Who’s Boring Now? Insurers Set the Financial Services Pace

Trends & Challenges Amid the Economic Storm

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Presentation Outline

- **Financial Crisis & The Weakening Economy**
  - **Economic & Labor Market Trends**
- **Aftershock: P/C Insurance *After* the Financial Crisis**
- **10 Key Threats and Issues Facing P/C Insurers Through 2015**
- **Green Shoots: Signs of Recovery?**
- **Financial Strength & Ratings**
- **P/C Insurance Industry Overview & Outlook**
  - **Profitability**
  - **Premium Growth**
  - **Underwriting Performance**
  - **Financial Market Impacts**
- **Capital & Capacity**
- **Personal Lines Overview**

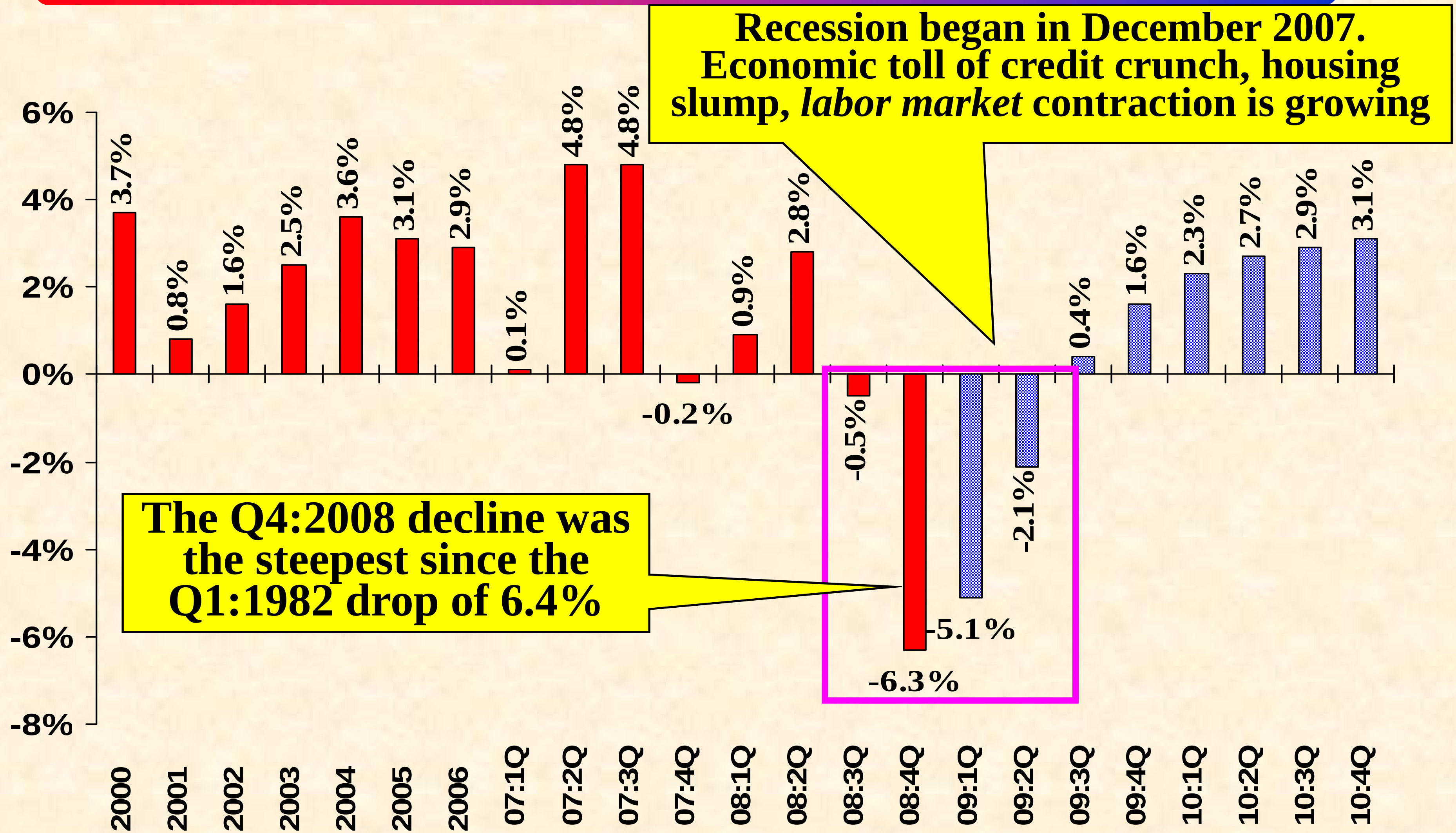
Q & A

THE ECONOMIC STORM

What the Financial Crisis and Deep Recession Mean for the P/C Insurance Industry

Exposure & Claim Cost Effects

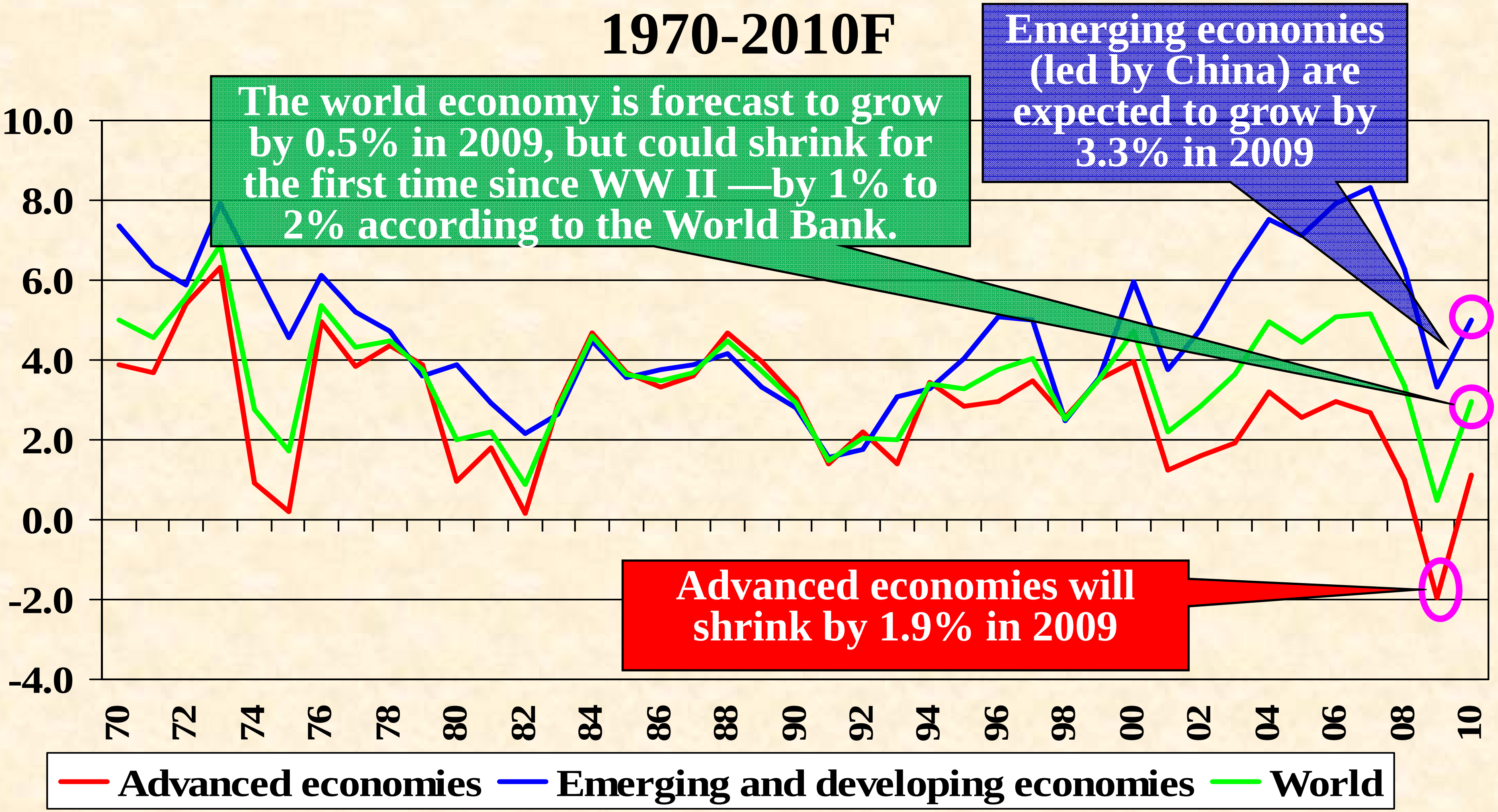
*Real GDP Growth**



***Yellow bars are Estimates/Forecasts from Blue Chip Economic Indicators.**

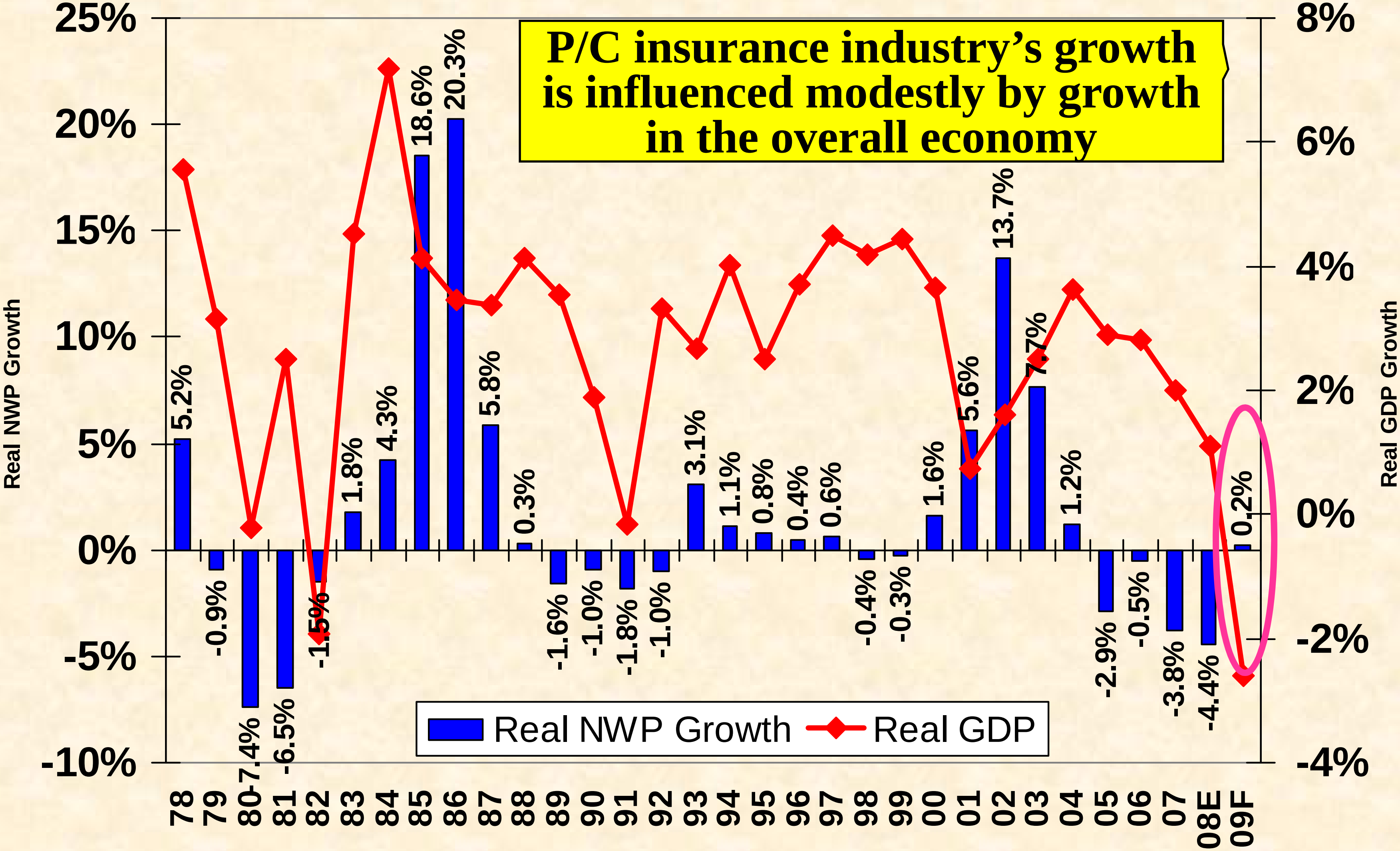
Source: US Department of Commerce, Blue Economic Indicators 4/09; Insurance Information Institute.

GDP Growth: Advanced & Emerging Economies vs. World



Source: International Monetary Fund, World Economic Outlook Update, Jan. 28, 2009; Ins. Info. Institute.

Real GDP Growth vs. Real P/C Premium Growth: Modest Association



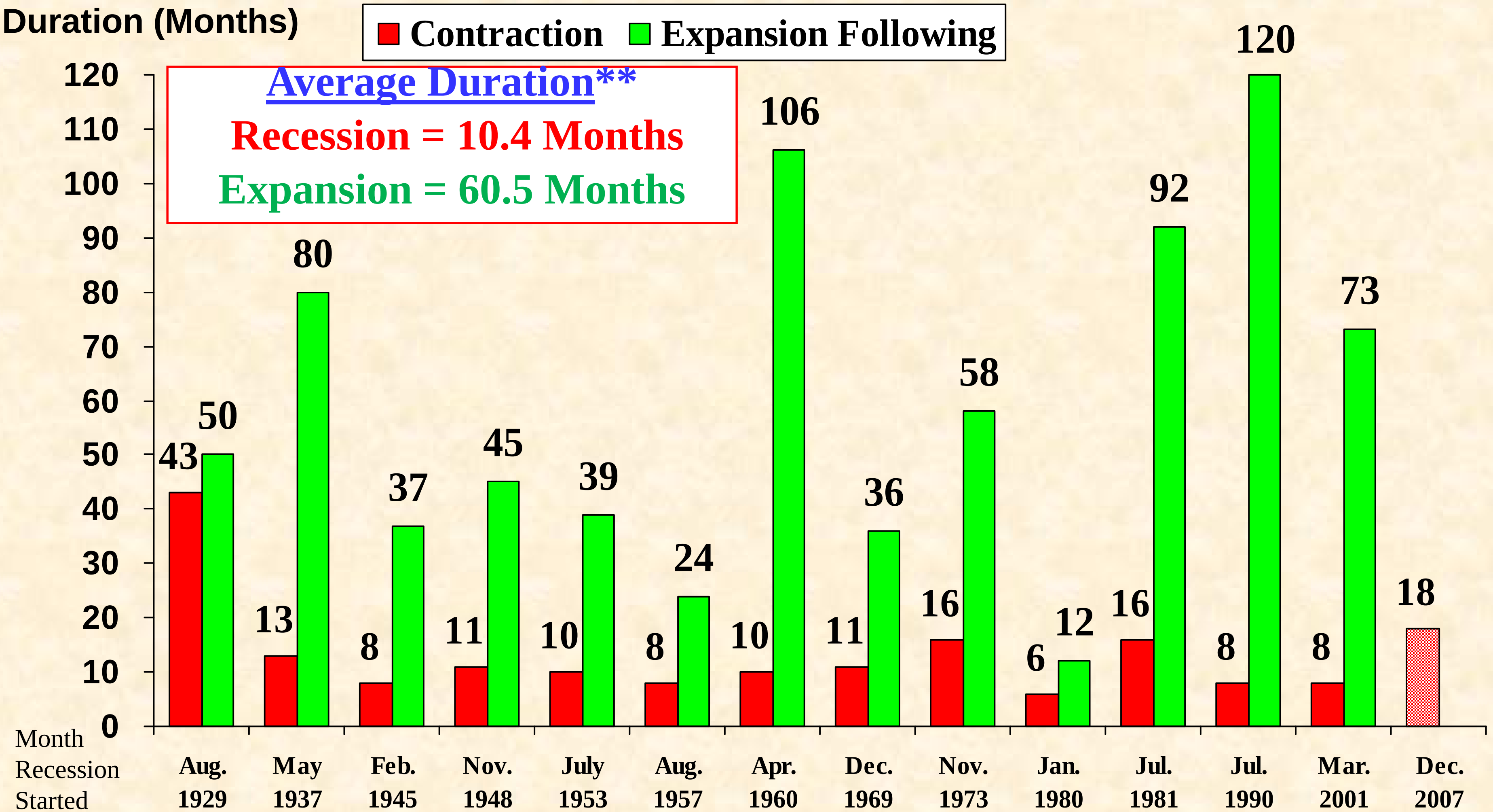
Sources: A.M. Best, US Bureau of Economic Analysis, Blue Chip Economic Indicators, 4/09; Insurance Information Inst.

Length of US Recessions, 1929-Present*

* As of May 2009, inclusive

Sources: National Bureau of Economic Research; Insurance Information Institute.

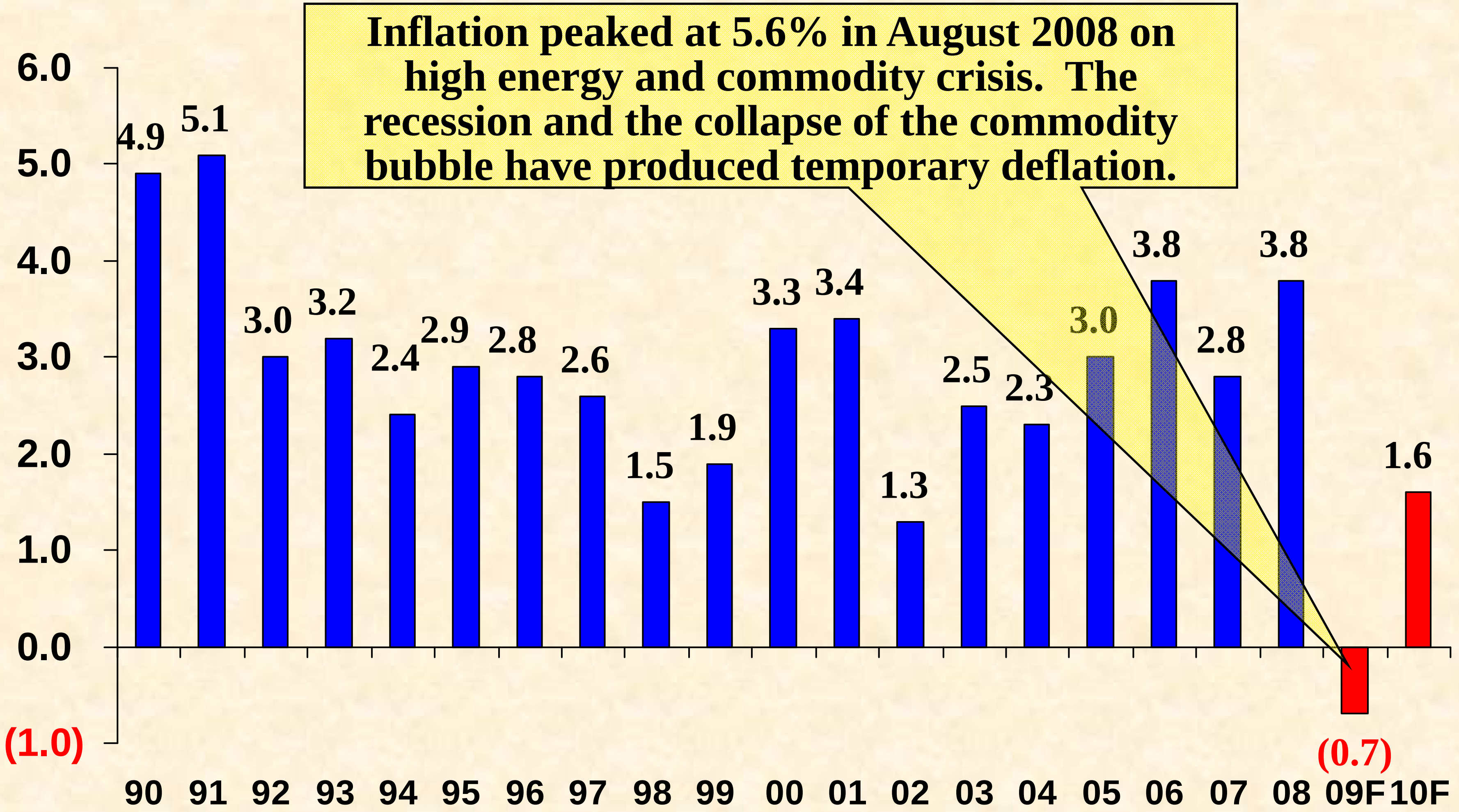
Length of U.S. Business Cycles, 1929-Present*



* As of May 2009, inclusive; **Post-WW II period through end of most recent expansion.

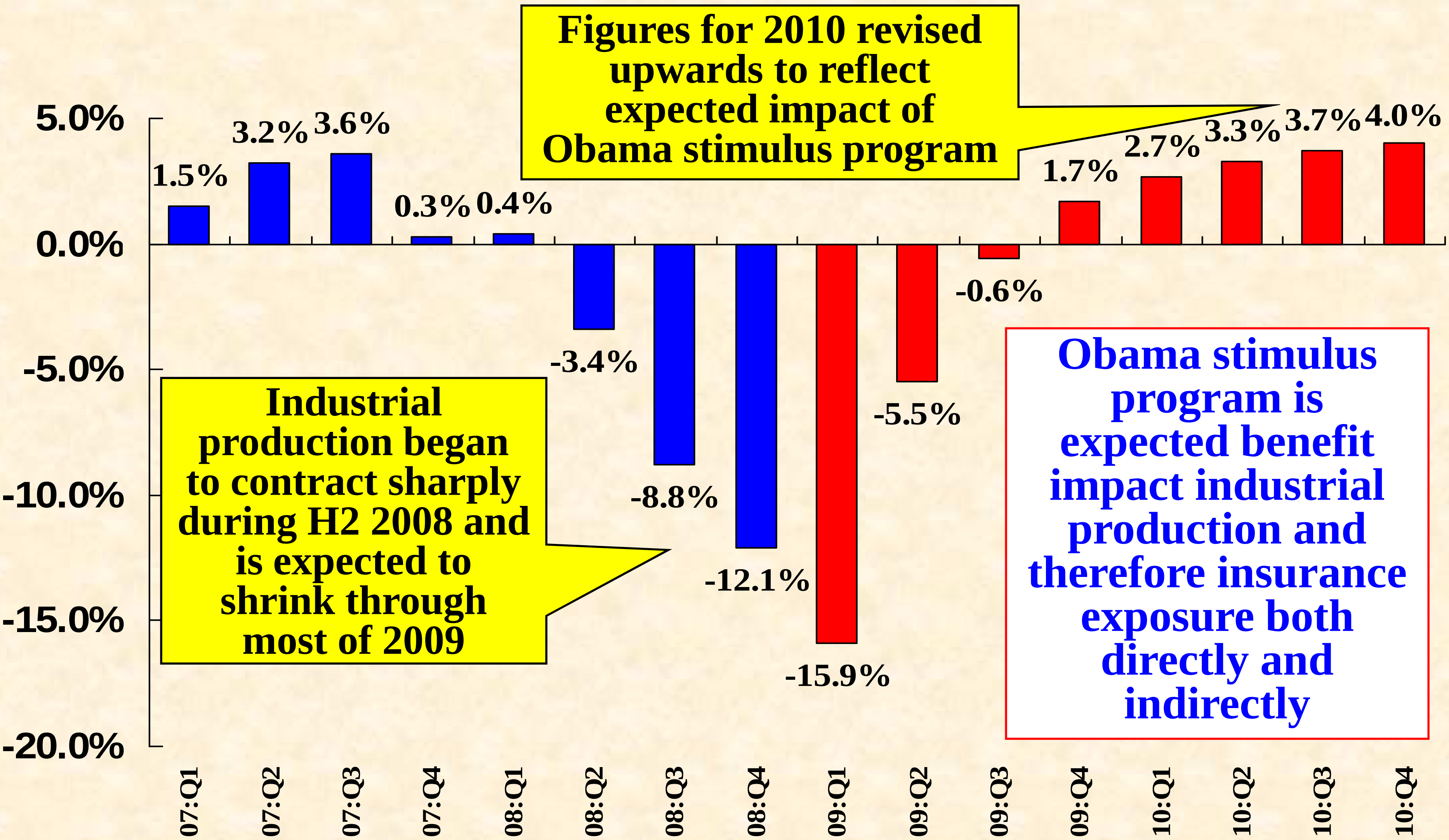
Sources: National Bureau of Economic Research; Insurance Information Institute.

Annual Inflation Rates (CPI-U, %), 1990-2010F



Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators, April 10, 2009 (forecasts).

Total Industrial Production, (2007:Q1 to 2010:Q4F)



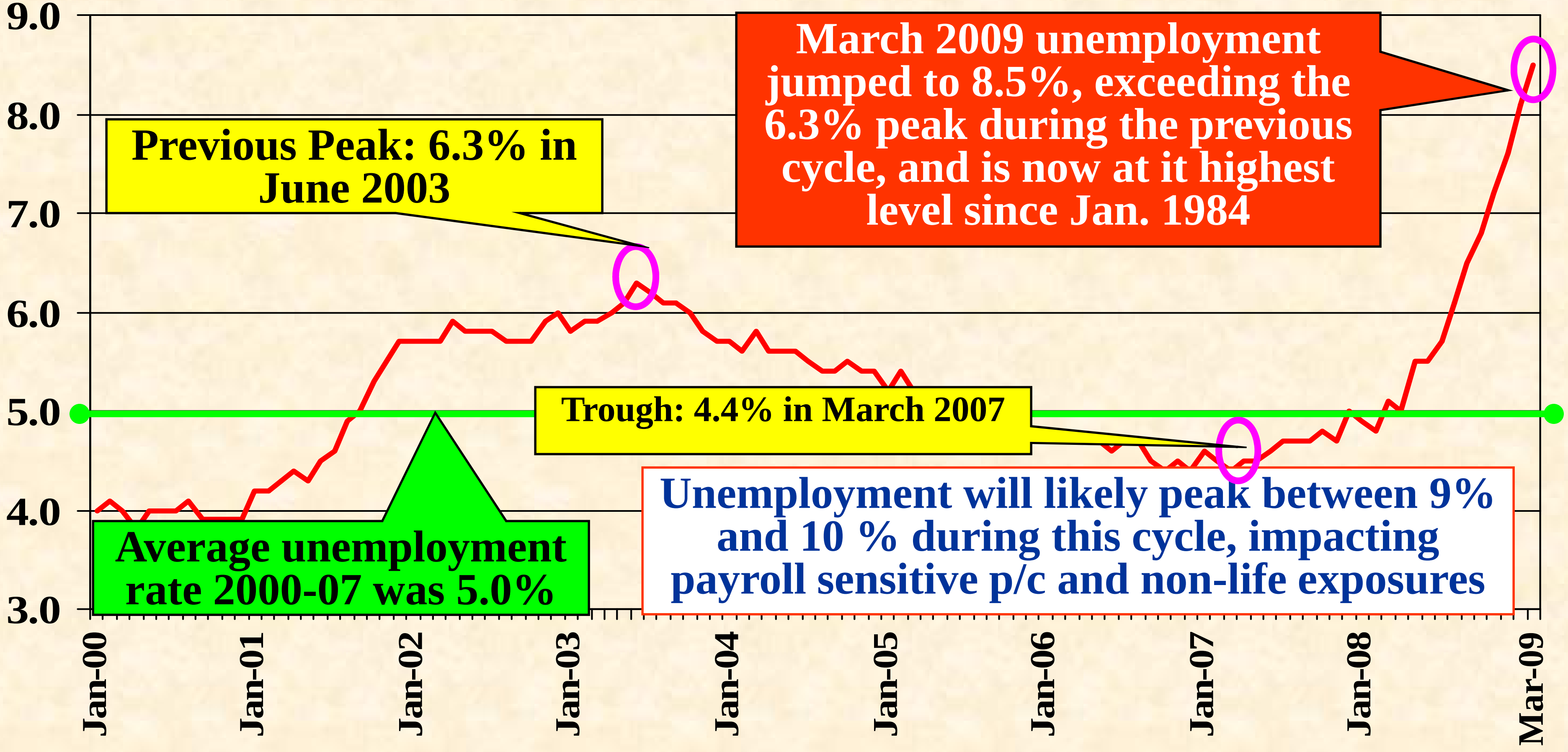
Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (4/09); Insurance Info. Inst.

Labor Market Trends

Fast & Furious: Massive Job Losses Sap the Economy and Workers Comp Exposure

Unemployment Rate: On the Rise

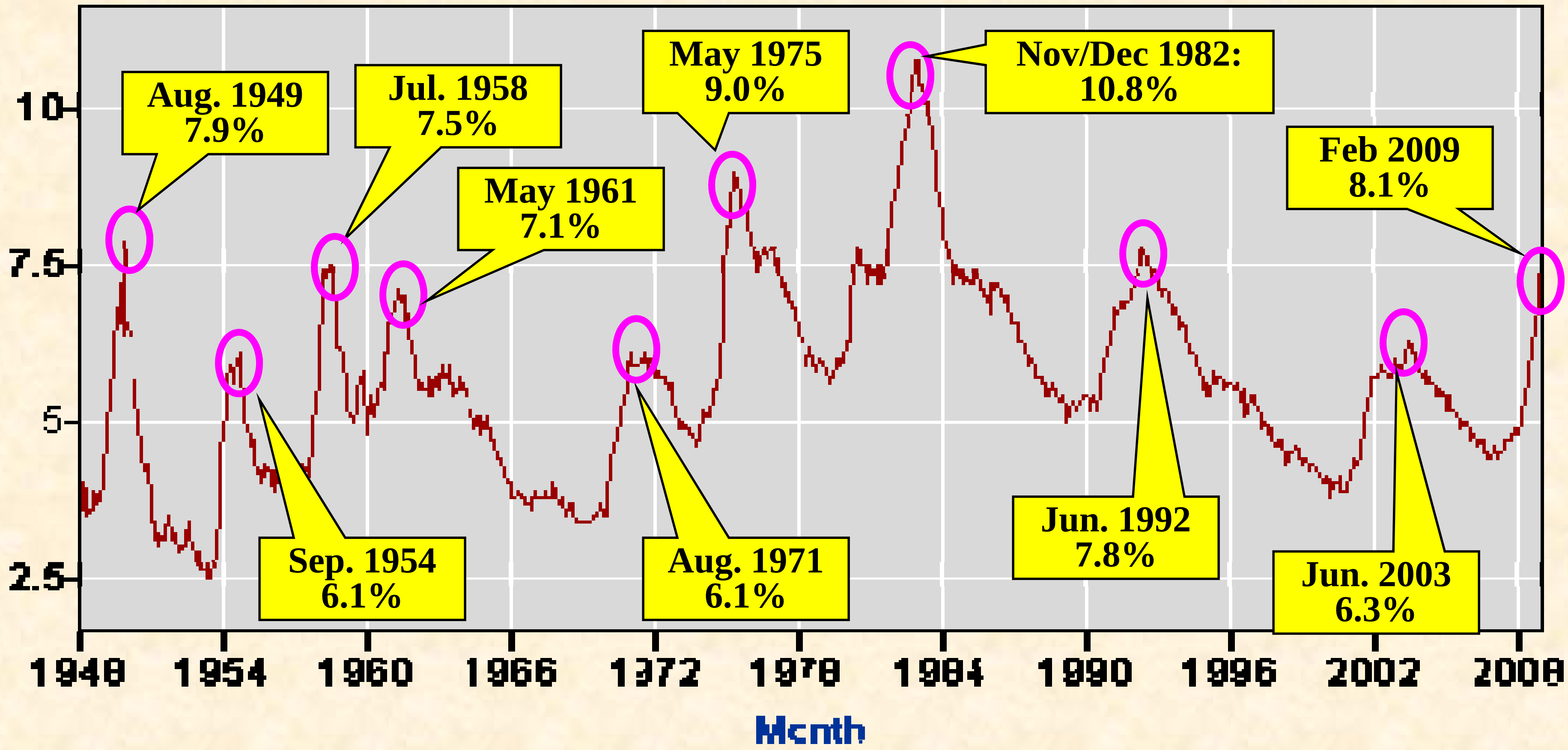
January 2000 through March 2009



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

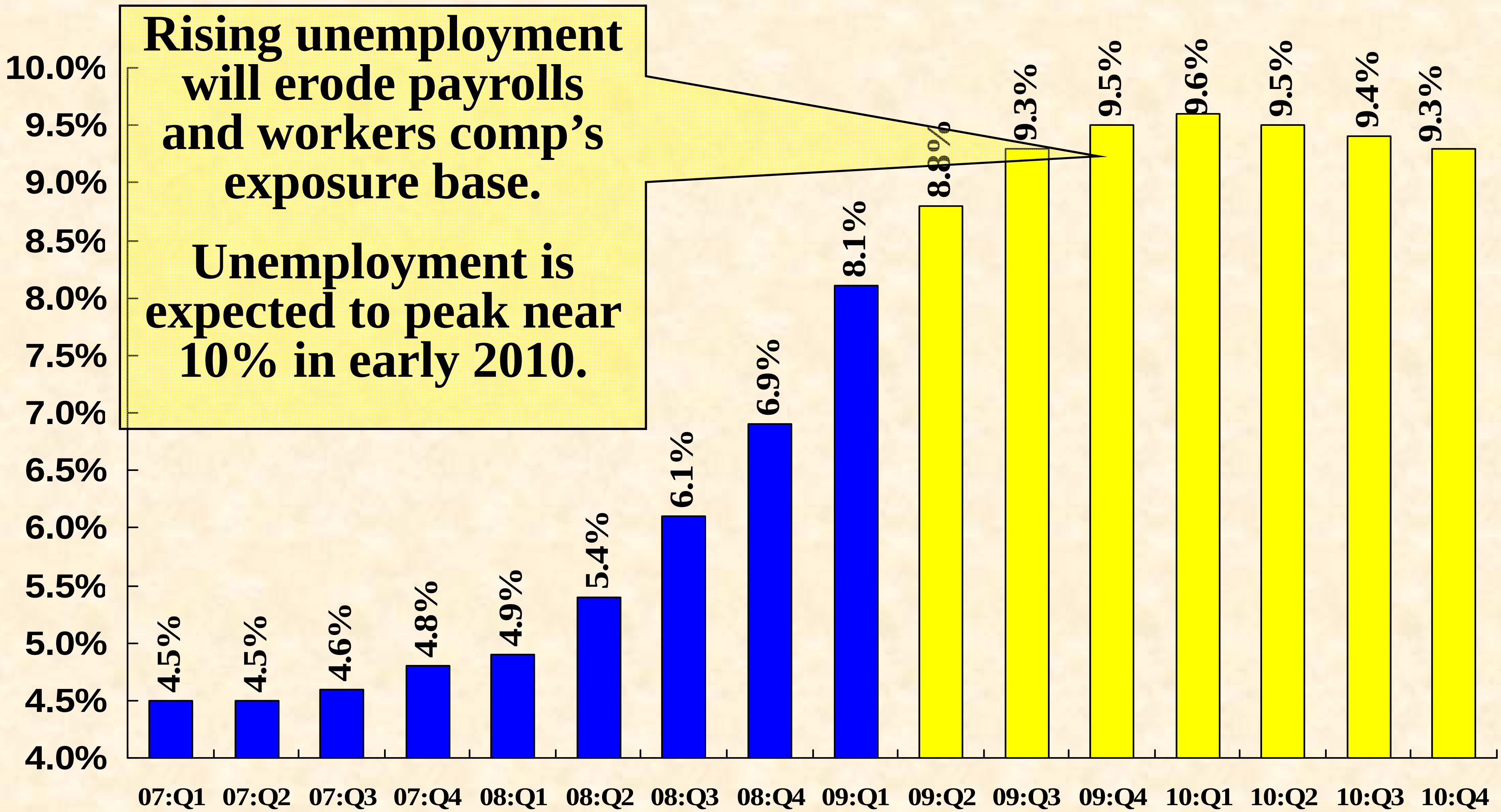
US Unemployment Rate: A Volatile History *(update)*

January 1948 through February 2009



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

U.S. Unemployment Rate, (2007:Q1 to 2010:Q4F)*

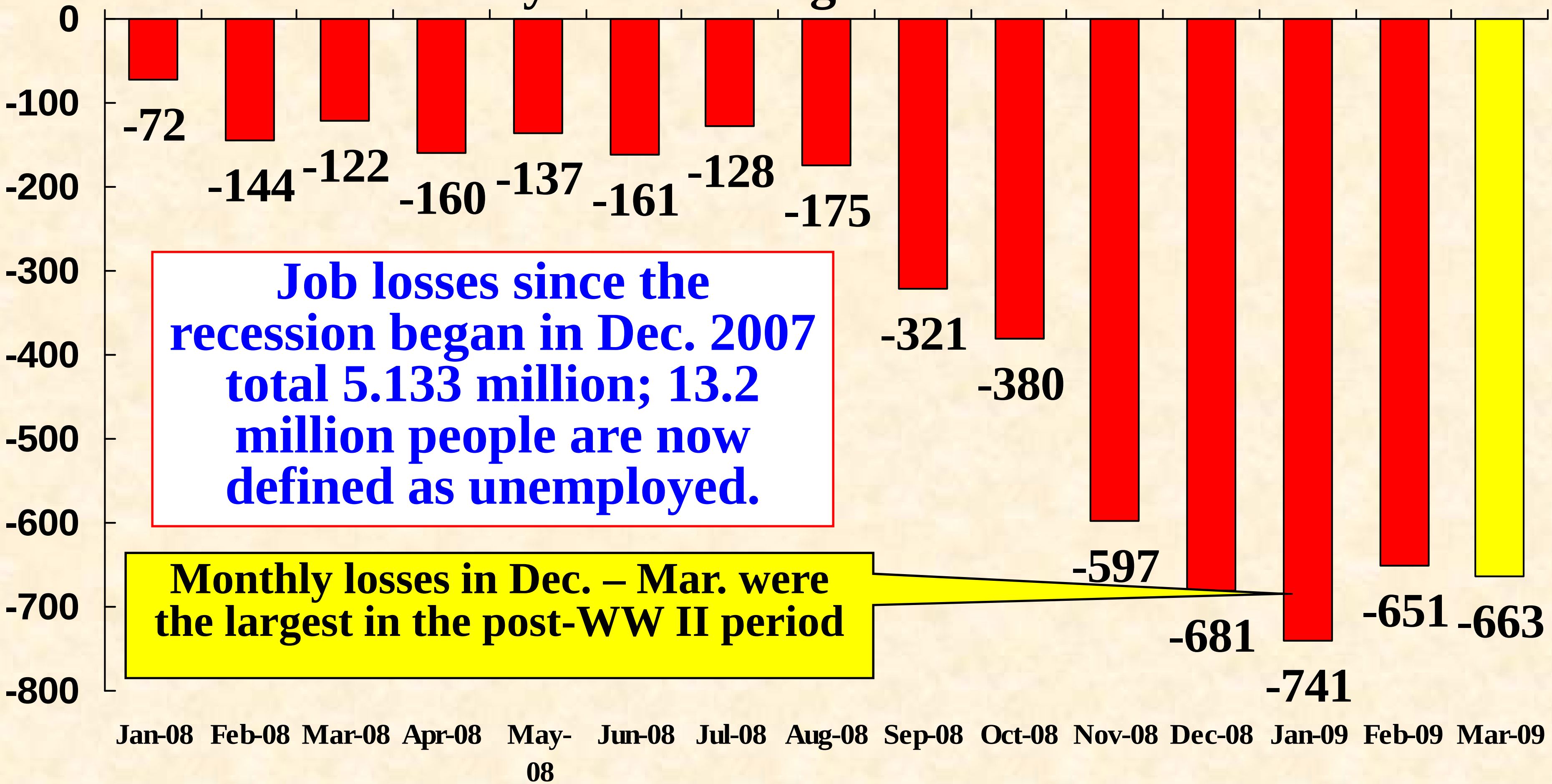


* Blue bars are actual; Yellow bars are forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (4/09); Insurance Info. Inst.

