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Overview & Outlook for the P/C Insurance Industry:

Trends, Challenges & Opportunities

Casualty Actuarial Society Centennial Meeting
New York, NY
November 12, 2014

Download at www.iii.org/presentations

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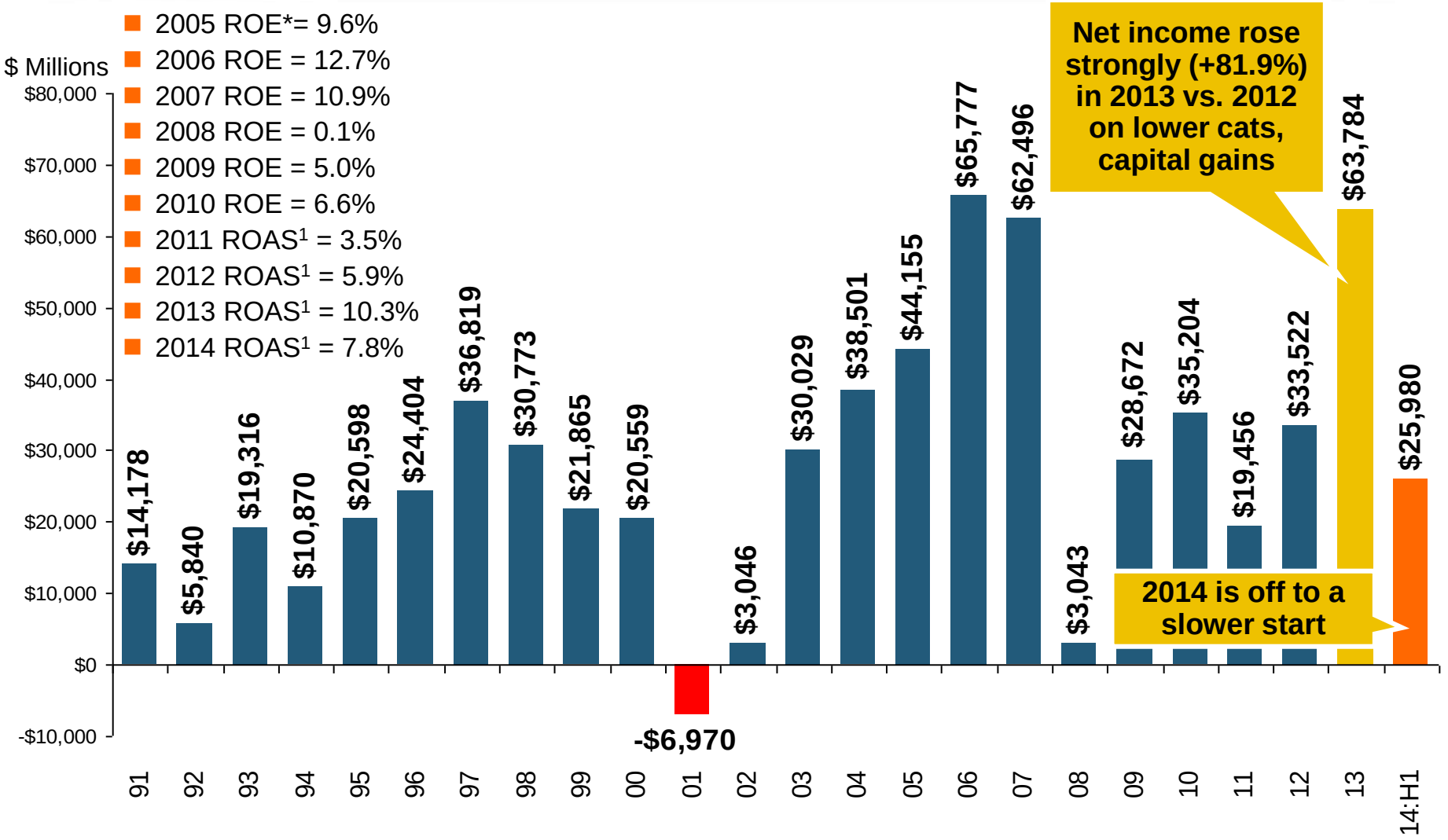
P/C Insurance Industry: *Financial Update*

2014 Is Shaping Up to Be a Reasonable Year

2013 Was the Industry's Best Year in the Post-Crisis Era

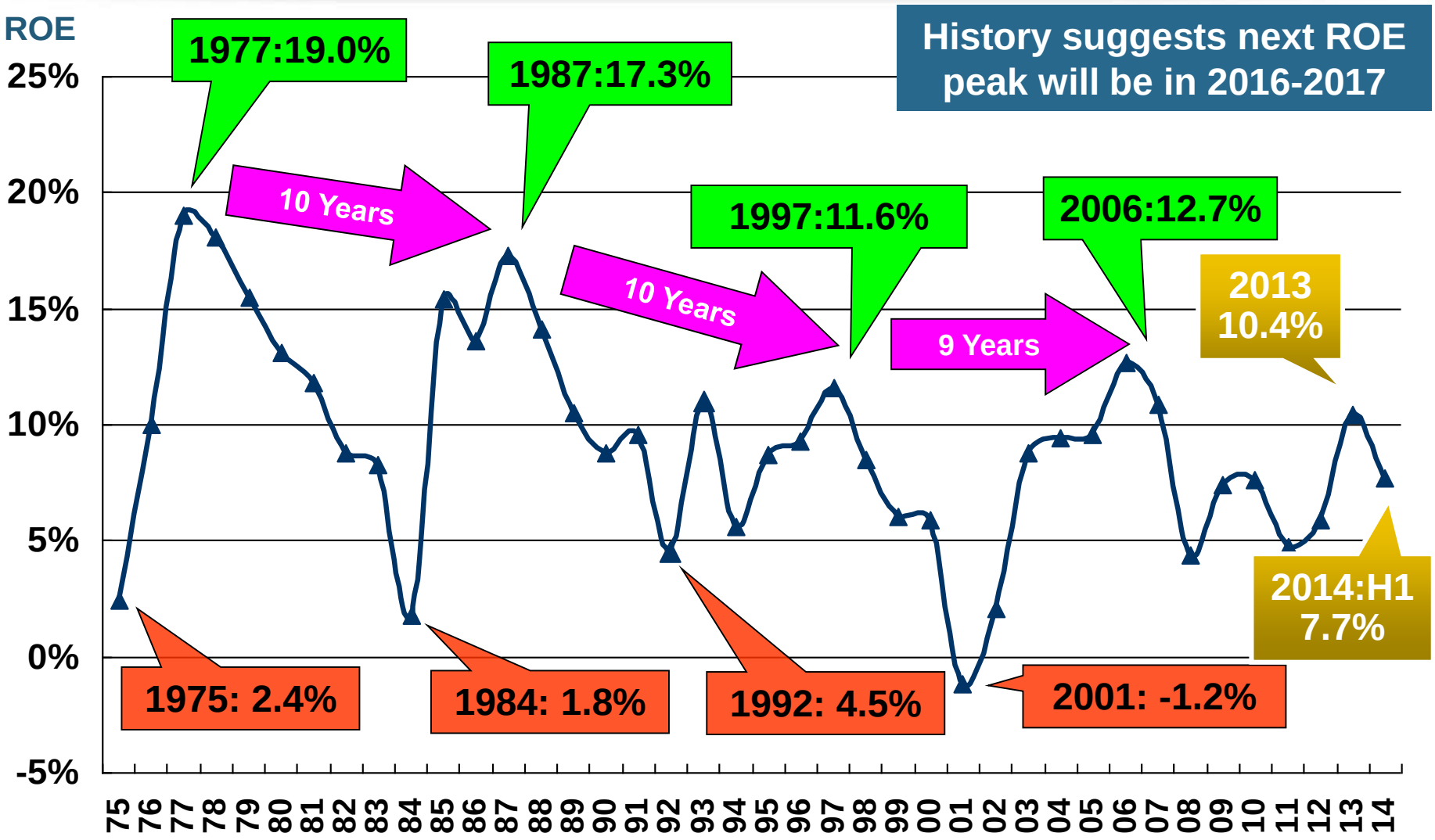
P/C Industry Net Income After Taxes 1991–2014:H1



•ROE figures are GAAP; [1]Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 7.7% ROAS through 2014:Q2, 9.8% ROAS in 2013, 6.2% ROAS in 2012, 4.7% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009.

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

Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2014:H1*

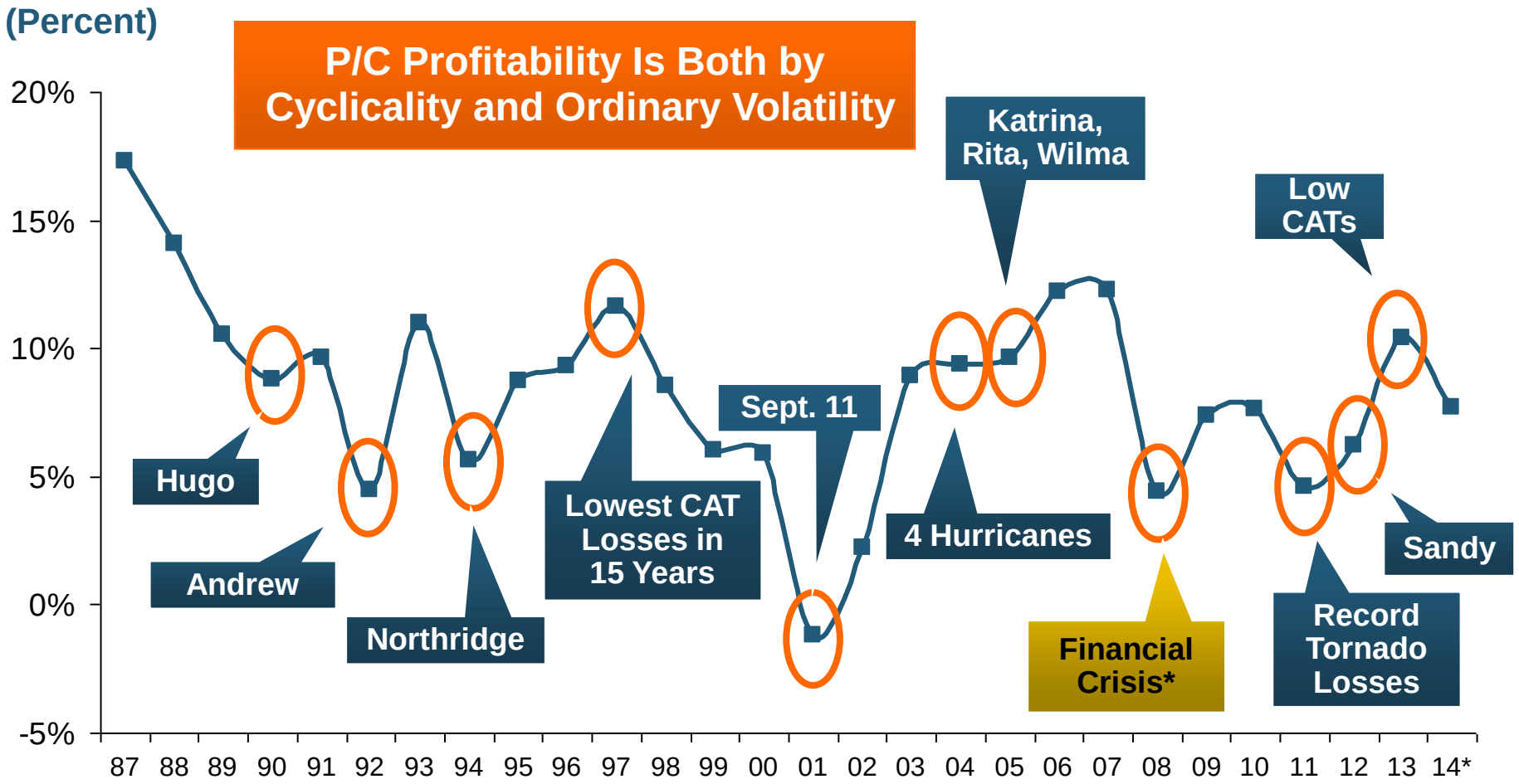


History suggests next ROE peak will be in 2016-2017

*Profitability = P/C insurer ROEs. 2011-14 figures are estimates based on ROAS data. Note: Data for 2008-2014 exclude mortgage and financial guaranty insurers.

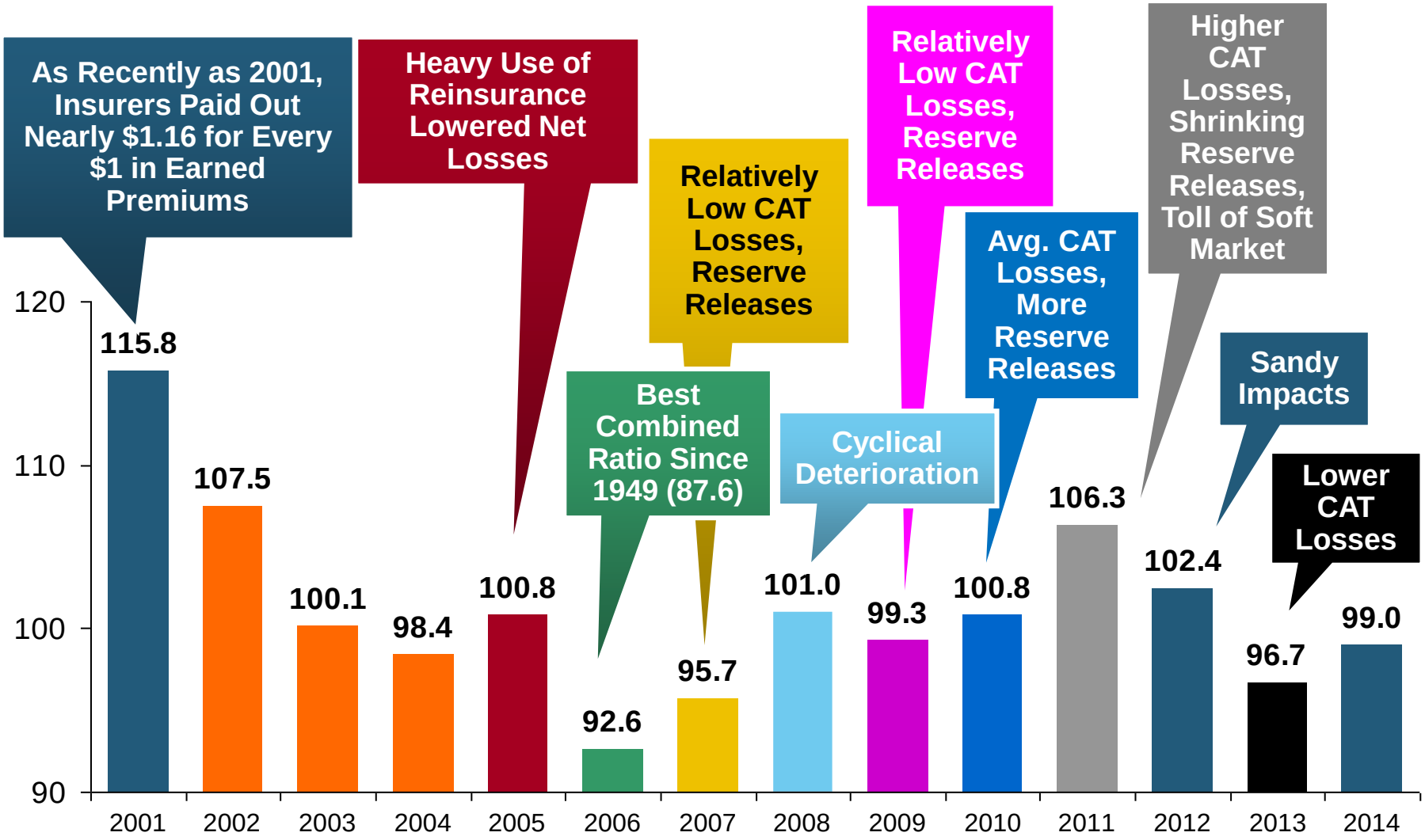
Source: Insurance Information Institute; NAIC, ISO, A.M. Best.

ROE: Property/Casualty Insurance by Major Event, 1987–2014:H1



* Excludes Mortgage & Financial Guarantee in 2008 – 2014. 2014 figure is through H1:2014.
Sources: ISO, *Fortune*; Insurance Information Institute.

P/C Insurance Industry Combined Ratio, 2001–2014:H1*



* Excludes Mortgage & Financial Guaranty insurers 2008--2014. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.1; 2012:=103.2; 2013: = 96.1; 2014:H1 = 98.9.

Sources: A.M. Best, ISO.

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

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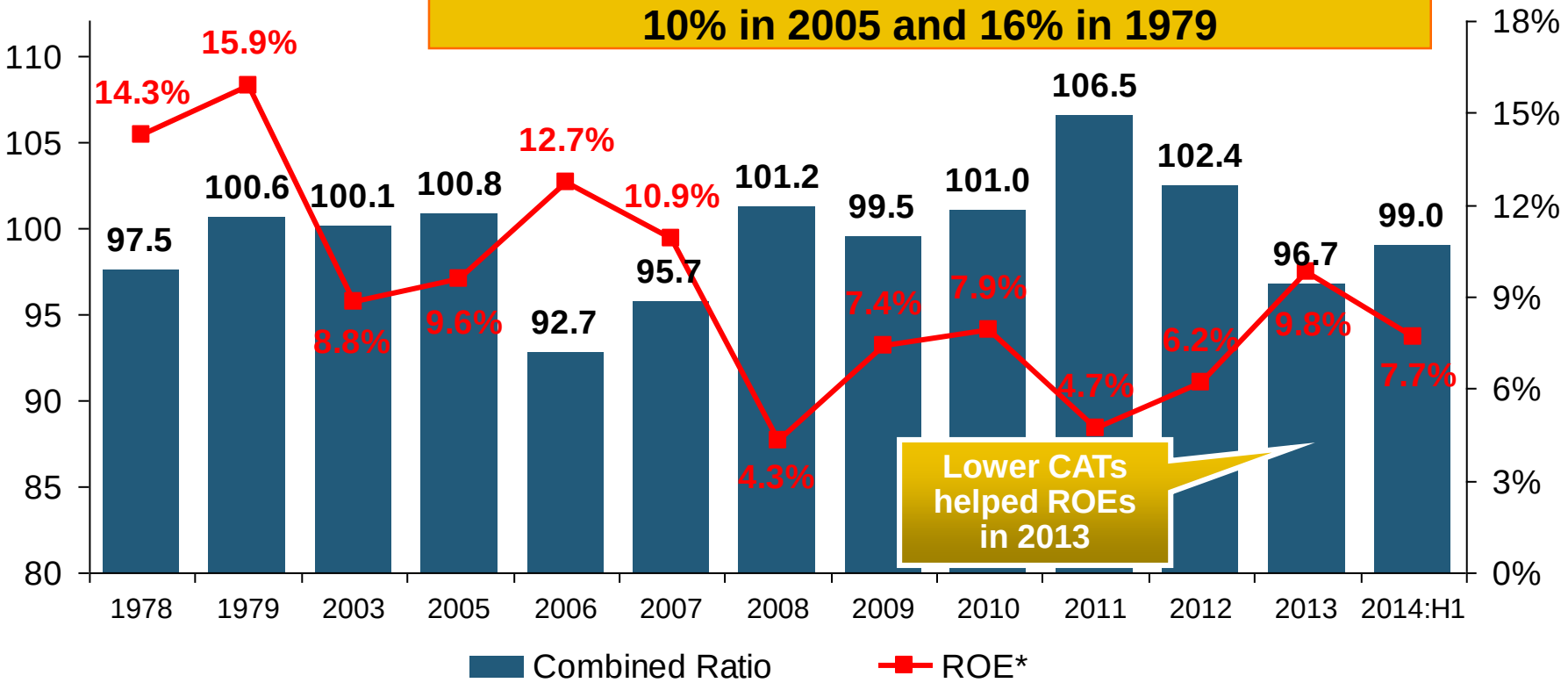
Combined Ratio / ROE

A combined ratio of about 100 generates an ROE of ~7.0% in 2012/13, ~7.5% ROE in 2009/10, 10% in 2005 and 16% in 1979

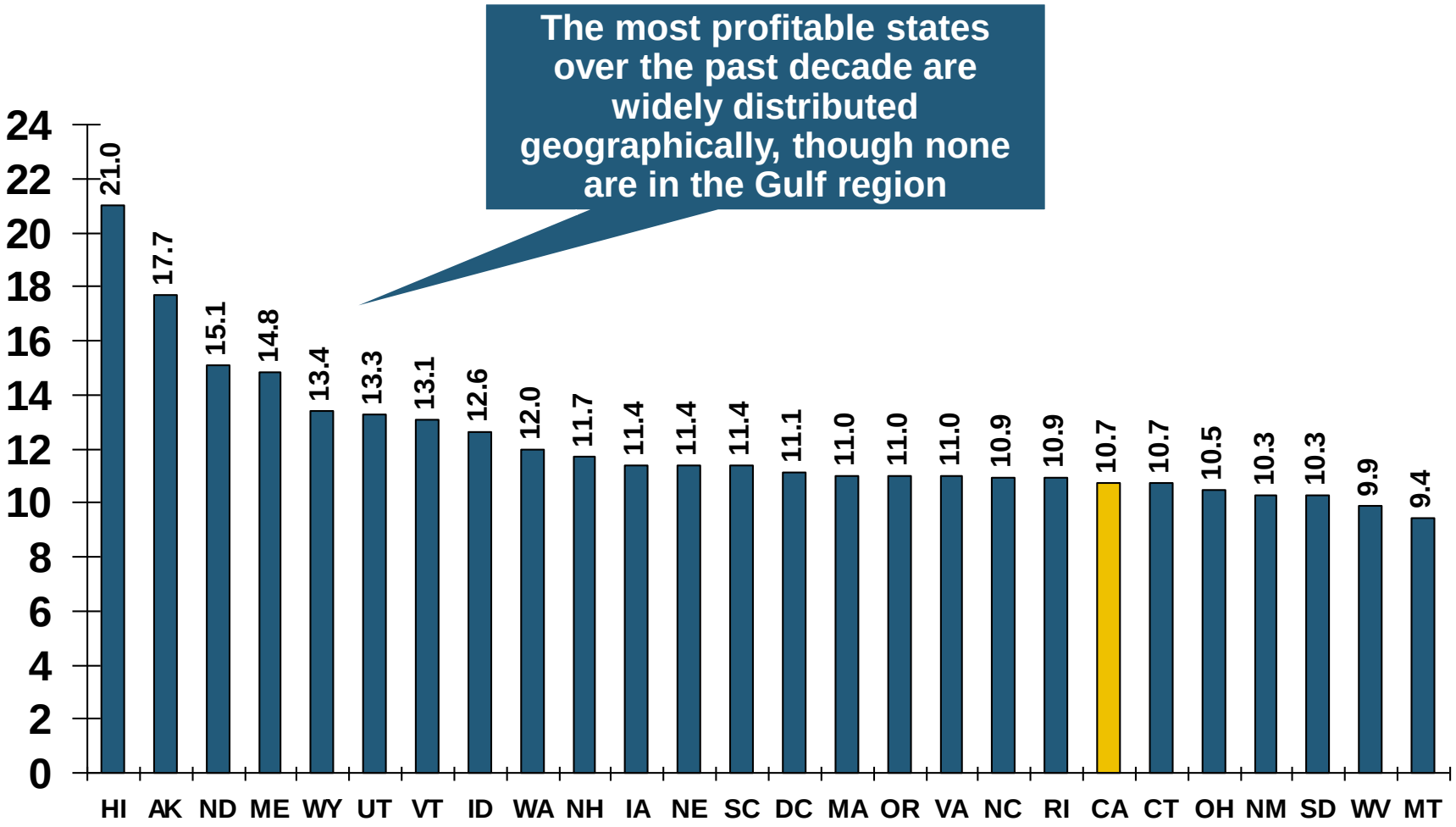


Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2008 -2014 figures are return on average surplus and exclude mortgage and financial guaranty insurers. 2014:H1 combined ratio including M&FG insurers is 98.9; 2013 = 96.1; 2012 =103.2, 2011 = 108.1, ROAS = 3.5%.

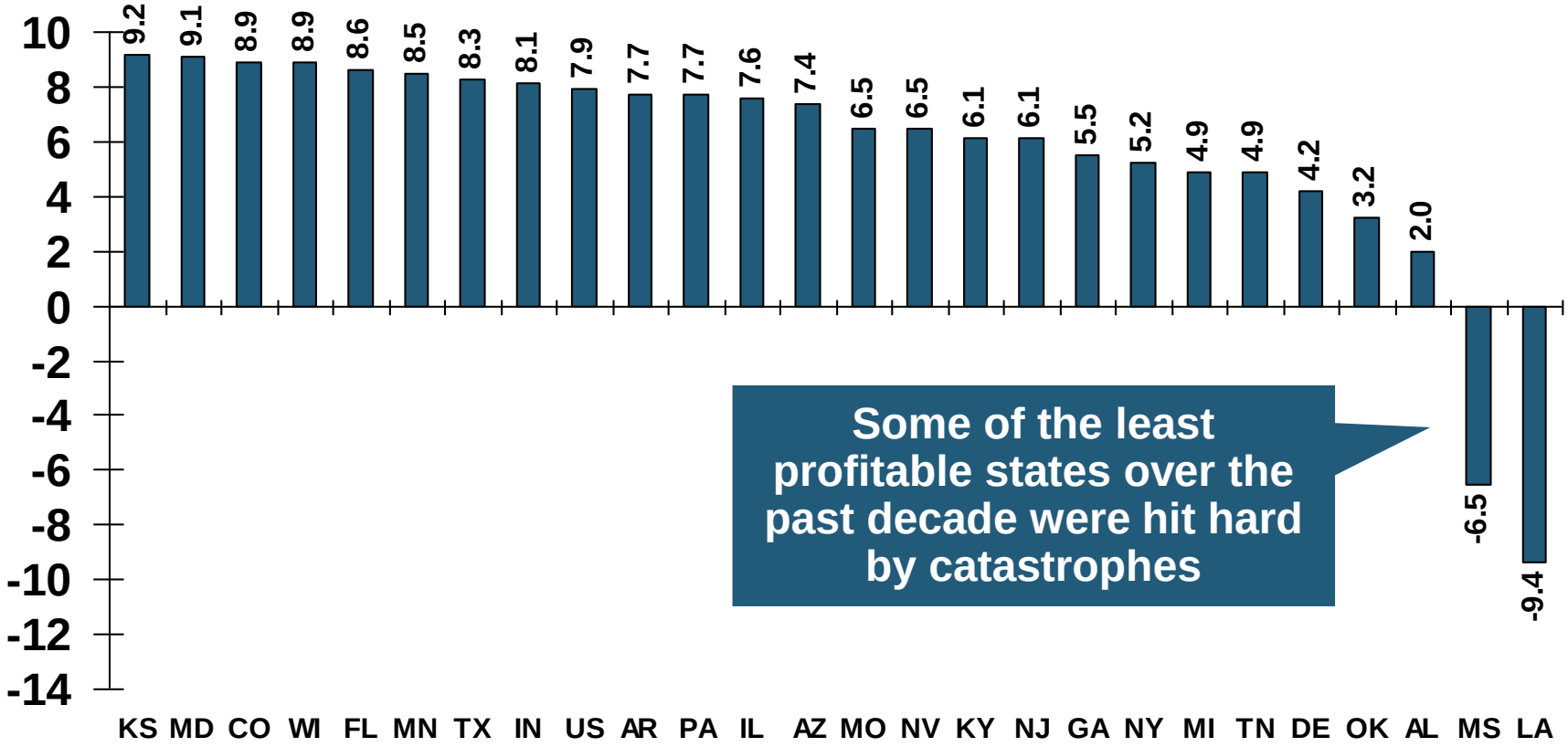
Source: Insurance Information Institute from A.M. Best and ISO Verisk Analytics data.

RNW All Lines by State, 2003-2012 Average: Highest 25 States



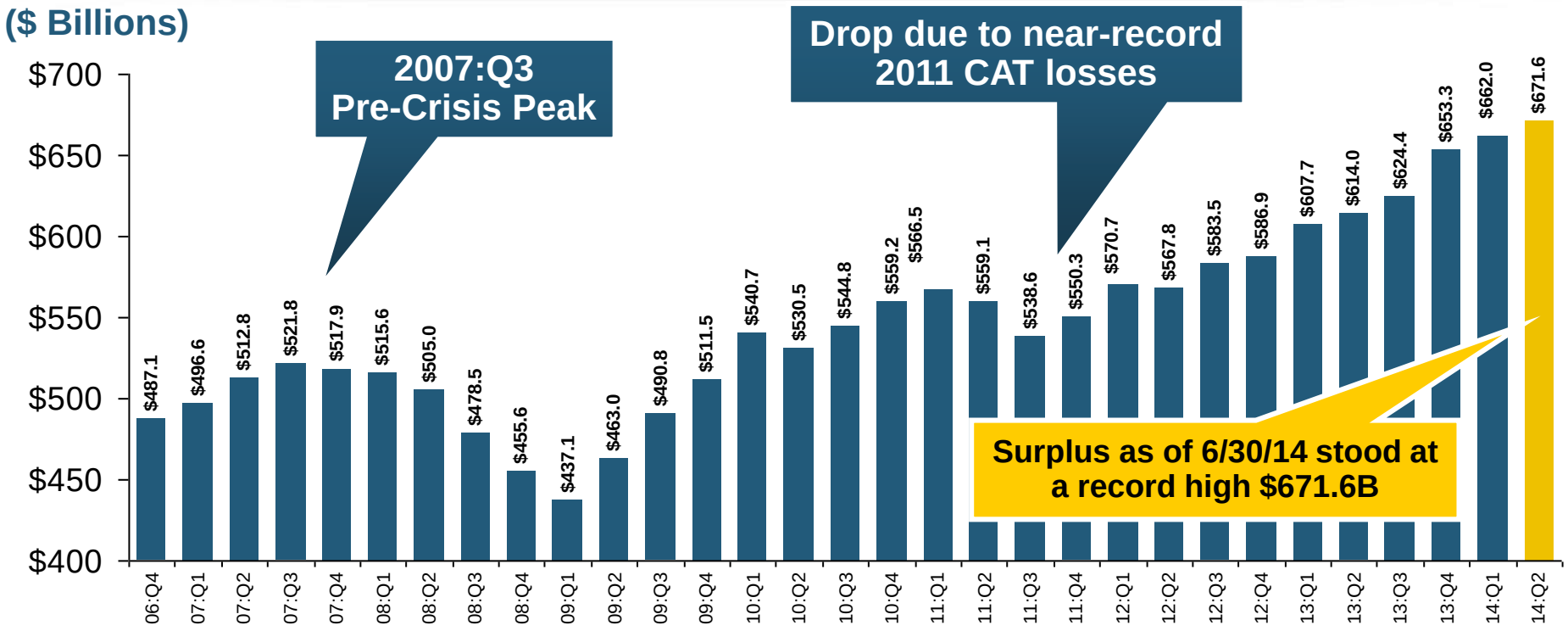
Source: NAIC; Insurance Information Institute.

RNW All Lines by State, 2003-2012 Average: Lowest 25 States



Source: NAIC; Insurance Information Institute.

Policyholder Surplus, 2006:Q4–2014:H1



The industry now has $1 of surplus for every $0.73 of NPW, close to the strongest claims-paying status in its history.

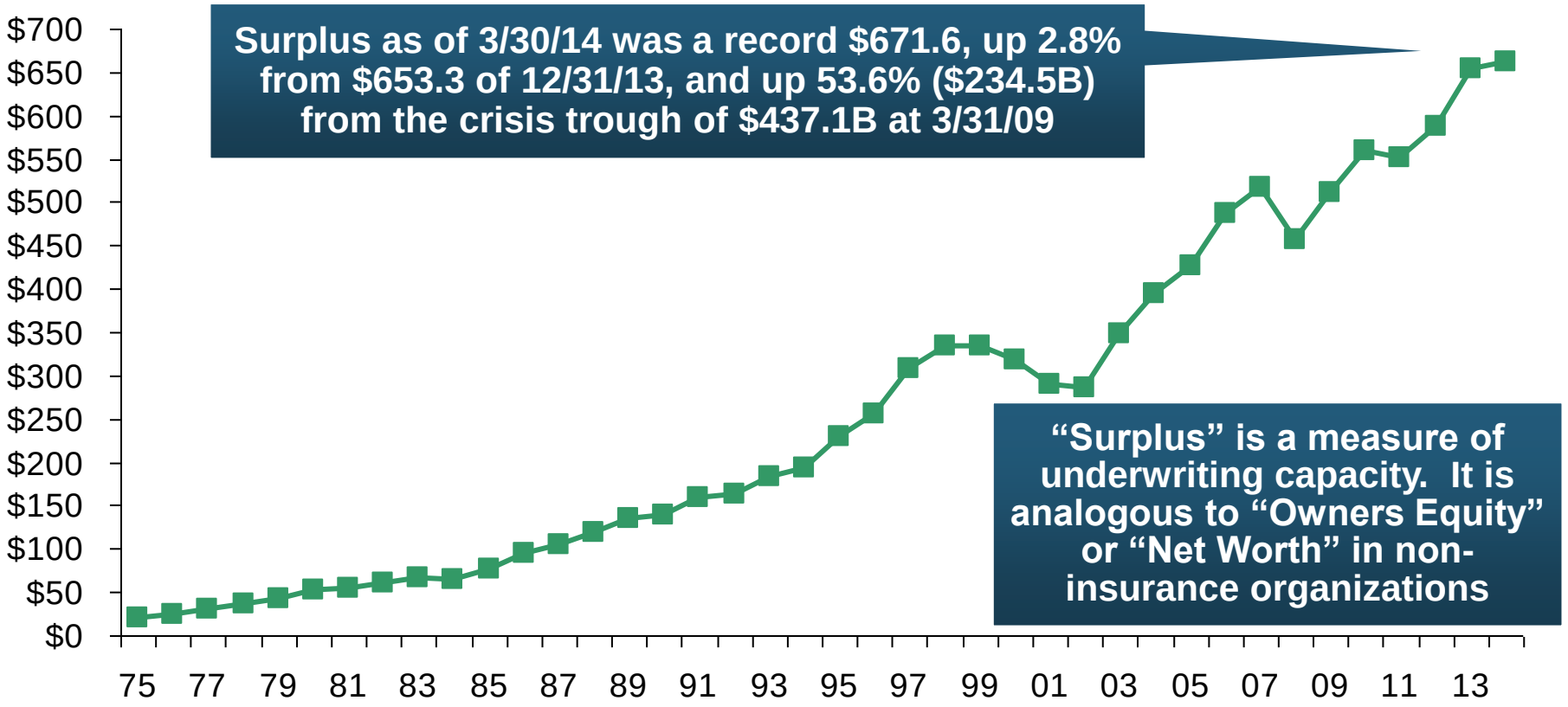
2010:Q1 data includes $22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business .

The P/C insurance industry entered 2014 in very strong financial condition.

Sources: ISO, A.M .Best.

US Policyholder Surplus: 1975–2014*

($ Billions)



The Premium-to-Surplus Ratio Stood at $0.73:$1 as of 6/30/14, a Near Record Low (at Least in Recent History)

* As of 6/30/14.

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

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INVESTMENTS: THE NEW REALITY

Investment Performance is a Key Driver of Profitability

Depressed Yields Will Necessarily Influence Underwriting & Pricing

Property/Casualty Insurance Industry Investment Income: 2000–2014[1]

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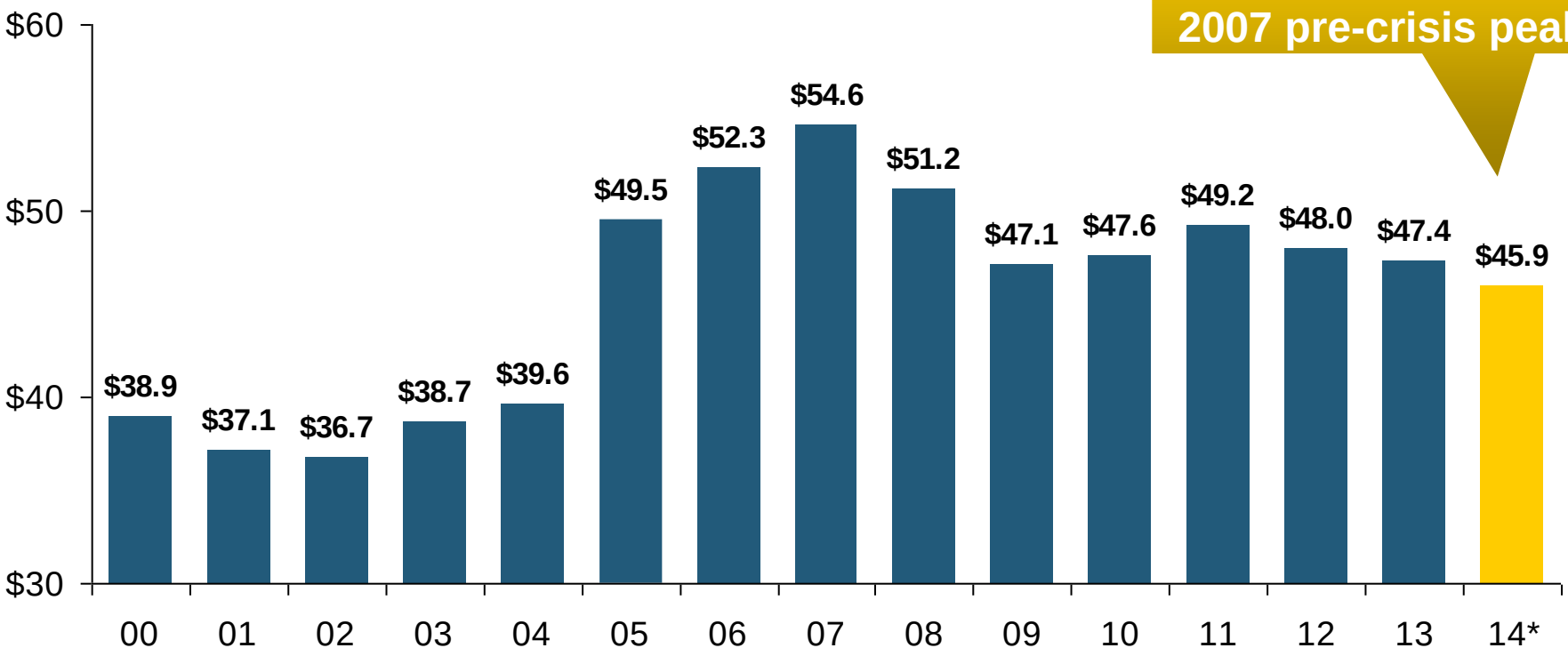
($ Billions)



Due to persistently low interest rates, investment income fell in 2012 and in 2013 and is falling again in 2014.

[1] Investment gains consist primarily of interest and stock dividends.

*2014 figure is estimated based on annualized H1 data.

Sources: ISO; Insurance Information Institute.

P/C Insurer Net Realized Capital Gains/Losses, 1990-2014:Q2

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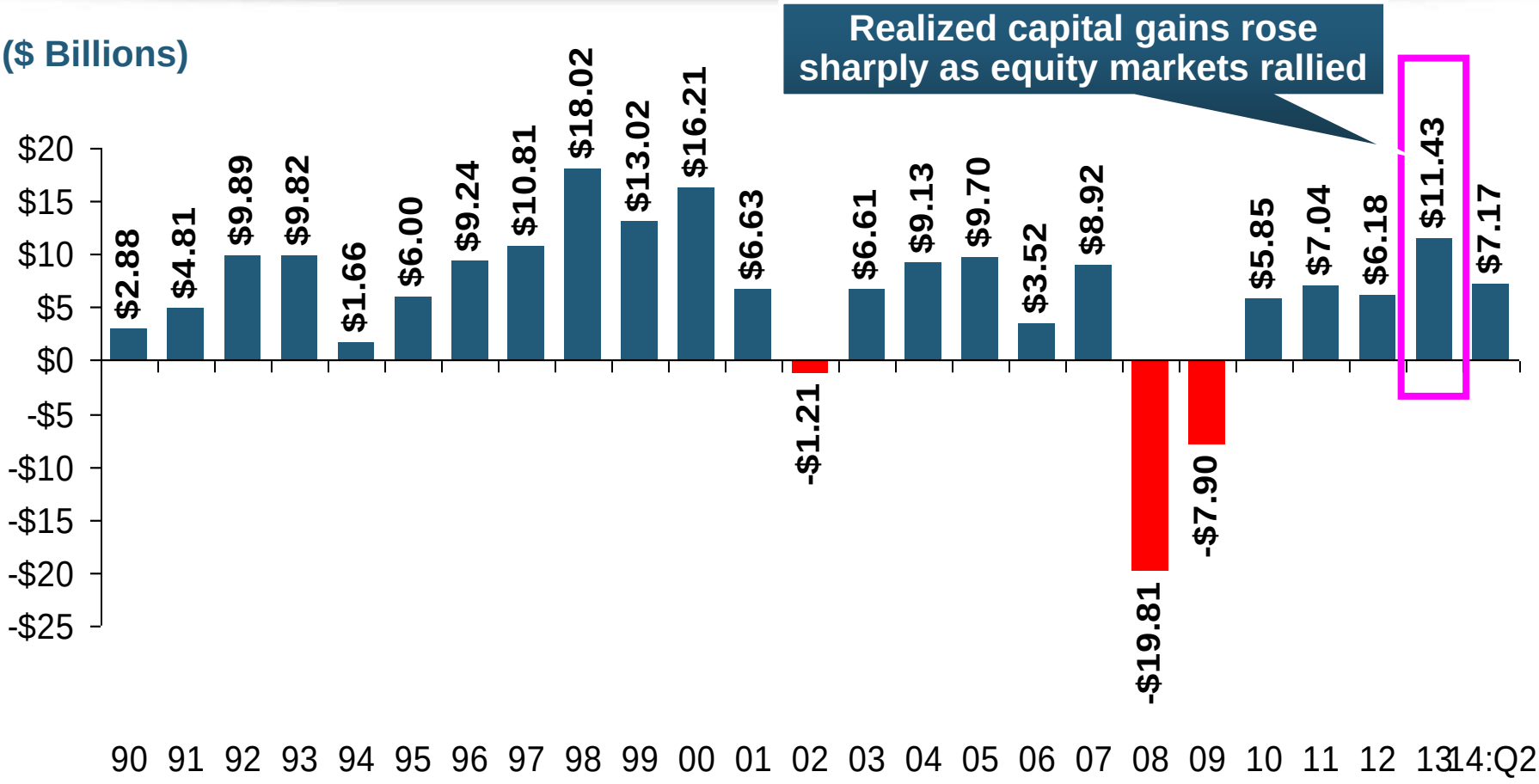
($ Billions)



Insurers Posted Net Realized Capital Gains in 2010 - 2014 Following Two Years of Realized Losses During the Financial Crisis. Realized Capital Losses Were a Primary Cause of 2008/2009's Large Drop in Profits and ROE

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

Property/Casualty Insurance Industry Investment Gain: 1994–2014:Q2[1]

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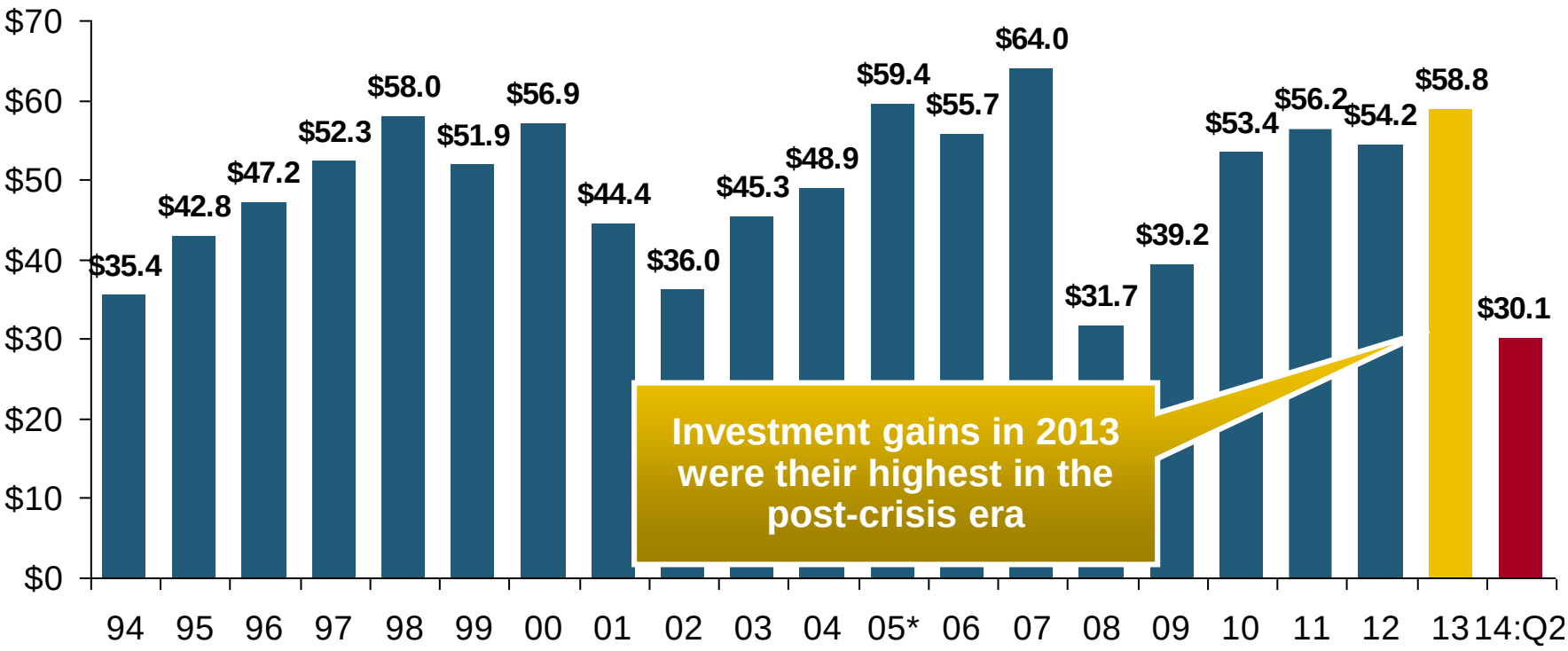
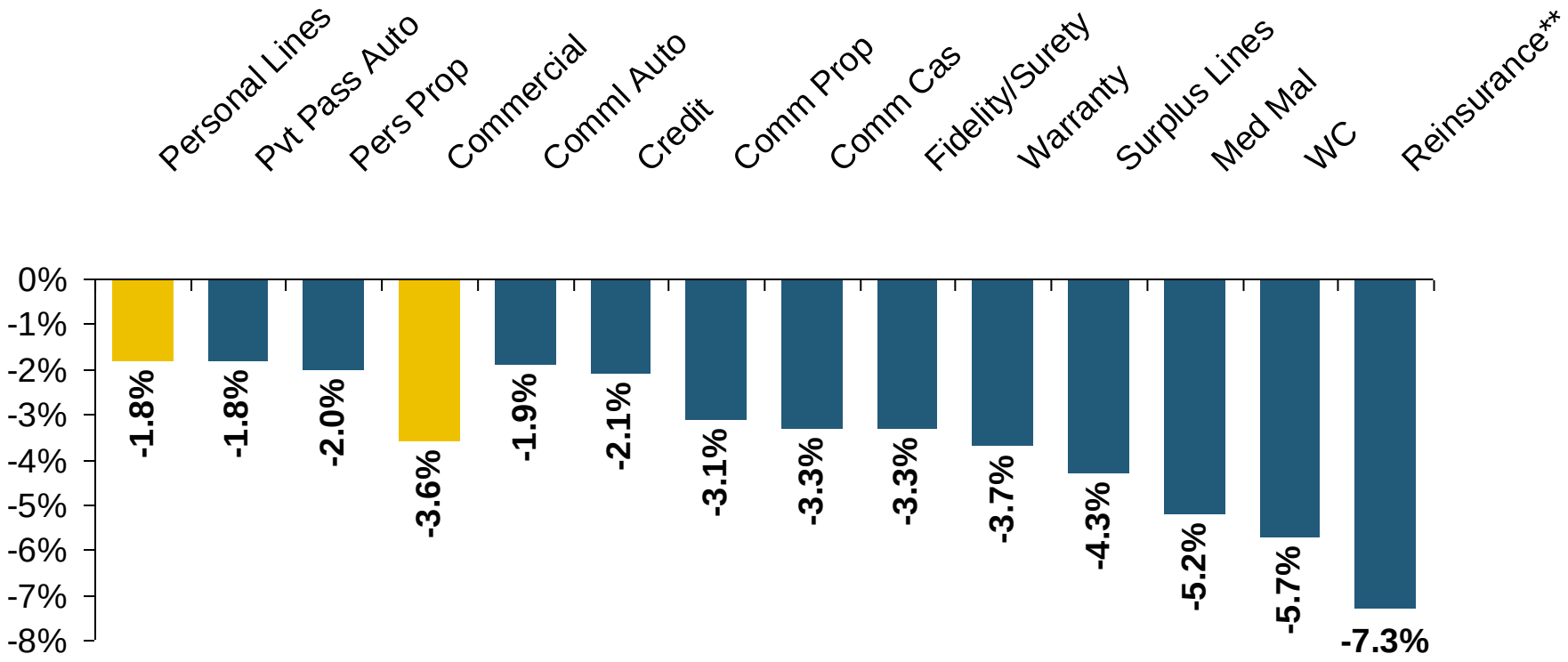
($ Billions)



Investment Income Continued to Fall in 2013 Due to Low Interest Rates but Realized Investment Gains Were Up Sharply; 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.

U.S. 10-Year Treasury Note Yields: A Long Downward Trend, 1990–2014*

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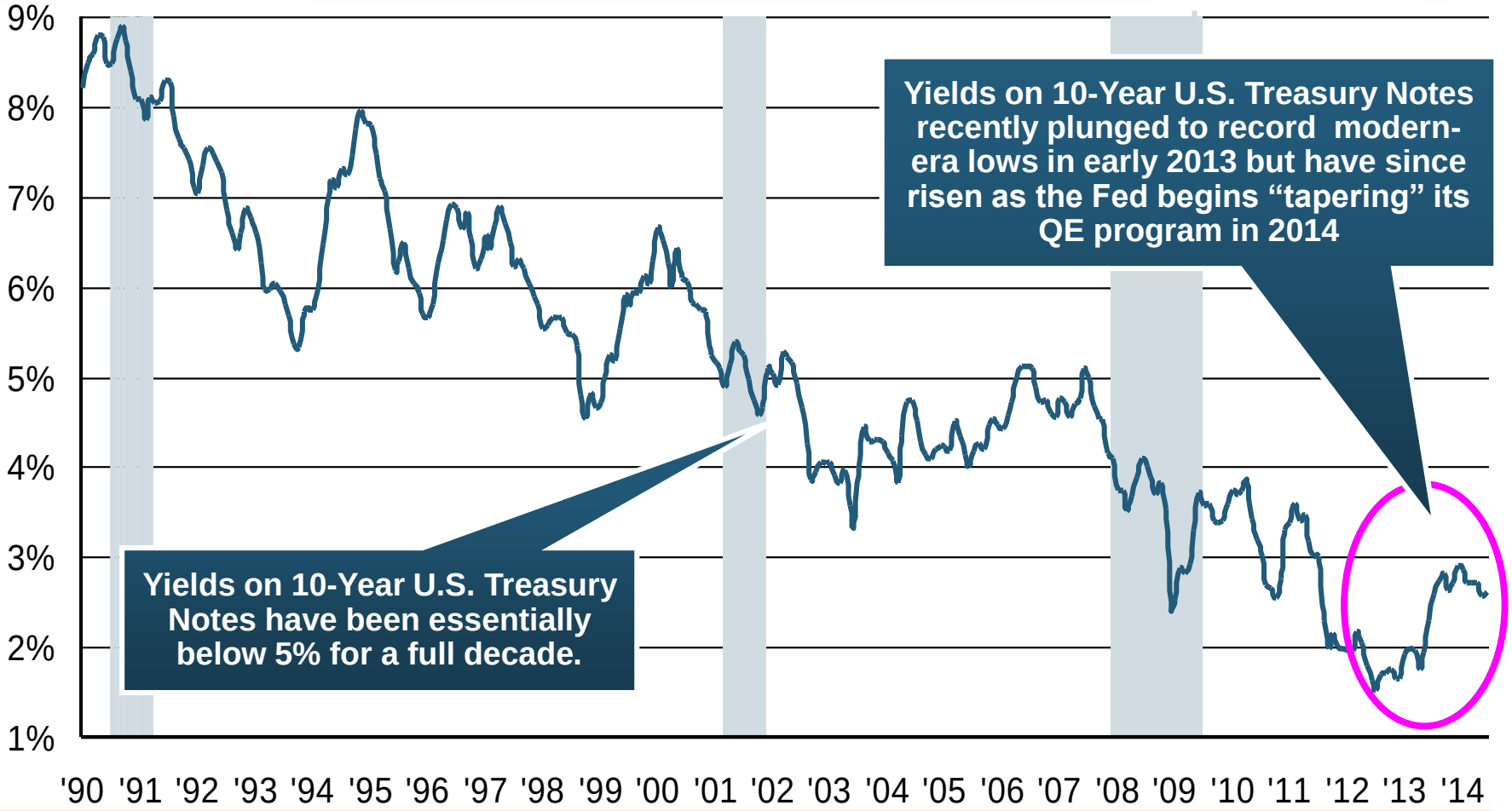
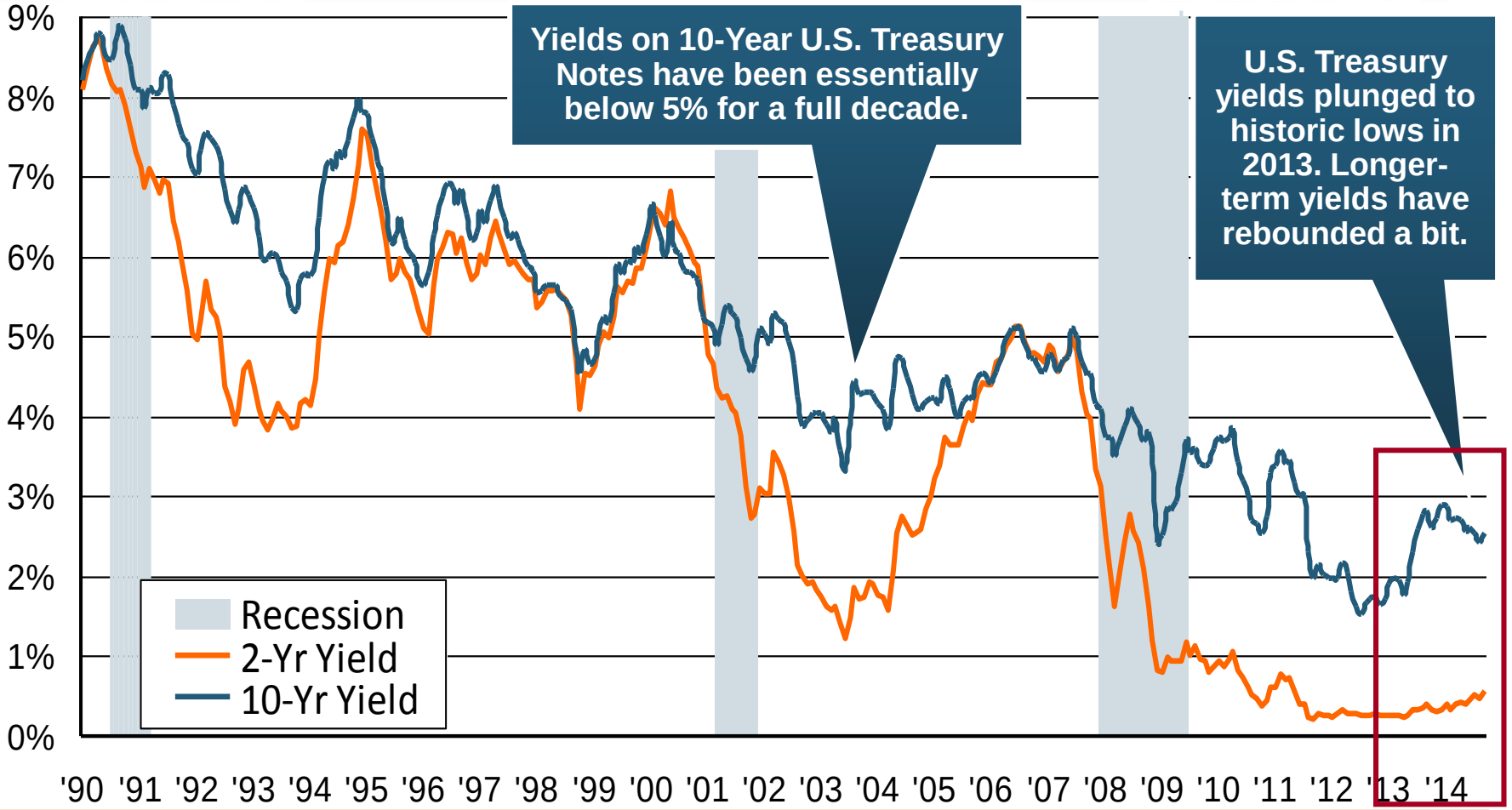


Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, through June 2014. Note: Recessions indicated by gray shaded columns.

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

U.S. Treasury Security Yields: A Long Downward Trend, 1990–2014*



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*Monthly, constant maturity, nominal rates, through Sept. 2014.

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

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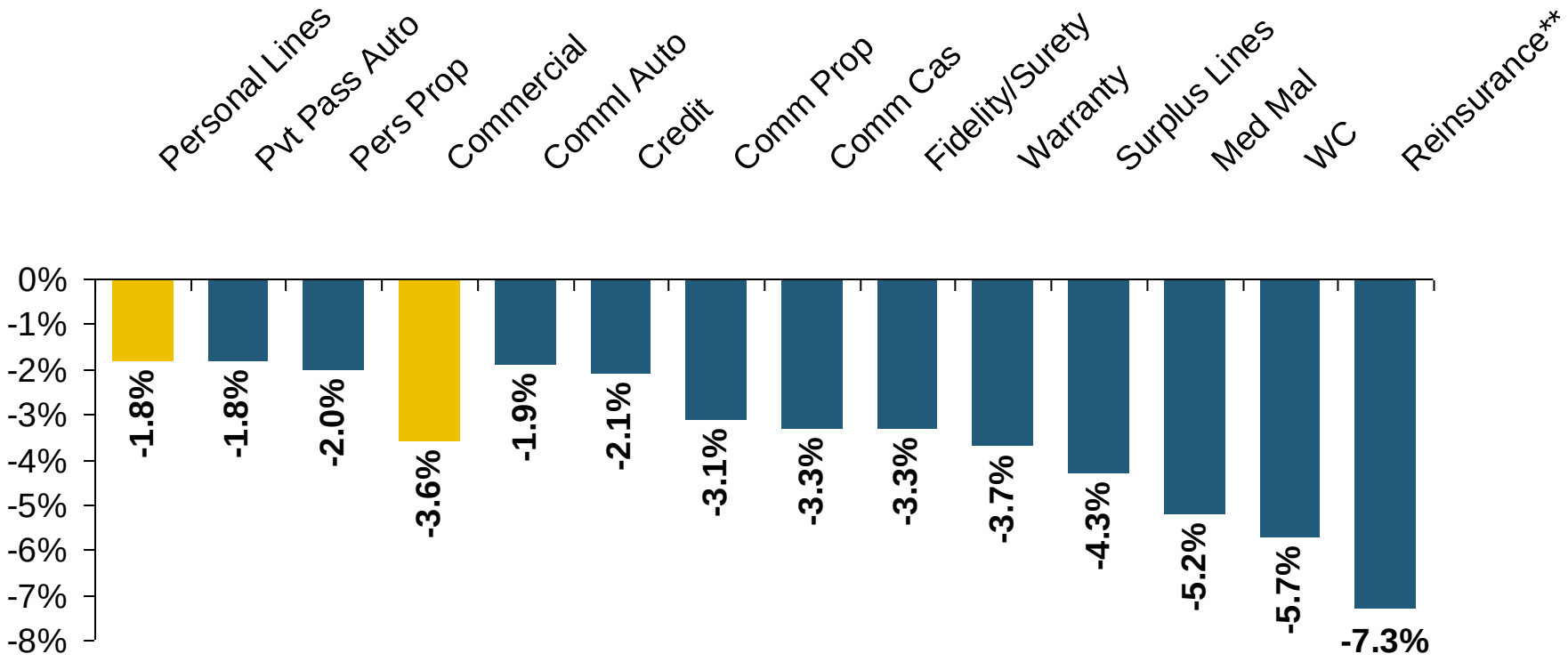
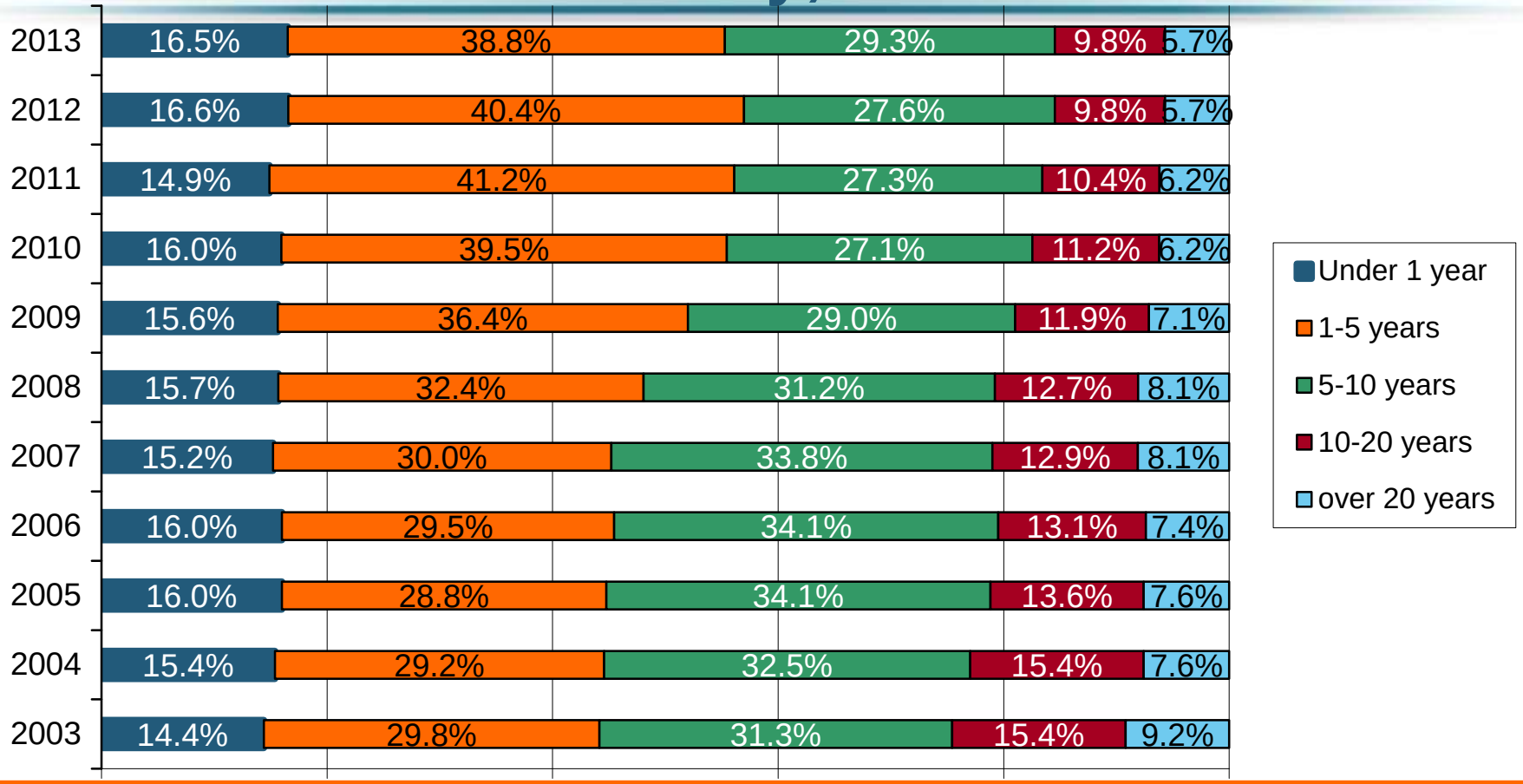


Lower Investment Earnings Place a Greater Burden on Underwriting and Pricing Discipline

*Based on 2008 Invested Assets and Earned Premiums
**US domestic reinsurance only
Source: A.M. Best; Insurance Information Institute.

Distribution of Bond Maturities, P/C Insurance Industry, 2003-2013



The main shift over these years has been from bonds with longer maturities to bonds with shorter maturities. The industry first trimmed its holdings of over-10-year bonds (from 24.6% in 2003 to 15.5% in 2012) and then trimmed bonds in the 5-10-year category (from 31.3% in 2003 to 27.6% in 2012) . Falling average maturity of the P/C industry's bond portfolio is contributing to a drop in investment income along with lower yields.

Sources: SNL Financial; Insurance Information Institute.

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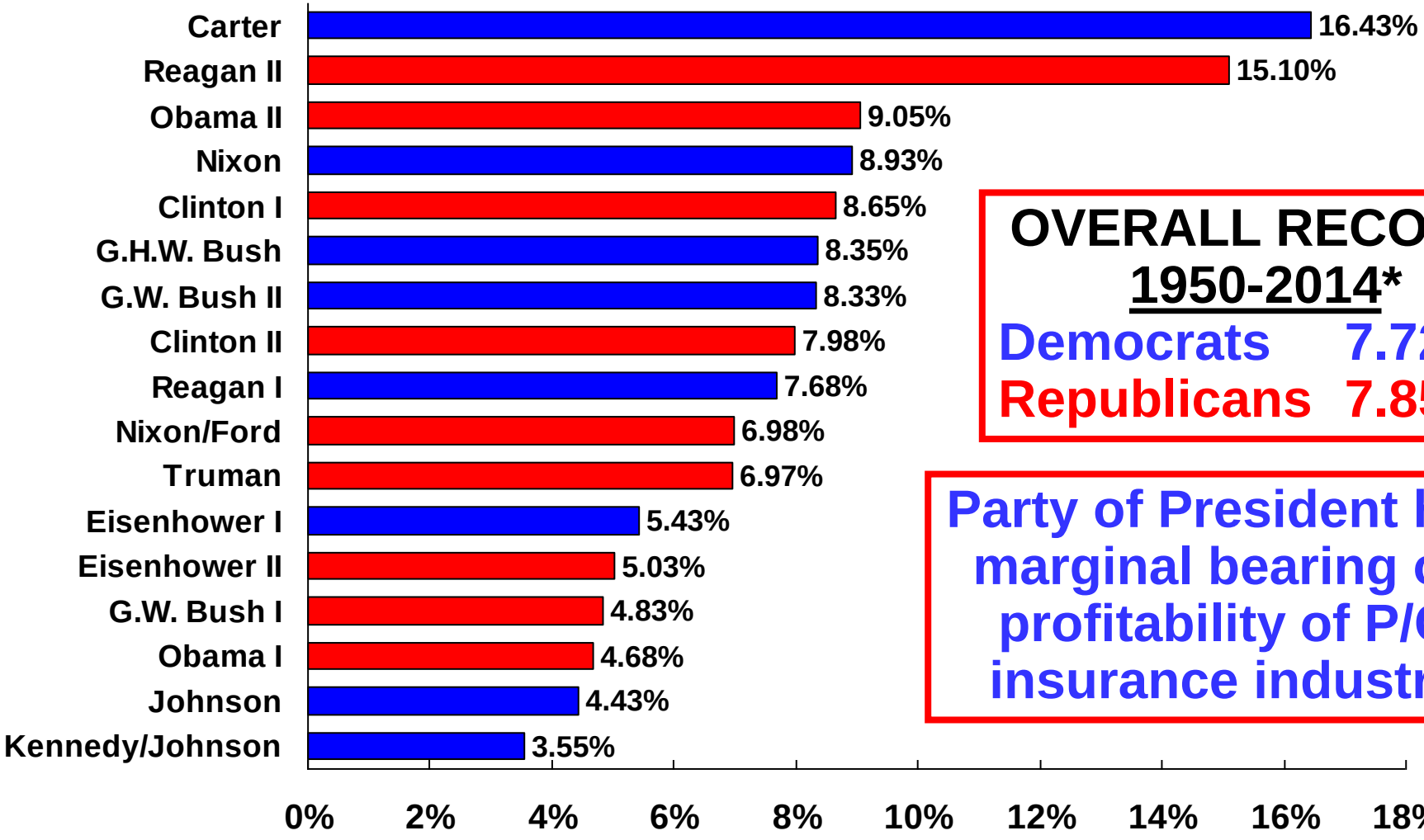
Profitability & Politics

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

P/C Insurance Industry ROE by Presidential Administration, 1950-2014*



OVERALL RECORD: 1950-2014*

Democrats 7.72%

Republicans 7.85%

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; Estimated ROE for 2014 = 7.8% based on data through 2014:Q2.
Source: Insurance Information Institute

P/C insurance Industry ROE by Presidential Party Affiliation, 1950- 2014*

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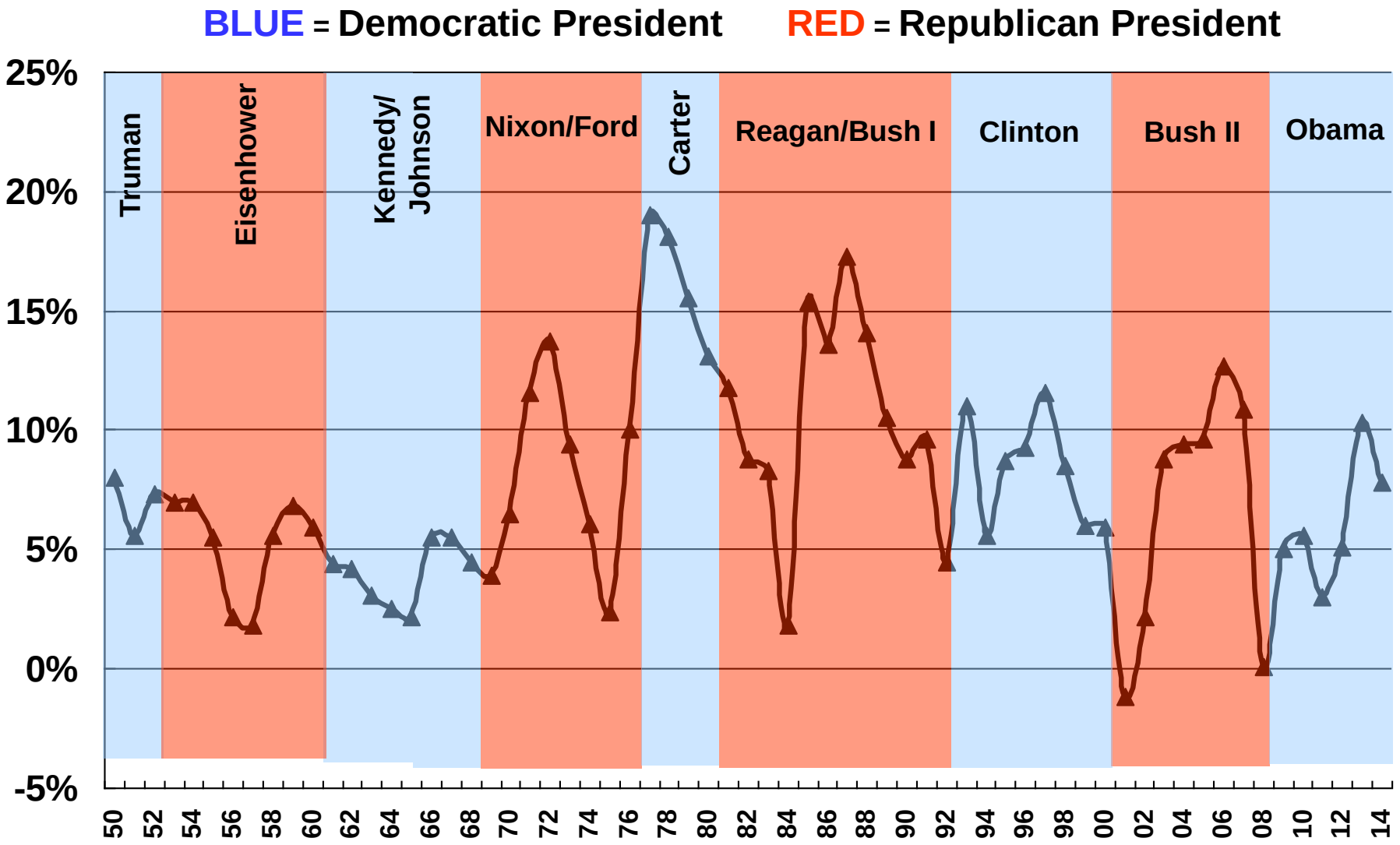

Estimated ROE for 2014 = 7.8% based on data through 2014:Q2.
Source: Insurance Information Institute

Questions Arising from 2014 Midterm Elections

- **TRIA: Reauthorize, Temp. Reauthorization or Sunset?**
  - **Very divergent views on this**
- **Dodd-Frank: Revisit parts of bill**
  - **Insurer capital standards**
  - **Challenge of SIFI designations?**
- **Affordable Care Act ("ObamaCare")**
  - **Efforts to scale back**
  - **Secondary impact on WC, Auto Liability, Med Mal**
- **Consumer Financial Protection Bureau**
- **Trade Policy**
- **Energy Policy**

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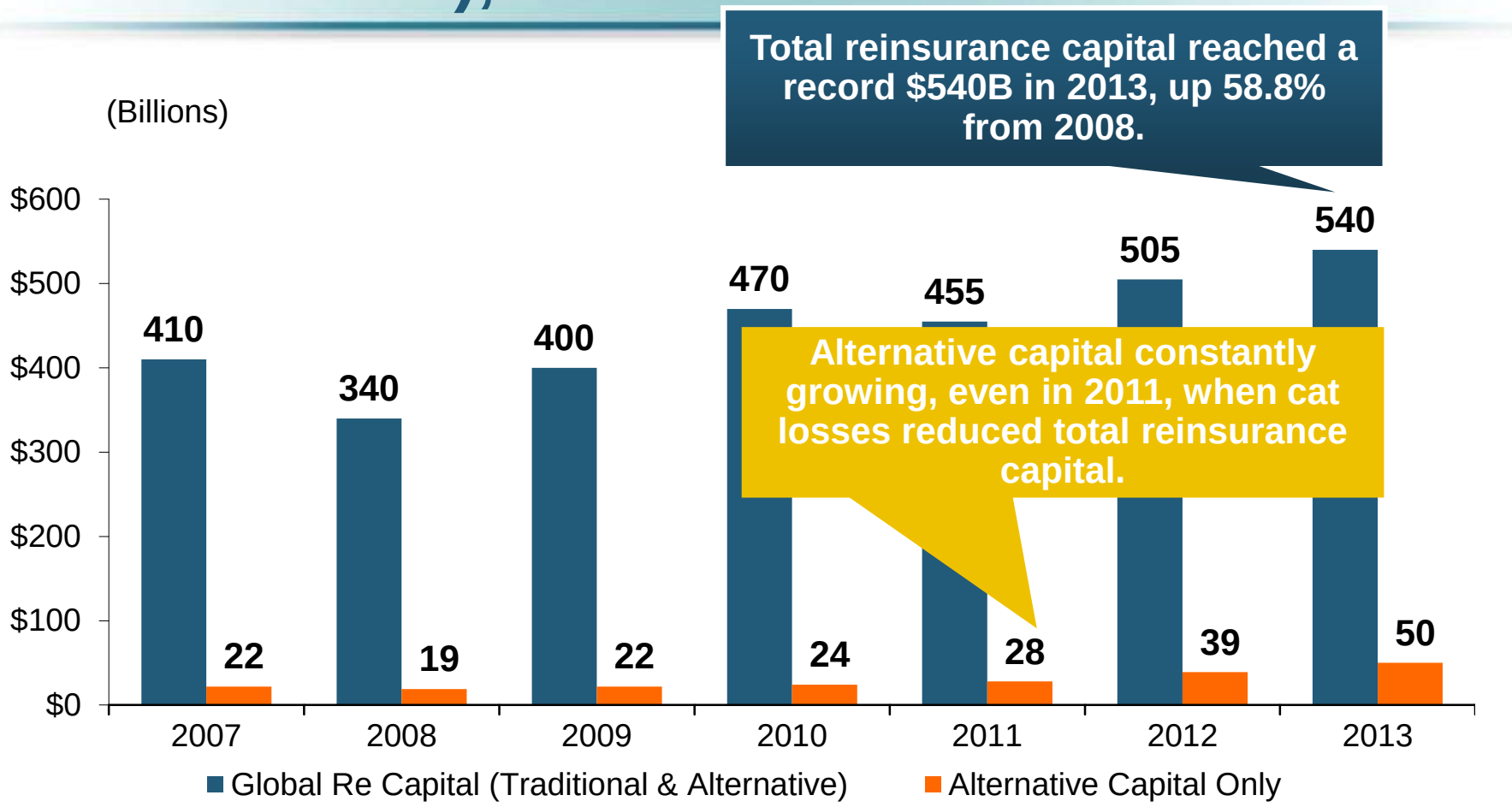
ALTERNATIVE CAPITAL & REINSURANCE MARKETS

Ample Capacity as Alternative Capital is Transforming Reinsurance Markets

Global Reinsurance Capital (Traditional and Alternative), 2007 - 2013



But alternative capacity has grown 163% since 2008, to $50B. It has grown 79% in the past two years.

Source: Aon Benfield *Reinsurance Market Outlook,* April 1, 2014; Insurance Information Institute.

Alternative Capacity as a Percentage of Global Reinsurance Capital

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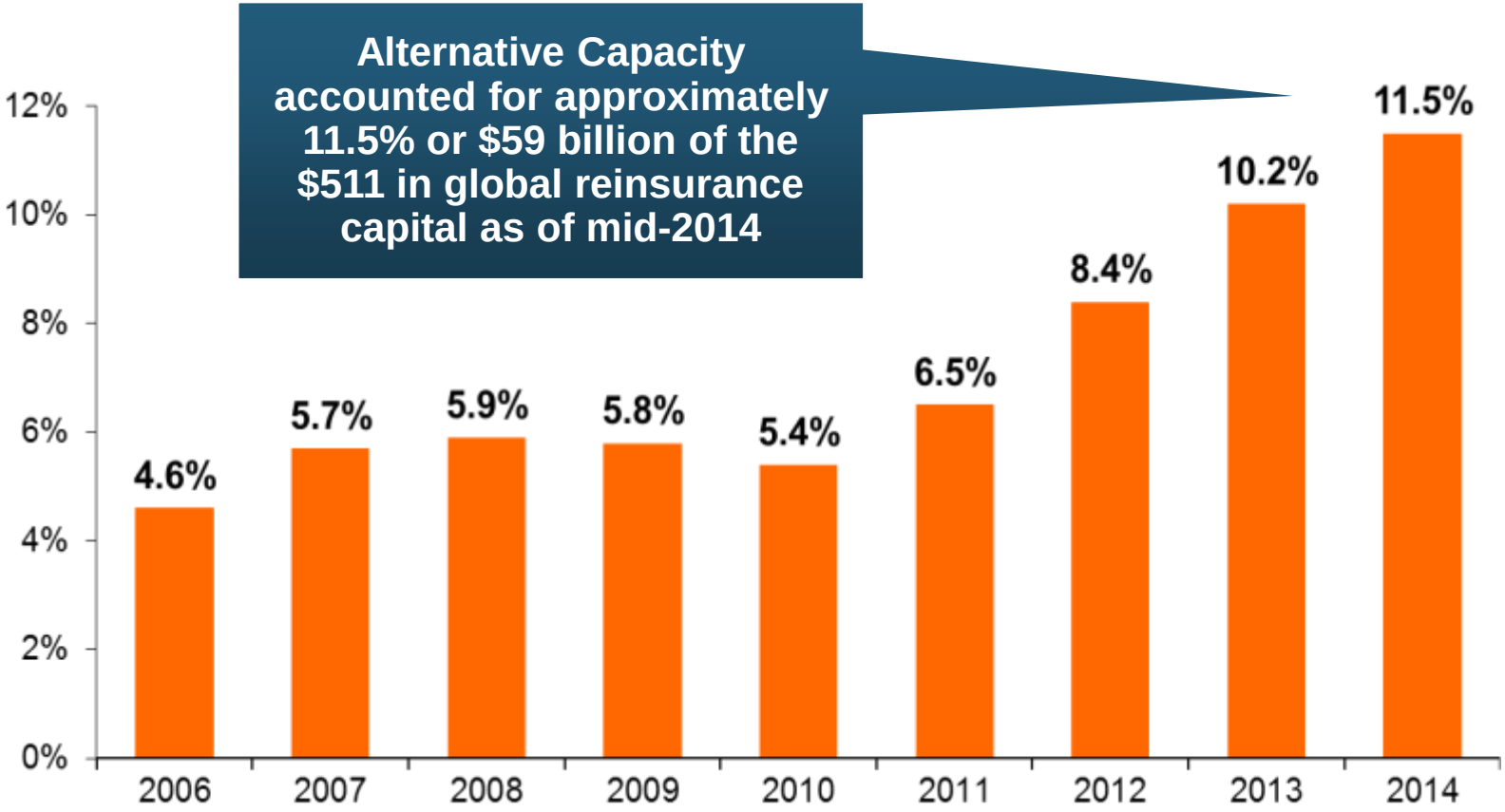
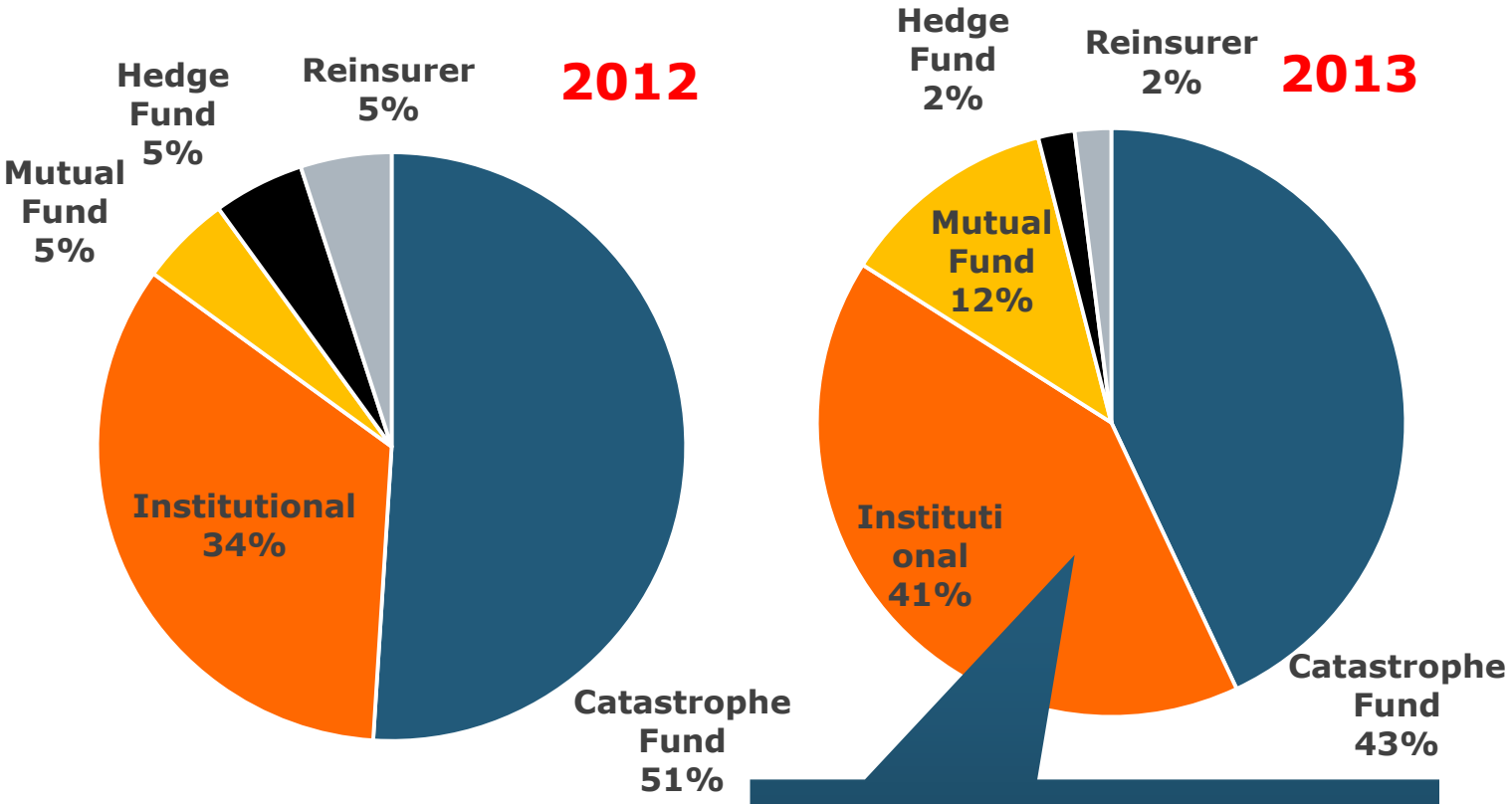
(As of Year End)*



*As of June 30.

Source: Aon Benfield Analytics.

Investor by Category

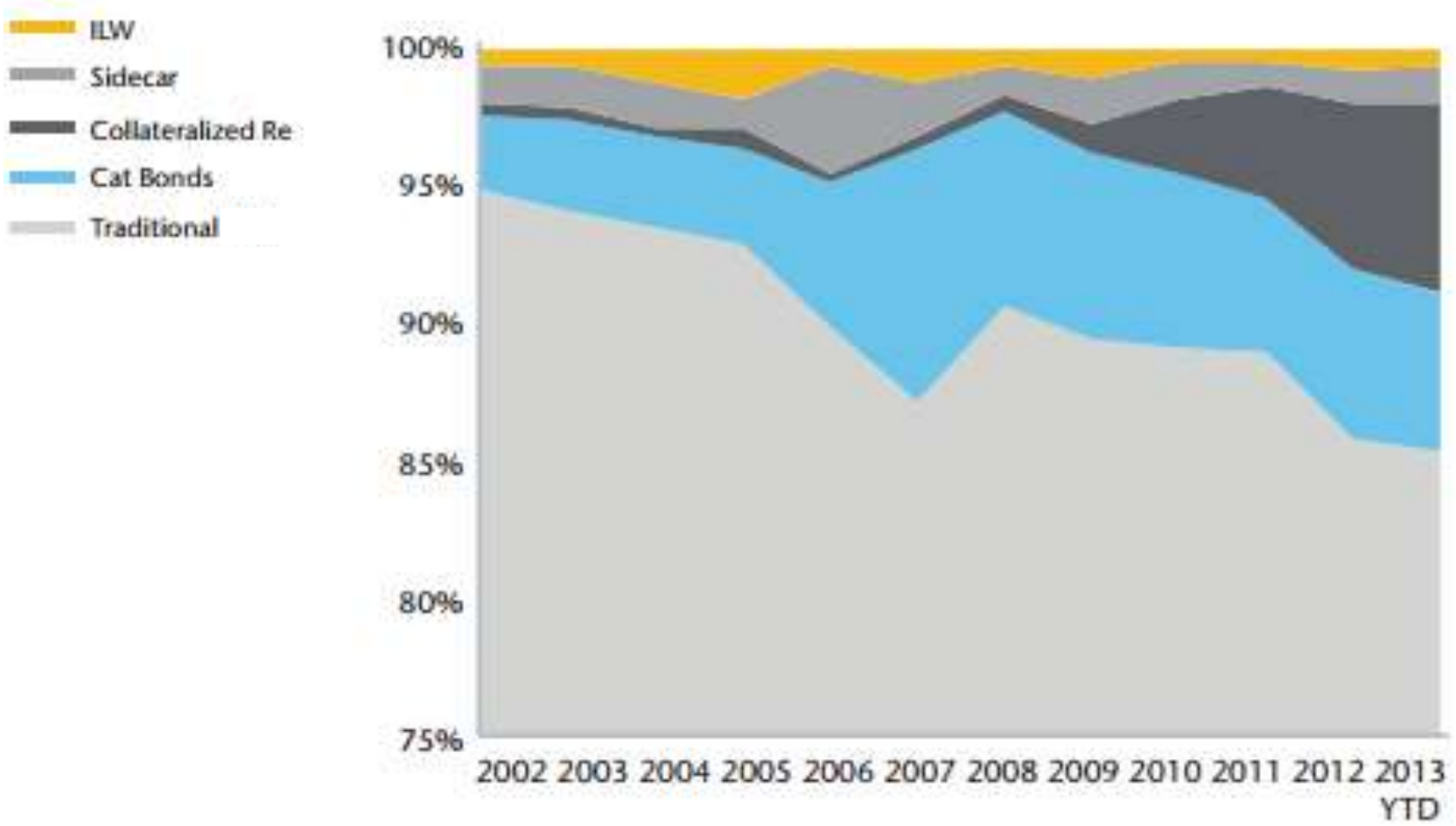


Institutional investors are accounting for a larger share of alternative reinsurance investors

Years ended June 30.

Source: Aon Benfield Securities; Insurance Information Institute.

Alternative Risk Transfer: Market Growth



Since 2009, market share of collateralized reinsurance has grown faster than cat bonds or other forms of risk transfer

Source: Aon Benfield *Insurance-Linked Securities: Capital Revolution,* August 30, 2013; Insurance Information Institute.

Catastrophe Bonds: Issuance and Outstanding, 1997- 2014:Q2

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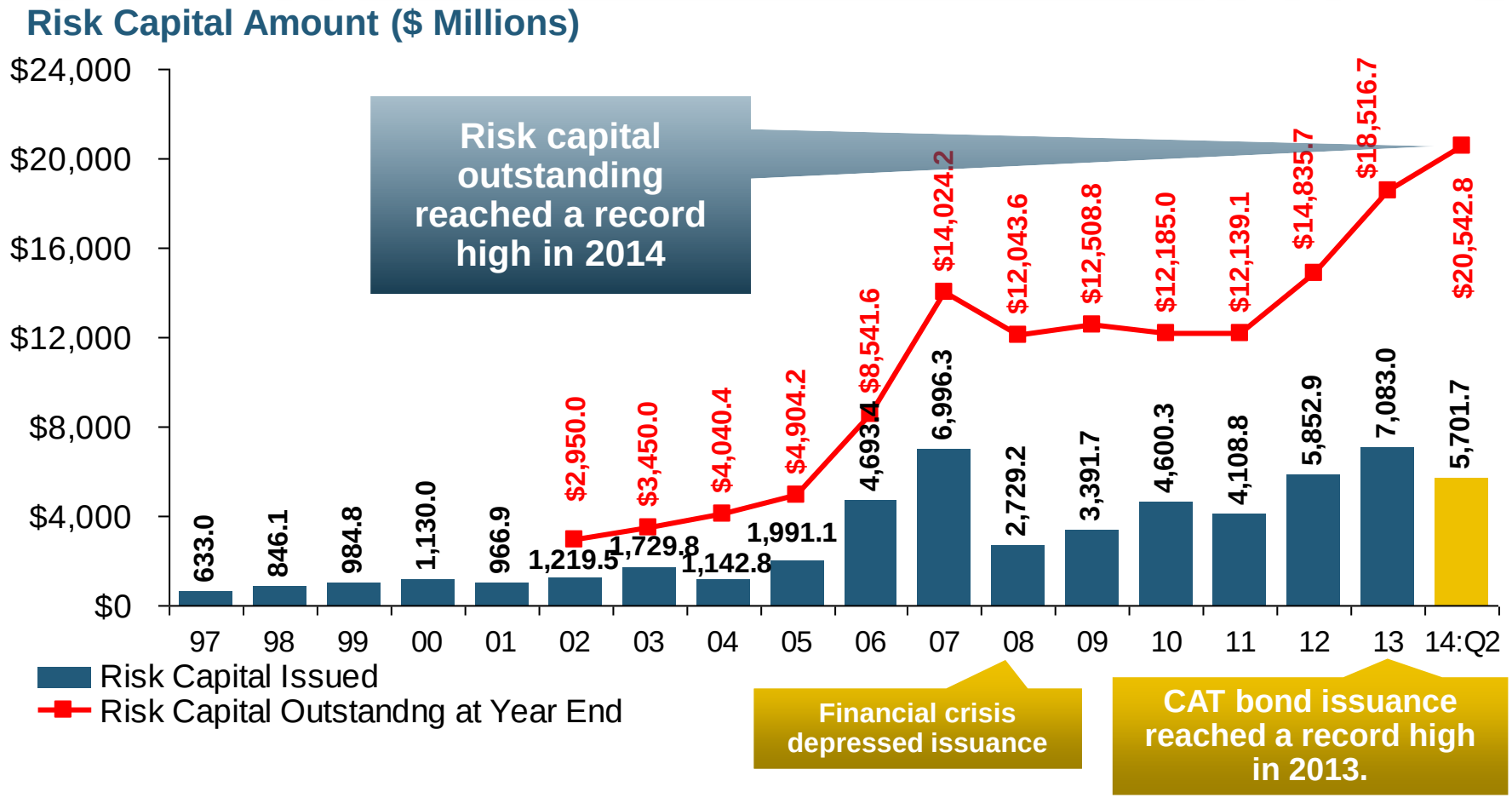
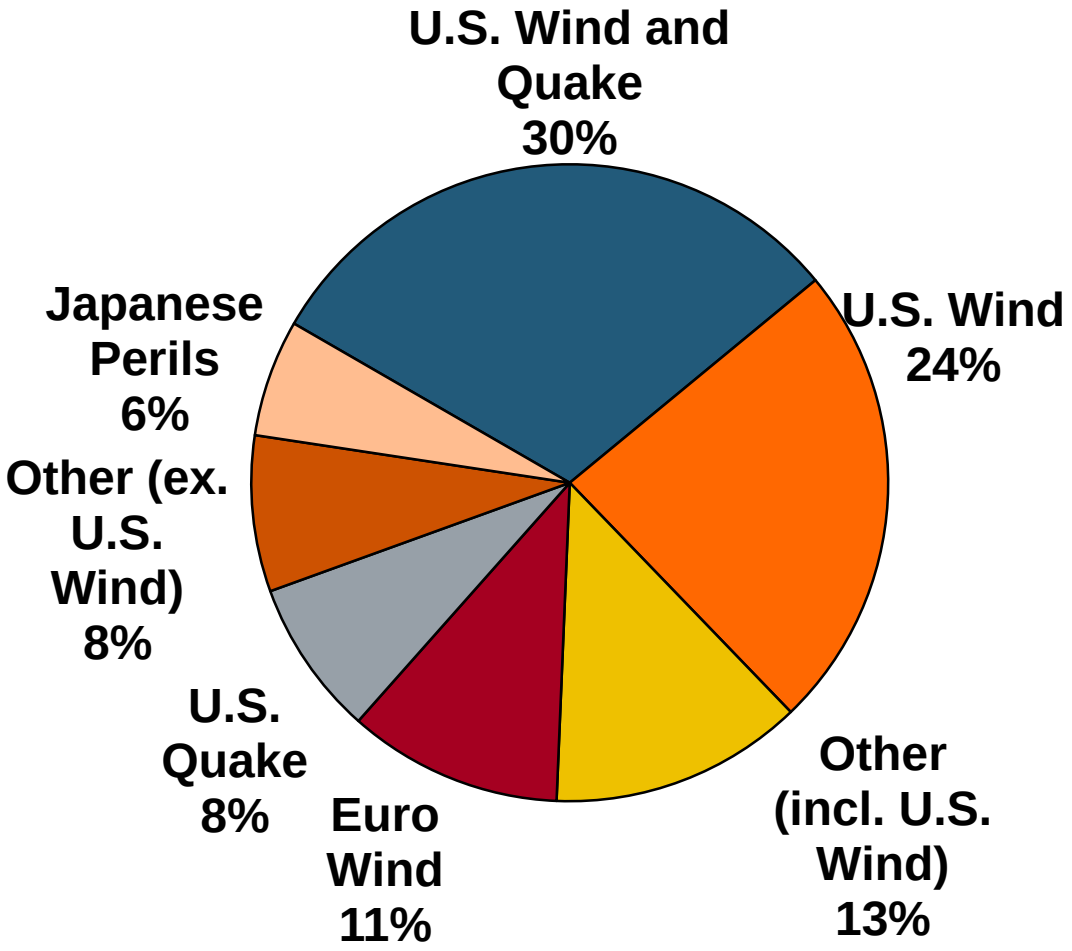


2014 Issuance Slowed Down Substantially; May Not Surpass 2013 Record

Sources: Guy Carpenter; Insurance Information Institute.

