural Disaster Losses in the United States: 2011

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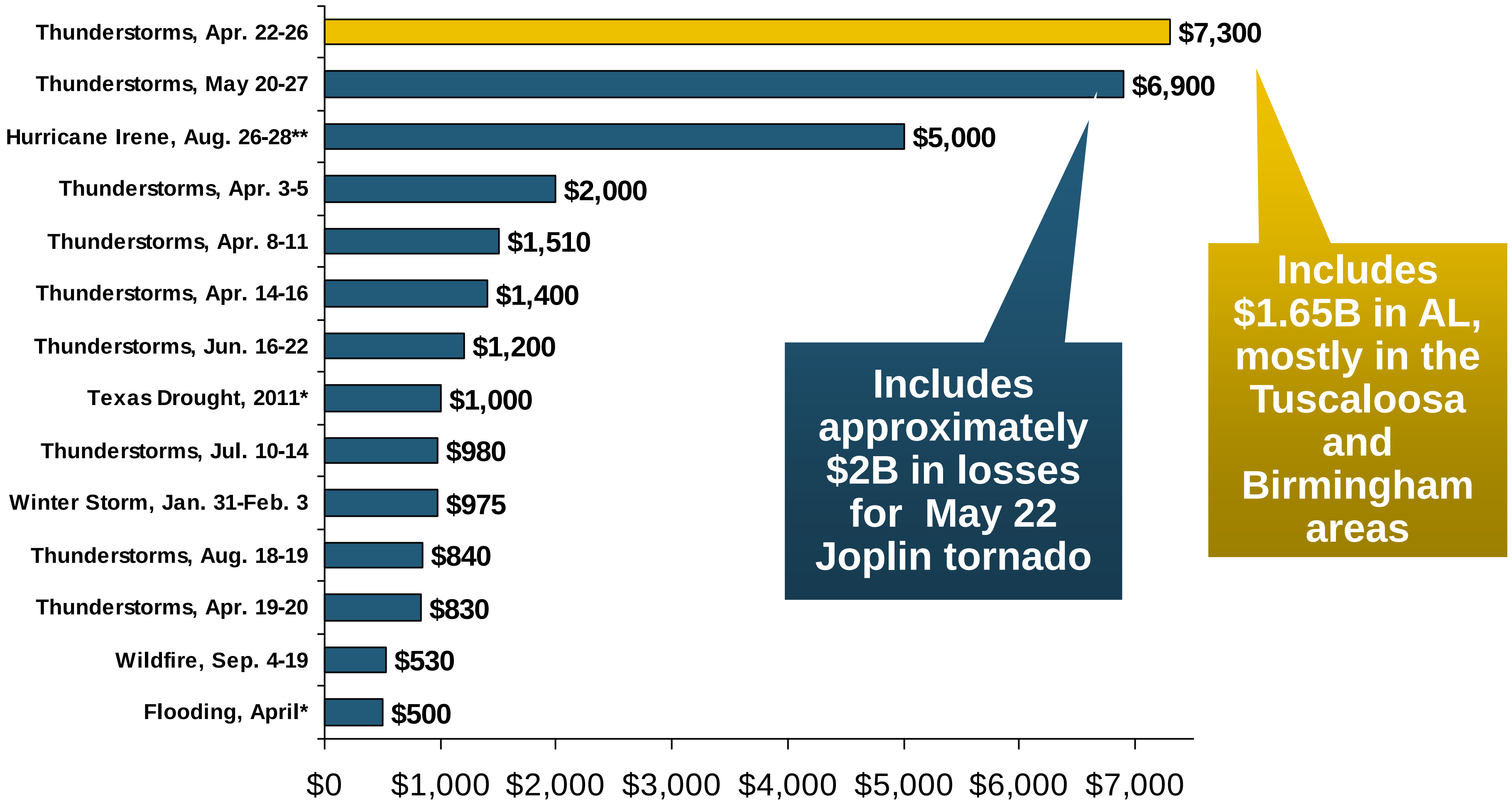
As of Jan. 1, 2012	Number of Events	Fatalities	Estimated Overall Losses (US $m)	Estimated Insured Losses (US $m)
Severe Thunderstorm	69	617	46,548	25,813
Winter Storm	9	67	2,708	2,017
Flood	14	20	2,705	535
Earthquake	5	1	257	50
Tropical Cyclone	3	0	10,700	5,510
Wildfire	58	15	1,922	855
Other	2	33	8,000	1,000

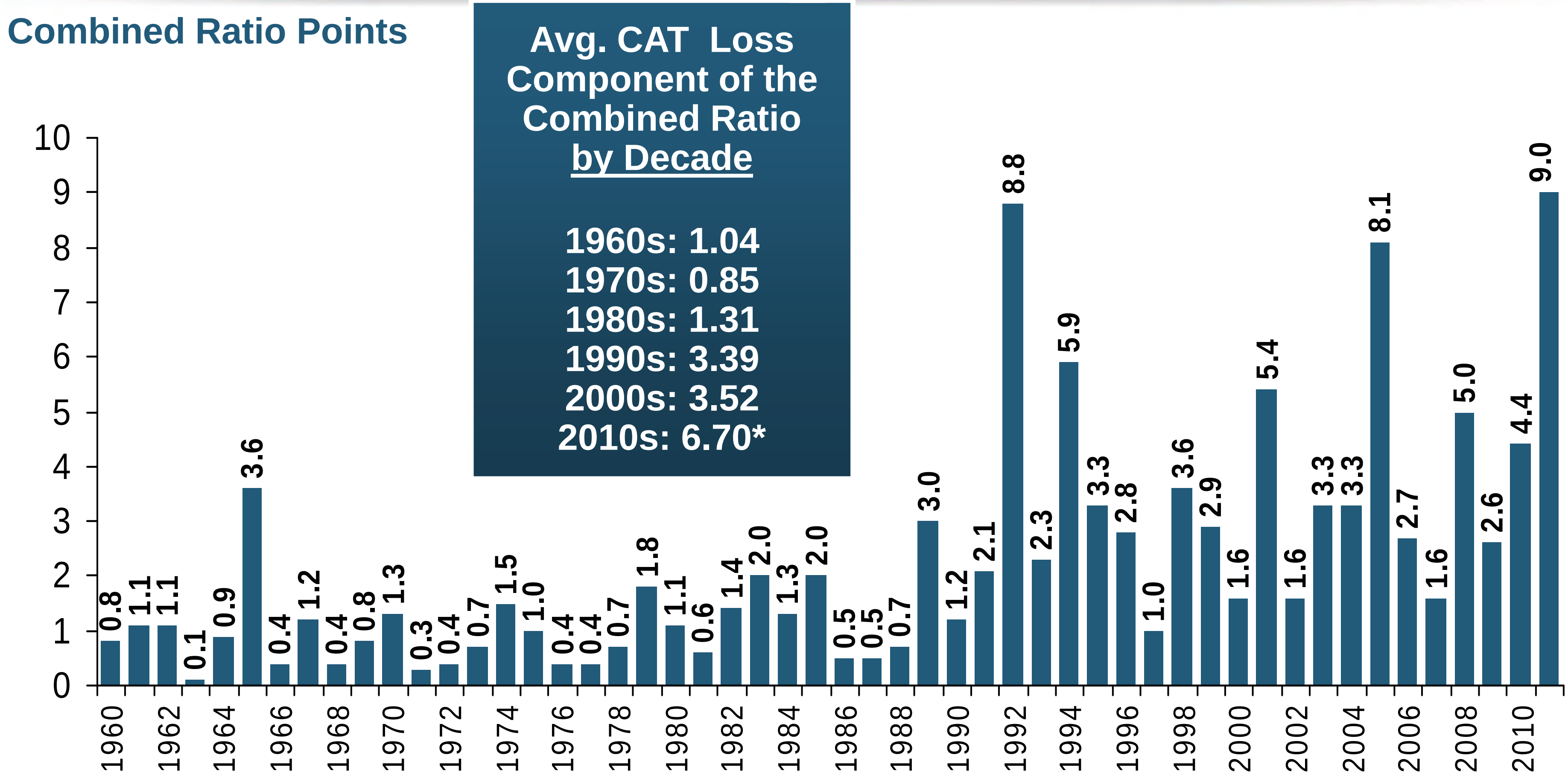
Source: MR NatCat*SERVICE*

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*



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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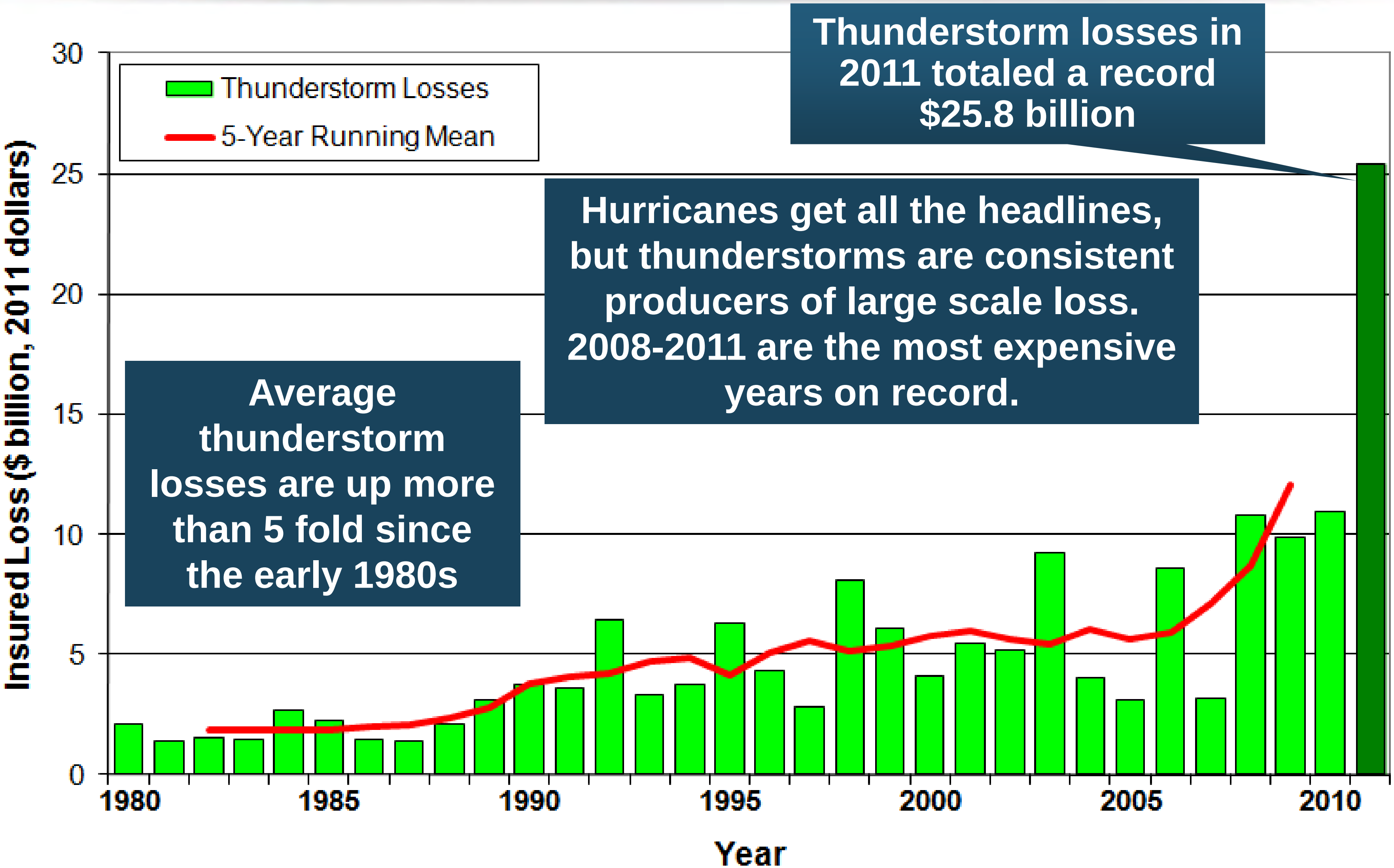

Source: Property Claims Service, MR NatCat*SERVICE*

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

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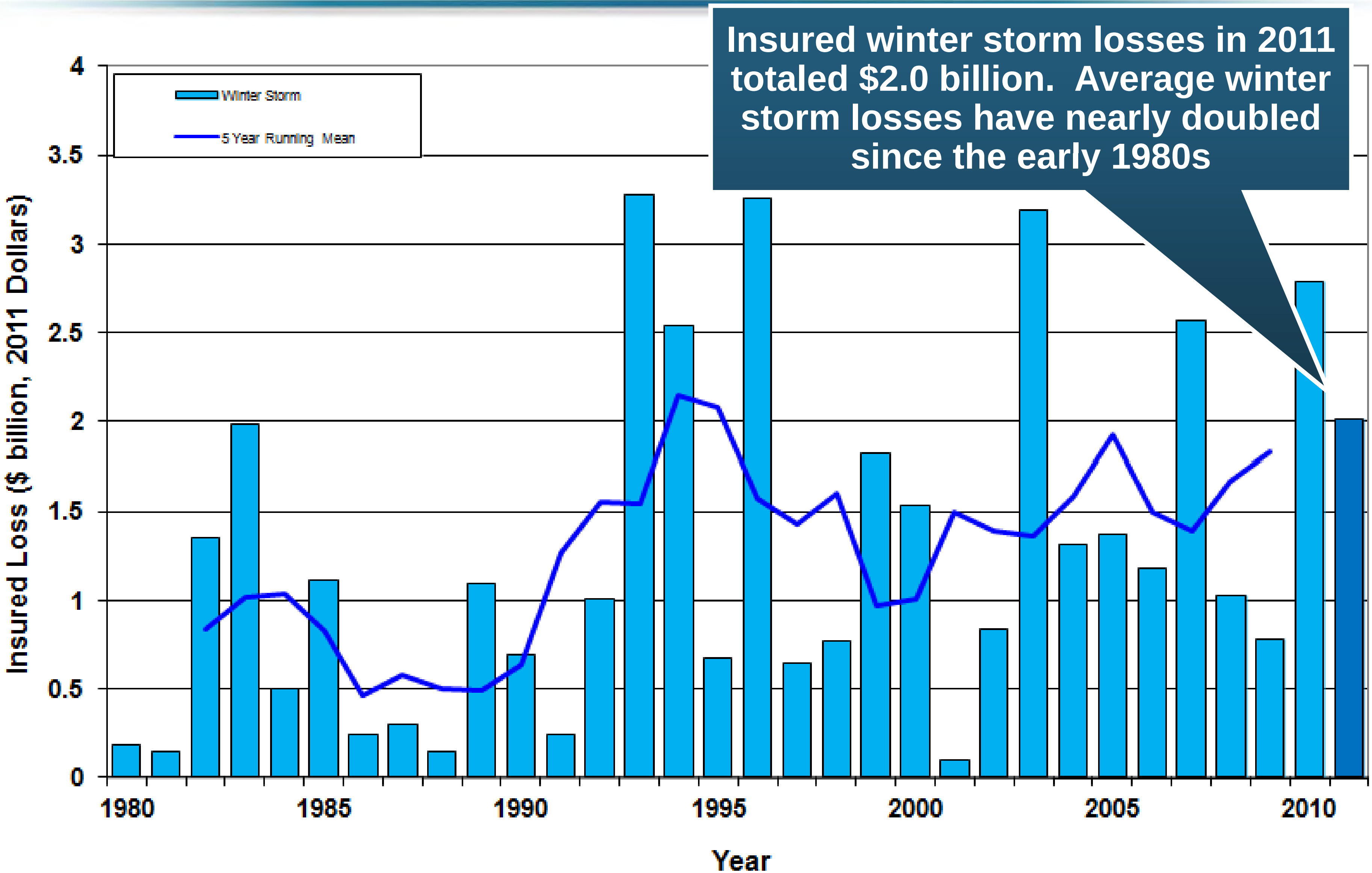
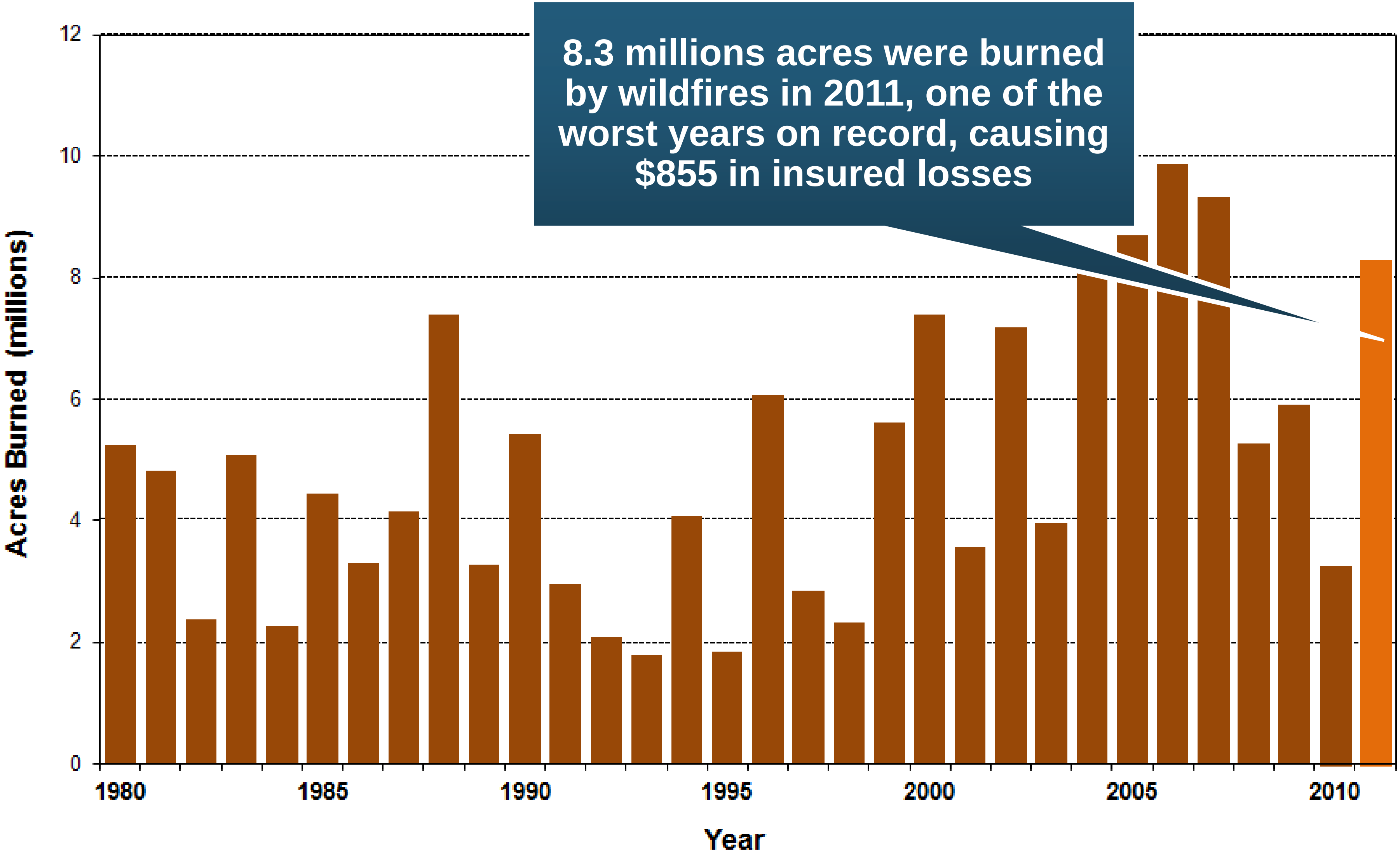


Source: Property Claims Service, MR NatCat*SERVICE*

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



Source: National Forest Service, MR Nat*CatSERVICE*

Notable Wildfires in 2011

- Worst wildfire year on record in Texas due to persistent drought.
- **Spring:** Over 3 million acres burned in west Texas from 12 major seats of fire. Over 200 homes and businesses destroyed, $50 million insured loss.
- **September:** Bastrop County Complex Fire near San Antonio destroys over 1,600 homes, insured loss of $530 million.


Source: FEMA

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

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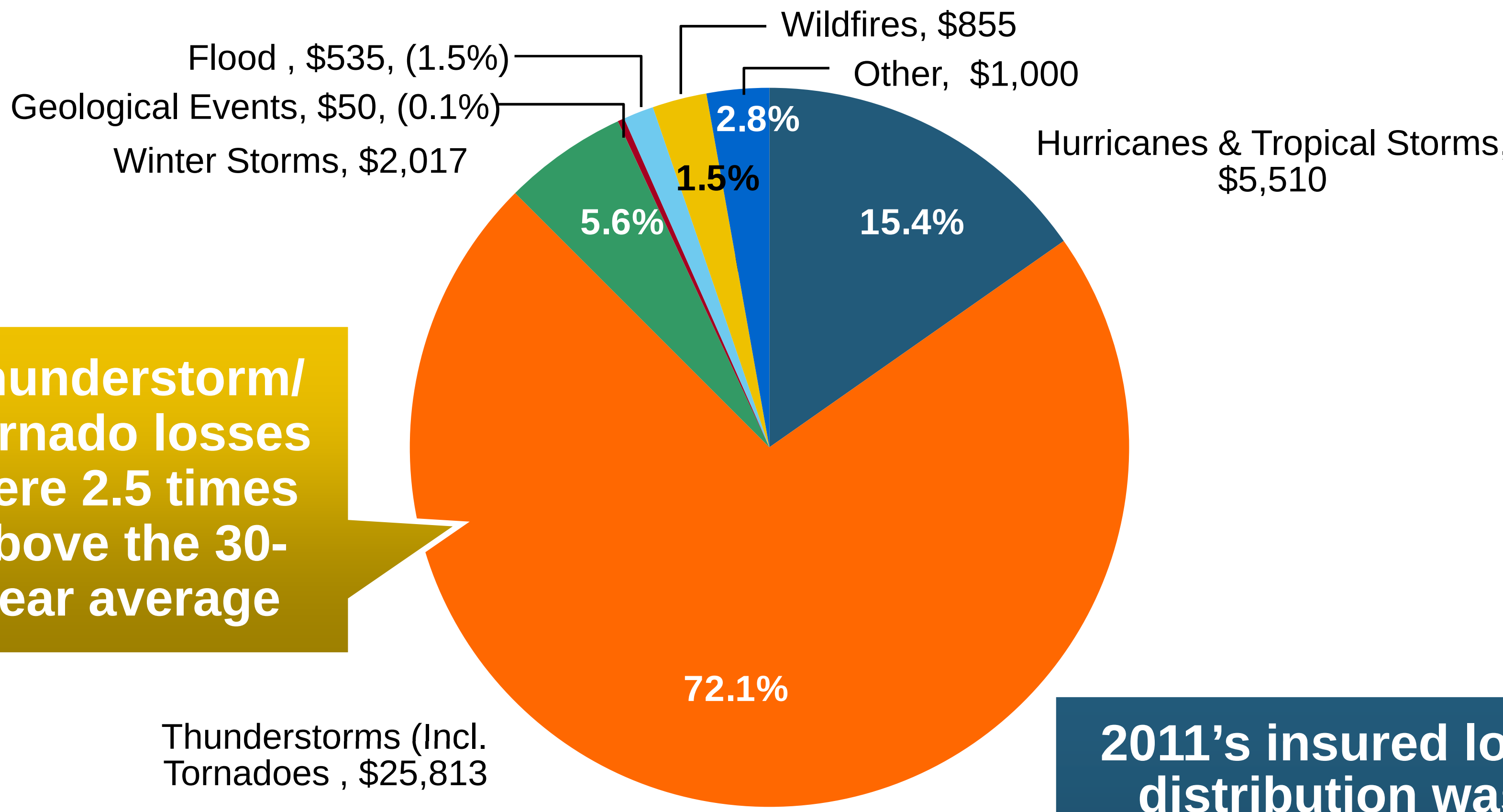

Thunderstorm/ Tornado losses were 2.5 times above the 30-year average

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

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

Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1990–2011:H1[1]

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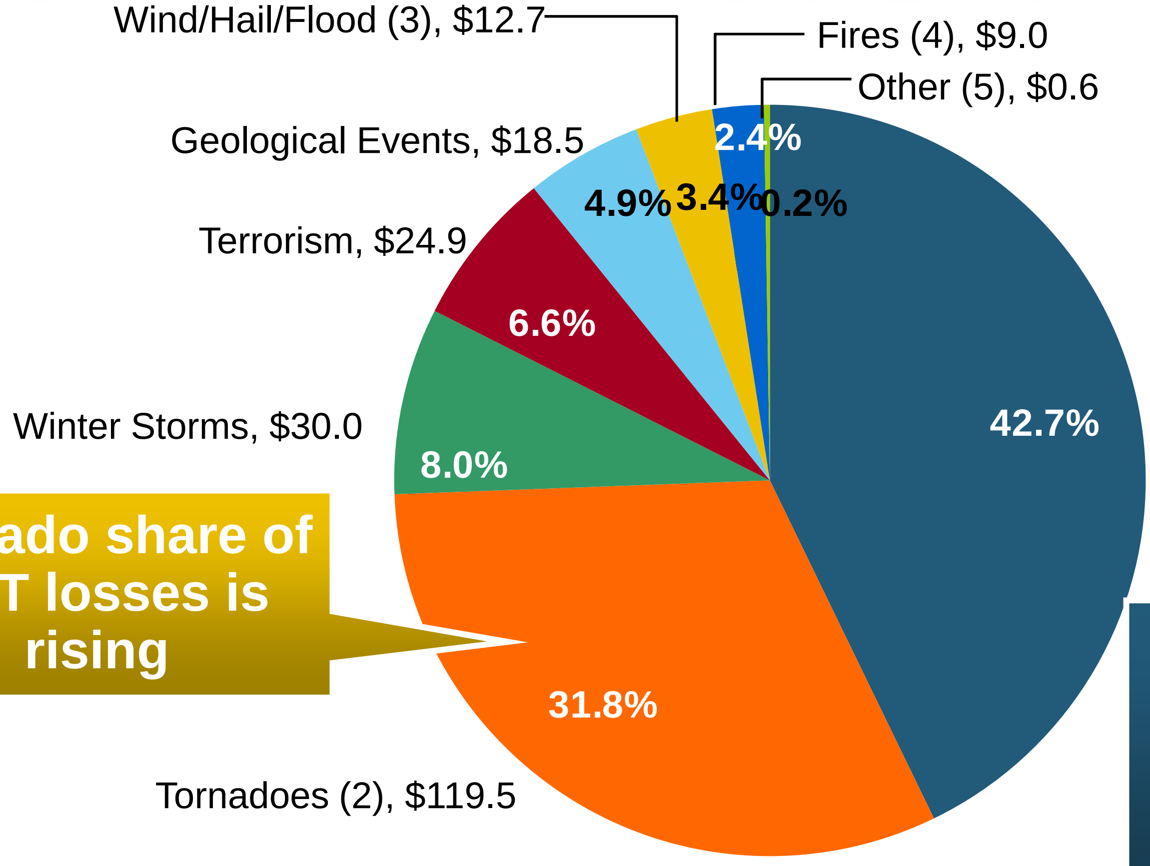

Tornado share of CAT losses is rising

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

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

Source: ISO's Property Claim Services Unit.

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, 1953-2011*

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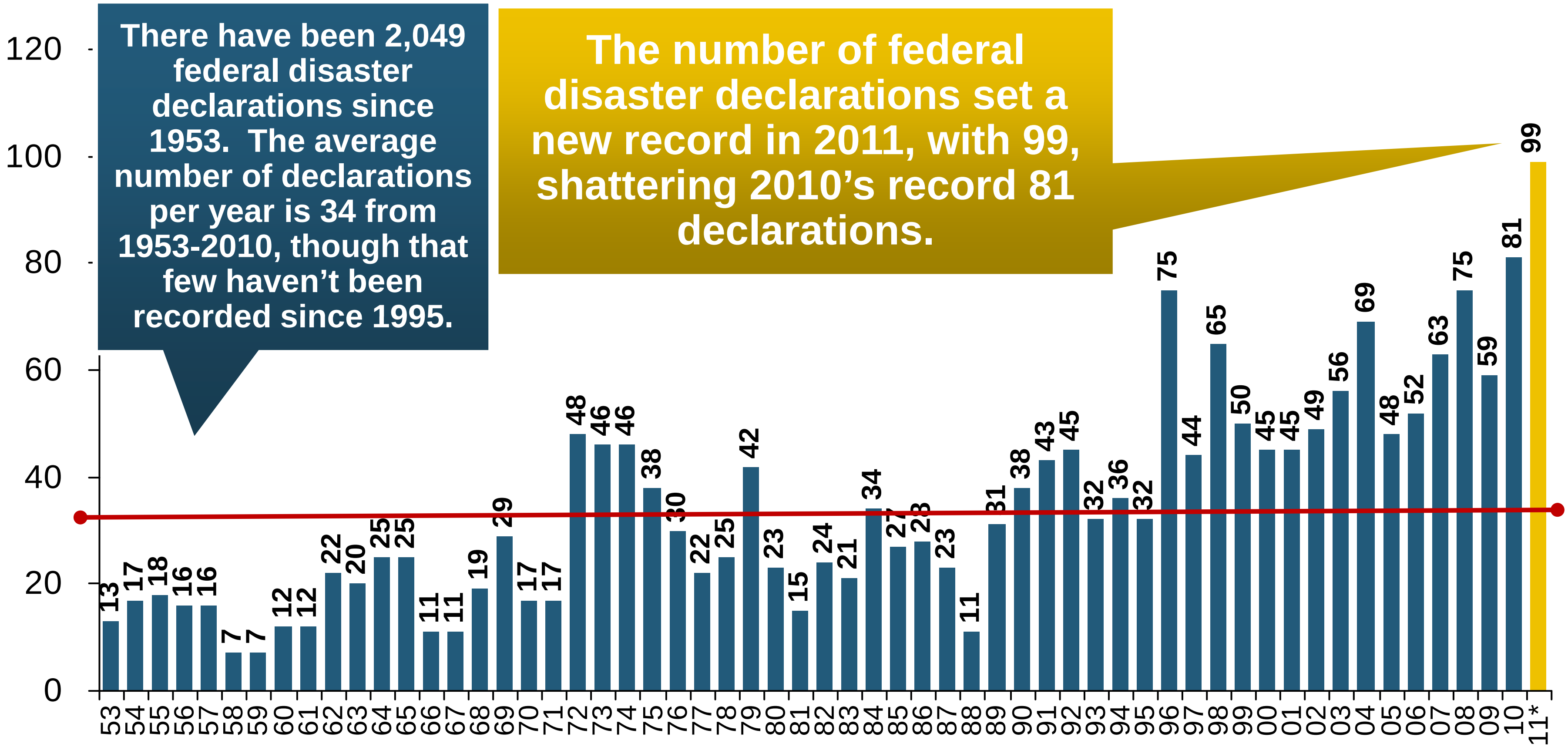
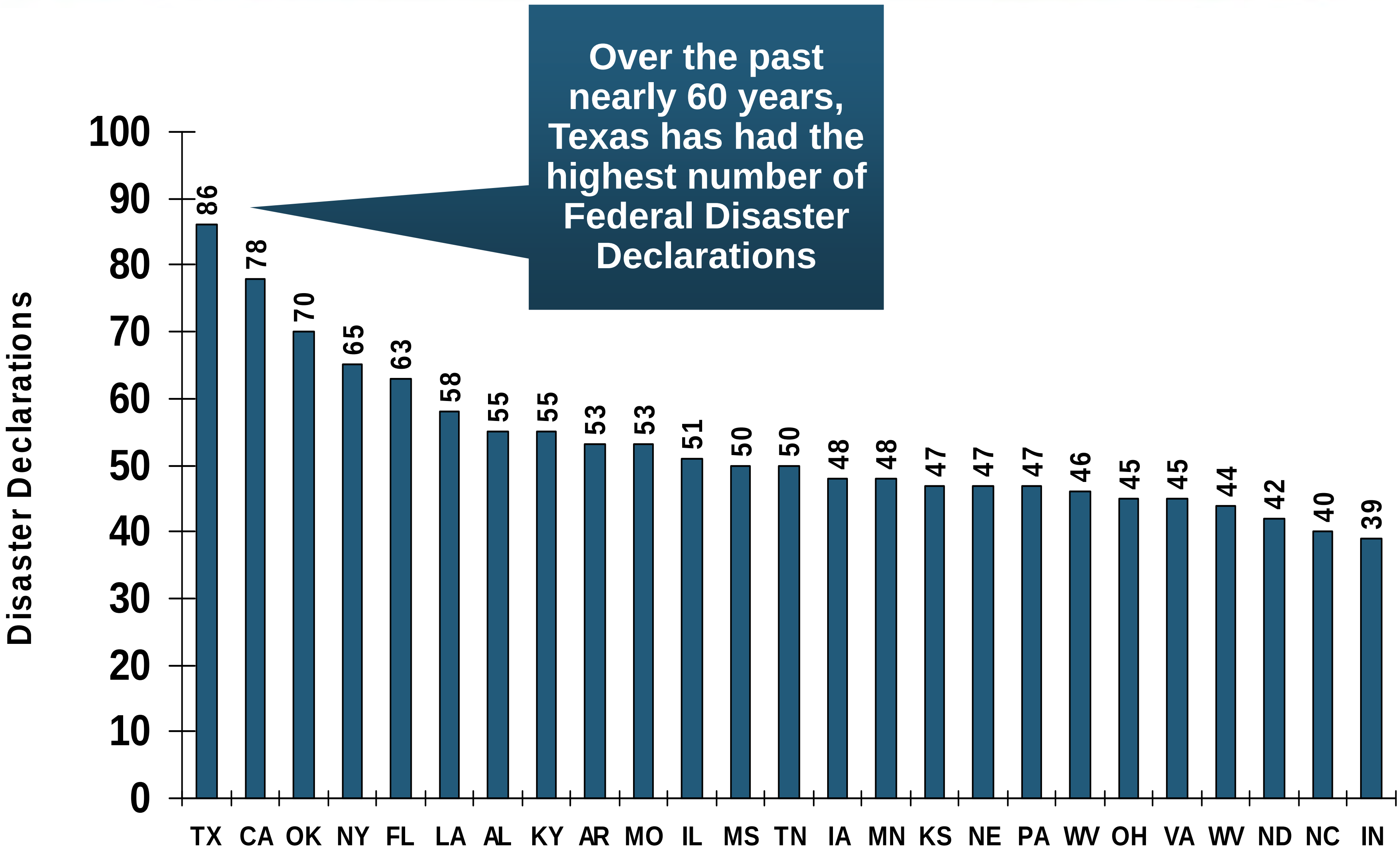


The Number of Federal Disaster Declarations Is Rising and Set a New Record in 2011

*Through December 31, 2011.

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

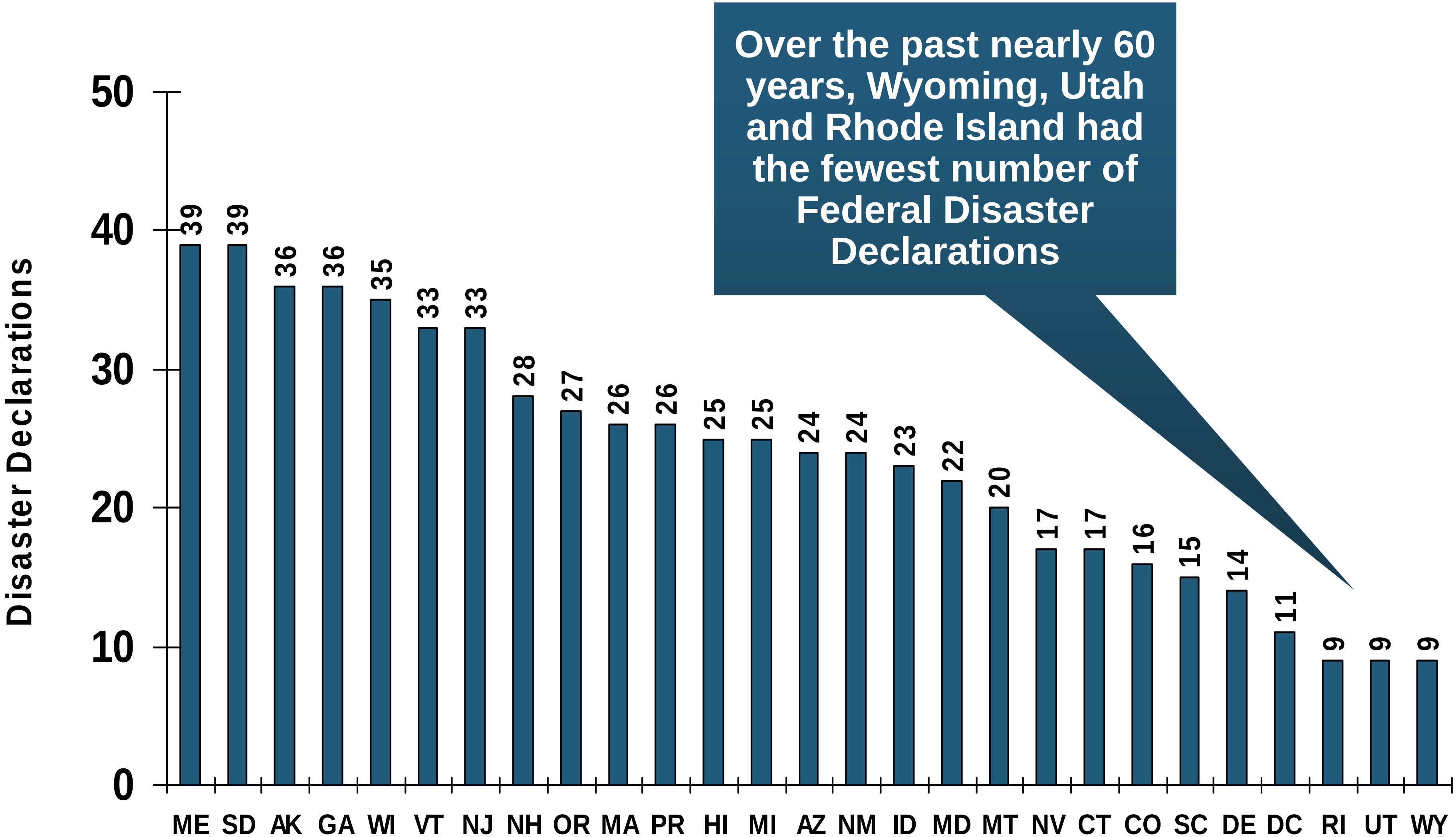
Federal Disasters Declarations by State, 1953 – 2011: Highest 25 States*



*Through Dec. 31, 2011.

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

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



*Through Dec. 31. Includes Puerto Rico and the District of Columbia.

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

SPRING 2011 TORNADO & SEVERE STORM OUTBREAK

2011 Losses Are Putting Pressure on US P/C Insurance and Reinsurance Markets

Number of Tornadoes and Related Deaths, 1990 – 2011

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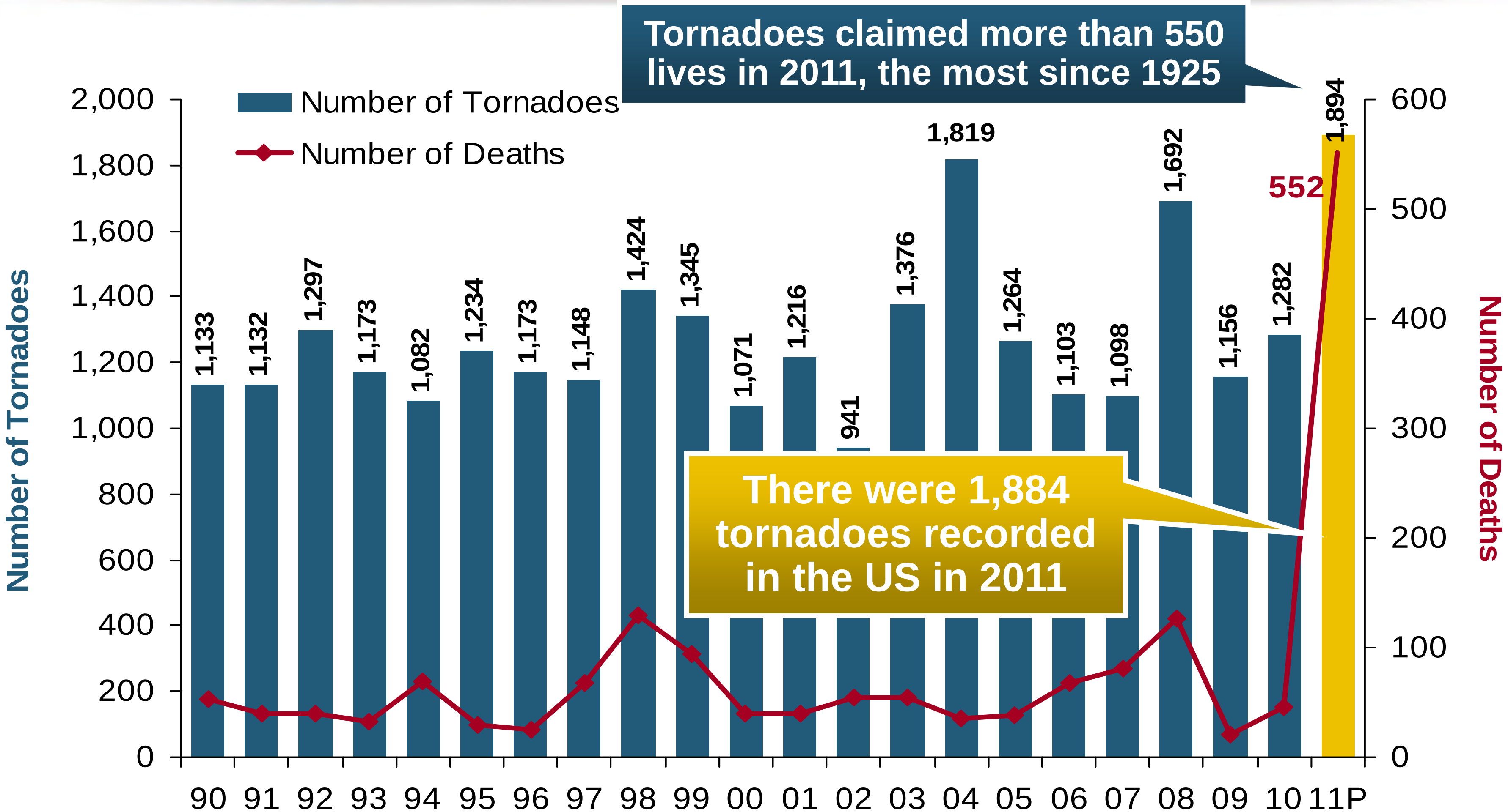

Insurers Expect to Pay at Least $2 Billion Each for the April 2011 Tornadoes in Alabama and a Similar Amount for the May Storms in Joplin

Source: U.S. Department of Commerce, Storm Prediction Center, National Weather Service.