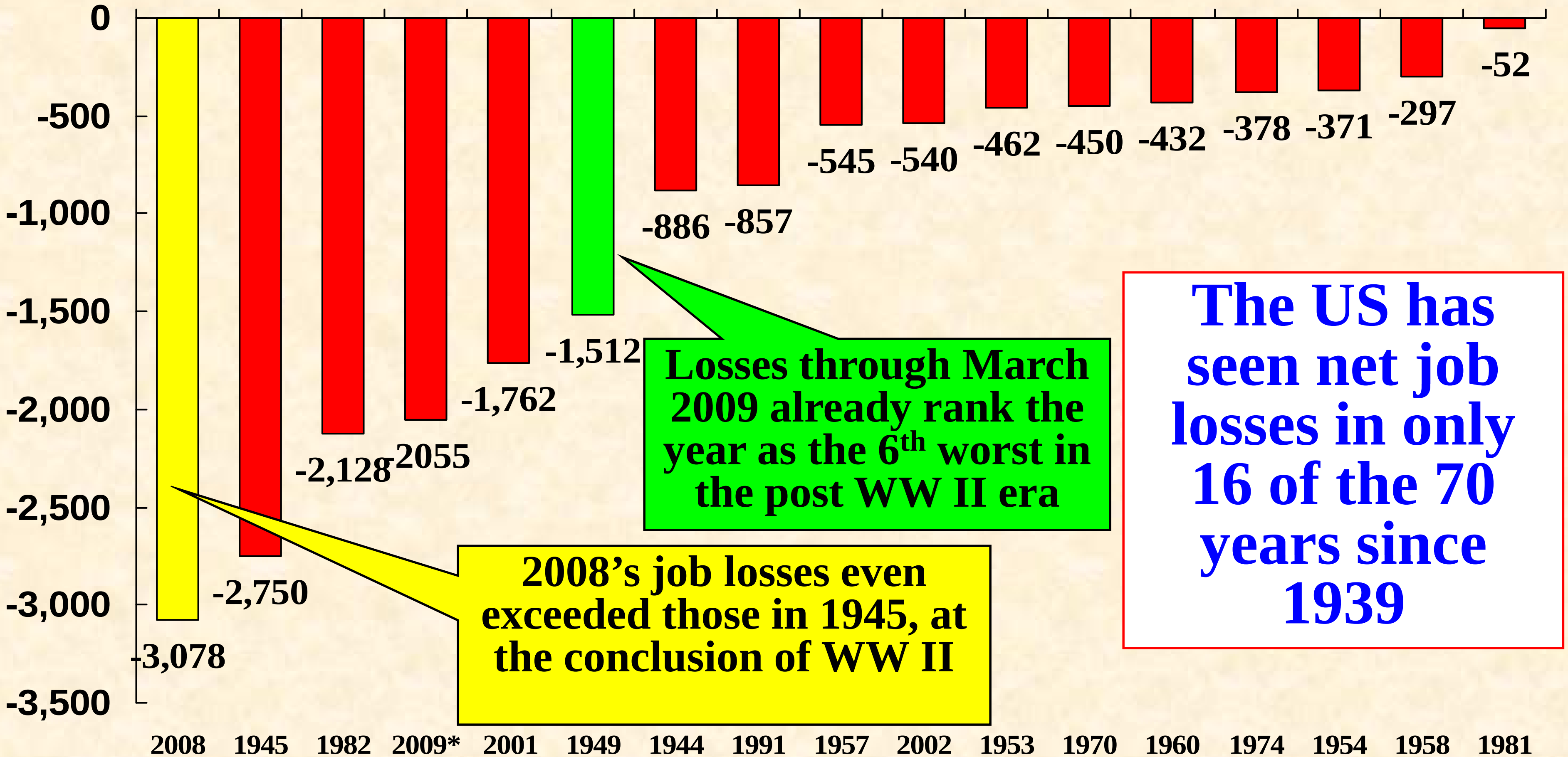
Monthly Change Employment (Thousands)*

January 2008 through March 2009



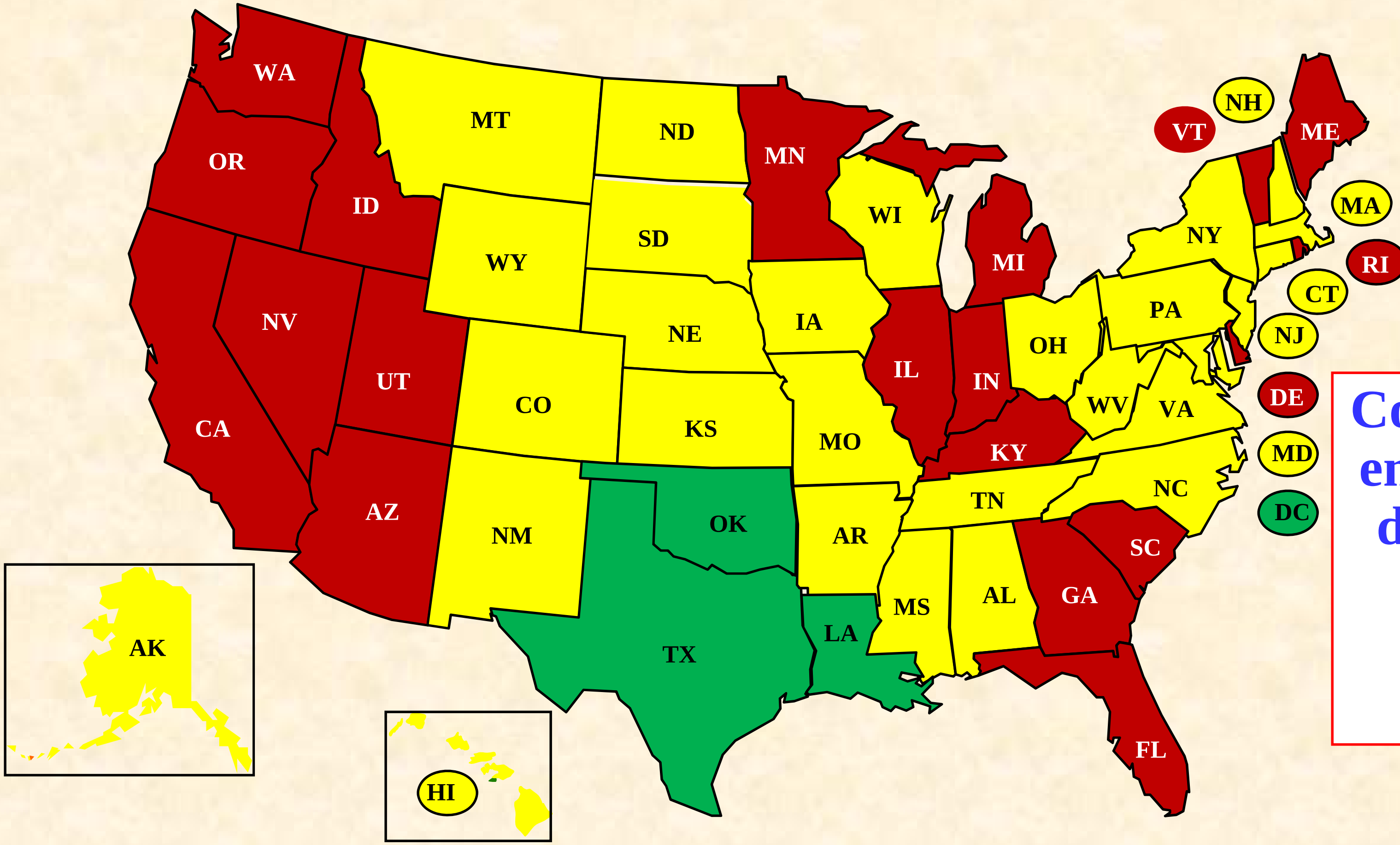
Source: US Bureau of Labor Statistics: http://www.bls.gov/ces/home.htm; Insurance Info. Institute

Years With Job Losses: 1939-2009* (Thousands)



*Through March 2009.
Source: Insurance Information Institute research from US Bureau of Labor Statistics data: http://www.bls.gov/ces/home.htm.

State Construction Employment, Dec. 2007 – Dec. 2008



Construction employment declined in 47 of 50 states in 2008

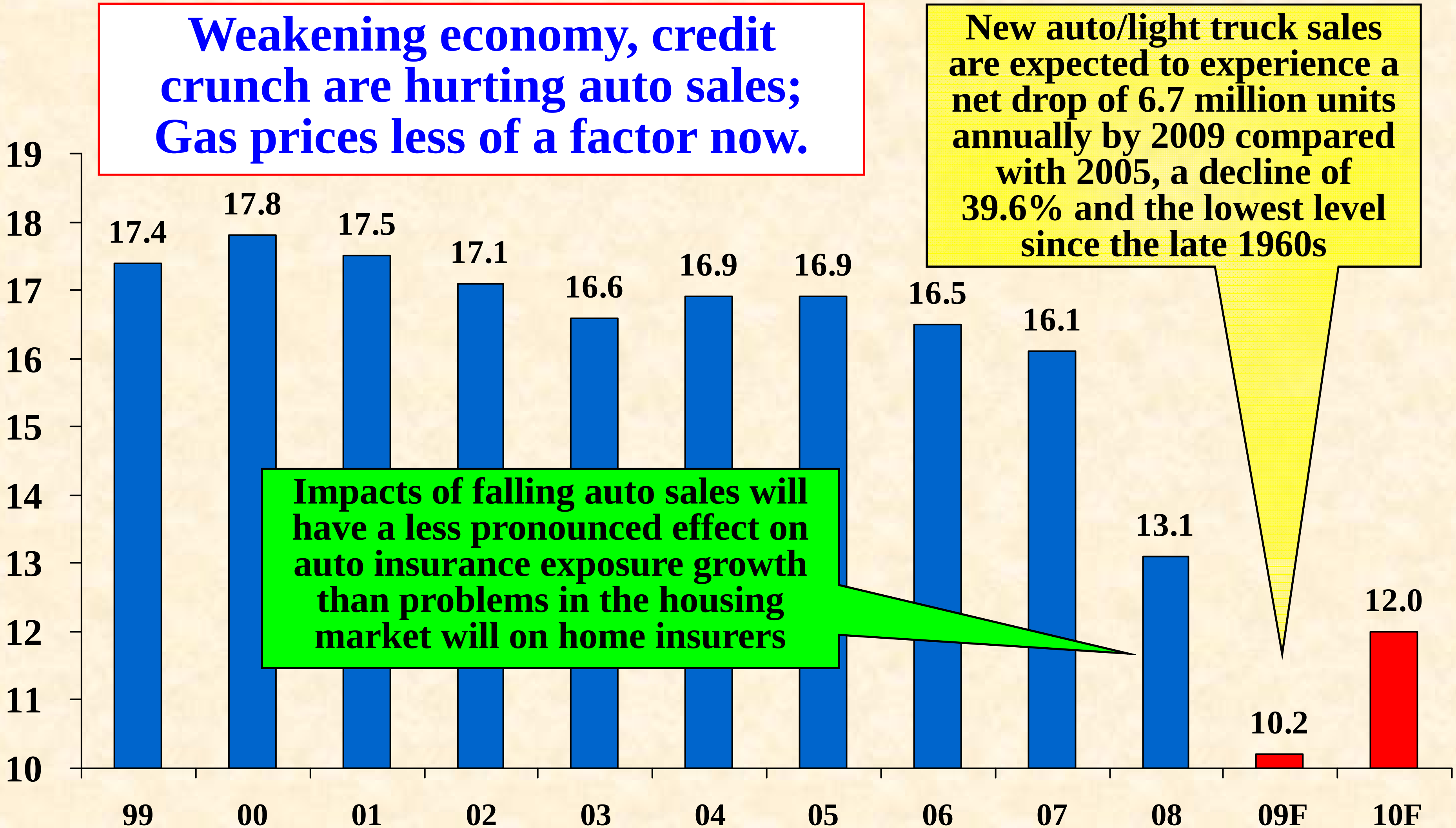
0% to 4% | -0.1% to -8.5% | -8.8% to -22%

Sources: Associated General Contractors of America from Bureau of Labor Statistics; Insurance Information Institute.

Crisis-Driven Exposure Implications

Auto, Home Exposure Growth Slows as Sales Nosedive

Auto/Light Truck Sales, 1999-2010F *(Millions of Units)*



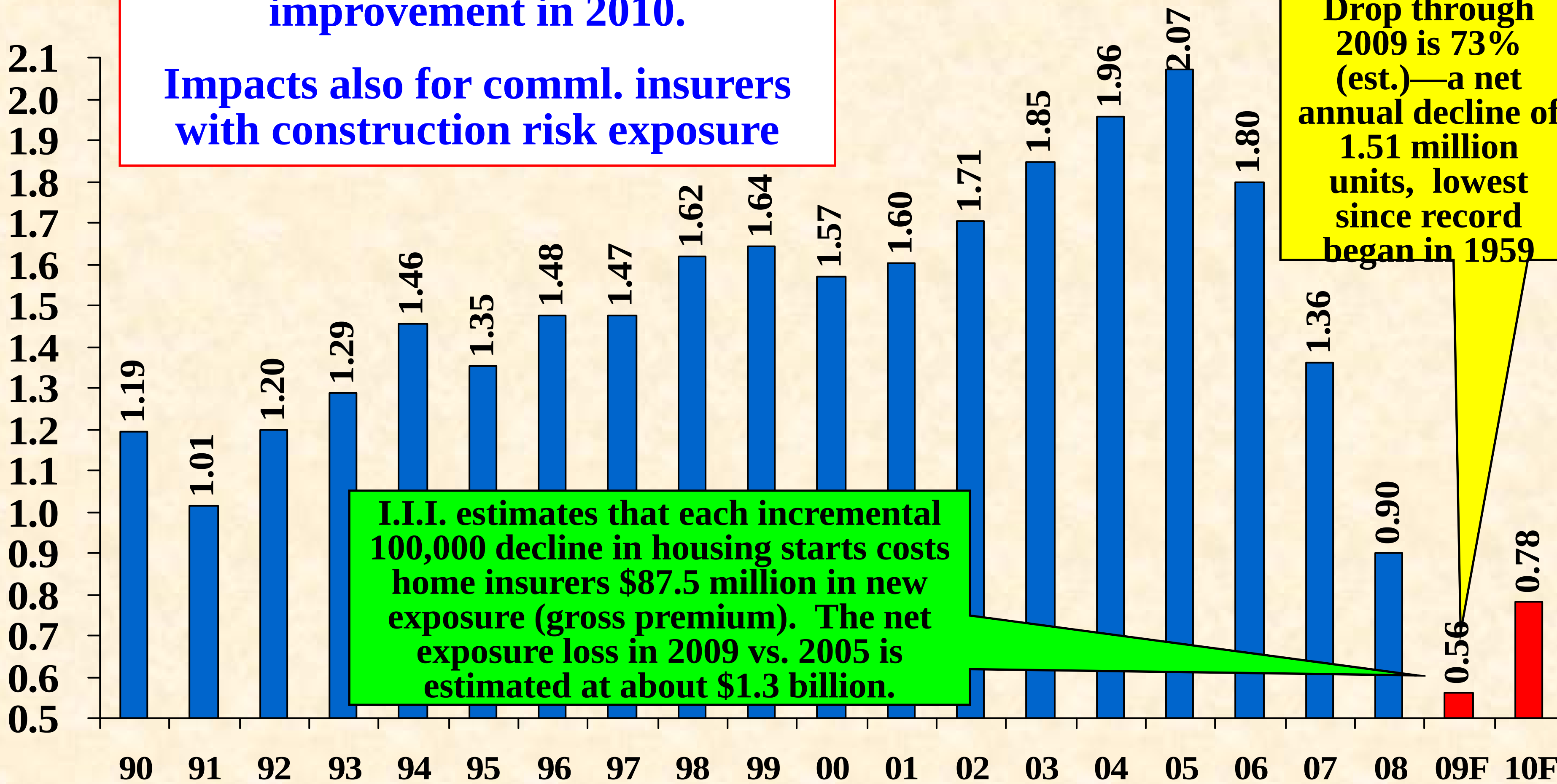
Source: US Department of Commerce; Blue Chip Economic Indicators (4/09); Insurance Information Inst.

New Private Housing Starts, 1990-2010F (Millions of Units)

Exposure growth forecast for HO insurers is dim for 2009 with some improvement in 2010.

Impacts also for comml. insurers with construction risk exposure

New home starts plunged 34% from 2005-2007; Drop through 2009 is 73% (est.)—a net annual decline of 1.51 million units, lowest since record began in 1959



Source: US Department of Commerce; Blue Chip Economic Indicators (4/09); Insurance Information Inst.

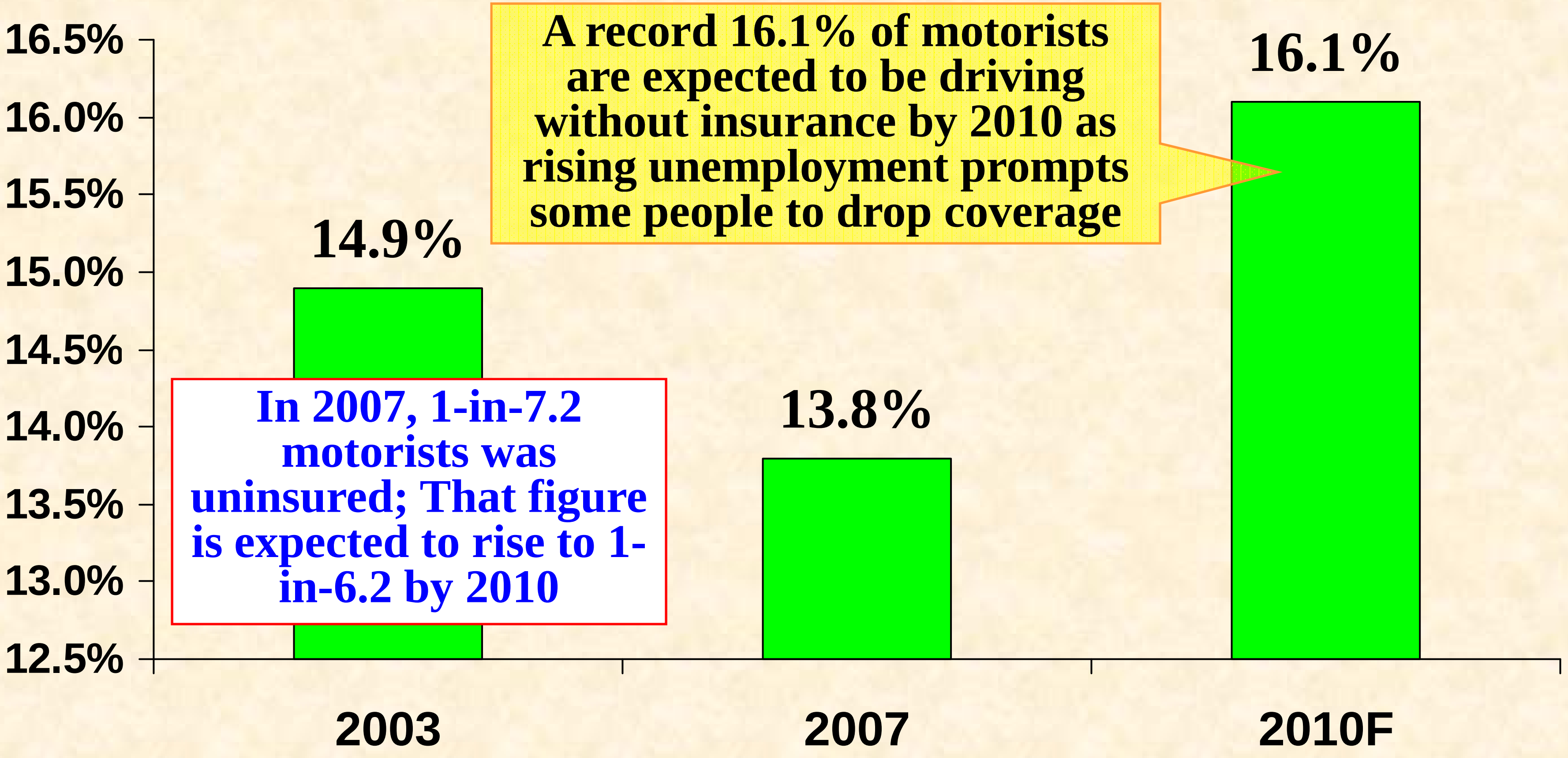
Crisis Implications

Top Crisis-Driven Claim Issues for Personal Lines Insurers

Summary of Short-Run Impacts of Stimulus Package on P/C Insurance

- **CLAIMING BEHAVIOR**
  - **Claim frequency falls with miles driven. History: Drop is temporary.**
  - **Claim severity continues to rise: med costs, collisions repair costs up**
  - **Likely maintenance on homes, cars deferred→claim. freq/sev. impact?**
- **PURCHASING BEHAVIOR: Efforts to Economize**
  - **More shopping around**
  - **Increased deductibles**
  - **Dropping optional coverages (collision, comprehensive)**
  - **Lower limits**
  - **Insuring fewer vehicles (3 or 4th vehicle sold)**
  - **Insuring older vehicles (old cars retained, new car purchases deferred)**
- **UNINSURED/UNDERINSURED MOTORIST % RISES**
  - **Expected to rise from 13.8% in 2007 to 16.1% in 2010**
- **FRAUD & ABUSE:**
  - **Evidence emerging of increased frequency of "give-ups" where car owners underwater on payments commit fraud to obtain insurance money (e.g., car arson, fabricated theft, etc.)**
  - **Anecdotal evidence of owner-caused home arson**

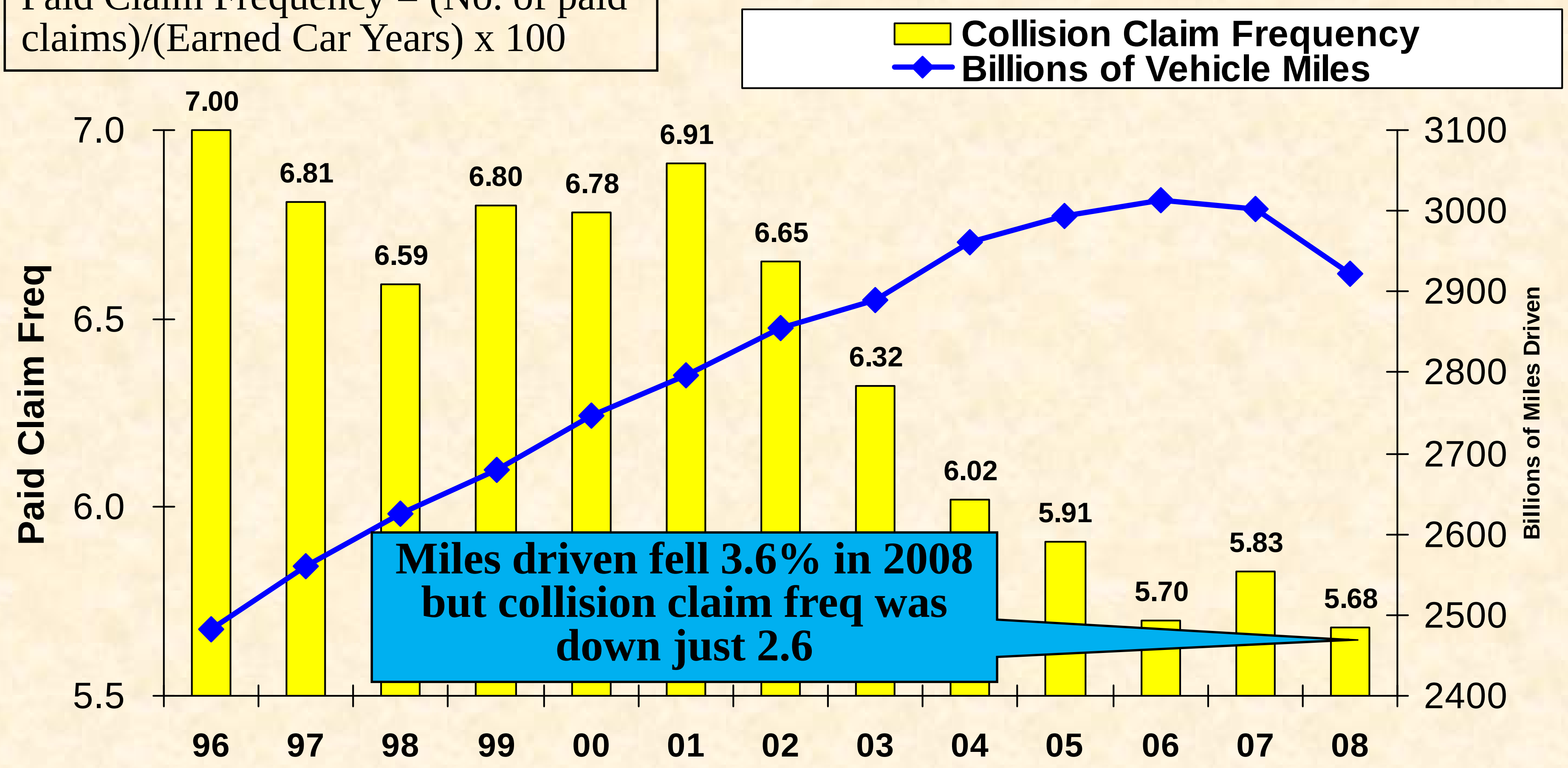
Percentage Motorists Driving Without Insurance, 2003-2010F



Source: *Uninsured Motorists, 2008* Edition, Insurance Research Council; Insurance Information Institute

Do Changes in ***Miles Driven*** Affect Auto Collision Claim Frequency?

Paid Claim Frequency = (No. of paid claims)/(Earned Car Years) x 100

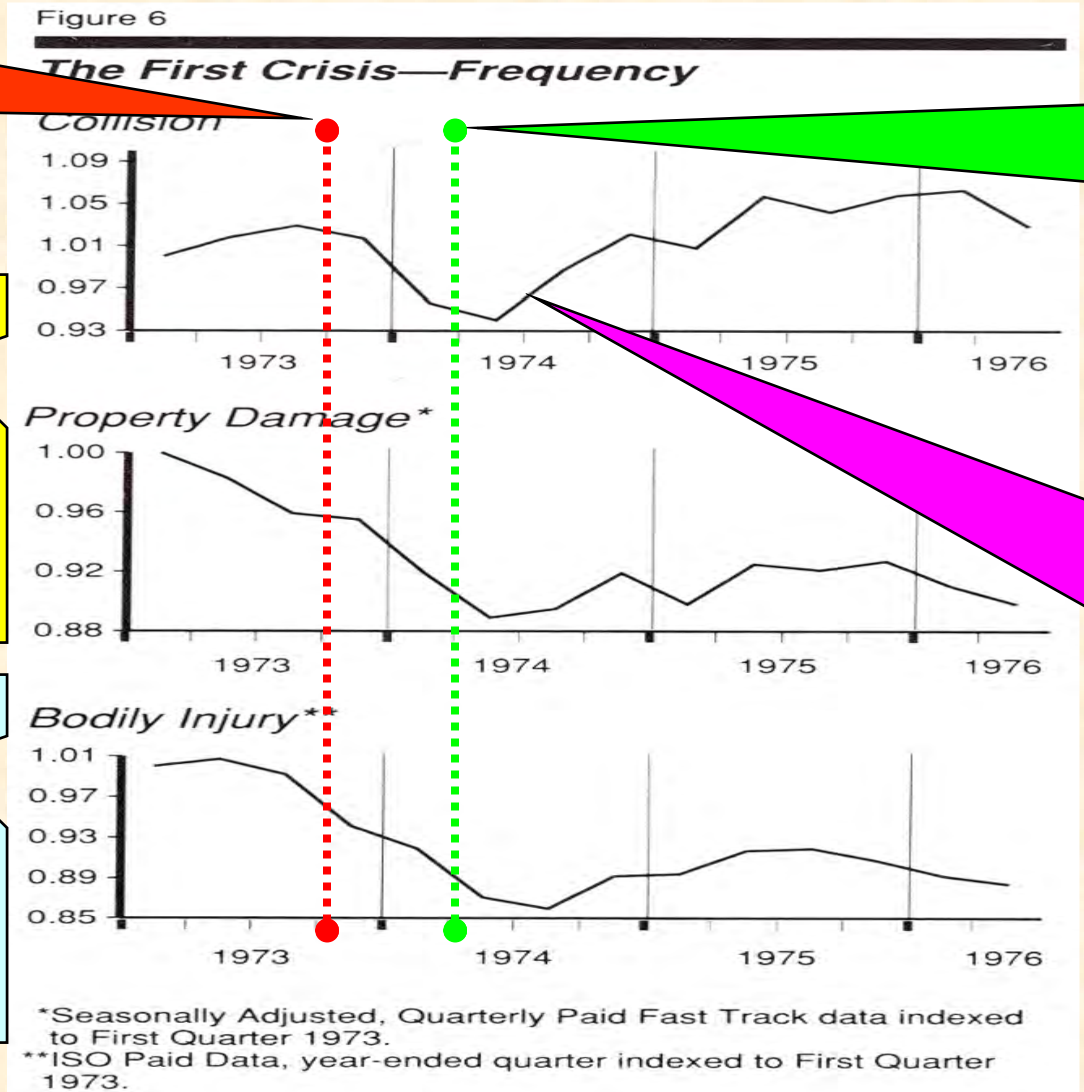


Sources: Federal Highway Administration (http://www.fhwa.dot.gov/ohim/tvtw/08septvt/index.cfm; ISO Fast Track Monitoring System, *Private Passenger Automobile Fast Track Data*: Nine Months 2008, published April 1, 2009 and earlier reports. *2008 ISO figure is for 4 quarters ending Q4 2008.

Auto Insurance: Claim Frequency Impacts of Energy Crisis of 1973/4

Oct. 17, 1973: Arab oil embargo begins

March 17, 1974: Arab oil states announce end to embargo



Frequency Impacts

Collision: -7.7%

PD: -9.5%

BI: -13.3%

Frequency began to rebound almost immediately after the embargo ended

Driving Stats

Gas prices rose 35-40%

Miles driven fell 6.7% in 1974

Source: ISO, US DOT.

GREEN SHOOTS

Is the Recession Nearing an End?

Hopeful Signs That the Economy Will Begin to Recover Soon

- Recession Appears to be Bottoming Out, Freefall Has Ended
  - Pace of GDP shrinkage is beginning to diminish
  - Pace of job losses is leveling off
  - Major stock market indices well off record lows, anticipating recovery
  - Some signs of retail sales stabilization are evident
- Financial Sector is Stabilizing
  - Banks are reporting quarterly profits
  - Many banks expanding lending to credit worthy people & businesses
- Housing Sector Likely to Find Bottom Soon
  - Home are much more affordable (attracting buyers)
  - Mortgage rates are at multi-decade lows (attracting buyers)
  - Freefall in housing starts and existing home sales is ending
- Inflation & Energy Prices Are Under Control
- Consumer & Business Debt Loads Are Shrinking

Source: Ins. Info. Inst.

AFTERSHOCK

What Will the P/C Insurance Industry Look Like <u>After</u> the Crisis?

6 Key Differences

6 Key Differences: P/C Insurance in the Post-Financial Catastrophe World

1. **The P/C Insurance Industry Will Be Smaller: The Industry Will Have Shrunk by About 3% in Dollar Terms and by 8% on an Inflation Adjusted Basis, 2007-09**
   - Falling prices, weak exposure growth, increasing government intervention in private (re)insurance markets, large retentions and alternative forms of risk transfer have siphoned away premium
   - There will be fewer competitors after a mini consolidation wave

2. **P/C Industry Will Emerge With Its Risk Mgmt. Model More Intact than Most other Financial Service Segments**
   - Benefits of risk-based underwriting, pricing and low leverage clear

3. **There Will Be Federal Regulation of Insurers: Now in Waning Months of Pure State-Based Regulation**
   - Federal regulation of "systemically important" firms seems certain
   - Solvency and Rates regulation, Consumer Protection may be shared
   - Dual regulation likely; federal/state regulatory conflicts are likely
   - With the federal nose under the tent, anything is possible

Source: Insurance Info. Inst.

6 Key Differences: P/C Insurance in the Post-Financial Catastrophe World

4. **Investment Earnings Will Shrink Dramatically for an Extended Period of Time: Federal Reserve Policy, Shrinking Dividends, Aversion to Stocks**
   - **Trajectory toward lower investment earnings is being locked in**

5. **Back to Basics: Insurers Return to Underwriting Roots: Extended Period of Low Investment Exert Pressure to Generate Underwriting Profits Since 1960s**
   - **Chastened and "derisked" but facing the same (or higher) expected losses, insurers must work harder to match risk to price**

6. **P/C Insurers: Profitable Before, During & *After* Crisis: Resiliency Once Again Proven**
   - **Directly the result of industry's risk management practices**

Source: Insurance Information Inst.

Possible Regulatory Scenarios for P/C Insurers as of Year-End 2009

- **Status Quo: P/C Insurers Remain Entirely Under Regulatory Supervision of the States**
  - **Unlikely, but some segments of the industry might welcome this outcome above all others**
- **Federal Regulation: Everything is Regulated by Feds**
  - **Unlikely that states will be left totally in the cold**
- **Optional Federal Charter (OFC): Insurers Could Choose Between Federal and State Regulation**
  - **Unlikely to be implemented as envisioned for past several years by OFC supporters**
- **Dual Regulation: Federal Regulation Layer Above State**
  - **Feds assume solvency regulation, states retain rate/form regulation**
- **Hybrid Regulation: Feds Assume Regulation of Large Insurers at the Holding Company Level**
- **Systemic Risk Regulator: Feds Focus on Regulation of Systemic Risk Points in Financial Services Sector**
  - **What are these points for insurers? P/C vs. Life?**

Source: Insurance Information Inst.

10 Key Threats Facing Insurers Amid Financial Crisis

Challenges for the Next 5-8 Years

Important Issues & Threats Facing Insurers: 2009 - 2015

1. Erosion of Capital

- Losses are larger and occurring more rapidly than is commonly understood or presumed
- Surplus down 13%=$66B since 9/30/07 peak; 12% ($80B) in 2008
- P/C policyholder surplus could be even more by year-end 2009
- Some insurers propped up results by reserve releases
- Decline in PHS of 1999-2002 was 15% over 3 years and was entirely made up and them some in 2003. Current decline is ~13% in 5 qtrs.
- During the opening years of the Great Depression (1929-1933) PHS fell 37%, Assets fell 28% and Net Written Premiums fell by 35%. It took until 1939-40 before these key measures returned to their 1929 peaks.
- BOTTOM LINE: Capital and assets could fall much farther and faster than many believe. It will take years to return to the 2007 peaks (likely until 2011 with a sharp hard market and 2015 without one)

Source: Insurance Information Inst.