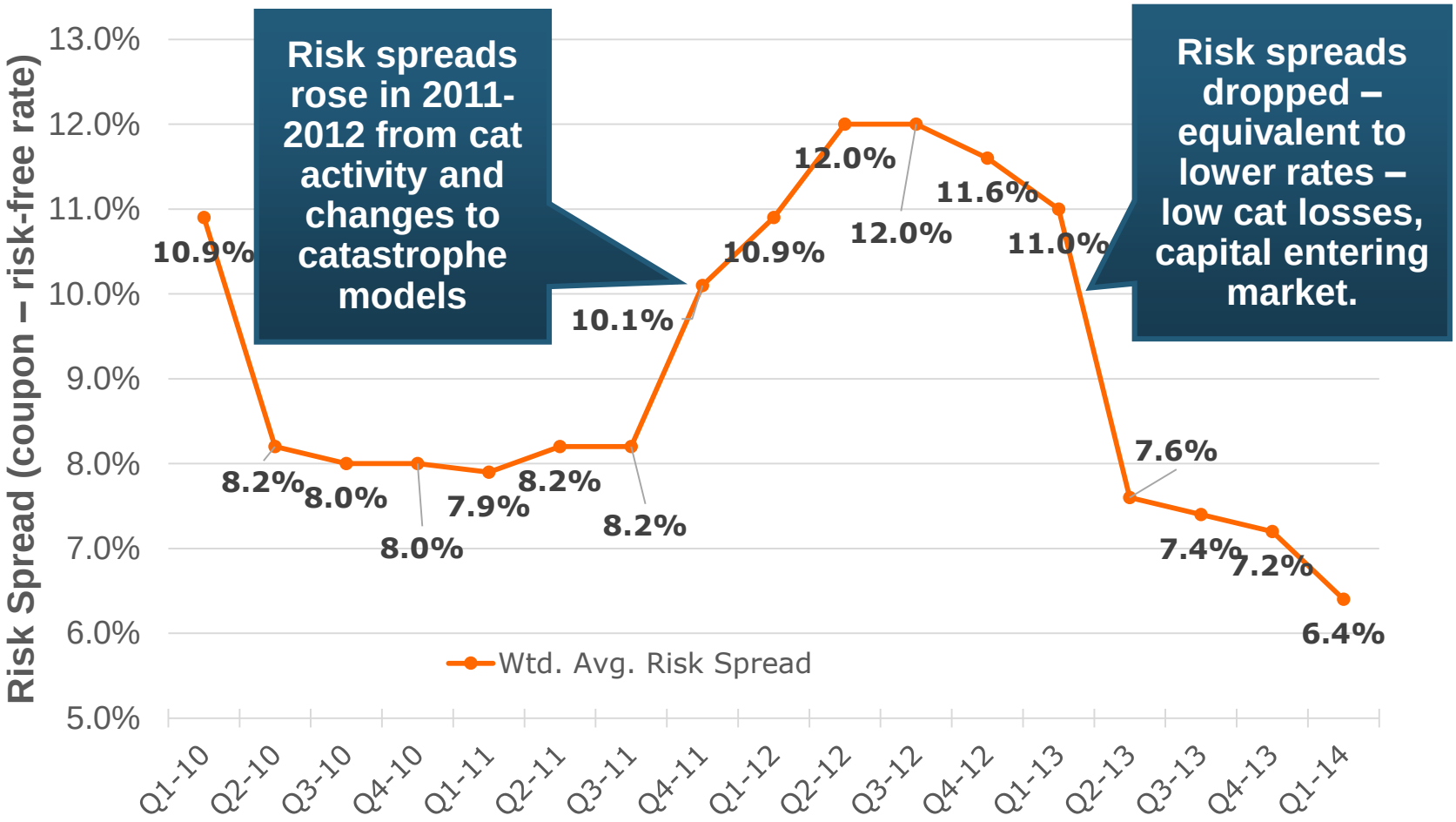
Catastrophe Bonds Outstanding, Q1 2014

Catastrophe bonds are heavily concentrated in U.S. hurricane exposures. Two-thirds of catastrophe risks outstanding cover U.S. wind risks.



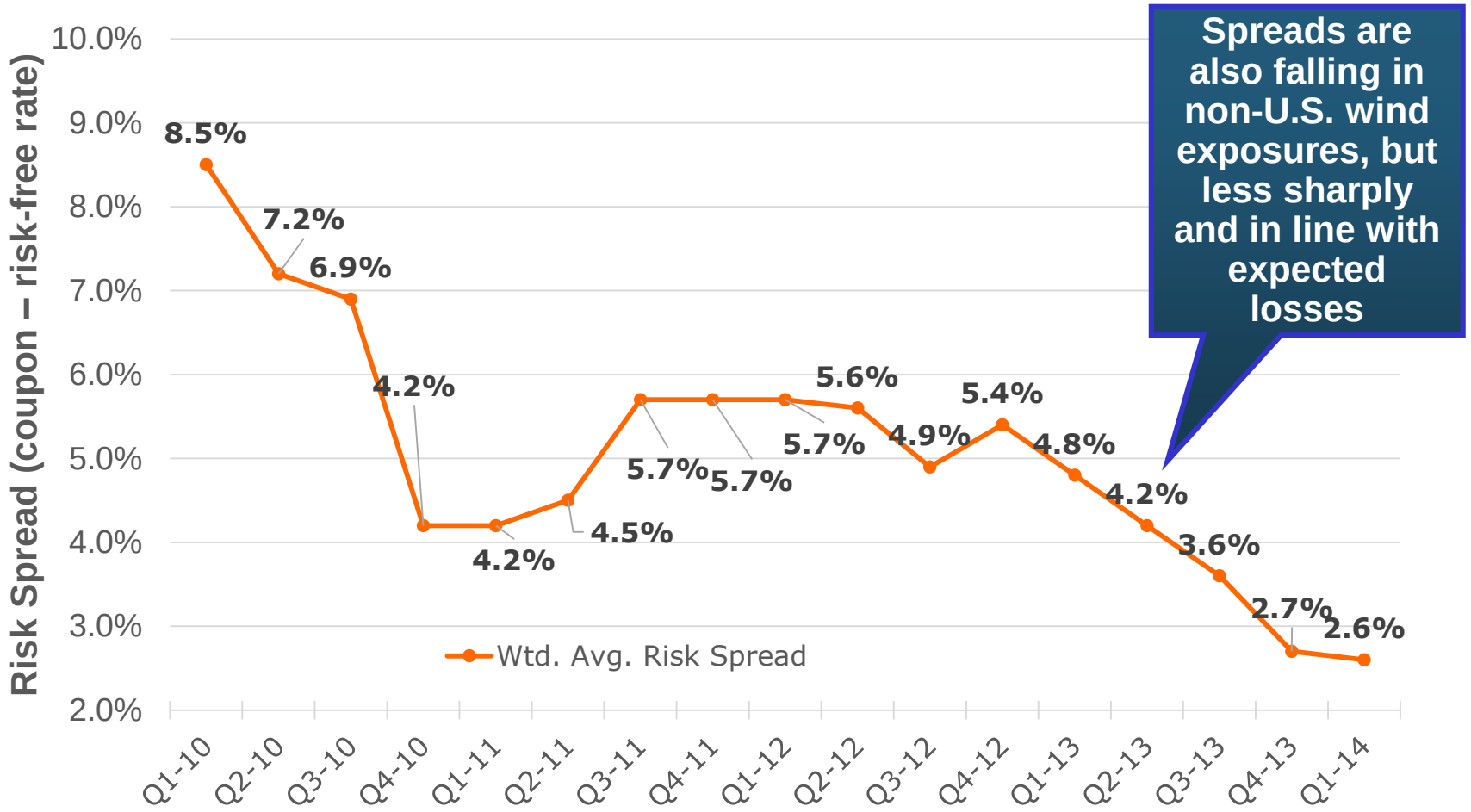
Source: Willis Capital Markets.

U.S. Wind-Exposed Risk Premium* 2010:Q1 to 2014: Q1



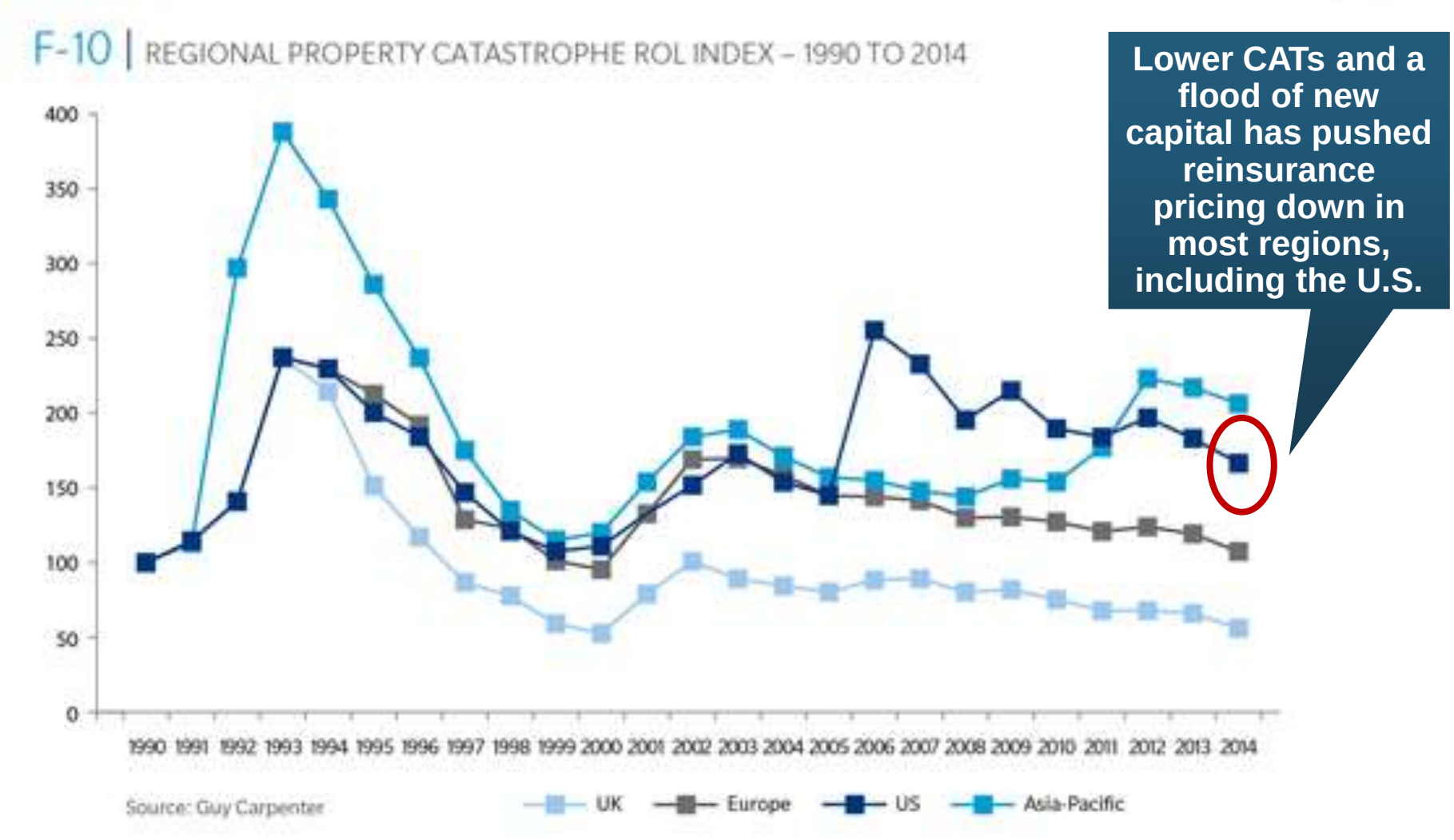
* Trailing 12-month average
SOURCE: Willis Capital Markets, Insurance Information Institute.

Non-U.S. Wind-Exposed Risk Premium* 2010:Q1-2014: Q1



* Trailing 12-month average.
SOURCE: Willis Capital Markets, Insurance Information Institute.

Reinsurance Pricing: Rate-on-Line Index by Region, 1990 – 2014*



*As of Jan. 1.
Source: Guy Carpenter

Notable Cat Bond Events

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Bond	Sponsor	Event(s)	Loss to Investors
Kelvin Ltd.	Koch Energy	U.S. Winter 2000-01	$5 million
George Town Re	St. Paul Re	9/11, Hurricane Floyd, European wind	$1 million
KAMP Re	Zurich	Hurricane Katrina (2005)	$144 million
Avalon Re	Oil Casualty	Katrina, 2005 fuel depot explosion, NYC street collapse	$13 million
Ajax	*Aspen Re*	*2008 Lehman bankruptcy*	*$72 million*
Carillon	*Munich Re*	*2008 Lehman bankruptcy*	*$31 million*
Newton Re	*Catlin*	*2008 Lehman bankruptcy*	*$4 million*
Willow	*Allstate*	*2008 Lehman bankruptcy*	*$10 million*
Muteki Ltd.	Munich Re for Zenkyoren	2011 Tohuku earthquake	$300 million
Vega Capital	Swiss Re	2011 Tohuku earthquake	$16 million
Mariah Re	American Family	2011 tornadoes	$200 million[1]
Vega Capital	Swiss Re	Superstorm Sandy (2012)	$7 million
Successor X	Swiss Re	Superstorm Sandy (2012)	$15 million[2]

Most events have been relatively small. Four were counterparty risks related to the Lehman Brothers bankruptcy in 2008.

1 (In litigation) 2 Estimated
Source: Munich Re

Questions Arising from Influence of Alternative Capital

- What Will Happen When Investors Face Large-Scale Losses?
- What Happens When Interest Rates Rise?
- Does ILS Have a Higher Propensity to Litigate?
- How Much Lower Will Risk Premiums Shrink/ROLs Fall?
- Will There Be Spillover Into Casualty Reinsurance?
- Will Alternative Capital Drive Consolidation?

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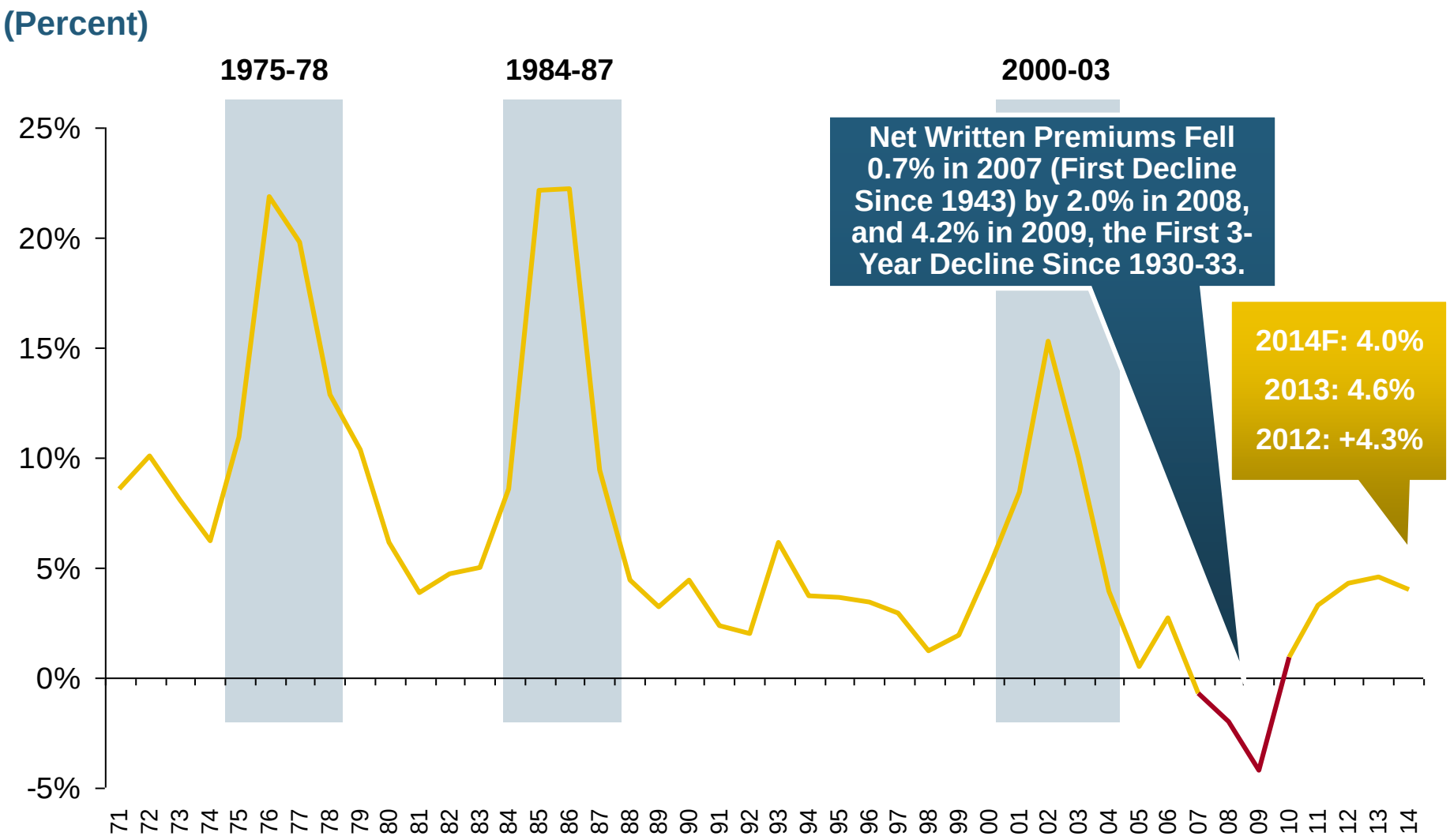
Growth Analysis by State and Business Segment

Post-Crisis Paradox?

Premium Growth Rates Vary Tremendously by State

Net Premium Growth: Annual Change, 1971—2014F



Shaded areas denote "hard market" periods
Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute.

Direct Premiums Written: Total P/C Percent Change by State, 2007-2013

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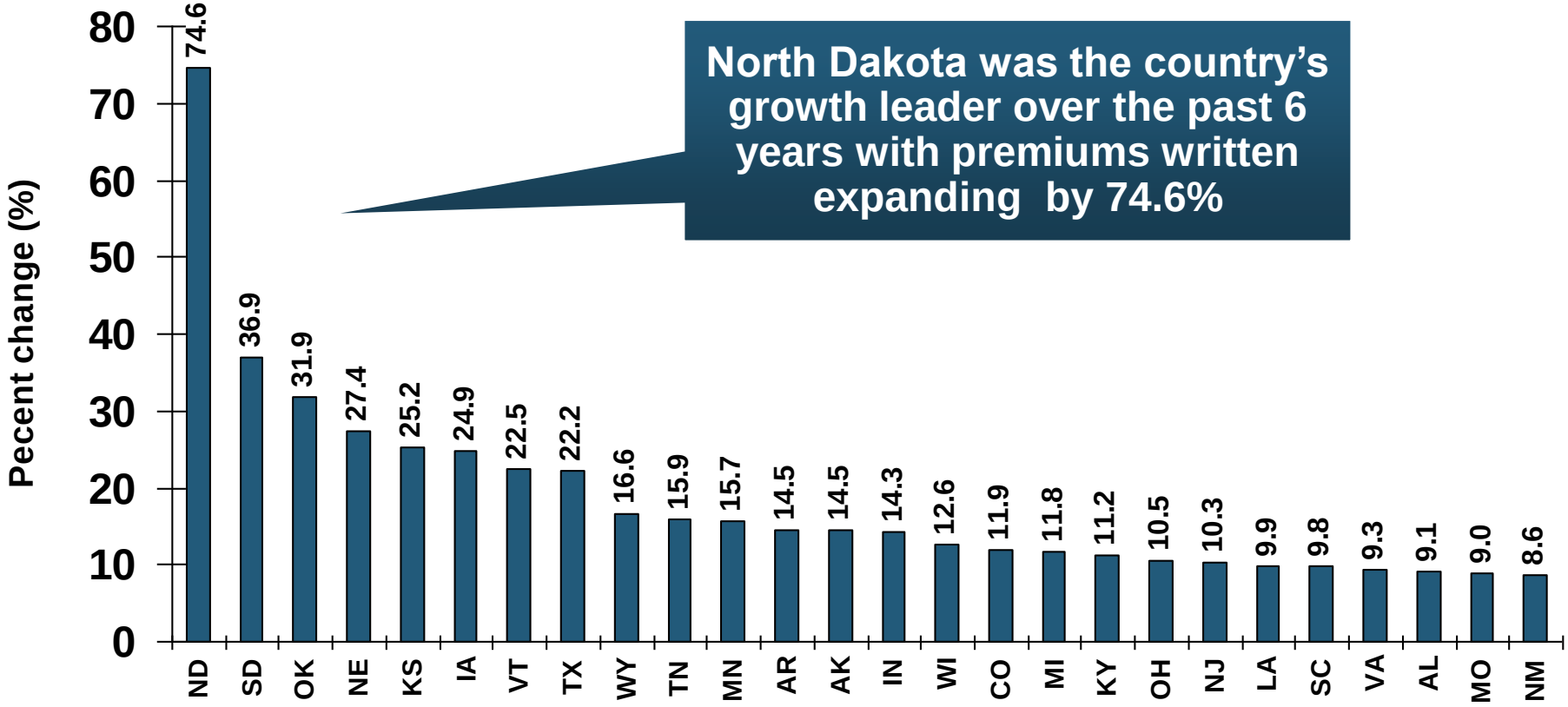
Top 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

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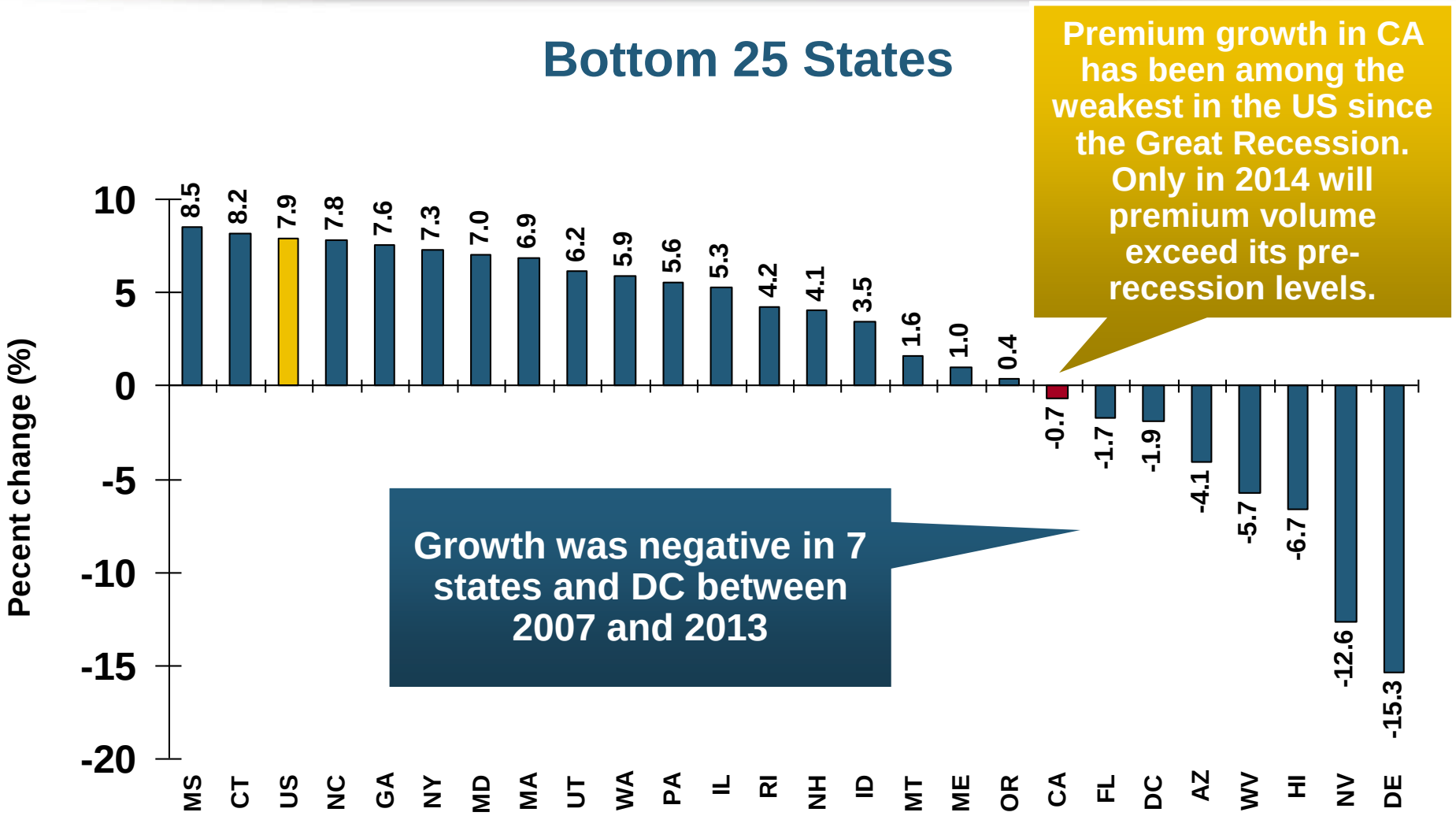
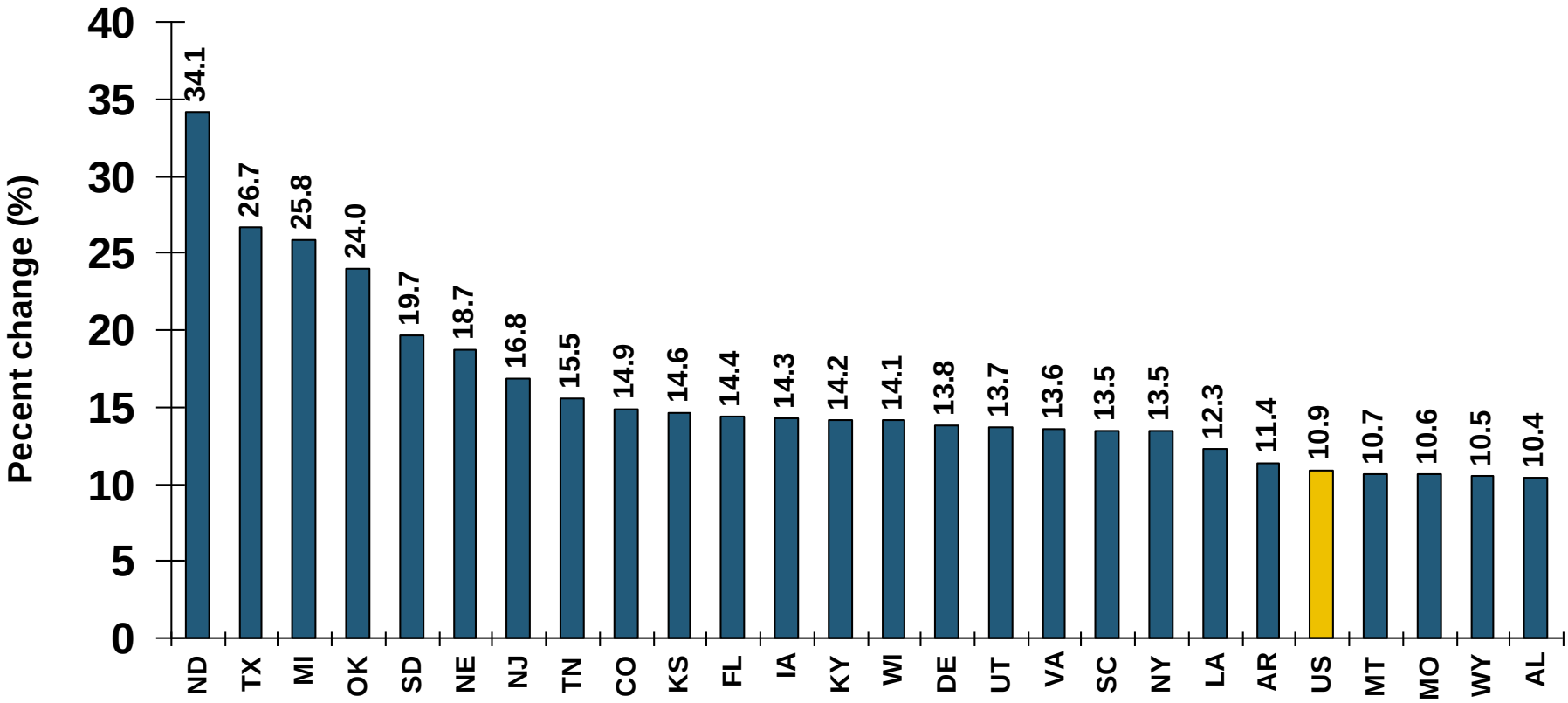


Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: PP Auto Percent Change by State, 2007-2013

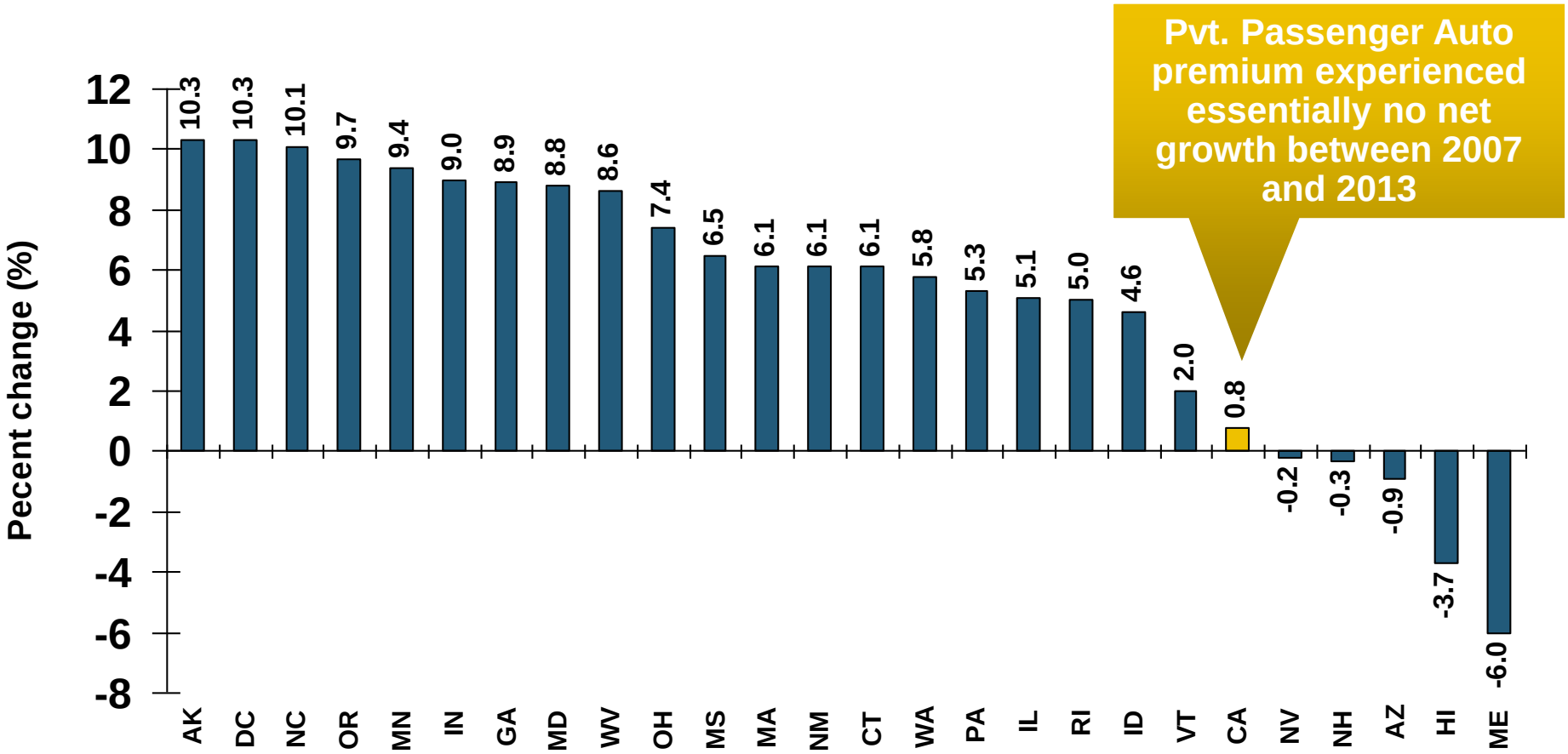
Top 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

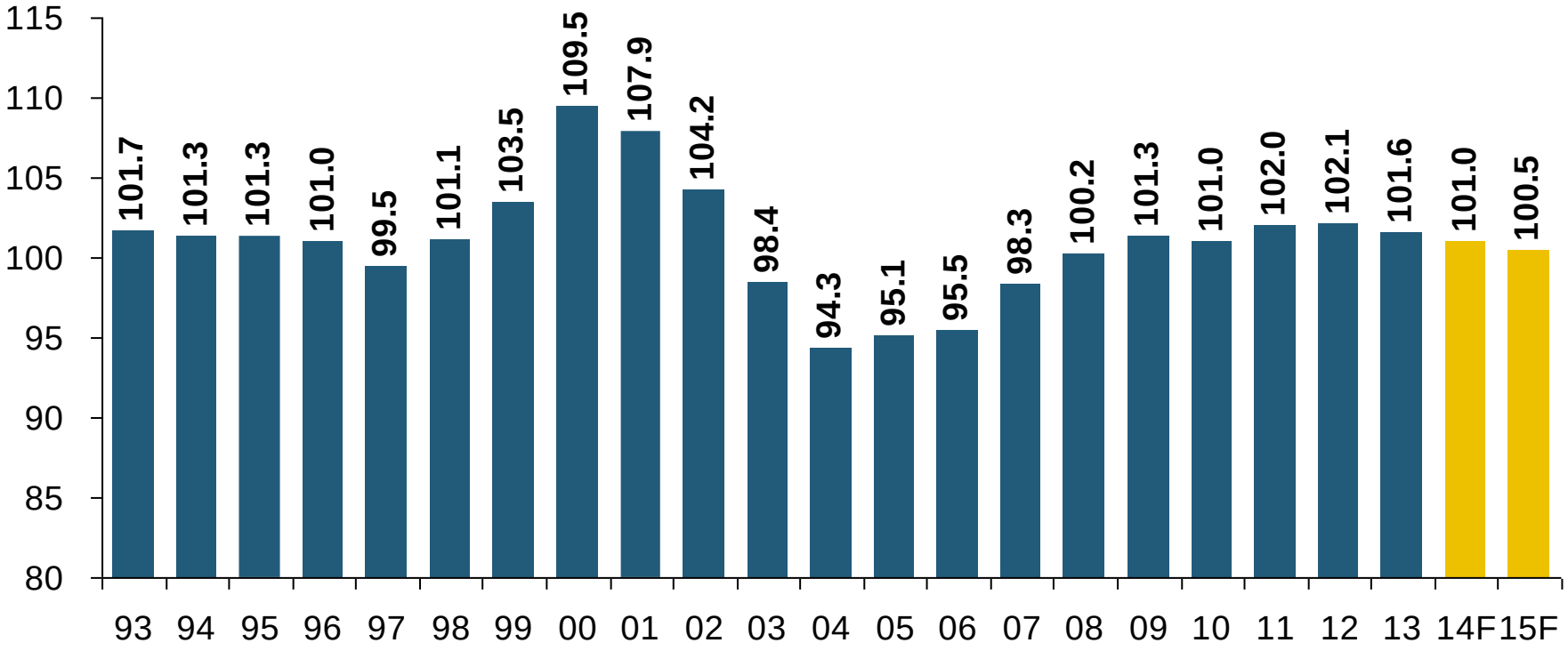
Direct Premiums Written: PP Auto Percent Change by State, 2007-2013

Bottom 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

Private Passenger Auto Combined Ratio: 1993–2015F



Private Passenger Auto Accounts for 37% of Industry Premiums and Remains the Profit Juggernaut of the P/C Insurance Industry

Sources: A.M. Best (1990-2013); Insurance Information Institute (2014F – 2015F).

Advertising Expenditures by P/C Insurance Industry, 1999-2013

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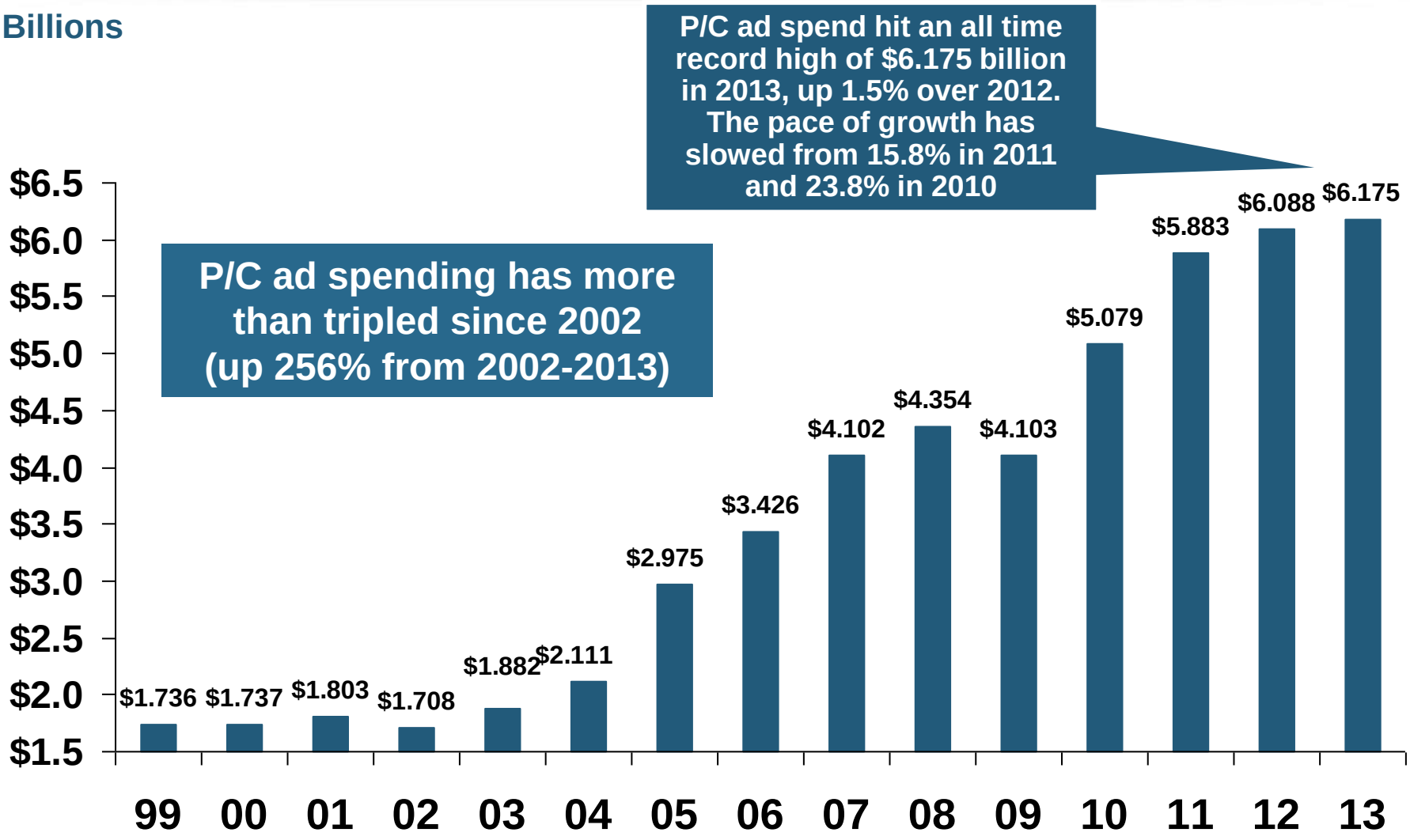
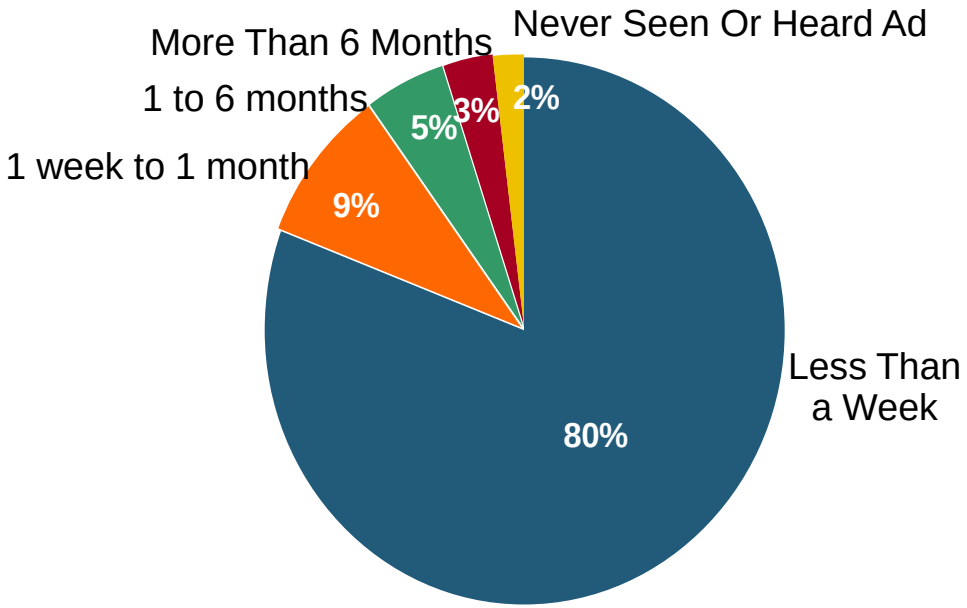


Source: Insurance Information Institute from consolidated P/C Annual Statement data, Insurance Expense Exhibit (Part I).

I.I.I. Poll: Ads Are Everywhere

Q. How long has it been since you have seen or heard an advertisement for auto insurance?

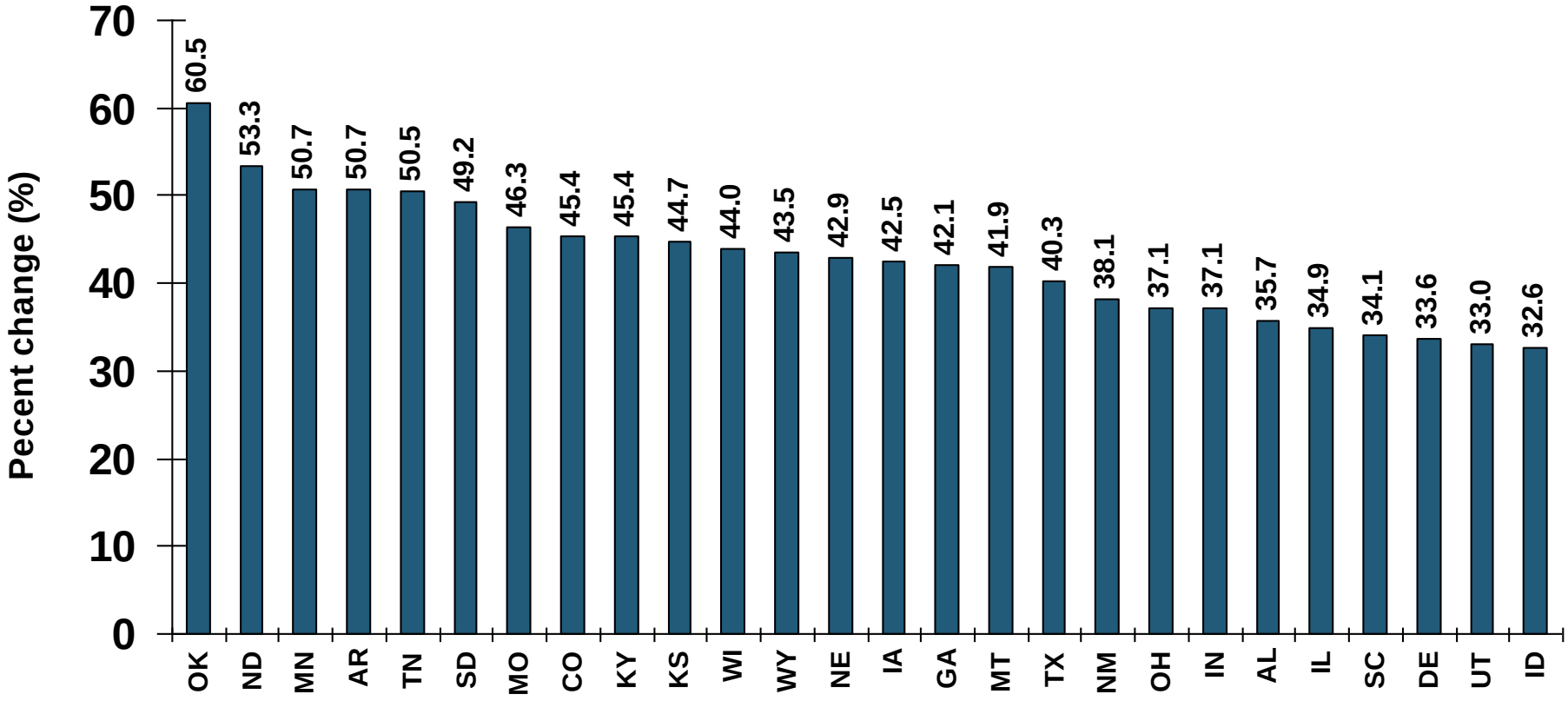


Four Out of Five Respondents Have Seen An Auto Insurance Ad in the Past Week.

Source: Insurance Information Institute Annual *Pulse* Survey, May 2014.

Direct Premiums Written: Homeowners Percent Change by State, 2007-2013

Top 25 States



Sources: SNL Financial LLC.; Insurance Information Institute.

Direct Premiums Written: Homeowners Percent Change by State, 2007-2013

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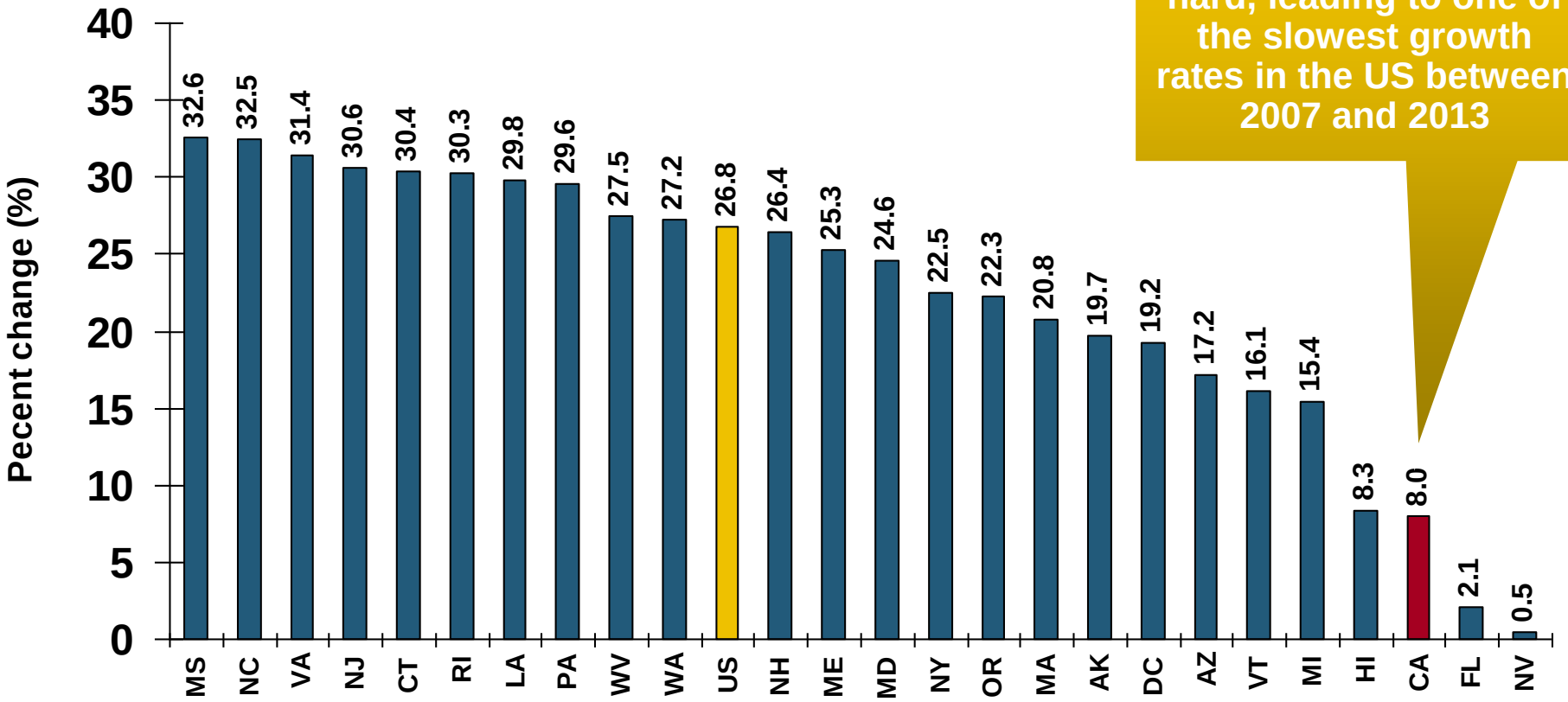
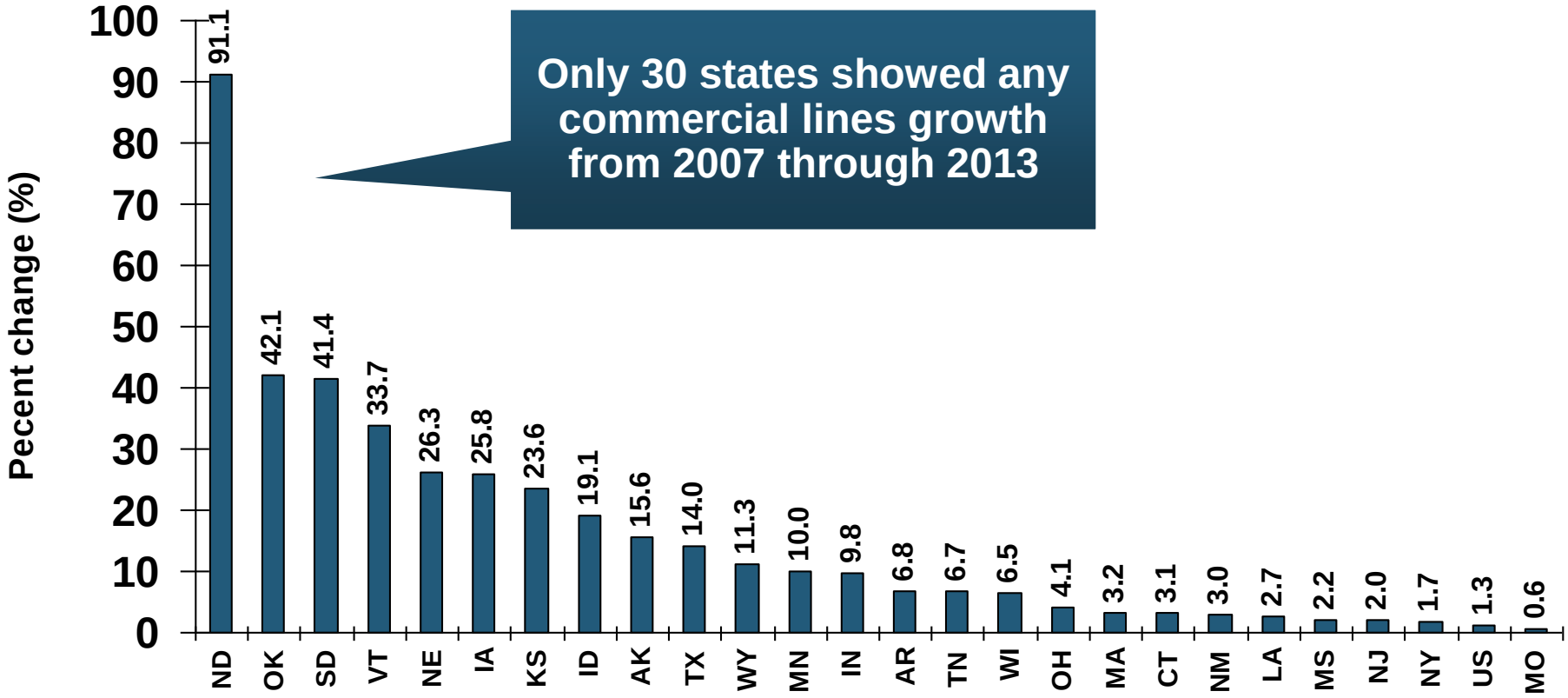
Bottom 25 States



Sources: SNL Financial LLC.; Insurance Information Institute.

Direct Premiums Written: Comm. Lines Percent Change by State, 2007-2013

Top 25 States



Sources: SNL Financial LLC.; Insurance Information Institute.

Direct Premiums Written: Comm. Lines Percent Change by State, 2007-2013

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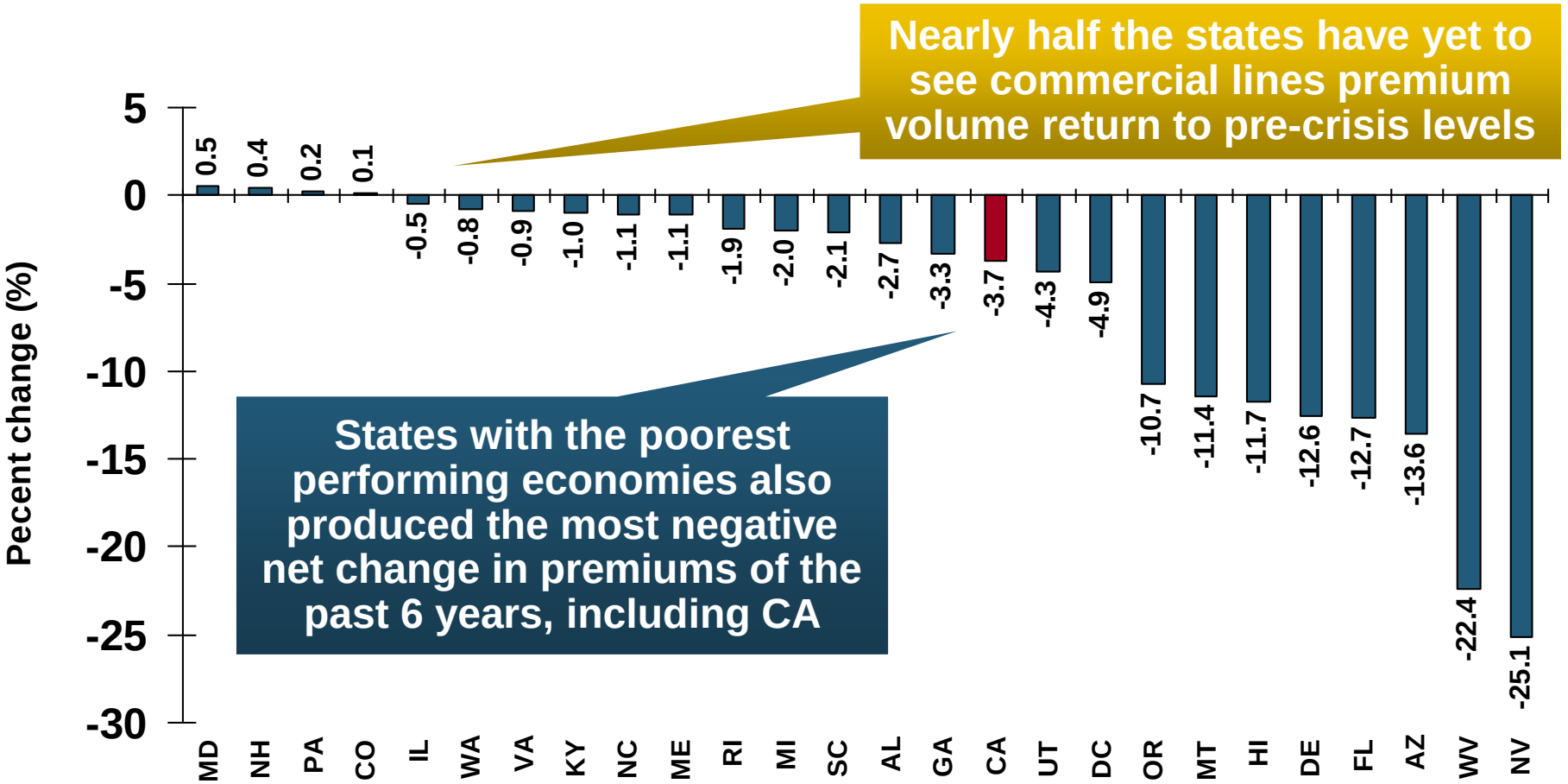
Bottom 25 States



Sources: SNL Financial LLC.; Insurance Information Institute.

Direct Premiums Written: Workers' Comp Percent Change by State, 2007-2013*

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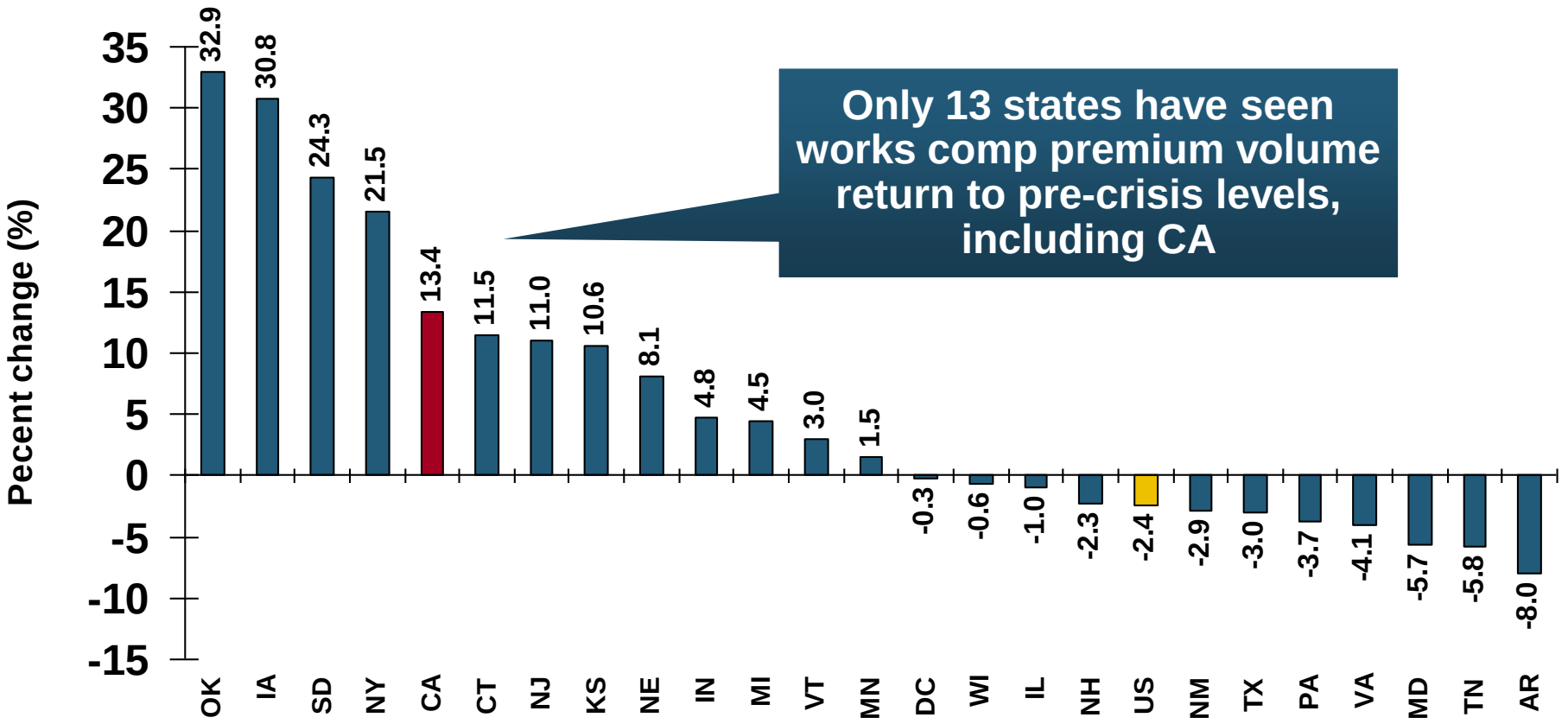
Top 25 States



*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, 2007-2013*

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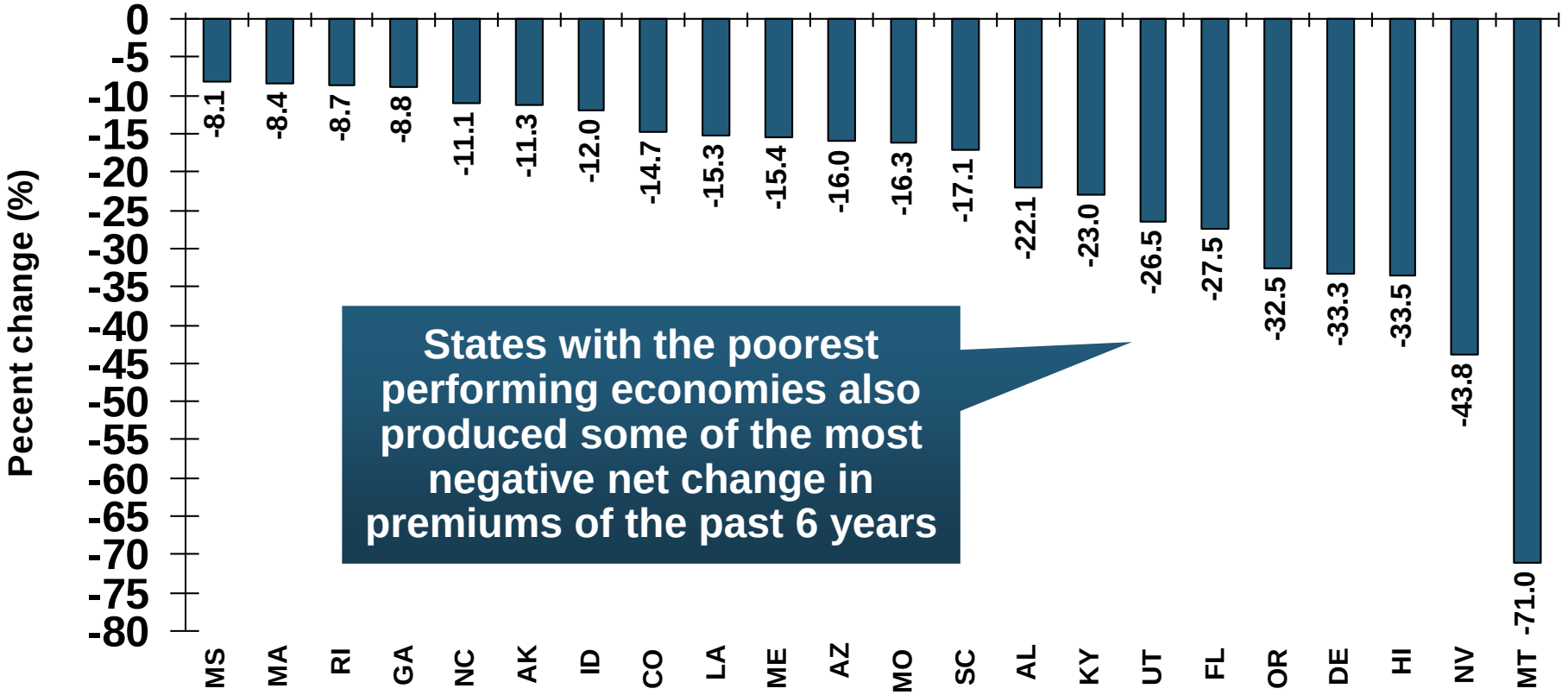
Bottom 25 States



*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.

Percentage of Carriers Using Predictive Analytics by Major P/C Line, 2013

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Predictive analytics is more like to be used in personal lines, but commercial lines use is growing

82% of insurers report using predicative analytics in at least one line. 18% do not use it all.

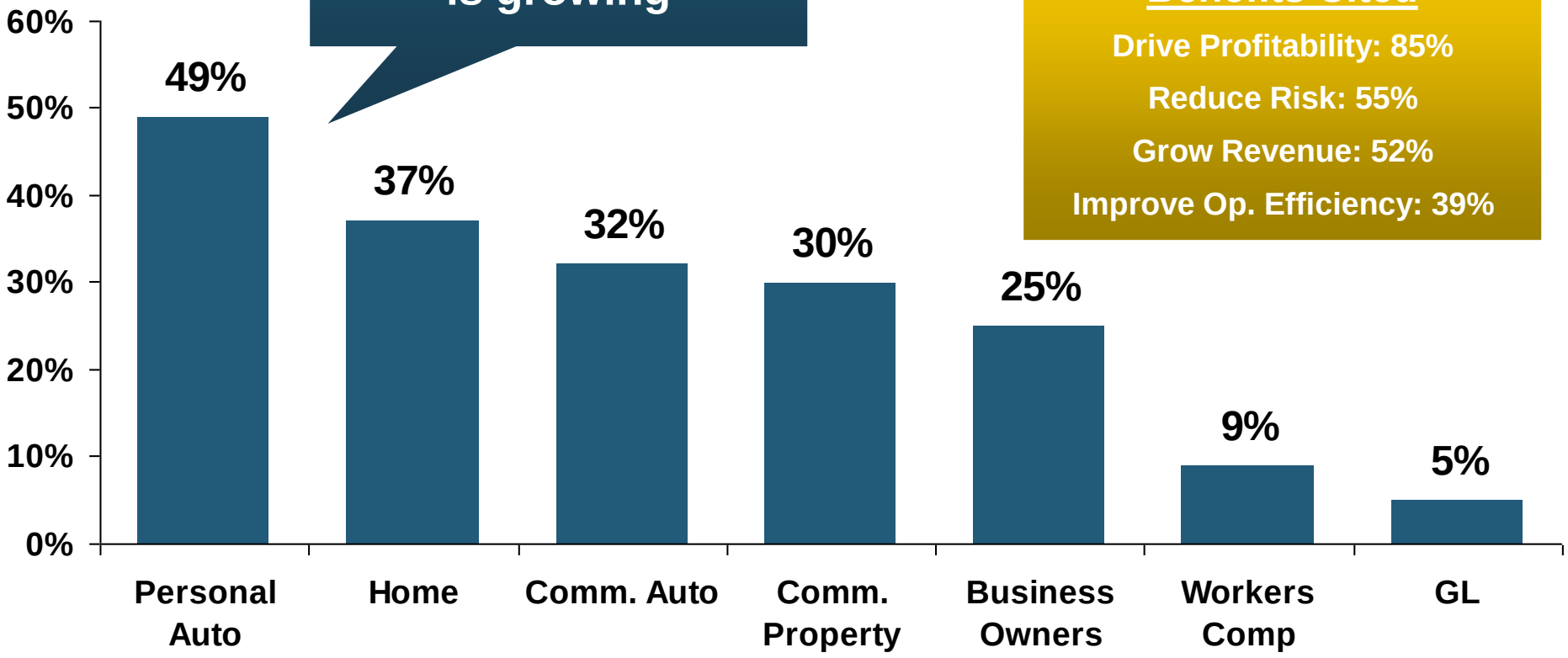
Benefits Cited

Drive Profitability: 85%

Reduce Risk: 55%

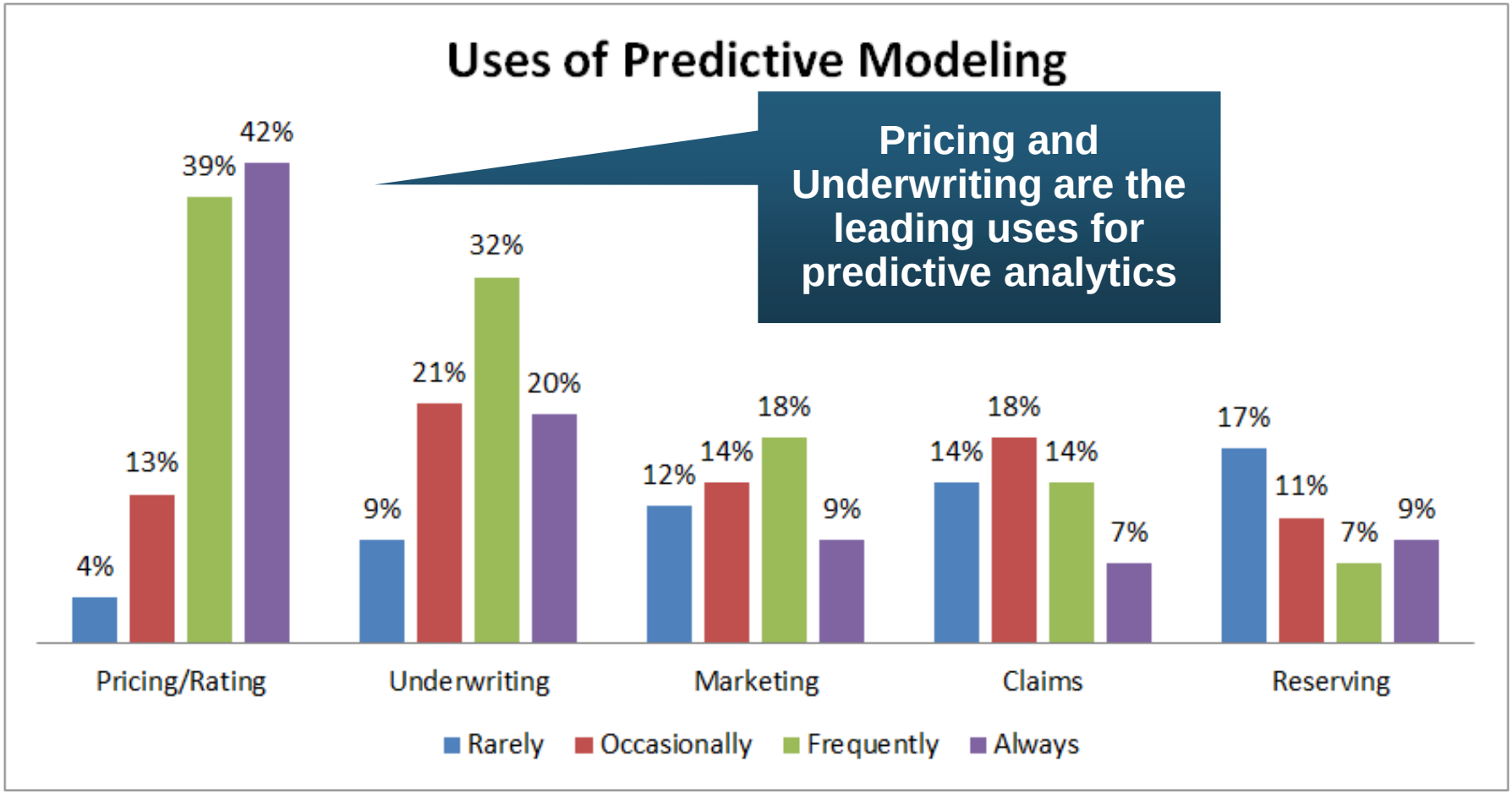
Grow Revenue: 52%

Improve Op. Efficiency: 39%



Source: ISO/Earnix Survey, September 2013; Insurance Information Institute.

Uses of Predictive Analytics by Function



Source: Earnix/ISO September 2013 Survey

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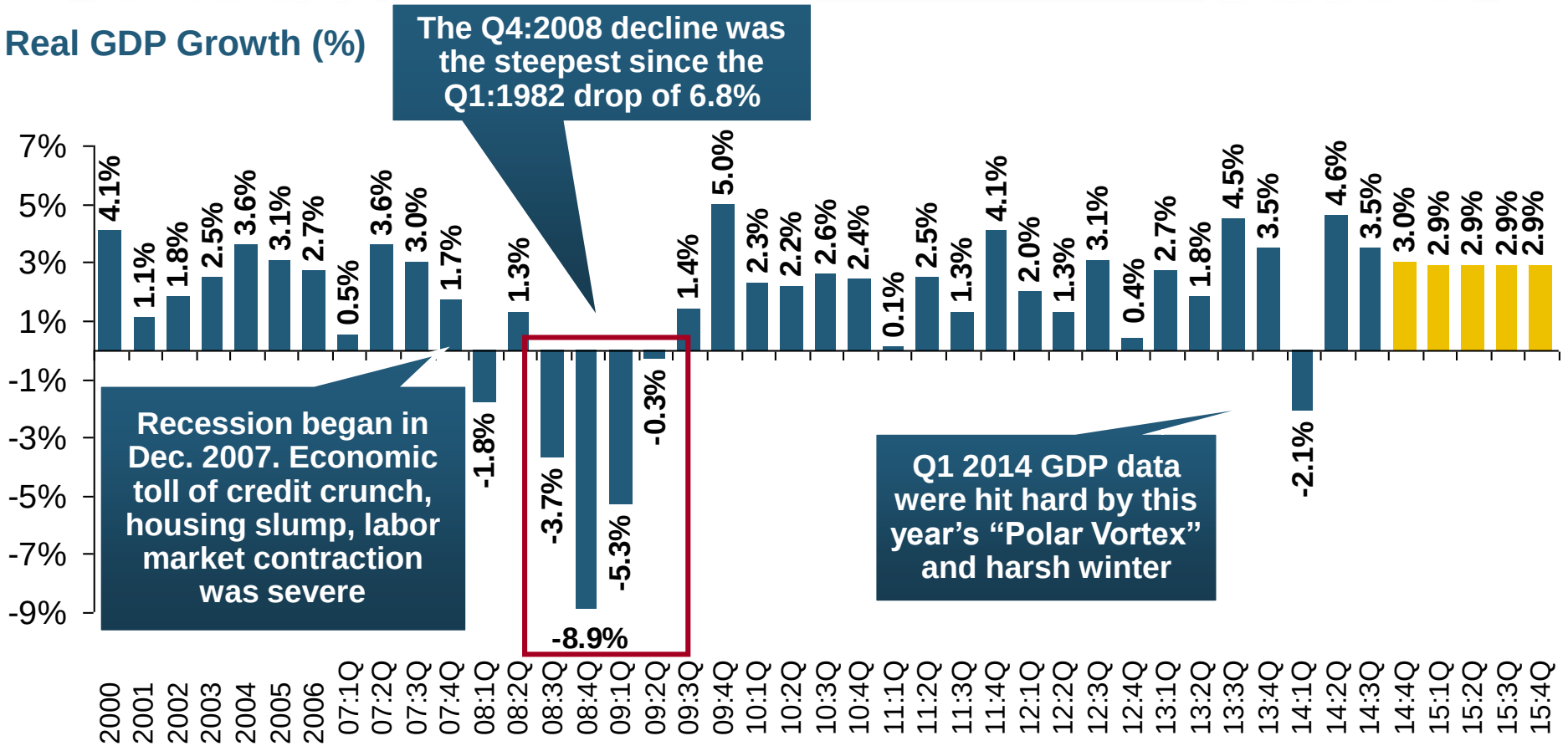
The Strength of the Economy Will Influence P/C Insurer Growth Opportunities

Growth Will Expand Insurer Exposure Base Across Most Lines

Texas Remains a Growth Leader

US Real GDP Growth*

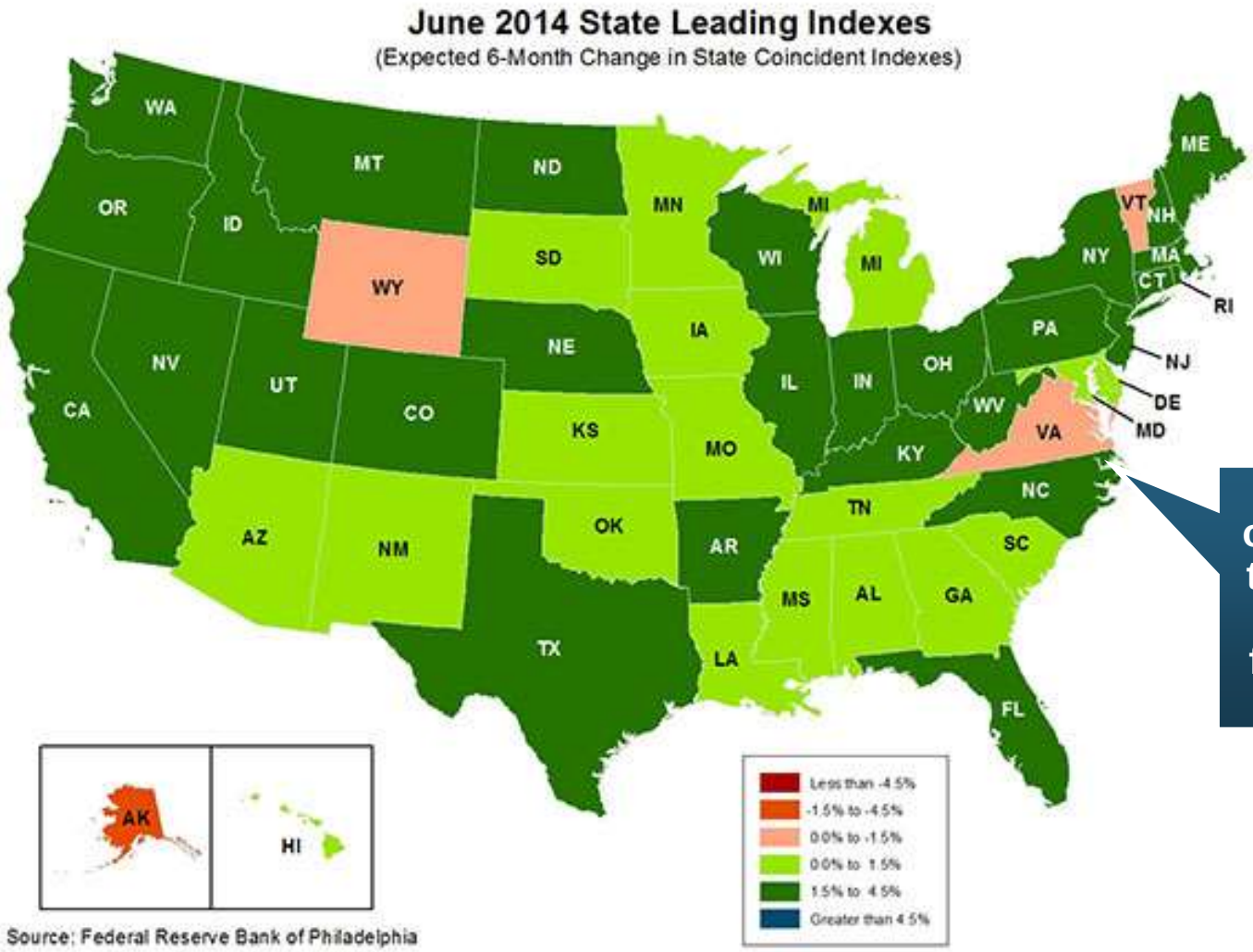


Demand for Insurance Should Increase in 2014/15 as GDP Growth Accelerates Modestly and Gradually Benefits the Economy Broadly

* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 10/14; Insurance Information Institute.

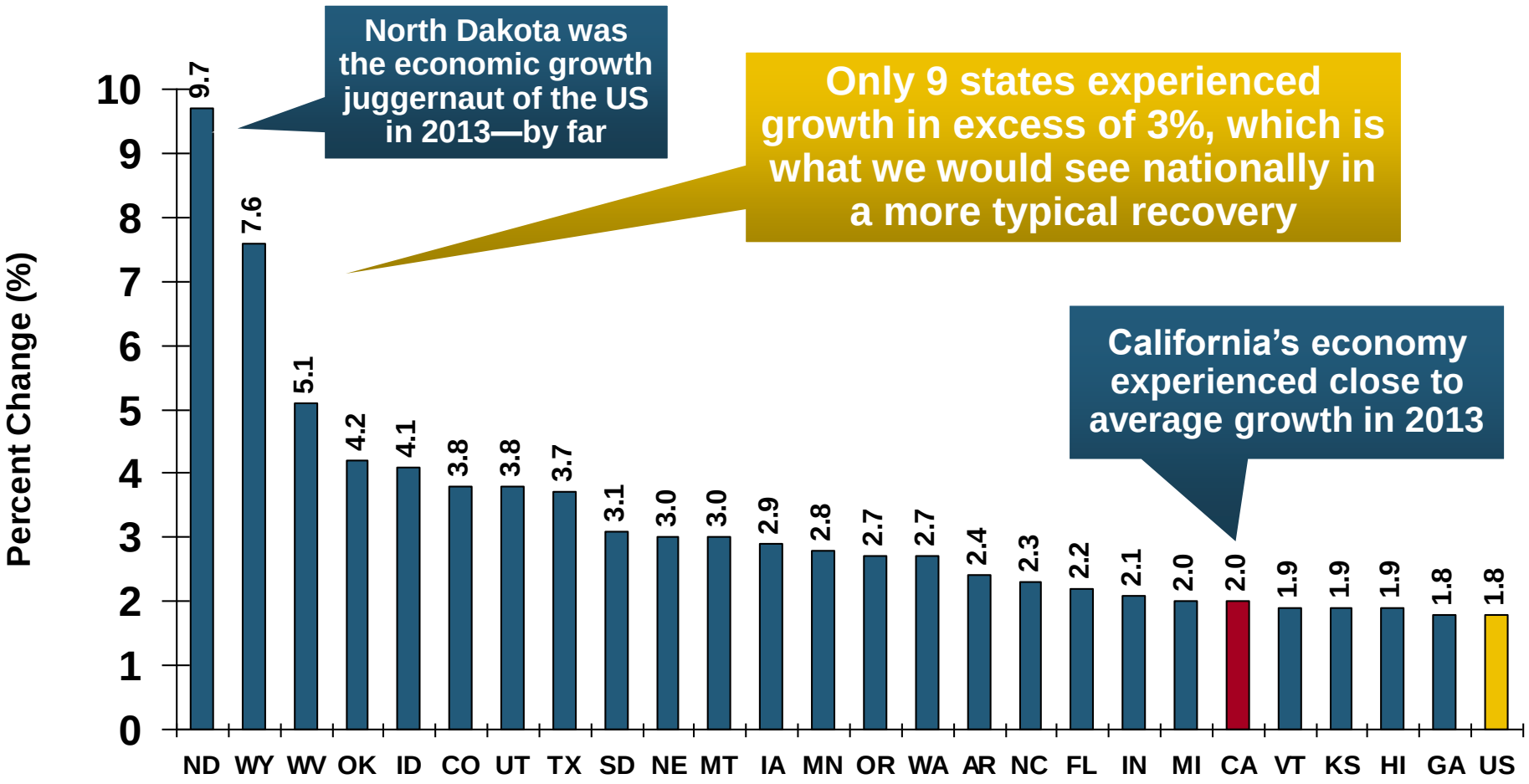
State-by-State Leading Indicators through 2014:Q4



The economic outlook for most of the US is generally positive, though flat-to-negative for 4 states

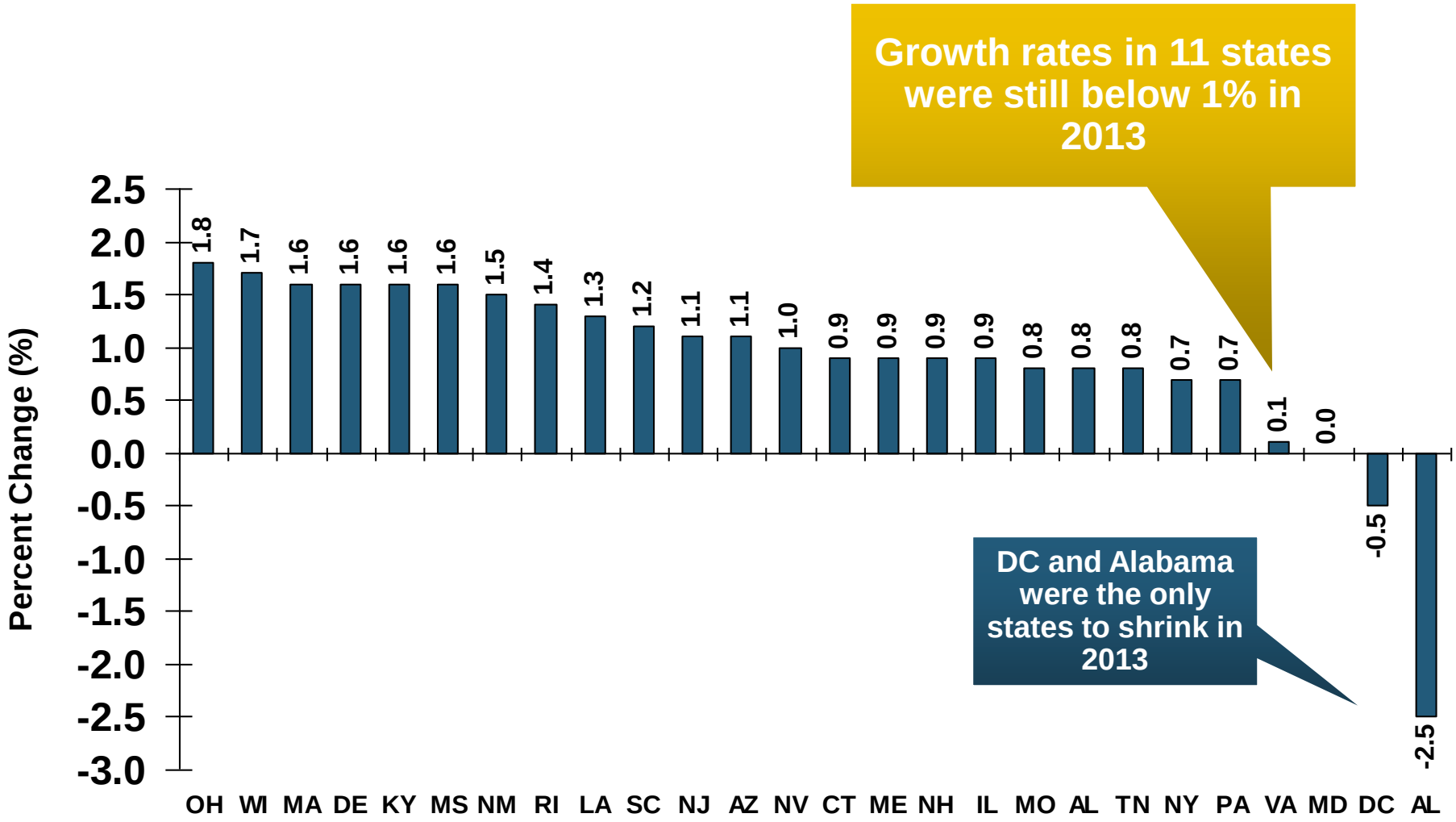
Sources: Federal Reserve Bank of Philadelphia at http://www.philadelphiafed.org/index.cfm ;Insurance Information Institute.

Real GDP by State Percent Change, 2013: Highest 25 States



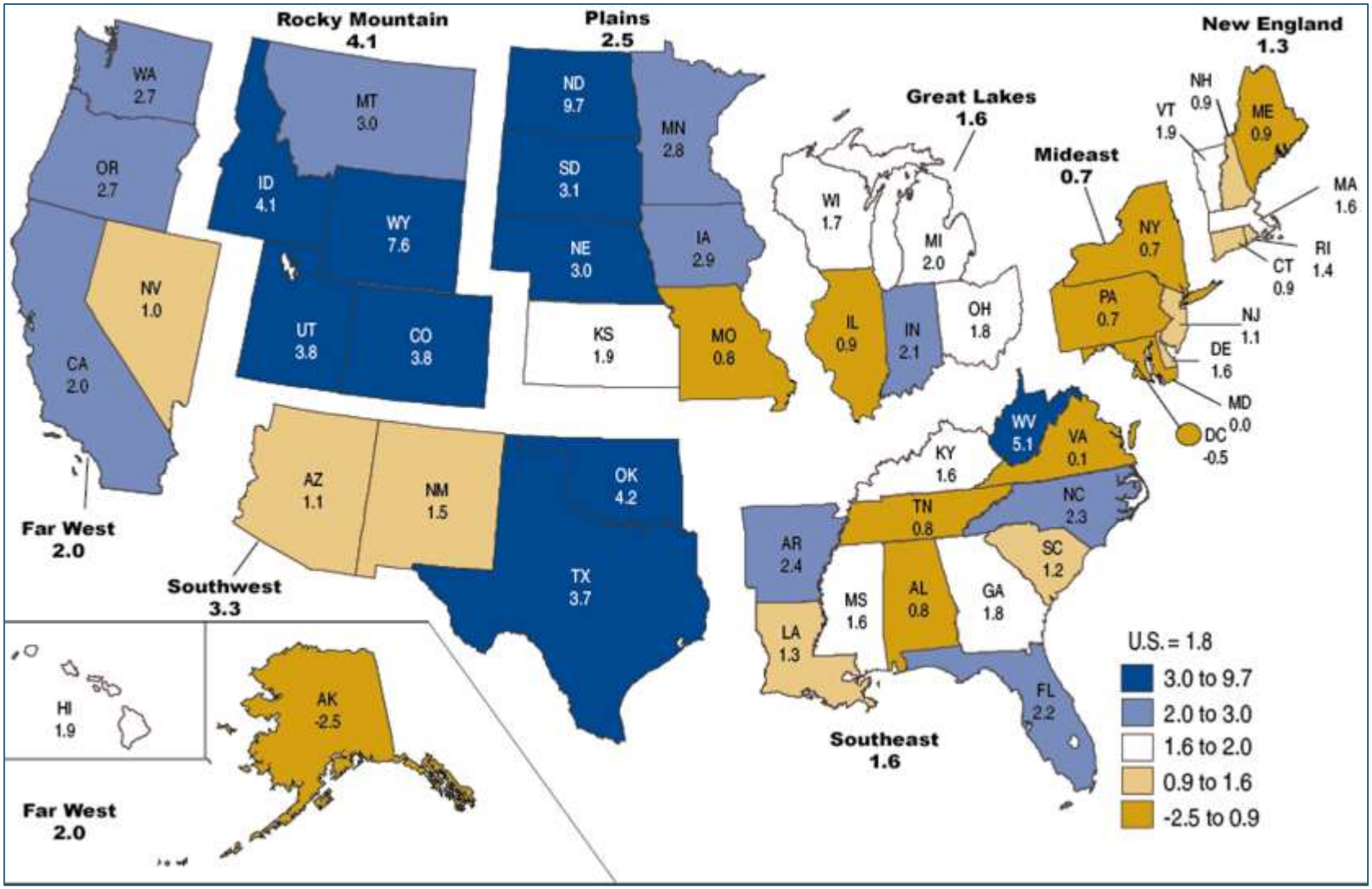
Sources: U.S. Bureau of Economic Analysis; Insurance Information Institute.

