



Overview & Outlook for the Commercial P&C Insurance Industry

Insurance Information Institute
August 12, 2015

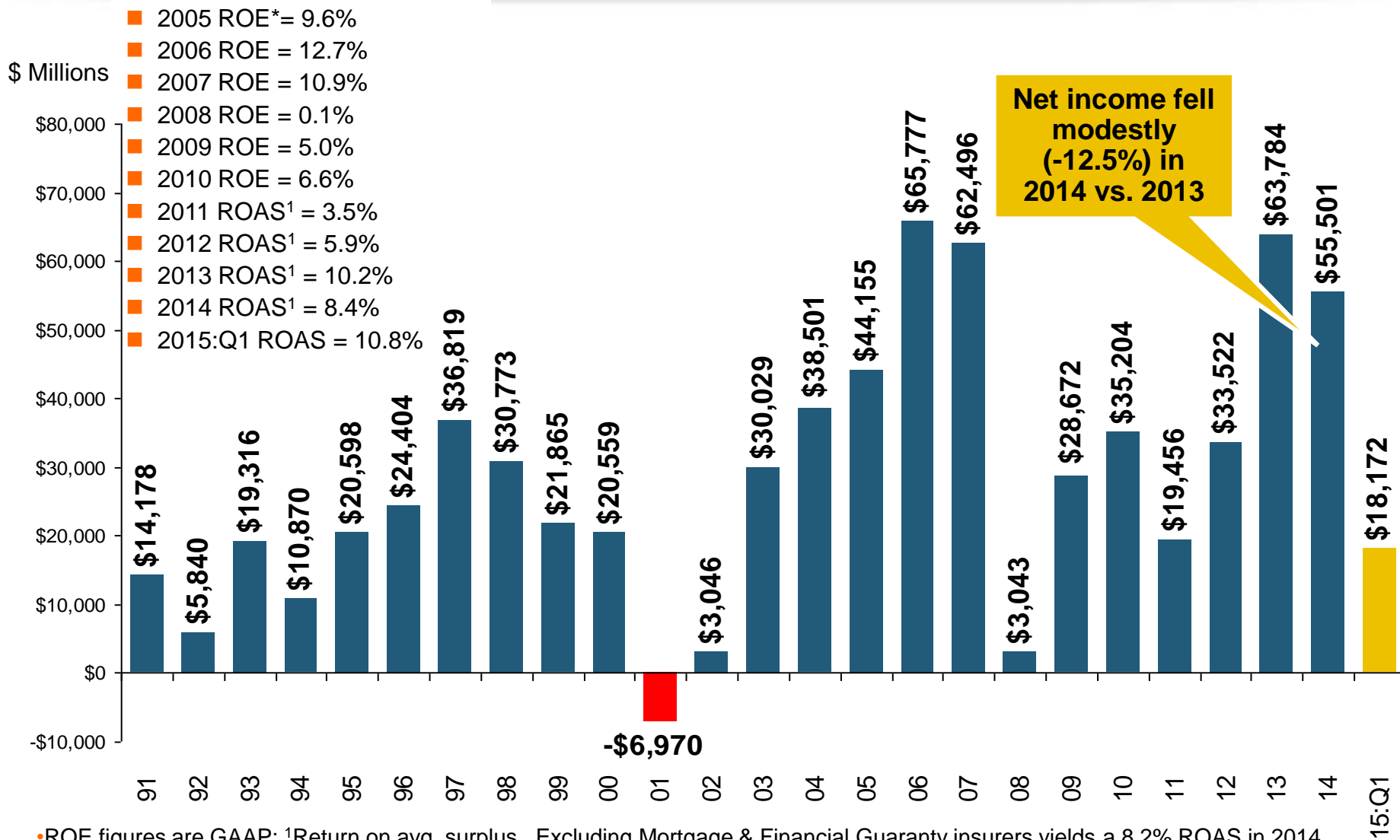
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Insurance Industry: *Financial Update & Outlook*

2014 Was a Reasonably Good Year
2015: A Repeat of 2014?

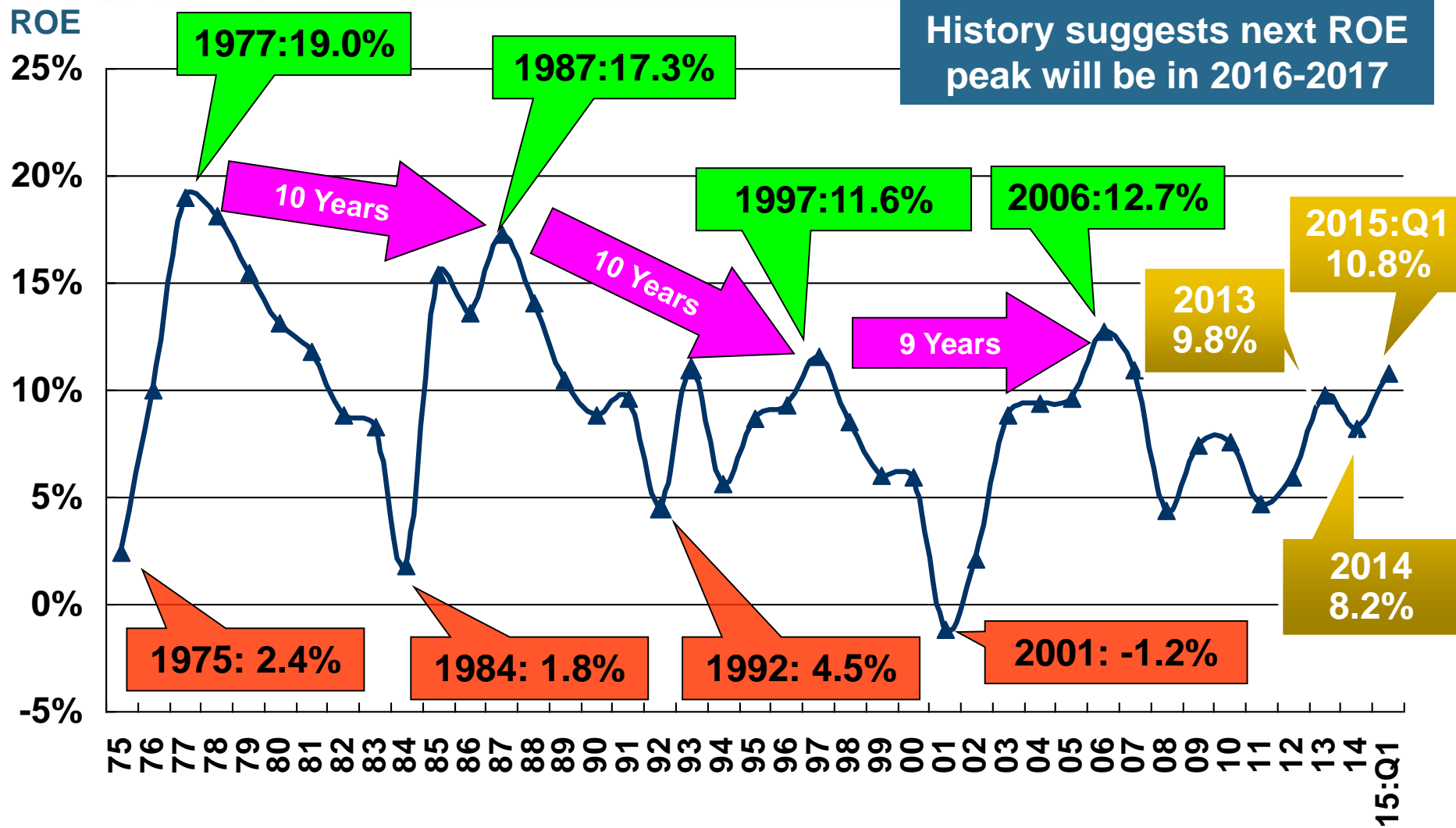
P/C Industry Net Income After Taxes 1991–2015:Q1



*ROE figures are GAAP; ¹Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 8.2% ROAS in 2014, 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

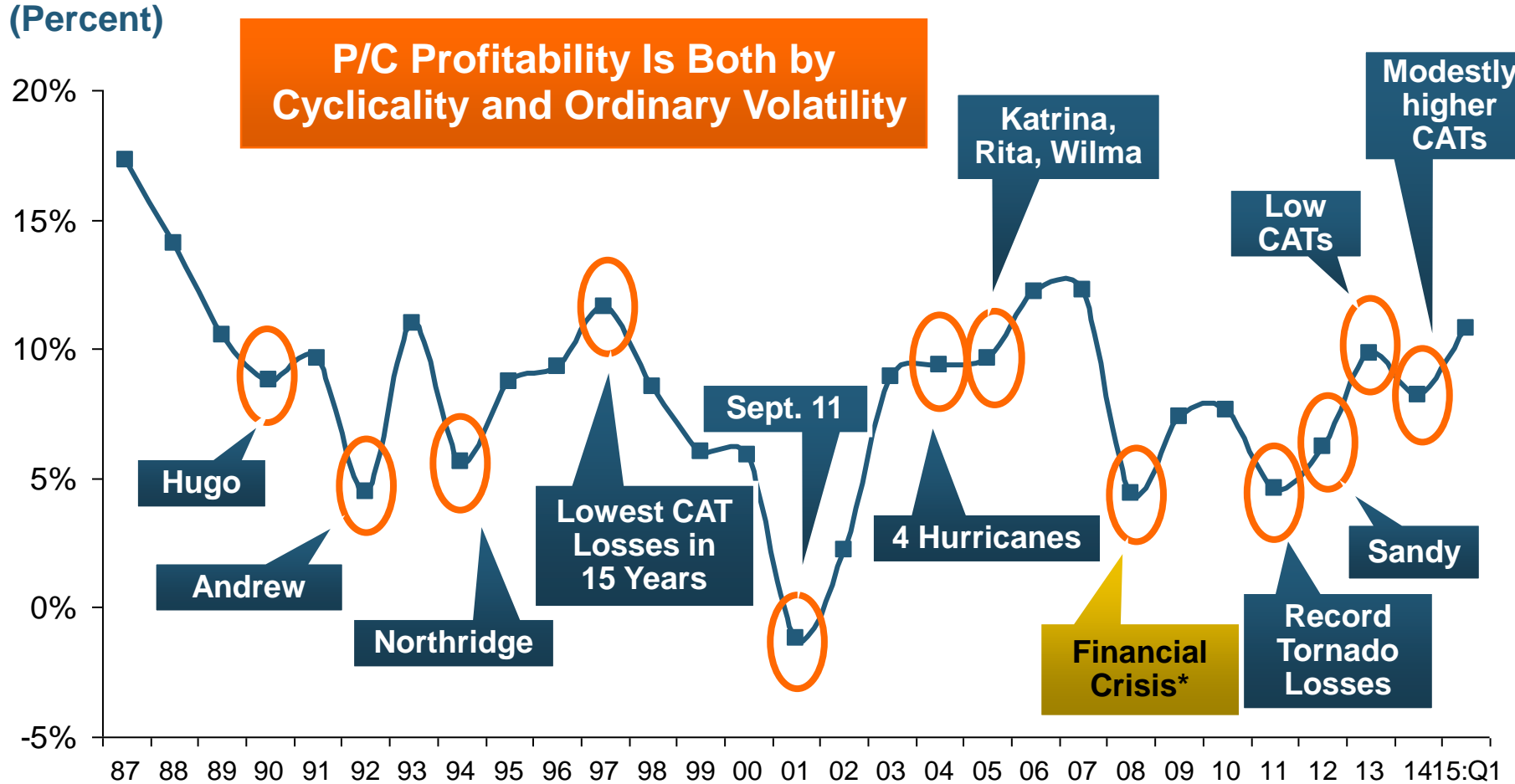
Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2015:Q1



*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.

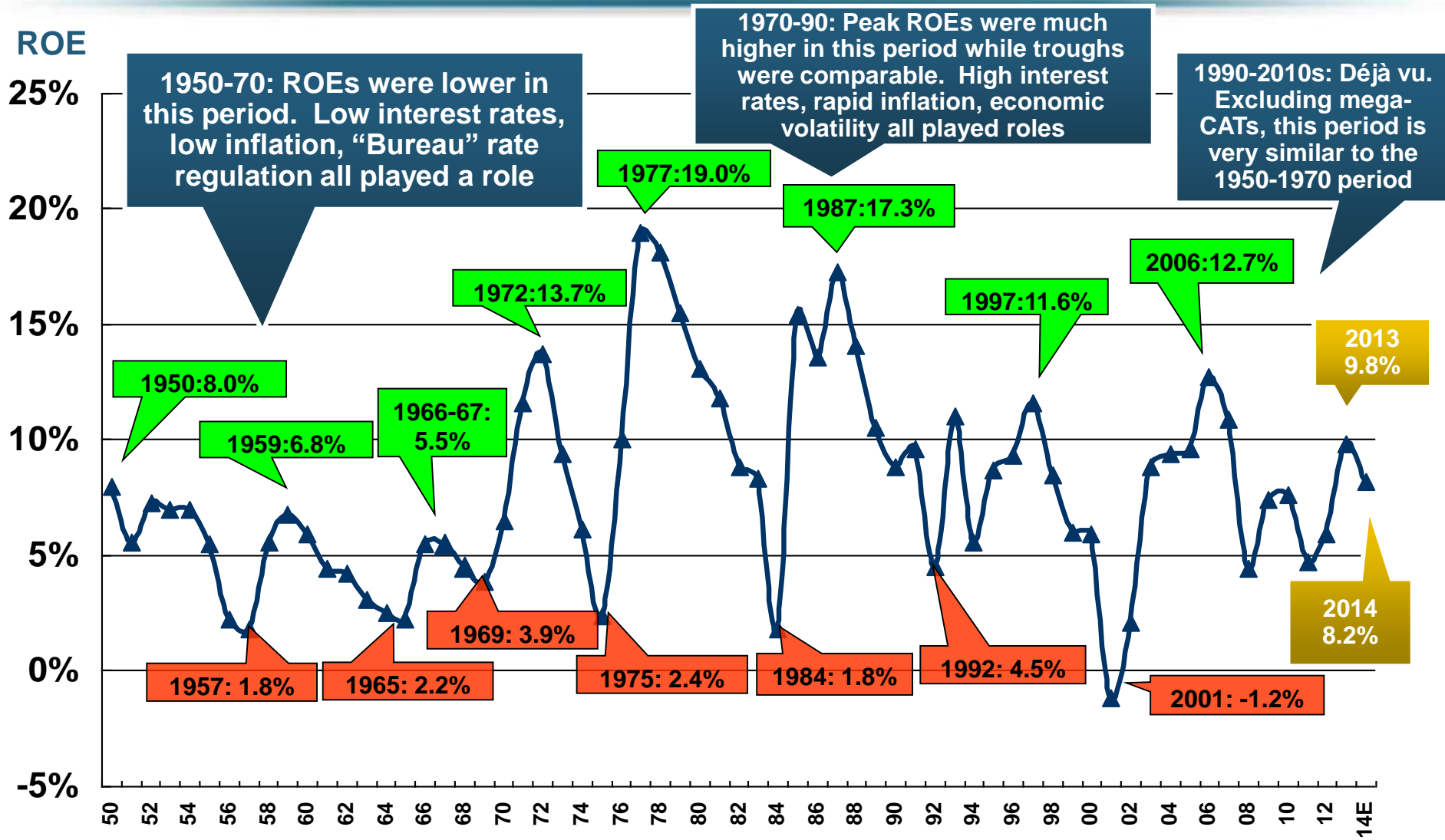
Source: Insurance Information Institute; NAIC, ISO, A.M. Best, Conning

ROE: Property/Casualty Insurance by Major Event, 1987–2015:Q1



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

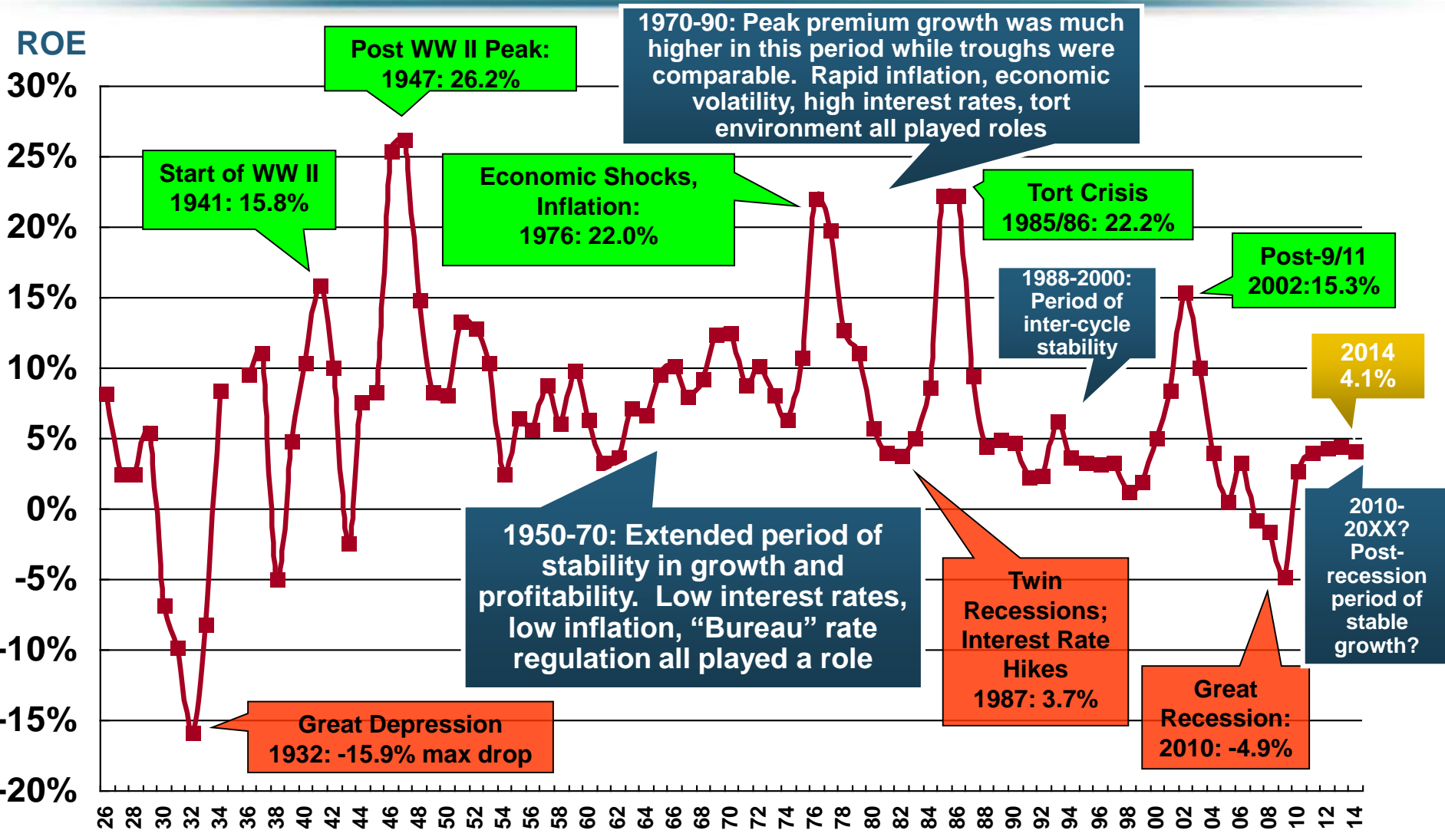
Back to the Future: Profitability Peaks & Troughs in the P/C Insurance Industry, 1950 – 2014*



*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.

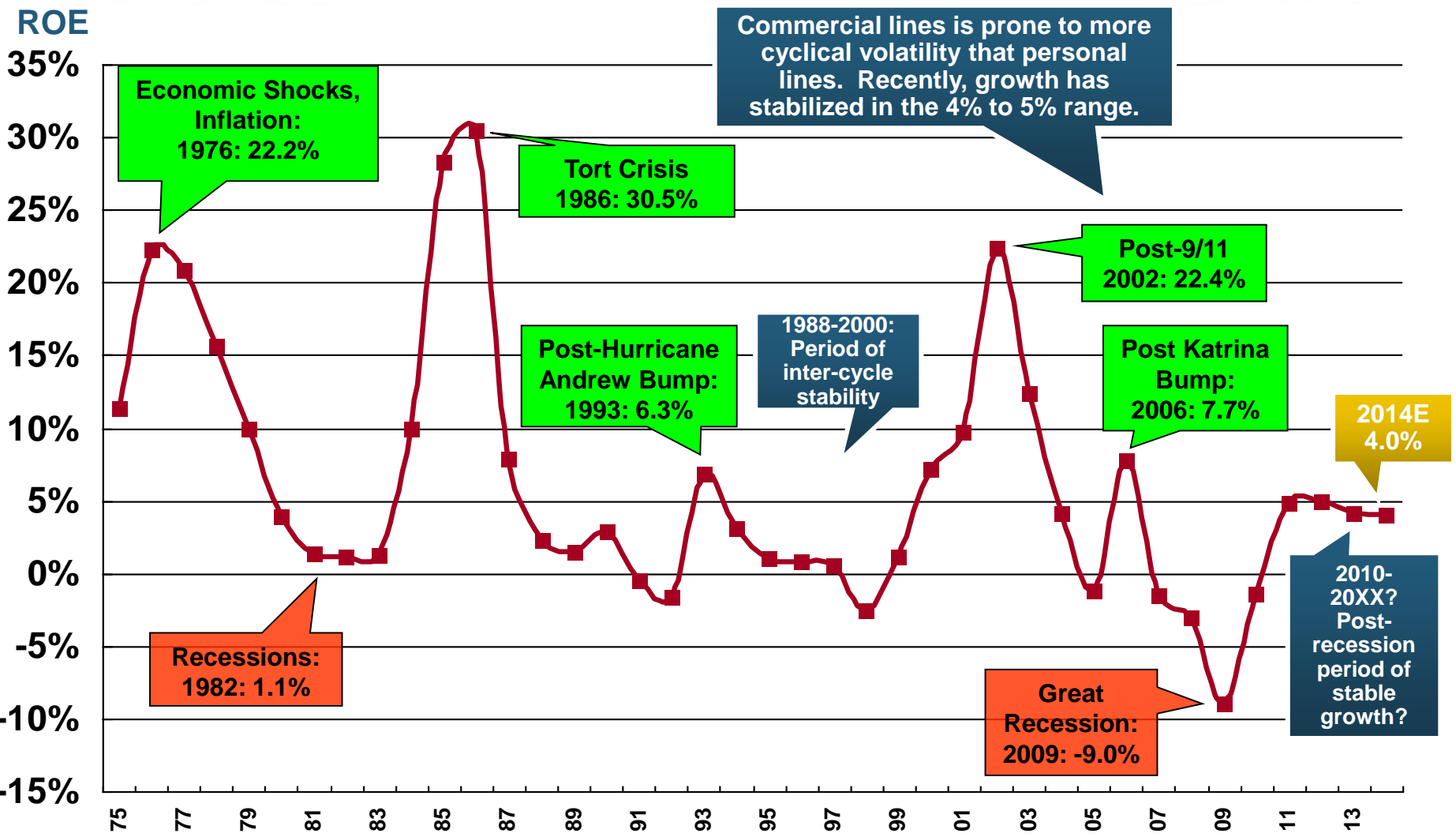
NPW Premium Growth: Peaks & Troughs in the P/C Insurance Industry, 1926 – 2014



Note: Data through 1934 are based on stock companies only. Data include state funds beginning in 1998.

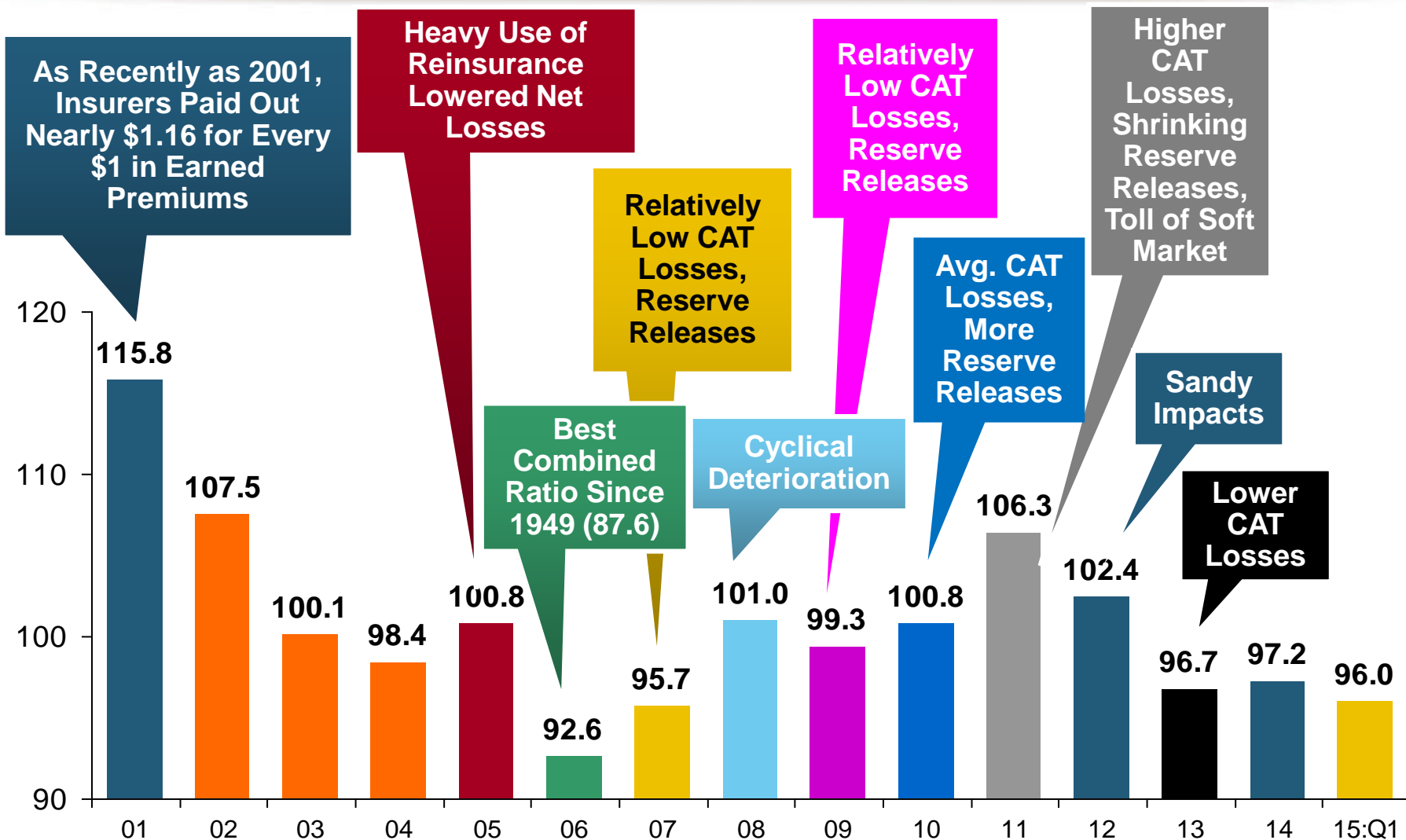
Source: A.M. Best; Insurance Information Institute.

Commercial Lines NPW Premium Growth: 1975 – 2014E



Note: Data include state funds beginning in 1998.
 Source: A.M. Best; Insurance Information Institute.

P/C Insurance Industry Combined Ratio, 2001–2015:Q1*



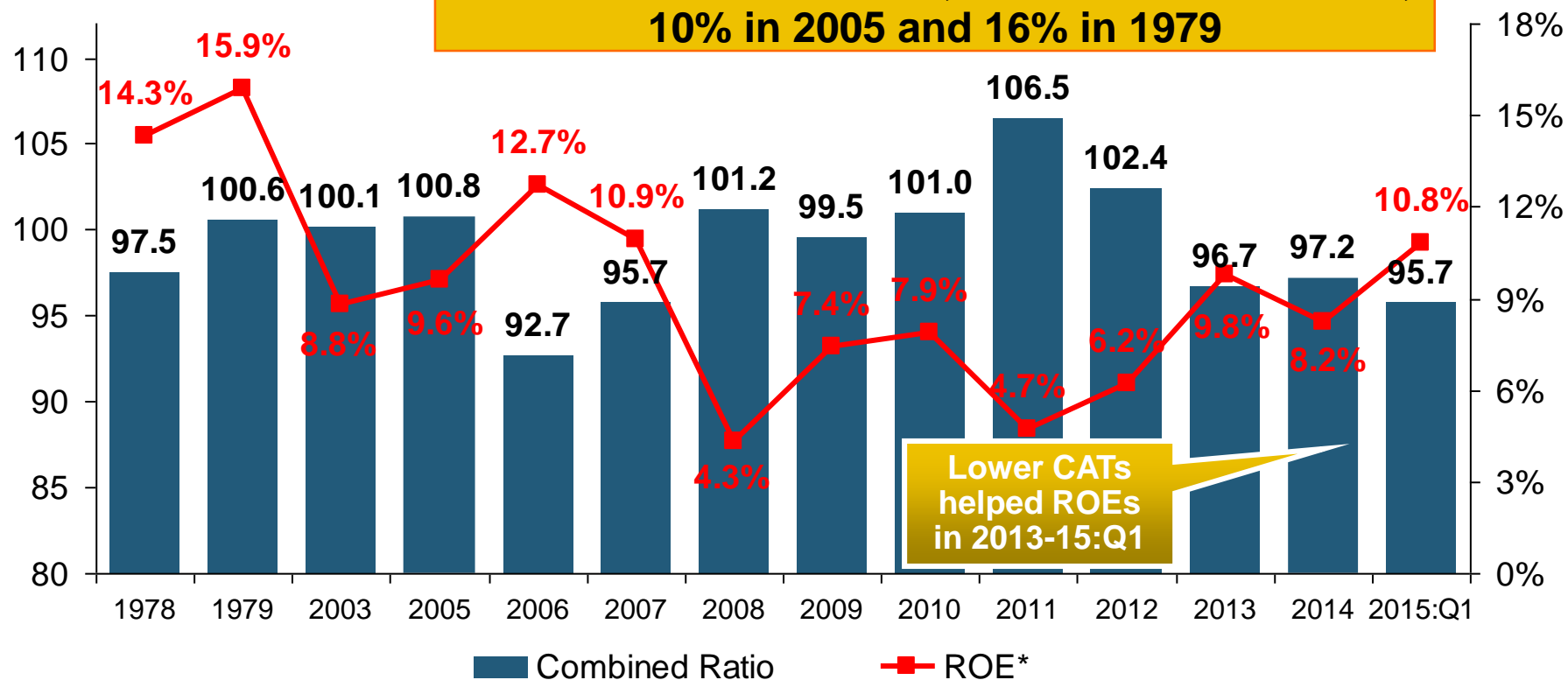
* Excludes Mortgage & Financial Guaranty insurers 2008--2014. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.1; 2012:=103.2; 2013: = 96.1; 2014: = 97.0.

Sources: A.M. Best, ISO.

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

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

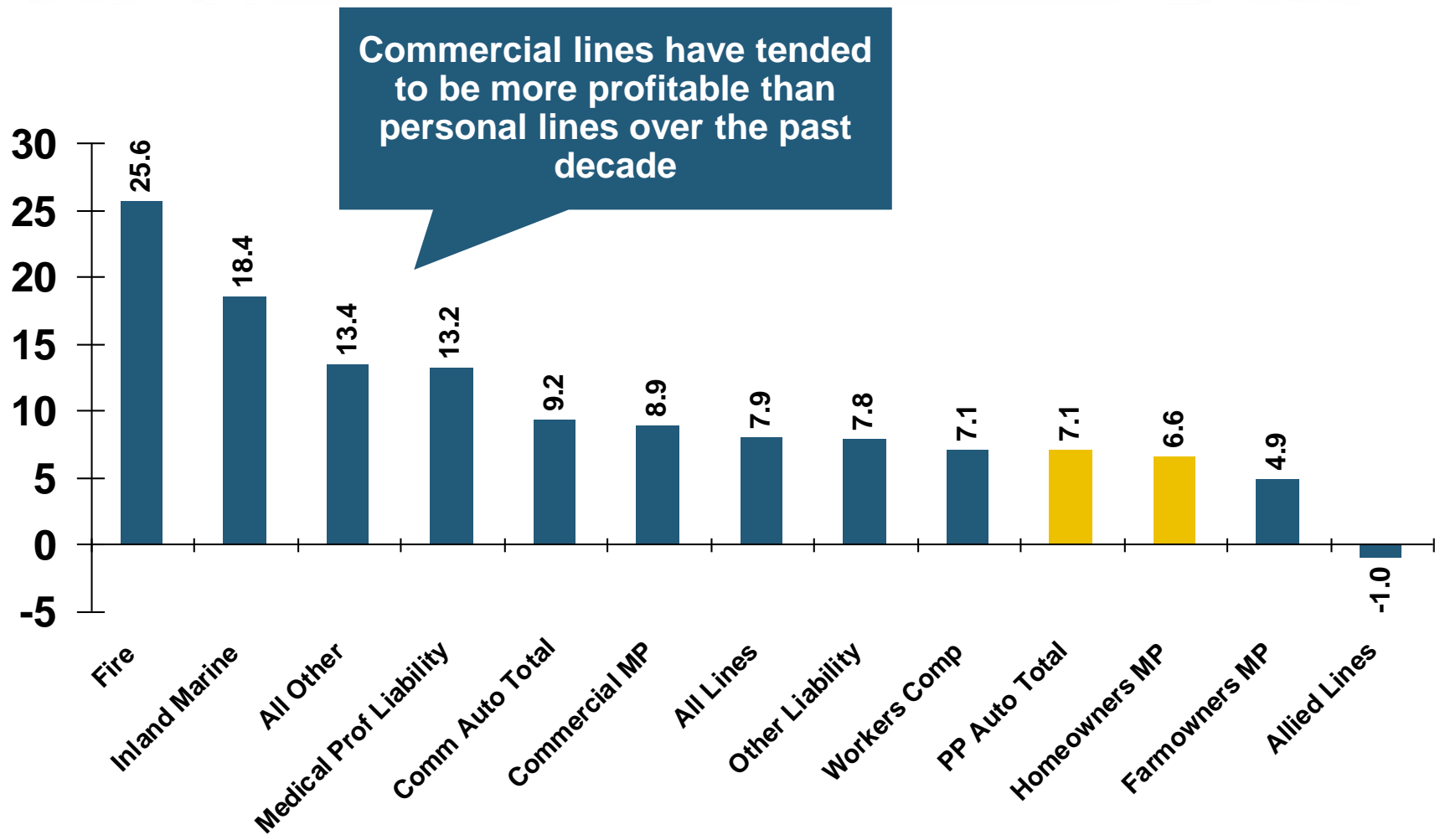


Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

* 2008 -2014 figures are return on average surplus and exclude mortgage and financial guaranty insurers. 2014 combined ratio including M&FG insurers is 97.0; 2013 = 96.1; 2012 =103.2, 2011 = 108.1, ROAS = 3.5%.

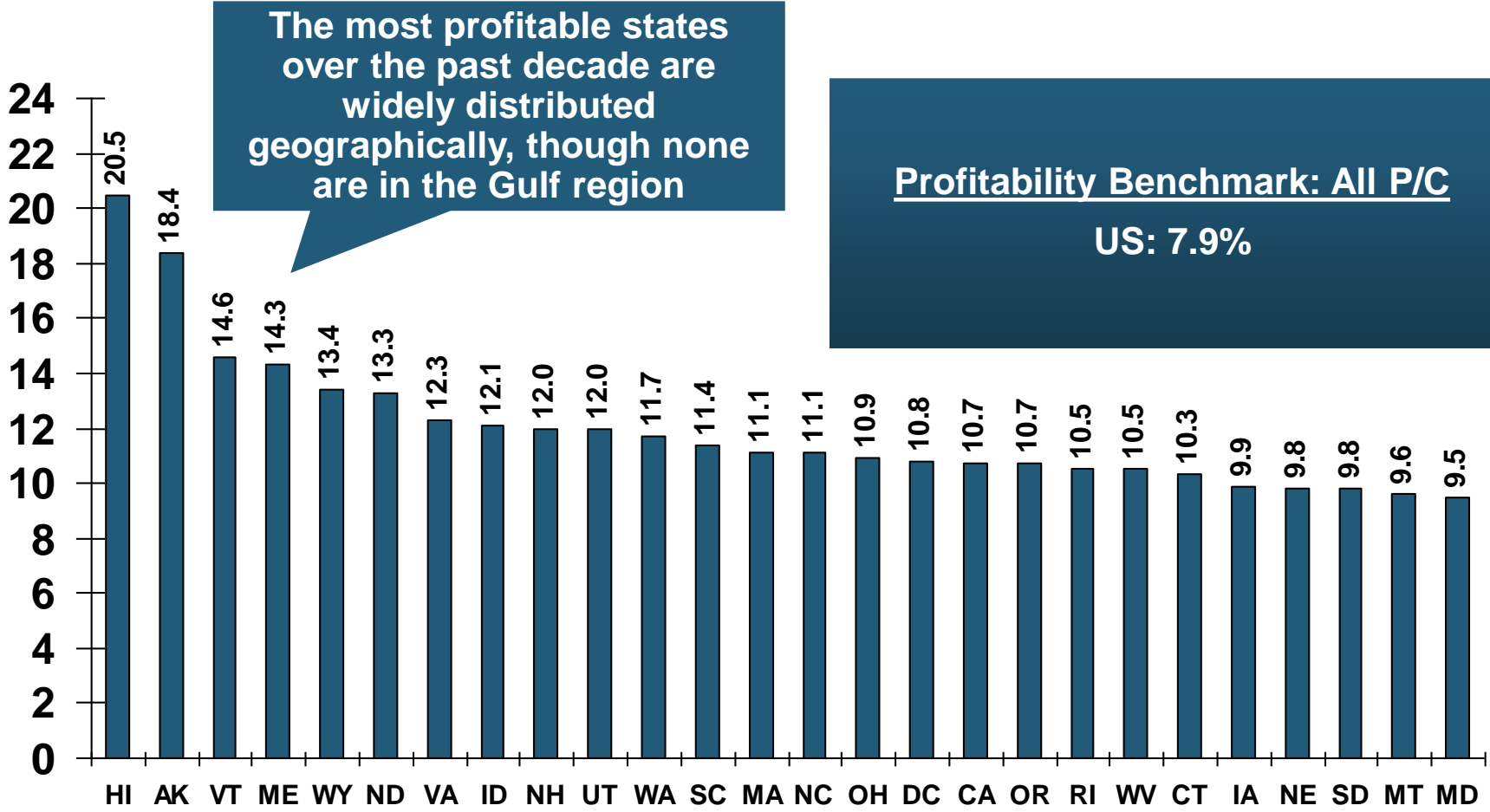
Source: Insurance Information Institute from A.M. Best and ISO Verisk Analytics data.

Return on Net Worth (RNW) All Lines: 2004-2013 Average



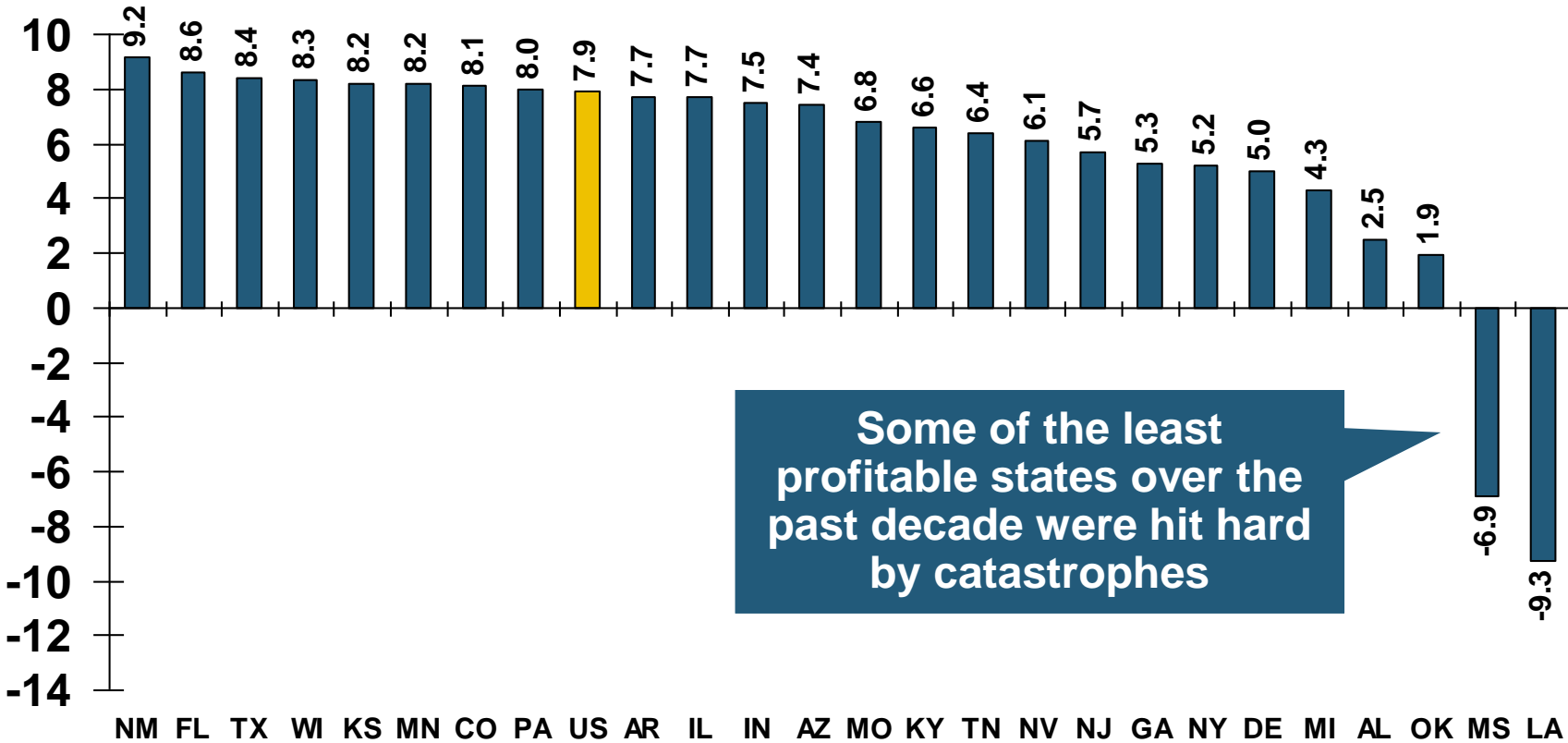
Source: NAIC; Insurance Information Institute.

RNW All Lines by State, 2004-2013 Average: Highest 25 States



Source: NAIC; Insurance Information Institute.

RNW All Lines by State, 2004-2013 Average: Lowest 25 States

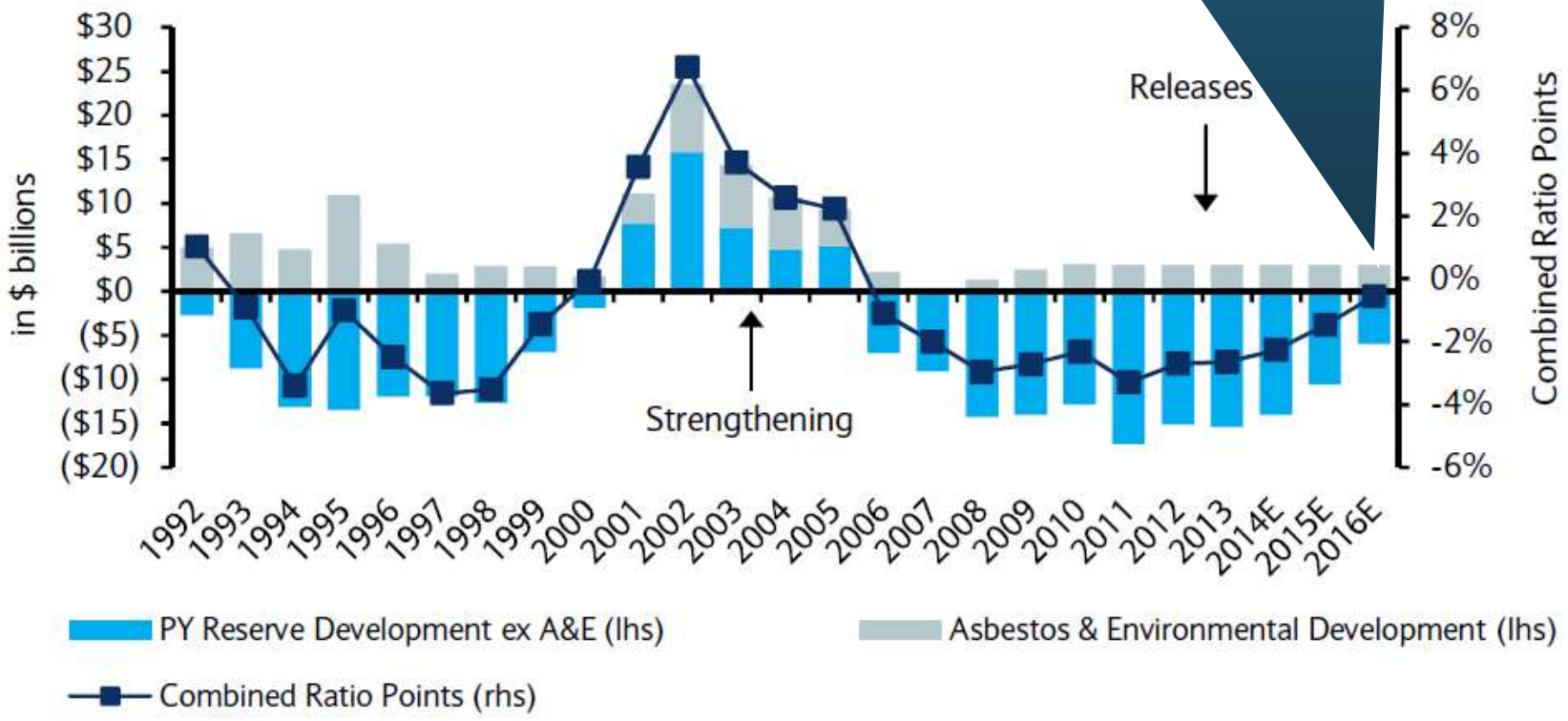


Source: NAIC; Insurance Information Institute.

P/C Insurance Loss Reserve Development 1992 – 2016E*

Reserve Change

Reserve releases are expected to gradually taper off, but will continue to benefit the bottom line and combined ratio through at least 2016



Source: A.M. Best; Barclays research for estimates.

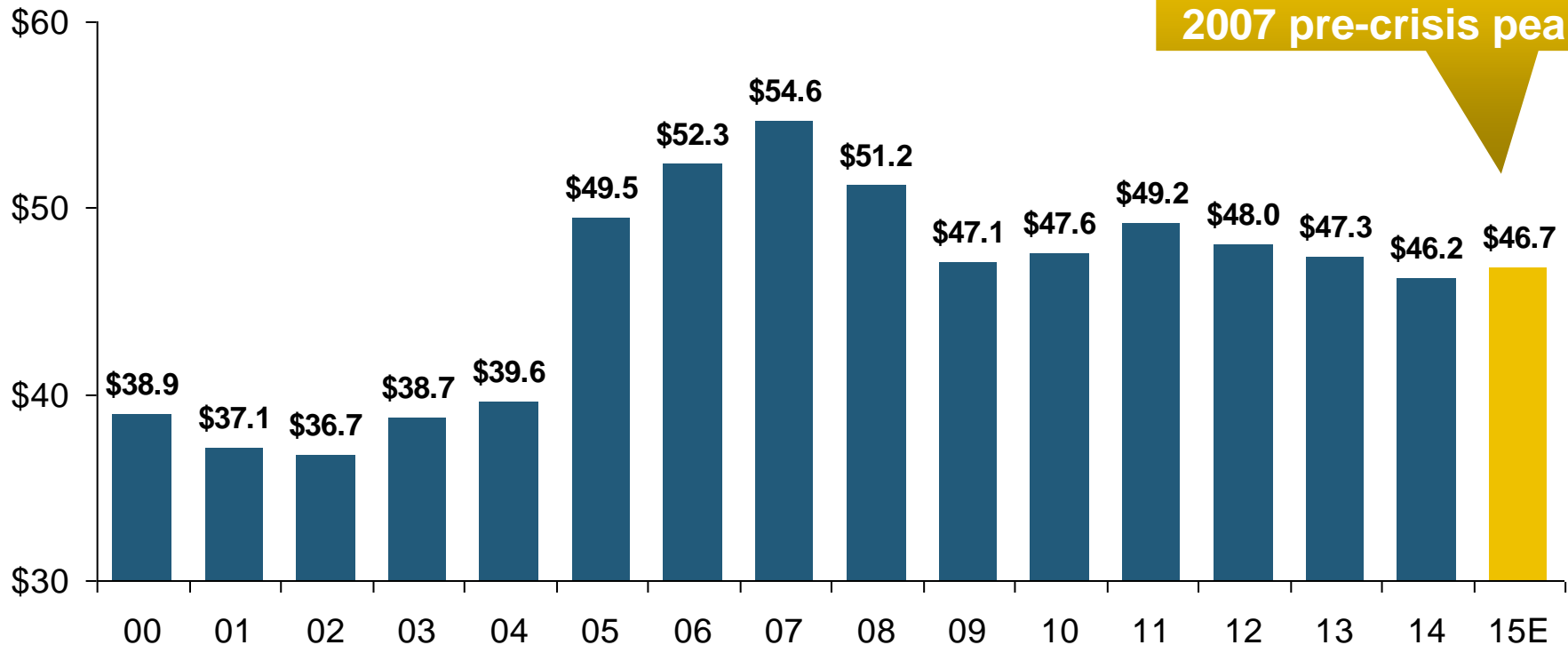
**INVESTMENTS:
THE NEW REALITY**

**Investment Performance is a Key
Driver of Profitability**

***Depressed Yields Will Necessarily
Influence Underwriting & Pricing***

Property/Casualty Insurance Industry Investment Income: 2000–2015E¹

(\$ Billions)



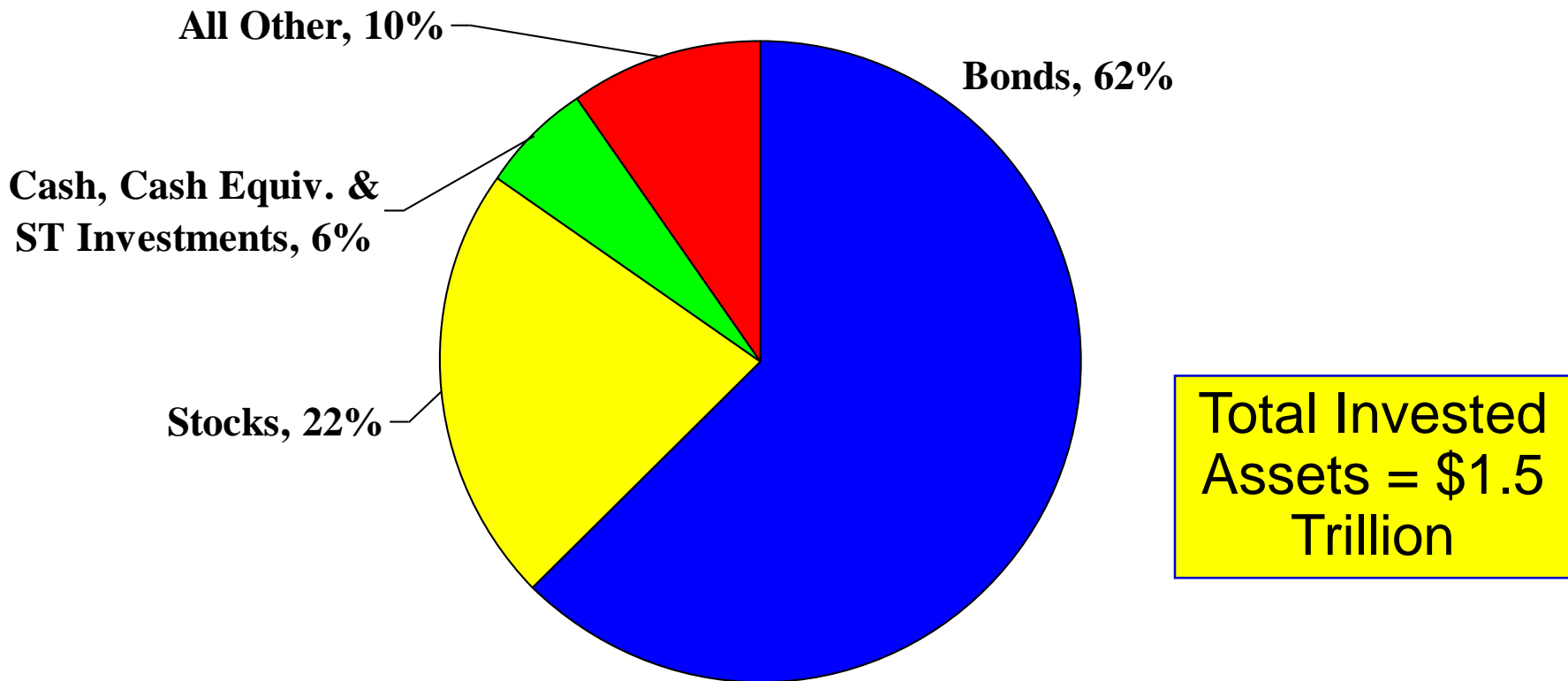
**Due to persistently low interest rates,
investment income fell in 2012, 2013 and 2014.**

¹ Investment gains consist primarily of interest and stock dividends.
Sources: ISO; Insurance Information Institute.

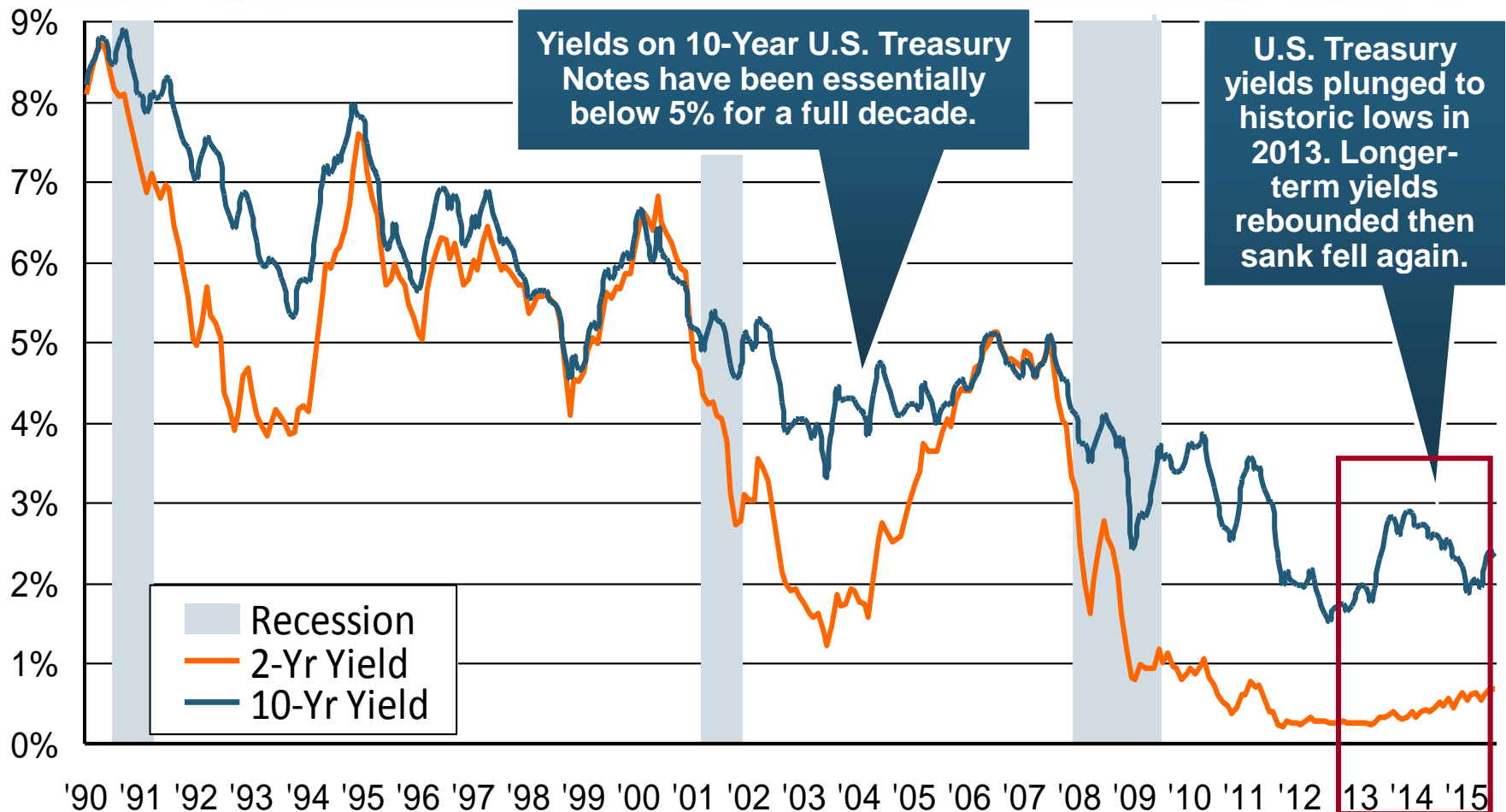
*2015 figure is estimated based on annualized data through Q1.

Distribution of Invested Assets: P/C Insurance Industry, 2013

\$ Billions



U.S. Treasury Security Yields: A Long Downward Trend, 1990–2015*

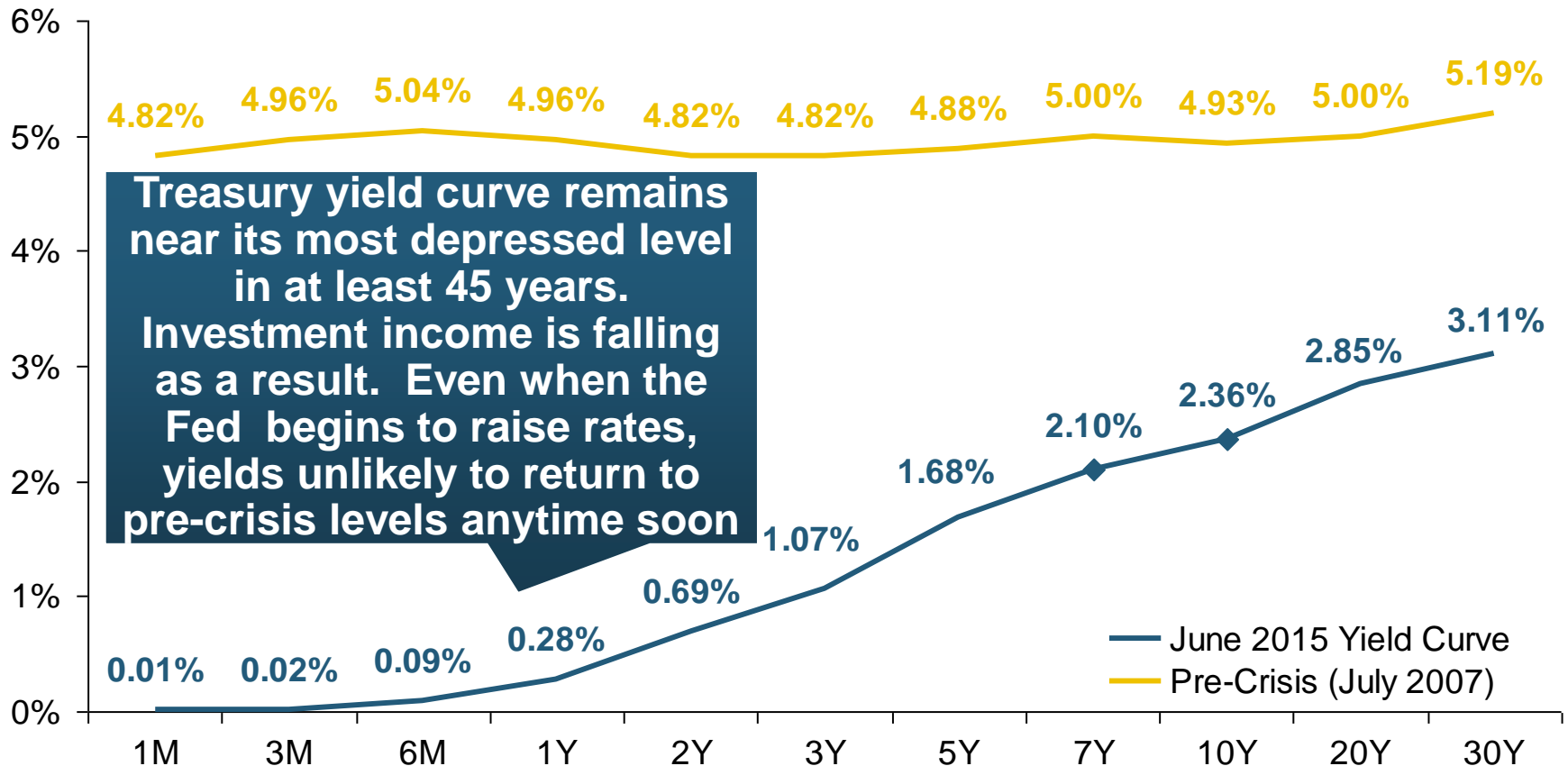


Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, constant maturity, nominal rates, through July 2015.

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

Treasury Yield Curves: Pre-Crisis (July 2007) vs. June 2015

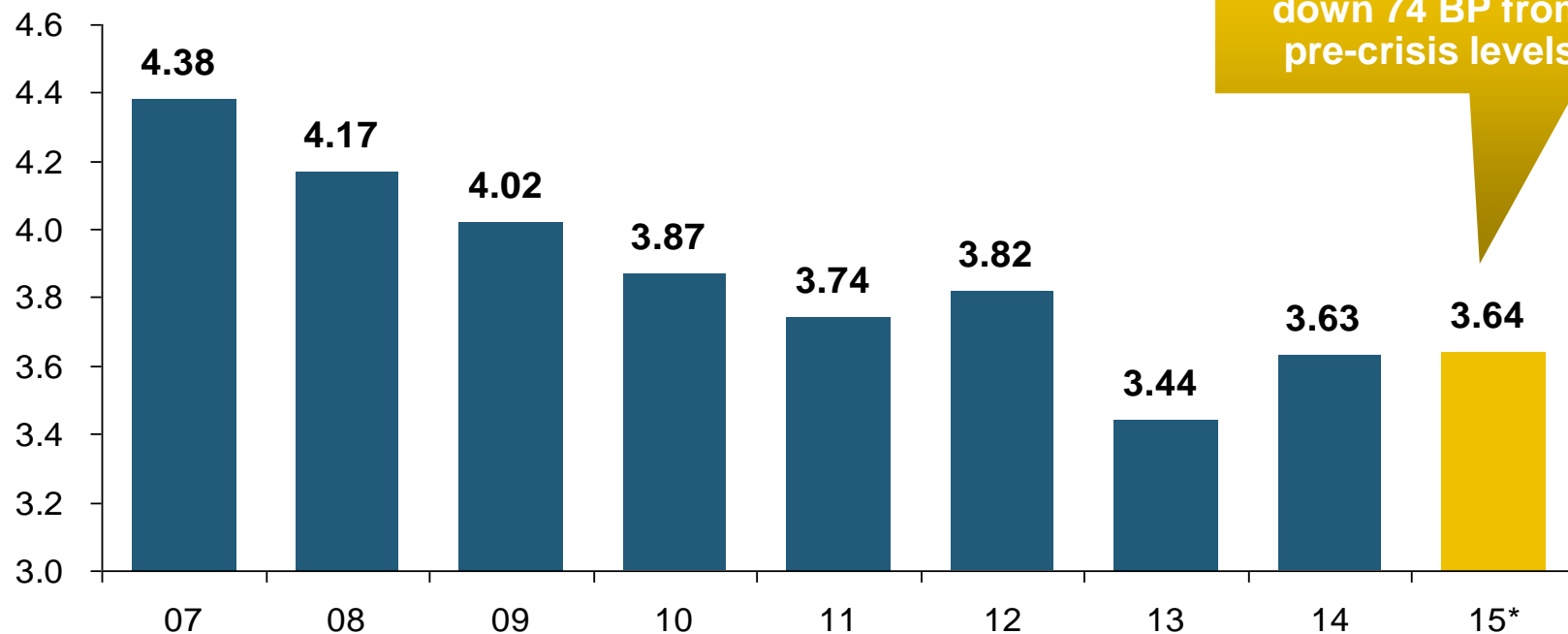


Treasury yield curve remains near its most depressed level in at least 45 years. Investment income is falling as a result. Even when the Fed begins to raise rates, yields unlikely to return to pre-crisis levels anytime soon

The Fed Is Actively Signaling that it Is Likely to Begin Raising Rates Later in 2015 but Only Very Gradually

Book Yield on Property/Casualty Insurance Invested Assets, 2007–2015*

(Percent)



Book yield in 2015 is down 74 BP from pre-crisis levels

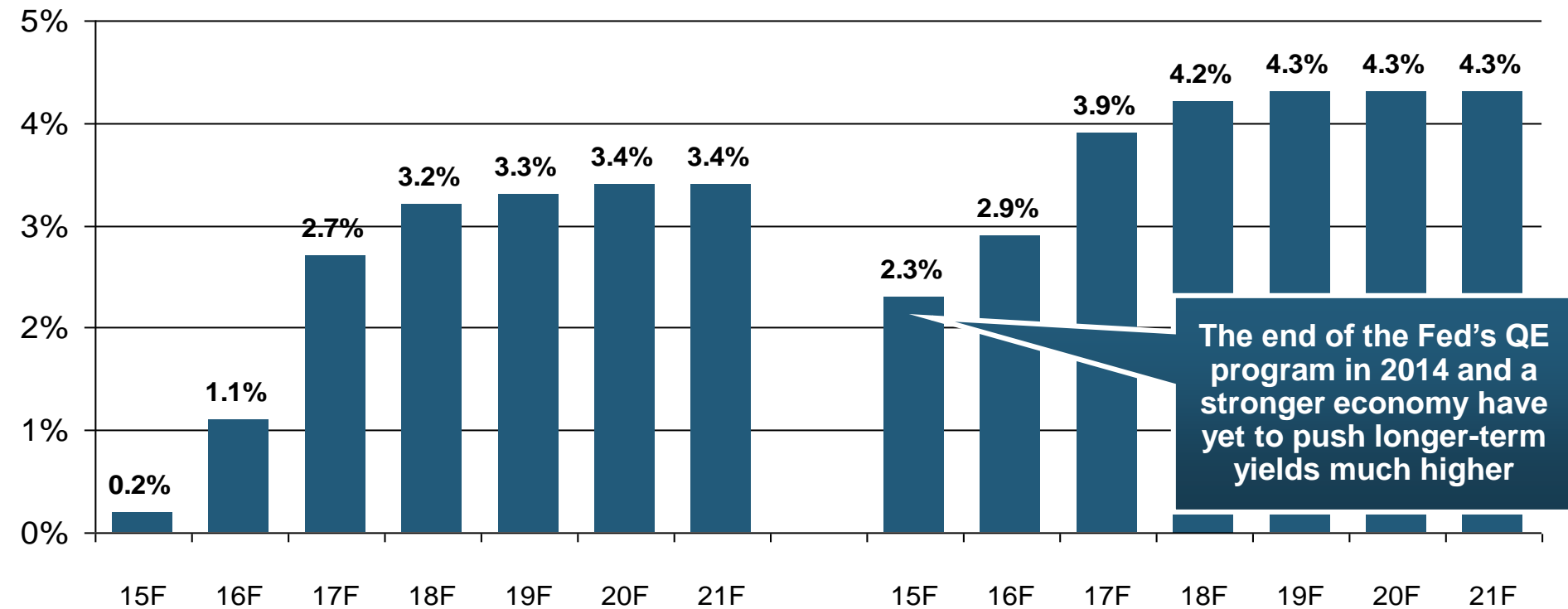
The yield on invested assets remains low relative to pre-crisis yields. The Fed's plan to raise interest rates in late 2015 has already pushed up some yields, albeit quite modestly.

