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# Overview & Outlook for the P/C Insurance Industry for 2014 and Beyond

## *Focus on Texas Insurance Markets*

**Insurance Information Institute**

**April 24, 2014**

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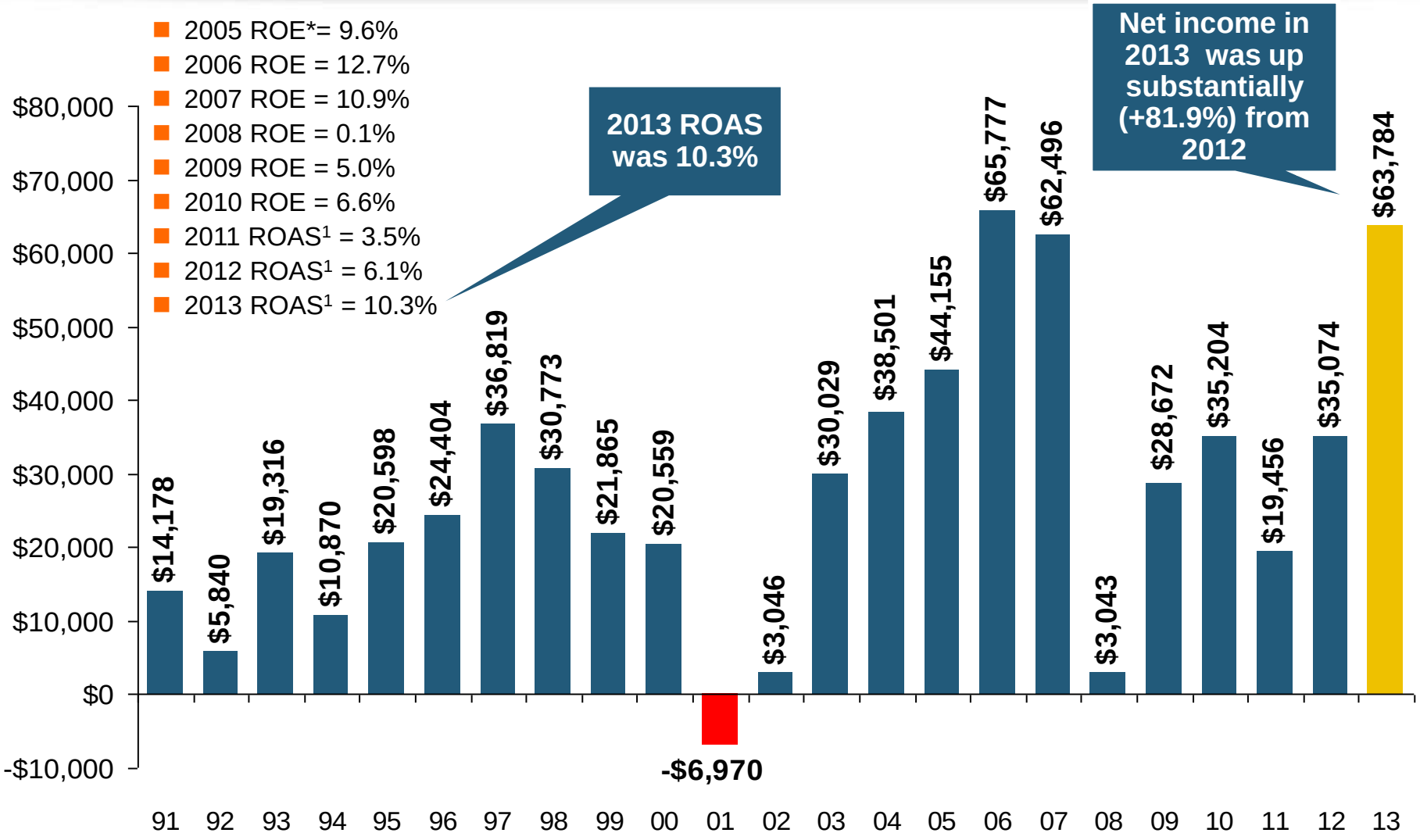
# P/C Insurance Industry Financial Overview

## 2013: Best Year in the Post-Crisis Era

## Performance Improved with Lower CATs, Strong Markets

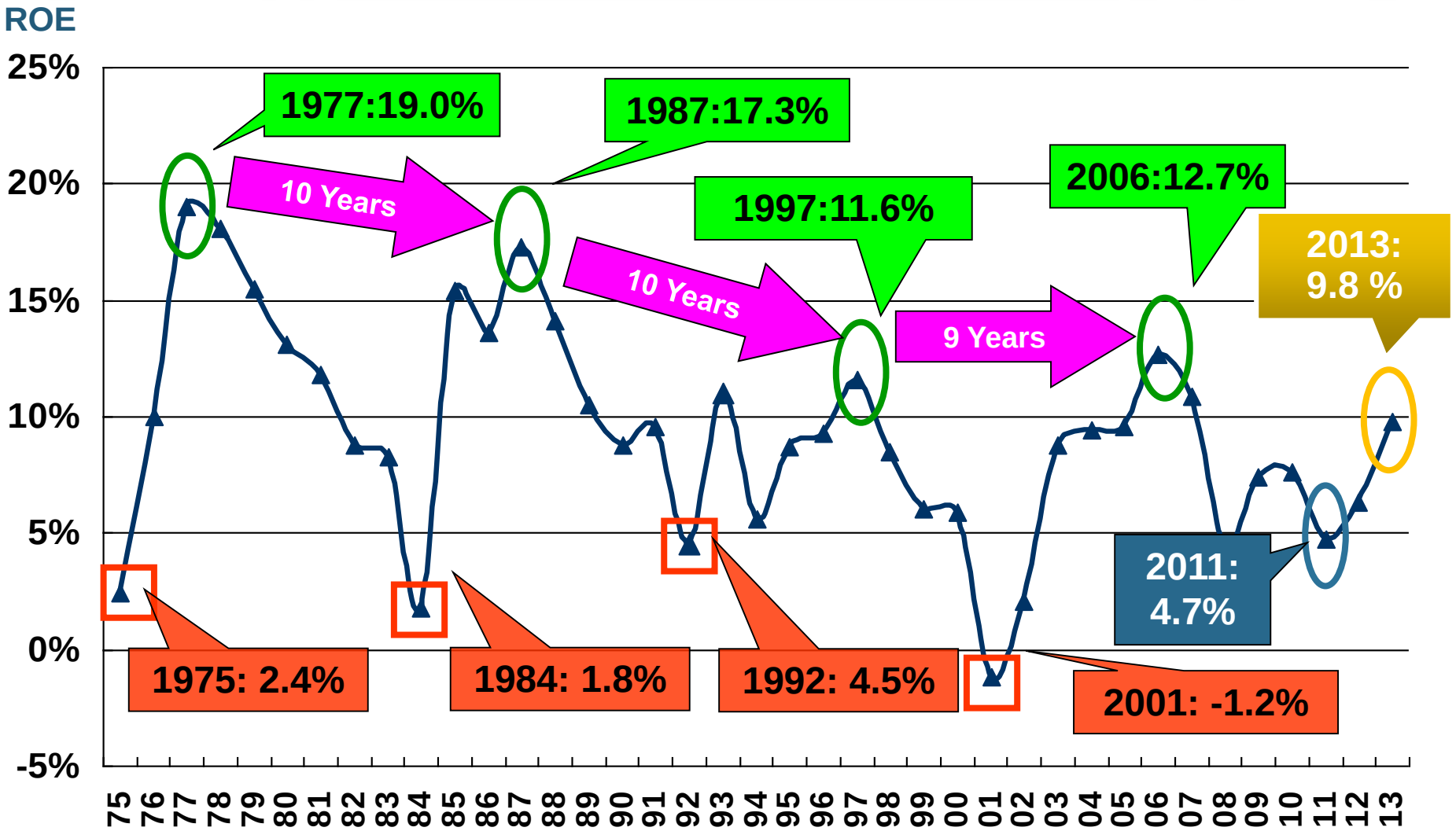
# P/C Net Income After Taxes 1991–2013 ($ Millions)




•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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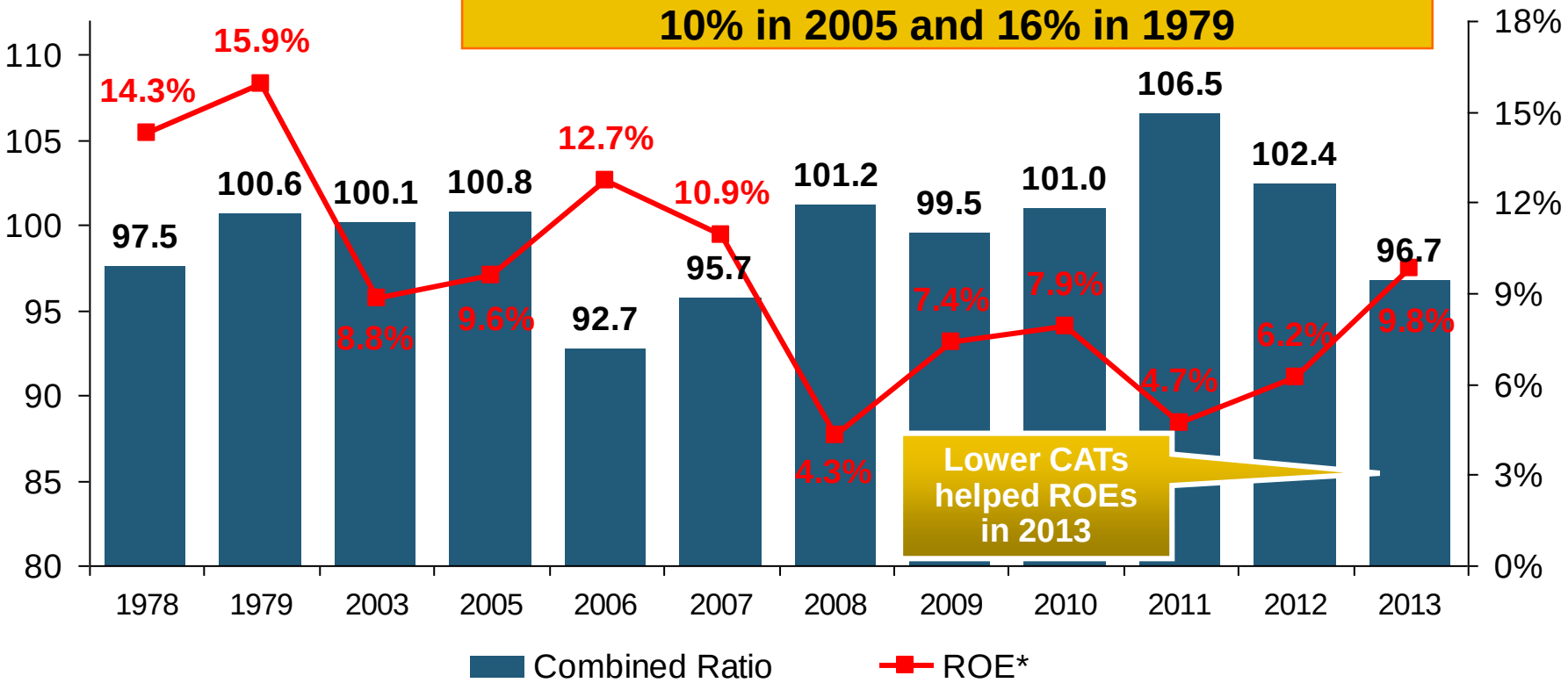
## Combined Ratio / ROE

**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**

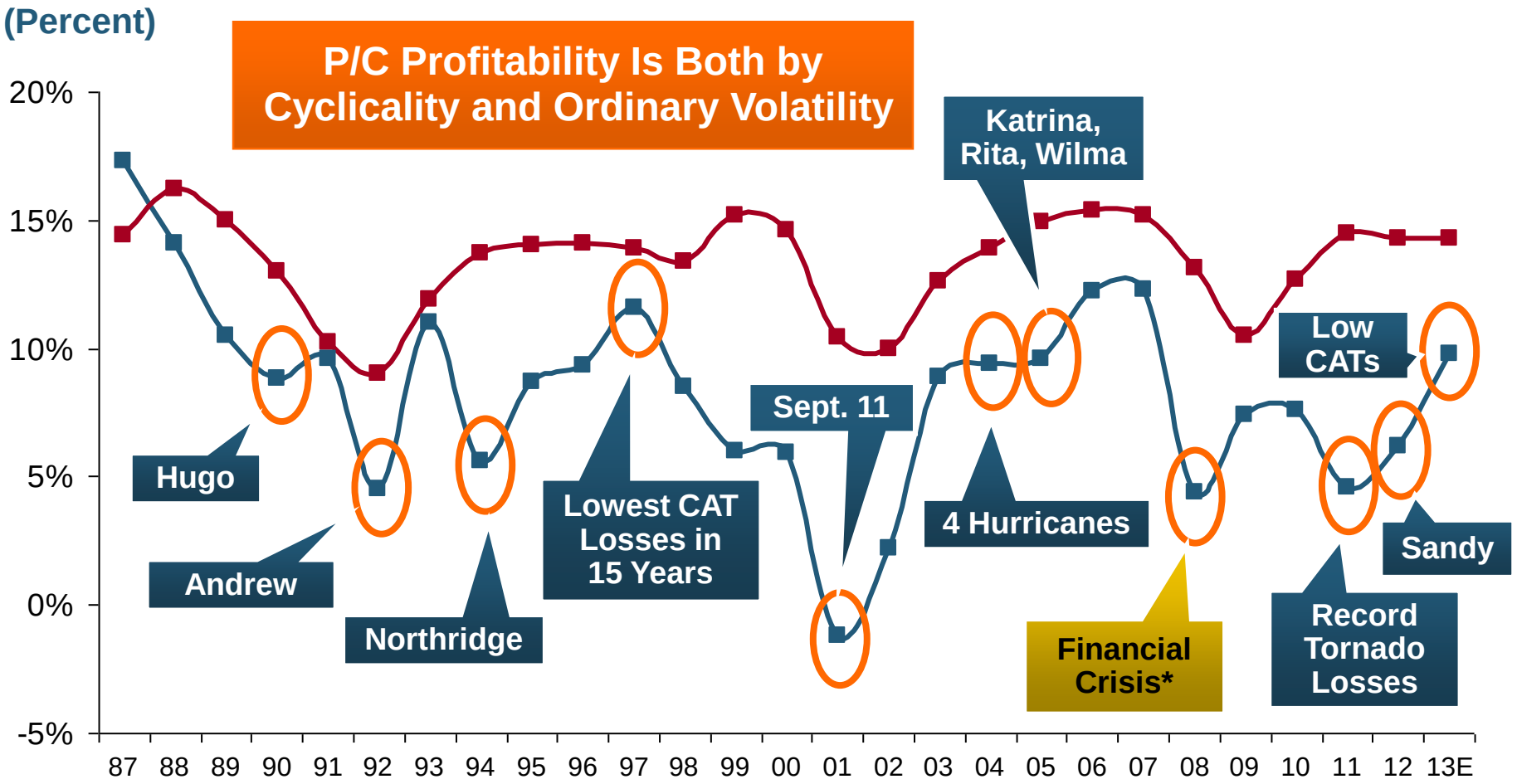



**Combined Ratios Must Be Lower in Today's Depressed Investment Environment to Generate Risk Appropriate ROEs**

* 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%.

