



Trends, Challenges and Opportunities in P/C Insurance ***Focus on New Jersey Markets***

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Robert P. Hartwig, Ph.D., CPCU, President & Economist
Insurance Information Institute ♦ 110 William Street ♦ New York, NY 10038
Tel: 212.346.5520 ♦ Cell: 917.453.1885 ♦ bobh@iii.org ♦ www.iii.org

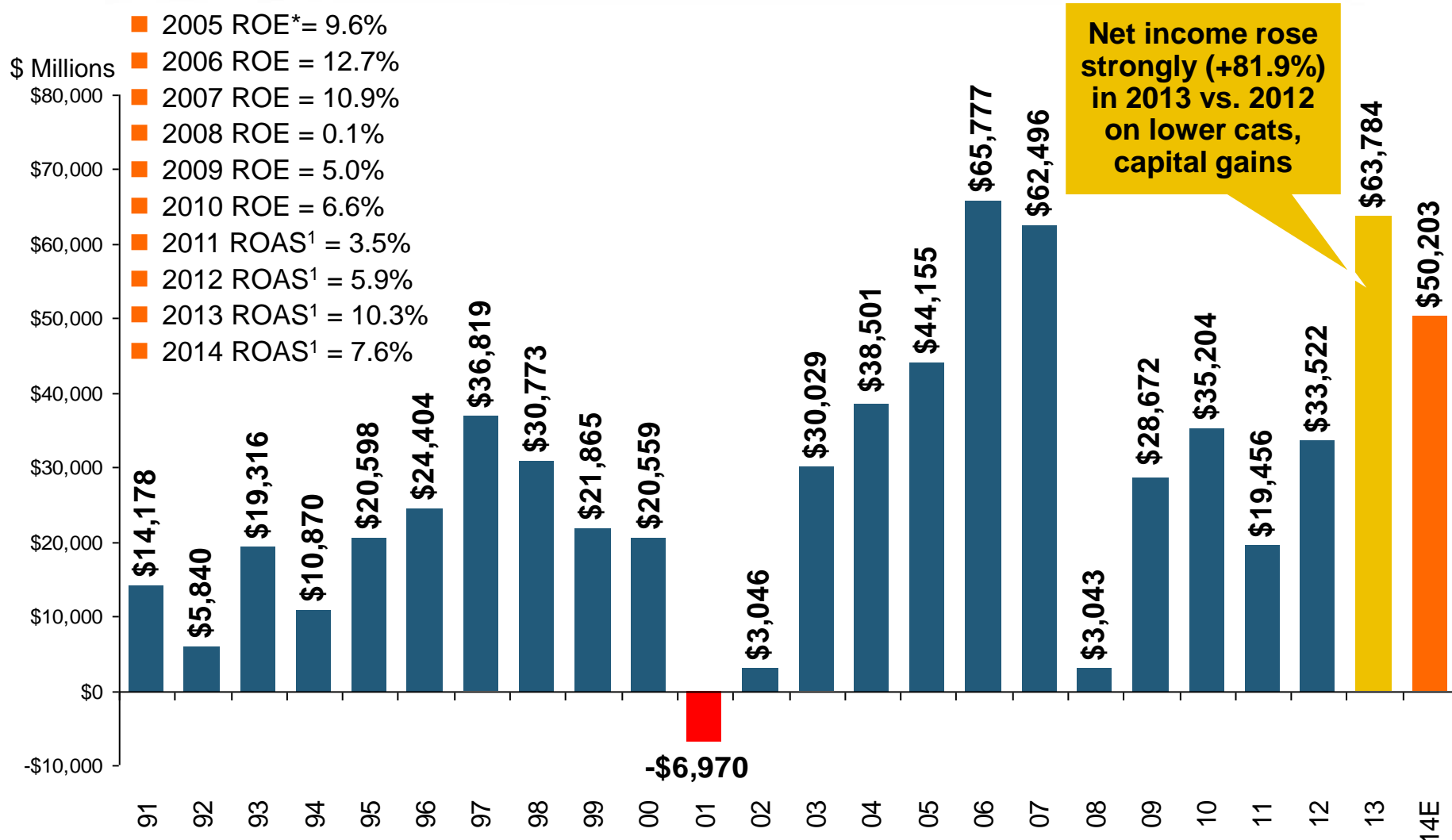


Insurance Industry: ***Financial Update & Outlook***

2014 Was a Reasonably Good Year

2015: A Repeat of 2014?

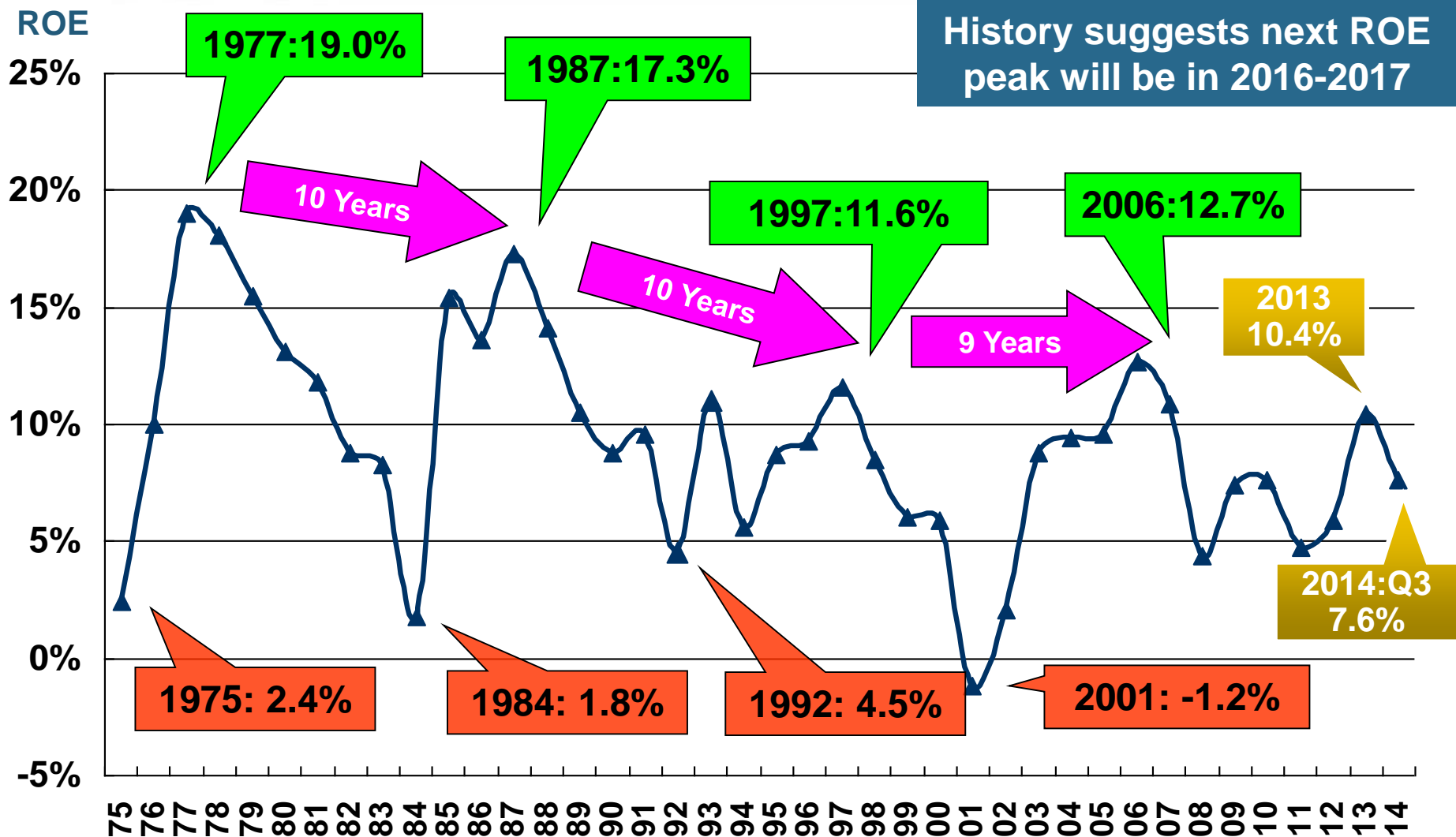
P/C Industry Net Income After Taxes 1991–2014E



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

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

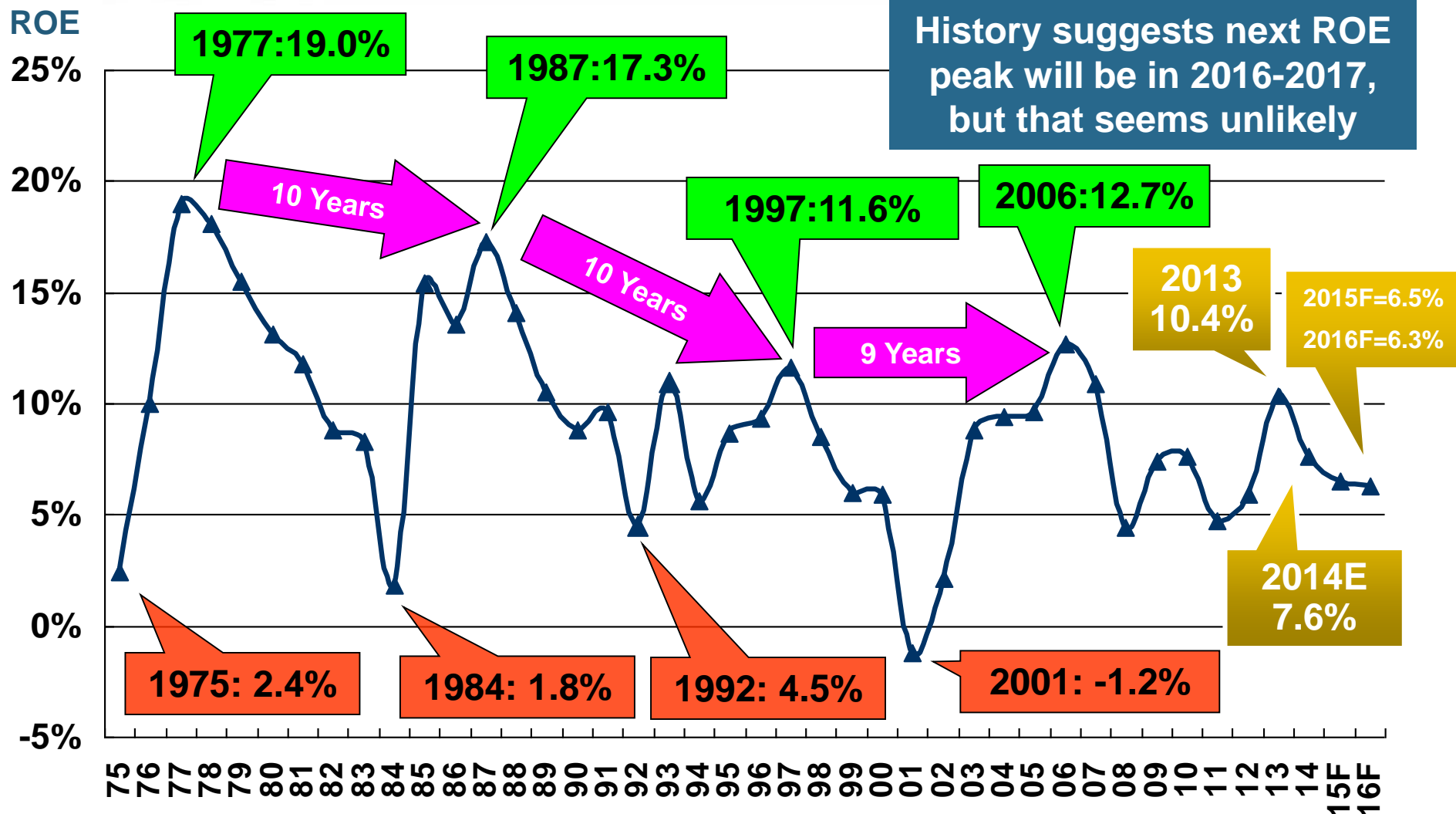
Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2014:Q3*



*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.

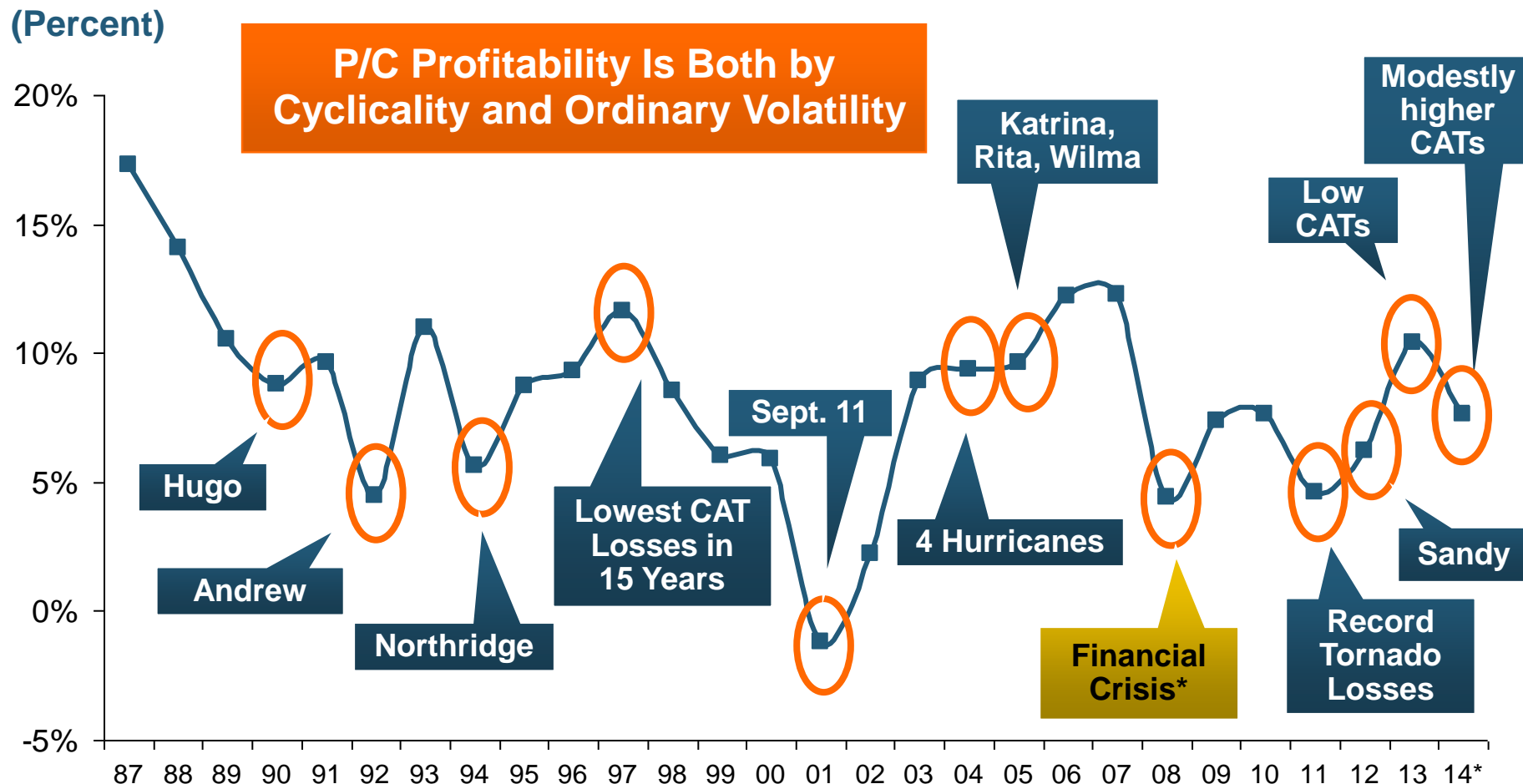
Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2016F



*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.

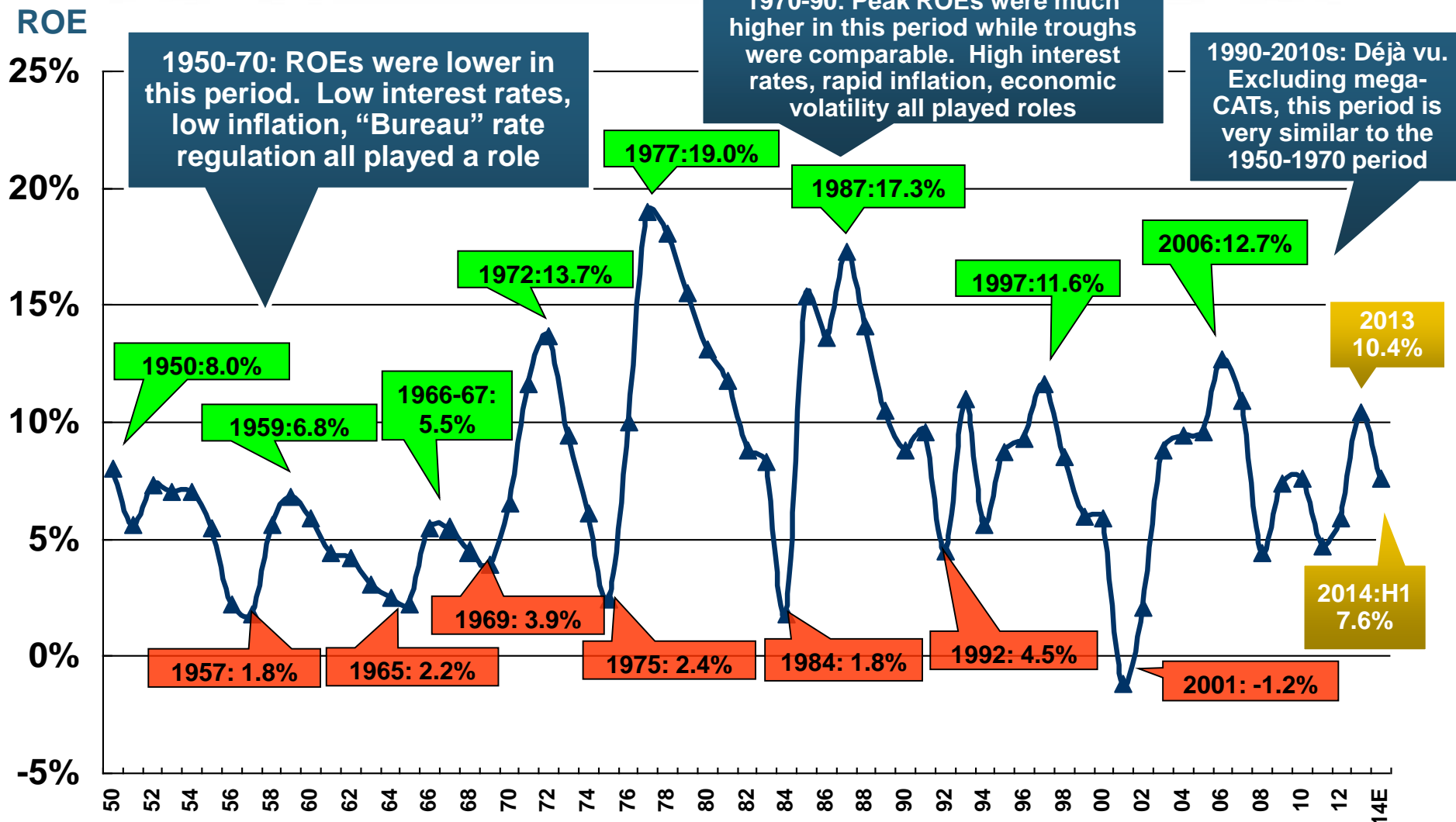
Source: Insurance Information Institute; NAIC, ISO, A.M. Best, Conning

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



* Excludes Mortgage & Financial Guarantee in 2008 – 2014. 2014 figure is through Q3:2014.
Sources: ISO, *Fortune*; Insurance Information Institute.

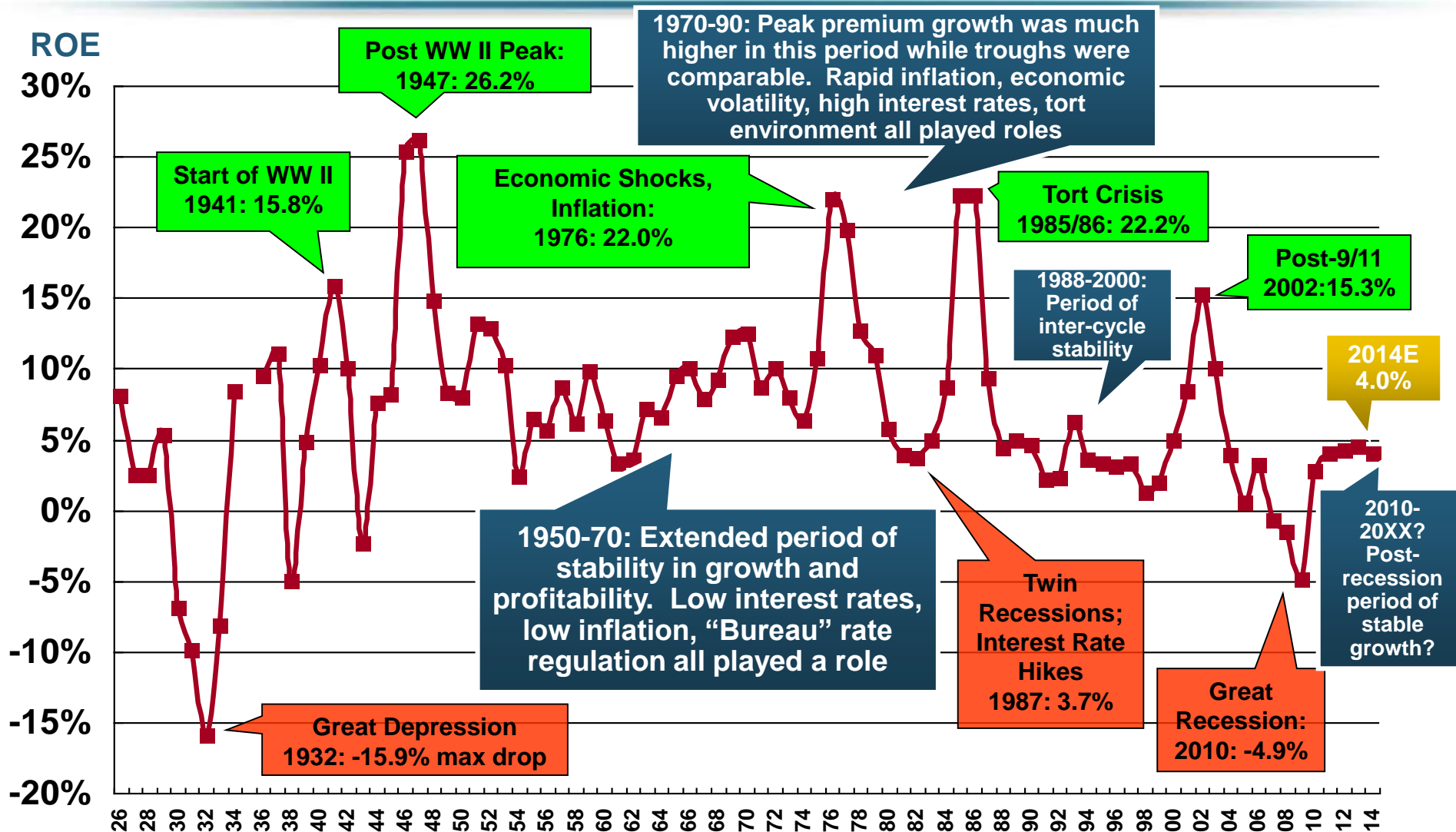
Back to the Future: Profitability Peaks & Troughs in the P/C Insurance Industry, 1950 – 2014*



*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. 2014 figure is through Q3.

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

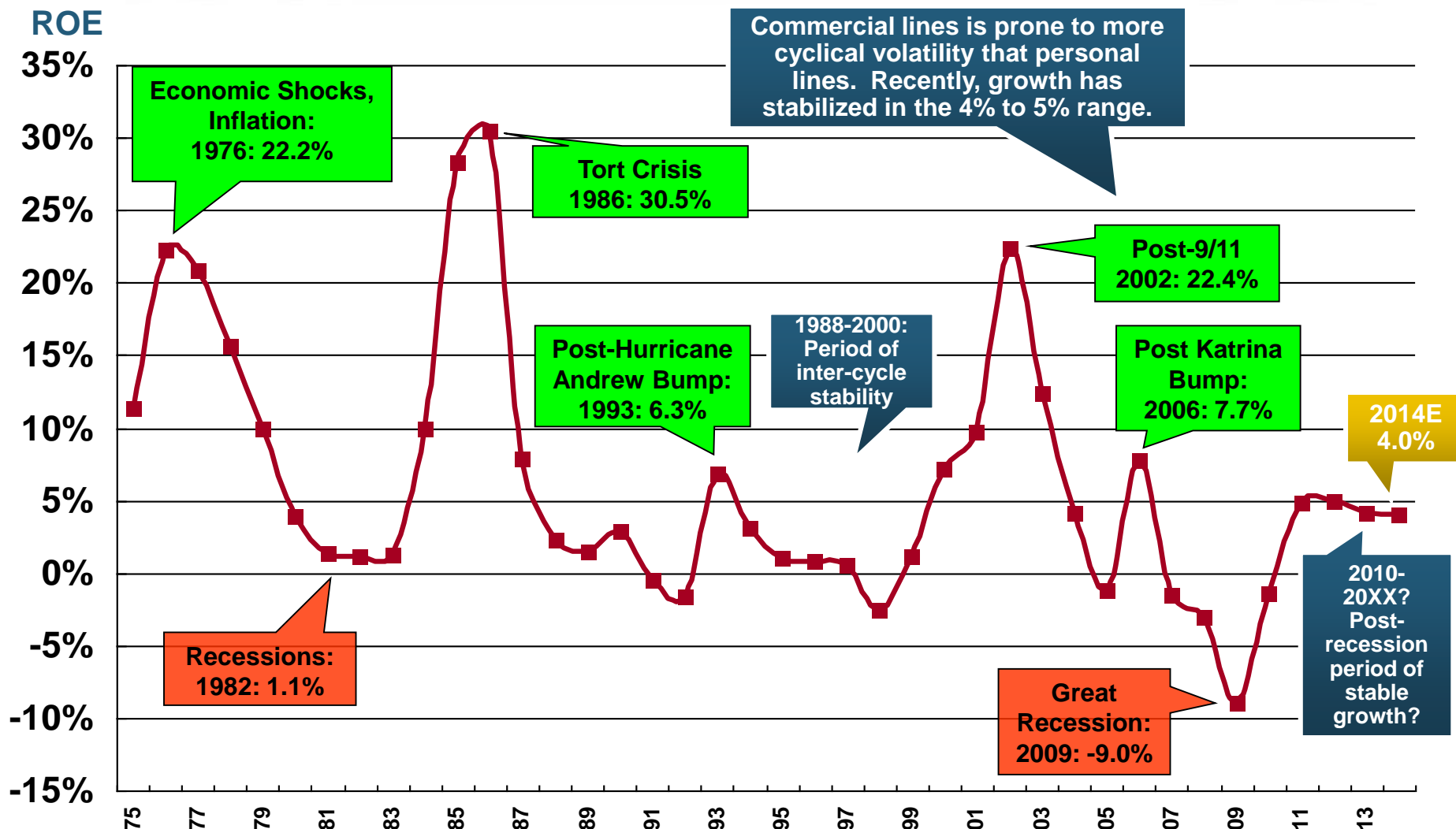
NPW Premium Growth: Peaks & Troughs in the P/C Insurance Industry, 1926 – 2014E



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

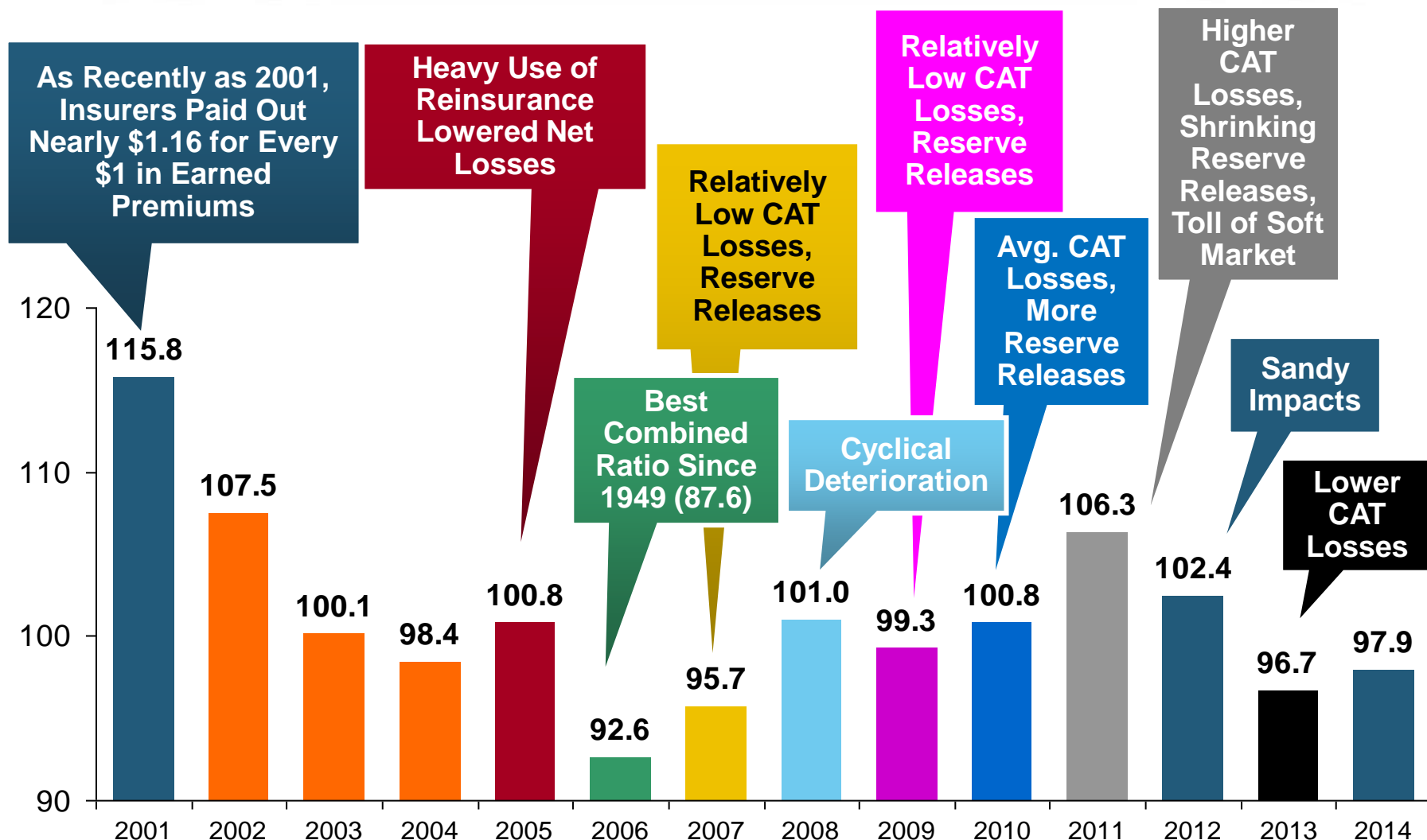
Source: A.M. Best; Insurance Information Institute.

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, 2001–2014:Q3*



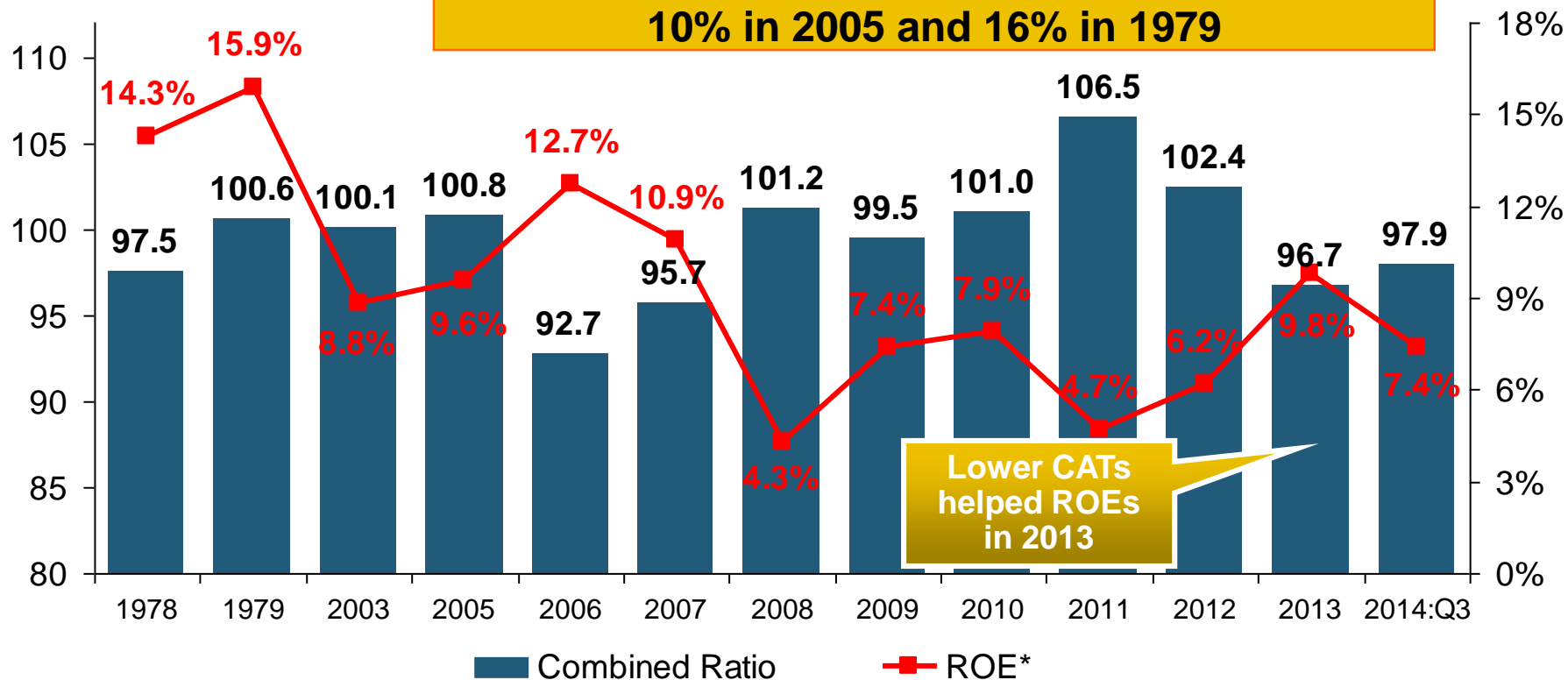
* Excludes Mortgage & Financial Guaranty insurers 2008--2014. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.1; 2012:=103.2; 2013:= 96.1; 2014:9M = 97.7.

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



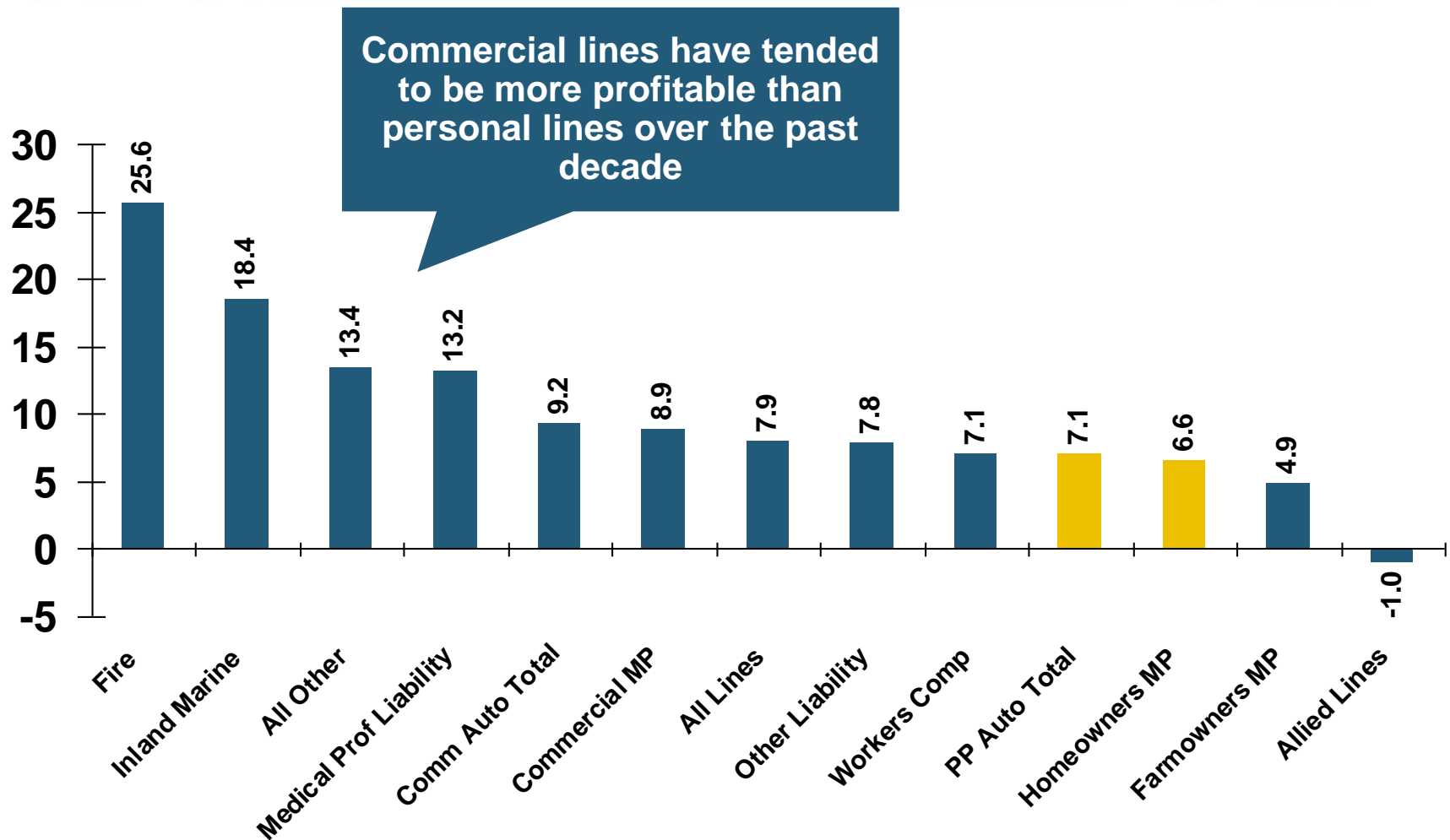
Lower CATs
helped ROEs
in 2013

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

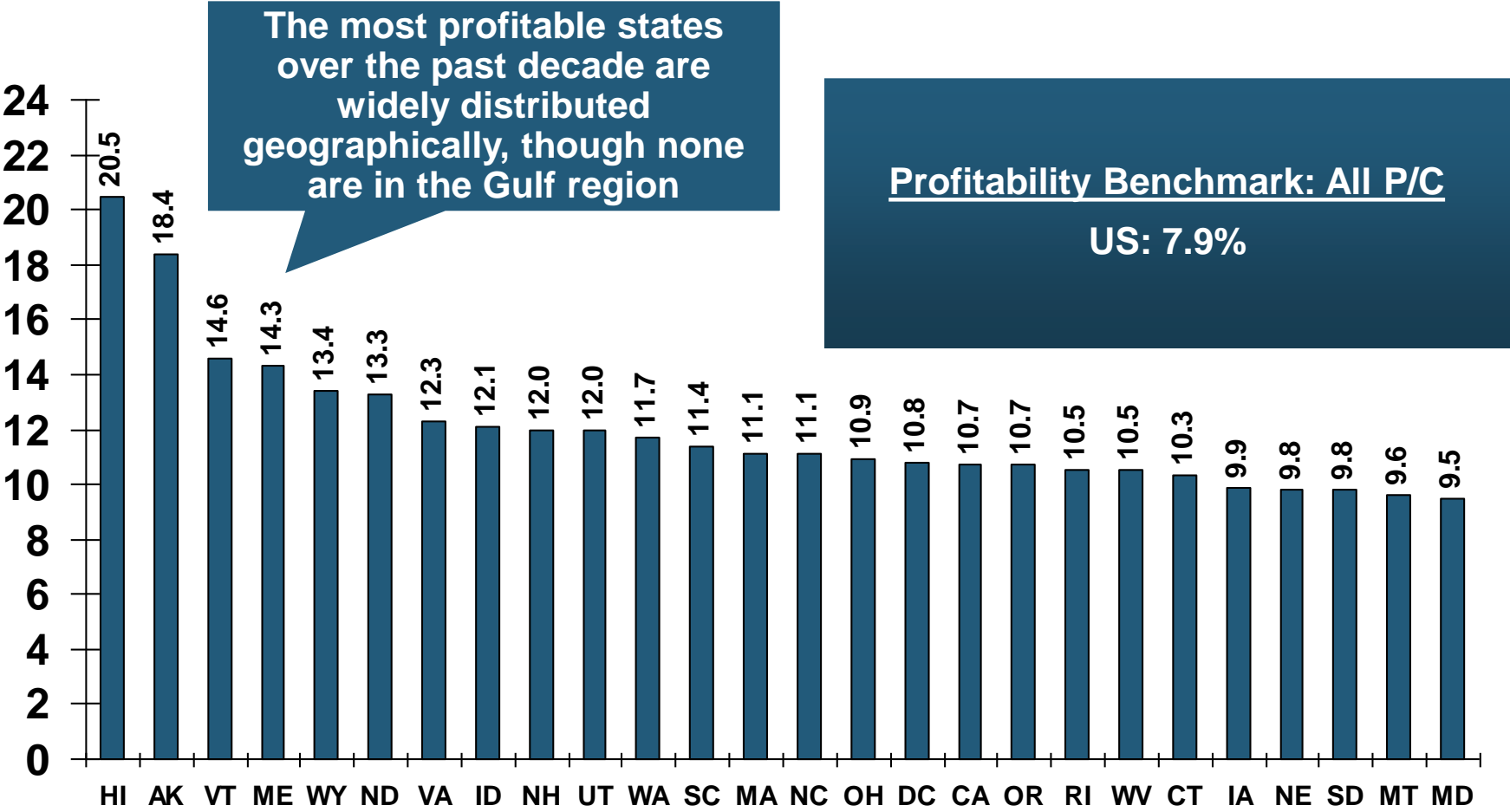
* 2008 -2014 figures are return on average surplus and exclude mortgage and financial guaranty insurers. 2014:9M combined ratio including M&FG insurers is 97.7; 2013 = 96.1; 2012 =103.2, 2011 = 108.1, ROAS = 3.5%.

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

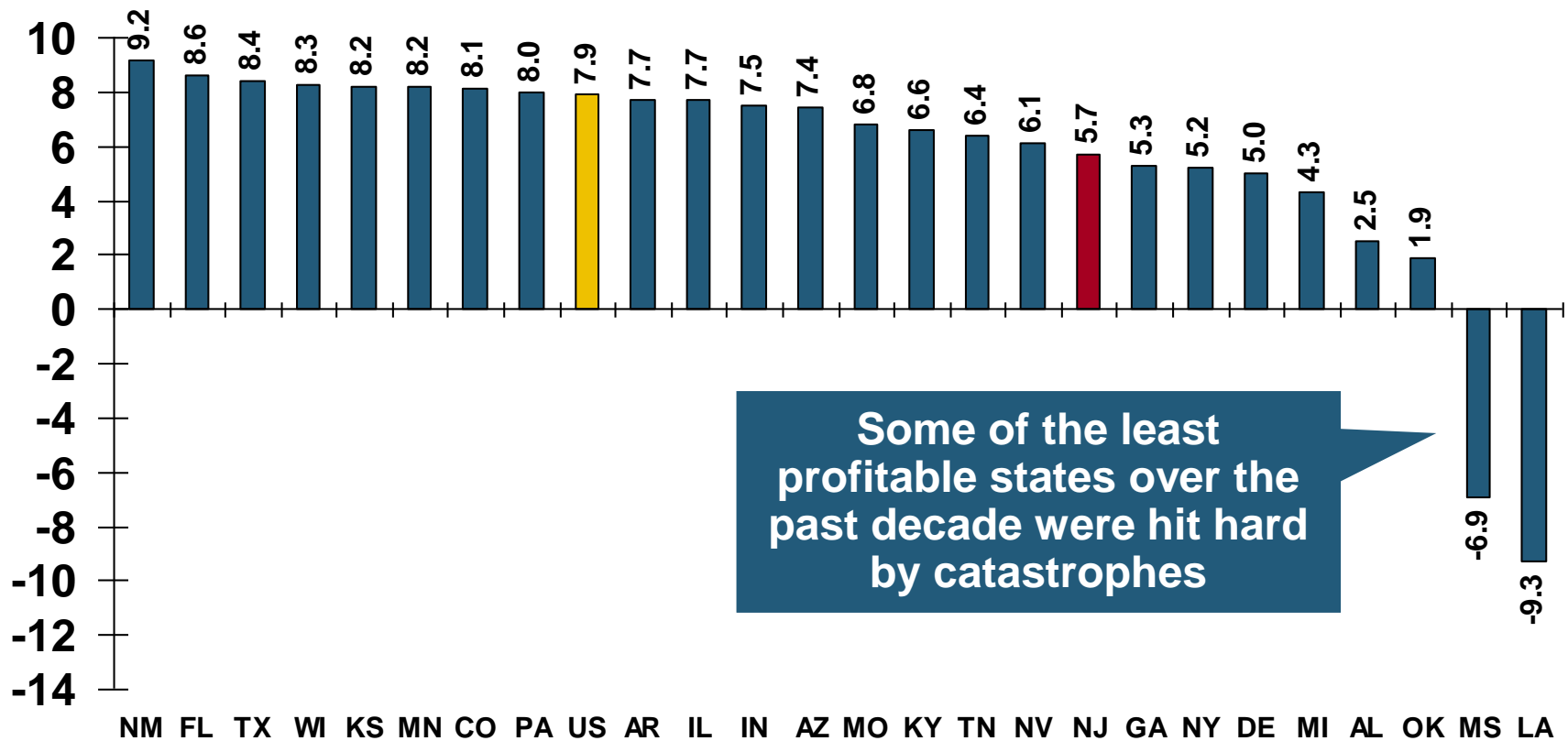
Return on Net Worth (RNW) All Lines: 2004-2013 Average



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



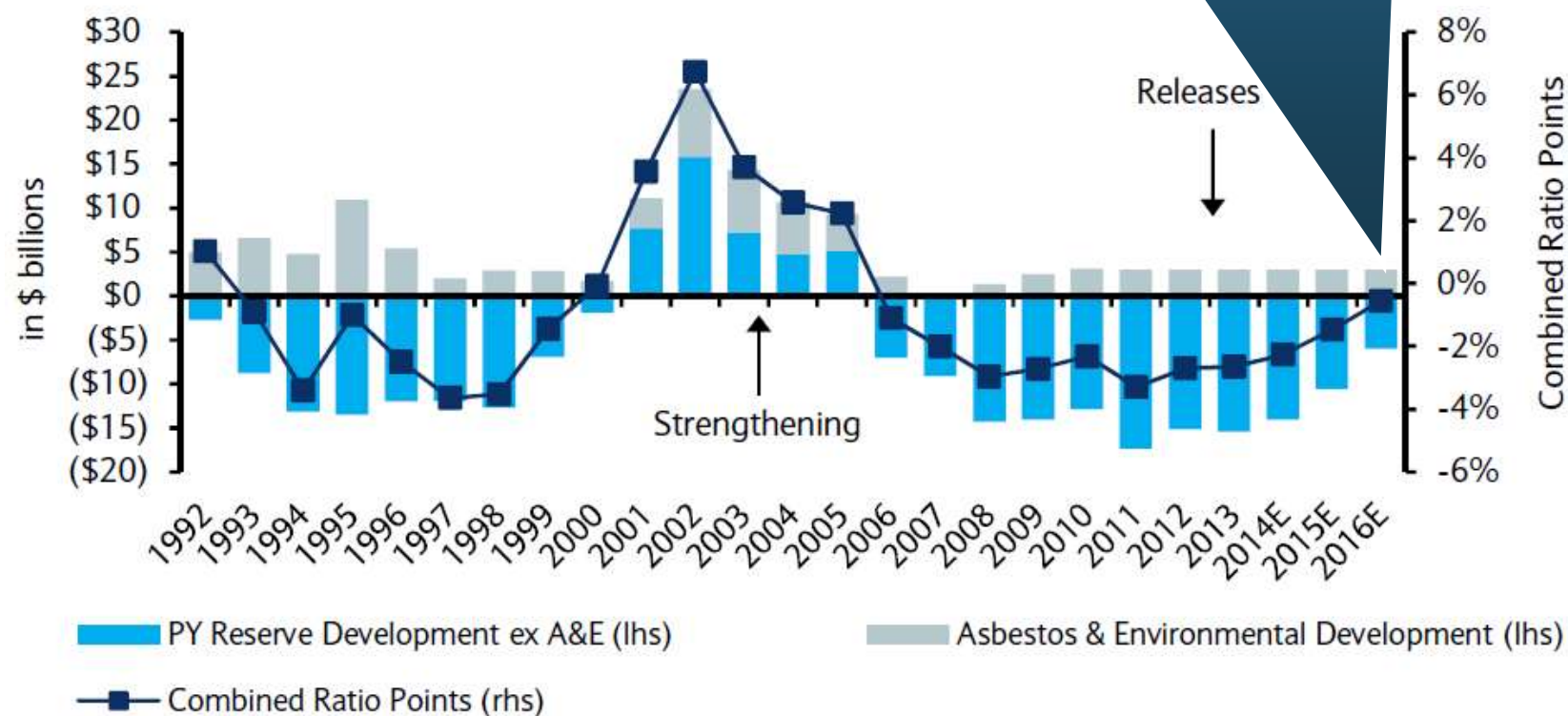
RNW All Lines by State, 2004-2013 Average: Lowest 25 States



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



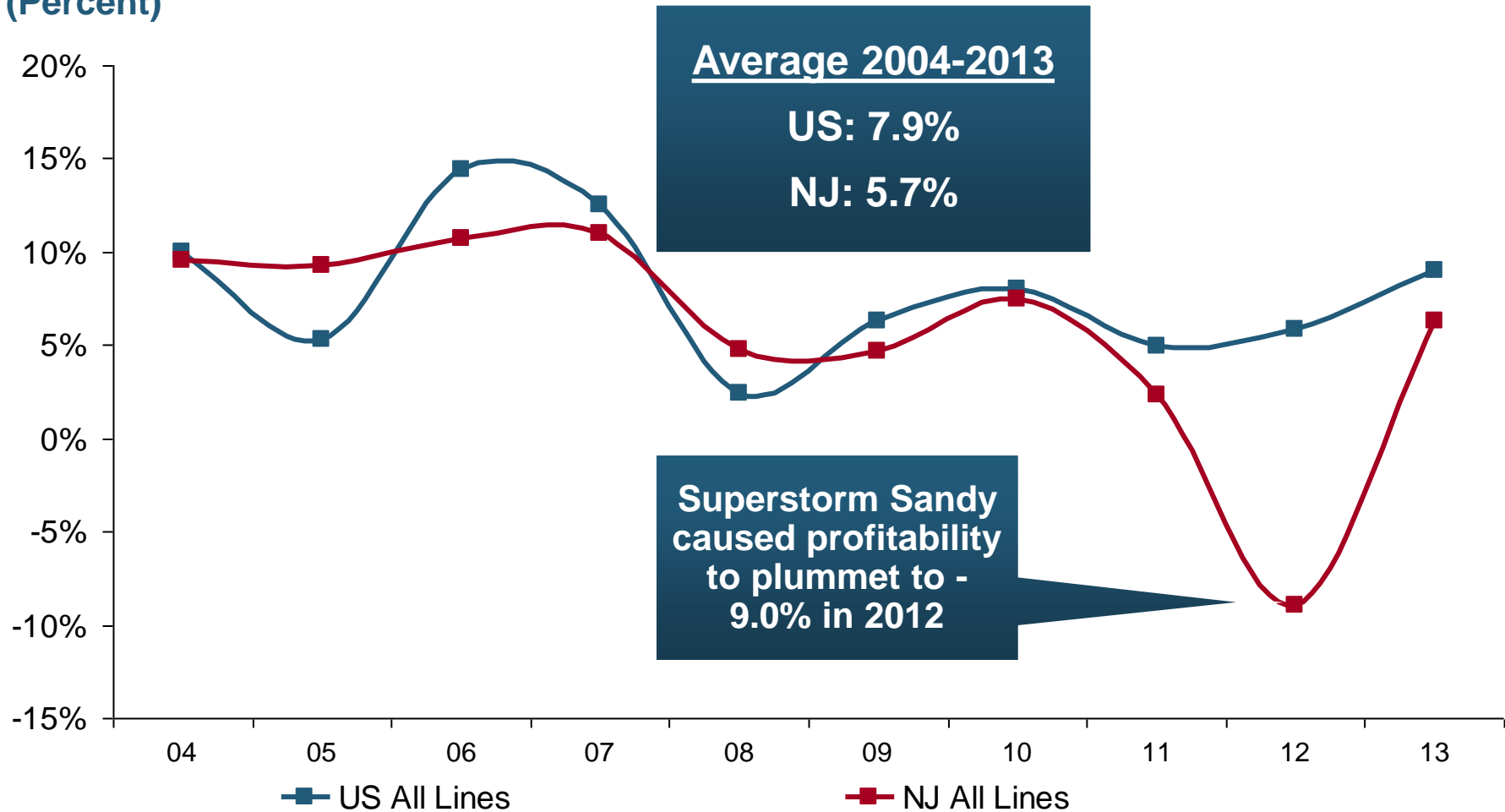


Profitability and Growth in New Jersey P/C Insurance Markets

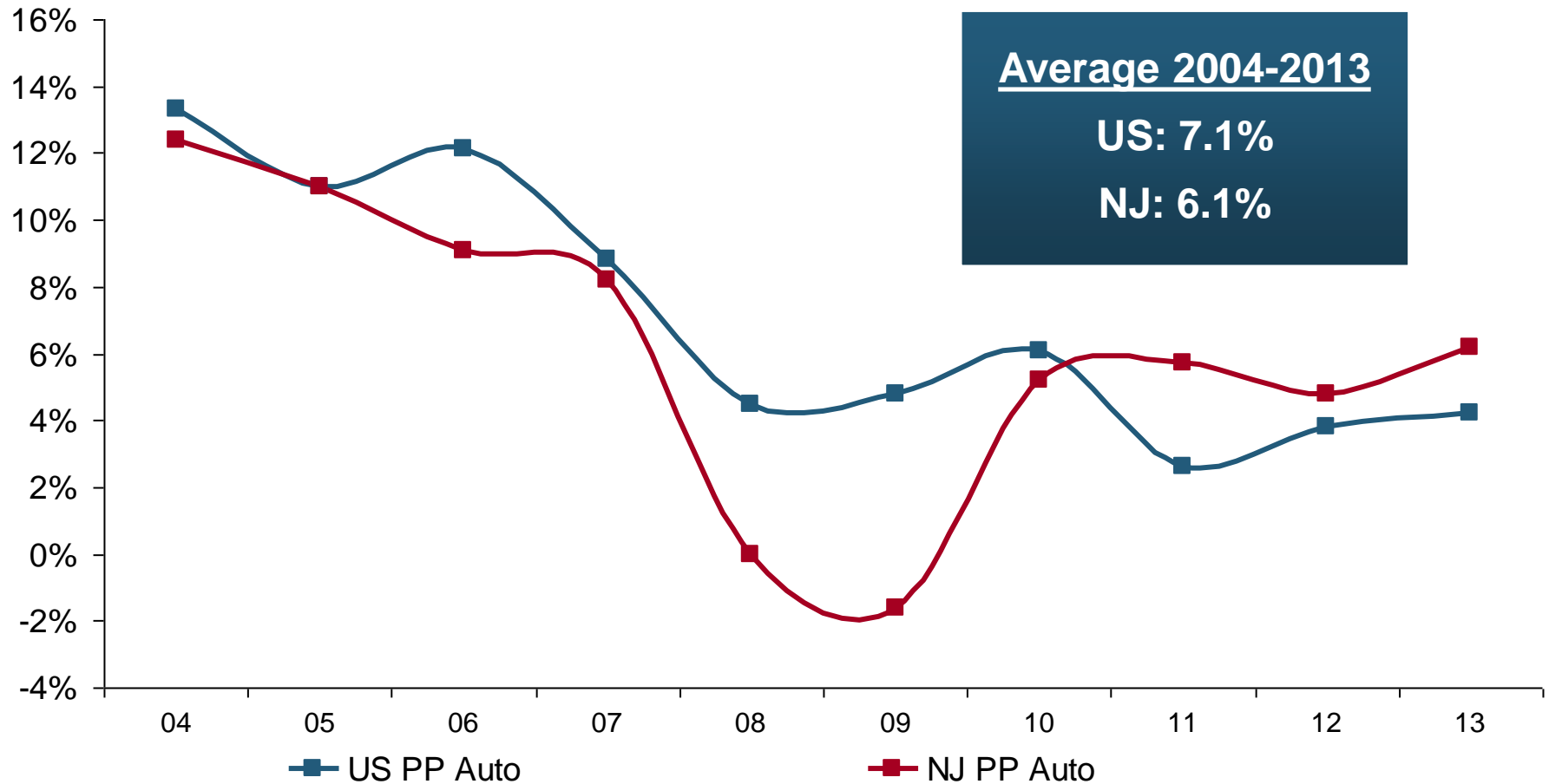
Analysis by Line and Nearby State Comparisons

RNW All Lines: NJ vs. U.S., 2004-2013

(Percent)

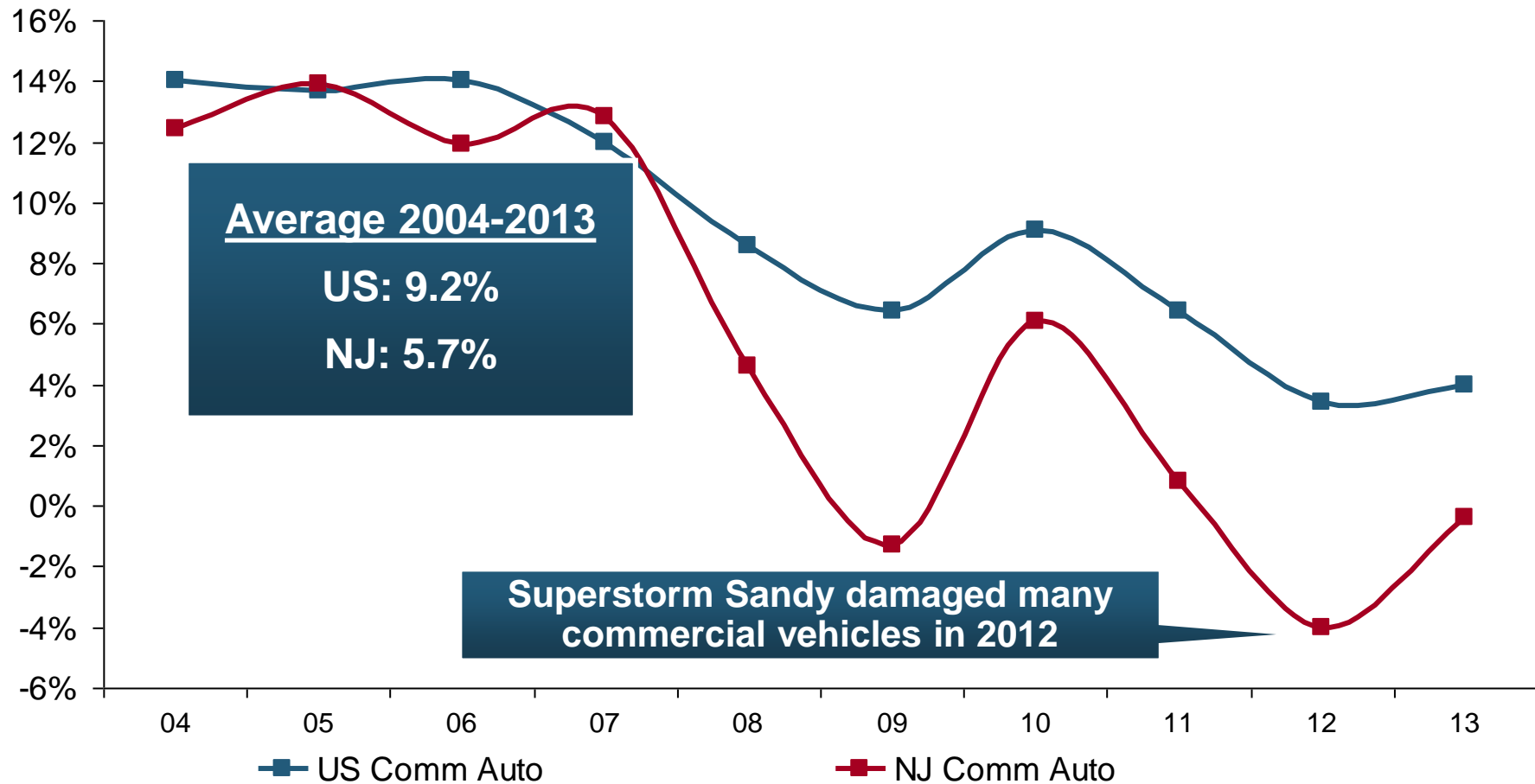


RNW PP Auto: NJ vs. U.S., 2004-2013



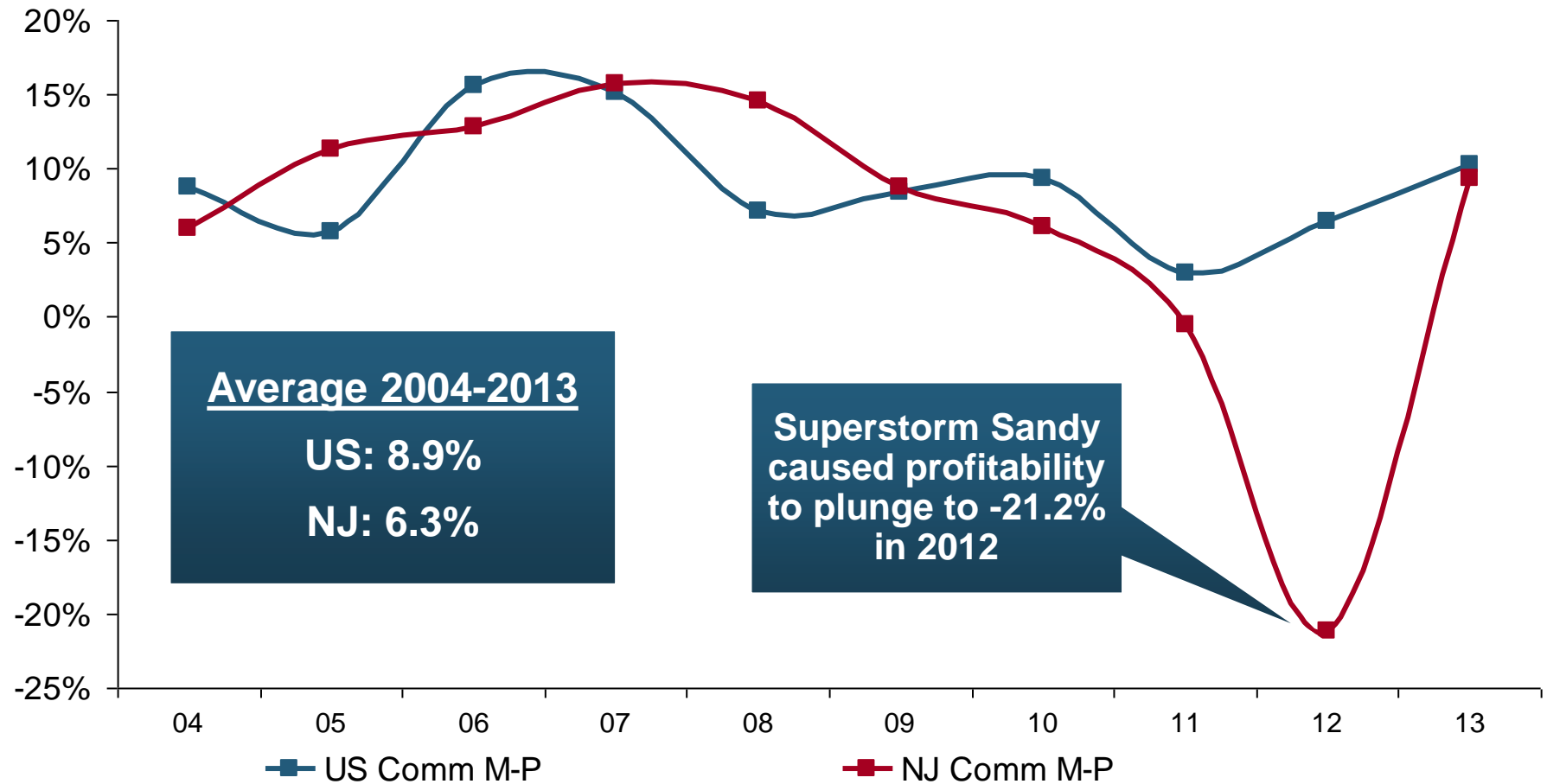
RNW Comm. Auto: NJ vs. U.S., 2004-2013

(Percent)



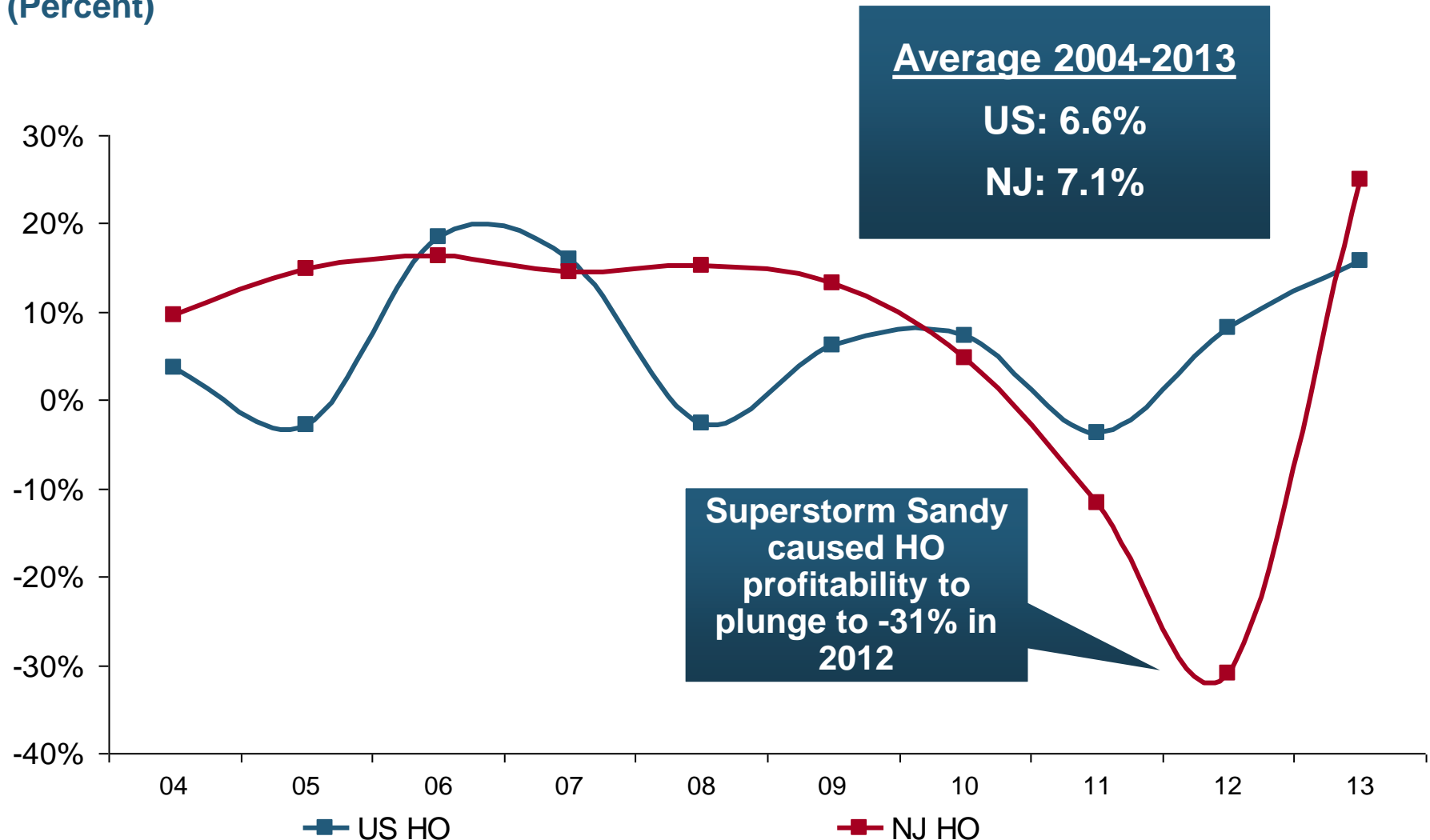
RNW Comm. Multi-Peril: NJ vs. U.S., 2004-2013

(Percent)



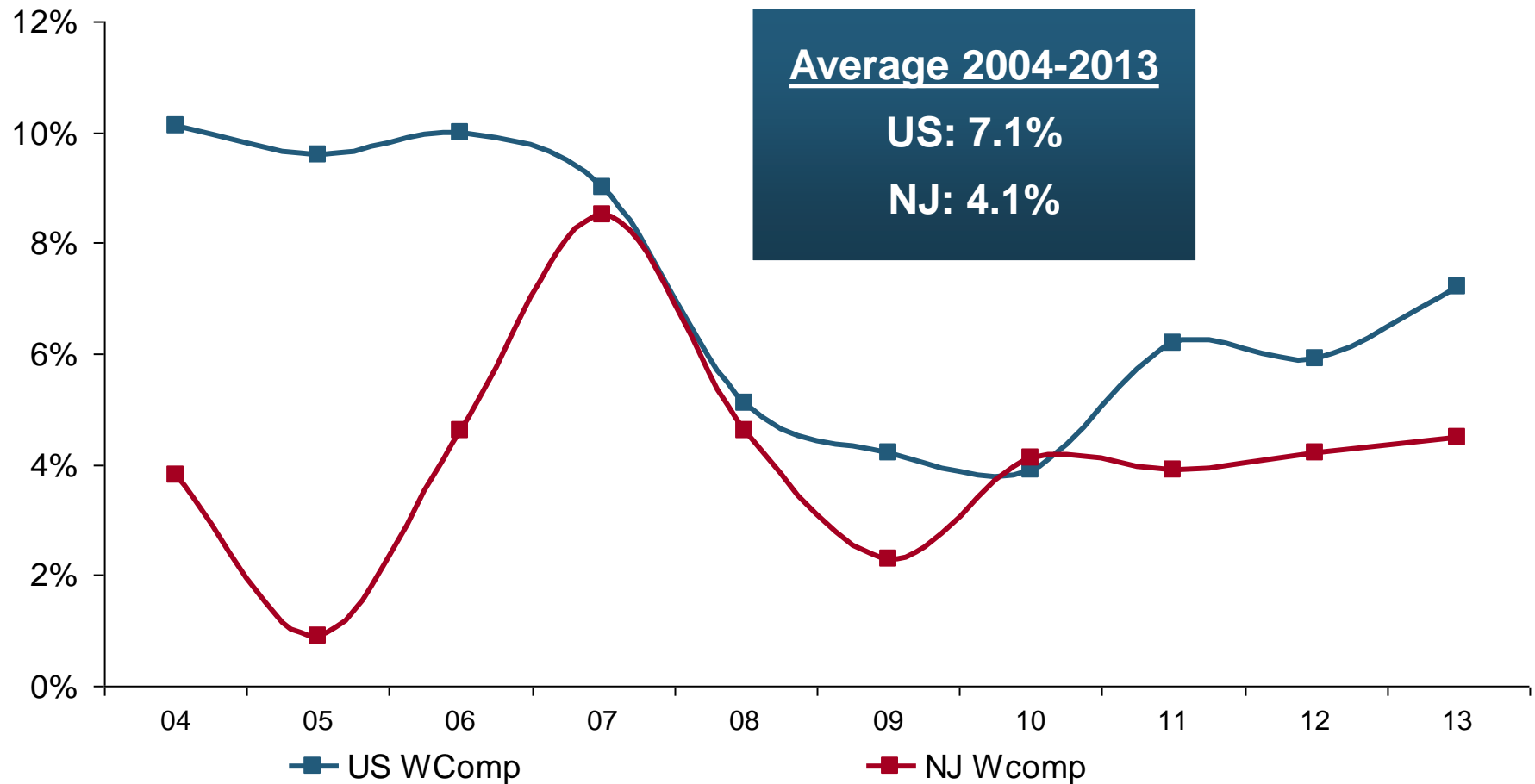
RNW Homeowners: NJ vs. U.S., 2004-2013

(Percent)

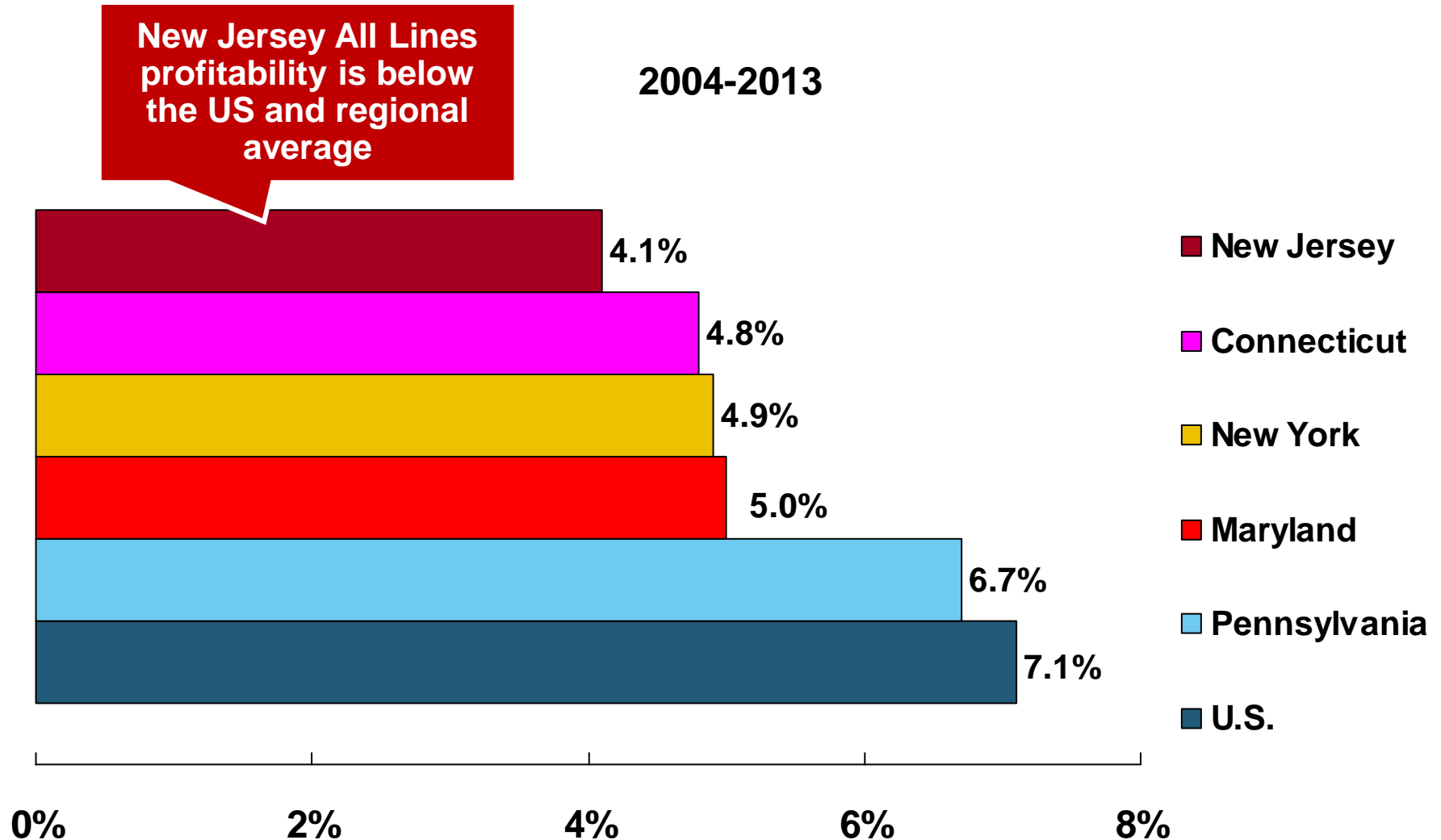


RNW Workers Comp: NJ vs. U.S., 2004-2013

(Percent)

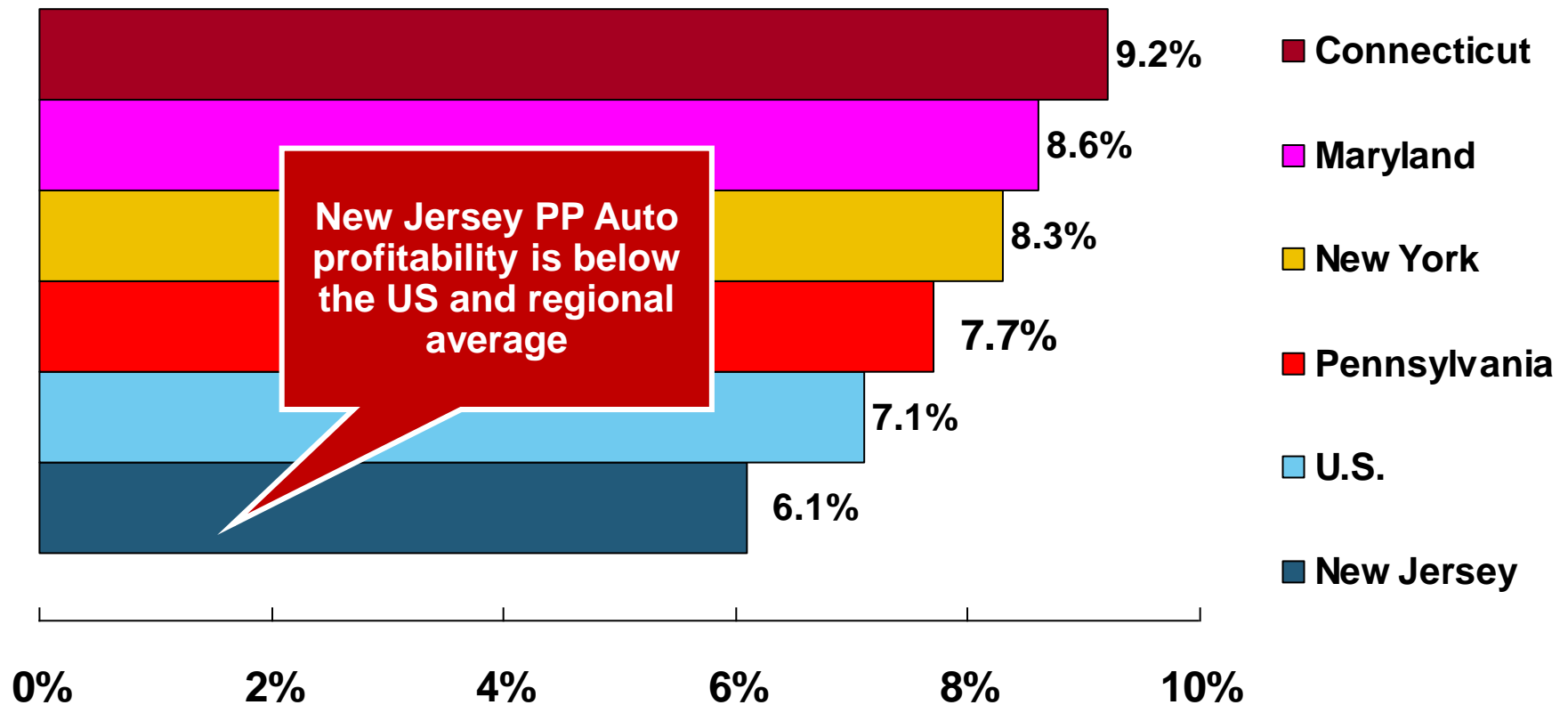


All Lines: 10-Year Average RNW NJ & Nearby States



PP Auto: 10-Year Average RNW NJ & Nearby States

2004-2013



Top Ten Most Expensive And Least Expensive States For Automobile Insurance, 2012 (1)

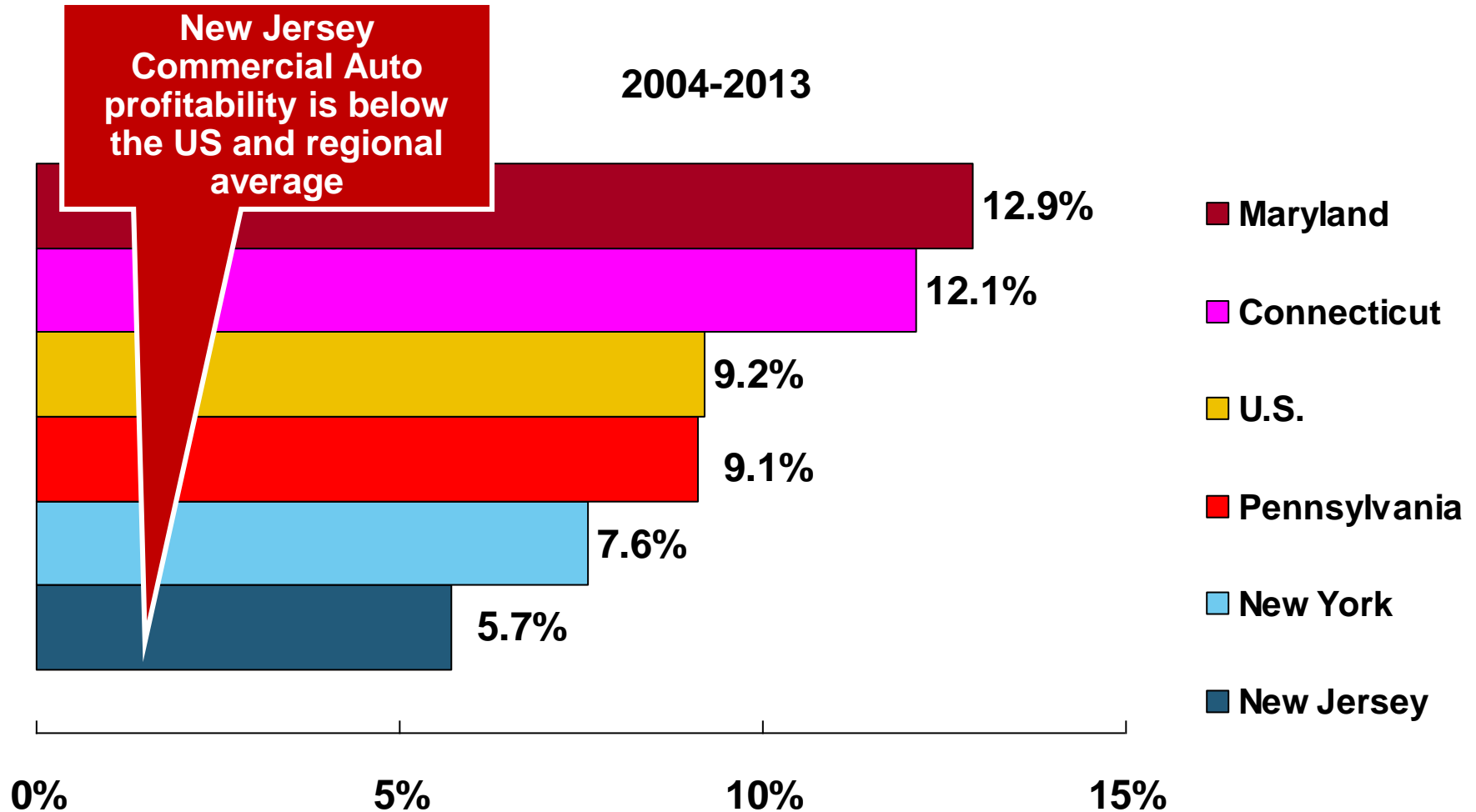
Rank	Most expensive states	Average expenditure	Rank	Least expensive states	Average expenditure
1	New Jersey	\$1,219.93	1	Idaho	\$534.56
2	D.C.	1,154.91	2	South Dakota	556.51
3	New York	1,152.45	3	Iowa	561.26
4	Florida	1,127.93	4	North Dakota	576.08
5	Louisiana	1,112.53	5	Maine	582.43
6	Delaware	1,065.37	6	Wisconsin	598.84
7	Michigan	1,048.87	7	North Carolina	611.48
8	Rhode Island	1,034.50	8	Nebraska	616.78
9	Connecticut	986.73	9	Wyoming	618.81
10	Massachusetts	976.65	10	Kansas	632.07

New Jersey ranked 1st as the most expensive state in 2012, with an average expenditure for auto insurance of \$1,219.

(1) Based on average automobile insurance expenditures.

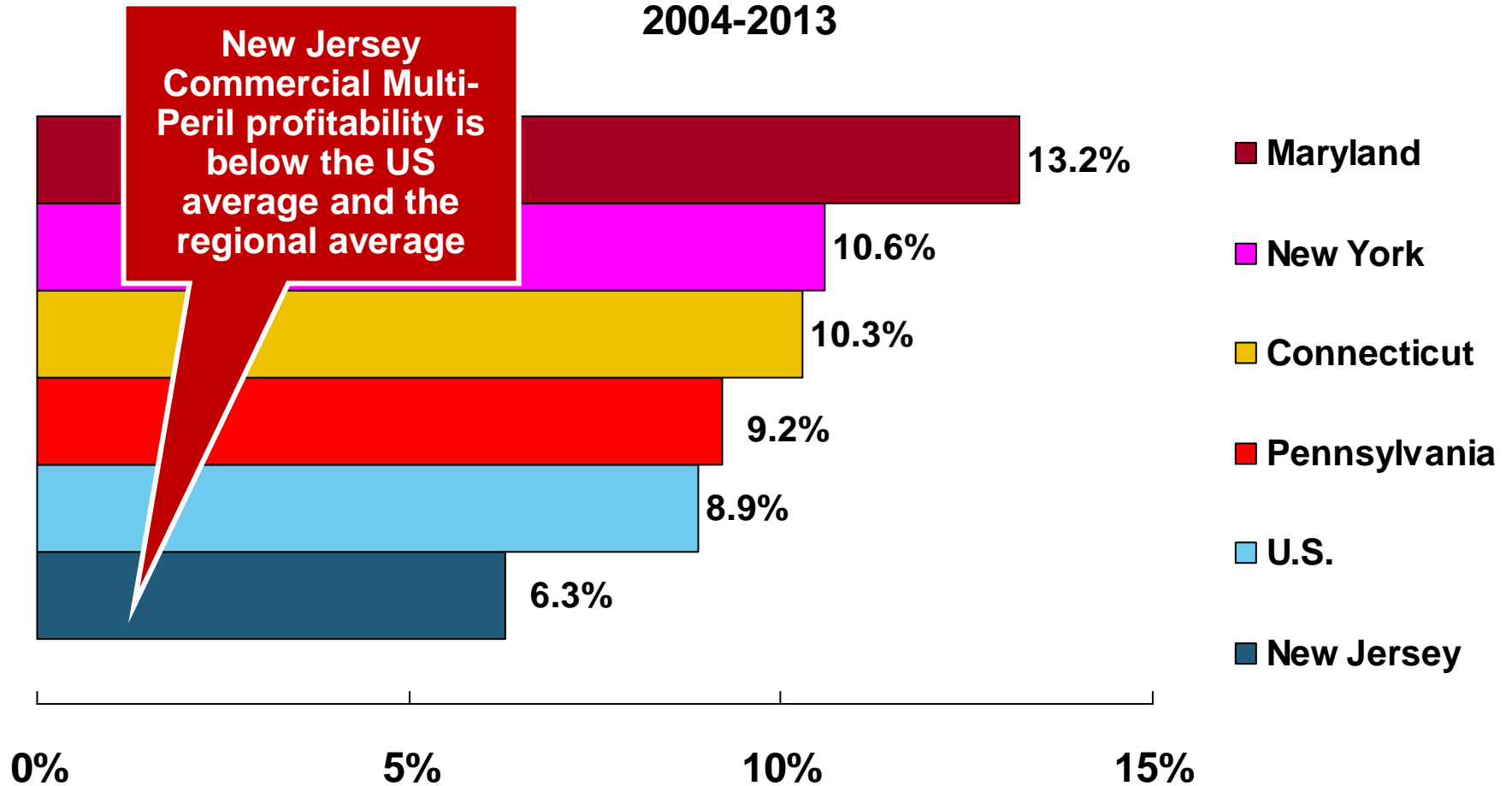
Source: © 2014 National Association of Insurance Commissioners.

