P/C Insurance Industry
Overview and Outlook:
Focus on the Construction Sector

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

U.S. Growth Will Expand Insurer Exposure Base Across Most Lines
US Real GDP Growth*

The Q4:2008 decline was the steepest since the Q1:1982 drop of 6.8%

2014/15 are expected to see a modest acceleration in growth

Recession began in Dec. 2007. Economic toll of credit crunch, housing slump, labor market contraction was severe

Real GDP Growth (%)

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

* Estimates/Forecasts from Blue Chip Economic Indicators.
Source: US Department of Commerce, Blue Economic Indicators 6/14; Insurance Information Institute.
Real GDP by State Percent Change, 2012: Highest 25 States

North Dakota was the economic growth juggernaut of the US in 2012—by far

Only 10 states experienced growth in excess of 3%, which is what we would see nationally in a more typical recovery.

Real GDP by State Percent Change, 2012: Lowest 25 States

Growth rates in 8 states (and DC) were still below 1% in 2012

Connecticut was the only state to shrink in 2012

State-by-State Leading Indicators through 2014:Q3

The economic outlook for most of the US is generally positive, though negative for 9 states.

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

Impact of 2011 budget impasse

Optimism among consumers improved in the first part of 2014
Net Worth of Households*
Recently Hit A Historic High

Rising net worth fuels a “wealth affect” that helps fuel consumer spending, which accounts for 70% of spending in the U.S. economy

*Includes nonprofit organizations. Data are not seasonally adjusted or inflation-adjusted.
NFIB Small Business Optimism Index

January 1985 through April 2014

Small business optimism in April exceeded for the first time its level when the crisis began in Dec. 2007.

Household Financial Obligations Ratio Recently Hit A Historic Low

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

Household balance sheets are stronger than they’ve been in many years, setting the stage for more consumer spending.

Decline began in 2008:Q1.

15.23% in 2012:Q4 is lowest ratio since 1980:Q4 (15.09%).

*through 2013:Q3 (data posted on Dec 13, 2013)

Source: Federal Reserve Board, at http://www.federalreserve.gov/releases/housedebt
Auto/Light Truck Sales, 1999-2019F

(Millions of Units)

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.

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

Truck purchases by contractors are especially strong.

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

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (5/14 and 3/13); Insurance Information Institute.
Annual Inflation Rates, (CPI-U, %), 1990–2015F

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 remain quite low, allowing the Fed to maintain low interest rates.

The slack in the U.S. economy suggests that inflationary pressures should remain subdued for an extended period of times. Energy, health care and commodity prices, plus U.S. debt burden, remain longer-run concerns.

Business Bankruptcy Filings, 1980-2013

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

2013 bankruptcies totaled 33,212, down 17.1% from 2012—the fourth consecutive year of decline. Business bankruptcies more than tripled during the financial crisis.

% Change Surrounding Recessions

- 1980-82: 58.6%
- 1980-87: 88.7%
- 1990-91: 10.3%
- 2000-01: 13.0%
- 2006-09: 208.9%

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

Small business optimism in April exceeded for the first time its level when the crisis began in Dec. 2007.
Many industries are poised for growth, though insurers’ ability to capitalize on these industries varies widely.

<table>
<thead>
<tr>
<th>Industries for the Next 10 Years: Insurance Solutions Needed</th>
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<tbody>
<tr>
<td>Health Care</td>
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<td>Health Sciences</td>
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<td>Energy (Traditional)</td>
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<td>Alternative Energy</td>
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<td>Petrochemical</td>
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<td>Agriculture</td>
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<td>Natural Resources</td>
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<tr>
<td>Technology (incl. Biotechnology)</td>
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<td>Light Manufacturing</td>
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<tr>
<td>Insourced Manufacturing</td>
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<tr>
<td>Export-Oriented Industries</td>
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<tr>
<td>Shipping (Rail, Marine, Trucking, Pipelines)</td>
</tr>
</tbody>
</table>
Monthly Change in Private Employment

January 2007 through May 2014 (Thousands, Seasonally Adjusted)

Private Employers Added 9.39 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)

The Construction Sector Is Critical to the Economy and the P/C Insurance Industry
Private Construction Activity Is Moving in a Positive Direction though Remains Well Below Pre-Crisis Peak; Residential Dominates

*2014 figure is a seasonally adjusted annual rate as of April.
Sources: US Department of Commerce; Insurance Information Institute.
Value of Construction Put in Place, April 2014 vs. April 2013*

Private: +11.7%

Public: +1.2%

Growth (%)

Private sector construction activity is up in the residential and nonresidential segments

Public sector construction activity remains depressed but better than a year ago (-5.2%)

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

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

*seasonally adjusted
Source: U.S. Census Bureau, [http://www.census.gov/construction/c30/c30index.html](http://www.census.gov/construction/c30/c30index.html); Insurance Information Institute.
Public sector construction activity is down substantially in many segments, a situation that will likely persist, dragging on public entity risk exposures. Transportation, Power and Conservation projects lead public sector construction.

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

*seasonally adjusted
Source: U.S. Census Bureau, [http://www.census.gov/construction/c30/c30index.html](http://www.census.gov/construction/c30/c30index.html) ; Insurance Information Institute.
Construction activity has generally been positive since late 2010 but has occasionally been erratic. Forecast is for slowing improving growth.

*Through Q1 2014.

Source: US Dept. of Commerce; Wells Fargo Securities (June 6, 2014 research report).
Commercial & Industrial Loans Outstanding at FDIC-Insured Banks, Quarterly, 2006-2014:Q1

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

Commercial lending activity exceeds pre-crisis levels (+36.75% or $430B above mid-2010 trough)

Commercial lending plunged by 21.2% ($330B) during the financial crisis and ensuing period of tight credit

Source: FDIC at http://www2.fdic.gov/qbp/ (Loan Performance spreadsheet); Insurance Information Institute.
Percent of Non-current Commercial & Industrial Loans Outstanding at FDIC-Insured Banks, Quarterly, 2006-2014:Q1

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

Source: FDIC at http://www2.fdic.gov/qbp/ (Loan Performance spreadsheet); Insurance Information Institute.
Change from Peak in New Construction Expenditures to 2013*

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

Note: Year in parentheses is the year of peak expenditure.
*2013 figure is a seasonally adjusted annual rate as of June.
Sources: US Department of Commerce; Insurance Information Institute.
Government Construction Spending Peaked in 2009, Helped by Stimulus Spending, but Continues to Contract As State/Local Governments Grapple with Deficits and Federal Sequestration Takes Hold

*2014 figure is a seasonally adjusted annual rate as of April; [http://www.census.gov/construction/c30/historical_data.html](http://www.census.gov/construction/c30/historical_data.html)
Sources: US Department of Commerce; Insurance Information Institute.
New Private Housing Starts, 1990-2019F

(Millions of Units)

1.48 1.47 1.62 1.64 1.57 1.60 1.71 1.85 1.96 2.07 1.80 1.36 0.91 0.55 0.59 0.61 0.78 0.92 1.05 1.27 1.44 1.50 1.50

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

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (5/14 and 3/13); Insurance Information Institute.
Florida Total Private Housing Starts, 2000 – 2017F

CRASH, CRATER, RECOVERY
Homebuilding in FL continues to recover, adding substantially to coastal exposures.