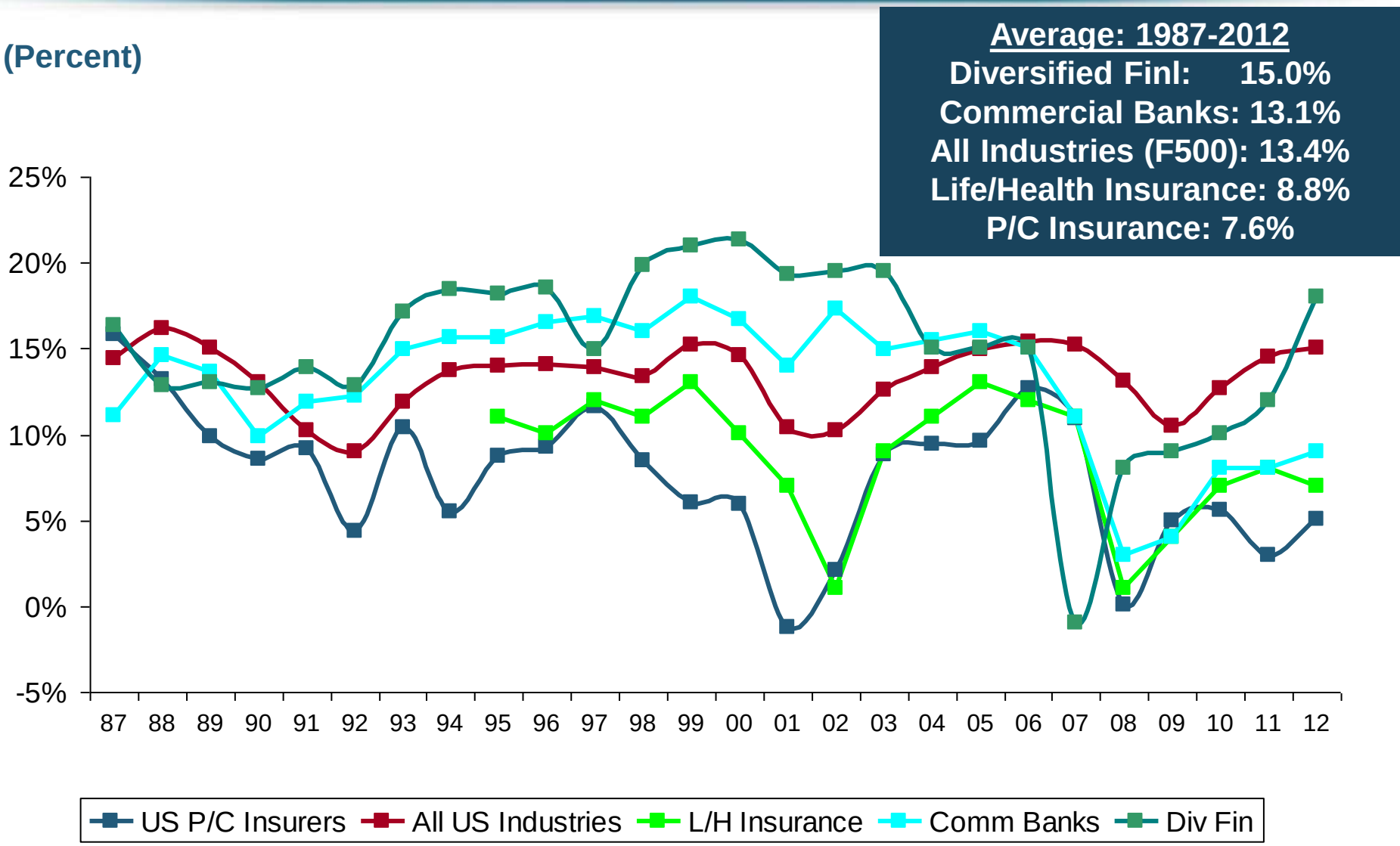
Source: Insurance Information Institute from A.M. Best and ISO Verisk Analytics data.

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



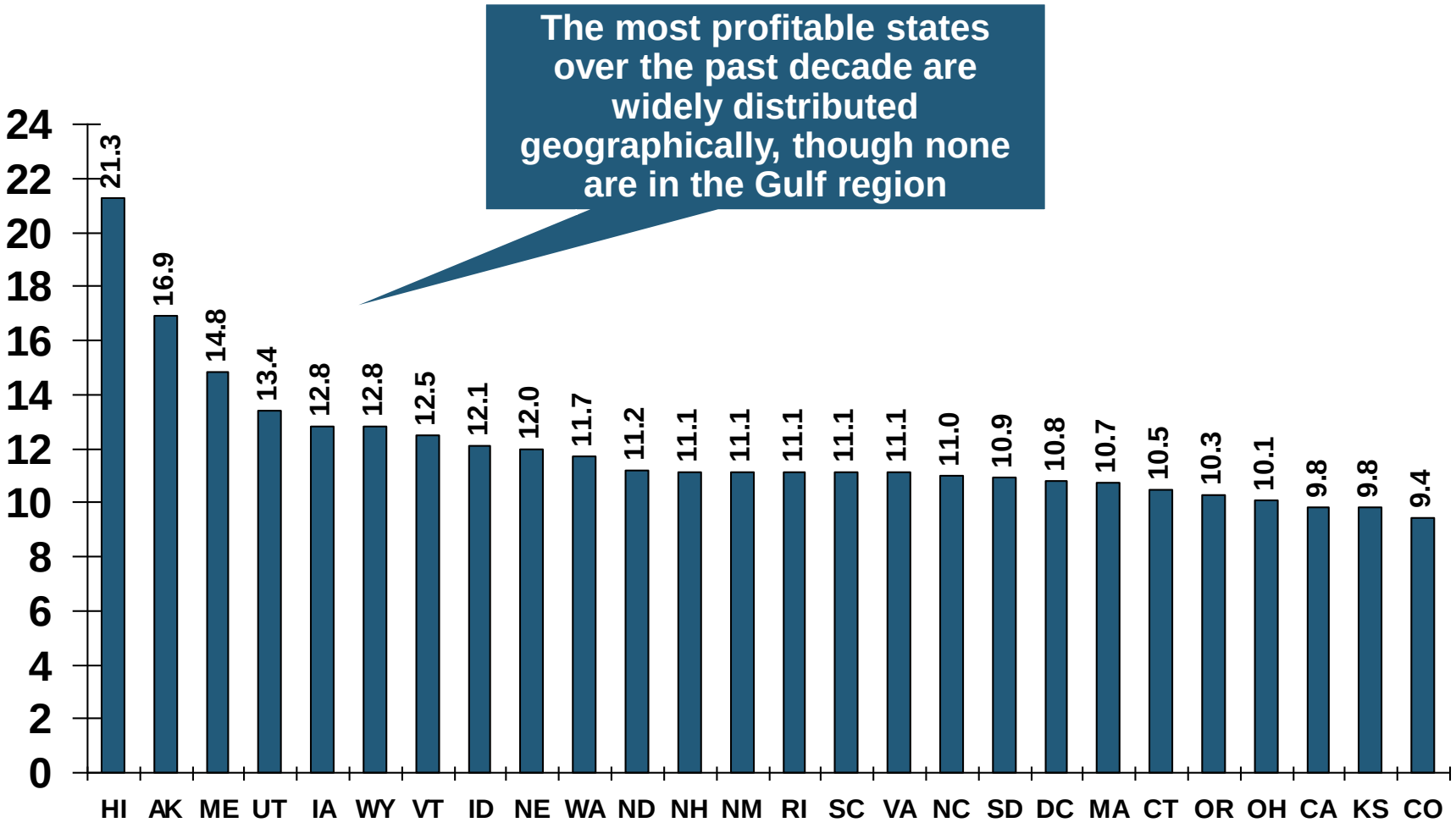

* Excludes Mortgage & Financial Guarantee in 2008 – 2013. 2013 Fortune 500 figure is I.I.I. estimate.
Sources: ISO, *Fortune*; Insurance Information Institute.

# ROE: ROEs by Industry vs. Fortune 500, 1987–2012*



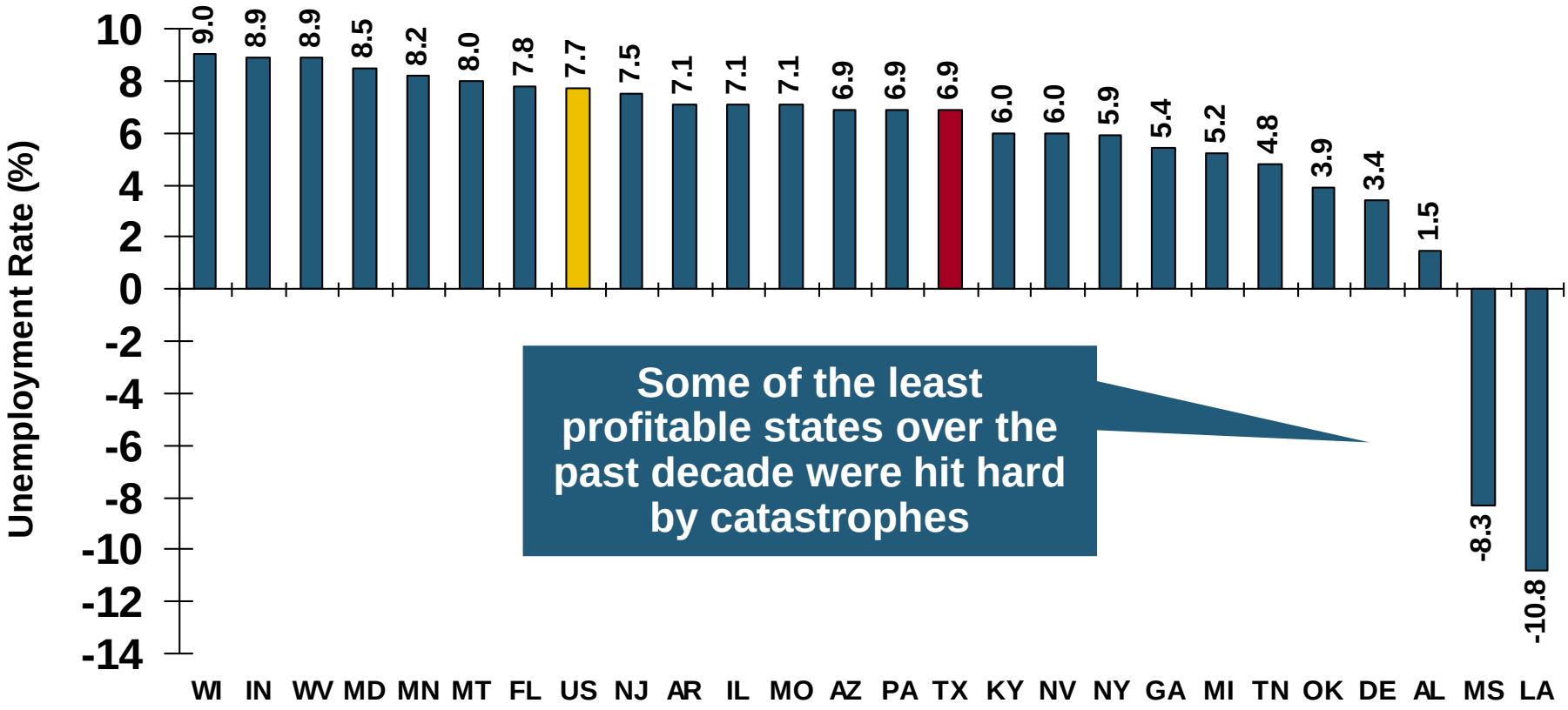

* All figures are GAAP.
Sources: ISO, *Fortune*; Insurance Information Institute.

# RNW All Lines by State, 2002-2011 Average: Highest 25 States



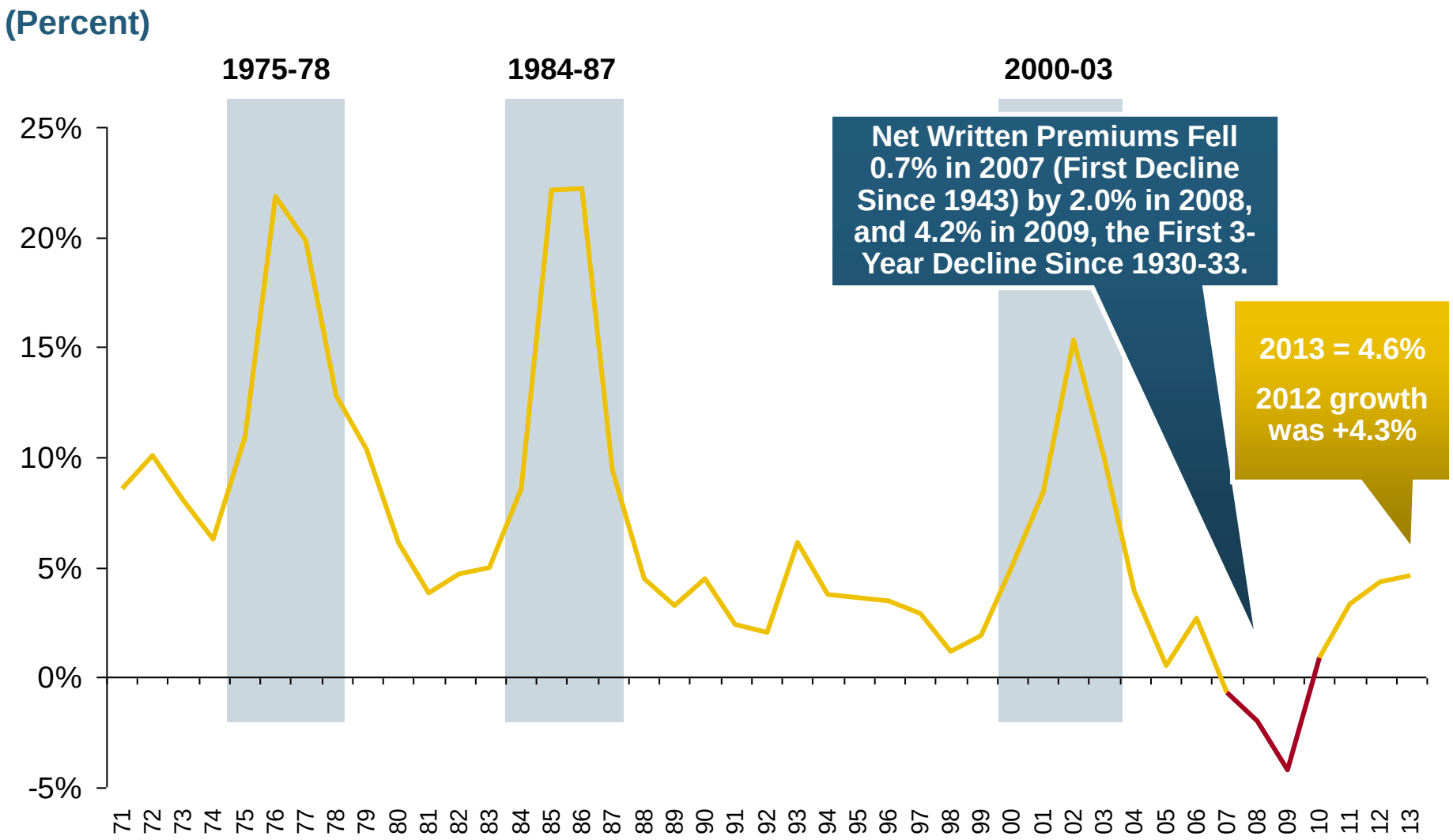

Source: NAIC.

