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P/C Insurance in the Age of Mega-Catastrophes

Trends, Challenges & Opportunities

2014 PCS Catastrophe Conference

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Download at www.iii.org/presentations

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Presentation Outline

- **P/C Insurance Industry Overview & Outlook**
  - Measuring the impact of catastrophe losses
- **Catastrophe Loss Overview**
  - US and global trends
- **Public Policy Issues**
  - Federal disaster response
  - Flood insurance
  - Terrorism
  - Cyber Risk: The Cat of the Future?
- **Reinsurance Market Update**
  - The flood of alternative capital is transforming this sector
- **Property Exposure Overview & Residual Markets**
- **The Importance of Financial Strength**

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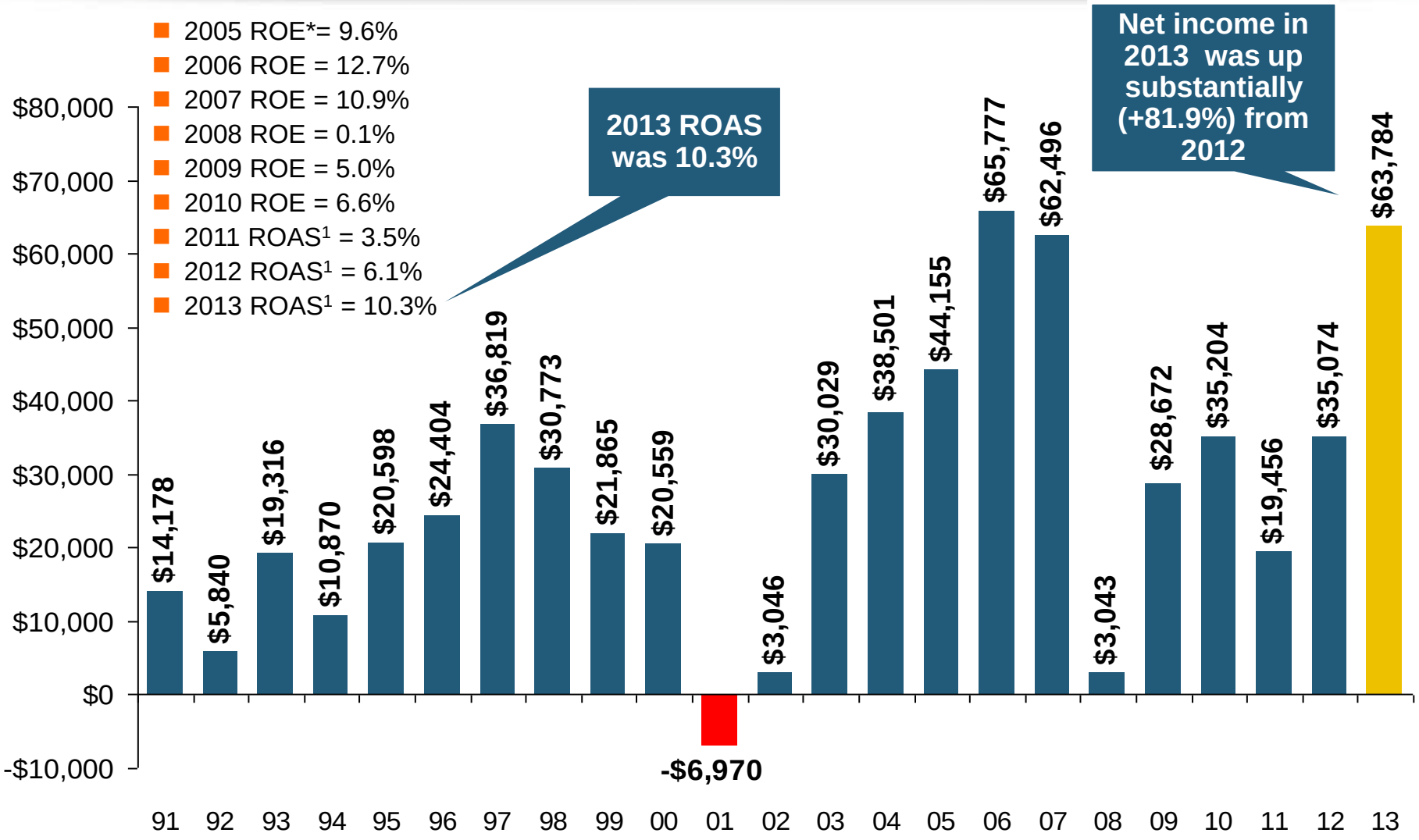
P/C Insurance Industry Financial Overview

2013: Best Year in the Post-Crisis Era

Performance Improved with Lower CATs, Strong Markets

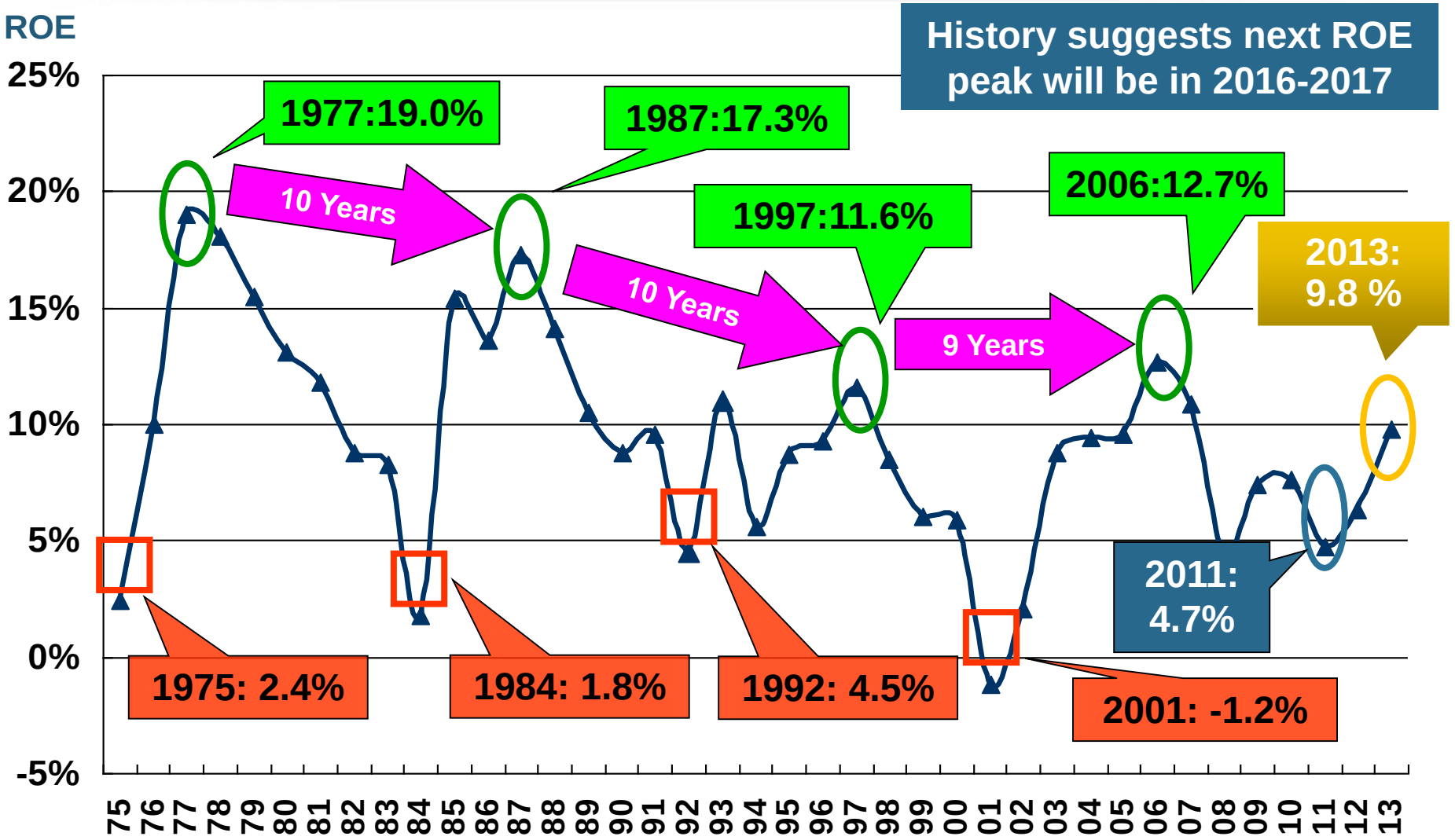
P/C Net Income After Taxes 1991–2013 ($ Millions)



•ROE figures are GAAP; [1]Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 9.8% ROAS in 2013, 6.3% ROAS in 2012, 4.7% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009.

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

Profitability Peaks & Troughs in the P/C Insurance Industry, 1975 – 2013*



*Profitability = P/C insurer ROEs. 2011-13 figures are estimates based on ROAS data. Note: Data for 2008-2013 exclude mortgage and financial guaranty insurers.

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

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

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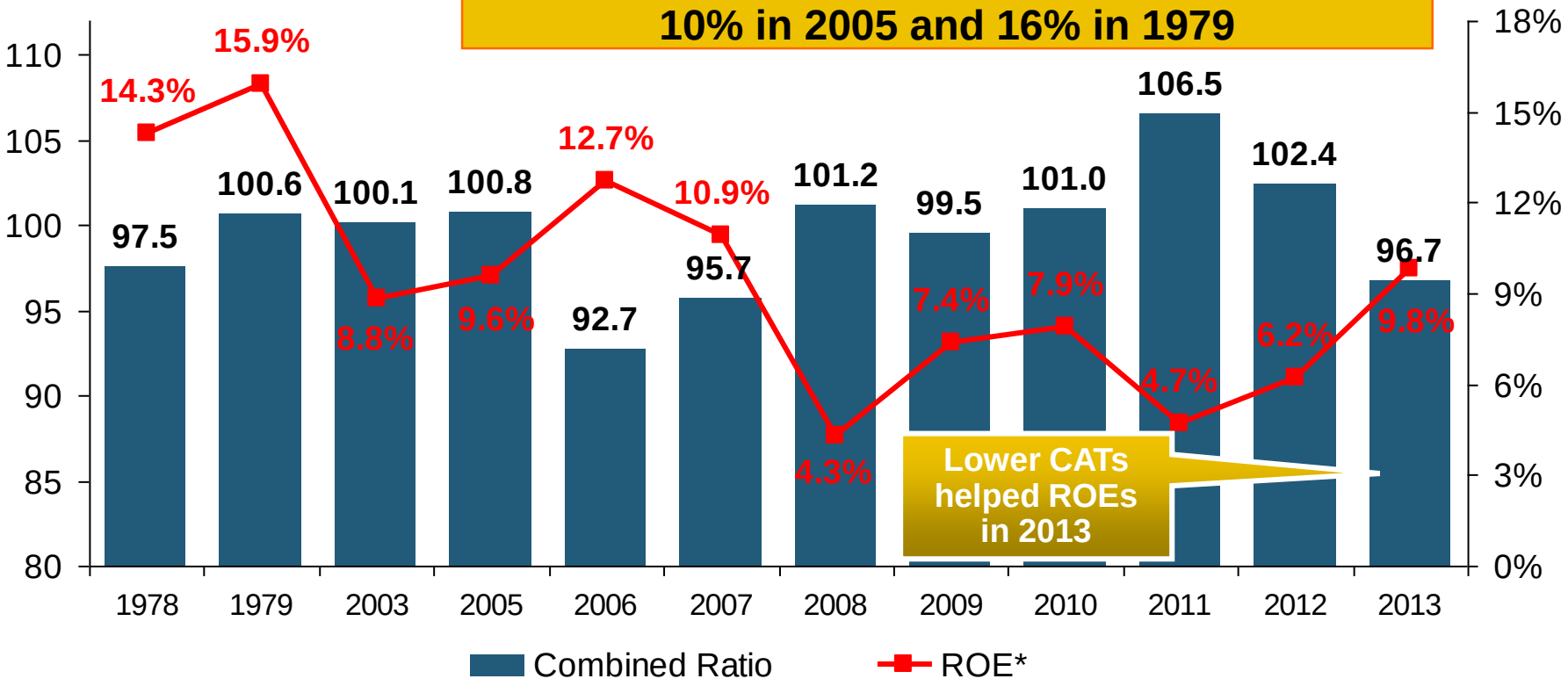
Combined Ratio / ROE

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

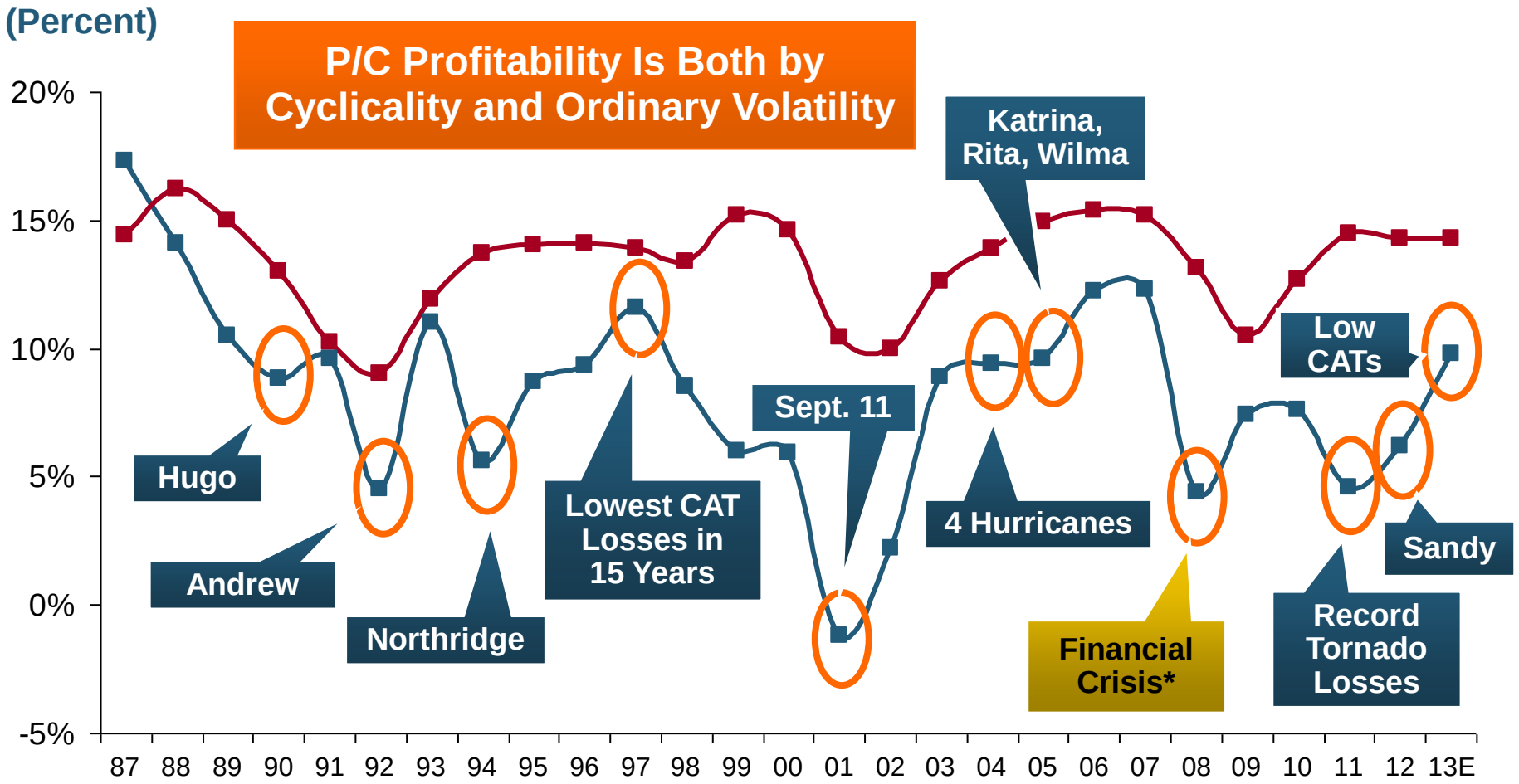


Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs

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

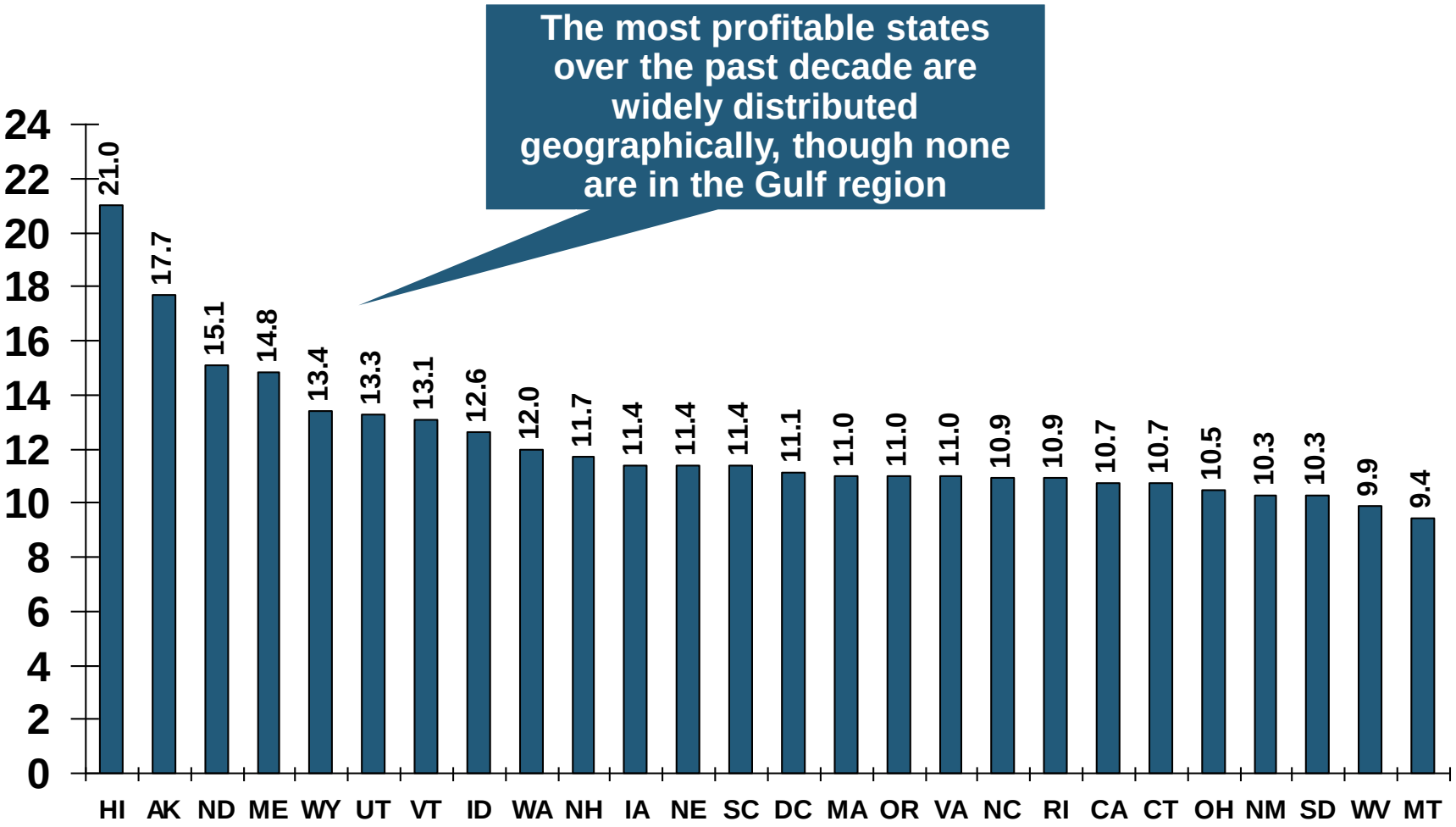
Source: Insurance Information Institute from A.M. Best and ISO Verisk Analytics data.

ROE: Property/Casualty Insurance vs. Fortune 500, 1987–2013E*



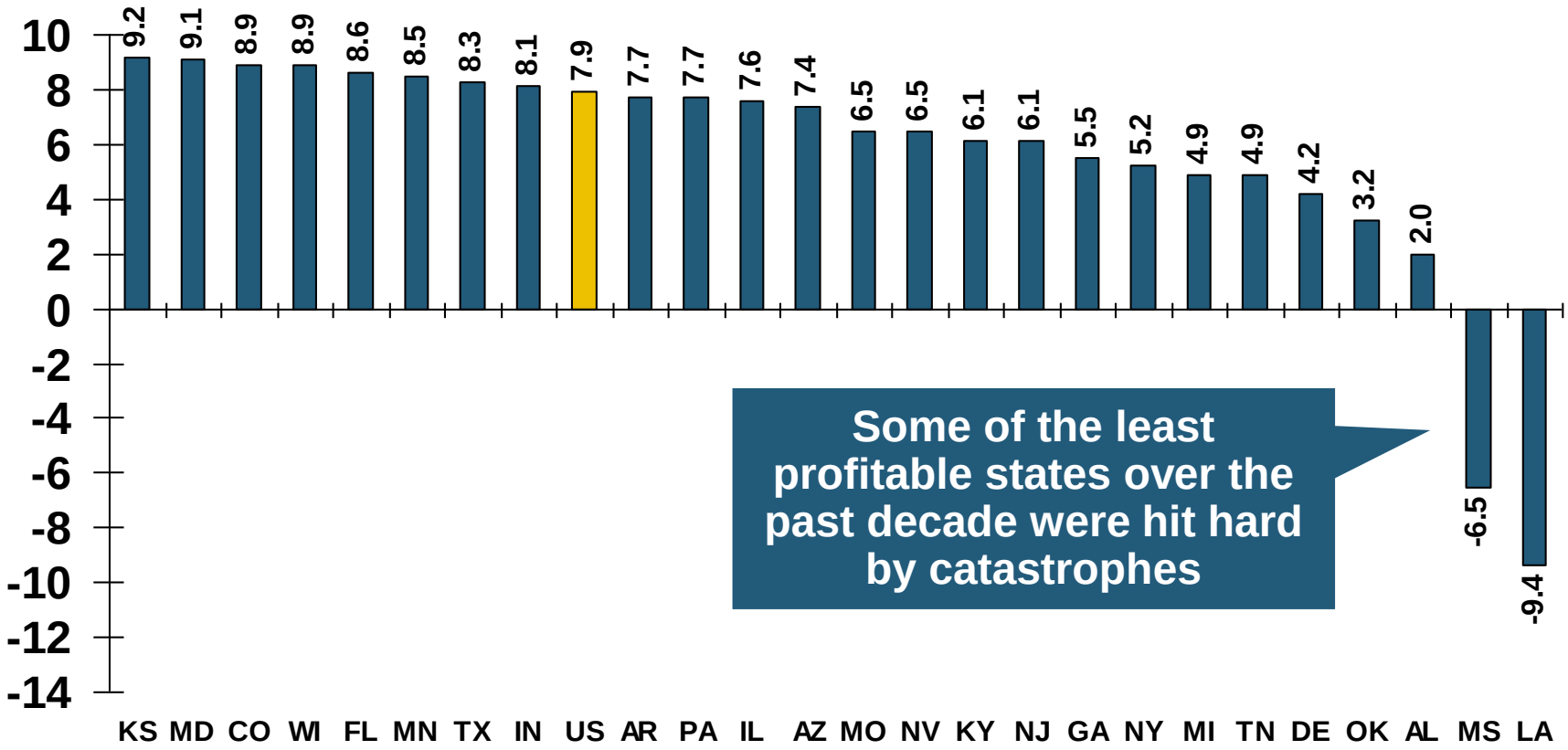
* Excludes Mortgage & Financial Guarantee in 2008 – 2013. 2013 Fortune 500 figure is I.I.I. estimate.
Sources: ISO, *Fortune*; Insurance Information Institute.

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



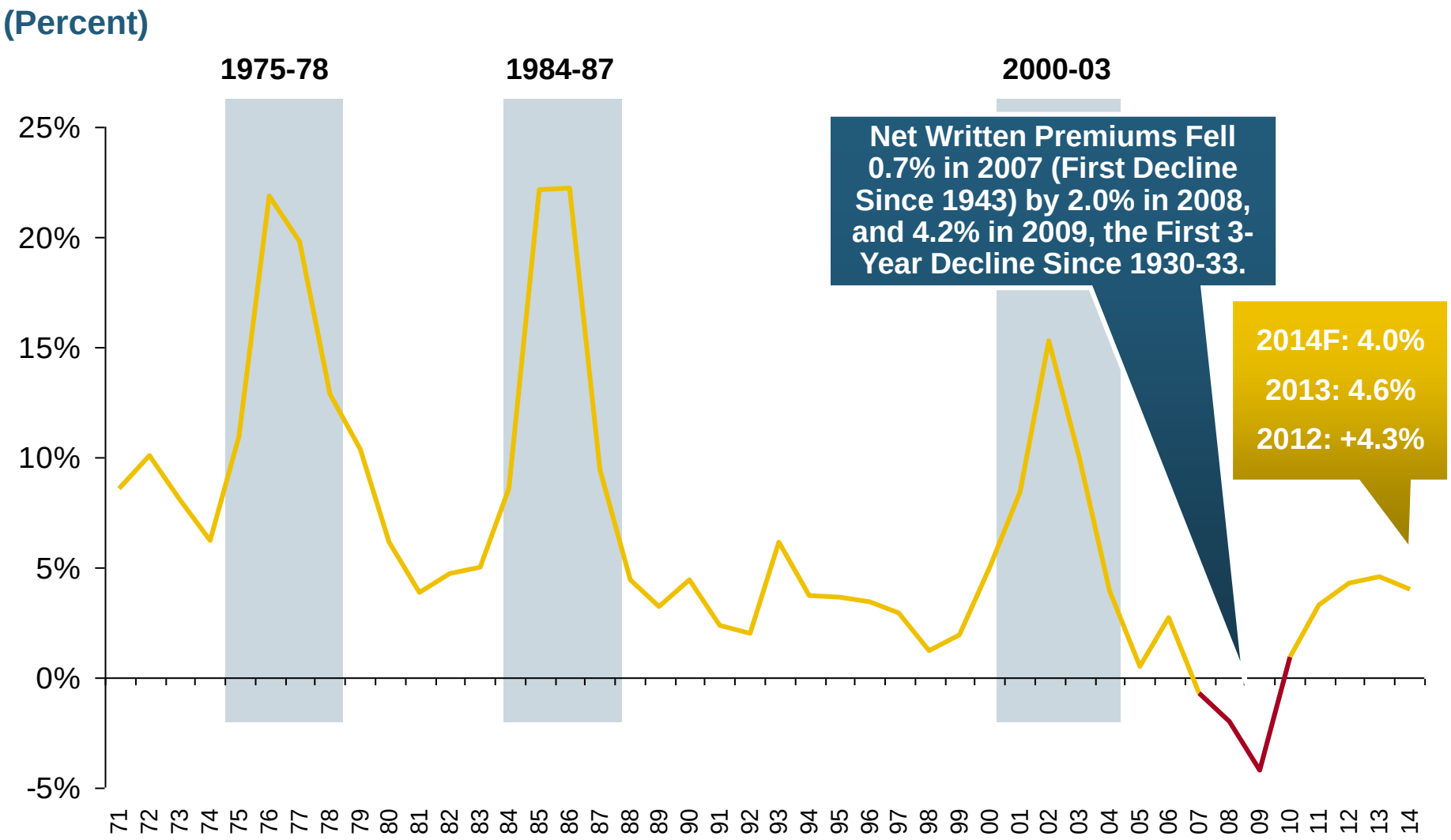
Source: NAIC.

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



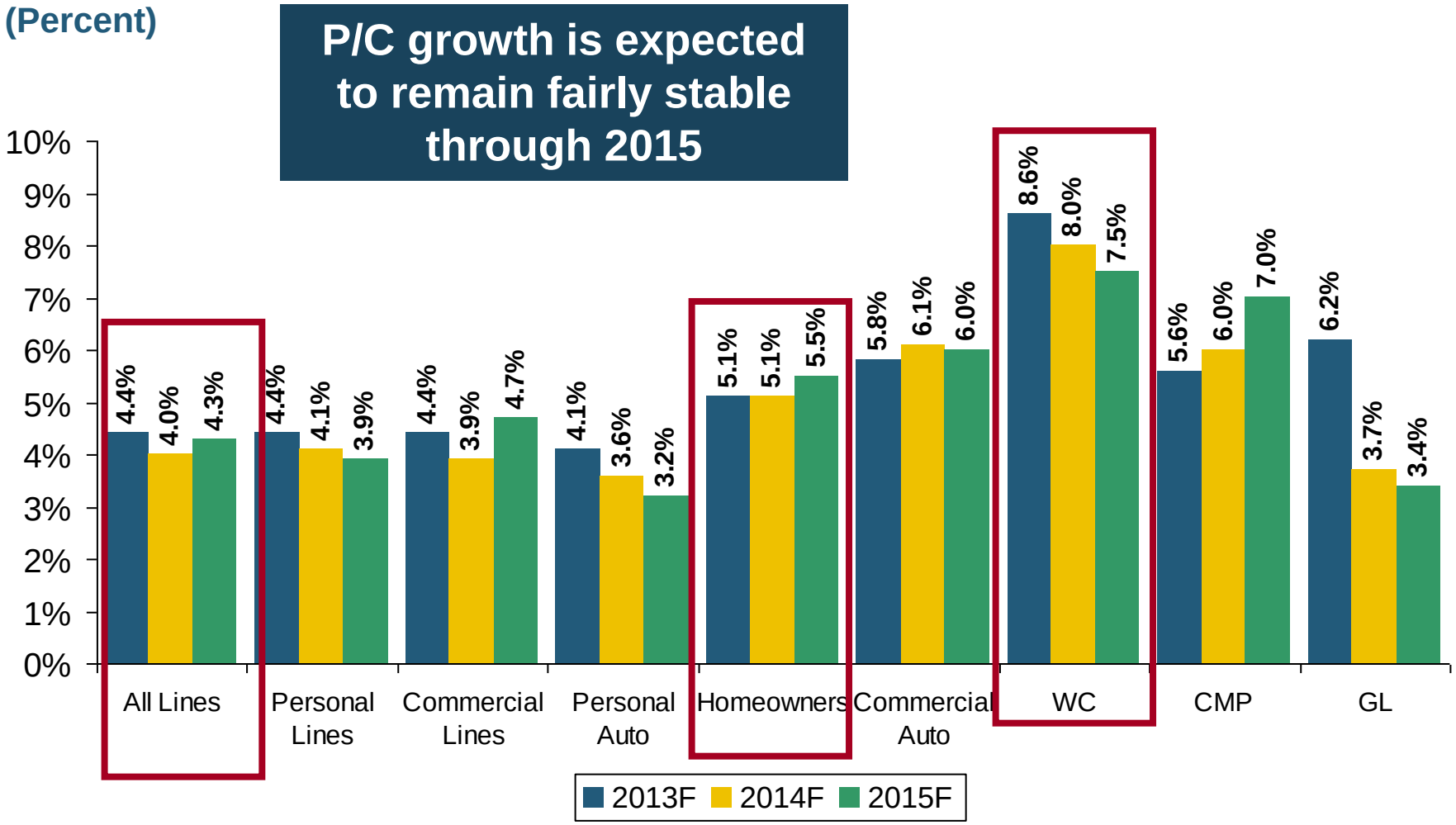
Source: NAIC.

Net Premium Growth: Annual Change, 1971—2014F



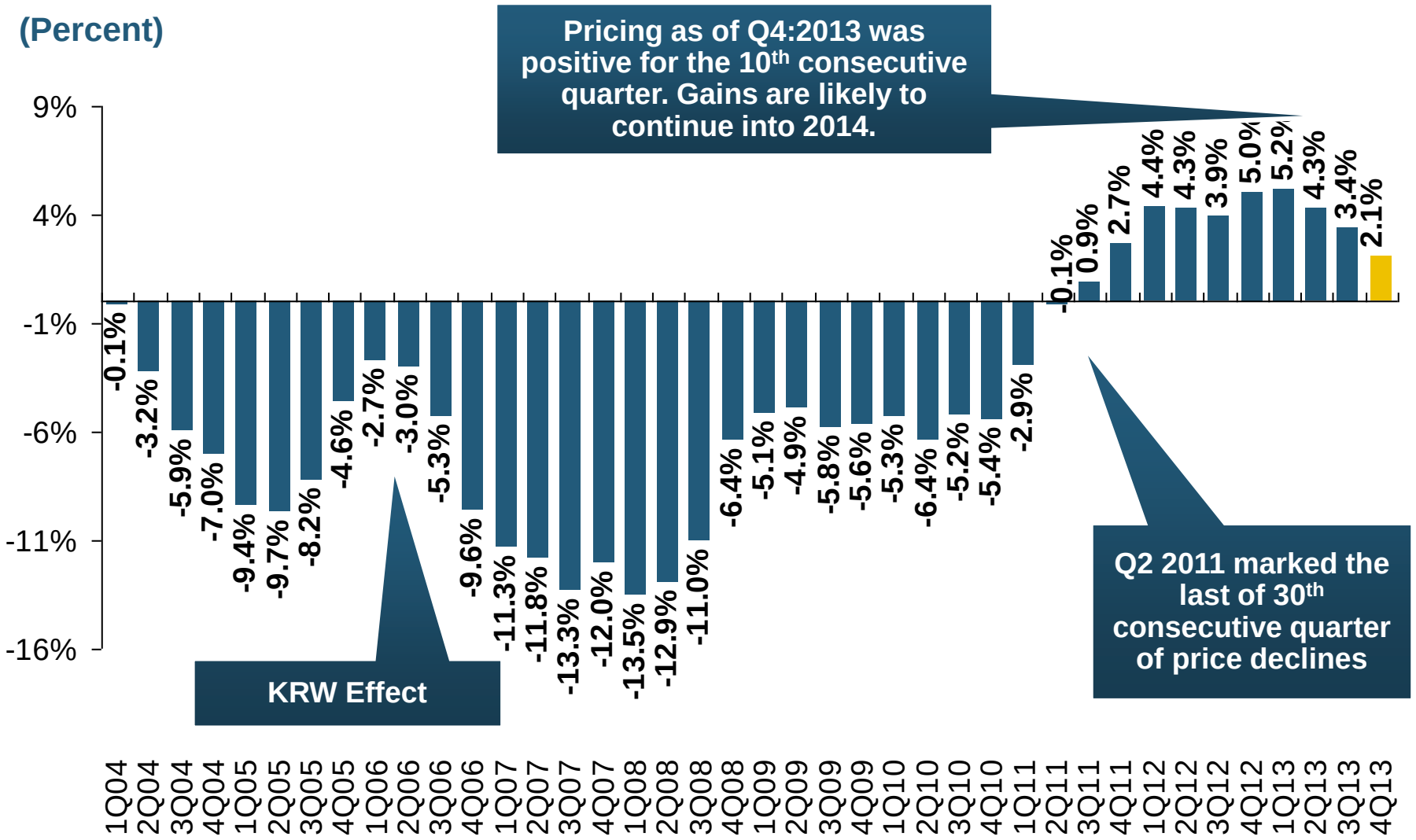
Shaded areas denote "hard market" periods
Sources: A.M. Best (historical and forecast), ISO, Insurance Information Institute.

Growth in Direct Written Premium by Line, 2013-2015F*



Source: Conning.

Average Commercial Rate Change, All Lines, (1Q:2004–4Q:2013)



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

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U.S. Insured Catastrophe Loss Update

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

2014 Winter Storm Losses Manageable

U.S. Insured Catastrophe Losses

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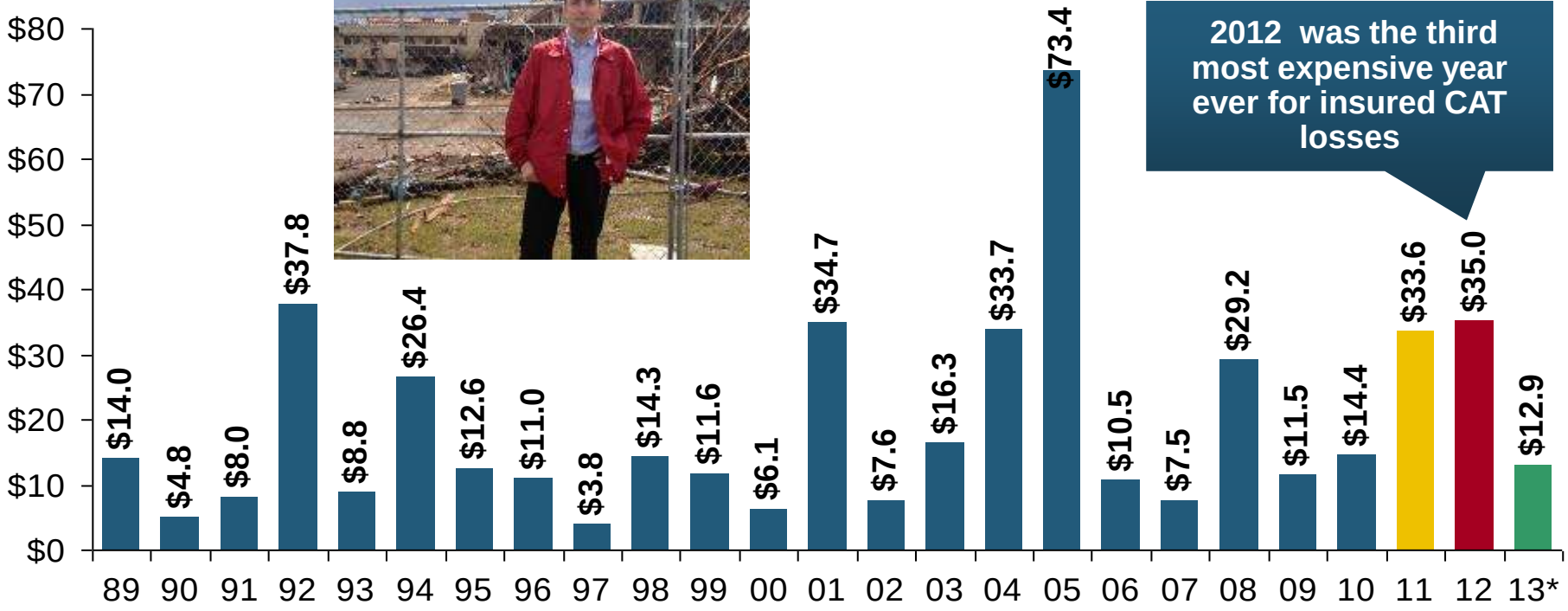
($ Billions, $ 2012)



2012 was the third most expensive year ever for insured CAT losses

2012 Was the 3rd Highest Year on Record for Insured Losses in U.S. History on an Inflation-Adj. Basis. 2011 Losses Were the 6th Highest. YTD 2013 Running Well Below 2011 and 2012 YTD Totals.

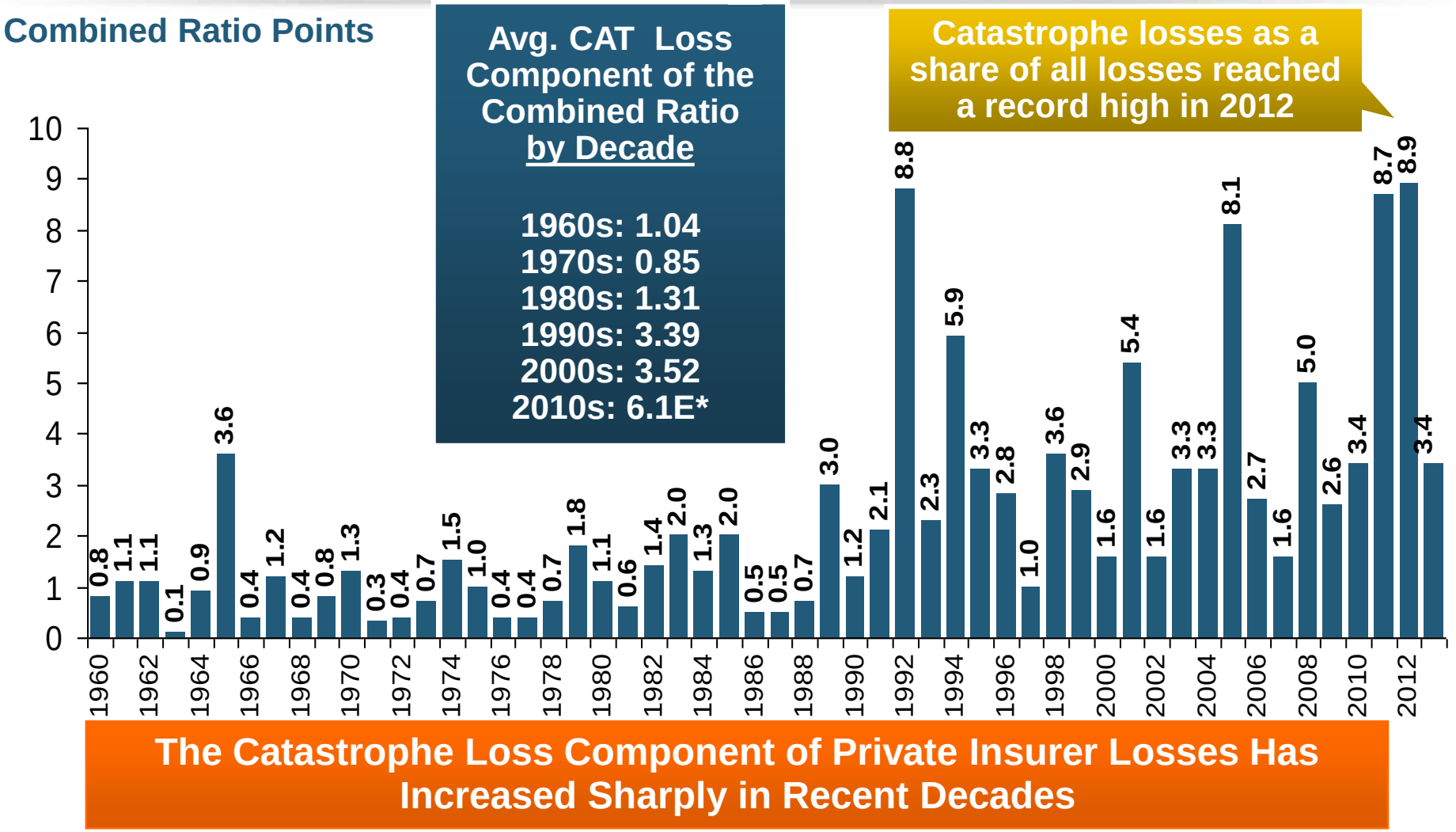
Record tornado losses caused 2011 CAT losses to surge

*Through 12/31/13.

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

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

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

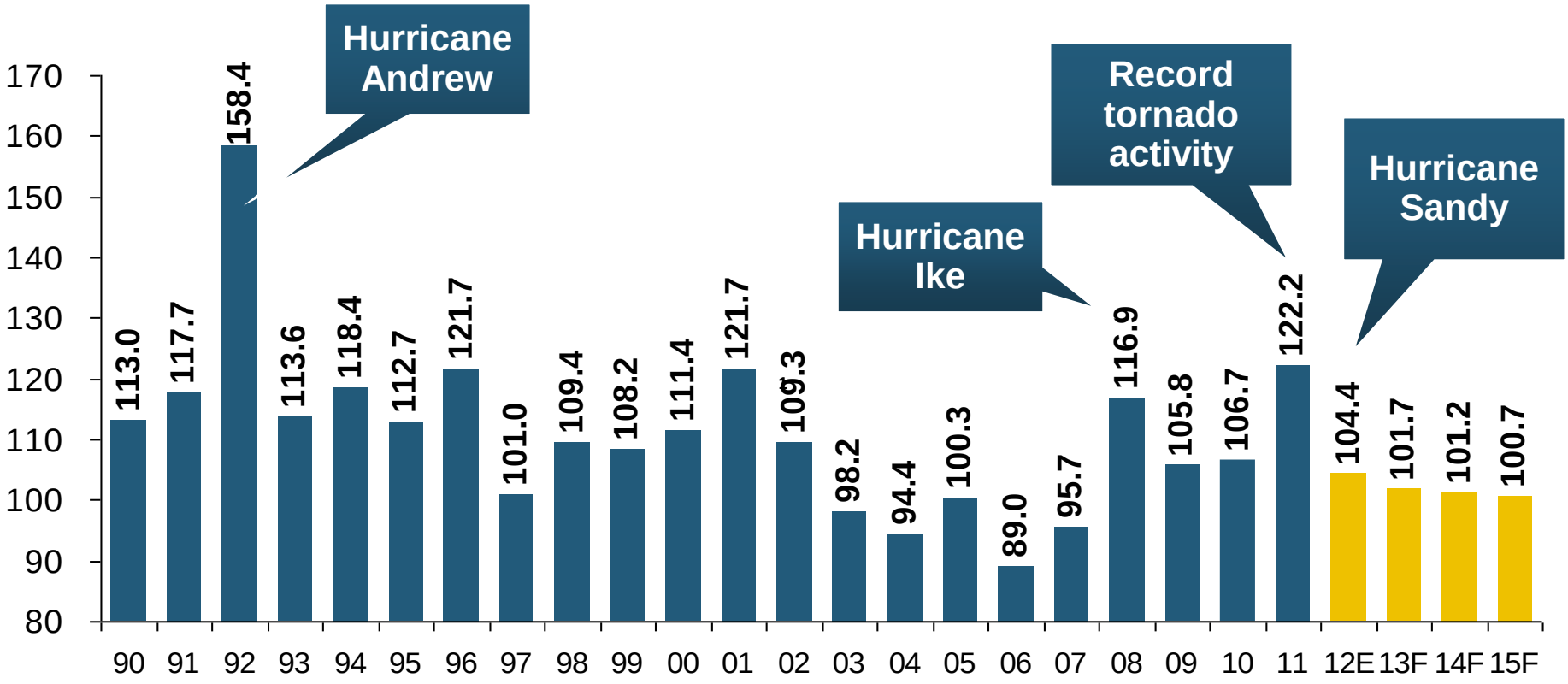


*2010s represent 2010-2013.

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: 1990–2015F



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

Sources: A.M. Best (1990-2011);Conning (2012E-2015F); Insurance Information Institute.

Top 10 States for Insured Catastrophe Losses, 2013

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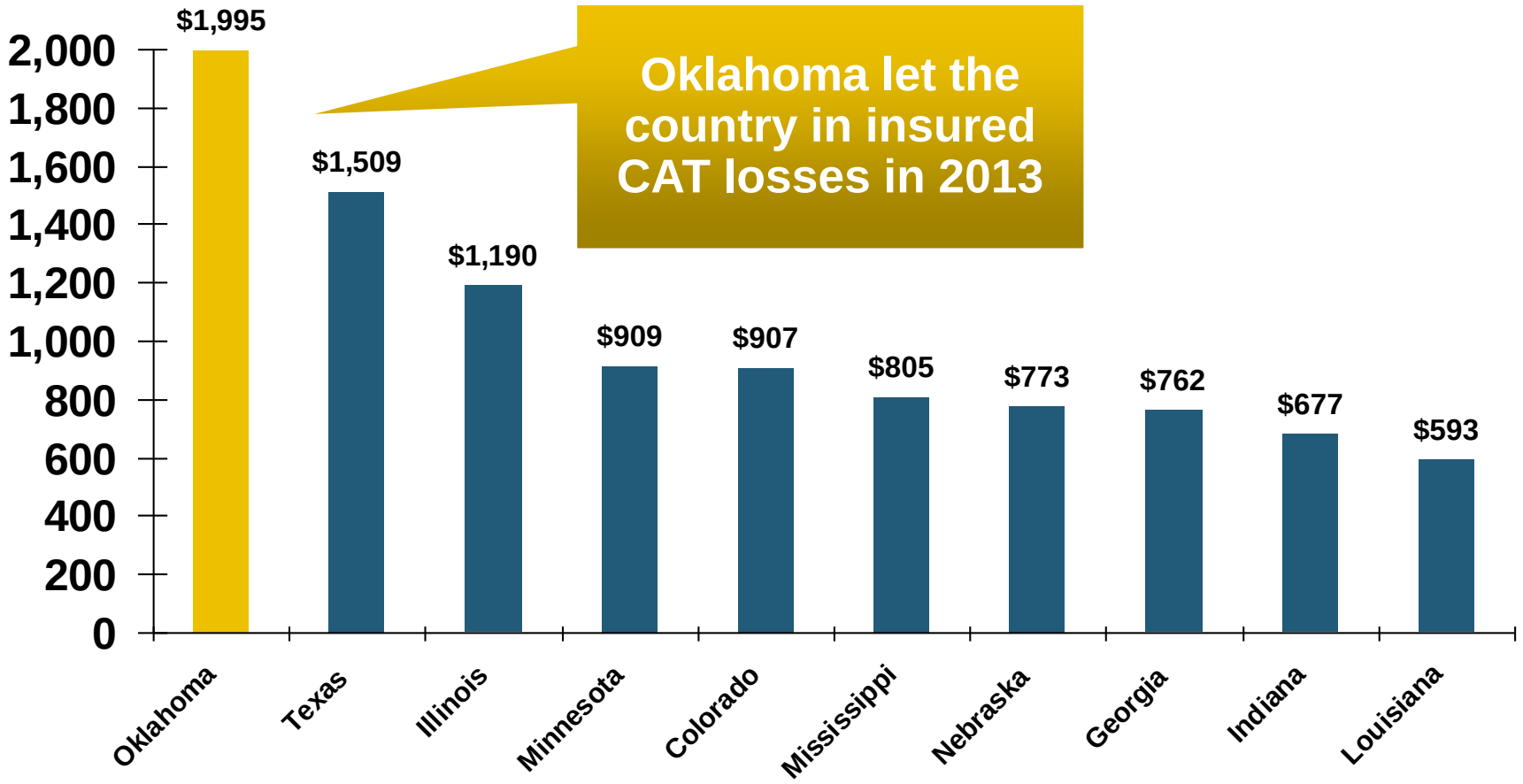
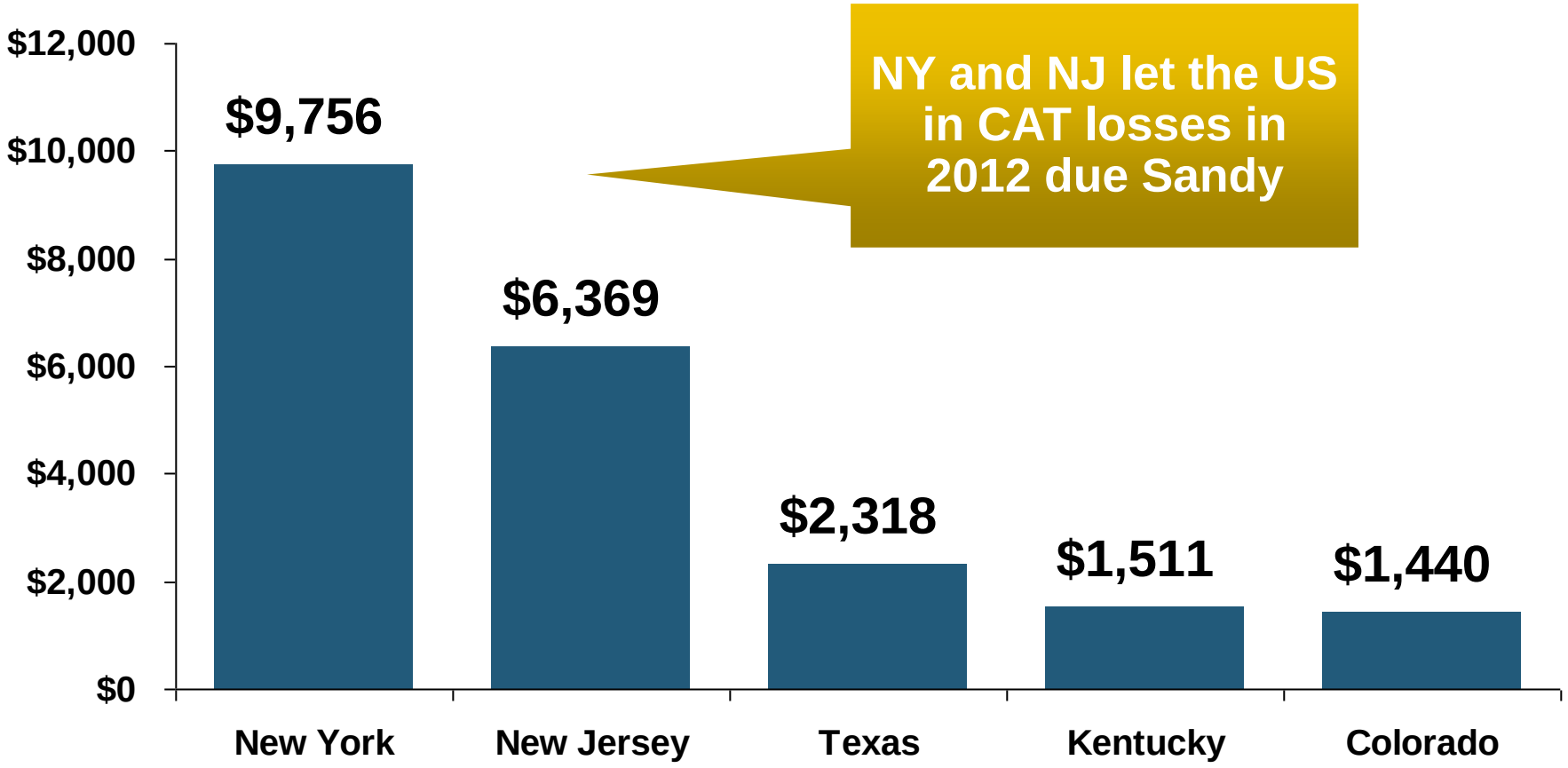
$ Millions



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

Top 5 States by Insured Catastrophe Losses in 2012*

(2012, $ Billions)



*Includes catastrophe losses of at least $25 million.

Sources: PCS unit of ISO; Insurance Information Institute.

Insurers Making a Difference in Impacted Communities

Destroyed home in Tuscaloosa. Insurers will pay some 165,000 claims totaling $2 billion in the Tuscaloosa/ Birmingham areas alone.