Real GDP by State Percent Change, 2013: Lowest 25 States



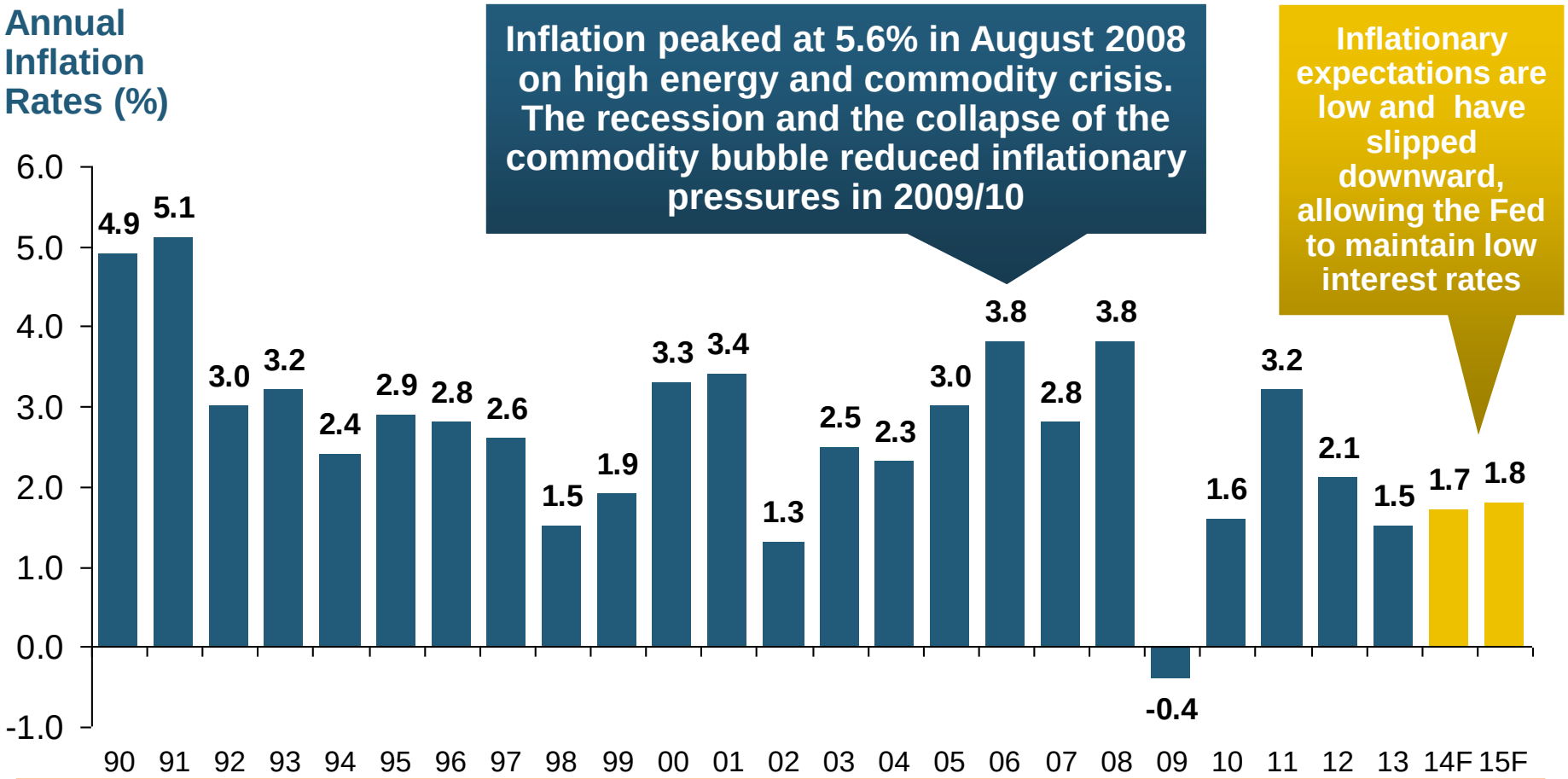
Sources: US Bureau of Economic Analysis; Insurance Information Institute.

Percent Change in Real GDP by State, 2013



Sources: US Bureau of Economic Analysis; Insurance Information Institute.

Annual Inflation Rates, (CPI-U, %), 1990–2015F



The slack in the U.S. economy and falling energy and commodity prices suggests that inflationary pressures should remain subdued for an extended period of times.

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators, 11/14 (forecasts).

Consumer Sentiment Survey *(1966 = 100)*

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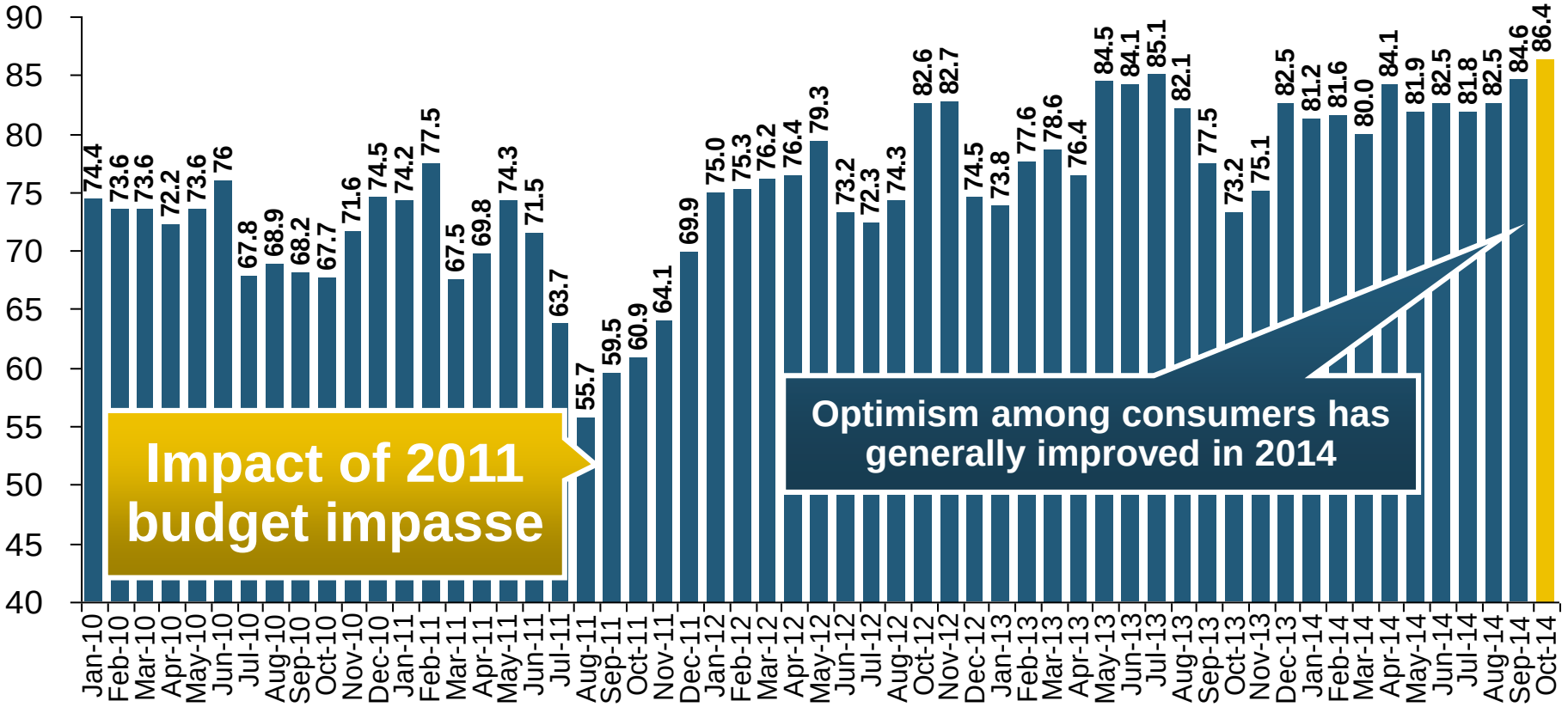
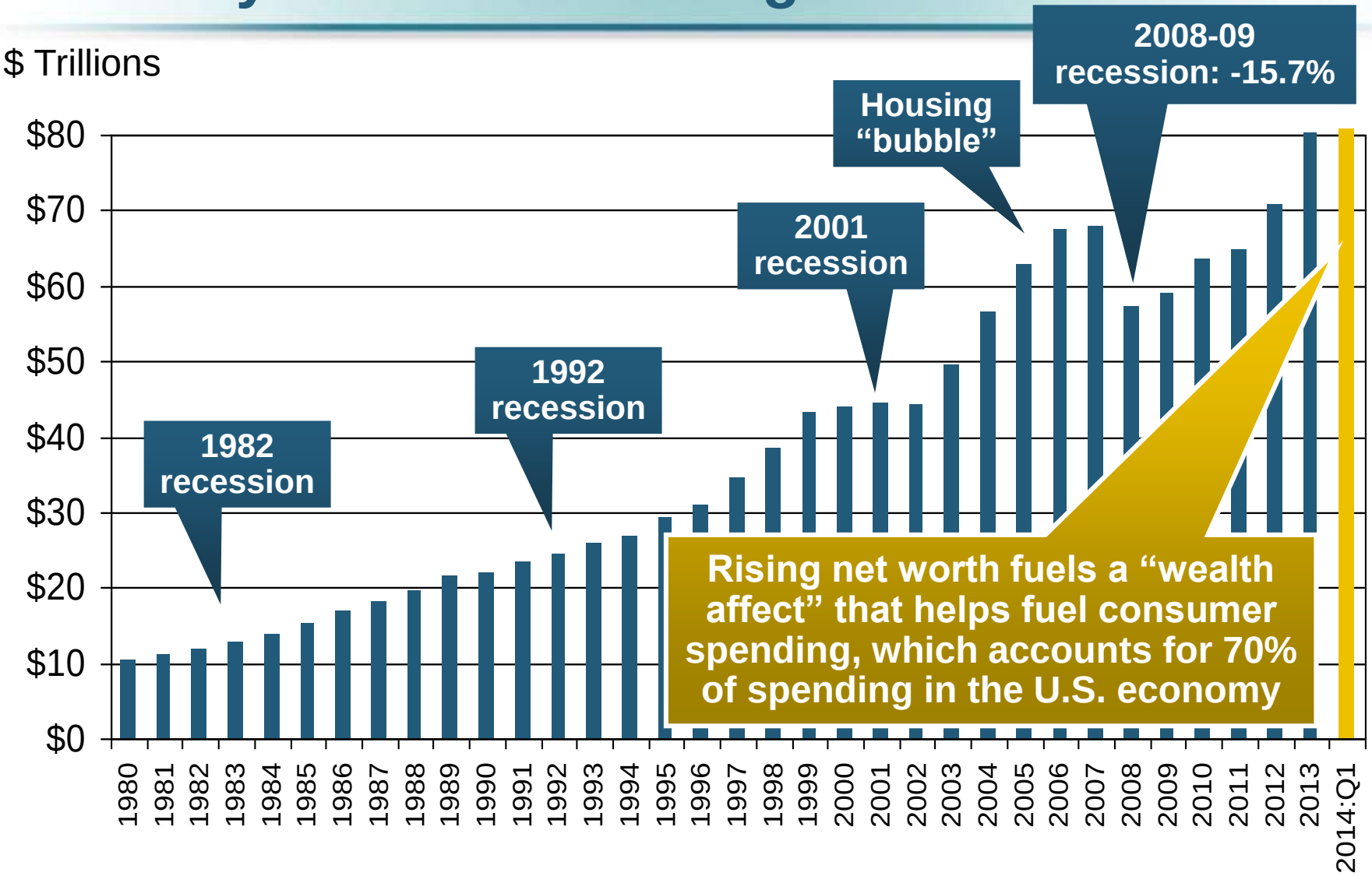
January 2010 through October 2014



Consumer confidence had been low for years amid high unemployment, falling home prices and other factors adversely impact consumers, but improved substantially over the past 2+ years, though uncertainty in Washington sometimes takes a toll.

Source: University of Michigan; Insurance Information Institute

Net Worth of Households* Recently Hit A Historic High



*Includes nonprofit organizations. Data are not seasonally adjusted or inflation-adjusted.
Source: Federal Reserve Board: http://www.federalreserve.gov/releases/z1/current/z1r-5.pdf ; Insurance Information Institute.

Household Financial Obligations Ratio Recently Hit A Historic Low

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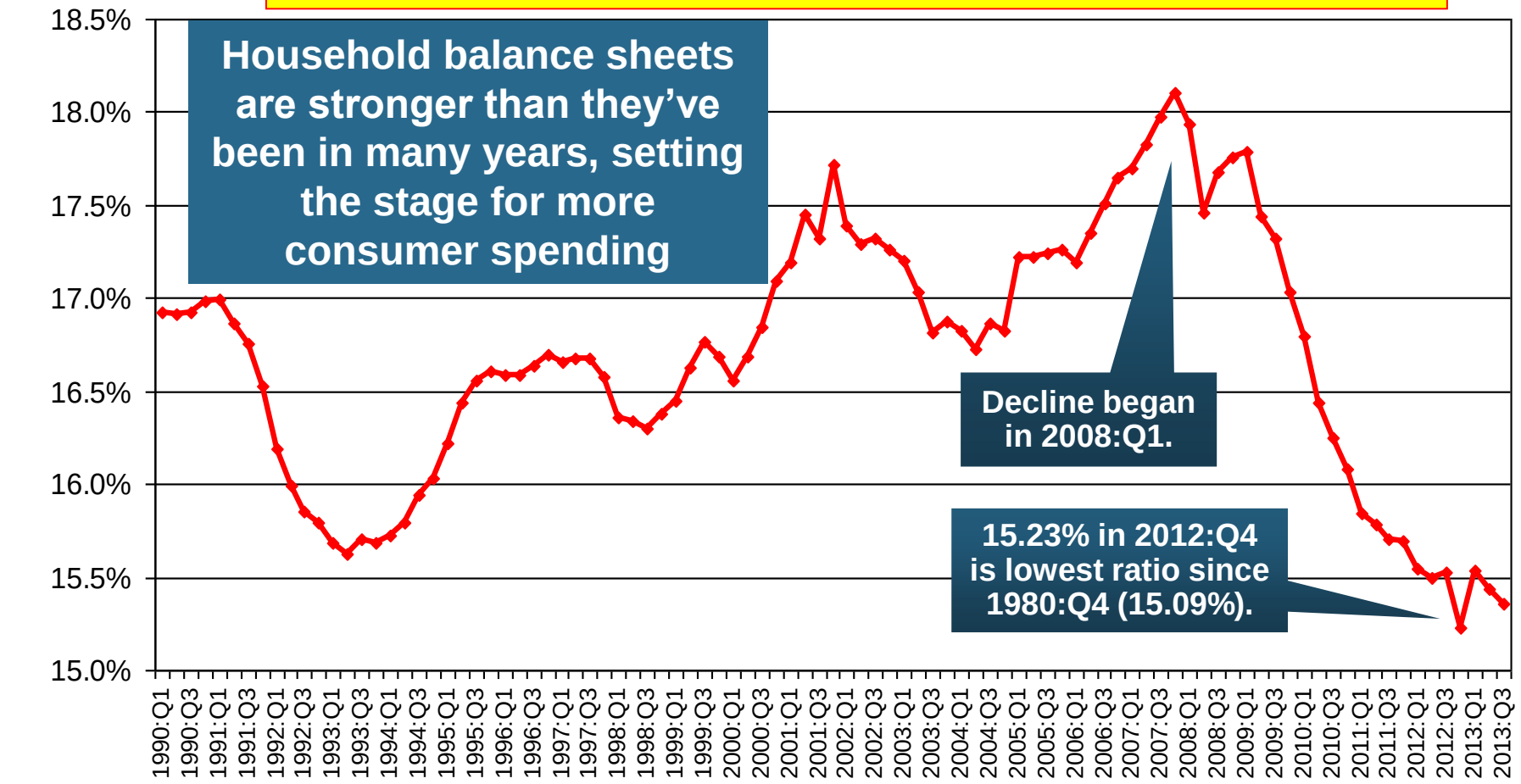
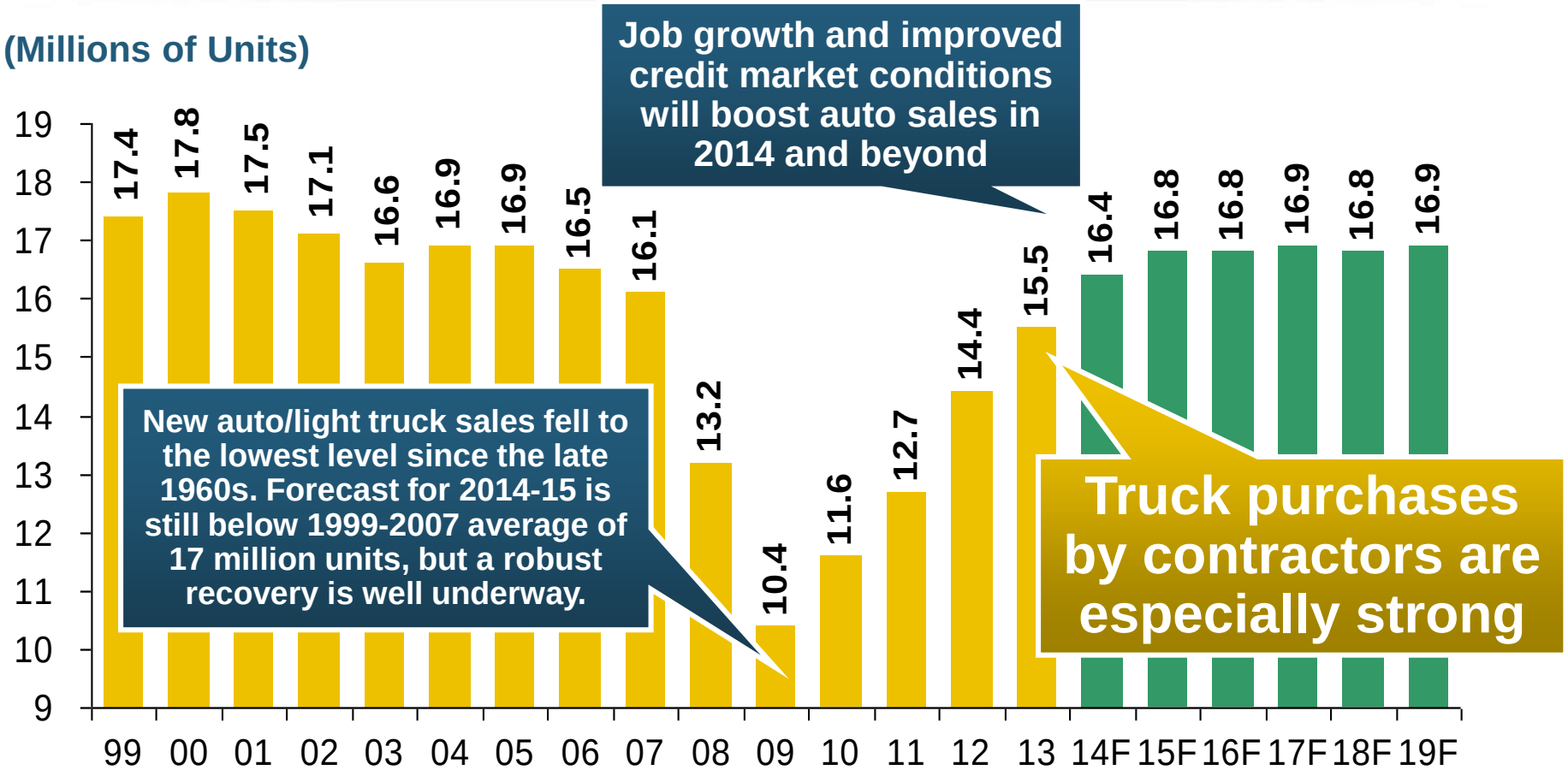
Financial Obligations Ratio: debt service (mortgage and consumer debt), auto lease, residence rent, HO insurance, and property tax payments as % of personal disposable income.



*through 2013:Q3 (data posted on Dec 13, 2013)
Source: Federal Reserve Board, at http://www.federalreserve.gov/releases/housedebt

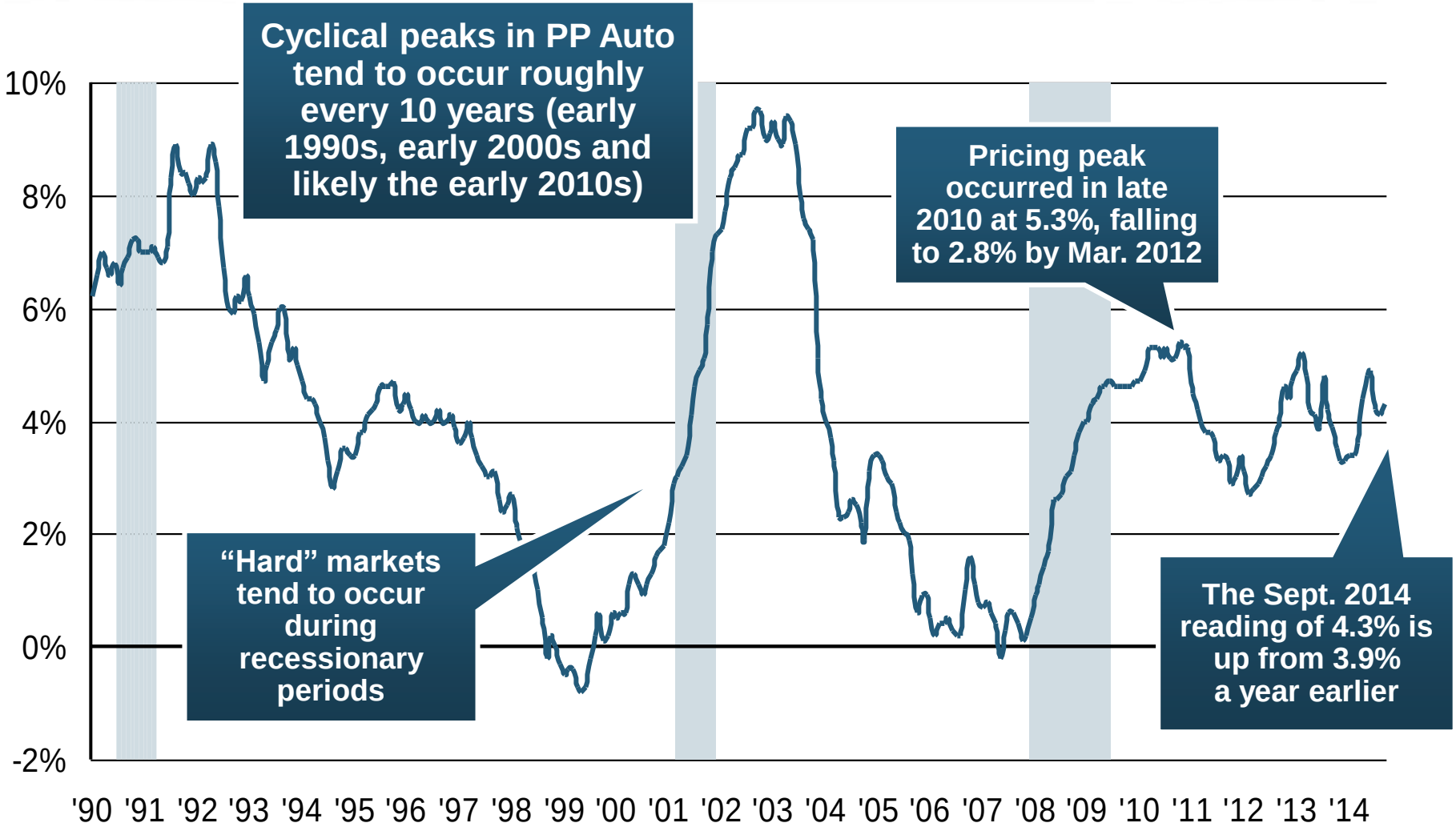
Auto/Light Truck Sales, 1999-2019F



Car/Light Truck Sales Will Continue to Recover from the 2009 Low Point, Bolstering the Auto Insurer Growth and the Manufacturing Sector Along With Workers Comp Exposures

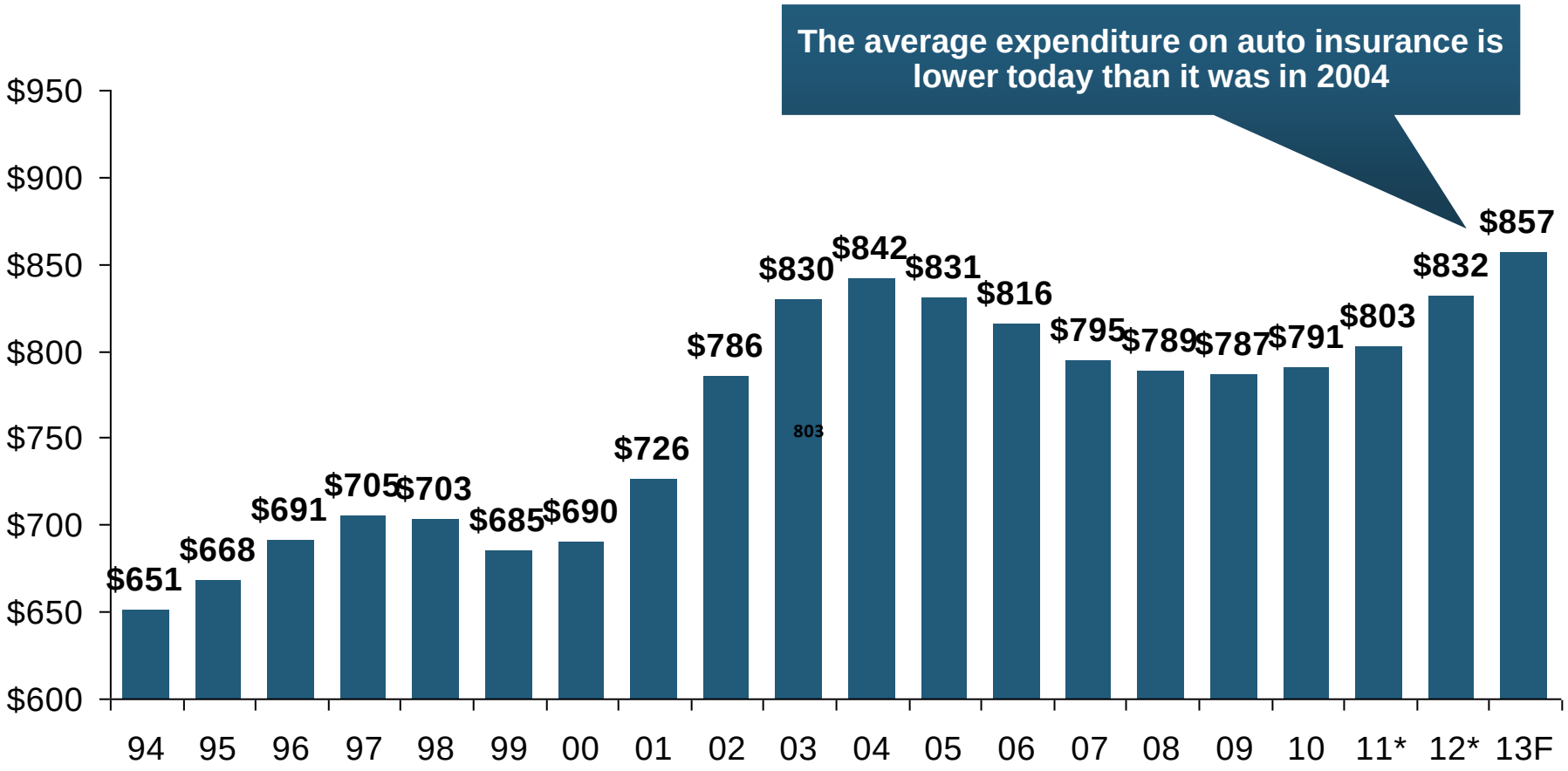
Source: U.S. Department of Commerce; Blue Chip Economic Indicators (11/14); Insurance Information Institute.

Monthly Change* in Auto Insurance Prices, 1991–2014*



*Percentage change from same month in prior year; through September 2014; seasonally adjusted
Note: Recessions indicated by gray shaded columns.
Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

Average Expenditures on Auto Insurance



Countrywide Auto Insurance Expenditures Decreased by 0.8% in 2008 and 0.5% in 2009 and Increased 0.5% in 2010, 1.5% in 2011 (est.), 2.0% in 2012 and 2.2% in 2013 (forecast)

* Insurance Information Institute Estimates/Forecasts

Source: NAIC, Insurance Information Institute estimate for 2011-2013 based on CPI and other data.

Top Ten Most Expensive And Least Expensive States For Automobile Insurance, 2011 (1)

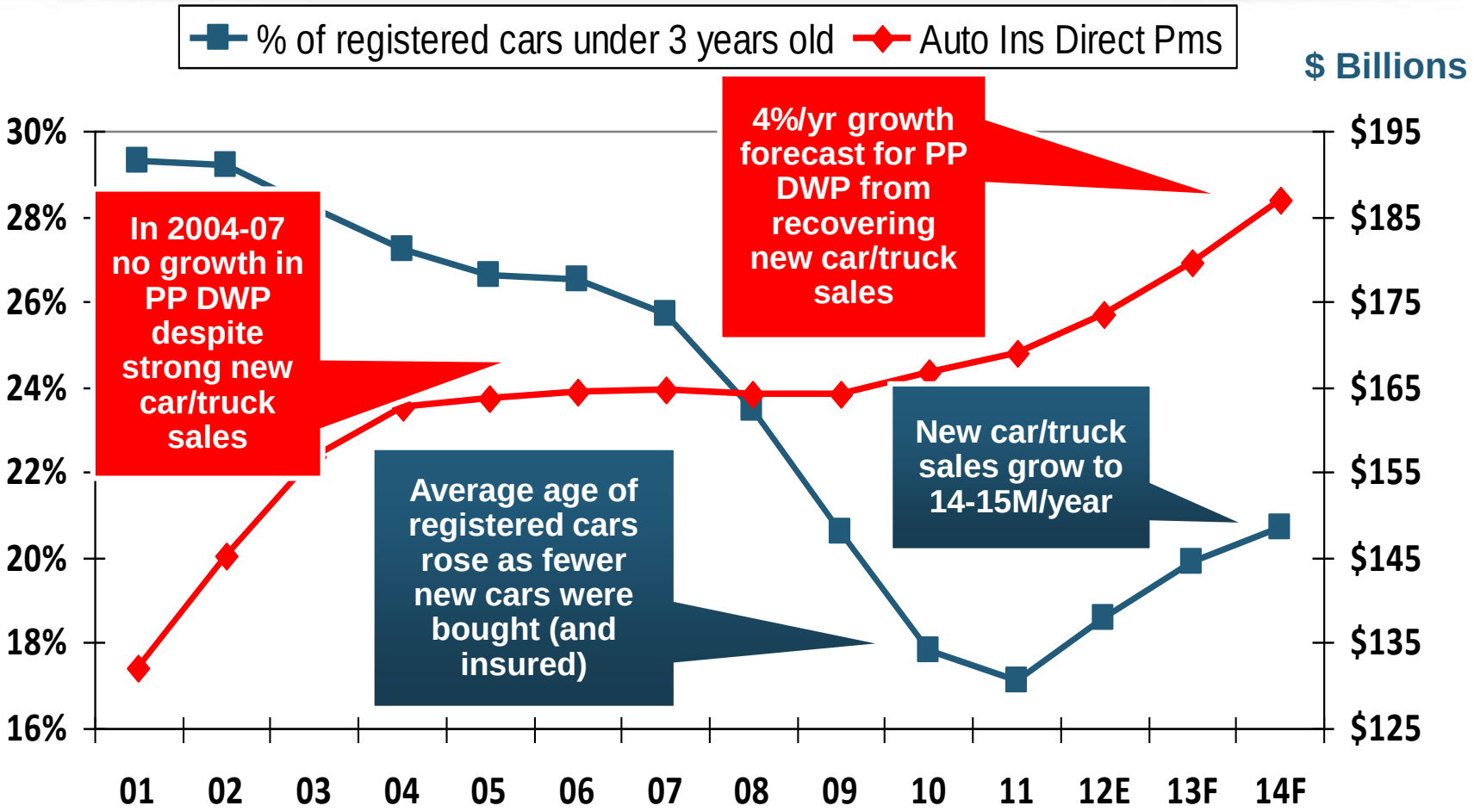
Rank	Most expensive states	Average expenditure	Rank	Least expensive states	Average expenditure
1	New Jersey	$1,183.95	1	Idaho	$525.15
2	District of Columbia	1,138.03	2	South Dakota	540.04
3	Louisiana	1,110.68	3	North Dakota	549.81
4	New York	1,108.64	4	Iowa	552.54
5	Florida	1,090.65	5	Maine	577.38
6	Delaware	1,052.28	6	North Carolina	600.33
7	Rhode Island	1,004.14	7	Wisconsin	601.40
8	Michigan	983.60	8	Nebraska	602.57
9	Connecticut	970.22	9	Wyoming	619.88
10	Maryland	956.17	10	Ohio	619.96

Texas ranked 14th **as the most expensive state in 2011, with an average expenditure for auto insurance of $842.58.**

(1) Based on average automobile insurance expenditures.

Source: © 2013 National Association of Insurance Commissioners.

Personal Auto Insurance Direct Written Premiums vs. Recently-Registered Cars



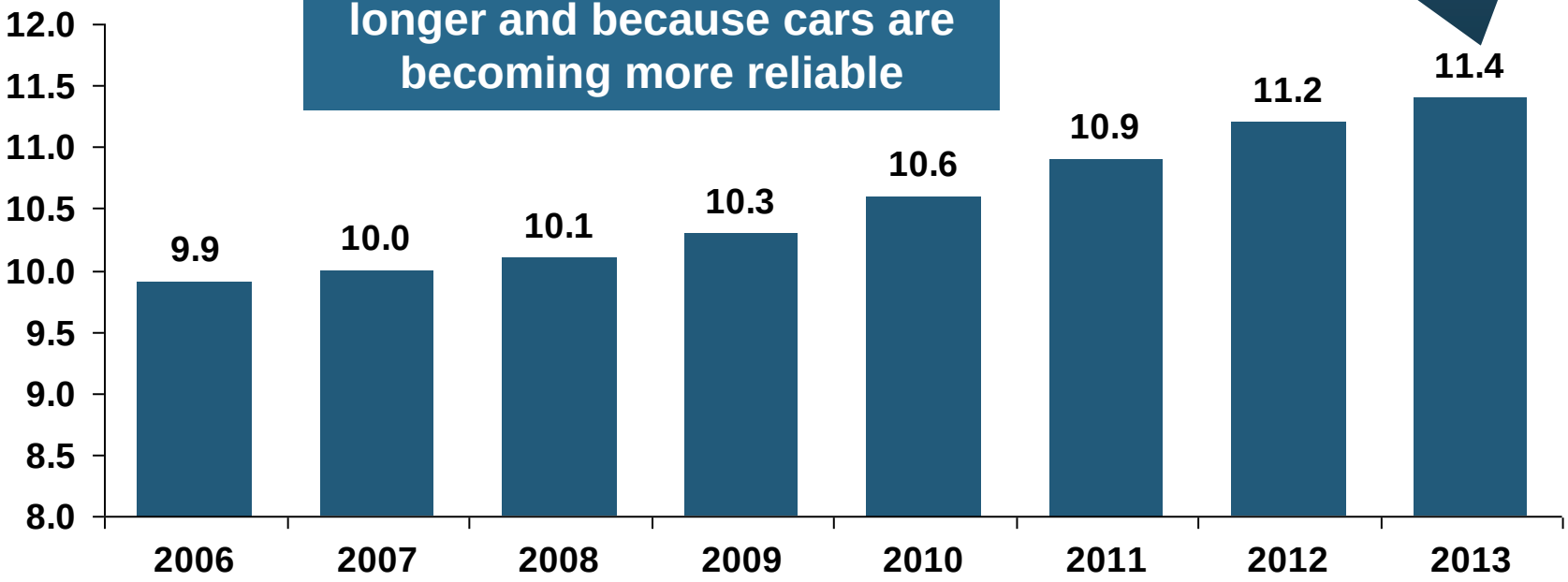
PP DWP, flat from 2004-2009, is rising again.
Conning forecasts growth at 3.5% in 2013 and 4.0% in 2014.

Sources: AIPSO Facts (various issues); SNL Financial; Conning Research & Consulting, *Property-Casualty Forecast and Analysis*, First Quarter 2012; Insurance Information Institute.

Average Age of Vehicles on the Road, 2006—2013

Average vehicle age continues to increase because the slow economy leads many drivers to keep cars on the road longer and because cars are becoming more reliable

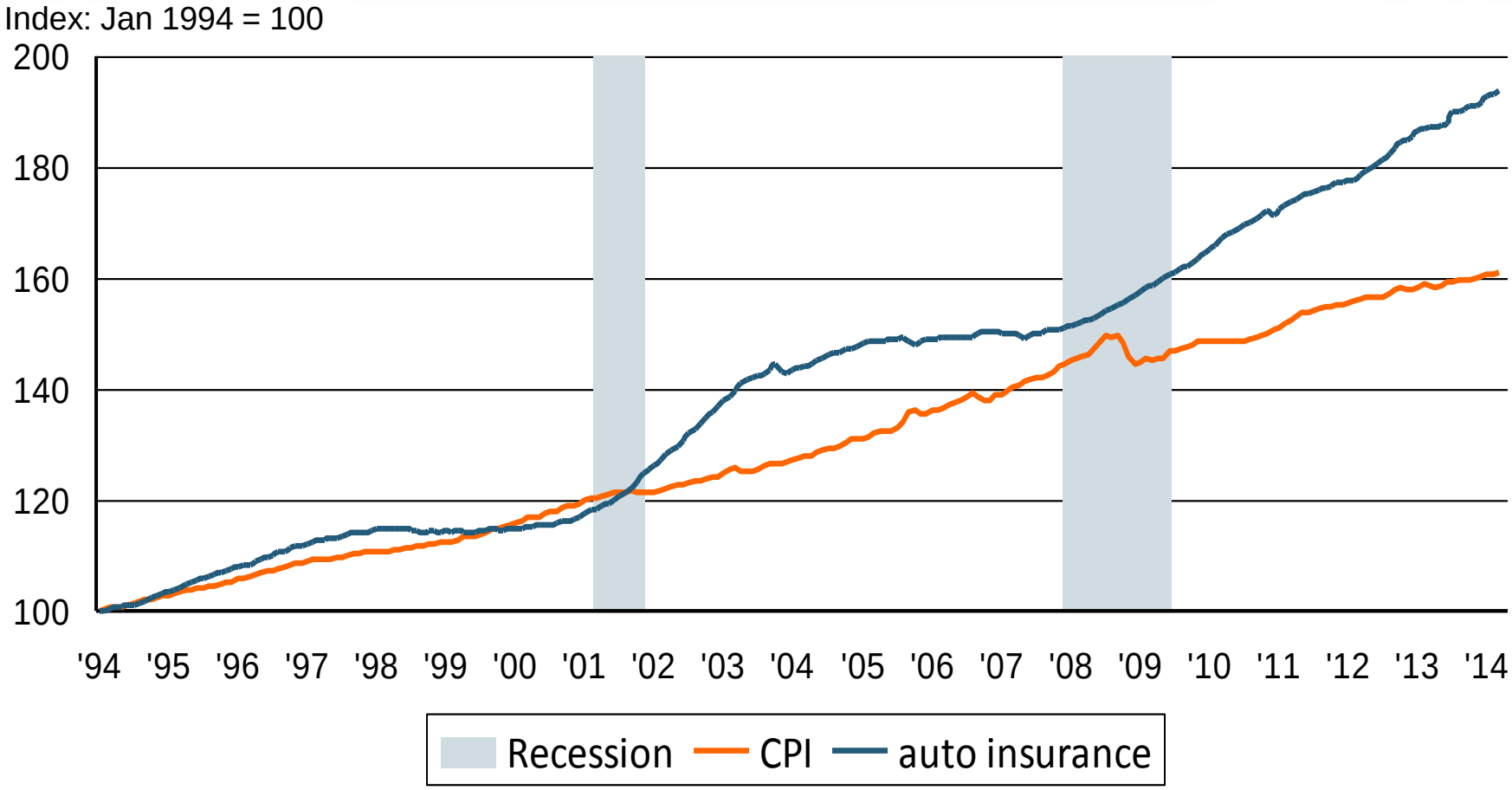
The average vehicle age reached a record 11.4 years in 2013



The average age of a vehicle on the road is is expected to continue to increase until 2018. By 2018, the number of vehicles 12+ years old is expected to rise 11.6% from 2013 and the number that are under 5 years old is expected to increase by 41%

Sources: Polk, August 2013 Survey; Insurance Information Institute.

Auto Insurance Price Index vs. CPI, 1994–2014*

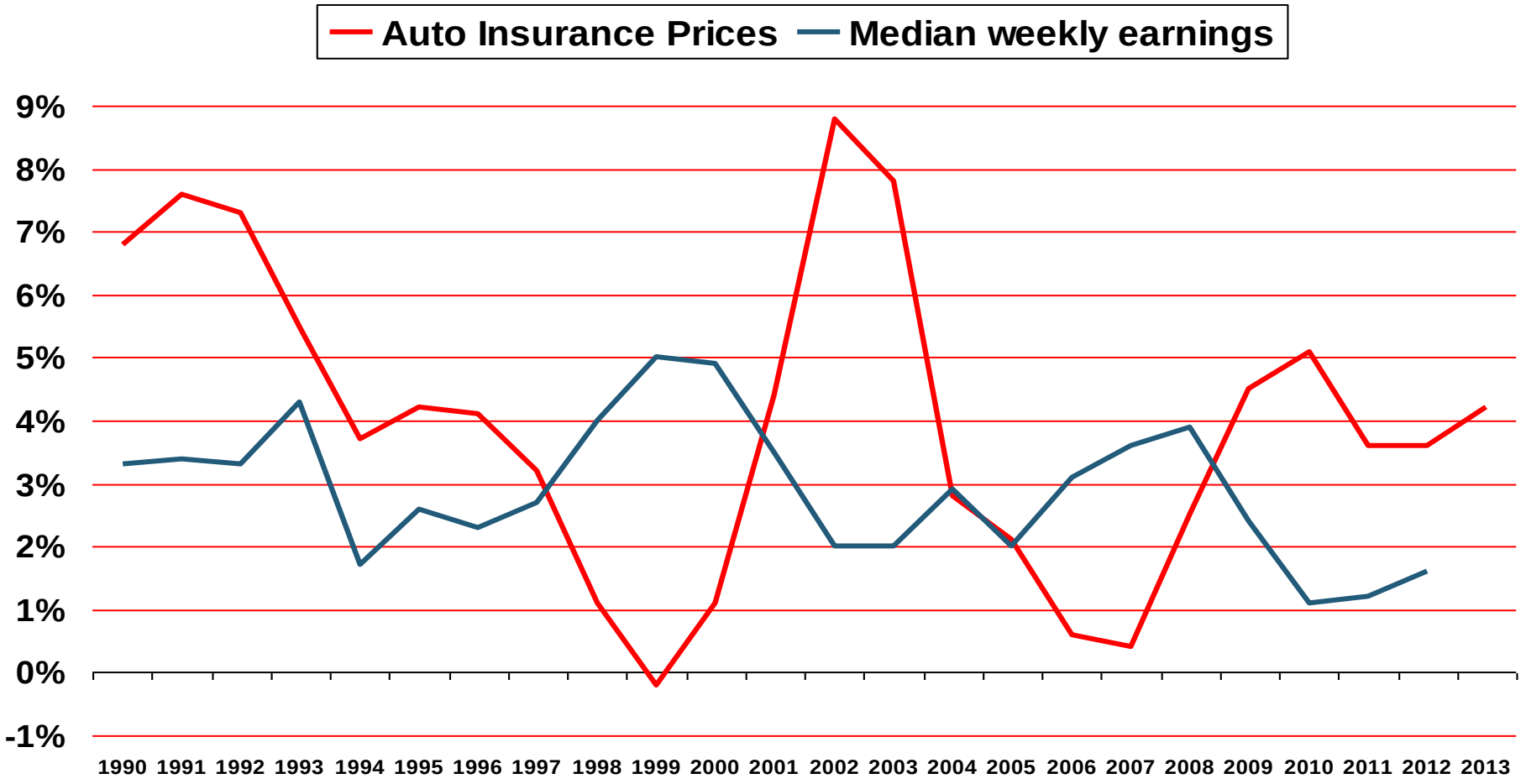


Annual average growth rate of the CPI from 1994 to now: 2.5%.
Annual average growth rate of auto insurance prices from 1994 to now: 3.3%.

*Seasonally adjusted, through March 2014

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

Yearly Change in Auto Insurance Prices vs. Median Weekly Earnings



Sources: US Bureau of Labor Statistics; Insurance Information Institute

Monthly Change* in Auto Insurance Prices, January 2005 - December 2013

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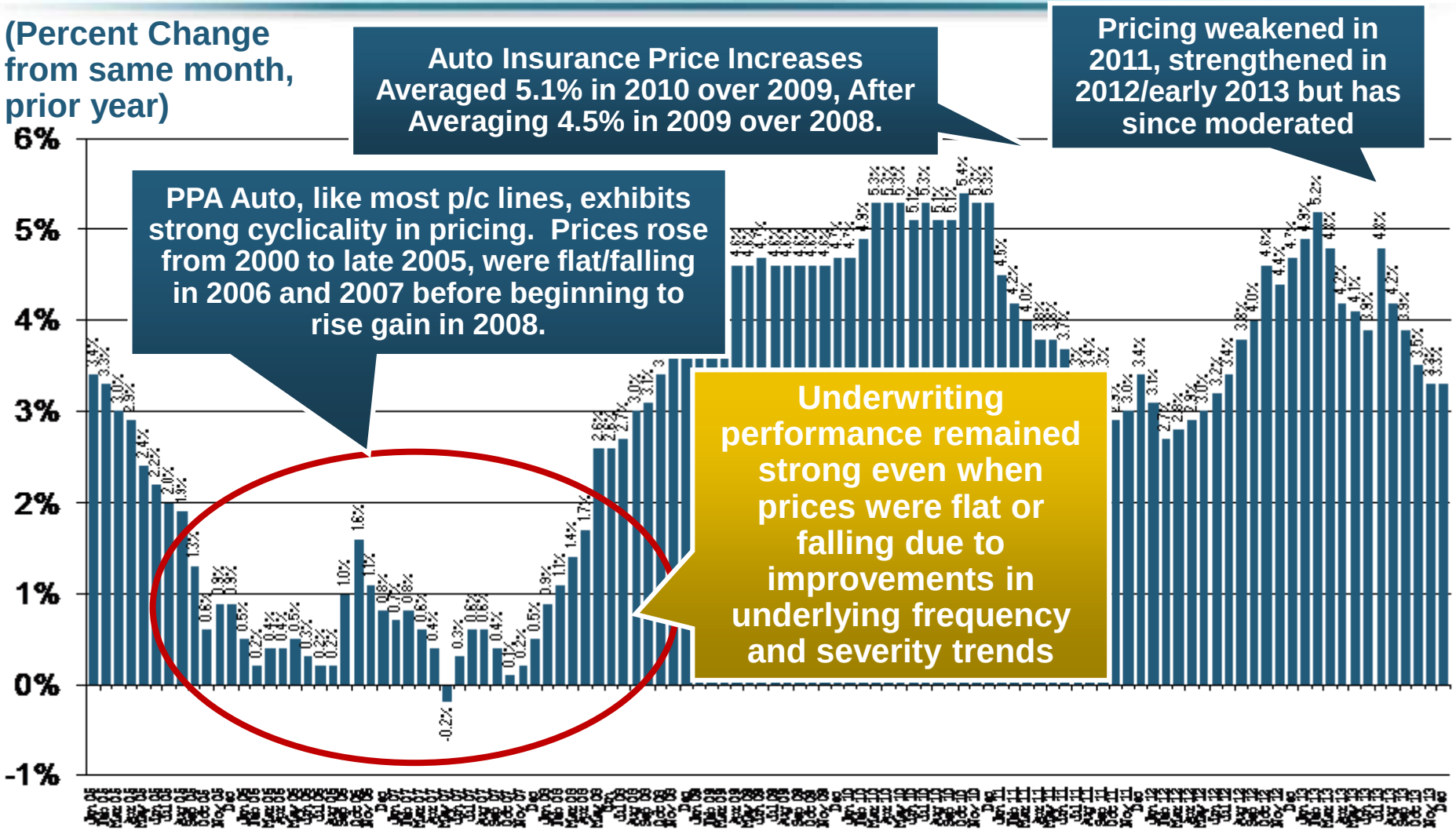
(Percent Change from same month, prior year)



*Percentage change from same month in prior year, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute

Private Passenger Auto: Premium Growth vs. Loss Cost Spread

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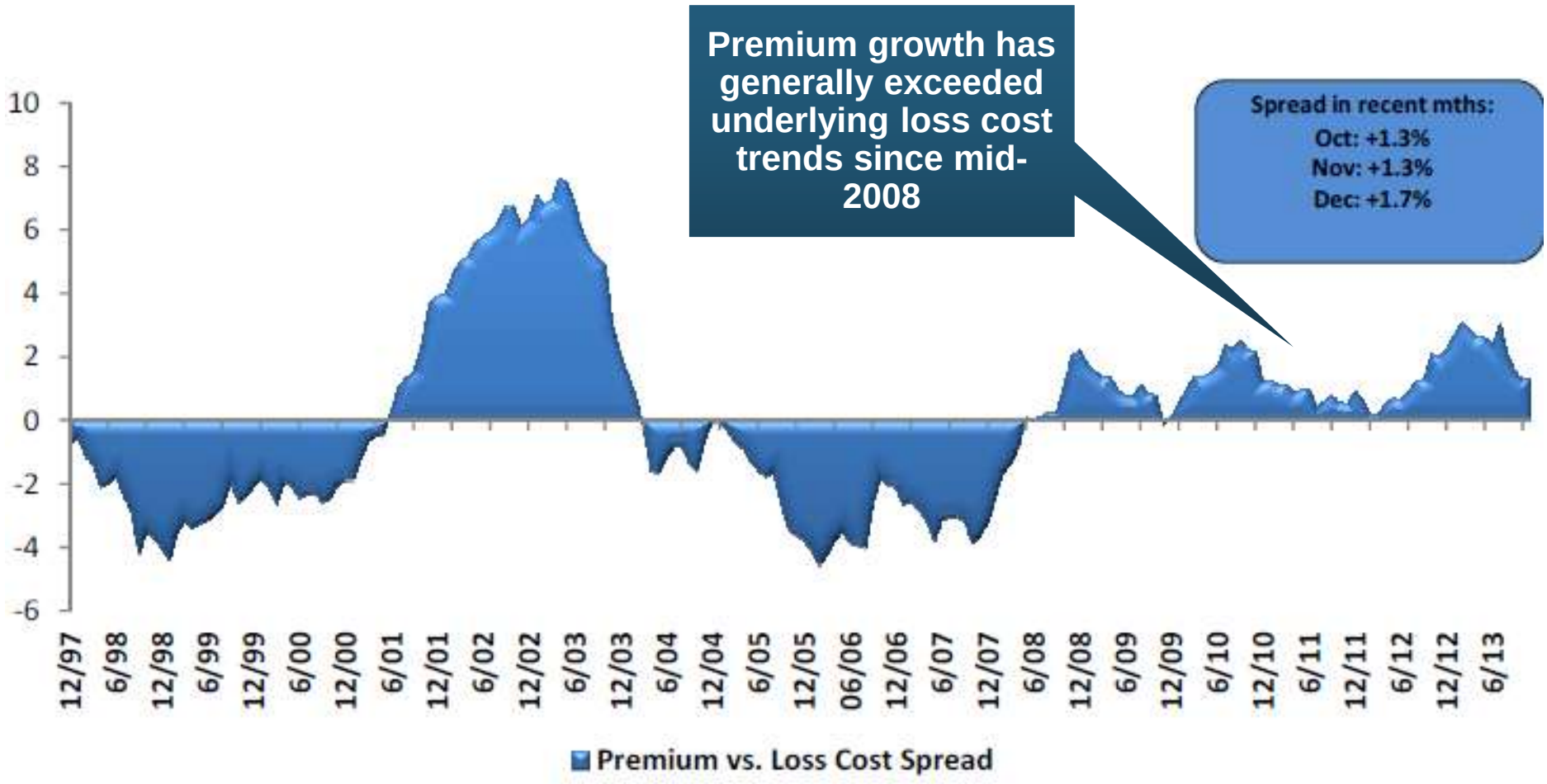
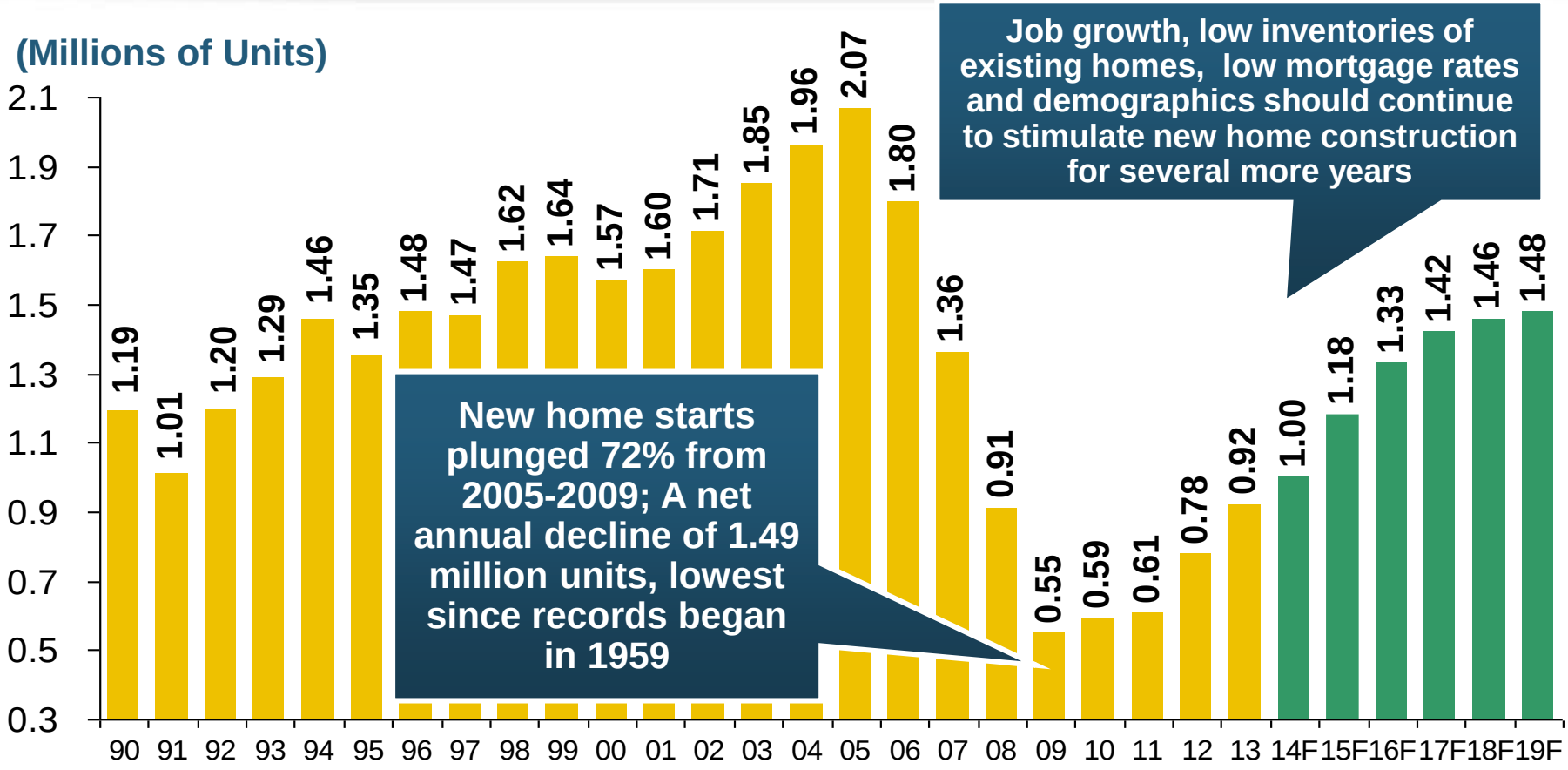


Sources: Evercore Equity Research, Jan. 2014.

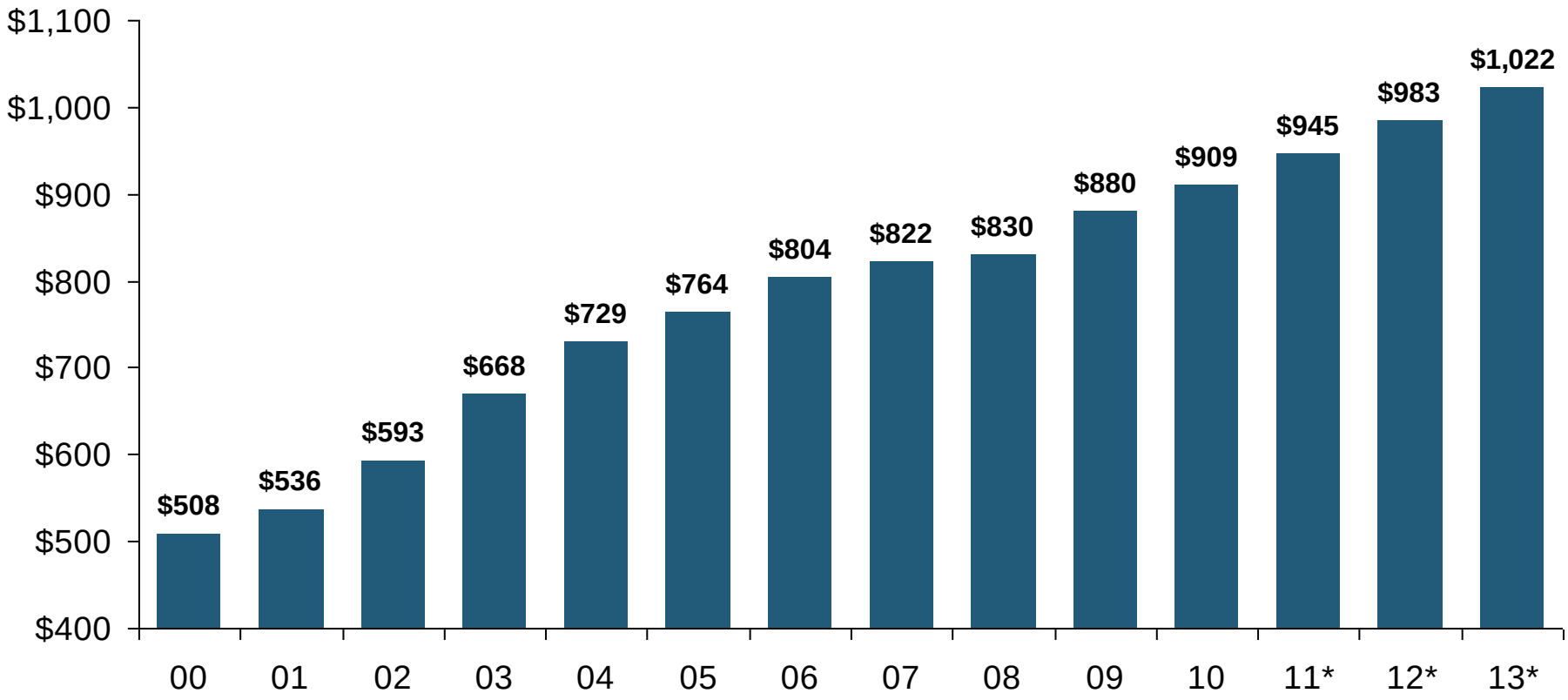
New Private Housing Starts, 1990-2019F



Insurers Are Continue to See Meaningful Exposure Growth in the Wake of the "Great Recession" Associated with Home Construction: Construction Risk Exposure, Surety, Commercial Auto; Potent Driver of Workers Comp Exposure

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (11/14); Insurance Information Institute.

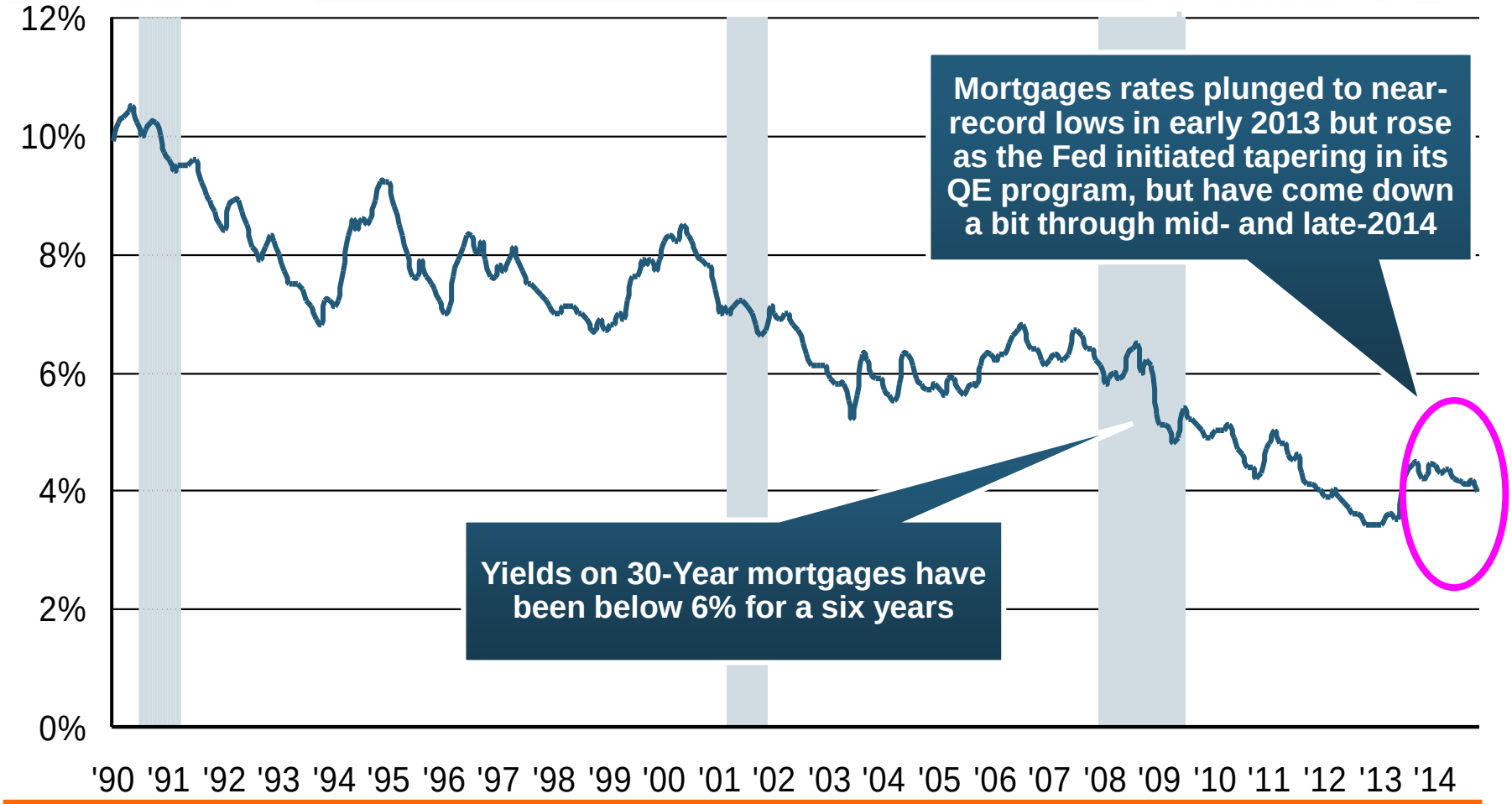
Average Premium for Home Insurance Policies**



Countrywide Home Insurance Expenditures Increased by an Estimated 4.0% in 2011-2013

* Insurance Information Institute Estimates/Forecasts **Excludes state-run insurers.
Source: NAIC, Insurance Information Institute estimates for 2011-2013 based on CPI data and other data.

Interest Rate on Convention 30-Year Mortgages: Up a Bit, 1990–2014*

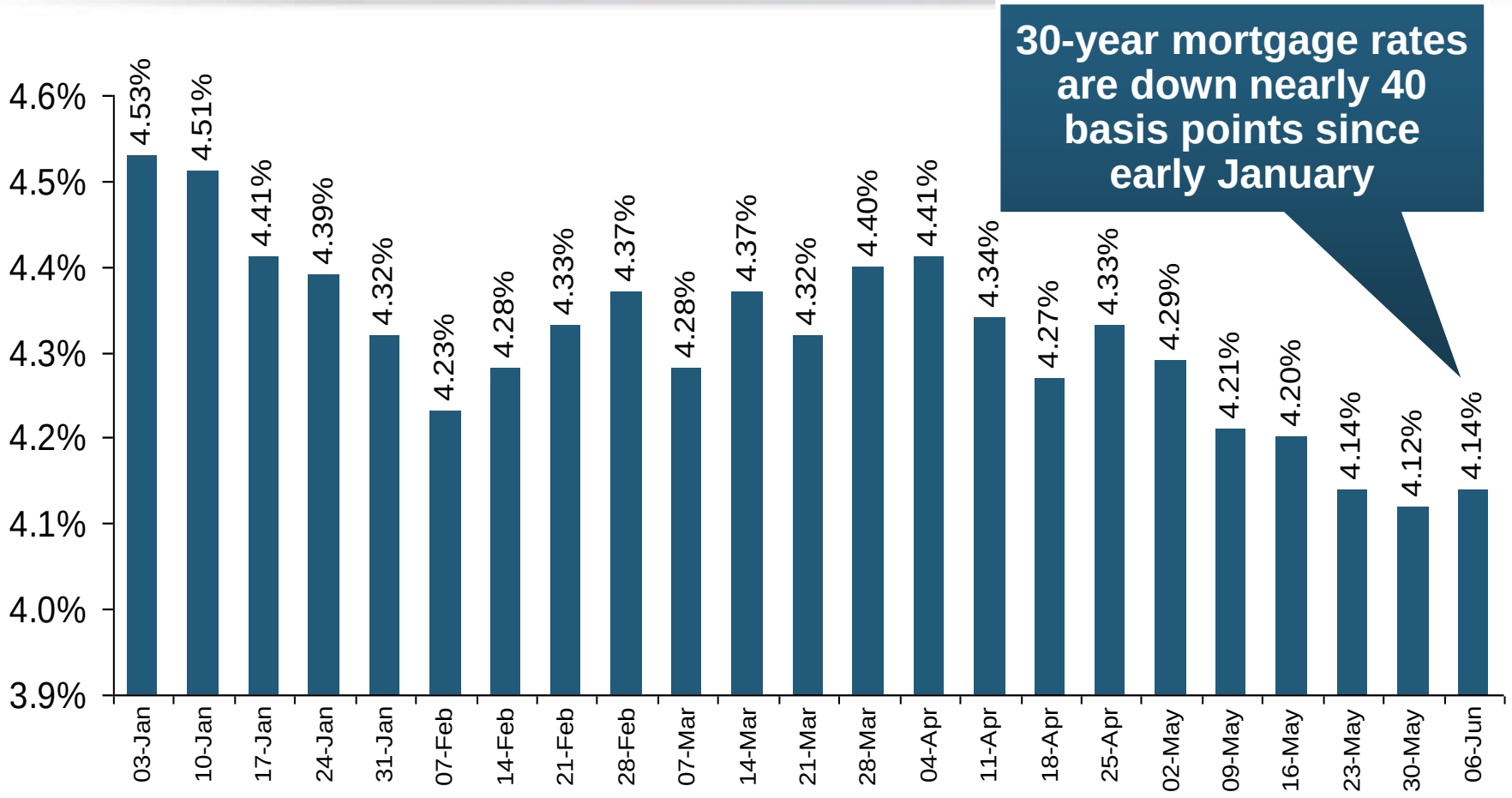


Rising mortgage interest rates have impacted home sales marginall but are unlikely to derail the recovery on housing

*Monthly, through Oct. 2014. Note: Recessions indicated by gray shaded columns.

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

30-Year Mortgages in 2014 Are Falling! What Will Be the Impact on Construction?

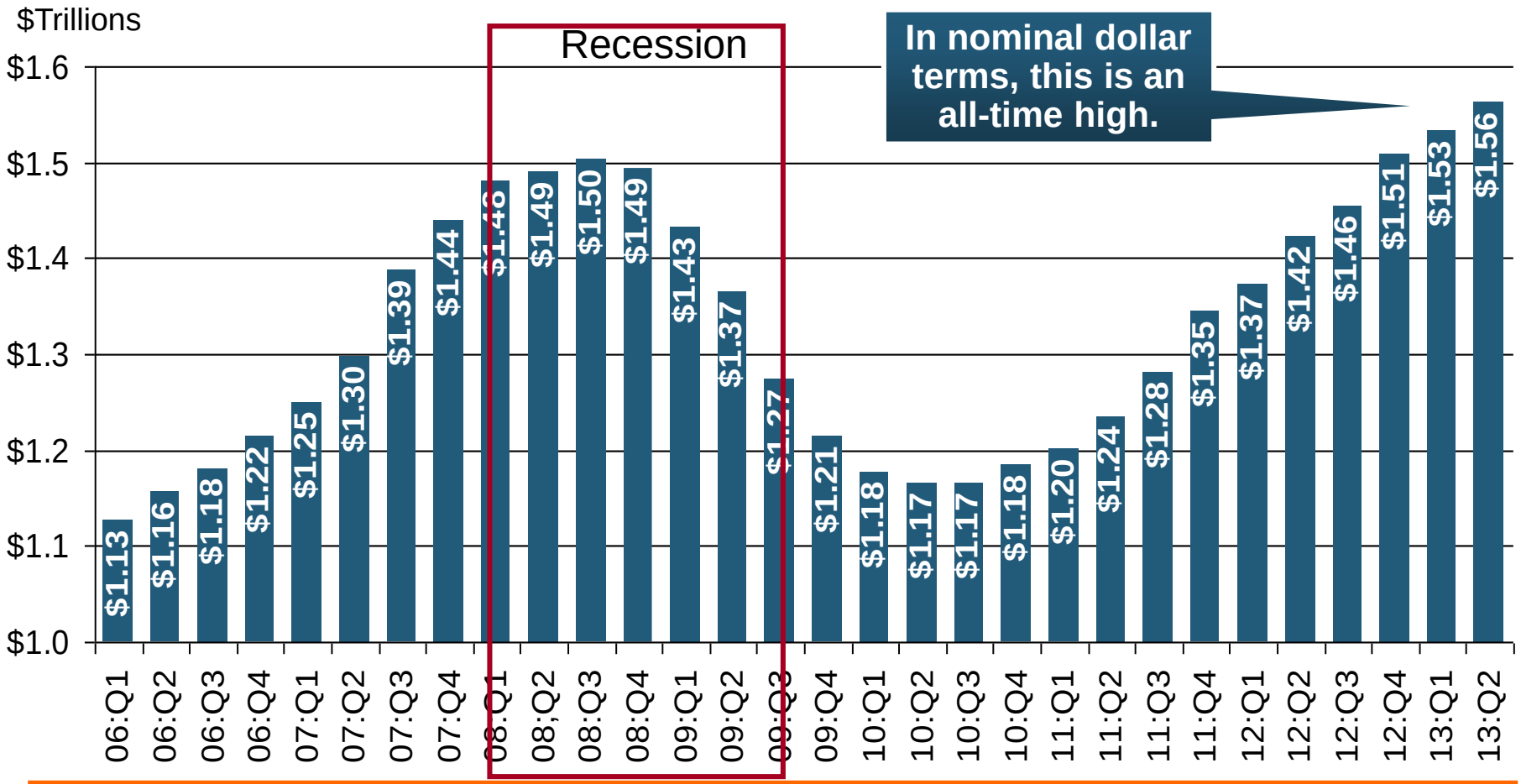


Mortgage Interest Rates Were Expected to Continue to Rise as the Fed Pursued Tapering and the Economy Recovered; Rates Are Still Low by Historical Standards

*Weekly through June 5, 2014.

Sources: Federal Reserve Bank at http://www.federalreserve.gov/releases/h15/data.htm.; Insurance Information Institutes.

Commercial & Industrial Loans Outstanding at FDIC-Insured Banks, Quarterly, 2006-2013*



Outstanding loan volume has been growing for over two years and (as of year-end 2012) surpassed previous peak levels.

*Latest data as of 9/8/2013.
Source: FDIC at http://www2.fdic.gov/qbp/ (Loan Performance spreadsheet); Insurance Information Institute.

Percent of Non-Current Commercial & Industrial Loans Outstanding at FDIC-Insured Banks,

Quarterly, 2006-2013:Q2*

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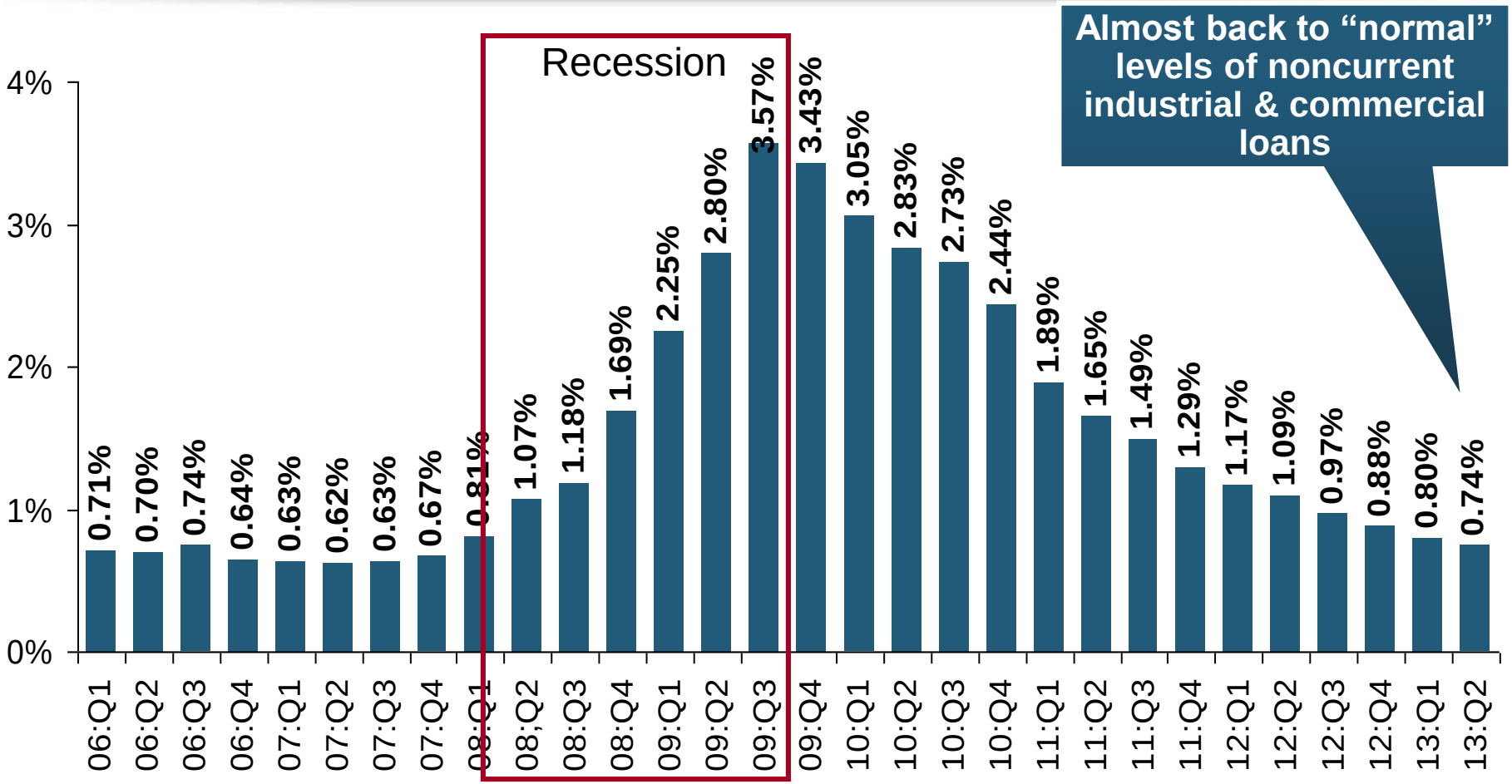
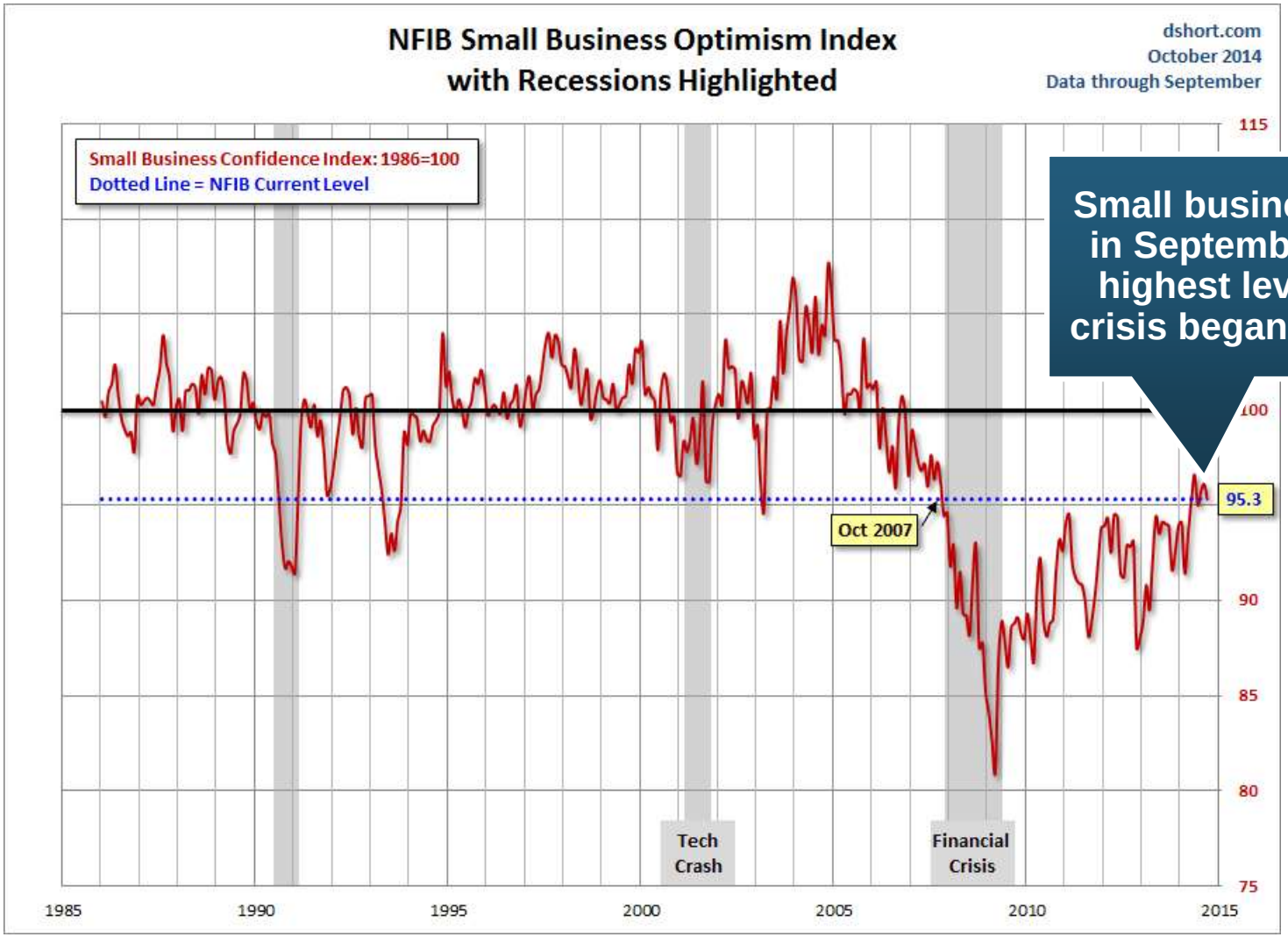


Non-current loans (those past due 90 days or more or in nonaccrual status) are nearly back to early-recession levels, fueling bank willingness to lend.

*Latest data as of 9/8/2013.
Source: FDIC at http://www2.fdic.gov/qbp/ (Loan Performance spreadsheet); Insurance Information Institute.

NFIB Small Business Optimism Index

January 1985 through September 2014



Small business optimism in September was at its highest level since the crisis began in Dec. 2007.

Source: National Federation of Independent Business at http://www.advisorperspectives.com/dshort/charts/indicators/Sentiment.html?NFIB-optimism-index.gif ; Insurance Information Institute.

Business Bankruptcy Filings, 1980-2013

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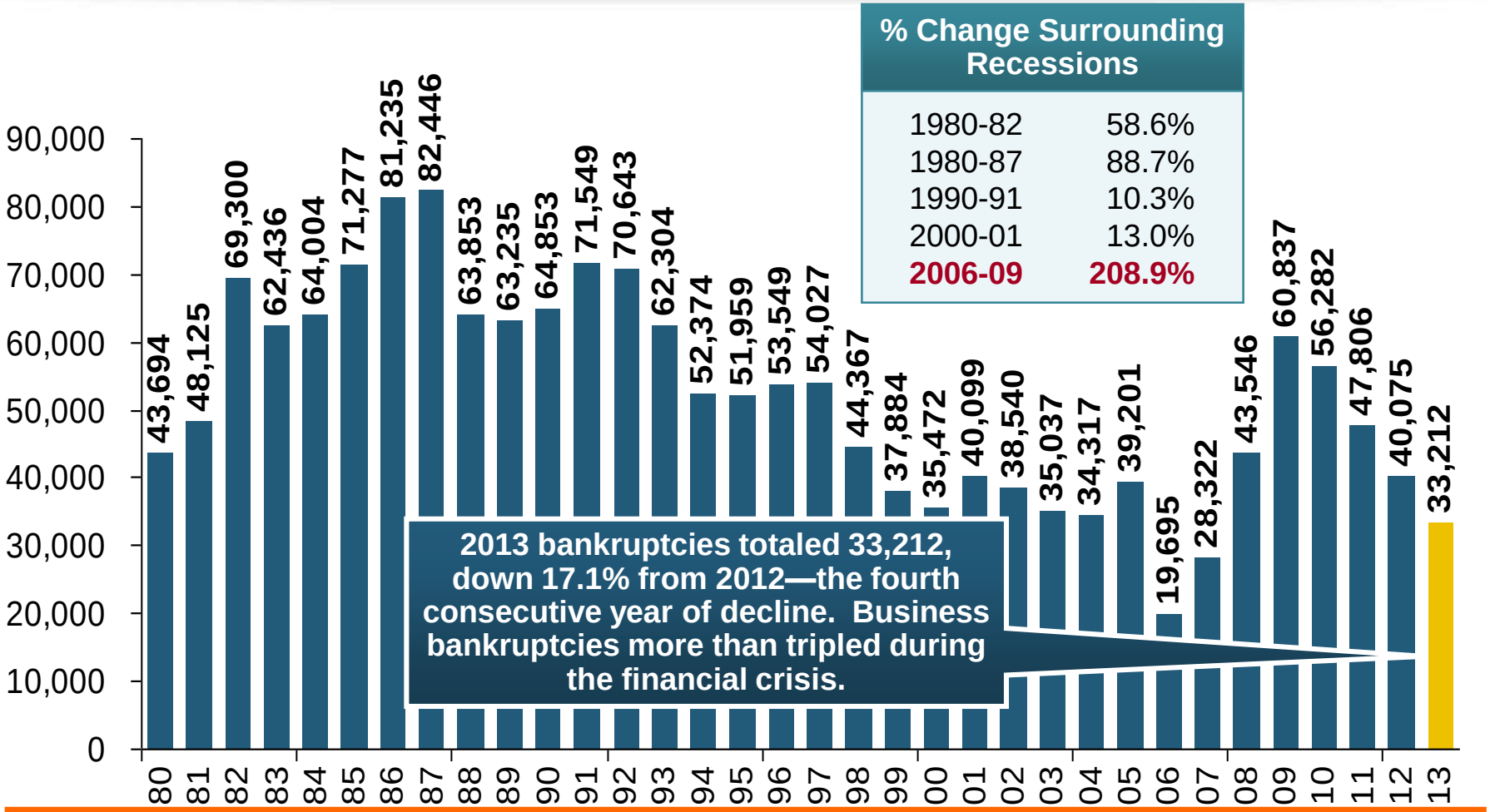

Significant Exposure Implications for All Commercial Lines as Business Bankruptcies Begin to Decline

Sources: American Bankruptcy Institute (1980-2012) at http://www.abiworld.org/AM/AMTemplate.cfm?Section=Home&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=61633; 2013 data from United States Courts at http://news.uscourts.gov; Insurance Information Institute.

Private Sector Business Starts: 1993:Q2 – 2013:Q4* As Strong as Ever?

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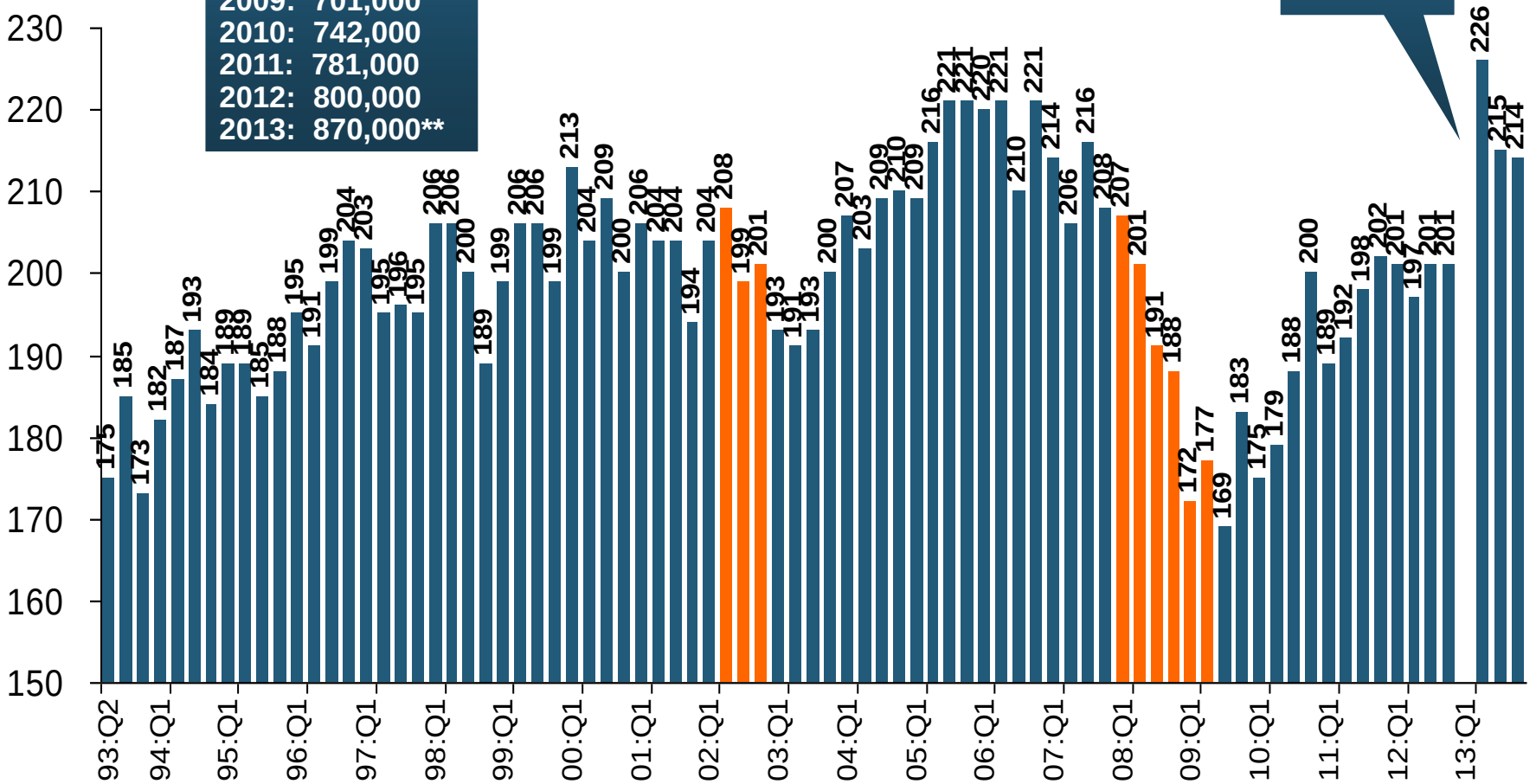
Business Starts
2006: 861,000
2007: 844,000
2008: 787,000
2009: 701,000
2010: 742,000
2011: 781,000
2012: 800,000
2013: 870,000**

Recessions in orange

2013:Q1 578,000 business starts*



*Data posted Apr 29, 2014, the latest available; a classification change in 2013:Q1 resulted in a report of 578,000 businesses started in that quarter. Seasonally adjusted. **2014 number assumes 1st quarter equaled average of other three quarters

Sources: Bureau of Labor Statistics, http://www.bls.gov/news.release/cewbd.t08.htm. NBER (recession dates)

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

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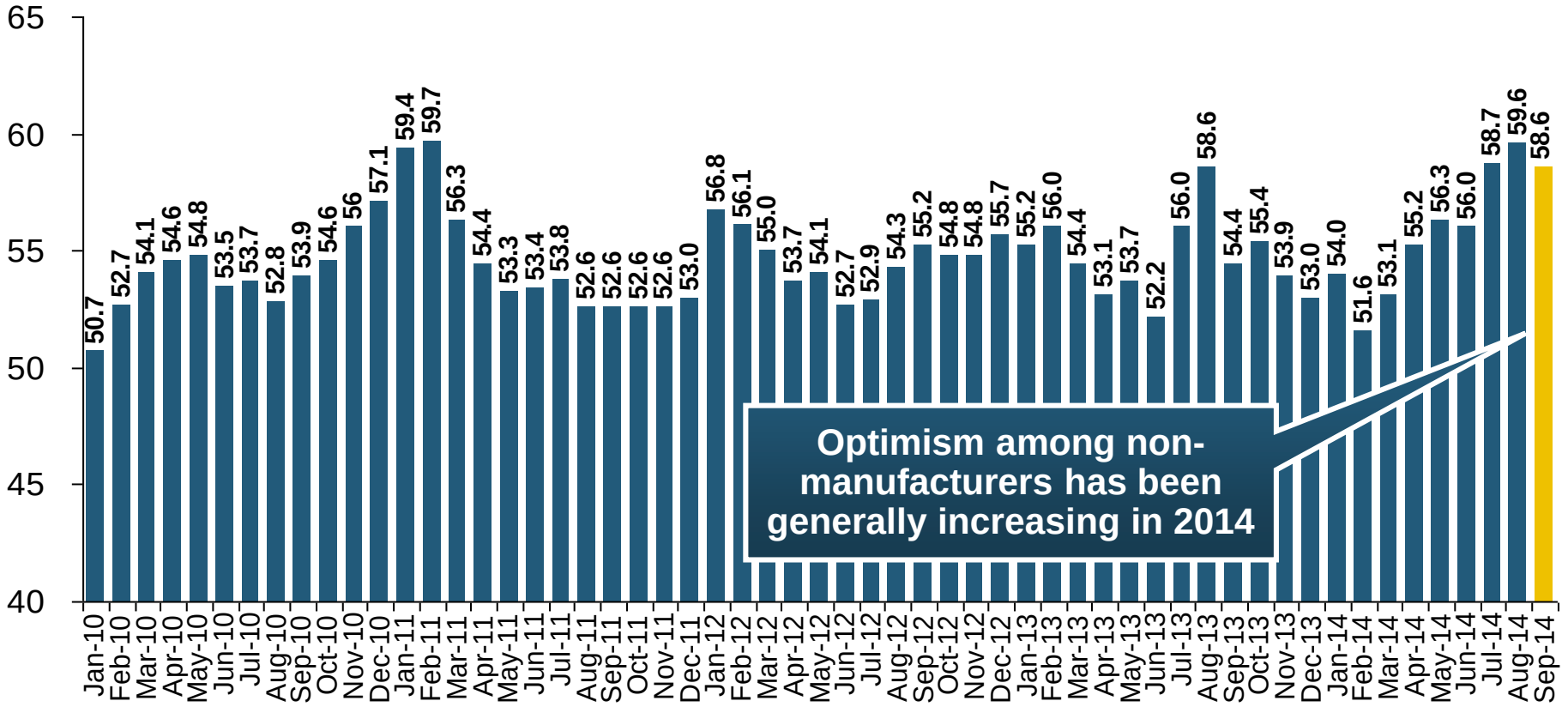
January 2010 through September 2014



Non-manufacturing industries have been expanding and adding jobs. This trend is likely to continue through 2014.