# RNW All Lines by State, 2002-2011 Average: Lowest 25 States




Source: NAIC.

# Net Premium Growth: Annual Change, 1971—2013




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

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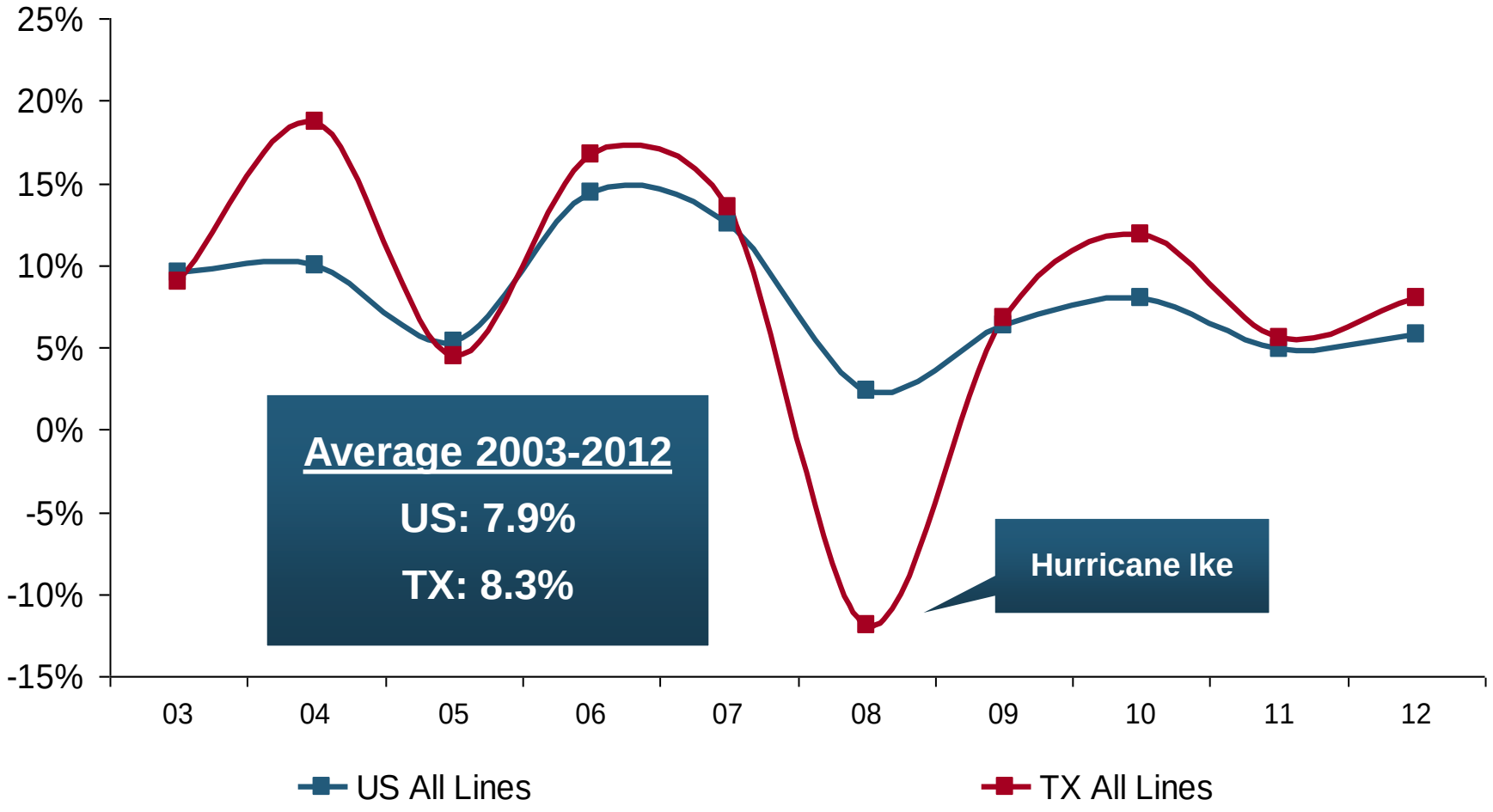
# Profitability and Growth in the Texas P/C Insurance Markets

## Analysis by Line and Nearby State Comparisons

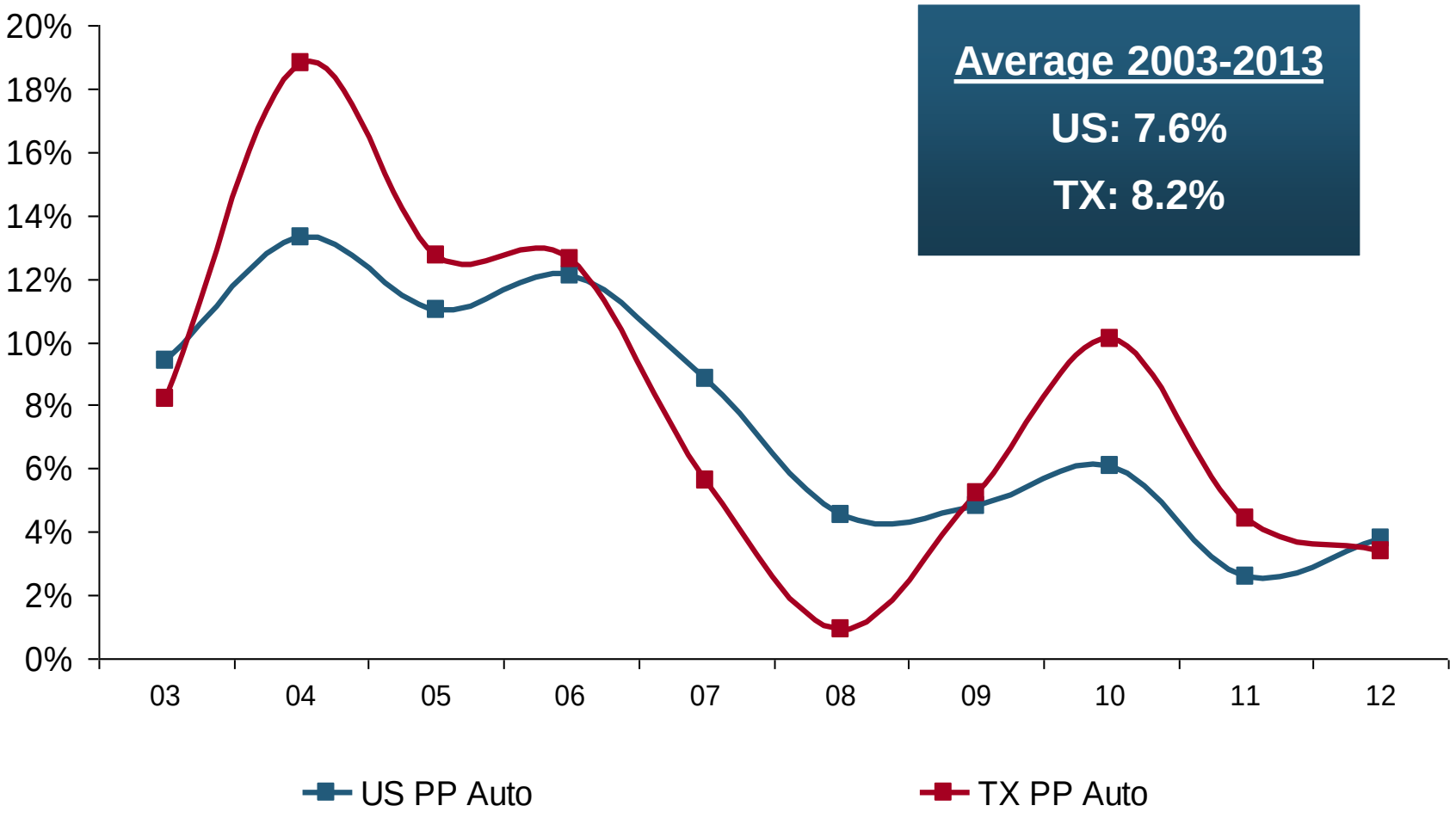
# RNW All Lines: TX vs. U.S., 2003-2012

(Percent)



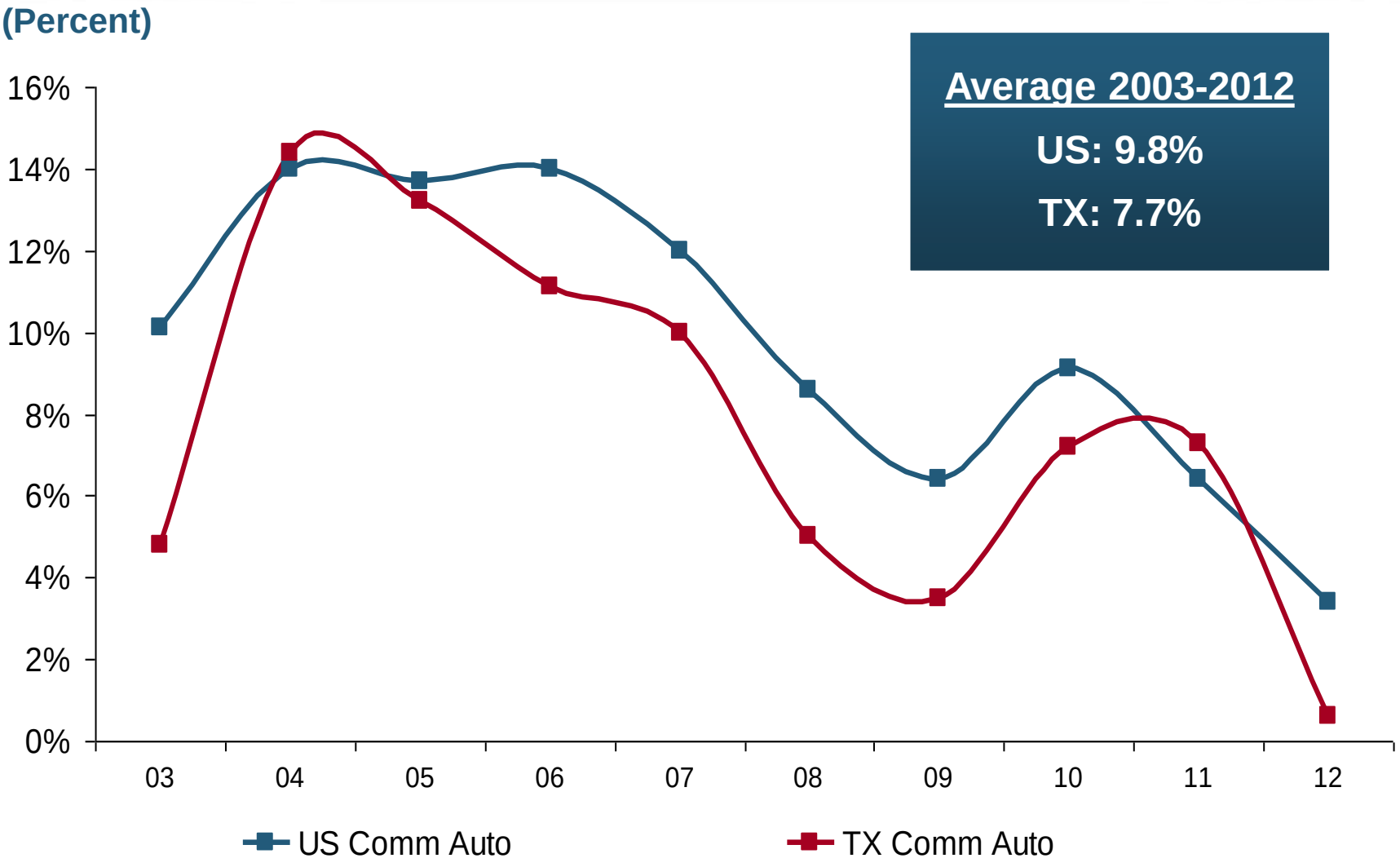

Sources: NAIC.

# RNW PP Auto: TX vs. U.S., 2003-2013




Sources: NAIC.

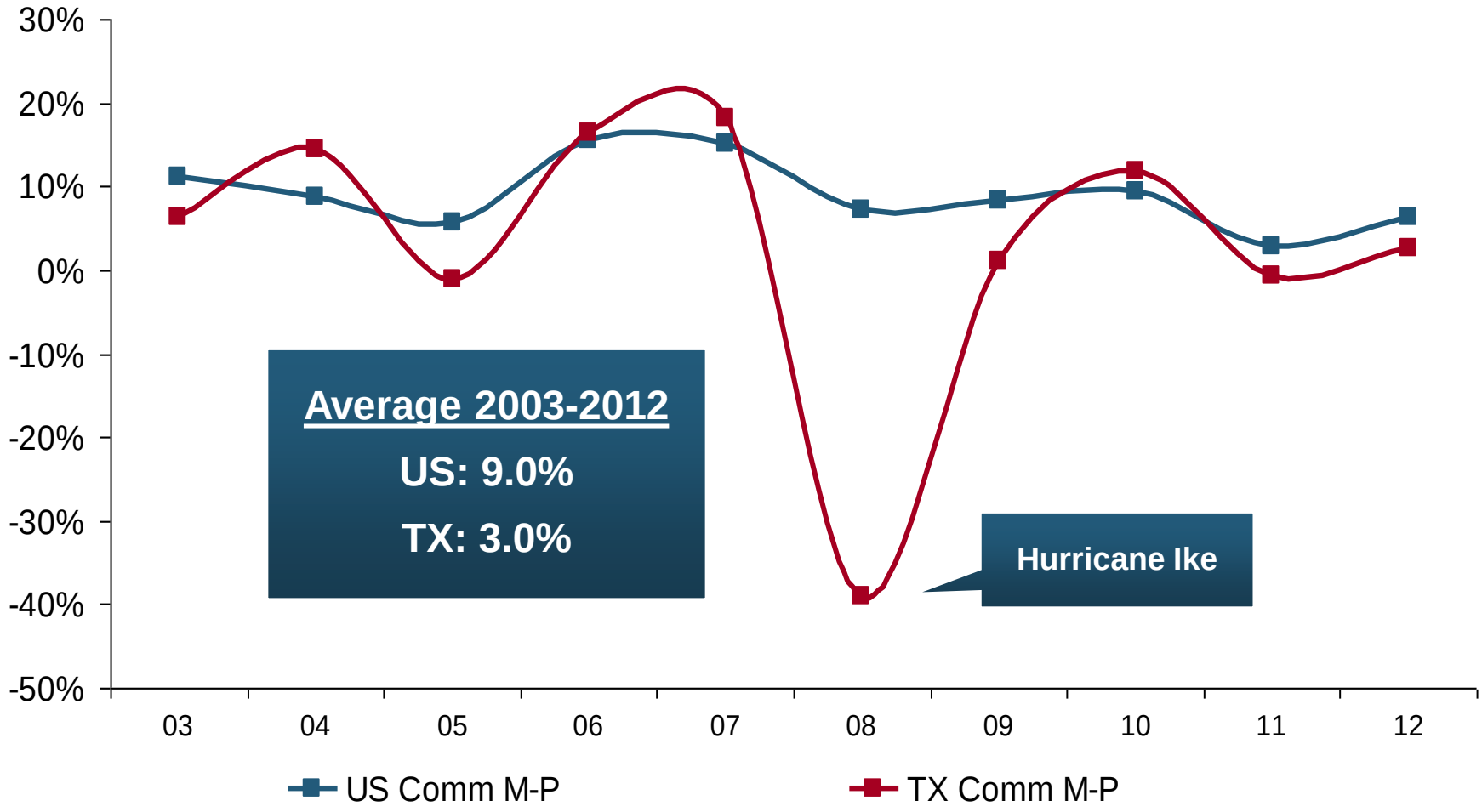
# RNW Comm. Auto: TX vs. U.S., 2003-2012




Sources: NAIC.