Important Issues & Threats Facing Insurers: 2009 - 2015

2. Reloading Capital After "Capital Event"

- **Continued asset price erosion coupled with major "capital event" could lead to shortage of capital among *some* companies**
- **Possible Consequences: Insolvencies, forced mergers, calls for govt. aid, requests to relax capital requirements**
- **P/C insurers have come to assume that large amounts of capital can be raised quickly and cheaply after major events (post-9/11, Katrina).**
  - ***This assumption may be incorrect in the current environment***
- **Cost of capital is *much* higher today, reflecting both scarcity & risk**
- **Implications: P/C (re)insurers need to protect capital today and develop detailed contingency plans to raise fresh capital & generate internally. Already a reality for some life insurers.**

Source: Insurance Information Inst.

Important Issues & Threats Facing Insurers: 2009 - 2015

3. Long-Term Loss of Investment Return

- **Low interest rates, risk aversion toward equities and many categories of fixed income securities lock in a multi-year trajectory toward ever lower investment gains**
- **Price bubble in Treasury securities keeps yields low**
- **Many insurers have not adjusted to this new investment paradigm of a sustained period of low investment gains**
- ***Regulators will not readily accept it*; Many will reject it**
- **Implication 1: Industry must be prepared to operate in environment with investment earnings accounting for a smaller fraction of profits**
- **Implication 2: Implies underwriting discipline of a magnitude not witnessed in this industry in more than 30 years. Yet to manifest itself.**
- **Lessons from the period 1920-1975 need to be relearned**

Source: Insurance Information Inst.

Important Issues & Threats Facing Insurers: 2009 - 2015

4. Economic Collapse

- **Long-term decline in industry growth prospects similar to the 1930s**
- **Collapse does *not* imply inability to remain profitable**
- **Industry in 1930s shrank but became profitable**
- **Some insurers will not survive due to combination of poor investment environment, operating underwriting challenges and capital depletion**
- **Policyholder and claimant behavior will change; *Need Mitigation Strategies***
  - **Claim malingering**
  - **Cost shifting from healthcare into WC**
  - **Insurance fraud will increase (premium evasion, classification)**

- **Bottom Line: Industry can survive deep and prolonged economic downturn, but not without casualties**

Source: Insurance Information Inst.

Important Issues & Threats Facing Insurers: 2009 – 2????

5. Regulatory Overreach

- **Principle danger is that P/C insurers get swept into vast federal regulatory overhaul and subjected to inappropriate, duplicative and costly regulation (Dual Regulation)**
- **Danger is high as feds get their nose under the tent**
- **Status Quo is viewed as unacceptable by all**
- **Pushing for major change is not without *significant* risk in the current highly charged political environment**
- **Insurance & systemic risk**
- **Disunity within the insurance industry**
- **Impact of regulatory changes will be felt for decades**
- **Bottom Line: Regulatory outcome is uncertain and risk of adverse outcome is high**

Source: Insurance Information Inst.

Important Issues & Threats Facing Insurers: 2009 - 2015

6. Creeping Restrictions on Underwriting

- **Attacks on underwriting criteria such as credit, education, occupation, territory increasing**
- **Industry will lose some battles**
- **View that use of numerous criteria are discriminatory and create an adverse impact on certain populations**
- **Impact will be to degrade the accuracy of rating systems to increase subsidies**
- **Predictive modeling also at risk**
- **Current social and economic environment could accelerate these efforts**
- **Danger that bans could be codified at federal level during regulatory overhaul**
- **Bottom Line: Industry must be prepared to defend existing and new criteria indefinitely**

Source: Insurance Information Inst.

Important Issues & Threats Facing Insurers: 2009 - 2015

7. Exploitation of Insurance as a Wealth Redistribution Mechanism

- **There is a longstanding history of attempts to use insurance to advance wealth redistribution/economic agendas**
- **Urban subsidies in auto; Coastal subsidies are old; Could be extended to workers comp in variety of ways**
- **Insurer focus on underwriting profitability (resulting in higher rates) coupled with poor economic conditions could raise profile of affordability issue**
- **Calls for "excess profits tax" on insurers**
- **Increased government involvement in insurance (including ownership stakes) make this more likely**
- **Federal regulation could impose such redistribution schemes**
- **Bottom Line: Expect efforts to address social and economic inequities through insurance**

Source: Insurance Information Inst.

Important Issues & Threats Facing P/C Insurers: 2009 - 2015

8. Mega-Catastrophe Losses

- $100B CAT year is not improbably over the next 5-7 year
- Severity trend remains upward
- Frequency trends highly variable but more prone to spikes
- FINANCING: Unclear if sufficient capital exists to finance mega-cats in current capital constrained environment
- Concern over reinsurance capacity and pricing
- Alternative sources of CAT financing have dried up
- Some regulators will continue to suppress rates
- Residual markets shares remain high
- Loss of volume for private insurers in key states (e.g., FL)
- *Serves as entry point for socialization of insurance*
- **Bottom Line: Capacity to finance mega-cats is diminished. Government may fill the void, sometimes with the industry's support; sometimes in spite of opposition**

Important Issues & Threats Facing Insurers: 2009 -2015

9. Creeping Socialization and Partial Nationalization of Insurance System

- **CAT risk is, on net, being socialized directly via state-run insurance and reinsurance mechanisms or via elaborate subsidy schemes involving assessments, premium tax credits, etc.**
- **Some (life) insurers seeking TARP money**
- **Efforts to expand flood program to include wind**
- **Health insurance may be substantively socialized**
- **Terrorism risk—already a major federal role backed by insurers**
- **Eventually impacts for other lines such as personal auto, *WC*?**
- **Feds may open to more socialization of private insurance risk**
- **Ownership stakes in some insurers could be a slippery slope**
- **States like FL will lean heavily on Washington in the event of a mega-cat that threatens state finance**
- **Bottom Line: Additional socialization likely. Can insurers/will insurers draw the line?**

Source: Insurance Information Inst.

Important Issues & Threats Facing Insurers: 2009 -2015

10. Emerging Tort Threat

- No tort reform (or protection of recent reforms) is forthcoming from the current Congress or Administration
- Erosion of recent reforms is a certainty (already happening)
- Innumerable legislative initiatives will create opportunities to undermine existing reforms and develop new theories and channels of liability
- Torts twice the overall rate of inflation
- Influence personal and commercial lines, esp. auto liab.
- Historically ***extremely*** costly to p/c insurance industry
- Leads to reserve deficiency, rate pressure
- **Bottom Line: Tort "crisis" is on the horizon and will be recognized as such by 2012-2014**

Source: Insurance Information Inst.

THE $787 BILLION ECONOMIC STIMULUS

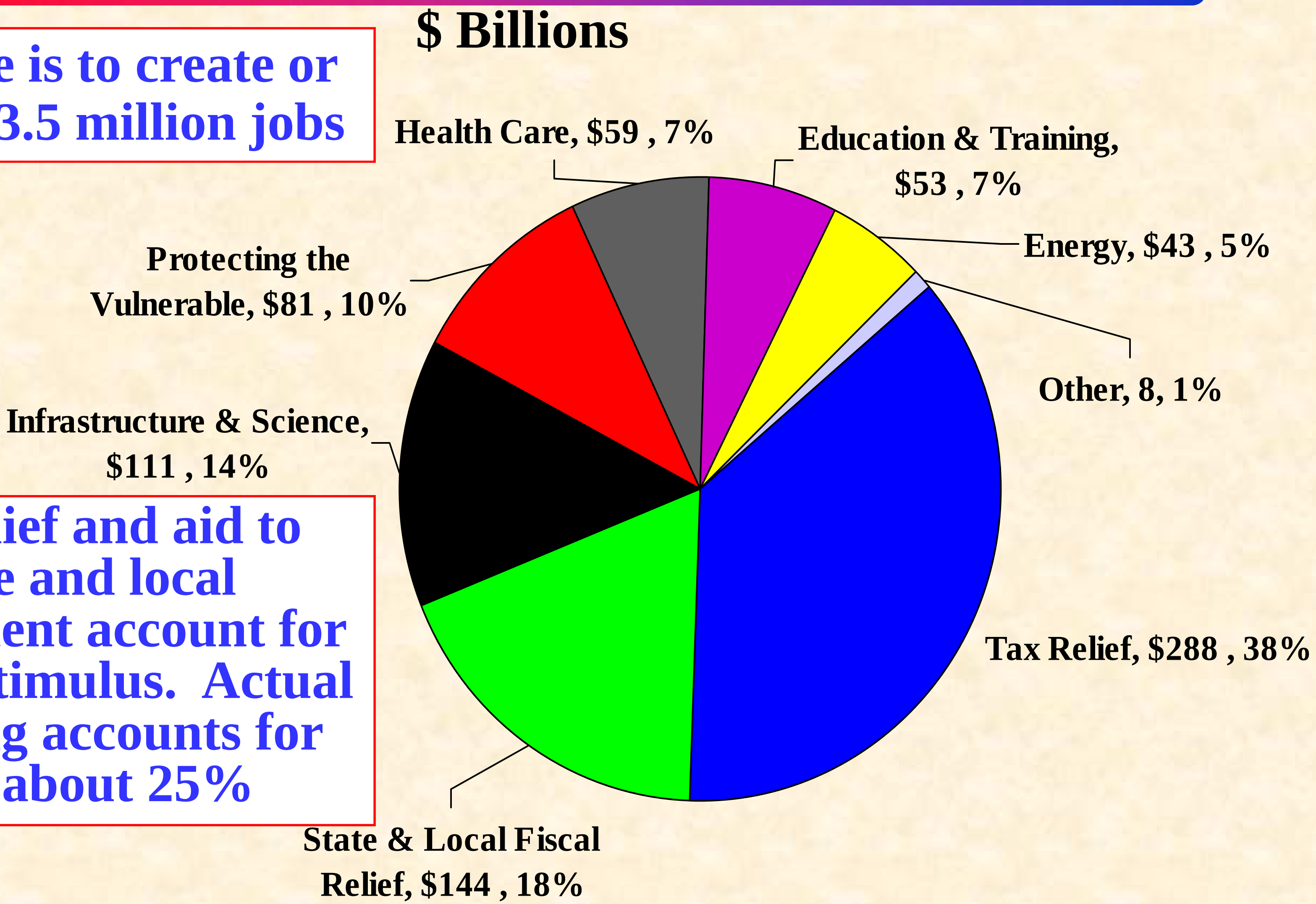
Sectoral Impacts & Implications for P/C Insurance

Summary of Short-Run Impacts of Stimulus Package on P/C Insurance

- **No Stimulus Provisions Specifically Address P/C Insurance**
  - **Spending, Aid and Tax Reductions benefit other industries, state and local governments, as well as individual and some corporate taxpayers**
- **Stimulus Package is Unlikely to Increase Net Premiums Written by More Than 1% or Approx. $4.5 Bill. by Year-End 2010**
- **"Direct" Impact to P/C Insurers Results Primarily from Increased Demand for Commercial Insurance**
  - **Primarily the result of increased infrastructure spending and the resulting need to insure workers, property and protect against liability risks**
  - **Because the primary objective of the stimulus is employment related, workers compensation will be the p/c line that benefits the most**
  - **Assuming the target of 3.5 million jobs created or preserved is achieved, private workers comp NPW (new and preserved) could amount to as much as $1.1 billion**
  - **Other commercial lines to benefit: surety, commercial auto, inland marine**
- **Other "Direct" P/C Demand Benefits Will Be Minimal**
  - **Tax provisions providing incentives to buy cars and homes and accelerate the depreciation of equipment will have little net impact on exposure**
  - **Some additional premium may be generated as older cars and equipment are replaced with new and more valuable (and therefore more expensive to insure)**

Economic Stimulus Package: Where the $787B Goes

Objective is to create or preserve 3.5 million jobs



Tax relief and aid to state and local government account for 56% of stimulus. Actual spending accounts for only about 25%

Source: http://www.recovery.gov/ accessed 2/18/09; Insurance Information Institute.

Stimulus: Reading The Economic Tea Leaves for the Next 4 to 8 Years

- **Growing Role of Government: 2009 Stimulus Package and Other Likely Spending Initiatives Guarantee that Government Will Play a Much Larger Role Than at Any Other Time in Recent History**
  - **Every industry, including insurance, will and must attempt to maximize direct and indirect benefits from this paradigm shift**
- **Obama Administration Priorities: Stimulus Package Acts as "Economic Tea Leaf" on the Administration's Fiscal Priorities for the Next Several Years**
- **These Include:**
  - **Alternative Energy**
  - **Health Care**
  - **Education**
  - **Aging/New Infrastructure**
  - **Aid to States**
- **Stimulus is Only One Leg of the Stool**
  - **(1) Stimulus; (2) Housing, and (3) Financial Services Reform**

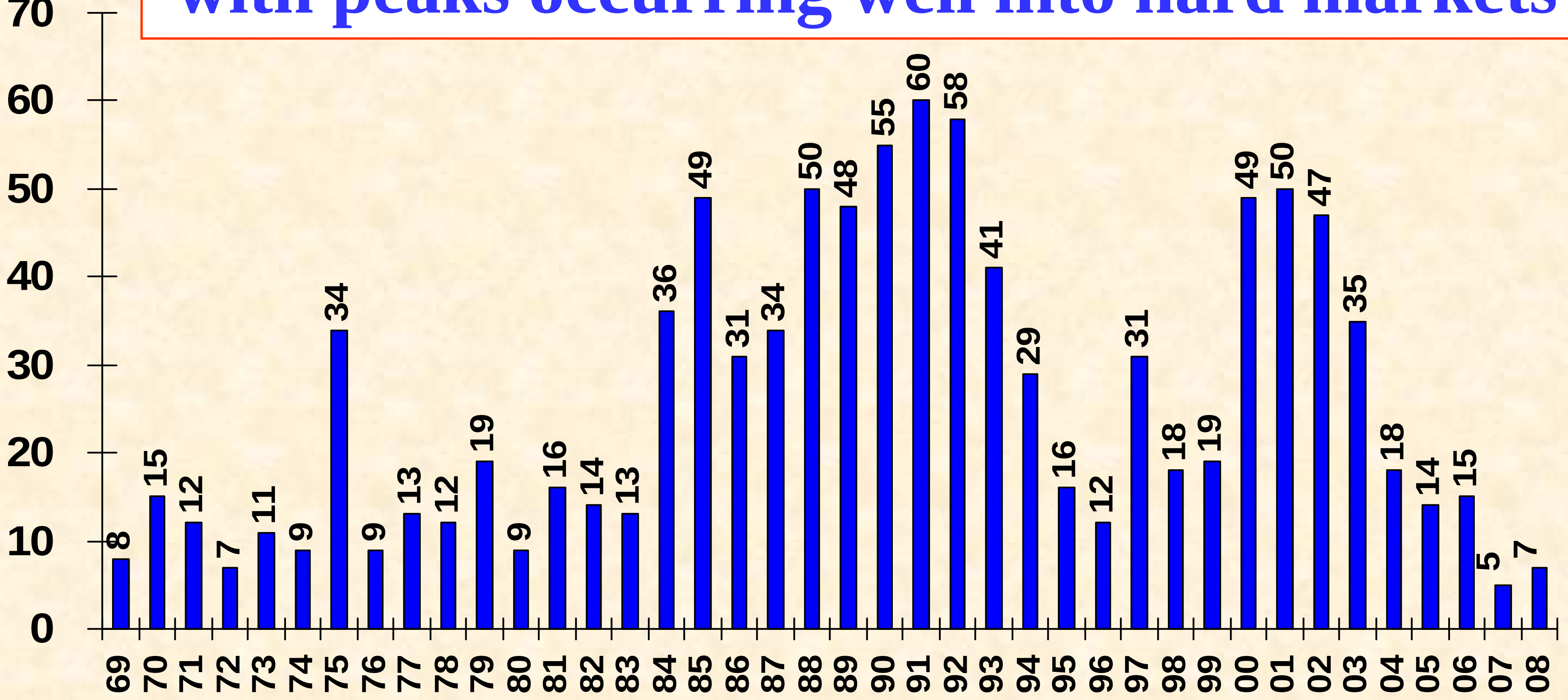
Source: Insurance Information Institute

FINANCIAL STRENGTH & RATINGS

Industry Has Weathered the Storms Well

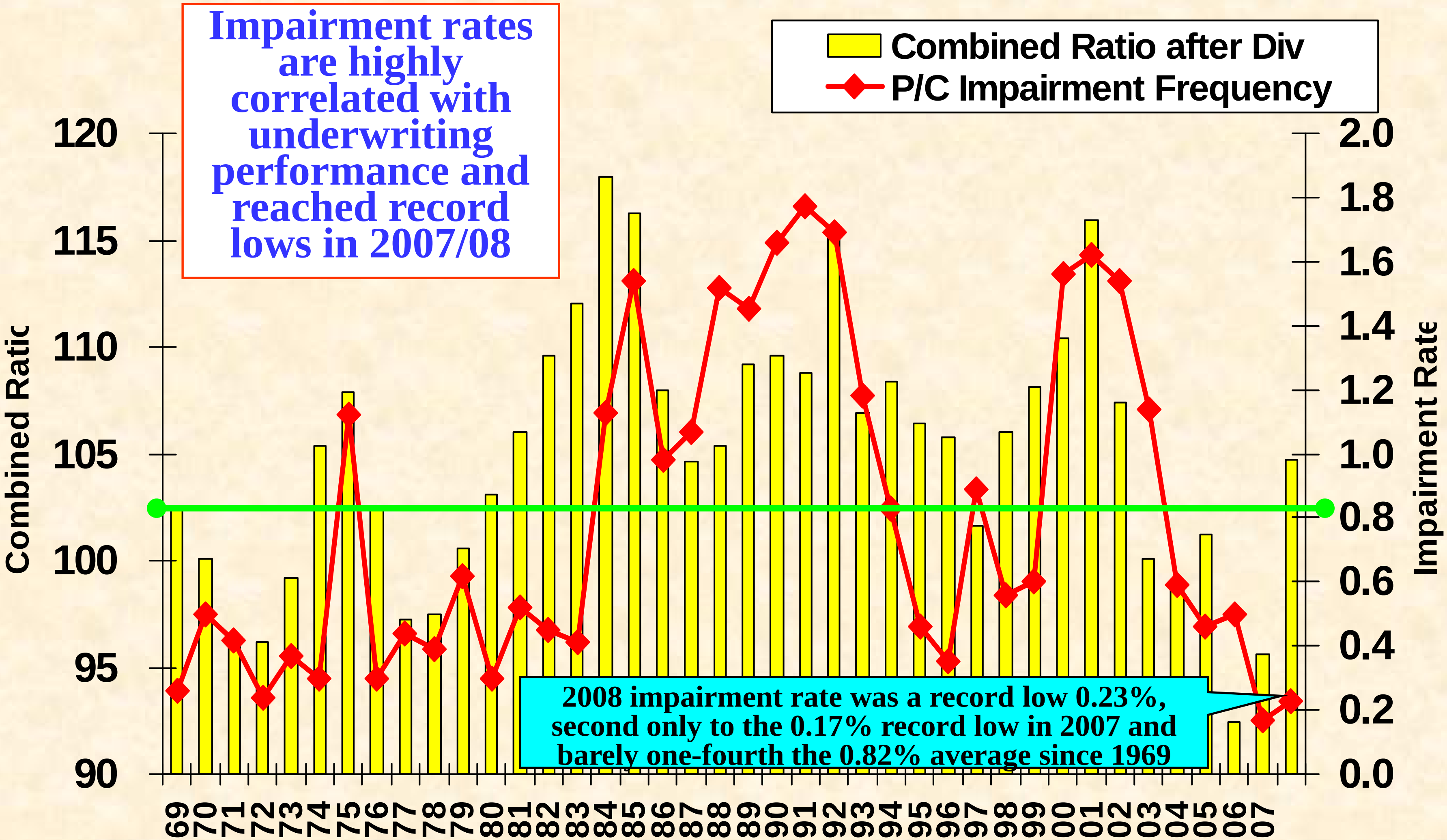
P/C Insurer Impairments, 1969-2008

The number of impairments varies significantly over the p/c insurance cycle, with peaks occurring well into hard markets



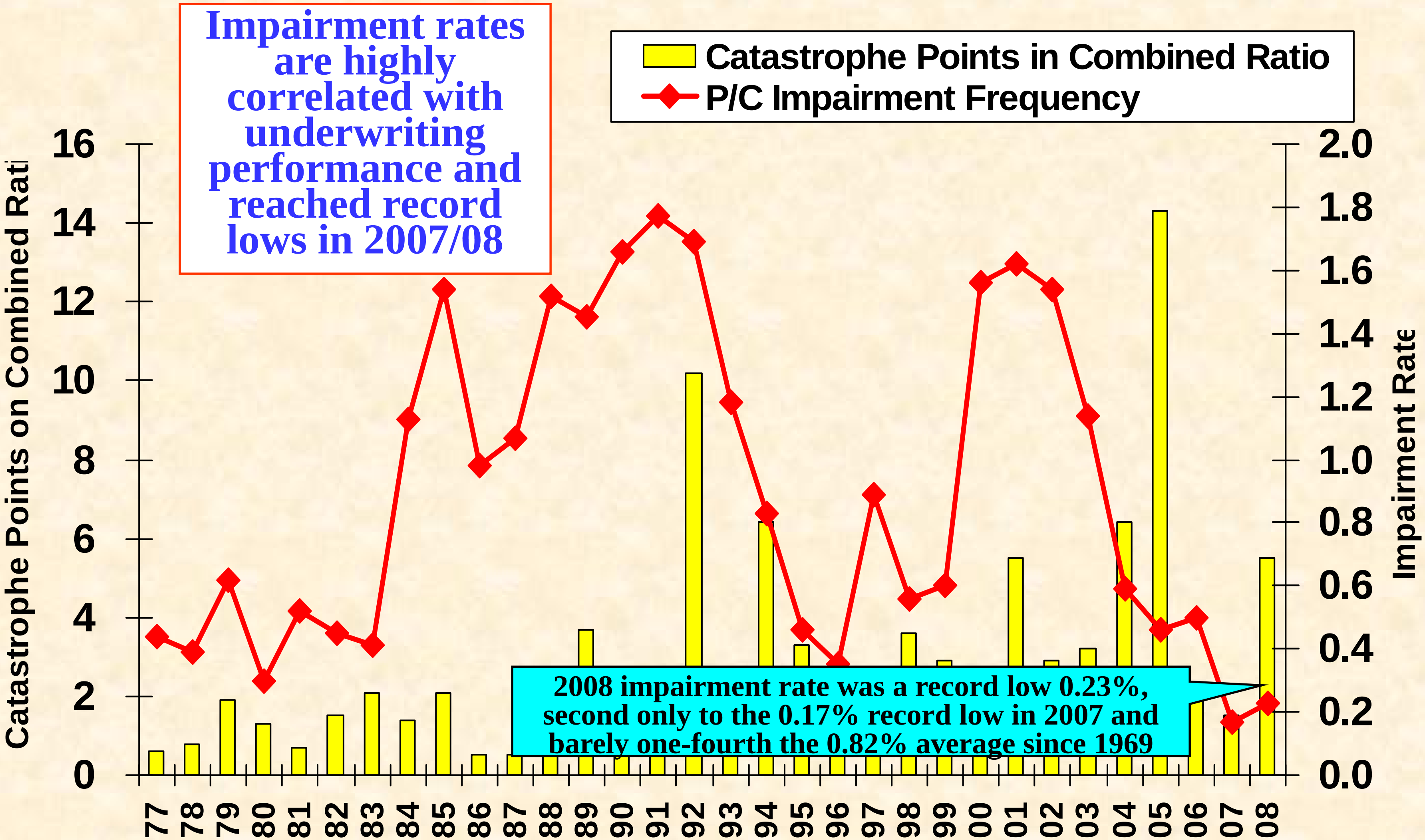
Source: A.M. Best; Insurance Information Institute

P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2008



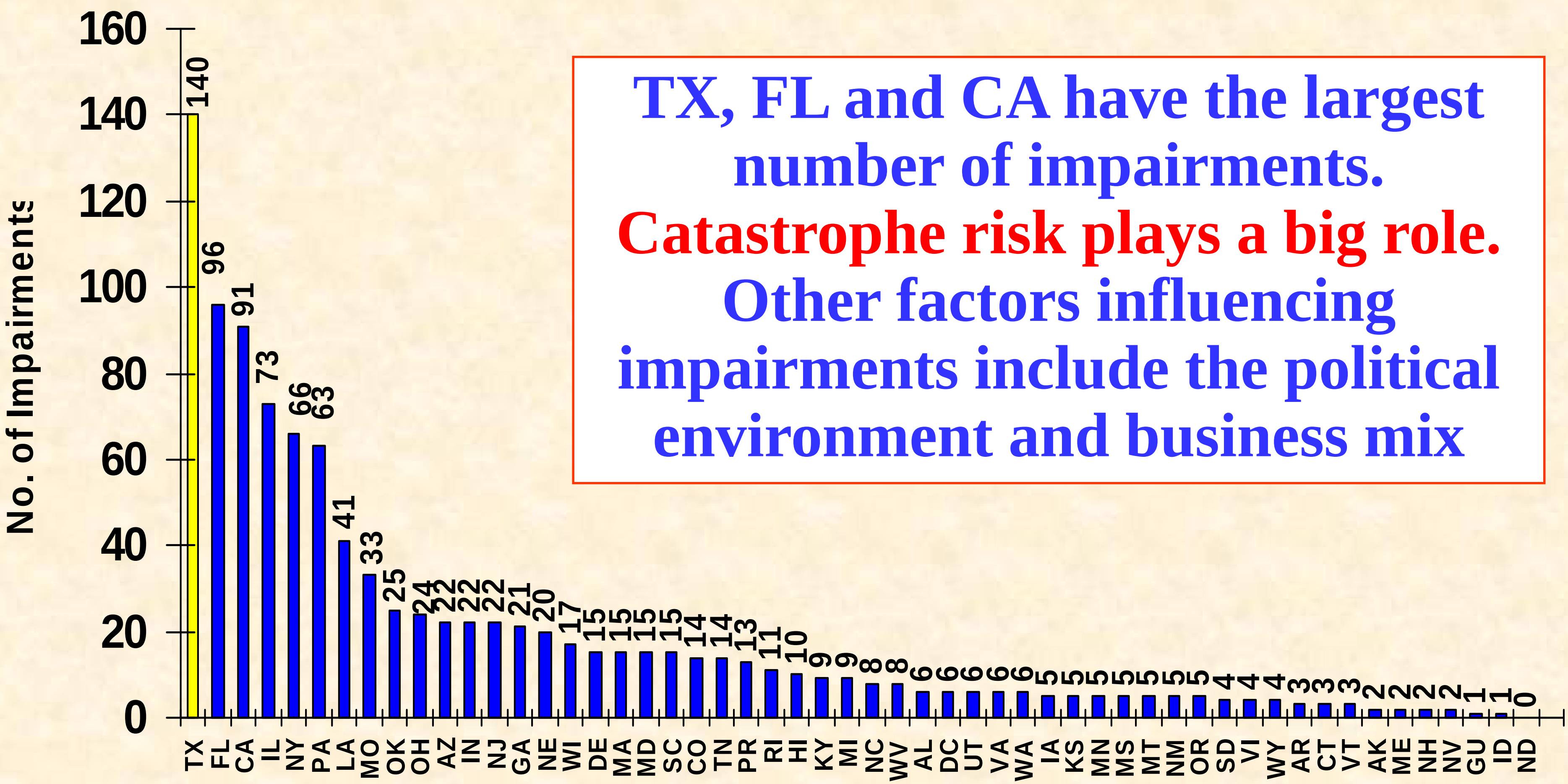
Source: A.M. Best; Insurance Information Institute

P/C Impairment Frequency vs. Catastrophe Points in Combined Ratio, 1977-2008



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

Number of Impairments by State, 1969-2008

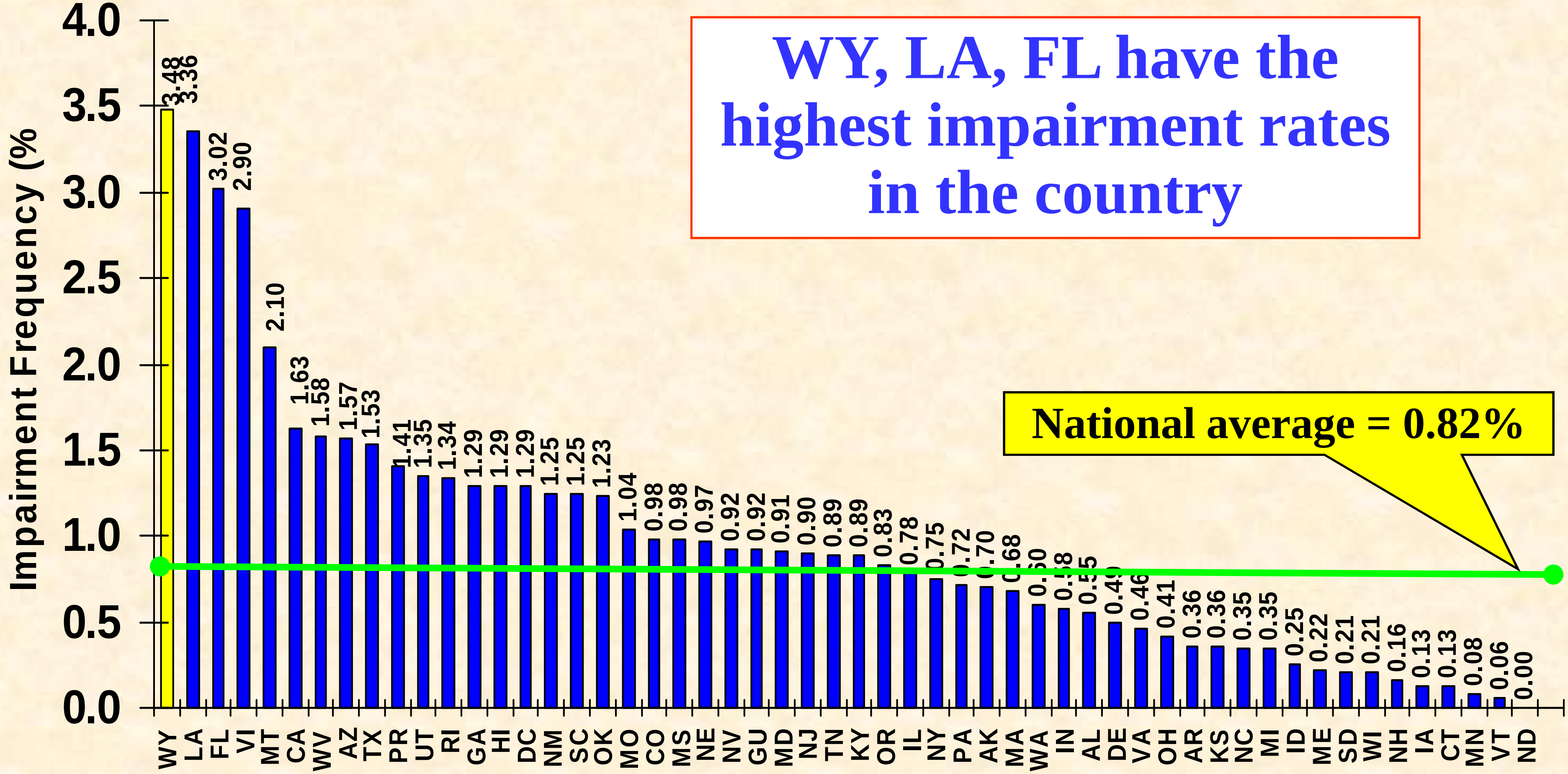


TX, FL and CA have the largest number of impairments. Catastrophe risk plays a big role. Other factors influencing impairments include the political environment and business mix

Source: A.M. Best; Insurance Information Institute

Frequency of Impairments by State, 1969-2008

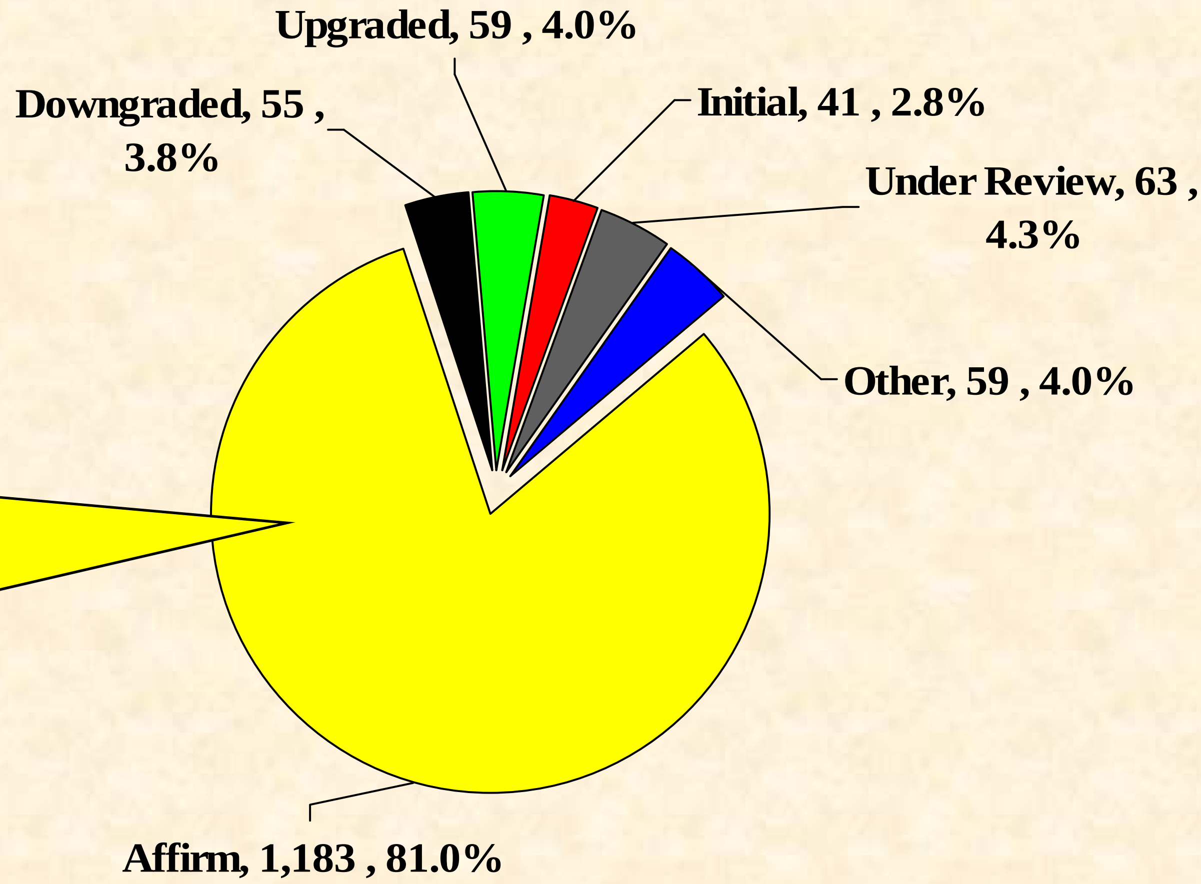
(Impairments per 100 Insurers Domiciled in State)



Source: A.M. Best; Insurance Information Institute

Summary of A.M. Best's P/C Insurer Ratings Actions in 2008*

P/C insurance is by design a resilient in business. The dual threat of financial disasters and catastrophic losses are anticipated in the industry's risk management strategy.



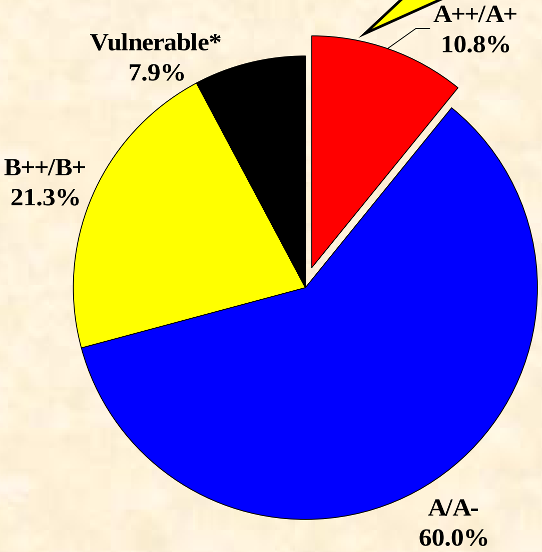
Despite financial market turmoil, high cat losses and a soft market in 2008, 81% of ratings actions by A.M. Best were affirmations; just 3.8% were downgrades and 4.0% upgrades

*Through December 19.
Source: A.M. Best.