U.S. Tornado Count, 2005-2011

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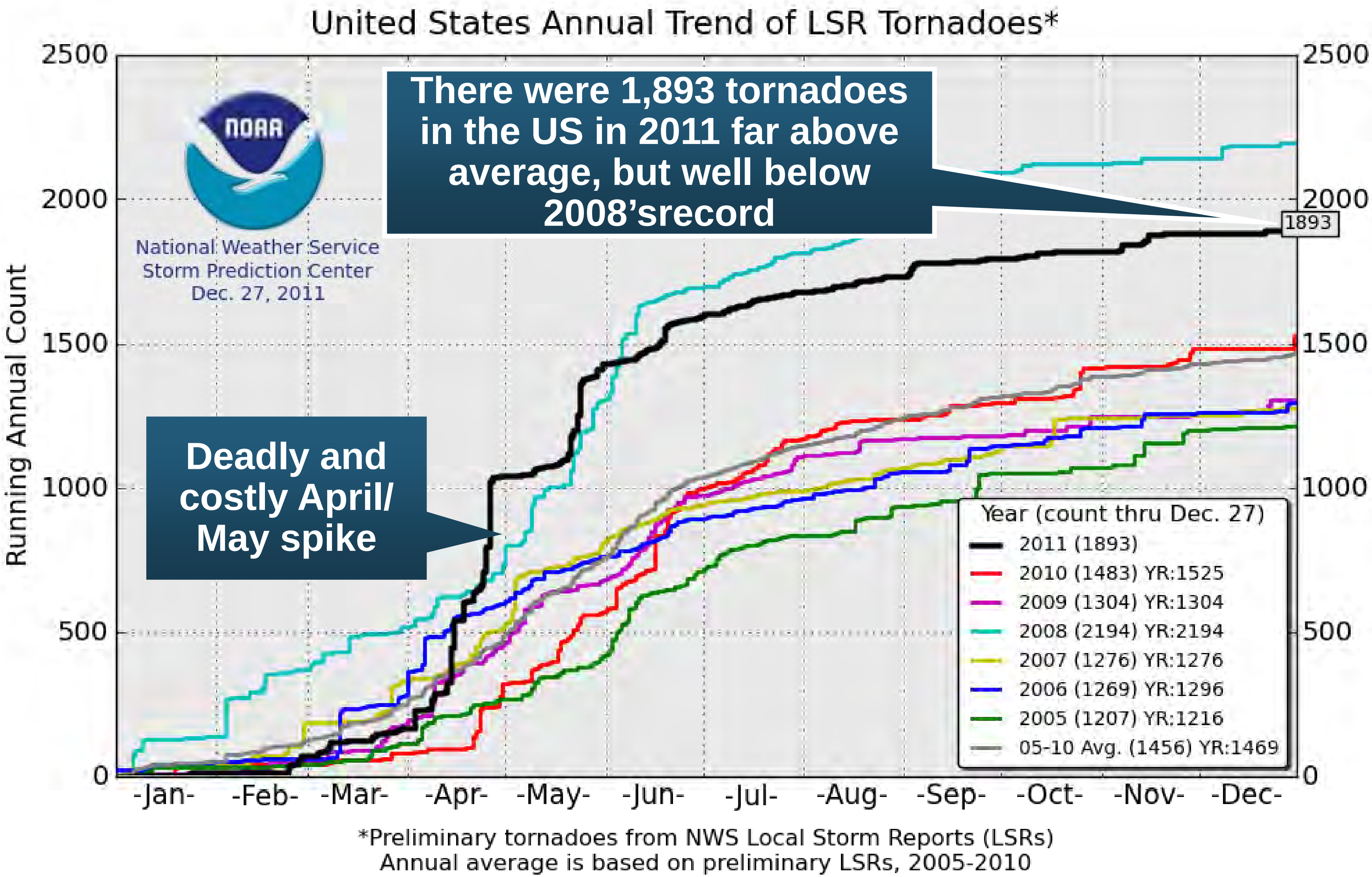

Source: http://www.spc.noaa.gov/wcm/

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

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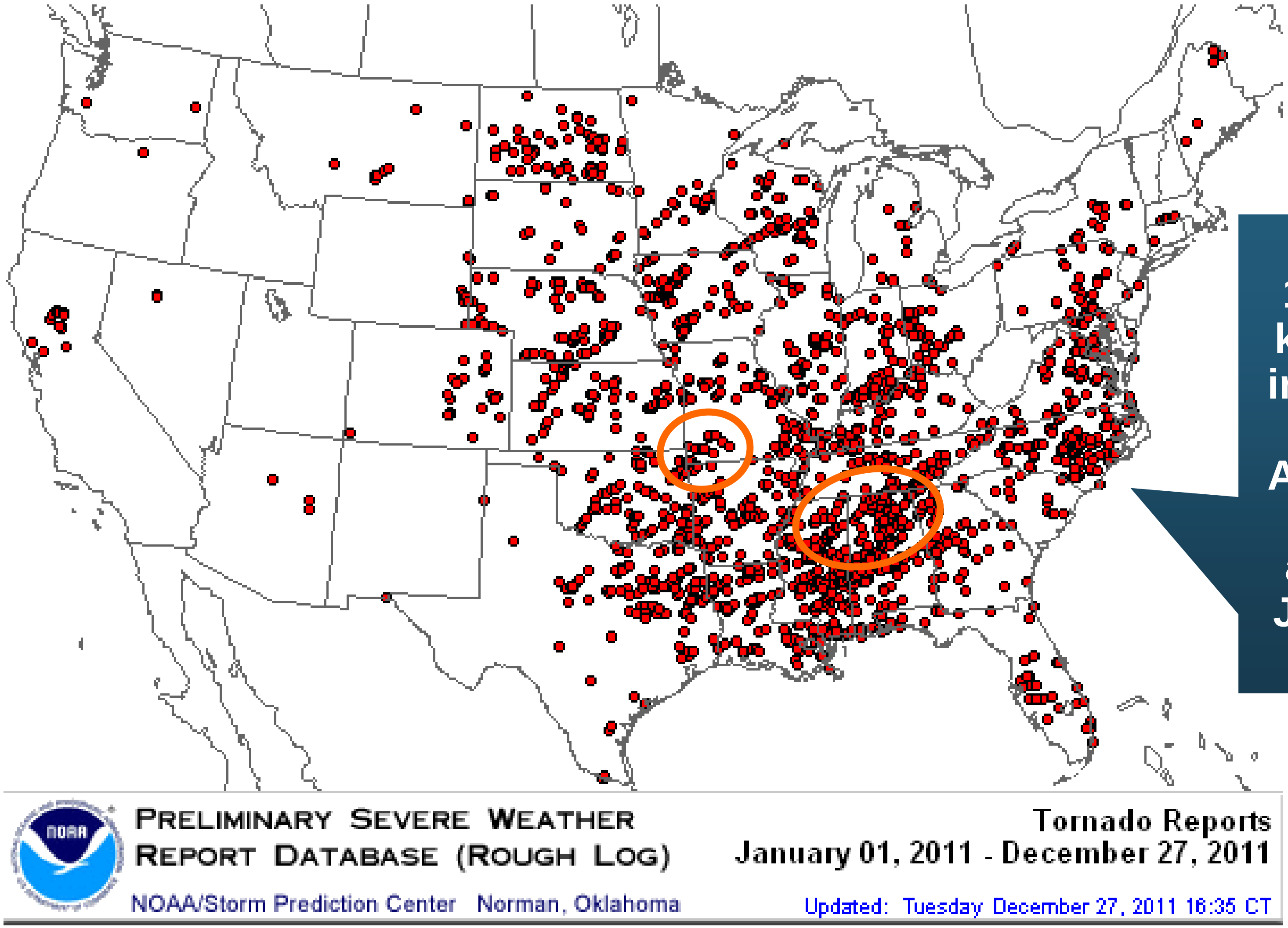

1,894 tornadoes killed 552 people in 2011, including at least 340 on April 26 mostly in the Tuscaloosa area, and 130 in Joplin on May 22

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

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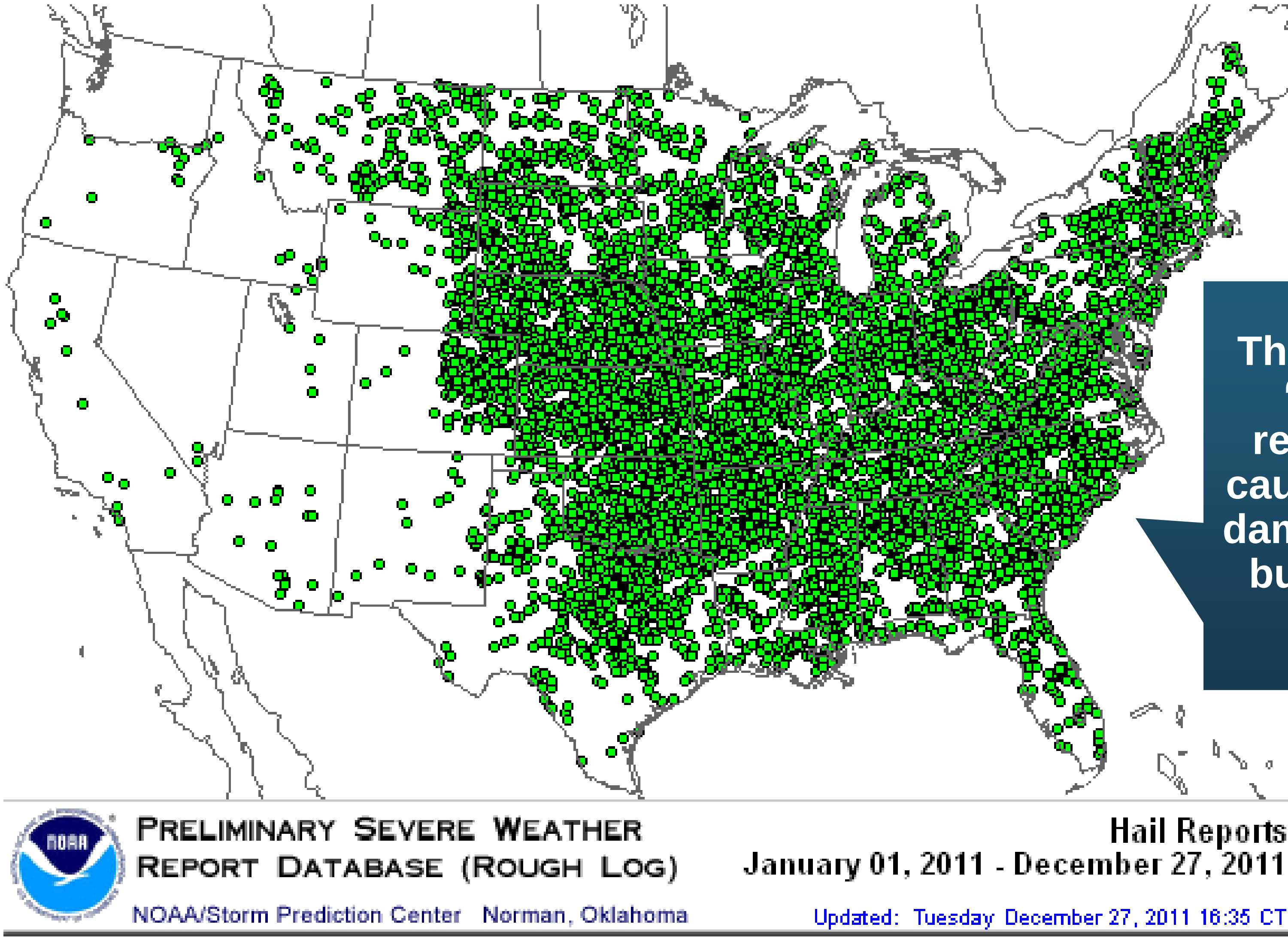

There were 9,417 "Large Hail" reports in 2011, causing extensive damage to homes, businesses and vehicles

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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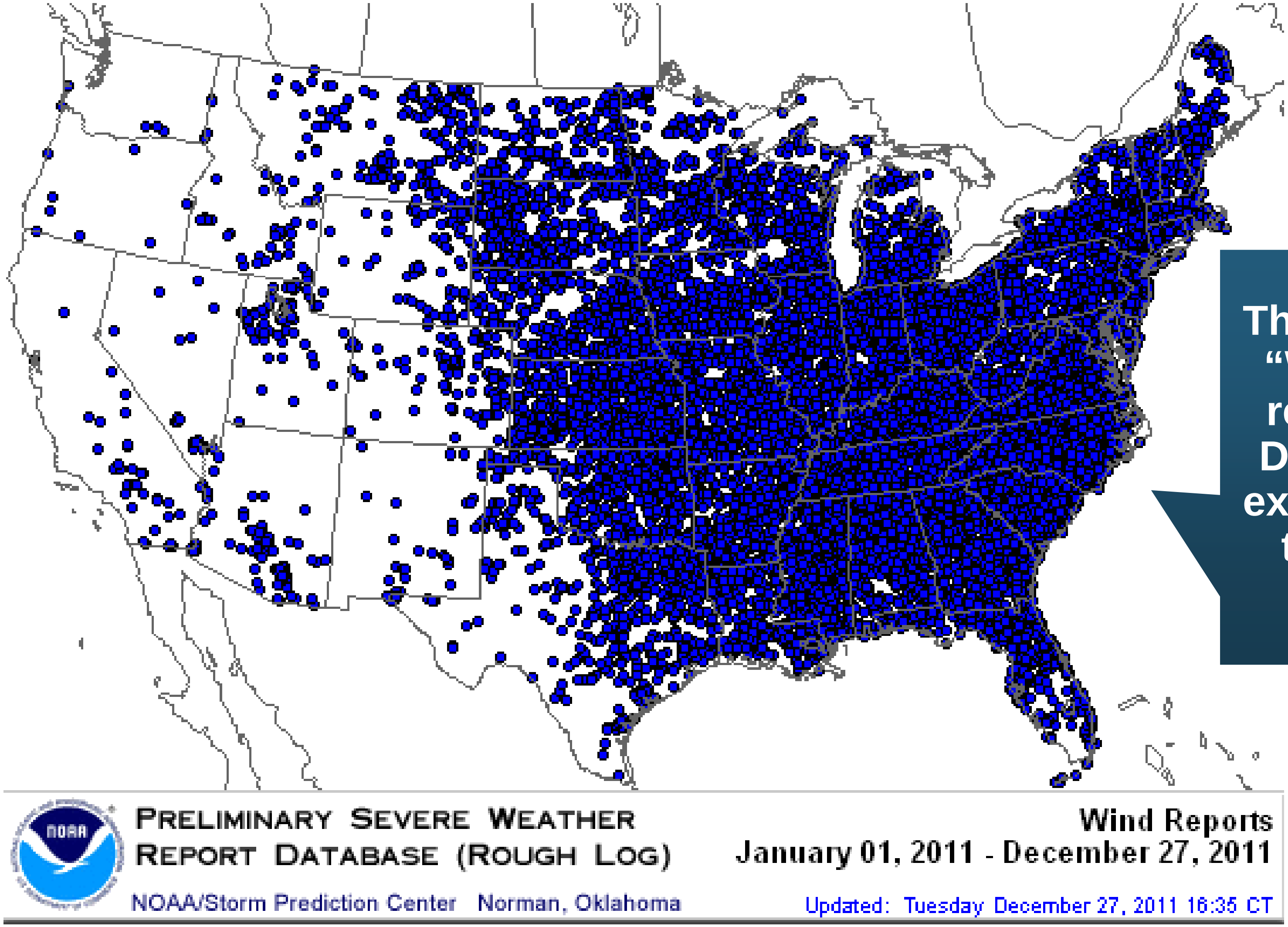

There were 18,685 "Wind Damage" reports through Dec. 27, causing extensive damage to homes and, businesses

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

Severe Weather Reports, 2011

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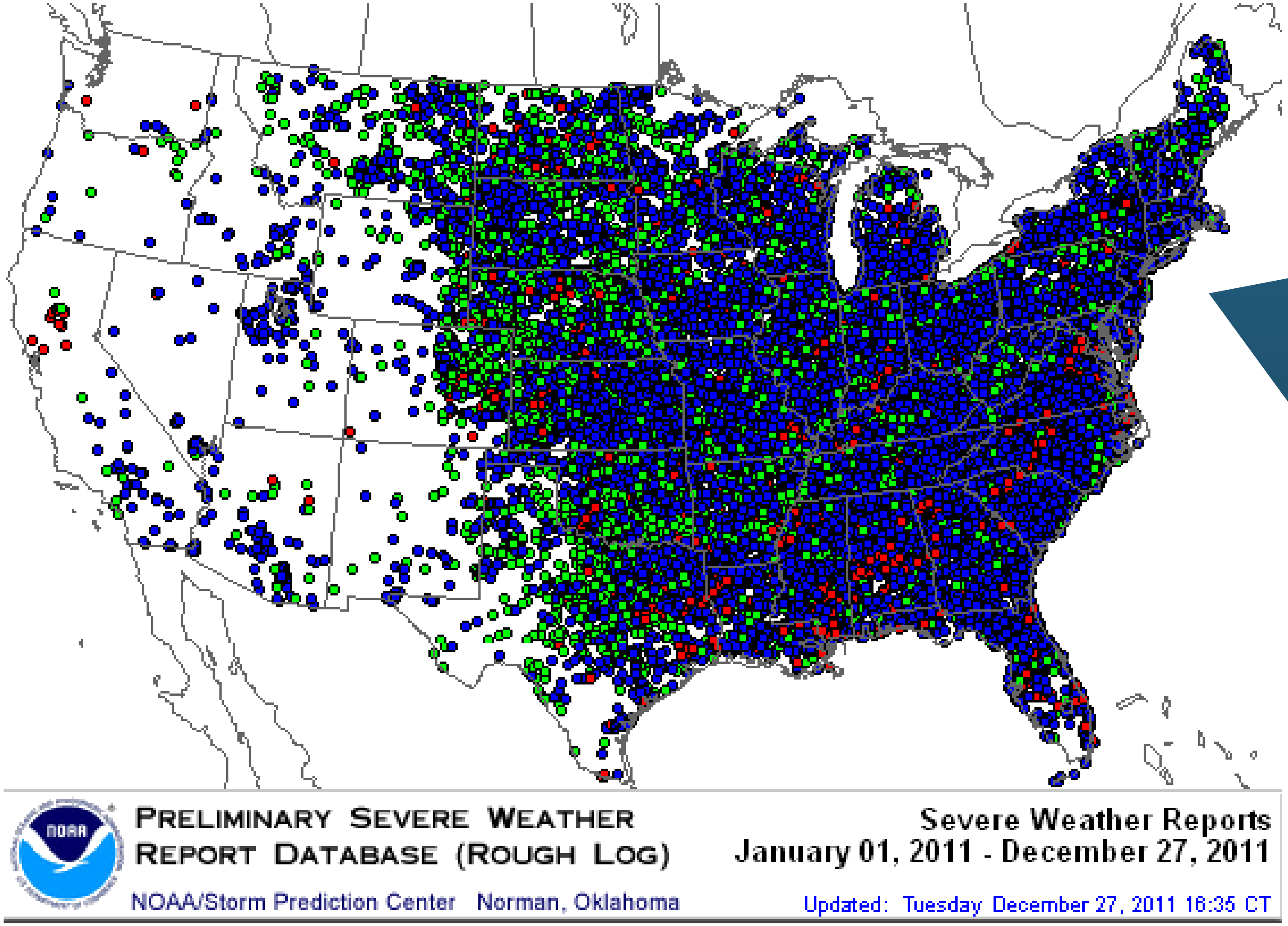

There were 29,996 severe weather reports in 2011; including 1,894 tornadoes; 9,417 "Large Hail" reports and 18,685 high wind events

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

Number of Severe Weather Reports in US, by Type, 2011

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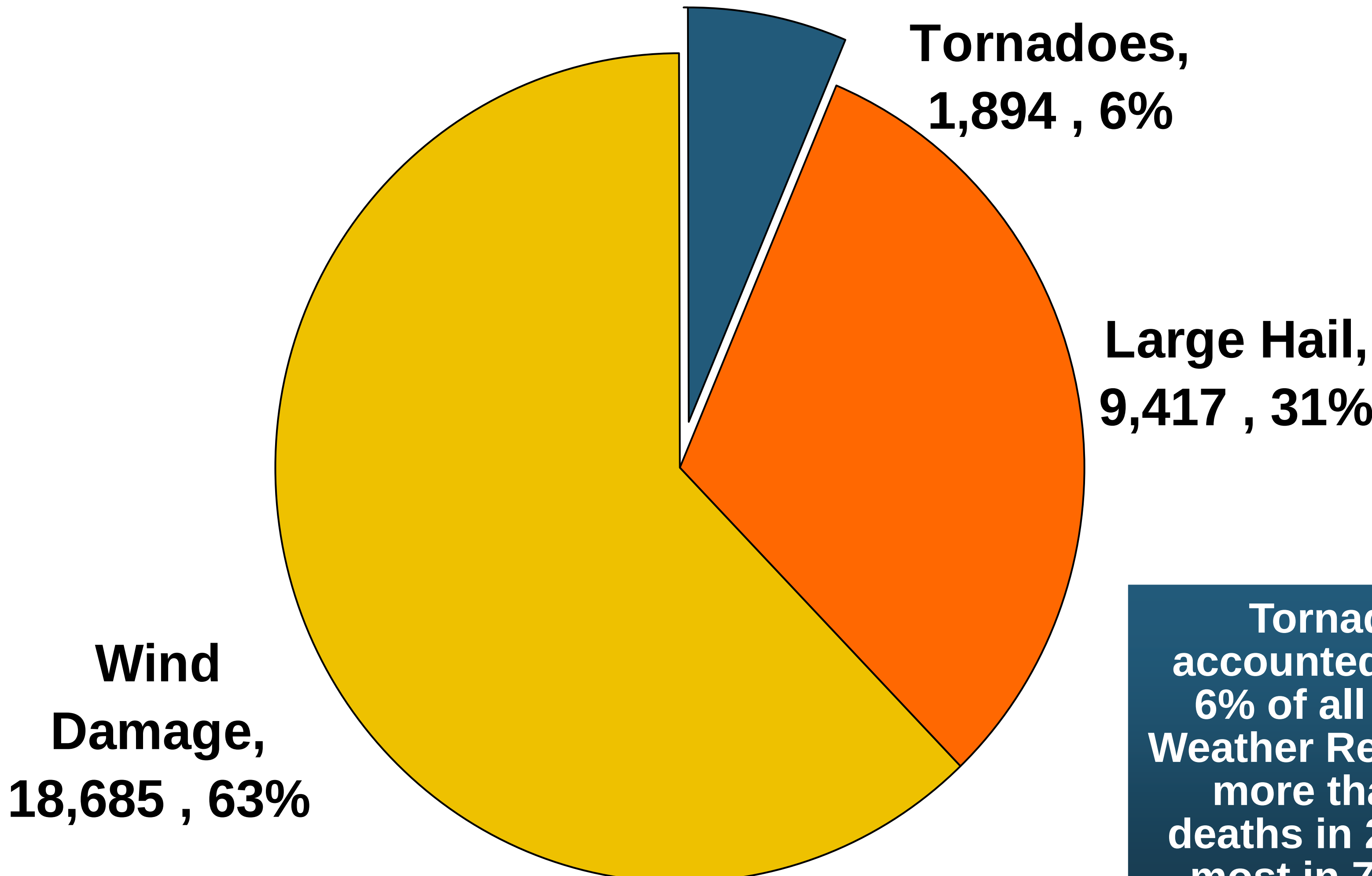

Tornadoes accounted for just 6% of all Severe Weather Reports but more than 550 deaths in 2011, the most in 75 years

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

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.

Do the Property Catastrophe Events of 2011 Impact Casualty Markets?

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- Unlikely that Record 2011 Property CAT Loss Will Impact Casualty Markets in Any Material Way, Including Professional Liability Lines
- Global P/C & Reinsurance Industries Entered 2011 w/ Record Capital
  - Events so far in 2011 are earnings events, rather than capital events
- Natural Catastrophe and Casualty Risks Are Largely Uncorrelated
  - Risks are different
  - Geographically, mostly distinct primary carriers: Japan-Australia-NZ-US
  - Casualty markets generally don't influence property markets
- Property and Casualty Risks Are Largely Siloed
- Record Property Losses in 2004/2005 Did Not Impact Casualty Mkts.
- Casualty Markets Have Their Own Issues
  - Tort environment
  - Inflation
  - Public policy

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1. UNDERWRITING

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

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

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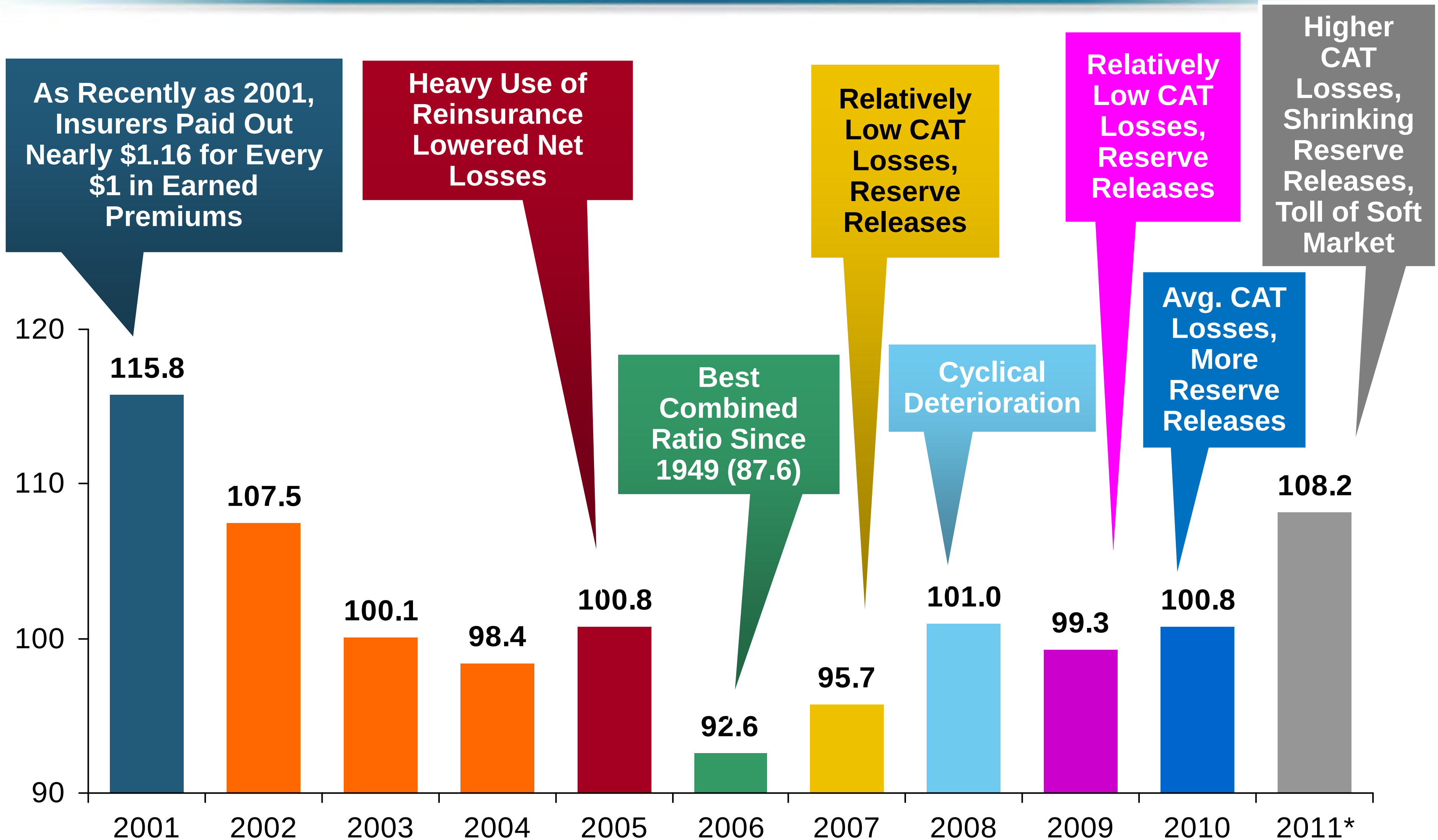
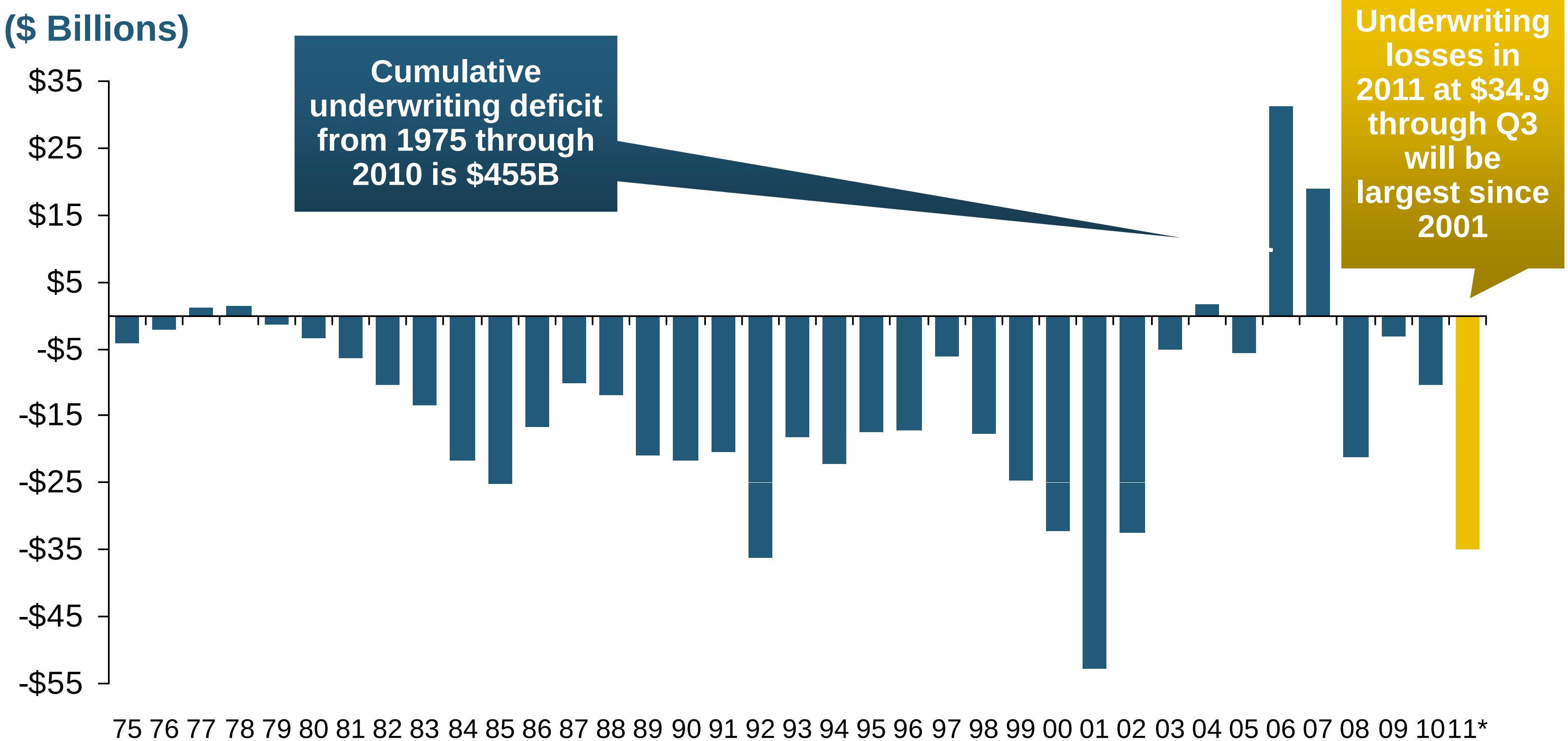


* Excludes Mortgage & Financial Guaranty insurers 2008--2011. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=109.9

Sources: A.M. Best, ISO.

Underwriting Gain (Loss) 1975–2011*

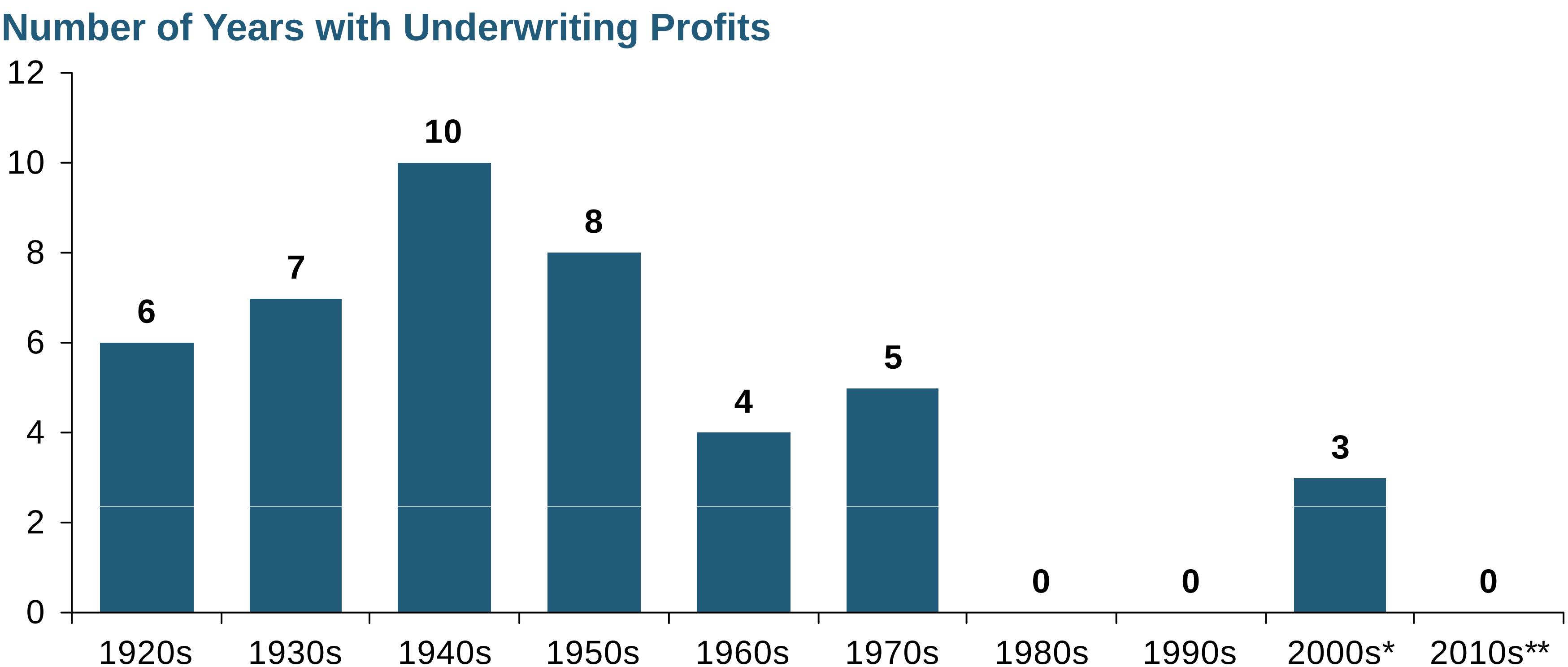


Large Underwriting Losses Are *NOT* Sustainable in Current Investment Environment

* Includes mortgage and financial guaranty insurers in all years

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

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



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

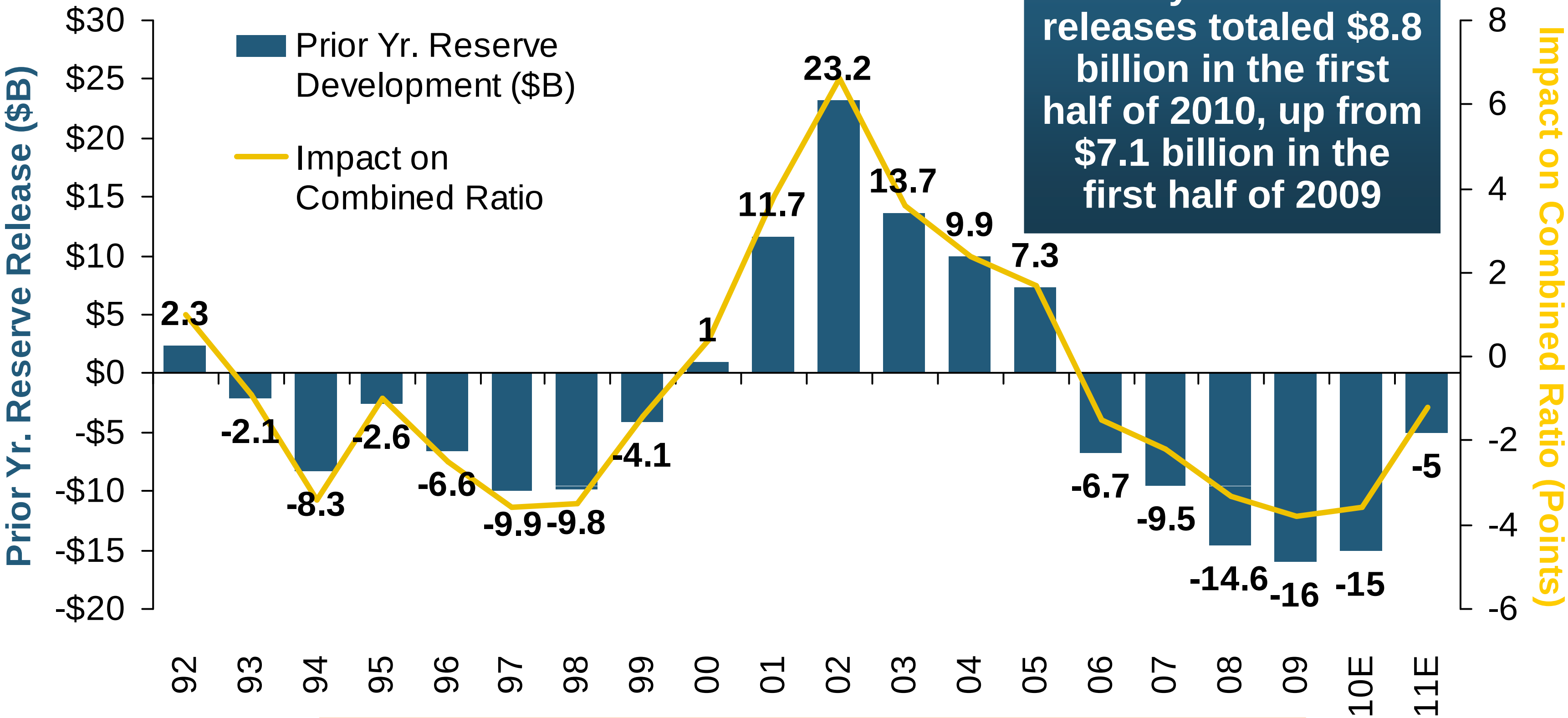
* 2009 combined ratio excl. mort. and finl. guar.anty insurers was 99.3, which would bring the 2000s total to 4 years with an u/w profit.

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

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

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

P/C Reserve Development, 1992–2011E



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

Reserve Releases Are Remained Strong in 2010 But Should Begin to Taper Off in 2011

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

Sources: Barclay's Capital; A.M. Best.

Financial Strength & Underwriting

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

P/C Insurer Impairments, 1969–2010

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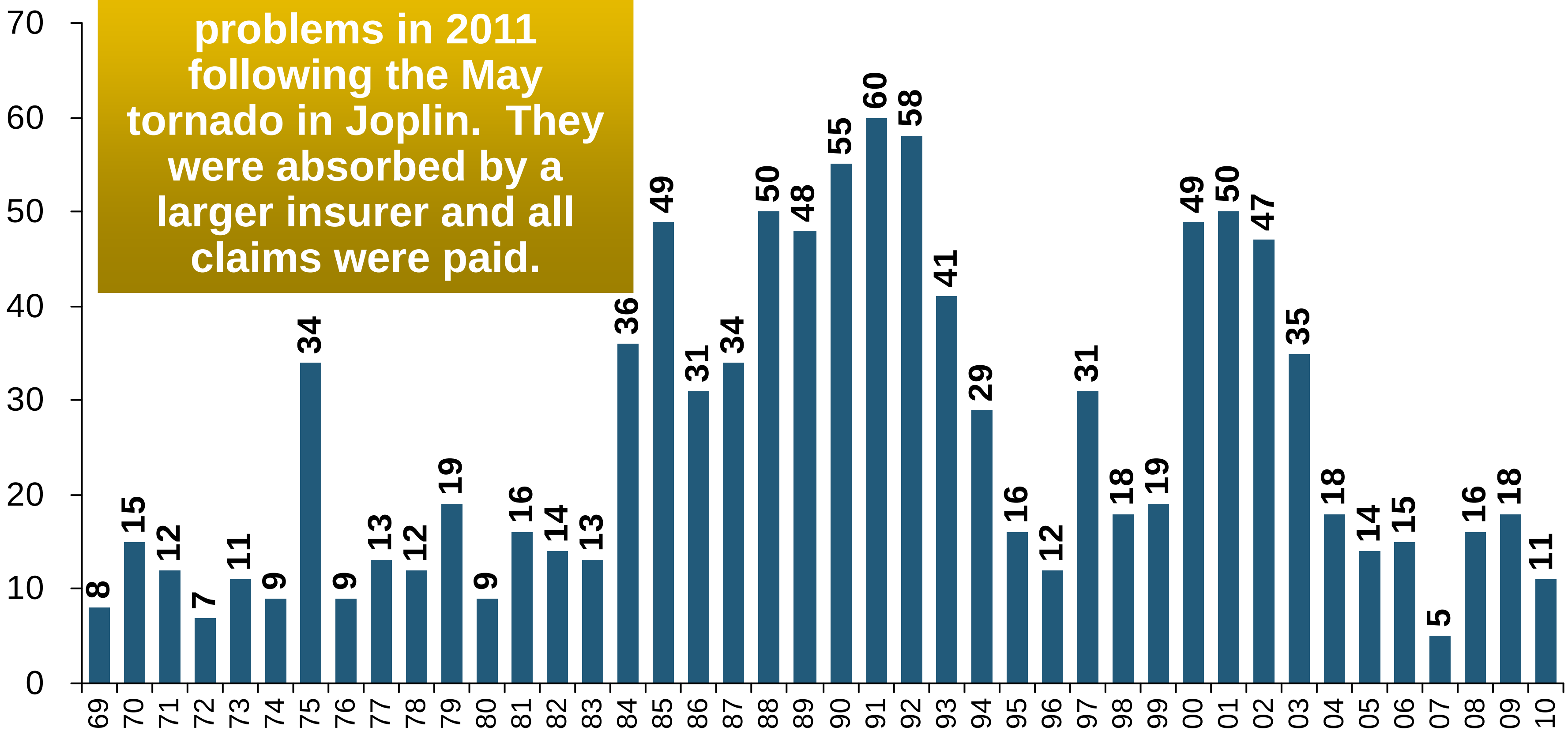
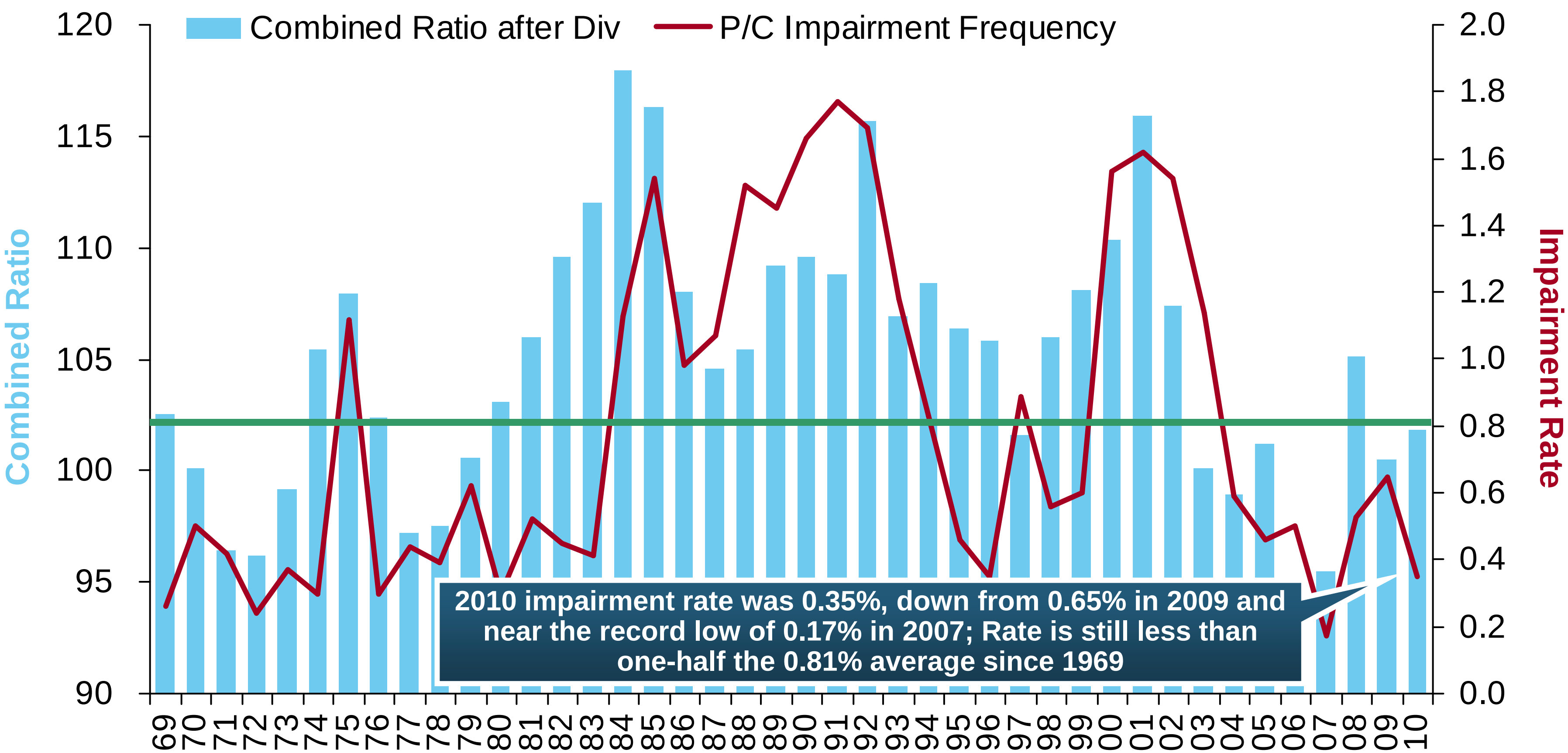
3 small insurers in Missouri did encounter problems in 2011 following the May tornado in Joplin. They were absorbed by a larger insurer and all claims were paid.



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 "1969-2010 Impairment Review," June 21, 2011; Insurance Information Institute.