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

12 Industries for the Next 10 Years: Insurance Solutions Needed

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

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

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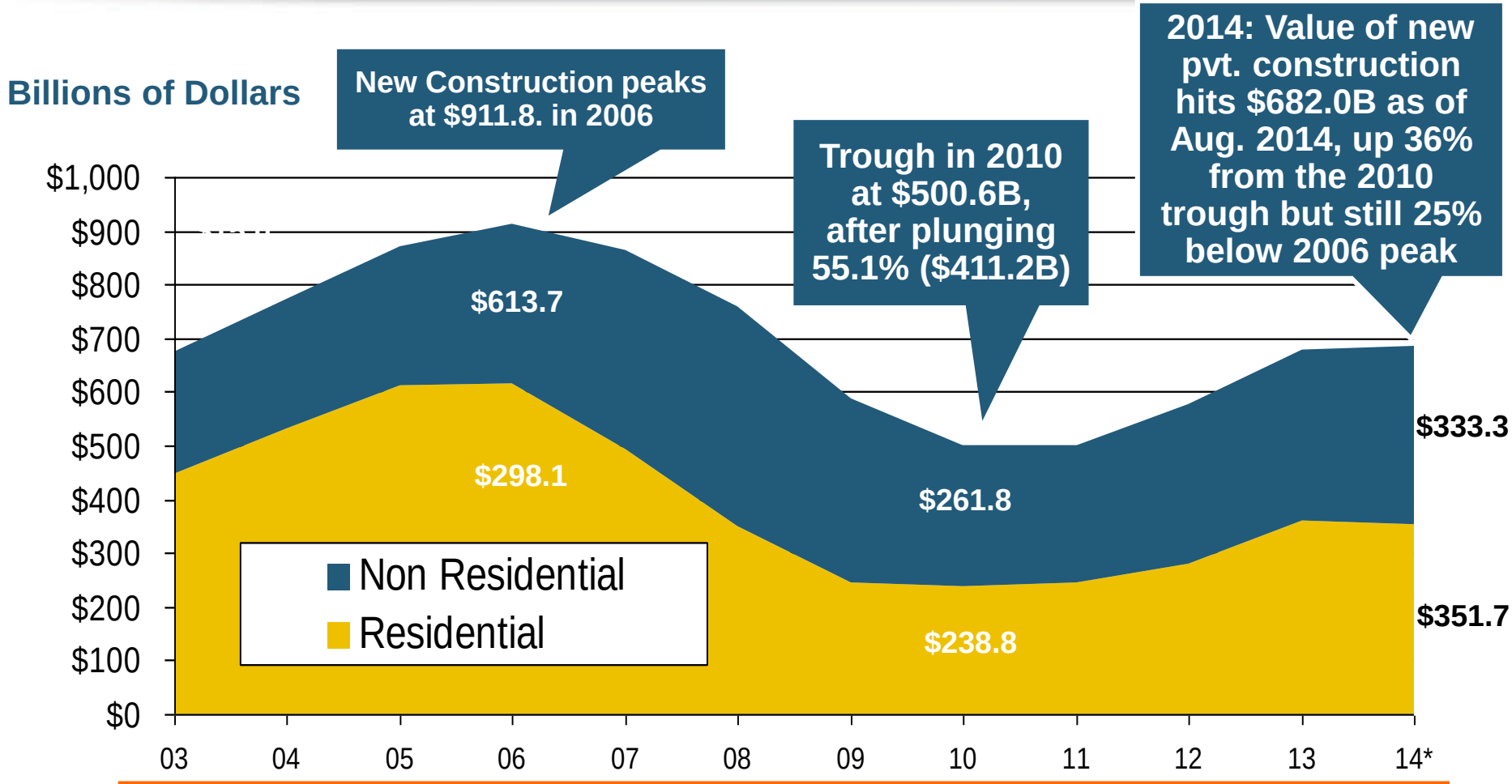
CONSTRUCTION INDUSTRY OVERVIEW & OUTLOOK

The Construction Sector Is Critical to the Economy and the P/C Insurance Industry

Value of New Private Construction: Residential & Nonresidential, 2003-2014*

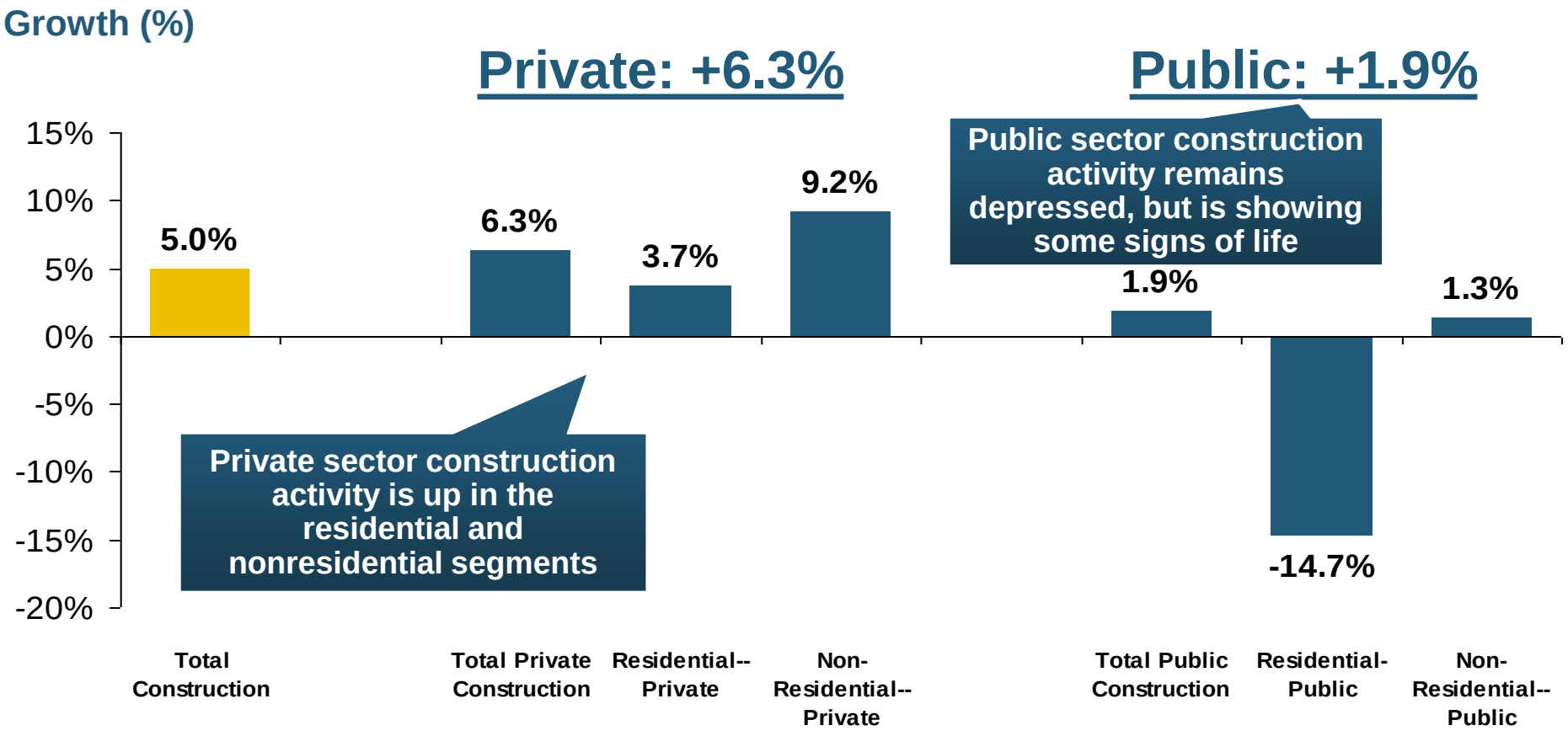


Private Construction Activity Is Moving in a Positive Direction though Remains Well Below Pre-Crisis Peak; Residential Dominates

*2014 figure is a seasonally adjusted annual rate as of August.

Sources: US Department of Commerce; Insurance Information Institute.

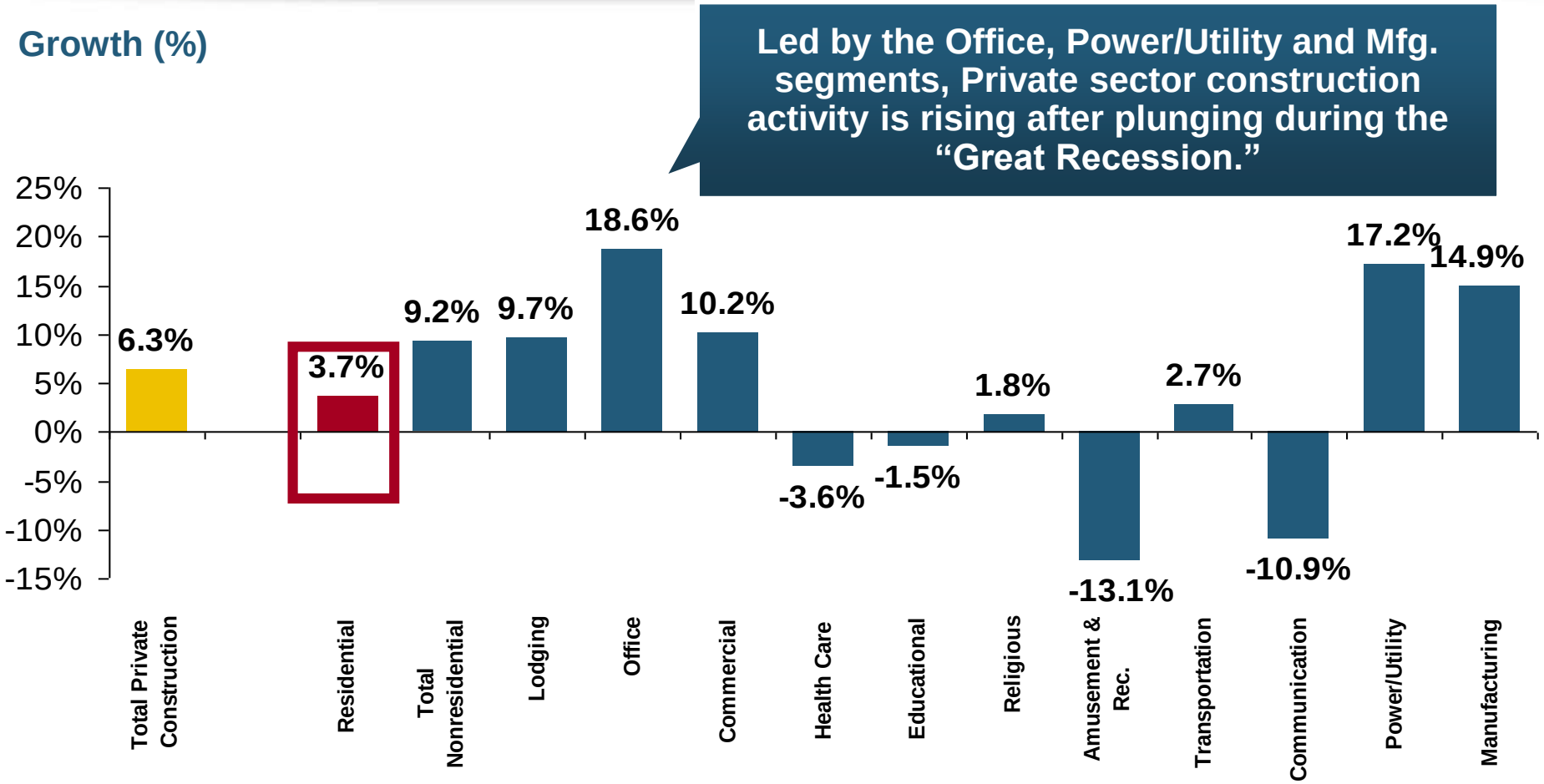
Value of Construction Put in Place, August 2014 vs. August 2013*



Overall Construction Activity is Up, But Growth Is Almost 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.

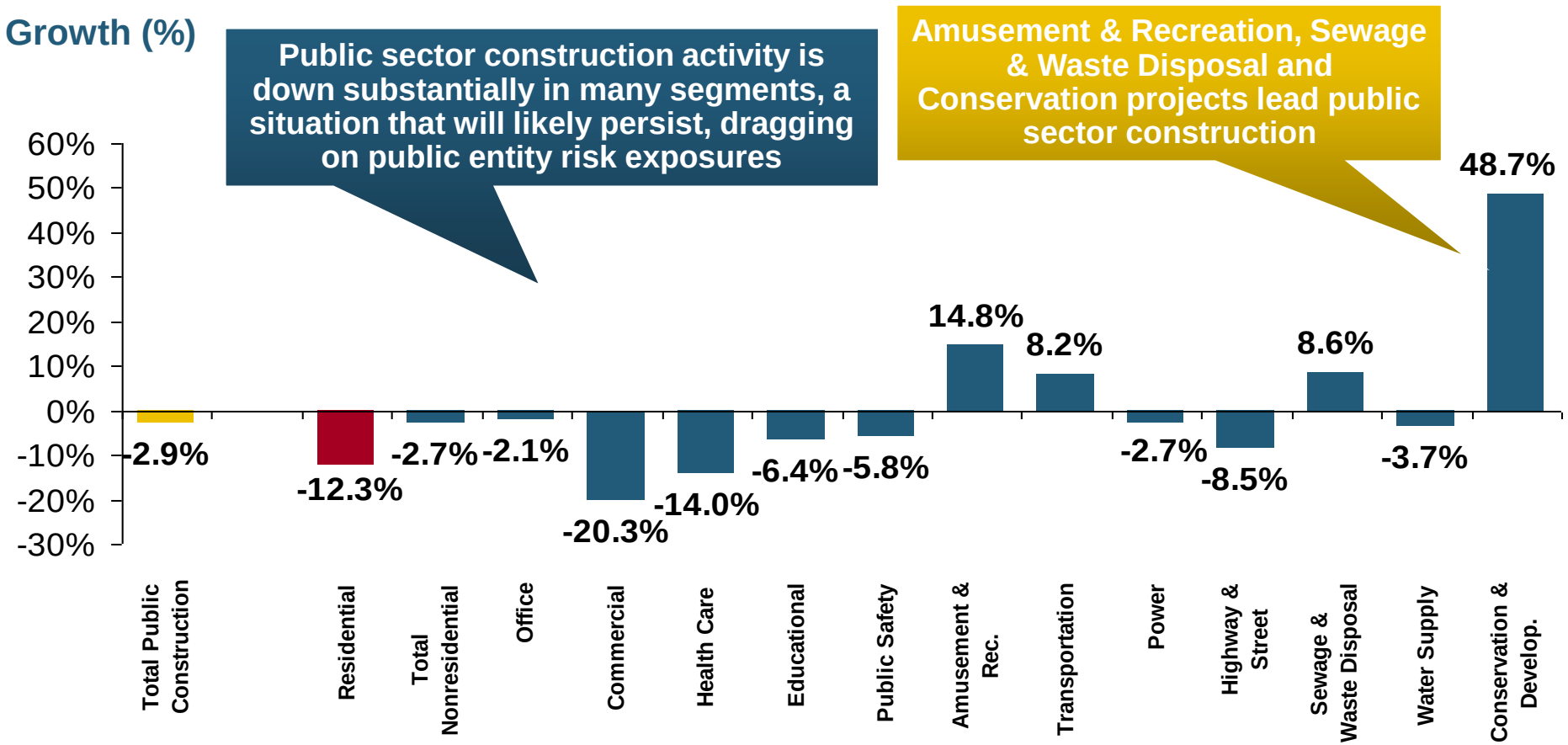
Value of Private Construction Put in Place, by Segment, Aug. 2014 vs. Aug. 2013*



Private Construction Activity is Up in Many Segments, Including the Key Residential Construction Sector; Bodes Well for the Remainder of 2014

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

Value of Public Construction Put in Place, by Segment, June 2014 vs. June 2013*



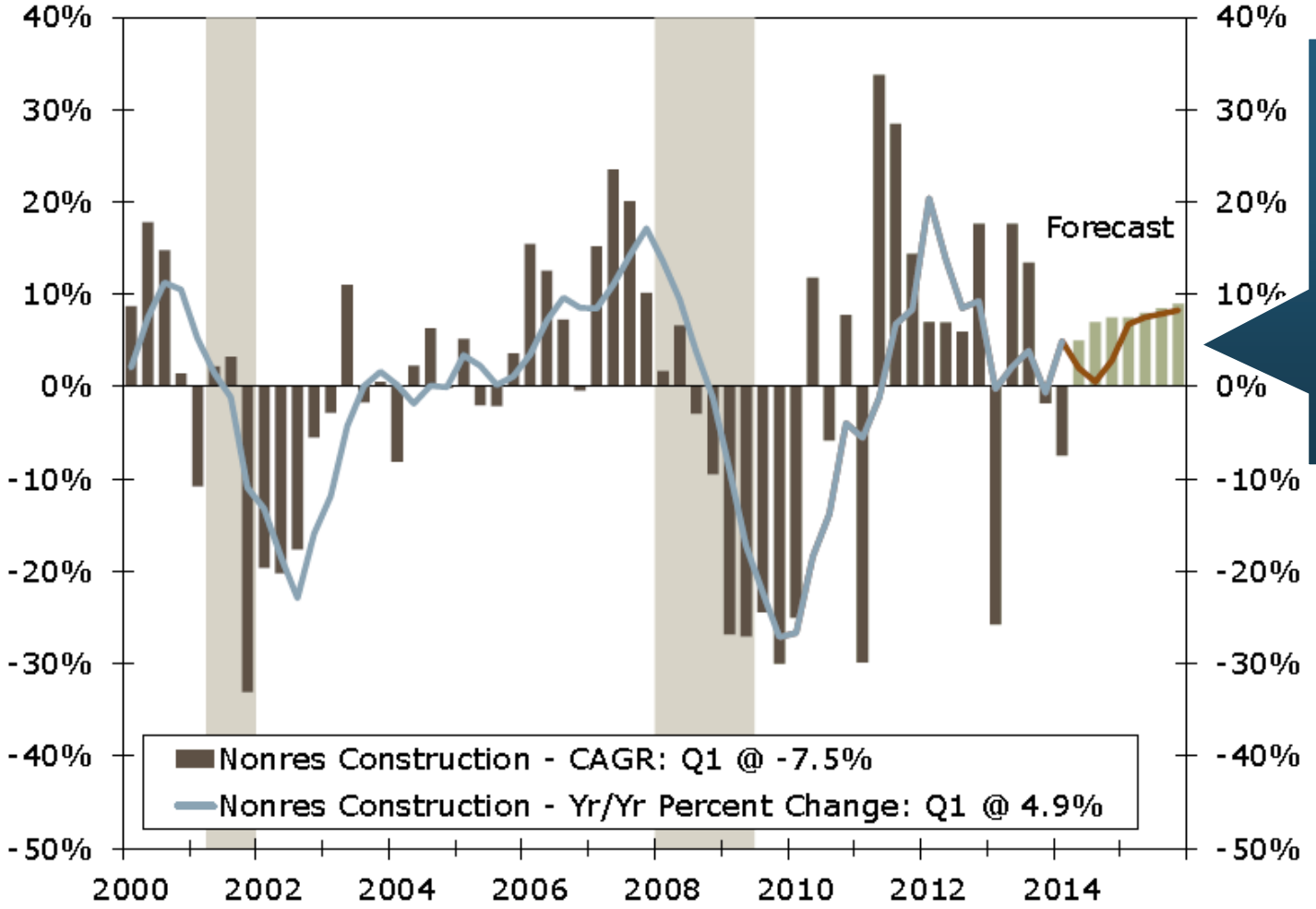
Public Construction Activity is Down in Many Segments as State and Local Budgets Remain Under Stress; Improvement Possible in 2015.

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

Real (Inflation-Adjusted) Nonresidential Construction, 2000-2014*

INSURANCE INFORMATION INSTITUTE

(Bar = CAGR; Line = Y/Y Growth Rate)

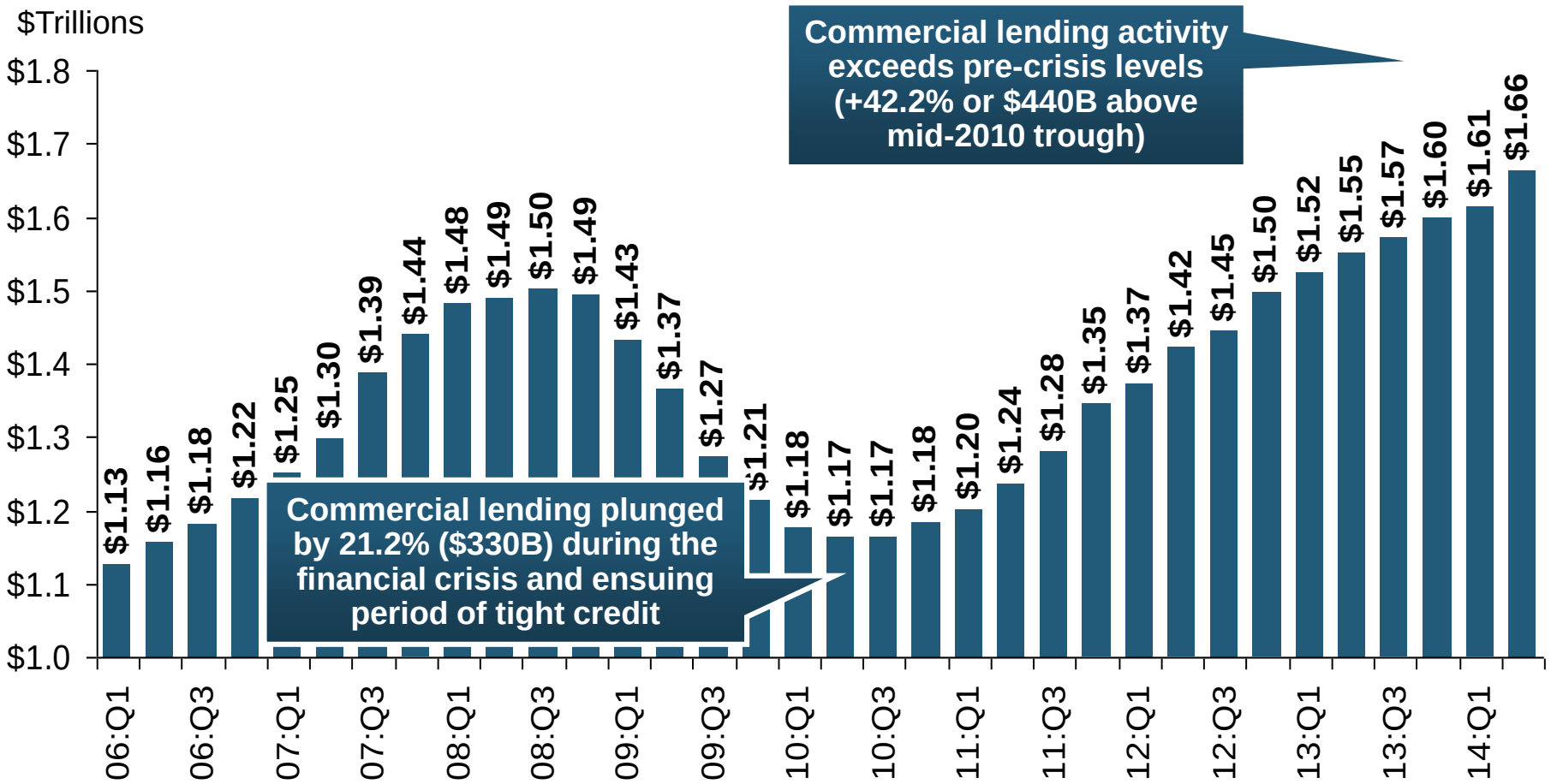


Construction activity has generally been positive since late 2010 but has occasionally be erratic. Forecast is for slowing improving growth

*Through Q1 2014.

Source: US Dept. of Commerce; Wells Fargo Securities (June 6, 2014 research report).

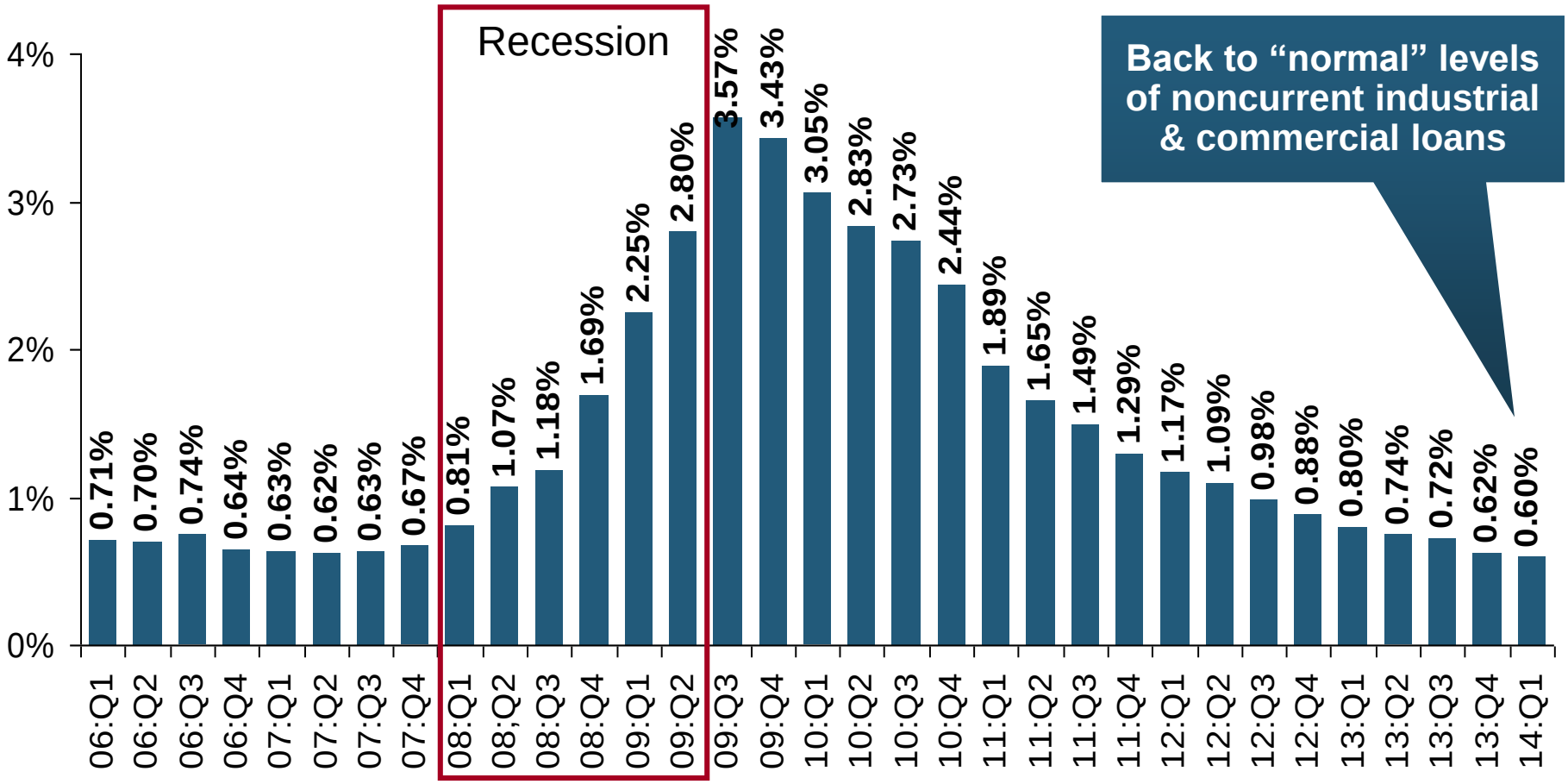
Commercial & Industrial Loans Outstanding at FDIC-Insured Banks, Quarterly, 2006-2014:Q2



Outstanding Commercial Loan Volume Has Been Growing for Over 3 Years and Is Now Nearly Back to Early Recession Levels. Bodes Very Well for the Creation of Current and Future Commercial Insurance Exposures

Source: FDIC at http://www2.fdic.gov/qbp/ (Loan Performance spreadsheet); Insurance Information Institute.

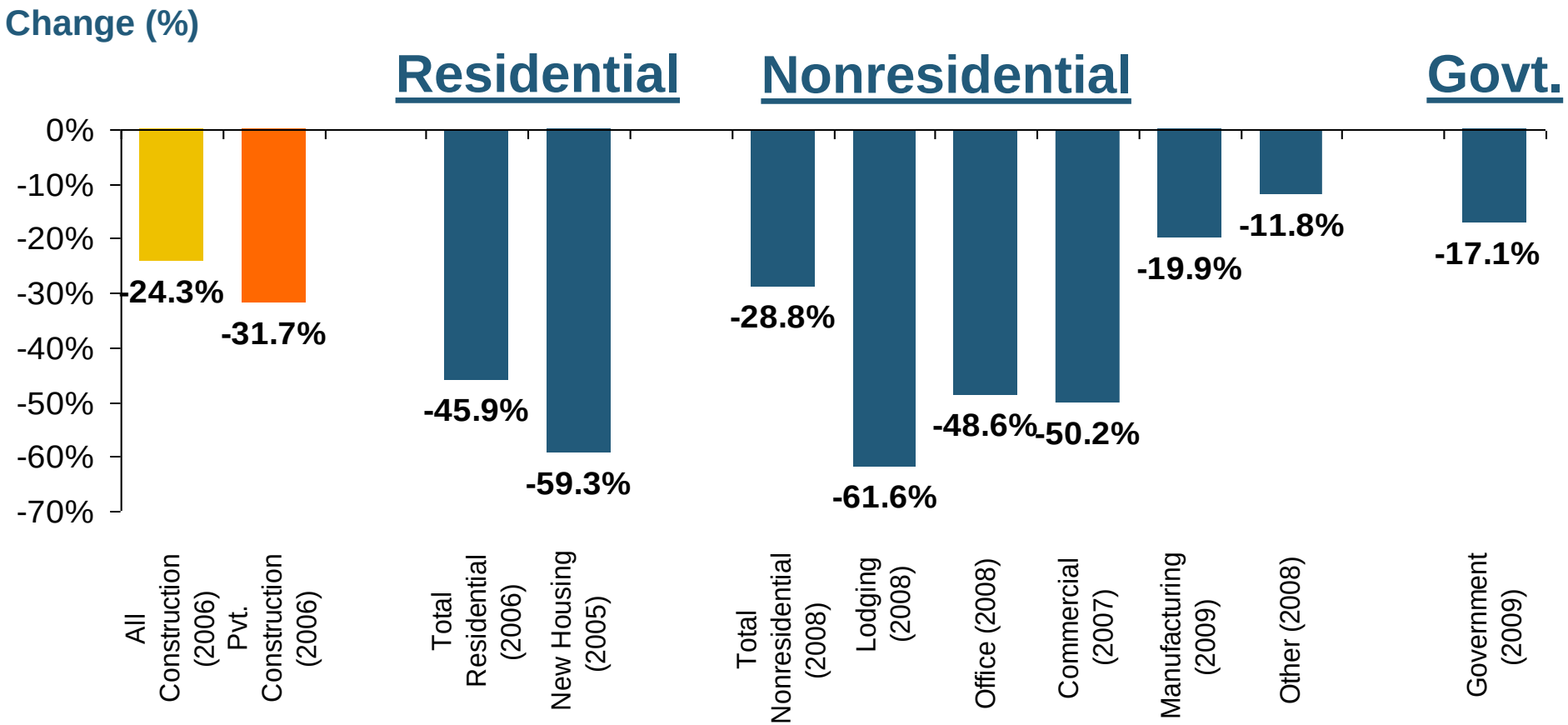
Percent of Non-current Commercial & Industrial Loans Outstanding at FDIC-Insured Banks,
Quarterly, 2006-2014:Q1



Non-current loans (those past due 90 days or more or in nonaccrual status) are below even pre-recession levels, fueling bank willingness to lend.

Source: FDIC at http://www2.fdic.gov/qbp/ (Loan Performance spreadsheet); Insurance Information Institute.

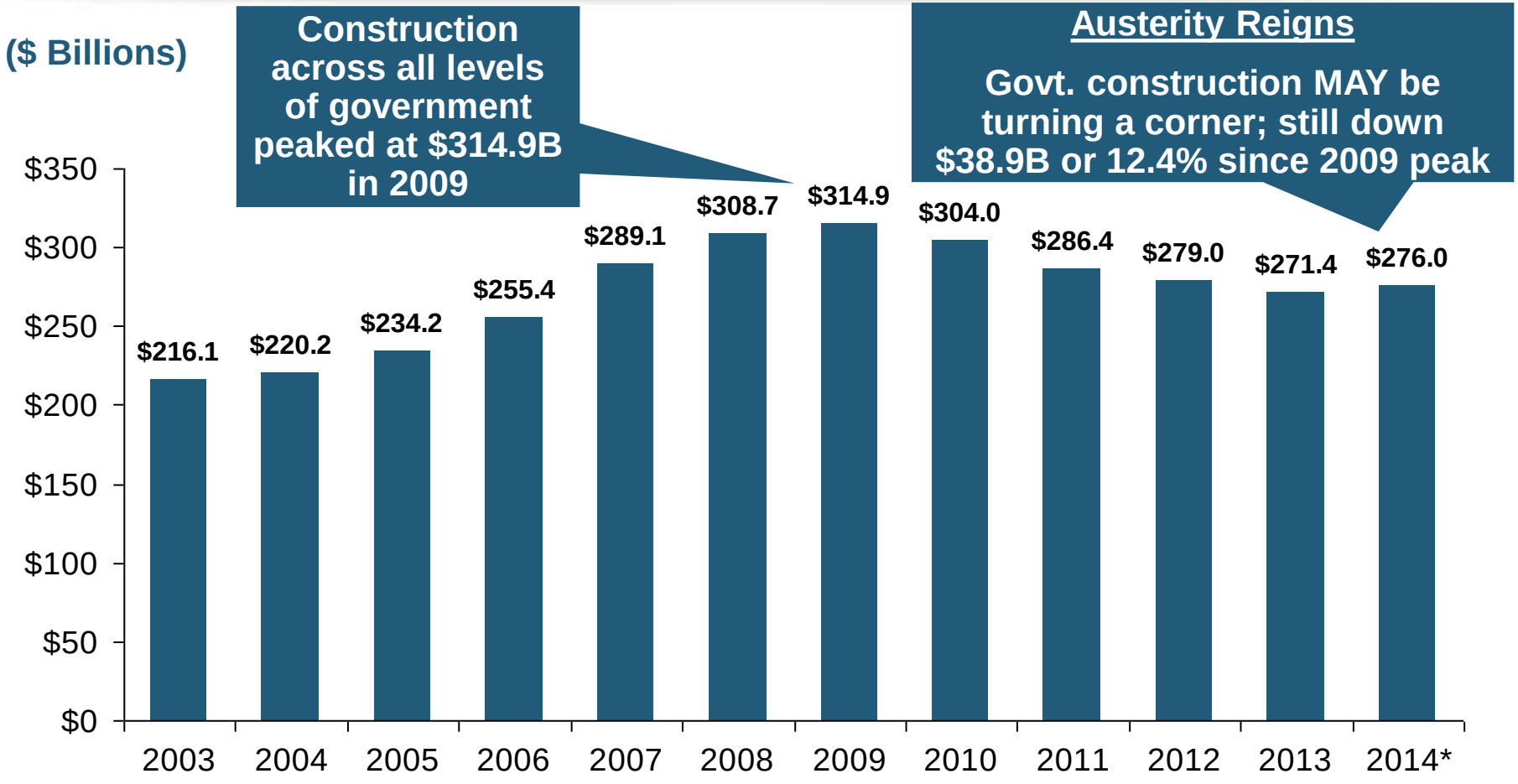
Change from Peak in New Construction Expenditures to 2013*



Despite Recent Improvements, Construction Activity (and Employment) Remains Far Below Pre-Crisis Peaks

Note: Year in parentheses is the year of peak expenditure.
*2013 figure is a seasonally adjusted annual rate as of June.
Sources: US Department of Commerce; Insurance Information Institute.

Value of New Federal, State and Local Government Construction: 2003-2014*

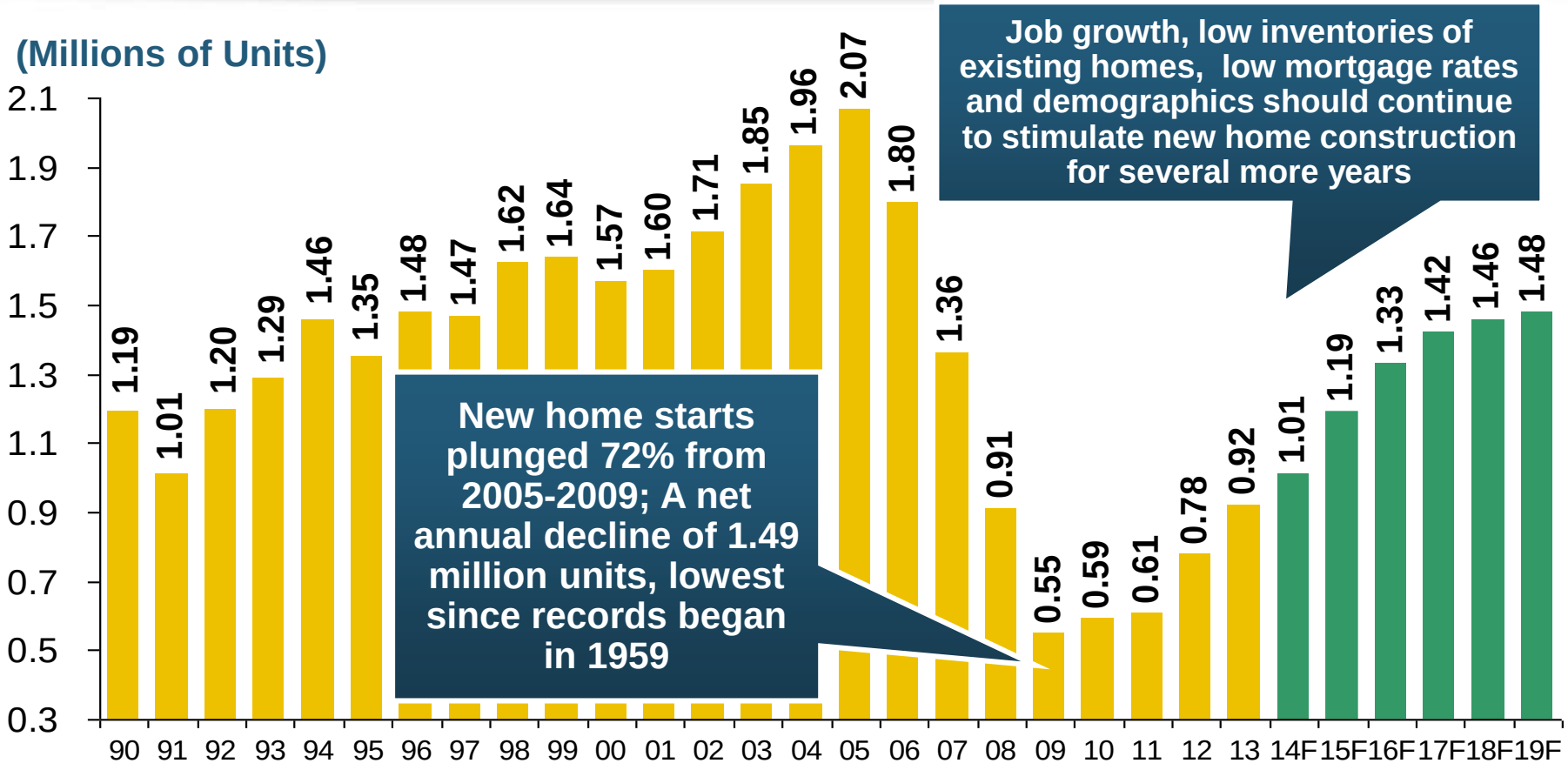


Government Construction Spending Peaked in 2009, Helped by Stimulus Spending, but Contracted As State/Local Governments Grappled with Deficits and Federal Sequestration

*2014 figure is a seasonally adjusted annual rate as of August; http://www.census.gov/construction/c30/historical_data.html

Sources: US Department of Commerce; Insurance Information Institute.

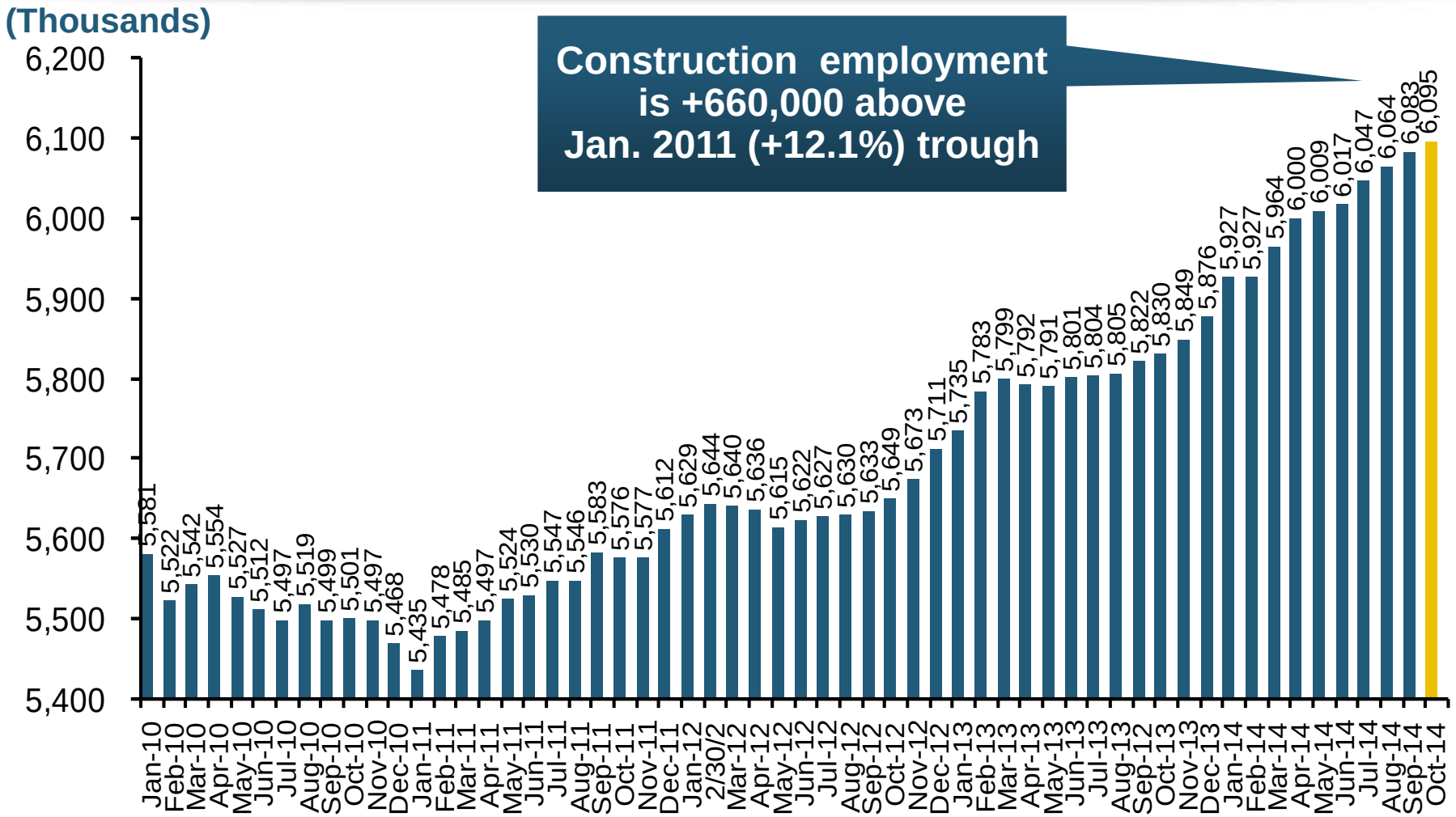
New Private Housing Starts, 1990-2019F



Insurers Are Continue to See Meaningful Exposure Growth in the Wake of the "Great Recession" Associated with Home Construction: Construction Risk Exposure, Surety, Commercial Auto; Potent Driver of Workers Comp Exposure

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (10/14); Insurance Information Institute.

Construction Employment, Jan. 2010—October 2014*

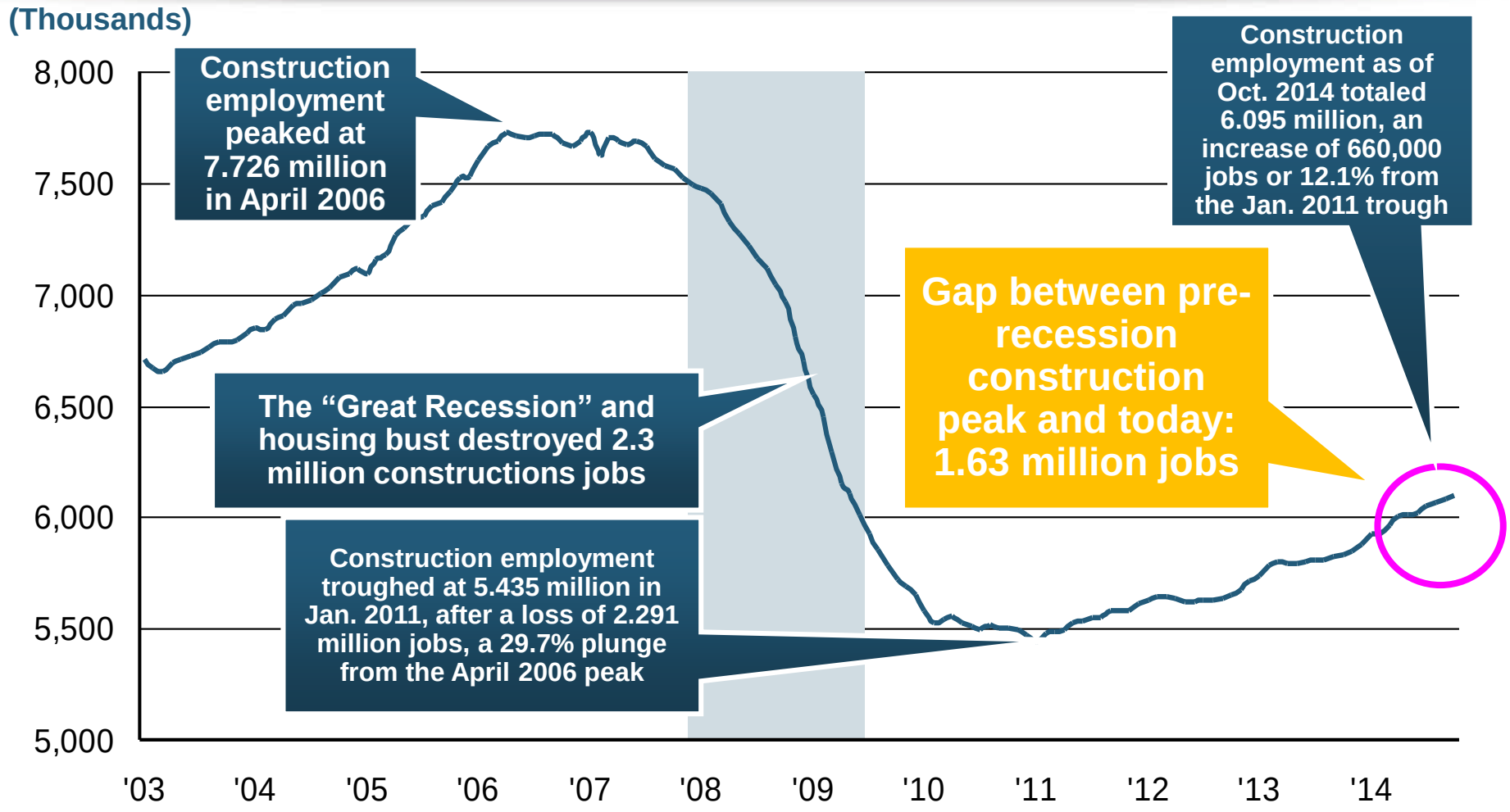


Construction and manufacturing employment constitute 1/3 of all WC payroll exposure.

*Seasonally adjusted.

Sources: US Bureau of Labor Statistics at http://data.bls.gov; Insurance Information Institute.

Construction Employment, Jan. 2003–October 2014

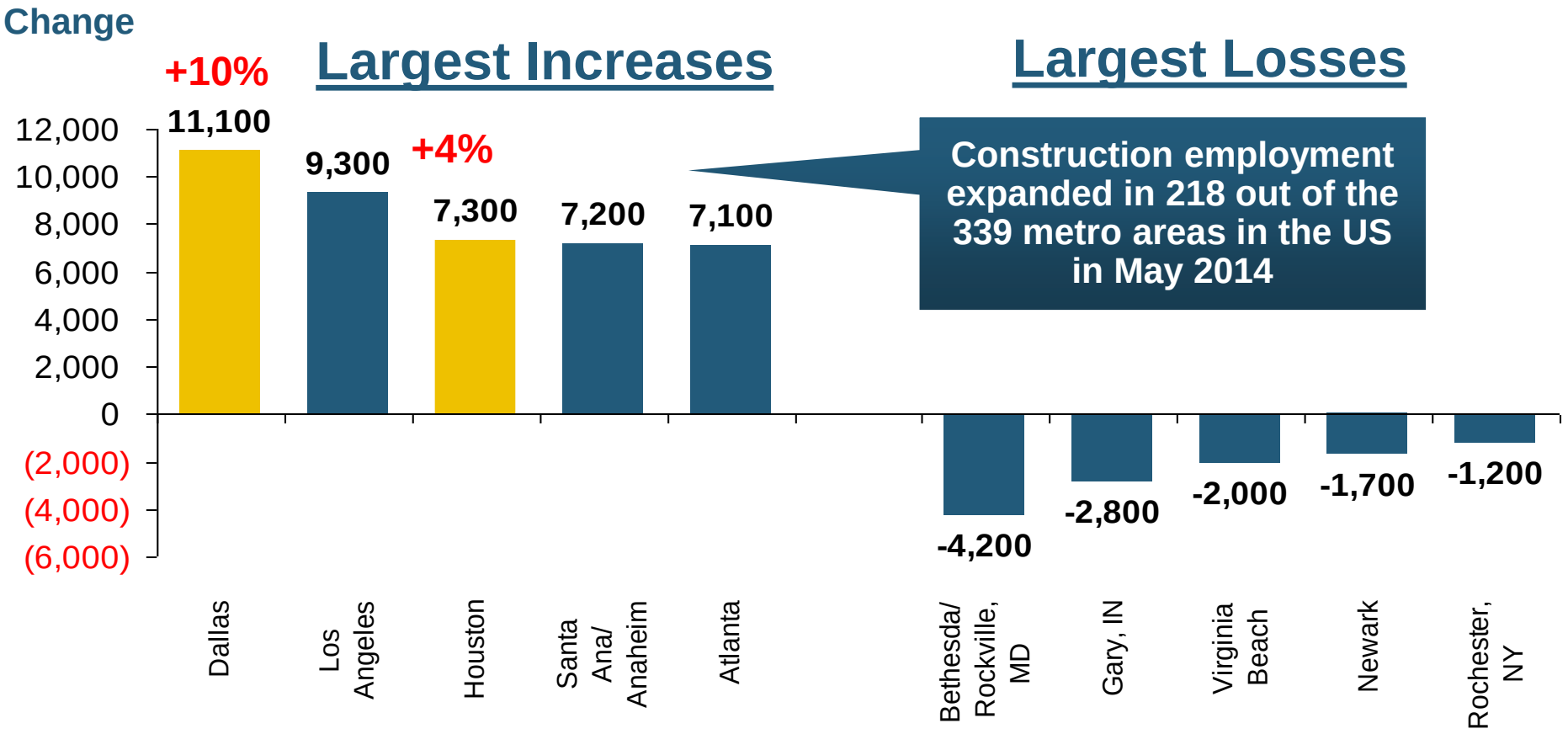


The Construction Sector Could Be a Growth Leader in 2014 as the Housing Market, Private Investment and Govt. Spending Recover. WC Insurers Will Benefit.

Note: Recession indicated by gray shaded column.

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

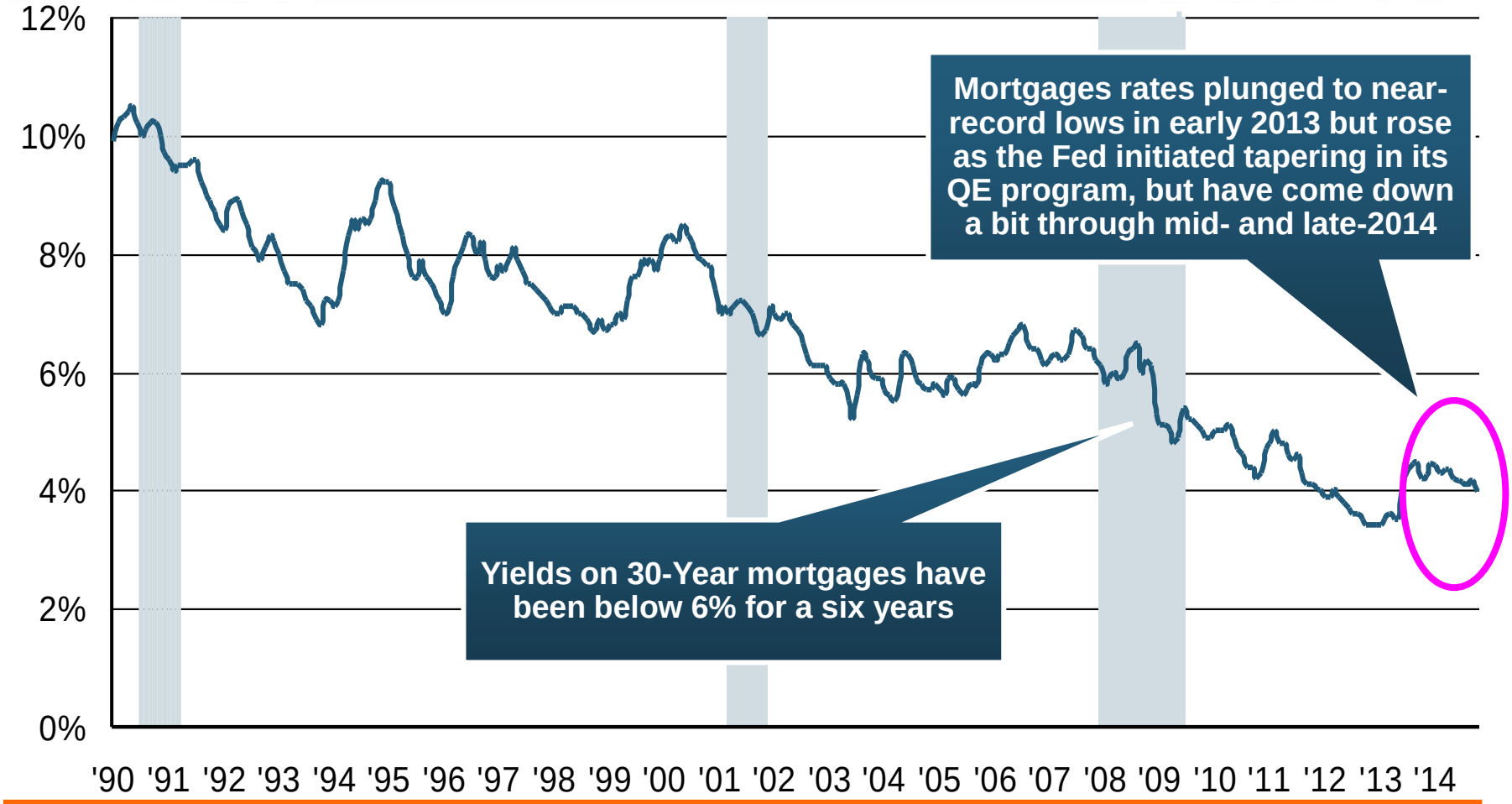
Construction Jobs: Largest Gains & Losses by Metro Area, May 2014 vs. May 2013*



Construction Employment Is Expanding—Albeit Modestly—in Much of the US

*Seasonally adjusted;
Source: Associated General Contractors: http://www.agc.org/galleries/news/Metro_Empl_1404_Rank.pdf; Ins. Information Institute.

Interest Rate on Convention 30-Year Mortgages: Up a Bit, 1990–2014*

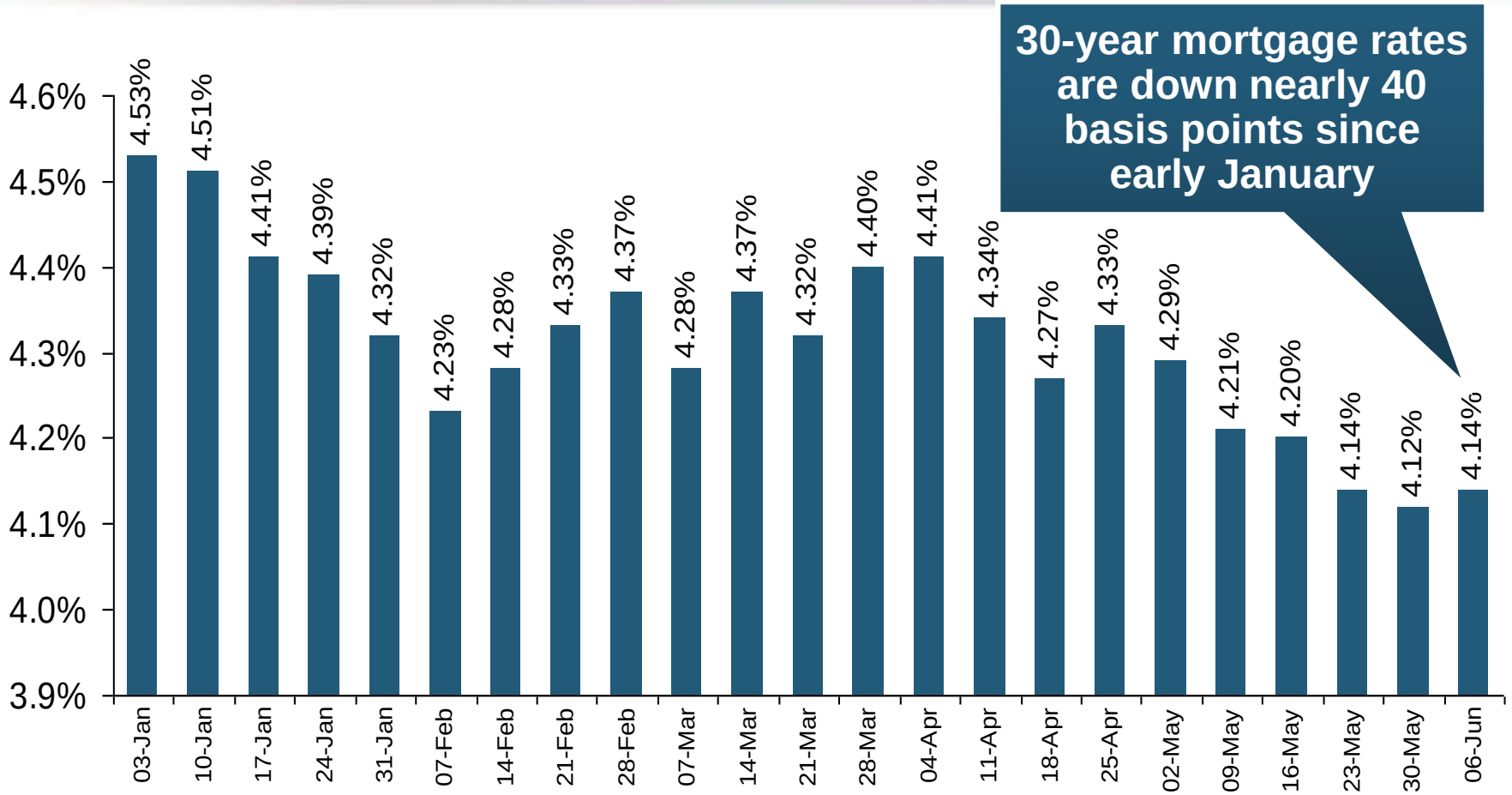


Rising mortgage interest rates have impacted home sales marginall but are unlikely to derail the recovery on housing

*Monthly, through Oct. 2014. Note: Recessions indicated by gray shaded columns.

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

30-Year Mortgages in 2014 Are Falling! What Will Be the Impact on Construction?

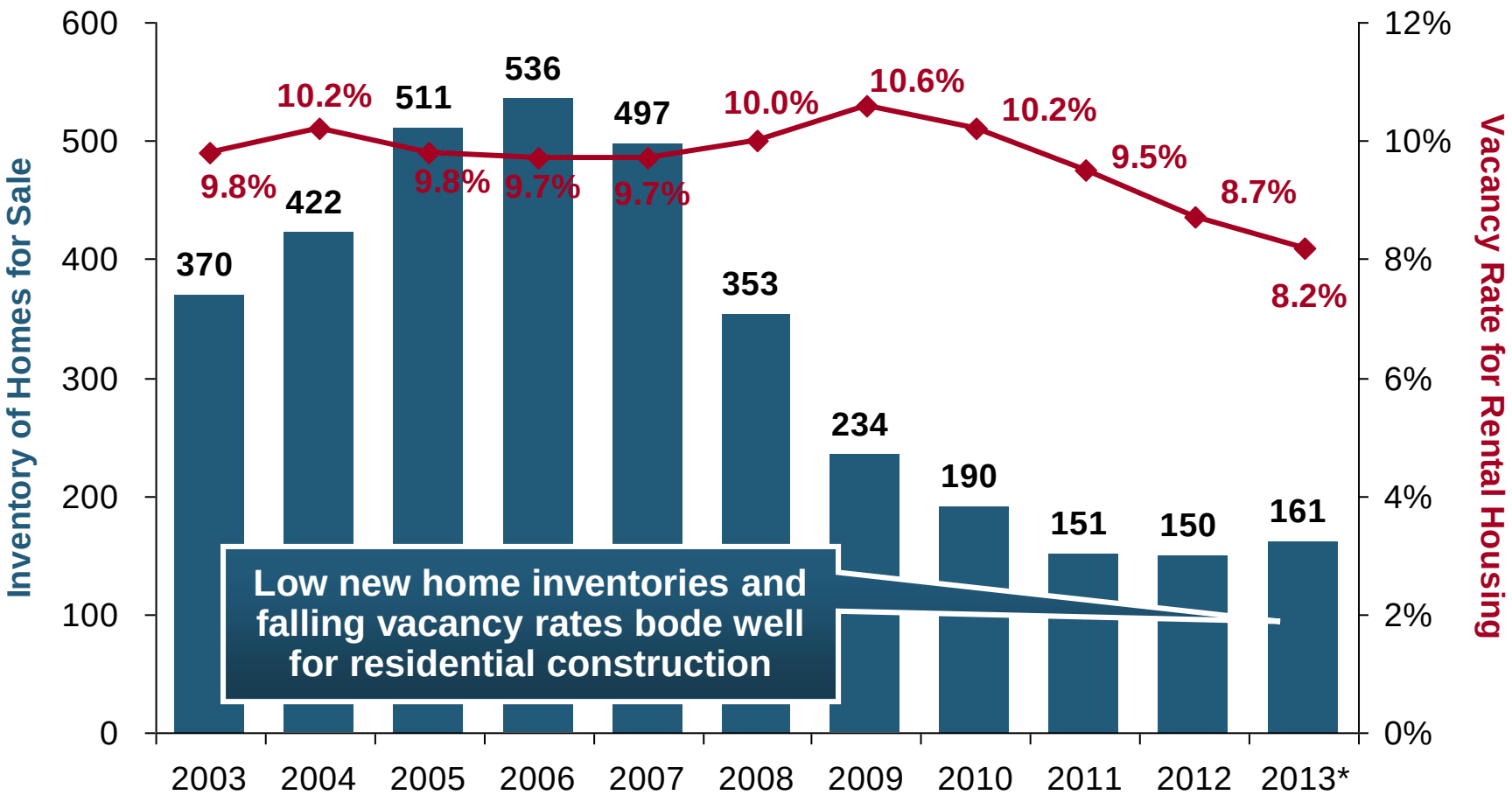


Mortgage Interest Rates Were Expected to Continue to Rise as the Fed Pursued Tapering and the Economy Recovered; Rates Are Still Low by Historical Standards

*Weekly through June 5, 2014.

Sources: Federal Reserve Bank at http://www.federalreserve.gov/releases/h15/data.htm.; Insurance Information Institutes.

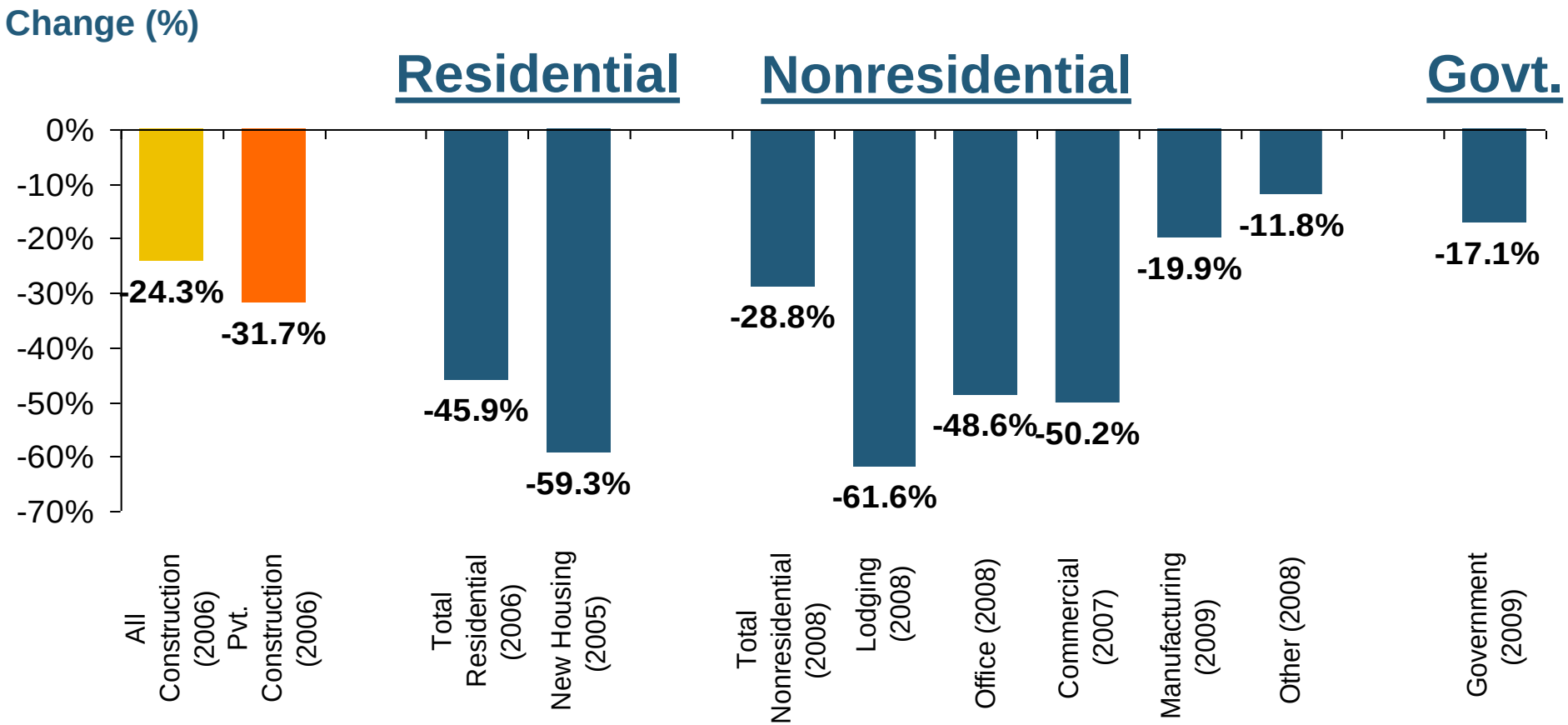
New Home Inventories and Rental Vacancy Rates, 2003-2013*



*2013 figure is a seasonally adjusted annual rate as of June.

Sources: US Department of Commerce; Insurance Information Institute.

Change from Peak in New Construction Expenditures to 2013*



Despite Recent Improvements, Construction Activity (and Employment) Remains Far Below Pre-Crisis Peaks

Note: Year in parentheses is the year of peak expenditure.
*2013 figure is a seasonally adjusted annual rate as of June.
Sources: US Department of Commerce; Insurance Information Institute.

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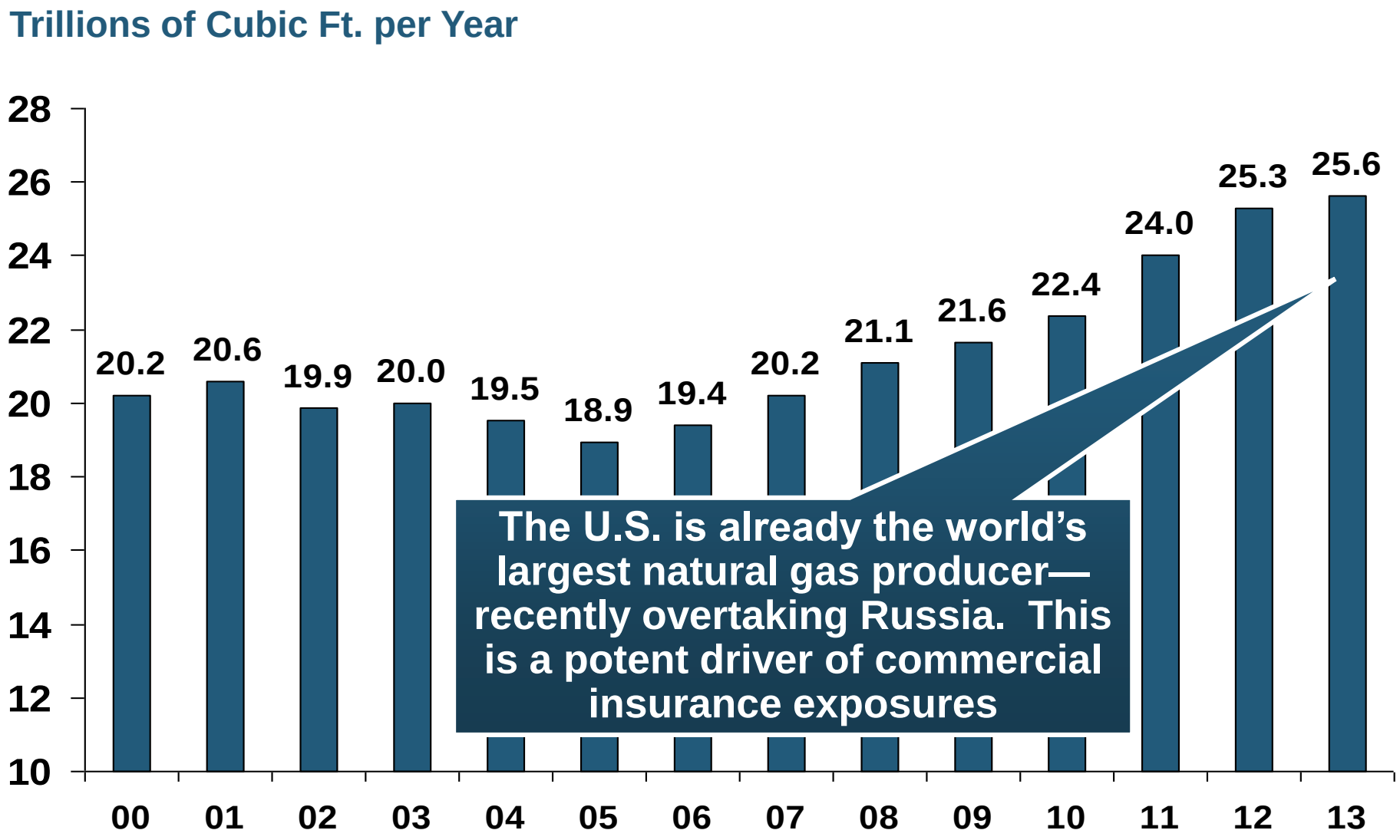
ENERGY SECTOR: OIL & GAS INDUSTRY FUTURE IS BRIGHT

US Is Becoming an Energy Powerhouse; Domestic Demand and Exports Are Key

Need Infrastructure Investment

U.S. Natural Gas Production, 2000-2013



Source: Energy Information Administration, *Short-Term Energy Outlook* (April 8, 2014) , Insurance Information Institute.

U.S. Crude Oil Production, 2005-2015P

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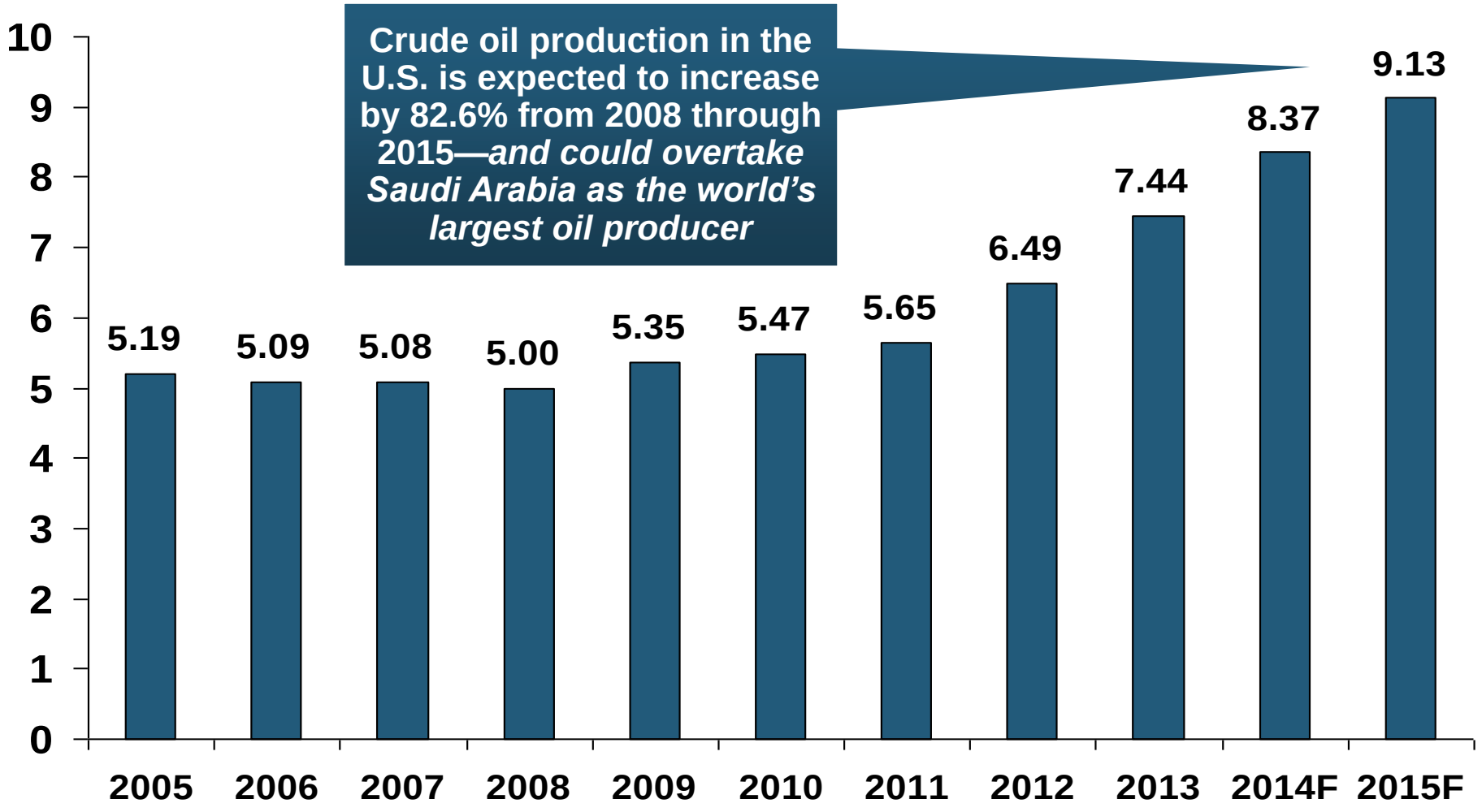
Millions of Barrels per Day



Source: Energy Information Administration, *Short-Term Energy Outlook* (April 8, 2014) , Insurance Information Institute.

Oil & Gas Extraction Employment, Jan. 2010—October 2014*

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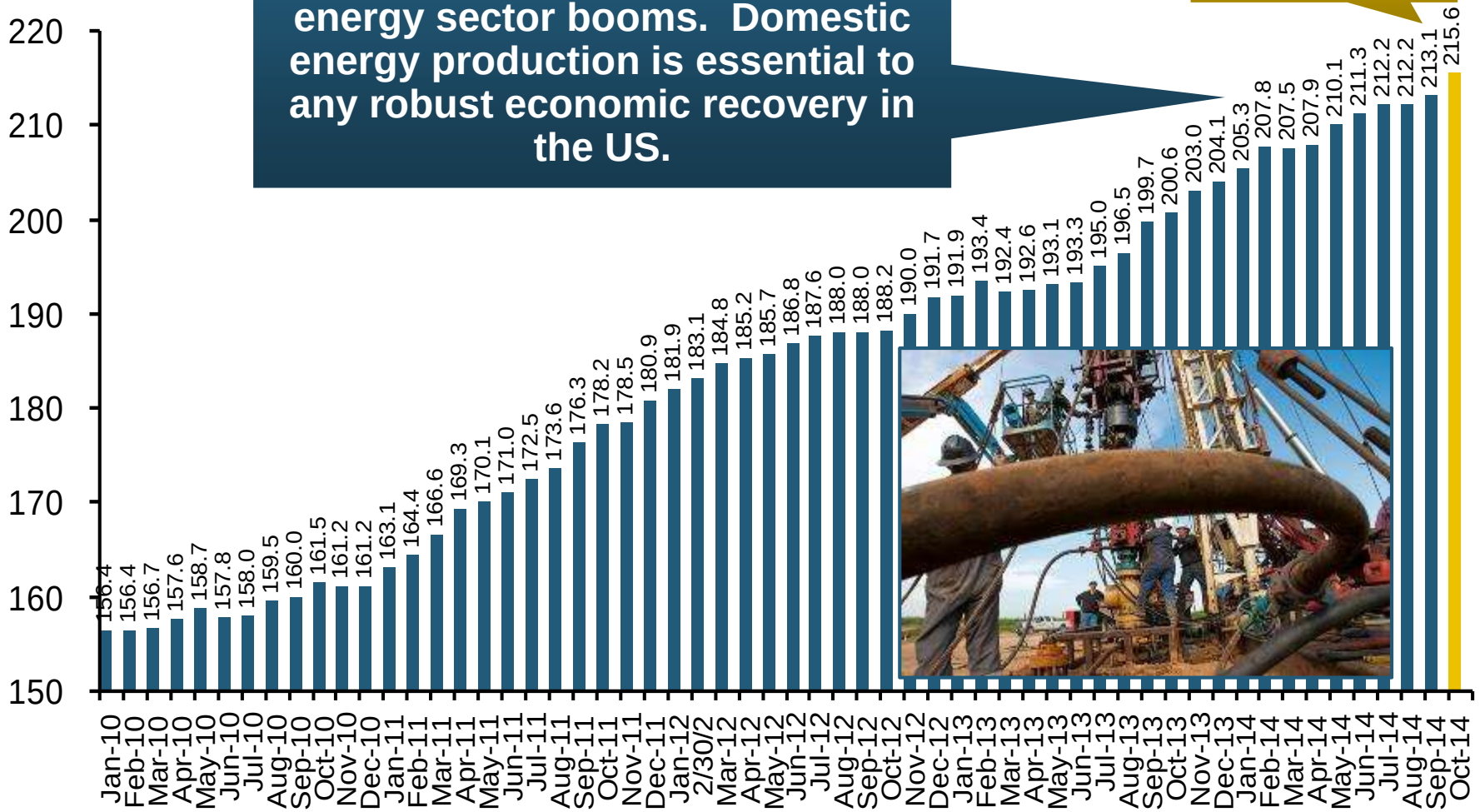
(Thousands)

Oil and gas extraction employment is up 36.5% since Jan. 2010 as the energy sector booms. Domestic energy production is essential to any robust economic recovery in the US.

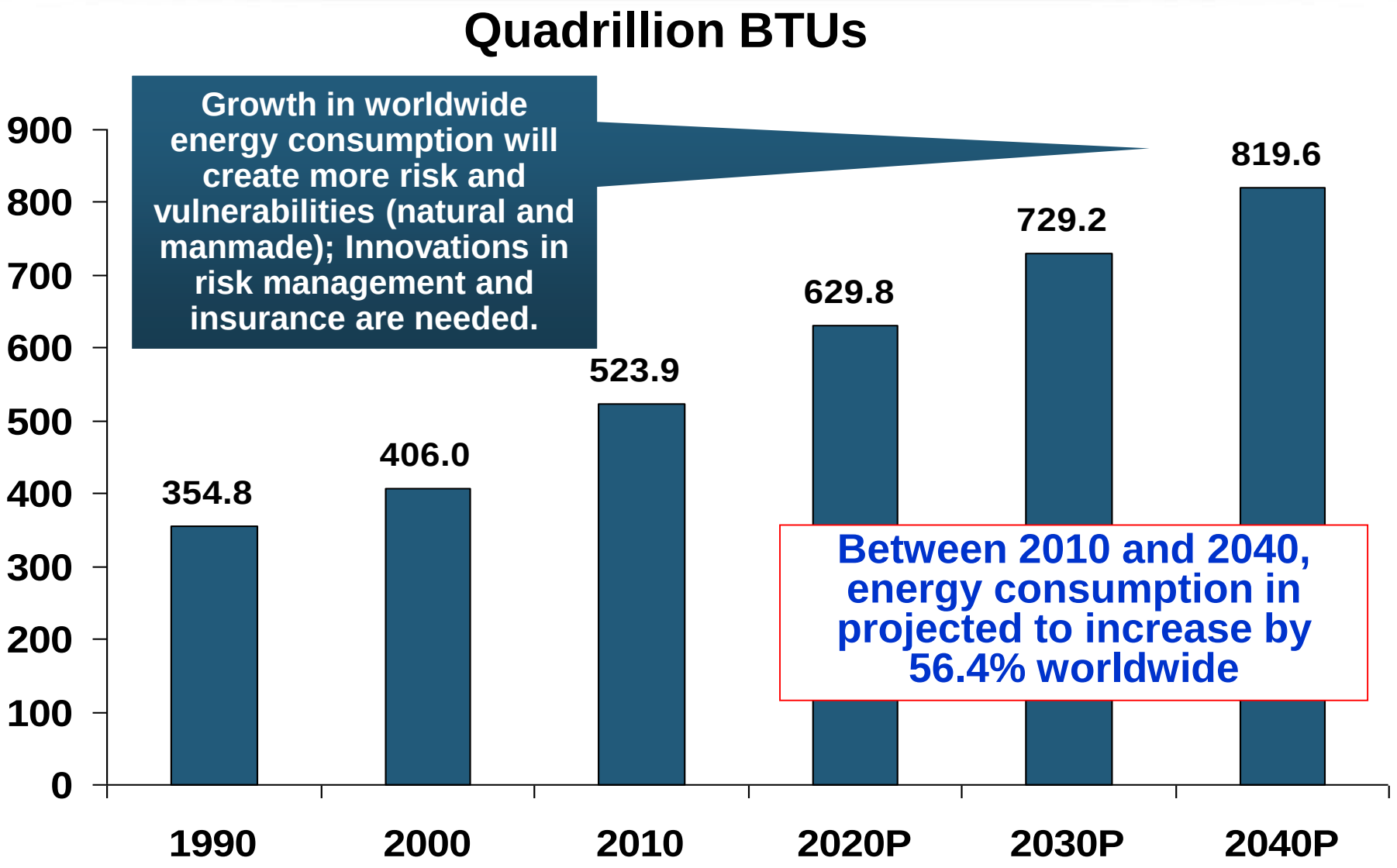
Highest since mid-1986



*Seasonally adjusted

Sources: US Bureau of Labor Statistics at http://data.bls.gov; Insurance Information Institute.

World Primary Energy Consumption, 1990-2040P



Source: Energy Information Administration, *2013 International Energy Outlook*, Insurance Information Institute.

Cumulative Projected Investment in Global Energy Infrastructure, 2011-2035 ($ Trill.)

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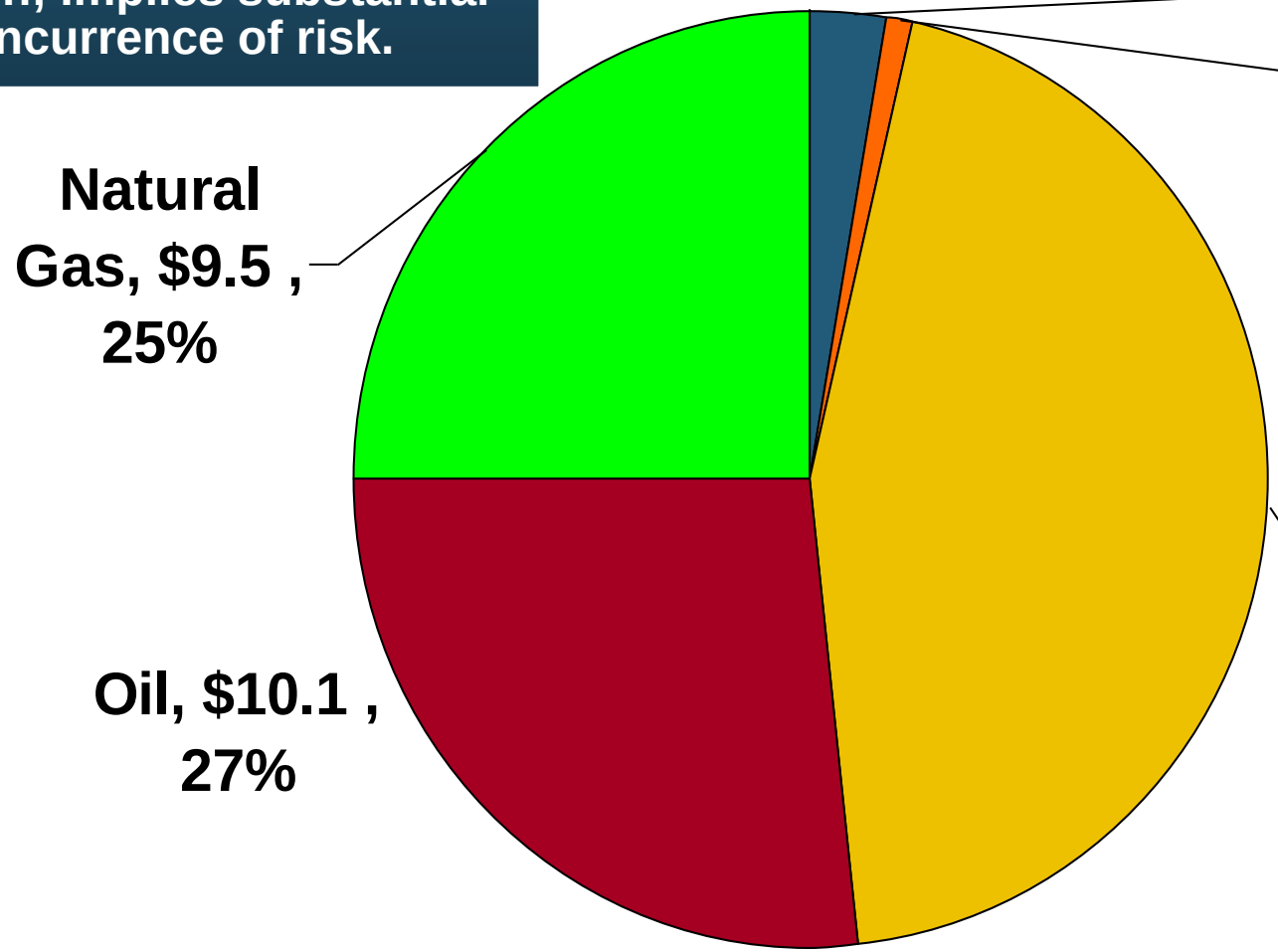
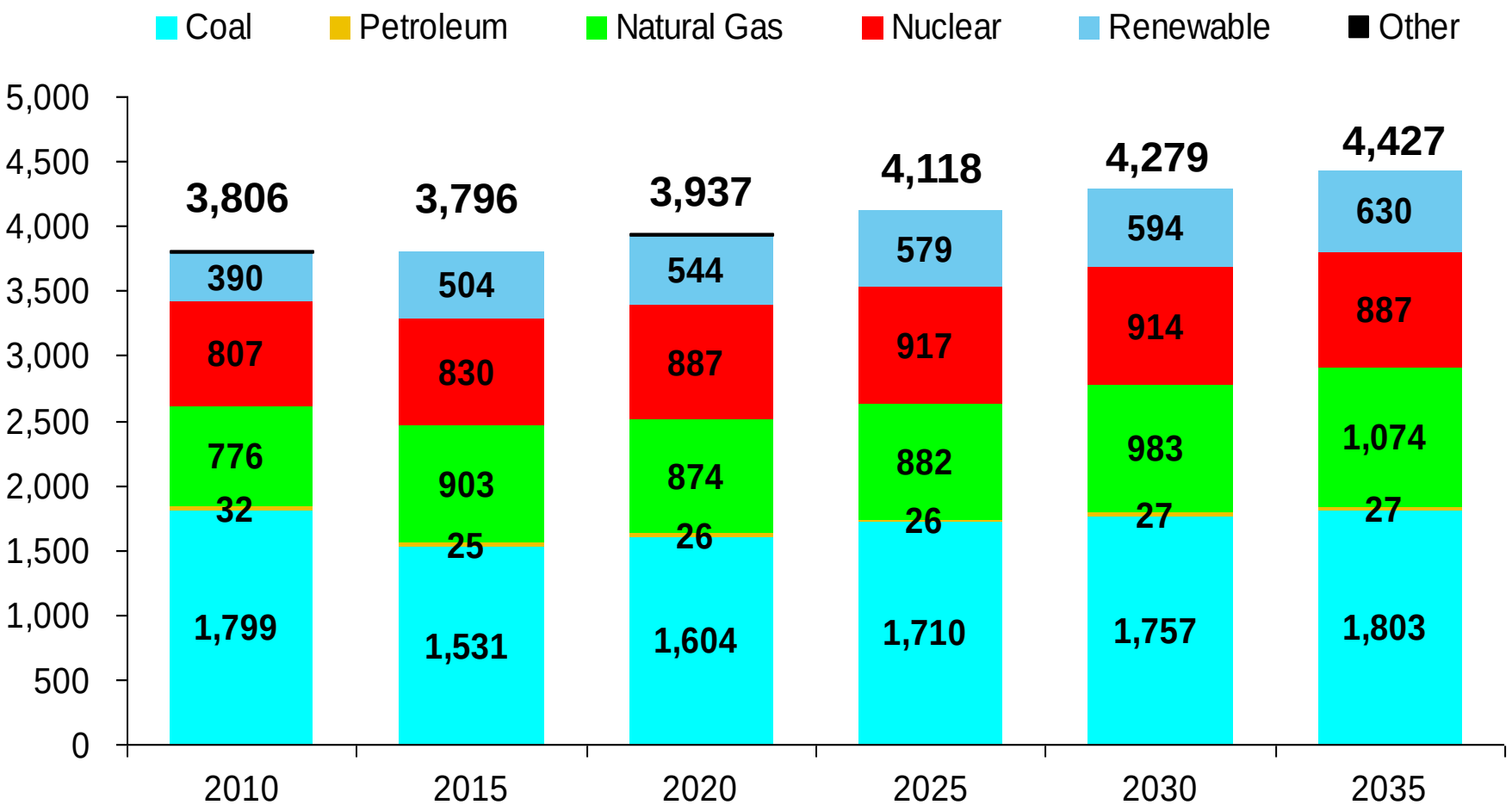
Projected energy infrastructure investment through 2035 total $38 trillion; Implies substantial incurrence of risk.



Source: International Energy Agency, *World Energy Outlook 2011.*

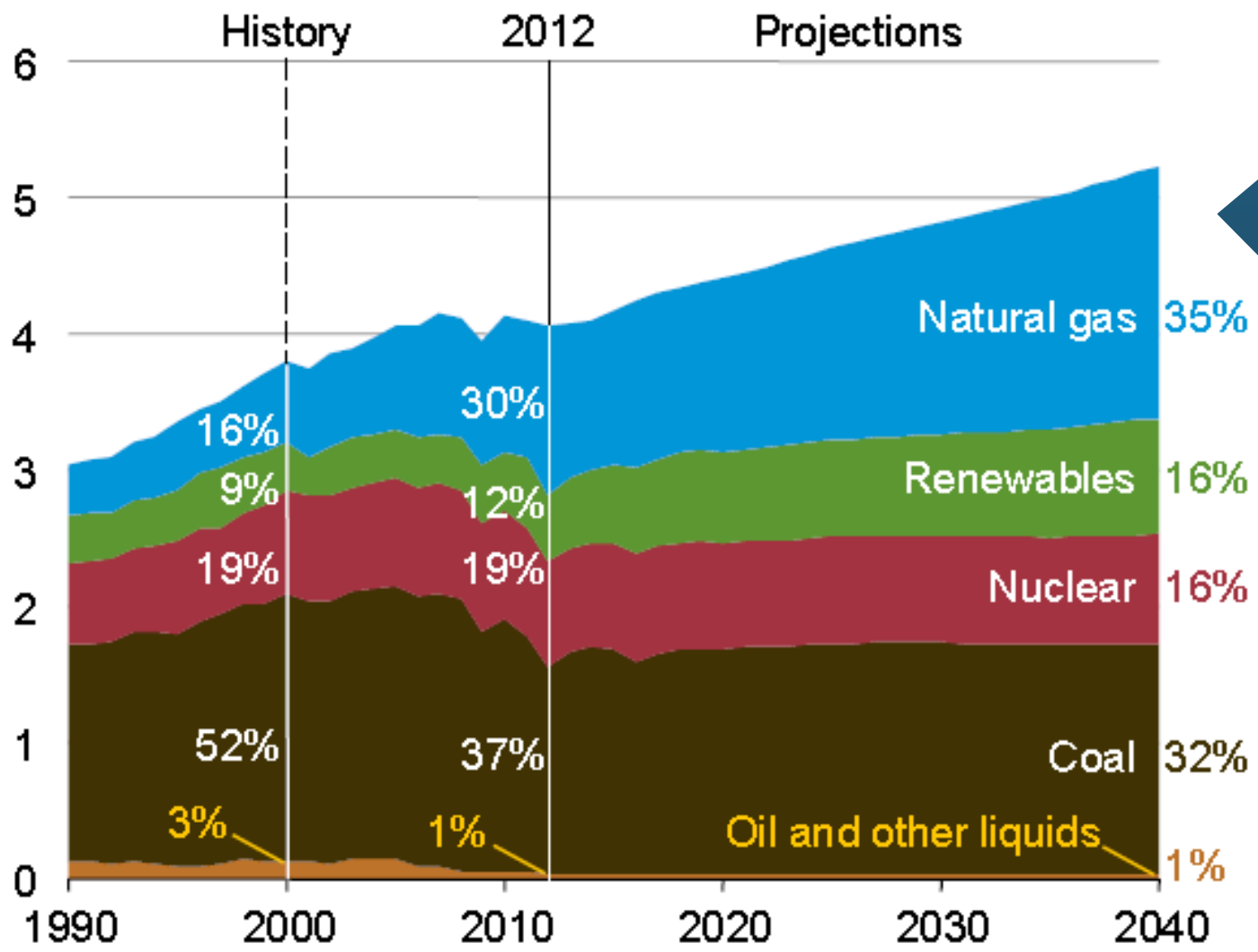
US Electric Power Generation by Fuel Source, 2010-2035F (Billions of Kilowatt Hours)



Demand for Electricity Is Expected to Grow at a 0.6% Annual Rate Through 2035. Renewables and Natural Gas Will Account for an Increasing Share of Fuel Source

Source: US Energy Information Administration, *Annual Energy Outlook 2012,* Appendix A7.

