



An Industry and Economy in Transition:

Overview and Outlook for Commercial Insurance Markets & the US Economy

Target Markets Program Administrators Association

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- **U.S. Economic Overview and Outlook**
 - ◆ Economy as a Growth Engine for P/C Insurers
 - ◆ Labor Market Review
- **Summary of P/C Financial Performance**
- **Catastrophe Loss Developments & Trends**
 - ◆ Global, US
- **Will the Market Turn? Four Necessary Criteria:**
 - ◆ Underwriting Loss Trends
 - ◆ Capital/Capacity
 - ◆ Reinsurance Markets
 - ◆ Pricing Discipline
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- **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**

***Enormous Consequences for
P/C Insurers***

- **Economic Growth Will Accelerate Modestly in 2012/13, Albeit Unevenly**
 - ◆ 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 by 2013**
- **Inflation Remains Tame**
 - ◆ Runaway inflation highly unlikely but energy spike possible; Fed has things under control
- **Private Sector Hiring Remains Consistently Positive**
 - ◆ Unemployment dips below 8% by year's end
- **Sovereign Debt, Euro Currency/Economy, Muni Bond "Crises" Overblown**
- **European Recession is 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**

■ P/C Insurance Exposures Grow Robustly

- ◆ Personal and commercial exposure growth is certain in 2012; Strongest since 2004
- ◆ But restoration of destroyed exposure will take until mid-decade

■ P/C Industry Growth in 2012 Will Be Strongest Since 2004

- ◆ Growth likely to exceed A.M. Best projection of +3.8% for 2012
- ◆ No traditional “hard market” emerges in 2012

■ Underwriting Fundamentals Deteriorate Modestly

- ◆ Some pressure from claim frequency, in some severity in key lines

■ Increasing Private Sector Hiring Will Drive Payrolls/WC Exposures

- ◆ Wage growth is also positive and could modestly accelerate
- ◆ WC will prove to be tough to fix from an underwriting perspective

■ Increase in Demand for Commercial Insurance Will Accelerate in 2012

- ◆ Includes workers comp, property, marine, many liability coverages
- ◆ Laggards: inland marine, aviation, commercial auto, surety
- ◆ Personal Lines: Auto leads, homeowners lags (*though HO leads in NPW growth due to rates*)

■ Investment Environment Is/Remains Much More Favorable

- ◆ Return of realized capital gains as a profit driver
- ◆ Interest rates remain low; Some upward pressured if economic strength surprises

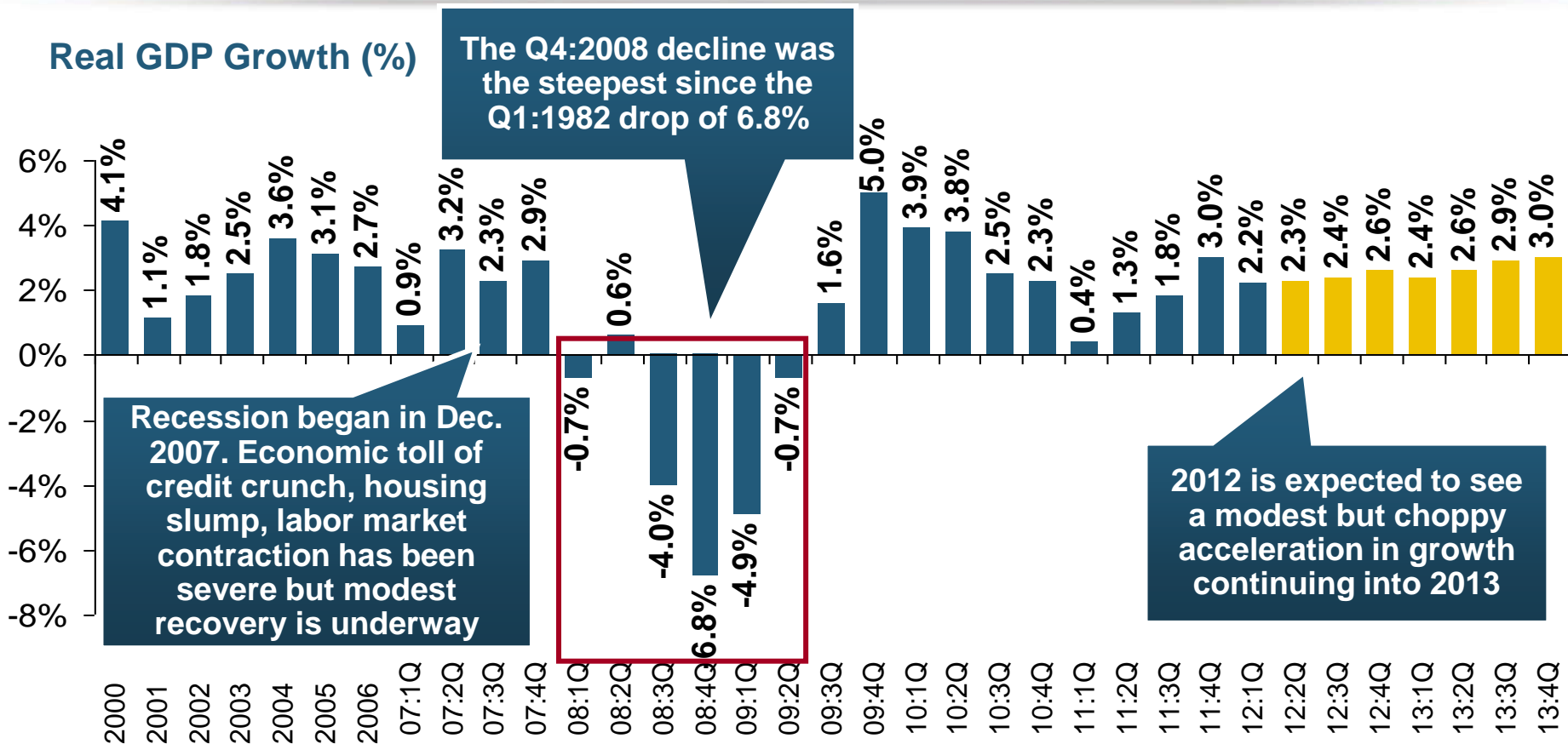
■ Industry Capacity Hits a New Record by Year-End 2012 (Barring Mega-CAT)



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

**Growth Will Expand Insurable Exposures
and Help Absorb Excess Capital**

US Real GDP Growth*



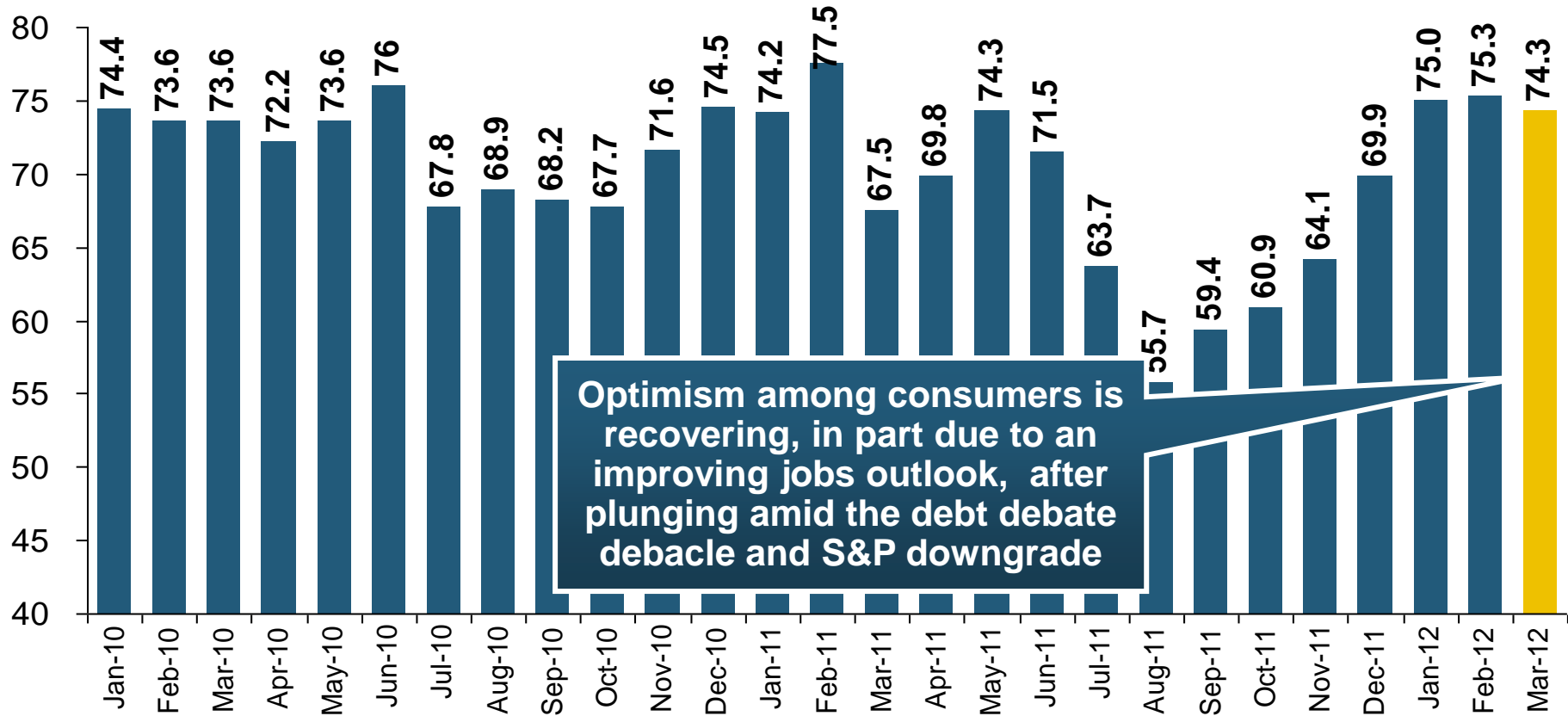
Demand for Insurance Continues To Be Impacted by Sluggish Economic Conditions, but the Benefits of Even Slow Growth Will Compound and Gradually Benefit the Economy Broadly

* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 4/12; Insurance Information Institute.

Consumer Sentiment Survey (1966 = 100)

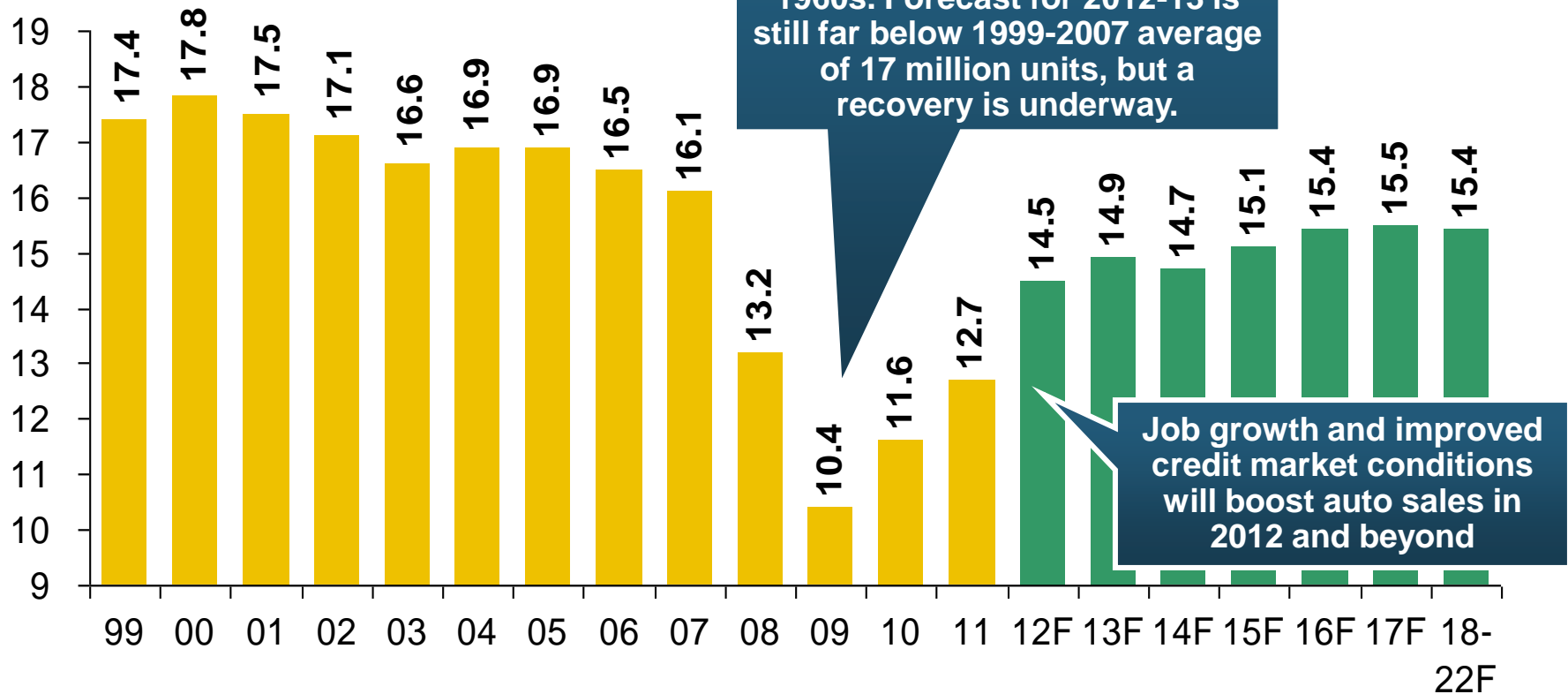
January 2010 through March 2012



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

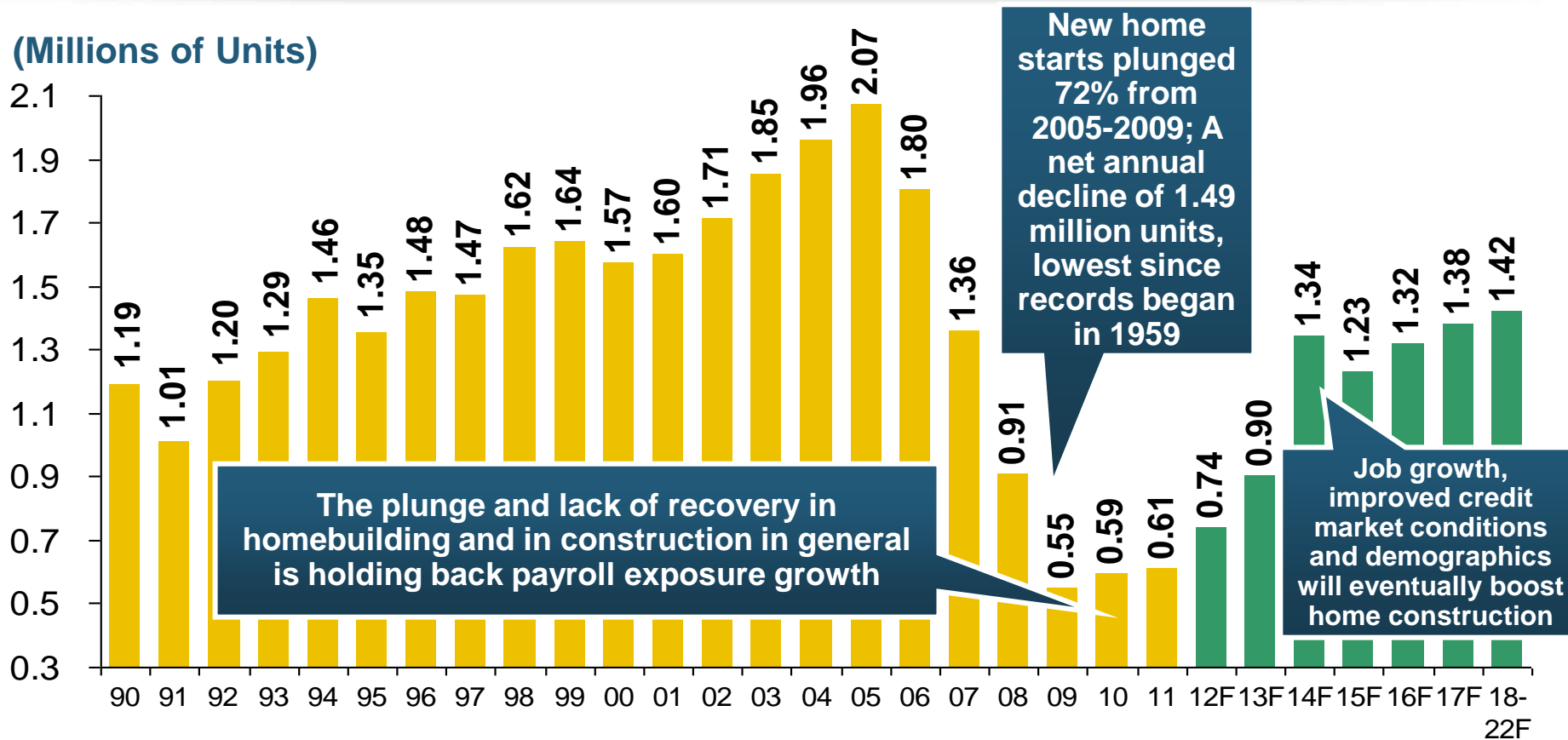
Auto/Light Truck Sales, 1999-2022F

(Millions of Units)



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

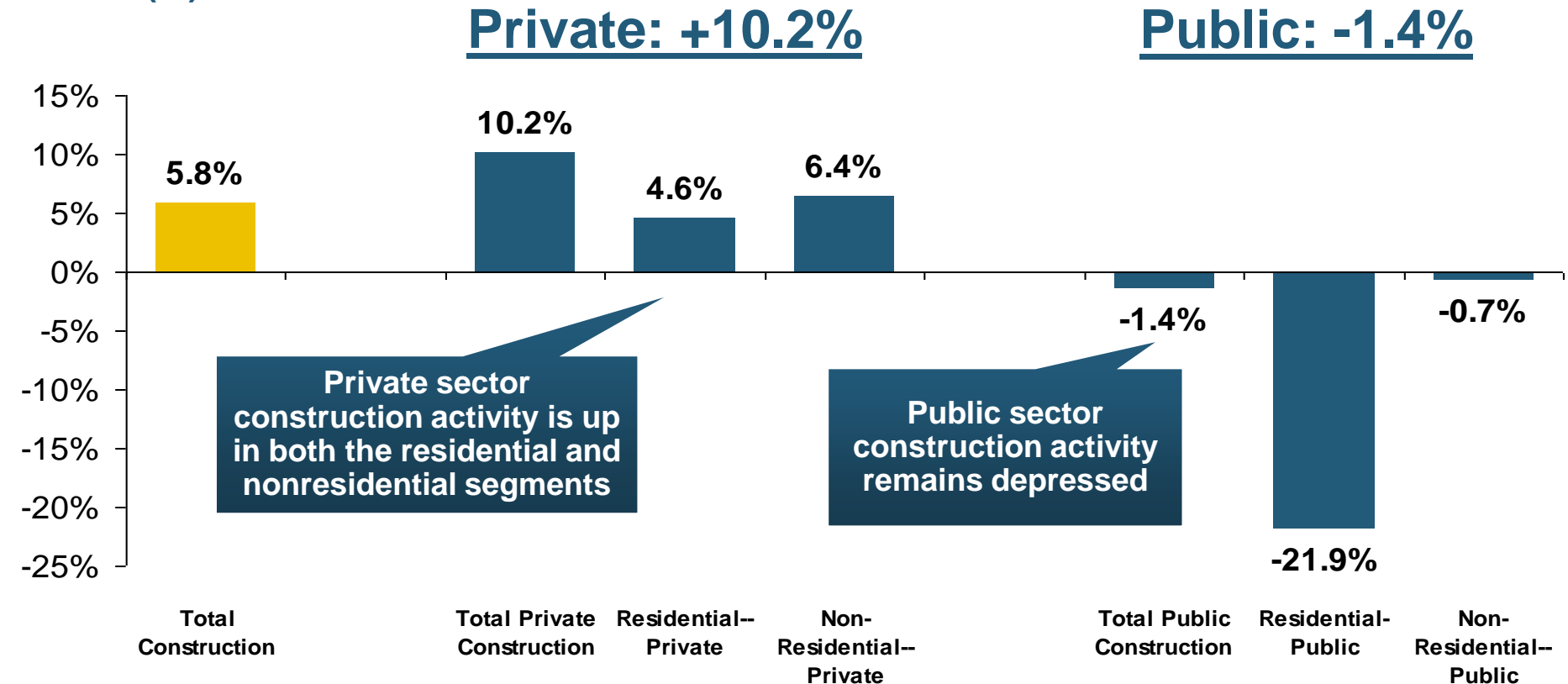
New Private Housing Starts, 1990-2022F



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

Value of Construction Put in Place, Feb. 2012 vs. Feb. 2011*

Growth (%)



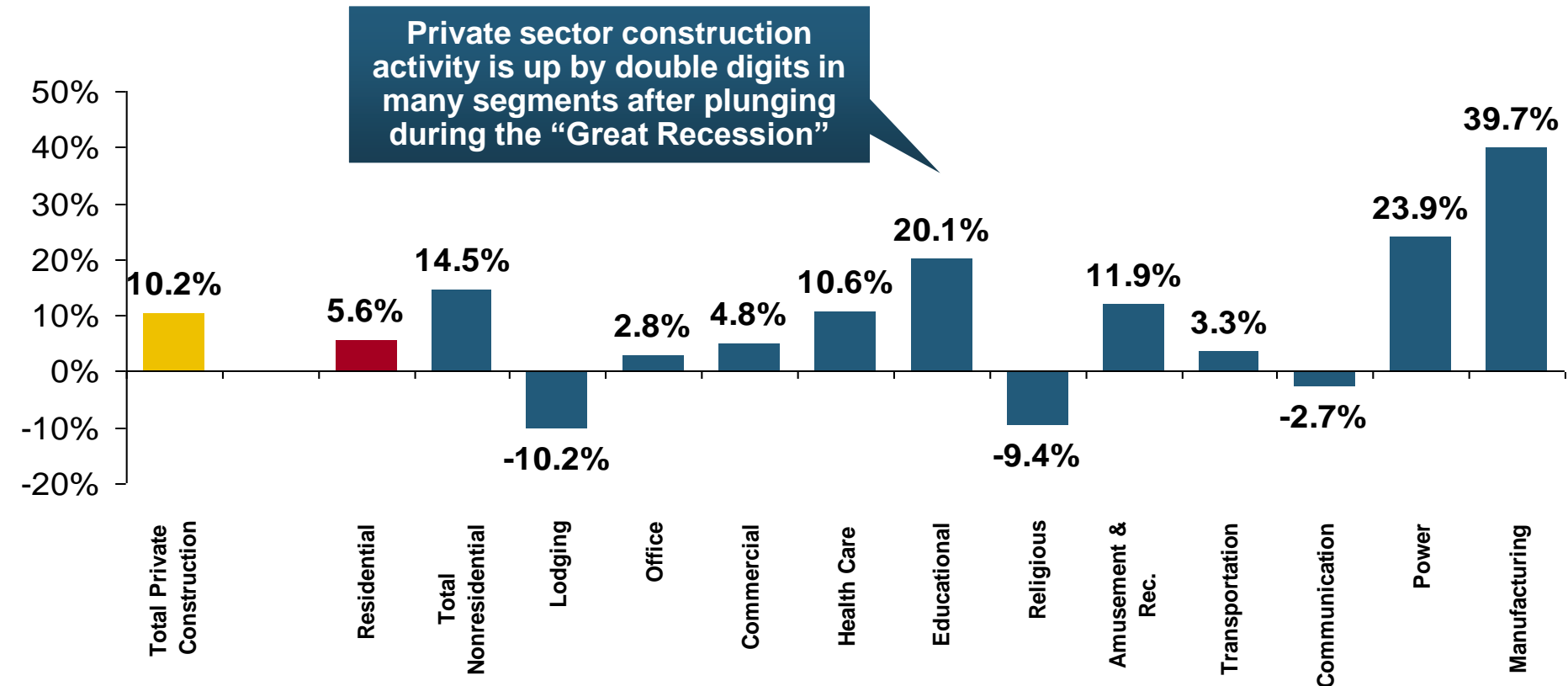
Overall Construction Activity is Up, But Growth Is Entirely in the Private Sector as State/Local Government Budget Woes Continue

*seasonally adjusted

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

Value of Private Construction Put in Place, by Segment, Feb. 2012 vs. Feb. 2011*

Growth (%)



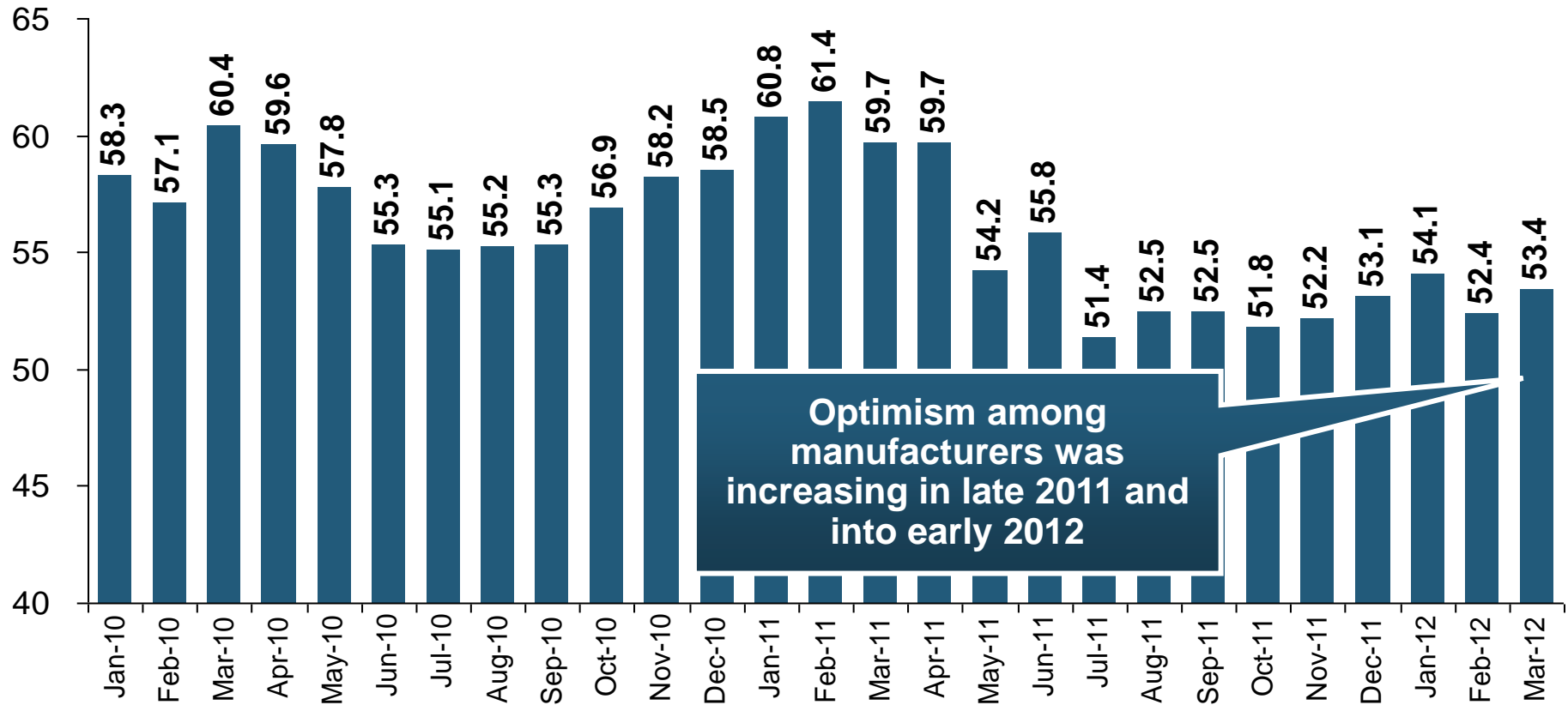
Private Construction Activity is Up in Most Segments, Including Residential Construction

*seasonally adjusted

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

ISM Manufacturing Index (Values > 50 Indicate Expansion)

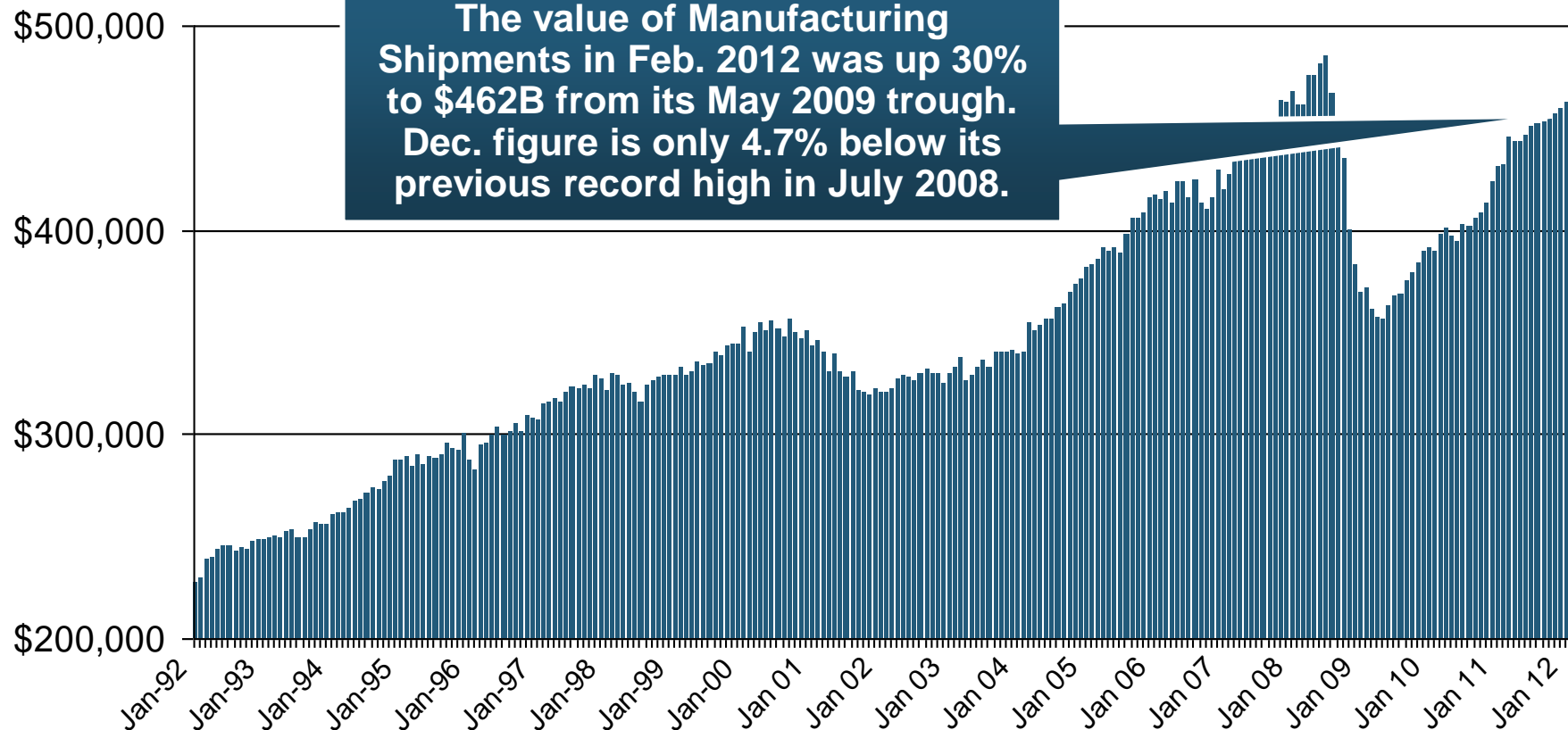
January 2010 through March 2012



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

Dollar Value* of Manufacturers' Shipments Monthly, Jan. 1992—Feb. 2012

\$ Millions



Monthly shipments are nearly back to peak (in July 2008, 8 months into the recession). Trough in May 2009. Growth from trough to February 2012 was 30%. This growth leads to gains in many commercial exposures: WC, Commercial Auto, Property and Various Liability Coverages

*seasonally adjusted

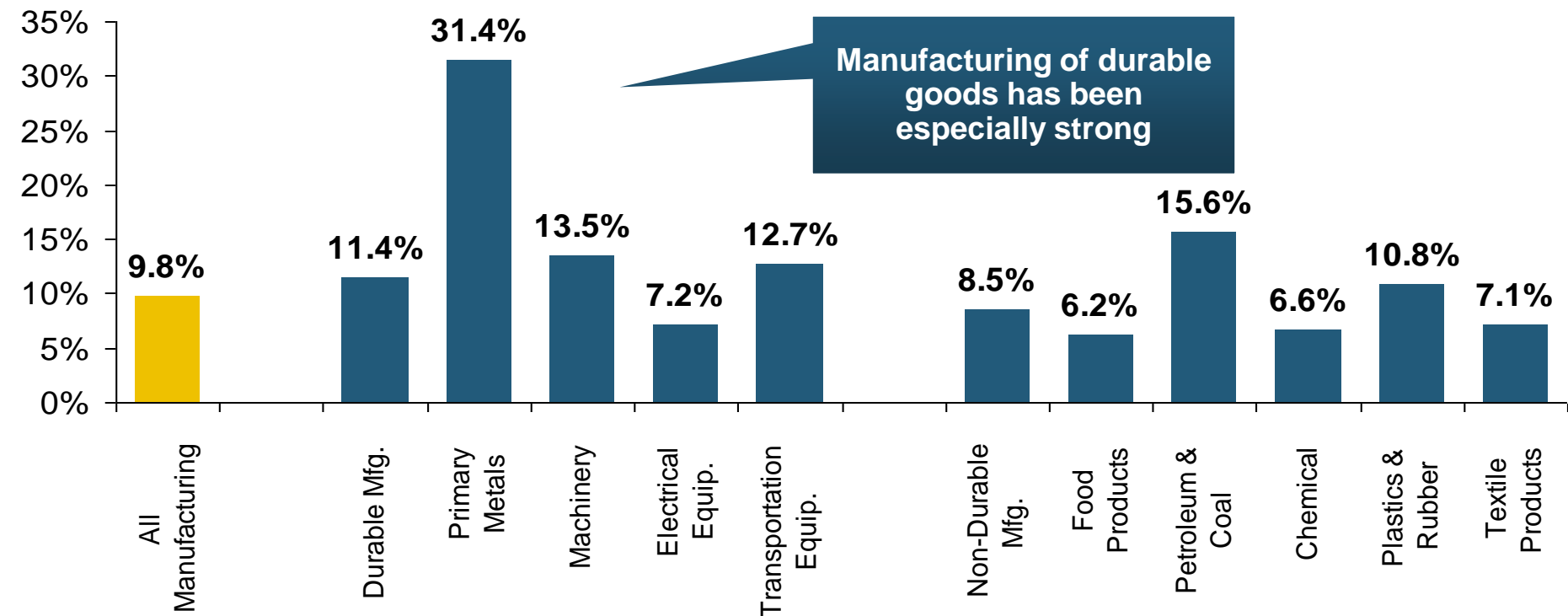
Source: U.S. Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders*, <http://www.census.gov/manufacturing/m3/>

Manufacturing Growth for Selected Sectors, 2012 vs. 2011*

Growth (%)

Durables: +11.4%

Non-Durables: +8.5%



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

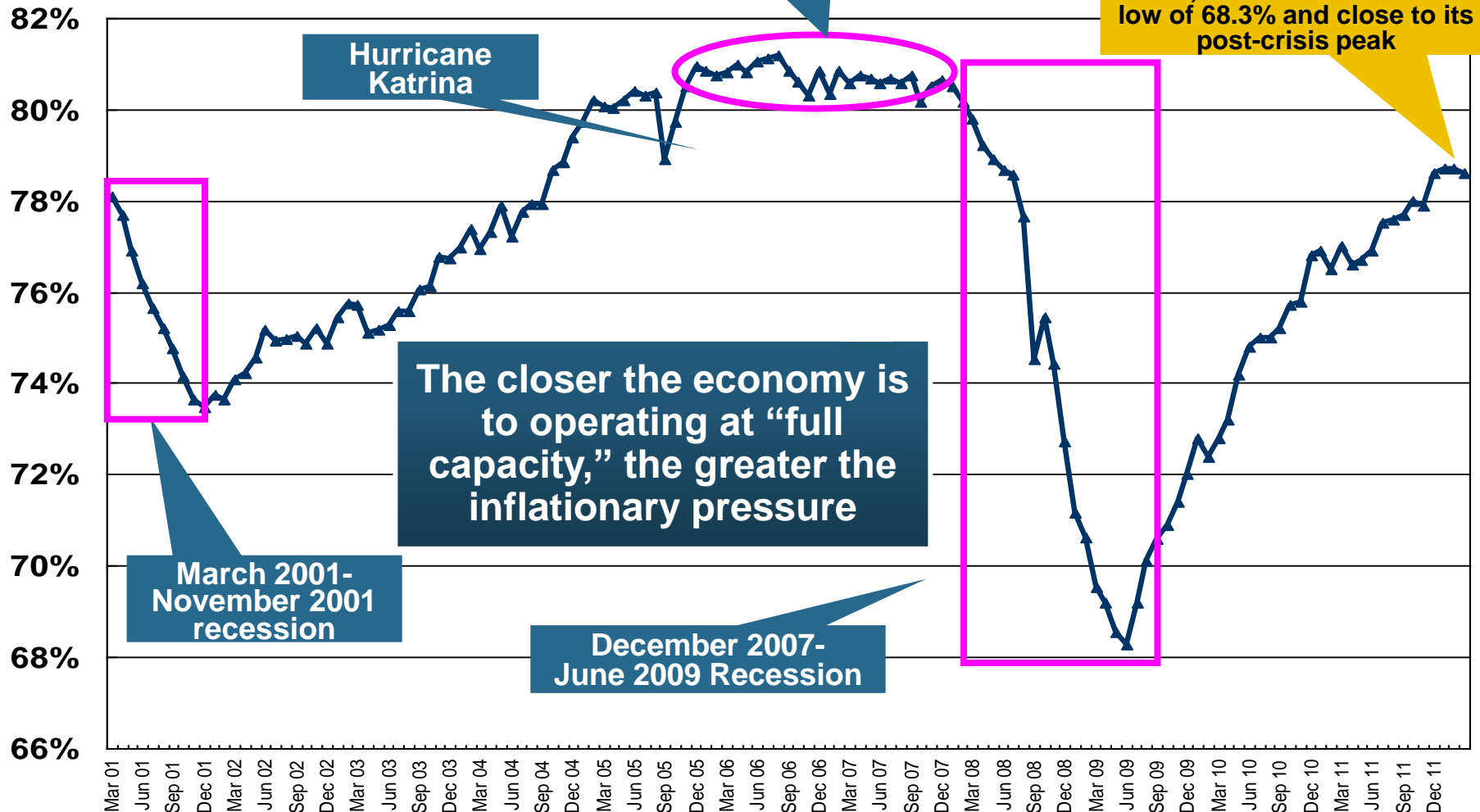
*Seasonally adjusted; Date are YTD comparing data through Feb. 2012 to the same period in 2011.