Construction employment is +569,000 above Jan. 2011 (+10.5%) trough.
Construction Employment, Jan. 2003–May 2014

The “Great Recession” and housing bust destroyed 2.3 million construction jobs. Construction employment troughed at 5.435 million in Jan. 2011, after a loss of 2.291 million jobs, a 29.7% plunge from the April 2006 peak.

Construction employment peaked at 7.726 million in April 2006.

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

The Construction Employment as of May 2014 totaled 6.0 million, an increase of 569,000 jobs or 10.5% from the Jan. 2011 trough.

Gap between pre-recession construction peak and today: 1.7 million jobs.

Note: Recession indicated by gray shaded column.
Logging Employment, Jan. 2010—May 2014*

Logging employment has been somewhat volatile but is up more than 10% from its 2010/2011 lows. Home construction activity in the US and some foreign demand should help this sector.

*Seasonally adjusted

The Logging Sector Is Benefitting from Residential Home Construction, Renewable Energy Regulations in Europe (encourage wood burning) and some Asian pulp demand.

The “Great Recession” and housing bust destroyed at least 15,000 logging jobs.

Logging employment peaked at about 71,000 in early 2003.

Logging employment as of May 2014 totaled 53,900, an increase of 6,500 jobs or 12.9% from the Oct. 2011 trough.

Logging employment troughed at 47,400 in Oct. 2011.

Note: Recession indicated by gray shaded column.
Construction Employment Is Expanding—Albeit Modestly—in Much of the US

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

<table>
<thead>
<tr>
<th>Metro Area</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Los Angeles</td>
<td>11,100</td>
</tr>
<tr>
<td>Dallas</td>
<td>9,500</td>
</tr>
<tr>
<td>Santa Ana/Anaheim</td>
<td>8,500</td>
</tr>
<tr>
<td>Atlanta</td>
<td>8,100</td>
</tr>
<tr>
<td>Baltimore</td>
<td>6,100</td>
</tr>
<tr>
<td>Orlando</td>
<td>5,200</td>
</tr>
<tr>
<td>Bethesda/Rockville, MD</td>
<td>-3,700</td>
</tr>
<tr>
<td>Gary, IN</td>
<td>-2,900</td>
</tr>
<tr>
<td>Newark</td>
<td>-1,600</td>
</tr>
<tr>
<td>Bergen/Passaic, NJ</td>
<td>-1,300</td>
</tr>
<tr>
<td>Tacoma, WA</td>
<td>-1,200</td>
</tr>
<tr>
<td>Albuquerque, NM</td>
<td>-1,200</td>
</tr>
</tbody>
</table>

*Seasonally adjusted; Source: Associated General Contractors; http://www.agc.org/galleries/news/Metro_Empl_1404_Rank.pdf; Ins. Information Institute.
Yields on 30-Year mortgages have been below 6% for a six years.

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

*Monthly, through May 2014.

Note: Recessions indicated by gray shaded columns.

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

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

*Weekly through June 5, 2014.
Sources: Federal Reserve Bank at [http://www.federalreserve.gov/releases/h15/data.htm](http://www.federalreserve.gov/releases/h15/data.htm); Insurance Information Institutes.
The U.S. Is Experiencing a Mini Manufacturing Renaissance That Is Benefitting the US Economy and the P/C Insurance Industry
Manufacturing employment is a surprising source of strength in the economy. Employment in the sector is at a multi-year high.

*Seasonally adjusted.


The value of Manufacturing Shipments in Apr. 2014 was $497.6B—a new record high.


The manufacturing sector expanded for 51 of the 53 months from Jan. 2010 through May 2014. Pace of recovery has been uneven due to economic turbulence in the U.S., Europe and China.

Manufacturing Growth for Selected Sectors, 2014 vs. 2013*

Durables: +3.9%

Non-Durables: +0.9%

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

*Seasonally adjusted; Date are YTD comparing data through May 2014 to the same period in 2013.
Business Investment: Expected to Accelerate, Fueling Commercial Exposure Growth

Accelerating business investment will be a potent driver of commercial property and liability insurance exposures and should drive employment and WC payroll exposures as well (with a lag).

Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures

March 2001 through April 2013

Percent of Industrial Capacity

82%
80%
78%
76%
74%
72%
70%
68%
66%

The closer the economy is to operating at “full capacity,” the greater the inflationary pressure.

Hurricane Katrina
March 2001-November 2001 recession
December 2007-June 2009 Recession

The US operated at 77.8% of industrial capacity in Apr. 2013, well above the June 2009 low of 66.9% but is still below pre-recession levels.

ENERGY SECTOR: OIL & GAS
INDUSTRY FUTURE IS BRIGHT

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

Need Infrastructure Investment
The U.S. is already the world’s largest natural gas producer—recently overtaking Russia. This is a potent driver of commercial insurance exposures.

Hydraulic fracturing (fracking) has pushed US natural gas productions to record levels. The U.S. is now the world’s largest NG producer.
Crude oil production in the U.S. is expected to increase by 82.6% from 2008 through 2015—and could overtake Saudi Arabia as the world’s largest oil producer.

Oil and gas extraction employment is up 34.6% since Jan. 2010 as the energy sector booms. Domestic energy production is essential to any robust economic recovery in the US.

*Seasonally adjusted
Between 2010 and 2040, energy consumption is projected to increase by 56.4% worldwide.

Growth in worldwide energy consumption will create more risk and vulnerabilities (natural and manmade); Innovations in risk management and insurance are needed.

World Primary Energy Consumption, 1990-2040P

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

- **Oil**: $10.1 trillion, 27%
- **Natural Gas**: $9.5 trillion, 25%
- **Power**: $16.9 trillion, 44%
- **Biofuels**: $0.3 trillion, 1%
- **Coal**: $1.1 trillion, 3%

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

Natural gas share of fossil fired generation will grow rapidly (more investment needed). Coal fired generation will remain flat but its share will fall due to abundant gas and EPA carbon regulations.
US Natural Gas Production and Non-Hydro Renewable Electricity Generation, 1990-2035

Shale gas production is expected to grow rapidly in the US.

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

Tight gas production involves controversial hydraulic fracturing (fracking) techniques.

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

*Through April 2014.

Source: US Dept. of Commerce; Energy Information Administration, Wells Fargo Securities (June 6, 2014 research report).
Massive Job Losses Sapped the Economy and Commercial/Personal Lines Exposure, But Trend is Improving
Unemployment and Underemployment Rates: Still Too High, But Falling

January 2000 through May 2014, Seasonally Adjusted (%)

"Headline" Unemployment Rate U-3
Unemployment + Underemployment Rate U-6

“Headline” unemployment was 6.3% in May 2014. 4% to 6% is “normal.”

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

US Unemployment Rate Forecast

2007:Q1 to 2015:Q4F*

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

Unemployment forecasts have been revised slightly downwards. Optimistic scenarios put the unemployment as low as 5.9% by Q4 of this year.