Presentation of a check to Moore, OK, Public School Relief Fund

Presentation of a check to Tuscaloosa Mayor Walt Maddox to the Tuscaloosa Storm Recovery Fund

Source: Insurance Information Institute

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

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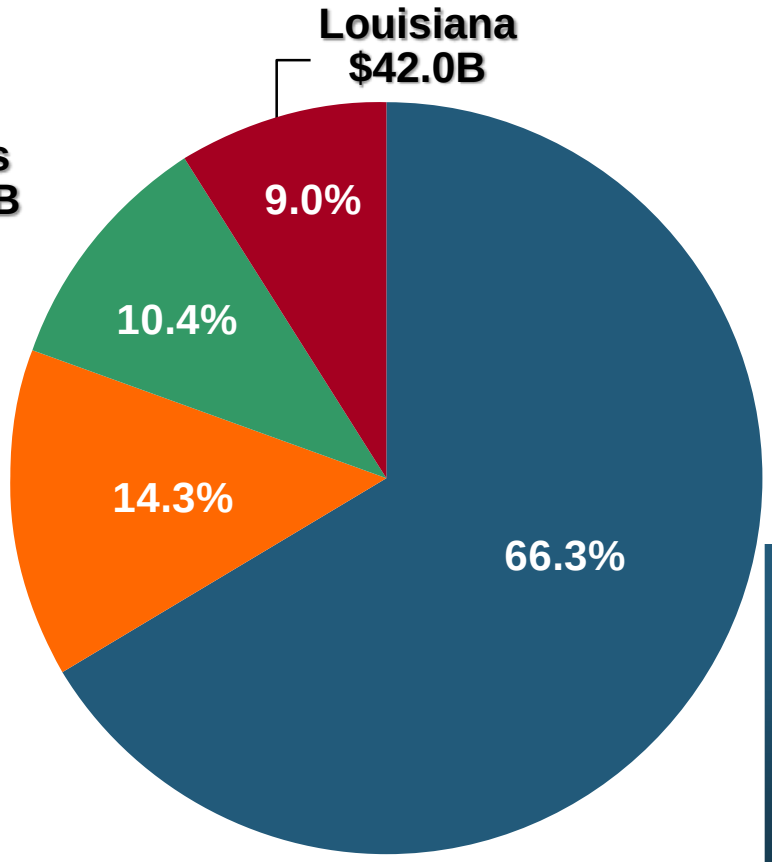
Over the Past 30 Years Florida Has Accounted for the Largest Share of Catastrophe Losses in the U.S., Followed by Texas and Louisiana

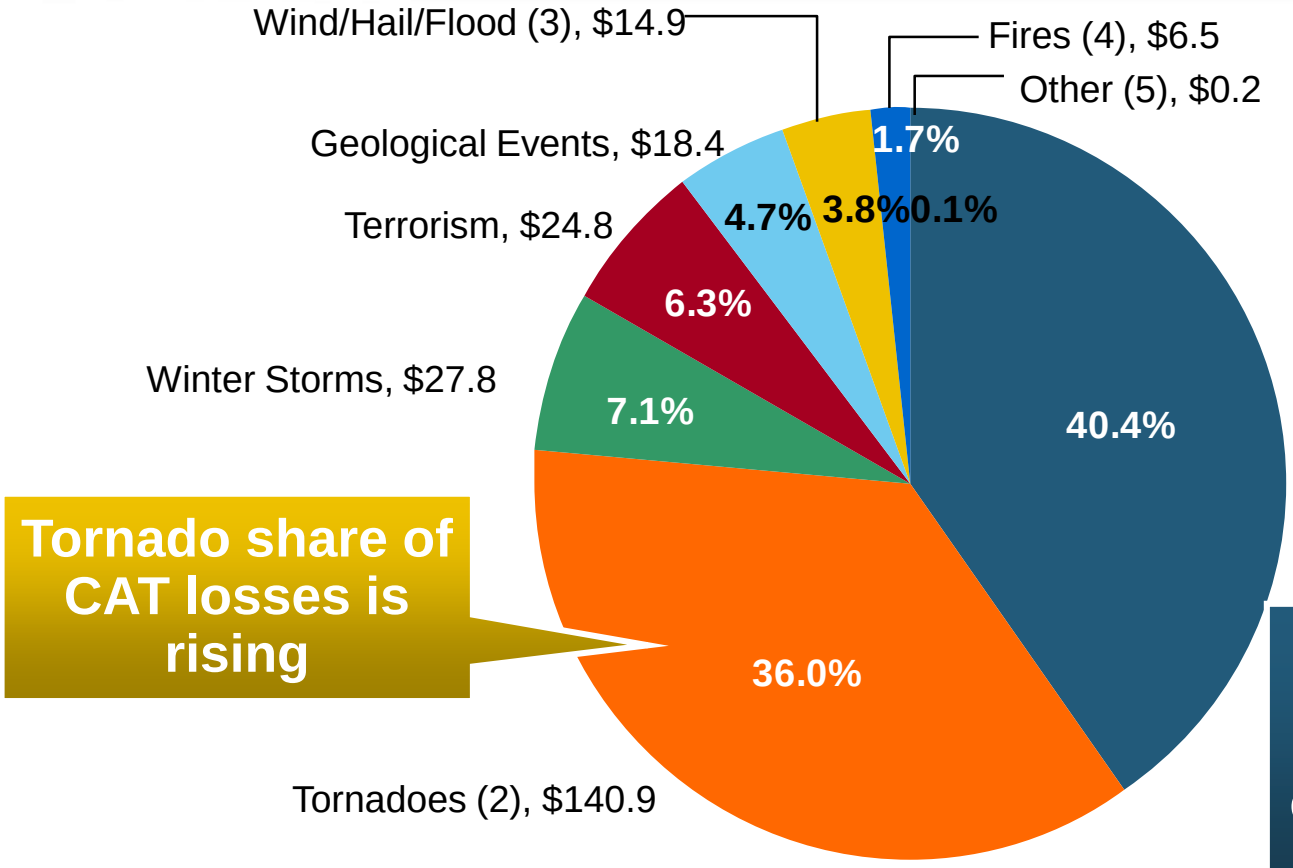
FL is the most costly state for CATs, with nearly $67B in insured losses over the past 30 years



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

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

Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 1993–2012[1]



Insured cat losses from 1993-2012 totaled $391.7B, an average of $19.6B per year or $1.6B per month

Hurricanes & Tropical Storms, $158.2

Tornado share of CAT losses is rising

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

1. Catastrophes are defined as events causing direct insured losses to property of $25 million or more in 2012 dollars.
2. Excludes snow.
3. Does not include NFIP flood losses
4. Includes wildland fires
5. Includes civil disorders, water damage, utility disruptions and non-property losses such as those covered by workers compensation.

Source: ISO's Property Claim Services Unit.

Top 16 Most Costly Disasters in U.S. History

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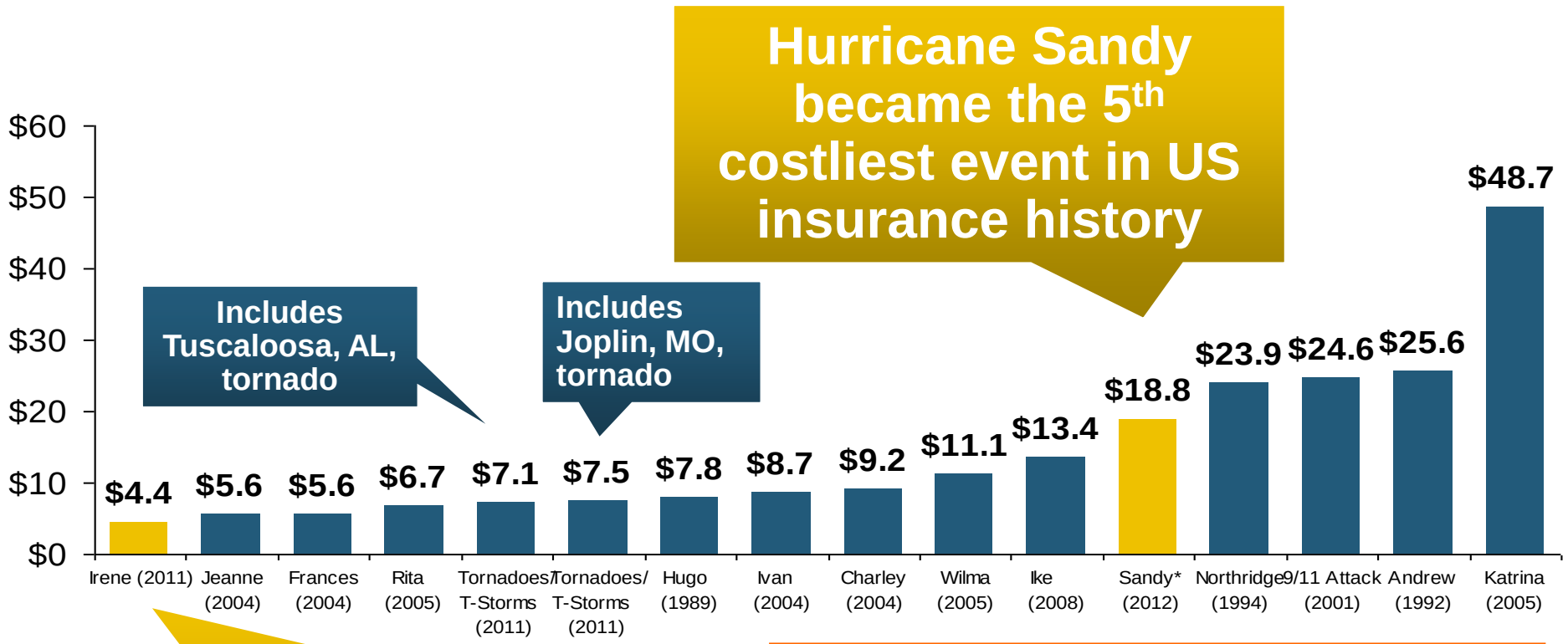
(Insured Losses, 2012 Dollars, $ Billions)



*PCS estimate as of 4/12/13.

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

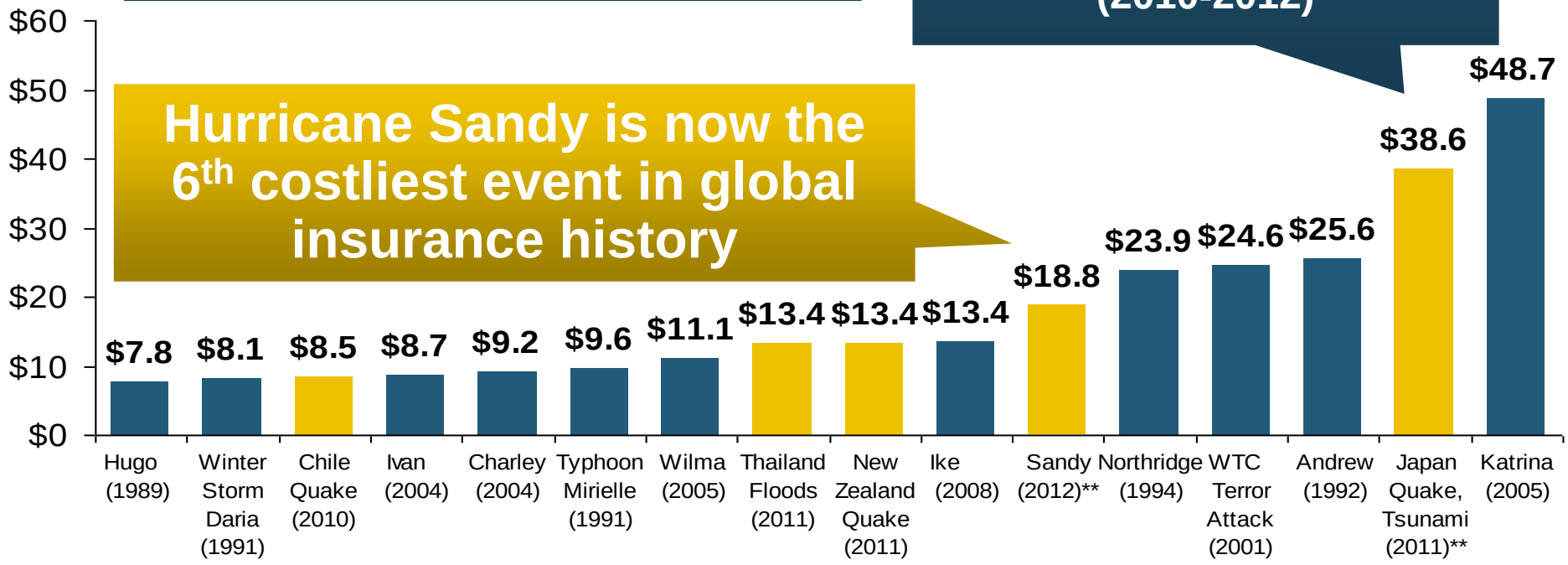
Top 16 Most Costly World Insurance Losses, 1970-2013*

(Insured Losses, 2012 Dollars, $ Billions)

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

5 of the top 14 most expensive catastrophes in world history have occurred within the past 3 years (2010-2012)

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



*Figures do not include federally insured flood losses.
**Estimate based on PCS value of $18.75B as of 4/12/13.
Sources: Munich Re; Swiss Re; Insurance Information Institute research.

Hailstorm on July 27-28 in *Germany* Was Most Expensive CAT Worldwide in 2013!

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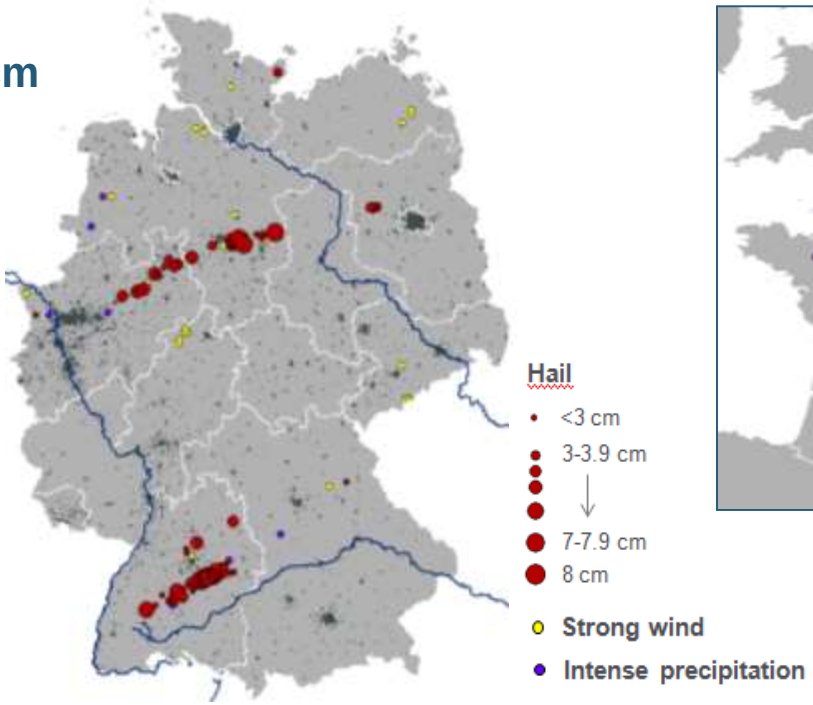
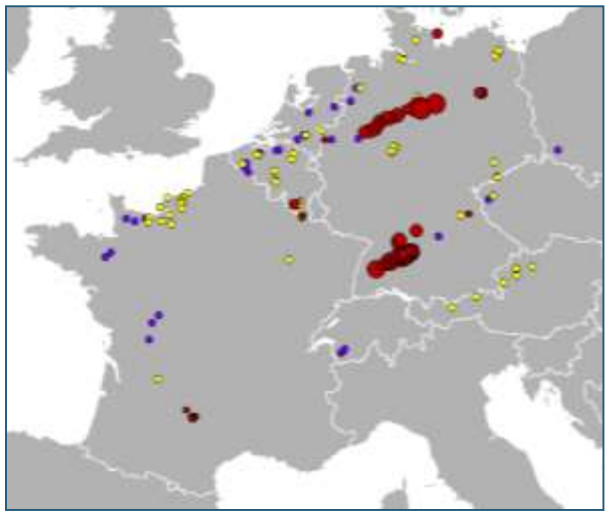
Hailstones with diameters up to 8 cm (tennis ball ≈ 7 cm)





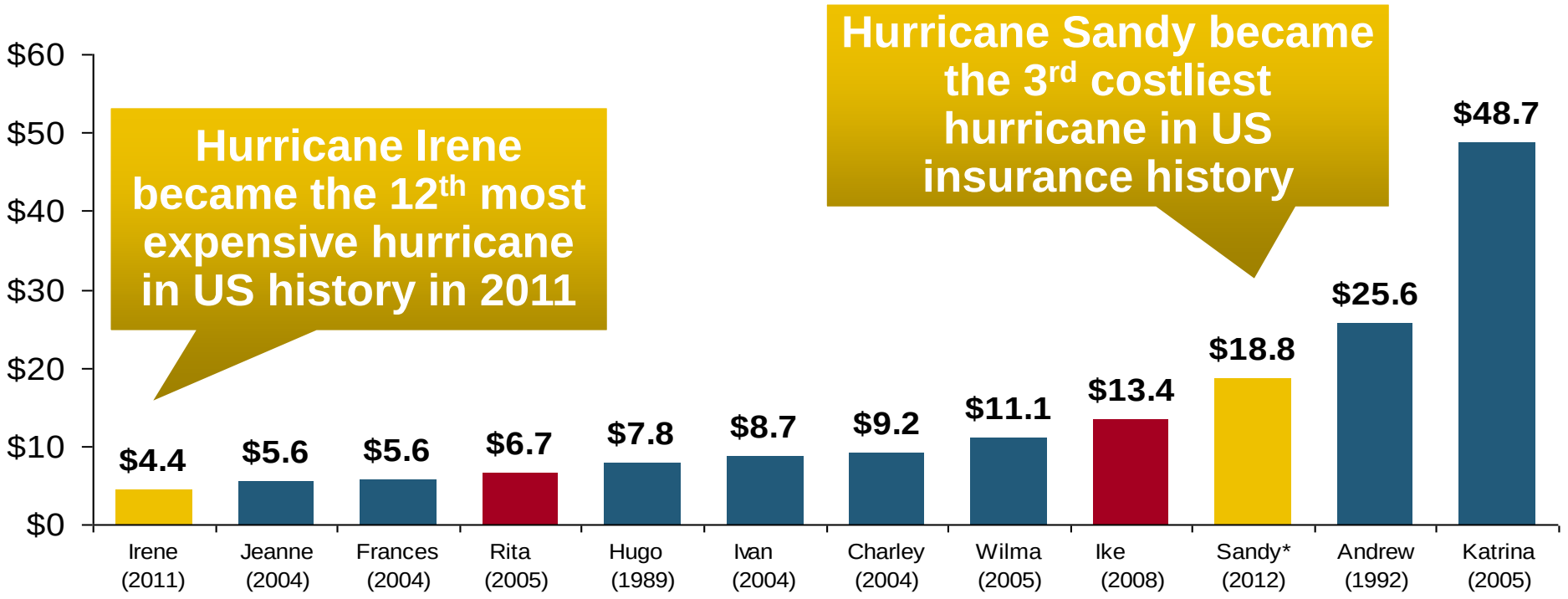
Region	Overall losses	Insured losses	Fatalities
Southwestern and Northern Germany	**US$ 4.8bn**	**US$ 3.7bn**	**0**

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

Top 12 Most Costly Hurricanes in U.S. History

(Insured Losses, 2012 Dollars, $ Billions)

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



*PCS estimate as of 4/12/13.

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

Total Value of Insured Coastal Exposure in 2012

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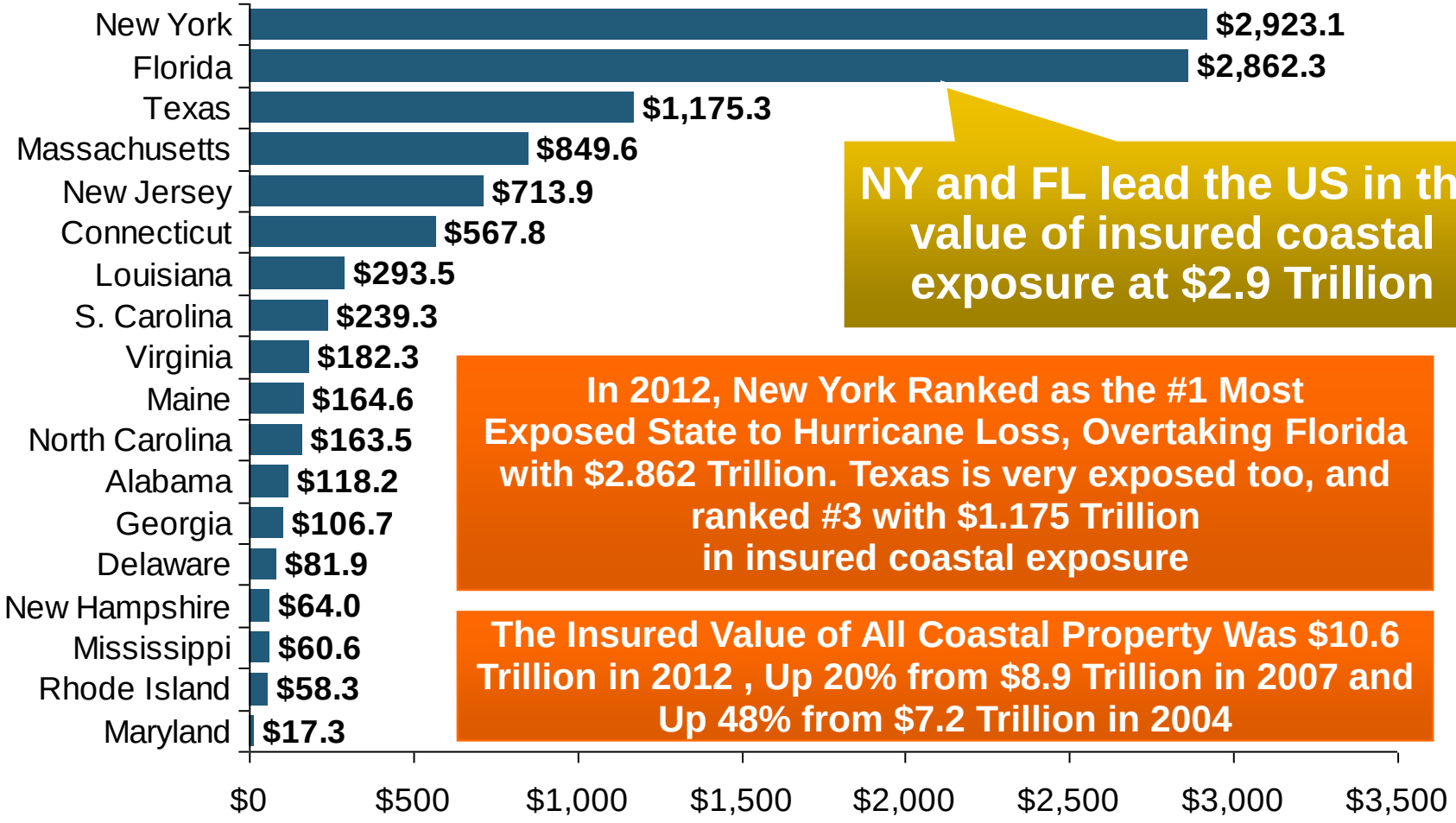
(2012, $ Billions)



NY and FL lead the US in the value of insured coastal exposure at $2.9 Trillion

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

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

Source: AIR Worldwide

Total Value of Insured Coastal Exposure in 2007

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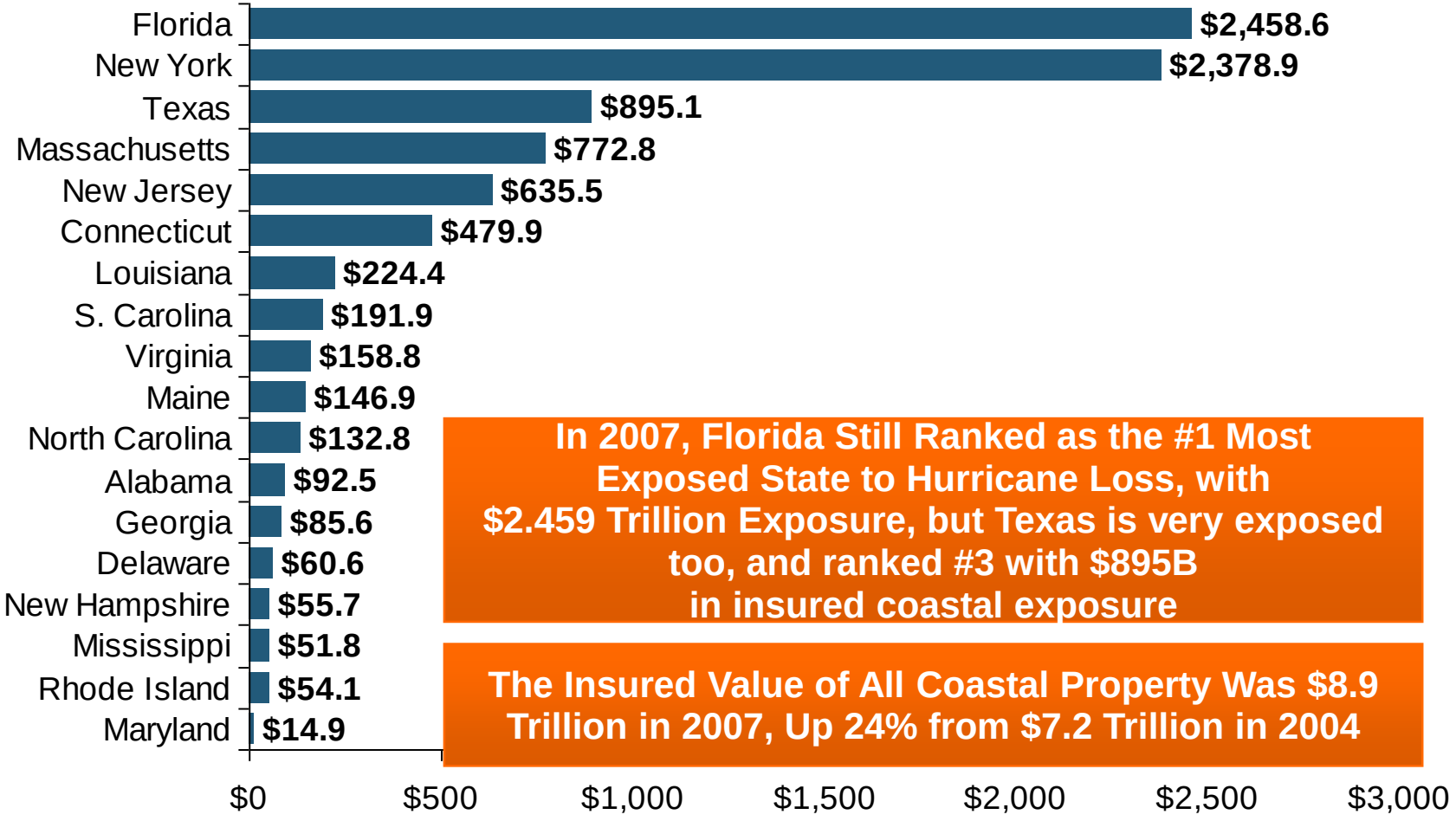
(2007, $ Billions)



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

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

Source: AIR Worldwide

Winter Storm and Winter Damage Events in the US and Canada, 1980-2013 (2013 US$)

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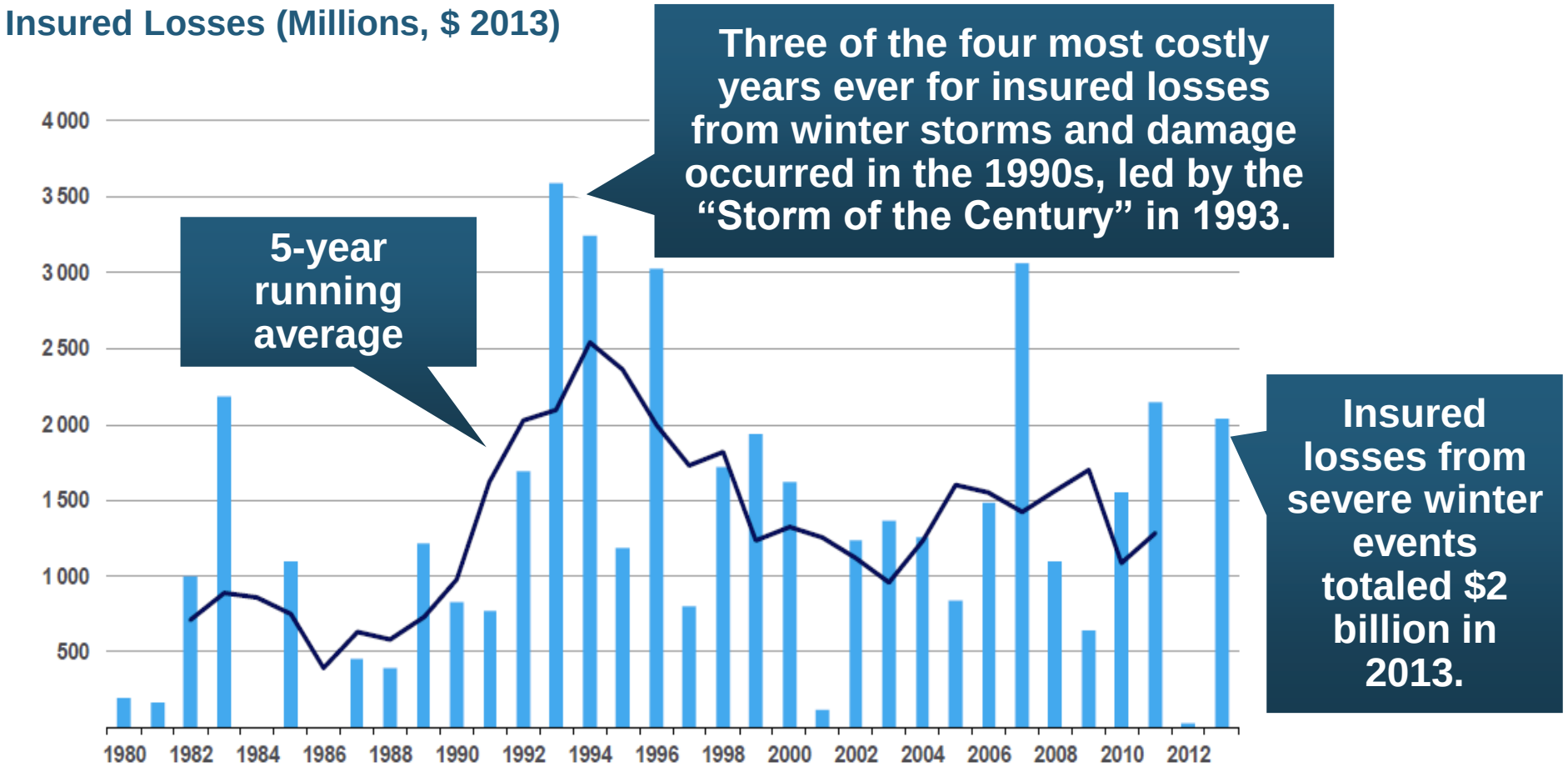

Insured winter storm and damage losses in Jan. 2014 already totaled $1.5 billion. Continued severe weather since then makes it likely that 2014 will become one of the top 5 costliest winters since 1980.

Sources: Munich Re NatCatSERVICE; Insurance Information Institute.

Top 10 Winter Storm and Winter Damage Events in the US and Canada, 1980-2013*

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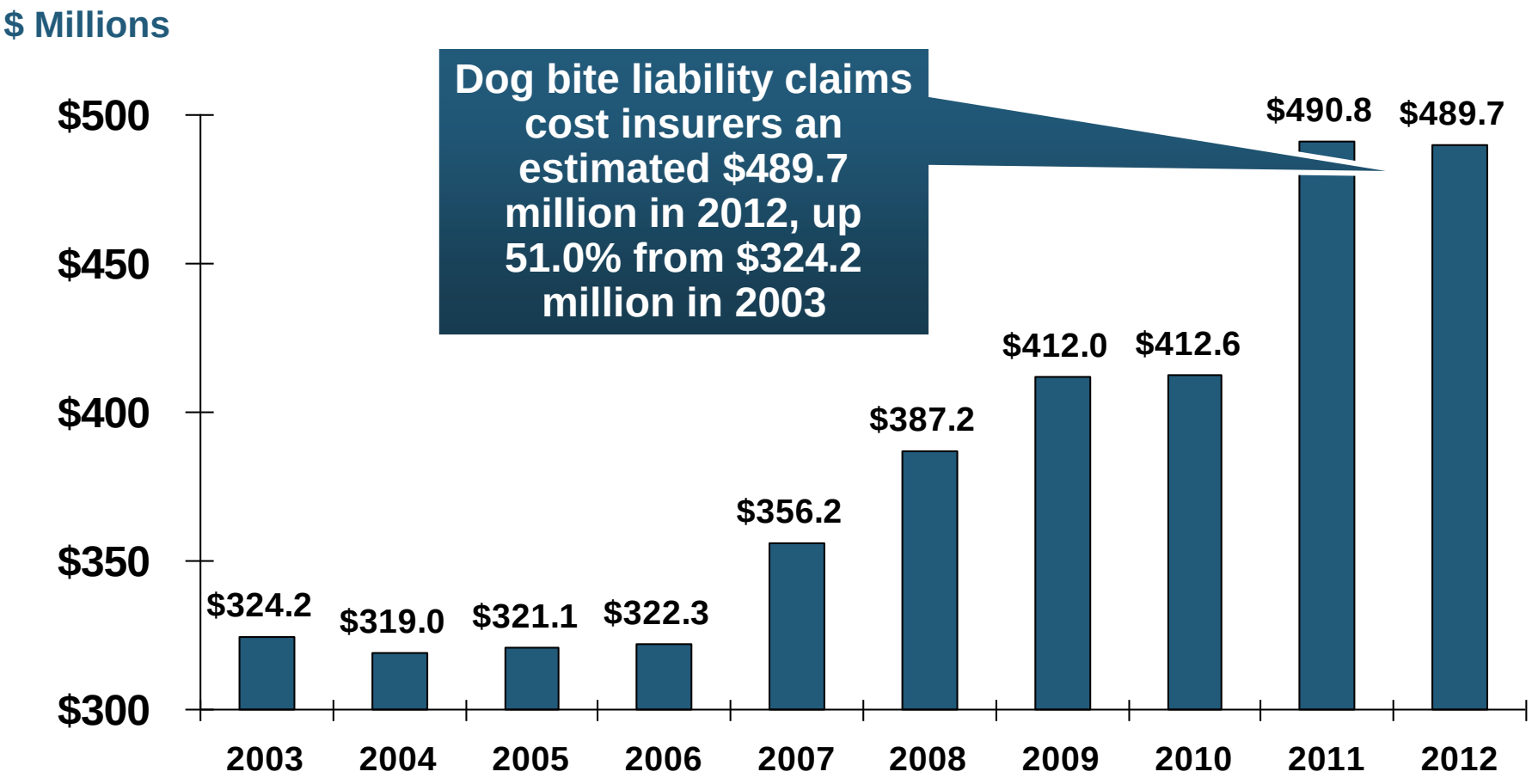
Ranked by Insured Loss, in Millions of $ 2013*

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

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

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



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

Source: Insurance Information Institute.

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

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

Source: Munich Re NatCat*SERVICE*

Significant Natural Catastrophes, 2013

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

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

Source: Munich Re NatCat*SERVICE*

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

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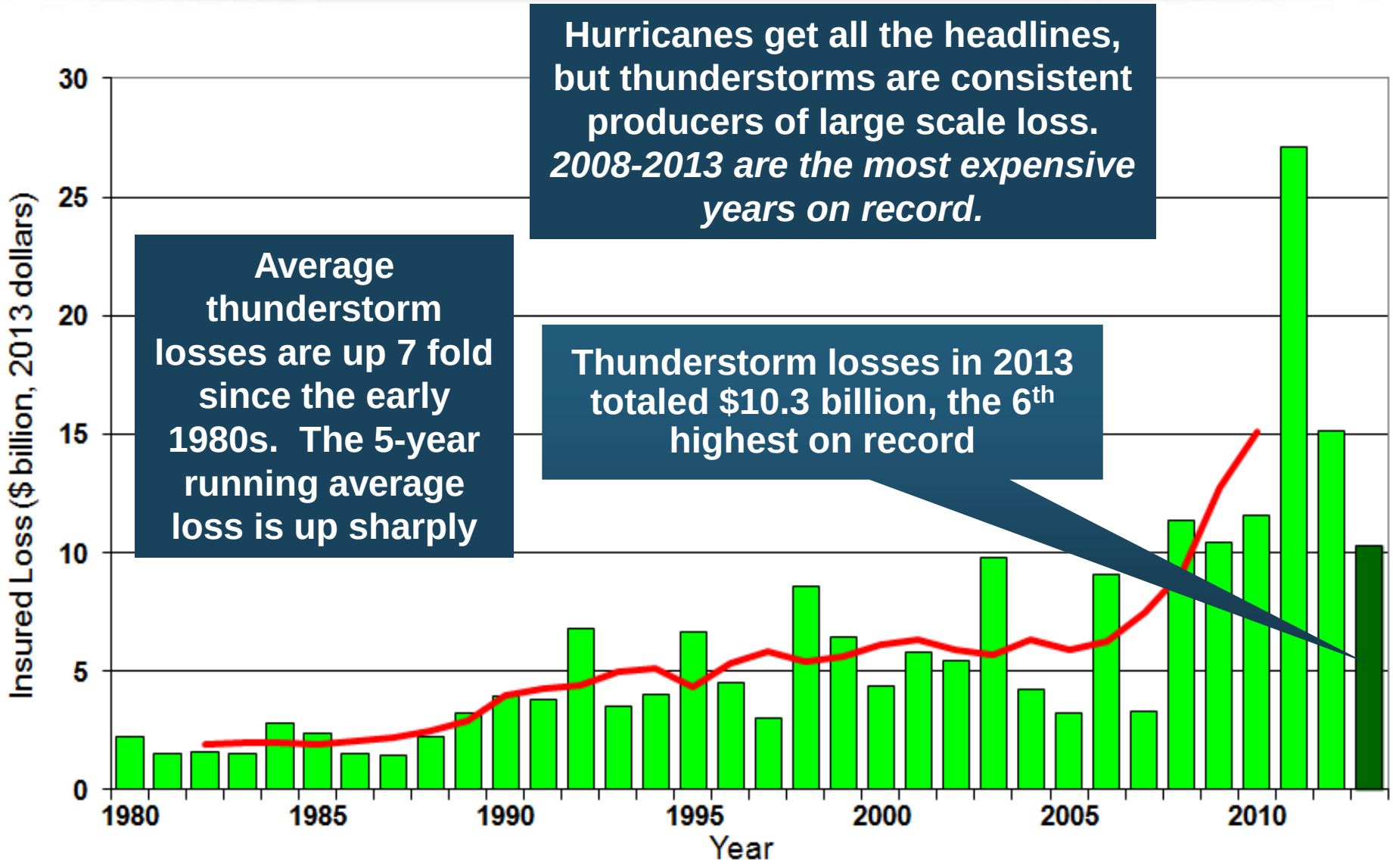

Source: Property Claims Service, and MR NatCat*SERVICE*

Convective Loss Events in the U.S.

Number of events 1980 – 2012 and First Half 2013

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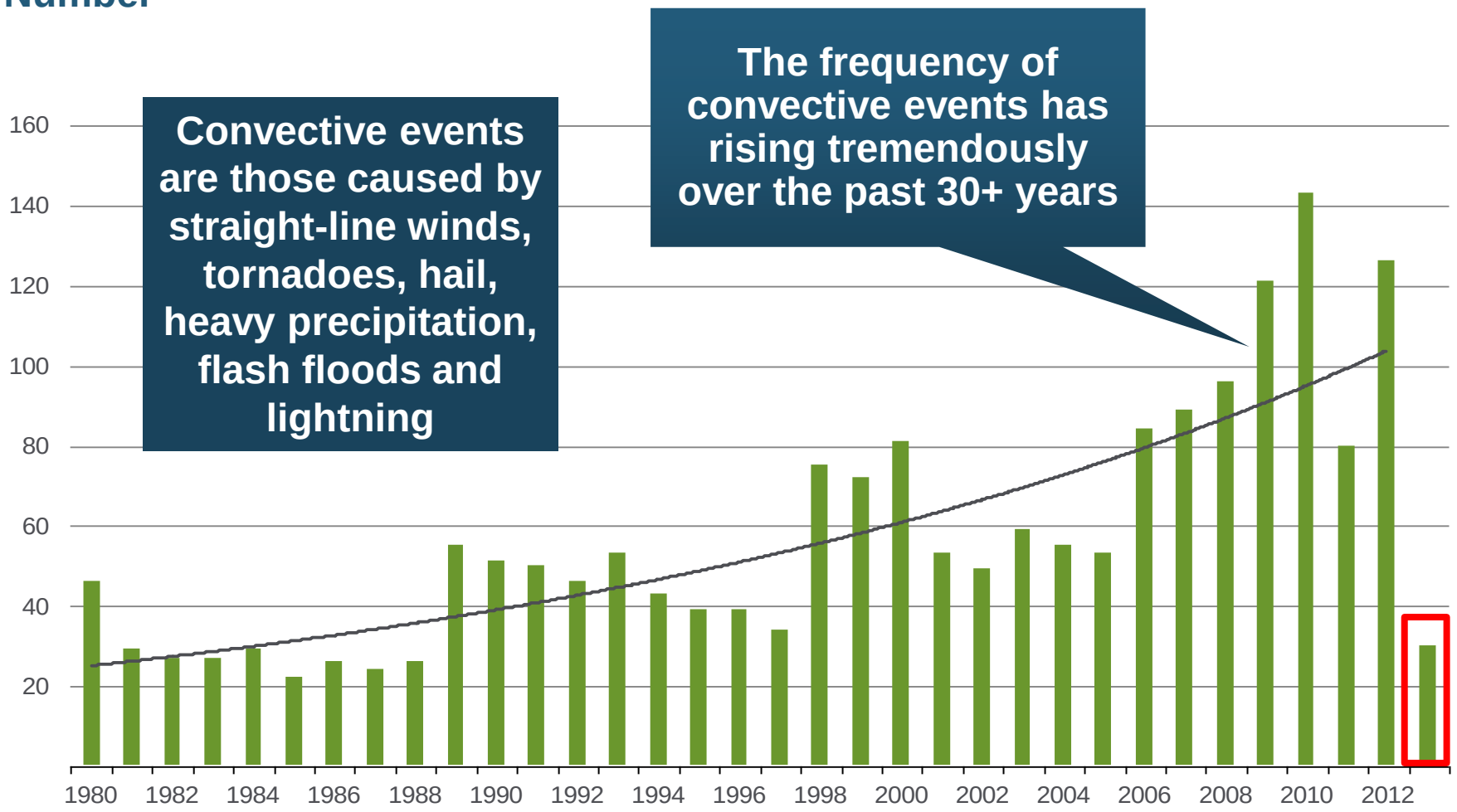

Source: Geo Risks Research, NatCatSERVICE – As at July 2013

Convective Loss Events in the U.S.

Overall and insured losses 1980 – 2012 and First Half 2013

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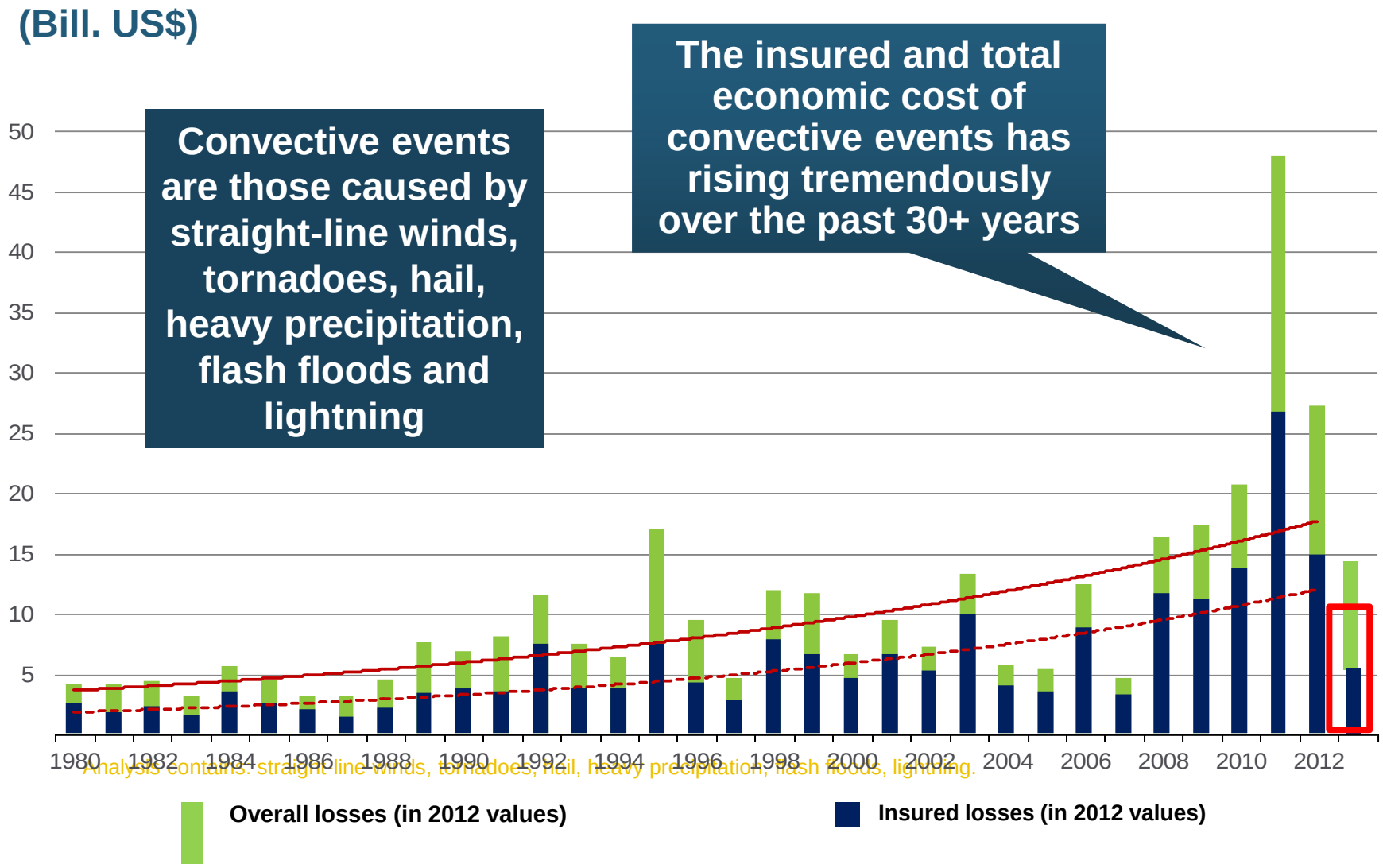

Source: Geo Risks Research, NatCatSERVICE – As at July 2013

New Research Suggests Increase in Convective Activity Is Costly for Insurers

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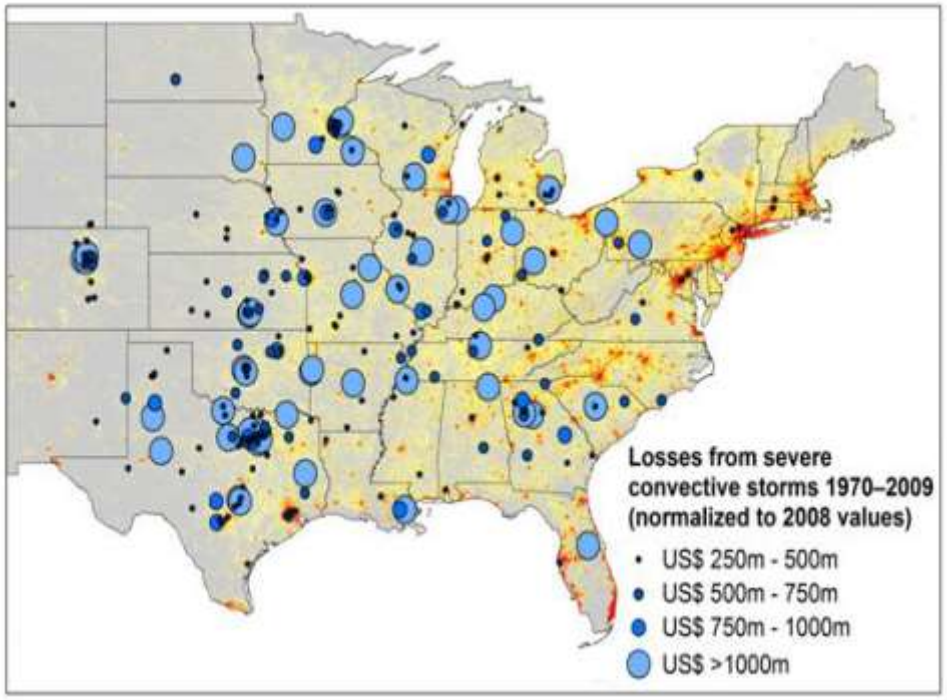
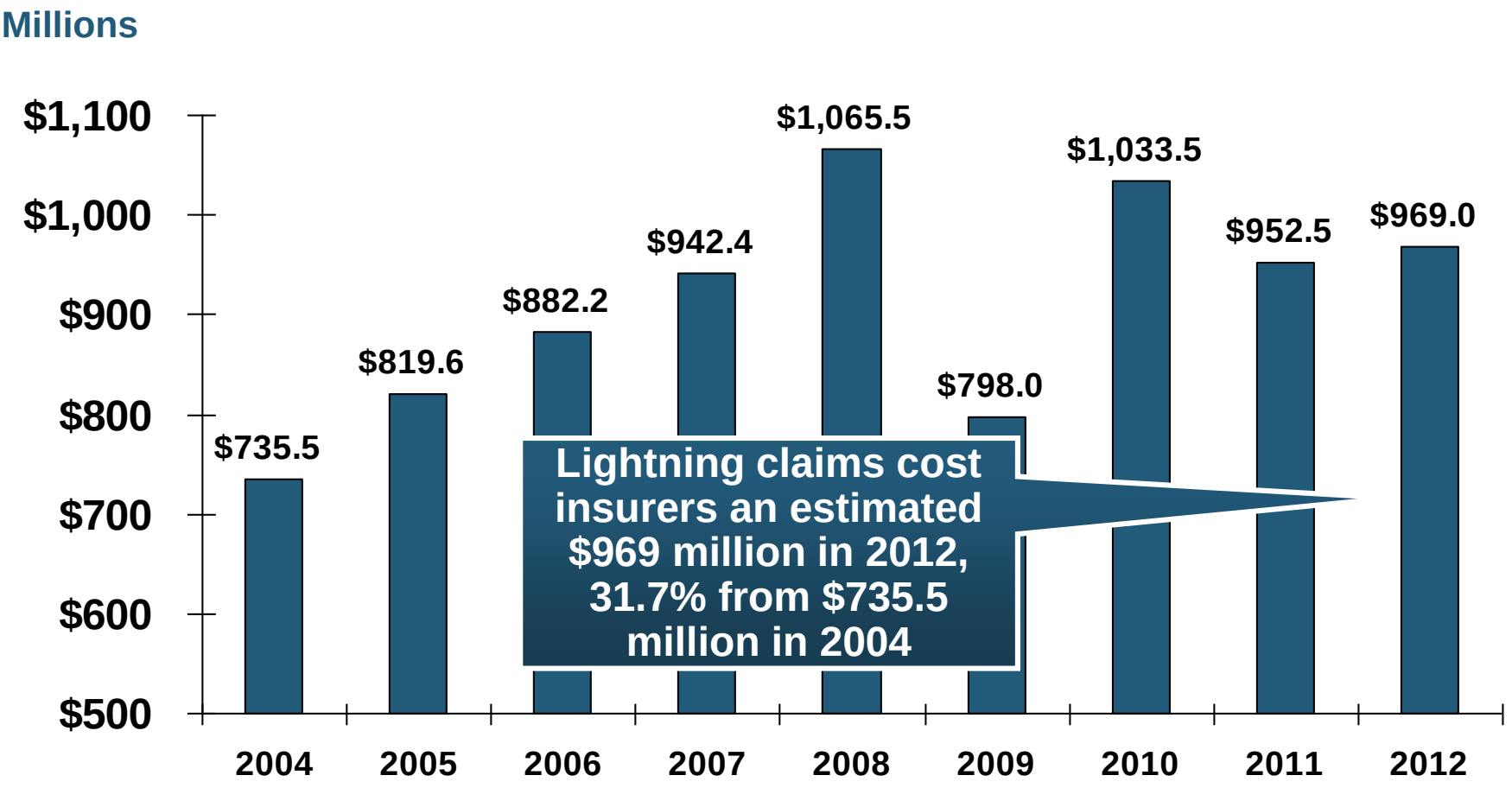
- **Study examines convective (hail, tornado, thundersquall and heavy rainfall) events in the US with losses exceeding US$ 250m in the period 1970–2009 (80% of all losses)**
- **Past losses are normalized (i.e., adjusted) to currently exposed values**
- **After normalization there are still increases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

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



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

Insured Homeowners Losses Due to Lightning, 2004-2012

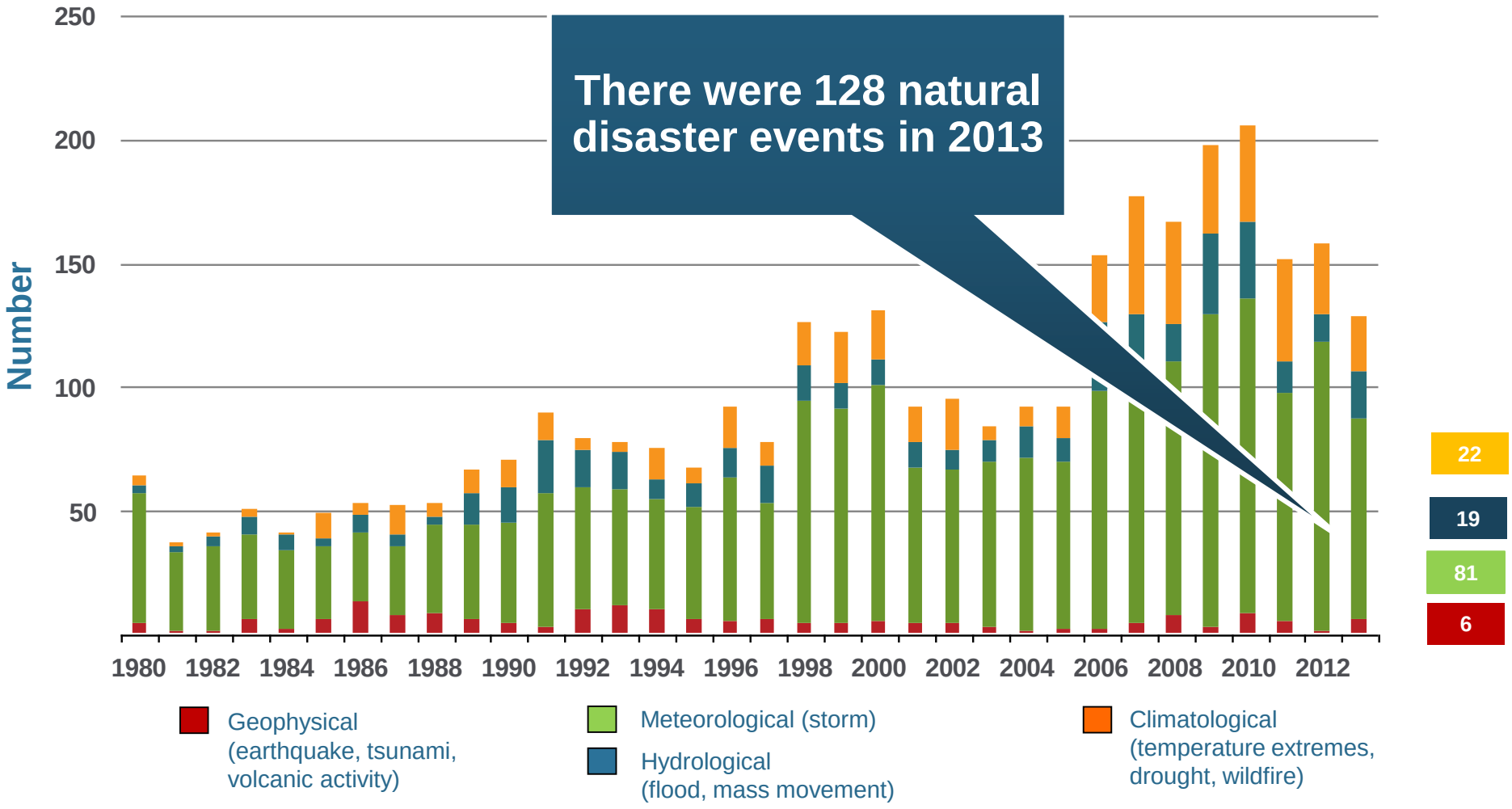


The Increased Number and Value of Expensive Electronic Devices in Homes is Pushing the Total Lightning Claim Costs Up Even as the Number of Lightning Claims Falls

Source: Insurance Information Institute.