U.S. Electricity Generation by Fuel, 1990-2040F (Trillions of Kilowatt Hours)



Natural gas share of fossil fired generation will grow rapidly (more investment needed). Coal fired generation will remain flat but its share will fall due to abundant gas and EPA carbon regulations

Source: US Energy Information Administration, *2014 Annual Energy Outlook Early Release Overview*; Insurance Information Institute.

US Natural Gas Production and Non-Hydro Renewable Electricity Generation, 1990-2035P

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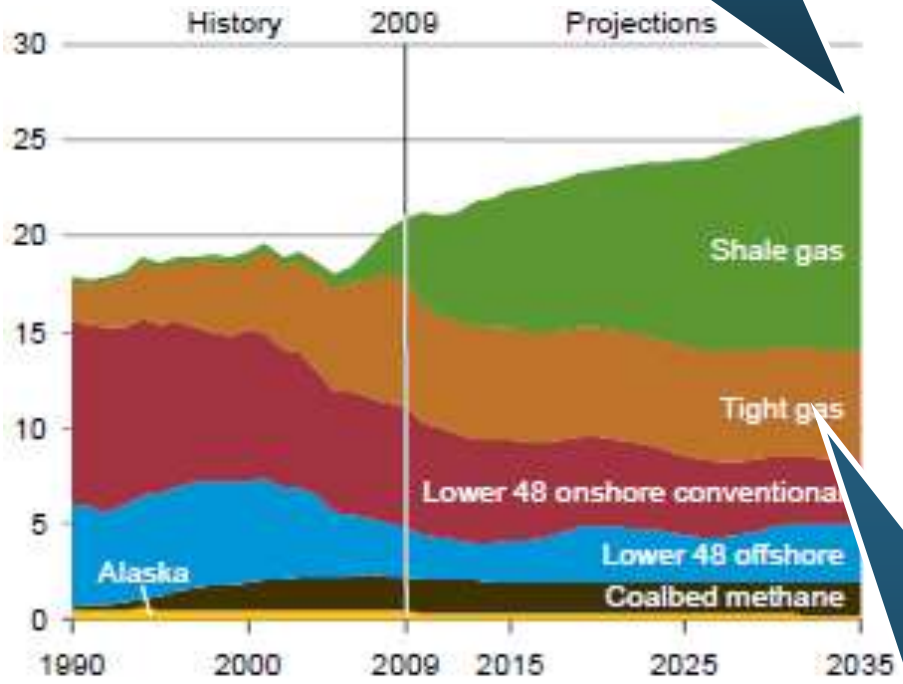
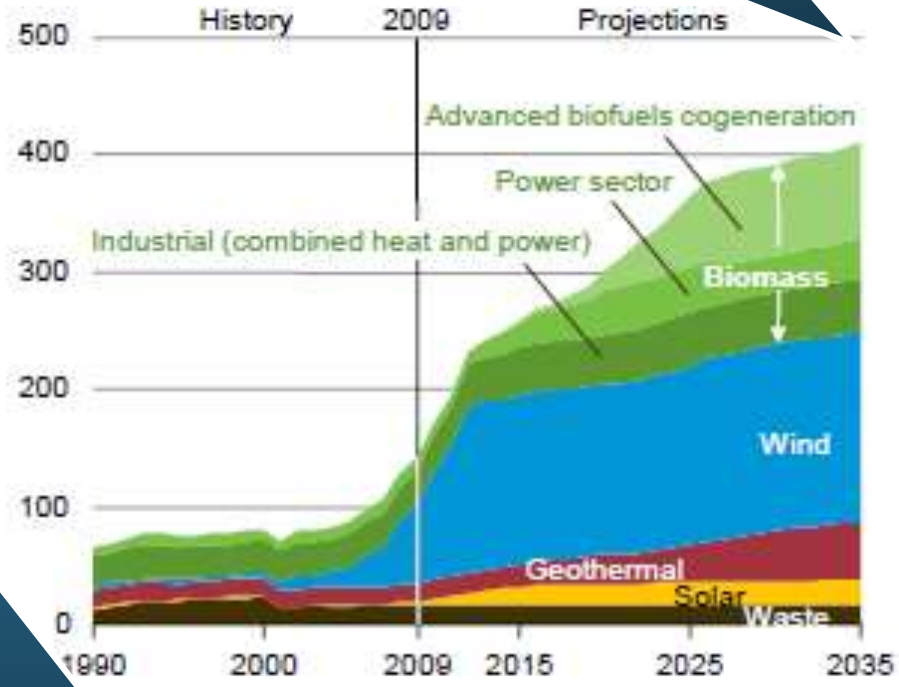
Shale gas production is expected to grow rapidly in the US



Wind is expected to account for the majority of renewable electricity generation



Tight gas production involves controversial hydraulic fracturing (fracking) techniques

Source: US Energy Information Administration, *Annual Energy Outlook 2011*; Insurance Information Institute.

U.S. Private Power Construction, 2000-2014* (% Change, 3-Month Moving Avg.)

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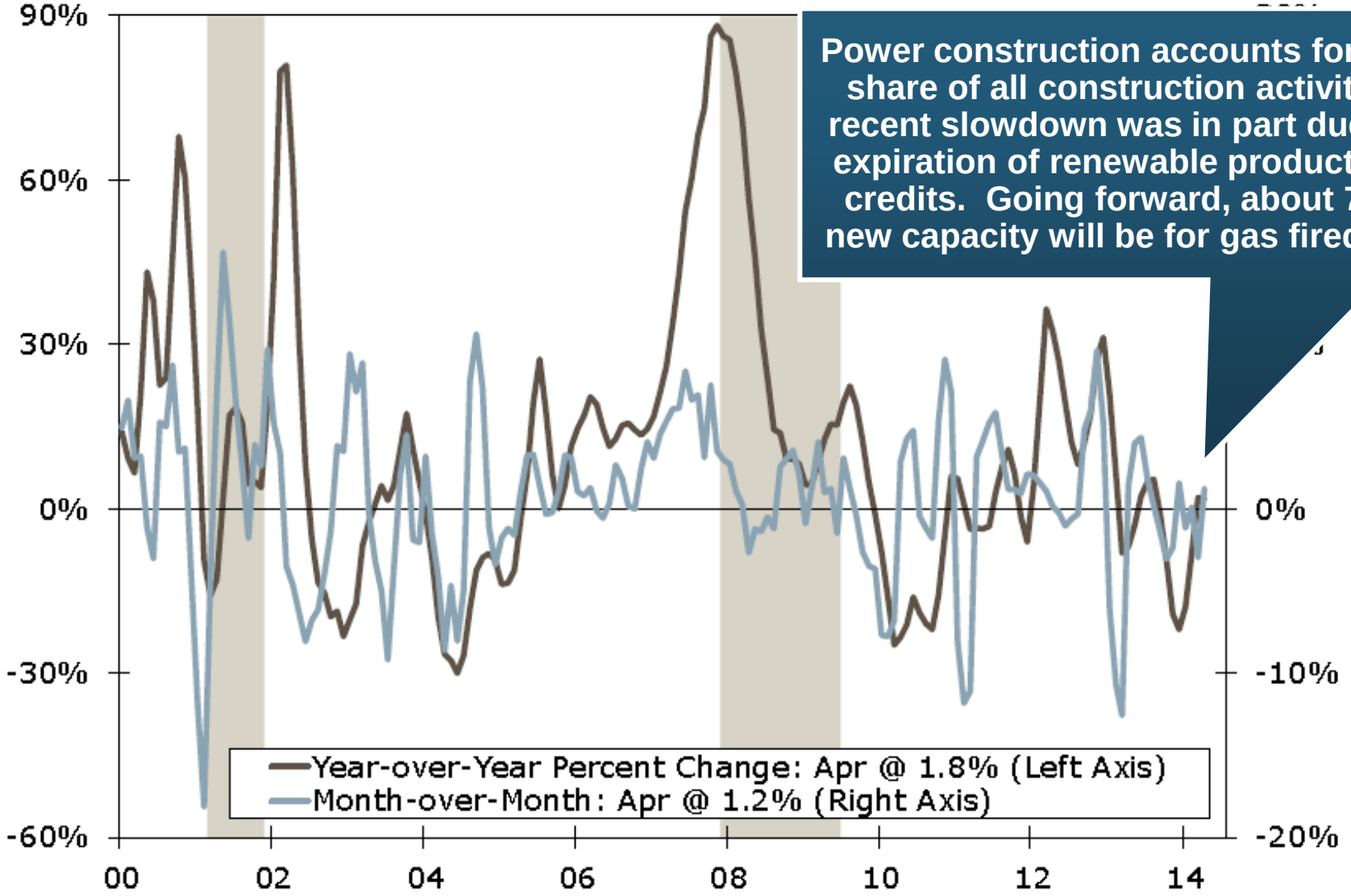

Power construction accounts for a large share of all construction activity. The recent slowdown was in part due to the expiration of renewable production tax credits. Going forward, about 75% of new capacity will be for gas fired plants

*Through April 2014.

Source: US Dept. of Commerce; Energy Information Administration, Wells Fargo Securities (June 6, 2014 research report).

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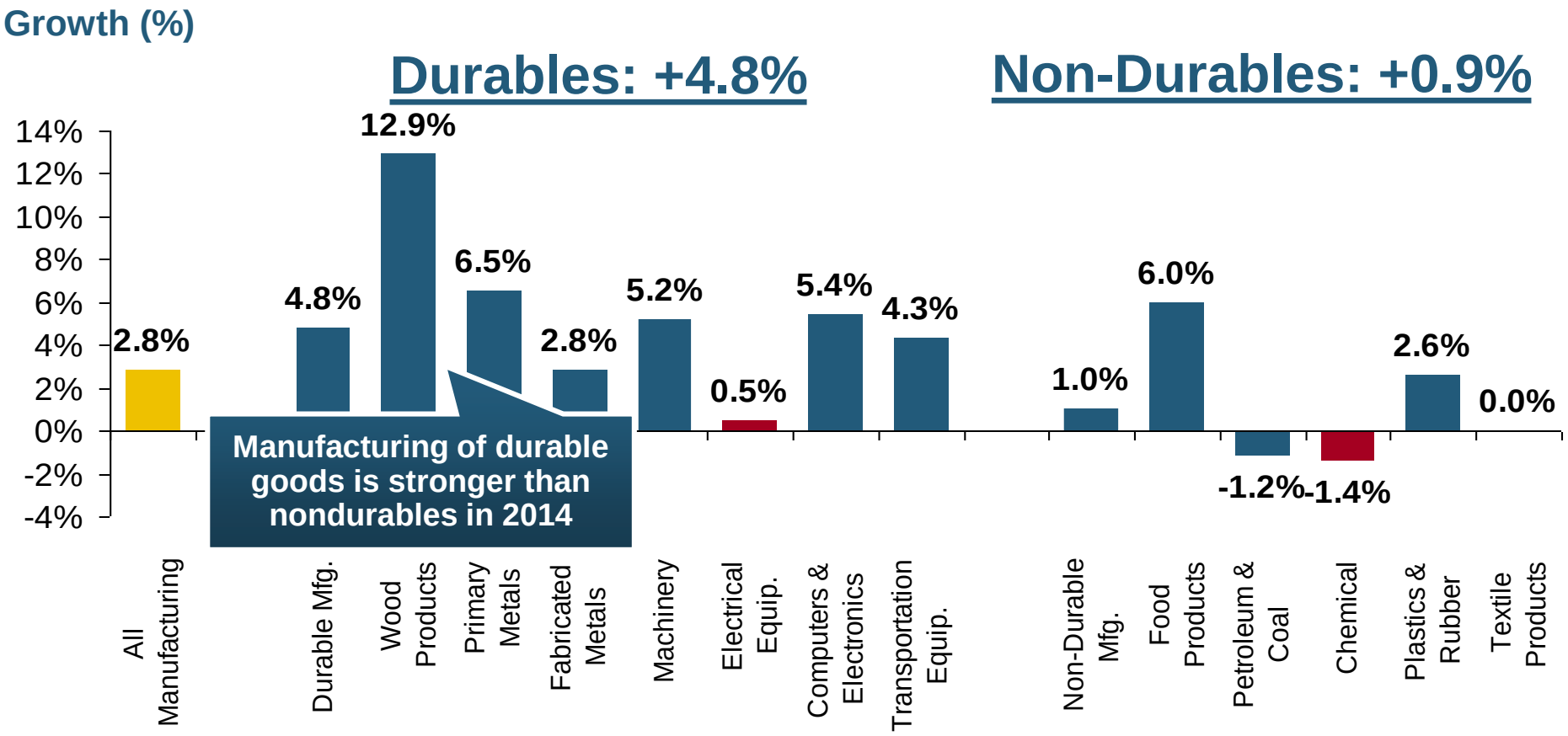
MANUFACTURING SECTOR OVERVIEW & OUTLOOK

The U.S. Is Experiencing a Mini Manufacturing Renaissance That Is Benefitting the US Economy and the P/C Insurance Industry

Manufacturing Growth for Selected Sectors, 2014 vs. 2013*



Manufacturing Is Expanding—Albeit Slowly—Across a Number 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 August 2014 to the same period in 2013.
Source: U.S. Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders,* http://www.census.gov/manufacturing/m3/

Dollar Value* of Manufacturers' Shipments Monthly, Jan. 1992—August 2014

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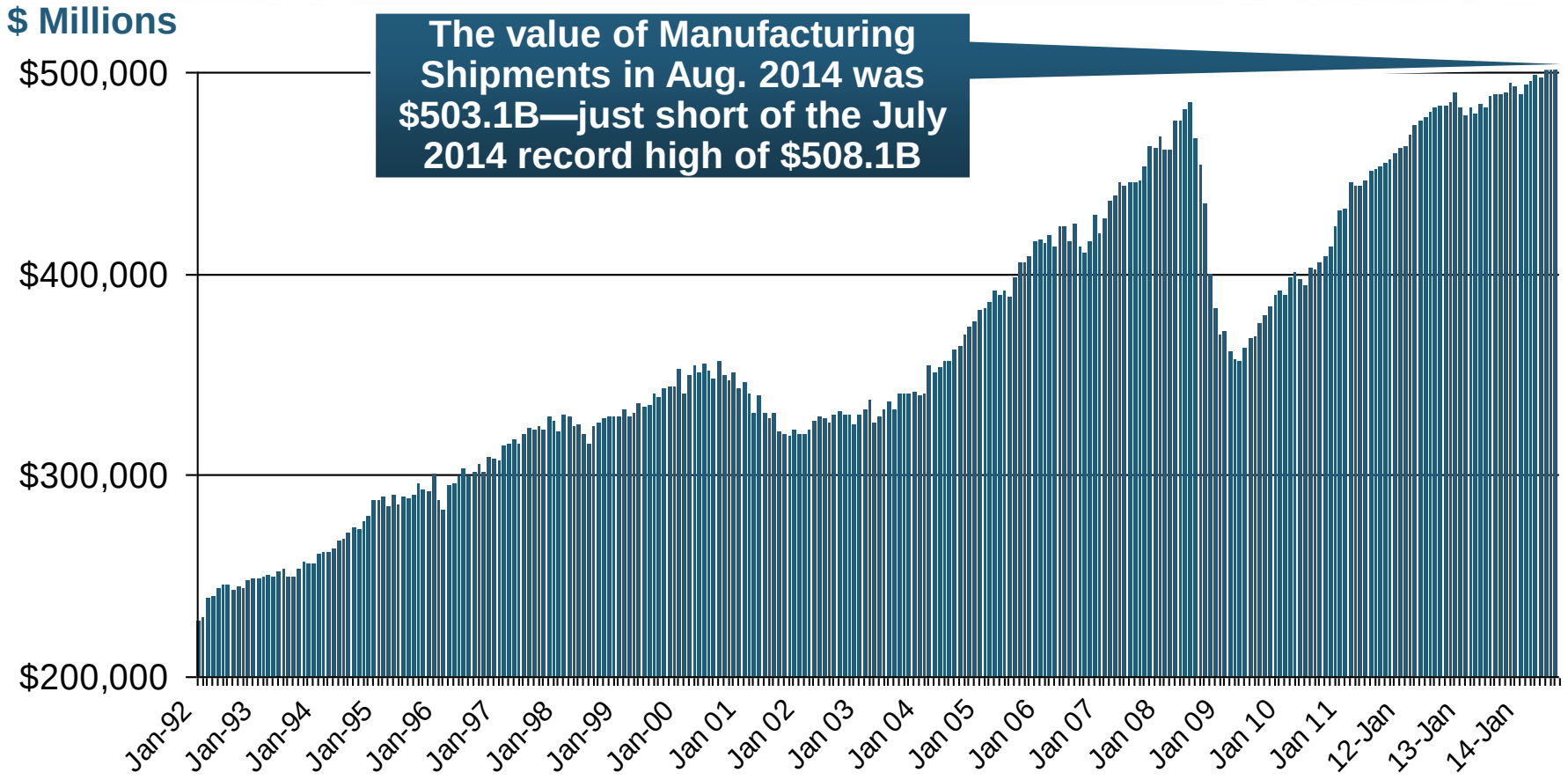
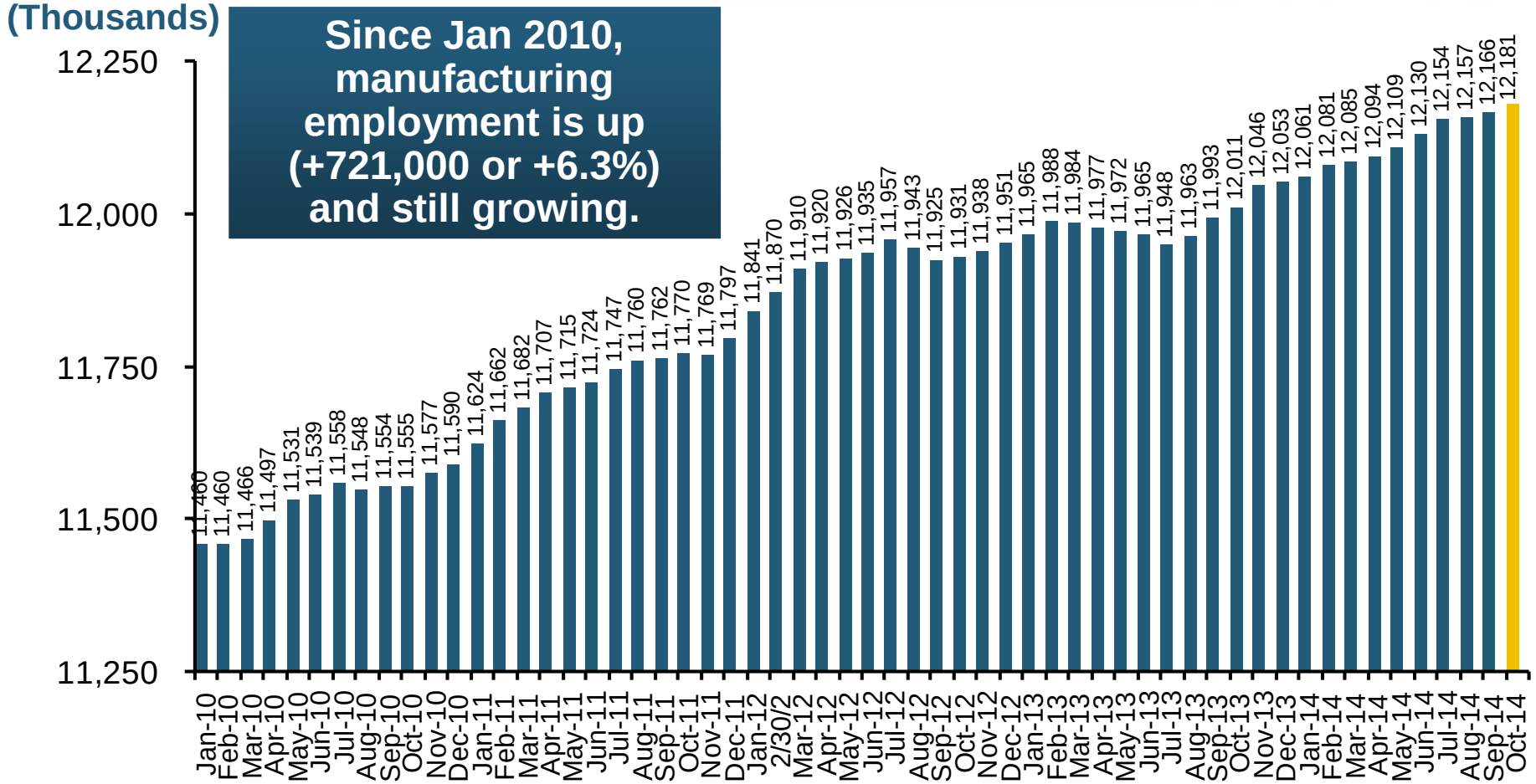


Monthly shipments in Aug. 2014 exceeded the pre-crisis (July 2008) peak. Manufacturing is energy-intensive and growth leads to gains in many commercial exposures: WC, Commercial Auto, Marine, Property, and various Liability Coverages.

* Seasonally adjusted; Data published Oct. 2, 2014.
Source: U.S. Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders,* http://www.census.gov/manufacturing/m3/

Manufacturing Employment, Jan. 2010—October 2014*



Manufacturing employment is a surprising source of strength in the economy. Employment in the sector is at a multi-year high.

*Seasonally adjusted.

Sources: US Bureau of Labor Statistics at http://data.bls.gov; Insurance Information Institute.

ISM Manufacturing Index *(Values > 50 Indicate Expansion)*

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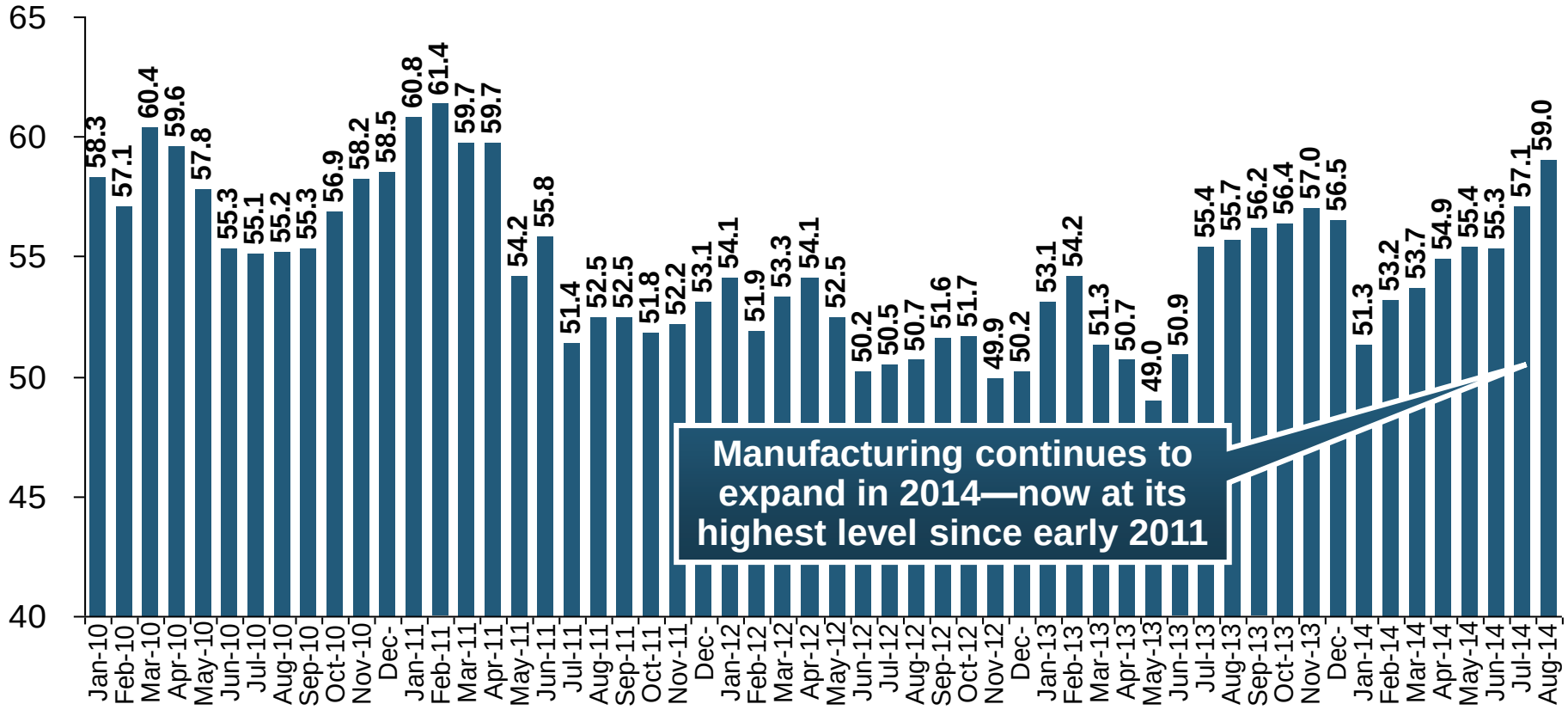
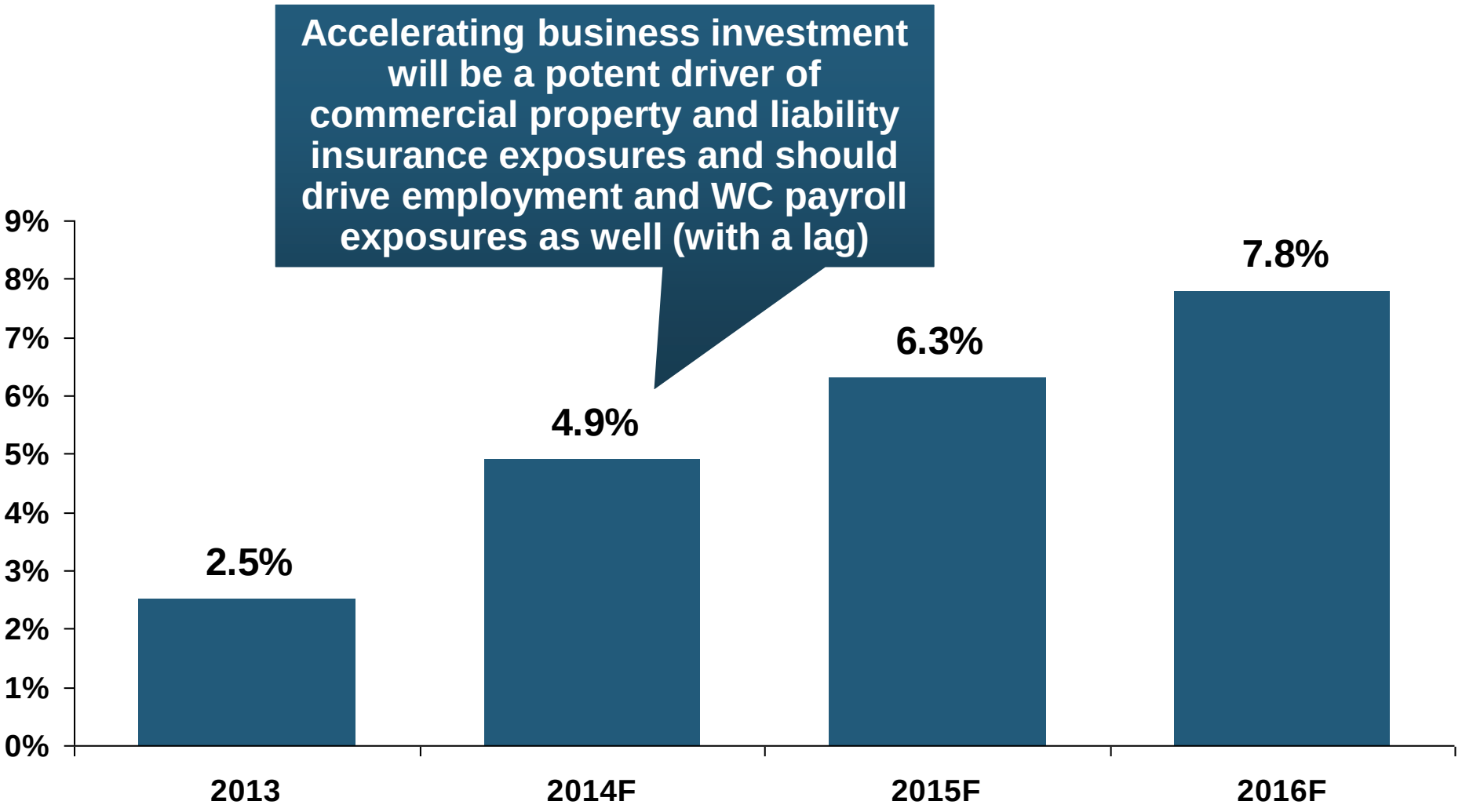
January 2010 through August 2014



The manufacturing sector expanded for 54 of the 56 months from Jan. 2010 through Aug. 2014. Pace of recovery has been uneven due to economic turbulence in the U.S., Europe and China.

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

Business Investment: Expected to Accelerate, Fueling Commercial Exposure Growth



Source: IHS Global Insights as of Jan. 13, 2014; Insurance Information Institute.

Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures

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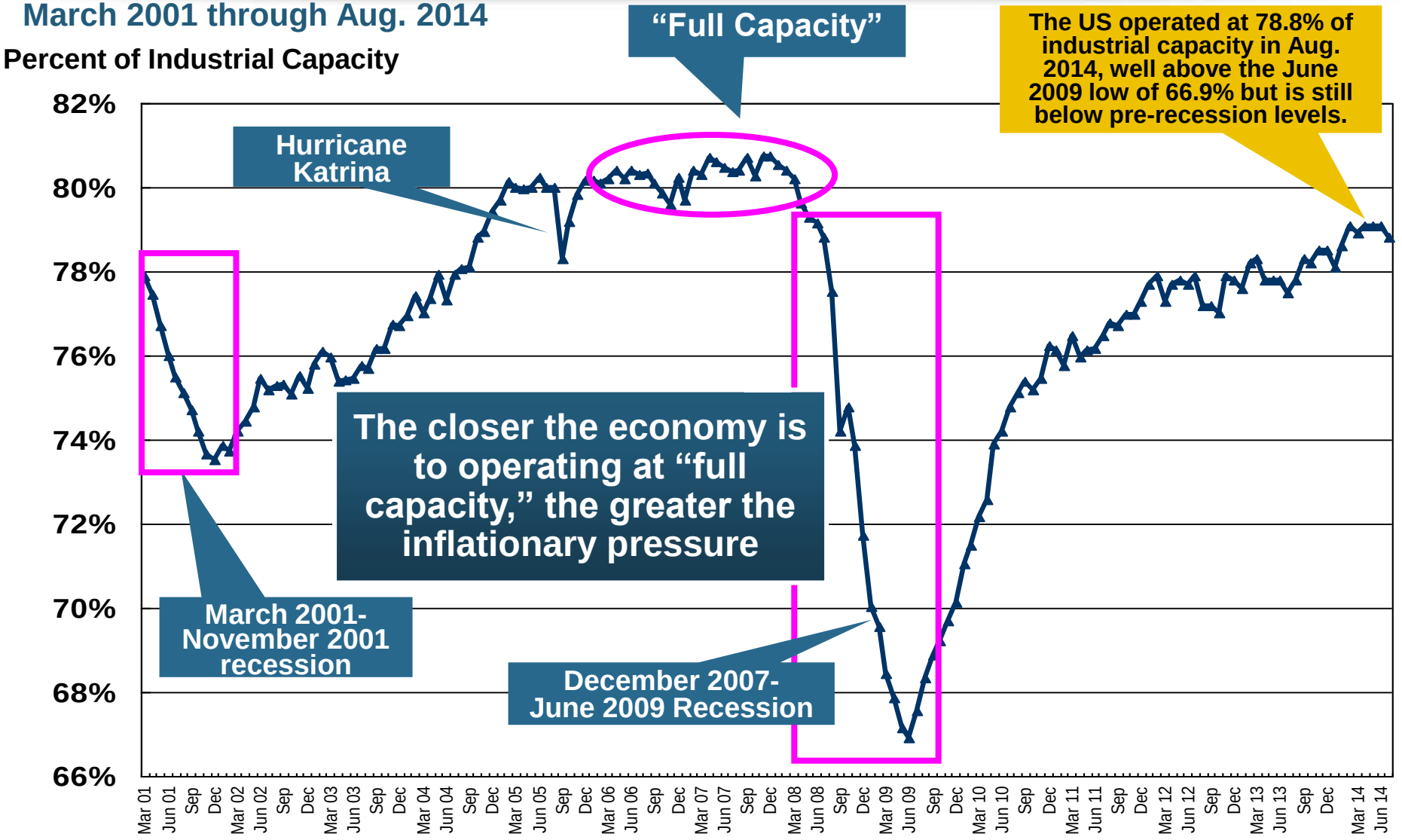
March 2001 through Aug. 2014



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

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Labor Market Trends

Massive Job Losses Sapped the Economy and Commercial/Personal Lines Exposure, But Trend Has Greatly Improved

Unemployment and Underemployment Rates: Still Too High, But Falling

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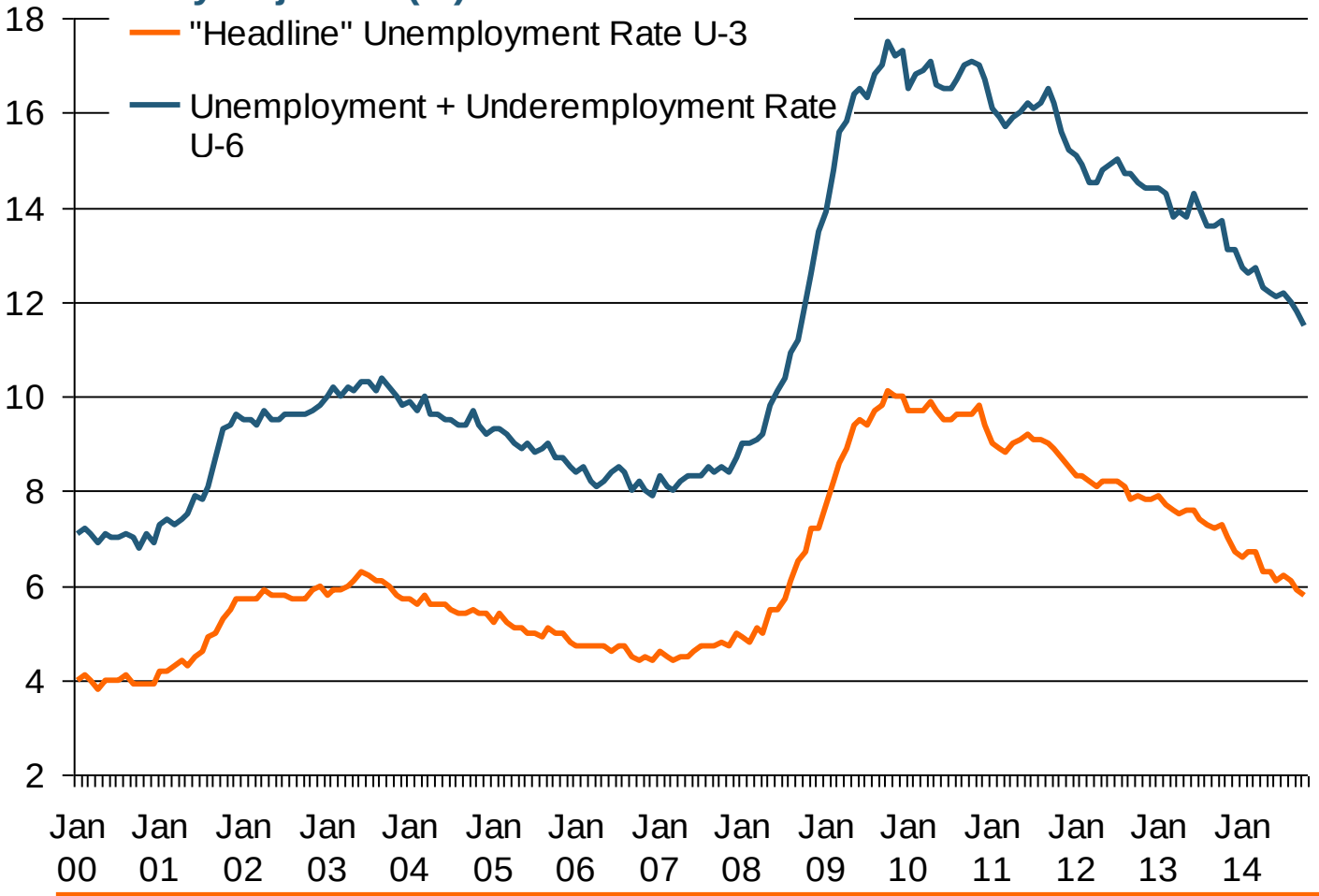
January 2000 through Oct. 2014, Seasonally Adjusted (%)



U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 11.5% in Oct. 2014. 8% to 10% is "normal."

"Headline" unemployment was 5.8% in Oct. 2014. 4.5% to 6% is "normal."

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

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

US Unemployment Rate Forecast

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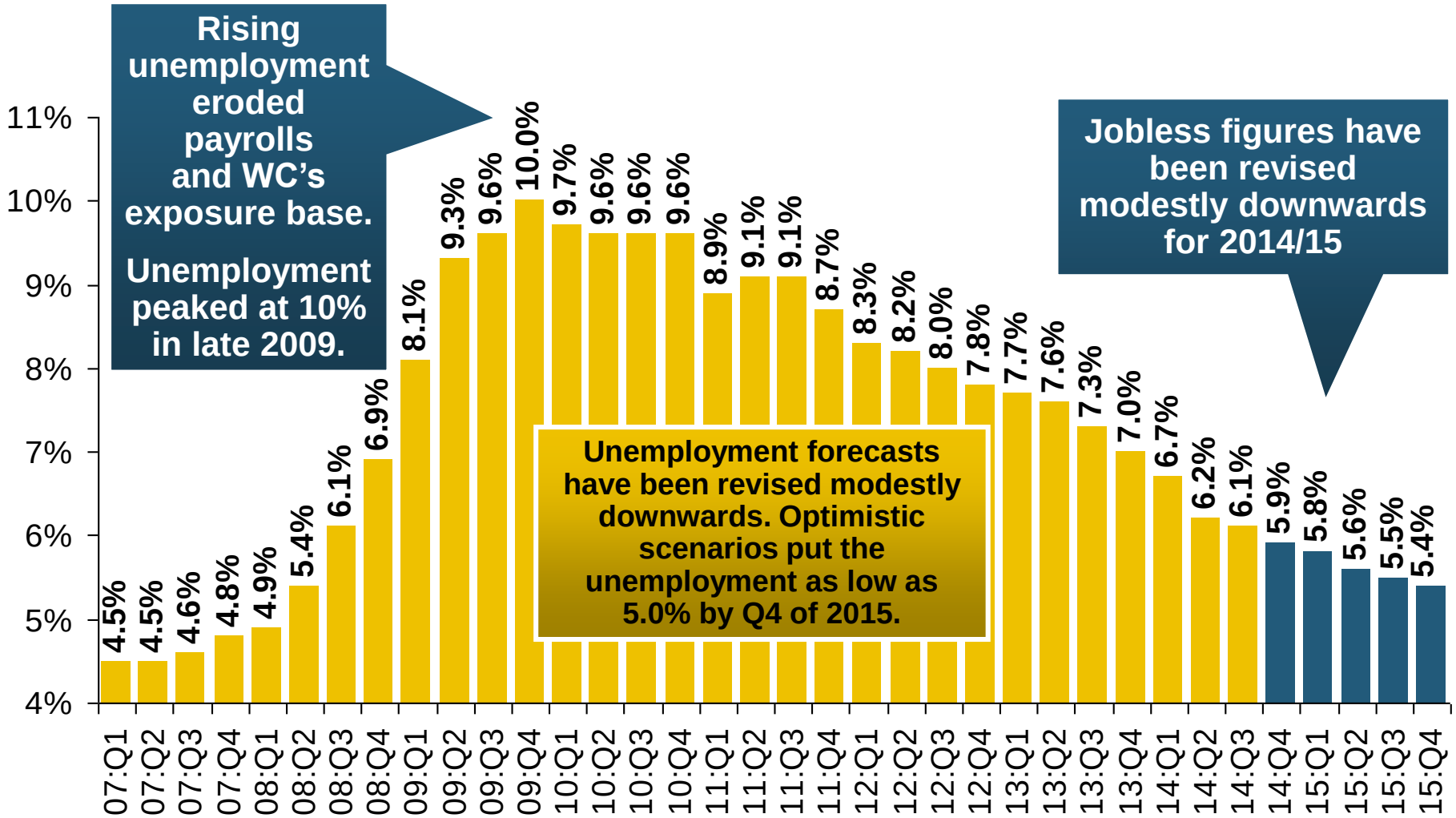
2007:Q1 to 2015:Q4F*

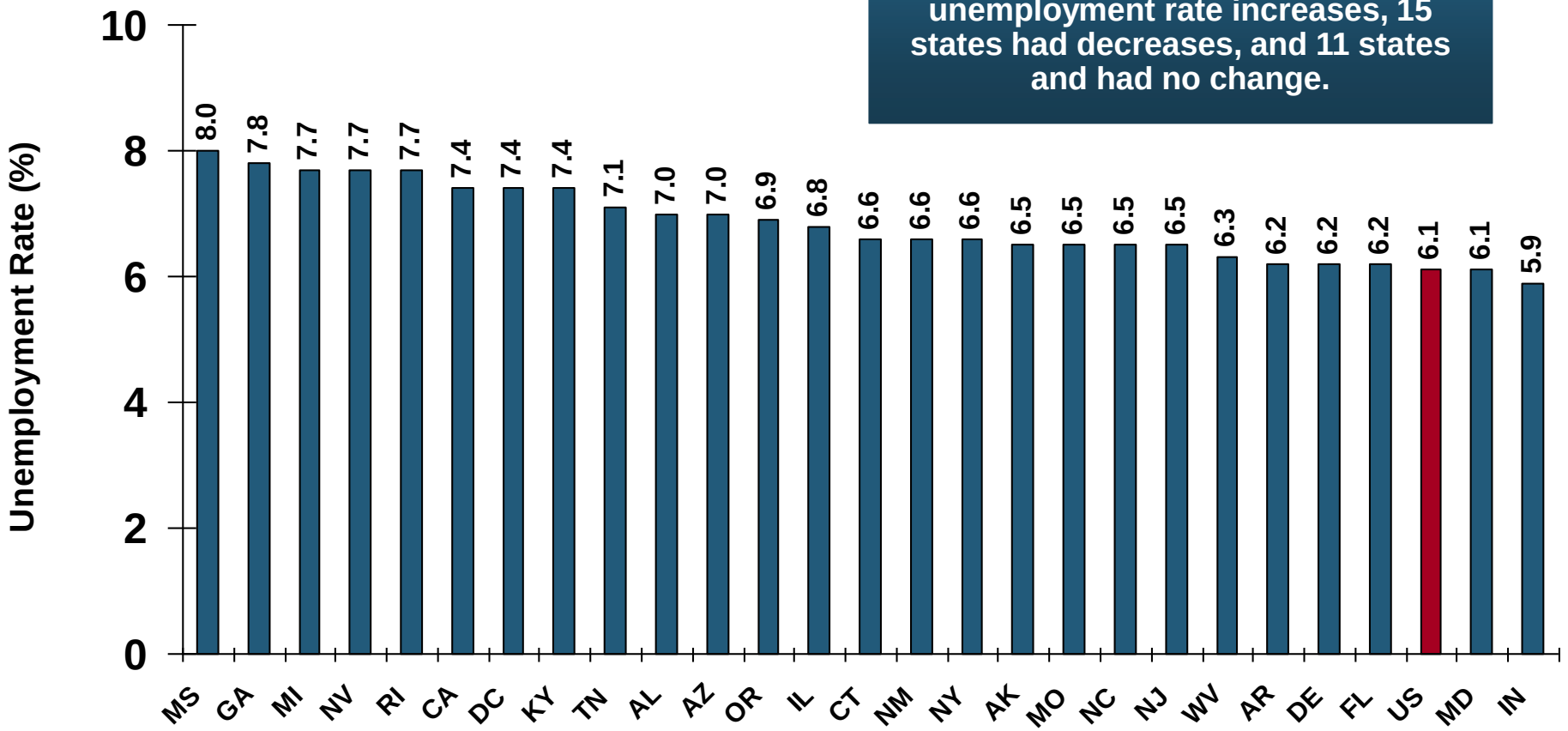


* = actual; = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (11/14 edition); Insurance Information Institute.

Unemployment Rates by State, August 2014: Highest 25 States*

In August, 24 states and the District of Columbia had over-the-month unemployment rate increases, 15 states had decreases, and 11 states and had no change.

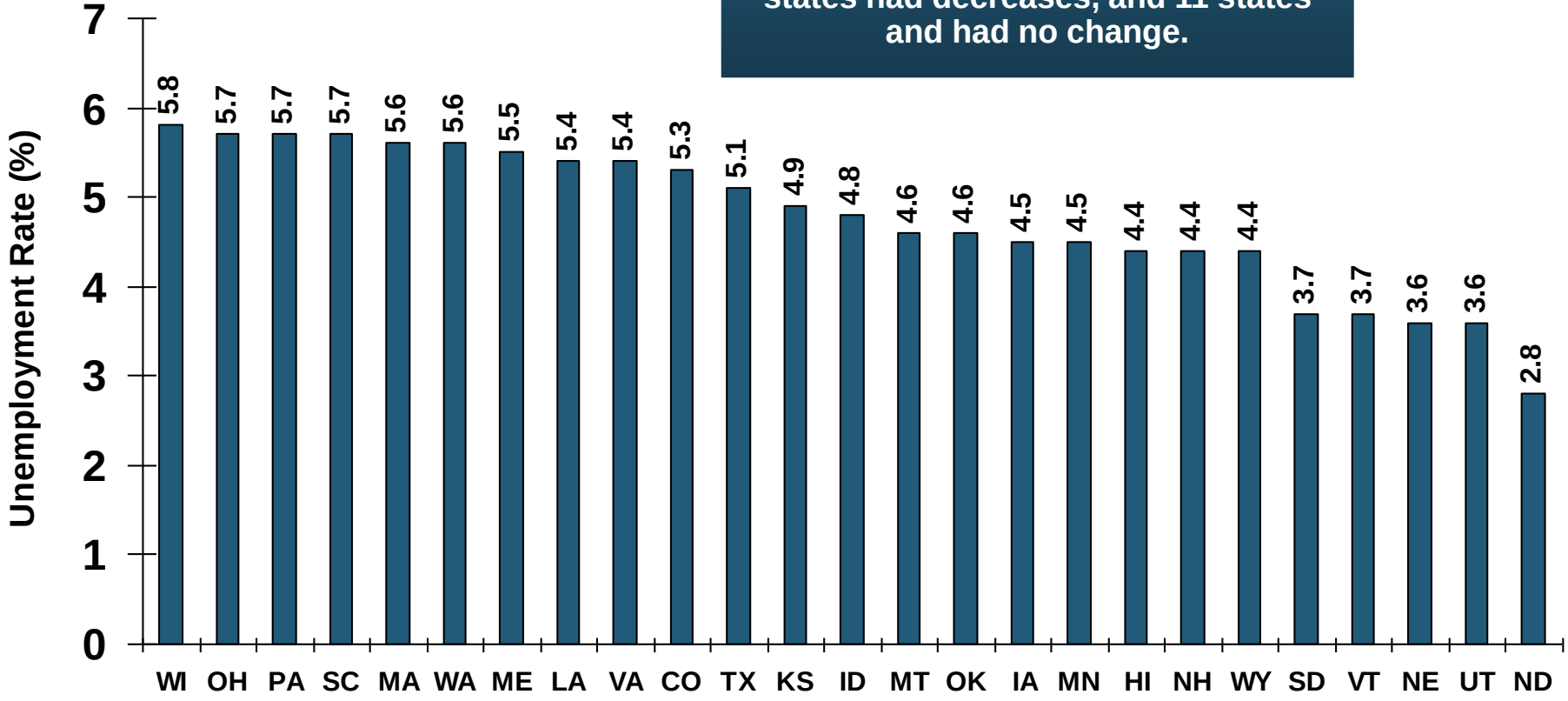


*Provisional figures for August 2014, seasonally adjusted.

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

Unemployment Rates by State, August 2014: Lowest 25 States*

In August, 24 states and the District of Columbia had over-the-month unemployment rate increases, 15 states had decreases, and 11 states and had no change.



*Provisional figures for August 2014, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Monthly Change in Private Employment

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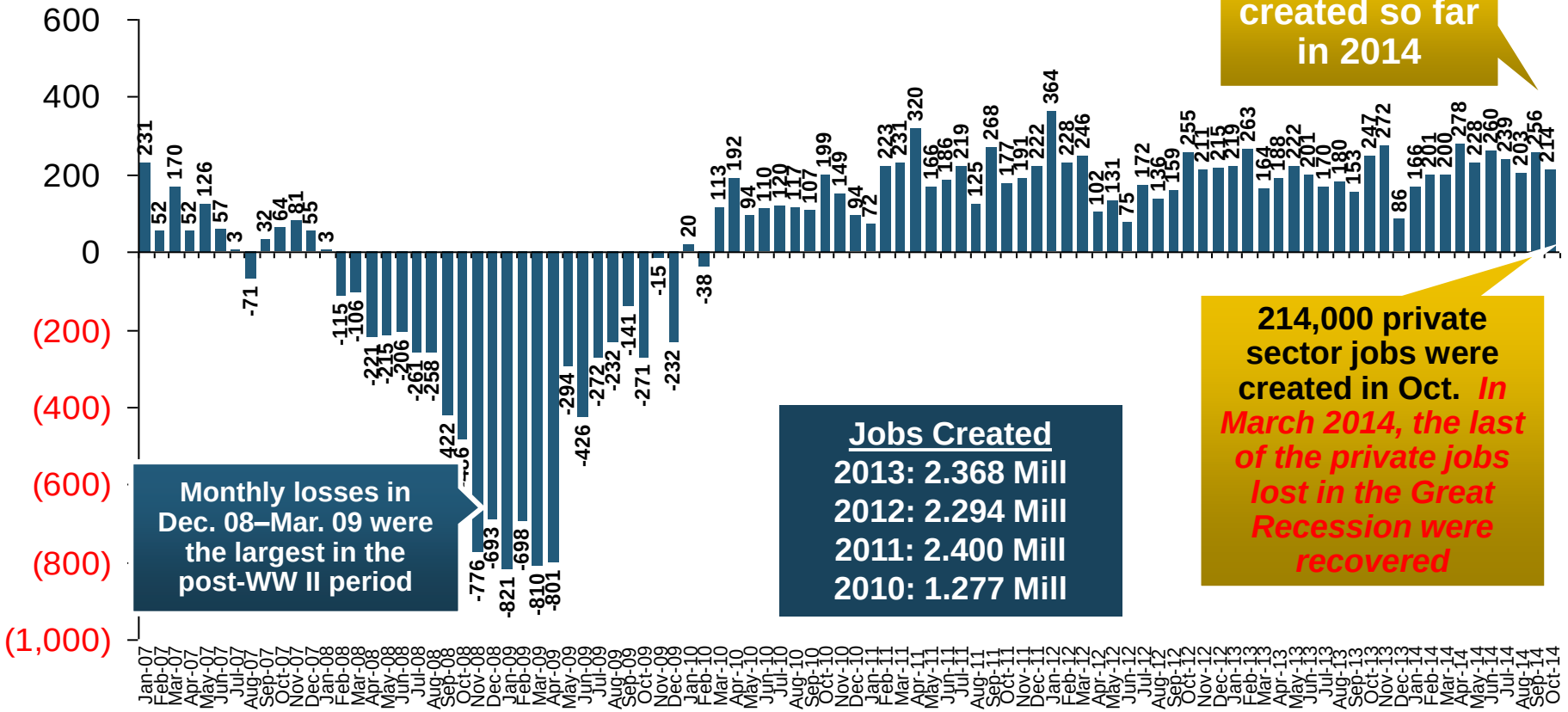
January 2007 through Oct. 2014 (Thousands, Seasonally Adjusted)



Private Employers Added 10.58 million Jobs Since Jan. 2010 After Having Shed 5.01 Million Jobs in 2009 and 3.76 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

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

Cumulative Change in Private Employment: Dec. 2007—May 2014

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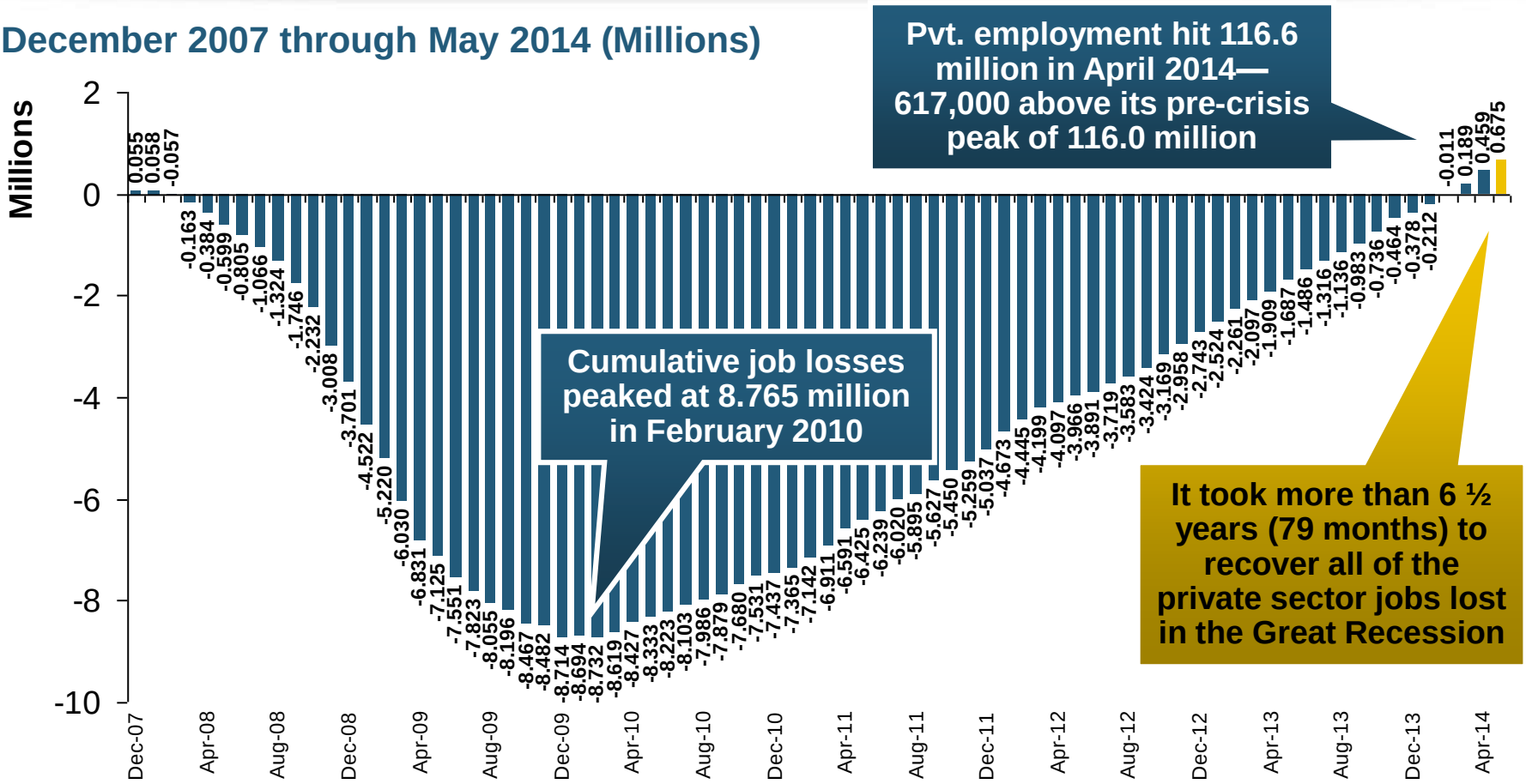
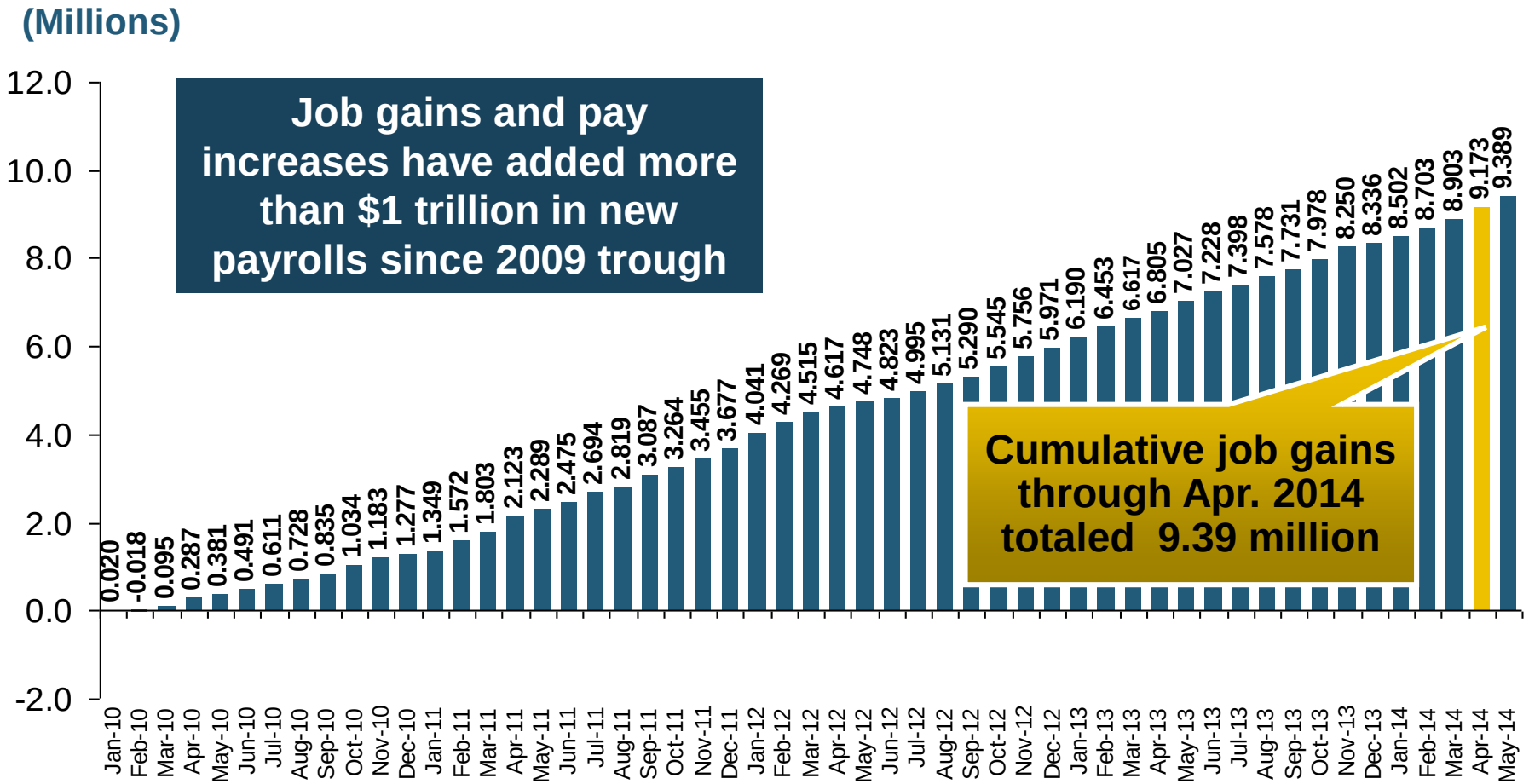
December 2007 through May 2014 (Millions)



Private Employers Added 9.39 million Jobs Since Jan. 2010 After Having Shed 4.98 Million Jobs in 2009 and 3.80 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

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

Cumulative Change in Private Sector Employment: Jan. 2010—May 2014



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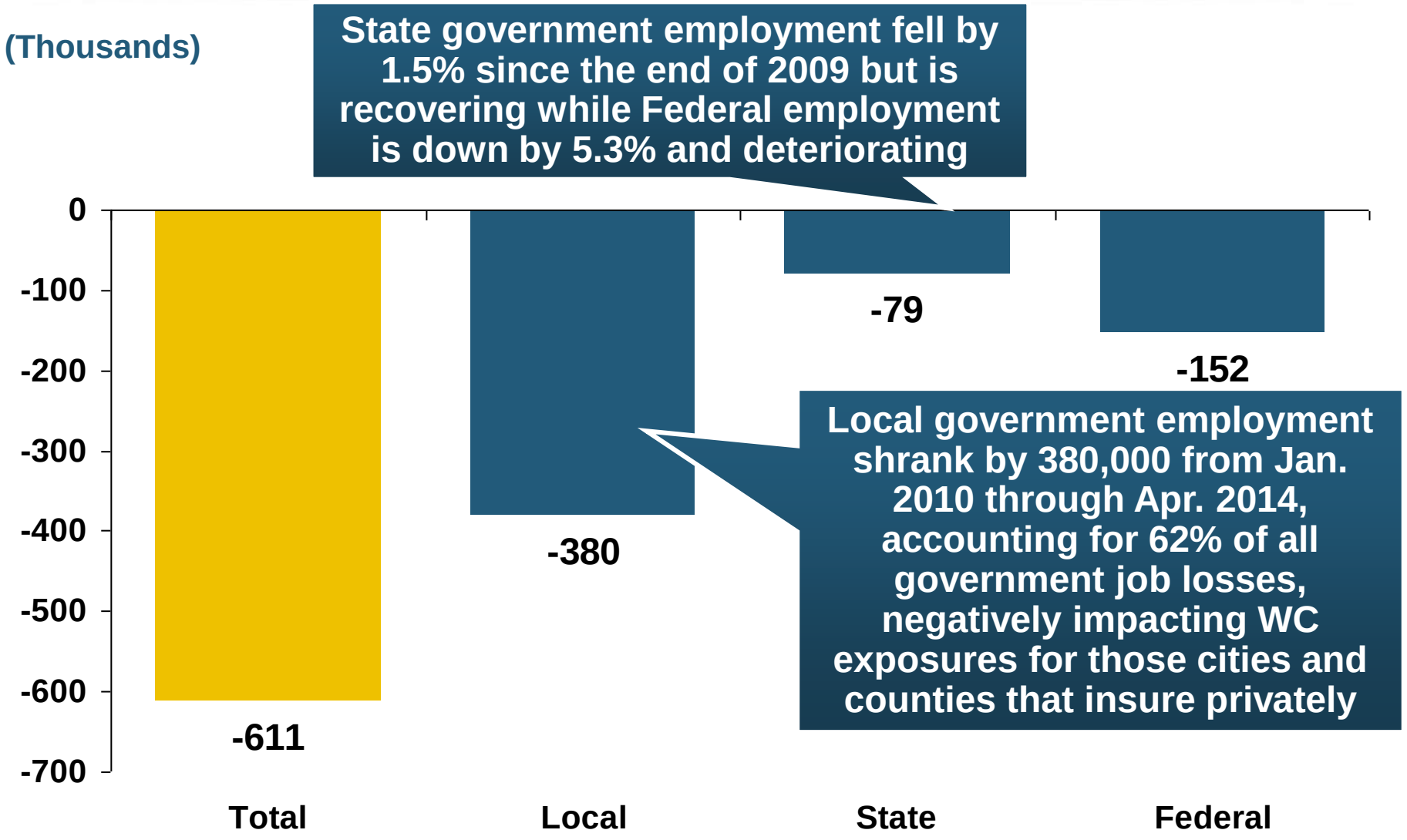
Source: US Bureau of Labor Statistics: http://www.bls.gov/ces/home.htm; Insurance Information Institute

Net Change in Government Employment: Jan. 2010—Apr. 2014



Source: US Bureau of Labor Statistics http://www.bls.gov/data/#employment; Insurance Information Institute

Cumulative Change in Government Employment: Jan. 2010—Dec. 2013

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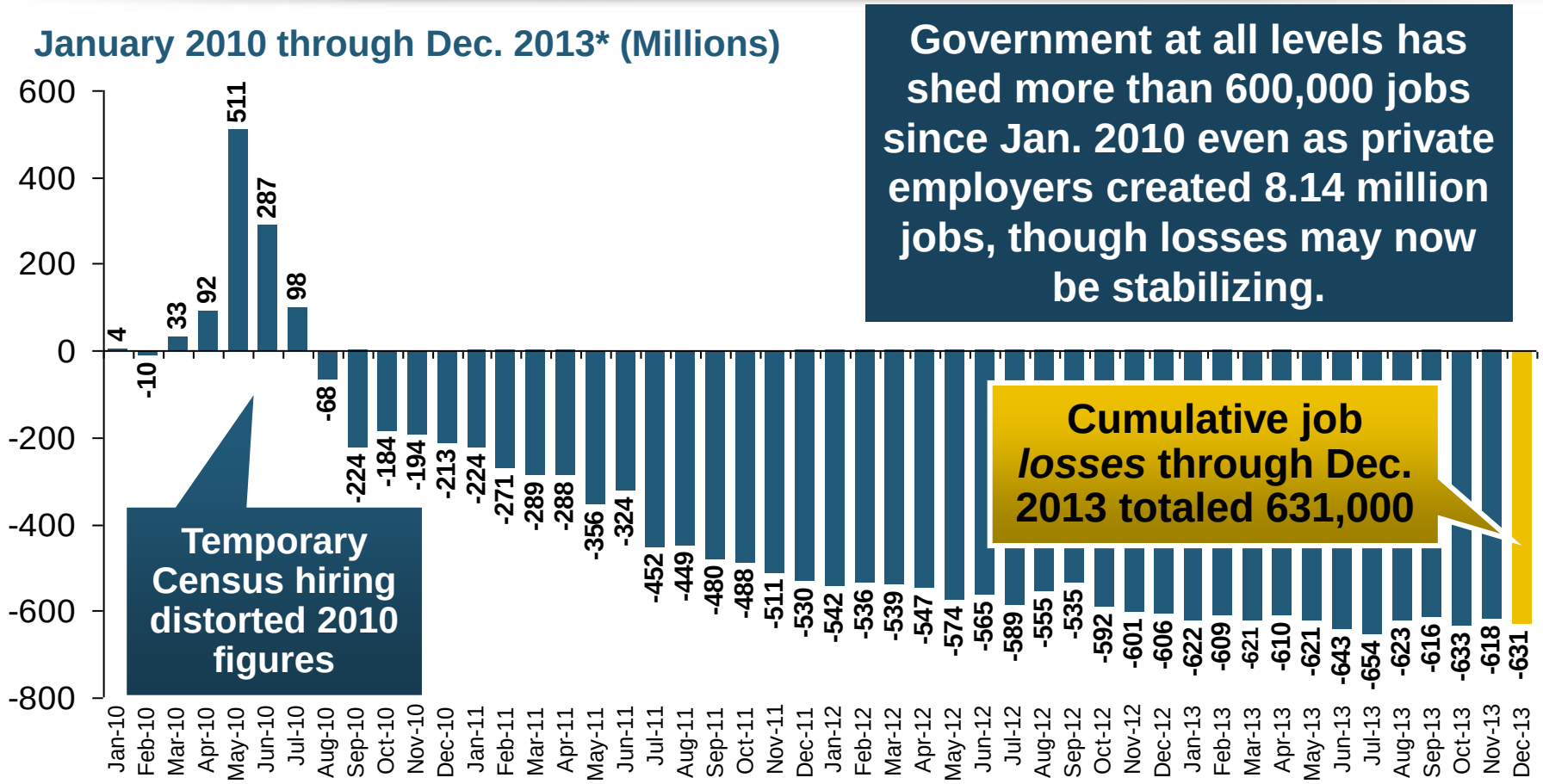

Governments at All Levels are Under Severe Fiscal Strain As Tax Receipts Plunged and Pension Obligations Soared During the Financial Crisis: Sequestration Will Add to this Toll

Source: US Bureau of Labor Statistics http://www.bls.gov/data/#employment; Insurance Information Institute

Oil & Gas Extraction Employment, Jan. 2010—June 2014*

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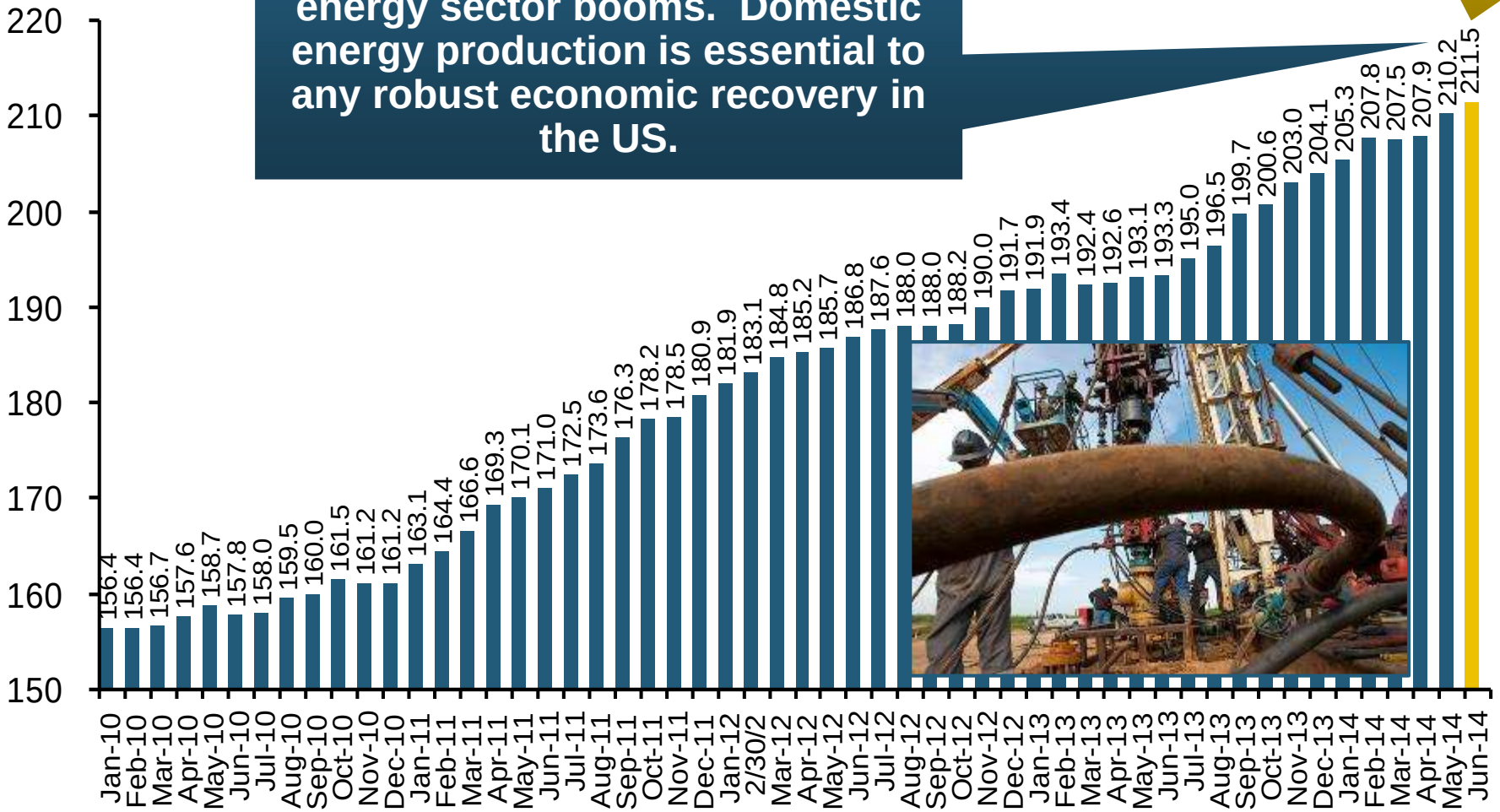
(Thousands)

Oil and gas extraction employment is up 35.2% since Jan. 2010 as the energy sector booms. Domestic energy production is essential to any robust economic recovery in the US.

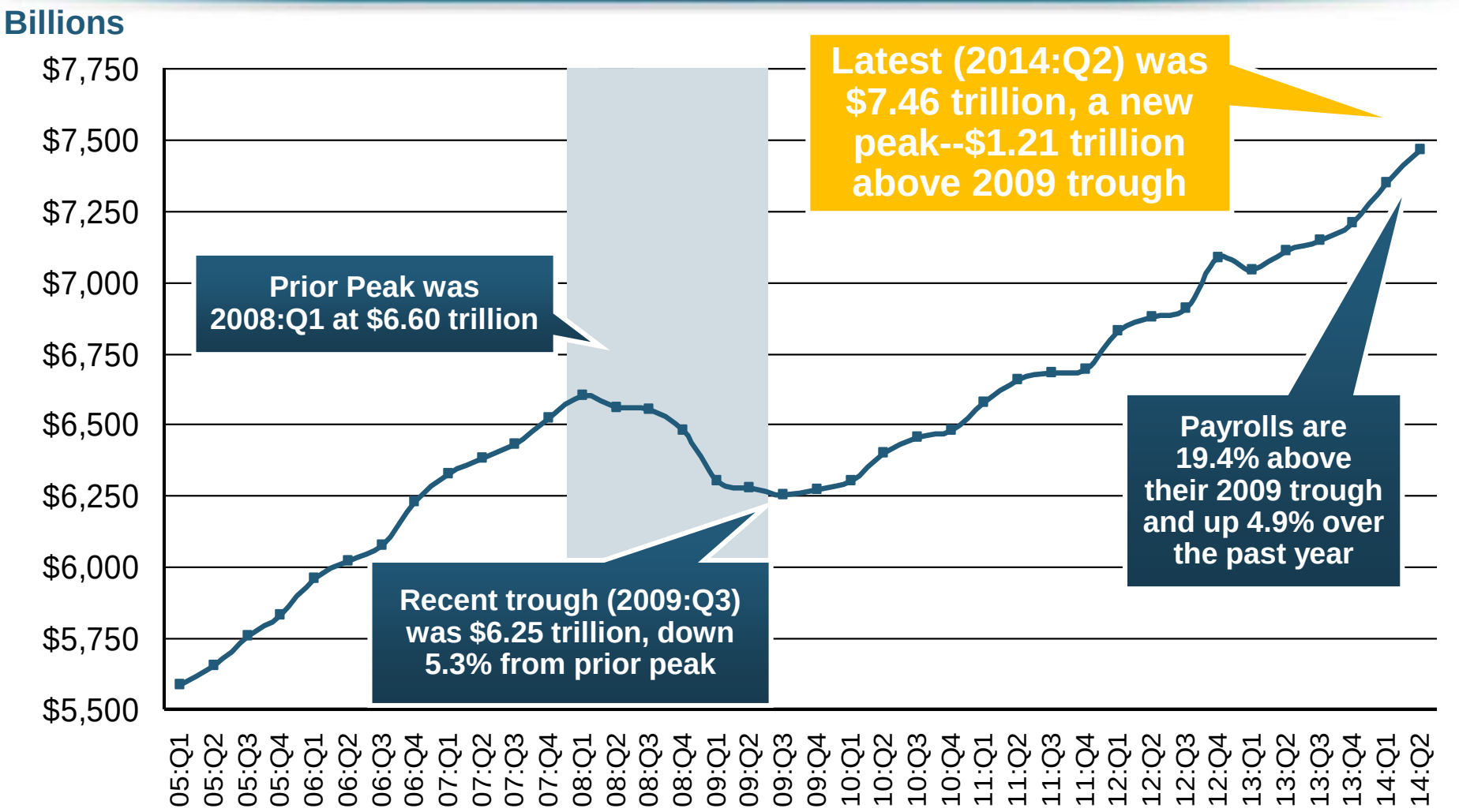
Highest since Aug. 1986



*Seasonally adjusted

Sources: US Bureau of Labor Statistics at http://data.bls.gov; Insurance Information Institute.

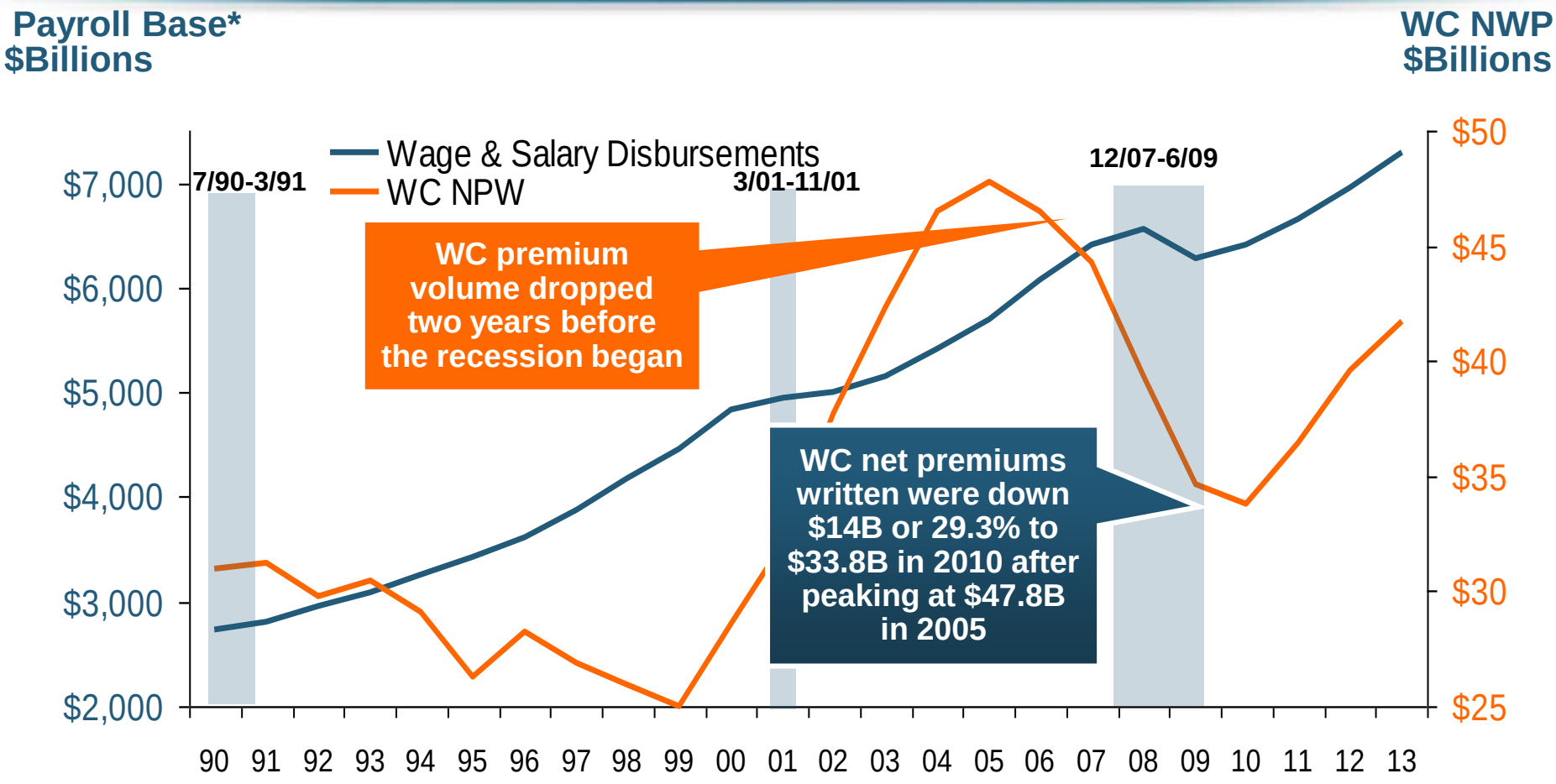
Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2014:Q2



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.

Payroll vs. Workers Comp Net Written Premiums, 1990-2013P



Continued Payroll Growth and Rate Gains Suggest WC NWP Will Grow Again in 2014; +8.6% Growth Estimated for 2013

*Private employment; Shaded areas indicate recessions. WC premiums for 2012 are I.I.I. estimate based YTD 2013 actuals.
Sources: NBER (recessions); Federal Reserve Bank of St. Louis at http://research.stlouisfed.org/fred2/series/WASCUR ; NCCI; I.I.I.

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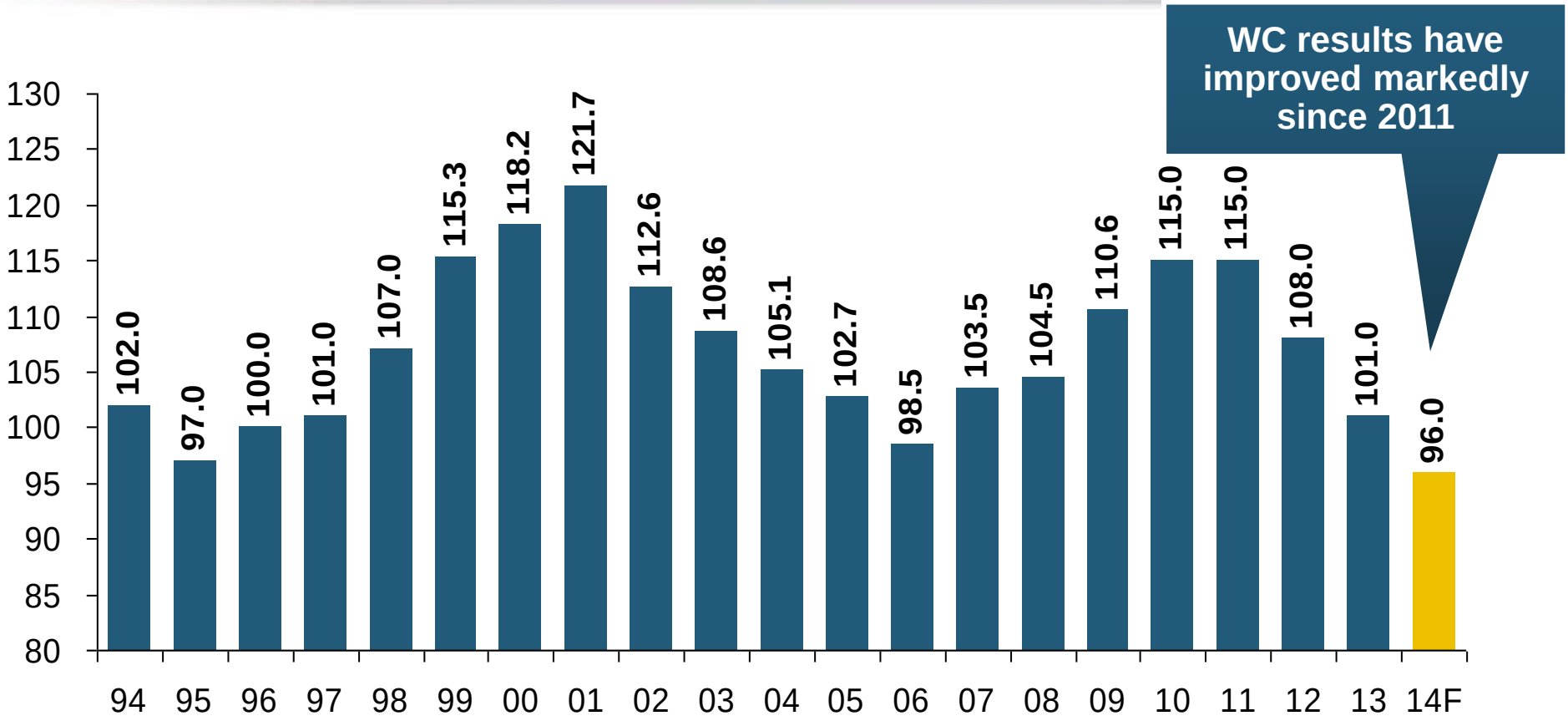
Workers Compensation Operating Environment

Workers Comp Results Have Improved Substantially in Recent Years

Workers Compensation Combined Ratio: 1994–2015F



Workers Comp Results Began to Improve in 2012. Underwriting Results Deteriorated Markedly from 2007-2010/11 and Were the Worst They Had Been in a Decade.

Sources: A.M. Best (1994-2009); NCCI (2010-2014F) and are for private carriers only; Insurance Information Institute.

Workers Compensation Premium: Third Consecutive Year of Increase

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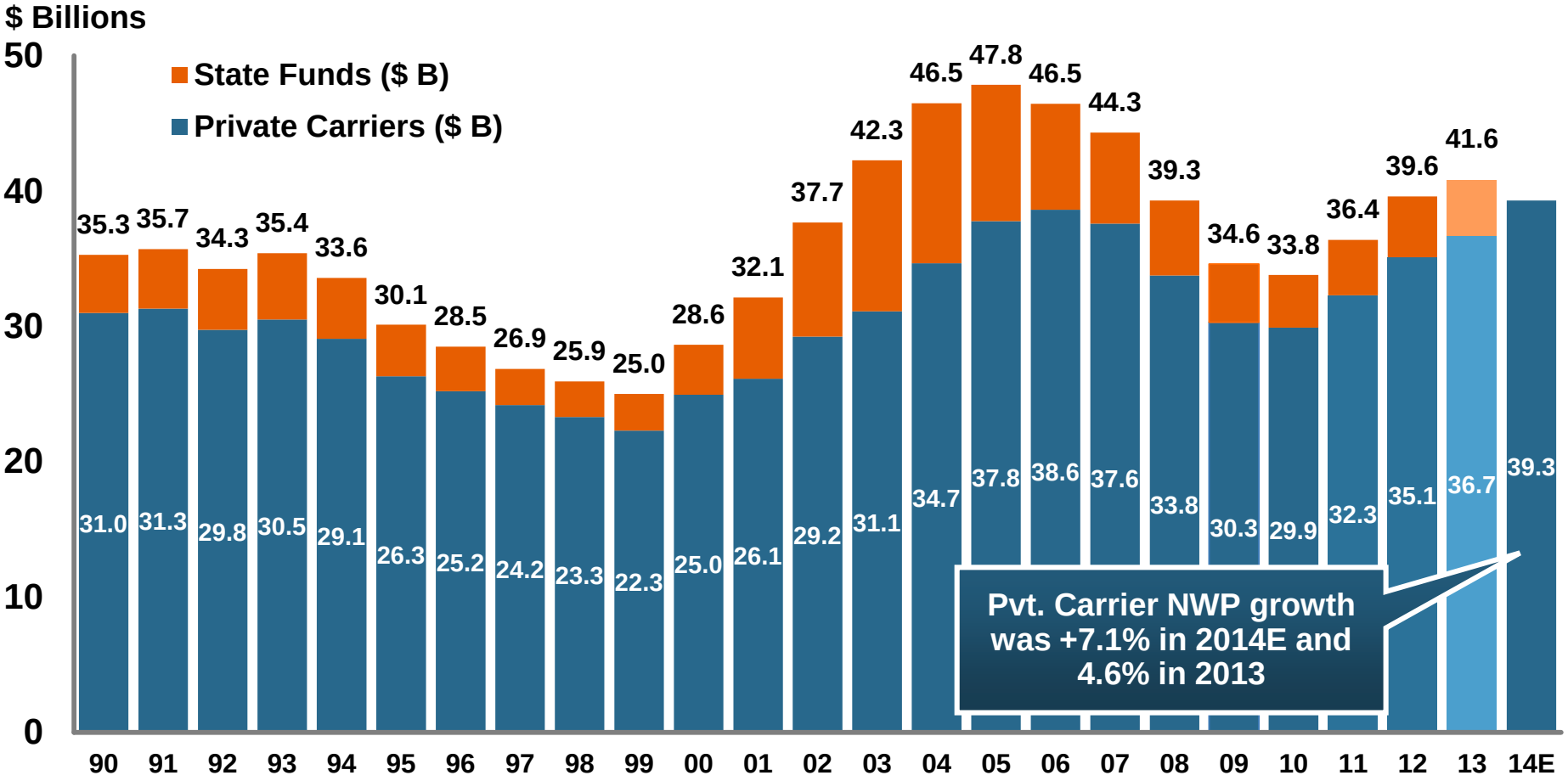
Net Written Premium



p Preliminary

Source: 1990–2014E Private Carriers, Annual Statement Data, NCCI.
1996–2013p State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements
State Funds available for 1996 and subsequent

Workers Compensation Premium: Third Consecutive Year of Increase

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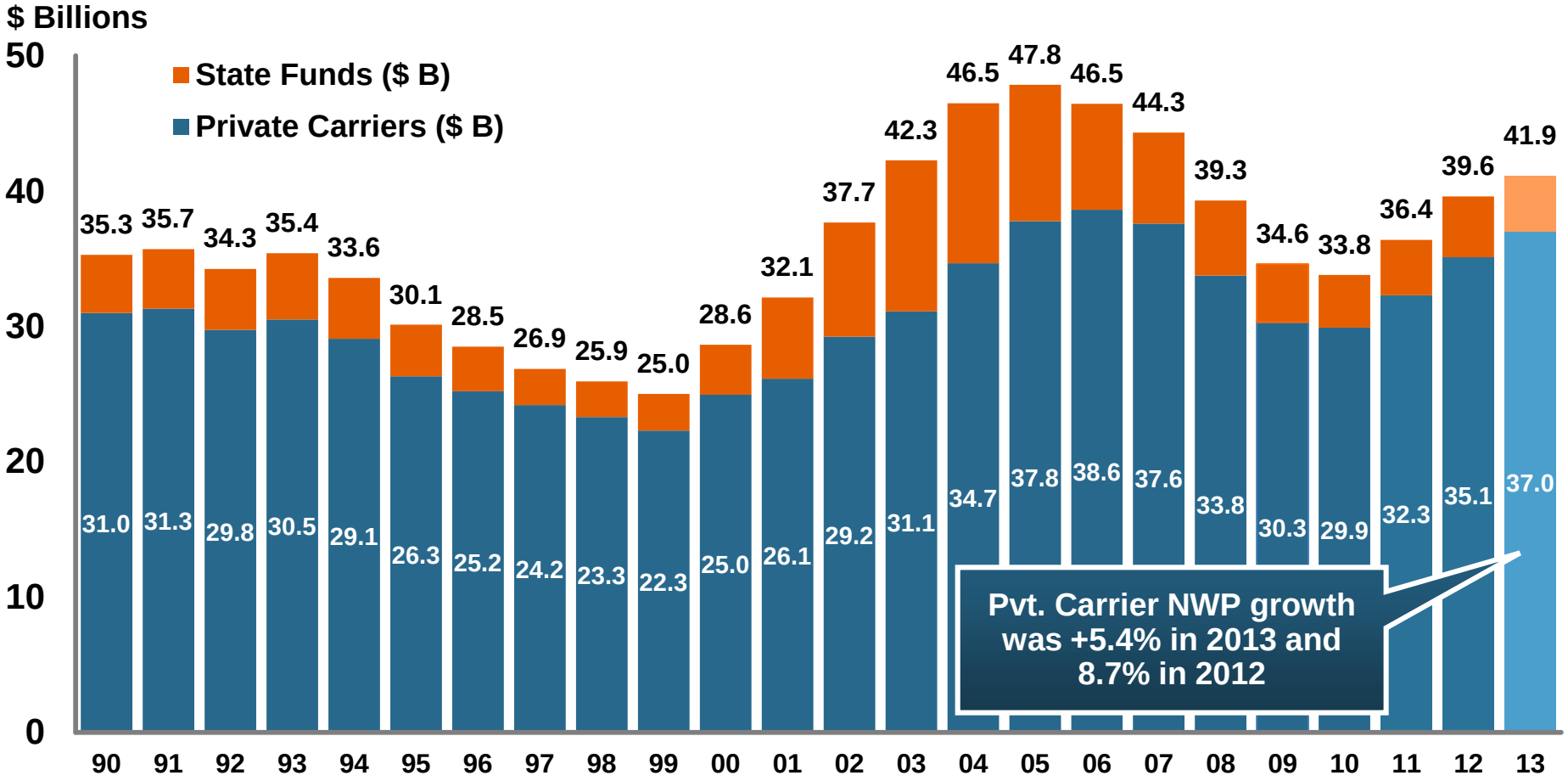
Net Written Premium



p Preliminary

Source: 1990–2013p Private Carriers, Annual Statement Data, NCCI.
1996–2013p State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements
State Funds available for 1996 and subsequent

2013 Workers Compensation Direct Written Premium Growth, by State*

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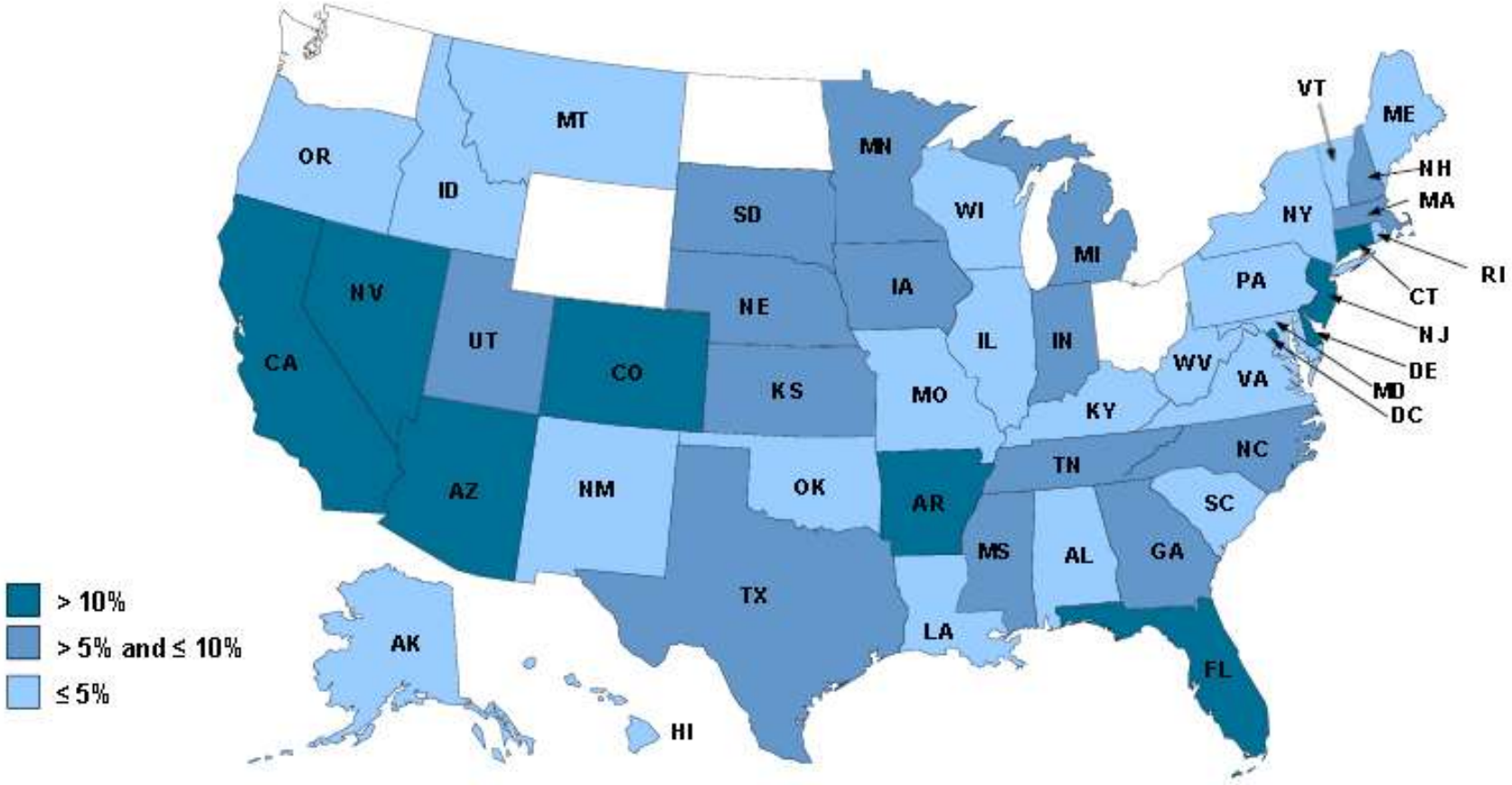
PRIVATE CARRIERS: Overall 2013 Growth = +5.4%

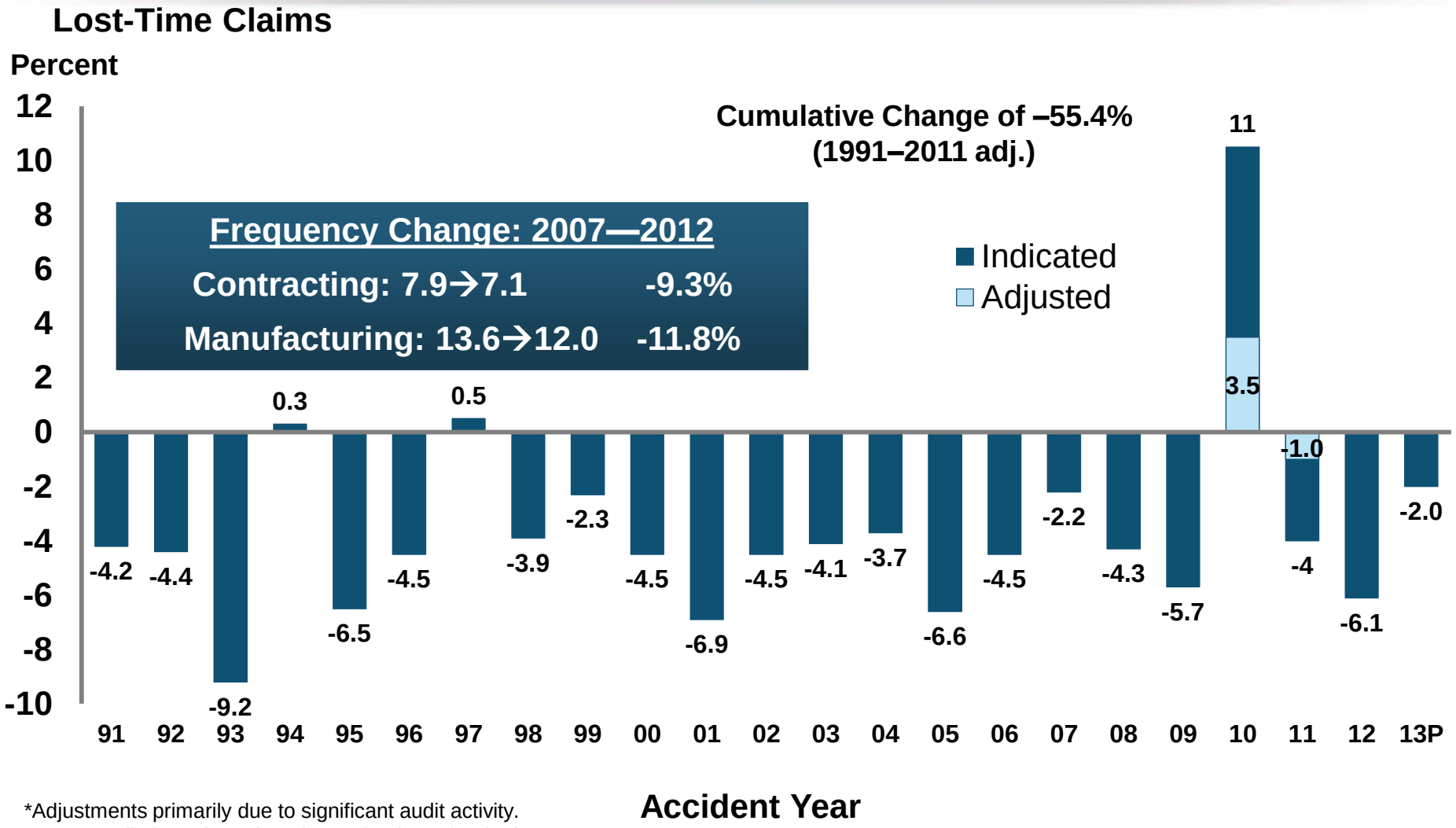
While growth rates varied widely, all states experienced positive growth in 2013



*Excludes monopolistic fund states (in white): OH, ND, WA and WY.