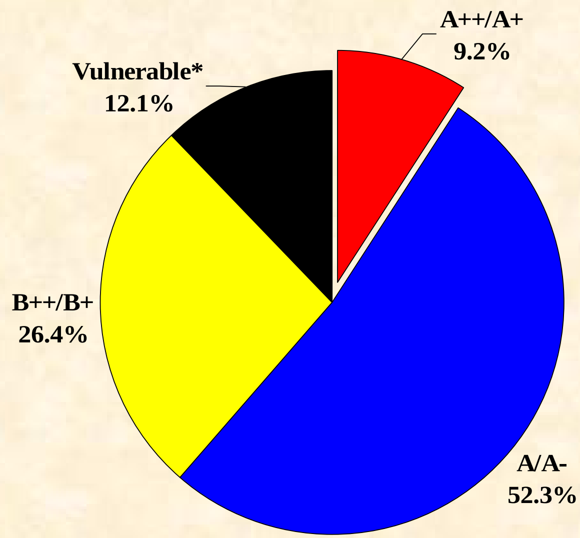
Historical Ratings Distribution,
US P/C Insurers, 2008 vs. 2005 and 2000

2008

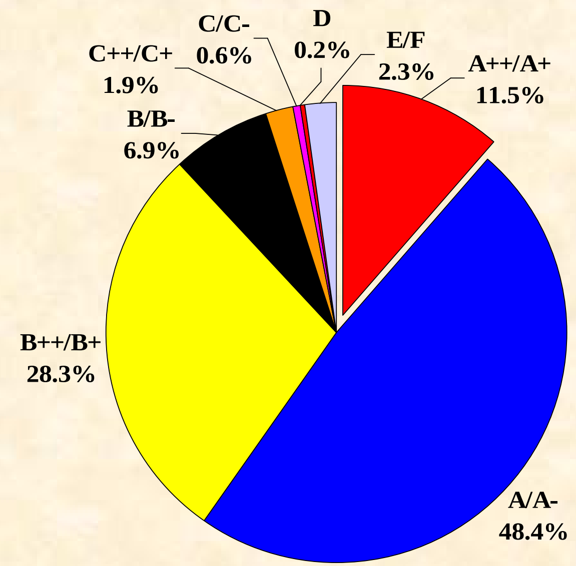
A++/A+ and A/A- gains



2005



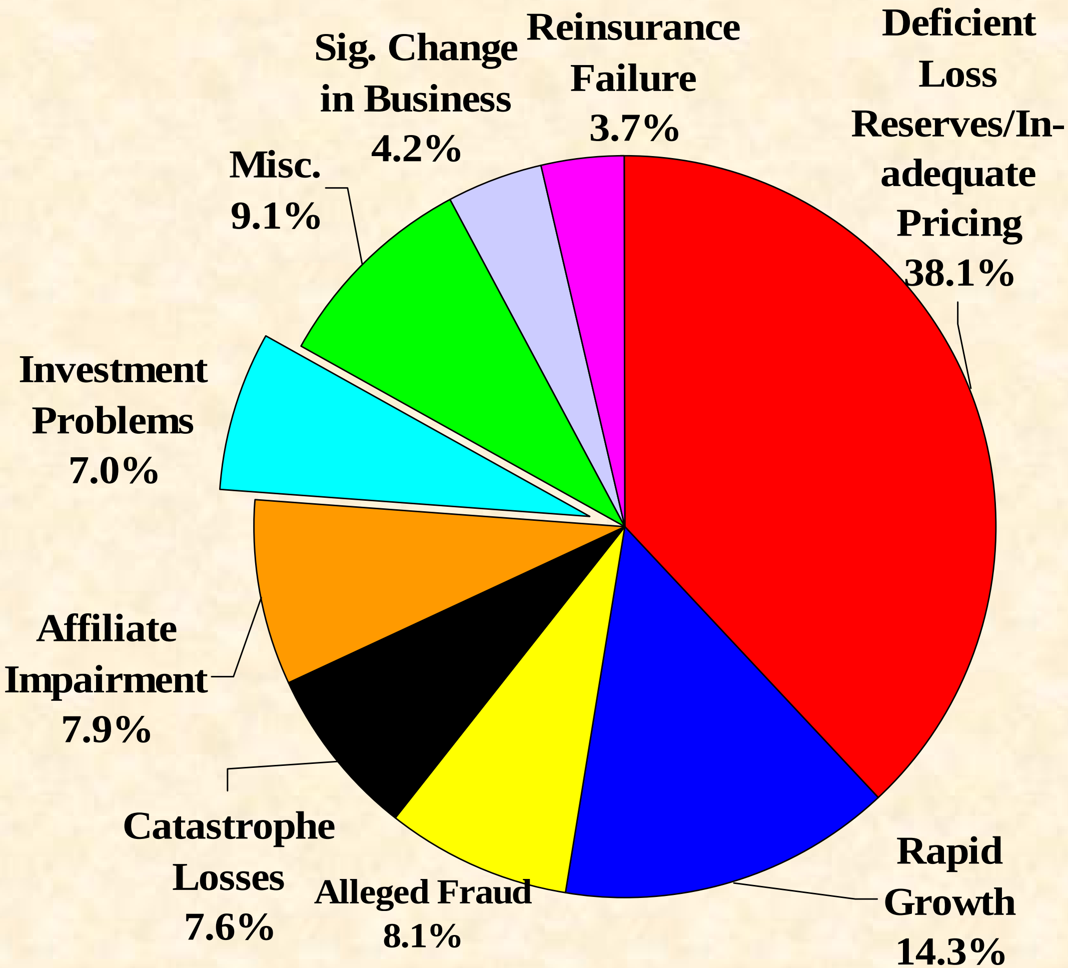
2000



P/C insurer financial strength has improved since 2005 despite financial crisis

Source: A.M. Best: *Rating Downgrades Slowed but Outpaced Upgrades for Fourth Consecutive Year,* Special Report, November 8, 2004 for 2000; 2006 and 2009 *Review & Preview*. *Ratings 'B' and lower.

Reasons for US P/C Insurer Impairments, 1969-2008



Deficient loss reserves and inadequate pricing are the leading cause of insurer impairments, underscoring the importance of discipline. Investment catastrophe losses play a much smaller role.

Source: A.M. Best: *1969-2008 Impairment Review,* Special Report, Apr. 6, 2008

Critical Differences Between P/C Insurers and Banks

Superior Risk Management Model & Low Leverage Make a Big Difference

How Insurance Industry Stability Has Benefitted Consumers

BOTTOM LINE:

- **Insurance Markets—Unlike Banking—Are Operating *Normally***
- **The Basic Function of Insurance—the Orderly Transfer of Risk from Client to Insurer—Continues *Uninterrupted***
- **This Means that Insurers Continue to:**
  - **Pay claims (whereas 50 banks have gone under as of 4/17)**
    - ***The Promise is Being Fulfilled***
  - **Renew existing policies (banks are reducing and eliminating lines of credit)**
  - **Write new policies (banks are turning away people who want or need to borrow)**
  - **Develop new products (banks are scaling back the products they offer)**

Source: Insurance Information Institute

Reasons Why P/C Insurers Have Fewer Problems Than Banks: A Superior Risk Management Model

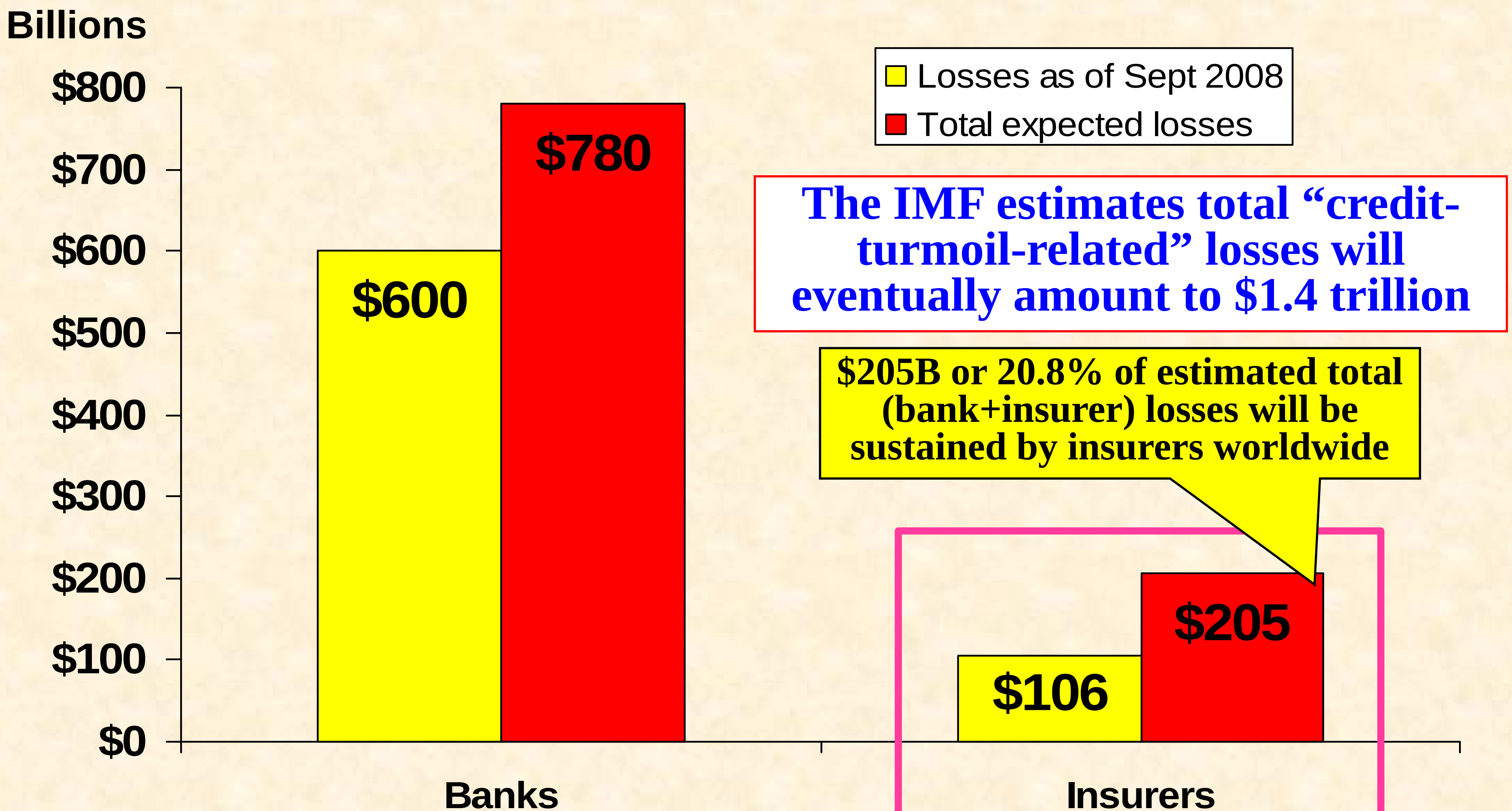
- ***Emphasis on Underwriting***
  - **Matching of risk to price (via experience and modeling)**
  - **Limiting of potential loss exposure**
  - ***Some banks sought to maximize volume and fees and disregarded risk***
- ***Strong Relationship Between Underwriting and Risk Bearing***
  - **Insurers always maintain a stake in the business they underwrite, keeping "skin in the game" at all times**
  - ***Banks and investment banks package up and securitize, severing the link between risk underwriting and risk bearing, with (predictably) disastrous consequences—straightforward moral hazard problem from Econ 101***
- ***Low Leverage***
  - **Insurers do not rely on borrowed money to underwrite insurance or pay claims →*There is no credit or liquidity crisis in the insurance industry***
- ***Conservative Investment Philosophy***
  - **High quality portfolio that is relatively less volatile and more liquid**
- ***Comprehensive Regulation of Insurance Operations***
  - **The business of insurance remained comprehensively regulated whereas a separate banking system had evolved largely outside the auspices and understanding of regulators (e.g., hedge funds, private equity, complex securitized instruments, credit derivatives—CDS's)**
- ***Greater Transparency***
  - **Insurance companies are an open book to regulators and the public**

Source: Insurance Information Institute

The Financial Crisis in Perspective

Bank vs. Insurer Impacts

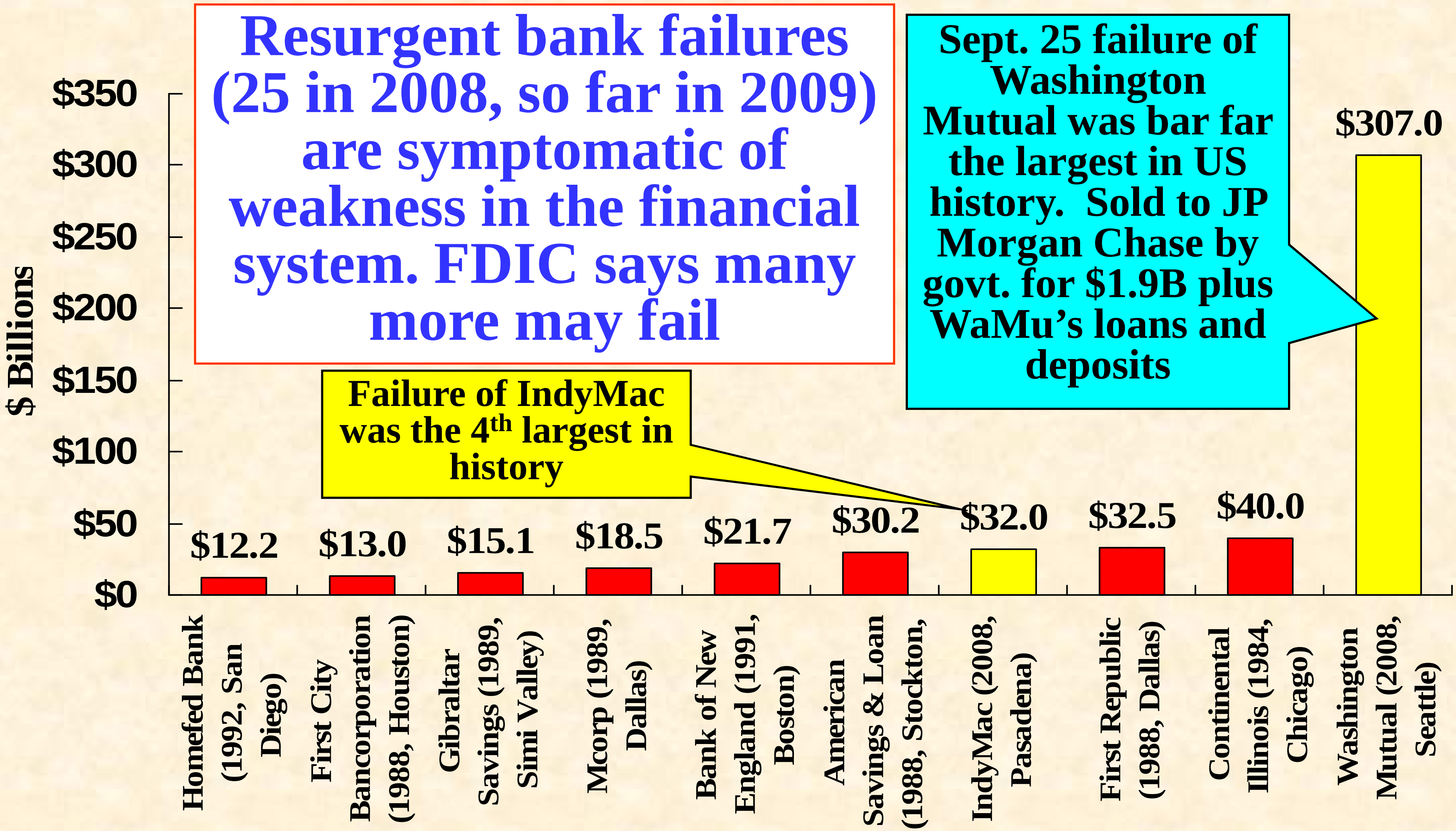
Financial Institutions Globally Facing Huge Losses from the Credit Crunch*



*Global losses since the beginning of 2007.

Source: IMF Global Financial Stability Report, October 2008, IIF, Bloomberg, cited in a presentation by Thomas Hess (Chief Economist, Swiss Re) October 23, 2008, accessed via Geneva Association web site.

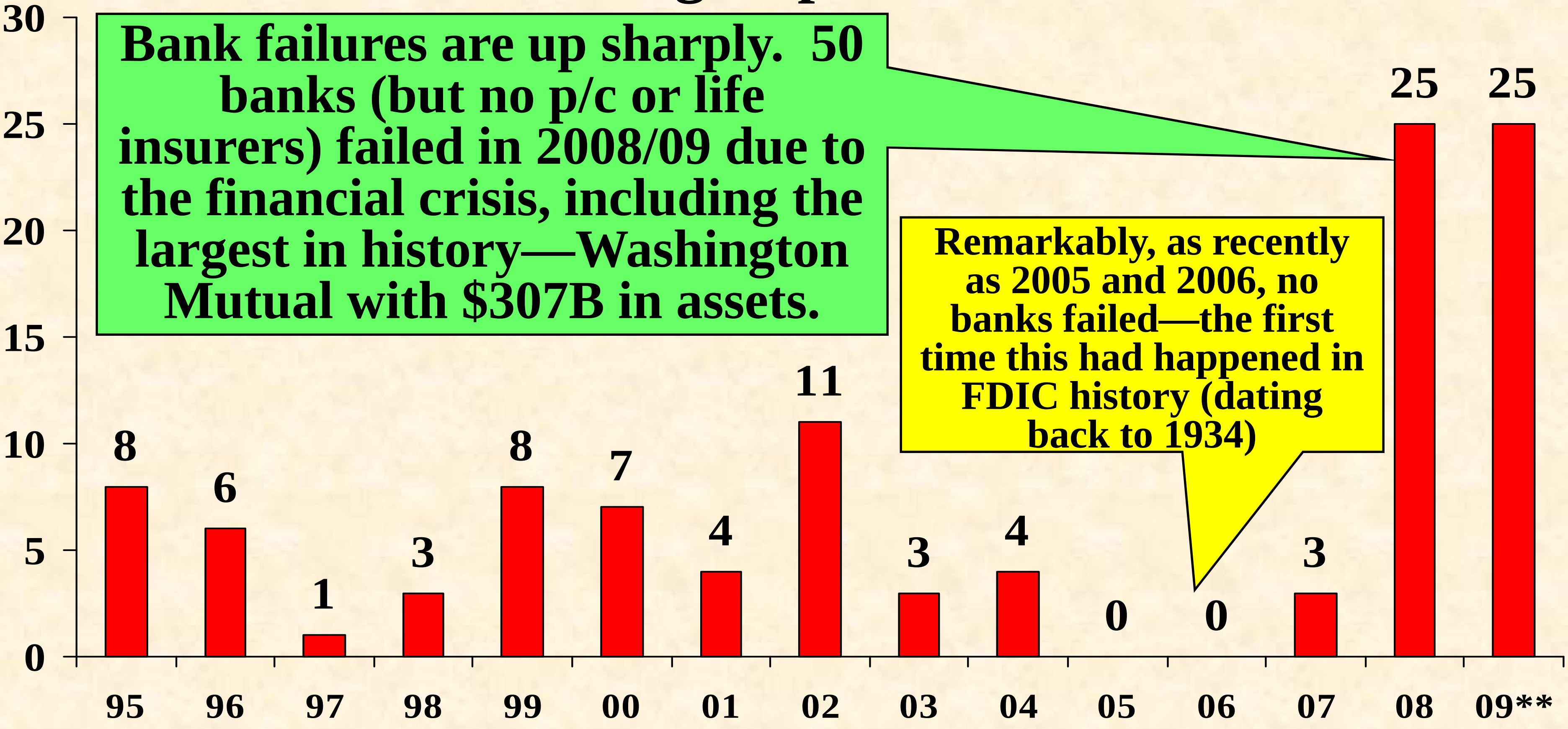
Top 10 Largest Bank Failures



Source: FDIC; Insurance Information Institute research.

US Bank Failures:* 1995-2009**

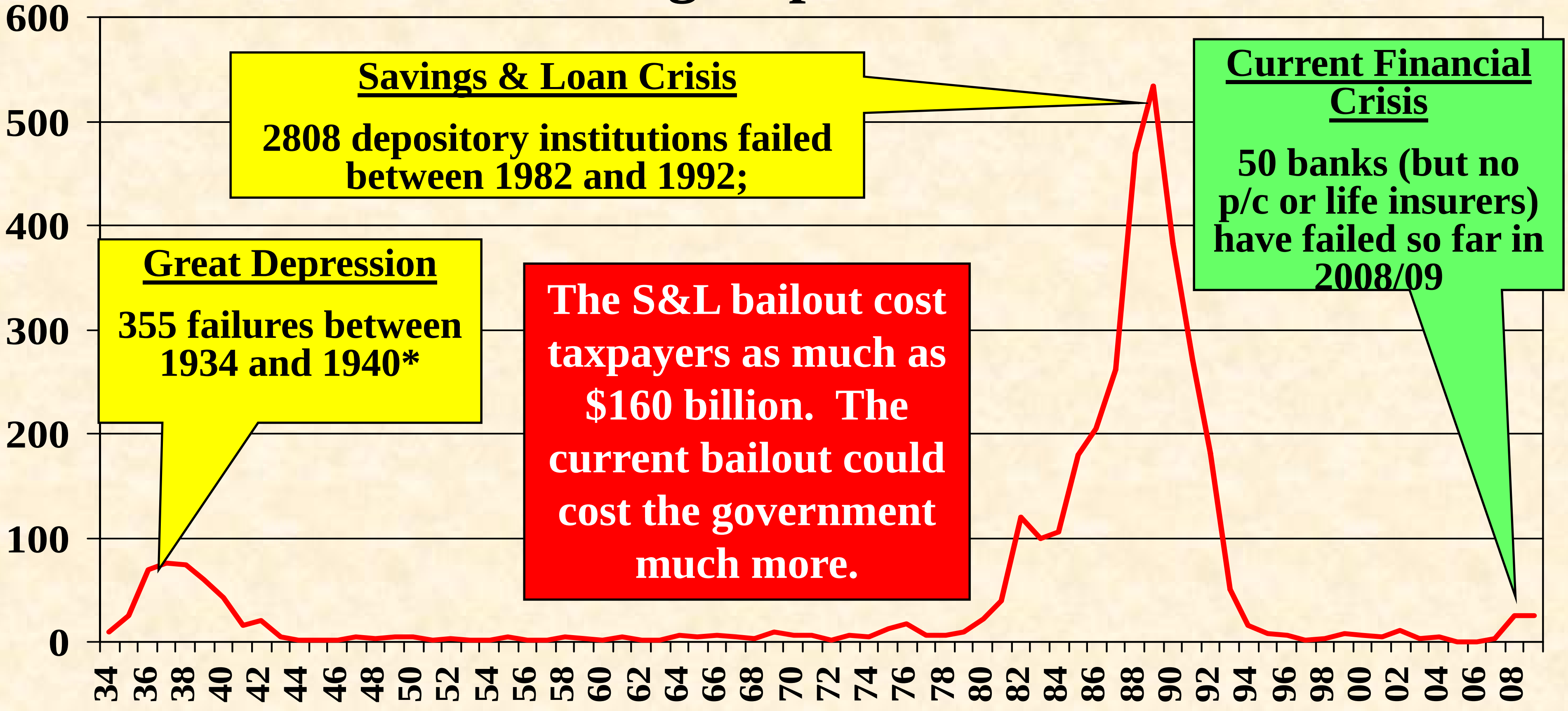
Through April 17, 2009



*Includes all commercial banking and savings institutions. **Through April 17.
Source: FDIC: http://www.fdic.gov/bank/historical/bank/index.html; Insurance Info. Institute

US Bank Failures: 1934-2009***

Through April 17, 2009

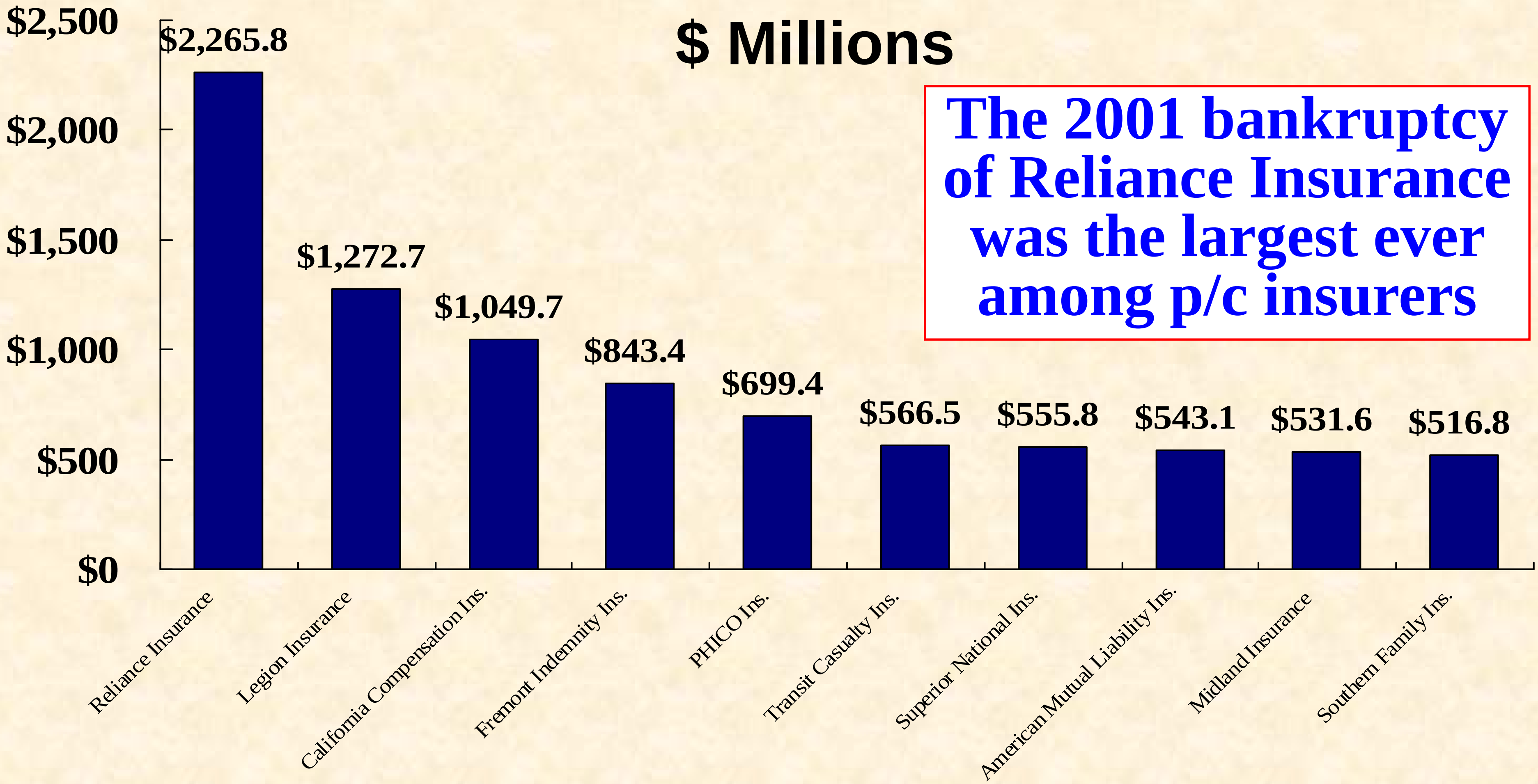


***Includes all commercial banking and savings institutions.**

****Data begin in 1934, the year the FDIC was established.**

Source: FDIC: http://www.fdic.gov/bank/historical/bank/index.html; Insurance Info. Institute

Top 10 P/C Insolvencies, Based Upon Guaranty Fund Payments*



The 2001 bankruptcy of Reliance Insurance was the largest ever among p/c insurers

* Disclaimer: This is not a complete picture. If anything the numbers are understated as some states have not reported in certain years.

Source: National Conference of Insurance Guaranty Funds, as of September 17, 2008.

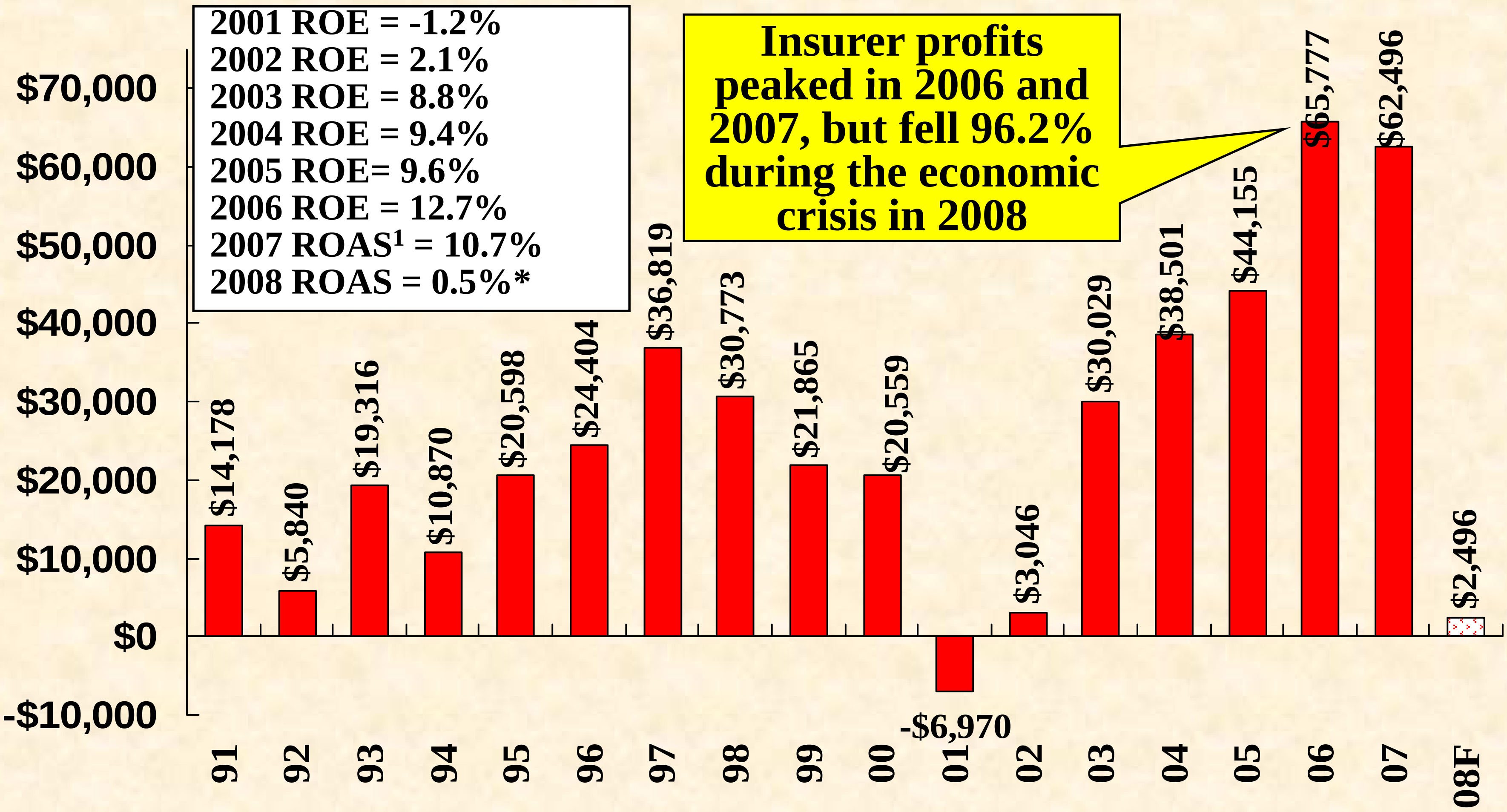
P/C INSURANCE FINANCIAL PERFORMANCE

A Resilient Industry in Challenging Times

Profitability

Historically Volatile

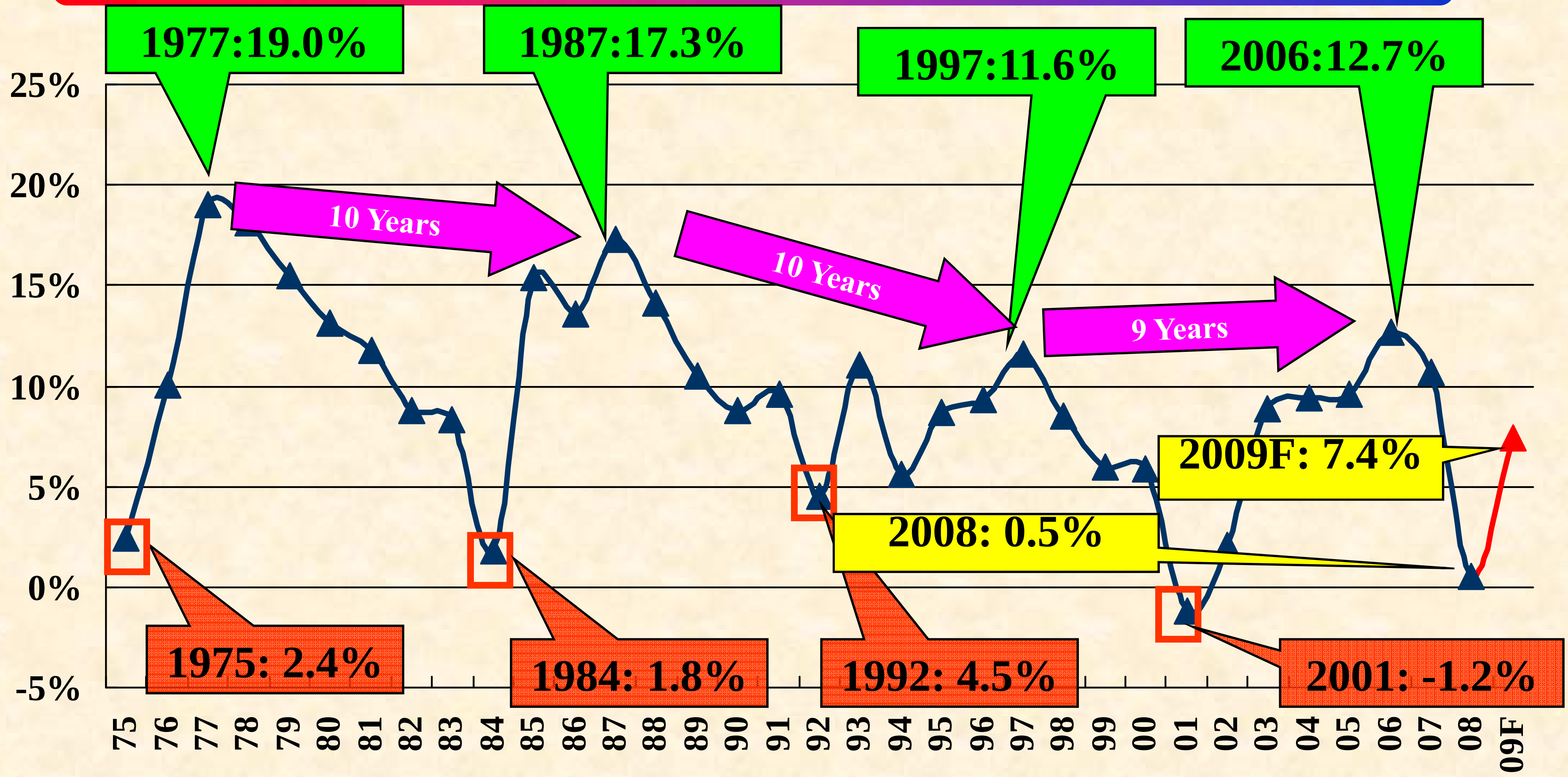
P/C Net Income After Taxes 1991-2008F ($ Millions)*



*ROE figures are GAAP; [1]Return on avg. Surplus. Excluding Mortgage & Financial Guarantee insurers yields an 4.2% ROAS for 2008.

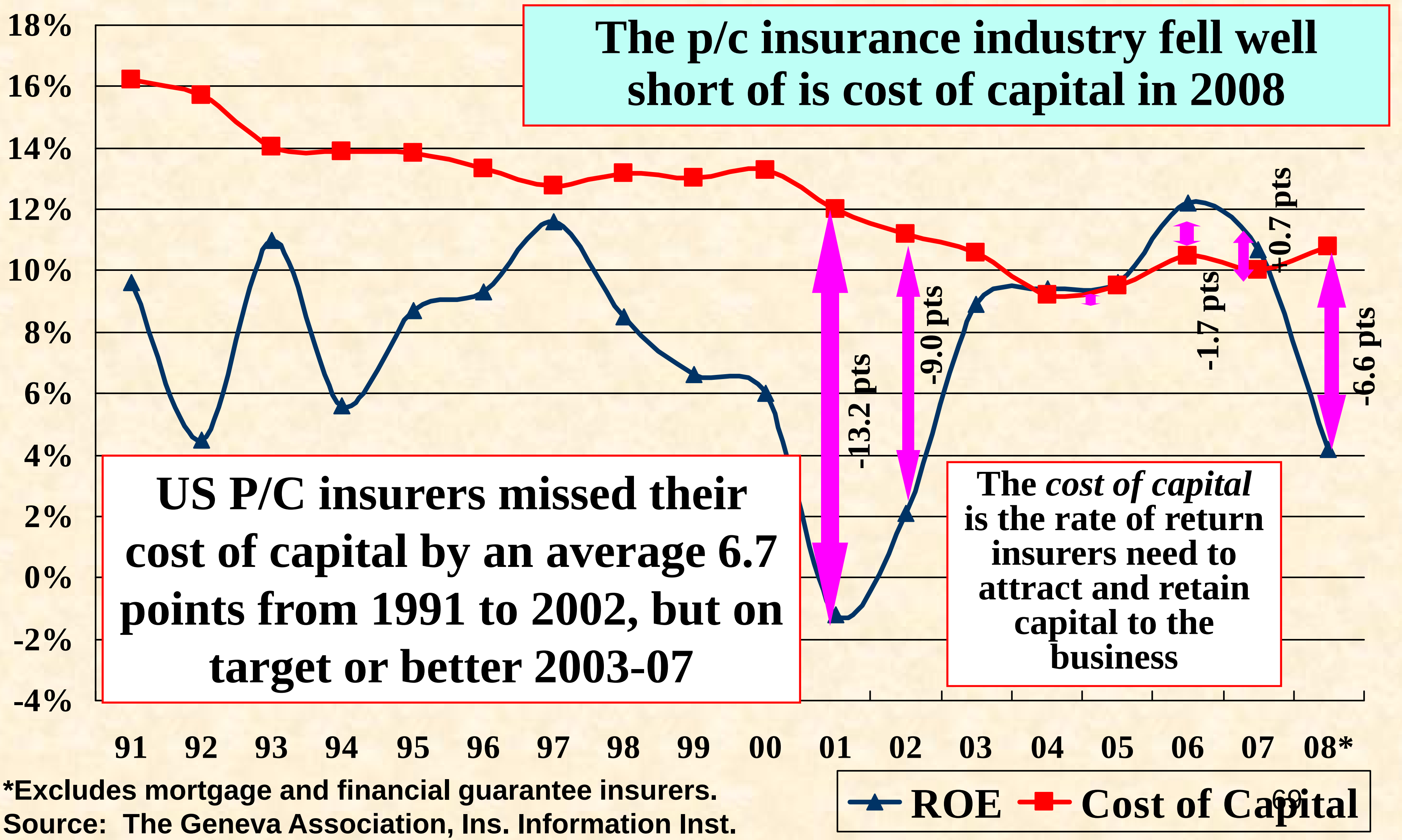
Sources: A.M. Best, ISO, Insurance Information Inst.