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



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

Source: A.M. Best; Insurance Information Institute

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

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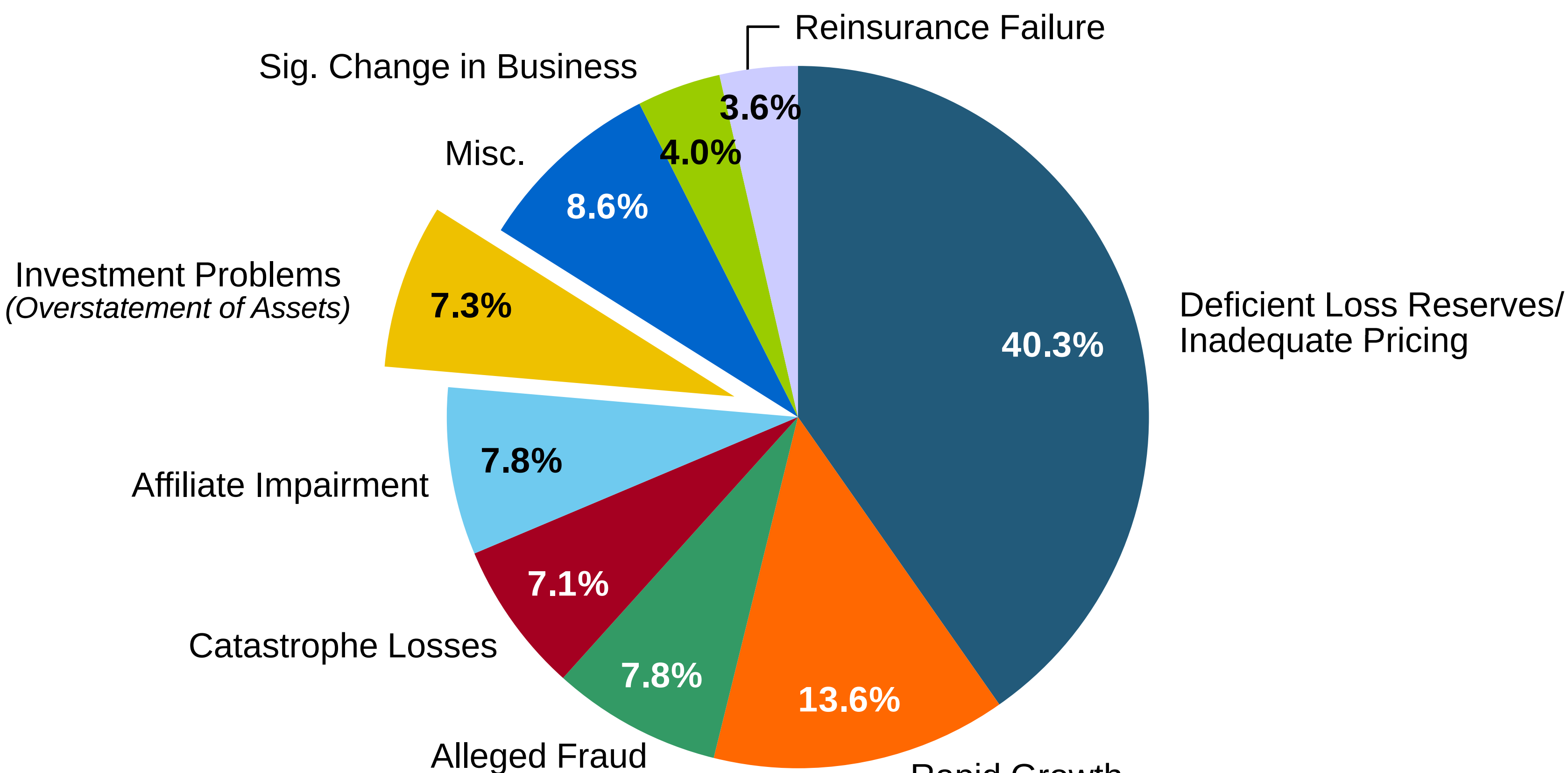
Historically, Deficient Loss Reserves and Inadequate Pricing Are By Far the Leading Cause of P-C Insurer Impairments. Investment and Catastrophe Losses Play a Much Smaller Role



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

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

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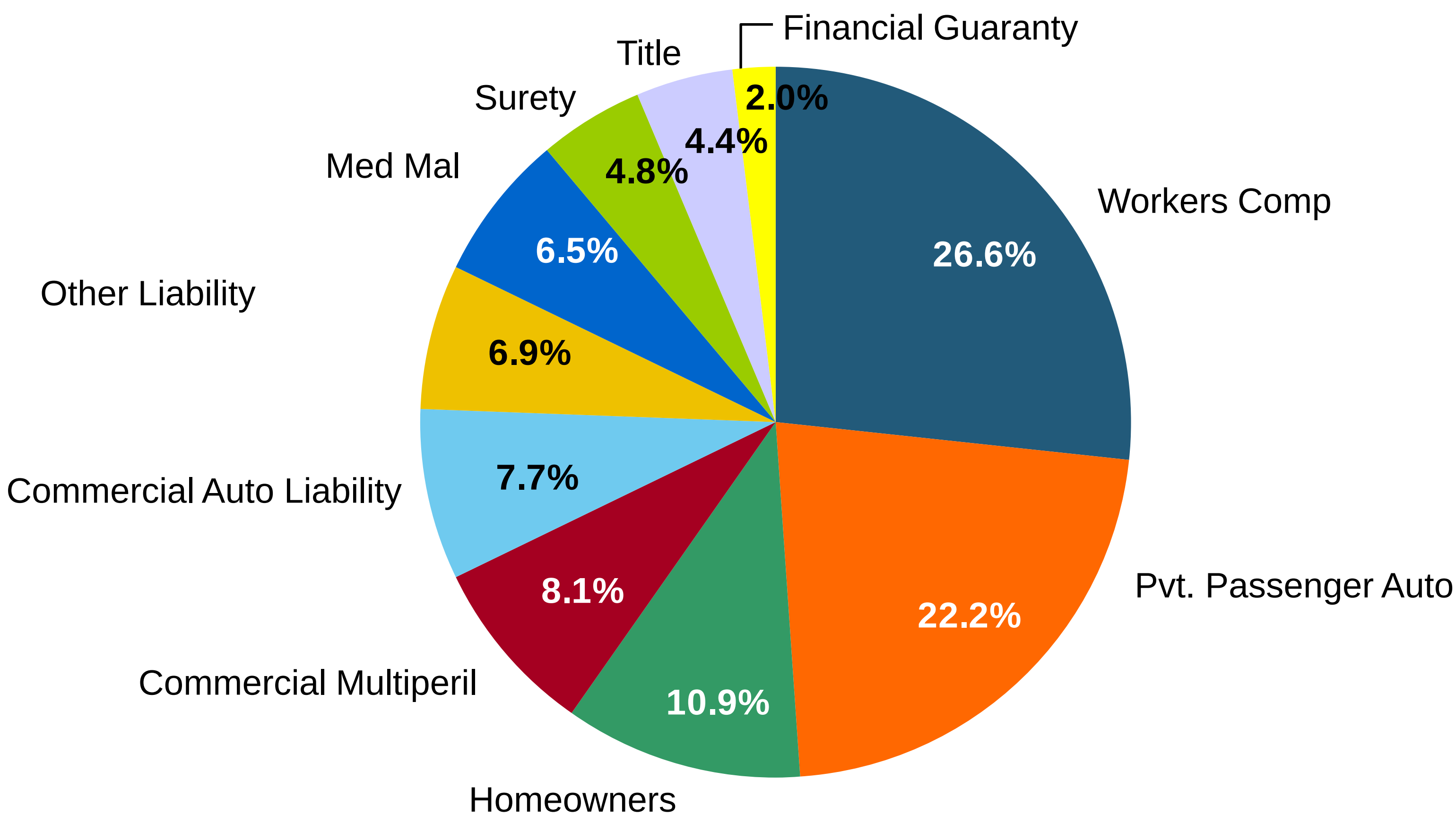
Workers Comp and Pvt. Passenger Auto Account for Nearly Half of the Premium Volume of Impaired Insurers Over the Past Decade



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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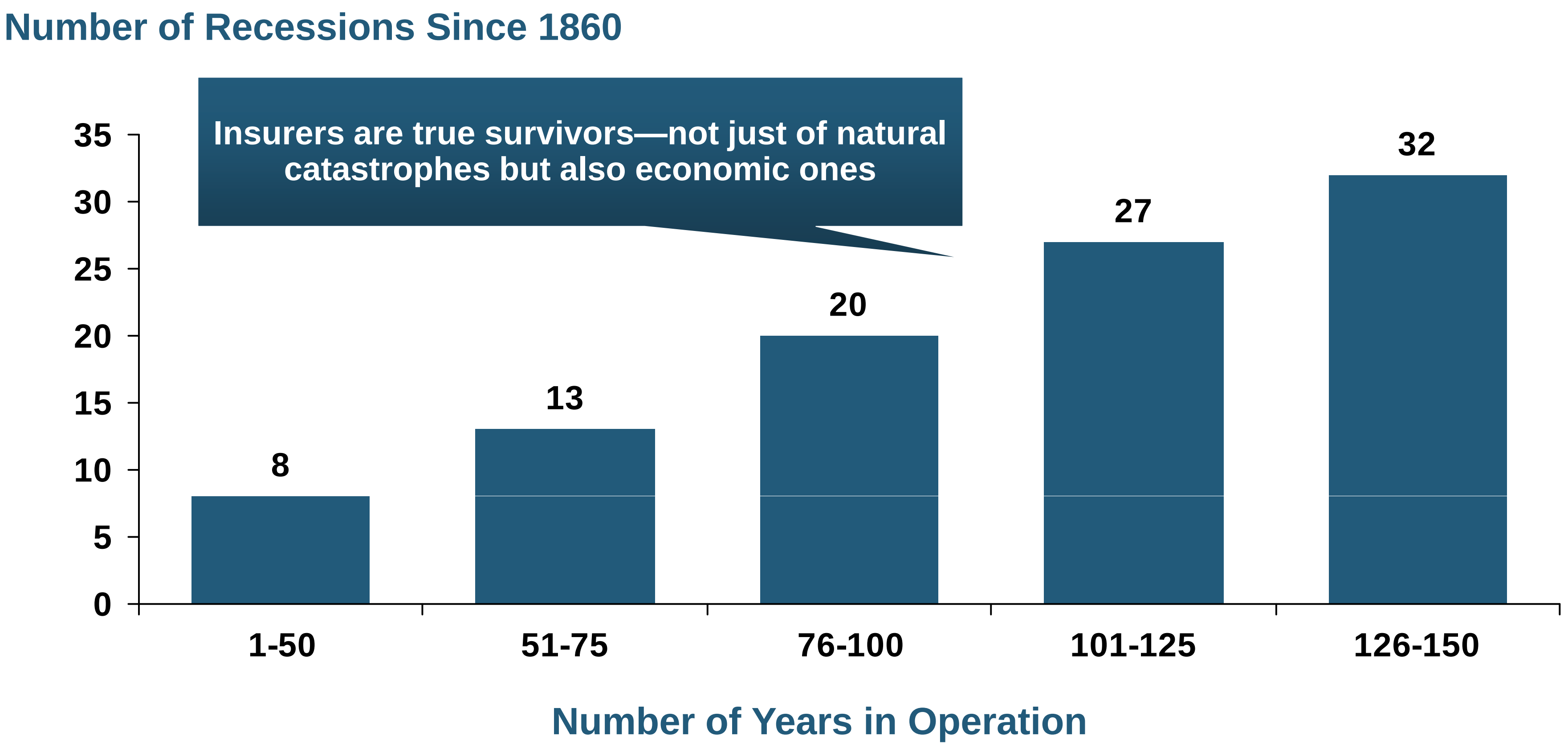

Many US Insurers Are Close to a Century Old or Older

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

Performance by Segment: Personal & Commercial Lines

Homeowners Insurance Combined Ratio: 1990–2011P

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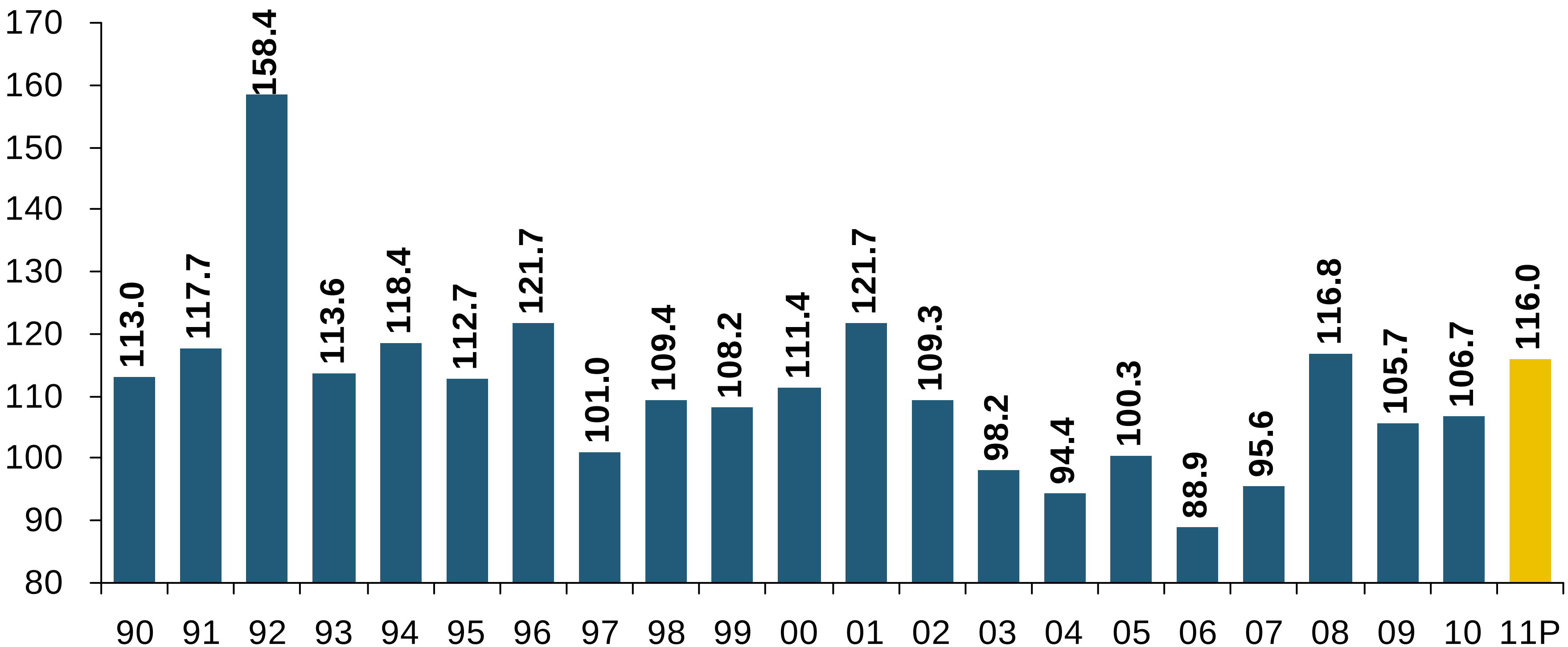

Homeowners Line Could Deteriorate in 2011 Due to Large Cat Losses. Extreme Regional Variation Can Be Expected Due to Local Catastrophe Loss Activity

Sources: A.M. Best (1990-2010); Insurance Information Institute (2011P).

Private Passenger Auto Combined Ratio: 1993–2011P

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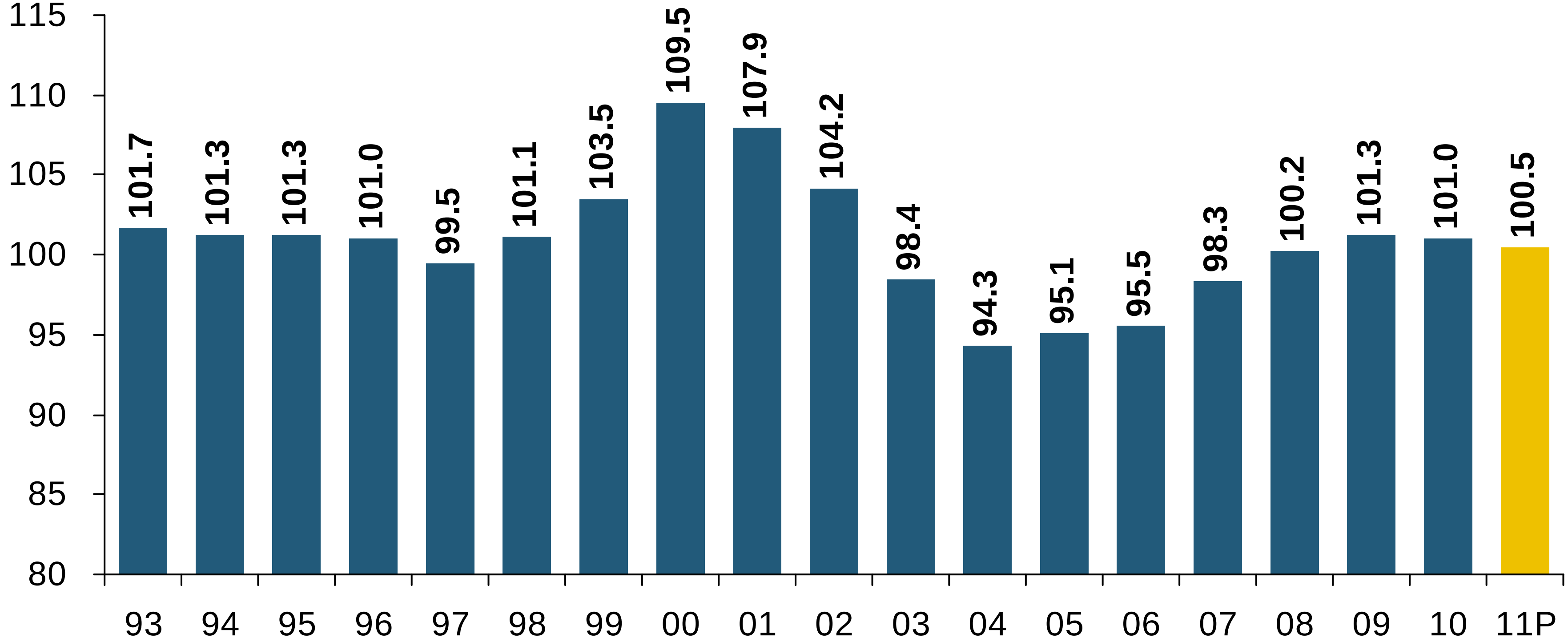
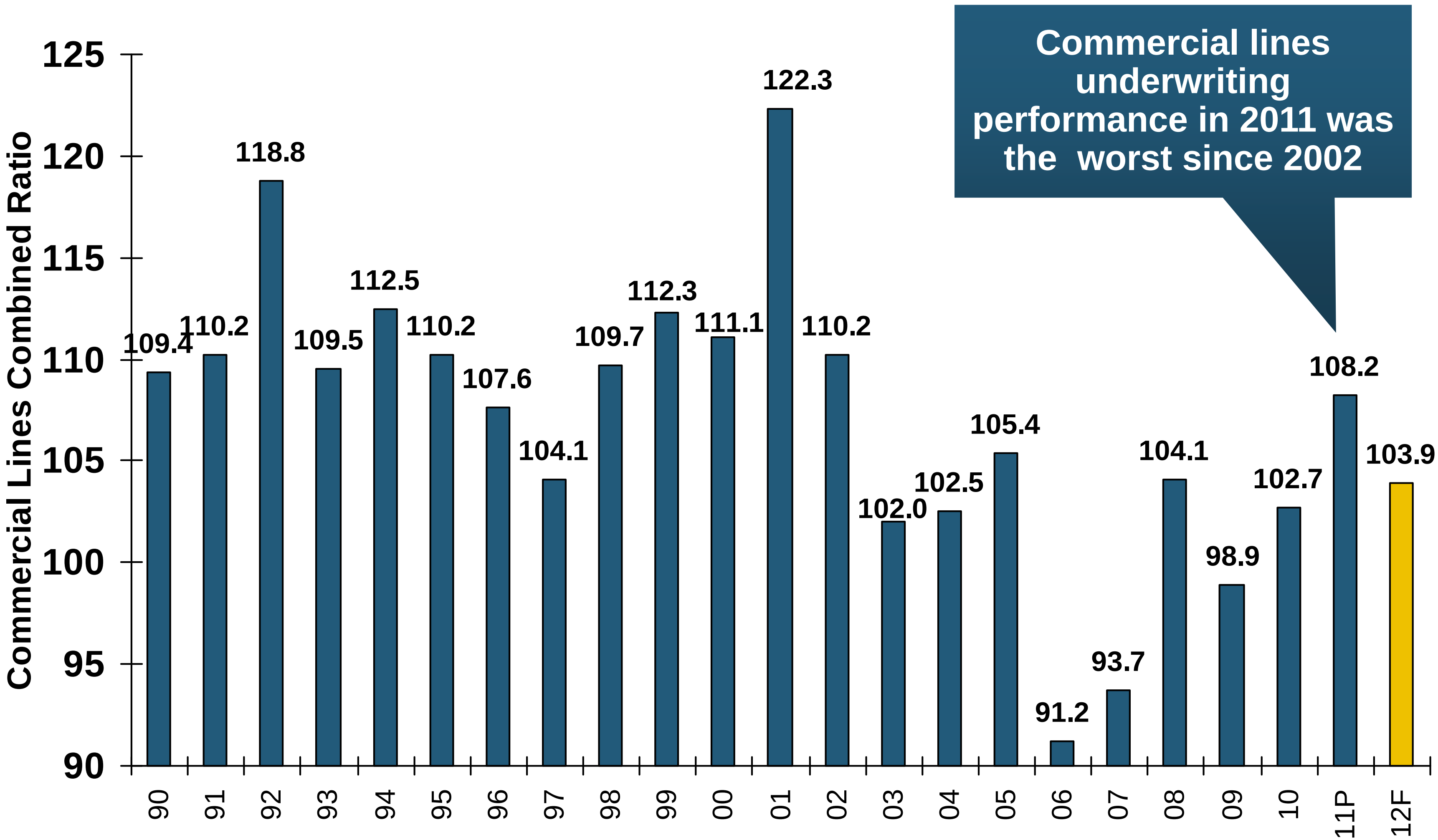


Private Passenger Auto Accounts for 34% of Industry Premiums and Remains the Profit Juggernaut of the P/C Insurance Industry

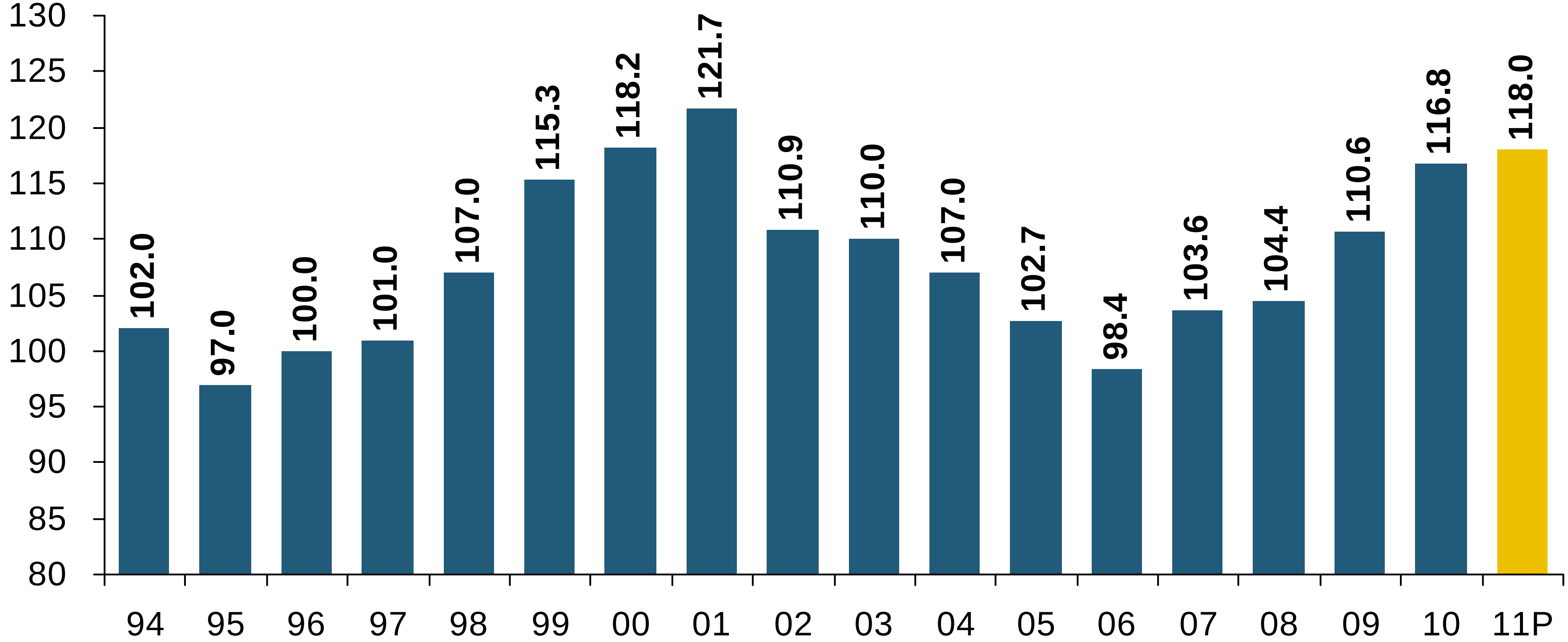
Sources: A.M. Best (1990-2010); Insurance Information Institute (2011P).

Commercial Lines Combined Ratio, 1990-2012F



Source: A.M. Best; Insurance Information Institute

Workers Compensation Combined Ratio: 1994–2011P



Workers Comp Underwriting Results Are Deteriorating Markedly and the Worst They Have Been in a Decade

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

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2. SURPLUS/CAPITAL/CAPACITY

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

US Policyholder Surplus: 1975–2011*

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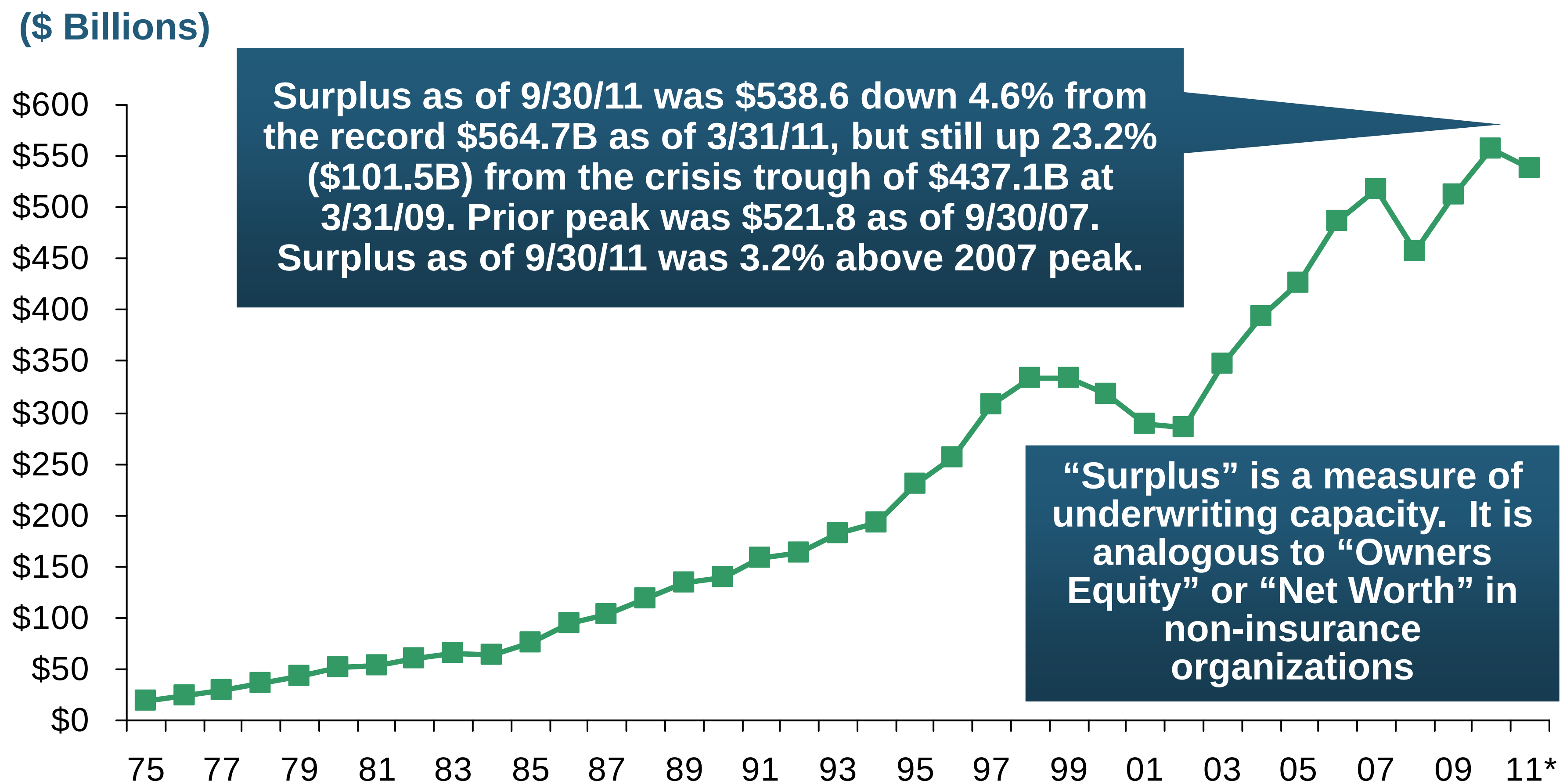
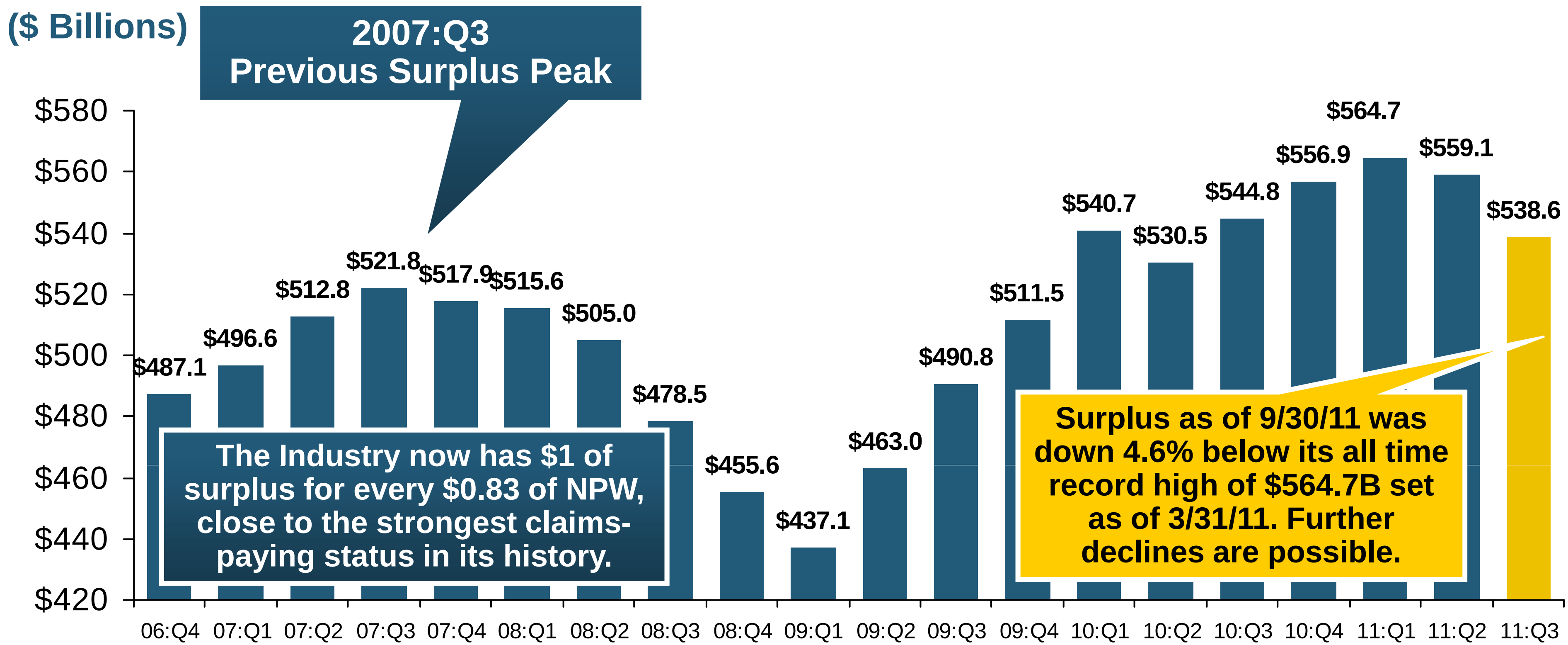


The Premium-to-Surplus Ratio Stood at $0.83:$1 as of 9/30/11, A Near Record Low (at Least in Recent History)*

* As of 9/30/11.

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

Policyholder Surplus, 2006:Q4–2011:Q3



Quarterly Surplus Changes Since 2011:Q1 Peak

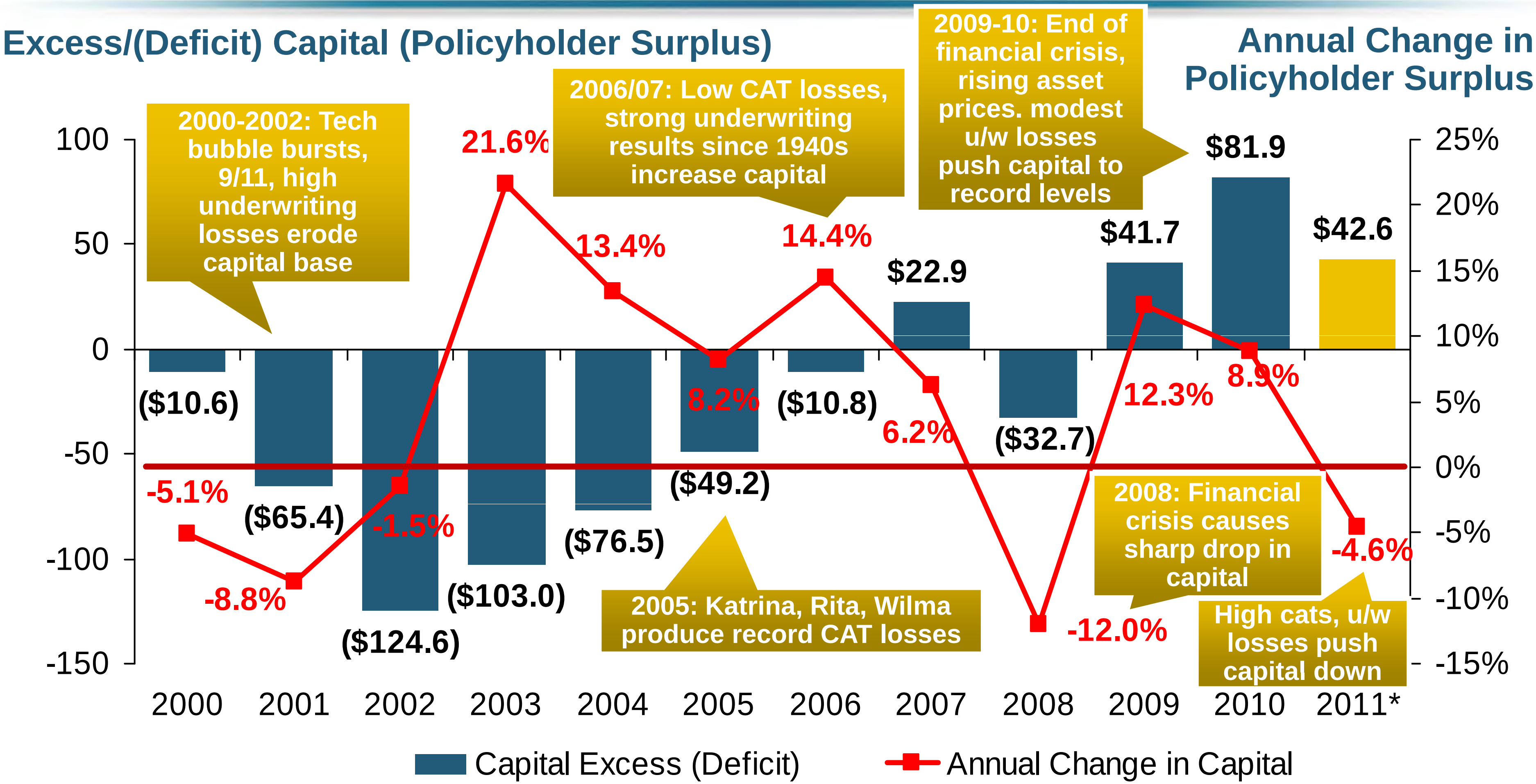
11:Q2: -$5.6B (-1.0%)

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.

Implied Excess (Deficit) Capital Assuming Premium/Surplus Ratio = 0.9:1



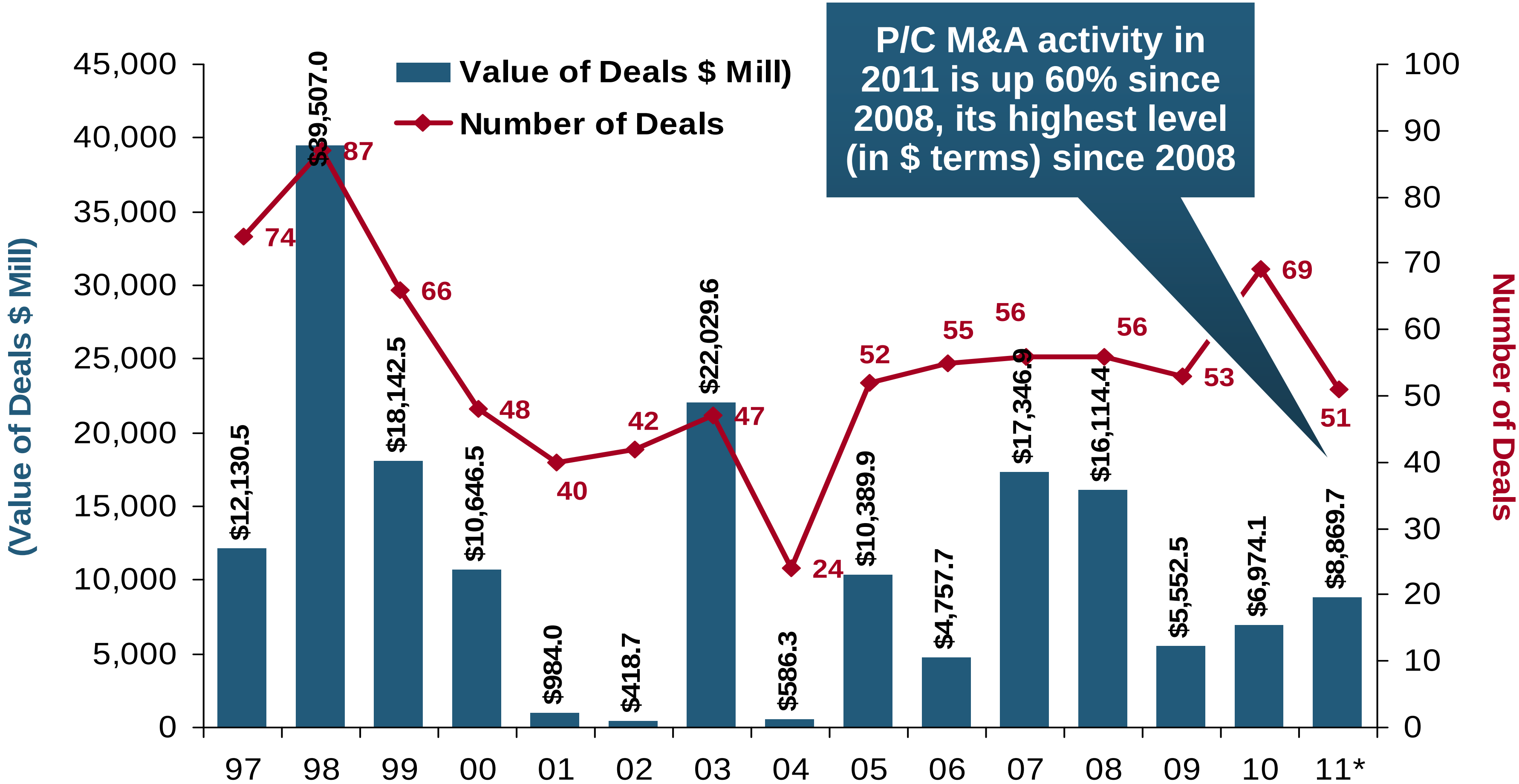
Record Policyholder Surplus (Capital) Resulted in Significant Excess Capital in the P/C Insurance Sector in 2010. Deteriorating Underwriting Losses, Higher CAT Activity, More Modest Market Returns Shrank Excess Capital in 2011 by Nearly Half.

Note: The assumption of a 0.9:1 P/S ratio is derived from a Feb. 2011 announcement by Advisen, Ltd., that the US P/C insurance industry has $74 billion in excess capital. The implied P/S ratio (calculated by III) is 0.88:1, which was rounded to 0.9:1.

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

* Net Premiums Written

M&A Activity 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.

M&A Activity Globally Among P/C Insurers Remains Subdued: Little Capacity Leaving

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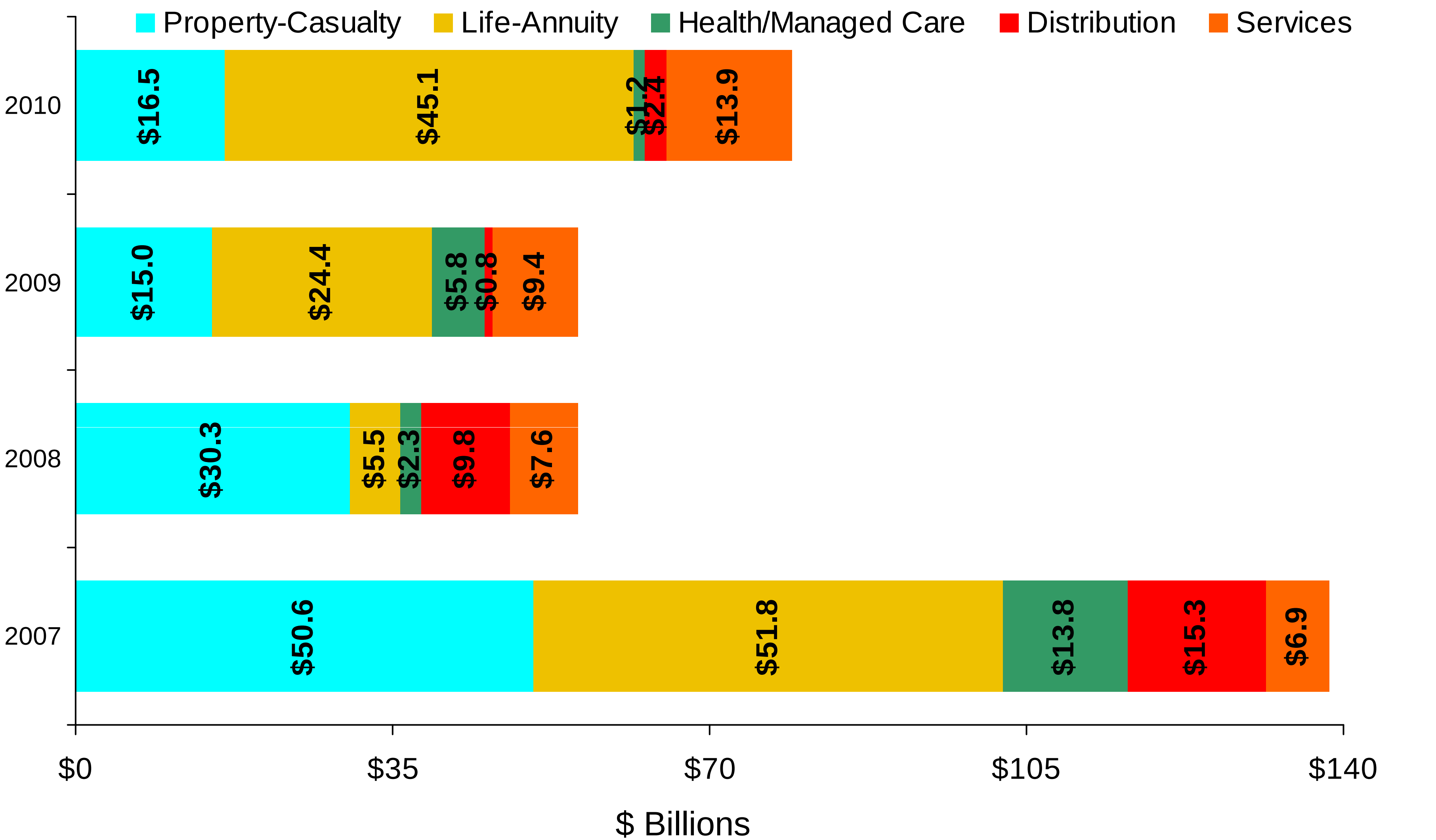

Sources: Conning Research; Insurance Information Institute.

Paid-in Capital, 2005–2010

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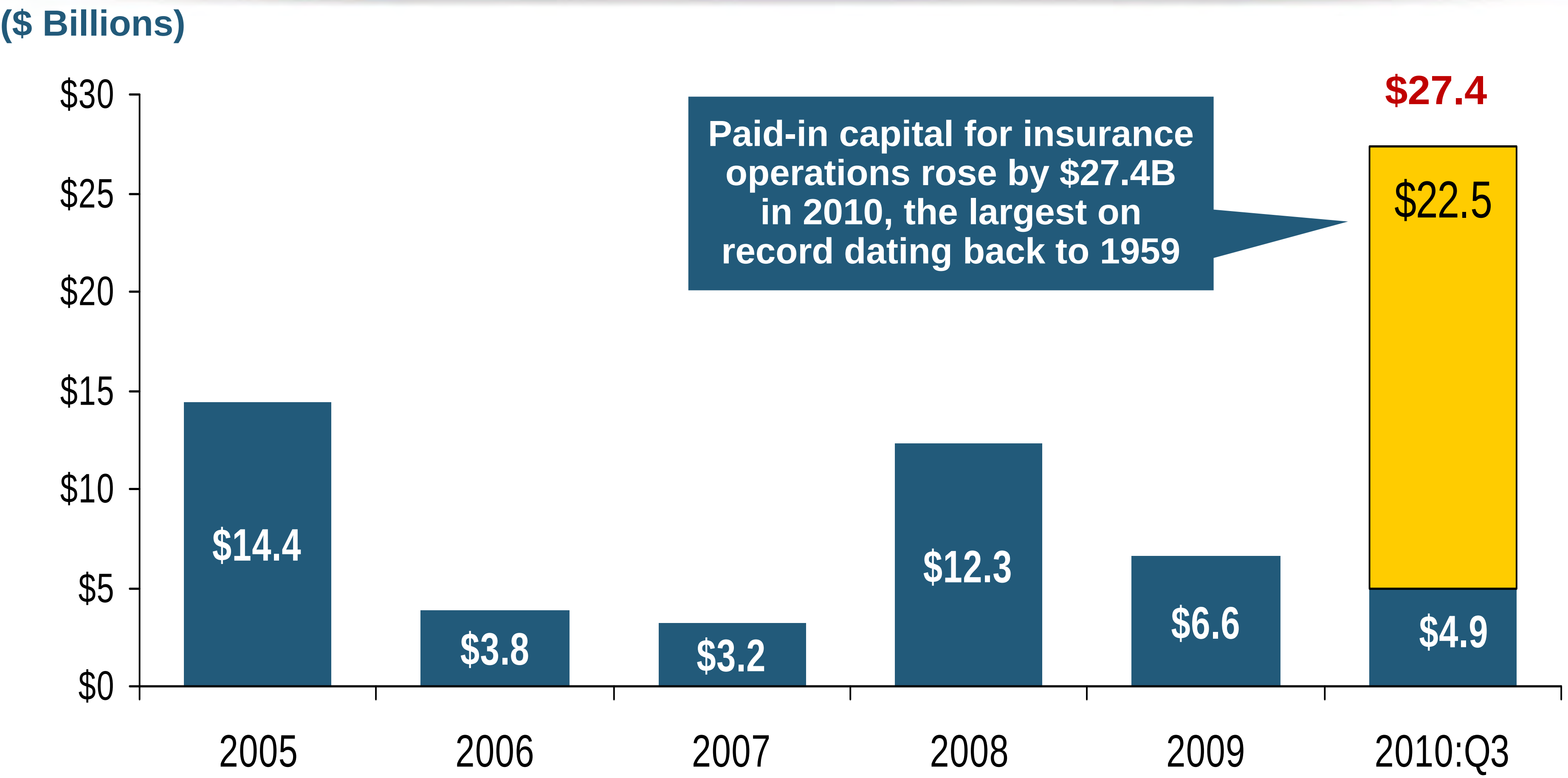

In 2010 One Insurer's Paid-in Capital Rose by $22.5B as Part of an Investment in a Non-insurance Business

Source: ISO; Insurance Information Institute.

Ratio of Insured Loss to Surplus for Largest Capital Events Since 1989*

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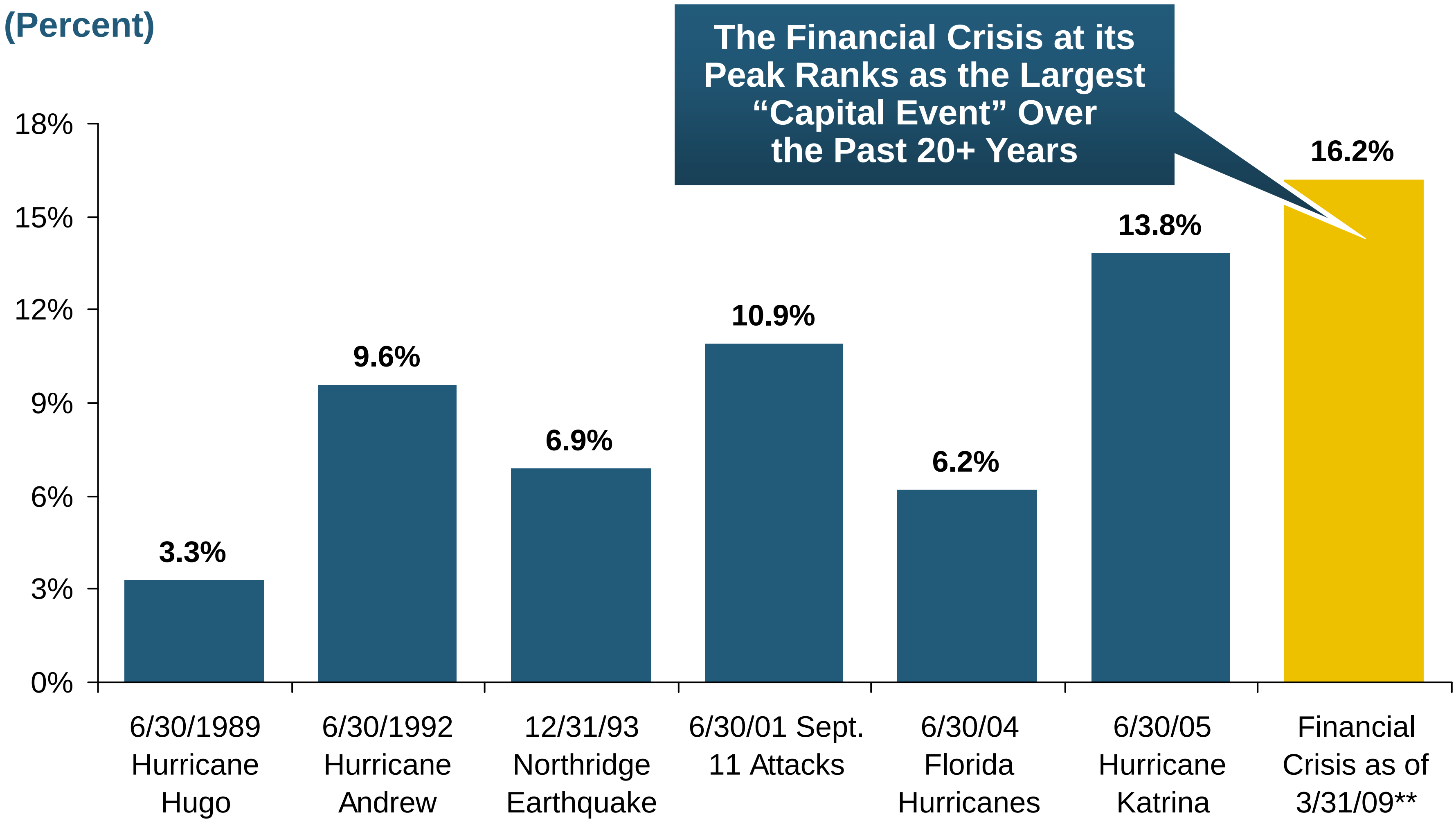

* Ratio is for end-of-quarter surplus immediately prior to event. Date shown is end of quarter prior to event

** Date of maximum capital erosion; As of 9/30/09 (latest available) ratio = 5.9%

Source: PCS; Insurance Information Institute

Historically, Hard Markets Follow When Surplus "Growth" is Negative*

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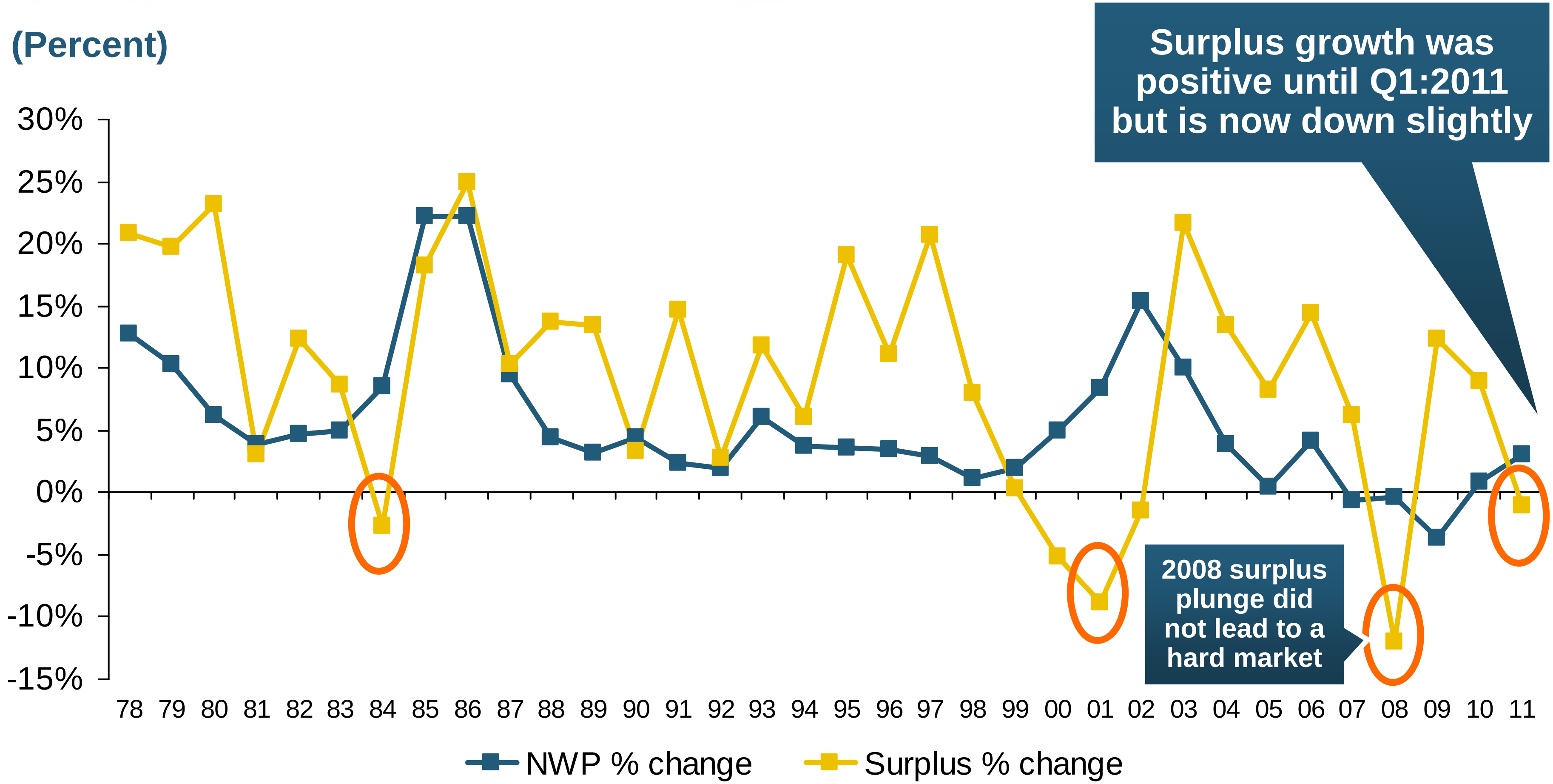

Sharp Decline in Capacity is a Necessary but Not Sufficient Condition for a True Hard Market

* 2011 NWP and Surplus figures are % changes as of Q3:11 vs. Q3:10.