Source: NCCI.

Workers Compensation Lost-Time Claim Frequency Declined in 2013



*Adjustments primarily due to significant audit activity.
2013p: Preliminary based on data valued as of 12/31/2013
1991–2012: Based on data through 12/31/2012, developed to ultimate
Based on the states where NCCI provides ratemaking services, including state funds; excludes high deductible policies
Frequency is the number of lost-time claims per $1M pure premium at current wage and voluntary loss cost level
Source: NCCI.

Workers Compensation Medical Severity Moderate Increase in 2013

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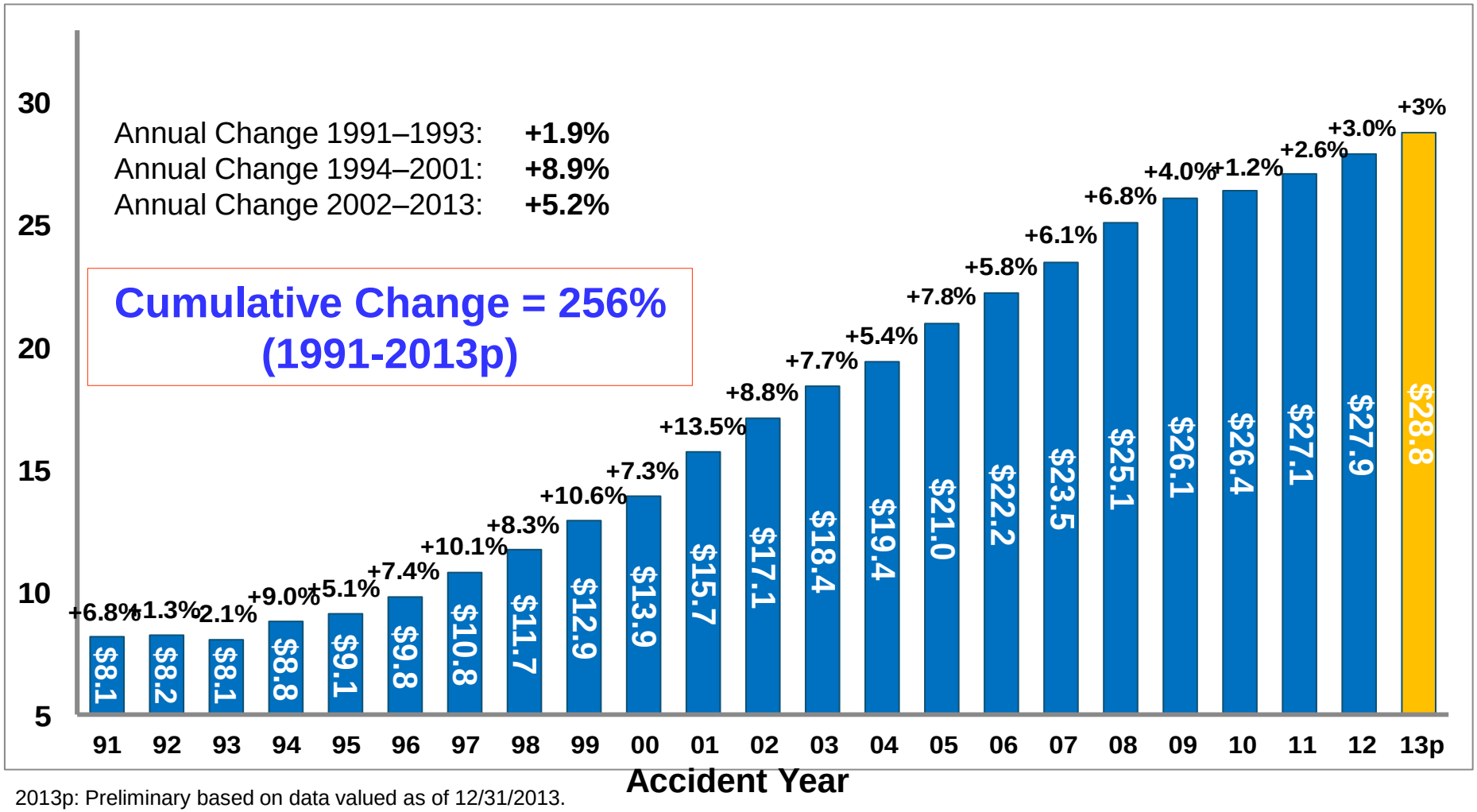
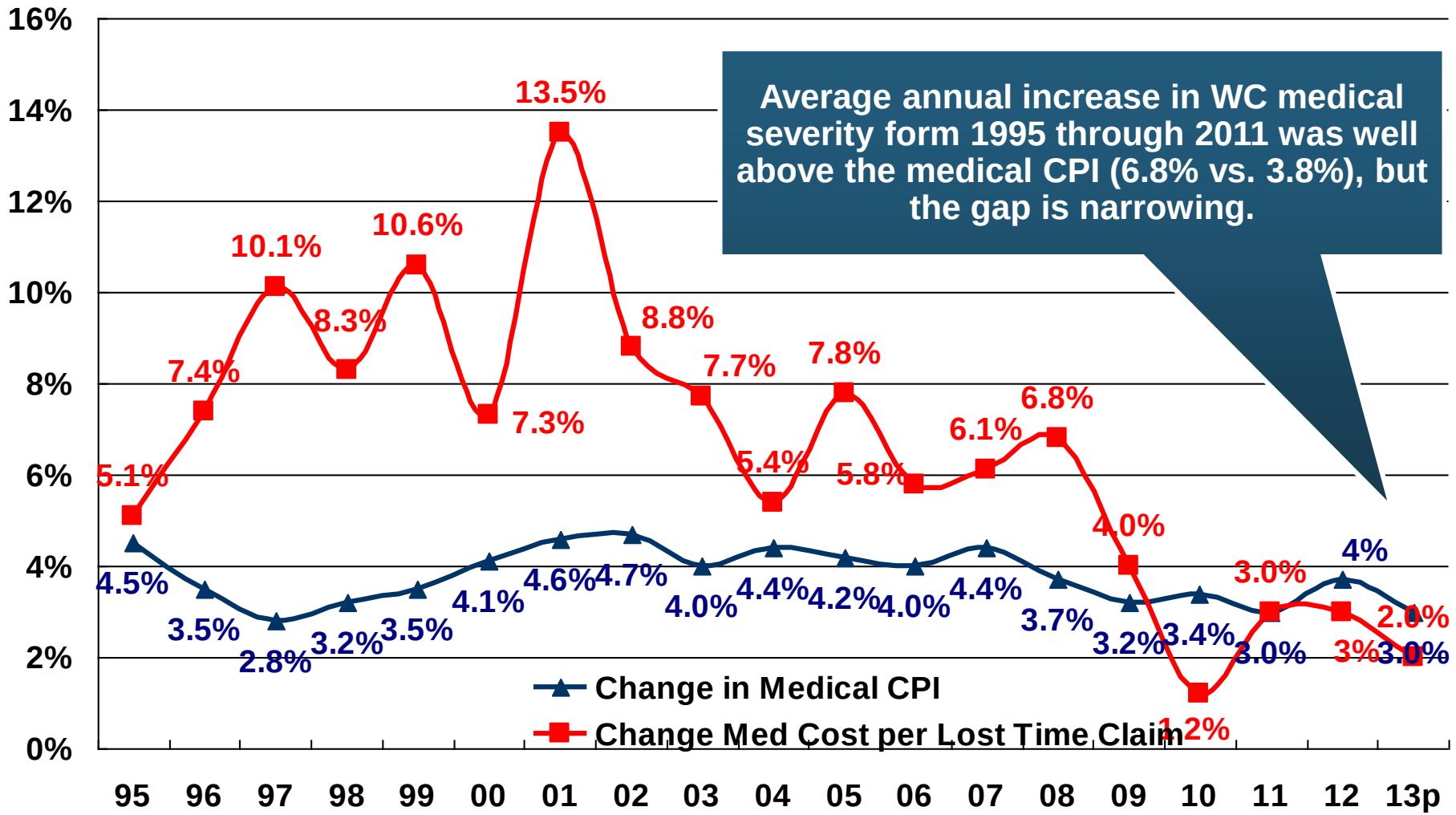


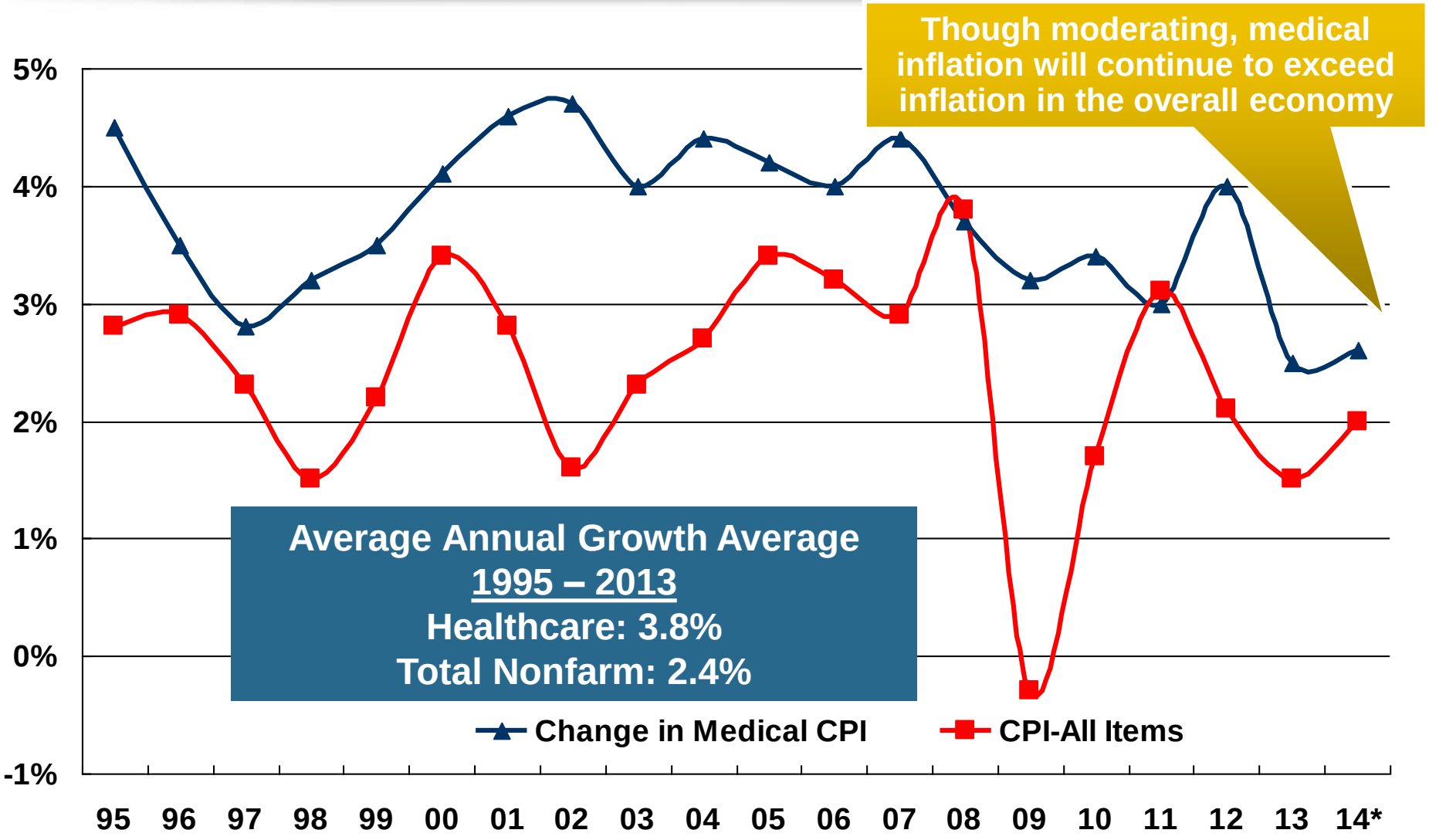
2013p: Preliminary based on data valued as of 12/31/2013.
1991-2012: Based on data through 12/31/2012, developed to ultimate
Based on the states where NCCI provides ratemaking services including state funds, excluding WV; Excludes high deductible policies.

WC Medical Severity Generally Outpaces the Medical CPI Rate



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

Medical Cost Inflation vs. Overall CPI, 1995 – 2014*



*July 2014 compared to July 2013.

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

U.S. Health Care Expenditures, 1965–2022F

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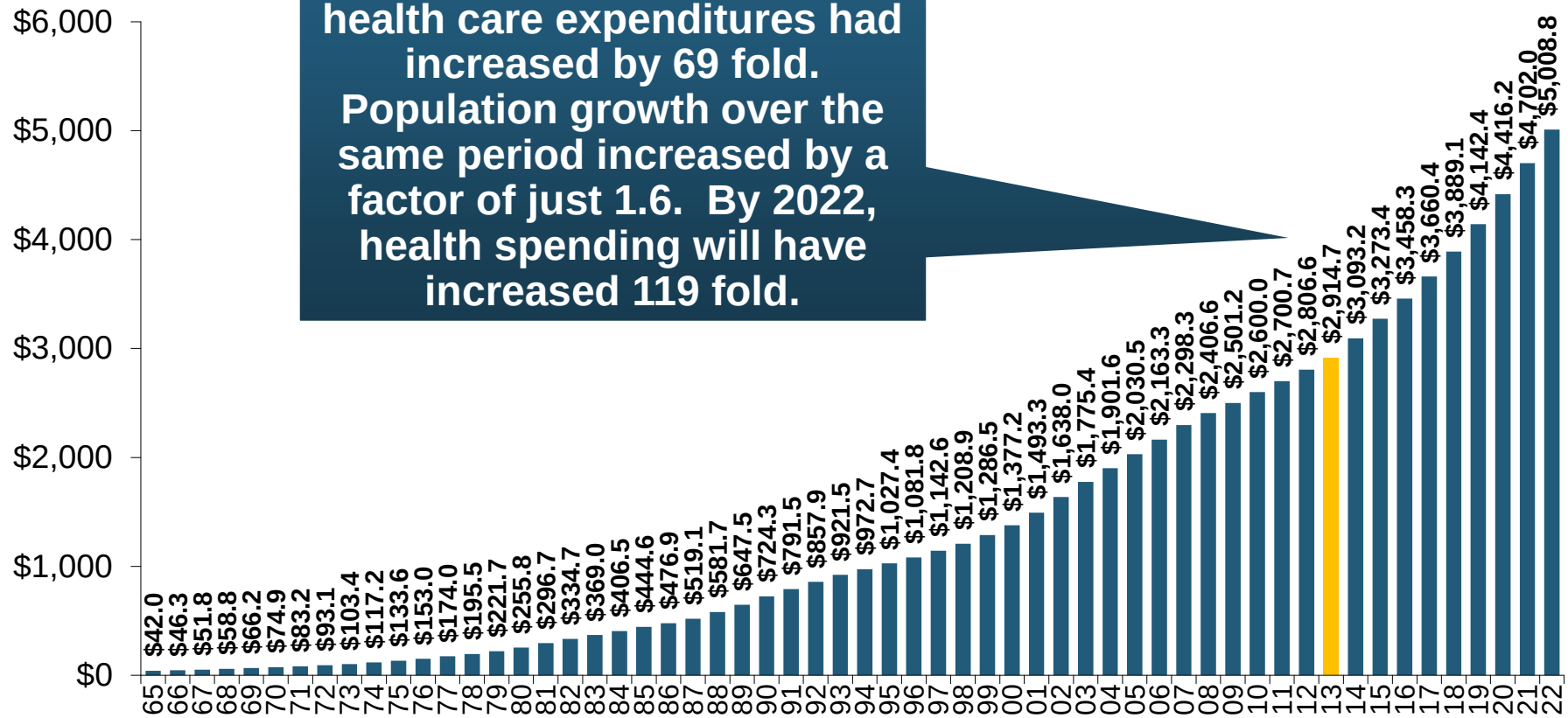
$ Billions

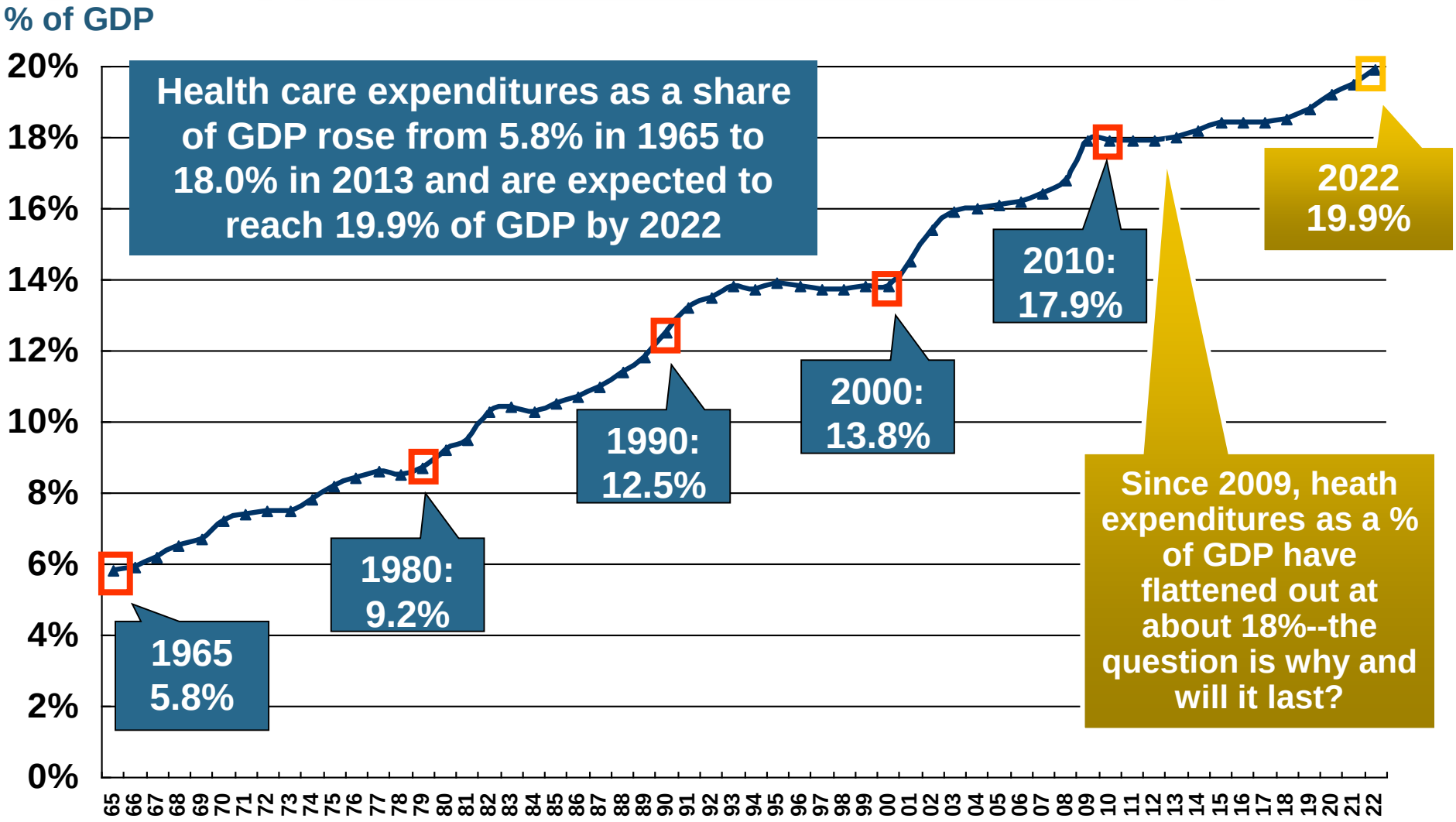
From 1965 through 2013, US health care expenditures had increased by 69 fold. Population growth over the same period increased by a factor of just 1.6. By 2022, health spending will have increased 119 fold.



U.S. health care expenditures have been on a relentless climb for most of the past half century, far outstripping population growth, inflation of GDP growth

Sources: Centers for Medicare & Medicaid Services, Office of the Actuary at http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsProjected.html accessed 3/14/14; Insurance Information Institute.

National Health Care Expenditures as a Share of GDP, 1965 – 2022F*



Sources: Centers for Medicare & Medicaid Services, Office of the Actuary at http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsProjected.html accessed 3/14/14; Insurance Information Institute.

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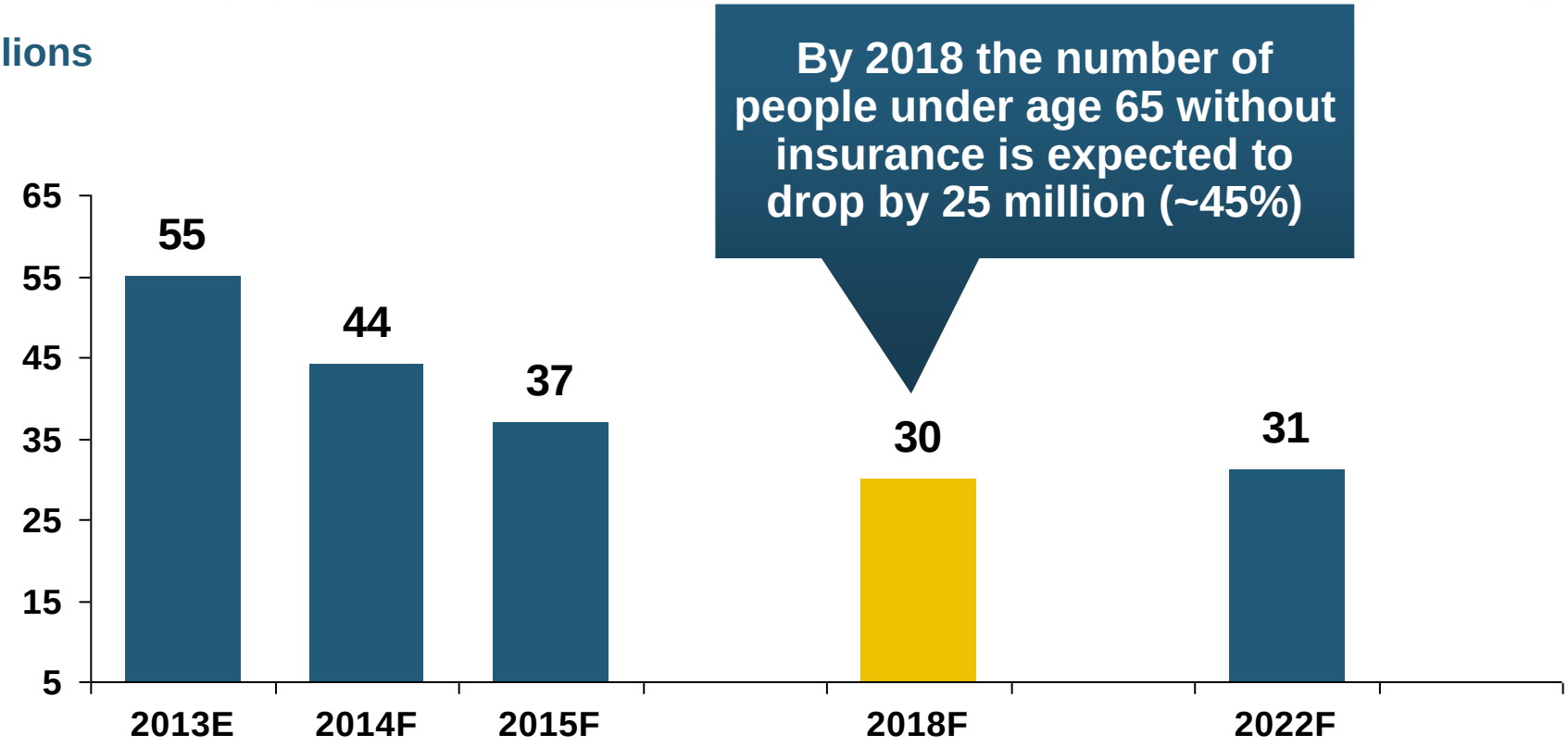
The Affordable Care Act & Implications for P/C Insurance

The ACA Is Now Being Fully Implemented; Consequences for P/C Insurance Are Yet to Be Determined

Projected Number of People with No Health Insurance, 2013—2022*



The projected decline in the uninsured population is very sensitive to the enrollment rate under the Affordable Care Act

*Under age 65.

Sources: Centers for Medicare & Medicaid Services, Office of the Actuary at http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsProjected.html accessed 3/14/14; Insurance Information Institute.

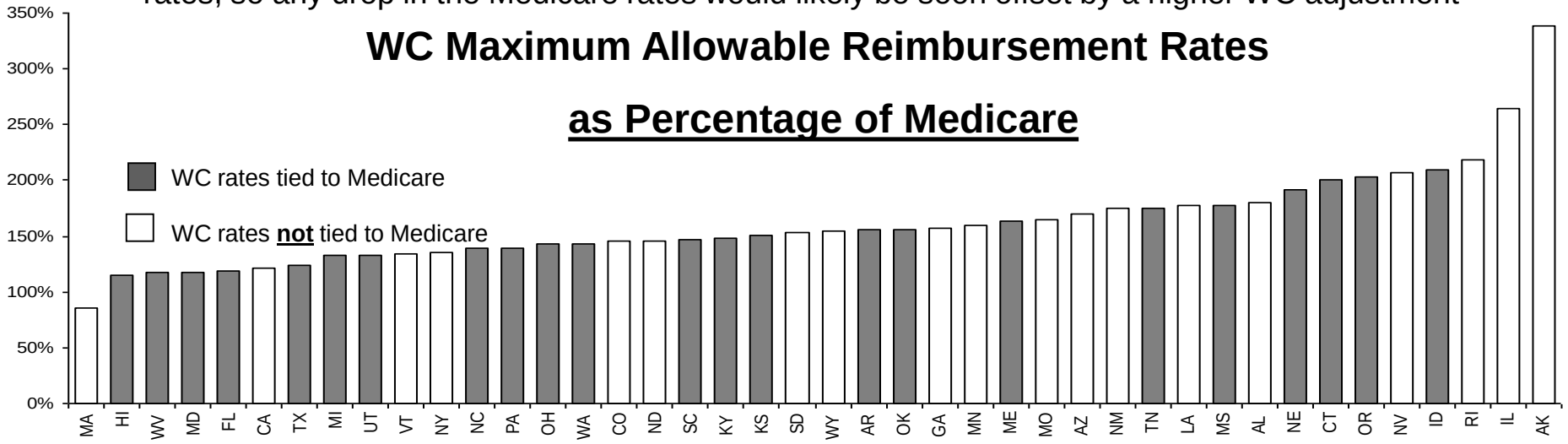
A Few Potential Impacts of the ACA on Workers Compensation

Issue	Concern	Contravening Argument
Surge in People Covered by Health Insurance	• System is overwhelmed • MD shortage • Patient care adversely impacted	• Over time, people will have access to preventative care, improving the general health of the population • Greater use of PA's, etc.
Electronic Health Records	• Cost	• Computerization of patient data could help flag issues and improve risk management and improve patient outcomes
Claim Shifting	• Provider/patient may prefer claim handled via WC system	• Reduction in uninsured population reduces shifting
Reimbursement Rates	• Cuts in MC reimbursement rates could makes docs less willing to take WC claims	• Impact would be short-lived. All MC-linked states already boost WC reimbursements

Source: Insurance Information Institute research; WCRI.

ACA Impact on WC May Occur via Changes in Rates Set by State Regulators

- WC rates often tied to Medicare but can change for reasons independent of this link
- There could be both positive and negative effects of a cut in Medicare rates on WC performance in states which tie reimbursement to Medicare
  - WC reimbursement rates would go down
  - Doctors may be unwilling to see WC patients:
    - 64% of Dr.'s surveyed said they would stop accepting new Medicare patients if planned rate cuts go through; some of these same doctors may also refuse WC patients if WC rates also decrease
- These effects would likely be short lived
  - All states which tie their fee schedules to Medicare already increase the Medicare rates to set WC rates, so any drop in the Medicare rates would likely be soon offset by a higher WC adjustment



SOURCE: NCCI Annual Issues Symposium 2009, Medicare's Impact on Workers' Compensation, AMA: "Physicians' reactions to the Medicare physician payment cuts."

PPACA May Have Distinct Impacts on WC Depending on Claim Frequency/Severity

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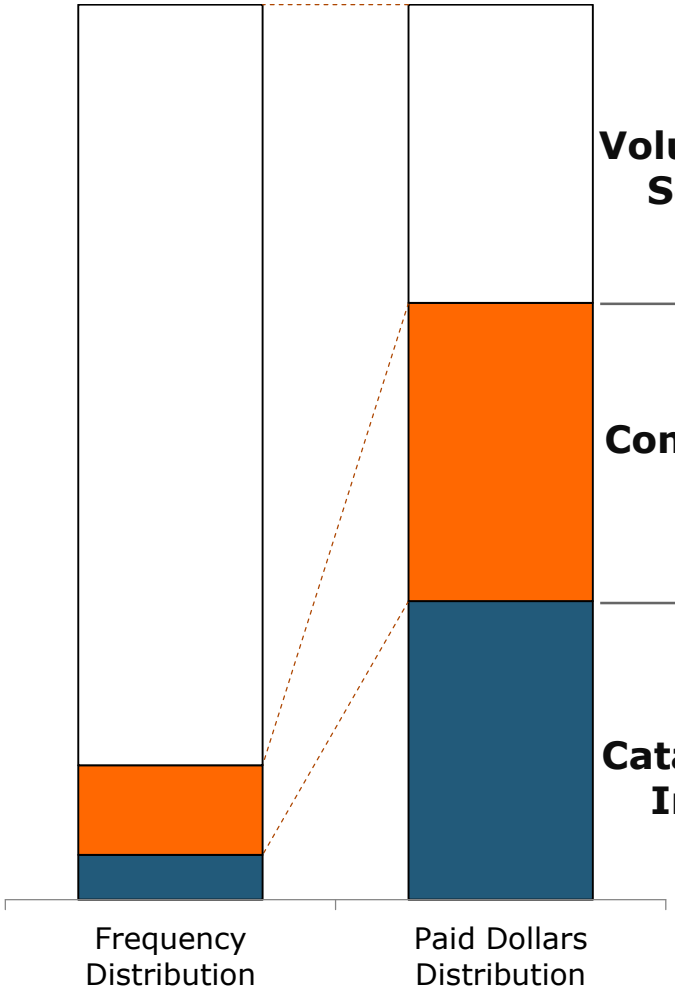
Industry Portfolio by Claim Type

(Relative Volume by Claim Frequency & Paid Dollars)



High Volume, Low Severity — *Ex: med only, quick to settle, <25K*

Complicated — *Ex: back pain claims, very litigious*

Catastrophic Injuries — *Ex: spinal cord injury, multiple trauma claims*

Potential ACA Impact

- **Expanded coverage may shift some small claims to the health insurance system (+)**
- **Physician access problems could lead to indemnity increases and may bleed into the complicated cases (-)**
- **Preventative care and early record keeping decreases WC comorbidities (+)**
- **Soft tissue treatments, a large portion of "slow burn claims," may decrease in cost (+)**
- **No significant impacts**

SOURCE: Christopher Cunniff, FCAS, *Impacts of Healthcare Reform on Workers Compensation.*

Possible Effects on Workers Comp

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1. **Could slow the growth in WC medical care costs**
   - IPAB recommendations and PCORI reports, plus Medicare changes, could have beneficial effects on cost and treatment effectiveness
2. **Could ACA be first step in federal regulation of insurance products and markets?**
   - Will regulation like that requiring products to be priced to meet Medical Loss Ratios be applied to WC?
   - Will cost-control mechanisms such as the Independent Payment Advisory Board be developed for WC?
   - Will WC insurers lose their limited exemption from anti-trust laws that they have had under McCarran-Ferguson since 1945?

Potential Impacts of the ACA on Medical Professional Liability

Issue	Concern	Contravening Argument
Surge in People Covered by Health Insurance	• System is overwhelmed • Doctors spend less time on patients • Patient care adversely impacted	• Over time, people will have access to preventative care, improving the general health of the population • People are receiving care already via suboptimal channels • Less use of ERs
Electronic Health Records	• Digitization could create a treasure trove of data for plaintiff attorneys	• Computerization of patient data could help flag issues and improve risk management and improve patient outcomes
MPL Claim Severity	• More large verdicts will	• ACA will help contain system costs

Source: Insurance Information Institute research.

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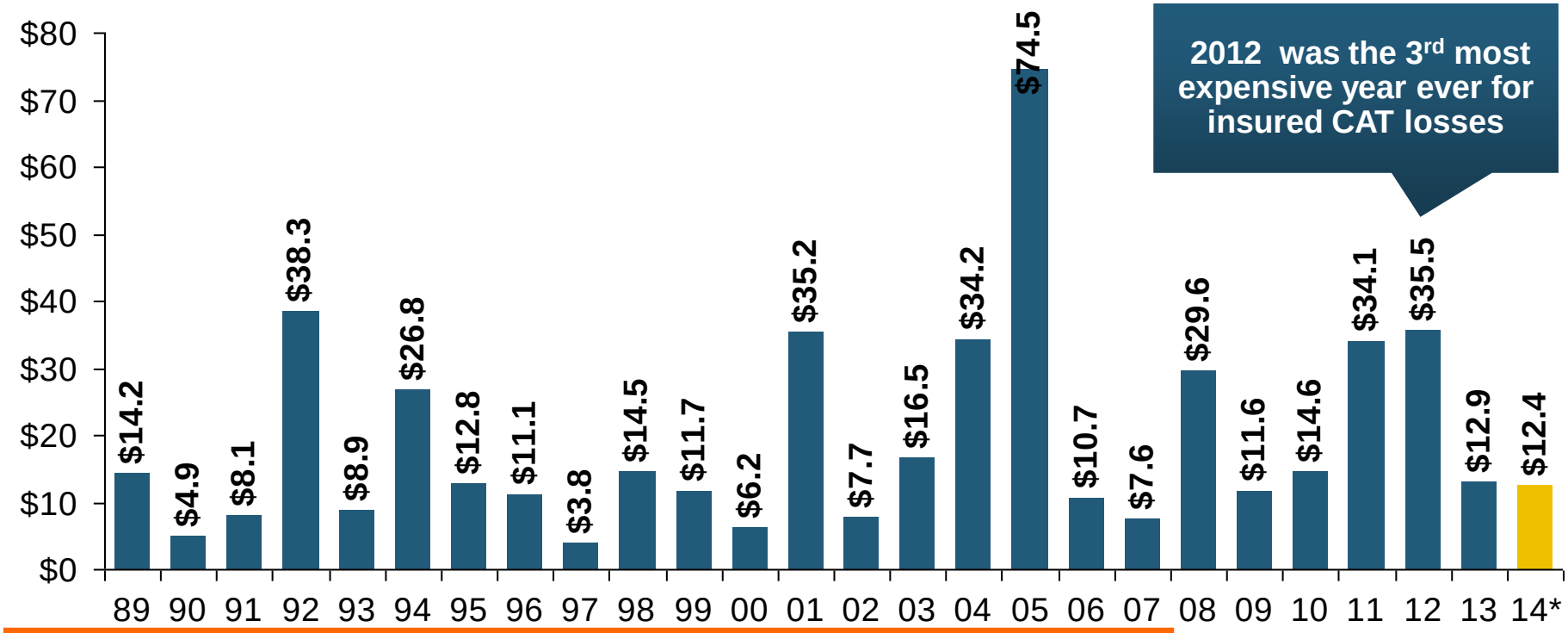
U.S. Insured Catastrophe Loss Update

2013 Was a Welcome Respite from the High Catastrophe Losses in Recent Years

2014 Is Off to a Modest Beginning

U.S. Insured Catastrophe Losses

($ Billions, $ 2013)



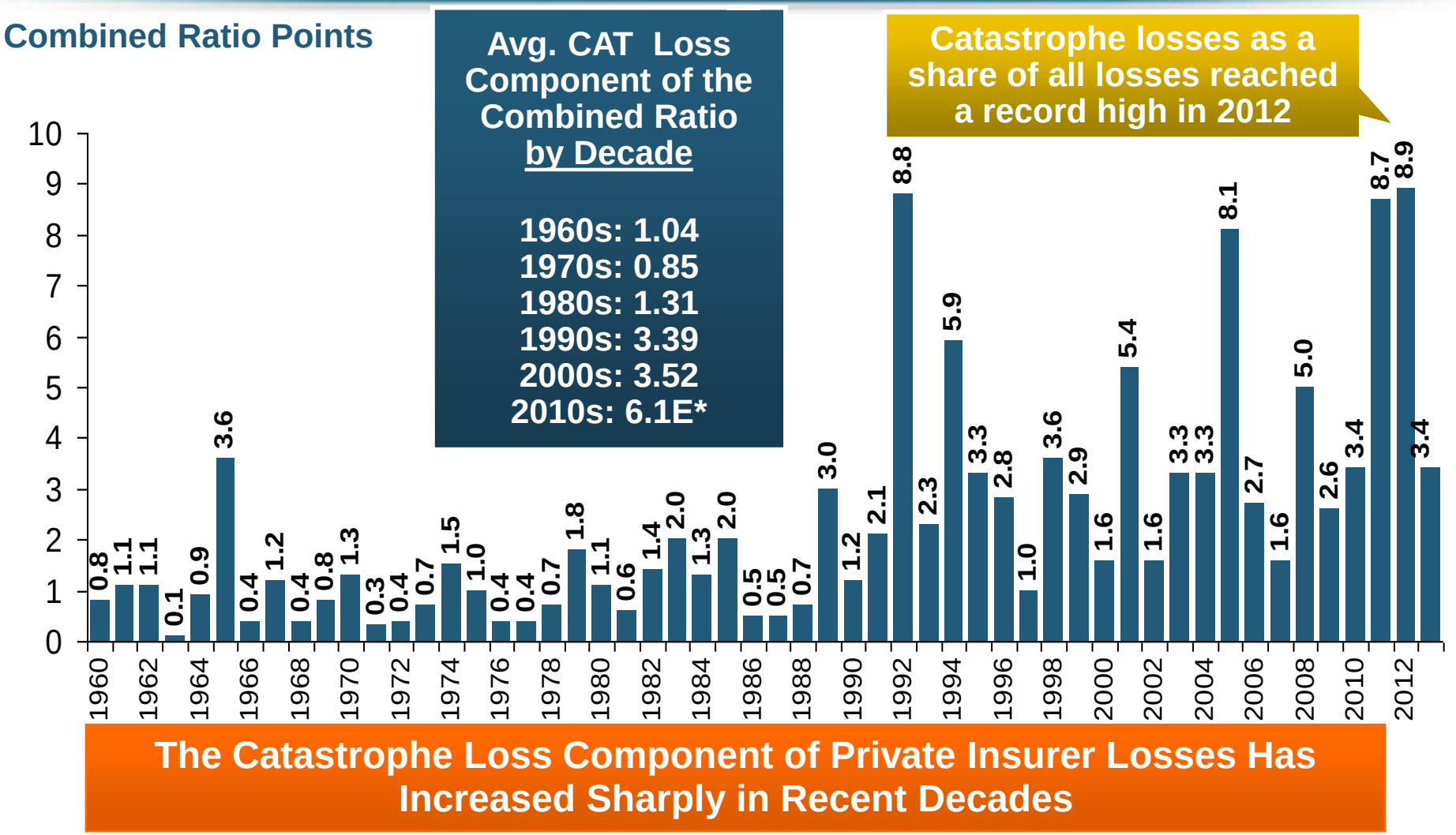
2013 Was a Welcome Respite from 2012, the 3rd Costliest Year for Insured Disaster Losses in US History. Longer-term Trend is for more—not fewer—Costly Events

*Through 6/30/14.

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.

Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2013*



*2010s represent 2010-2013.

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 (1960-2011); A.M. Best (2012E) Insurance Information Institute.

Top 8 States for Insured Catastrophe Losses, 2013

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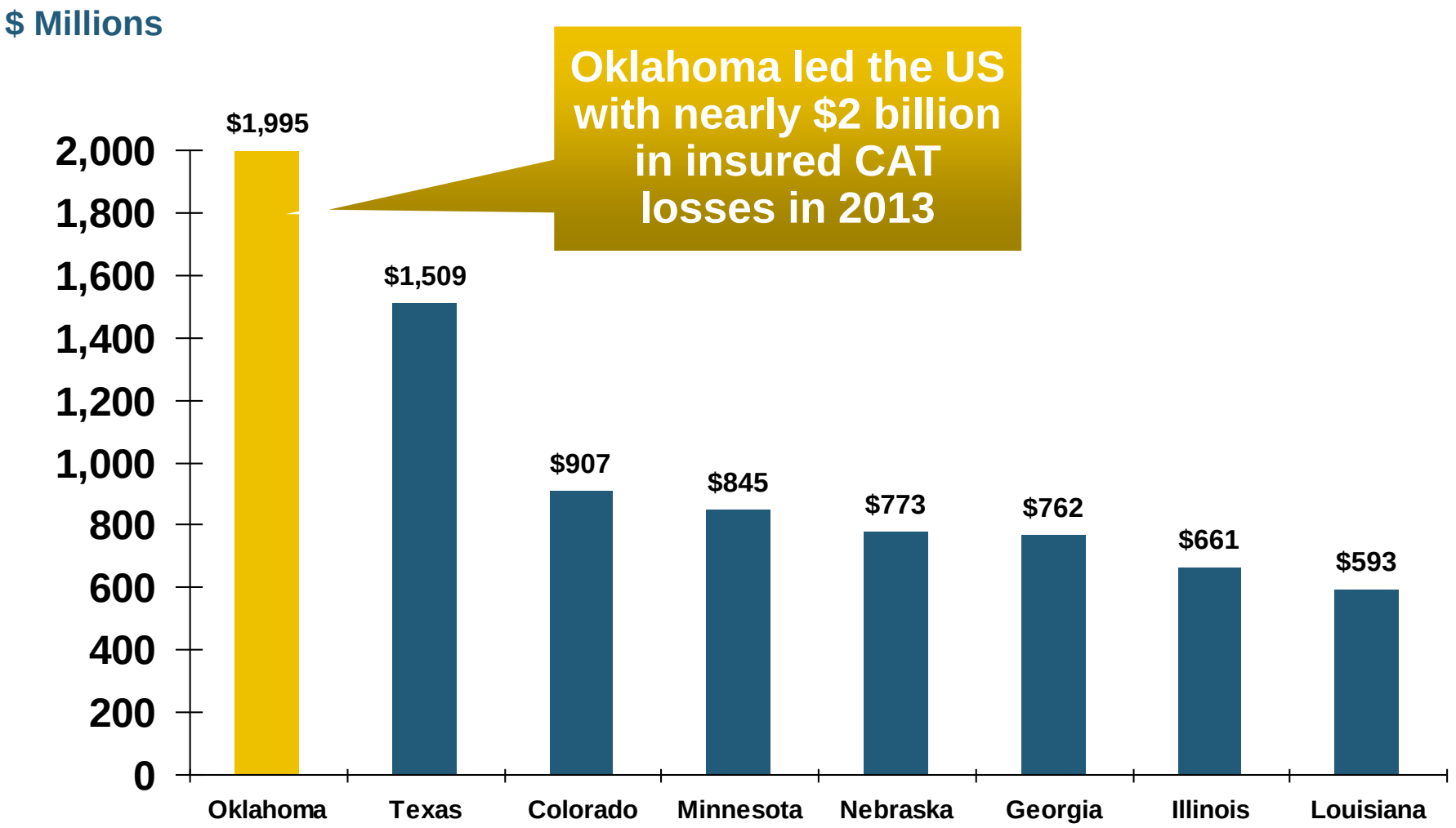
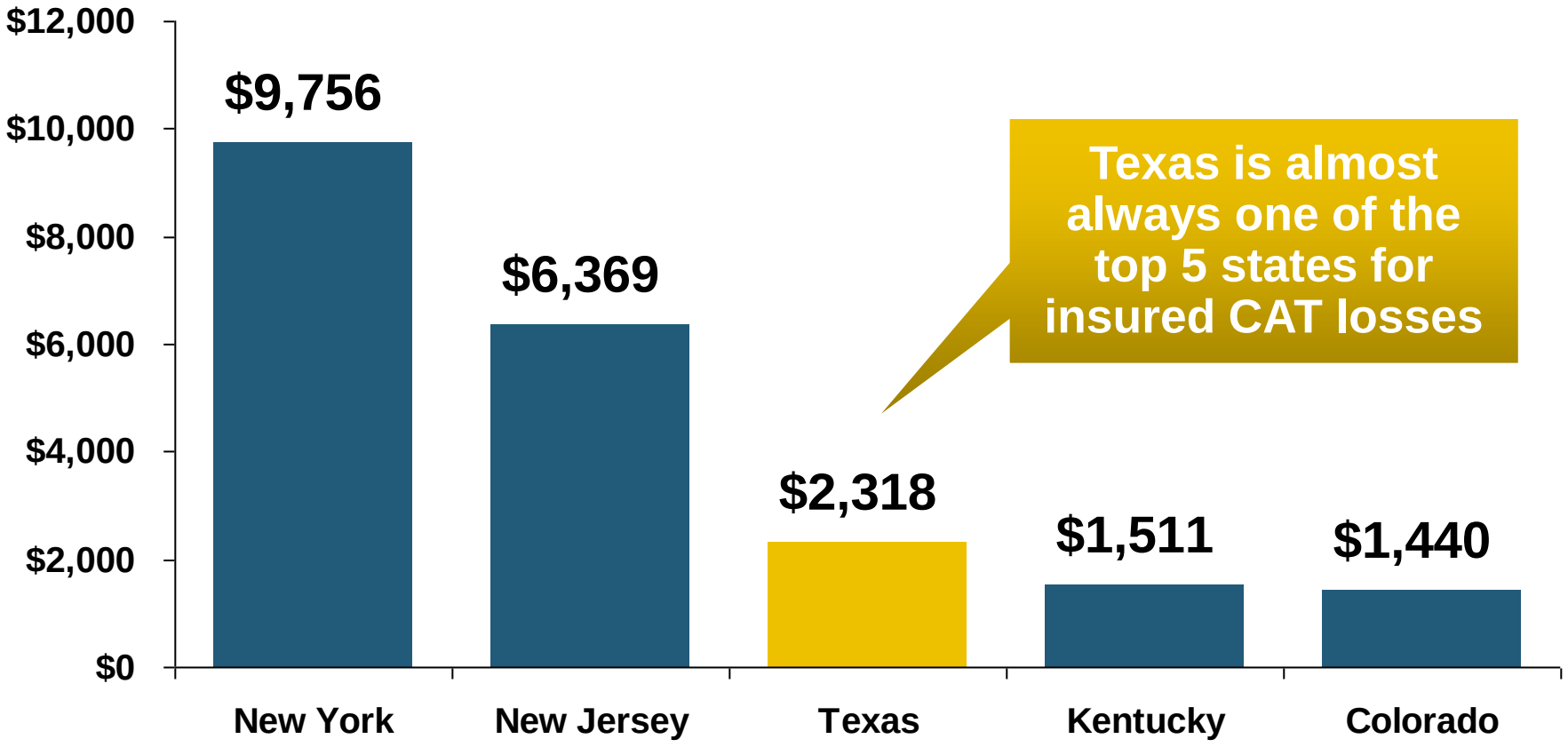


Source: The Property Claim Services (PCS) unit of ISO, a Verisk Analytics company.

Top 5 States by Insured Catastrophe Losses in 2012*

(2012, $ Billions)



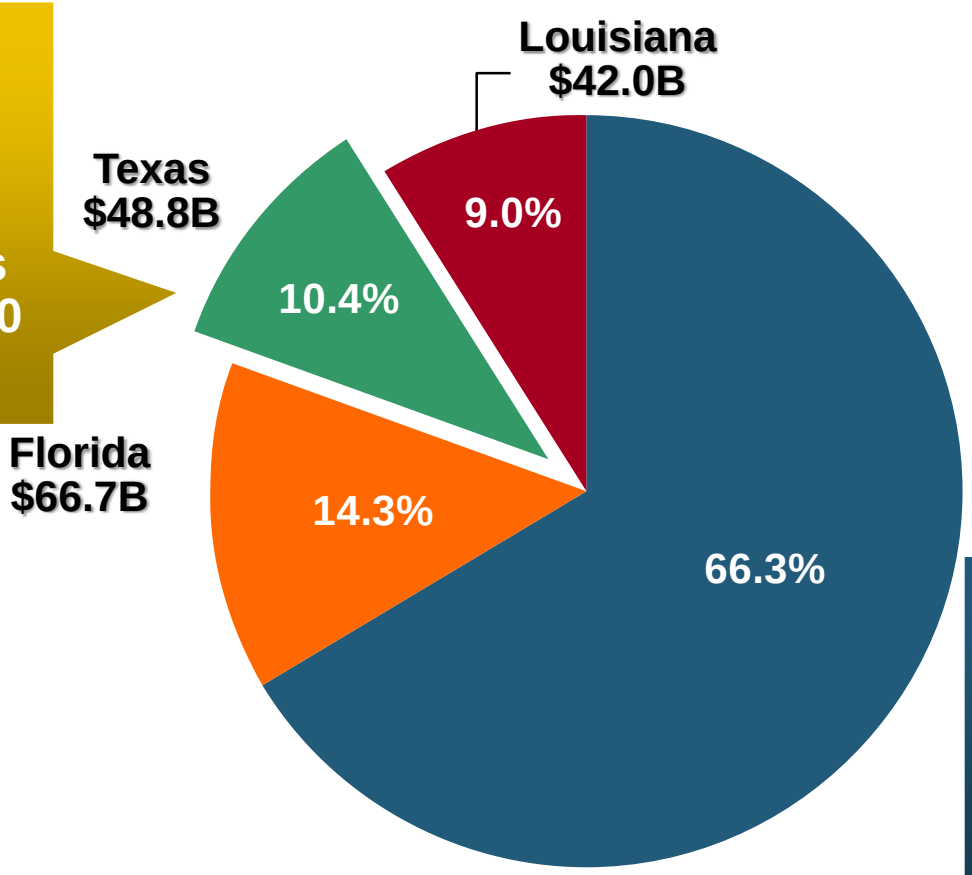
*Includes catastrophe losses of at least $25 million.

Sources: PCS unit of ISO; Insurance Information Institute.

Top States by Inflation-Adjusted Insured Catastrophe Losses, 1983–2012

Over the Past 30 Years Florida Has Accounted for the Largest Share of Catastrophe Losses in the U.S., Followed by Texas and Louisiana

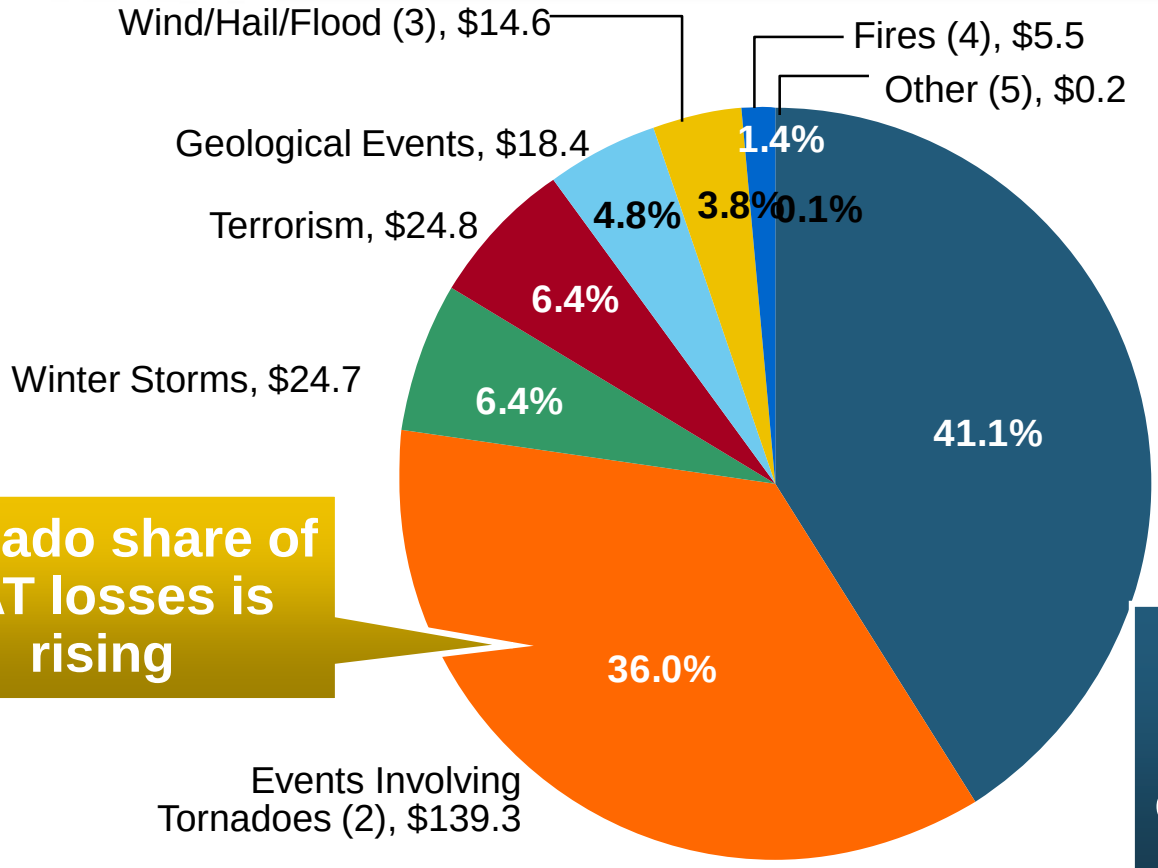
TX is the 2nd costliest state for CATs, with nearly $50B in insured losses over the past 30 years



Total: $467.5 Billion, an average of $16.6B per year or $1.3B per month

Source: PCS unit of ISO, Verisk Company.; Insurance Information Institute.

Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1994–2013[1]



Insured cat losses from 1993-2012 totaled $386.7B, an average of $19.3B per year or $1.6B per month

Tornado share of CAT losses is rising

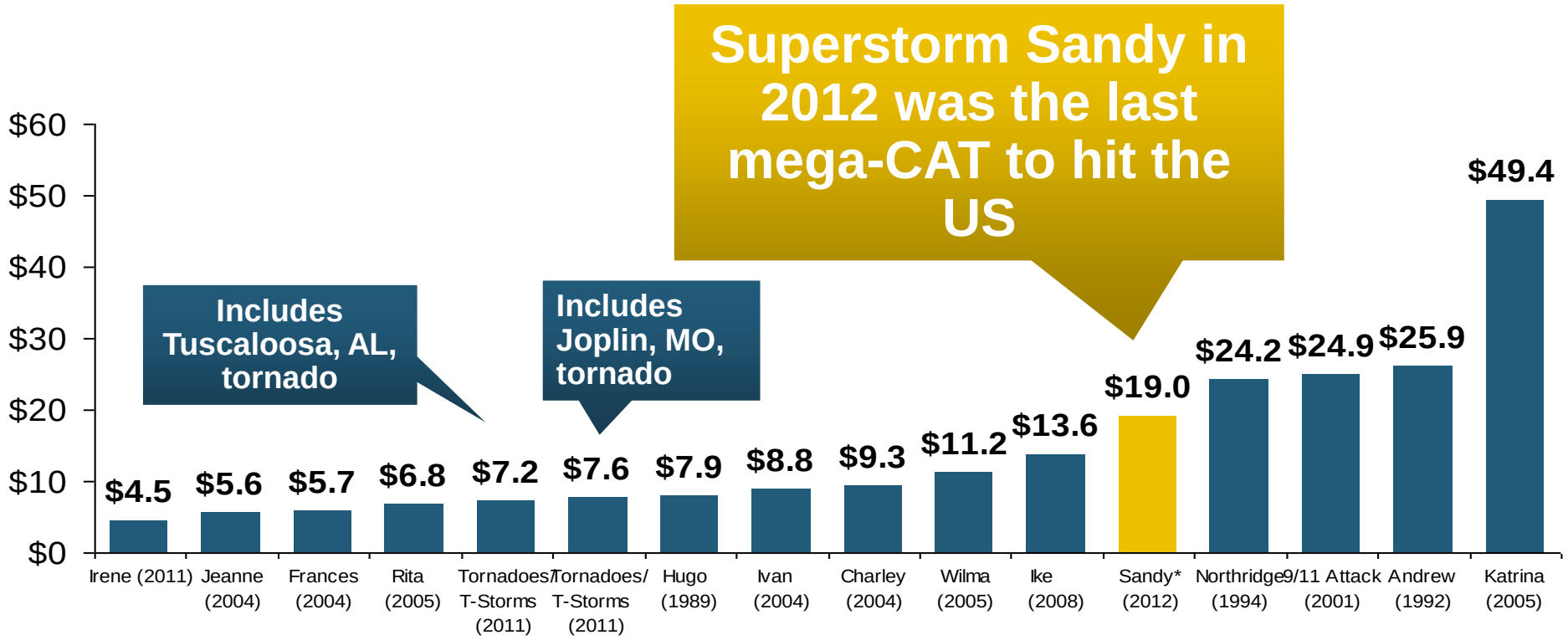
Wind losses are by far cause the most catastrophe losses, even if hurricanes/TS are excluded.

1. Catastrophes are defined as events causing direct insured losses to property of $25 million or more in 2013 dollars.
2. Excludes snow.
3. Does not include NFIP flood losses
4. Includes wildland fires
5. Includes civil disorders, water damage, utility disruptions and non-property losses such as those covered by workers compensation.

Source: ISO's Property Claim Services Unit.

Top 16 Most Costly Disasters in U.S. History

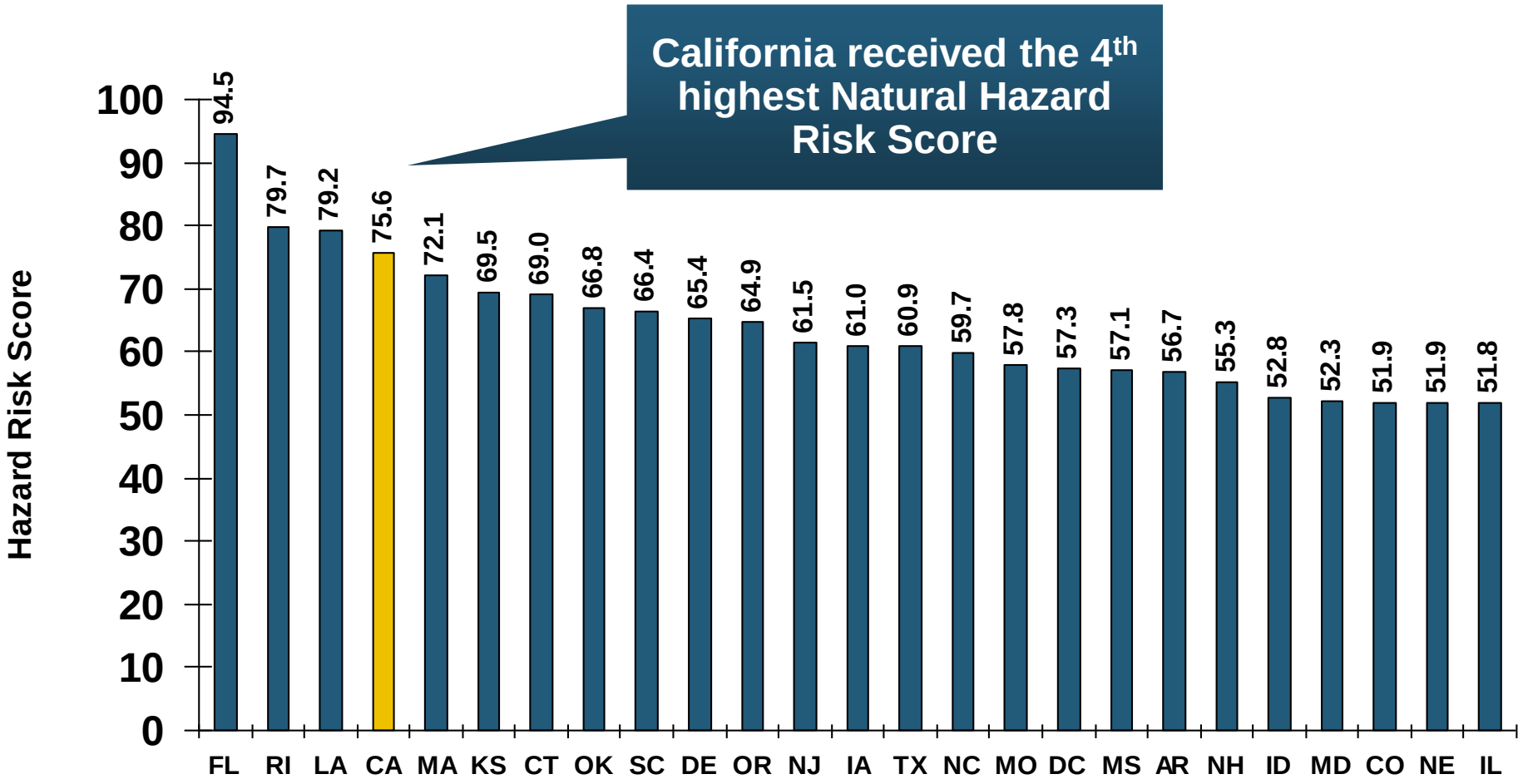
(Insured Losses, 2013 Dollars, $ Billions)



12 of the 16 Most Expensive Events in US History Have Occurred Over the Past Decade

Sources: PCS; Insurance Information Institute inflation adjustments to 2013 dollars using the CPI.

Natural Hazard Risk Scores, 2014
Highest 25 States*

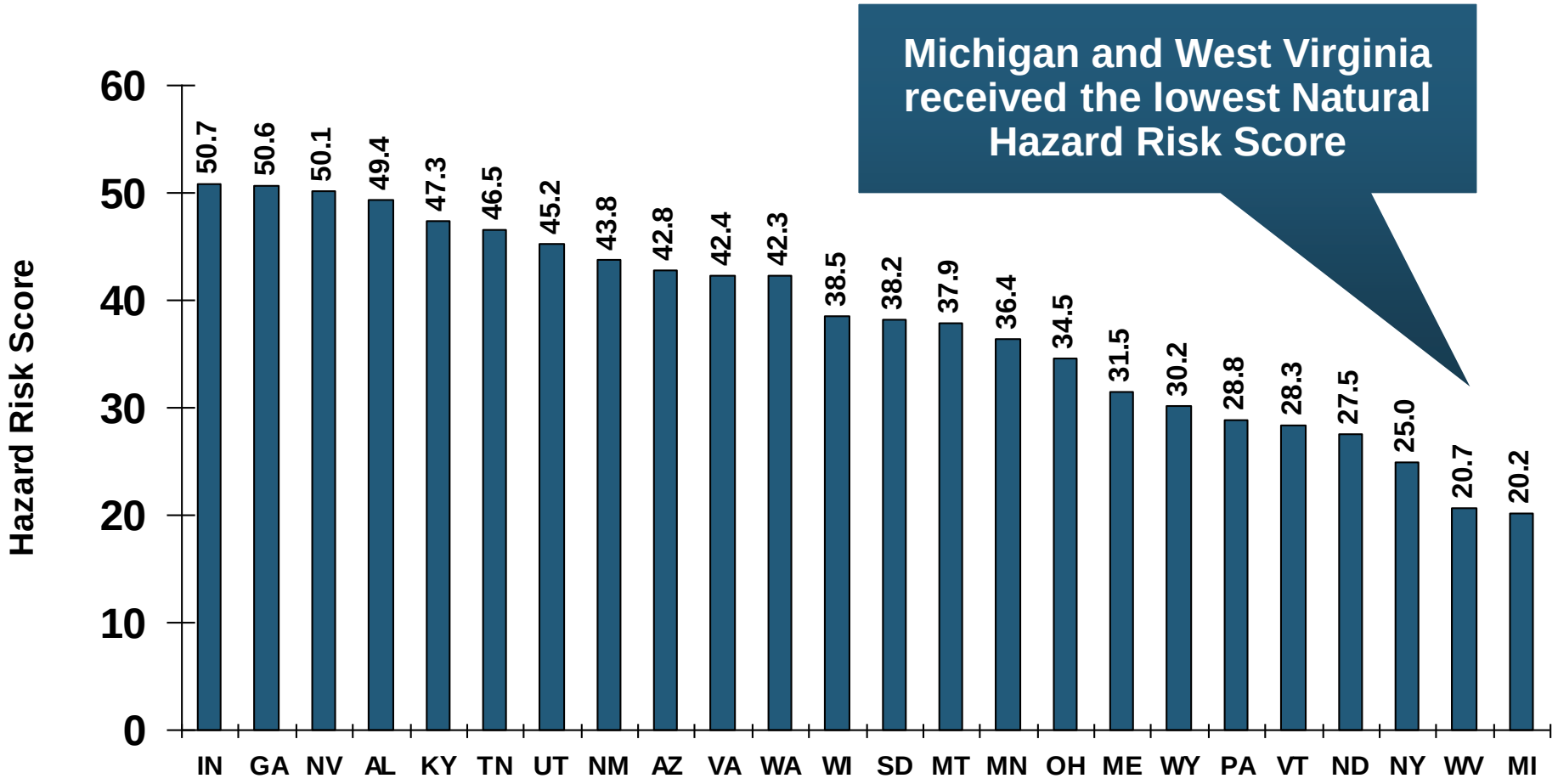


Note: Score is based on data on 9 natural hazards: flood, wildfire, tornado, storm surge, earthquake, straight-line wind, hurricane, wind, hail and sinkhole.

*Analysis Includes DC. Excludes Alaska and Hawaii due to limited natural hazard risk data.

Sources: CoreLogic release *"CoreLogic Identifies US States at Highest Risk of Property Damage Loss from Natural Hazards,"* Sept. 10, 2014; Insurance Information Institute.

Natural Hazard Risk Scores, 2014
Bottom 24 States*



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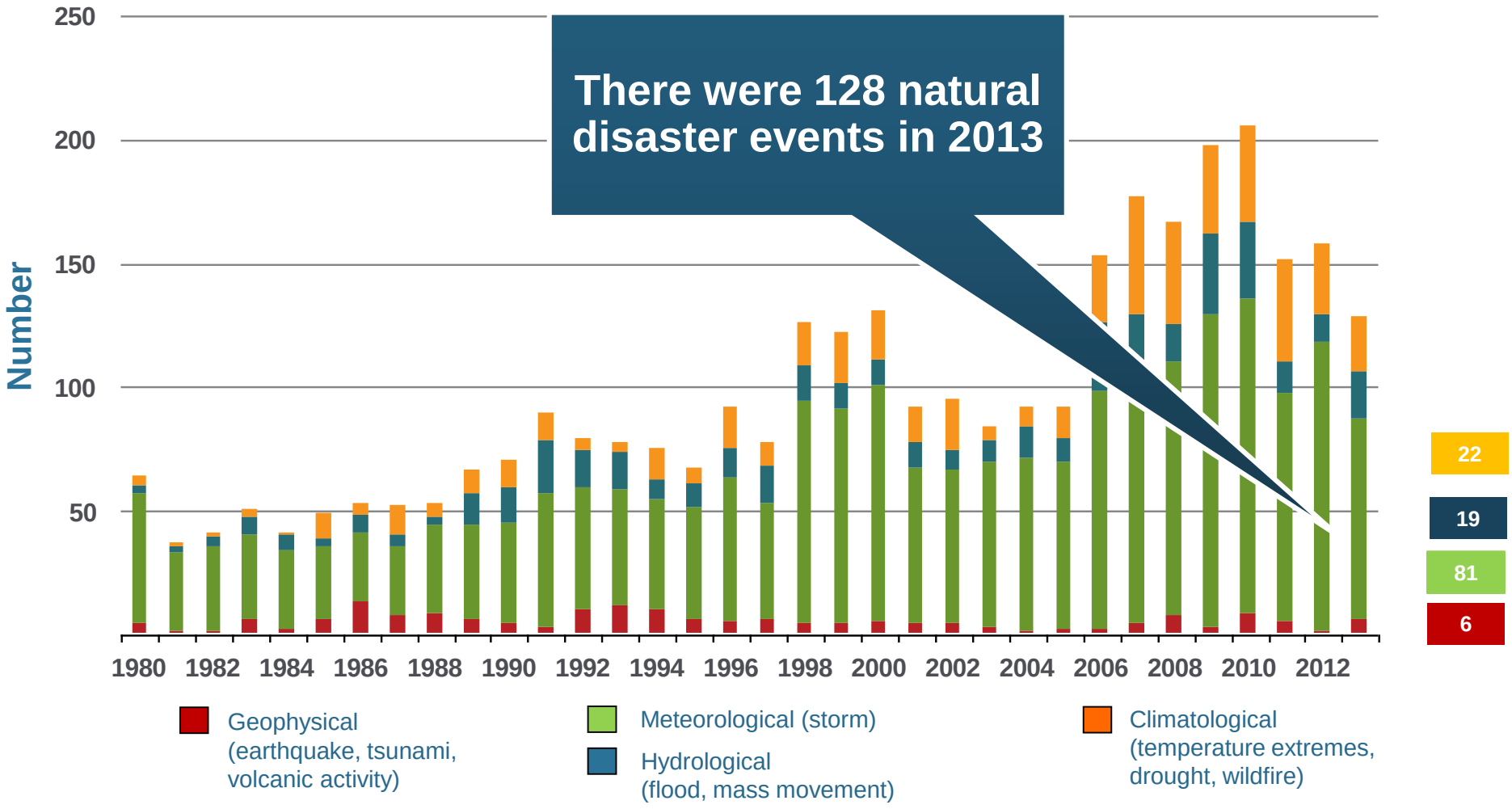
Natural Disasters in the United States, 1980 – 2013

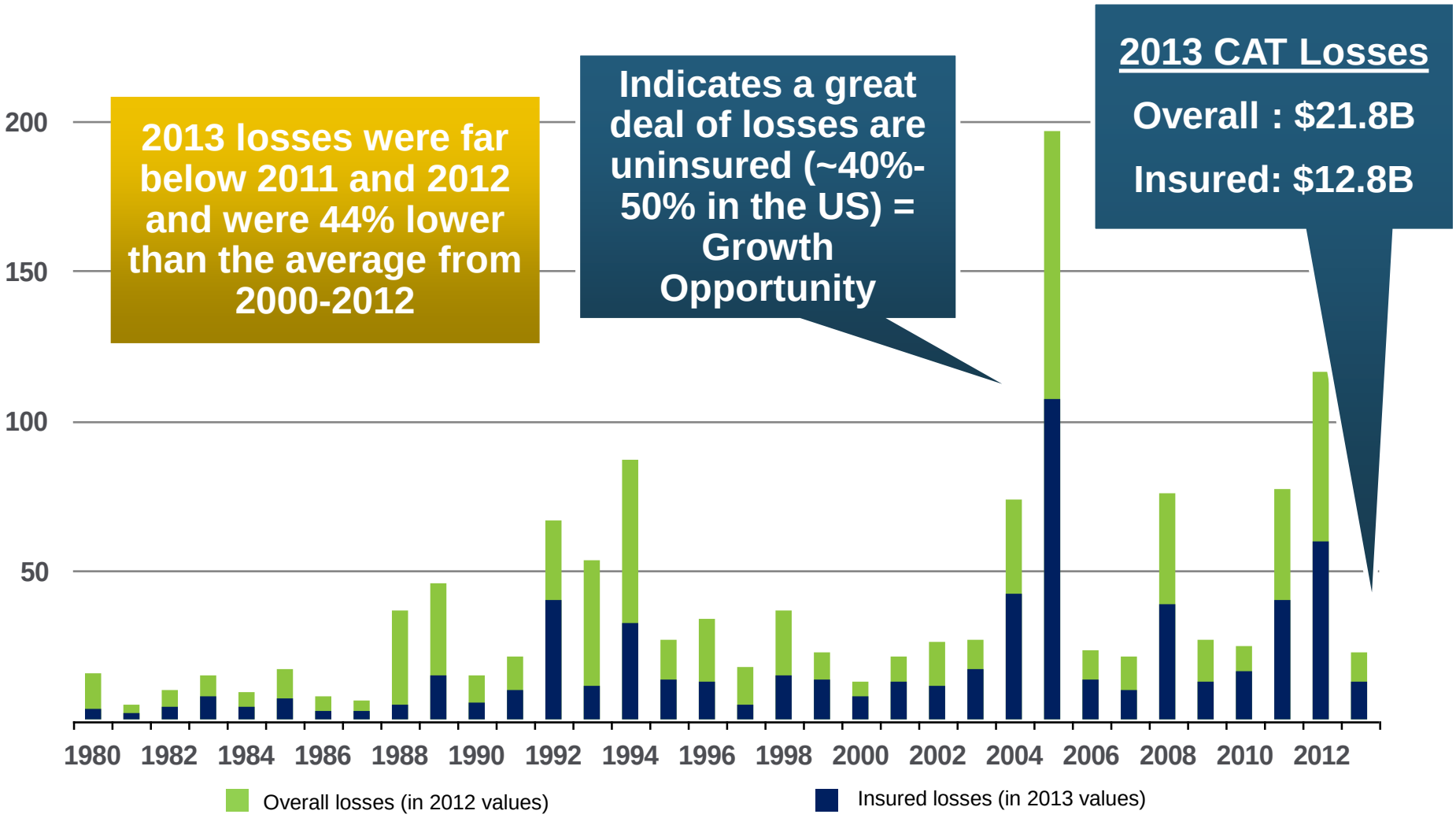
Number of Events (Annual Totals 1980 – 2013)



Source: MR NatCat*SERVICE*

Losses Due to Natural Disasters in the US, 1980–2013

(2013 Dollars, $ Billions) (Overall and Insured Losses)



Source: MR NatCat*SERVICE*

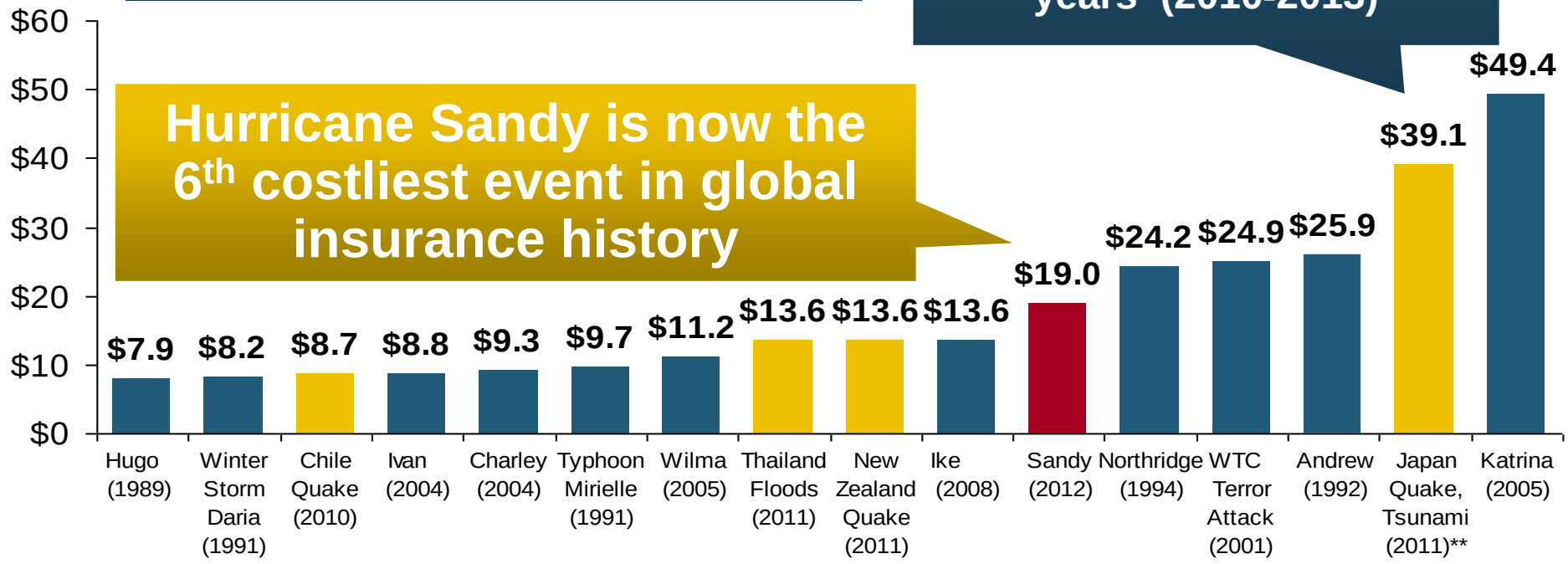
Top 16 Most Costly World Insurance Losses, 1970-2013*

(Insured Losses, 2013 Dollars, $ Billions)

2012 insured CAT Losses totaled $60B; Economic losses totaled $140B, according to Swiss Re

5 of the top 14 most expensive catastrophes in world history have occurred within the most recent 4 years (2010-2013)

Hurricane Sandy is now the 6th costliest event in global insurance history



*Figures do not include federally insured flood losses.

Sources: Munich Re; Swiss Re; Insurance Information Institute research.

Natural Loss Events: Full Year 2013

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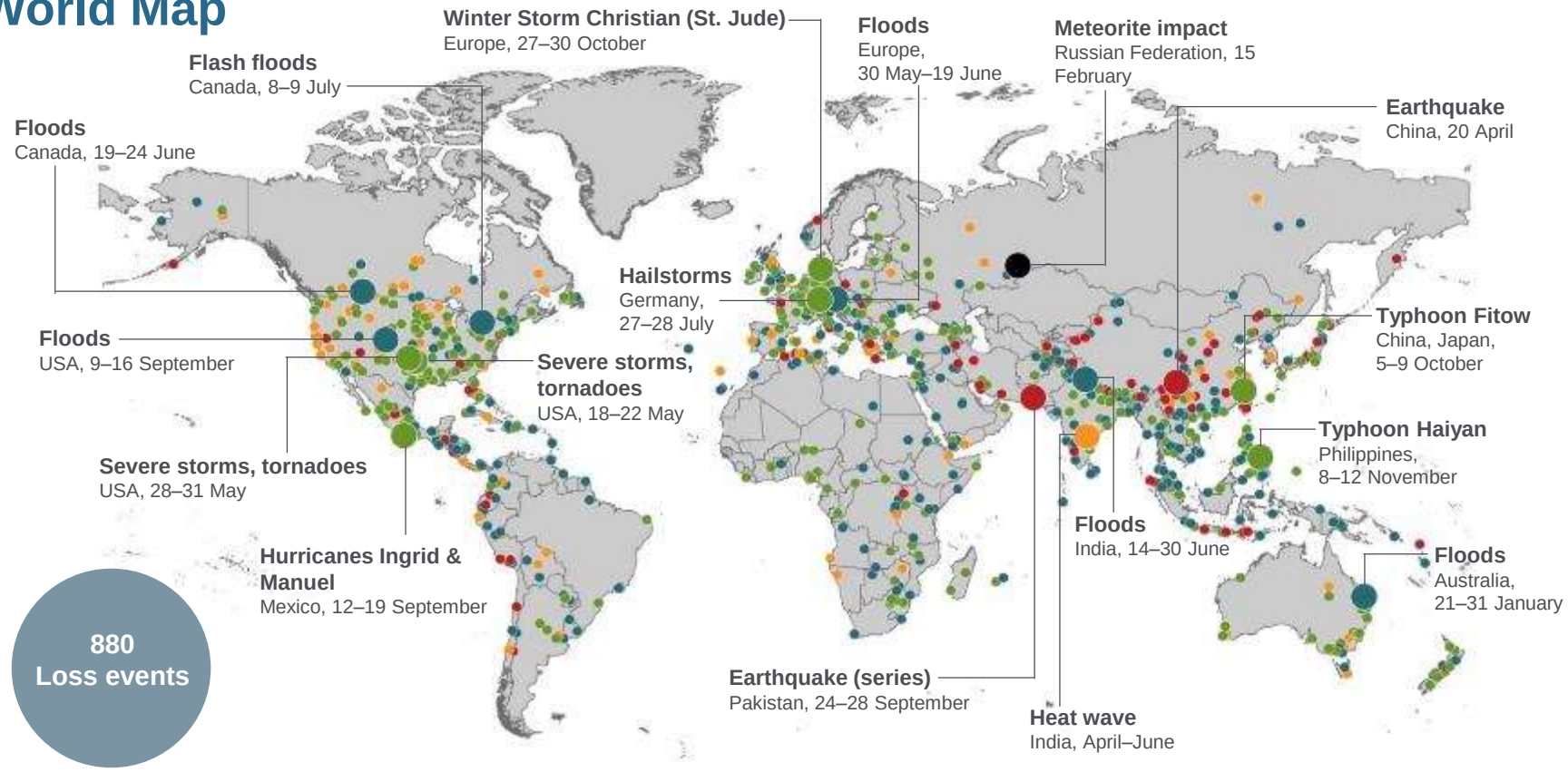
World Map

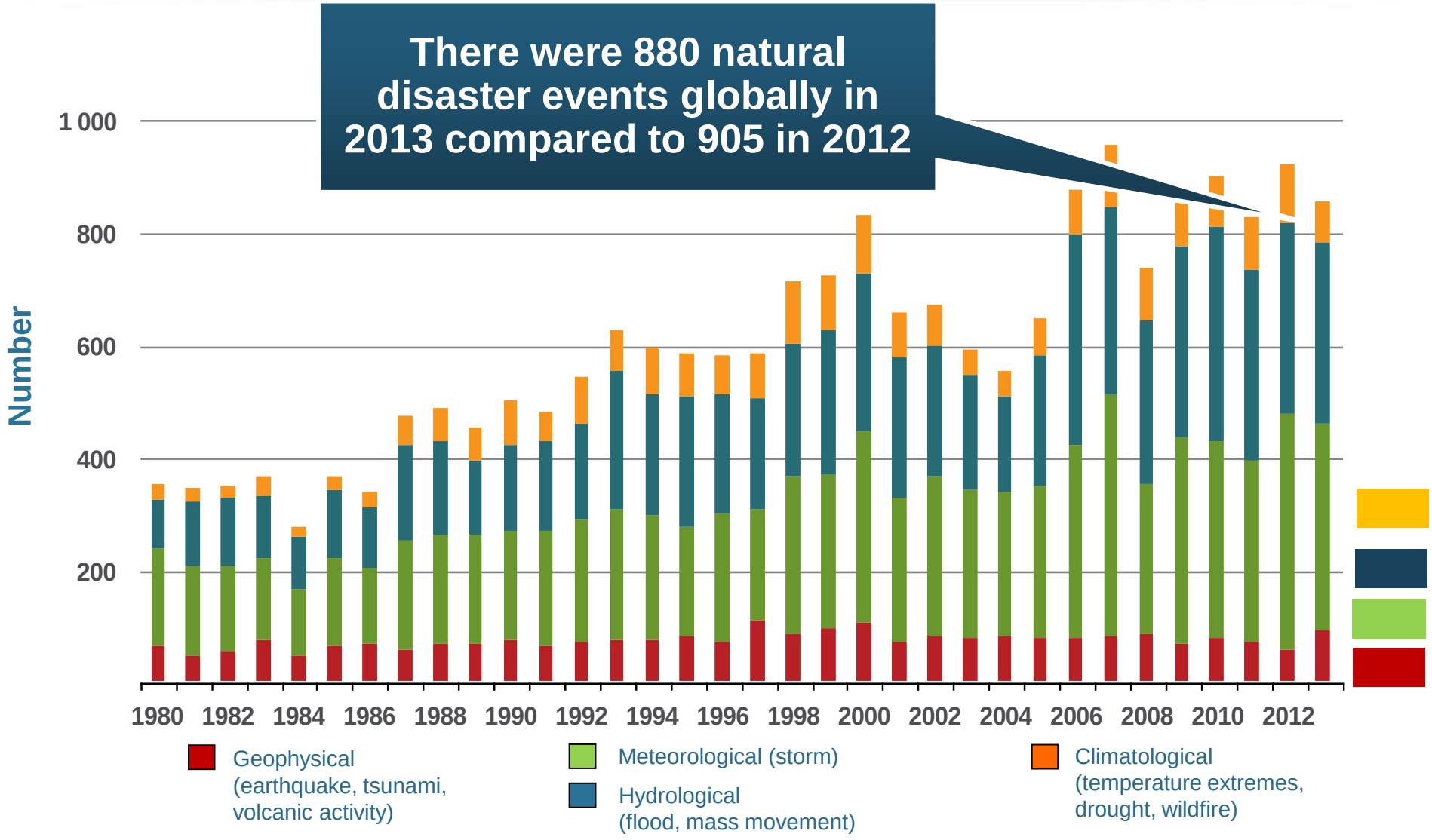


- Natural catastrophes
- Selection of significant Natural catastrophes
- **Geophysical events** (earthquake, tsunami, volcanic activity)
- **Meteorological events** (storm)
- **Hydrological events** (flood, mass movement)
- **Climatological events** (extreme temperature, drought, wildfire)
- **Extraterrestrial events** (Meteorite impact)

Source: Munich Re Geo Risks Research, NatCat*SERVICE* – as of January 2014.