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

Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures

March 2001 through March 2012

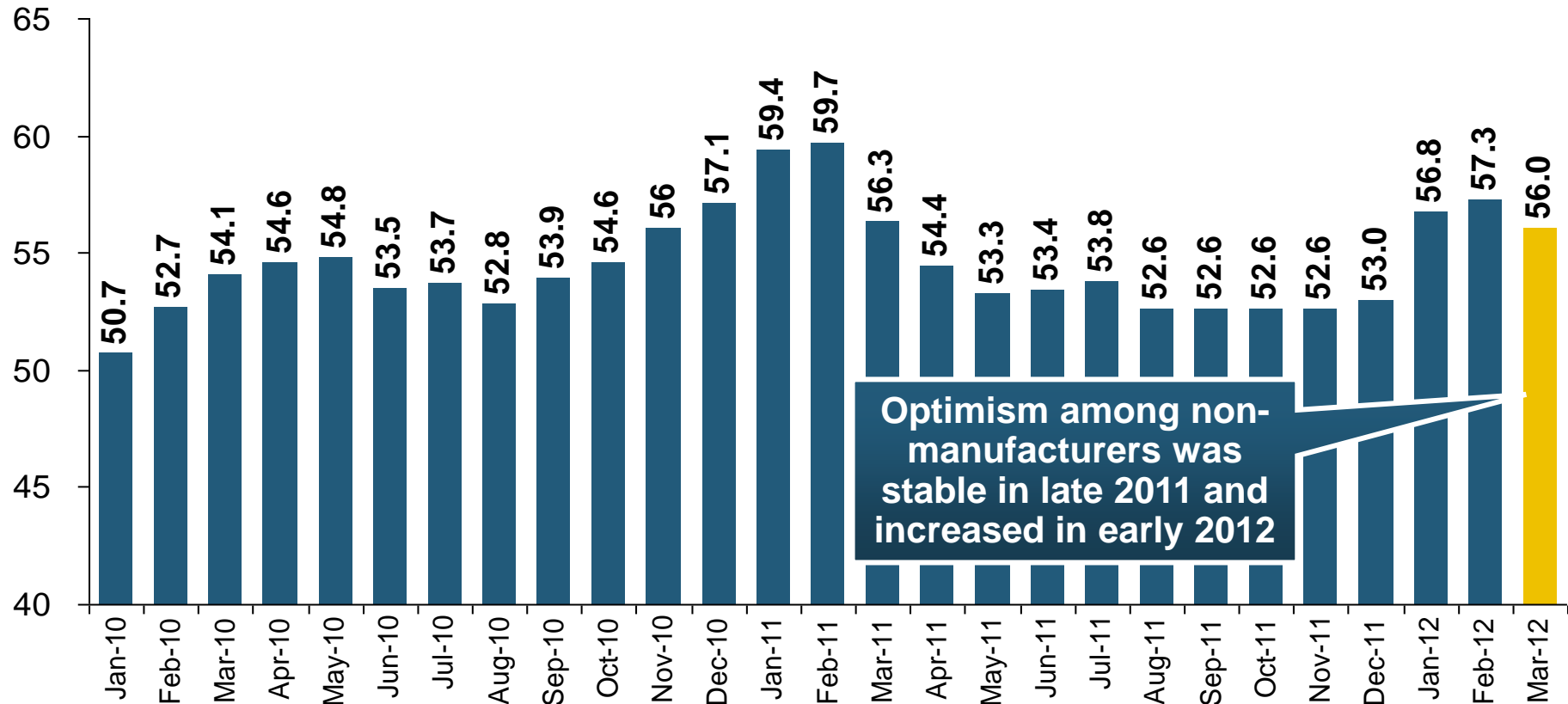
Percent of Industrial Capacity



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

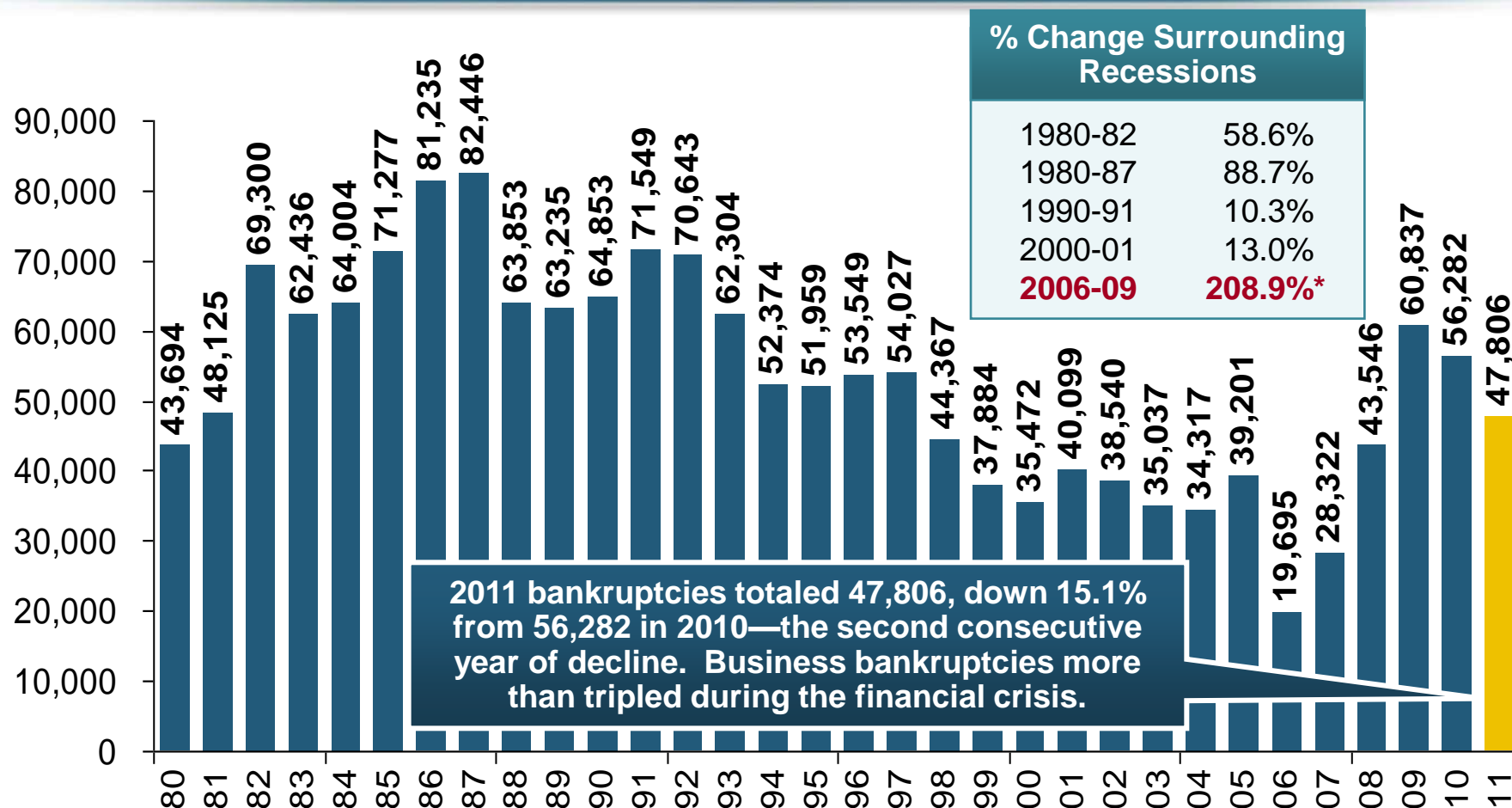
ISM Non-Manufacturing Index (Values > 50 Indicate Expansion)

January 2010 through March 2012



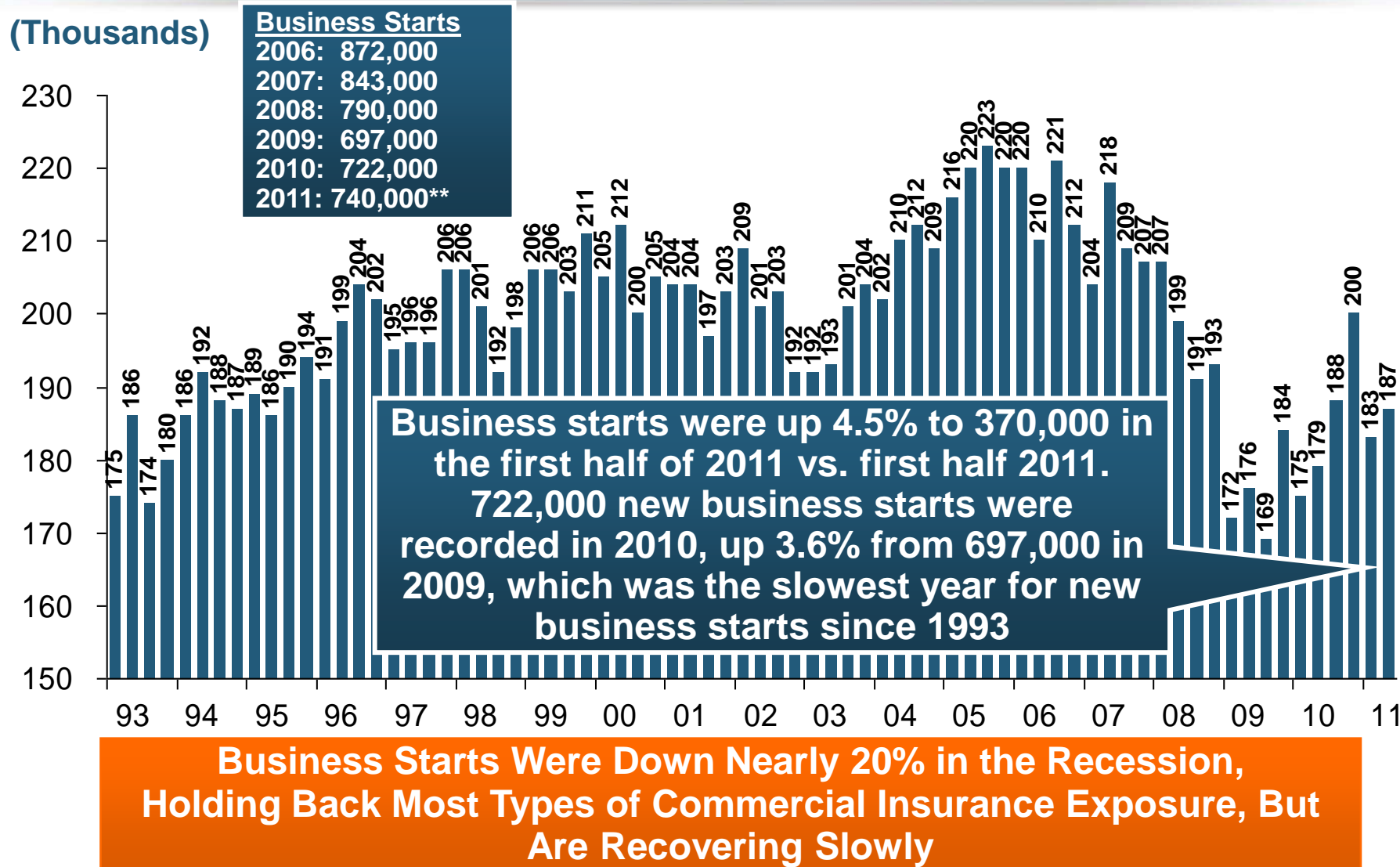
Non-manufacturing industries have been expanding and adding jobs. The question is whether this will continue.

Business Bankruptcy Filings, 1980-2011



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

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



* Data through June 30, 2011 are the latest available as of March 7, 2012; Seasonally adjusted.

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

12 Industries for the Next 10 Years: Insurance Solutions Needed

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

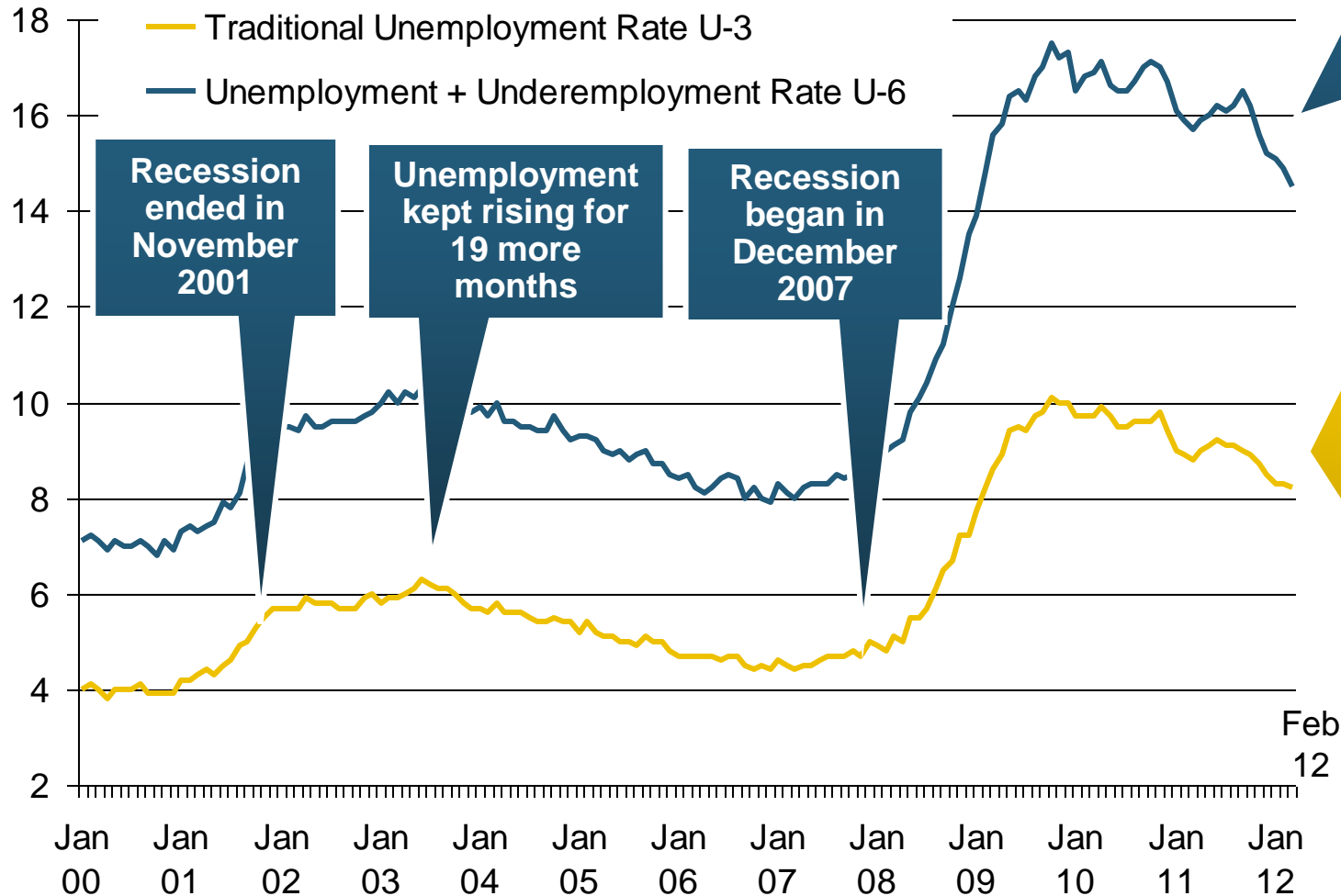
Many industries are poised for growth, though insurers' ability to capitalize on these industries varies widely

Labor Market Trends

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

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

January 2000 through March 2012, Seasonally Adjusted (%)



U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 14.5% in Mar. 2012

Unemployment stood at 8.2% in March 2012

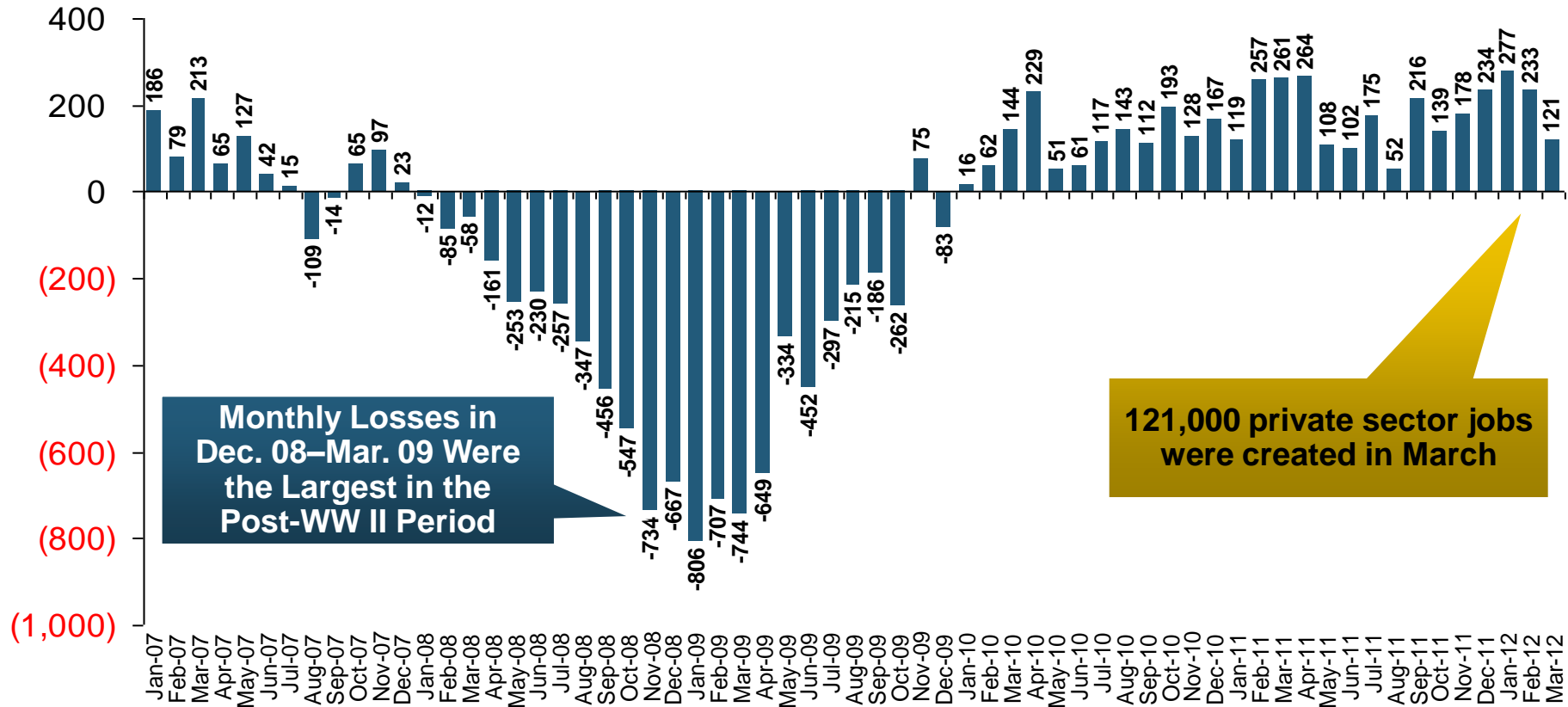
Unemployment peaked at 10.1% in October 2009, highest monthly rate since 1983.

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

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

Monthly Change in Private Employment

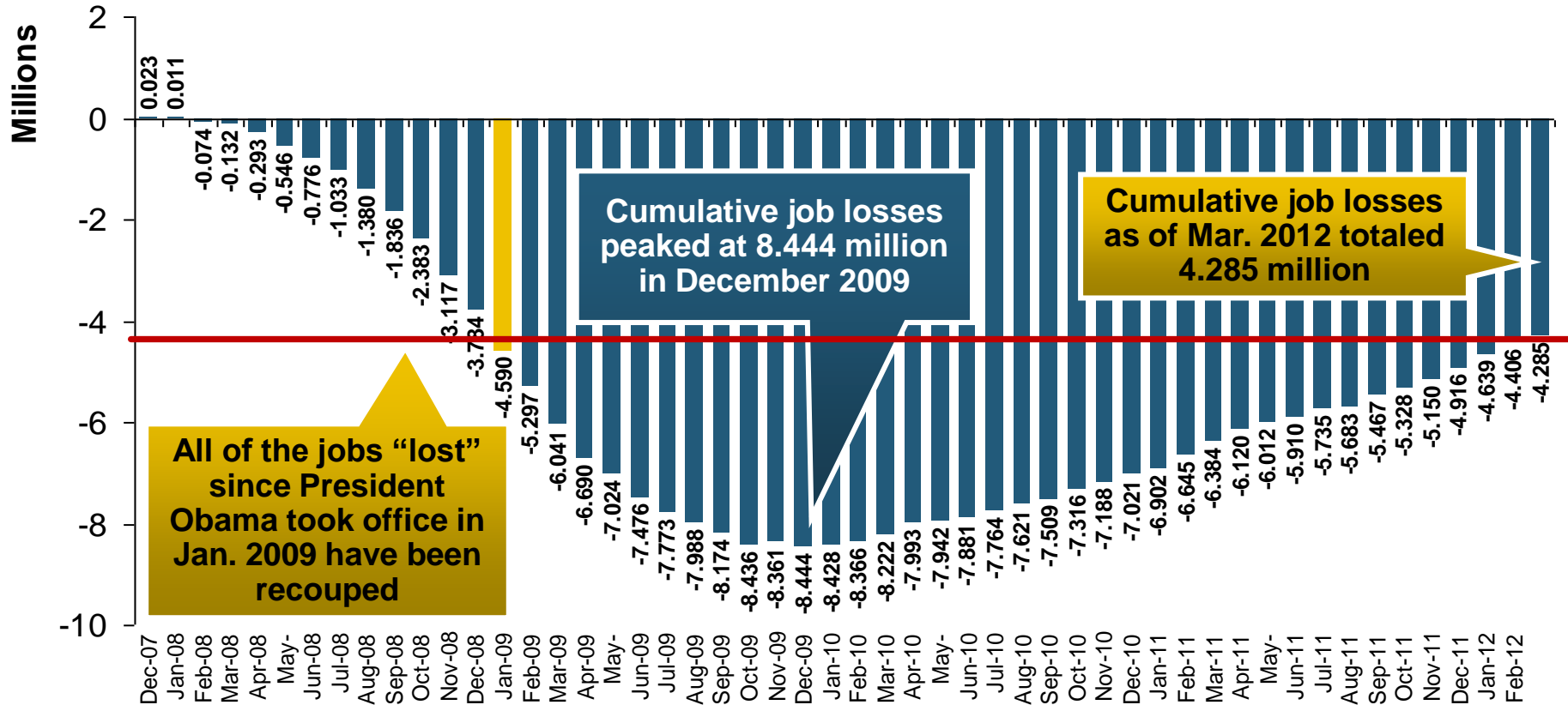
January 2008 through March 2012* (Thousands)



Private Employers Added 4.159 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)

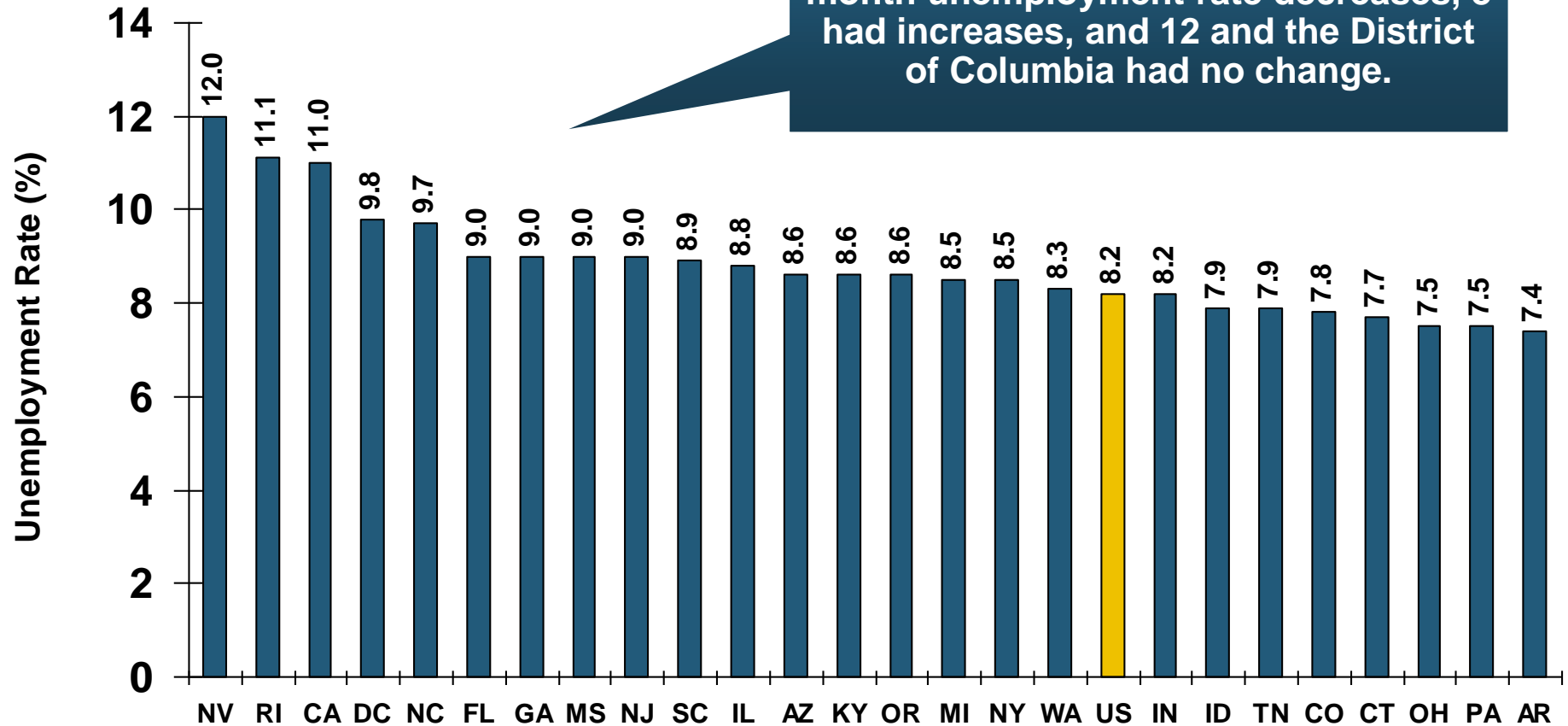
Cumulative Change in Private Employment: Dec. 2007—Mar. 2012

December 2007 through March 2012* (Millions)



Private Employers Added 4.159 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)

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



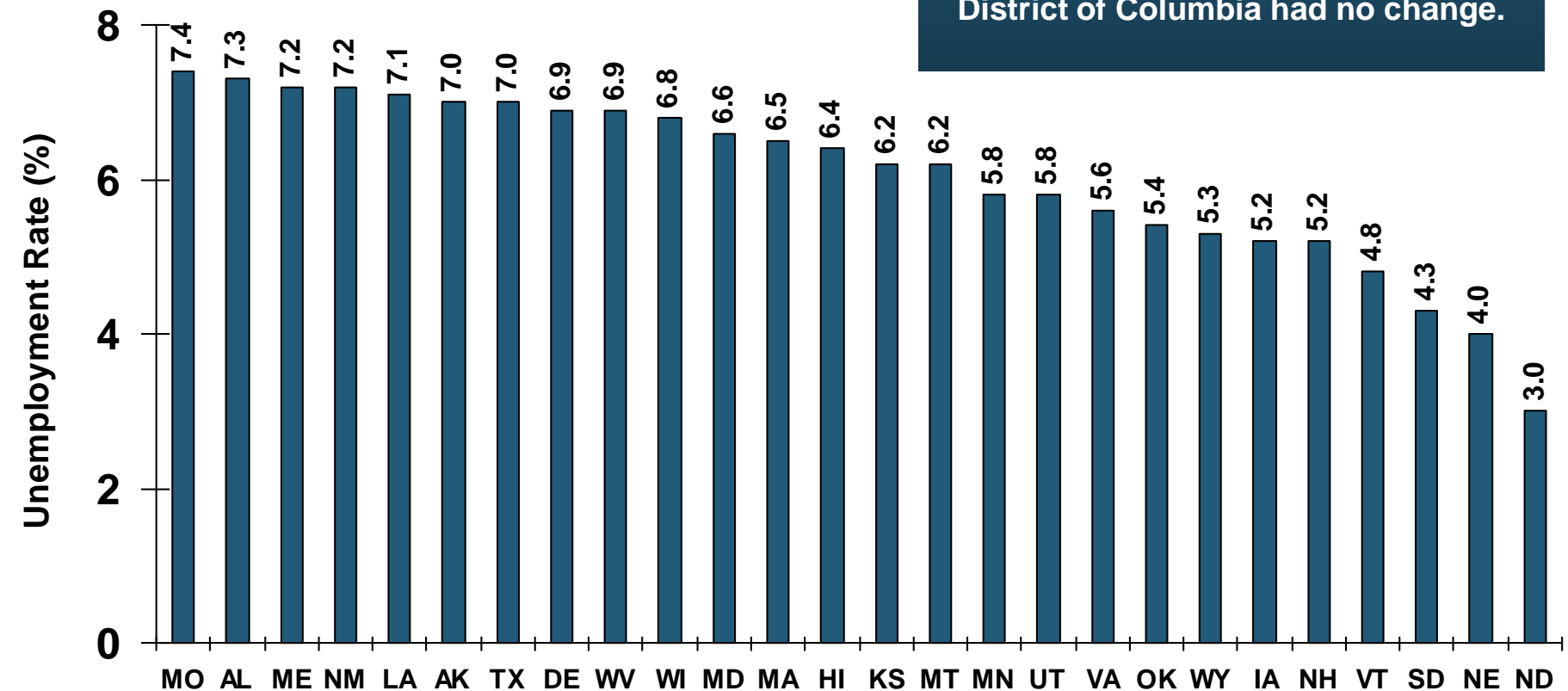
*Provisional figures for March 2012, seasonally adjusted.

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

Unemployment Rates By State, March 2012:

Lowest 25 States*

In March, 30 states reported over-the-month unemployment rate decreases, 8 had increases, and 12 and the District of Columbia had no change.

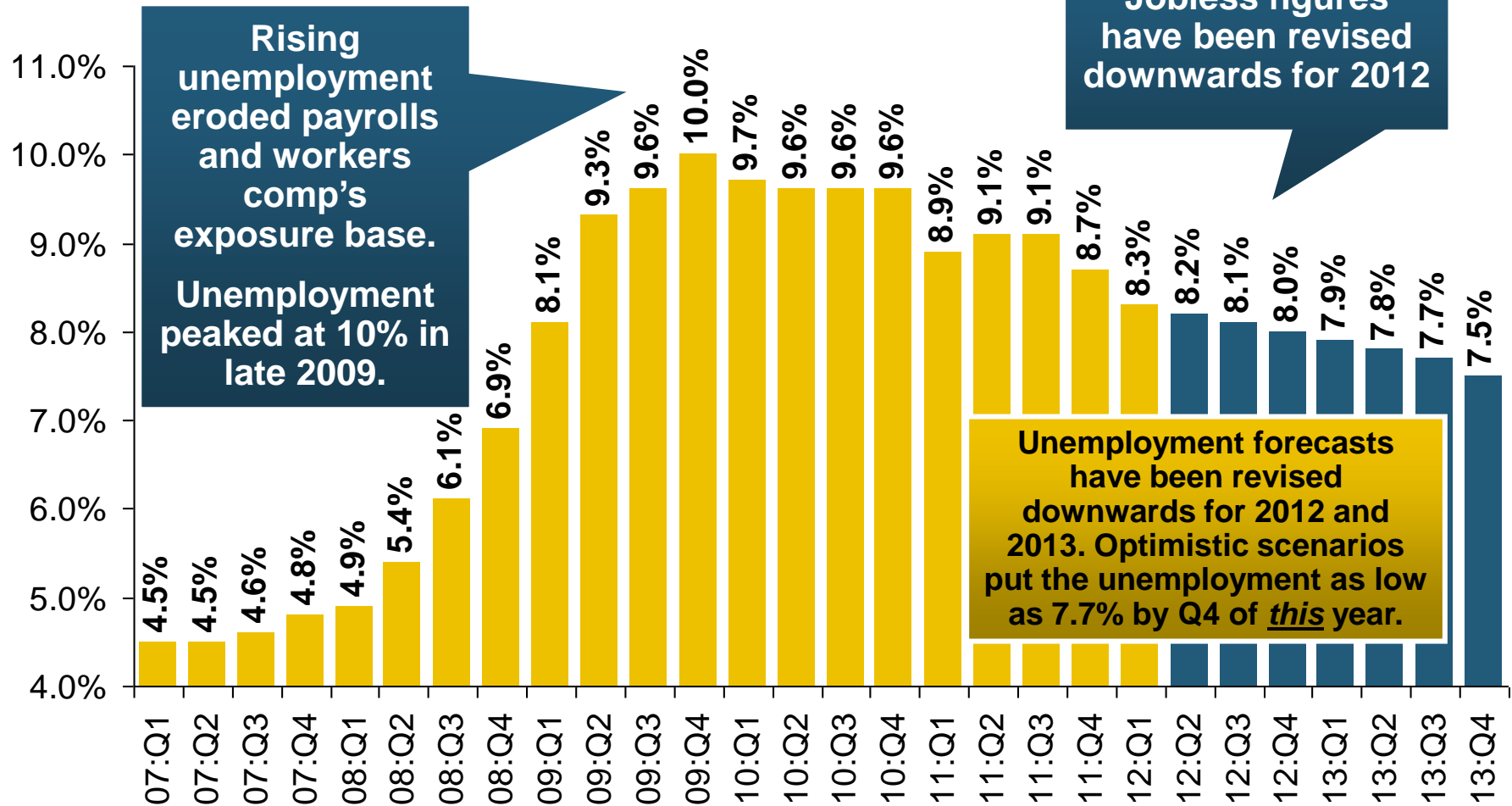


*Provisional figures for March 2012, seasonally adjusted.