P/C Insurance Industry ROEs, 1975 – 2009F*



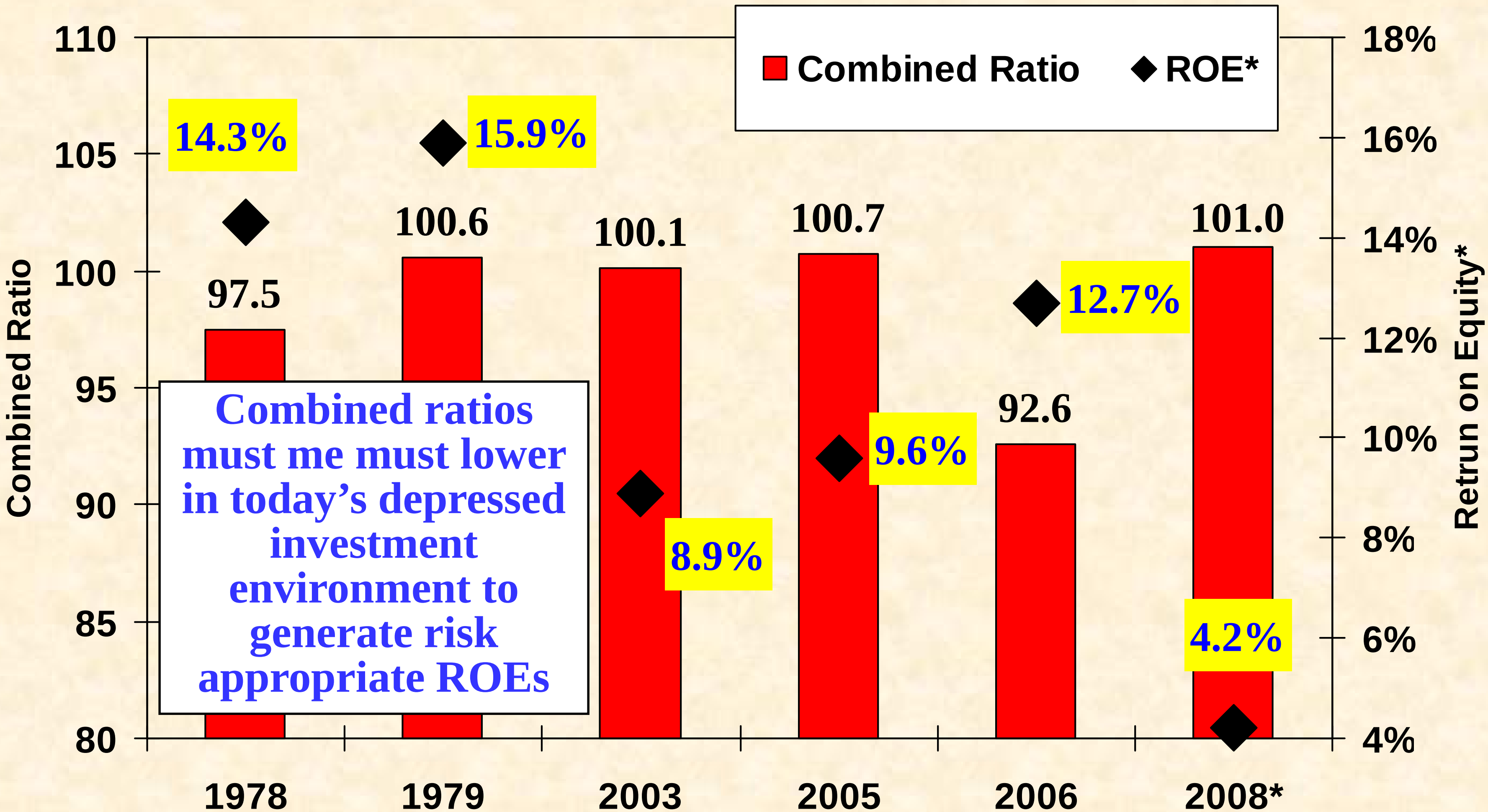
Note: 2008 result excluding Mortgage & Financial Guarantee insurers is 4.2%.
Sources: ISO; A.M. Best (2009F); Insurance Information Institute.

ROE vs. Equity Cost of Capital: US P/C Insurance:1991-2008



*Excludes mortgage and financial guarantee insurers.
Source: The Geneva Association, Ins. Information Inst.

A 100 Combined Ratio Isn't What it Used to Be: 95 is Where It's At



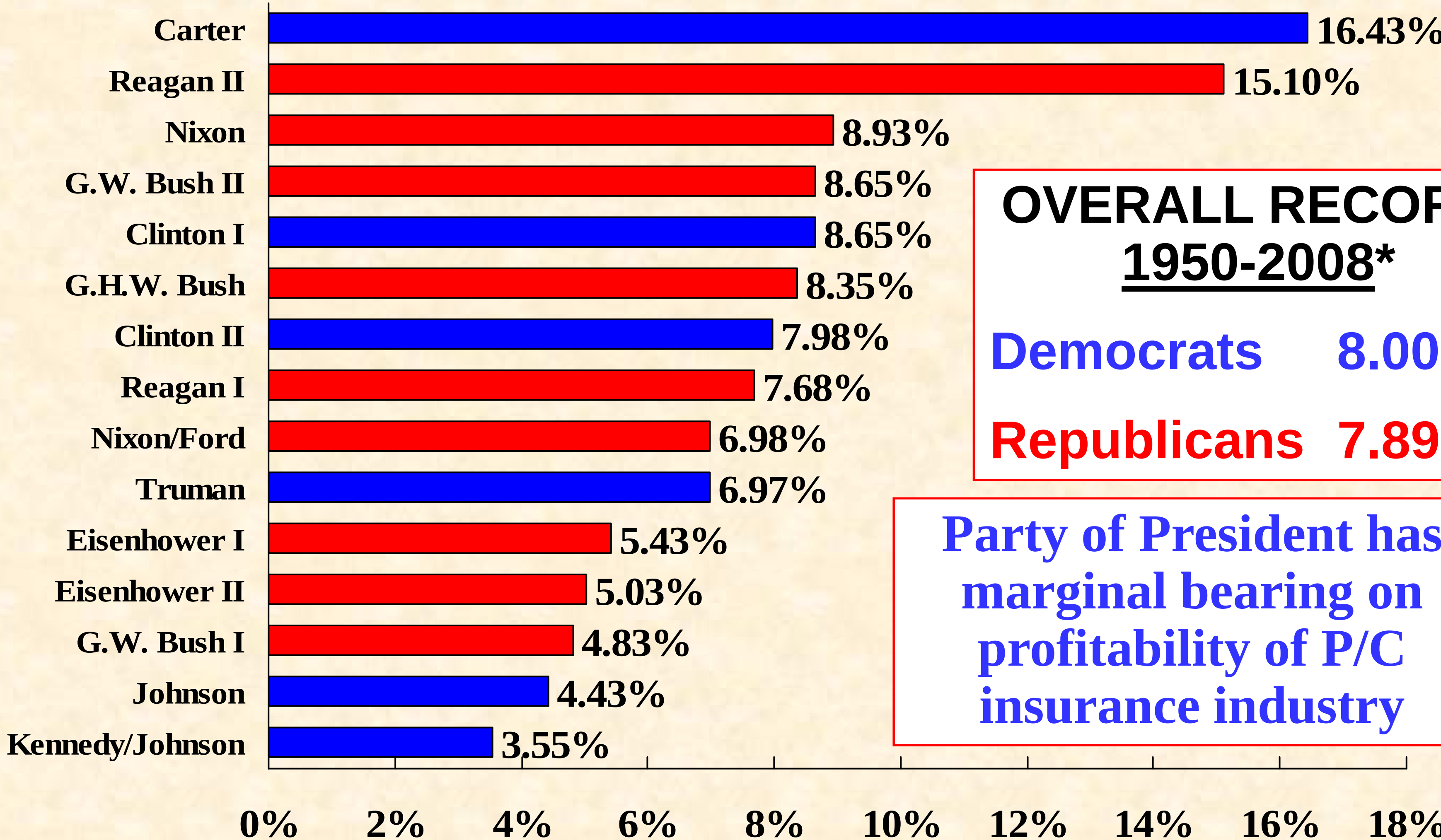
* 2008 figure is return on average statutory surplus. Excludes mortgage and financial guarantee insurers.

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

Presidential Politics & P/C Insurance

How is Profitability Affected by the President's Political Party?

P/C Insurance Industry ROE by Presidential Administration,1950-2008*



OVERALL RECORD: 1950-2008*

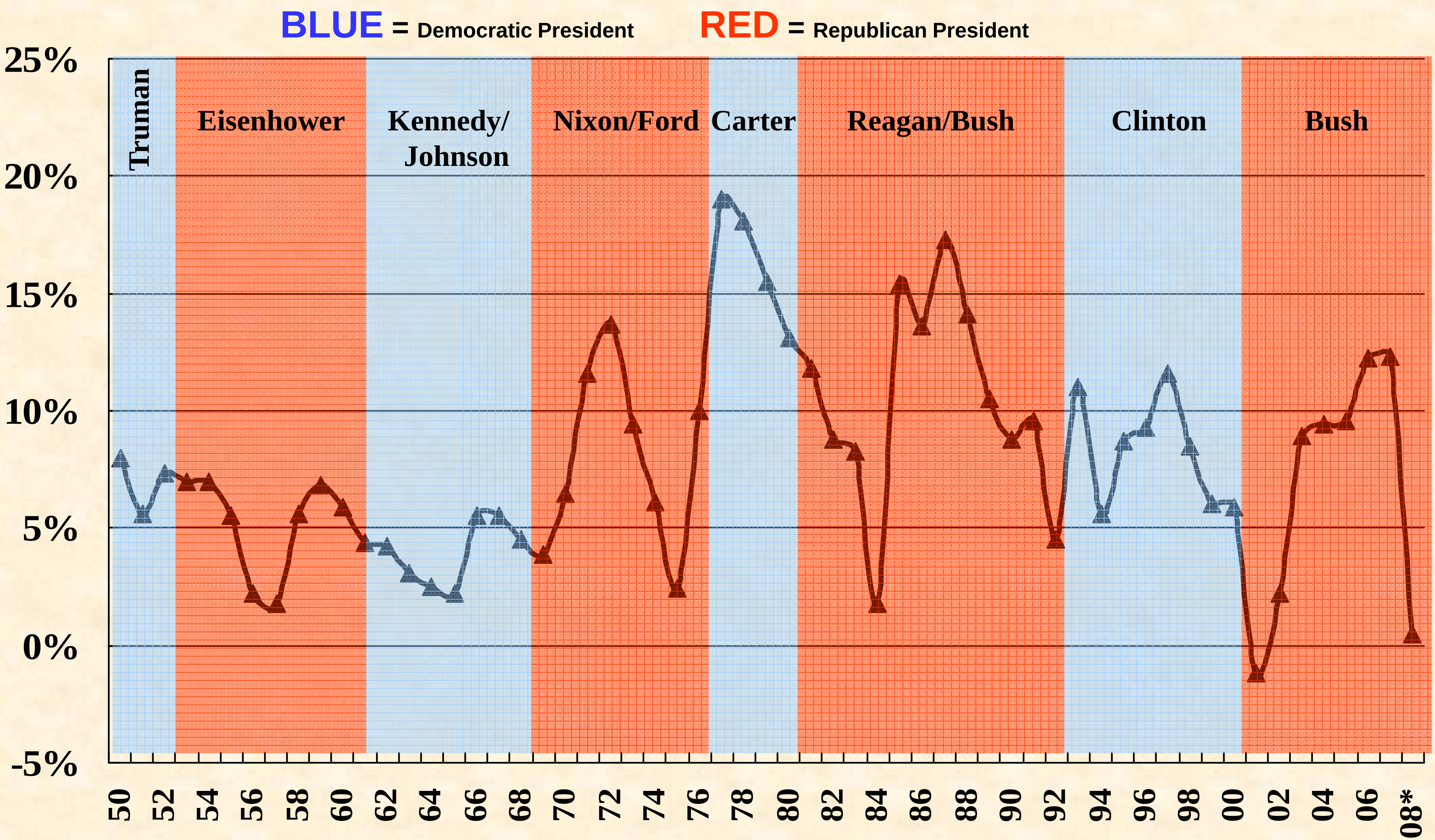
Democrats	8.00%
Republicans	7.89%

Party of President has marginal bearing on profitability of P/C insurance industry

*Truman administration ROE of 6.97% based on 3 years only, 1950-52.

Source: Insurance Information Institute

P/C Insurance Industry ROE by Presidential Party Affiliation, 1950–2008*

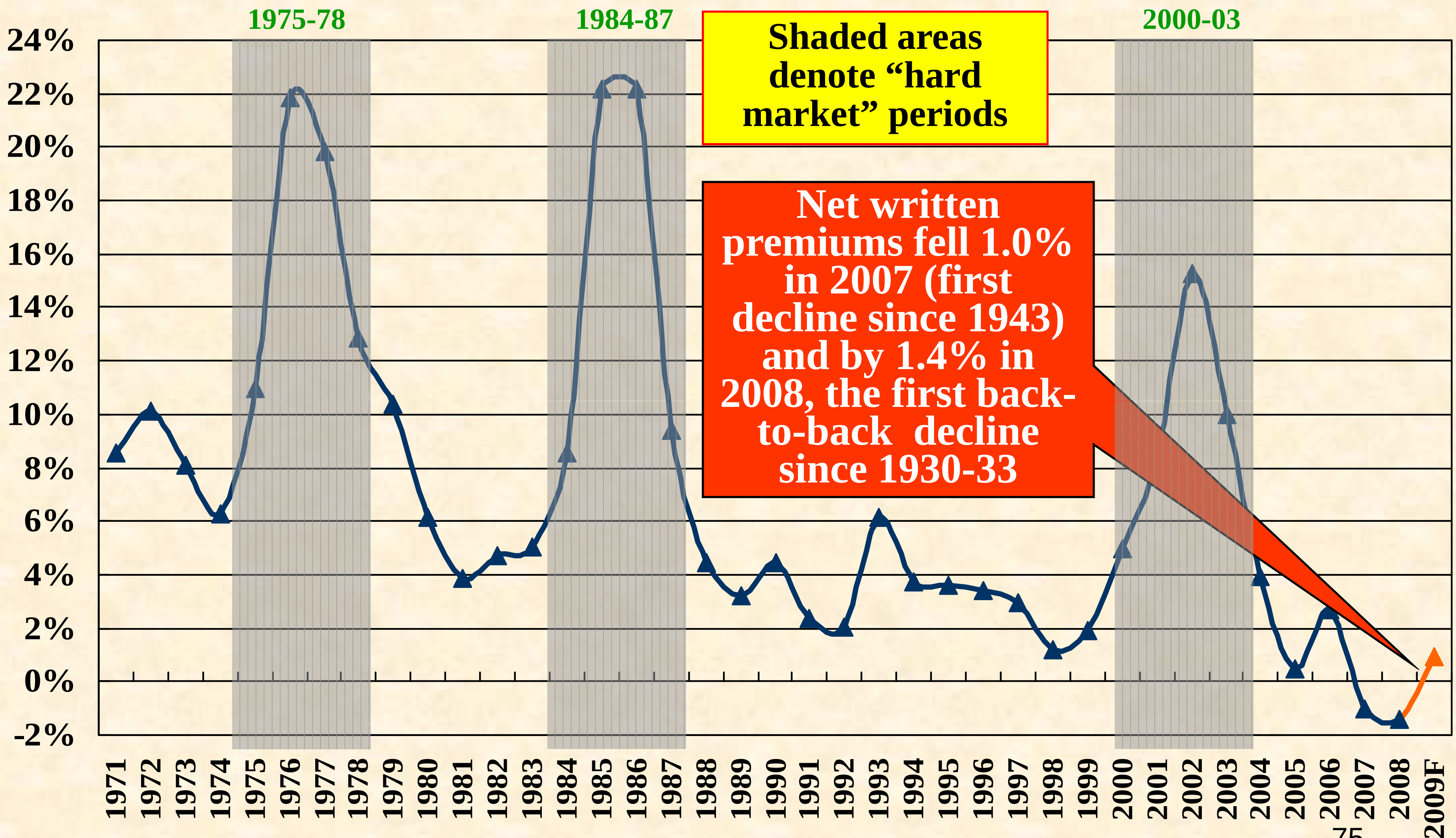


Source: Insurance Information Institute. *2008 based 9-month data.

P/C Premium Growth

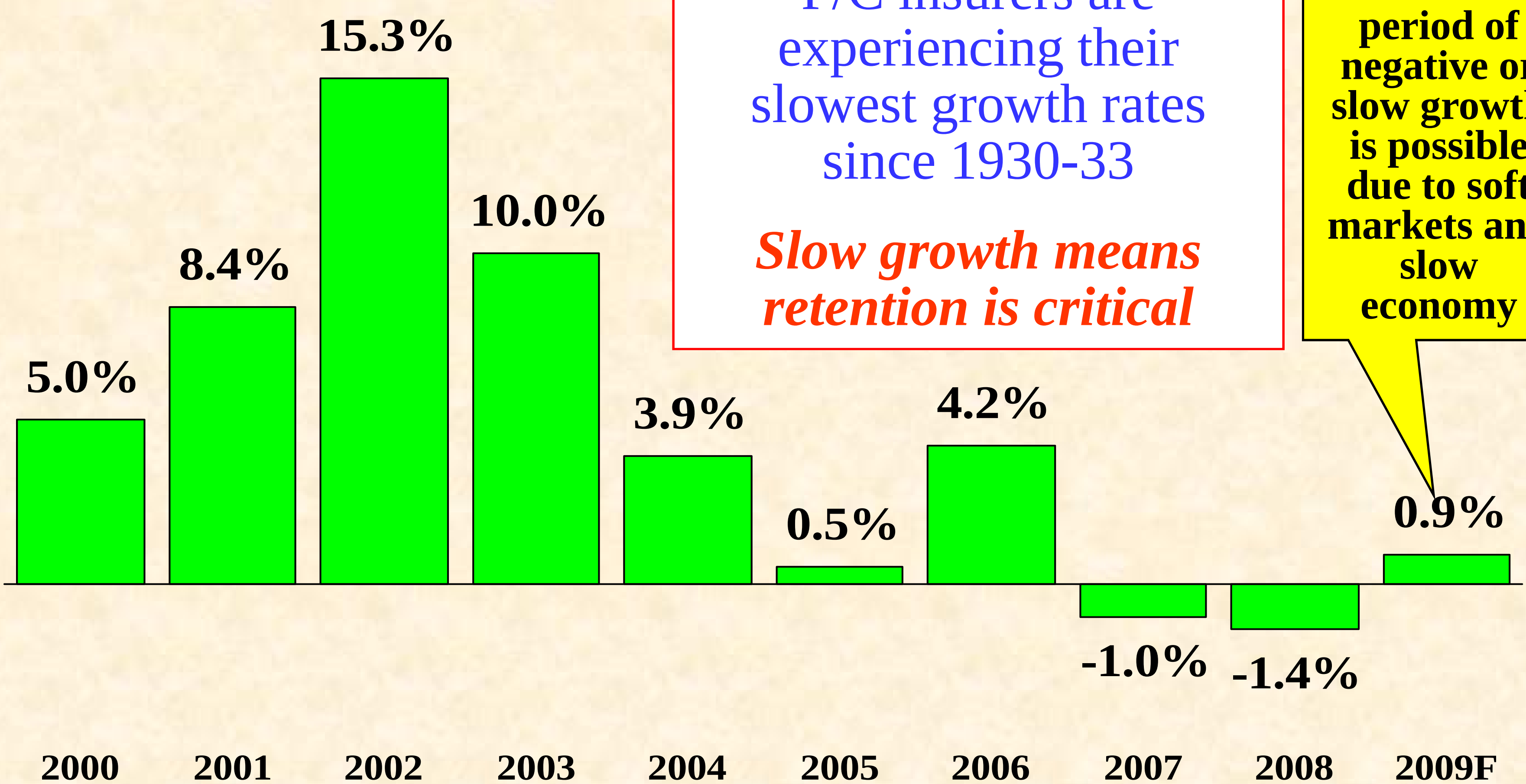
Primarily Driven by the Industry's Underwriting Cycle, Not the Economy

Strength of Recent Hard Markets by NWP Growth



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

Year-to-Year Change in Net Written Premium, 2000-2009F*



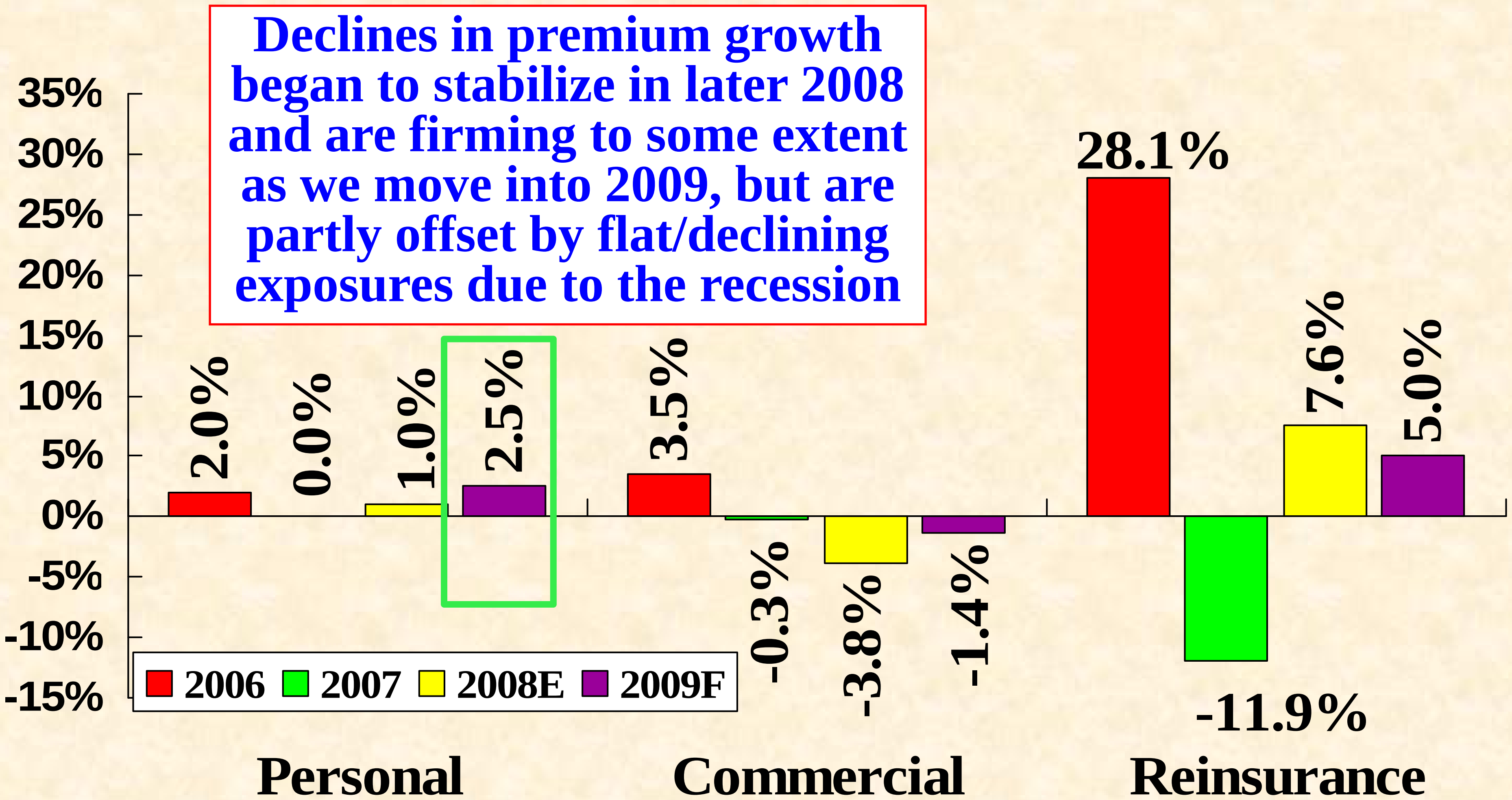
P/C insurers are experiencing their slowest growth rates since 1930-33

Slow growth means retention is critical

Protracted period of negative or slow growth is possible due to soft markets and slow economy

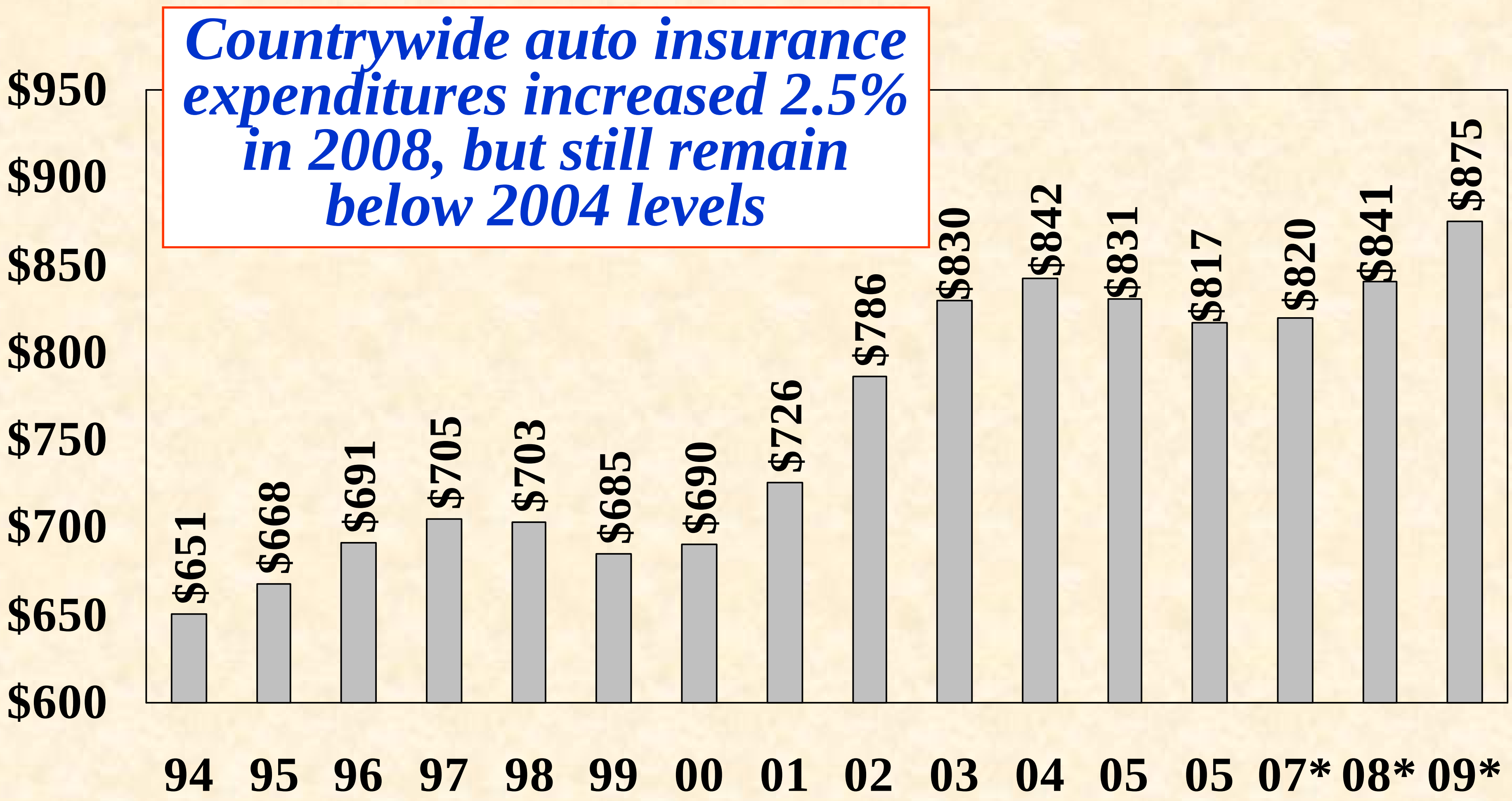
*2008 figure is from ISO. Excluding Mortgage & Financial Guarantee insurers = -1.5%.
Source: A.M. Best (historical and forecast)

Personal/Commercial Lines & Reinsurance NPW Growth, 2006-2009F



Sources: A.M. Best Review & Preview, Feb. 2009

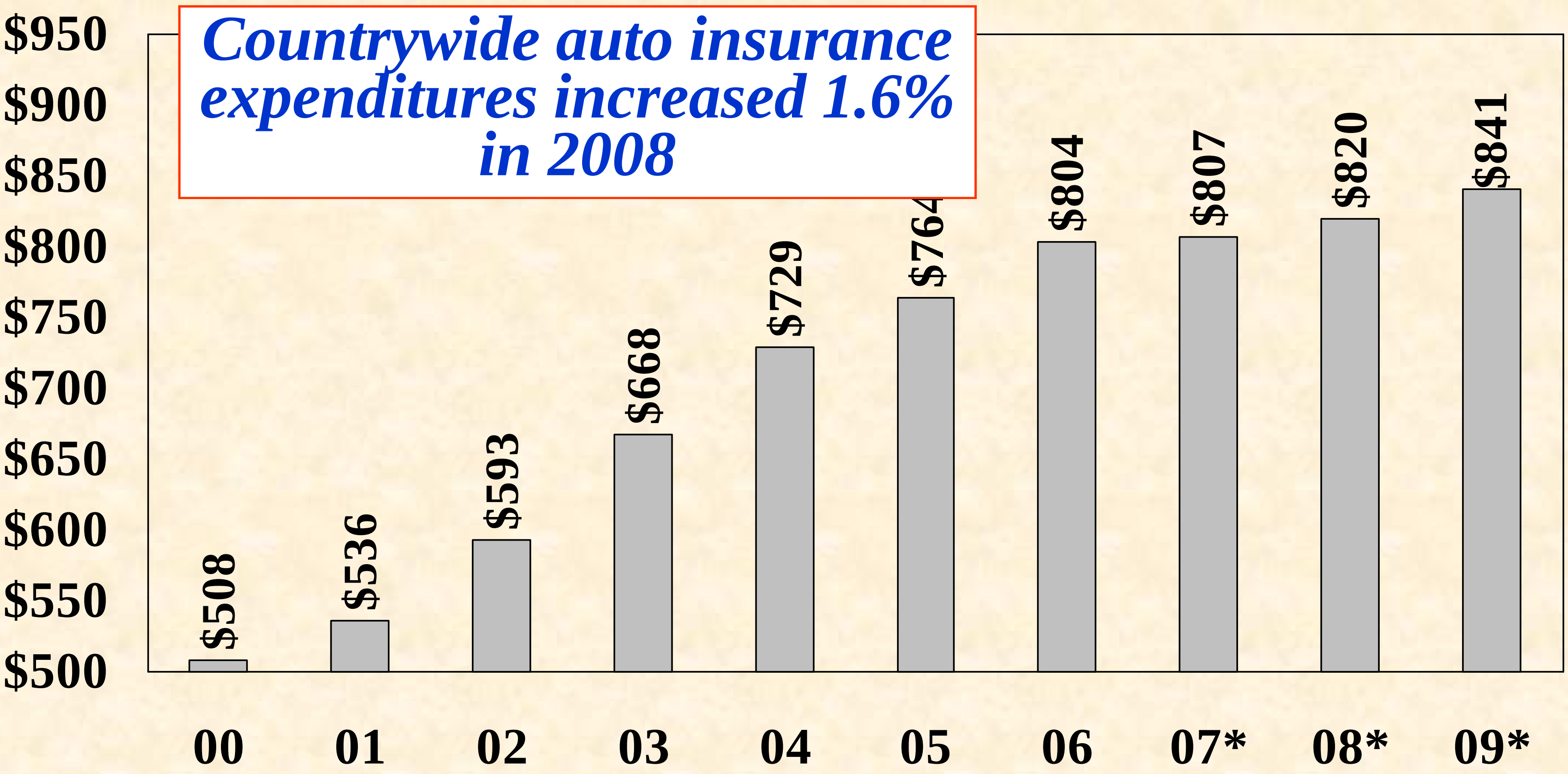
Average Expenditures on Auto Insurance



*Insurance Information Institute Estimates/Forecasts

Source: NAIC, Insurance Information Institute estimates 2007-2009 based on CPI data.

Average Premium for Private Home Insurance Policies**

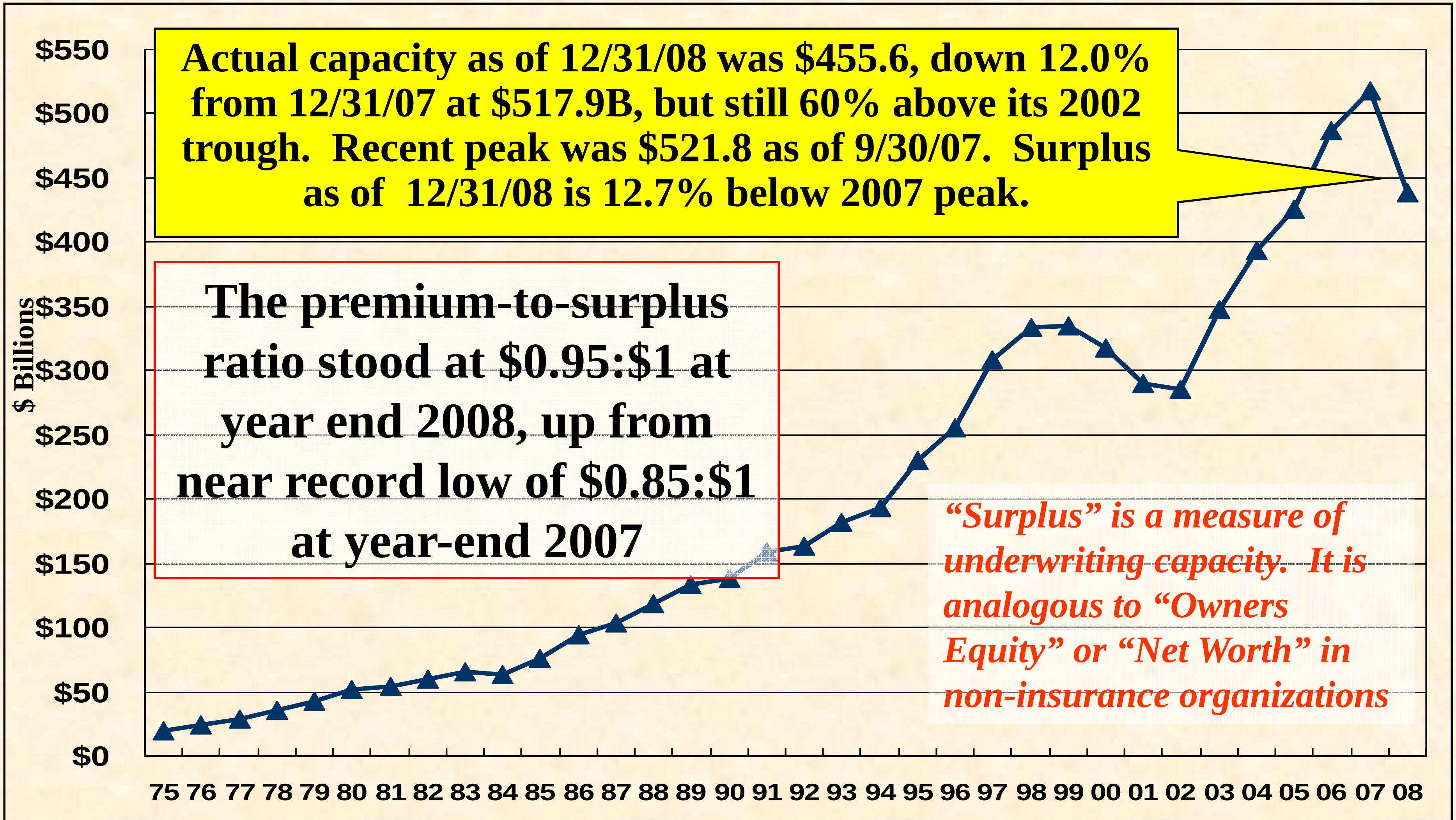


*Insurance Information Institute Estimates/Forecasts **Excludes state-run insurers.
Source: NAIC, Insurance Information Institute estimates 2007-2009 based on CPI data.