Natural Disasters in the United States, 1980 – 2013

Number of Events (Annual Totals 1980 – 2013)



Source: MR NatCat*SERVICE*

Number of Acres Burned in Wildfires, 1980 – 2013

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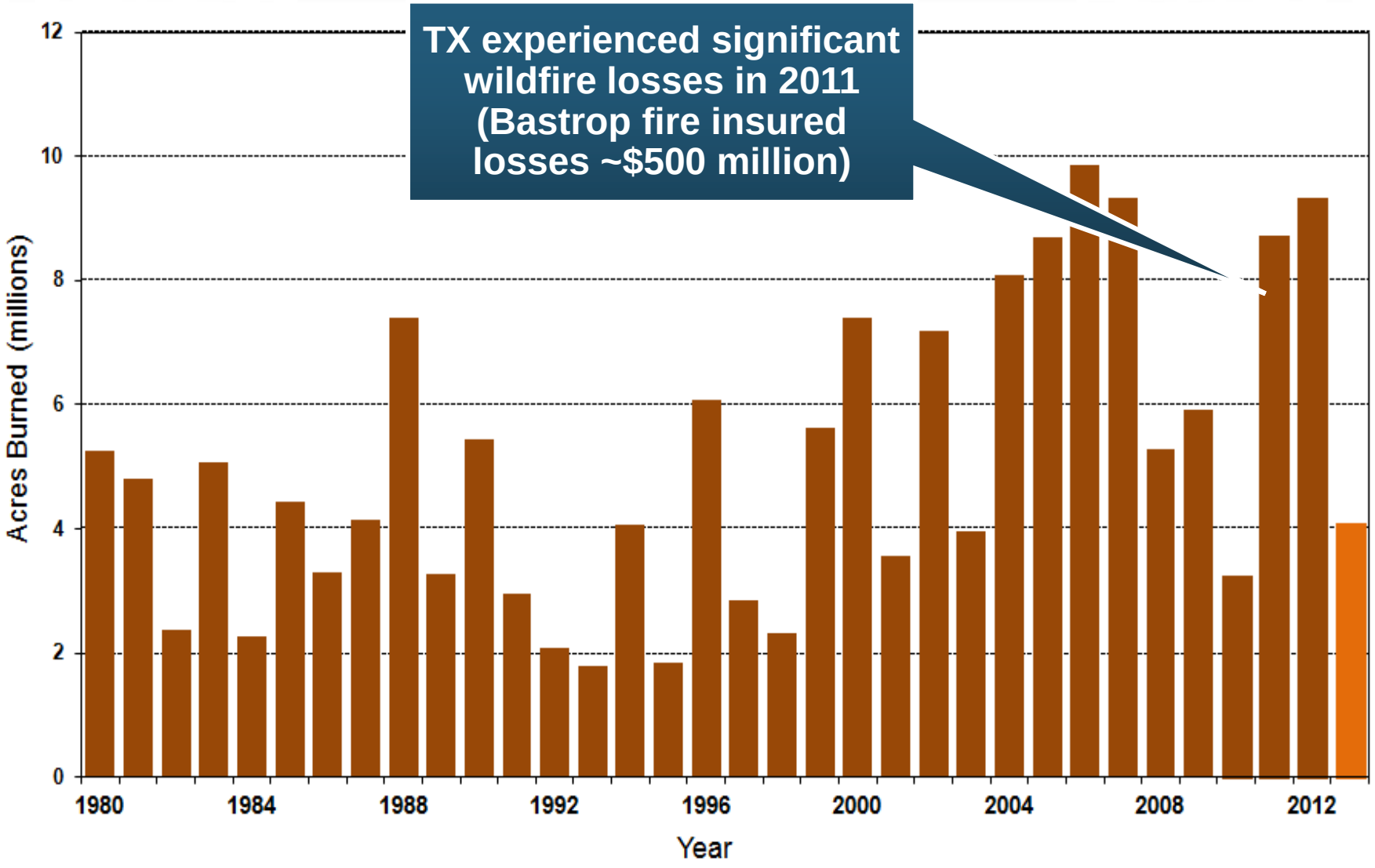
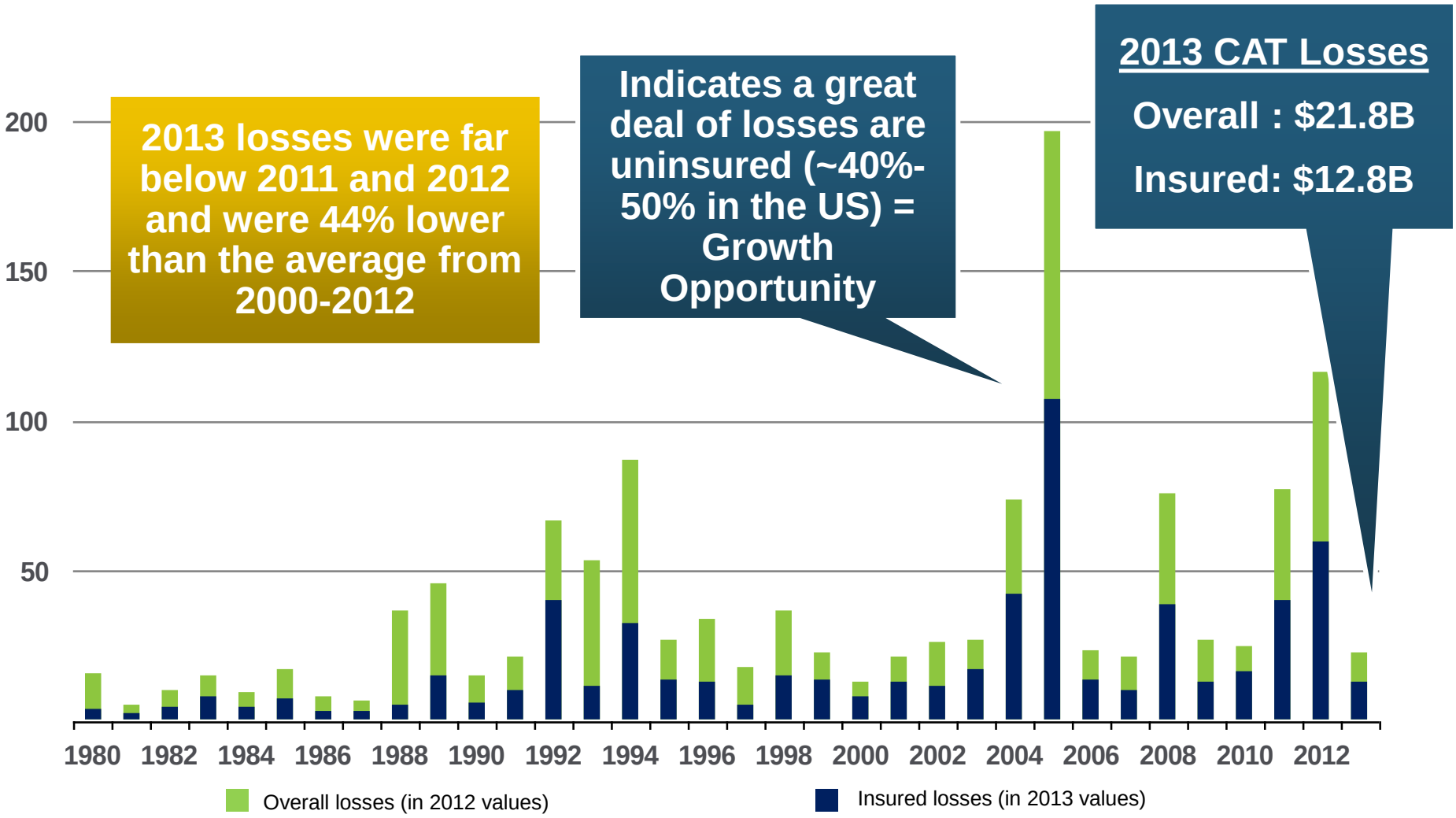


Source: National Interagency Fire Center

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

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

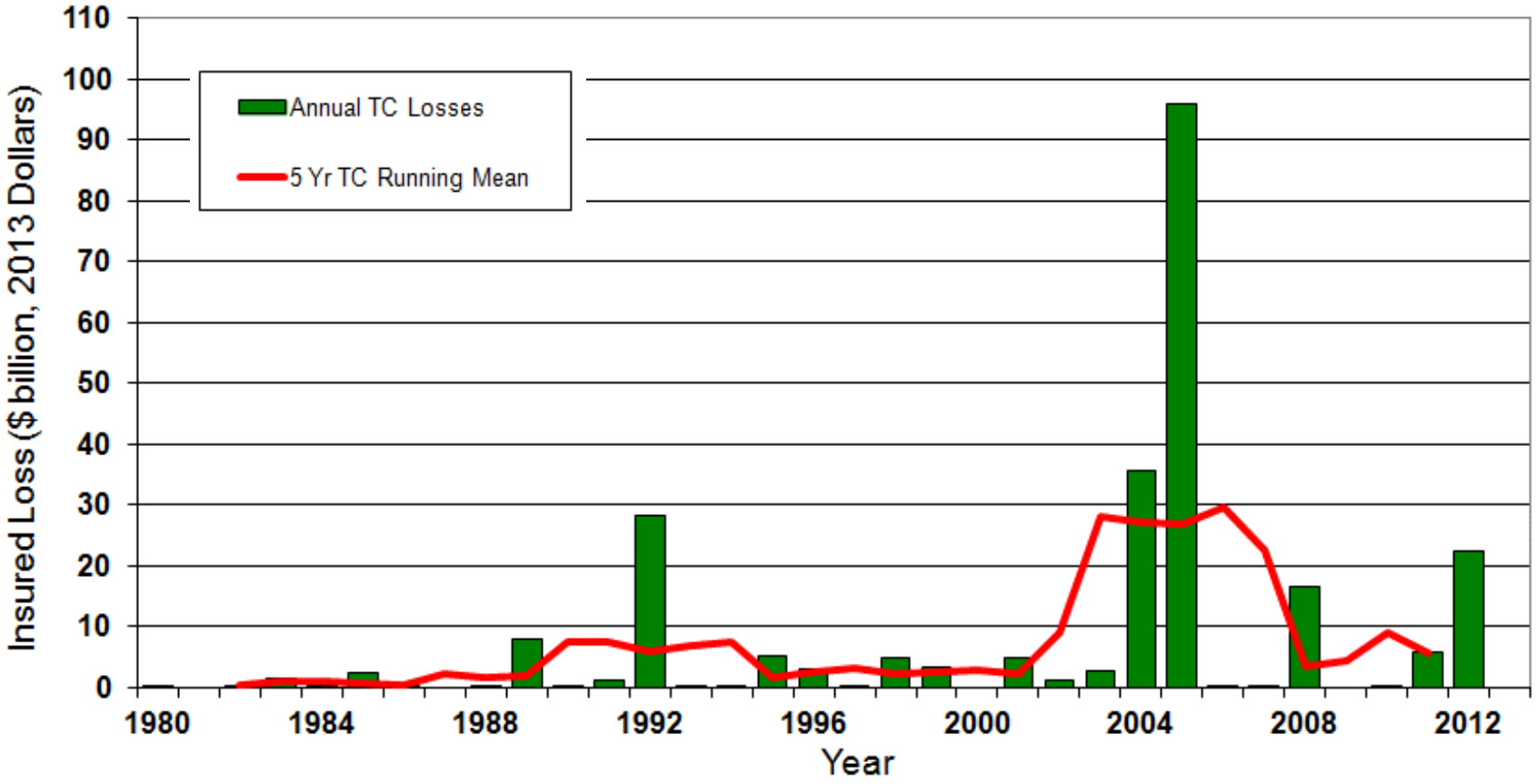


Source: MR NatCat*SERVICE*

Insured US Tropical Cyclone Losses, 1980 - 2013

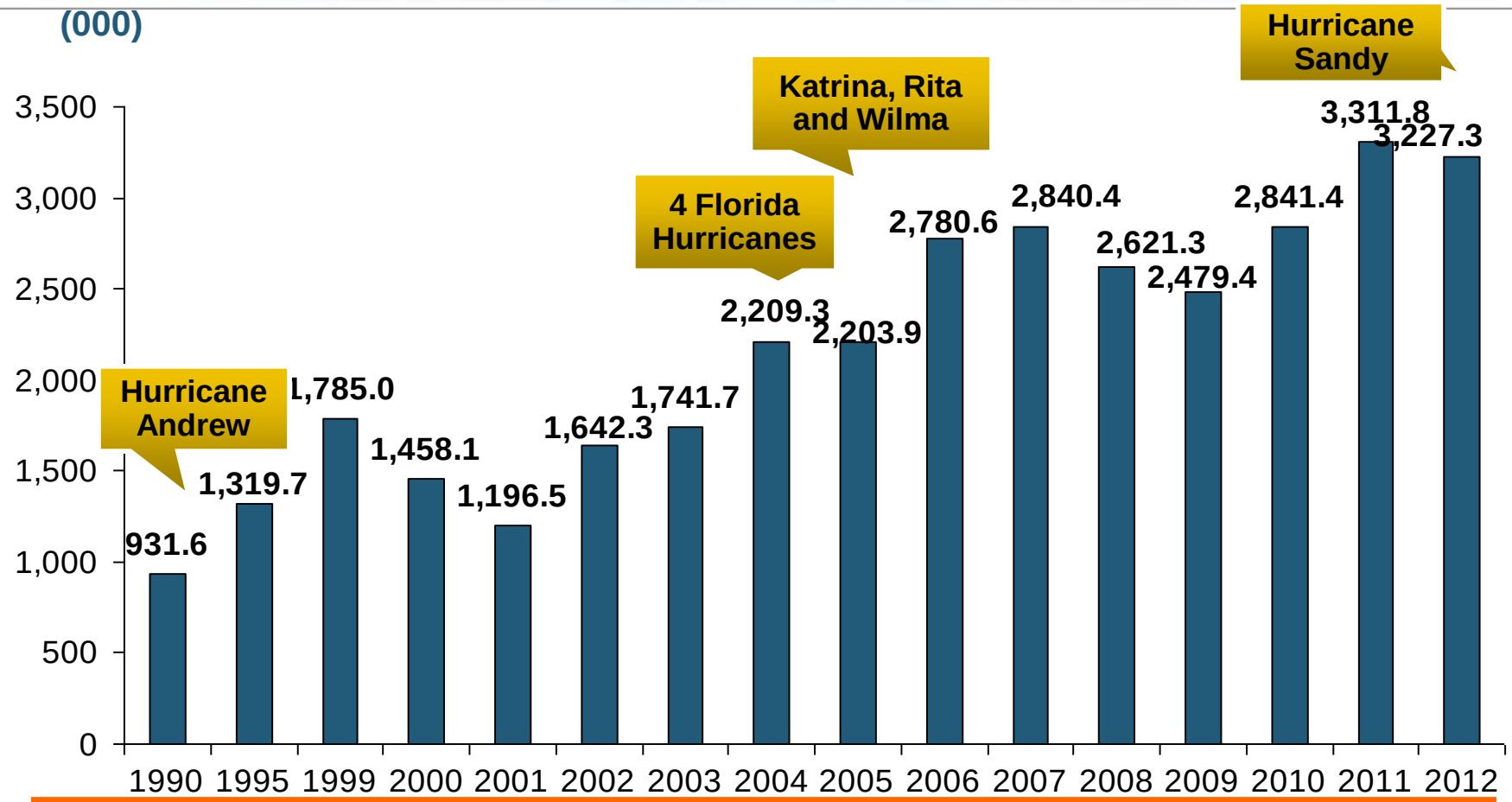
INSURANCE INFORMATION INSTITUTE

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



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

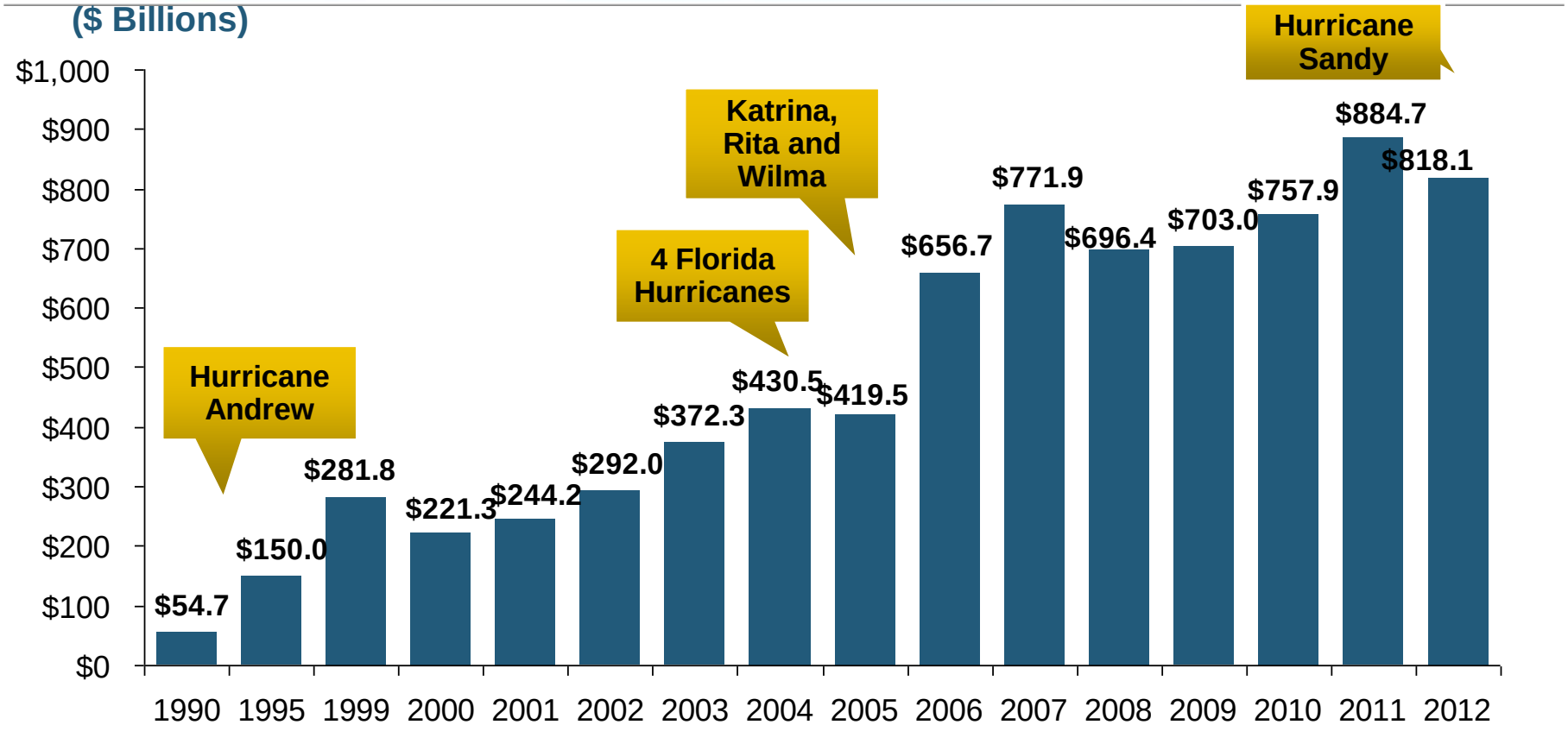
U.S. Residual Market: Total Policies In-Force (1990-2012) (000)



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

Source: PIPSO; Insurance Information Institute

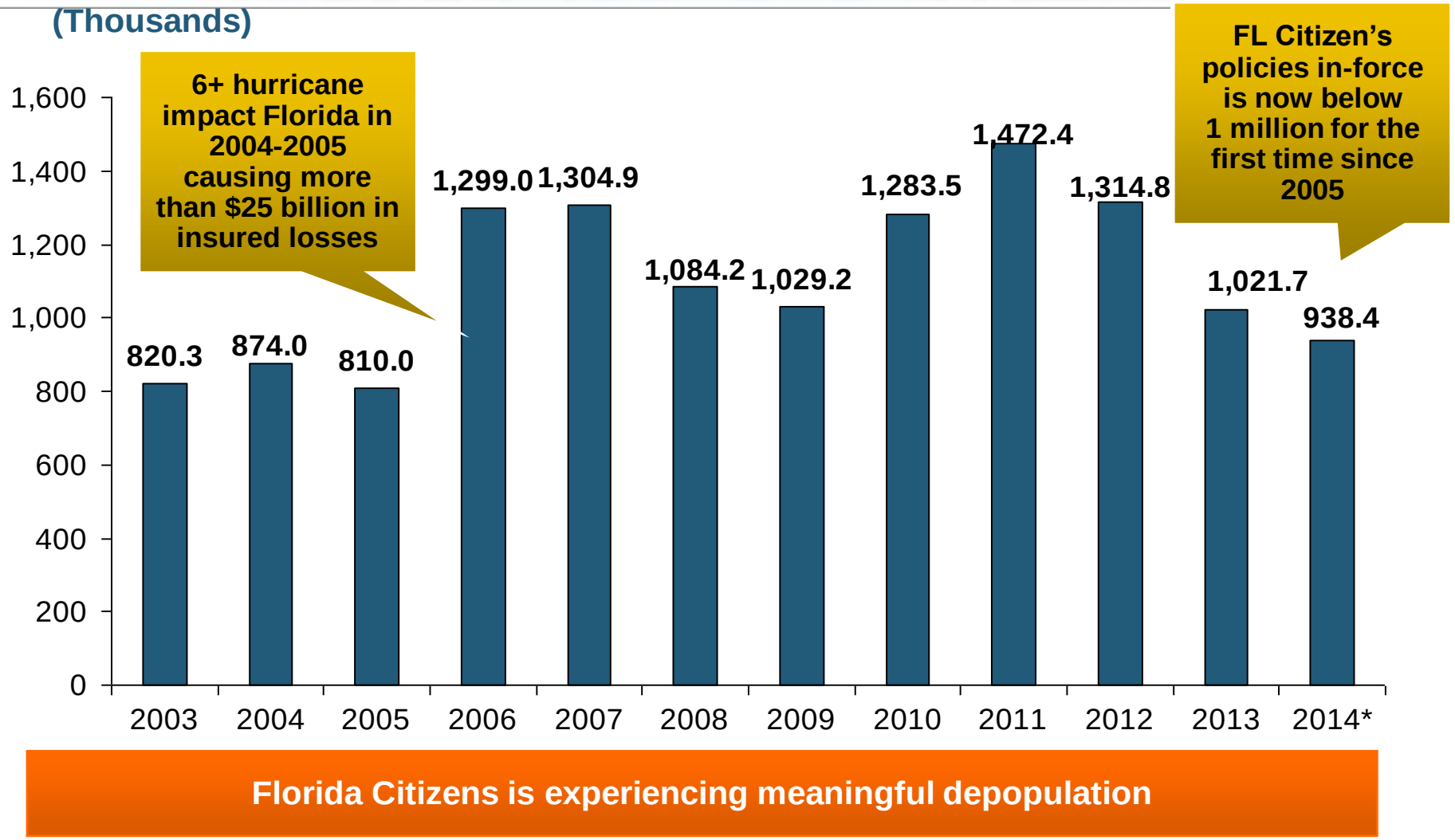
U.S. Residual Market Exposure to Loss (1990-2012) ($ Billions)



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

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

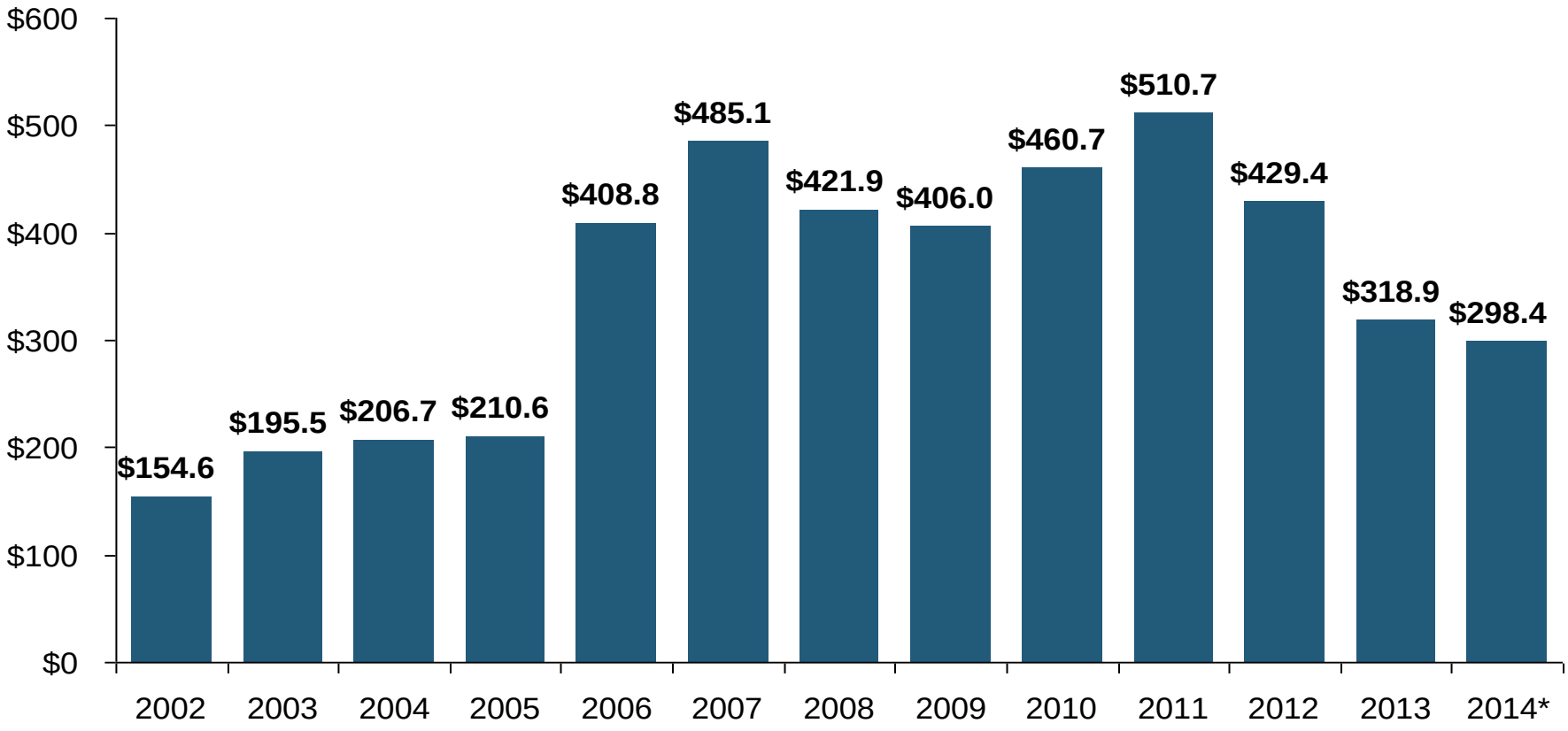
Florida Citizens Total Policies In-Force, 2002 – 2014*



Florida Citizens is experiencing meaningful depopulation

*Year-end figures 2003-2013 and as of 3/31/14 for 2014 accessed at https://www.citizensfla.com/about/bookofbusiness/.
Source: PIPSO; Florida Citizens, Insurance Information Institute

Florida Citizens Exposure to Loss, 2002 – 2014* ($ Billions)

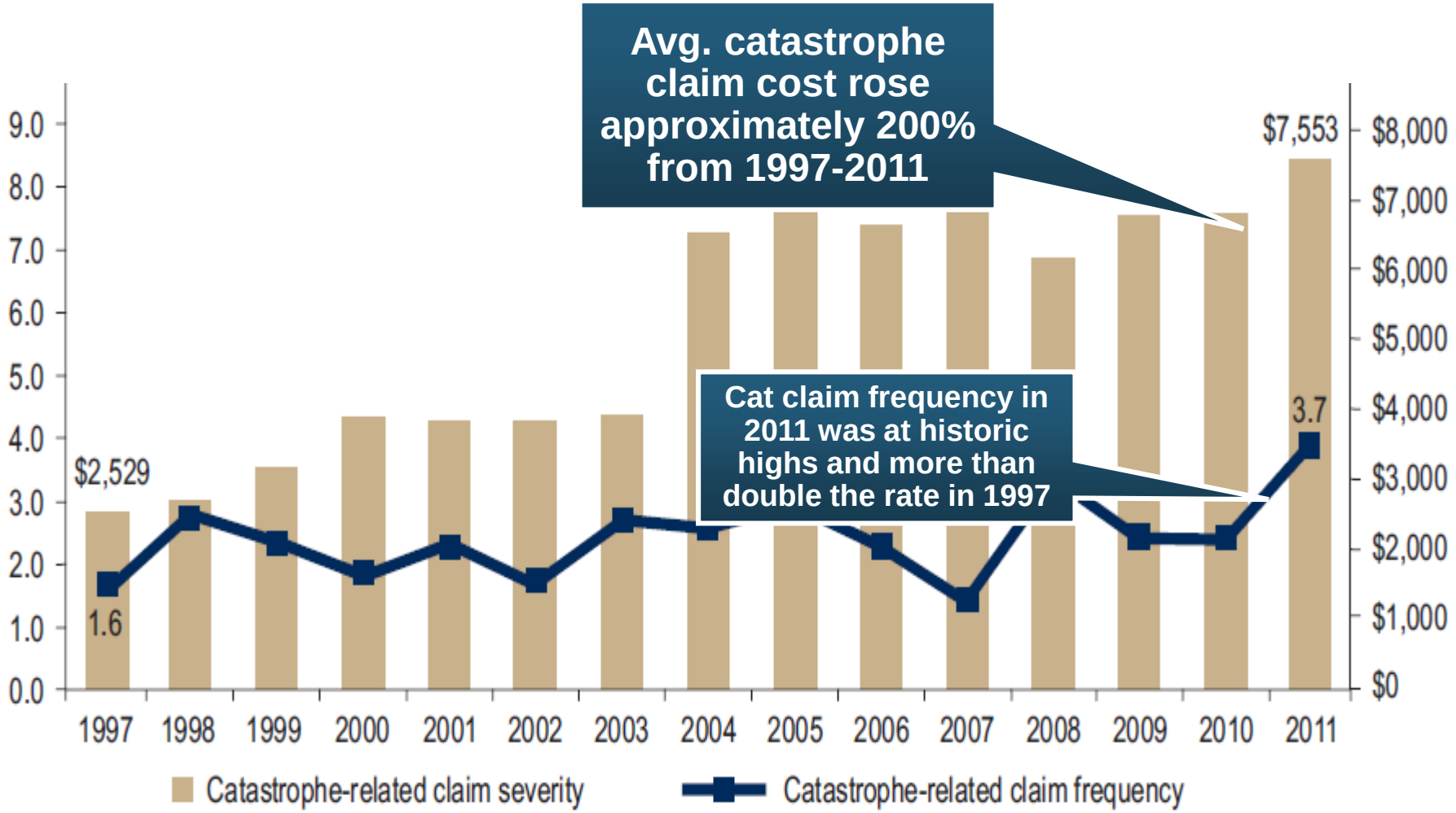


Total exposure to loss in Florida Citizens since its 2002 inception increased by 230 percent, from $154.6 billion to $510.7 billion in 2011 but has now dropped by $212.3 billion or 41.6% through 3/31/14

*As of March 31, 2014 from Florida Citizens accessed at: https://www.citizensfla.com/about/bookofbusiness/

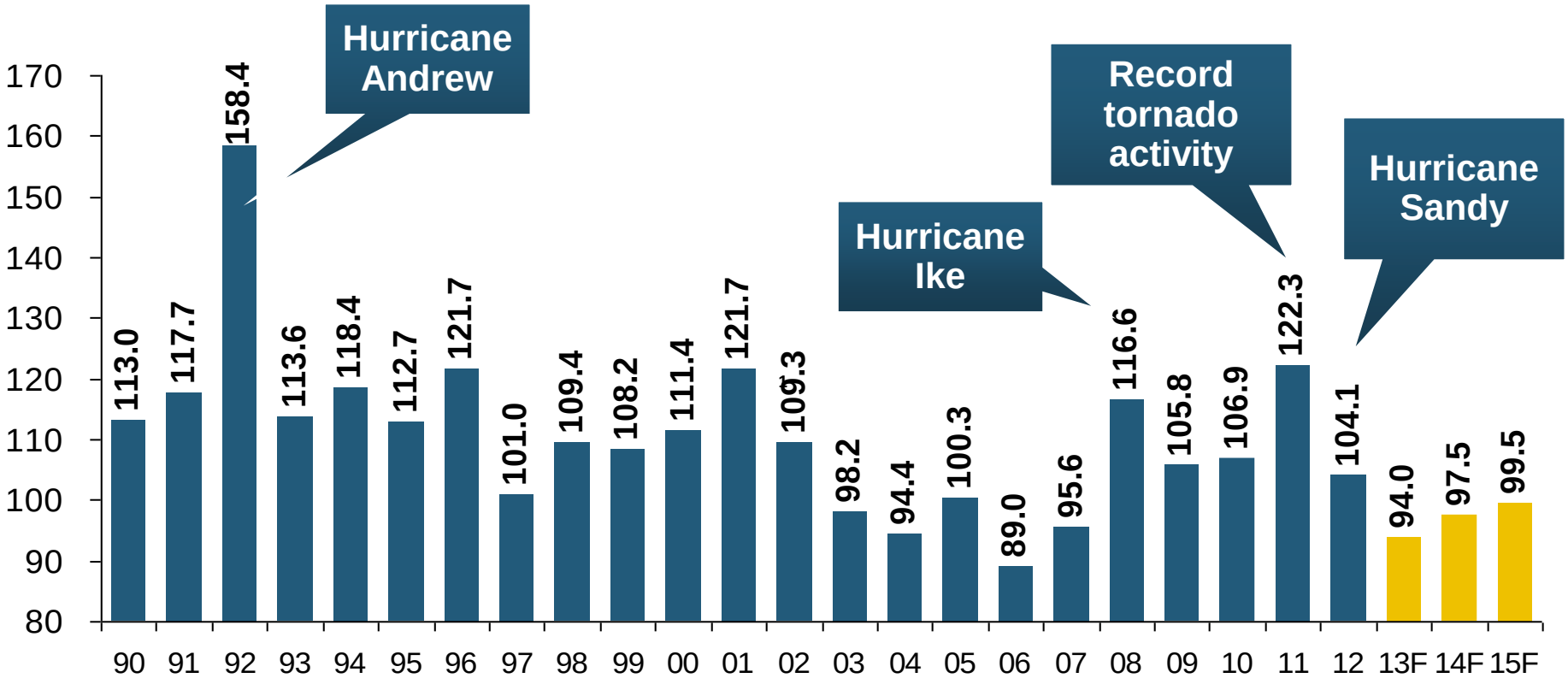
Source: PIPSO; Insurance Information Institute (I.I.I.).

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



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

Homeowners Insurance Combined Ratio: 1990–2015F



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

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

Natural Loss Events: Full Year 2013

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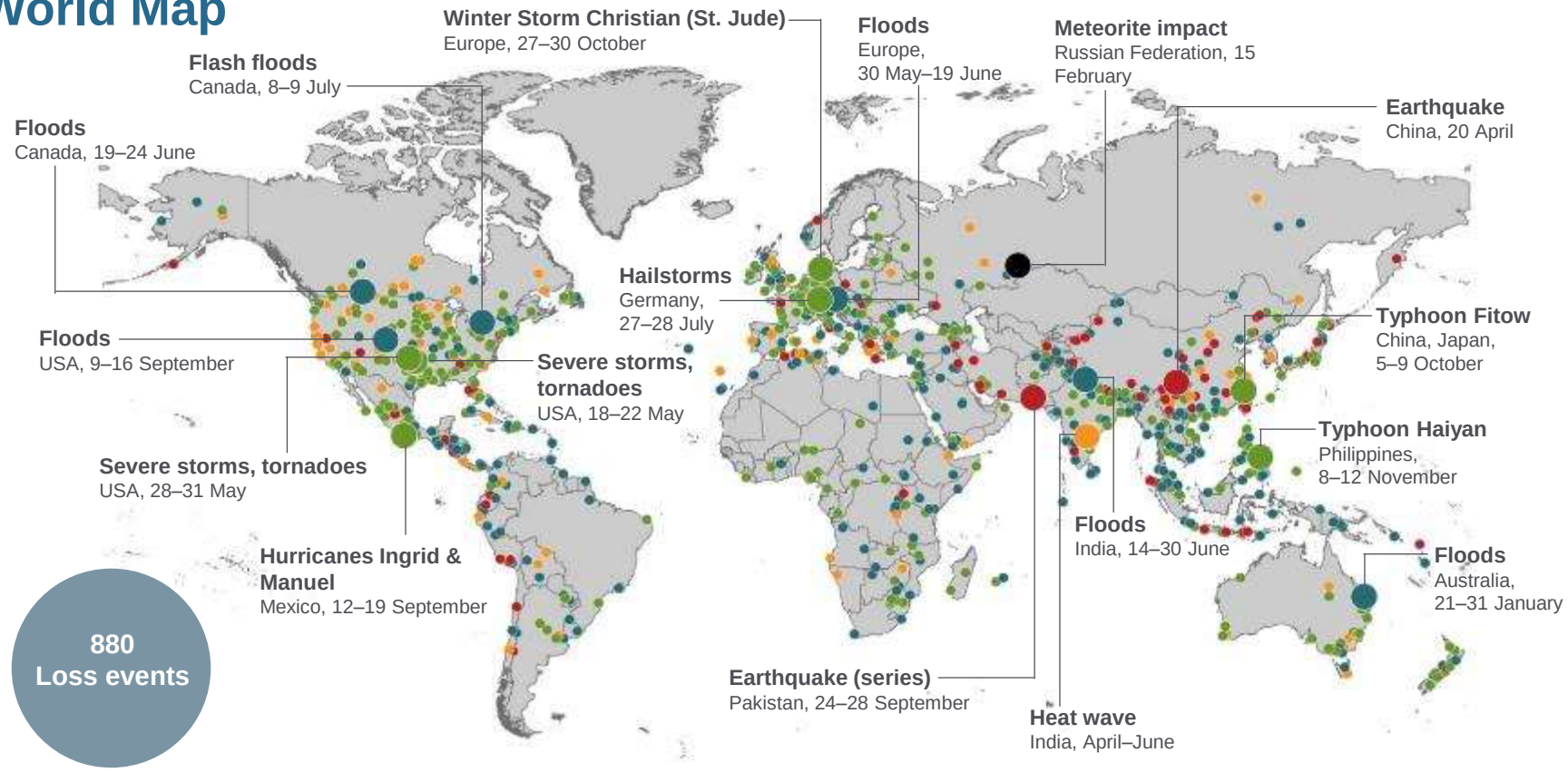
World Map



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

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

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

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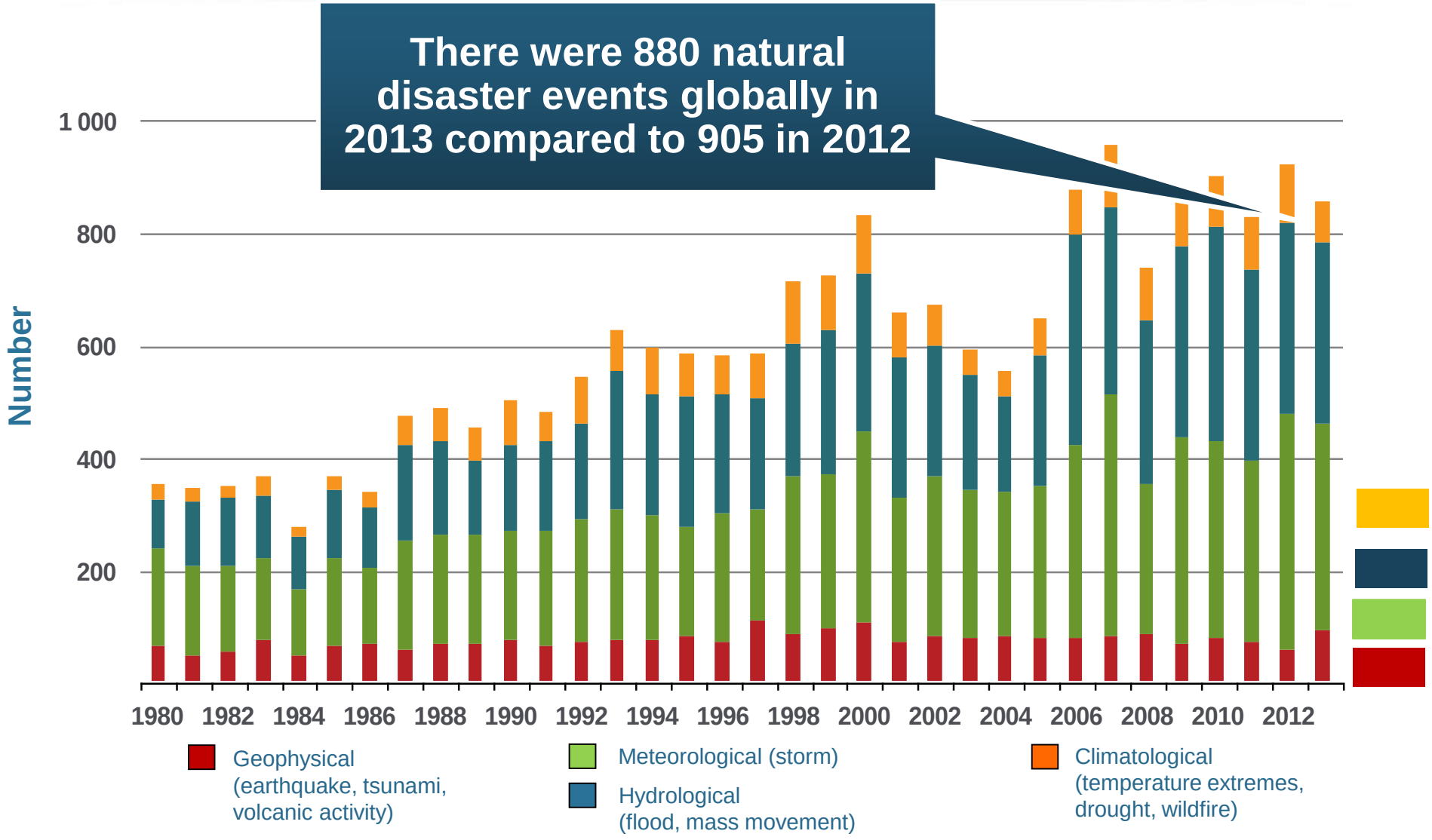

Source: MR NatCat*SERVICE*

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

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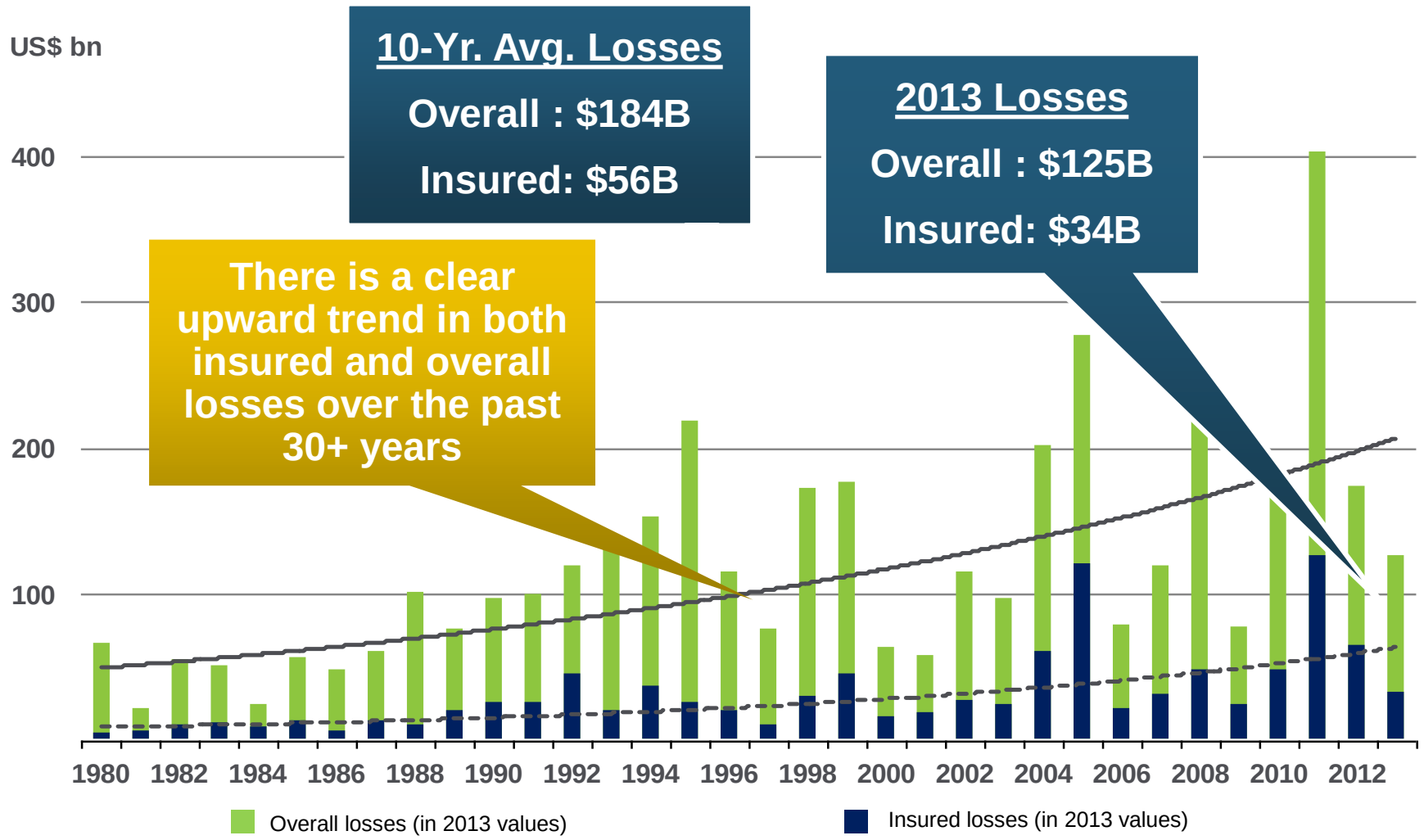
(Overall and Insured Losses)

(2013 Dollars, $ Billions)



Source: MR NatCat*SERVICE*

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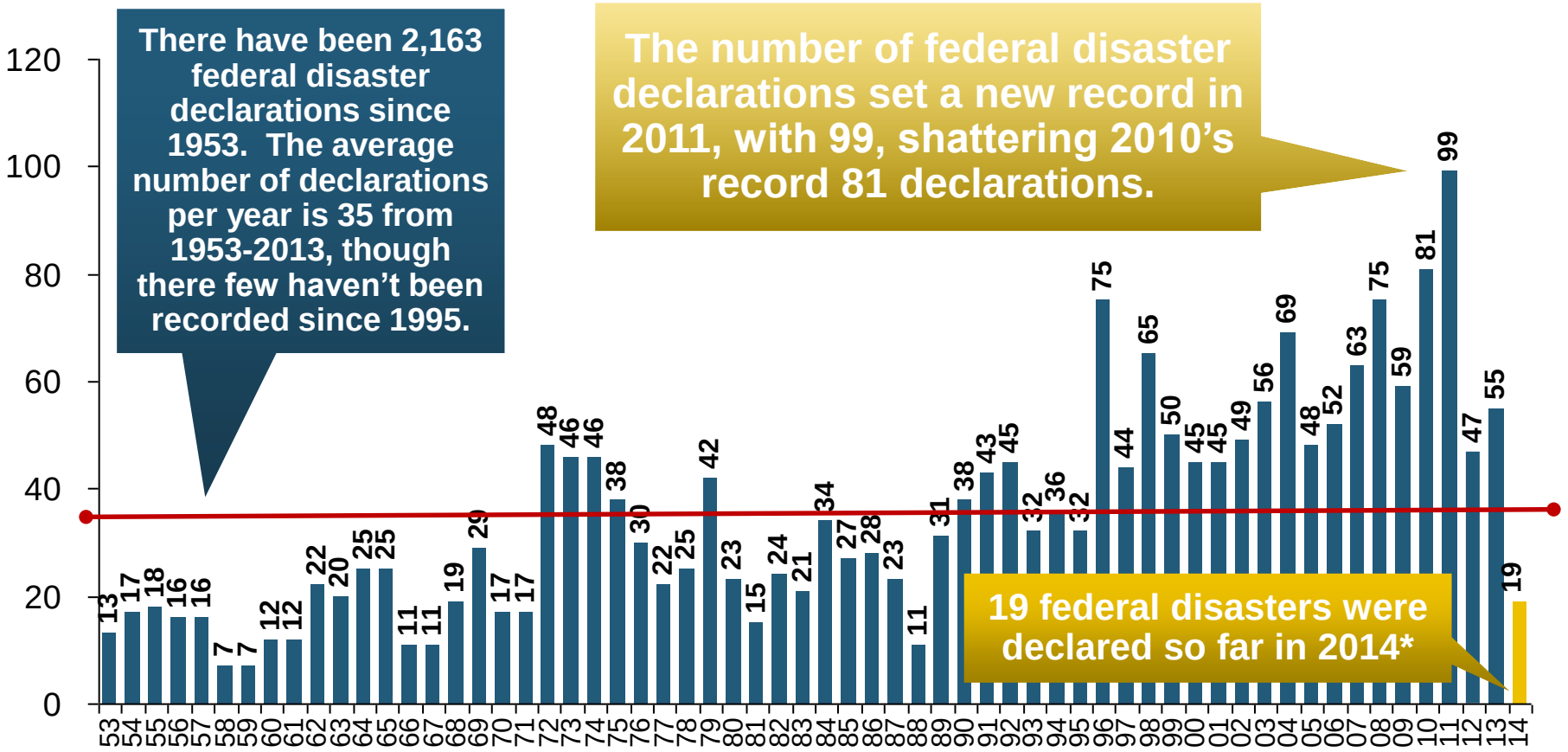
Federal Disaster Declarations Patterns: 1953-2014

Disaster Declarations Set New Records in Recent Years

Number of Federal Major Disaster Declarations, 1953-2014*

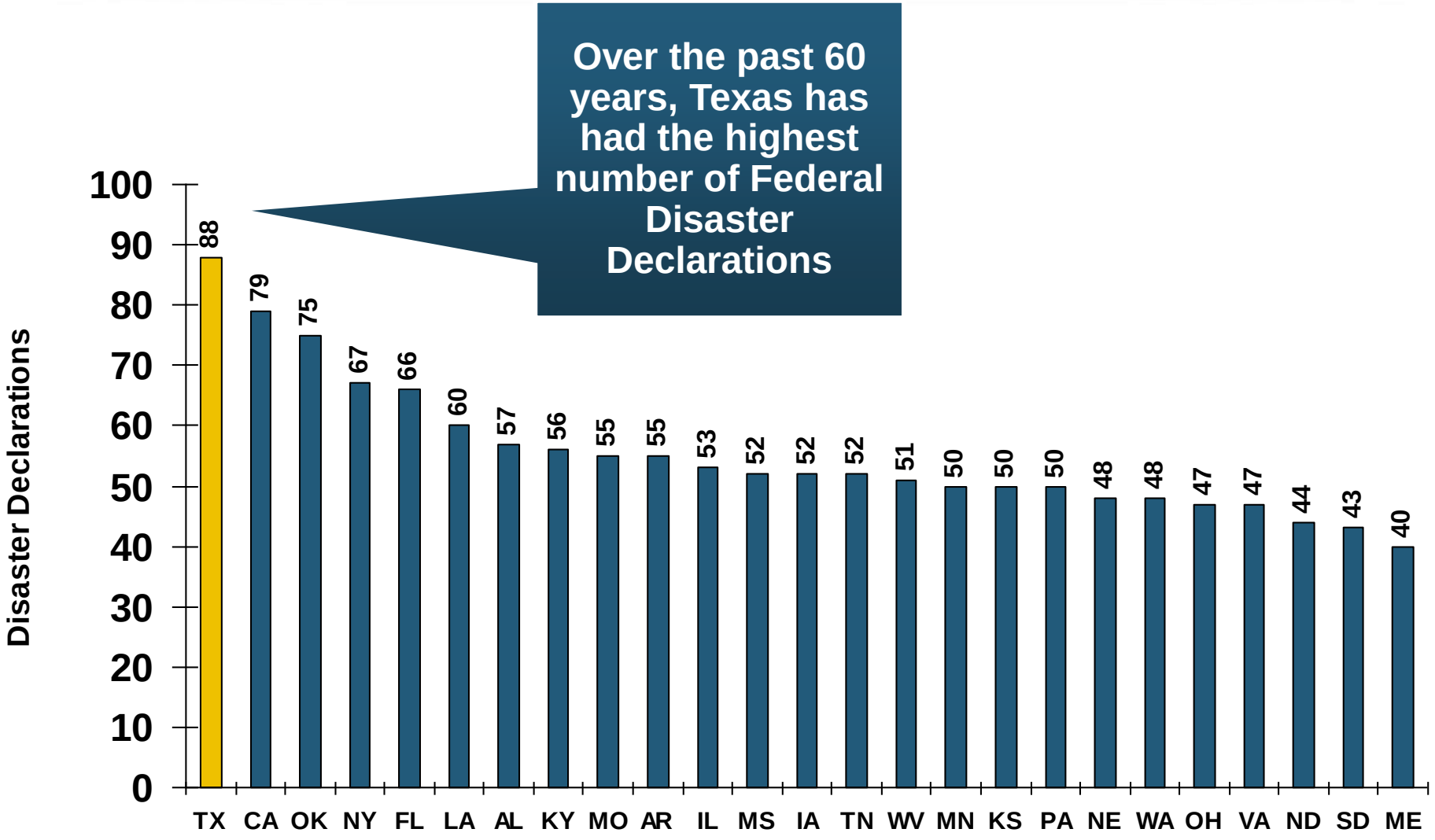


The Number of Federal Disaster Declarations Is Rising and Set New Records in 2010 *and* 2011 Before Dropping in 2012/13

*Through April 23, 2014.