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

US Unemployment Rate

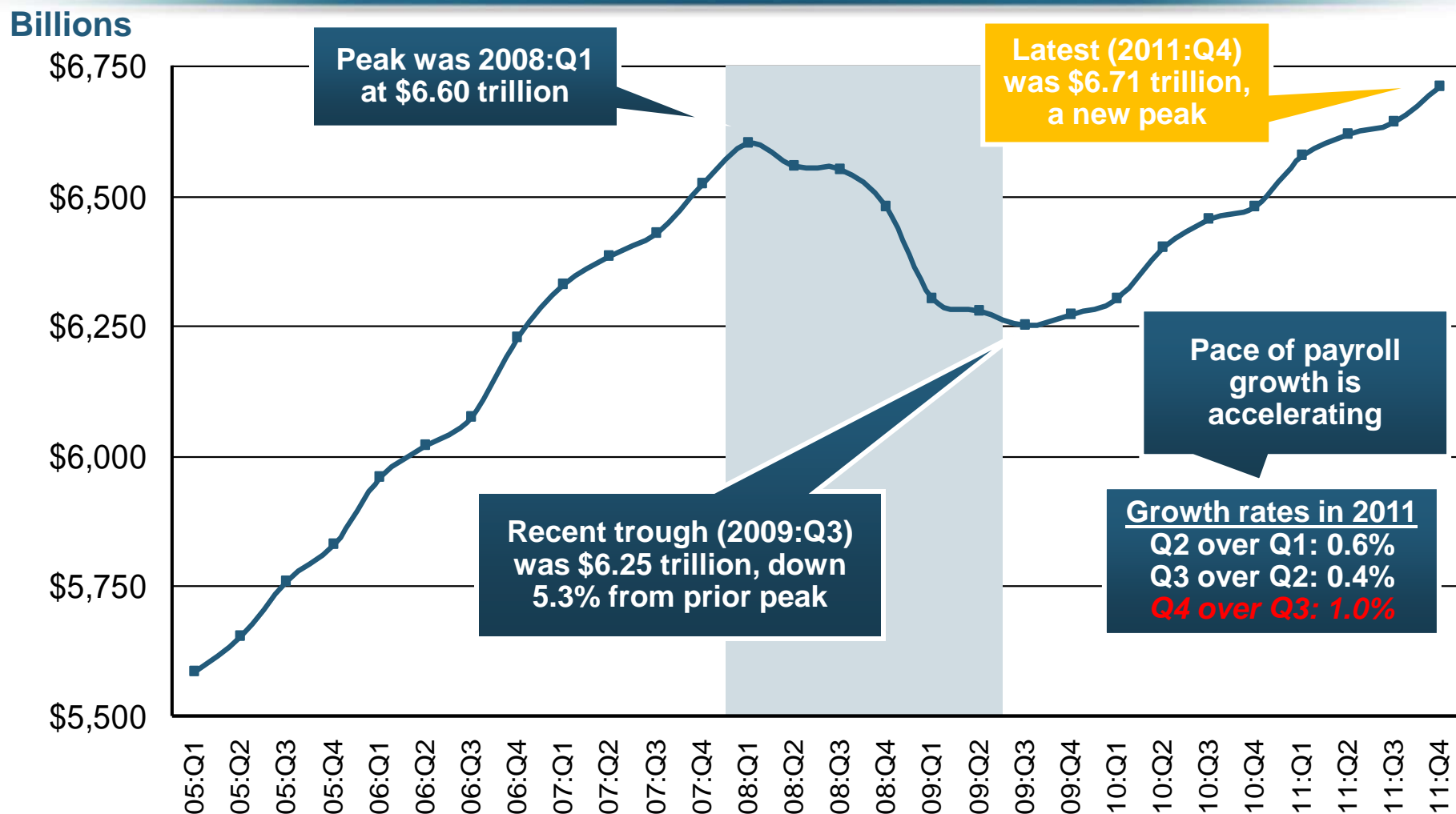
2007:Q1 to 2013:Q4F*



* ■ = actual; ■ = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (4/12 edition); Insurance Information Institute.

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



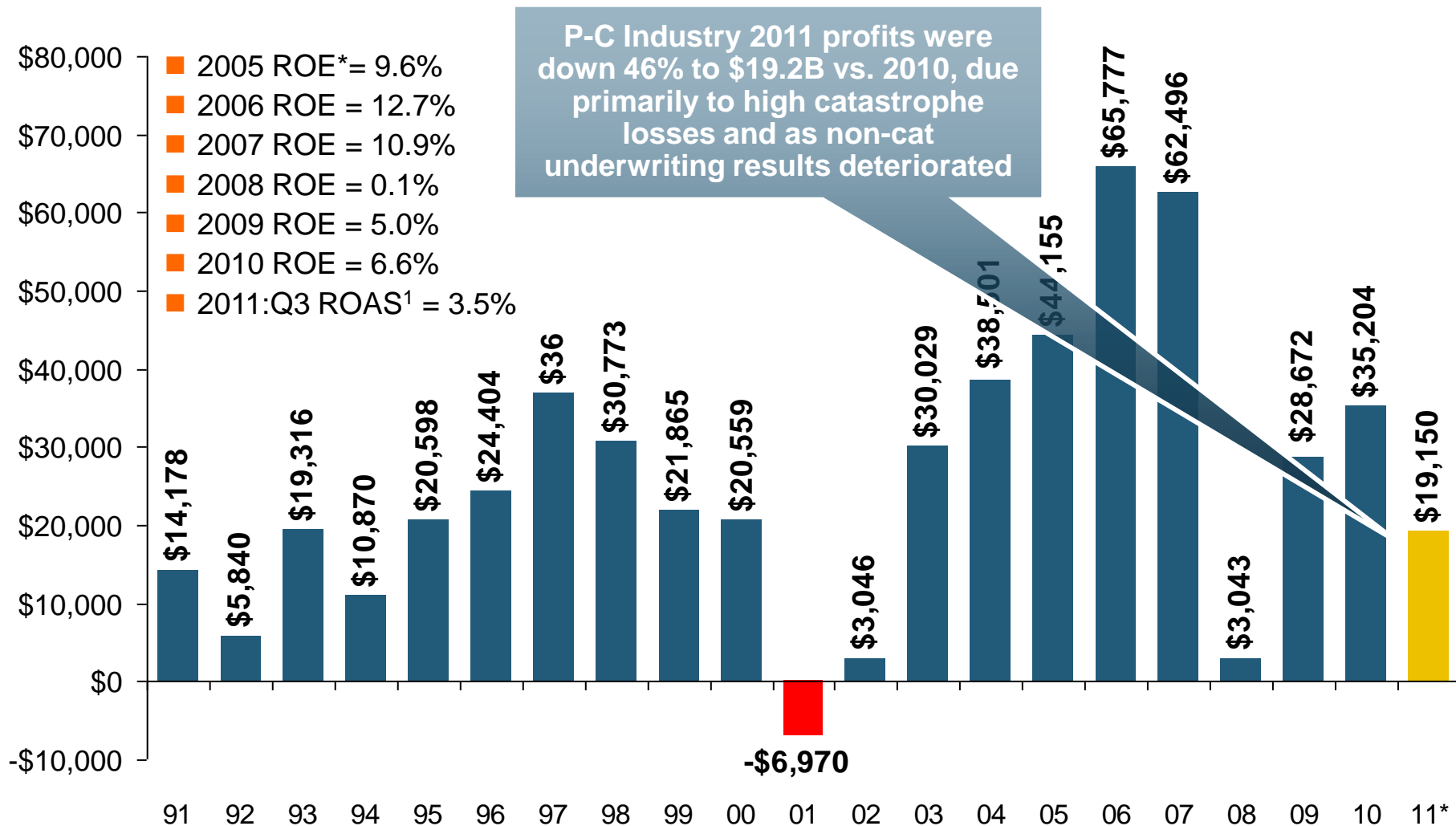
Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

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

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 (\$ Millions)



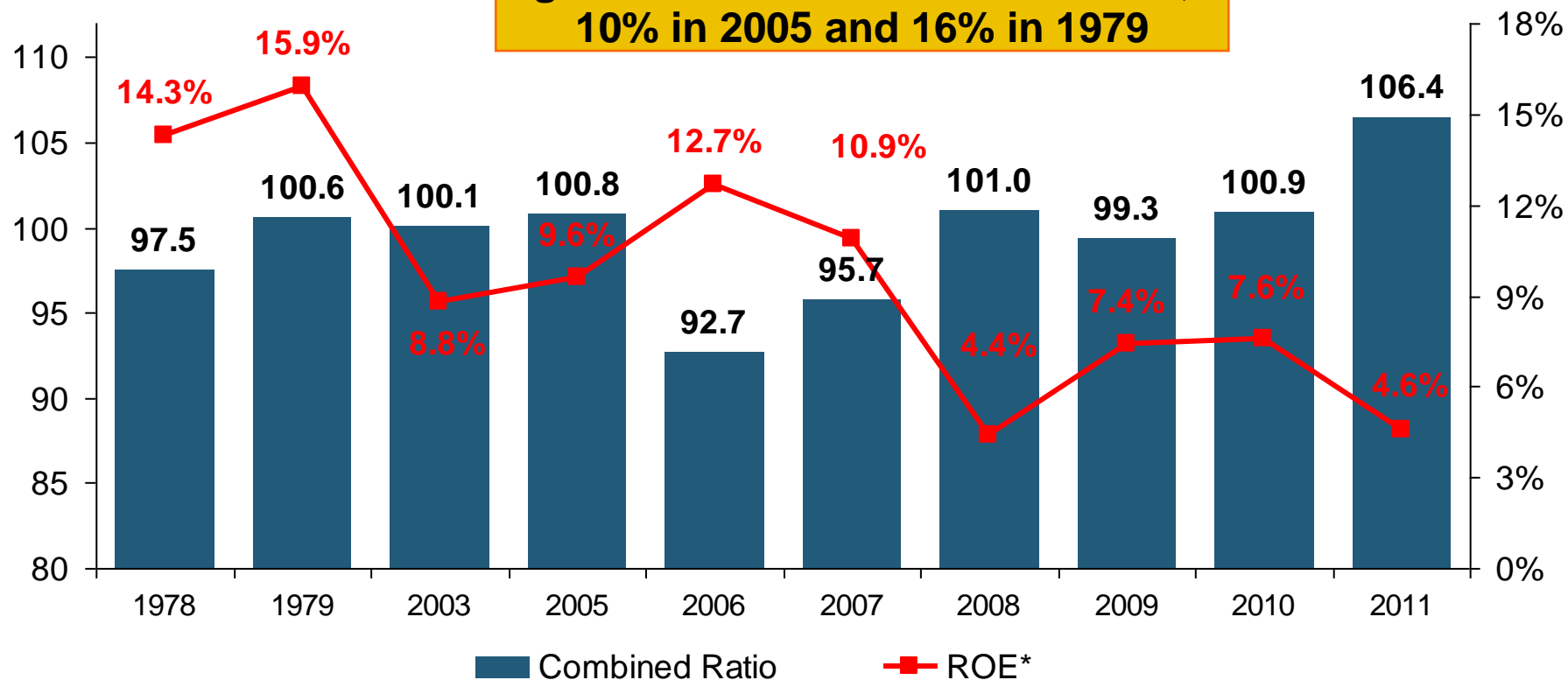
* ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 4.6% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009.

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

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

Combined Ratio / ROE

A combined ratio of about 100 generated ~5.5% ROE in 2009/10, 10% in 2005 and 16% in 1979

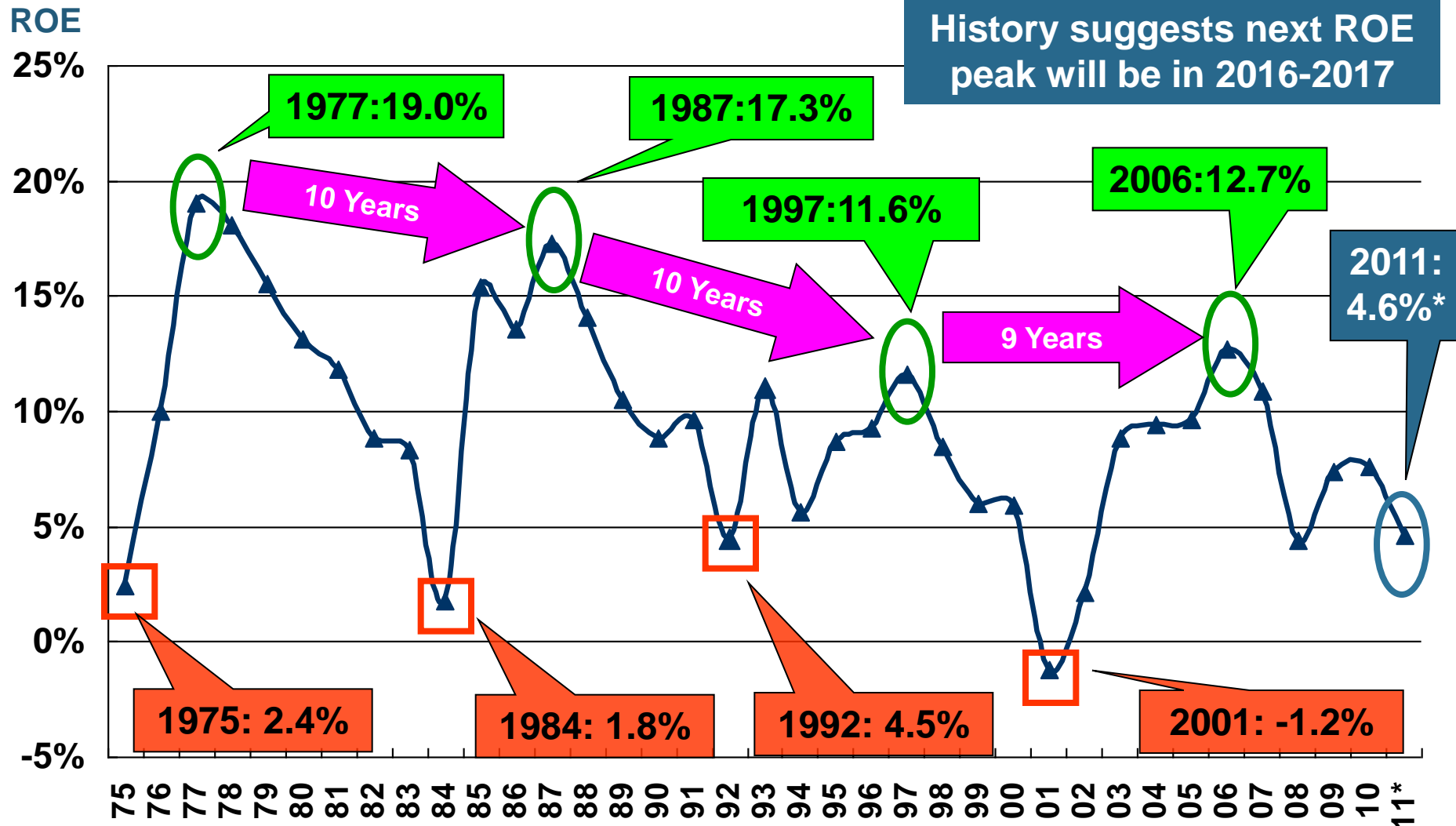


Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

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

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

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



*Profitability = P/C insurer ROEs are I.I.I. estimates. 2011 figure is an estimate based on ROAS data. Note: Data for 2008-2011 exclude mortgage and financial guaranty insurers. For 2011:Q3 ROAS = 3.5% including M&FG.

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

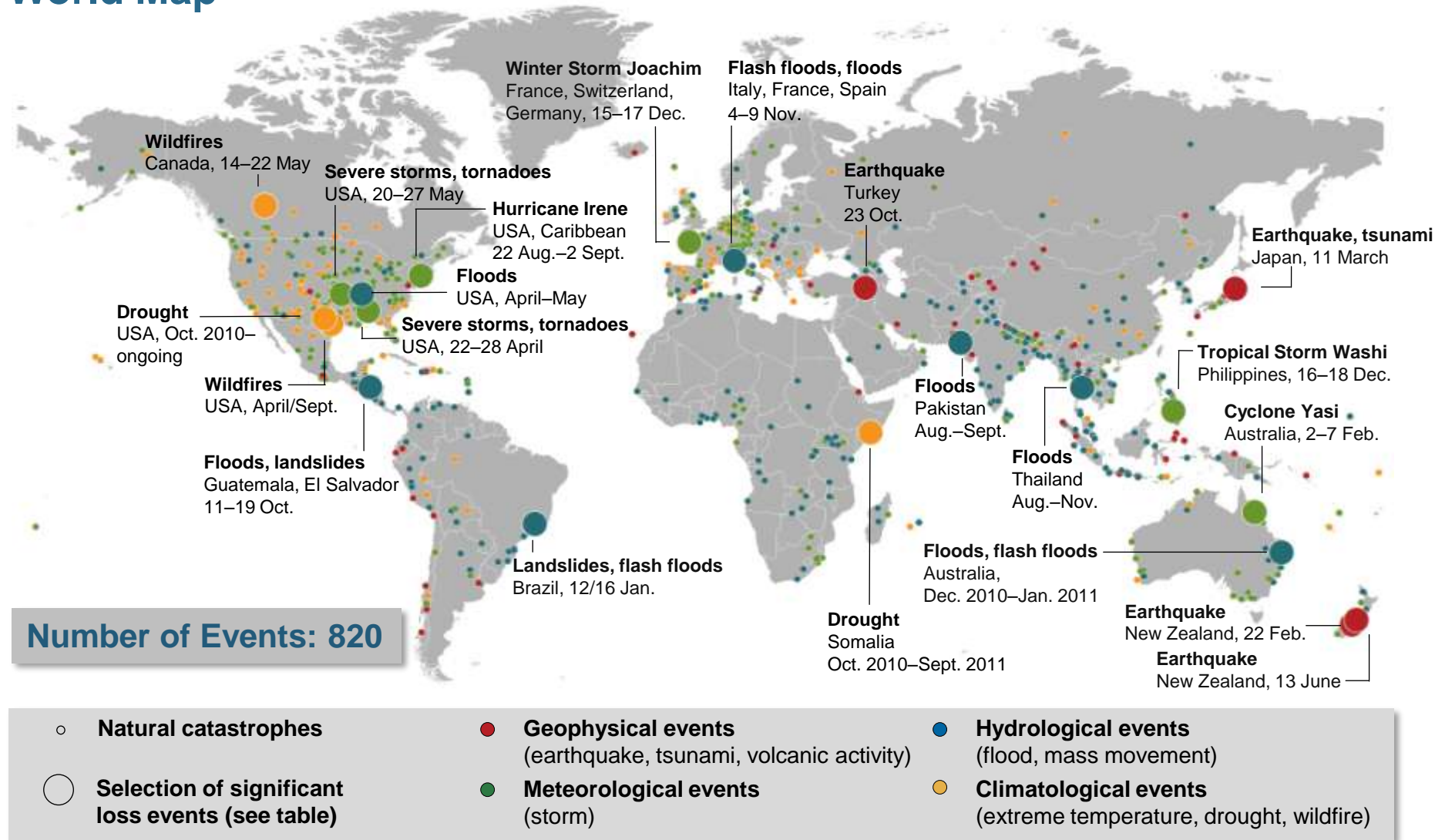
Global Catastrophe Loss Developments and Trends

**2011 Rewrote Catastrophe Loss and
Insurance History**

But Will Losses Turn the Market?

Natural Loss Events, 2011

World Map



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

(Insured Losses, 2011 Dollars, \$ Billions)

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



*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.

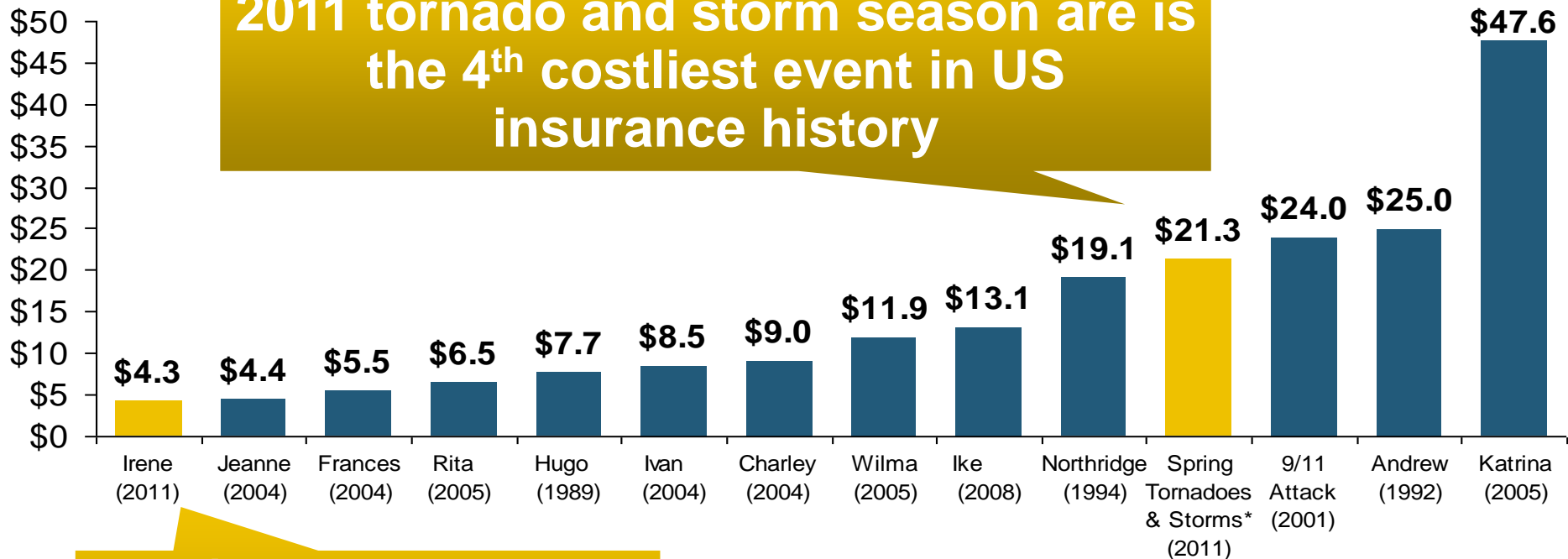
U.S. Insured Catastrophe Loss Update

**2011 Was One of the Most Expensive
Years on Record**

Top 14 Most Costly Disasters in U.S. History

(Insured Losses, 2011 Dollars, \$ Billions)

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



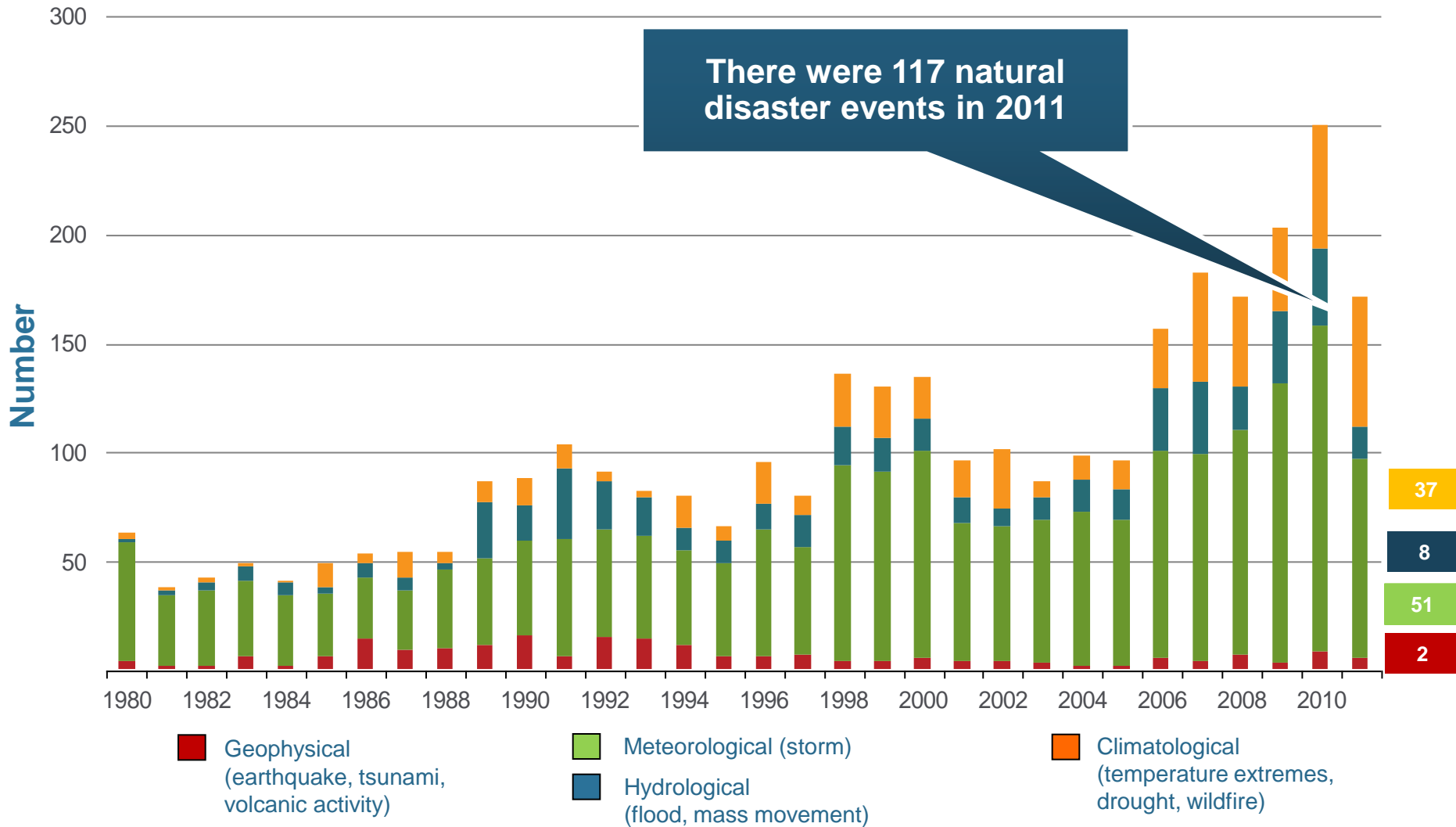
Hurricane Irene became the 11th most expensive hurricane in US history

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

Sources: PCS; Insurance Information Institute inflation adjustments.

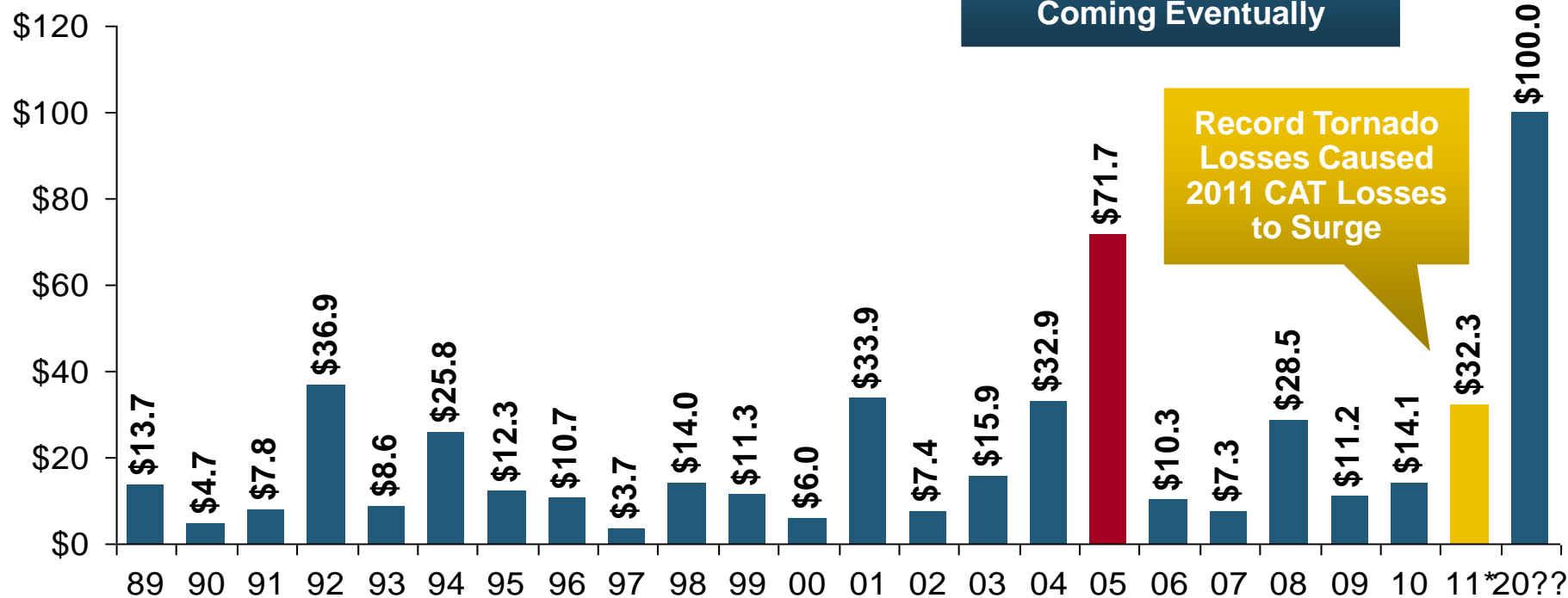
Natural Disasters in the United States, 1980 – 2011

Number of Events (Annual Totals 1980 – 2011)



US Insured Catastrophe Losses

(\$ Billions, 2011 Dollars)



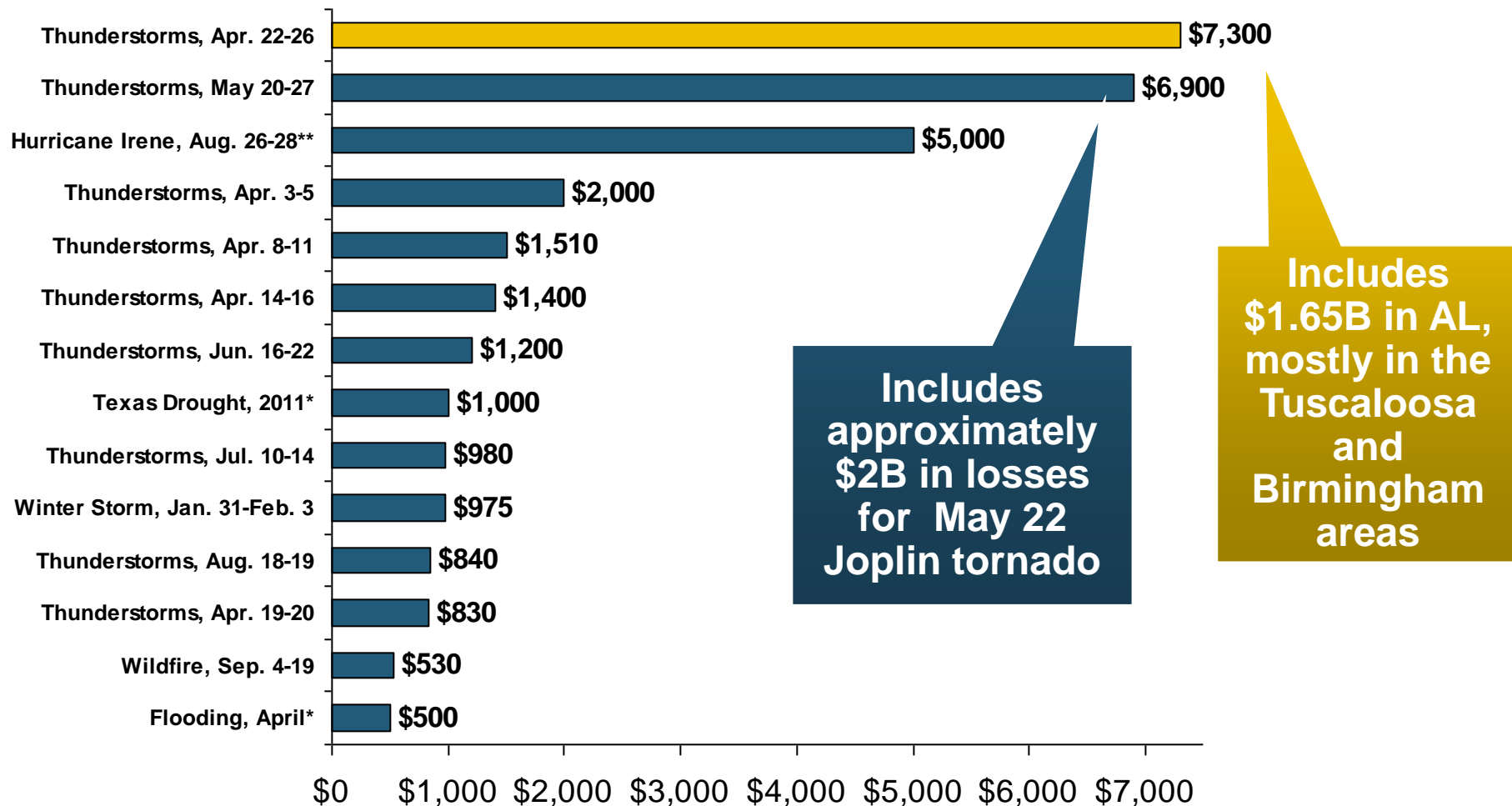
US CAT Losses in 2011 Were the 5th Highest in US History on An Inflation Adjusted Basis

*PCS figure as of April 6, 2012.

Note: 2001 figure includes \$20.3B for 9/11 losses reported through 12/31/01 (\$25.9B 2011 dollars). Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = \$12.2B (\$15.6B in 2011 dollars.)