Jobless figures have been revised slightly downwards for 2014/15

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (6/14 edition); Insurance Information Institute.
Unemployment Rates by State, April 2014: Highest 25 States*

In April, 43 states had over-the-month unemployment rate decreases, 2 states had increases, and 5 states and the District of Columbia had no change.

*Provisional figures for April 2014, seasonally adjusted.
Unemployment Rates by State, April 2014: Lowest 25 States*

In April, 43 states had over-the-month unemployment rate decreases, 2 states had increases, and 5 states and the District of Columbia had no change.

*Provisional figures for April 2014, seasonally adjusted.
Monthly Change in Private Employment

January 2007 through May 2014 (Thousands, Seasonally Adjusted)

1,053,000 jobs created so far in 2014

216,000 private sector jobs were created in May. In March 2014, the last of the private jobs lost in the Great Recession were recovered

Private Employers Added 9.39 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)

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

December 2007 through May 2014 (Millions)

Pvt. employment hit 116.6 million in April 2014—617,000 above its pre-crisis peak of 116.0 million

Cumulative job losses peaked at 8.765 million in February 2010

It took more than 6 ½ years (79 months) to recover all of the private sector jobs lost in the Great Recession


Job gains and pay increases have added more than $1 trillion in new payrolls since 2009 trough

Cumulative job gains through Apr. 2014 totaled 9.39 million


State government employment fell by 1.5% since the end of 2009 but is recovering while Federal employment is down by 5.3% and deteriorating.

Local government employment shrank by 380,000 from Jan. 2010 through Apr. 2014, accounting for 62% of all government job losses, negatively impacting WC exposures for those cities and counties that insure privately.

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

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2014:Q1

Prior Peak was 2008:Q1 at $6.60 trillion
Recent trough (2009:Q3) was $6.25 trillion, down 5.3% from prior peak
Latest (2014:Q1) was $7.29 trillion, a new peak--$1.04 trillion above 2009 trough
Payrolls are 16.6% above their 2009 trough and up 3.6% over the past year

Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.
Sources: http://research.stlouisfed.org/fred2/series/WASCUR; National Bureau of Economic Research (recession dates); Insurance Information Institute.
Payroll vs. Workers Comp Net Written Premiums, 1990-2013P

Payroll Base*  
$Billions

WC NWP  
$Billions

7/90-3/91  3/01-11/01  12/07-6/09

WC premium volume dropped two years before the recession began

WC net premiums written were down $14B or 29.3% to $33.8B in 2010 after peaking at $47.8B in 2005

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

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

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

Sources: A.M. Best (1994-2009); NCCI (2010-2013P) and are for private carriers only; Insurance Information Institute (2014-15).
Workers Compensation Premium: Third Consecutive Year of Increase

Net Written Premium

$ Billions

<table>
<thead>
<tr>
<th>Year</th>
<th>State Funds ($ B)</th>
<th>Private Carriers ($ B)</th>
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<tbody>
<tr>
<td>90</td>
<td>35.3</td>
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<tr>
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<tr>
<td>13</td>
<td>41.9</td>
<td>37.0</td>
</tr>
</tbody>
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Pvt. Carrier NWP growth was +5.4% in 2013 and 8.7% in 2012

Source: 1990–2013p Private Carriers, Annual Statement Data, NCCI.
1996–2013p State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements
State Funds available for 1996 and subsequent
PRIVATE CARRIERS: Overall 2013 Growth = +5.4%

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

*Excludes monopolistic fund states (in white): OH, ND, WA and WY. Source: NCCI.
Workers Compensation Lost-Time Claim Frequency Declined in 2013

Lost-Time Claims

Percent

Cumulative Change of −55.4%
(1991–2011 adj.)

Frequency Change: 2007—2012

Contracting: 7.9→7.1 -9.3%
Manufacturing: 13.6→12.0 -11.8%

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

Average Medical Cost per Lost-Time Claim

Accident Year

- Annual Change 1991–1993: +1.9%
- Annual Change 1994–2001: +8.9%
- Annual Change 2002–2013: +5.2%

Cumulative Change = 256% (1991-2013p)

1991-2012: Based on data through 12/31/2012, developed to ultimate
Based on the states where NCCI provides ratemaking services including state funds, excluding WV; Excludes high deductible policies.
Increases in WC medical costs varied enormously over the past decade from a high of 56% in Wisconsin to a low of 2% in North Carolina.

States in GOLD had no fee schedule in 2012. These generally saw larger increases in WC medical costs over the past decade.

*Data are preliminary as of 6/30/12.
Average annual increase in WC medical severity form 1995 through 2011 was well above the medical CPI (6.8% vs. 3.8%), but the gap is narrowing.

Workers Comp Indemnity Claim Costs: Small Increase in 2013

Average Indemnity Cost per Lost-Time Claim

Average indemnity costs per claim were up 2% in 2013 to $22,700

Annual Change 1991–1993: -1.7%
Annual Change 1994–2001: +7.3%
Annual Change 2002–2013: +3.3%

Accident Year

1991-2011: Based on data through 12/31/2011, 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 -2013p

Indemnity severities usually outpace wage gains

WC indemnity severity and wage growth were approximately the same in 2013

Annual Change 1991–1993: -1.7%
Annual Change 1994–2001: +7.3%
Annual Change 2002–2011: +3.2%

Source: NCCI.
Average Approved Bureau Rates/Loss Costs

History of Average WC Bureau Rate/Loss Cost Level Changes

Cumulative 1990–1993
+36.3%

Cumulative 1994–1999
-27.8%

Cumulative 2000–2003
+17.1%

Cumulative 2004–2011
-25.9%

2012 experienced the largest increase since 2003

Calendar Year

*States approved through 4/15/2013
Note: Countrywide approved changes in advisory rates, loss costs and assigned risk rates as filed by applicable rating organization.
Source: NCCI.
Impact of Discounting on Workers Compensation Premium

NCCI States—Private Carriers

Dividend ratios are based on calendar year statistics
NCCI benchmark level does not include an underwriting contingency provision
Based on data through 12/31/2011 for the states where NCCI provides ratemaking services
Source: NCCI.
WC rate changes have been positive for 12 consecutive quarters, longer than any other commercial line. Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
WC insurers need to run combined ratios below 100 to earn their cost of capital.