# RNW Comm. Multi-Peril: TX vs. U.S., 2003-2012

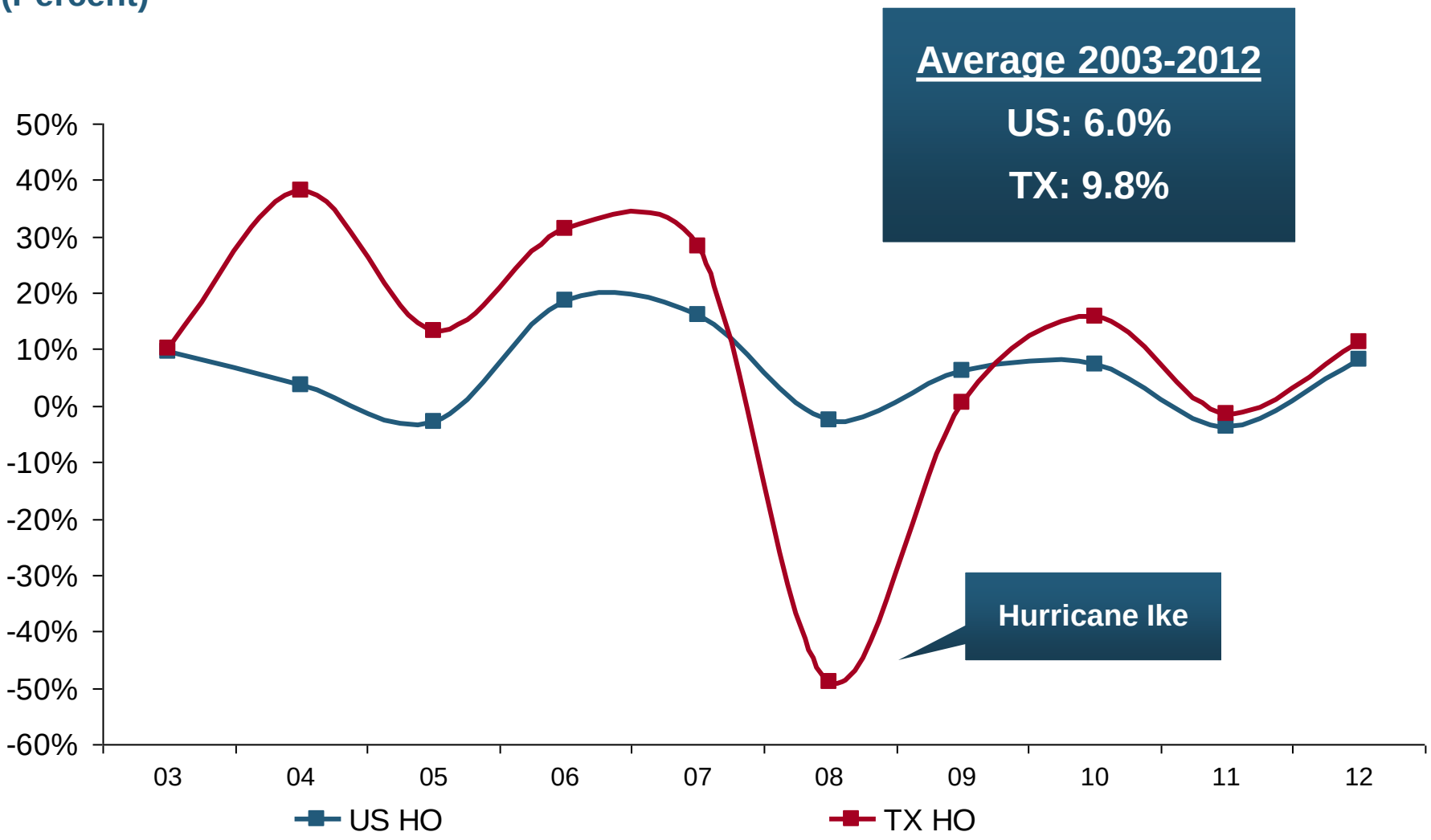
(Percent)




Sources: NAIC.

# RNW Homeowners: TX vs. U.S., 2003-2012

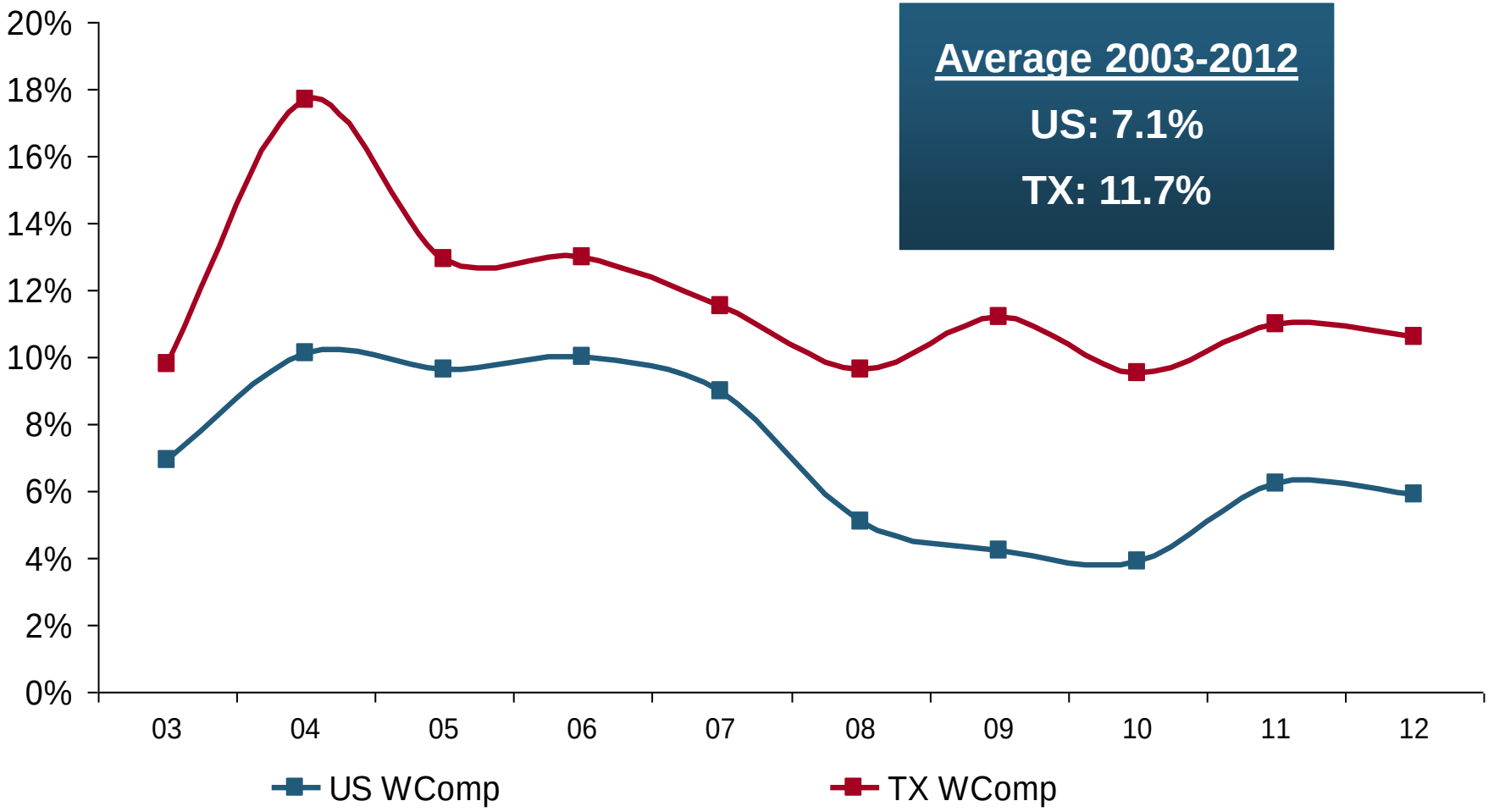
(Percent)




Sources: NAIC.

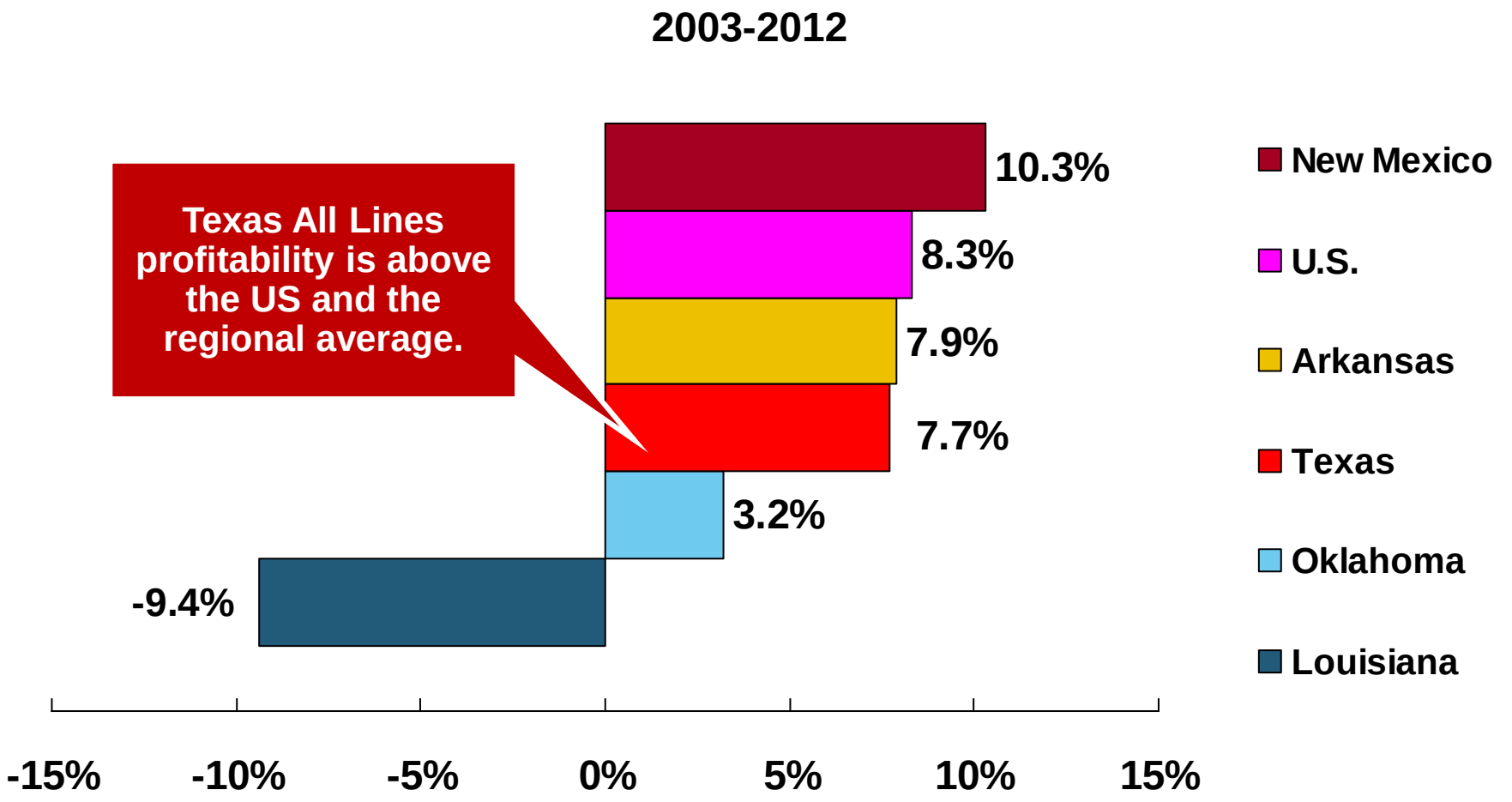
# RNW Workers Comp: TX vs. U.S., 2003-2012

(Percent)



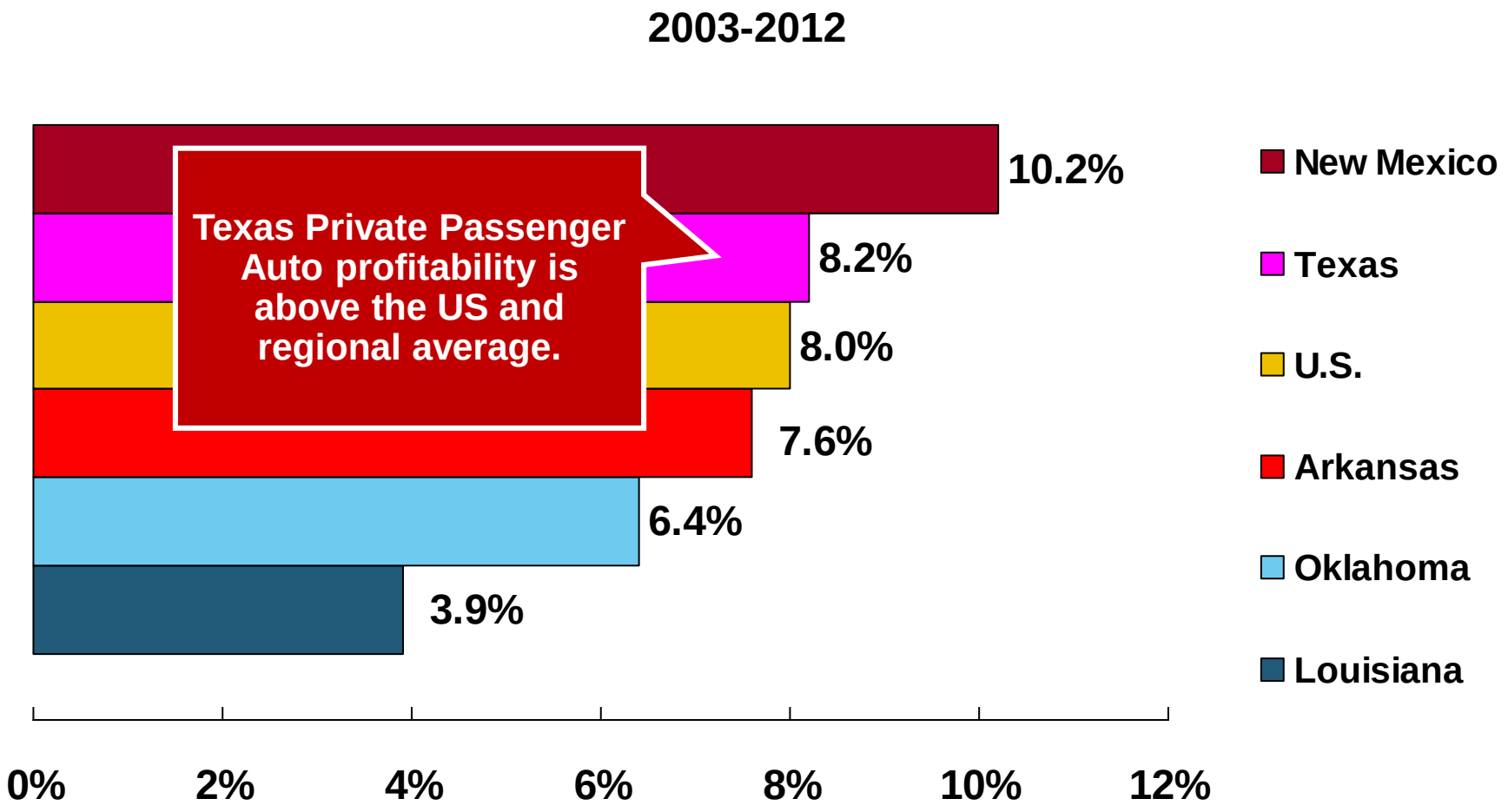

Sources: NAIC.