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

2011's Most Expensive Catastrophes, Insured Losses



**Includes \$700 million in flood losses insured through the National Flood Insurance Program.

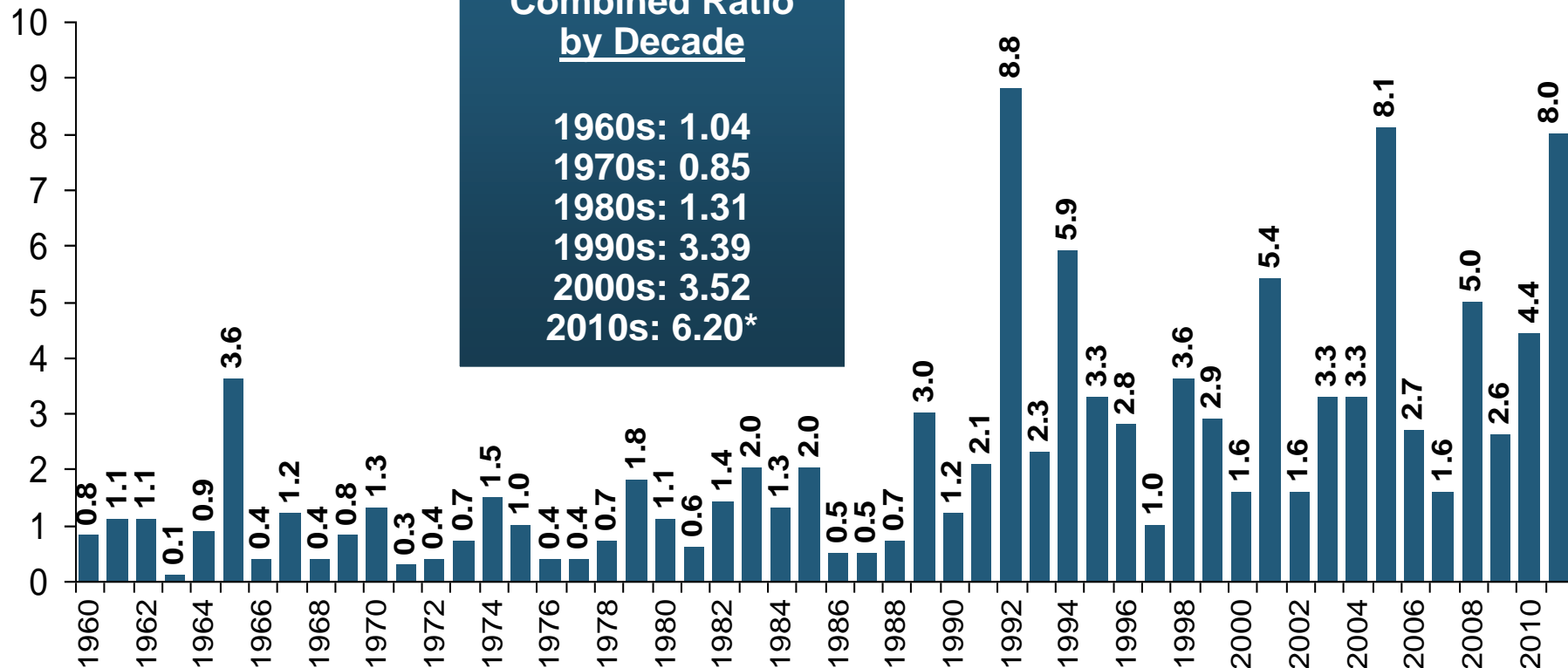
Source: PCS except as noted by "*" which are sourced to Munich Re; Insurance Information Institute.

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

Combined Ratio Points

Avg. CAT Loss Component of the Combined Ratio by Decade

1960s: 1.04
1970s: 0.85
1980s: 1.31
1990s: 3.39
2000s: 3.52
2010s: 6.20*



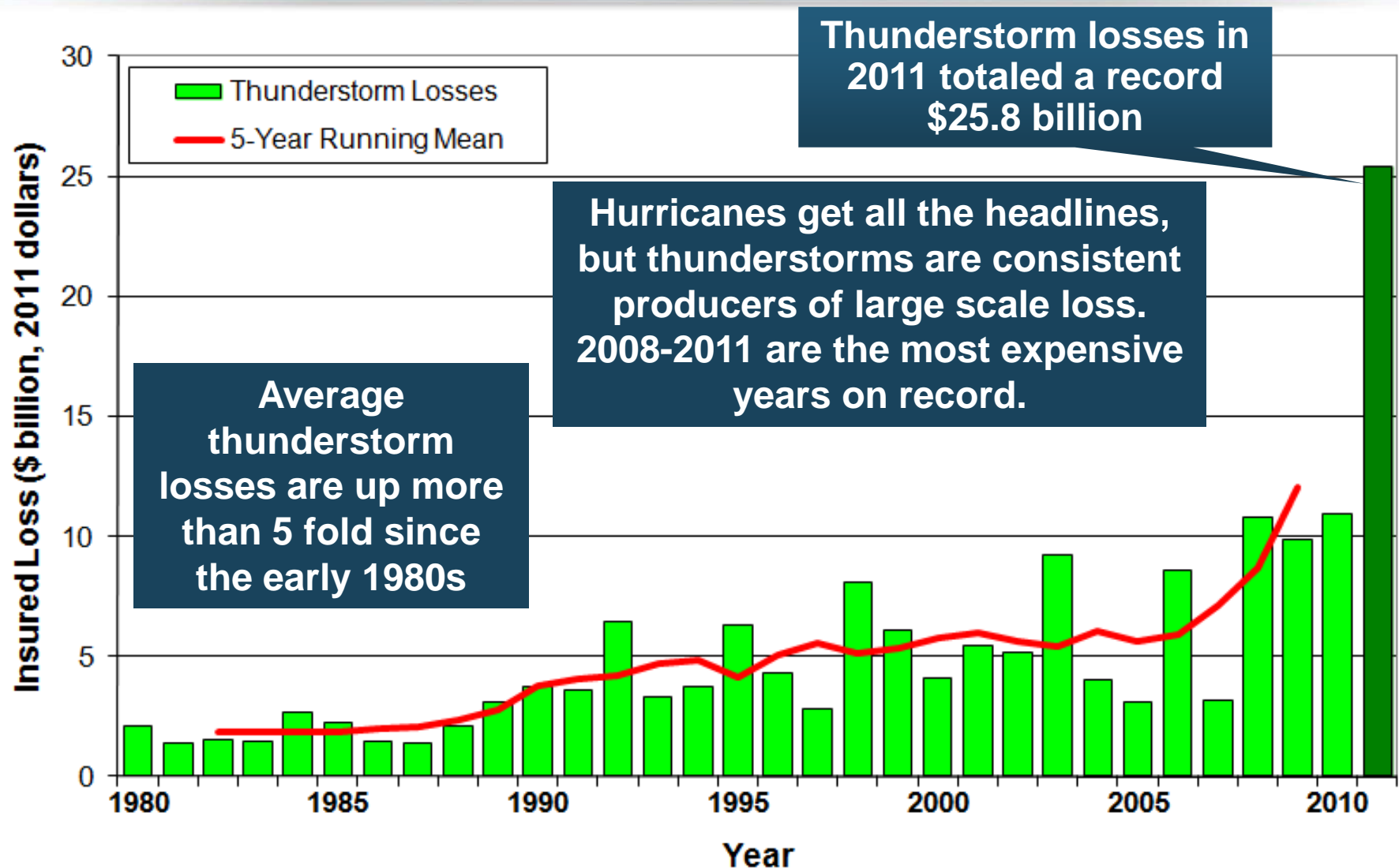
The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades

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

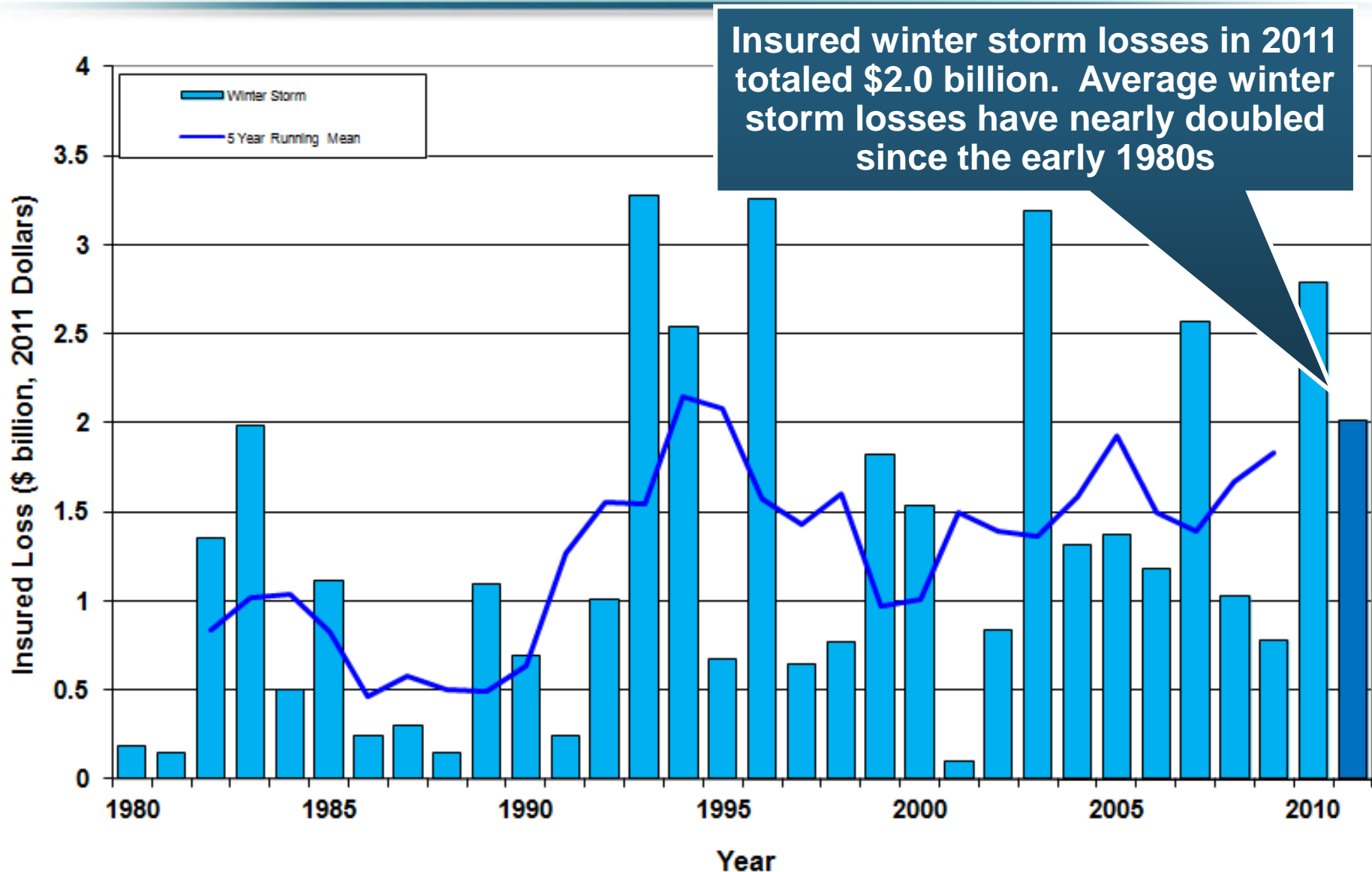
Notes: Private carrier losses only. Excludes loss adjustment expenses and reinsurance reinstatement premiums. Figures are adjusted for losses ultimately paid by foreign insurers and reinsurers.

Source: ISO; Insurance Information Institute.

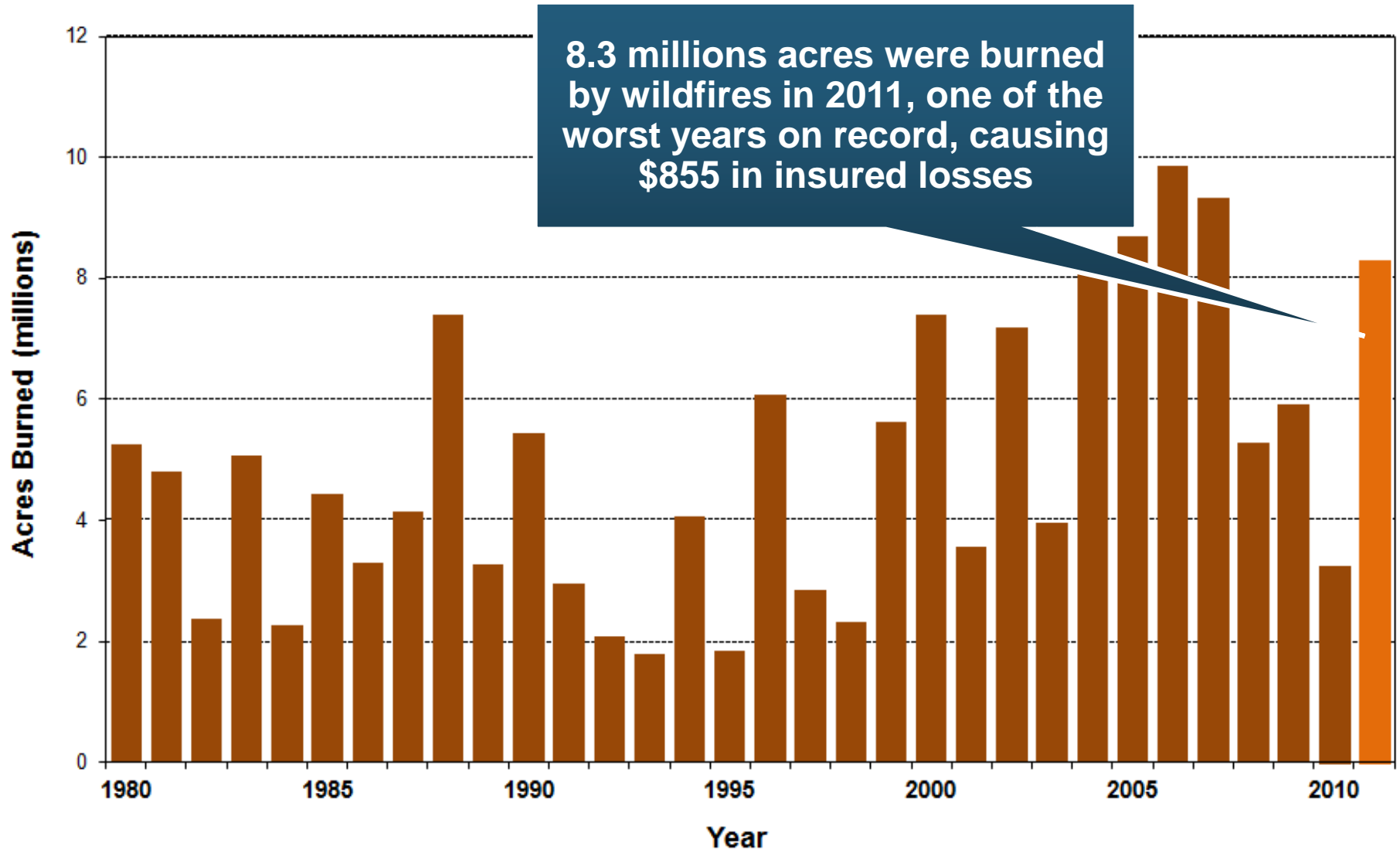
U.S. Thunderstorm Loss Trends, 1980 – 2011



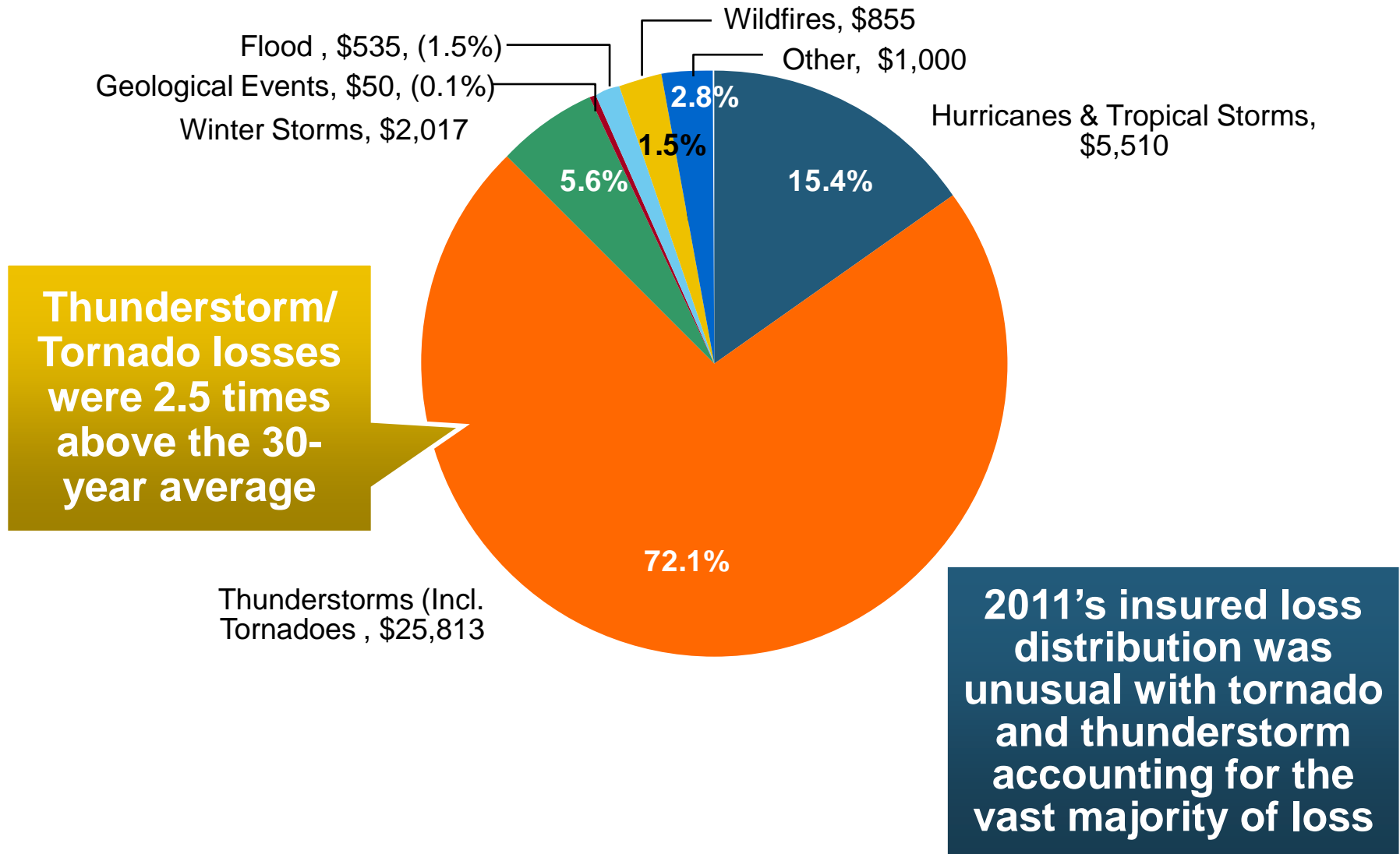
U.S. Winter Storm Loss Trends, 1980 – 2011



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



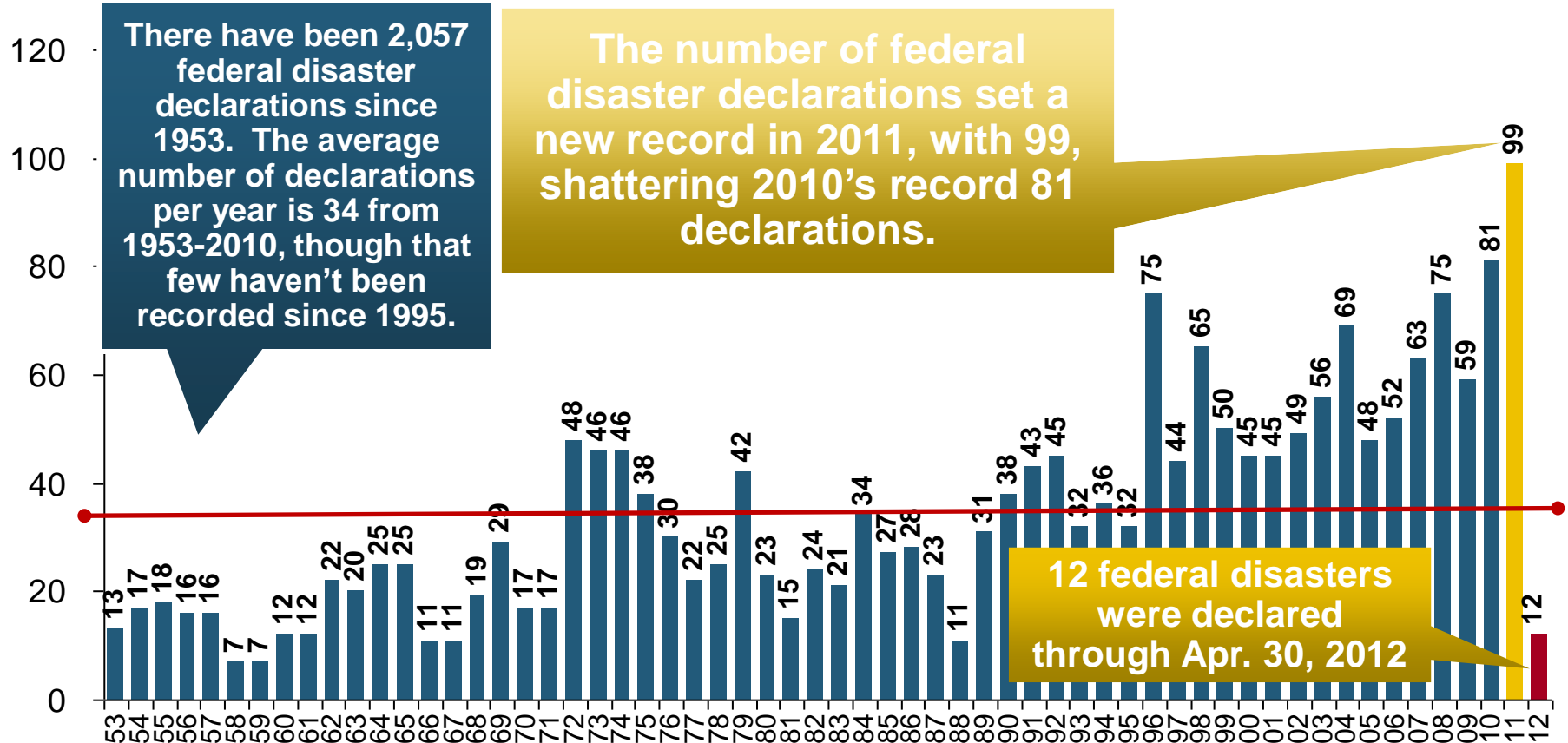
U.S. Insured Catastrophe Losses by Cause of Loss, 2011 (\$ Millions)



Federal Disaster Declarations Patterns: 1953-2012

**Records Were Set for Federal
Disaster Declarations in 2010 and
2011—Most Declarations Were
Unrelated to Tropical Activity**

Number of Federal Disaster Declarations, 1953-2012*

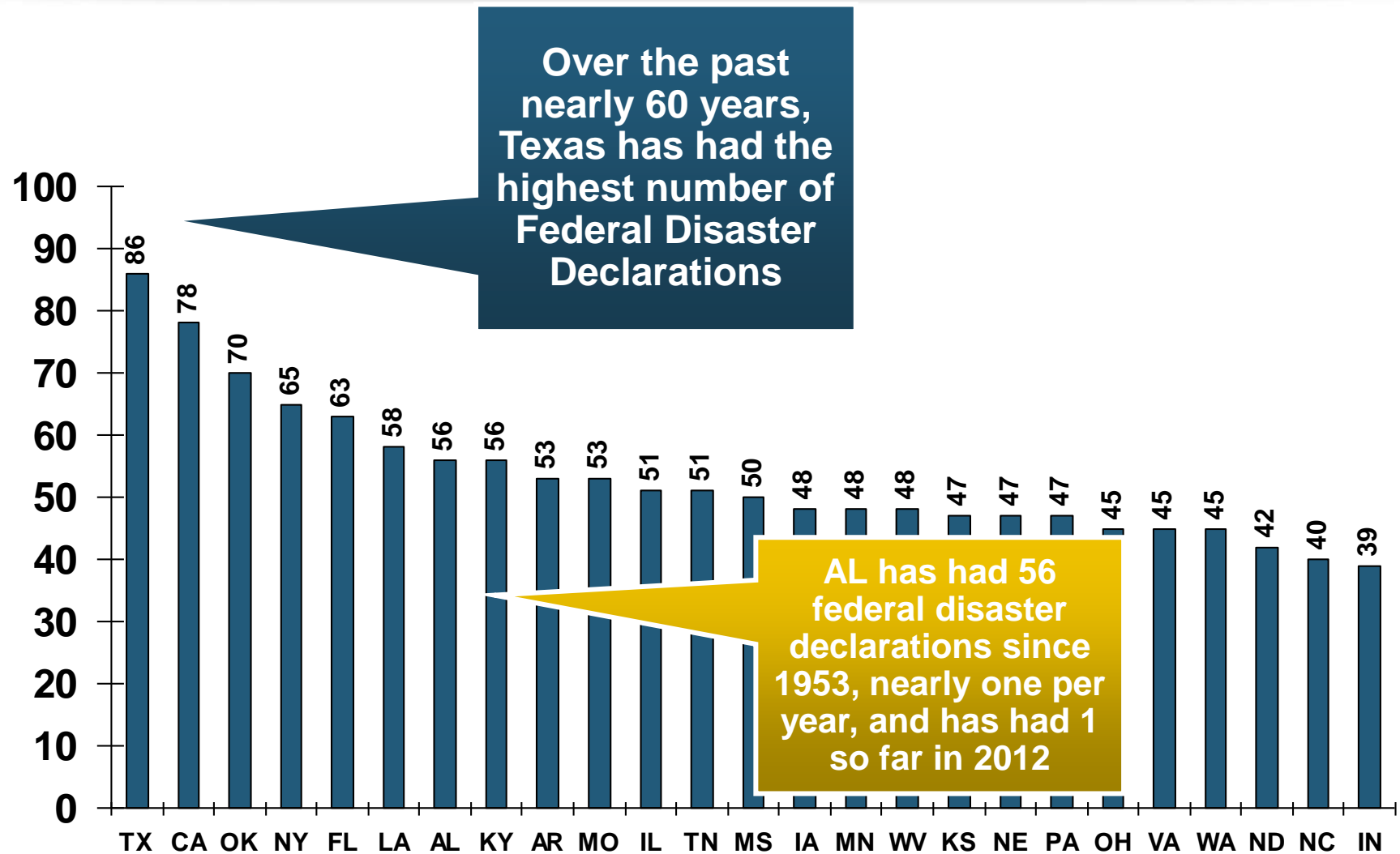


The Number of Federal Disaster Declarations Is Rising and Set New Records in 2010 *and* 2011

*Through April 30, 2012.

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

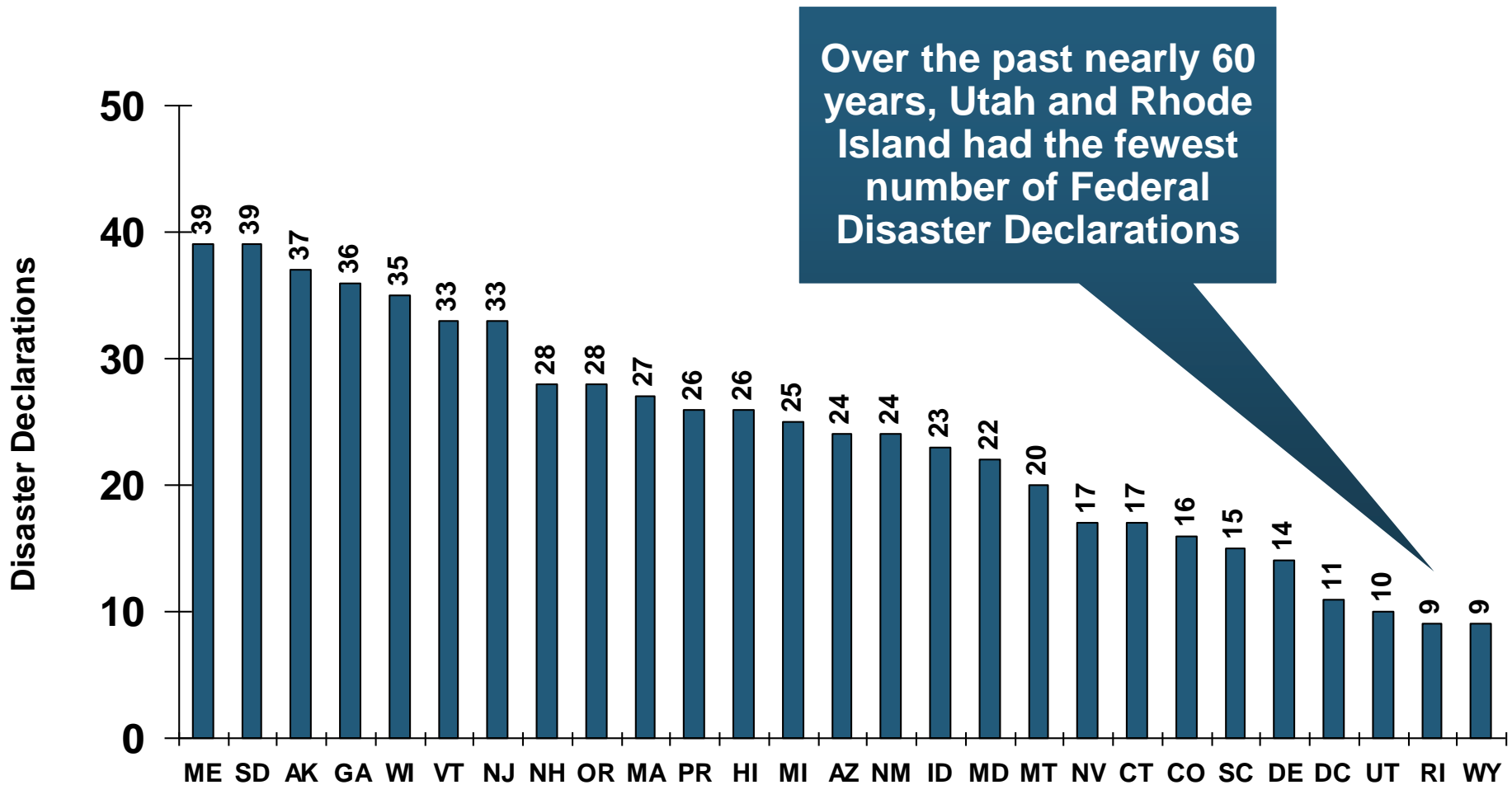
Federal Disasters Declarations by State, 1953 – 2012: Highest 25 States*



*Through Apr. 30, 2012.

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

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



*Through Apr. 30, 2012. Includes Puerto Rico and the District of Columbia.

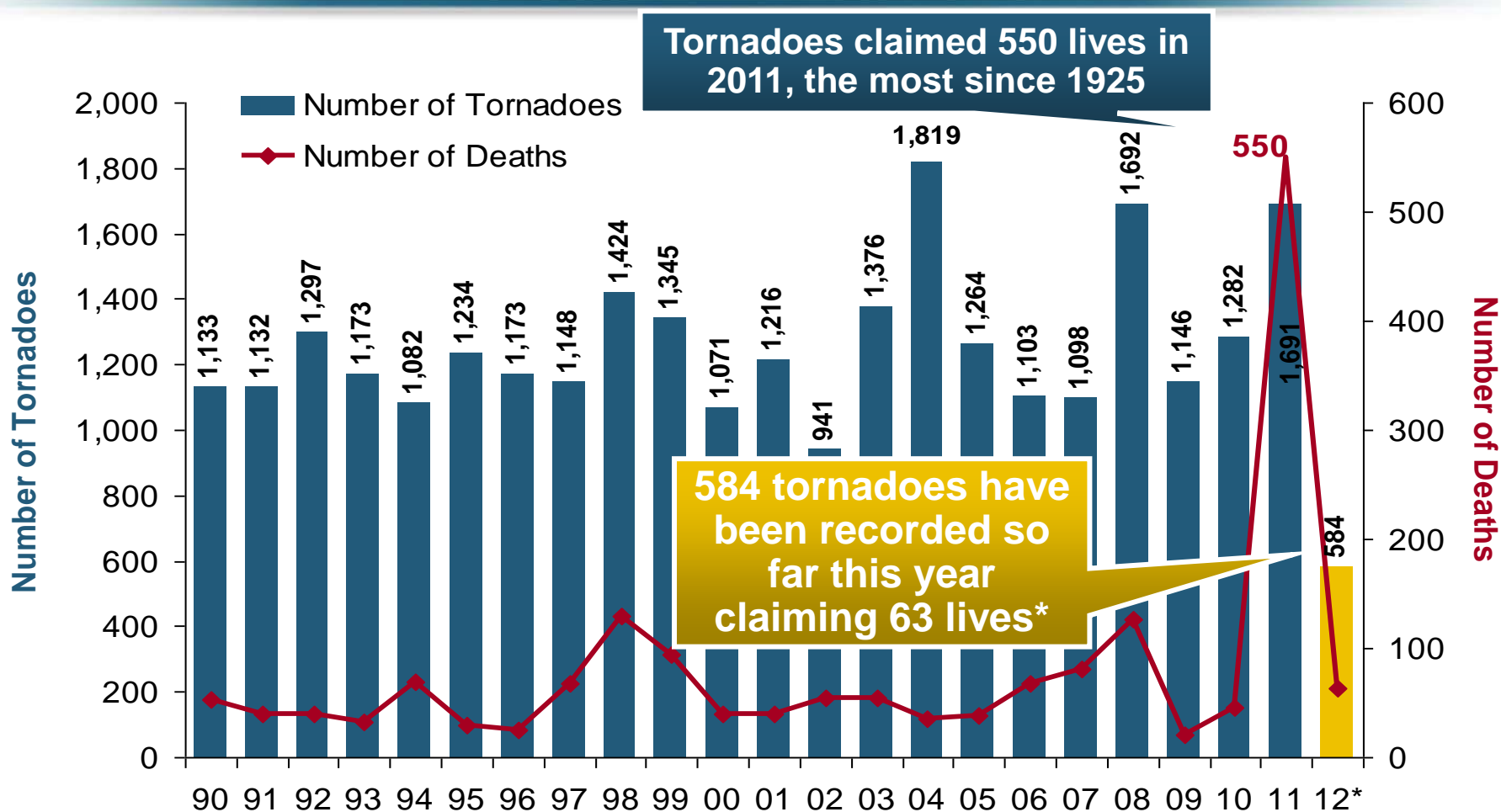
Source: FEMA: http://www.fema.gov/news/disaster_totals_annual.fema; Insurance Information Institute.