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

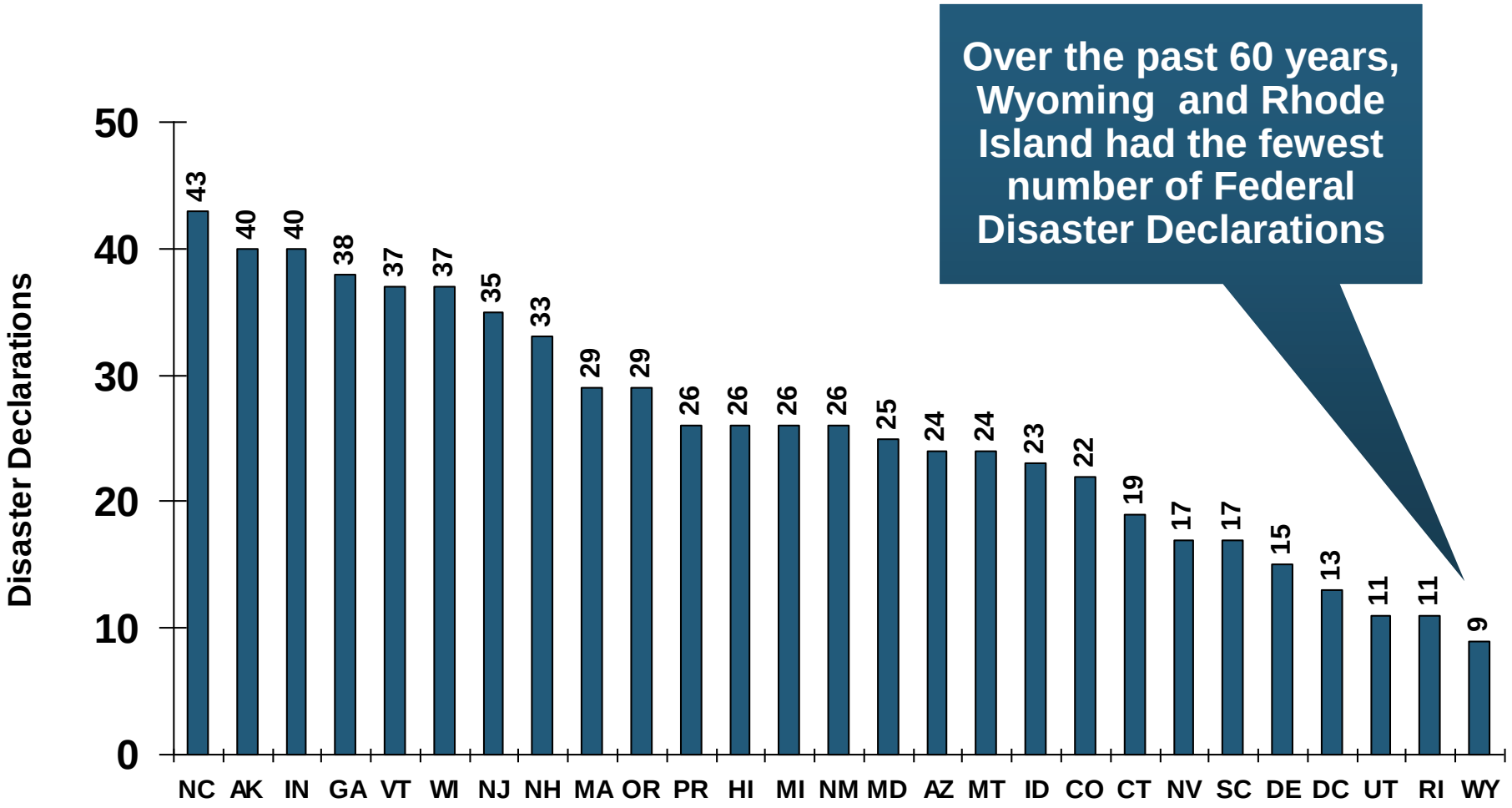
Federal Disasters Declarations by State, 1953 – 2014: Highest 25 States*



*Through April 23, 2014. Includes Puerto Rico and the District of Columbia.

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

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



*Through April 23, 2014. Includes Puerto Rico and the District of Columbia.

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

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SEVERE WEATHER REPORT UPDATE: 2013-2014

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

Location of Tornado Reports in 2013

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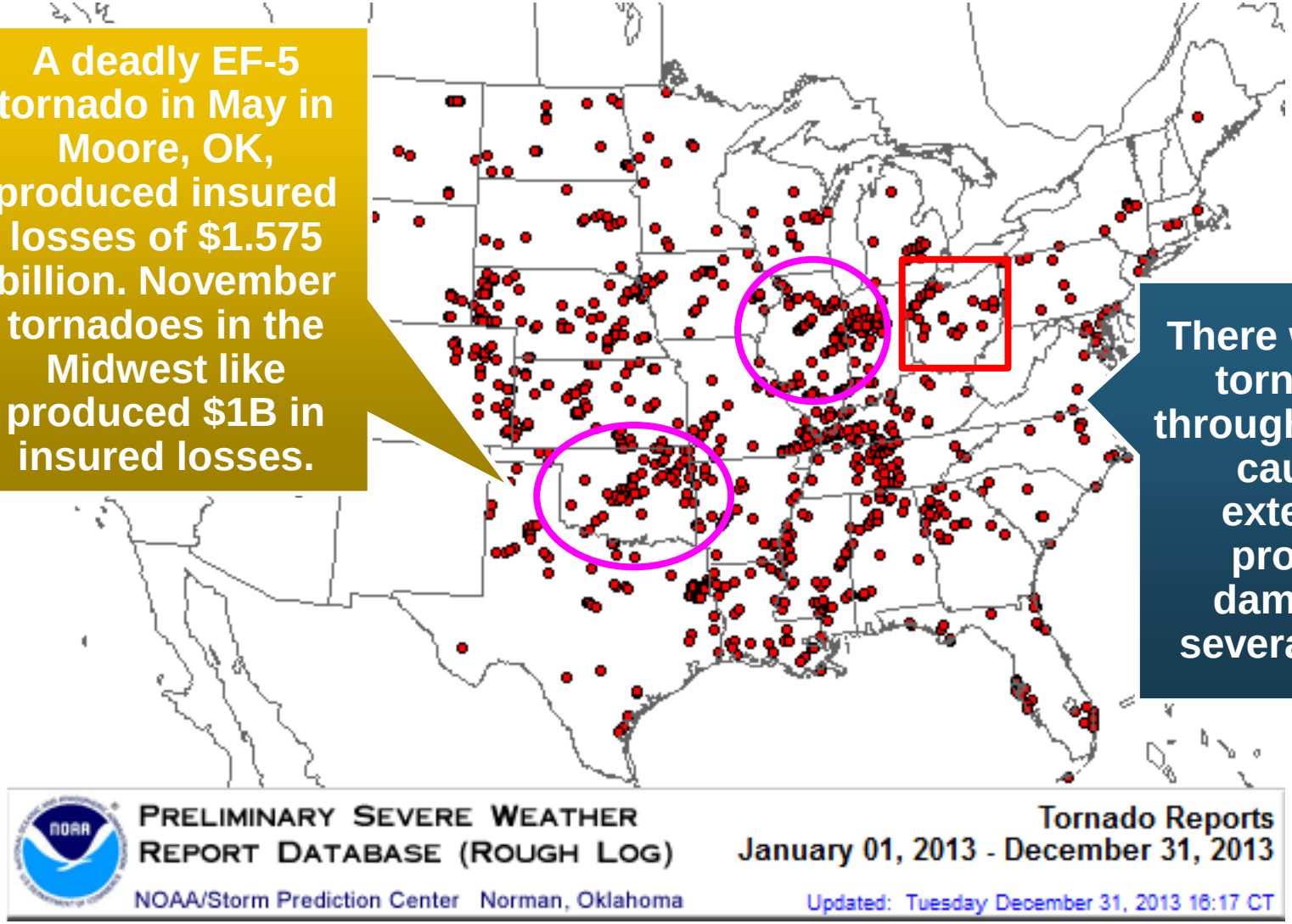
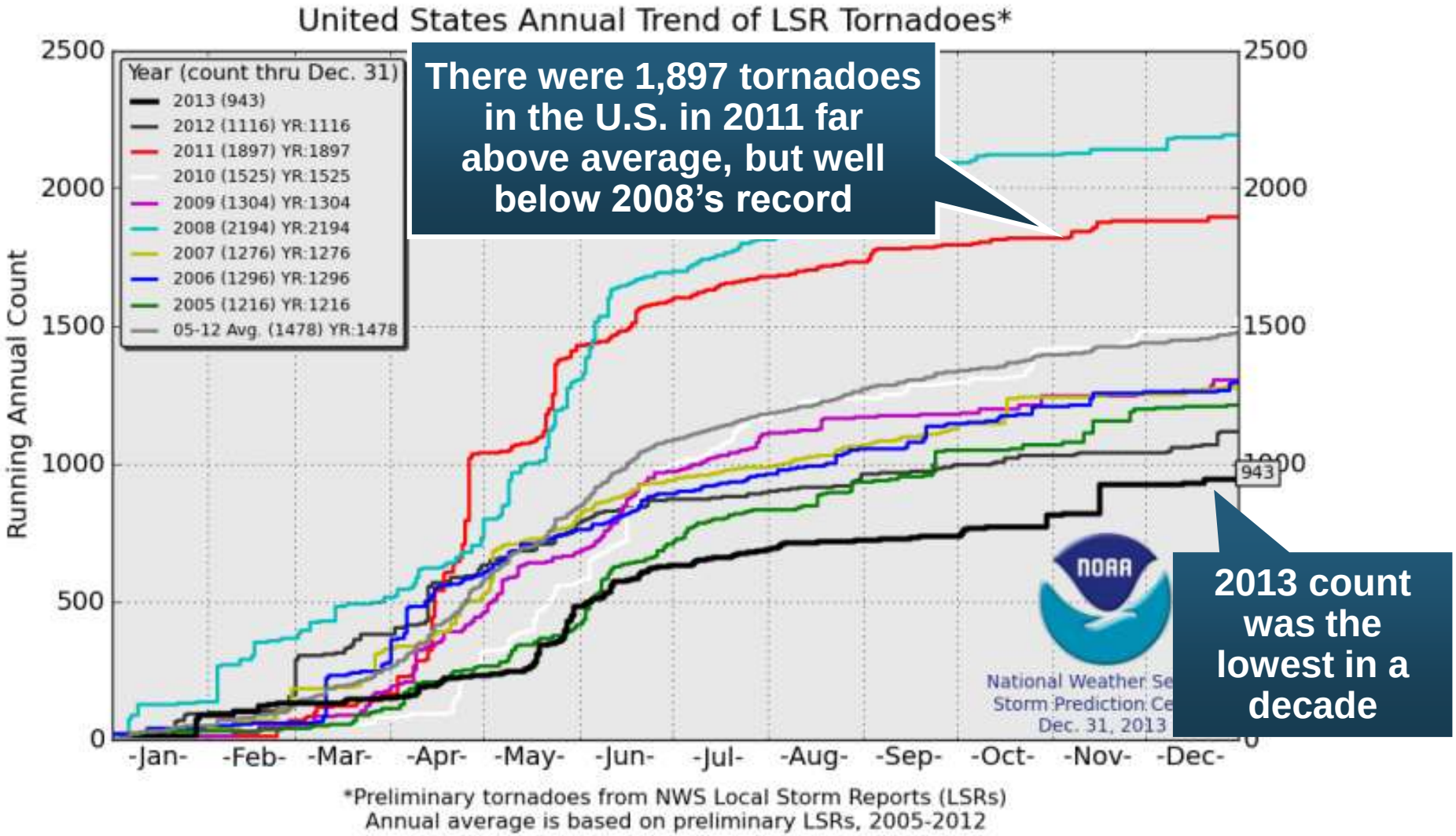
A deadly EF-5 tornado in May in Moore, OK, produced insured losses of $1.575 billion. November tornadoes in the Midwest like produced $1B in insured losses.



There were 943 tornadoes through Dec. 31, causing extensive property damage in several states

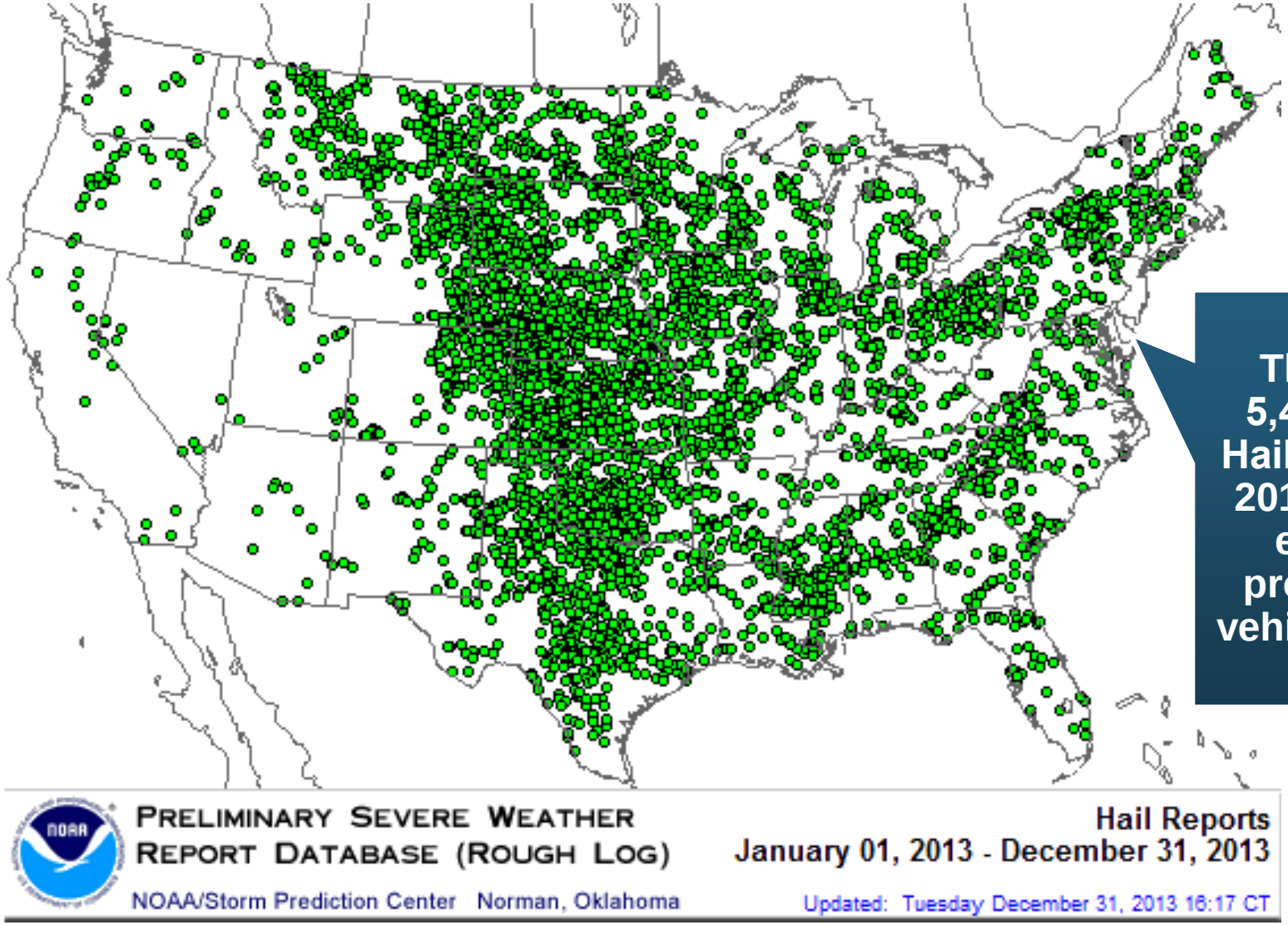
Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2013_annual_summary.html#; PCS.

U.S. Tornado Count, 2005-2013*



*Through Dec. 31, 2013.
Source: http://www.spc.noaa.gov/wcm/.

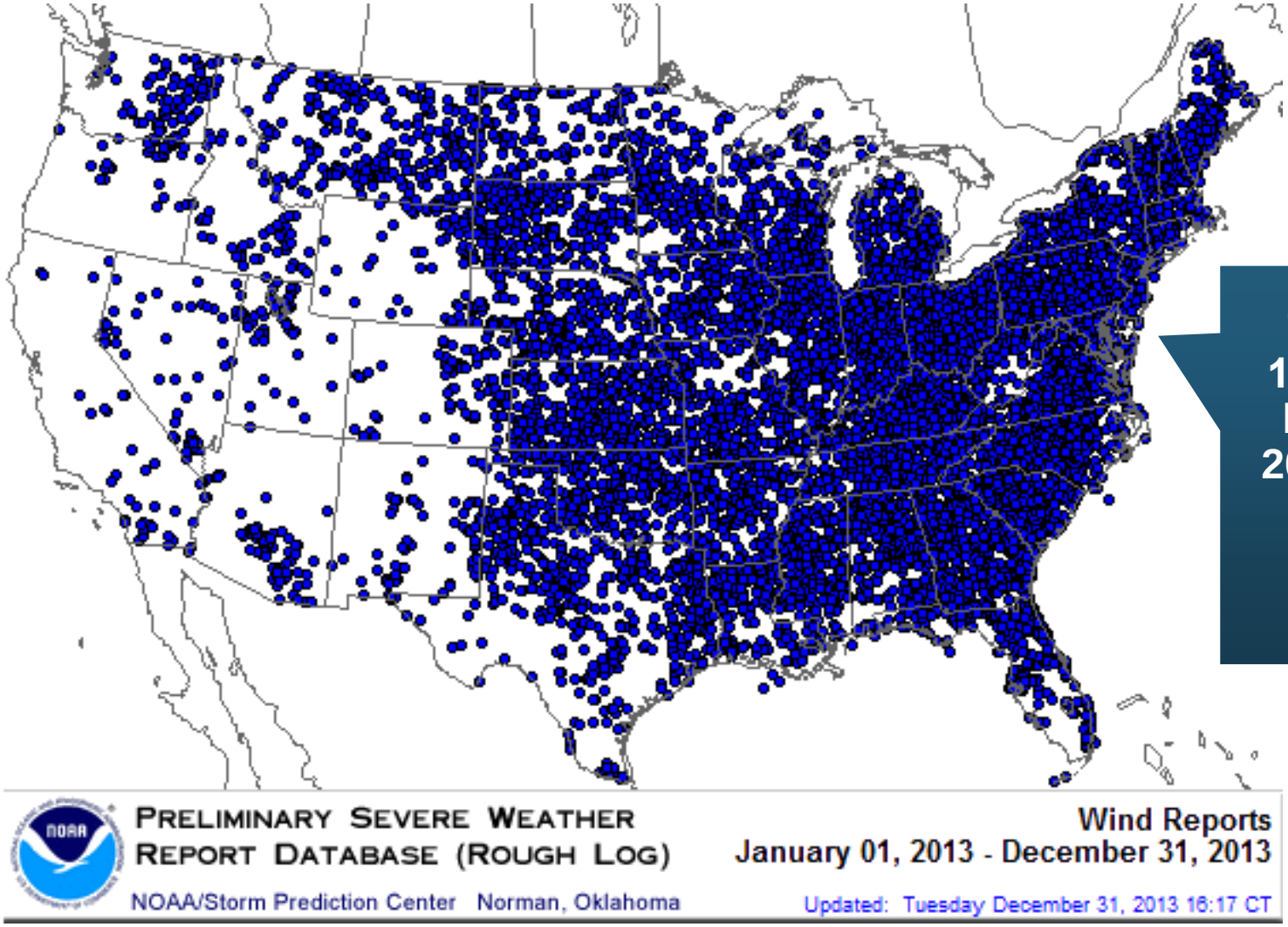
Location of Large Hail Reports: 2013



There were 5,457 "Large Hail" reports in 2013, causing extensive property and vehicle damage

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

Location of High Wind Reports: 2013



There were 12,942 "Wind Damage" in 2013, causing extensive property damage

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

Severe Weather Reports: 2013

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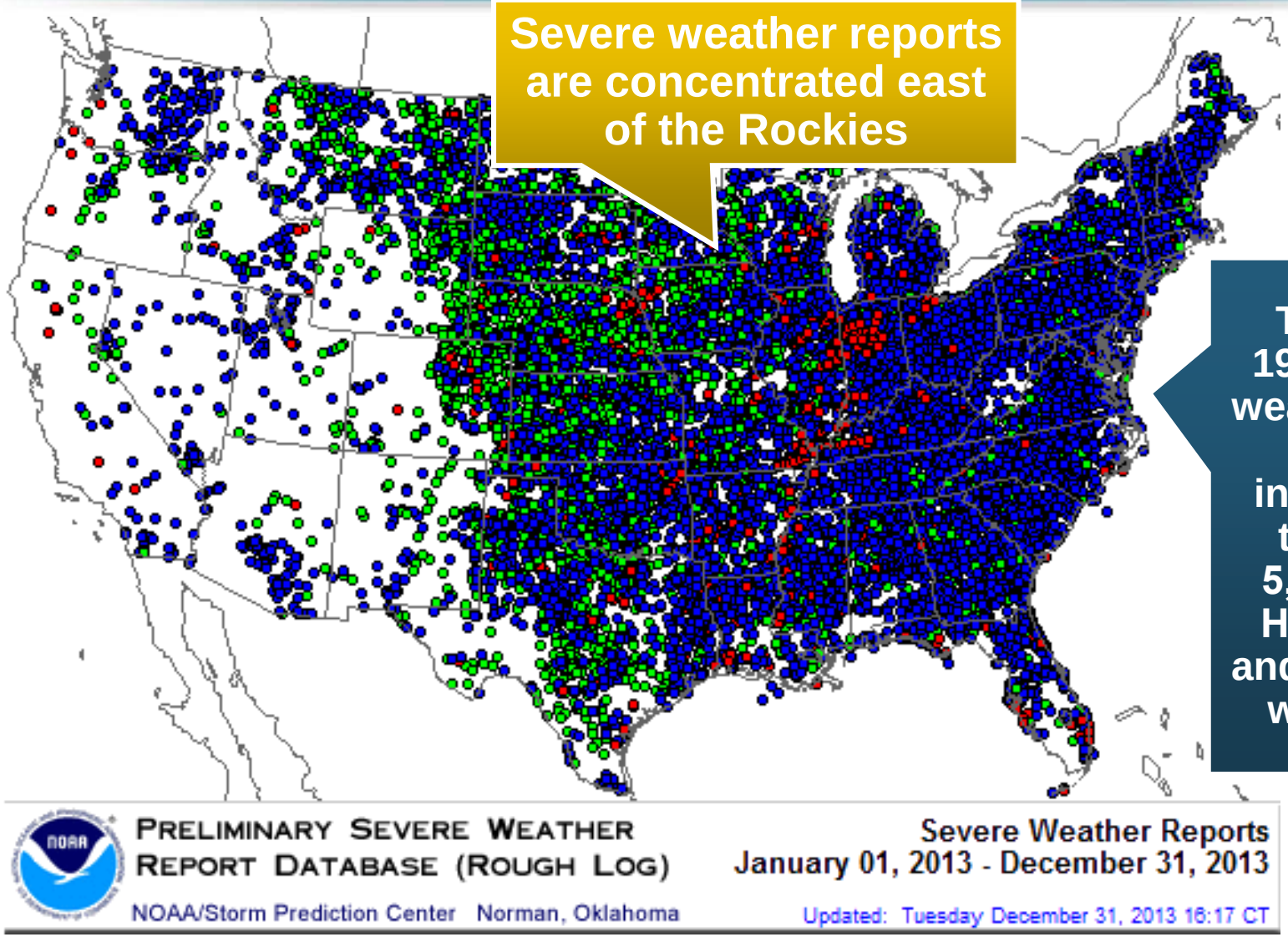

Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2013_annual_summary.html#

Severe Weather Reports: 2014*

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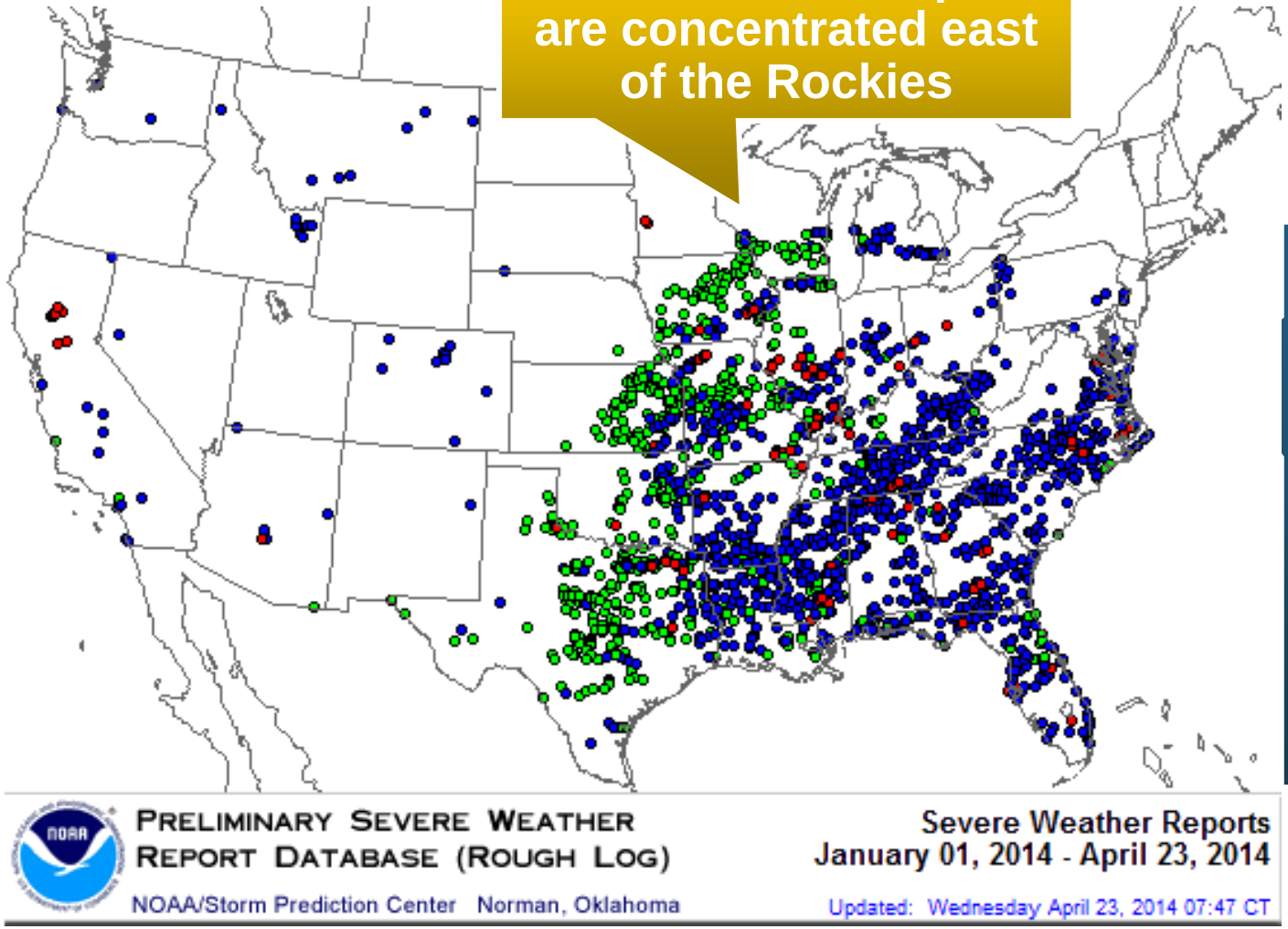
Severe weather reports are concentrated east of the Rockies



There were 2,066 severe weather reports in 2013; including 109 tornadoes; 689 "Large Hail" reports and 1,268 high wind events

*Through April 23.
Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2014_annual_summary.html#

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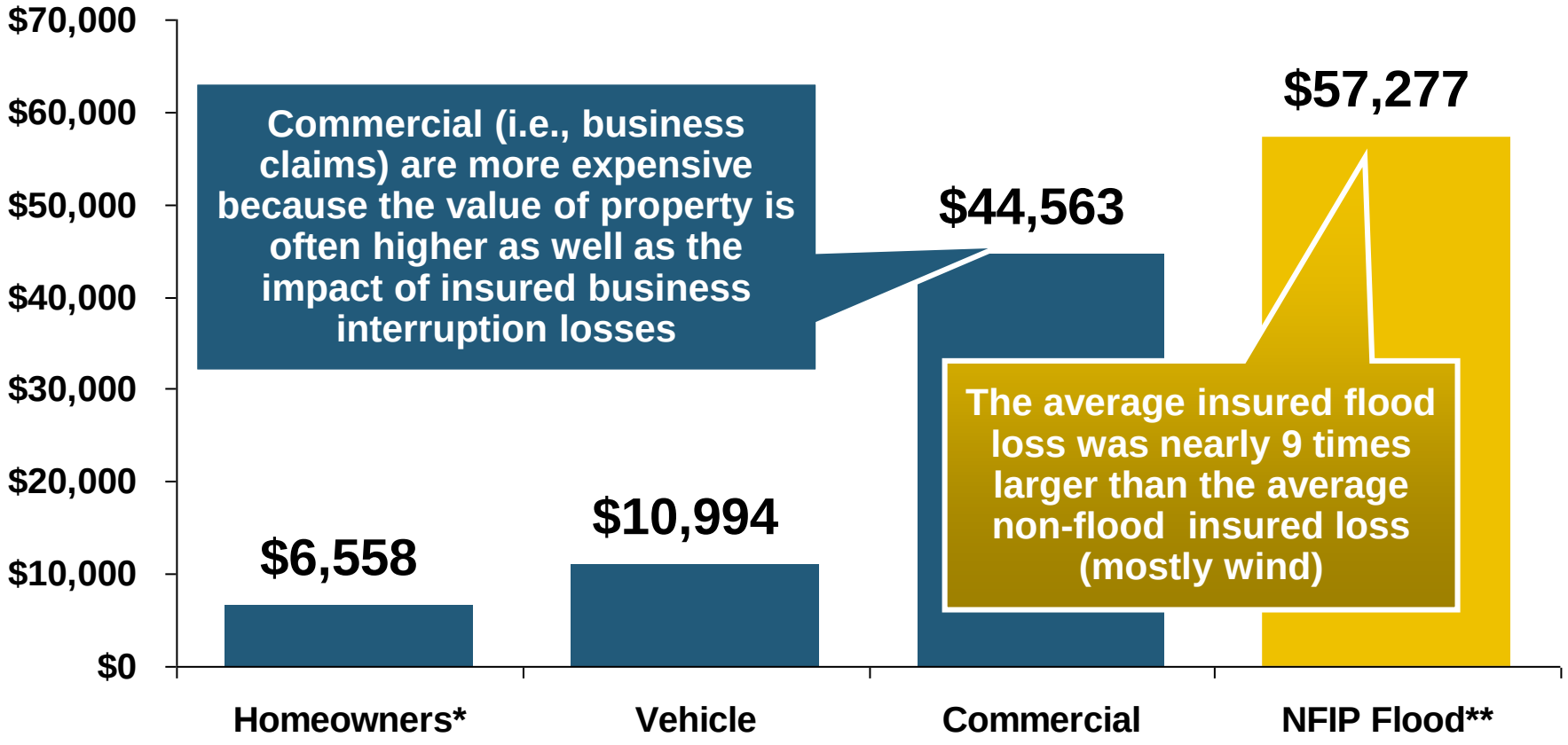
Flood Insurance

I.I.I. Survey: Public Conflicted on Flood

- ***Flood Should Reflect True Risk***
- ***Keep the Subsidies***
- ***Would Prefer to Purchase from Private Insurers***

Hurricane Sandy: Average Claim Payment by Type of Claim



Post-Sandy, the I.I.I. worked very hard to make help media, consumers and regulators understand the distinction between a flood claim and a standard homeowners claim. *NFIP is $24B in debt.*

*Includes rental and condo policies (excludes NFIP flood). **As of Oct. 31, 2013.

Sources: Catastrophe loss data is for Catastrophe Serial No. 90 (Oct. 28 – 31, 2012) from PCS as of March 2013; Insurance Information Institute.

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

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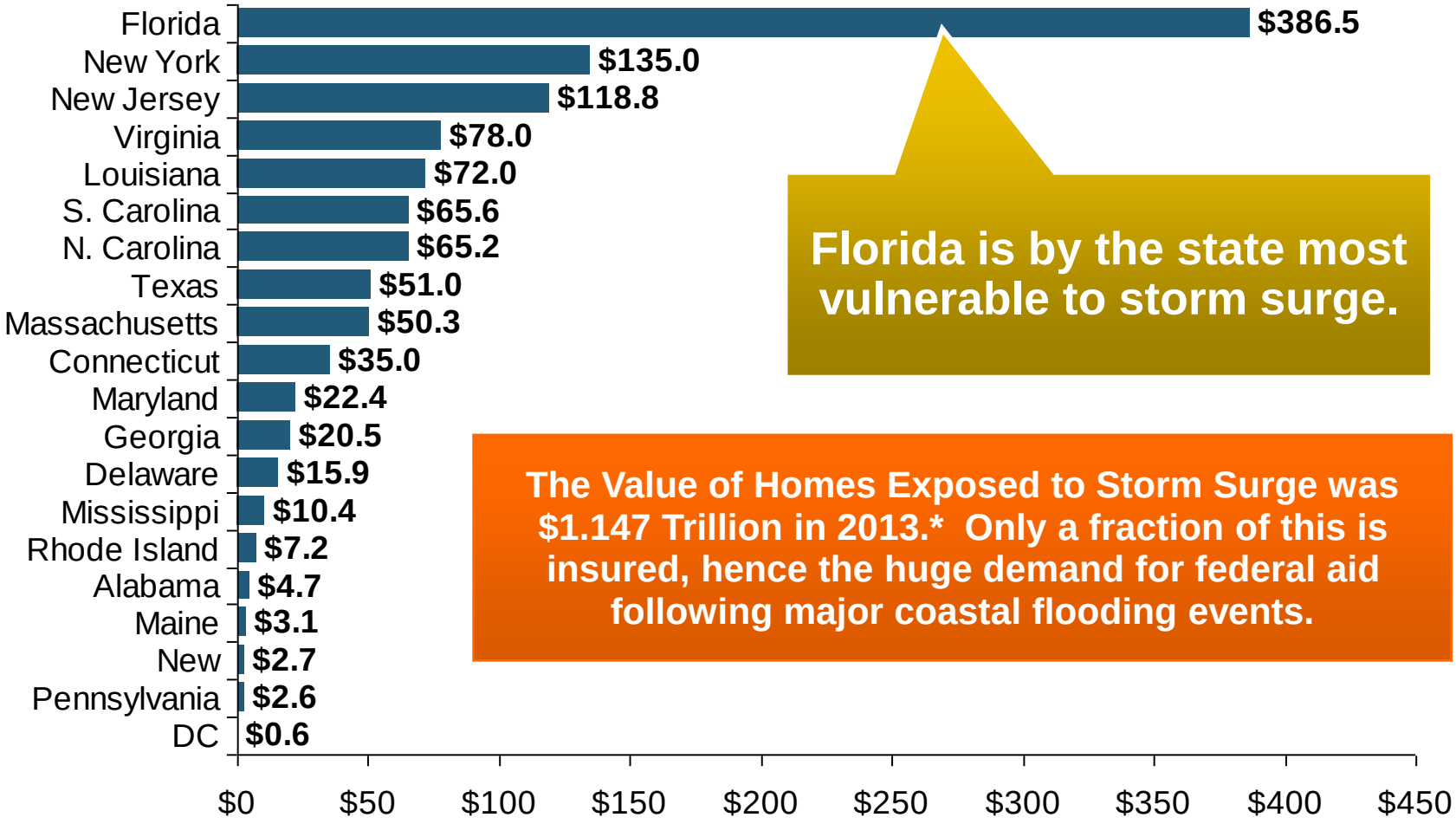
($ Billions)



Florida is by the state most vulnerable to storm surge.

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

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

Source: *Storm Surge Report 2013,* CoreLogic.

Biggert-Waters: Media and Congressional Maelstrom

- **BW-12 Rate Increases to Phase Out Subsidies Began in 2013**
  - **Note: Only 20% of NFIP policies are subsidized**
- **Jan. 1, 2013: Non-Primary/Secondary Residences**
  - **Increases of 25% per year until full-risk rate achieved**
  - ***Reaction: Very muted; Vacation homes/wealthier owners***
- **Oct. 1, 2013: Subsidized Severe or Repetitive Loss Policies and Owners of Business/Non-Residential Properties**
  - **Increases of 25% per year until full-risk rate achieved**
  - ***Reaction: Huge consumer backlash, intense media coverage leading to a Congressional effort to delay BW-12 by 4 years (effectively killing it). Even Maxine Waters supports delay…***
- **Subsidy Lost if Policy Lapses, Severe Repeated, New Policy**
- **House and Senate Bills to Reduce Burden Need to be Reconciled**
- **Future Pvt. Insurer Flood Participation Impacted by BW-12 Debate**

Summary of House Bill *(Passed March 4, 2014)*

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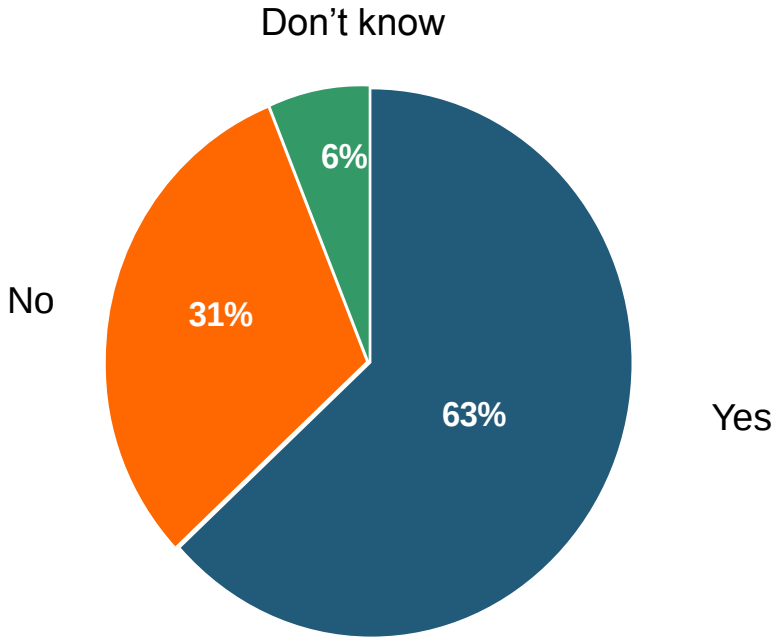
- 9 Premium classifications with increases capped at 18%
- $25 surcharge on primary residences; $250 for non-primary
- Restoration of "grandfather" clause allowing continued subsidies for homes that were compliant under old FEMA maps but no longer are
- Eliminates property sales trigger
- Reimburses home owners for successful FEMA map challenges
- Creates a "flood insurance advocate"
- Refunds policyholders who were charged higher rates under BW-12 for homes built before FEMA established flood-risk maps
- CBO scoring of bill said that it will not increase the deficit
  - Didn't say that it would eliminate the current $24 bill deficit

I.I.I. Poll: Flood Insurance

Q. Do you think it is fair that flood insurance premium increases are higher if people who live in high flood risk areas and rebuild their homes do not elevate them?

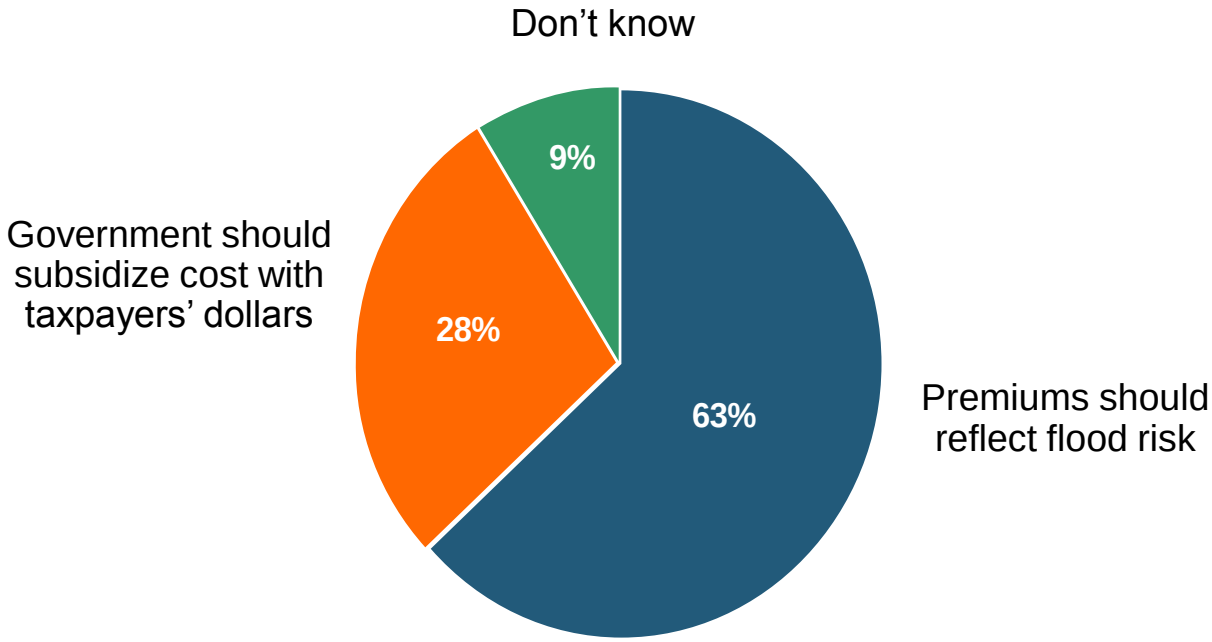


Almost two-thirds of Americans think that it is fair that flood insurance premiums be raised for people who live in high flood risk areas and rebuild their homes after a flood but do not elevate them.

Source: Insurance Information Institute Annual *Pulse* Survey.

I.I.I. Poll: Flood Insurance

Q. Do you think flood insurance premiums should reflect the risk of flooding no matter what the cost or do you think the government should subsidize the cost of flood insurance with taxpayers' dollars?

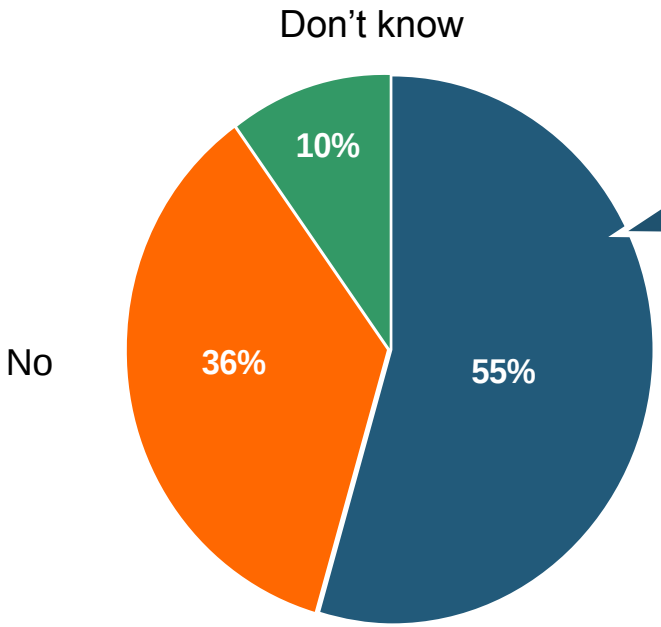


Almost two-thirds of Americans think flood insurance premiums should be raised to reflect the risk of flooding.

Source: Insurance Information Institute Annual *Pulse* Survey (Nov. 2013).

I.I.I. Poll: Flood Insurance

Q. The federal government provides insurance coverage at taxpayer-subsidized rates for damage from floods through the National Flood Insurance Plan. A new law eliminates the subsidy and raises rates. Do you think the rate increase should be repealed?



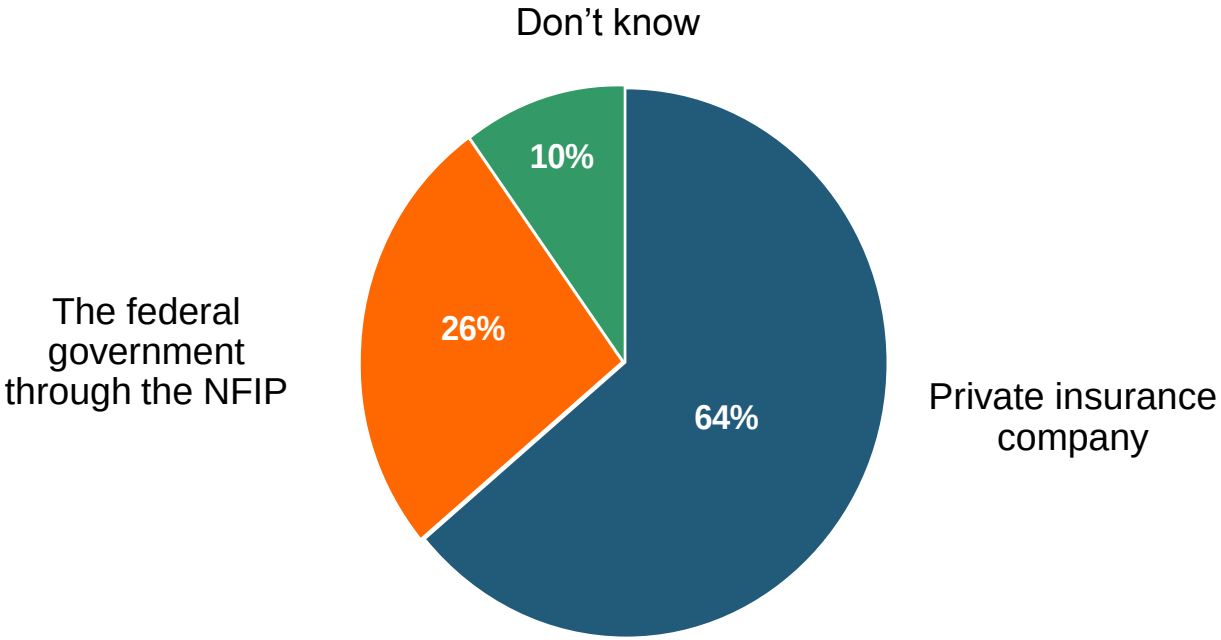
It is inconsistent for the public to support full-risk rates but maintain subsidies, but this exactly mirrors Congressional sentiments, with supporters of BW-12 and even Tea Party conservatives supporting continuation of the subsidies

More than half of Americans polled for the November 2013 Pulse thought that hikes in National Flood Insurance premiums should be repealed.

Source: Insurance Information Institute Annual *Pulse* Survey.

I.I.I. Poll: Flood Insurance

Q. If the costs were similar, would you prefer to buy flood insurance from a private insurance company or from the federal government through the National Flood Insurance Program?



Six out of 10 Americans would prefer to buy flood insurance from a private insurance company as opposed to the federal government, if costs were similar.

Source: Insurance Information Institute Annual *Pulse* Survey.

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Terrorism Update

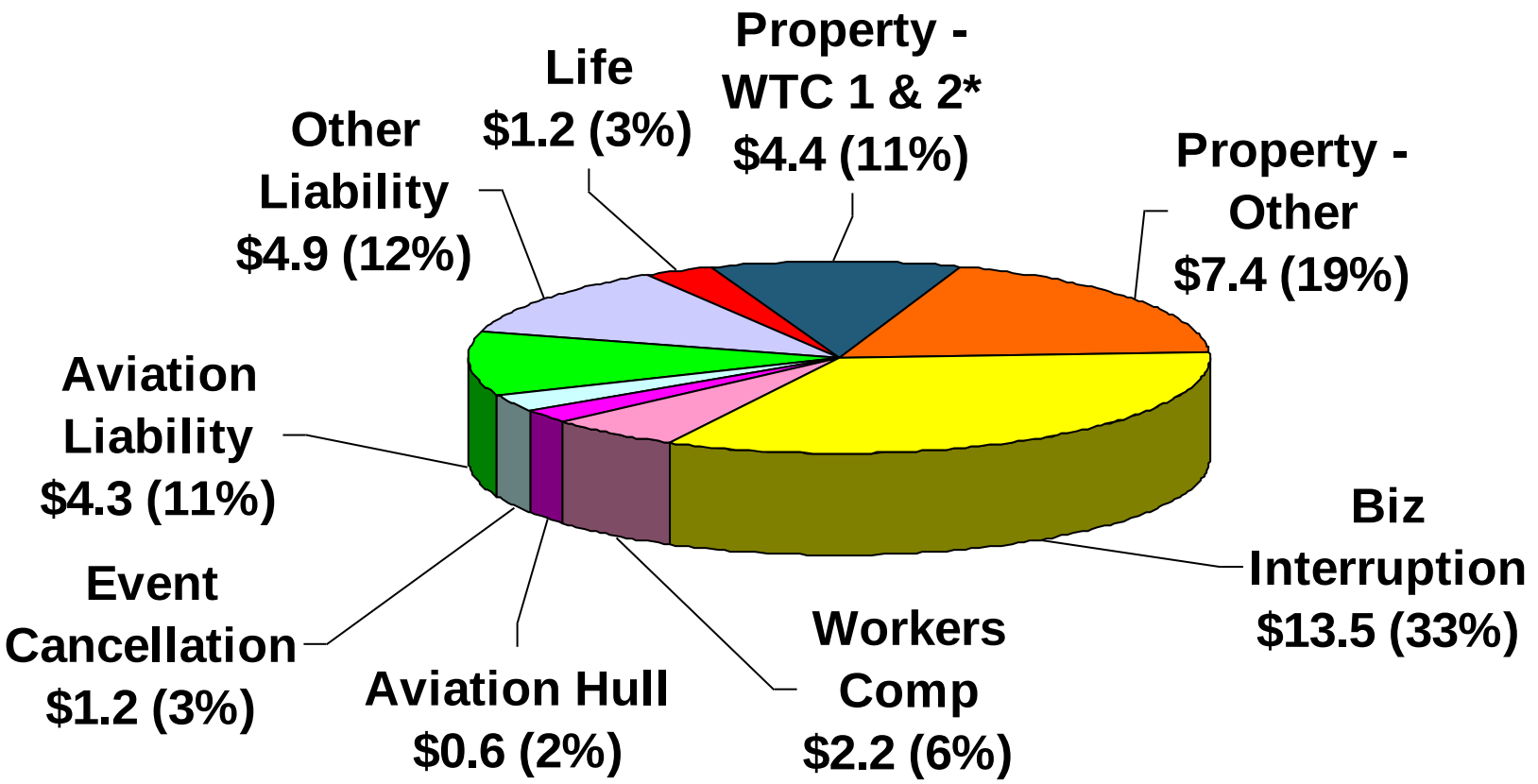
TRIA's Success

Consequences of Expiration

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

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

($ Billions)



Total Insured Losses Estimate: $42.9B**

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

**$32.5 billion in 2001 dollars.

Source: Insurance Information Institute.