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

Ratio of Net Premiums Written to Policyholder Surplus, 1970-2011*

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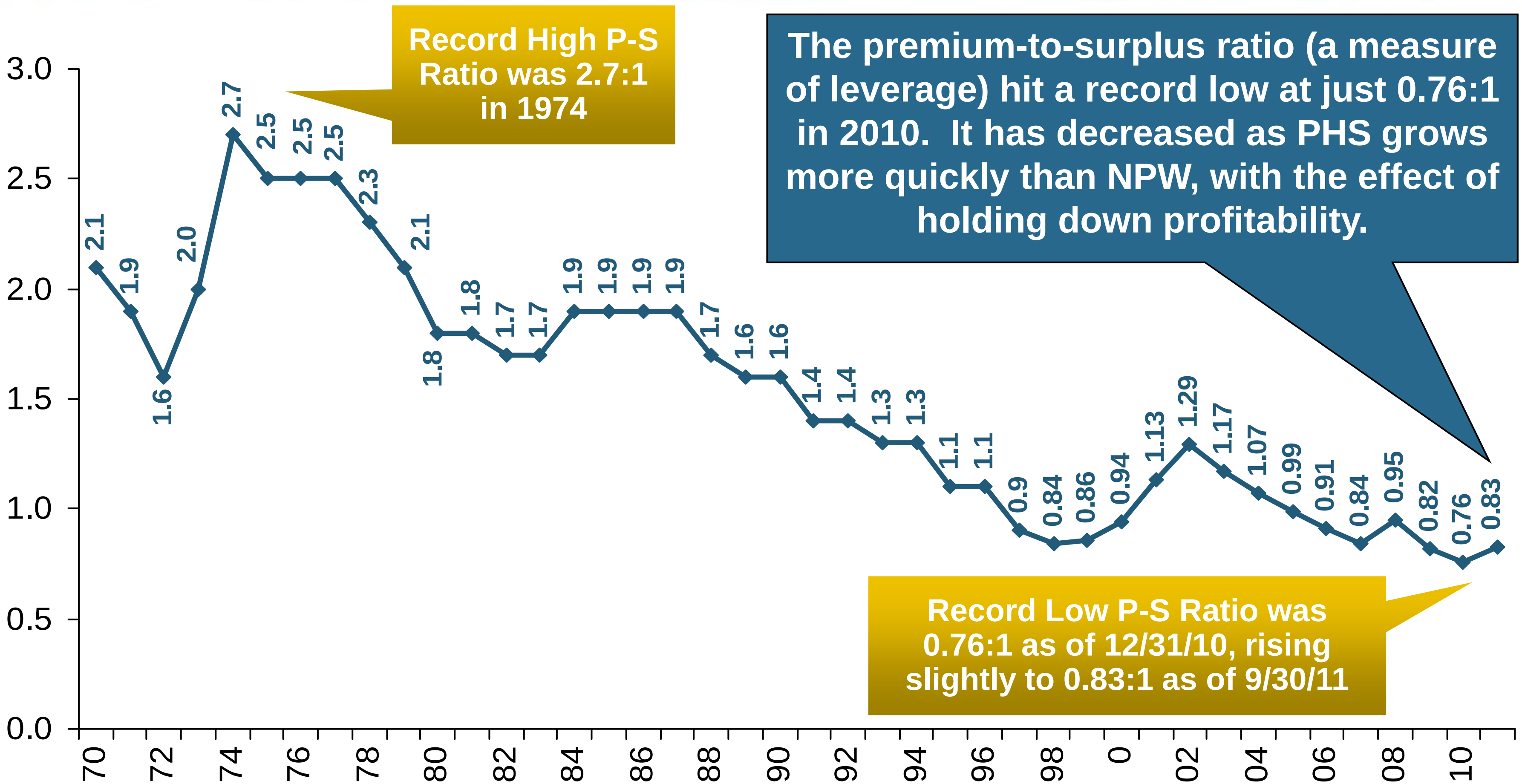

The Premium-to-Surplus Ratio in 2011:Q3 Implies that P/C Insurers Held $1 in Surplus Against Each $0.83 Written in Premiums. In 1974, Each $1 of Surplus Backed $2.70 in Premium.

*2011 data are as of 9/30/11.

Sources: Insurance Information Institute calculations from A.M. Best data.

3. REINSURANCE MARKET CONDITIONS

Record Global Catastrophes Activity is Pressuring Pricing

Significant Market Losses, 1985-2011*

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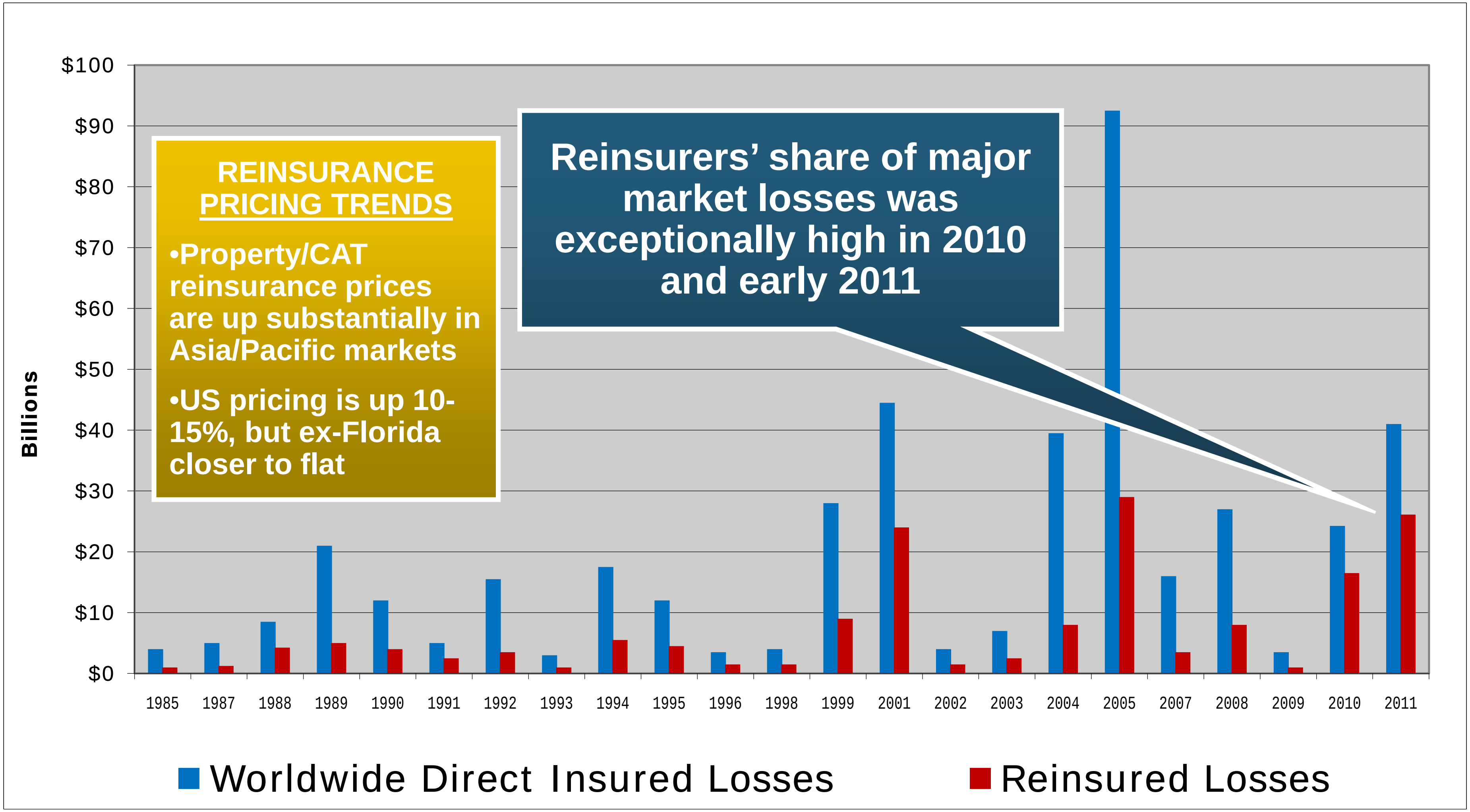

Source: Holborn; RAA.

* 2011 events are as of March 31 and are preliminary and may change as loss estimates are refined further.

Reinsurer Share of Recent Significant Market Losses

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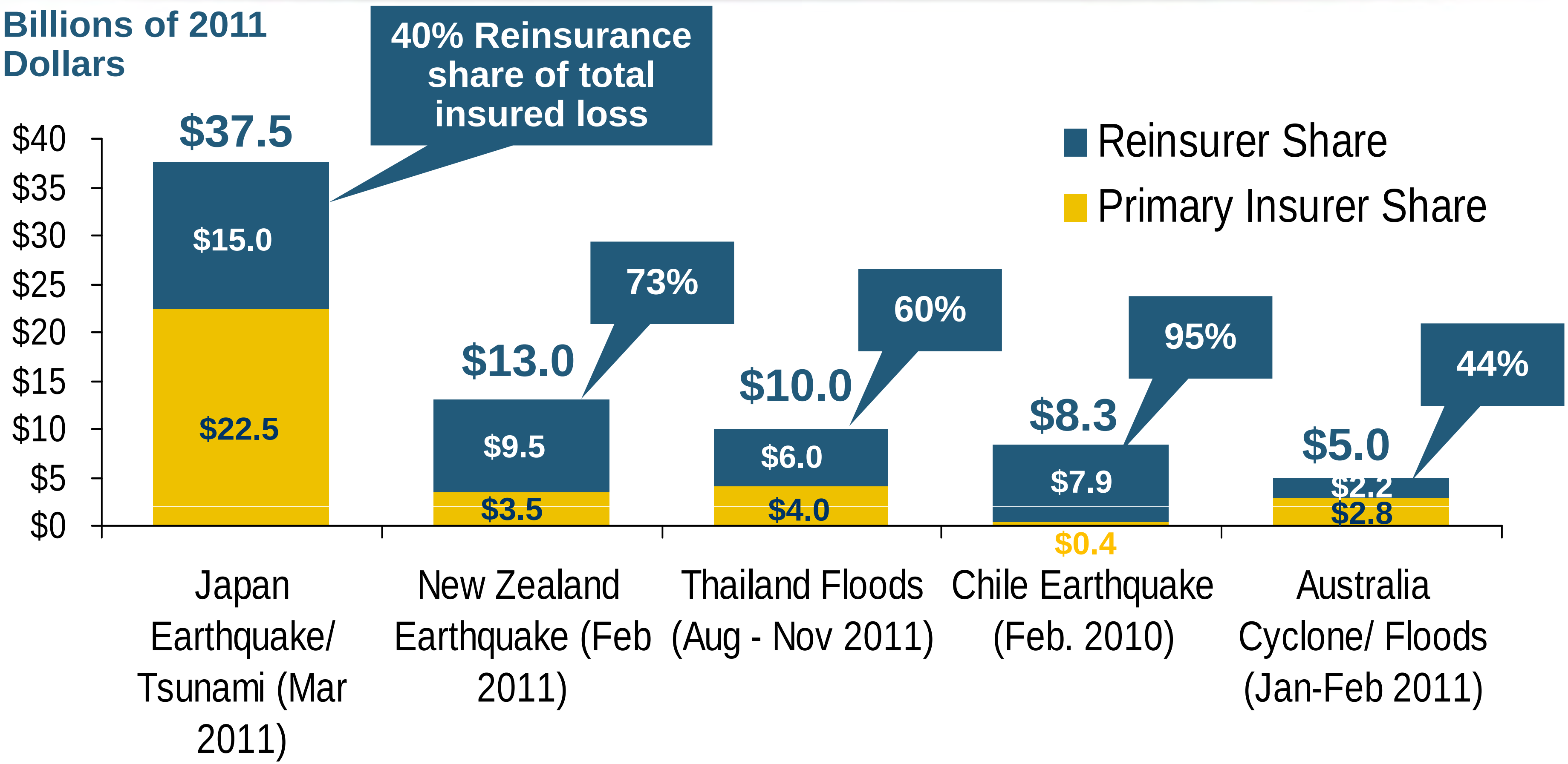
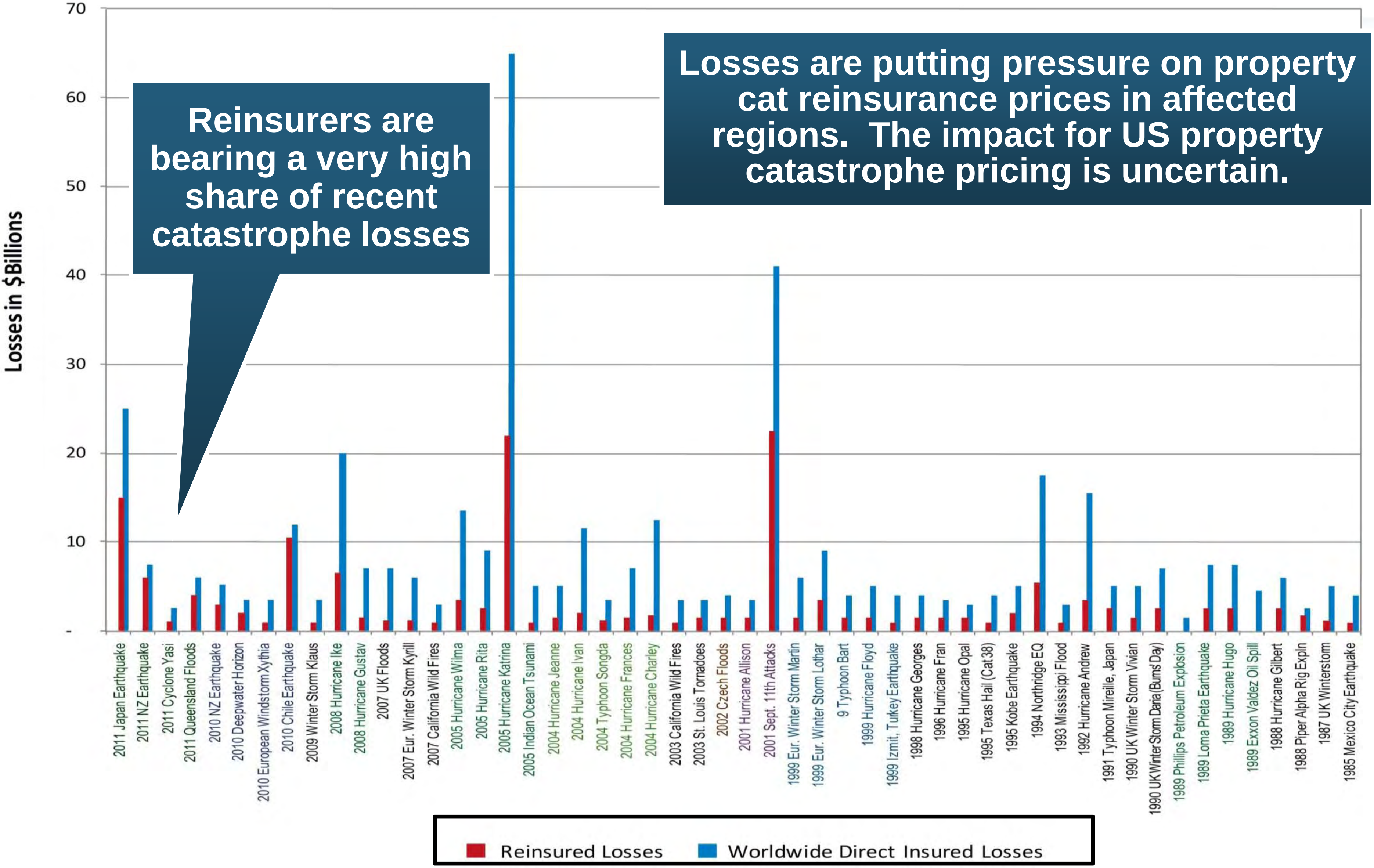


Reinsurers Paid a High Proportion of Insured Losses Arising from Major Catastrophic Events Around the World in Recent Years

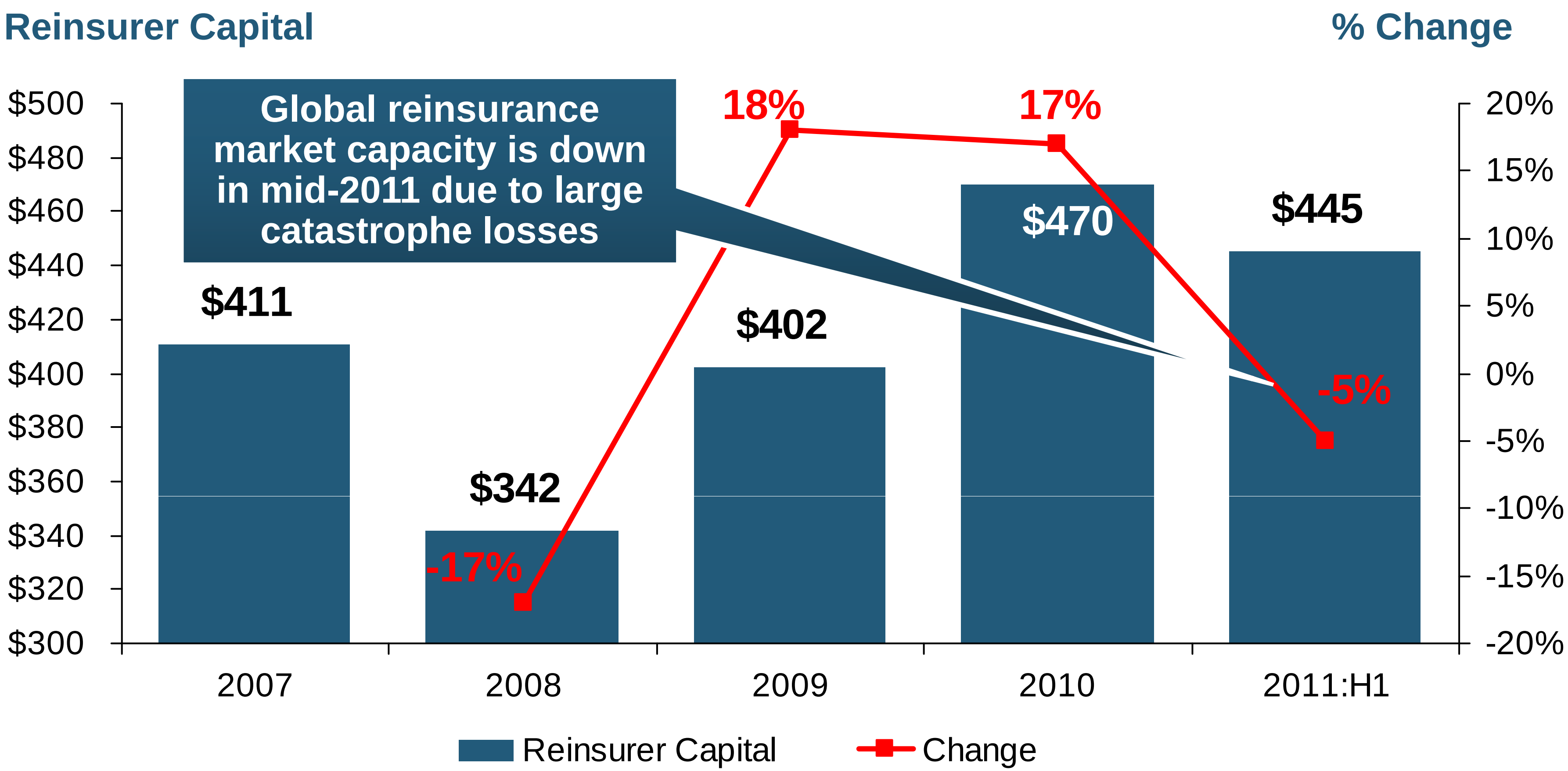
Source: Insurance Information Institute from reinsurance share percentages provided in RAA, ABIR and CEA press release, Jan. 13, 2011.

Significant Market Losses by Event, 1985-2011*



Source: Holborn, RAA. *2011 events as of March 31 are preliminary and may change as loss estimates are refined further.

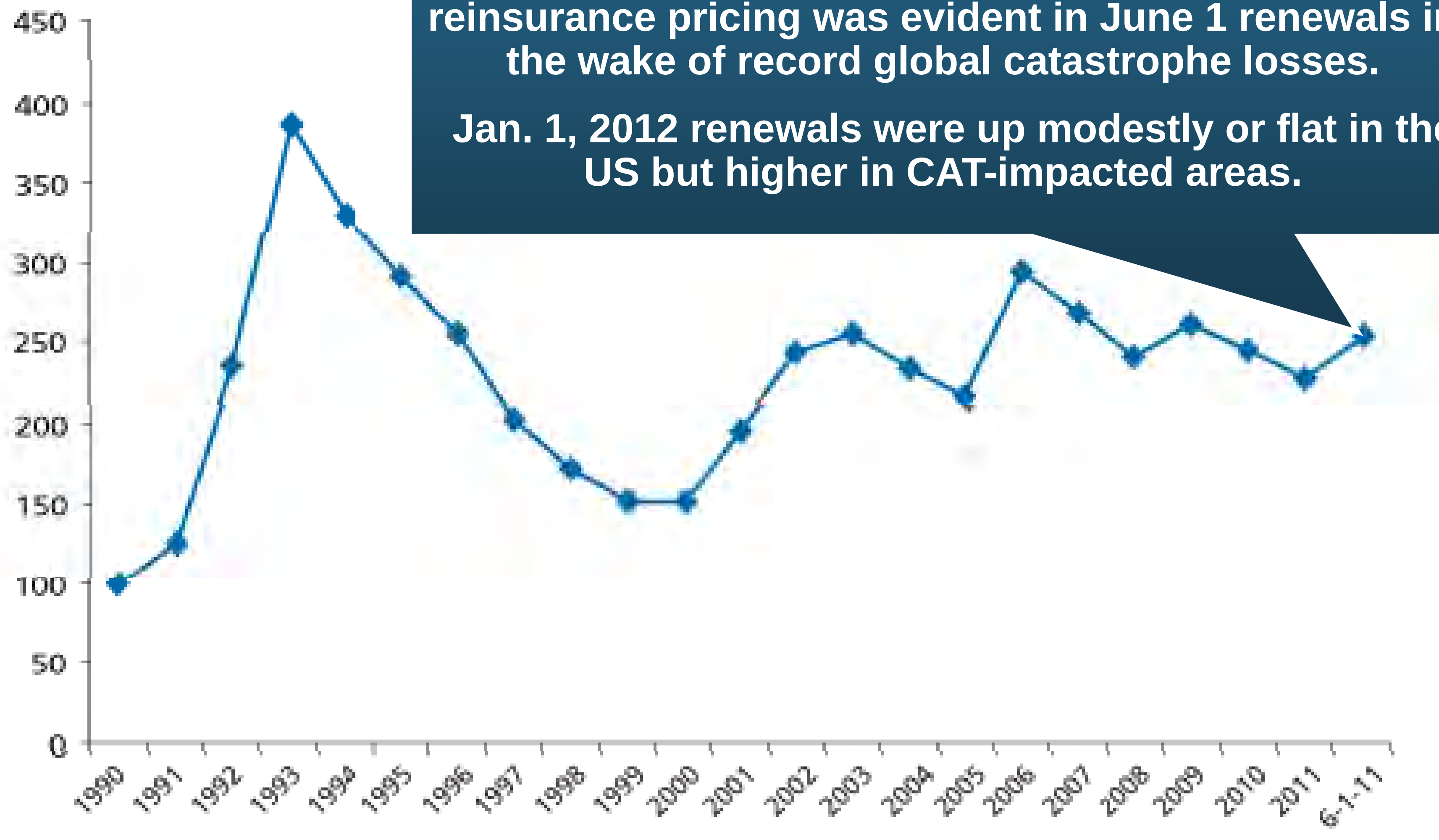
Global Reinsurance Capital, 2007-2011:H1



High Global Catastrophe Losses Have Had a Modest Adverse Impact on Global Reinsurance Market Capacity

Source: Aon Reinsurance Market Outlook, September 2011 from Individual Company and AonBenfield Analytics; Insurance Information Institute.

Global Property Catastrophe Rate on Line Index, 1990-2011 YTD (6/1/11)



A modest increase in global property catastrophe reinsurance pricing was evident in June 1 renewals in the wake of record global catastrophe losses.

Jan. 1, 2012 renewals were up modestly or flat in the US but higher in CAT-impacted areas.

Source: Guy Carpenter, *GC Capital Ideas.com,* September 26, 2011.

Historical Capital Levels of Guy Carpenter Reinsurance Composite, 1998—2Q11

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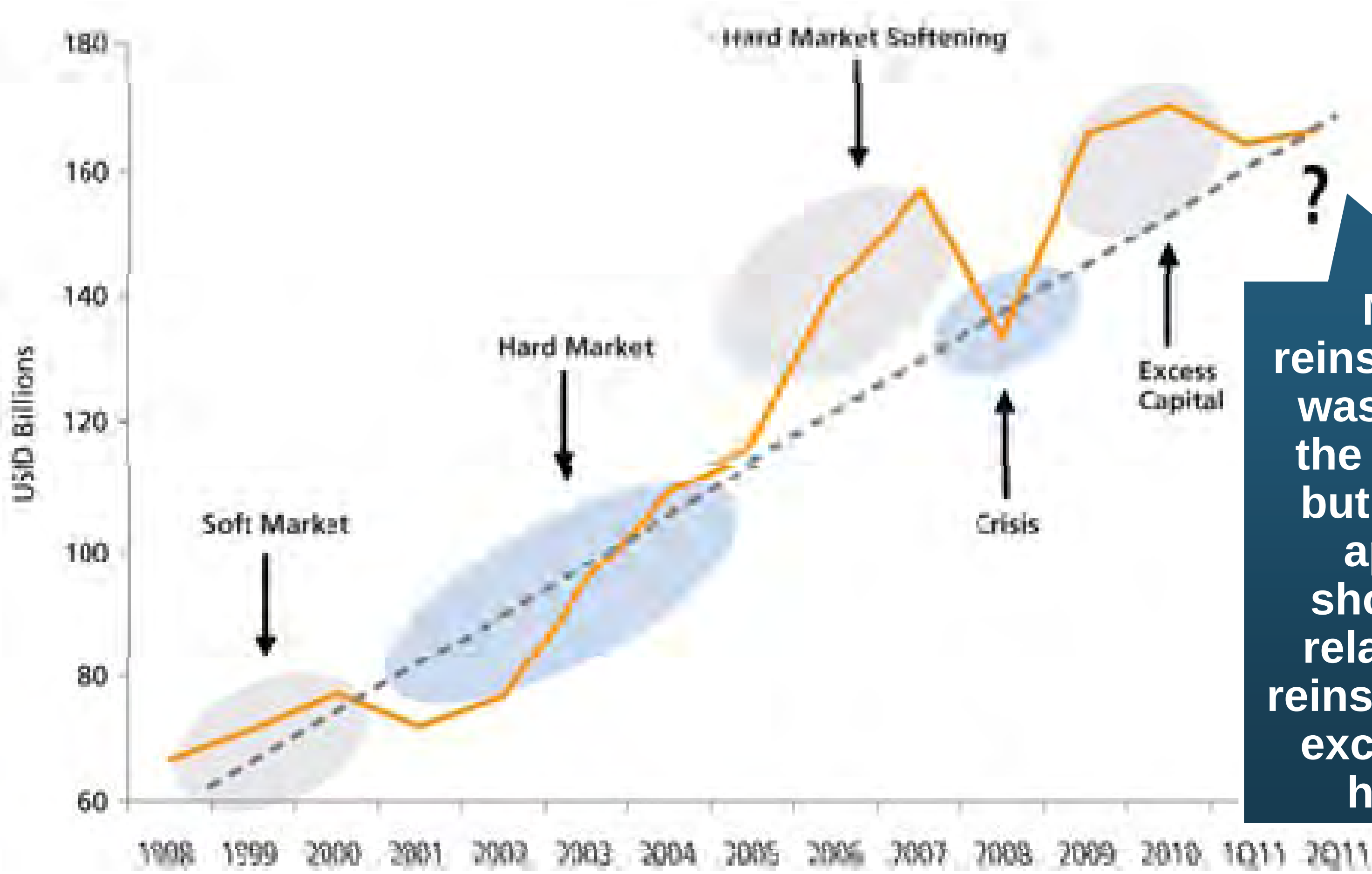

Most excess reinsurance capacity was removed from the market in 2011, but there does not appear to be a shortage, leading relatively flat 2012 reinsurance renewals except in areas hit hard by CATs.

Source: Guy Carpenter, *GC Capital Ideas.com,* November 23, 2011.

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4. RENEWED PRICING DISCIPLINE

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

Soft Market Persisted in 2010 but Growth Returned: More in 2011?

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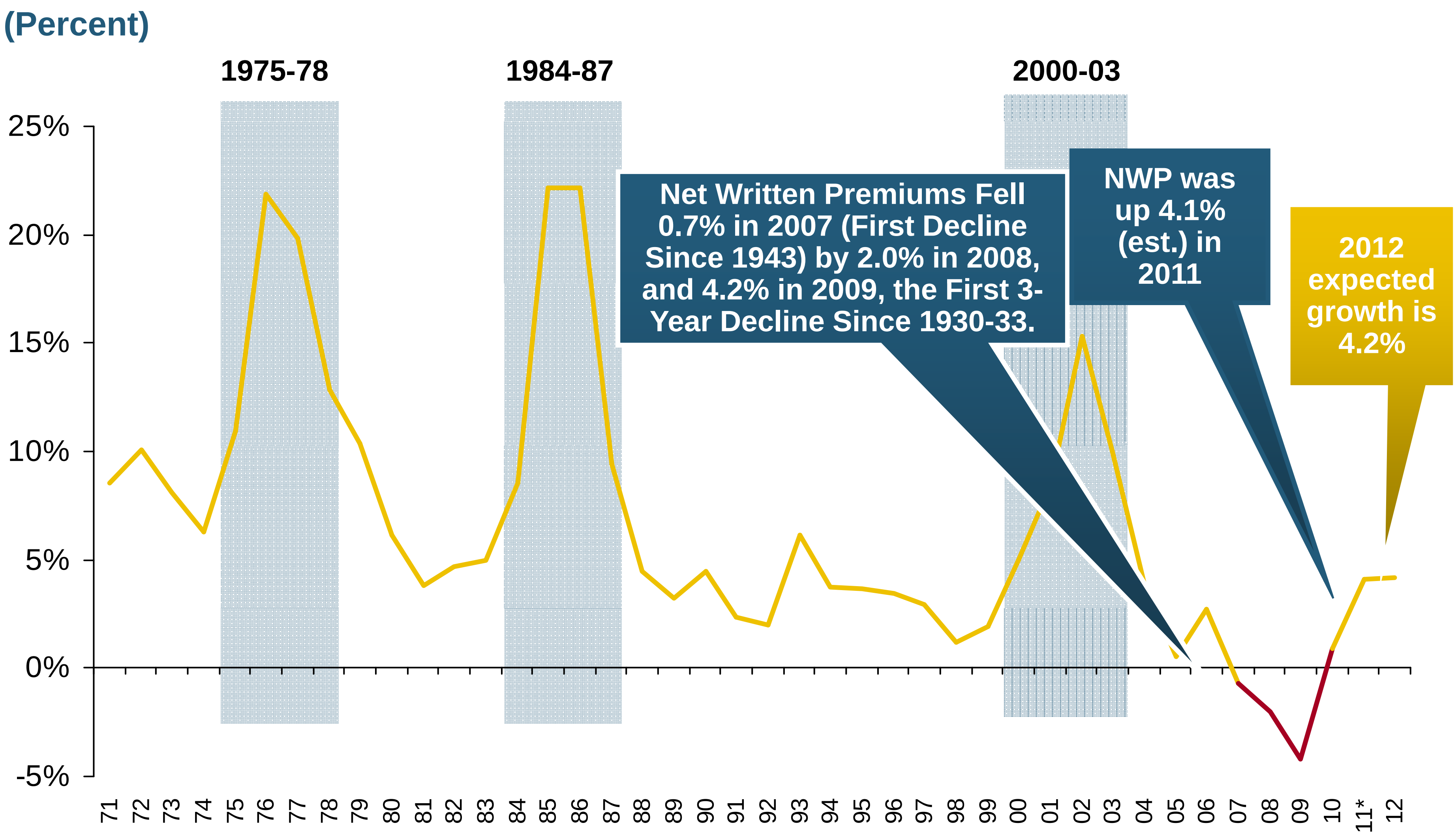

*2011 and 2012 figures are A.M. Best Estimates
Shaded areas denote “hard market” periods
Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute.

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

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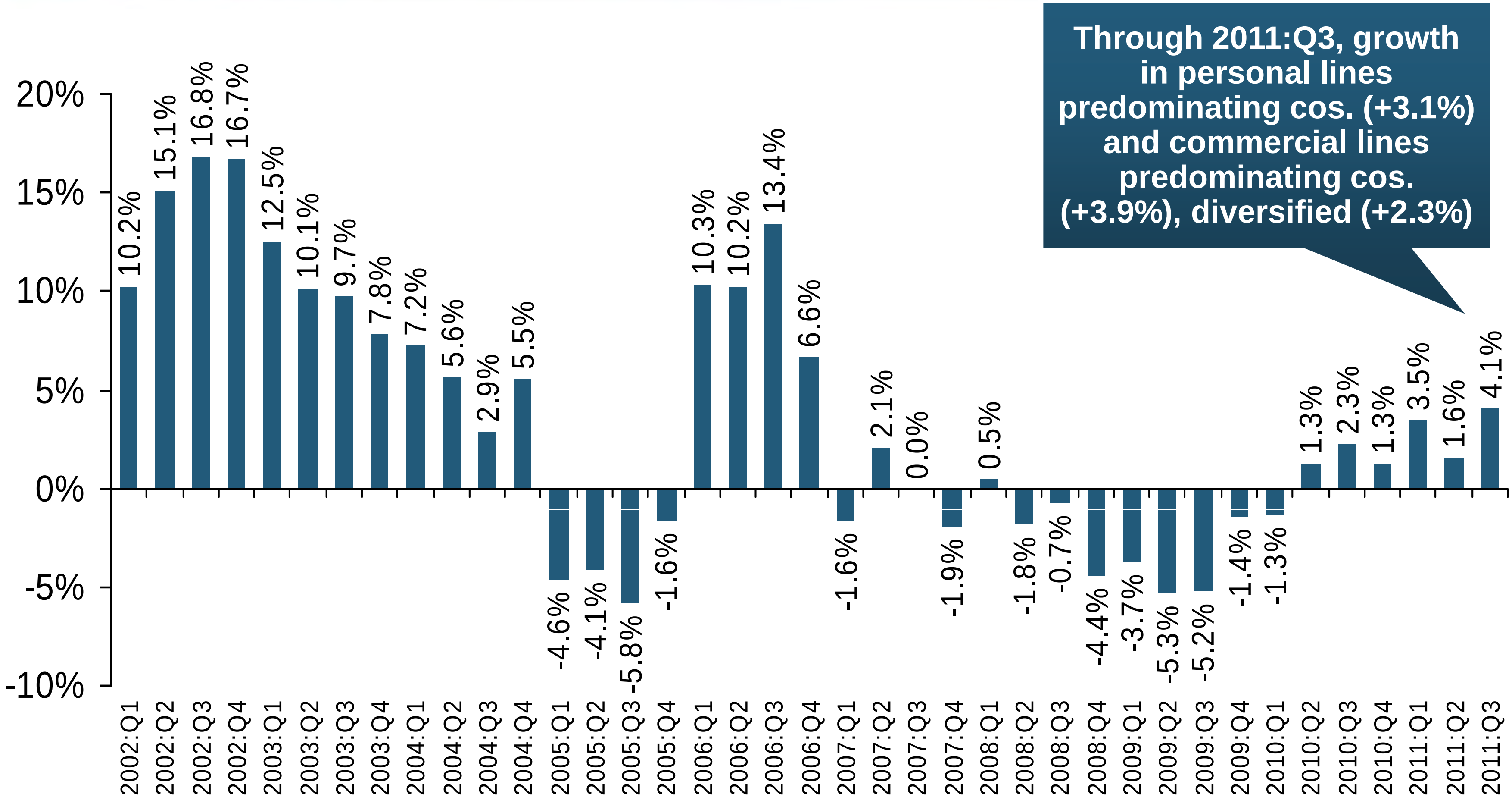
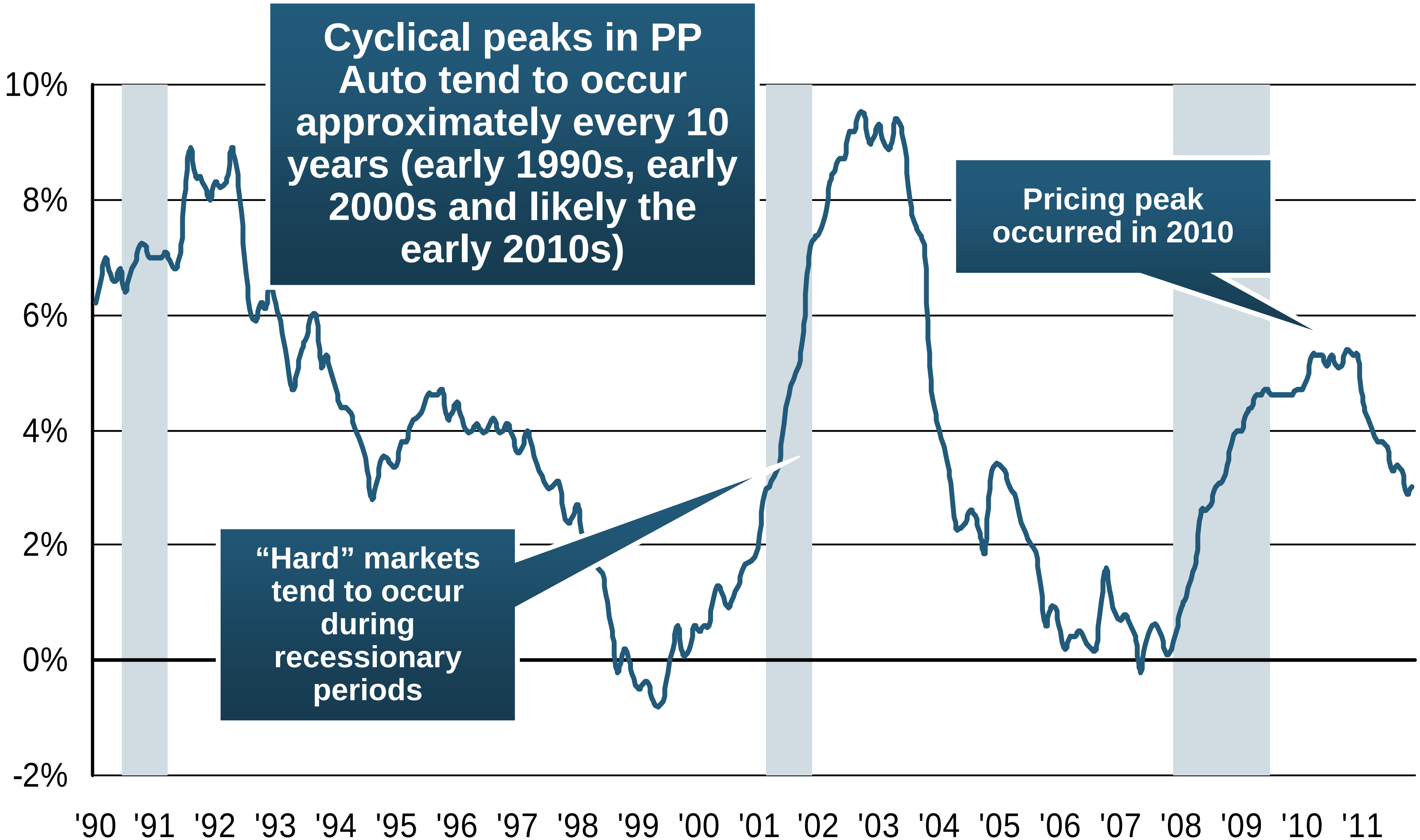


Finally! Back-to-back quarters of net written premium growth (vs. the same quarter, prior year)

Sources: ISO, Insurance Information Institute.

Monthly Change* in Auto Insurance Prices, 1991–2011*



*Percentage change from same month in prior year; through November 2011; seasonally adjusted

Note: Recessions indicated by gray shaded columns.