# All Lines: 10-Year Average RNW TX & Nearby States




Source: NAIC, Insurance Information Institute.

# PP Auto: 10-Year Average RNW TX & Nearby States




Source: NAIC, Insurance Information Institute.

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

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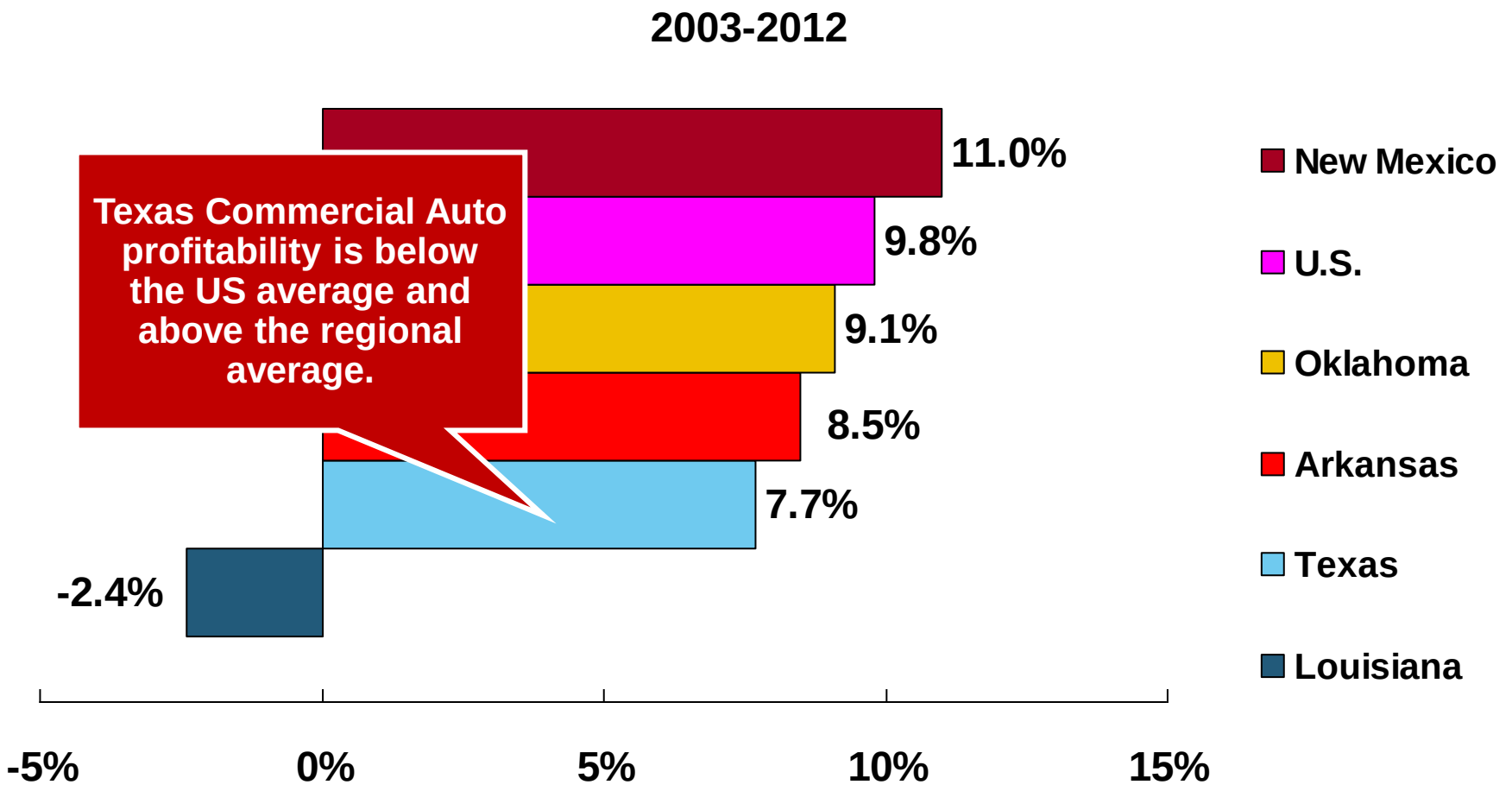
| Rank | Most expensive states | Average expenditure | Rank | Least expensive states | Average expenditure |
|---|---|---|---|---|---|
| 1 | New Jersey | $1,183.95 | 1 | Idaho | $525.15 |
| 2 | District of Columbia | 1,138.03 | 2 | South Dakota | 540.04 |
| 3 | Louisiana | 1,110.68 | 3 | North Dakota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

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

(1) Based on average automobile insurance expenditures.

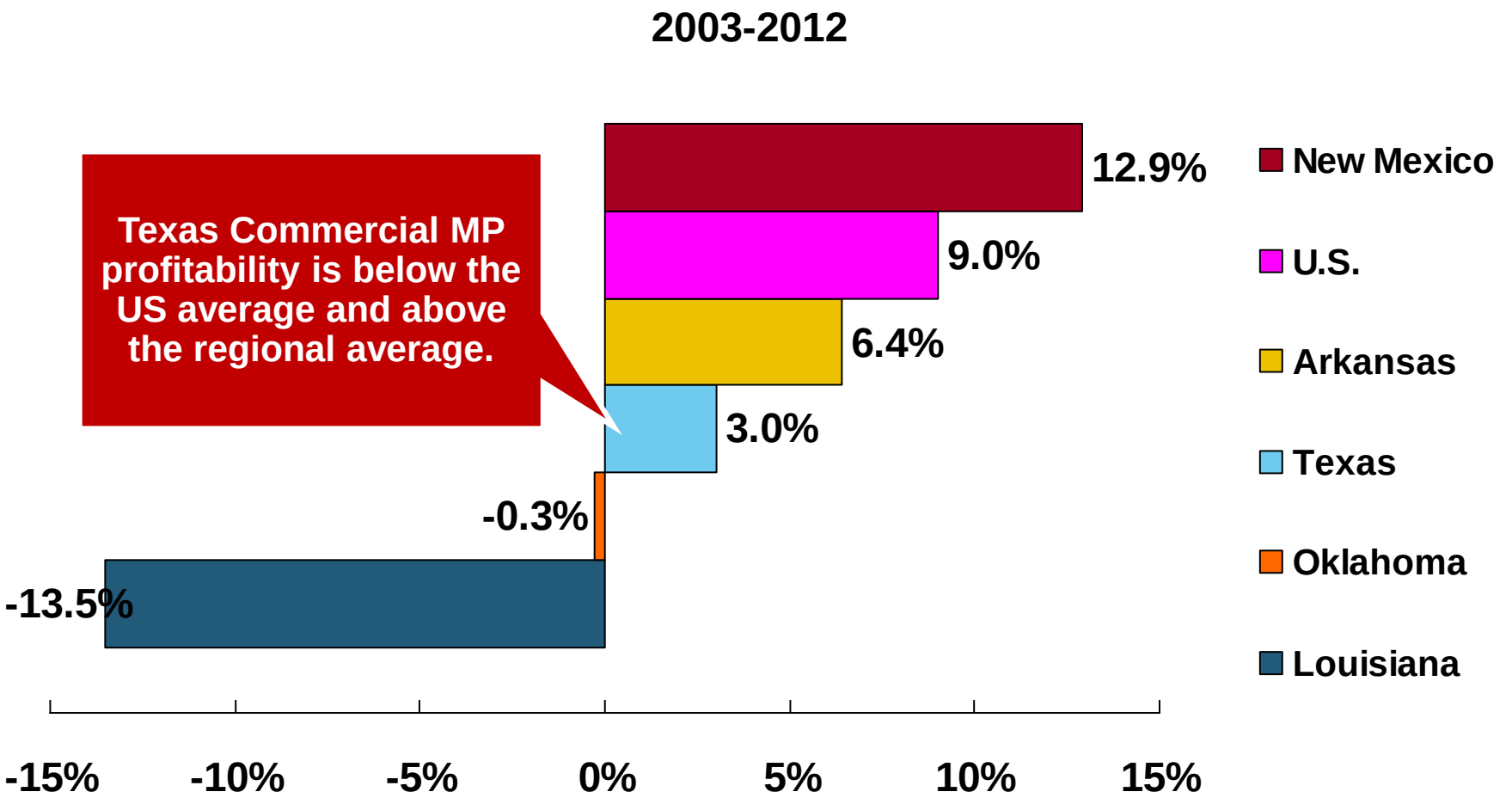
Source: © 2013 National Association of Insurance Commissioners.

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



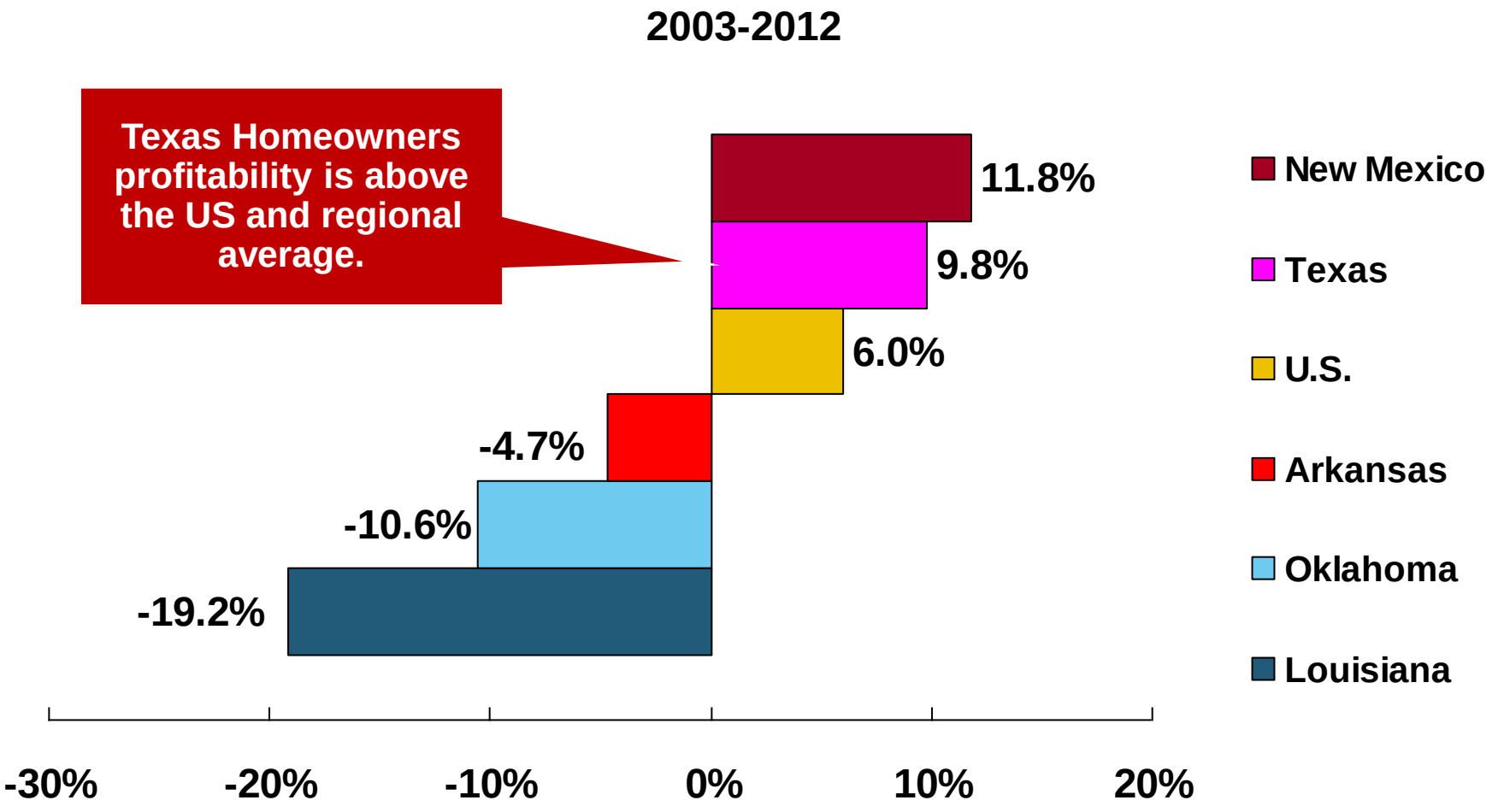

Source: NAIC, Insurance Information Institute.

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




Source: NAIC, Insurance Information Institute.

# Homeowners: 10-Year Average RNW TX & Nearby States




Source: NAIC, Insurance Information Institute.

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

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**Texas ranked as the 3rd most expensive state for homeowners insurance in 2011, with an average expenditure of $1,578.**

| Rank | Most expensive states | HO average premium | Rank | Least expensive states | HO average premium |
|---|---|---|---|---|---|
| 1 | Florida | $1,933 | 1 | Idaho | $518 |
| 2 | Louisiana | 1,672 | 2 | Oregon | 559 |
| ***3*** | ***Texas (2)*** | ***1,578*** | 3 | Utah | 563 |
| 4 | Mississippi | 1,409 | 4 | Wisconsin | 592 |
| 5 | Oklahoma | 1,386 | 5 | Washington | 626 |
| 6 | Alabama | 1,163 | 6 | Ohio | 644 |
| 7 | Rhode Island | 1,139 | 7 | Delaware | 664 |
| 8 | Kansas | 1,103 | 8 | Arizona | 675 |
| 9 | New York | 1,097 | 9 | Nevada | 689 |
| 10 | Connecticut | 1,096 | 10 | Iowa | 713 |

(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.