Comm. Auto: 10-Year Average RNW NJ & Nearby States

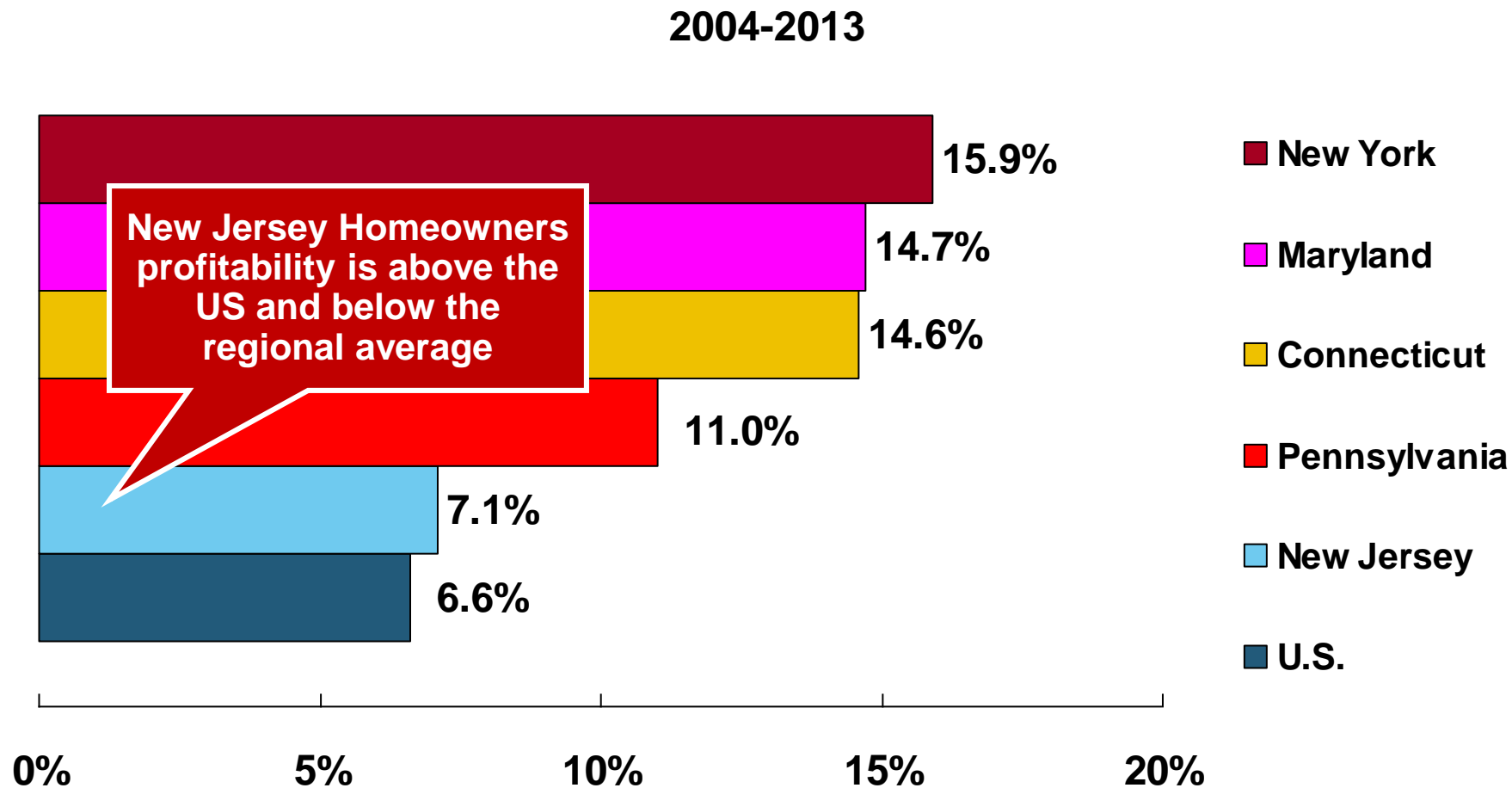


Comm. M-P: 10-Year Average RNW NJ & Nearby States

2004-2013



Homeowners: 10-Year Average RNW NJ & Nearby States



Top Ten Most Expensive And Least Expensive States For Homeowners Insurance, 2012 (1)

New Jersey ranked as the 21st most expensive state for homeowners insurance in 2012, with an average expenditure of \$981.

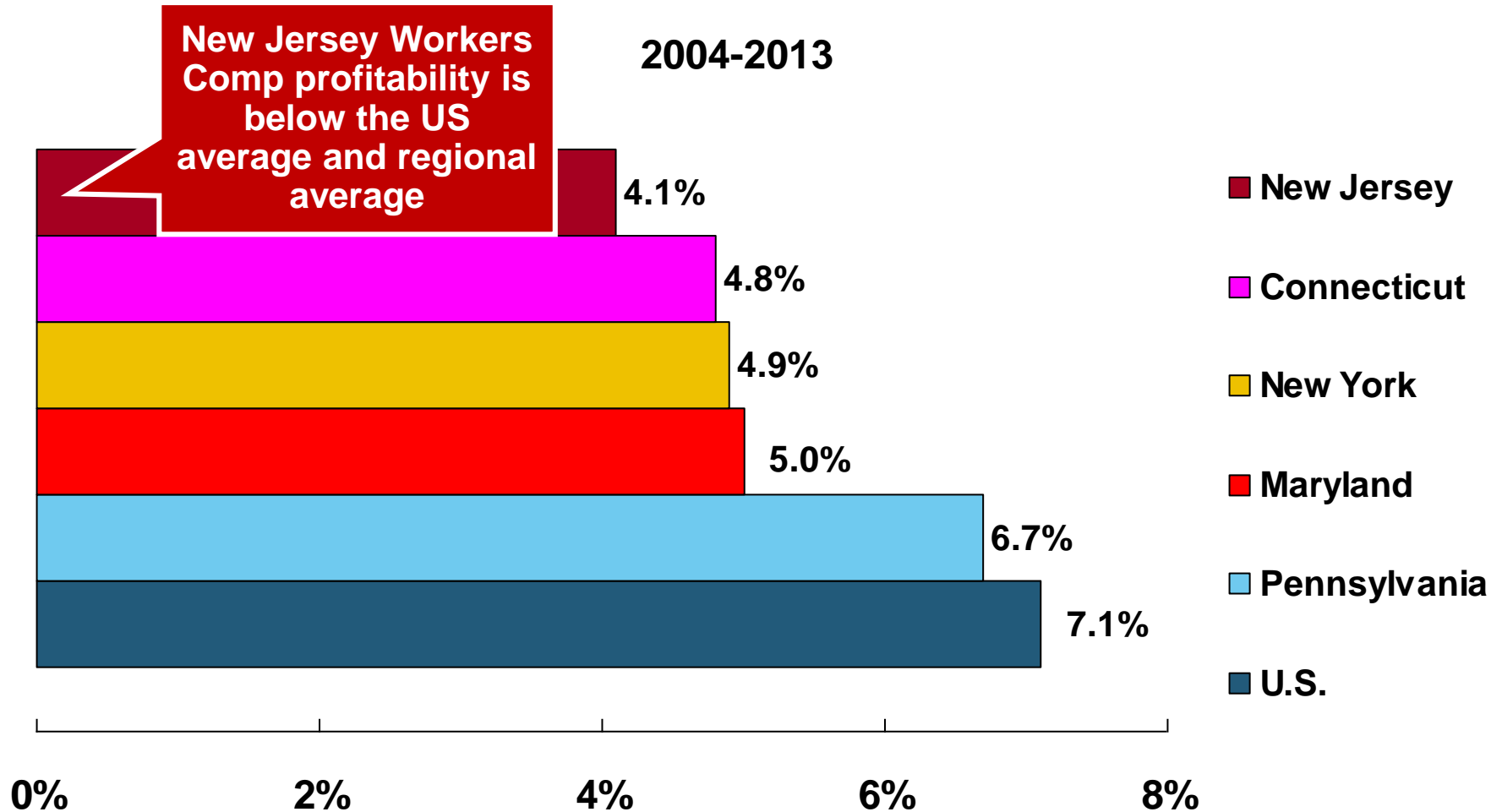
Rank	Most expensive states	HO average premium	Rank	Least expensive states	HO average premium
1	Florida	\$2,084	1	Idaho	\$538
2	Louisiana	1,742	2	Oregon	567
3	Texas	1,661	3	Utah	580
4	Oklahoma	1,501	4	Wisconsin	631
5	Mississippi	1,314	5	Washington	648
6	Alabama	1,248	6	Nevada	674
7	Rhode Island	1,233	7	Delaware	678
8	Kansas	1,213	8	Arizona	691
9	Connecticut	1,160	9	Ohio	721
10	New York	1,158	10	Maine	741

- (1) Includes policies written by Citizens Property Insurance Corp. (Florida) and Citizens Property Insurance Corp. (Louisiana), Alabama Insurance Underwriting Association, Mississippi Windstorm Underwriting Association, North Carolina Joint Underwriting Association and South Carolina Wind and Hail Underwriting Association. Other southeastern states have wind pools in operation and their data may not be included in this chart. Based on the HO-3 homeowner package policy for owner-occupied dwellings, 1 to 4 family units. Provides “all risks” coverage (except those specifically excluded in the policy) on buildings and broad named-peril coverage on personal property, and is the most common package written.
- (2) The Texas Department of Insurance developed home insurance policy forms that are similar but not identical to the standard forms. In addition, due to the Texas Windstorm Association (which writes wind-only policies) classifying HO-1, 2 and 5 premiums as HO-3, the average premium for homeowners insurance is artificially high.

Note: Average premium=Premiums/exposure per house years. A house year is equal to 365 days of insured coverage for a single dwelling. The NAIC does not rank state average expenditures and does not endorse any conclusions drawn from this data.

Source: ©2014 National Association of Insurance Commissioners (NAIC). Reprinted with permission. Further reprint or distribution strictly prohibited without written permission of NAIC.

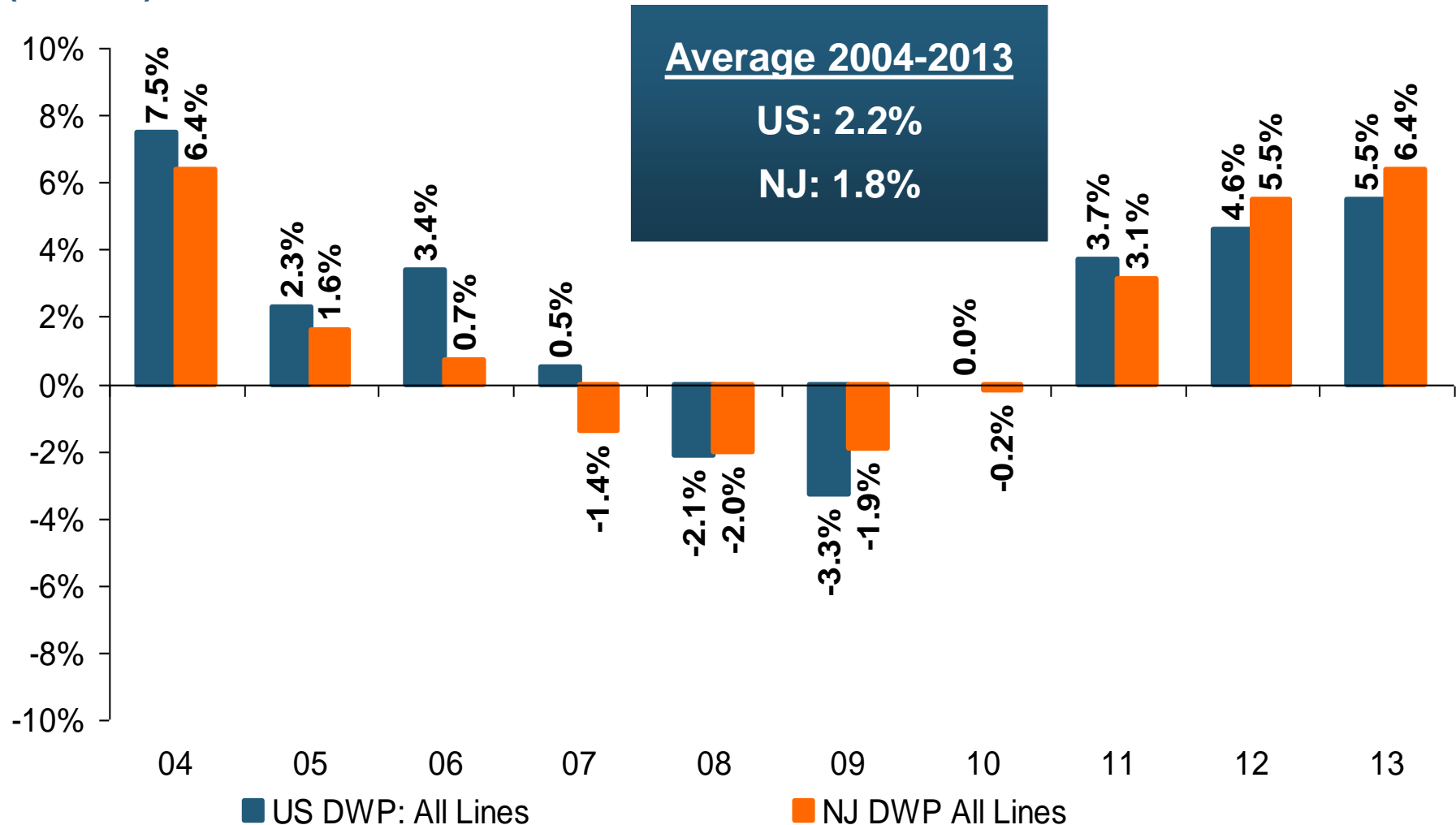
Workers Comp: 10-Year Average RNW NJ & Nearby States



Source: NAIC, Insurance Information Institute

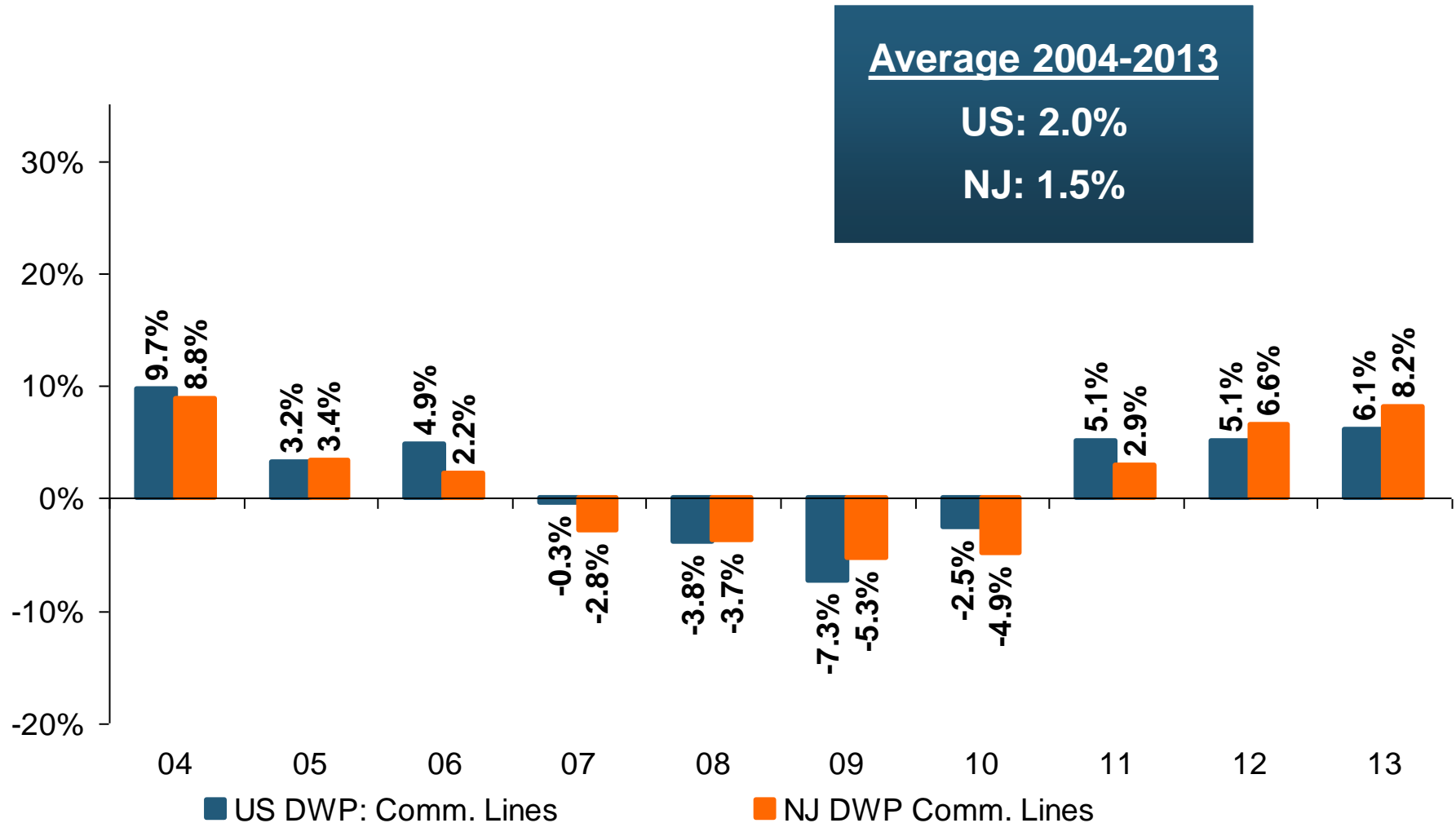
All Lines DWP Growth: NJ vs. U.S., 2004-2013

(Percent)



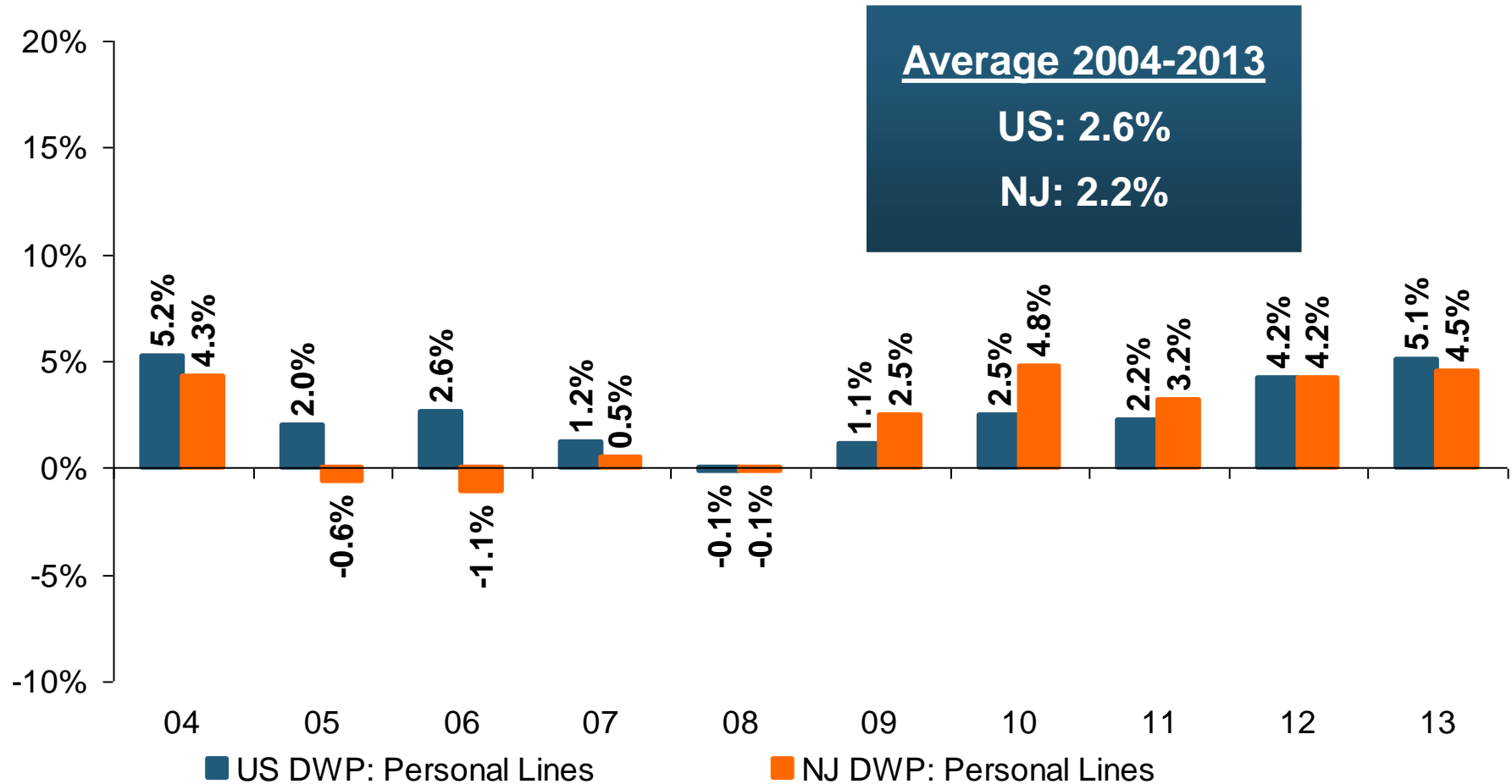
Comm. Lines DWP Growth: NJ vs. U.S., 2004-2013

(Percent)



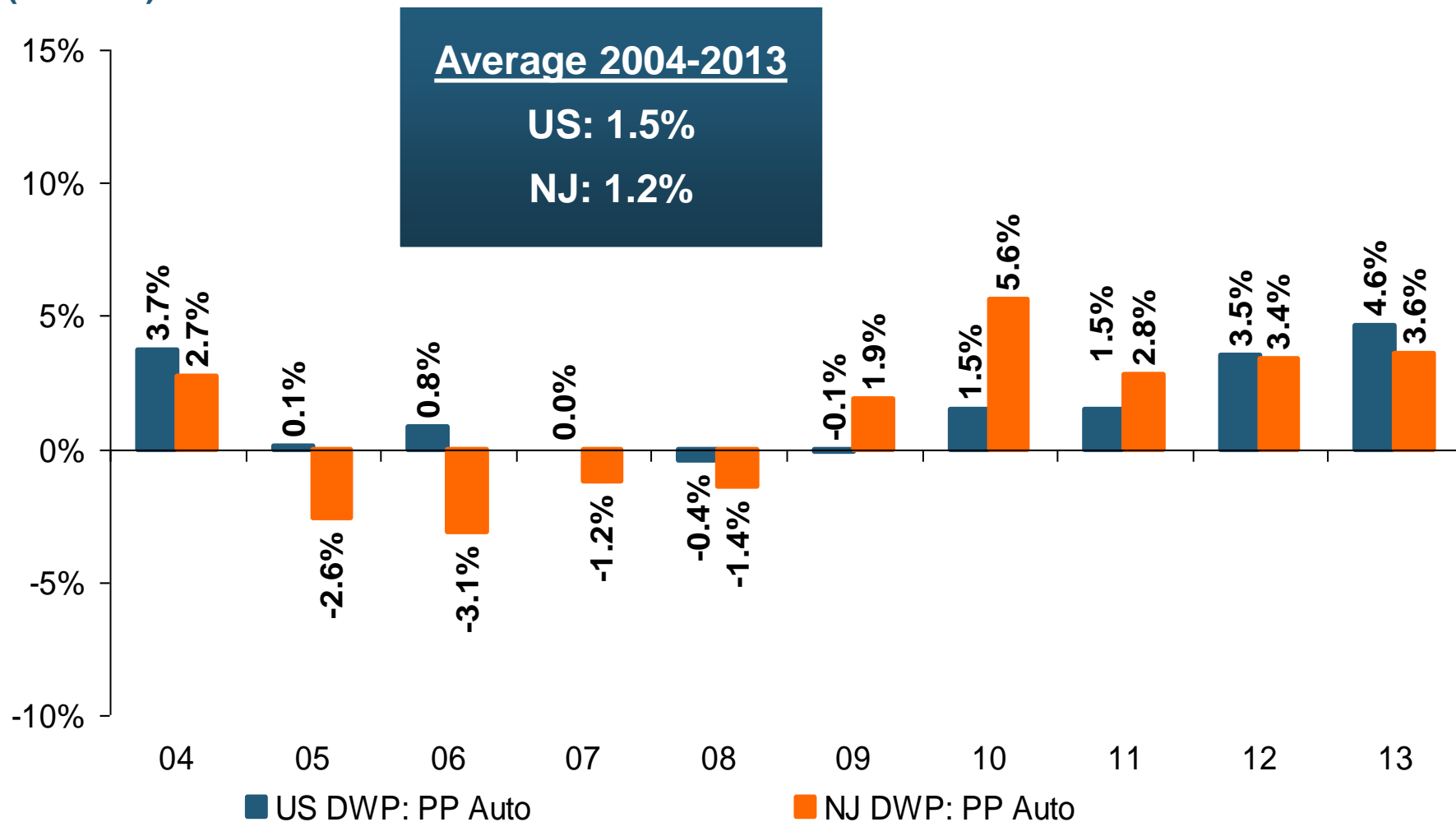
Personal Lines DWP Growth: NJ vs. U.S., 2004-2013

(Percent)



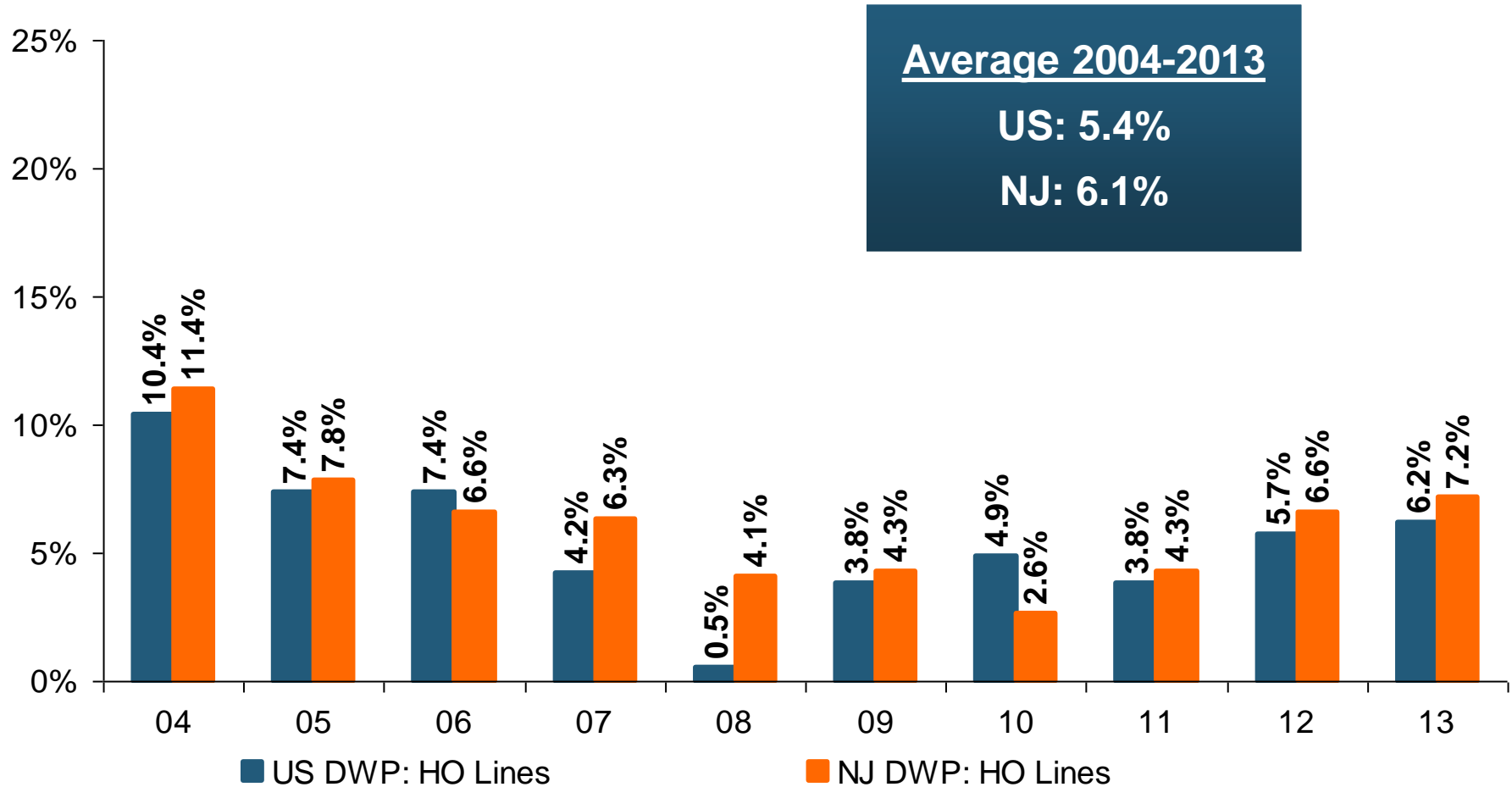
Private Passenger Auto DWP Growth: NJ vs. U.S., 2004-2013

(Percent)



Homeowner's MP DWP Growth: NJ vs. U.S., 2004-2013

(Percent)



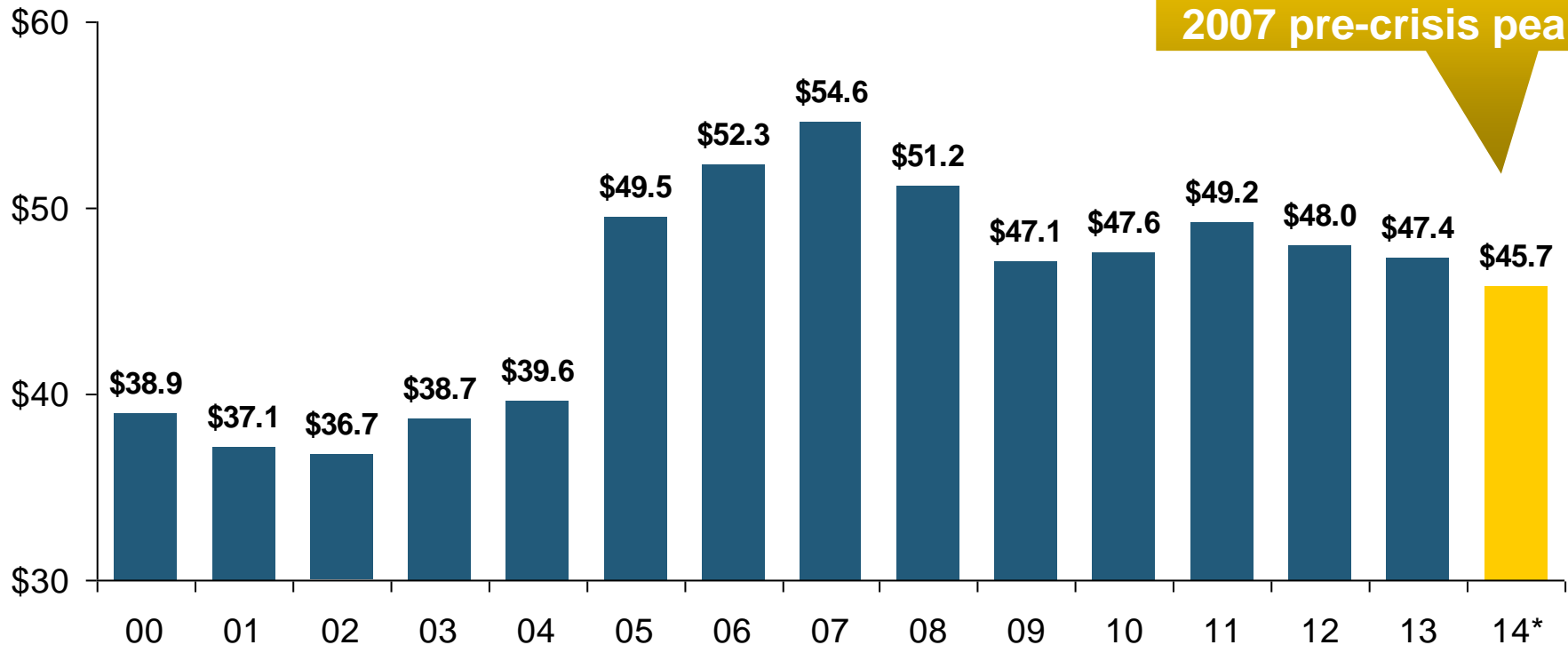
INVESTMENTS: THE NEW REALITY

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

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

Property/Casualty Insurance Industry Investment Income: 2000–2014¹

(\$ Billions)



Investment earnings
are still below their
2007 pre-crisis peak

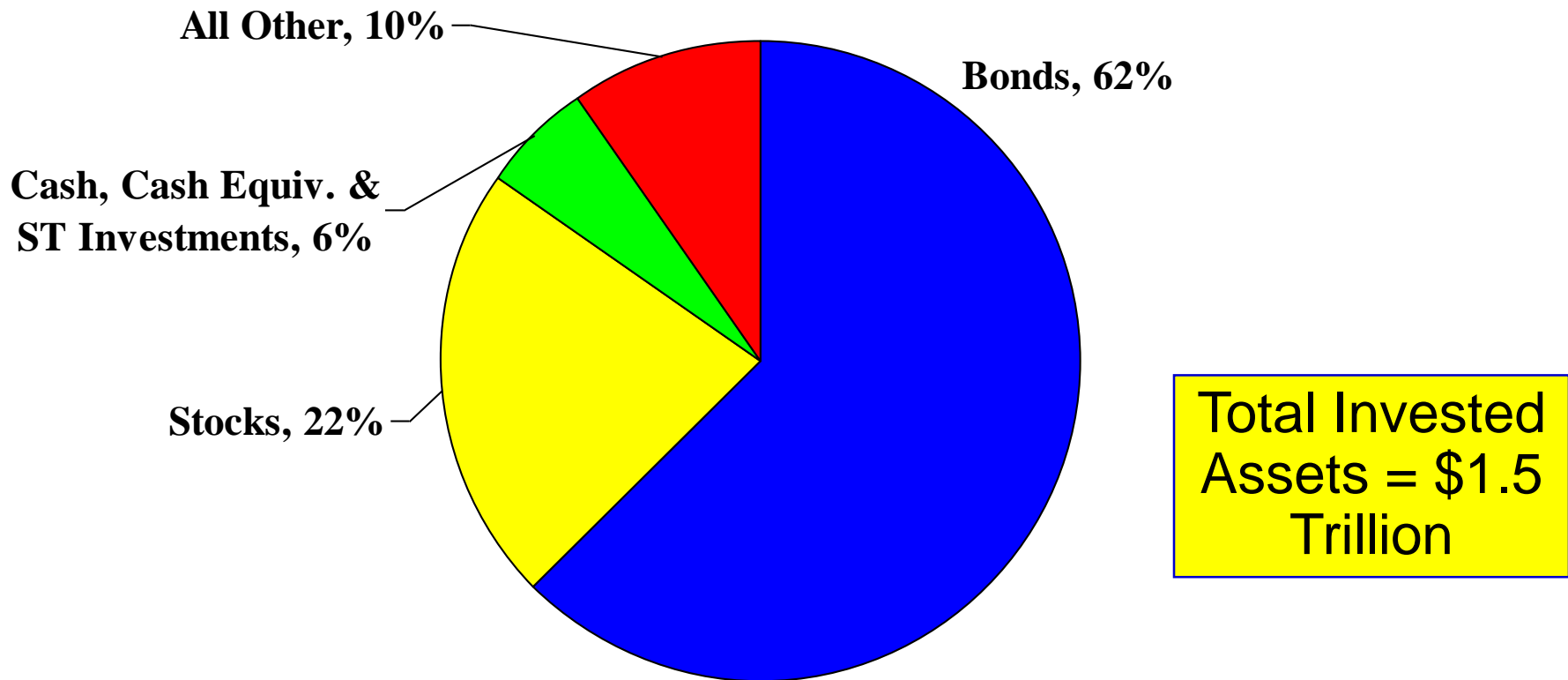
**Due to persistently low interest rates,
investment income fell in 2012, 2013 and 2014.**

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

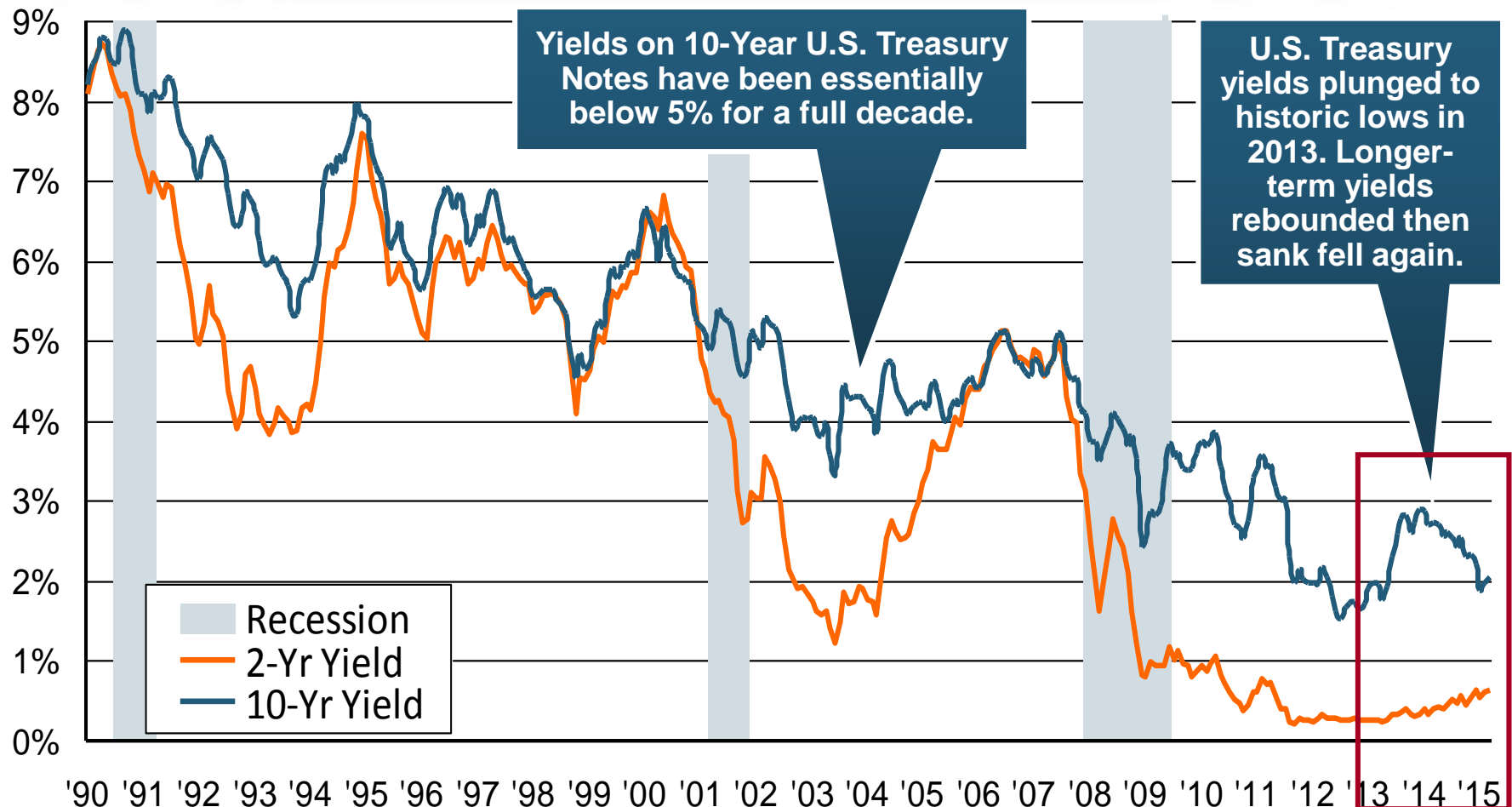
*2014 figure is estimated based on annualized data through Q3.

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

\$ Billions



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



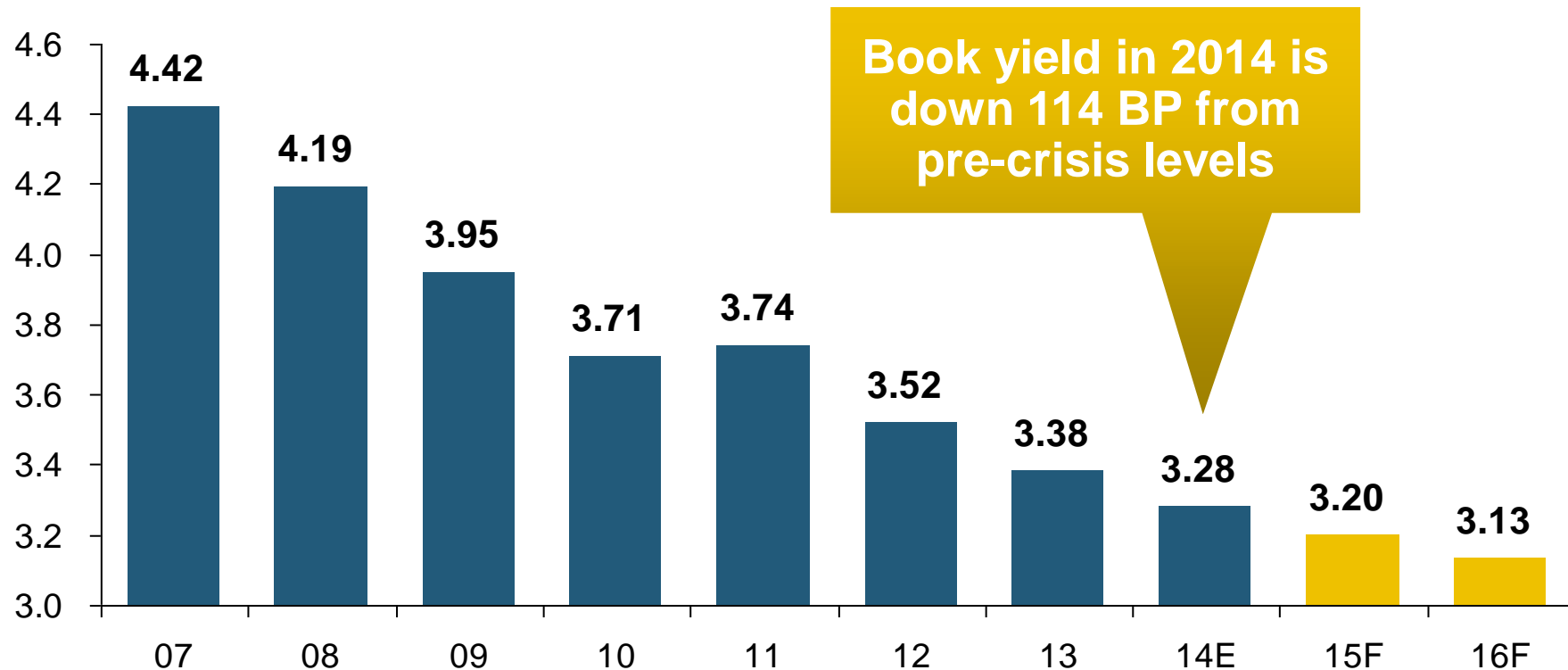
Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

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

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

Book Yield on Property/Casualty Insurance Invested Assets, 2007–2016F

(Percent)



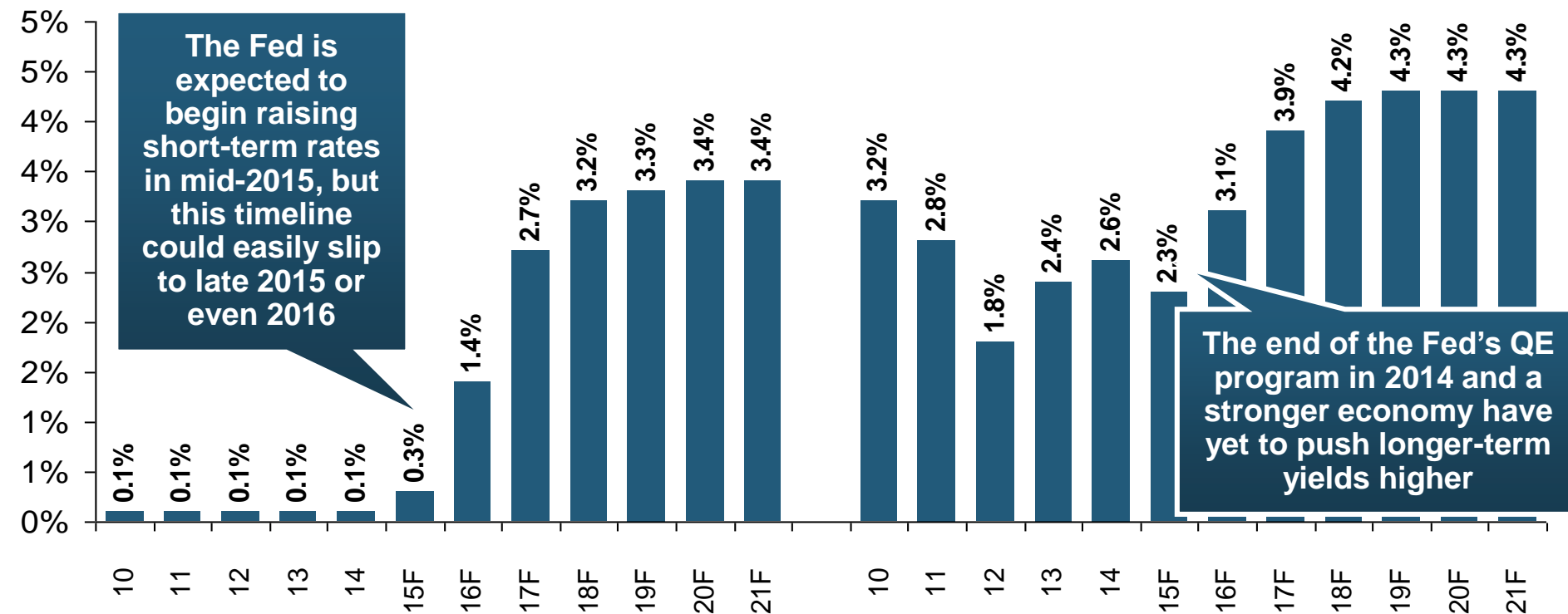
The yield on invested assets continues to decline as returns on maturing bonds generally still exceed new money yields. The end of the Fed's QE program in Oct. 2014 should allow some increase in longer maturities while short term interest rate increases are unlikely until mid-to-late 2015

Interest Rate Forecasts: 2015 – 2021

Yield (%)

3-Month Treasury

10-Year Treasury



A Full Normalization of Interest Rates Is Unlikely Until 2018 or Later, More than a Decade After the Onset of the Financial Crisis

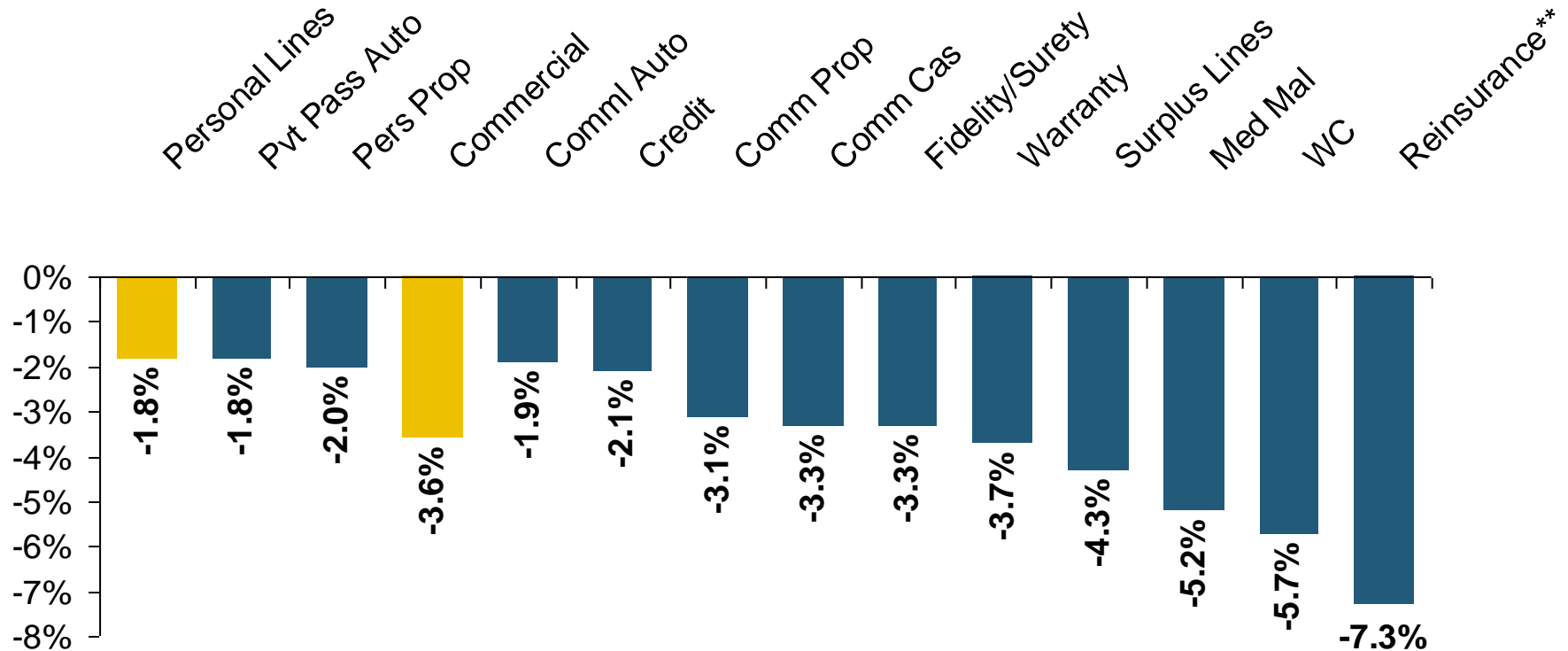
Annual Inflation Rates, (CPI-U, %), 1990–2016F

Annual Inflation 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*



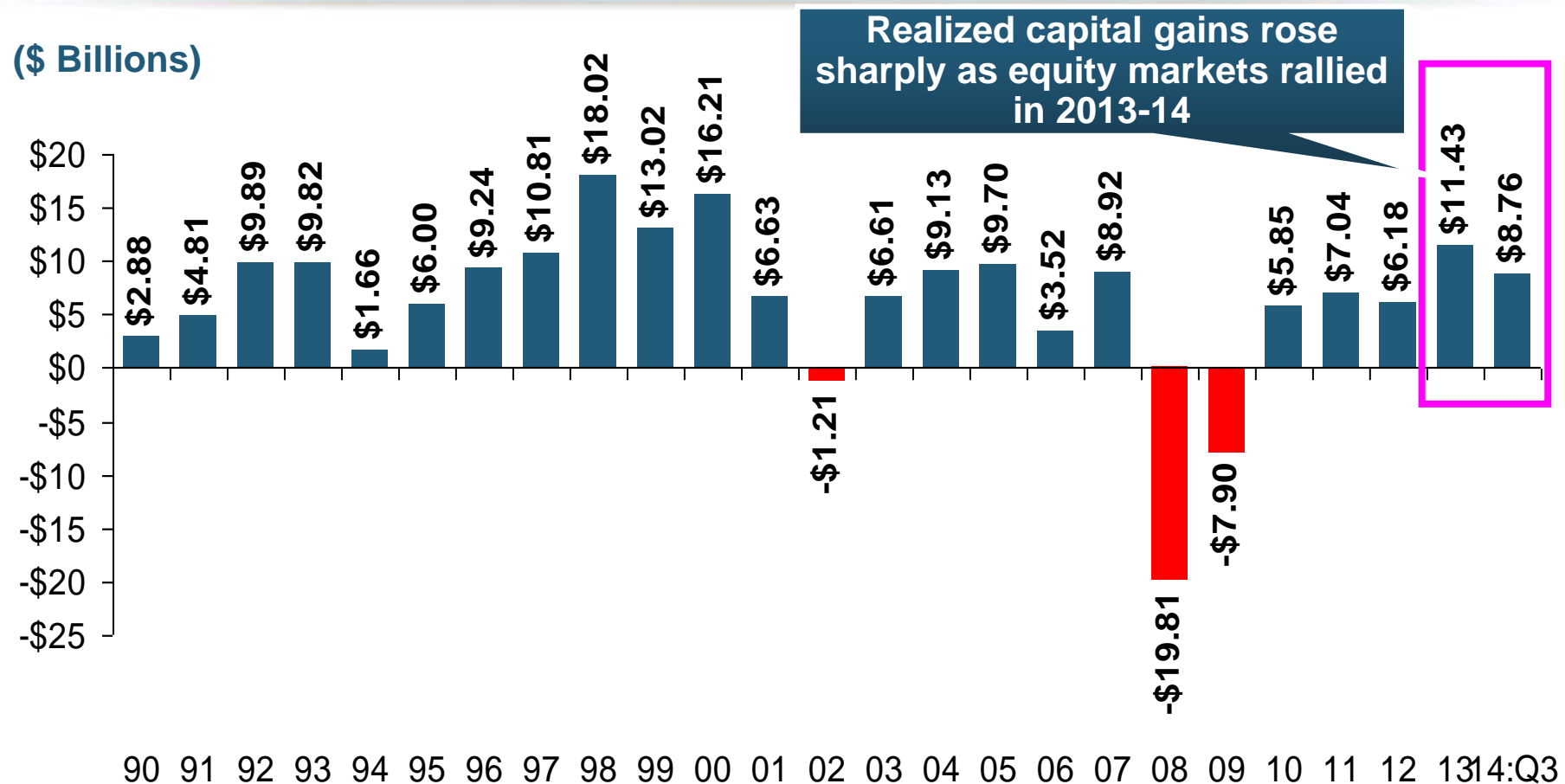
Lower Investment Earnings Place a Greater Burden on Underwriting and Pricing Discipline

*Based on 2008 Invested Assets and Earned Premiums

**US domestic reinsurance only

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

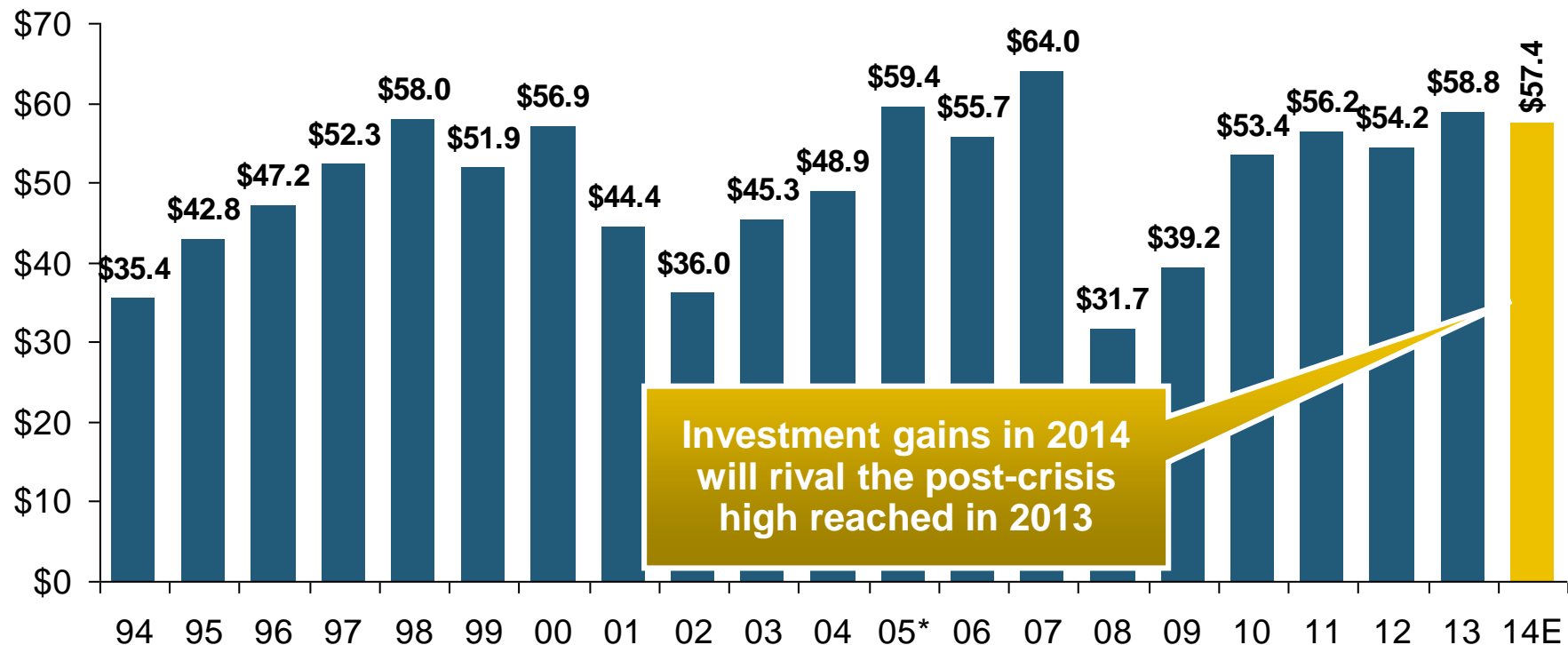
P/C Insurer Net Realized Capital Gains/Losses, 1990-2014:Q3



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

Property/Casualty Insurance Industry Investment Gain: 1994–2014E¹

(\$ Billions)



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

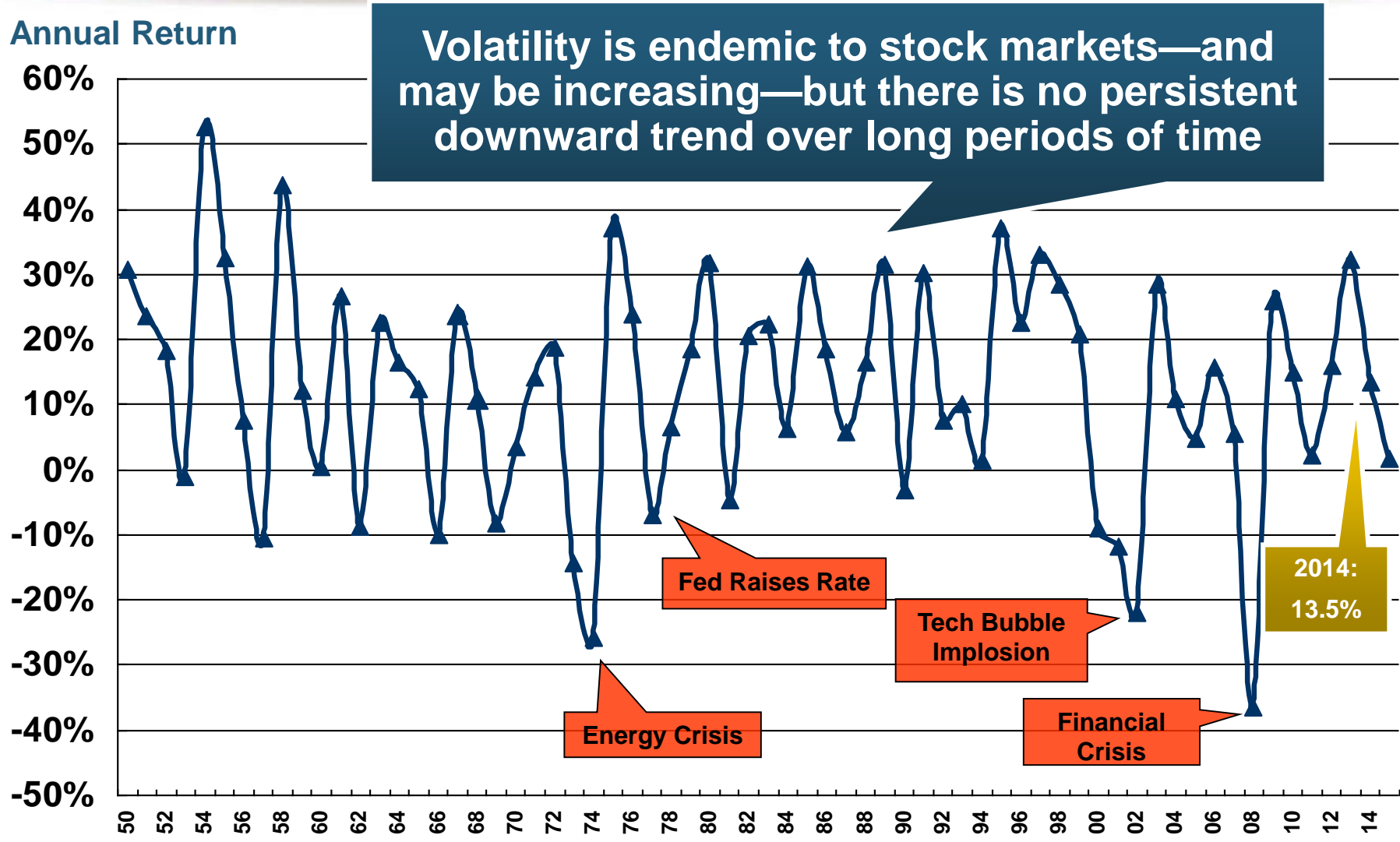
Total Investment Gains Were Flat in 2014 as Low Interest Rates Pressured Investment Income but Realized Capital Gains Remained Robust

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;

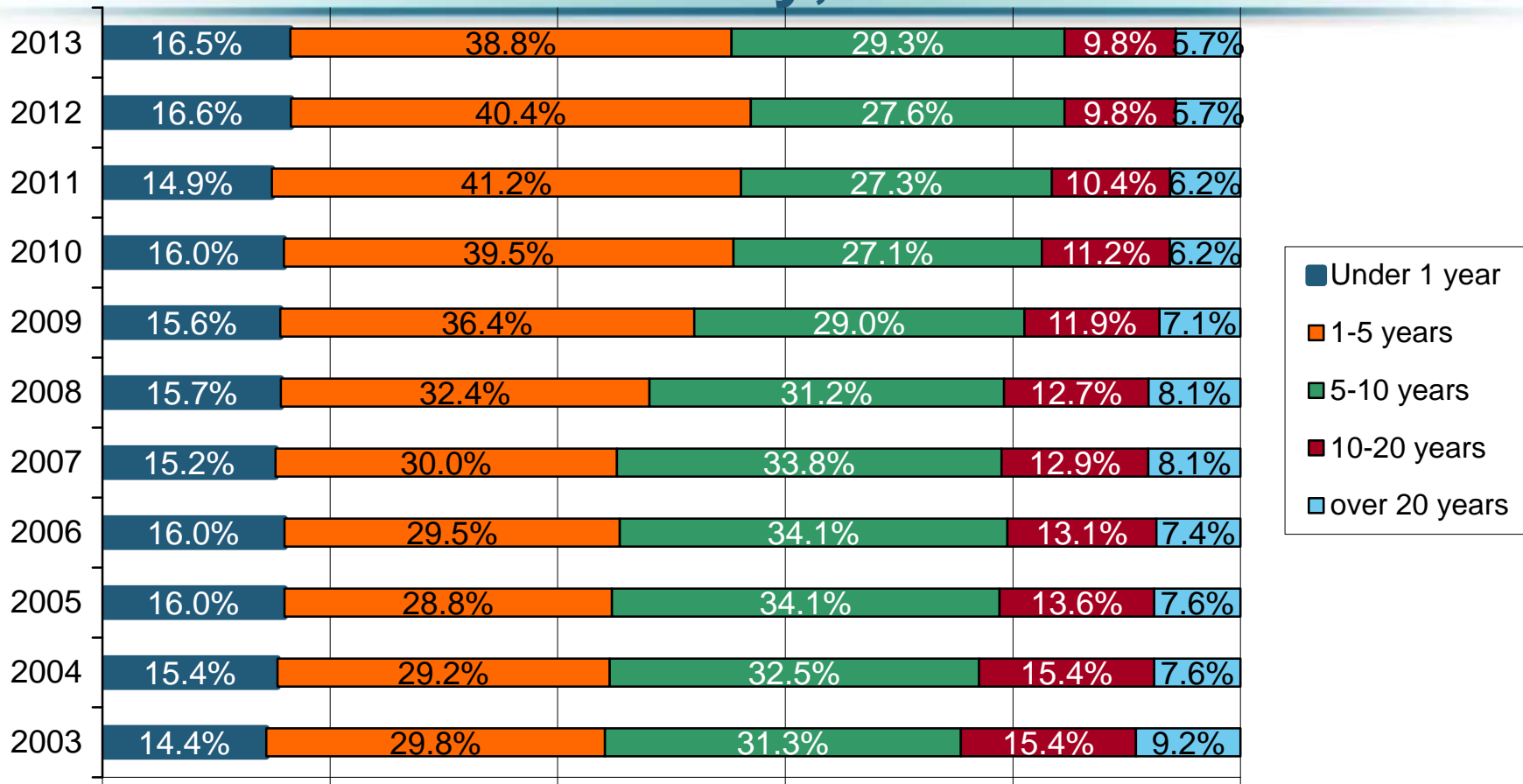
Sources: ISO; Insurance Information Institute.

S&P 500 Index Returns, 1950 – 2015*



*Through April 9, 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



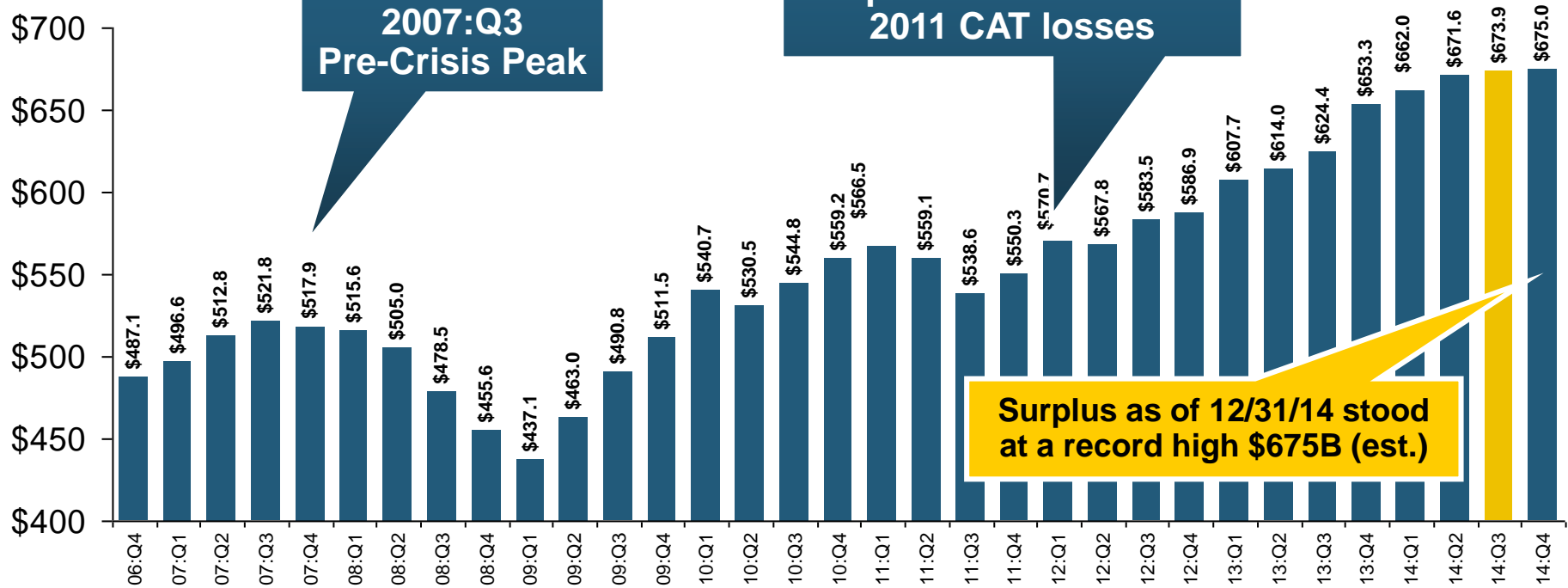
The main shift over these years has been from bonds with longer maturities to bonds with shorter maturities. The industry first trimmed its holdings of over-10-year bonds (from 24.6% in 2003 to 15.5% in 2012) and then trimmed bonds in the 5-10-year category (from 31.3% in 2003 to 27.6% in 2012). Falling 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:Q4–2014:Q4E

(\$ Billions)



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

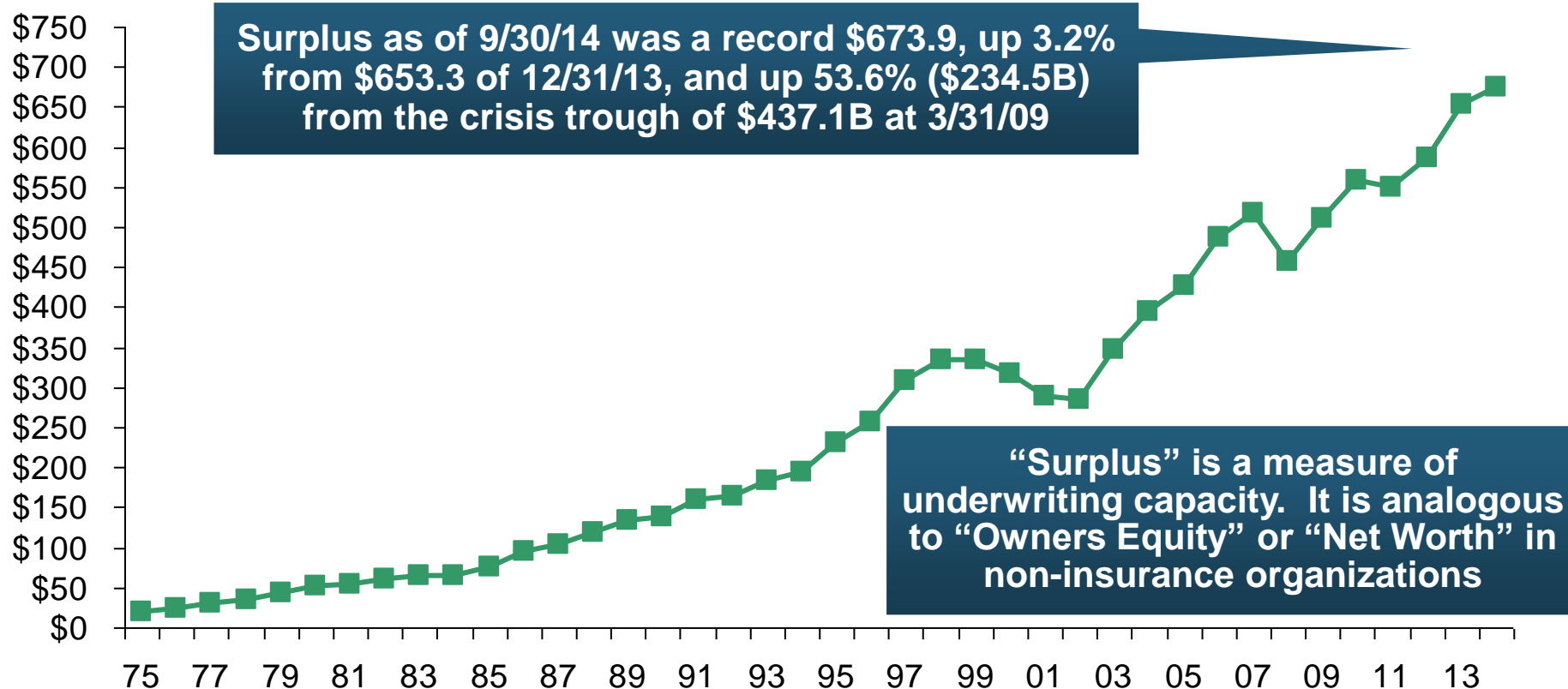
2010:Q1 data includes \$22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business.

Sources: ISO, A.M. Best.

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

US Policyholder Surplus: 1975–2014*

(\$ Billions)



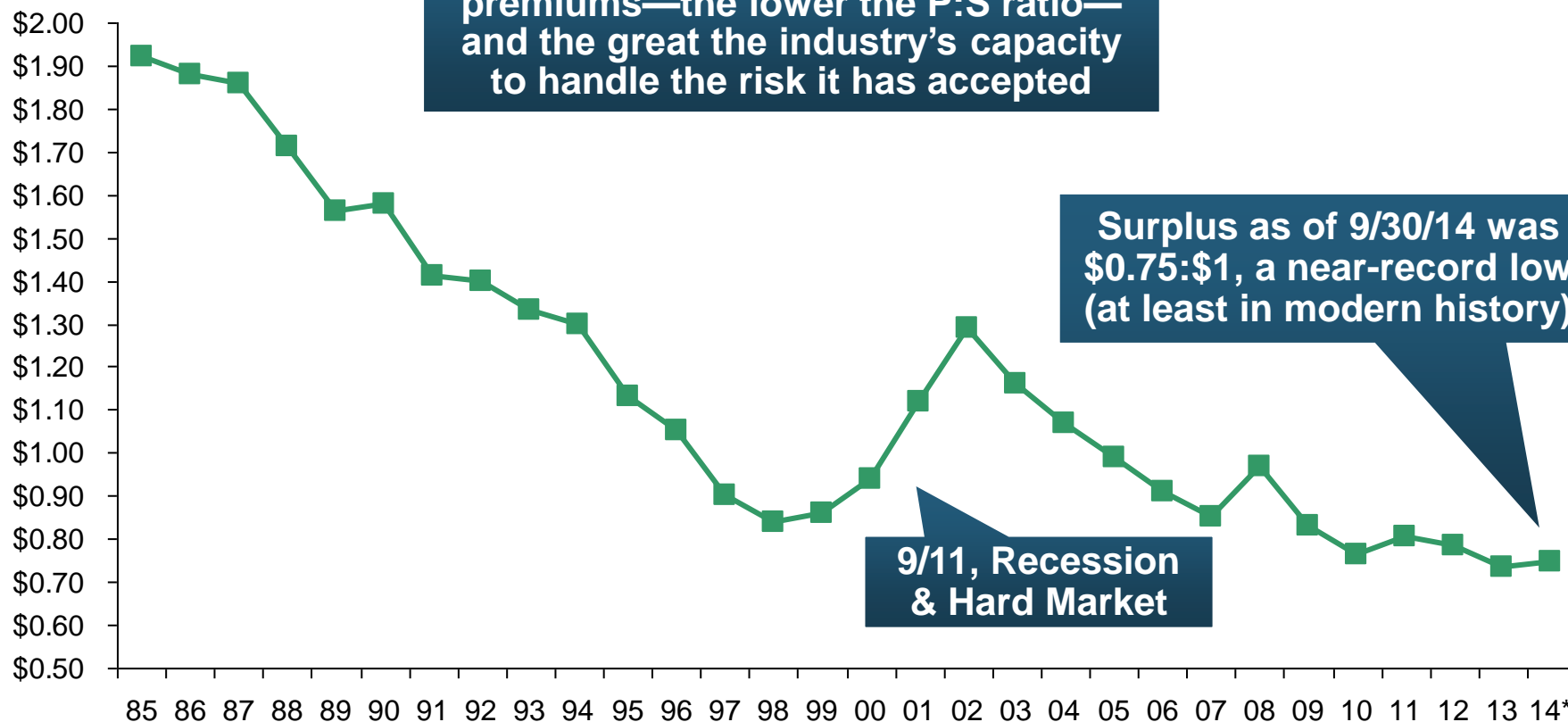
The Premium-to-Surplus Ratio Stood at \$0.73:\$1 as of 9/30/14, a Near Record Low (at Least in Recent History)

* As of 9/30/14.

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

Premium-to-Surplus Ratio: 1985–2014*

(Ratio of NWP to PHS)

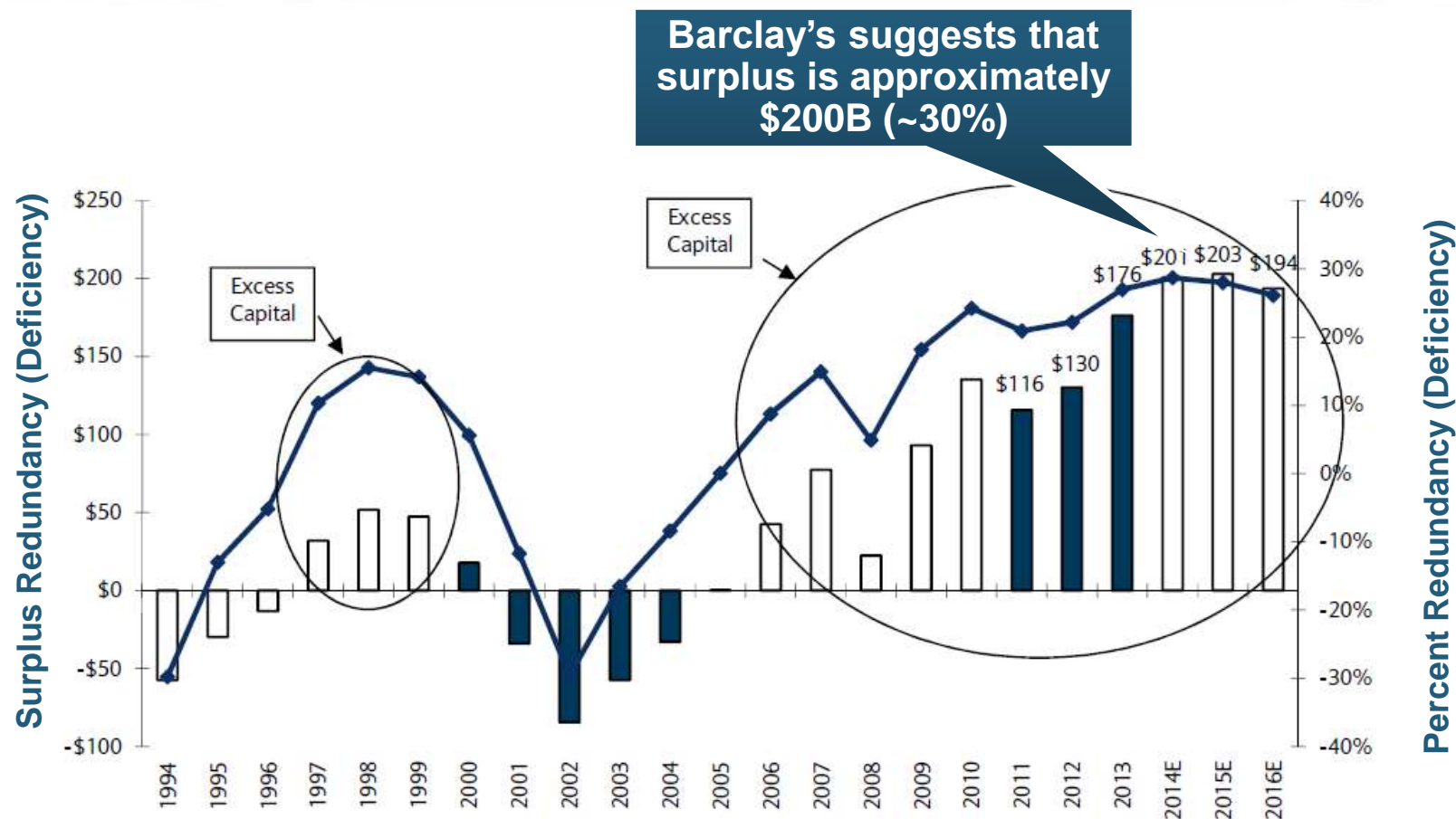


The Premium-to-Surplus Ratio Stood at \$0.75:\$1 as of 9/30/14, a Record Low (at Least in Recent History)

* As of 9/30/14.

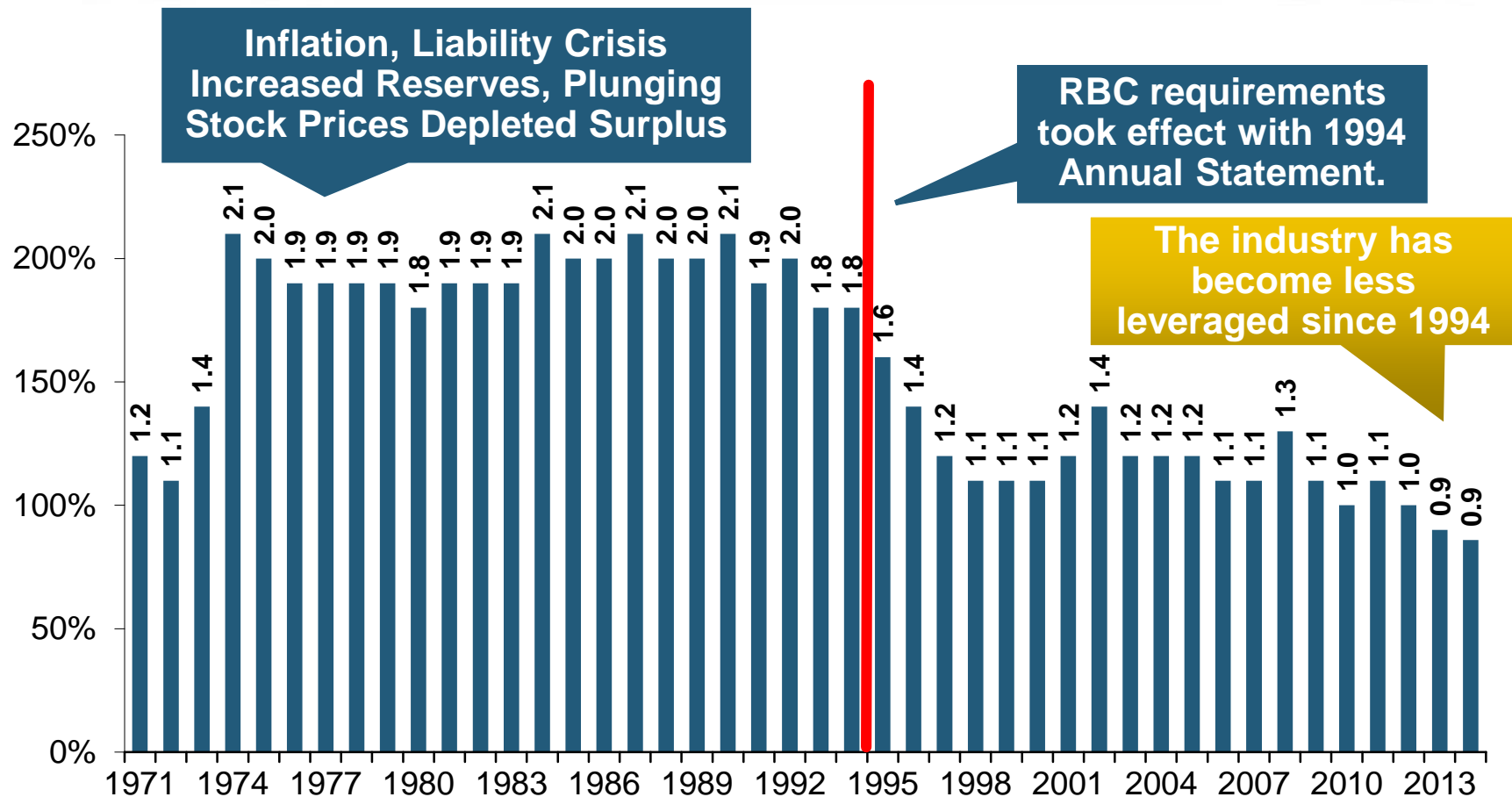
Source: A.M. Best, ISO, Insurance Information Institute.

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:Q3



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

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.

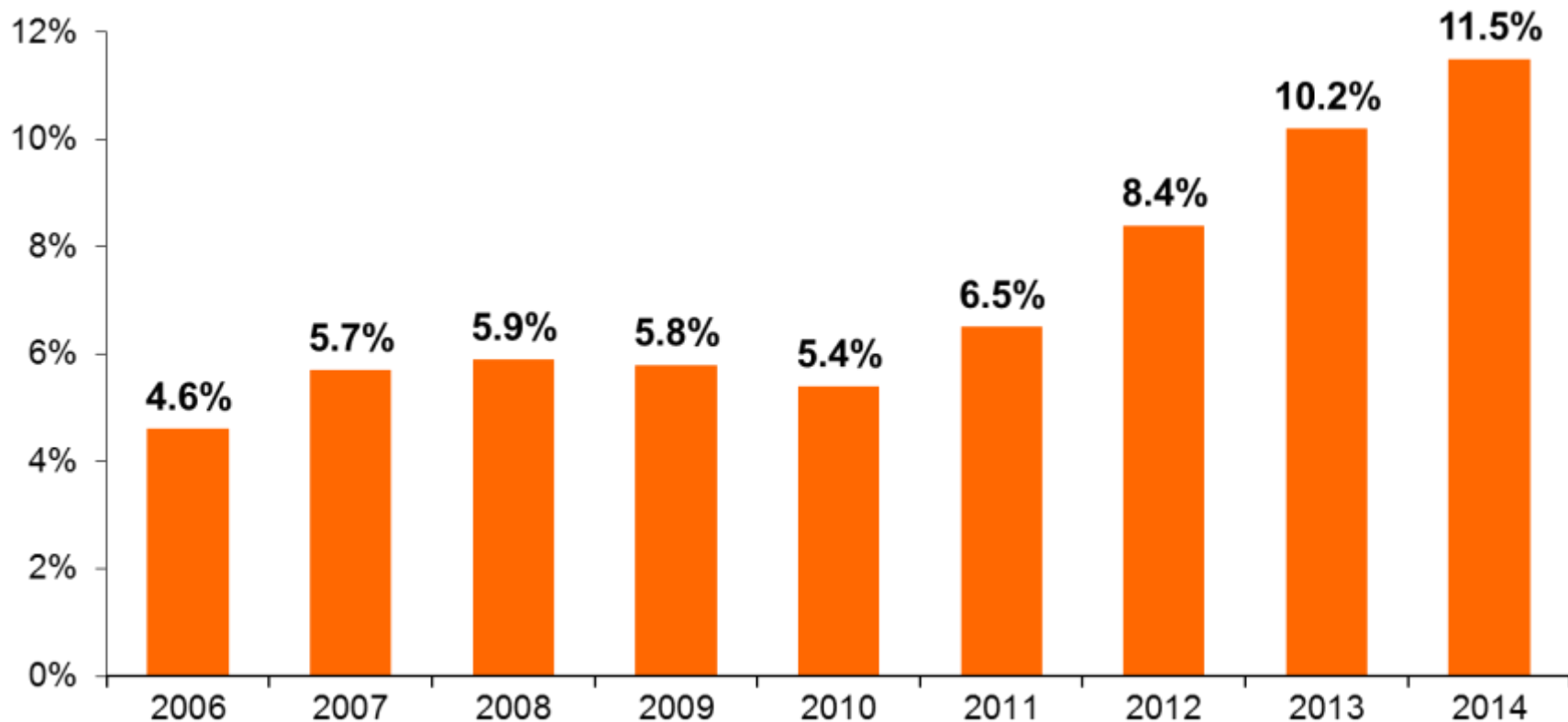


But alternative capacity has grown 210% since 2008, to \$50B. It has more than doubled in the past three years.

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

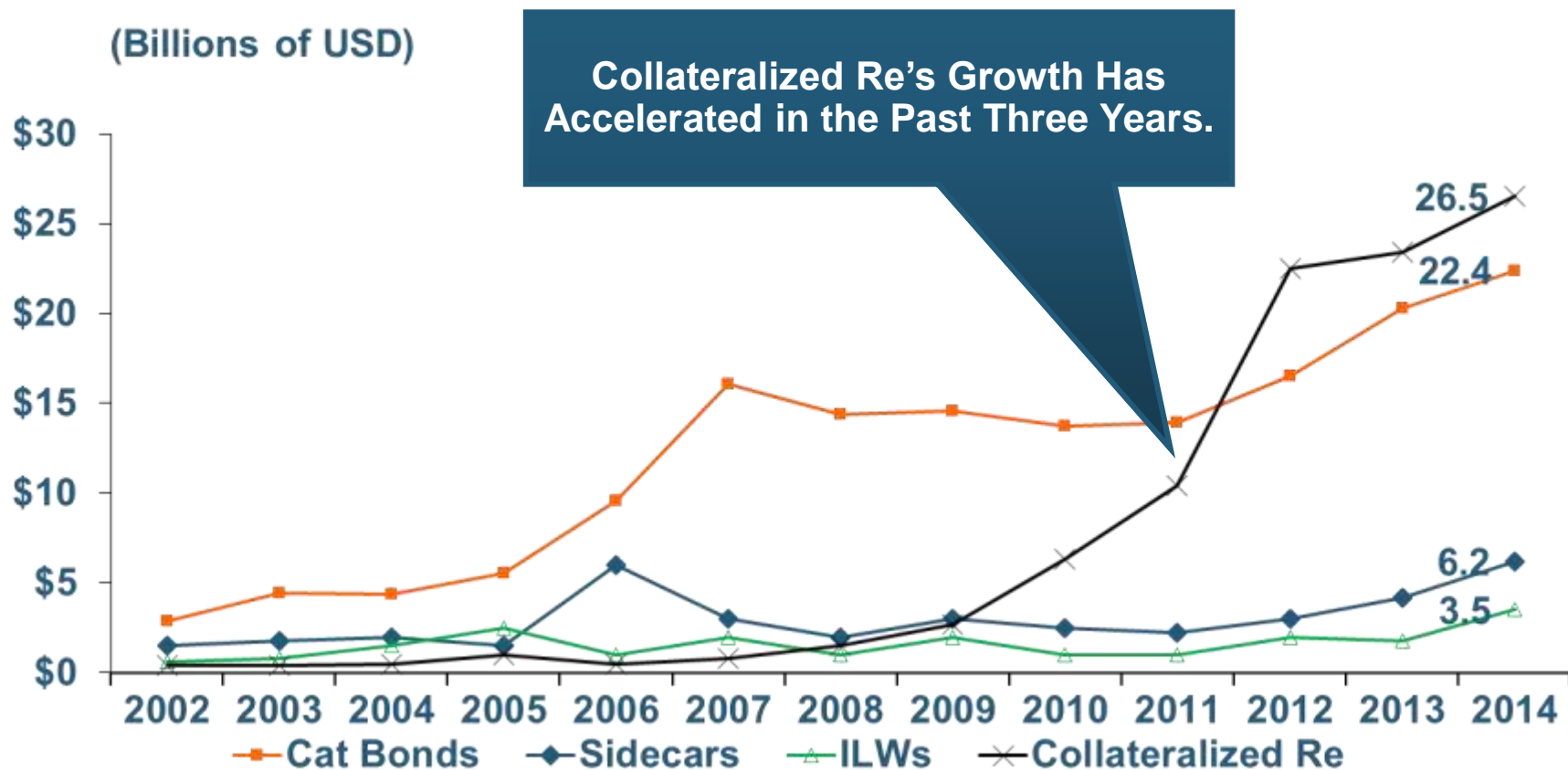


Alternative Capital's Share of Global Reinsurance Capital Has More Than Doubled Since 2010.

2014 data is as of June 30, 2014.

Source: Aon Benfield Analytics; Insurance Information Institute.