Capital/ Policyholder Surplus

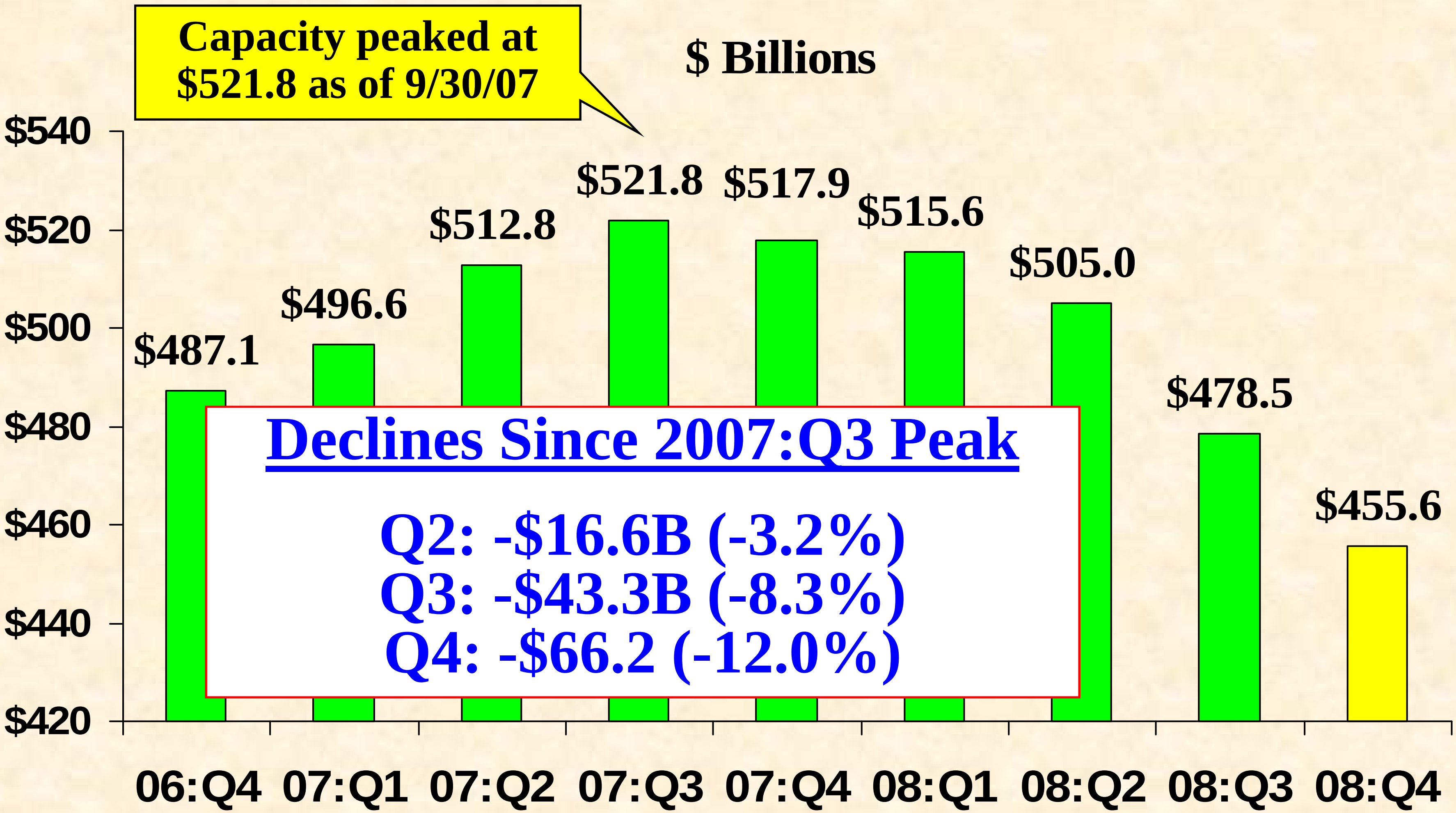
Shrinkage, but Capital is Within Historic Norms

U.S. Policyholder Surplus: 1975-2008*



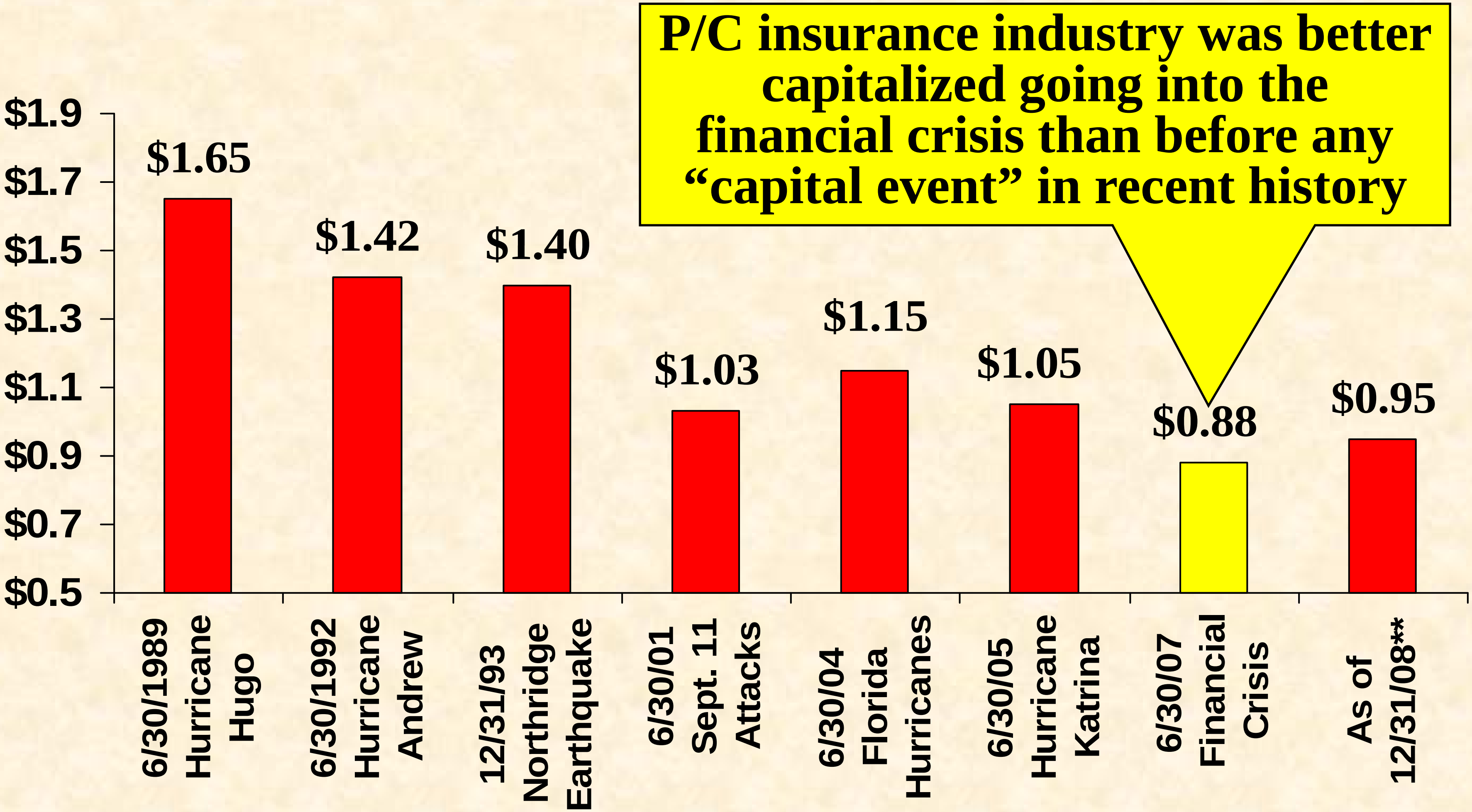
Source: A.M. Best, ISO, Insurance Information Institute. *As of 12/31/08

Policyholder Surplus, 2006:Q4 – 2008:Q4



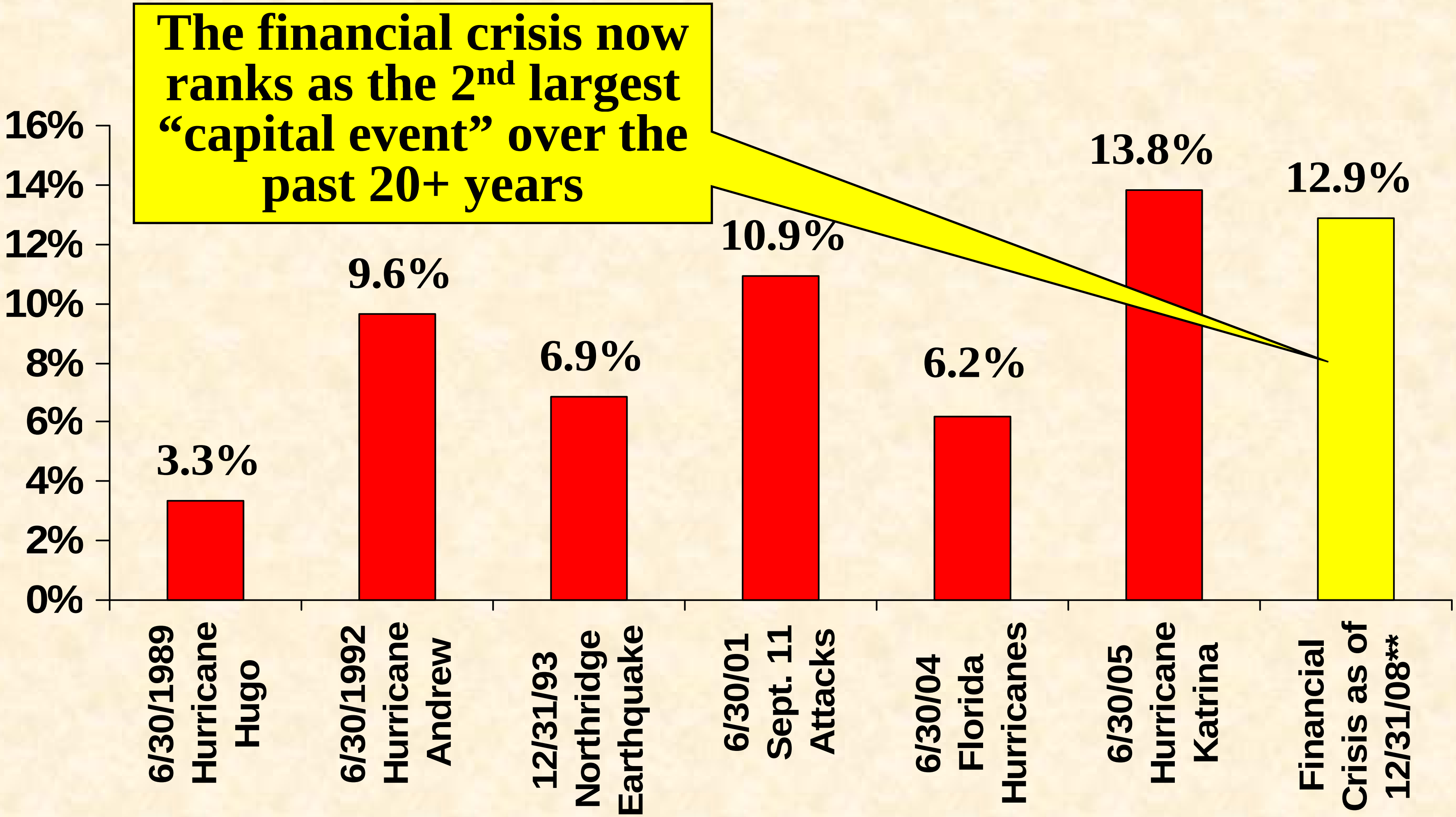
Source: ISO.

Premium-to-Surplus Ratios Before Major Capital Events*



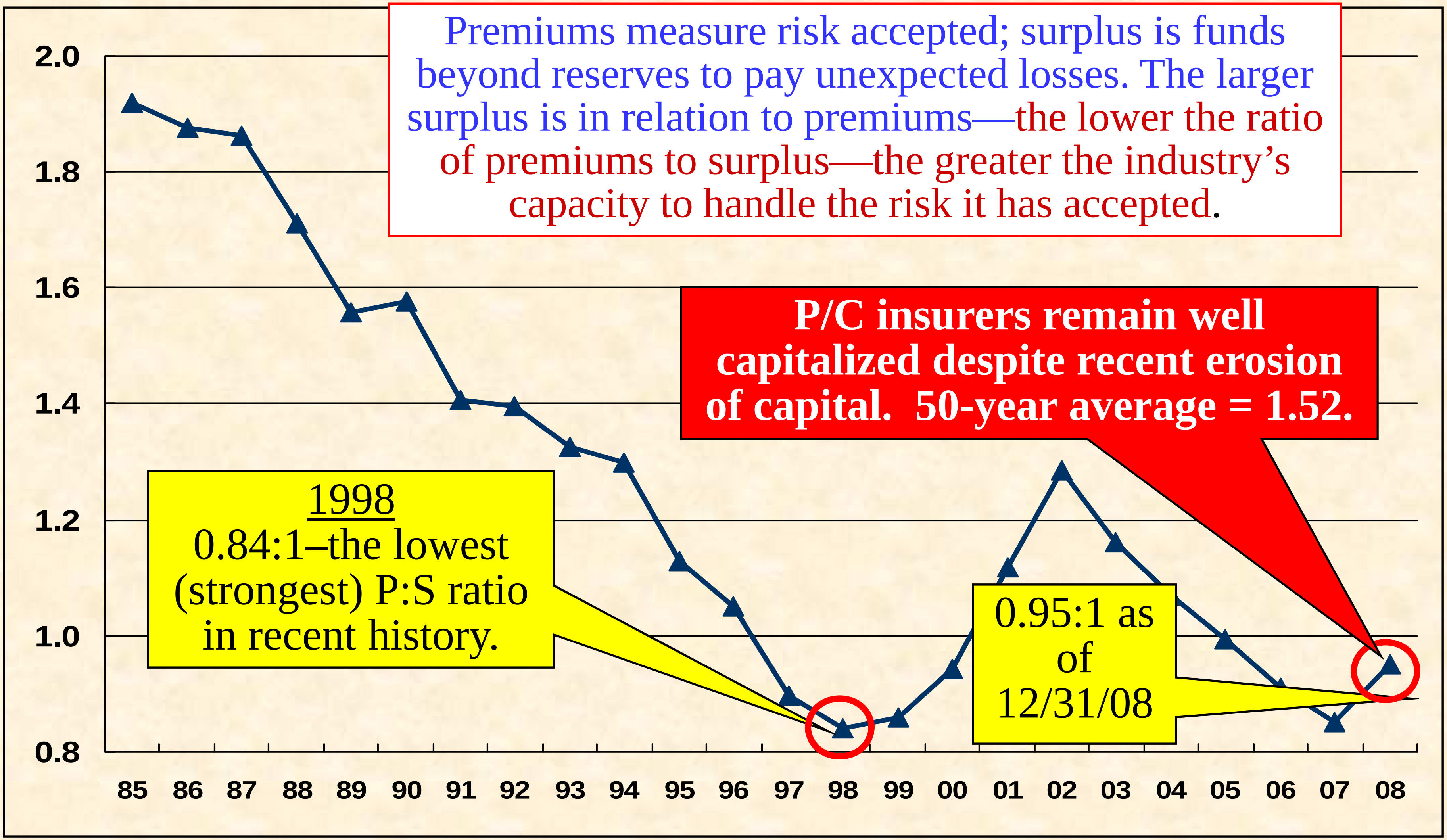
*Ratio is for end of quarter immediately prior to event. Date shown is end of quarter prior to event.
**Latest available
Source: PCS; Insurance Information Institute.

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



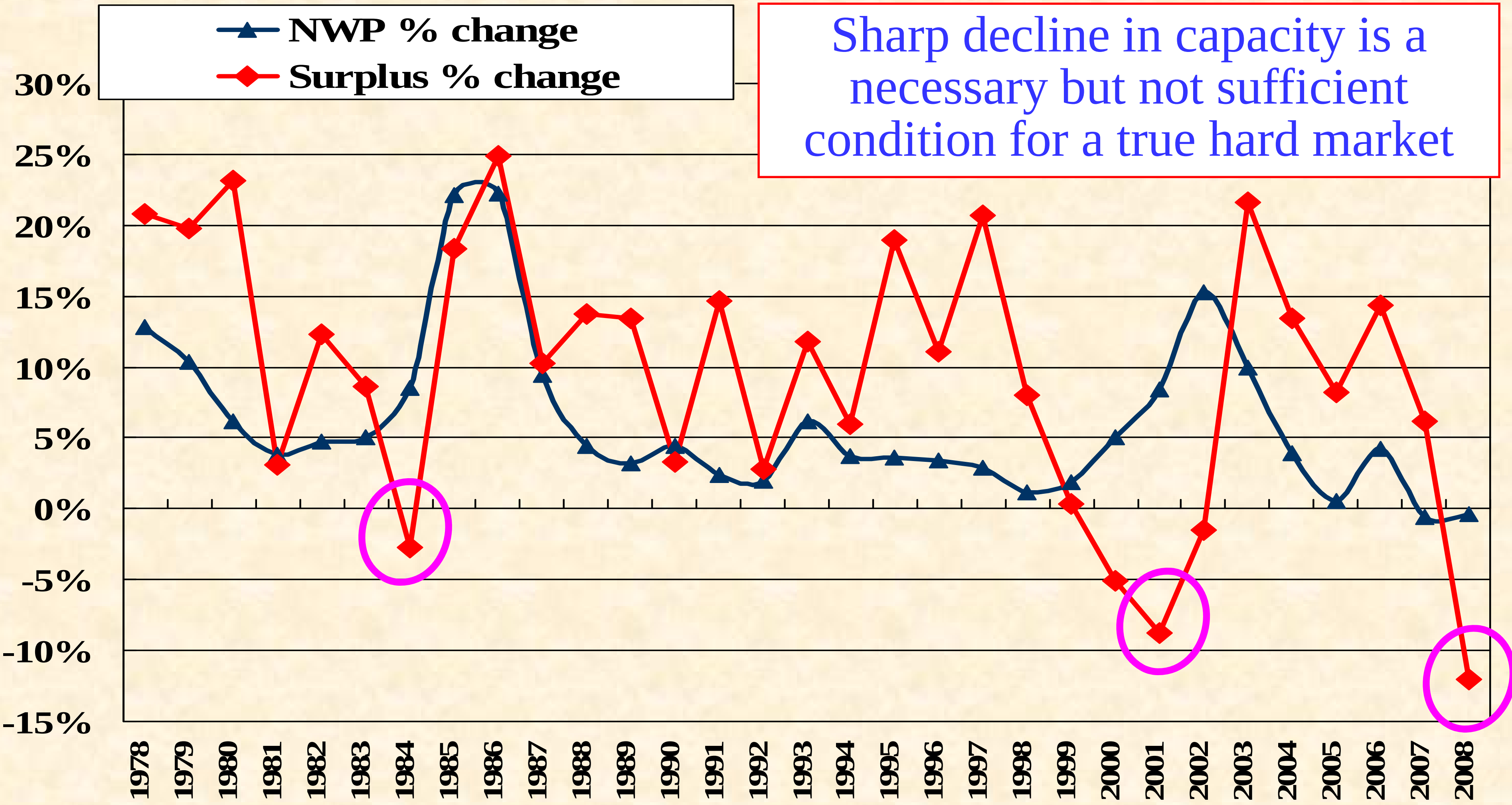
*Ratio is for end-of-quarter surplus immediately prior to event. Date shown is end of quarter prior to event.
**Latest available
Source: PCS; Insurance Information Institute.

U.S. P/C Industry Premiums-to-Surplus Ratio: 1985-2008



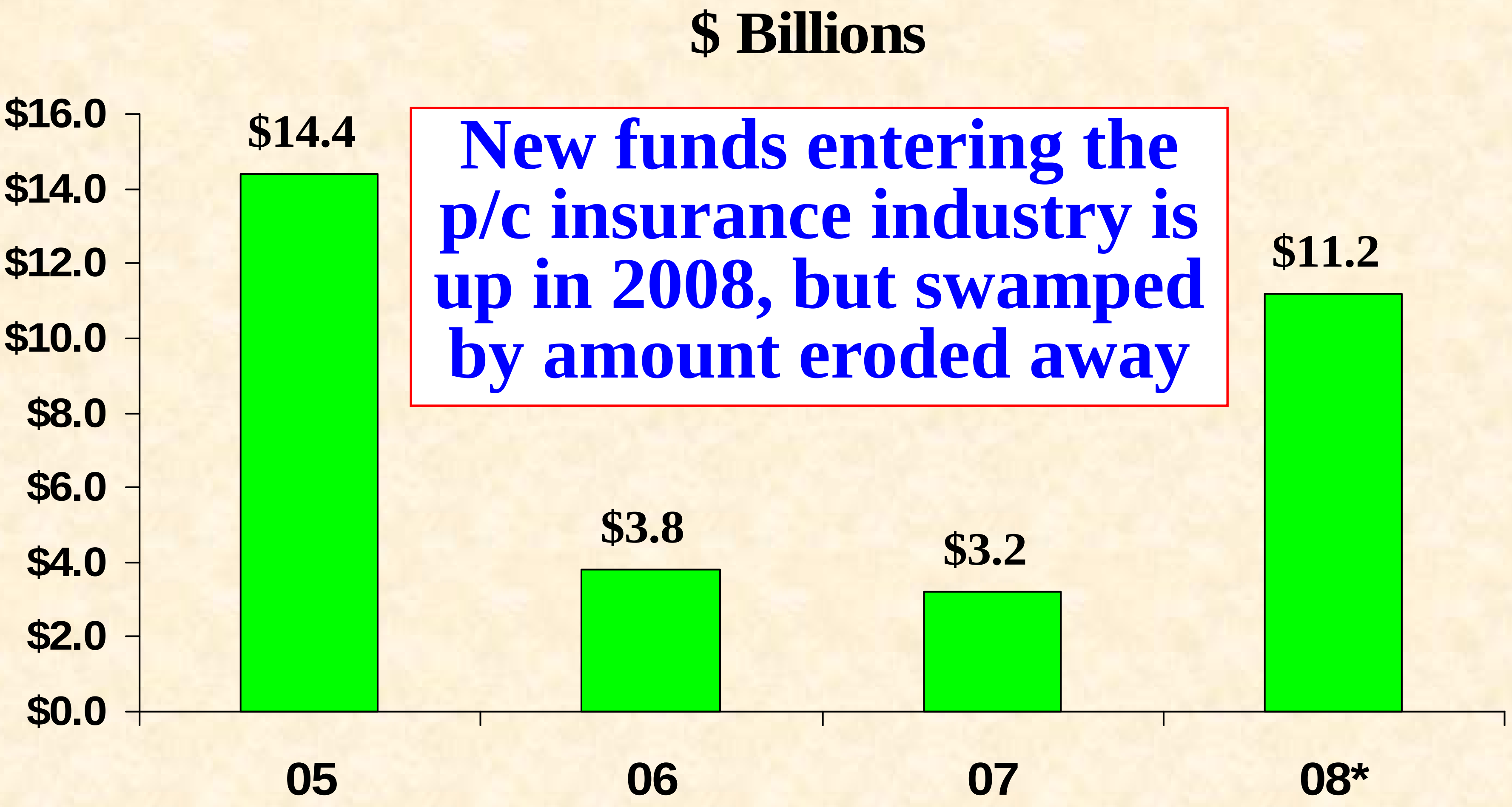
Sources: A.M. Best, ISO, Insurance Information Institute.

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



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

New Funds Contributing to US Policyholder Surplus, 2005-2008*



*Through Q4 2008 (latest available).
Source: ISO; Insurance Information Institute

Investment Performance

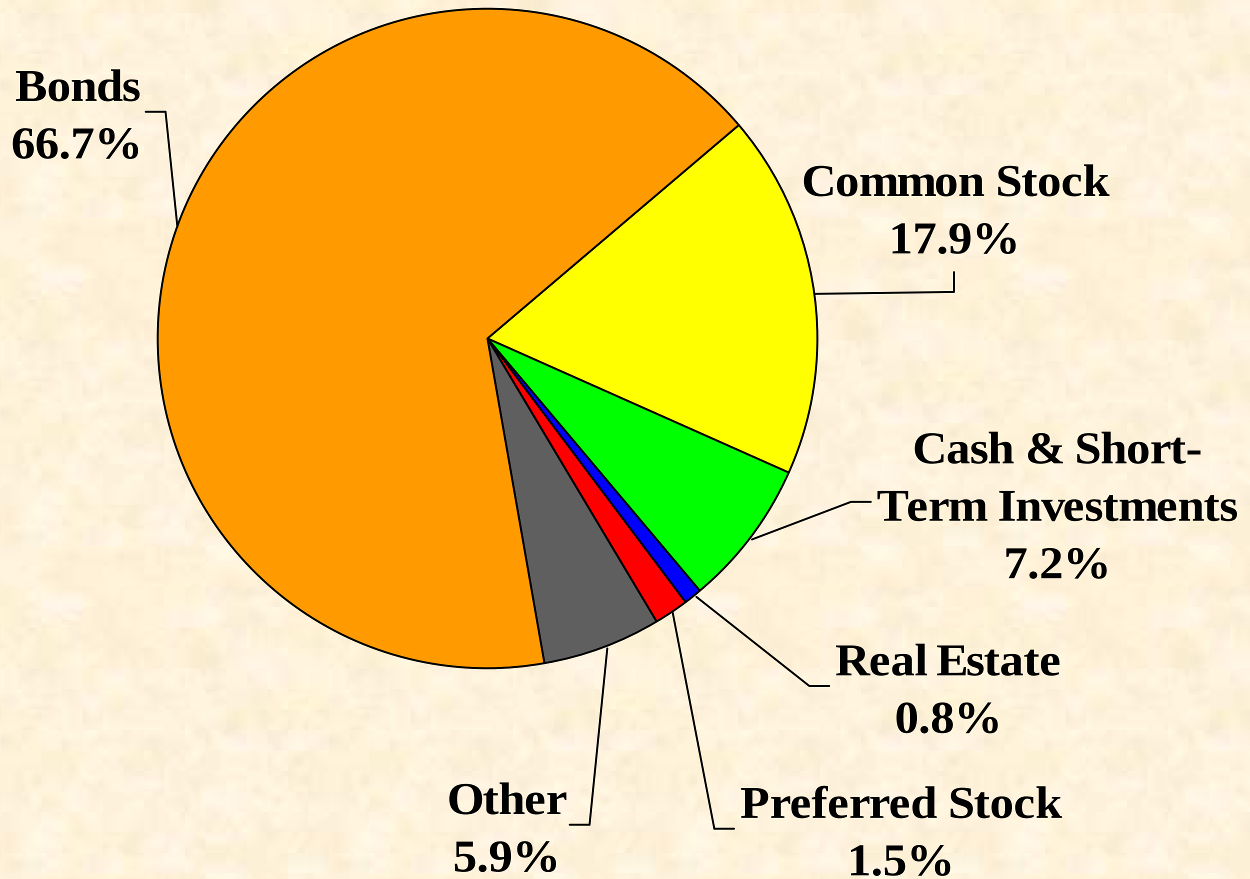
Investments are the Principle Source of Declining Profitability

Distribution of P/C Insurance Industry's Investment Portfolio

As of December 31, 2007

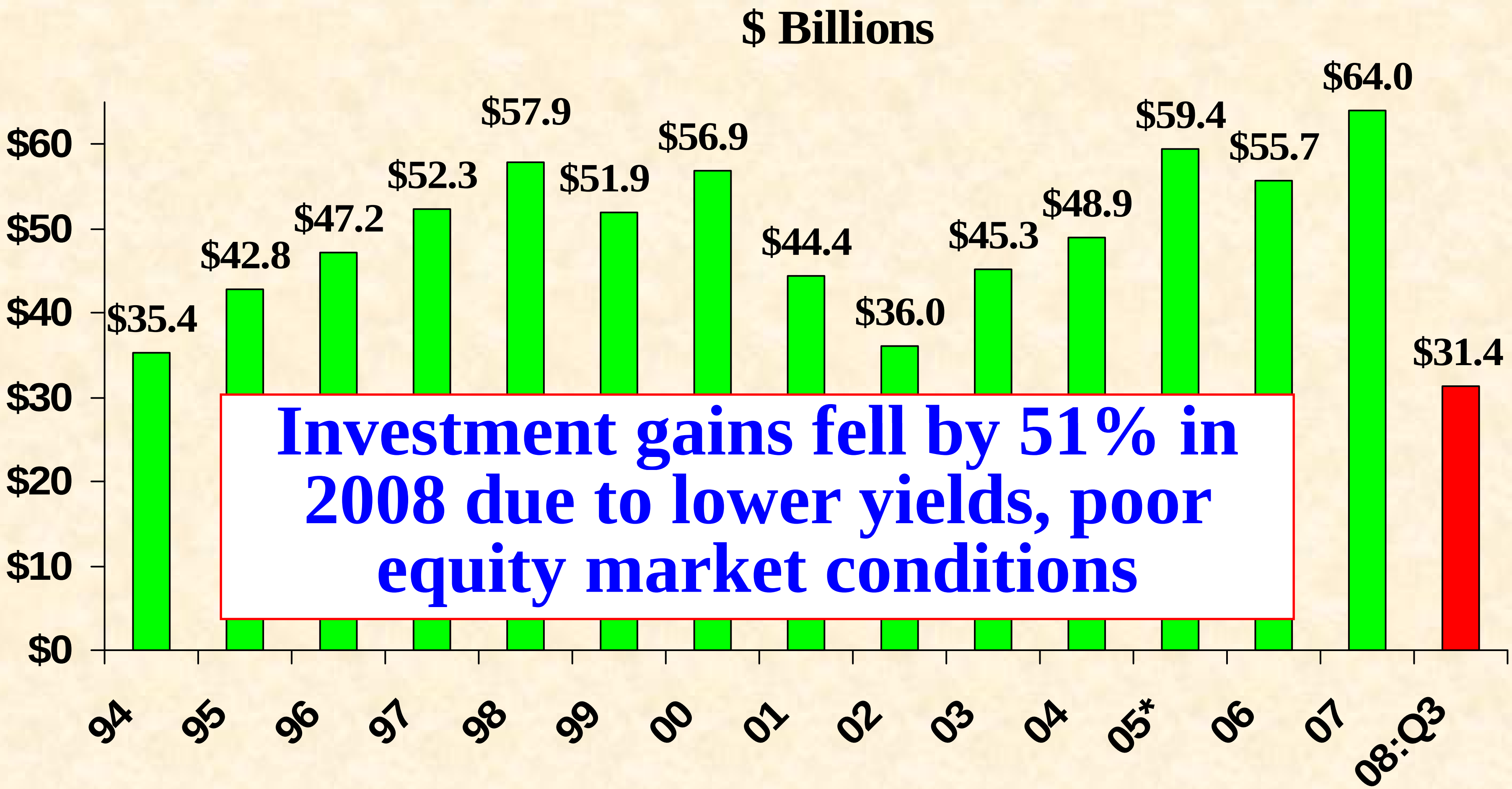
Portfolio Facts

- **Invested assets totaled $1.3 trillion as of 12/31/07**
- **Insurers are generally conservatively invested, with 2/3 of assets invested in bonds as of 12/31/07**
- **Only about 18% of assets were invested in common stock as of 12/31/07**
- **Even the most conservative of portfolios was hit hard in 2008**



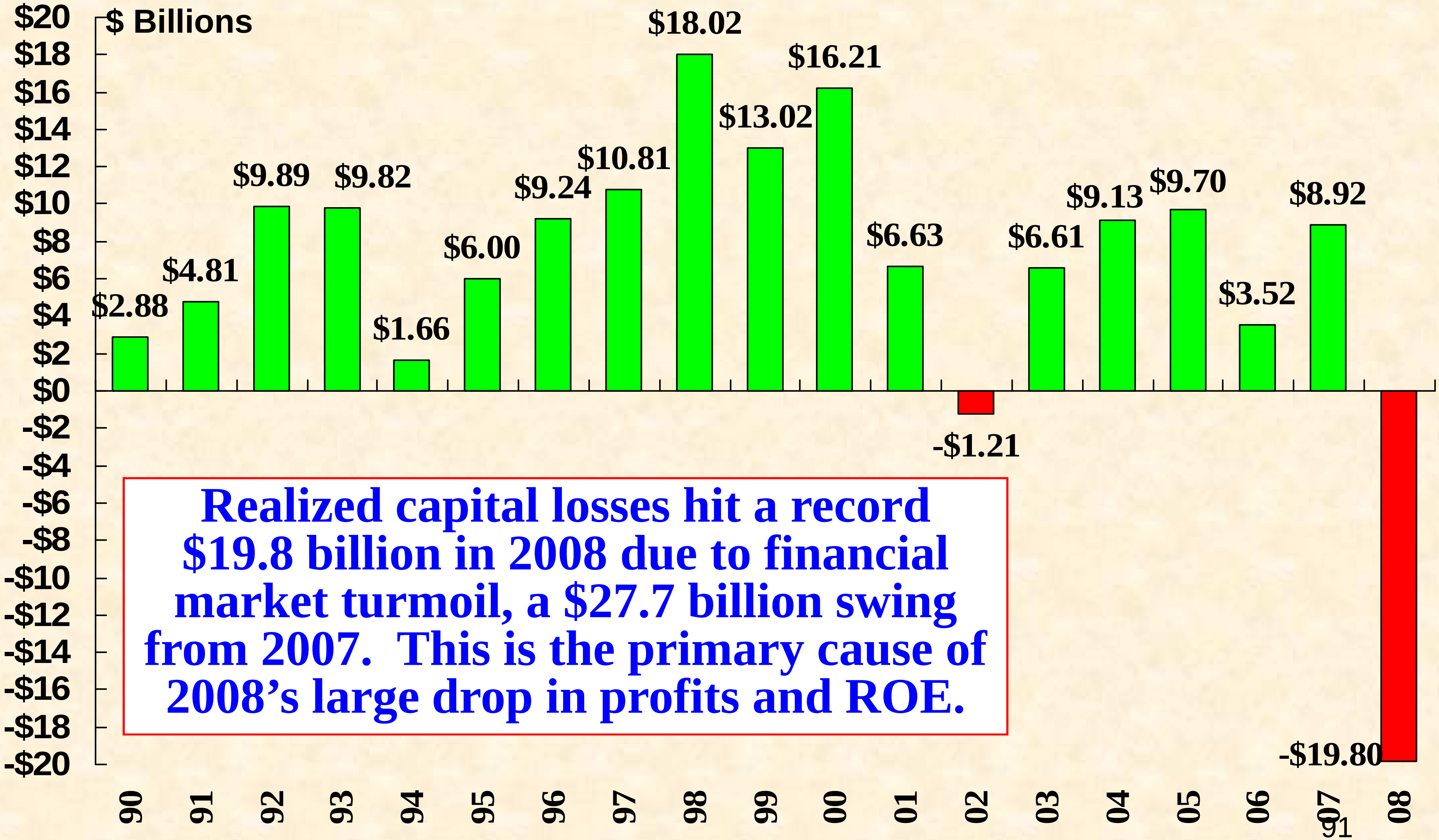
Source: NAIC; Insurance Information Institute research;.

Property/Casualty Insurance Industry Investment Gain:1994- 2008[1]



[1]Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.
2006 figure consists of $52.3B net investment income and $3.4B realized investment gain.
*2005 figure includes special one-time dividend of $3.2B.
Sources: ISO; Insurance Information Institute.