2012 private carrier combined ratio was 109.
P/C Insurance Industry  
Financial Overview

2013: Best Year in the Post-Crisis Era
Performance Improved with Lower CATs, Strong Markets
P/C Net Income After Taxes
1991–2013 ($ Millions)

- 2005 ROE* = 9.6%
- 2006 ROE = 12.7%
- 2007 ROE = 10.9%
- 2008 ROE = 0.1%
- 2009 ROE = 5.0%
- 2010 ROE = 6.6%
- 2011 ROAS$ = 3.5%
- 2012 ROAS$ = 6.1%
- 2013 ROAS$ = 10.3%

• ROE figures are GAAP; $1 Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 9.8% ROAS in 2013, 6.3% 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 – 2013*

*Profitability = P/C insurer ROEs. 2011-13 figures are estimates based on ROAS data. Note: Data for 2008-2013 exclude mortgage and financial guaranty insurers.
Source: Insurance Information Institute; NAIC, ISO, A.M. Best.
A 100 Combined Ratio Isn’t What It Once Was: Investment Impact on ROEs

A combined ratio of about 100 generates an ROE of ~7.0% in 2012, ~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

* 2008-2013 figures are return on average surplus and exclude mortgage and financial guaranty insurers. 2013 combined ratio including M&FG insurers is 96.1; 2012 = 103.2, 2011 = 108.1, ROAS = 3.5%.
Source: Insurance Information Institute from A.M. Best and ISO Verisk Analytics data.
Policyholder Surplus, 2006:Q4–2013:Q4

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

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

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

2007:Q3 Pre-Crisis Peak

Surplus as of 12/31/13 stood at a record high $653.3B

Drop due to near-record 2011 CAT losses
US Policyholder Surplus: 1975–2013*

Surplus as of 9/30/13 was a record $624.4, up 6.4% from $586.9 of 12/31/12, and up 42.9% ($187.3B) from the crisis trough of $437.1B at 3/31/09. Pre-crisis peak was $521.8 as of 9/30/07. Surplus as of 9/30/13 was 19.7% above 2007 peak.

“Surplus” is a measure of underwriting capacity. It is analogous to “Owners Equity” or “Net Worth” in non-insurance organizations.

The Premium-to-Surplus Ratio Stood at $0.78:$1 as of 9/30/13, a Near Record Low (at Least in Recent History)*

* As of 9/30/13.
M&A activity in the P/C sector remains below pre-crisis levels.

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

Source: Conning proprietary database.
Underwriting Losses in 2013
Much Improved After High Catastrophe Losses in 2011/12
As Recently as 2001, Insurers Paid Out Nearly $1.16 for Every $1 in Earned Premiums

Heavy Use of Reinsurance Lowered Net Losses

Relatively Low CAT Losses, Reserve Releases

Relatively Low CAT Losses, Reserve Releases

Higher CAT Losses, Shrinking Reserve Releases, Toll of Soft Market

**Combined Ratio Since 1949 (87.6)**

**Cyclical Deterioration**

Avg. CAT Losses, More Reserve Releases

Sandy Impacts

Lower CAT Losses

Sources: A.M. Best, ISO.
The combined ratios for both personal and commercial lines improved substantially in 2013.

Combined Ratios by Predominant Business Segment, 2013 vs. 2012*

*Excludes mortgage and financial guaranty insurers.

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

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

**Data for the 2010s is for the period 2010 through 2013.

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

Sources: Insurance Information Institute research from A.M. Best Data.
Underwriting Gain (Loss) 1975–2013*

Cumulative underwriting deficit from 1975 through 2012 is $510B

High cat losses in 2011 led to the highest underwriting loss since 2002

Underwriting profit in 2013 totaled $15.5B

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

* Includes mortgage and financial guaranty insurers in all years.
Sources: A.M. Best, ISO; Insurance Information Institute.
Note: 2005 reserve development excludes a $6 billion loss portfolio transfer between American Re and Munich Re. Including this transaction, total prior year adverse development in 2005 was $7 billion. The data from 2000 and subsequent years excludes development from financial guaranty and mortgage insurance.

# P/C Estimated Loss Reserve Deficiency/Redundancy, Excl. Statutory Discount

<table>
<thead>
<tr>
<th>Line of Business</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Auto Liability</td>
<td>-$3.9B</td>
</tr>
<tr>
<td>Homeowners</td>
<td>-$0.4</td>
</tr>
<tr>
<td>Other Liab (incl. Prod Liab)</td>
<td>$7.5</td>
</tr>
<tr>
<td>Workers Compensation</td>
<td>$11.1</td>
</tr>
<tr>
<td>Commercial Multi Peril</td>
<td>$1.9</td>
</tr>
<tr>
<td>Commercial Auto Liability</td>
<td>$0.7</td>
</tr>
<tr>
<td>Medical Professional Liab.</td>
<td>-$3.5</td>
</tr>
<tr>
<td>Reinsurance—Nonprop Assumed</td>
<td>$1.0</td>
</tr>
<tr>
<td>All Other Lines*</td>
<td>-$4.6</td>
</tr>
<tr>
<td><strong>Total Core Reserves</strong></td>
<td><strong>$9.8</strong></td>
</tr>
<tr>
<td>Asbestos &amp; Environmental</td>
<td>$11.2</td>
</tr>
<tr>
<td><strong>Total P/C Industry</strong></td>
<td><strong>$21.0B</strong></td>
</tr>
</tbody>
</table>

Performance by Segment
Commercial Lines Combined Ratio, 1990-2015F*

*2007-2012 figures exclude mortgage and financial guaranty segments.
Source: A.M. Best (1990-2011); Conning (2012-2015F) Insurance Information Institute
Commercial Auto is Expected to Improve as Rate Gains Outpace Any Adverse Frequency and Severity Trends

Sources: A.M. Best (1990-2012E); Conning (2012-2015F); Insurance Information Institute.

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

*2012-2013 figures are A.M. Best estimate/forecast for the combined liability and non-liability components. Same for Conning 2014-2015F figures.
Sources: A.M. Best; Conning; Insurance Information Institute.

Commercial General Liability Underwriting Performance Has Been Volatile in Recent Years

Source: Conning Research and Consulting.
Inland Marine Combined Ratio: 1999–2015F

Inland Marine is Expected to Remain Among the Most Profitable of All Lines

Sources: A.M. Best (1999-2011); Conning (2012-2015F)
Other & Products Liability Combined Ratio: 1991–2013F

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

Sources: A.M. Best; Insurance Information Institute.
U.S. Insured Catastrophe Loss Update

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

*Through 12/31/13.

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

Sources: Property Claims Service/ISO; Insurance Information Institute.
Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2013*

Combined Ratio Points

Avg. CAT Loss Component of the Combined Ratio by Decade

1960s: 1.04
1970s: 0.85
1980s: 1.31
1990s: 3.39
2000s: 3.52
2010s: 6.1E*

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

*2010s represent 2010-2013.

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

Source: ISO (1960-2011); A.M. Best (2012E) Insurance Information Institute.
Top 16 Most Costly Disasters in U.S. History

(Insured Losses, 2012 Dollars, $ Billions)

Hurricane Sandy became the 5th costliest event in US insurance history

Hurricane Irene became the 12th most expense hurricane in US history in 2011

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

*PCS estimate as of 4/12/13.
Sources: PCS; Insurance Information Institute inflation adjustments to 2012 dollars using the CPI.
Top 10 States for Insured Catastrophe Losses, 2013

Oklahoma had the highest CAT losses in the US in 2013

Source: The Property Claim Services (PCS) unit of ISO, a Verisk Analytics company.
Top 5 States by Insured Catastrophe Losses in 2012*

(2012, $ Billions)

- New York: $9,756
- New Jersey: $6,369
- Texas: $2,318
- Kentucky: $1,511
- Colorado: $1,440

*Includes catastrophe losses of at least $25 million.
Sources: PCS unit of ISO; Insurance Information Institute.