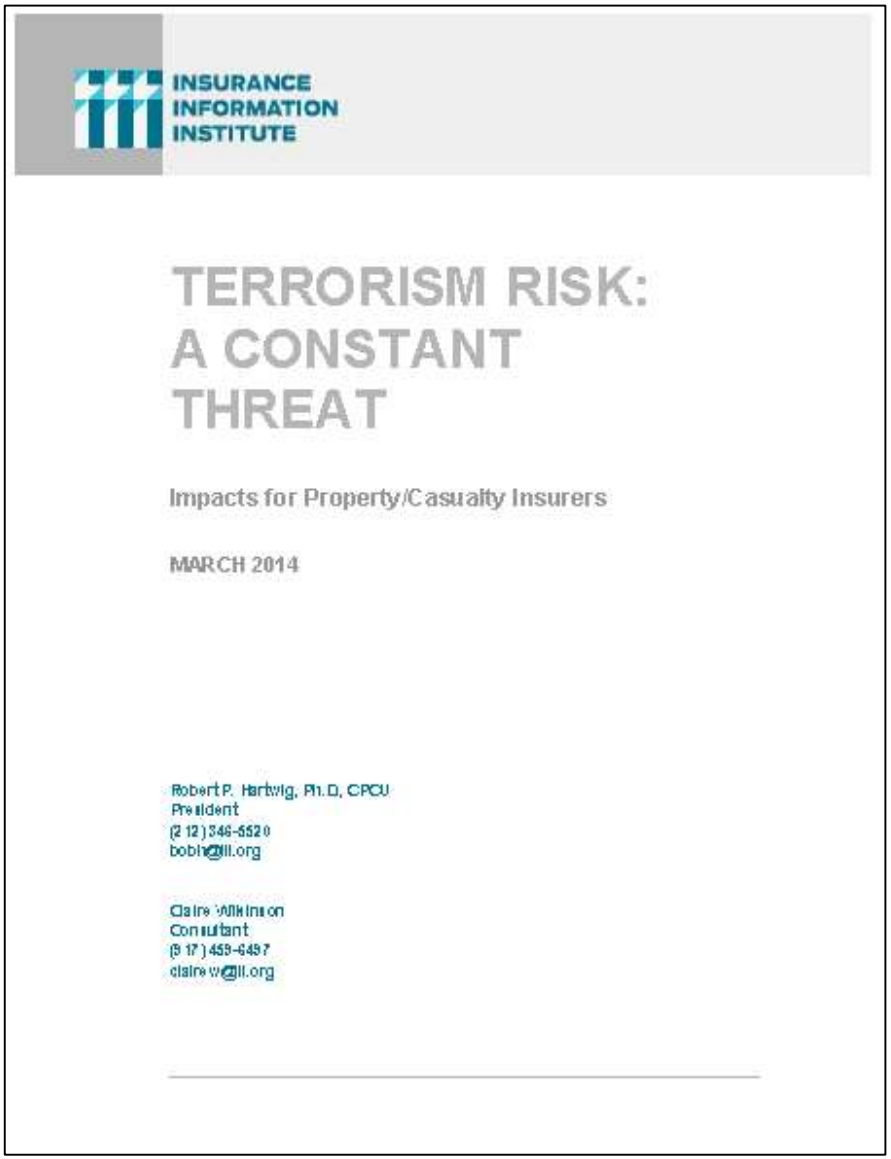
Terrorism Risk Insurance Program

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

Senate Banking Committee, 9/25/13

House Financial Services Subcommittee, 11/13/13

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

Impacts for Property/Casualty Insurers

MARCH 2014

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President
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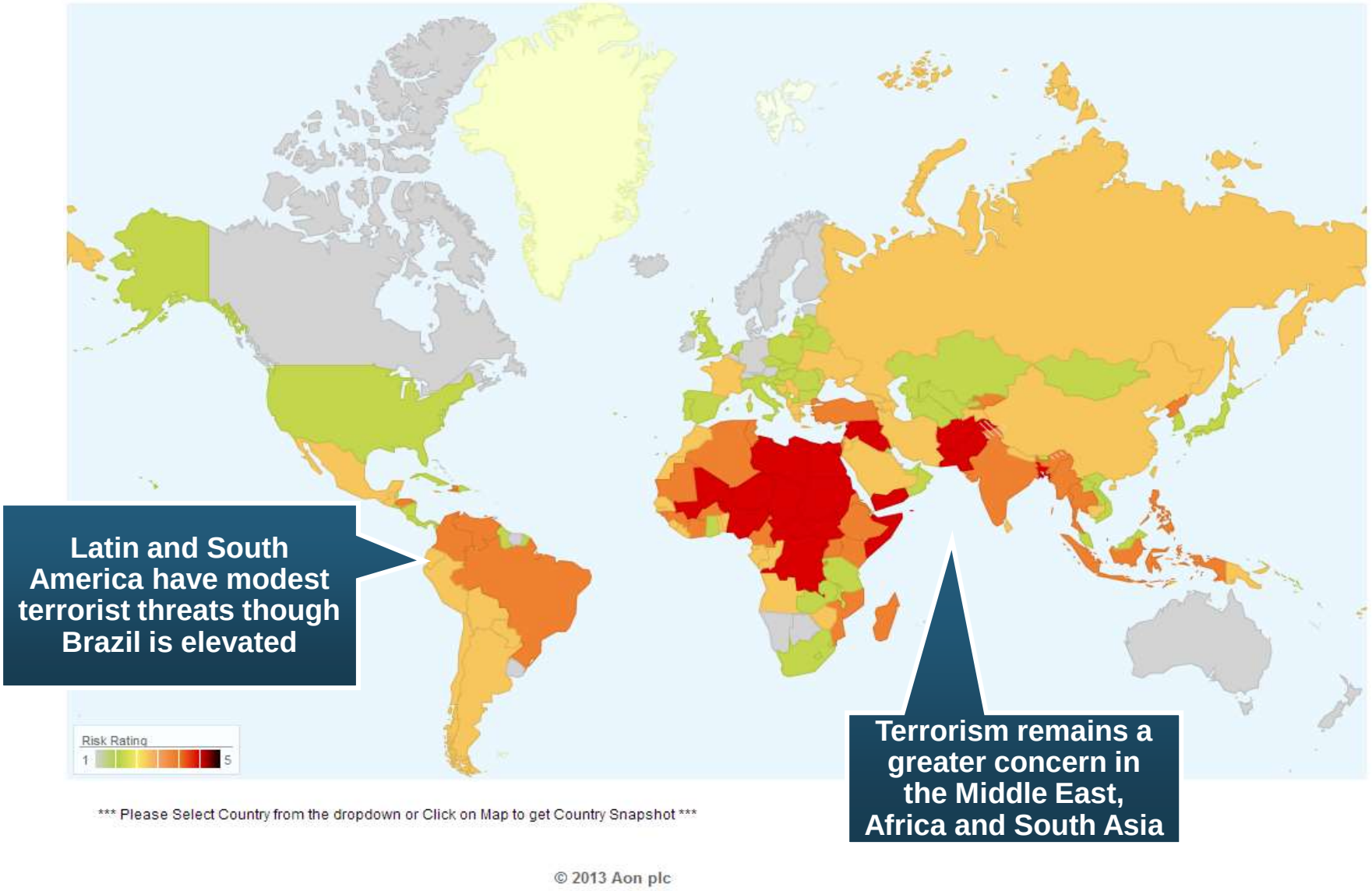
Claire Wilkinson
Consultant
(917) 453-6497
clairew@iii.org

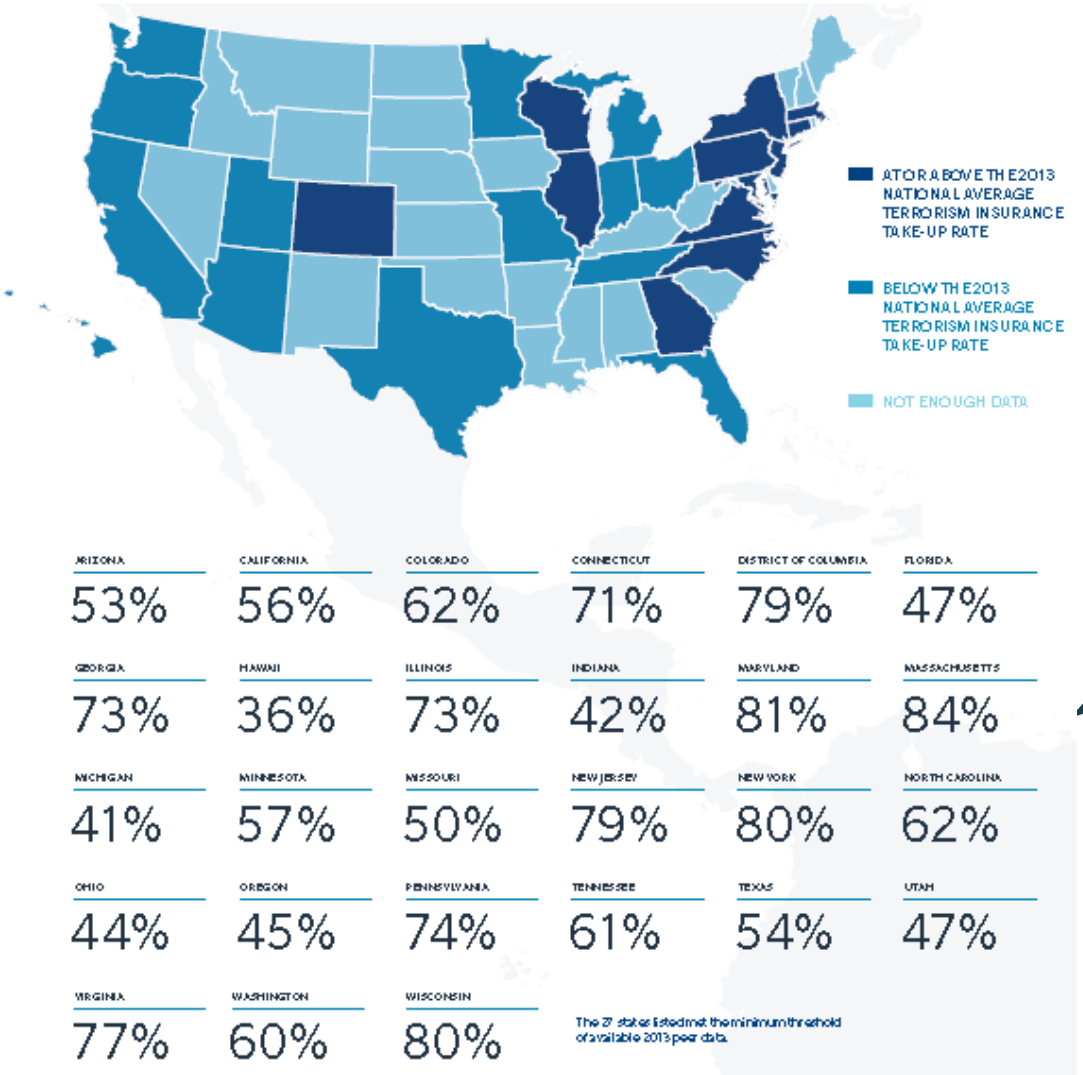
- **Detailed history of TRIA**
- **How TRIA works**
- **Assessing the threat of terrorism**
- **Terrorism market conditions**
- **Global perspective**
- **Download at *http://www.iii.org/white_papers/terrorism-risk-a-constant-threat-2014.html***

Terrorism Risk in 2013: Greatest Business Opportunities Are Often in Risky Nations



Source: Aon PLC; Insurance Information Institute.

Terrorism Insurance Take-Up Rates by State for 2013*



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

*Data for 27 states with sufficient data.

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

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

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

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

Top 3 Key Facts About TRIA

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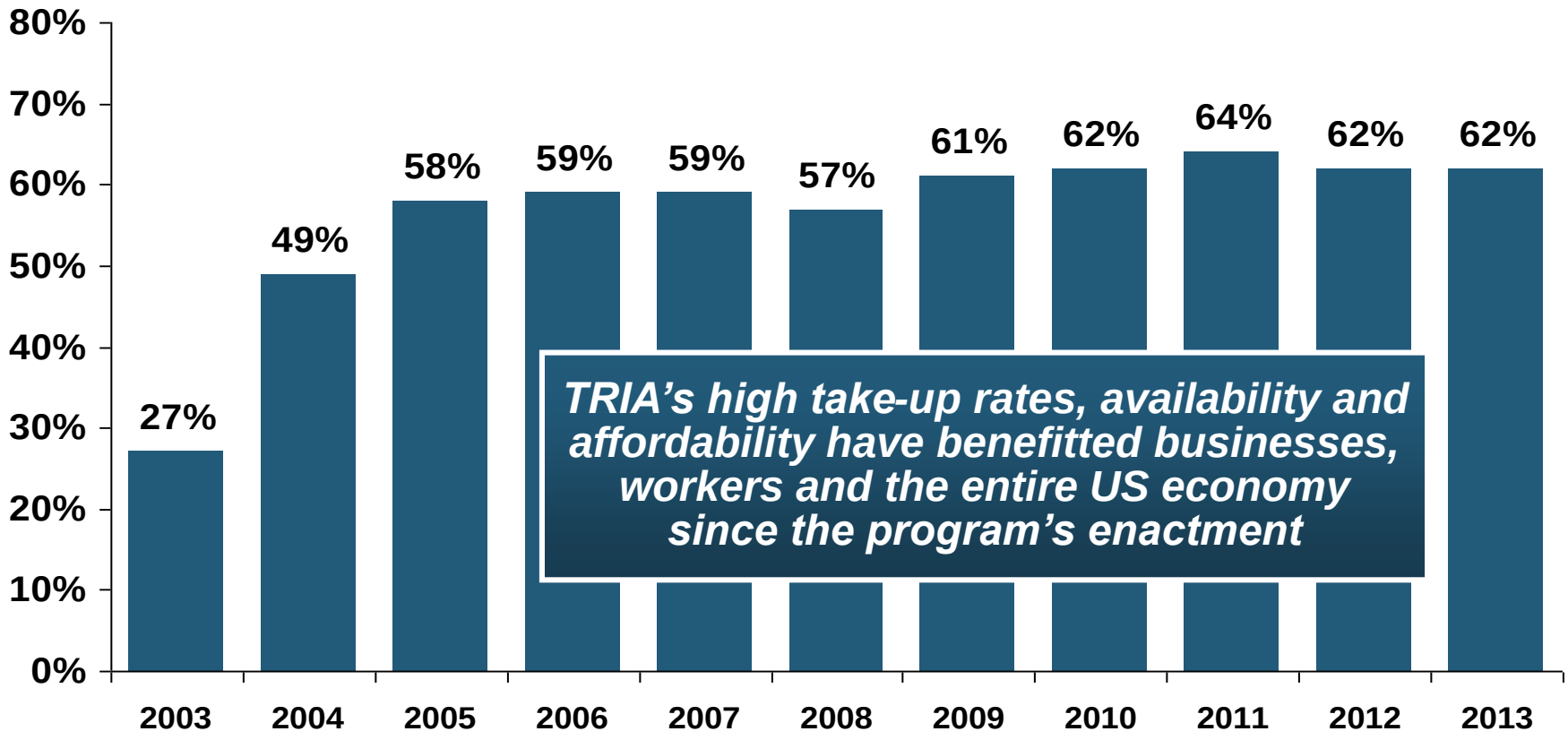
1. **TRIA costs taxpayers virtually nothing**

2. **TRIA as currently structured continues to provide tangible benefits to the U.S. economy in the form of:**
   - **Terrorism insurance market stability, affordability and availability**
   - **Smooth functioning of commercial lending activity**
   - **Employment stimulus**

3. **TRIA is now clearly a critical part of the U.S. national economic security infrastructure**
   - **A primary goal of terrorism is to destabilize the U.S. economy**
   - **Terrorism risk insurance is critical to ensure a swift recovery in the event of future attacks**

- ***Bottom Line: TRIA is an unambiguous, unmitigated success***

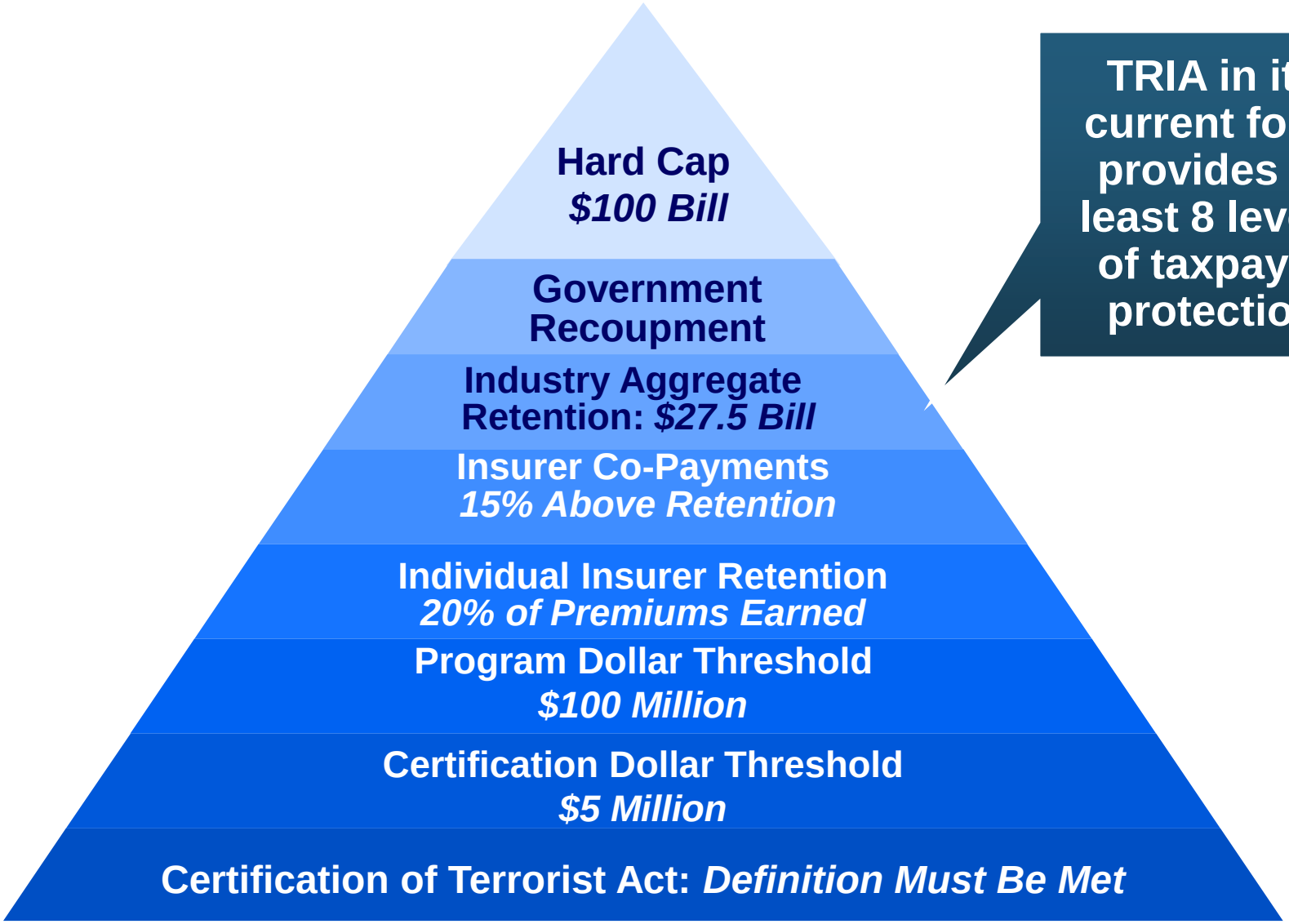
Terrorism Insurance Take-up Rates, By Year, 2003-2013



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

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

Pyramid of Taxpayer Protection: Strong, Stable, Sound and Secure



TRIA in its current form provides at least 8 levels of taxpayer protection

Source: Insurance Information Institute.

Consequences of Substantially Restructuring TRIA

- **Increases in required insurer retentions/deductibles do not "create" new capacity**
- **New capacity has entered primarily because:**
  - **TRIA remains in place**
  - **No major successful attack has occurred since 9/11**
  - **Modest improvement in modeling/understanding terror risk**
- **Many smaller/medium-sized insurers are likely already at or near their exposure limits, so increasing required retentions will *not* incentivize them to write more coverage**
  - **A.M. Best: 19% of insurers with < $500 million in surplus failed stress tests; 11% of those with $500 to $1 billion failed**
  - **Insurance Information Institute: Insurers with <$500 million in surplus wrote 16.8% of TRIA-back lines in 2012; those with less than $1 billion in surplus wrote 23.6% of TRIA-backed coverages**

Consequences of a Failure to Reauthorize TRIA *Followed by a Major Terrorist Attack*

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- **If TRIA is not reauthorized, only limited private insurance would be available to cover losses arising from future attacks**
  - **Potentially large gap between insured and economic losses**
- **The federal government would be called upon to provide very large amounts of aid (tens of billions of dollars +)**
  - **Federal govt. has no delivery mechanism for post-attack aid**
  - **Under TRIA, federal response largely piggybacks on an efficient pvt. Insurer claims adjusting and payment system**
- **The existing standalone market would likely seize and contract**
  - **Depletion of capital→Availability crunch, Prices soar**
  - **Uncertainty over likelihood of future attacks**
  - **Terrorism exclusions would become ubiquitous**
- **Congress would likely be compelled to legislate TRIA anew**

Summary of Terrorism Risk Insurance Program Extension Bills Introduced in 2013

Bill	Summary
•**H.R. 508: *"Terrorism Risk Insurance Act of 2002 Reauthorization Act of 2013"*** •**Introduced Feb. 5 by Rep. Michael Grimm (D-NY)**	•5-Year Extension (through 2019) •Extend recoupment period for any TRIA assistance from 2017 to 2019
•**H.R. 2146: *"Terrorism Risk Insurance Program Reauthorization Act of 2013"*** •**Introduced May 23 by Rep. Michael Capuano (D-MA)**	•10-Year Extension (through 2024) •Extend recoupment period for any TRIA assistance from 2017 to 2024 •Requires President's Working Group on Financial Markets (PWGFM) to issue reports on long-term availability and affordability of terrorism insurance in 2017, 2020 and 2023 •Reports to be drafted with consultation from NAIC and representatives of the insurance and securities industries and policyholders
•**H.R. 1945: *"Fostering Resilience to Terrorism Act of 2013"*** •**Introduced May 9 by Rep. Benny Thompson (D-MS)**	•10-Year Extension (through 2024) •Recoupment period changed to 2024 •Would transfer responsibility for certification of a "act of terrorism" to the Secretary of Homeland Security from Secretary of Treasury. •PWGFM to issue reports in 2017, 2020 and 2023 •Requires Sec. of DHS to provide insureds with "timely homeland security information, including terrorism risk information, at the appropriate level of classification and information on best practices to foster resilience to an act of terrorism."

Source: Nelson, Levine, de Luca & Hamilton, *FIO Focus,* June 10, 2013; Insurance Information Institute.

Terrorism Violates Traditional Requirements for Insurability

Requirement	Definition	Violation
Estimable Frequency	•Insurance requires large number of observations to develop predictive rate-making models (an actuarial concept known as credibility)	•Very few data points •Terror modeling still in infancy, untested. •Inconsistent assessment of threat
Estimable Severity	•Maximum possible/ probable loss must be at least estimable in order to minimize "risk of ruin" (insurer cannot run an unreasonable risk of insolvency though assumption of the risk)	•Potential loss is virtually unbounded. •Losses can easily exceed insurer capital resources for paying claims. •Extreme risk in workers compensation and statute forbids exclusions.

Source: Insurance Information Institute

Terrorism Violates Traditional Requirements for Insurability (cont'd)

Requirement	Definition	Violation
Diversifiable Risk	•Must be able to spread/distribute risk across large number of risks •"Law of Large Numbers" helps makes losses manageable and less volatile	•Losses likely highly concentrated geographically or by industry (e.g., WTC, power plants)
Random Loss Distribution/ Fortuity	•Probability of loss occurring must be purely random and fortuitous •Events are individually unpredictable in terms of time, location and magnitude	•Terrorism attacks are planned, coordinated and deliberate acts of destruction •Dynamic target shifting from "hardened targets" to "soft targets" •Terrorist adjust tactics to circumvent new security measures •Actions of US and foreign govts. may affect likelihood, nature and timing of attack

Source: Insurance Information Institute

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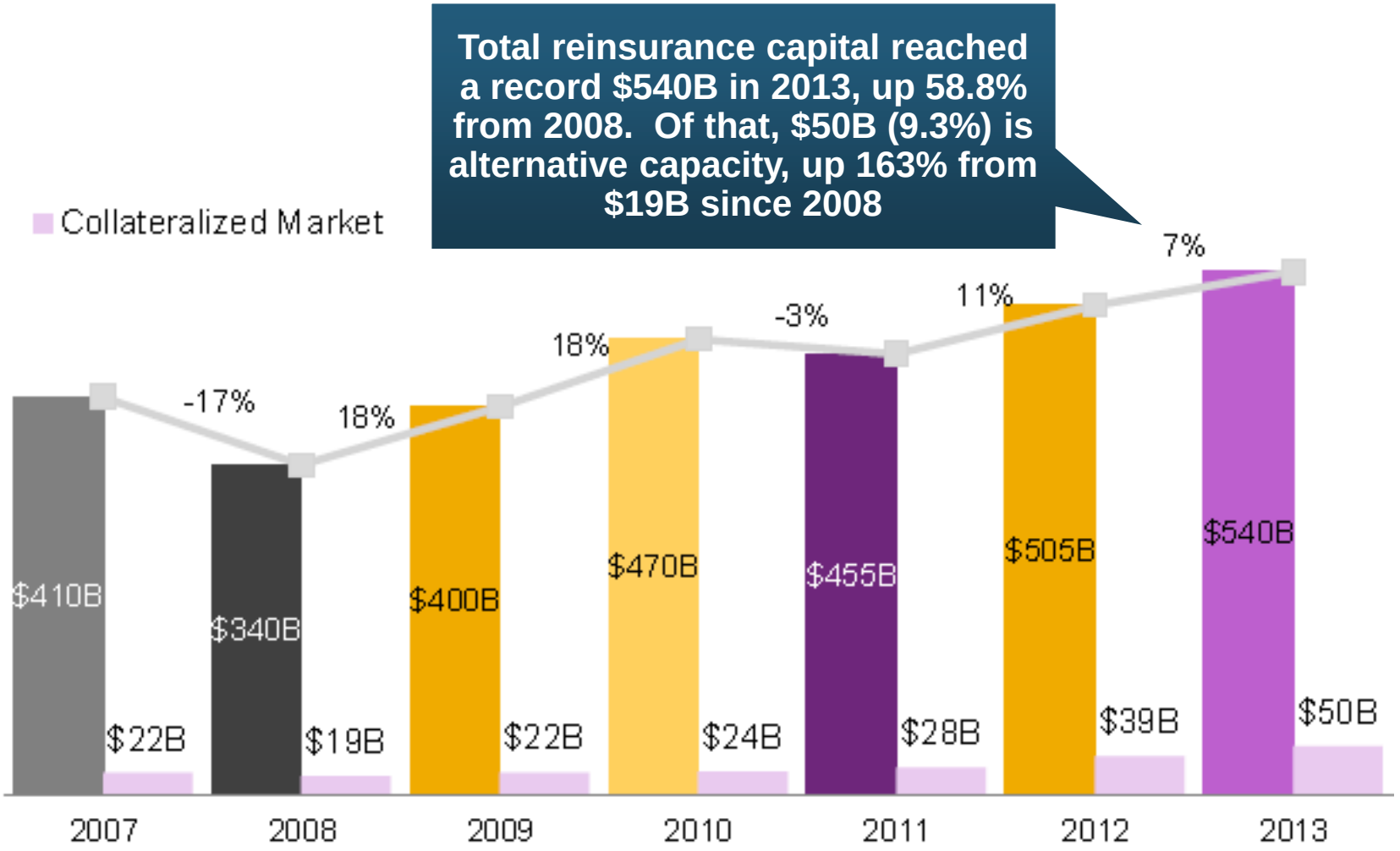
REINSURANCE MARKET CONDITIONS

Ample Capacity as Alternative Capital is Transforming the Market—And Pushing Down Prices

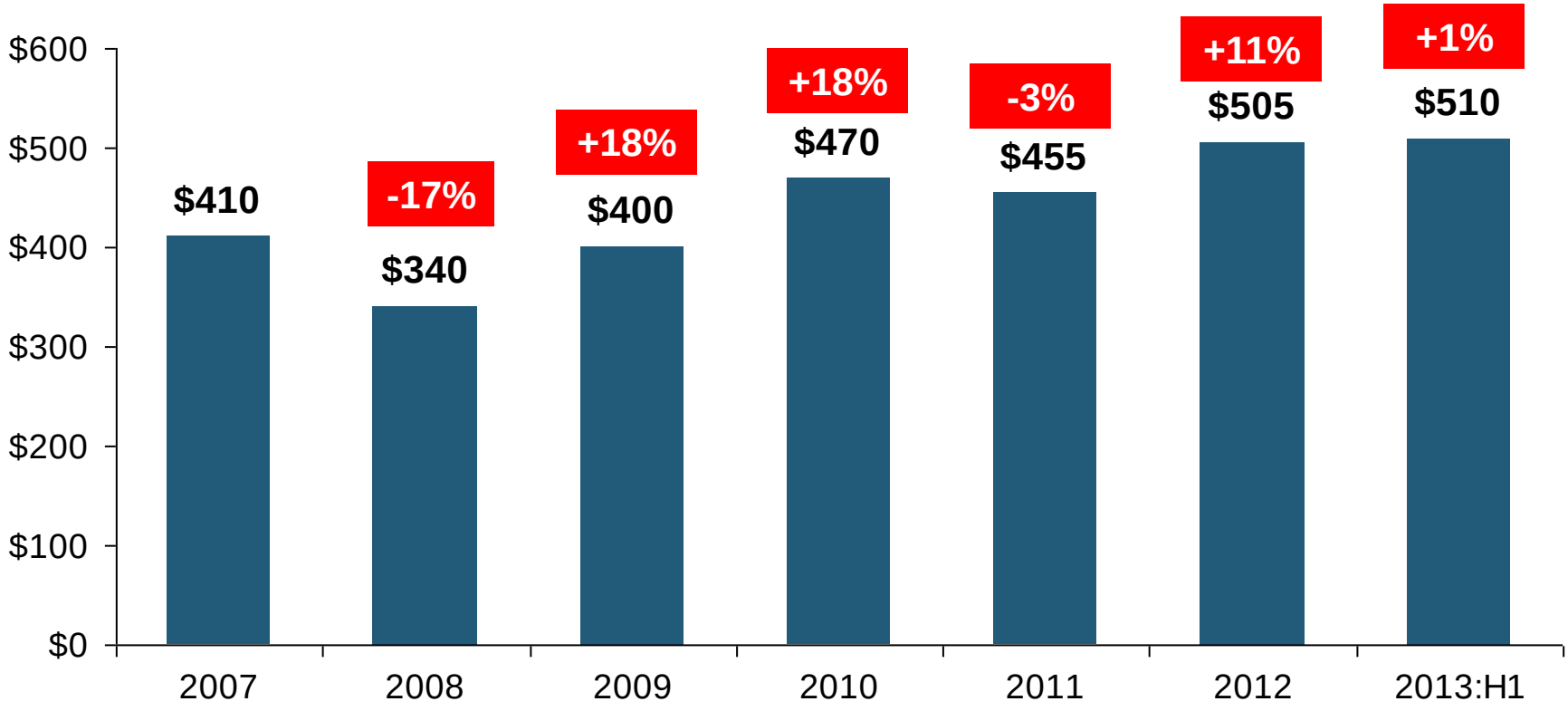
Global Reinsurance Capital (Traditional and Alternative), 2007 - 2013



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

Global Reinsurer Capital, 2007-2013:H1*

($ Billions)

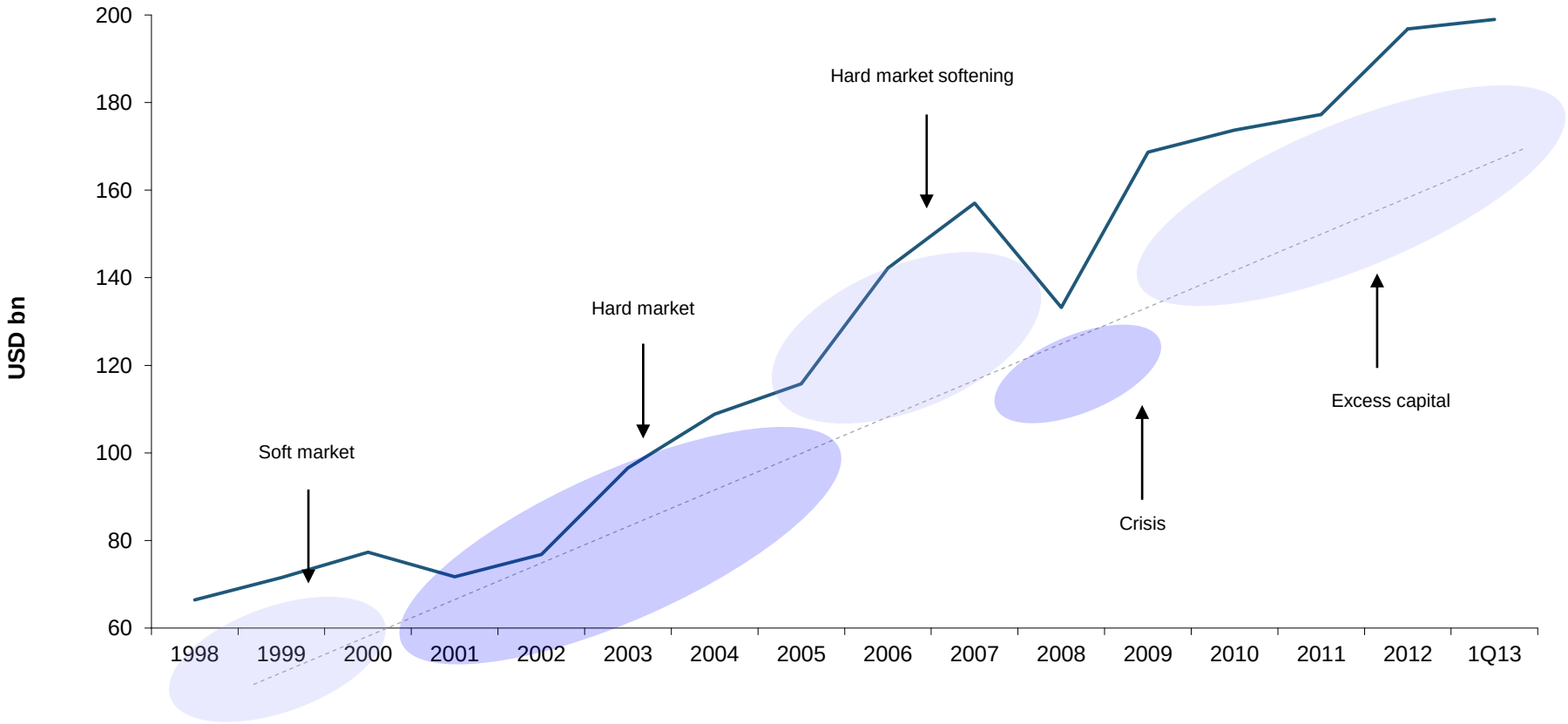


Global Reinsurance Capital Has Been Trending Generally Upward Since the Global Financial Crisis, a Trend that Seems Likely to Continue

*Includes both traditional and non-traditional forms of reinsurance capital.

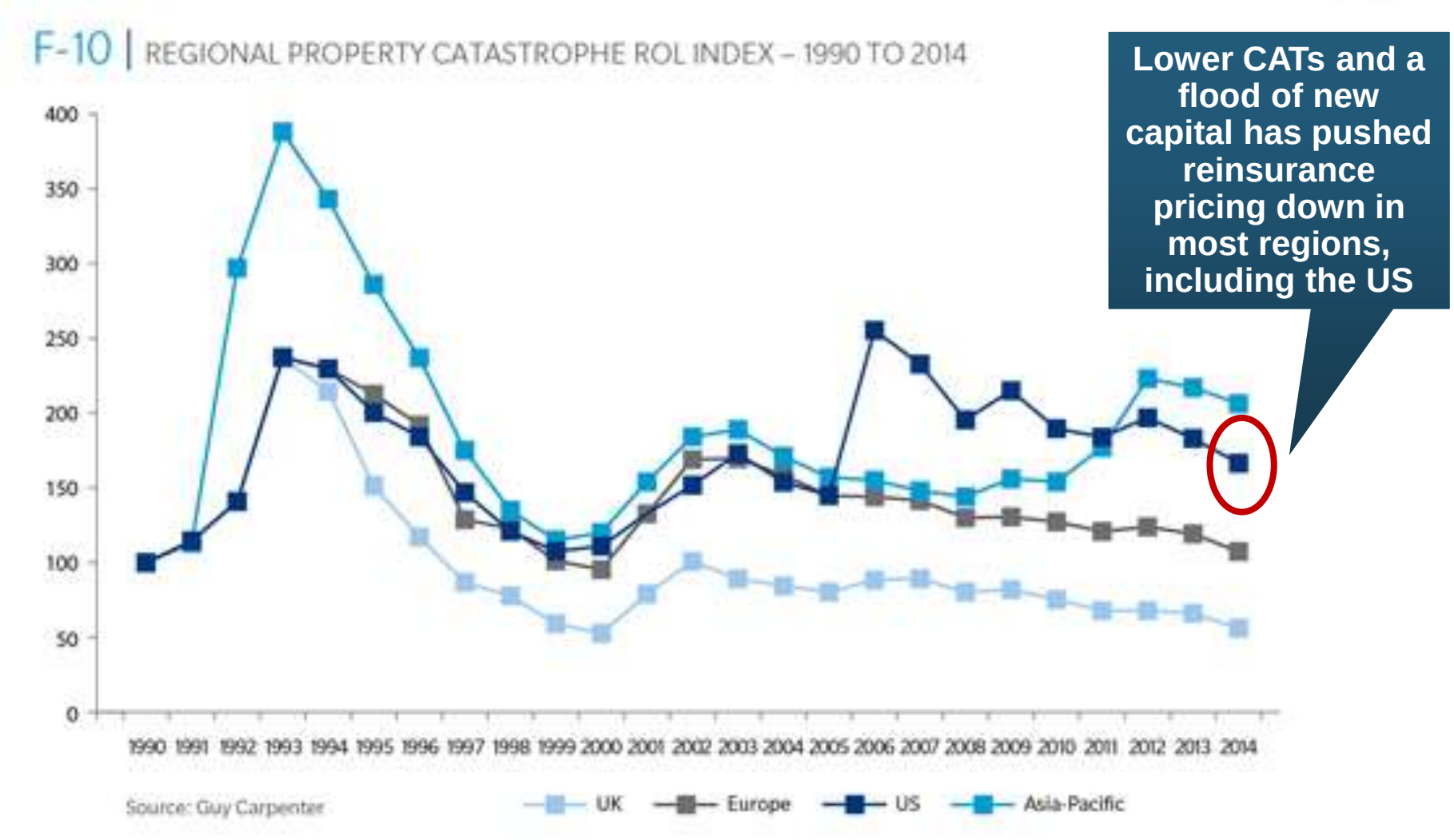
Source: Aon Benfield Aggregate study for the 6 months ending June 2013; Insurance Information Institute.

Long-Term Evolution of Shareholders' Funds for the Guy Carpenter Global Reinsurance Composite



Source: Guy Carpenter

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



*As of Jan. 1.
Source: Guy Carpenter

Reinsurer Combined Ratios (Aon Benfield Aggregate), 2007 - 2013

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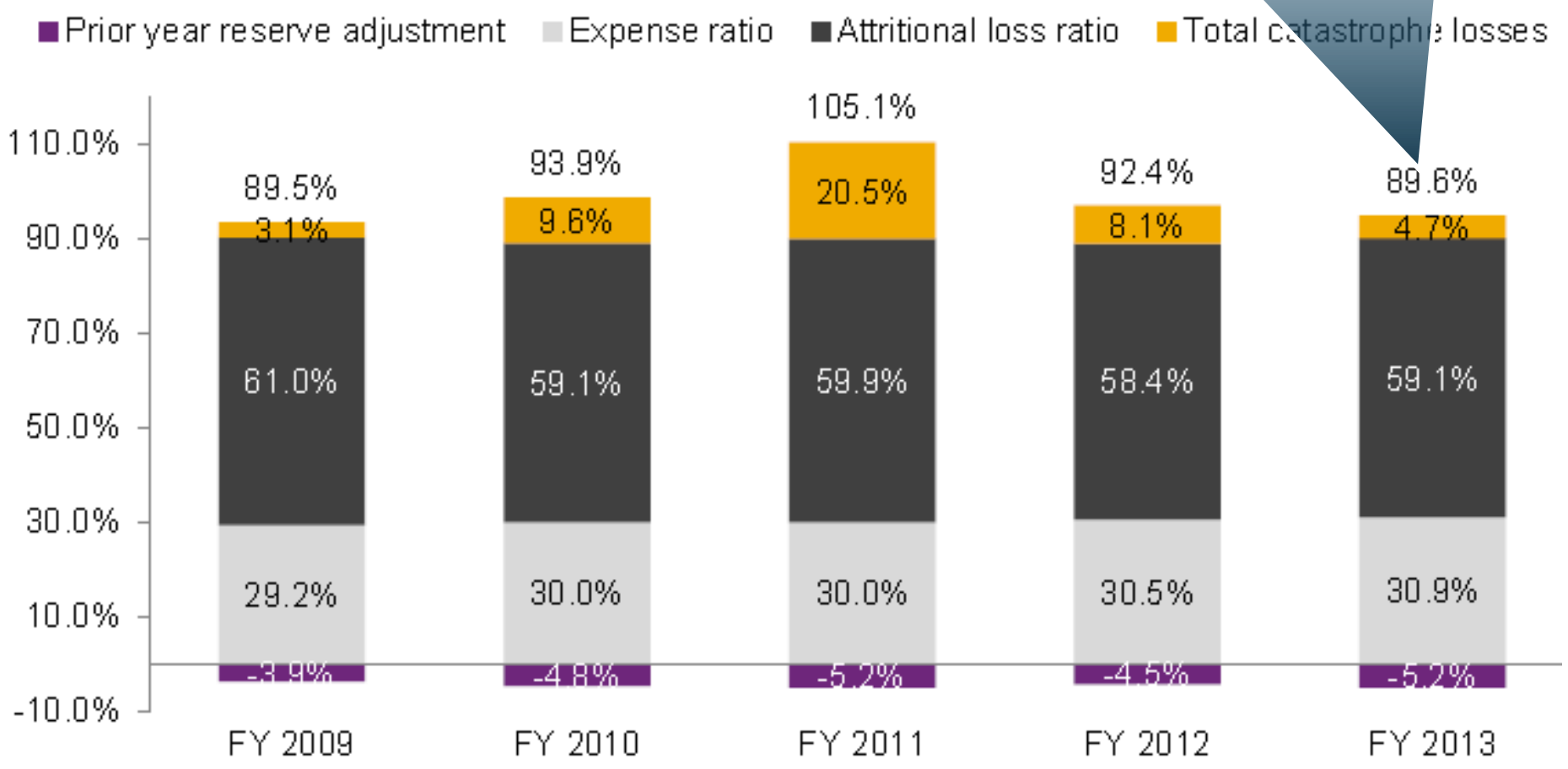
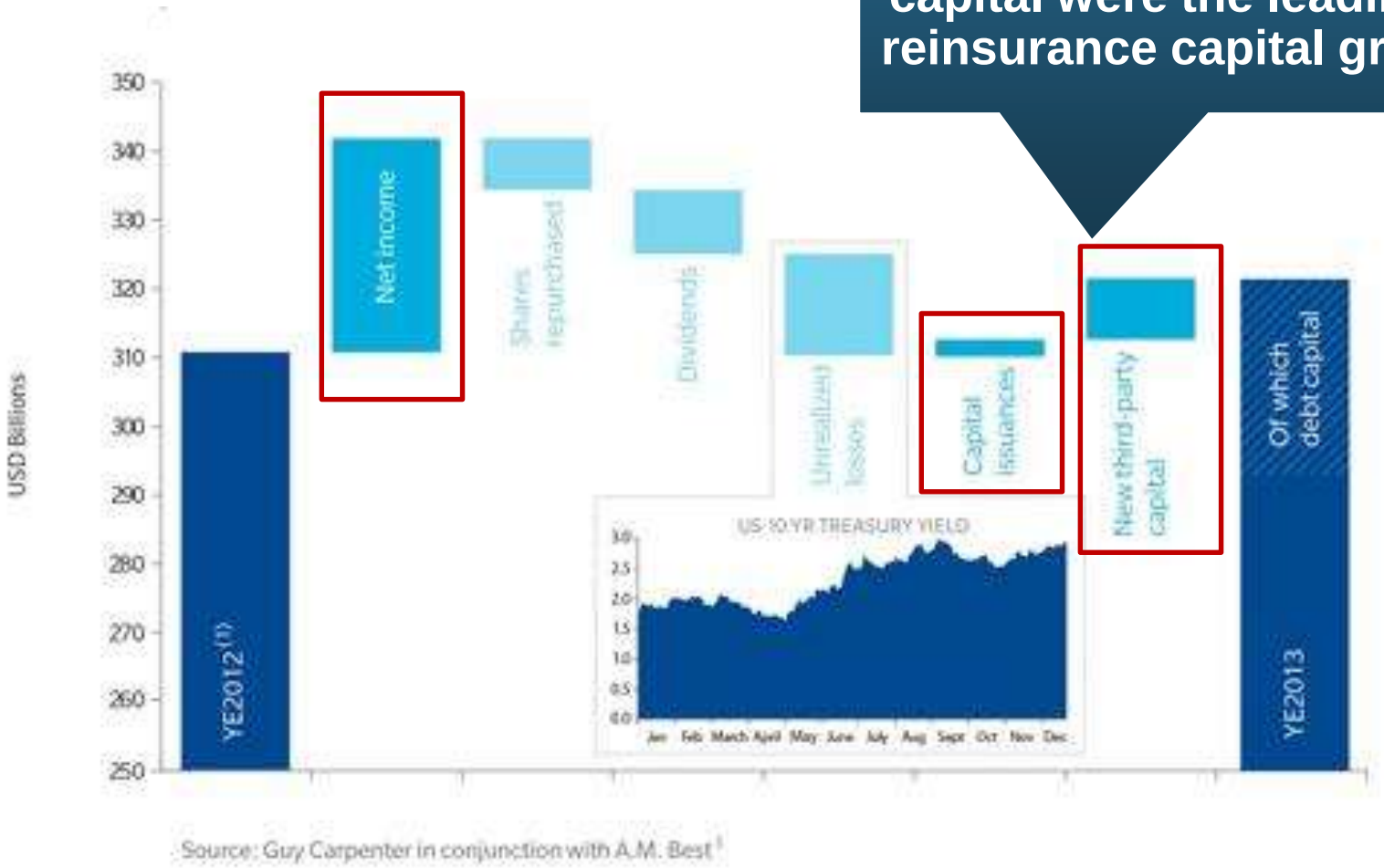
Reinsurers posted a combined under 90 in 2013, the best result since 2009



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

Sources of Reinsurance Capital Change: YE 2012 to YE 2013

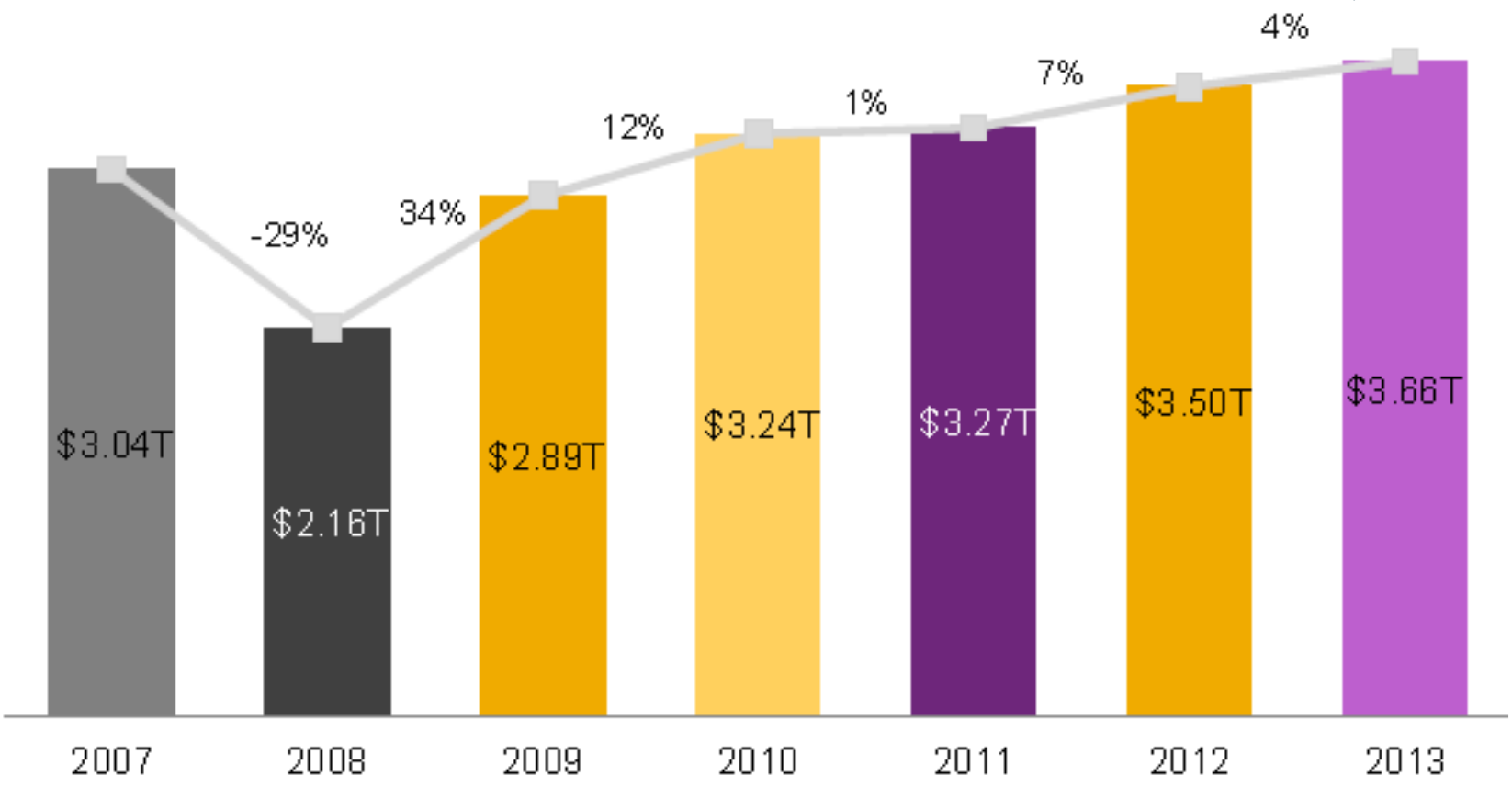
Net income and new 3rd party capital were the leading source of reinsurance capital growth in 2013



Sources: Guy Carpenter and A.M. Best; Insurance Information Institute .