SPRING 2012 TORNADO & SEVERE STORM OUTBREAK

**2012 Is Off to a Worrisome Start, But
a Repeat of 2011 Is Unlikely**

Number of Tornadoes and Related Deaths, 1990 – 2012*

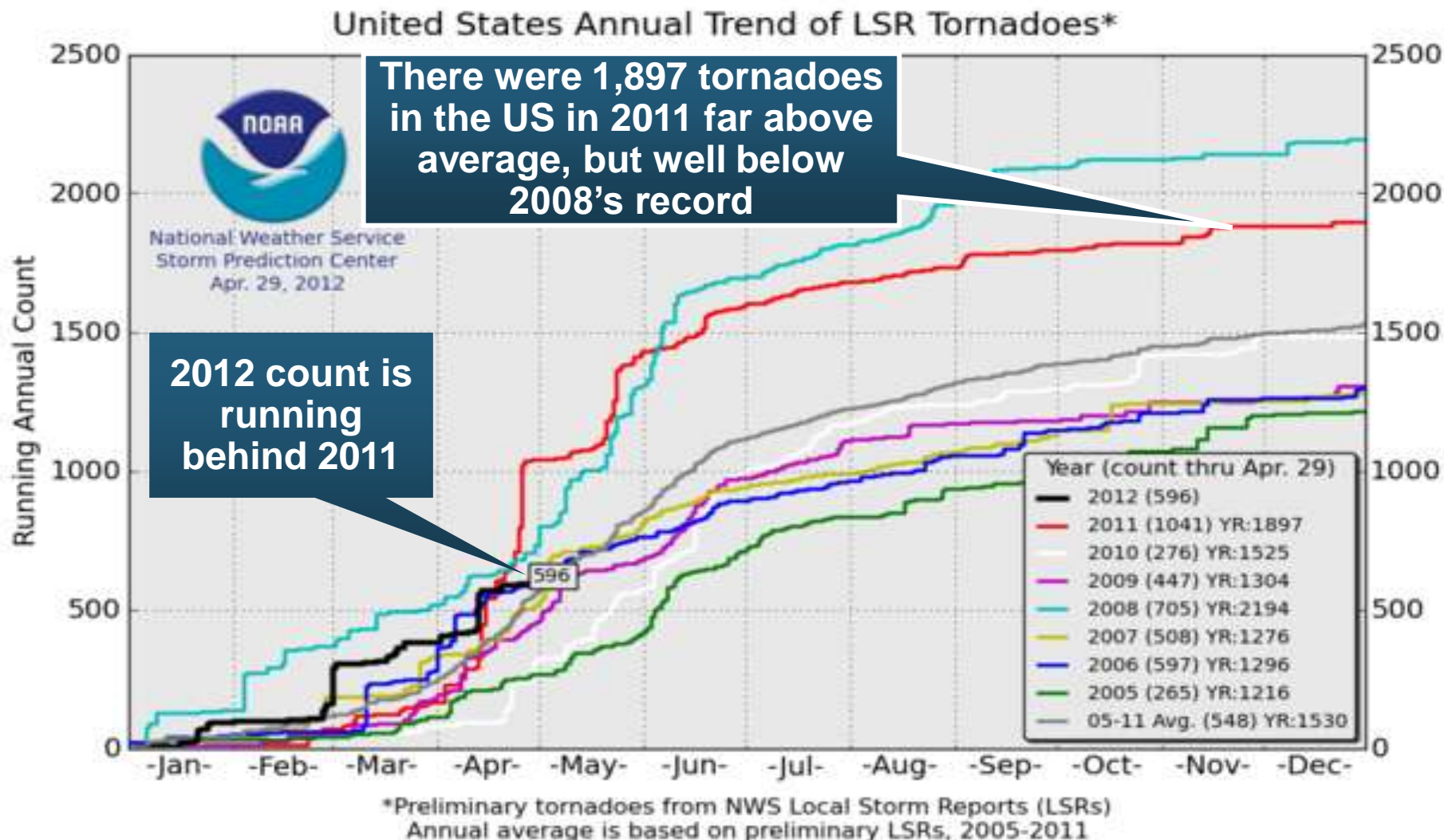


2012 Tornado Losses Is Off to a Ominous Beginning. First Half 2011 Insured Losses from Tornadoes and Thunderstorms Topped \$21B.

*Through April 25, 2012.

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

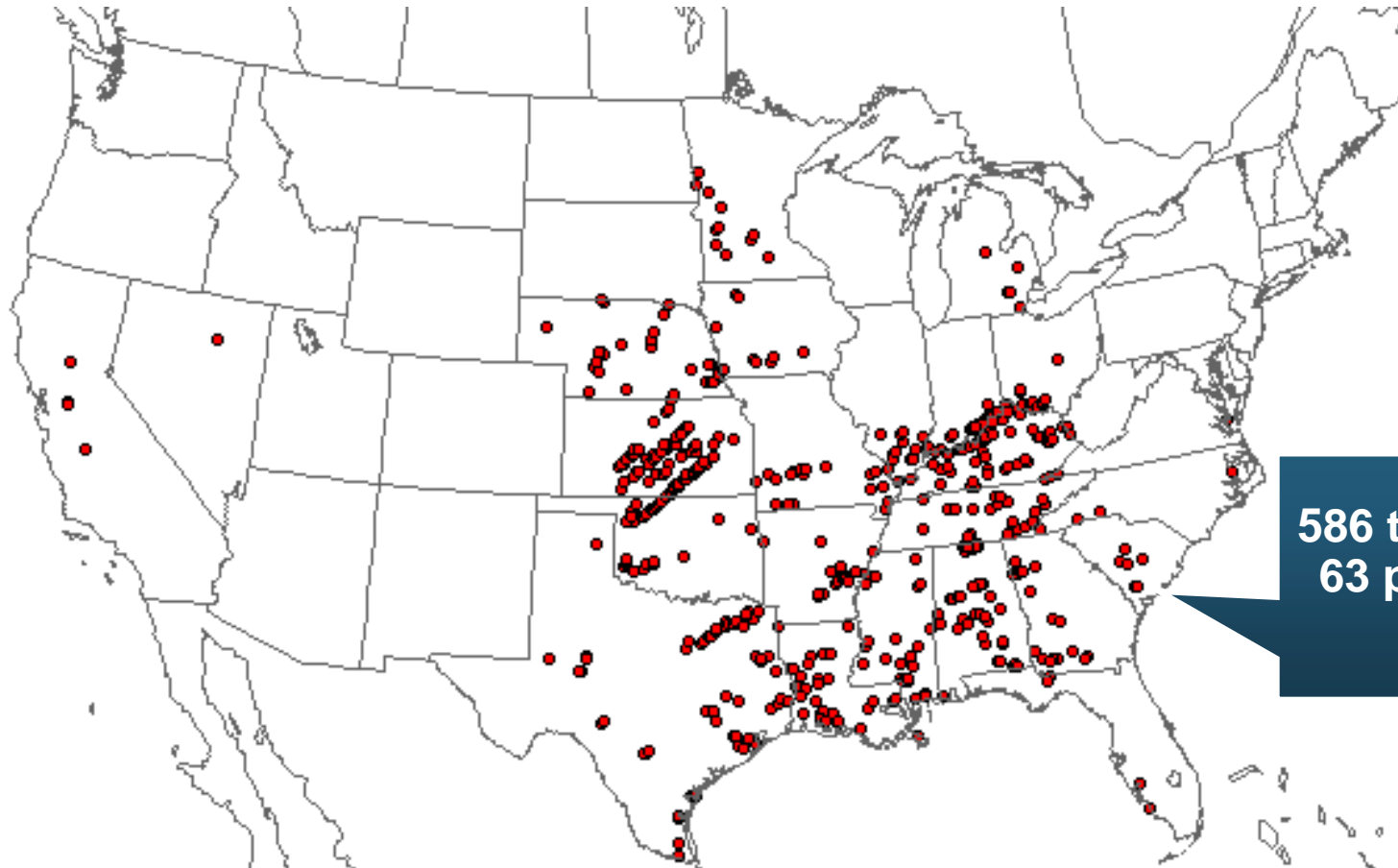
U.S. Tornado Count, 2005-2012*



*Through April 29, 2012.

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

Location of Tornadoes in the US, 2012*



**586 tornadoes killed
63 people through
April 23**



**PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)**

NOAA/Storm Prediction Center Norman, Oklahoma

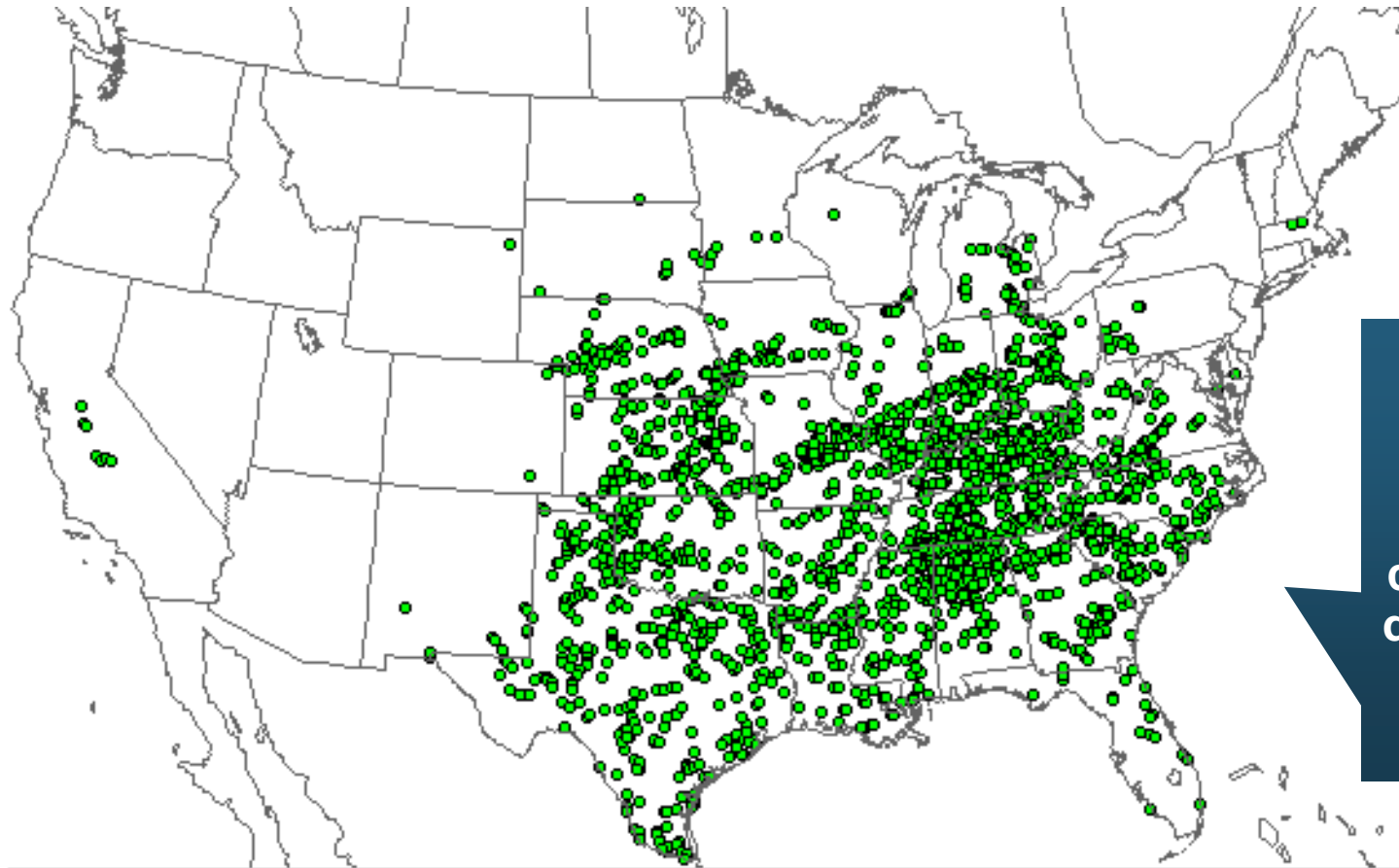
**Tornado Reports
January 01, 2012 - April 23, 2012**

Updated: Monday April 23, 2012 16:17 CT

*Through April 7, 2012.

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

Location of Large Hail Reports in the US, 2012*



There were 2,084
“Large Hail”
reports through
April 23, 2012,
causing extensive
damage to homes,
businesses and
vehicles



PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

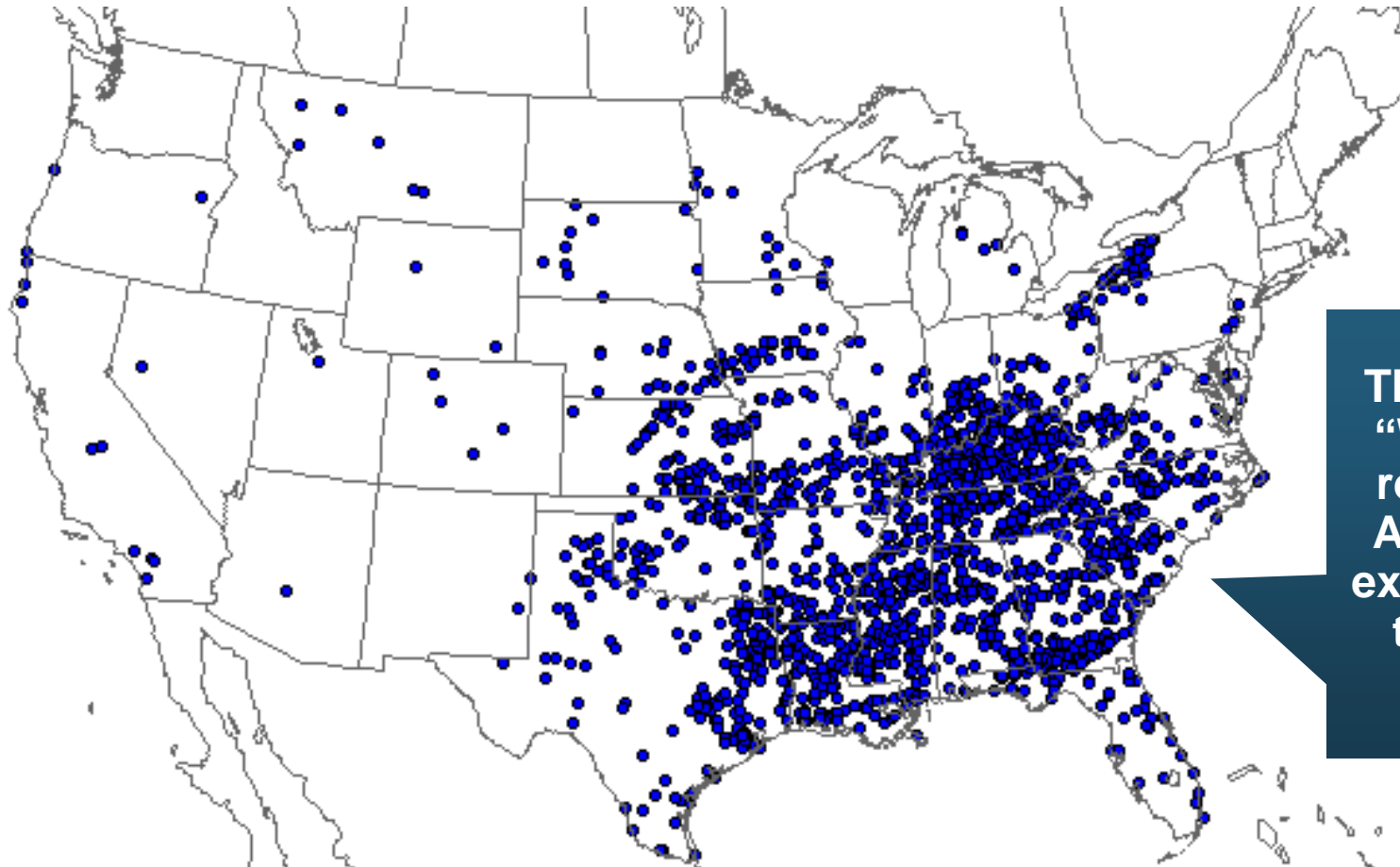
Hail Reports
January 01, 2012 - April 23, 2012

Updated: Monday April 23, 2012 16:17 CT

*Through April 23, 2012.

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

Location of Wind Damage Reports in the US, 2012*



There were 1,850
“Wind Damage”
reports through
Apr. 23, causing
extensive damage
to homes and
businesses



PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

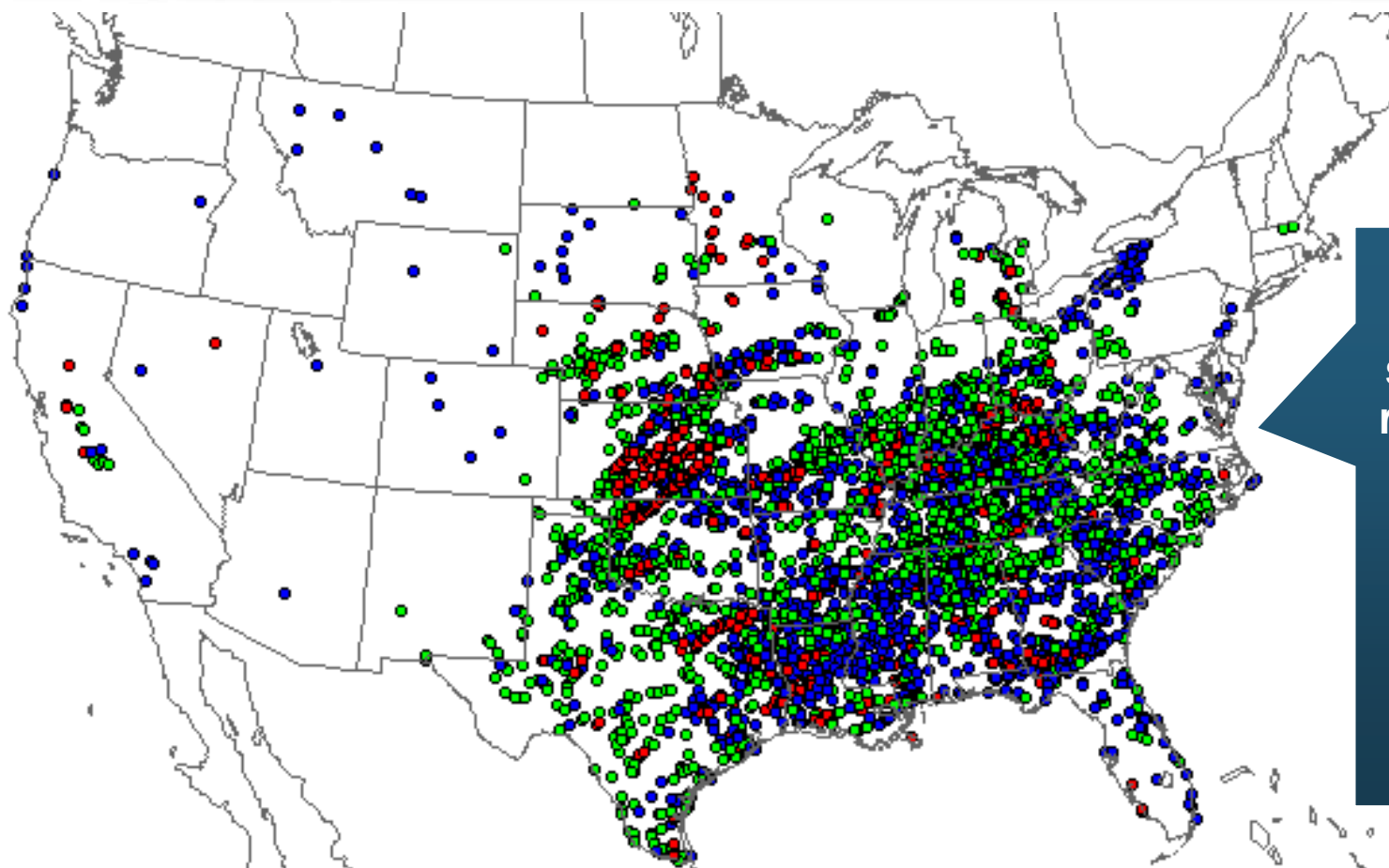
Wind Reports
January 01, 2012 - April 23, 2012

Updated: Monday April 23, 2012 16:17 CT

*Through April 23, 2012.

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

Severe Weather Reports, 2012*



There were already 4,520 severe weather reports through Apr. 23; including 586 tornadoes; 2,084 “Large Hail” reports and 1,850 high wind events



PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

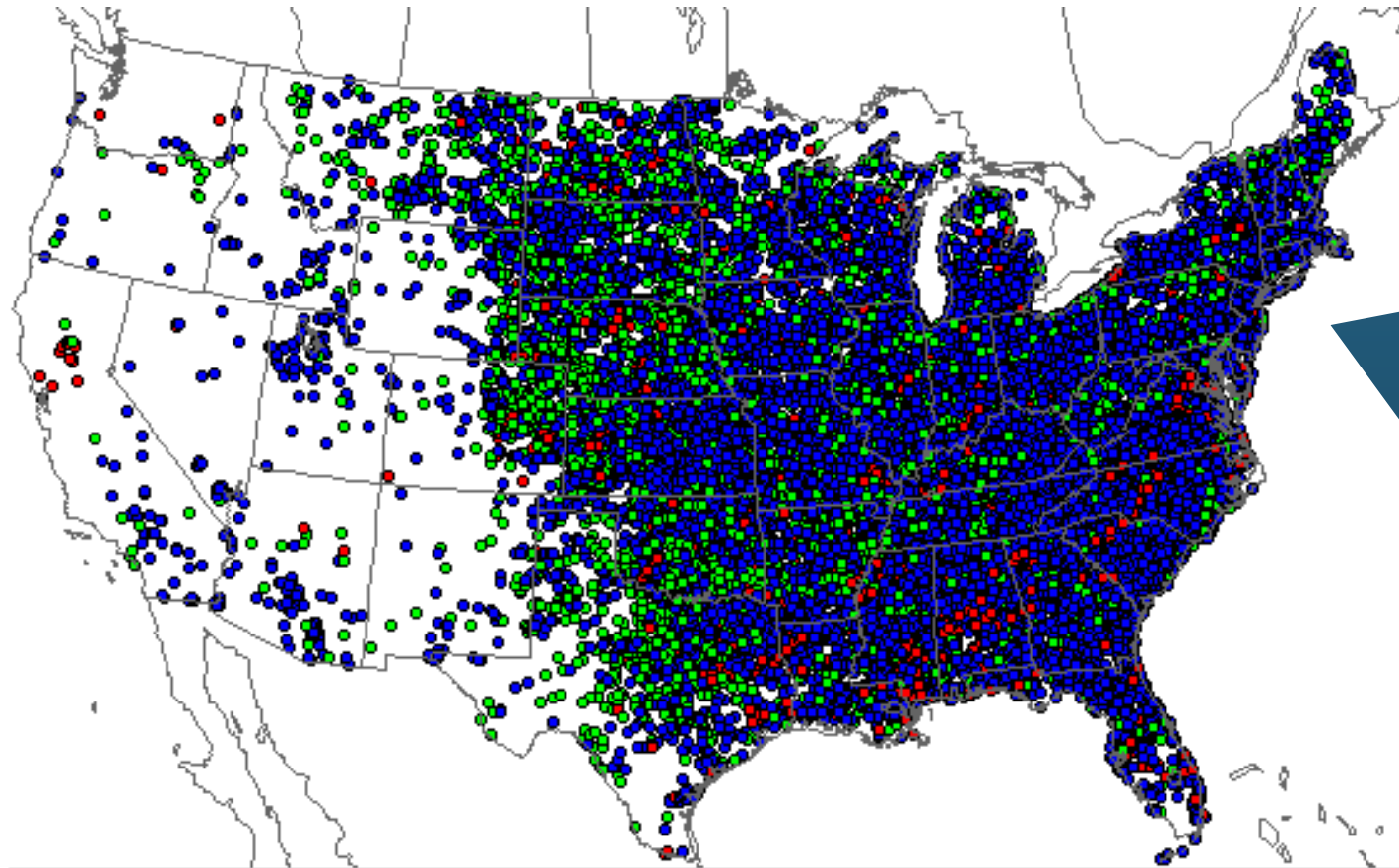
Severe Weather Reports
January 01, 2012 - April 23, 2012

Updated: Monday April 23, 2012 16:17 CT

*Through April 23, 2012.

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

Severe Weather Reports, 2011



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



PRELIMINARY SEVERE WEATHER
REPORT DATABASE (ROUGH LOG)

NOAA/Storm Prediction Center Norman, Oklahoma

Severe Weather Reports
January 01, 2011 - December 27, 2011

Updated: Tuesday December 27, 2011 16:35 CT

The BIG Question: When Will the Market Turn?

Are Catastrophes and Other Factors Pressuring Insurance Markets?

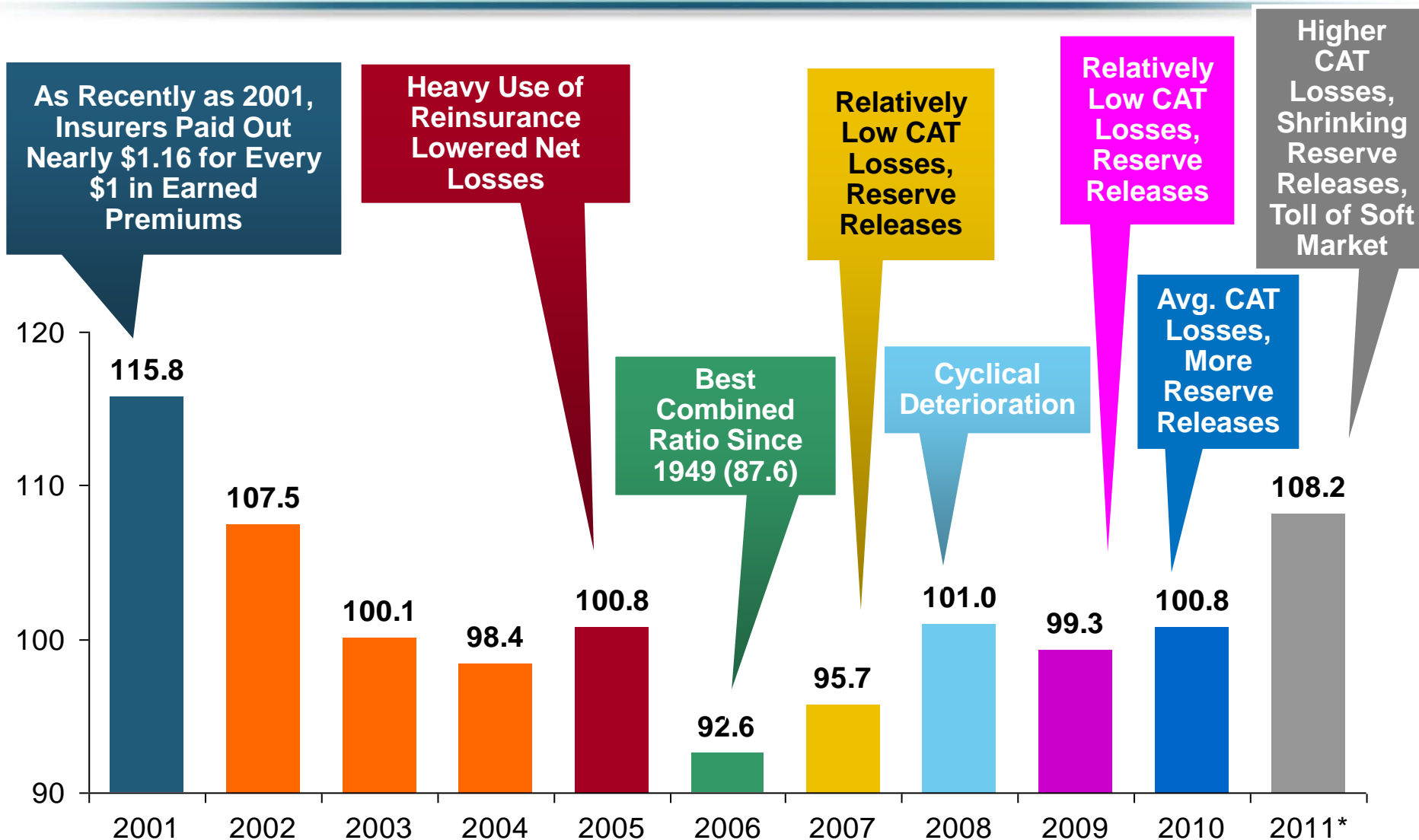
Criteria Necessary for a “Market Turn”: All Four Criteria Must Be Met

Criteria	Status	Comments
Sustained Period of Large Underwriting Losses	<i>Early Stage, Inevitable</i>	<ul style="list-style-type: none"> • 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	<i>Entered 2011 At Record High; Only Small Decline</i>	<ul style="list-style-type: none"> • Surplus hit a record \$565B as of 3/31/11 • Fell just 1.6% through 12/31/11 from 12/31/10 • Will likely see new record in 2012 • Little excess capacity remains in reinsurance markets • Modest growth in demand for insurance is insufficient to absorb much excess capacity
Tight Reinsurance Market	<i>Somewhat in Place</i>	<ul style="list-style-type: none"> • 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	<i>Some Firming esp. in Property, WC</i>	<ul style="list-style-type: none"> • Commercial lines pricing trends have turned from negative to flat and now positive, esp. Property & WC; • Competition remains intense as many seek to maintain market share

1. UNDERWRITING

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

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

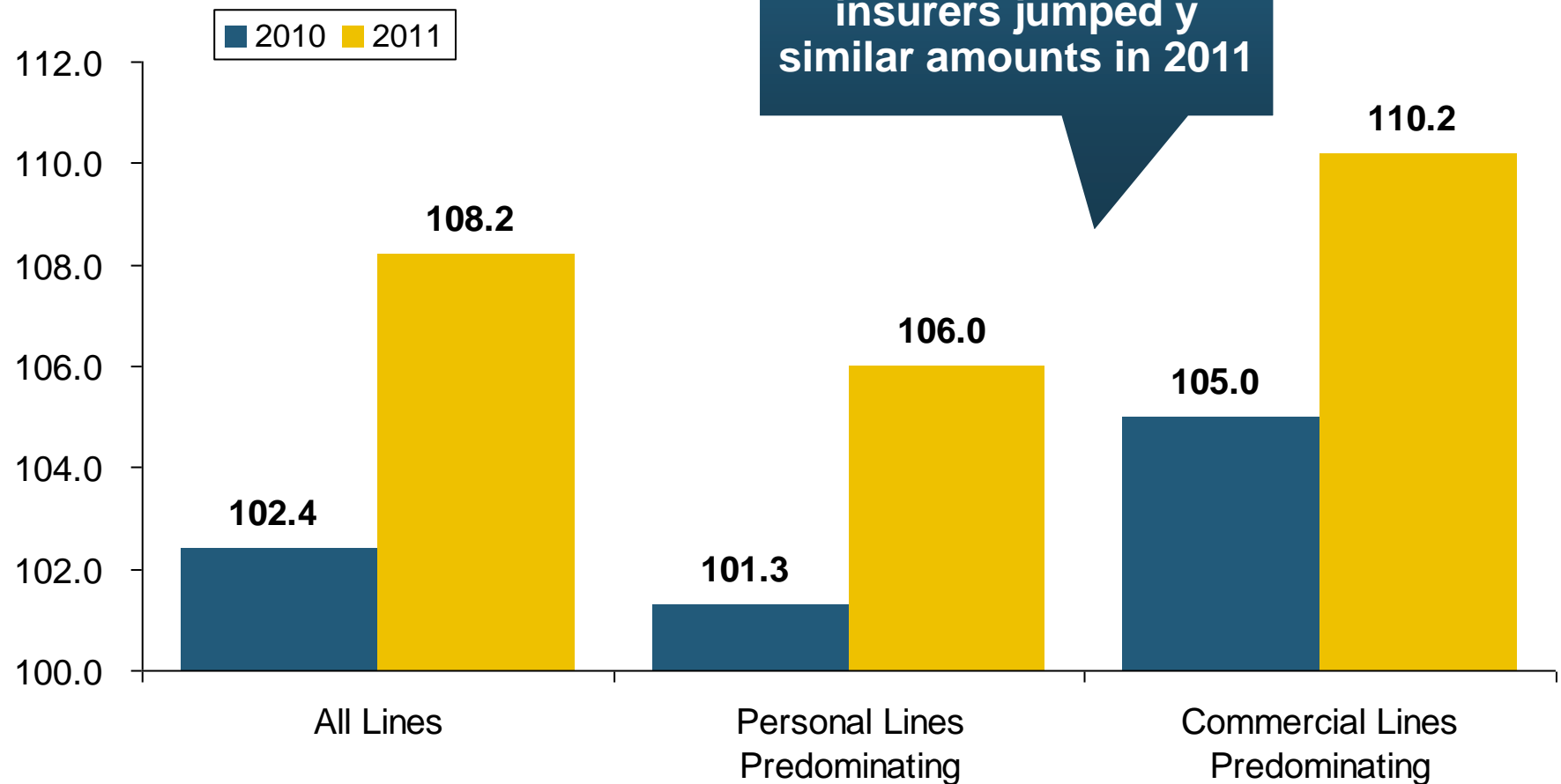


* Excludes Mortgage & Financial Guaranty insurers 2008--2011. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=106.4

Sources: A.M. Best, ISO.