Texas is almost always one of the top 5 states for insured CAT losses.
There were 128 natural disaster events in 2013.
Losses Due to Natural Disasters in the US, 1980–2013

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

2013 losses were far below 2011 and 2012 and were 44% lower than the average from 2000-2012

Indicates a great deal of losses are uninsured (~40%-50% in the US) = Growth Opportunity

2013 CAT Losses
Overall: $21.8B
Insured: $12.8B

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

- Florida: $66.7B (14.3%)
- Texas: $48.8B (10.4%)
- Louisiana: $42.0B (9.0%)
- Rest of the U.S.: $309.9B (66.3%)

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

Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1993–2012

- Wind/Hail/Flood: $14.9B (36.0%)
- Fires: $6.5B (17.0%)
- Geological Events: $18.4B (40.4%)
- Terrorism: $24.8B (6.3%)
- Winter Storms: $27.8B (7.1%)
- Other: $0.2B (0.1%)
- Tornadoes: $140.9B (36.0%)
- Hurricanes & Tropical Storms: $158.2B

- Wind losses are by far cause the most catastrophe losses, even if hurricanes/TS are excluded.
- Tornado share of CAT losses is rising.

1. Catastrophes are defined as events causing direct insured losses to property of $25 million or more in 2012 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 10 Winter Storm and Winter Damage Events in the US and Canada, 1980-2013*

<table>
<thead>
<tr>
<th>Period</th>
<th>Area</th>
<th>Economic Loss (in inflation-adjusted 2013 $US mill)</th>
<th>Insured Loss (in inflation-adjusted 2013 $US mill)</th>
<th>Fatalities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mar. 11-14, 1993</td>
<td>CAN, USA</td>
<td>8,061</td>
<td>3,224</td>
<td>270</td>
</tr>
<tr>
<td>Dec. 17-30, 1983</td>
<td>USA</td>
<td>2,339</td>
<td>2,058</td>
<td>500</td>
</tr>
<tr>
<td>Apr. 13-17, 2007</td>
<td>CAN, USA</td>
<td>2,247</td>
<td>1,775</td>
<td>23</td>
</tr>
<tr>
<td>Dec. 10-13, 1992</td>
<td>USA</td>
<td>4,981</td>
<td>1,660</td>
<td>19</td>
</tr>
<tr>
<td>Jan. 5-12, 1998</td>
<td>CAN, USA</td>
<td>4,145</td>
<td>1,644</td>
<td>45</td>
</tr>
<tr>
<td>Feb. 10-12, 1994</td>
<td>USA</td>
<td>4,716</td>
<td>1,258</td>
<td>9</td>
</tr>
<tr>
<td>Jan. 17-20, 1994</td>
<td>USA</td>
<td>1,572</td>
<td>1,258</td>
<td>70</td>
</tr>
<tr>
<td>Apr. 7-11, 2013</td>
<td>USA</td>
<td>1,600</td>
<td>1,200</td>
<td>N/A</td>
</tr>
<tr>
<td>Jan. 1-4, 1999</td>
<td>CAN, USA</td>
<td>1,398</td>
<td>1,084</td>
<td>25</td>
</tr>
<tr>
<td>Jan. 31-Feb. 2, 2011</td>
<td>USA</td>
<td>1,346</td>
<td>1,010</td>
<td>36</td>
</tr>
</tbody>
</table>

*Top 10 events in original insured loss dollars were adjusted to and ranked by the Insurance Information Institute to 2013 inflation-adjusted values. Sources: Munich Re NatCatSERVICE; Insurance Information Institute.*

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.

Insured losses from severe winter events totaled $2 billion in 2013.

Insured winter storm and damage losses in Jan. 2014 already totaled $1.5 billion. Continued severe weather since then makes it likely that 2014 will become one of the top 5 costliest winters since 1980.

Sources: Munich Re NatCatSERVICE; Insurance Information Institute.
Top 12 Most Costly Hurricanes in U.S. History

(Insured Losses, 2012 Dollars, $ Billions)

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

Hurricane Irene became the 12th most expensive hurricane in US history in 2011

Hurricane Sandy became the 3rd costliest hurricane in US insurance history

*SANDY* (2012)  $18.8
ANDREW (1992) $25.6
KATRINA (2005) $48.7

*PCS estimate as of 4/12/13.
Sources: PCS; Insurance Information Institute inflation adjustments to 2012 dollars using the CPI.
Convective Loss Events in the U.S.
Number of events 1980 – 2013

Convective events are those caused by straight-line winds, tornadoes, hail, heavy precipitation, flash floods and lightning

The frequency of convective events has rising tremendously over the past 30+ years

Source: Geo Risks Research, NatCatSERVICE.
Hurricanes get all the headlines, but thunderstorms are consistent producers of large scale loss. 2008-2013 are the most expensive years on record.

Average thunderstorm losses are up 7 fold since the early 1980s. The 5-year running average loss is up sharply.

Thunderstorm losses in 2013 totaled $10.3 billion, the 6th highest on record.

Source: Property Claims Service, MR NatCatSERVICE
Convective events are those caused by straight-line winds, tornadoes, hail, heavy precipitation, flash floods and lightning.

The insured and total economic cost of convective events has rising tremendously over the past 30+ years.

Analysis contains: straight-line winds, tornadoes, hail, heavy precipitation, flash floods, lightning.
Outlook for the 2014 Atlantic Hurricane Season

Somewhat Below Average Activity, Fewer Landfalls Expected
Outlook for 2014 Hurricane Season: 30% Less Active Than Typical Year

<table>
<thead>
<tr>
<th>Measure</th>
<th>Median*</th>
<th>2005 (Katrina Year)</th>
<th>2014F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Named Storms</td>
<td>12.0</td>
<td>28</td>
<td>10</td>
</tr>
<tr>
<td>Named Storm Days</td>
<td>60.1</td>
<td>115.5</td>
<td>40</td>
</tr>
<tr>
<td>Hurricanes</td>
<td>6.5</td>
<td>14</td>
<td>4</td>
</tr>
<tr>
<td>Hurricane Days</td>
<td>21.3</td>
<td>47.5</td>
<td>15</td>
</tr>
<tr>
<td>Major Hurricanes</td>
<td>2.0</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>Major Hurricane Days</td>
<td>3.9</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>Accumulated Cyclone Energy</td>
<td>92.0</td>
<td>NA</td>
<td>65</td>
</tr>
<tr>
<td>Net Tropical Cyclone Activity</td>
<td>103%</td>
<td>275%</td>
<td>70%</td>
</tr>
</tbody>
</table>

*Over the period 1981-2010.
Source: Dr. Philip Klotzbach and Dr. William Gray, Colorado State University, June 2, 2014.
Probability of Major Hurricane Landfall (CAT 3, 4, 5) in 2014

<table>
<thead>
<tr>
<th>Area</th>
<th>Average*</th>
<th>2014F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entire US Coast</td>
<td>52%</td>
<td>40%</td>
</tr>
<tr>
<td>US East Coast Including Florida Peninsula</td>
<td>31%</td>
<td>22%</td>
</tr>
<tr>
<td>Gulf Coast from FL Panhandle to Brownsville, TX</td>
<td>30%</td>
<td>23%</td>
</tr>
</tbody>
</table>