Interest Rate Forecasts: 2015 – 2021

Yield (%)

3-Month Treasury

10-Year Treasury



The end of the Fed's QE program in 2014 and a stronger economy have yet to push longer-term yields much higher

A full normalization of interest rates is unlikely until 2018, more than a decade after the onset of the financial crisis.

Sources: Blue Chip Economic Indicators (8/15 for 2015 and 2016; for 2017-2021 3/15 issue); Insurance Info. Institute.

Annual Inflation Rates, (CPI-U, %), 1990–2016F

Annual Inflation Rates (%)

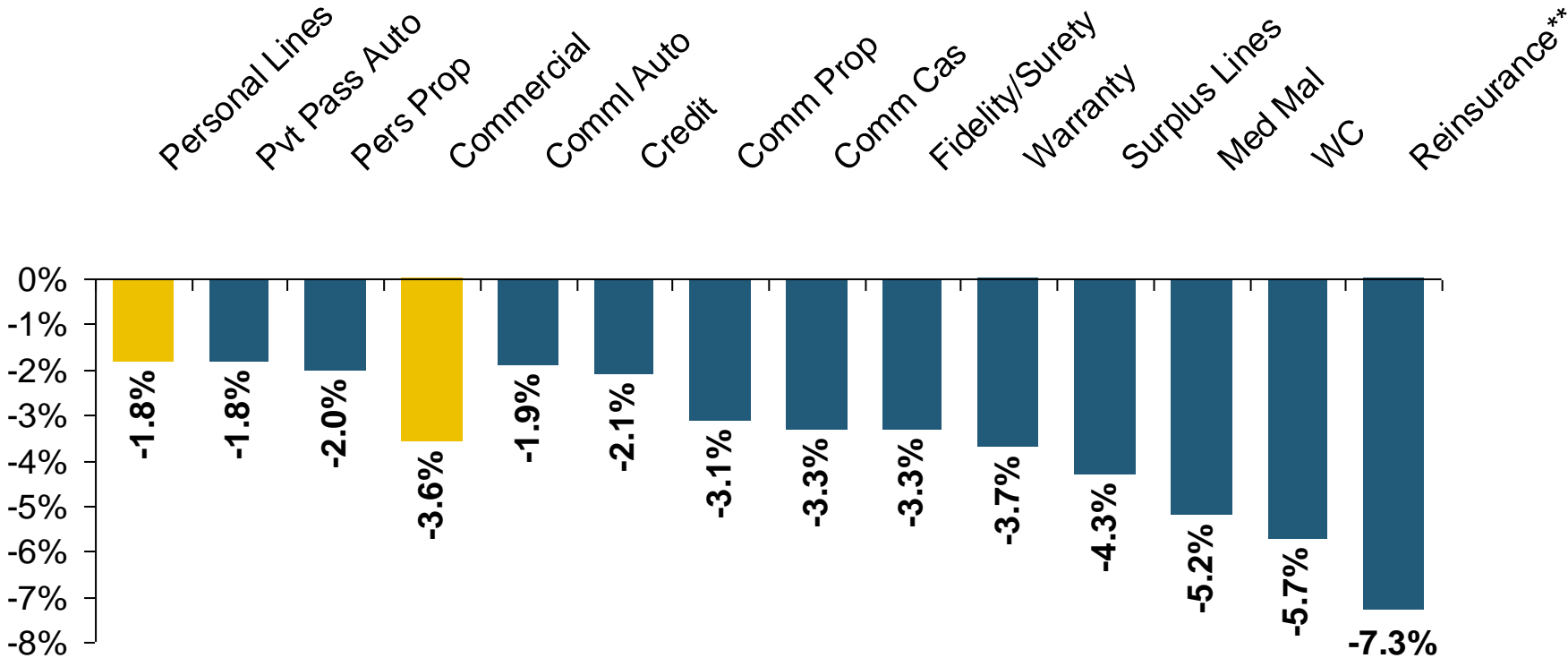


Inflation peaked at 5.6% in August 2008 on high energy and commodity crisis. The recession and the collapse of the commodity bubble reduced inflationary pressures in 2009/10

Inflationary expectations have slipped (due in part to falling energy costs) allowing the Fed to maintain low interest rates

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

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

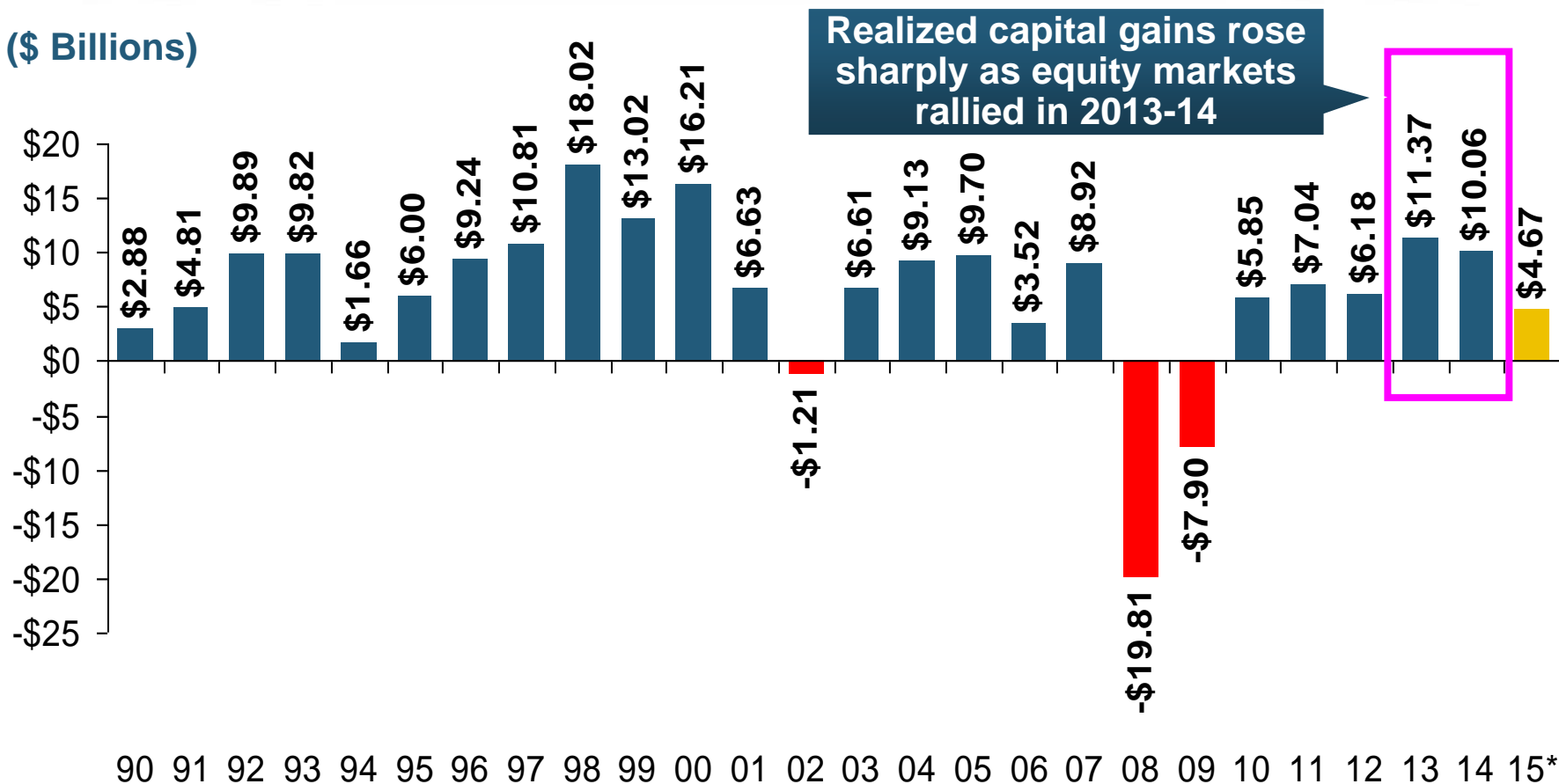
*Based on 2008 Invested Assets and Earned Premiums

**US domestic reinsurance only

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

P/C Insurer Net Realized Capital Gains/Losses, 1990-2015:Q1

(\$ Billions)



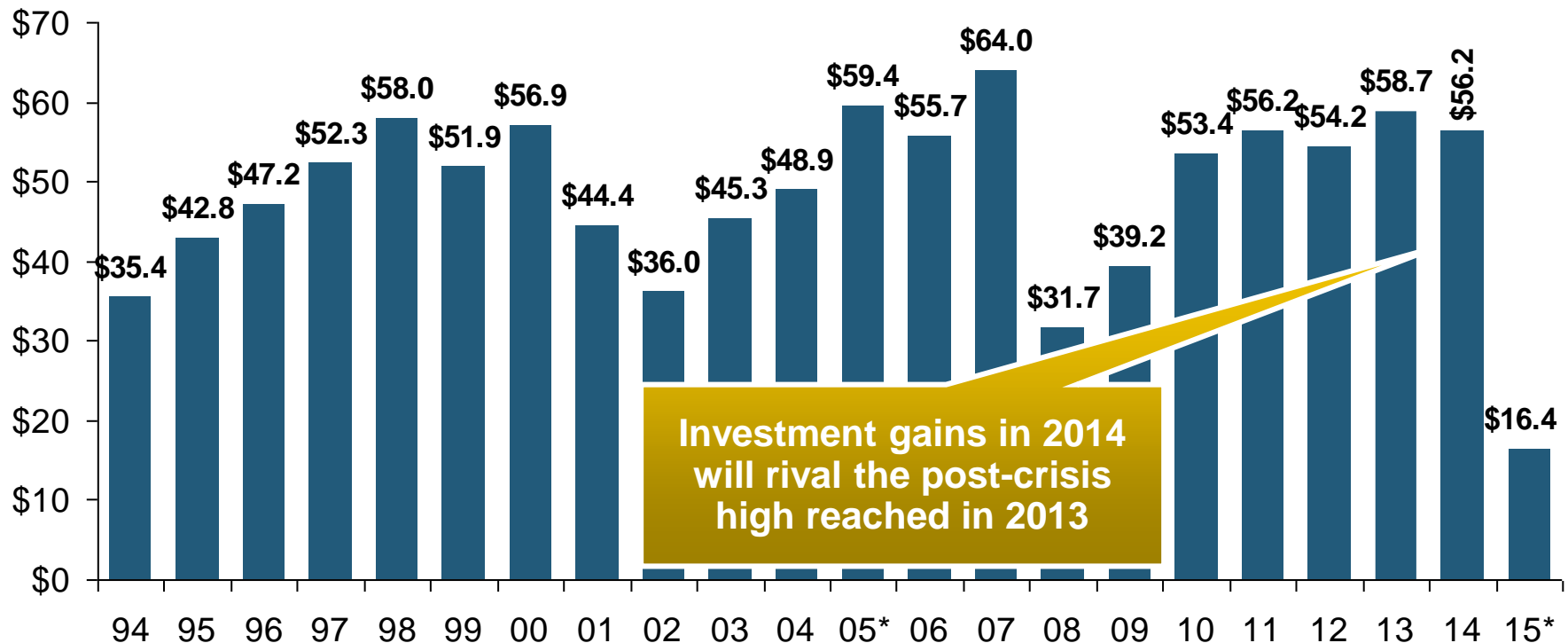
Insurers Posted Net Realized Capital Gains in 2010 - 2014 Following Two Years of Realized Losses During the Financial Crisis. Realized Capital Losses Were a Primary Cause of 2008/2009's Large Drop in Profits and ROE.

*Through Q1 2015.

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

Property/Casualty Insurance Industry Investment Gain: 1994–2015:Q1¹

(\$ Billions)



Investment gains in 2014 will rival the post-crisis high reached in 2013

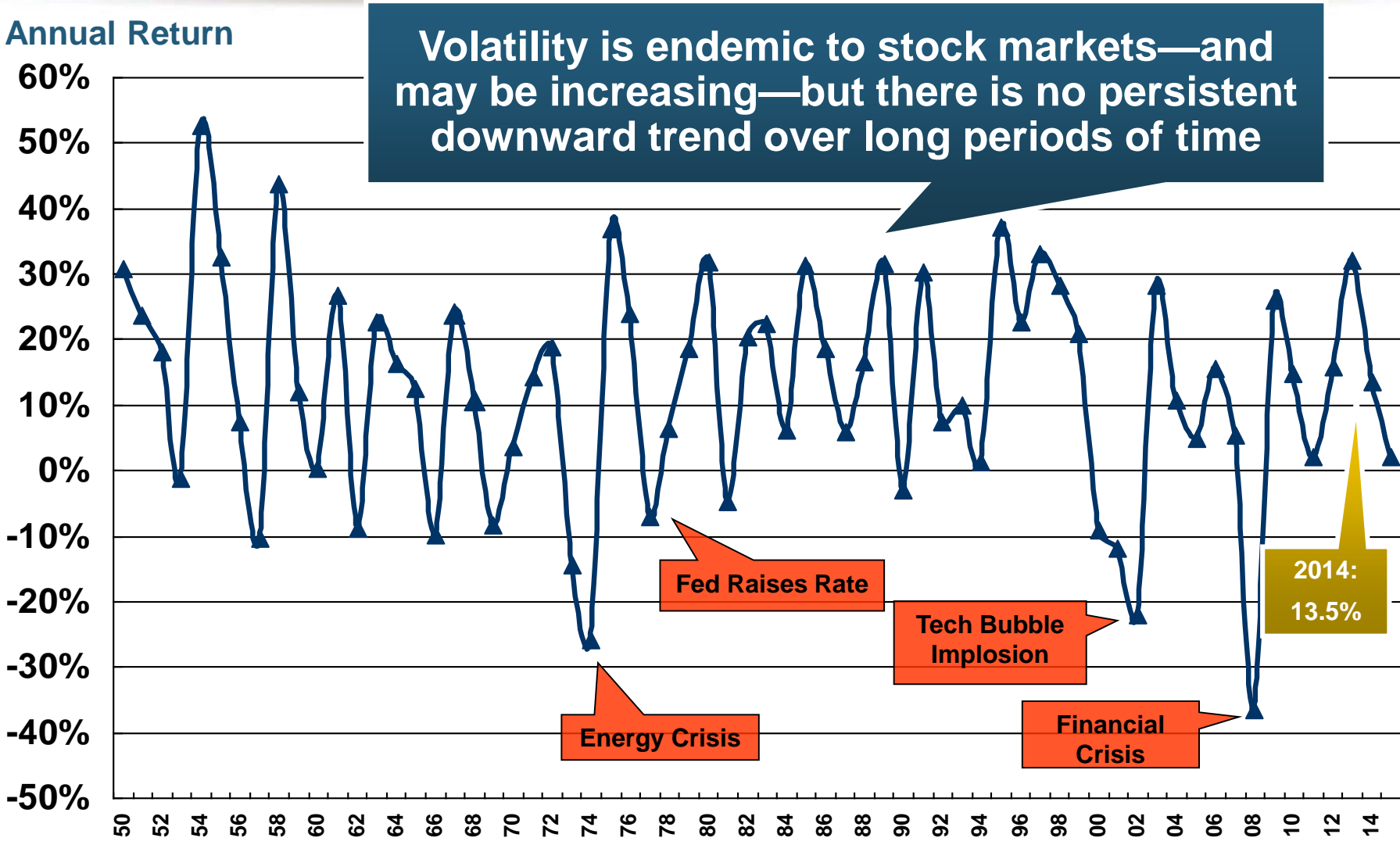
Total Investment Gains Were Down Slightly in 2014 as Low Interest Rates Pressured Investment Income but Realized Capital Gains Remained Robust

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; 2015 figure is through Q1 2015.

Sources: ISO; Insurance Information Institute.

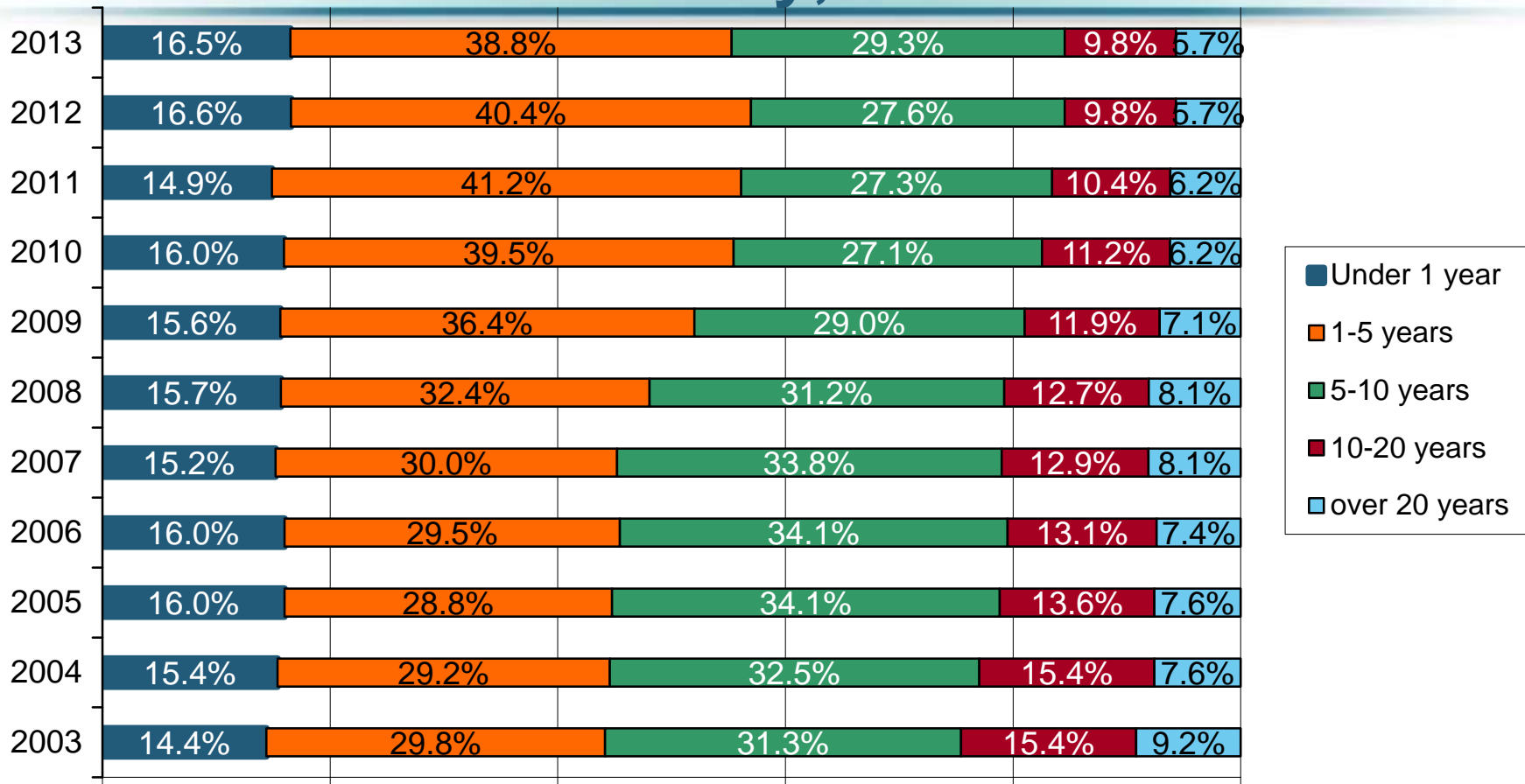
S&P 500 Index Returns, 1950 – 2015*



*Through August 10, 2015.

Source: NYU Stern School of Business: http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/histretSP.html Ins. Info. Inst.

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



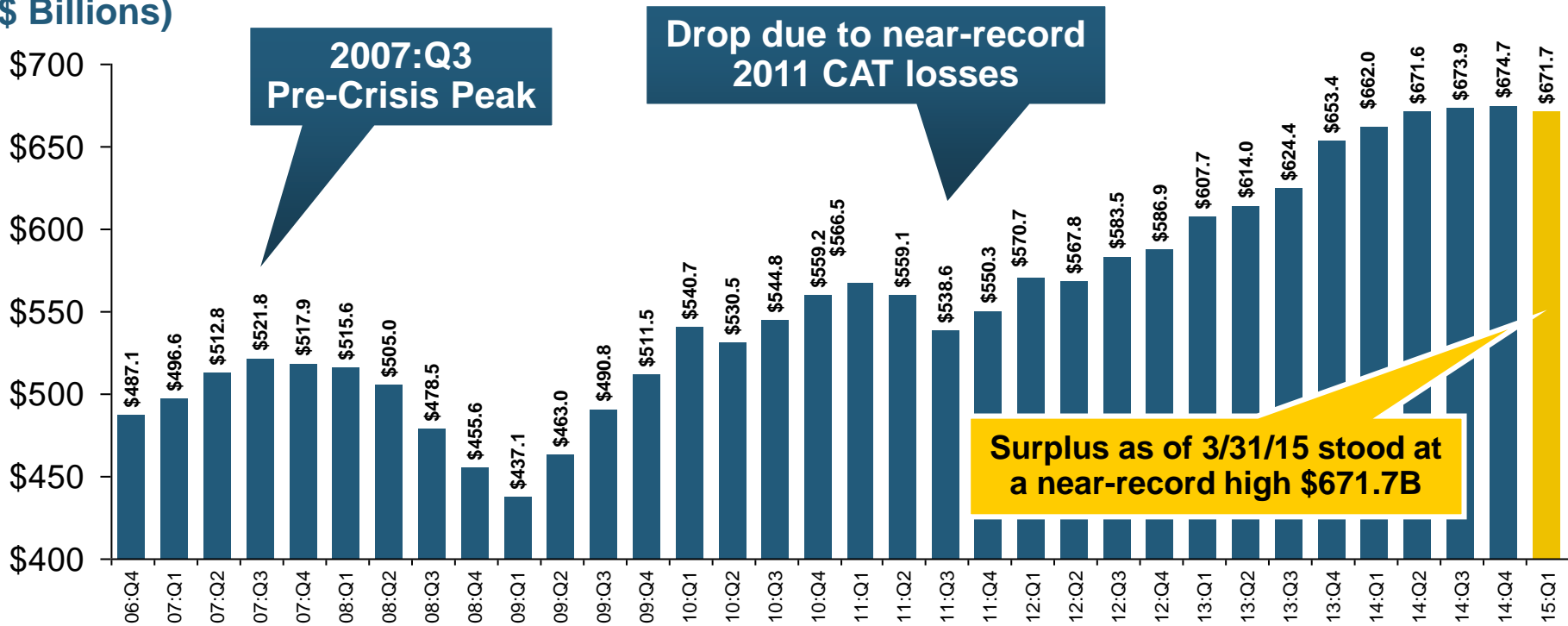
The main shift over these years has been from bonds with longer maturities to bonds with shorter maturities. The industry first trimmed its holdings of over-10-year bonds (from 24.6% in 2003 to 15.5% in 2012) and then trimmed bonds in the 5-10-year category (from 31.3% in 2003 to 27.6% in 2012). Falling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

CAPITAL/CAPACITY

Capital Accumulation Has Multiple Impacts

Policyholder Surplus, 2006:Q4–2015:Q1

(\$ Billions)



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

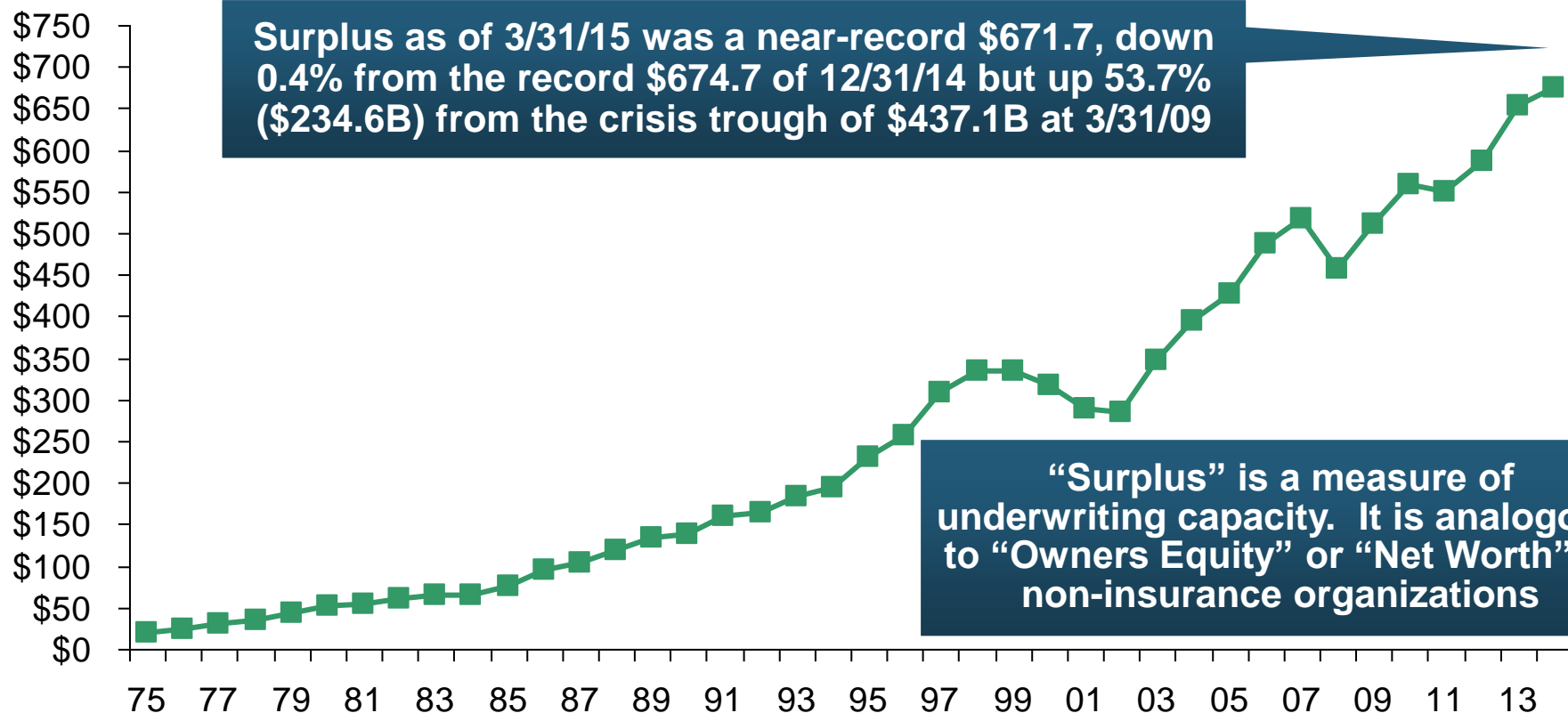
2010:Q1 data includes \$22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business .

The P/C insurance industry entered 2015 in very strong financial condition.

Sources: ISO, A.M .Best.

US Policyholder Surplus: 1975–2015:Q1*

(\$ Billions)



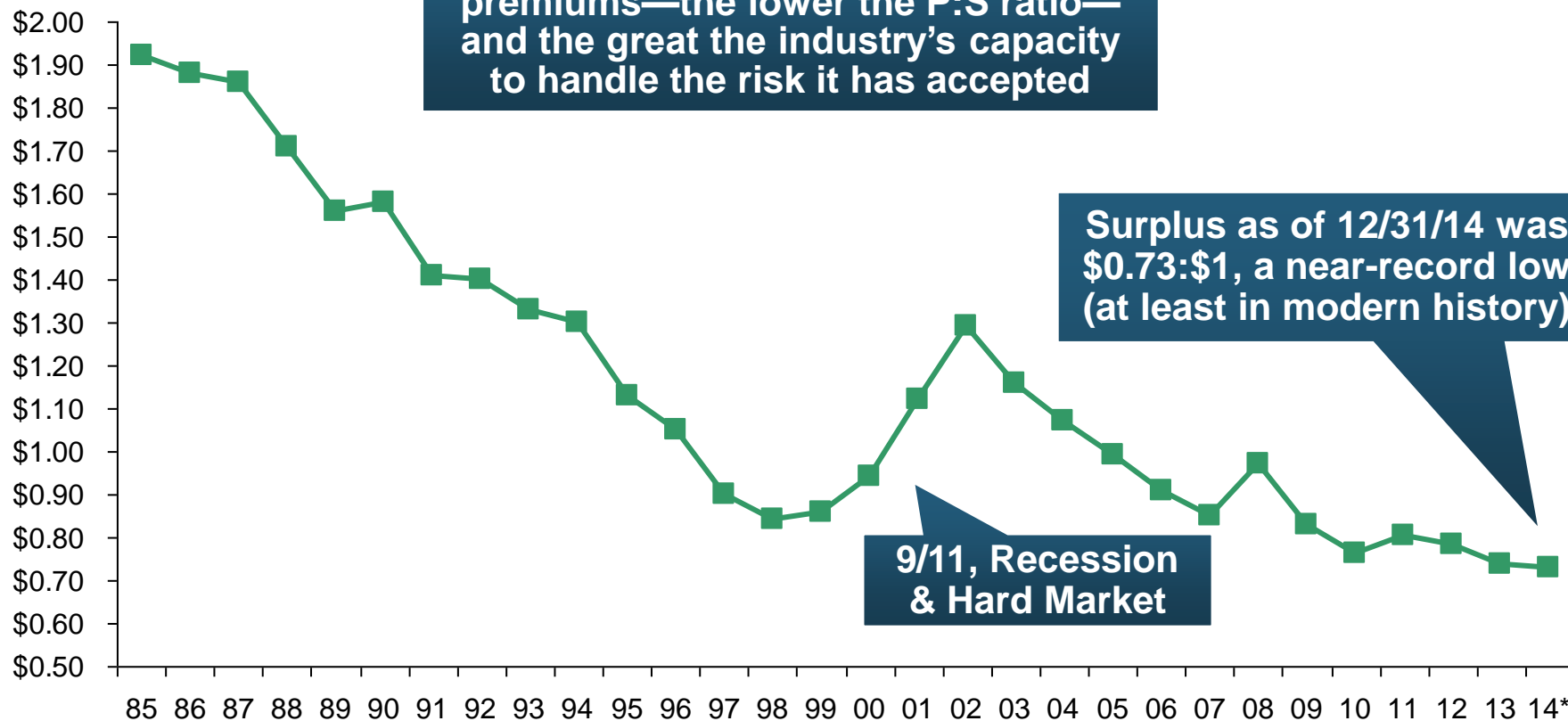
The Premium-to-Surplus Ratio Stood at \$0.73:\$1 as of 3/31/15, a Near Record Low (at Least in Recent History)

* As of 3/31/15.

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

Premium-to-Surplus Ratio: 1985–2014*

(Ratio of NWP to PHS)

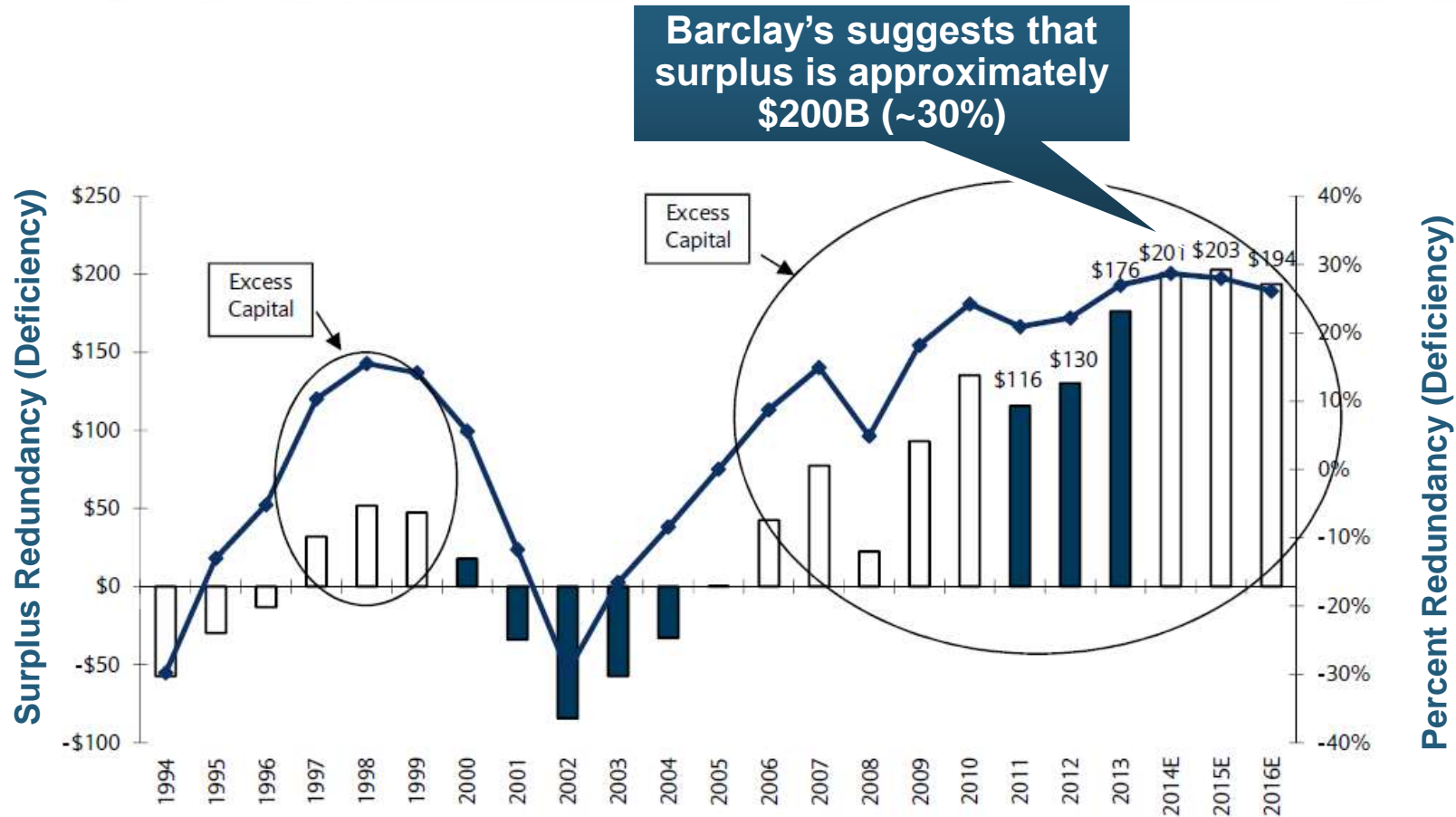


The Premium-to-Surplus Ratio Stood at \$0.73:\$1 as of 12/31/14, a Record Low (at Least in Recent History)

* As of 12/31/14.

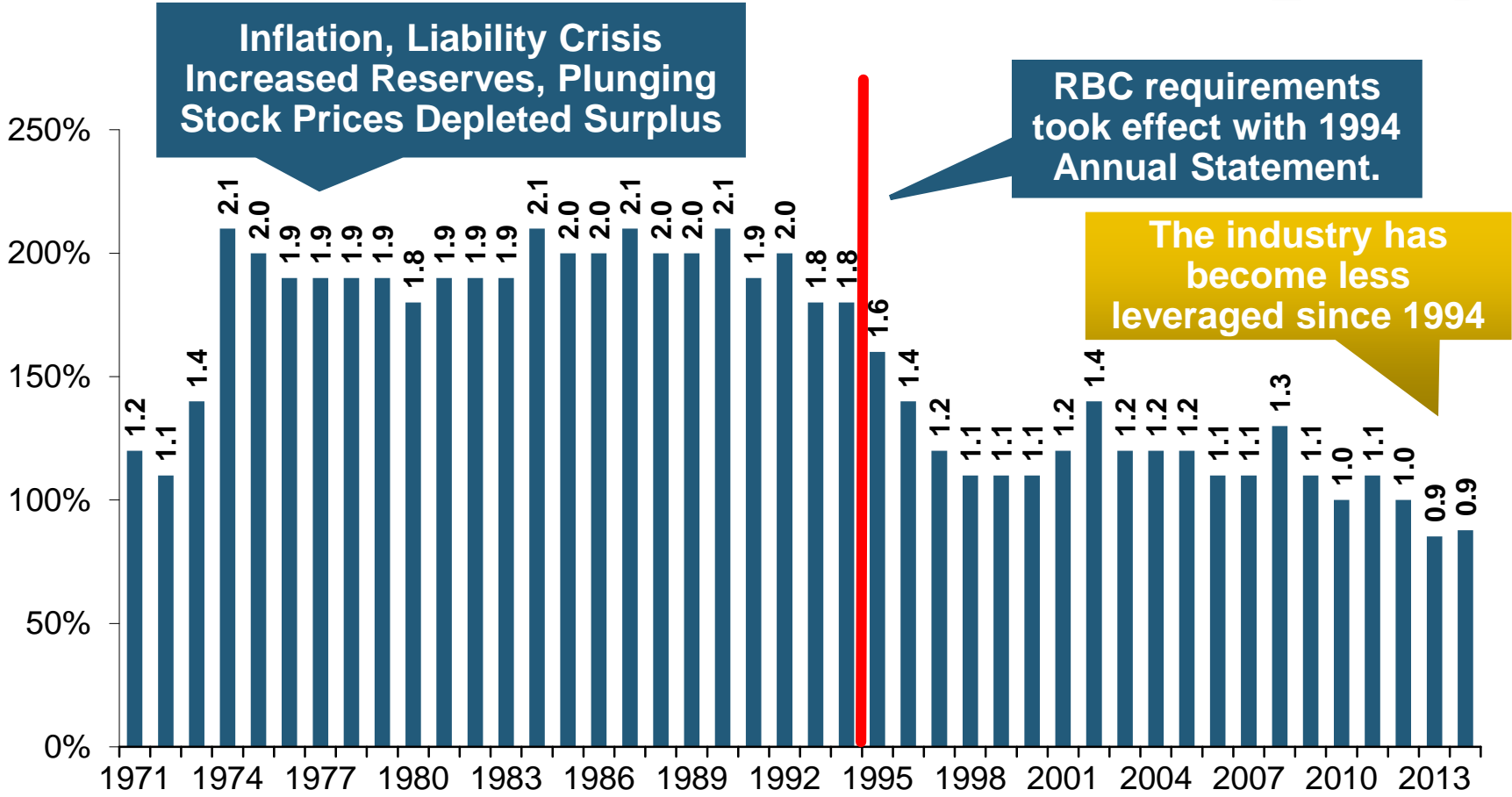
Source: A.M. Best, ISO, Insurance Information Institute.

US P/C Insurance Industry Excess Capital Position: 1994–2016E



The Industry's Strong Capital Position Suggests Insurers Are in a Good Position to Increase Risk Appetite, Repurchase Shares and Pursue Acquisitions

P/C Industry: Loss Reserve-to-Surplus Ratio, 1971-2014



The Property/Casualty Industry Adjusted Its Risk Portfolio in Response to Risk-Based Capital Requirements Implemented in 1994.

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

Alternative Capital

**New Investors Continue to Change
the Reinsurance Landscape**

***First I.I.I. White Paper on Issue Was
Released in March 2015***

Global Reinsurance Capital (Traditional and Alternative), 2006 - 2014

Total reinsurance capital reached a record \$570B in 2013, up 68% from 2008.

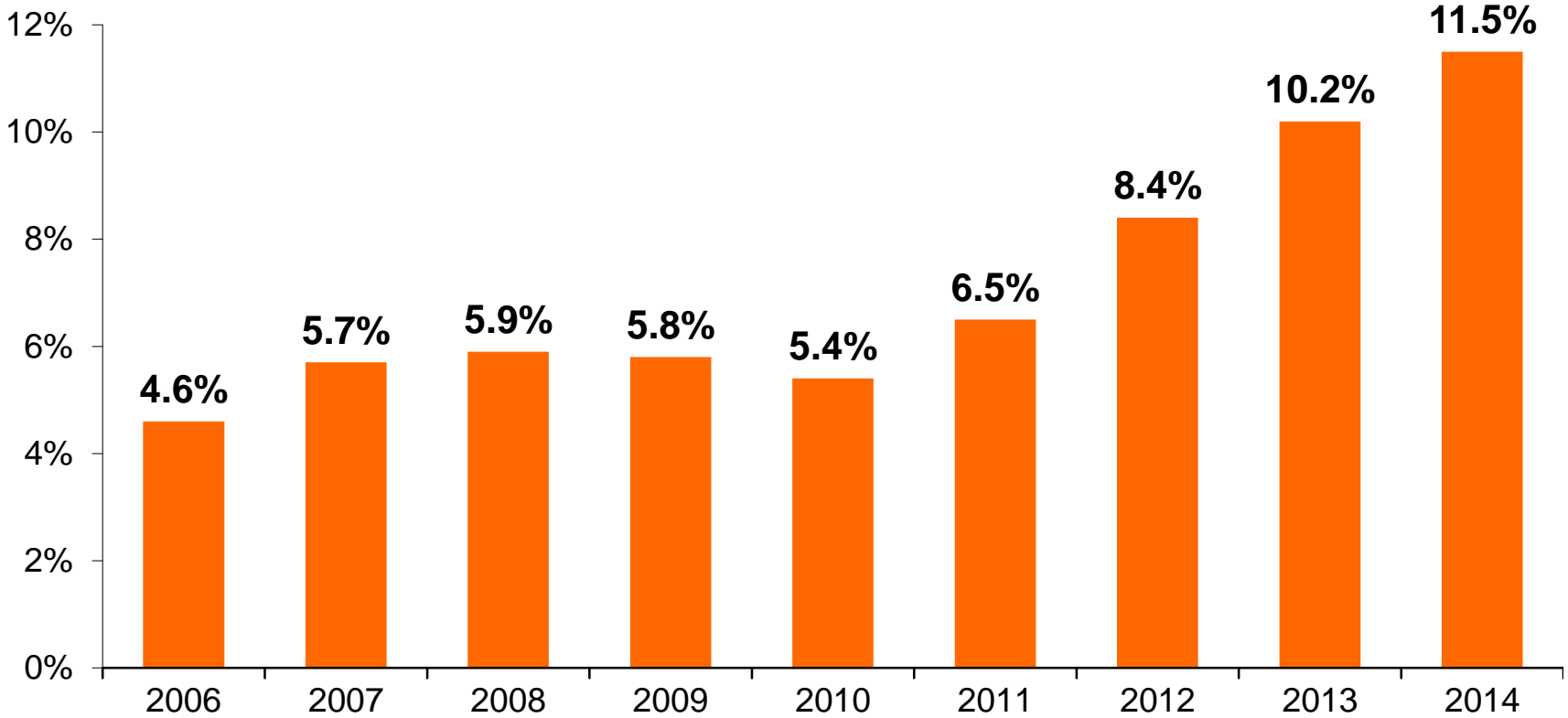


But alternative capacity has grown 210% since 2008, to \$50B. It has more than doubled in the past three years.

2014 data is as of June 30, 2014.

Source: Aon Benfield Analytics; Insurance Information Institute.

Alternative Capital as a Percentage of Traditional Global Reinsurance Capital

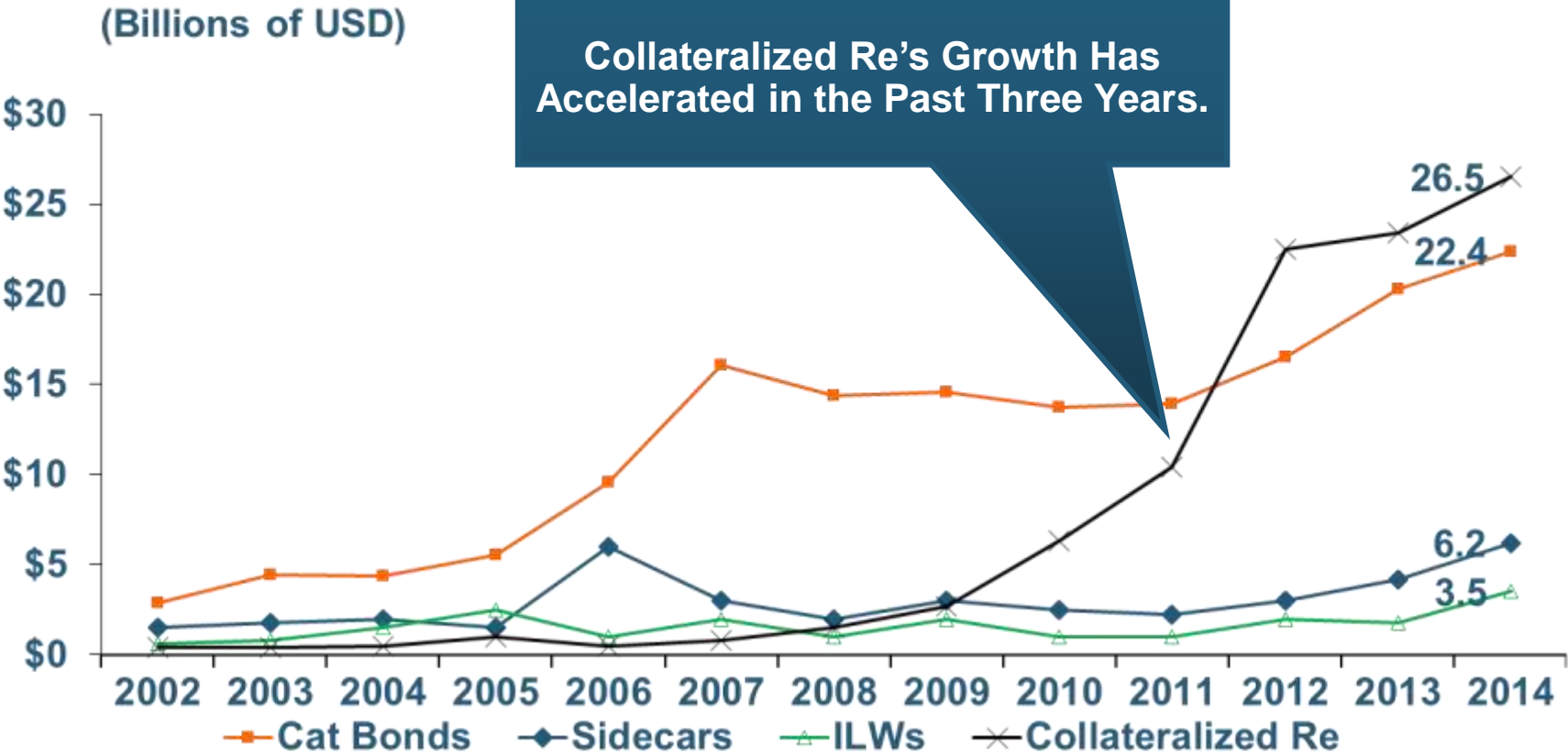


Alternative Capital's Share of Global Reinsurance Capital Has More Than Doubled Since 2010.

2014 data is as of June 30, 2014.

Source: Aon Benfield Analytics; Insurance Information Institute.

Growth of Alternative Capital Structures, 2002 - 2014

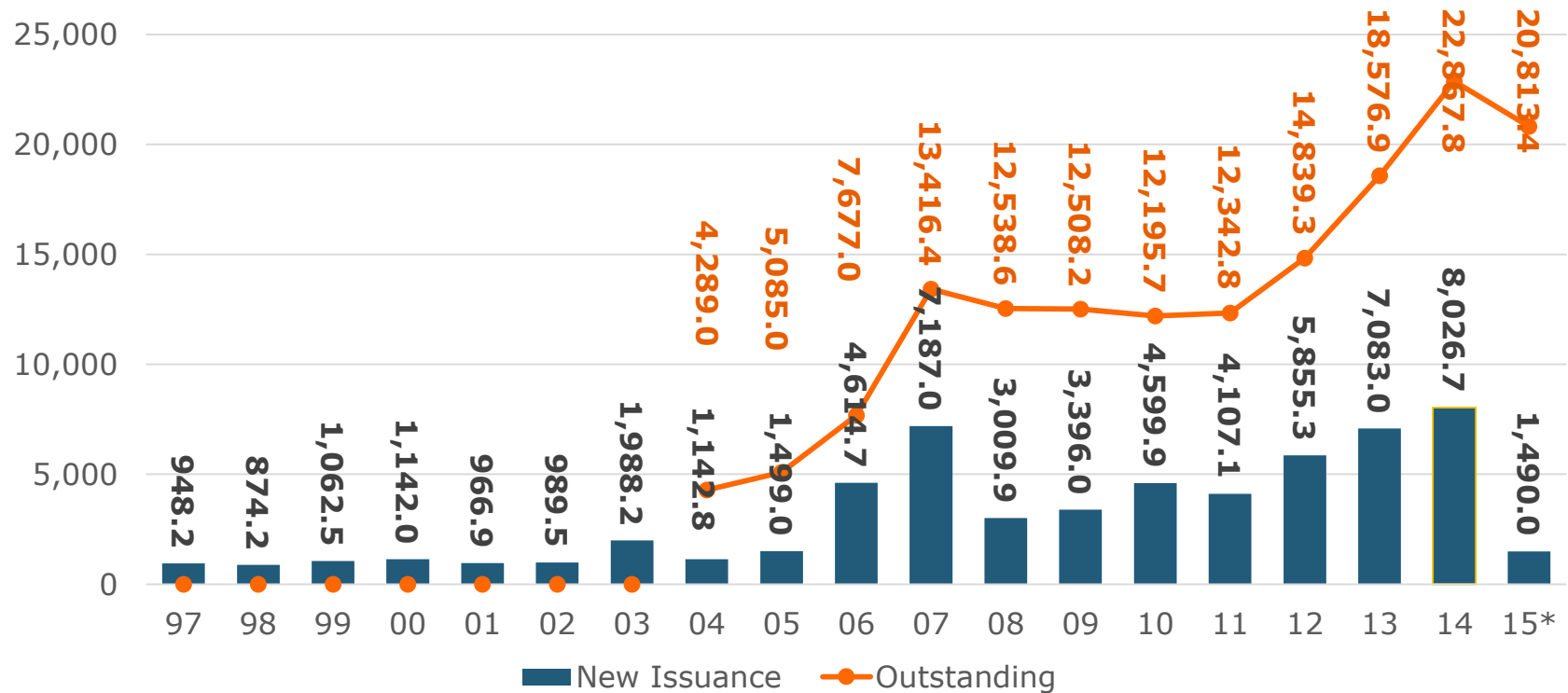


Collateralized Reinsurance and Catastrophe Bonds Currently Dominate the Alternative Capital Market.

2014 data is as of June 30, 2014.
 Source: Aon Benfield Analytics; Insurance Information Institute.

Catastrophe Bond Issuance and Outstanding: 1997-2015:Q1

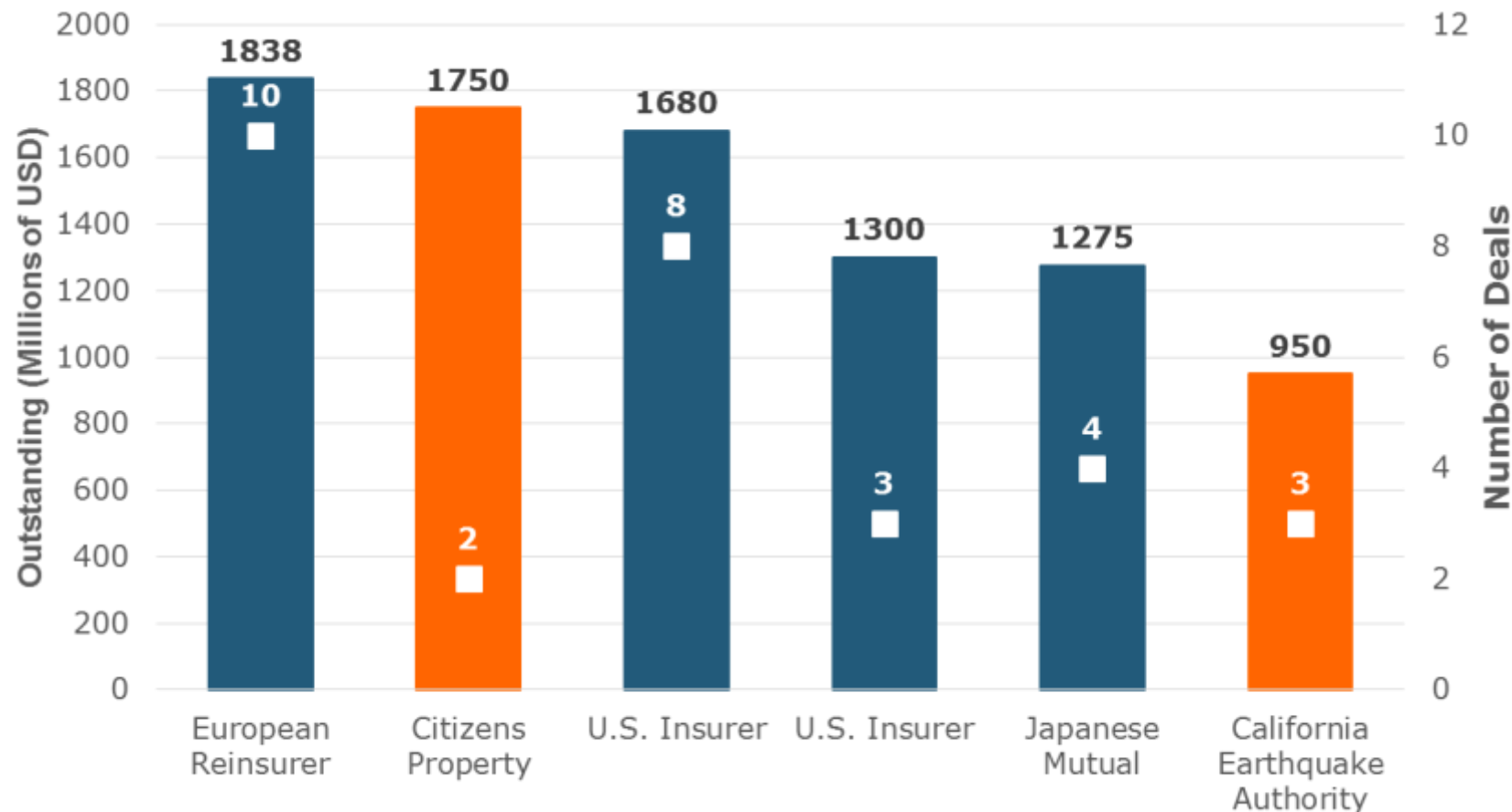
Risk Capital Amount (\$ Millions)



2014 Has Seen the Largest Cat Bond Ever - \$1.5 Billion (Florida Citizens). Bond Issuance Set a Record.

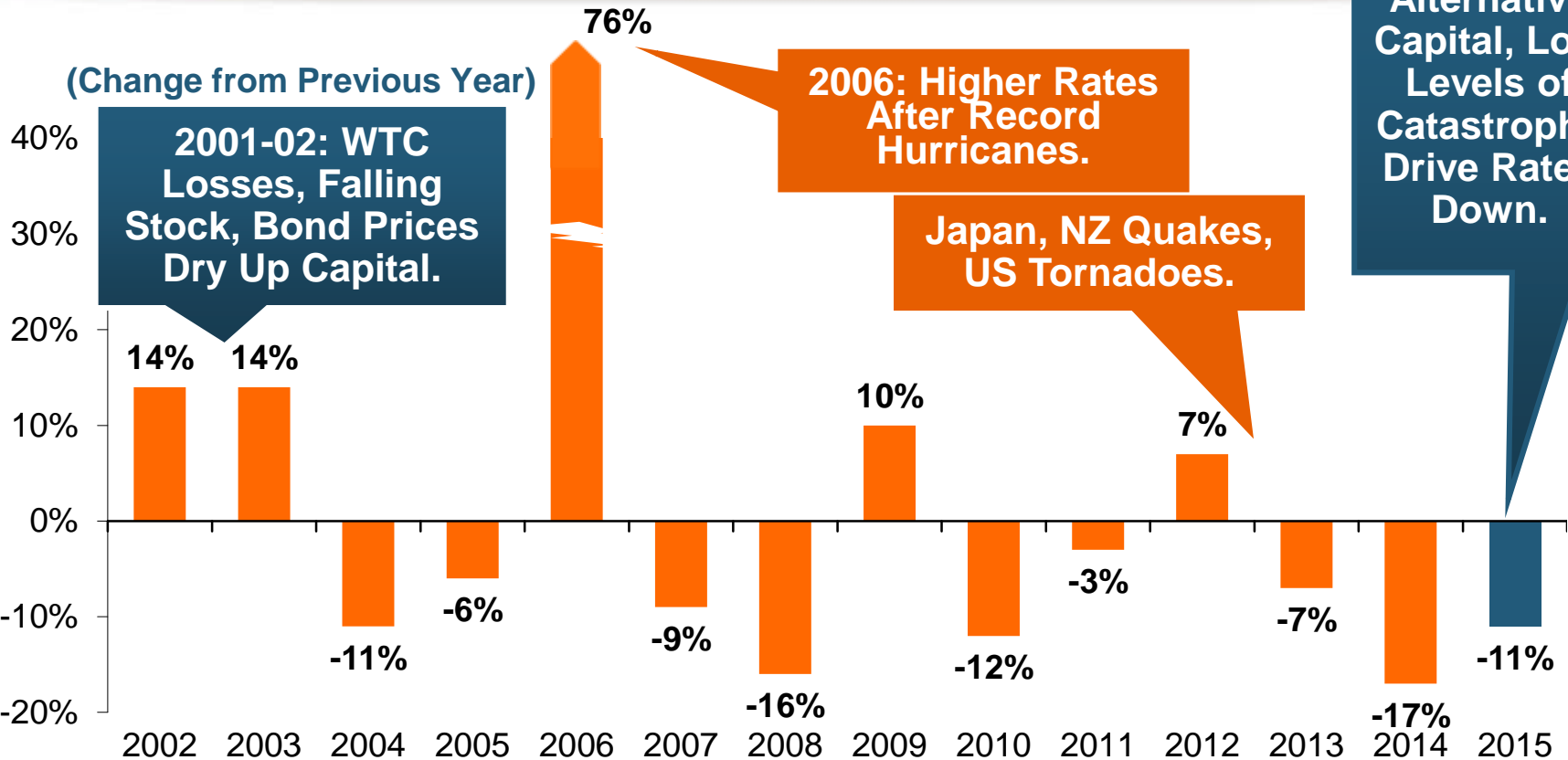
Source: Guy Carpenter.

Largest Sponsors of ILS, Year-End 2014



Two of the Largest ILS Issuers Are Government-Sponsored Insurers. Nine Government-Related Insurers Have \$4.6 Billion in Outstanding Securities.

Reinsurance Pricing: Change in Rate on Line for Cat Business

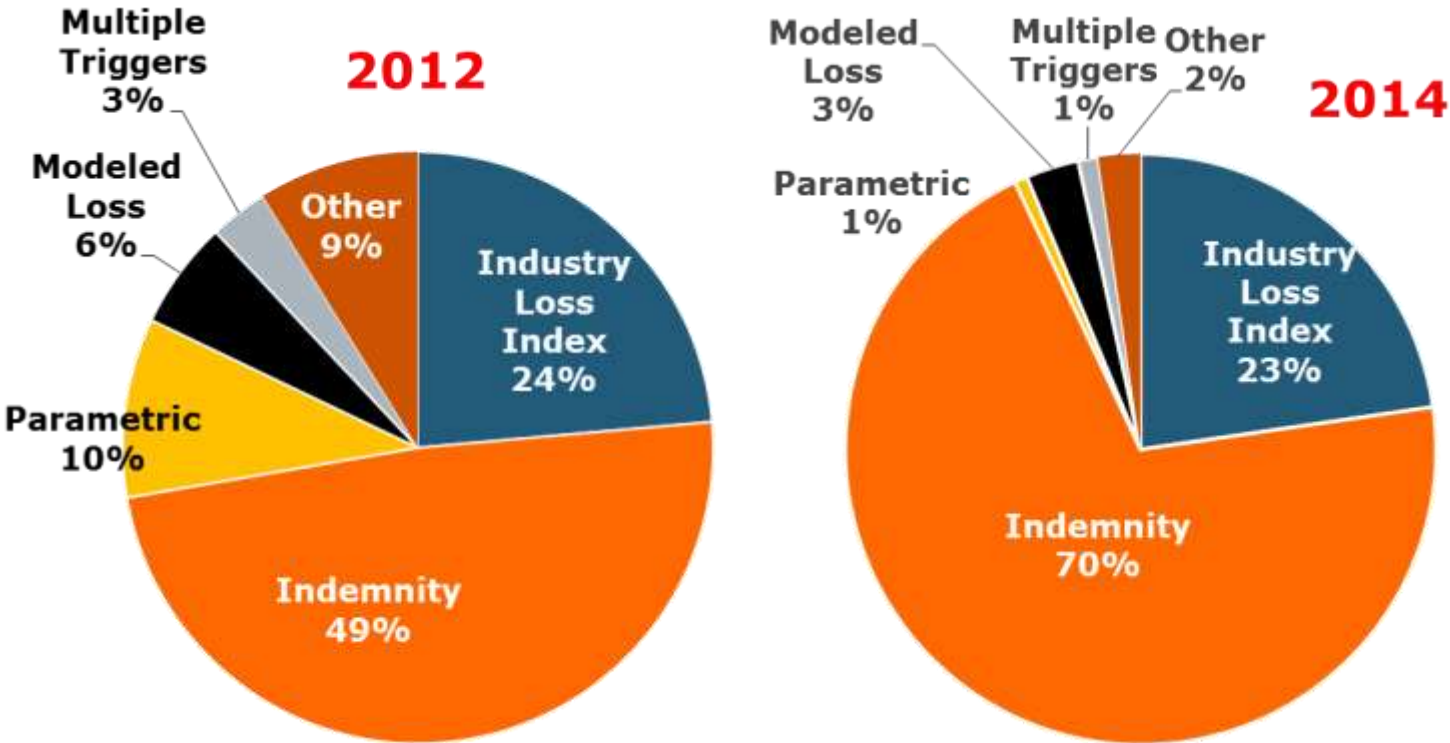


Catastrophe Prices Fell 11 Percent on January 1 Renewals, Driven by Emergence of New Capital, Mild Catastrophe Losses.

2014 reflects change through June 30 from prior year end. 2015 is for January 1 renewals..

Source: Guy Carpenter; Insurance Information Institute.

ILS Issuance by Trigger



Terms Are Shifting Away From ‘Objective’ Triggers (Favored by Investors) Toward Indemnity Trigger (Favored by Insurers).

Source: Artemis.bm; Insurance Information Institute.

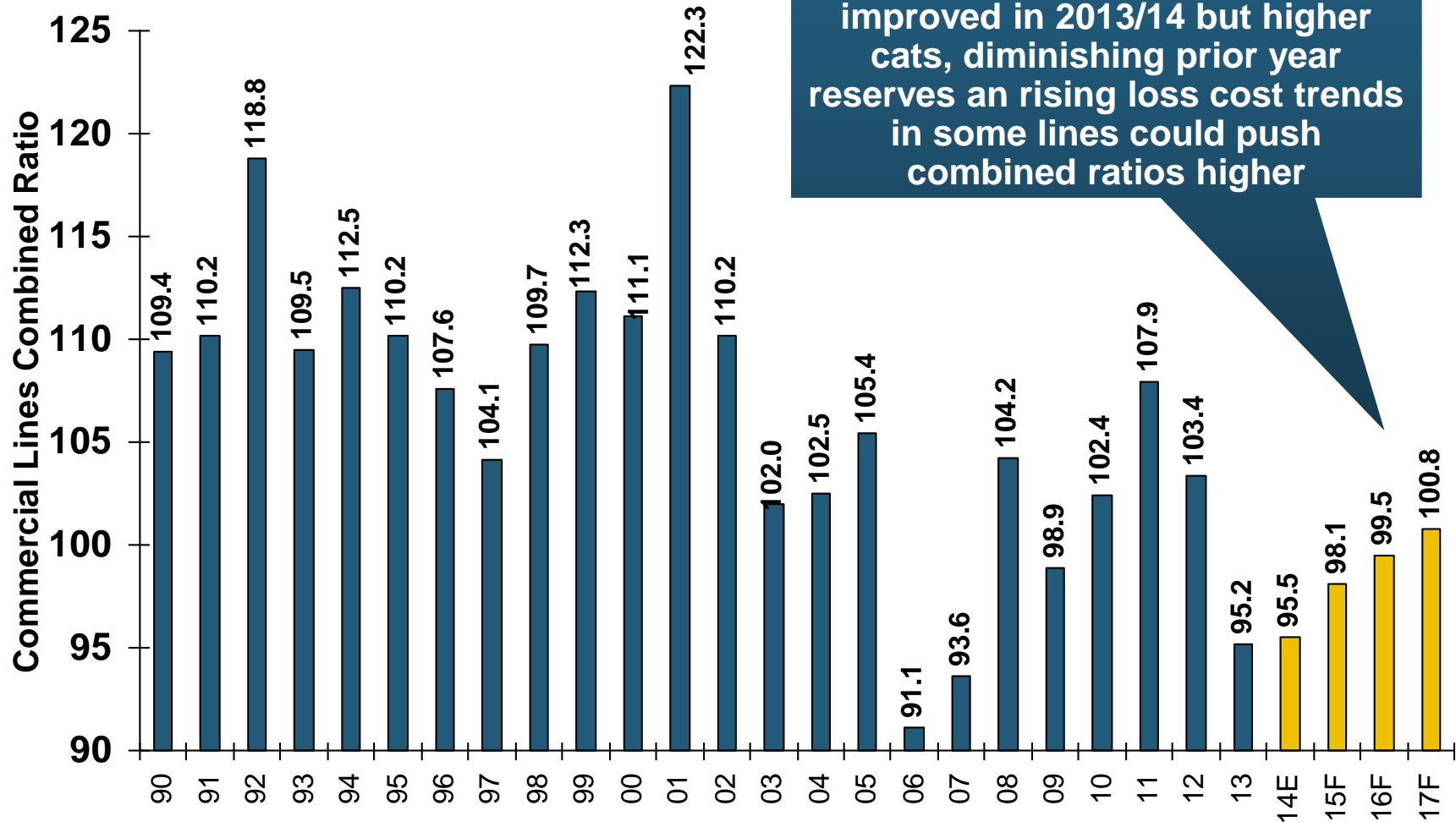
Questions Arising from Influence of Alternative Capital

- **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/ROIs Fall?**
- **Will There Be Spillover Into Casualty Reinsurance?**
- **Will Alternative Capital Drive Consolidation?**



Performance by Segment

Commercial Lines Combined Ratio, 1990-2017F*

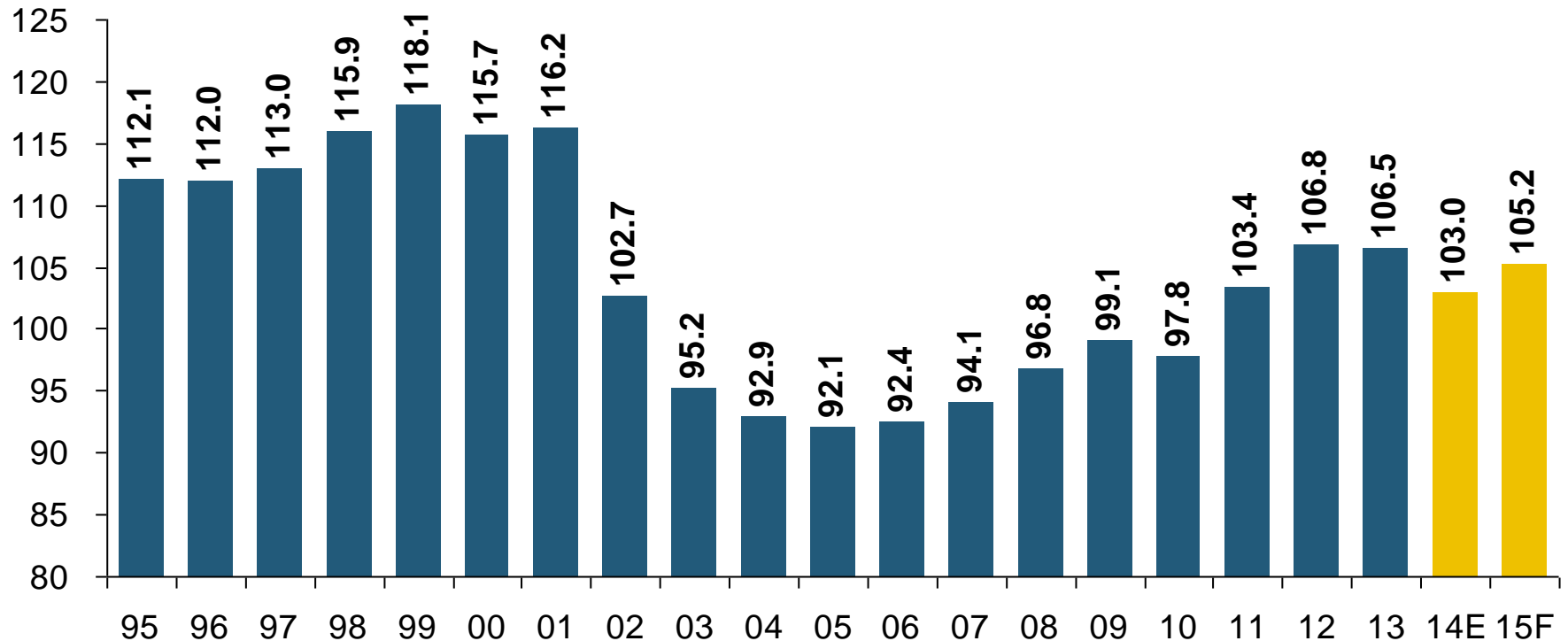


Commercial lines underwriting performance is expected to improved in 2013/14 but higher cats, diminishing prior year reserves an rising loss cost trends in some lines could push combined ratios higher

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

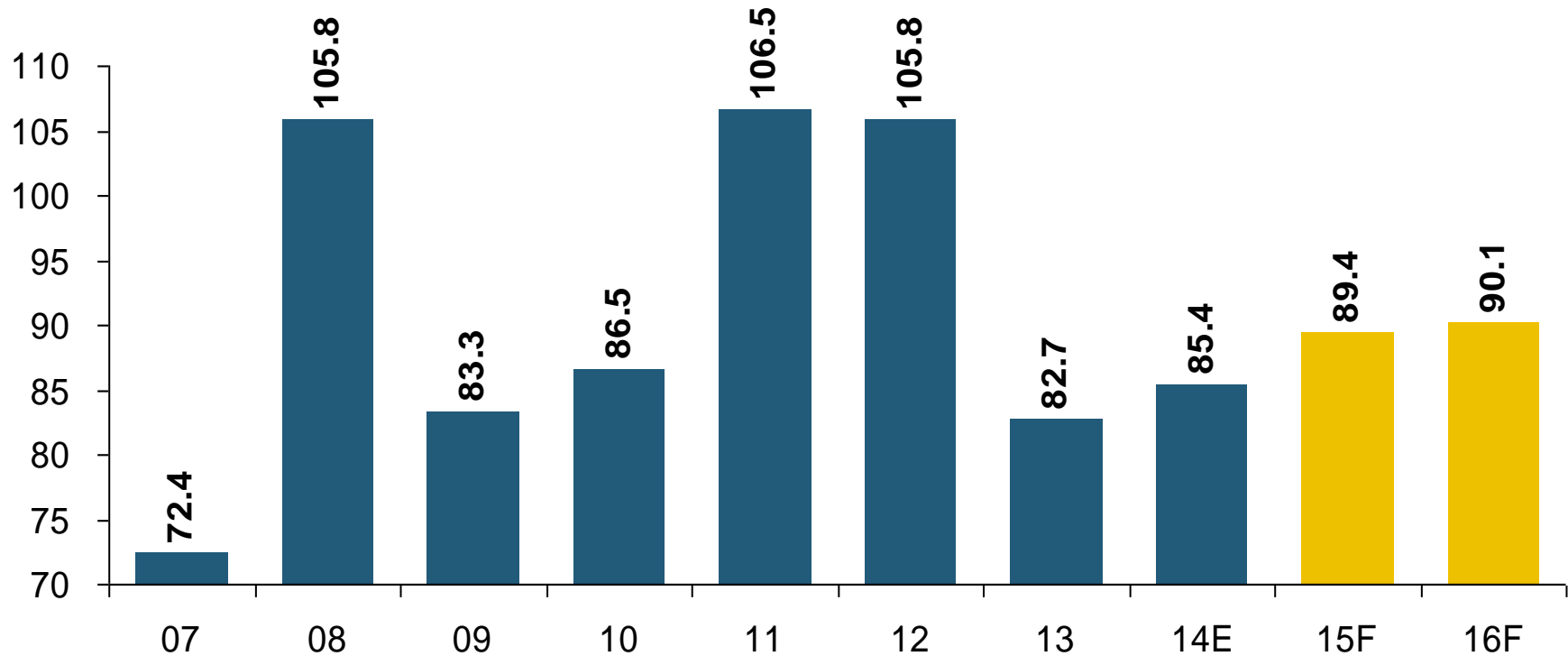
Source: A.M. Best (1990-2014E); Conning (2015-17F) Insurance Information Institute.