# All Lines DWP Growth: TX vs. U.S., 2003-2012

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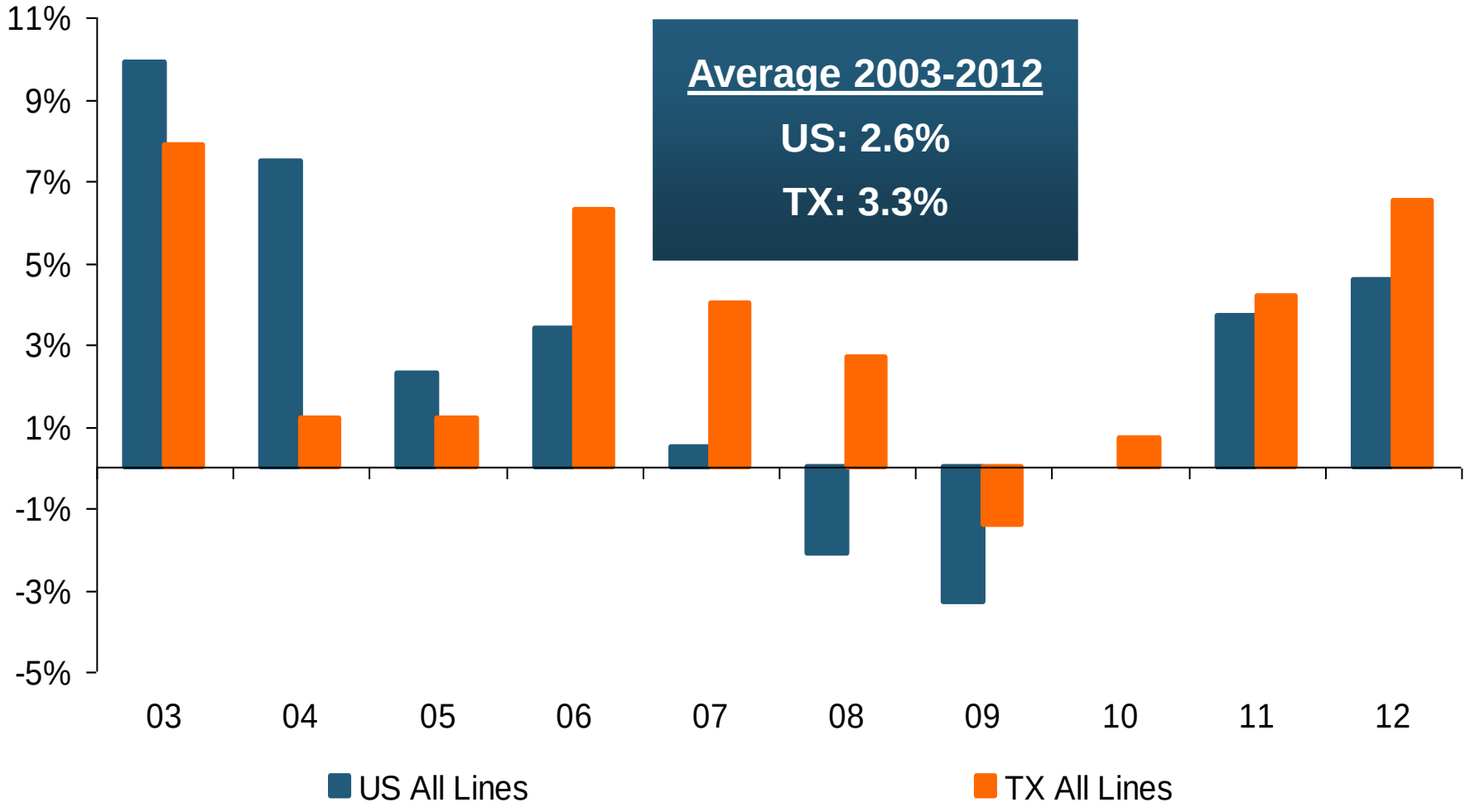
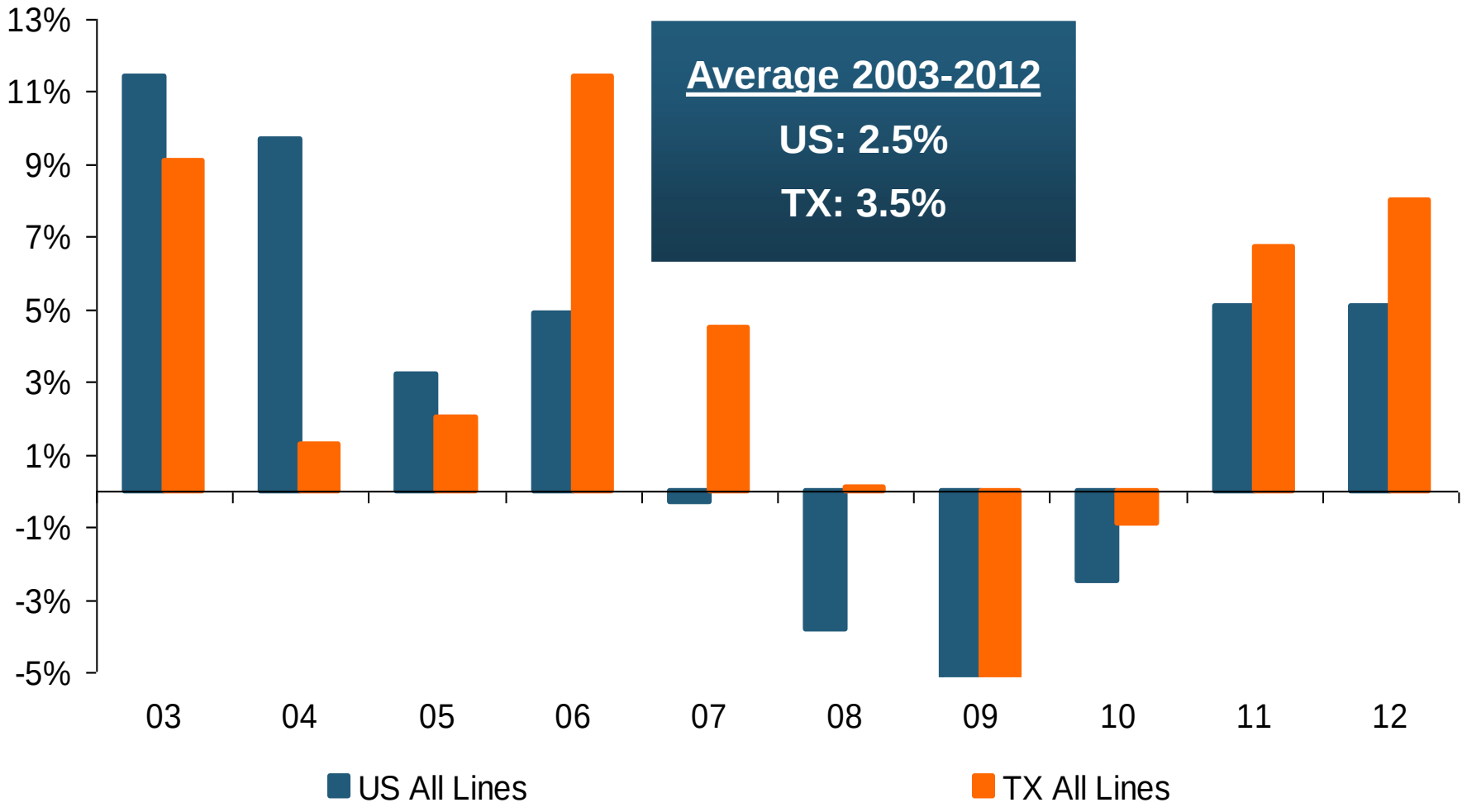
(Percent)




Source: SNL Financial.

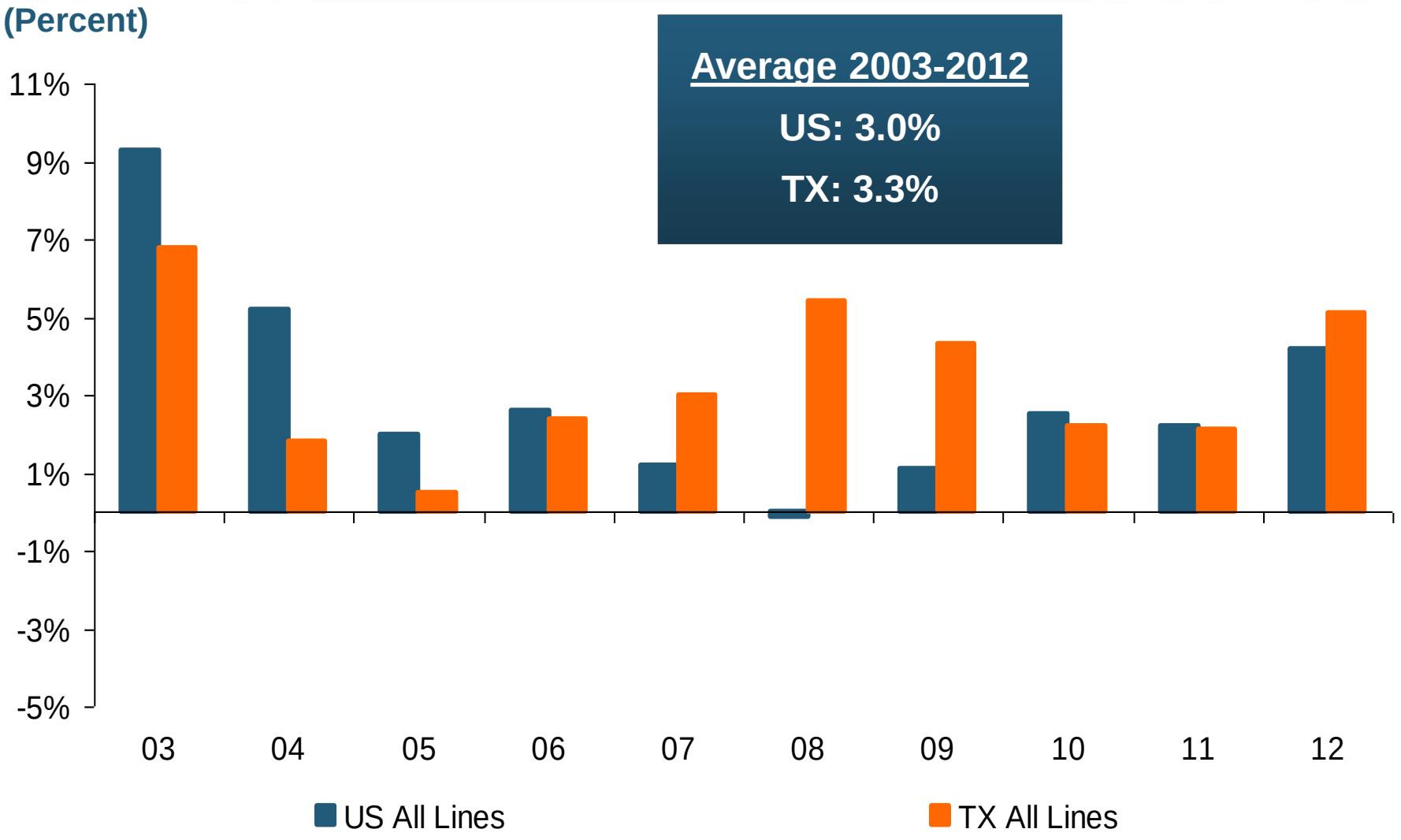
# Comm. Lines DWP Growth: TX vs. U.S., 2003-2012

(Percent)



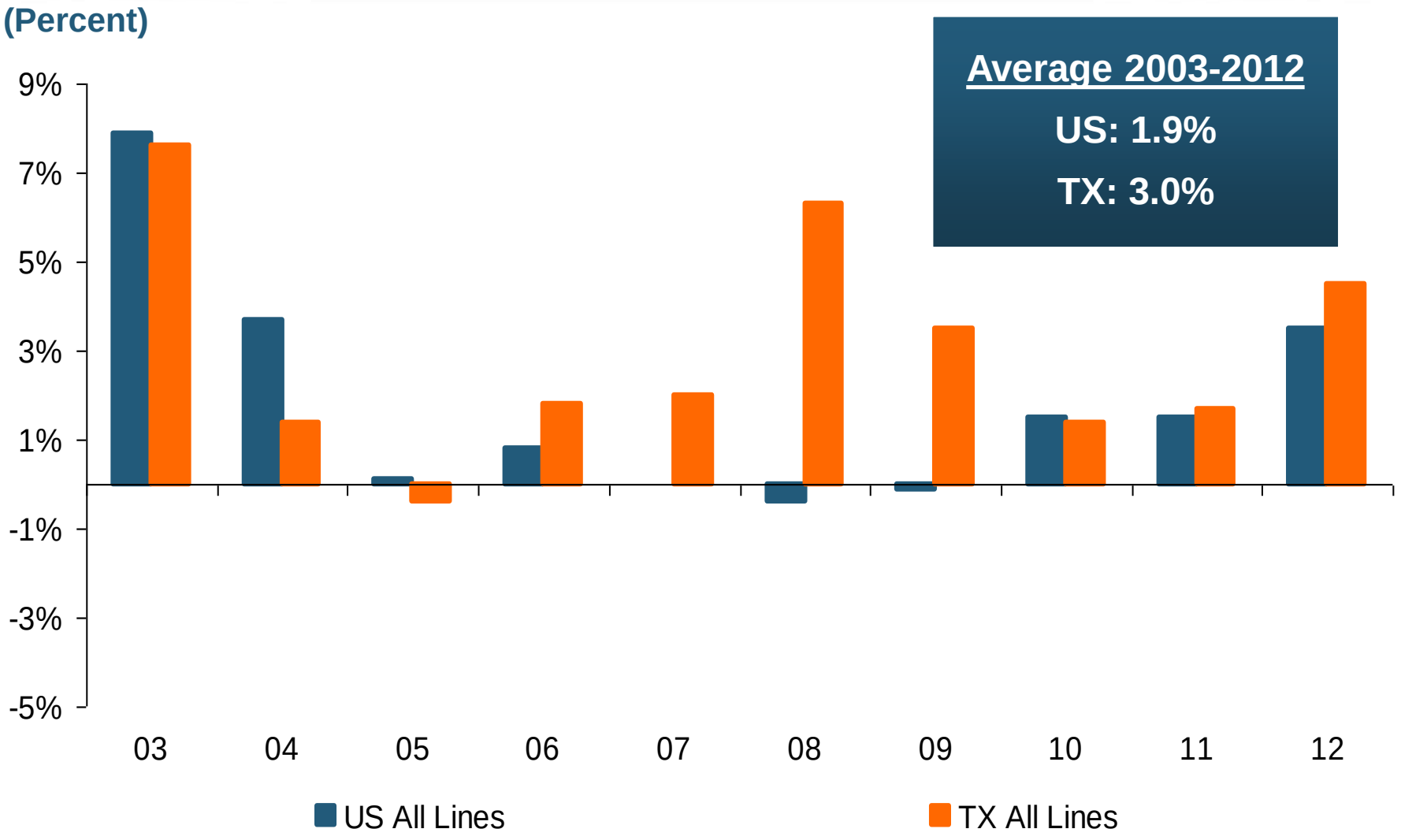

Source: SNL Financial.