*Also…Above-Average Major Hurricane Landfall Risk in Caribbean for 2011 (32% vs. 42%)

*Average over the past century.
Source: Dr. Philip Klotzbach and Dr. William Gray, Colorado State University, June 2, 2014.
Total Value of Insured Coastal Exposure in 2012

(2012, $ Billions)

New York | $2,923.1
Florida | $2,862.3
Texas | $1,175.3
Massachusetts | $849.6
New Jersey | $713.9
Connecticut | $567.8
Louisiana | $293.5
S. Carolina | $239.3
Virginia | $182.3
Maine | $164.6
North Carolina | $163.5
Alabama | $118.2
Georgia | $106.7
Delaware | $81.9
New Hampshire | $64.0
Mississippi | $60.6
Rhode Island | $58.3
Maryland | $17.3

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

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

Source: AIR Worldwide
Total Value of Insured Coastal Exposure in 2007

(2007, $ Billions)

Florida $2,458.6
New York $2,378.9
Texas $895.1
Massachusetts $772.8
New Jersey $635.5
Connecticut $479.9
Louisiana $224.4
S. Carolina $191.9
Virginia $158.8
Maine $146.9
North Carolina $132.8
Alabama $92.5
Georgia $85.6
Delaware $60.6
New Hampshire $55.7
Mississippi $51.8
Rhode Island $54.1
Maryland $14.9

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

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

Source: AIR Worldwide
Federal Disaster Declarations Patterns: 1953-2014

Disaster Declarations Set New Records in Recent Years
The number of federal disaster declarations set a new record in 2011, with 99, shattering 2010’s record 81 declarations.

There have been 2,163 federal disaster declarations since 1953. The average number of declarations per year is 35 from 1953-2013, though there few haven’t been recorded since 1995.

23 federal disasters were declared so far in 2014*

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

*Through June 3, 2014.
Over the past 60 years, Texas has had the highest number of Federal Disaster Declarations.


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


SEVERE WEATHER REPORT UPDATE: 2014

Damage from Tornadoes, Large Hail and High Winds Keep Insurers Busy
There were 943 tornadoes through Dec. 31, causing extensive property damage in several states.

A deadly EF-5 tornado in May in Moore, OK, produced insured losses of $1.575 billion. November tornadoes in the Midwest like produced $1B in insured losses.

Source: NOAA Storm Prediction Center; [http://www.spc.noaa.gov/climo/online/monthly/2013_annual_summary.html](http://www.spc.noaa.gov/climo/online/monthly/2013_annual_summary.html); PCS.
There were 5,457 “Large Hail” reports in 2013, causing extensive property and vehicle damage.

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2013_annual_summary.html
There were 12,942 “Wind Damage” in 2013, causing extensive property damage.
Severe weather reports are concentrated east of the Rockies

There were 19,342 severe weather reports in 2013; including 942 tornadoes; 5,457 “Large Hail” reports and 12,942 high wind events

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2013_annual_summary.html#
Severe Weather Reports: 2014*

Severe weather reports are concentrated east of the Rockies

There were 5,881 severe weather reports so far in 2014; including 465 tornadoes; 2,419 “Large Hail” reports and 2,996 high wind events

*Through June 4.
Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2014_annual_summary.html#
There were 1,897 tornadoes in the U.S. in 2011 far above average, but well below 2008’s record. The YTD tornado count in 2014 is well below average. 2013 count was the lowest in a decade.

*Through June 2, 2014.
Source: [http://www.spc.noaa.gov/wcm/](http://www.spc.noaa.gov/wcm/).
Tornado Spheroids, Jan. 1 – May 28, 2005-2014

2014 activity YTD is below average but concentrated a bit east of the center of “Tornado Alley”

Source: http://www.spc.noaa.gov/wcm/.
P/C Insurance Industry Will Grow by $16B - $20B in 2014
Net Premium Growth: Annual Change, 1971—2014F

(Percent)

1975-78
1984-87
2000-03

Net Written Premiums Fell 0.7% in 2007 (First Decline Since 1943) by 2.0% in 2008, and 4.2% in 2009, the First 3-Year Decline Since 1930-33.

2014F: 4.0%
2013: 4.6%
2012: +4.3%

Shaded areas denote “hard market” periods
Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute.
Sustained Growth in Written Premiums (vs. the same quarter, prior year) Will Continue through 2014

Sources: ISO, Insurance Information Institute.
Other Liability and Homeowners were the fastest growing lines in 2013

*Includes Products Liability.
Source: Annual Statement data for by line statistics; NCCI for WC; ISO for Total P/C; Insurance Information Institute.
Change in Commercial Rate Renewals, by Line: 2014:Q1

Percentage Change (%)

D&O increases are large than any other line, followed by EPL and Workers Comp

Major Commercial Lines Renewed Generally Upward in Q4:2014 for the 11th Consecutive Quarter; D&O, Employment Practices and Workers Comp Leading the Way; Lower Cat Losses and Falling Reinsurance Prices Have Pressured Property Coverages Lower; Low Interest Rates Still Exert Upward Rate Pressure

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; Insurance Information Institute.
Commercial Umbrella Rate Changes, 2010:Q1 – 2014:Q1

Commercial Umbrella rate changes have been positive for 11 consecutive quarters.

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; Information Institute.
### Average Commercial Rate Change, All Lines, (1Q:2004–1Q:2014)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Rate Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1Q:2004</td>
<td>-3.2%</td>
</tr>
<tr>
<td>2Q:2004</td>
<td>-5.9%</td>
</tr>
<tr>
<td>3Q:2004</td>
<td>-7.0%</td>
</tr>
<tr>
<td>4Q:2004</td>
<td>-9.4%</td>
</tr>
<tr>
<td>1Q:2005</td>
<td>-9.7%</td>
</tr>
<tr>
<td>2Q:2005</td>
<td>-8.2%</td>
</tr>
<tr>
<td>3Q:2005</td>
<td>-6.4%</td>
</tr>
<tr>
<td>4Q:2005</td>
<td>-4.6%</td>
</tr>
<tr>
<td>1Q:2006</td>
<td>-2.7%</td>
</tr>
<tr>
<td>2Q:2006</td>
<td>-3.0%</td>
</tr>
<tr>
<td>3Q:2006</td>
<td>-5.3%</td>
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<tr>
<td>4Q:2006</td>
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</tr>
<tr>
<td>1Q:2007</td>
<td>-11.3%</td>
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<tr>
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<td>-6.4%</td>
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<tr>
<td>4Q:2008</td>
<td>-5.1%</td>
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<tr>
<td>1Q:2009</td>
<td>-4.9%</td>
</tr>
<tr>
<td>2Q:2009</td>
<td>-5.8%</td>
</tr>
<tr>
<td>3Q:2009</td>
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<td>1Q:2014</td>
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<tr>
<td>2Q:2014</td>
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<tr>
<td>3Q:2014</td>
<td>4%</td>
</tr>
<tr>
<td>4Q:2014</td>
<td>-0.1%</td>
</tr>
</tbody>
</table>

**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

---

**Pricing as of Q1:2014 was positive for the 11th consecutive quarter.**

**KRW Effect**

**Q2 2011 marked the last of 30th consecutive quarter of price declines**
Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2014:Q1

Percentage Change (%)

Peak = 2001:Q4 +28.5%

Trough = 2007:Q3 -13.6%

Pricing turned positive in Q3:2011, the first increase in nearly 8 years; Q1:2014 renewals were up 1.5%; Some insurers posted stronger numbers.