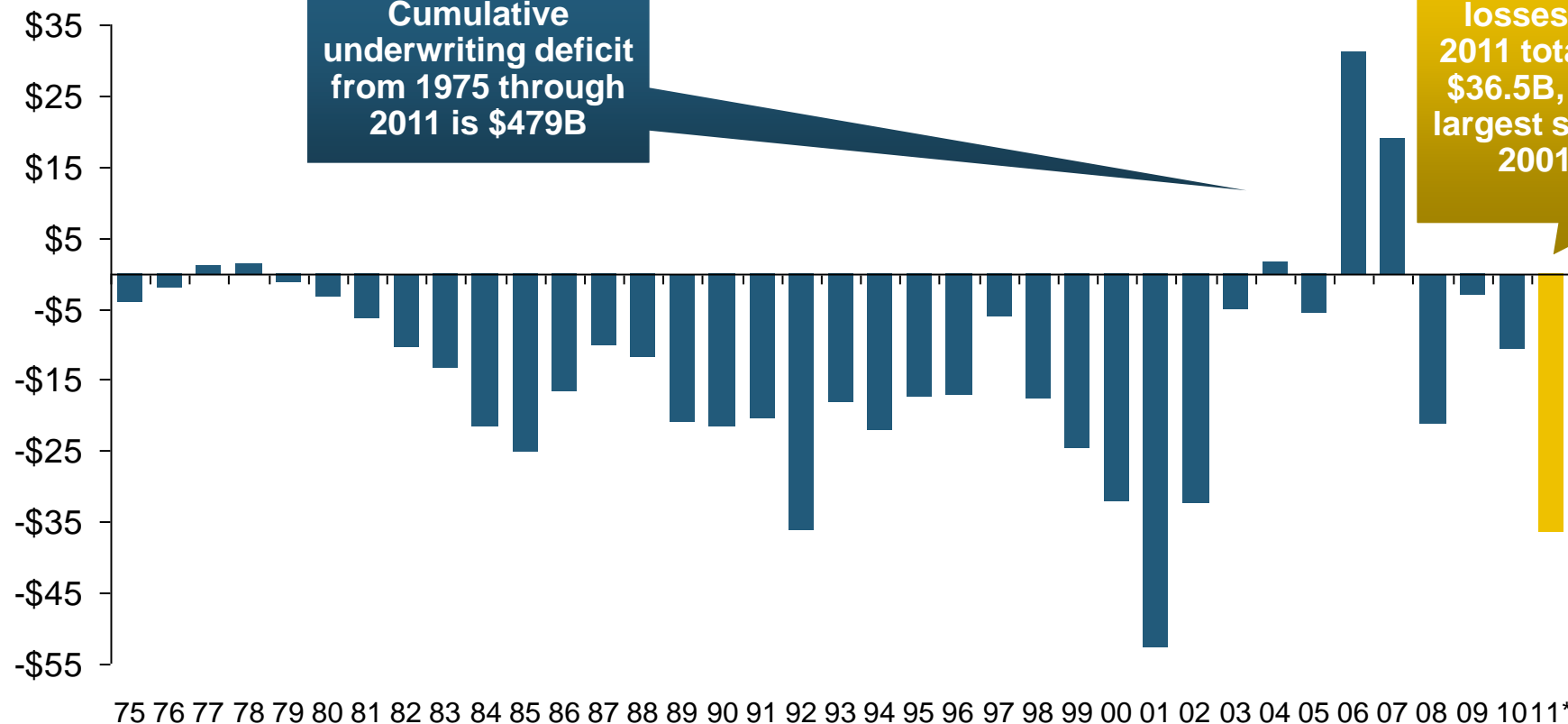
Combined Ratios by Predominant Business Segment, 2011 vs. 2010

(Percent)



Underwriting Gain (Loss) 1975–2011E*

(\$ Billions)

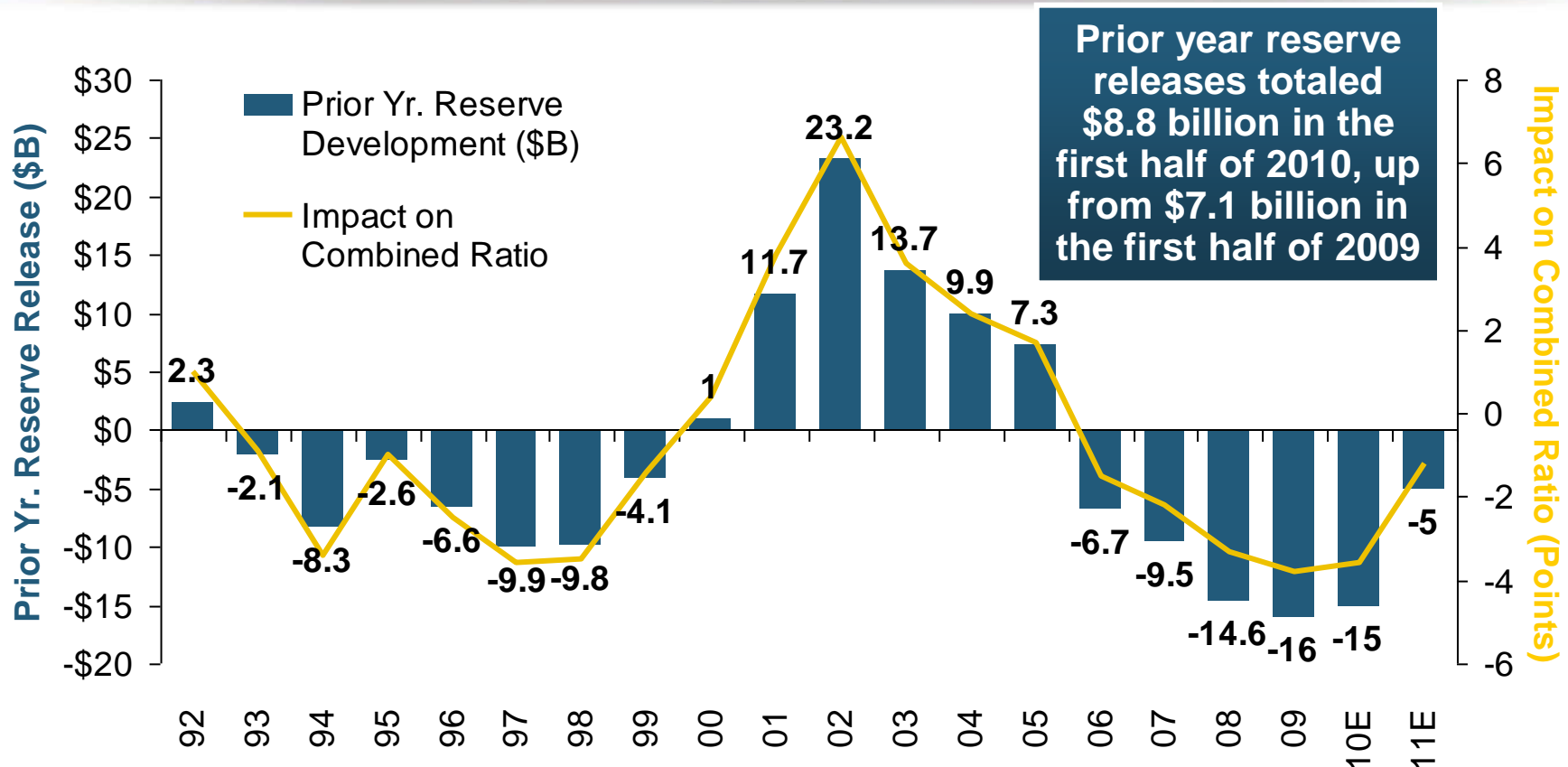


**Large Underwriting Losses Are *NOT* Sustainable
in Current Investment Environment**

* Includes mortgage and financial guaranty insurers in all years

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

P/C Reserve Development, 1992–2011E



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

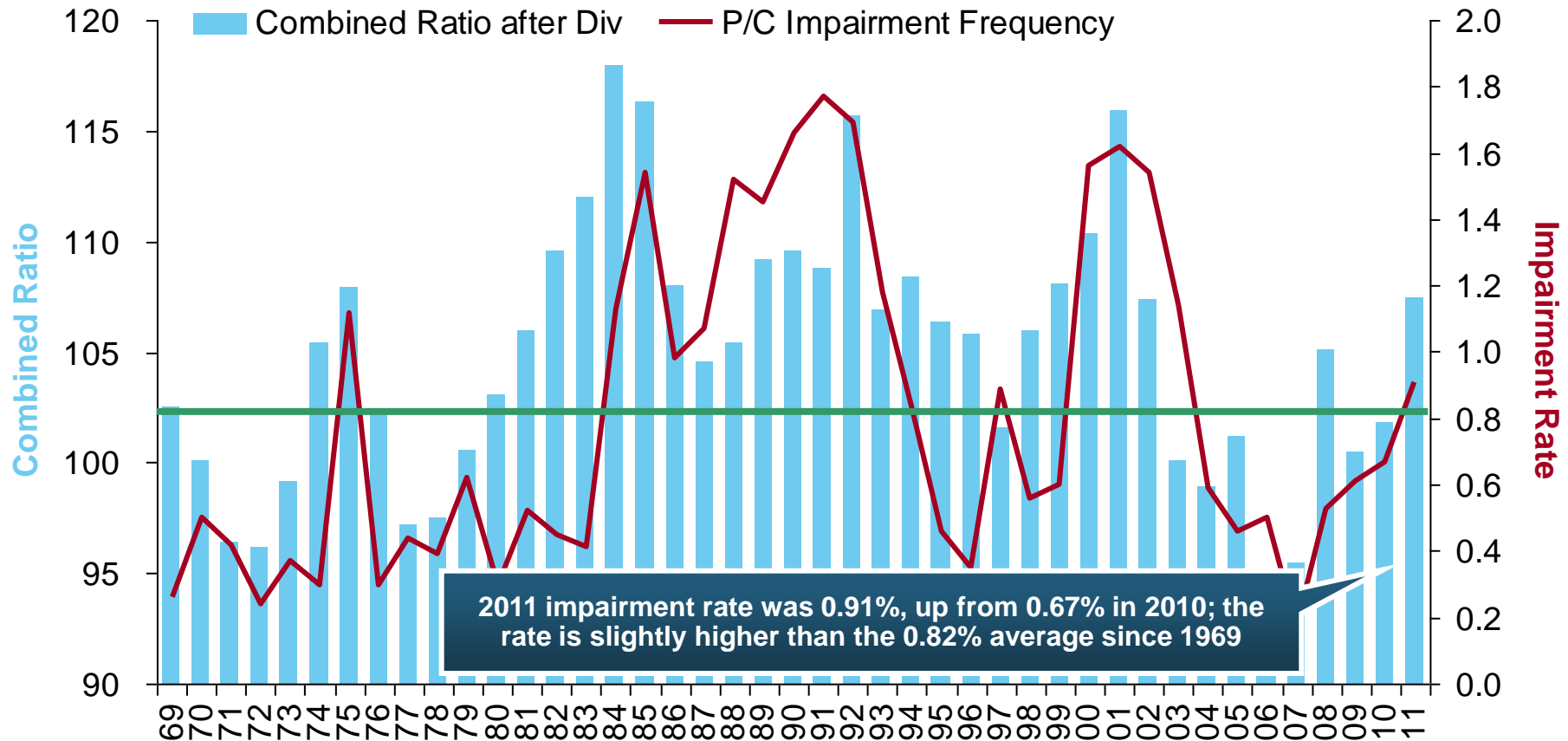
Note: 2005 reserve development excludes a \$6 billion loss portfolio transfer between American Re and Munich Re. Including this transaction, total prior year adverse development in 2005 was \$7 billion. The data from 2000 and subsequent years excludes development from financial guaranty and mortgage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

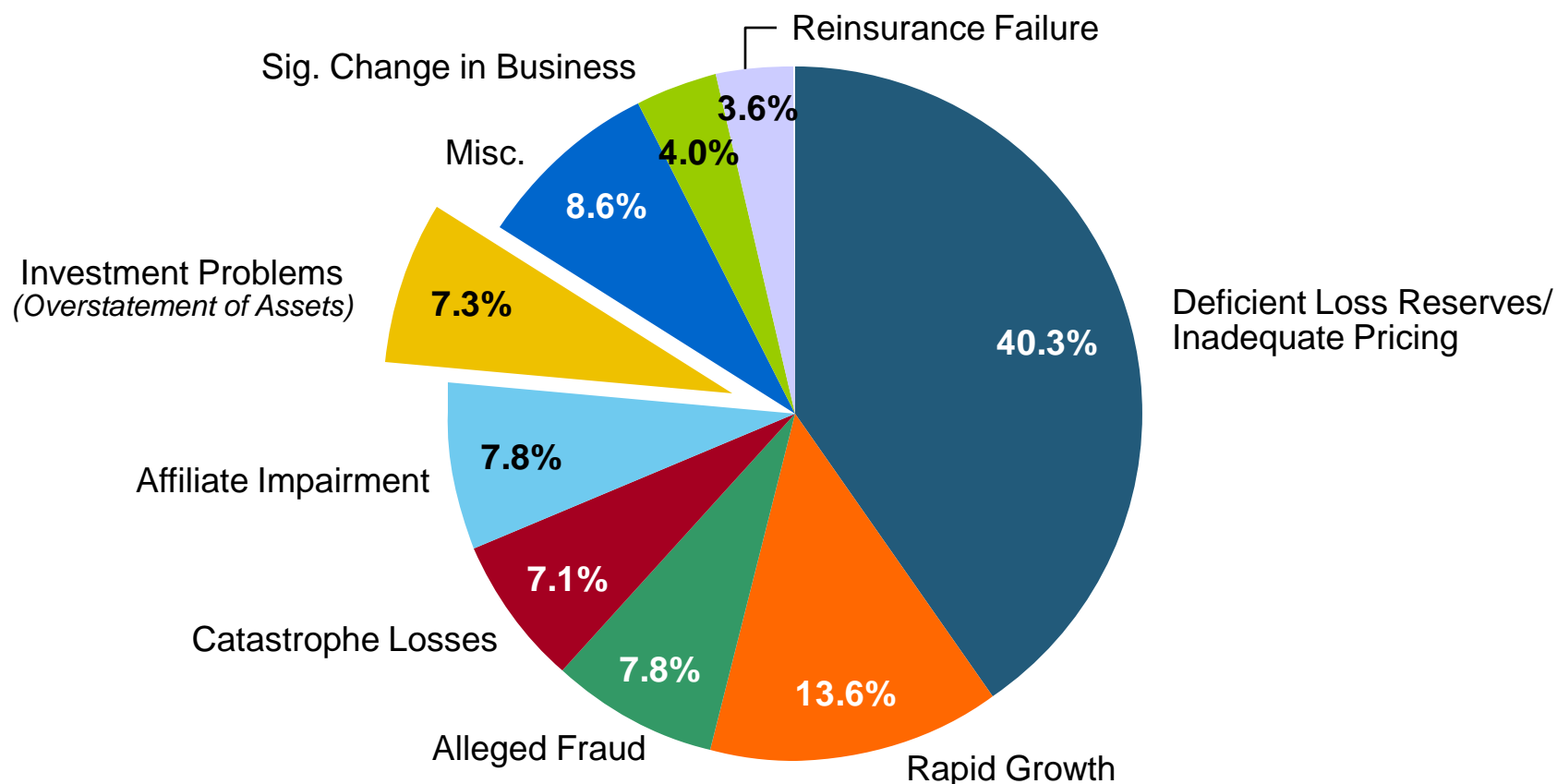
P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2011



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

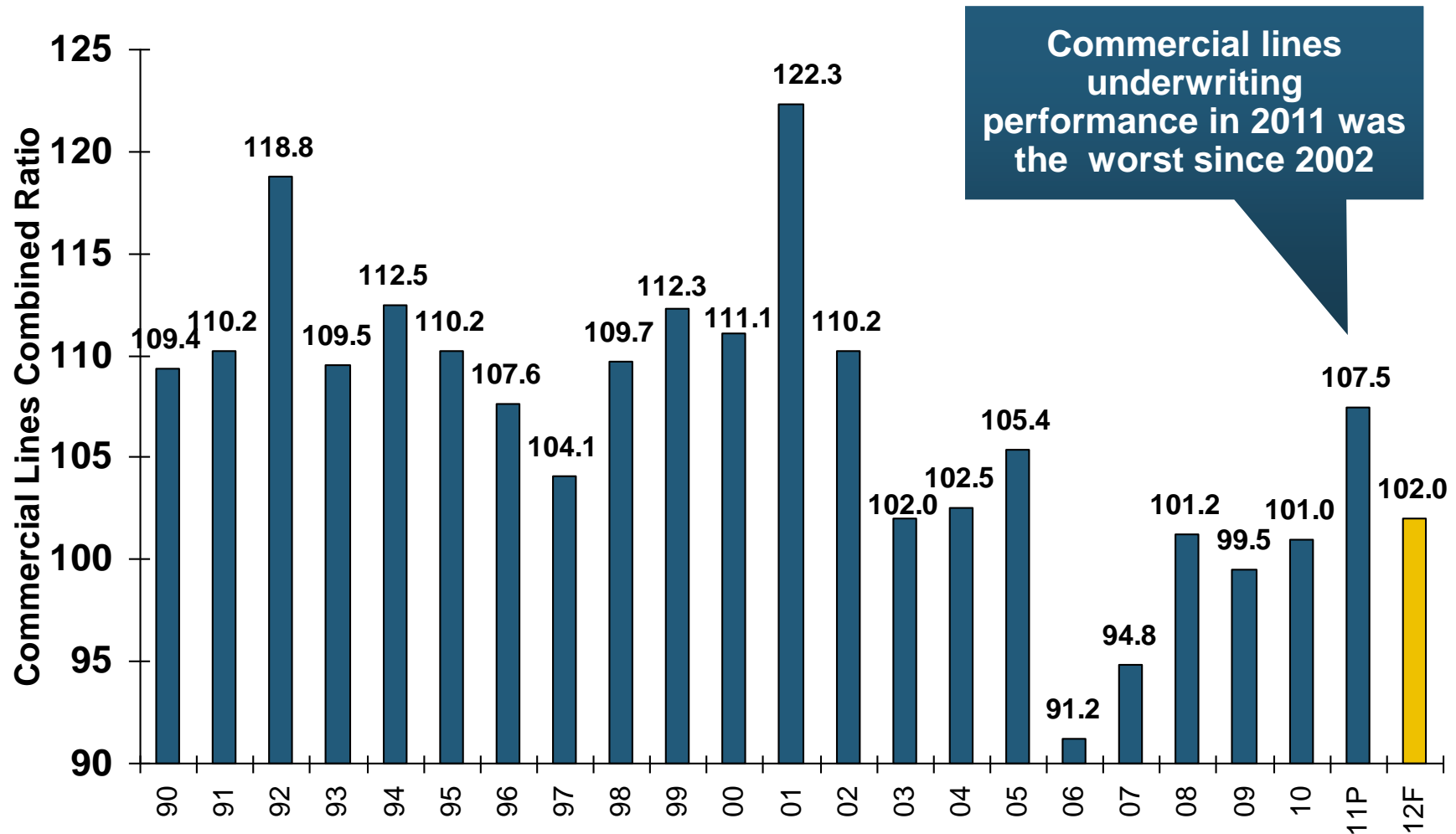
Reasons for US P/C Insurer Impairments, 1969–2010

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



Performance by Segment: Commercial Lines

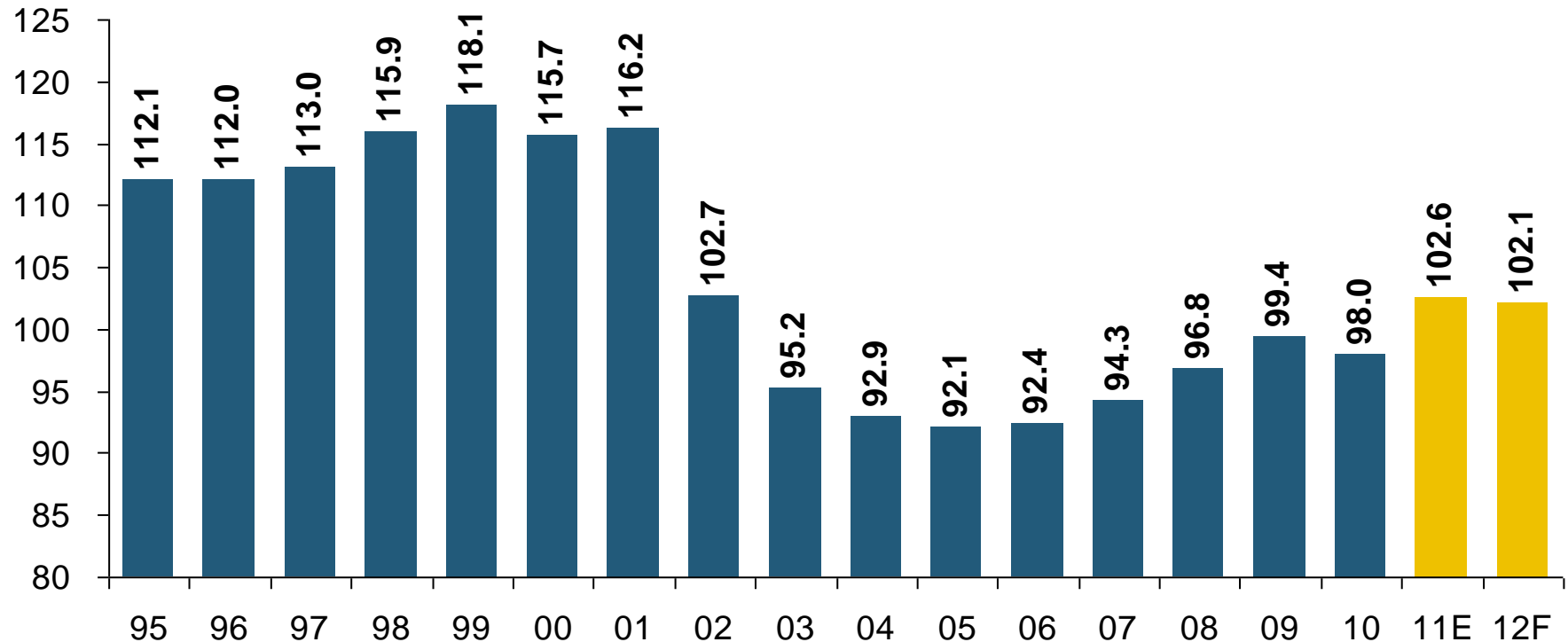
Commercial Lines Combined Ratio, 1990-2012F*



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

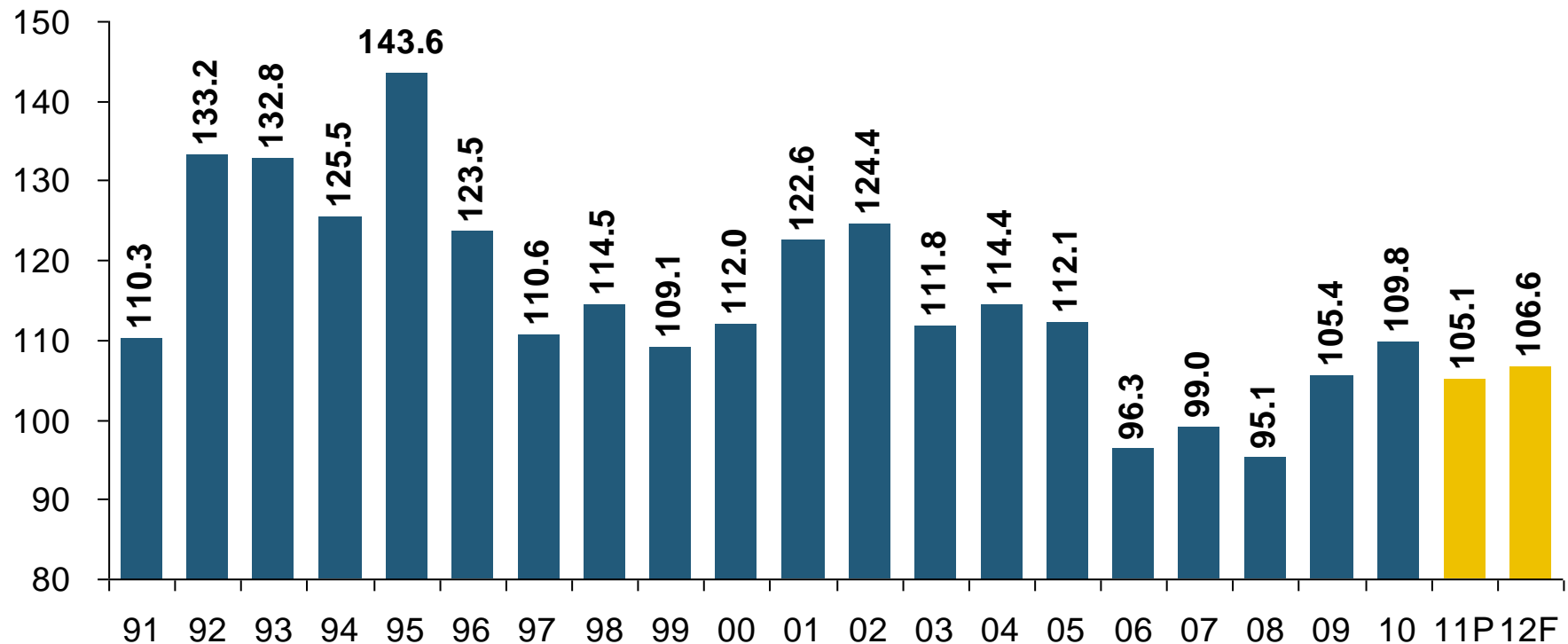
Source: A.M. Best; Insurance Information Institute

Commercial Auto Combined Ratio: 1993–2012F



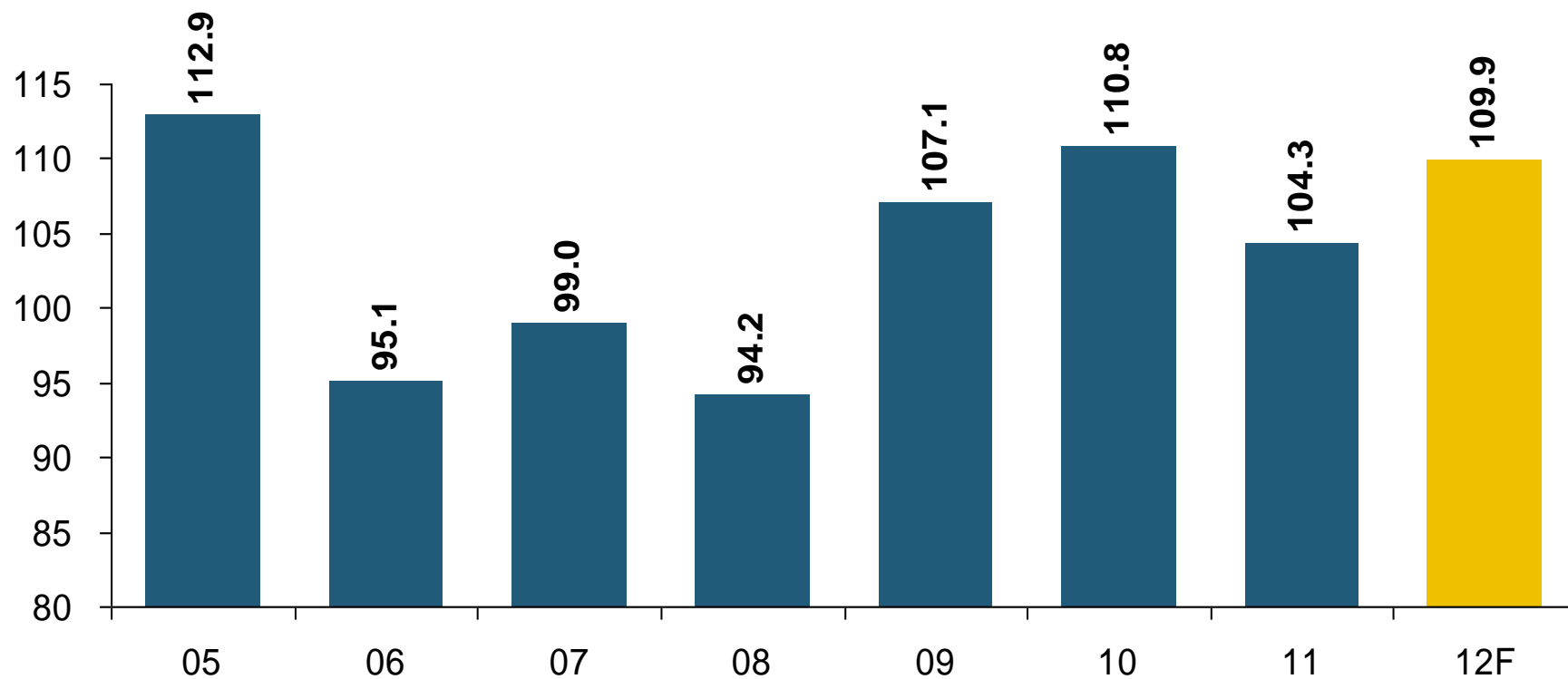
Commercial Auto is Expected to Deteriorate as Loss Frequency and Severity Trends Deteriorate 2011-2012

Other & Products Liability Combined Ratio: 1991–2012F



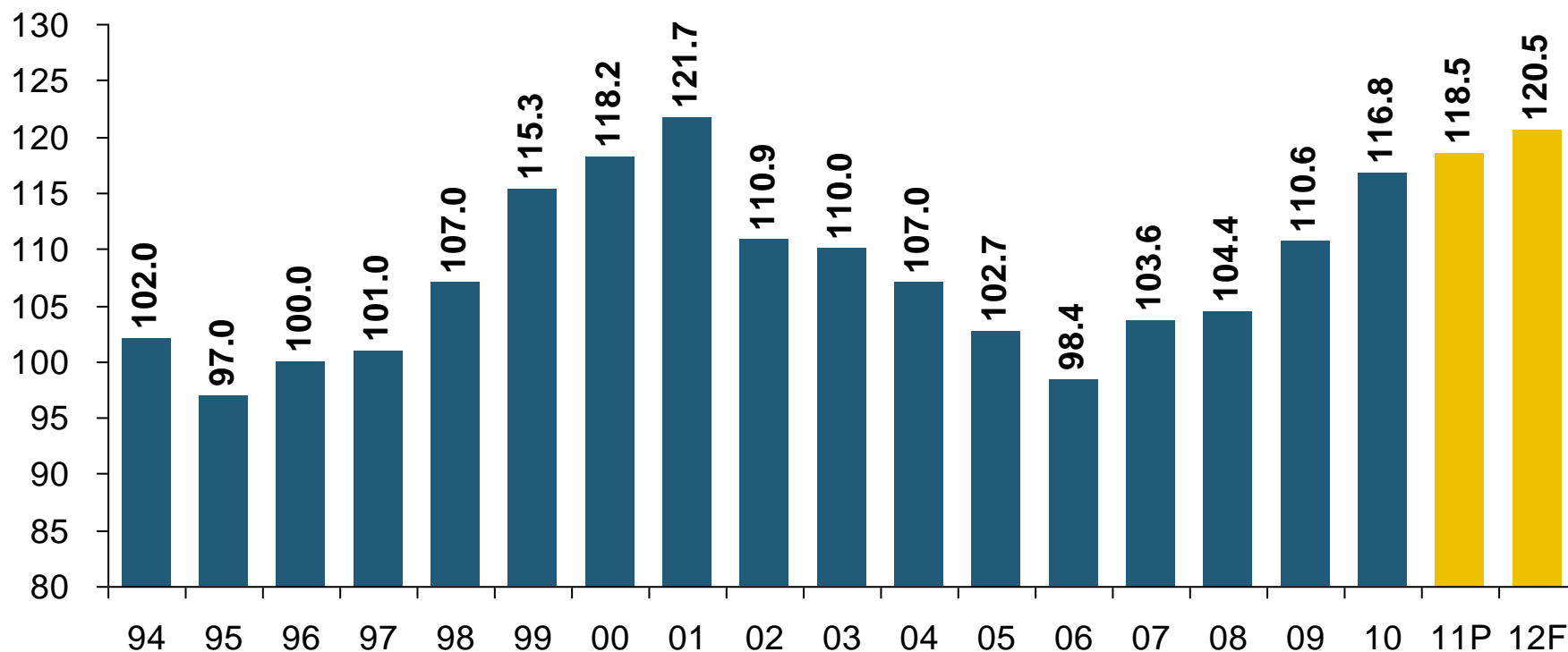
Liability Lines Have Performed Better in the Post-Tort Reform Era (~2005), but There Has Been Some Deterioration in Recent Years

General Liability Combined Ratio: 2005–2012F



**Commercial General Liability Underwriting
Performance Has Deteriorated in Recent Years**

Workers Compensation Combined Ratio: 1994–2012F

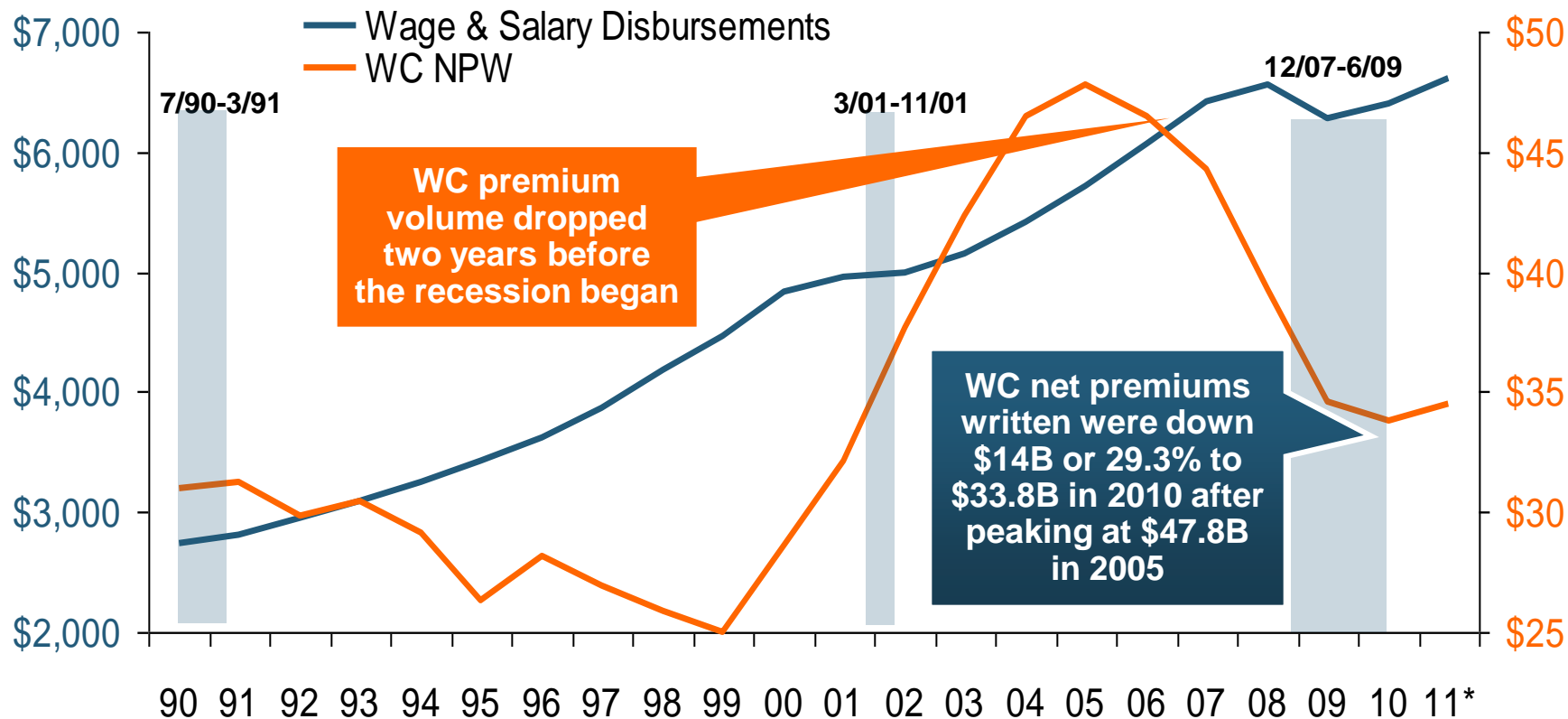


Workers Comp Underwriting Results Are Deteriorating Markedly and the Worst They Have Been in a Decade

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

Payroll Base*
\$Billions

WC NWP
\$Billions



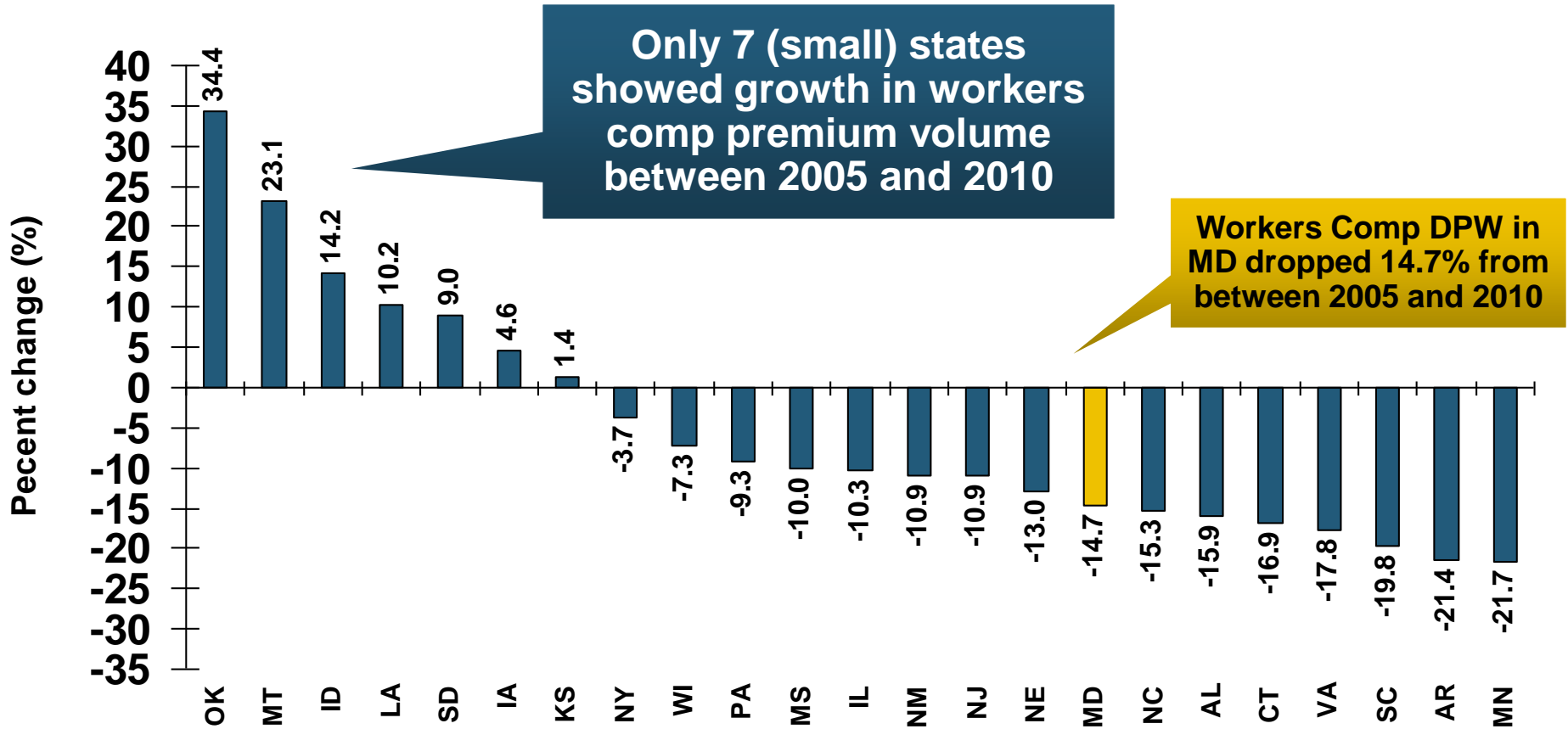
Resumption of payroll growth and rate increases suggests WC NWP will grow again in 2012