Commercial Auto Combined Ratio: 1993–2015F



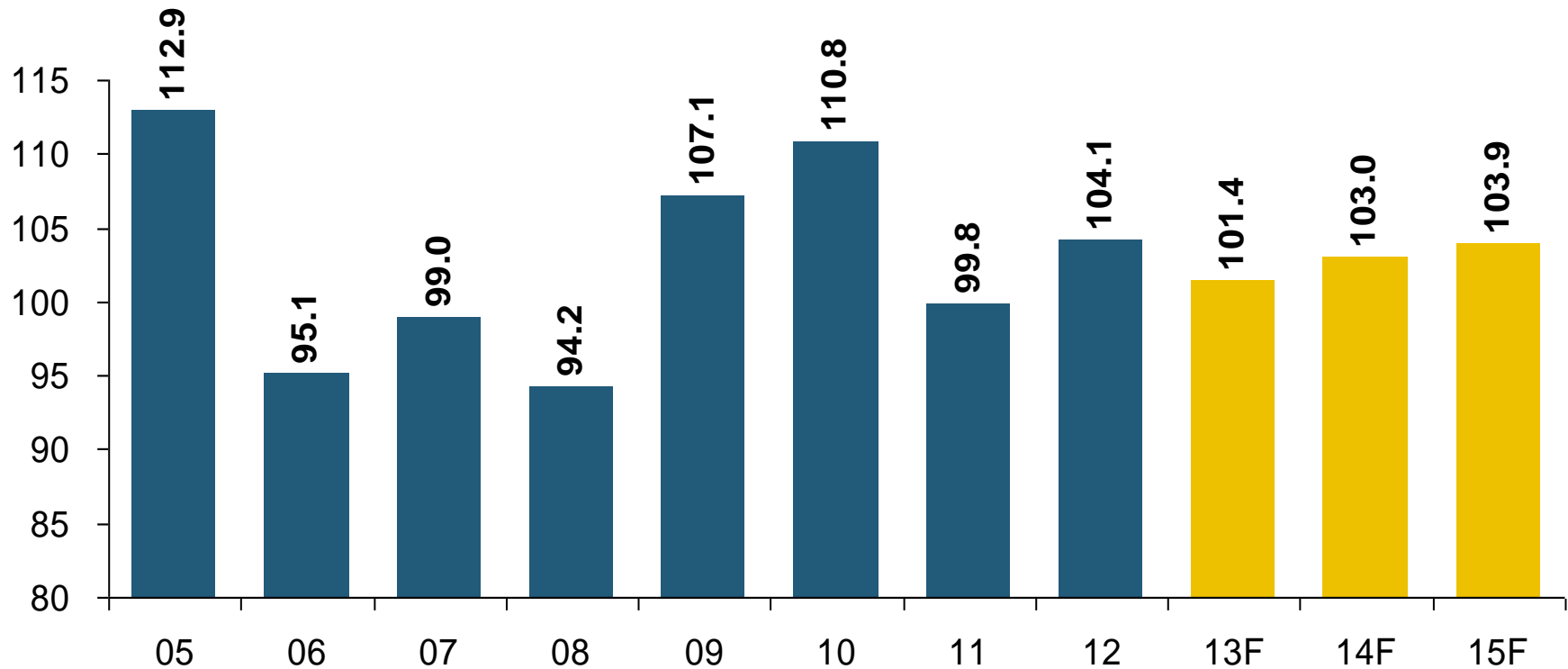
Commercial Auto is Expected to Improve Only Slowly as Rate Gains Barely Offset Adverse Frequency and Severity Trends

Commercial Property Combined Ratio: 2007–2016F



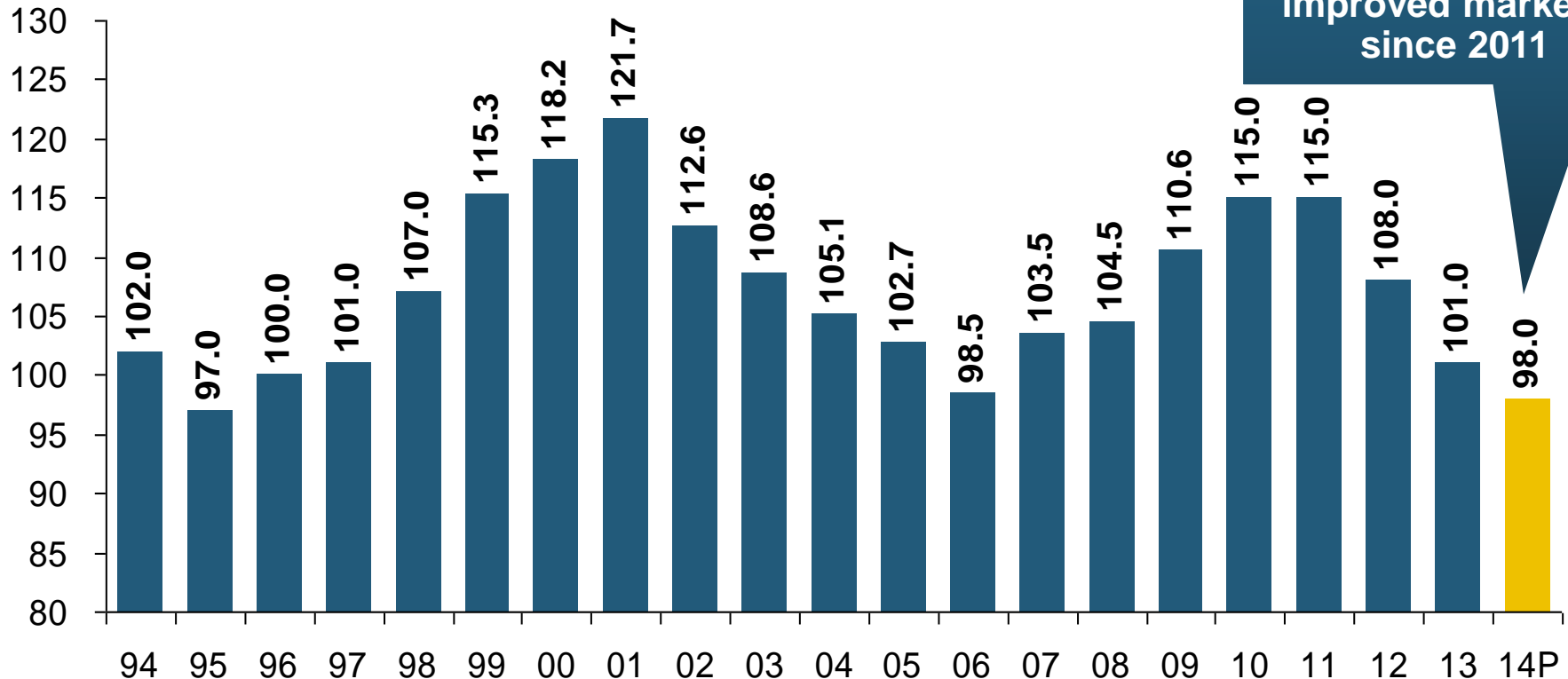
Commercial Property Underwriting Performance Has Been Volatile in Recent Years, Largely Due to Fluctuations in CAT Activity

General Liability Combined Ratio: 2005–2015F



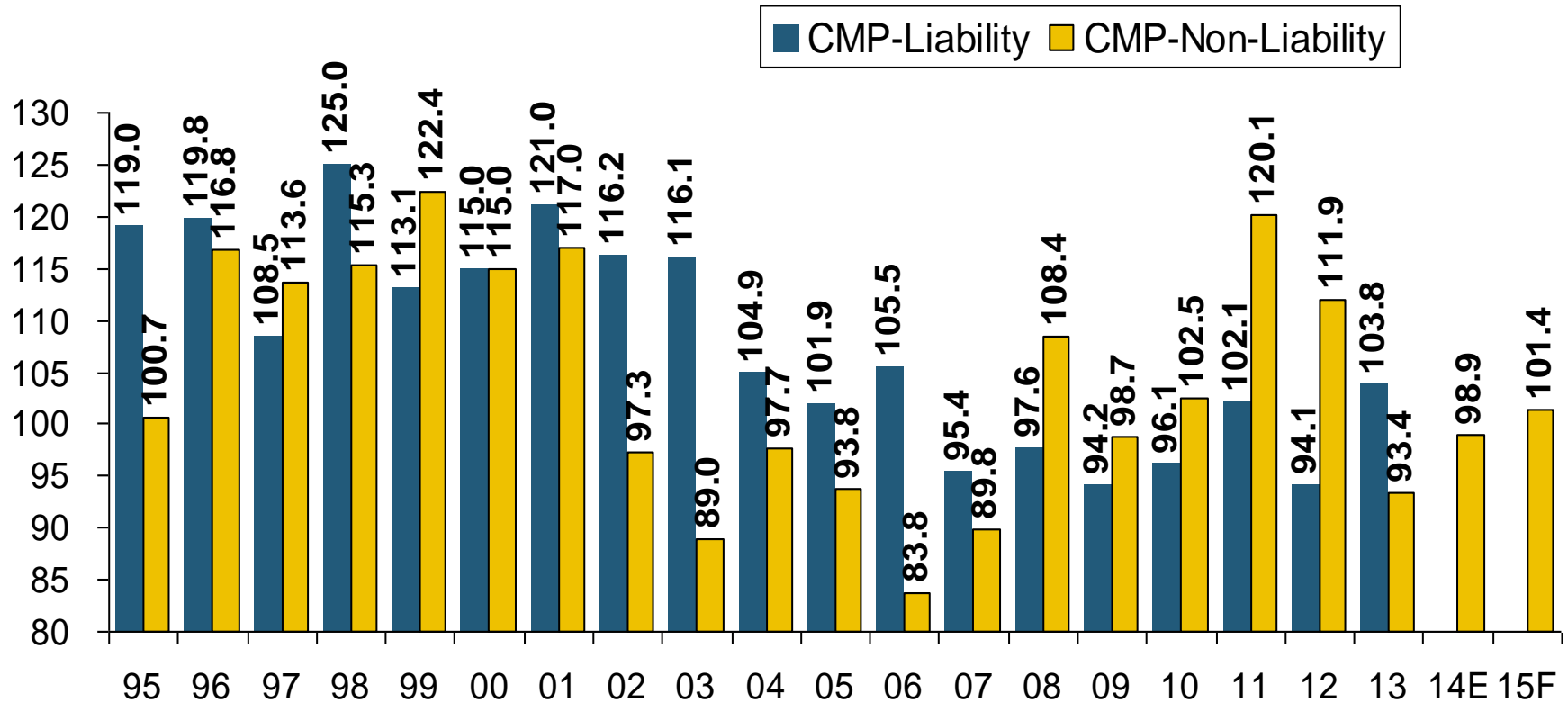
**Commercial General Liability Underwriting
Performance Has Been Volatile in Recent Years**

Workers Compensation Combined Ratio: 1994–2014P



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.

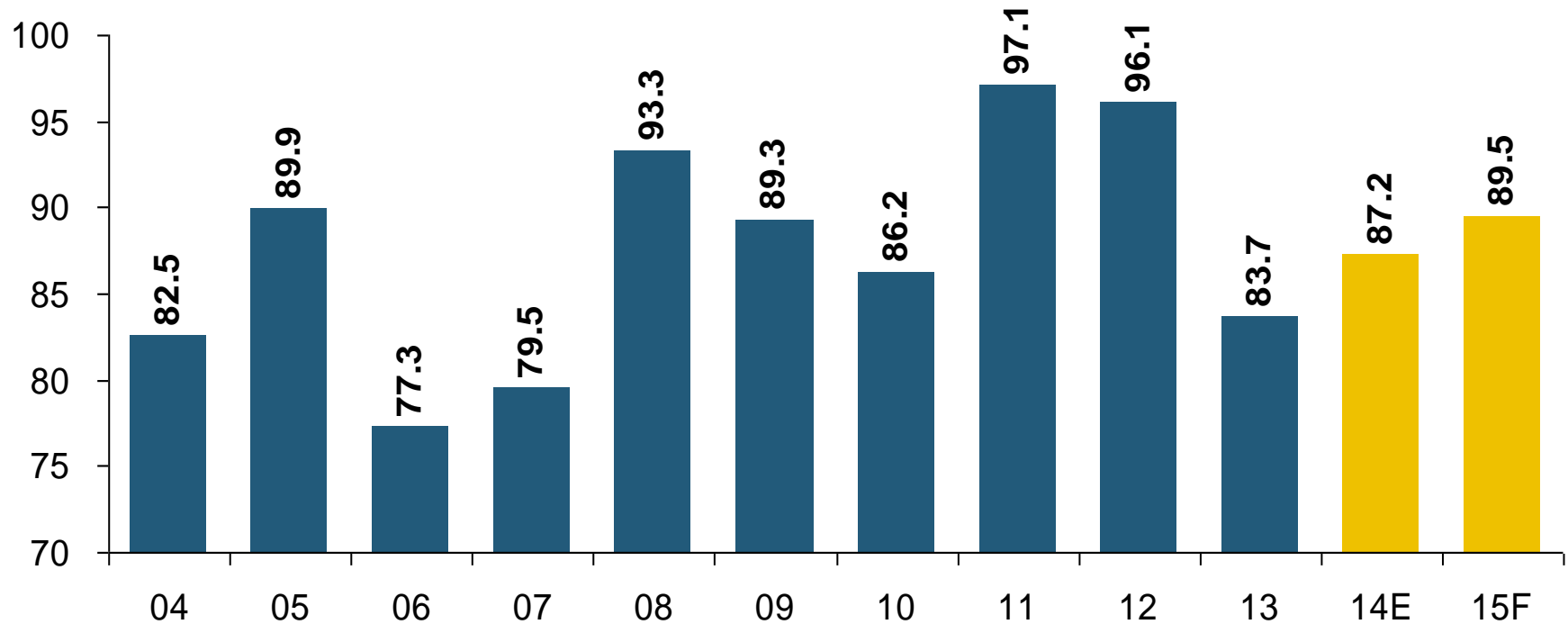
Commercial Multi-Peril Combined Ratio: 1995–2015F



Commercial Multi-Peril Underwriting Performance is Expected to Improve in 2013 Assuming Normal Catastrophe Loss Activity

*2014E-2015F figures are Conning figures for the combined liability and non-liability components..
Sources: A.M. Best; Conning; Insurance Information Institute.

Inland Marine Combined Ratio: 2004–2015F



**Inland Marine Underwriting Performance Has Been
Consistently Strong for Many Years**

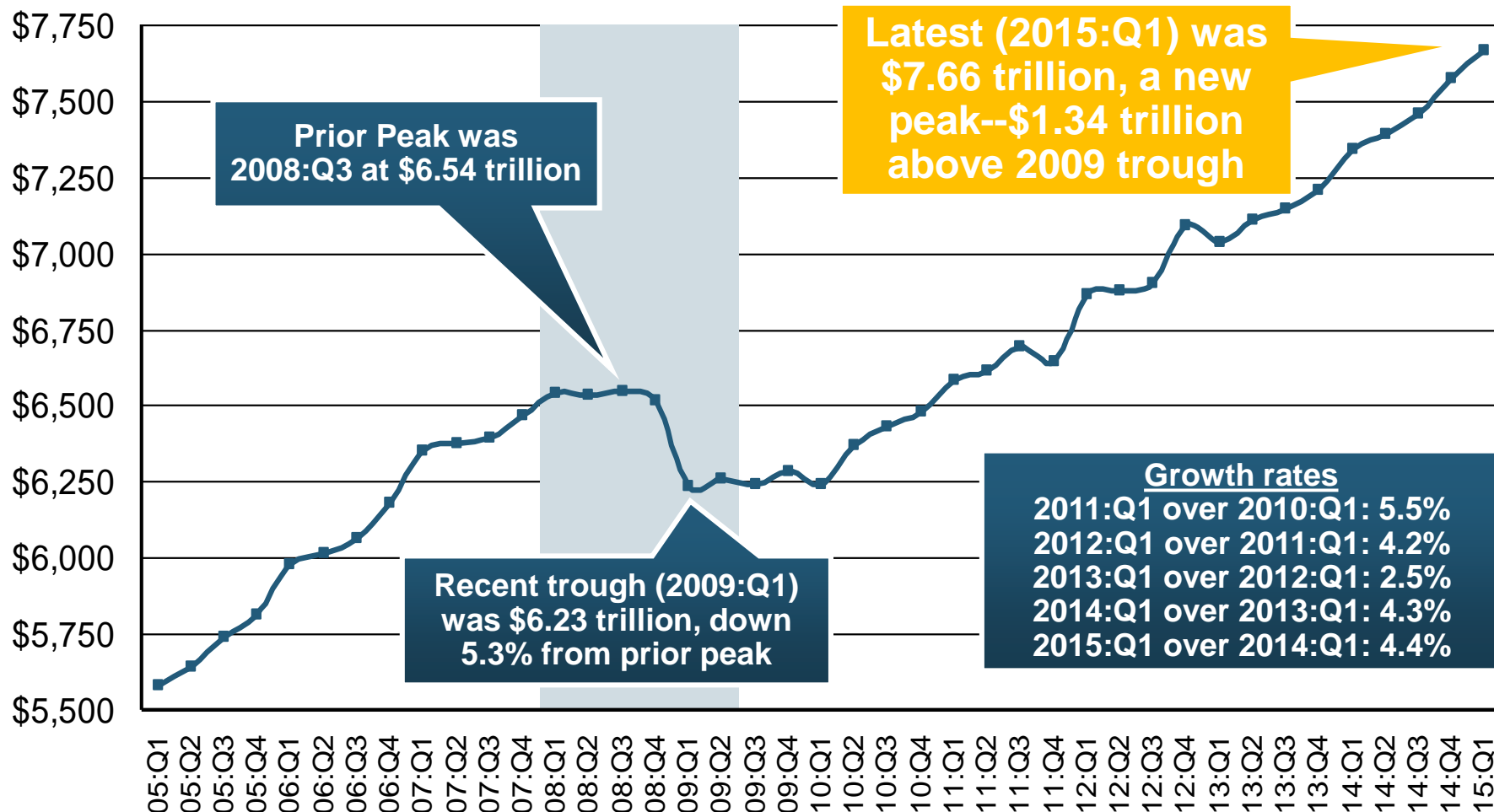


Workers Compensation Operating Environment

**Workers Comp Results Have Improved
Substantially in Recent Years**

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2015:Q1

Billions



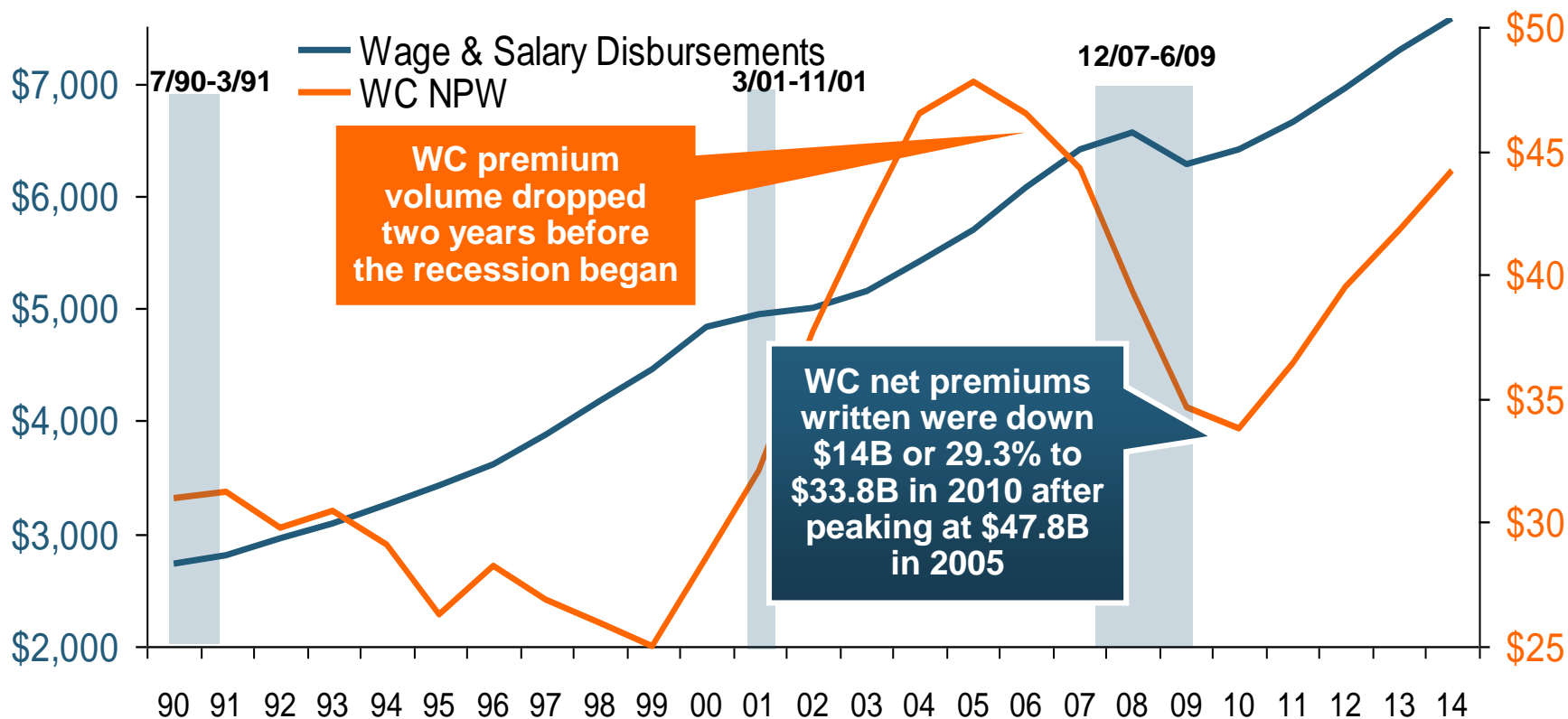
Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

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, 1990-2014P

Payroll Base*
\$Billions

WC NWP
\$Billions

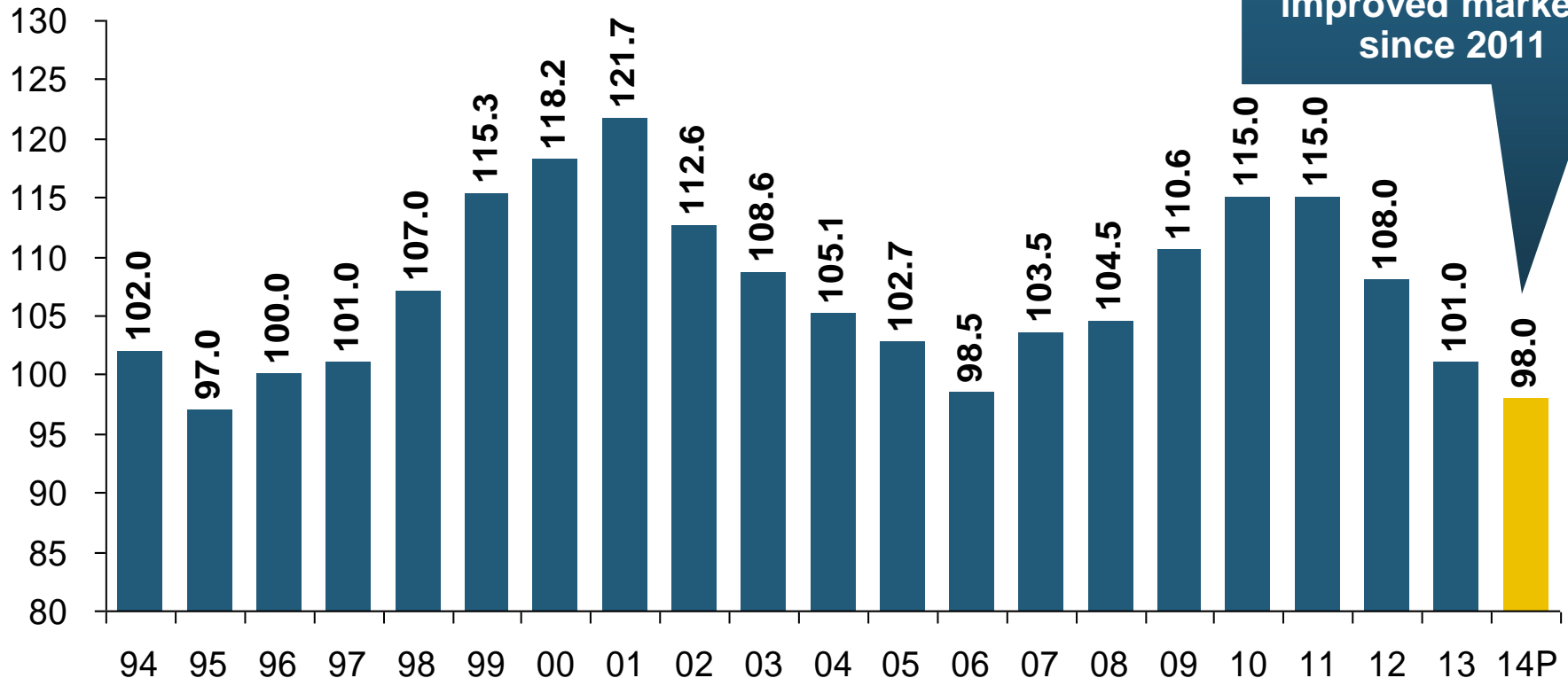


Continued Payroll Growth and Rate Gains Suggest WC NWP Will Grow Again in 2015

*Private employment; Shaded areas indicate recessions. WC premiums for 2014 are from NCCI.

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

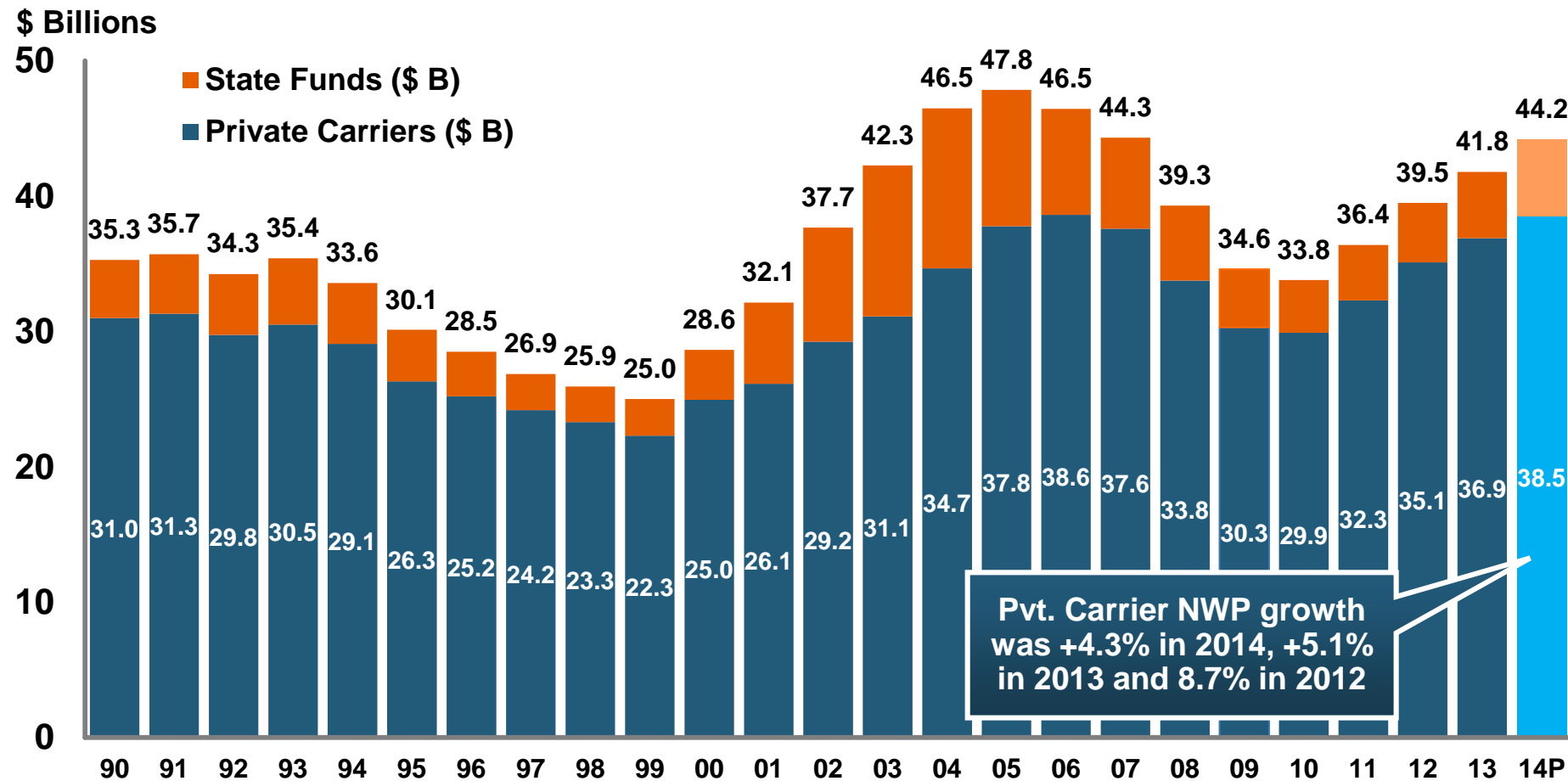
Workers Compensation Combined Ratio: 1994–2014P



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.

Workers Compensation Premium: Fourth Consecutive Year of Increase

Net Written Premium

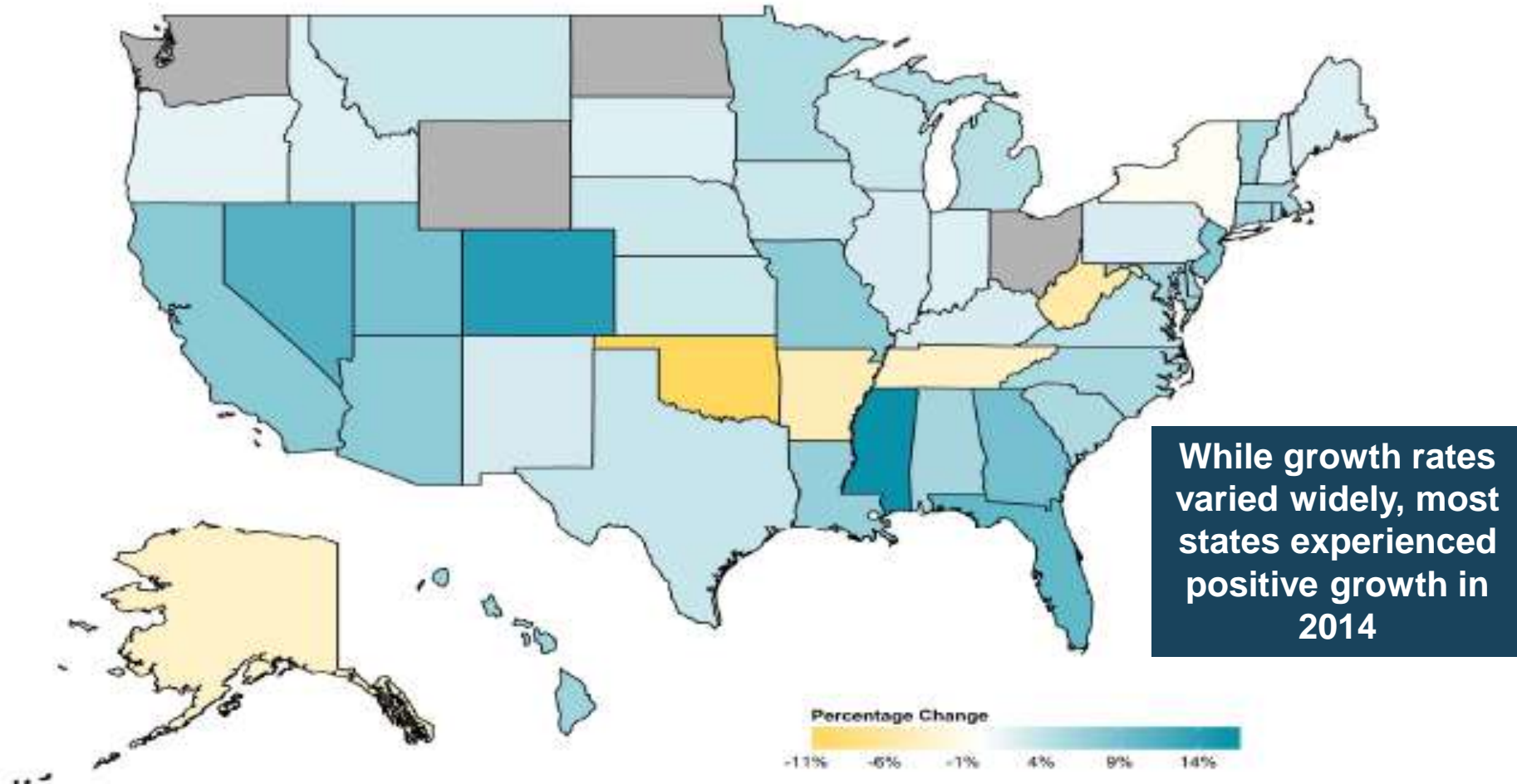


Source: NCCI from Annual Statement Data.

Includes state insurance fund data for the following states: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT.
Each calendar year total for State Funds includes all funds operating as a state fund that year.

2014 Workers Compensation Direct Written Premium Growth, by State*

PRIVATE CARRIERS: Overall 2014 Growth = +4.6%



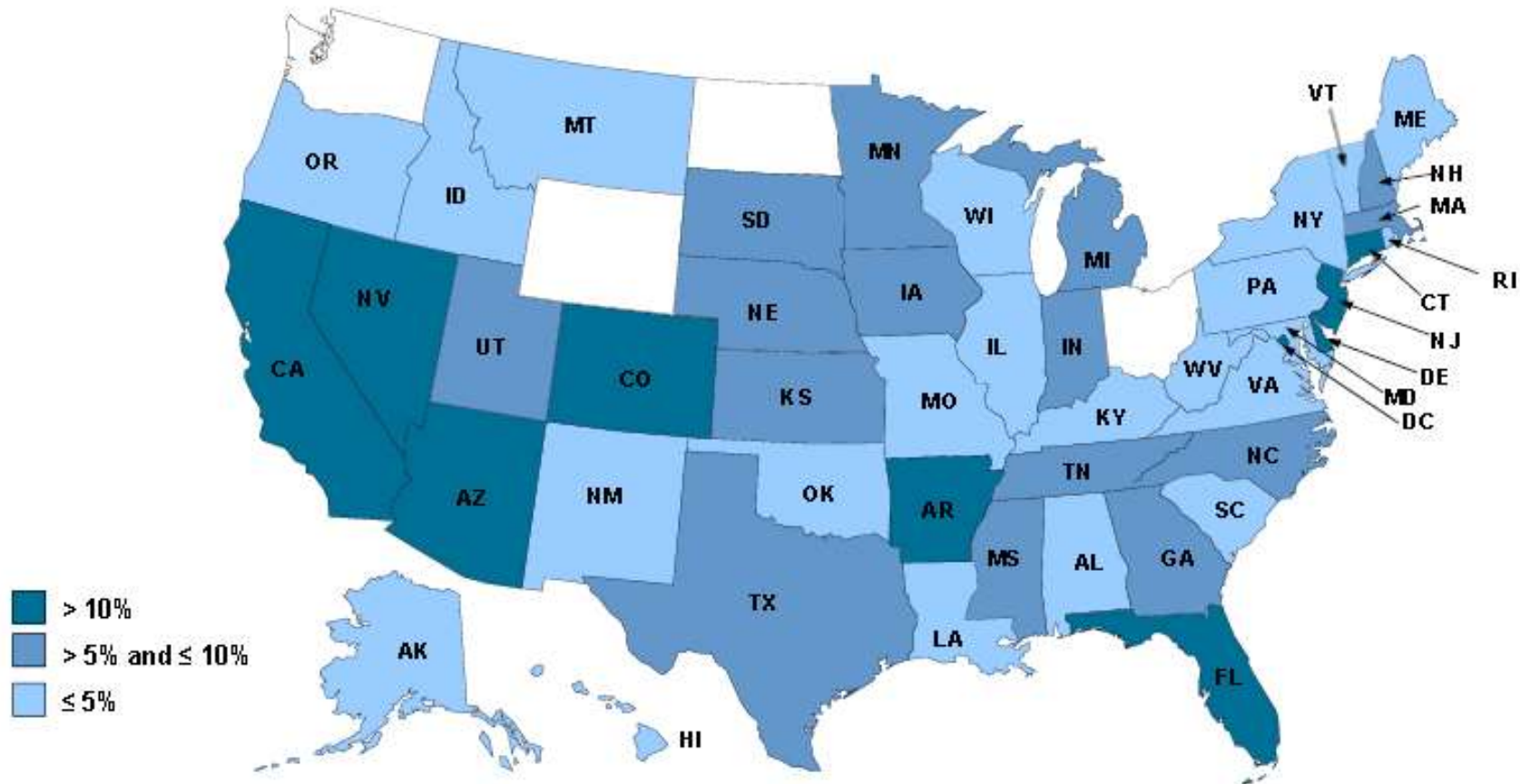
*Excludes monopolistic fund states (in gray): OH, ND, WA and WY.

Source: NCCI.

2013 Workers Compensation Direct Written Premium Growth, by State*

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 Components of Written Premium Change, 2013 to 2014

Written Premium Change from 2013 to 2014

Net Written Premium—Countrywide	+4.6%
Direct Written Premium—Countrywide	+4.6%
Direct Written Premium—NCCI States	+4.5%
Components of DWP Change for NCCI States	
Change in Carrier Estimated Payroll	+4.7%
Change in Bureau Loss Costs and Mix	-1.4%
Change in Carrier Discounting	+0.4%
Change in Other Factors	+0.8%
Combined Effect	+4.5%

Growth is now almost entirely payroll driven

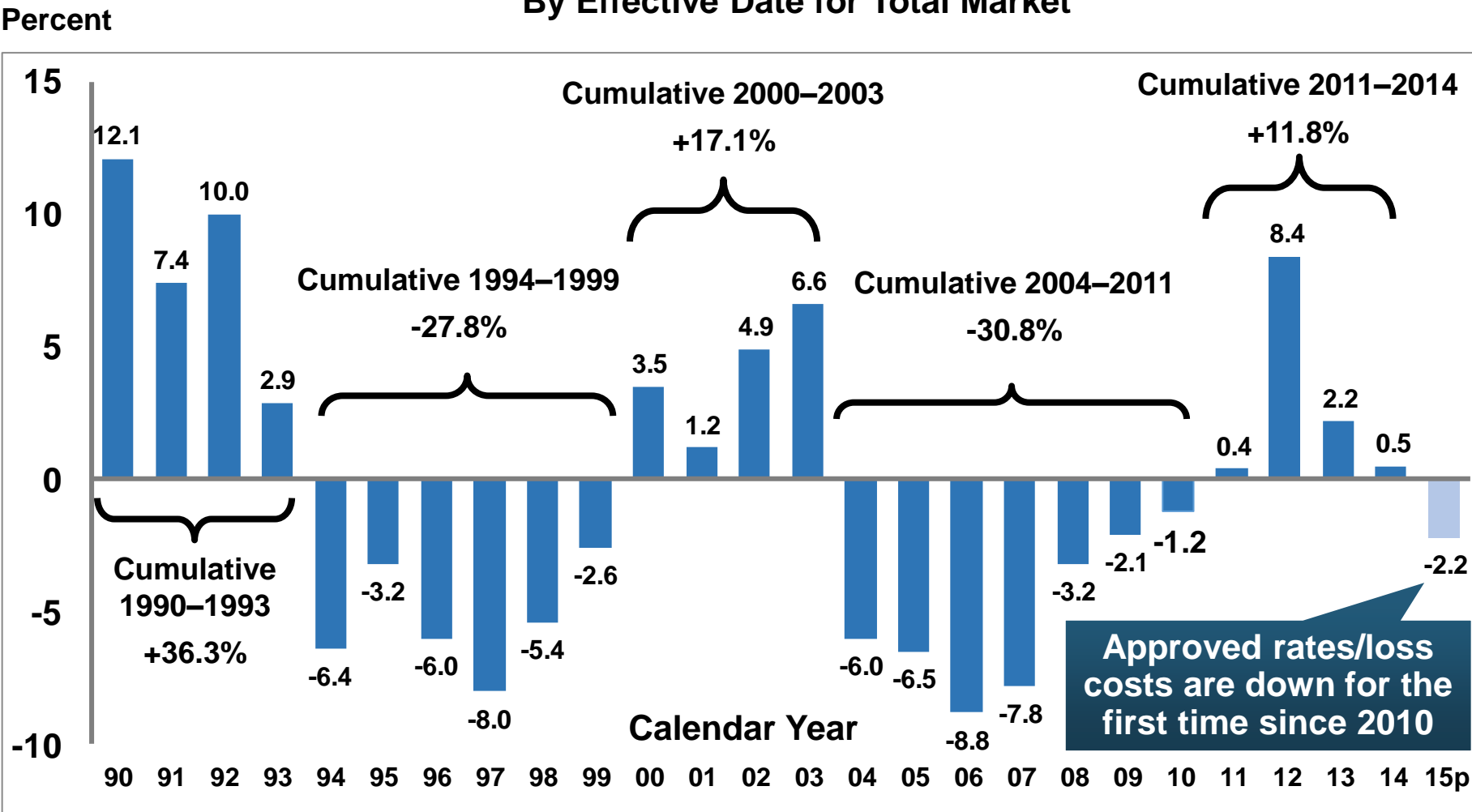
Sources: Countrywide: Annual Statement data.

NCCI States: Annual Statement Statutory Page 14 for all states where NCCI provides ratemaking services.

Components: NCCI Policy data.

WC Approved Changes in Bureau Premium Level (Rates/Loss Costs)

By Effective Date for Total Market



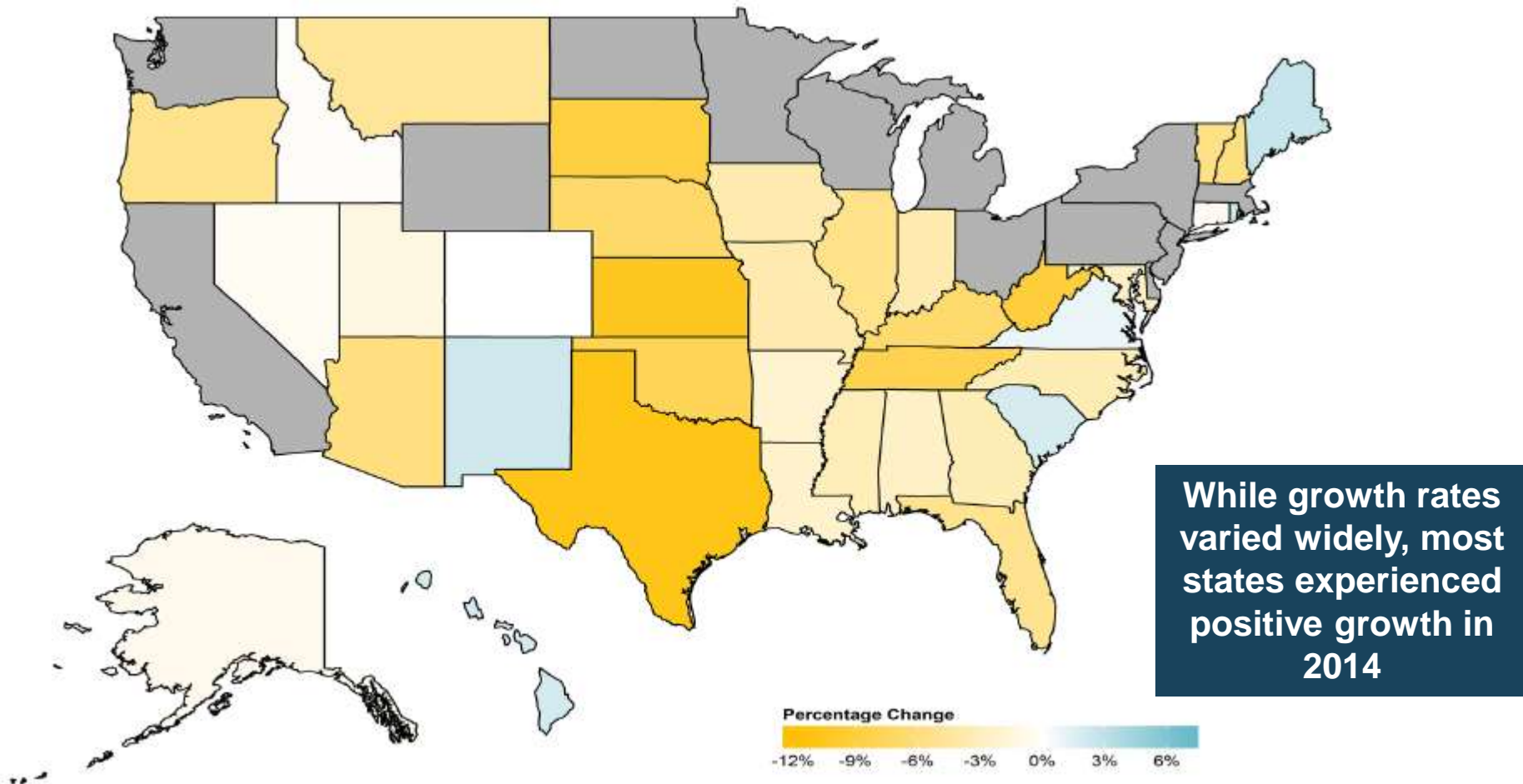
*States approved through 4/24/15.

Note: Bureau premium level changes are countrywide approved changes in advisory rates, loss costs and assigned risk rates as filed by applicable rating organization, relative to those previously approved.

Source: NCCI.

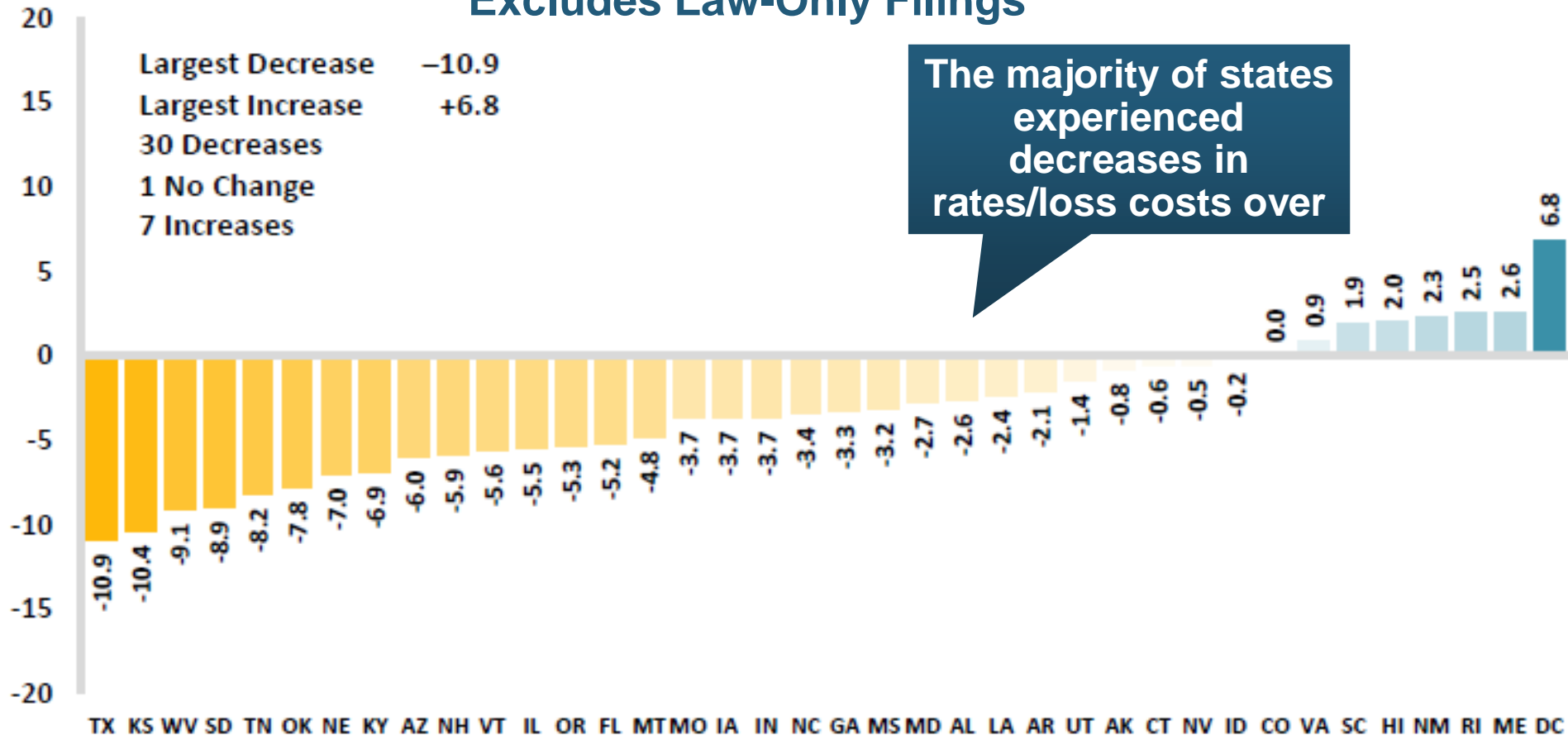
WC Approved or Filed and Pending Change in NCCI Premium Level by State

Latest Change for Voluntary Market



WC Approved or Filed and Pending Change in NCCI Premium Level by State

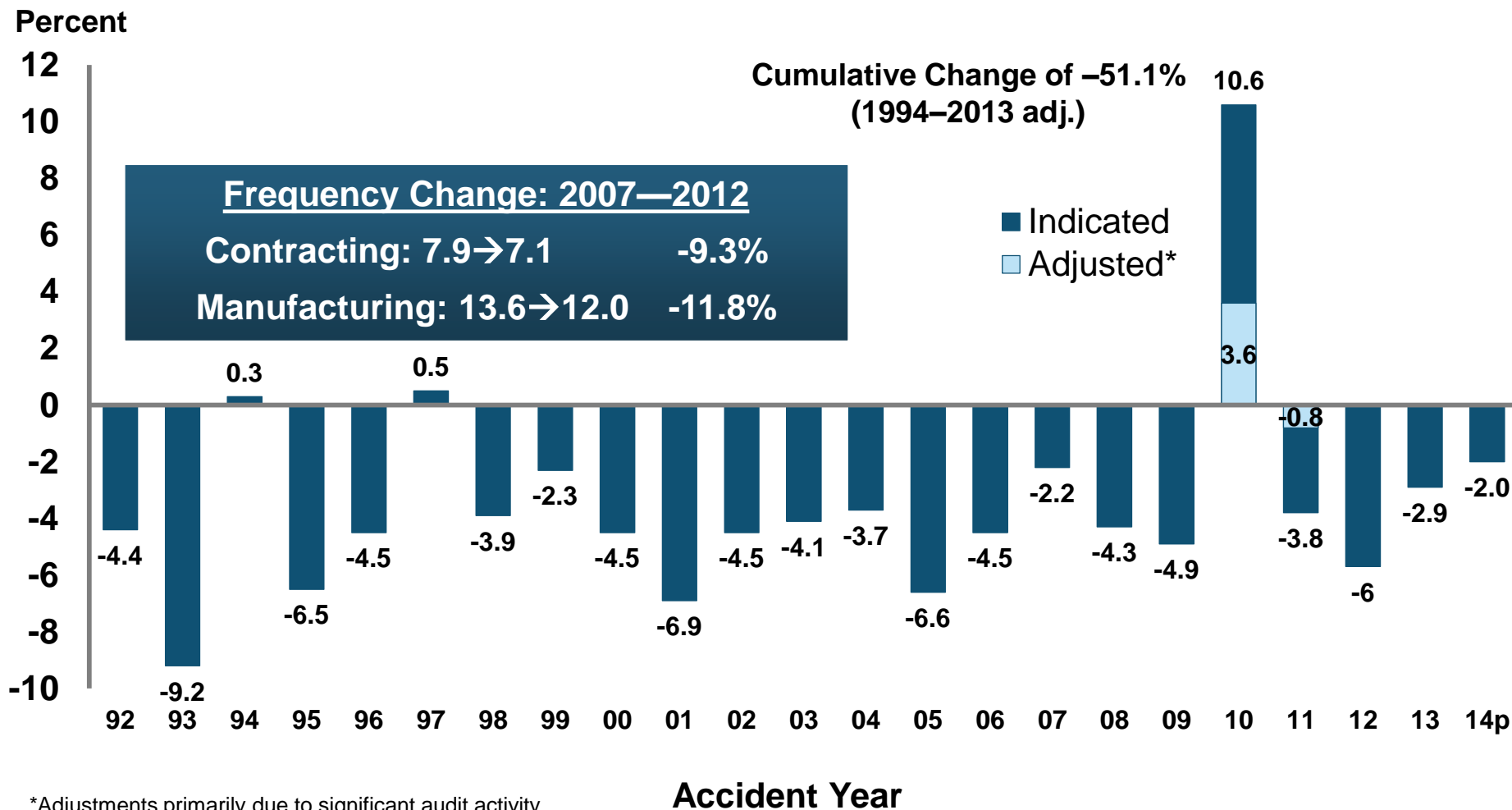
Latest Change for Voluntary Market Excludes Law-Only Filings



Note: Premium level changes are approved changes are approved or filed and pending changes in advisory rates, loss costs and rating values as of 4/24/15 as filed by applicable rating organization, relative to those previously approved. SC is filed and pending. IN and NC are in cooperation with state rating bureaus.

Source: NCCI.

Workers Compensation Lost-Time Claim Frequency Declined in 2014



*Adjustments primarily due to significant audit activity.

2014p: Preliminary based on data valued as of 12/31/2014.

Source: NCCI Financial Call data, developed to ultimate and adjusted to current wage and voluntary loss cost level; Excludes high deductible policies; 1994-2013: Based on data through 12/31/13. Data for all states where NCCI provides ratemaking services, excluding WV.

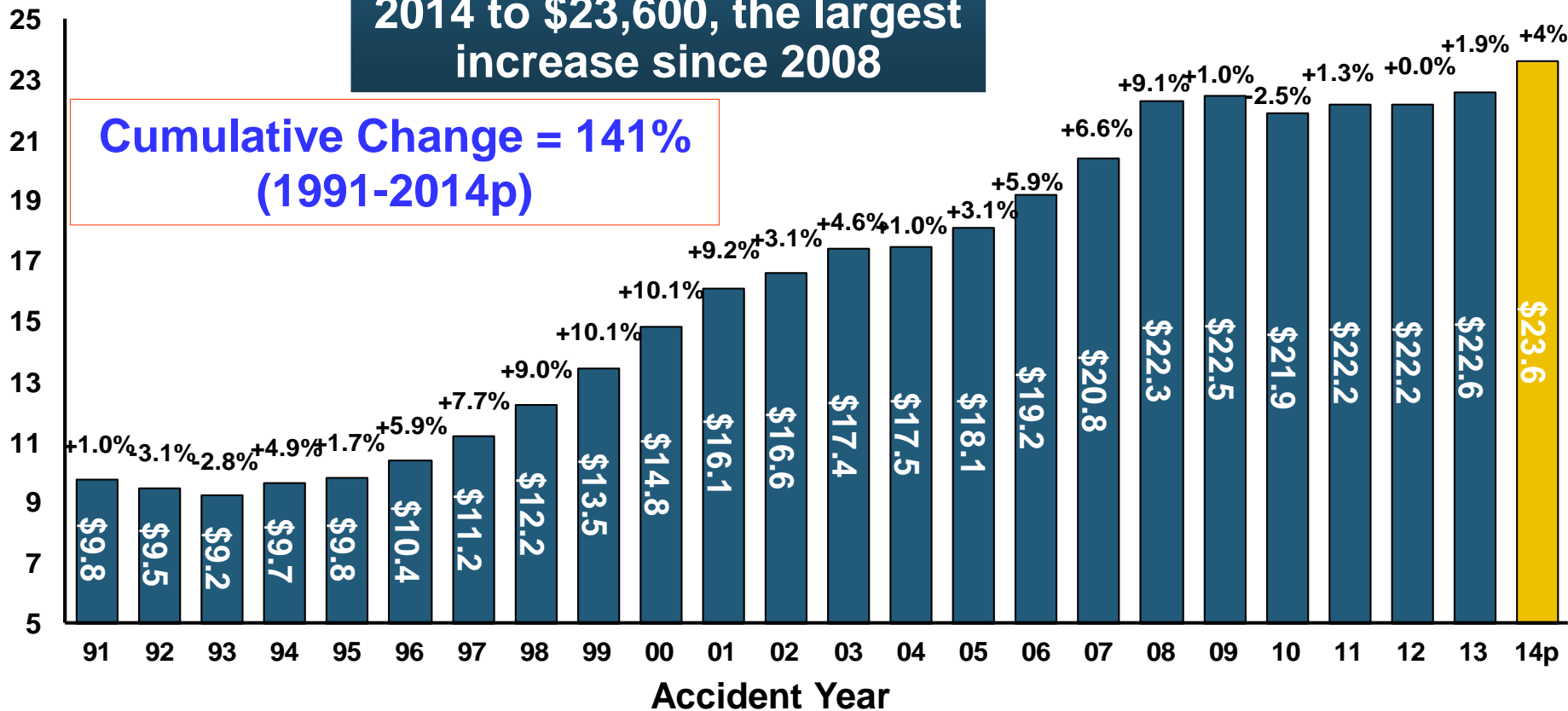
Frequency is the number of lost-time claims per \$1M pure premium at current wage and voluntary loss cost level

Workers Comp Indemnity Claim Costs: Modest Increase in 2014

Average Indemnity Cost per Lost-Time Claim

Average indemnity costs per claim were up 4% in 2014 to \$23,600, the largest increase since 2008

Cumulative Change = 141% (1991-2014p)

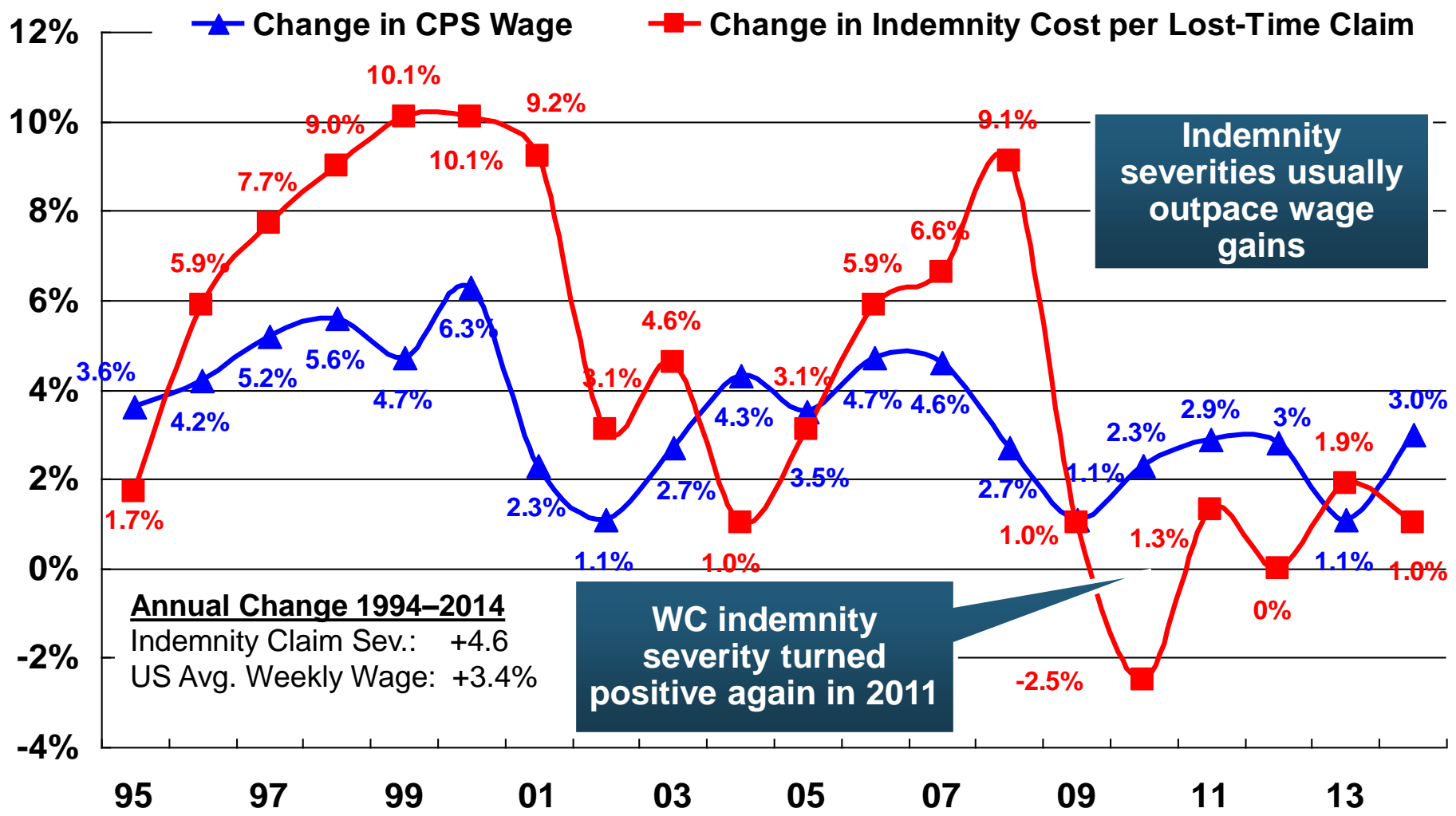


2014p: Preliminary based on data valued as of 12/31/2014.

1991-2013: Based on data through 12/31/2013, developed to ultimate

Based on the states where NCCI provides ratemaking services including state funds, excluding WV; Excludes high deductible policies.