Natural Disasters Worldwide, 1980 – 2013 (Number of Events)

INSURANCE INFORMATION INSTITUTE



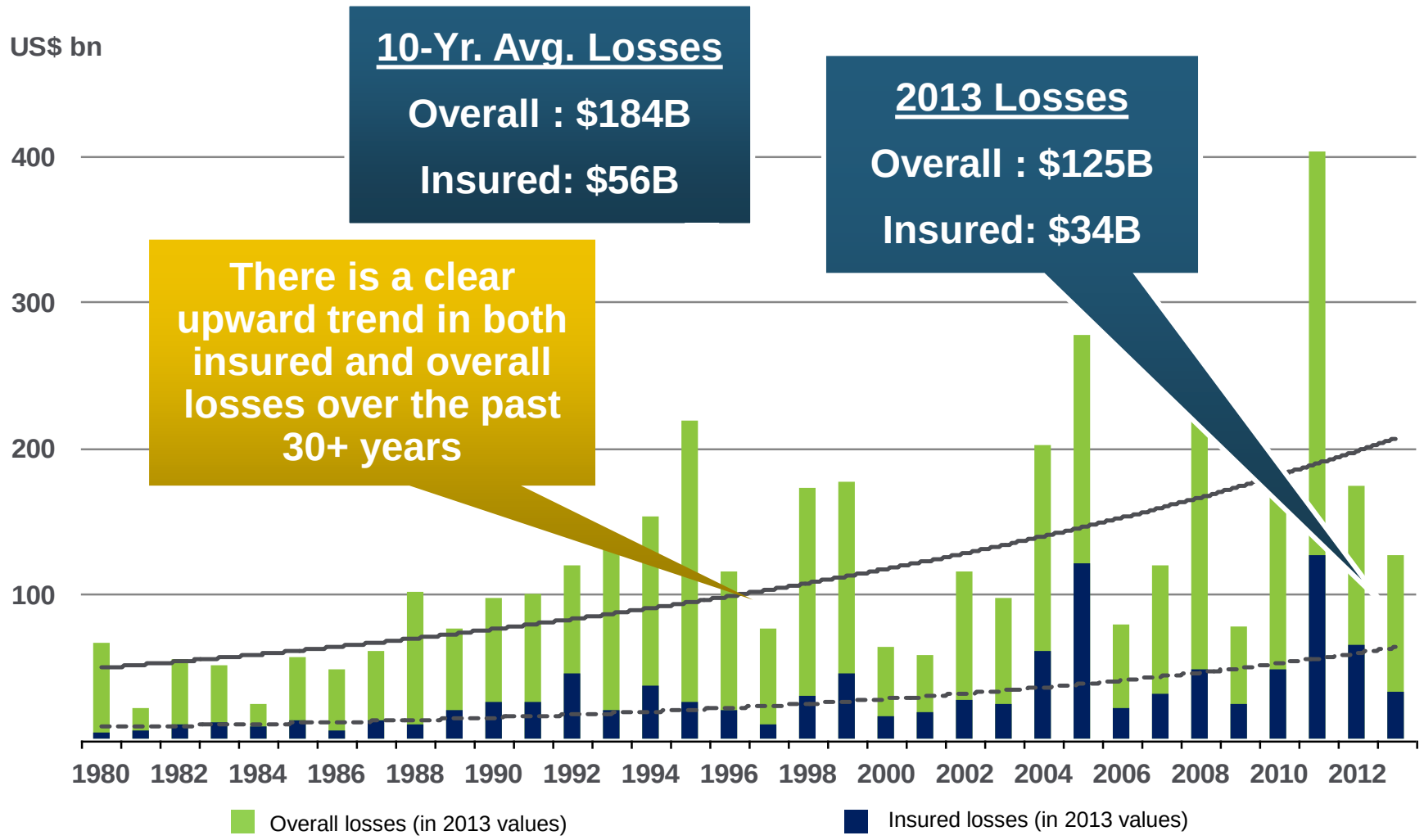
Source: MR NatCat*SERVICE*

Losses Due to Natural Disasters Worldwide, 1980–2013 (Overall & Insured Losses)

INSURANCE INFORMATION INSTITUTE

(Overall and Insured Losses)

(2013 Dollars, $ Billions)



Source: MR NatCat*SERVICE*

Natural Disaster Losses in the US, by Type, Jan. 1 – June 30, 2014

As of July 1, 2014	Number of Events	Fatalities	Estimated Overall Losses (US $m)	Estimated Insured Losses (US $m)
Severe Thunderstorm	33	65	9,100	6,700
Winter Storms & Cold Waves	11	84	3,400	2,400
Flood, flash flood	10	1	10	-
Earthquake & Geophysical, landslides	5	44	20	-
Tropical Cyclone	-	-	-	-
Wildfire, Heat Waves, & Drought	8	1	770	-
Totals	**67**	**195**	**13,300**	**9,100**

Source: Munich Re NatCat*SERVICE*

Natural Disaster Losses in the United States, by Type, 2013

As of December 31, 2013	Number of Events	Fatalities	Estimated Overall Losses (US $m)	Estimated Insured Losses (US $m)
Severe Thunderstorm	***69***	***110***	***16,341***	***10,274***
Winter Storm	11	43	2,935	1,895
Flood	19	23	1,929	240
Earthquake & Geophysical	6	1	Minor	Minor
Tropical Cyclone	1	1	Minor	Minor
Wildfire, Heat, & Drought	22	29	620	385
Totals	**128**	**207**	**21,825**	**12,794**

Source: Munich Re NatCat*SERVICE*

Significant Natural Catastrophes, 2013

(Events with $1 billion economic loss and/or 50 fatalities)

INSURANCE INFORMATION INSTITUTE

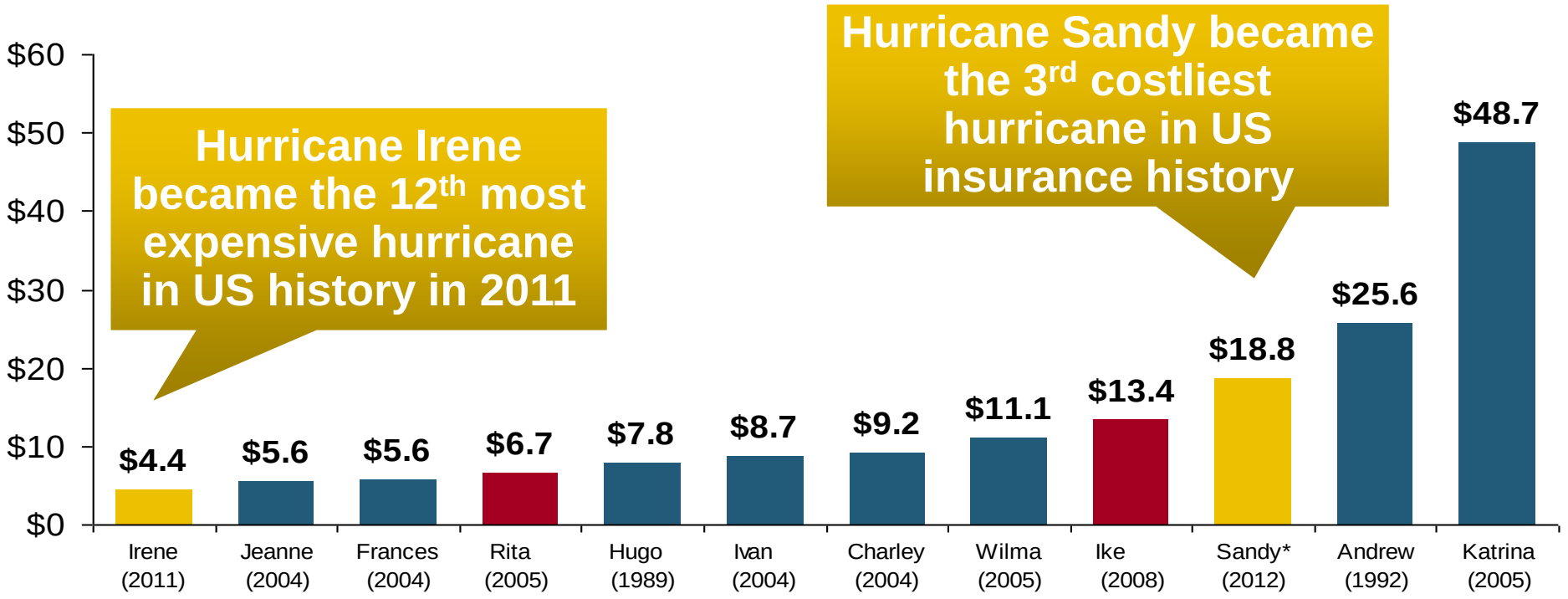
Date	Event	Estimated Economic Losses (US $m)	Estimated Insured Losses (US $m)
February 24 – 25	Winter Storm	1,300	690
March 18 – 19	Thunderstorms	2,200	1,600
April 7 – 11	Winter Storm	1,600	1,200
April 16 – 18	Thunderstorms	1,100	560
May 18 – 20	Thunderstorms	3,100	1,800
May 28 – 31	Thunderstorms	2,800	1,400
August 6 – 7	Thunderstorms	1,300	740
September 9 – 16	Flooding	1,500	160
November 17 - 18	Thunderstorms	1,300	931

Source: Munich Re NatCat*SERVICE*

Top 12 Most Costly Hurricanes in U.S. History

(Insured Losses, 2012 Dollars, $ Billions)

10 of the 12 most costly hurricanes in insurance history occurred over the past 9 years (2004—2012)



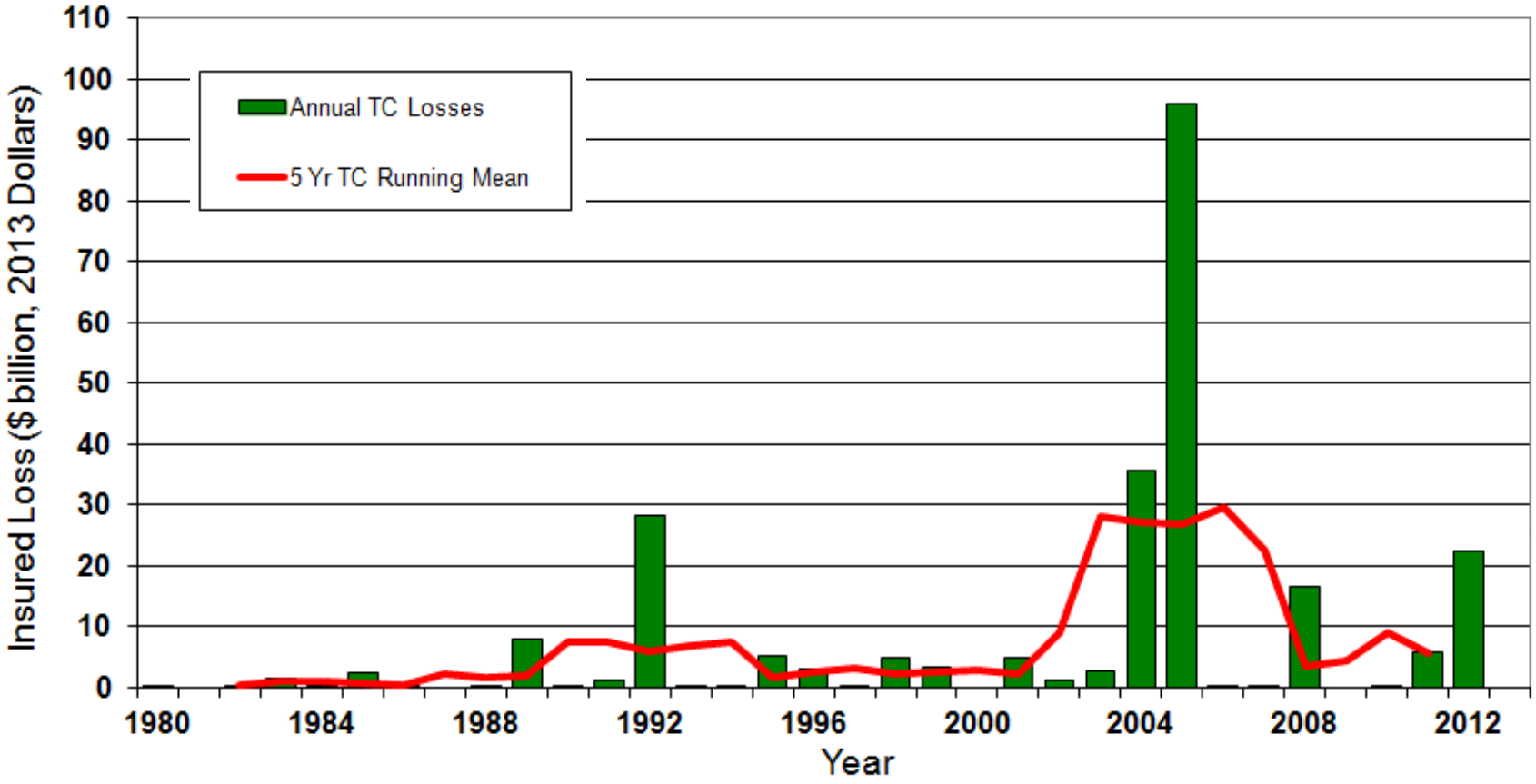
*PCS estimate as of 4/12/13.

Sources: PCS; Insurance Information Institute inflation adjustments to 2012 dollars using the CPI.

Insured US Tropical Cyclone Losses, 1980 - 2013

INSURANCE INFORMATION INSTITUTE

The current 5-year average (2008 - 2013) insured tropical cyclone loss is $5.6 billion per year.

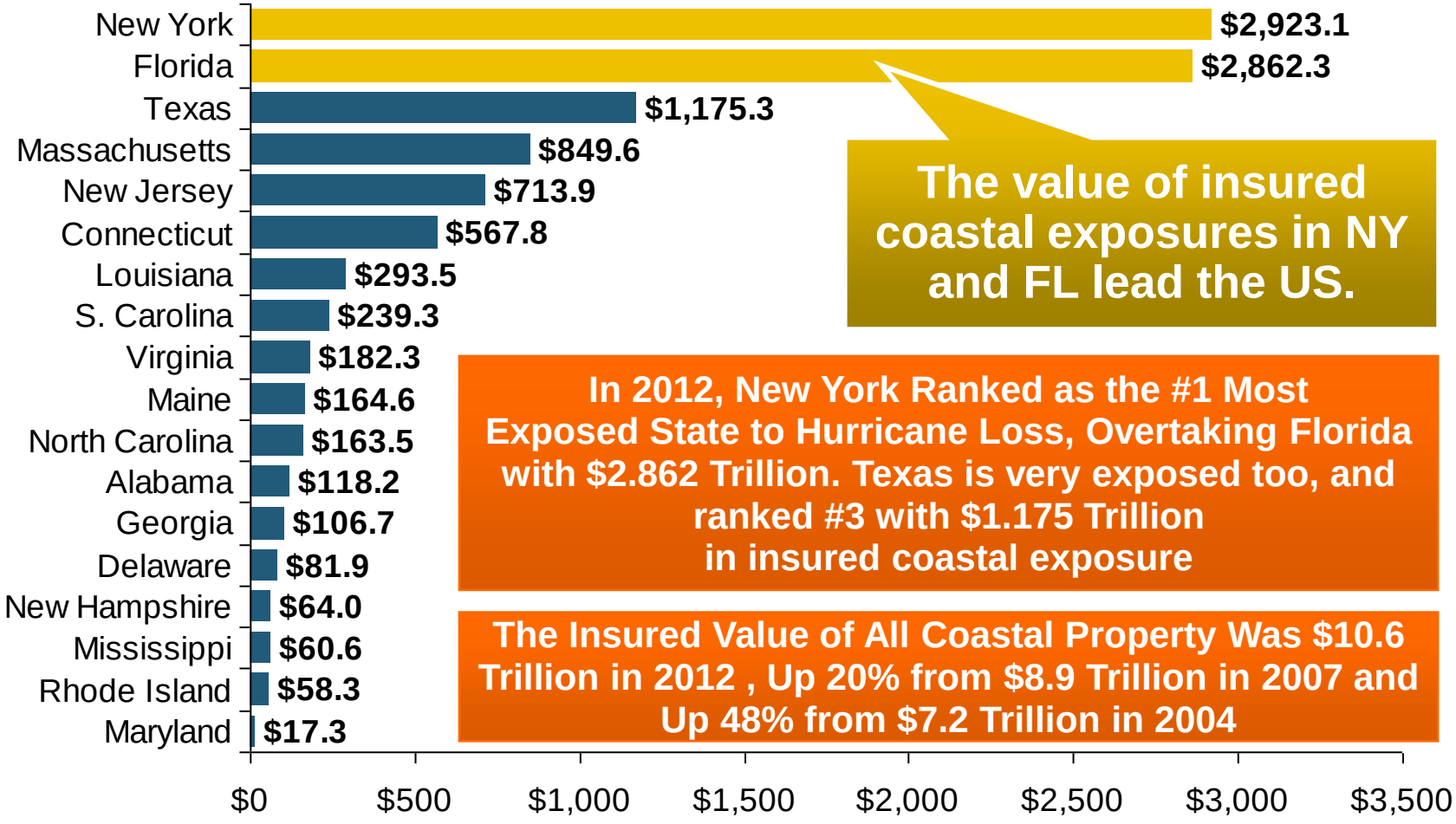


Sources: Property Claims Service, Munich Re NatCat*SERVICE,* NFIP

Total Value of Insured Coastal Exposure in 2012

INSURANCE INFORMATION INSTITUTE

(2012, $ Billions)



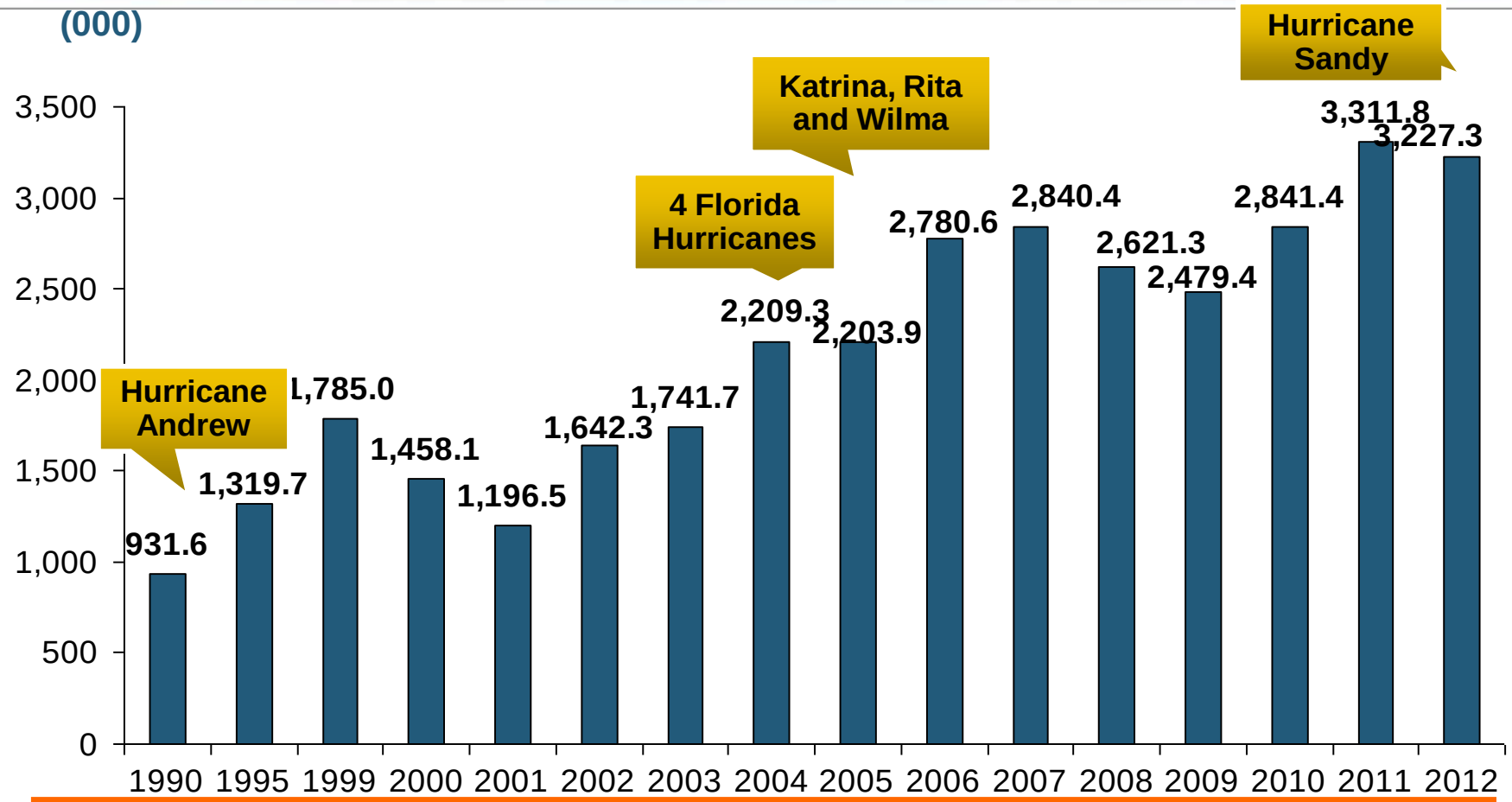
The value of insured coastal exposures in NY and FL lead the US.

In 2012, New York Ranked as the #1 Most Exposed State to Hurricane Loss, Overtaking Florida with $2.862 Trillion. Texas is very exposed too, and ranked #3 with $1.175 Trillion in insured coastal exposure

The Insured Value of All Coastal Property Was $10.6 Trillion in 2012 , Up 20% from $8.9 Trillion in 2007 and Up 48% from $7.2 Trillion in 2004

Source: AIR Worldwide

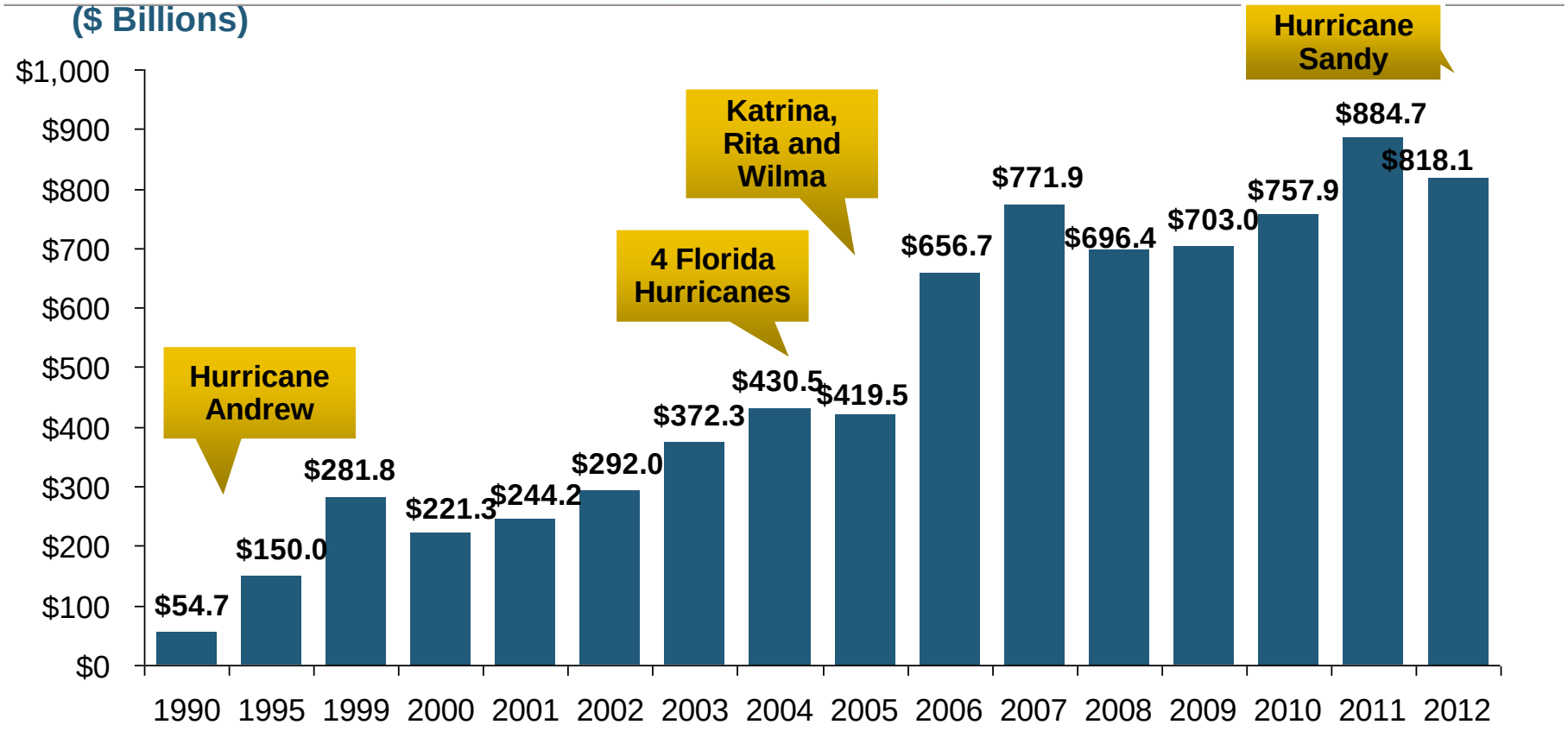
U.S. Residual Market: Total Policies In-Force (1990-2012) (000)



In the 23-year period between 1990 and 2012, the total number of policies in-force in the residual market (FAIR & Beach/Windstorm) Plans has more than tripled.

Source: PIPSO; Insurance Information Institute

U.S. Residual Market Exposure to Loss (1990-2012) ($ Billions)

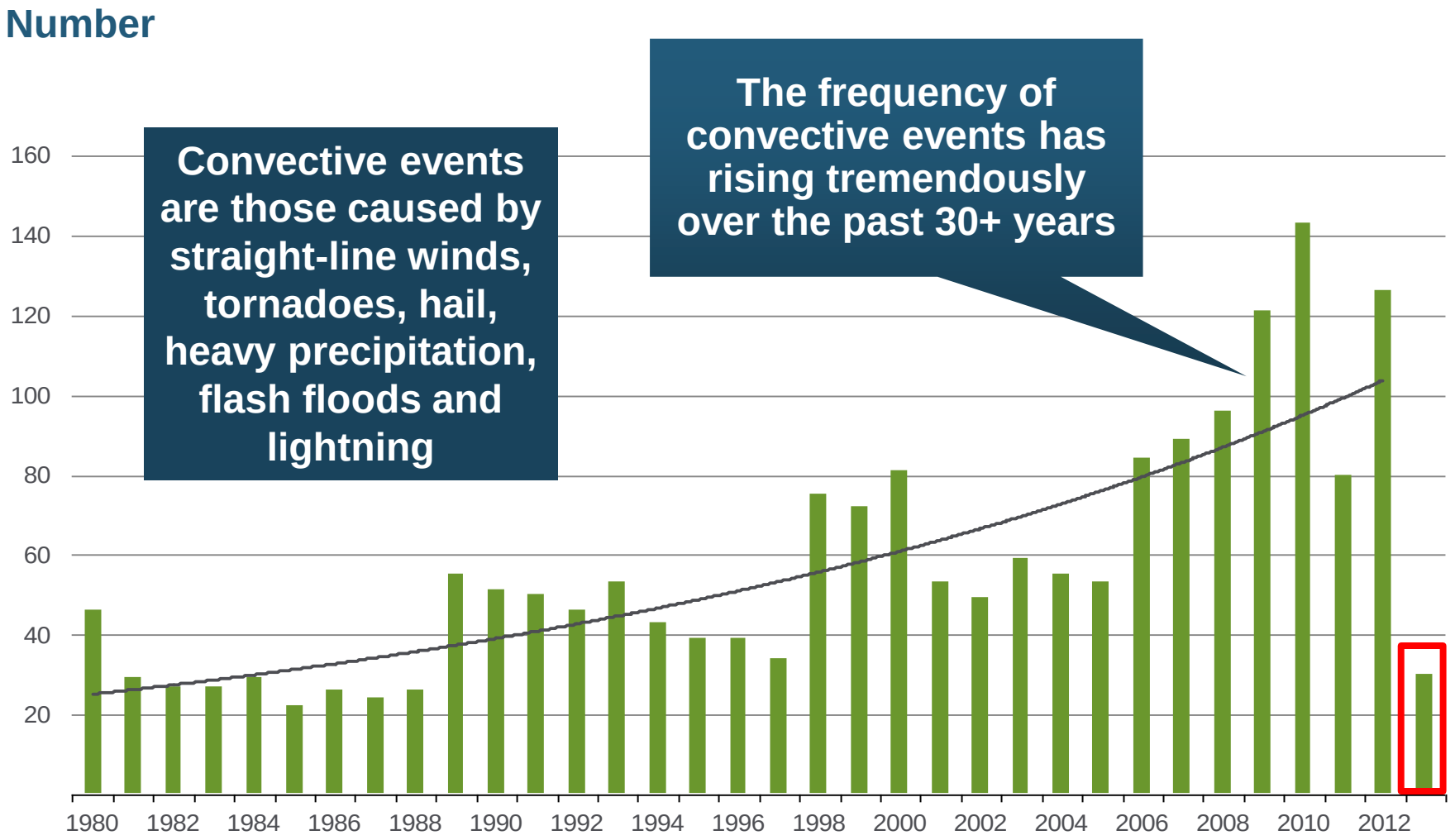


In the 23-year period between 1990 and 2012, total exposure to loss in the residual market (FAIR & Beach/Windstorm) Plans has surged from $54.7 billion in 1990 to $818.1 billion in 2012.

Source: PIPSO; Insurance Information Institute (I.I.I.).

Convective Loss Events in the U.S.

Number of events 1980 – 2012 and First Half 2013

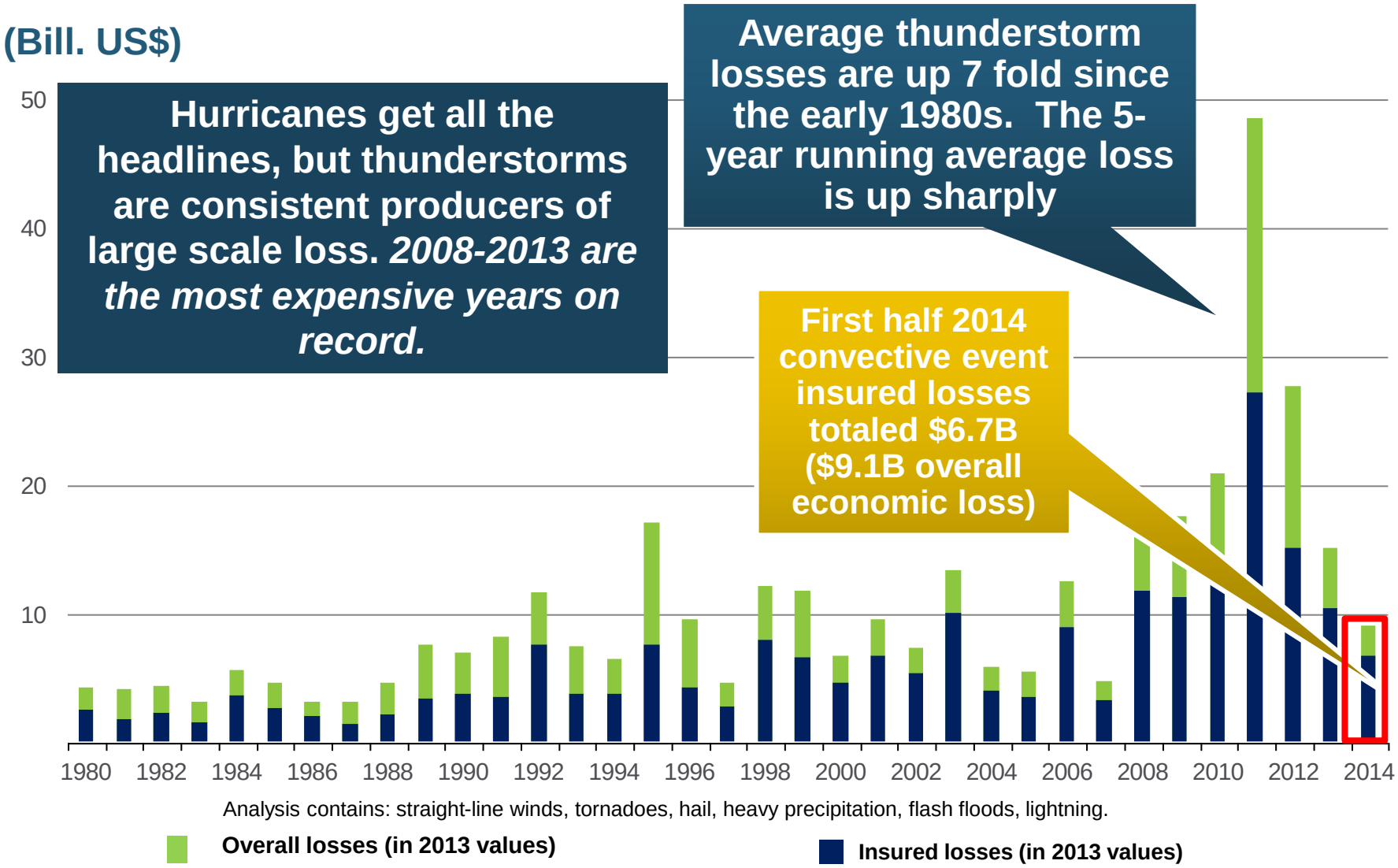


Source: Geo Risks Research, NatCatSERVICE – As at July 2013

Convective Loss Events in the U.S.

Overall and insured losses 1980 – 2013 and First Half 2014

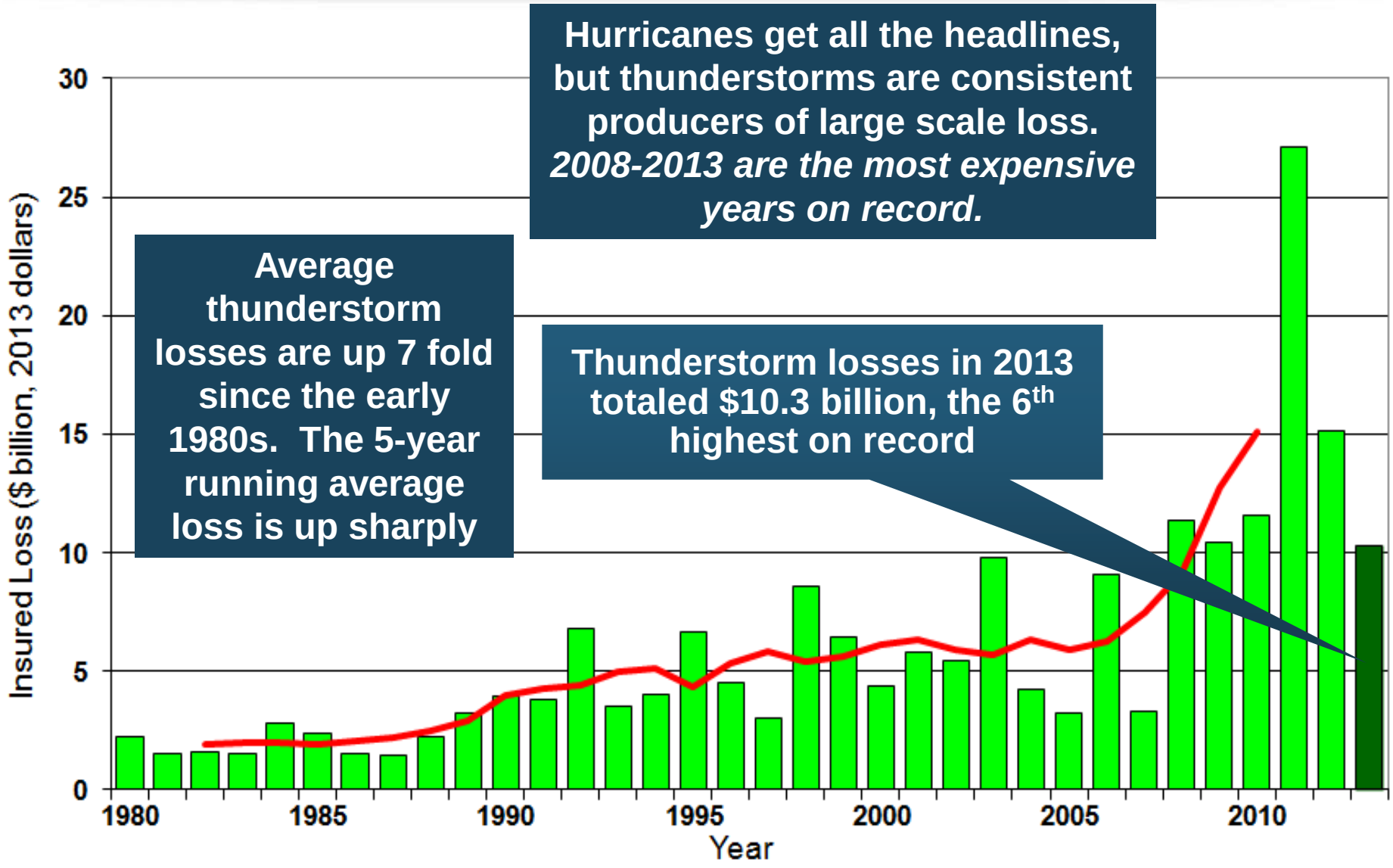
INSURANCE INFORMATION INSTITUTE



Source: Geo Risks Research, Munich Re NatCatSERVICE – As at July 2014

U.S. Thunderstorm Insured Loss Trends, 1980 – 2013

INSURANCE INFORMATION INSTITUTE



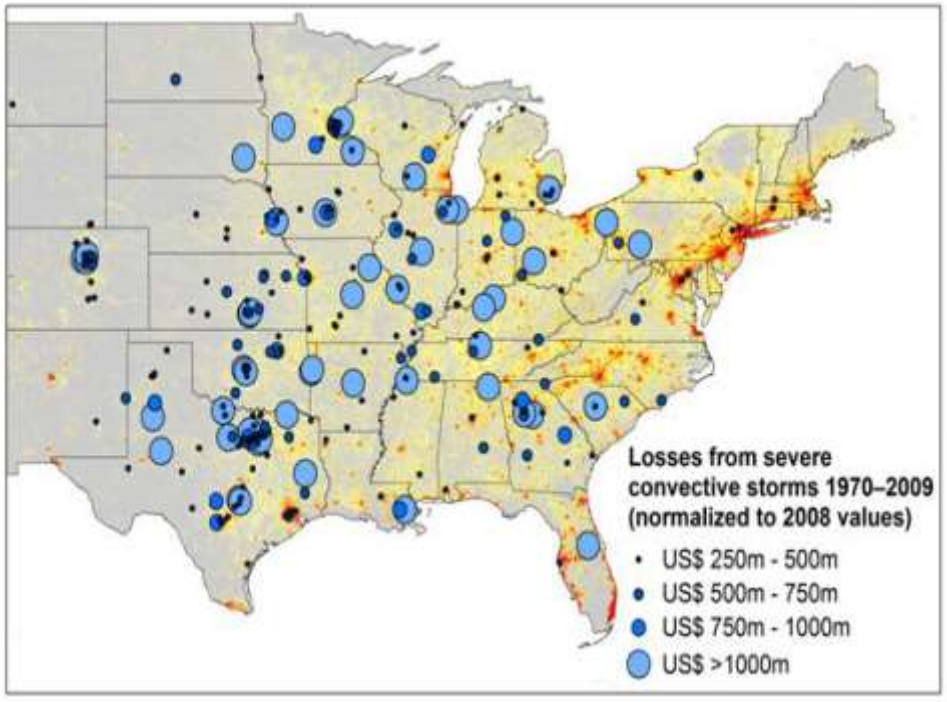
Source: Property Claims Service, MR NatCat*SERVICE*

New Research Suggests Increase in Convective Activity Is Costly for Insurers

INSURANCE INFORMATION INSTITUTE

- **Study examines convective (hail, tornado, thundersquall and heavy rainfall) events in the US with losses exceeding US$ 250m in the period 1970–2009 (80% of all losses)**
- **Past losses are normalized (i.e., adjusted) to currently exposed values**
- **After normalization there are still increases of losses**
- **Increases are correlated with the increase in the meteorological potential for severe thunderstorms and its variability**

For the first time research shows that climatic changes have already influenced US thunderstorm losses

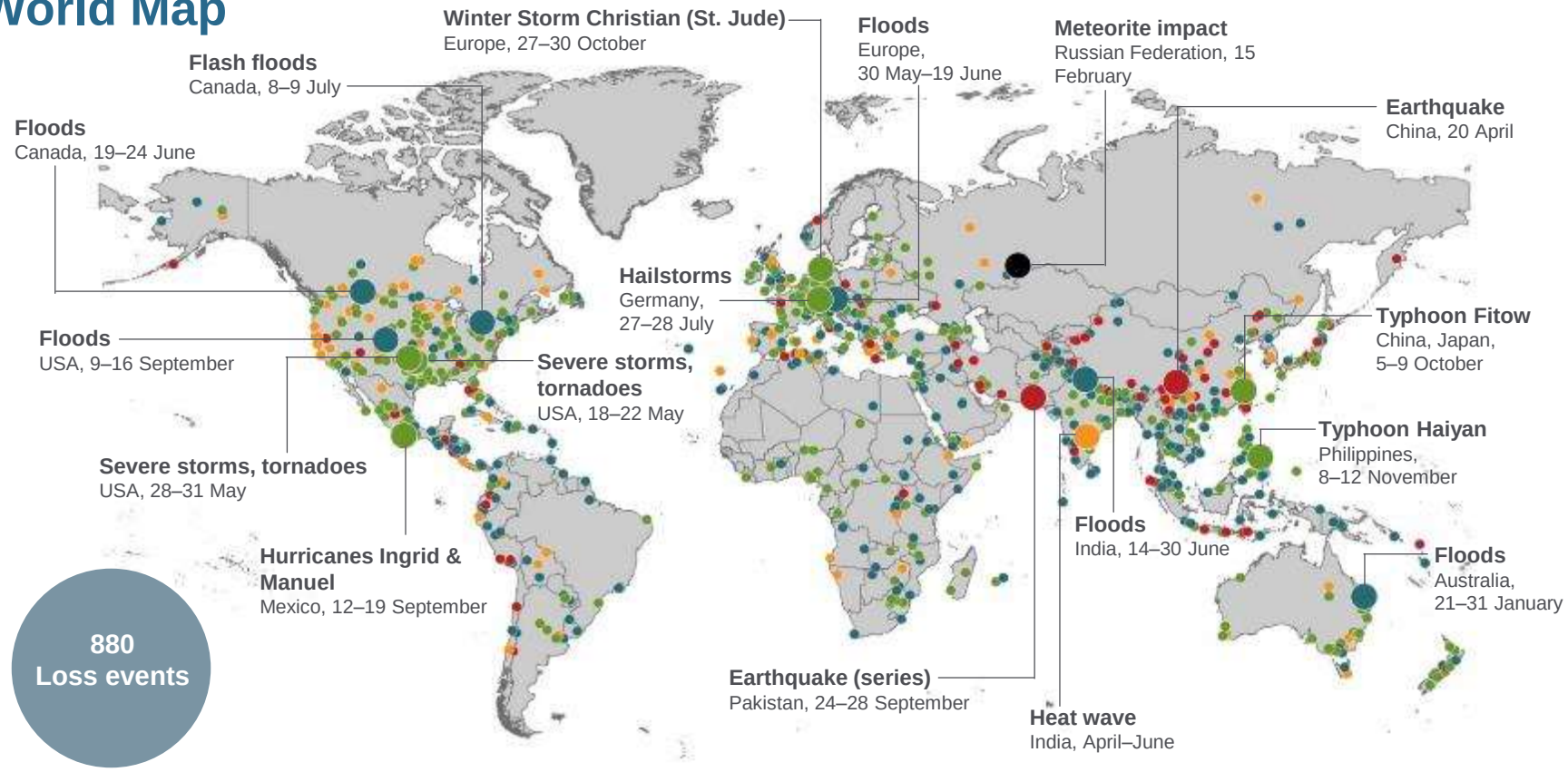


Source: Munich Re research paper, Marhc 18, 2013: *Rising Variability in Thunderstorm-Related U.S. Losses as a Reflection of Changes in Large-Scale Thunderstorm Forcing*.

Natural Loss Events: Full Year 2013

INSURANCE INFORMATION INSTITUTE

World Map



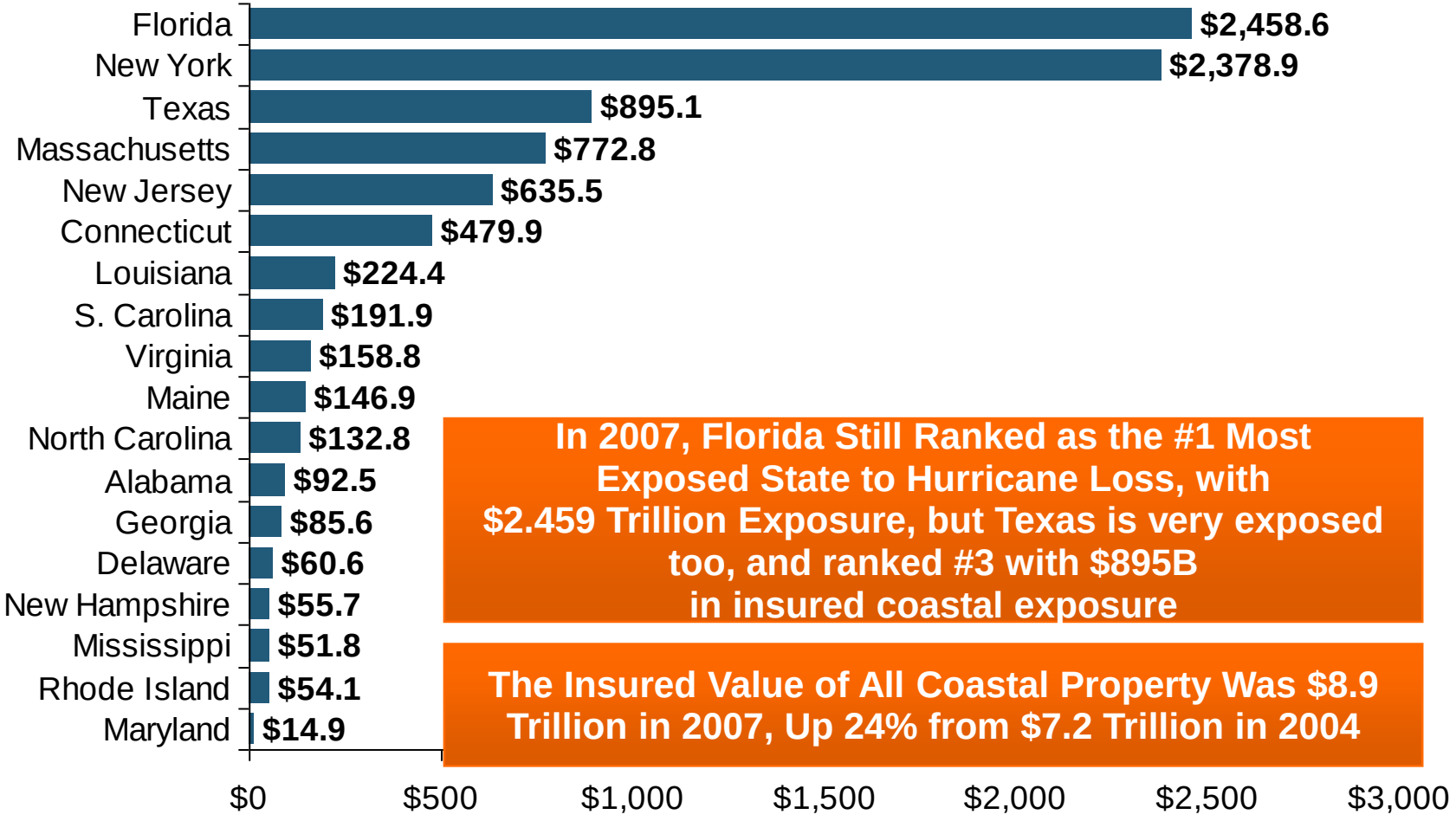
- Natural catastrophes
- Selection of significant Natural catastrophes
- **Geophysical events** (earthquake, tsunami, volcanic activity)
- **Meteorological events** (storm)
- **Hydrological events** (flood, mass movement)
- **Climatological events** (extreme temperature, drought, wildfire)
- **Extraterrestrial events** (Meteorite impact)

Source: Munich Re Geo Risks Research, NatCat*SERVICE* – as of January 2014.

Total Value of Insured Coastal Exposure in 2007

INSURANCE INFORMATION INSTITUTE

(2007, $ Billions)



In 2007, Florida Still Ranked as the #1 Most Exposed State to Hurricane Loss, with $2.459 Trillion Exposure, but Texas is very exposed too, and ranked #3 with $895B in insured coastal exposure

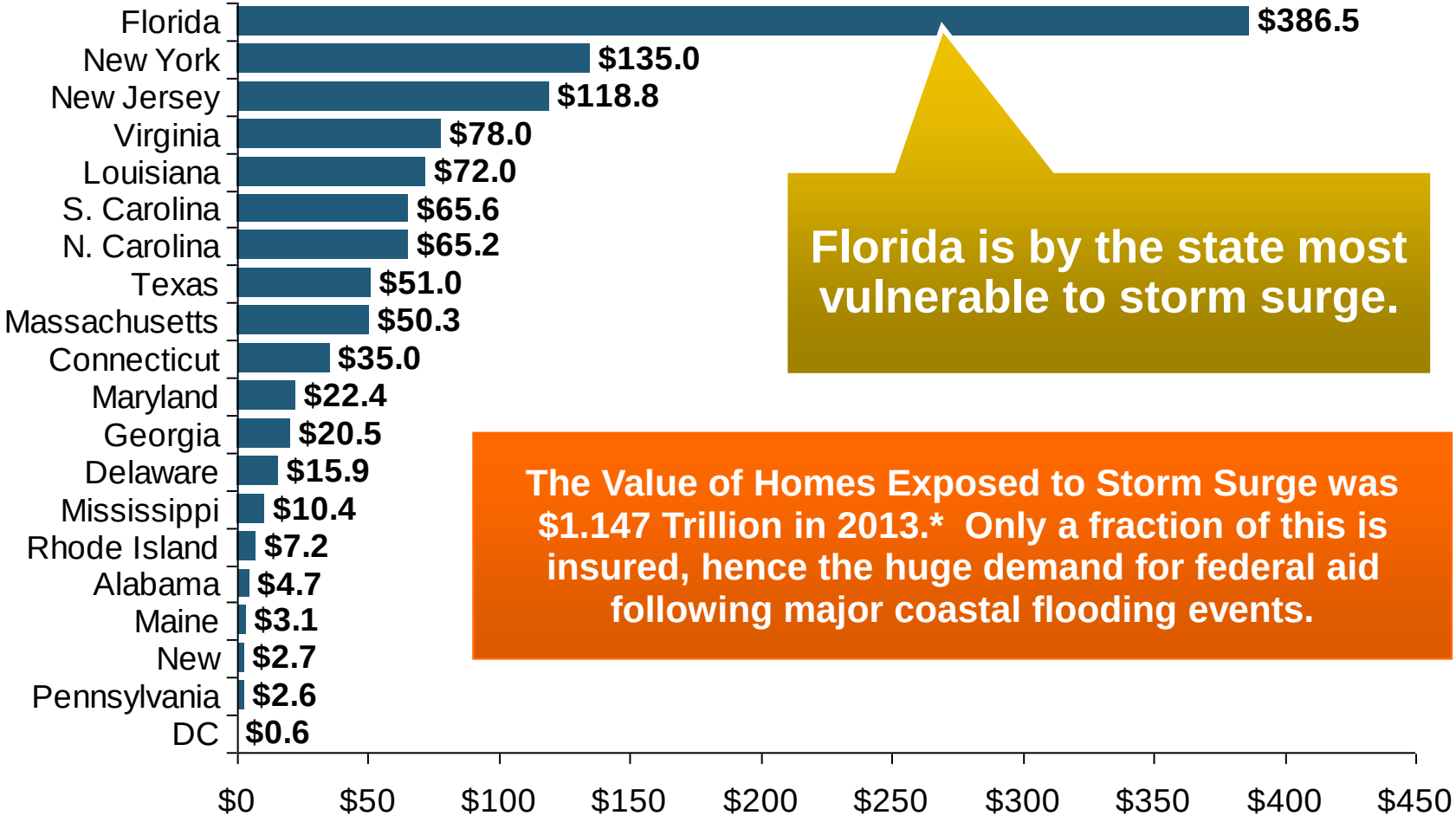
The Insured Value of All Coastal Property Was $8.9 Trillion in 2007, Up 24% from $7.2 Trillion in 2004

Source: AIR Worldwide

Total Potential Home Value Exposure to Storm Surge Risk in 2013*

INSURANCE INFORMATION INSTITUTE

($ Billions)



Florida is by the state most vulnerable to storm surge.

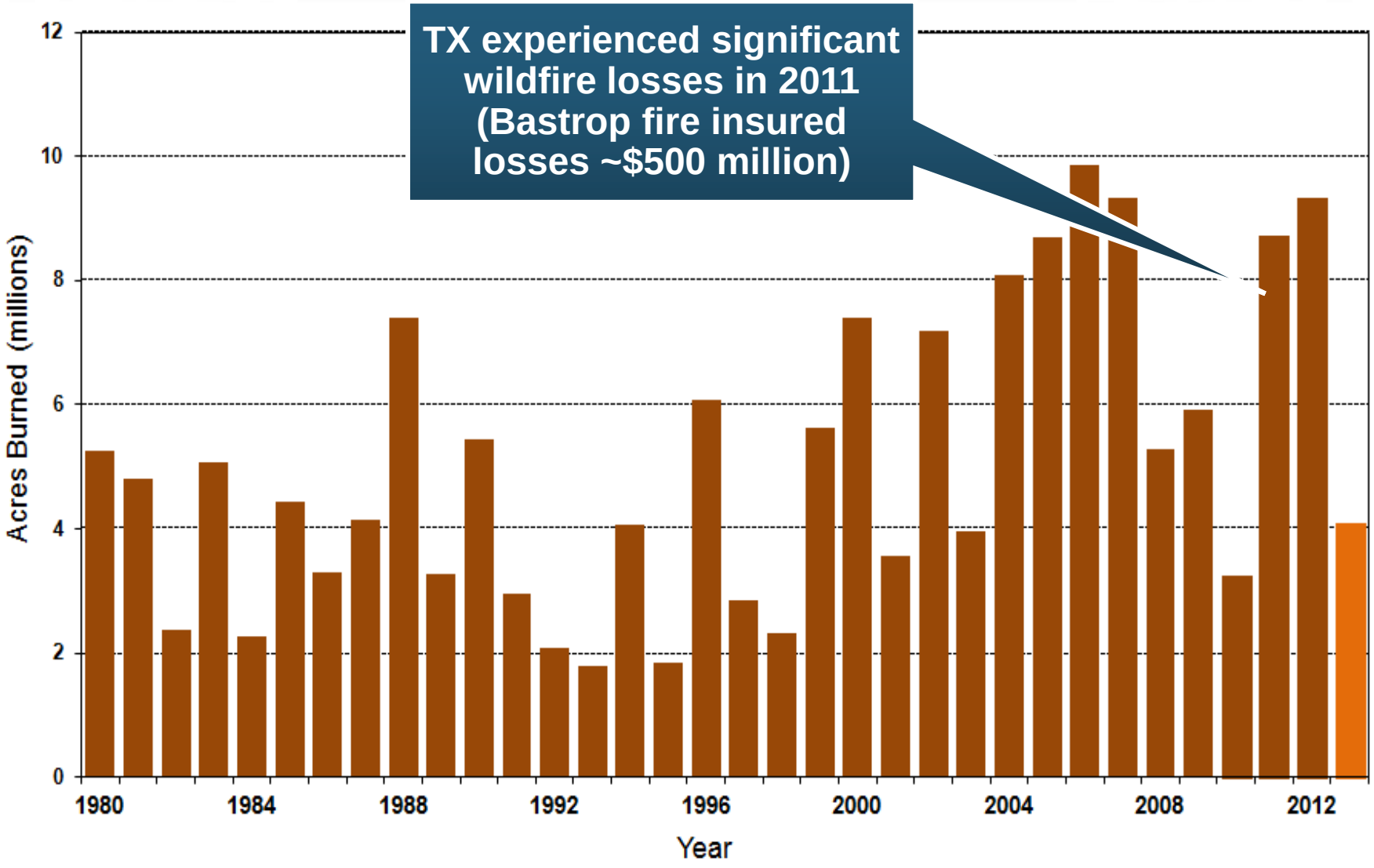
The Value of Homes Exposed to Storm Surge was $1.147 Trillion in 2013.* Only a fraction of this is insured, hence the huge demand for federal aid following major coastal flooding events.

*Insured and uninsured property. Based on estimated property values as of April 2013.

Source: *Storm Surge Report 2013,* CoreLogic.

Number of Acres Burned in Wildfires, 1980 – 2013

INSURANCE INFORMATION INSTITUTE

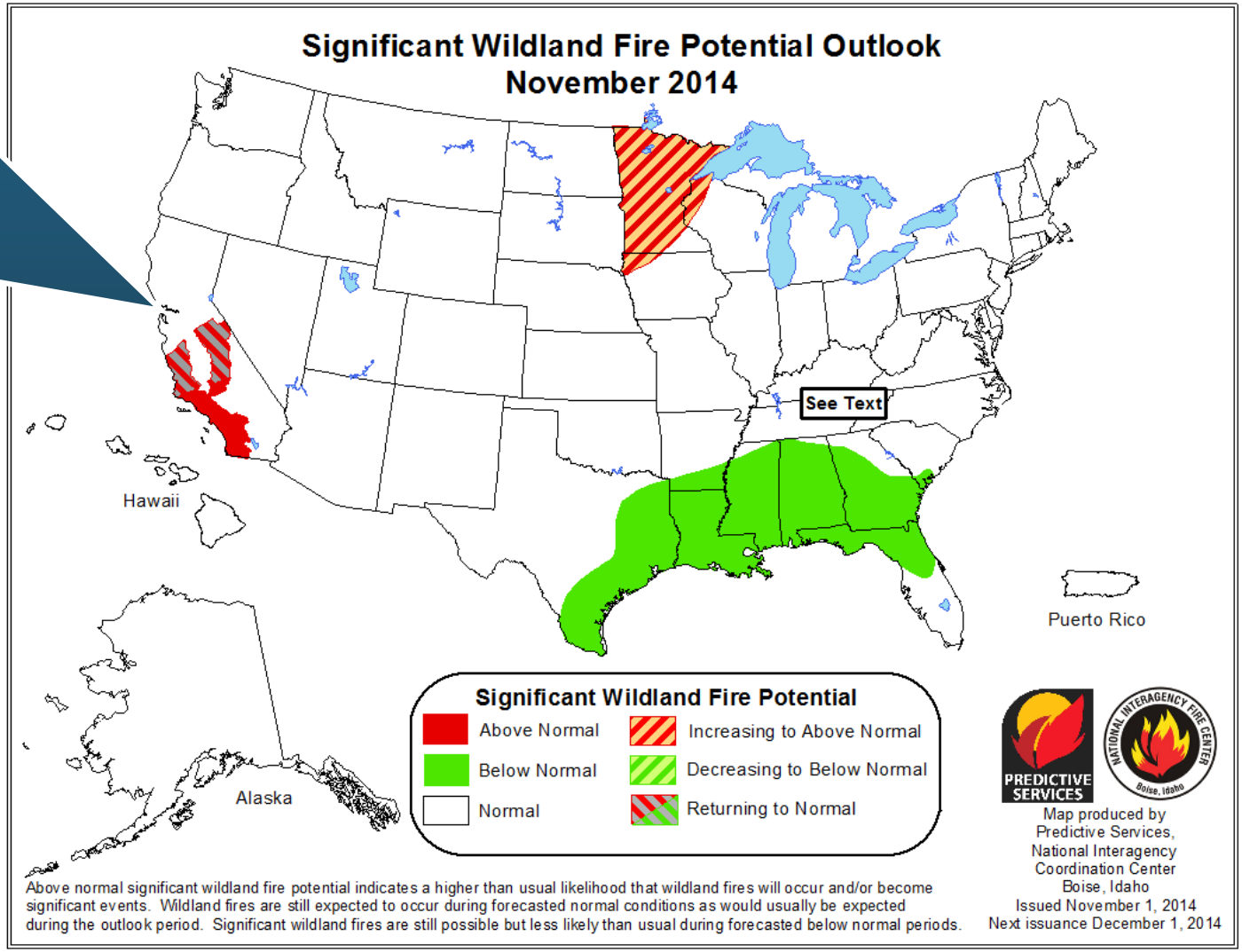


Source: National Interagency Fire Center

Wildfire Risk for the California Remains Elevated

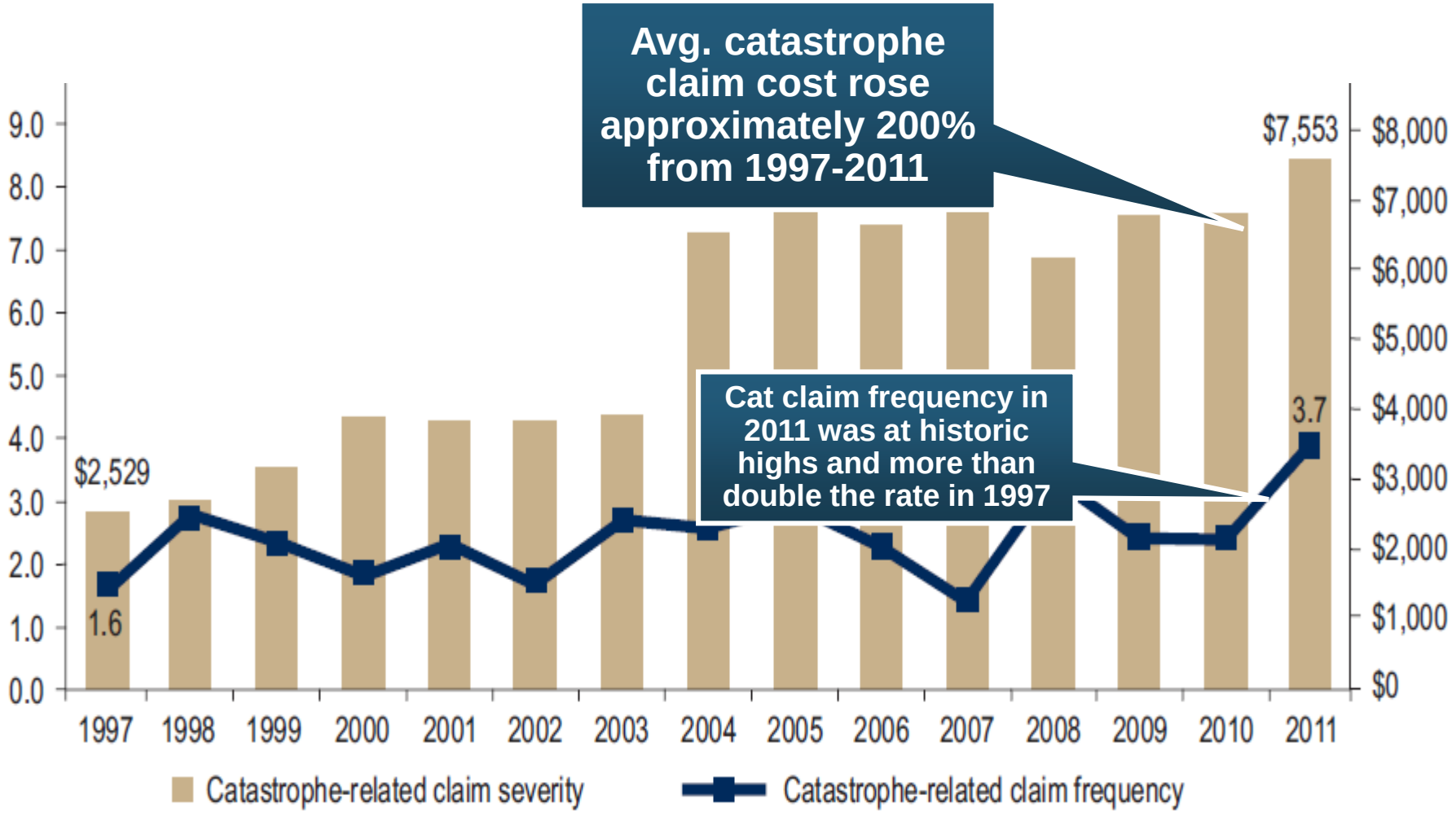
INSURANCE INFORMATION INSTITUTE

Large areas of California remain at elevated risk for wildfire due to prolonged drought and high temperatures



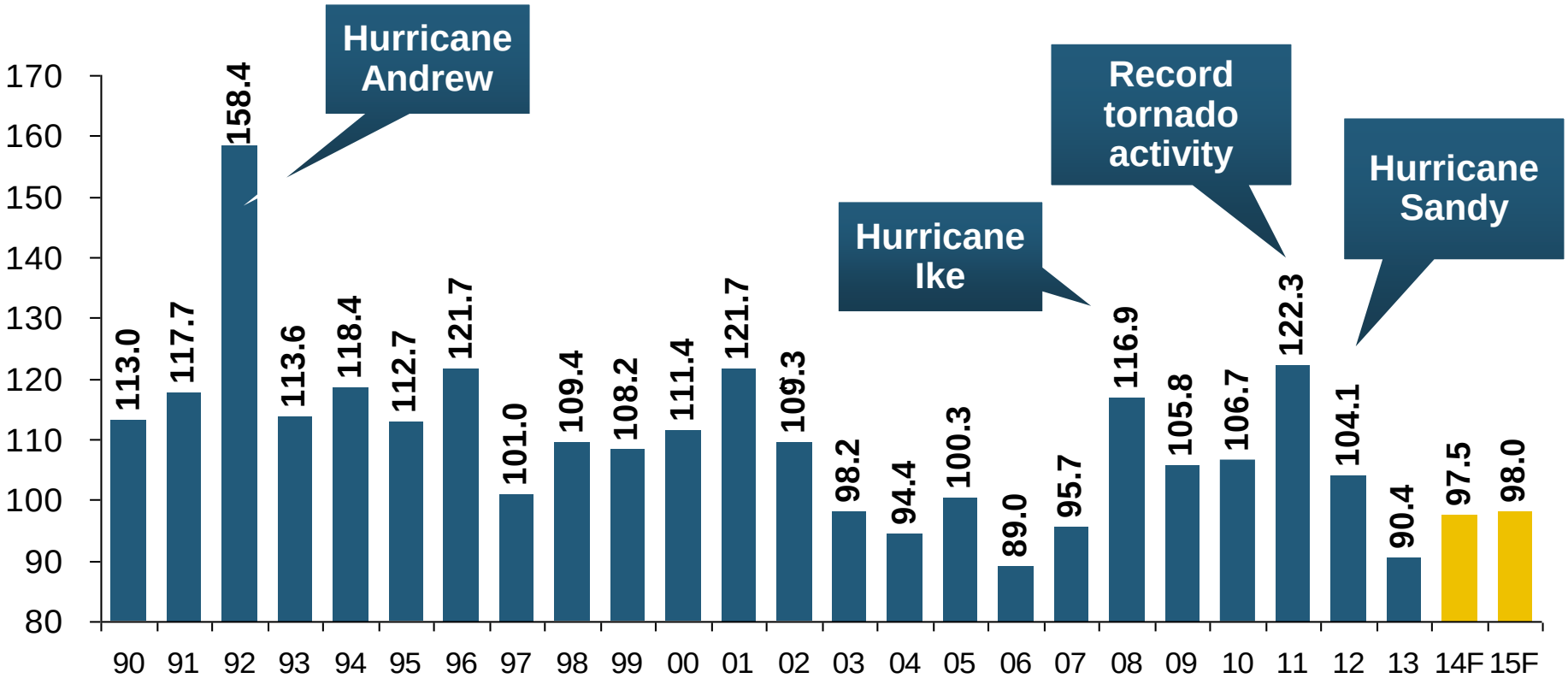
Source: National Interagency Fire Center: http://www.predictiveservices.nifc.gov/outlooks/month1_outlook.png

Homeowners Insurance Catastrophe-Related Claim Frequency and Severity, 1997—2012*



*All policy forms combined, countrywide.
Source: Insurance Research Council, *Trends in Homeowners Insurance Claims,* Sept. 2012 from ISO Fast Track data.

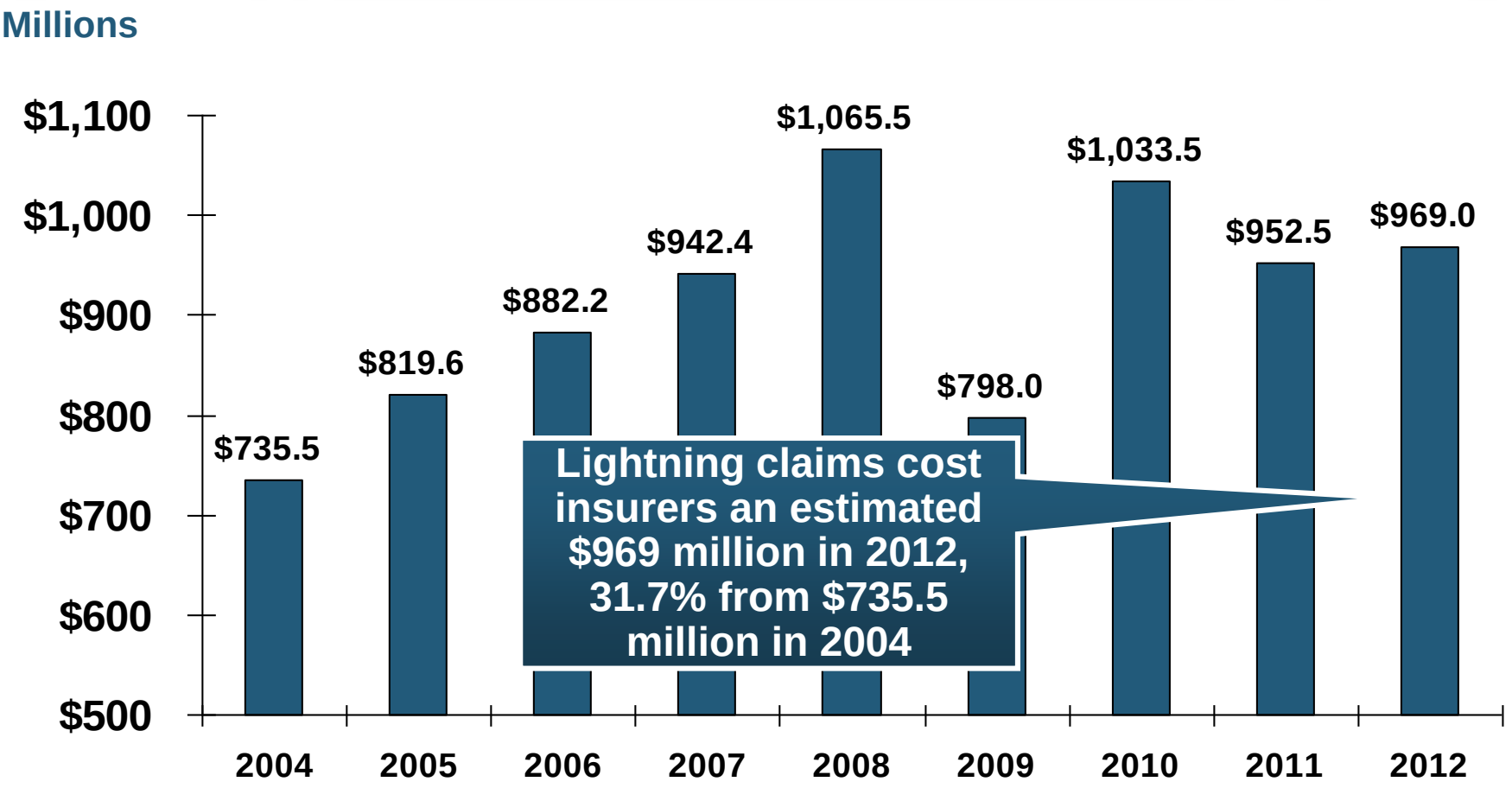
Homeowners Insurance Combined Ratio: 1990–2015F



Homeowners Performance in 2011/12 Impacted by Large Cat Losses but Lower CATs Helped 2013. Extreme Regional Variation Can Be Expected Due to Local Catastrophe Loss Activity

Sources: A.M. Best (1990-2013); Insurance Information Institute (2014E-2015F).

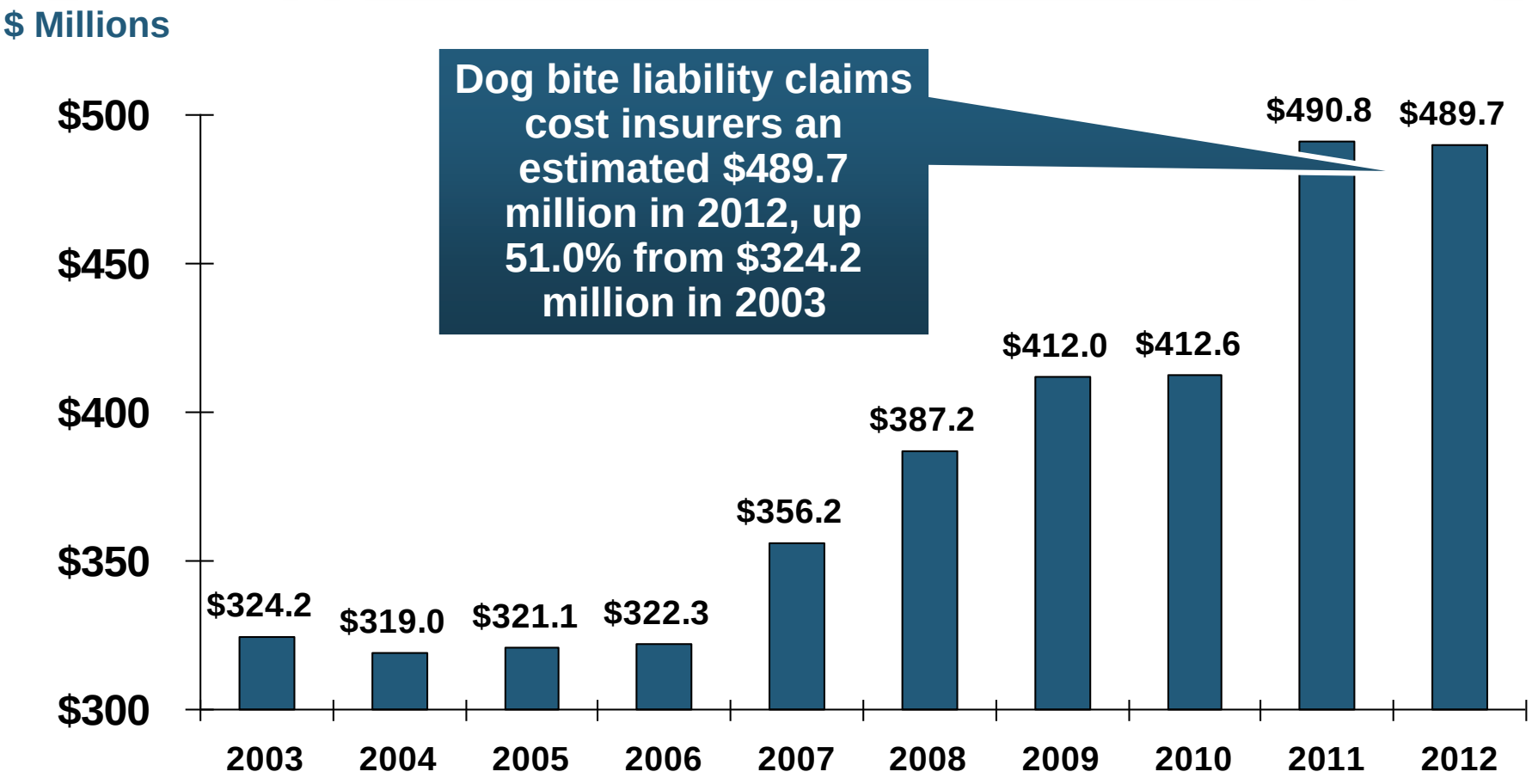
Insured Homeowners Losses Due to Lightning, 2004-2012



The Increased Number and Value of Expensive Electronic Devices in Homes is Pushing the Total Lightning Claim Costs Up Even as the Number of Lightning Claims Falls

Source: Insurance Information Institute.

Insured Homeowners Losses Due Dog Bite Liability Claims, 2003-2012



The Increased Average Cost per Dog Bite Claim is Pushing Total Dog Bite Liabiity Claim Costs Higher Even as the Number of Claims Remains Relatively Flat

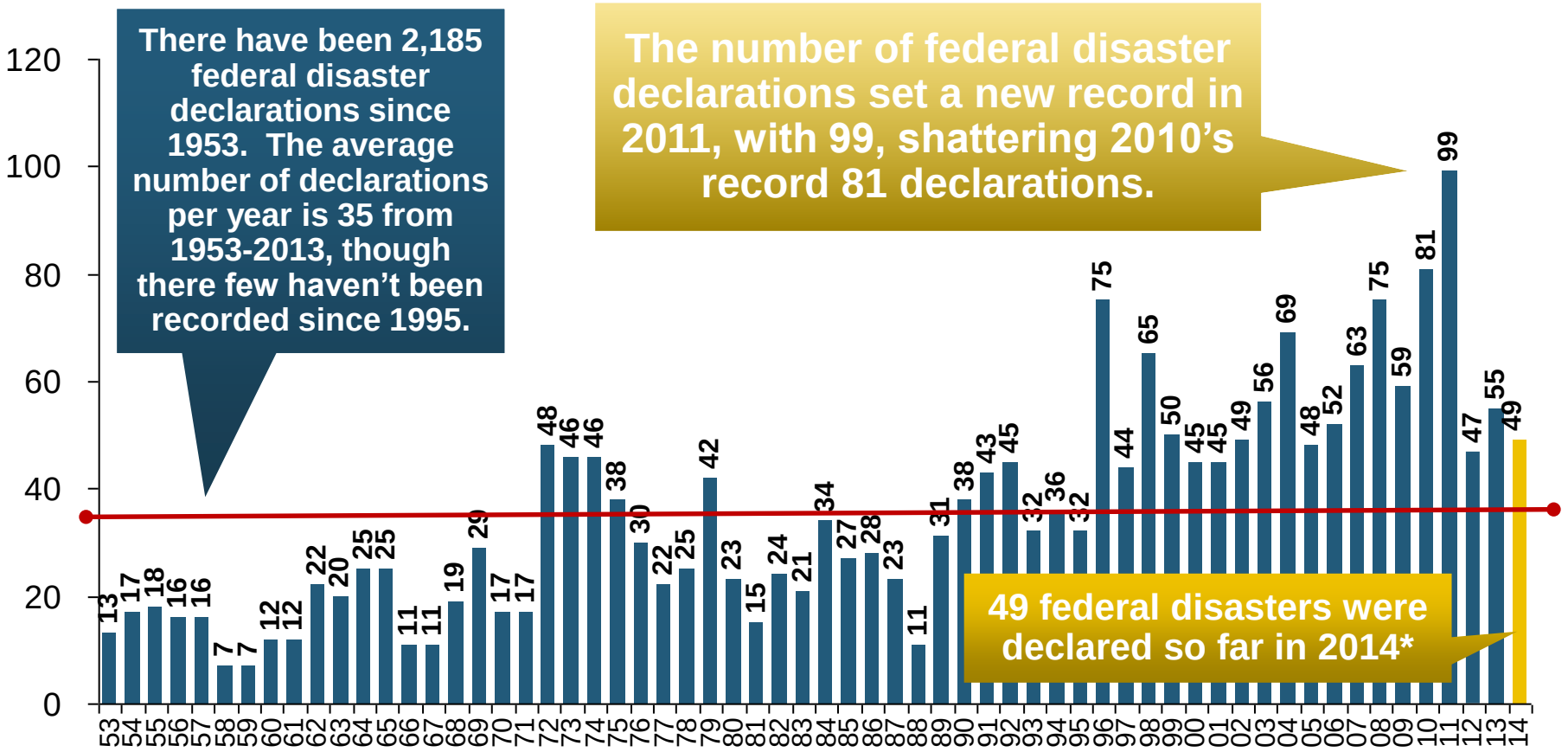
Source: Insurance Information Institute.

INSURANCE INFORMATION INSTITUTE

Federal Disaster Declarations Patterns: 1953-2014

Disaster Declarations Set New Records in Recent Years

Number of Federal Major Disaster Declarations, 1953-2014*

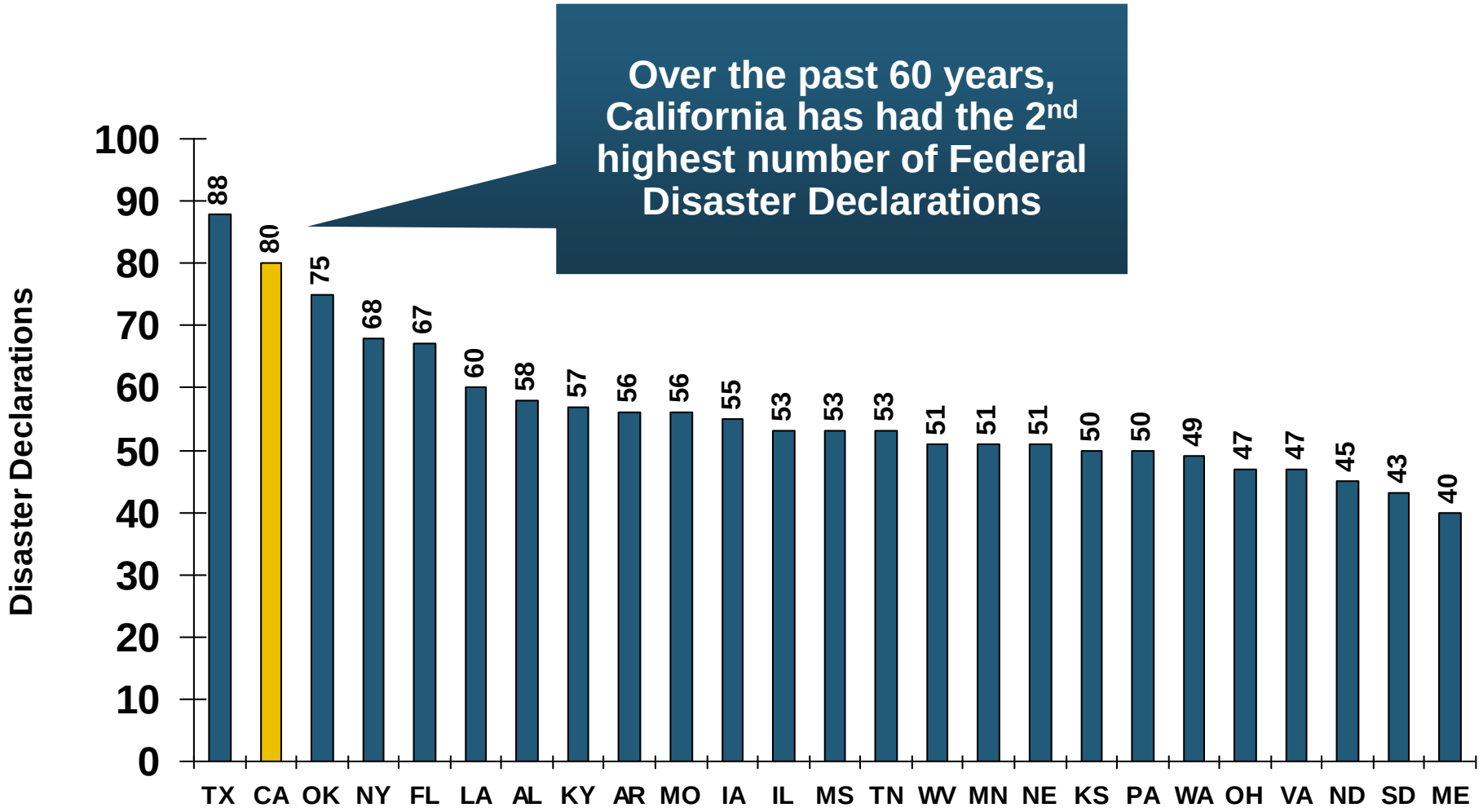


The Number of Federal Disaster Declarations Is Rising and Set New Records in 2010 *and* 2011 Before Dropping in 2012/13

*Through November 5, 2014.

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

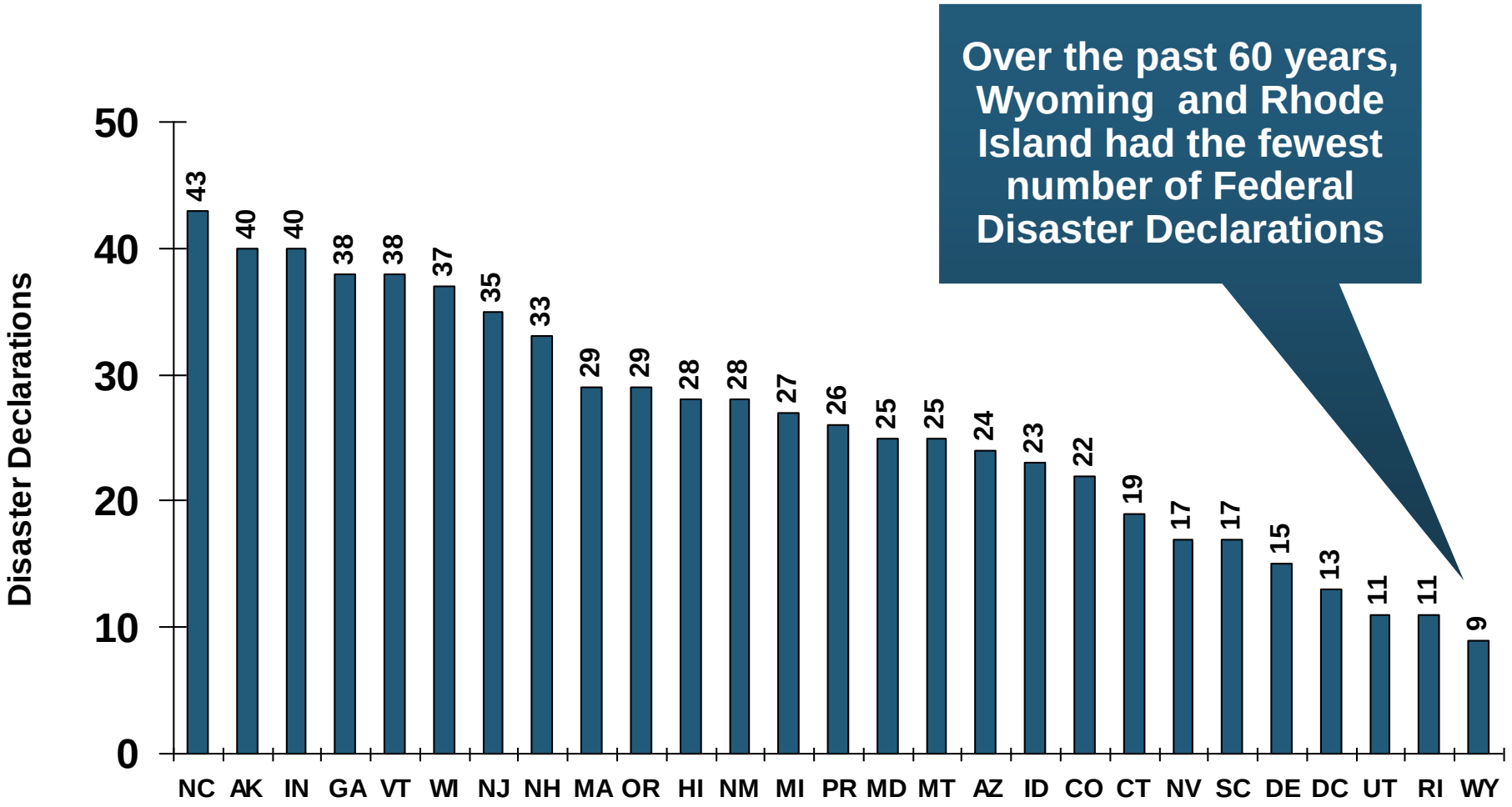
Federal Disasters Declarations by State, 1953 – 2014: Highest 25 States*



*Through November 5, 2014. Includes Puerto Rico and the District of Columbia.

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

Federal Disasters Declarations by State, 1953 – 2014: Lowest 25 States*



*Through November 5, 2014. Includes Puerto Rico and the District of Columbia.

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

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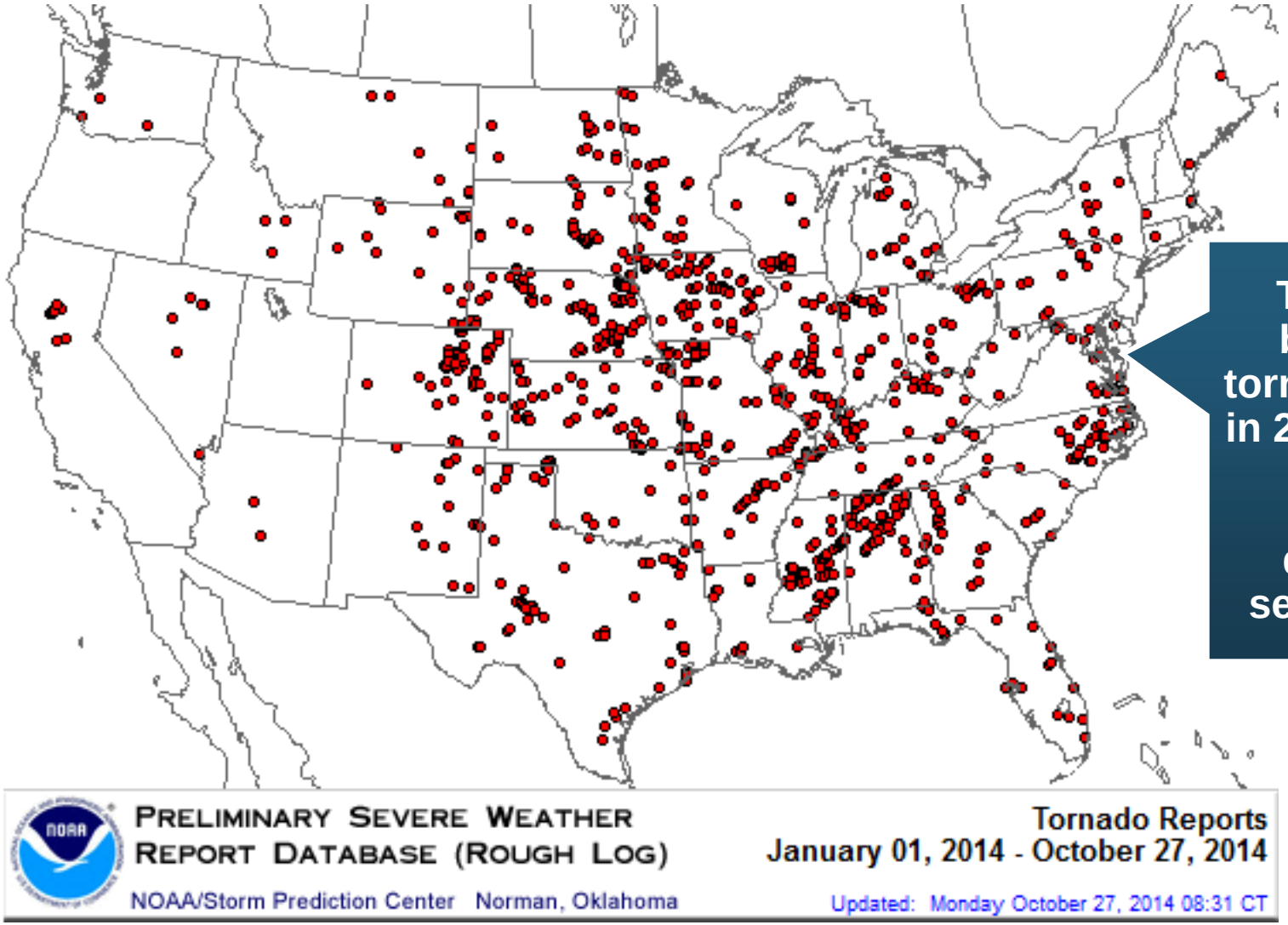
SEVERE WEATHER REPORT UPDATE: 2014

Damage from Tornadoes, Large Hail and High Winds Keep Insurers Busy

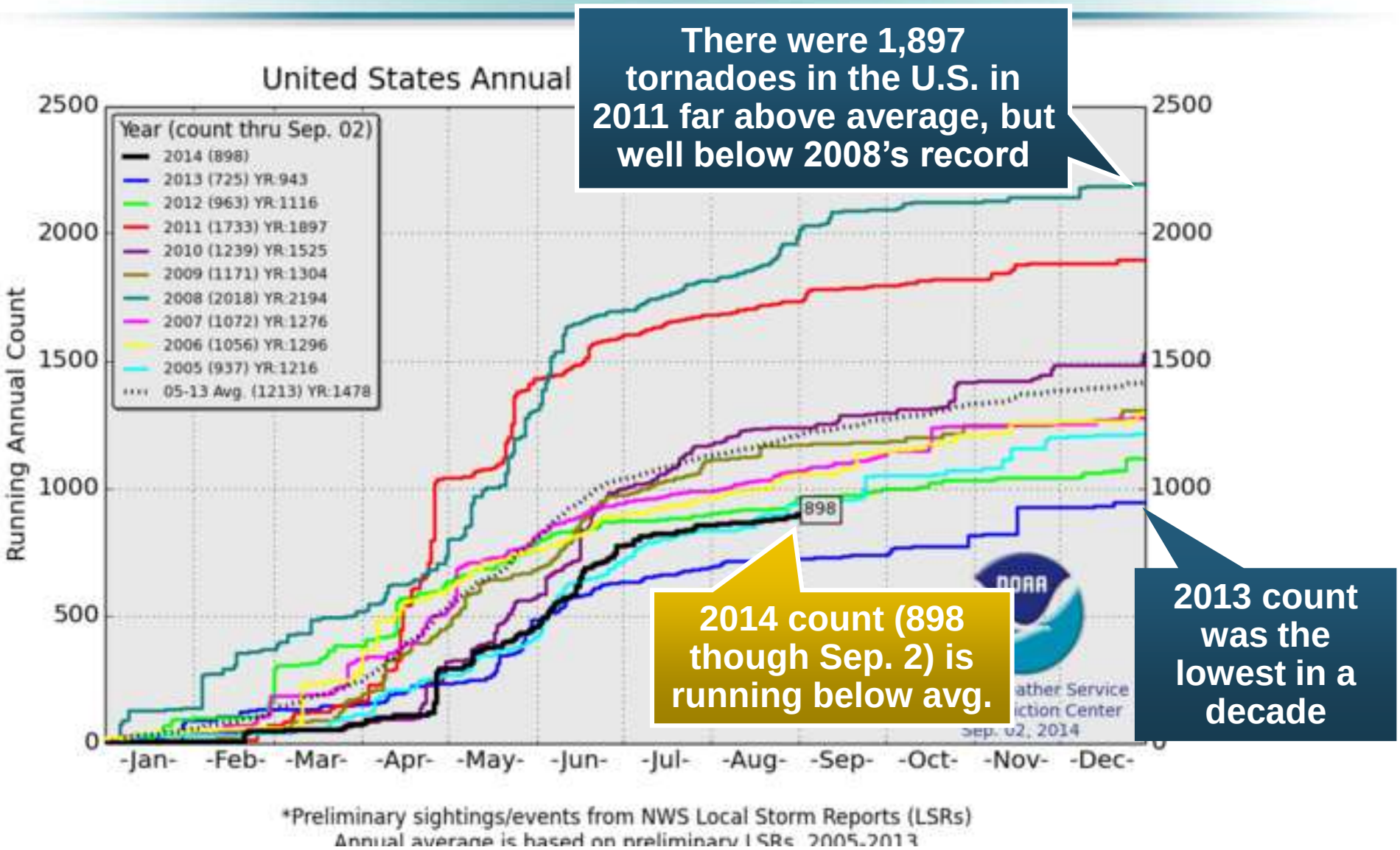
Location of Tornado Reports in 2014: Through October 27, 2014



There have been 1,000 tornadoes so far in 2014, causing extensive property damage in several states

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2014_annual_summary.html#; PCS.