Growth of Alternative Capital Structures, 2002 - 2014



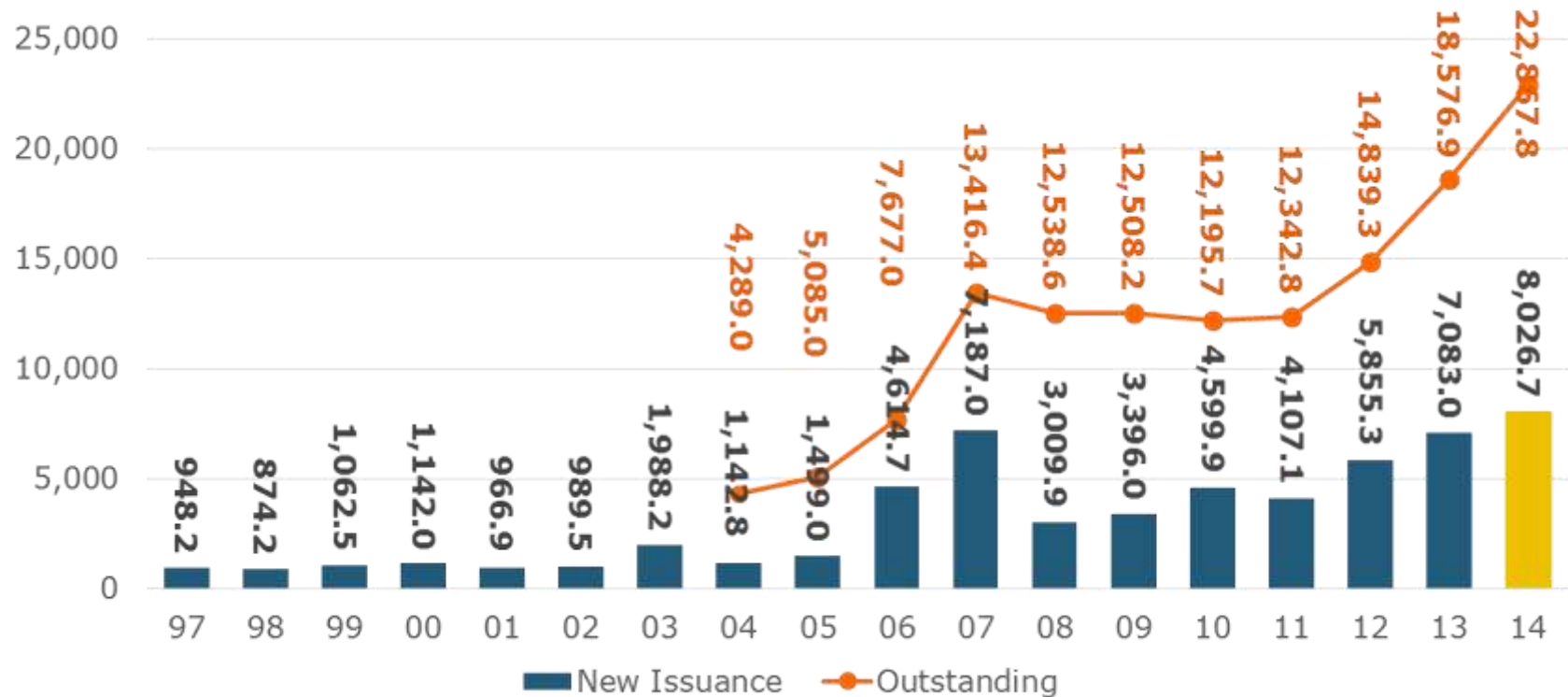
Collateralized Reinsurance and Catastrophe Bonds Currently Dominate the Alternative Capital Market.

2014 data is as of June 30, 2014.

Source: Aon Benfield Analytics; Insurance Information Institute.

Catastrophe Bond Issuance and Outstanding: 1997-2014

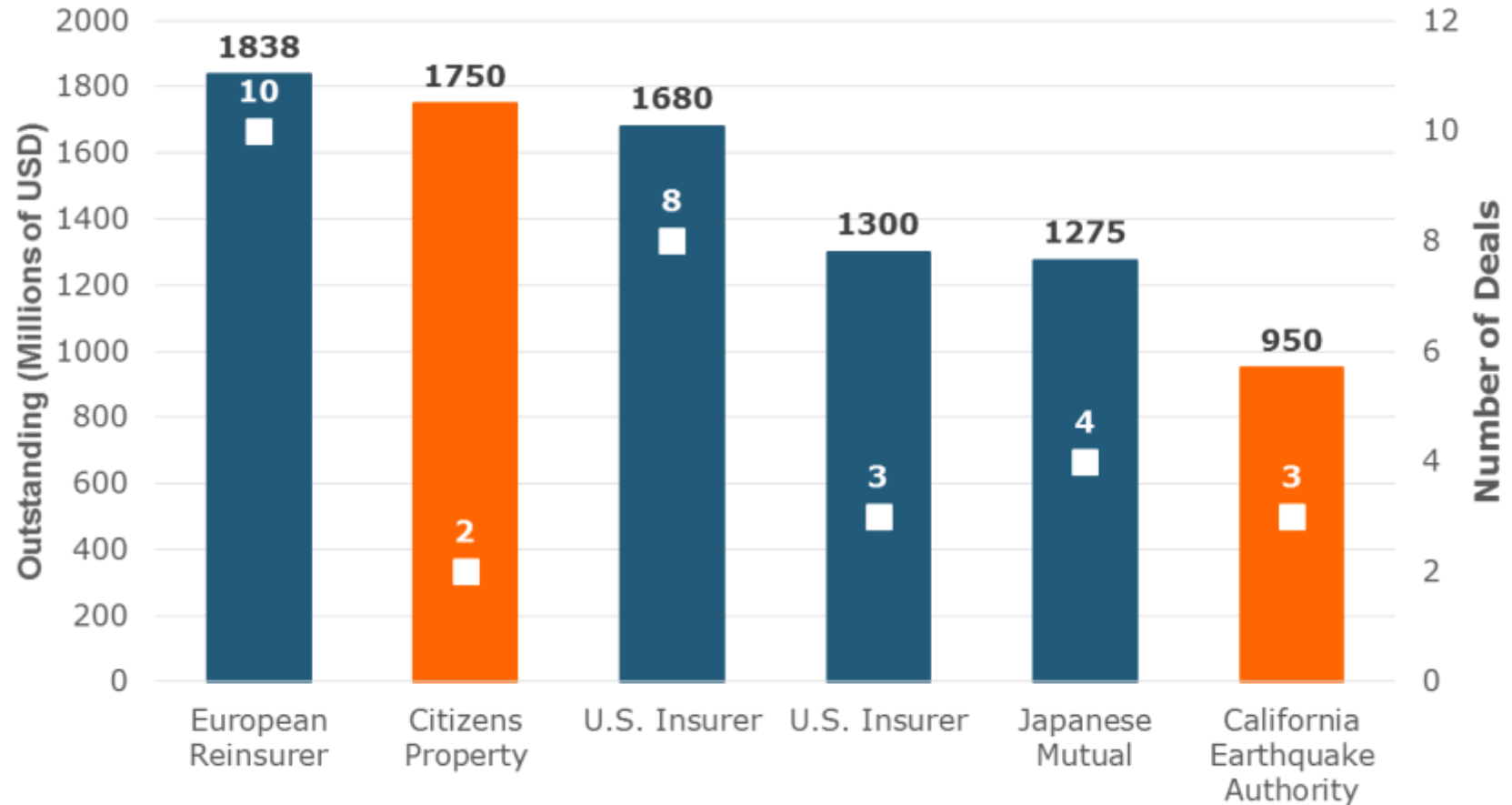
Risk Capital Amount (\$ Millions)



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

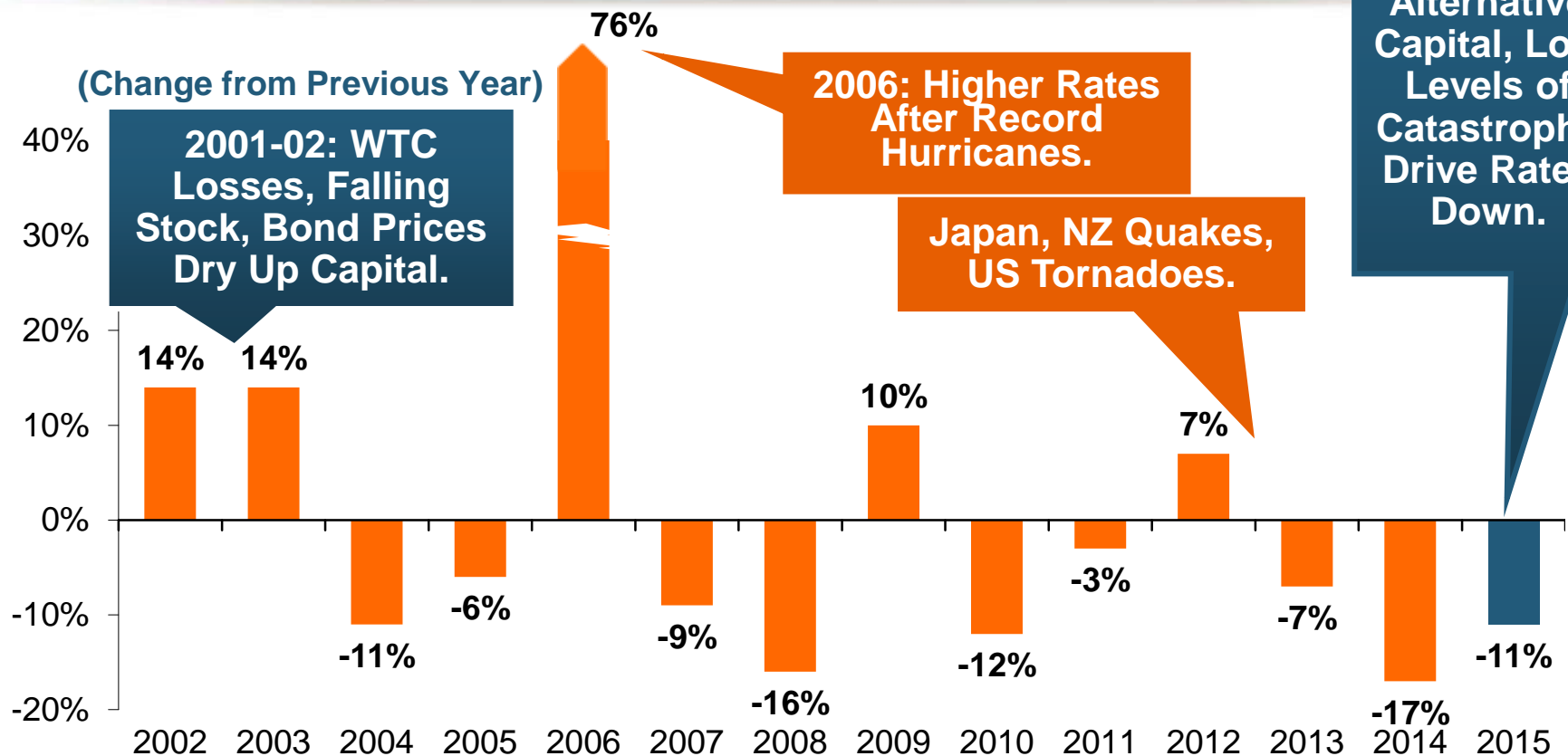
Source: Guy Carpenter.

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

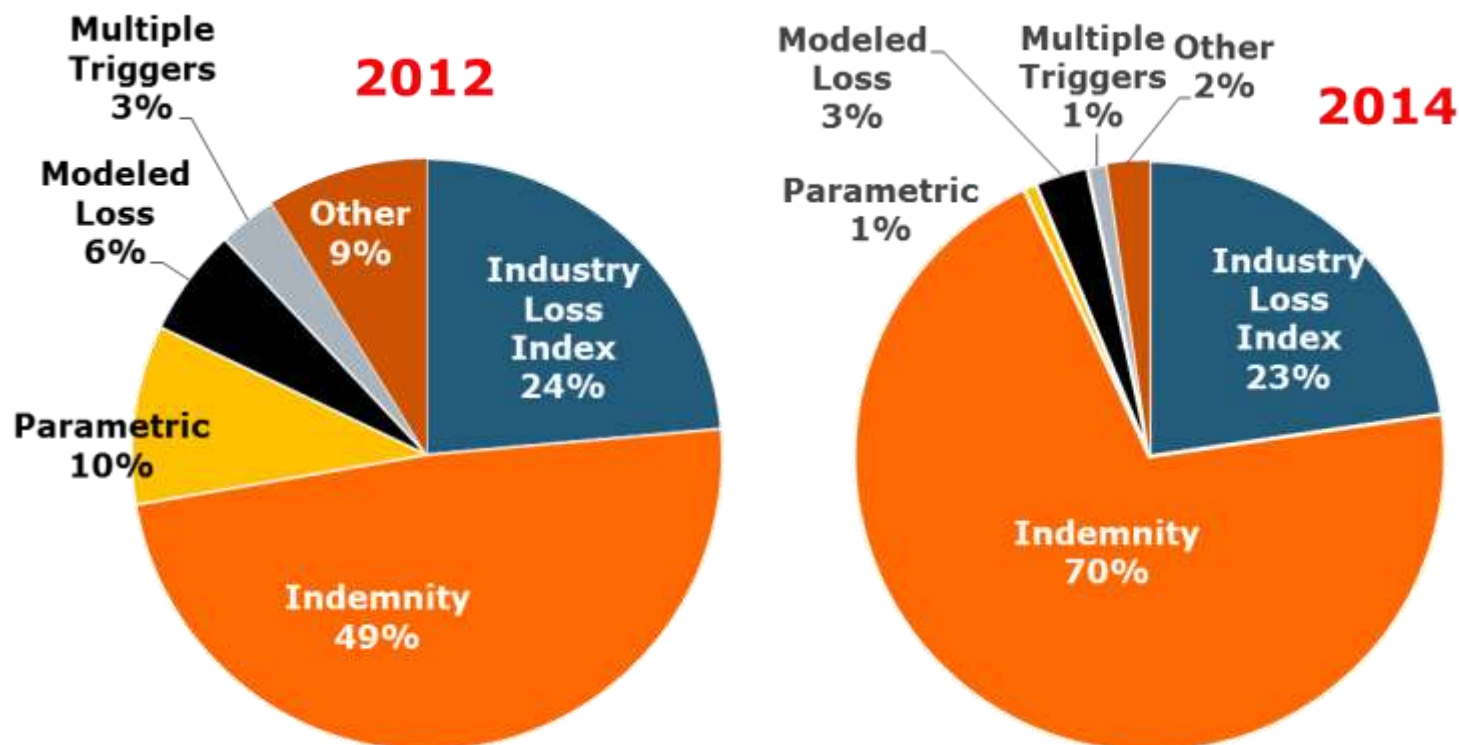


Catastrophe Prices Fell 11 Percent on January 1 Renewals, Driven by Emergence of New Capital, Mild Catastrophe Losses.

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

Source: Guy Carpenter; Insurance Information Institute.

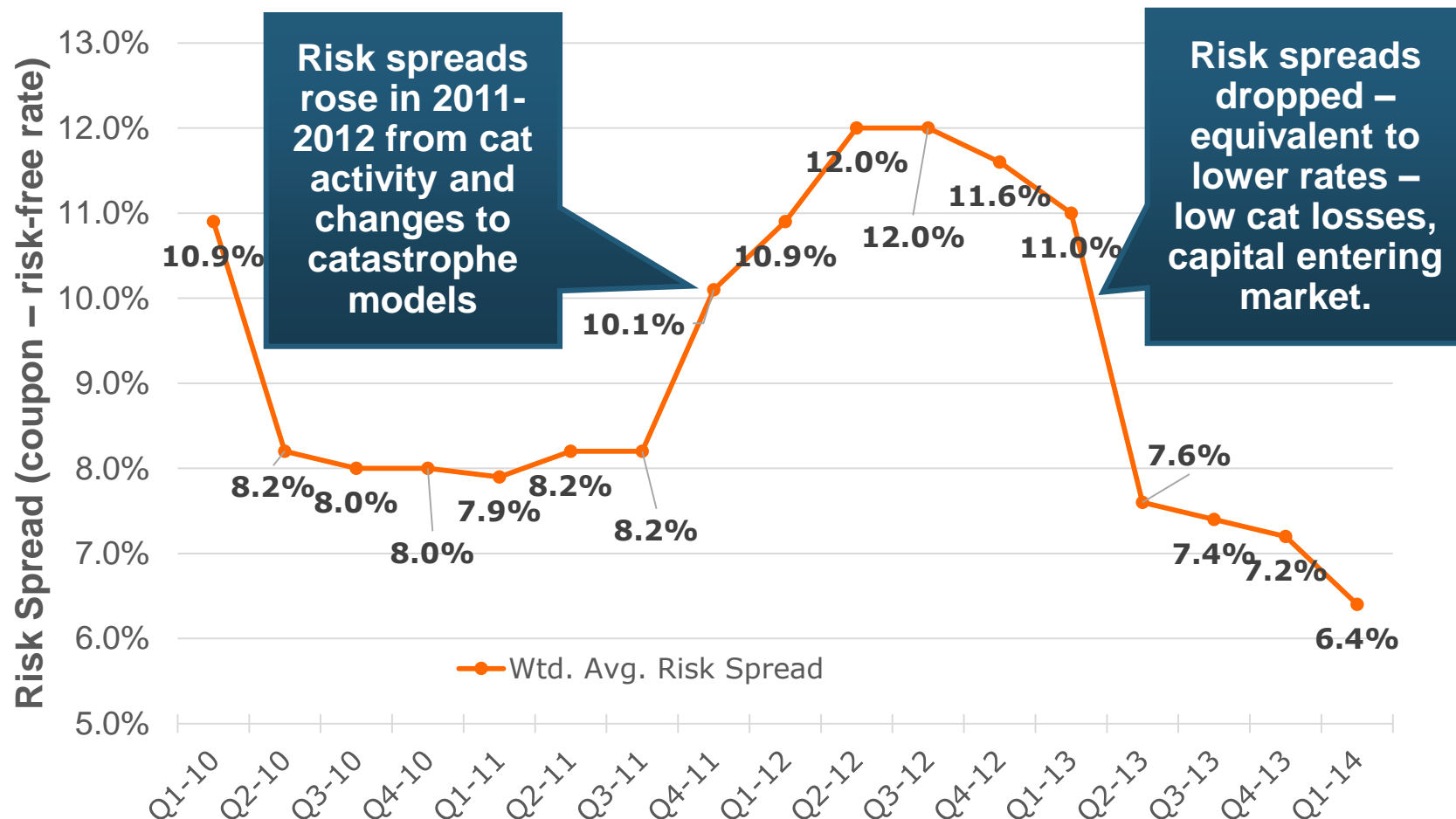
ILS Issuance by Trigger



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

U.S. Wind-Exposed Risk Premium*

2010:Q1 to 2014: Q1



* Trailing 12-month average

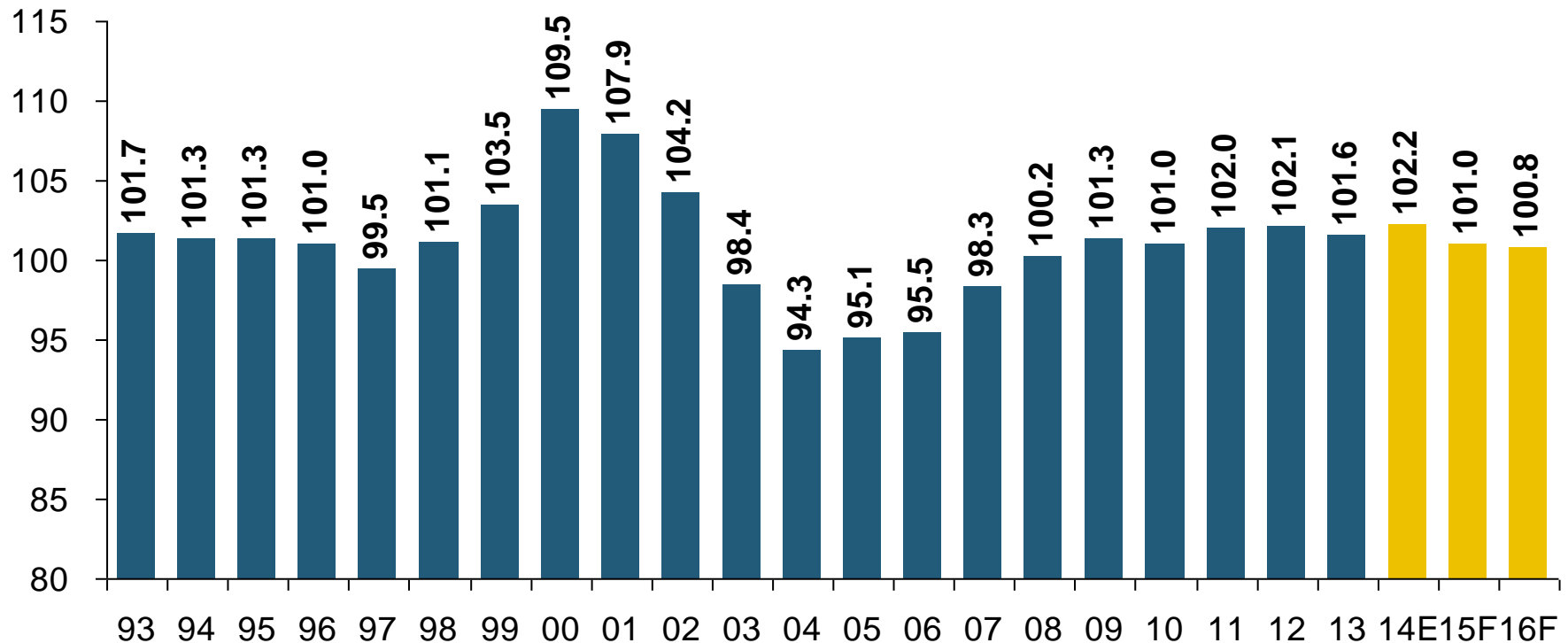
SOURCE: Willis Capital Markets, Insurance Information Institute.

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

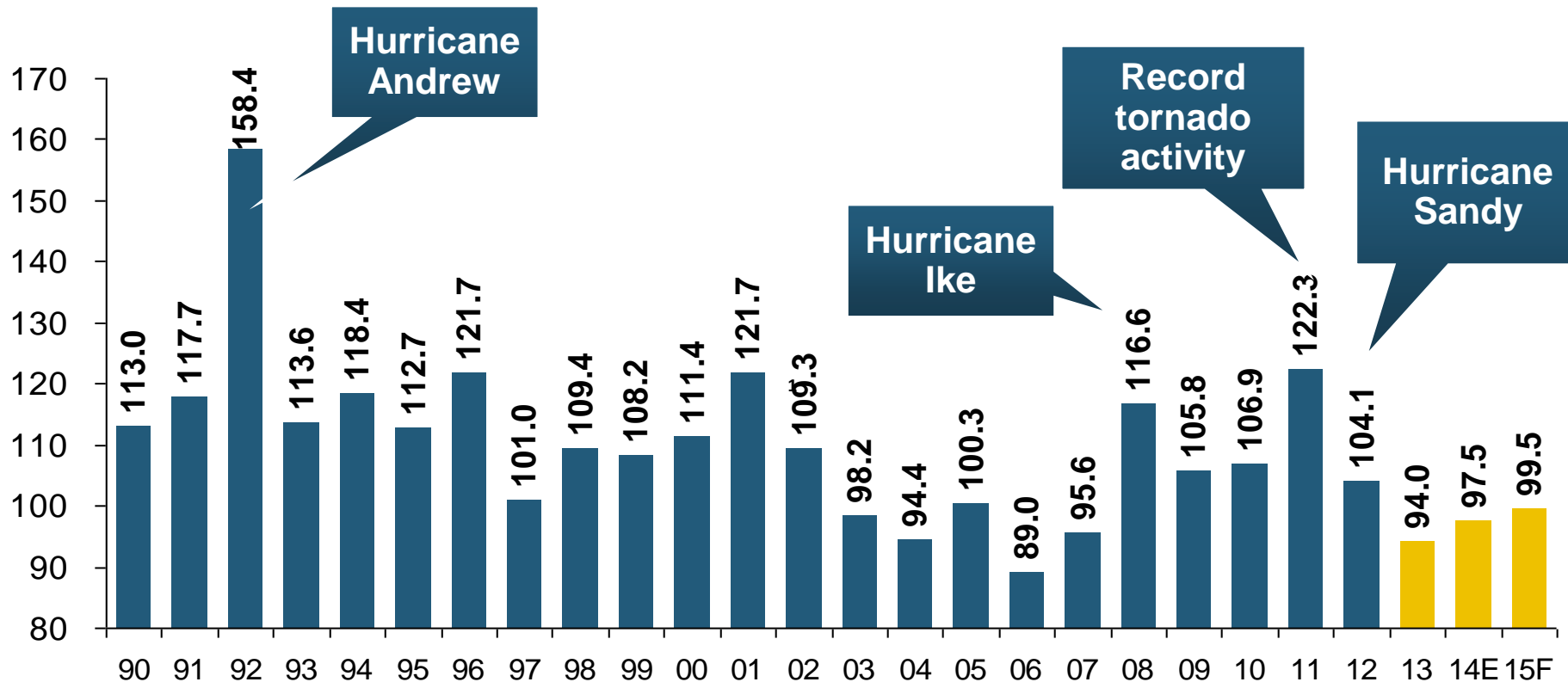
Performance by Segment

Private Passenger Auto Combined Ratio: 1993–2016F



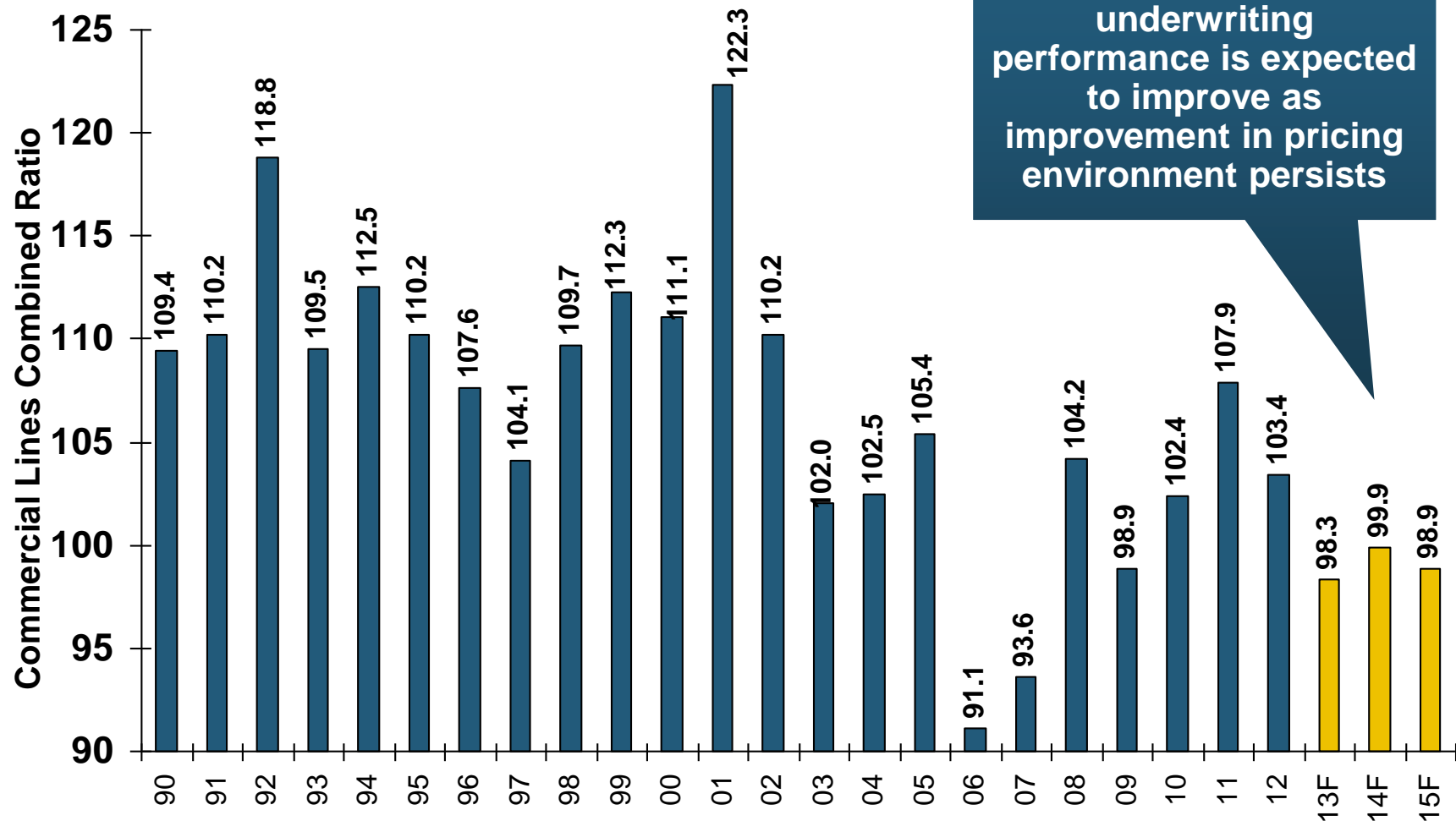
Private Passenger Auto Accounts for 37% of Industry Premiums and Remains the Profit Juggernaut of the P/C Insurance Industry

Homeowners Insurance Combined Ratio: 1990–2015F



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

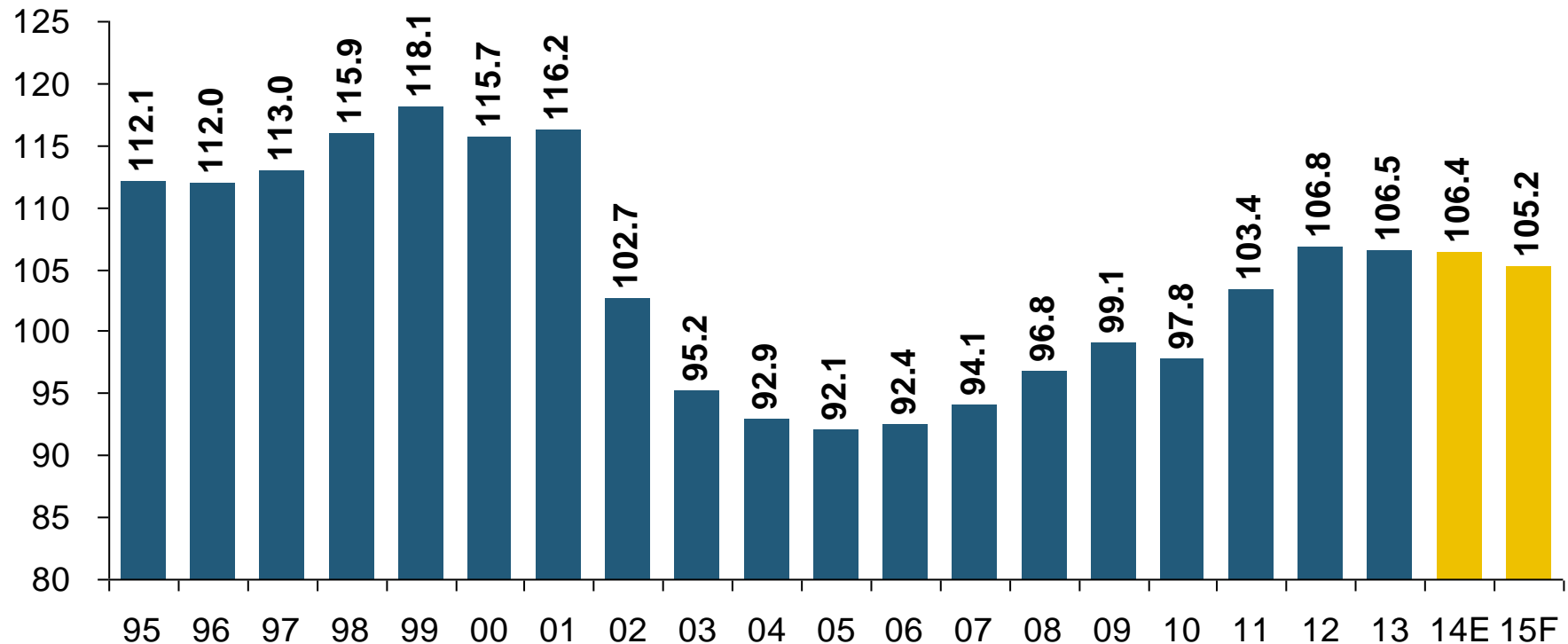
Commercial Lines Combined Ratio, 1990-2015F*



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

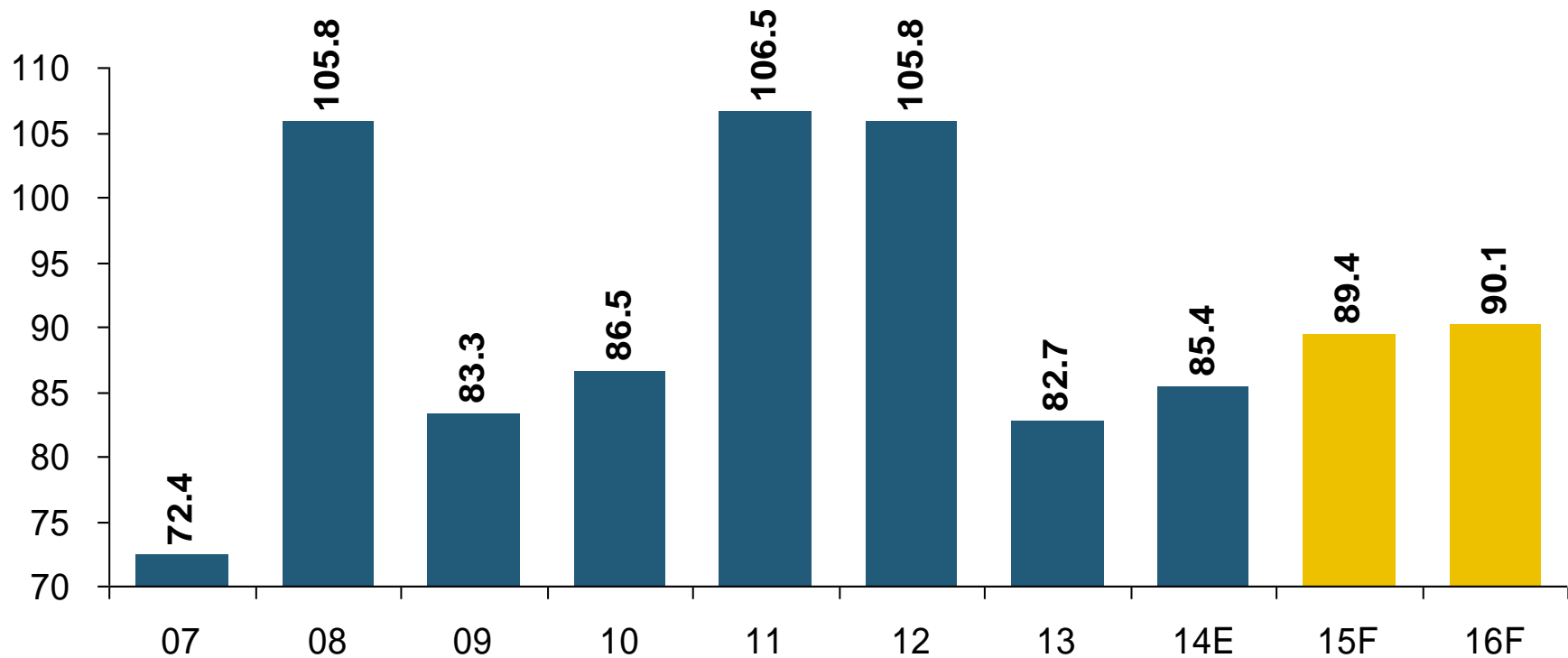
Source: A.M. Best (1990-2014F); Conning (2015F) Insurance Information Institute.

Commercial Auto Combined Ratio: 1993–2015F



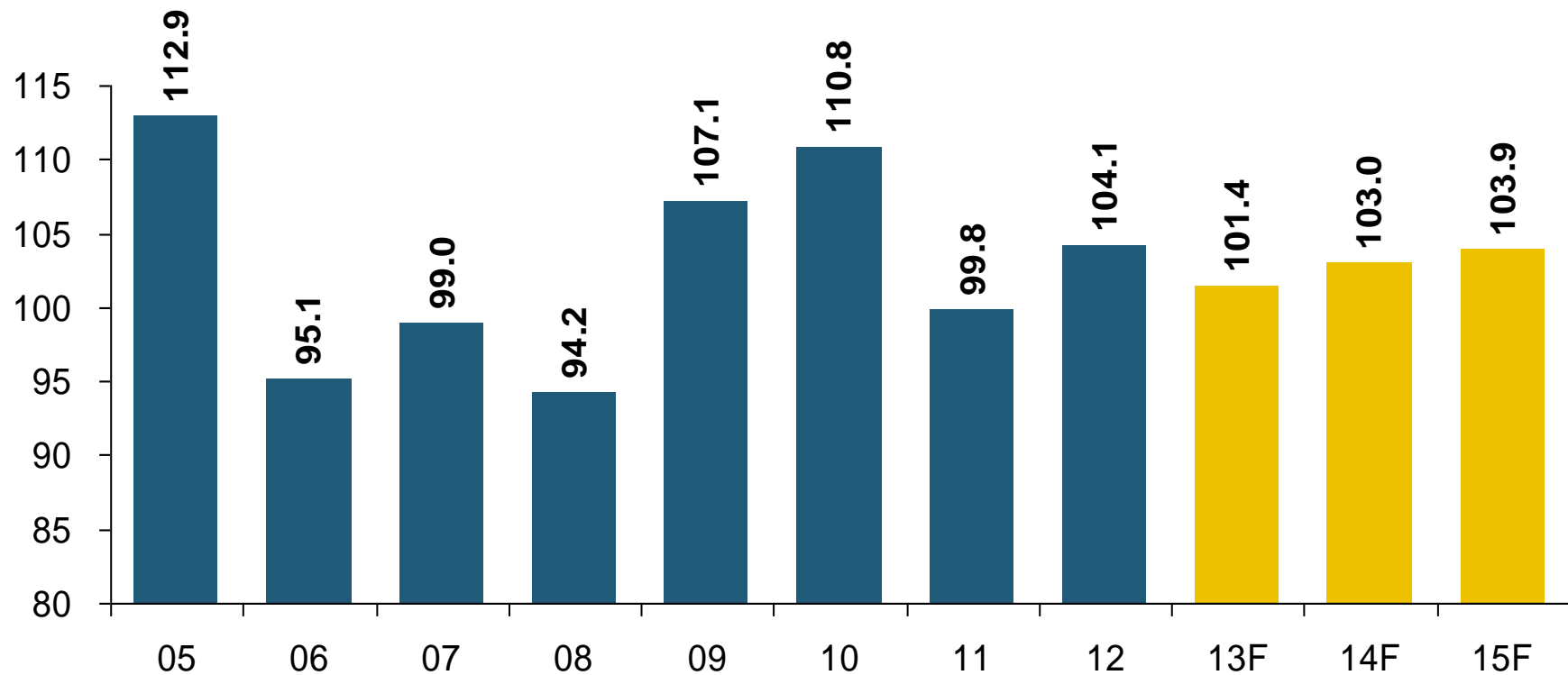
Commercial Auto is Expected to Improve Only Slowly as Rate Gains Barely Offset Adverse Frequency and Severity Trends

Commercial Property Combined Ratio: 2007–2016F



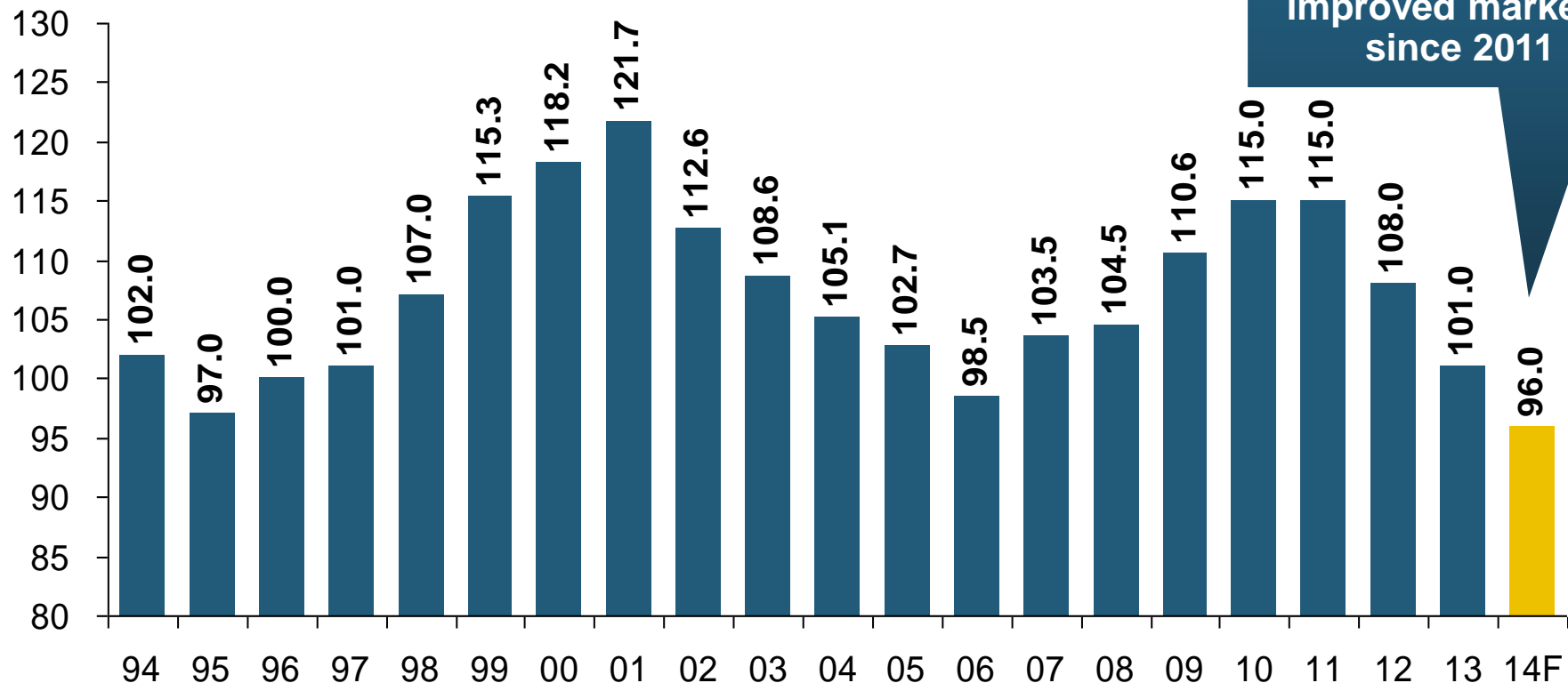
**Commercial Property Underwriting Performance
Has Been Volatile in Recent Years, Largely Due to
Fluctuations in CAT Activity**

General Liability Combined Ratio: 2005–2015F



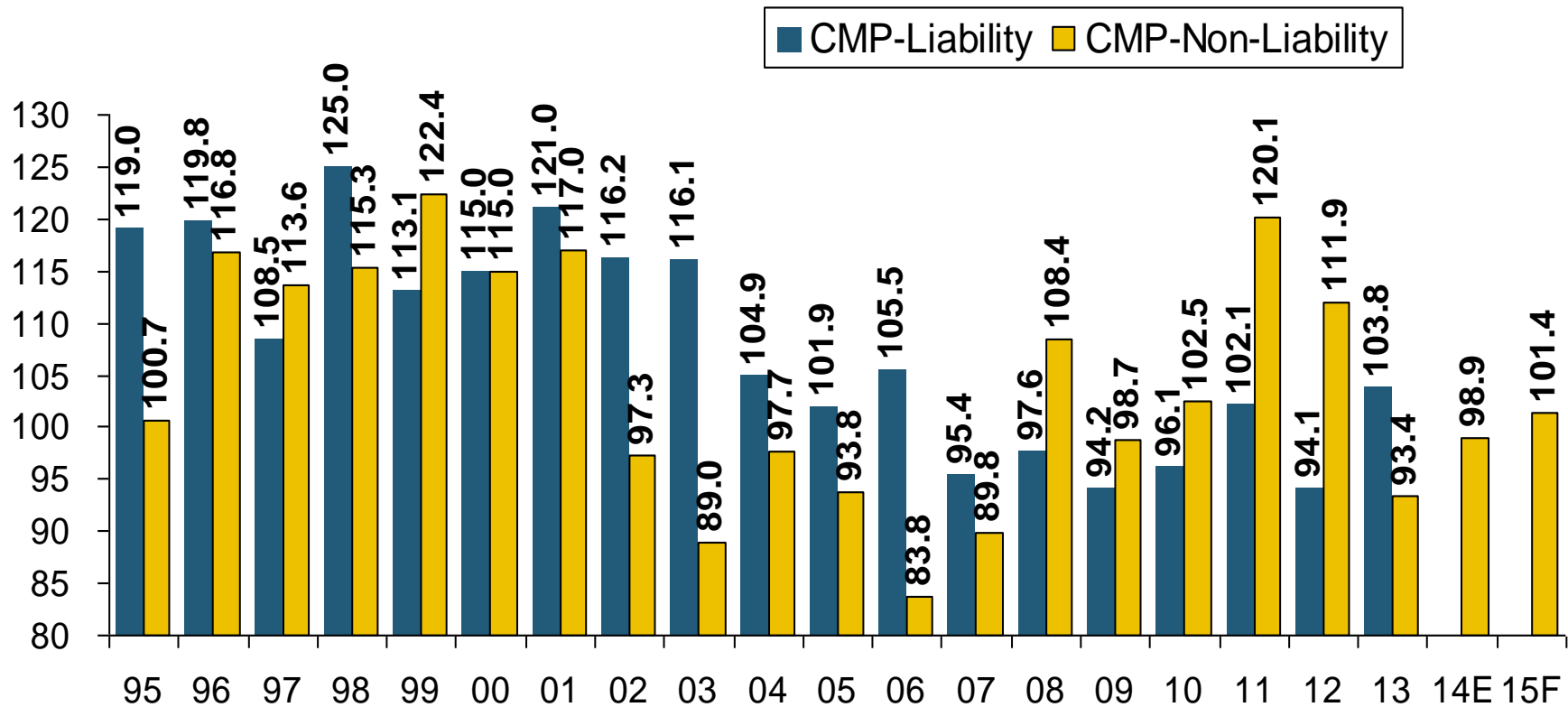
**Commercial General Liability Underwriting
Performance Has Been Volatile in Recent Years**

Workers Compensation Combined Ratio: 1994–2014E



**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.**

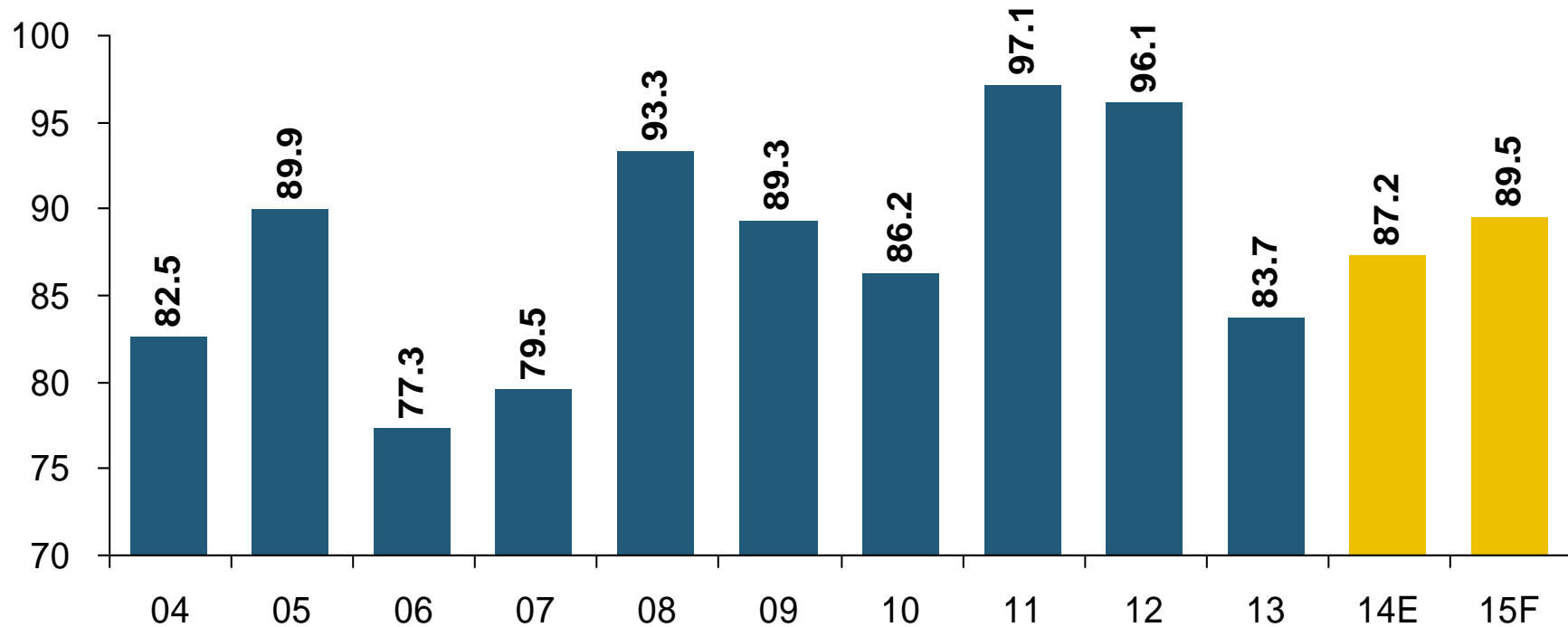
Commercial Multi-Peril Combined Ratio: 1995–2015F



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



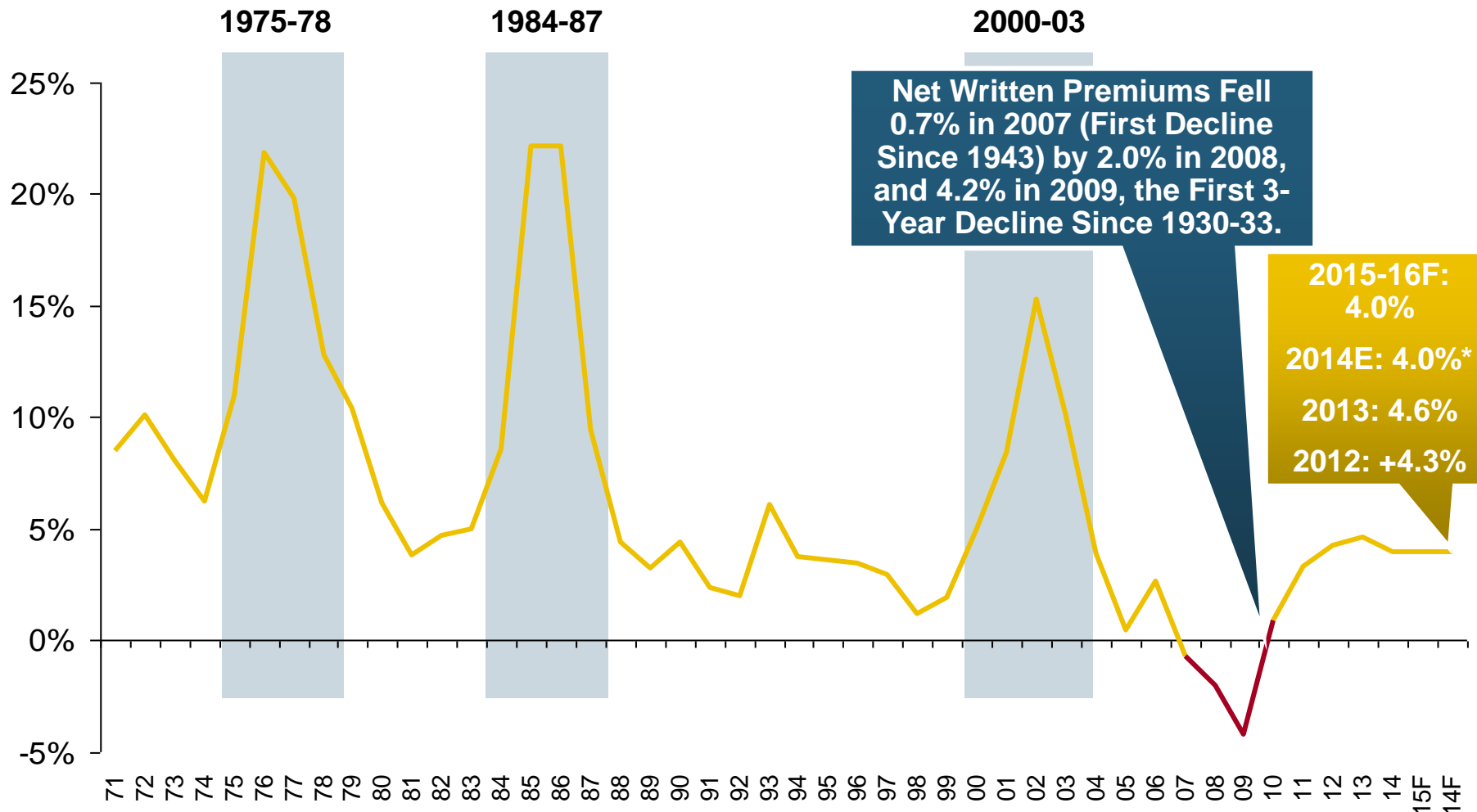
**Inland Marine Underwriting Performance Has Been
Consistently Strong for Many Years**

Growth Analysis by State and Business Segment

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

Net Premium Growth: Annual Change, 1971—2016F

(Percent)



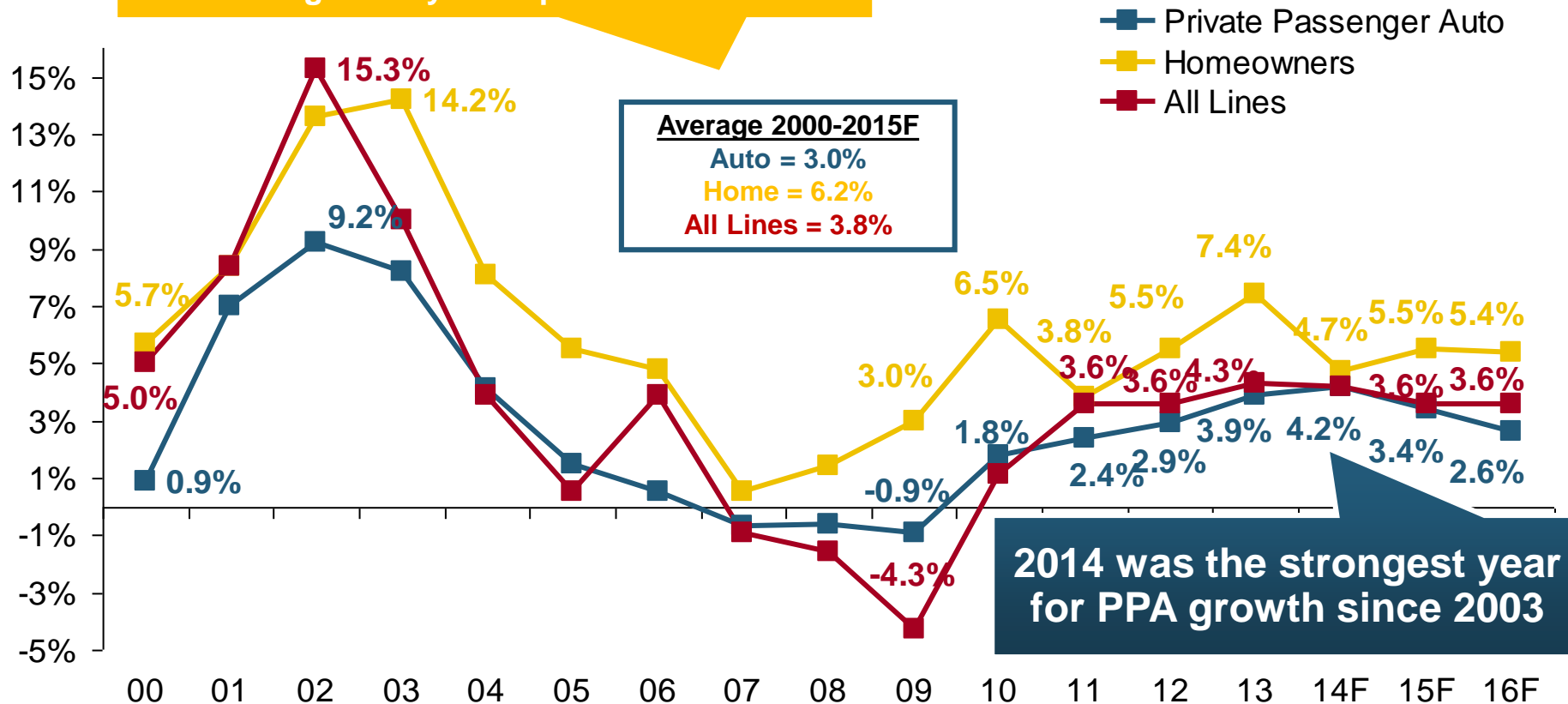
*Actual figure based on data through Q3 2014.

Shaded areas denote "hard market" periods

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

Auto & Home vs. All Lines, Net Written Premium Growth, 2000–2016F

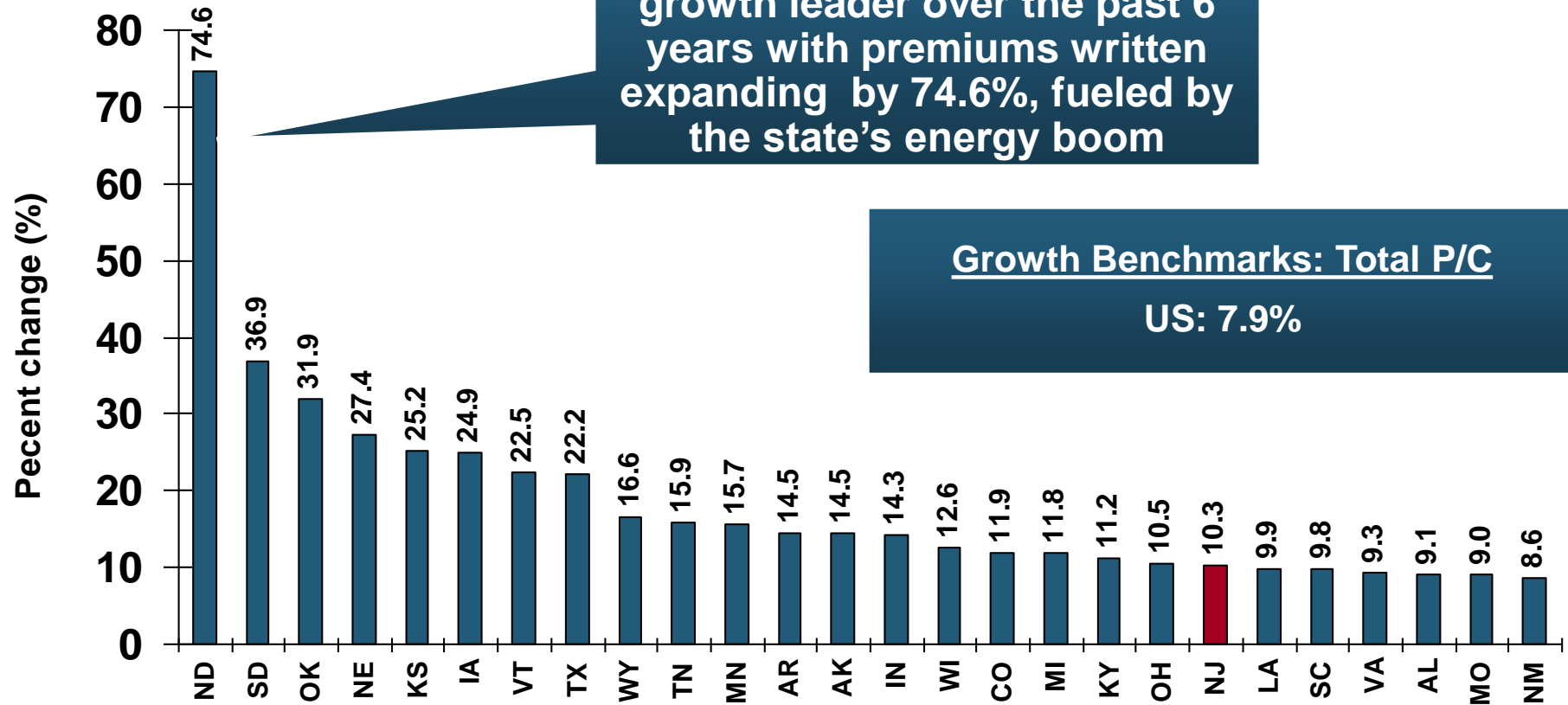
While homeowners insurance has grown faster than auto over the past decade, auto is generally more profitable



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

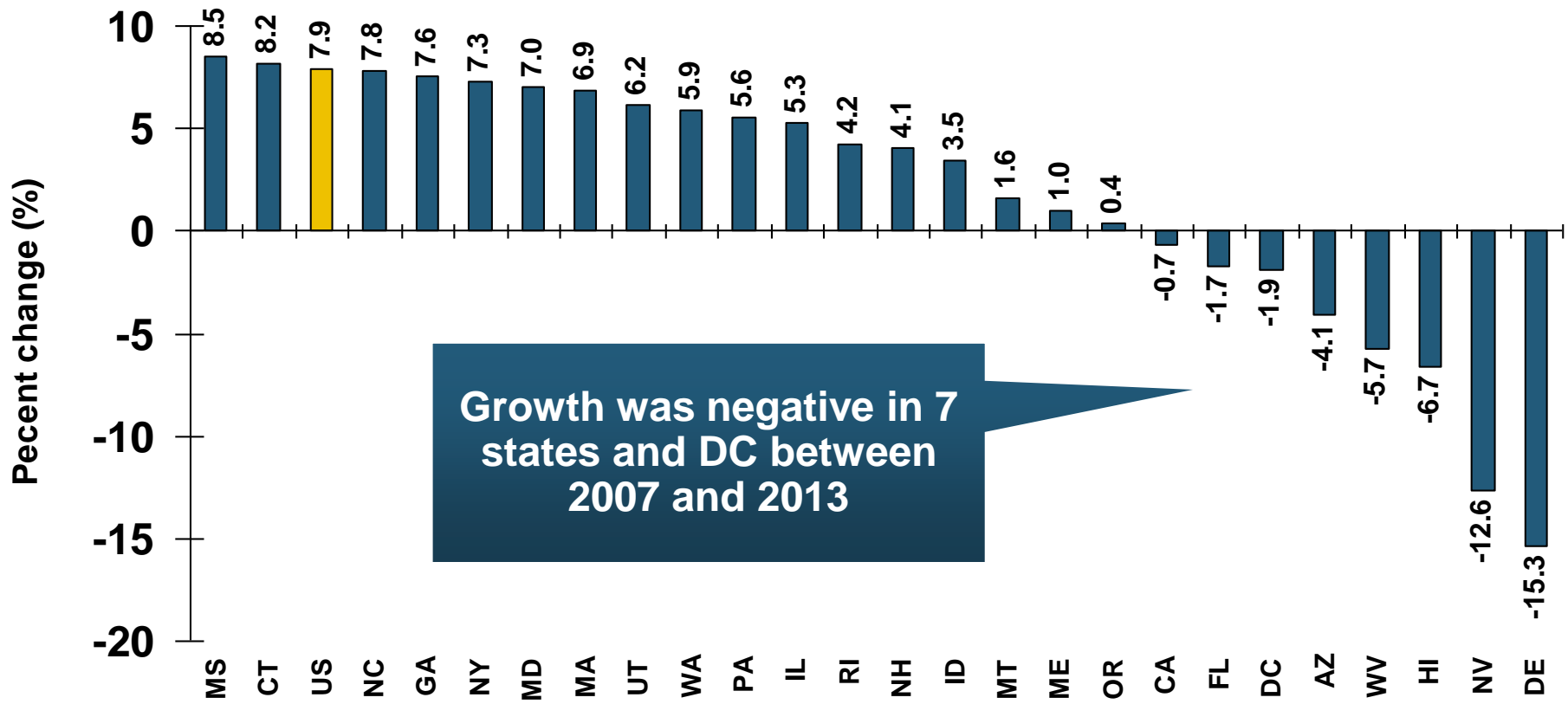
Top 25 States

North Dakota was the country's growth leader over the past 6 years with premiums written expanding by 74.6%, fueled by the state's energy boom



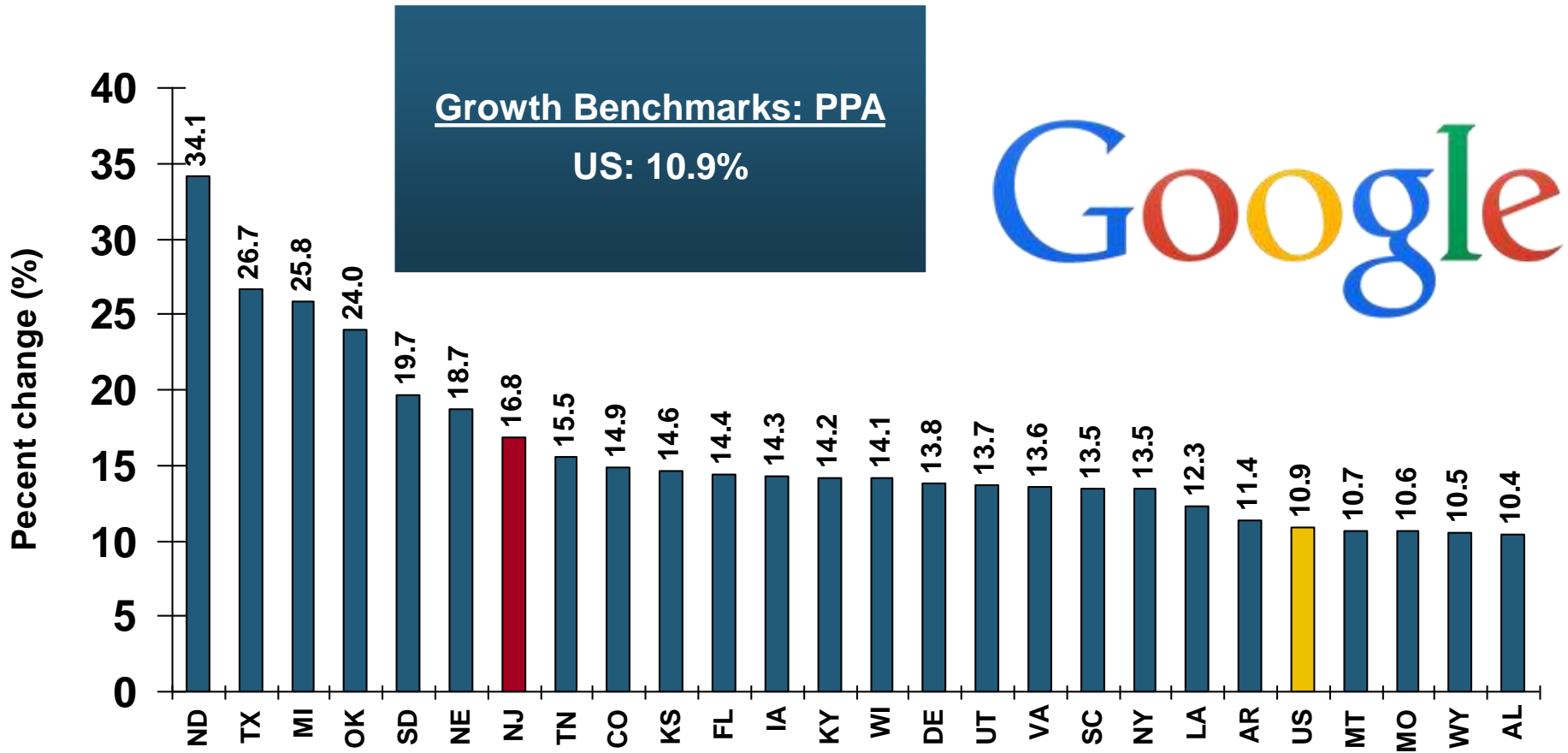
Direct Premiums Written: Total P/C Percent Change by State, 2007-2013

Bottom 25 States



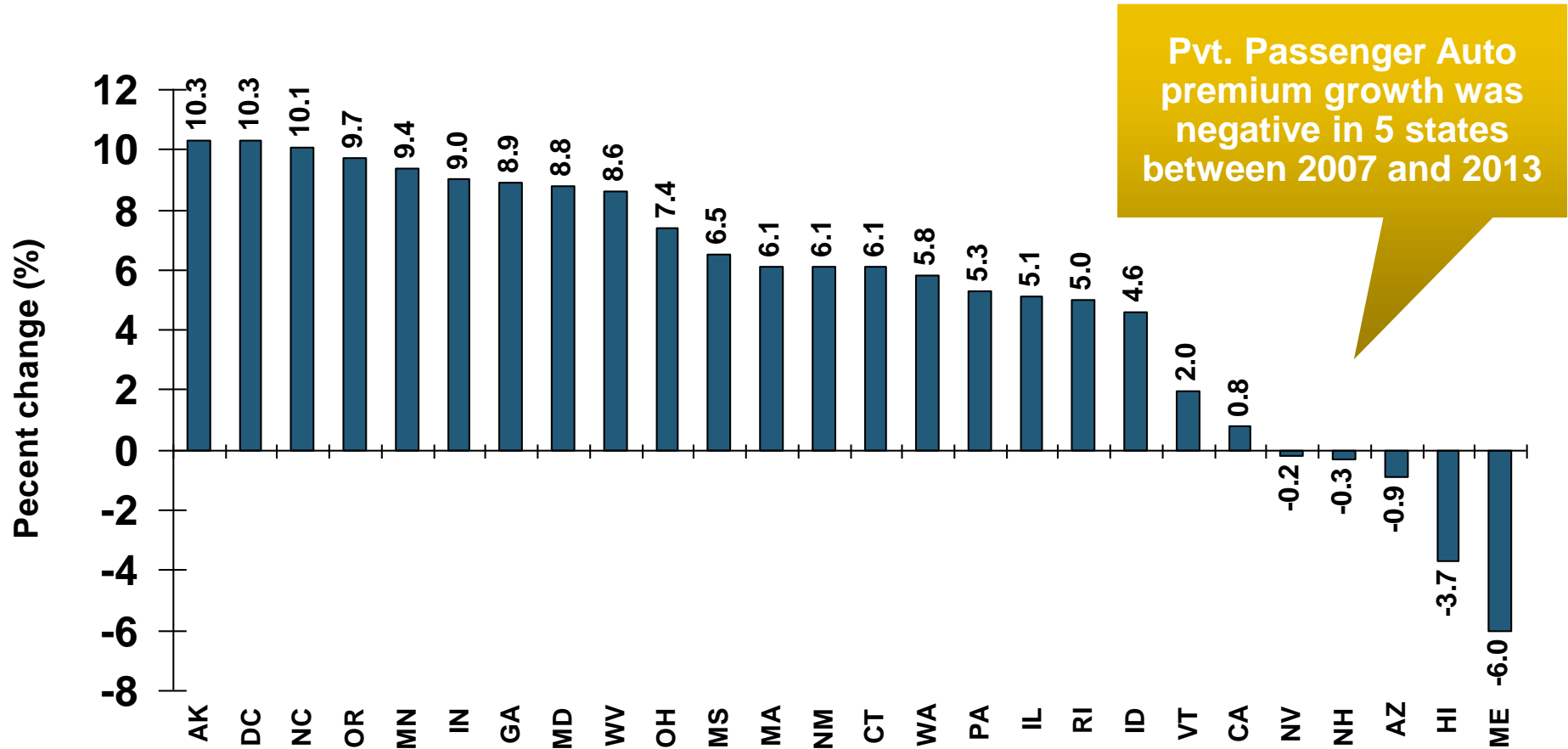
Direct Premiums Written: PP Auto Percent Change by State, 2007-2013

Top 25 States

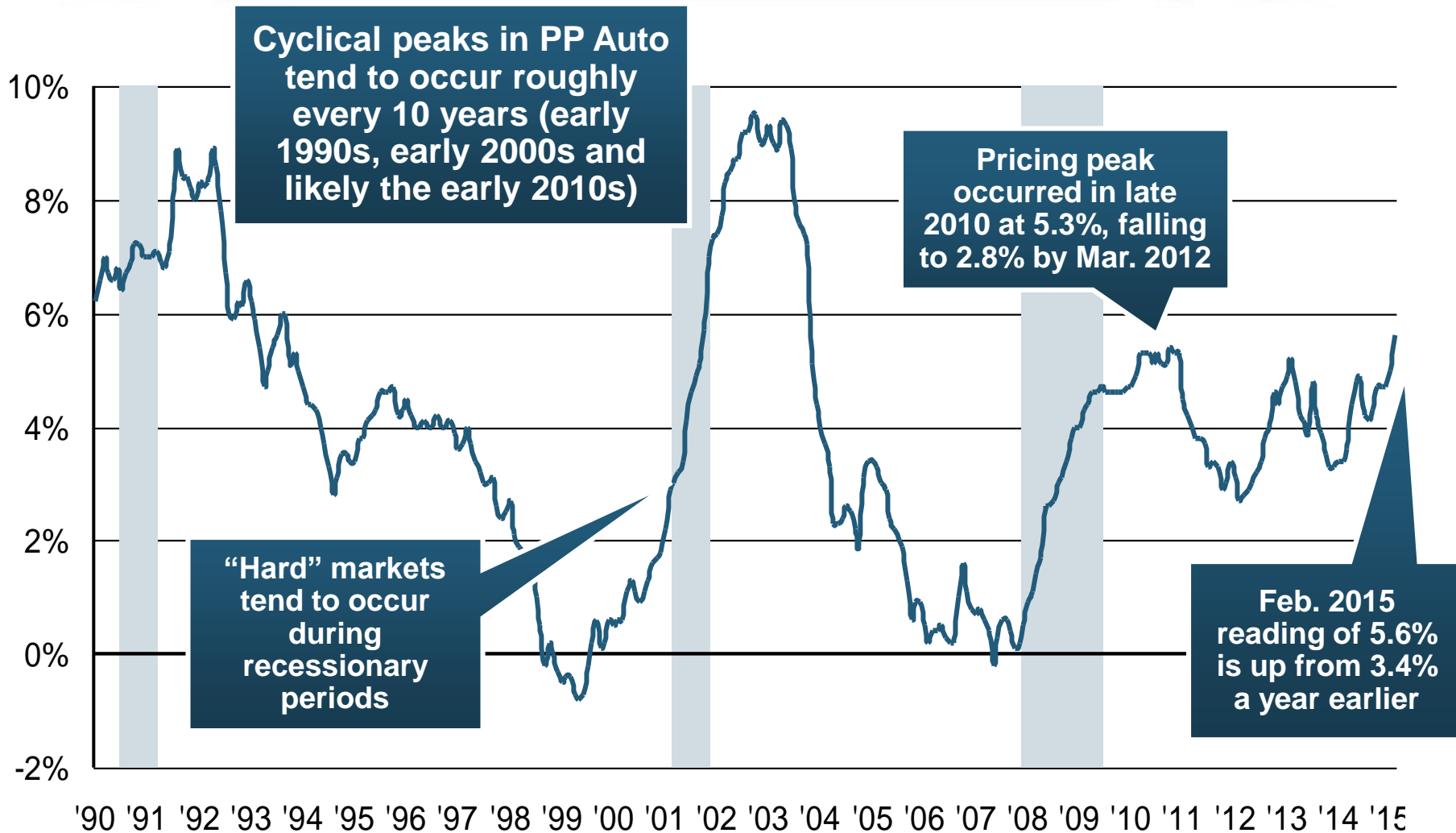


Direct Premiums Written: PP Auto Percent Change by State, 2007-2013

Bottom 25 States



Monthly Change in Auto Insurance Prices, 1991–2015*

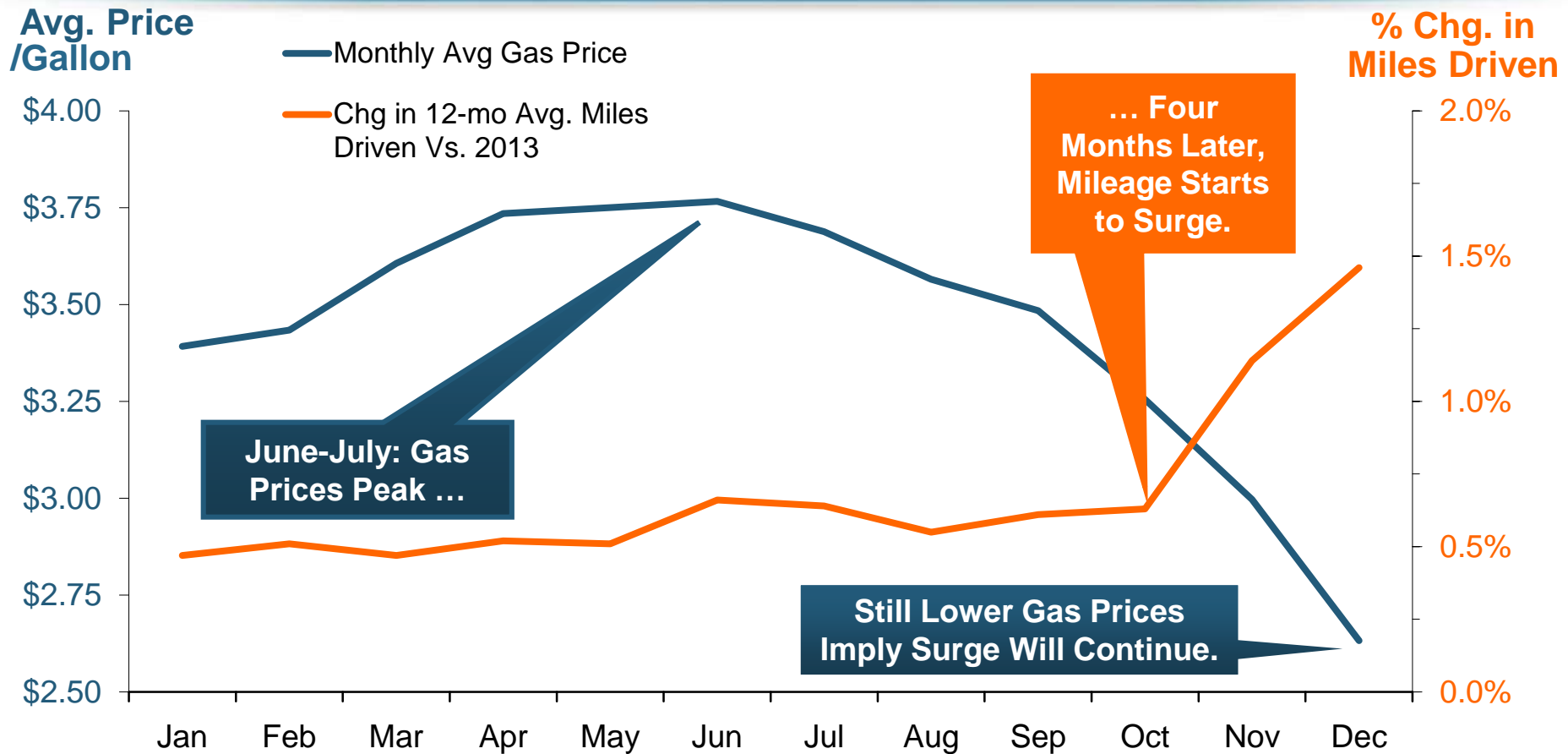


*Percentage change from same month in prior year; through February 2015; seasonally adjusted

Note: Recessions indicated by gray shaded columns.

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

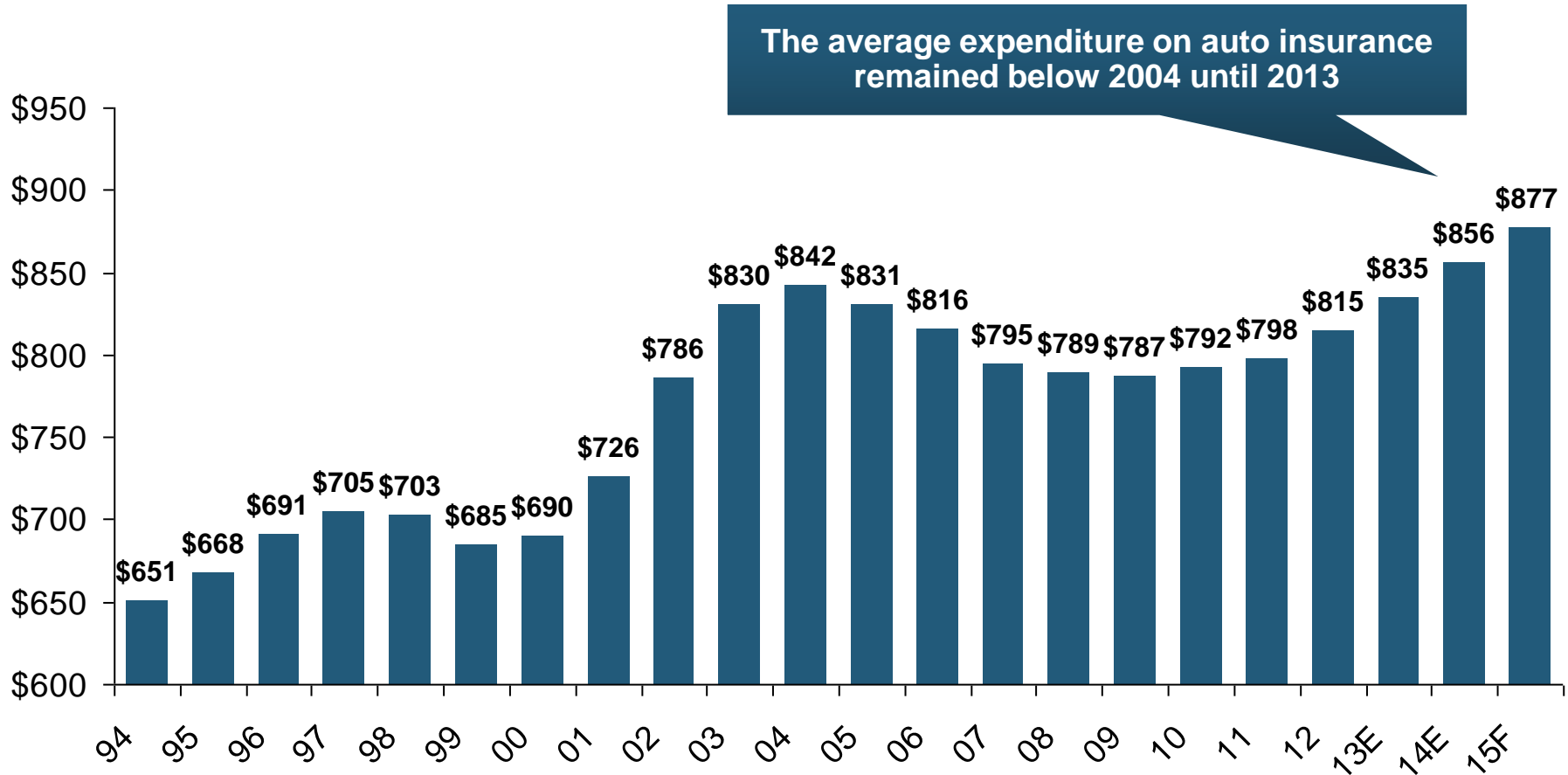
Do Changes in Gas Prices Affect Miles Driven? A Look at 2014



Prior research on the relationship between gas prices and miles driven says that, in the short run, an increase in gas prices produces little change in miles driven. No recent research on the effect of price drops.

Sources: Federal Energy Administration (<http://www.eia.gov/petroleum/gasdiesel/>); *gas prices and miles driven through December
Federal Highway Administration (<http://www.fhwa.dot.gov/ohim/tvtw/tvtpage.cfm>); I.I.I.

Average Expenditures on Auto Insurance



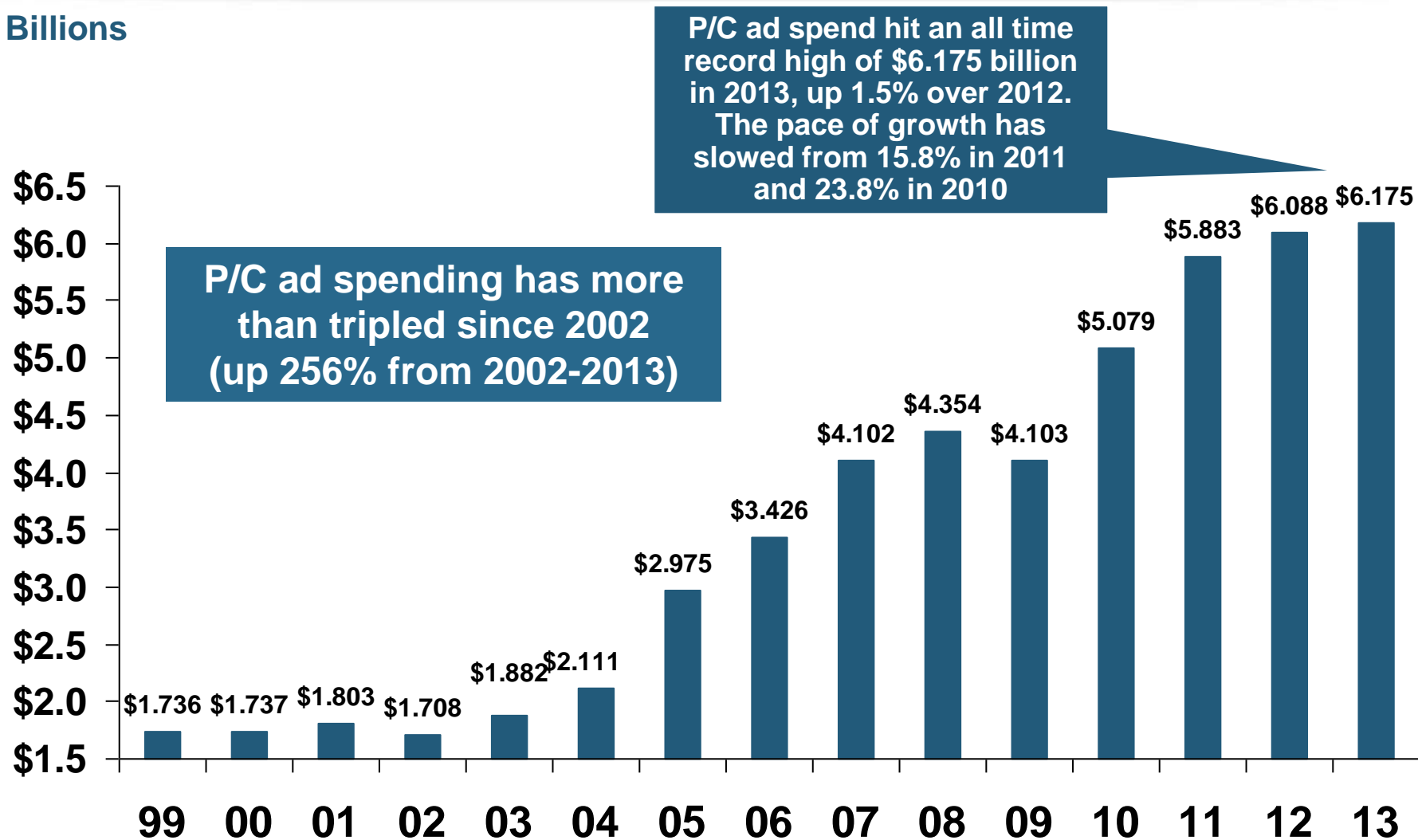
Countrywide Auto Insurance Expenditures decreased by 6.5% from 2004 through 2009, rising gradually since then with annual increases in the 2.0% to 2.5% range

* Insurance Information Institute Estimates/Forecasts

Source: NAIC, Insurance Information Institute estimate for 2013-2015 based on CPI and other data.