WC Indemnity Severity vs. Wage Inflation, 1995 -2014p



2014p: Preliminary based on data valued as of 12/31/2014; 1991-2010: Based on data through 12/31/2010, developed to ultimate. Based on the states where NCCI provides ratemaking services. Excludes the effects of deductible policies. CPS = Current Population Survey. Source: NCCI

Workers Compensation Medical Severity: Moderate Increase in 2014

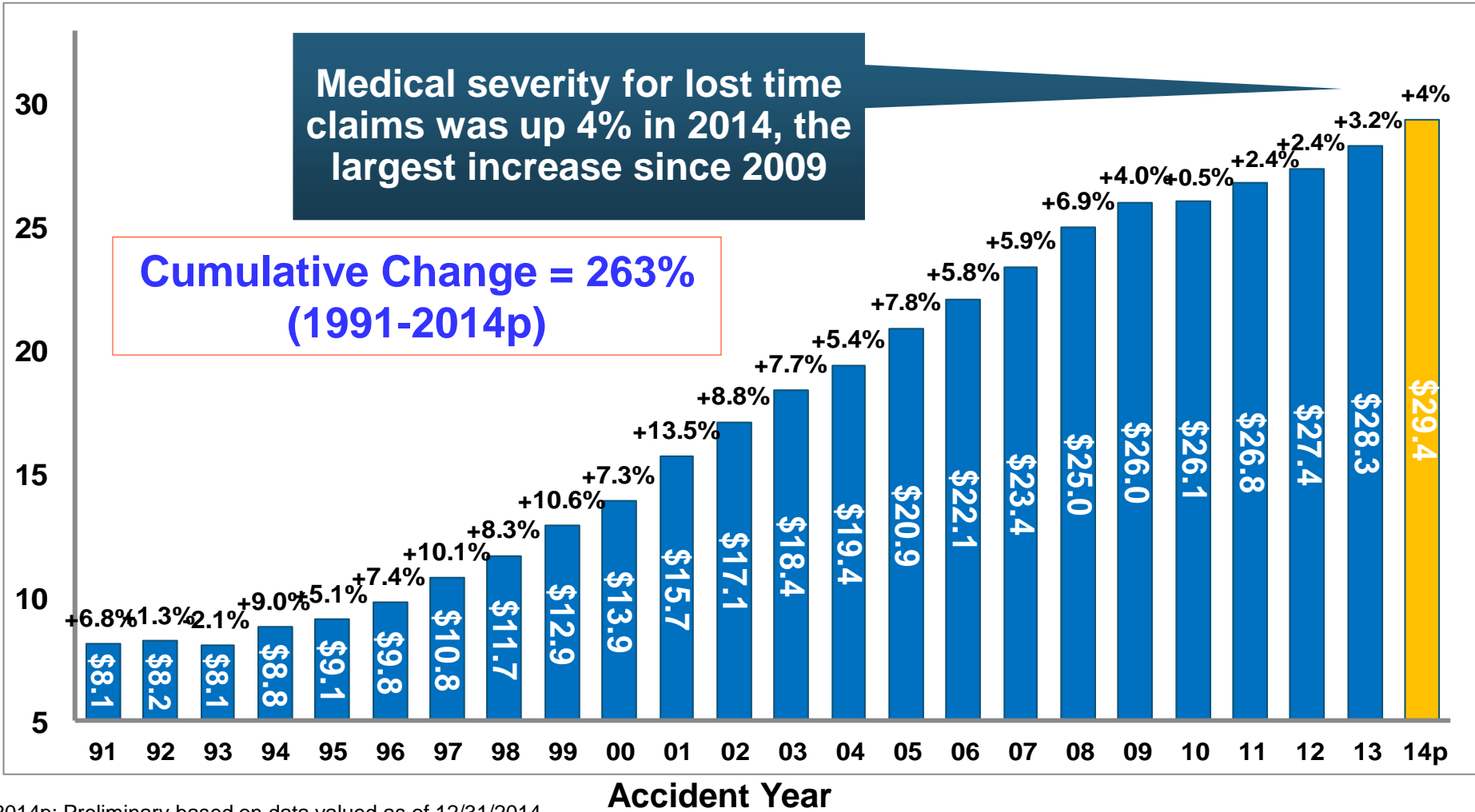


Medical Claim Cost (\$000s)

Average Medical Cost per Lost-Time Claim

Medical severity for lost time claims was up 4% in 2014, the largest increase since 2009

Cumulative Change = 263% (1991-2014p)



2014p: Preliminary based on data valued as of 12/31/2014.

1991-2013: Based on data through 12/31/2013, developed to ultimate

Based on the states where NCCI provides ratemaking services including state funds, excluding WV; Excludes high deductible policies.

Annual Inflation Rates, (CPI-U, %), 1990–2016F

Annual Inflation Rates (%)



Inflation peaked at 5.6% in August 2008 on high energy and commodity crisis. The recession and the collapse of the commodity bubble reduced inflationary pressures in 2009/10

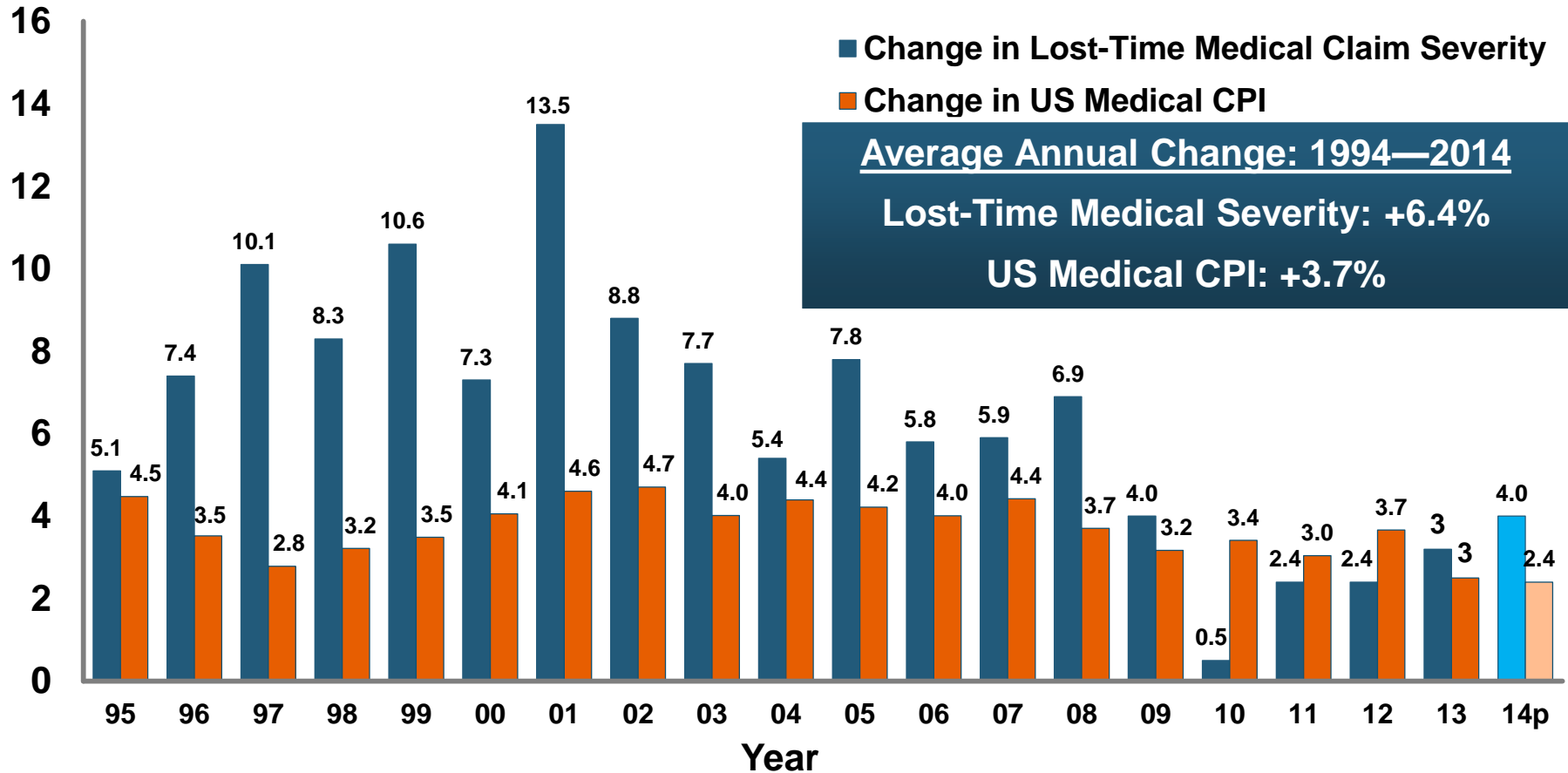
Inflationary expectations have slipped (due in part to falling energy costs) allowing the Fed to maintain low interest rates

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

Workers Compensation Change in Medical Severity

Comparison to Change in Medical Consumer Price Index (CPI)

Percent Change



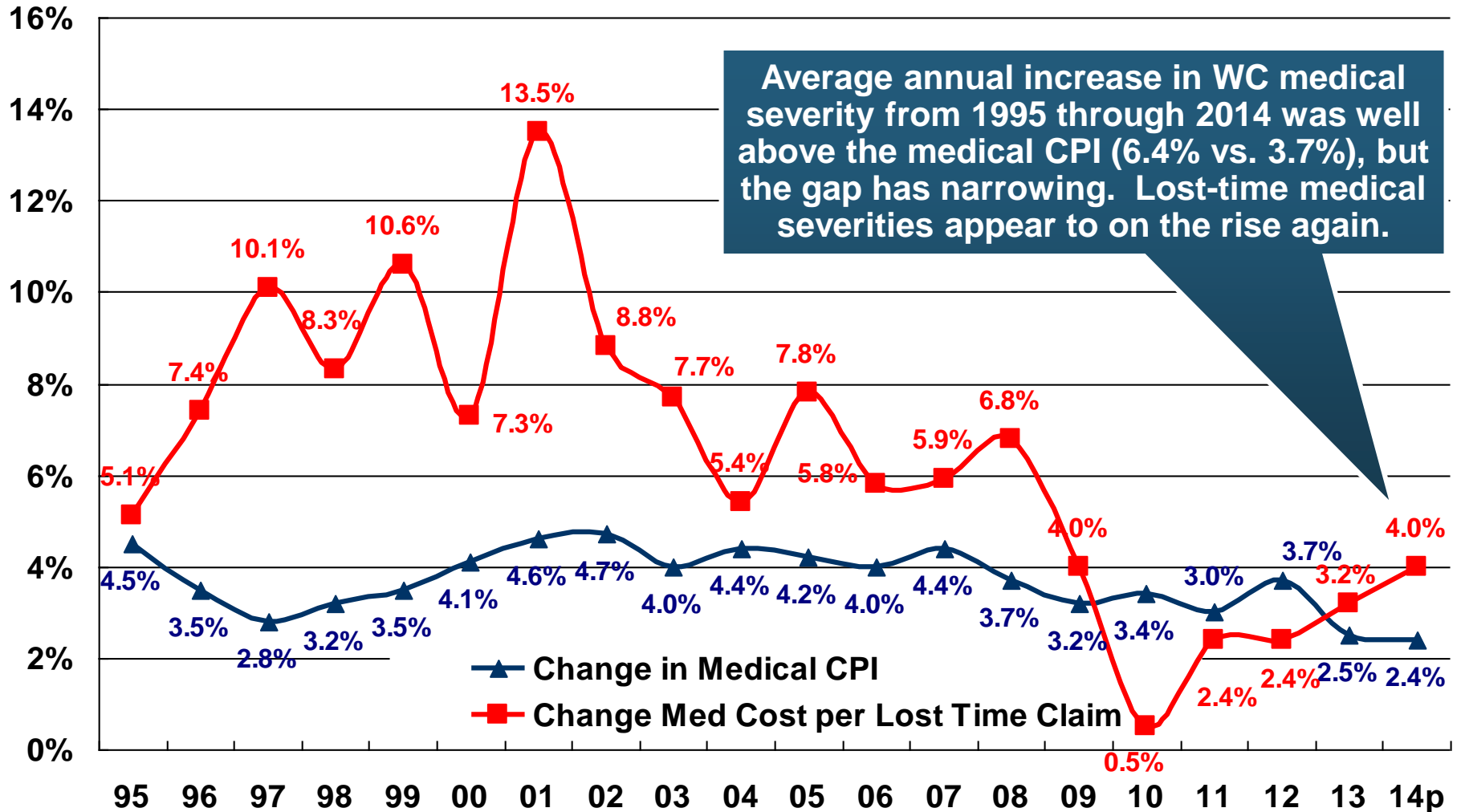
2014p: Preliminary based on data valued as of 12/31/2014.

Sources: Severity: 995-2013: Based on data through 12/31/2013, developed to ultimate

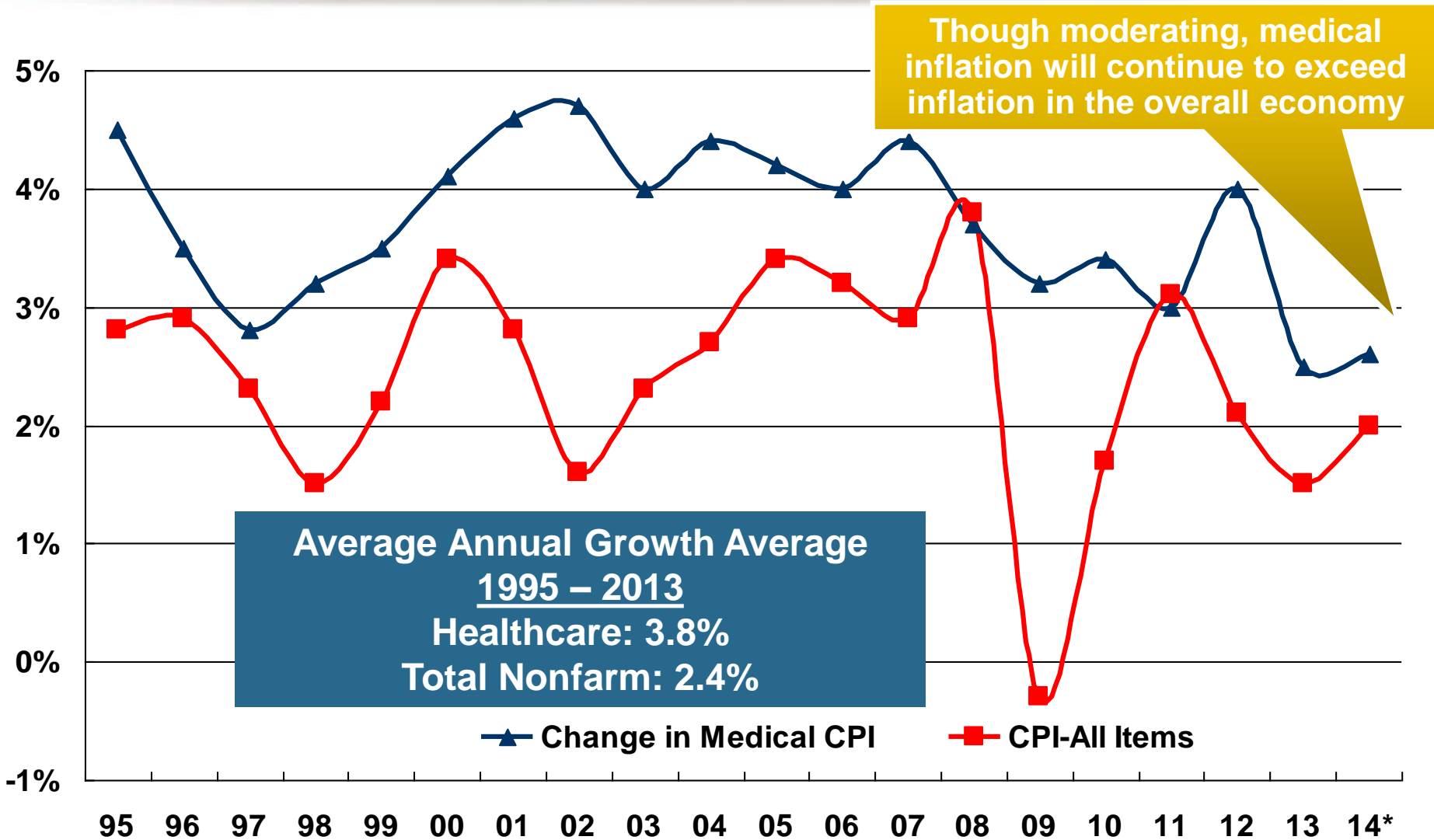
Based on the states where NCCI provides ratemaking services including state funds, excluding WV; Excludes high deductible policies.

US Medical CPI: US Bureau of Labor Statistics.

WC Medical Severity Generally Outpaces the Medical CPI Rate



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



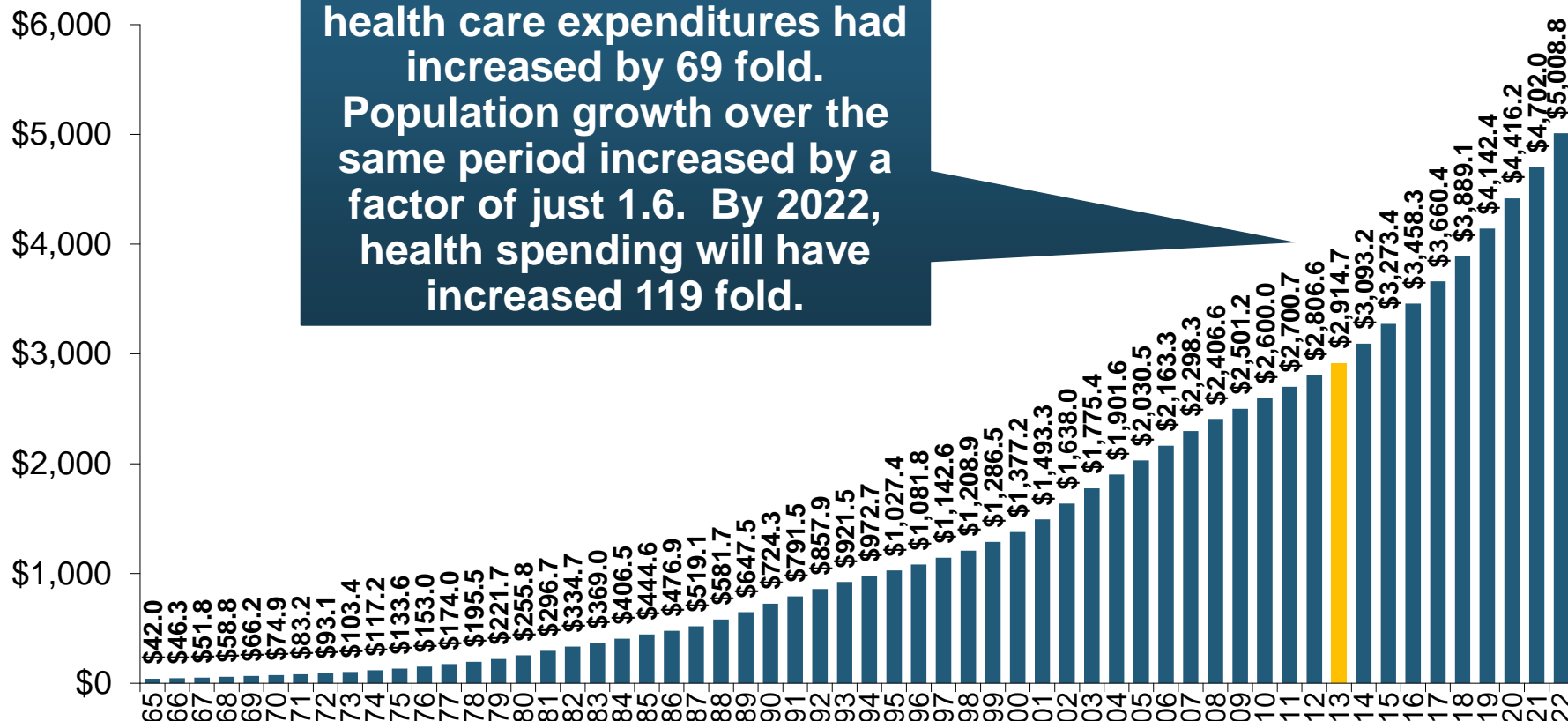
*July 2014 compared to July 2013.

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

\$ 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.

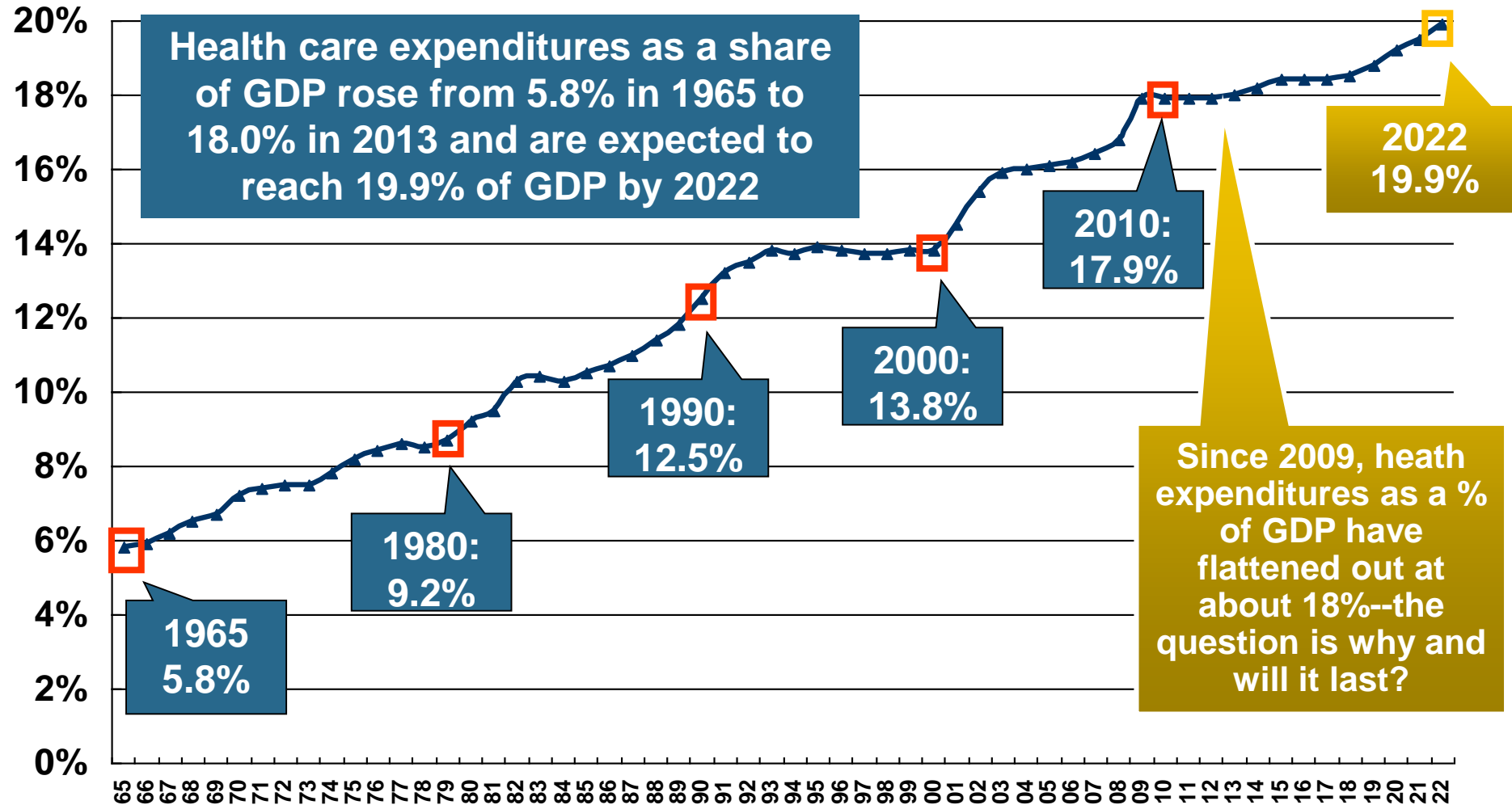


U.S. health care expenditures have been on a relentless climb for most of the past half century, far outstripping population growth, inflation of GDP growth

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*

% of GDP

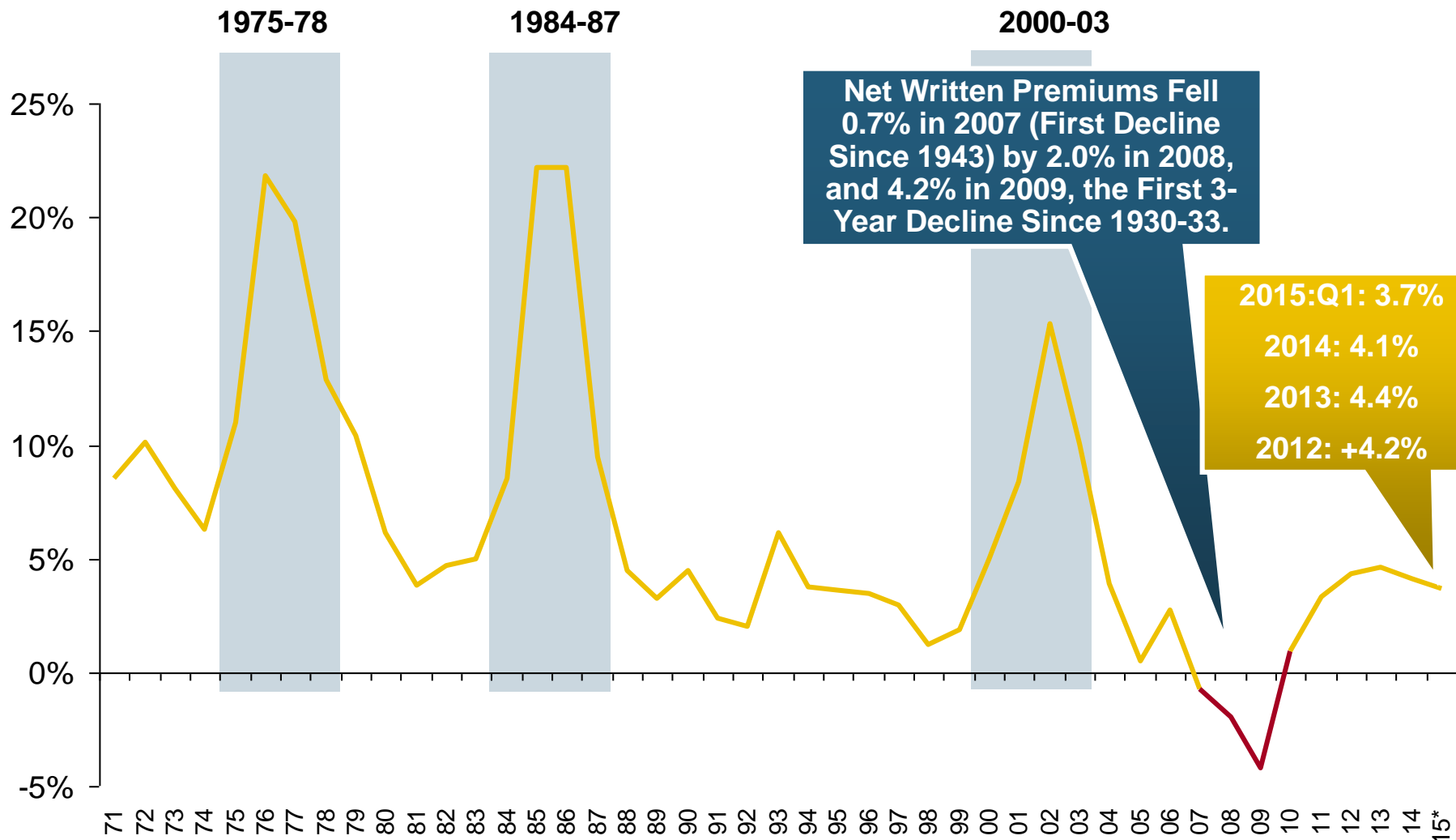


Growth Analysis by State and Business Segment

Post-Crisis Paradox?
***Premium Growth Rates Vary
Tremendously by State***

Net Premium Growth (All P/C Lines): Annual Change, 1971—2015:Q1

(Percent)

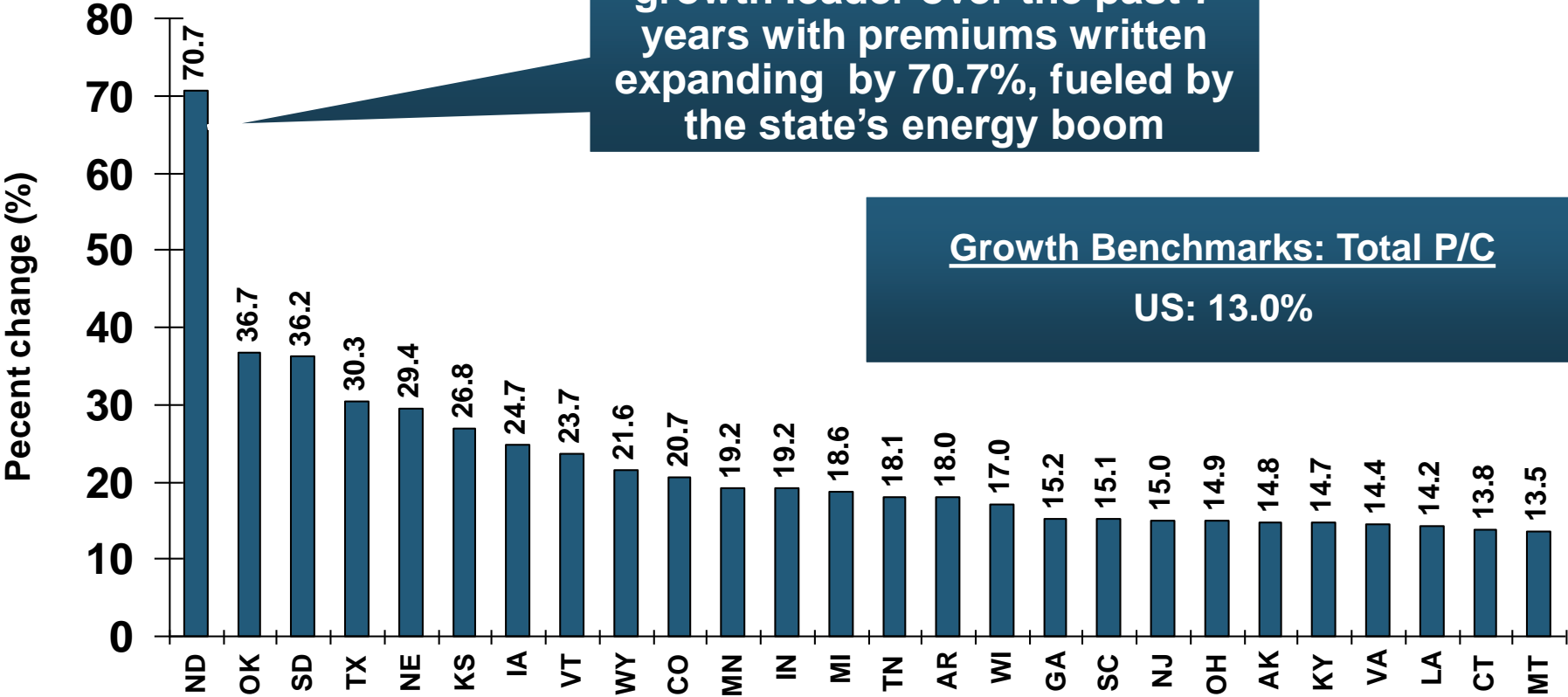


Shaded areas denote "hard market" periods
 Sources: A.M. Best (1971-2013), ISO (2014-15).

Direct Premiums Written: Total P/C Percent Change by State, 2007-2014

Top 25 States

North Dakota was the country's growth leader over the past 7 years with premiums written expanding by 70.7%, fueled by the state's energy boom

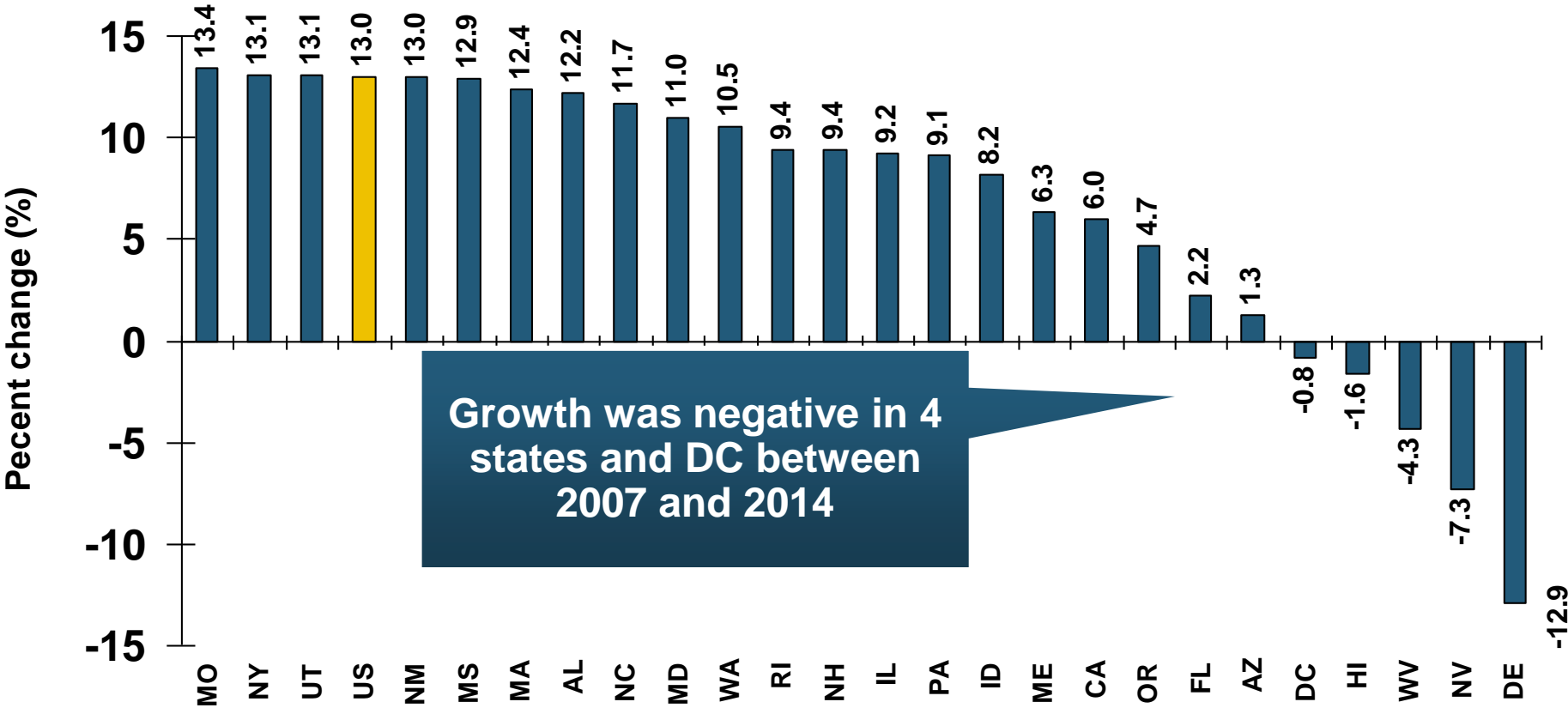


Growth Benchmarks: Total P/C
US: 13.0%

Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: Total P/C Percent Change by State, 2007-2014

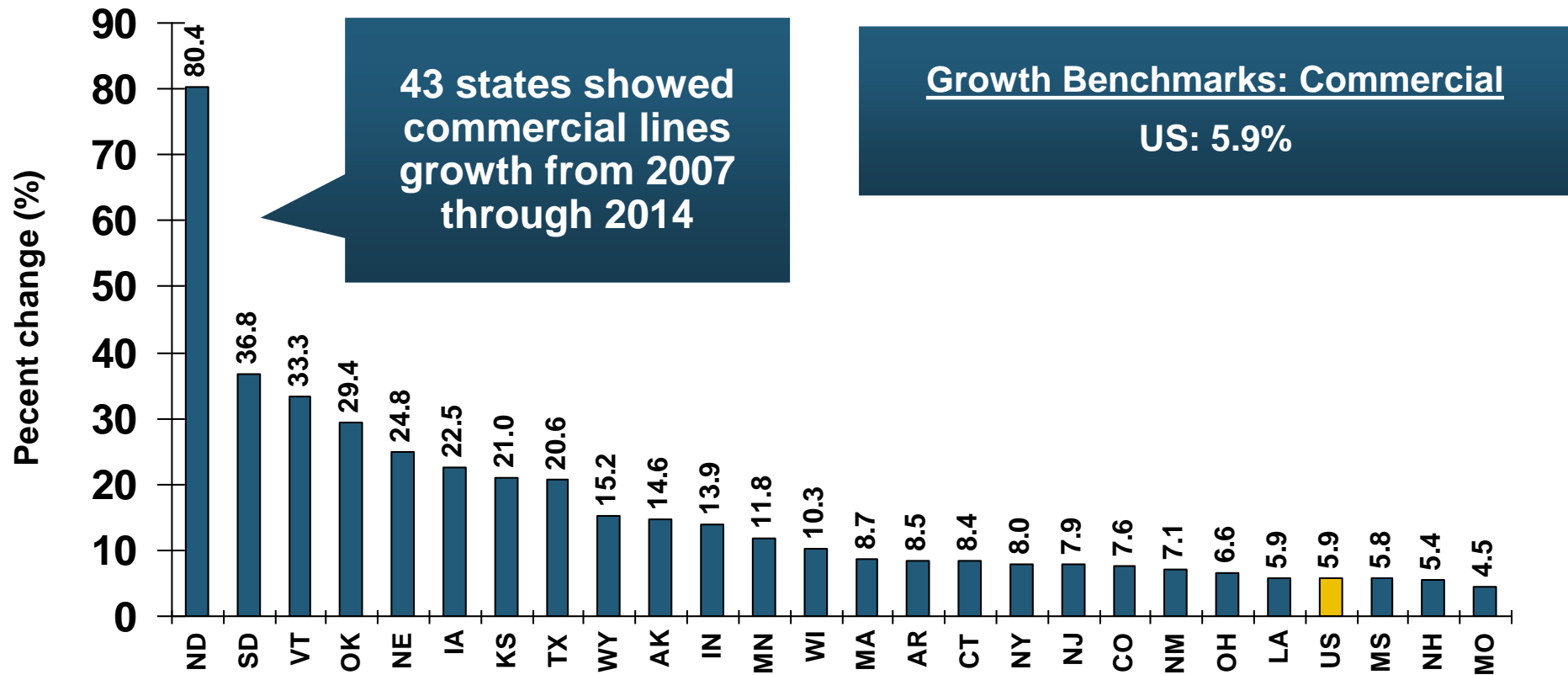
Bottom 25 States



Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: Comm. Lines Percent Change by State, 2007-2014

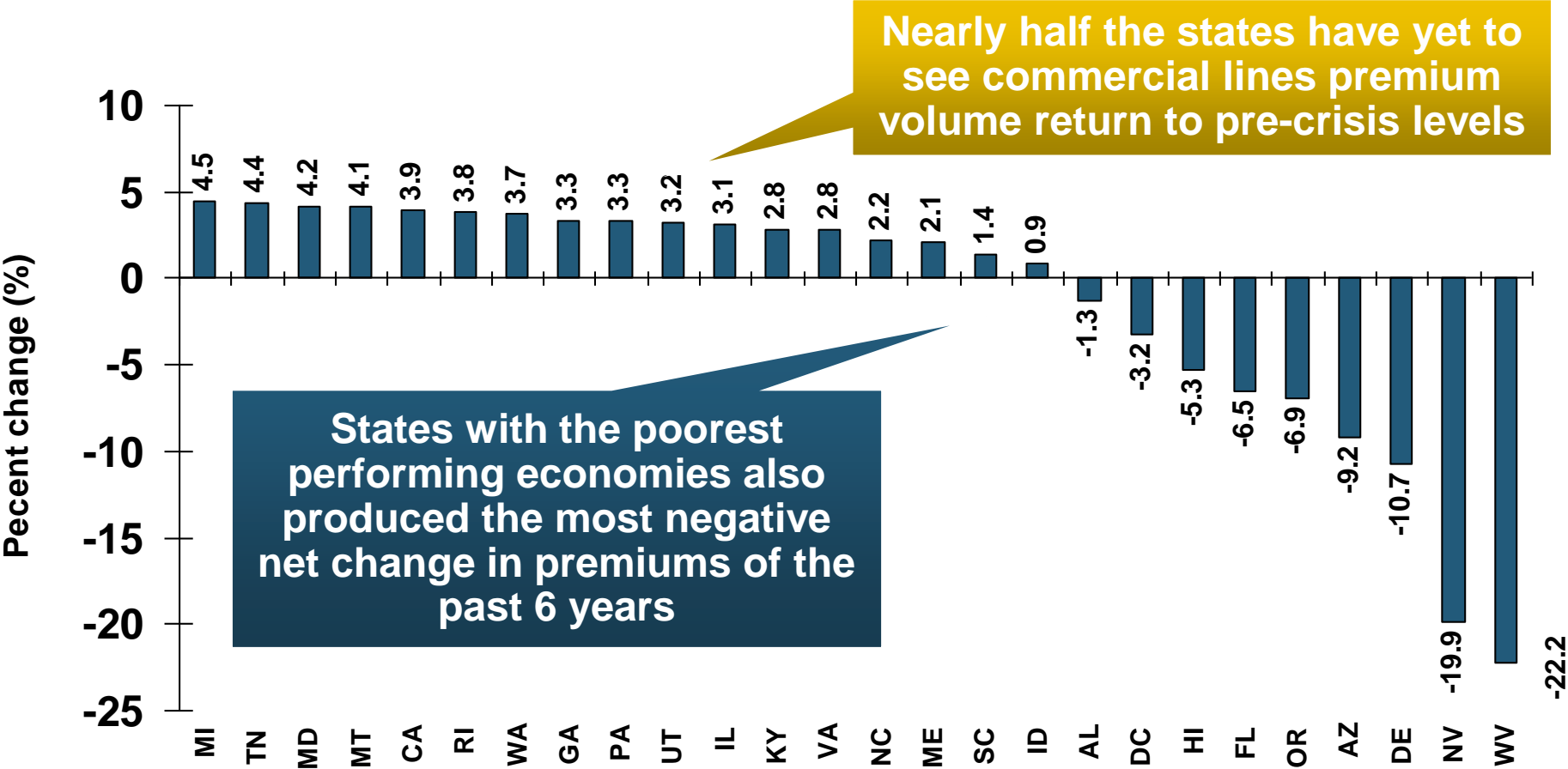
Top 25 States



Sources: SNL Financial LLC.; Insurance Information Institute.

Direct Premiums Written: Comm. Lines Percent Change by State, 2007-2014

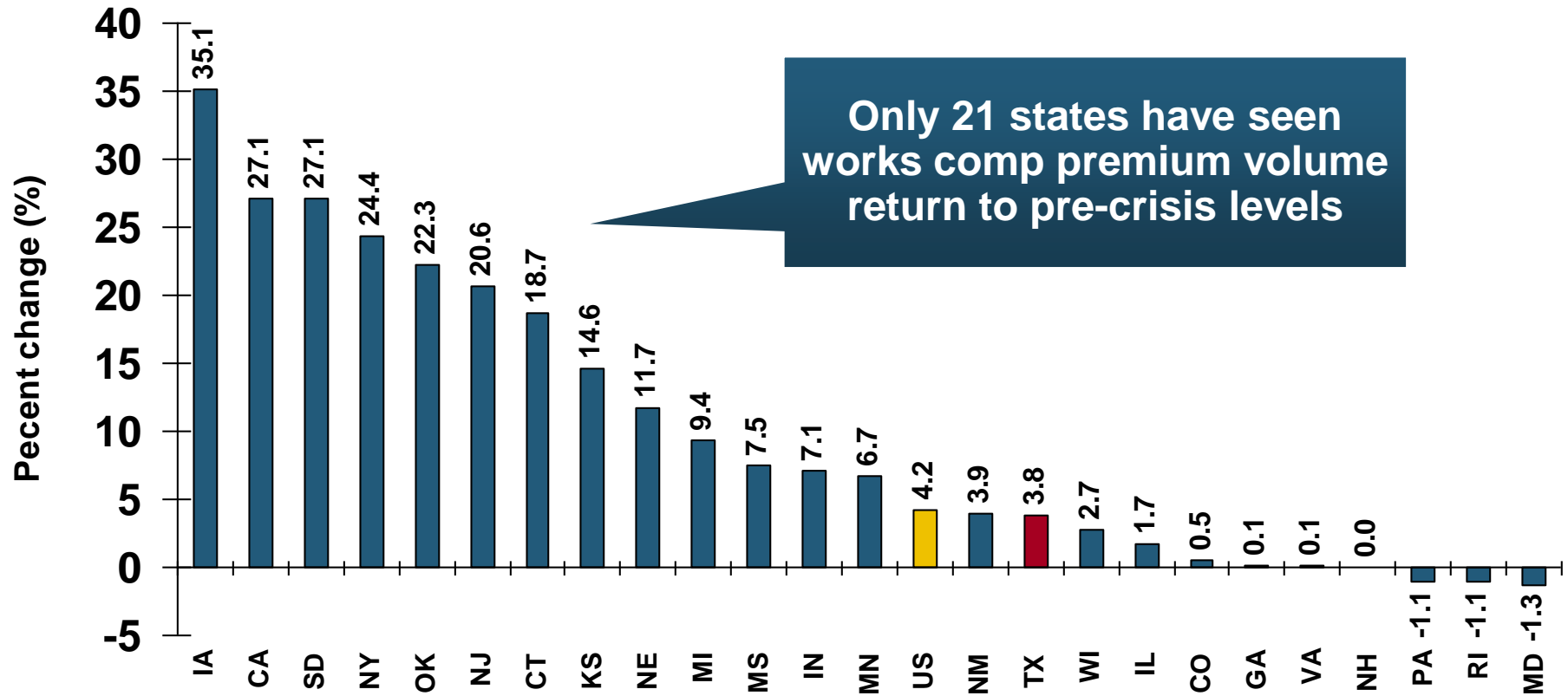
Bottom 25 States



Sources: SNL Financial LLC.; Insurance Information Institute.

Direct Premiums Written: Workers' Comp Percent Change by State, 2007-2014*

Top 25 States

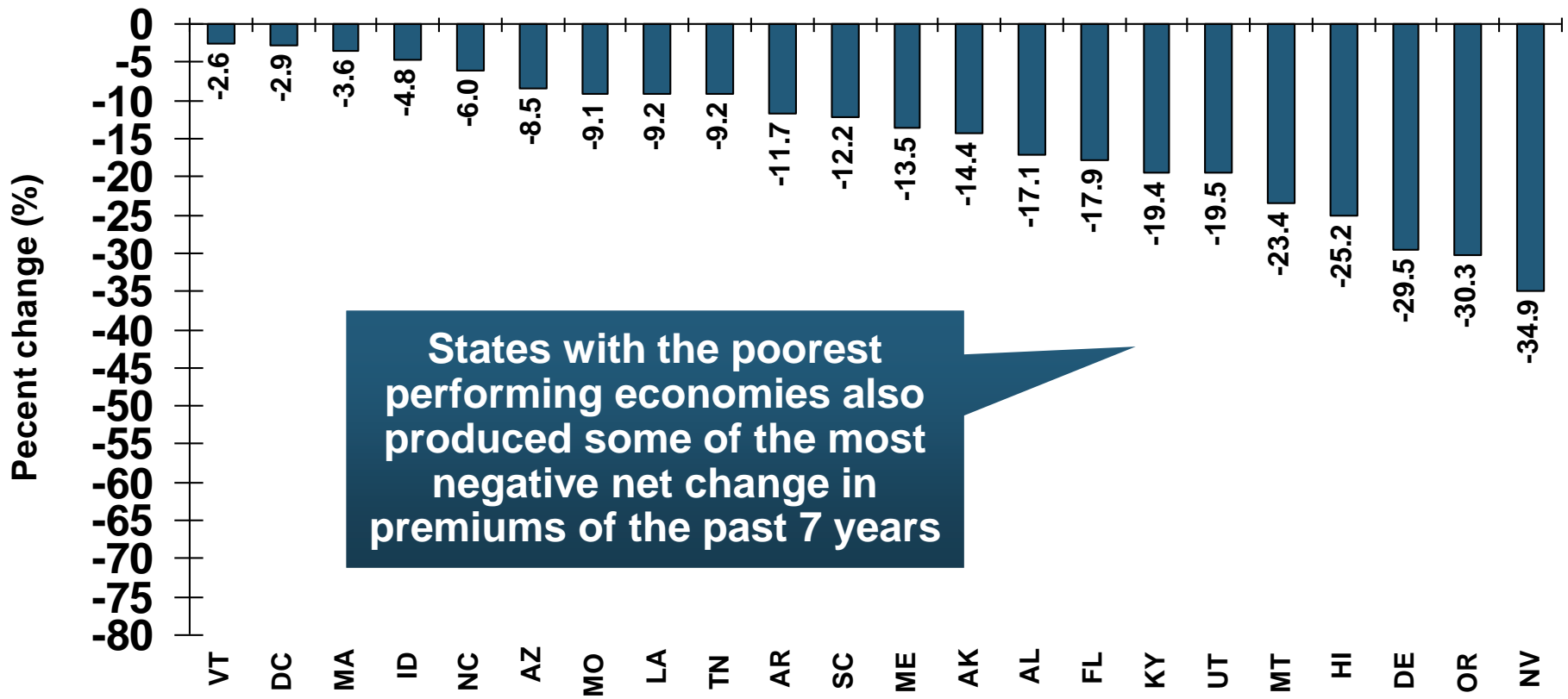


*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

Sources: SNL Financial LC.; Insurance Information Institute.

Direct Premiums Written: Worker's Comp Percent Change by State, 2007-2014*

Bottom 25 States



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

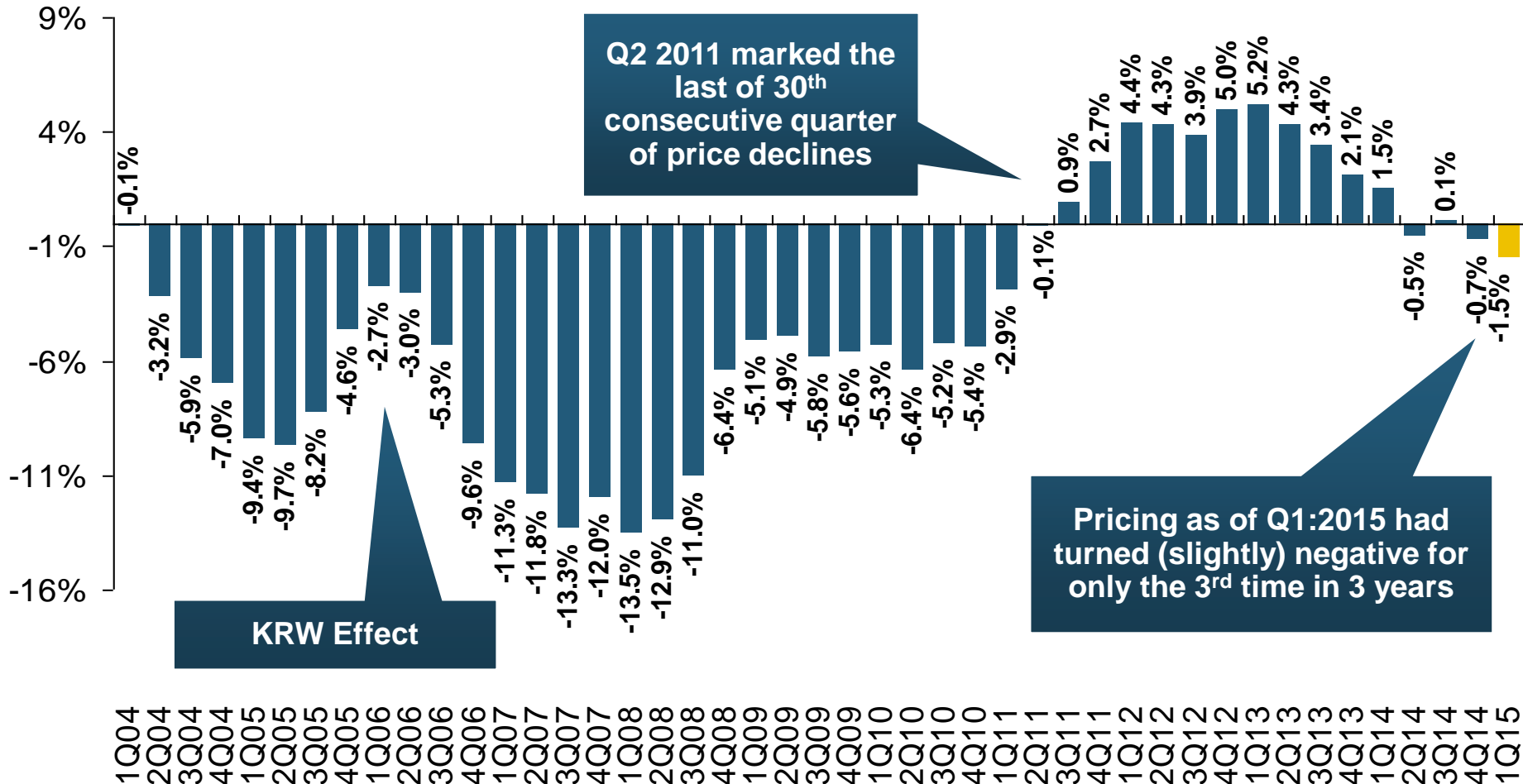
Sources: SNL Financial LC.; Insurance Information Institute.

Commercial Lines Pricing Trends

**Survey Results Suggest
Commercial Pricing Has
Flattened Out**

Average Commercial Rate Change, All Lines, (1Q:2004–1Q:2015)

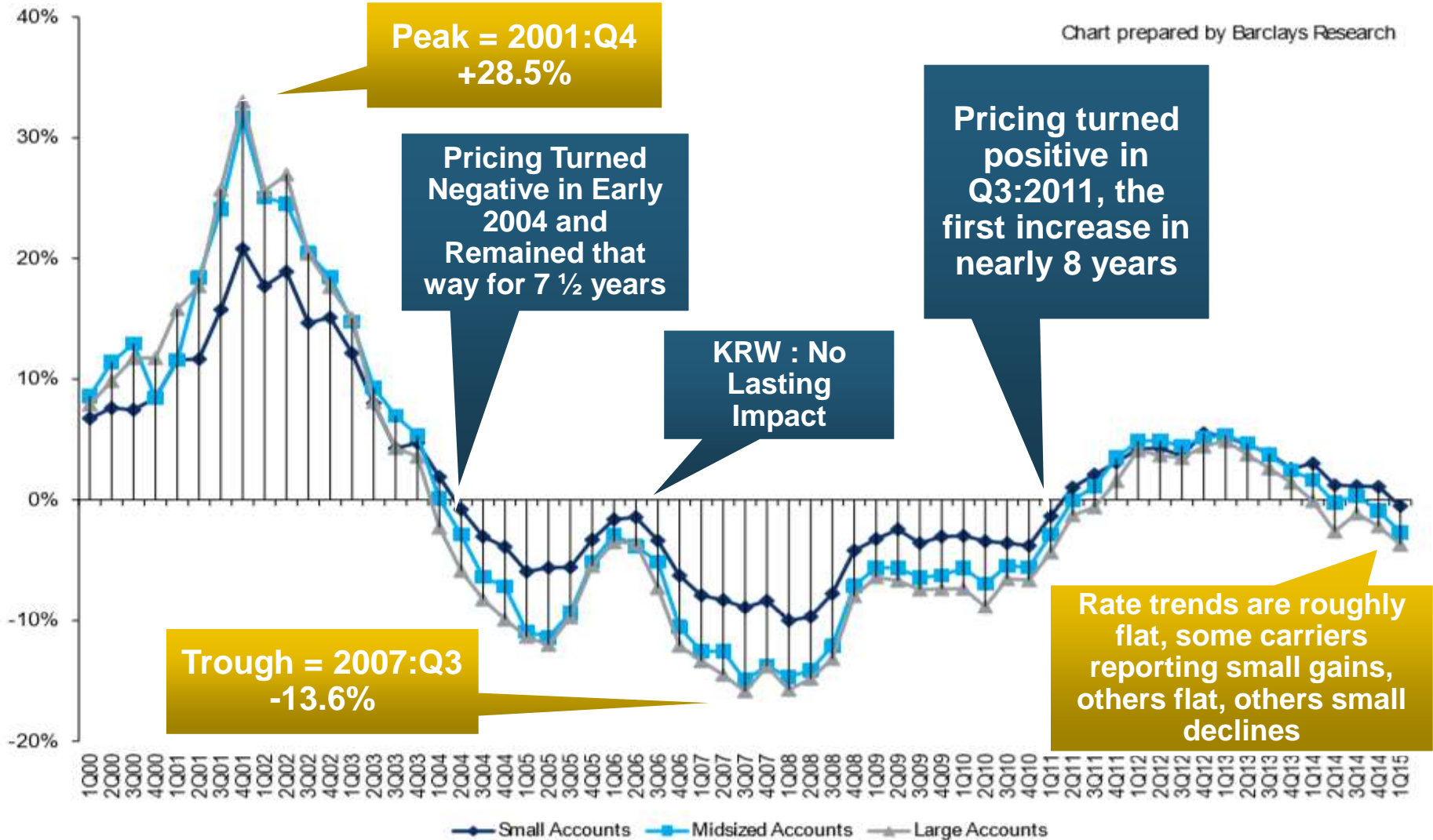
(Percent)



Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
 Source: Council of Insurance Agents & Brokers; Insurance Information Institute

Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2015:Q1

Percentage Change (%)



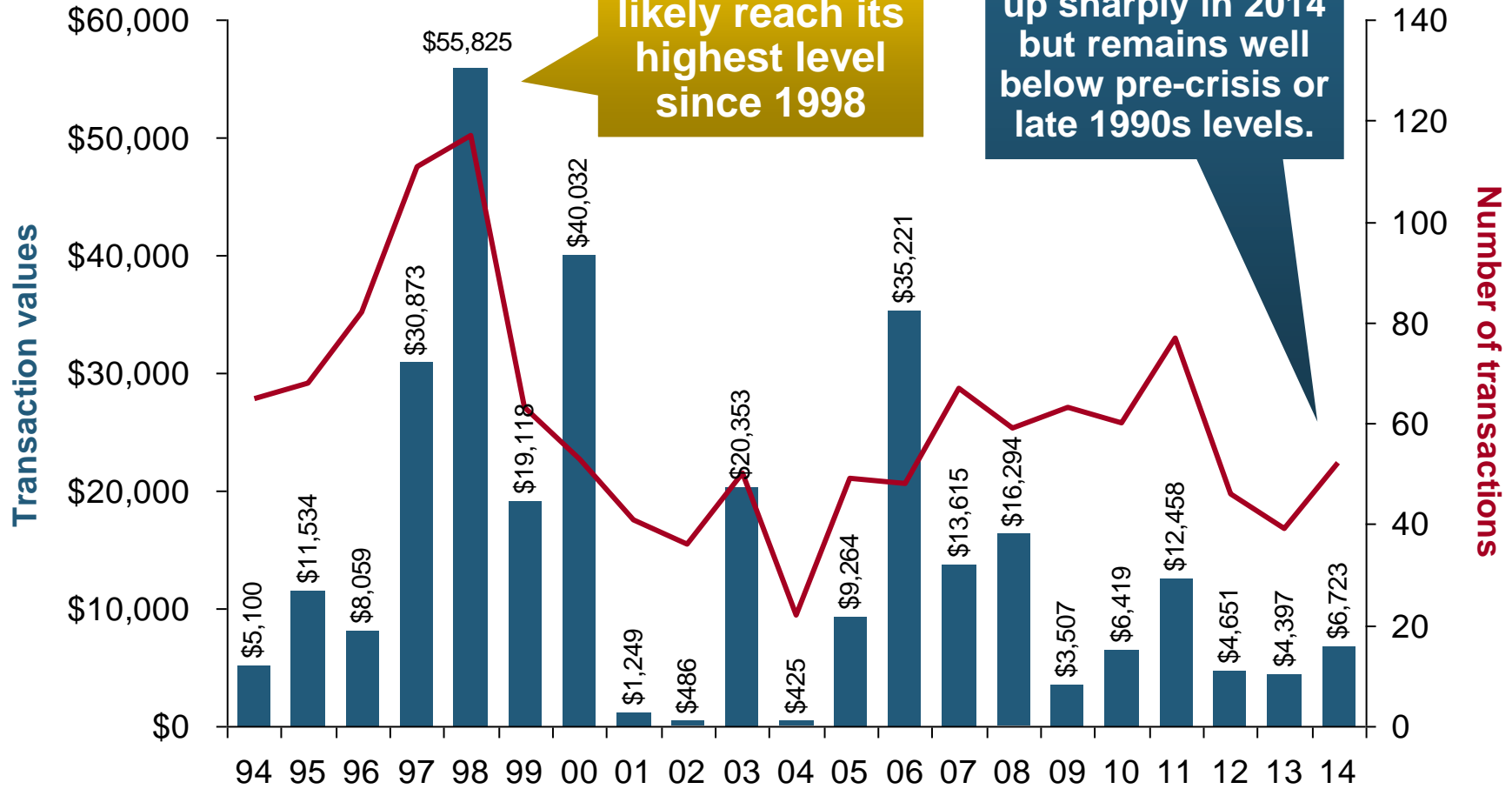
Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, *potentially substantially*.
 Source: Council of Insurance Agents and Brokers; Barclay's Capital; Insurance Information Institute.

**M&A UPDATE:
*A PATH TO GROWTH?***

**Are Capital Accumulation, Drive
for Growth and Scale Stimulating
M&A Activity?**

U.S. INSURANCE MERGERS AND ACQUISITIONS, P/C SECTOR, 1994-2014 (1)

(\$ Millions)



(1) Includes transactions where a U.S. company was the acquirer and/or the target.

Top Global P&C M&As in 2014 - YTD 2015



Acquirer	Target	Transaction Value
ACE (Switzerland)	Chubb (US)	\$28,300
Exor (Italy)	PartnerRe Ltd. (Bermuda)	\$6,900
Zurich (Switzerland)	RSA (UK)	8,000
XL Group plc (Ireland)	Catlin Group Ltd. (Bermuda)	4,200
RenaissanceRe Holdings Ltd. (Bermuda)	Platinum Underwriters Holdings Ltd. (Bermuda)	1,900
Fairfax Financial Holdings Ltd. (Canada)	Brit Insurance Holdings NV (Netherlands)	1,880
Desjardins Financial Corp. (Canada)	State Farm's property/casualty and life insurance operations in Canada (Canada)	1,500
TPG Capital LP	The Warranty Group, Inc. (Canada)	1,500
Fosun International Ltd. (China)	Caixa Seguros e Saude SGPA SA (Portugal)	1,360
Progressive Corp.	ARX Holding Corp.	875
Assured Guaranty Ltd. (Bermuda)	Radian Asset Assurance, Inc.	810
Mapfre S.A. (Spain)	German and Italina operations of Direct Line Insurance Group plc (Germany/Italy)	701
Validus Holdings Ltd. (Bermuda)	Western World Insurance Group, Inc.	690
ACE Ltd. (Switzerland)	P&C business from Itau Seguros S.A. (Brazil)	685

Update: Alleghany Corp. announced in May 2015 that it is considering the sale of TransAtlantic Holding Co. (TransRe).

*Source: Conning; Insurance information Institute.

Recent M&A Transactions Involving Lloyd's and Bermuda Re/Insurers

Date	Acquirer	Target	Deal Value \$ Billion
Dec 2012	Aquiline	Equity Redstar	0.1
Jun 2013	Enstar/Stone Point	Atrium	0.2
Jul 2013	Enstar/Stone Point	Torus	0.7
Aug 2013	Ian Beaton and Management	Ark Syndicate Management	0.4
Aug 2013	Lancashire	Cathedral	0.4
Aug 2013	AmTrust	Sagicor	0.1
Sep 2013	ANV	Jubilee Managing Agency	N/A
Dec 2013	Sompo	Canopus	1.0
Feb 2014	Qatar Insurance Company	Antares	0.2
Jul 2014	BTG Pactual	Ariel Re	0.4
Nov 2014	RenaissanceRe	Platinum Underwriters	1.9
Dec 2014	XL Group	Catlin	4.1
Jan 2015	PartnerRe	AXIS	11.0*
Feb 2015	Fairfax Financial Holdings	Brit	1.9

*Deal was not complete as of 6/4/15 and a rival bid from Italian investment firm Exor was still under consideration.

Source: Swiss Re *sigma* 3/2015; Insurance information Institute.

What's Driving Global Insurance M&A Activity and Will It Continue?

- **Excess Capital in Global Reinsurance and Primary Commercial Insurance in US**
 - ◆ (Re)Insurers, like corporations in many industry, are sitting are large amounts of cash accumulated since the Global Financial Crisis that earns very little
- **Alternative Capital**
- **Slow Top Line (Premium) Growth**
- **Slowdown in Pace of Earnings Growth/ROE**
- **Low Interest Rates Make Debt Financing for Acquisitions Attractive**
 - ◆ Concern that interest rates in US may soon rise so best to act now
- **Desire to Achieve Economies of Scale**
- **Peer Pressure/Momentum**
 - ◆ Management concerns about being “left out”

SELF-INSURANCE TRENDS

**Many Entities Have Sought to
Retain Increasing Amounts of
Risk on their Own Books**

Leading Captive Domiciles, 2013-2014

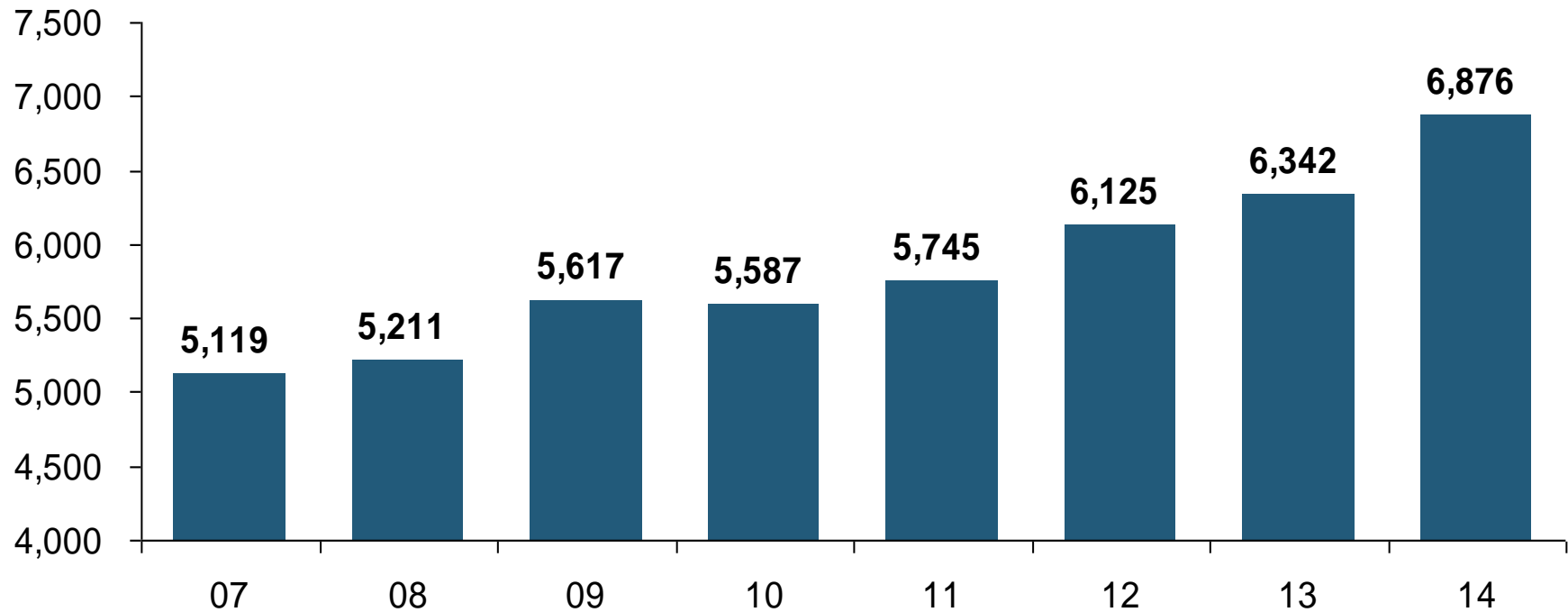
Rank	Domicile	Number of captives	
		2013	2014
1	Bermuda	831	800
2	Cayman Islands	759	759
3	Vermont	588	587
4	Utah	342 (1)	422
5	Anguilla	295	379
6	Delaware	298	333
7	Guernsey	318 (1)	321
8	Nevis	276	281
9	Barbados	264	271
10	Luxembourg	226 (1)	224
11	Hawaii	184	194
12	D.C.	170 (1)	191
13	Montana	150	177
14	Nevada	148	160
15	South Carolina	145	158
16	Puerto Rico	107 (1)	152
17	British Virgin Islands	147	146
18	Isle of Man	123 (1)	122
18	Kentucky	128	122
20	Arizona	106	114
Total, top 20		4,319	5,913
Total, all captives		4,873	6,876

Bermuda is the global leader in captive domiciles but is losing ground

Vermont remains the leading US captive domicile but Utah is closing the gap

Sources: Business Insurance, March 16, 2015; Insurance Information Institute.