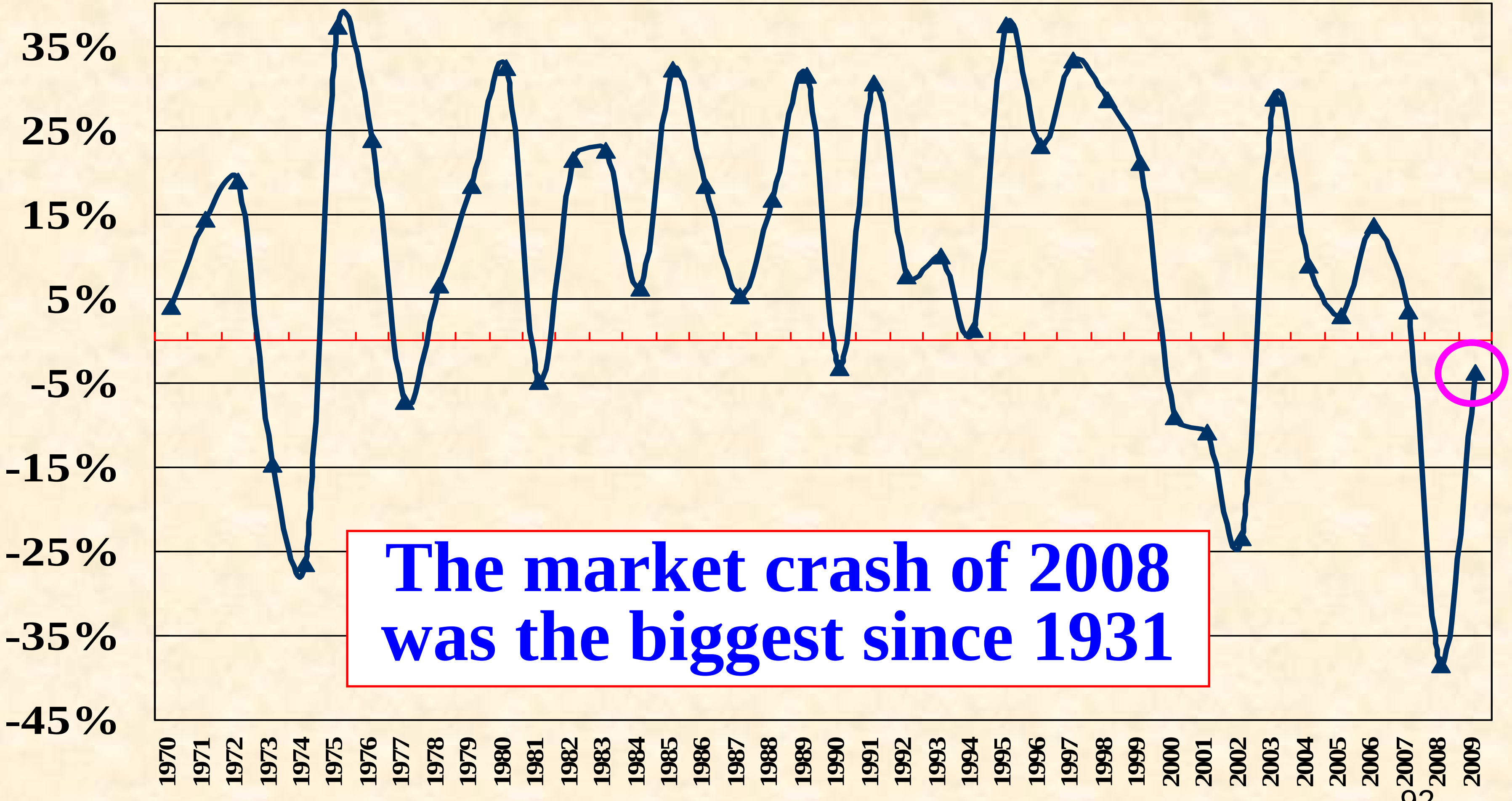
P/C Insurer Net Realized Capital Gains, 1990-2008



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

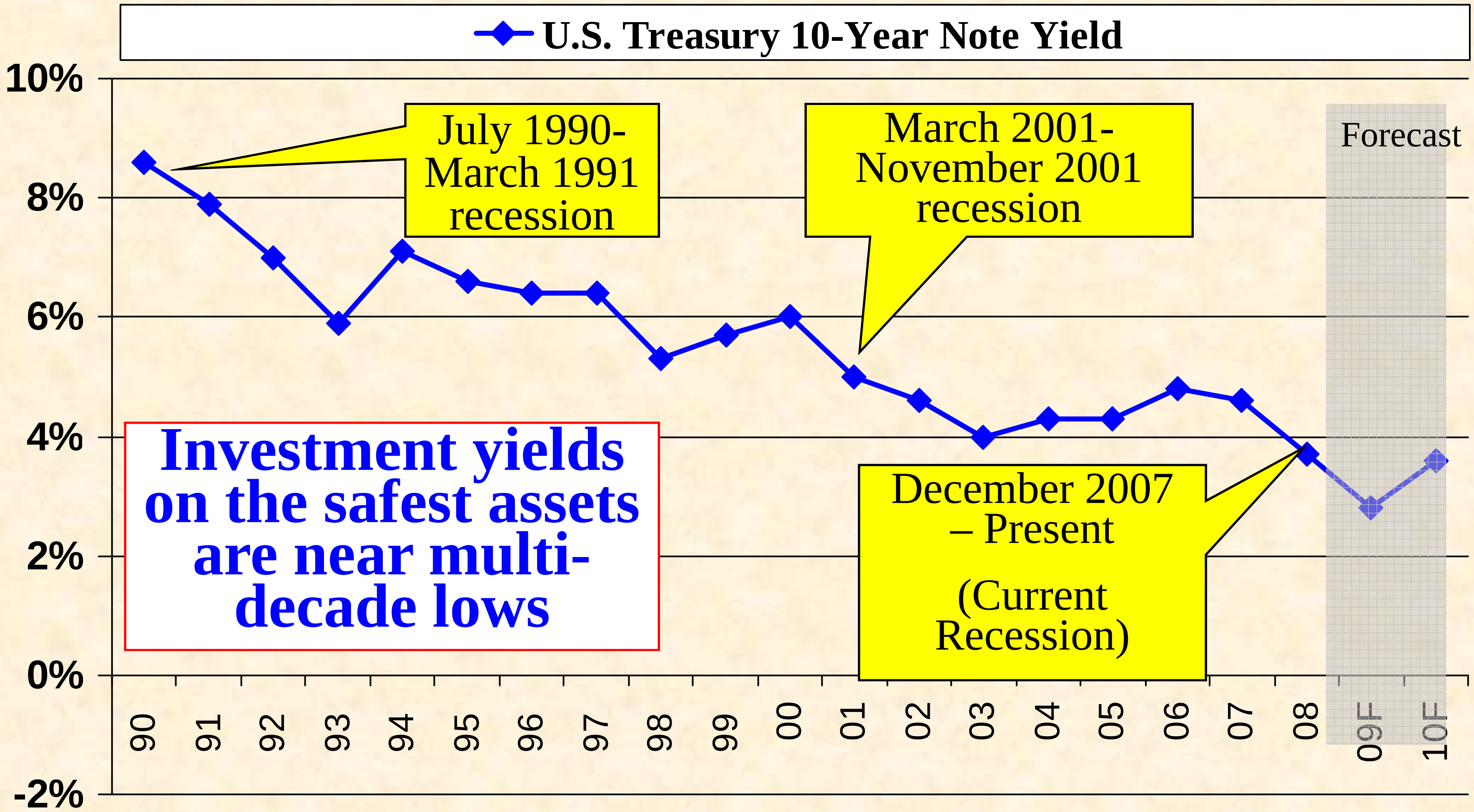
*Total Returns for Large Company Stocks: 1970-2009**

S&P 500 is down 3.7% in 2009*



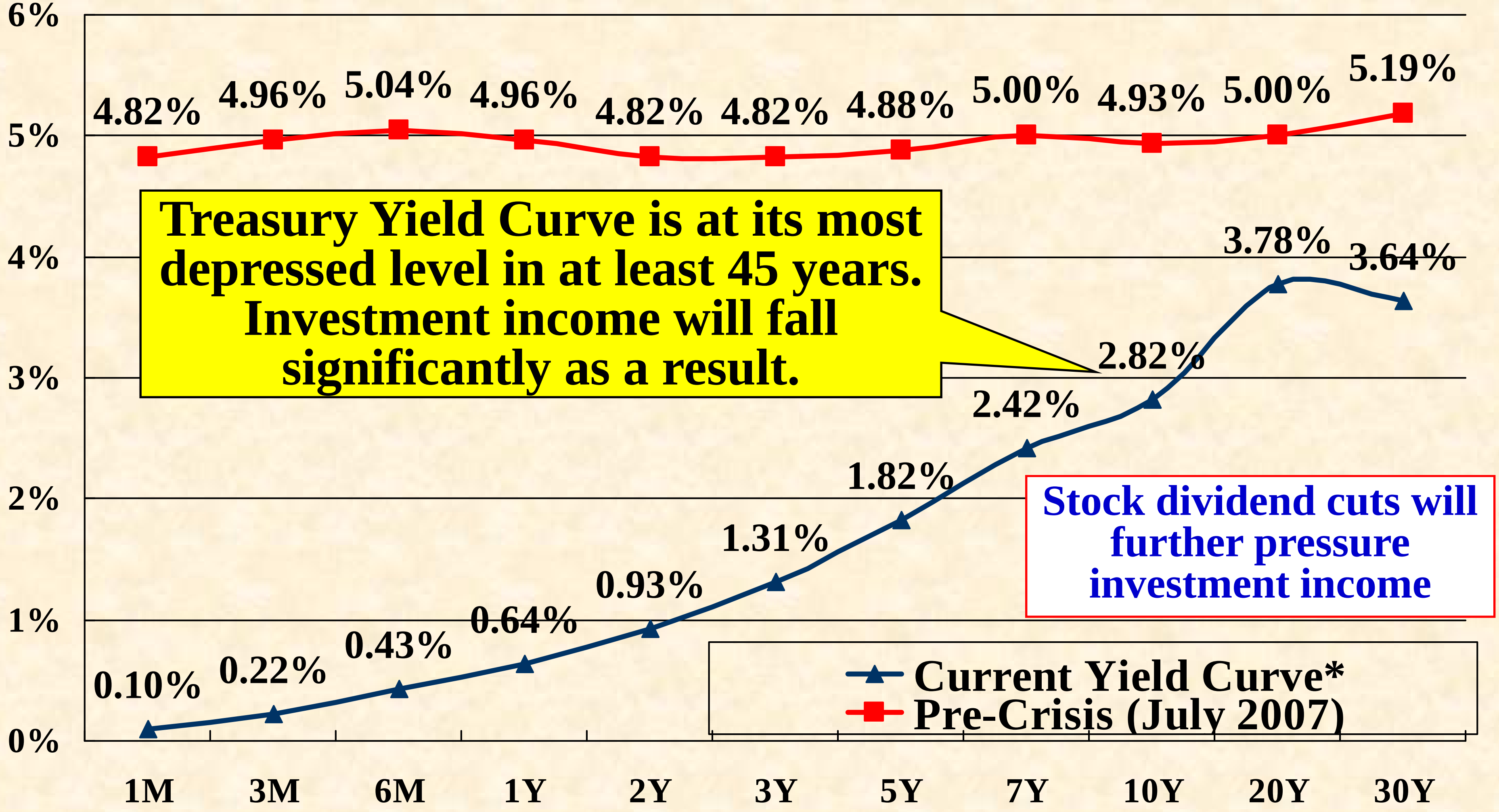
Source: Ibbotson Associates, Insurance Information Institute. *Through April 17, 2009.

Treasury Bond Yields Have Generally Been Falling



Sources: US Bureau of Labor Statistics (history); Blue Chip Economic Indicators, February 2009 issue (forecasts)

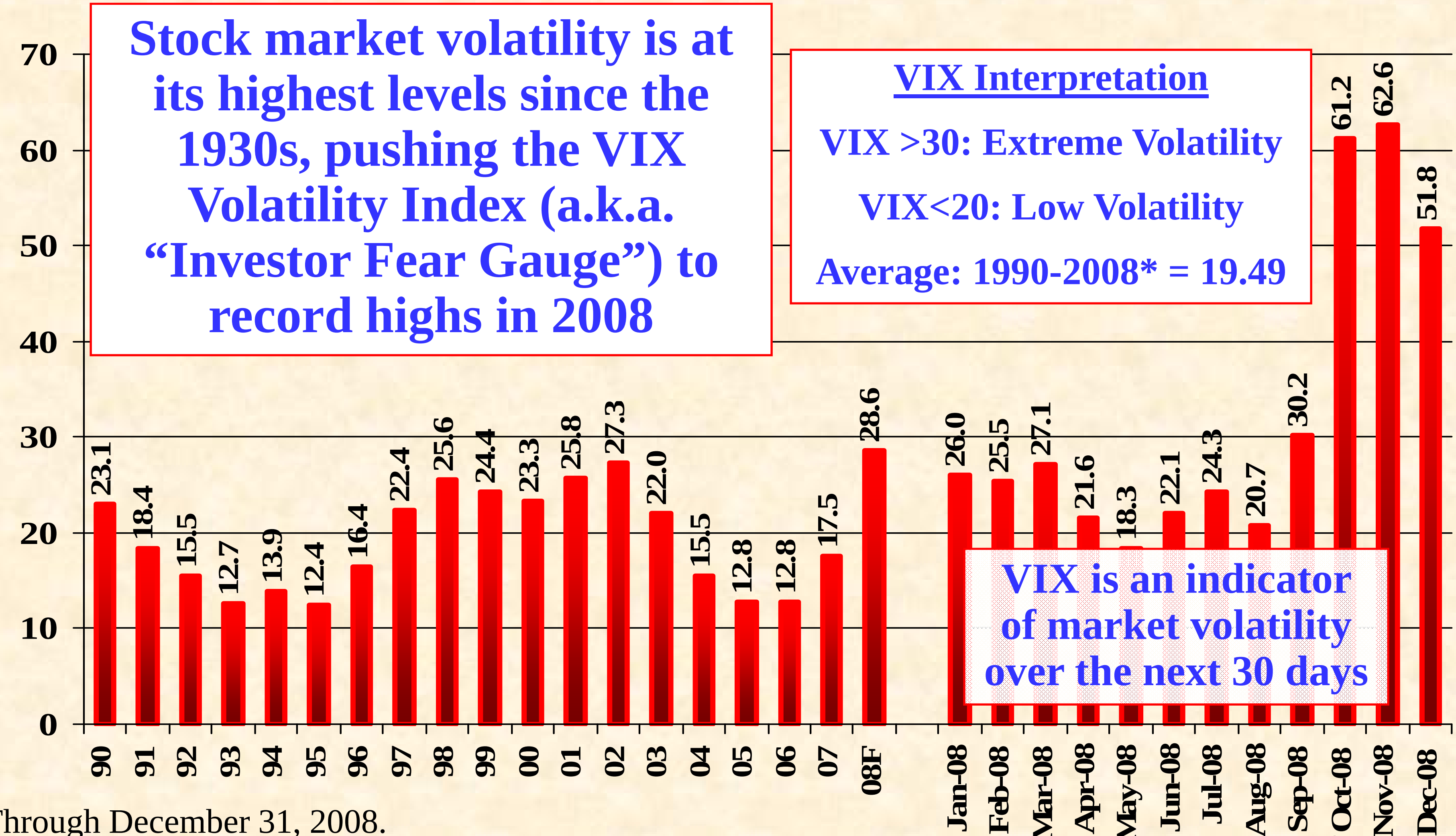
Treasury Yield Curves: Pre-Crisis vs. Current*



*March 2009.

Sources: Federal Reserve; Insurance Information Institute.

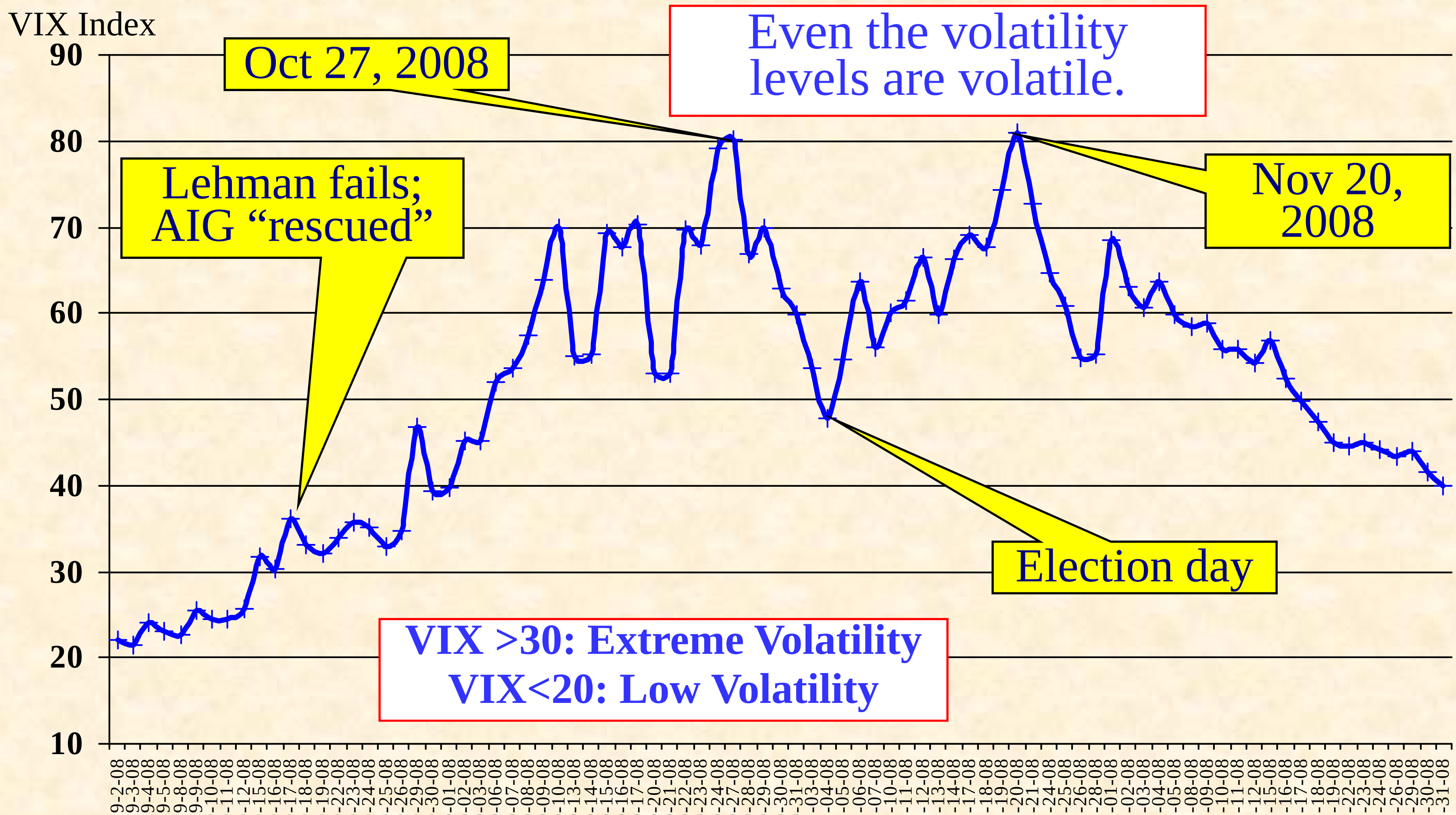
VIX Volatility Index: Stock Market Volatility at Record Highs in 2008*



*Through December 31, 2008.

Sources: Chicago Board Options Exchange: http://www.cboe.com/micro/vix/historical.aspx

Stock Market Daily Volatility in 2008*: Heading to "Normal"?



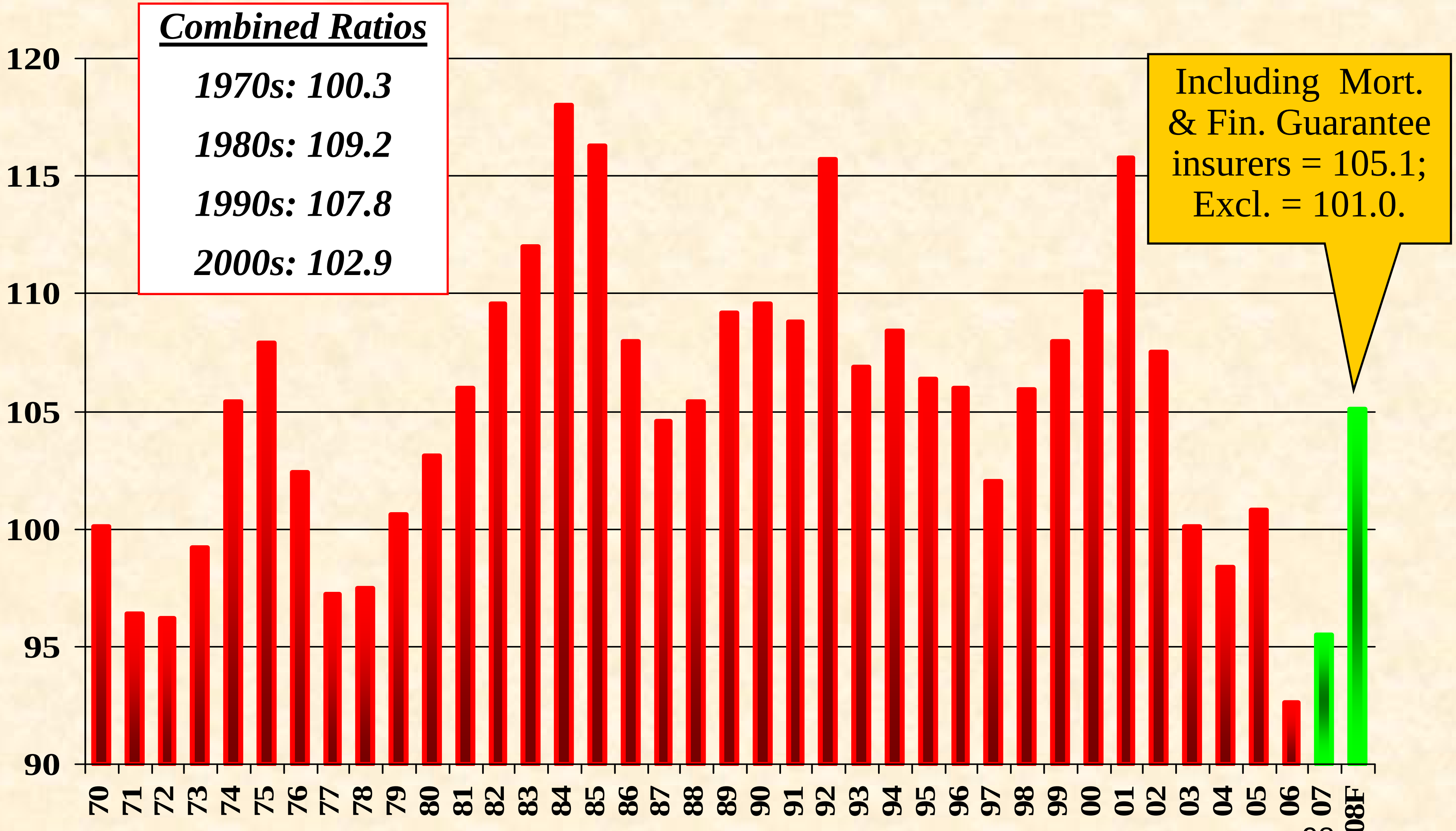
*September 2 to December 31, 2008.

Source: Chicago Board Options Exchange: http://www.cboe.com/micro/vix/historical.aspx

Underwriting Trends

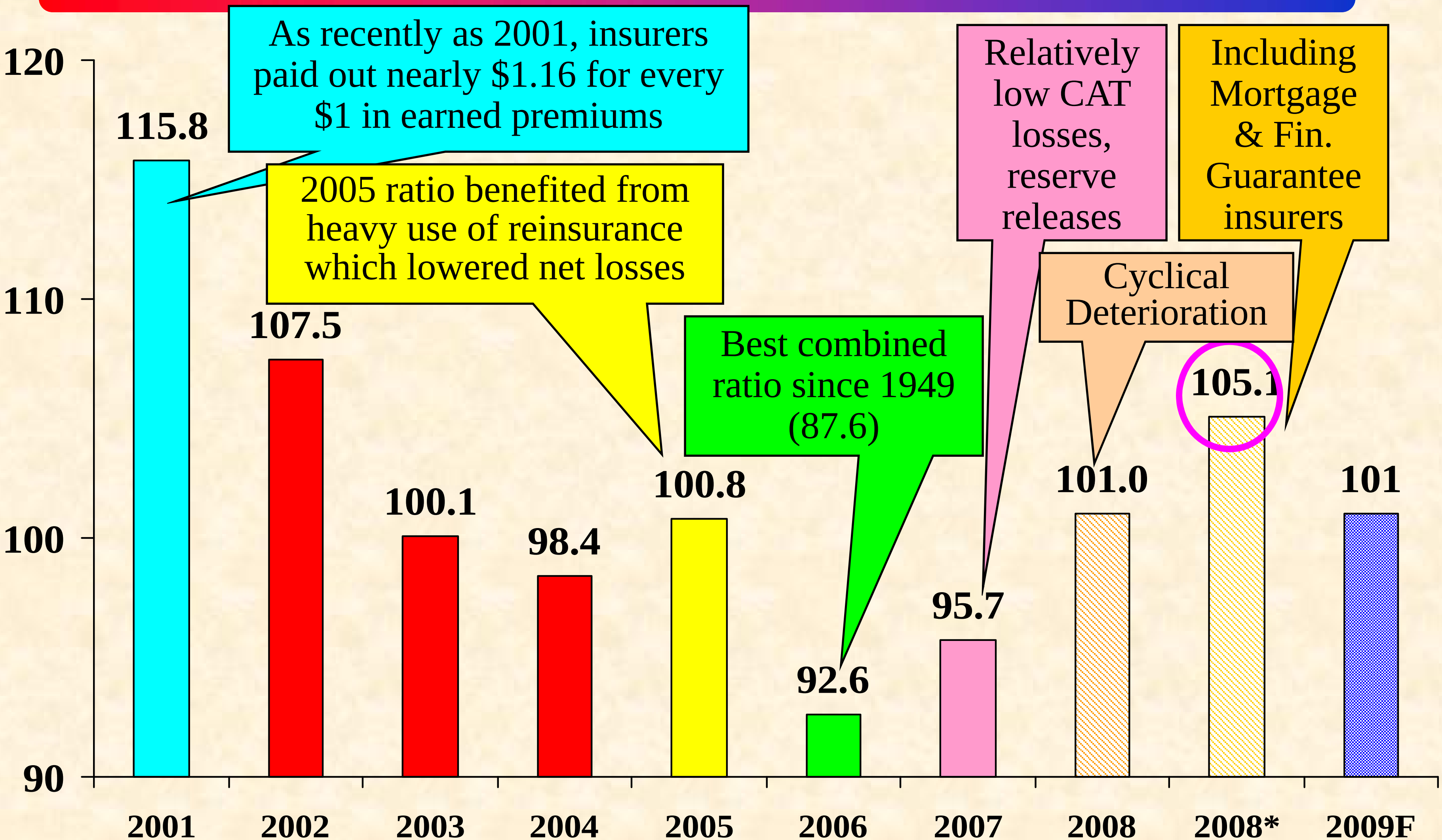
Financial Crisis Does *Not* Directly Impact Underwriting Performance: Cycle, Catastrophes Were 2008's Drivers

P/C Insurance Combined Ratio, 1970-2008F*



Sources: A.M. Best; ISO, III *Excluding mortgage & financial guarantee insurers in 2008 = 101.0.

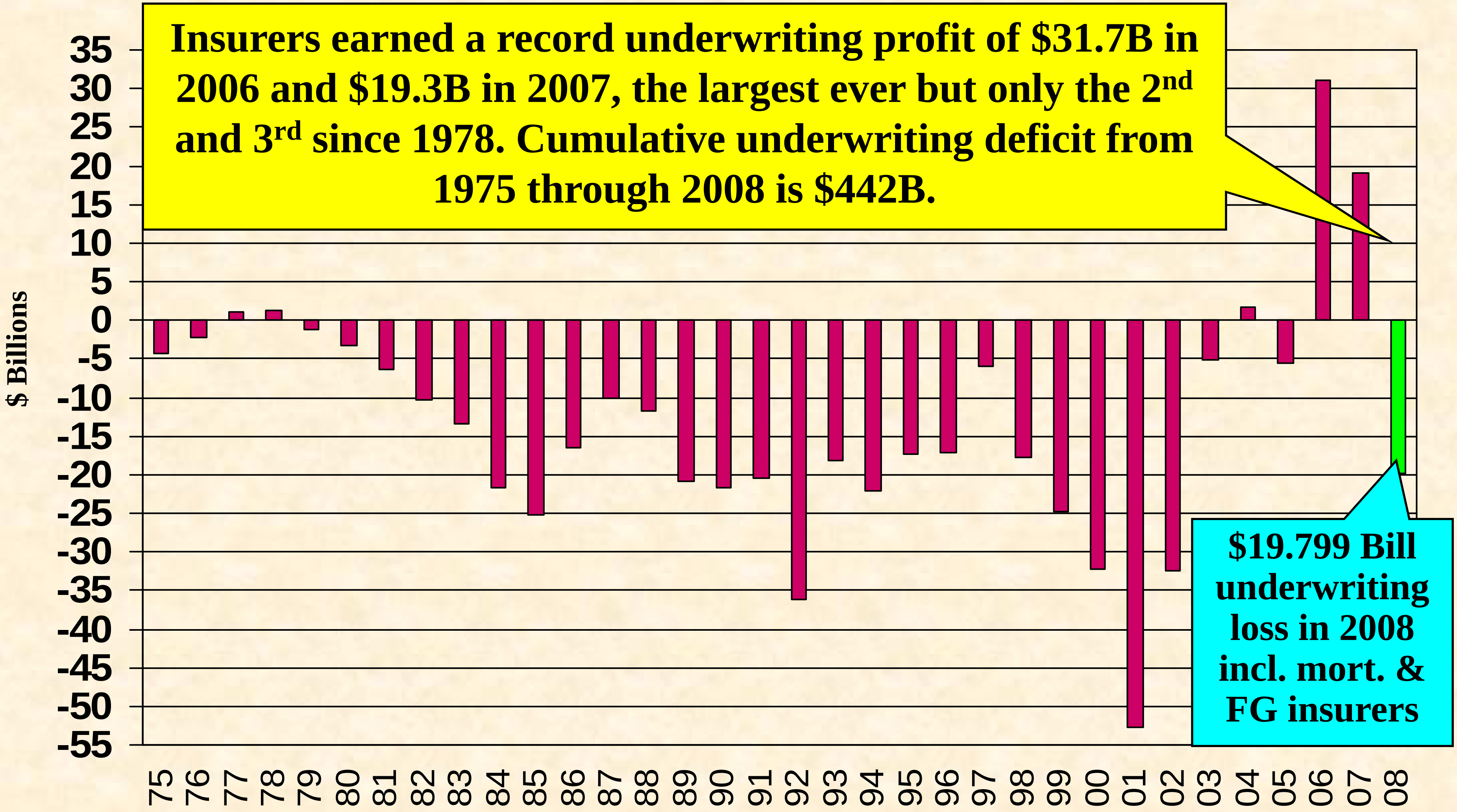
P/C Insurance Industry Combined Ratio, 2001-2009E



*Includes Mortgage & Financial Guarantee insurers.

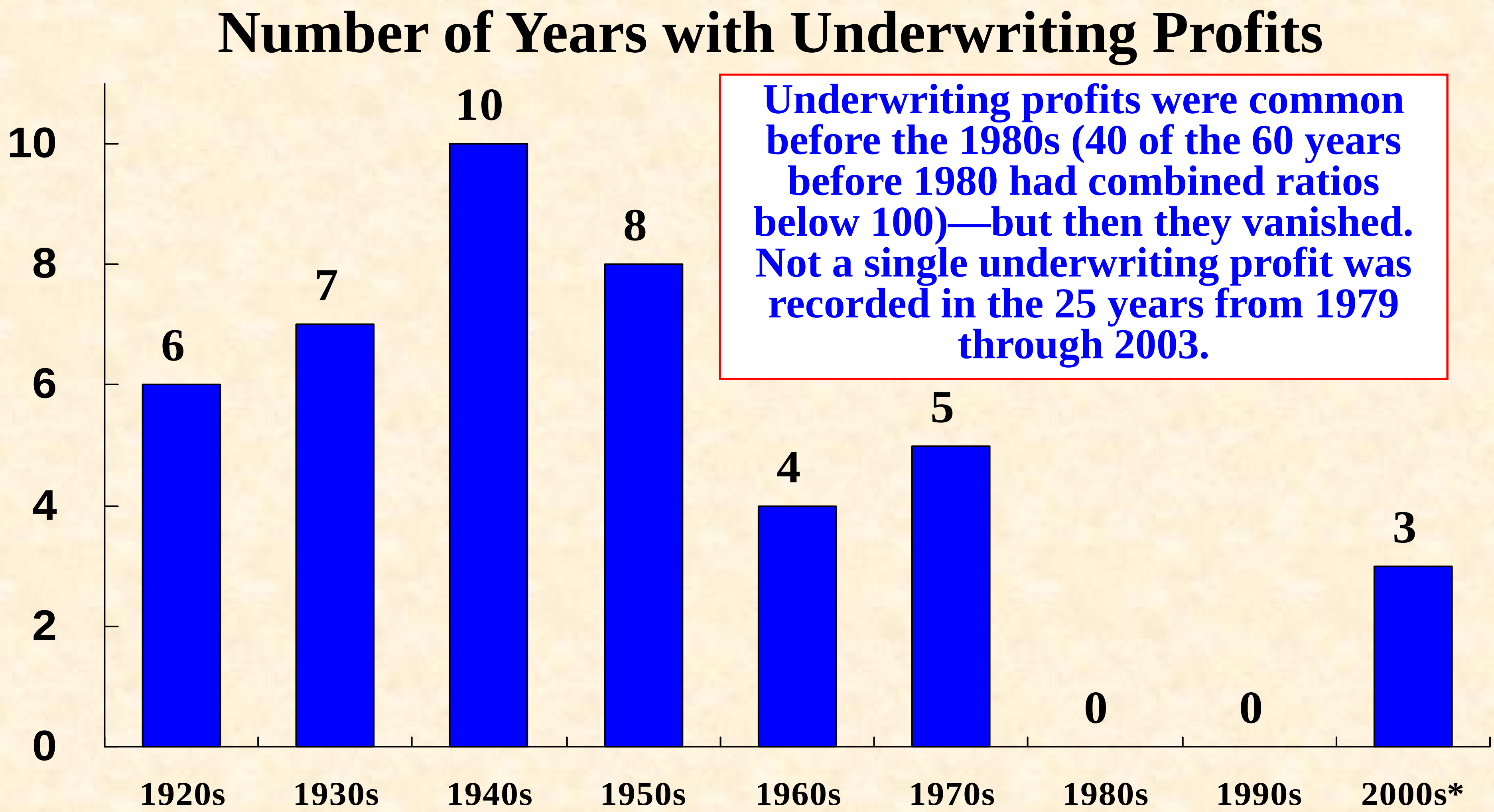
Sources: A.M. Best.

*Underwriting Gain (Loss) 1975-2008**



Source: A.M. Best, ISO; Insurance Information Institute * Includes mortgage & finl. guarantee insurers

Number of Years With Underwriting Profits by Decade, 1920s –2000s



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

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

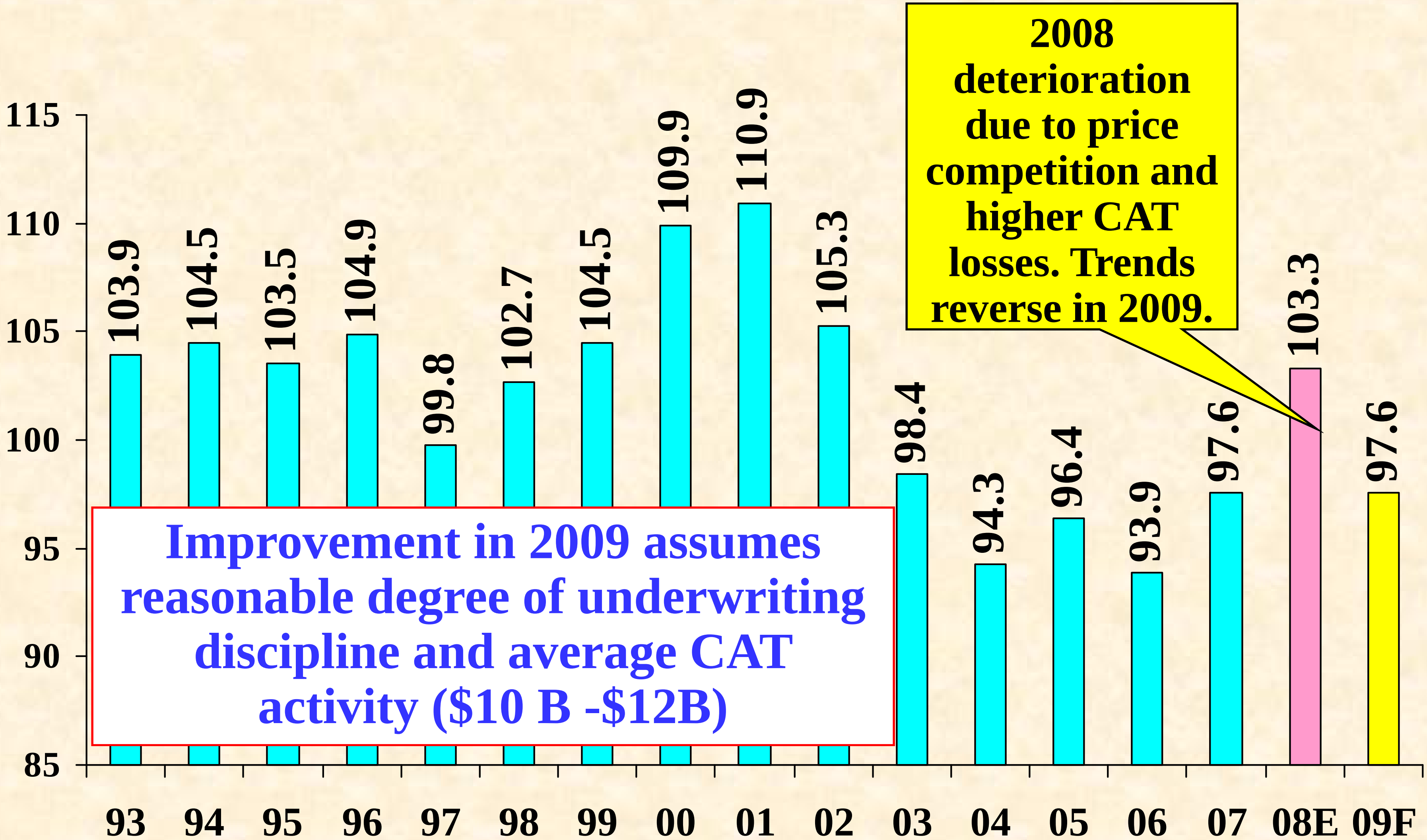
*2000 through 2008.