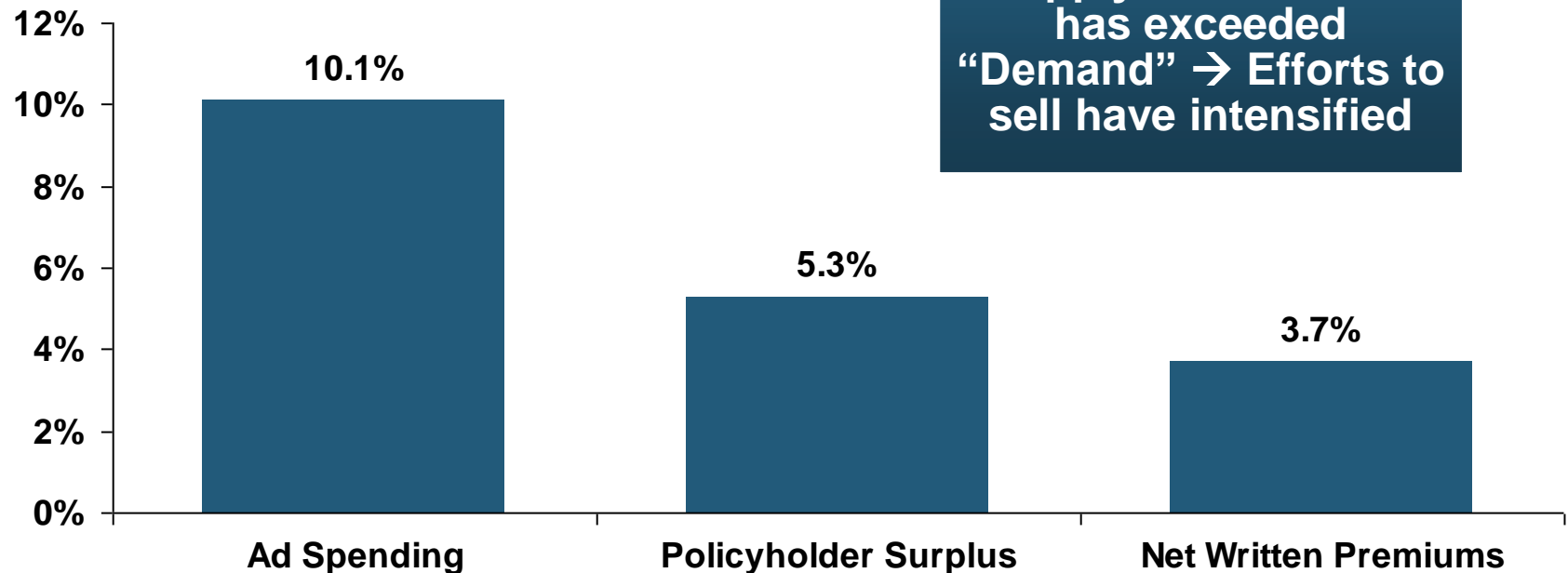
Advertising Expenditures by P/C Insurance Industry, 1999-2013

\$ Billions



Growth in Premiums, Capacity vs. Growth in Advertising Expenditures, 2000 – 2013

Average Annual Percent Change (%)



Growth in the
“Supply” of insurance
has exceeded
“Demand” → Efforts to
sell have intensified

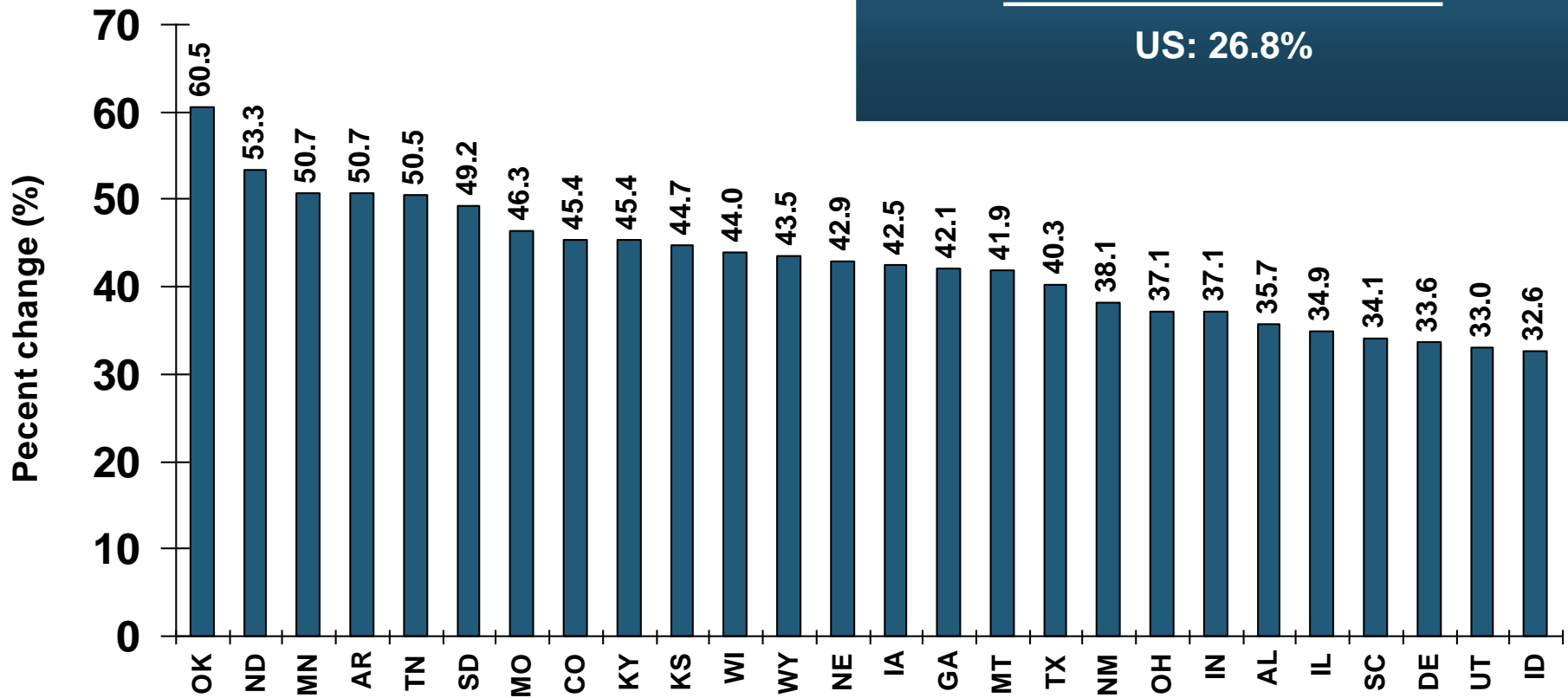
Overall Growth in Ad Spending has greatly exceeded growth in capacity (policyholder surplus) or premium growth. This suggests that there are diminishing returns to advertising.

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

Top 25 States

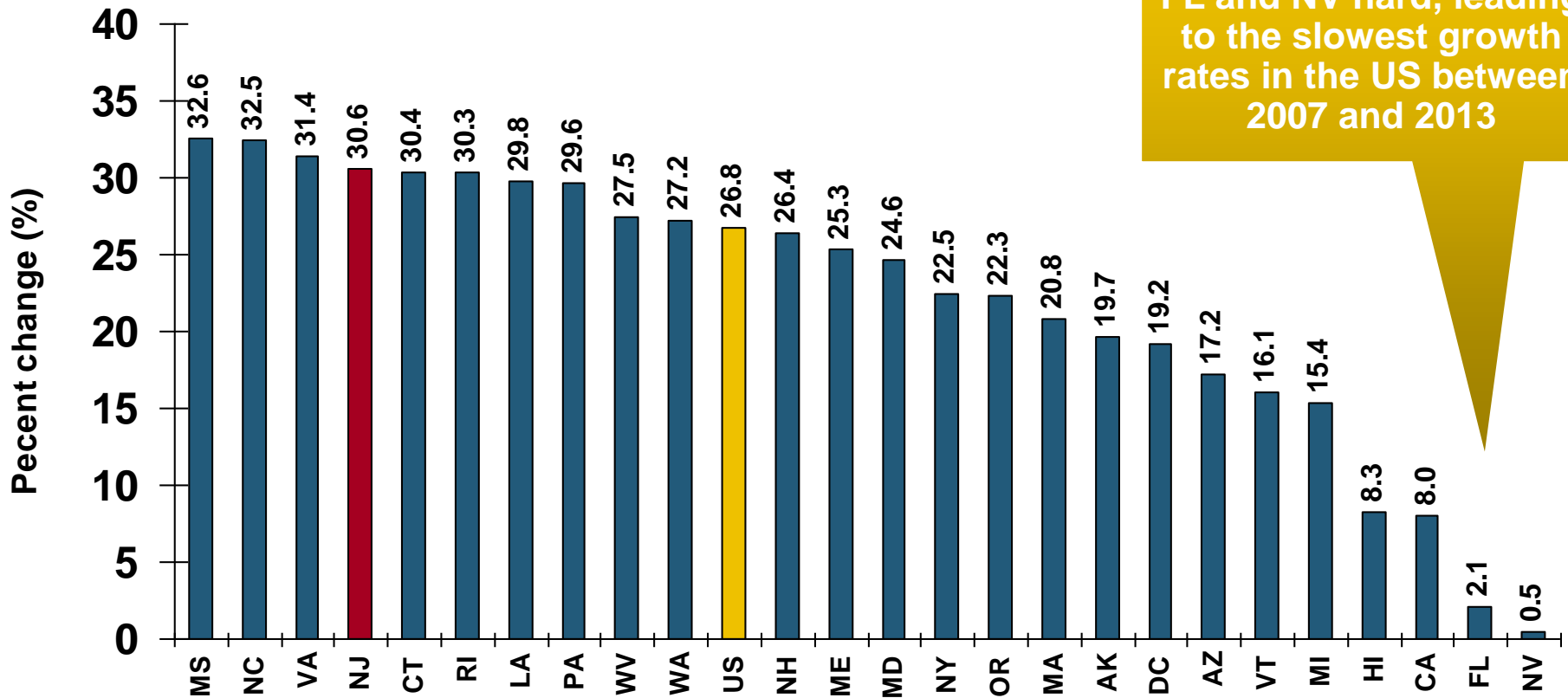
Growth Benchmarks: HO

US: 26.8%



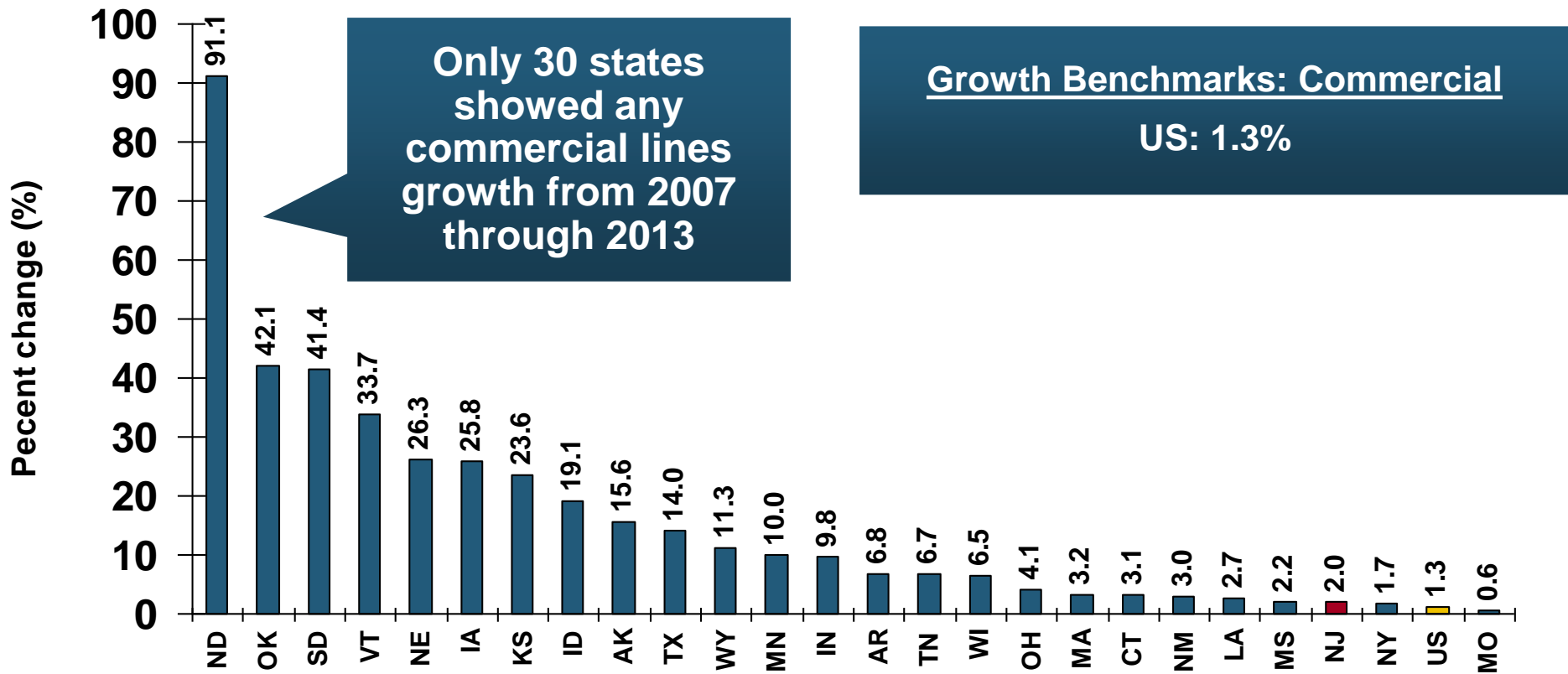
Direct Premiums Written: Homeowners Percent Change by State, 2007-2013

Bottom 25 States



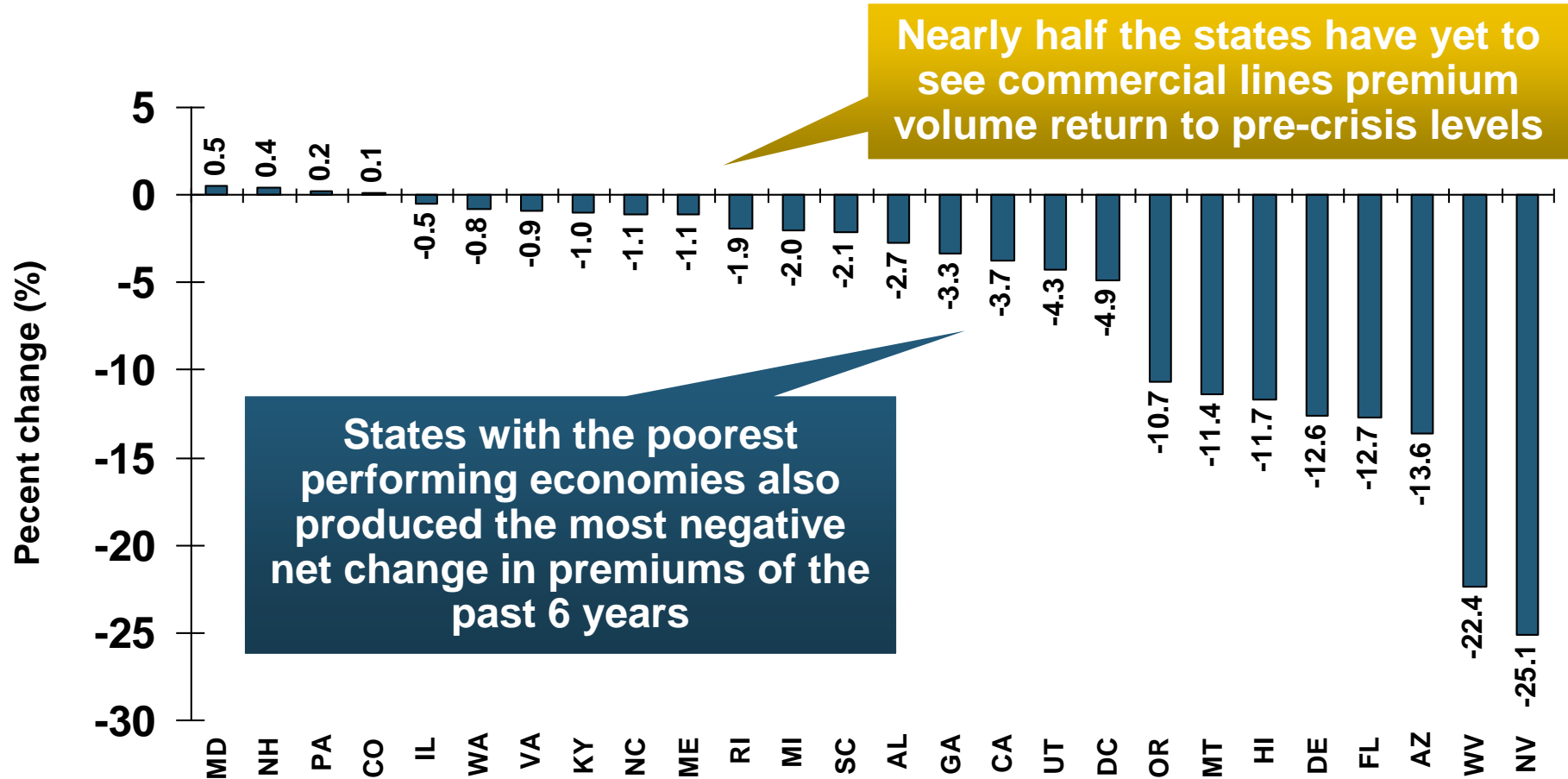
Direct Premiums Written: Comm. Lines Percent Change by State, 2007-2013

Top 25 States



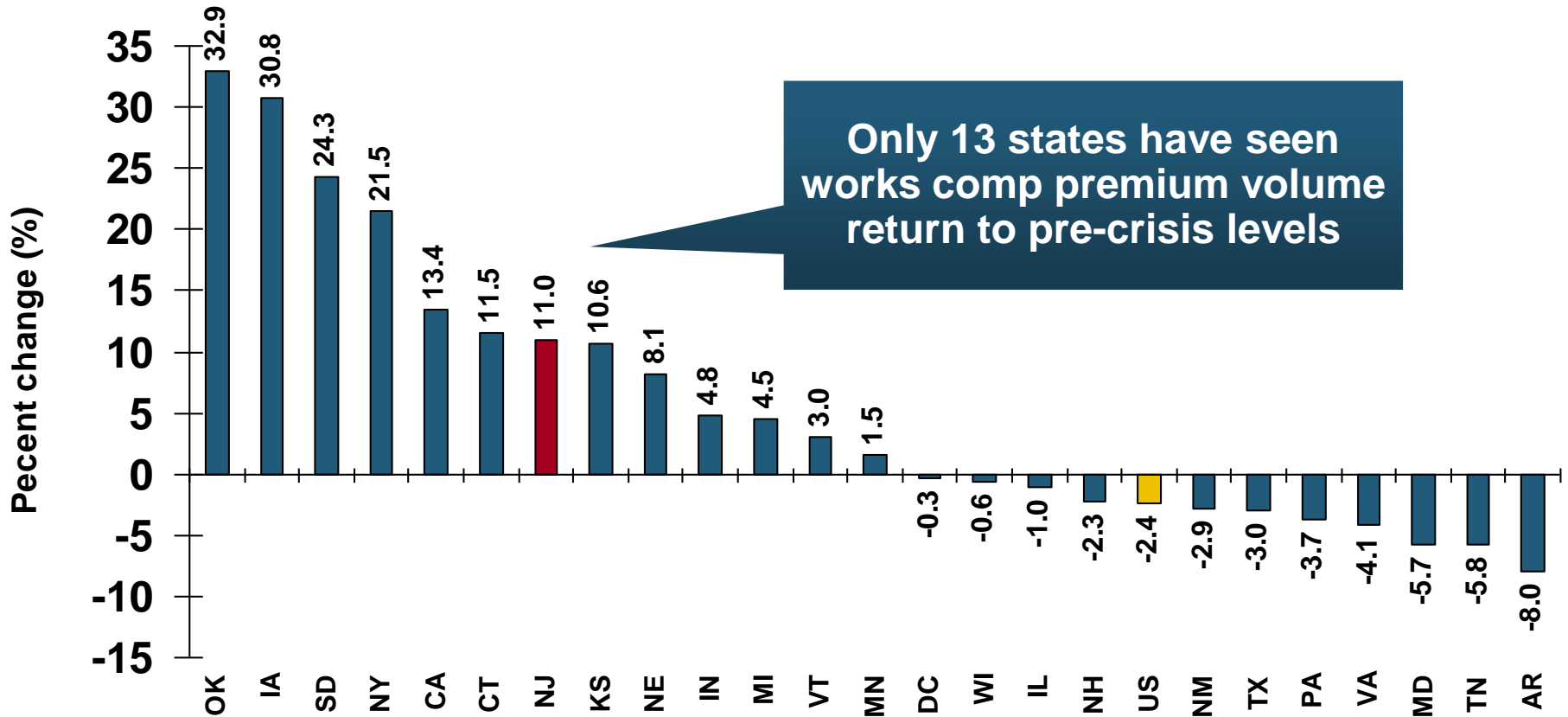
Direct Premiums Written: Comm. Lines Percent Change by State, 2007-2013

Bottom 25 States



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

Top 25 States

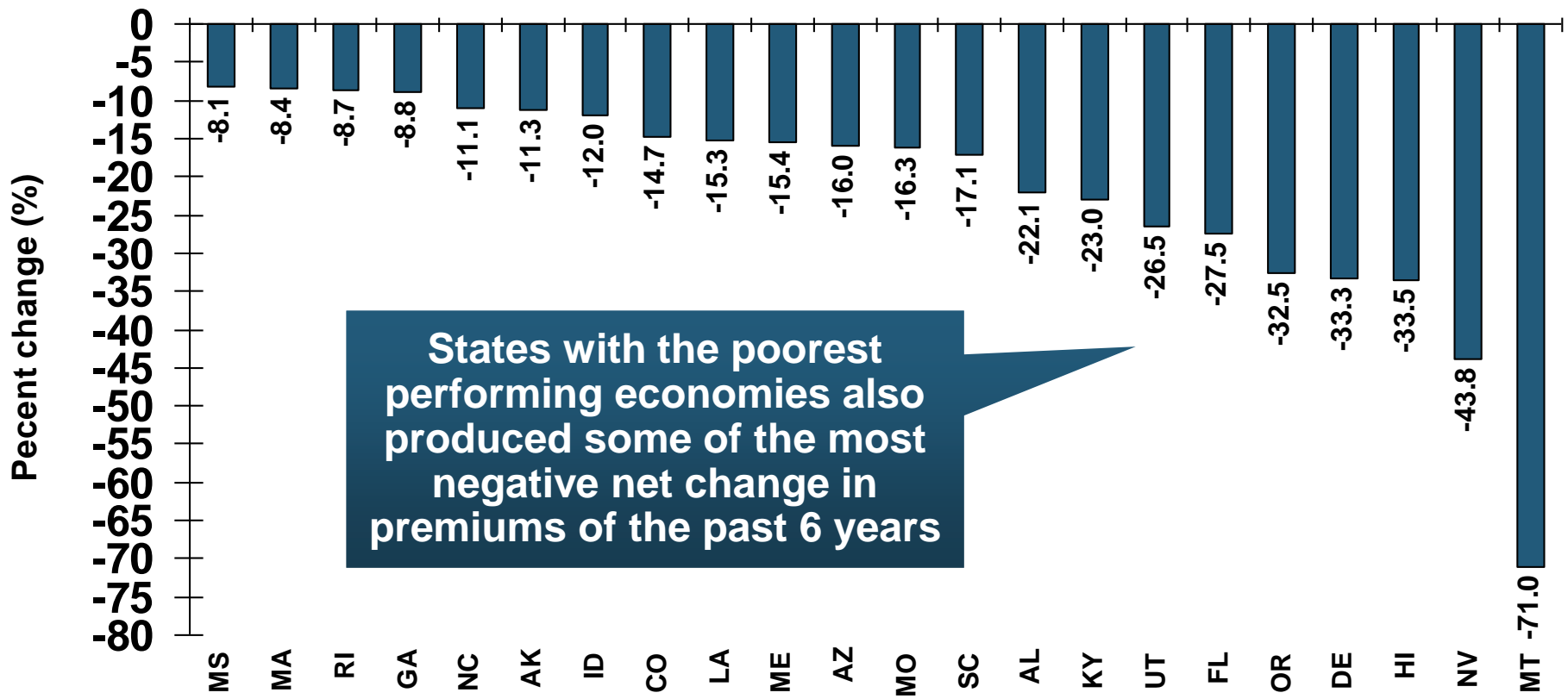


*Excludes monopolistic fund states: ND, OH, WA, WY as well as WV, which transitioned to a competitive structure during this period.

Sources: SNL Financial LC.; Insurance Information Institute.

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

Bottom 25 States



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

Sources: SNL Financial LC.; Insurance Information Institute.

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

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

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

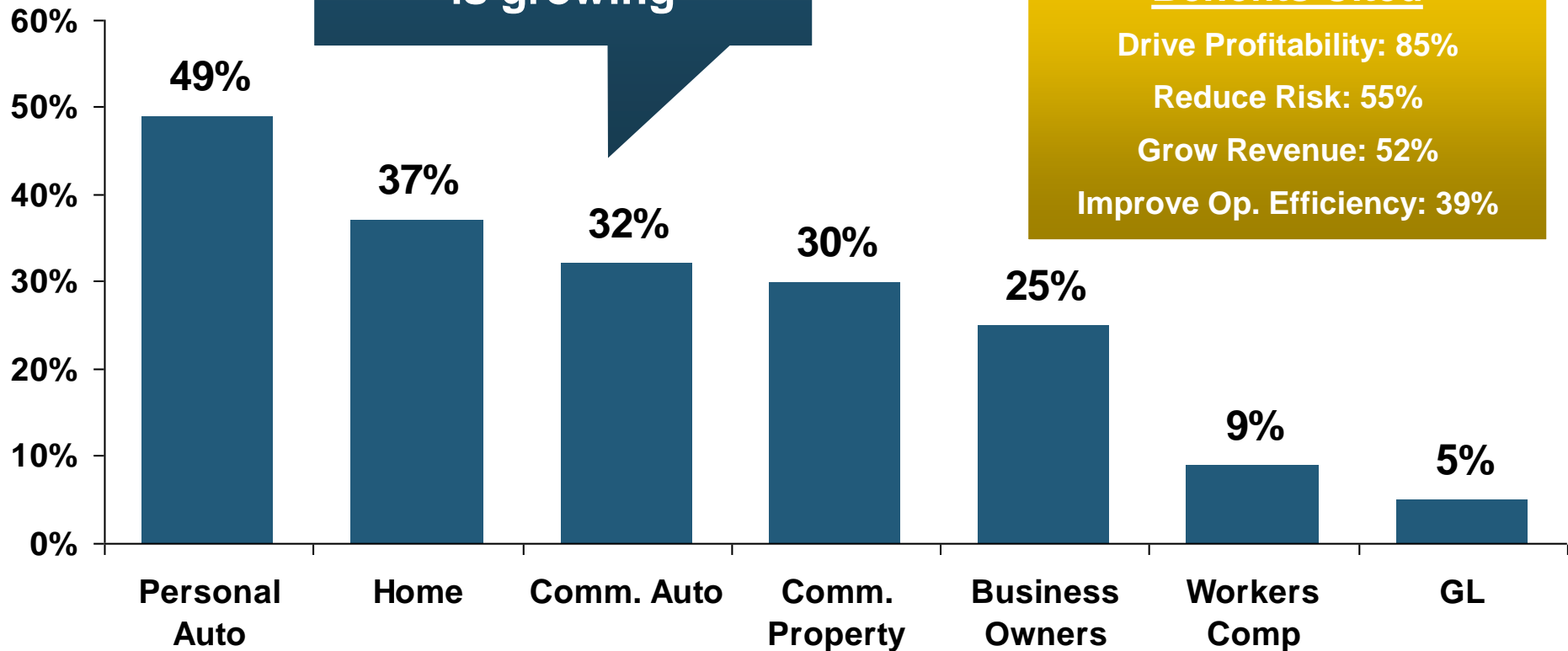
Benefits Cited

Drive Profitability: 85%

Reduce Risk: 55%

Grow Revenue: 52%

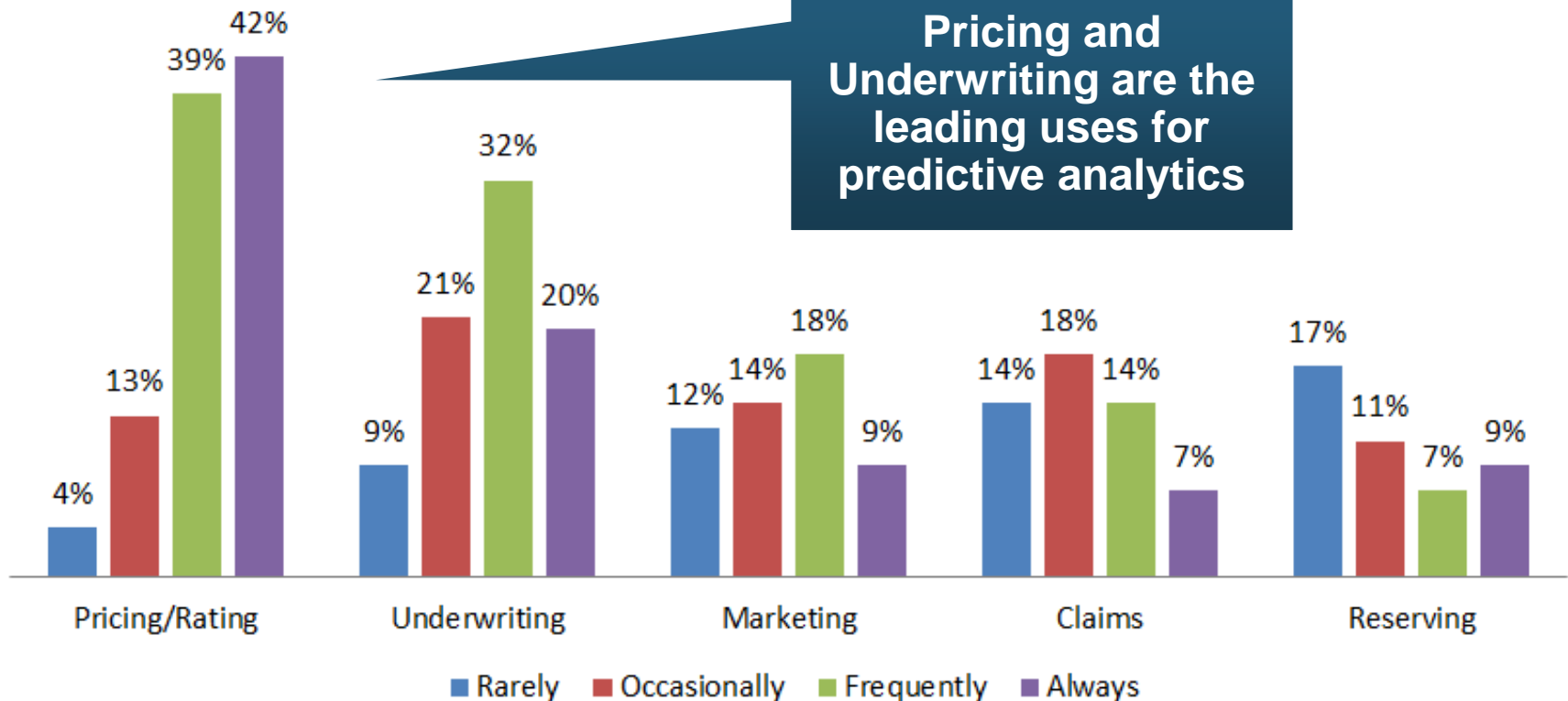
Improve Op. Efficiency: 39%



Uses of Predictive Analytics by Function

Uses of Predictive Modeling

Pricing and Underwriting are the leading uses for predictive analytics



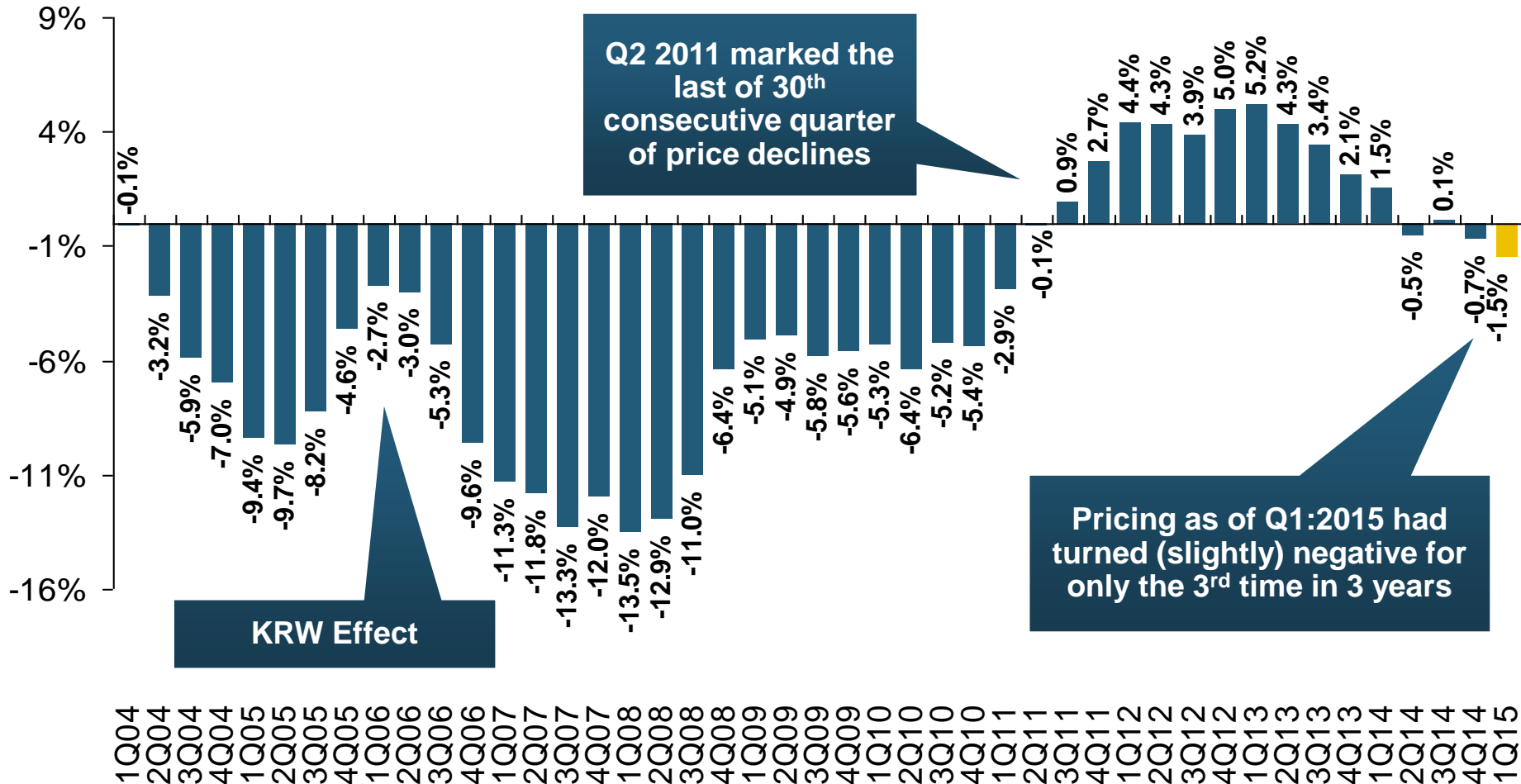
Source: Earnix/ISO September 2013 Survey

Commercial Lines Pricing Trends

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

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

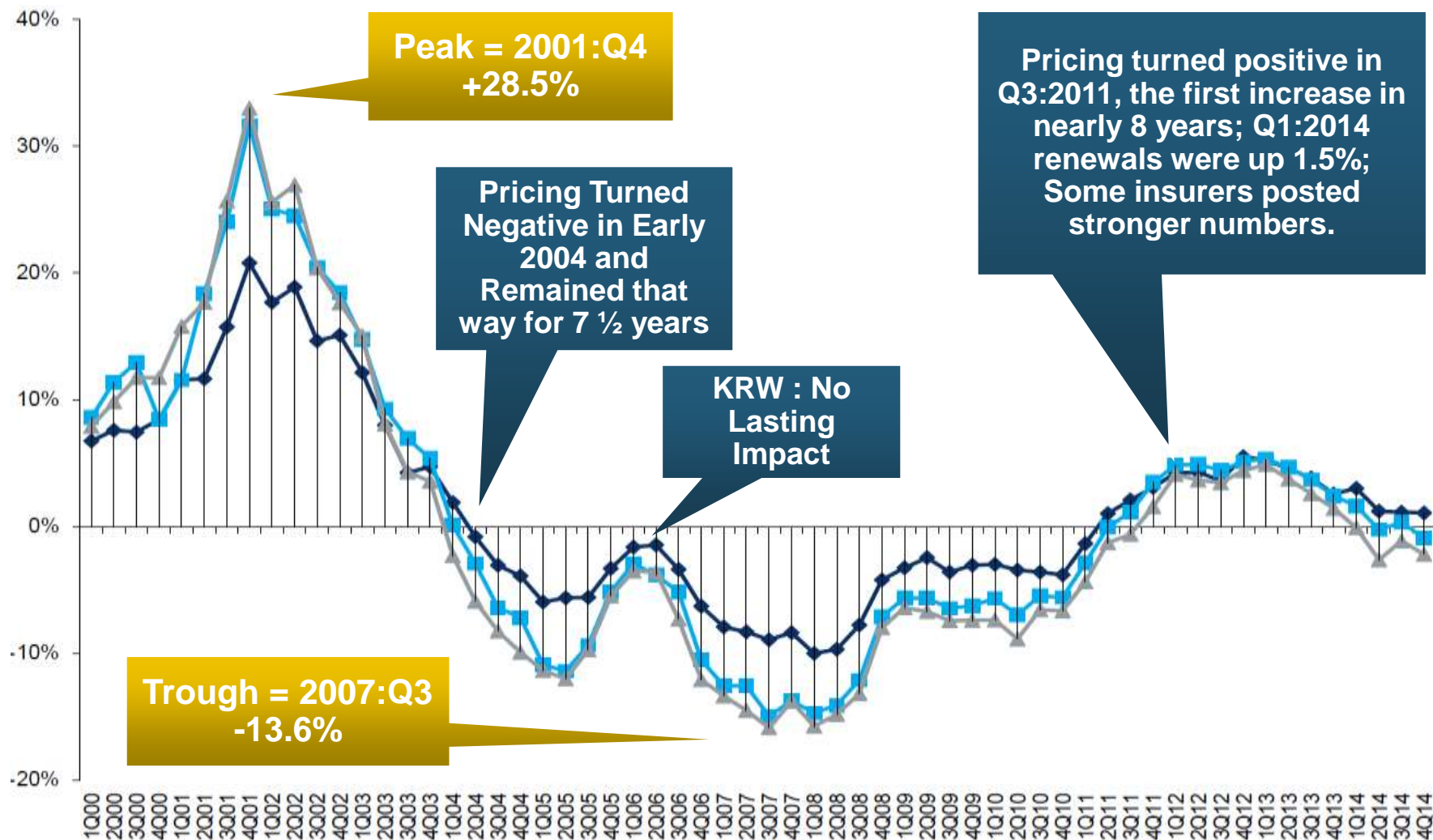
(Percent)



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 2014:Q4

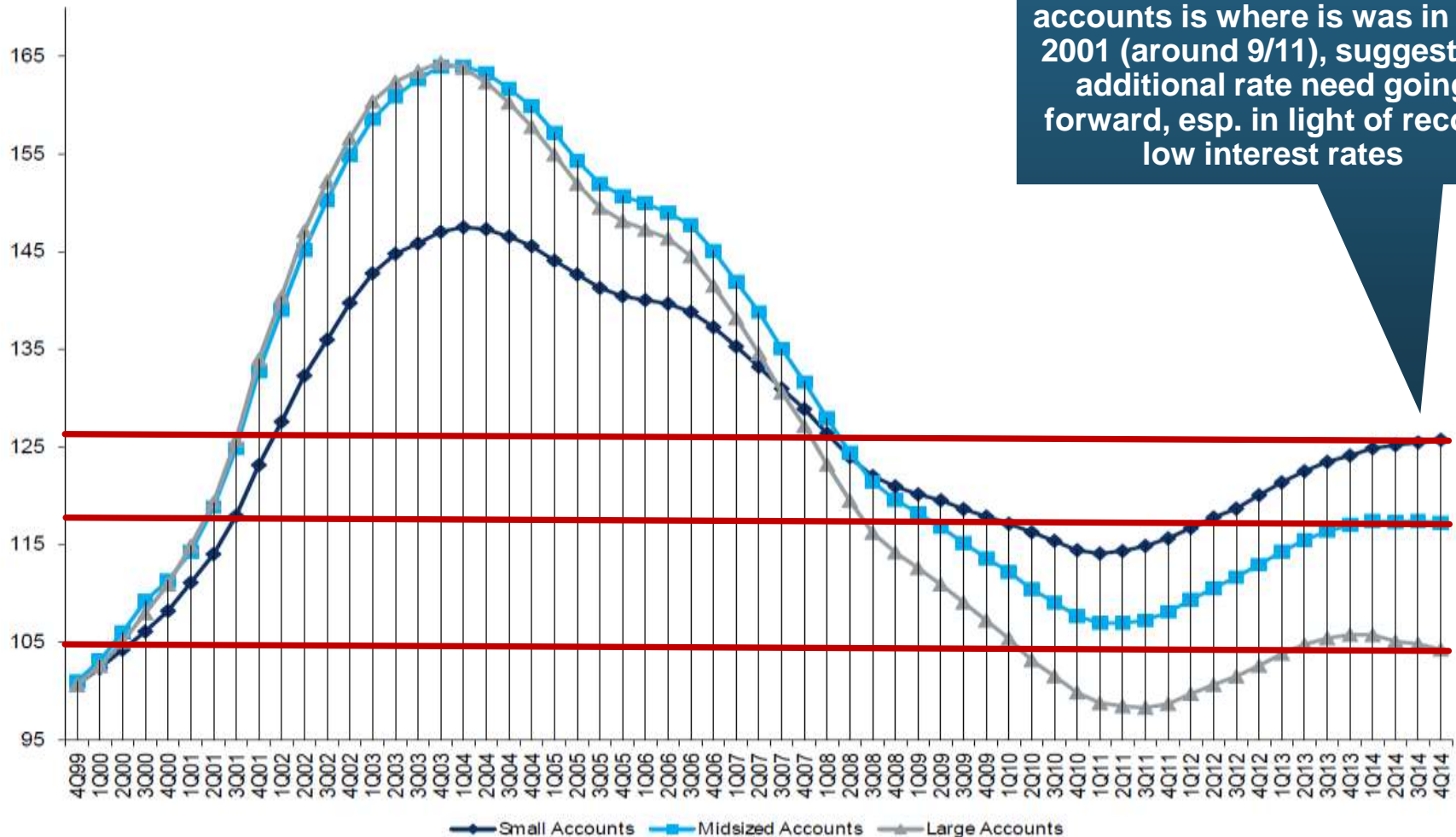
Percentage Change (%)



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.

Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2014:Q4

1999:Q4 = 100

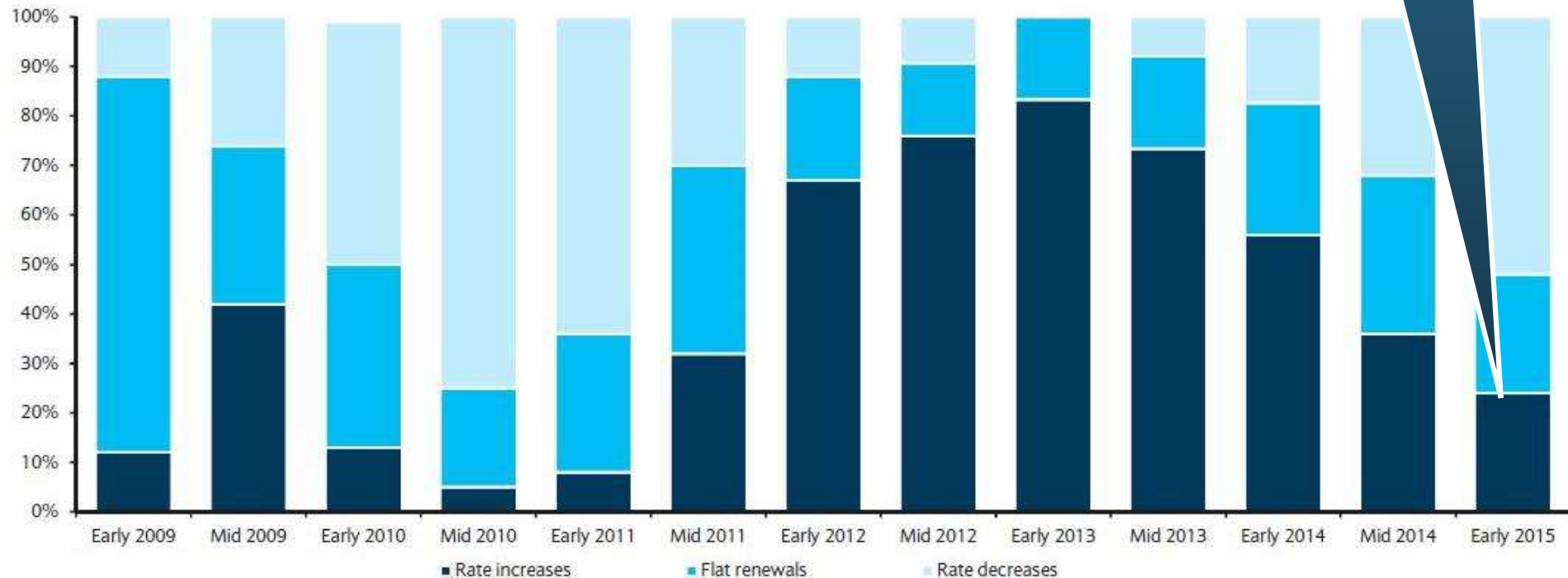


Despite several years of gains, pricing today for midsize accounts is where it was in late 2001 (around 9/11), suggesting additional rate need going forward, esp. in light of record low interest rates

Directional Pricing Trend in Large Account P/C Renewals

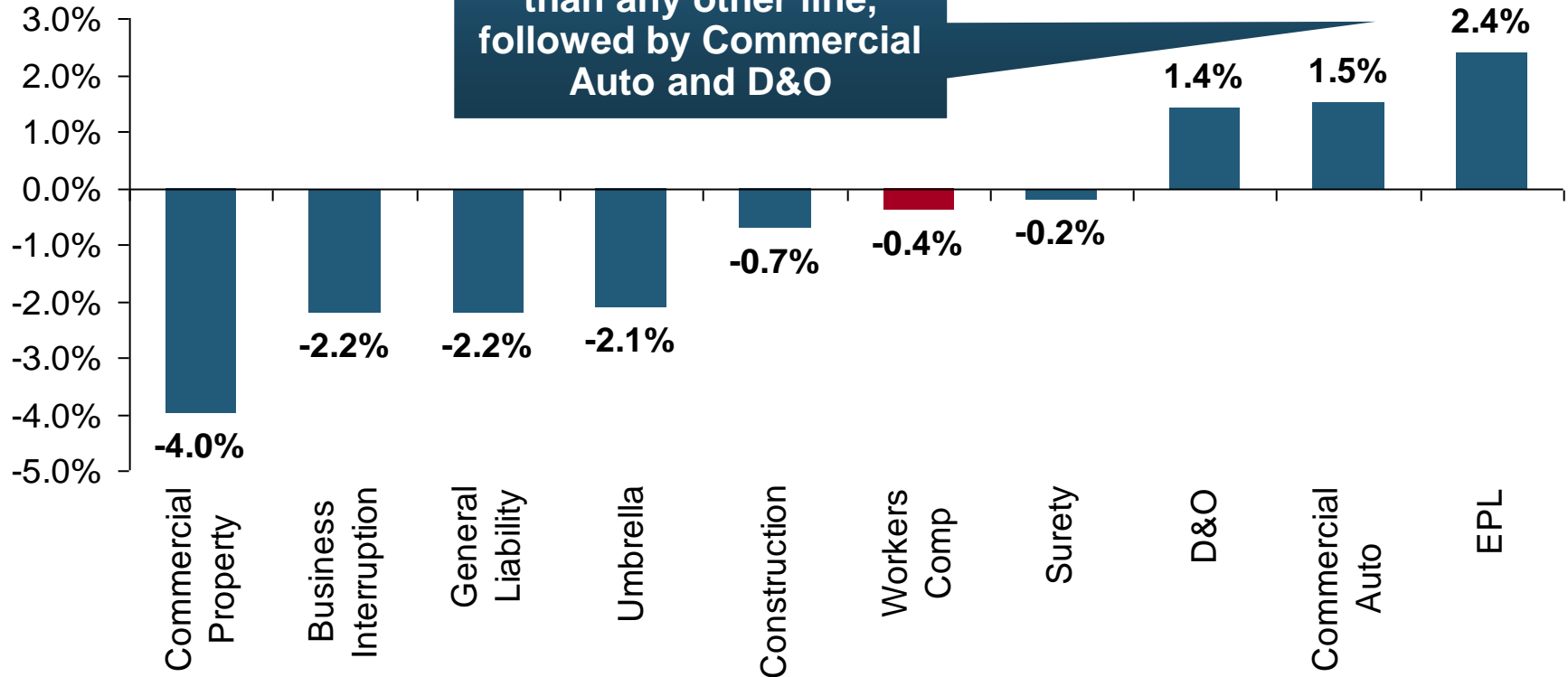
Early 2009 through Early 2015

Few accounts are seeing increases



Change in Commercial Rate Renewals, by Line: 2015:Q1

Percentage Change (%)



**Major Commercial Lines Renewals Were Mixed to Flat in Q1:2015;
EPL and Commercial Auto Led the Way**

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.

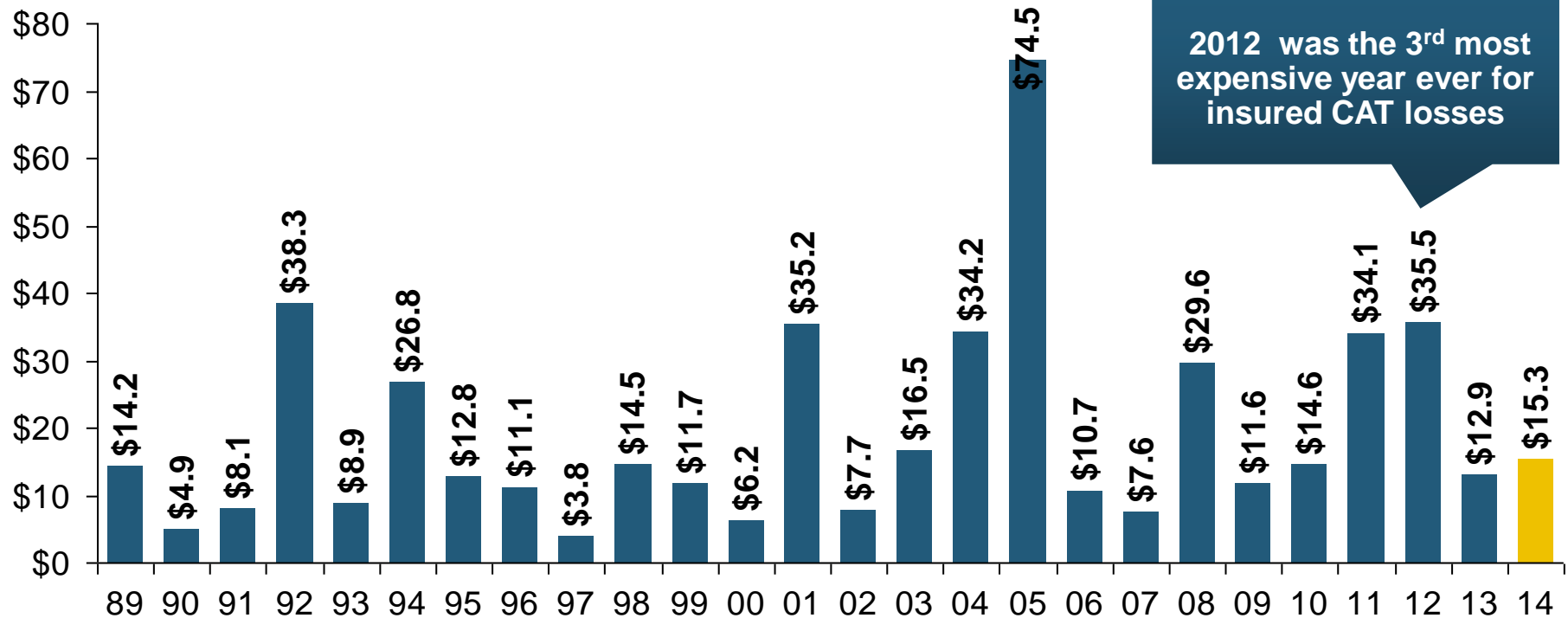
U.S. Insured Catastrophe Loss Update

**2013/14 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, \$ 2013)



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

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

\$15.3 billion in insured CAT losses estimated for 2014

*Through 12/31/14.

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

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

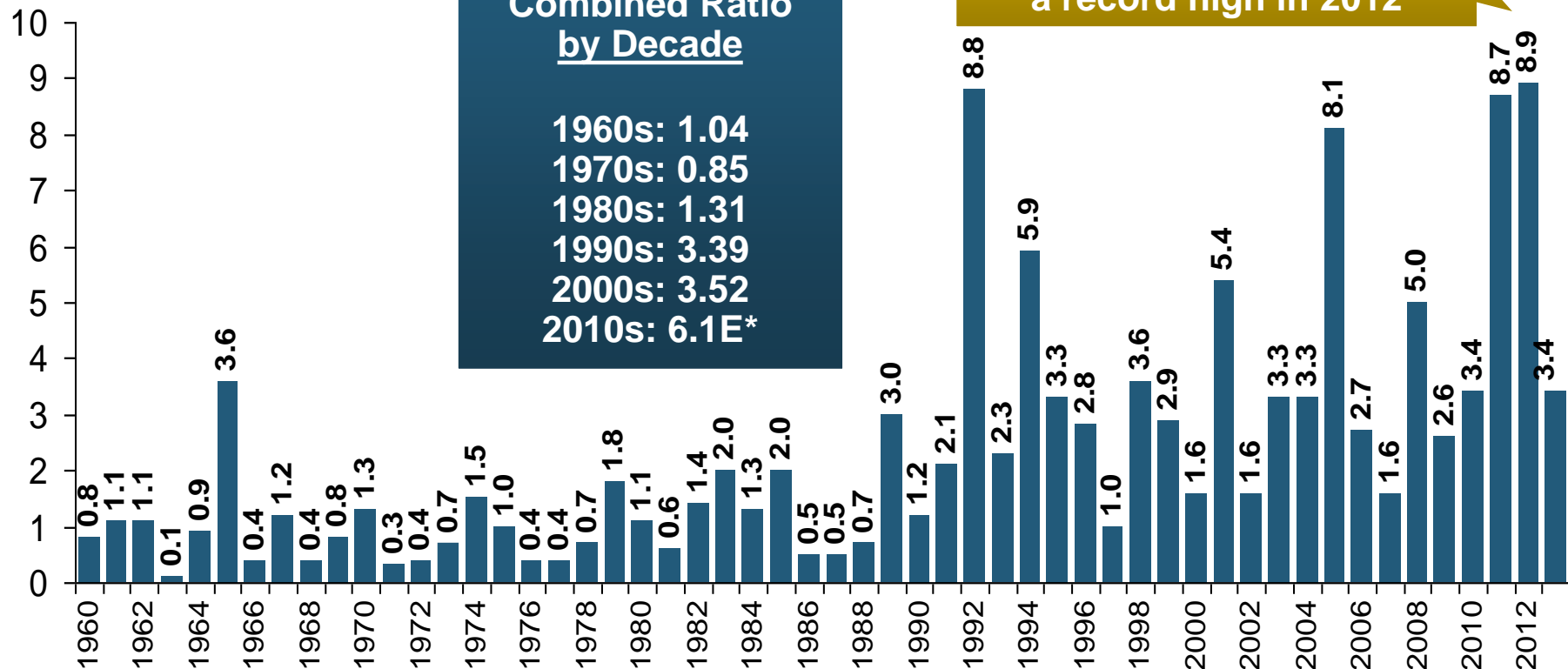
Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2013*

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*

**Catastrophe losses as a
share of all losses reached
a record high in 2012**



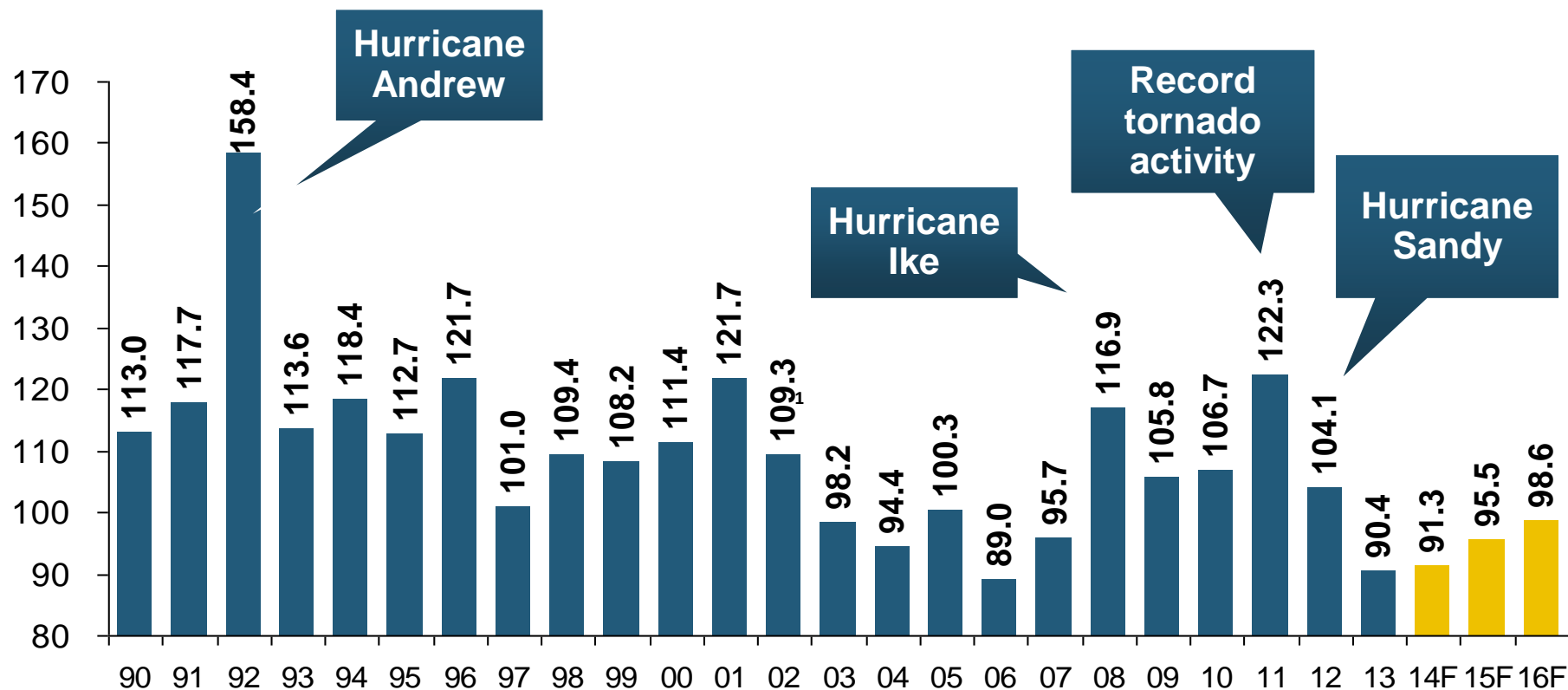
**The Catastrophe Loss Component of Private Insurer Losses Has
Increased Sharply in Recent Decades**

*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.

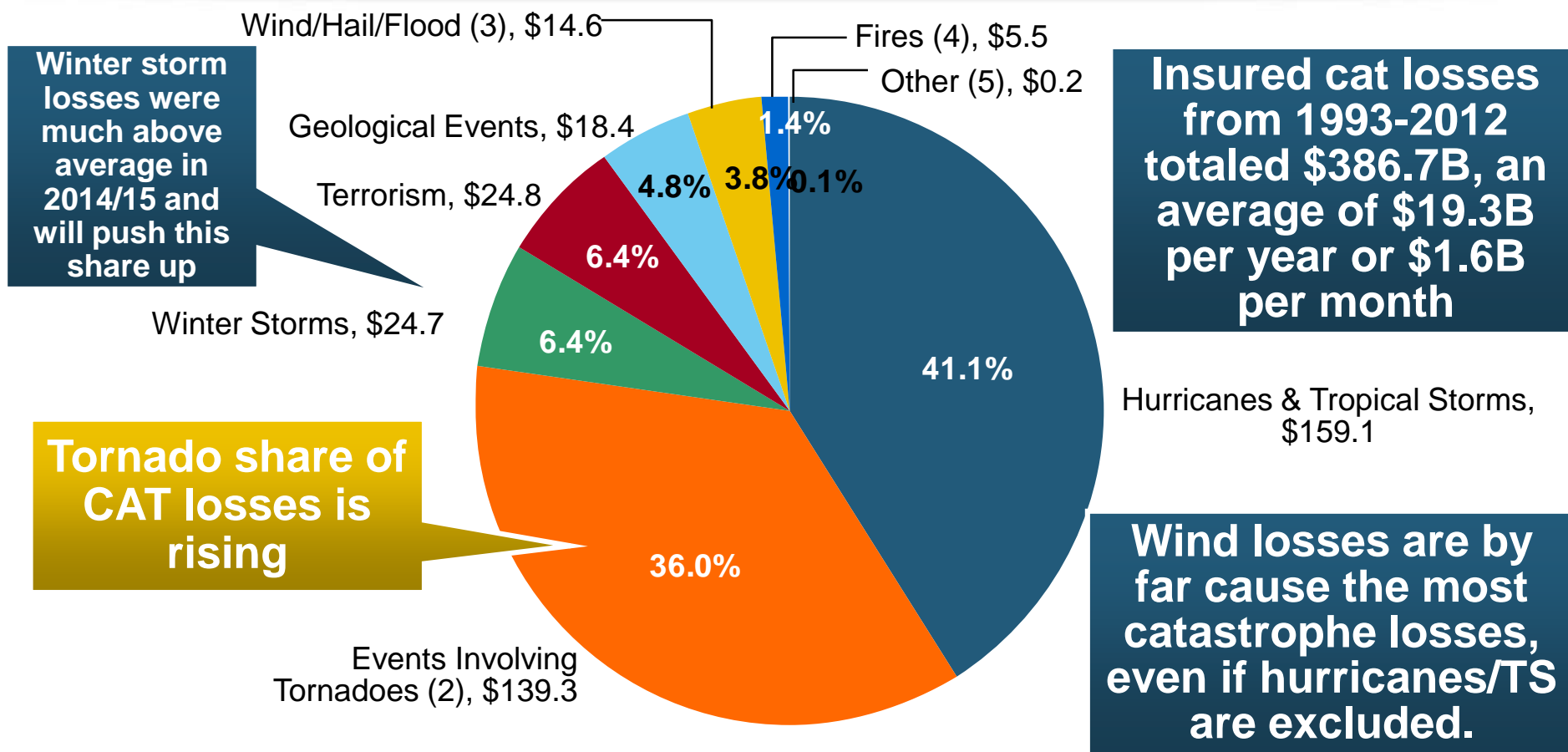
Source: ISO (1960-2011); A.M. Best (2012E) Insurance Information Institute.

Homeowners Insurance Combined Ratio: 1990–2016F



Homeowners Performance in 2011/12 Impacted by Large Cat Losses but Lower CATs Helped 2013/14. Extreme Regional Variation Can Be Expected Due to Local Catastrophe Loss Activity

Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1994–2013¹



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

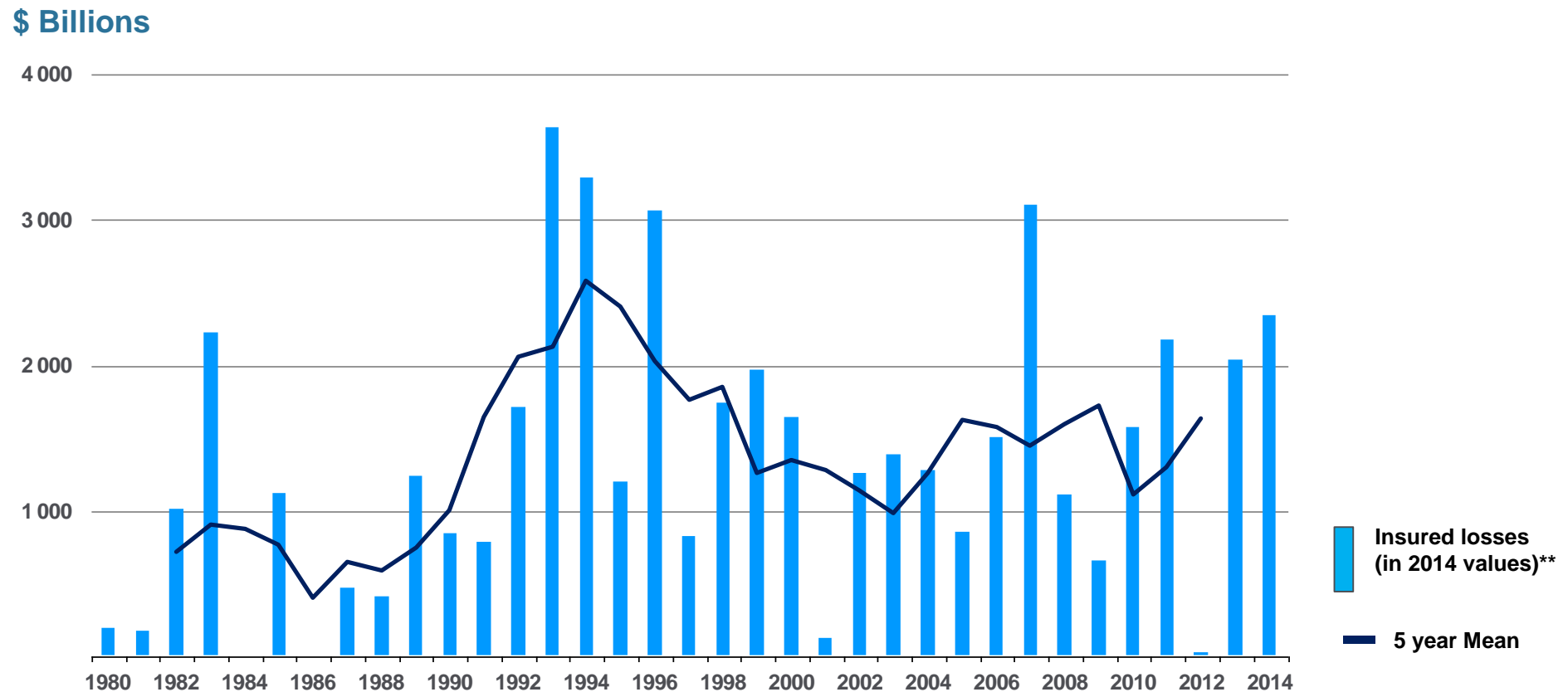
Source: ISO's Property Claim Services Unit.

Loss events in the US, 1980 – 2014

Insured losses due to winter storms*

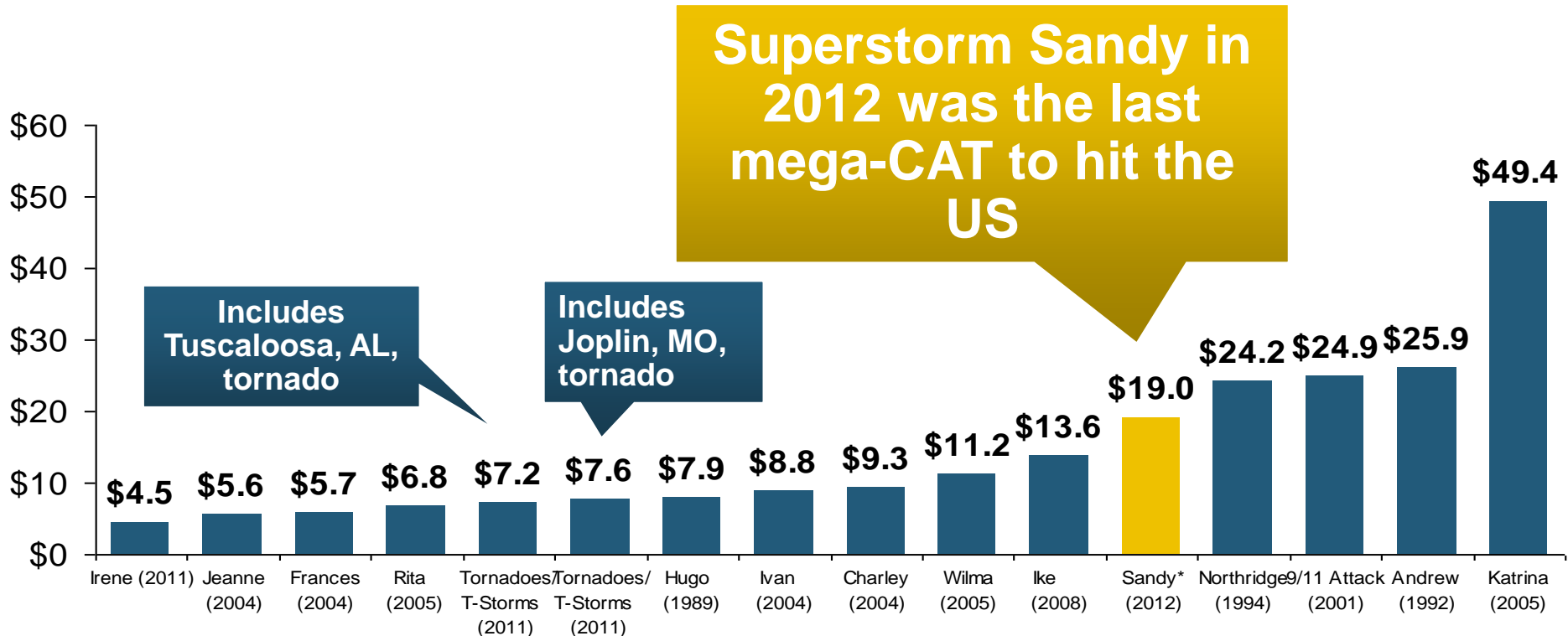
Overall losses in 2014 totaled \$3.7B; Insured losses totaled \$ 2.4B

Preliminary figures for 2015 suggest \$2.3B in insured winter storm losses.



Top 16 Most Costly Disasters in U.S. History

(Insured Losses, 2013 Dollars, \$ Billions)



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

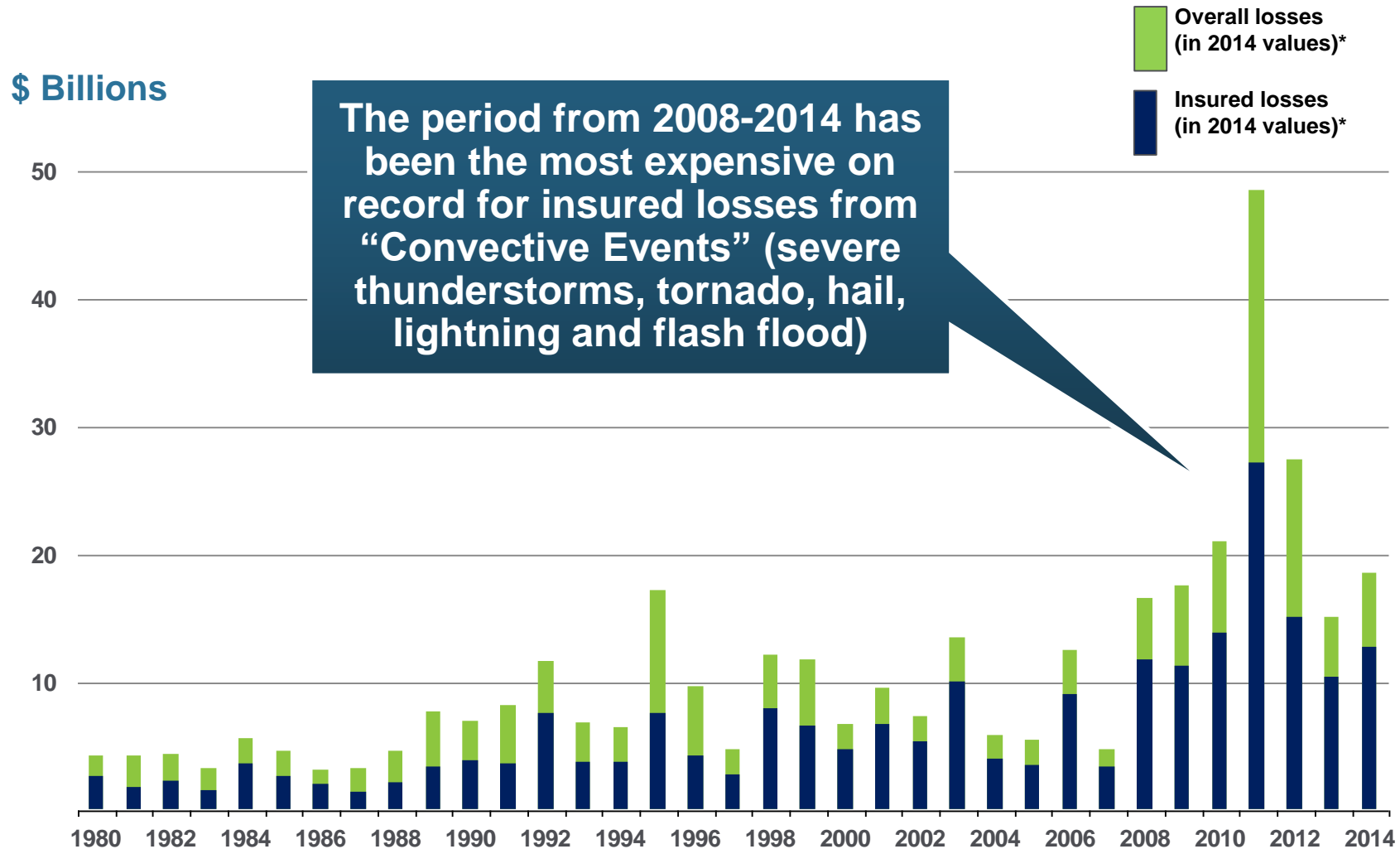
Natural Disaster Losses in the US, 2014

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
Winter Storm, winter damage, cold wave, snow storm	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

Convective Loss Events in the US

Overall and insured losses, 1980 – 2014



*Losses adjusted to inflation based on CPI

Source: Geo Risks Research, NatCatSERVICE

Analysis contains:

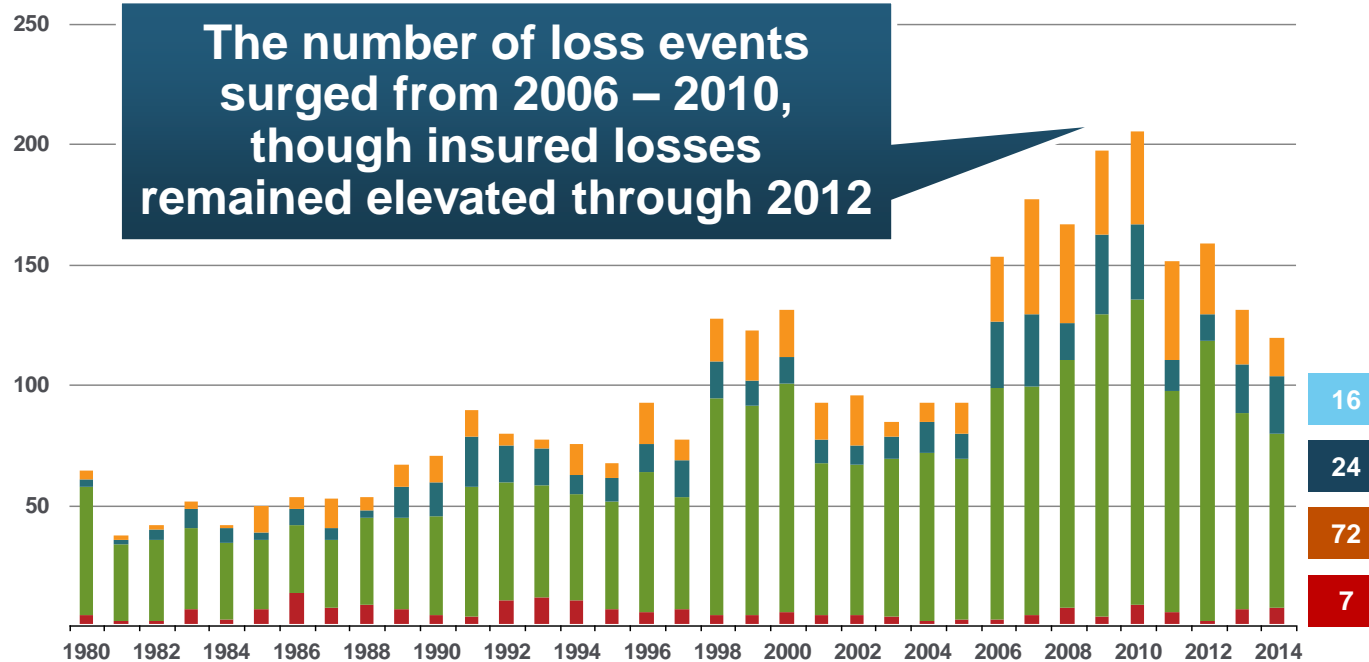
severe storm, tornado, hail, flash flood and lightning

Loss events in the US, 1980 – 2014

Number of events

Number of Events

**2014 Total:
119 Events**

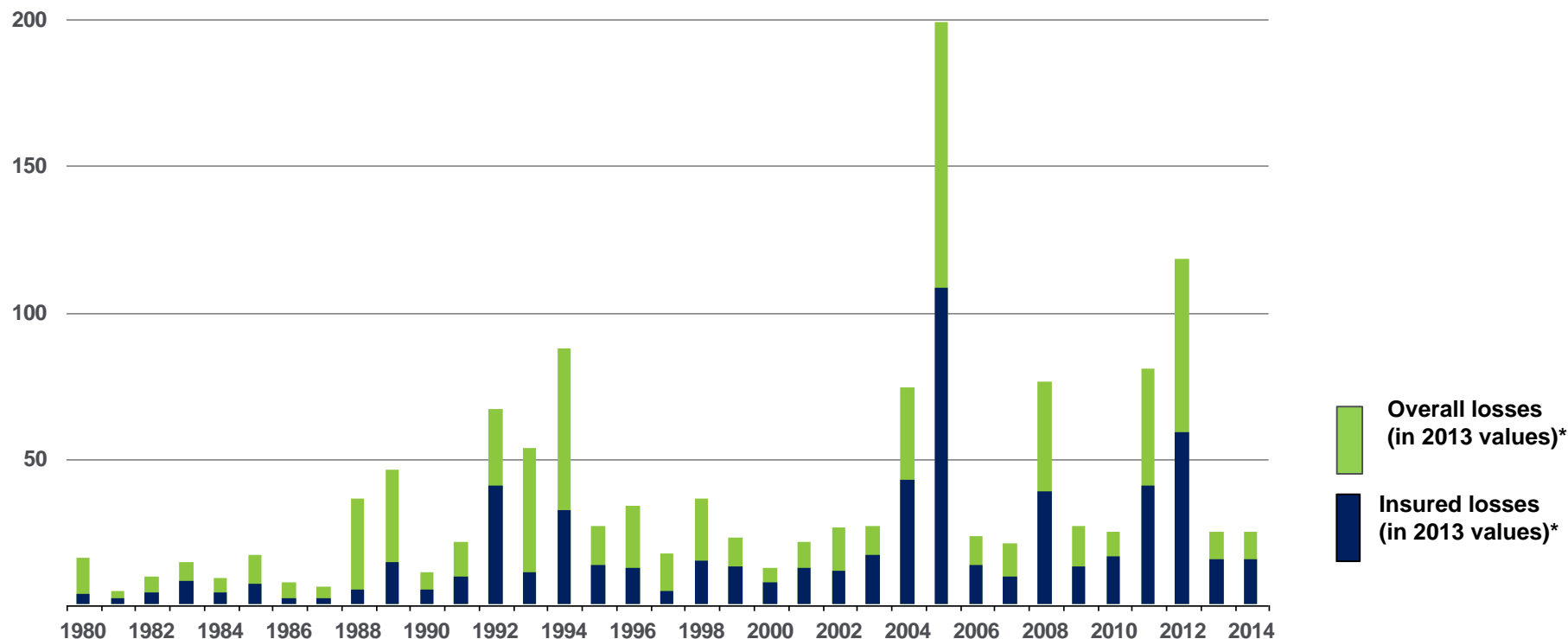


Loss Events in the US, 1980 – 2014

Overall and insured losses

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

\$ Billions

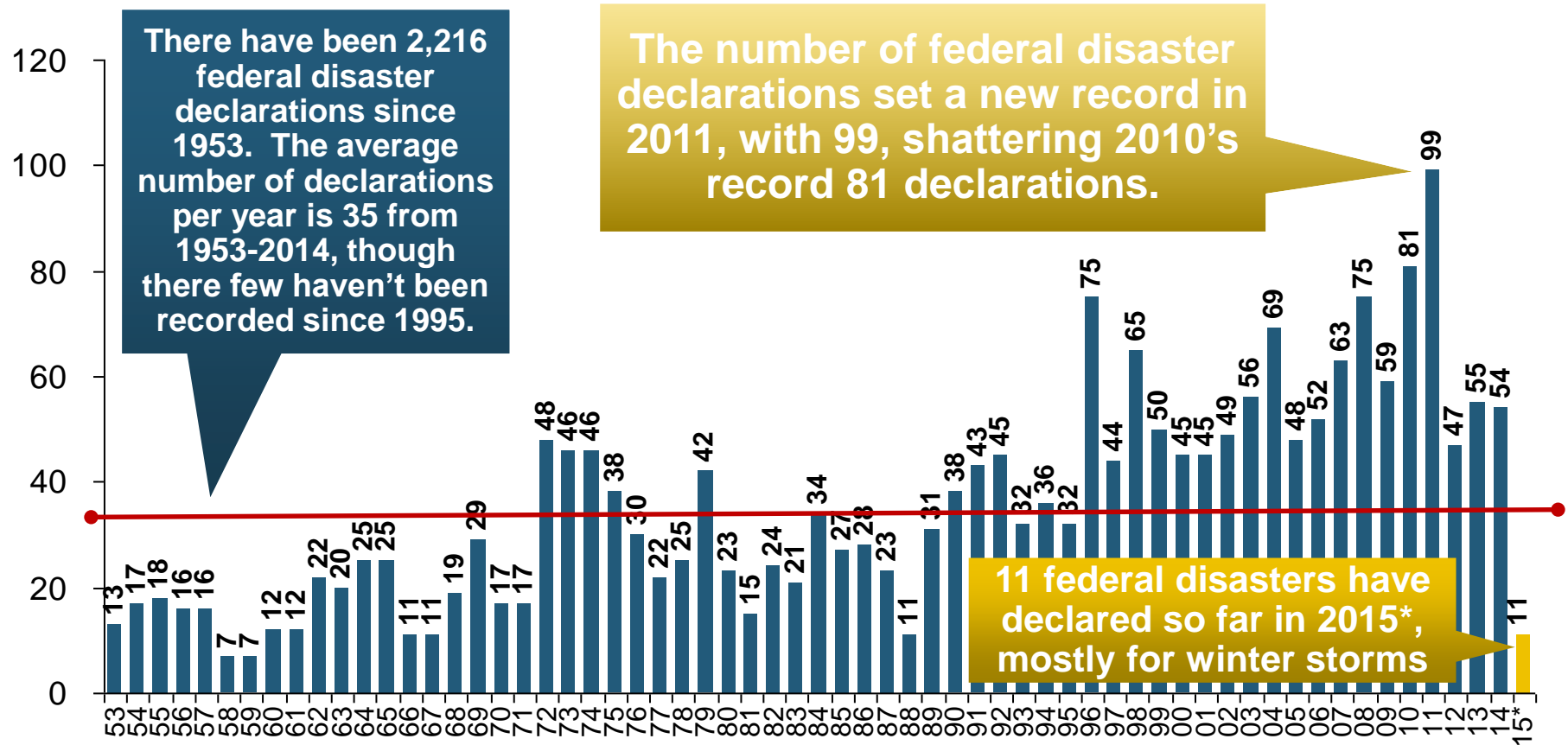




Federal Disaster Declarations Patterns: 1953-2015

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

Number of Federal Major Disaster Declarations, 1953-2015*

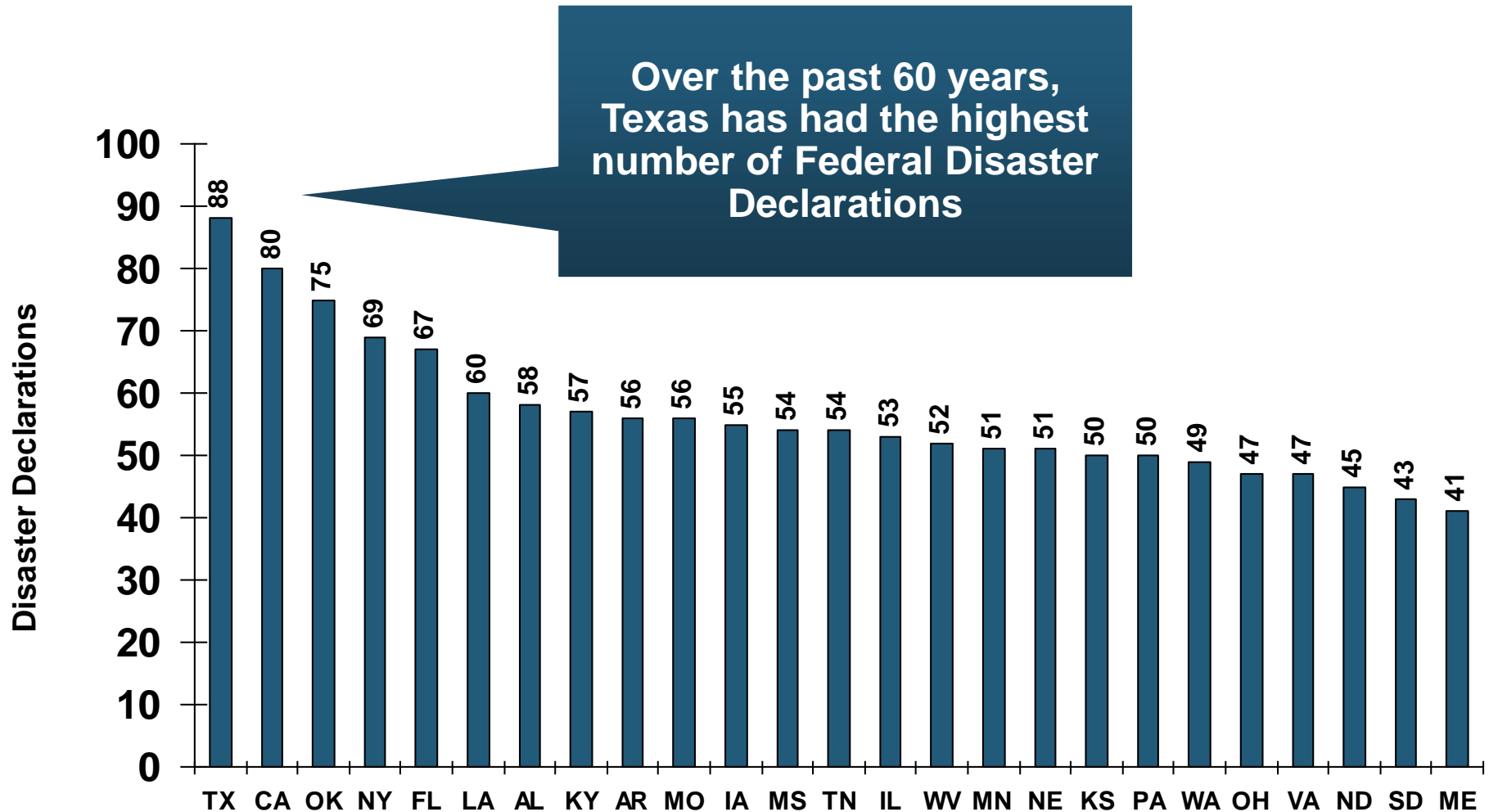


The Number of Federal Disaster Declarations Is Rising and Set New Records in 2010 *and* 2011 Before Dropping in 2012-2014

*Through April 21, 2015.

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

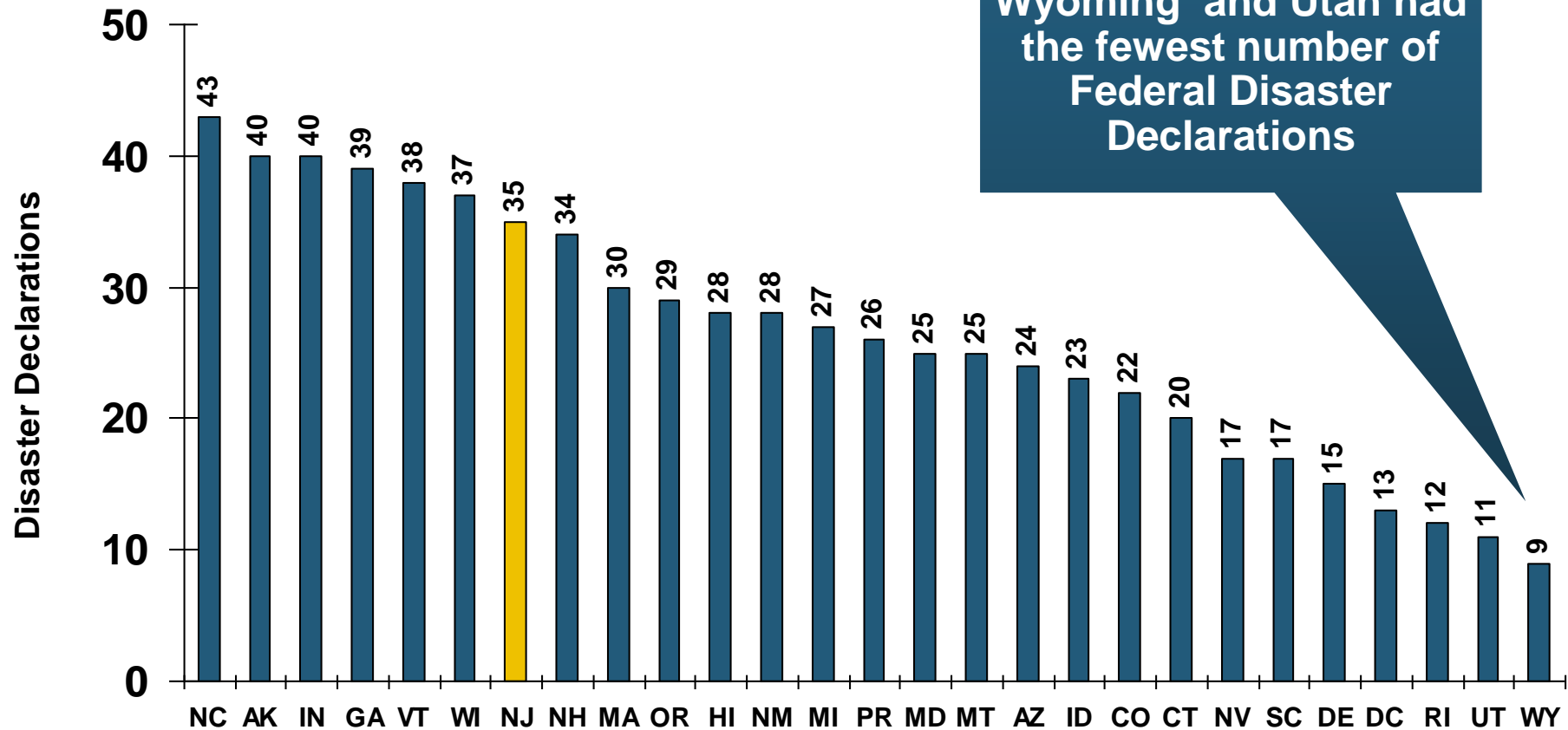
Federal Disasters Declarations by State, 1953 – 2015: Highest 25 States*



*Through April 10, 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*

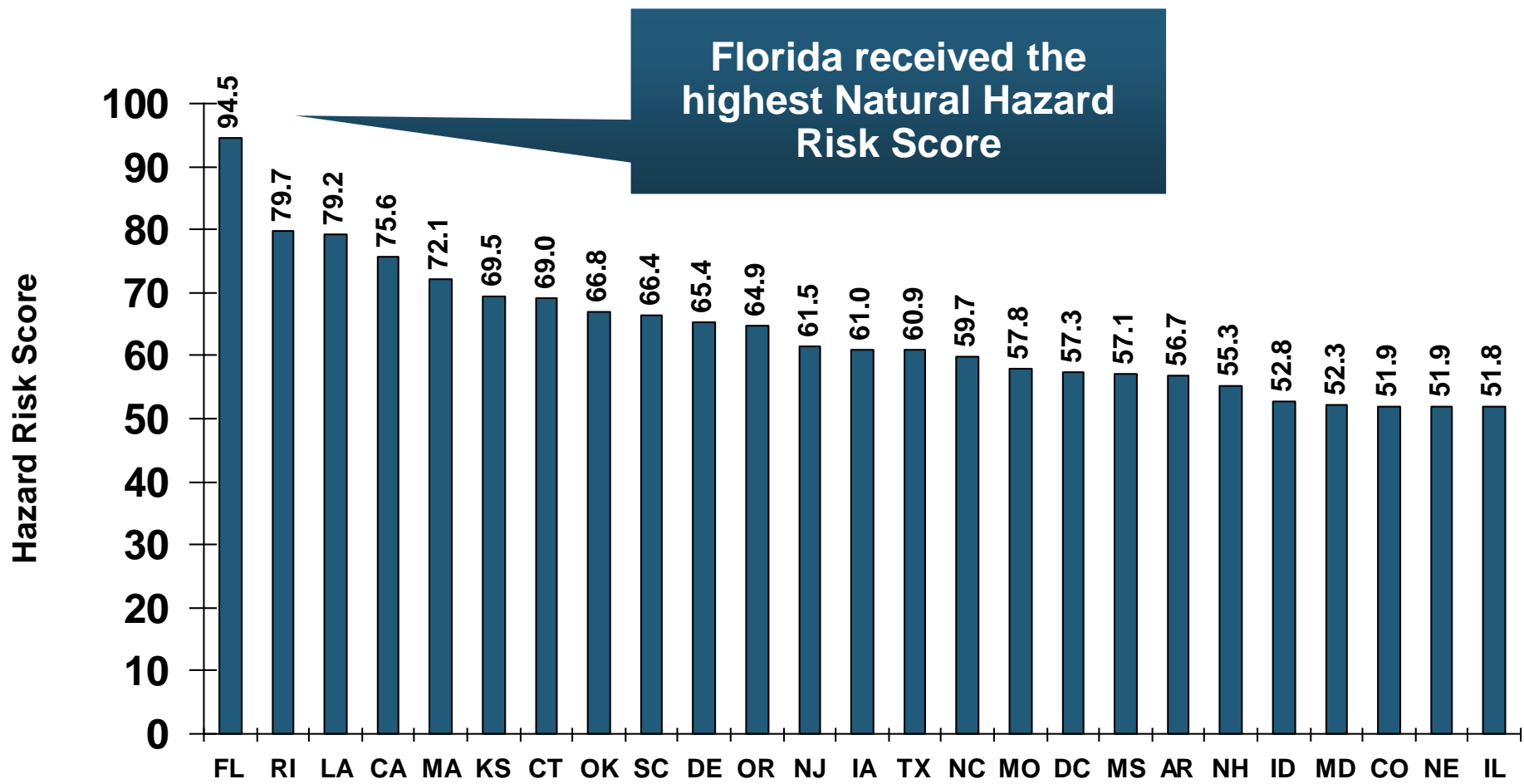


*Through April 21, 2015. Includes Puerto Rico and the District of Columbia.