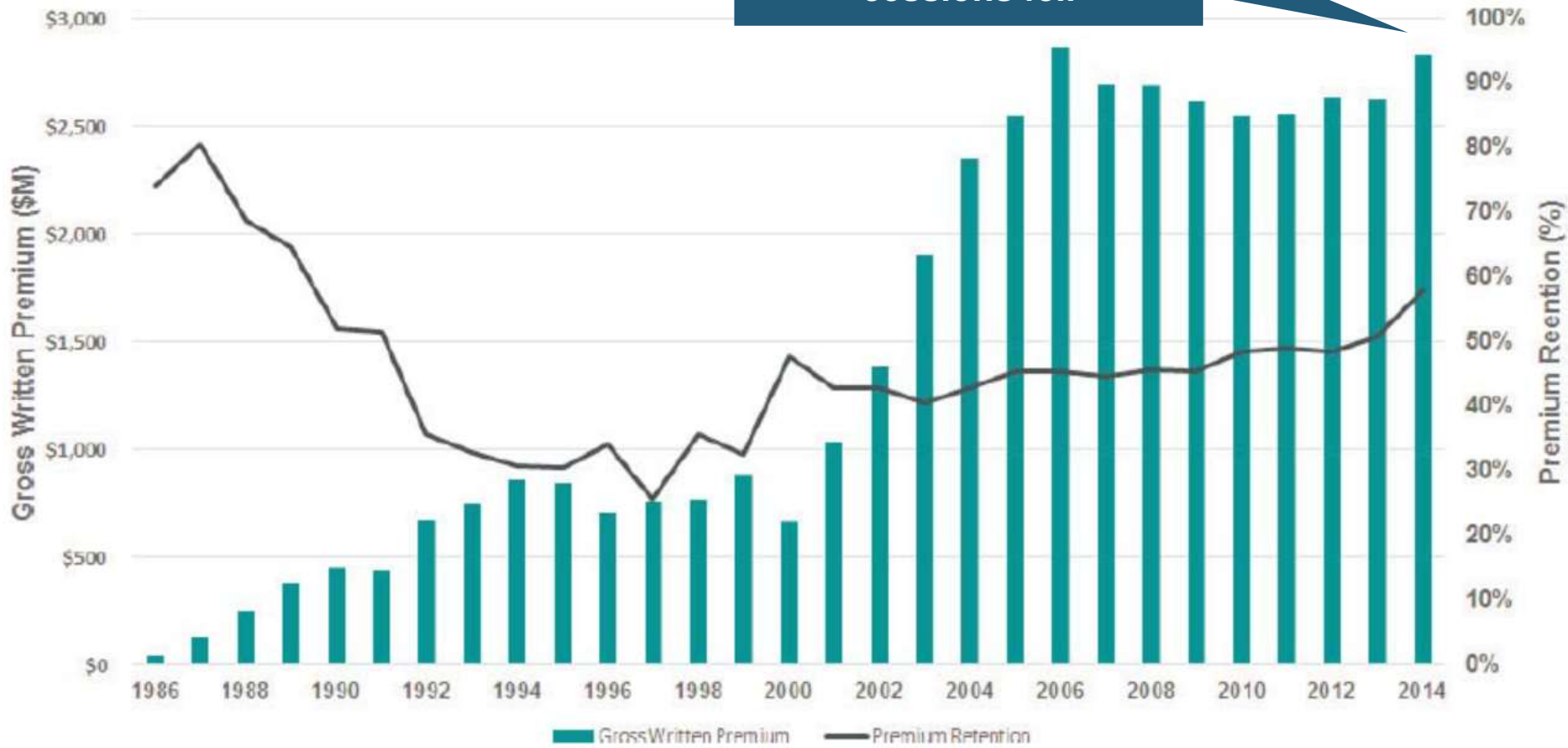
Number of Captives Worldwide: 2007–2014



**Commercial Property Underwriting Performance
Has Been Volatile in Recent Years, Largely Due to
Fluctuations in CAT Activity**

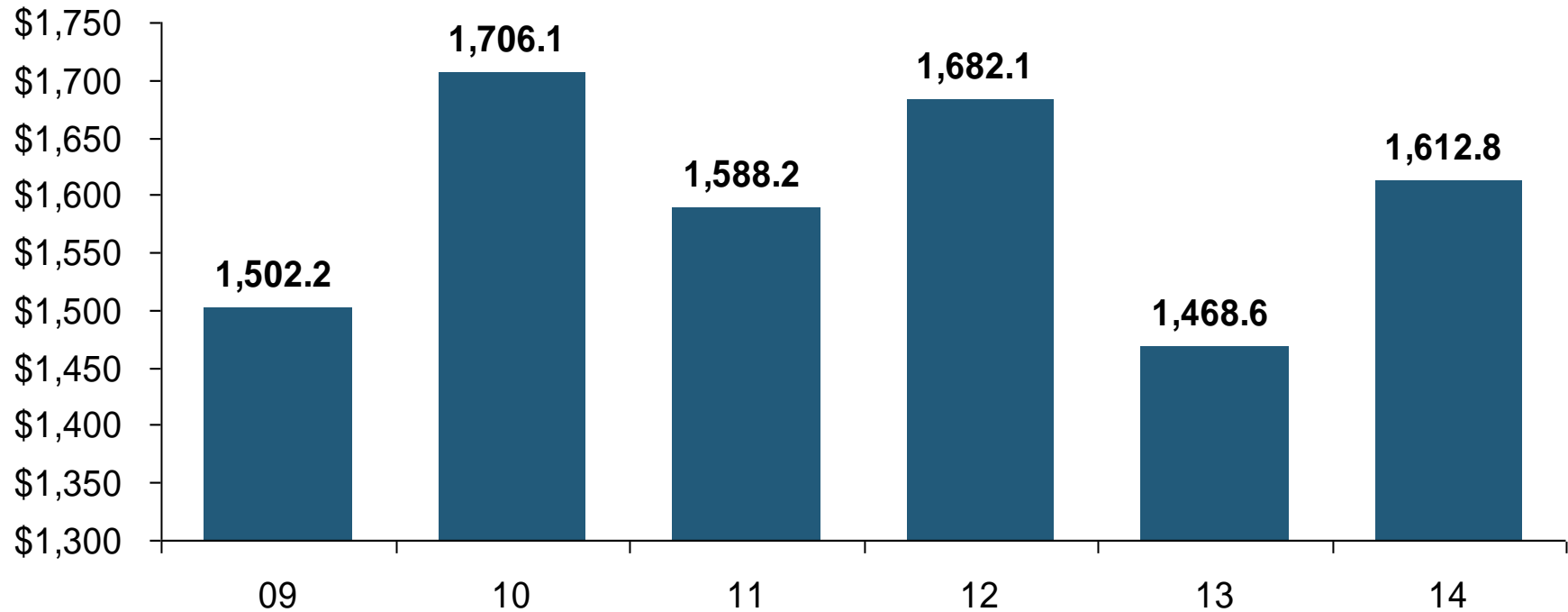
Risk Retention Group Premium Retention and Gross Written Premium, 1986-2014

RRG retention rates were up from 51% to 58% in 2014 as reinsurance cessions fell



Sources: Risk Retention Reporter, June 2015; Insurance Information Institute.

Purchasing Group Premium Volume: 2009–2014



**Purchasing Group Premium Volume was up 9.8%
in 2014. Figures Are Volatile.**

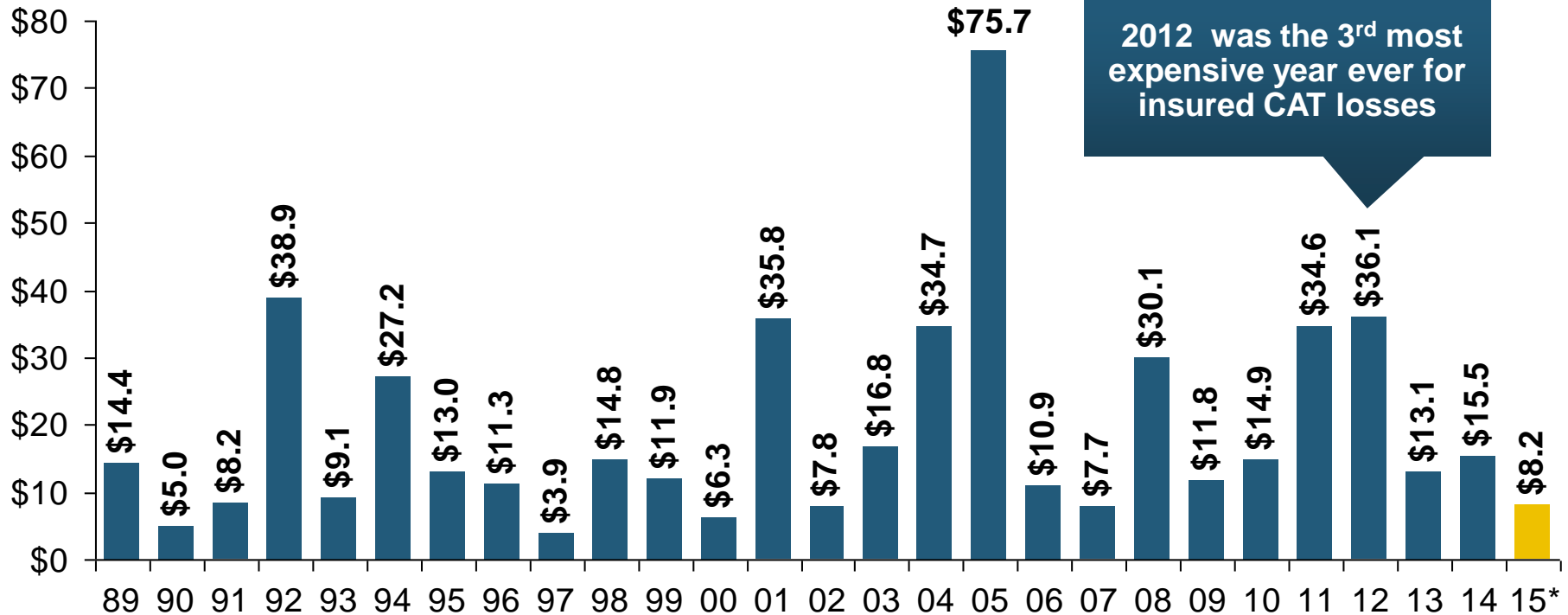
Insured Catastrophe Losses

**2013/14 and YTD 2015 Experienced Below
Average CAT Activity After Very High CAT
Losses in 2011/12**

***Winter Storm Losses Far Above Average in
2014 and 2015***

U.S. Insured Catastrophe Losses

(\$ Billions, \$ 2014)



2012 was the 3rd most expensive year ever for insured CAT losses

2013/14 Were Welcome Respite from 2011/12, among the Costliest Years for Insured Disaster Losses in US History. Longer-term Trend is for more—not fewer—Costly Events

\$8.2B in insured CAT losses though 6/30/15, up slightly from \$7.3B in 2014

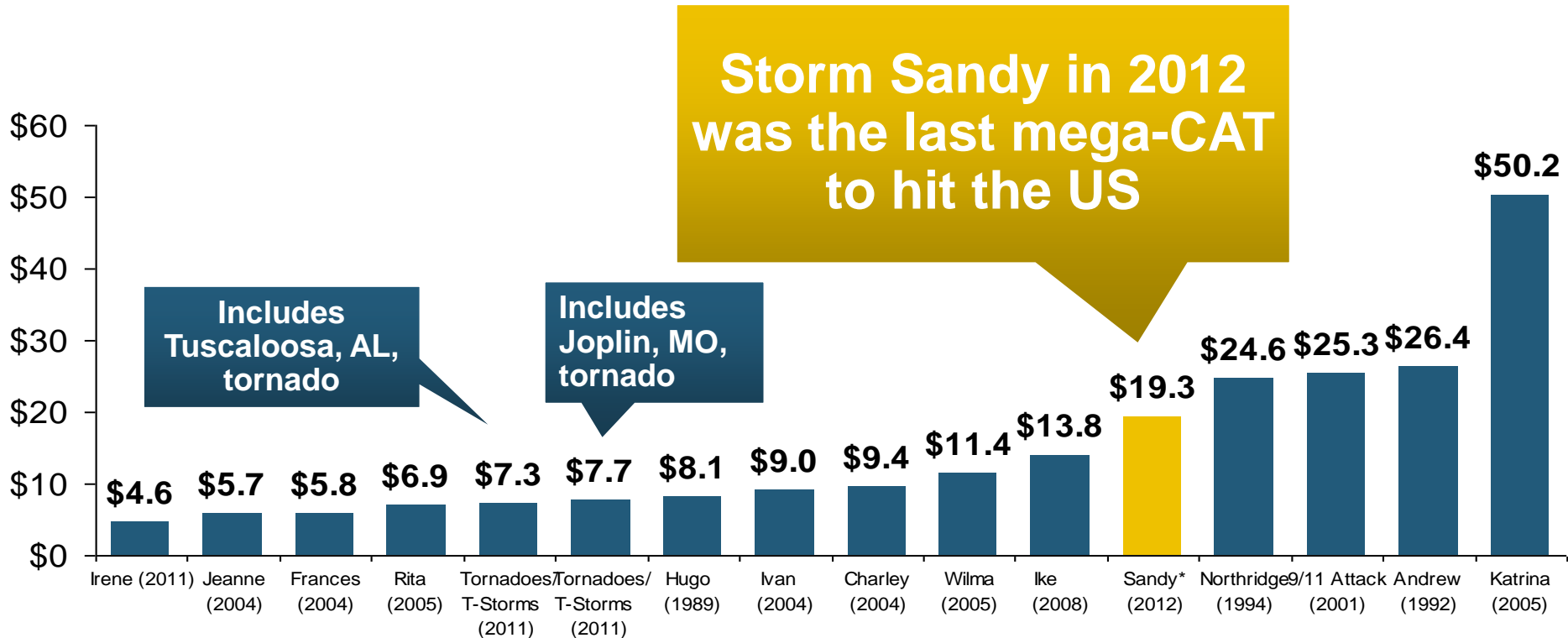
*Through 6/30/15 in 2015 dollars.

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; AonBenfield Insurance Information Institute.

Top 16 Most Costly Disasters in U.S. History—Katrina Still Ranks #1

(Insured Losses, 2014 Dollars, \$ Billions)



12 of the 16 Most Expensive Events in US History Have Occurred Since 2004

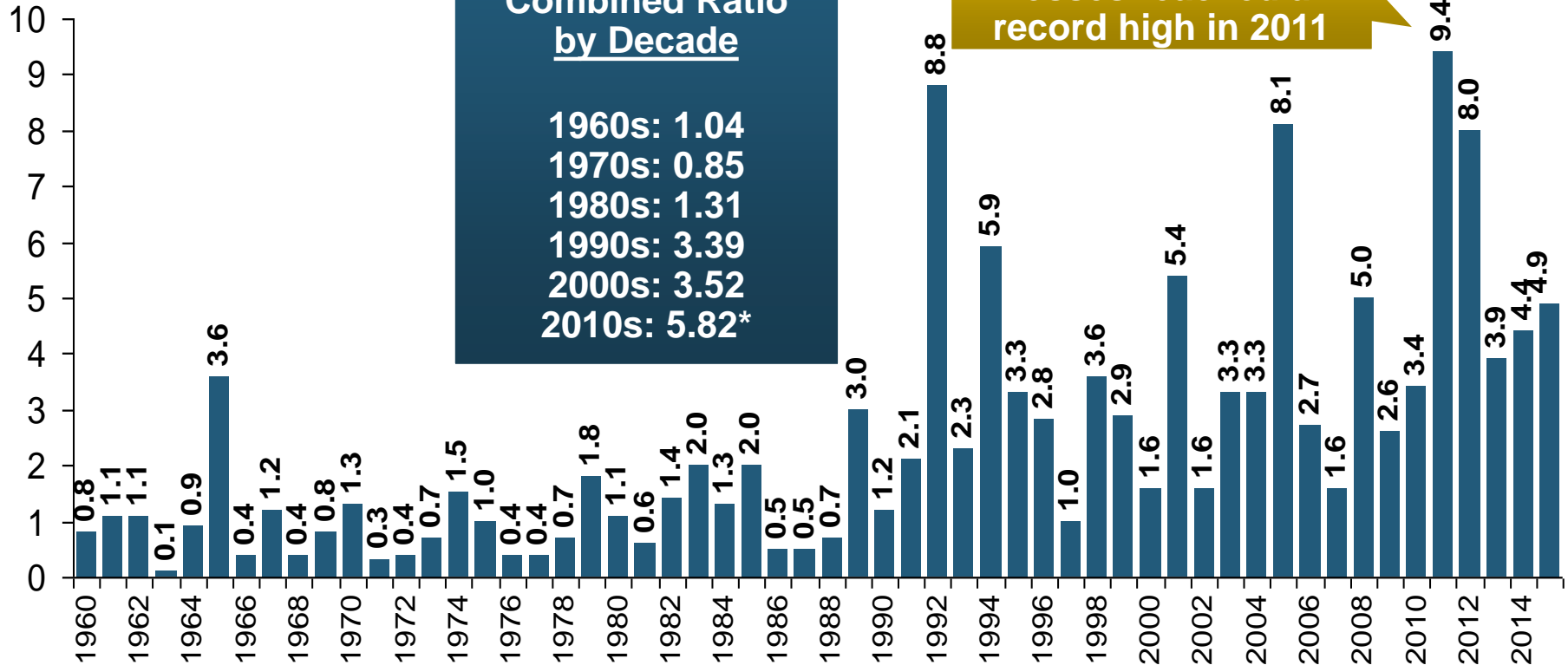
Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2015F*

Combined Ratio Points

Avg. CAT Loss Component of the Combined Ratio by Decade

1960s: 1.04
 1970s: 0.85
 1980s: 1.31
 1990s: 3.39
 2000s: 3.52
 2010s: 5.82*

Catastrophe losses as a share of all losses reached a record high in 2011



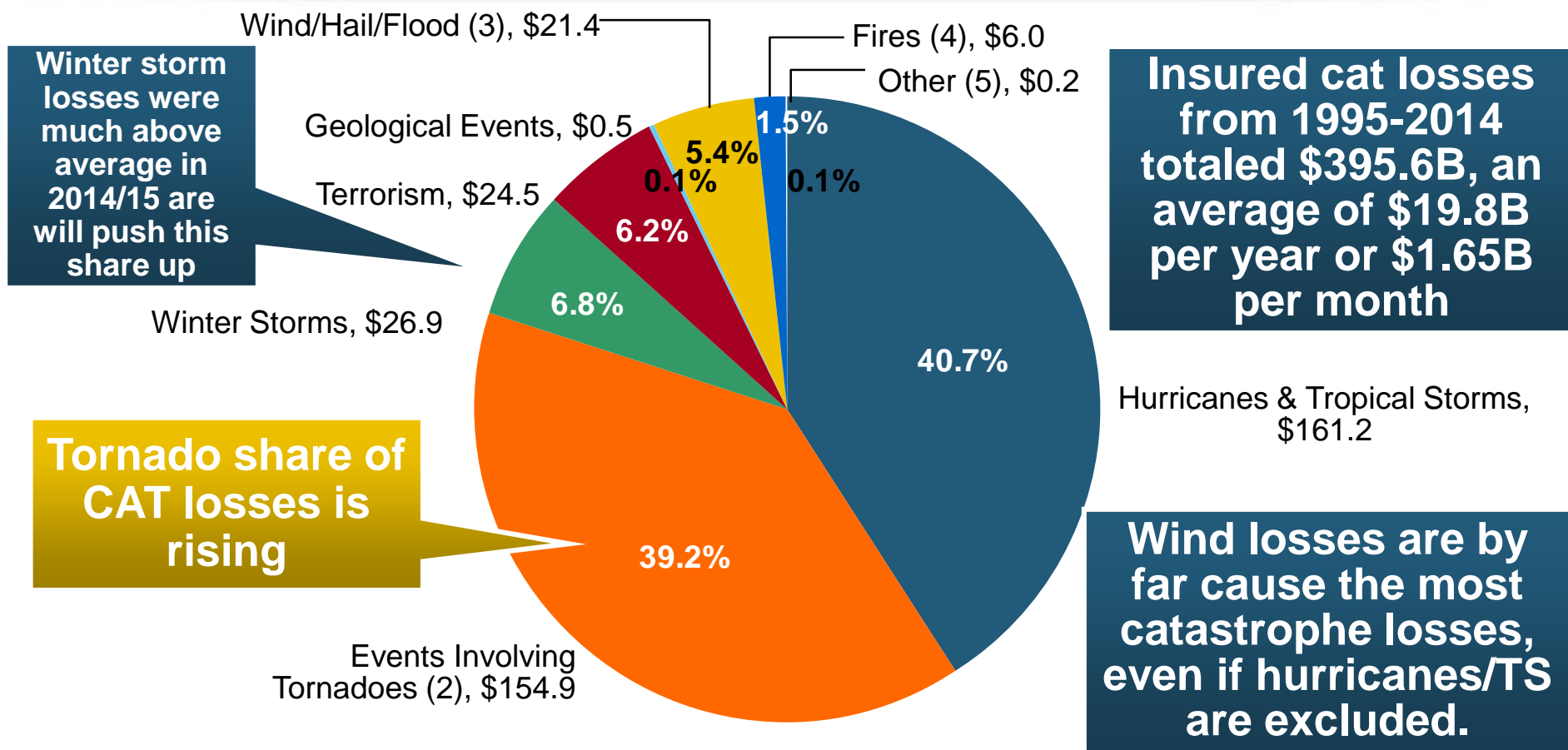
The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades

*2010s represent 2010-2014.

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 (1960-2010); A.M. Best (2011-15E) Insurance Information Institute.

Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1995–2014¹



Winter storm losses were much above average in 2014/15 are will push this share up

Insured cat losses from 1995-2014 totaled \$395.6B, an average of \$19.8B per year or \$1.65B 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 2014 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 5 Insured Catastrophe Losses in 2015*

(\$ Millions)

As in 2014, a “Polar Vortex” event was the most costly cat through the first half of 2015 with \$1.84 billion in insured losses

In 2015, Winter Storm cat events resulting in \$2.3 billion in insured losses, little changed from \$2.4 billion in 2013. These figures are about double the long-term average.

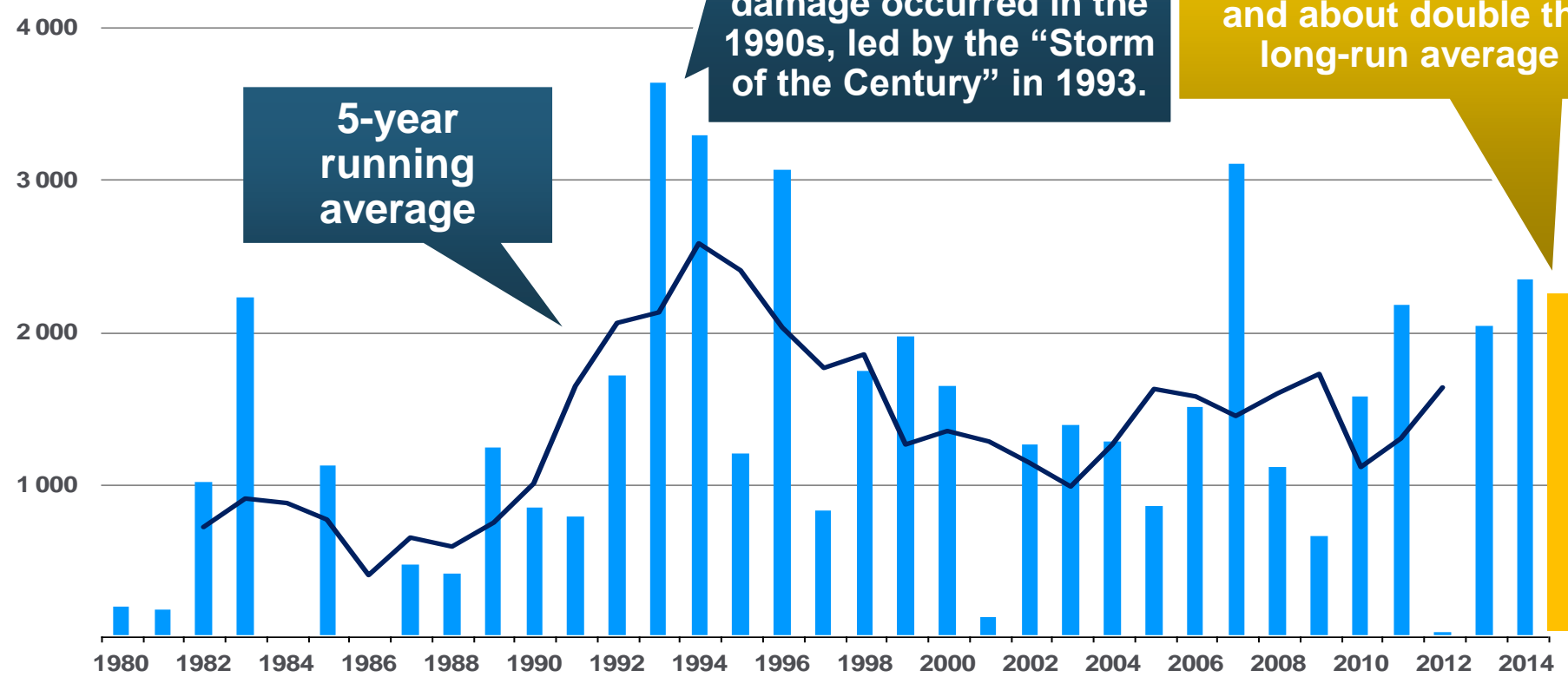


*Through June 10, 2015.

Sources: PCS unit of Verisk Analytics; Insurance Information Institute.

Winter Storm and Winter Damage Events in the US, 1980-2015 (2014 US\$)

\$ Billions, in 2014 Dollars



Three of the four most costly years ever for insured losses from winter storms and damage occurred in the 1990s, led by the “Storm of the Century” in 1993.

2015 insured winter storm losses totaled \$2.3B, similar to 2014 and about double the long-run average

5-year running average

*Winter storms include winter damage, blizzard, snow storm and cold wave

**Losses adjusted to inflation based on country CPI

Source: Property Claim Services, MR NatCatSERVICE.

Natural Disaster Losses in the U.S., First Half 2015

As of July 1, 2015	Number of Events	Fatalities	Estimated Overall Losses (US \$m)	Estimated Insured Losses (US \$m)*
Severe Thunderstorm	38	66	7,000	5,100
<i>Winter Storms & Cold Waves</i>	<i>11</i>	<i>80</i>	<i>3,800</i>	<i>2,900</i>
Flood, Flash Flood	10	4	500	150
Earthquake & Geophysical	1	-	-	-
Tropical Cyclone	2	4	Loss est. in progress	Loss est. in progress
Wildfire, Heat Waves, & Drought	18	-	1,300	Minor market loss
Totals	80	154	12,600	8,200

Natural Disaster Losses in the US, 2014

Based on perils

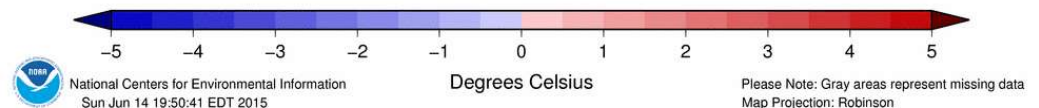
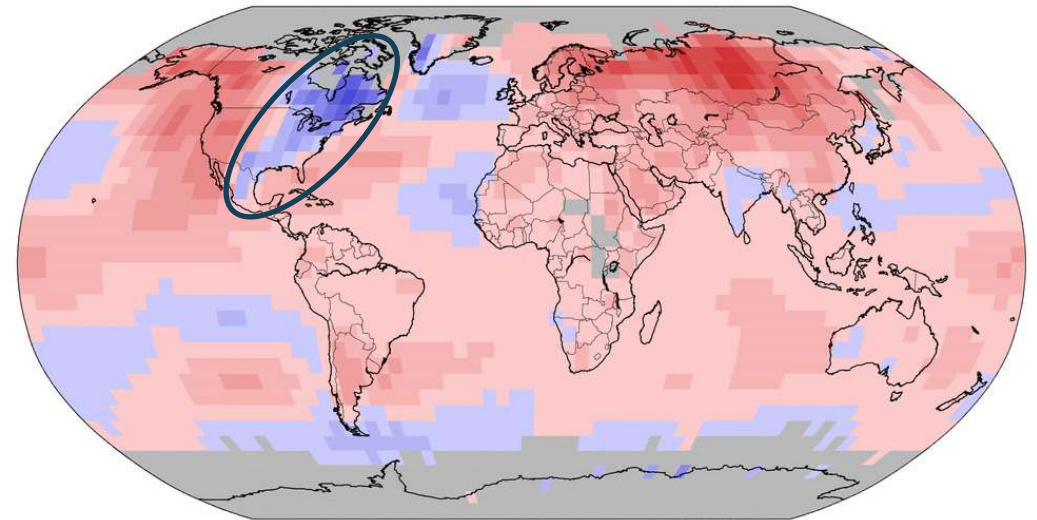
As of January, 2015	Number of Events	Fatalities	Estimated Overall Losses (US \$m)	Estimated Insured Losses (US \$m)
Severe Thunderstorm	62	98	17,000	12,300
<i>Winter Storm, winter damage, cold wave, snow storm</i>	13	115	3,700	2,300
Flood, flash flood, storm surge	20	5	1,800	500
Earthquake & Geophysical, landslides	11	45	750	150
Tropical Cyclone	2	1	95	Minor market losses
Wildfire, Heat, & Drought	11	2	1,700	Minor market losses
Totals	119	266	25,000	15,300

The World is Warmer...With One Big Exception!

HIGHLIGHTS

- **2014 was the warmest year across global land and ocean surfaces since records began in 1880.**
- **9 of the 10 warmest years in the 135-year period of record have occurred in the 21st century. 1998 currently ranks as the fourth warmest year on record.**
- ***January to May 2015 warmest first five months on record!***

Land & Ocean Temperature Departure from Average Jan–May 2015
(with respect to a 1981–2010 base period)
Data Source: GHCN–M version 3.3.0 & ERSST version 4.0.0



Top 11 Insured Loss Events from Riots and Civil Commotion

Year	Deaths	Date	State	Insured Loss When Occurred	Insured Losses (2014 \$MM)
1992	14	Apr 29 - May 4	CA	775,000,000	1,307.7
1980	62	May 17 - 19	FL	65,250,000	187.5
1967	48	Jul 23 - 31	MI	41,500,000	294.2
1965	87	11-Aug	CA	38,000,000	285.6
1977	99	Jul 13 - 14	NY	28,000,000	109.4
1967	47	Jul 12 - 21	NJ	11,000,000	78.0
1966	20	12-Jul	IL	4,000,000	29.2
2015	0	Apr 18 – May 1	MD	23,900,000	23.9*
1971	63	Jun 13 - 15	NM	3,000,000	17.5
1977	11	Jul 13 - 14	NY	2,000,000	7.8

April 2015 Baltimore riots were designated a PCS CAT event on April 29 (first PCS designation for a riot in 23 years) as of 6/10/15 insured losses totaled \$23.9 million (2014 Ferguson riots did not receive PCS designation)

*As of 6/10/15.

Insurance Coverage for Riots and Civil Commotions: Home, Auto and Business

- Auto, homeowners, and business insurance policies generally include coverage for property losses caused by riots and civil commotions
- Homeowners policies pay to repair, or rebuild, an insured home if its structure is damaged or destroyed as the result of a riot or civil commotion, as well as to replace the homeowner's personal belongings if they are damaged or stolen during the event.
 - ◆ If the home is rendered uninhabitable by the damage caused by a riot or civil commotion, policyholders can file an additional living expenses (ALE) claim to finance their temp. housing expenses until the residence has been repaired.
- The optional comprehensive coverage on an auto insurance policy reimburses losses to a vehicle due to damage caused by falling objects, fire, riots and vandalism, among other things.
- Standard business property insurance policies provide coverage for the structure of the building as well as the contents inside, and cover losses arising from riots or civil commotion. Business interruption (BI) coverage, whereby the policyholder can file a claim for lost income, is usually only triggered when the insured business incurs direct physical damage.

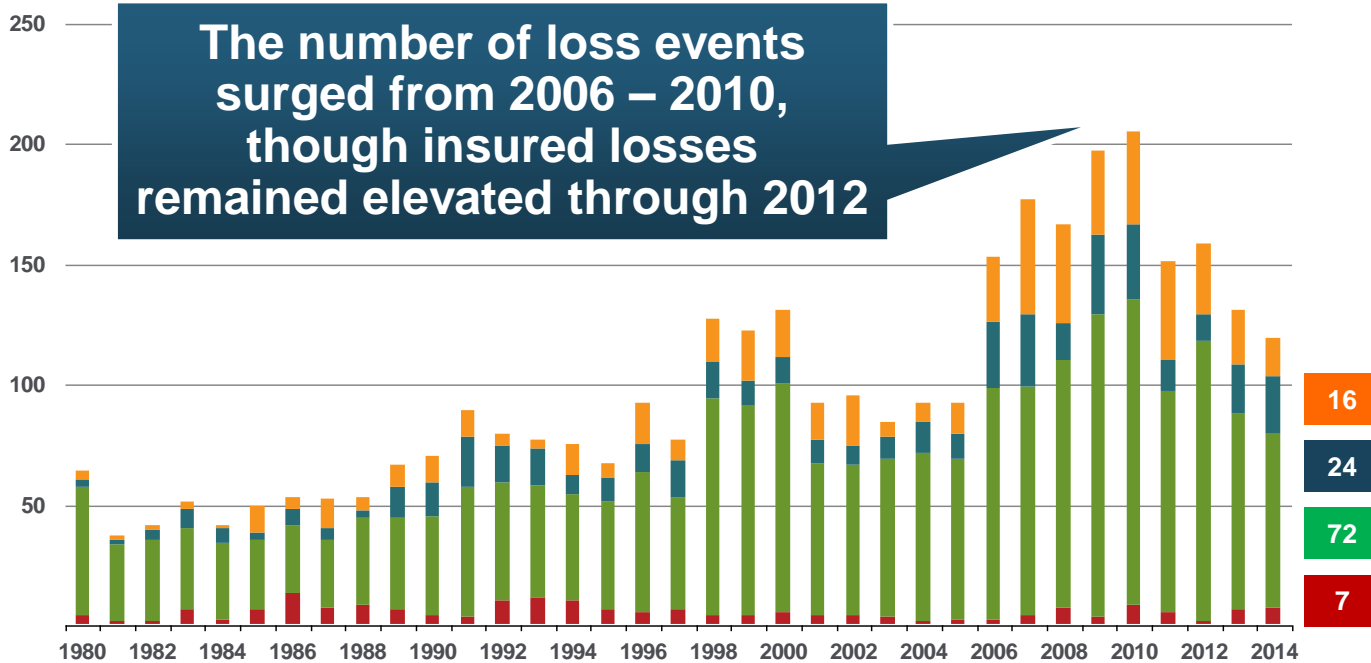
Loss events in the US, 1980 – 2014

Number of events

Number of Events

**2014 Total:
119 Events**

**2015 First Half:
80 Events**



- **Geophysical events**
(Earthquake, tsunami, volcanic activity)
- **Meteorological events**
(Tropical storm, extratropical storm, convective storm, local storm)
- **Hydrological events**
(Flood, mass movement)
- **Climatological events**
(Extreme temperature, drought, forest fire)

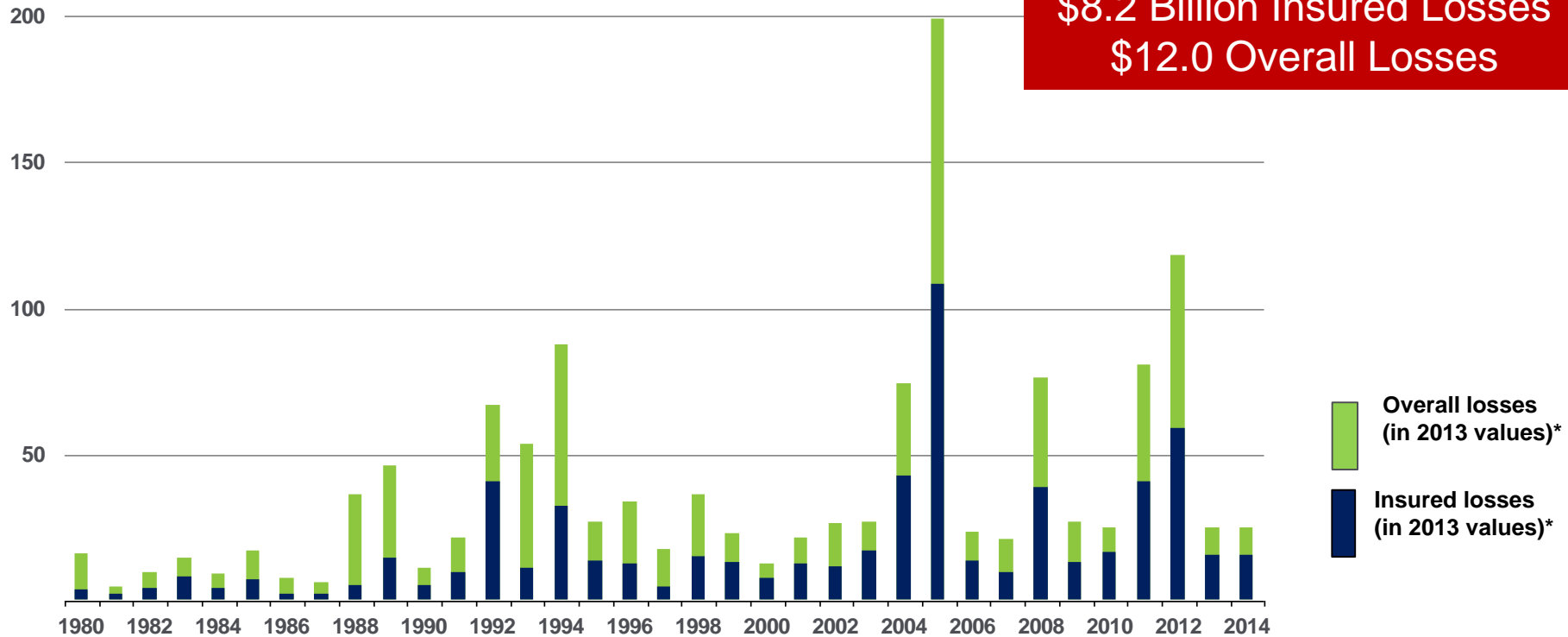
Source: Geo Risks Research, NatCatSERVICE

Loss Events in the US, 1980 – 2014

Overall and Insured Losses

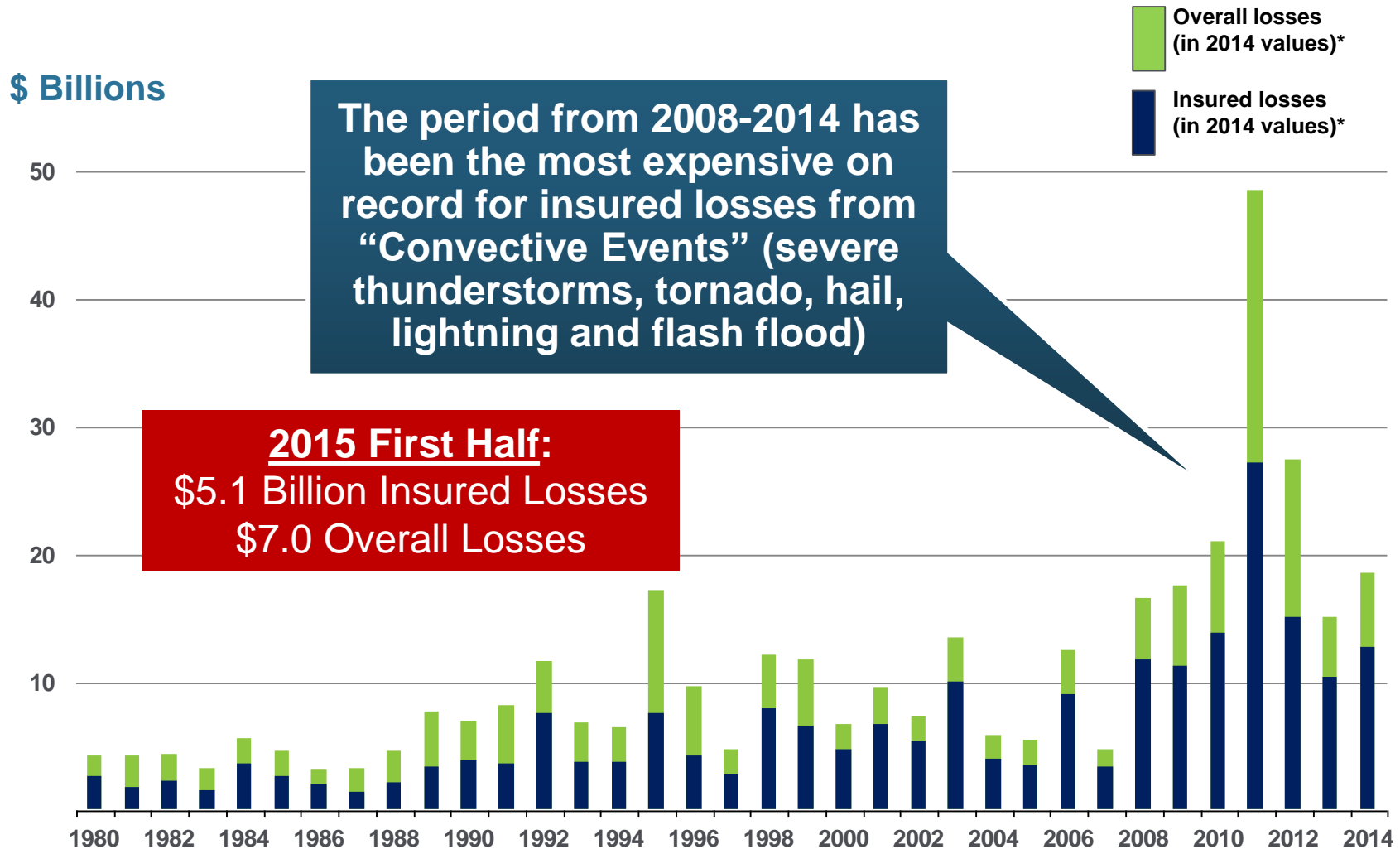
Overall losses totaled \$25bn; Insured losses totaled \$15.3bn

\$ Billions



*Losses adjusted to inflation based on CPI.

Convective Loss Events in the US Overall and insured losses, 1980 – 2014



*Losses adjusted to inflation based on CPI

Analysis contains:

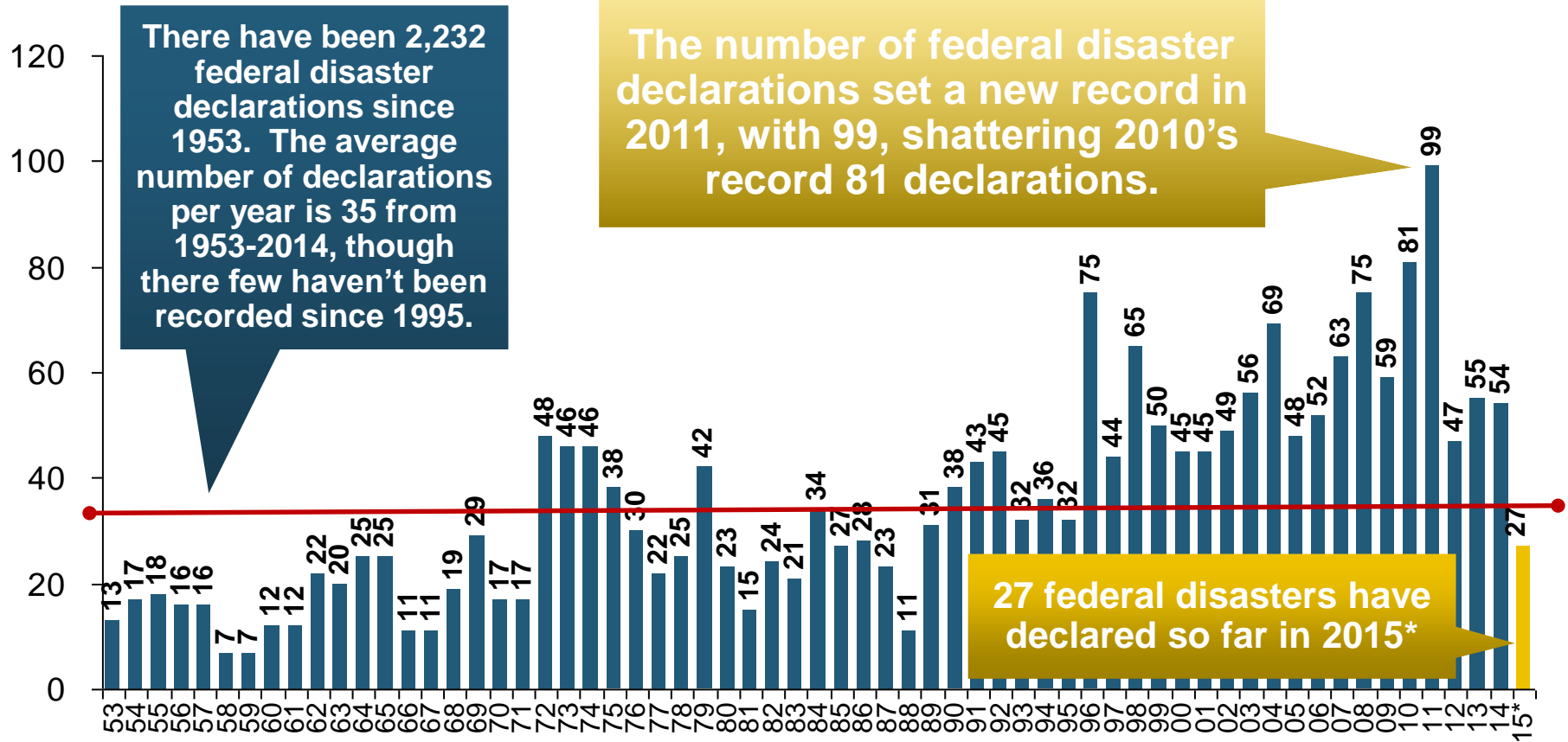
severe storm, tornado, hail, flash flood and lightning



Federal Disaster Declarations Patterns: 1953-2015

**Disaster Declarations Set New
Records in Recent Years**

Number of Federal Major Disaster Declarations, 1953-2015*

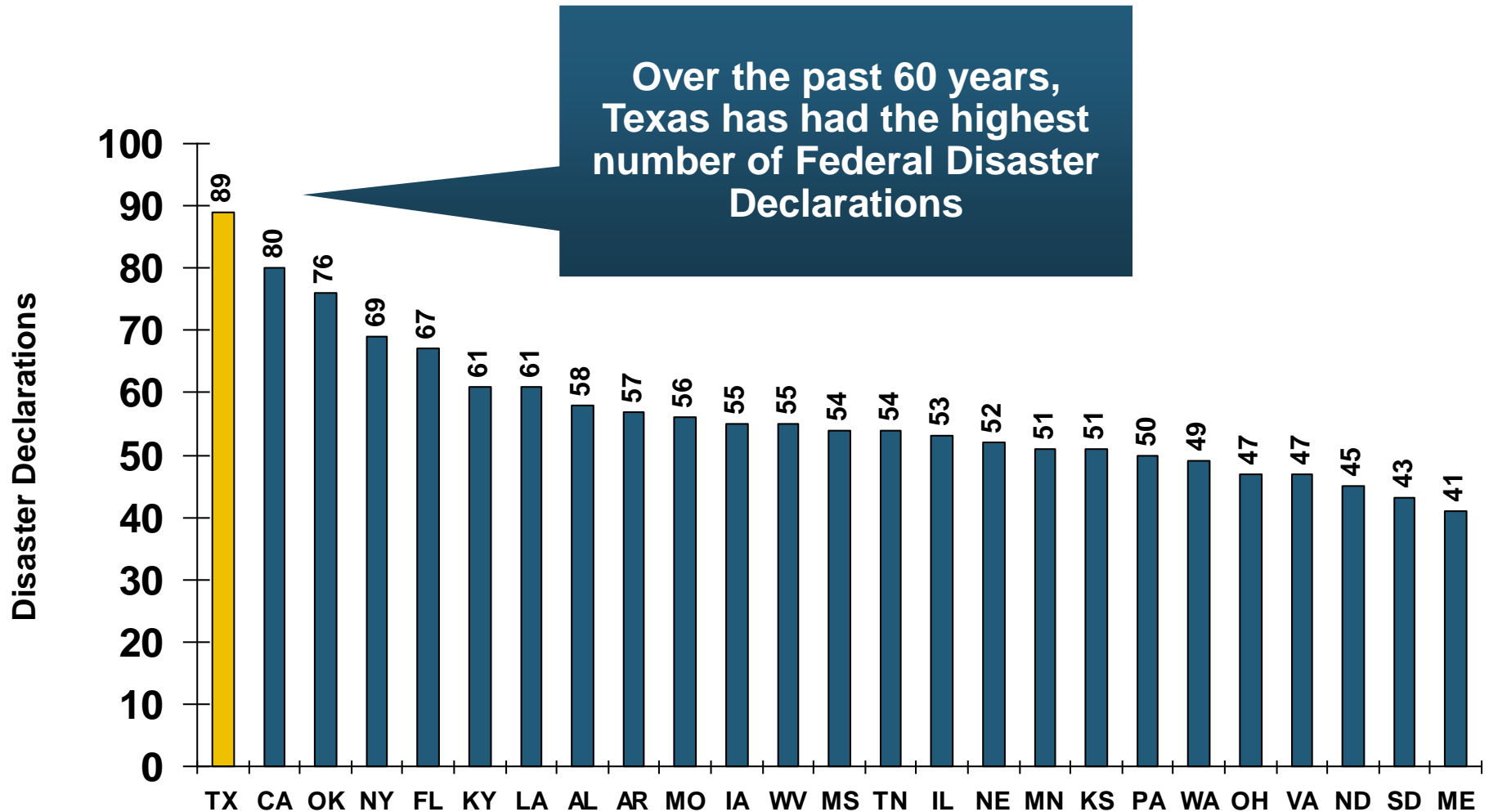


The Number of Federal Disaster Declarations Is Rising and Set New Records in 2010 and 2011 Before Dropping in 2012-2014

*Through July 26, 2015.

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

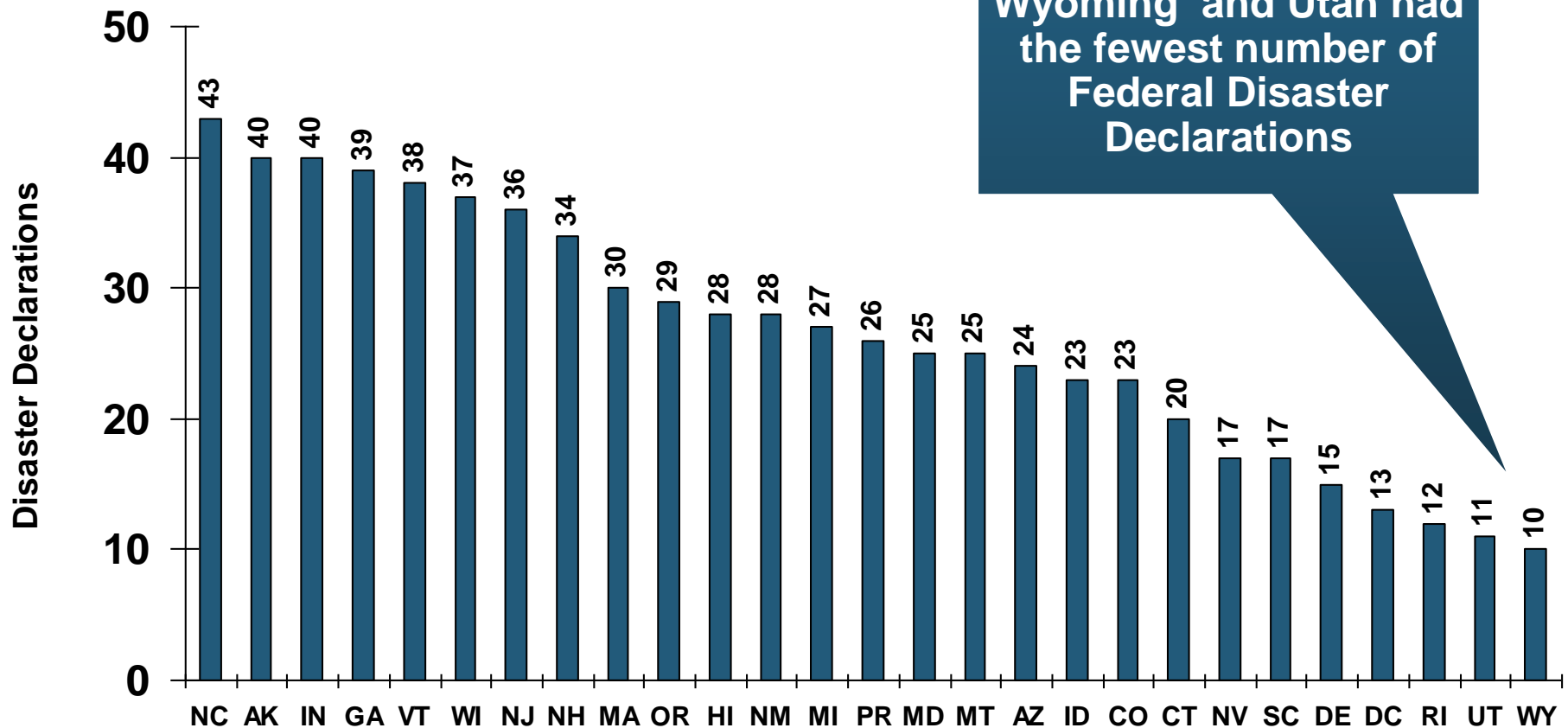
Federal Disasters Declarations by State, 1953 – 2015: Highest 25 States*



*Through July 26, 2015. 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 – 2015: Lowest 25 States*

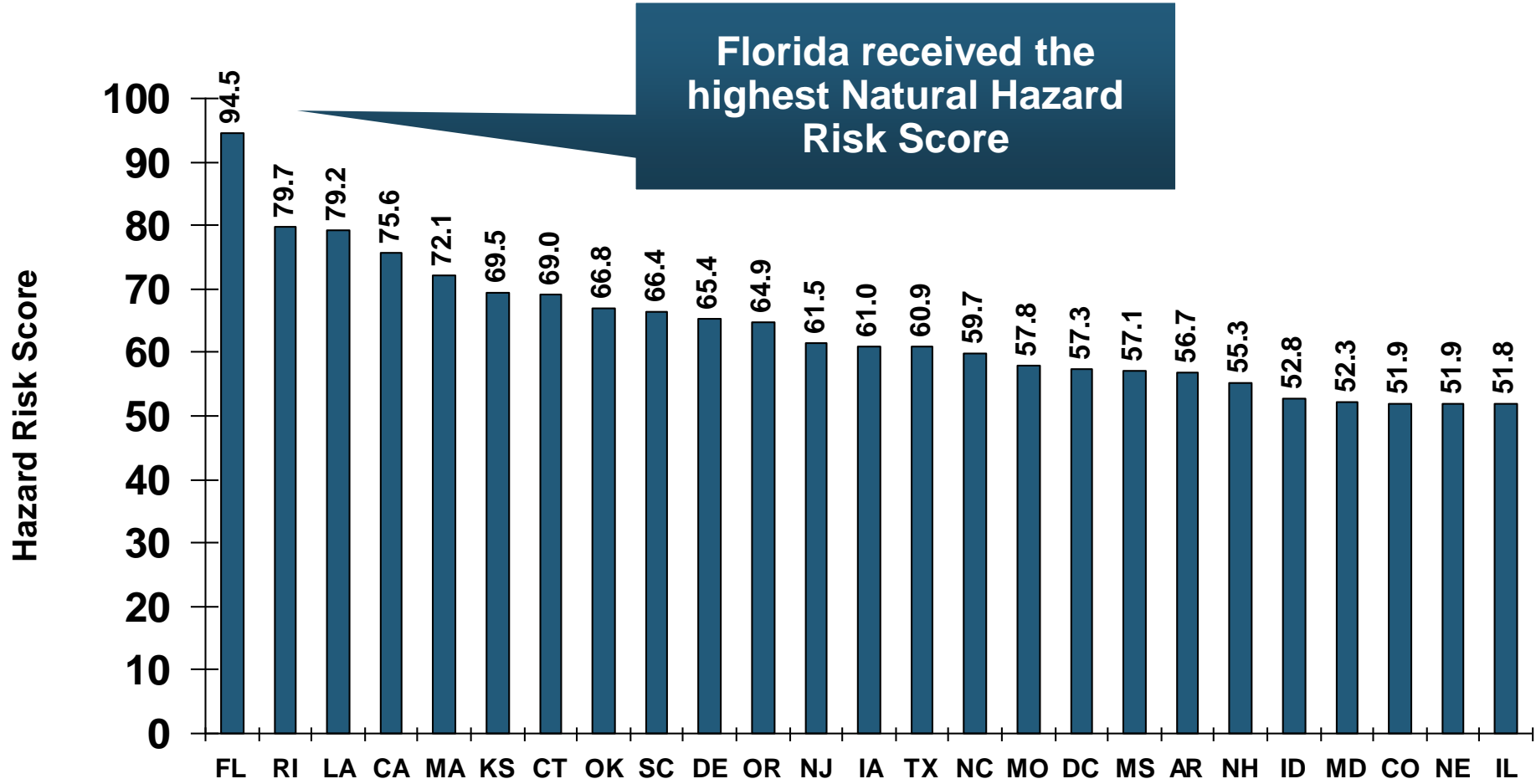


*Through July 26, 2015. Includes Puerto Rico and the District of Columbia.

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

Natural Hazard Risk Scores, 2014

Highest 25 States*



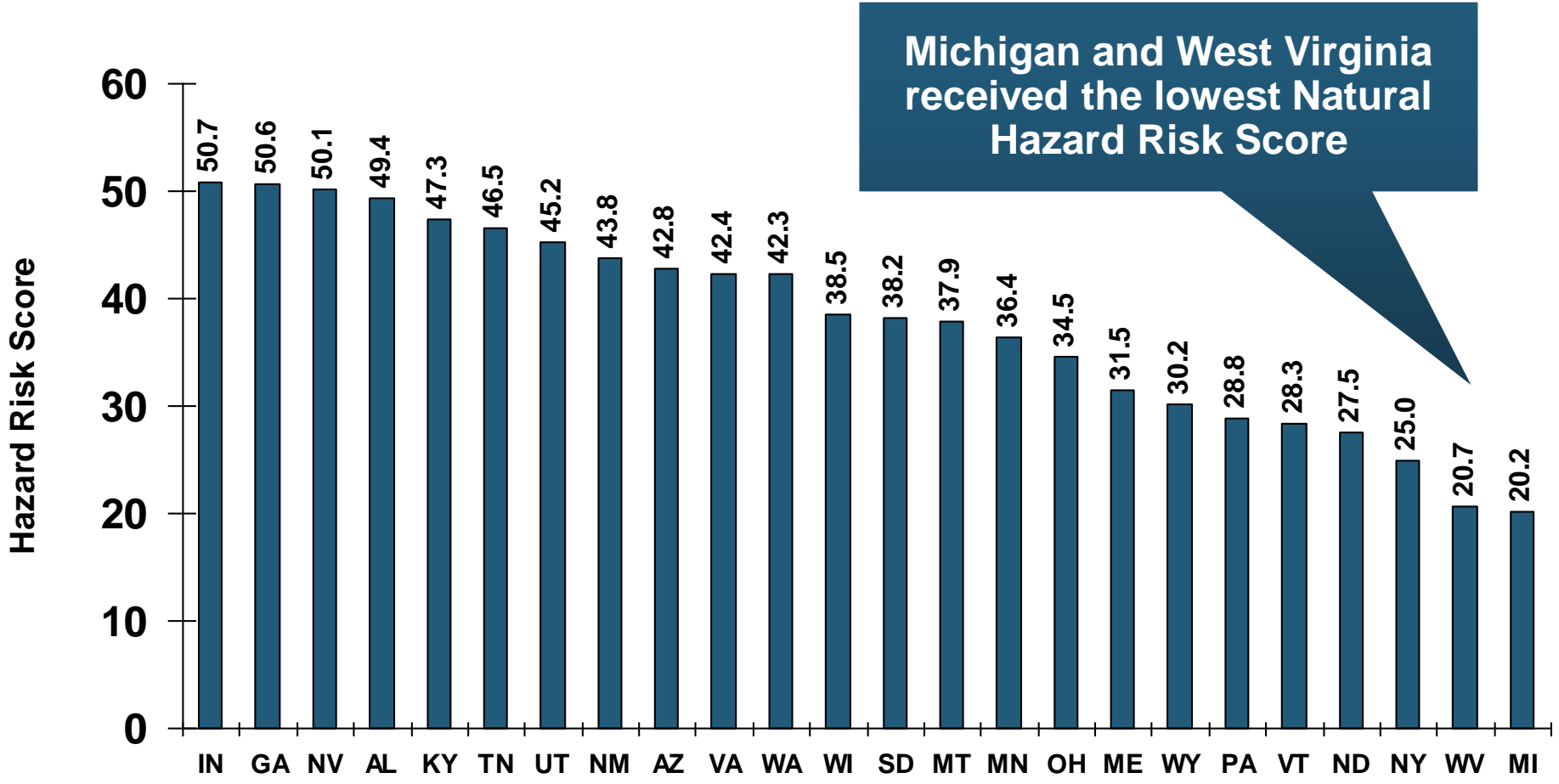
Note: Score is based on data on 9 natural hazards: flood, wildfire, tornado, storm surge, earthquake, straight-line wind, hurricane, wind, hail and sinkhole.

*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*



Michigan and West Virginia received the lowest Natural Hazard Risk Score

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.

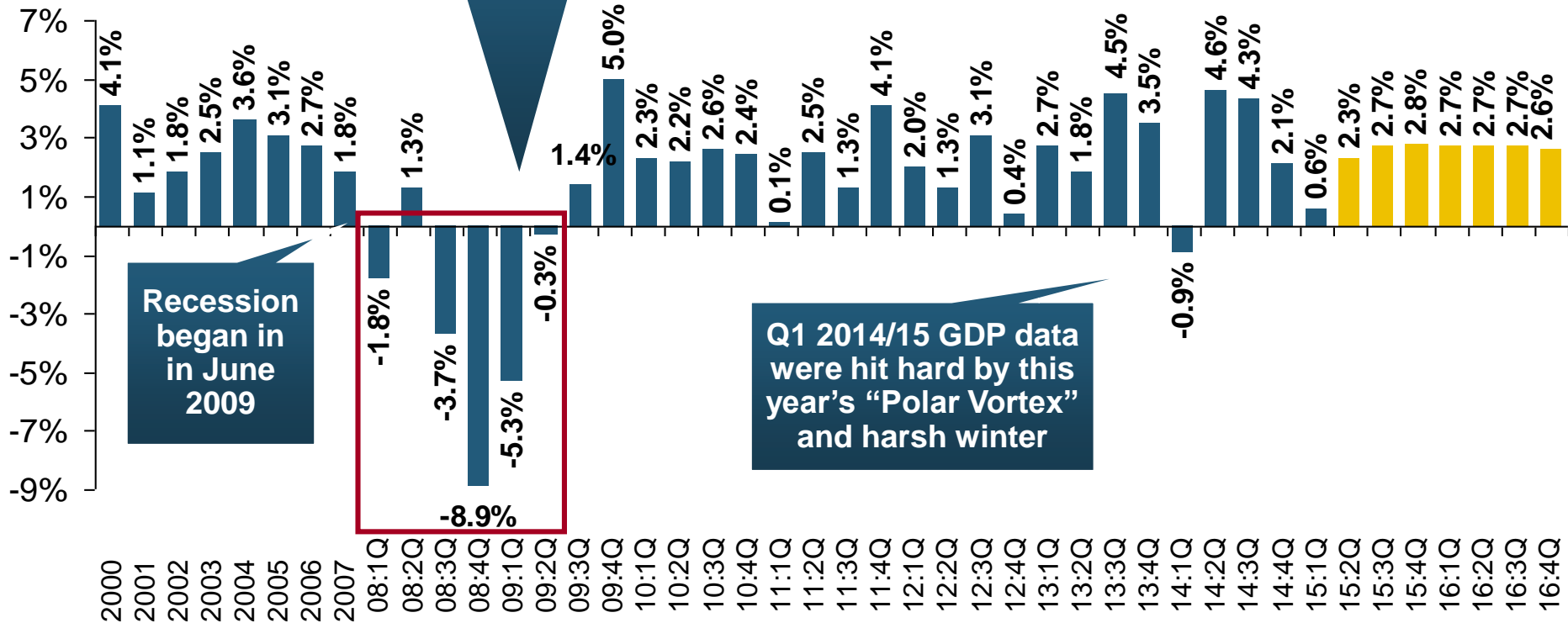
Sources: CoreLogic release "CoreLogic Identifies US States at Highest Risk of Property Damage Loss from Natural Hazards," Sept. 10, 2014; Insurance Information Institute.

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

**Growth Will Expand Insurer Exposure
Base Across Most Lines**

US Real GDP Growth*

Real GDP Growth (%)



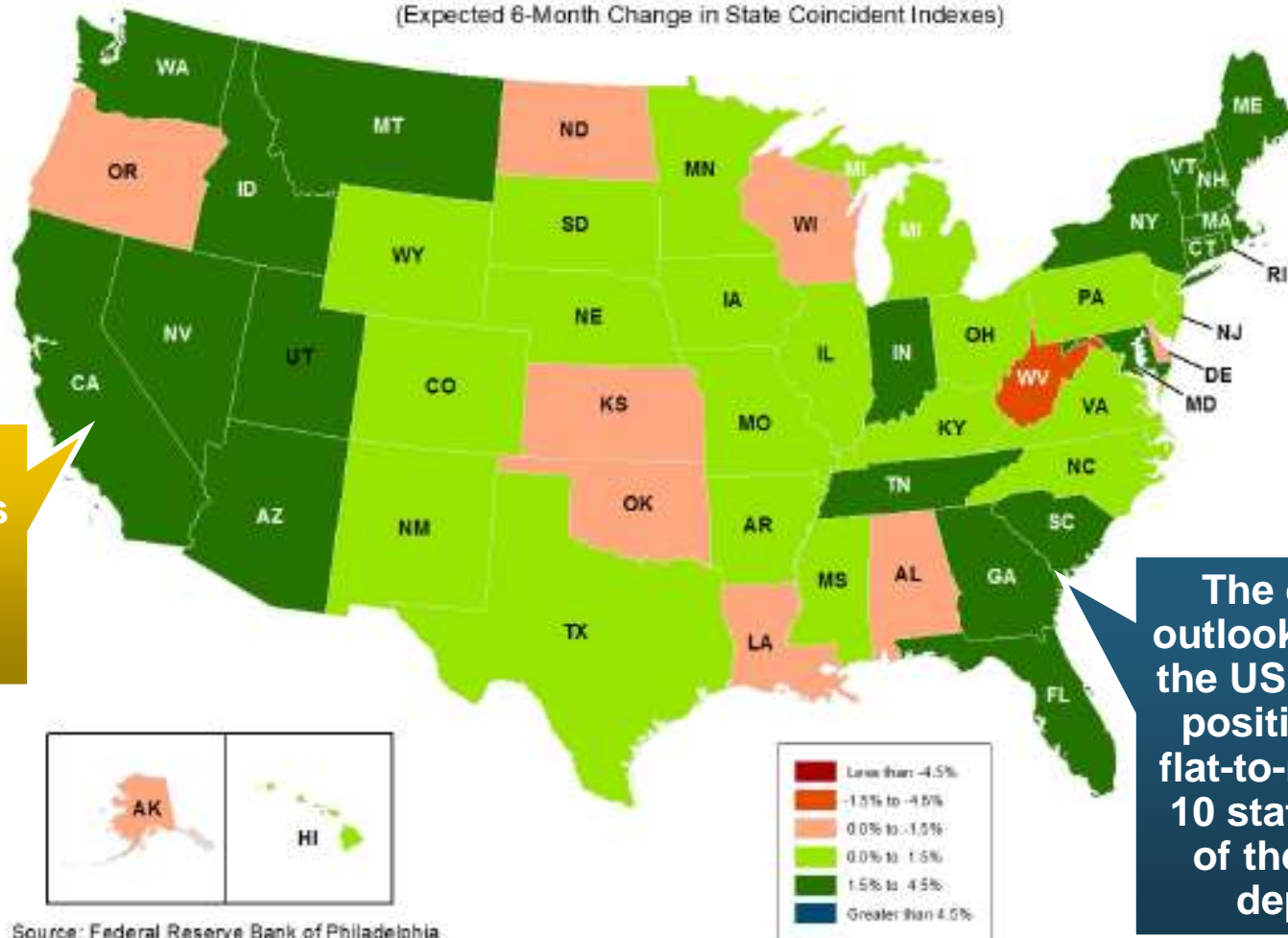
Demand for Insurance Should Increase in 2015 as GDP Growth Accelerates Modestly and Gradually Benefits the Economy Broadly

* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 8/15; Insurance Information Institute.