# Personal Lines DWP Growth: TX vs. U.S., 2003-2012



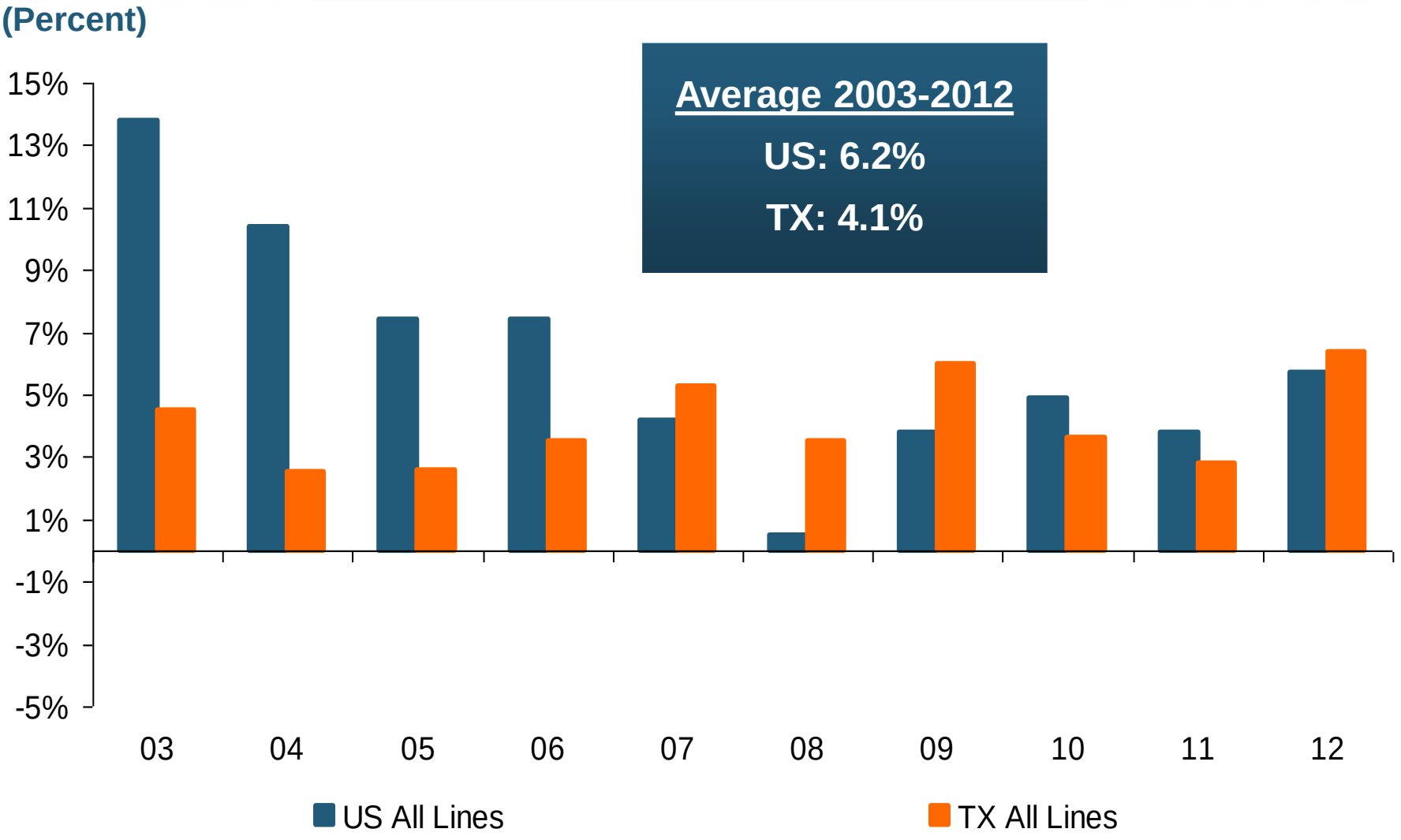

Source: SNL Financial.

# Private Passenger Auto DWP Growth: TX vs. U.S., 2003-2012




Source: SNL Financial.

# Homeowners DWP Growth: TX vs. U.S., 2003-2012




Source: SNL Financial.

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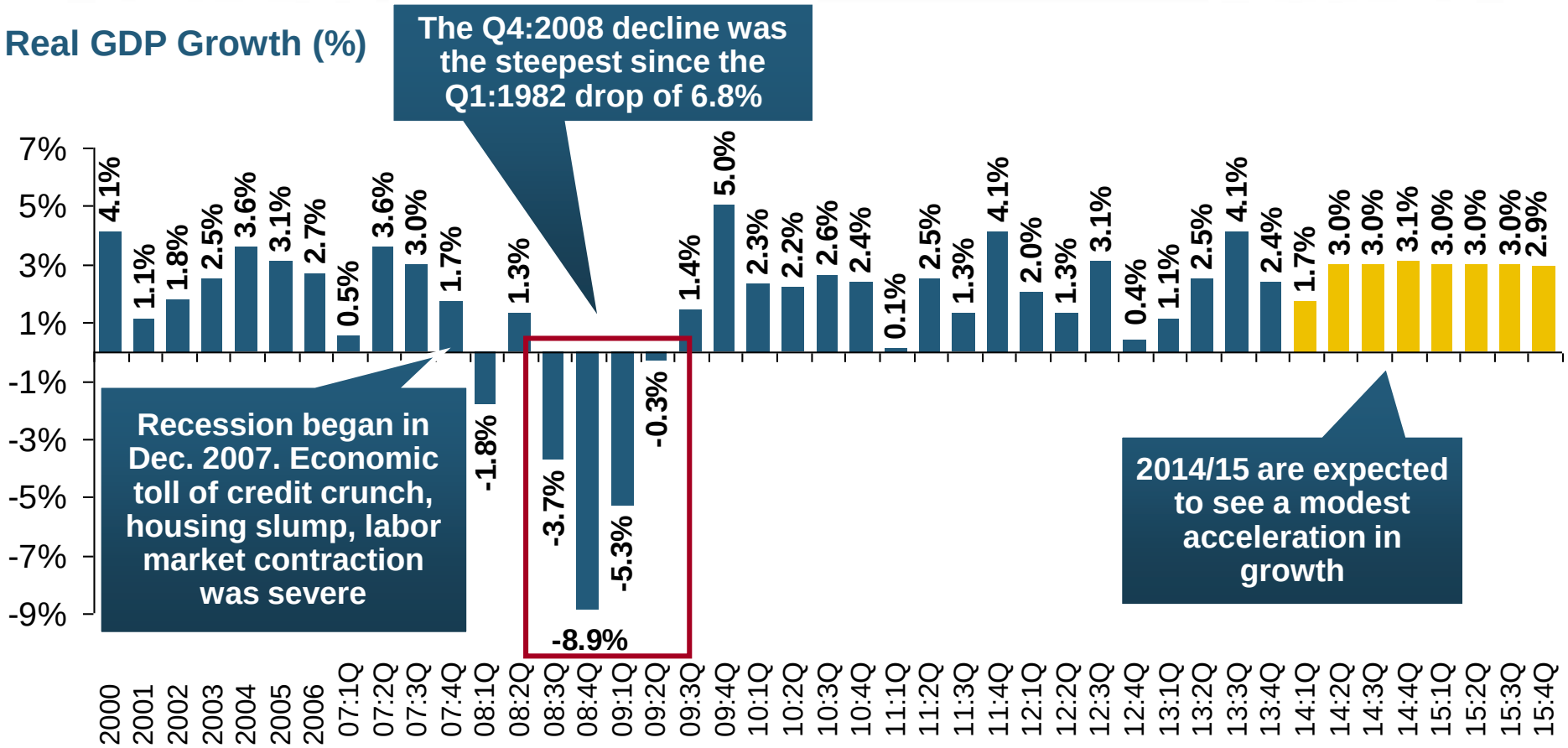
# The Strength of the Economy Will Influence P/C Insurer Growth Opportunities

## Growth Will Expand Insurer Exposure Base Across Most Lines

# US Real GDP Growth*

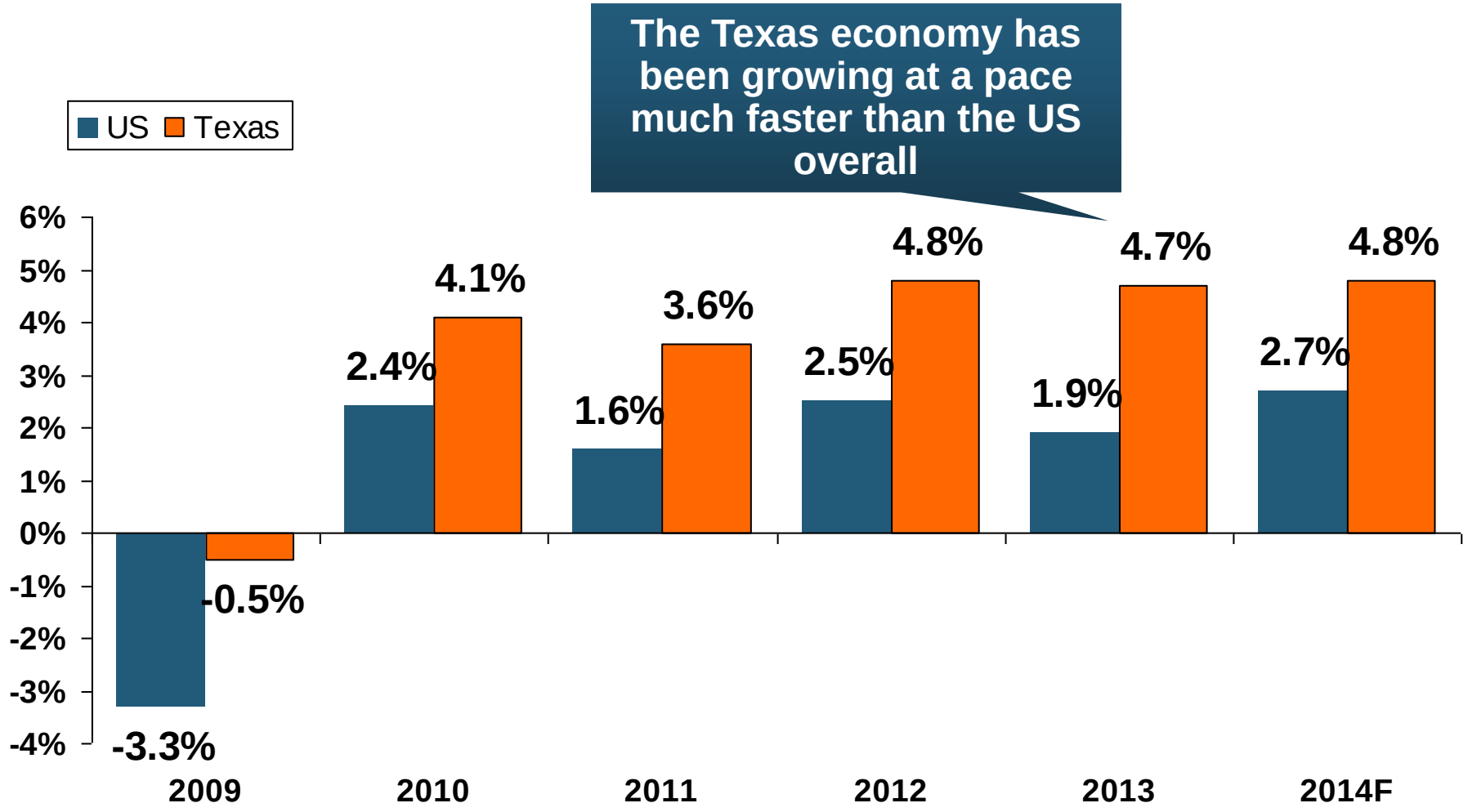



**Demand for Insurance Should Increase in 2014/15 as GDP Growth Accelerates Modestly and Gradually Benefits the Economy Broadly**

* Estimates/Forecasts from Blue Chip Economic Indicators.

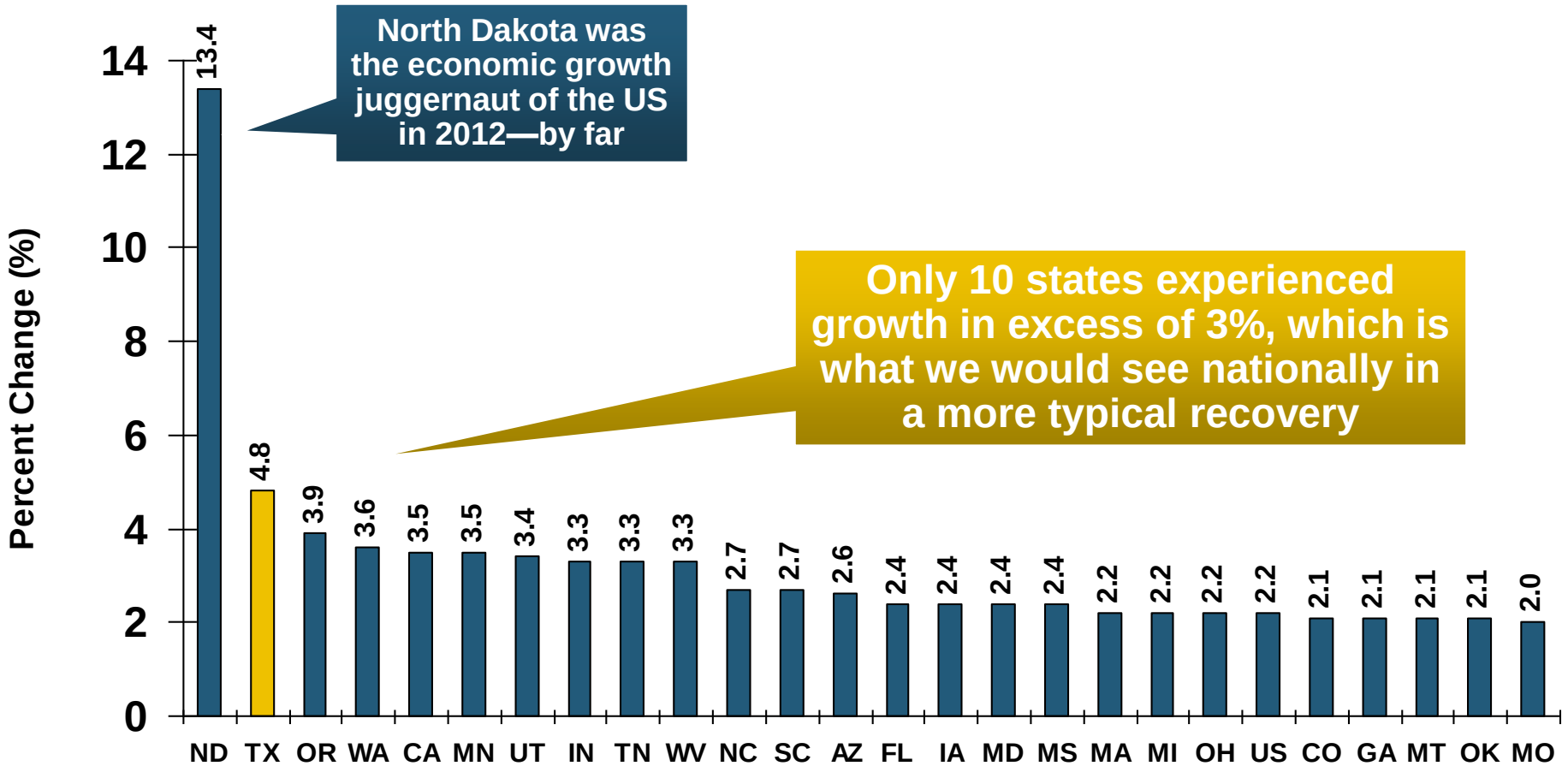
Source: US Department of Commerce, Blue Economic Indicators 4/14; Insurance Information Institute.