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

Natural Hazard Risk Scores, 2014

Highest 25 States*

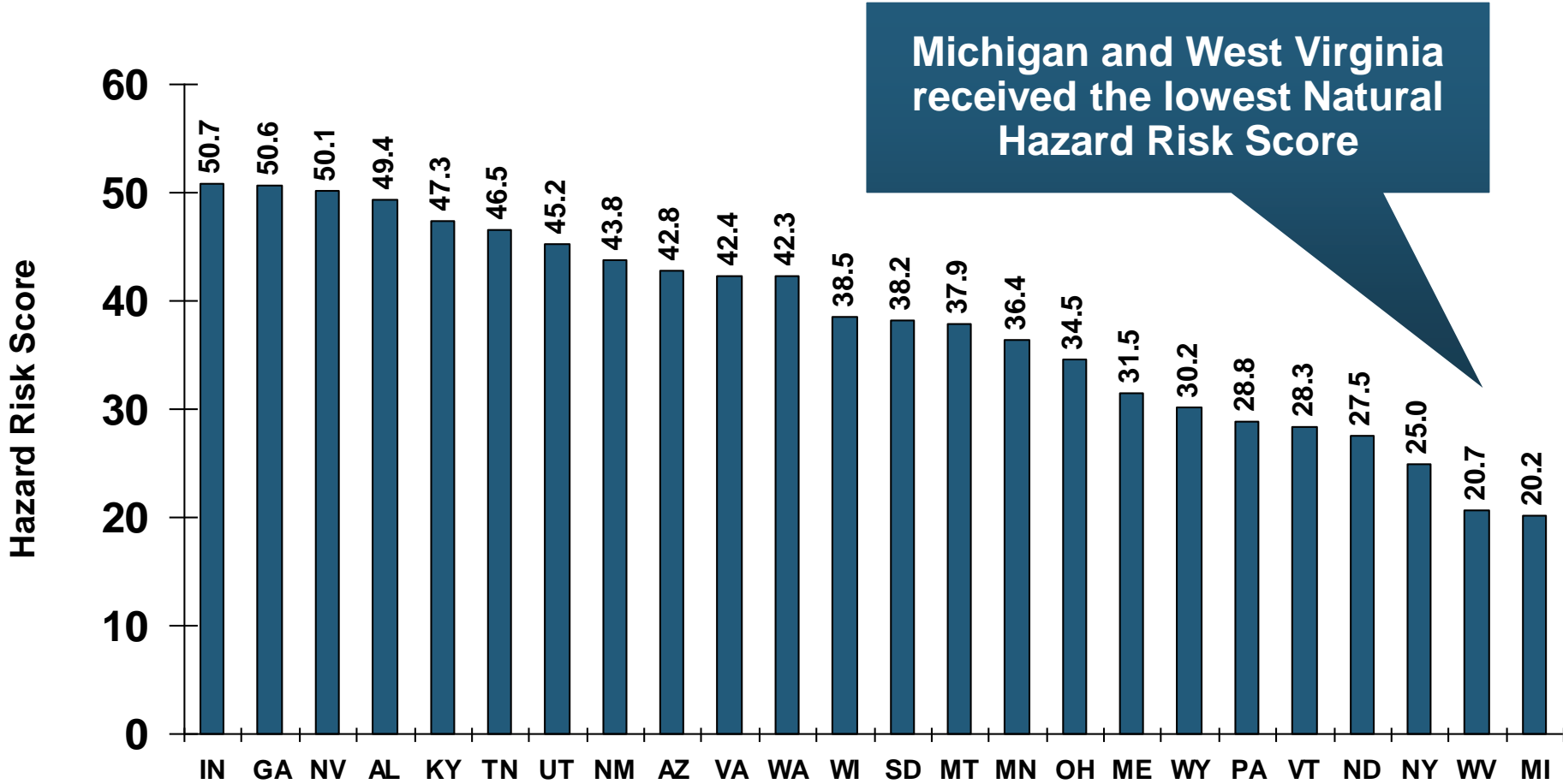


Note: Score is based on data on 9 natural hazards: flood, wildfire, tornado, storm surge, earthquake, straight-line wind, hurricane, wind, hail and sinkhole.

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

Natural Hazard Risk Scores, 2014

Bottom 24 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.

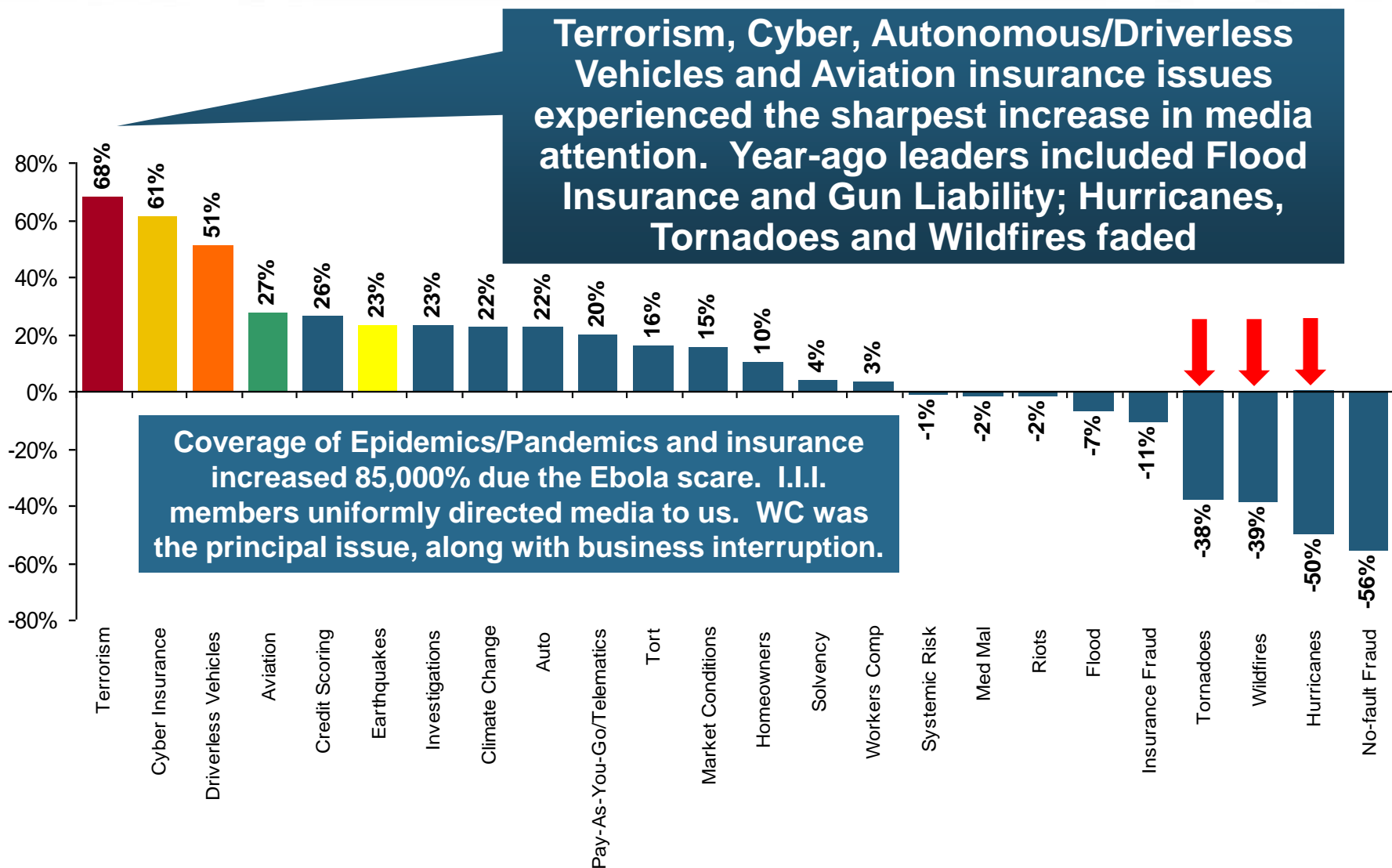
Top Insurance Issues: ***What's Hot, What's Not***

**No Dominant Even in 2014, but
Some Key Commercial Lines
Issues Spiked**

Terrorism, TRIA & Cyber

I.I.I. Media Index, P/C, 2014 vs 2013

Percent increase/decrease from previous year

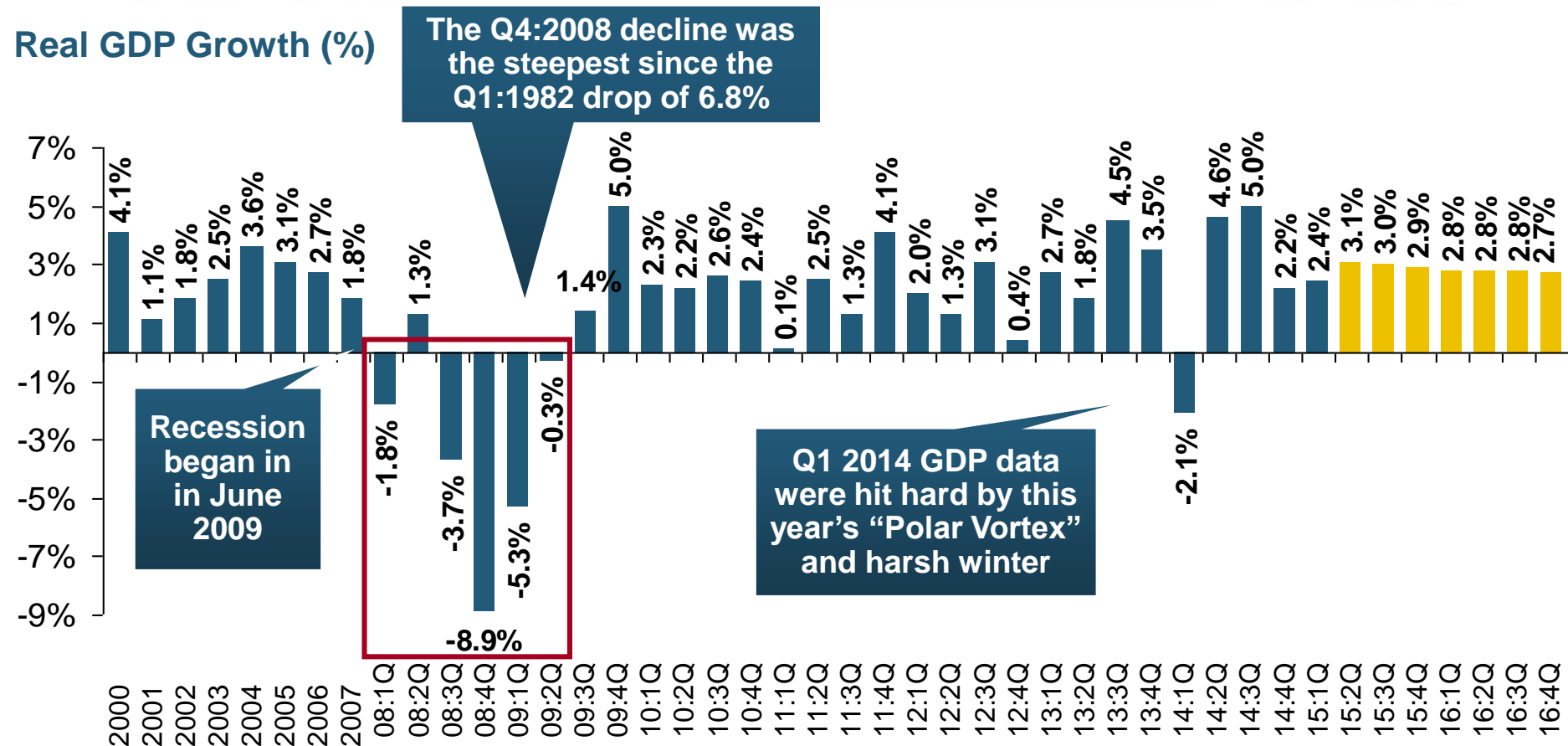


Source: Insurance Information Institute based on a search of Lexis/Nexis.

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*



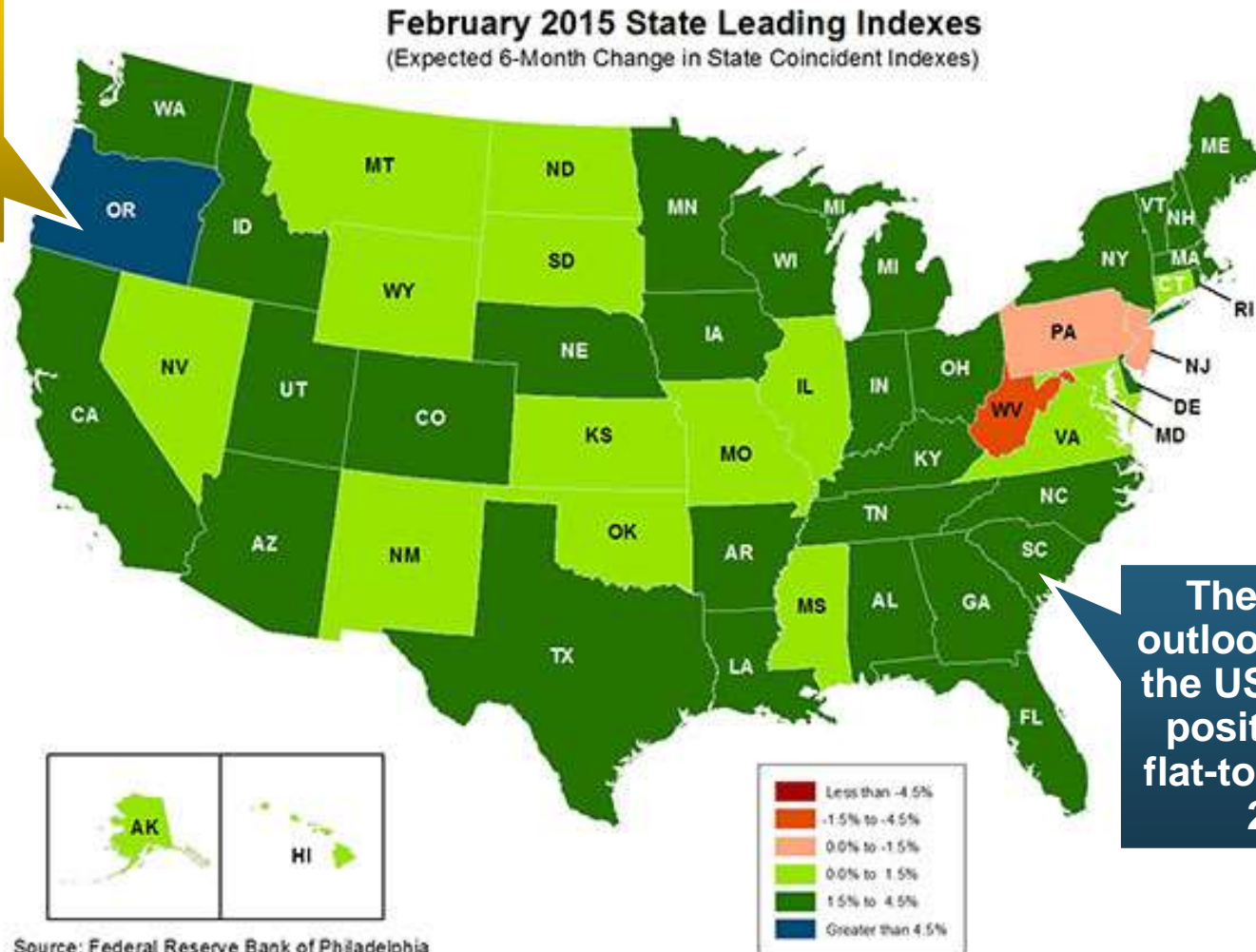
Demand for Insurance Should Increase in 2015 as GDP Growth Accelerates Modestly and Gradually Benefits the Economy Broadly

* ■ Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 4/15; Insurance Information Institute.

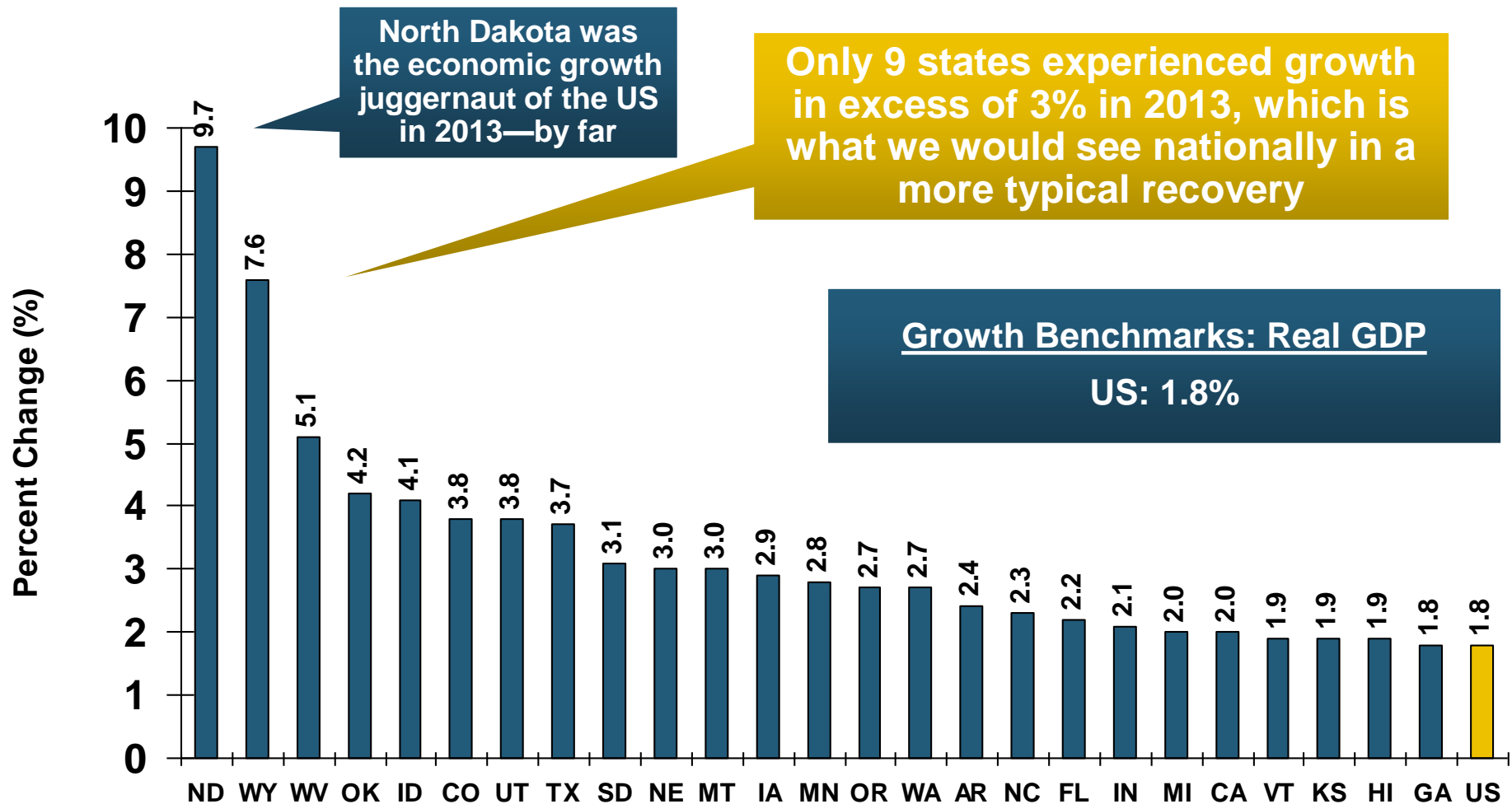
State-by-State Leading Indicators through August 2015

Growth in the West is finally beginning to pick up

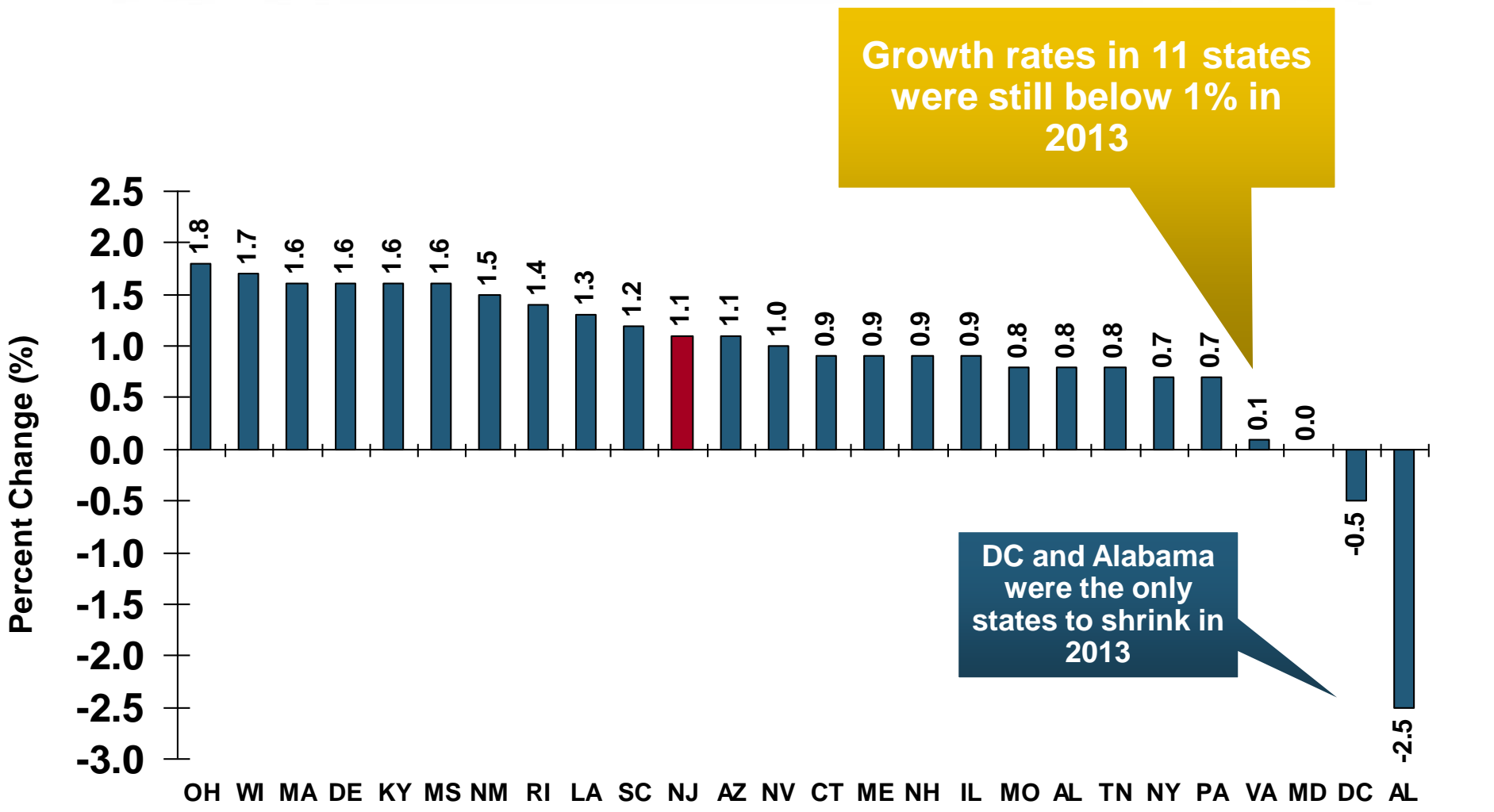


The economic outlook for most of the US is generally positive, though flat-to-negative for 2 states

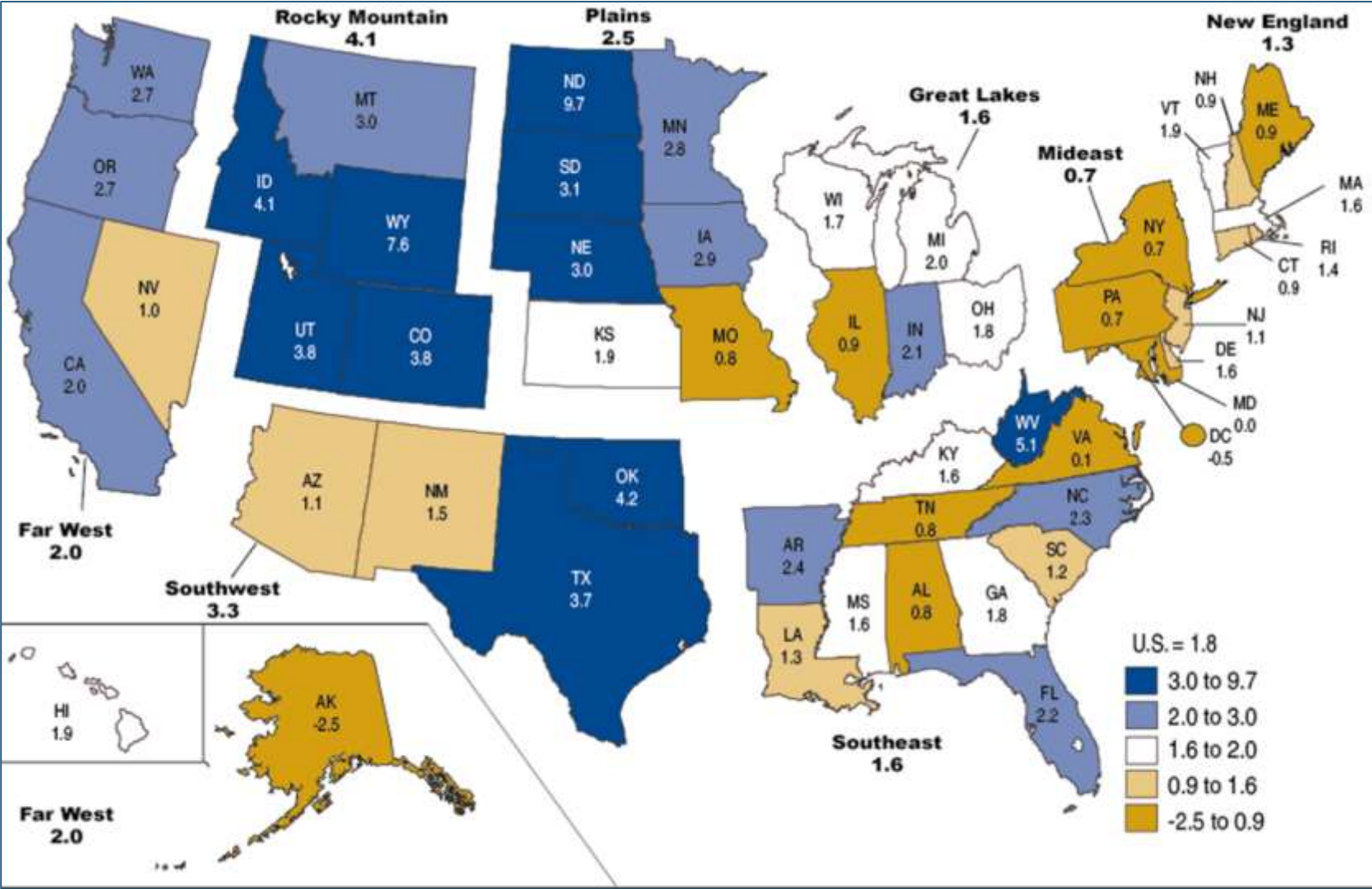
Real GDP by State Percent Change, 2013: Highest 25 States



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



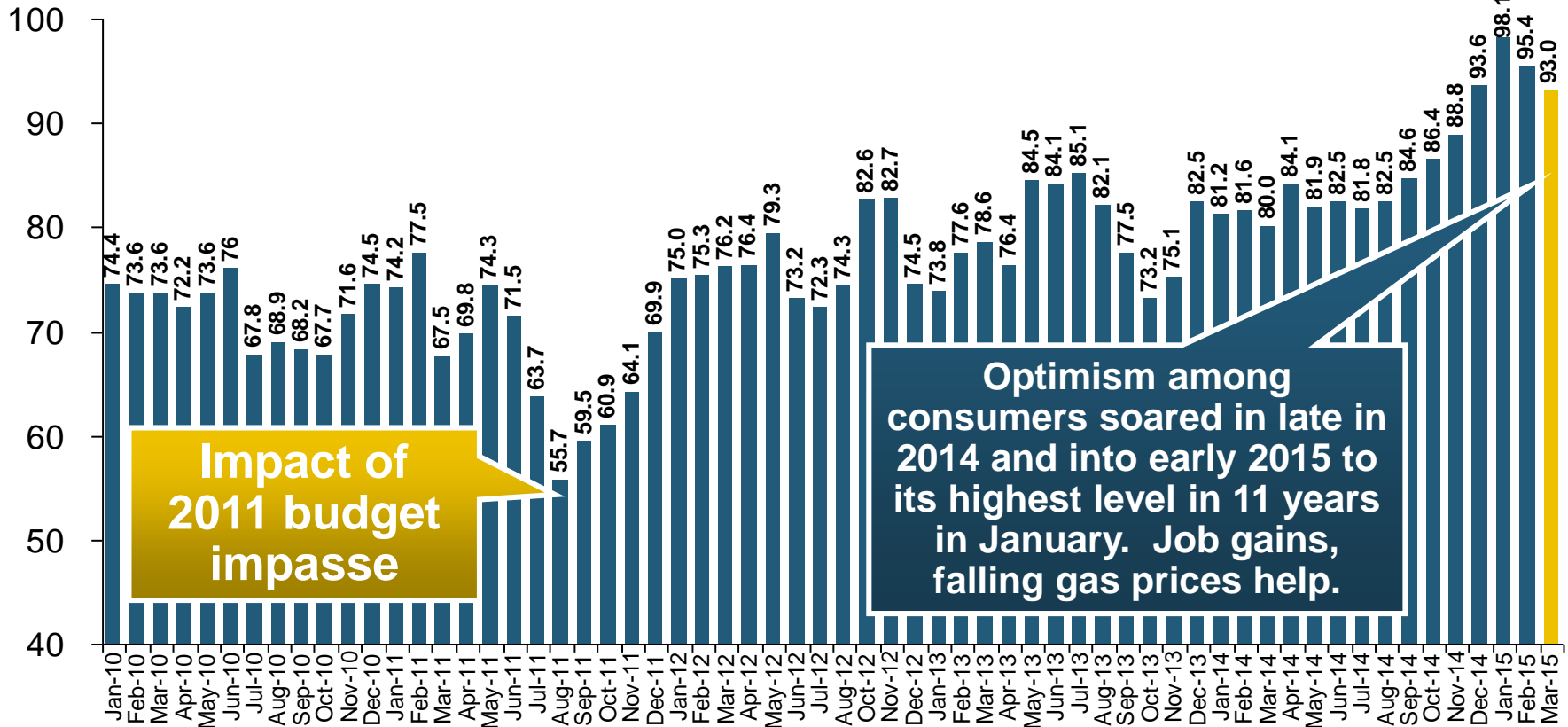
Percent Change in Real GDP by State, 2013



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

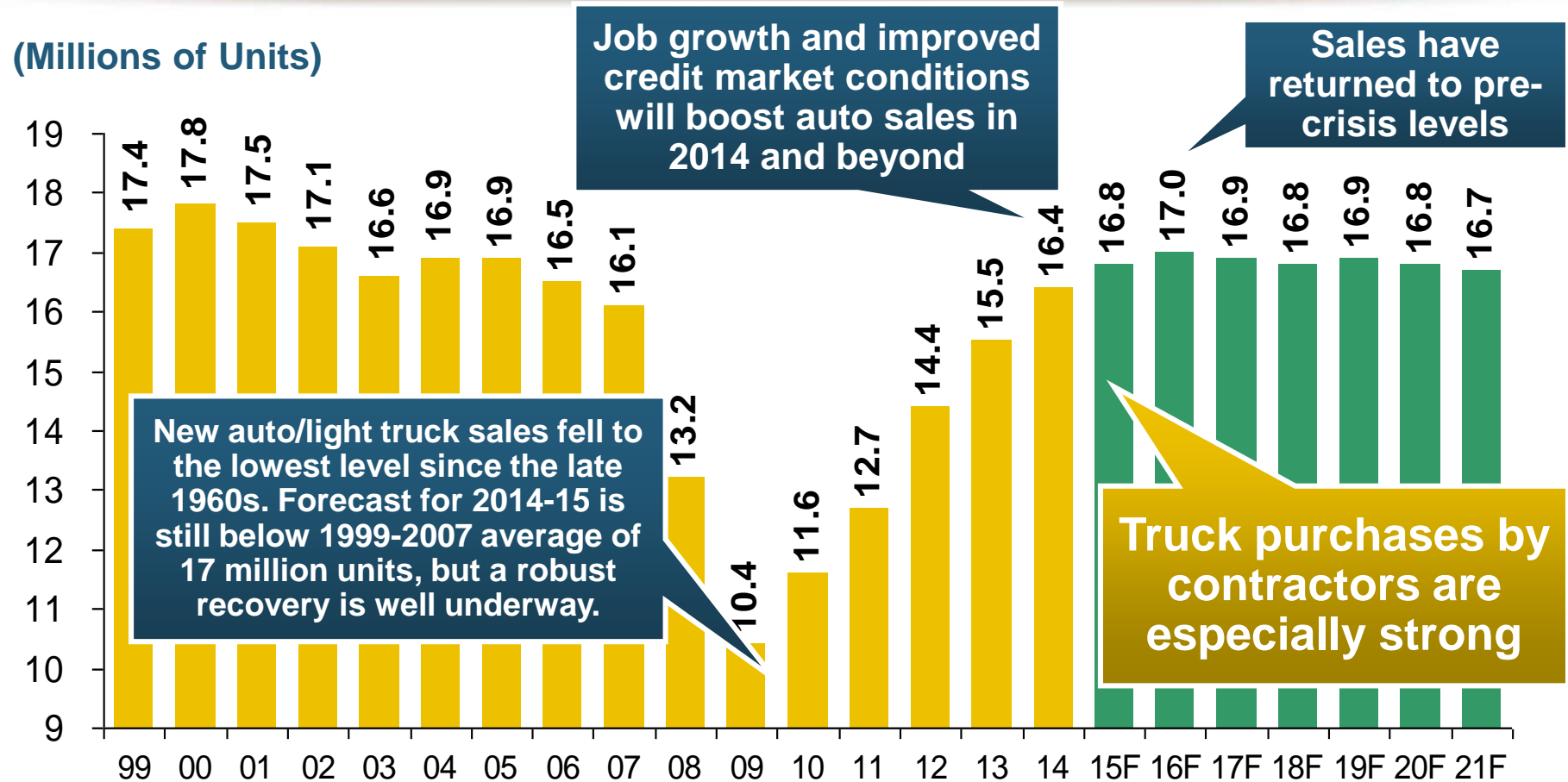
Consumer Sentiment Survey (1966 = 100)

January 2010 through March 2015



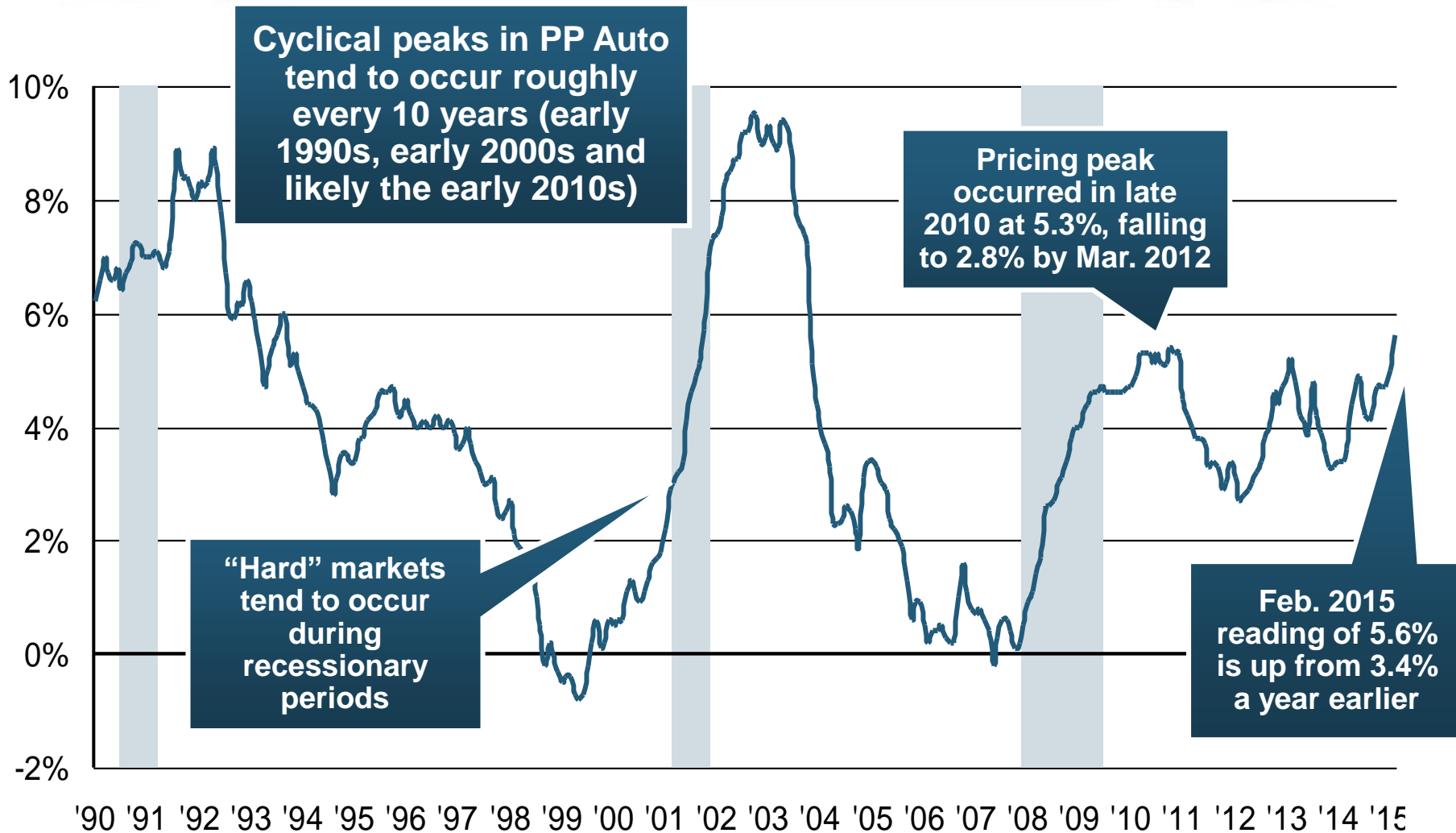
Consumer confidence had been low for years amid high unemployment, falling home prices and other factors adversely impact consumers, but improved substantially over the past 2+ years, as job growth and falling energy prices aid consumers

Auto/Light Truck Sales, 1999-2021F



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%.

Monthly Change in Auto Insurance Prices, 1991–2015*

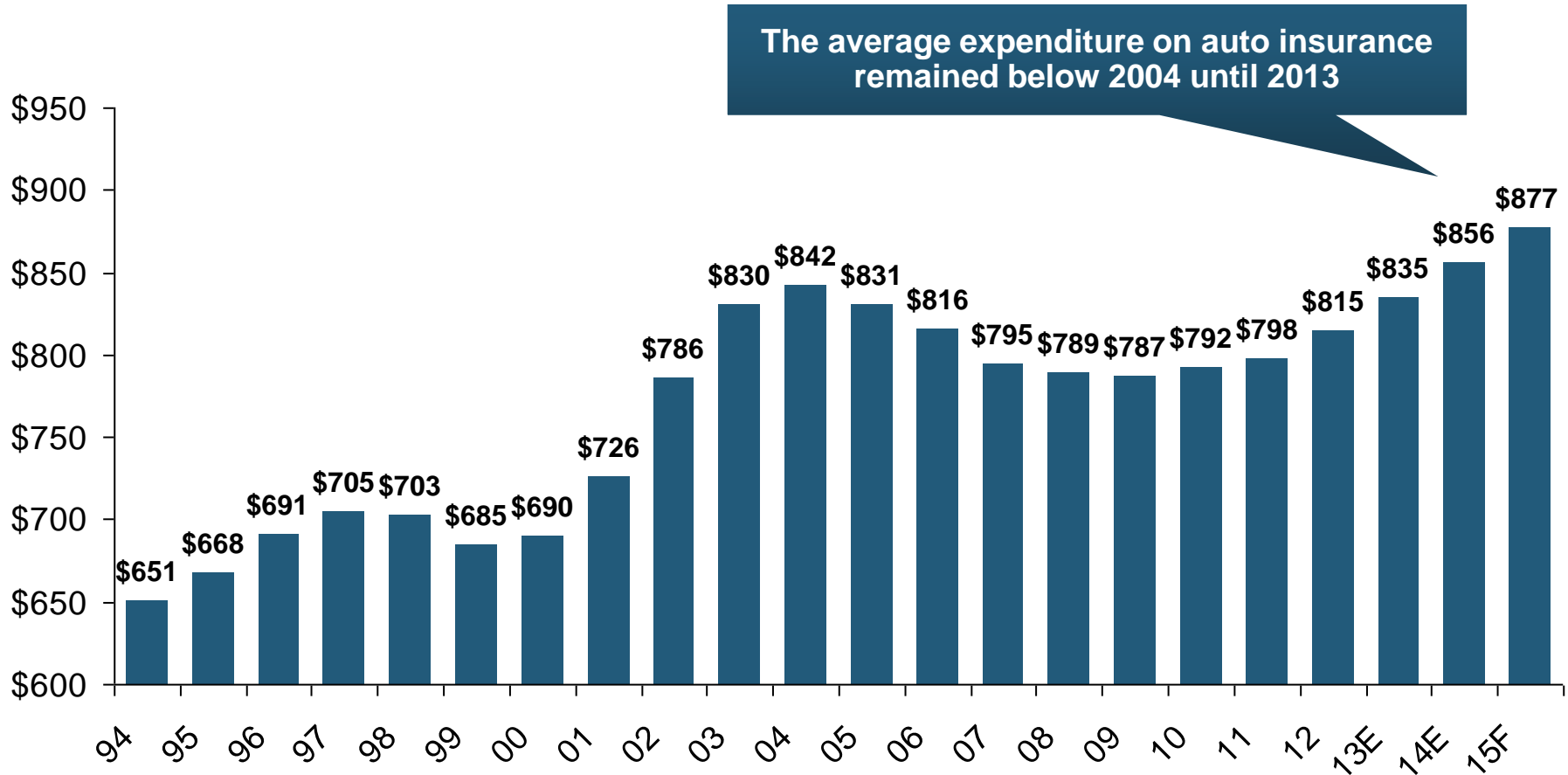


*Percentage change from same month in prior year; through February 2015; seasonally adjusted

Note: Recessions indicated by gray shaded columns.

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

Average Expenditures on Auto Insurance

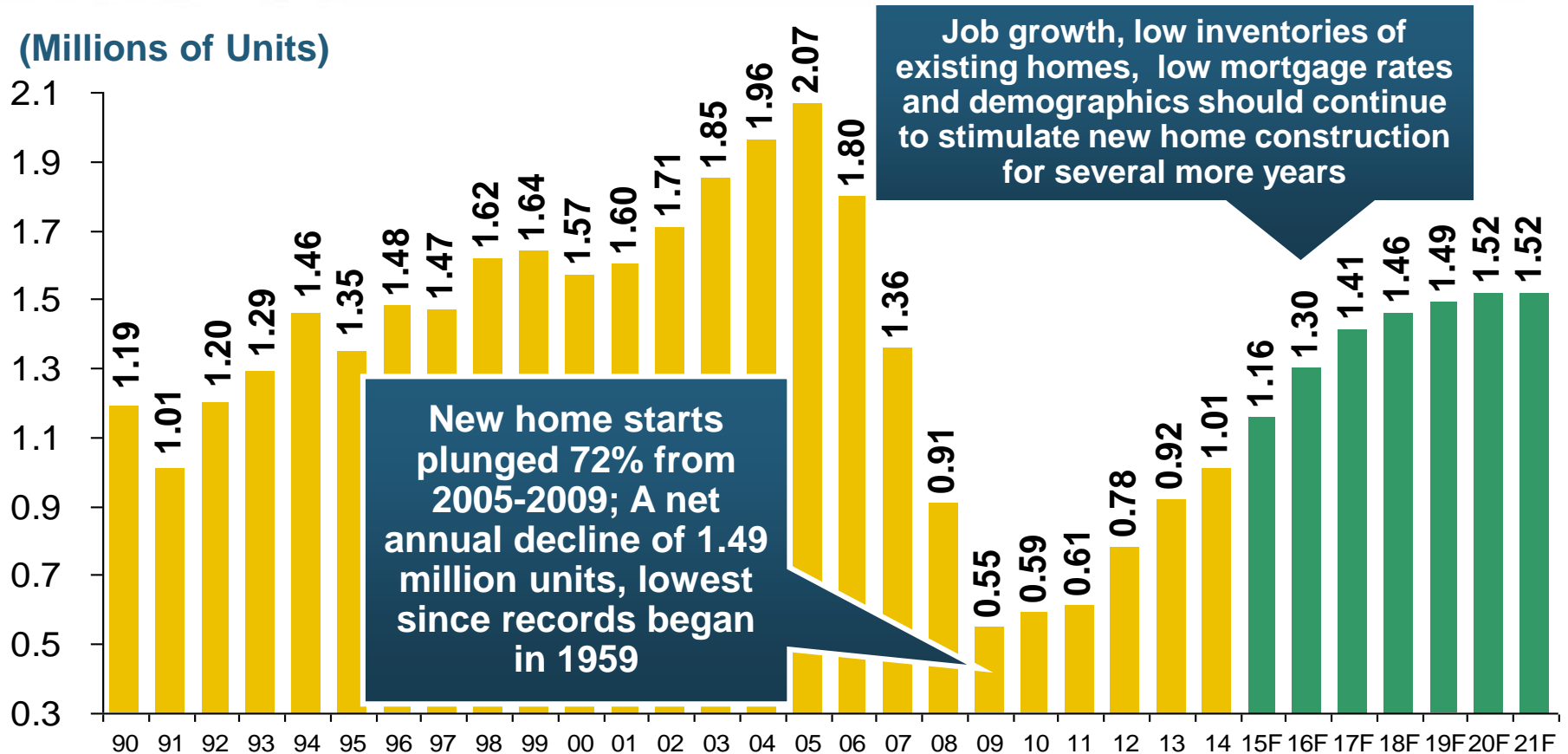


Countrywide Auto Insurance Expenditures decreased by 6.5% from 2004 through 2009, rising gradually since then with annual increases in the 2.0% to 2.5% range

* Insurance Information Institute Estimates/Forecasts

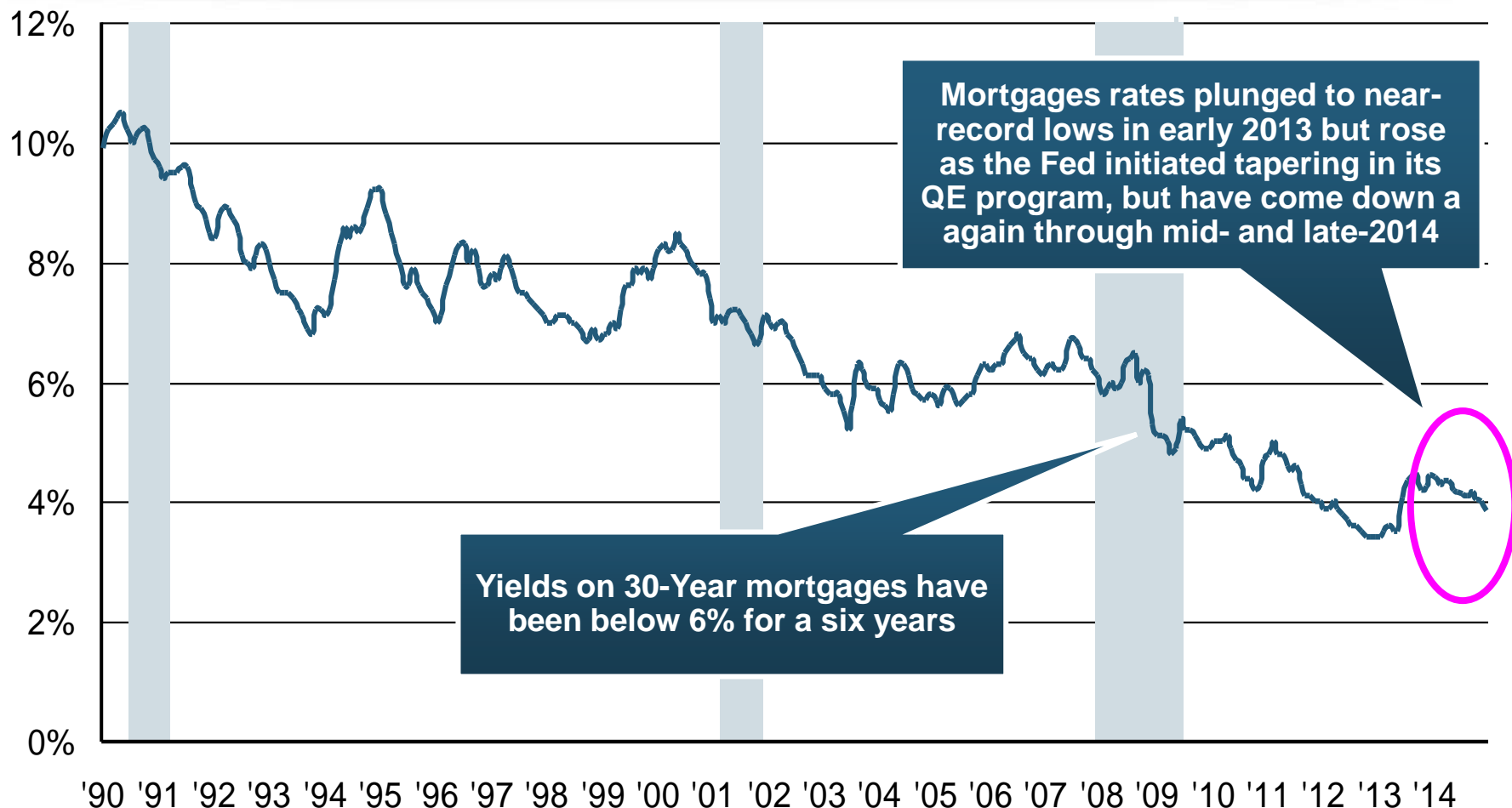
Source: NAIC, Insurance Information Institute estimate for 2013-2015 based on CPI and other data.

New Private Housing Starts, 1990-2021F



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

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



Mortgage interest rates remain low by historical standards, aiding the housing recovery. Changes in Fed policy could push rates up modestly later in 2015.

*Monthly, through Dec. 2014.

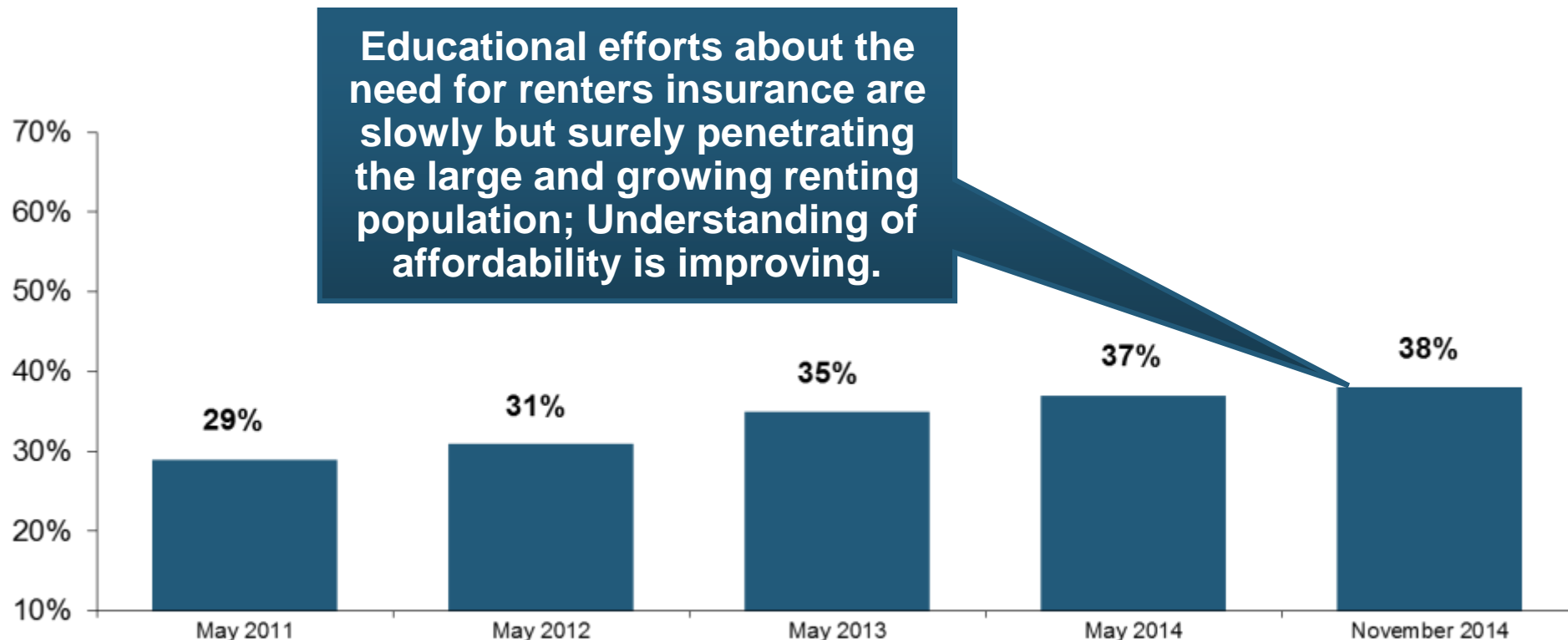
Note: Recessions indicated by gray shaded columns.

Sources: Federal Reserve Bank at <http://www.federalreserve.gov/releases/h15/data.htm>.

National Bureau of Economic Research (recession dates); Insurance Information Institutes.

I.I.I. Poll: Renters Insurance

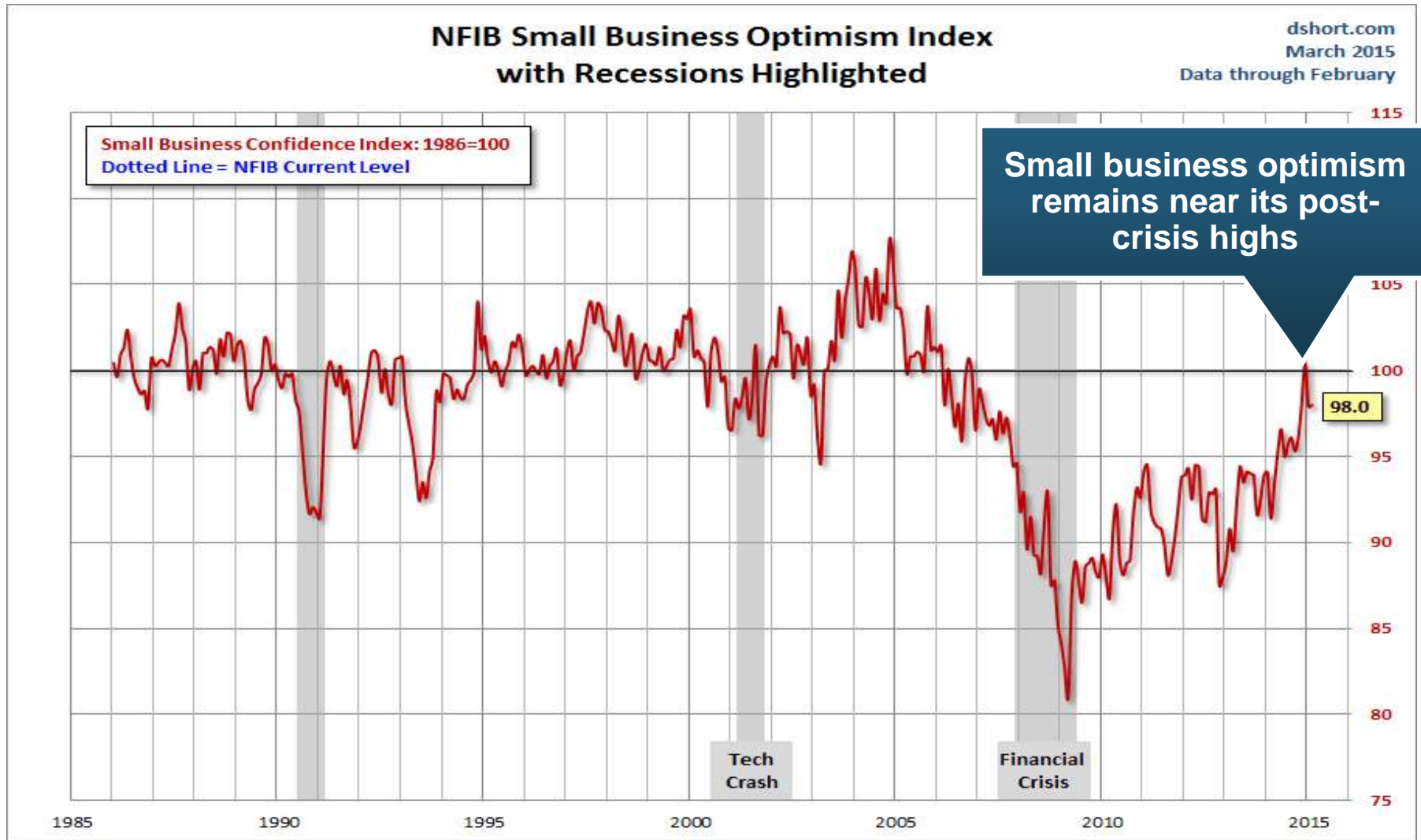
Percentage of Renters Who Have Renters Insurance, 2011-2014



Percentage Of Renters With Renters Insurance Is Increasing.

NFIB Small Business Optimism Index

January 1985 through February 2015

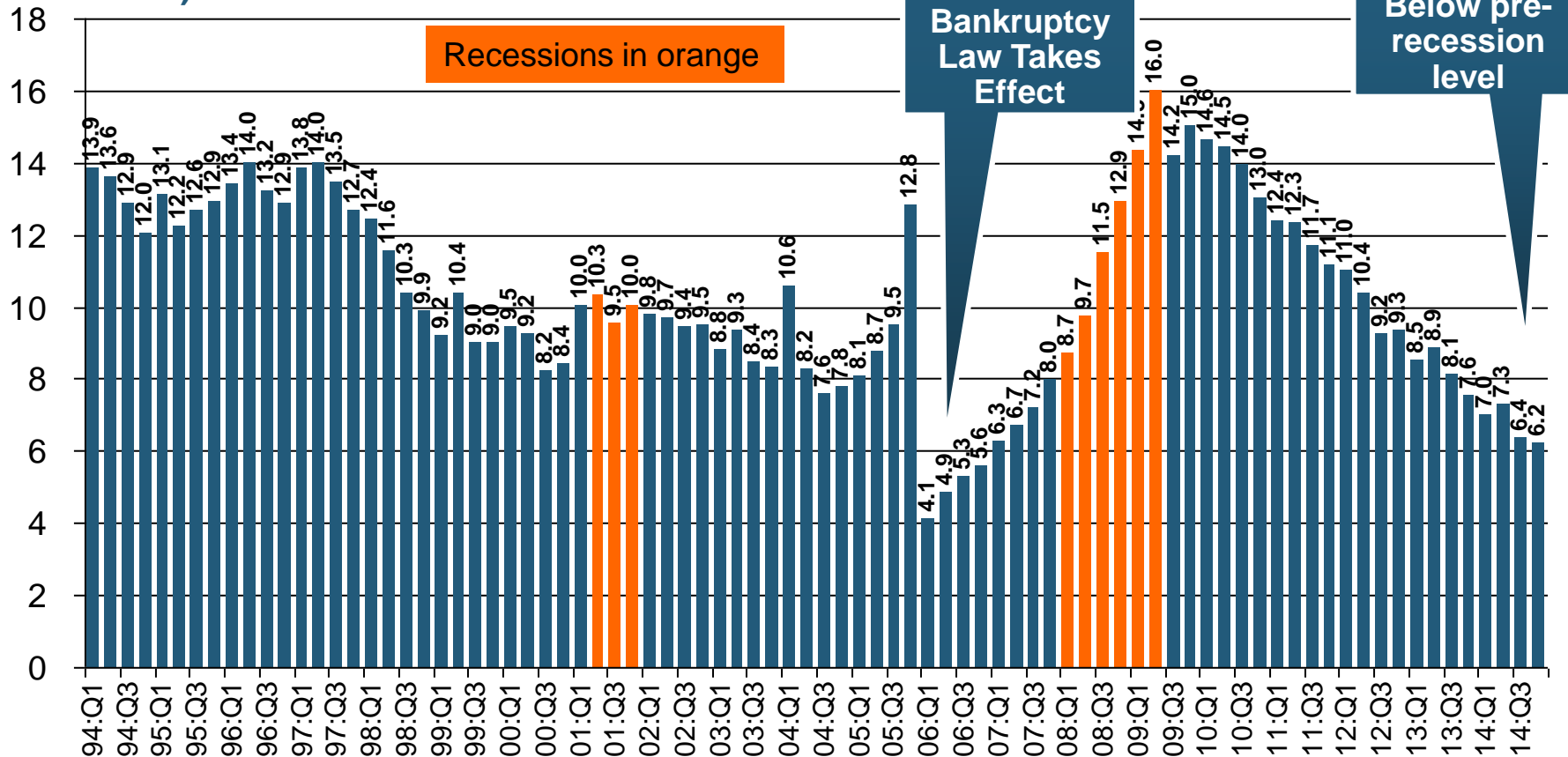


Source: National Federation of Independent Business at <http://www.advisorperspectives.com/dshort/charts/indicators/Sentiment.html?NFIB-optimism-index.gif> ; Insurance Information Institute.

Business Bankruptcy Filings: Still Falling

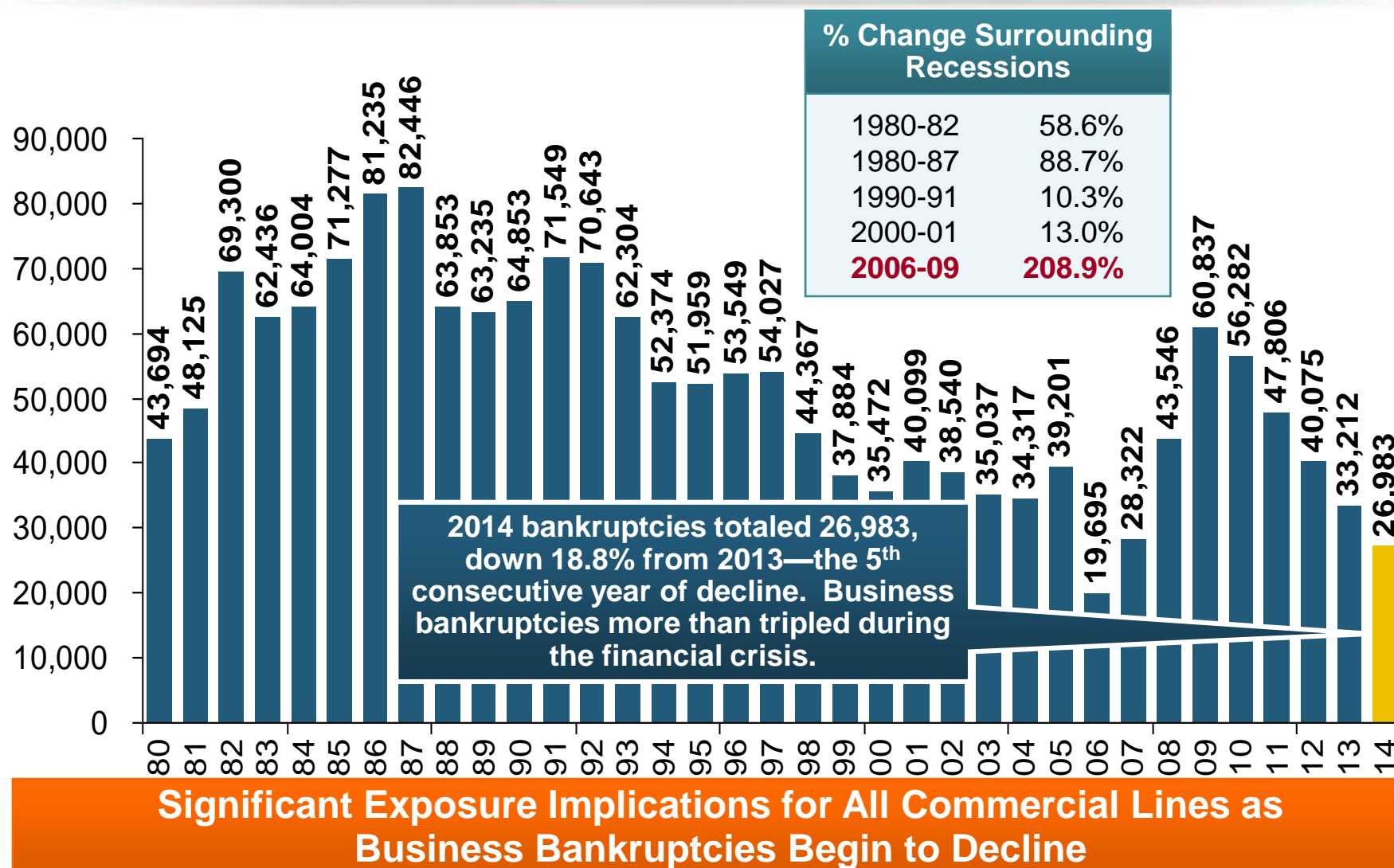
(1994:Q1 – 2014:Q4)

(Thousands)



Business bankruptcies in 2014 were below both the Great Recession levels and the 2003:Q3-2005:Q1 period (the best five-quarter stretch in the last 20 years). Bankruptcies restrict exposure growth in all commercial lines.

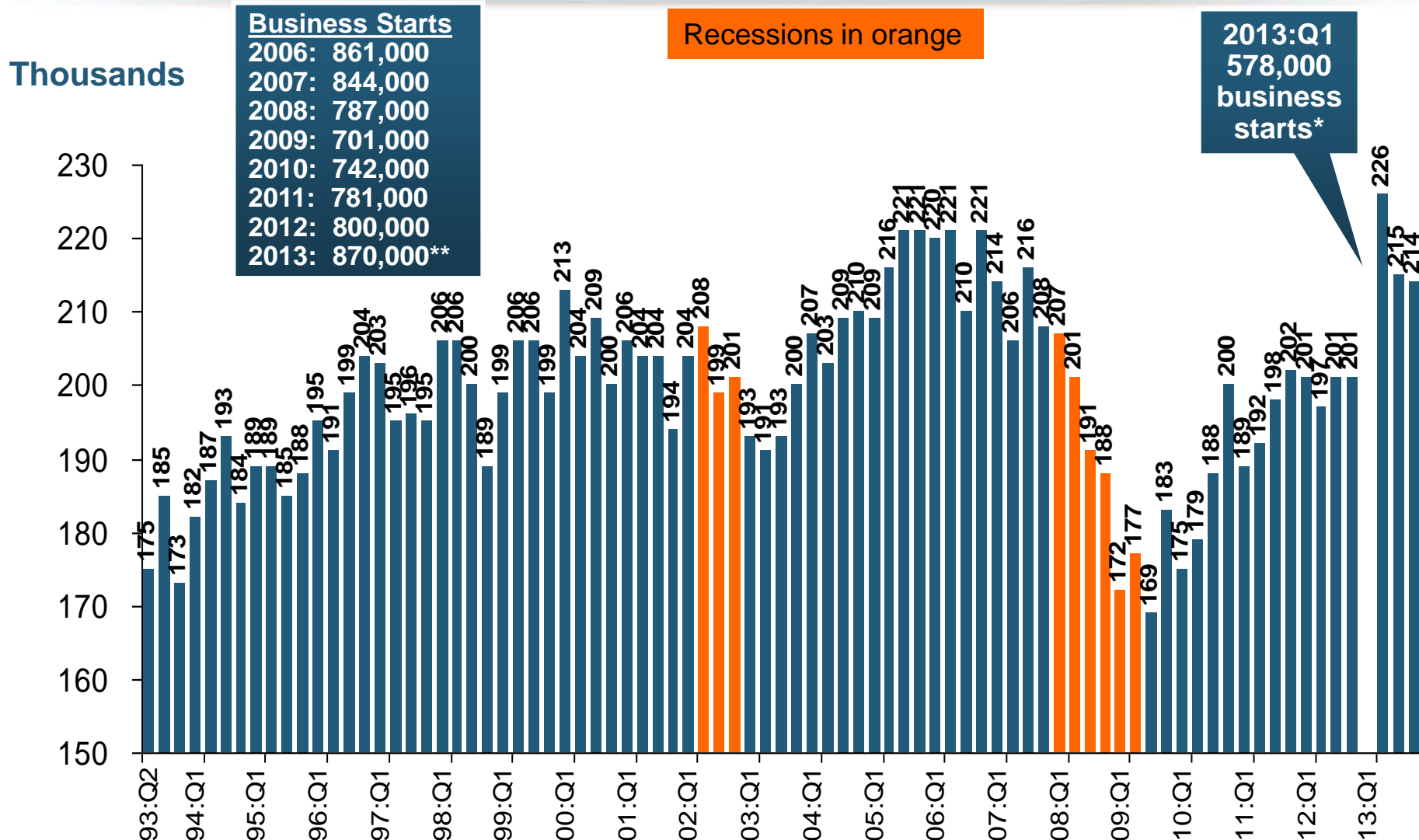
Business Bankruptcy Filings, 1980-2014



Sources: American Bankruptcy Institute (1980-2012) at

<http://www.abiworld.org/AM/AMTemplate.cfm?Section=Home&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=61633>; 2013-14 data from United States Courts at <http://news.uscourts.gov>; Insurance Information Institute.

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

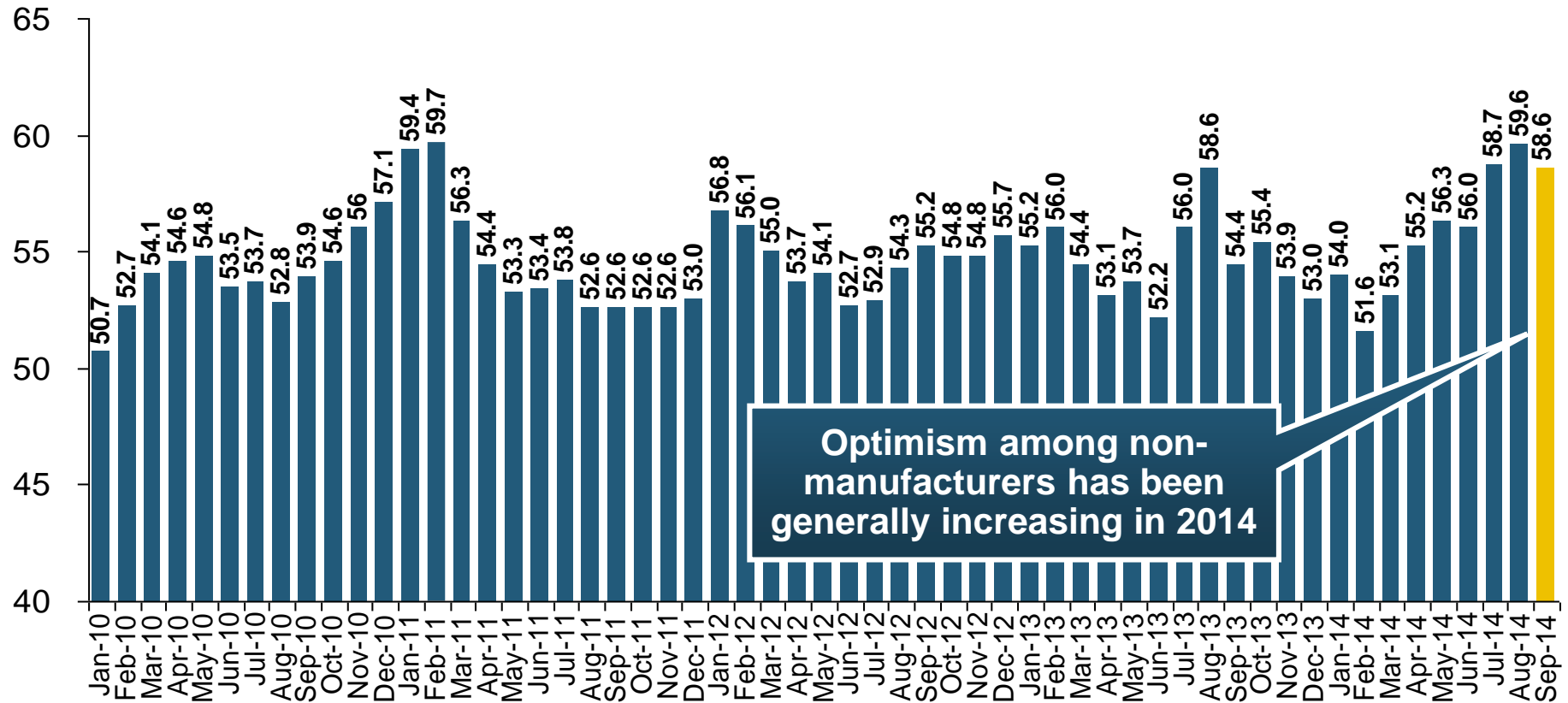


*Data posted Apr 29, 2014, the latest available; a classification change in 2013:Q1 resulted in a report of 578,000 businesses started in that quarter. Seasonally adjusted. **2014 number assumes 1st quarter equaled average of other three quarters

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

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

January 2010 through September 2014



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

12 Industries for the Next 10 Years: Insurance Solutions Needed

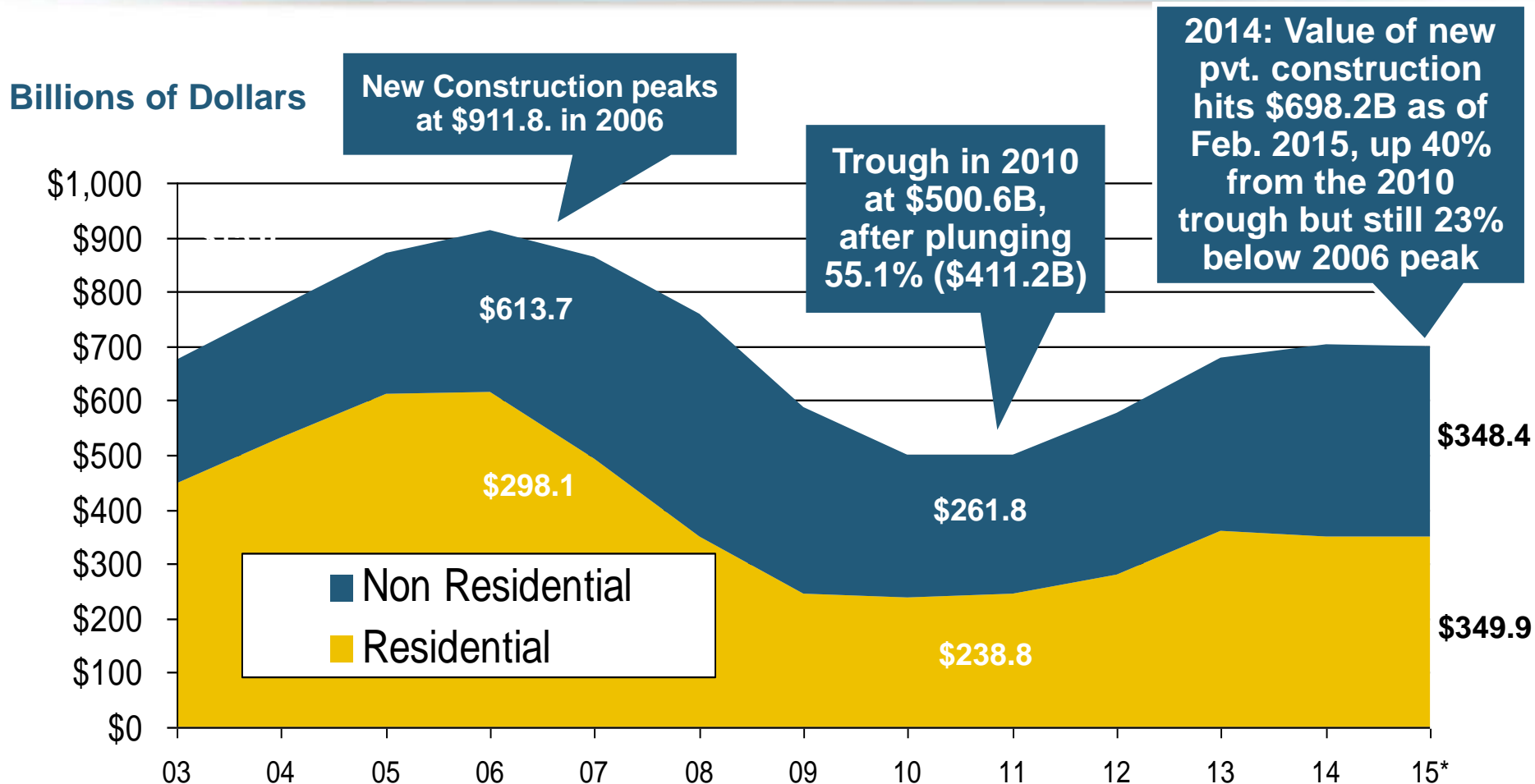
Health Care
Health Sciences
Energy (Traditional)
Alternative Energy
Petrochemical
Agriculture
Natural Resources
Technology (incl. Biotechnology)
Light Manufacturing
Insourced Manufacturing
Export-Oriented Industries
Shipping (<i>Rail, Marine, Trucking, Pipelines</i>)

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

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*



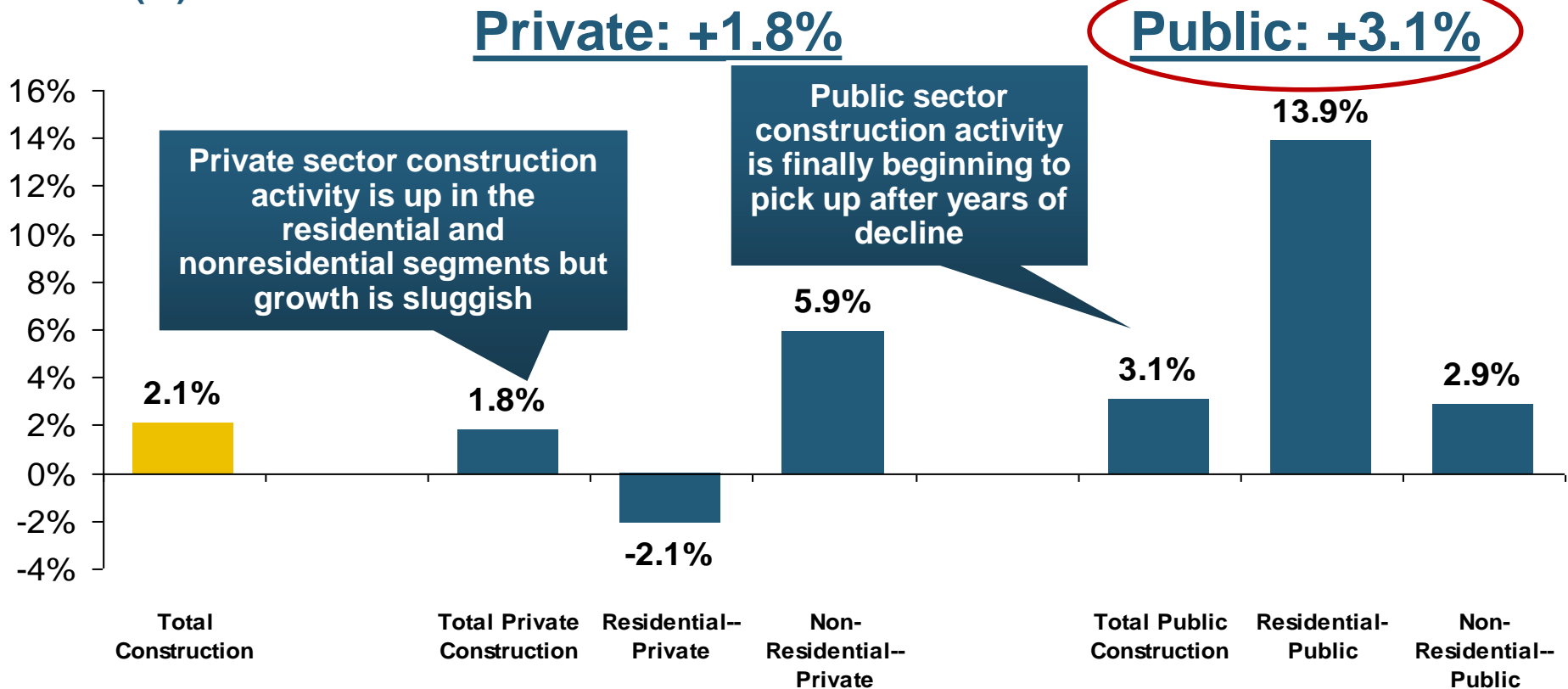
Private Construction Activity Is Moving in a Positive Direction though Remains Well Below Pre-Crisis Peak; Residential Dominates

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

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

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

Growth (%)



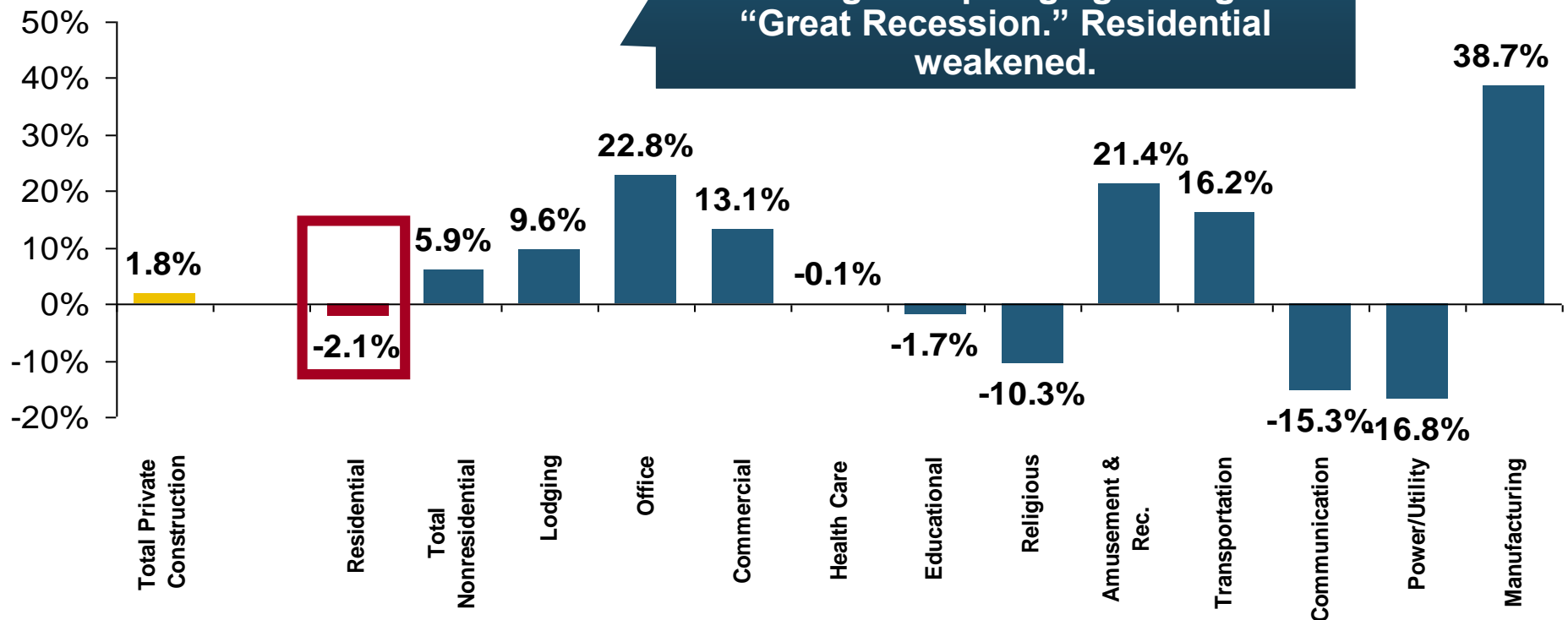
Overall Construction Activity is Up, But Growth In the Private Sector Slowed in Late 2014 While Picking in the State/Local Sector Government Sector as Budget Woes Ease in Some Jurisdictions

*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, Feb. 2015 vs. Feb. 2014*

Growth (%)

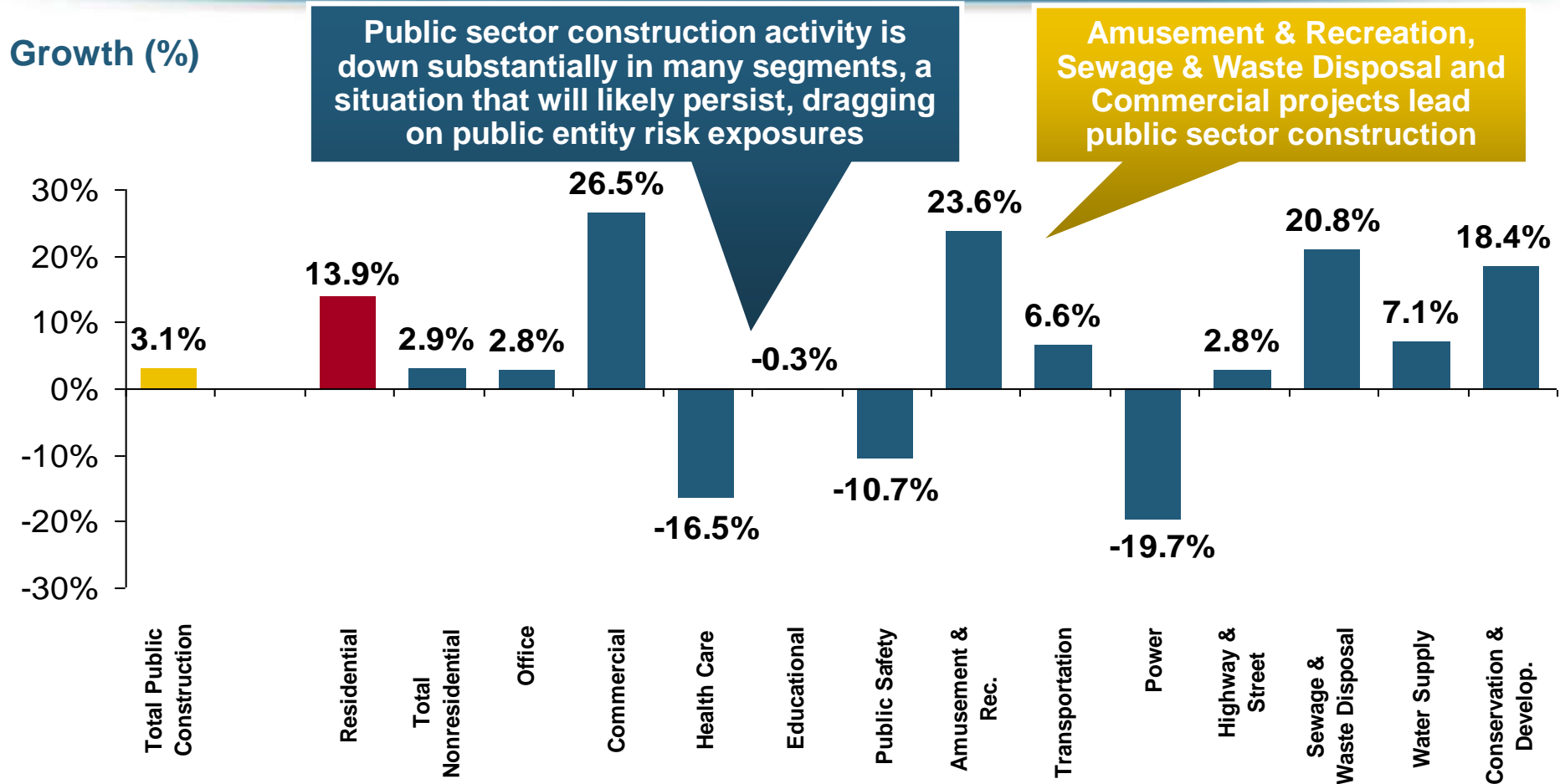


Private Construction Activity is Up in Many Segments, though the Key Residential Construction Sector Weakened in Late 2014/Early 2015; Mixed Outlook for 2015, though Expansion Should Continue

*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, Feb. 2015 vs. Feb. 2014*



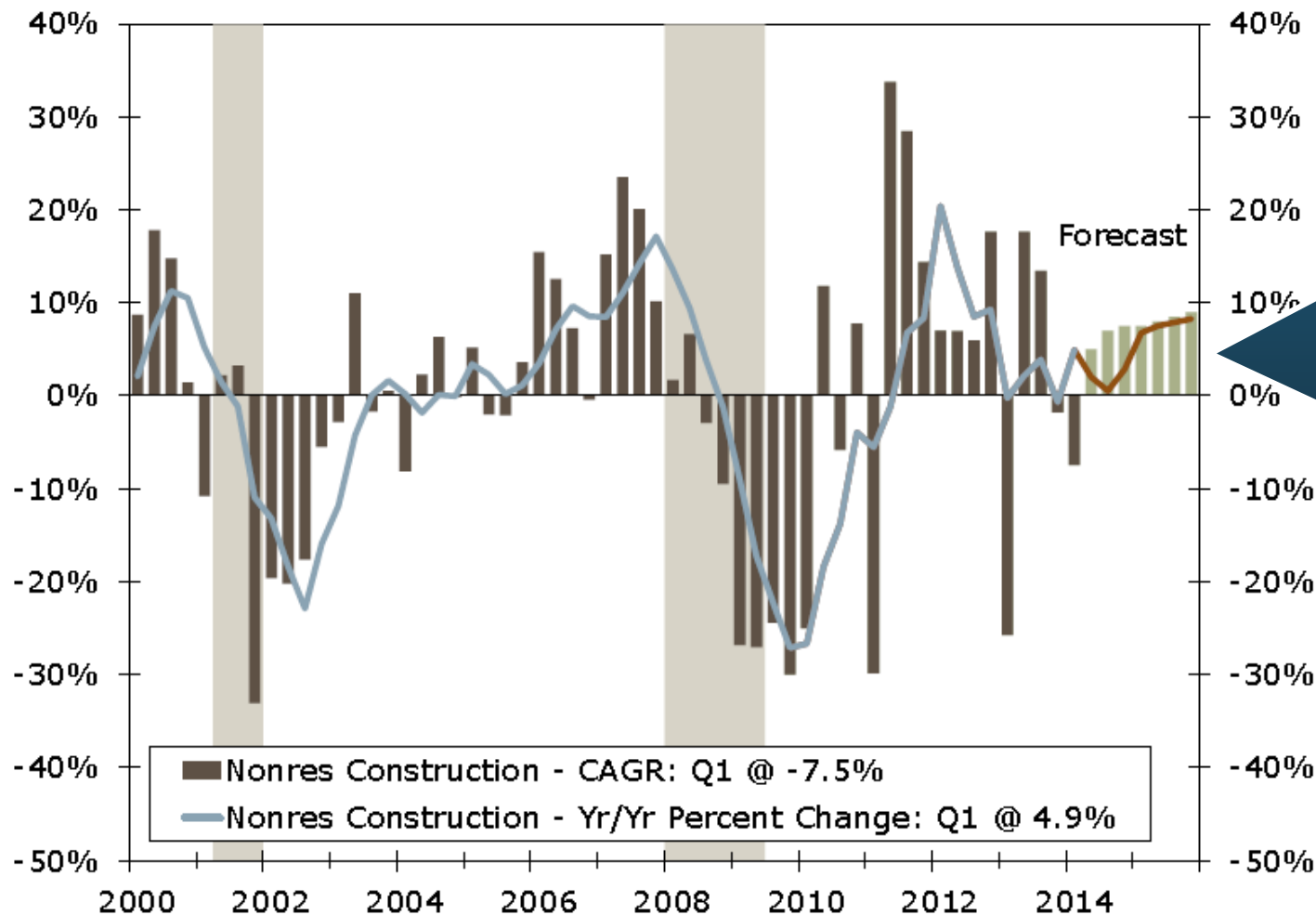
Public Construction Activity is Beginning to Recover from its Long Contraction which Will Drive Demand in Many Commercial Insurance Lines

*seasonally adjusted

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

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

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

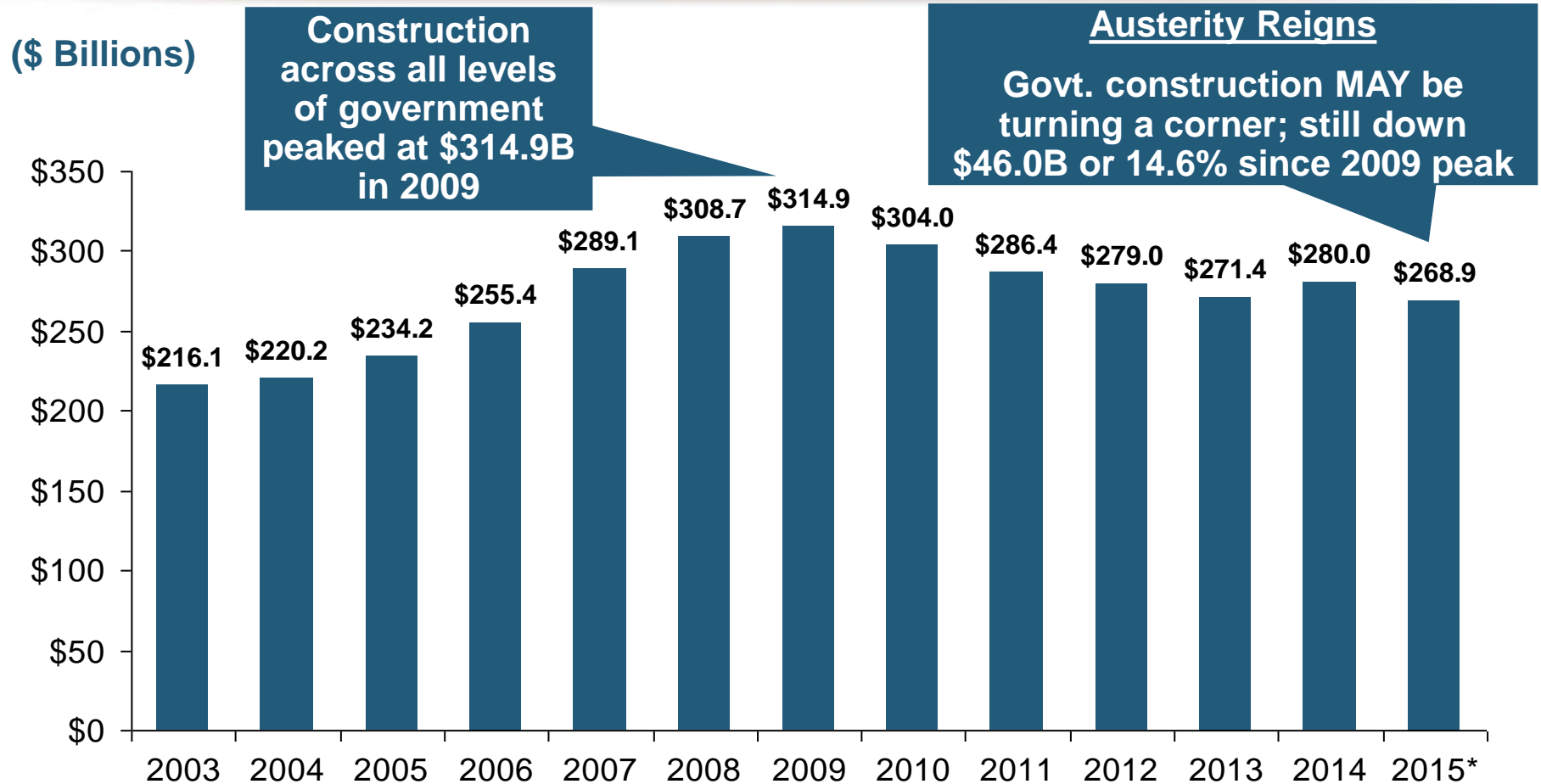


Construction activity has generally been positive since late 2010 but has occasionally been erratic. Forecast is for slowing improving growth

*Through Q1 2014.