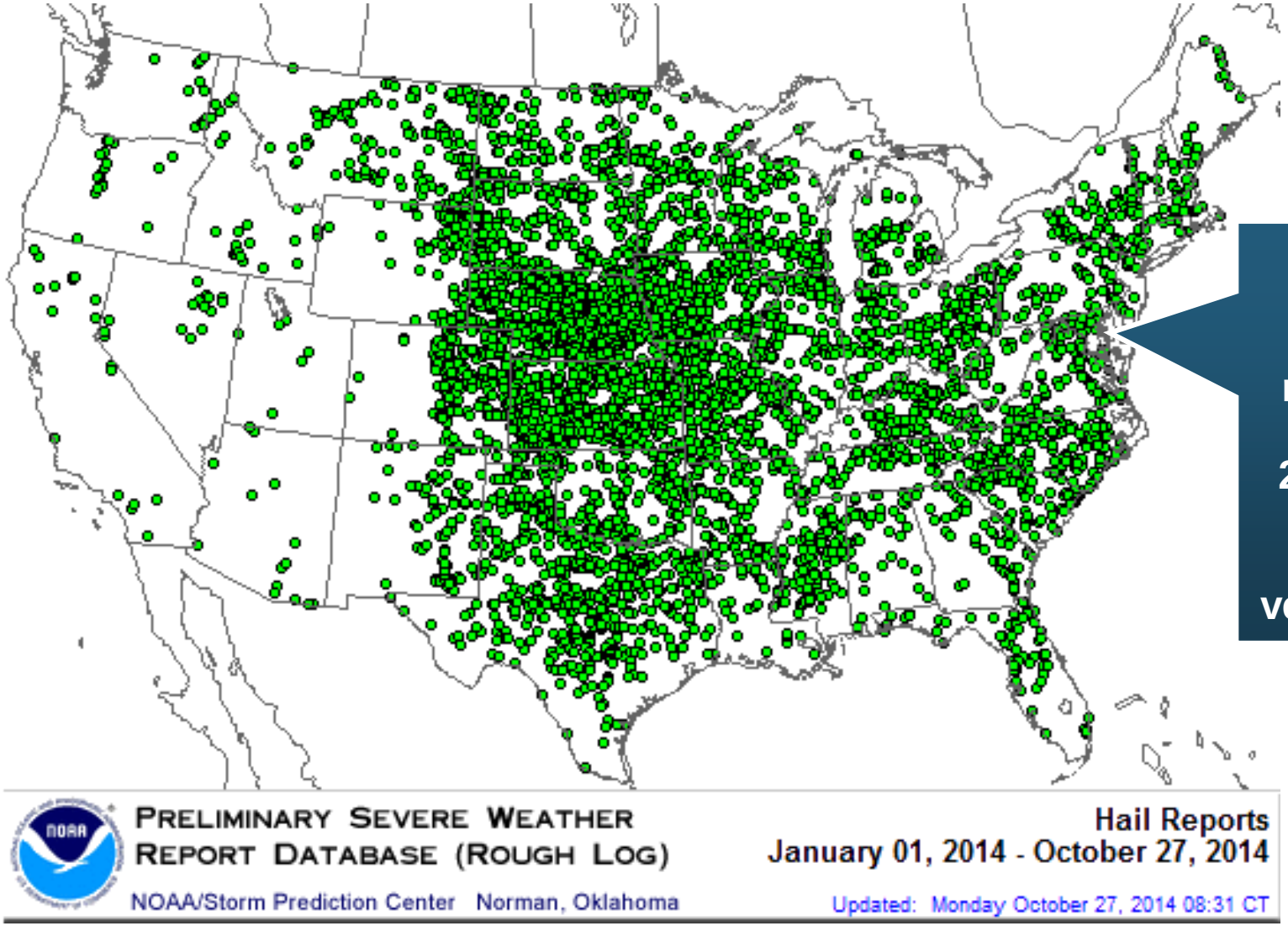
U.S. Tornado Count, 2005-2014*



*Through Sept. 2, 2014.

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

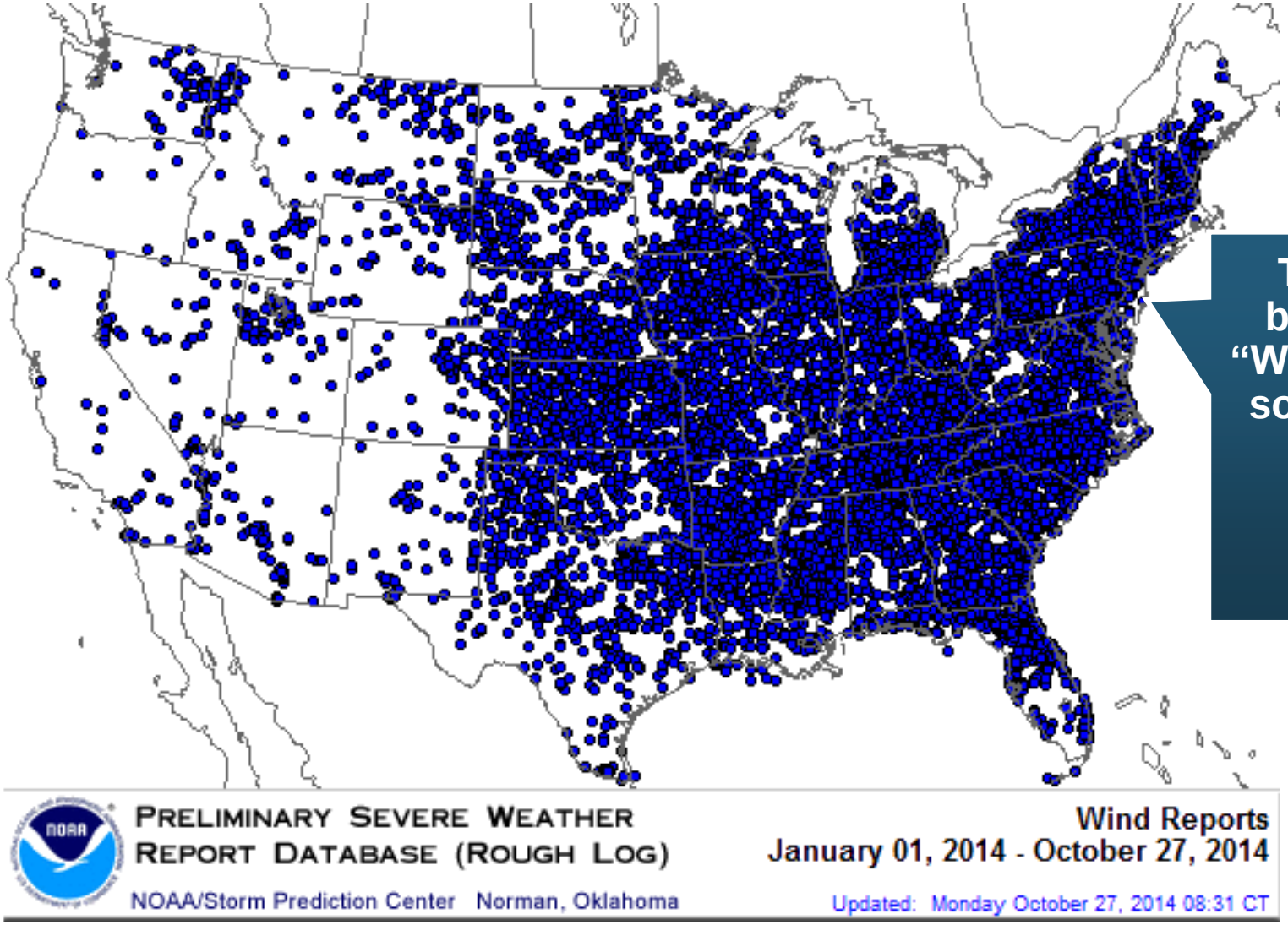
Location of Large Hail Reports: Through October 27, 2014



There have been 5,495 "Large Hail" reports in the US so far in 2014, causing extensive property and vehicle damage

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2014_annual_summary.htm#

Location of High Wind Reports: Through October 27, 2014

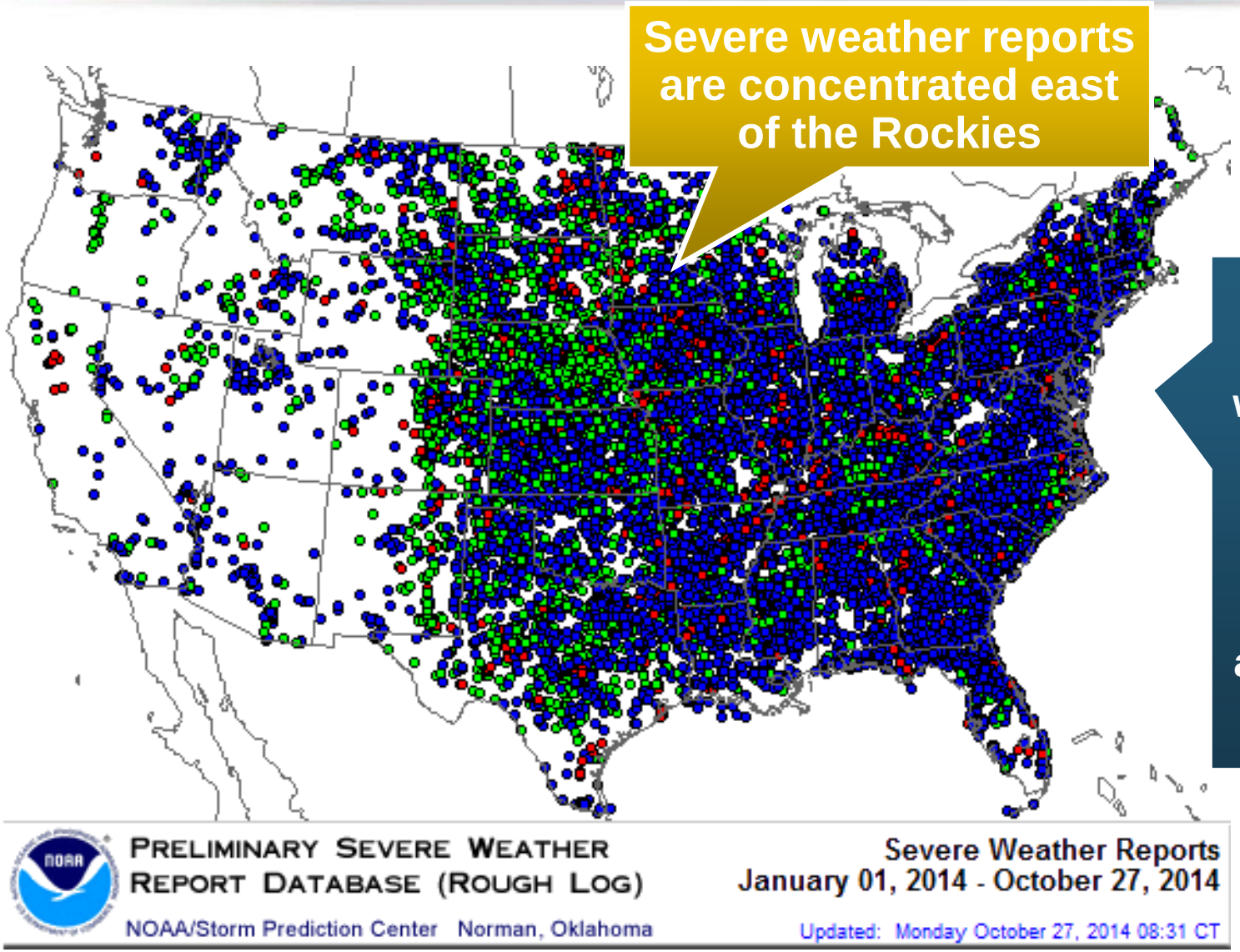


There have been 11,725 "Wind Damage" so far in 2014, causing extensive property damage

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2014_annual_summary.html#

Severe Weather Reports: Through October 27, 2014

INSURANCE INFORMATION INSTITUTE

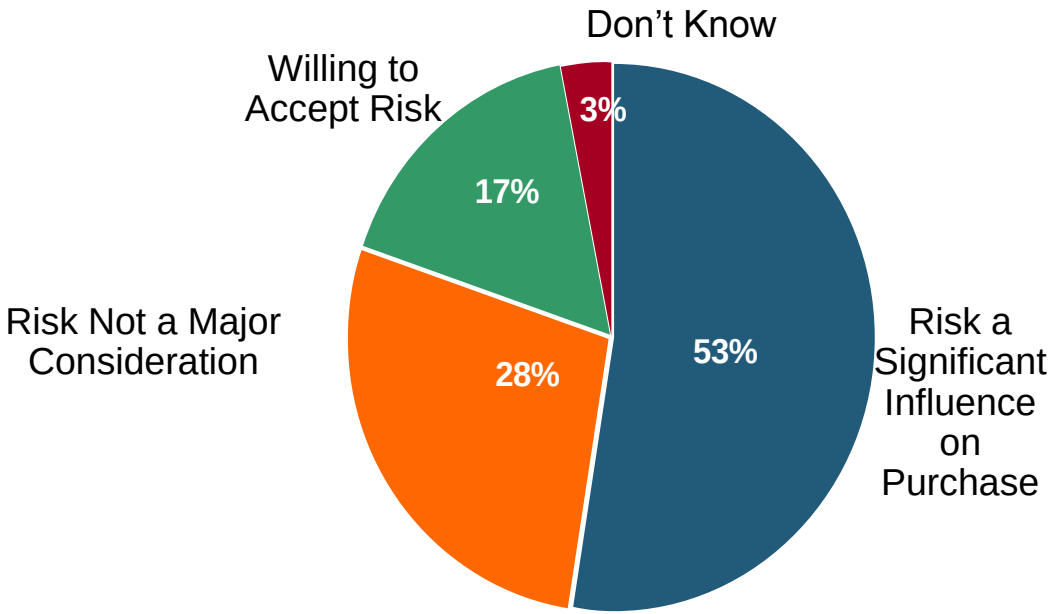


There were 18,221 severe weather reports so far in 2014; including 1,000 tornadoes; 5,495 "Large Hail" reports and 11,725 high wind events

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2014_annual_summary.html#

I.I.I. Poll: Homes Near Hazards

Q. If you were to purchase a home today, which of the following summarizes your views on that home's risk of damage from natural disasters . . . and your decision to purchase that home?

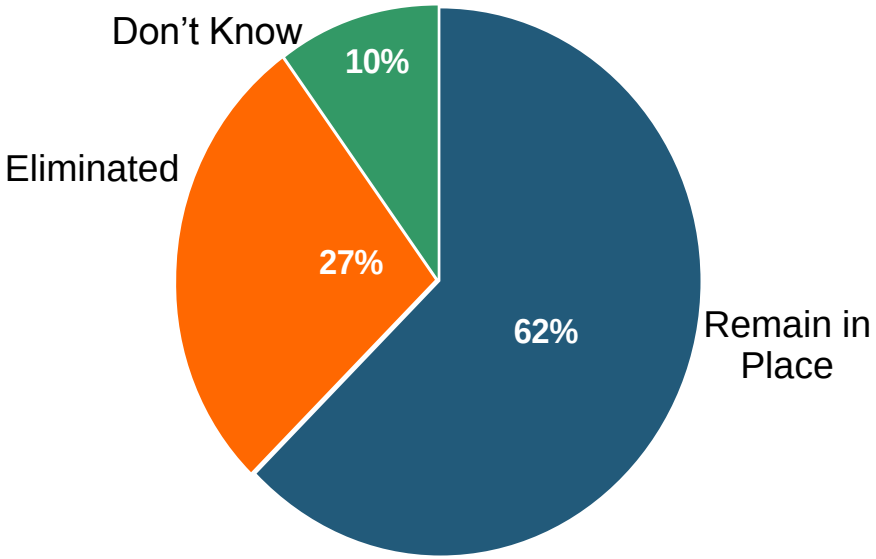


More Than Half of the Public Would Be Significantly Influenced by Risk of Damage from Natural Disasters. Close to a Third Do Not Regard Such a Risk To Be a Major Consideration.

Source: Insurance Information Institute Annual *Pulse* Survey.

I.I.I. Poll: Flood Insurance Rates

Q. Congress recently passed a law that will roll back some of the rate increases it put in place for homeowers who purchase subsidized flood insurance from the government . . . . Do you think the recent rate rollback and subsidies should remain in place for most homeowners who purchase flood insurance; or the rollbacks and subsidies should be eliminated; or don't know?



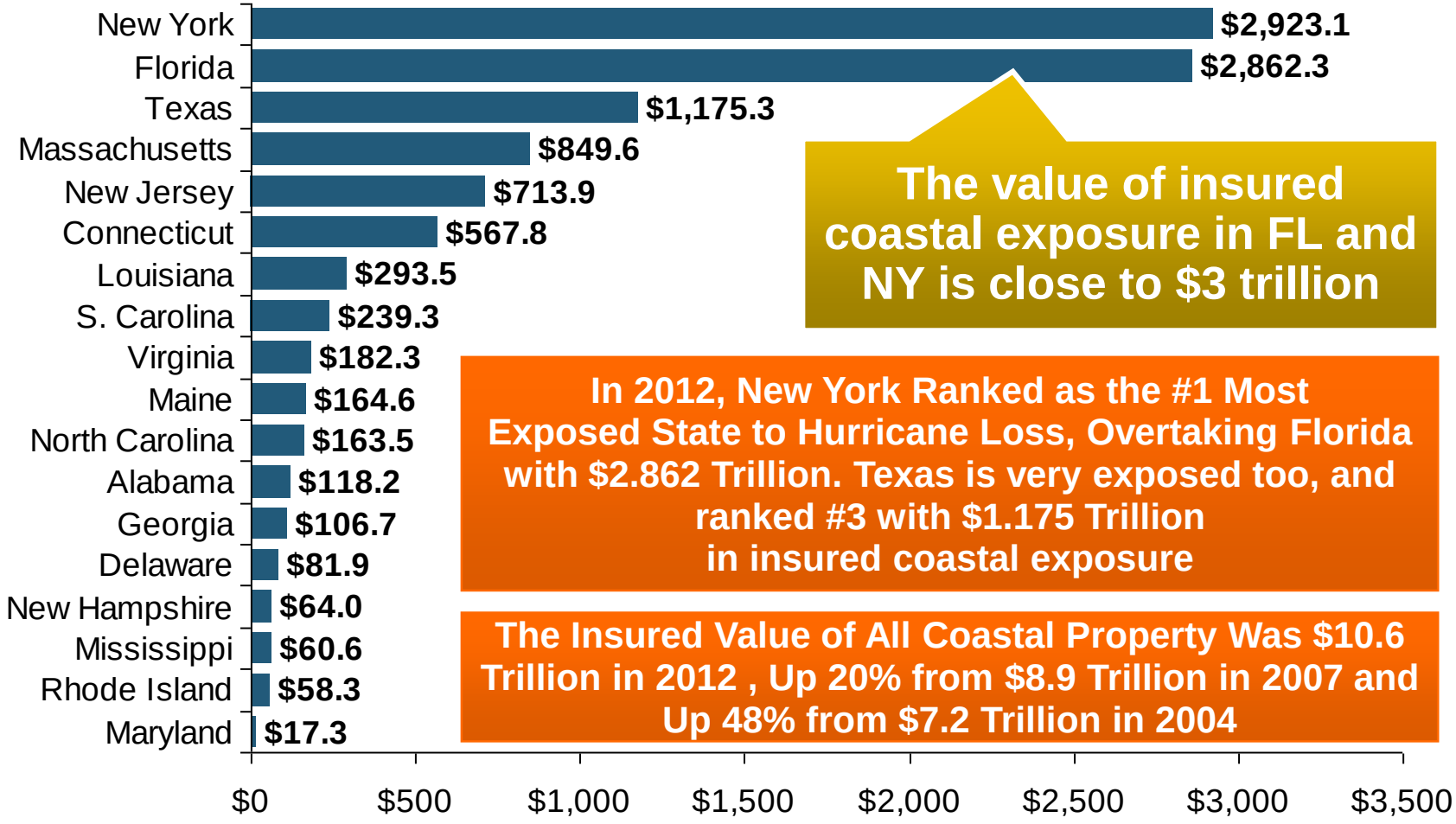
Most Americans Support the Flood Insurance Rate Rollback.

Source: Insurance Information Institute Annual *Pulse* Survey.

Total Value of Insured Coastal Exposure in 2012

INSURANCE INFORMATION INSTITUTE

(2012, $ Billions)



The value of insured coastal exposure in FL and NY is close to $3 trillion

In 2012, New York Ranked as the #1 Most Exposed State to Hurricane Loss, Overtaking Florida with $2.862 Trillion. Texas is very exposed too, and ranked #3 with $1.175 Trillion in insured coastal exposure

The Insured Value of All Coastal Property Was $10.6 Trillion in 2012 , Up 20% from $8.9 Trillion in 2007 and Up 48% from $7.2 Trillion in 2004

Source: AIR Worldwide

Total Value of Insured Coastal Exposure in 2007

INSURANCE INFORMATION INSTITUTE

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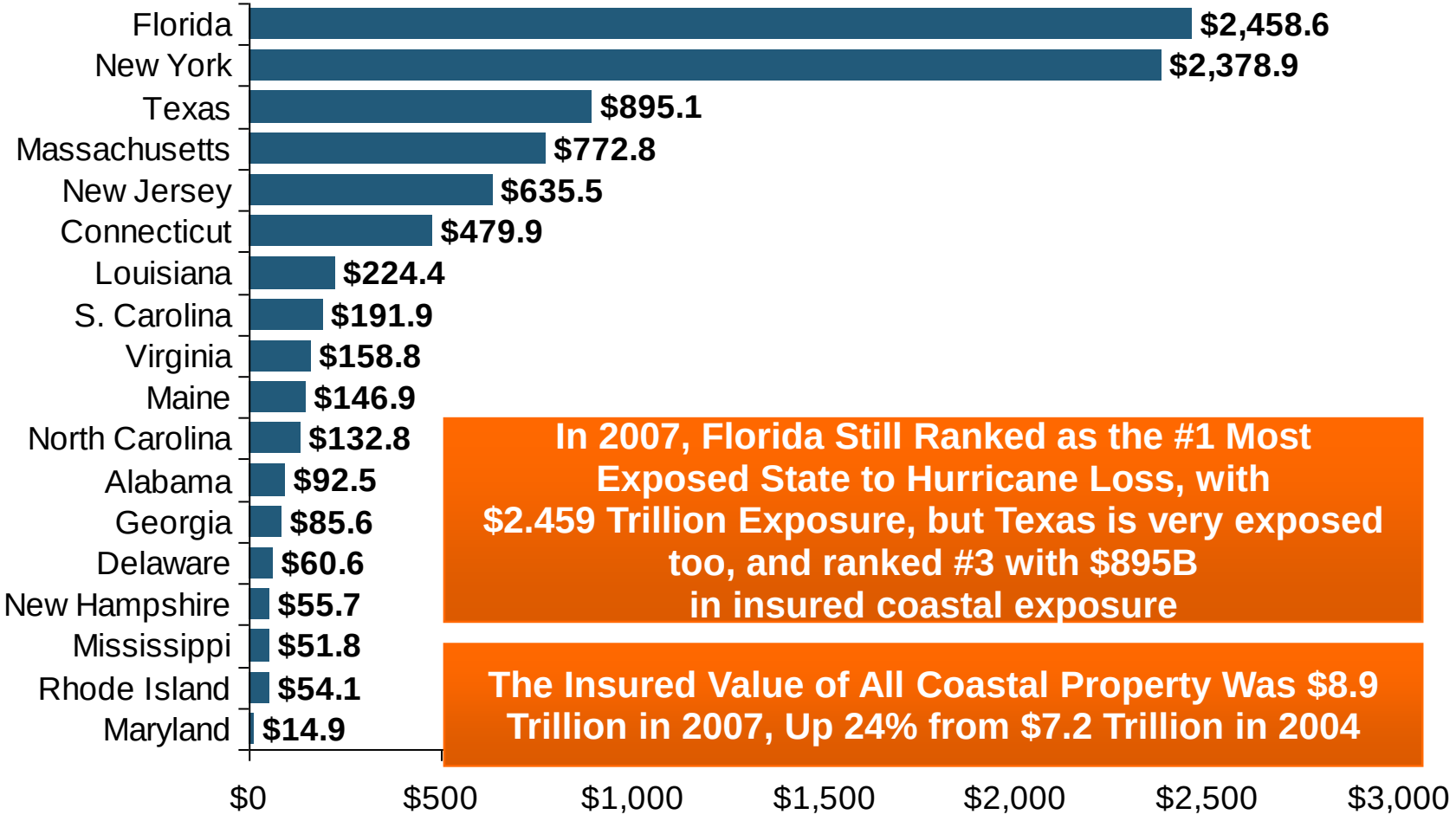

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Source: AIR Worldwide

INSURANCE INFORMATION INSTITUTE

Terrorism Update

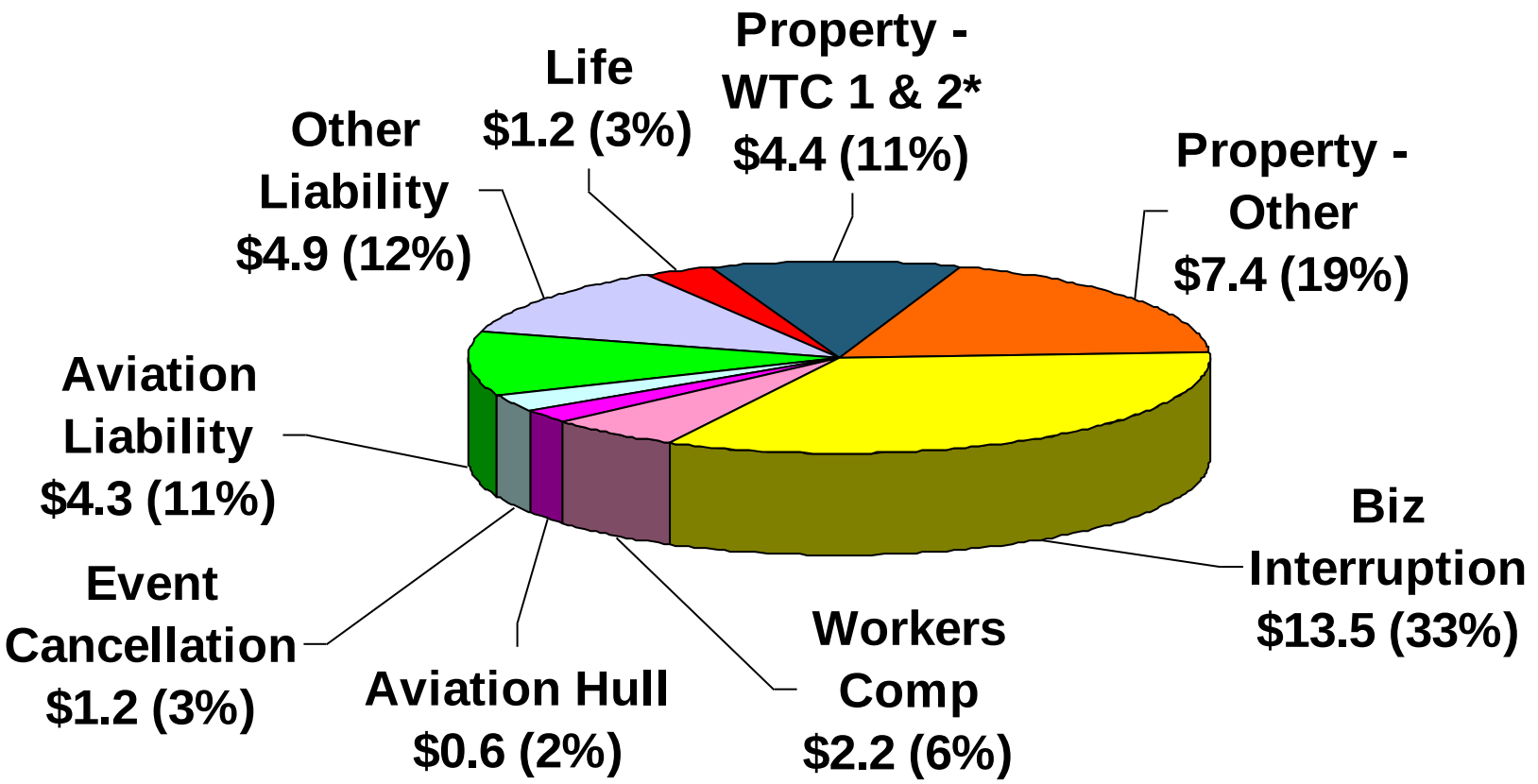
TRIA's Success

Consequences of Expiration

Download III's Terrorism Insurance Report at:
http://www.iii.org/white_papers/terrorism-risk-a-constant-threat-2014.html

Loss Distribution by Type of Insurance from Sept. 11 Terrorist Attack ($ 2013)

($ Billions)



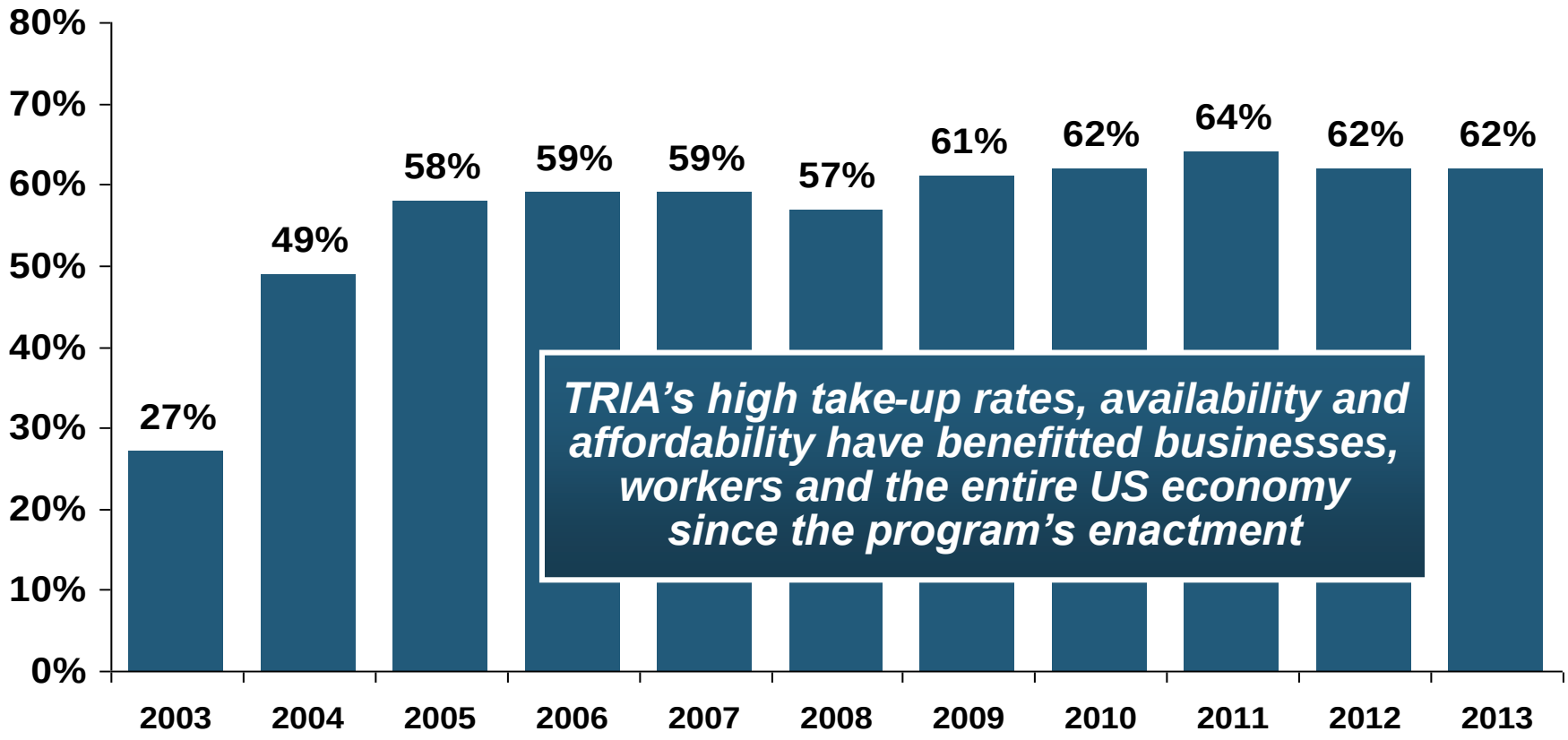
Total Insured Losses Estimate: $42.9B**

*Loss total does not include March 2010 New York City settlement of up to $657.5 million to compensate approximately 10,000 Ground Zero workers or any subsequent settlements.

**$32.5 billion in 2001 dollars.

Source: Insurance Information Institute.

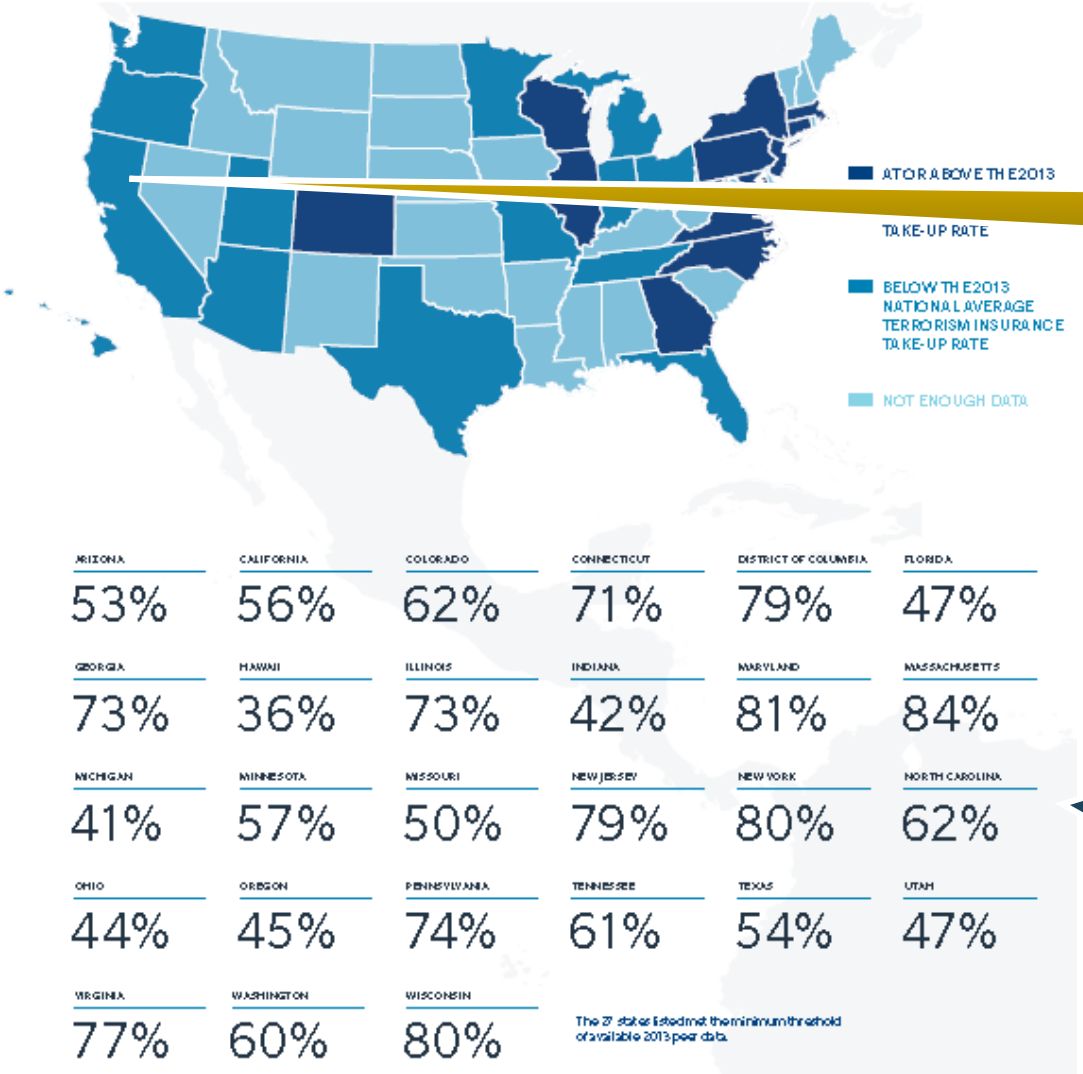
Terrorism Insurance Take-up Rates, By Year, 2003-2013



In 2003, the first year TRIA was in effect, the terrorism take-up rate was 27 percent. Since then, it has increased steadily, remaining in the low 60 percent range since 2009.

Source: Marsh Global Analytics, *2014 Terrorism Risk Insurance Report,* April 2014 and earlier editions.

Terrorism Insurance Take-Up Rates by State for 2013*



The take-up rate for terrorism coverage was 56% in 2013

The overall US take-up rate for terrorism coverage was 62% in 2013 and ranged from a lows of 41% in Michigan to a high of 84% in Massachusetts (where demand likely increased due to the April 2013 Boston Marathon bombing)

*Data for 27 states with sufficient data.

Source: Marsh *2014 Terrorism Risk Insurance Report*; Insurance Information Institute.

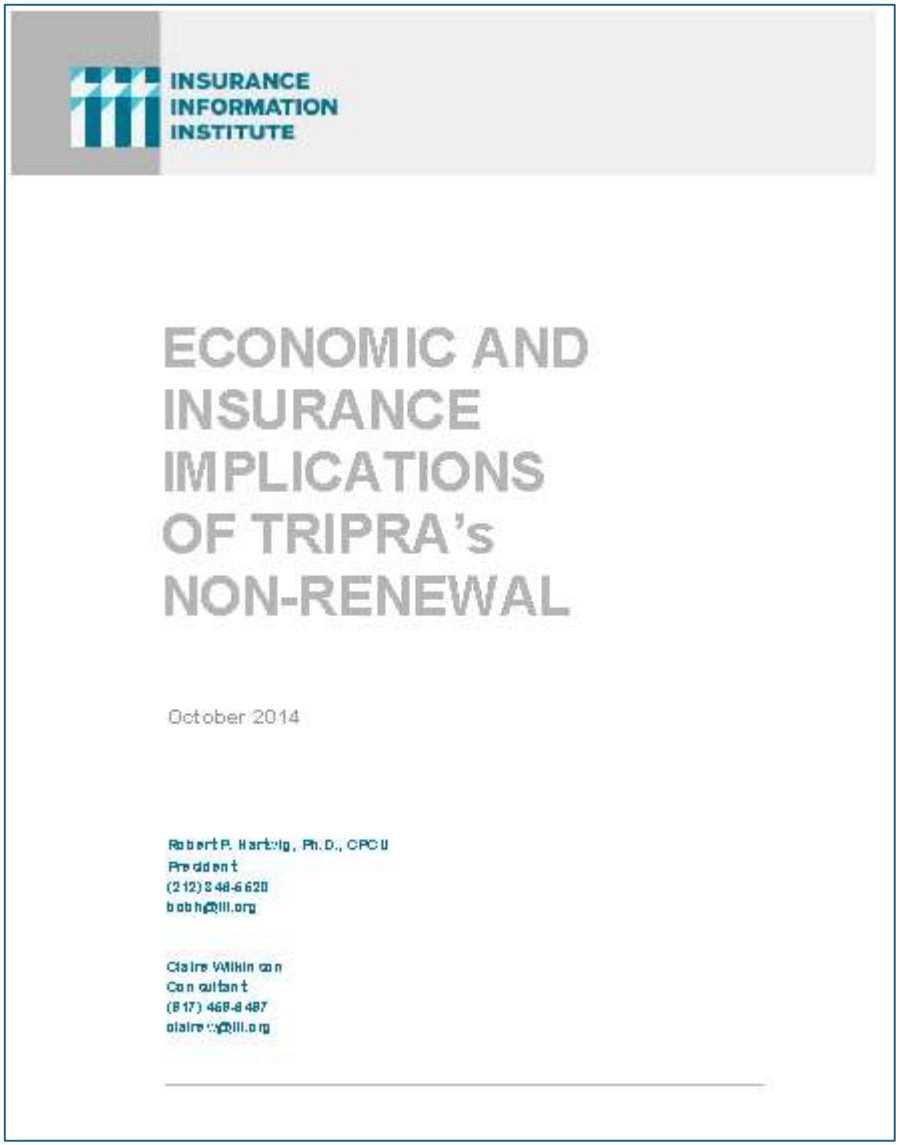
Terrorism Risk Insurance Program

- Testified before House Financial Services Nov. 2013
- Testified before Senate Banking Cmte. in Sept. 2013
- Provided testimony at NYC hearing in June 2013
- Provided Capitol Hill Joint House/Senate Staff Briefing in April 2014
- I.I.I. Published Several Updates to its Study on Terrorism Risk and Insurance

Senate Banking Committee, 9/25/13

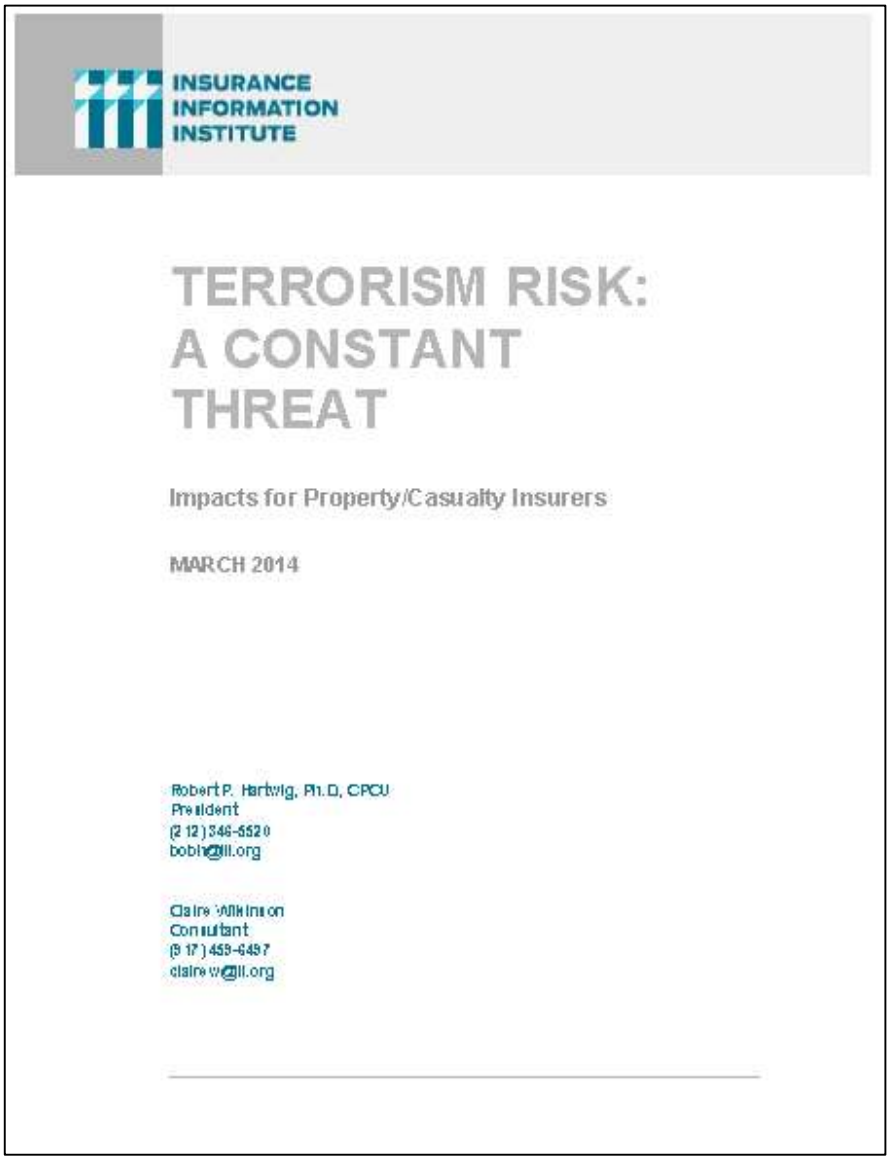
House Financial Services Subcommittee, 11/13/13

I.I.I. White Paper (Oct. 2014):
Economic and Insurance Implications of TRIPRA's Non-Renewal



- **Focus on current status of TRIA legislation**
- **Current disruptions to terrorism insurance mkt.**
- **Potential economic impacts**
- **Limitations of standalone market**
- **Download at http://www.iii.org/white-paper/economic-and-insurance-implications-of-tripras-non-renewal-101014**

I.I.I. White Paper (March 2014): *Terrorism Risk: A Constant Threat*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TERRORISM RISK: A CONSTANT THREAT

Impacts for Property/Casualty Insurers

MARCH 2014

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- **Detailed history of TRIA**
- **How TRIA works**
- **Assessing the threat of terrorism**
- **Terrorism market conditions**
- **Global perspective**
- **Download at *http://www.iii.org/white_papers/terrorism-risk-a-constant-threat-2014.html***

Summary of President's Working Group Report on TRIA (April 2014)

- **Insurance for terrorism risk is available and affordable**
  - **Availability/affordability have has not changed appreciably since 2010**
- **Prices for terrorism risk insurance vary considerably depending on the policyholder's industry and location of risk**
- **Prices have declined since TRIA was enacted**
  - **Currently ~3% to 5% of commercial property insurance premiums**
- **Take-up rates have improved since adoption of TRIA**
  - **Overall take-up rate is steady at ~60% (62% in 2013 per Marsh)**
- ***Market capacity is currently tightening given uncertainty over TRIA reauthorization***
- ***The private market does not have the capacity to provide reinsurance for terror risk to the extent currently provided by TRIA***
- ***In the absence of TRIA, terrorism risk insurance would likely be less available. Coverage that would be available likely would be more costly and/or limited in scope***

Source: Report of the President's Working Group on Financial Markets, *The Long-Term Availability and Affordability of Insurance for Terrorism Risk*, April 2014.

Framing the Issue and Educating Policymakers: A Timeline

- Education Efforts Pay Off
  - Senate Banking Committee unanimously reports out TRIA bill 22-0
  - House Financial Services Committee passes bill
  - Senate passes bill with strong support; Votes 93-4 to reauthorize on 7/17
- Key addition to bills: clarification on certification process, cyber terrorism
- Where do we go from here? Are difference between the bills bridgeable?
  - Reauthorization terms differ (Senate: 7yrs; House: 5yrs)
  - Bifurcation of NBCR and conventional
  - Trigger points ($100M vs. $500M)
- Clock is running: After July 31, the House is in session for only 12 days before the election
  - Lame duck for enactment

Source: Marsh

Initial Market Response to Potential TRIA Expiration

- Carriers monitoring and modeling WC exposure aggregations across their portfolio and correlated lines of business such as property or life and health (both on an individual client basis and in the aggregate)
- Carrier declinations have occurred because they are “overlined” in a particular zip code or city
- Many carriers attached NCCI Endorsement WC00 01 14 (Notification Endorsement of Pending Law Change to Terrorism Risk Insurance Program Reauthorization Act of 2007) or an equivalent for non-NCCI states.
- For some high-profile clients or those in urban areas and/or with high employee concentrations, carriers issued short term policies set to expire at the same time as TRIPRA
- Regarding non-WC lines (including select XSWC placements), policyholders were faced with new or broadened exclusionary wording on GL, umbrella, and XS forms

Source: Marsh

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CAT OF THE FUTURE?
CYBER RISK

Cyber Risk is a Rapidly Emerging Exposure for Businesses Large and Small in Every Industry

NEW III White Paper:
http://www.iii.org/assets/docs/pdf/paper_CyberRisk_2013.pdf

Data Breaches 2005-2013, by Number of Breaches and Records Exposed

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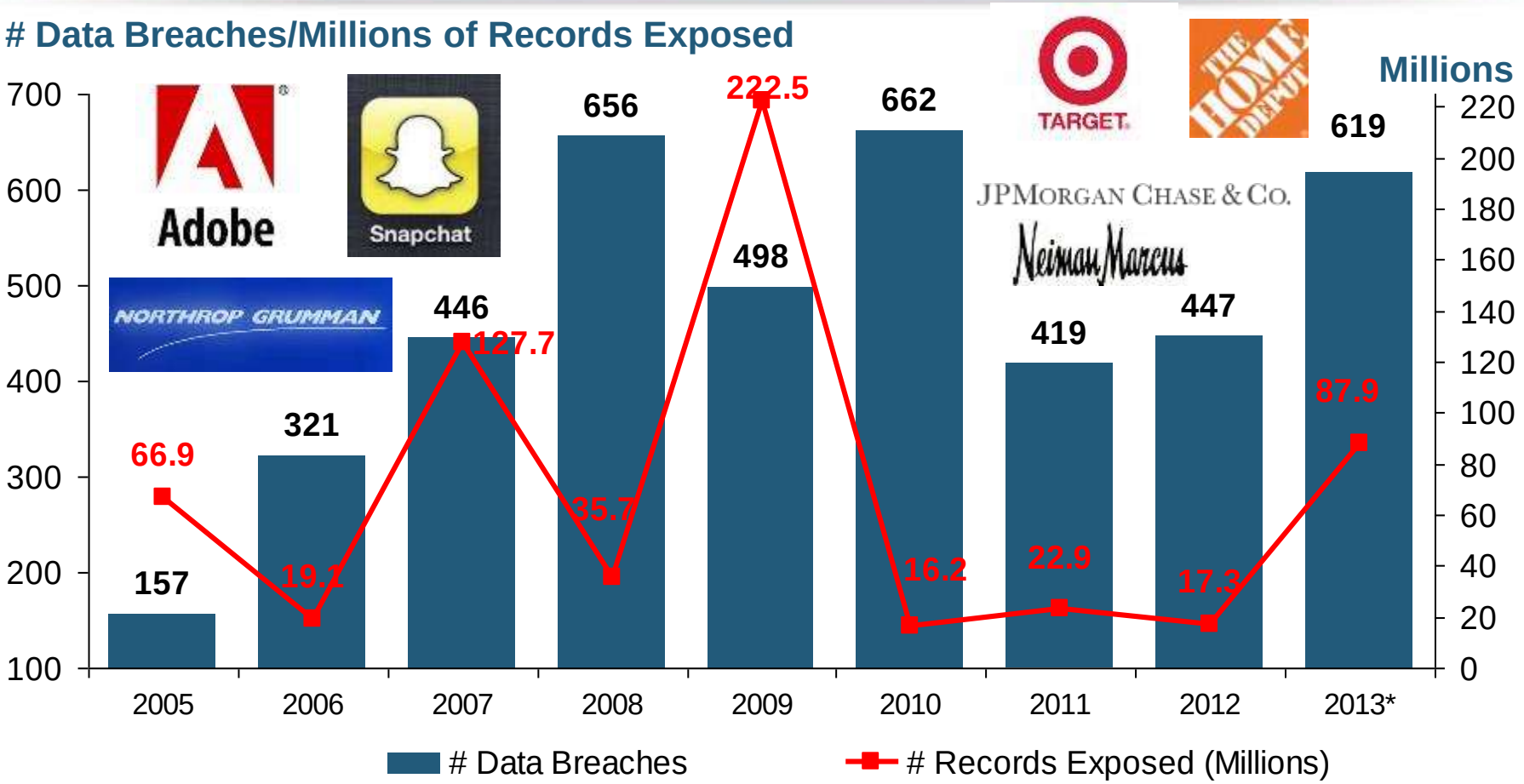
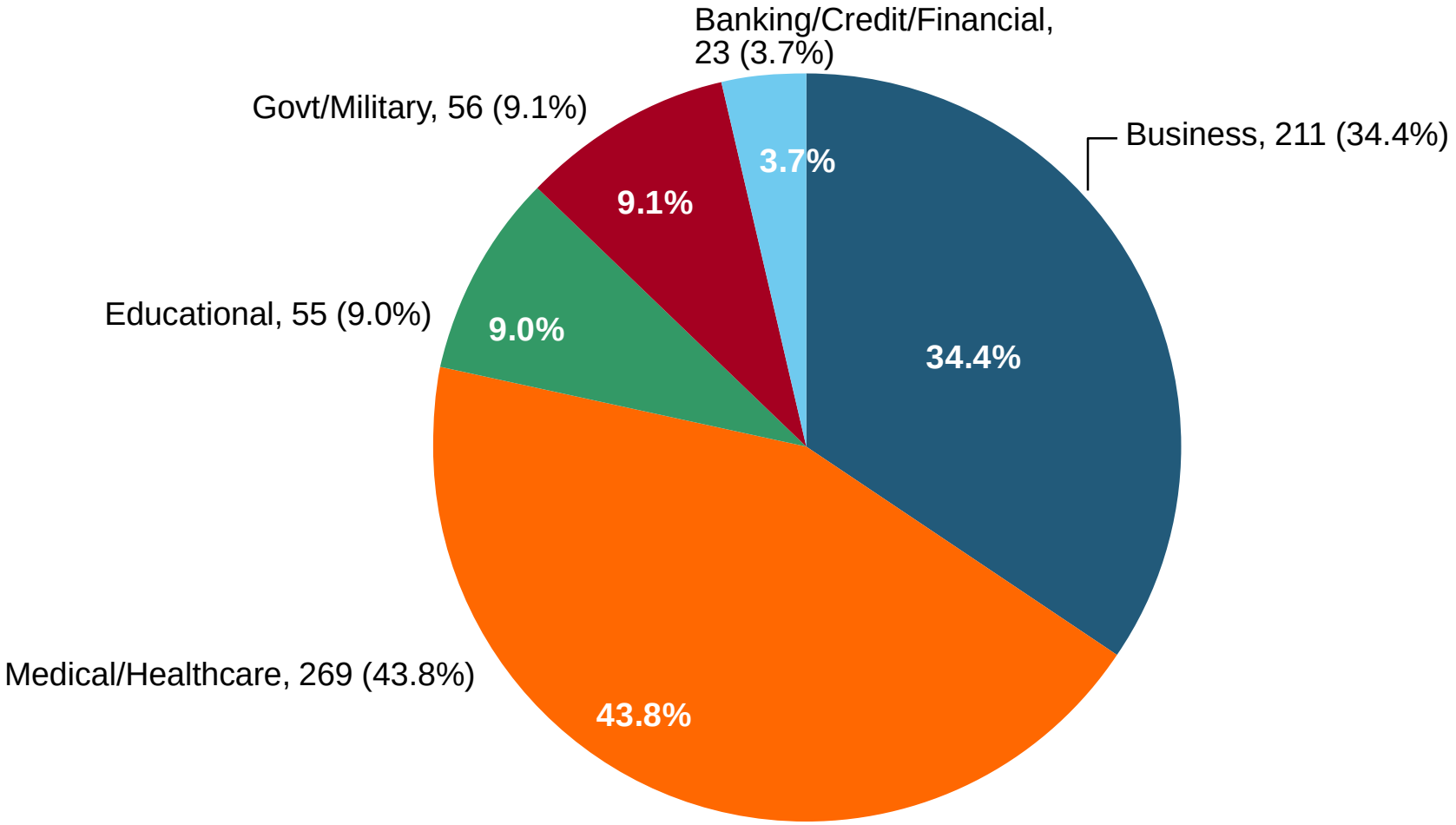


The Total Number of Data Breaches (+38%) and Number of Records Exposed (+408%) in 2013 Soared

* 2013 figures as of Jan. 1, 2014 from the ITRC updated to an additional 30 million records breached (Target) as disclosed in Jan. 2014.
Source: Identity Theft Resource Center.

2013 Data Breaches By Business Category, By Number of Breaches

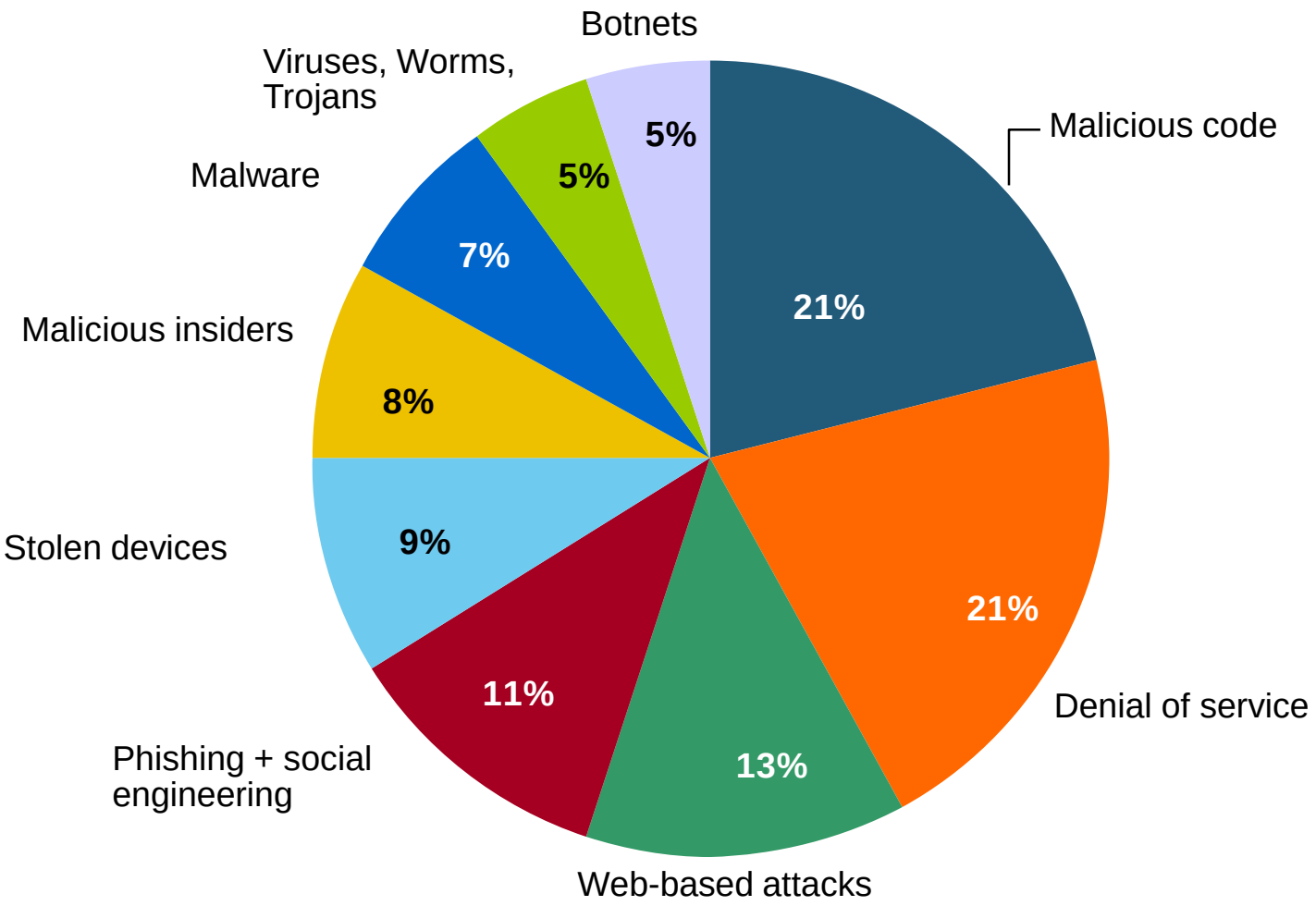
The majority of the 614 data breaches in 2013 affected business and medical/healthcare organizations, according to the Identity Theft Resource Center.



Source: Identity Theft Resource Center, http://www.idtheftcenter.org/images/breach/2013/UpdatedITRCBreachStatsReport.pdf

The Most Costly Cyber Crimes, Fiscal Year 2013

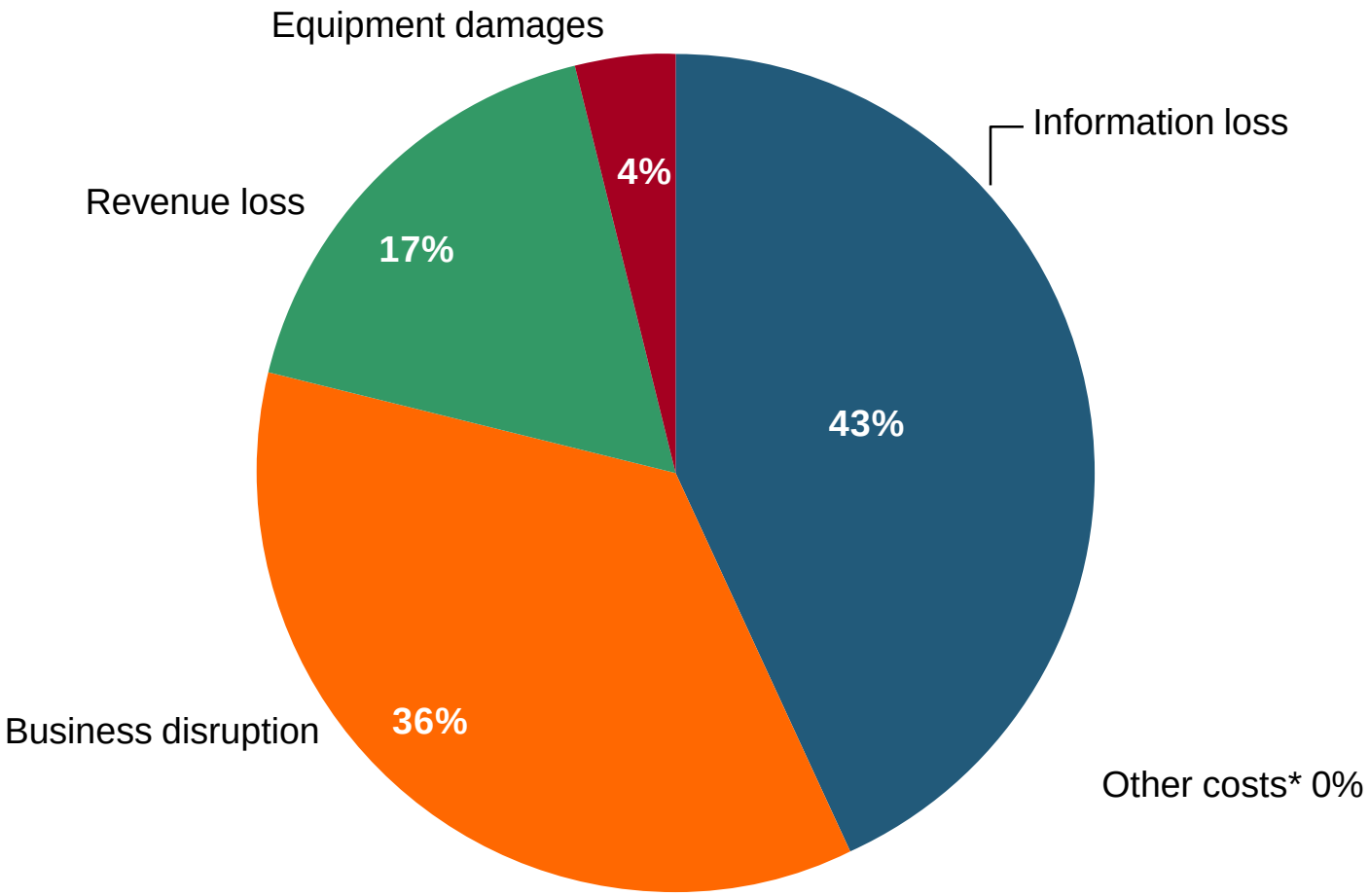
Denial of service, malicious code and web-based attacks account for more than 55 percent of all cyber costs per U.S. organization on an annual basis.



Source: *2013 Cost of Cyber Crime: United States*, Ponemon Institute.

External Cyber Crime Costs: Fiscal Year 2013

Information loss (43%) and business disruption or lost productivity (36%) account for the majority of external costs due to cyber crime.



* Other costs include direct and indirect costs that could not be allocated to a main external cost category

Source: *2013 Cost of Cyber Crime: United States*, Ponemon Institute.

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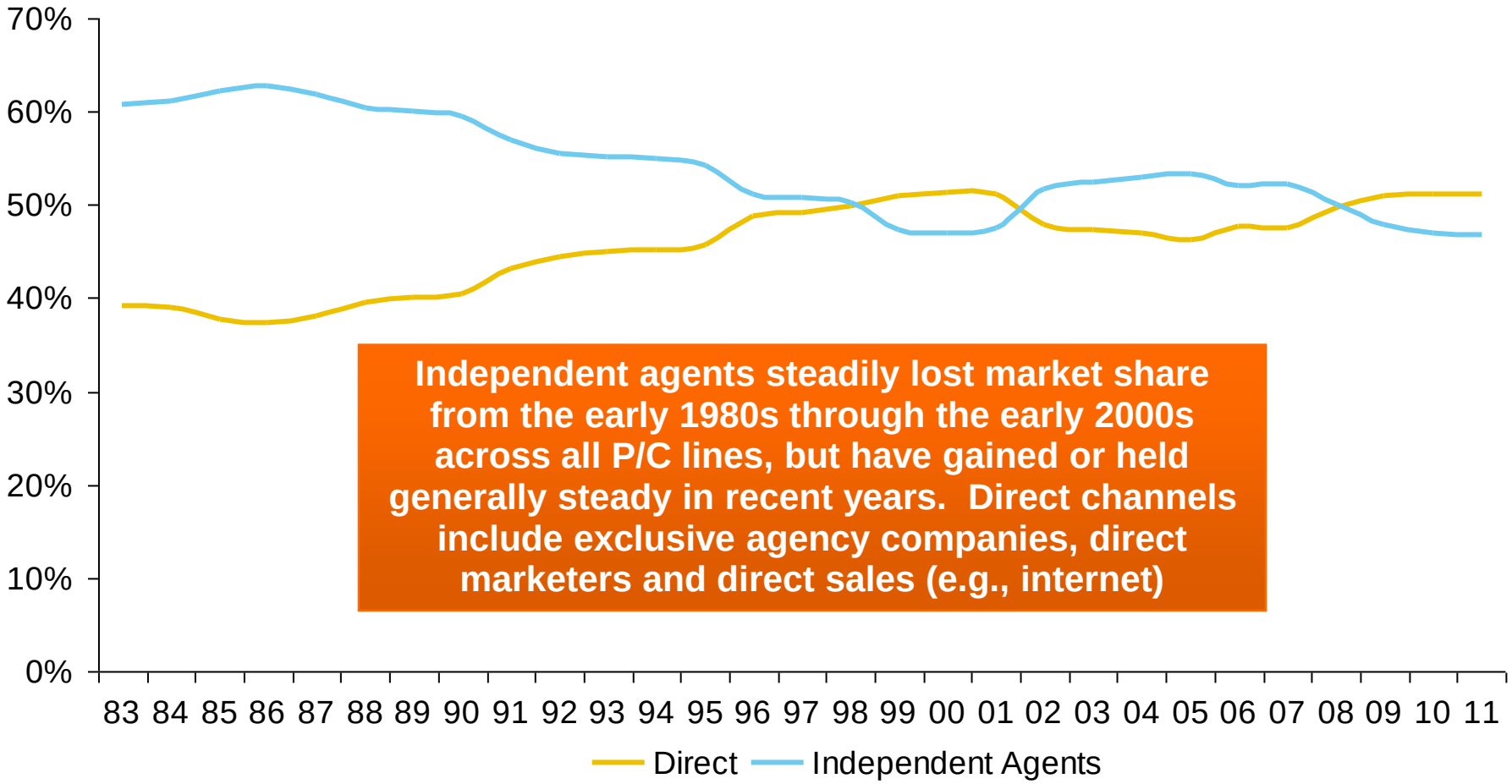
Distribution Trends

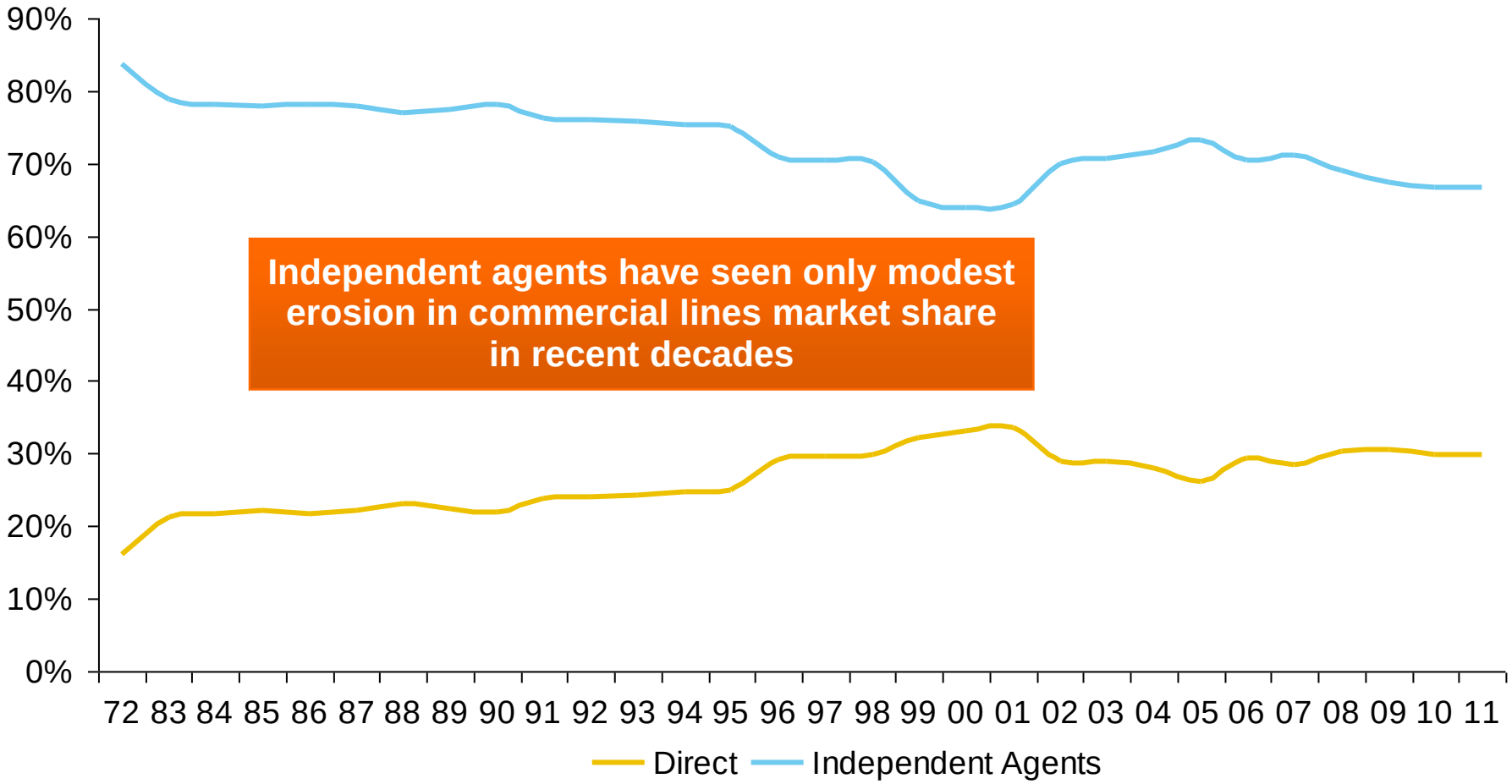
Distribution by Channel Type Continues to Evolve Around the World

All P/C Lines Distribution Channels, Direct vs. Independent Agents



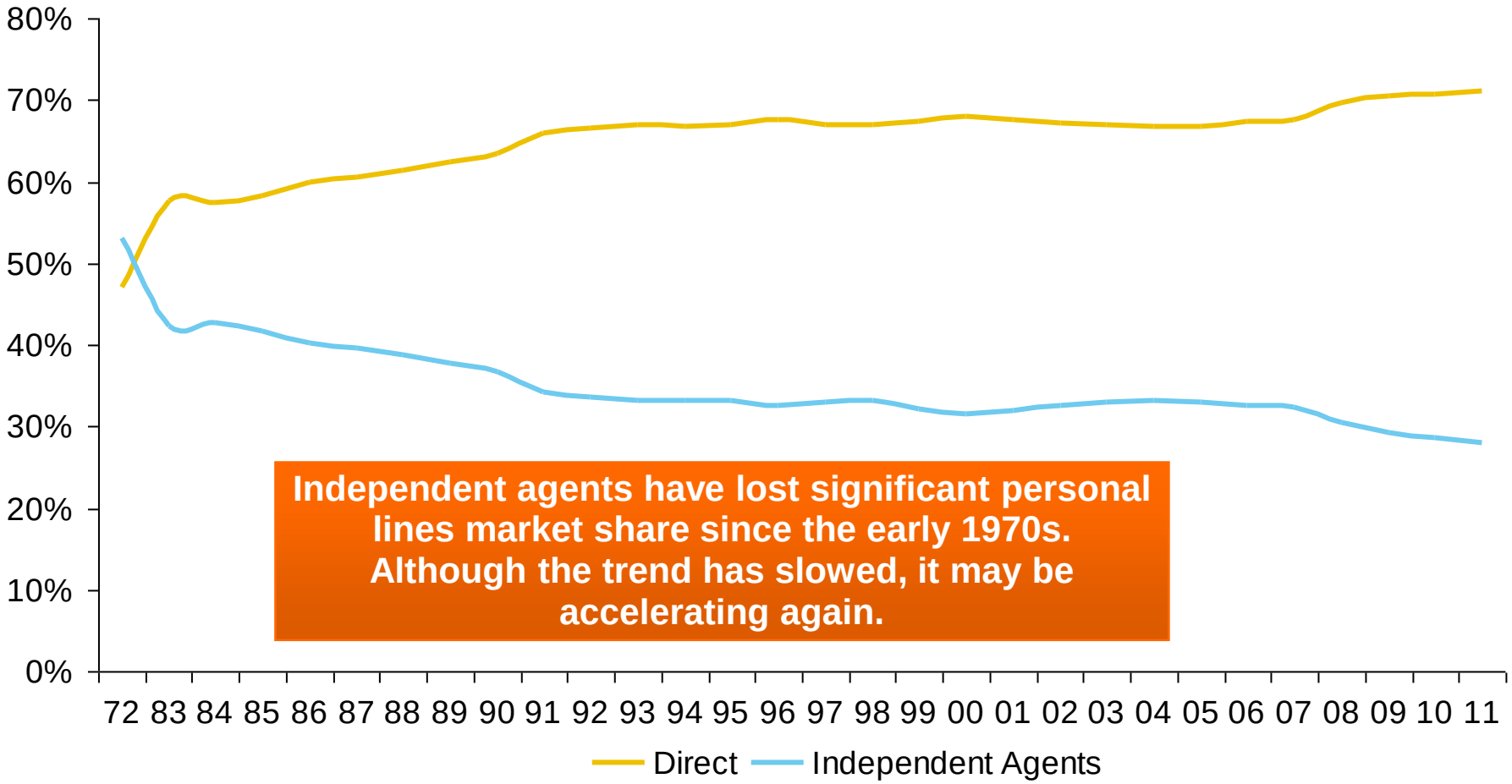
Source: Insurance Information Institute; based on data from Conning and A.M. Best.

Commercial P/C Distribution Channels, Direct vs. Independent Agents



Source: Insurance Information Institute; based on data from Conning and A.M. Best.

Personal Lines Distribution Channels, Direct vs. Independent Agents



Source: Insurance Information Institute; based on data from Conning and A.M. Best.

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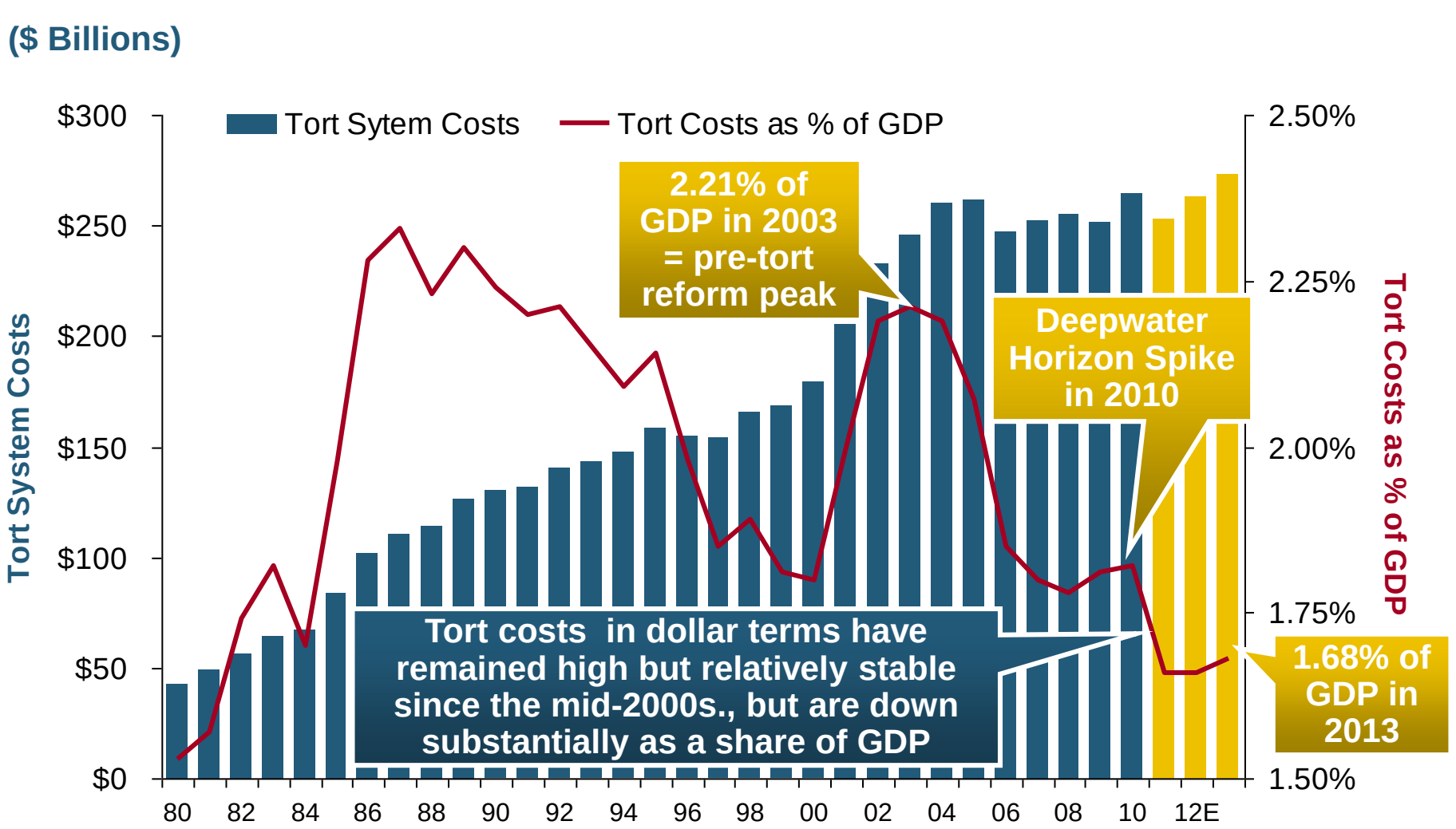
Shifting Legal Liability & Tort Environment

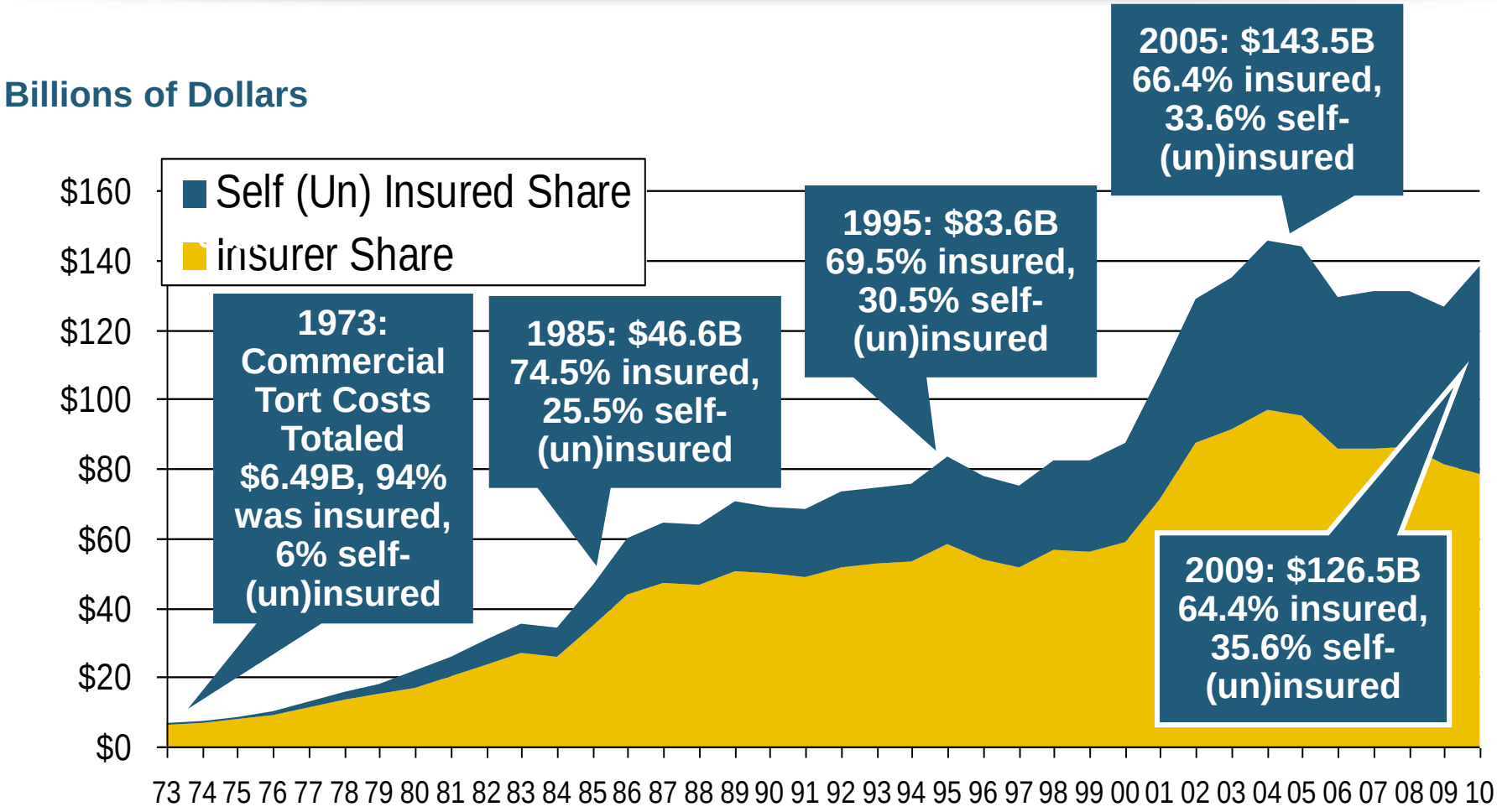
Will the Tort Pendulum Swing Against Insurers?

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



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

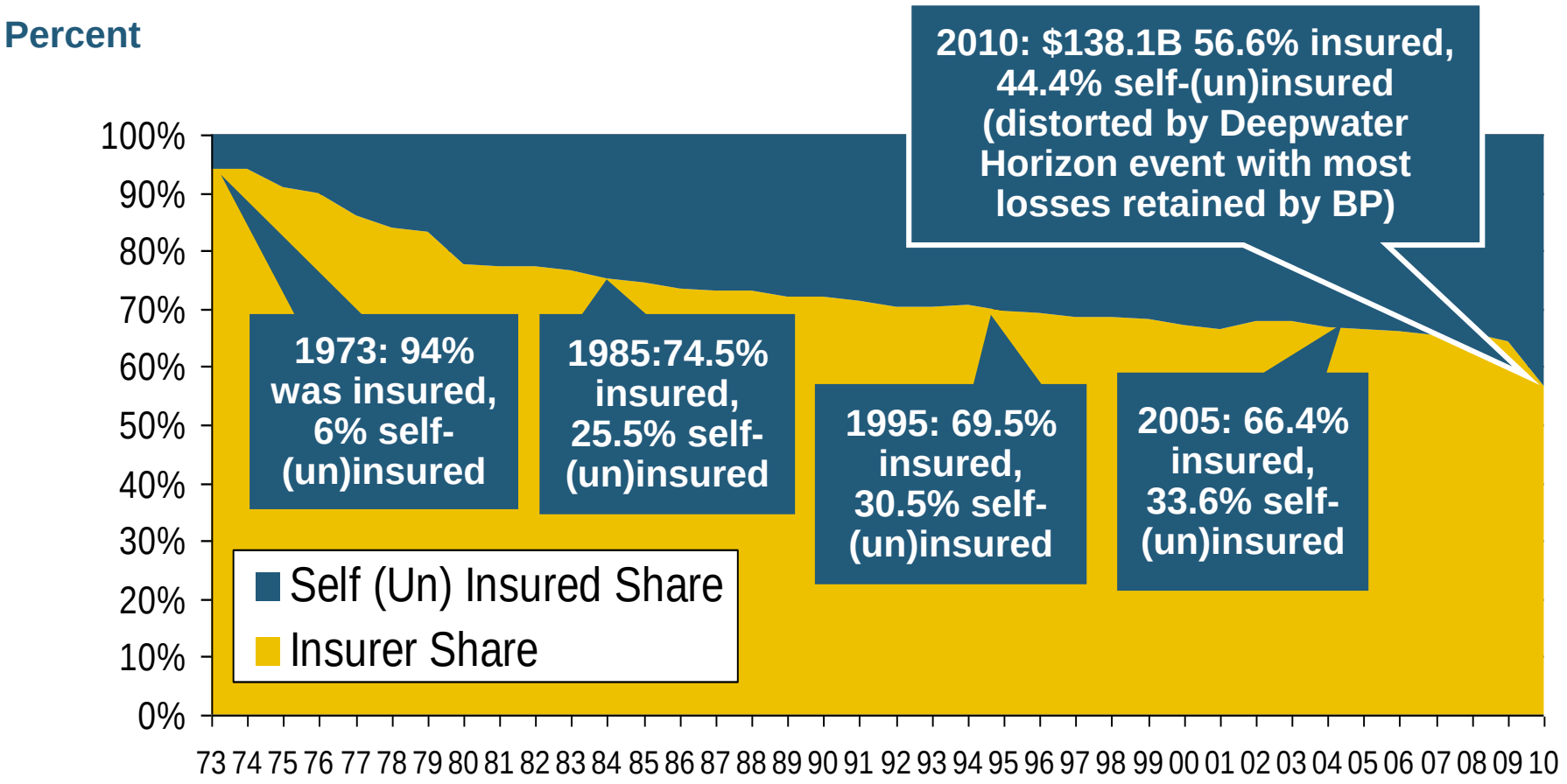
Commercial Lines Tort Costs: Insured vs. Self-(Un)Insured Shares, 1973-2010



Tort Costs and the Share Retained by Risks Both Grew Rapidly from the mid-1970s to mid-2000s, When Tort Costs Began to Fall But Self-Insurance Shares Continued to Rise

Sources: Towers Watson, *2011 Update on US Tort Cost Trends*, III Calculations based on data from Appendix 4.

Commercial Lines Tort Costs: Insured vs. Self-(Un)Insured Shares, 1973-2010



The Share of Tort Costs Retained by Risks Has Been Steadily Increasing for Nearly 40 Years. This Trend Contributes Has Left Insurers With Less Control Over Pricing.

Sources: Towers Watson, *2011 Update on US Tort Cost Trends*, III Calculations based on data from Appendix 4.

Business Leaders Ranking of Liability Systems in 2012

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Best States

1. Delaware
2. Nebraska
3. Wyoming
4. Minnesota
5. Kansas
6. Idaho
7. Virginia
8. North Dakota
9. Utah
10. Iowa

New in 2012

- Wyoming
- Minnesota
- Kansas
- Idaho

Drop-offs

- Indiana
- Colorado
- Massachusetts
- South Dakota

Worst States

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

Newly Notorious

- Oklahoma

Rising Above

- Arkansas

Source: US Chamber of Commerce 2012 State Liability Systems Ranking Study; Insurance Info. Institute.

The Nation's Judicial Hellholes: 2012/2013

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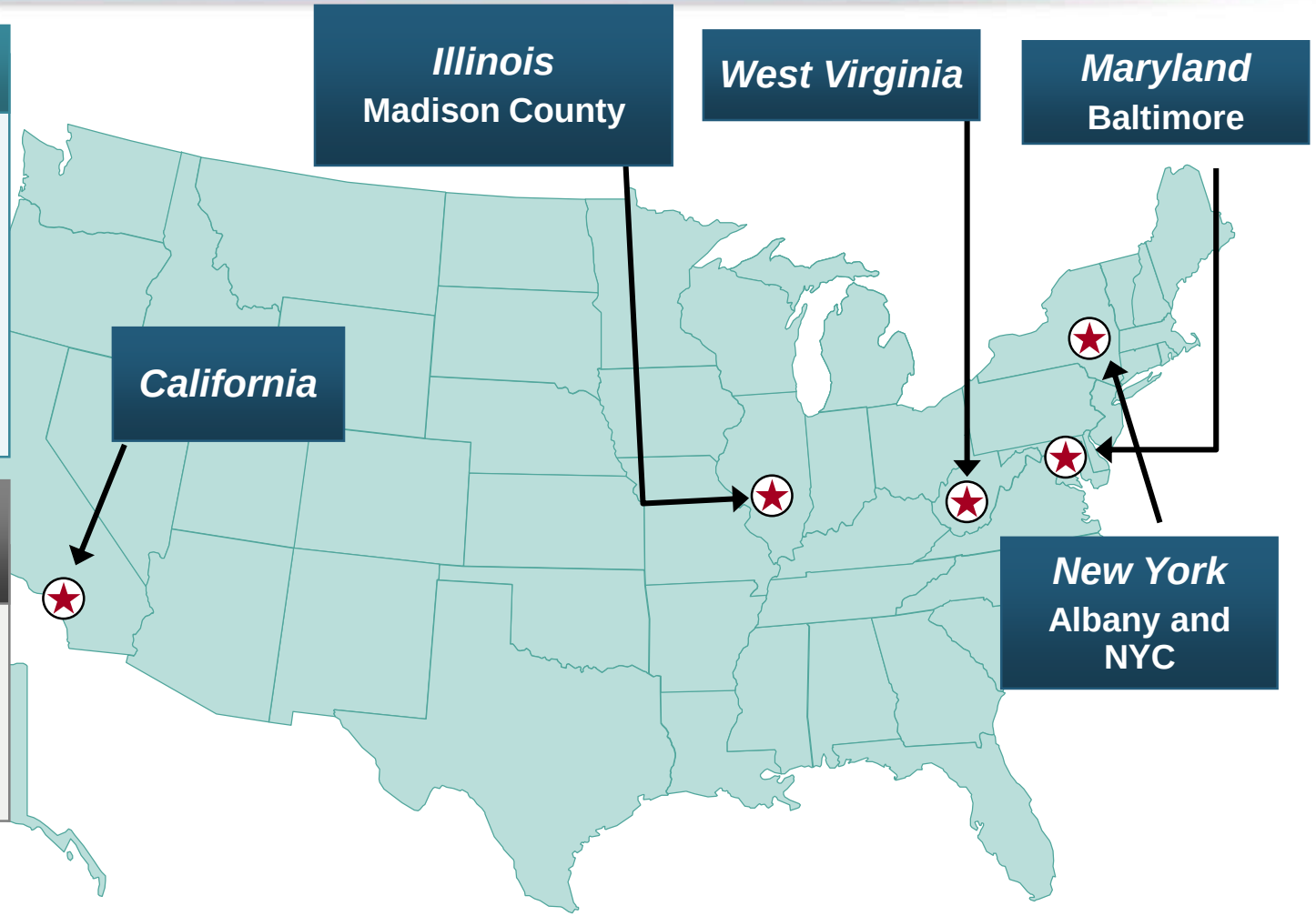
Watch List

- Philadelphia, Pennsylvania
- South Florida
- Cook County, Illinois
- New Jersey
- Nevada
- Louisiana

Dishonorable Mention

- MO Supreme Court
- WA Supreme Court



Source: American Tort Reform Association; Insurance Information Institute

Insurance Information Institute Online:

www.iii.org

Thank you for your time and your attention!

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