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

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

Direct Premiums Written: Worker's Comp Percent Change by State, 2005-2010*

Top 25 States

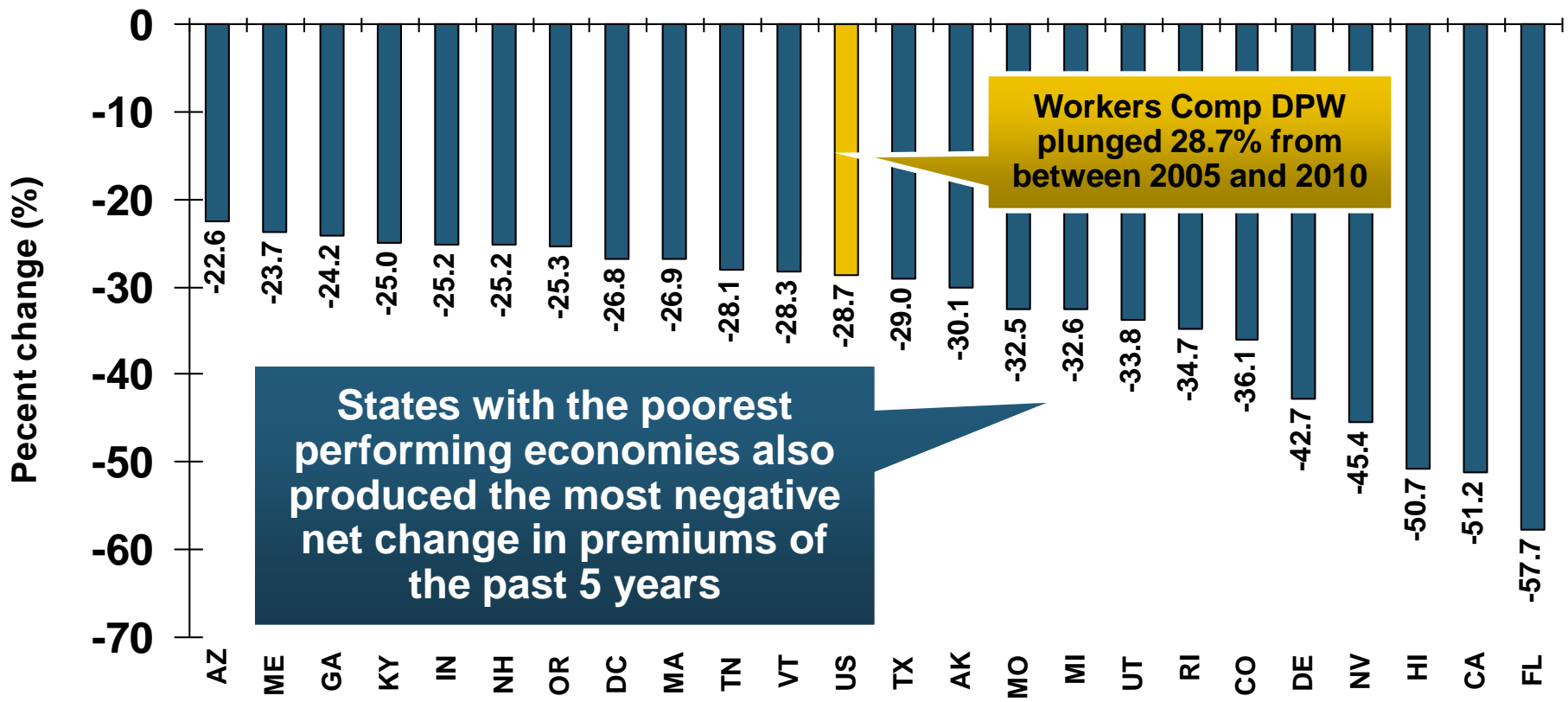


*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: Worker's Comp Percent Change by State, 2005-2010*

Bottom 25 States



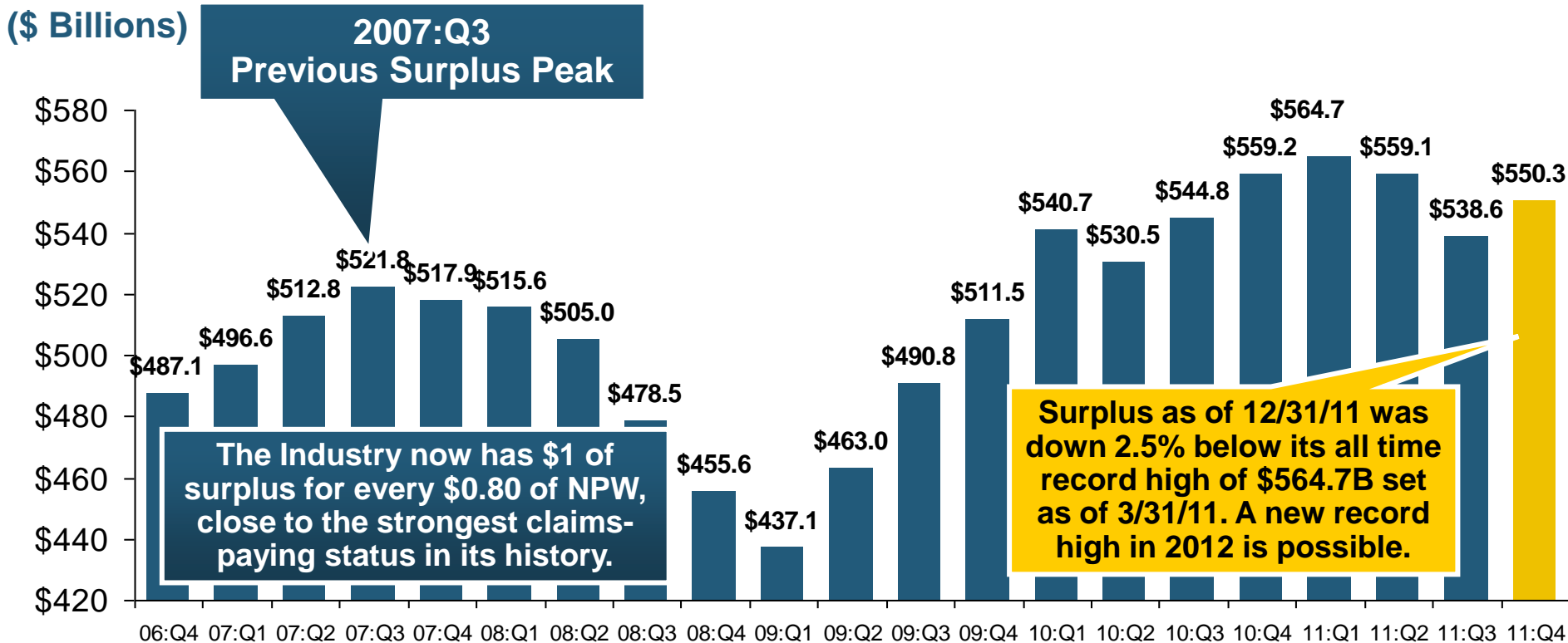
*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

Sources: SNL Financial LC.; Insurance Information Institute.

2. SURPLUS/CAPITAL/CAPACITY

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

Policyholder Surplus, 2006:Q4–2011:Q4



*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.

Quarterly Surplus Changes Since 2011:Q1 Peak

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

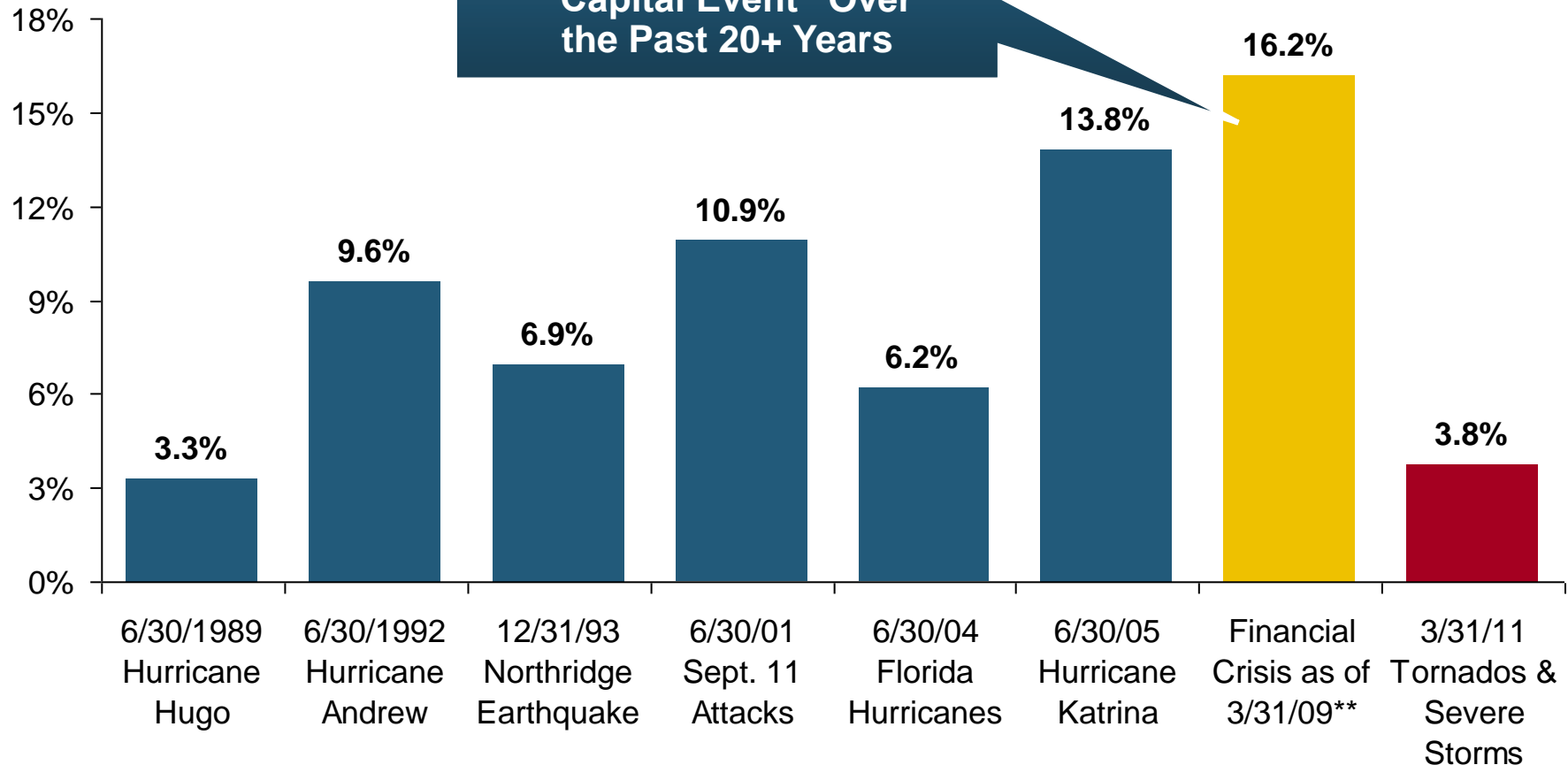
11:Q3: -\$26.1B (-4.6%)

11:Q4: -\$14.3B (-2.5%)

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

(Percent)

The Financial Crisis at its Peak Ranks as the Largest “Capital Event” Over the Past 20+ Years

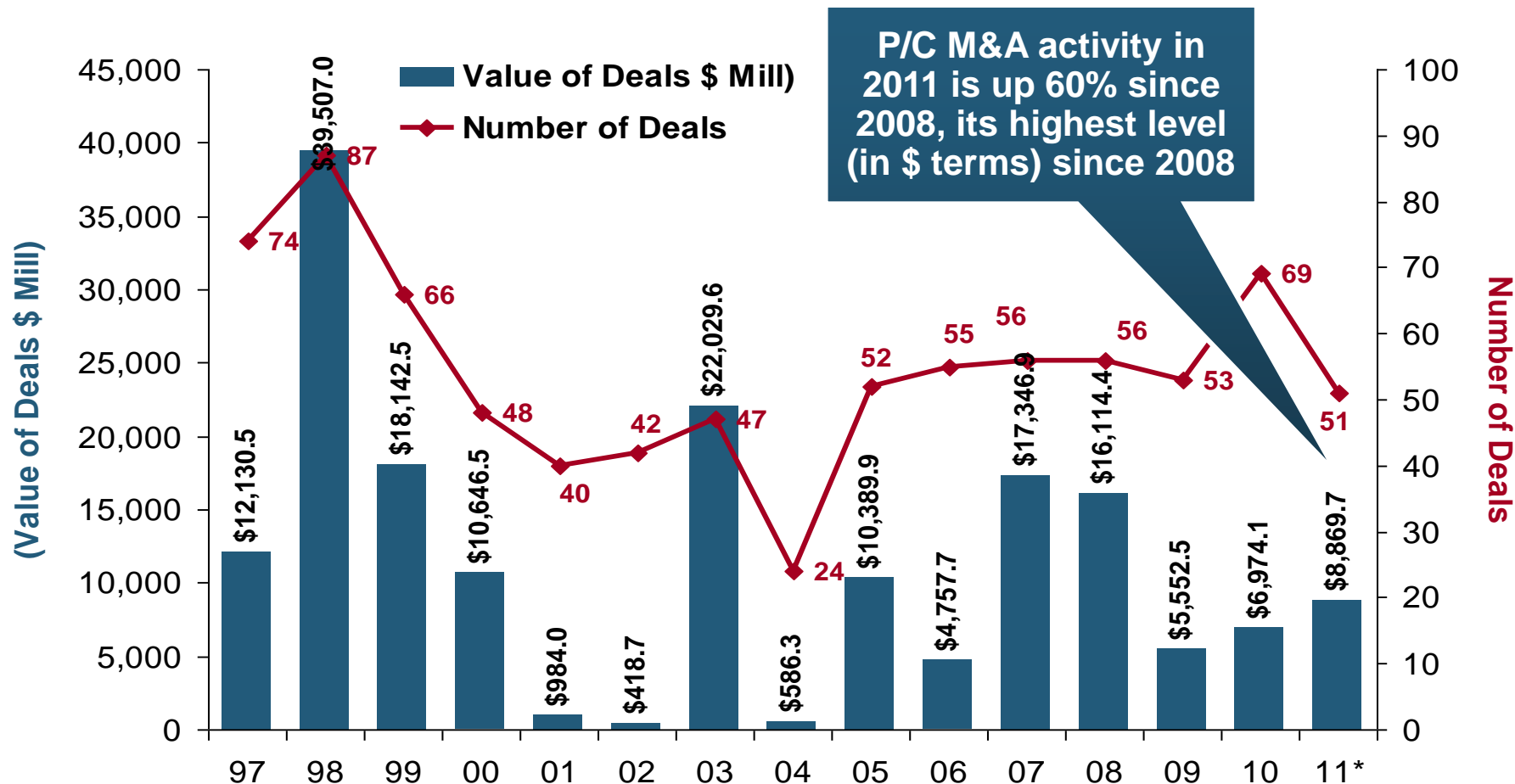


* Ratio is for end-of-quarter surplus immediately after the event. Date shown is end of quarter prior to event

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

Source: PCS; Insurance Information Institute

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

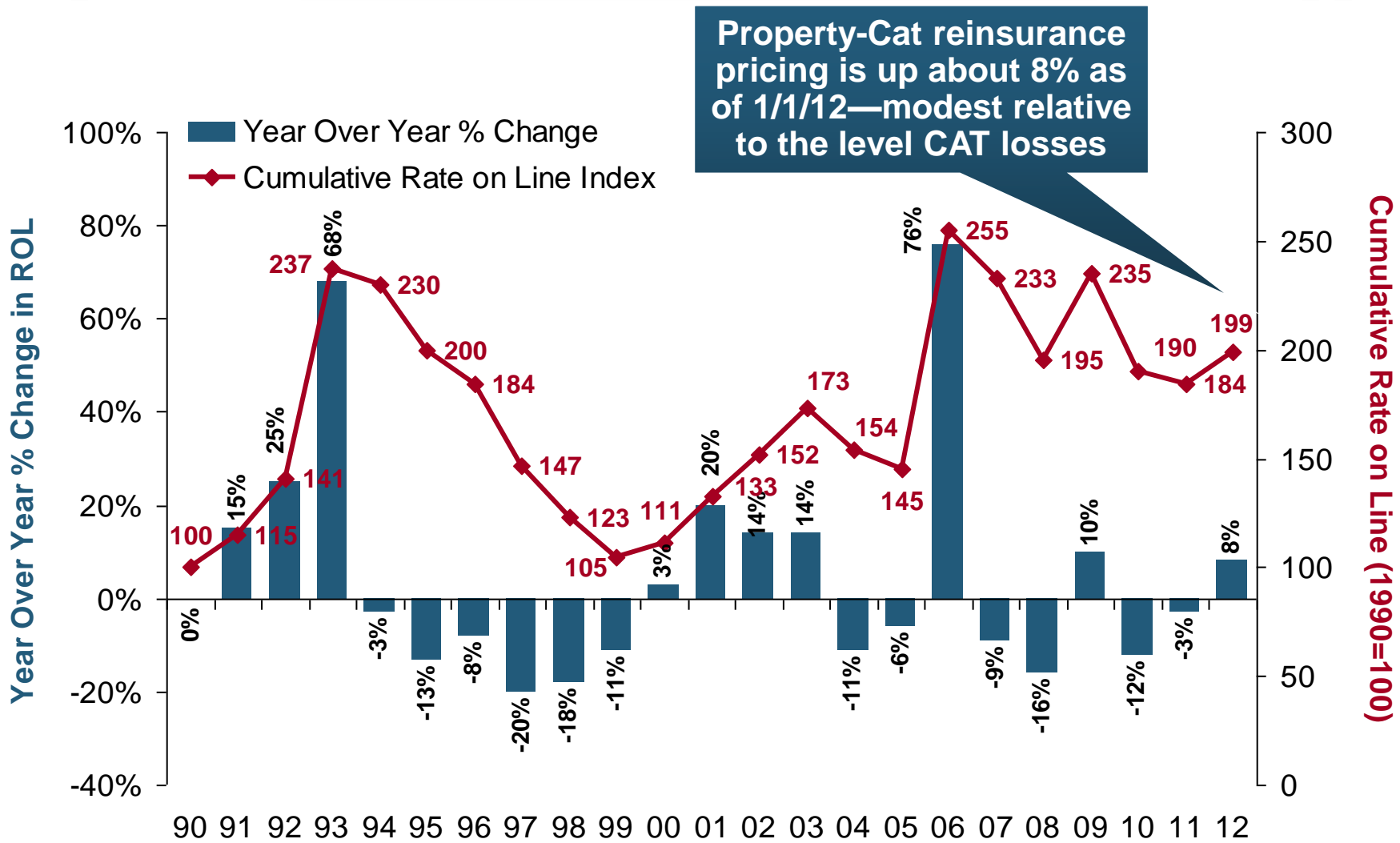
*2011 data are through December 1.

Source: SNL Securities; Insurance Information Institute.

3. REINSURANCE MARKET CONDITIONS

**Record Global
Catastrophes Activity is
Pressuring Pricing**

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



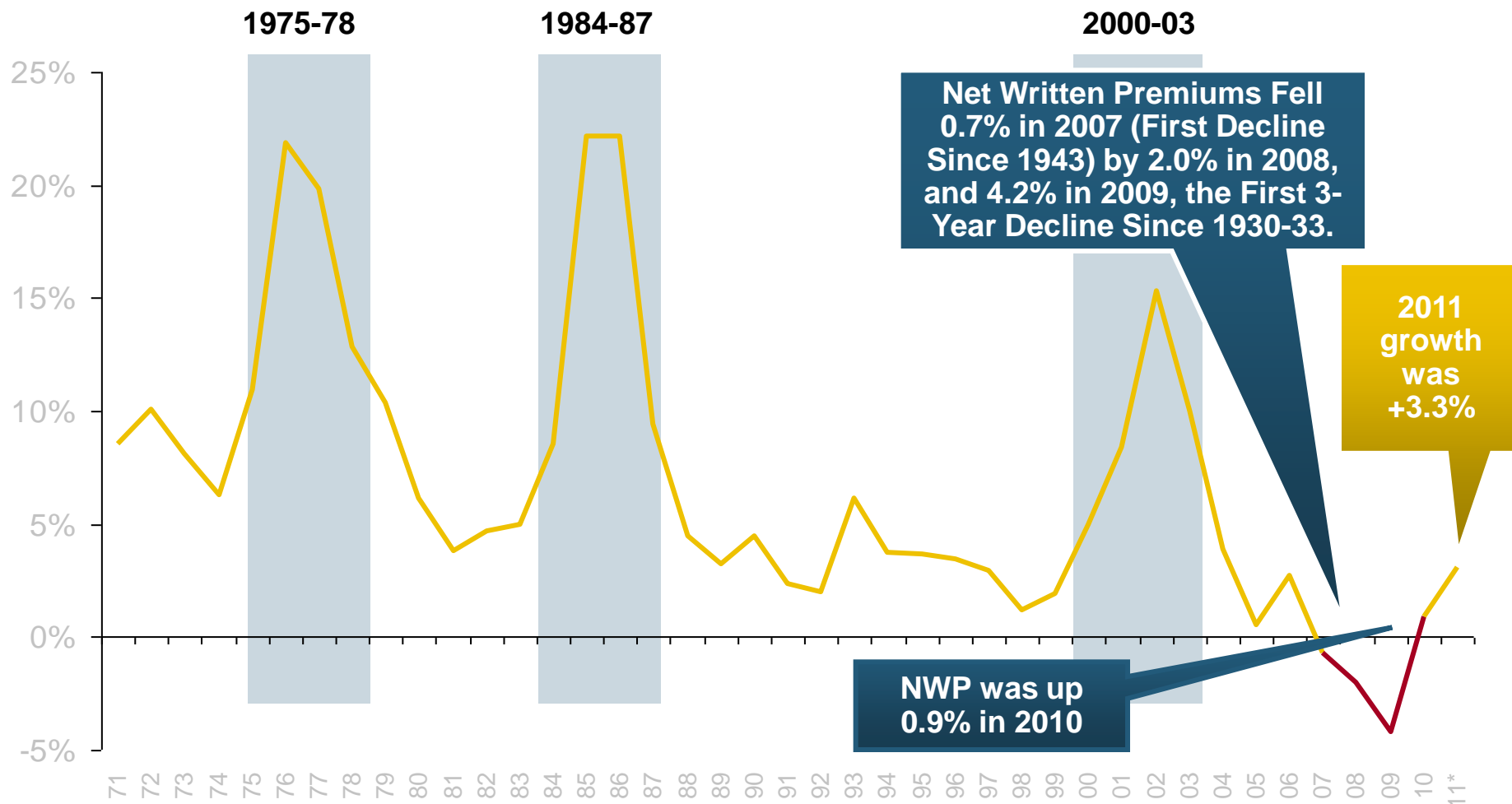
Sources: Guy Carpenter; Insurance Information Institute.

4. RENEWED PRICING DISCIPLINE

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

Premium Growth Is Up Modestly: More in 2012?

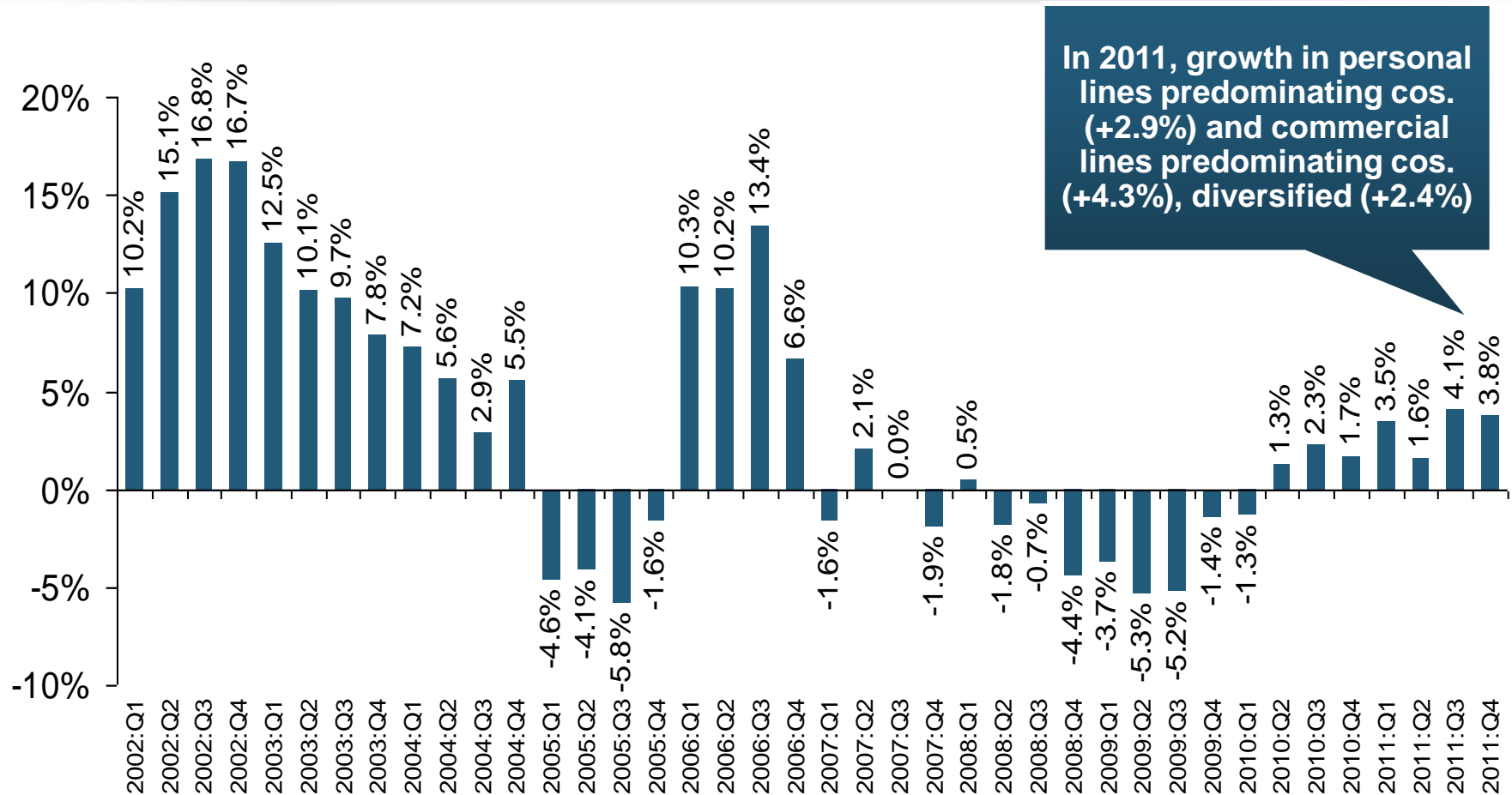
(Percent)



Shaded areas denote "hard market" periods

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

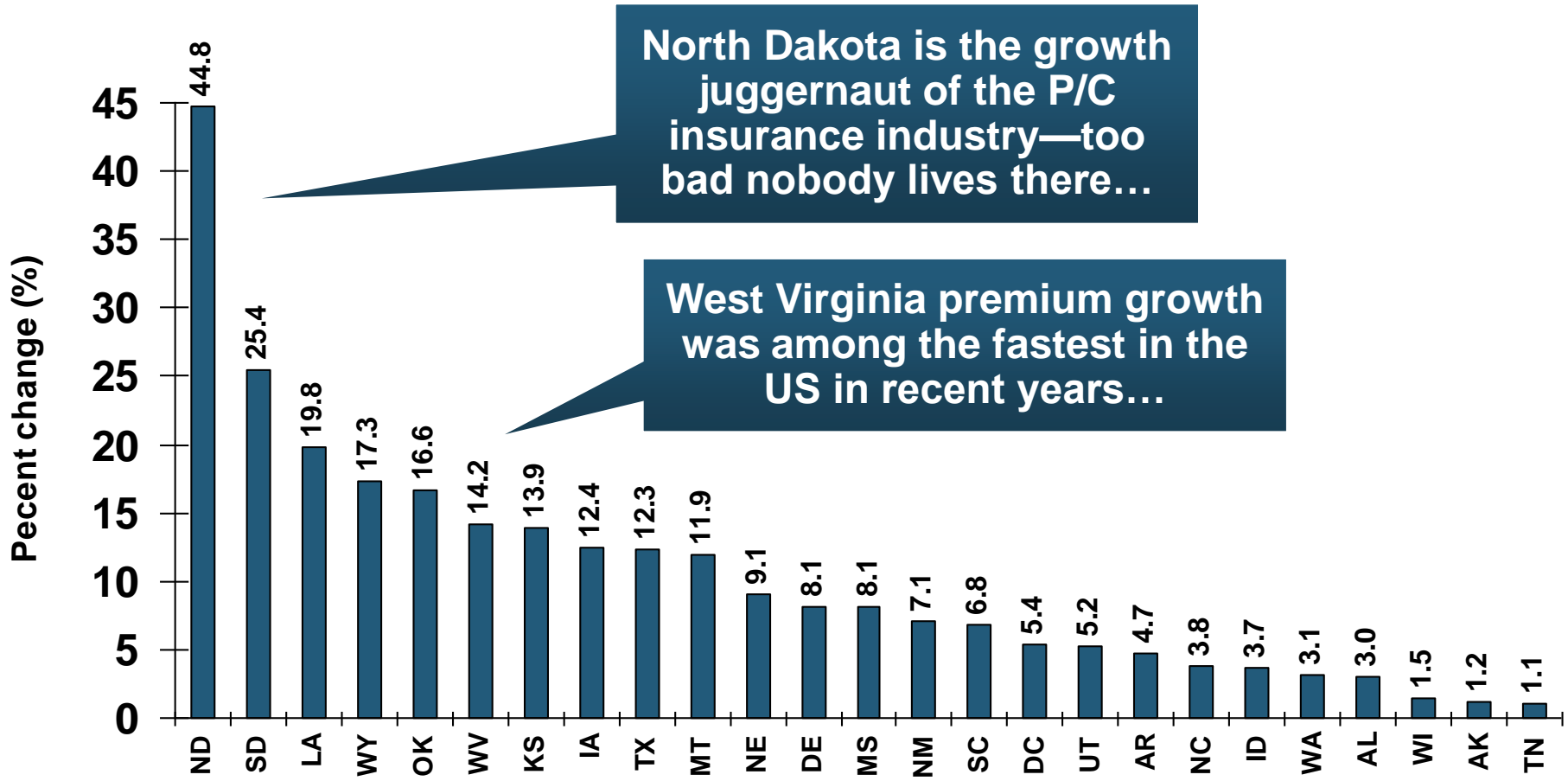
P/C Net Premiums Written: % Change, Quarter vs. Year-Prior Quarter



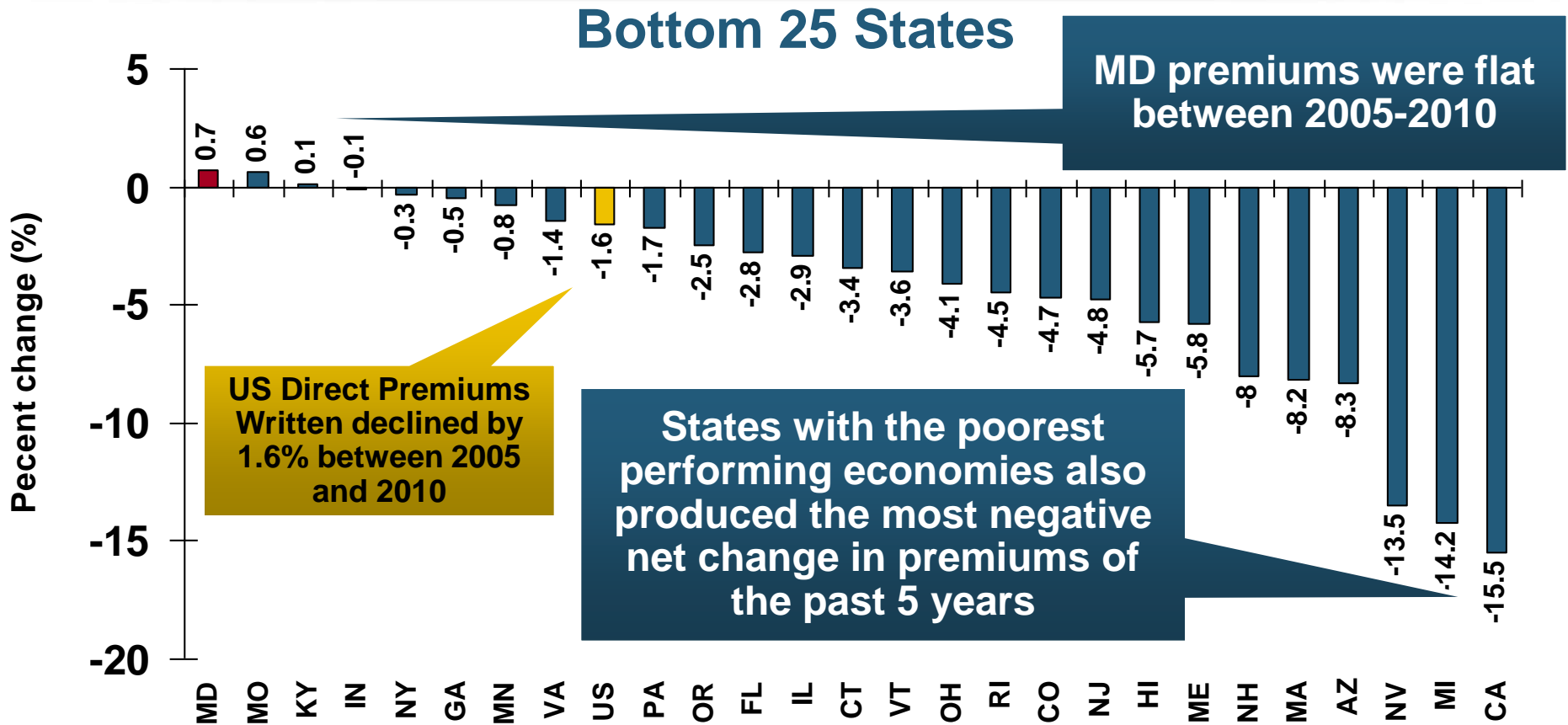
**Finally! Back-to-back quarters of net written premium growth
(vs. the same quarter, prior year)**