Global Insurance Capital, 2007 - 2013

Insurance capital increased by 69.4% ($1.5 trillion) since the depths of the global financial crisis in 2008



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

Alternative Capacity as a Percentage of Global Property Catastrophe Reinsurance Limit

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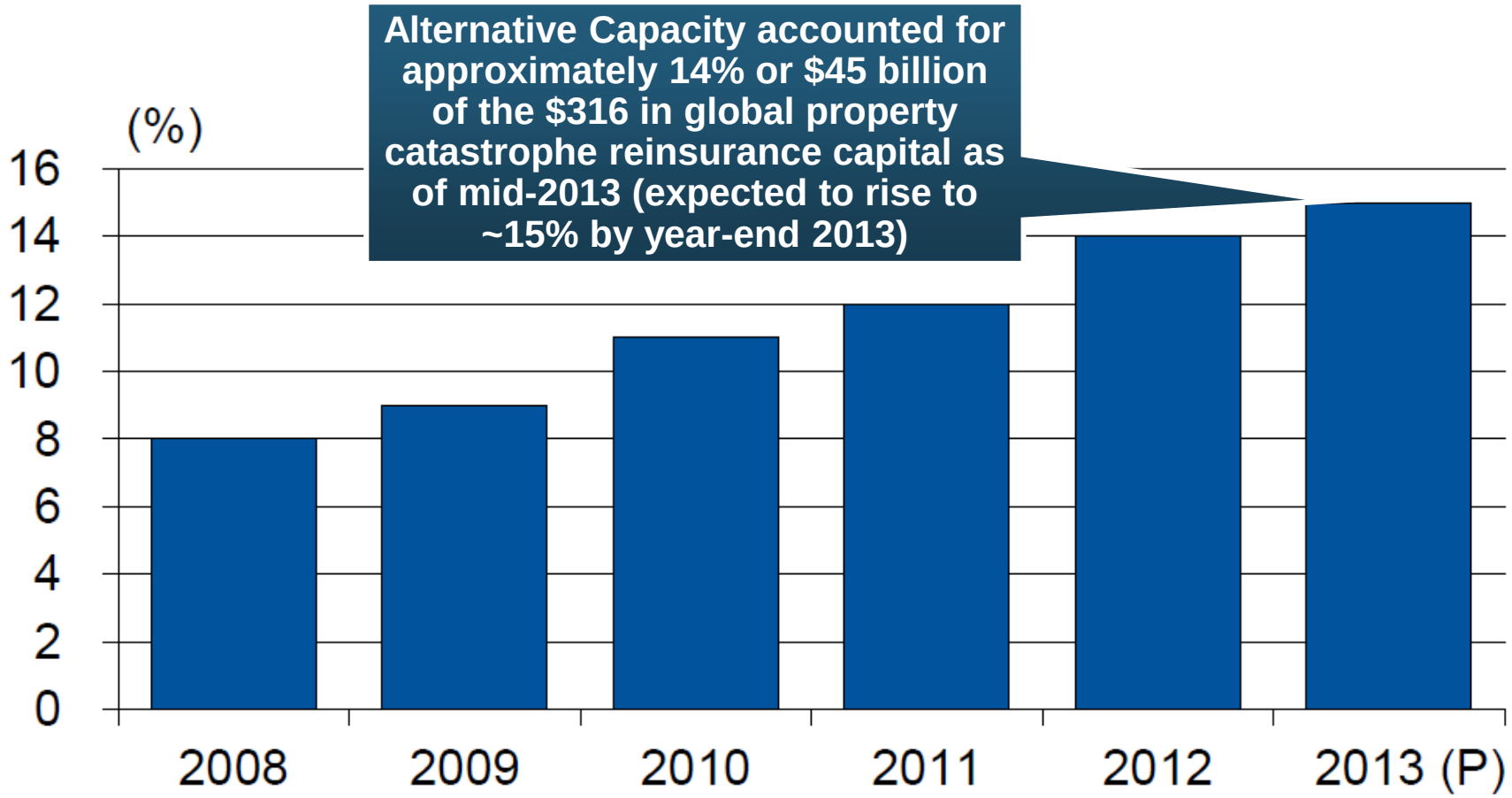
(As of Year End)



Source: Guy Carpenter

Property Catastrophe Reinsurance Capacity by Source as of Mid-2013 ($ Bill)

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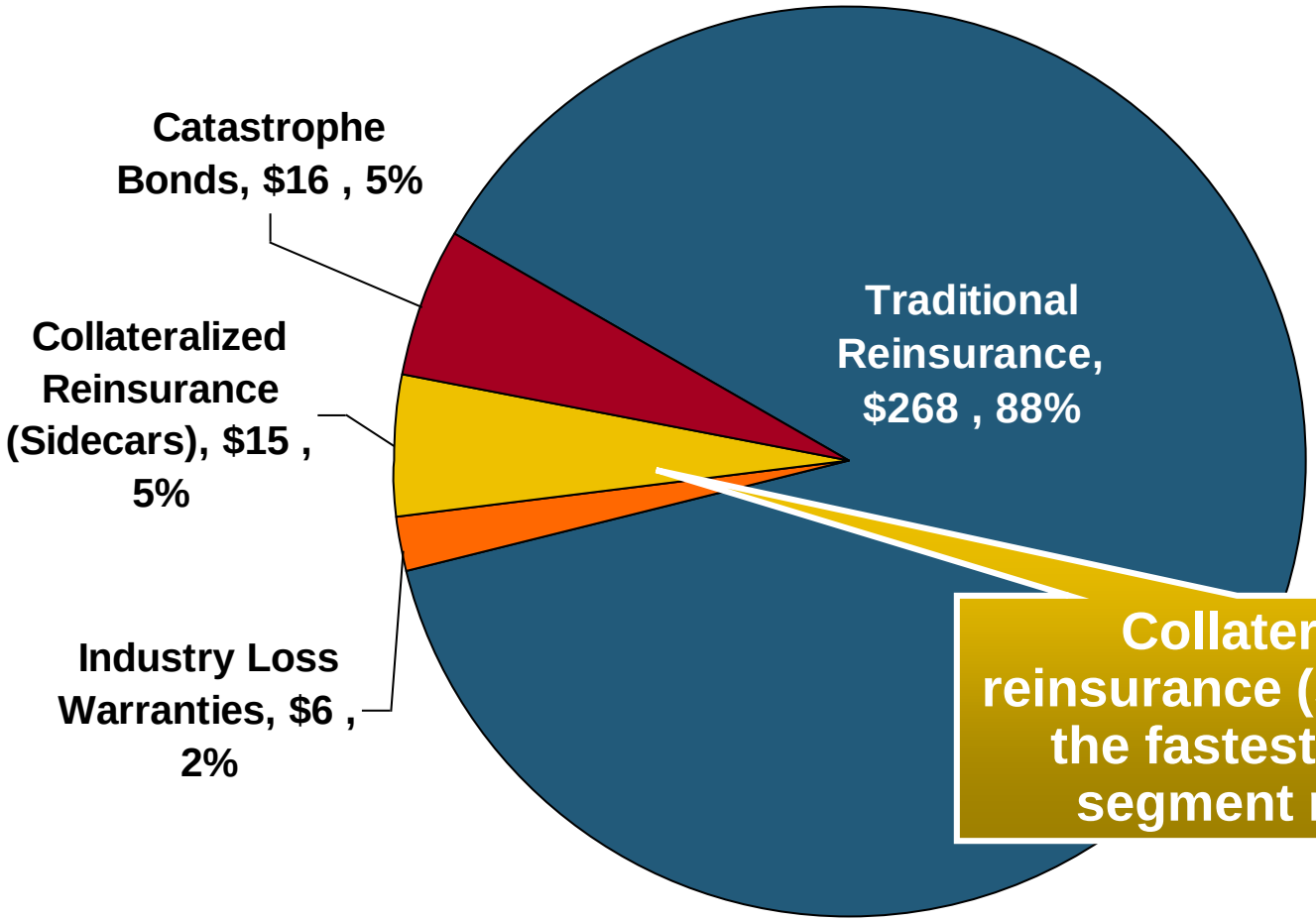
Total = $316 Billion*

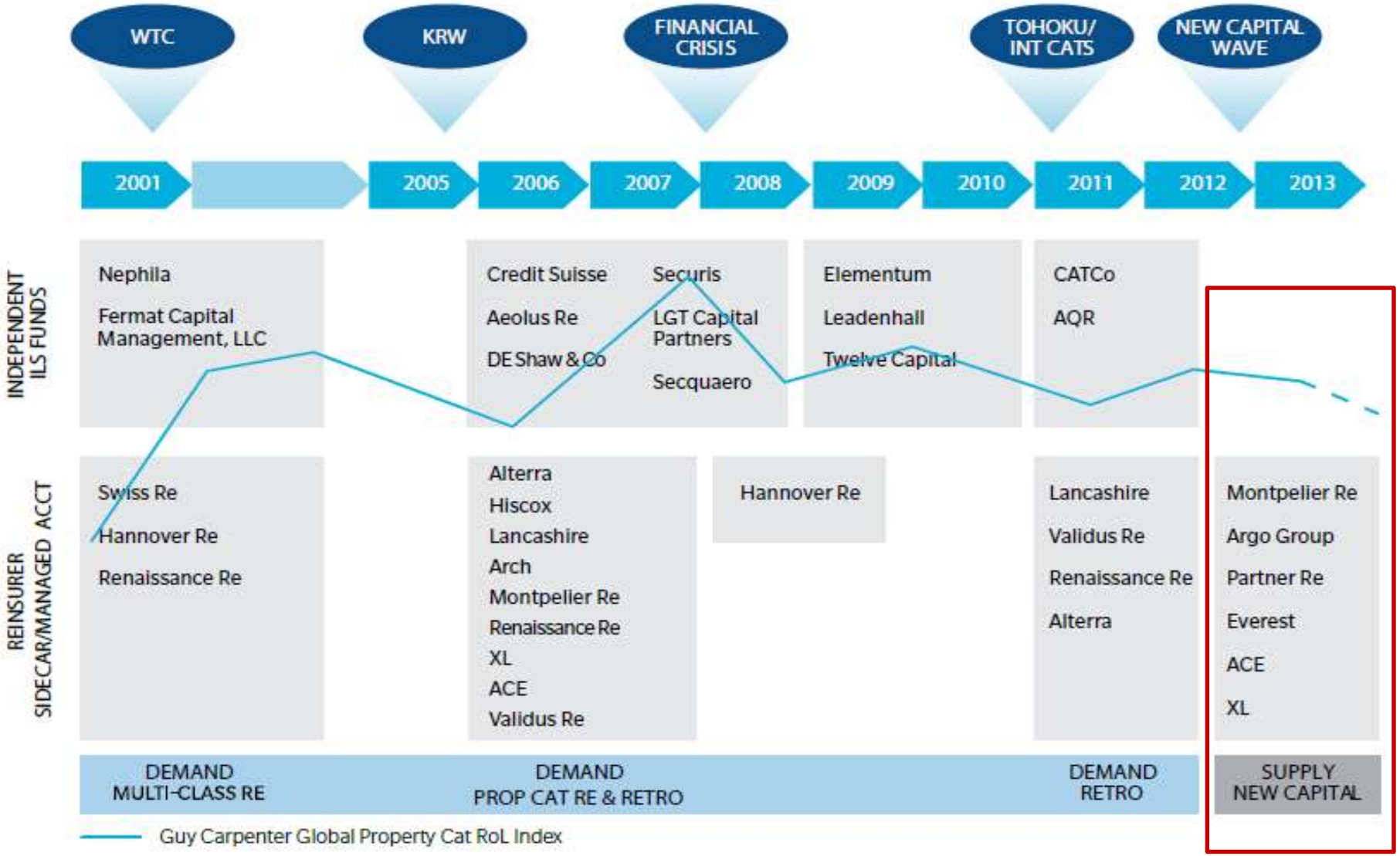


"Convergence Capital" accounted for an estimated $45B or 14% or total property catastrophe reinsurance capacity as of mid-2013, up $10B over the past 18 months (since 1/1/12). Penetration of this type of capacity is growing

Collateralized reinsurance (sidecars) is the fastest growing segment recently

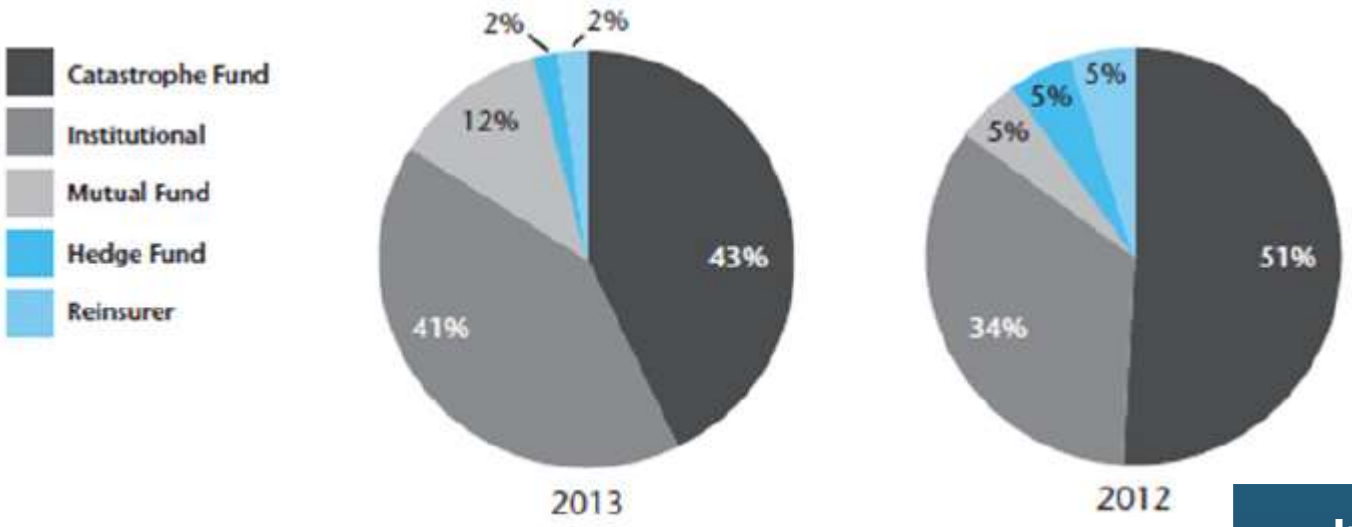
Source: Guy Carpenter; *Mid-Year Market Report,* September 2013; Insurance Information Institute.

Alternative Capacity Development, 2001—2013:H1



Source: Guy Carpenter; *Mid-Year Market Report,* September 2013; Insurance Information Institute.

Investor by Category, 2013 vs. 2012*



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

*As of June 30 each year.

Source: Aon Benfield Securities; Insurance Information Institute.

Non-Traditional Property Catastrophe Limits by Type, YE 2012 vs. YE 2015E

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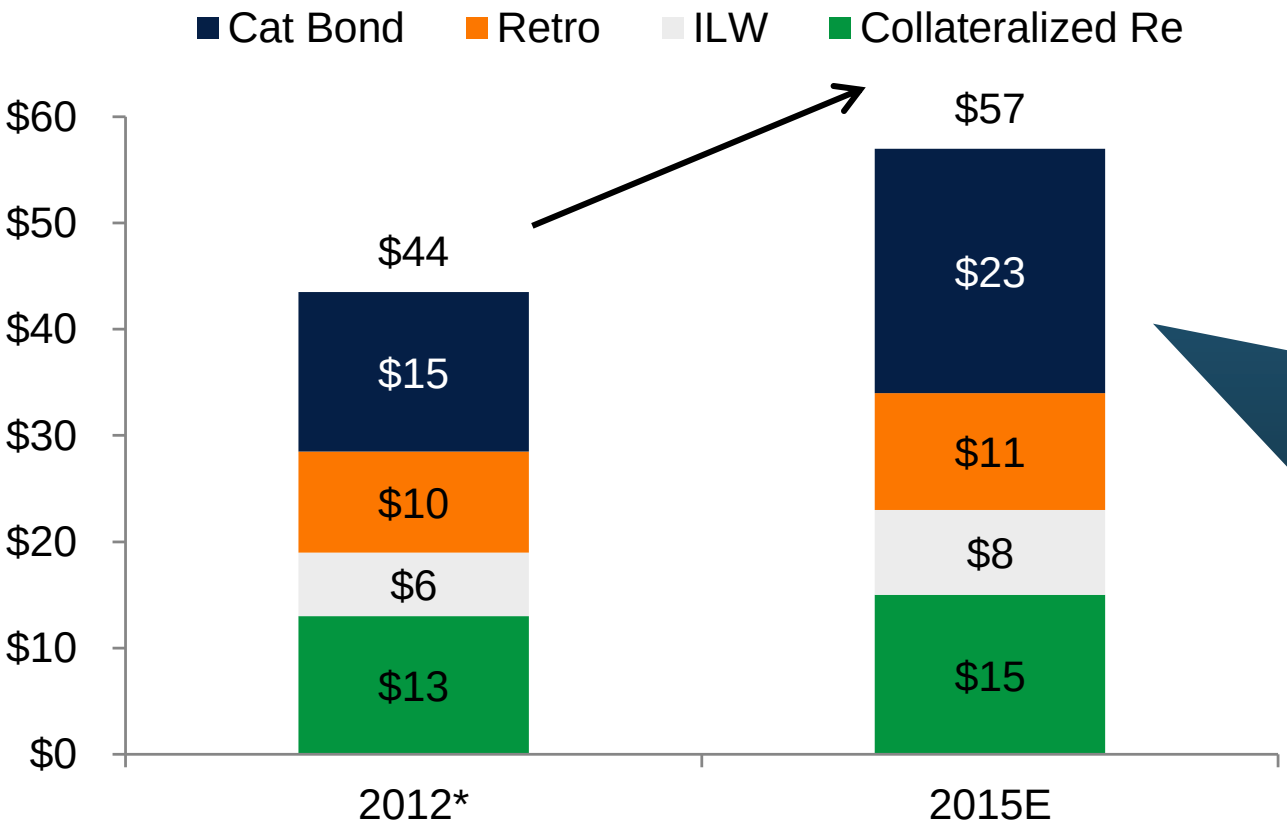
NON-TRADITIONAL P/CAT LIMITS BY TYPE



Alternative capital is expected to rise by 30% by YE 2015 and will ultimately account for 20-30% of total reinsurance spend, according to Guy Carpenter

Source: Guy Carpenter; *As Of Mar-2013

Source: Guy Carpenter; Reinsurance Association of America; Insurance Information Institute.

Catastrophe Bonds: Issuance and Outstanding, 1997- 2014:Q1*

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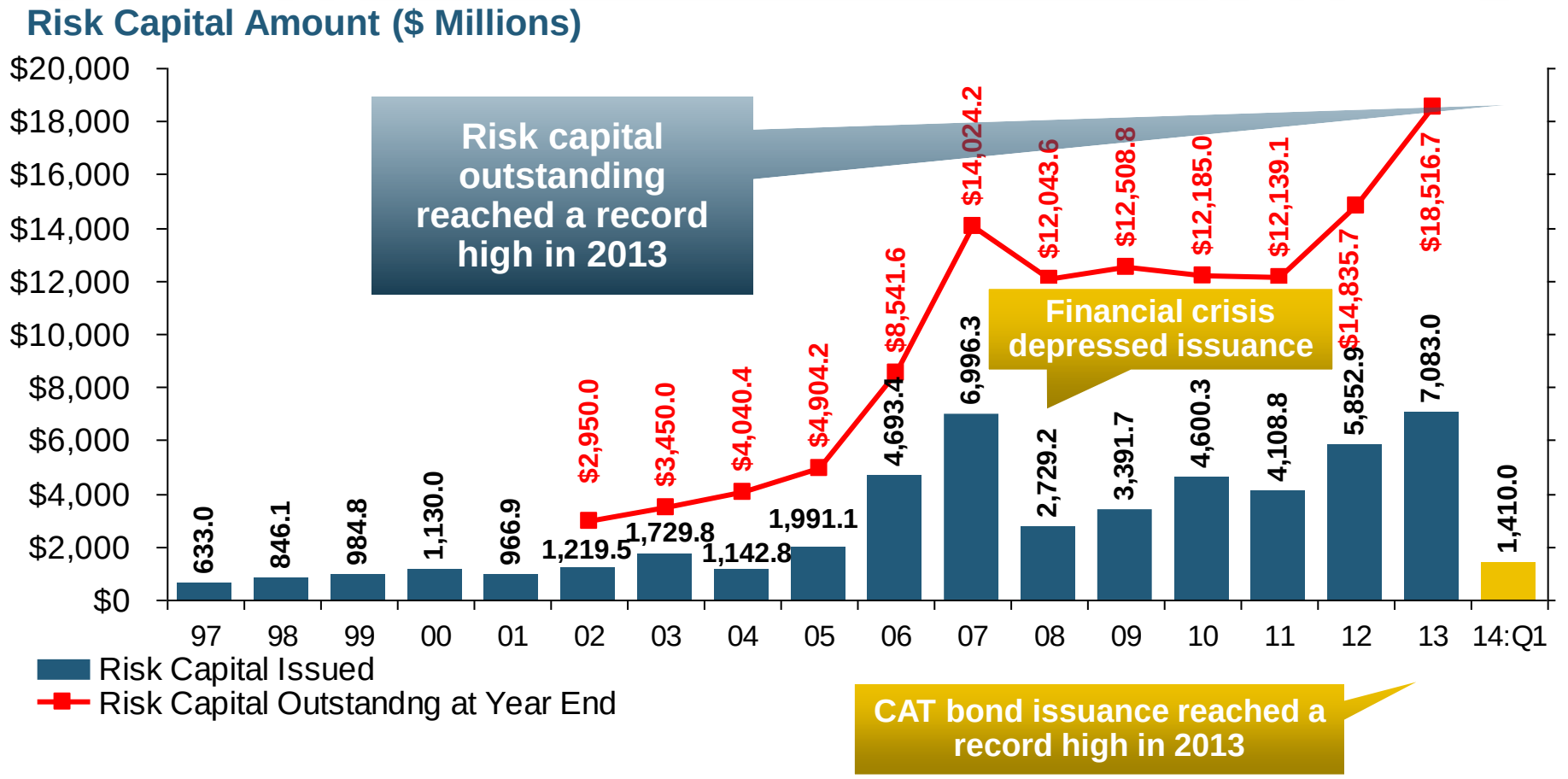

Catastrophe Bond Issuance Is Approaching Pre-Crisis Levels While Risk Capital Outstanding Stands at an All-Time Record

*Through Jan. 31, 2014.
Source: Guy Carpenter; Insurance Information Institute.

Questions Arising from Influence of Alternative Capital

- **Could Pension Fund Money Swamp Traditional Capacity?**
  - US private pension funds hold ~$7 trillion in assets
  - 2% allocation = $140 billion
  - Global property cat capital = ~$316 bill as of mid-2013
- **Do New Investors Have a Lower Cost of Capital?**
  - New capacity expects 6-8% rate of return compared to 8-10% for traditional reinsurance, according to Dowling & Partners
- **Will Reinsurance Pricing Become More Closely Linked to Interest Rates?**
  - What happens when interest rates rise?
- **Terms and Conditions Could Weaken**
  - Multi-year deals

Questions Arising from Influence of Alternative Capital

- **What Will Happen When Investors Face Large-Scale Losses?**
- **Does ILS Have a Higher Propensity to Litigate?**
  - **Short-term focus could contribute to disputes**
  - **Large share of triggered transactions ended up in dispute**
- **How Low Will ROLs Be Pushed?**
- **Does the New Interconnectedness with Capital Markets Lend Credence to the Suggestion that Reinsurance Is a Systemic Risky Business?**
- **Will Alternative Capital Drive Consolidation Among Traditional Reinsurers?**
  - **Has the mating dance begun? → *Endurance/Aspen***

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CAT OF THE FUTURE?
CYBER RISK

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

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

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

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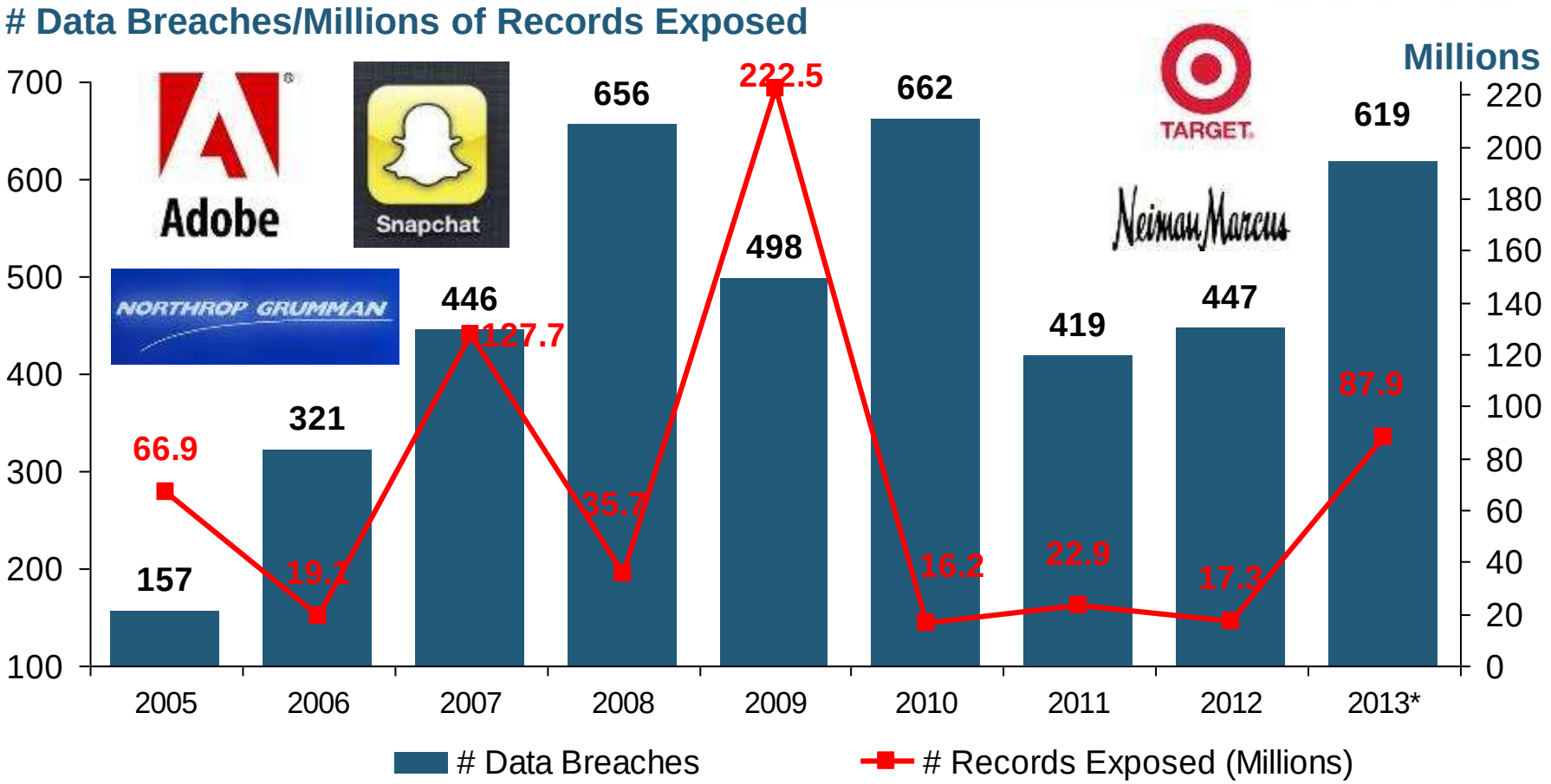
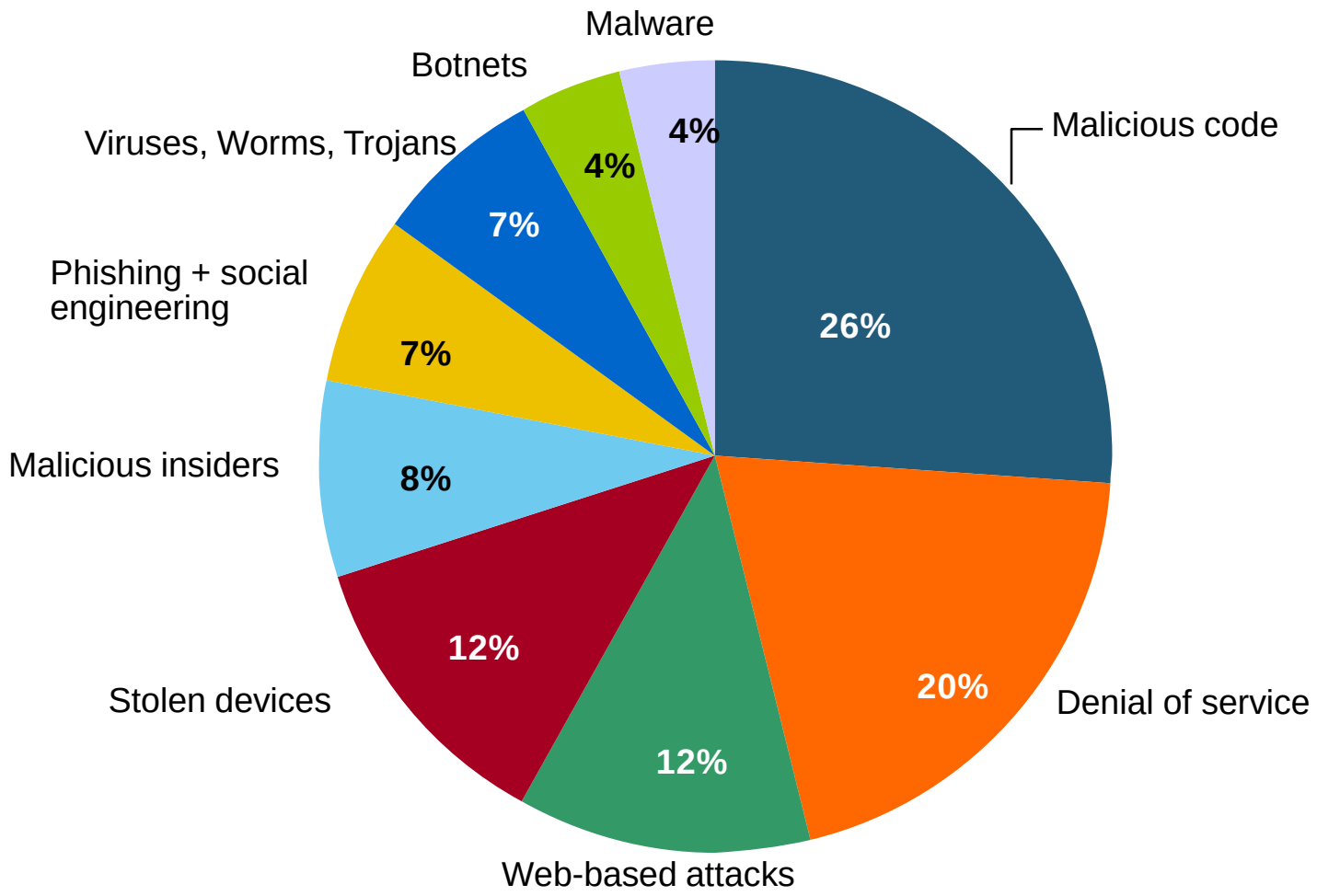


The Total Number of Data Breaches (+38%) and Number of Records Exposed (+408%) in 2013 Soared

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

The Most Costly Cyber Crimes, Fiscal Year 2012

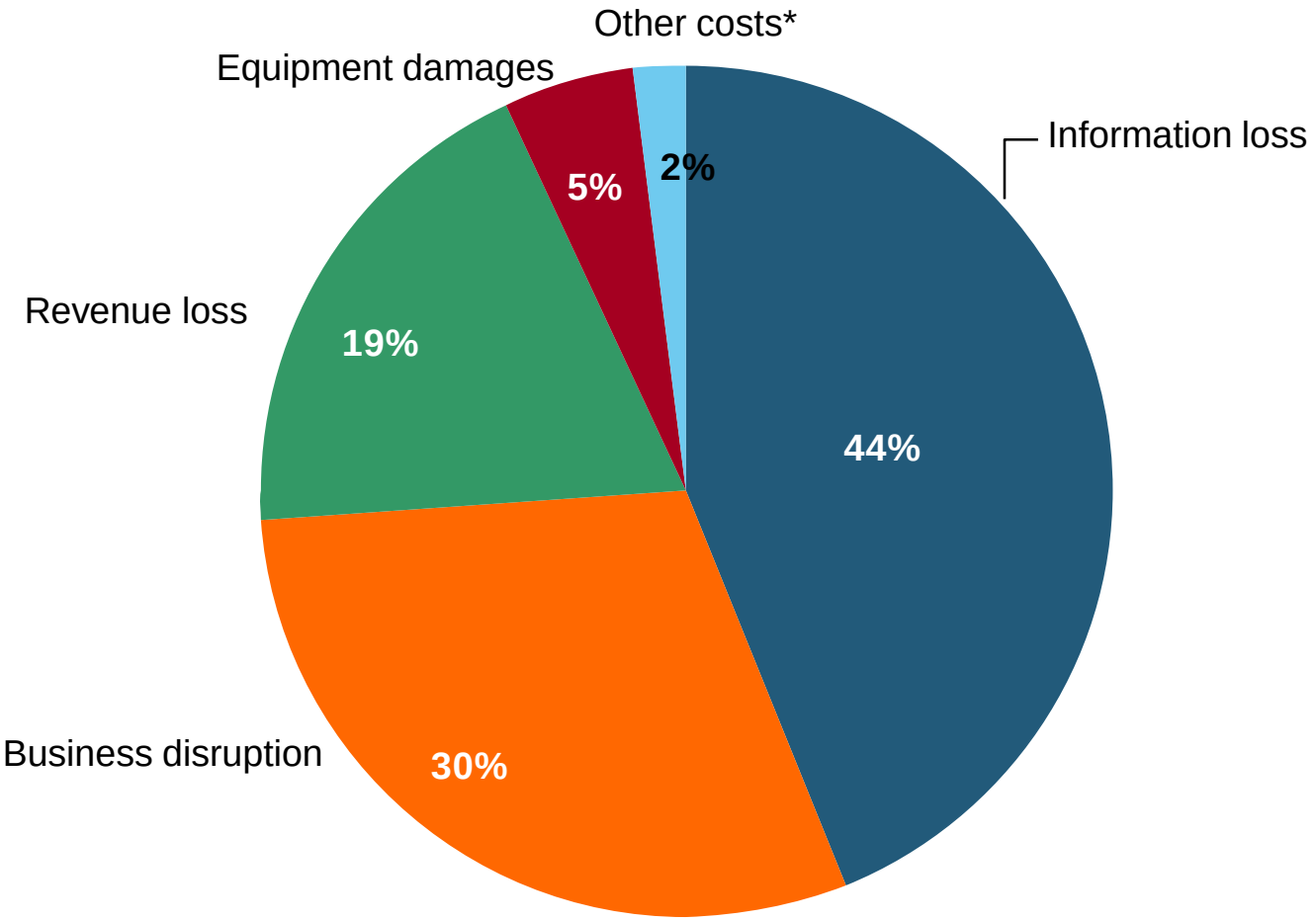
Malicious code, denial of service and web-based attacks account for more than 58 percent of the total annualized cost of cyber crime experienced by 56 companies.



Source: *2012 Cost of Cyber Crime: United States*, Ponemon Institute.

External Cyber Crime Costs: Fiscal Year 2012

Information loss (44%) and business disruption or lost productivity (30%) account for the majority of external costs due to cyber crime.



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

Source: *2012 Cost of Cyber Crime: United States*, Ponemon Institute.

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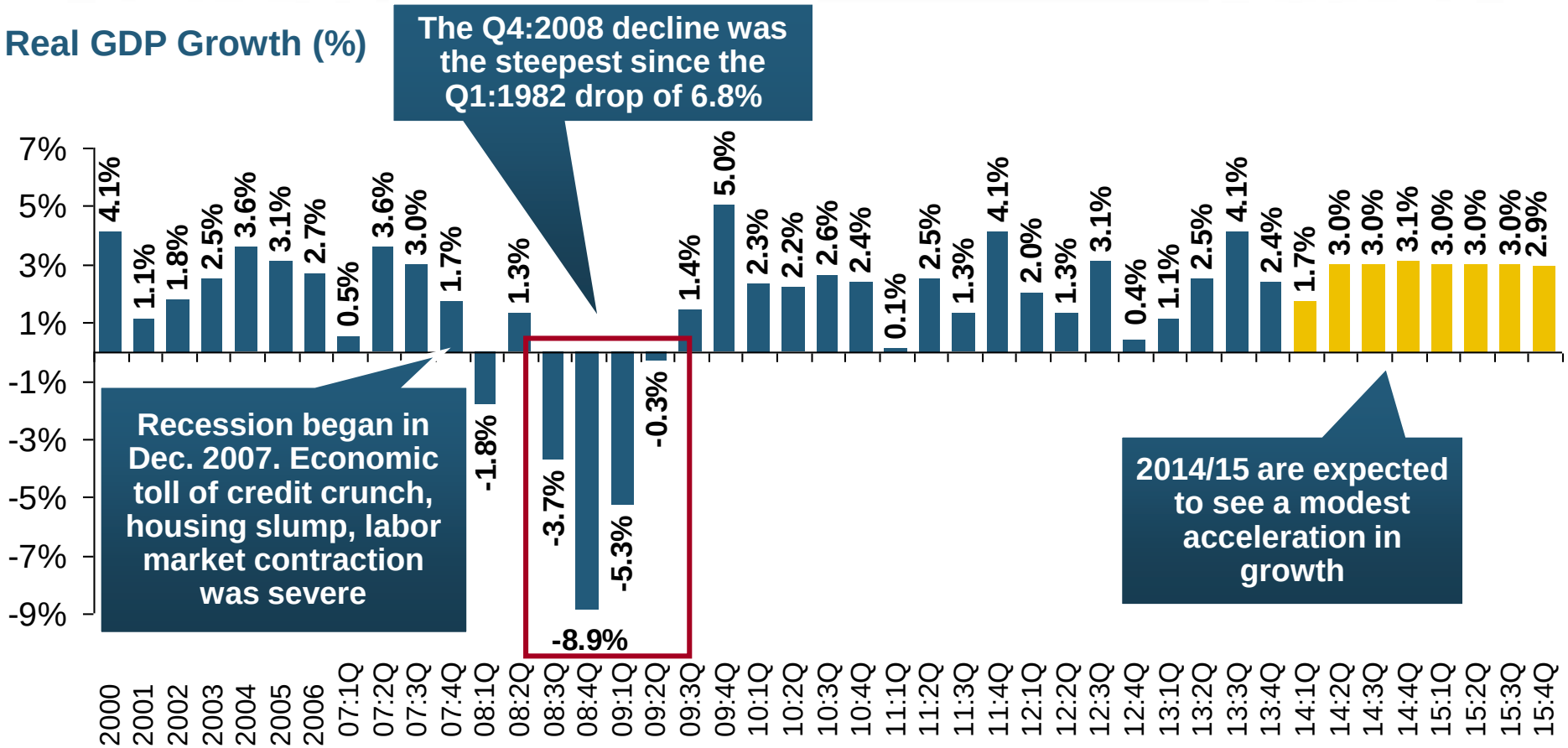
The Strength of the Economy Will Influence P/C Insurer Growth Opportunities

Growth Will Expand Insurer Exposure Base Across Most Lines

US Real GDP Growth*

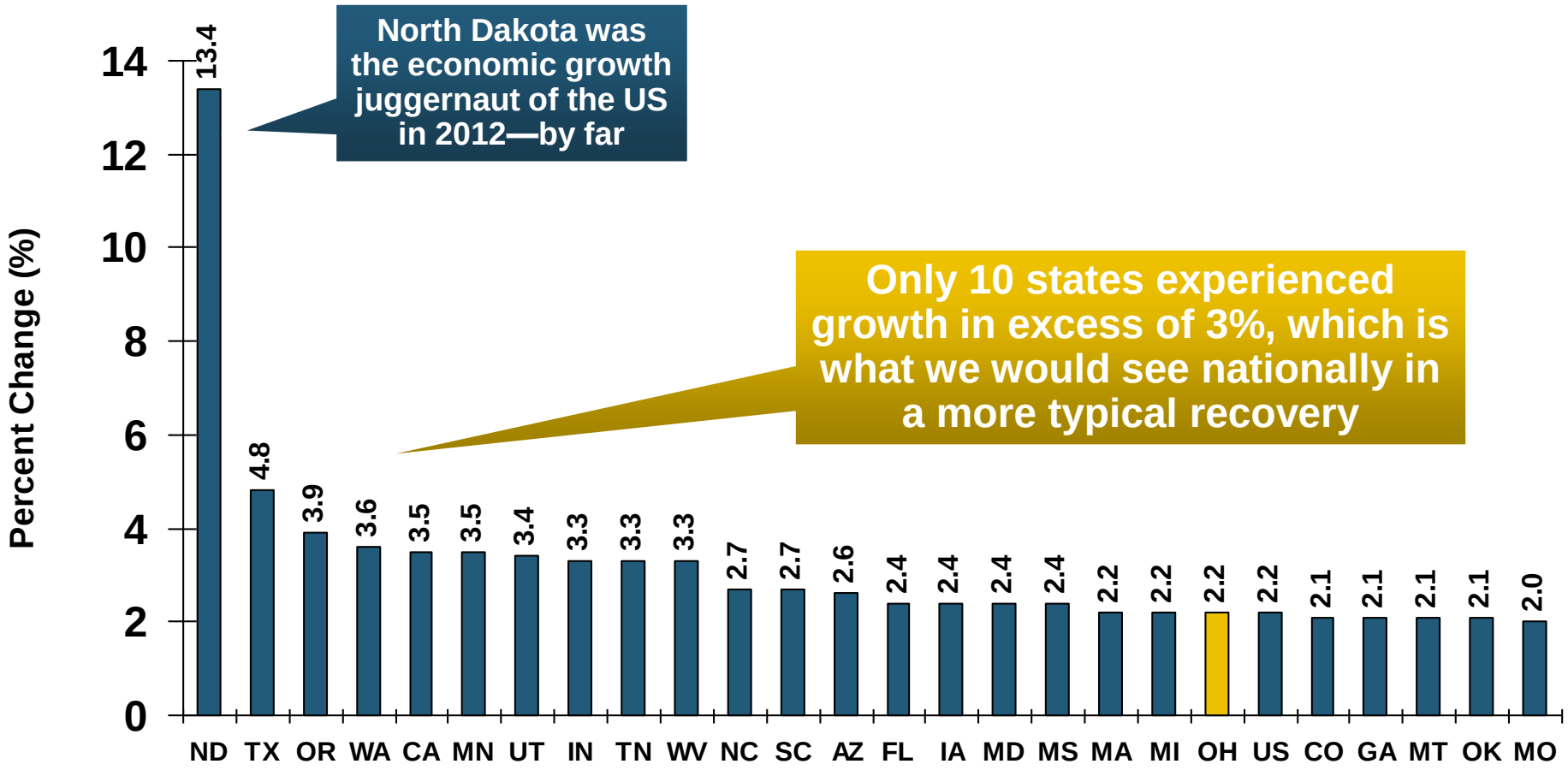


Demand for Insurance Should Increase in 2014/15 as GDP Growth Accelerates Modestly and Gradually Benefits the Economy Broadly

* Estimates/Forecasts from Blue Chip Economic Indicators.

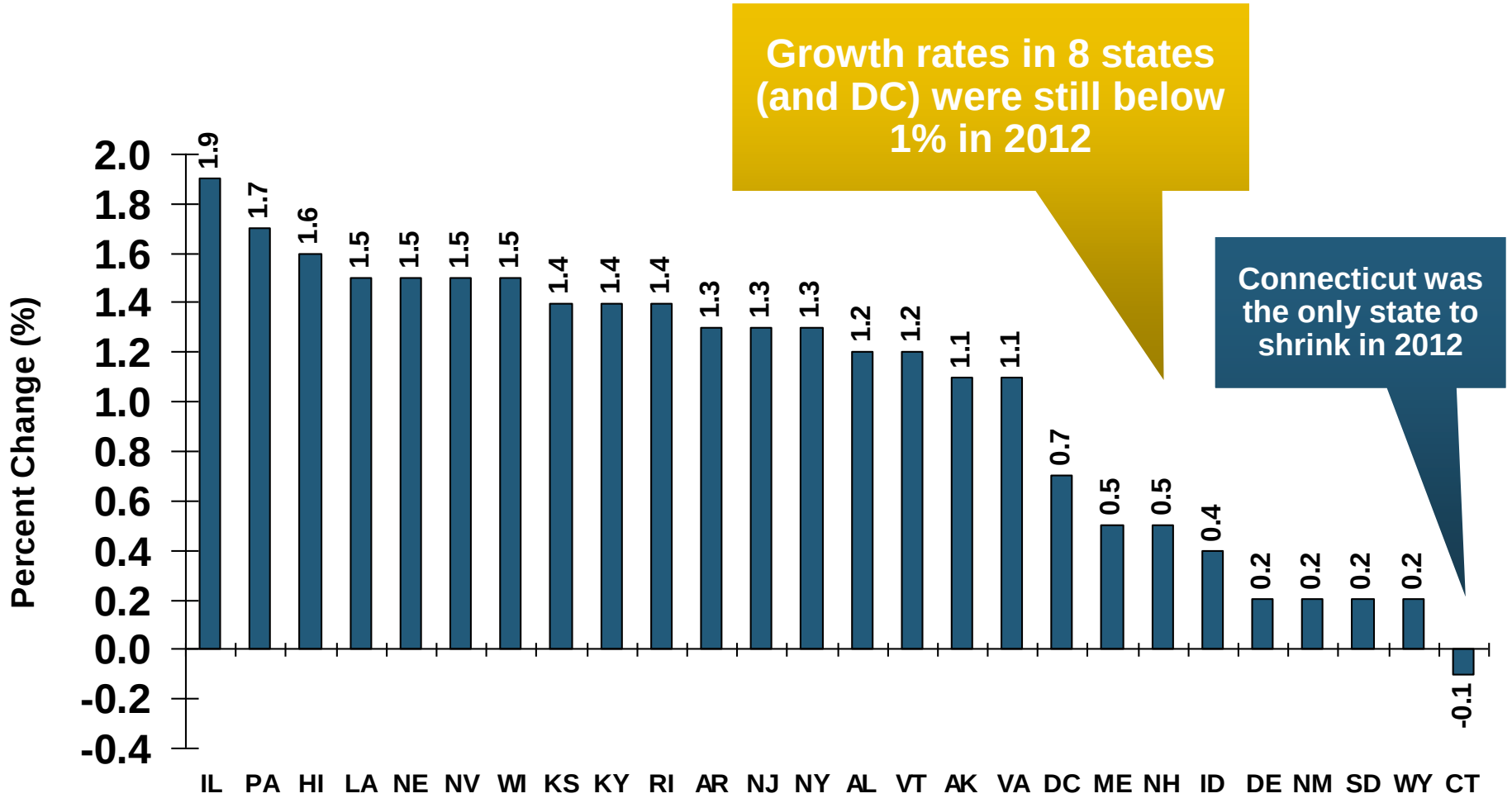
Source: US Department of Commerce, Blue Economic Indicators 4/14; Insurance Information Institute.

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



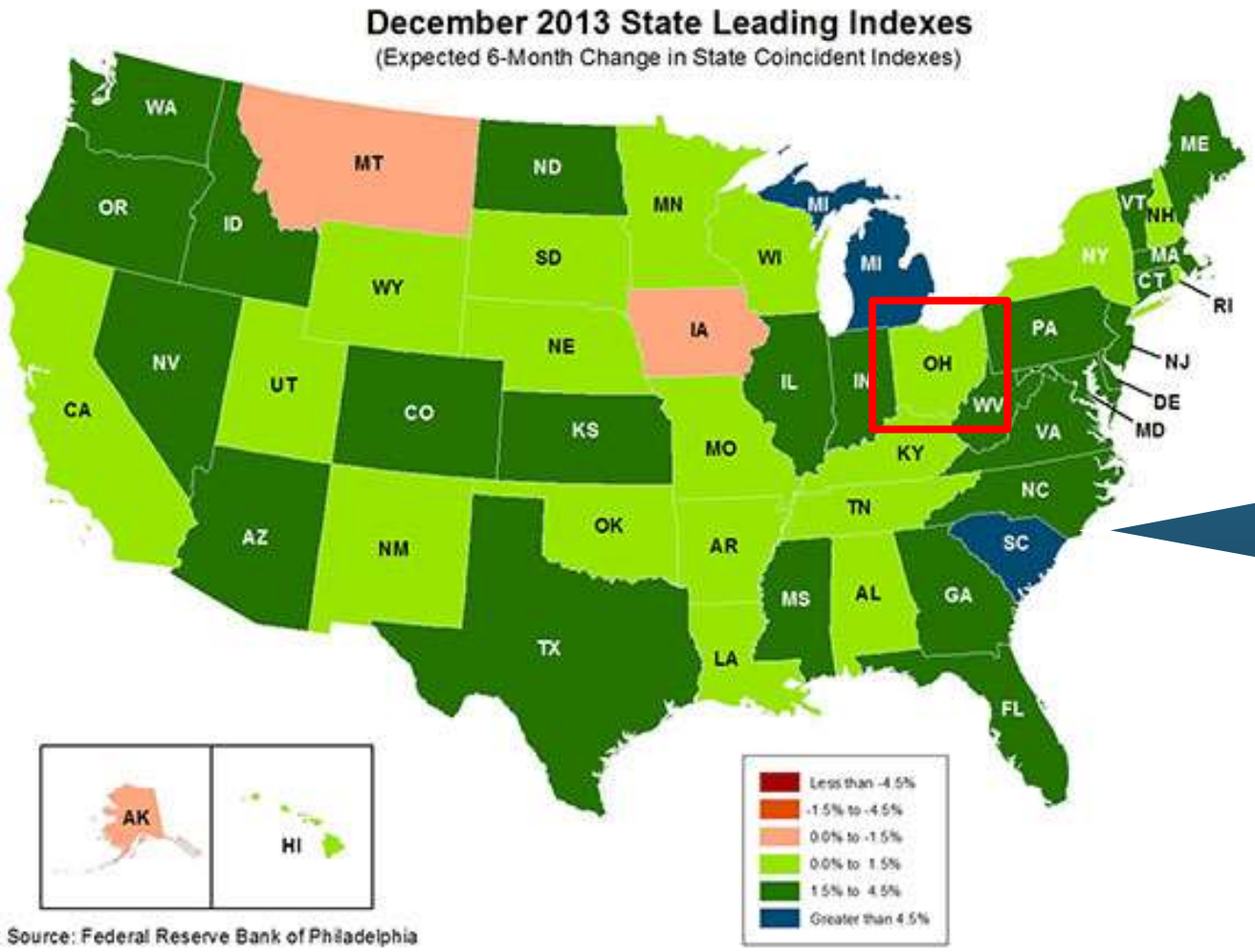
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

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



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

State-by-State Leading Indicators through 2014:Q2



The economic outlook for most of the US is positive for the first time in many years

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

Consumer Sentiment Survey *(1966 = 100)*

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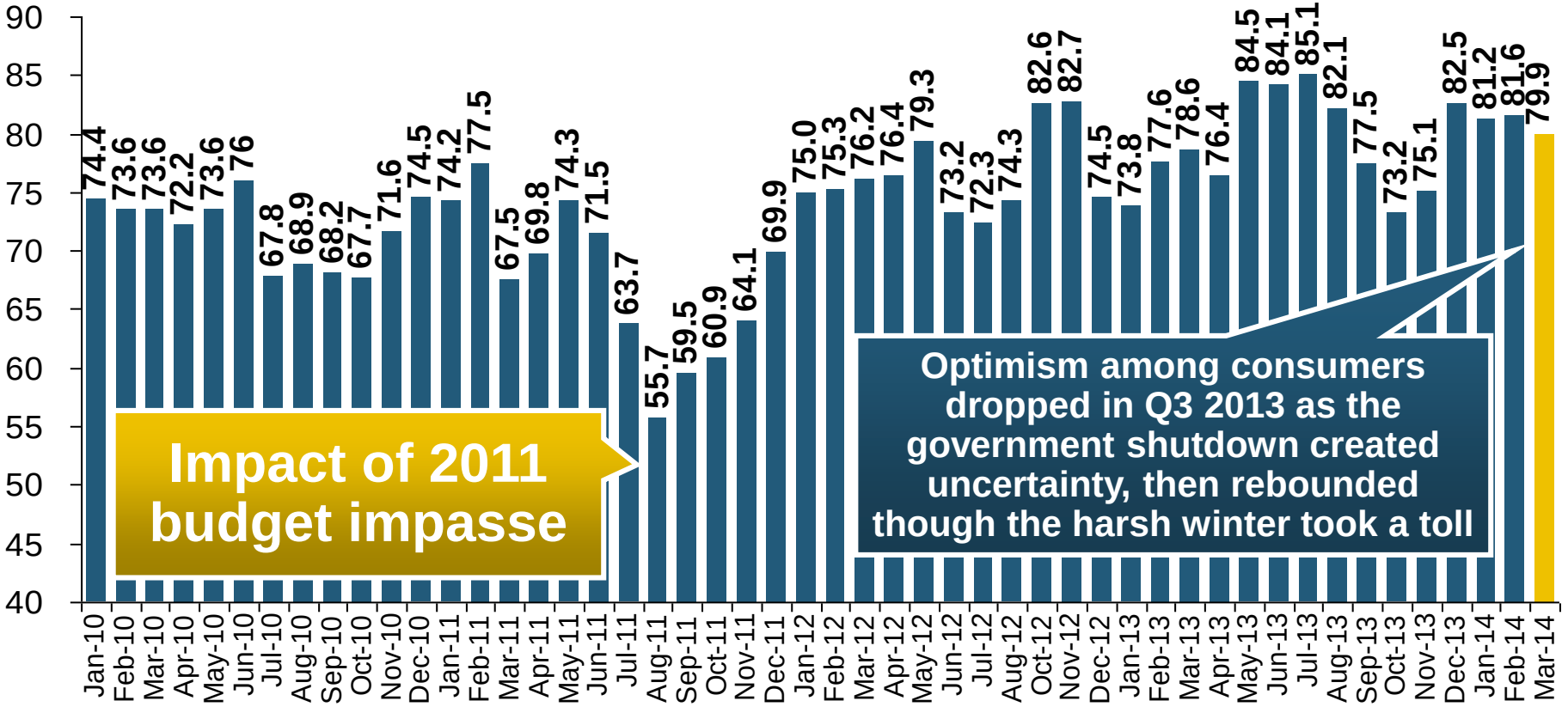
January 2010 through March 2014



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

Source: University of Michigan; Insurance Information Institute

Unemployment and Underemployment Rates: Still Too High, But Falling

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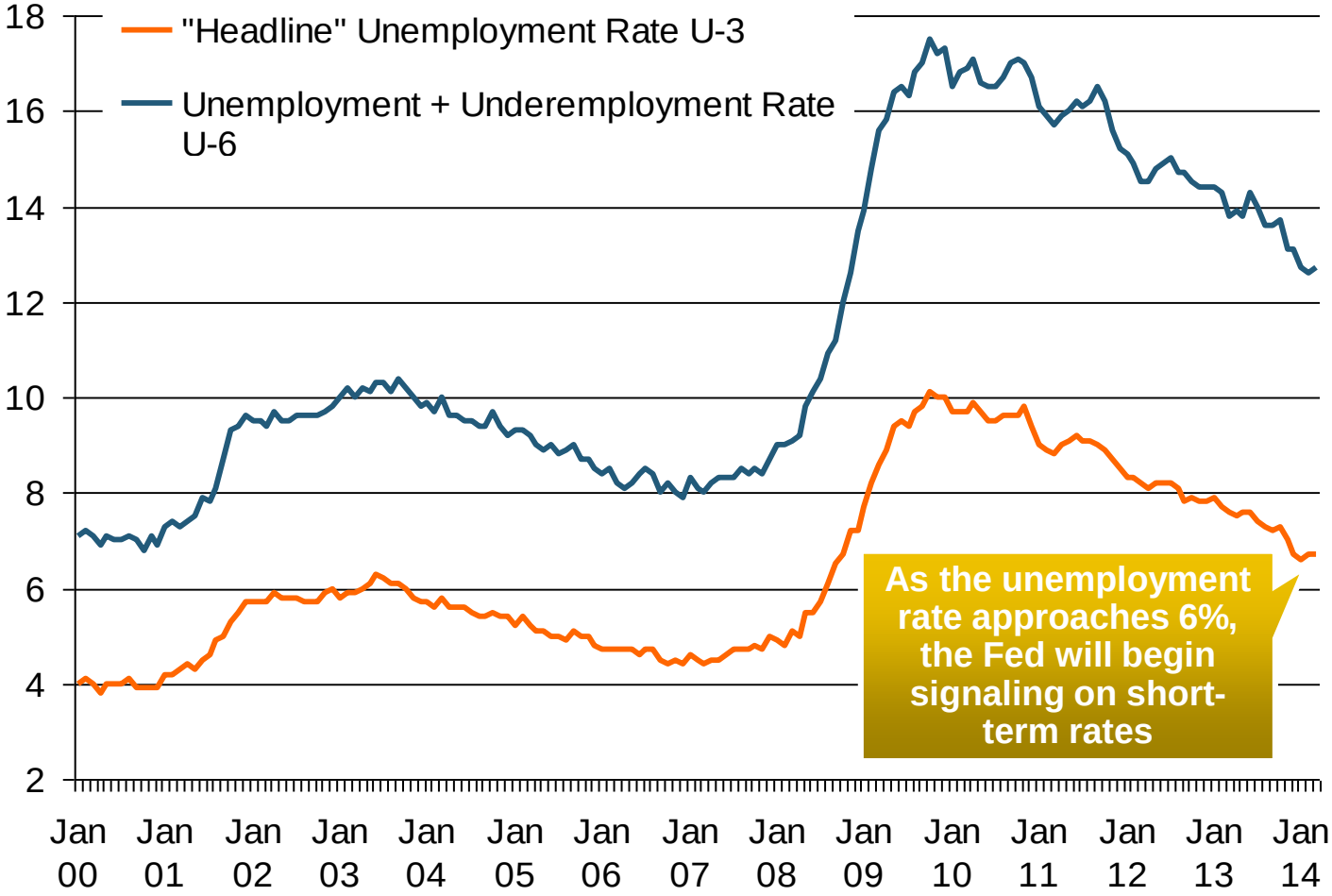
January 2000 through March 2014, Seasonally Adjusted (%)



U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 12.7% in Mar. 2014. 8% to 10% is "normal."