State Leading Economic Indicators through November 2015

May 2015 State Leading Indexes
(Expected 6-Month Change in State Coincident Indexes)

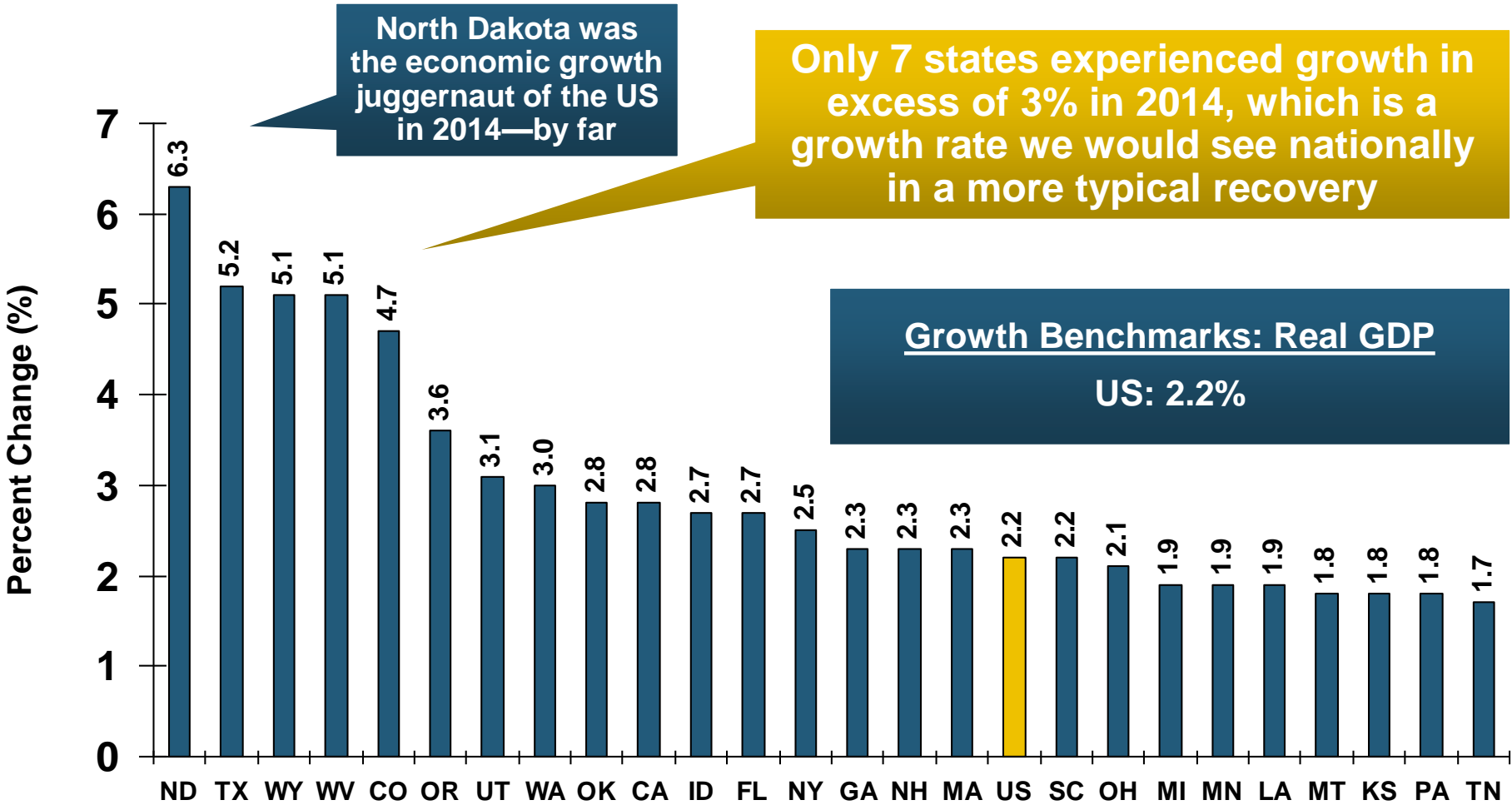


Growth in the West is finally beginning to pick up

The economic outlook for most of the US is generally positive, though flat-to-negative for 10 states, several of them energy dependent

Source: Federal Reserve Bank of Philadelphia

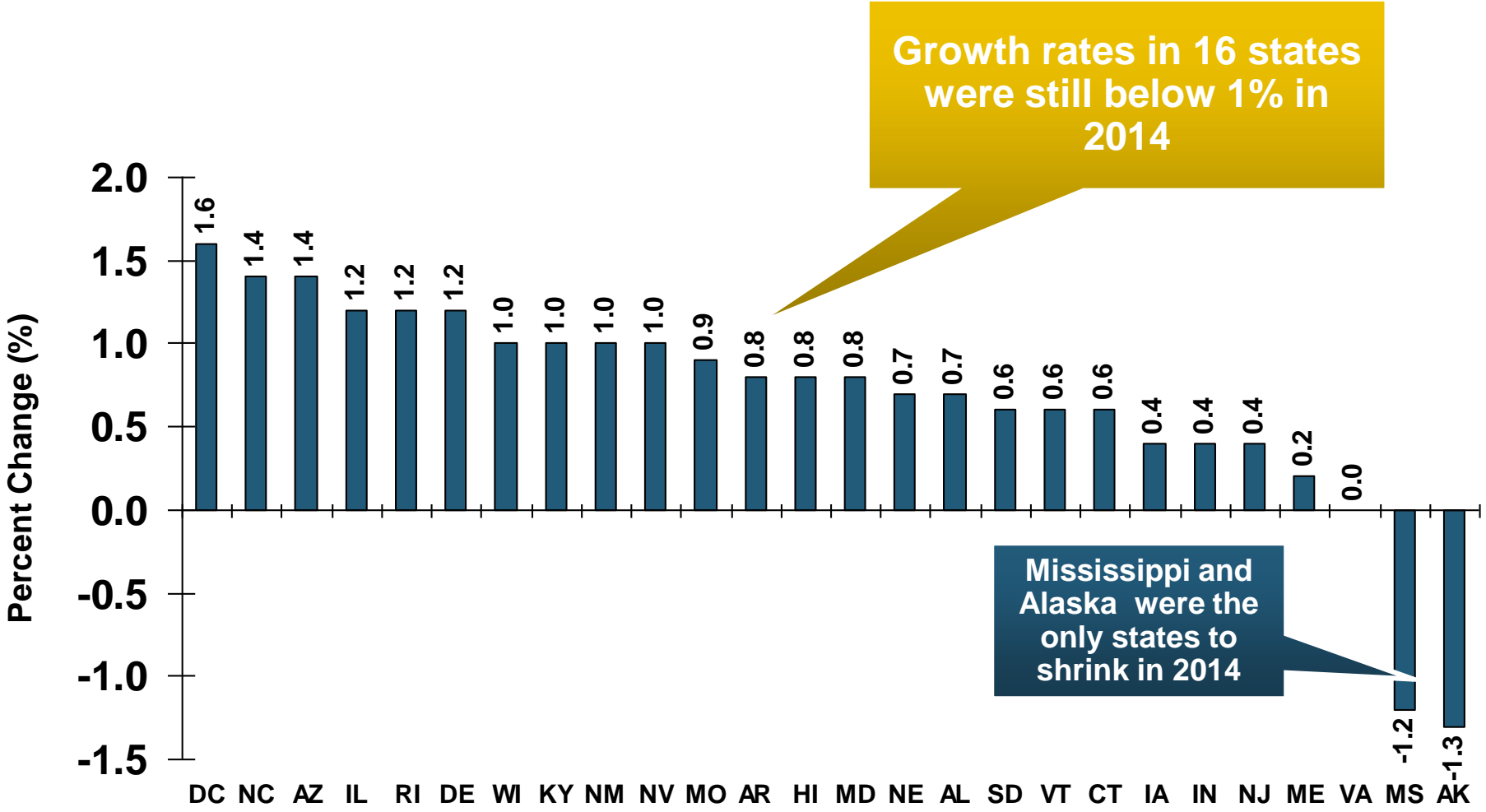
Real GDP by State Percent Change, 2014*: Highest 25 States



*Advance statistics

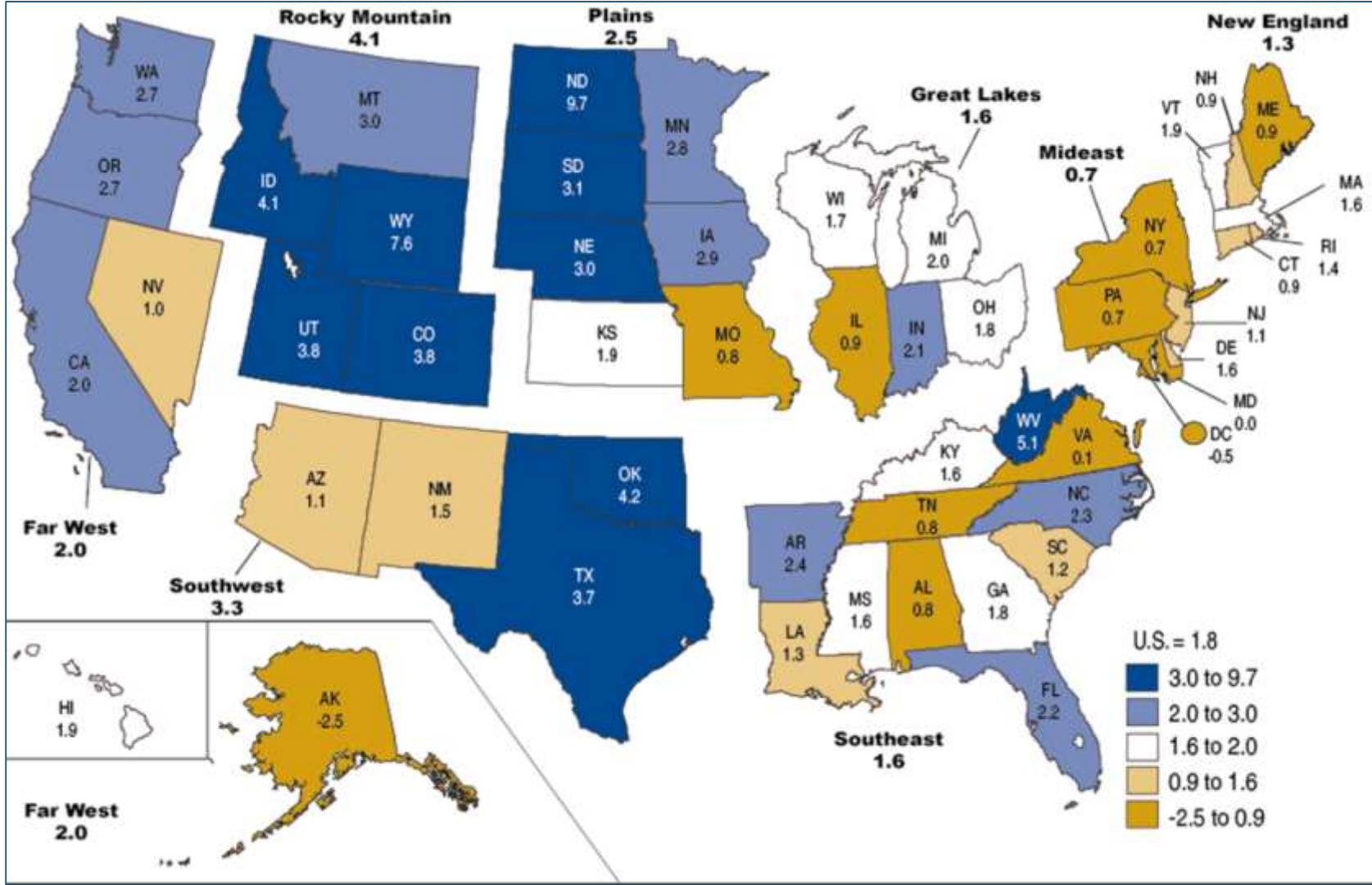
Sources: [U.S. Bureau of Economic Analysis](#); Insurance Information Institute.

Real GDP by State Percent Change, 2014*: Lowest 25 States



*Advance statistics
Sources: [US Bureau of Economic Analysis](#); Insurance Information Institute.

Percent Change in Real GDP by State, 2013



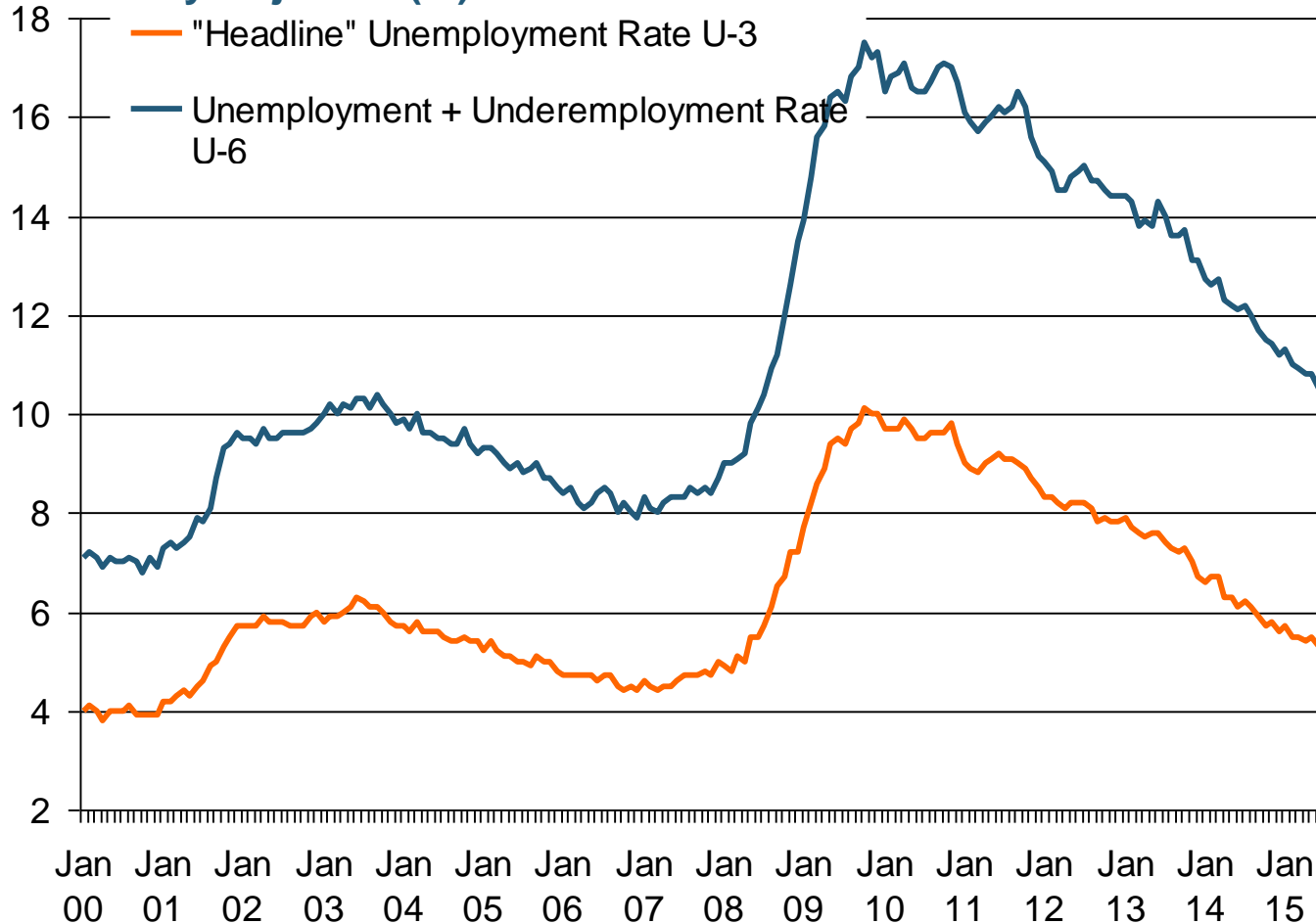
Sources: [US Bureau of Economic Analysis](#); Insurance Information Institute.

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

January 2000 through July 2015,
Seasonally Adjusted (%)



U-6 soared from 8.0% in March 2007 to 17.5% in October 2009; Stood at 10.4% in June 2015. 8% to 10% is "normal."

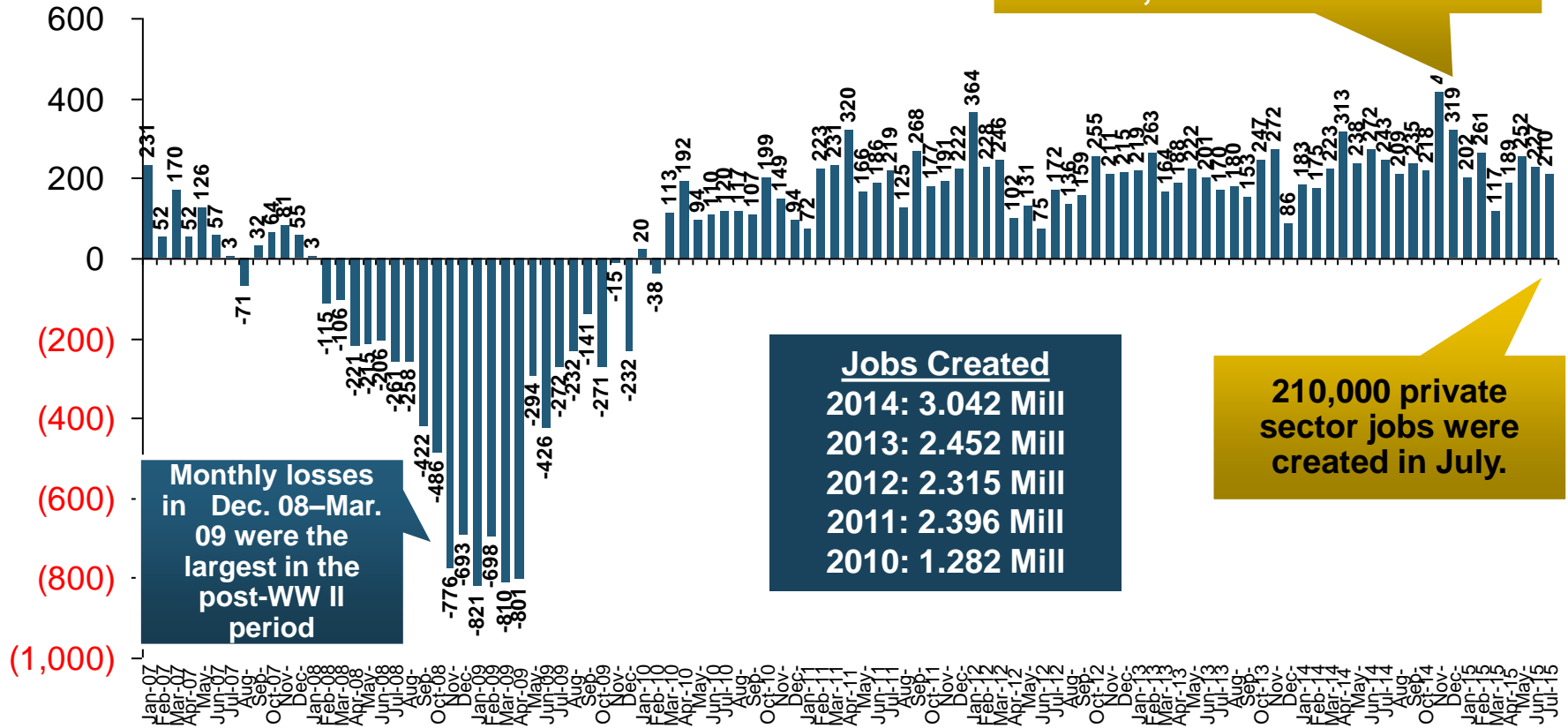
"Headline" unemployment was 5.3% in July 2015. 4.5% to 5.5% is "normal."

Stubbornly high unemployment and underemployment constrain overall economic growth, but the job market is continuing to improve.

Monthly Change in Private Employment

January 2007 through July 2015 (000s, Seasonally Adj.)

3,042,000 jobs were created in 2014, the most since 1997



Monthly losses in Dec. 08–Mar. 09 were the largest in the post-WW II period

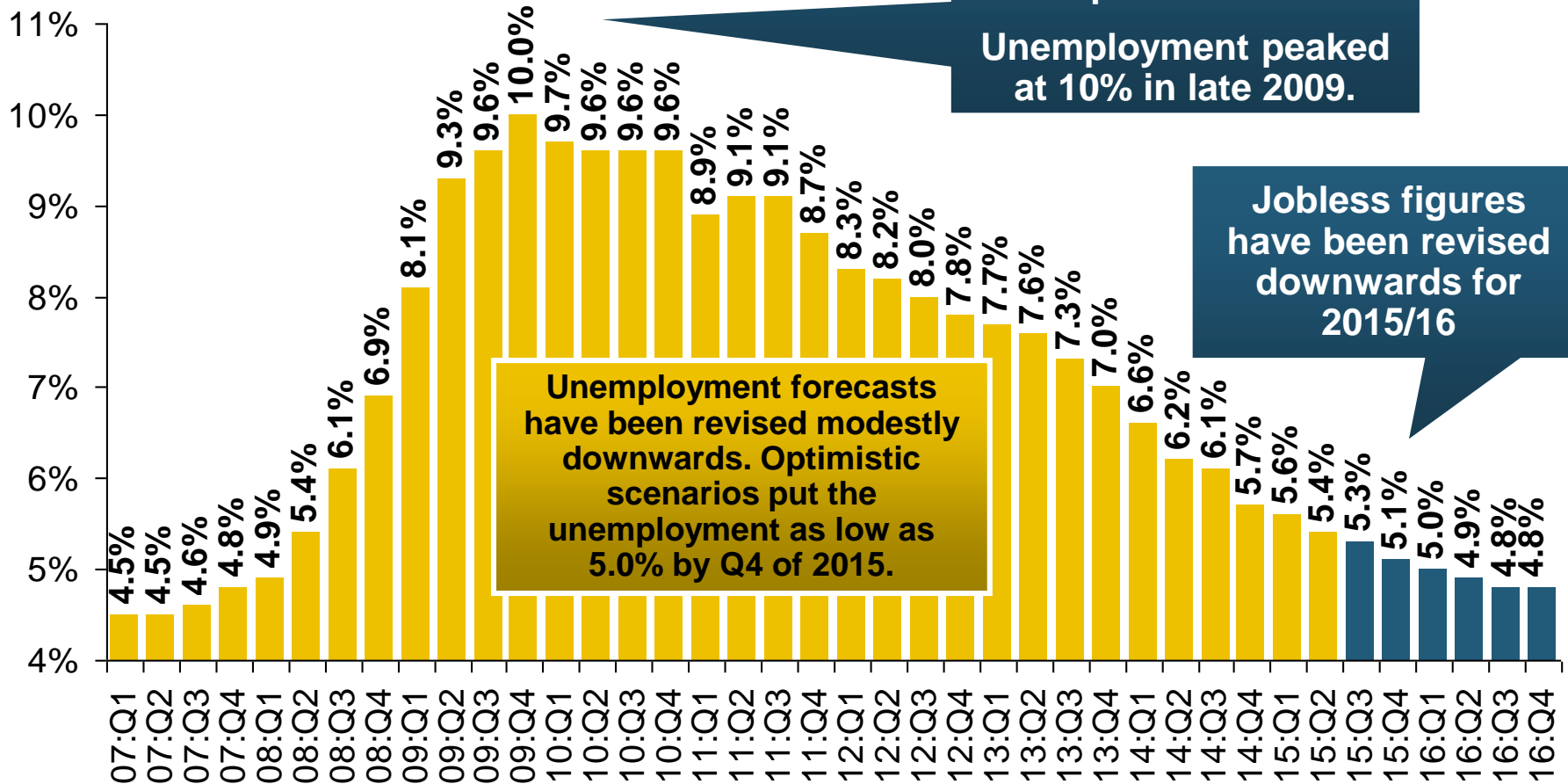
Jobs Created
 2014: 3.042 Mill
 2013: 2.452 Mill
 2012: 2.315 Mill
 2011: 2.396 Mill
 2010: 1.282 Mill

210,000 private sector jobs were created in July.

Private Employers Added 12.84 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)

US Unemployment Rate Forecast

2007:Q1 to 2016:Q4F*



Rising unemployment eroded payrolls and WC's exposure base.
Unemployment peaked at 10% in late 2009.

Jobless figures have been revised downwards for 2015/16

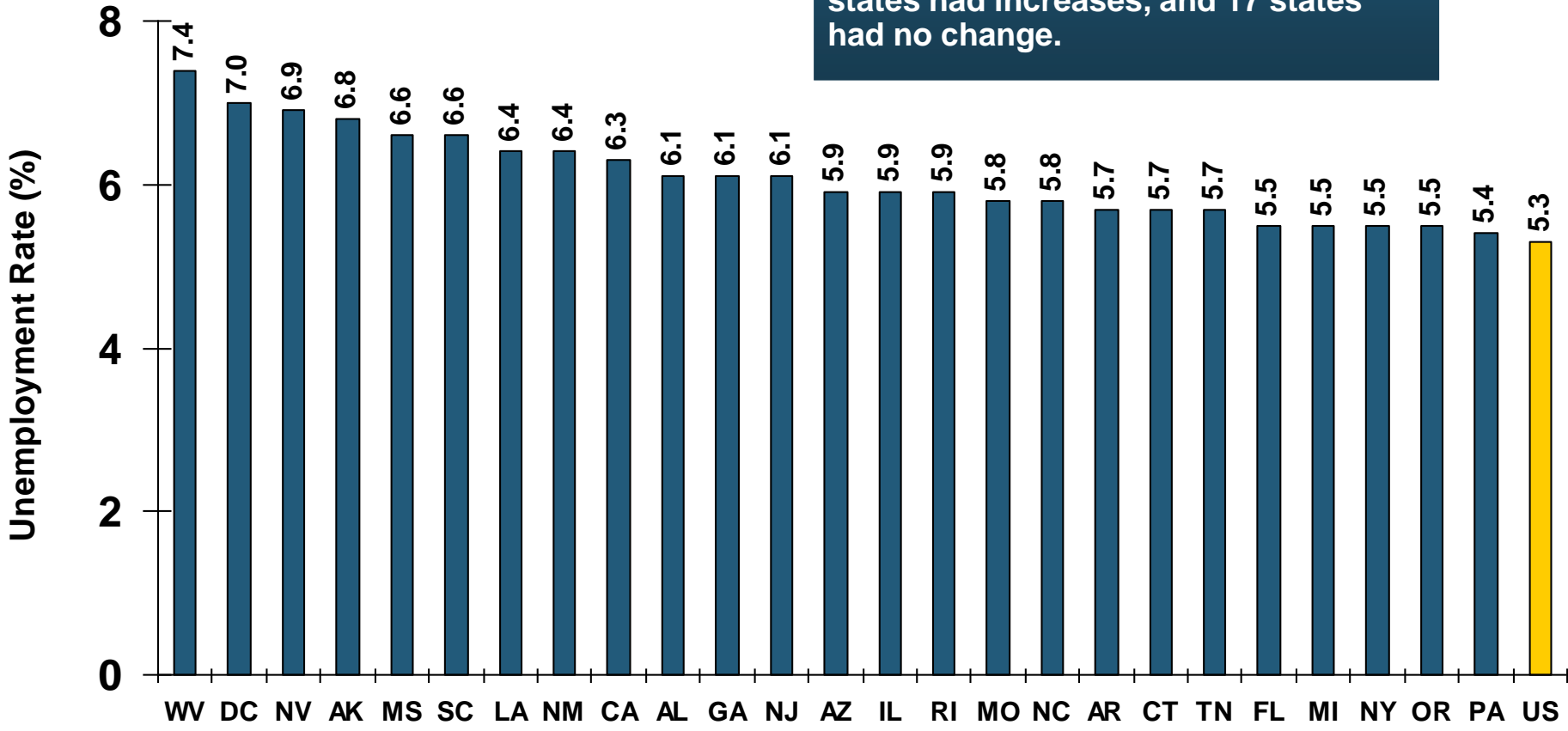
Unemployment forecasts have been revised modestly downwards. Optimistic scenarios put the unemployment as low as 5.0% by Q4 of 2015.

* = actual; = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (8/15 edition); Insurance Information Institute.

Unemployment Rates by State, June 2015: Highest 25 States*

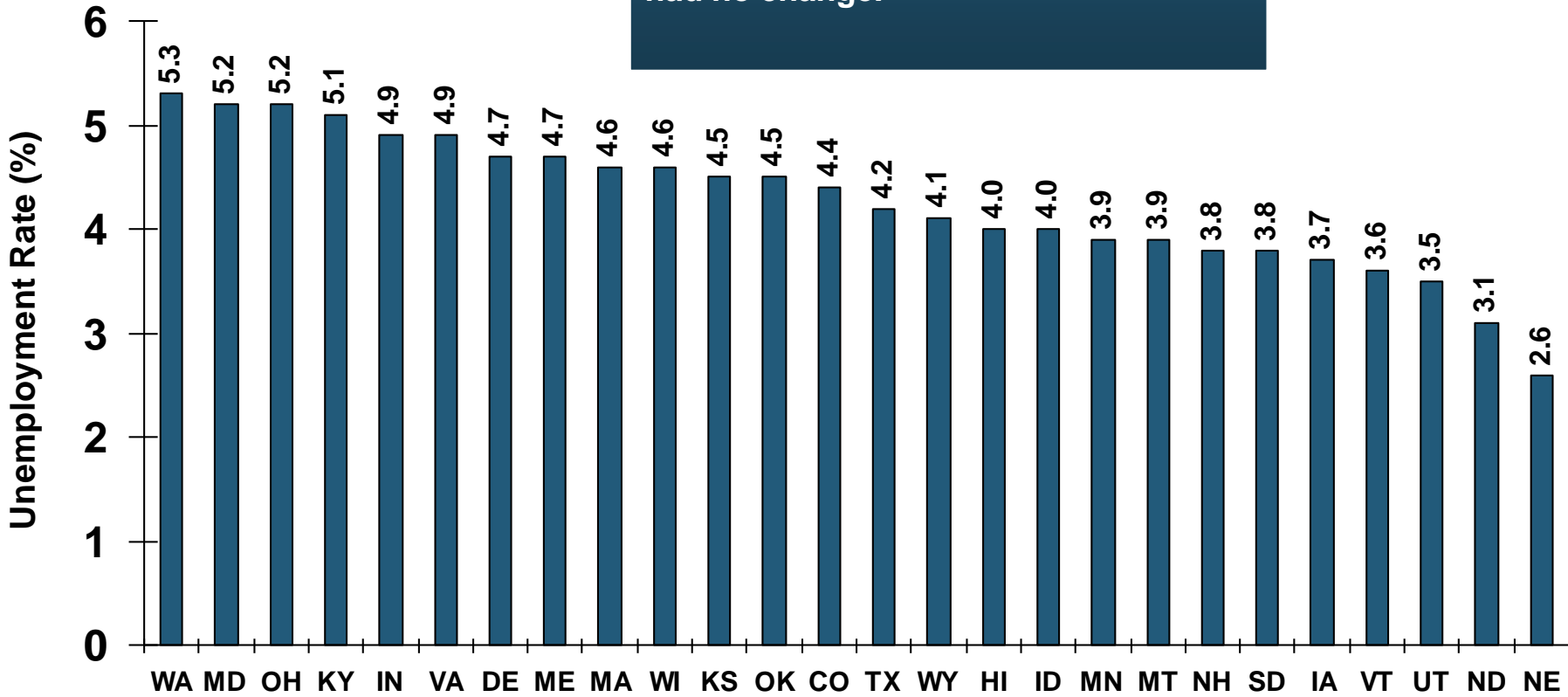
In June, 21 states and the District of Columbia had over-the-month unemployment rate decreases, 12 states had increases, and 17 states had no change.



*Provisional figures for June 2015, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Unemployment Rates by State, June 2015: Lowest 25 States*

In June, 21 states and the District of Columbia had over-the-month unemployment rate decreases, 12 states had increases, and 17 states had no change.



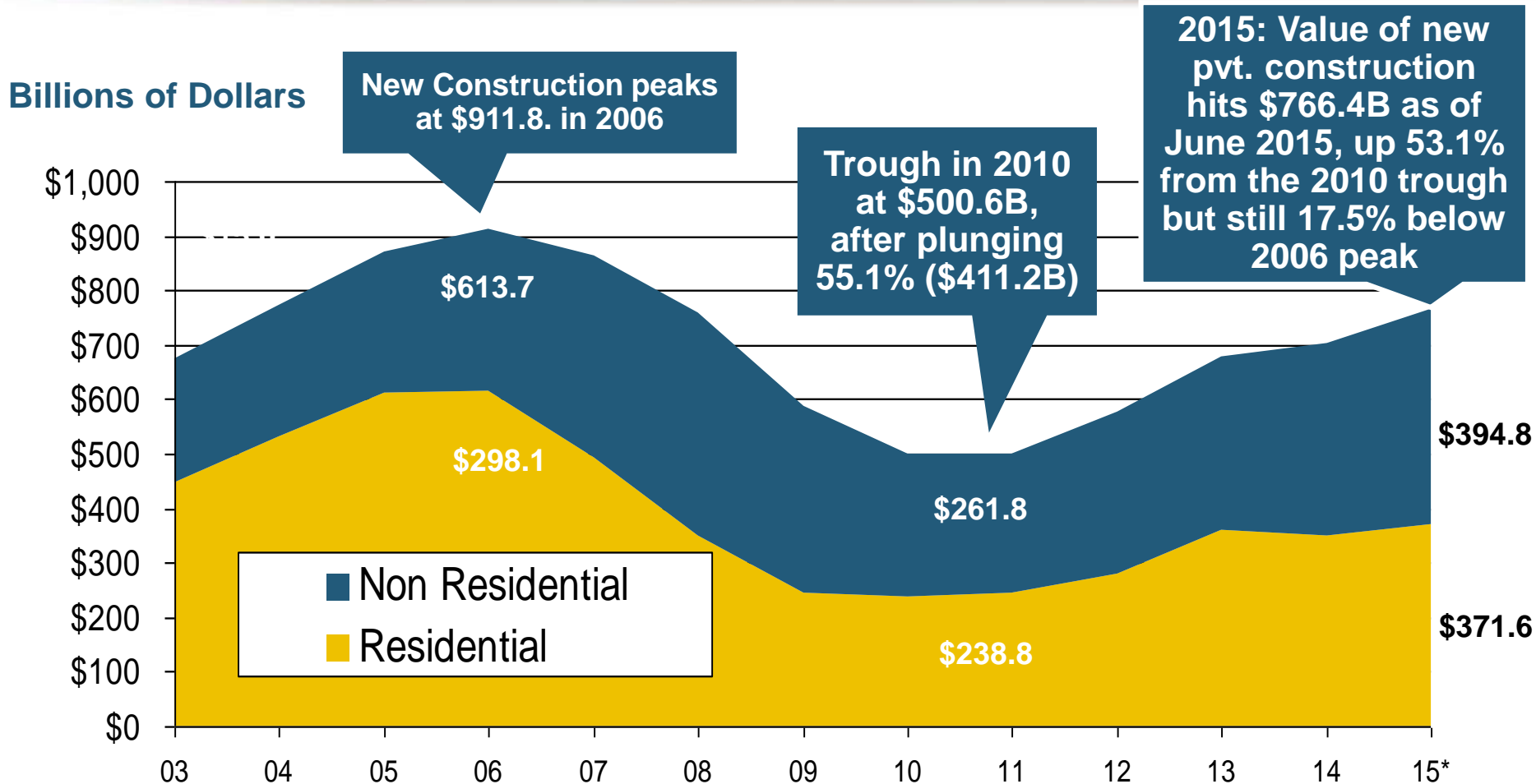
*Provisional figures for June 2015, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.



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, 2003-2015*



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

*2015 figure is a seasonally adjusted annual rate as of June.

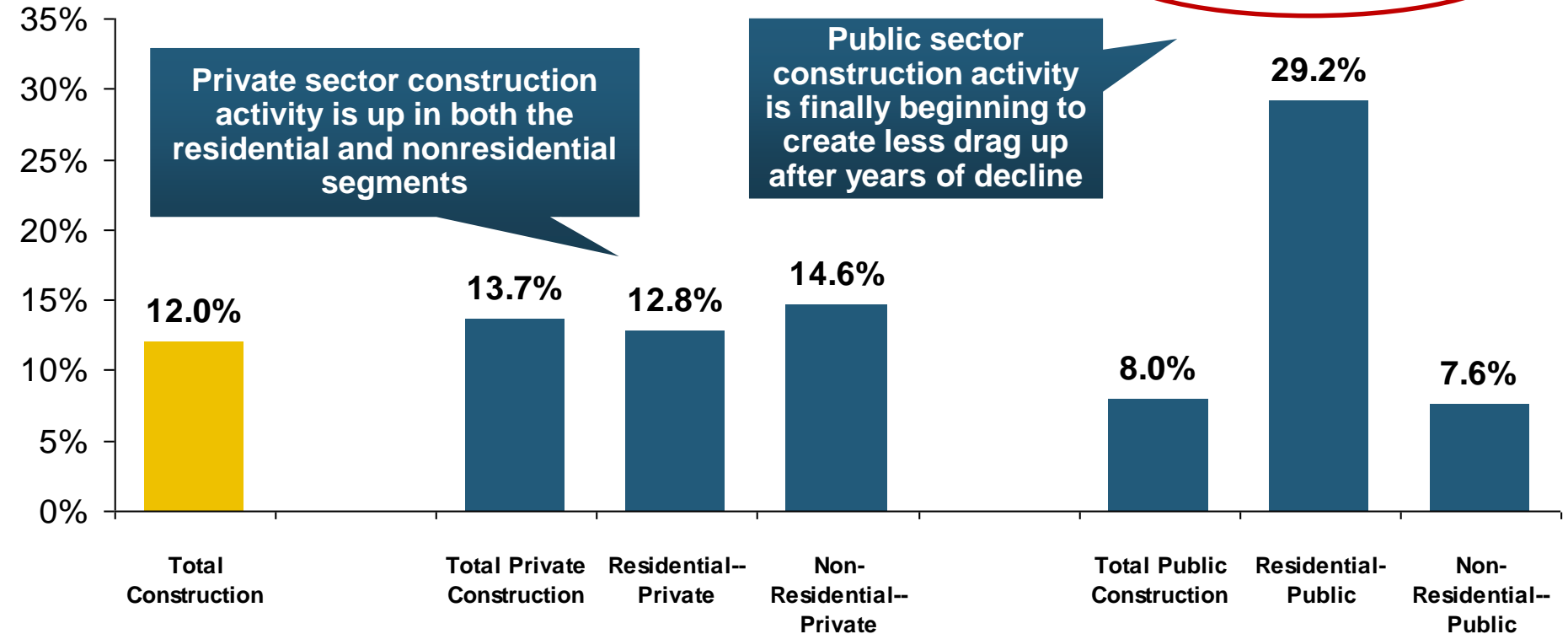
Sources: US Department of Commerce <http://www.census.gov/construction/c30/c30index.html> ; Insurance Information Institute.

Value of Construction Put in Place, June 2015 vs. June 2014*

Growth (%)

Private: +13.7%

Public: +8.0%



Overall Construction Activity is Up Again After Languishing in Early 2015; State/Local Sector Government Sector May Be Recovering as Budget Woes Ease in Some Jurisdictions

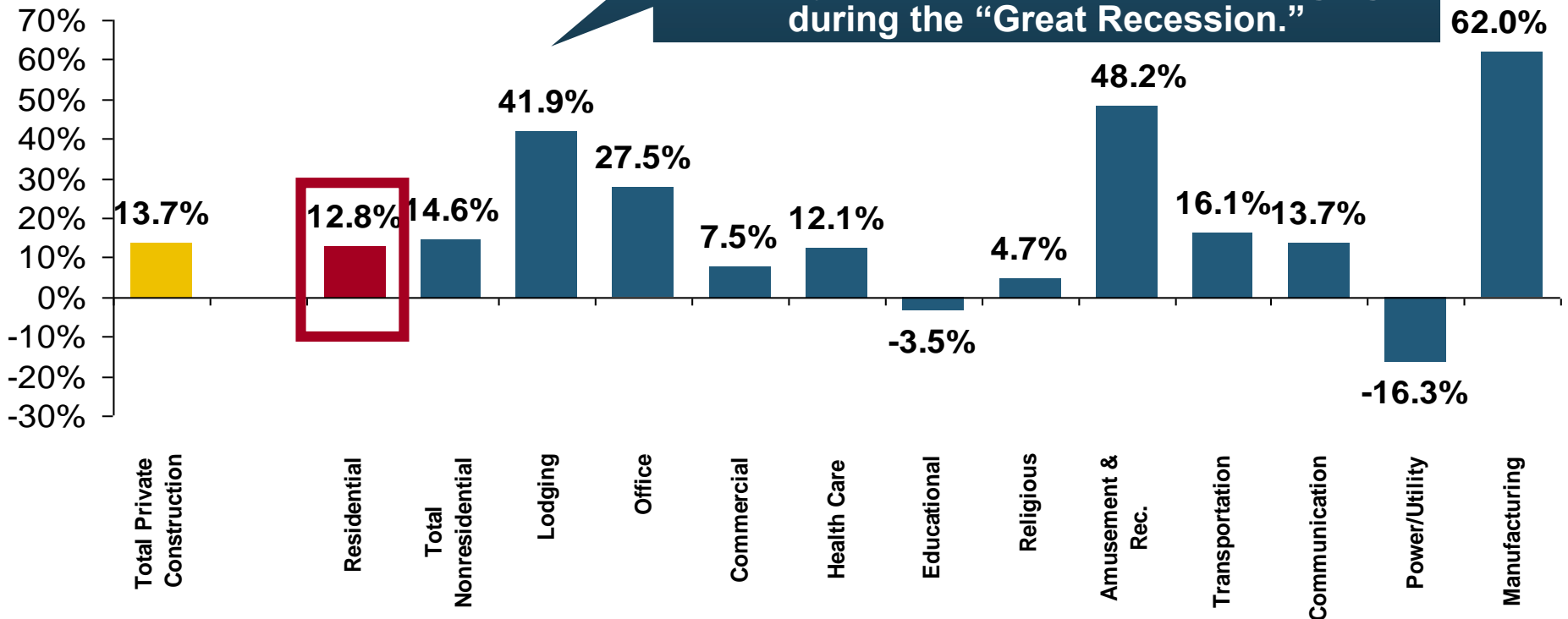
*seasonally adjusted

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, June 2015 vs. June 2014*

Growth (%)

Led by the Manufacturing, Lodging, Office and Amusement & Recreations segments, Private nonresidential sector construction activity continues to rise after plunging during the “Great Recession.”

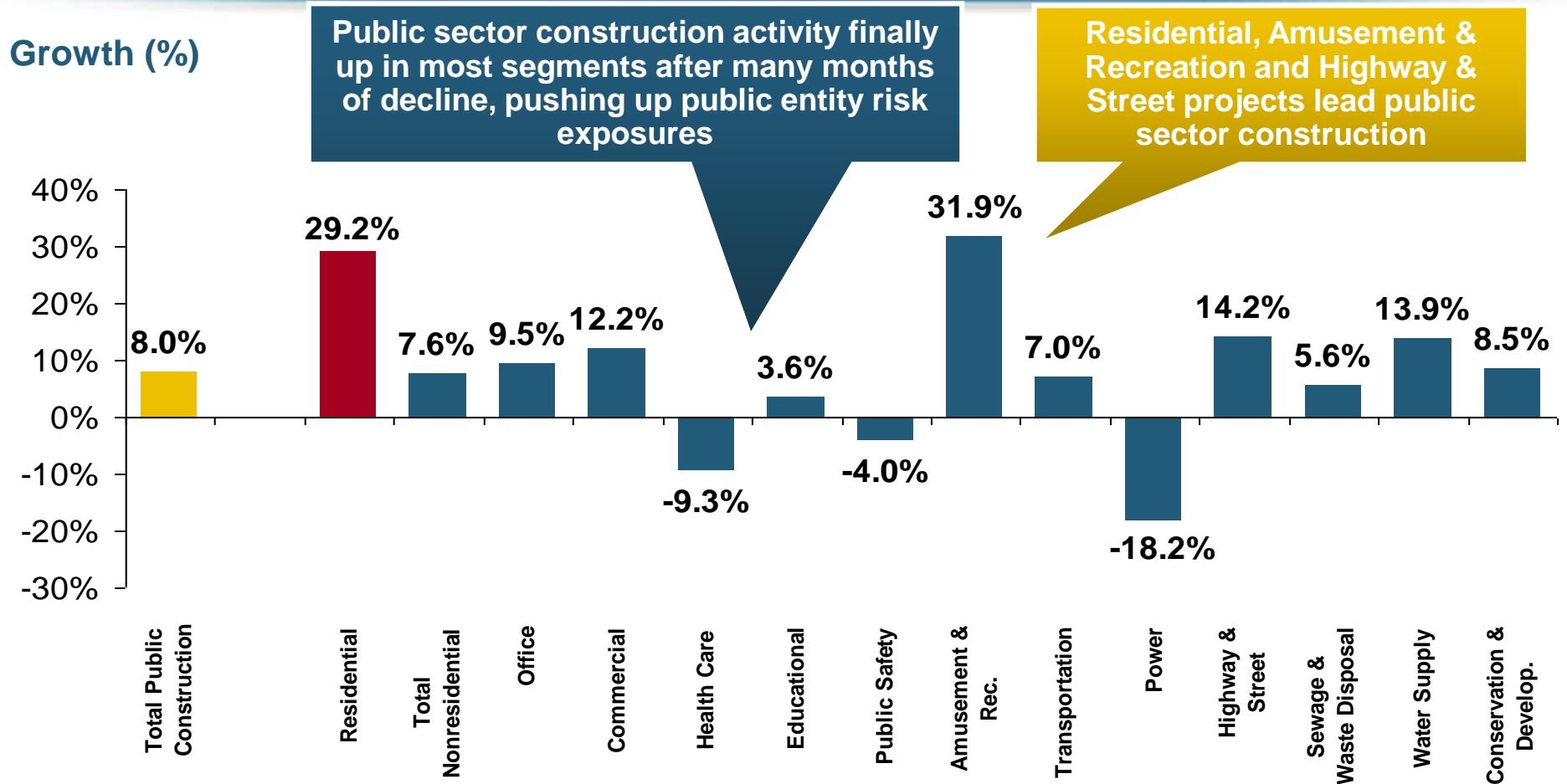


Private Construction Activity is Up in Most Segments, though the Key Residential Construction Sector Weakened in Late 2014/Early 2015; Mixed Outlook for 2015, though Expansion Should Continue

*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 2015 vs. June 2014*

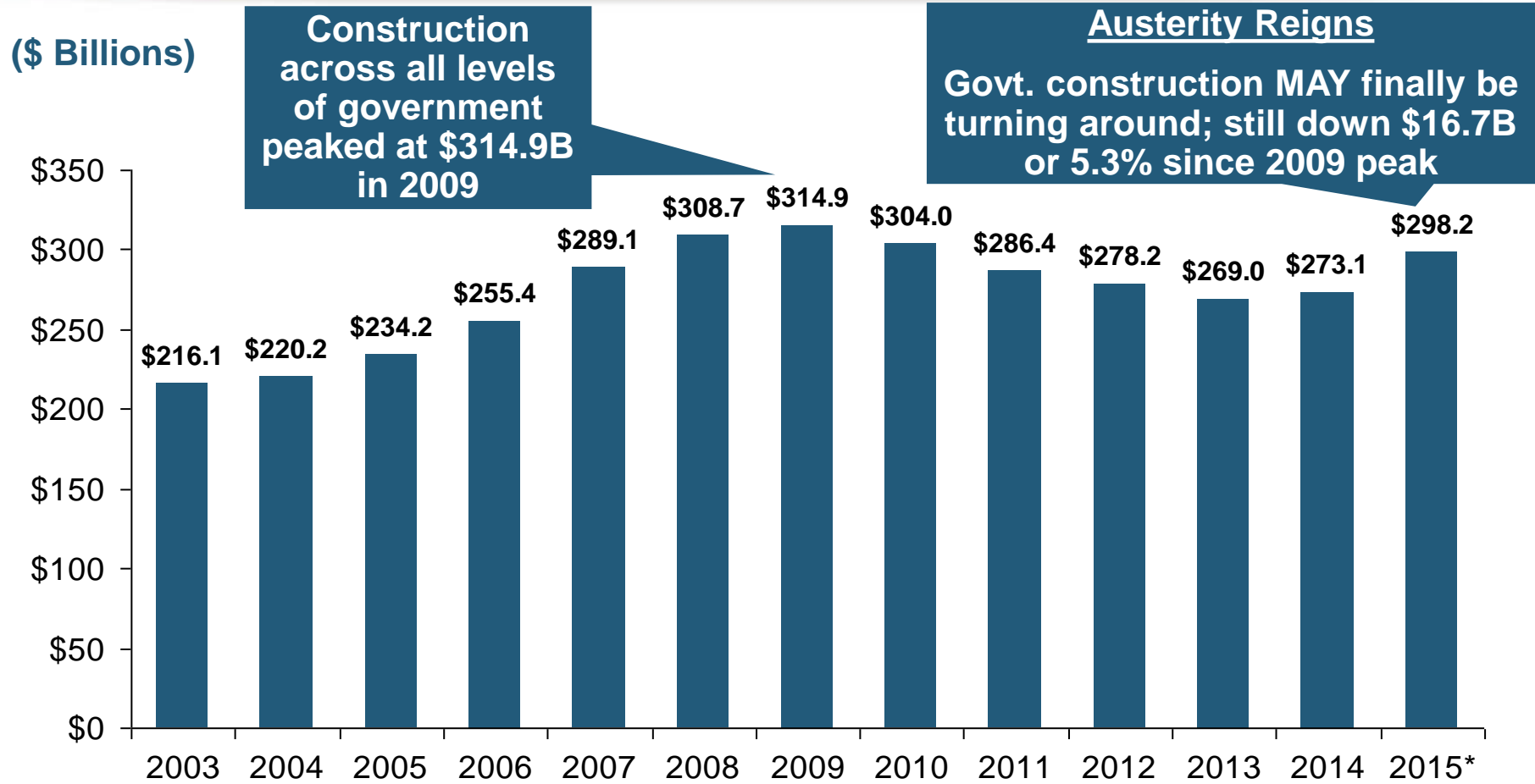


Public Construction Activity is Beginning to Recover from its Long Contraction which Will Drive Demand in Many Commercial Insurance Lines

*seasonally adjusted

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

Value of New Federal, State and Local Government Construction: 2003-2015*



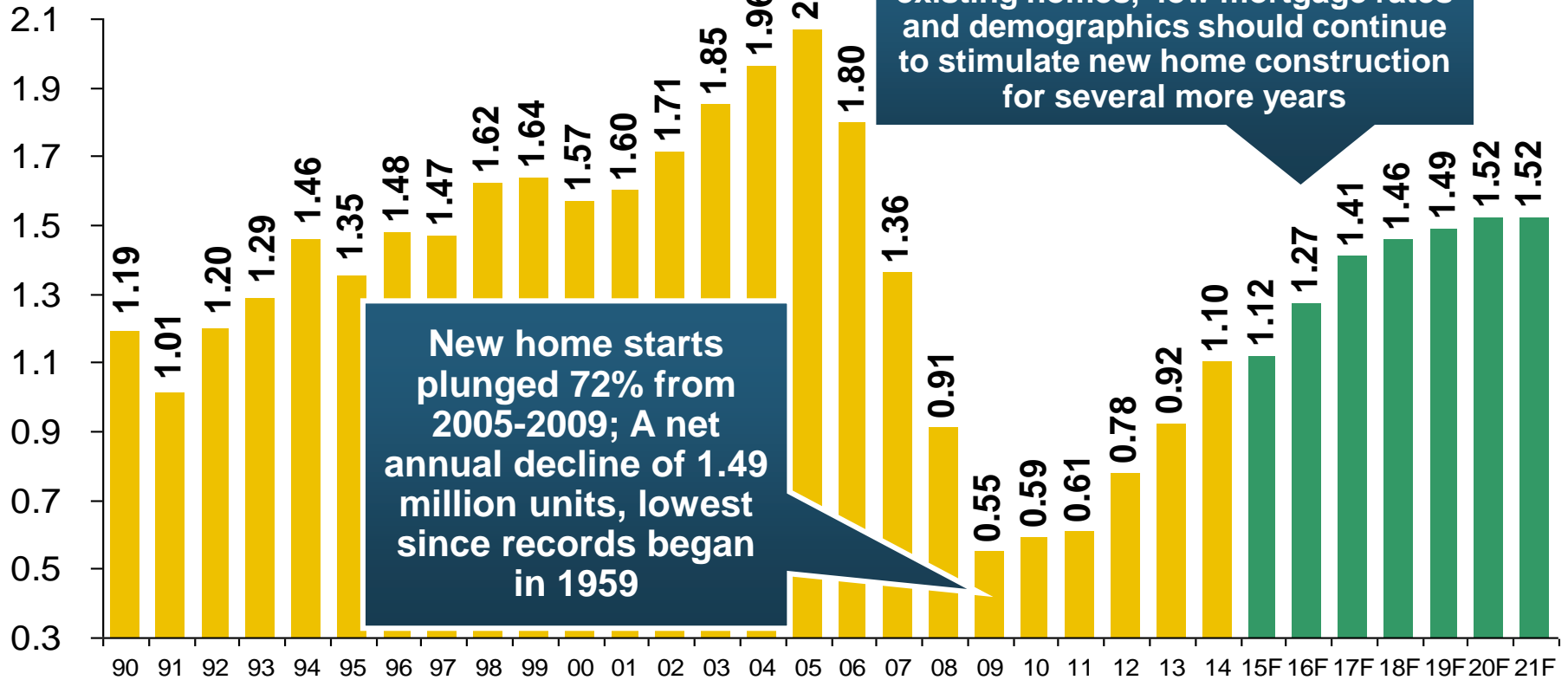
Government Construction Spending Peaked in 2009, Helped by Stimulus Spending, but Contracted As State/Local Governments Grappled with Deficits and Federal Sequestration; Only Now Recovering

*2015 figure is a seasonally adjusted annual rate as of June; http://www.census.gov/construction/c30/historical_data.html

Sources: US Department of Commerce; Insurance Information Institute.

New Private Housing Starts, 1990-2021F

(Millions of Units)



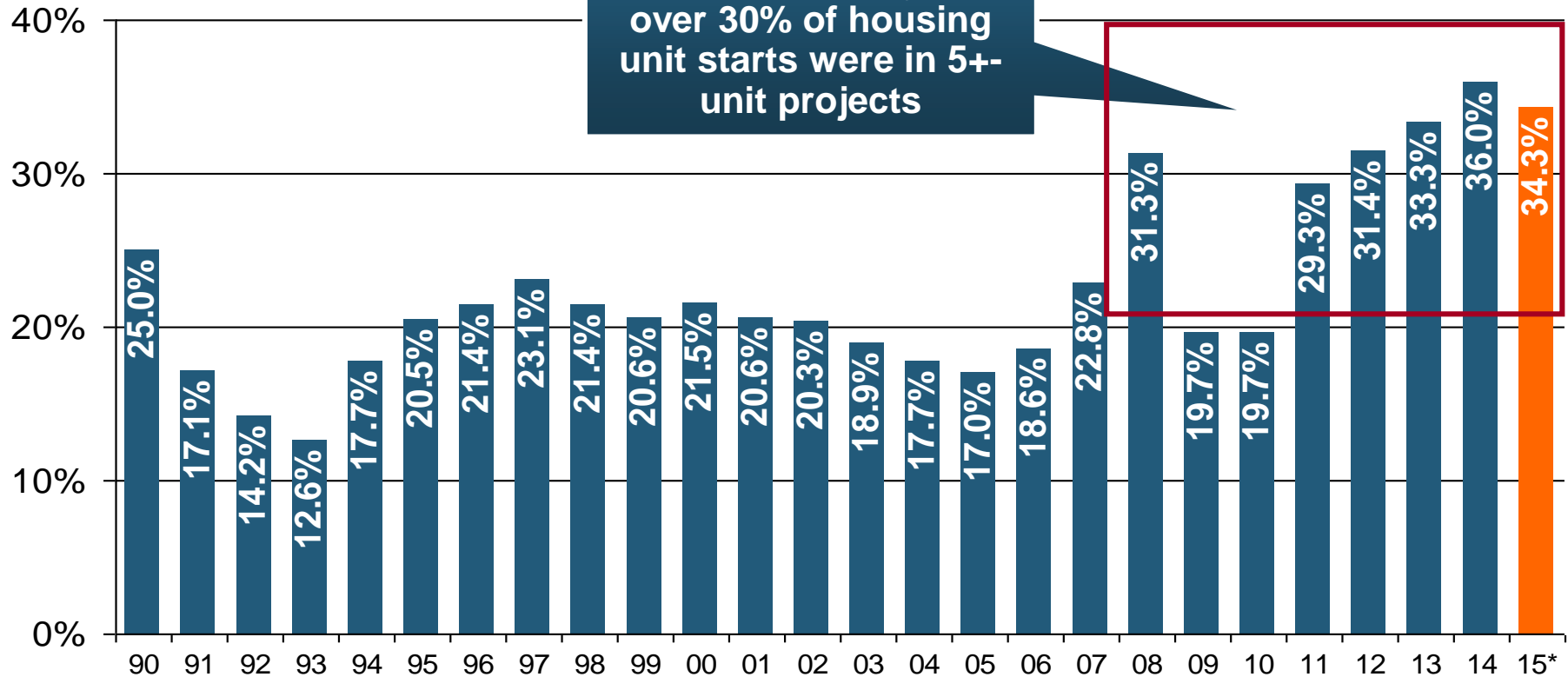
Job growth, low inventories of existing homes, low mortgage rates and demographics should continue to stimulate new home construction for several more years

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

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

U.S.: Pct. Of Private Housing Unit Starts In Multi-Unit Projects, 1990-2015

Units in Multiple-Unit Projects as Percent of Total

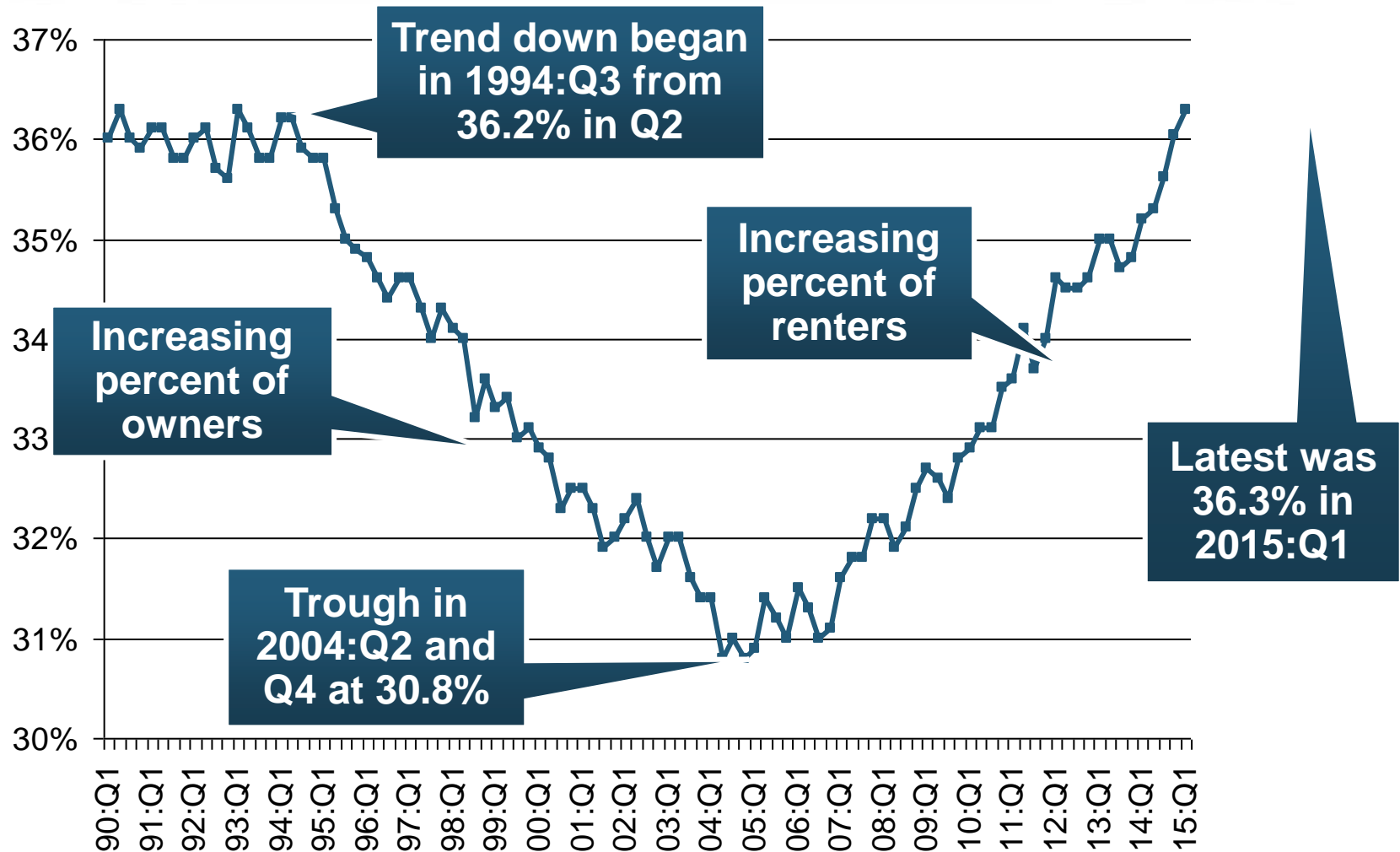


A NEW NORMAL?
In 5 of the last 7 years, over 30% of housing unit starts were in 5+ unit projects

For the U.S. as a whole, the trend toward multi-unit housing projects (vs. single-unit homes) is recent. Commercial insurers with Workers Comp, Construction risk exposure, and Surety benefit.

*January through April 2015; April is preliminary; calculations based on seasonally adjusted at annual rates
Sources: U.S. Census Bureau, New Residential Construction in April 2015 and earlier releases; next release June 16, 2015; Insurance Information Institute calculations.

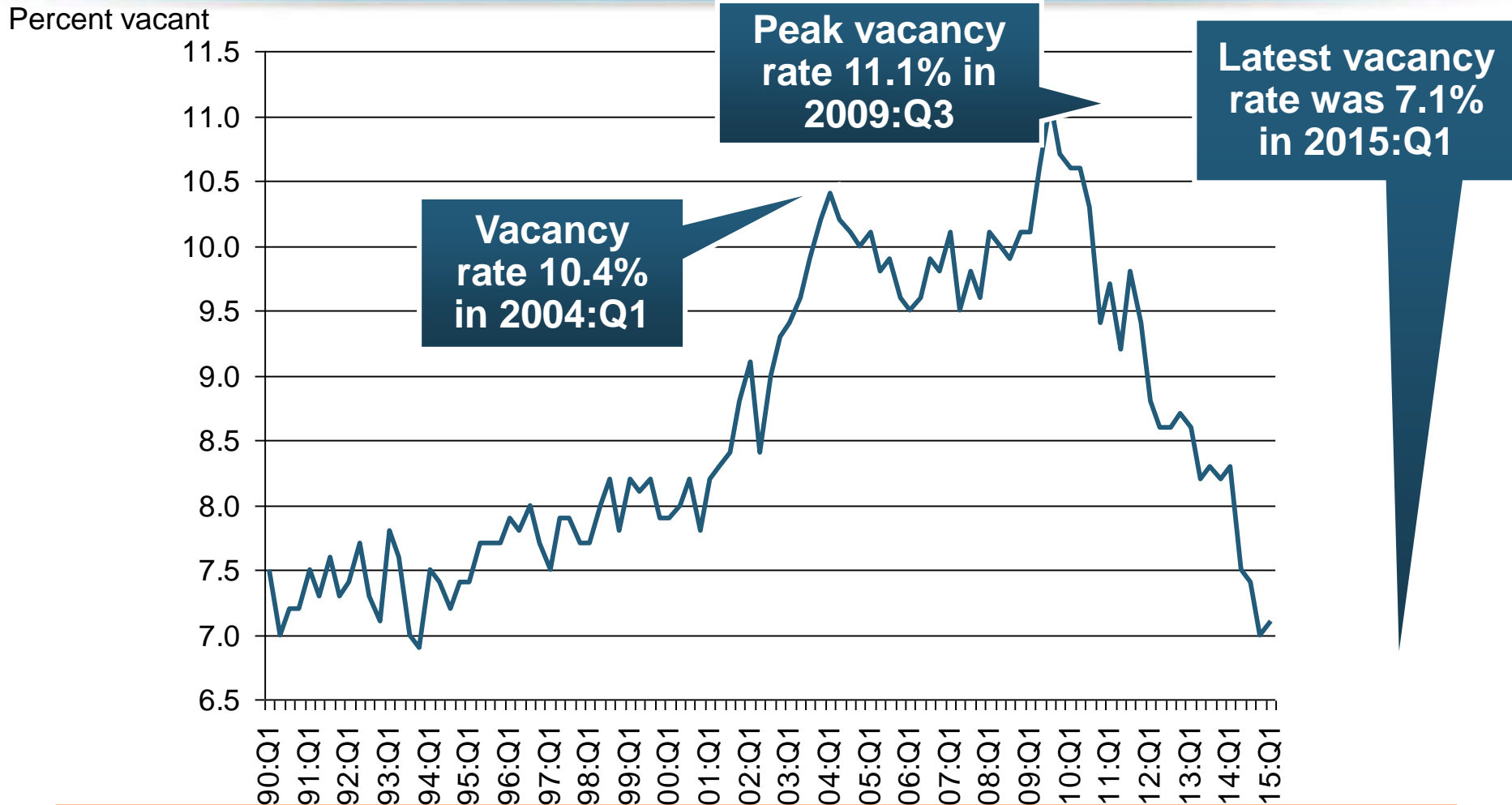
Rental-Occupied Housing Units as % of Total Occupied Units, Quarterly, 1990:Q1-2015:Q1



Since the Great Recession ended in June 2009, renters occupied 5.7 million more units (+15.6%).

Sources: US Census Bureau, *Residential Vacancies & Home Ownership in the First Quarter of 2015* (released April 28, 2015) and earlier issues; Insurance Information Institute. Next Census Bureau report to be released on July 28, 2015.