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

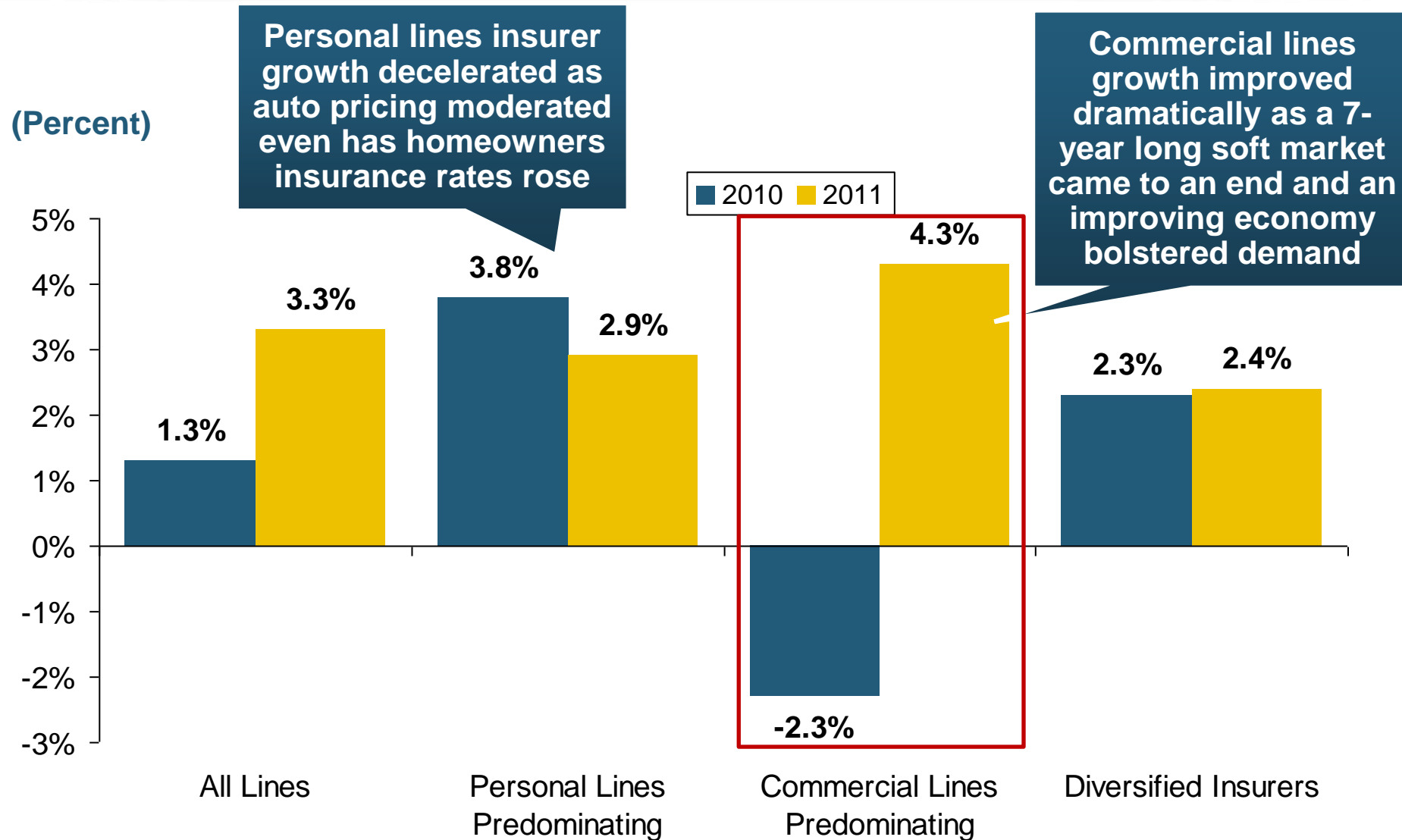
Top 25 States



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

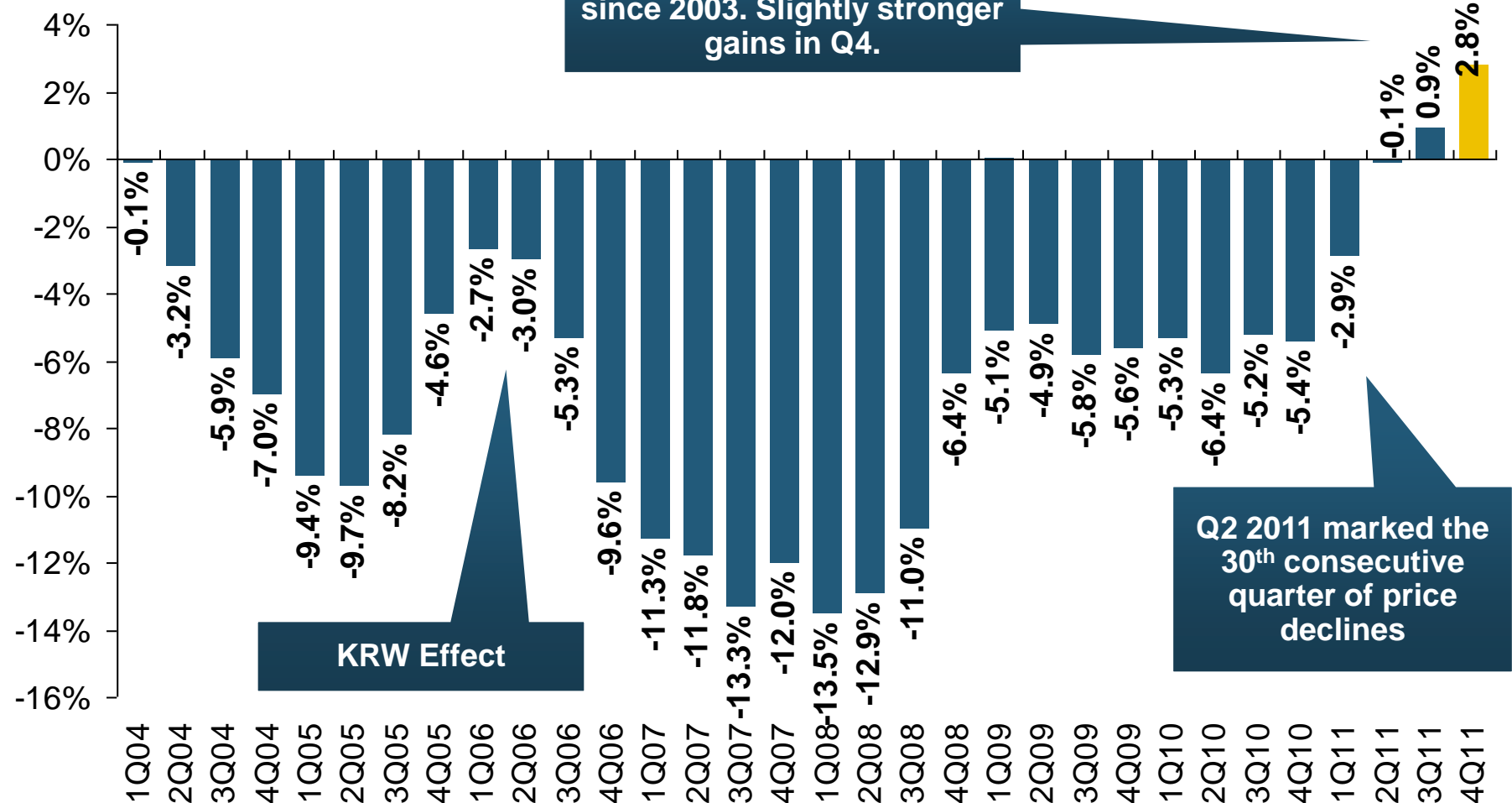


Growth in Net Written Premium by Segment, 2011 vs. 2010



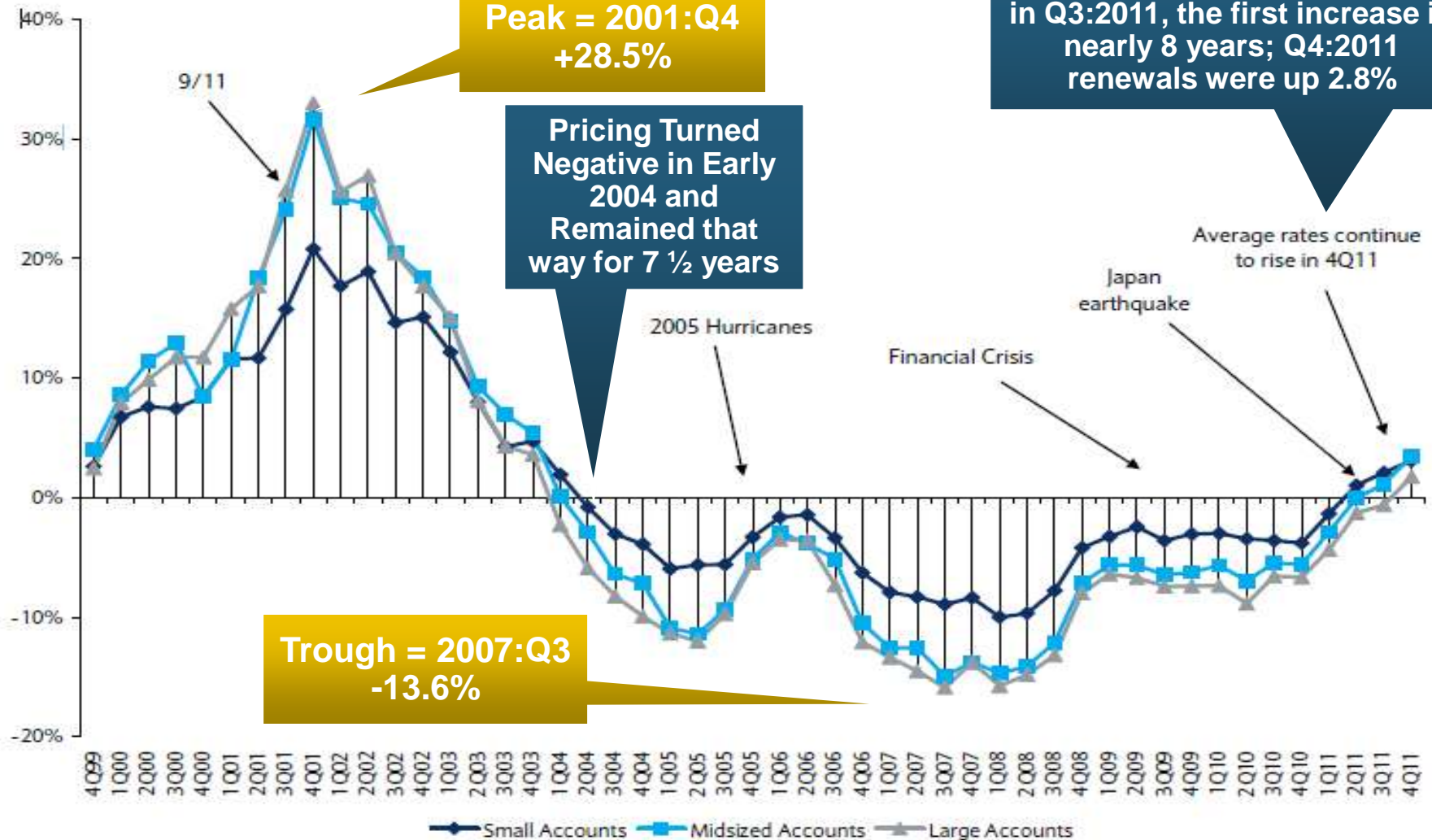
Average Commercial Rate Change, All Lines, (1Q:2004–4Q:2011)

(Percent)



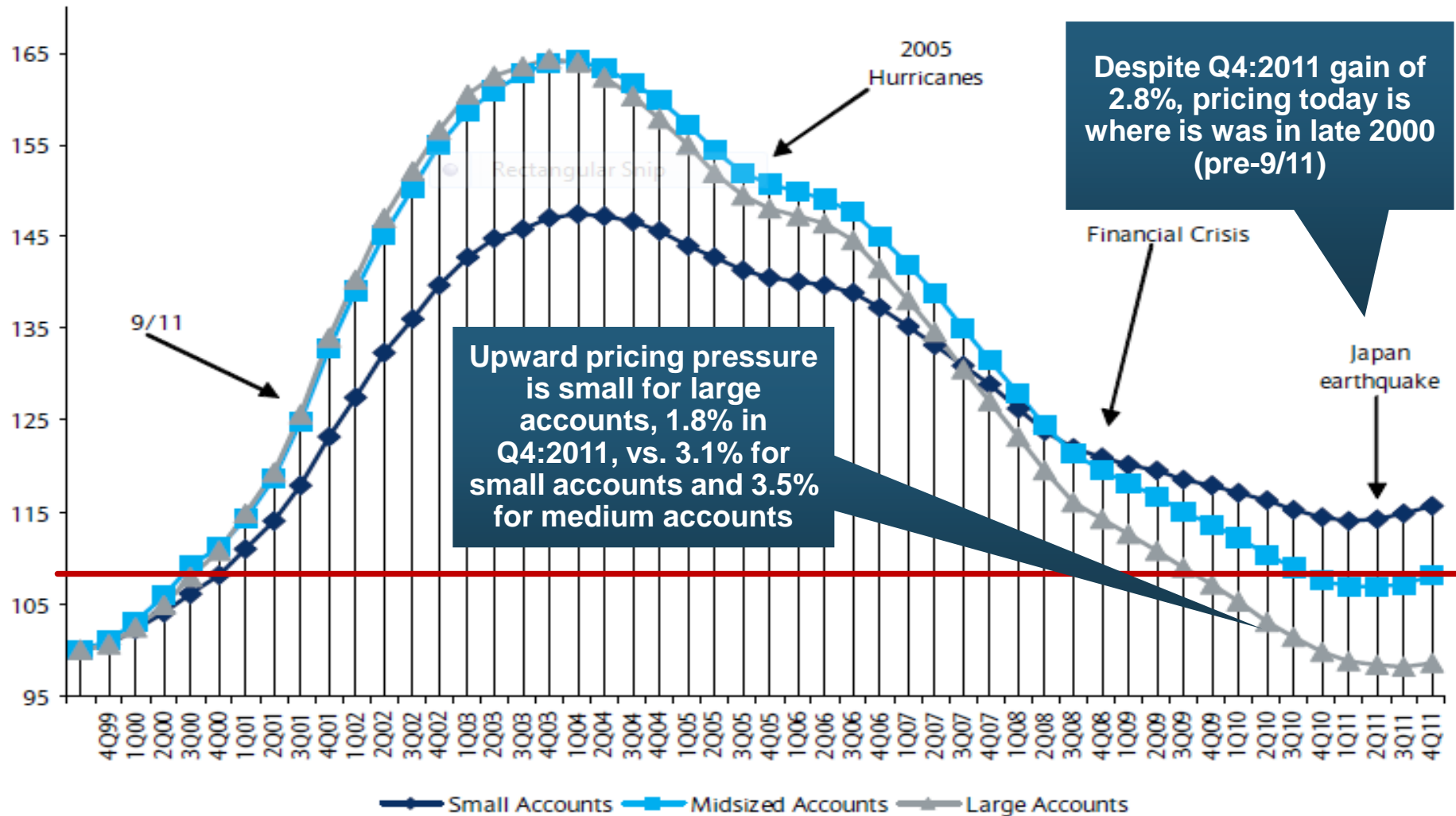
Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2011:Q4

Percentage Change (%)



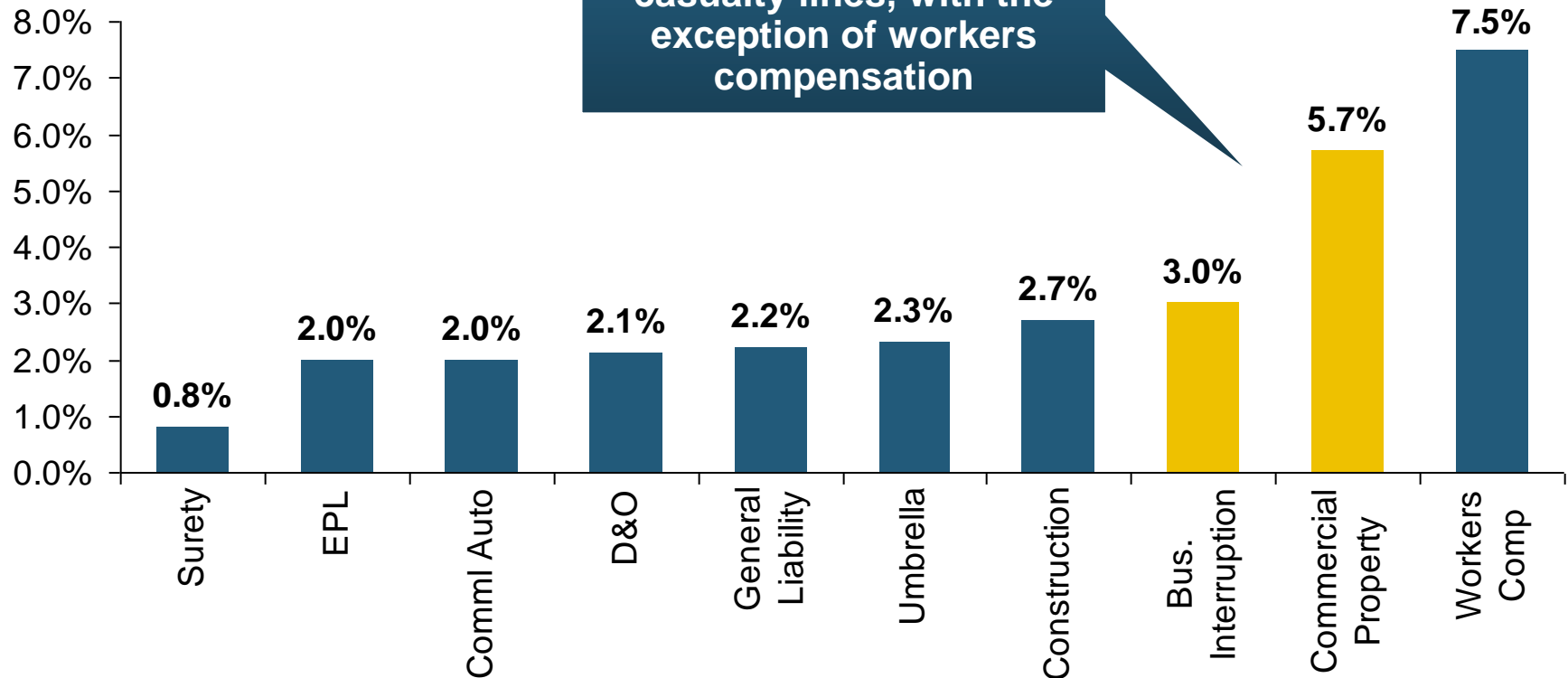
Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2011:Q4

1999:Q4 = 100



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

Percentage Change (%)



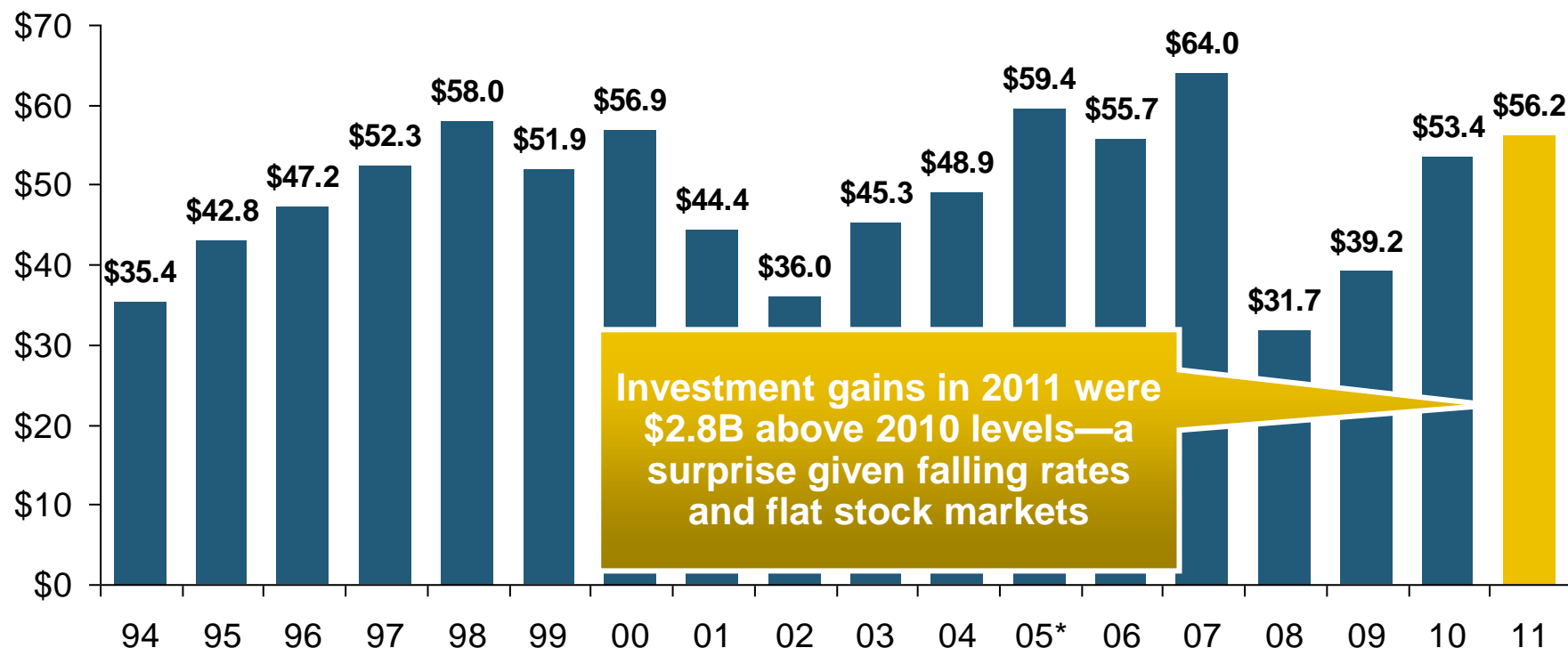
Major Commercial Lines Renewed Uniformly Upward in Q4:2011 for Only the Second Time Since 2003; Property Lines & Workers Comp Leading the Way

INVESTMENTS: THE NEW REALITY

**Investment Performance is a
Key Driver of Profitability
*Does It Influence
Underwriting or Cyclicalities?***

Property/Casualty Insurance Industry Investment Gain: 1994–2011:Q4¹

(\$ Billions)



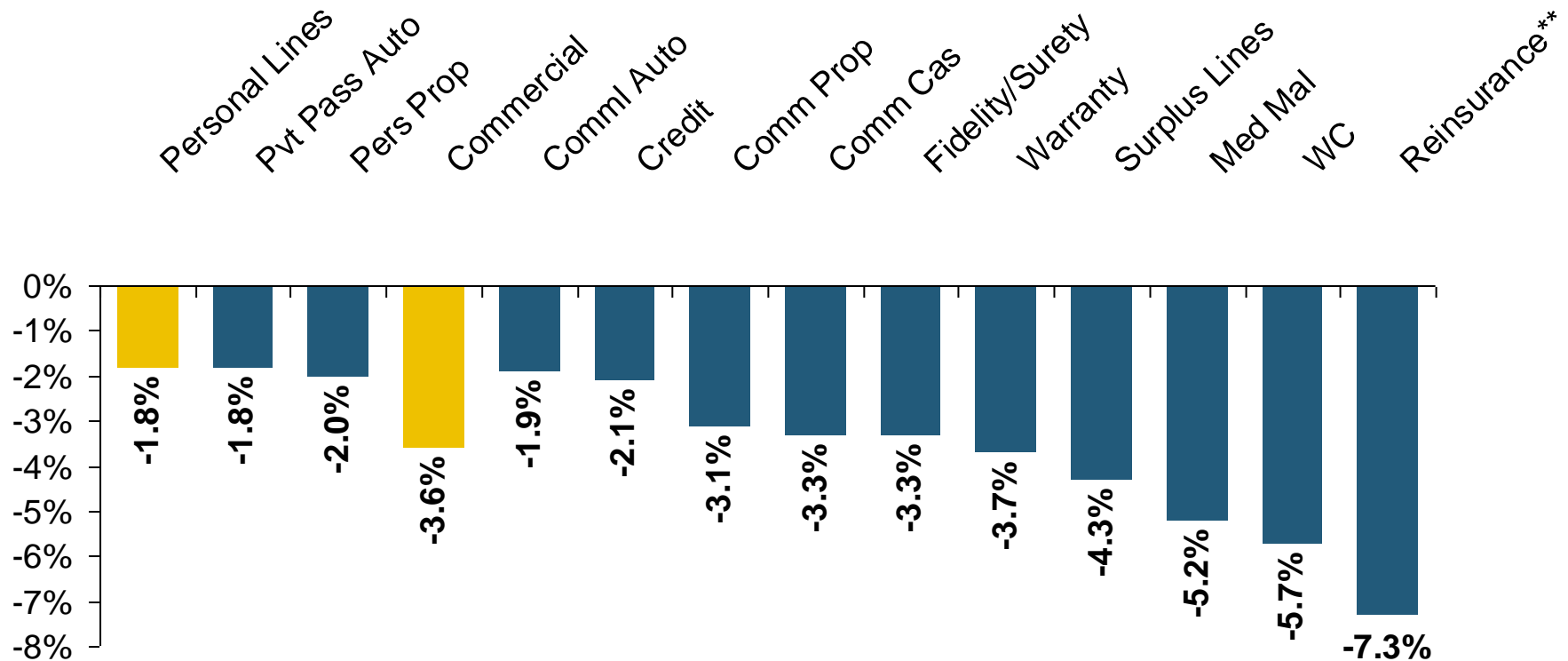
Investment Gains in 2011 Were Surprisingly Robust. Investment Gains Recovered Significantly in 2011 Due to Realized Investment Gains; The Financial Crisis Caused Investment Gains to Fall by 50% in 2008

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.

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

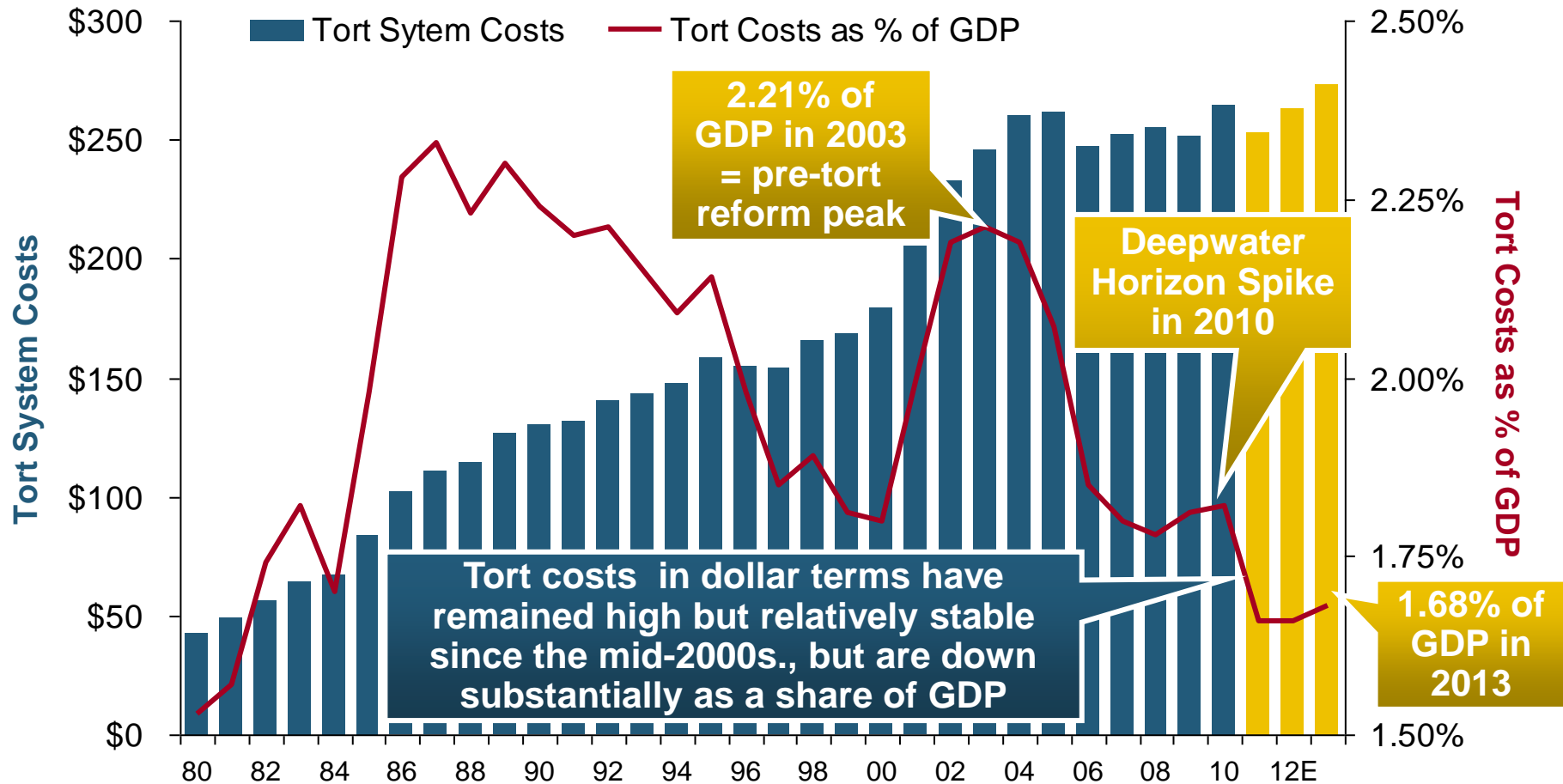
Source: A.M. Best; Insurance Information Institute.

Shifting Legal Liability & Tort Environment

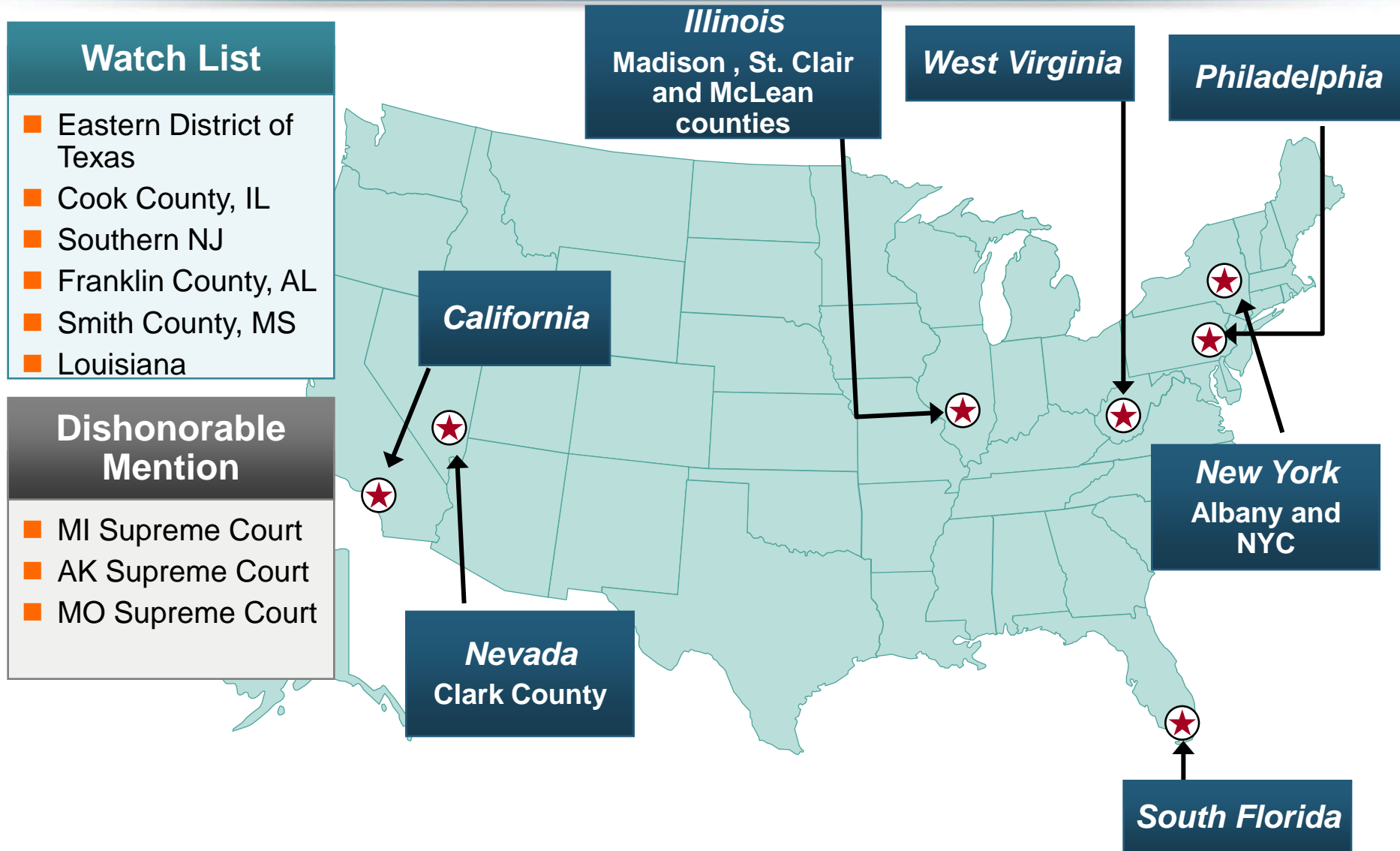
Is the Tort Pendulum Swinging Against Insurers?

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

(\$ Billions)



The Nation's Judicial Hellholes: 2011



Inflation

**Is it a Threat to Claim Cost
Severities**

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

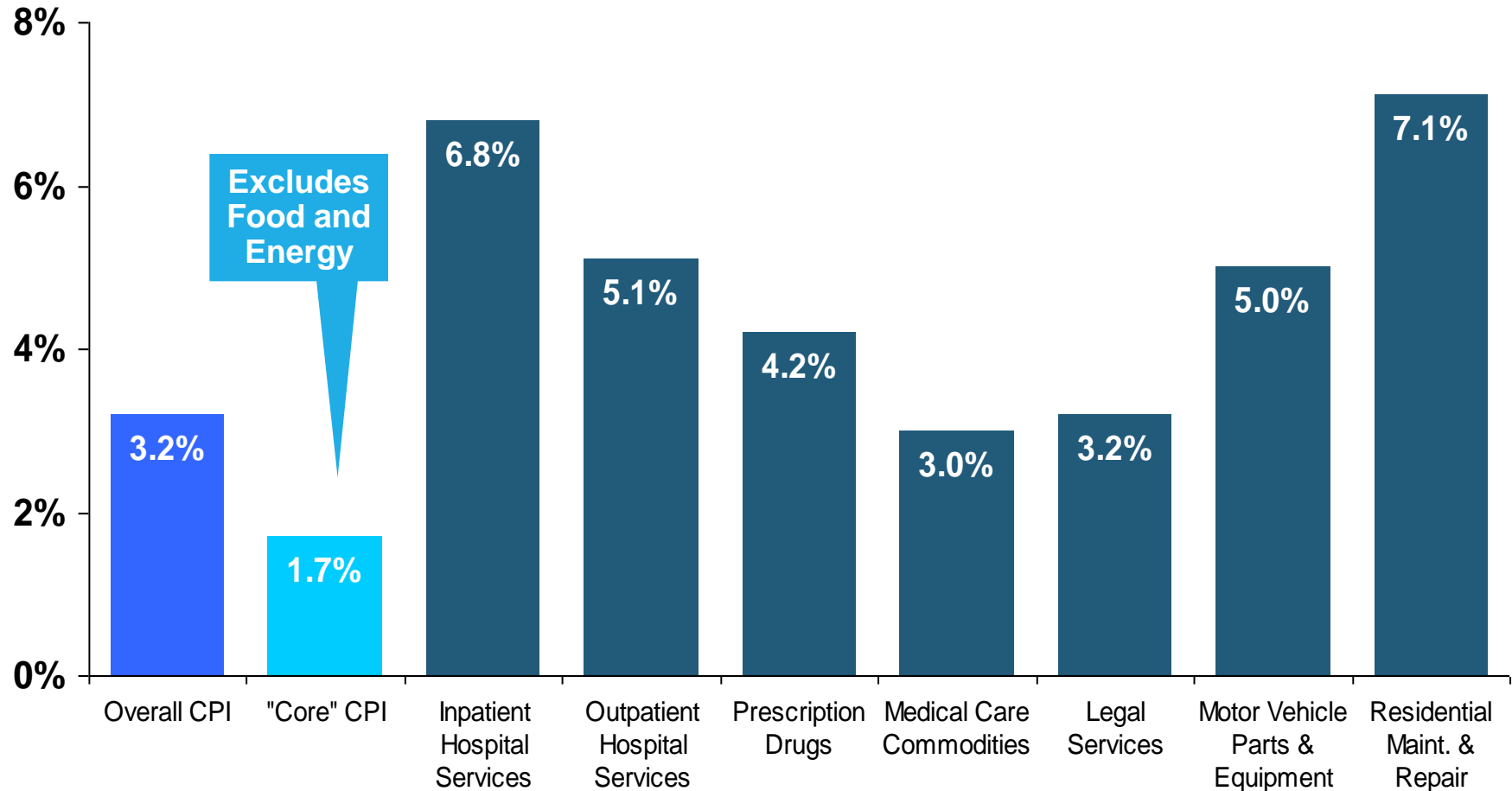
Annual Inflation Rates (%)



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

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

Price Level Change: 2011 vs. 2010



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

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