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

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

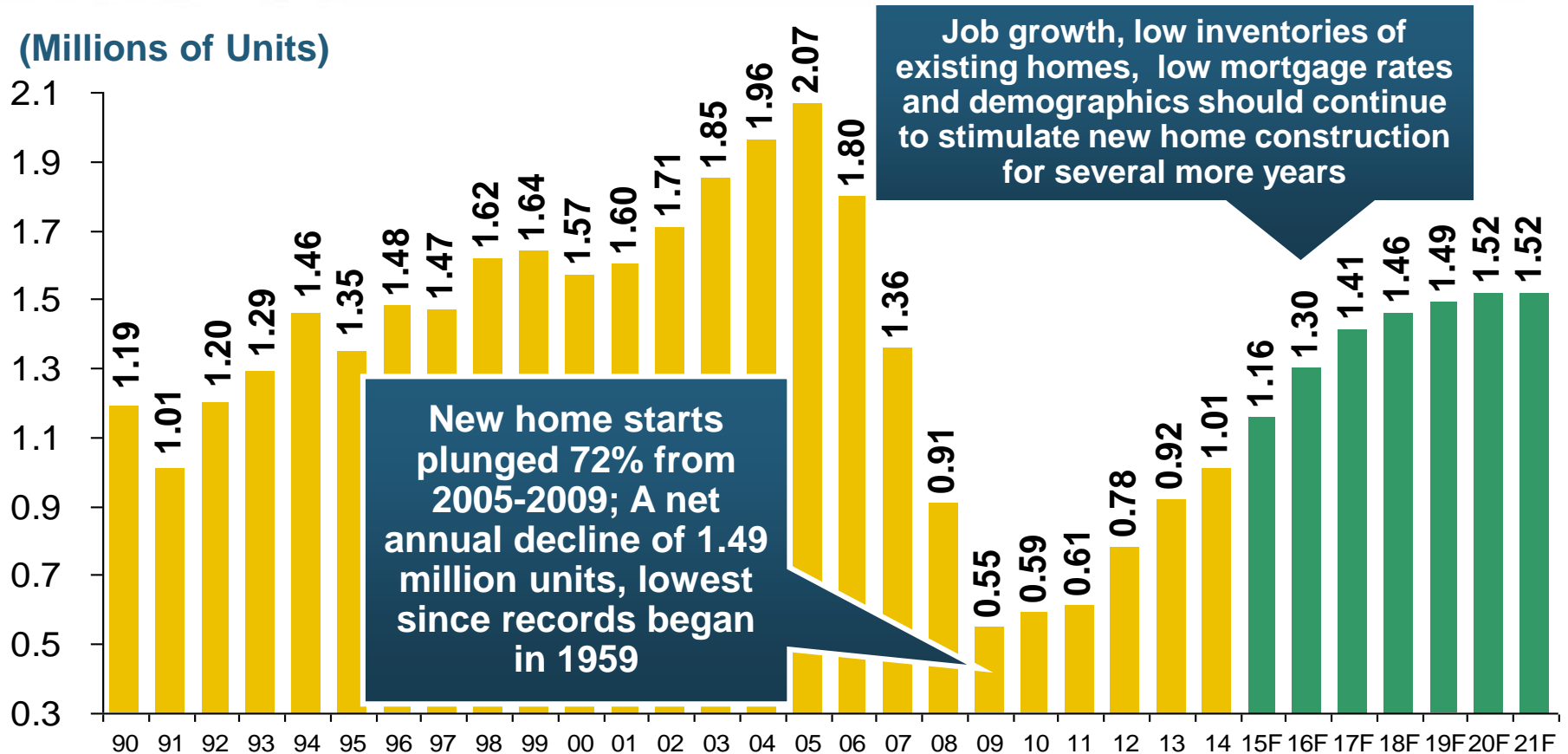


Government Construction Spending Peaked in 2009, Helped by Stimulus Spending, but Contracted As State/Local Governments Grappled with Deficits and Federal Sequestration

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

Sources: US Department of Commerce; Insurance Information Institute.

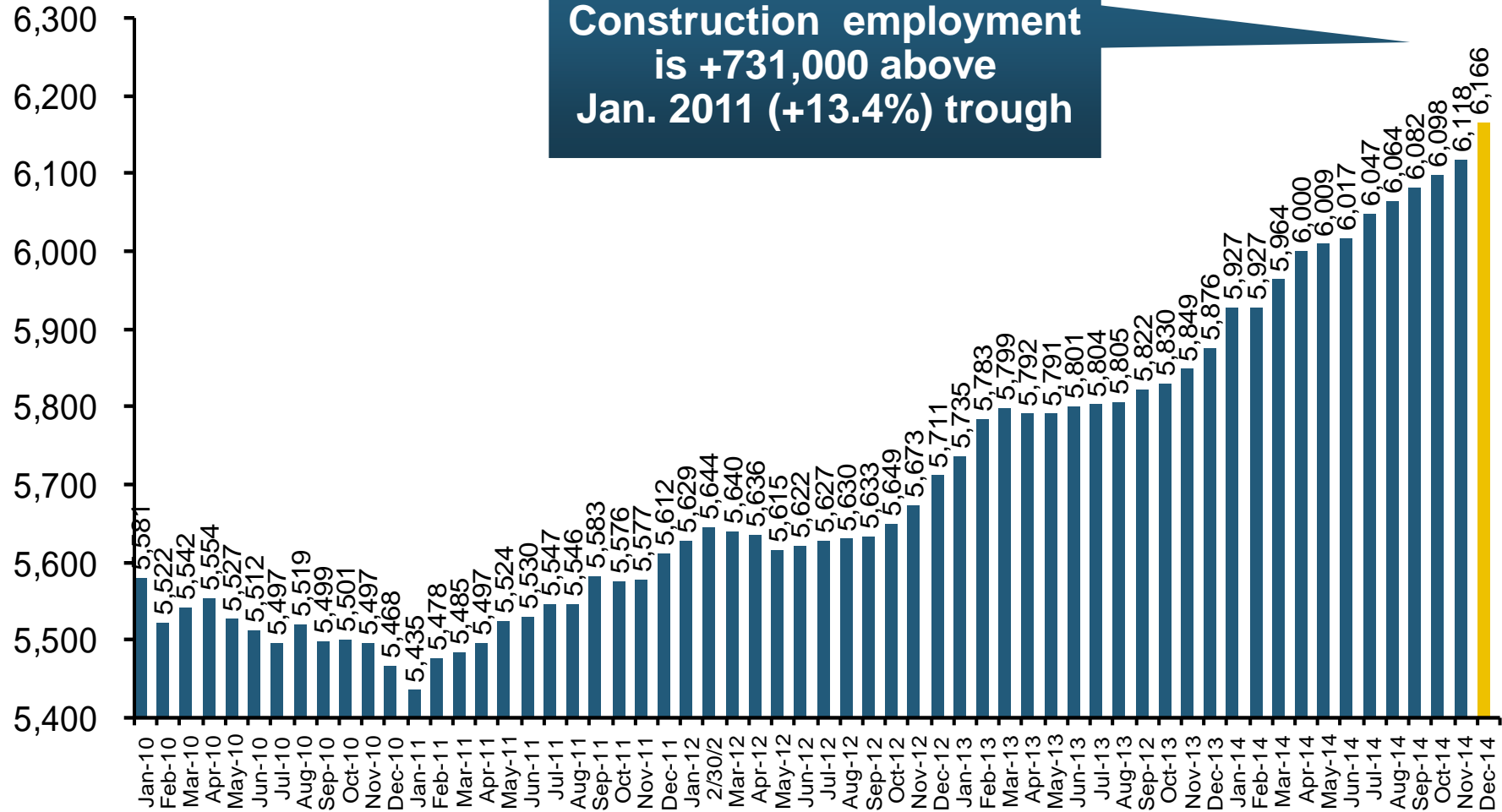
New Private Housing Starts, 1990-2021F



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

Construction Employment, Jan. 2010—December 2014*

(Thousands)



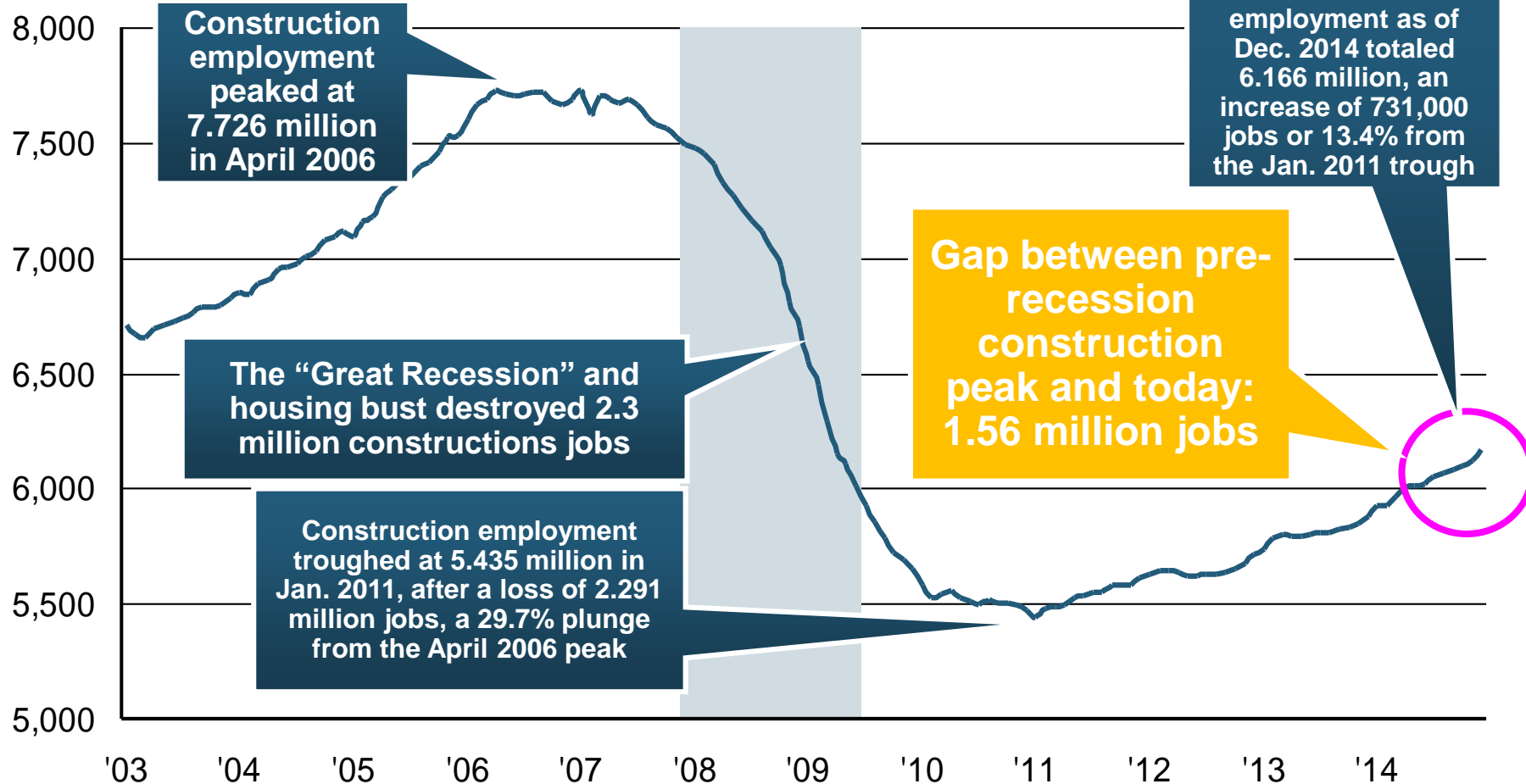
Construction and manufacturing employment constitute 1/3 of all WC payroll exposure.

*Seasonally adjusted.

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

Construction Employment, Jan. 2003–December 2014

(Thousands)



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

Note: Recession indicated by gray shaded column.

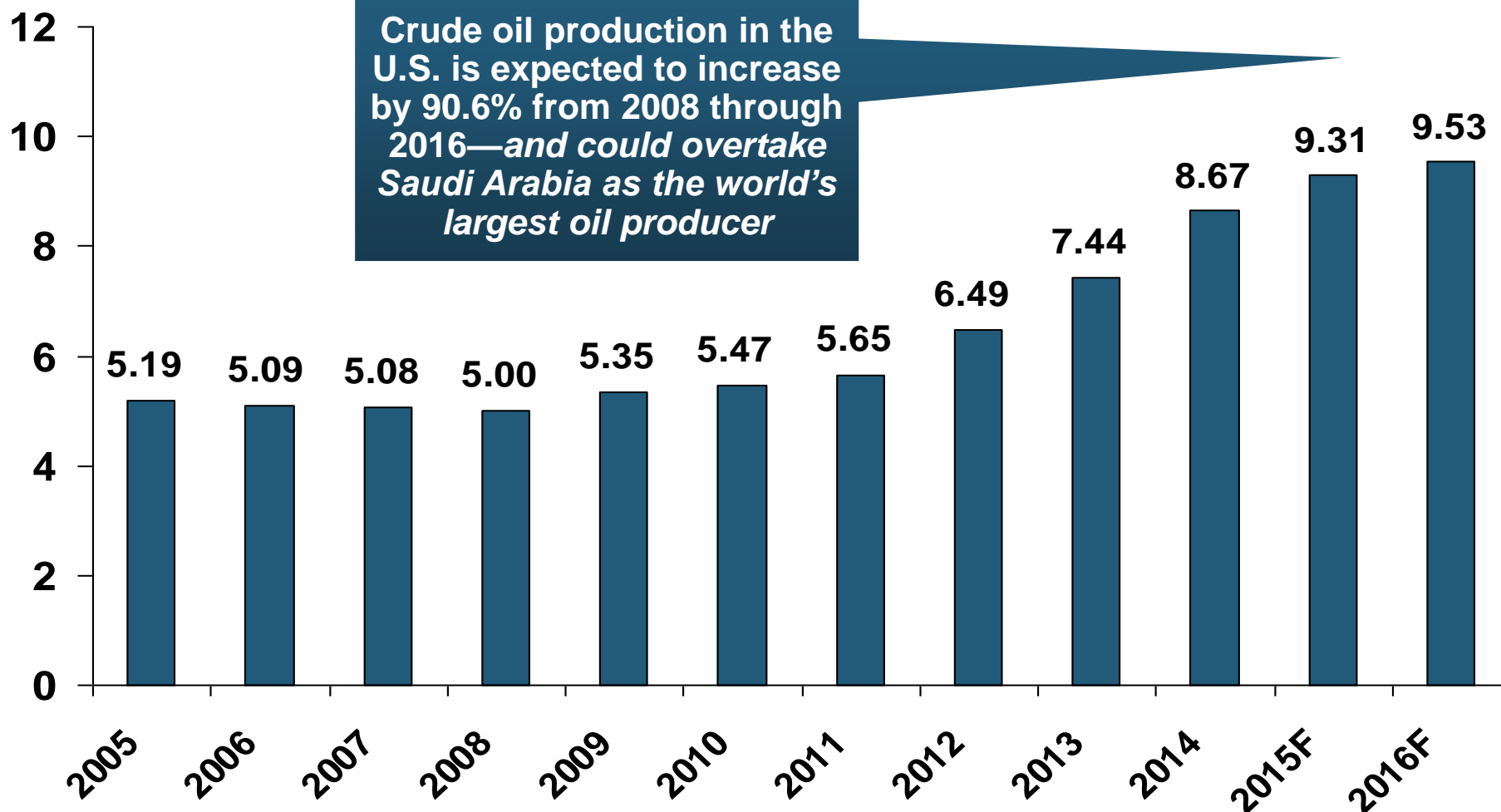
Sources: U.S. Bureau of Labor Statistics; Insurance Information Institute.

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

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

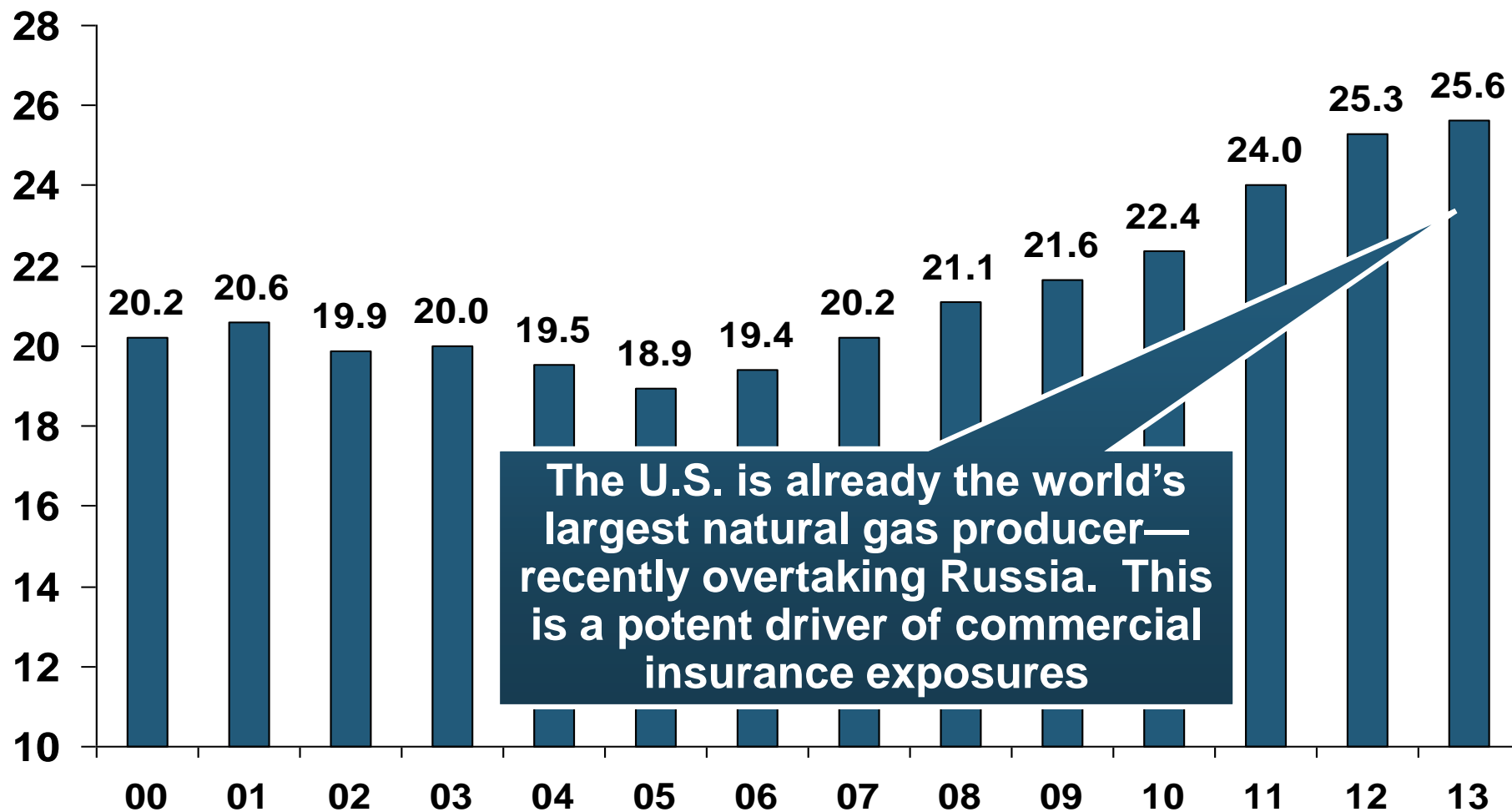
U.S. Crude Oil Production, 2005-2016P

Millions of Barrels per Day



U.S. Natural Gas Production, 2000-2013

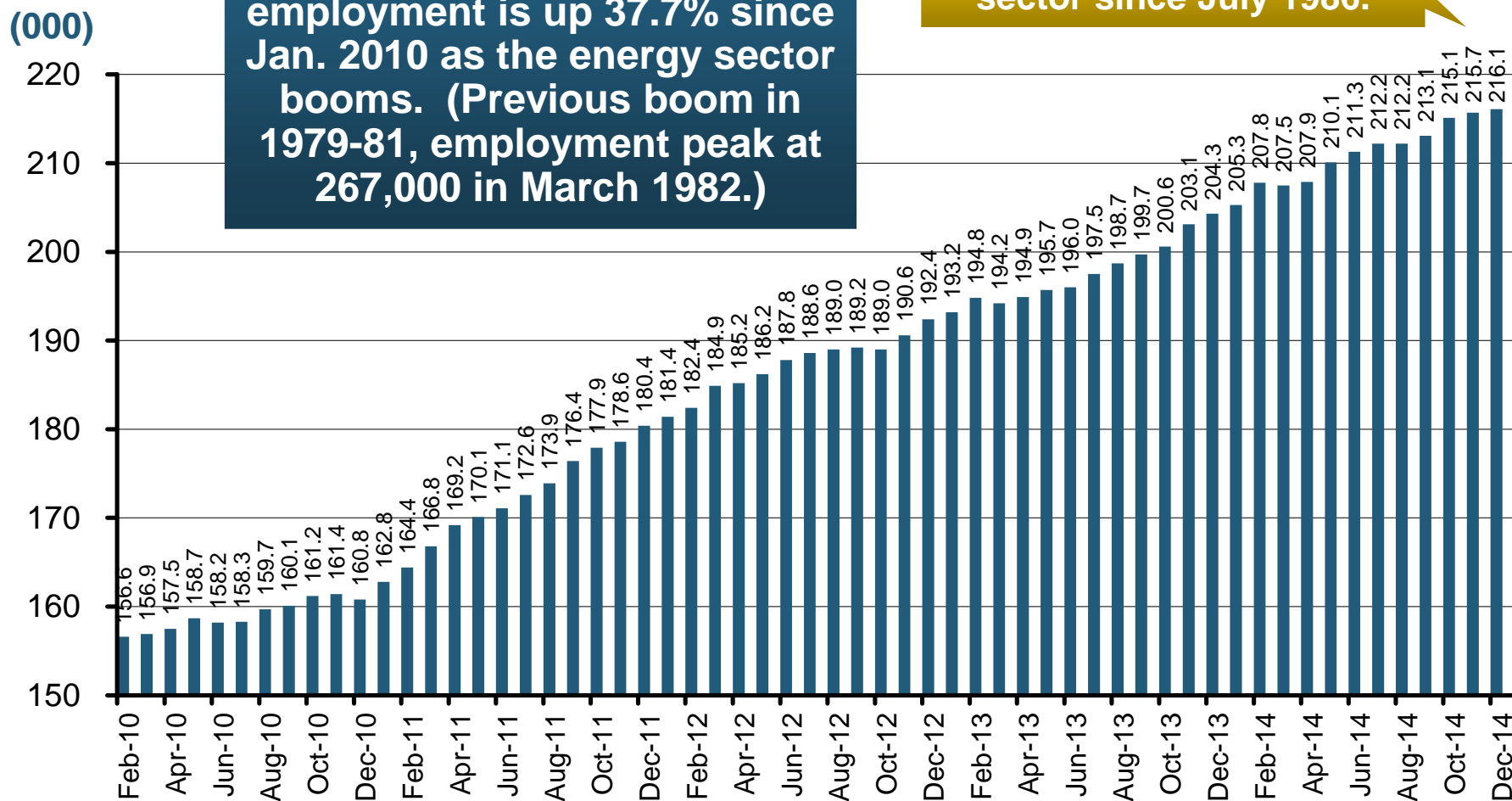
Trillions of Cubic Ft. per Year



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

Oil and gas extraction employment is up 37.7% since Jan. 2010 as the energy sector booms. (Previous boom in 1979-81, employment peak at 267,000 in March 1982.)

Highest employment in this sector since July 1986.



*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**

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

\$ Millions

\$500,000

\$400,000

\$300,000

\$200,000

The value of Manufacturing Shipments in Feb. 2015 was \$481.3B—down slightly since the July 2014 record high of \$508.1B

Jan-92 Jan-93 Jan-94 Jan-95 Jan-96 Jan-97 Jan-98 Jan-99 Jan-00 Jan-01 Jan-02 Jan-03 Jan-04 Jan-05 Jan-06 Jan-07 Jan-08 Jan-09 Jan-10 Jan-11 12-Jan 13-Jan 14-Jan 14-Jan

Monthly shipments in Feb. 2015 are similar to pre-crisis (July 2008) peak but has declined in recent months. 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 Apr. 2, 2015.

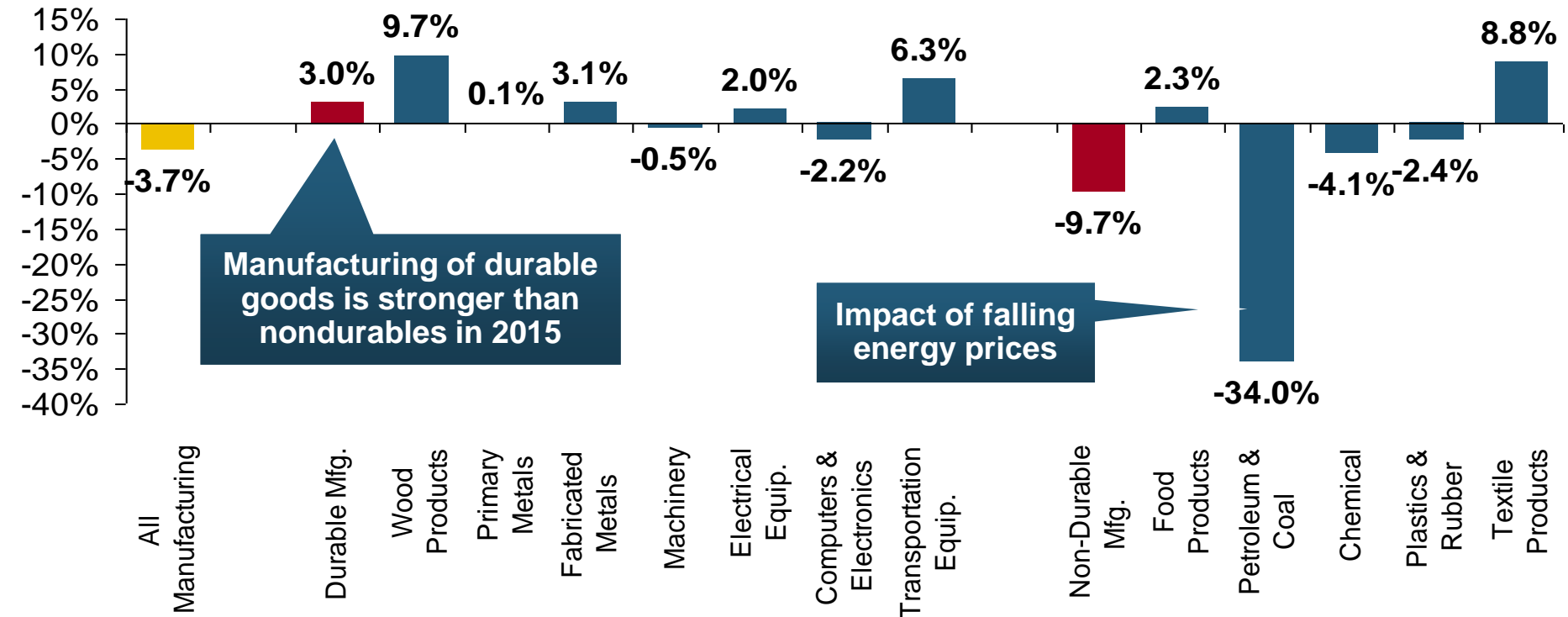
Source: U.S. Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders*, <http://www.census.gov/manufacturing/m3/>

Manufacturing Growth for Selected Sectors, 2015 vs. 2014*

Growth (%)

Durables: +3.0%

Non-Durables: -9.7%

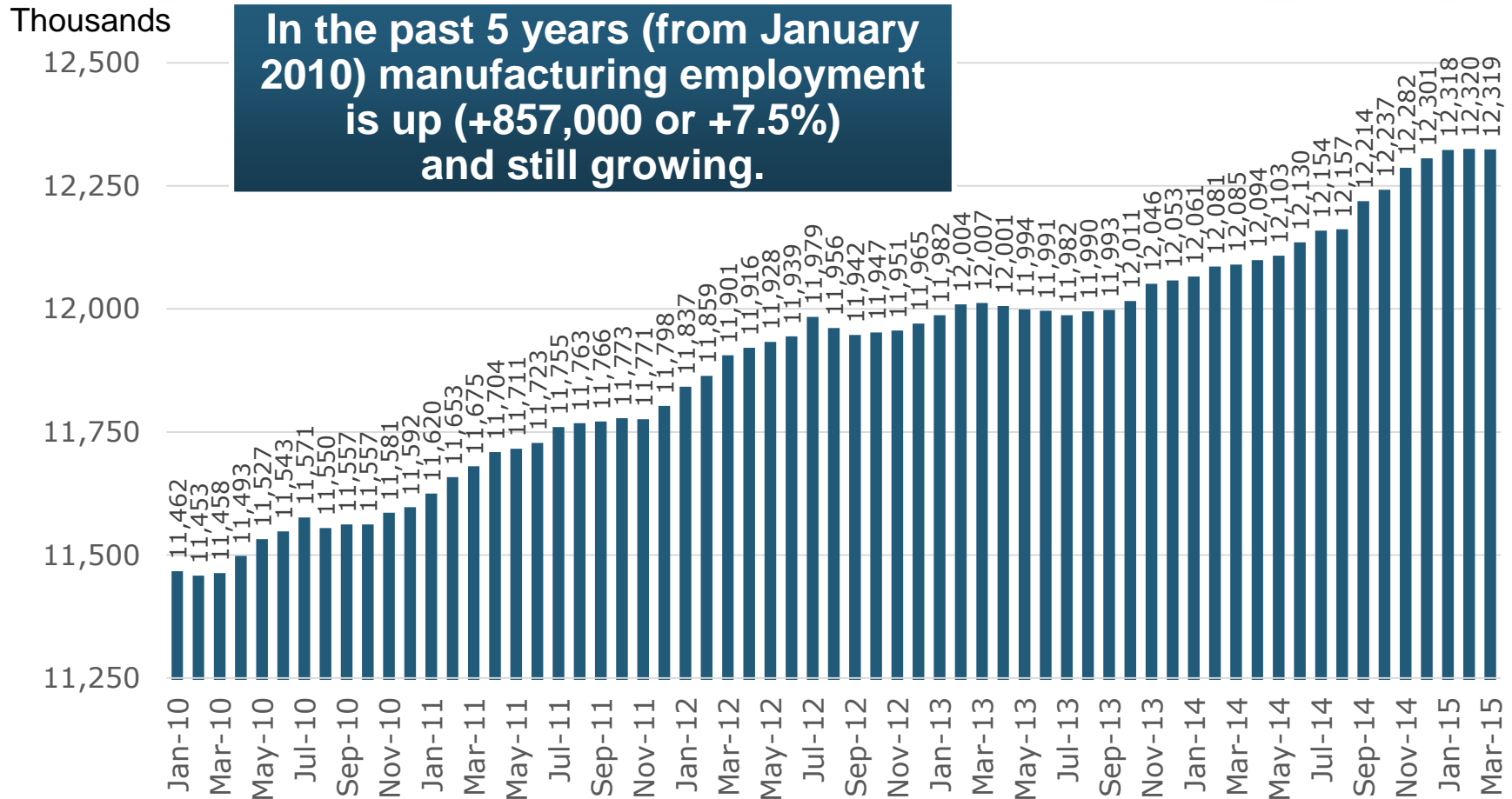


Manufacturing Is Expanding in Many Sectors But Declining Energy Prices Are Dragging Down Industry Figures. Continued Growth Across a Number of Sectors that Will Contribute to Growth in Insurable Exposures Including: WC, Commercial Property, Commercial Auto and Many Liability Coverages

*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/>

Manufacturing Employment, January 2010—March 2015*



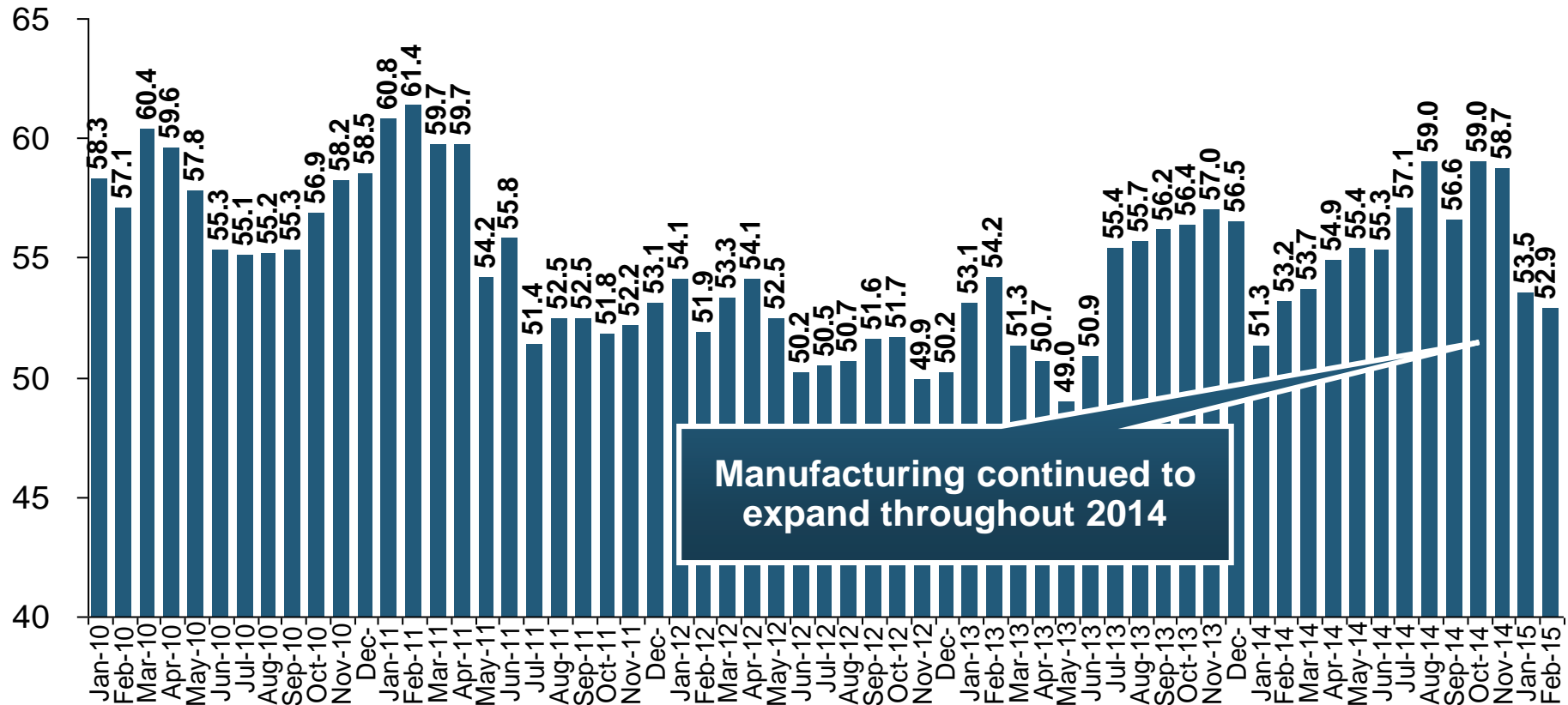
Manufacturing employment is a surprising source of strength in the economy. Employment in the sector is at a multi-year high.

*Seasonally adjusted; Feb. and Mar. 2015 are preliminary

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

ISM Manufacturing Index (Values > 50 Indicate Expansion)

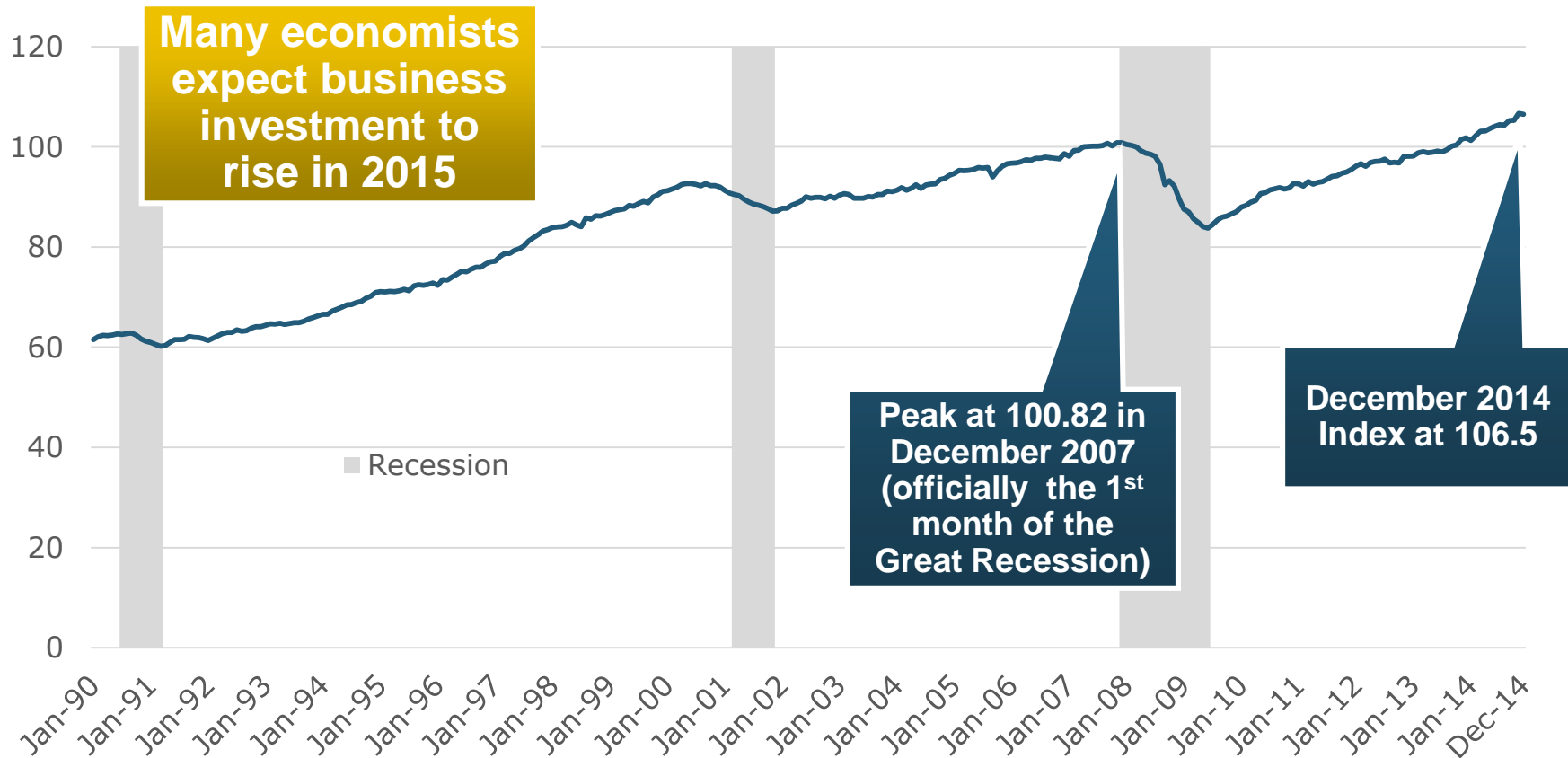
January 2010 through February 2015



The manufacturing sector expanded for 60 of the 62 months from Jan. 2010 through Feb. 2015. Pace of recovery has been uneven due to economic turbulence in the U.S., Europe and China.

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.

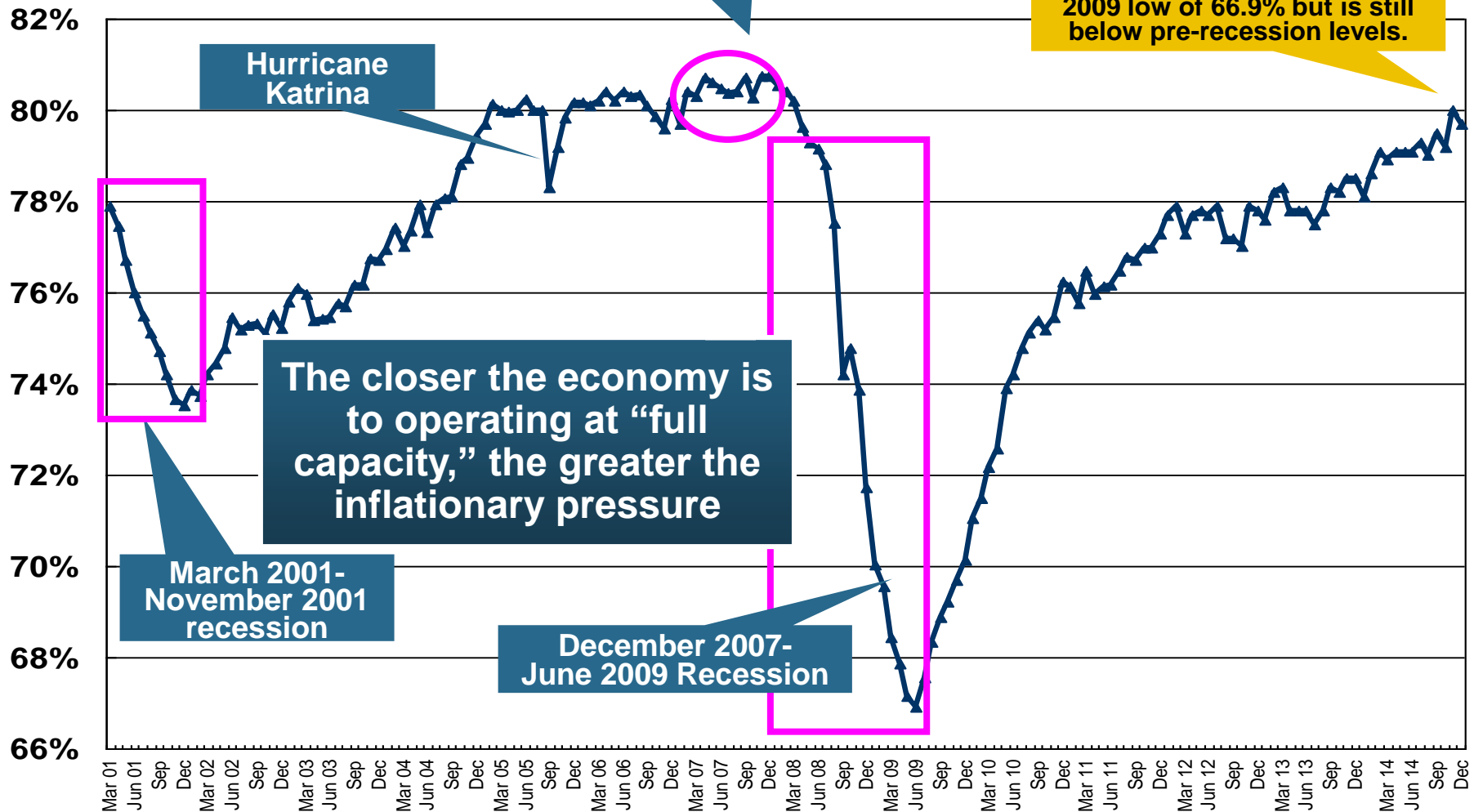
*Monthly, seasonally adjusted, through December 2014 (which is preliminary). Index based on year 2007 = 100

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

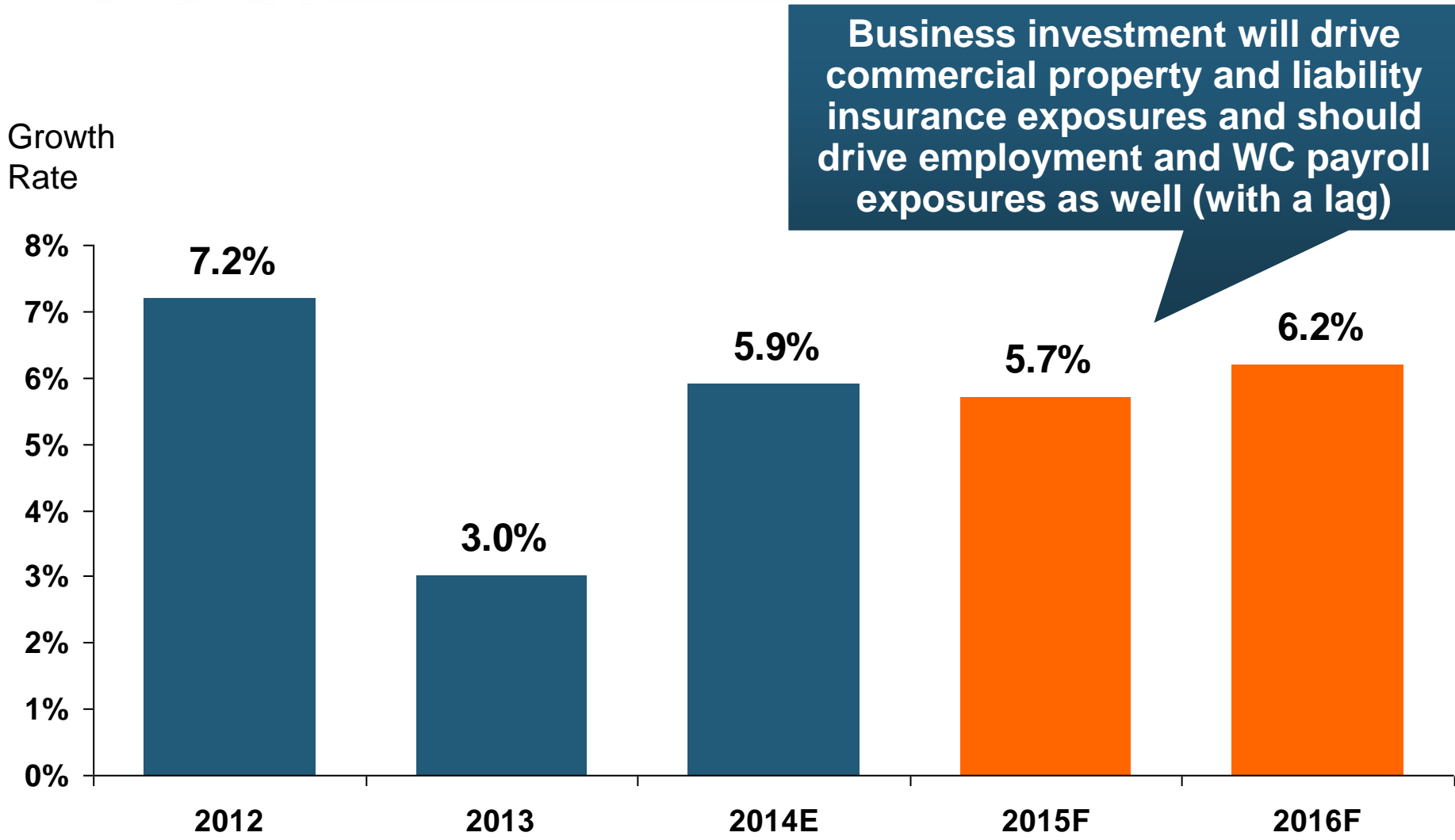
March 2001 through Dec. 2014

Percent of Industrial Capacity



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

Business Fixed Investment is Forecast to Grow Steadily in 2015-16, Fueling Commercial Exposure Growth



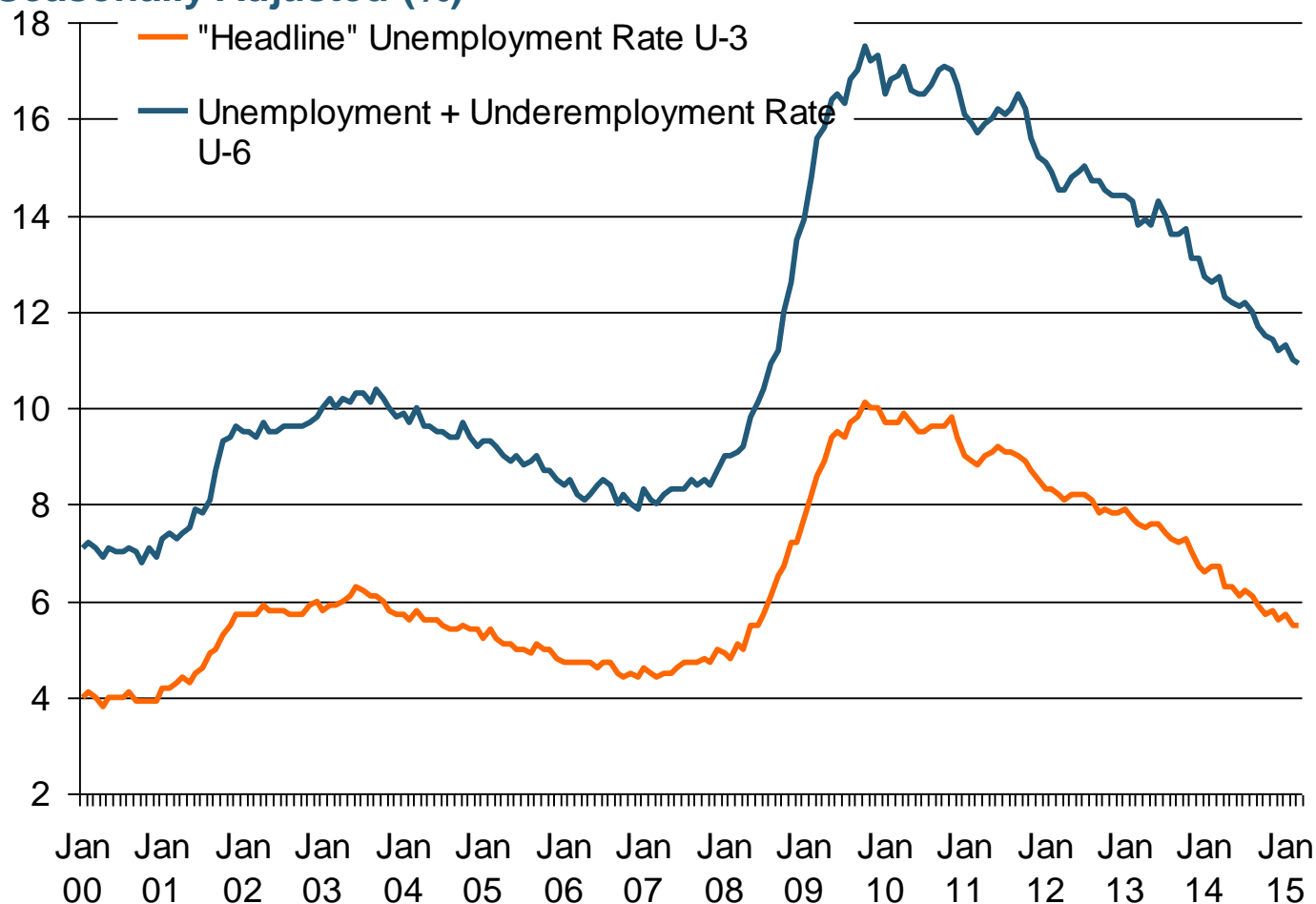
Sources: Wells Fargo Economic Group; Insurance Information Institute.

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 March 2015,
Seasonally Adjusted (%)



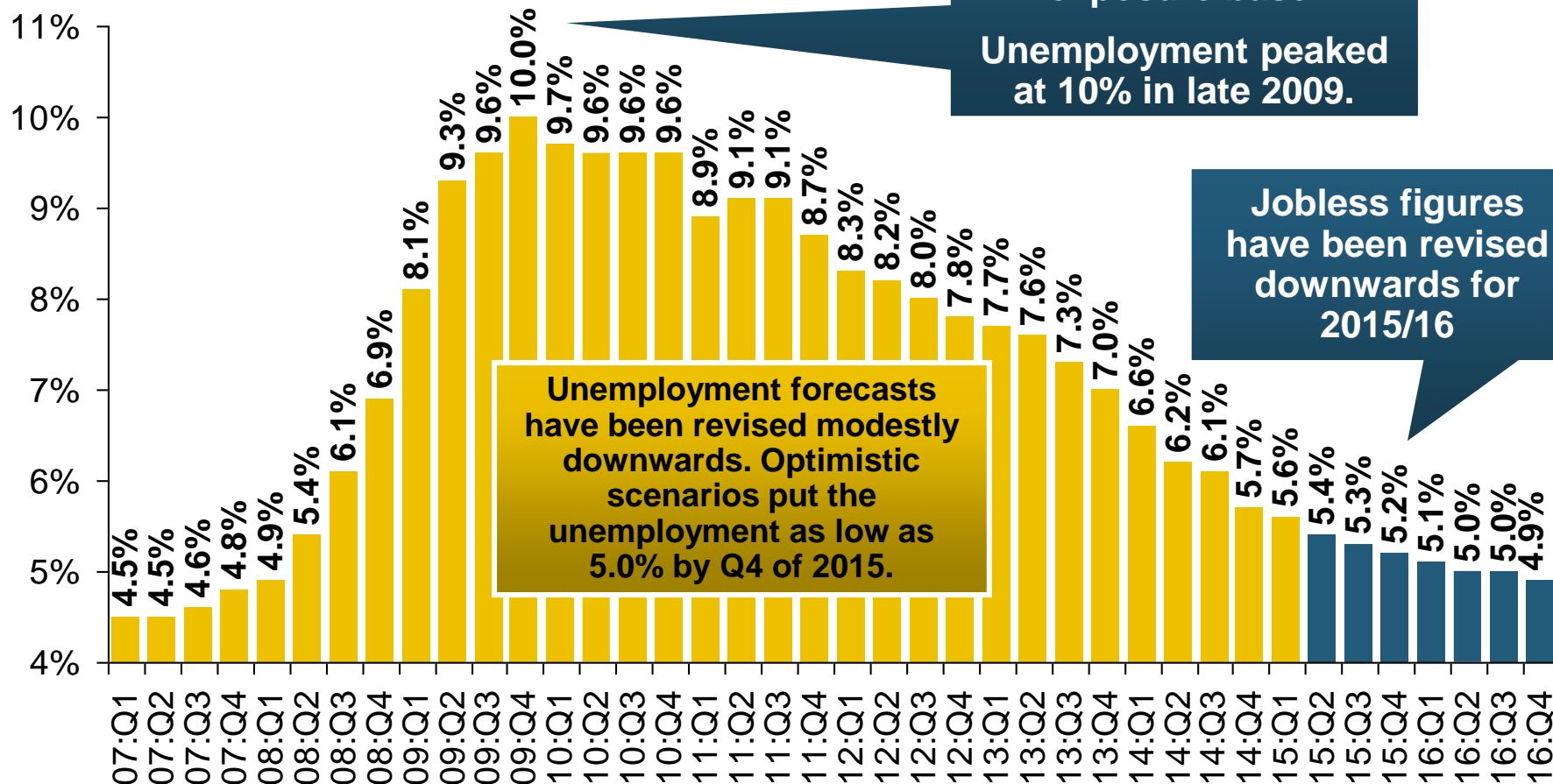
U-6 soared from 8.0% in March 2007 to 17.5% in October 2009; Stood at 10.9% in Mar. 2015. 8% to 10% is "normal."

"Headline" unemployment was 5.5% in Mar. 2015. 4.5% to 5.5% 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 2016:Q4F*

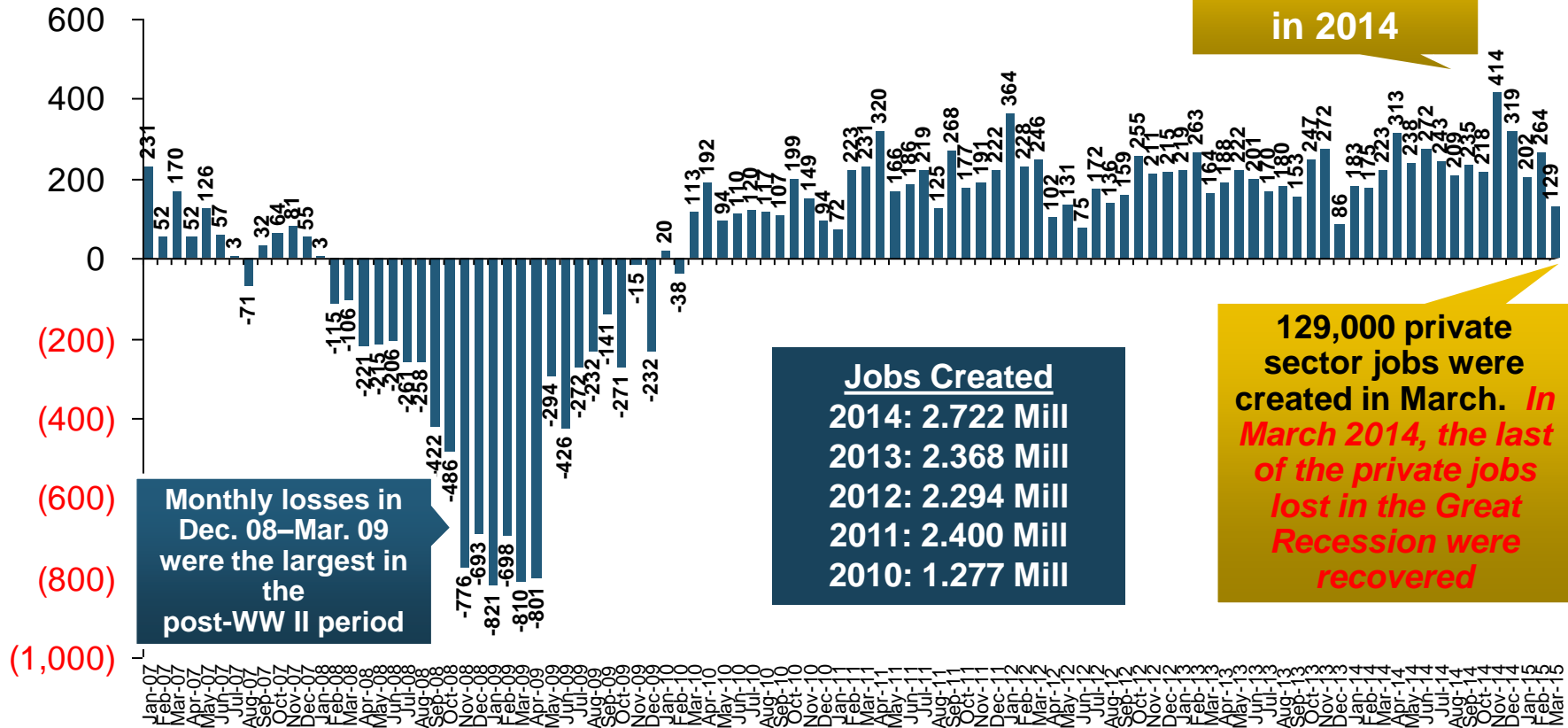


* ■ = actual; ■ = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (4/15 edition); Insurance Information Institute.

Monthly Change in Private Employment

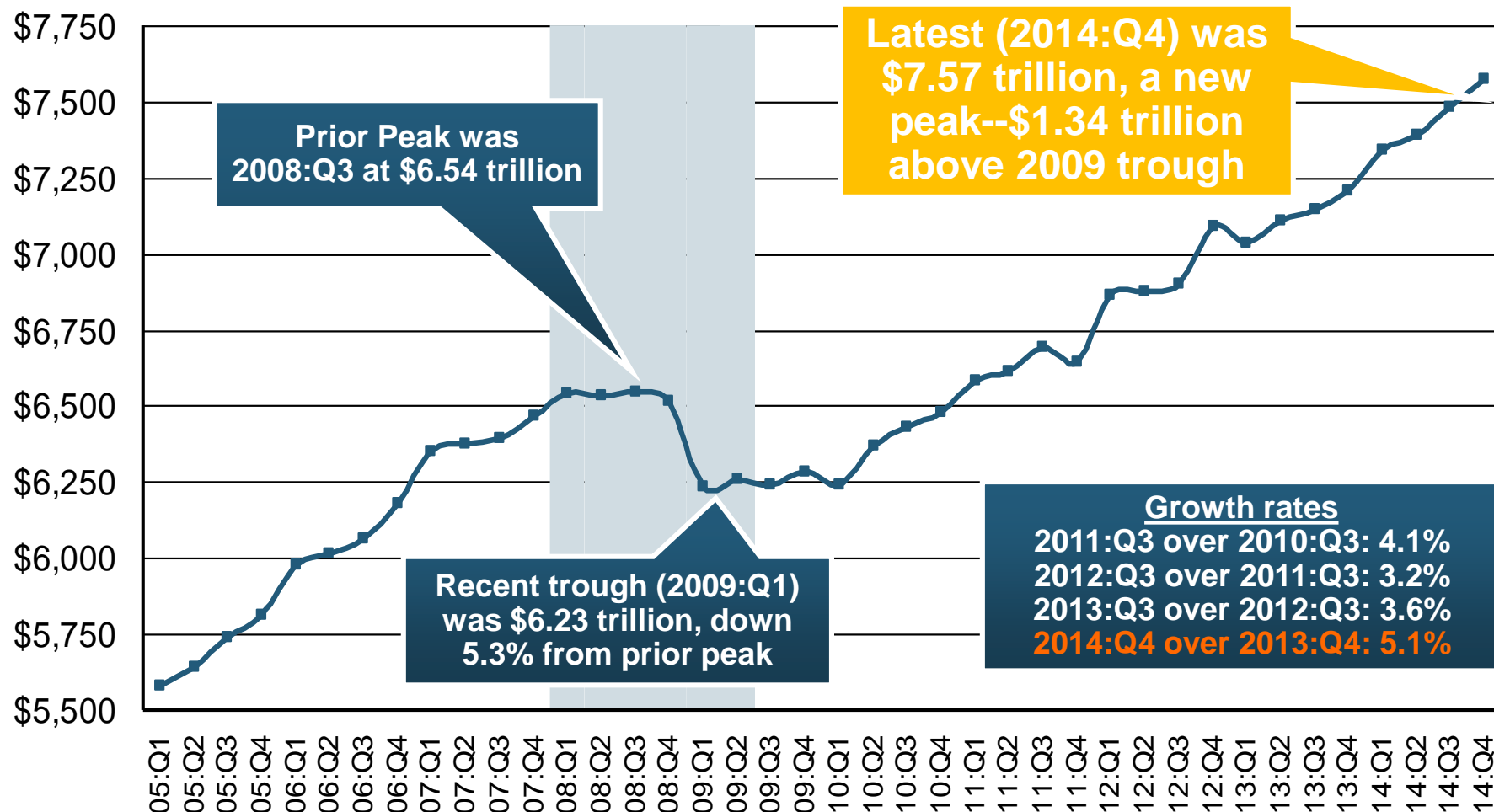
January 2007 through Mar. 2015 (Thousands, Seasonally Adj.)



Private Employers Added 11.20 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)

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2014:Q4

Billions



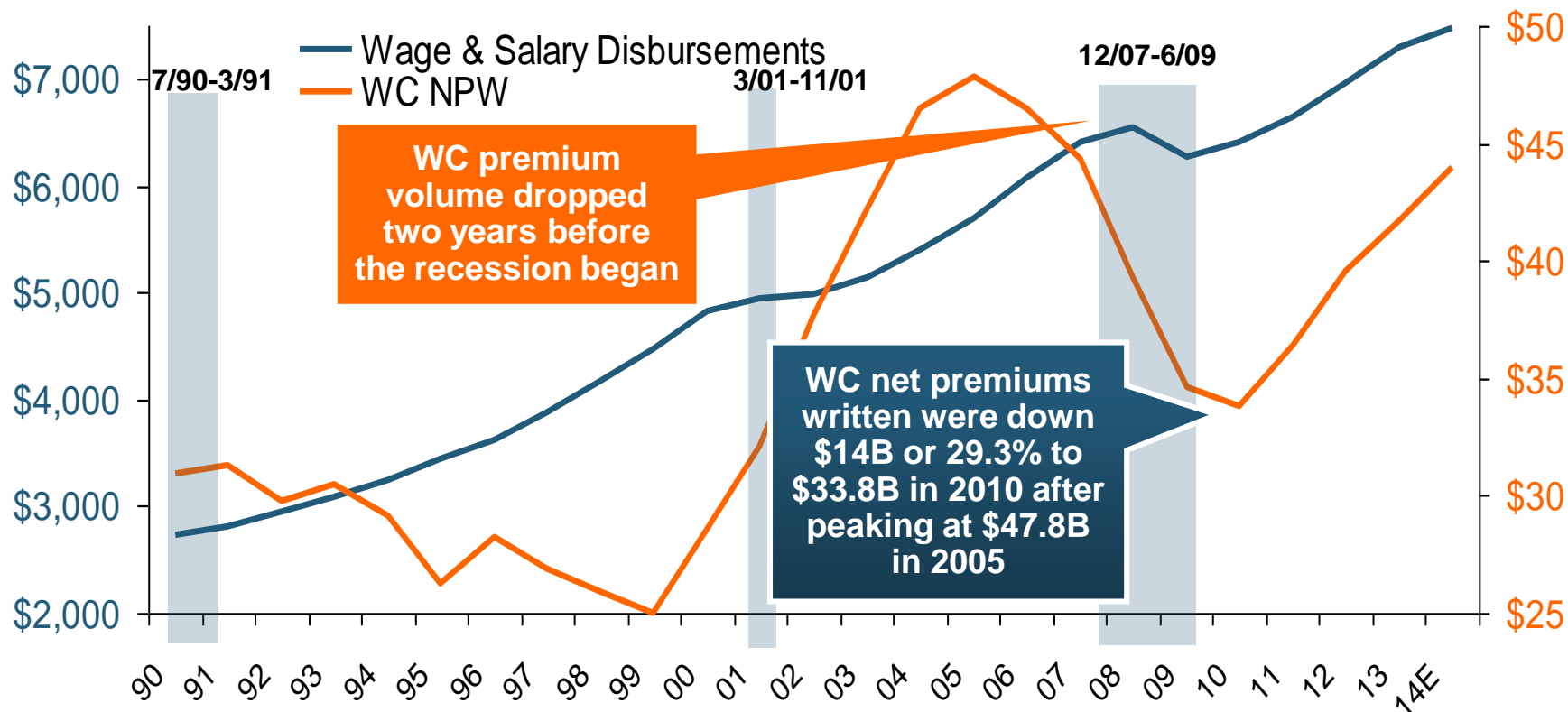
Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

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 I.I.I. estimates..

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

Construction Employment, Jan. 2010—March 2015*

(Thousands)



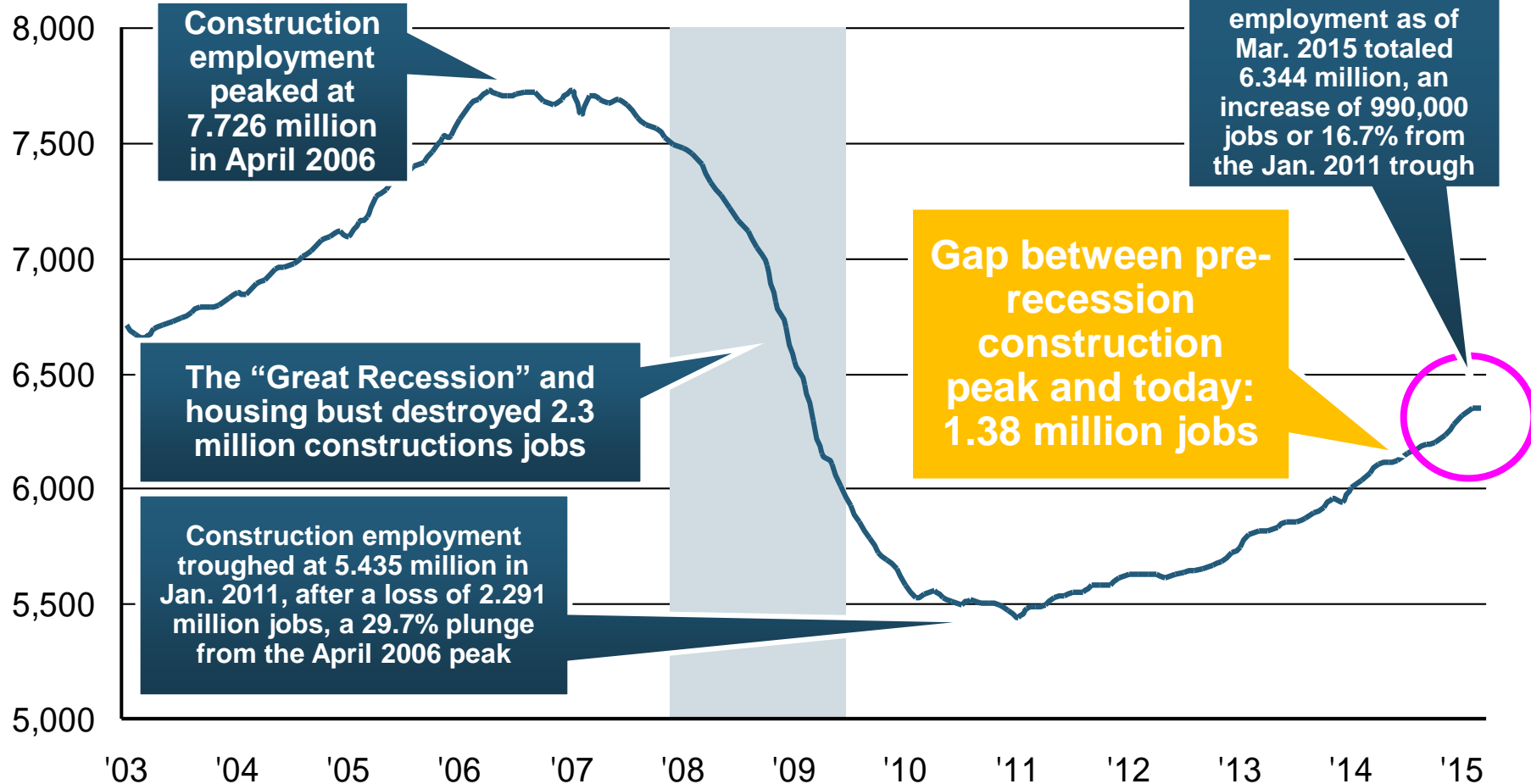
Construction and manufacturing employment constitute 1/3 of all WC payroll exposure.

*Seasonally adjusted.

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

Construction Employment, Jan. 2003–March 2015

(Thousands)

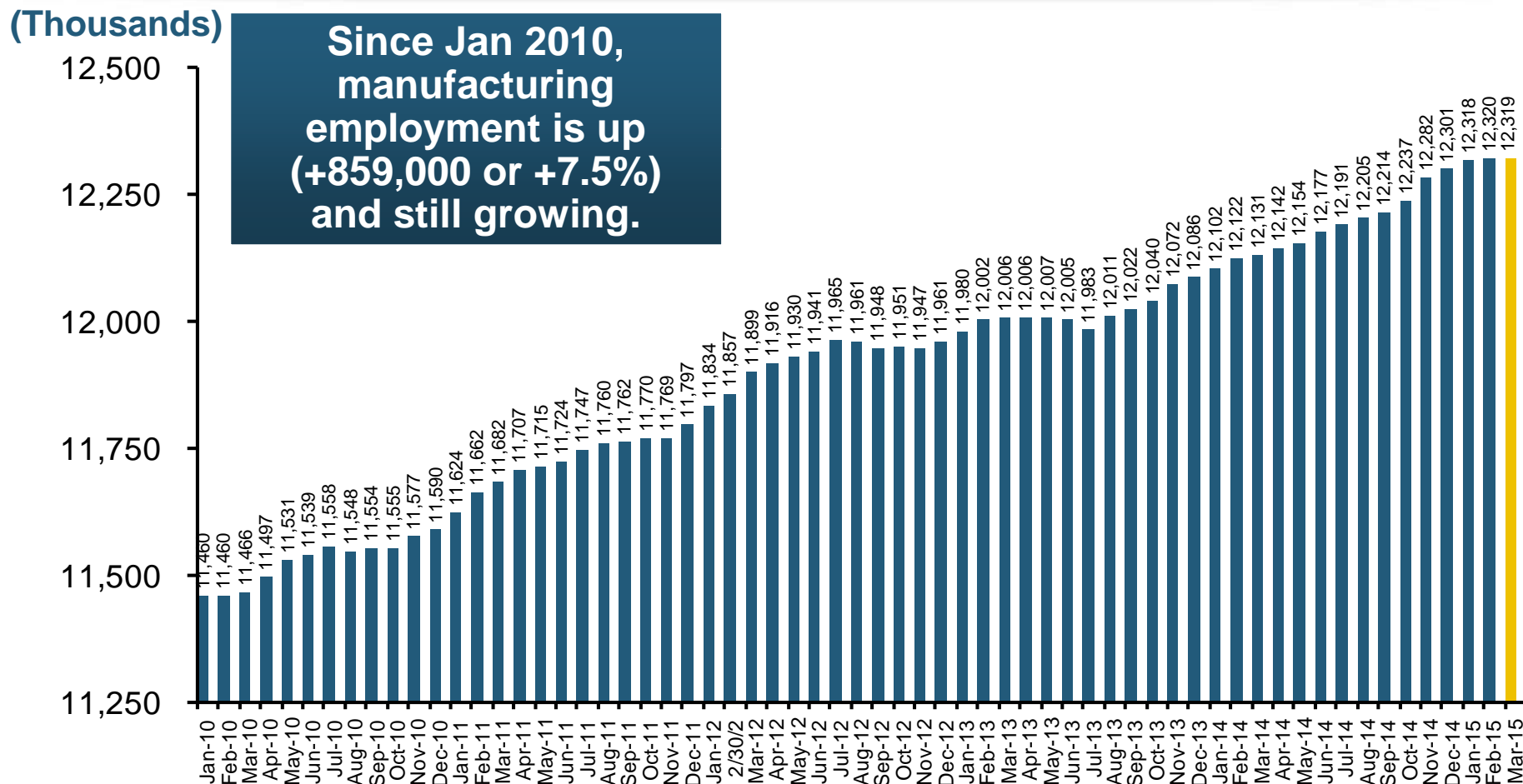


The Construction Sector Was a Growth Leader in 2014 as the Housing Market, Private Investment and Govt. Spending Recover. WC Insurers Will Benefit.

Note: Recession indicated by gray shaded column.

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

Manufacturing Employment, Jan. 2010—March 2015*



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

*Seasonally adjusted.

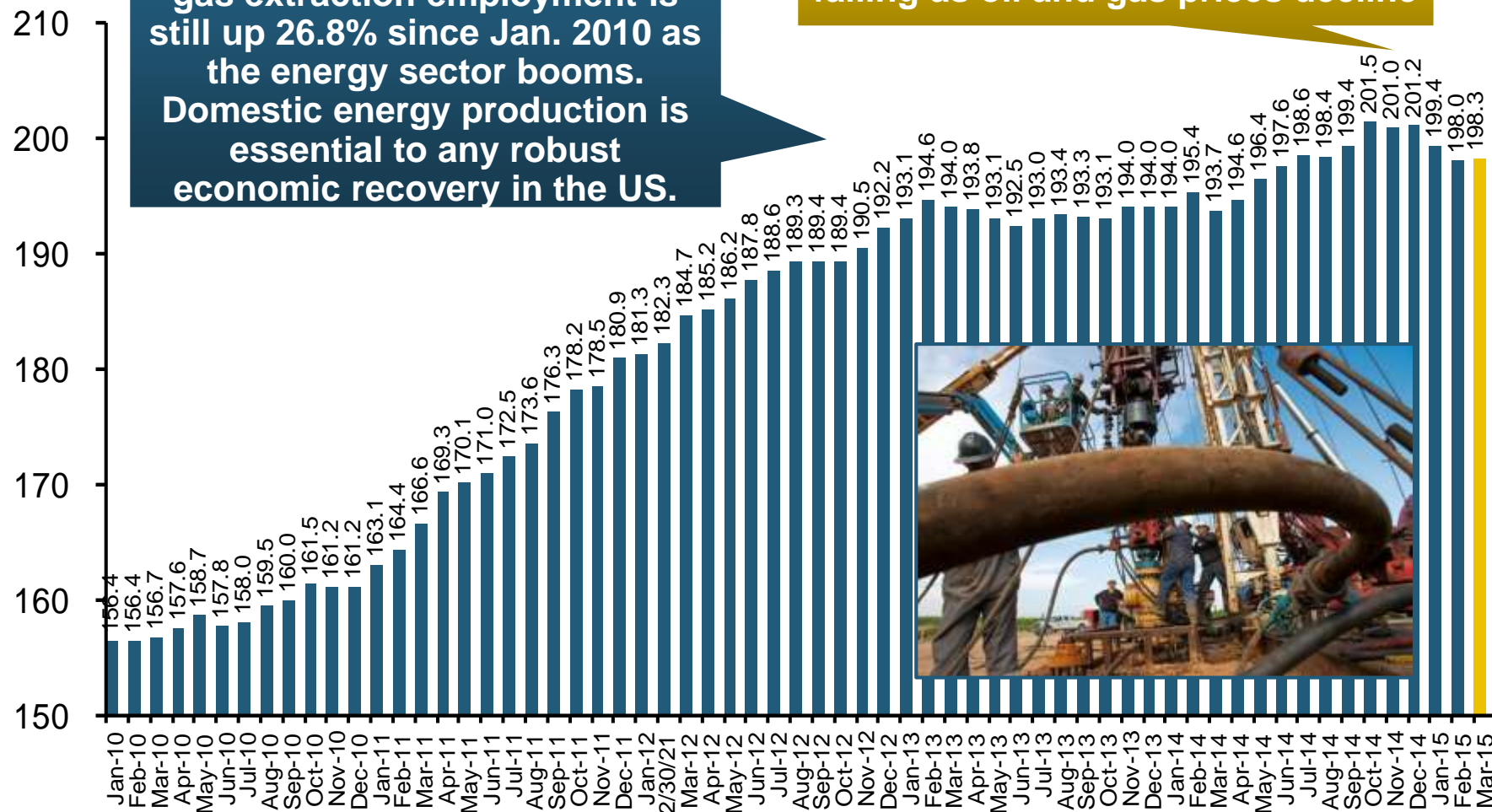
Sources: US Bureau of Labor Statistics at <http://data.bls.gov>; Insurance Information Institute.

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

(Thousands)

Despite recent declines, Oil and gas extraction employment is still up 26.8% since Jan. 2010 as the energy sector booms. Domestic energy production is essential to any robust economic recovery in the US.

After peaking at its highest level since 1986, O&G employment is falling as oil and gas prices decline



*Seasonally adjusted

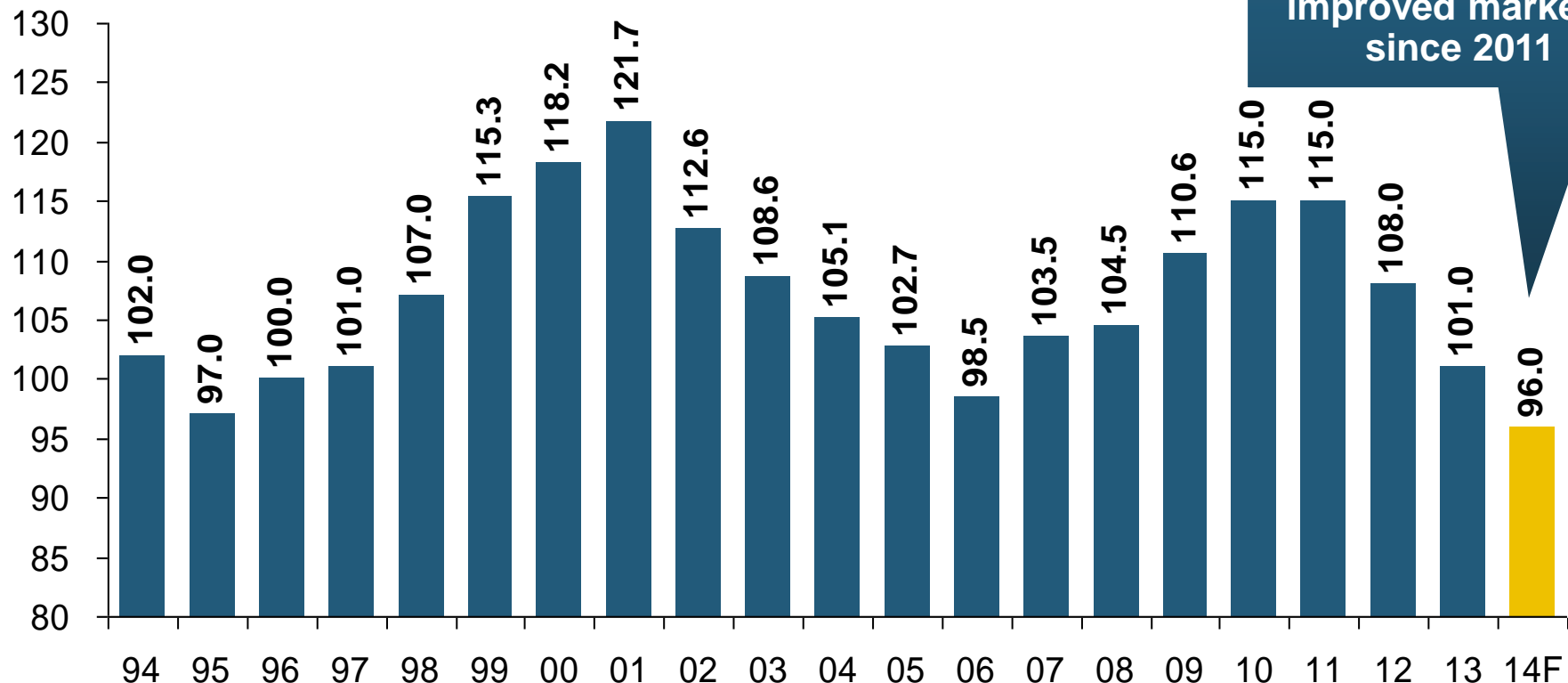
Sources: US Bureau of Labor Statistics at <http://data.bls.gov>; Insurance Information Institute.