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.
Despite 11 consecutive quarters of gains (Q1:2014 = +1.5%), pricing today is where it was in mid-2001 (around 9/11), suggesting additional rate need going forward, esp. in light of record low interest rates.

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.
Cumulative Qtrly. Commercial Rate Changes, by Line: 1999:Q4 to 2014:Q1

1999:Q4 = 100

Rate levels are rising but at different paces rather all being up sharply as in the early 2000s

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; Barclays Capital; Insurance Information Institute.
Workers Comp. Quarterly Rate Changes, by Line: 2000:Q1 to 2014:Q1

1999:Q4 = 100

Most accounts are now renewing upwards

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.
Growth Analysis by State and Business Segment

Post-Crisis Paradox?

*Premium Growth Rates Vary Tremendously by State*
Direct Premiums Written: Total P/C Percent Change by State, 2007-2013

Top 25 States

North Dakota was the country’s growth leader over the past 6 years with premiums written expanding by 74.6%

Sources: SNL Financial LC.; Insurance Information Institute.
### Direct Premiums Written: Total P/C Percent Change by State, 2007-2013

#### Bottom 25 States

<table>
<thead>
<tr>
<th>State</th>
<th>Percent Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>MS</td>
<td>8.5</td>
</tr>
<tr>
<td>CT</td>
<td>8.2</td>
</tr>
<tr>
<td>US</td>
<td>7.9</td>
</tr>
<tr>
<td>NC</td>
<td>7.8</td>
</tr>
<tr>
<td>GA</td>
<td>7.6</td>
</tr>
<tr>
<td>NY</td>
<td>7.3</td>
</tr>
<tr>
<td>MD</td>
<td>7.0</td>
</tr>
<tr>
<td>MA</td>
<td>6.9</td>
</tr>
<tr>
<td>UT</td>
<td>6.2</td>
</tr>
<tr>
<td>WA</td>
<td>5.9</td>
</tr>
<tr>
<td>PA</td>
<td>5.6</td>
</tr>
<tr>
<td>IL</td>
<td>5.3</td>
</tr>
<tr>
<td>RI</td>
<td>4.2</td>
</tr>
<tr>
<td>NH</td>
<td>4.1</td>
</tr>
<tr>
<td>ID</td>
<td>3.5</td>
</tr>
<tr>
<td>MT</td>
<td>1.6</td>
</tr>
<tr>
<td>ME</td>
<td>1.0</td>
</tr>
<tr>
<td>OR</td>
<td>0.4</td>
</tr>
<tr>
<td>CA</td>
<td>-0.7</td>
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<tr>
<td>FL</td>
<td>-1.7</td>
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<tr>
<td>DC</td>
<td>-1.9</td>
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<tr>
<td>AZ</td>
<td>-4.1</td>
</tr>
<tr>
<td>WV</td>
<td>-5.7</td>
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<tr>
<td>HI</td>
<td>-6.7</td>
</tr>
<tr>
<td>NV</td>
<td>-12.6</td>
</tr>
<tr>
<td>DE</td>
<td>-15.3</td>
</tr>
</tbody>
</table>

Growth was negative in 7 states and DC between 2007 and 2013.

Sources: SNL Financial LC.; Insurance Information Institute.
Direct Premiums Written: Comm. Lines
Percent Change by State, 2007-2013

Top 25 States

Only 30 states showed any commercial lines growth from 2007 through 2013

Sources: SNL Financial LLC.; Insurance Information Institute.
Sources: SNL Financial LLC.; Insurance Information Institute.
Direct Premiums Written: Workers’ Comp Percent Change by State, 2007-2013*

<table>
<thead>
<tr>
<th>State</th>
<th>Percent Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>OK</td>
<td>32.9</td>
</tr>
<tr>
<td>IA</td>
<td>30.8</td>
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<tr>
<td>SD</td>
<td>24.3</td>
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<tr>
<td>NY</td>
<td>21.5</td>
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<td>CA</td>
<td>13.4</td>
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<td>CT</td>
<td>11.5</td>
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<td>NJ</td>
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<td>KS</td>
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<td>NE</td>
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<td>IN</td>
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<td>MI</td>
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<td>VT</td>
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<tr>
<td>MN</td>
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<tr>
<td>DC</td>
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<td>VA</td>
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<td>MD</td>
<td>-5.7</td>
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<tr>
<td>TN</td>
<td>-5.8</td>
</tr>
<tr>
<td>AR</td>
<td>-8.0</td>
</tr>
</tbody>
</table>

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

Sources: SNL Financial LC.; Insurance Information Institute.
Direct Premiums Written: Worker’s Comp Percent Change by State, 2007-2013*

Bottom 25 States

States with the poorest performing economies also produced some of the most negative net change in premiums of the past 6 years

*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.
Terrorism Update

TRIA’s Success

Consequences of Expiration

Download III’s Terrorism Insurance Report at:

http://www.iii.org/white_papers/terrorism-risk-a-constant-threat-2014.html
Loss Distribution by Type of Insurance from Sept. 11 Terrorist Attack ($ 2013)

($ Billions)

- Life: $1.2 (3%)
- Aviation Liability: $4.3 (11%)
- Other Liability: $4.9 (12%)
- Biz Interruption: $13.5 (33%)
- Property - WTC 1 & 2*: $4.4 (11%)
- Property - Other: $7.4 (19%)
- Aviation Hull: $0.6 (2%)
- Workers Comp: $2.2 (6%)
- Event Cancellation: $1.2 (3%)

Total Insured Losses Estimate: $42.9B**

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

**$32.5 billion in 2001 dollars.

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

TRIA’s high take-up rates, availability and affordability have benefitted businesses, workers and the entire US economy since the program’s enactment.
The overall US take-up rate for terrorism coverage was 62% in 2013 and ranged from a low of 41% in Michigan to a high of 84% in Massachusetts (where demand likely increased due to the April 2013 Boston Marathon bombing).