Personal Lines

Auto (~75% of Market)

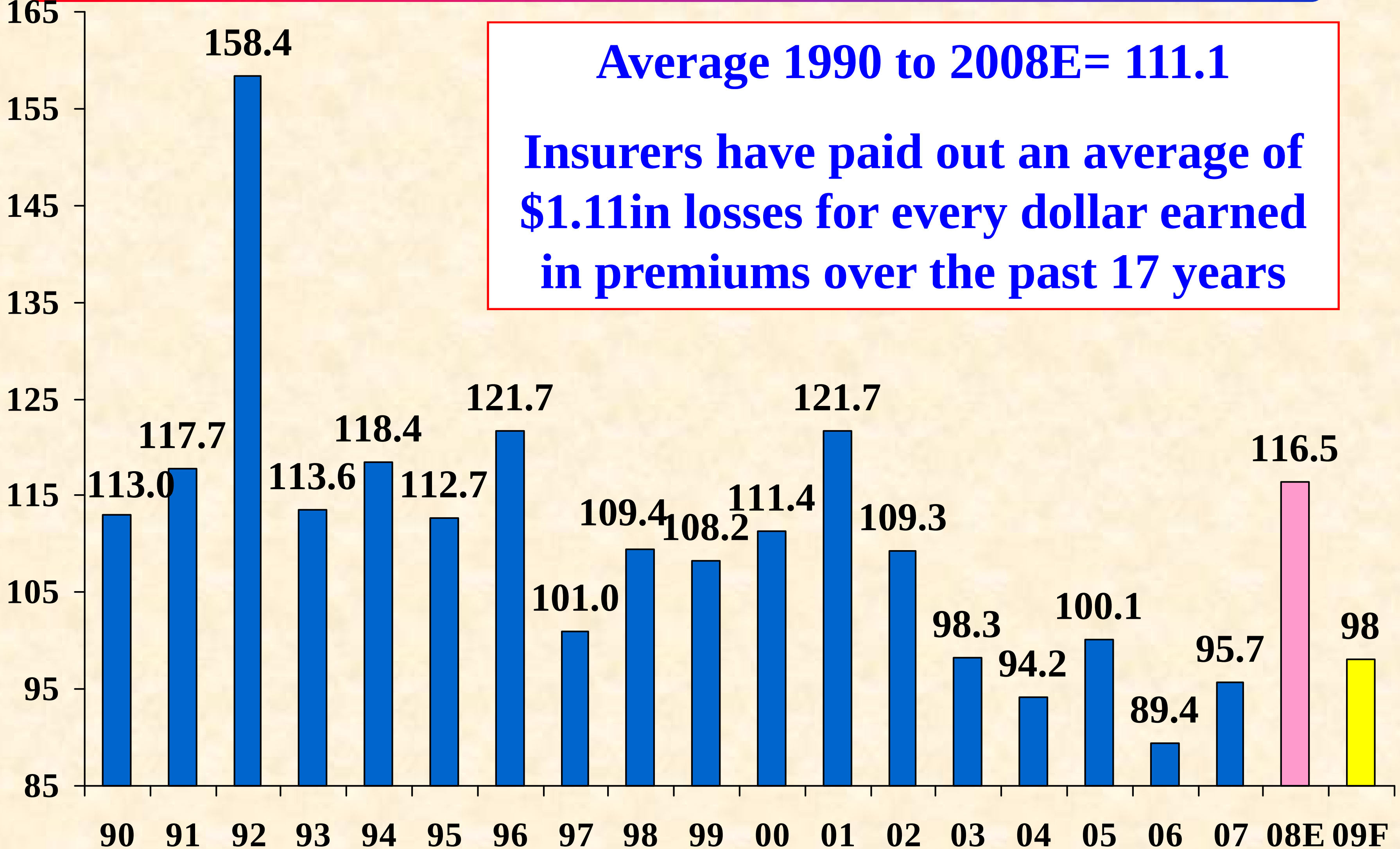
Home (~25%)

Personal Lines Combined Ratio, 1993-2009F



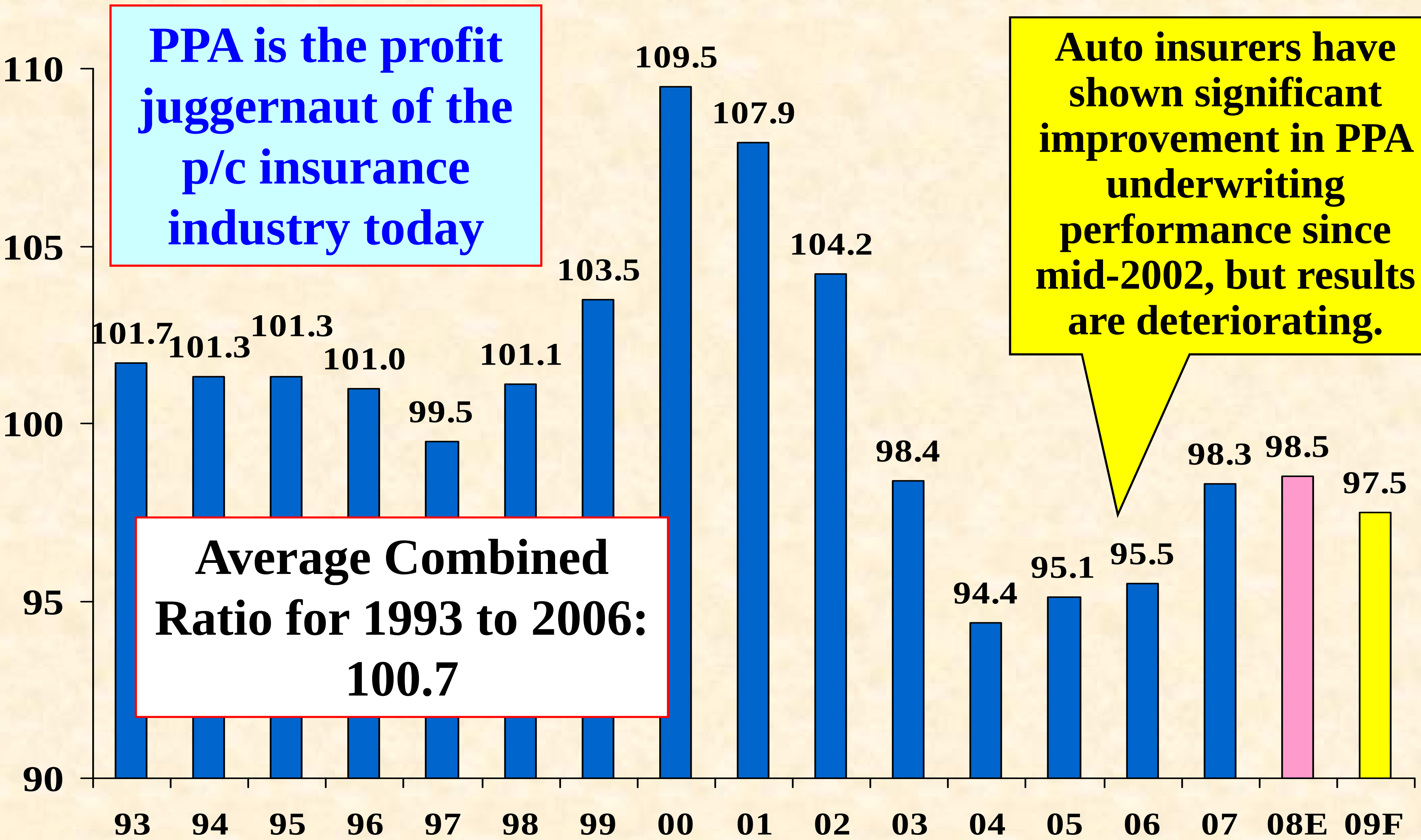
Source: A.M. Best (historical and forecast).

Homeowners Insurance Combined Ratio



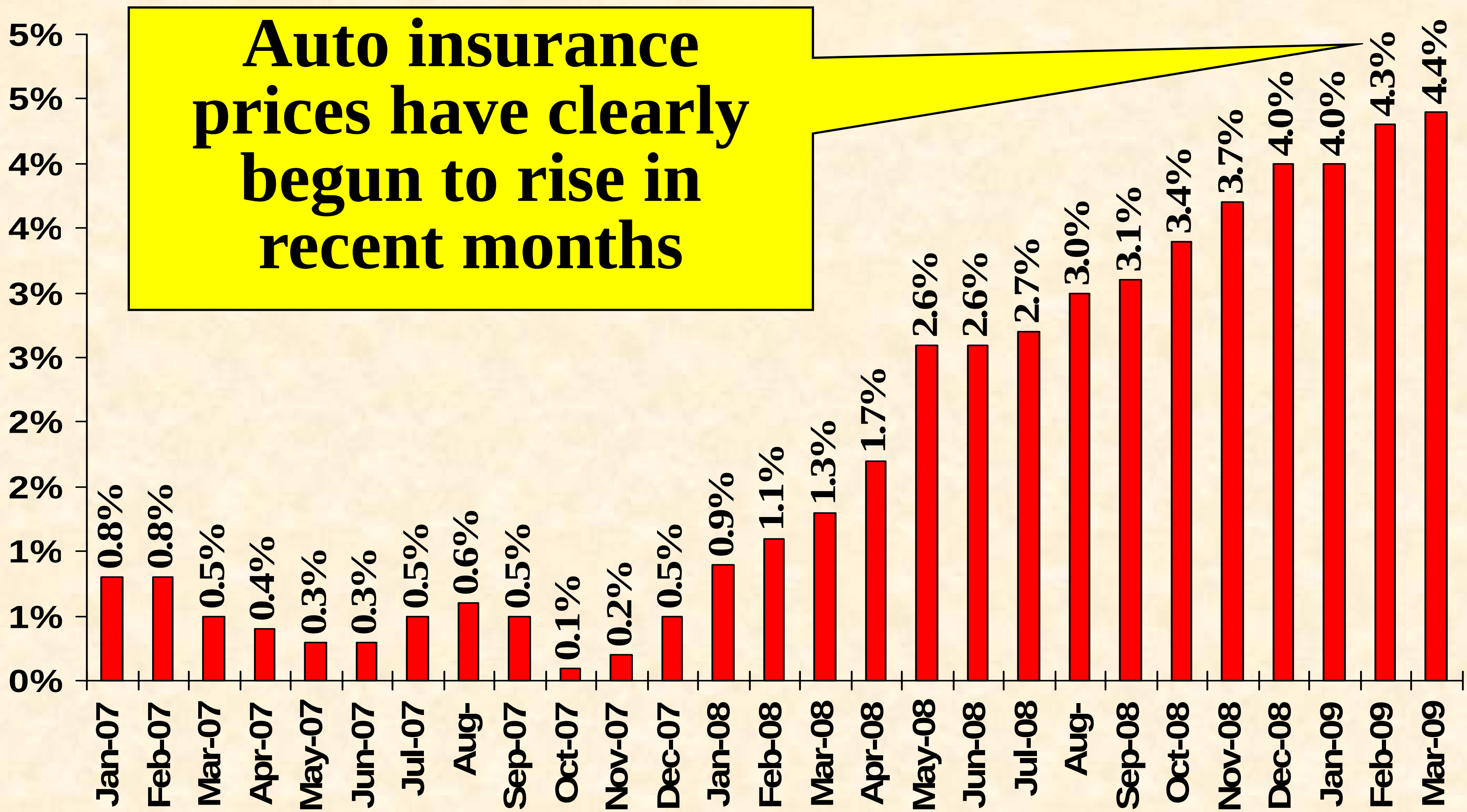
Sources: A.M. Best (historical and forecasts)

Private Passenger Auto (PPA) Combined Ratio



Sources: A.M. Best (historical and forecasts)

*Monthly Change in Auto Insurance Prices**

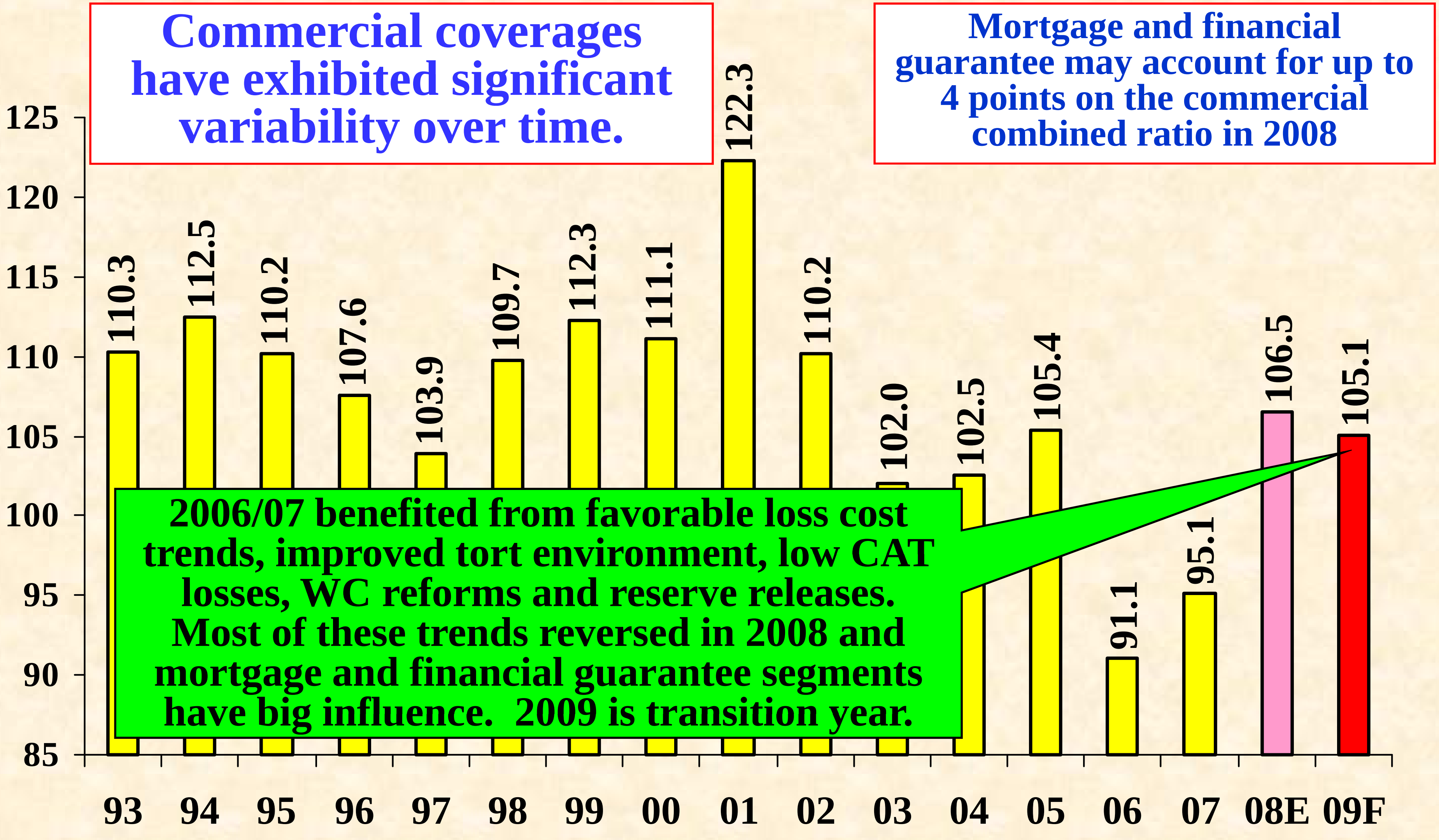


*Percentage change from same month in prior year.

Source: US Bureau of Labor Statistics

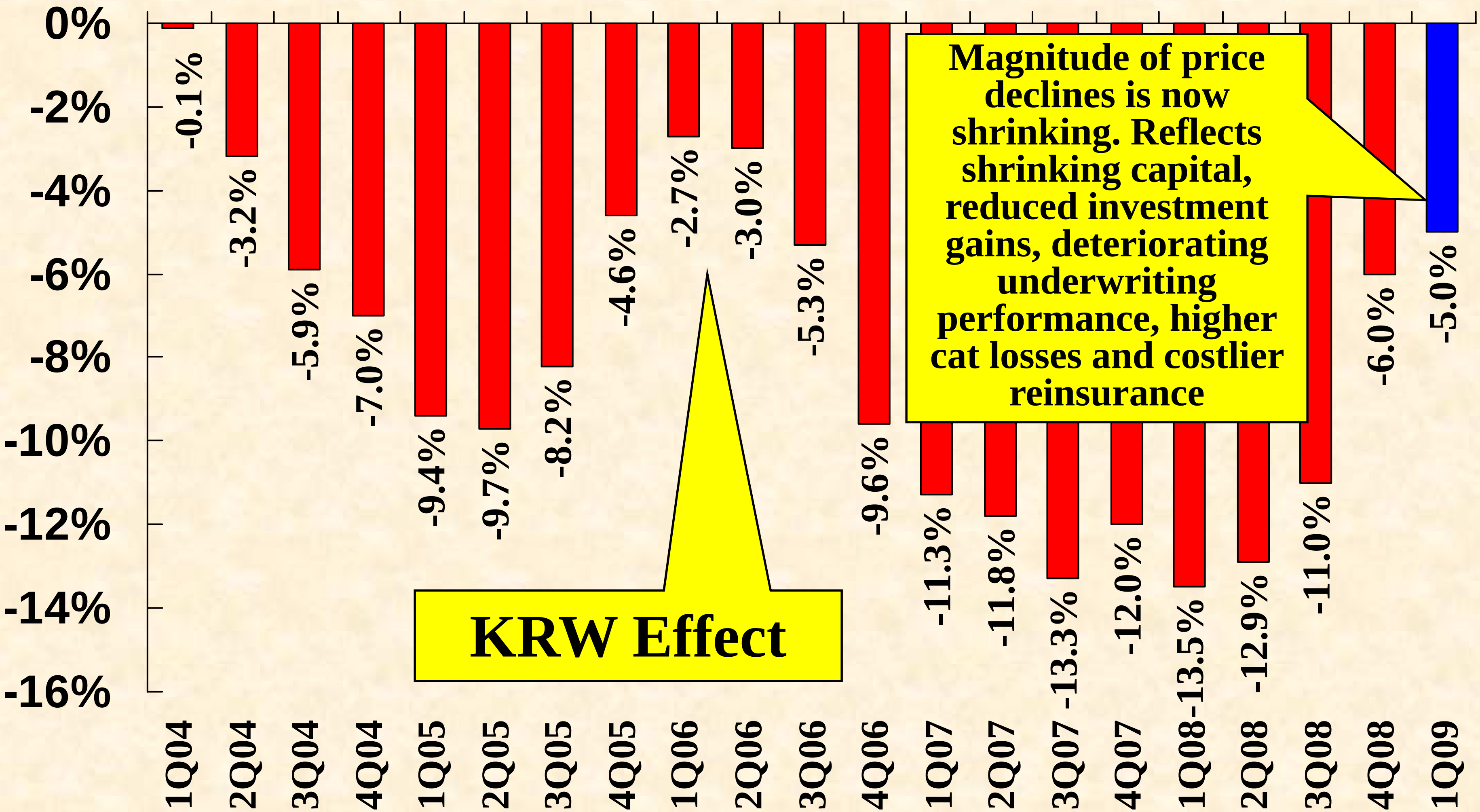
Commercial Lines

Commercial Lines Combined Ratio, 1993-2009F



Sources: A.M. Best (historical and forecasts)

Average Commercial Rate Change, All Lines, (1Q:2004 – 1Q:2009)

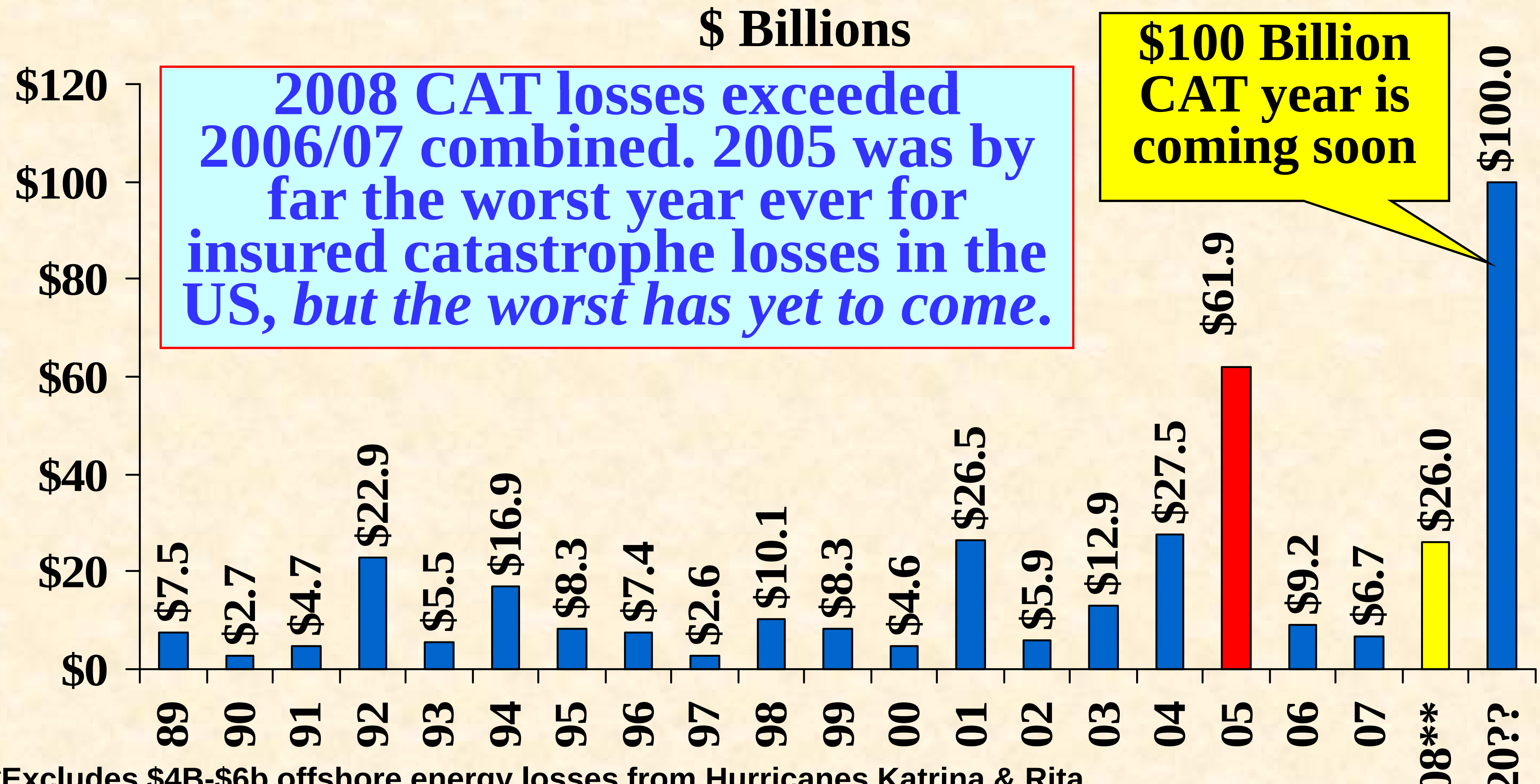


Source: Council of Insurance Agents & Brokers; Insurance Information Institute

Catastrophe Losses

Impacting Underwriting Results and the Bottom Line

U.S. Insured Catastrophe Losses*



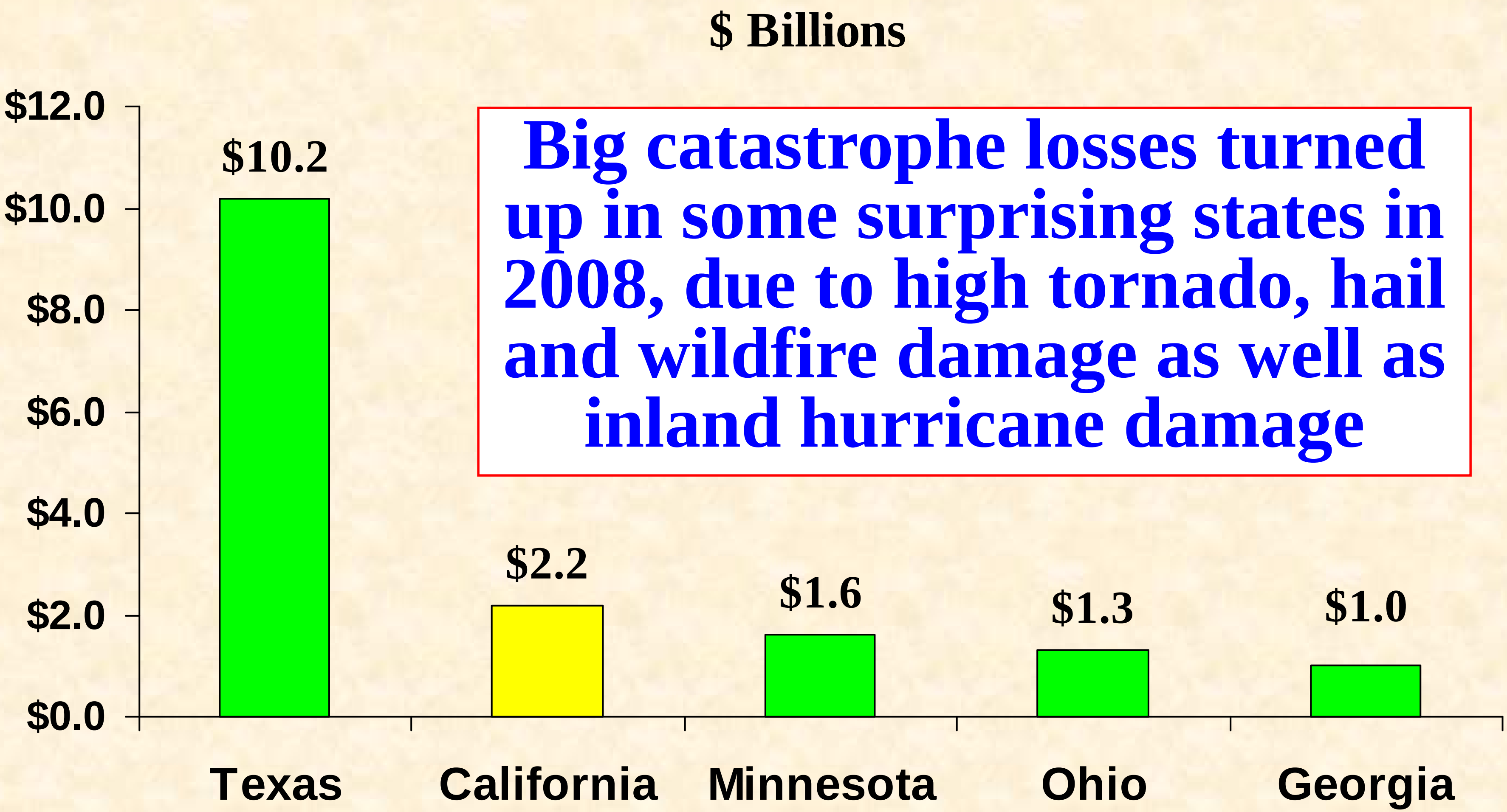
*Excludes $4B-$6b offshore energy losses from Hurricanes Katrina & Rita.

**Based on PCS data through Dec. 31. PCS $2.1B loss of for Gustav. $10.655B for Ike of 12/05/08.

<u>Note</u>: 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.

Source: Property Claims Service/ISO; Insurance Information Institute

States With Highest Insured Catastrophe Losses in 2008



Source: PCS; Insurance Information Institute.

Top 12 Most Costly Disasters in US History, (Insured Losses, $2007)

*PCS estimate as of 12/15/08.

Sources: ISO/PCS; AIR Worldwide, RMS, Eqecat; Insurance Information Institute inflation adjustments.

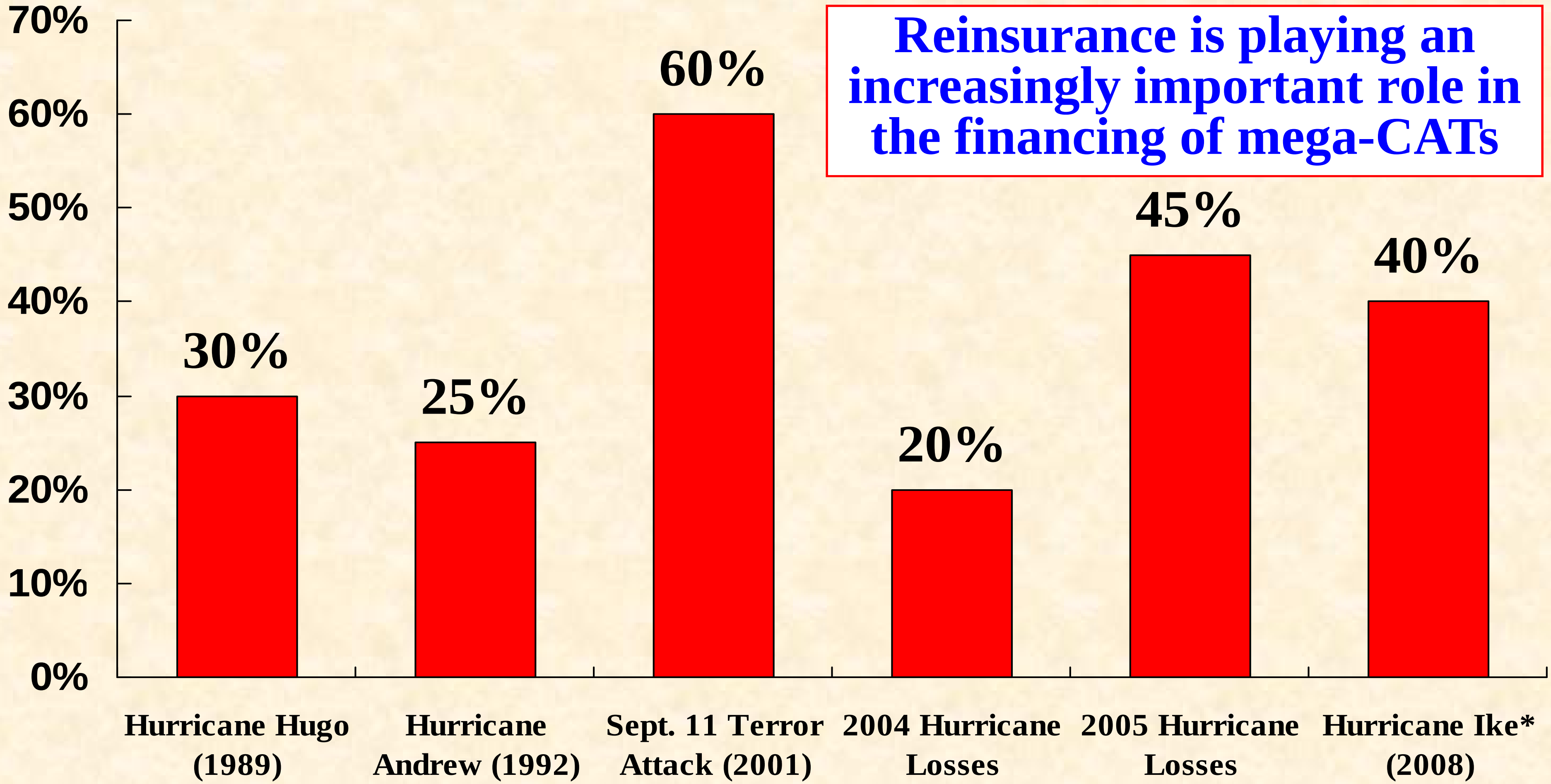
Number of PCS Catastrophe Events, 1998-2008*

*PCS defines a catastrophe as an even that caused at least $25 million in insured property damage and affects and significant number of policyholders and insurers.

Source: PCS; Insurance Information Institute

Share of Losses Paid by Reinsurers, by Disaster*

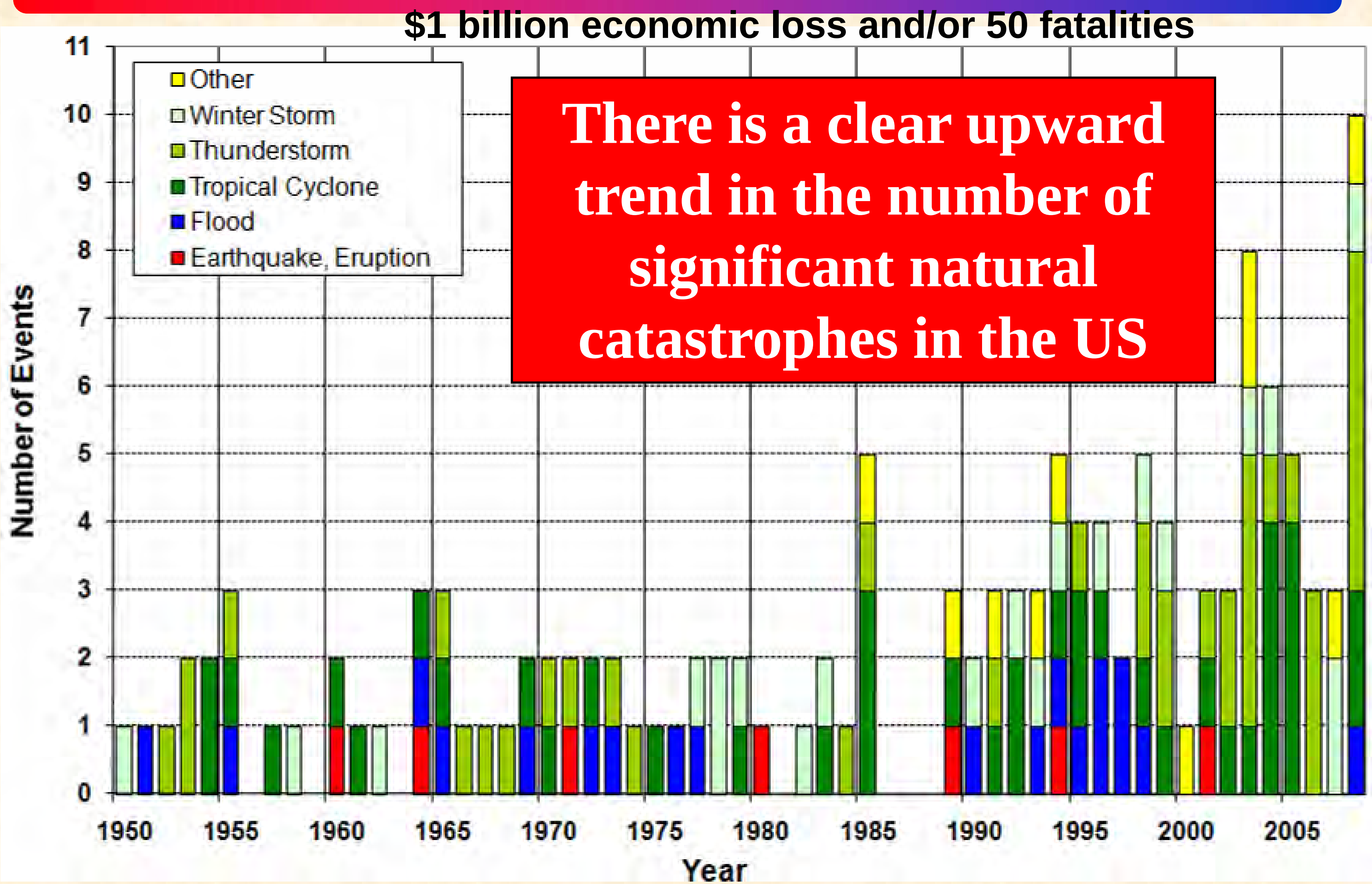
Reinsurance is playing an increasingly important role in the financing of mega-CATs



*Excludes losses paid by the Florida Hurricane Catastrophe Fund, a FL-only windstorm reinsurer, which was established in 1994 *after* Hurricane Andrew. FHCF payments to insurers are estimated at $3.85 billion for 2004 and $4.5 billion for 2005. Ike share is an estimate as of 2/9/09.

Sources: Wharton Risk Center, Disaster Insurance Project; Insurance Information Institute.

Number of U.S. Significant Natural Catastrophes*, 1950 – 2008



Sources: Munich Re NatCat*SERVICE* **$1 billion economic loss and/or 50 fatalities.*

Insurance Information Institute On-Line

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THANK YOU FOR YOUR TIME AND

YOUR ATTENTION!