Rental Vacancy Rates, Quarterly, 1990:Q1-2015:Q1

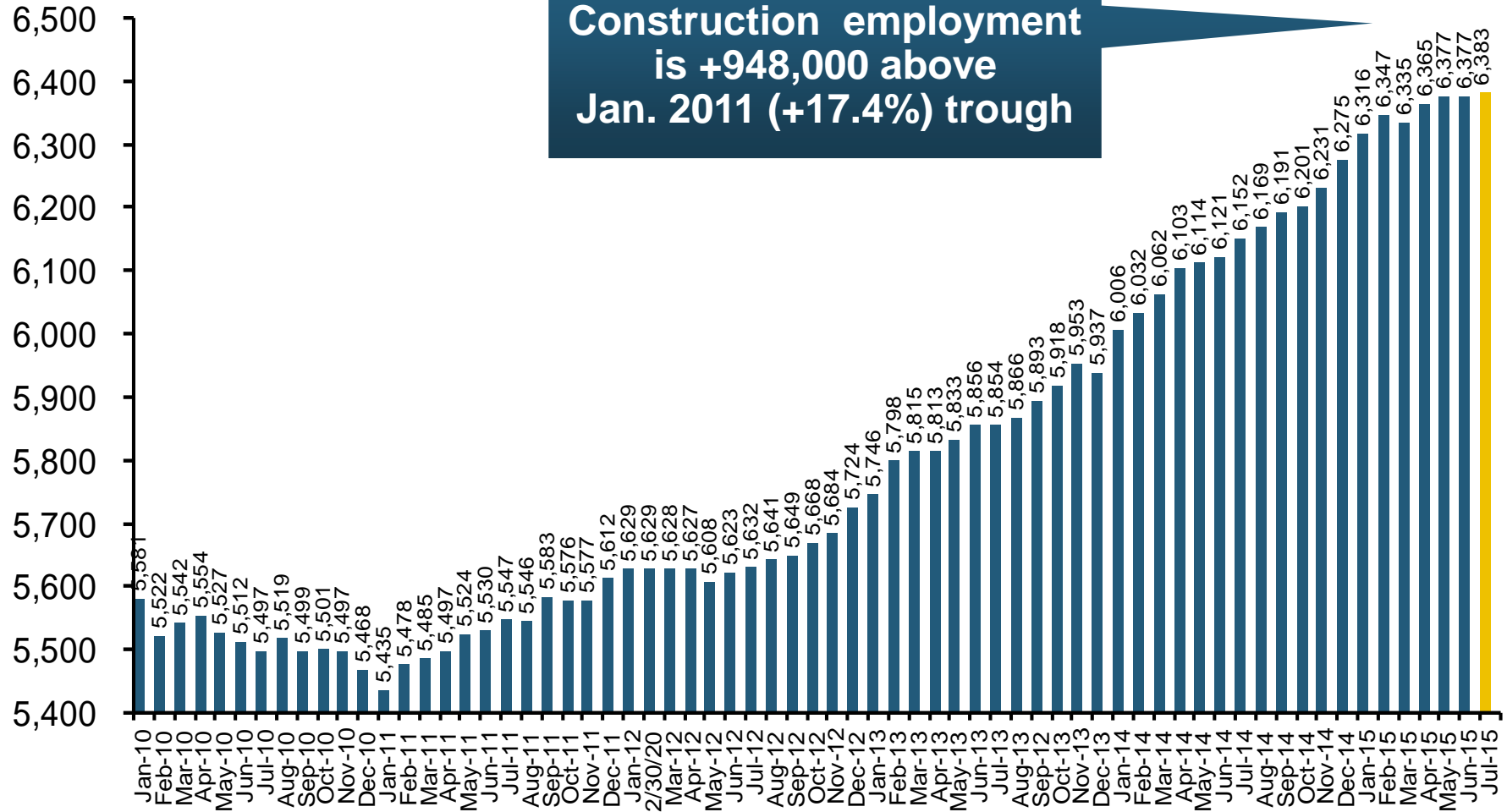


Before the 2001 recession, rental vacancy rates were 8% or less. We're below those levels now. => More multi-unit construction?

Sources: US Census Bureau, *Residential Vacancies & Home Ownership in the First Quarter of 2015* (released April 28, 2015) and earlier issues; Insurance Information Institute. Next Census Bureau report to be released on July 28, 2015.

Construction Employment, Jan. 2010—July 2015*

(Thousands)



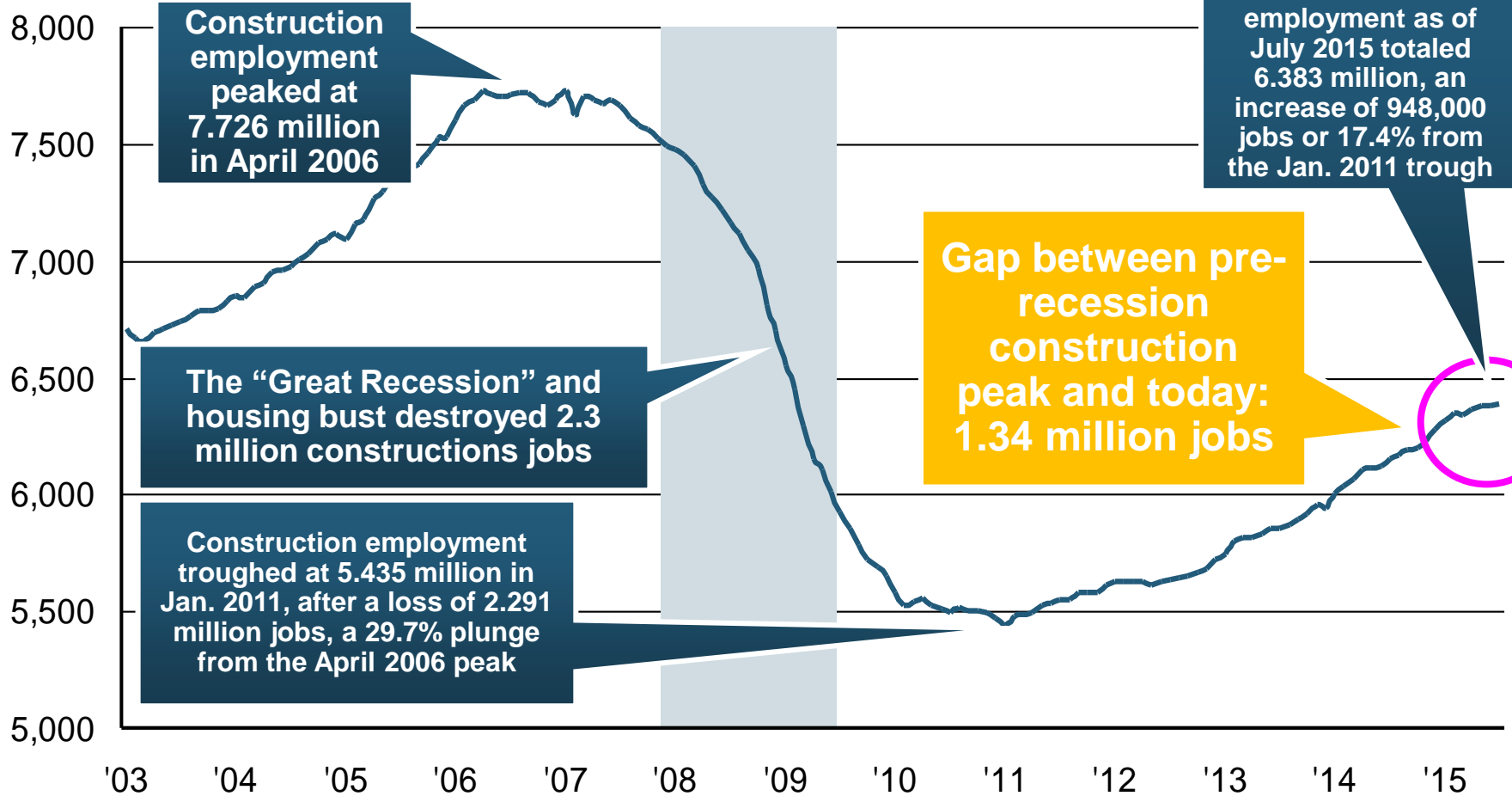
Construction and manufacturing employment constitute 1/3 of all WC payroll exposure.

*Seasonally adjusted.

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

Construction Employment, Jan. 2003–July 2015

(Thousands)



The Construction Sector Was 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.

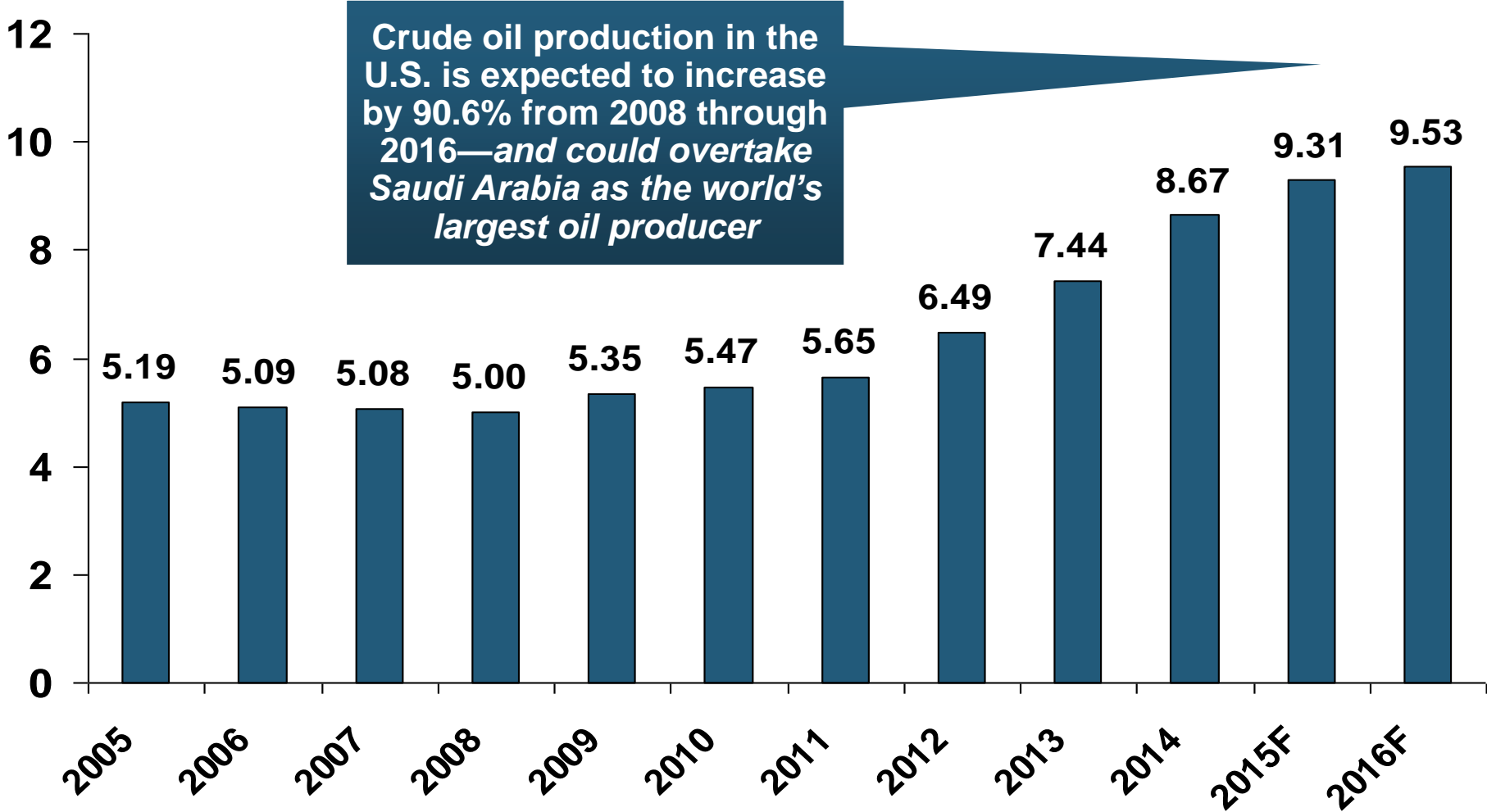
Sources: U.S. Bureau of Labor Statistics; Insurance Information Institute.

**ENERGY SECTOR: OIL & GAS
INDUSTRY FUTURE IS BRIGHT
BUT VOLATILE**

**US Is Becoming an Energy
Powerhouse but Fall in Prices
Will Have Negative Impact**

U.S. Crude Oil Production, 2005-2016P

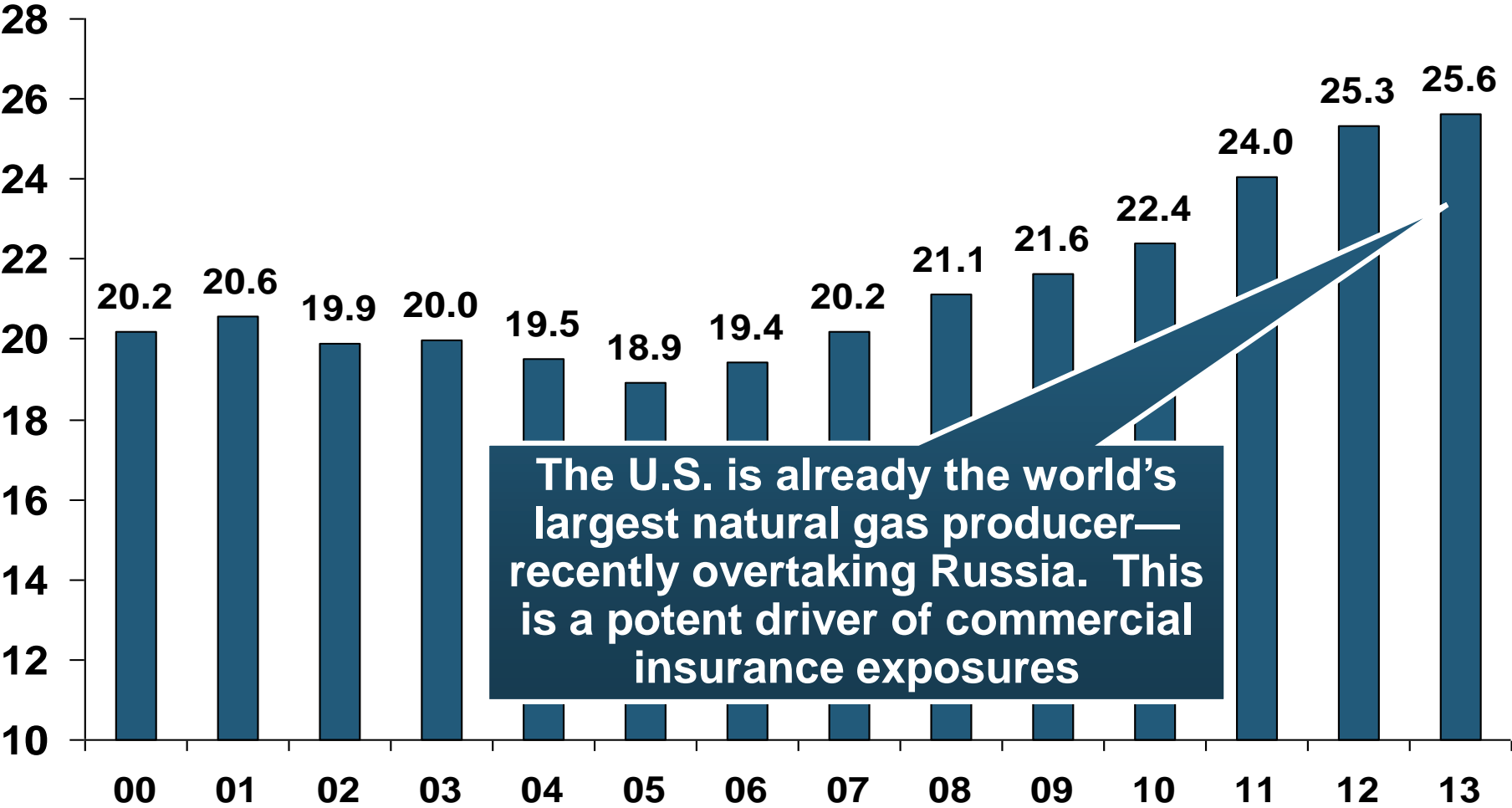
Millions of Barrels per Day



Source: Energy Information Administration, *Short-Term Energy Outlook* (January 15, 2015) , Insurance Information Institute.

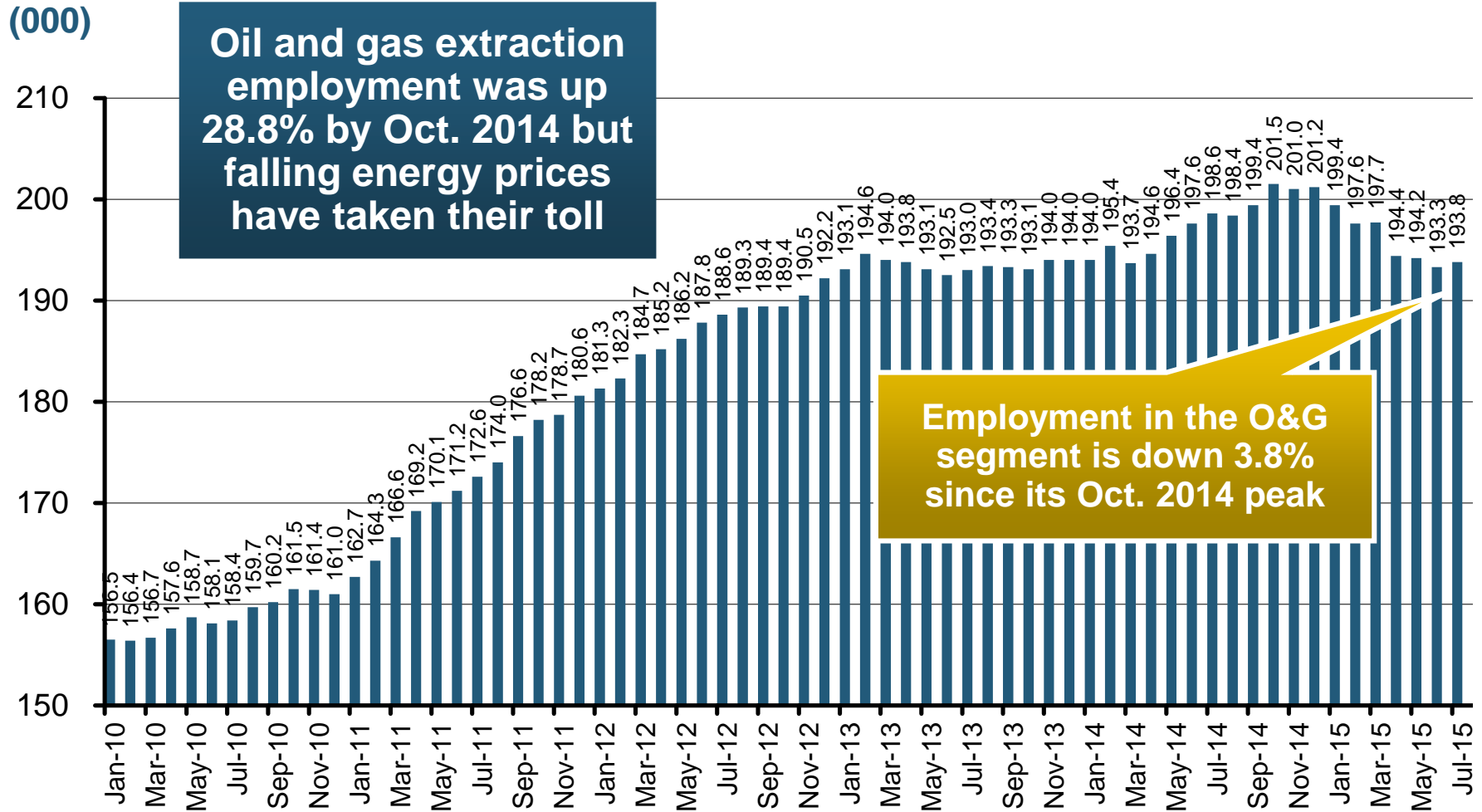
U.S. Natural Gas Production, 2000-2013

Trillions of Cubic Ft. per Year



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

Employment in Oil & Gas Extraction, Jan. 2010—July 2015*



*Seasonally adjusted

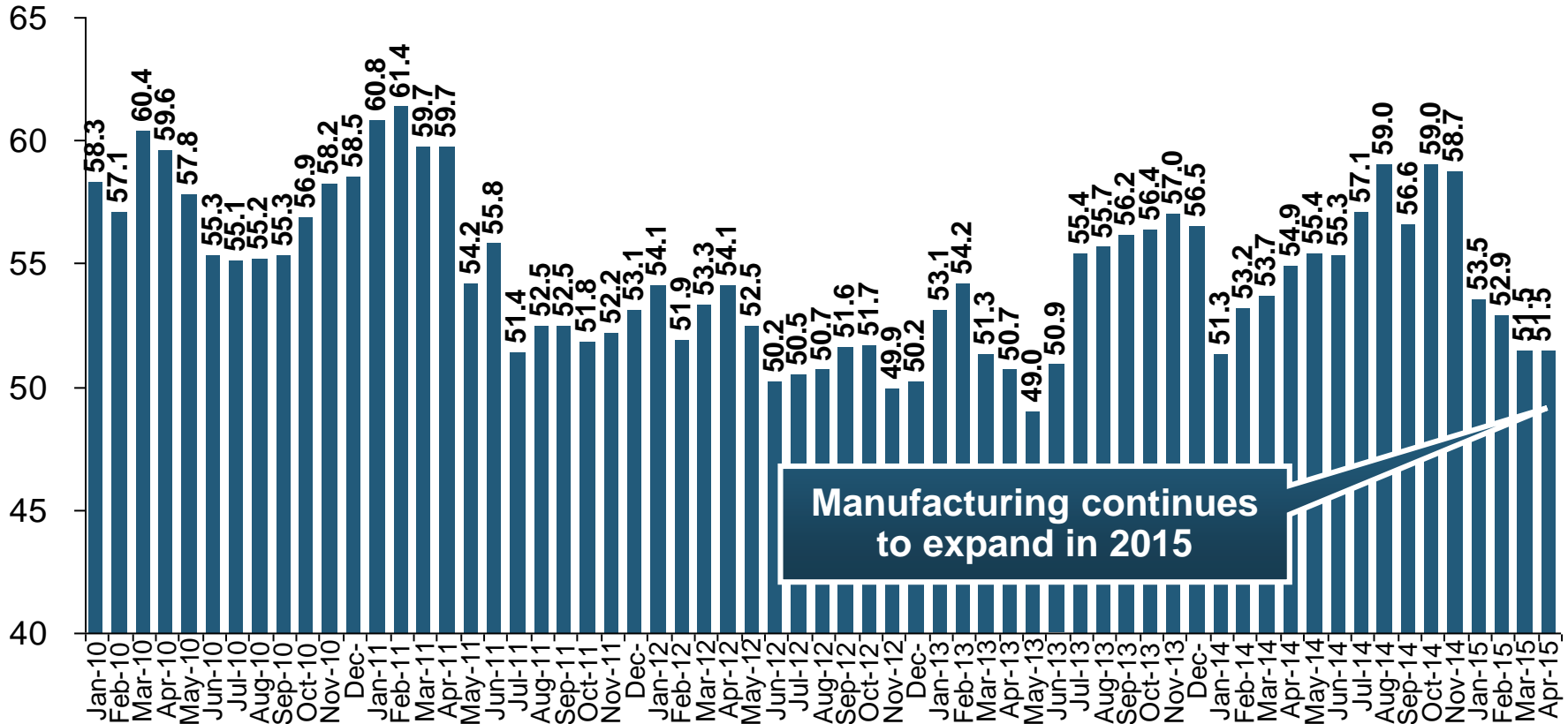
Sources: US Bureau of Labor Statistics at <http://data.bls.gov>; Insurance Information Institute.

MANUFACTURING SECTOR OVERVIEW & OUTLOOK

**The U.S. Is Experiencing a Mini
Manufacturing Renaissance but
Headwinds from Weak Export
Markets and Strong Dollar**

ISM Manufacturing Index (Values > 50 Indicate Expansion)

January 2010 through April 2015



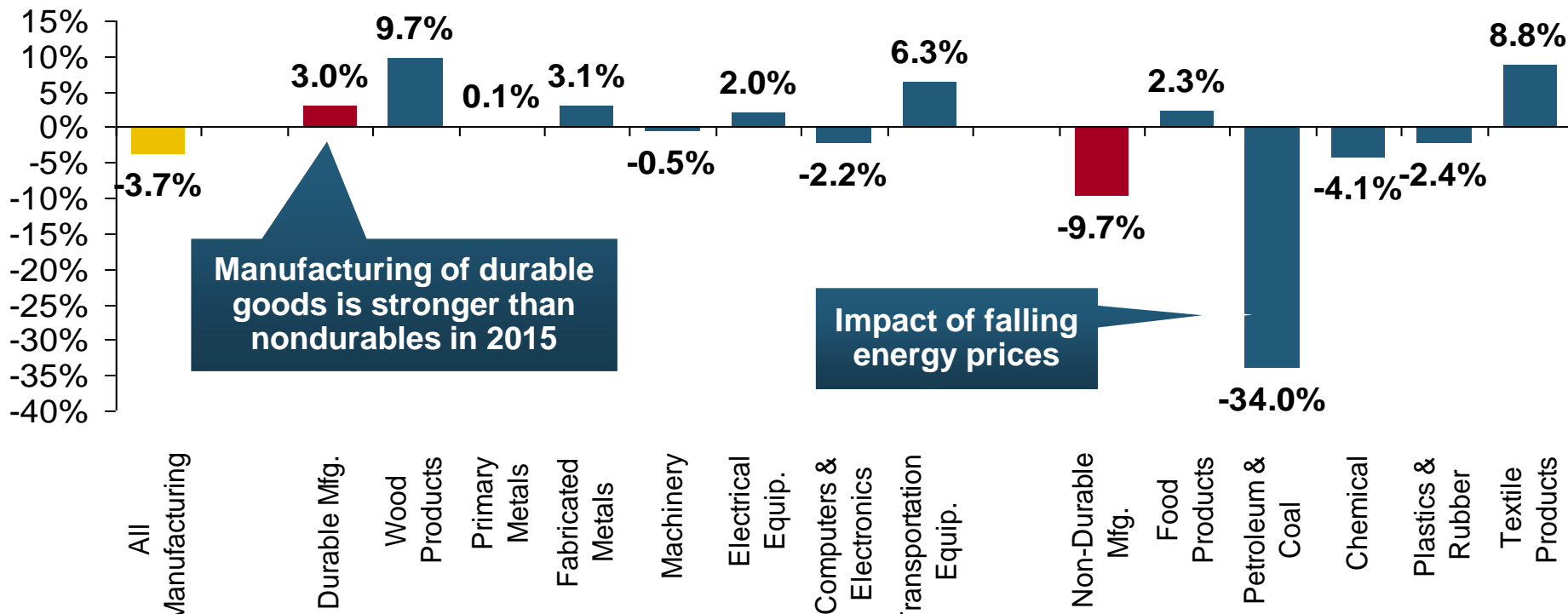
The manufacturing sector expanded for 62 of the 64 months from Jan. 2010 through Apr. 2015. Pace of recovery has been uneven due to economic turbulence in the U.S., Europe and China and the high dollar.

Manufacturing Growth for Selected Sectors, 2015 vs. 2014*

Growth (%)

Durables: +3.0%

Non-Durables: -9.7%



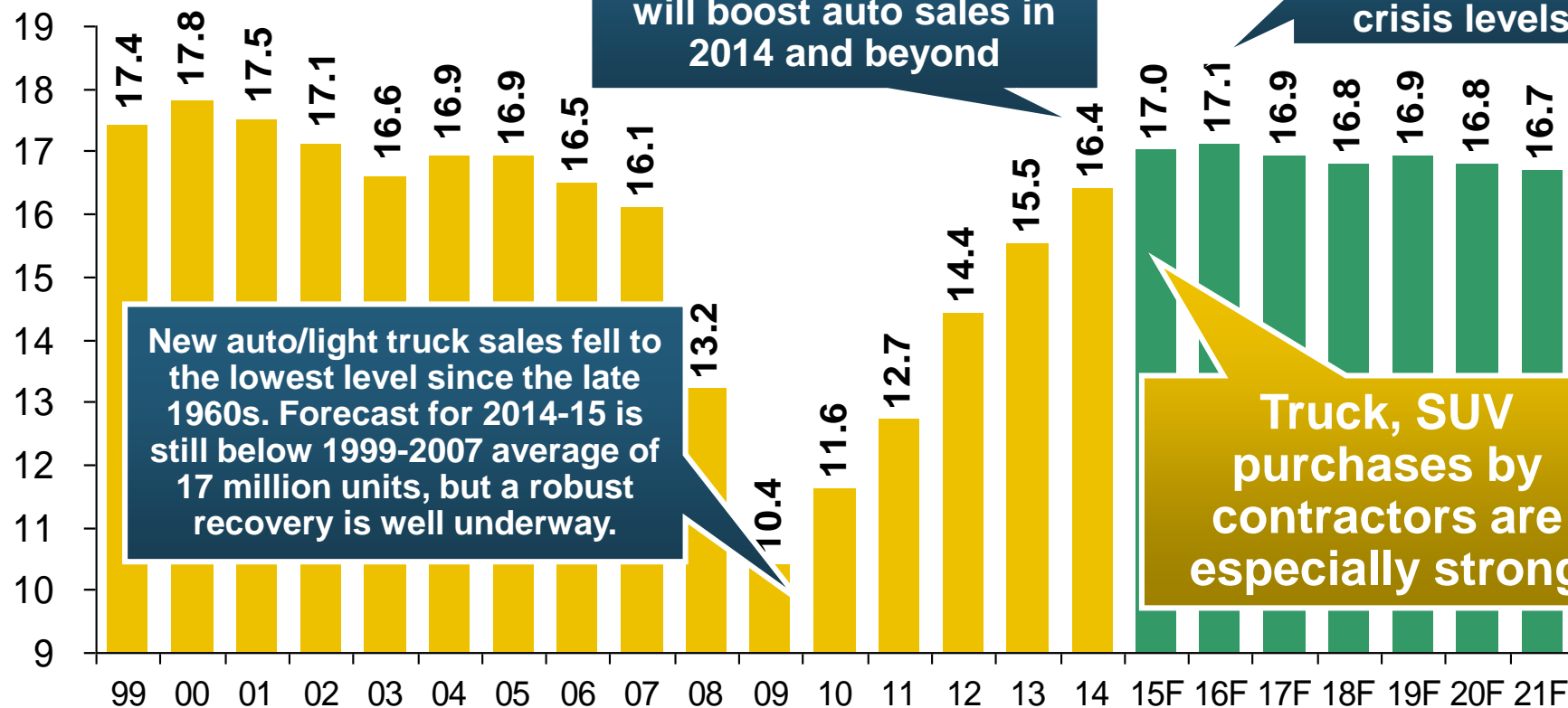
Manufacturing Is Expanding in Many Sectors But Declining Energy Prices Are Dragging Down Industry Figures. Continued Growth Across a Number of Sectors that Will Contribute to Growth in Insurable Exposures Including: WC, Commercial Property, Commercial Auto and Many Liability Coverages

*Seasonally adjusted; Data are YTD comparing data through February 2015 to the same period in 2014.

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

Auto/Light Truck Sales, 1999-2021F

(Millions of Units)



Job growth and improved credit market conditions will boost auto sales in 2014 and beyond

Sales have returned to pre-crisis levels

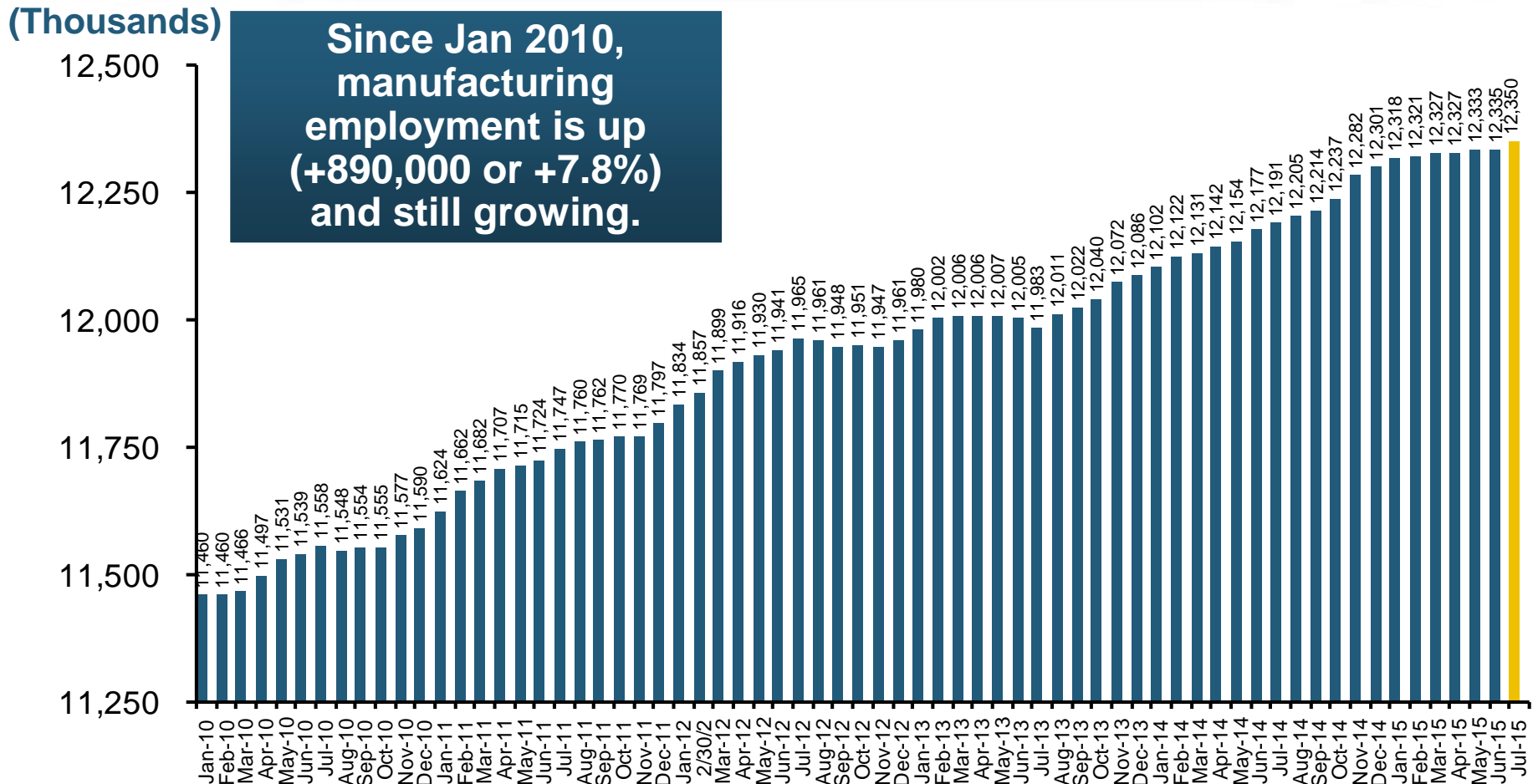
New auto/light truck sales fell to the lowest level since the late 1960s. Forecast for 2014-15 is still below 1999-2007 average of 17 million units, but a robust recovery is well underway.

Truck, SUV purchases by contractors are especially strong

Yearly car/light truck sales will likely continue at current levels, in part replacing cars that were held onto in 2008-12. New vehicles will generate more physical damage insurance coverage but will be more expensive to repair. PP Auto premium might grow by 5% - 6%.

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (8/15 and 3/15); Insurance Information Institute.

Manufacturing Employment, Jan. 2010—July 2015*

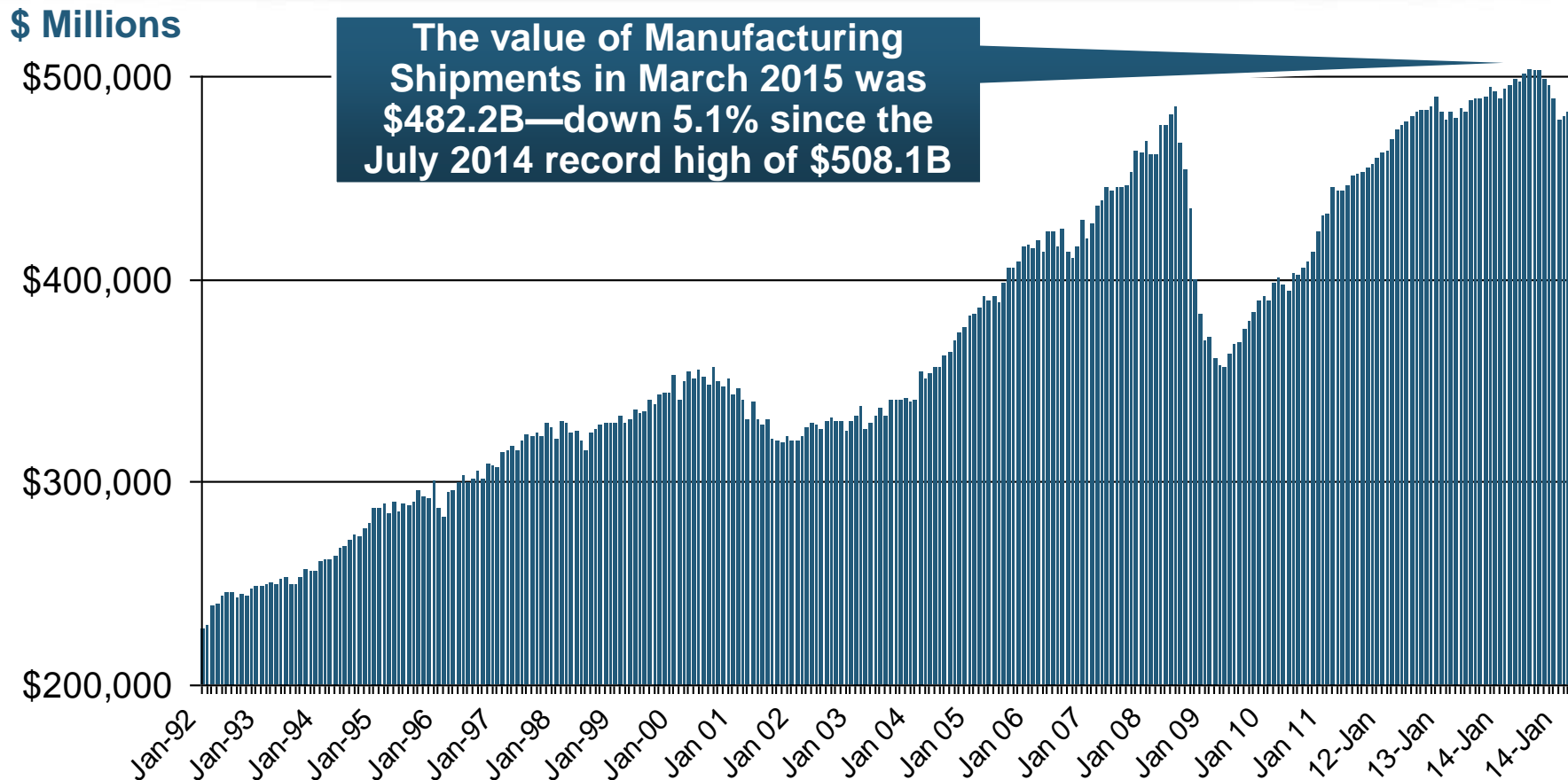


Manufacturing employment is a surprising source of strength in the economy. Employment in the sector is at a multi-year high.

*Seasonally adjusted.

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

Dollar Value* of Manufacturers' Shipments Monthly, Jan. 1992—March 2015

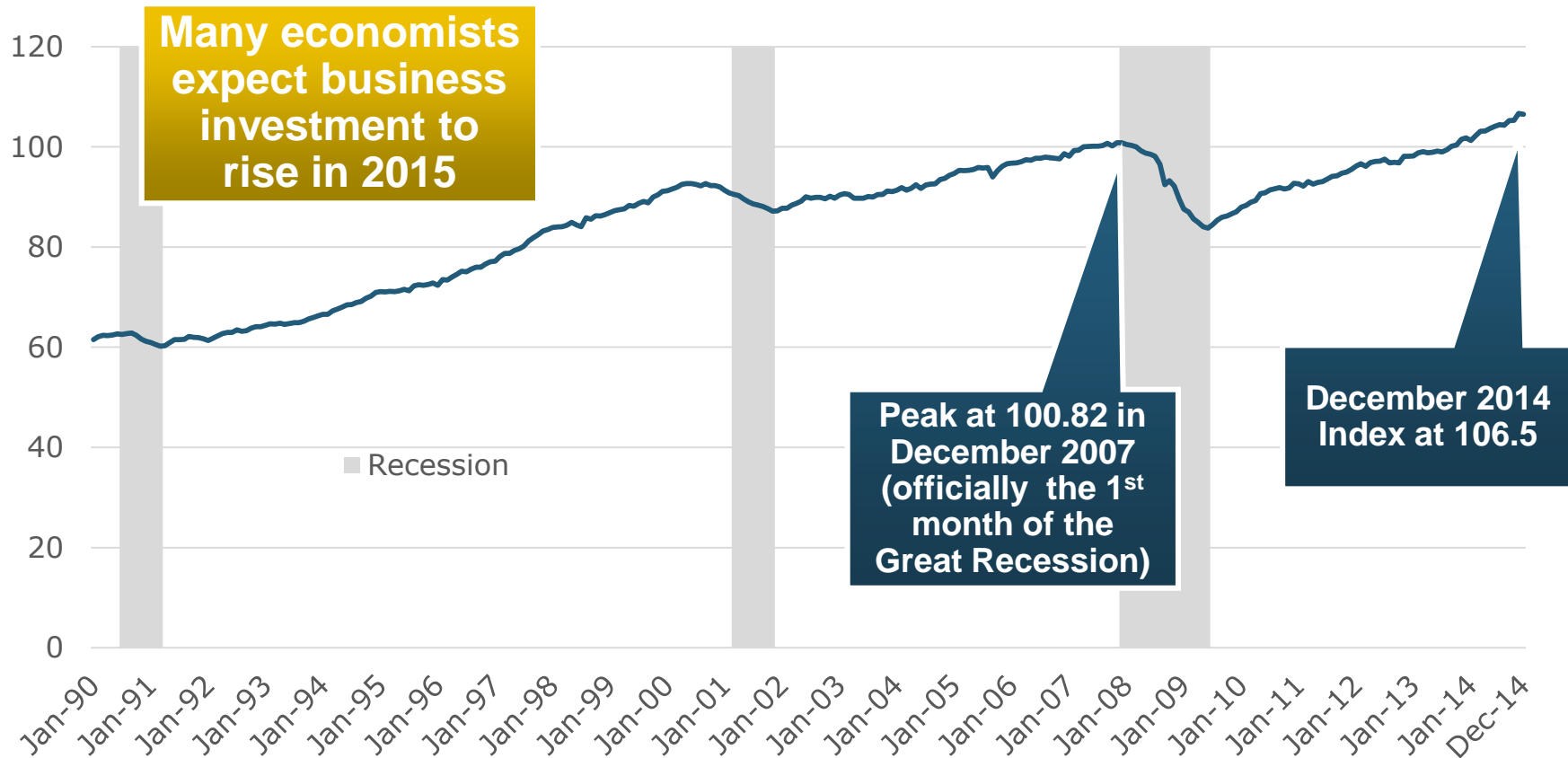


Monthly shipments in March 2015 are similar to pre-crisis (July 2008) peak but has declined in recent months due to the strong US dollar and weakness abroad. Manufacturing is energy-intensive and growth leads to gains in many commercial exposures: WC, Commercial Auto, Marine, Property, and various Liability Coverages.

* Seasonally adjusted; Data published May 4, 2015.

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

Index of Total Industrial Production:* A Near Peak as of December 2014



Insurance exposures for industrial production will continue growing in 2015, and commercial insurance premium volume with them. Y-o-Y growth to December 2014 was 4.6%. Both production and premium volume growth for 2015 should exceed this.

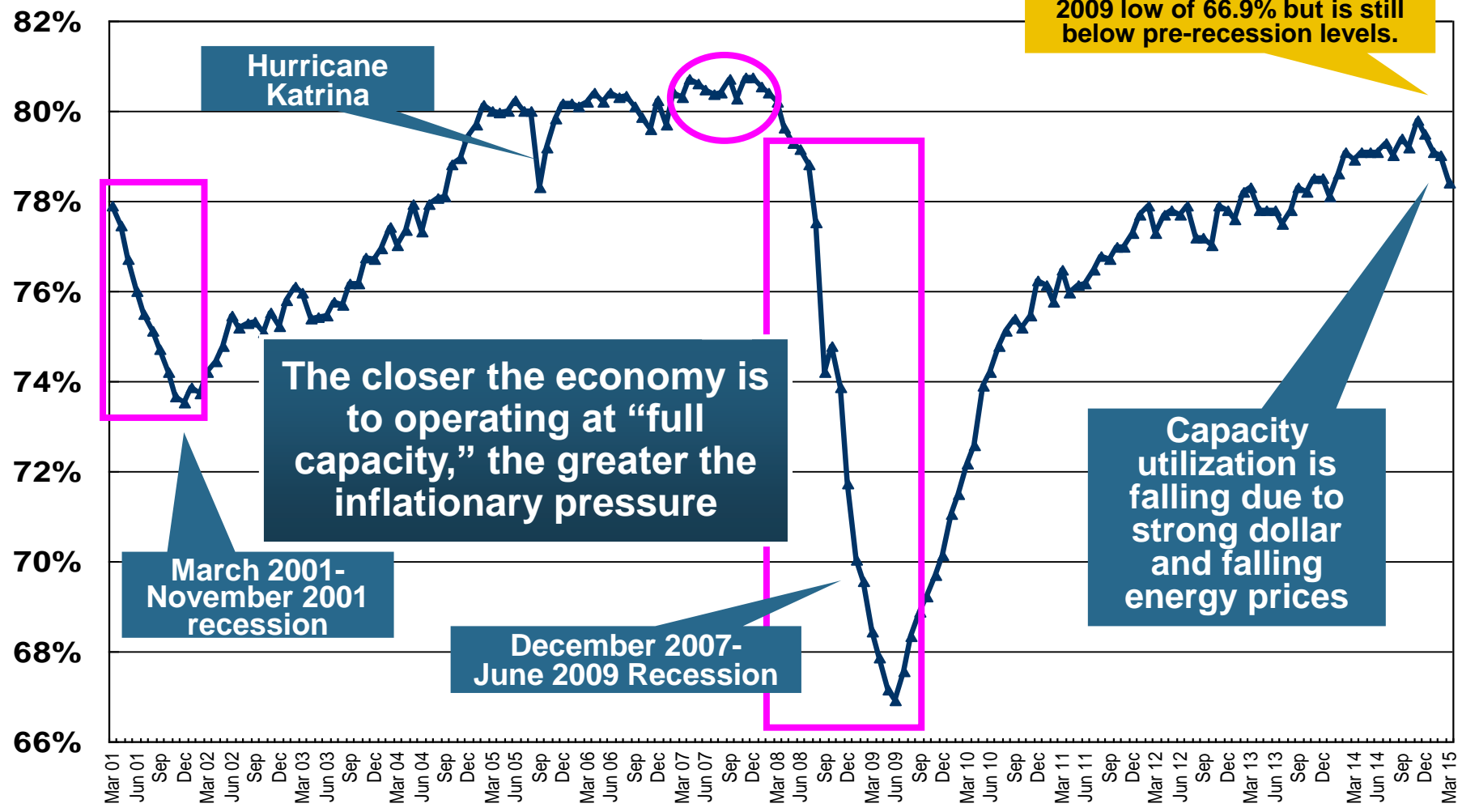
*Monthly, seasonally adjusted, through December 2014 (which is preliminary). Index based on year 2007 = 100

Sources: Federal Reserve Board at http://www.federalreserve.gov/releases/g17/ipdisk/ip_sa.txt.
National Bureau of Economic Research (recession dates); Insurance Information Institute.

Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures

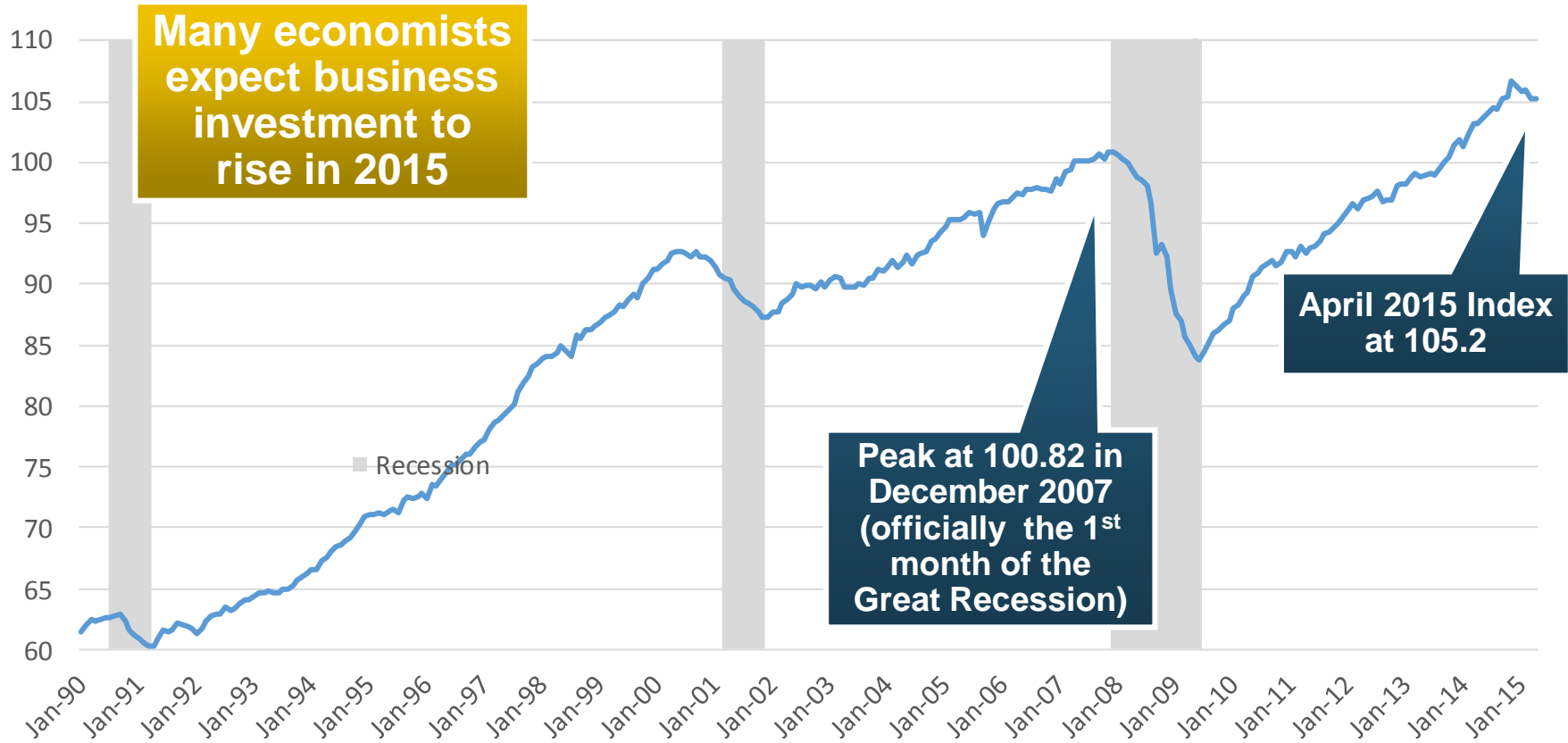
March 2001 through March 2015

Percent of Industrial Capacity



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

Index of Total Industrial Production:* Strong Dollar Is a Headwind



Insurance exposures for industrial production will continue growing in 2015, and commercial insurance premium volume with them. Y-o-y growth to December 2014 was 4.6%. Both production and premium volume growth for 2015 should exceed this.

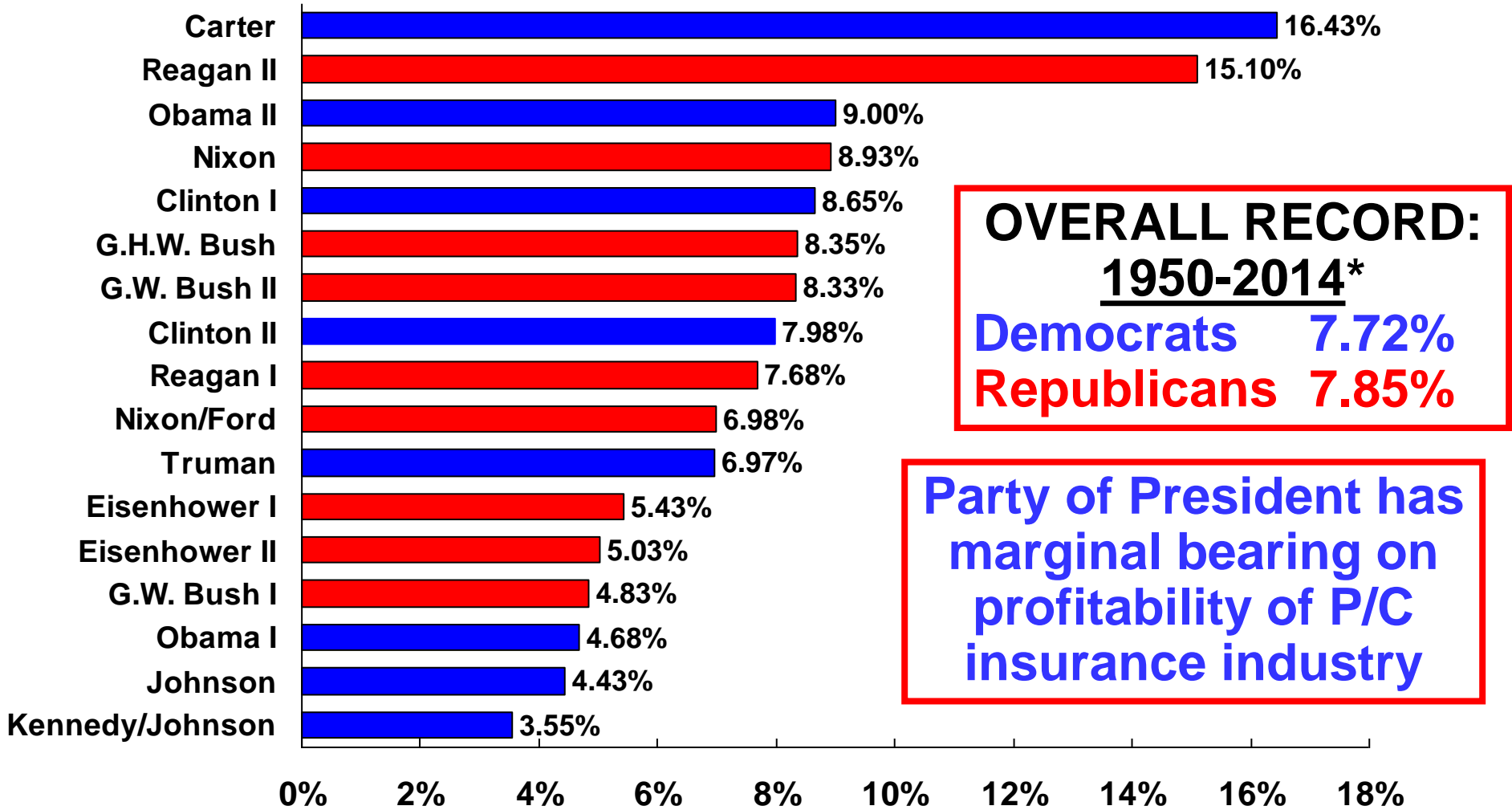
*Monthly, seasonally adjusted, through March 2015 (which is preliminary). Index based on year 2007 = 100

Sources: Federal Reserve Board at http://www.federalreserve.gov/releases/g17/ipdisk/ip_sa.txt.
National Bureau of Economic Research (recession dates); Insurance Information Institute.

Profitability & Politics

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

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

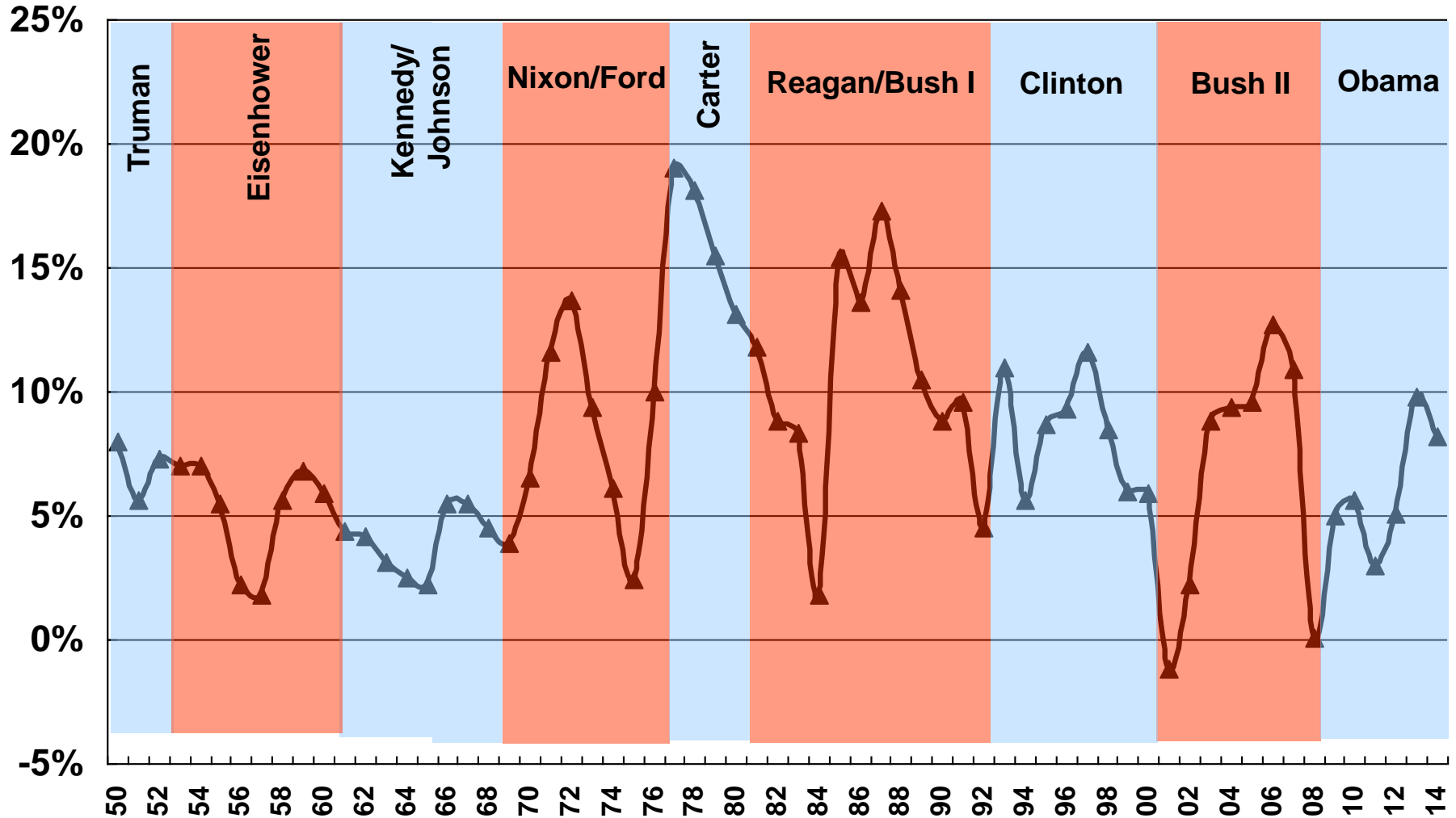


*Truman administration ROE of 6.97% based on 3 years only, 1950-52;. Source: Insurance Information Institute

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

BLUE = Democratic President

RED = Republican President



CYBER RISK & CYBER INSURANCE

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

***Nonprofits Including Religious
Institutions Are Vulnerable***

Data Breaches 2005-2015, by Number of Breaches and Records Exposed

Data Breaches/Millions of Records Exposed



The total number of data breaches (+27.5%) hit a record high of 783 in 2014, exposing 85.6 million records. Through June 30, this year has seen 117.6 million records exposed in 400 breaches.*

*Figures as of June 30, 2015, from the Identity Theft Resource Center, <http://www.idtheftcenter.org/images/breach/ITRCBreachReport2015.pdf>

High Profile Data Breaches, 2014-2015

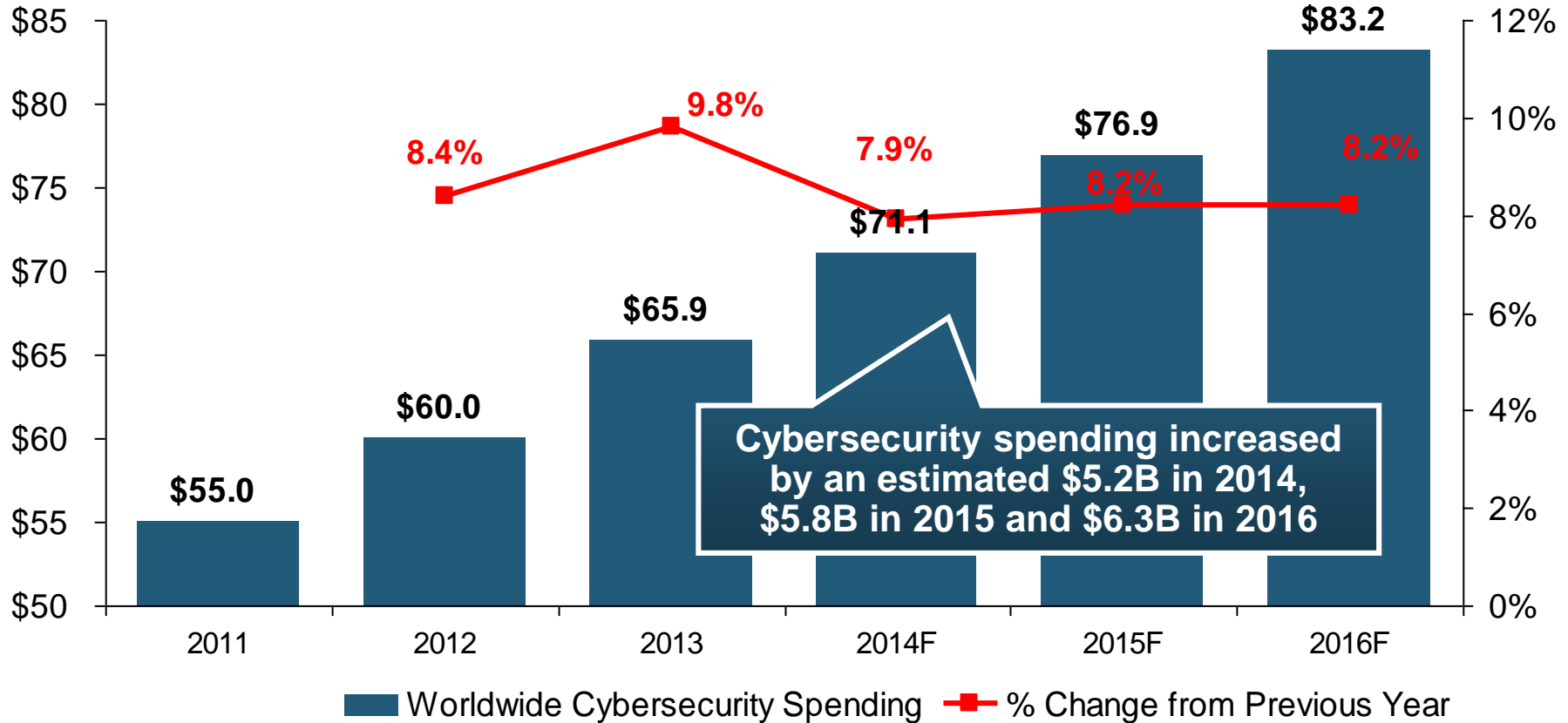


Date	Company	Description of Breach
May 2015	OPM	Hackers broke into U.S. Government Personnel Office stealing personal identifying information of as many as 14 million civilian U.S. government employees.
Mar 2015	Premera Blue Cross	Data breach compromises financial and medical records of 11 million customers.
Feb 2015	Anthem, Inc	Massive data breach after hackers gained access to corporate data base containing personal information of as many as 80 million current and former U.S. customers and employees.
Dec 2014	Sony Pictures Entertainment	Hacker break-in involving theft of unreleased motion pictures, and theft of more than 25 gigabytes of sensitive data on tens of thousands of Sony employees, including social security numbers, medical and salary information.
Nov 2014	Staples	Point-of-sale (POS) malware attack and breach exposing customer data, and resulting in compromise of 1.2 million records.
Sept 2014	Home Depot	Huge data breach exposes 56 million credit and debit cards and 53 million email addresses.
Aug 2014	Community Health Systems	Cyber attack originating in China resulted in data breach, compromising 4.5 million patient records. Hackers broke into company's computer system by exploiting Heartbleed bug.
June/July 2014	JP Morgan Chase	Massive data breach compromised data associated with 76 million household and 7 million small business accounts. Hackers obtained personal identifying information.
June 2014	PF Changs	Security breach affected customers at 33 restaurants located in 16 states, with potential credit and debit card data stolen.
May 2014	eBay	Massive data breach exposed records of site's 233 million customers, including names, email addresses, physical addresses, phone numbers and birthdates.
Feb 2014	Michaels Stores	Possible fraudulent activity on some U.S. payment cards used at Michaels stores suggests it may have experienced data security attack, exposing 2.6 million records.
Jan 2014	Snapchat	Security breach compromises phone numbers and usernames for 4.6 million accounts.
Jan 2014	Neiman Marcus	Hacker break-in exposed unknown no. of customer cards, compromising est. 1.1 million records.
Nov/Dec 2013	Target	Malware stored on Target's checkout registers led to theft of data from about 40 million credit and debit card accounts and the personal information of up to 70 million customers.

Sources: Identity Theft Resource Center; Insurance Information Institute (I.I.I.) research.