As the unemployment rate approaches 6%, the Fed will begin signaling on short-term rates

"Headline" unemployment was 6.7% in March 2014. 4% to 6% is "normal."

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

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

US Unemployment Rate Forecast

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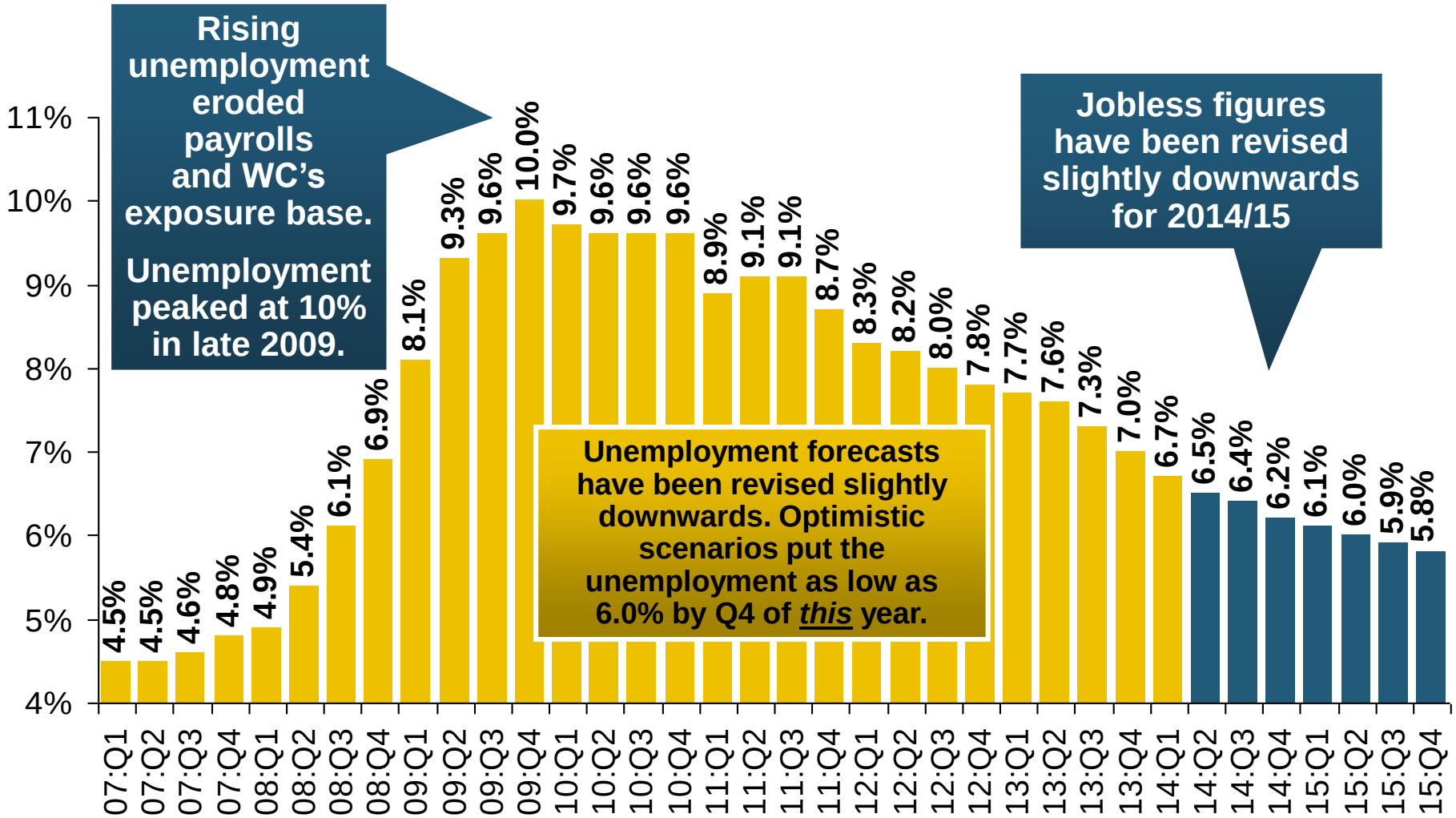
2007:Q1 to 2015:Q4F*



* = actual; = forecasts

Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (4/14 edition); Insurance Information Institute.

Monthly Change in Private Employment

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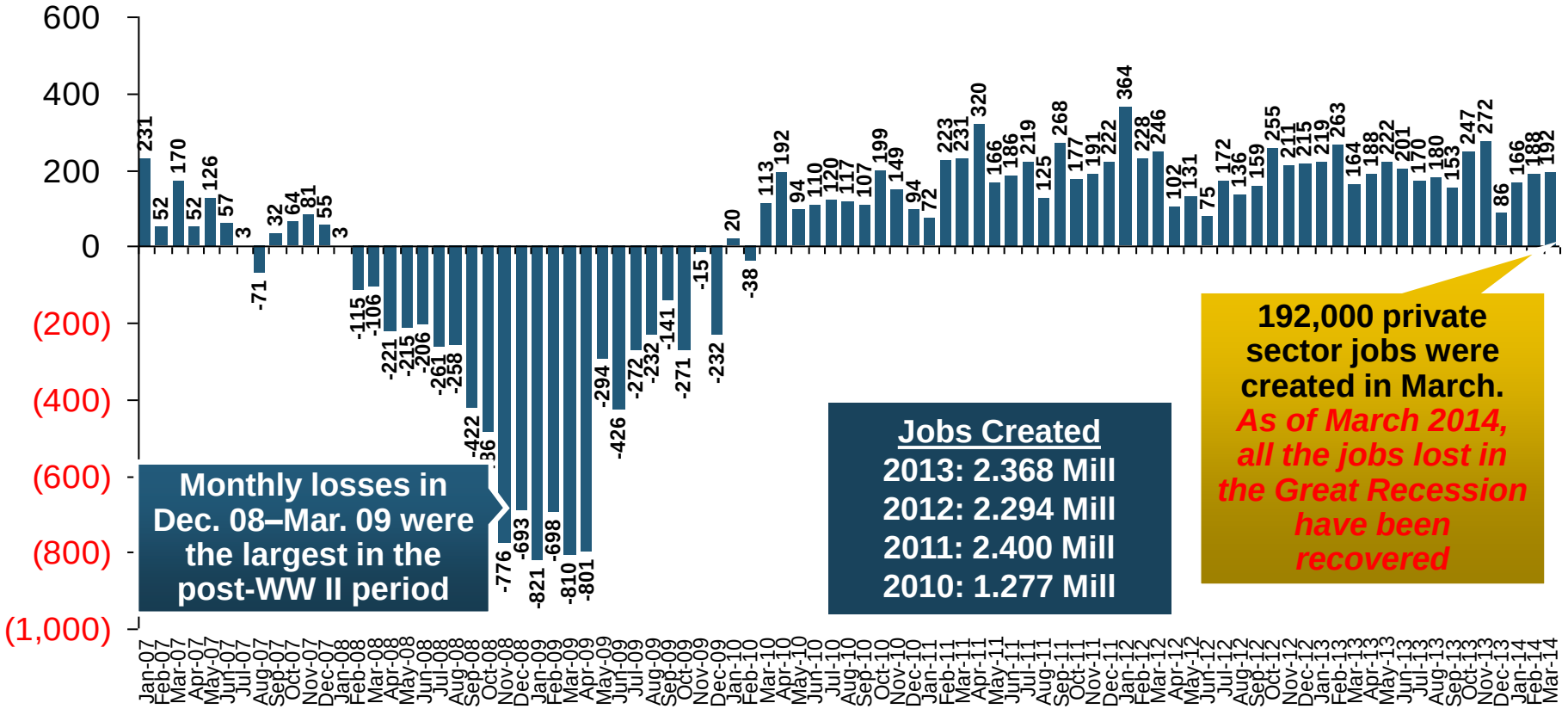
January 2007 through March 2014 (Thousands, Seasonally Adjusted)



Private Employers Added 8.88 million Jobs Since Jan. 2010 After Having Shed 5.01 Million Jobs in 2009 and 3.76 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)

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

Net Worth of Households* Recently Hit A Historic High

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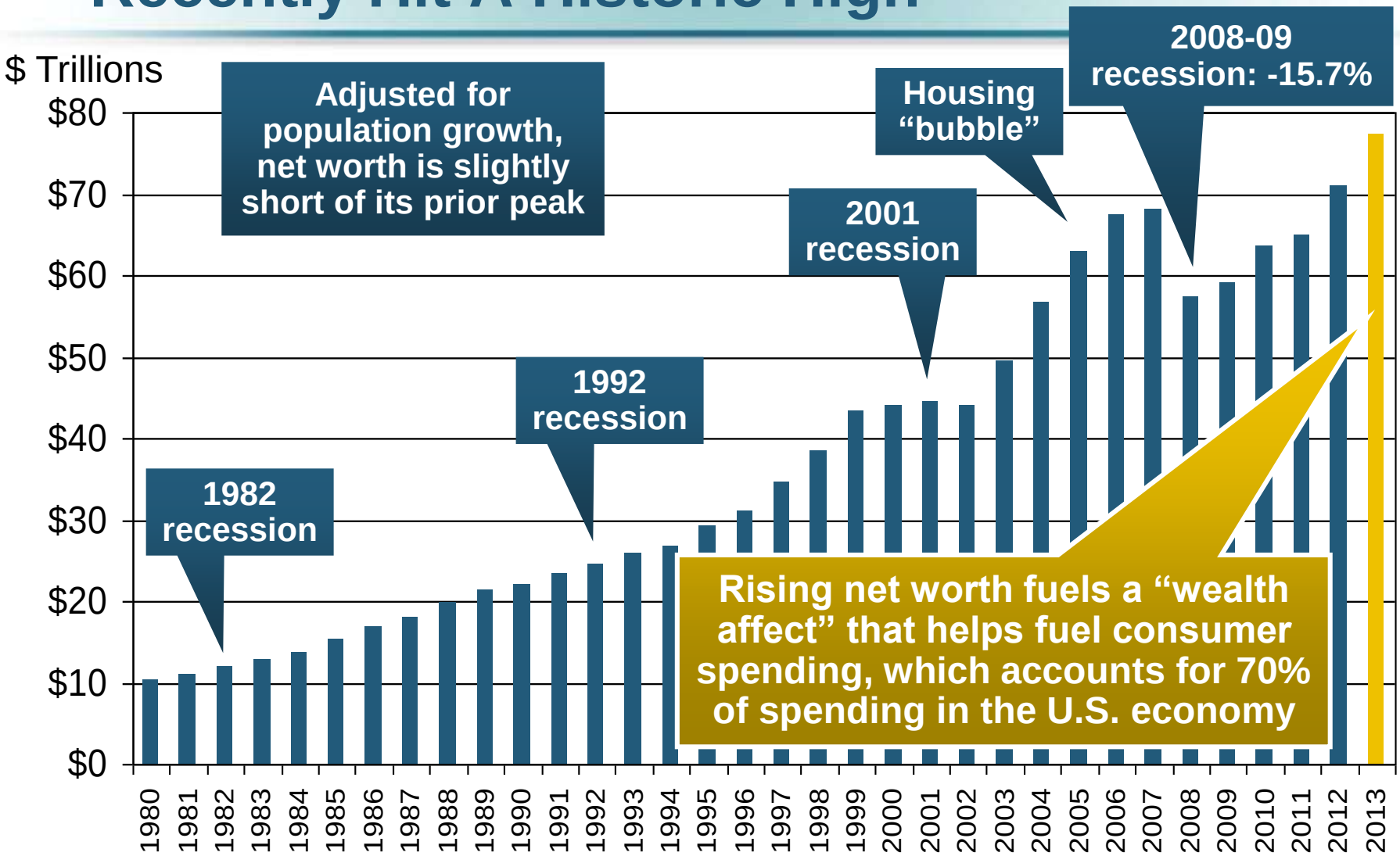

*and nonprofit organizations. Data are as of year-end, except in 2013:Q3 (data posted on Dec 9, 2013).
Next release March 6, 2014. Data not seasonally adjusted or inflation-adjusted
Source: Federal Reserve Board

Household Financial Obligations Ratio Recently Hit A Historic Low

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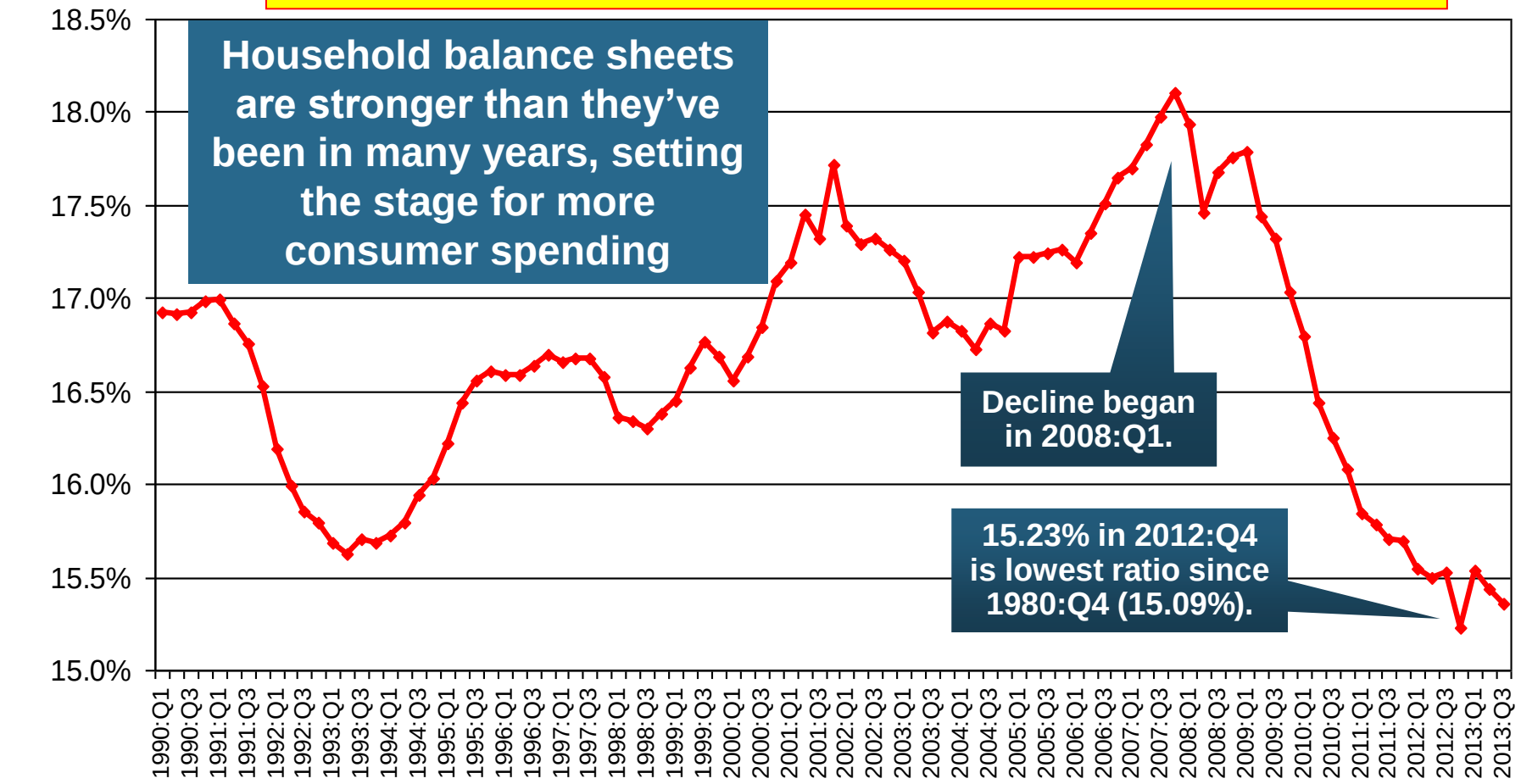
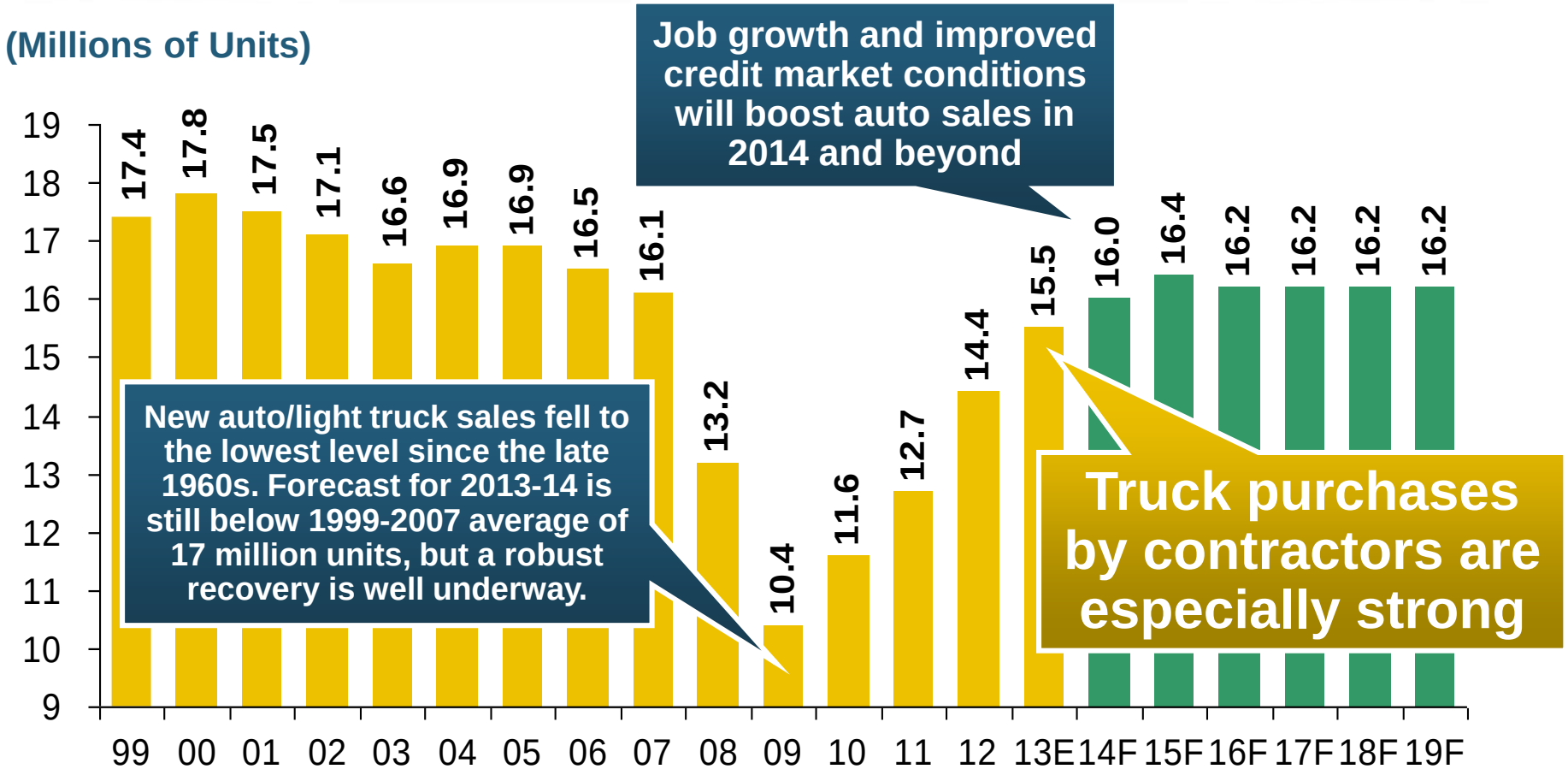
Financial Obligations Ratio: debt service (mortgage and consumer debt), auto lease, residence rent, HO insurance, and property tax payments as % of personal disposable income.



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

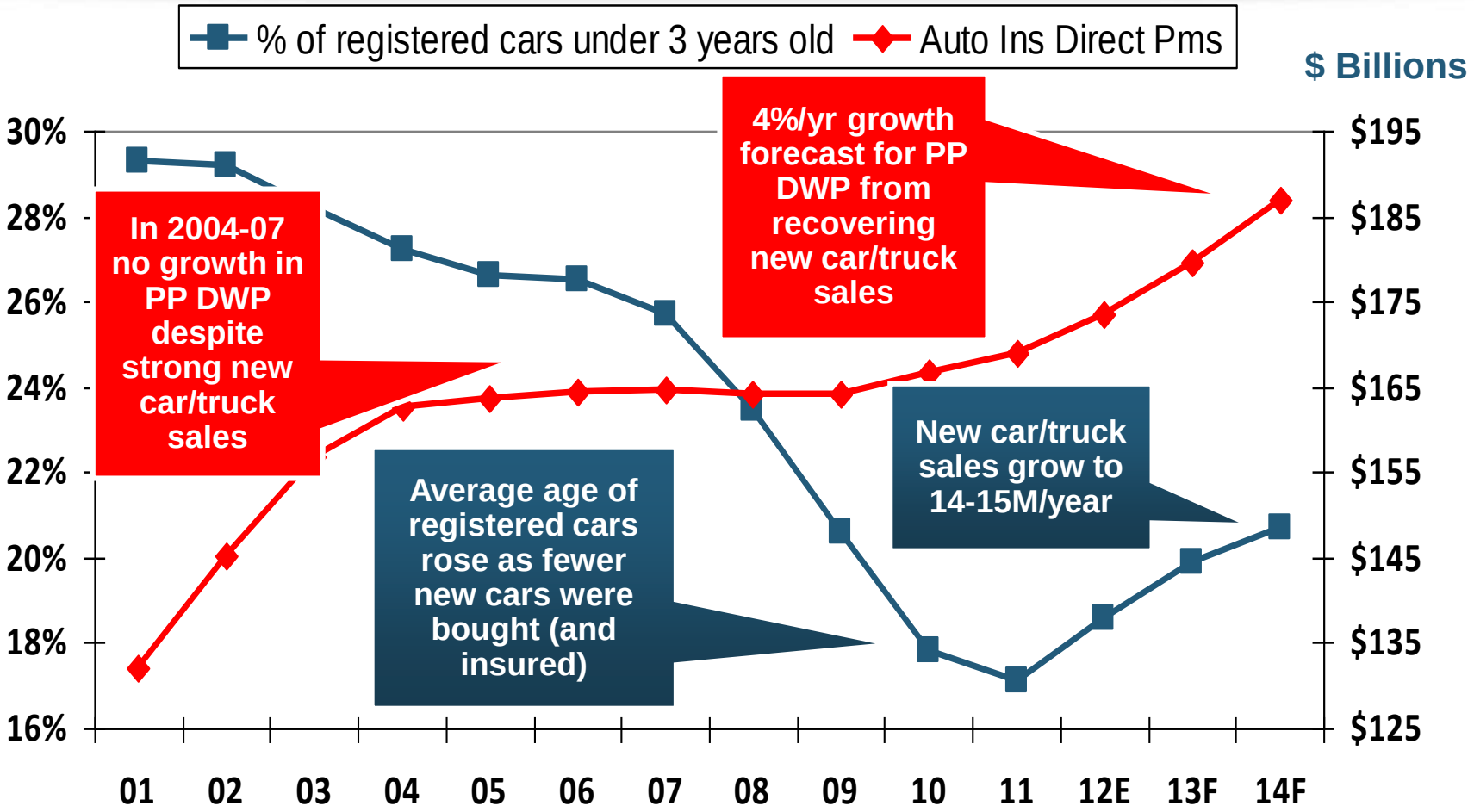
Auto/Light Truck Sales, 1999-2019F



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

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (4/14 and 3/13); Insurance Information Institute.

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



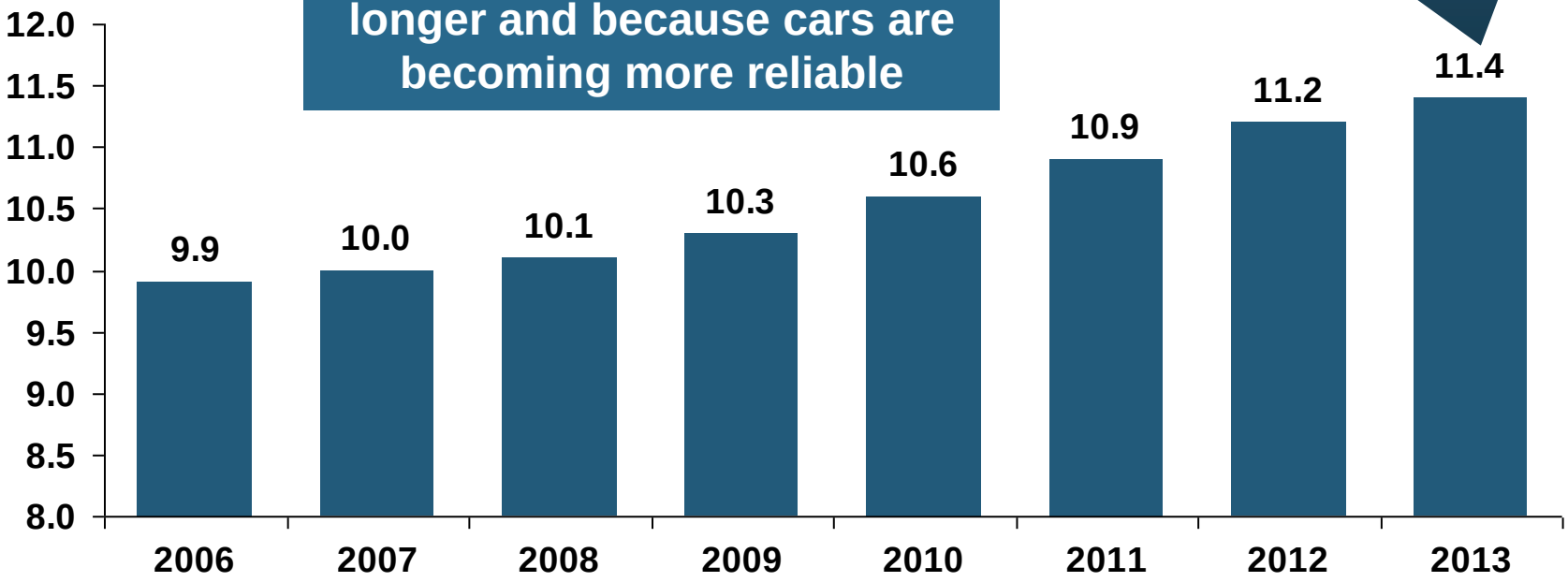
PP DWP, flat from 2004-2009, is rising again.
Conning forecasts growth at 3.5% in 2013 and 4.0% in 2014.

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

Average Age of Vehicles on the Road, 2006—2013

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

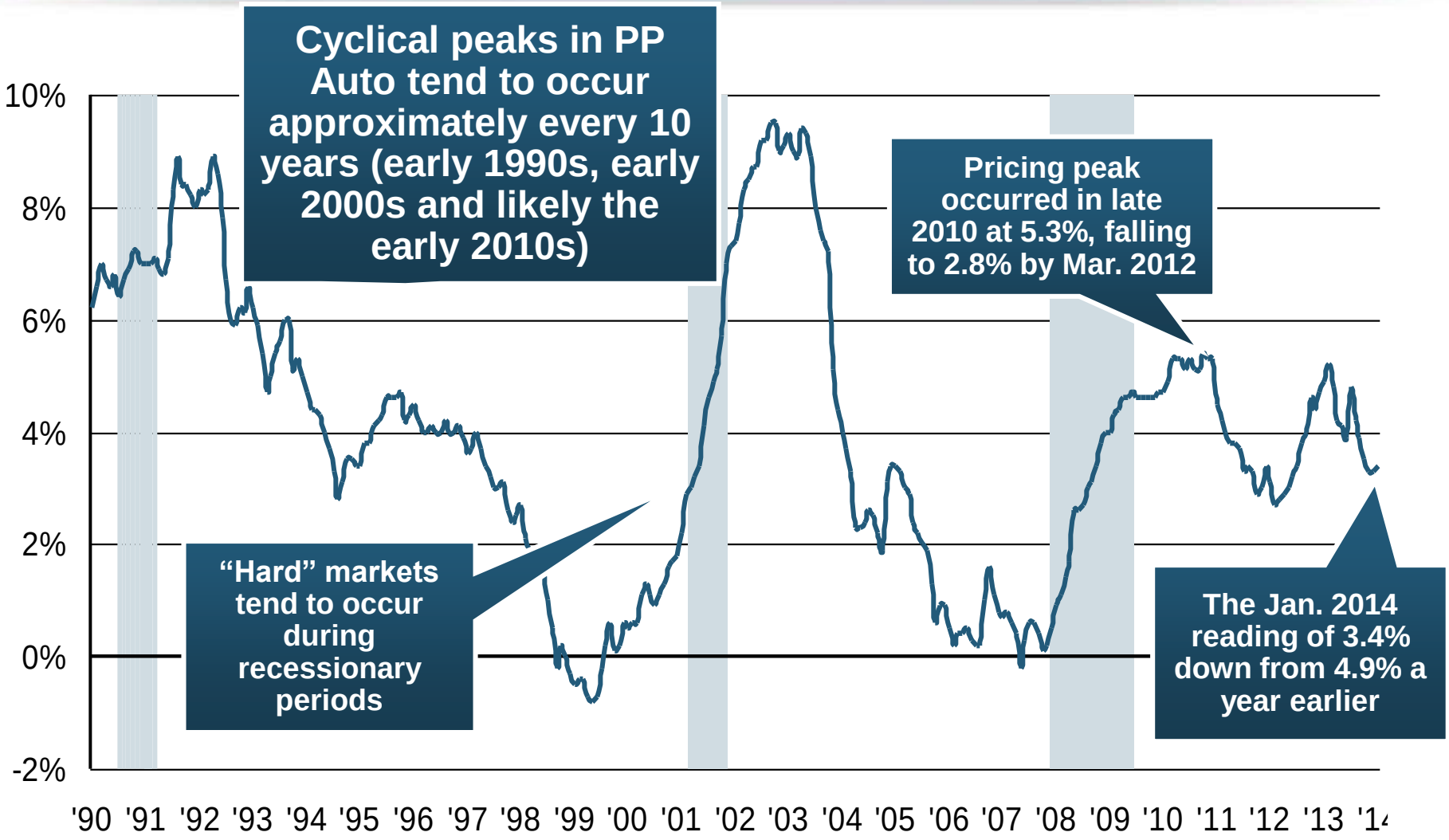
The average vehicle age reached a record 11.4 years in 2013



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

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

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



*Percentage change from same month in prior year; through January 2014; seasonally adjusted

Note: Recessions indicated by gray shaded columns.

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

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

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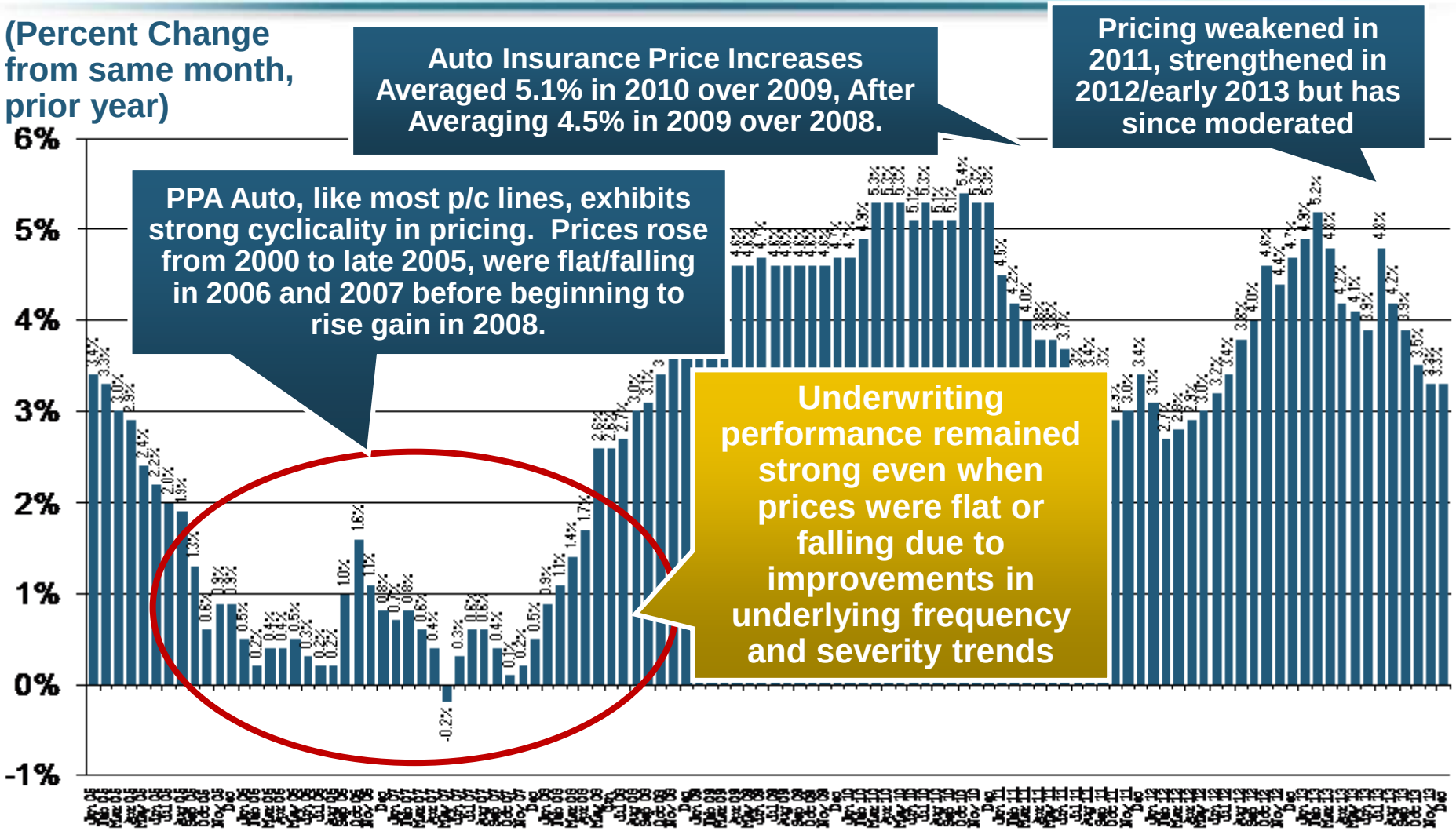
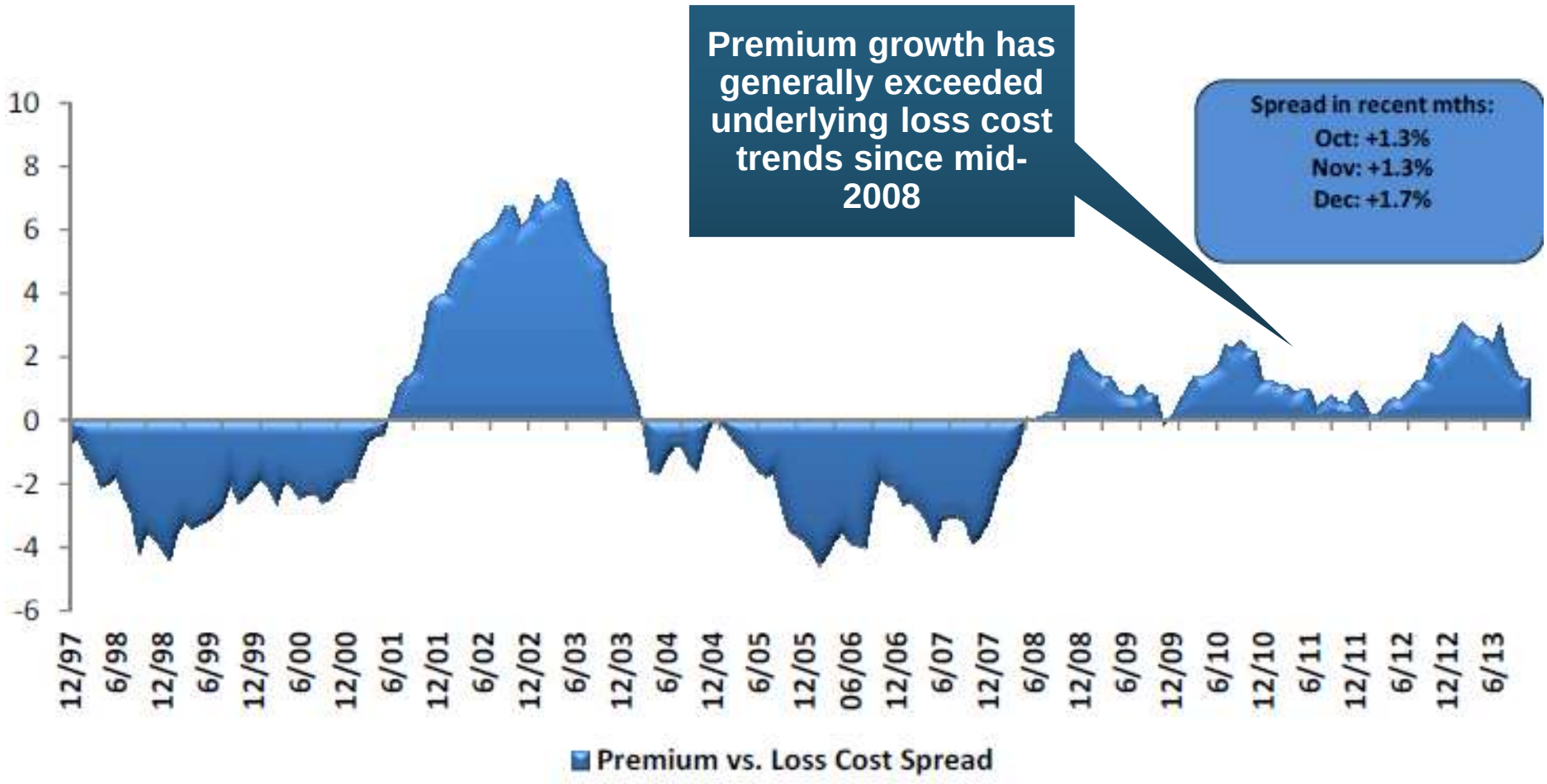
(Percent Change from same month, prior year)



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

Private Passenger Auto: Premium Growth vs. Loss Cost Spread



Sources: Evercore Equity Research, Jan. 2014.

Average Expenditures* on Auto Insurance, 1994-2014F

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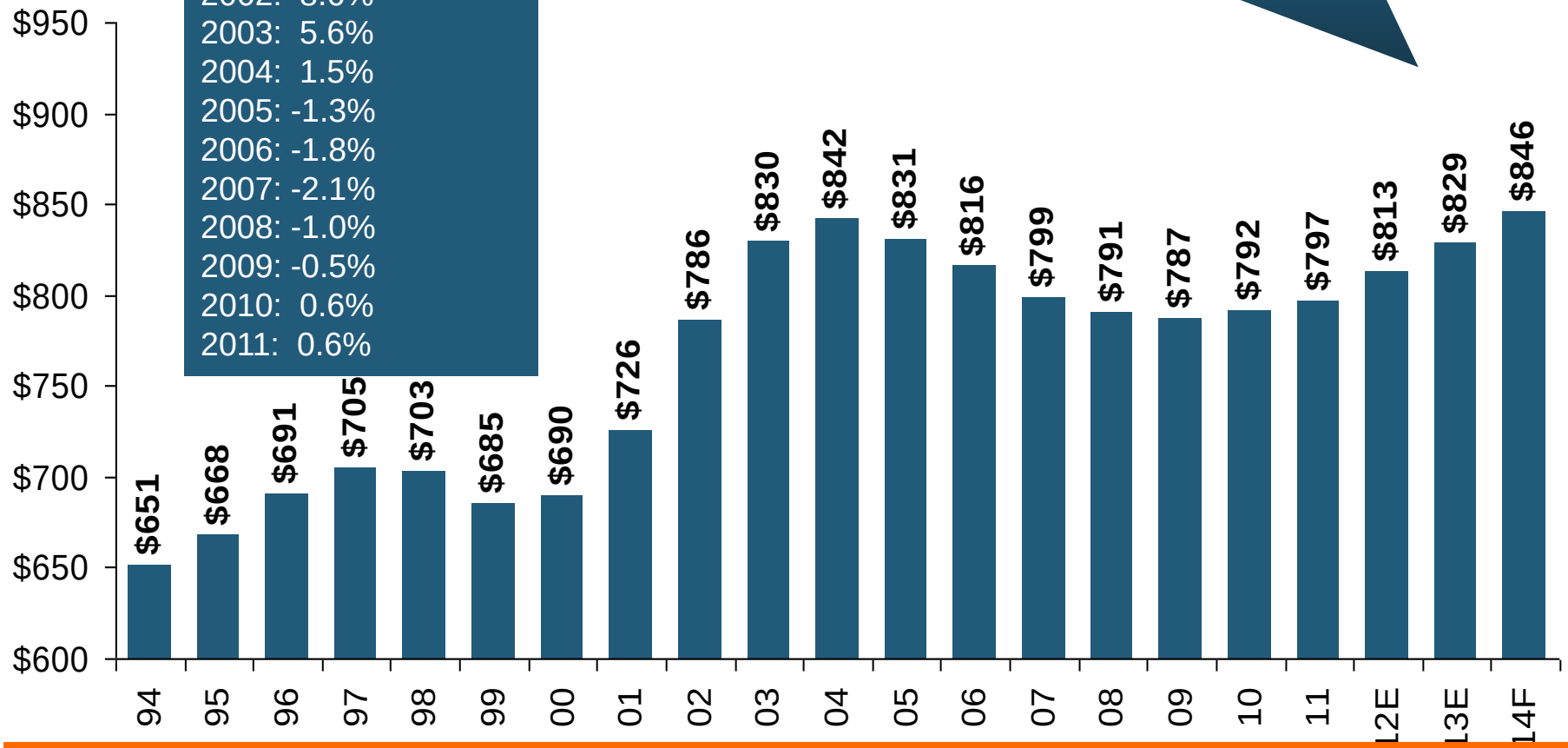
Annual Pct Changes
2001: 5.2%
2002: 8.6%
2003: 5.6%
2004: 1.5%
2005: -1.3%
2006: -1.8%
2007: -2.1%
2008: -1.0%
2009: -0.5%
2010: 0.6%
2011: 0.6%

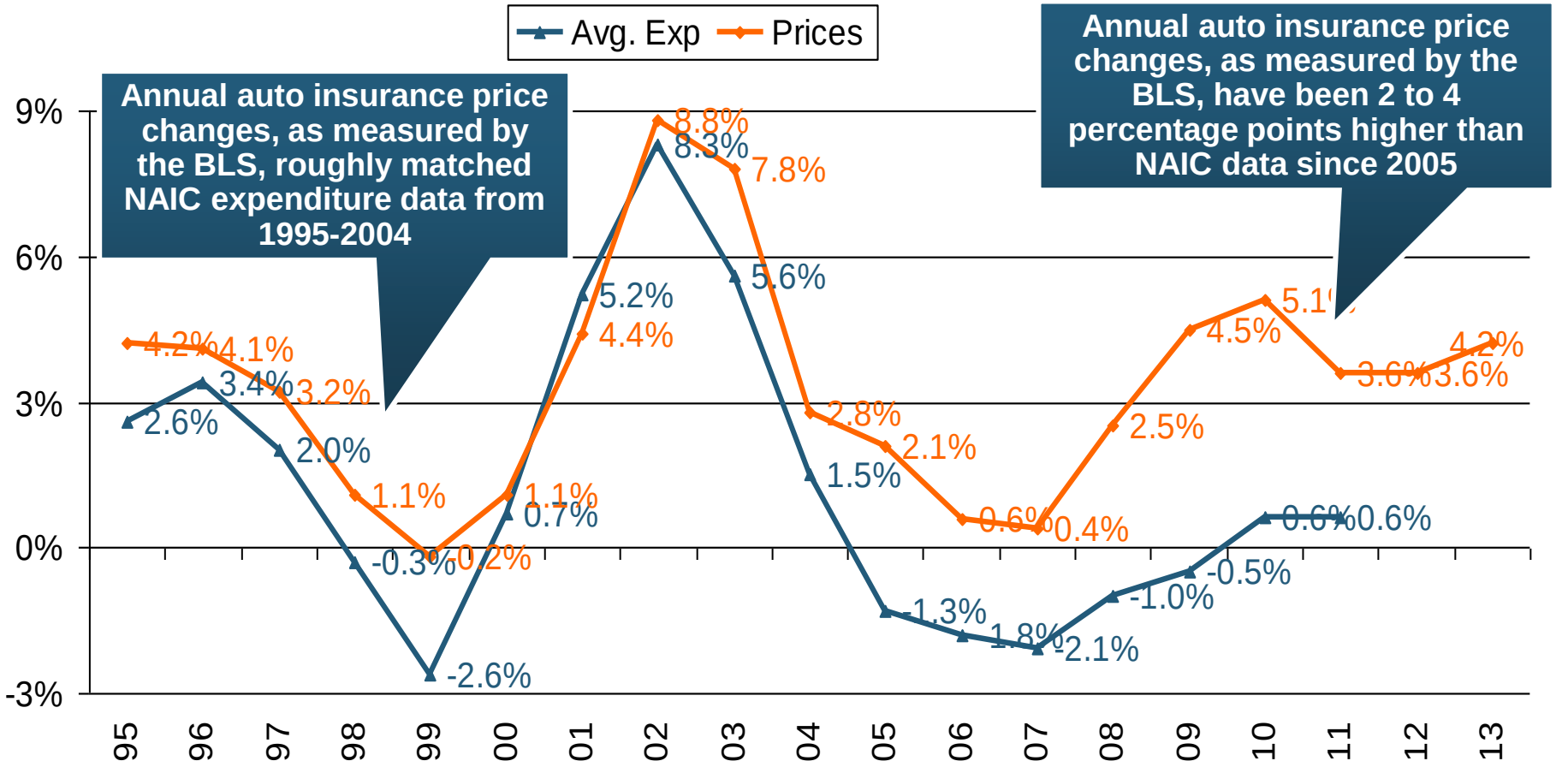
The average expenditure on auto insurance is lower today than it was in 2004



Across the U.S., auto insurance expenditures fell by 0.8% in 2008 and 0.5% in 2009 but rose 0.5% in 2010 and 0.8% in 2011. I.I.I. estimates for 2012-2014 are each +2.0%.

* The NAIC data are per-vehicle (actually, per car-year)
Sources: NAIC for 1994-2011; Insurance Information Institute estimates for 2012-2014 based on CPI and other data.

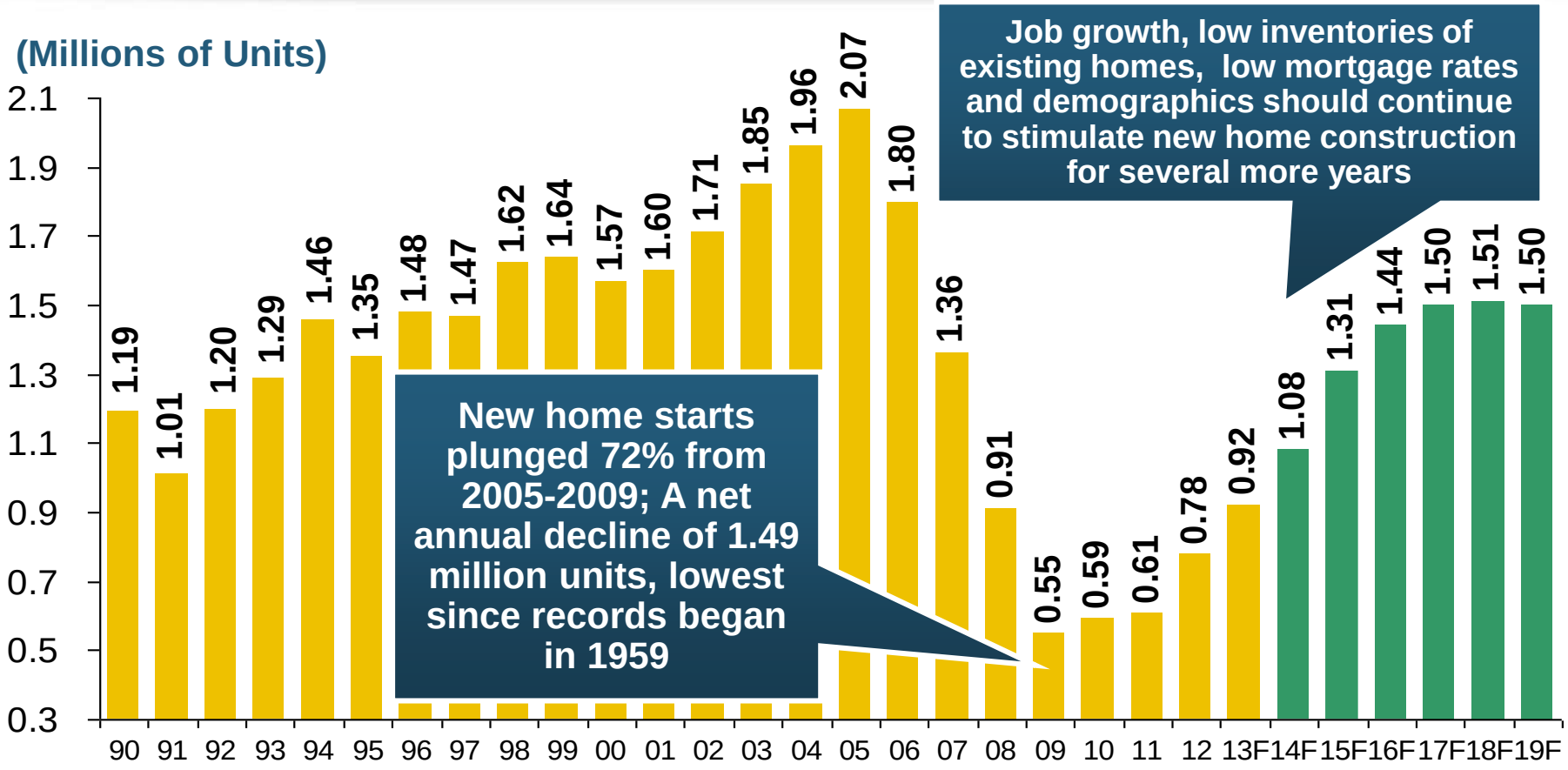
Annual Pct. Change in Avg. Expenditures on Auto Insurance, vs. Auto Insurance Prices, 1995-2011



The gap since 2005 between price changes and expenditures on auto insurance might be due to buyers increasing deductibles, obtaining discounts, and other premium-reducing behavior.

Sources: NAIC for 1994-2011; BLS for auto price changes; I.I.I.