Workers Compensation Operating Environment

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

Workers Compensation Combined Ratio: 1994–2014E

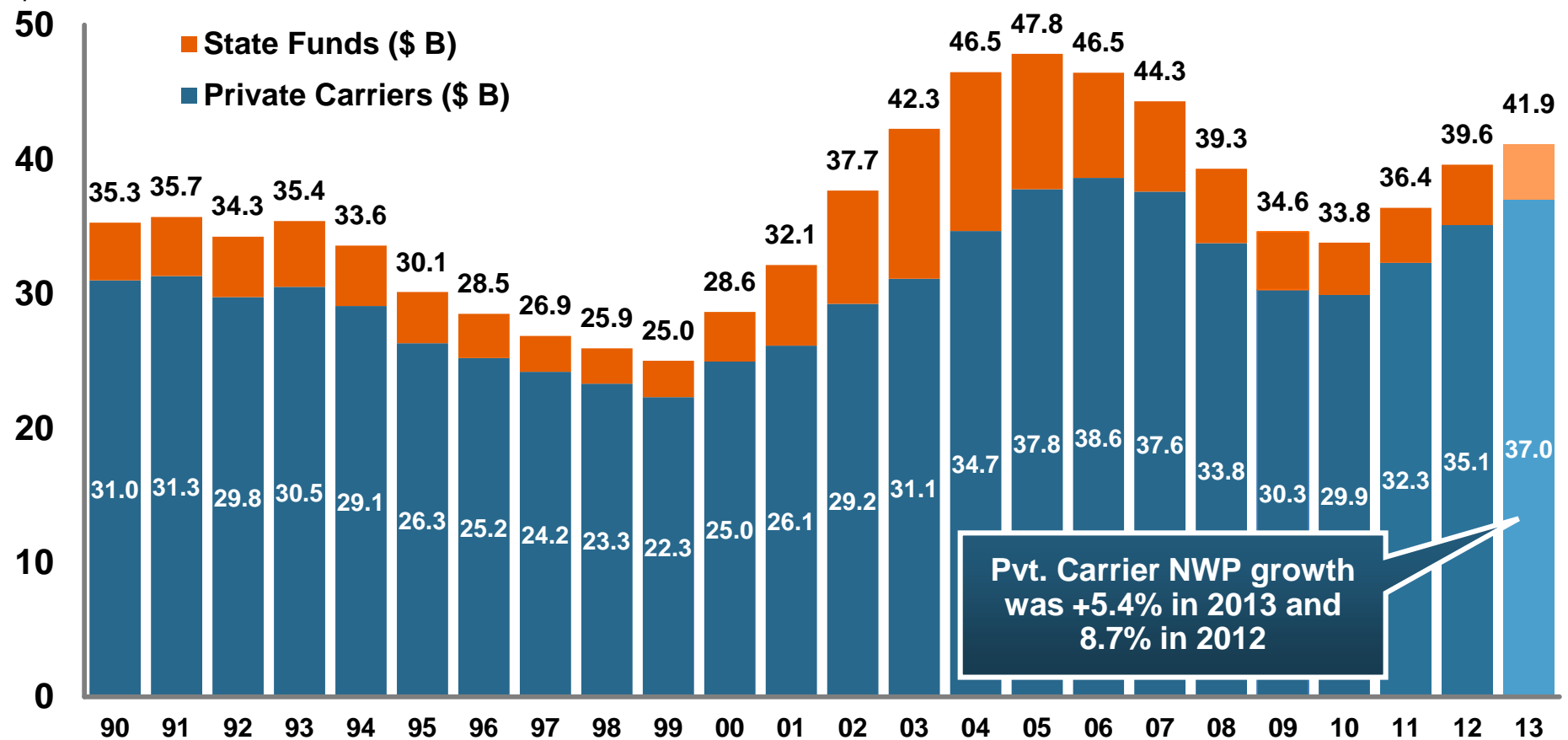


**Workers Comp Results Began to Improve in 2012.
Underwriting Results Deteriorated Markedly from 2007-
2010/11 and Were the Worst They Had Been in a Decade.**

Workers Compensation Premium: Third Consecutive Year of Increase

Net Written Premium

\$ Billions



p Preliminary

Source: 1990–2013p Private Carriers, Annual Statement Data, NCCI.

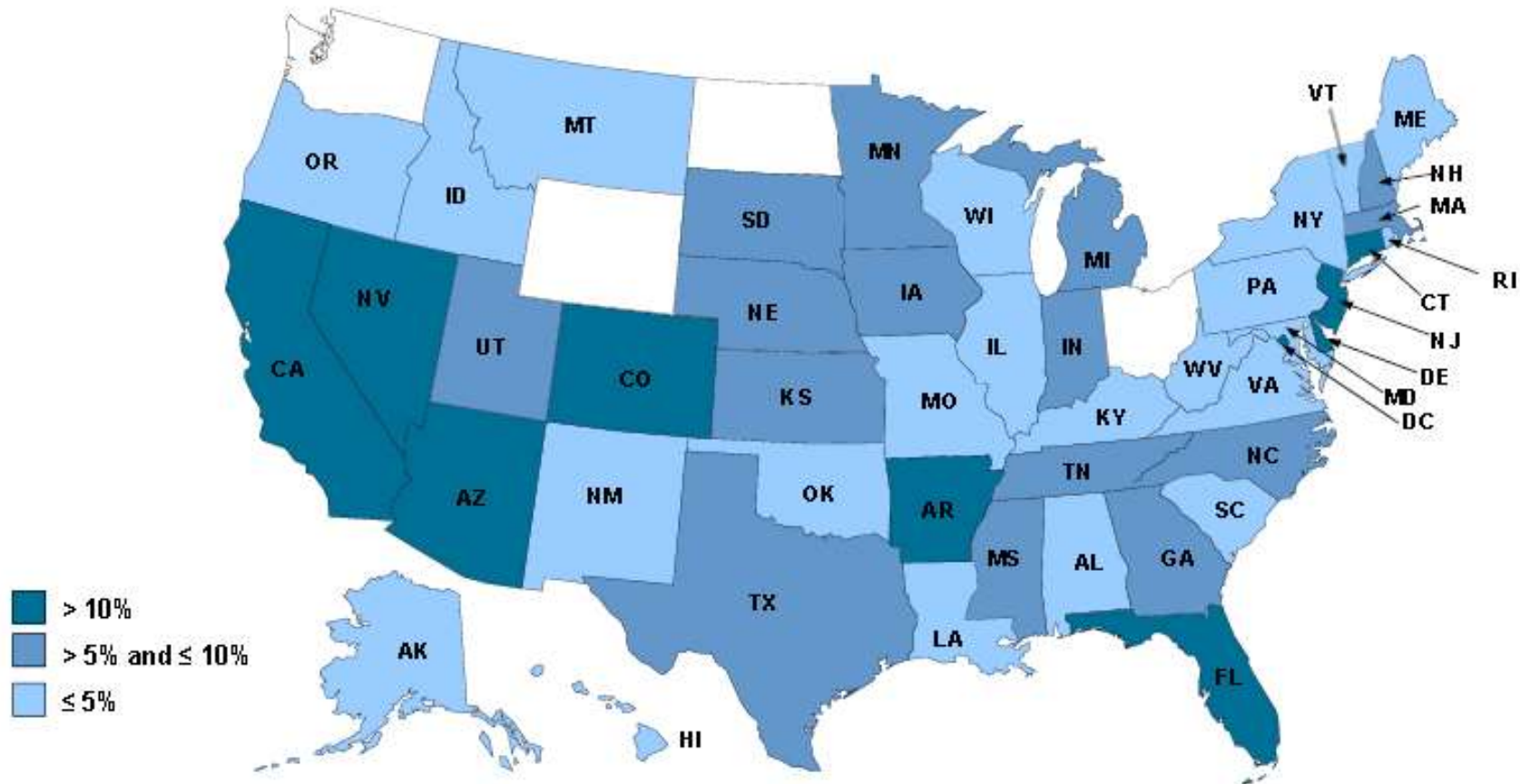
1996–2013p State Funds: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT Annual Statements

State Funds available for 1996 and subsequent

2013 Workers Compensation Direct Written Premium Growth, by State*

PRIVATE CARRIERS: Overall 2013 Growth = +5.4%

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

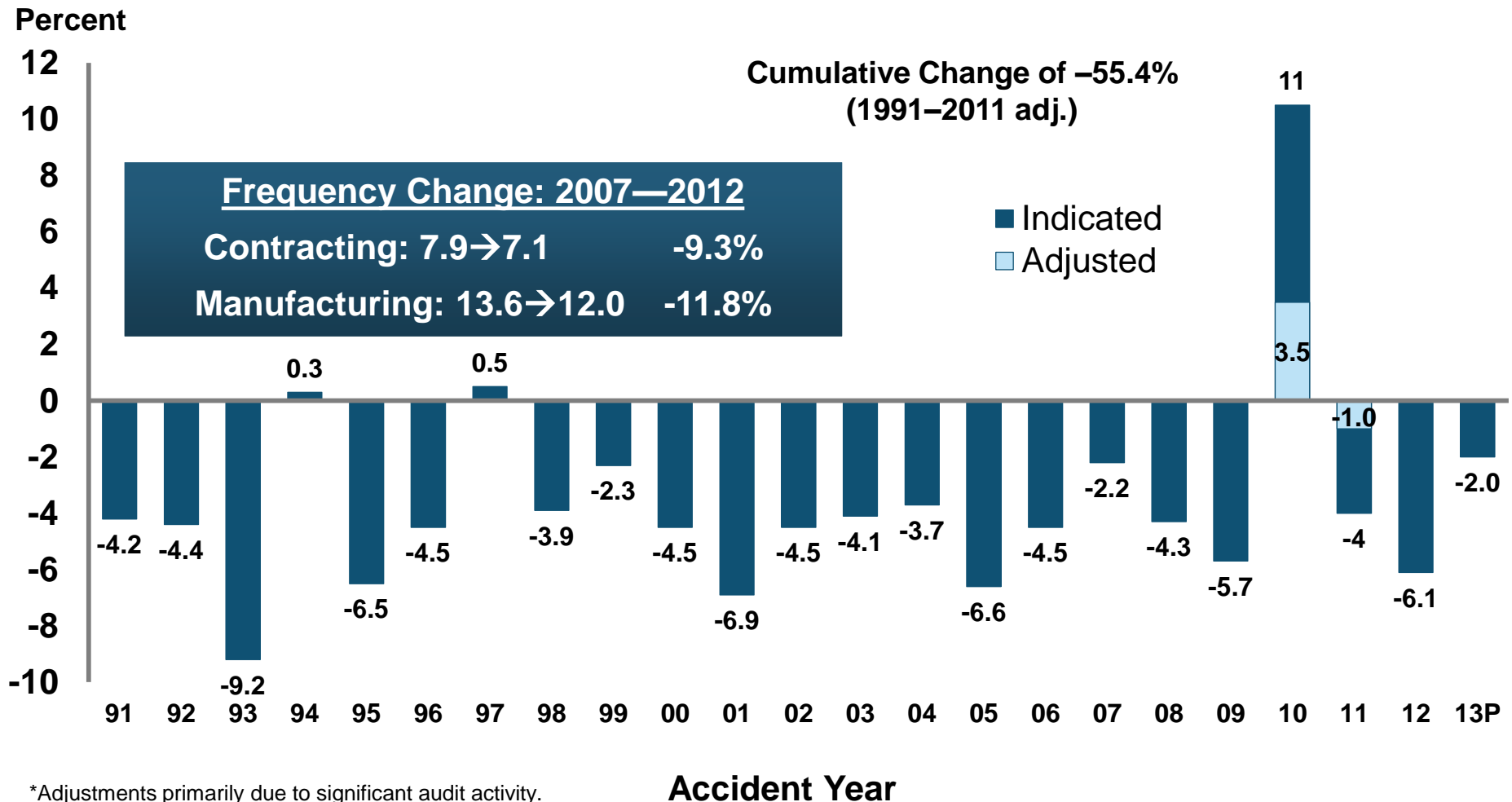


*Excludes monopolistic fund states (in white): OH, ND, WA and WY.

Source: NCCI.

Workers Compensation Lost-Time Claim Frequency Declined in 2013

Lost-Time Claims



*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

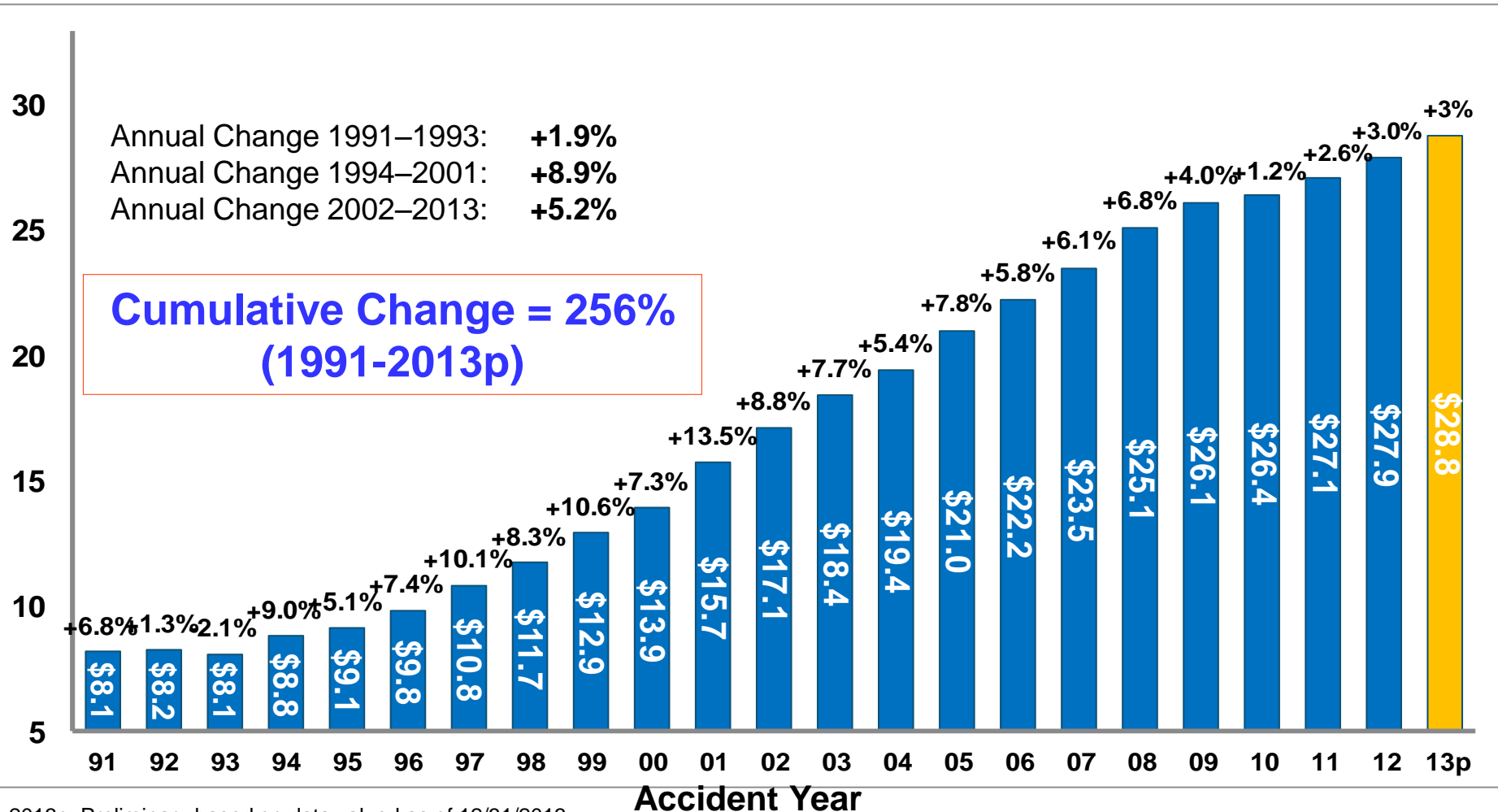
Source: NCCI.

Workers Compensation Medical Severity

Moderate Increase in 2013

Medical
Claim Cost (\$000s)

Average Medical Cost per Lost-Time Claim

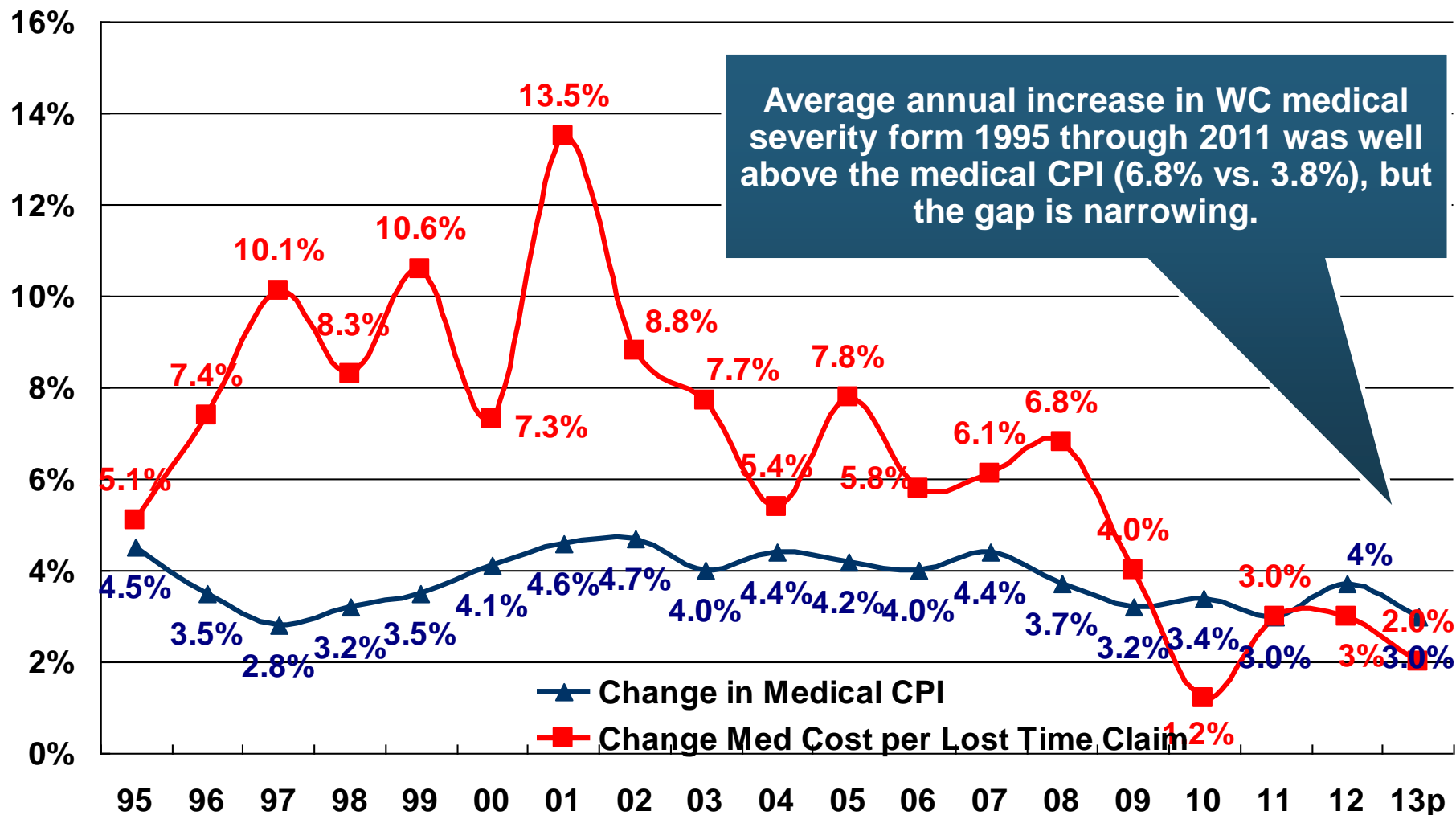


2013p: Preliminary based on data valued as of 12/31/2013.

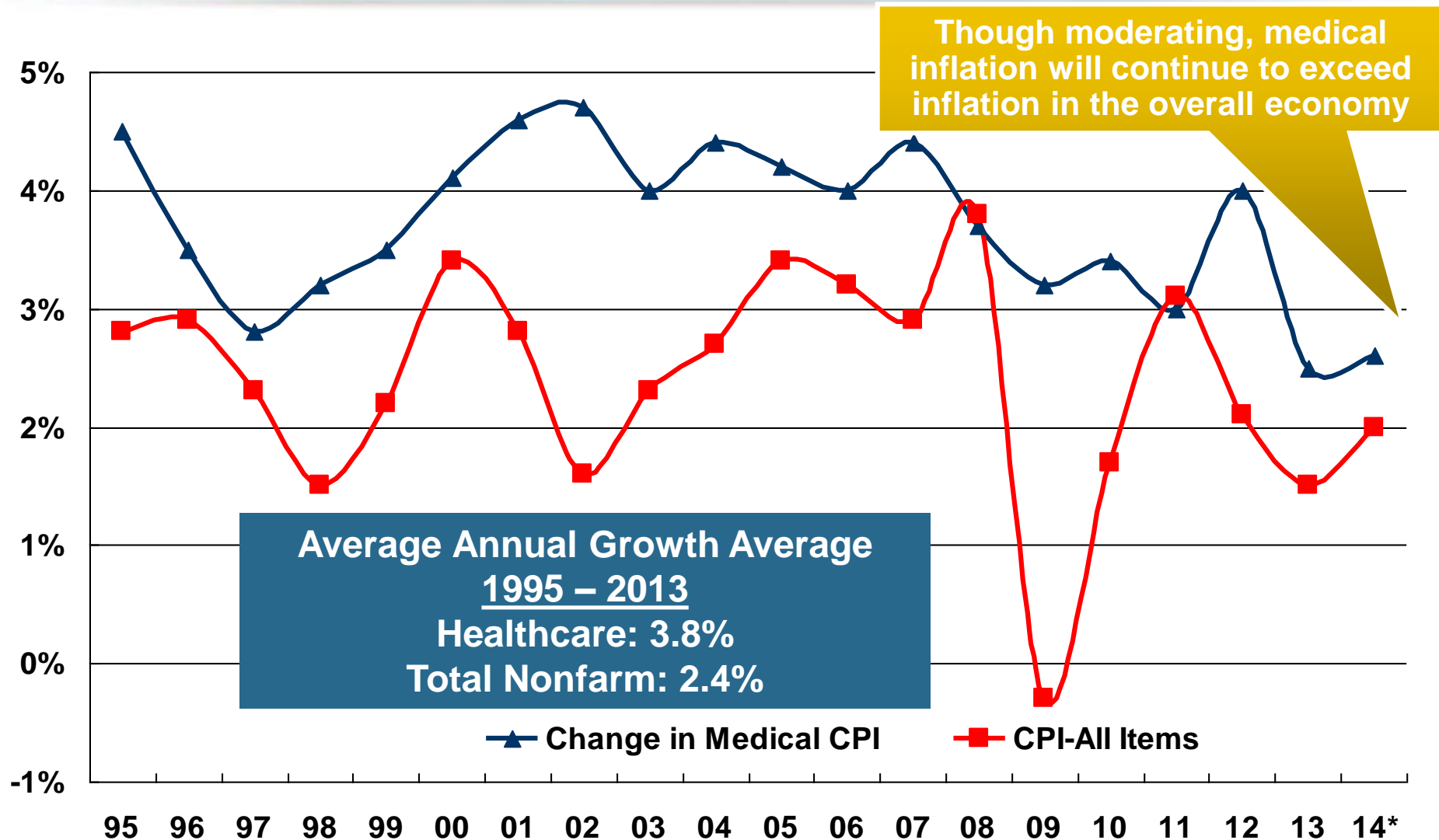
1991-2012: Based on data through 12/31/2012, developed to ultimate

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

WC Medical Severity Generally Outpaces the Medical CPI Rate



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

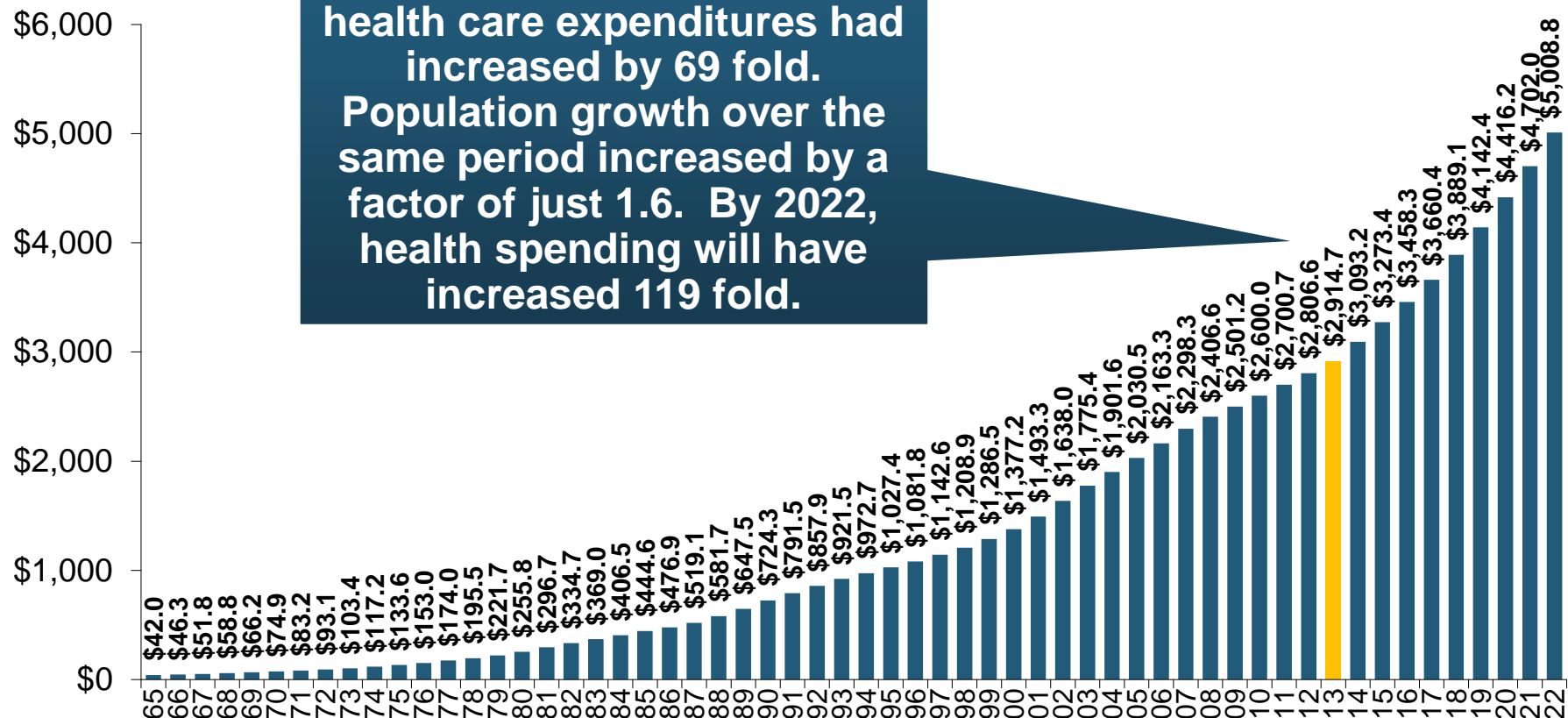


*July 2014 compared to July 2013.

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

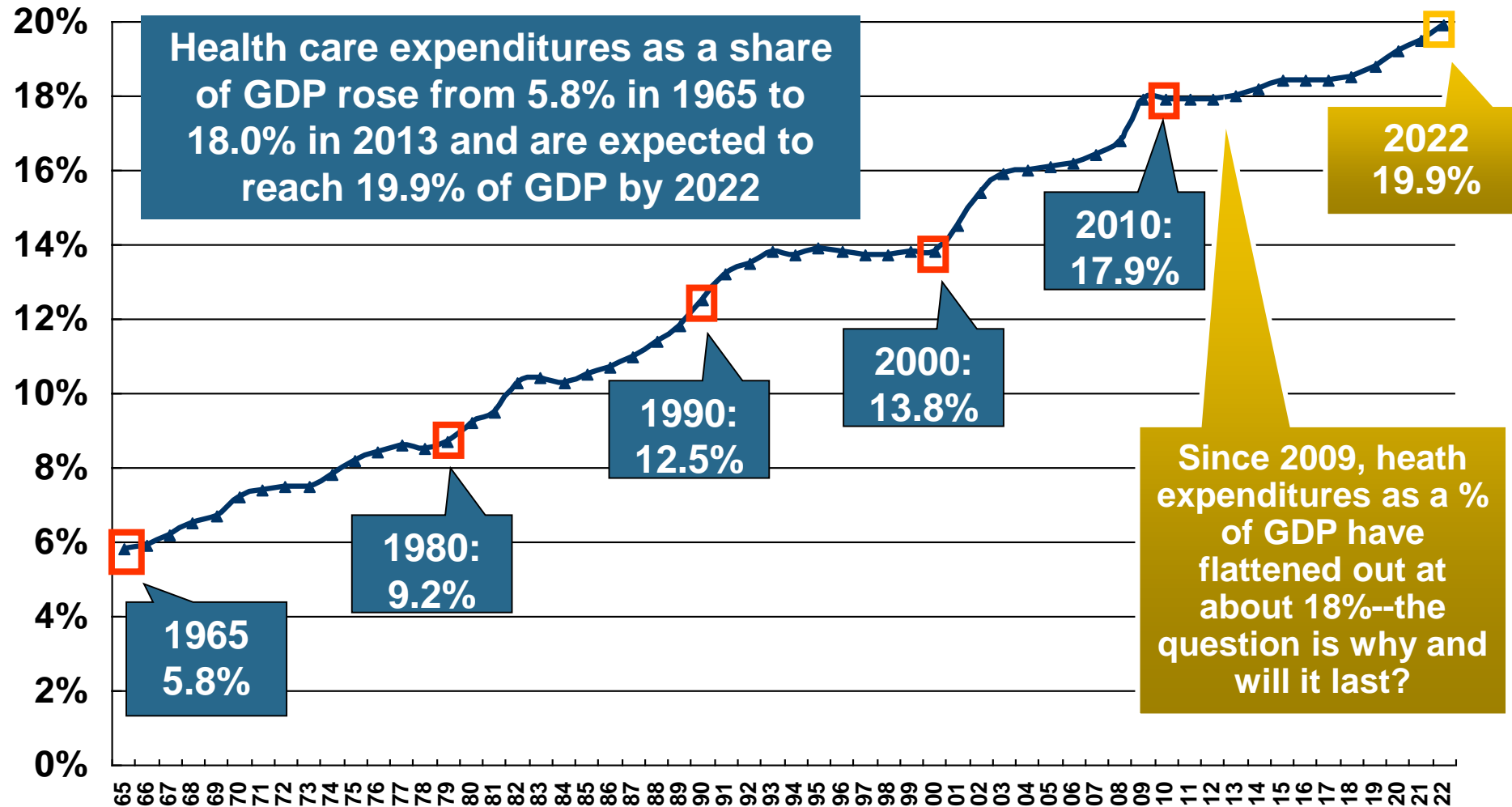
\$ Billions



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

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

% of GDP

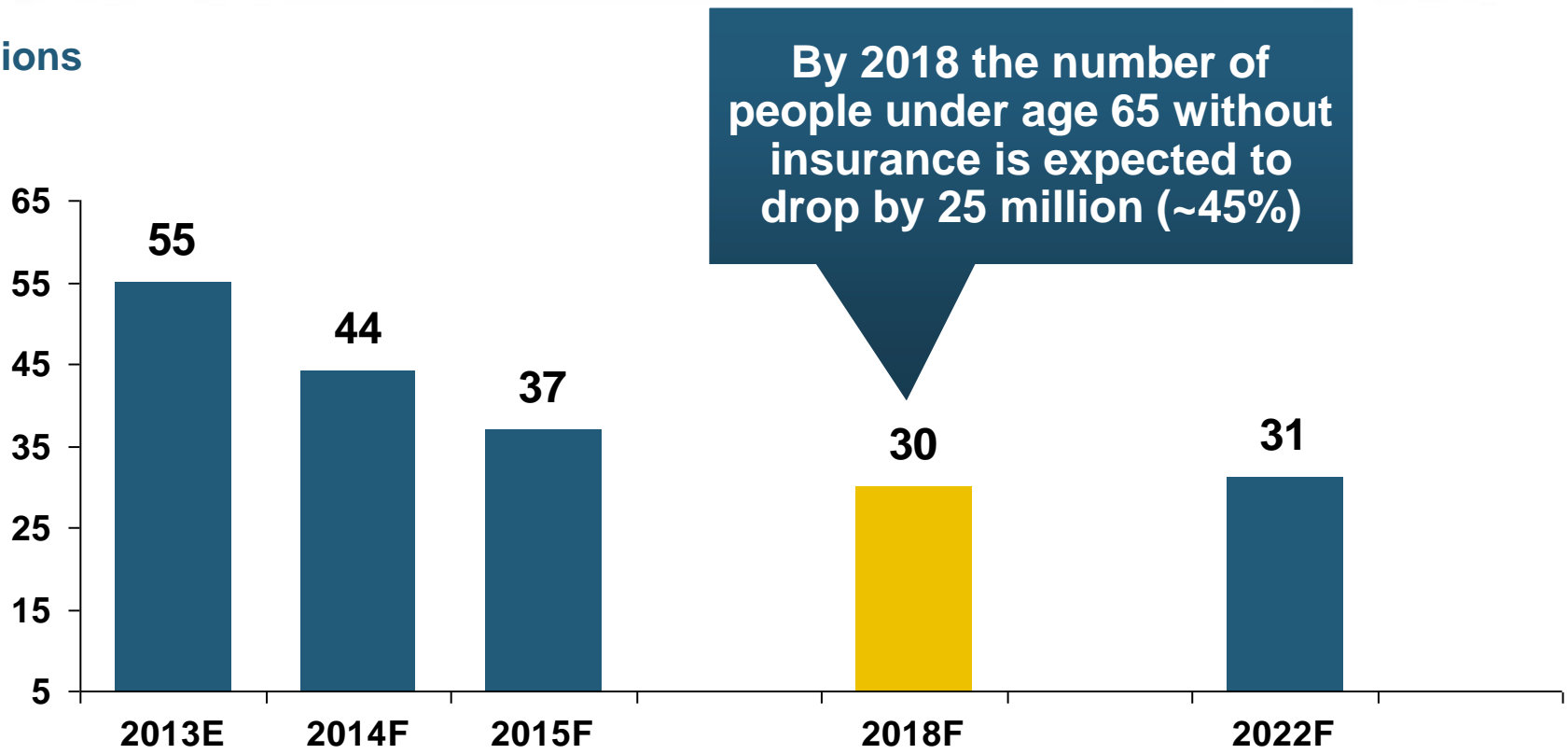


The Affordable Care Act & Implications for P/C Insurance

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

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

Millions



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

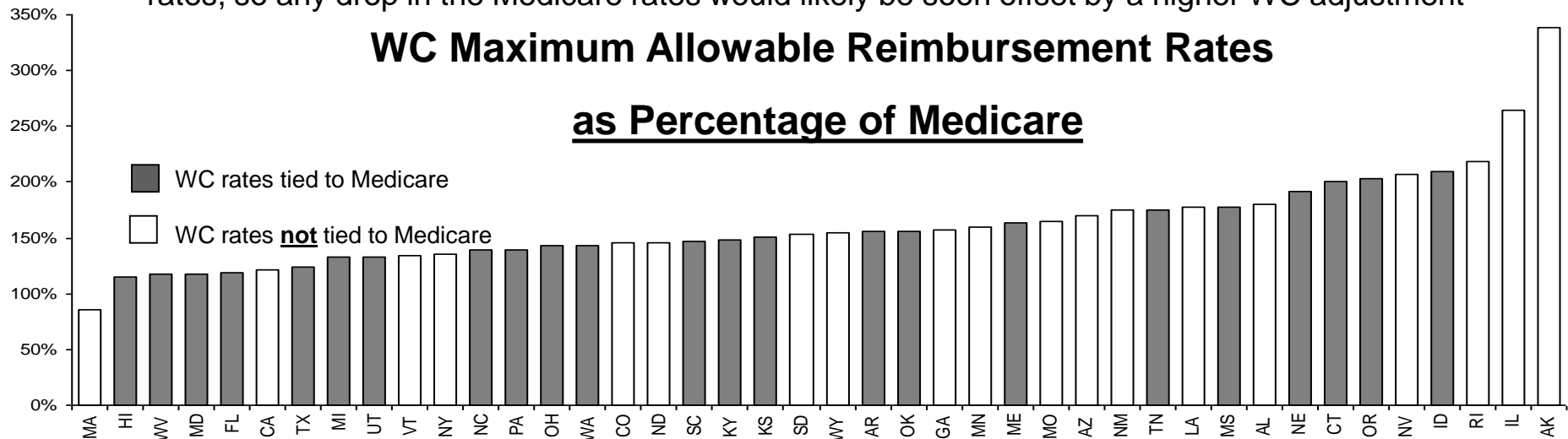
*Under age 65.
Sources: Centers for Medicare & Medicaid Services, Office of the Actuary at <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsProjected.html> accessed 3/14/14; Insurance Information Institute.

A Few Potential Impacts of the ACA on Workers Compensation

Issue	Concern	Contravening Argument
Surge in People Covered by Health Insurance	<ul style="list-style-type: none"> • System is overwhelmed • MD shortage • Patient care adversely impacted 	<ul style="list-style-type: none"> • Over time, people will have access to preventative care, improving the general health of the population • Greater use of PA's, etc.
Electronic Health Records	<ul style="list-style-type: none"> • Cost 	<ul style="list-style-type: none"> • Computerization of patient data could help flag issues and improve risk management and improve patient outcomes
Claim Shifting	<ul style="list-style-type: none"> • Provider/patient may prefer claim handled via WC system 	<ul style="list-style-type: none"> • Reduction in uninsured population reduces shifting
Reimbursement Rates	<ul style="list-style-type: none"> • Cuts in MC reimbursement rates could make docs less willing to take WC claims 	<ul style="list-style-type: none"> • Impact would be short-lived. All MC-linked states already boost WC reimbursements

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

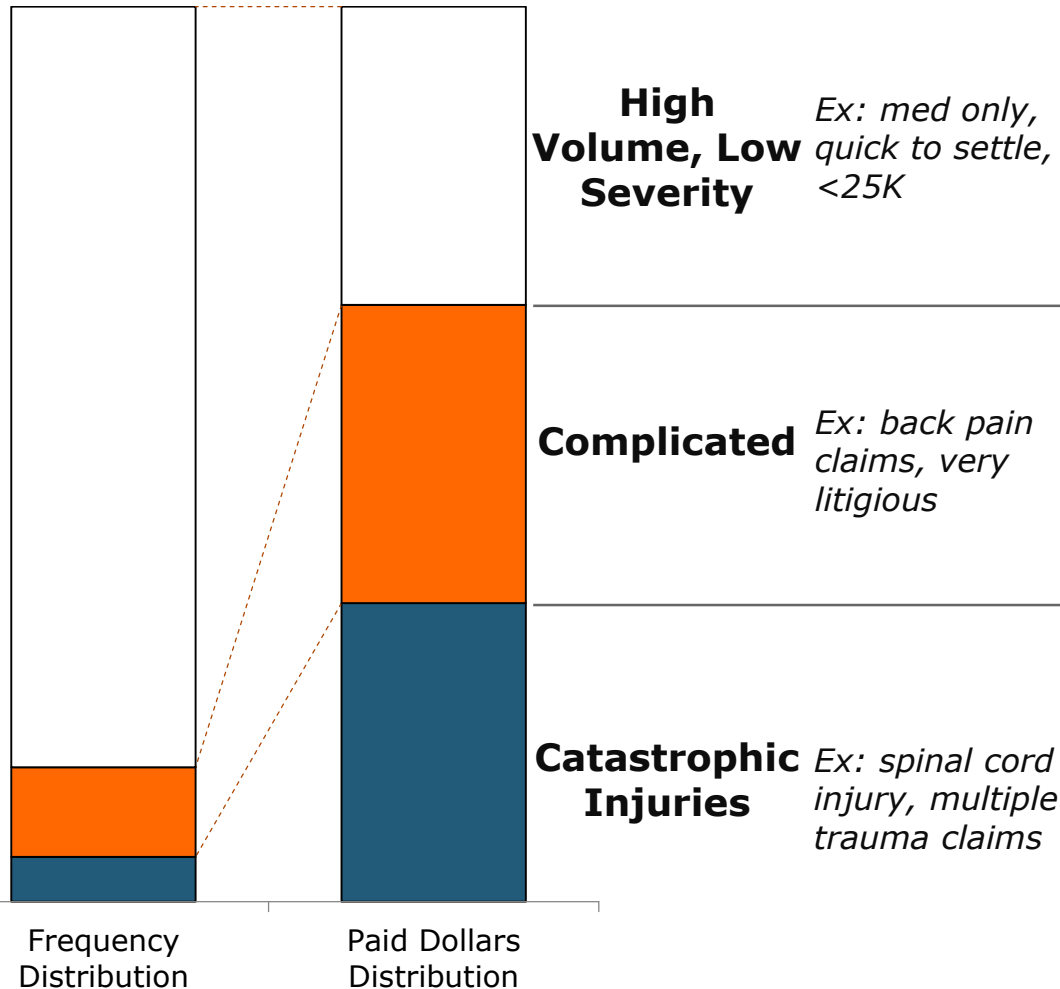
- WC rates often tied to Medicare but can change for reasons independent of this link
- There could be both positive and negative effects of a cut in Medicare rates on WC performance in states which tie reimbursement to Medicare
 - WC reimbursement rates would go down
 - Doctors may be unwilling to see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



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

Industry Portfolio by Claim Type

(Relative Volume by Claim Frequency & Paid Dollars)



Potential ACA Impact

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

1. Could slow the growth in WC medical care costs

- IPAB recommendations and PCORI reports, plus Medicare changes, could have beneficial effects on cost and treatment effectiveness

2. Could ACA be first step in federal regulation of insurance products and markets?

- Will regulation like that requiring products to be priced to meet Medical Loss Ratios be applied to WC?
- Will cost-control mechanisms such as the Independent Payment Advisory Board be developed for WC?
- Will WC insurers lose their limited exemption from anti-trust laws that they have had under McCarran-Ferguson since 1945?

Potential Impacts of the ACA on Medical Professional Liability

Issue	Concern	Contravening Argument
Surge in People Covered by Health Insurance	<ul style="list-style-type: none"> • System is overwhelmed • Doctors spend less time on patients • Patient care adversely impacted 	<ul style="list-style-type: none"> • Over time, people will have access to preventative care, improving the general health of the population • People are receiving care already via suboptimal channels • Less use of ERs
Electronic Health Records	<ul style="list-style-type: none"> • Digitization could create a treasure trove of data for plaintiff attorneys 	<ul style="list-style-type: none"> • Computerization of patient data could help flag issues and improve risk management and improve patient outcomes
MPL Claim Severity	<ul style="list-style-type: none"> • More large verdicts will 	<ul style="list-style-type: none"> • ACA will help contain system costs

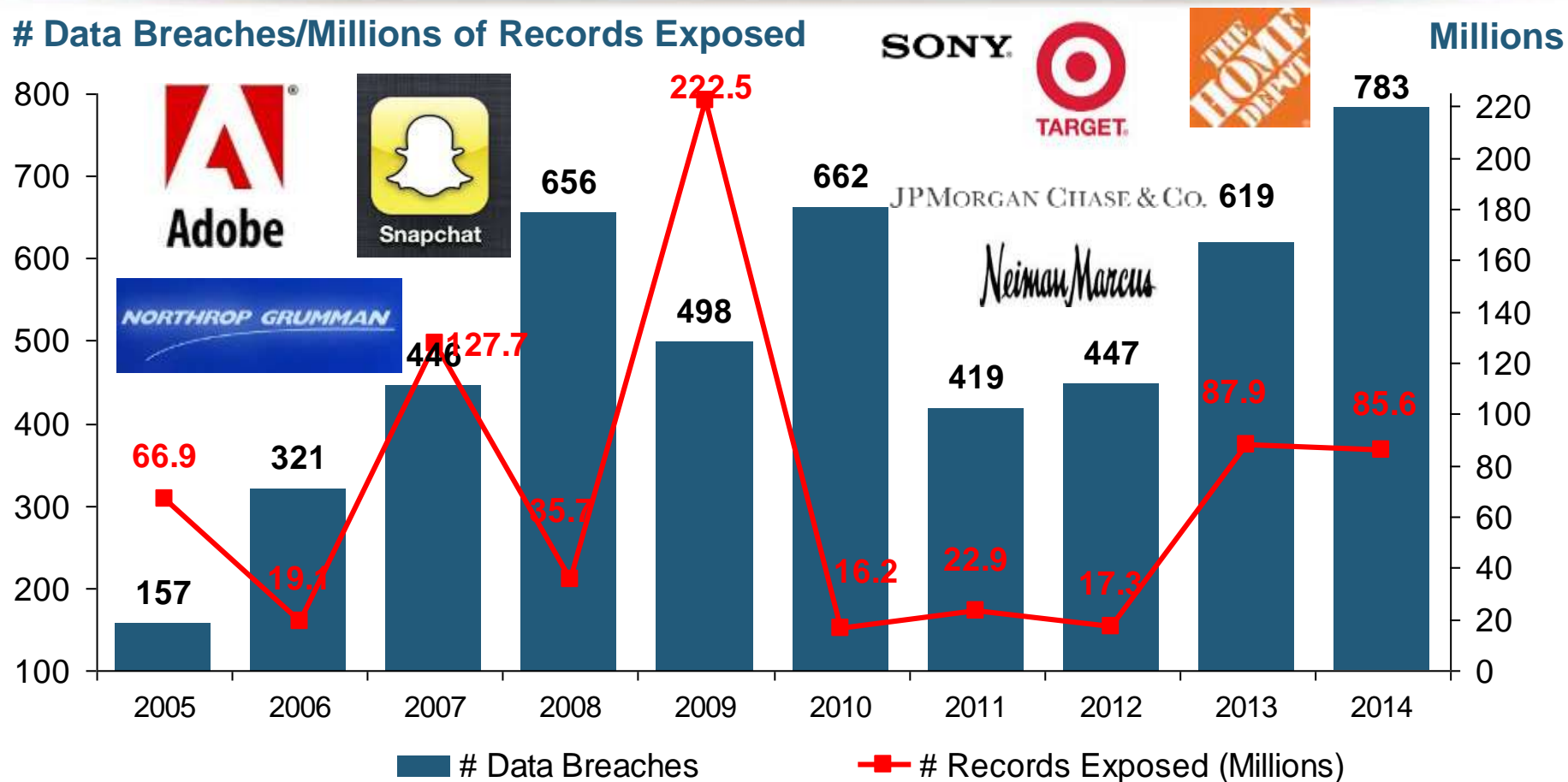
CYBER RISK & CYBER INSURANCE

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

***Rapidly Increasing Interest from
Businesses, Media & Public Policymakers***

Data Breaches 2005-2014, by Number of Breaches and Records Exposed

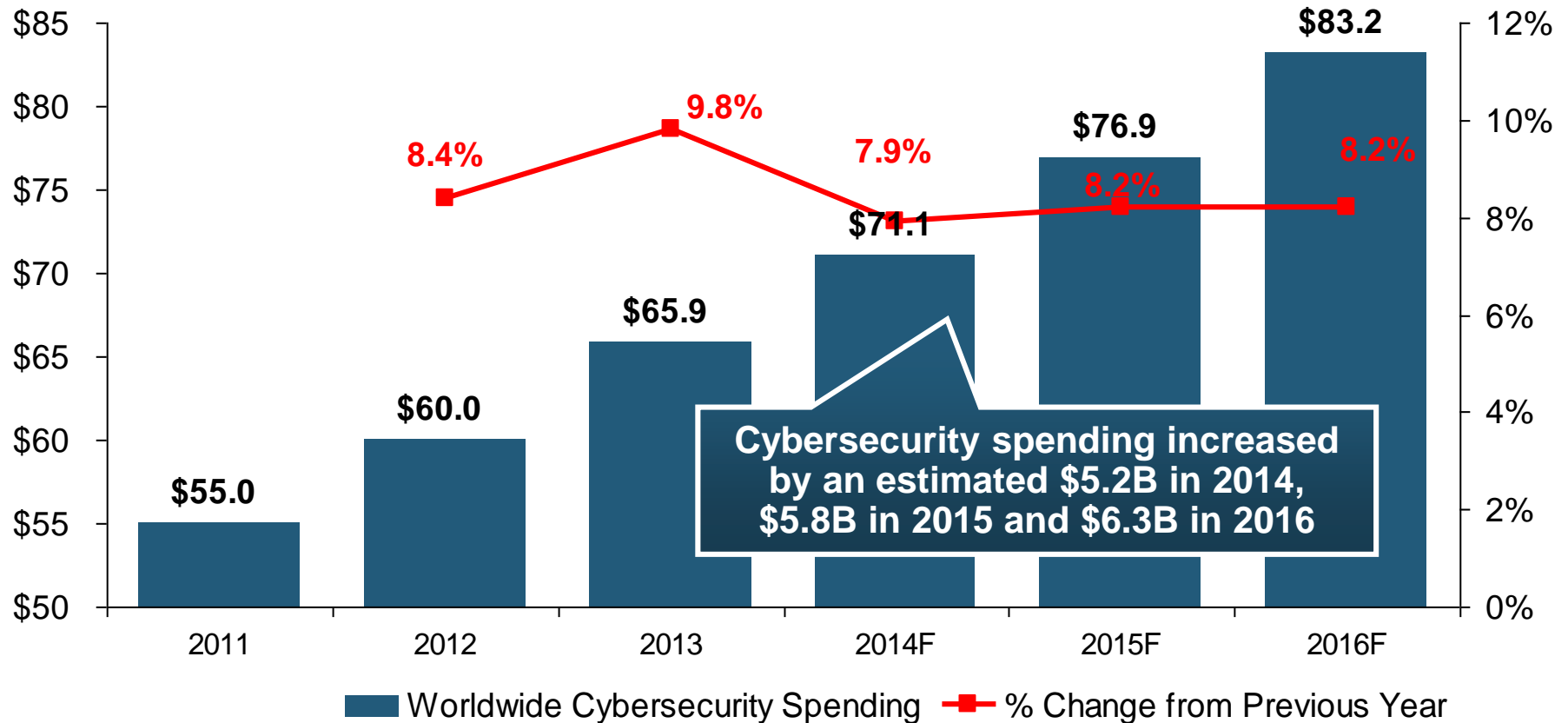
Data Breaches/Millions of Records Exposed



The Total Number of Data Breaches Rose 28% While the Number of Records Exposed Was Relatively Flat (-2.6%)

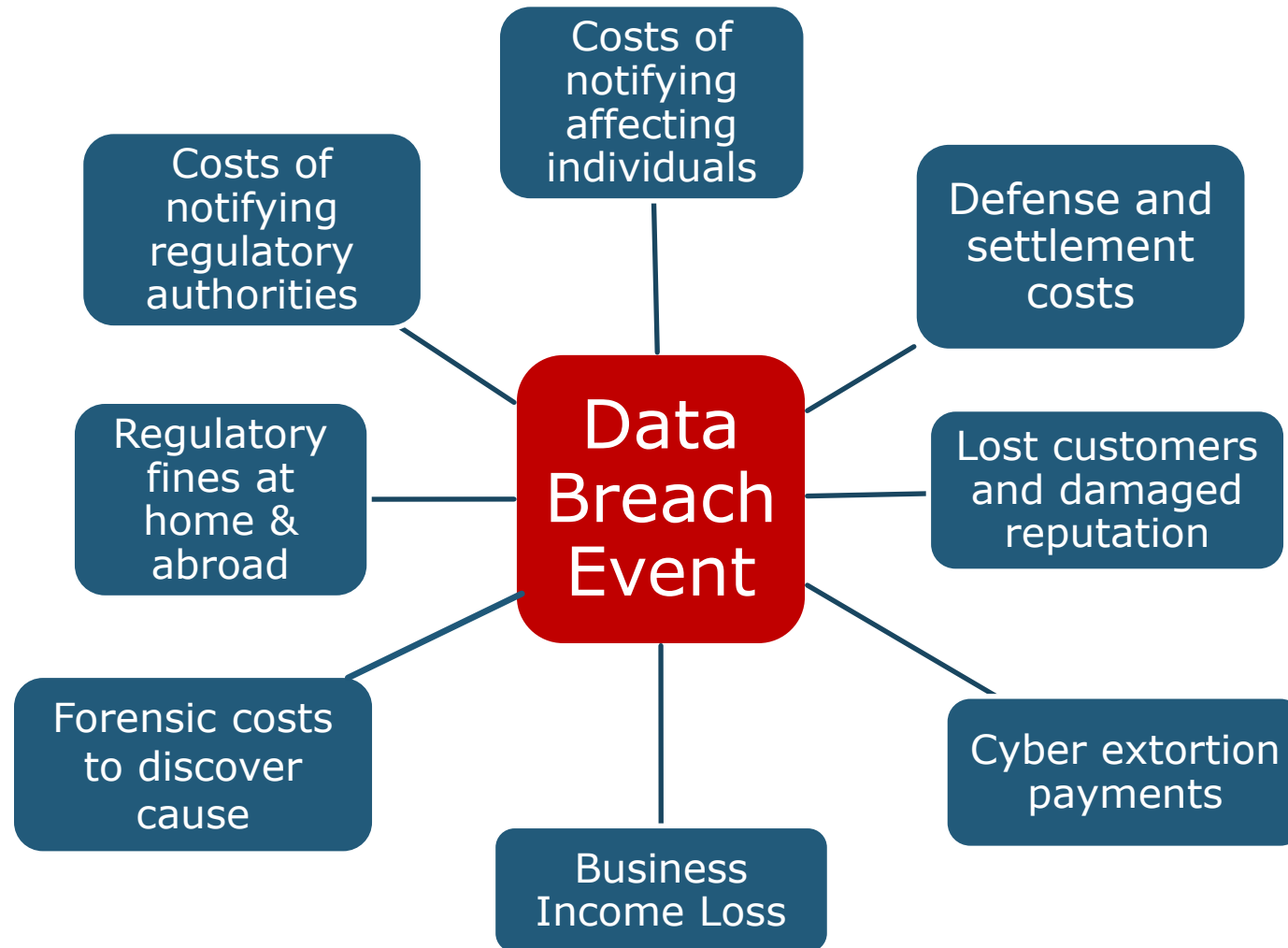
Worldwide Cybersecurity Spending, 2011- 2016F

(\$ Billions)

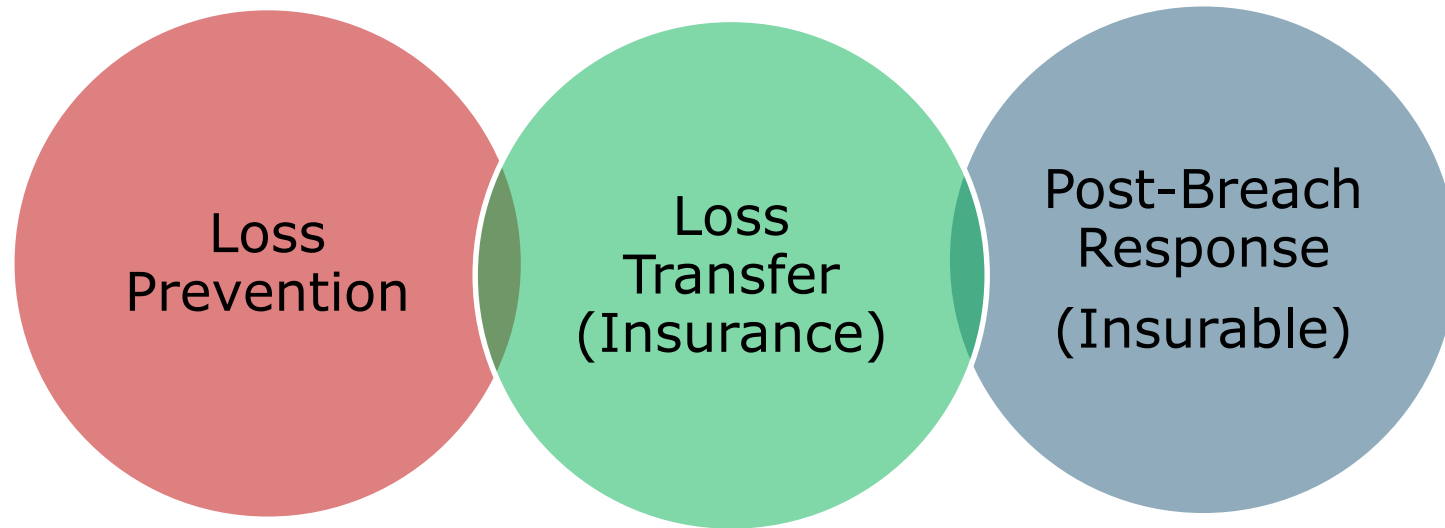


Cybersecurity Spending Is Rising Sharply, Up by About 8%+ Annually through 2016—a Projected Increase of \$12.1 Billion from 2014 to 2016

Data/Privacy Breach: Many Potential Costs Can Be Insured

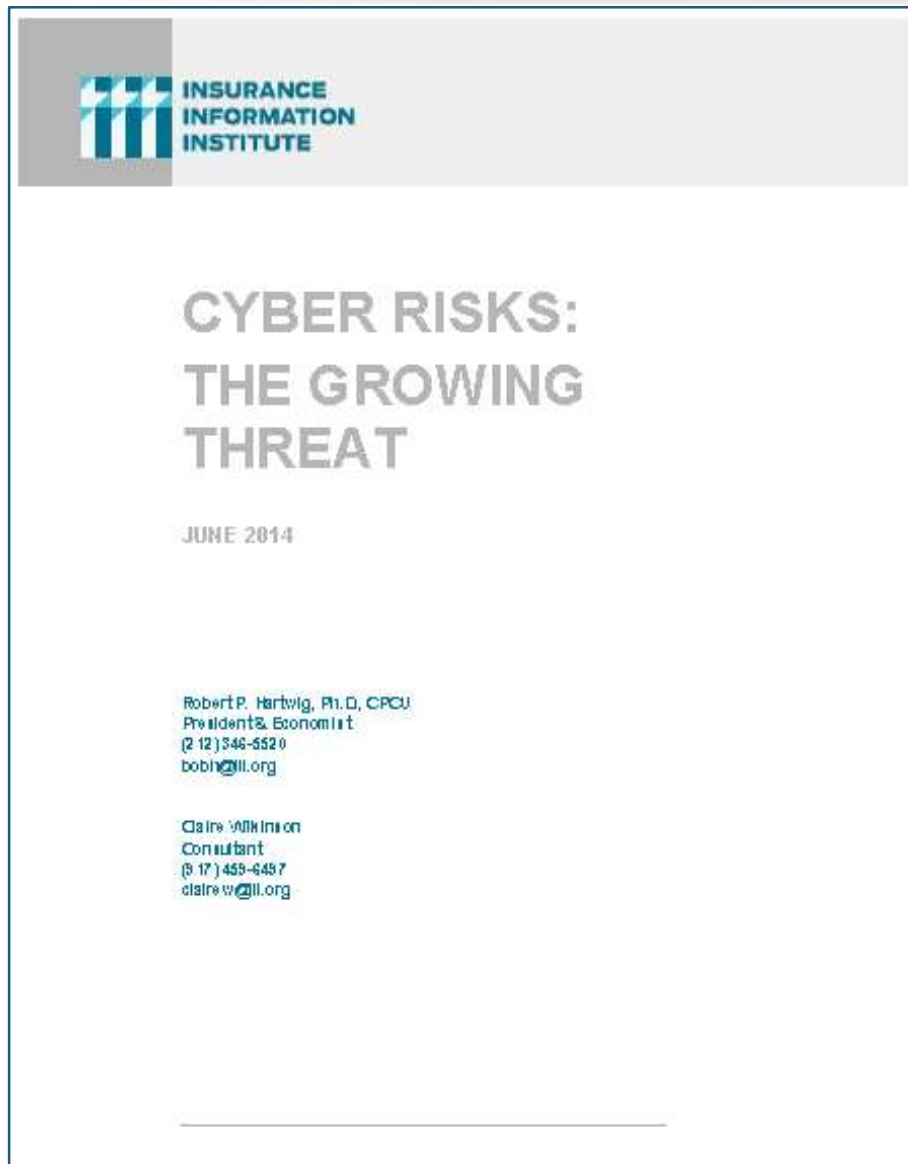


The Three Basic Elements of Cyber Coverage: Prevention, Transfer, Response



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. Released its Second Cyber Report in 2014: *Cyber Risk: The Growing Threat*



- I.I.I.'s 2nd report on cyber risk released June 2014
- 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
- **3rd Report in Q2 2015**

INDUSTRY DISRUPTORS

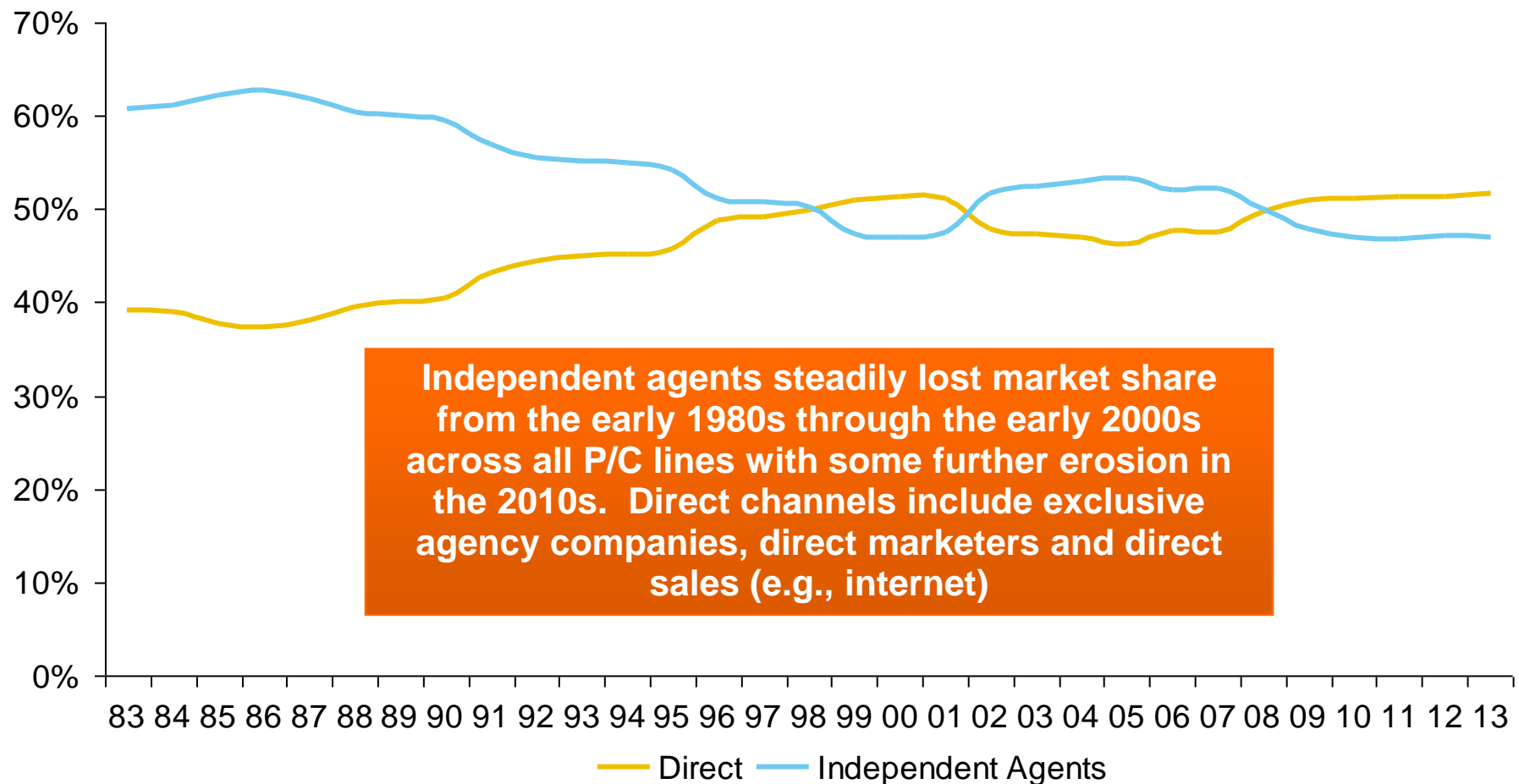
**Technology, Society and
the Economy Are All
Changing at a Rapid Pace**

Thoughts on the Future

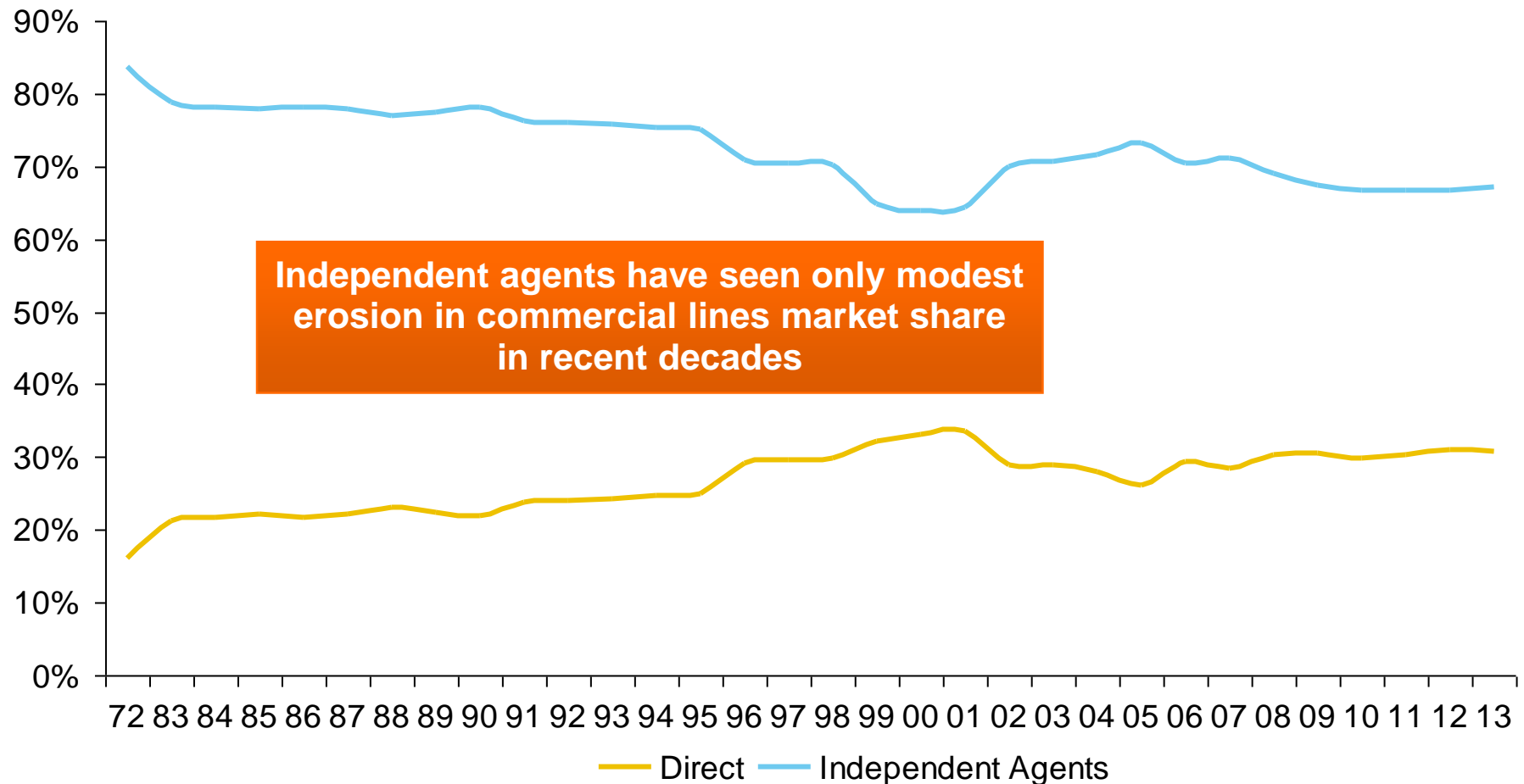
DISTRIBUTION TRENDS

**Distribution by Channel Type
Continues to Evolve Rapidly**

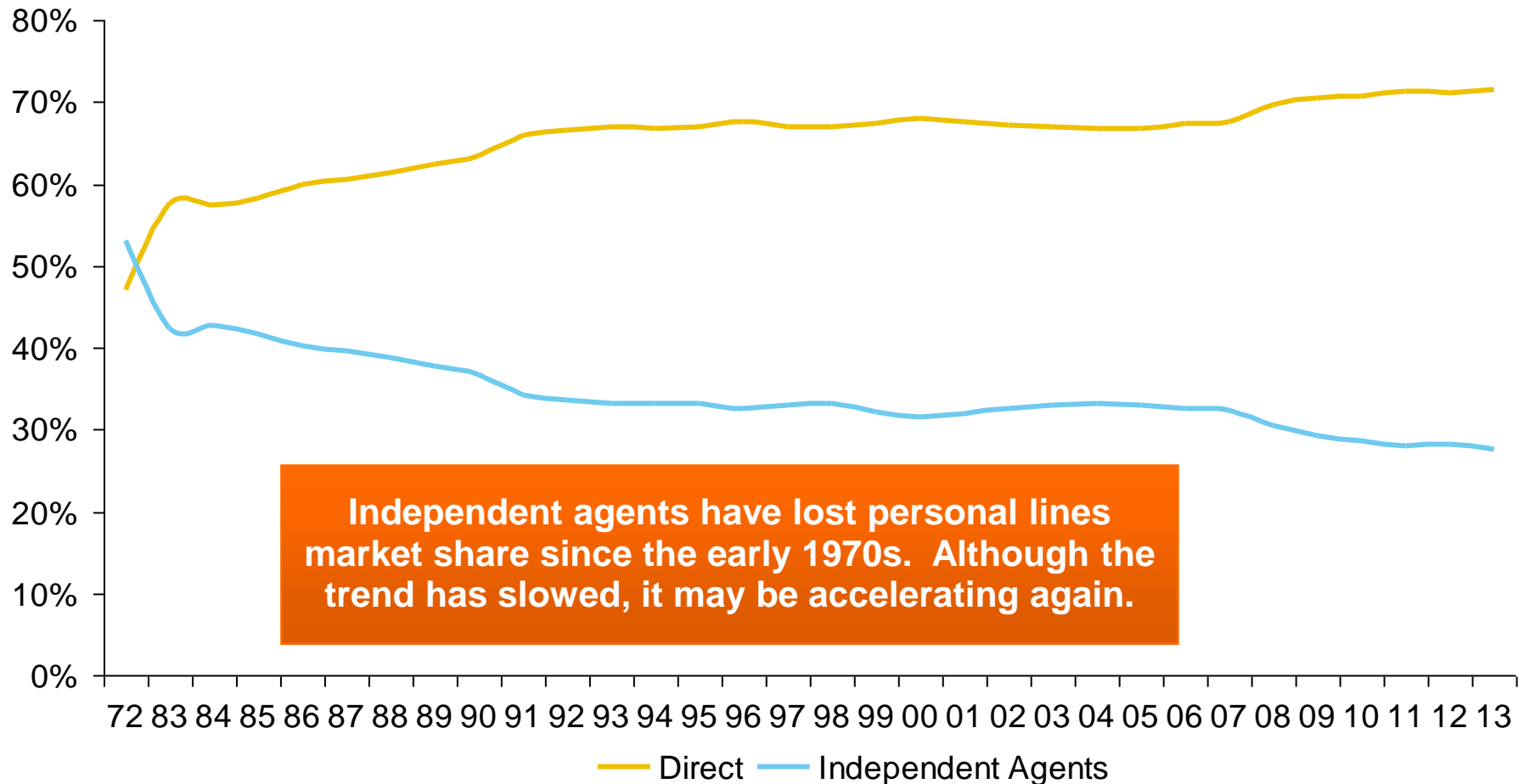
All P/C Lines Distribution Channels, Direct vs. Independent Agents



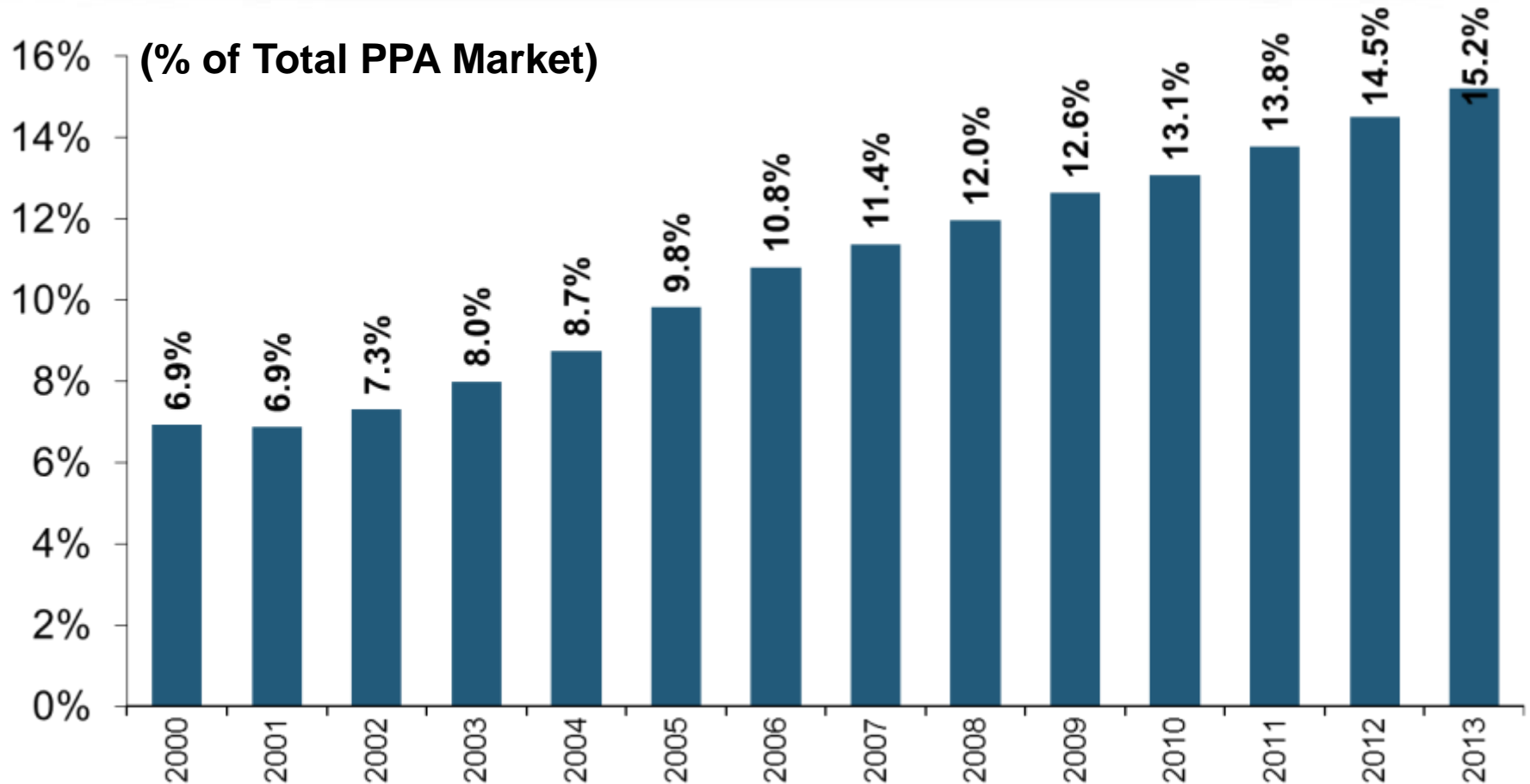
Commercial P/C Distribution Channels, Direct vs. Independent Agents



Personal Lines Distribution Channels, Direct vs. Independent Agents



Growth in Select Major Pvt. Passenger Auto Direct Writers' Market Share*



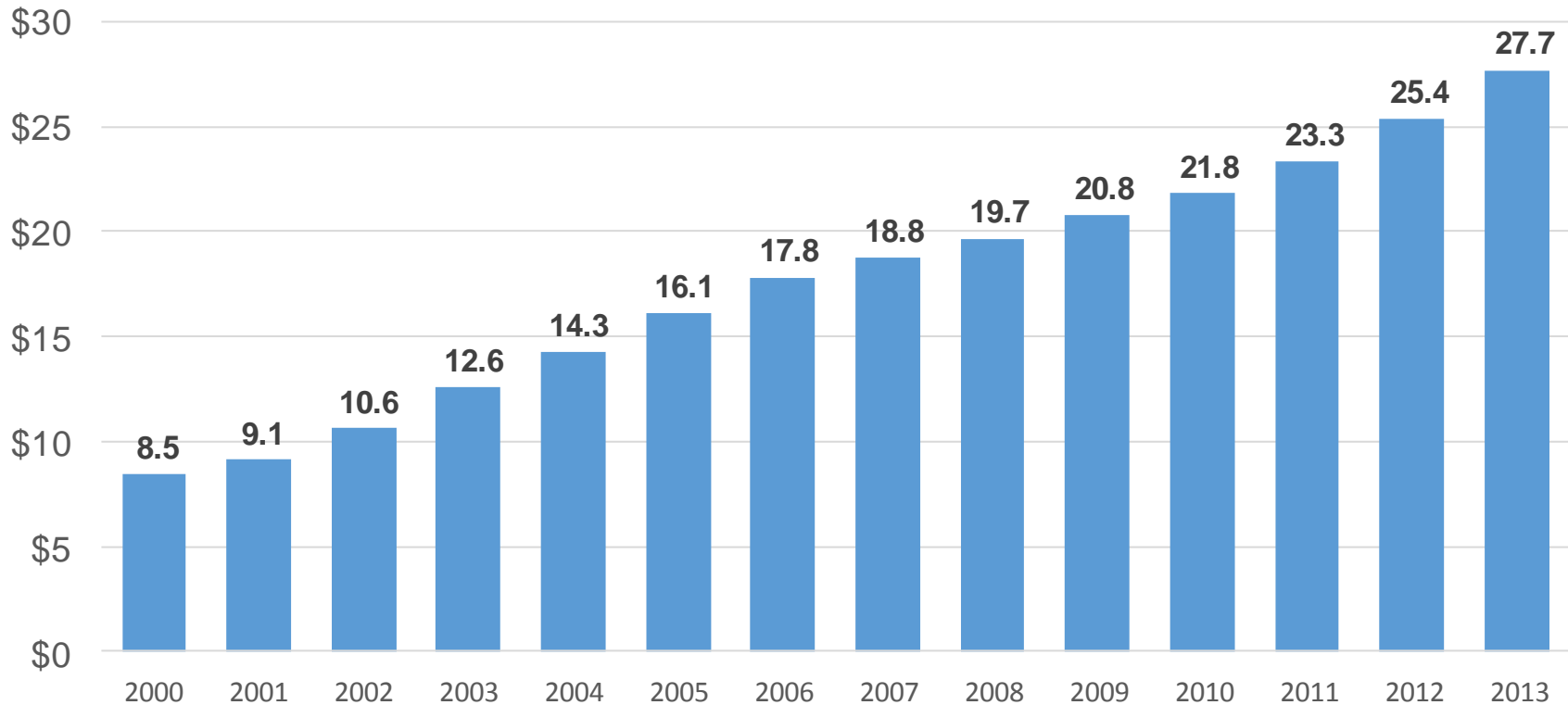
Direct Writers' Market Share Has More Than Doubled Since 2000.

*Includes GEICO, Progressive Direct, Esurance and 21st Century.

Sources: SNL Financial; Insurance Information Institute.

Direct Premiums Written for Select Major Pvt. Passenger Auto Direct Writers'

(\$ Billions)



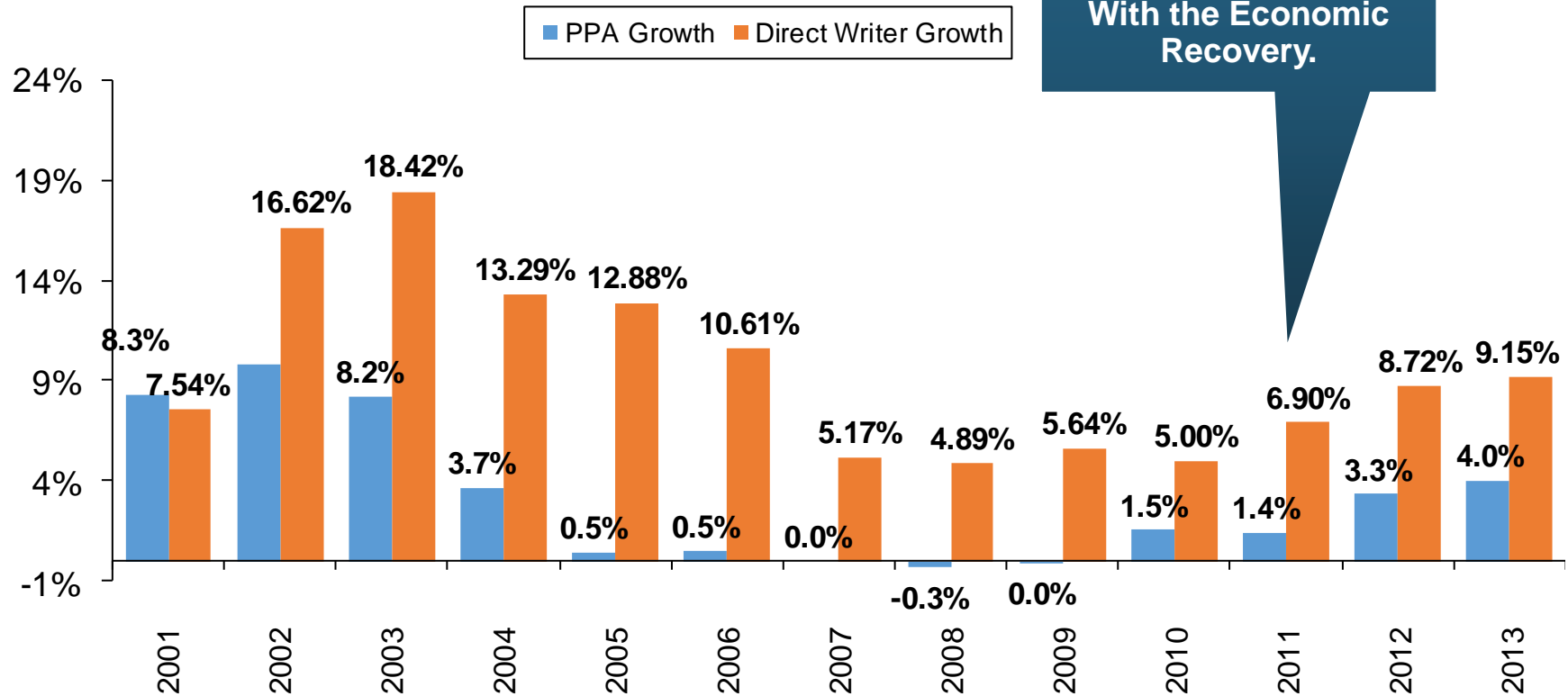
Direct Writers Have More Than Tripled Their Premiums Written Since 2000.

*Includes GEICO, Progressive Direct, Esurance and 21st Century.

Sources: SNL Financial; Insurance Information Institute.

Growth Rates: Major PPA Direct Writers vs. All Private Passenger Auto Writers

(% Growth Vs. Prior Year)



Direct Writers Have Grown Faster Than The Private Passenger Market Since 2002

*Includes GEICO, Progressive Direct, Esurance and 21st Century.

Sources: SNL Financial; Insurance Information Institute.