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

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

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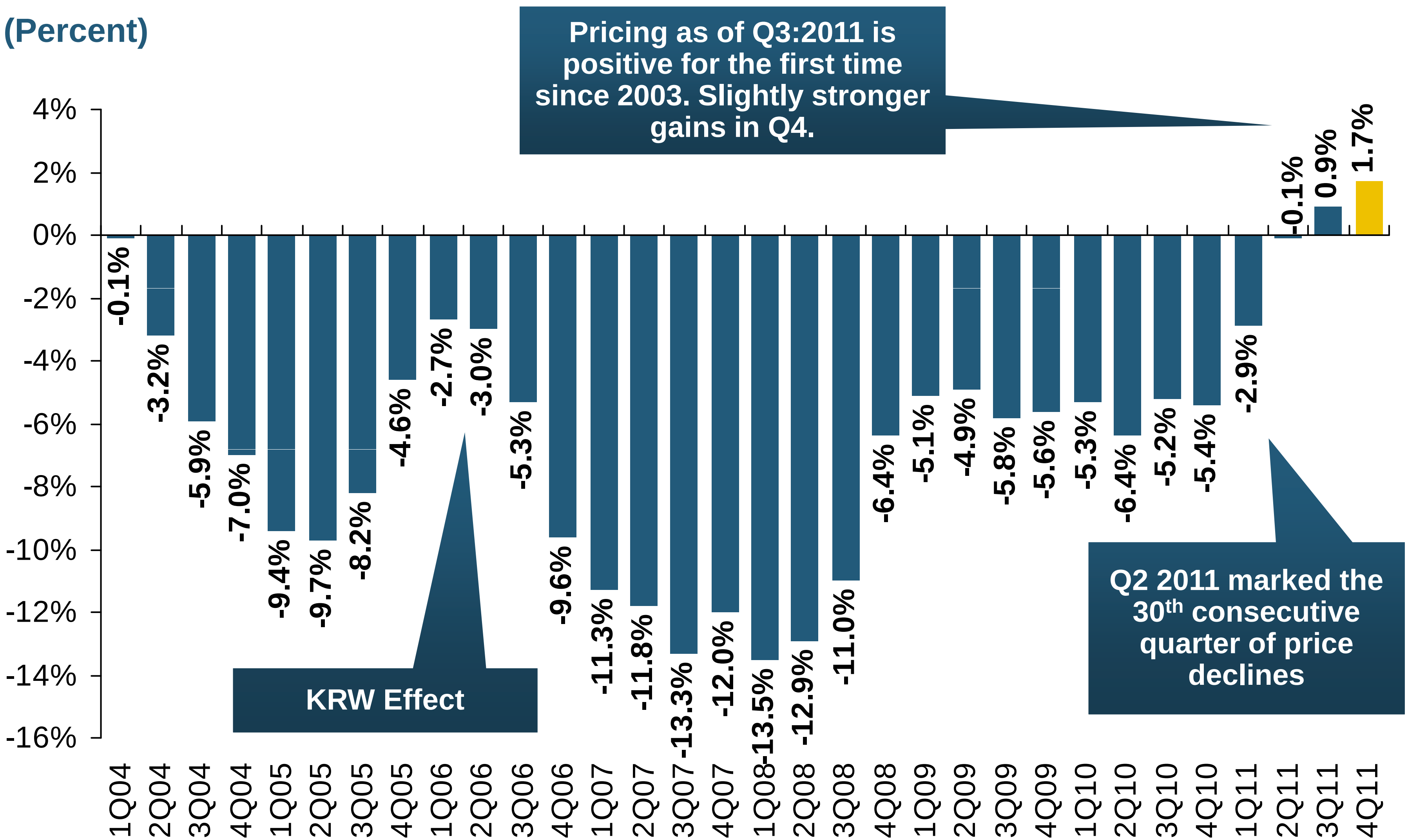

Source: Council of Insurance Agents & Brokers (1Q04-4Q11); Marsh (Q411E); Insurance Information Institute

Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2011:Q3

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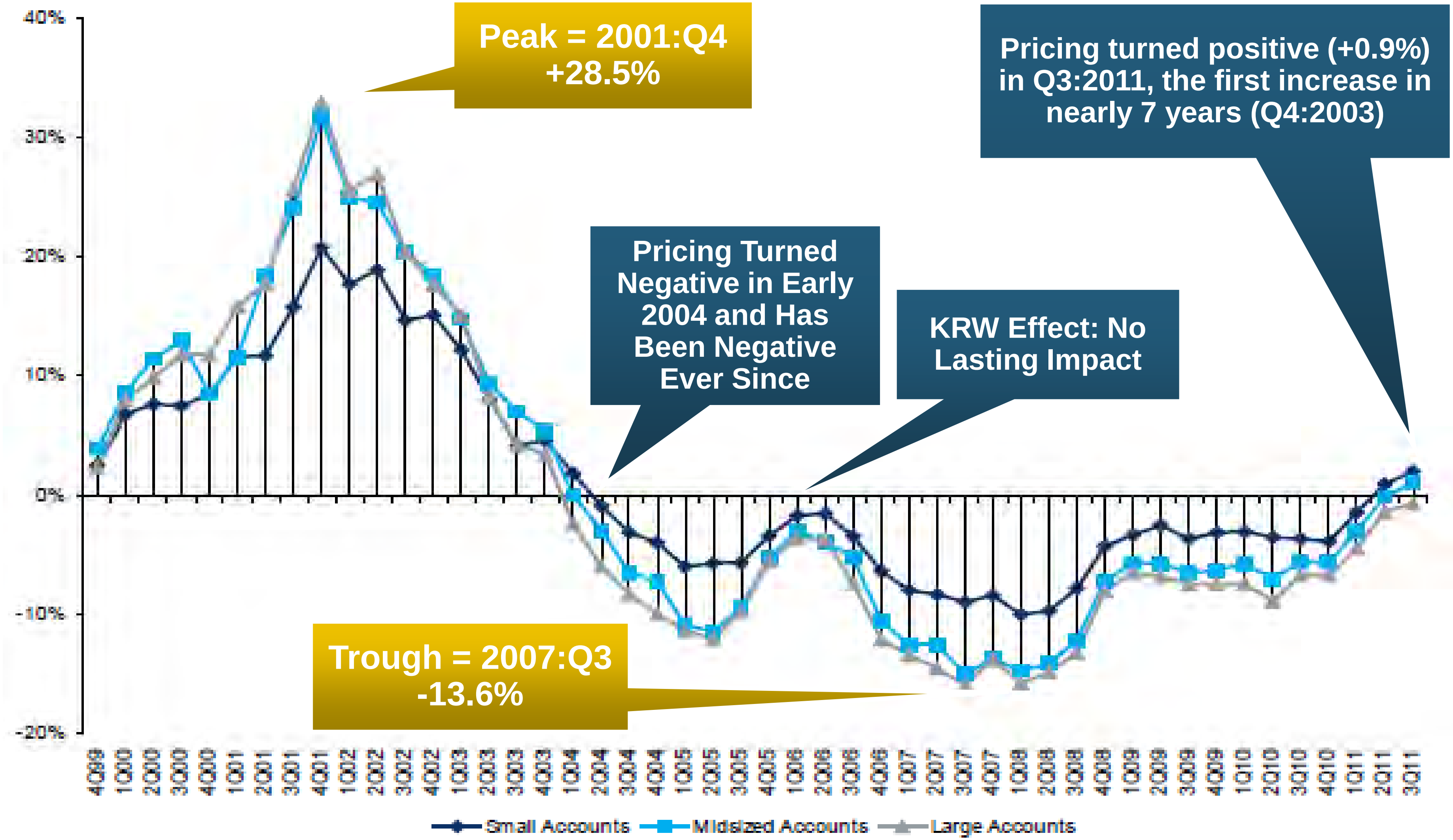
Percentage Change (%)



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

Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2011:Q3

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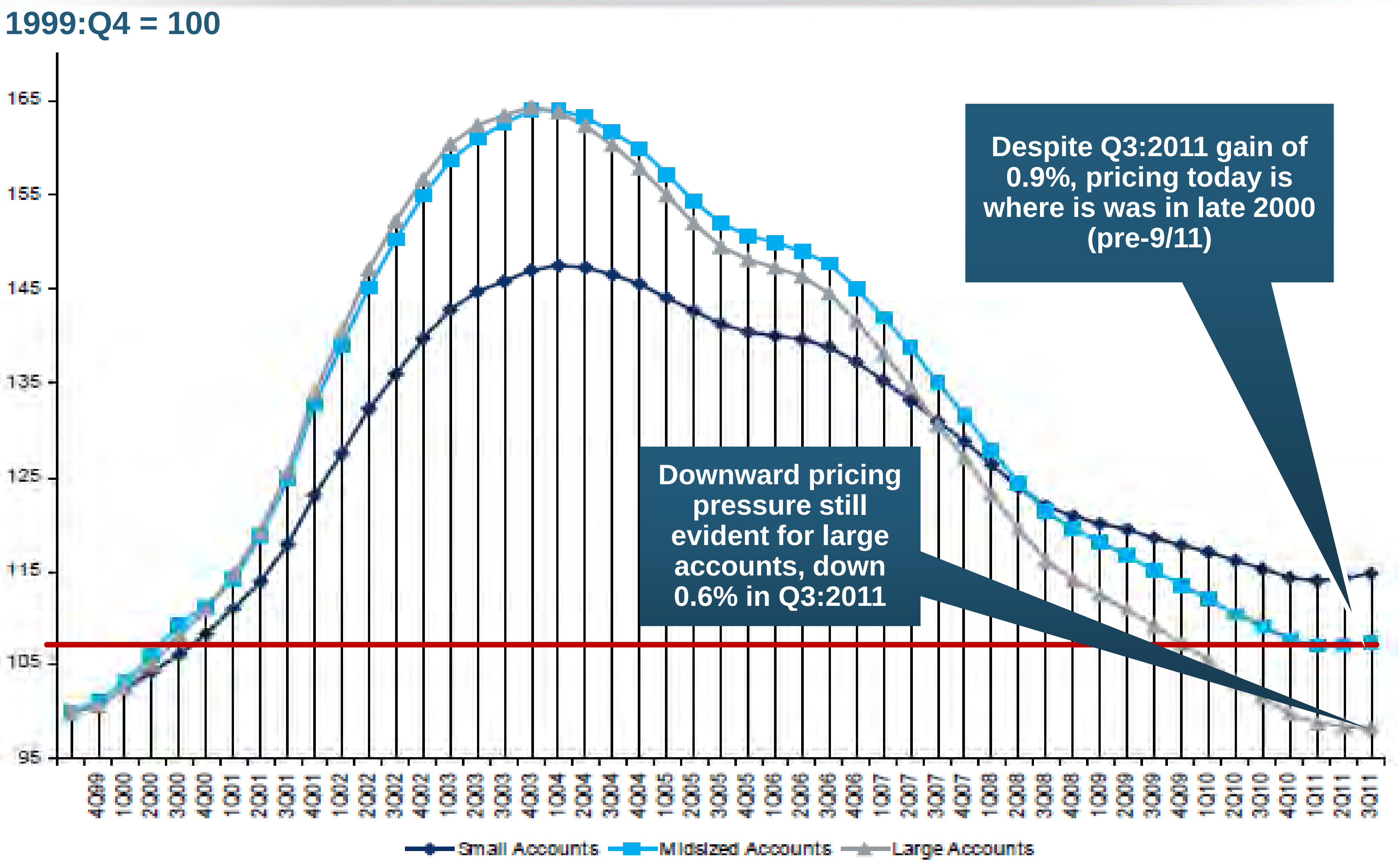
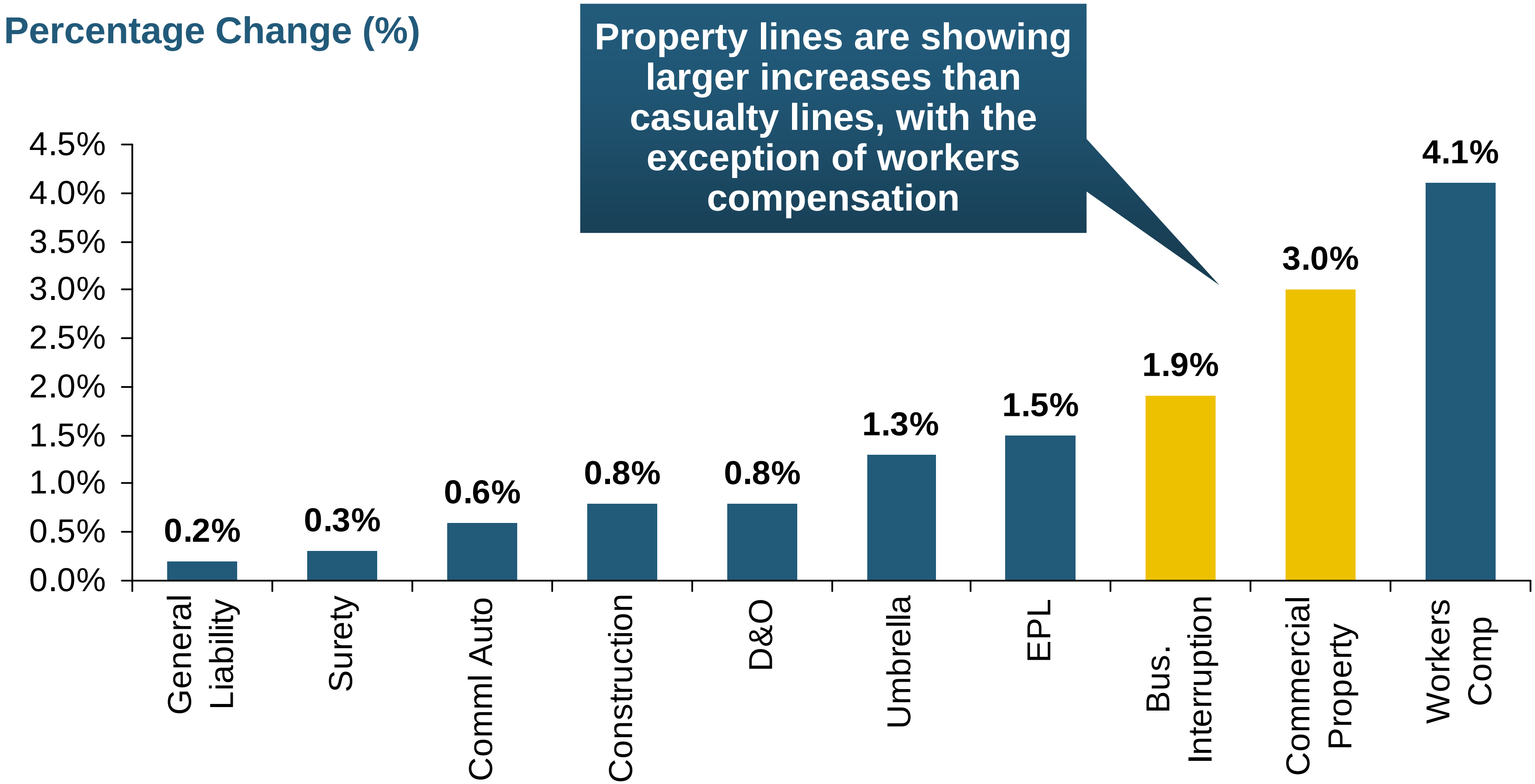


Source: Council of Insurance Agents and Brokers; Insurance Information Institute.

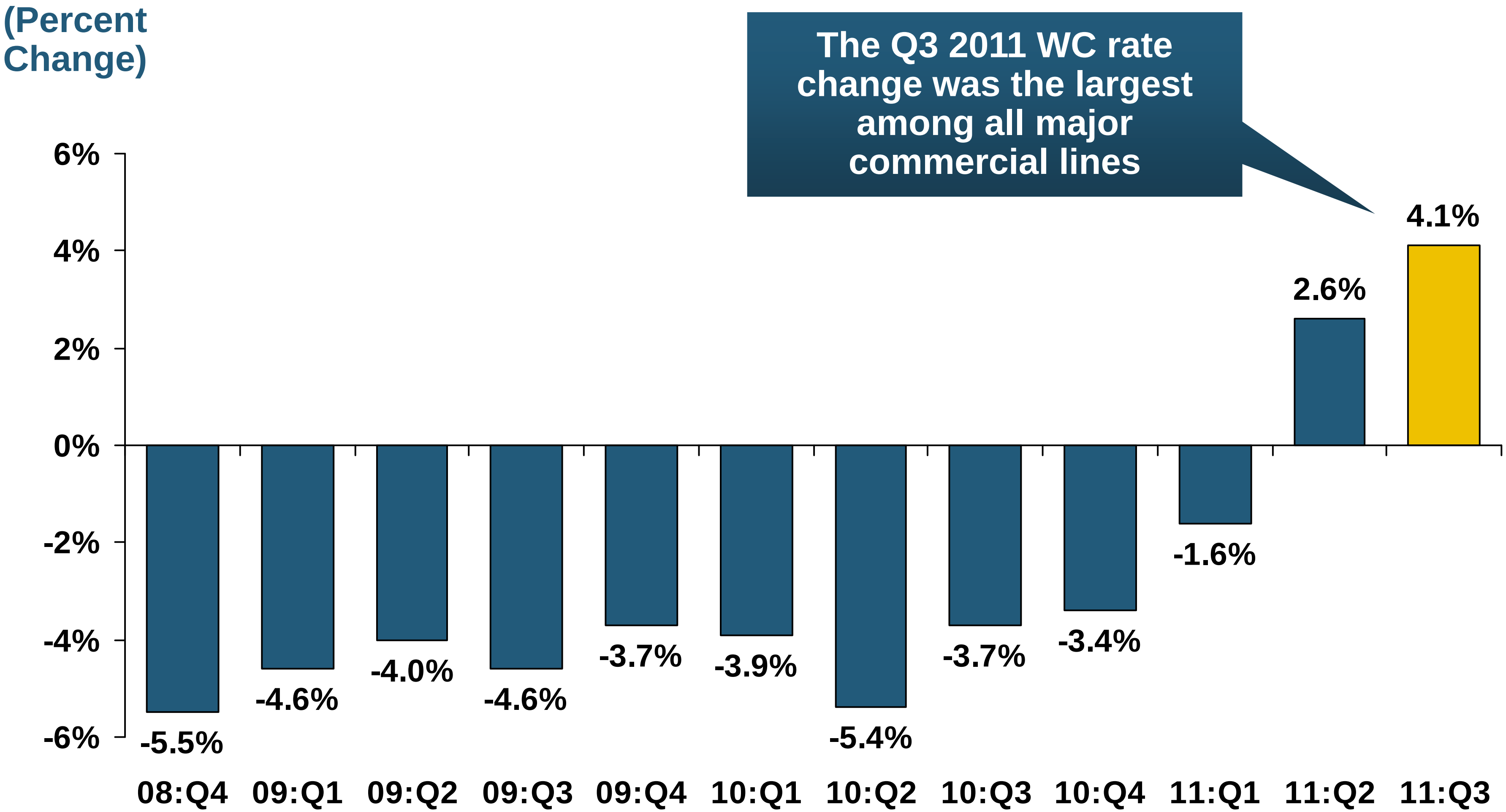
Change in Commercial Rate Renewals, by Line: 2011:Q3



Major Commercial Lines Renewed Uniformly Upward in Q3:2011 for the First Time Since 2003; Property Lines & Workers Comp Leading the Way

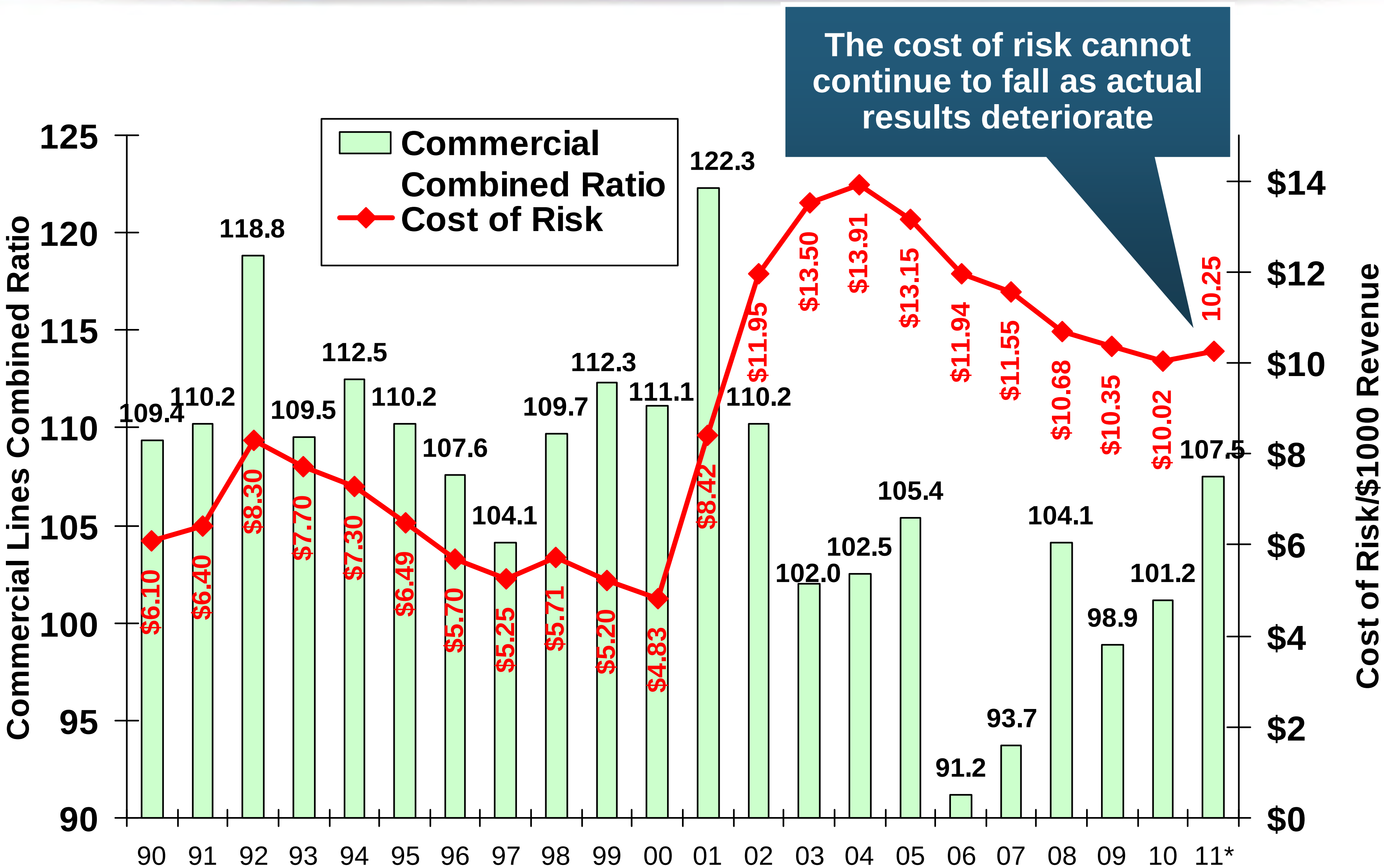
Source: Council of Insurance Agents and Brokers; Insurance Information Institute.

Workers Comp Rate Changes, 2008:Q4 – 2011:Q3



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

Cost of Risk vs. Commercial Lines Combined Ratio



*Insurance Information Institute estimates for 2011.

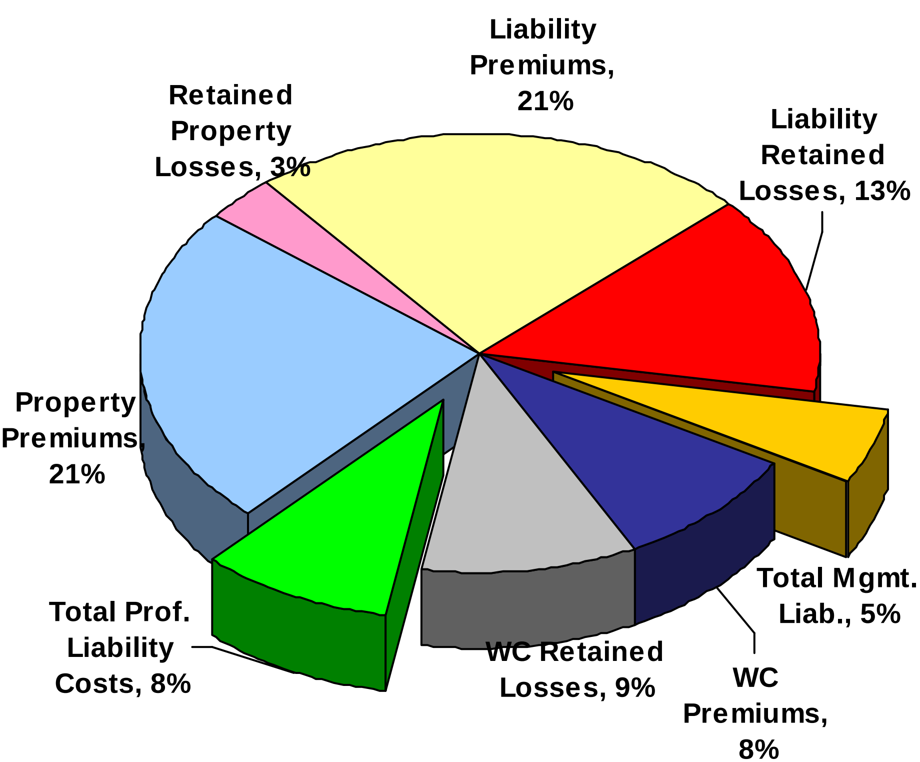
Source: 2011 RIMS Benchmark Survey; A.M. Best; Insurance Information Institute

How the Risk Dollar is Spent (2011)

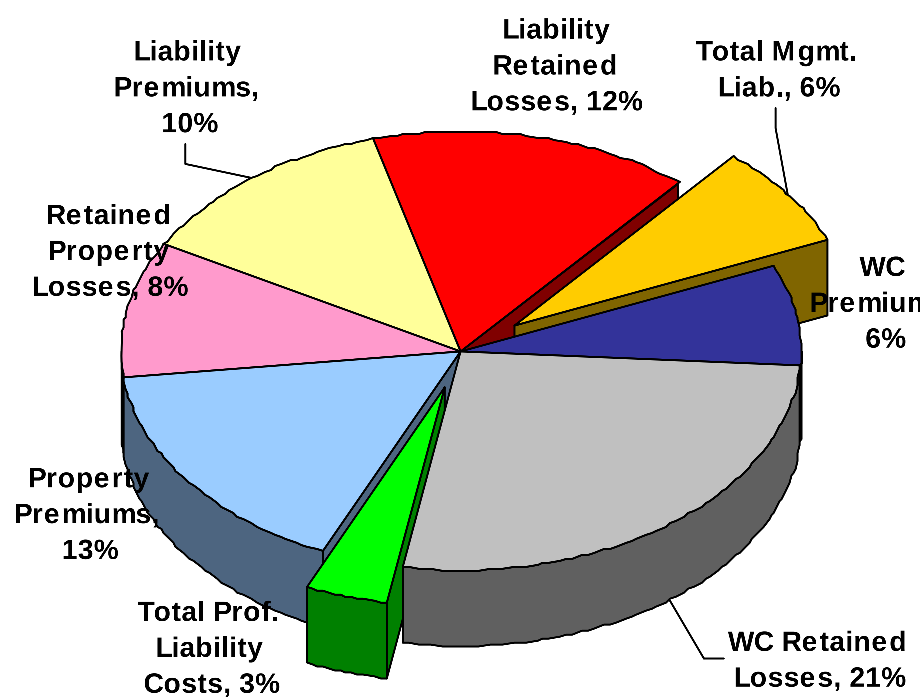
INSURANCE INFORMATION INSTITUTE

Management & Professional Liability Costs Account for 9% - 13% of the Risk Dollar

Firms w/Revenues < $1 Billion



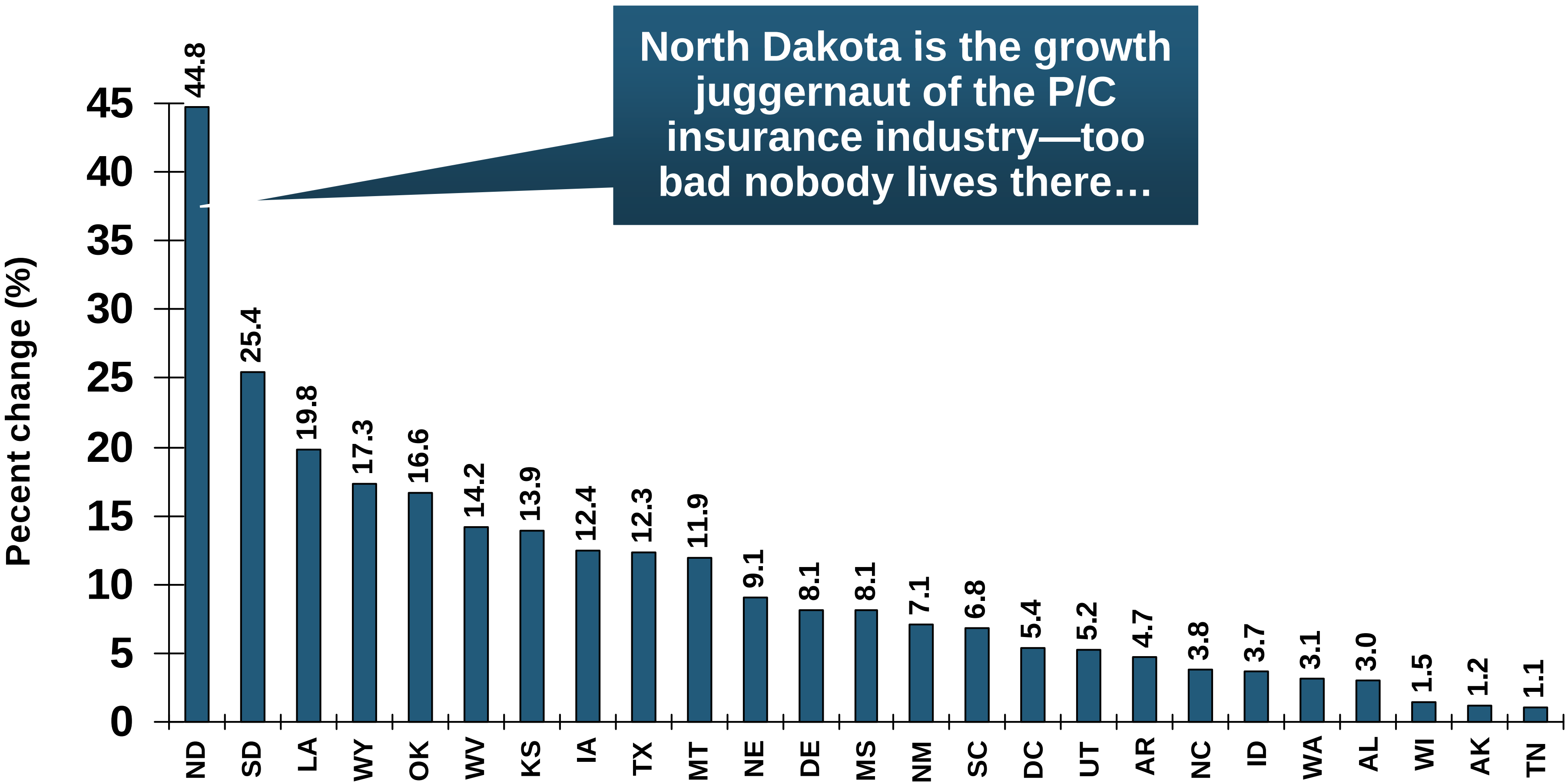
Firms w/Revenues > $1 Billion



Source: 2011 RIMS Benchmark Survey, Advisen; Insurance Information Institute

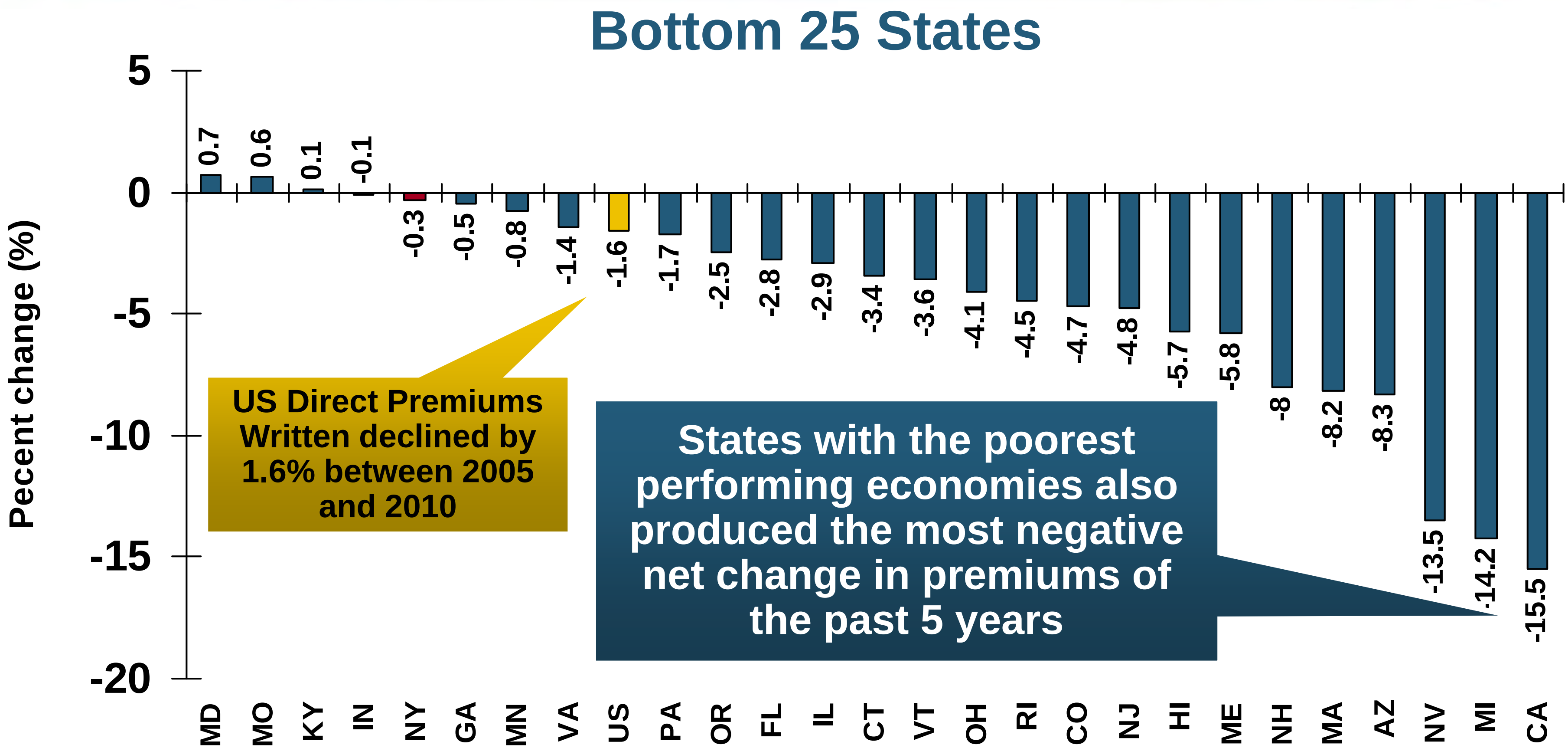
Direct Premiums Written: All P/C Lines Percent Change by State, 2005-2010

Top 25 States



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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Other Cycle-Influencing Factors

Could Other Factors Act as a Catalyst to Turn the Market?

INVESTMENTS: THE NEW REALITY

Investment Performance is a Key Driver of Profitability

Does It Influence Underwriting or Cyclicality?

Property/Casualty Insurance Industry Investment Gain: 1994–2011:Q3[1]

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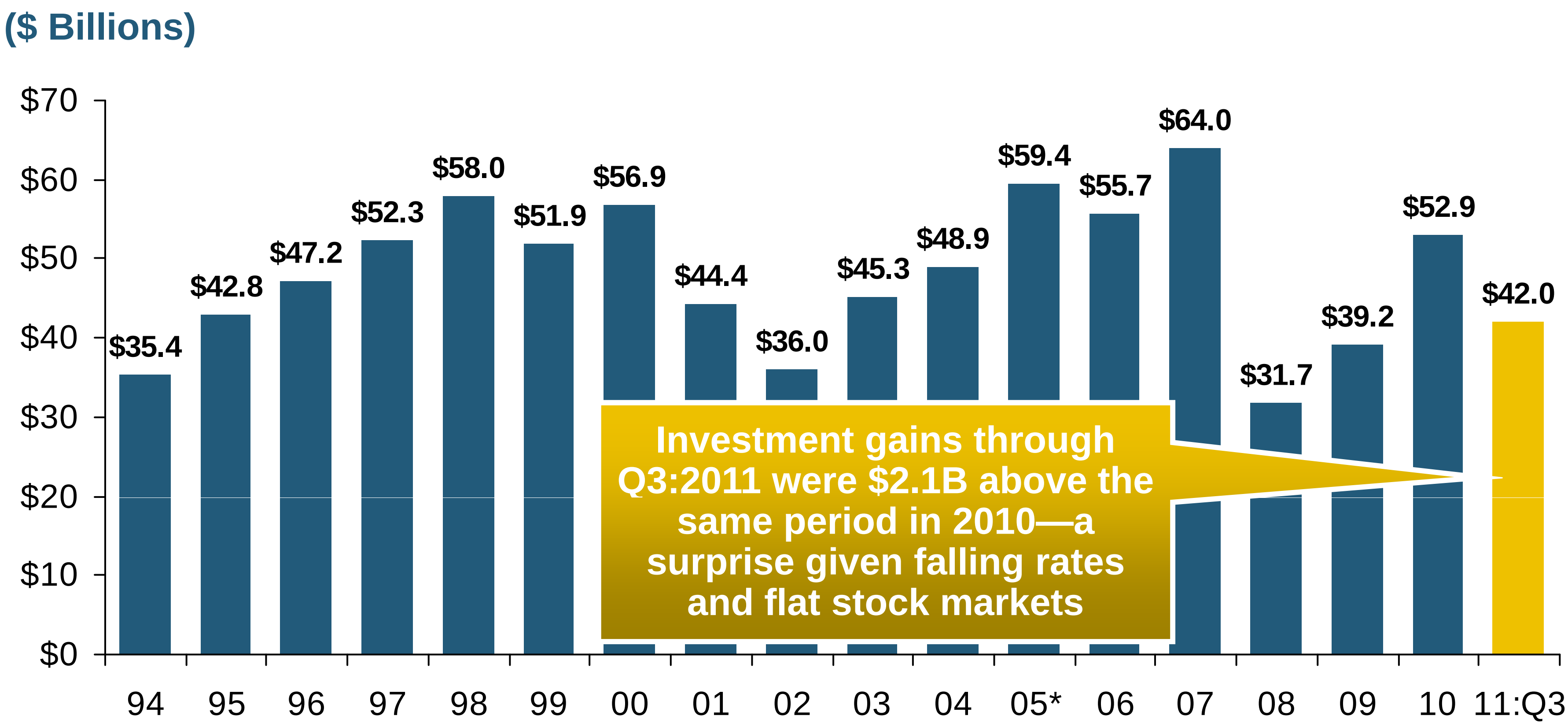

Investment Gains through Q3:2011 Were Surprisingly Robust. Investment Gains Recovered Significantly in 2010 Due to Realized Investment Gains; The Financial Crisis Caused Investment Gains to Fall by 50% in 2008

[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.
Sources: ISO; Insurance Information Institute.

P/C Insurer Net Realized Capital Gains/Losses, 1990-2011:3Q

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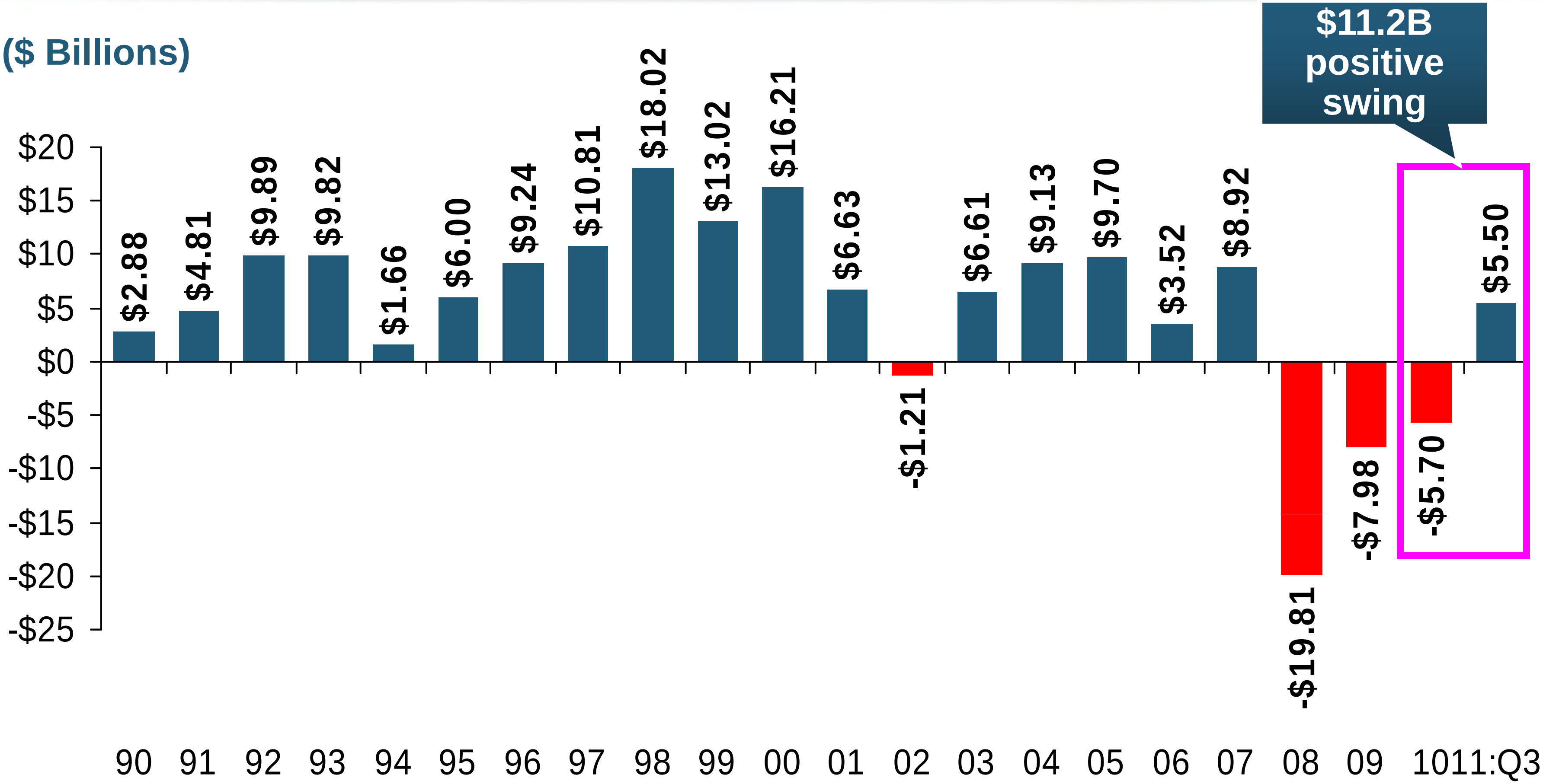
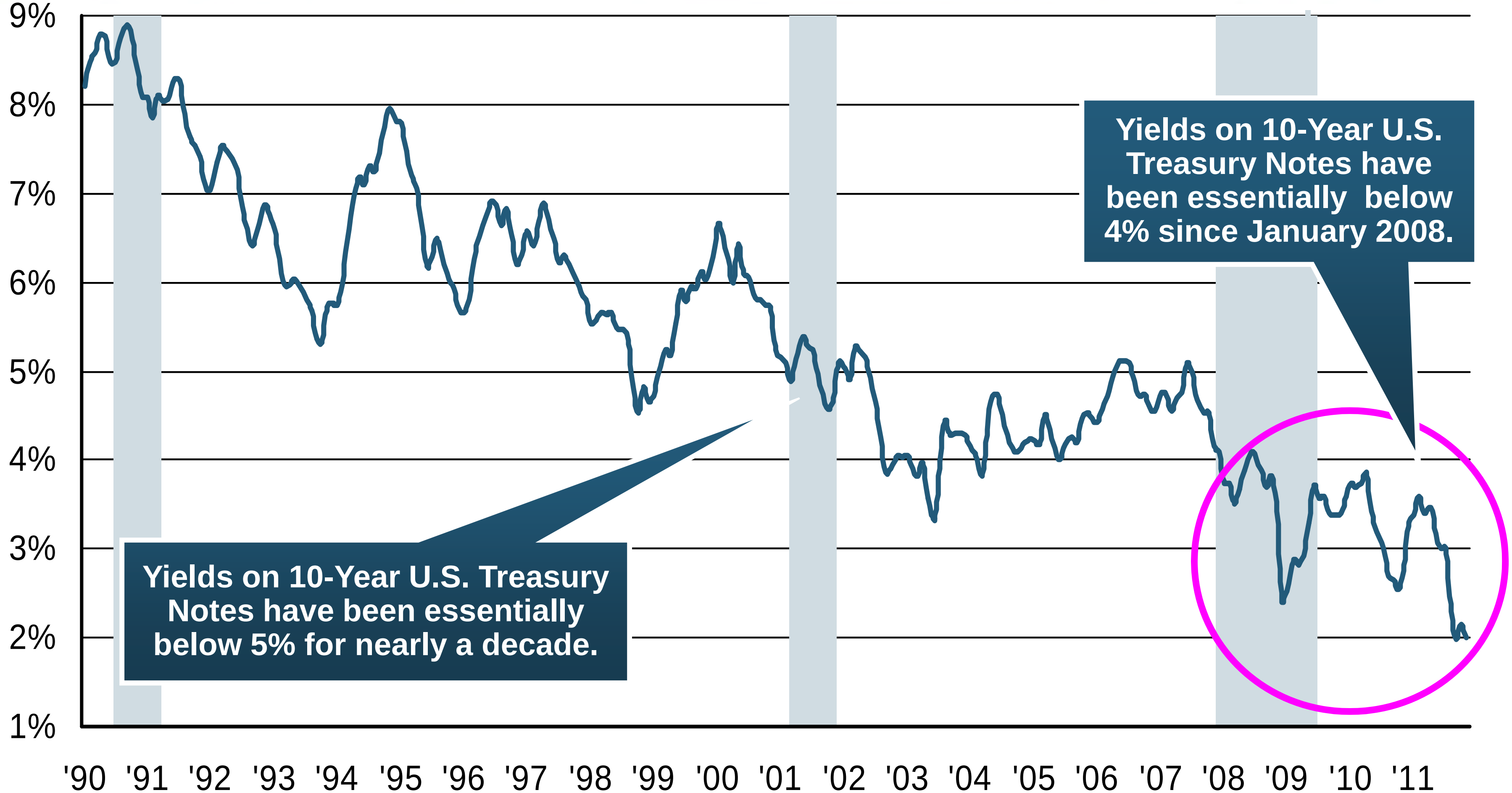


Insurers Are Posting Net Realized Capital Gains in 2011 for the First Time Since 2007. Realized Capital Losses Were the Primary Cause of 2008/2009's Large Drop in Profits and ROE

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

U.S. 10-Year Treasury Note Yields: A Long Downward Trend, 1990–2011*



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

*Monthly, through November 2011

Note: Recessions indicated by gray shaded columns.

Sources: Federal Reserve Bank at http://www.federalreserve.gov/releases/h15/data/Monthly/H15_TCMNOM_Y10.txt
National Bureau of Economic Research (recession dates); Insurance Information Institutes.

Daily Yields, 10-Year U.S. T-Notes vs. Moody's Seasoned AAAs, 2010-2011*

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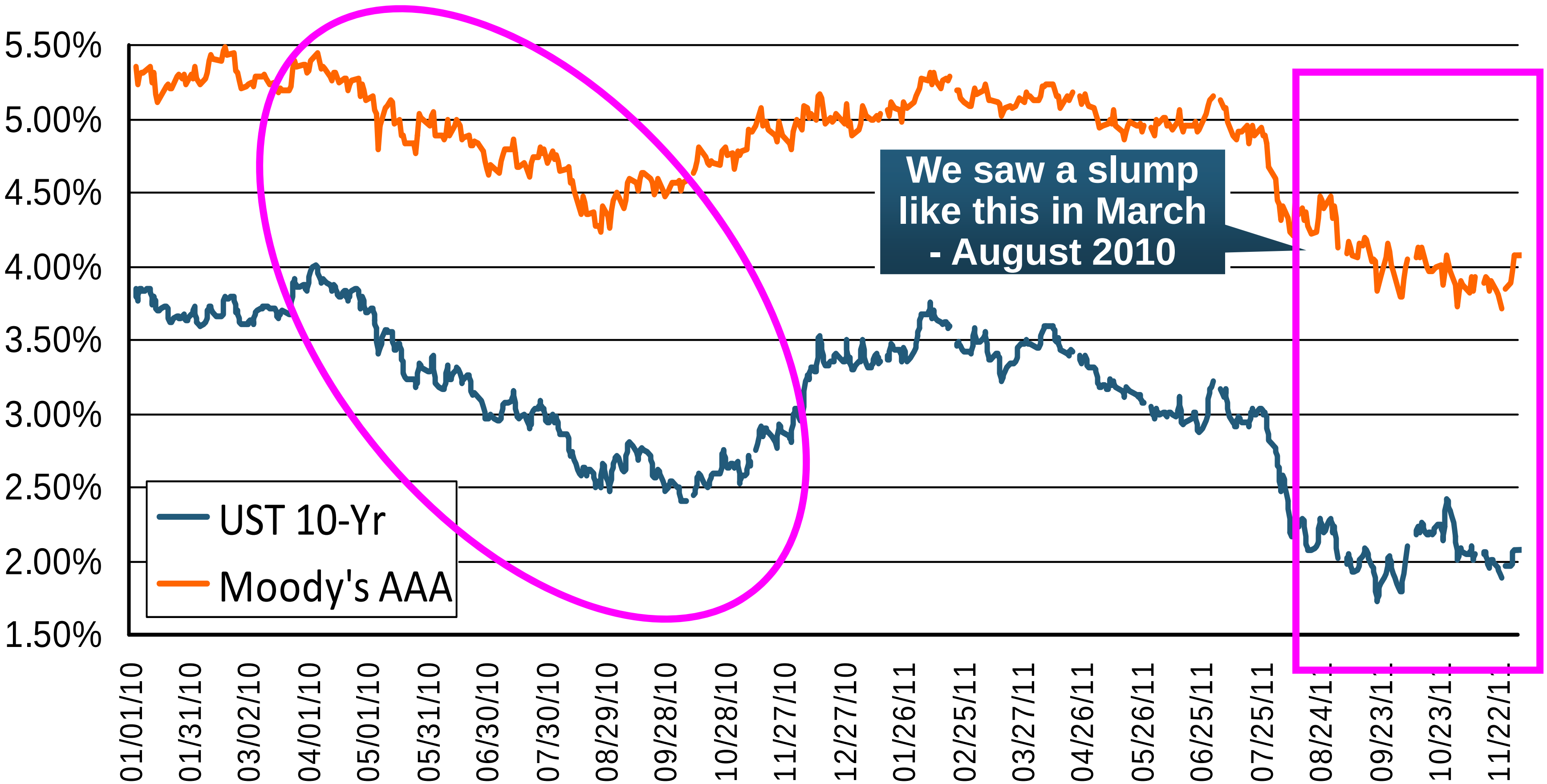

The spread between the two yields reflects confidence (or lack of it) in the economy's prospects. A wider spread indicates worry; narrower = confidence.