Worldwide Cybersecurity Spending, 2011- 2016F

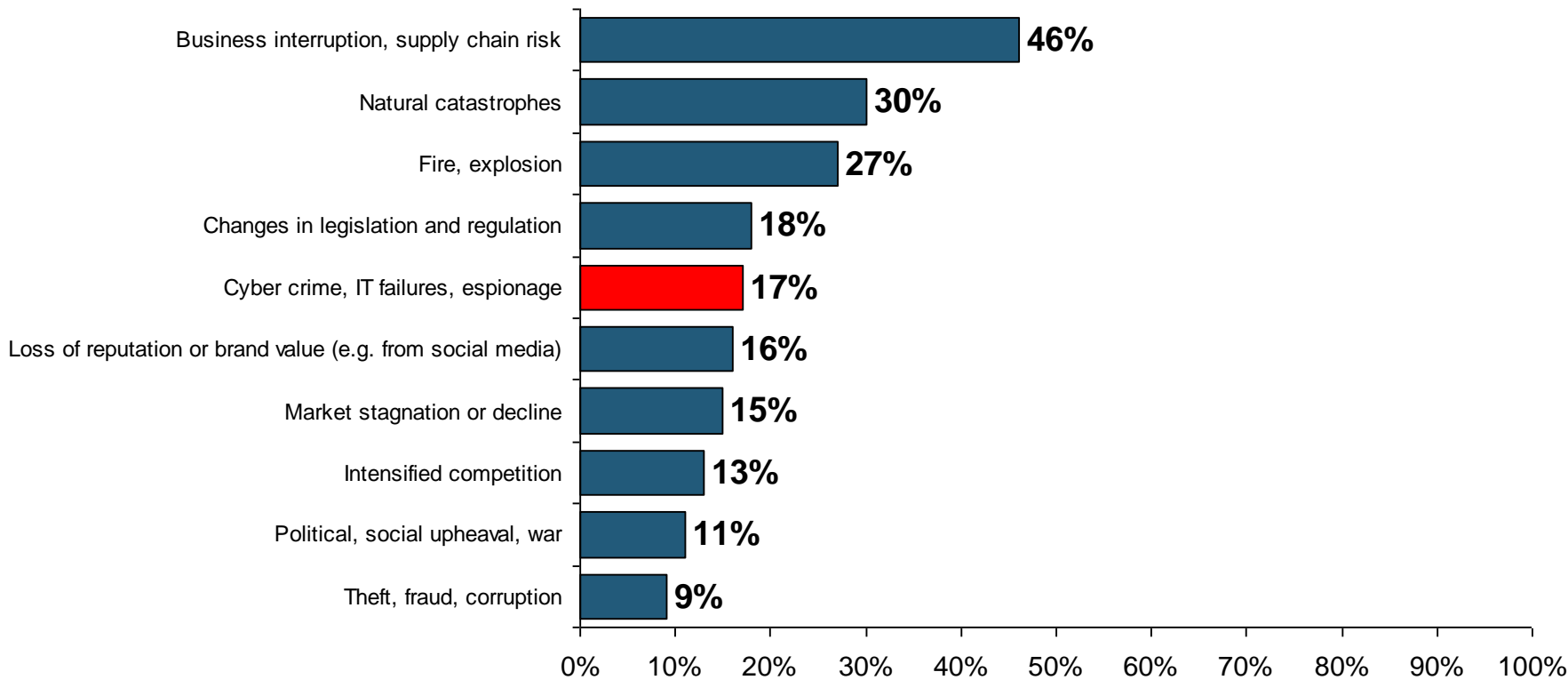
(\$ Billions)



Cybersecurity Spending Is Rising Sharply, Up by About 8%+ Annually through 2016—a Projected Increase of \$12.1 Billion from 2014 to 2016

Top 10 Global Business Risks for 2015

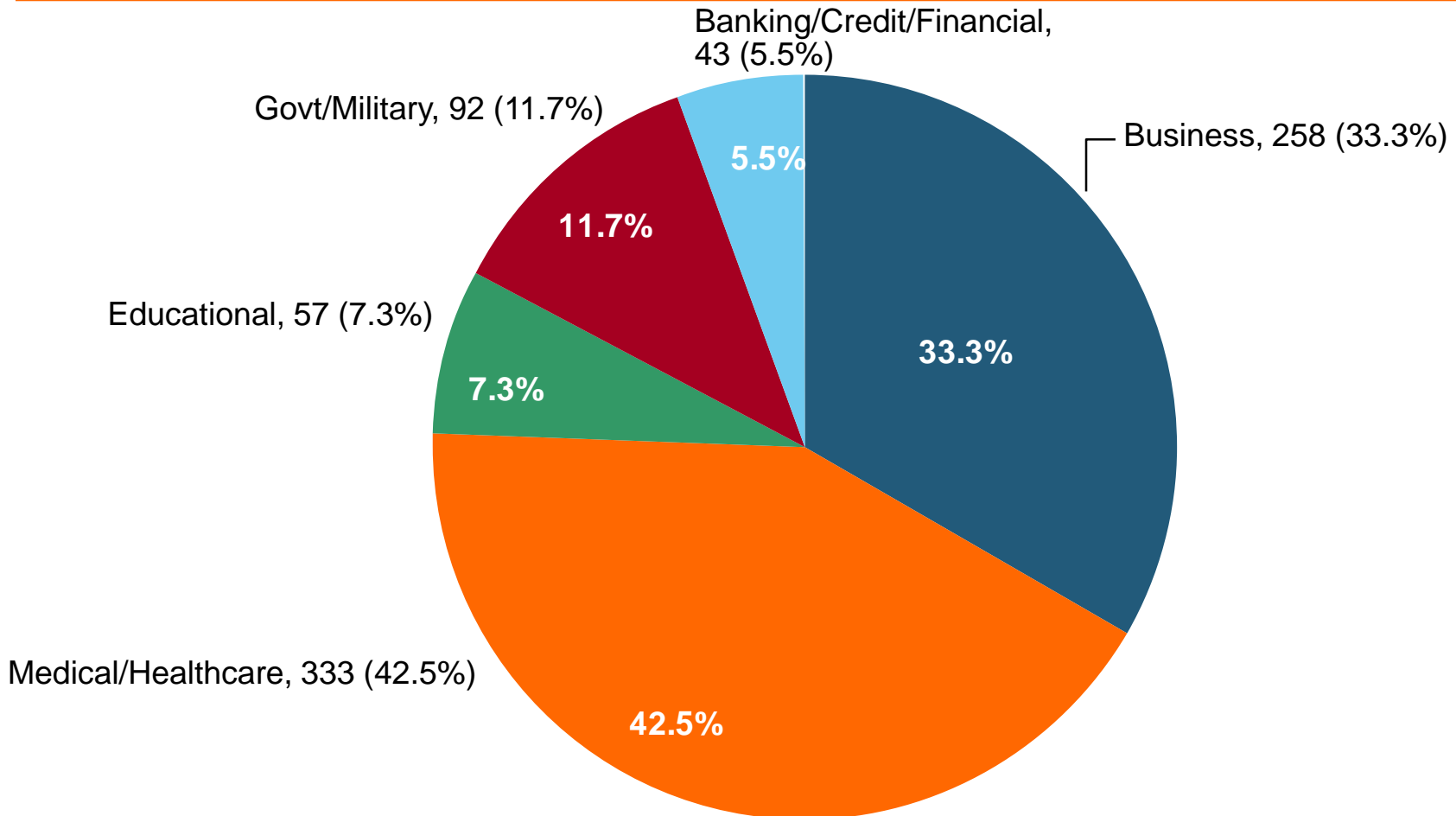
Cyber is one of the most significant movers in this year's Risk Barometer rankings, gaining five percentage points to move into the top 5 global business risks for the first time.



Source: Allianz Risk Barometer on Business Risks 2015

2014 Data Breaches By Business Category, By Number of Breaches

The majority of the 783 data breaches in 2014 affected business and medical/healthcare organizations, according to the Identity Theft Resource Center.



Evolving Threats: Cyber Crime and Cyber Terrorism

State sponsored groups:

- Foreign government sponsored
- Sophisticated and well-funded

Organized cyber criminals:

- Traditional organized crime groups
- Loosely organized global hacker crews

Hacktivism:

- Politically-motivated hackers
- Increasing capabilities

Insiders:

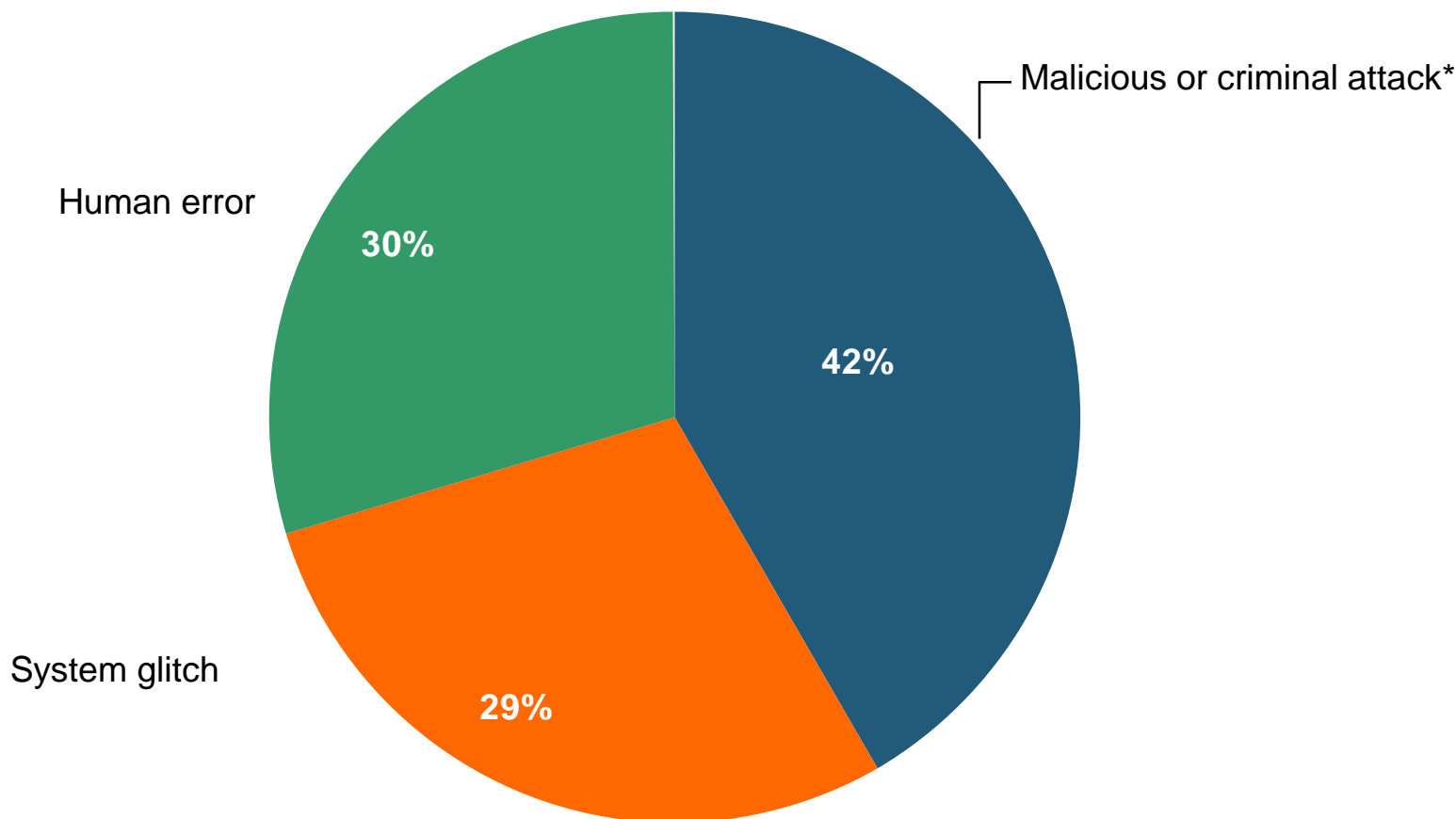
- Easy access to sensitive information
- Difficult to detect

Terrorists:

- Destruction of physical **and** digital assets

Main Causes of Data Breach Globally

Malicious or criminal attacks are most often the cause of data breach globally. Some 42 percent of incidents concern a malicious or criminal attack, while 30 percent concern a negligent employee or contractor (human factor).

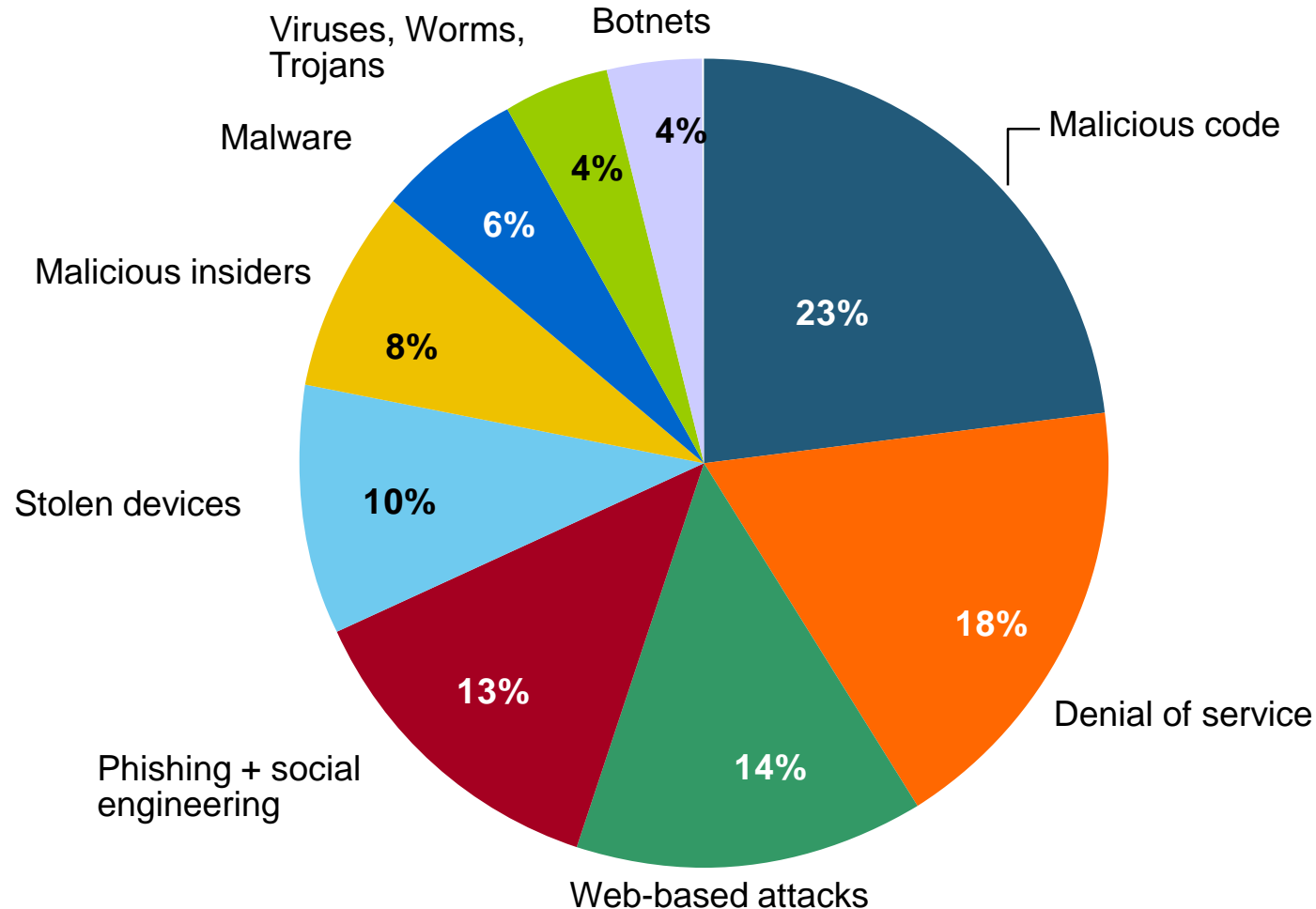


*The most common types of malicious or criminal attacks include malware infections, criminal insiders, phishing/social engineering and SQL injection.

Source: 2014 Cost of a Data Breach Study: Global Analysis, the Ponemon Institute, sponsored by IBM, May 2014

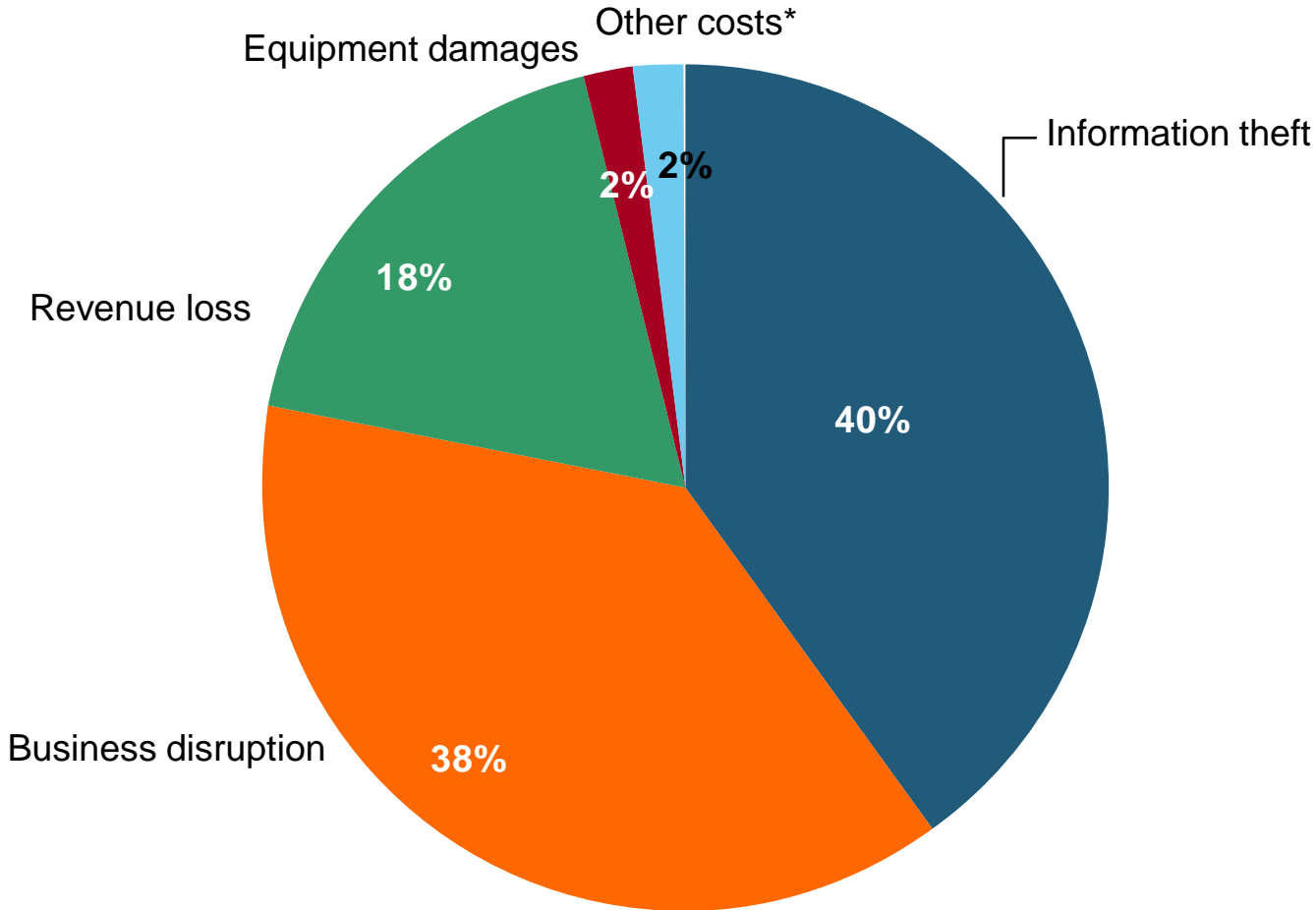
US: Most Costly Types of Cyber Crimes, Fiscal Year 2014

Malicious code, denial of service and web-based attacks account for more than 55 percent of the total annualized cost of cyber crime experienced by 59 U.S. companies.



US: External Cyber Crime Costs: Fiscal Year 2014

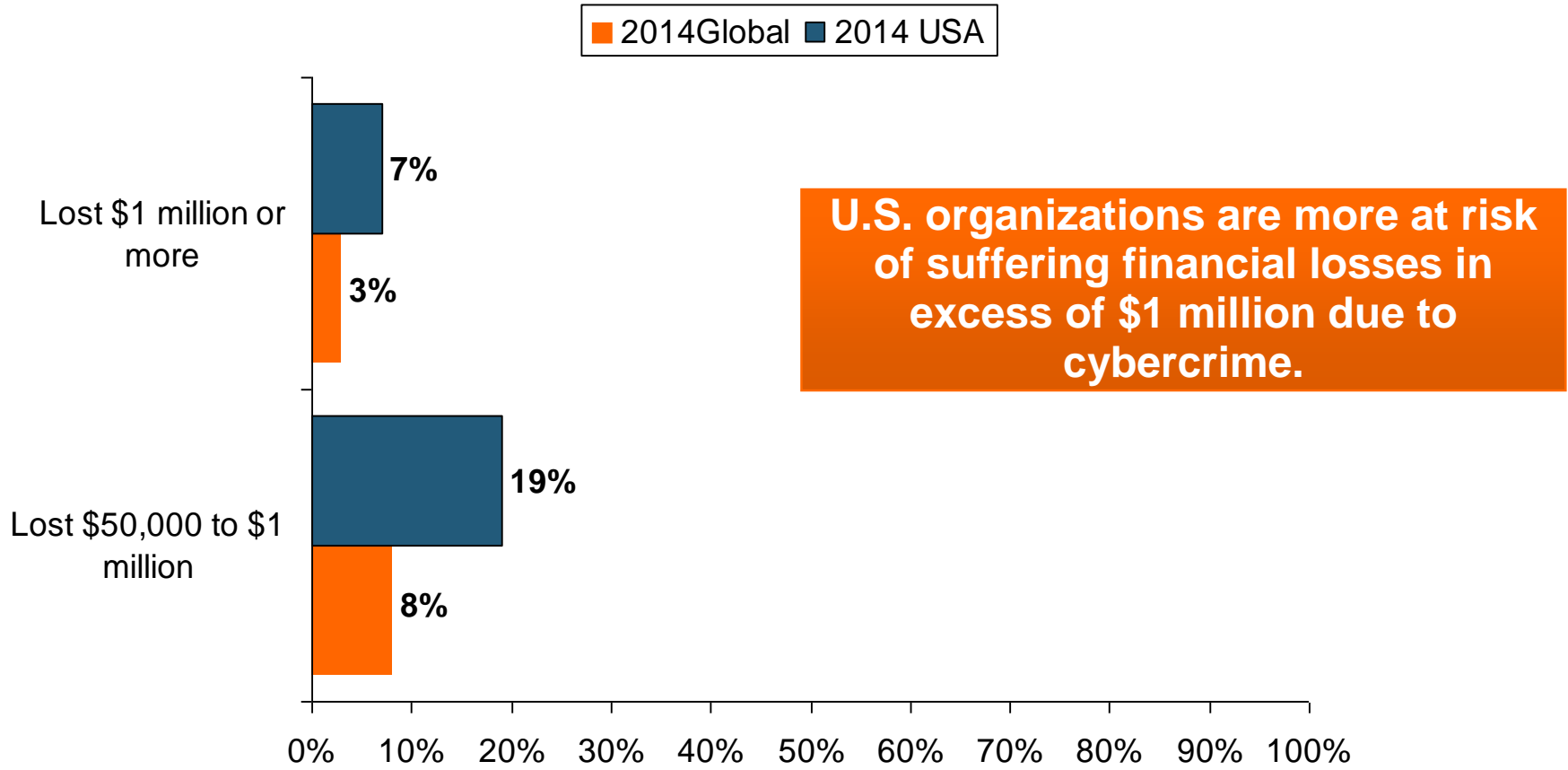
Information theft (40%) and business disruption or lost productivity (38%) account for the majority of external costs due to cyber crime.



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

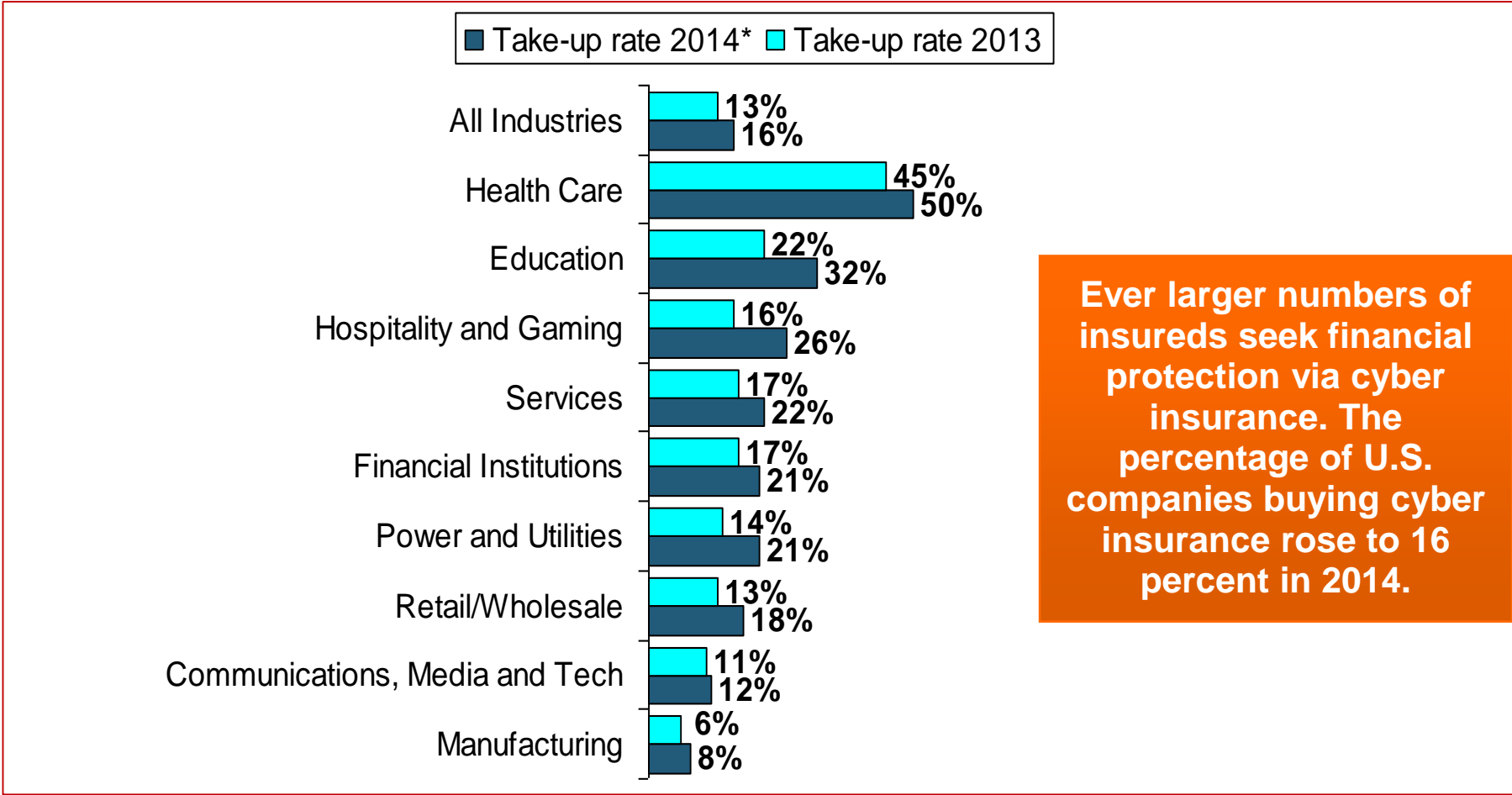
Source: 2014 Cost of Cyber Crime: United States, Ponemon Institute.

PWC Survey: Cybercrime Costs Greater for U.S. Companies



Source: 2014 Global Economic Crime Survey, PWC.

Marsh: Percentage of U.S. Companies Purchasing Cyber Insurance Increased in 2014



Ever larger numbers of insureds seek financial protection via cyber insurance. The percentage of U.S. companies buying cyber insurance rose to 16 percent in 2014.

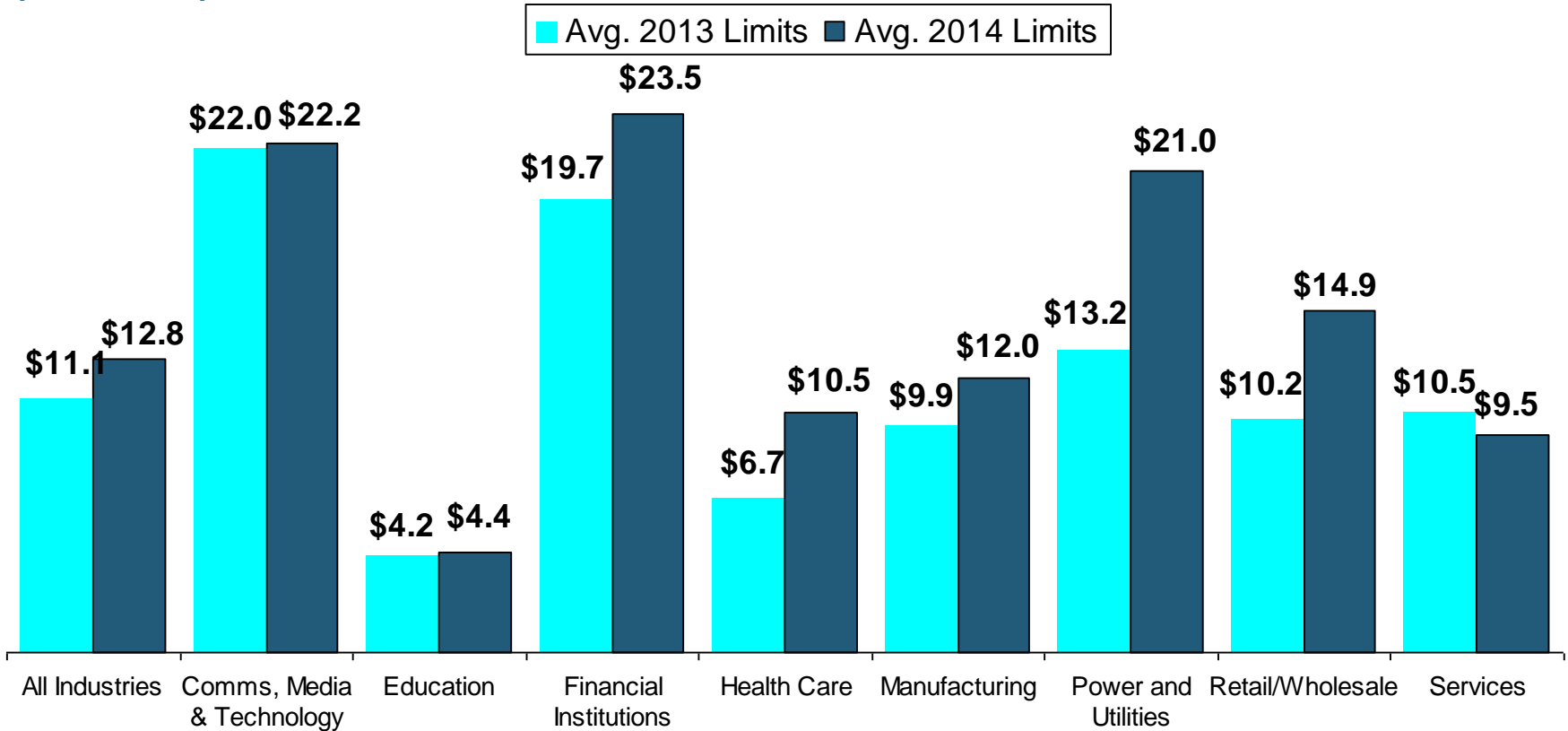
*Take-up rate refers to the overall percentage of clients that purchased standalone cyber insurance.

Source: *Benchmarking Trends: As Cyber Concerns Broaden, Insurance Purchases Rise*, Marsh Risk Management Research Briefing, March 2015

Marsh: Total Limits Purchased, By Industry – Cyber Liability, All Revenue Size

Average limits purchased for cyber risk rose to \$12.8 million for all industries and all company sizes in 2014. Power and utility companies witnessed the sharpest percentage increase in average limits, at 59 percent.

(\$ Millions)



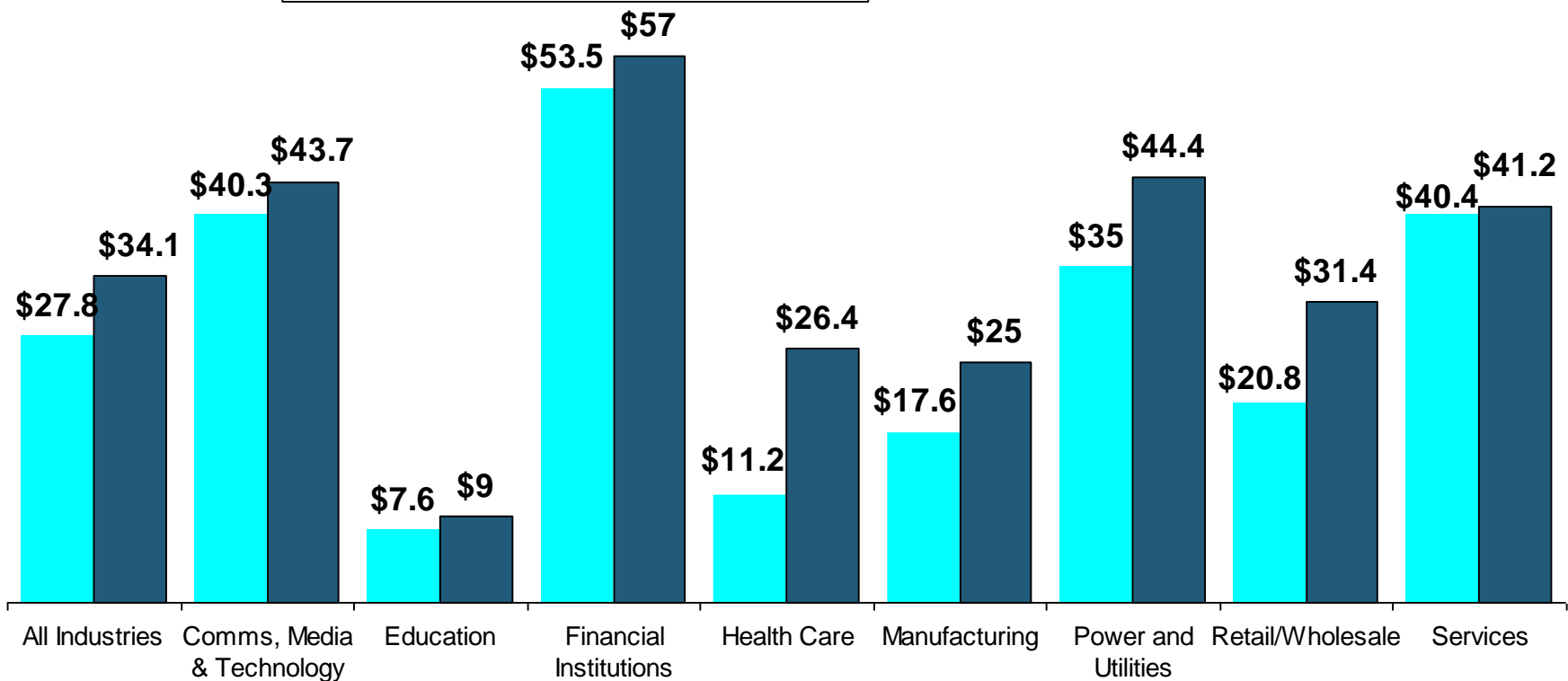
Source: *Benchmarking Trends: As Cyber Concerns Broaden, Insurance Purchases Rise*, Marsh Risk Management Research Briefing, March 2015

Marsh: Total Limits Purchased, By Industry – Cyber Liability, Revenue \$1 Billion+

Among larger companies, average cyber insurance limits purchased increased by 22 percent to \$34.1 million in 2014, from \$27.8 million in 2013.

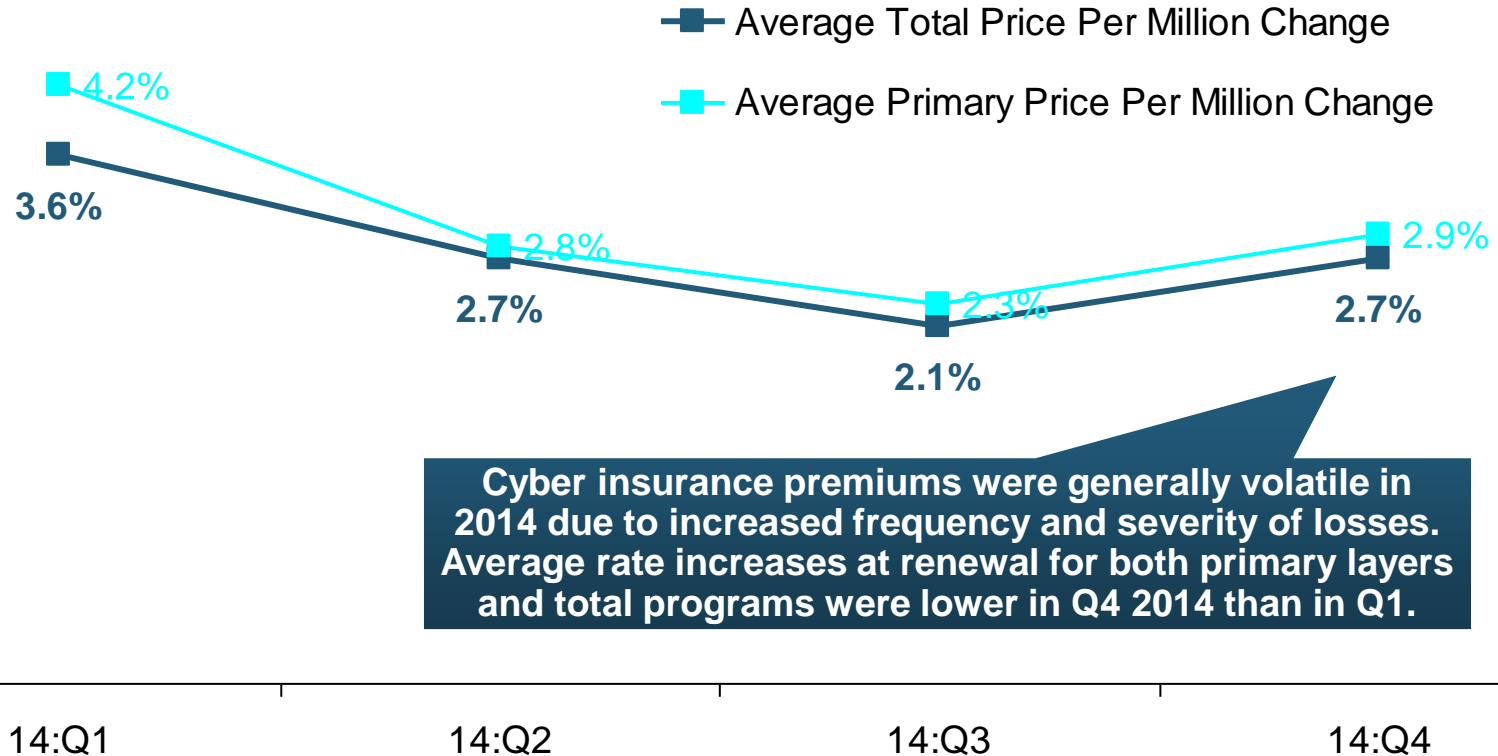
(\$ Millions)

■ Avg. 2013 Limits ■ Avg. 2014 Limits

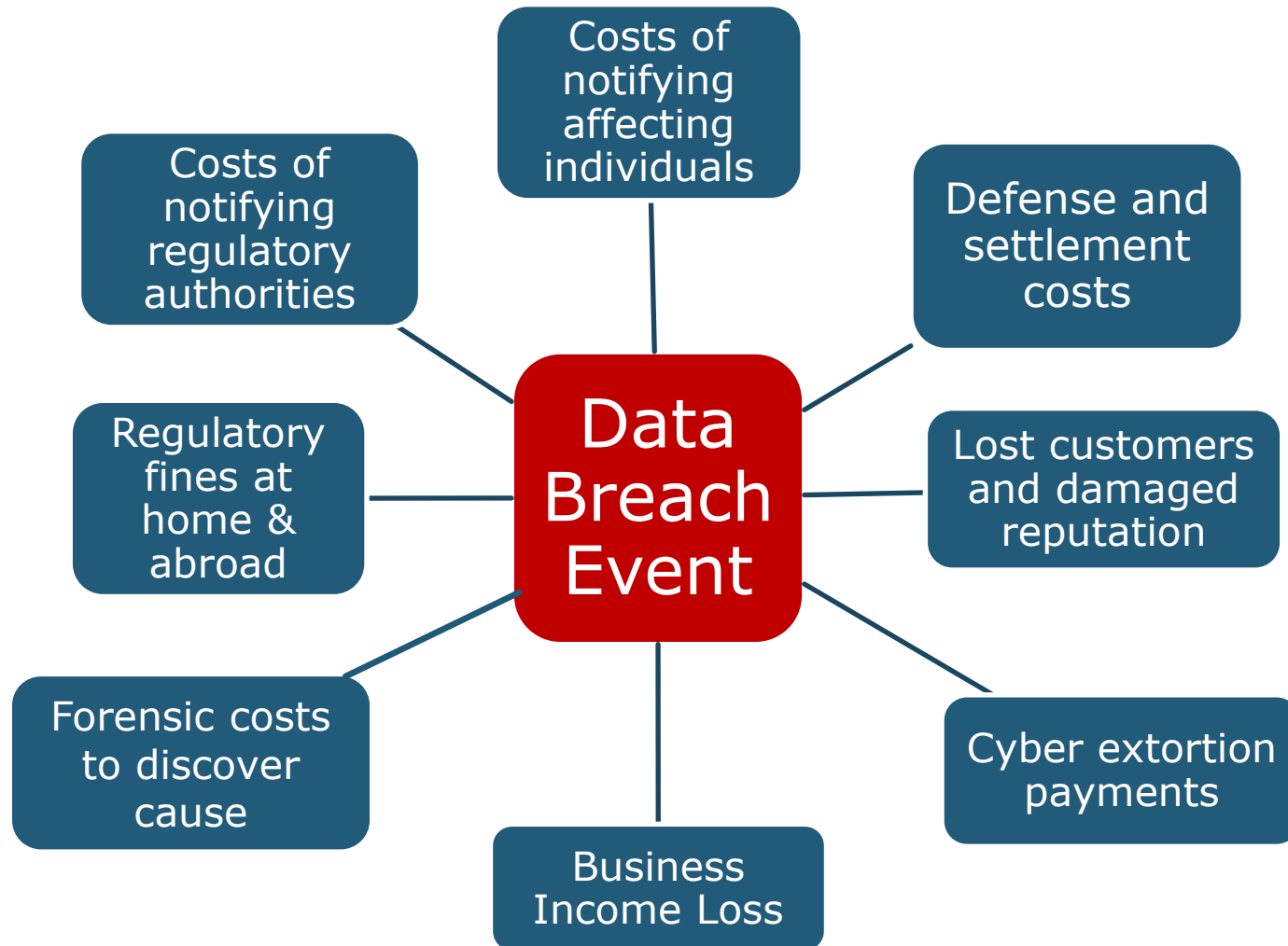


Source: *Benchmarking Trends: As Cyber Concerns Broaden, Insurance Purchases Rise*, Marsh Risk Management Research Briefing, March 2015

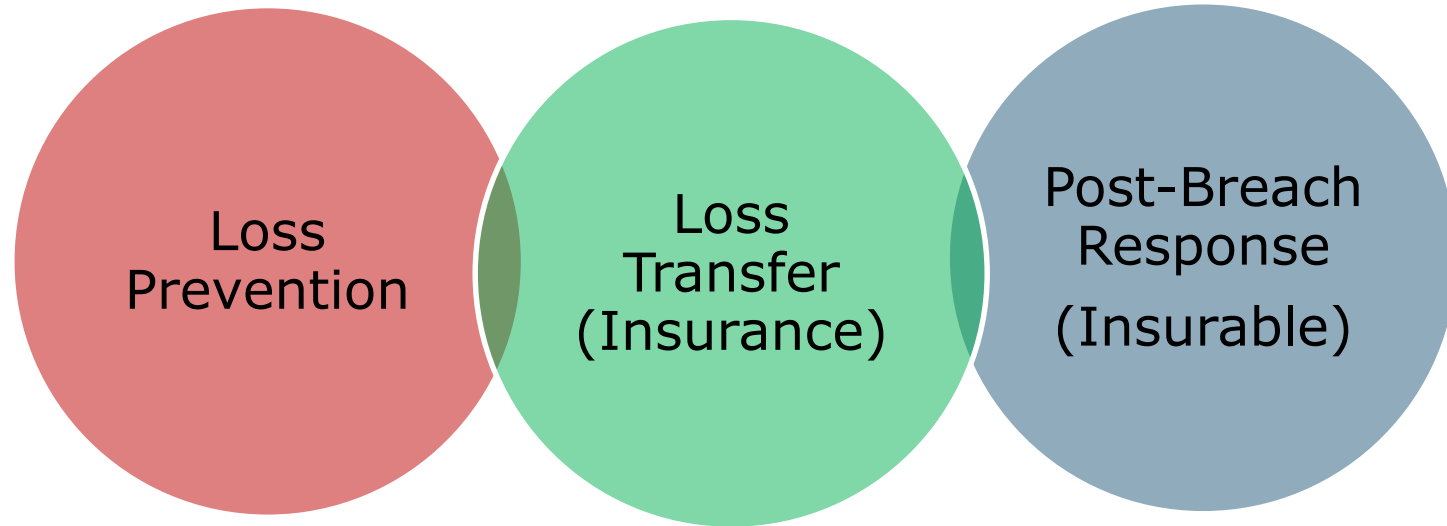
Cyber Liability: Historical Rate (price per million) Changes



Data/Privacy Breach: Many Potential Costs Can Be Insured



The Three Basic Elements of Cyber Coverage: Prevention, Transfer, Response



Cyber risk management today involves three essential components, each designed to reduce, mitigate or avoid loss. An increasing number of cyber risk products offered by insurers today provide all three.

I.I.I. Will Release its Third Cyber Report in 2015: *Cyber Risks Threat and Opportunity*



- I.I.I.'s 3rd report on cyber risk scheduled for Q3 2015
- Provides information on cyber threats and insurance market solutions
- Global cyber risk overview
 - Quantification of threats by type and industry
- Cyber security and cost of attacks
- Cyber terrorism
- Cyber liability
- Insurance market for cyber risk

INDUSTRY DISRUPTORS

**Technology, Society and
the Economy Are All
Changing at a Rapid Pace**

Thoughts on the Future



Technology and Insurance

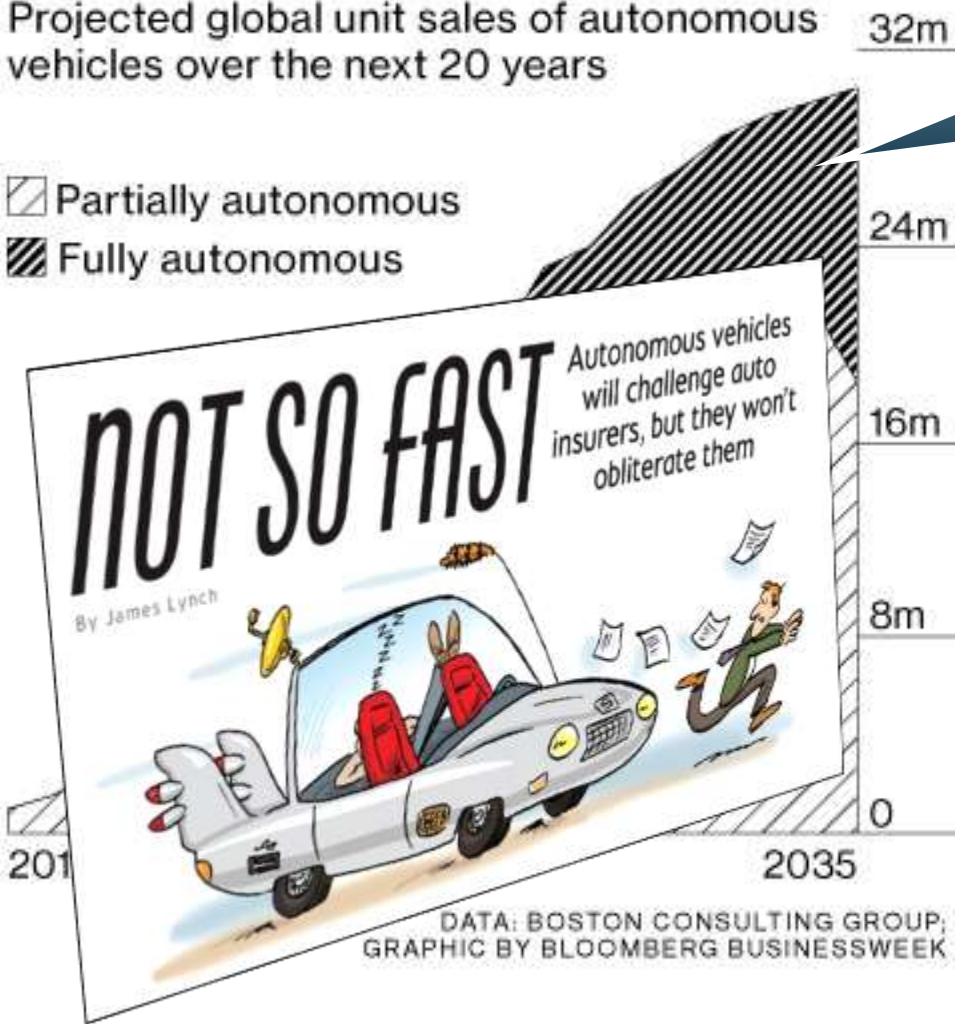
**Rapid Technological Innovations Are
Impacting Many Segments of the
P/C Insurance Industry**

Media is Obsessed with Driverless Vehicles: Often Predicting the Demise of Auto Insurance

Hands-Free

Projected global unit sales of autonomous vehicles over the next 20 years

- ▨ Partially autonomous
- ▩ Fully autonomous



By 2035, it is estimated that 25% of new vehicle sales could be fully autonomous models

Questions

- Are auto insurers monitoring these trends?
- How are they reacting?
- Will Google take over the industry?
- Will the number of auto insurers shrink?
- How will liability shift?

DATA: BOSTON CONSULTING GROUP;
GRAPHIC BY BLOOMBERG BUSINESSWEEK

Source: Boston Consulting Group.

On-Demand/Sharing/Peer-to-Peer Economy Impacts Many Lines of Insurance

- The “On-Demand” Economy is or will impact many segments of the economy important to P/C insurers
 - ◆ Auto (personal and commercial)
 - ◆ Homeowners/Renters
 - ◆ Many Liability Coverages
 - ◆ Professional Liability
 - ◆ **Workers Comp**
- Many unanswered insurance questions
- Insurance solutions are increasingly available to fill the many insurance gaps that arise



U B E R



Labor on Demand: Huge Implications for the US Economy, Workers & Insurers

Will YOUR job be reduced to an app?



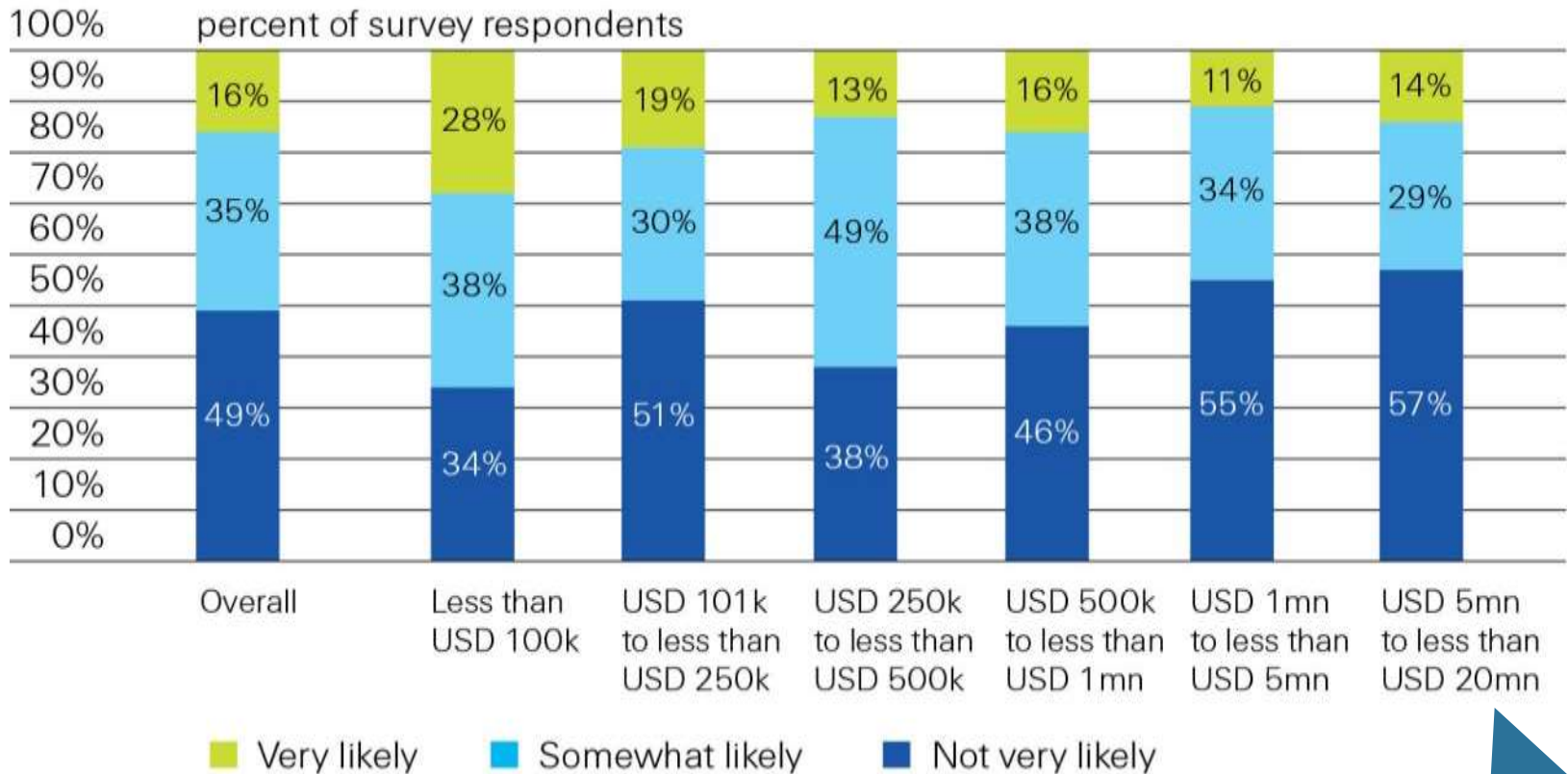
Send in the Drones: Potential Rapid Adoption in Industry; Media Loves It



- Drones or Unmanned Aerial Vehicle (UAV) technology is seeing rapid adoption rate in many industries, including insurance
- FAA granting Section 333 exemptions for commercial use and testing of UAS
- At least 5 insurers have received permission to test
- Wide variety of applications: claims, pre-event property inspections...
- Insurers partnering with construction industry to guide R&D and regulation of UAV use via *Property Drone Consortium*: www.propertydrone.org



Proportion of Businesses Interested in Buying Insurance Online



Interest diminishes with account size

Likelihood of small US businesses buying insurance online directly from the insurer, overall and by annual company revenue, in 2013

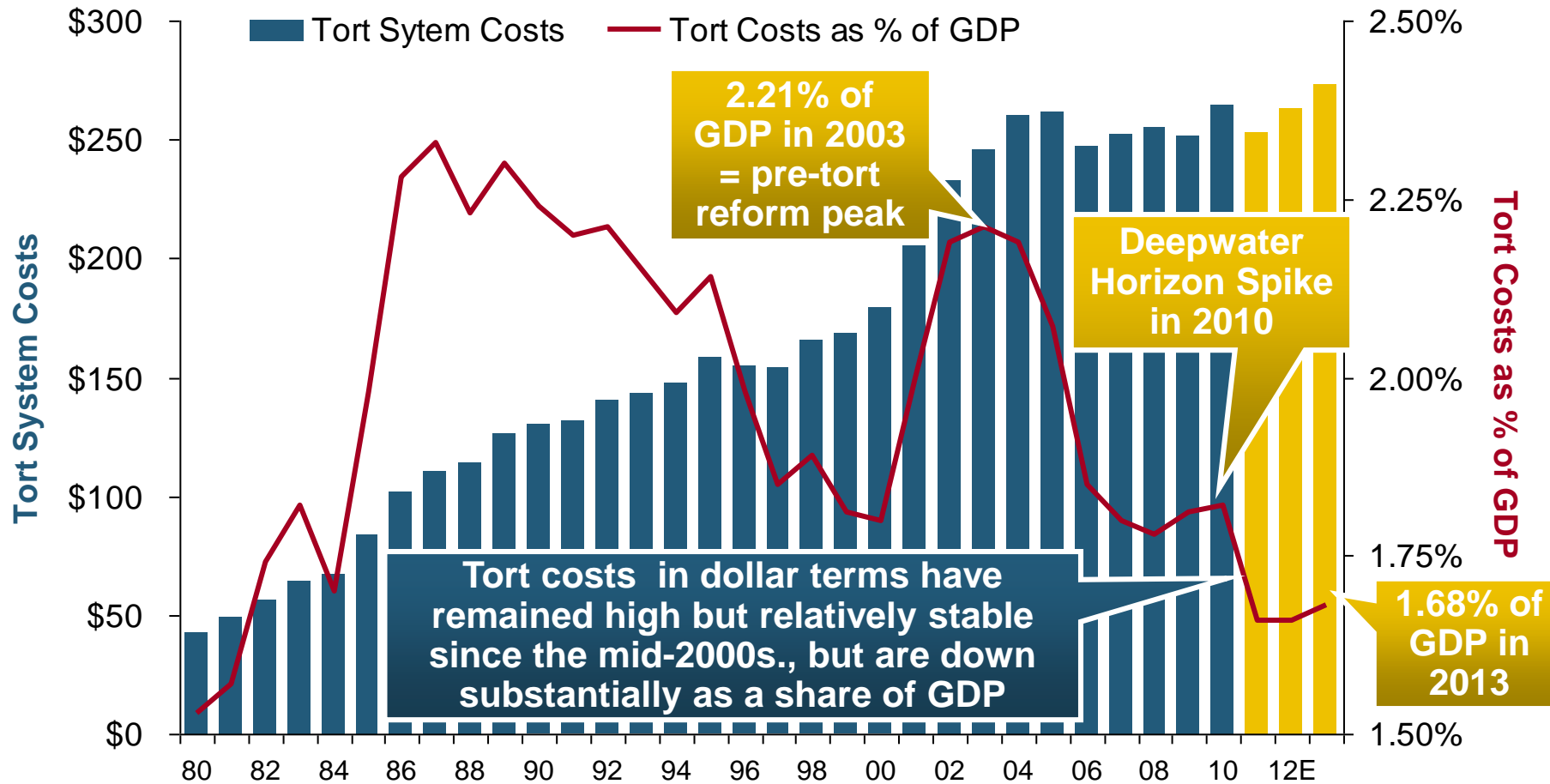
Source: Swiss Re from "Voice of the Small Commercial Insurance Consumer Survey." Deloitte, March (2013)

Shifting Legal Liability & Tort Environment

Will the Tort Pendulum Swing Against Insurers?

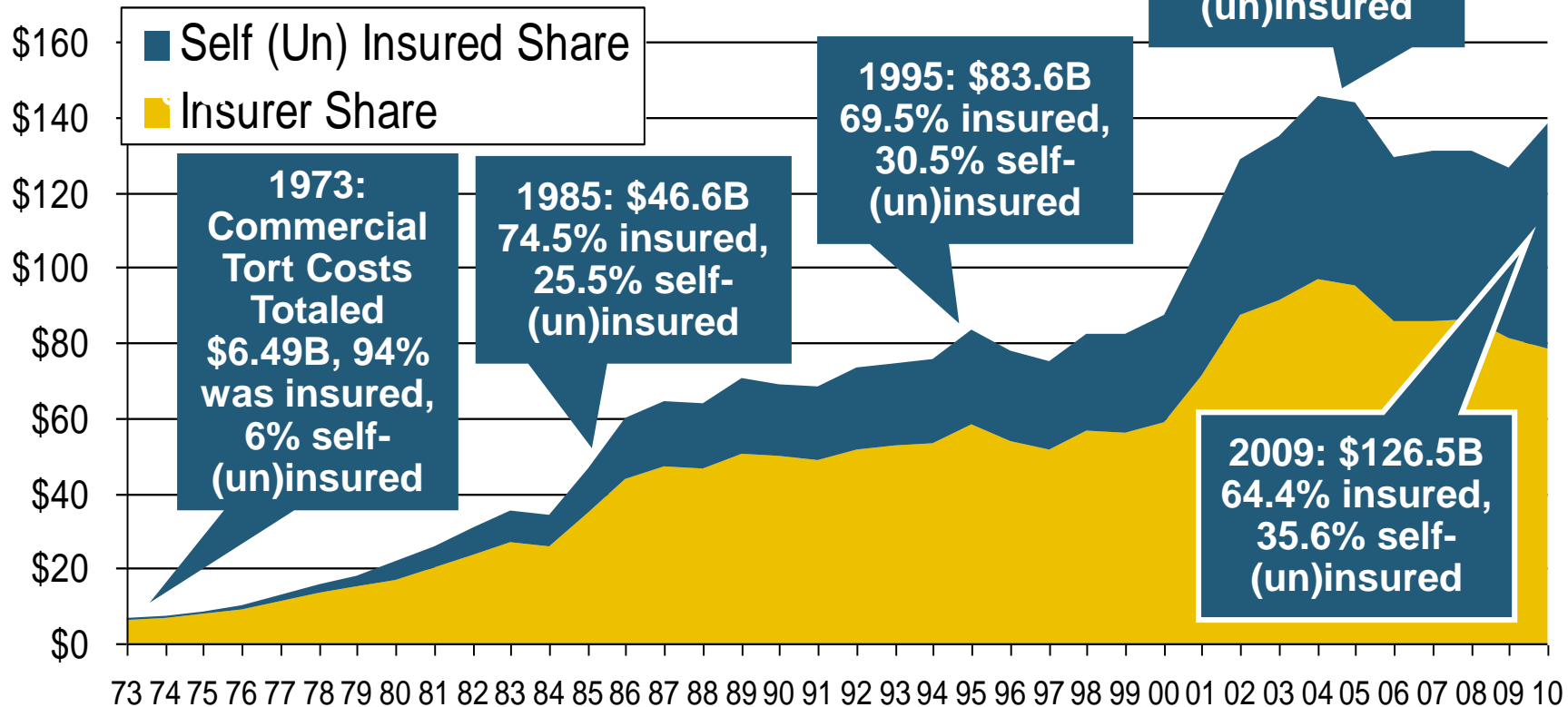
Over the Last Three Decades, Total Tort Costs as a % of GDP Appear Somewhat Cyclical, 1980-2013E

(\$ Billions)



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

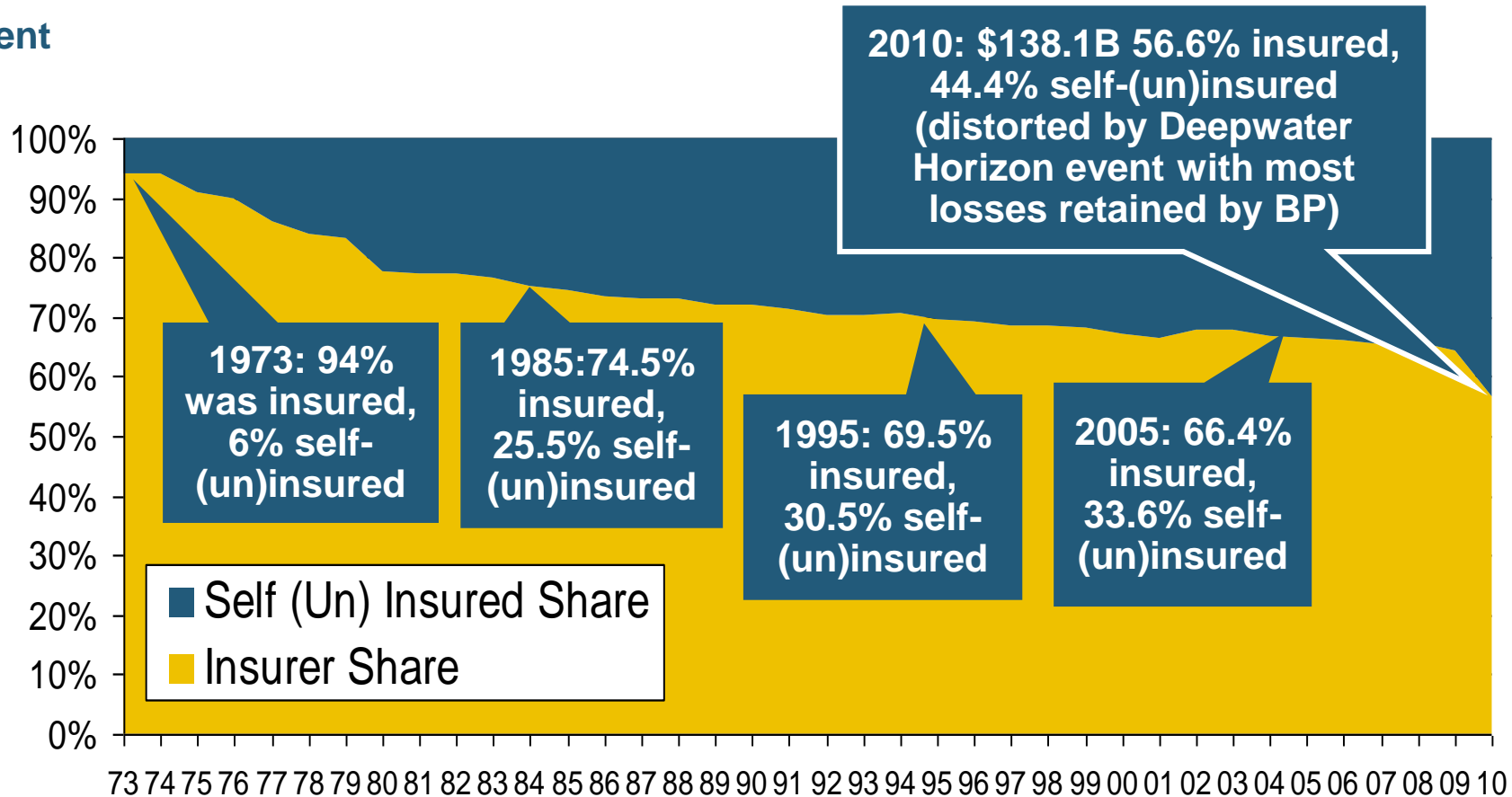
Billions of Dollars



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

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

Percent



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.

Business Leaders Ranking of Liability Systems in 2012

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

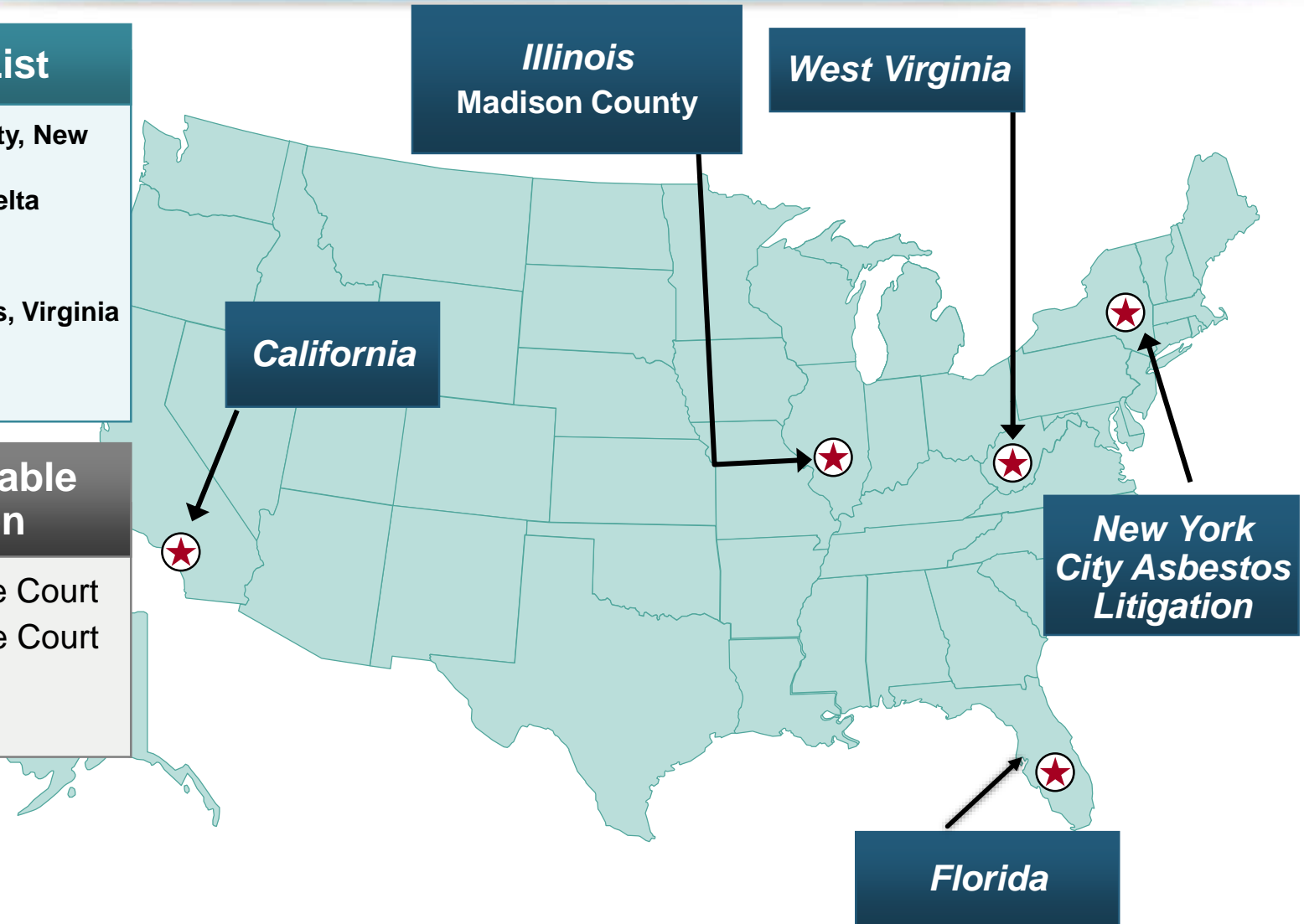
The Nation's Judicial "Hellholes": 2014/2015

Watch List

- Atlantic County, New Jersey
- Mississippi Delta
- Montana
- Nevada
- Newport News, Virginia
- Philadelphia, Pennsylvania

Dishonorable Mention

- AL Supreme Court
- PA Supreme Court



Insurance Information Institute Online:

www.iii.org

*Thank you for your time
and your attention!*

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