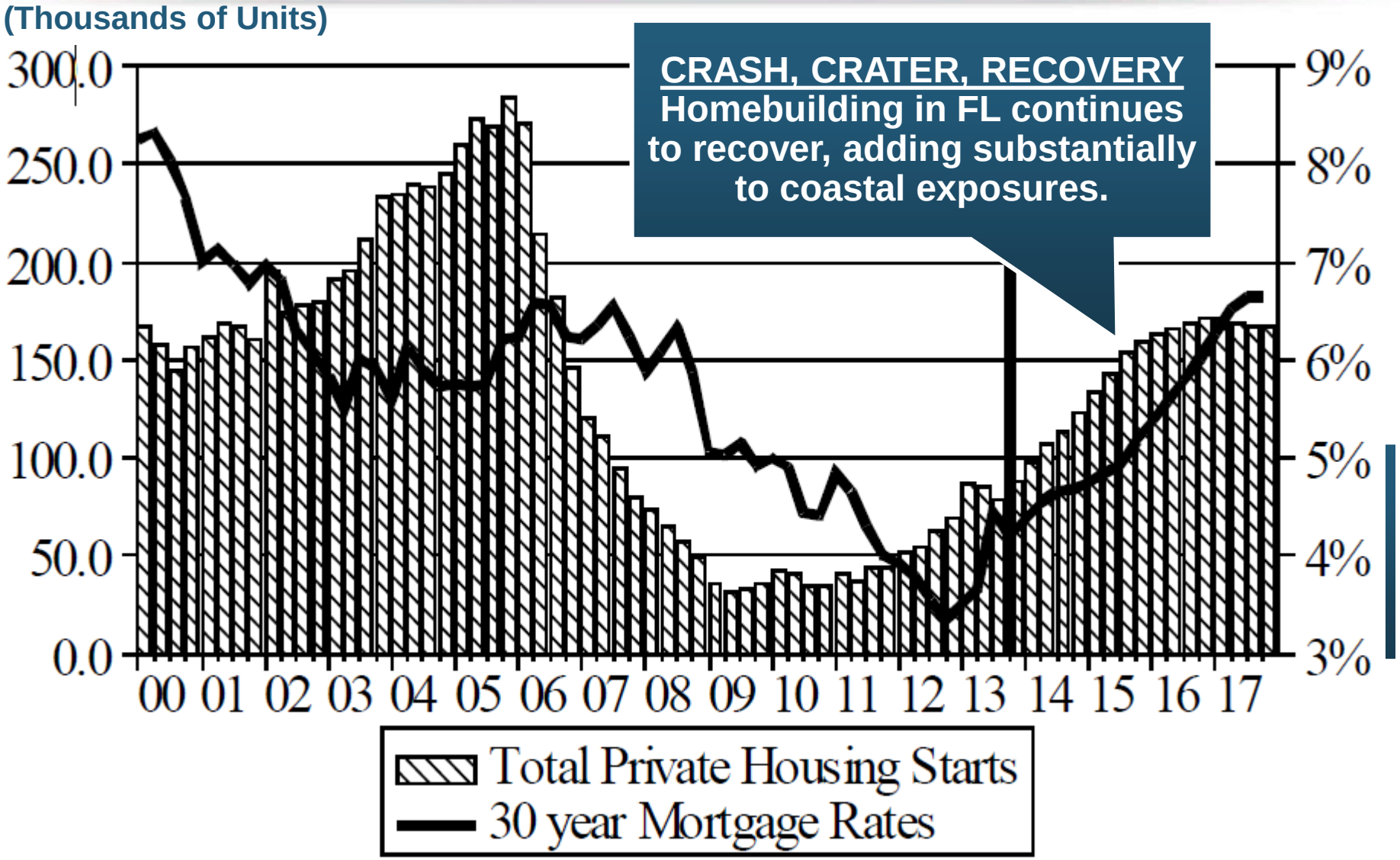
New Private Housing Starts, 1990-2019F



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

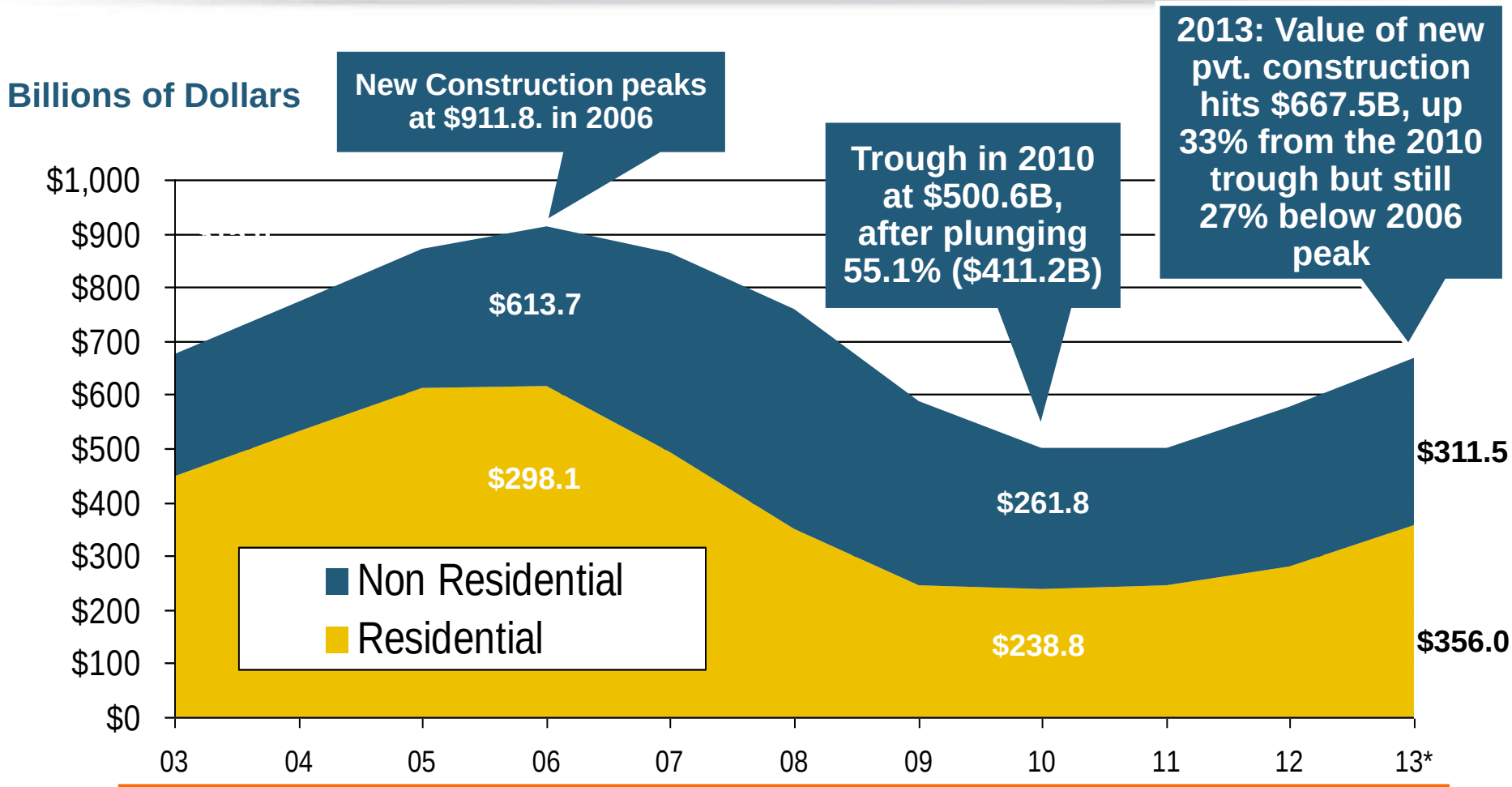
Source: U.S. Department of Commerce; Blue Chip Economic Indicators (4/14 and 3/13); Insurance Information Institute.

Florida Total Private Housing Starts, 2000 – 2017F



Source: University of Central Florida Institute for Economic Competitiveness: http://iec.ucf.edu/post/2014/01/07/Florida-Metro-Forecast-December-2013.aspx

Value of New Private Construction: Residential & Nonresidential, 2003-2013*

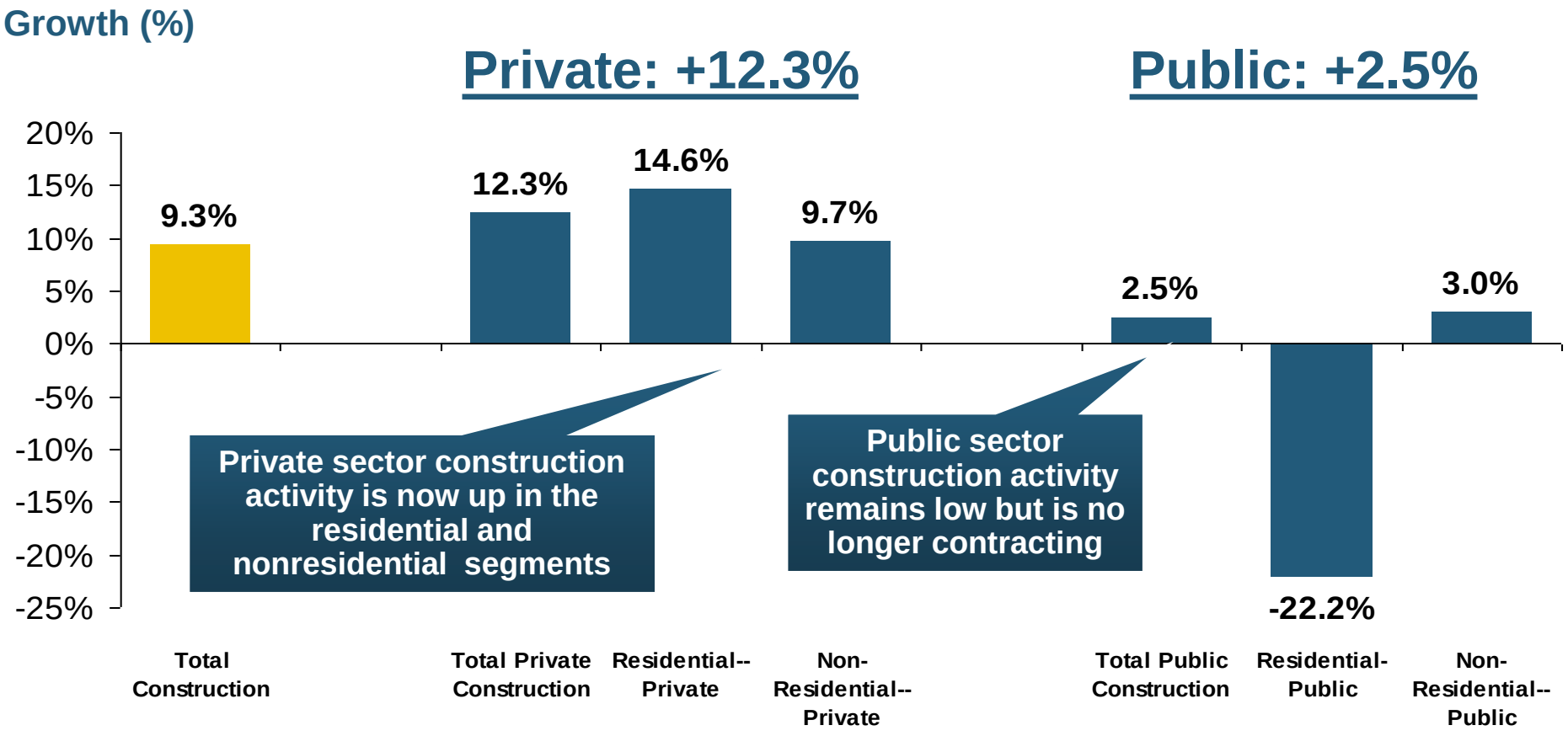


Private Construction Activity Is Moving in a Positive Direction though Remains Well Below Pre-Crisis Peak; Residential Dominates

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

Sources: US Department of Commerce; Insurance Information Institute.

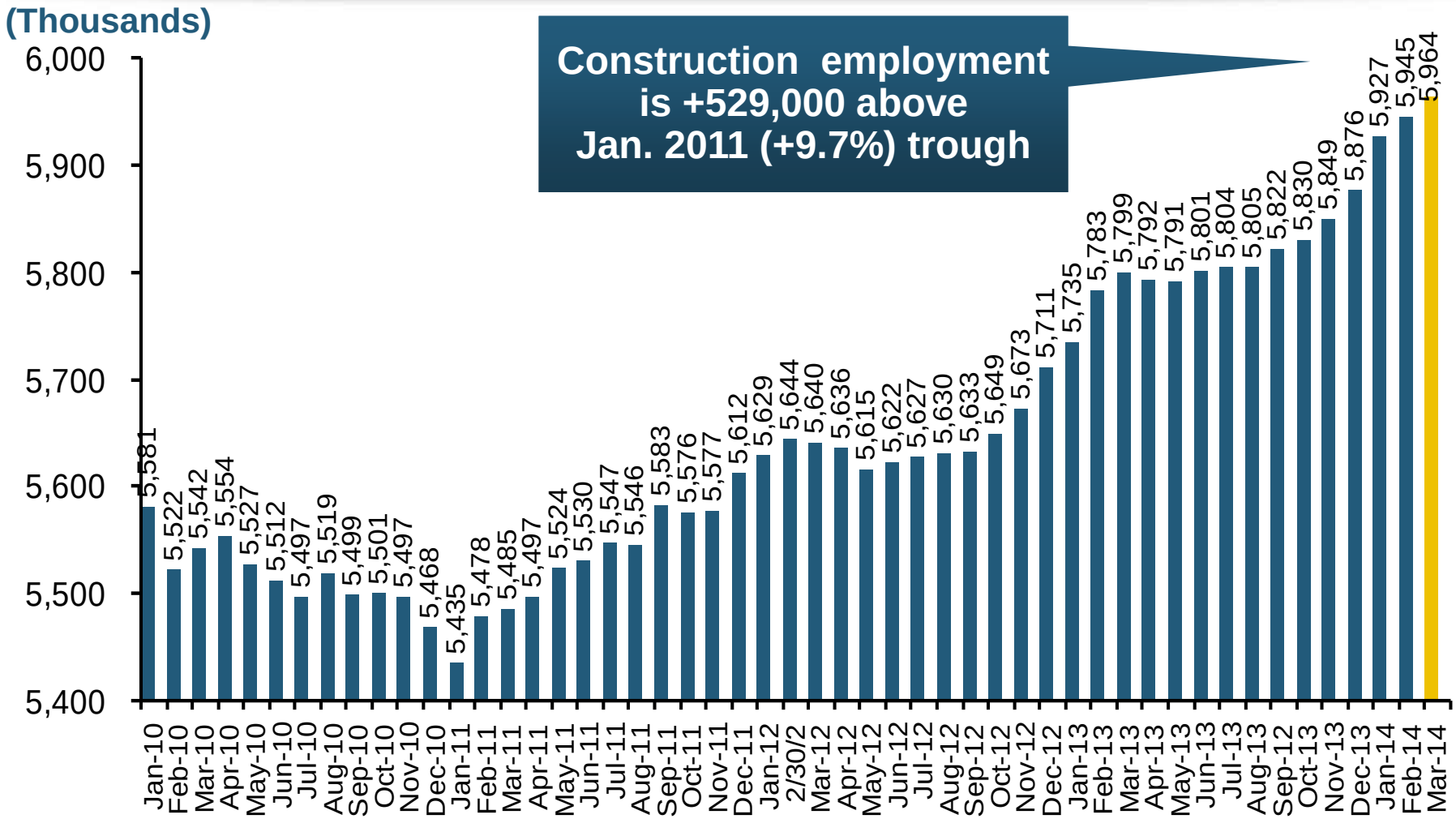
Value of Construction Put in Place, January 2014 vs. January 2013*



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

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

Construction Employment, Jan. 2010—March 2014*

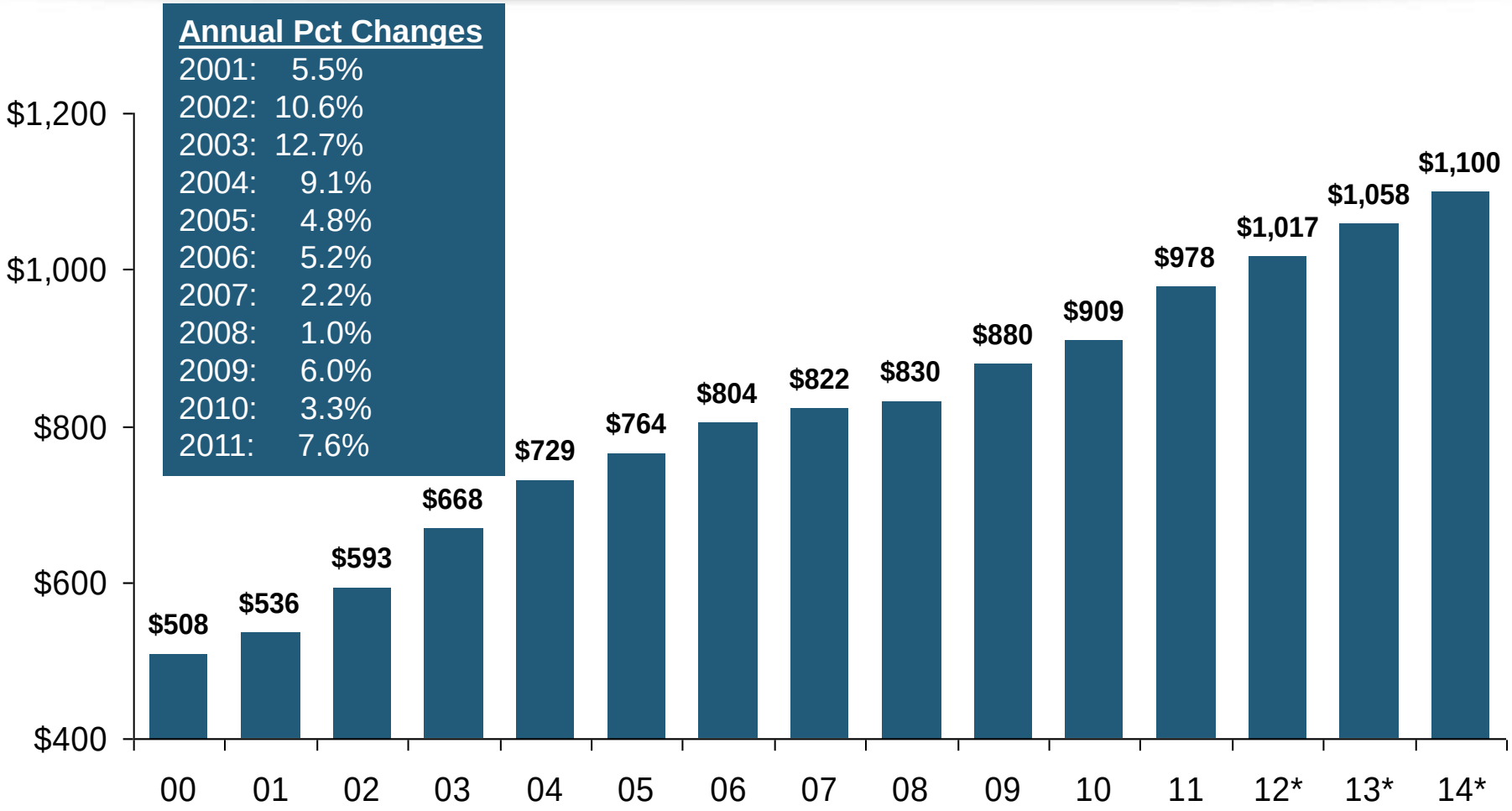


Construction and manufacturing employment constitute 1/3 of all payroll exposure.

*Seasonally adjusted.

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

Average Premium for Home Insurance Policies**



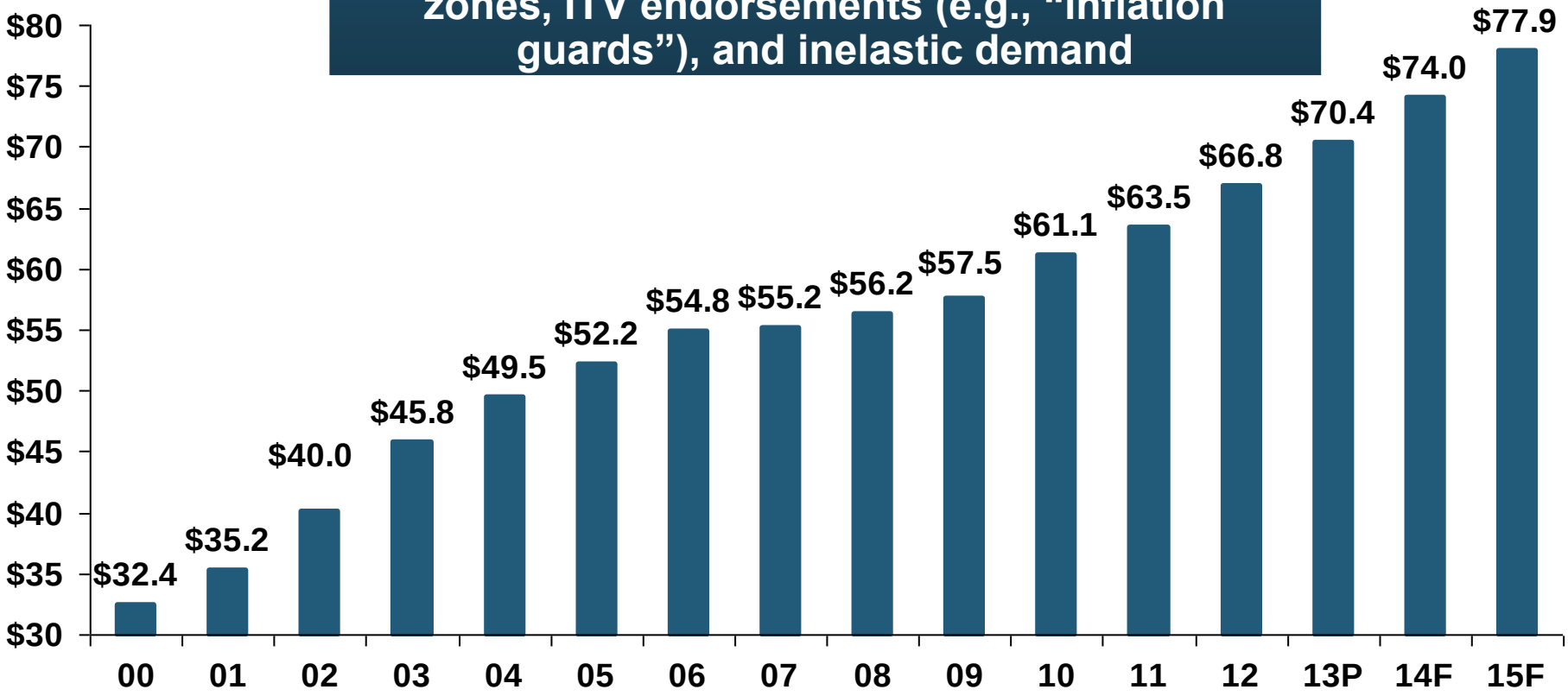
Across the U.S., home insurance expenditures rose by an estimated 4.0% in 2012-2014

* Insurance Information Institute Estimates/Forecasts **Excludes state-run insurers.
Sources: NAIC; Insurance Information Institute estimates for 2012-2014 based on CPI data and other data.

Homeowners Insurance Net Written Premium, 2000–2015F

$ Billions

Homeowners insurance NWP continues to rise (up 128% 2000-2013) despite very little unit growth during the real estate crash. Reasons include rate increases, especially in coastal zones, ITV endorsements (e.g., "inflation guards"), and inelastic demand

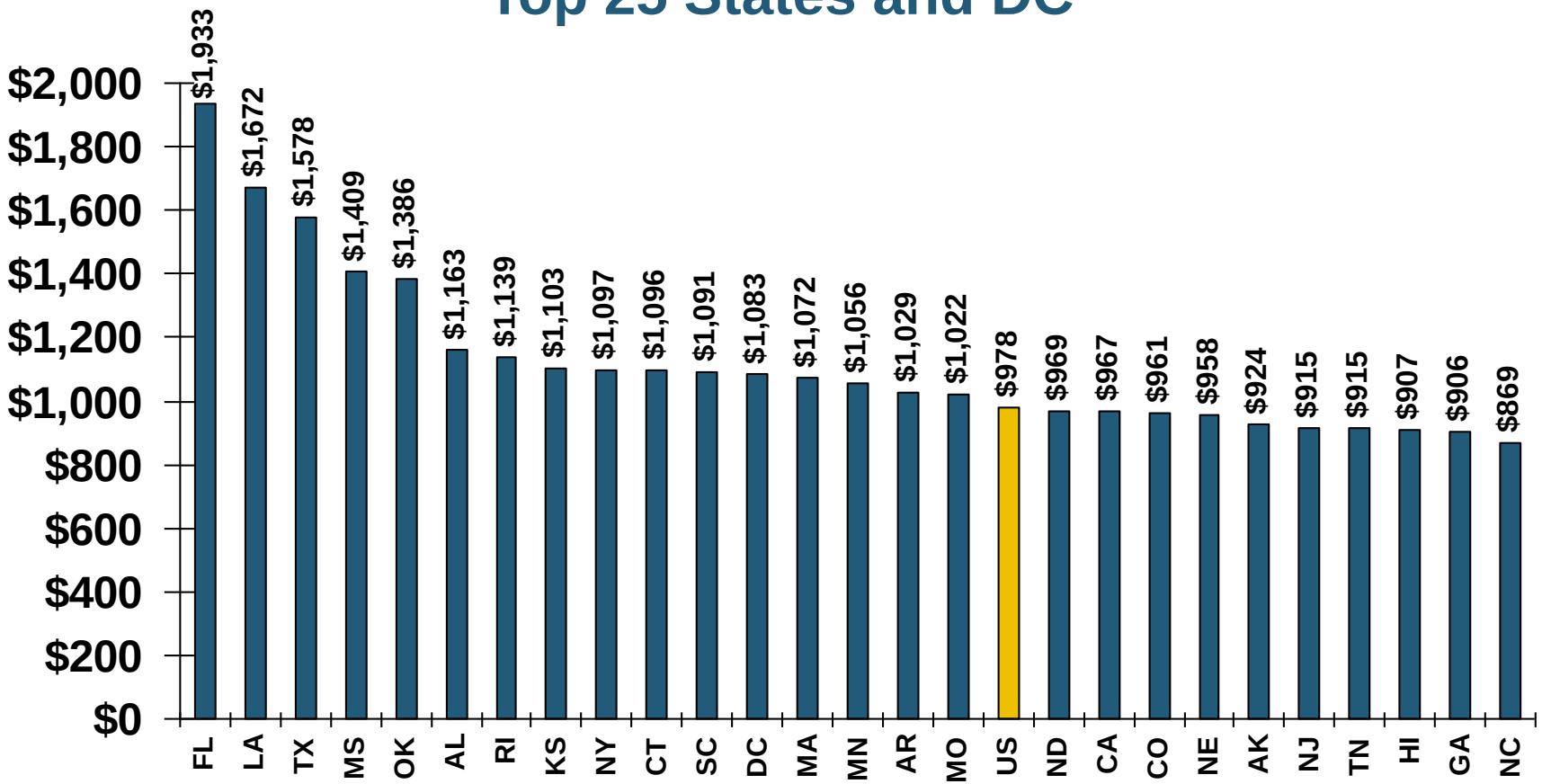


Sources: A.M. Best; Insurance Information Institute.

Average Premiums For Home Insurance By State, 2011* (1)

INSURANCE INFORMATION INSTITUTE

Top 25 States and DC



*Latest available.

(1) 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.

Note: Average premium=Premiums/exposure per house years. A house year is equal to 365 days insured coverage for a single dwelling.

Source: NAIC; Insurance Information Institute.

Average Premiums For Home Insurance By State, 2011* (1)

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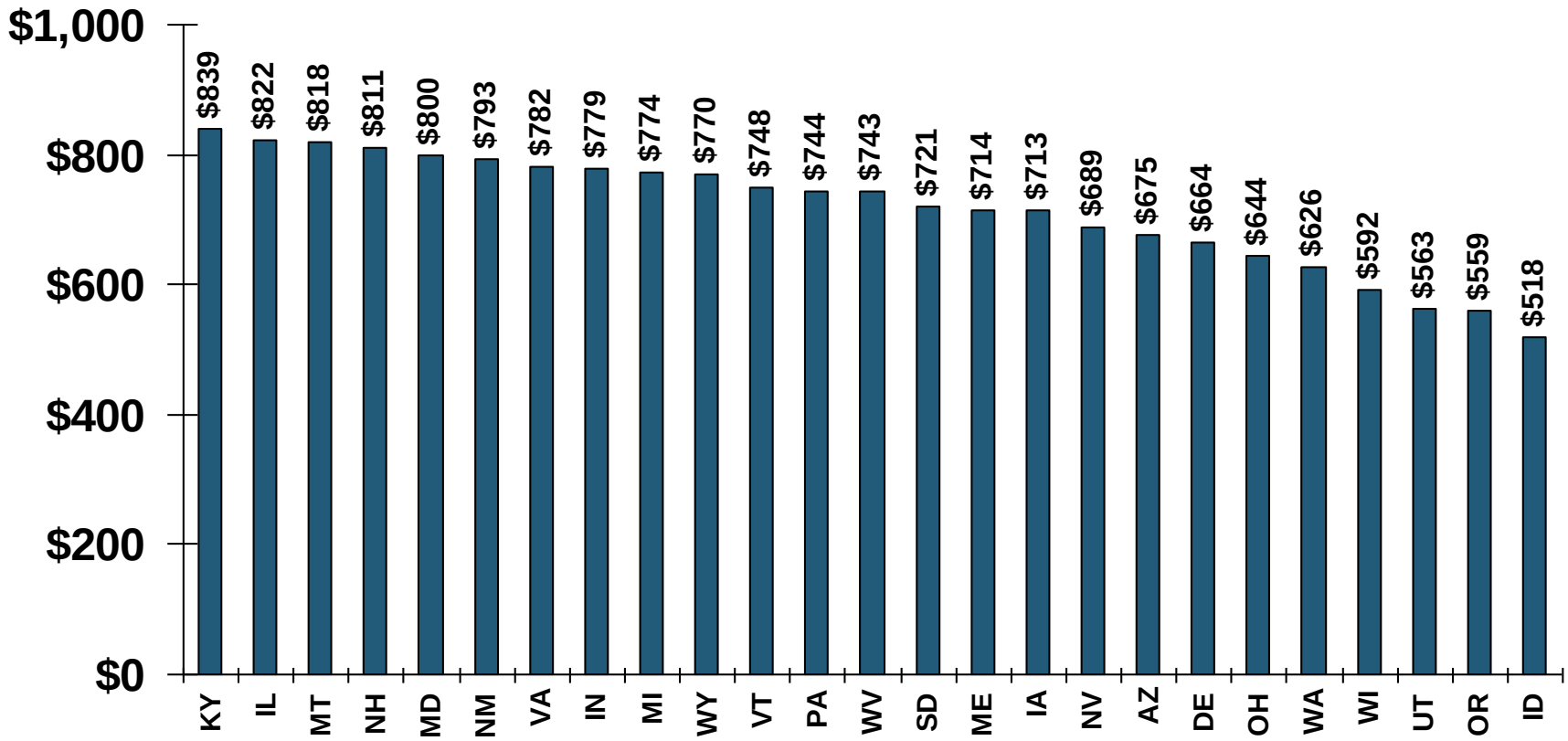
Bottom 25 States



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Estimated Median Rate For Home Insurance By State, 2011* (1)

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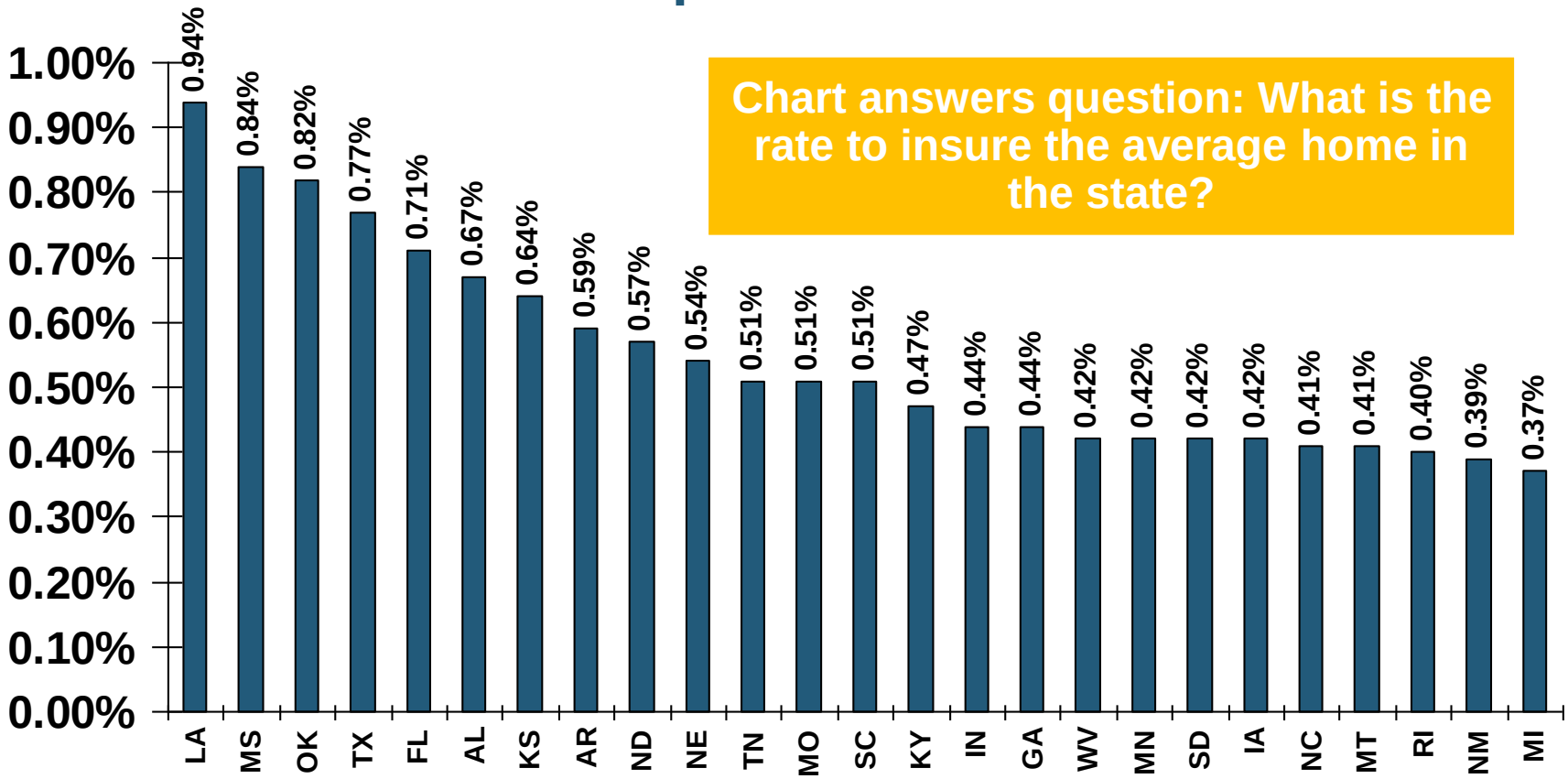
Top 25 States



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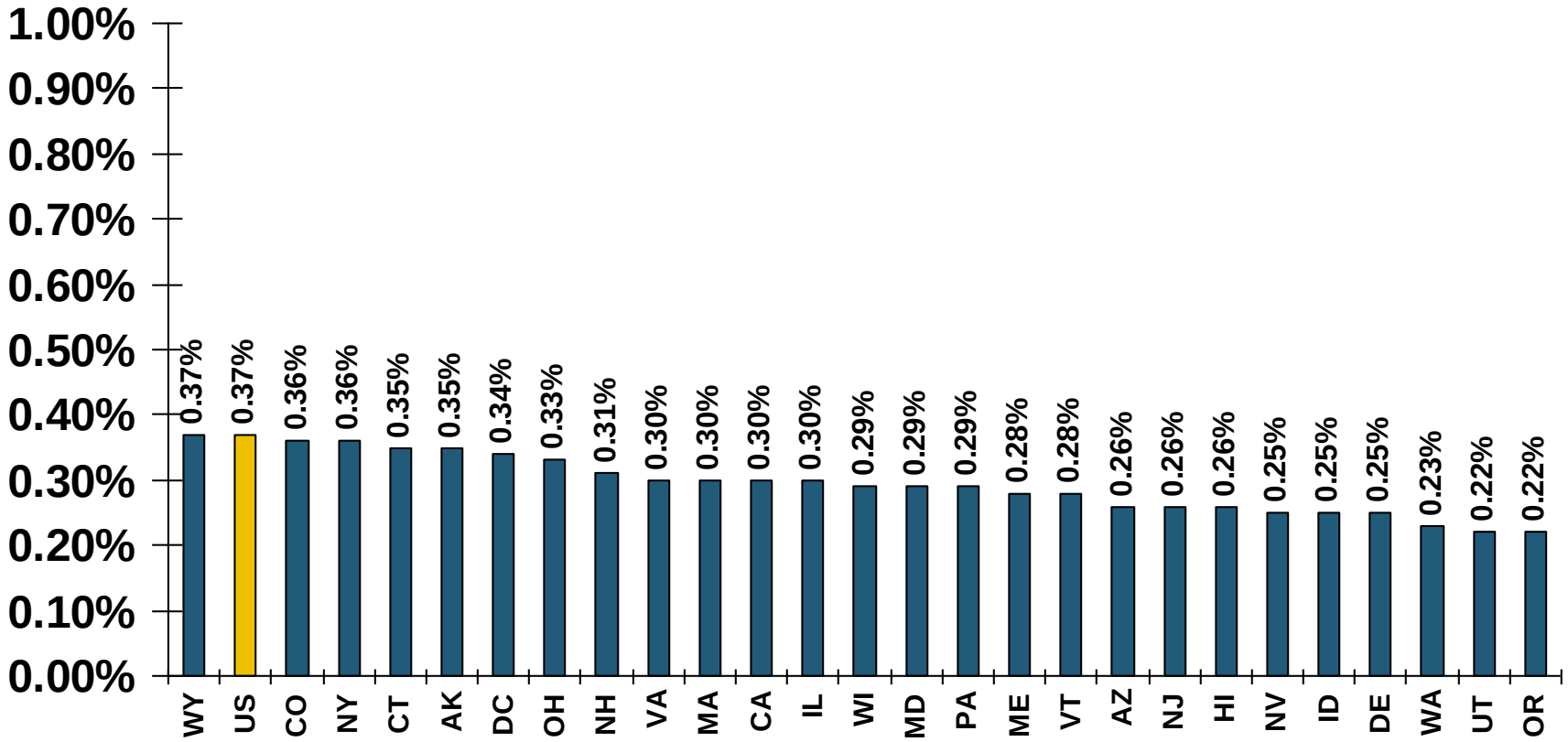
Note: Estimated median = average premium in median insurance range/estimated average insurance value in that range.

Source: Insurance Information Institute estimate from NAIC data.

Estimated Median Rate For Home Insurance By State, 2011* (1)

Bottom 25 States and DC



*Latest available.

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Note: Estimated median = average premium in median insurance range/estimated average insurance value in that range.

Source: Insurance Information Institute estimate from NAIC data.

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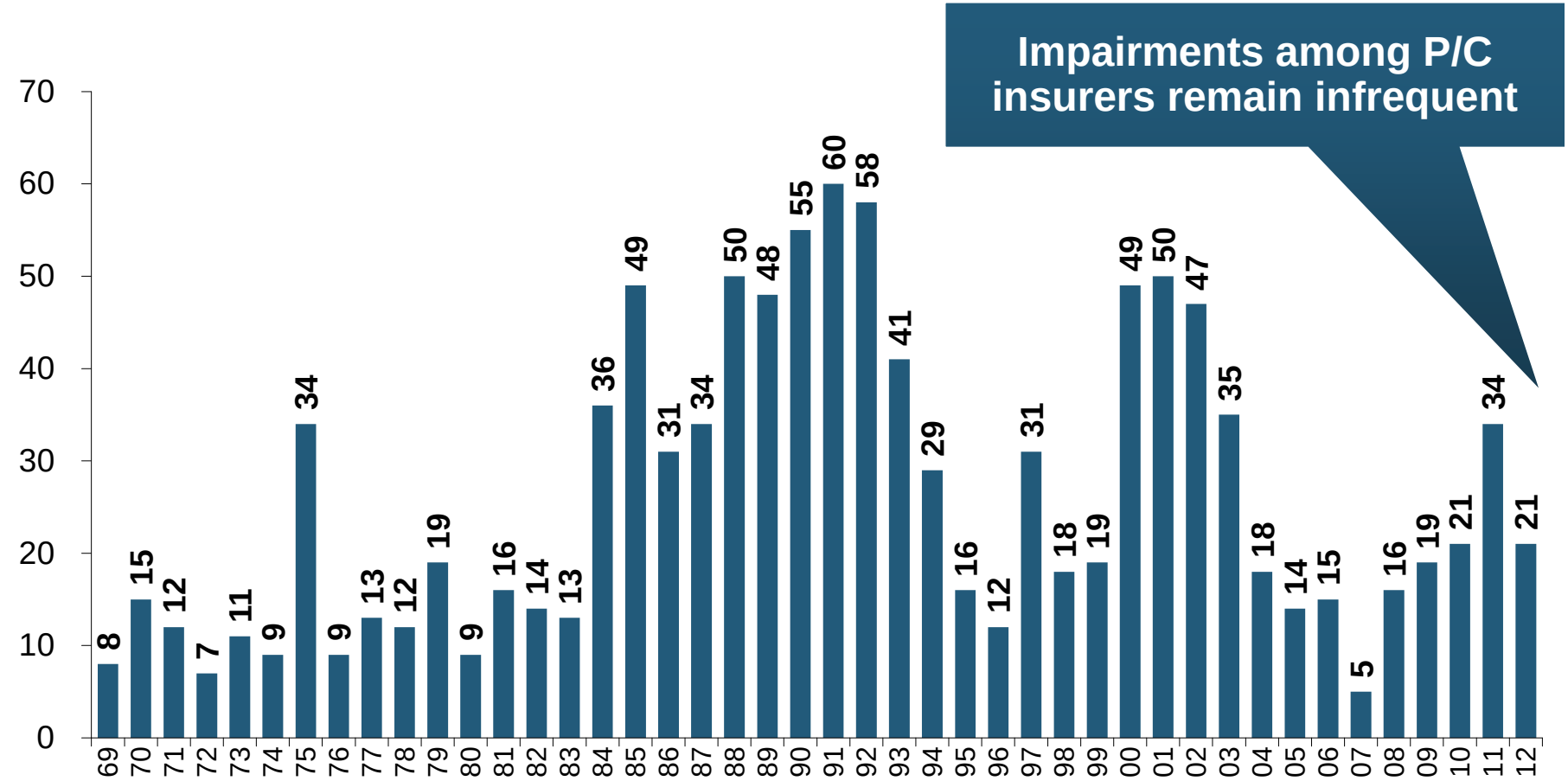
Financial Strength & Underwriting

Cyclical Pattern is P-C Impairment History is More Closely Tied to Underwriting, Reserving & Pricing than to Catastrophe Activity

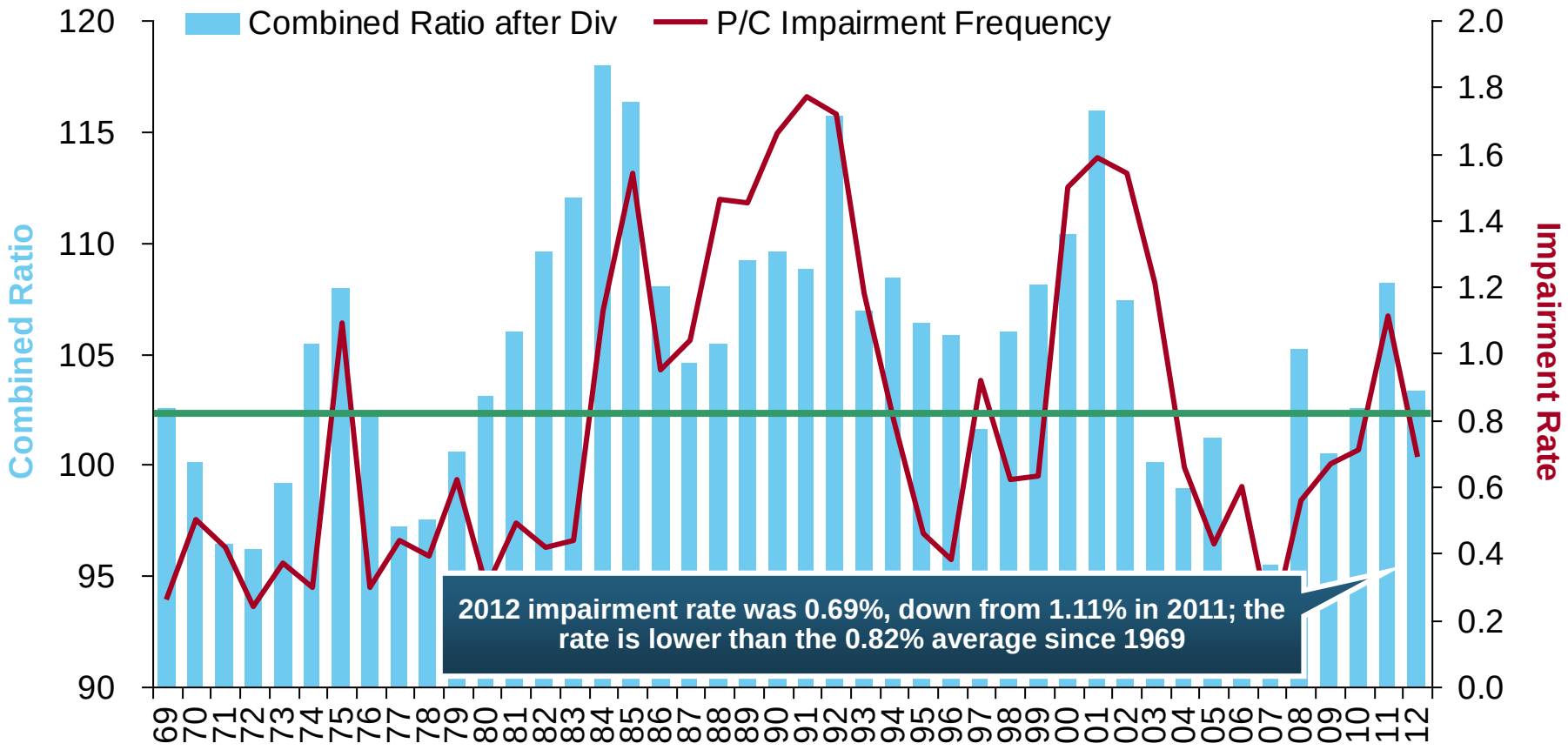
P/C Insurer Impairments, 1969–2012



The Number of Impairments Varies Significantly Over the P/C Insurance Cycle, With Peaks Occurring Well into Hard Markets

Source: A.M. Best Special Report "Pace of P/C Impairments Slowed in 2012; Auto Writers, RRGs Continued to Struggle," June 2013; Insurance Information Institute.

P/C Insurer Impairment Frequency vs. Combined Ratio, 1969-2012

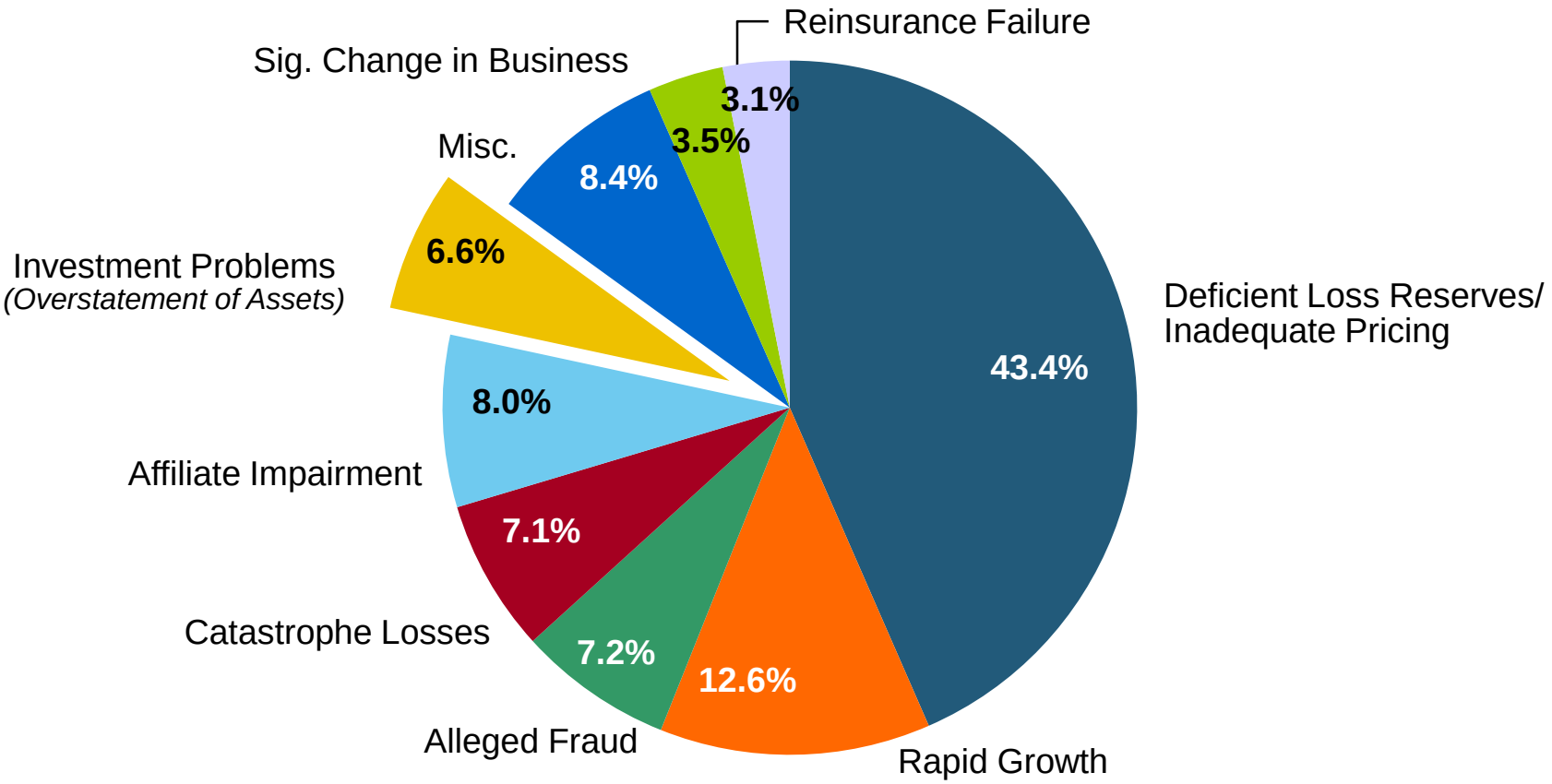


Impairment Rates Are Highly Correlated With Underwriting Performance and Reached Record Lows in 2007; Recent Increase Was Associated Primarily With Mortgage and Financial Guaranty Insurers and Not Representative of the Industry Overall

Source: A.M. Best; Insurance Information Institute

Reasons for US P/C Insurer Impairments, 1969–2012

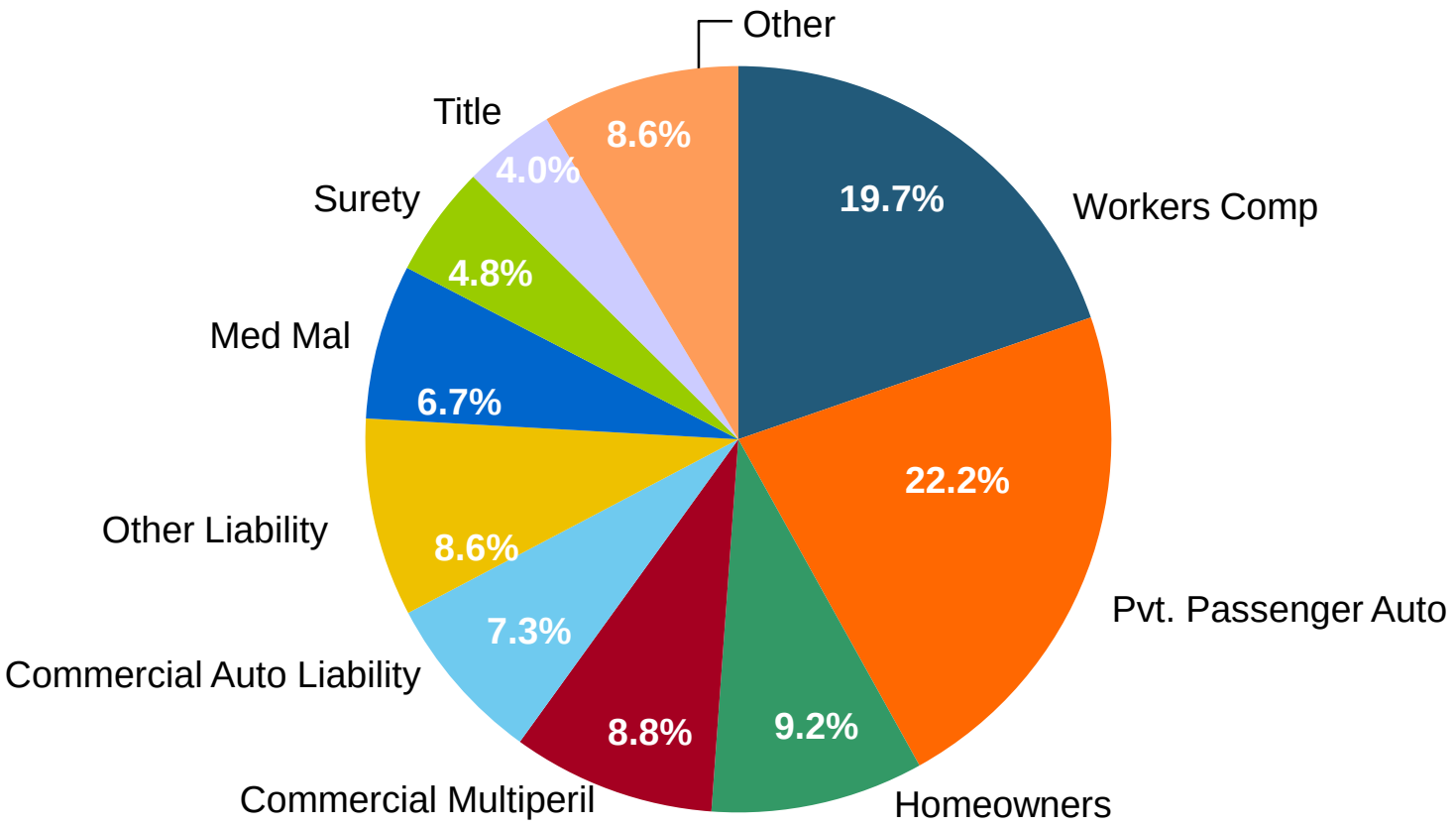
Historically, Deficient Loss Reserves and Inadequate Pricing Are By Far the Leading Cause of P-C Insurer Impairments. Investment and Catastrophe Losses Play a Much Smaller Role



Source: A.M. Best Special Report "Pace of P/C Impairments Slowed in 2012; Auto Writers, RRGs Continued to Struggle," June 2013; Insurance Information Institute.

Top 10 Lines of Business for US P/C Impaired Insurers, 2000–2012

Workers Comp and Pvt. Passenger Auto Account for More Than 40 Percent of the Impaired Insurers Since 2000



Source: A.M. Best Special Report "Pace of P/C Impairments Slowed in 2012; Auto Writers, RRGs Continued to Struggle," June 2013; Insurance Information Institute.

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