*through 11/30/2011
Sources: Federal Reserve Board at http://www.federalreserve.gov/releases/h15/data/Business_day/H15_TCMNOM_Y10.txt and http://www.federalreserve.gov/releases/h15/data/Business_day/H15_AAA_NA.txt

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

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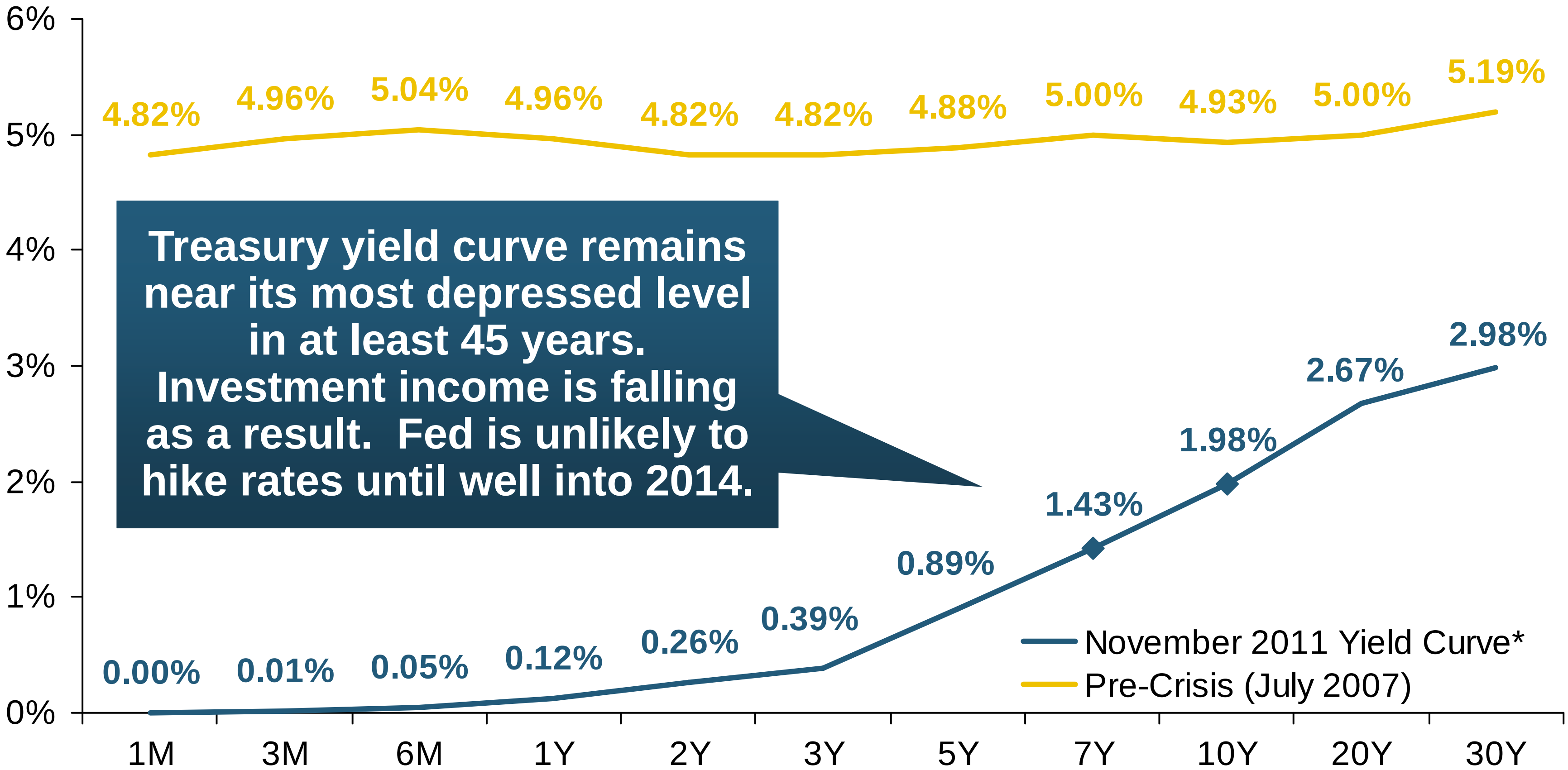
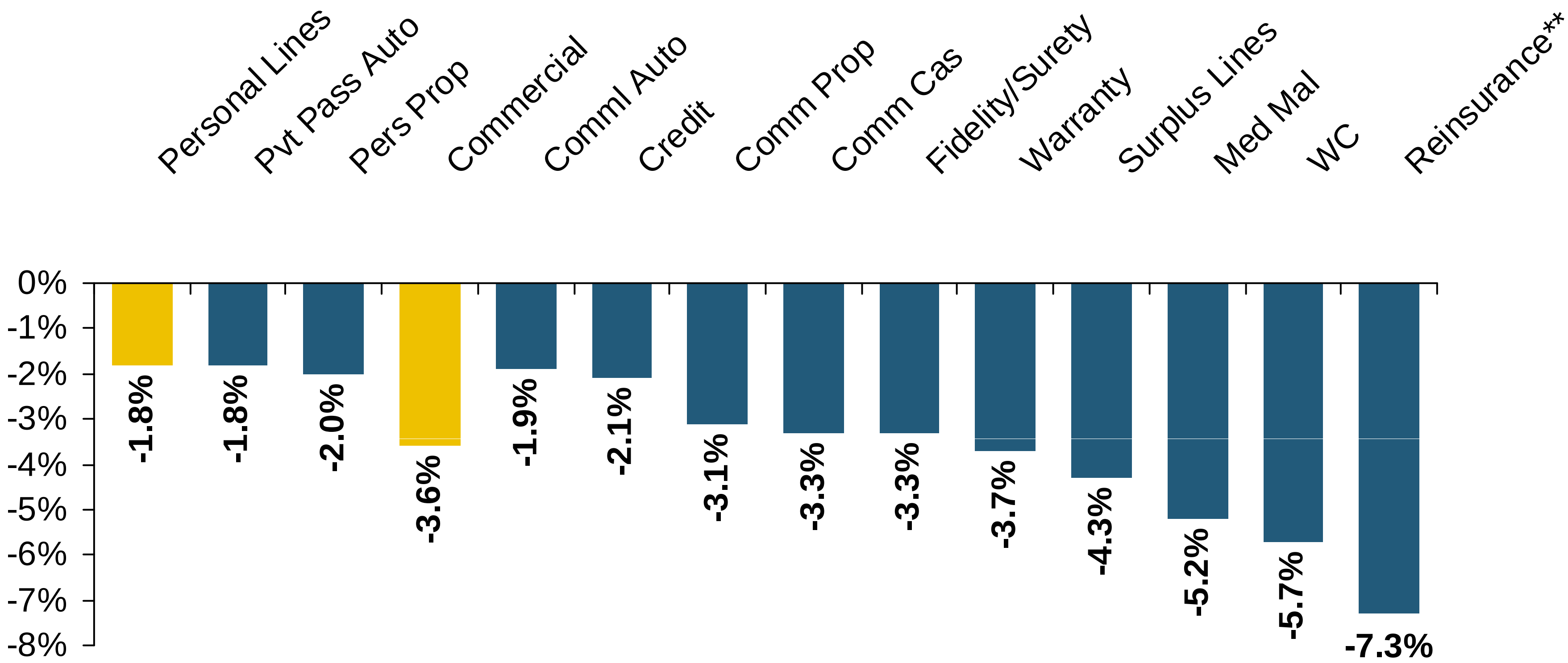


The Fed Is Actively Signaling that it Is Determined to Keep Rates Low Through 2013 and Possibly into 2014

Sources: Board of Governors of the United States Federal Reserve Bank; Insurance Information Institute.

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



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

*Based on 2008 Invested Assets and Earned Premiums

**US domestic reinsurance only

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

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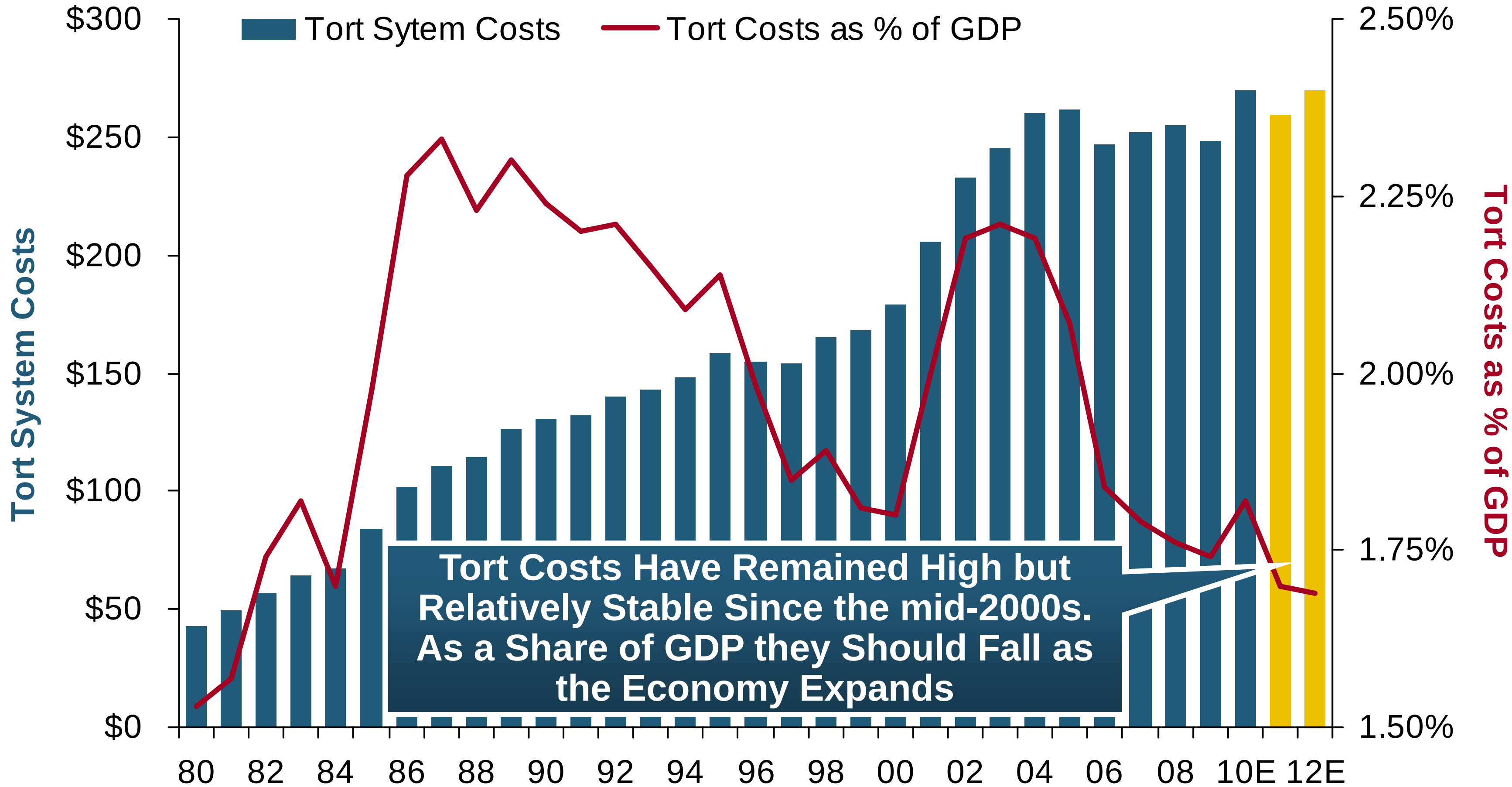
Shifting Legal Liability & Tort Environment

Is the Tort Pendulum Swinging Against Insurers?

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

($ Billions)



Sources: Towers Watson, *2010 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: 2010

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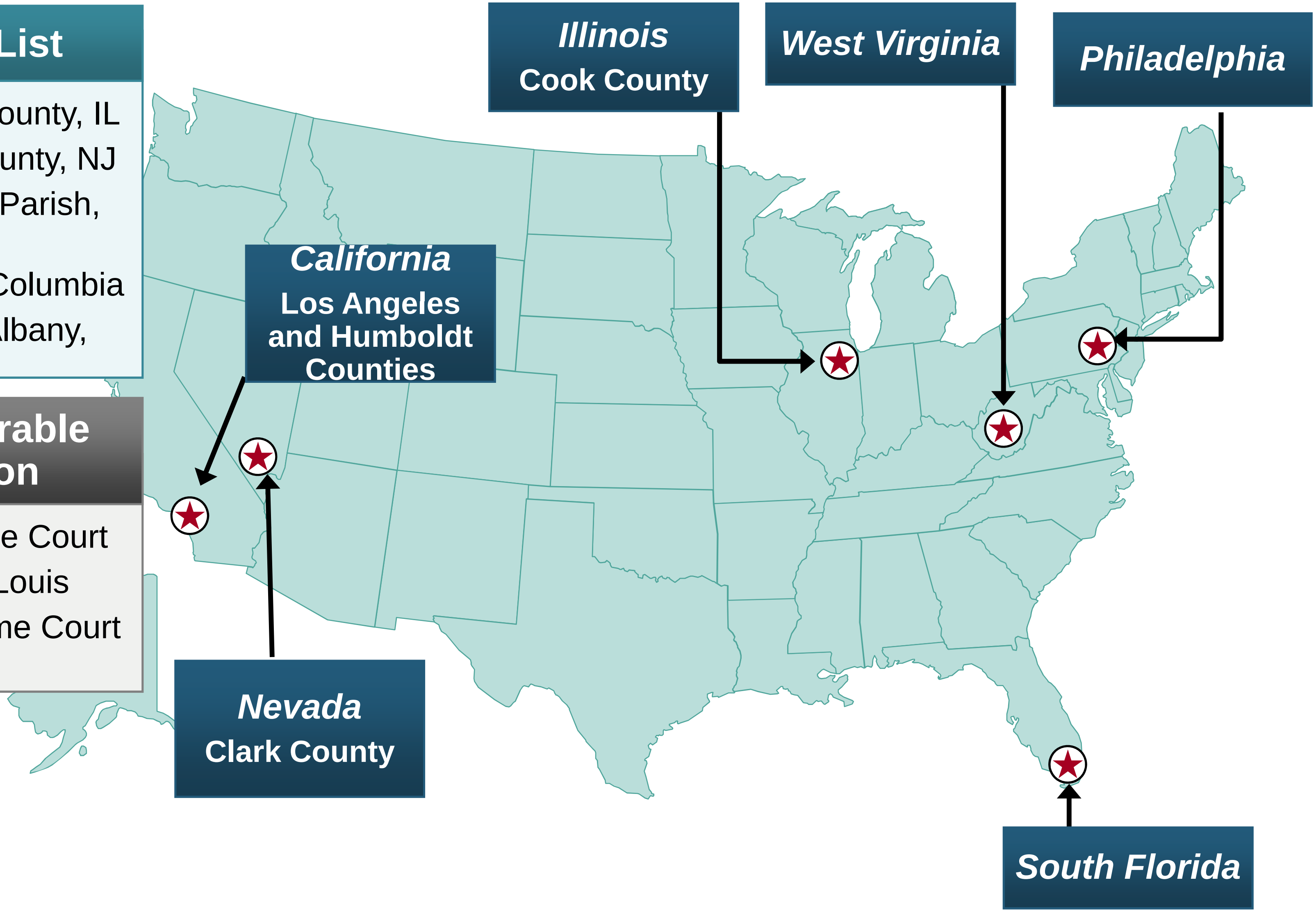
Watch List

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

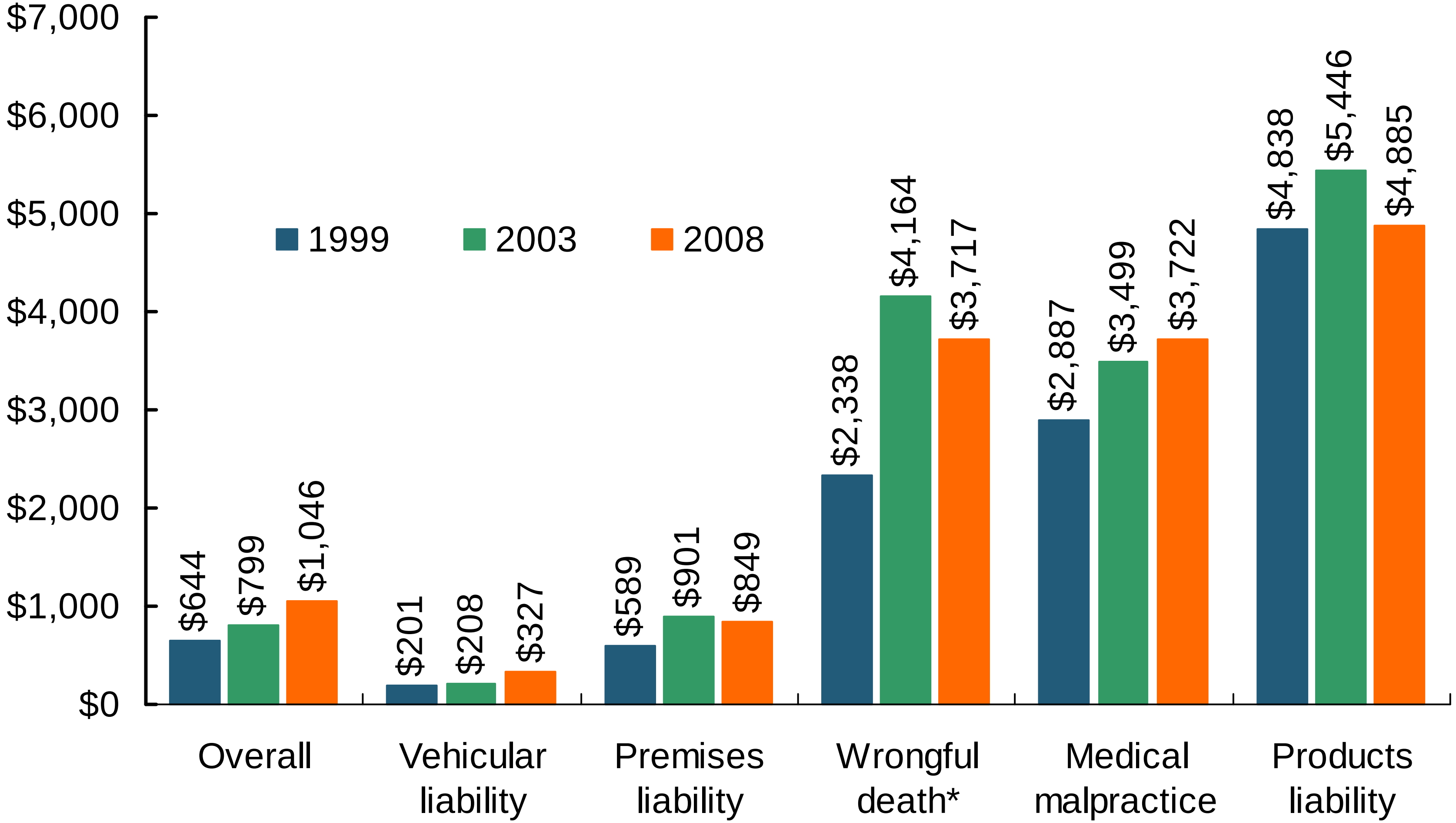
Dishonorable Mention

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



Source: American Tort Reform Association; Insurance Information Institute

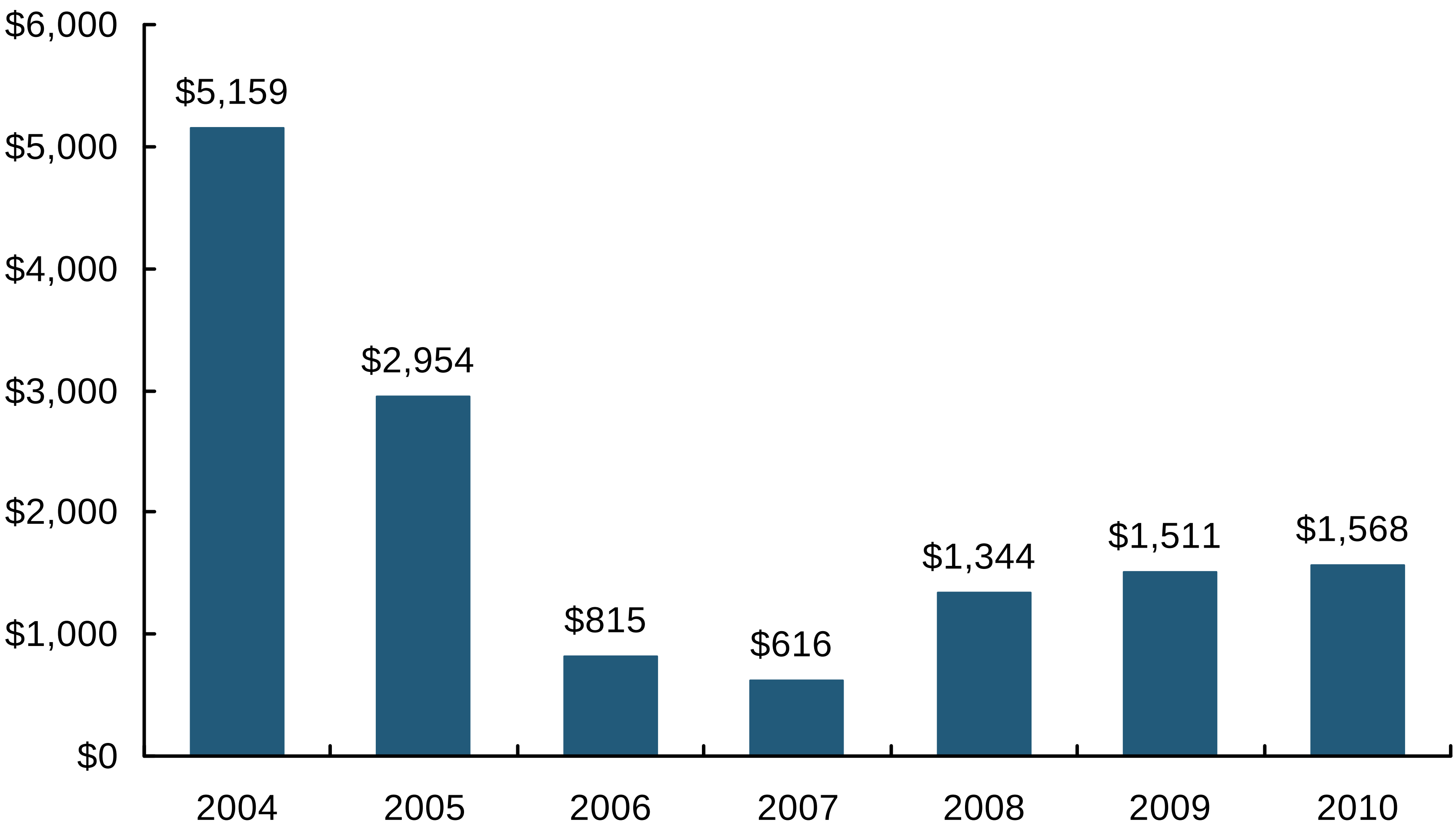
Avg. Jury Awards 1999 vs. 2003 and 2008



*Award trends in wrongful deaths of adult males.

Source: Jury Verdict Research; Insurance Information Institute.

Sum of Top 10 Jury Awards 2004-2010



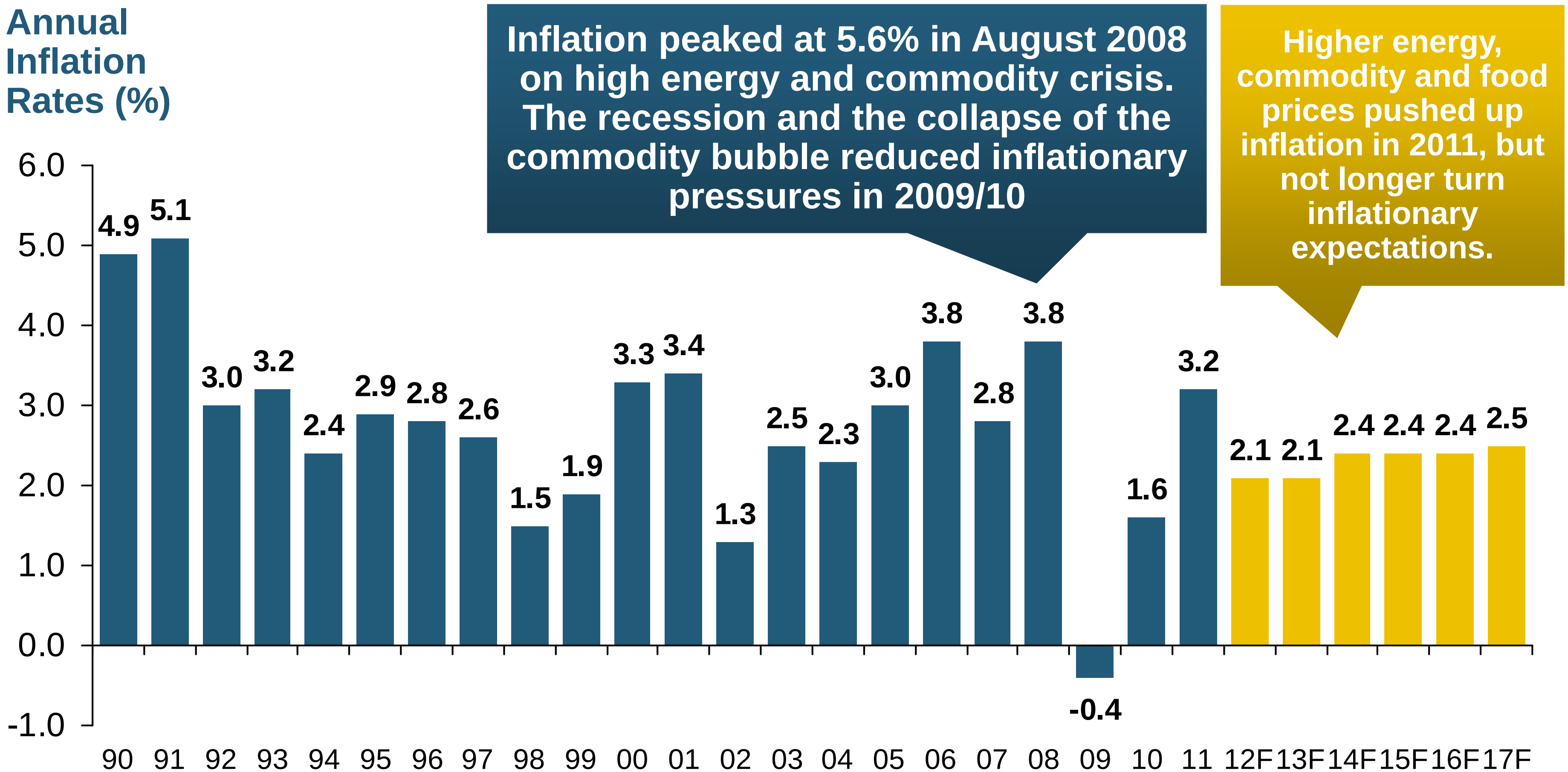
Source: Insurance Information Institute from Lawyers USA, January 2005, 2006, 2007, 2008, 2009, and 2010.

Inflation

Is it a Threat to Claim Cost Severities

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

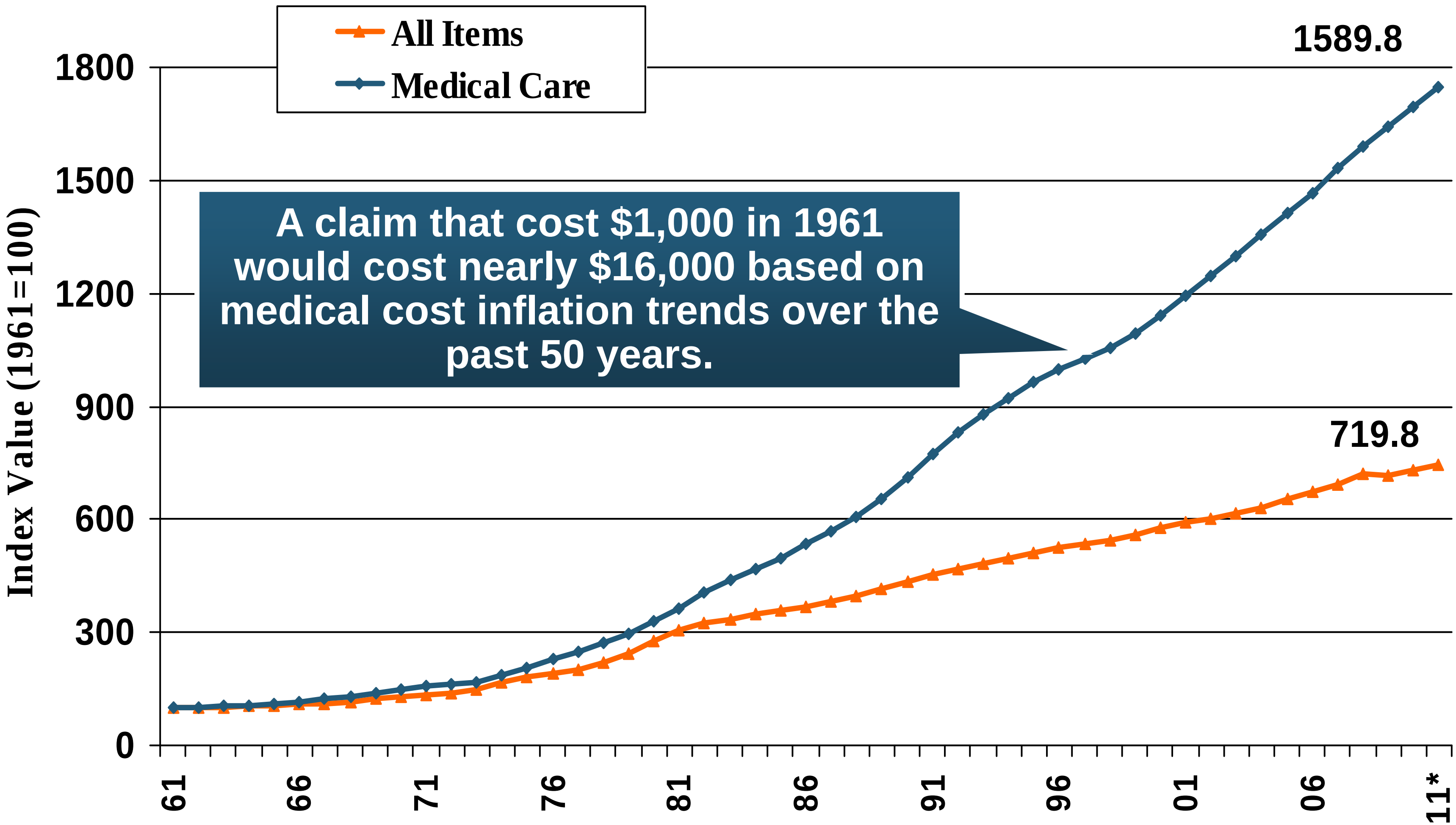
INSURANCE INFORMATION INSTITUTE



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).

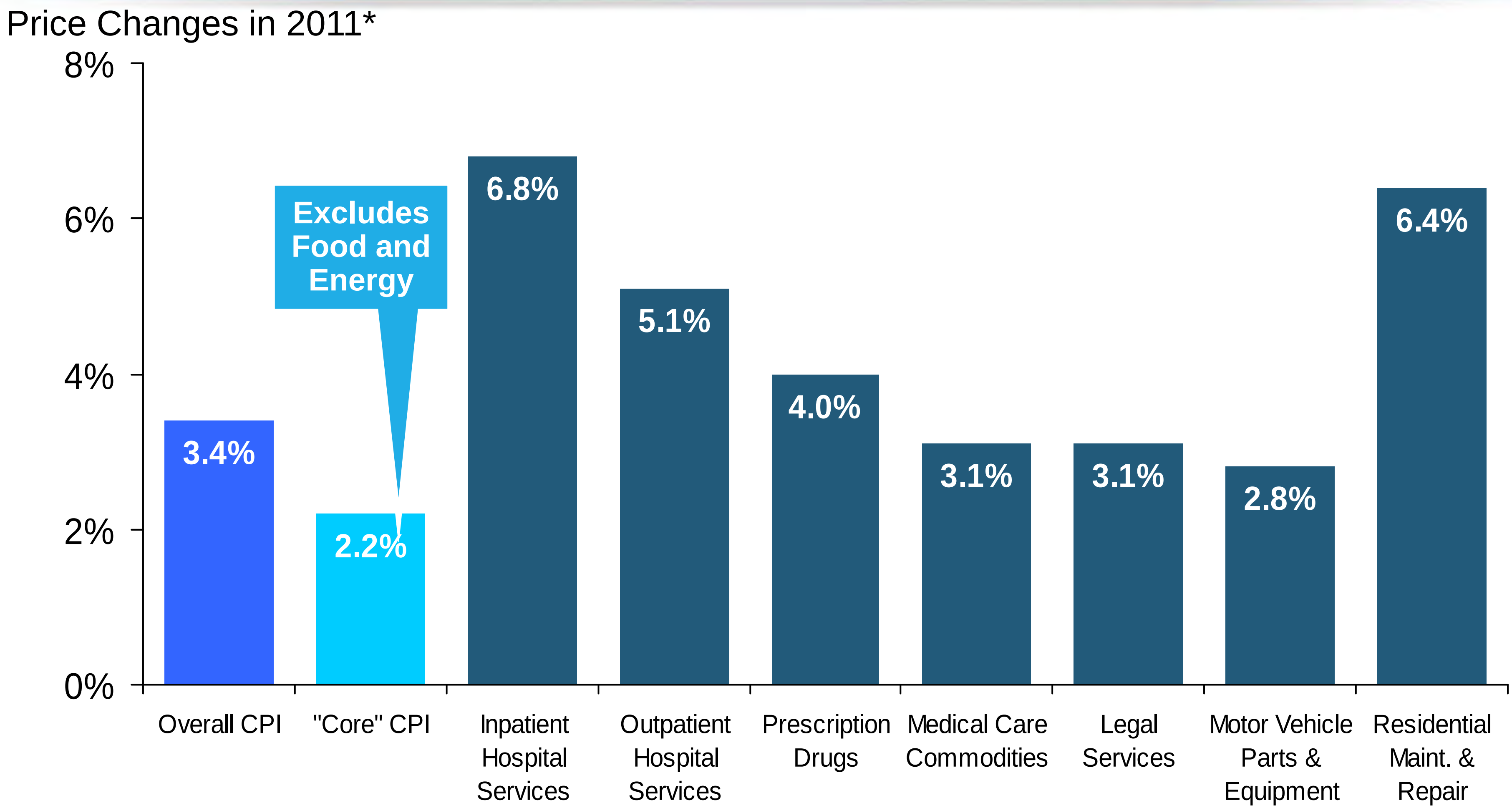
Medical Cost Inflation Has Outpaced Overall Inflation Over 50 Years



*Based on change from Feb. 2011 to Feb. 2010 (latest available)

Source: Department of Labor (Bureau of Labor Statistics)

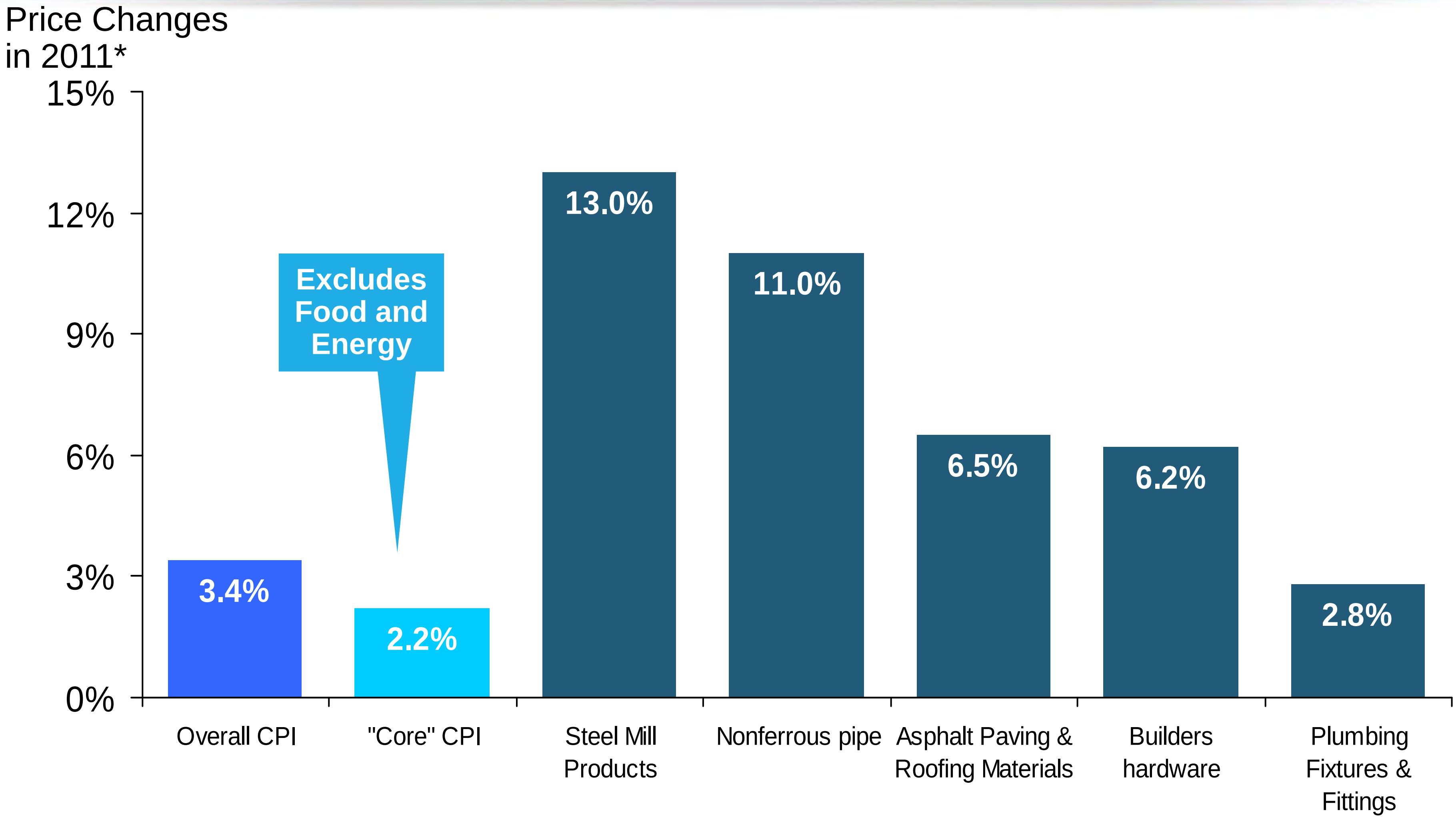
P/C Personal Insurance Claim Cost Drivers Grow Faster Than the Core CPI Suggests



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

*Nov 2011 over Nov 2010.
Source: Bureau of Labor Statistics; Insurance Information Institute.

P/C Commercial Property Insurance Claim Cost Drivers Grow Faster than the Overall CPI Suggests

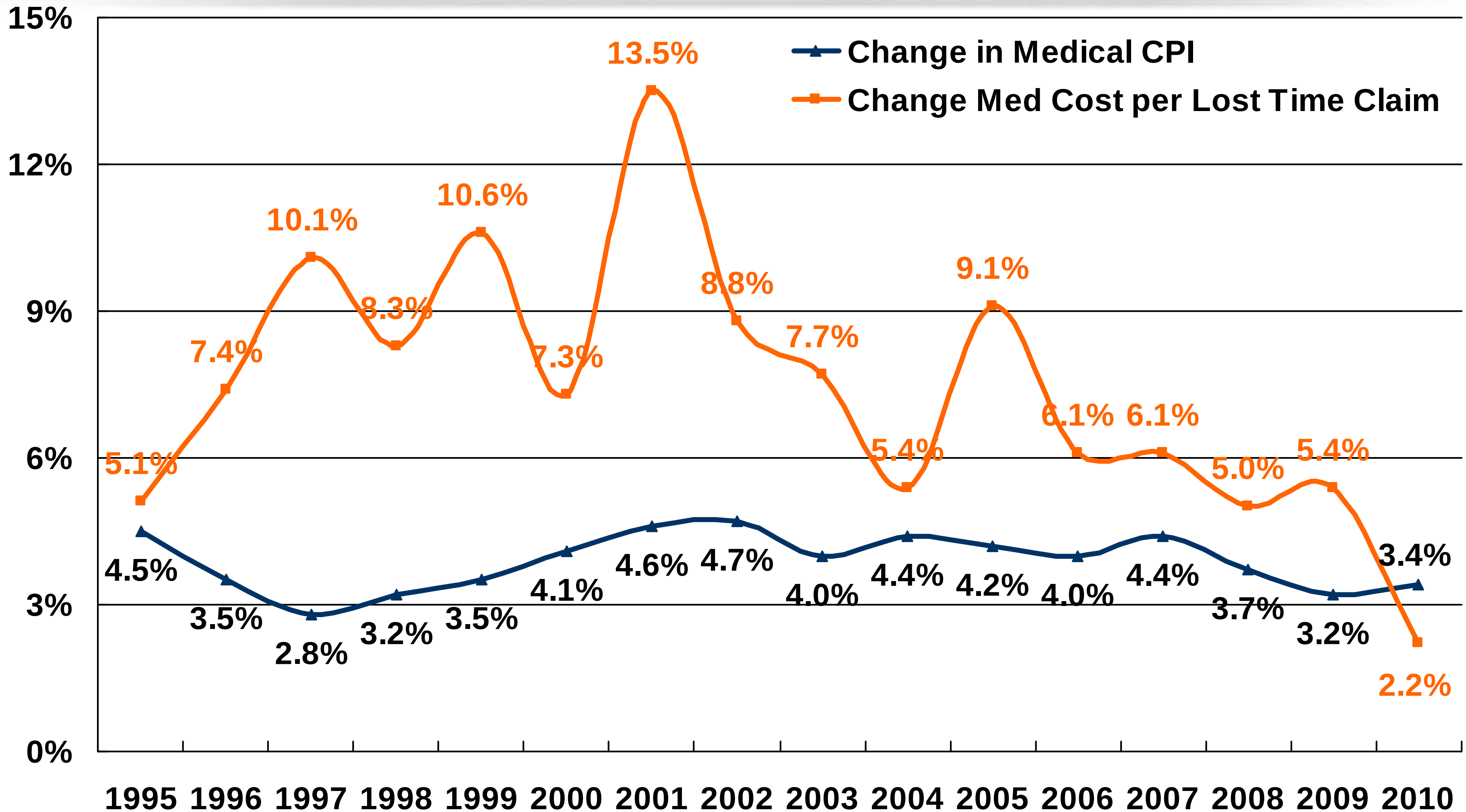


Copper prices spiked and retreated in 2011. In July its price was 33% higher than a year earlier; by November it cost 8% less than in November 2010.

*November 2011 vs. November 2010

Sources: Bureau of Labor Statistics; Insurance Information Institute.

WC Medical Severity Rising at Twice the Medical CPI Rate



The average annual increase in WC medical severity from 1995 through 2009 was nearly twice the medical CPI (7.6% vs. 3.9%). Will healthcare reform affect this gap?

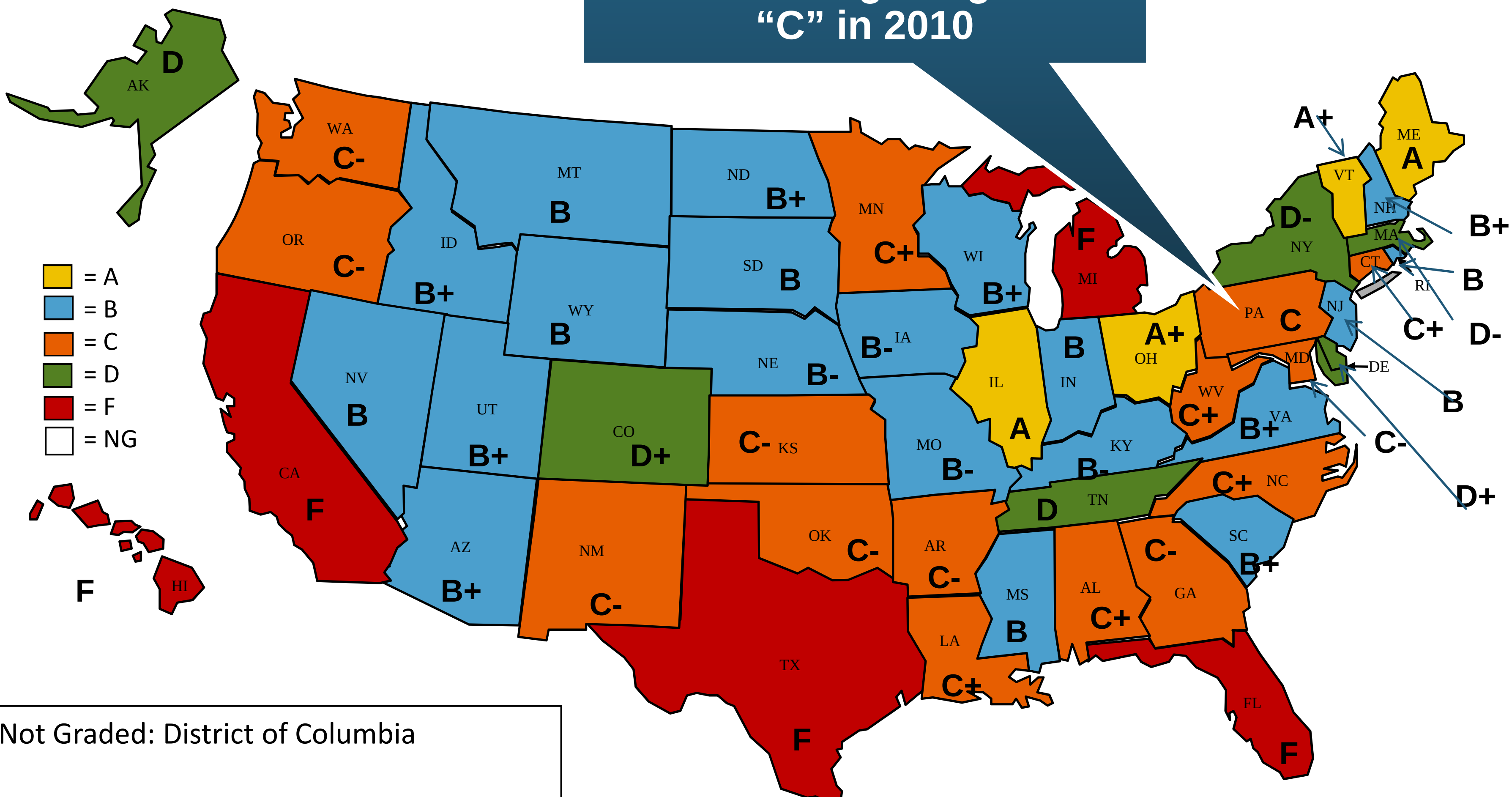
Sources: Med CPI from US Bureau of Labor Statistics, WC med severity from NCCI based on NCCI states.

Regulatory Environment & Financial Services Reform

Insurers Not as Impacted as Banks, But Dodd-Frank Implementation Has Been a Concern for Insurers

2010 Property and Casualty Insurance Regulatory Report Card

Pennsylvania's regulatory environment got a grade of "C" in 2010



Not Graded: District of Columbia

Source: Heartland Institute, May 2011

Dodd-Frank & Insurance One Year: *Status Report*

Expectations vs. Reality

Dodd-Frank Implementation
Status Report for Insurers: Slow Start

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The Dodd-Frank Wall Street Reform and Consumer Protection Act

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

Source: Insurance Information Institute (I.I.I.) updates and research

Dodd-Frank Implementation: *SYSTEMIC RISK CRITERIA*

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The Dodd-Frank Act and Systemic Importance

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

Source: Financial Stability Oversight Council; Insurance Information Institute (I.I.I.) research.