Top 10 and Direct PP Auto Writers Gained Market Share from 2009 to 2013

2013 Rank		Market Share (%)					Market Share Change			
		2009	2010	2011	2012	2013	2010	2011	2012	2013
1	State Farm Mutl Automobile Ins	18.09%	18.11%	18.07%	17.87%	17.97%	0.03%	-0.04%	-0.21%	0.10%
2	Berkshire Hathaway Inc.	8.35%	8.64%	9.22%	9.72%	10.35%	0.29%	0.58%	0.50%	0.63%
3	Allstate Corp.	11.13%	10.85%	10.48%	10.15%	10.03%	-0.29%	-0.36%	-0.34%	-0.11%
4	Progressive Corp.	7.58%	7.83%	8.06%	8.37%	8.54%	0.24%	0.23%	0.32%	0.16%
5	Farmers Insurance Group of Cos	6.46%	6.06%	5.99%	5.97%	5.49%	-0.40%	-0.07%	-0.02%	-0.48%
6	USAA Insurance Group	4.13%	4.39%	4.63%	4.87%	5.06%	0.26%	0.24%	0.23%	0.19%
7	Liberty Mutual	4.43%	4.57%	4.62%	4.80%	5.02%	0.14%	0.04%	0.18%	0.22%
8	Nationwide Mutual Group	4.64%	4.37%	4.20%	4.14%	4.04%	-0.27%	-0.17%	-0.06%	-0.10%
9	American Family Mutual	2.18%	2.13%	2.00%	1.92%	1.91%	-0.05%	-0.14%	-0.08%	0.00%
10	Travelers Companies Inc.	2.08%	2.14%	2.12%	1.97%	1.77%	0.06%	-0.02%	-0.15%	-0.20%
Top 10 Market Share		69.1%	69.1%	69.4%	69.8%	70.2%	0.01%	0.30%	0.39%	0.41%
11	Hartford Financial Services	1.64%	1.53%	1.41%	1.34%	1.31%	-0.11%	-0.12%	-0.07%	-0.03%
12	Auto Club Exchange Group	1.27%	1.28%	1.30%	1.30%	1.30%	0.01%	0.02%	0.00%	-0.01%
13	Erie Insurance Group	1.15%	1.19%	1.20%	1.21%	1.23%	0.04%	0.01%	0.01%	0.02%
14	MetLife Inc.	1.24%	1.24%	1.23%	1.22%	1.23%	-0.01%	-0.01%	-0.01%	0.01%
15	Mercury General Corp.	1.30%	1.26%	1.24%	1.22%	1.19%	-0.04%	-0.02%	-0.02%	-0.04%
16	CSAA Insurance Exchange	1.19%	1.18%	1.17%	1.14%	1.11%	-0.01%	-0.01%	-0.03%	-0.02%
17	Auto-Owners Insurance Co.	0.84%	0.91%	0.98%	0.99%	0.99%	0.07%	0.07%	0.01%	0.00%
18	Auto Club Insurance Assoc Grp	0.85%	0.89%	0.91%	0.91%	0.90%	0.04%	0.02%	0.00%	-0.01%
19	MAPFRE	0.82%	0.86%	0.89%	0.83%	0.82%	0.04%	0.02%	-0.06%	-0.01%
20	Infinity P&C Corp.	0.49%	0.55%	0.61%	0.68%	0.70%	0.06%	0.07%	0.07%	0.01%
#11-#20 Total Market Share		10.8%	10.9%	10.9%	10.8%	10.8%	0.09%	0.05%	-0.11%	-0.07%
Top 20 Market Share		79.9%	80.0%	80.3%	80.6%	80.9%	0.10%	0.35%	0.28%	0.34%
Rest of Industry Market Share		20.1%	20.0%	19.7%	19.4%	19.1%	-0.10%	-0.35%	-0.28%	-0.34%
TOTAL		100.0%	100.0%	100.0%	100.0%	100.0%				

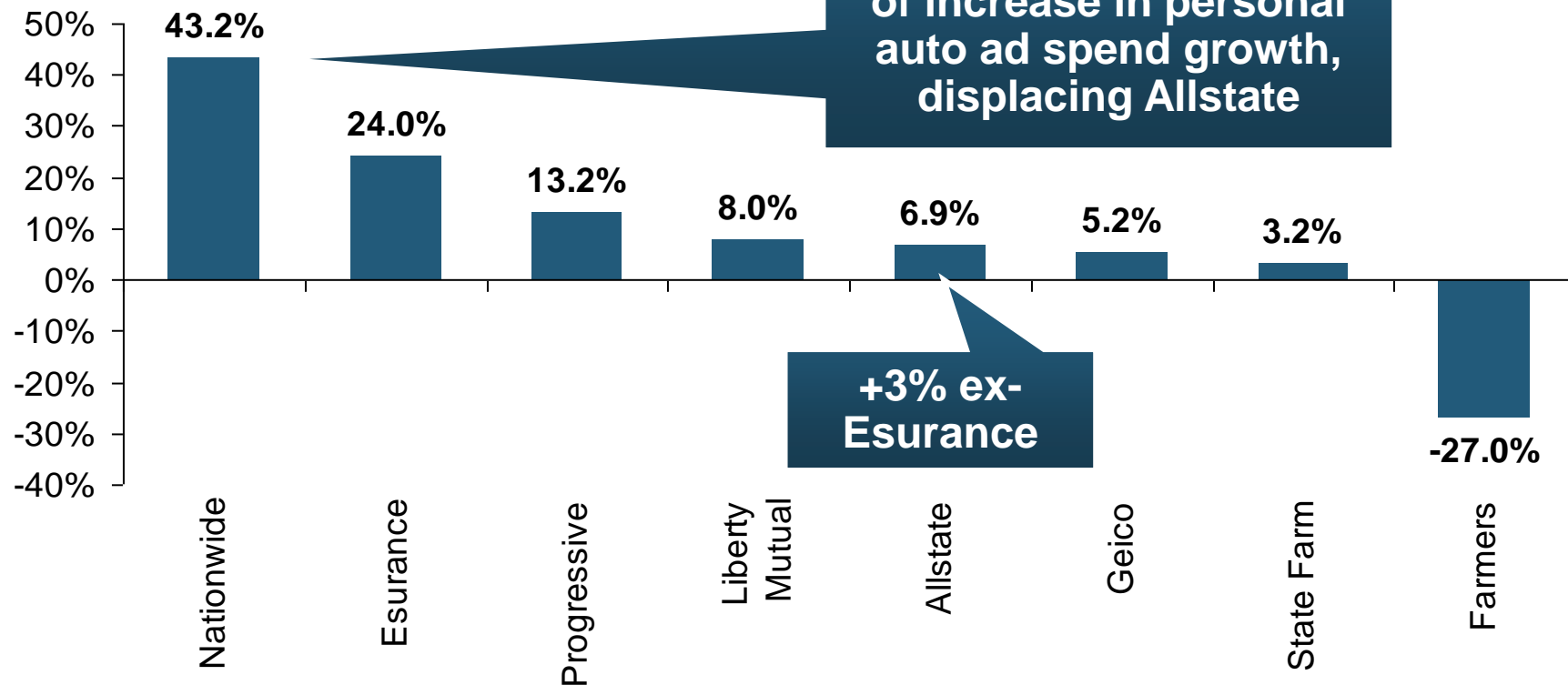
Top Line Growth of Major Independent Agency PP Auto Writers, 2009 – 2014H1

	2009	2010	2011	2012	2013	1H14
Progressive Agency Pool	0.9%	0.9%	2.5%	6.7%	5.2%	3.7%
Travelers	-0.7%	4.4%	0.4%	-3.8%	-6.3%	-2.3%
Nationwide Mutual	-2.5%	-4.5%	-2.4%	2.7%	2.0%	1.3%
Safeco	-12.0%	4.3%	-1.4%	12.6%	26.3%	11.7%
Mercury	-8.4%	-1.9%	0.0%	1.9%	1.3%	3.5%
Erie	2.2%	4.7%	2.4%	4.4%	6.4%	6.5%
Auto-Owners	8.2%	10.3%	8.7%	4.6%	4.4%	4.7%
Zurich/Farmers	-7.4%	-4.7%	0.0%	3.2%	-3.8%	-3.5%
Hartford	0.0%	-5.1%	-6.7%	-1.8%	2.0%	3.5%
Mapfre	-4.8%	6.2%	3.6%	-3.3%	3.4%	1.3%
Infinity	-5.7%	13.8%	13.7%	15.7%	6.5%	0.5%

Independent Agency carriers have turned in a mixed growth performance in the PP Auto line in 2014

Advertising Spend Change by Select Personal Auto Writers: 2013 vs. 2012

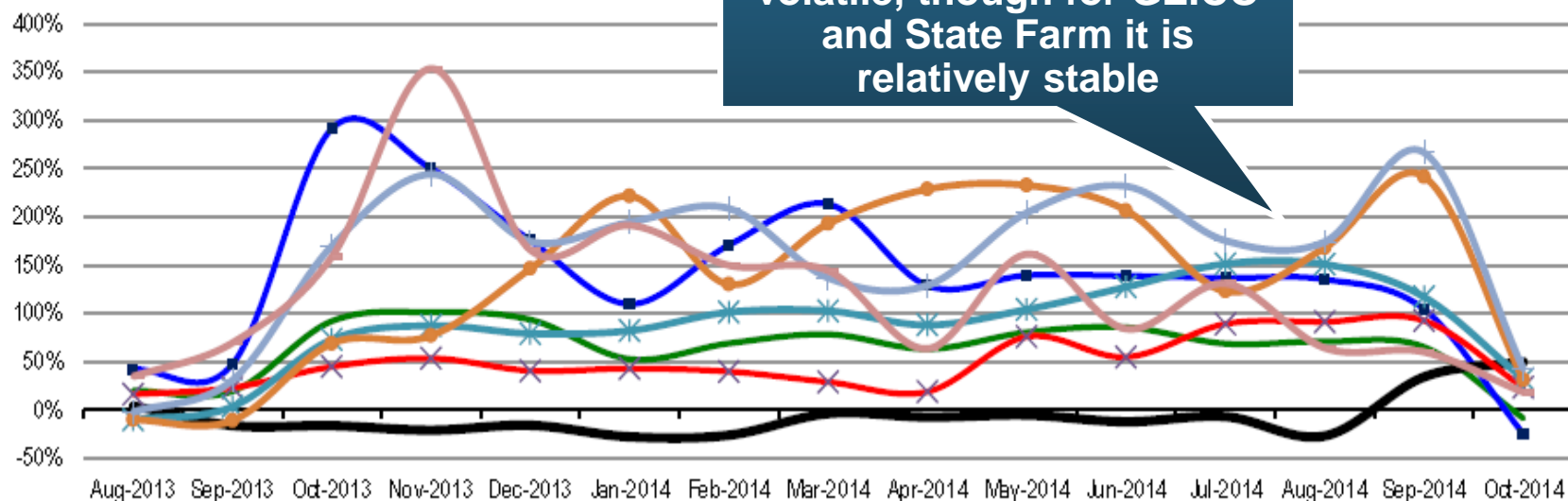
Percentage Change (%)



Changes in ad spending vary widely across auto insurers

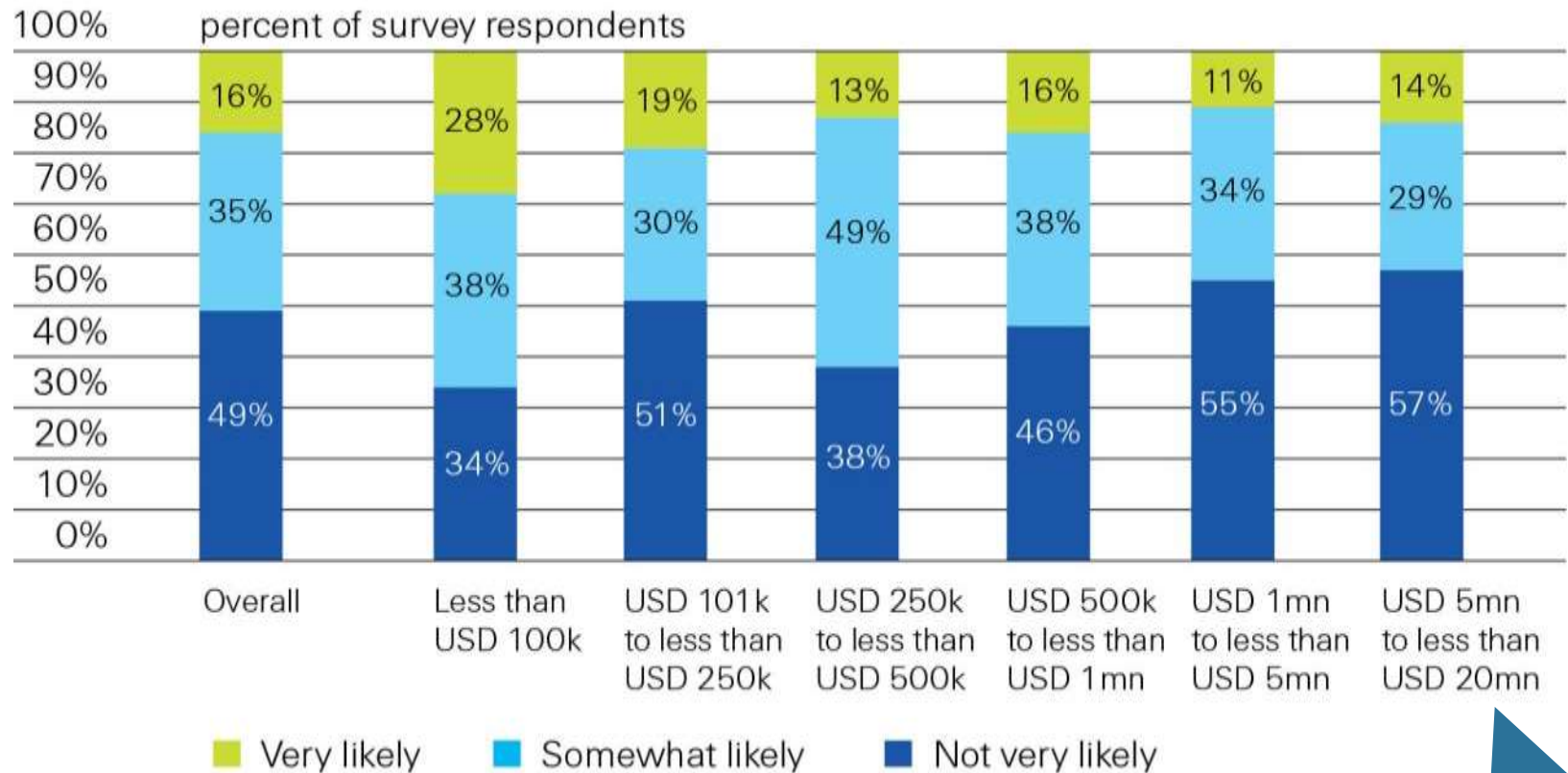
Y/Y Change in Unique Website Visitors of Select Personal Auto Writers, Aug. 2013 – Oct. 2014

Visitor traffic can be highly volatile, though for GEICO and State Farm it is relatively stable



	Aug-2013	Sep-2013	Oct-2013	Nov-2013	Dec-2013	Jan-2014	Feb-2014	Mar-2014	Apr-2014	May-2014	Jun-2014	Jul-2014	Aug-2014	Sep-2014	Oct-2014
GEICO	20.1%	19.4%	91.9%	101.2%	93.4%	52.6%	69.0%	78.3%	63.2%	80.4%	85.5%	68.6%	70.9%	65.1%	-8.6%
PROGRESSIVE.COM	42.1%	47.7%	291.3%	249.9%	175.4%	109.7%	170.8%	213.1%	128.7%	139.3%	138.9%	136.7%	135.2%	104.3%	-24.9%
STATEFARM.COM	3.9%	-16.2%	-16.3%	-21.0%	-15.9%	-27.8%	-26.1%	-3.8%	-7.4%	-5.3%	-12.2%	-6.9%	-26.9%	34.2%	49.8%
ALLSTATE.COM	16.1%	23.0%	44.7%	53.5%	40.6%	42.9%	39.7%	28.9%	18.9%	75.8%	54.8%	89.1%	91.3%	92.4%	23.2%
USAA	-10.3%	3.4%	73.0%	87.3%	79.1%	82.1%	101.3%	102.6%	87.9%	104.1%	127.3%	151.3%	150.9%	117.0%	31.9%
LIBERTY MUTUAL	-10.2%	-10.9%	68.8%	76.9%	146.3%	221.5%	130.0%	193.0%	228.6%	232.6%	206.6%	122.9%	168.0%	241.5%	31.4%
NATIONWIDE	-2.3%	31.0%	169.8%	244.0%	174.4%	194.3%	208.6%	136.7%	129.1%	204.2%	231.6%	175.3%	174.2%	266.5%	42.5%
ESURANCE	34.6%	69.6%	158.5%	353.5%	165.6%	191.1%	149.7%	144.1%	63.5%	161.3%	83.9%	130.8%	64.1%	59.9%	18.3%

Proportion of Businesses Interested in Buying Insurance Online



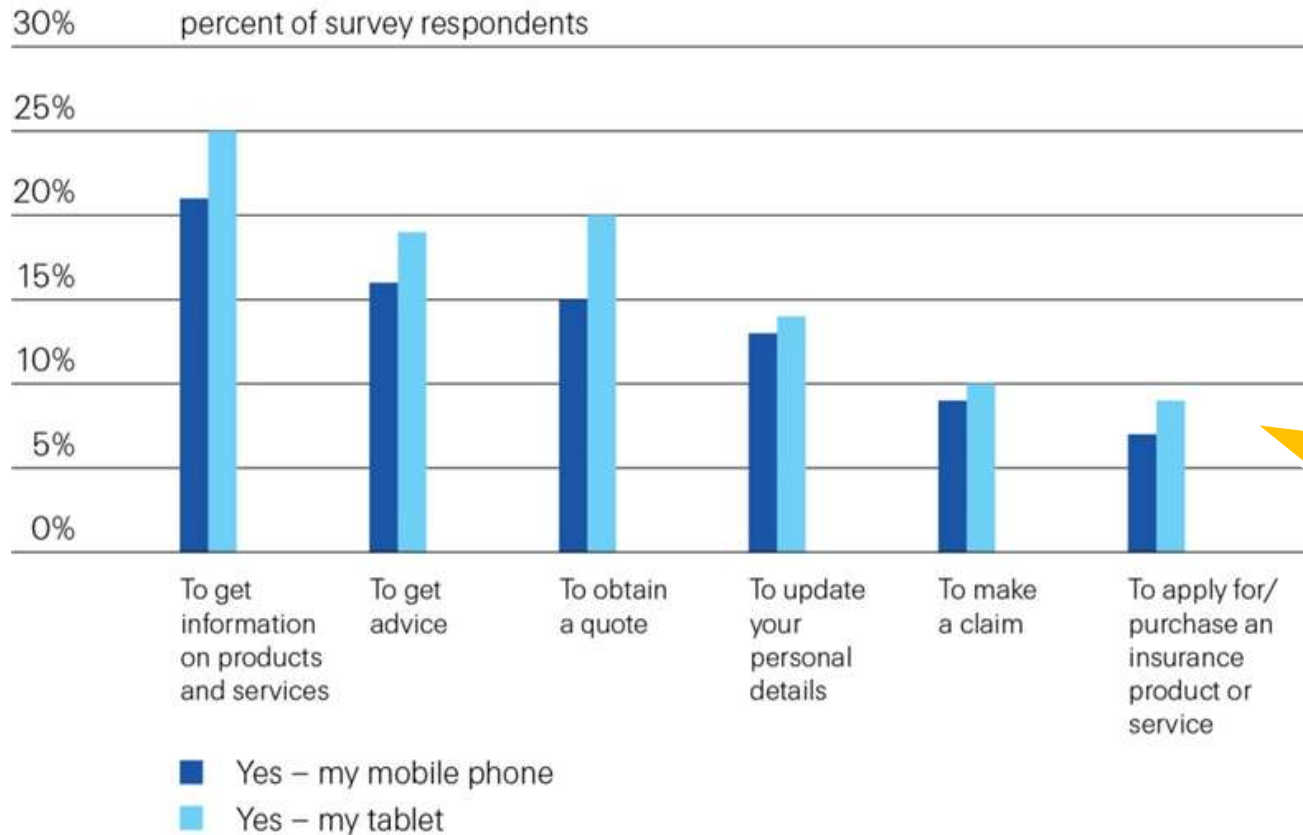
Likelihood of small US businesses buying insurance online directly from the insurer, overall and by annual company revenue, in 2013

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

**Interest
diminishes
with account
size**

The Rise of the Smart Phone: Technology is Available for All Distribution Channels

Use of smart mobile devices in insurance distribution



% Positive Responses to the Question: Have you used your mobile device in the past two years to deal online with an insurer?

Smart phones are a technology available to all distribution channels

Note: Share of positive responses to the question: “Have you used your mobile device in the past two years to deal online with an insurer?”

Source: Swiss Re from “2013 Consumer-Driven Innovation Survey.” Accenture (2013)

Google: Should Insurers Be Concerned?

Google Compare launched in California on March 5 and sent ripples through PPA market

Google Compare Auto Insurance

An easier way to shop for

Find more options, faster

Researching for car insurance with a growing number of insurance questions into a single form. Enter your information once and compare quotes from multiple providers.

Mercury Insurance MetLife General Insurance

Mercury

Purchase options:

Please review Coverage details below.

[BUY ONLINE](#)

1-800-378-7262
Open tomorrow 8AM - 8PM
Your reference: ABD446E

To protect your privacy, your caller ID will be hidden from the provider.

Talk to a real person

Speak with providers' licensed agents to ask any questions before finalizing your purchase. Some providers also offer online purchase so you can buy at any time of the day.

Compare apples-to-apples

Get personalized quotes from multiple providers. Compare coverages, prices, and features to make an informed decision.

6-month policy

Coverage	Amount
Primary liability	\$100k/\$200k
Bodily injury	\$100k/\$200k
Property damage	\$100k

MERCURY INSURANCE

Pay it \$64

- New uses for mobile increase potential for accessing the previously uninsured
 - Insurance premiums can be collected via mobile (through mobile money platforms or through airtime deductions)
 - Collection methods typically depend on regulation

Innovative Examples

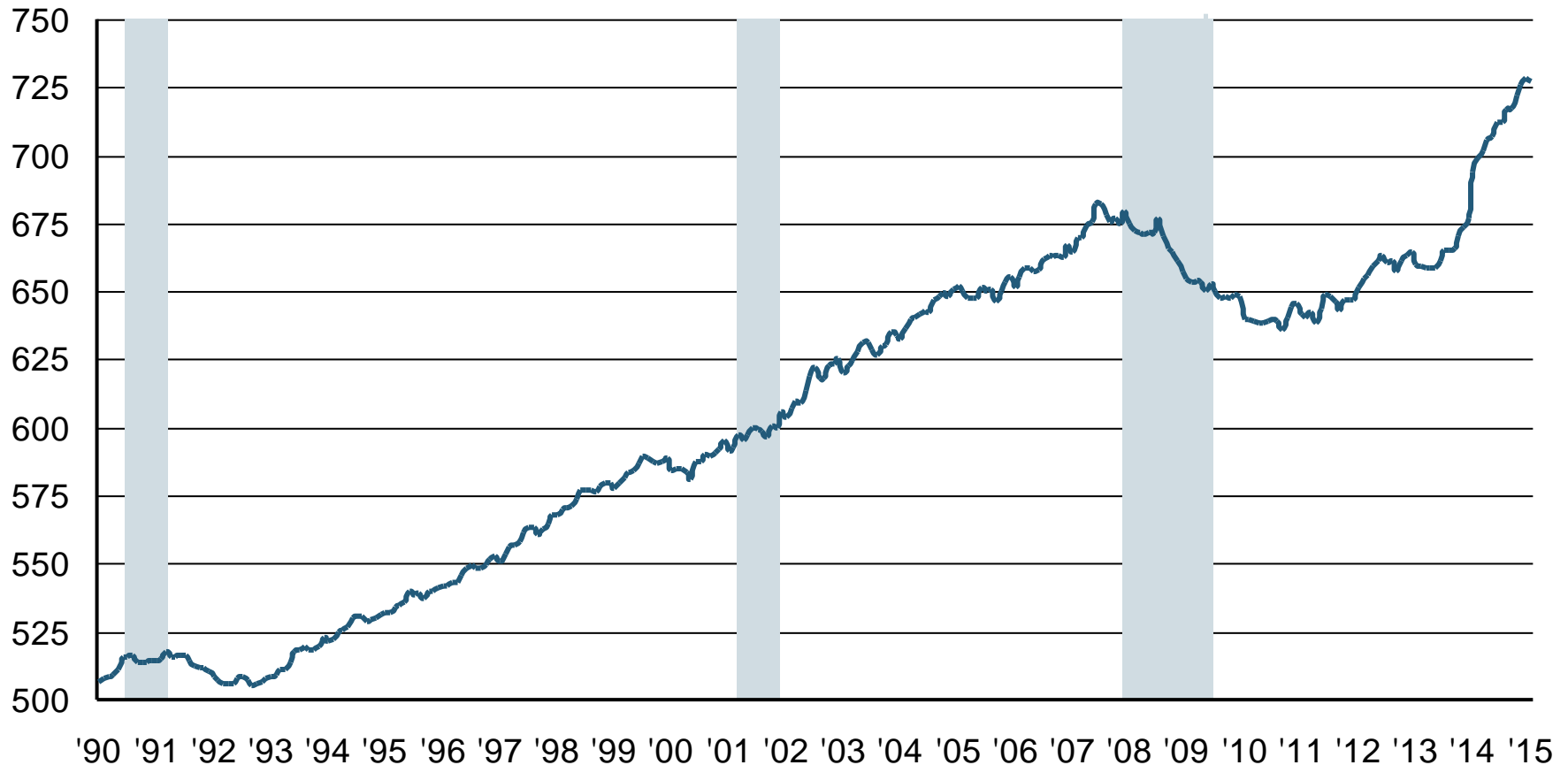
- MicroEnsure – using algorithms to track down potential claims
- Bima – using mobile to monitor agent performance and verify that consumers get the right information
- Kilimo Salama – using just 2 mobile data points (GPS location and date of text), combined with satellite technology, to underwrite crop insurance
- IFFCO-Tokio – mobile biometric identification for livestock insurance

DISTRIBUTION DEMOGRAPHICS

**Employment Among Agents and
Brokers Has Recovered but
Consolidation Trends Will
Persist**

U.S. Employment in Insurance Agencies & Brokerages: 1990–2015*

Thousands



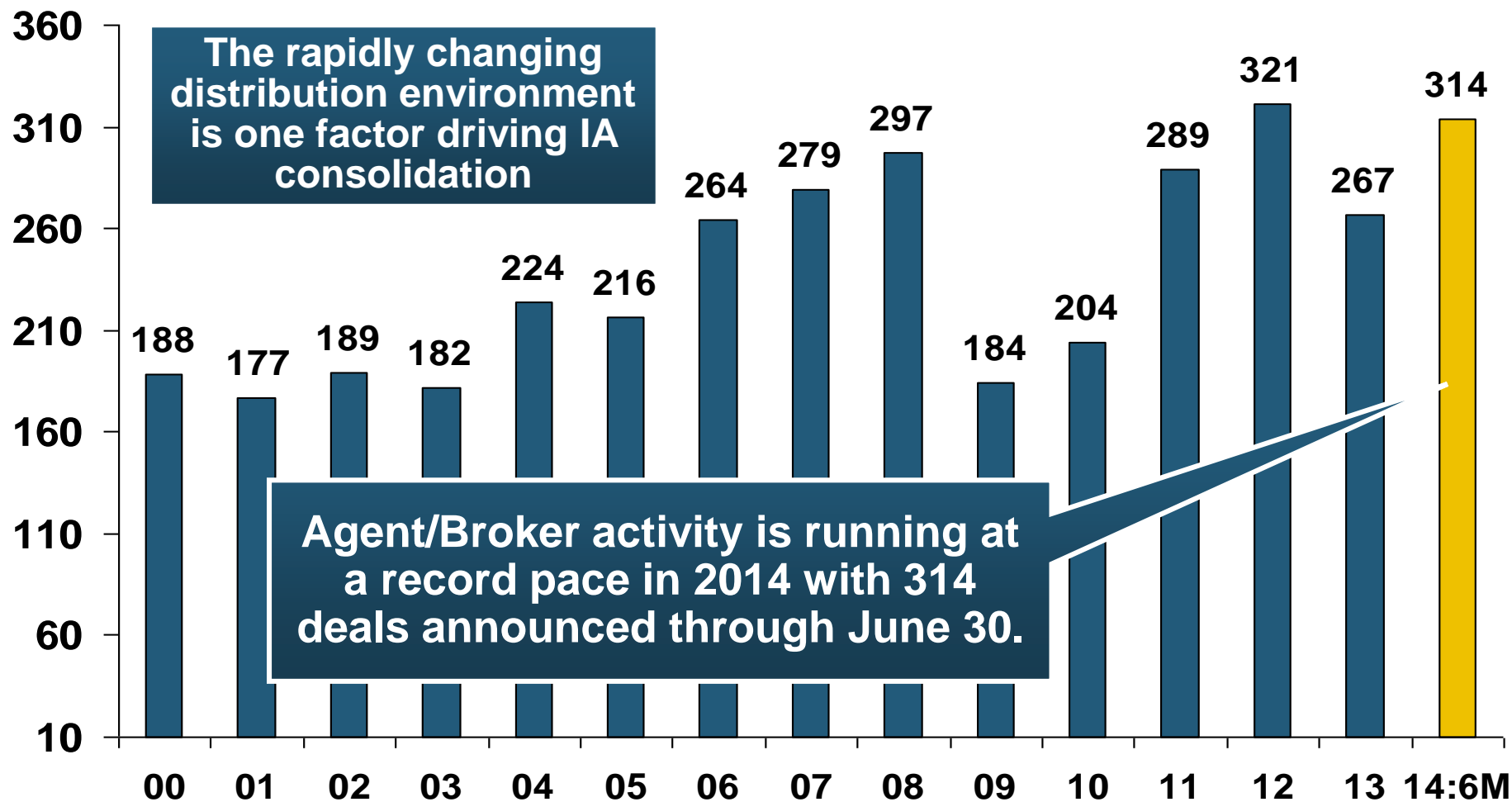
*As of January 2015; not seasonally adjusted. Includes all types of insurance.

Note: Recessions indicated by gray shaded columns.

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

Agent/Broker M&A Deals, 2000-2014:6M

Number of Deals



“BIG DATA”

**More and Better Data Combined
with Consumer Interactivity Are
Transforming Many Industries—
*Including Insurance***

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

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

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

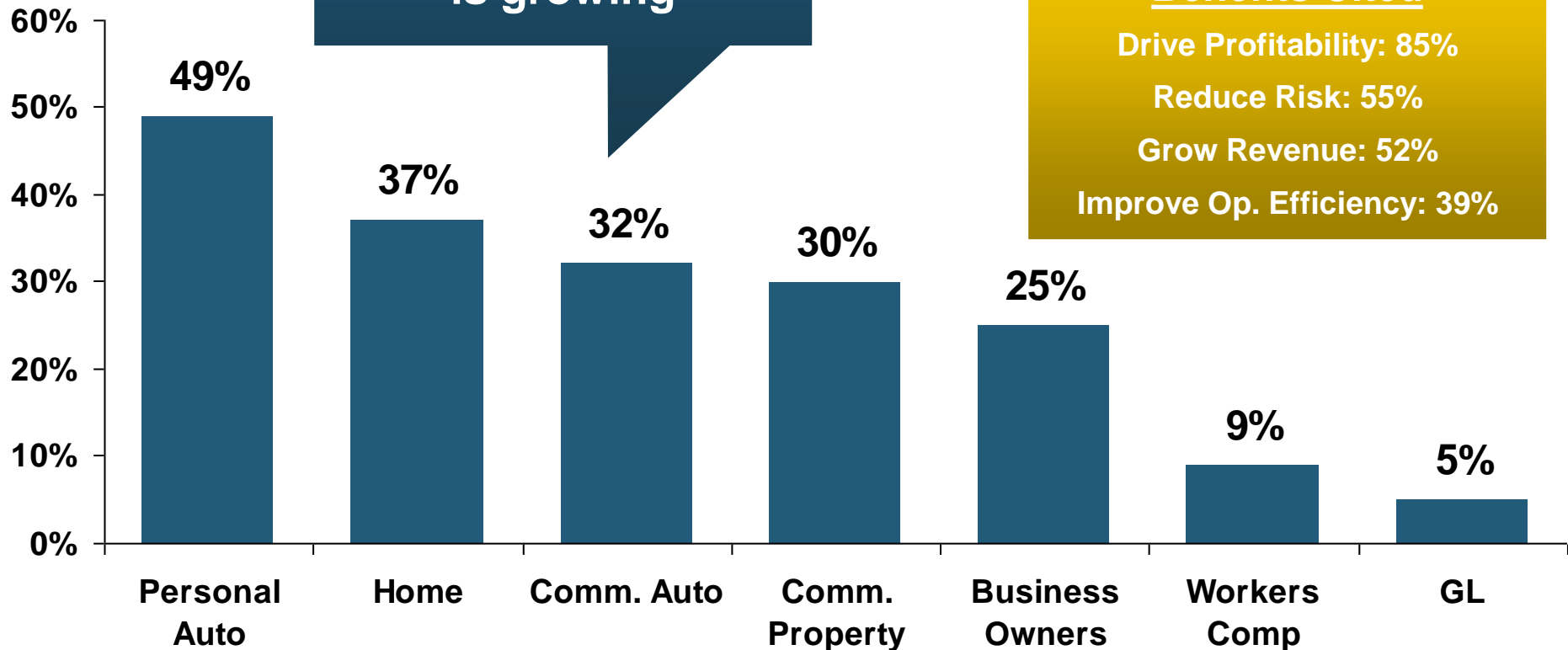
Benefits Cited

Drive Profitability: 85%

Reduce Risk: 55%

Grow Revenue: 52%

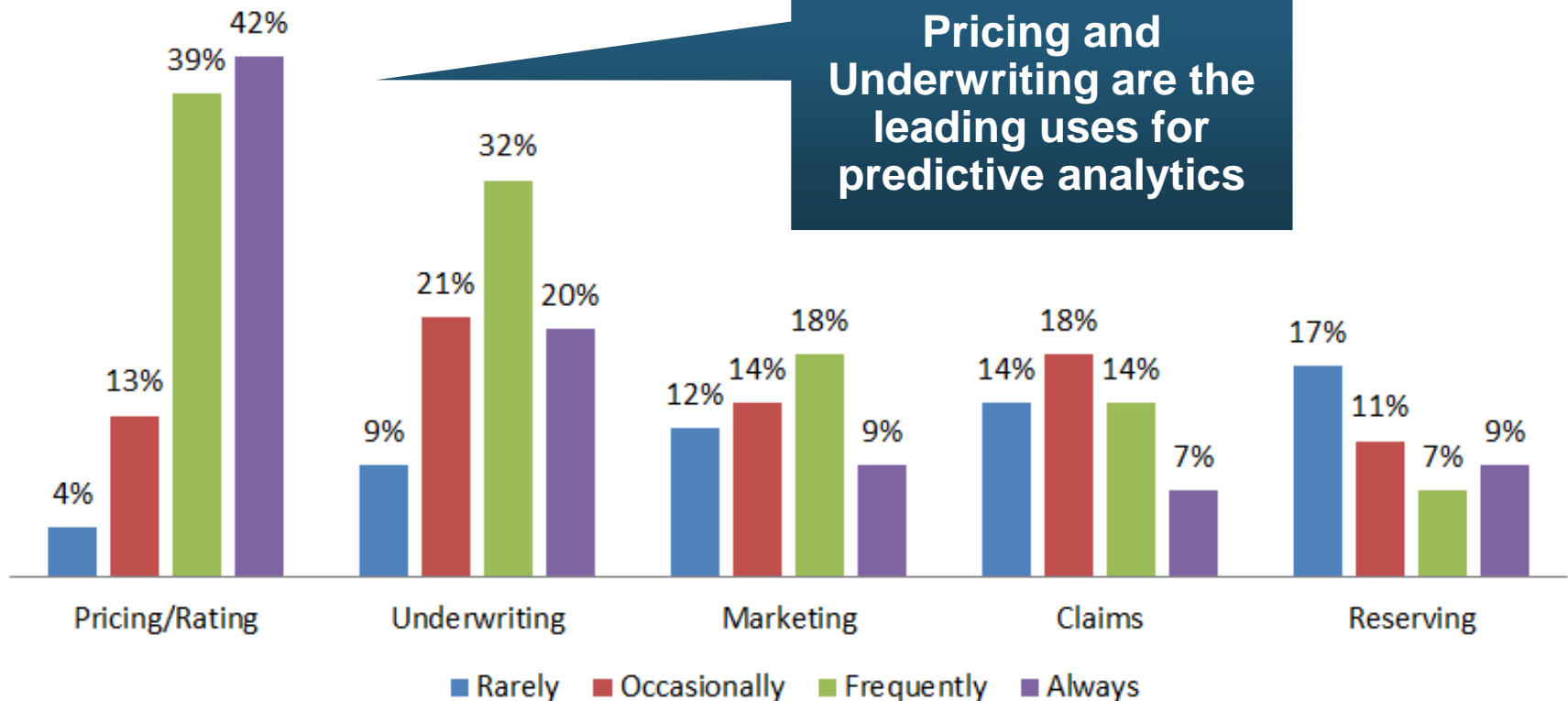
Improve Op. Efficiency: 39%



Uses of Predictive Analytics by Function

Uses of Predictive Modeling

Pricing and Underwriting are the leading uses for predictive analytics



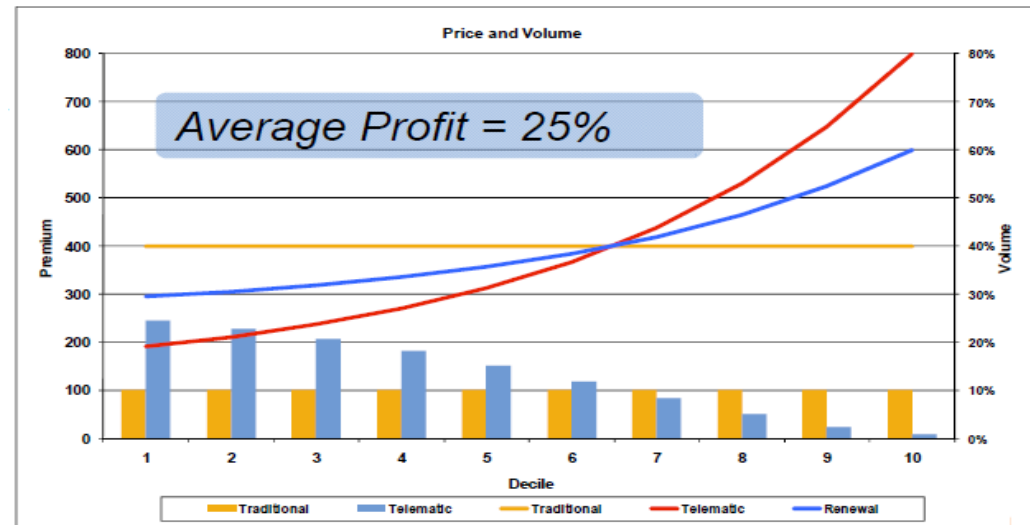
Source: Earnix/ISO September 2013 Survey

Usage-Based Insurance (UBI): Telematics

**UBI Is Catching On Among
Insurers and Consumers, But Is
It a Transient Technology?**

Driving Behavior Data Is Very Predictive

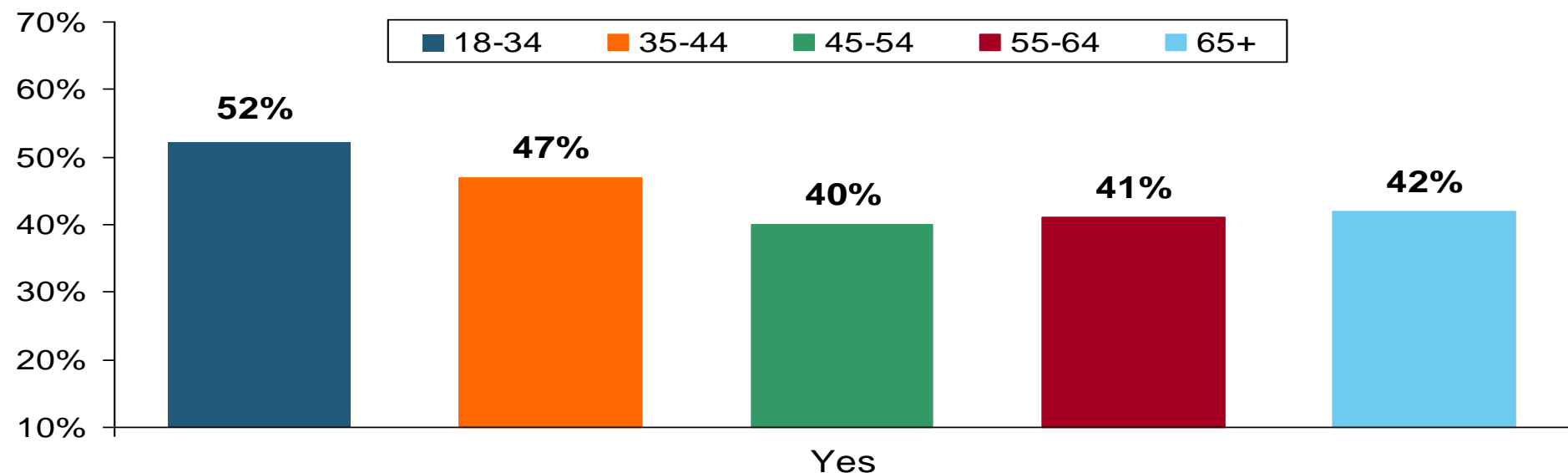
- Provides significant lift above current rating plan
 - ♦ Early programs had discounts of up to 61% and surcharges of 9%, but most companies are not giving such significant rate variation
 - ♦ Difference between indication and selection can help fund technology while still providing marketing effect
 - ♦ Must be matched with policy and claims data to develop predictive models and define lift



Smart implementation helps justify the technology cost

I.I.I. Poll: Telematics

Q. Would you be more likely to install a recording device on your car that allows your insurance company to monitor how many miles you drive, the time of day you drive and how often you make sudden stops if you could get an immediate discount on your auto insurance?¹



Support for telematics device is highest among youngest age group and declines among older people.

¹Asked of those who have auto insurance.



Autonomous/Driverless Vehicles

**Rapid Technological Innovations in
Motor Vehicle Engineering Are
Likely to Transform Auto Insurance
and Product Liability Markets**

Likely Impacts of Successful, Incremental Autonomous Vehicle Technologies

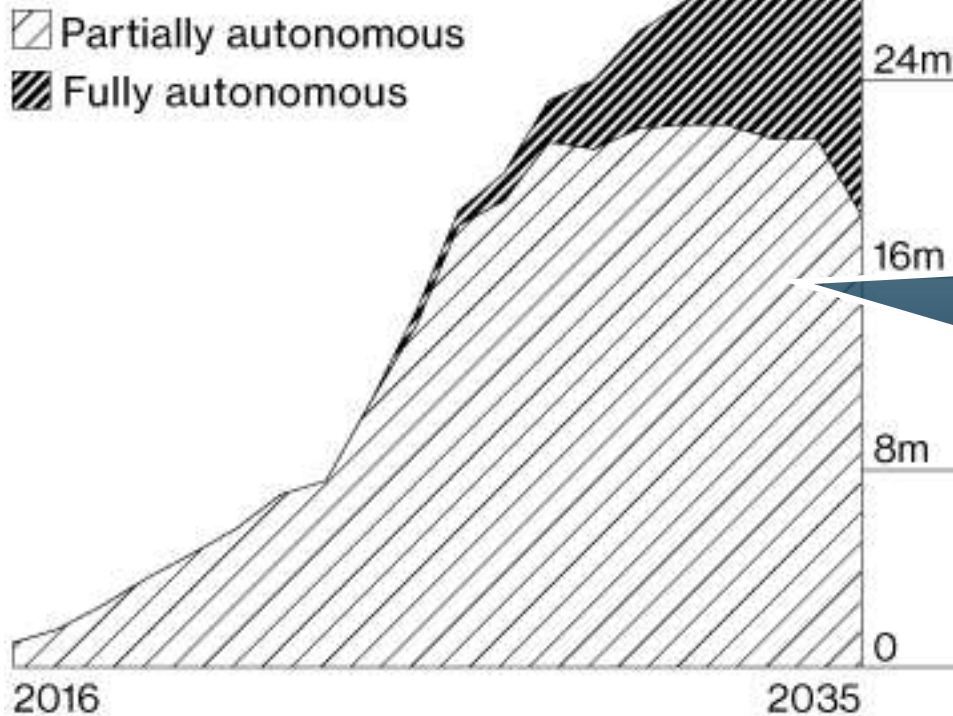
- **Proven Collision Avoidance Technologies Will Likely Become Standard as Major Manufacturers, Google Set 2020-2025 Timeframes for Fully Autonomous**
- **Auto Accident Frequency Will Fall, Possibly Substantially as Share of Cars with New Technology Grows (~20-yrs.)**
 - ◆ Collision, BI, PIP claims should fall
 - ◆ Less litigation (due to fewer claims and “black box” technologies)
- **Historical Analogies to Aviation and Marine Insurance**
 - ◆ Both saw technology radically reduce claim frequency
- **Potential “Leapfrog” Technology Over Usage-Based Insurance (UBI) Technologies Currently Available**
- **Insurance Price Will Be a Major Factor in Adoption Rate**
 - ◆ 90% would consider an autonomous car if premium is 80% lower*

*CarInsurance.com survey <http://www.carinsurance.com/Articles/autonomous-cars-ready.aspx>, Nov. 2013.

Projected Sales of Partially and Fully Autonomous Vehicles through 2035

Hands-Free

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

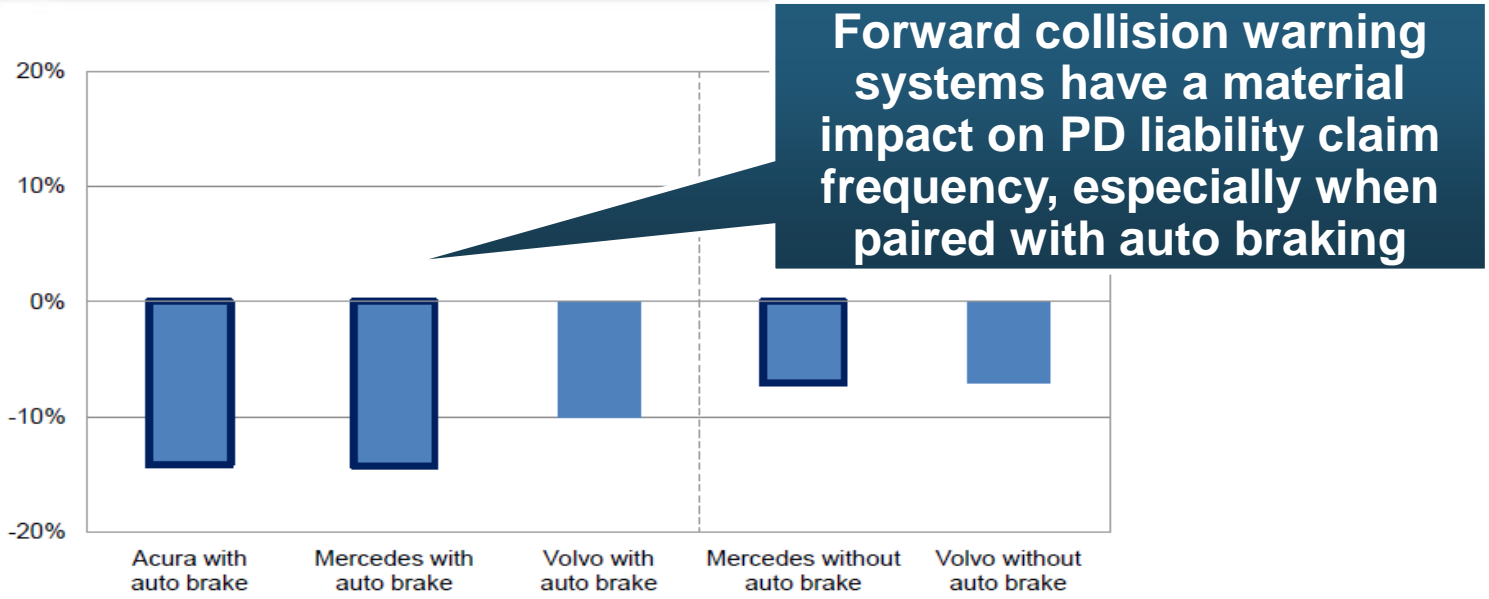


DATA: BOSTON CONSULTING GROUP;
GRAPHIC BY BLOOMBERG BUSINESSWEEK

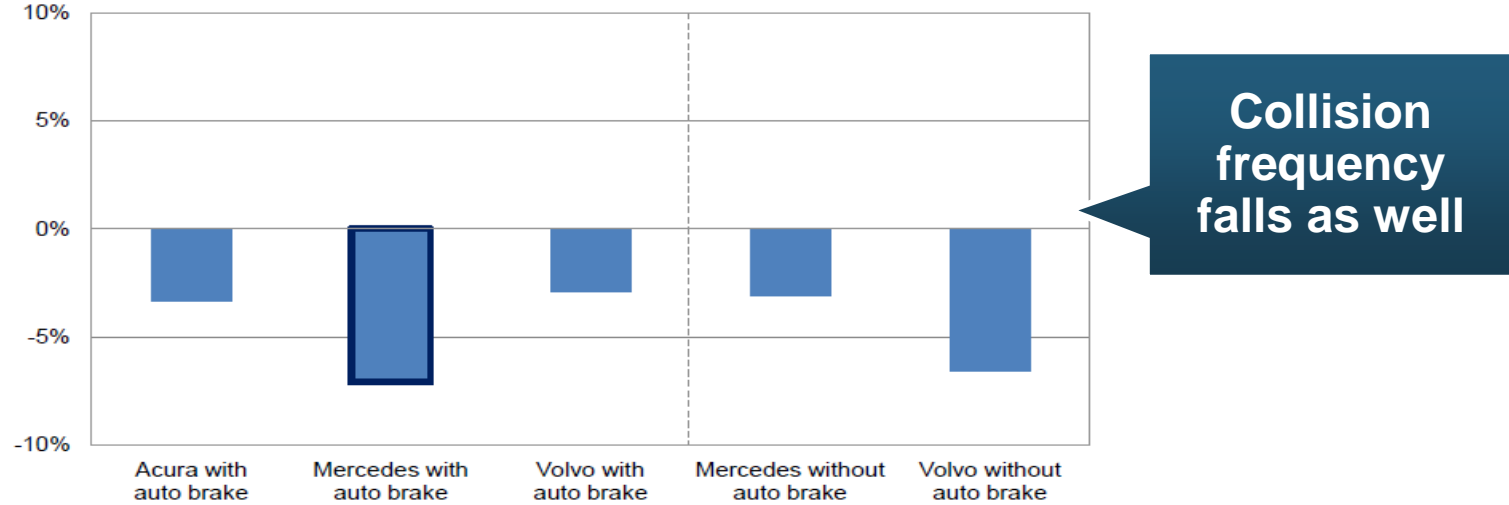
By 2035, it is estimated that 25% of new vehicle sales could be fully autonomous models

Impact of Forward Collision Warning With and Without Auto Brake

**Property
Damage
Liability Claim
Frequency by
Manufacturer**

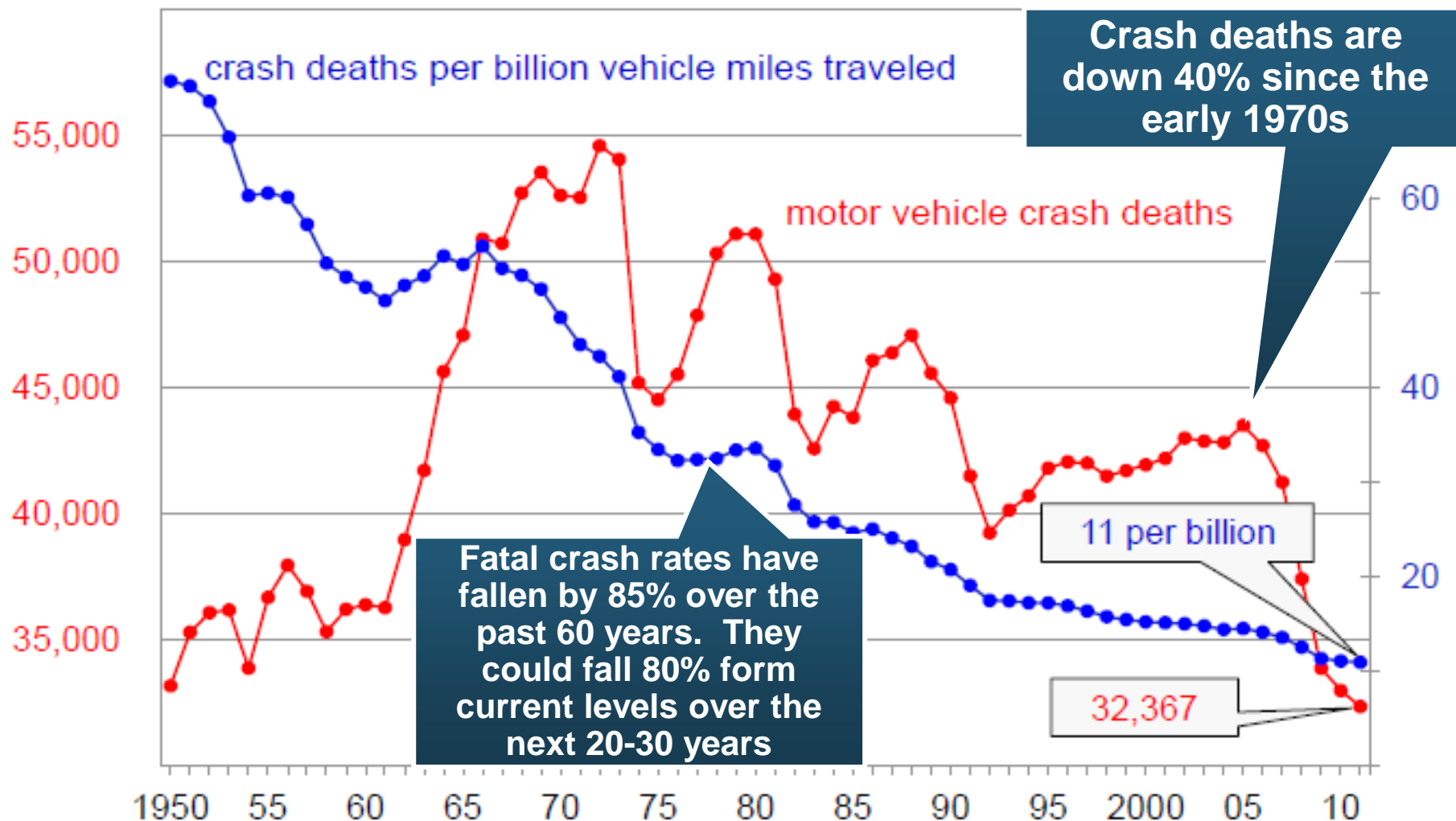


**Collision
Claim
Frequency by
Manufacturer**



Enhanced Vehicle and Road Safety Have Made Driving Much Safer

Motor Vehicle Crash Deaths and Crash Death Rate, 1950-2012



■ “Peak Auto”

- ◆ Peak vehicle ownership per person/household likely already reached
- ◆ Less interest in auto ownership among youth
- ◆ Preference of youth to live in urban areas, use public transit

■ The “Sharing Economy”: Vehicles & Homes On Demand

- ◆ Vehicles on Demand: Fewer vehicles likely need in the future as the technologies of driverless vehicles and ride sharing (e.g., Uber, Lyft)
- ◆ Dwellings on Demand: Airbnb



■ Disintermediation

- ◆ For commodity products, the power resides with whoever has contact with the customer
- ◆ Fear that tech firms such as Google or Apple or a major retailer such as Walmart or Amazon could disintermediate agency forces (or insurers themselves if regulatory environment were to permit)

■ Big Data

- ◆ Ushering a new era of advanced/predictive analytics which will presumably improve underwriting a pricing
- ◆ Could drive down pricing but also open up new risks to underwrite

■ The Digital Economy

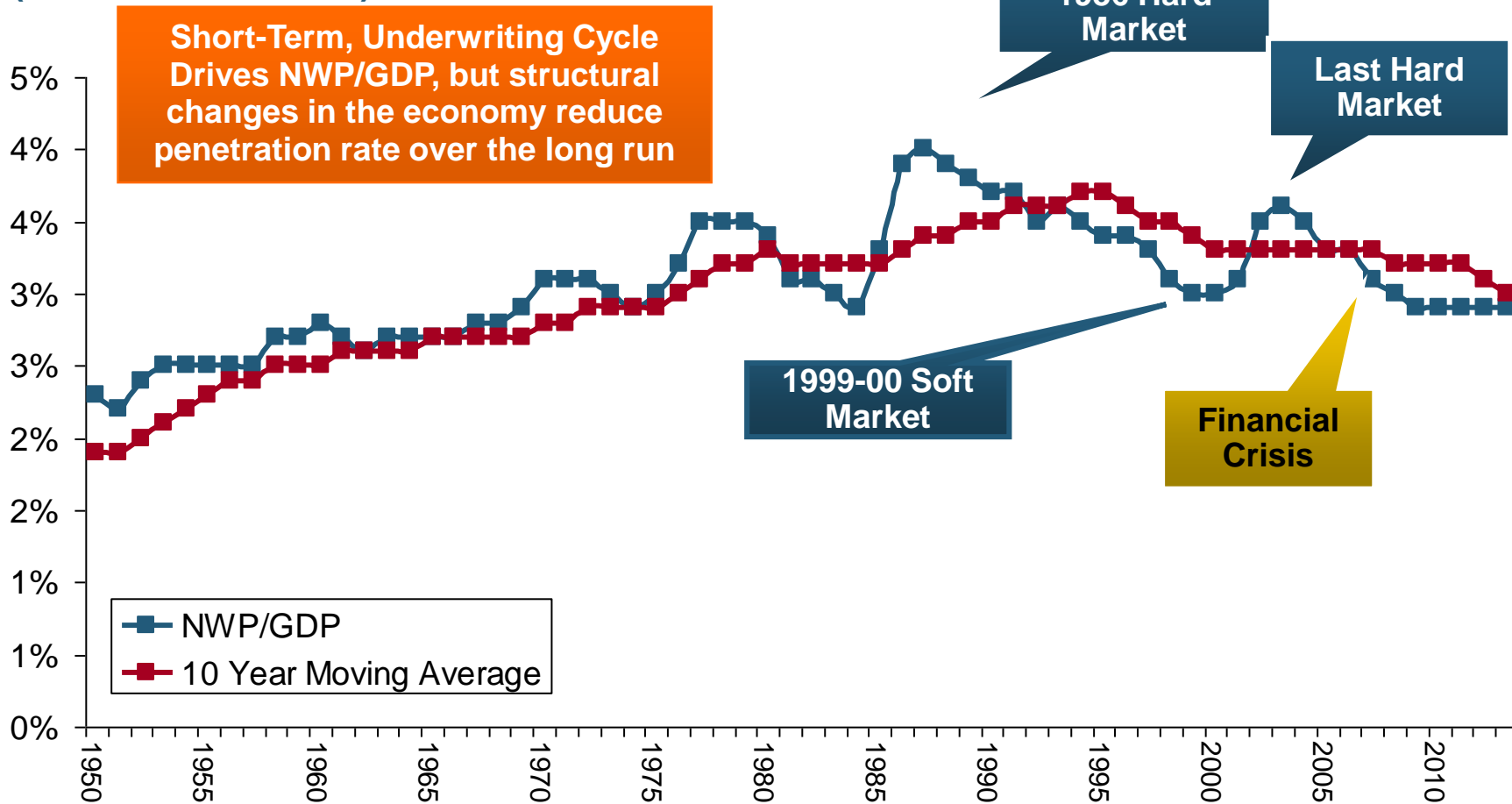
- ◆ Increasing share of GDP is intangible
- ◆ Insuring of “bits and bytes” and associated liability risks is in its infancy compared to “bricks and mortar” products

■ Reduced Relevancy of Insurance

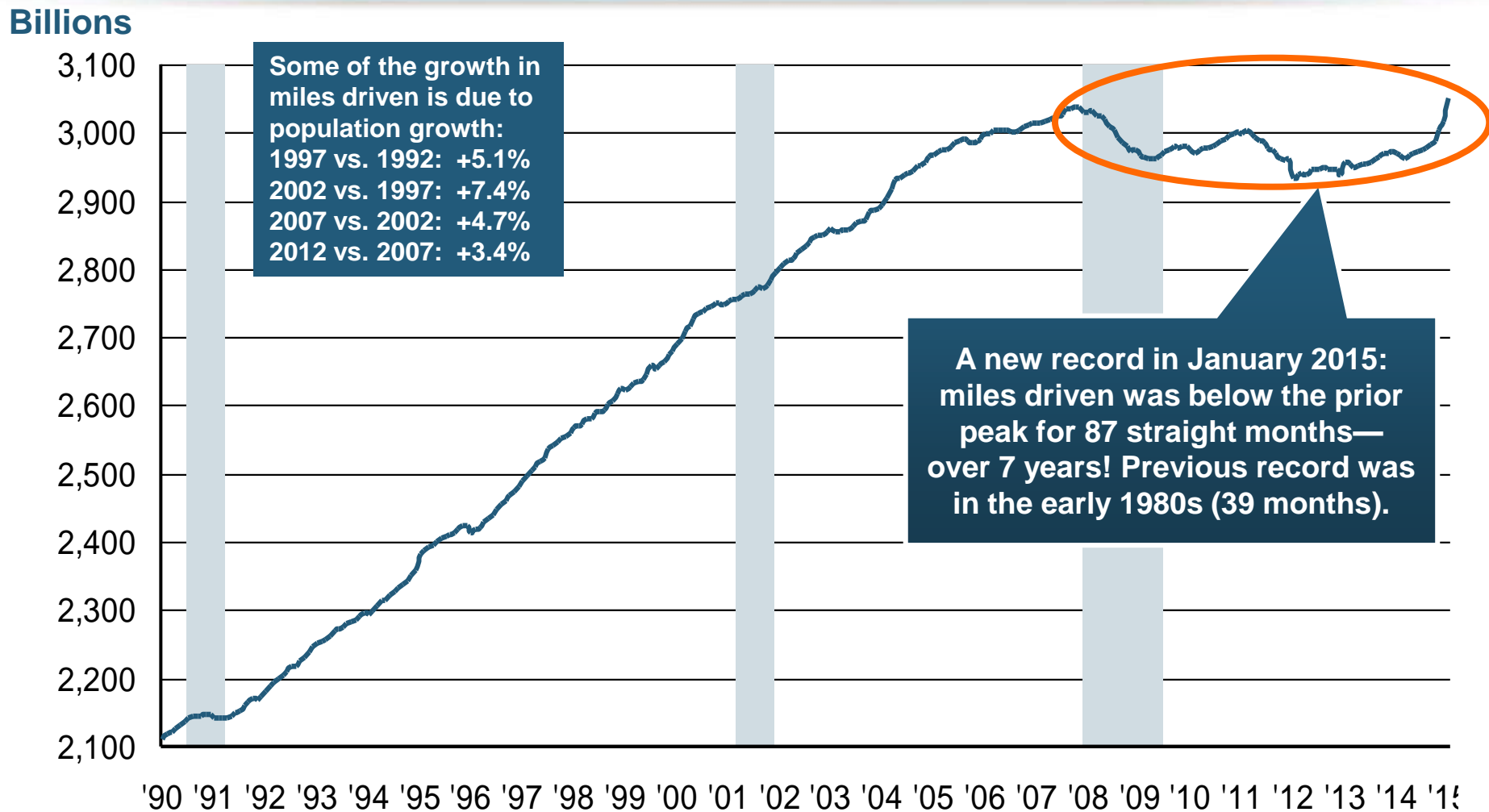
- ◆ Many consumers, given the option, will forego the purchase of insurance (p/c and life/retirement)
- ◆ Mispreception of risk, cost, product complexity, moral hazard due to government subsidies, etc., are all factors
- ◆ Consumer perceptions need to adjusted

Net Written Premium/GDP

(NWP/Nominal GDP)



Something Unusual is Happening: Miles Driven*, 1990–2015

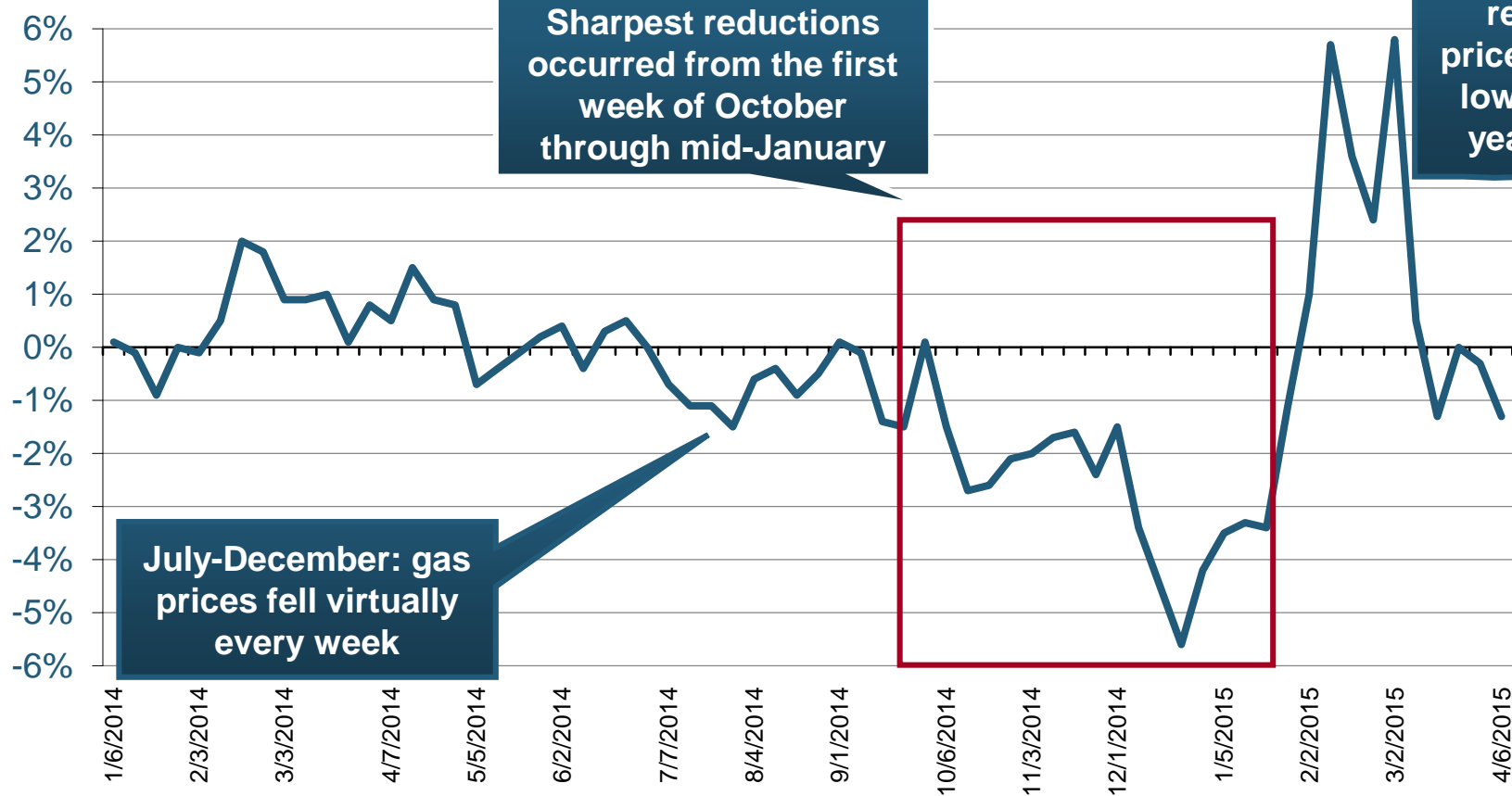


*Moving 12-month total. The 2015 figure is through January 2015, the latest available.
Note: Recessions indicated by gray shaded columns.

Sources: Federal Highway Administration (http://www.fhwa.dot.gov/policyinformation/travel_monitoring/tvt.cfm);
National Bureau of Economic Research (recession dates); Insurance Information Institute.

The Price of Gas, Weekly Percent Change, 2014-15

% Change in Avg. Price /Gallon



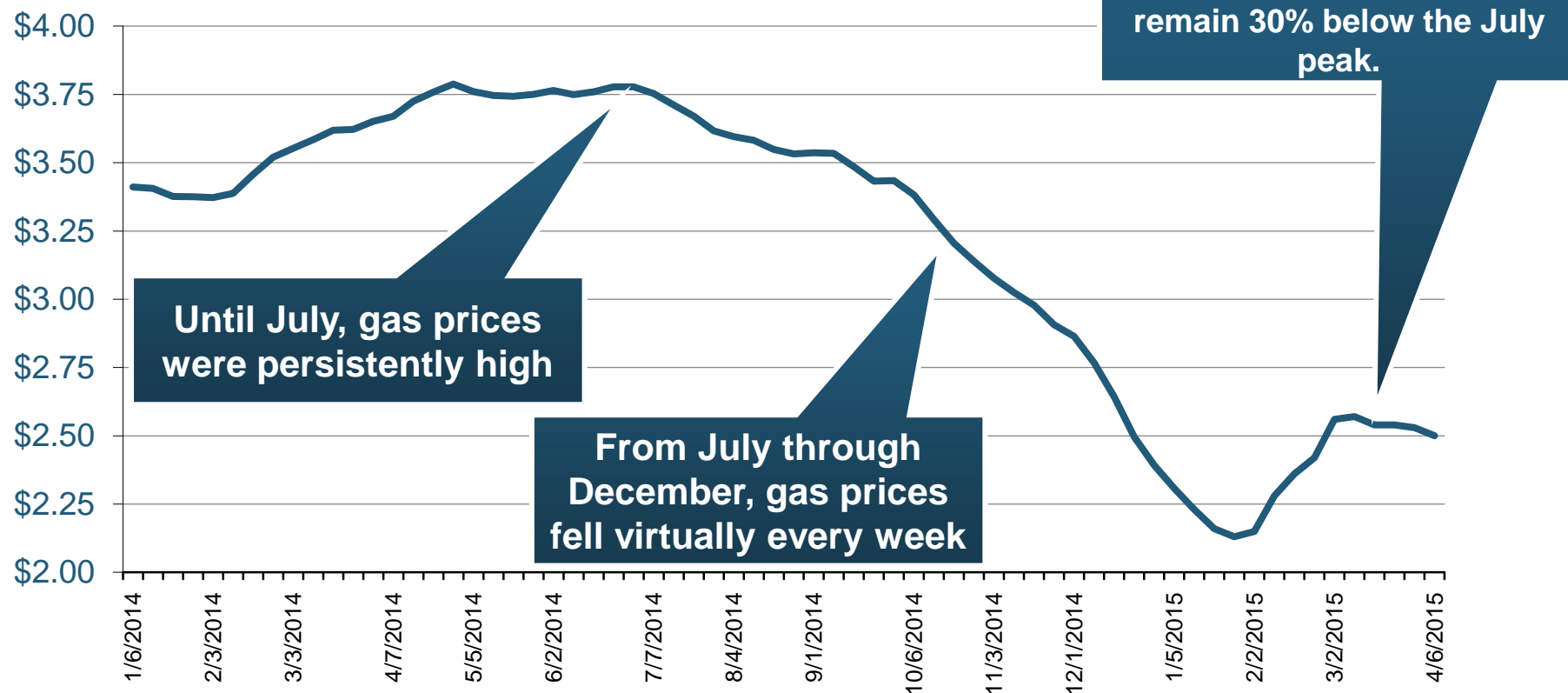
**Over the Course of the Second Half of the 2014 Calendar Year,
Gas Prices Fell 34%.**

Price is Weekly U.S. All Grades All Formulations Retail Gasoline Prices

Sources: Federal Energy Administration (<http://www.eia.gov/petroleum/gasdiesel/>); I.I.I.

The Price of Gas, 2014-2015

Avg. Price /Gallon

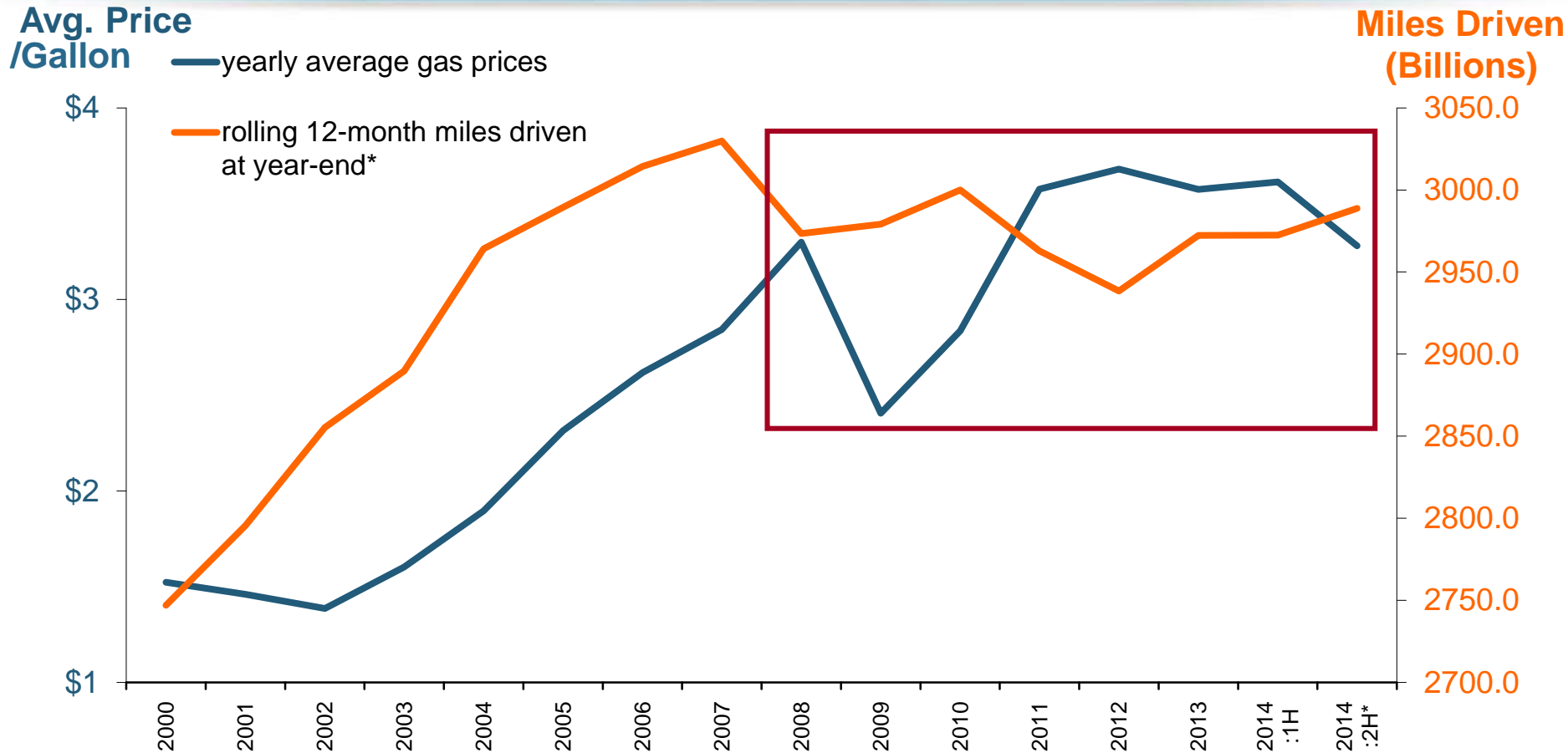


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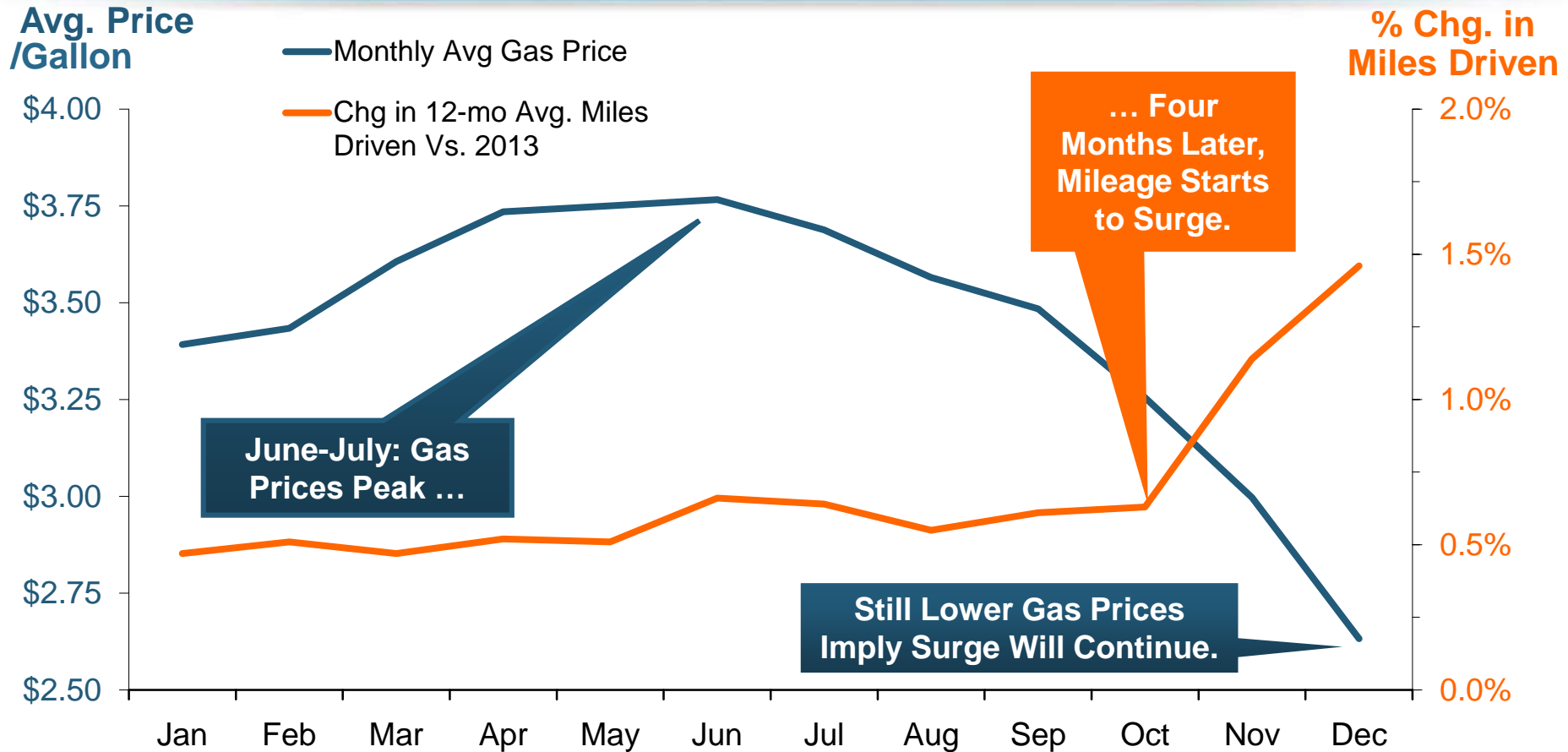
Do Changes in Gas Prices Affect Miles Driven? 2000-2014



Miles driven rose from 2000 to 2007 despite a fairly steady rise in gas prices. Miles driven fell, then recovered (2008-2011) from the Great Recession and tracked flat gas prices in 2011-2014.

Sources: Federal Energy Administration (<http://www.eia.gov/petroleum/gasdiesel/>); *gas prices and miles driven through December
Federal Highway Administration (<http://www.fhwa.dot.gov/ohim/tvtw/tvtpage.cfm>); I.I.I.

Do Changes in Gas Prices Affect Miles Driven? A Look at 2014



Prior research on the relationship between gas prices and miles driven says that, in the short run, an increase in gas prices produces little change in miles driven. No recent research on the effect of price drops.

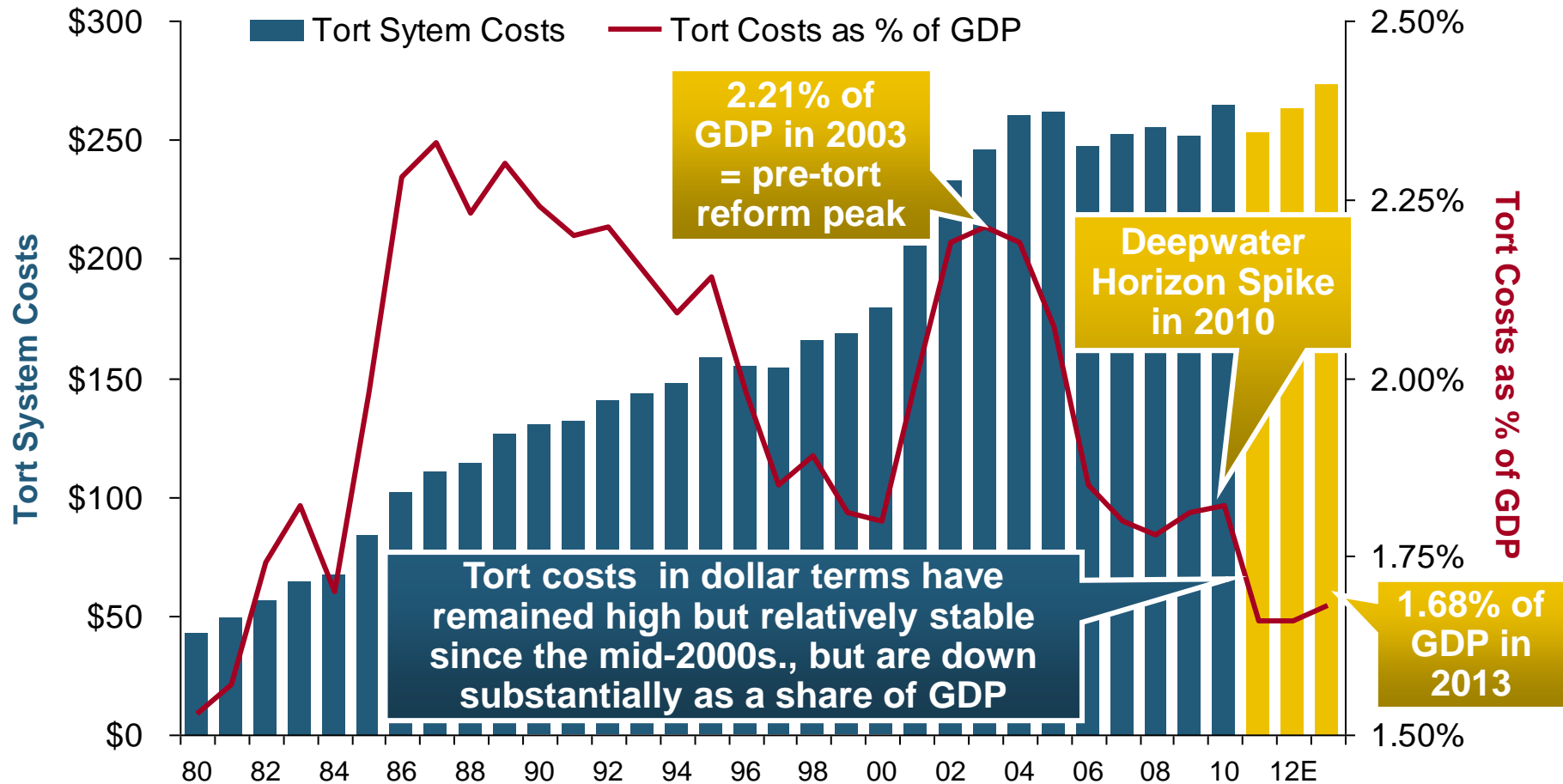
Sources: Federal Energy Administration (<http://www.eia.gov/petroleum/gasdiesel/>); *gas prices and miles driven through December
Federal Highway Administration (<http://www.fhwa.dot.gov/ohim/tvtw/tvtpage.cfm>); I.I.I.

Shifting Legal Liability & Tort Environment

Will the Tort Pendulum Swing Against Insurers?

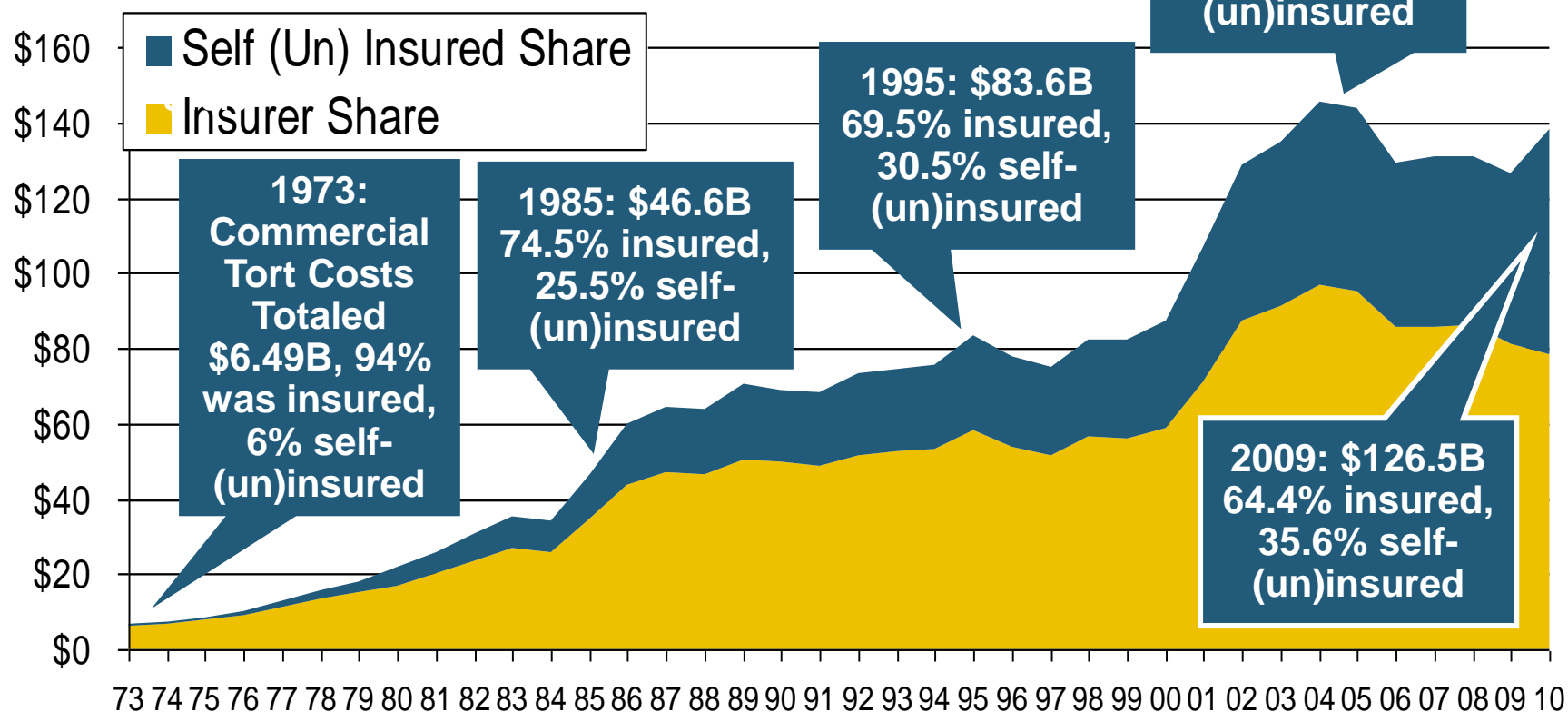
Over the Last Three Decades, Total Tort Costs as a % of GDP Appear Somewhat Cyclical, 1980-2013E

(\$ Billions)



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

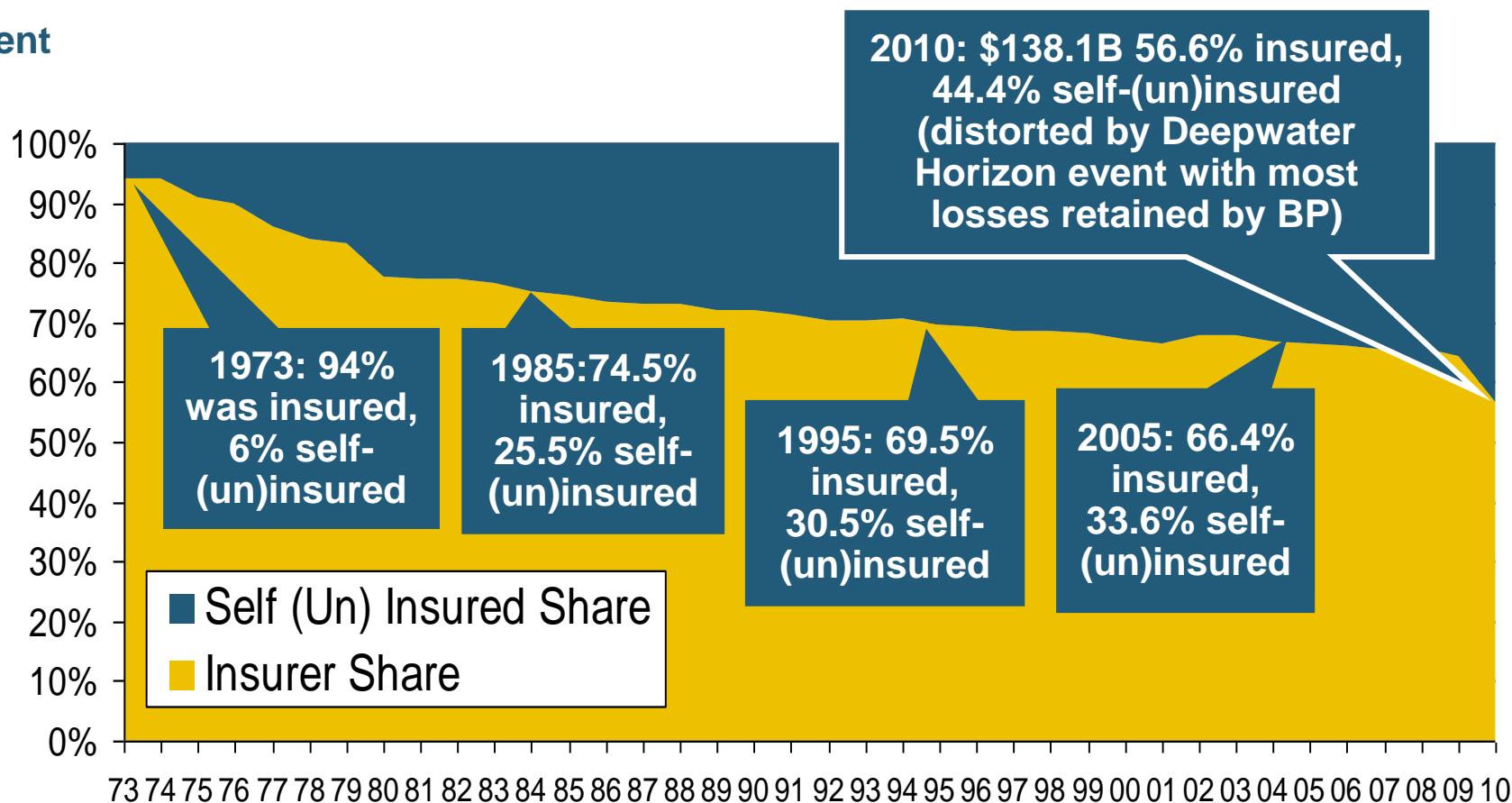
Billions of Dollars



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

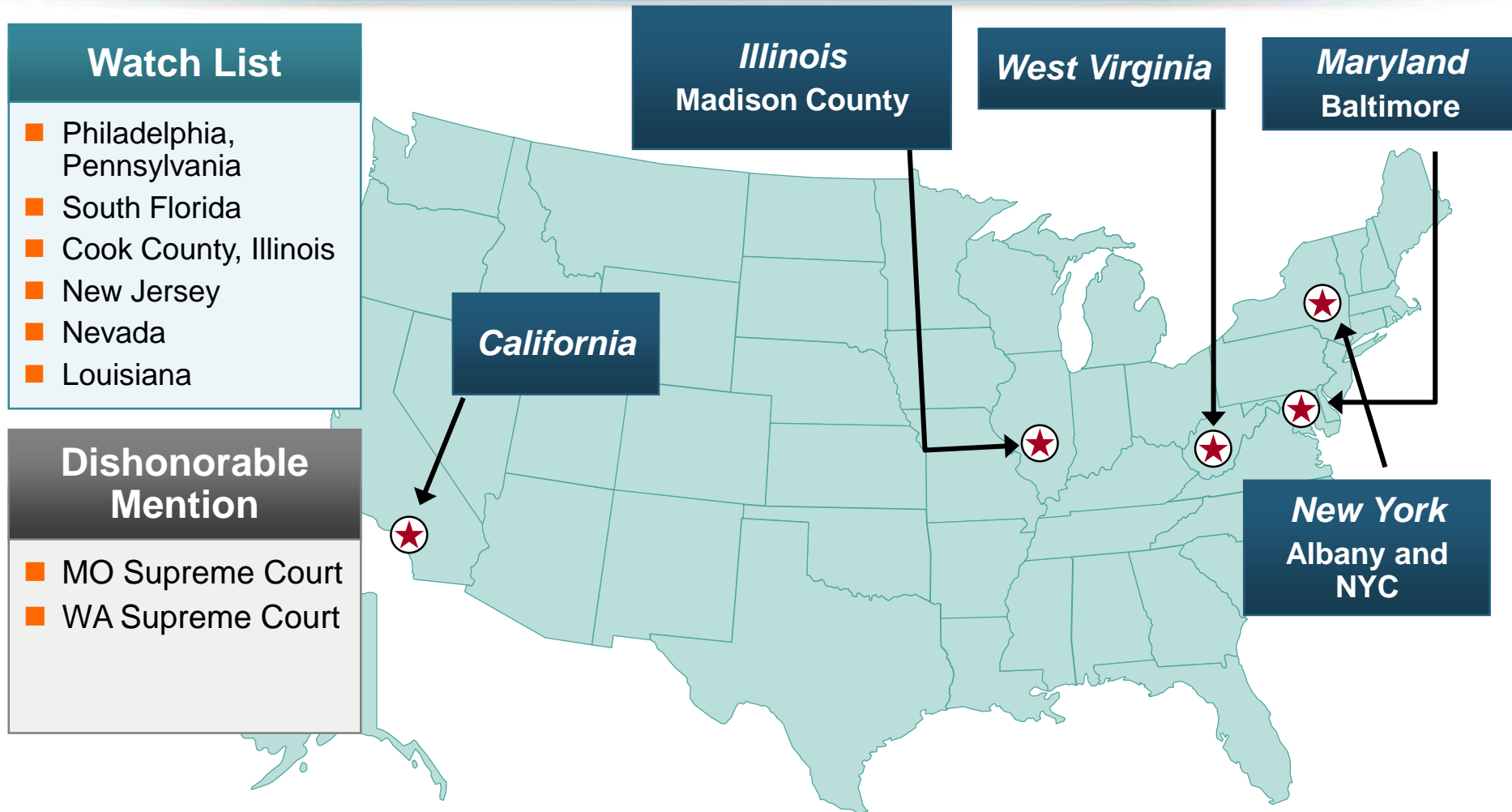
Newly Notorious

- Oklahoma

Rising Above

- Arkansas

The Nation's Judicial Hellholes: 2012/2013



Insurance Information Institute Online:

www.iii.org

*Thank you for your time
and your attention!*

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