- Detailed history of TRIA
- How TRIA works
- Assessing the threat of terrorism
- Terrorism market conditions
- Global perspective

Download at http://www.iii.org/white_papers/terrorism-risk-a-constant-threat-2014.html
Terrorism Risk Insurance Program

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

Senate Banking Committee, 9/25/13
House Financial Services Subcommittee, 11/13/13
Summary of President’s Working Group Report on TRIA (April 2014)

- Insurance for terrorism risk is available and affordable
  - Availability/affordability have not changed appreciably since 2010

- Prices for terrorism risk insurance vary considerably depending on the policyholder’s industry and location of risk

- Prices have declined since TRIA was enacted
  - Currently ~3% to 5% of commercial property insurance premiums

- Take-up rates have improved since adoption of TRIA
  - Overall take-up rate is steady at ~60% (62% in 2013 per Marsh)

- Market capacity is currently tightening given uncertainty over TRIA reauthorization

- The private market does not have the capacity to provide reinsurance for terror risk to the extent currently provided by TRIA

- In the absence of TRIA, terrorism risk insurance would likely be less available. Coverage that would be available likely would be more costly and/or limited in scope

Investment Performance is a Key Driver of Profitability

Depressed Yields Will Necessarily Influence Underwriting & Pricing
Investment Income Fell in 2012 and 2013 Due to Persistently Low Interest Rates, Putting Additional Pressure on (Re) Insurance Pricing

Investment earnings are running below their 2007 pre-crisis peak

1 Investment gains consist primarily of interest and stock dividends...
Sources: ISO; Insurance Information Institute.
P/C Insurer Net Realized Capital Gains/Losses, 1990-2013

Realized capital gains were up sharply as equity markets rallied

Insurers Posted Net Realized Capital Gains in 2010 - 2013 Following Two Years of Realized Losses During the Financial Crisis. Realized Capital Losses Were the Primary Cause of 2008/2009’s Large Drop in Profits and ROE

Sources: A.M. Best, ISO, Insurance Information Institute.
Investment Income Continued to Fall in 2013 Due to Low Interest Rates but Realized Investment Gains Were Up Sharply; The Financial Crisis Caused Investment Gains to Fall by 50% in 2008

1 Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.

* 2005 figure includes special one-time dividend of $3.2B;

Sources: ISO; Insurance Information Institute.
Reduction in Combined Ratio Necessary to Offset 1% Decline in Investment Yield to Maintain Constant ROE, by Line*

-1.8%  -1.8%  -2.0%  -3.6%  -3.3%  -3.3%  -3.7%  -4.3%  -5.2%  -5.7%  -7.3%

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.
Yields on 10-Year U.S. Treasury Notes have been essentially below 5% for a full decade.

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.

Yields on 10-Year U.S. Treasury Notes have been essentially below 5% for a full decade.

U.S. Treasury yields plunged to historic lows in 2013. Longer-term yields have rebounded a bit.

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 May 2014.
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.
The main shift over these years has been from bonds with longer maturities to bonds with shorter maturities. The industry first trimmed its holdings of over-10-year bonds (from 24.6% in 2003 to 15.5% in 2012) and then trimmed bonds in the 5-10-year category (from 31.3% in 2003 to 27.6% in 2012). Falling average maturity of the P/C industry’s bond portfolio is contributing to a drop in investment income along with lower yields.

Sources: SNL Financial; Insurance Information Institute.
Cyclical Pattern is P-C Impairment History is Directly Tied to Underwriting, Reserving & Pricing
The Number of Impairments Varies Significantly Over the P/C Insurance Cycle, With Peaks Occurring Well into Hard Markets

Source: A.M. Best Special Report “Pace of P/C Impairments Slowed in 2012; Auto Writers, RRGs Continued to Struggle,” June 2013; Insurance Information Institute.
Impairment Rates Are Highly Correlated With Underwriting Performance and Reached Record Lows in 2007; Recent Increase Was Associated Primarily With Mortgage and Financial Guaranty Insurers and Not Representative of the Industry Overall

2012 impairment rate was 0.69%, down from 1.11% in 2011; the rate is lower than the 0.82% average since 1969

Source: A.M. Best; Insurance Information Institute
Historically, Deficient Loss Reserves and Inadequate Pricing Are By Far the Leading Cause of P/C Insurer Impairments. Investment and Catastrophe Losses Play a Much Smaller Role.

- Deficient Loss Reserves/Inadequate Pricing: 43.4%
- Rapid Growth: 12.6%
- Alleged Fraud: 7.1%
- Catastrophe Losses: 7.2%
- Affiliate Impairment: 8.0%
- Investment Problems (Overstatement of Assets): 6.6%
- Misc.: 3.5%
- Sig. Change in Business: 3.1%
- Reinsurance Failure: 8.4%

Source: A.M. Best Special Report “Pace of P/C Impairments Slowed in 2012; Auto Writers, RRGs Continued to Struggle,” June 2013; Insurance Information Institute.
Rapid Growth ‘A Leading Cause’ of Impairment

“The leading causes of impairment are deficient loss reserves (inadequate pricing) and rapid growth, together comprising more than 50 percent of annual impairments.”

- A.M. Best, 2013


Source: A.M. Best Special Report “Pace of P/C Impairments Slowed in 2012; Auto Writers, RRGs Continued to Struggle,” June 2013; Insurance Information Institute.
Number of Recessions Endured by P/C Insurers, by Number of Years in Operation

Number of Recessions Since 1860

Insurers are true survivors—not just of natural catastrophes but also economic ones.

<table>
<thead>
<tr>
<th>Number of Years in Operation</th>
<th>Number of Recessions Since 1860</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-50</td>
<td>8</td>
</tr>
<tr>
<td>51-75</td>
<td>13</td>
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<tr>
<td>76-100</td>
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<tr>
<td>101-125</td>
<td>27</td>
</tr>
<tr>
<td>126-150</td>
<td>32</td>
</tr>
</tbody>
</table>

Many US Insurers Are Close to a Century Old or Older

Sources: Insurance Information Institute research from National Bureau of Economic Research data.
Ample Capacity as Alternative Capital is Transforming the Market—And Pushing Down Prices
Total reinsurance capital reached a record $540B in 2013, up 58.8% from 2008. Of that, $50B (9.3%) is alternative capacity, up 163% from $19B since 2008.
Reinsurance Pricing: Rate-on-Line Index by Region, 1990 – 2014*

Lower CATs and a flood of new capital has pushed reinsurance pricing down in most regions, including the US.

*As of Jan. 1.
Source: Guy Carpenter
Catastrophe Bonds: Issuance and Outstanding, 1997-2014:Q1*

Risk Capital Amount ($ Millions)

Catastrophe Bond Issuance Is Approaching Pre-Crisis Levels While Risk Capital Outstanding Stands at an All-Time Record

Source: Guy Carpenter; Insurance Information Institute.
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

Tort costs in dollar terms have remained high but relatively stable since the mid-2000s, but are down substantially as a share of GDP.

Deepwater Horizon Spike in 2010

1.68% of GDP in 2013

2.21% of GDP in 2003 = pre-tort reform peak

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

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

#### Worst States
1. Florida
2. Oklahoma
3. Alabama
4. New Mexico
5. Montana
6. Illinois
7. California
8. Mississippi
9. Louisiana
10. West Virginia

#### Drop-offs
- Indiana
- Colorado
- Massachusetts
- South Dakota

#### Newly Notorious
- Oklahoma

#### Rising Above
- Arkansas

The Nation’s Judicial Hellholes: 2012/2013

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

**Dishonorable Mention**
- MO Supreme Court
- WA Supreme Court

Source: American Tort Reform Association; Insurance Information Institute
Thank you for your time and your attention!

Twitter: twitter.com/bob_hartwig

www.iii.org