Dodd-Frank Implementation: *SYSTEMIC RISK CRITERIA (continued)*

The Dodd-Frank Act and Systemic Importance

- **STAGE 2: Analysis of Firms Triggering Uniform Quantitative Thresholds**
  - Firms triggering one or more of the quantitative thresholds in Stage 1 will be analyzed using publicly available information in order to conduct a more thorough review
  - No data call will be required at this stage
  - Firms viewed as potentially systemically important (candidate SIFIs) will subject to a Stage 3 analysis
- **STAGE 3: Analysis of Candidate Systemically Important Financial Institutions**
  - Firms deemed in Stage 2 to be potentially systemically important will be subjected to more detailed analysis including data not available during the Stage 2 analysis
  - Stage 3 firms will be notified by the FSOC that they are under consideration and will have the opportunity to contest their consideration
- **SIFI DESIGNATION PROCEDURE: 2-Stage Voting Procedure by FSOC is Required Before a Final SIFI Designation is Made**
  - At the conclusion of the Stage 3, FSOC has the authority to propose a firm be designated as a SIFI
  - Requires 2/3 majority vote of FSOC members, including affirmation of the Chair (Treasury Secretary)
  - Potential SIFI firm will be given written explanation for the determination
  - Firm can request a hearing to contest the determination
  - Final determination requires *another* 2/3 majority of FSOC members and affirmation of the Chair

Source: Financial Stability Oversight Council; Insurance Information Institute (I.I.I.) research.

Dodd-Frank Implementation:
FSOC MEMBERS

The Dodd-Frank Act and Systemic Importance

Members of the Financial Stability Oversight Council

- There are 10 voting members of the FSCO

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

Source: Financial Stability Oversight Council; Insurance Information Institute (I.I.I.) research.

Dodd-Frank Implementation: *FSOC MEMBERS*

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Members of the Federal Advisory Committee on Insurance

Members Announced on November 2, 2011:

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

Source: Federal Insurance Office; Insurance Information Institute (I.I.I.) research.

Dodd-Frank Implementation: *Federal Insurance Office: Very Quiet*

Federal Insurance Office Update: *Activity Update*

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

- **Study on State of Insurance Regulation Due Jan. 21, 2012**
  - Report will likely review previously identified inefficiencies and strengths of current regulatory system with an eye toward modernization.
- **Treasury Will Likely Exert Heavy Influence on the Report**

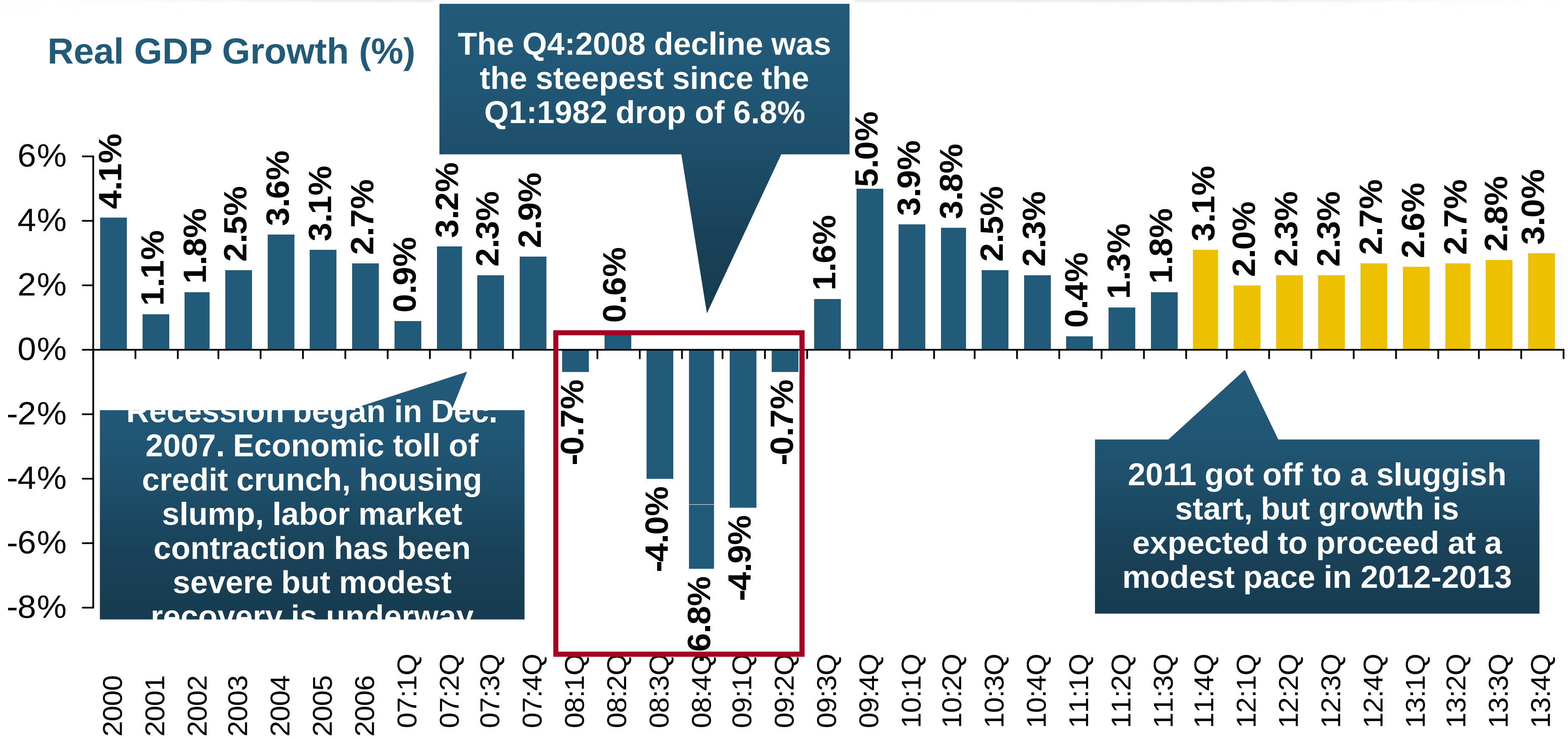
Former President of P/C Insurance at The Hartford

Source: Insurance Information Institute (I.I.I.) updates and research

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

Growth Would Also Help Absorb Excess Capital

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 1/12; Insurance Information Institute.

2011 Financial Overview
State Economic Growth Varied in 2010

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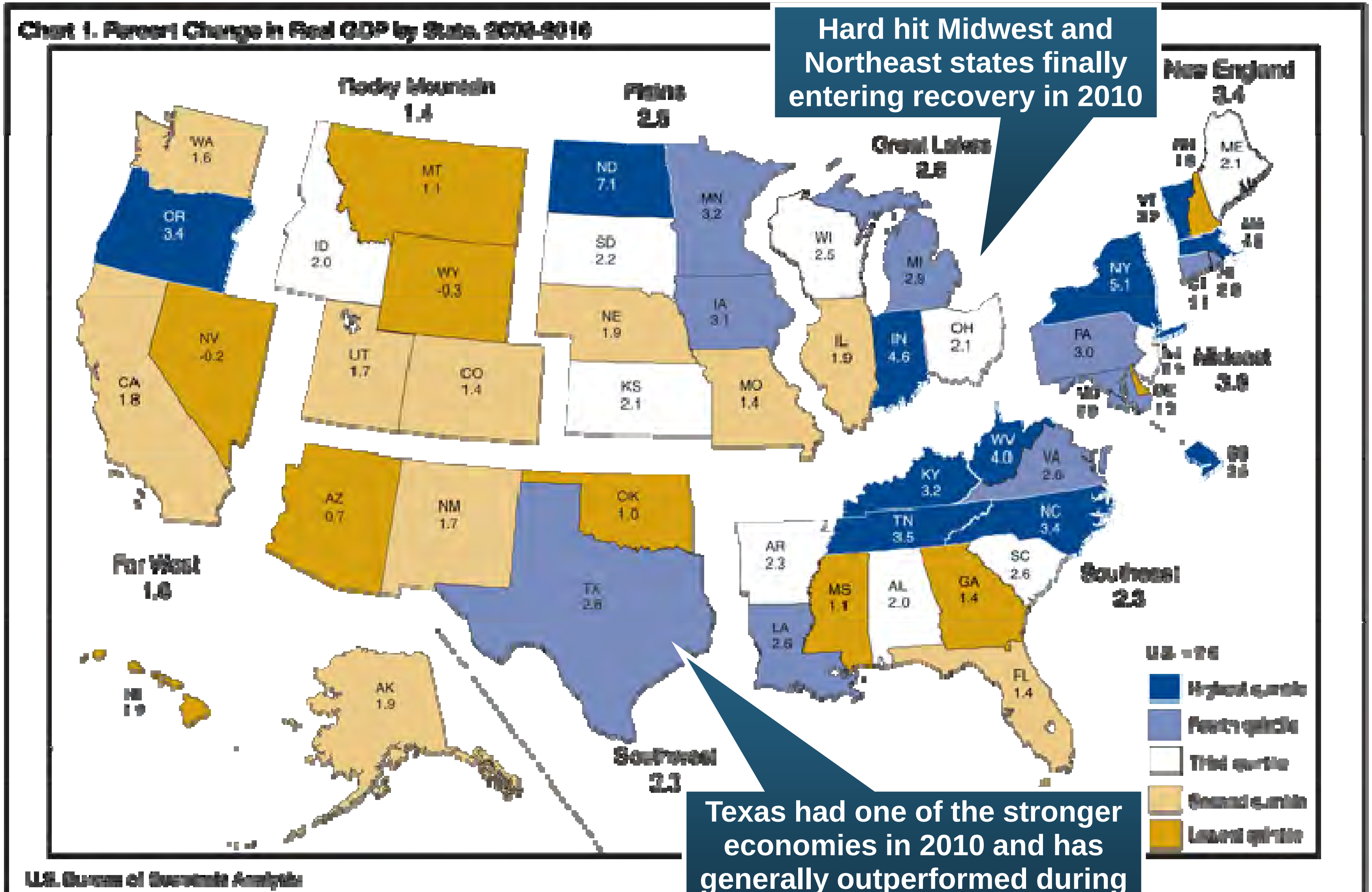

Hard hit Midwest and Northeast states finally entering recovery in 2010

Texas had one of the stronger economies in 2010 and has generally outperformed during the economic downturn

New Private Housing Starts, 1990-2022F

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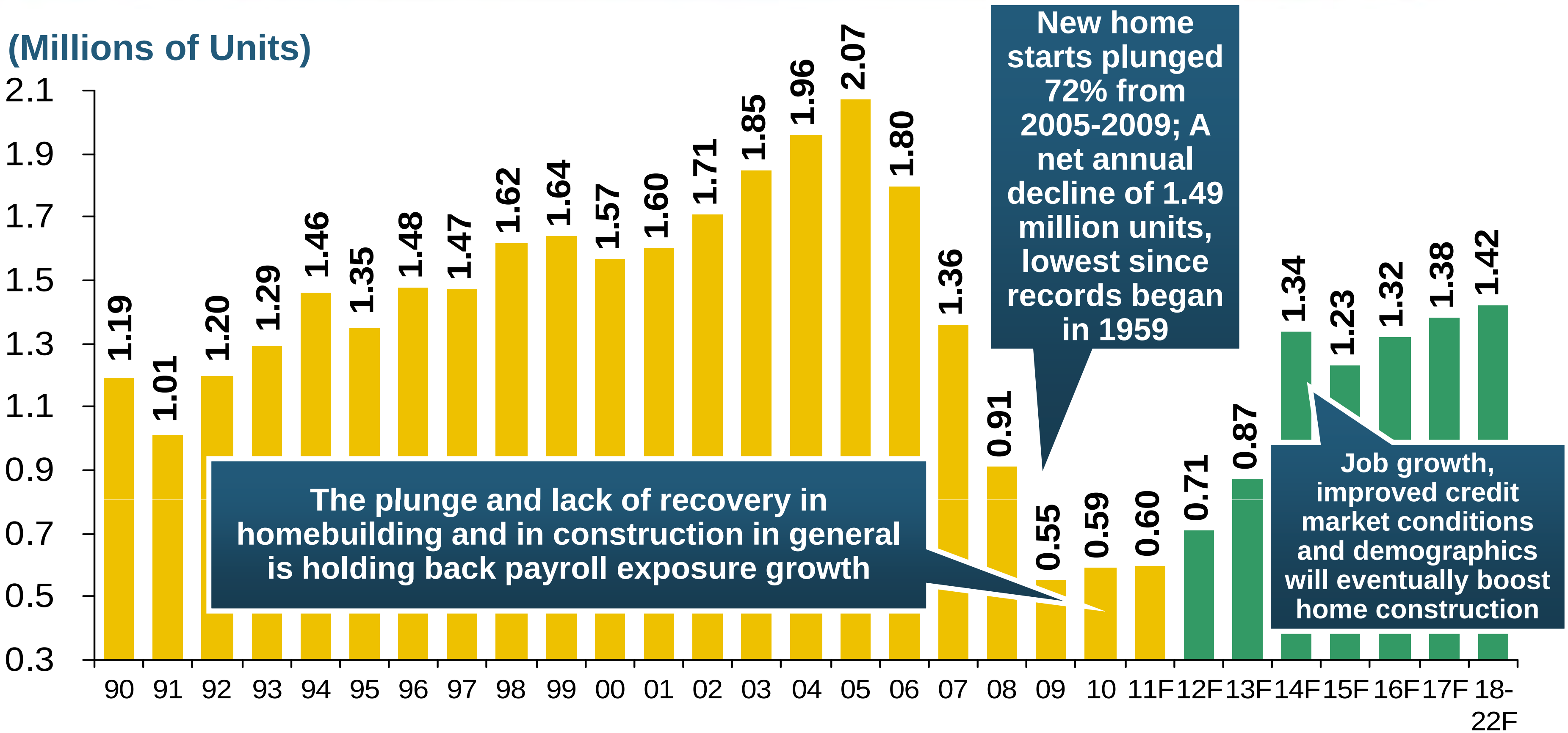
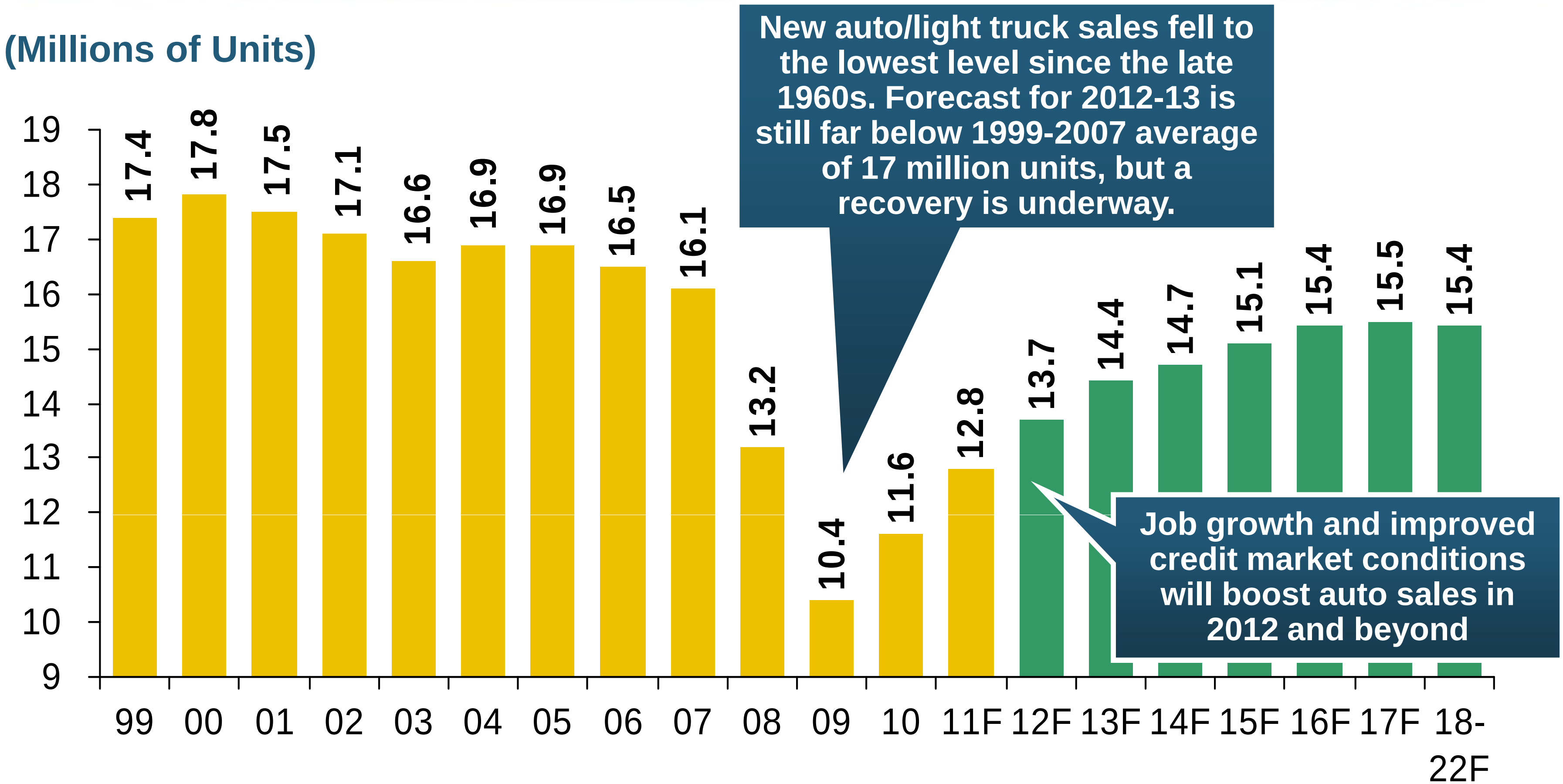


Little Exposure Growth Likely for Homeowners Insurers Until at least 2014. Also Affects Commercial Insurers with Construction Risk Exposure, Surety

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (10/11 and 1/12); Insurance Information Institute.

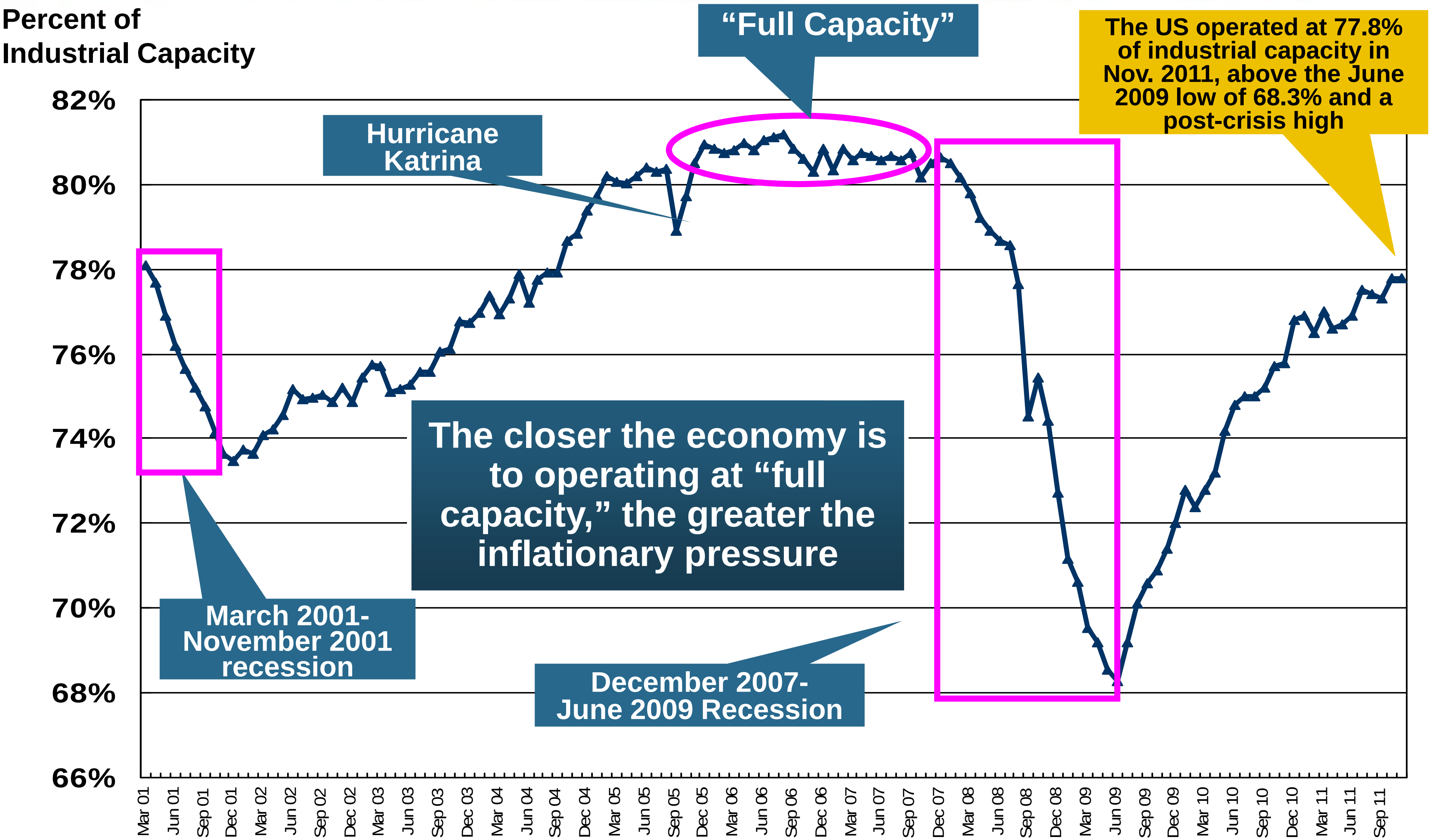
Auto/Light Truck Sales, 1999-2022F



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

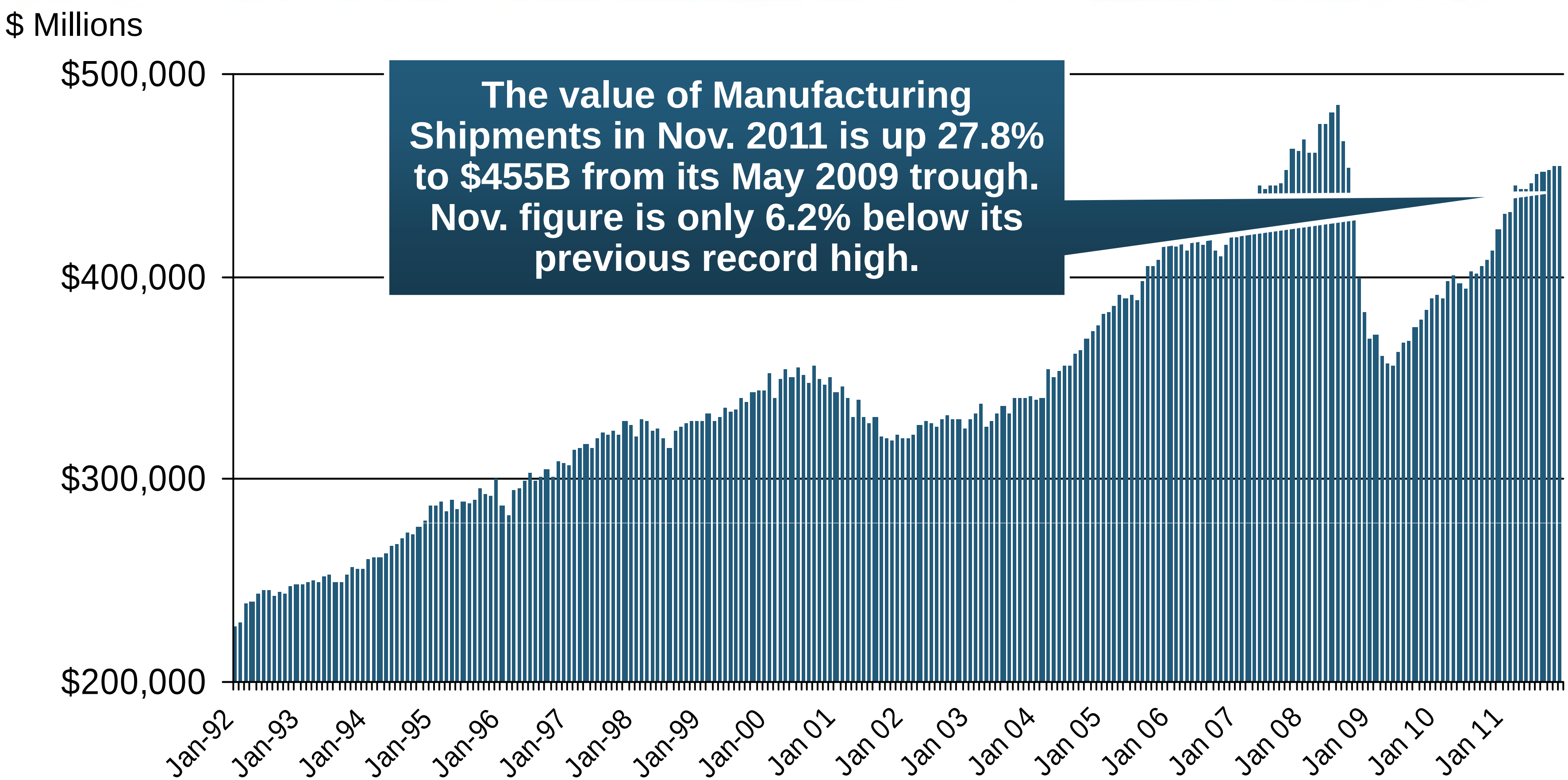
Source: U.S. Department of Commerce; Blue Chip Economic Indicators (10/11 and 1/12); Insurance Information Institute.

Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures



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

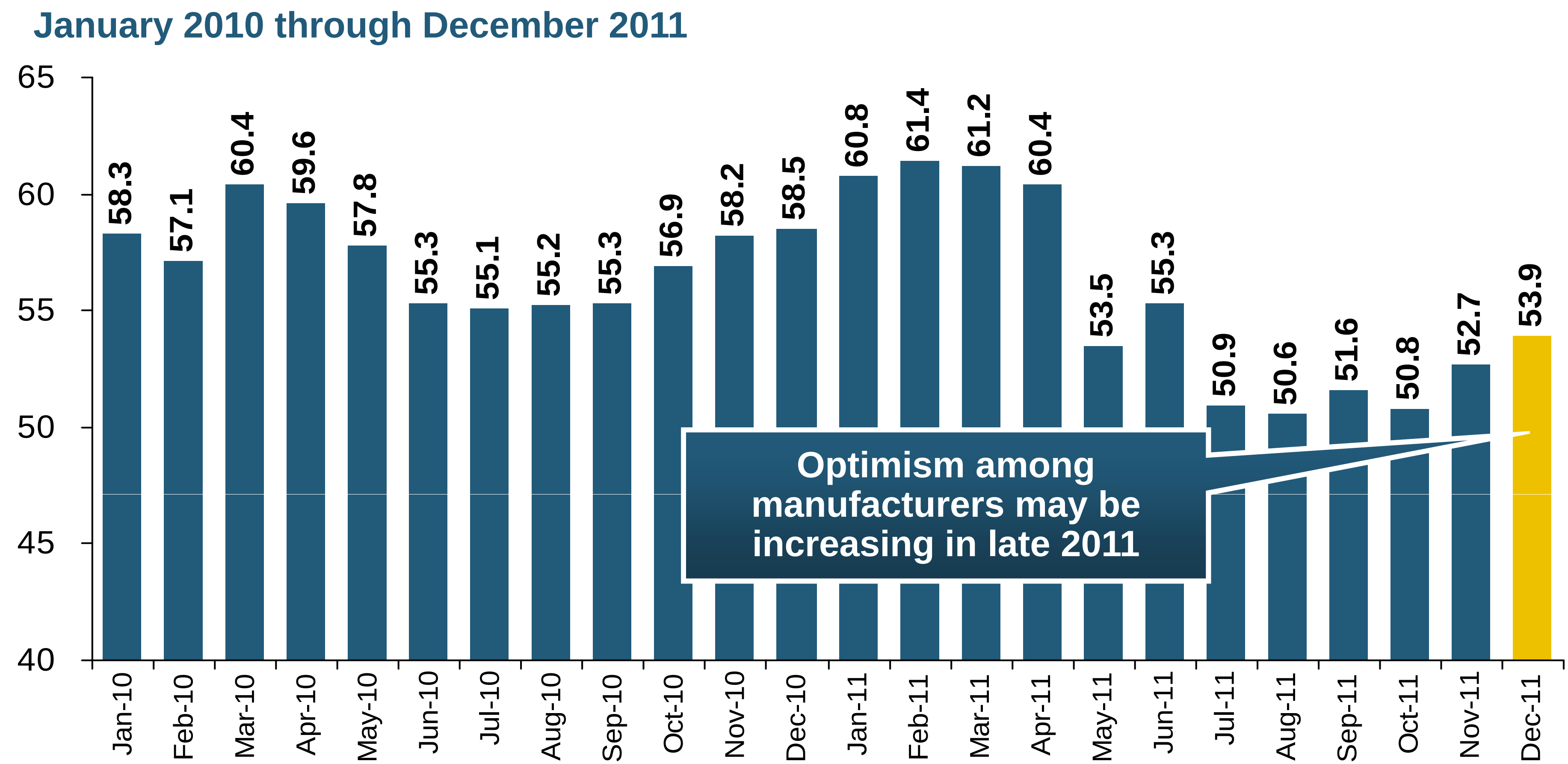
Dollar Value* of Manufacturers' Shipments Monthly, Jan 1992-Nov 2011



Monthly shipments are nearly back to peak (in July 2008, 6 months into the recession). Trough in May 2009. Growth from trough to November 2011 was 27.8%

*seasonally adjusted
Source: U.S. Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders, November 2011*, Jan. 4, 2012

ISM Manufacturing Index
(Values > 50 Indicate Expansion)



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

Source: Institute for Supply Management; Insurance Information Institute

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

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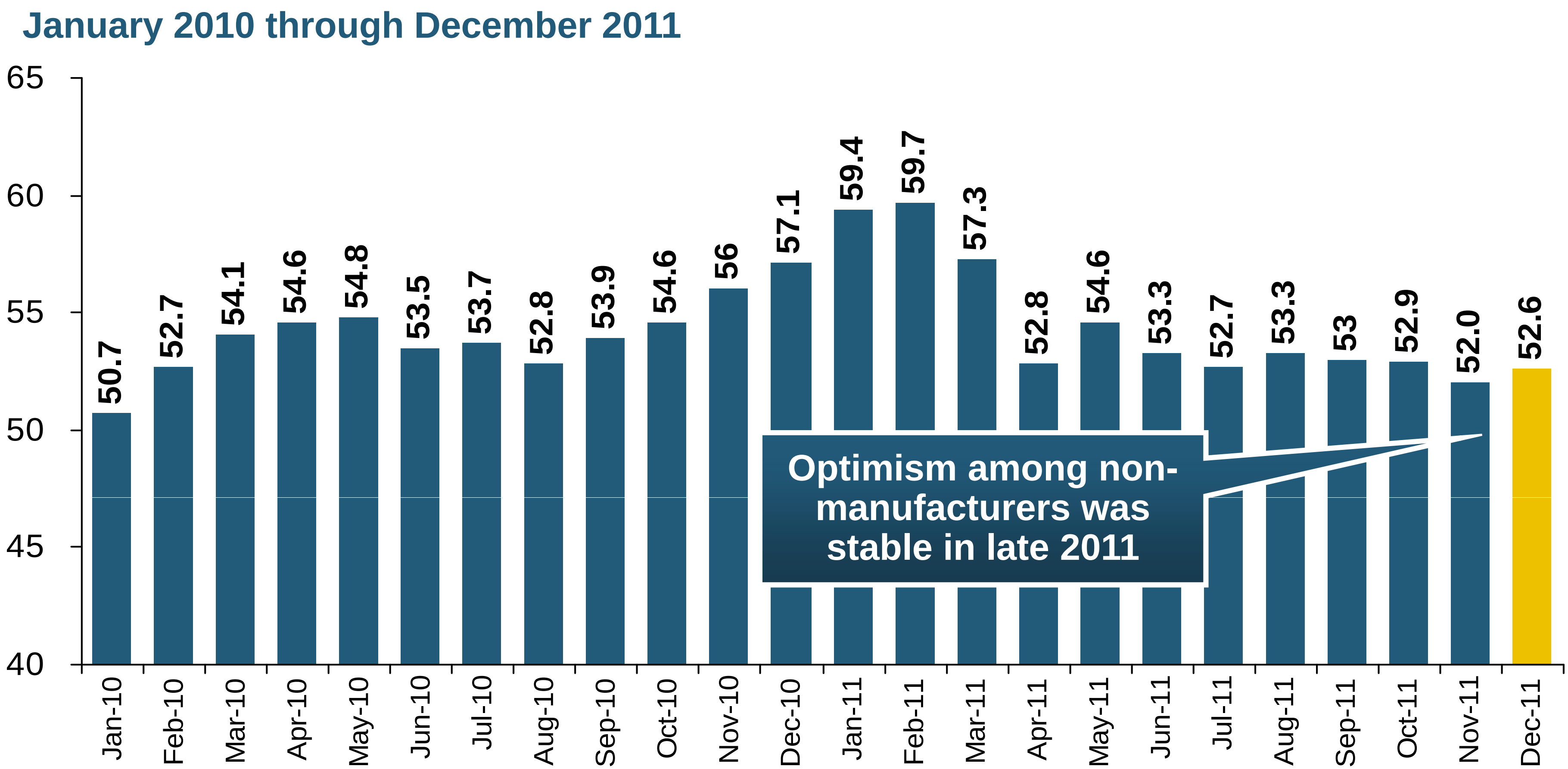

Non-manufacturing industries have been expanding and adding jobs. The question is whether this will continue.

Source: Institute for Supply Management; Insurance Information Institute

Consumer Sentiment Survey *(1966 = 100)*

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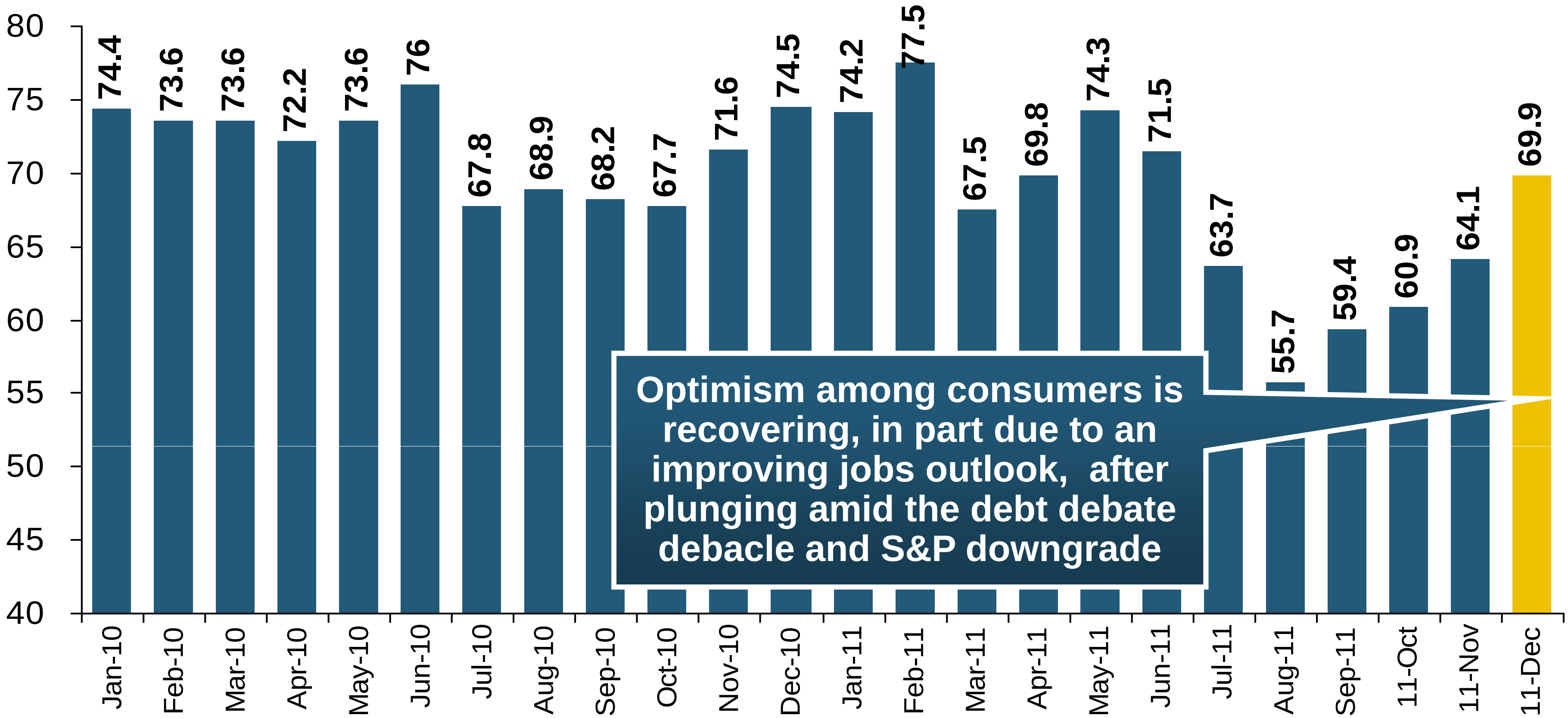
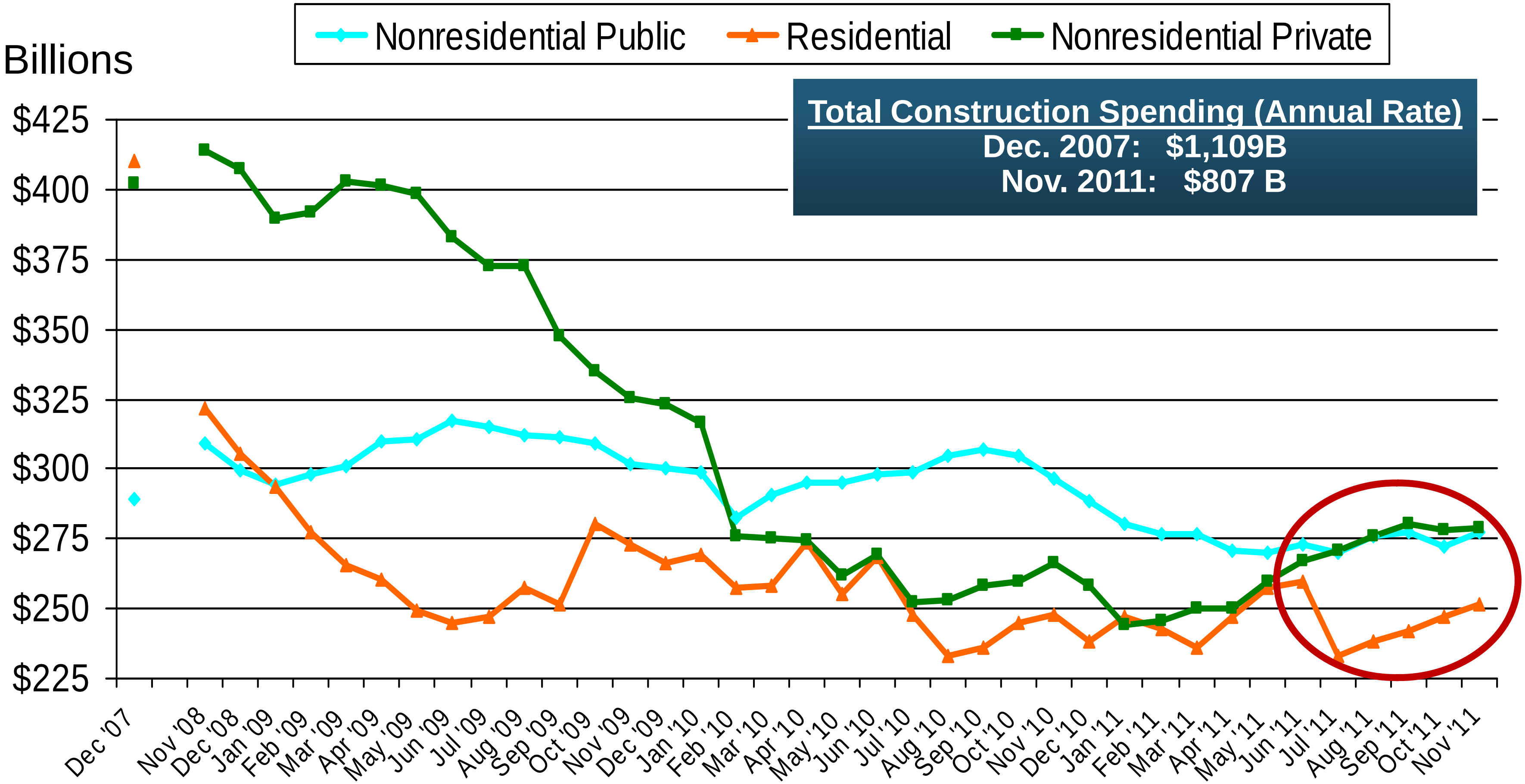
January 2010 through December 2011



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

Source: University of Michigan; Insurance Information Institute

Value* of Construction Put In Place,
Monthly, Nov '08-Nov '11

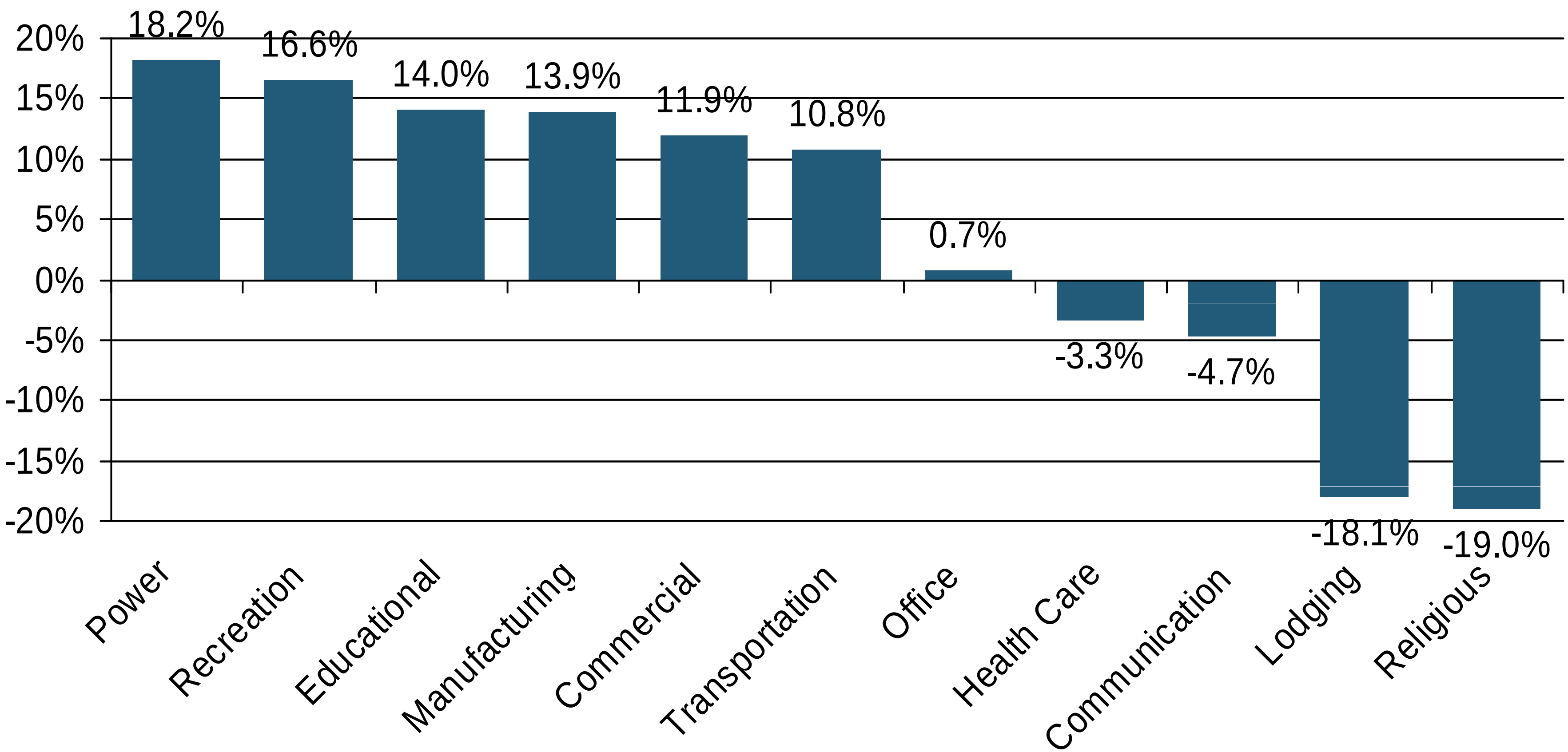


Since the recession started, private residential and nonresidential construction together are down $302 billion (annual rate), a drop of 27%. Public construction has hardly moved.

*Seasonally adjusted annual rate

Source: http://www.census.gov/const/C30/release.pdf

Pct. Change in Private Nonresidential Construction Put in Place* Oct 2010-Oct 2011



Outlays for energy exploration (mining, and exploration for petroleum and natural gas) and new power plants (including wind and solar) have accounted for 56% of the growth in private nonresidential construction in the past year.

*seasonally adjusted annual rate
Sources: U.S. Census Bureau; Wells Fargo Securities, Economics Group, Dec. 5, 2011 report; Insurance Information Institute

Number of Private Business Establishments, 2001:Q1-2010:Q3

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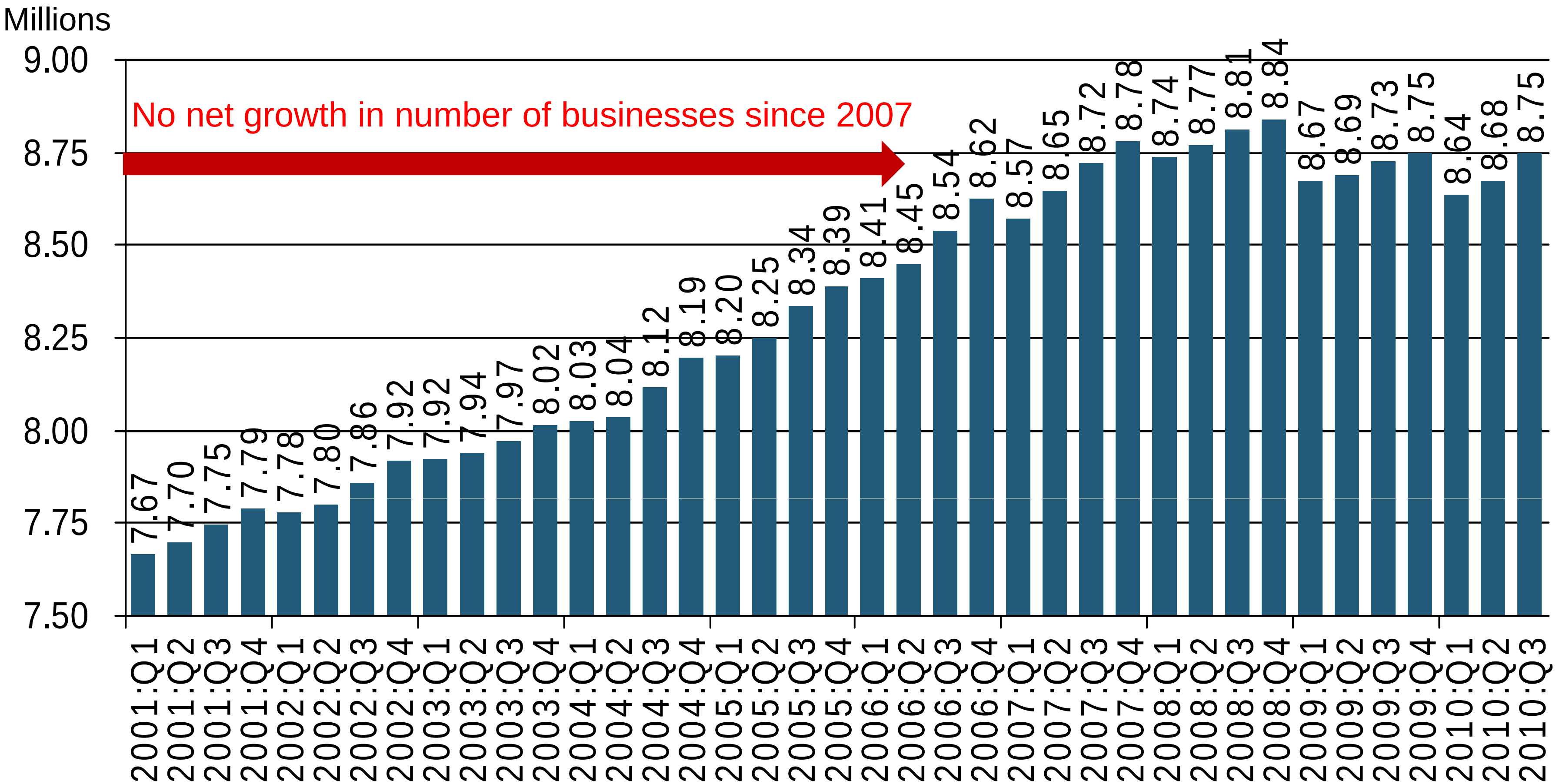

**In 2009:Q1 a net of 165,000 businesses disappeared.
By 2010:Q3 73,000 new ones appeared,
returning us to the level first attained three years before, in 2007:Q3.**

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

Business Bankruptcy Filings, 1980-2011:Q3

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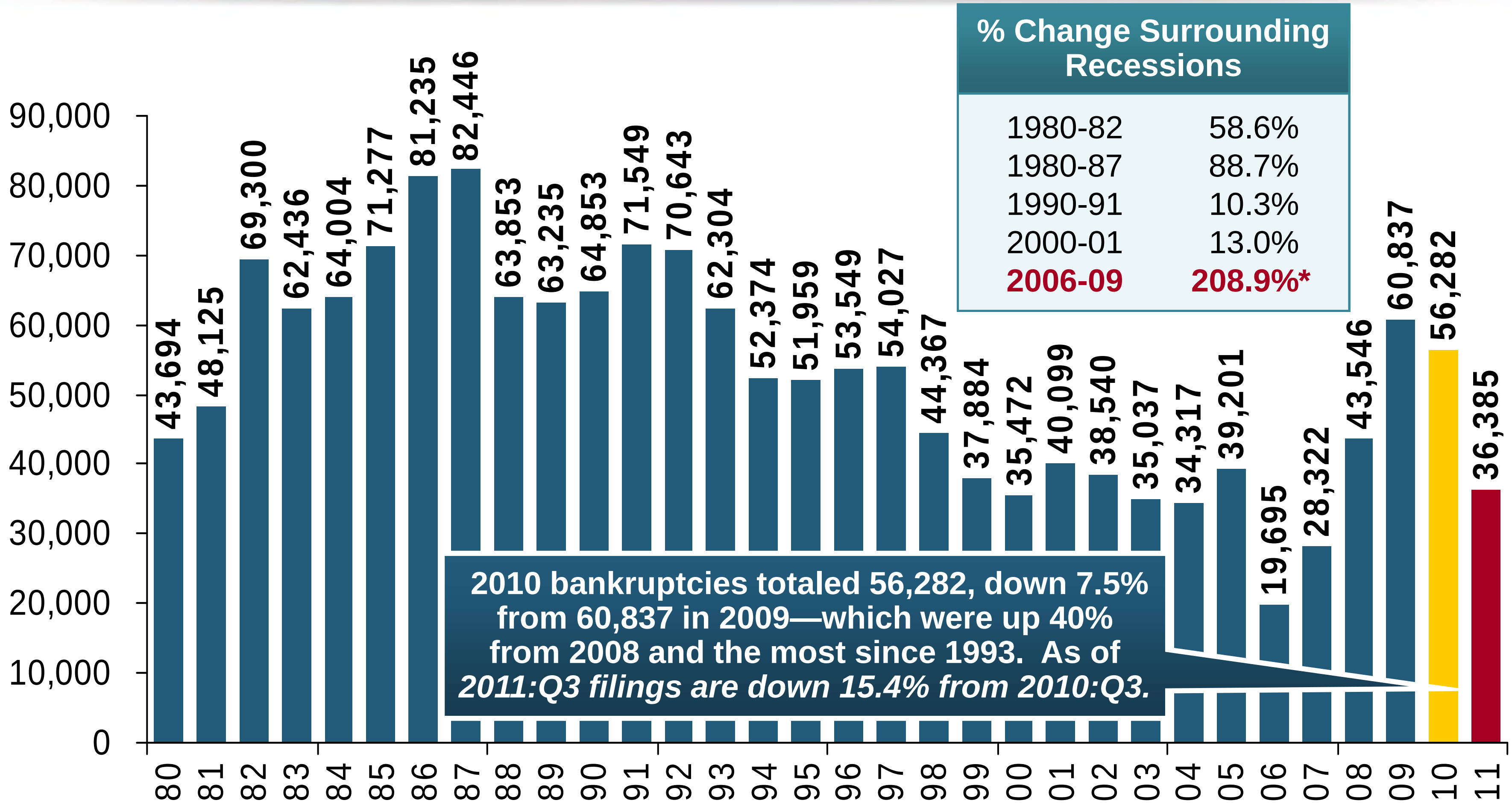

Significant Exposure Implications for All Commercial Lines as Business Bankruptcies Begin to Decline

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:Q1*

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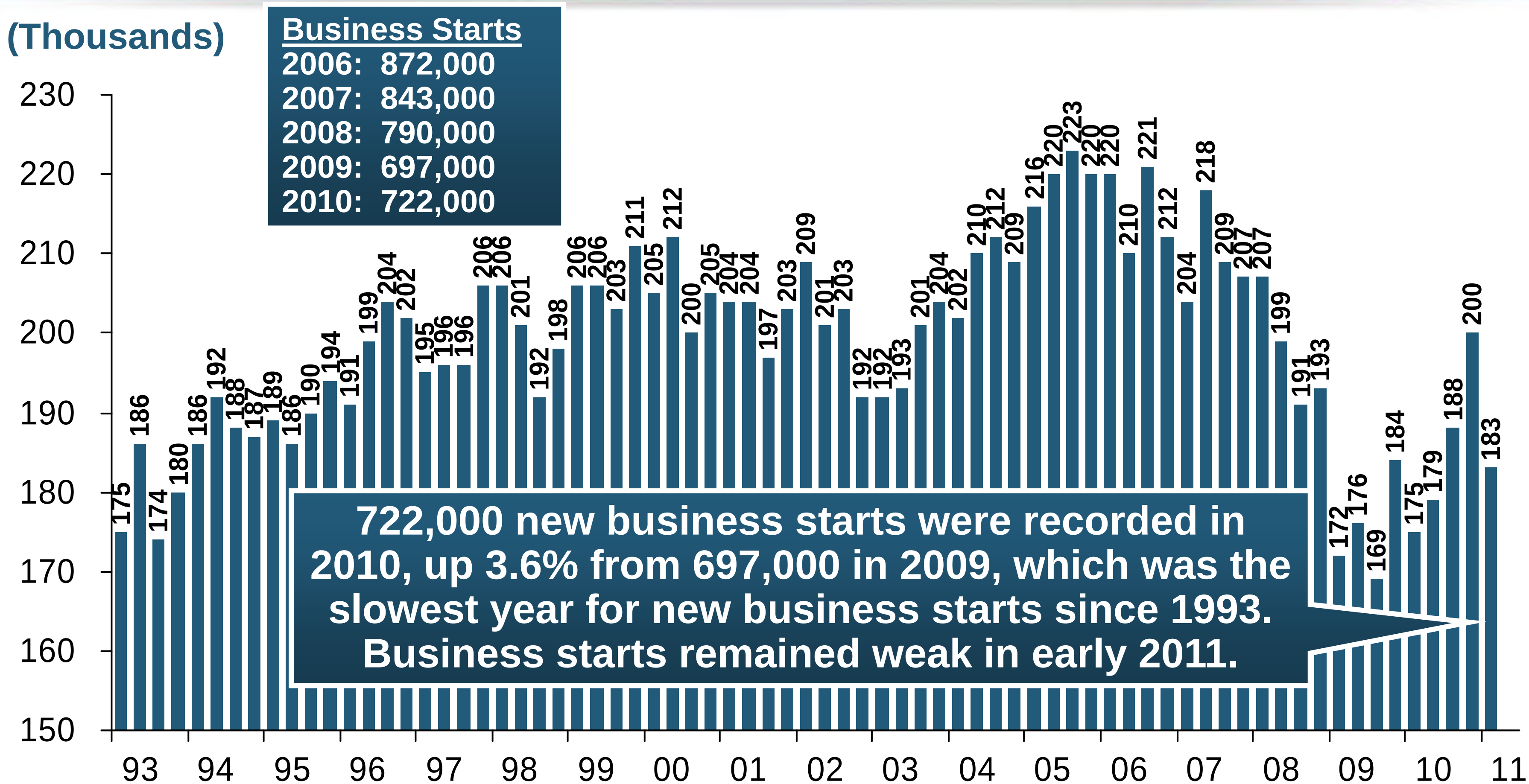

Business Starts Were Down Nearly 20% in the Recession, Holding Back Most Types of Commercial Insurance Exposure

* Data through March 31, 2011 are the latest available as of January 16, 2012; Seasonally adjusted
Source: Bureau of Labor Statistics, http://www.bls.gov/news.release/cewbd.t08.htm.

11 Industries for the Next 10 Years: Insurance Solutions Needed

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

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

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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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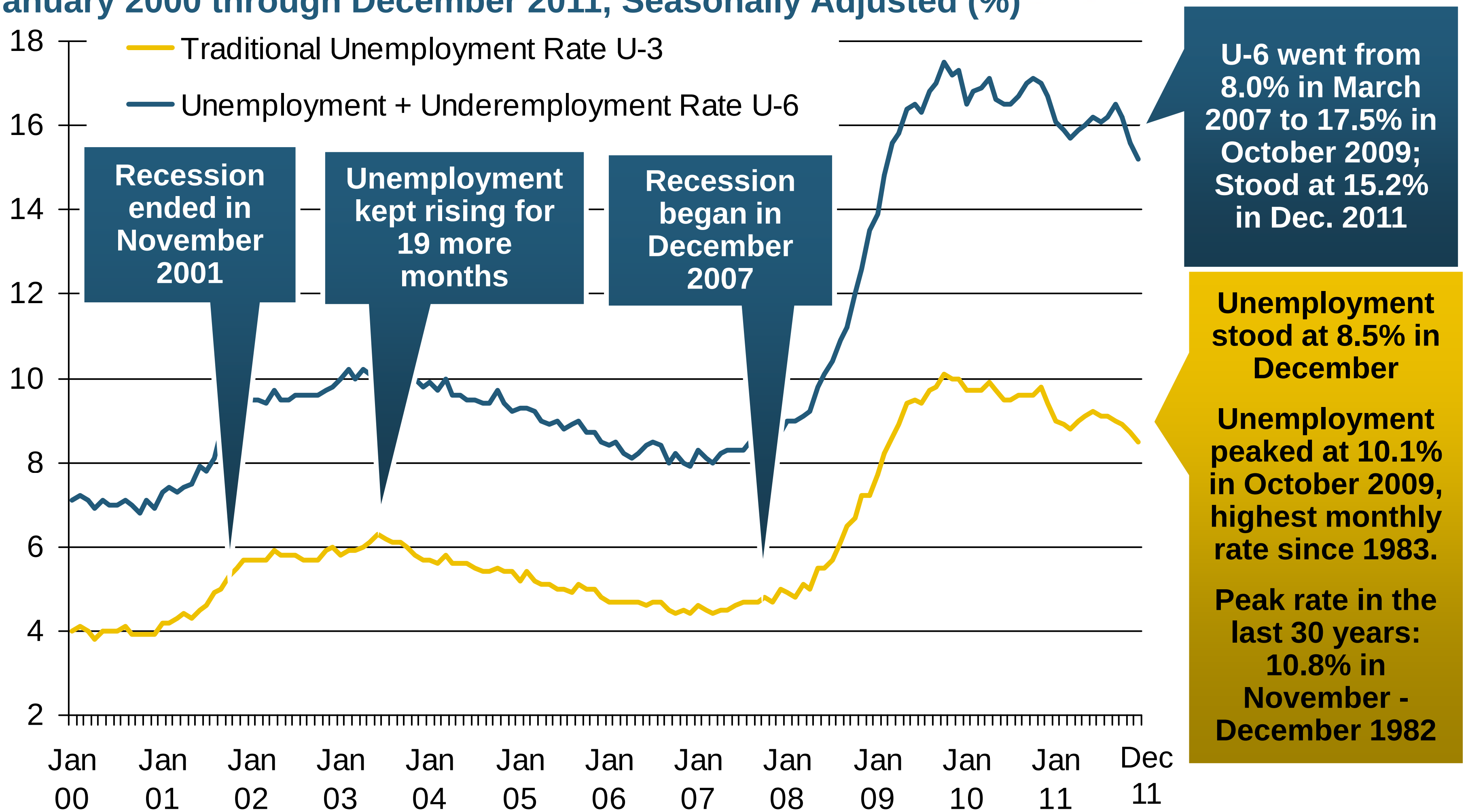
January 2000 through December 2011, Seasonally Adjusted (%)



Stubbornly high unemployment and underemployment constrain overall economic growth, but the job market might finally be improving

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

Monthly Change in Private Employment

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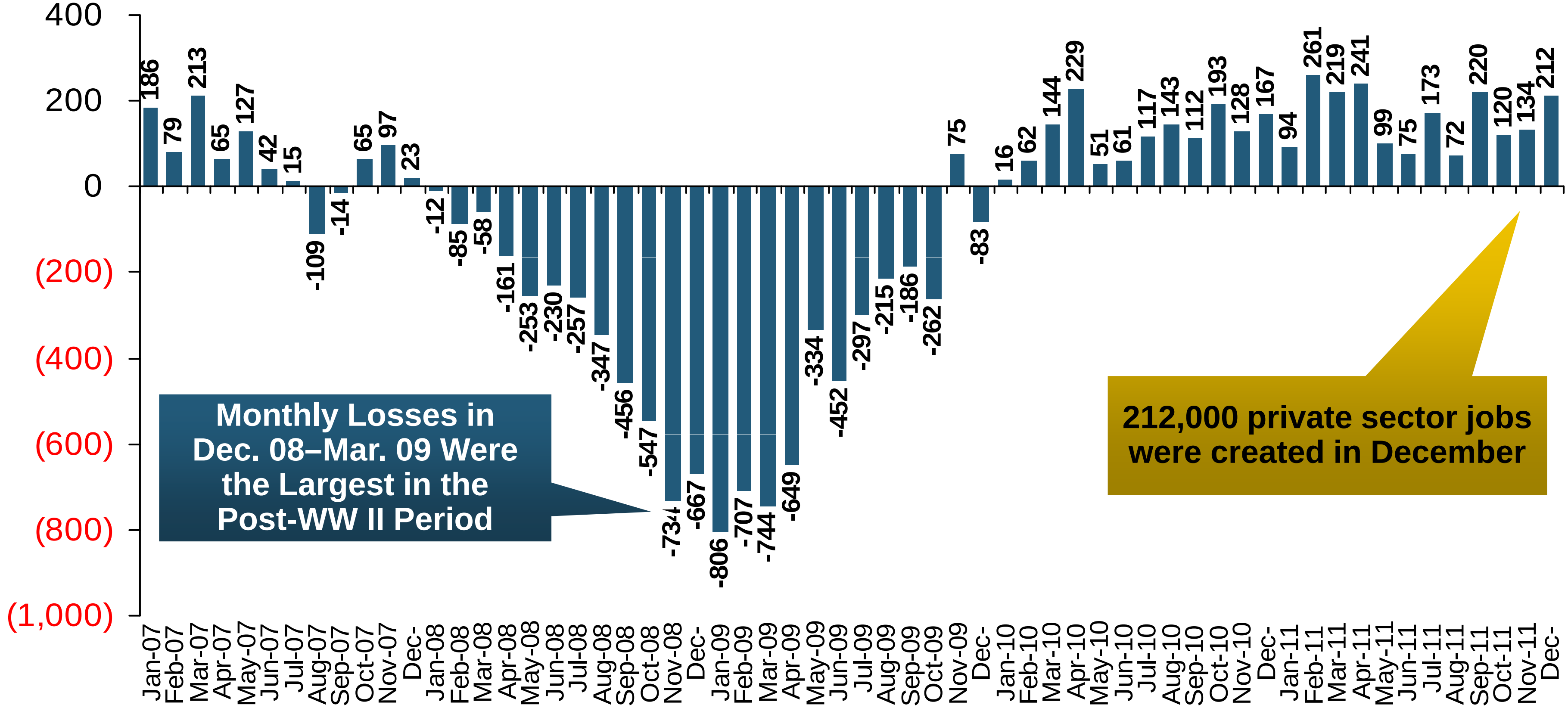
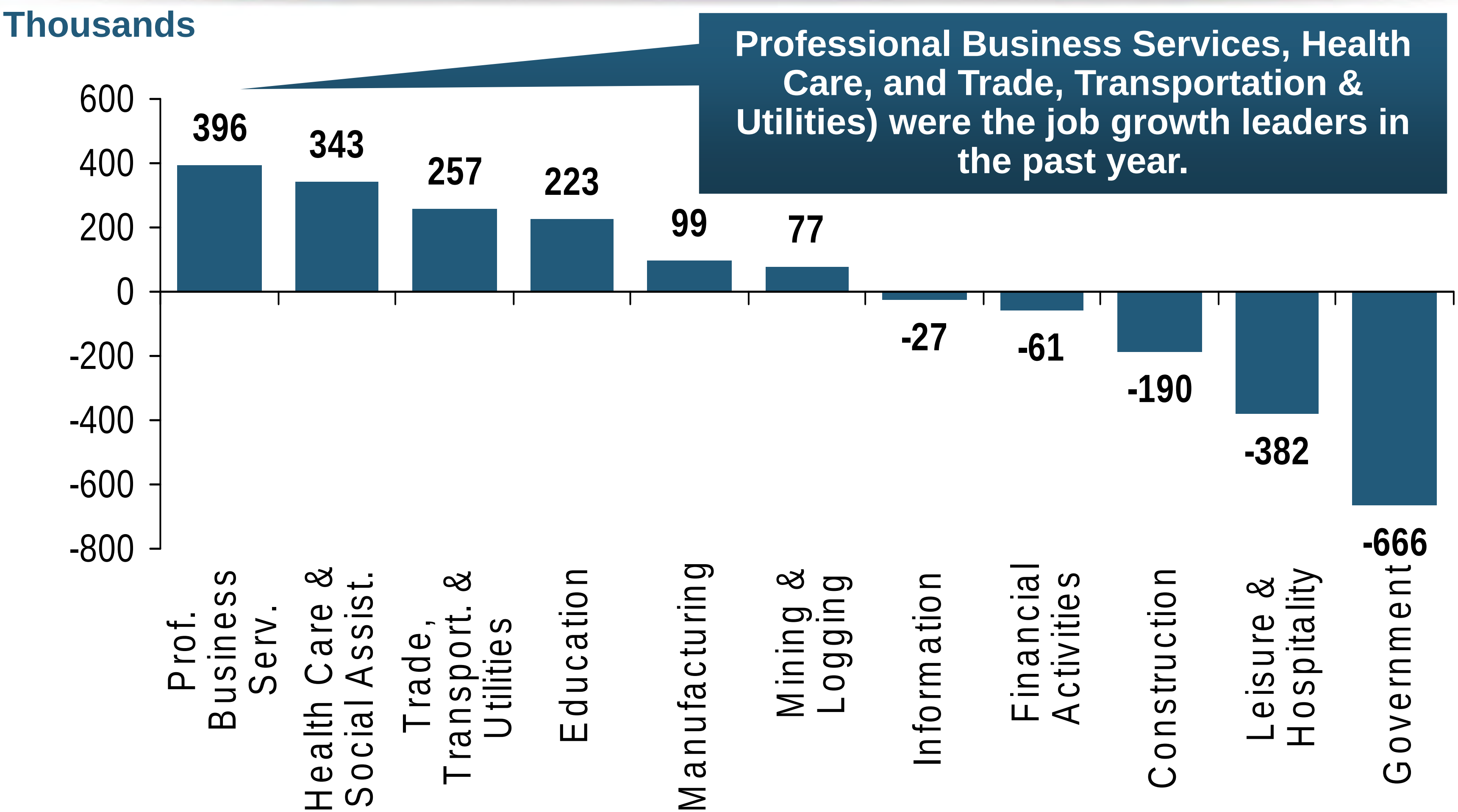
January 2008 through November 2011* (Thousands)



Private Employers Added 3.343 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

Change in Number Employed in Select Industries, June 2011 vs. June 2010



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

Sources: US Bureau of Labor Statistics "Employment Situation, June 2011"; Insurance Information Institute.

Monthly Change Employment*

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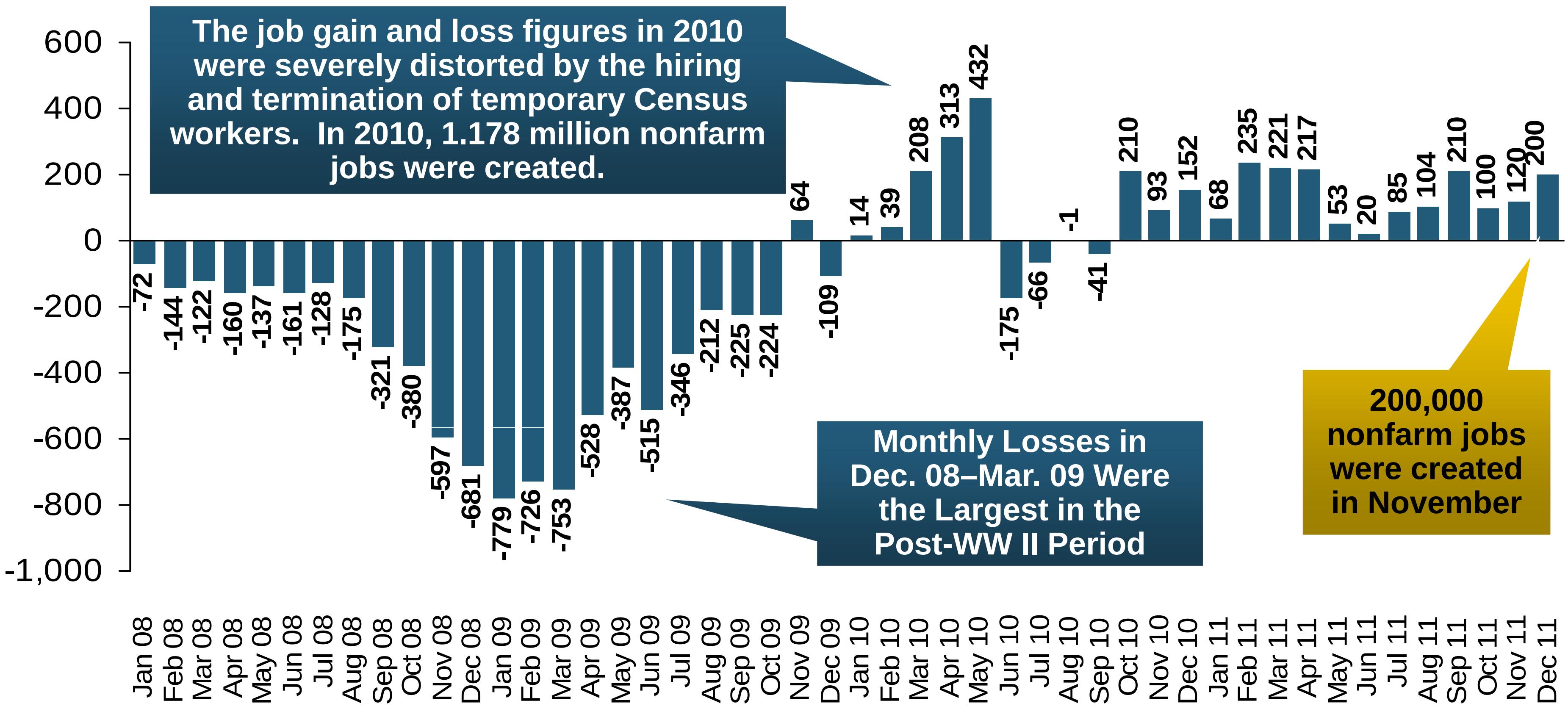
January 2008 through December 2011* (Thousands)

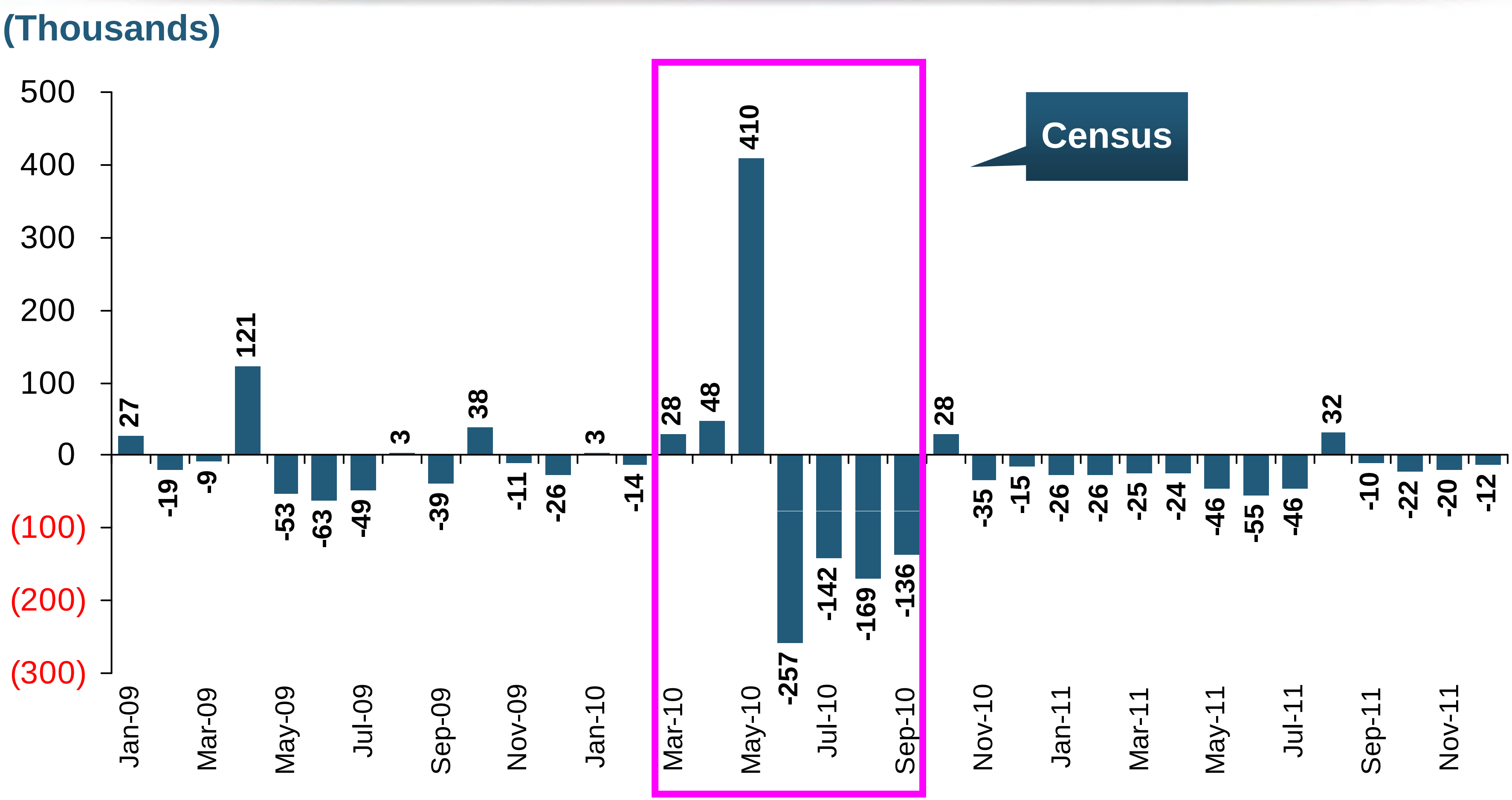


Job Losses Since the Recession Began in Dec. 2007 Peaked at 8.4 Mill in Dec. 09; 13.3 Million People are Now Defined as Unemployed

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

Monthly Change in Government Employment

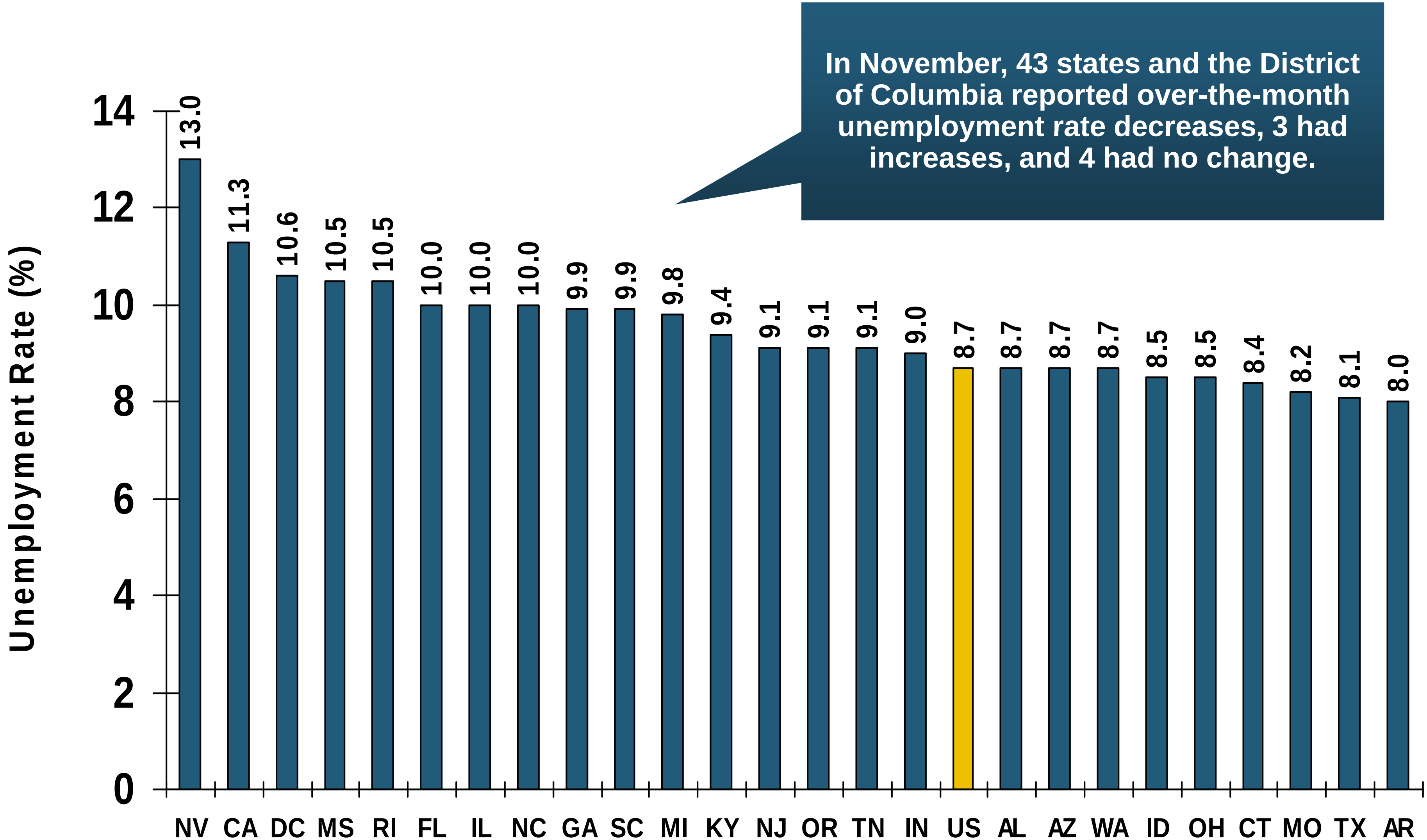
January 2009 through December 2011



In 2011 employment by government at all levels dropped every month except August. Total (net) jobs lost in last twelve months: 280,000.

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

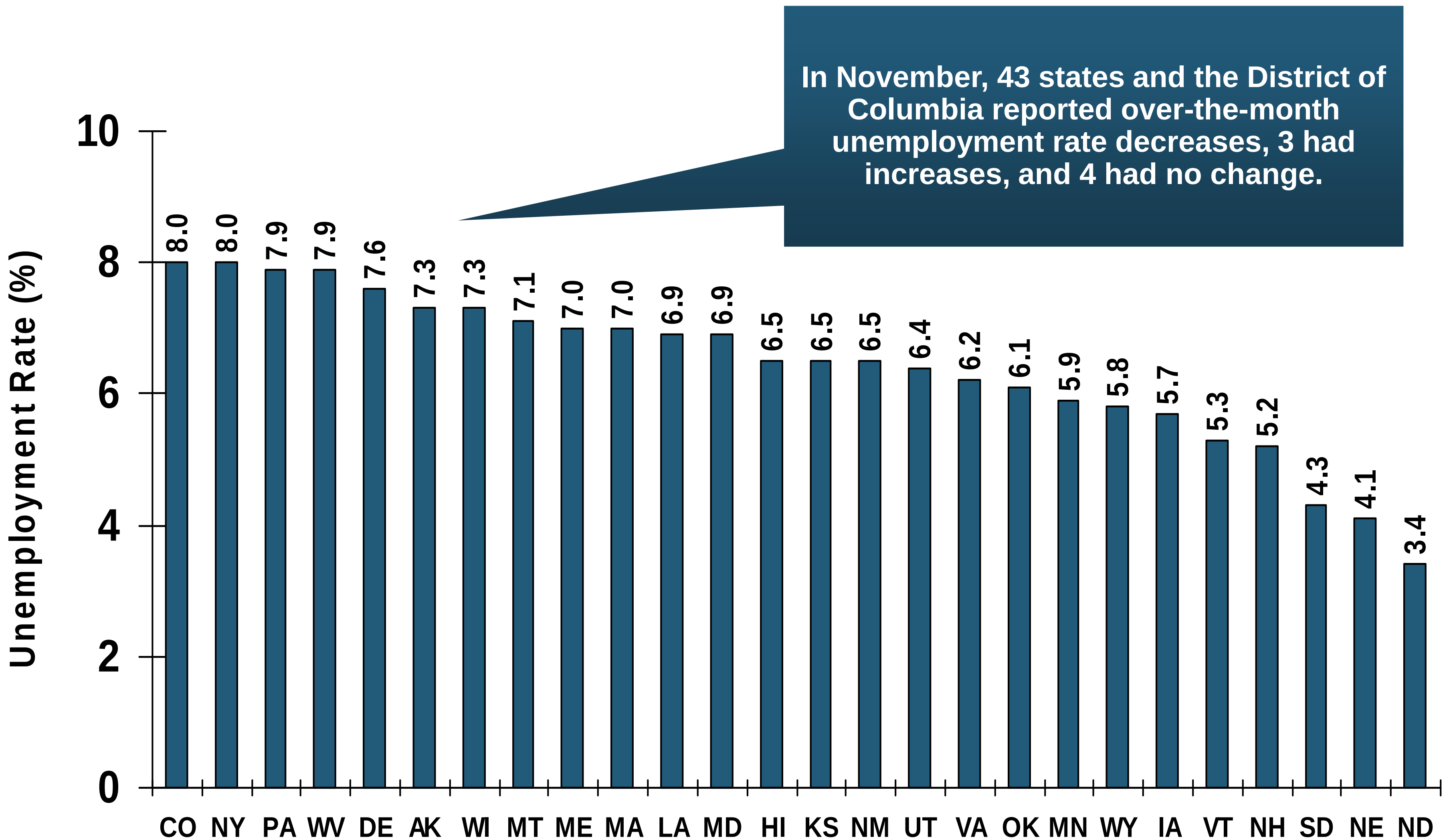
Unemployment Rates by State, November 2011: Highest 25 States*



*Provisional figures for November 2011, seasonally adjusted.

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

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



*Provisional figures for November 2011, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

US Unemployment Rate

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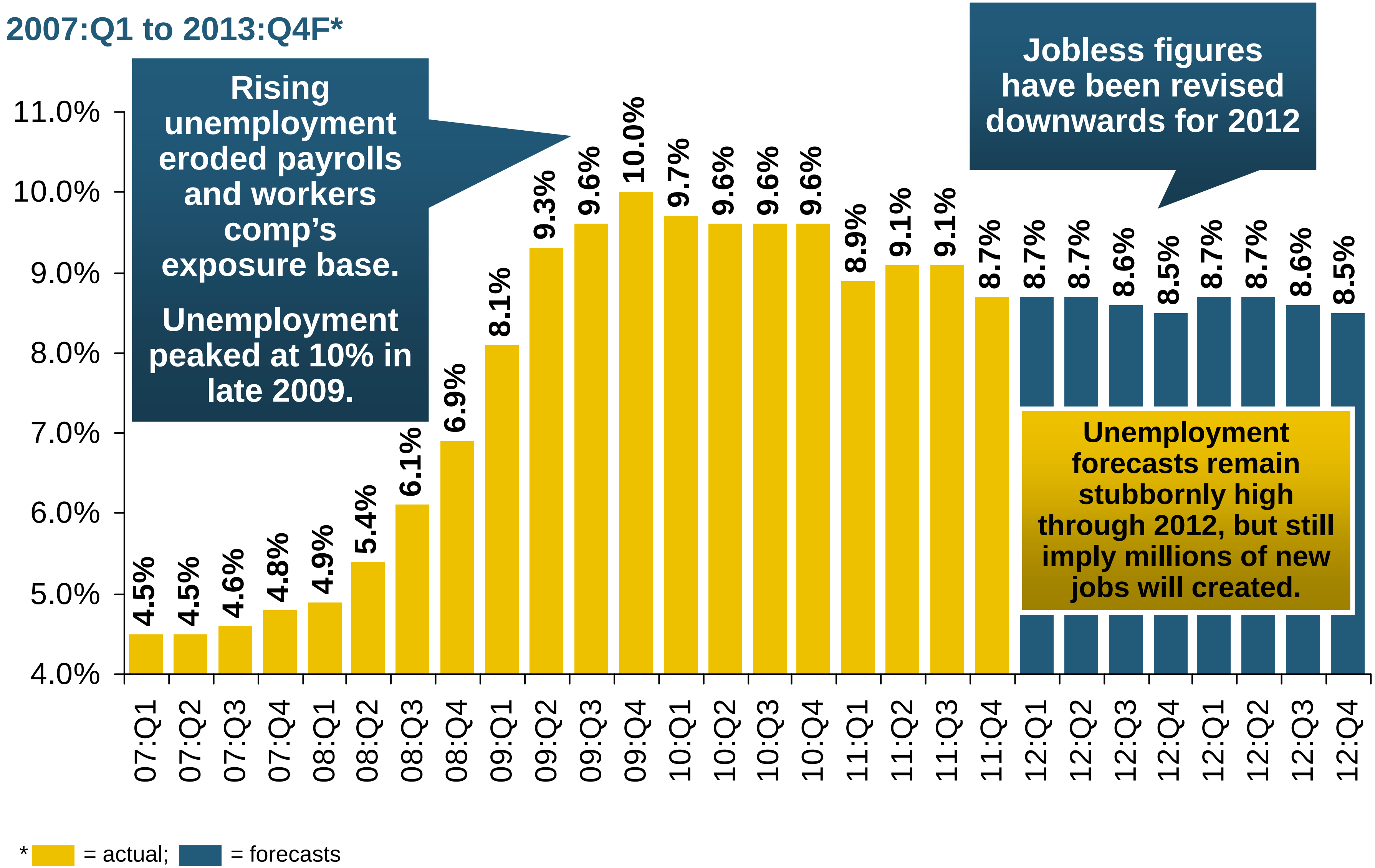
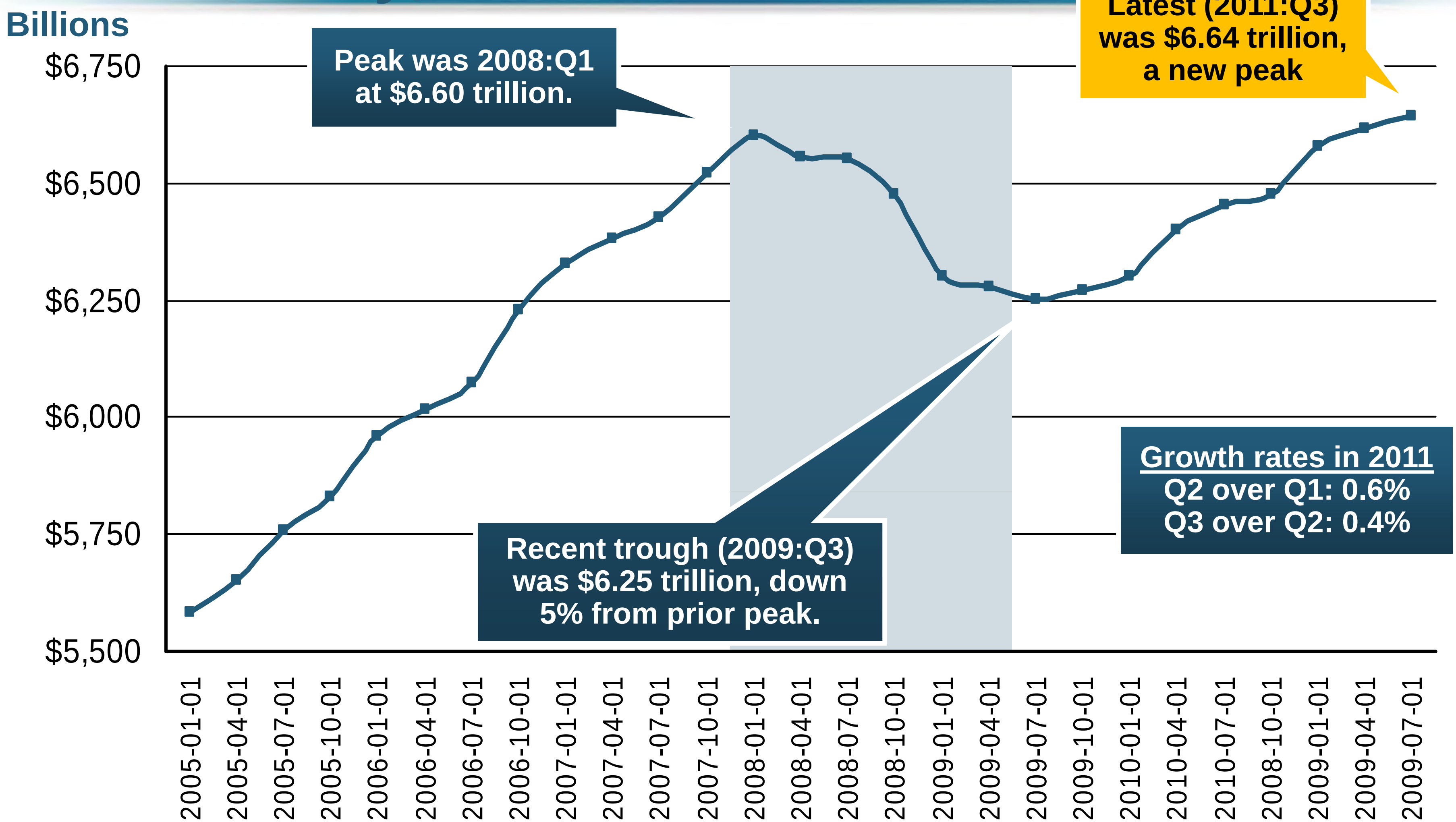


Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (1/12); Insurance Information Institute

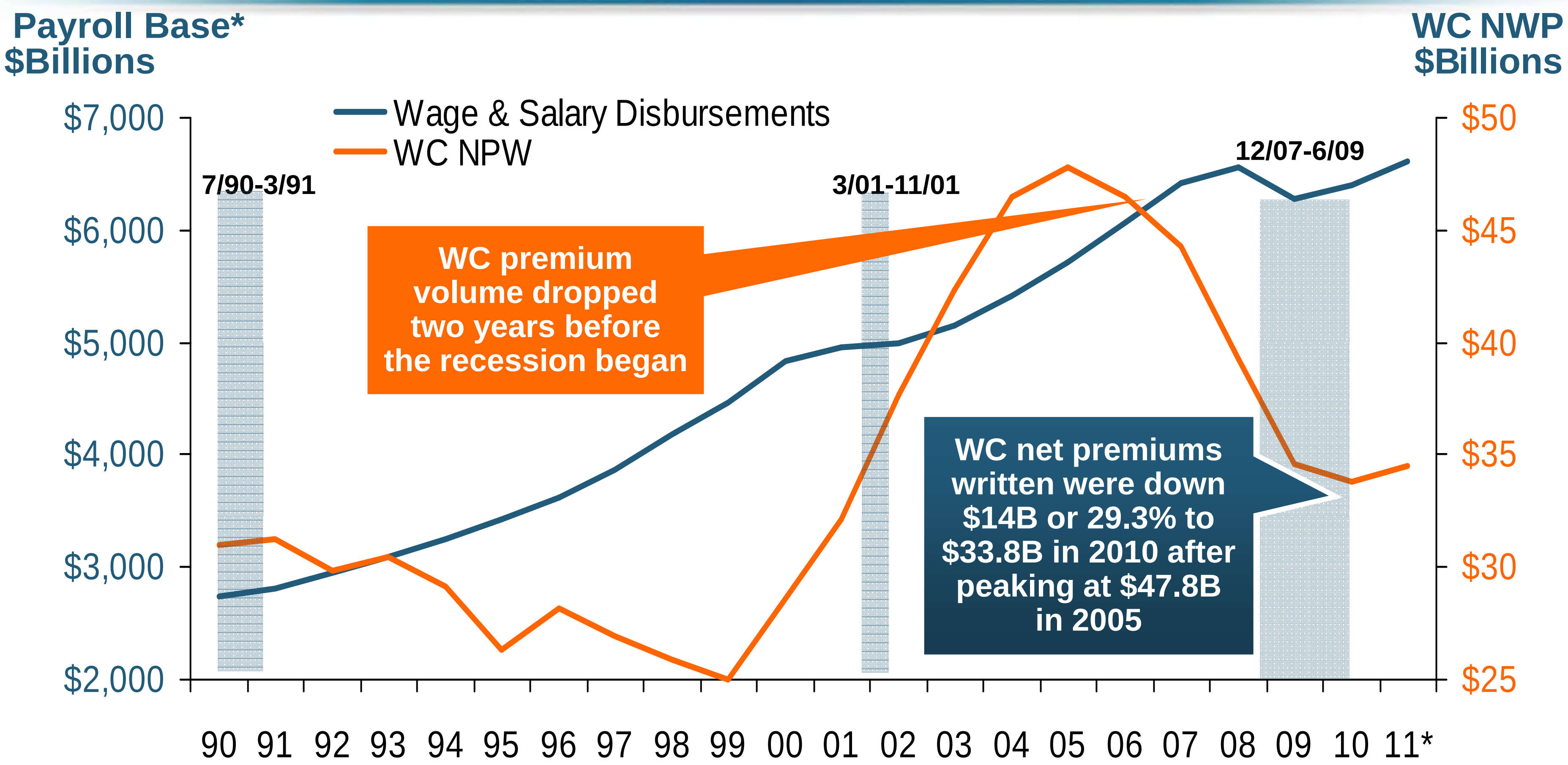
Nonfarm Payroll (Wages & Salaries): Quarterly, 2005–2011:Q3



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 Institutes.

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



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

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

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

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