# Texas vs. US Real GDP Growth



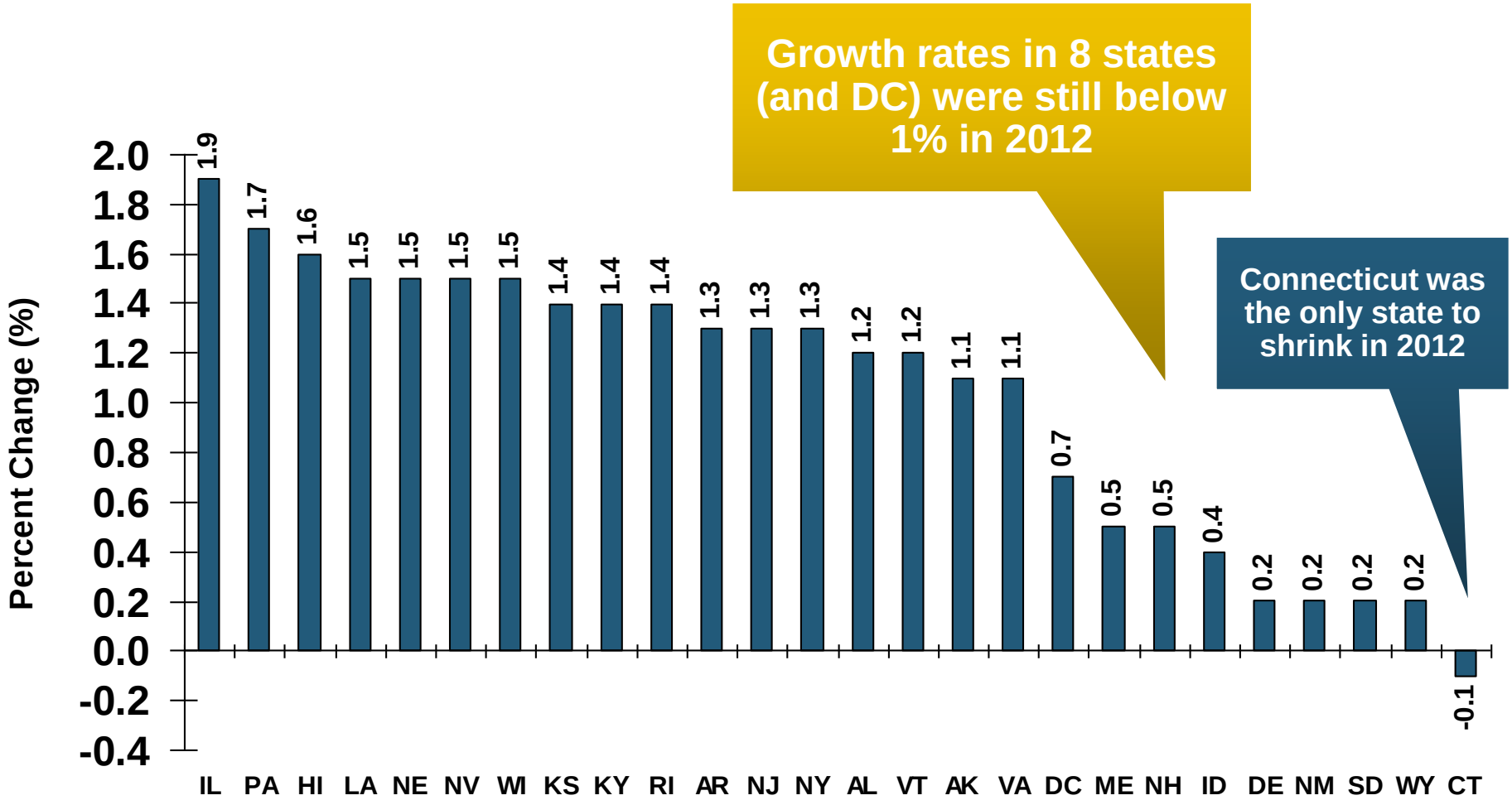

Source: US Department of Commerce; Blue Economic Indicators 4/14 (for US 2013/14 figures); Insurance Information Institute for TX (2013/14 figures).

# 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



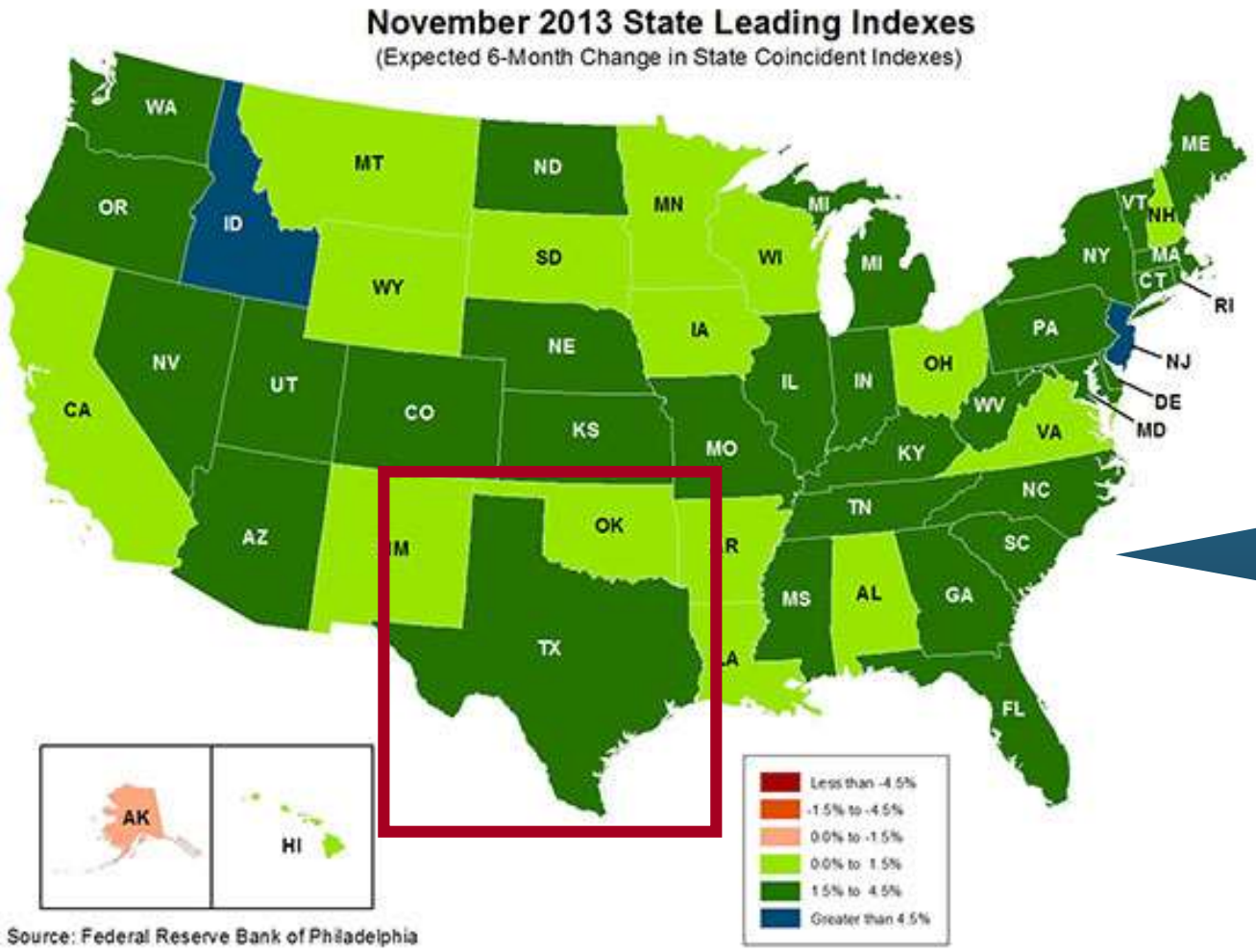

Sources: US Bureau of Labor Statistics; Insurance Information Institute.

# Texas Economic Facts that Benefit P/C Insurers

- **Unemployment: TX = 5.5%, US = 6.7% (March 2014)**
- **Jobs created in TX up 2.8% vs. 1.7% for the US**
- **Home construction permits up 7.9% (Feb. 2014)**
- **Existing single-family home sales up 5.4%**
- **Median home sales price up 10.0%**
- **Non-residential Construction up 25.6%**

Sources: Texas Comptroller's Weekly Economic Outlook (April 21, 2014) at http://thetexaseconomy.org/economic-outlook/ ; 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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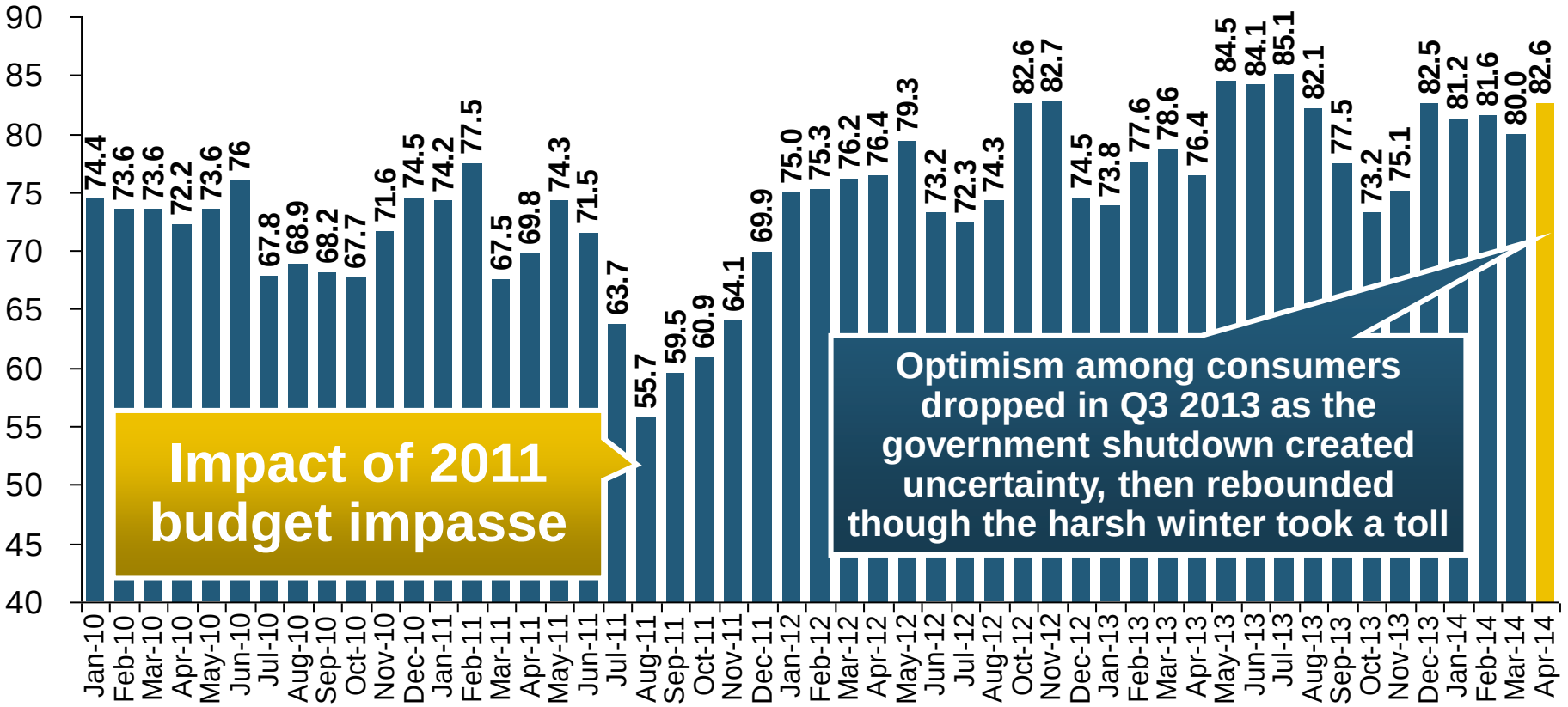
## January 2010 through April 2014




**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

# Net Worth of Households* Recently Hit A Historic High

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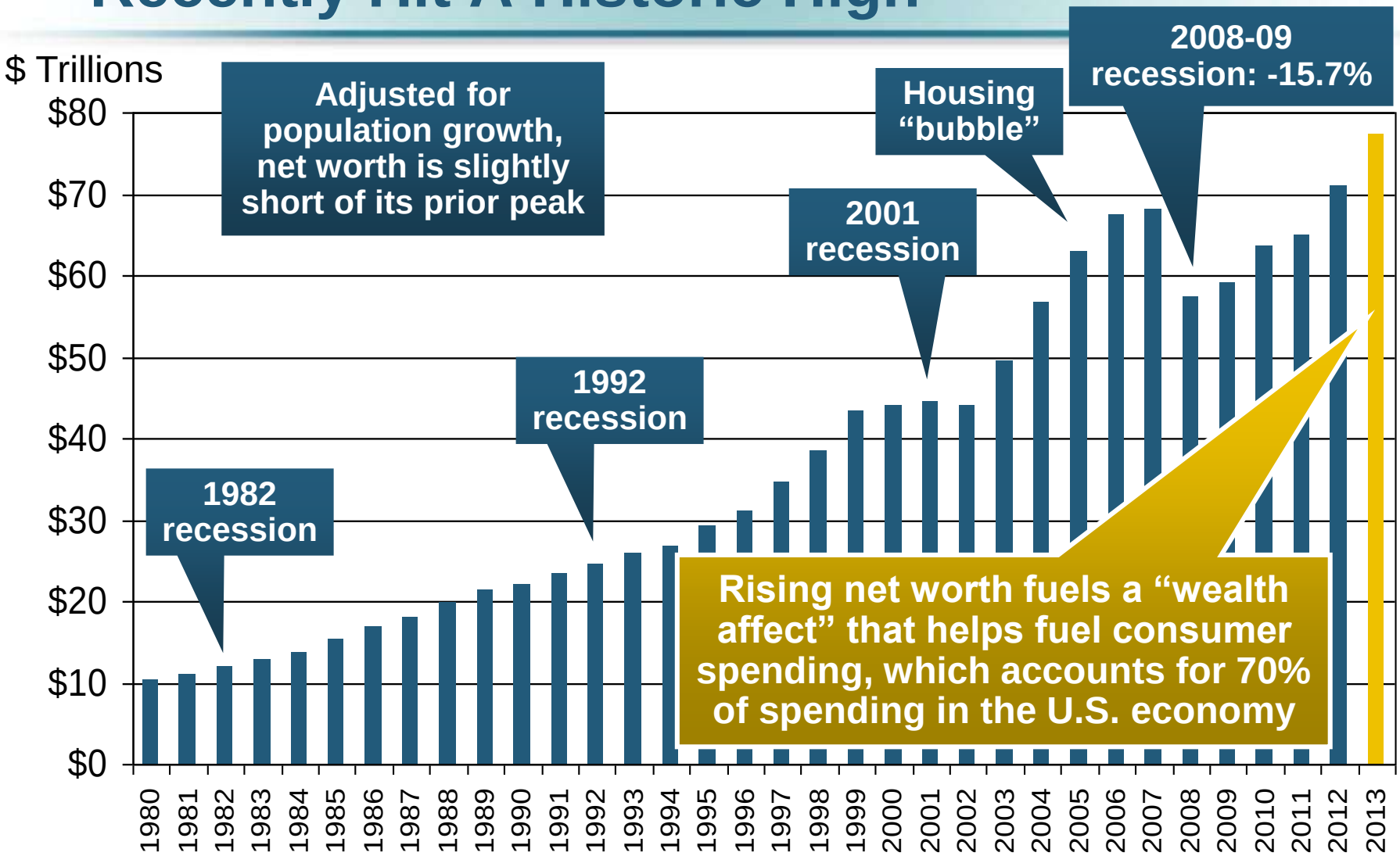


*and nonprofit organizations. Data are as of year-end, except in 2013:Q3 (data posted on Dec 9, 2013).
Next release March 6, 2014. Data not seasonally adjusted or inflation-adjusted
Source: Federal Reserve Board

# Household Financial Obligations Ratio Recently Hit A Historic Low

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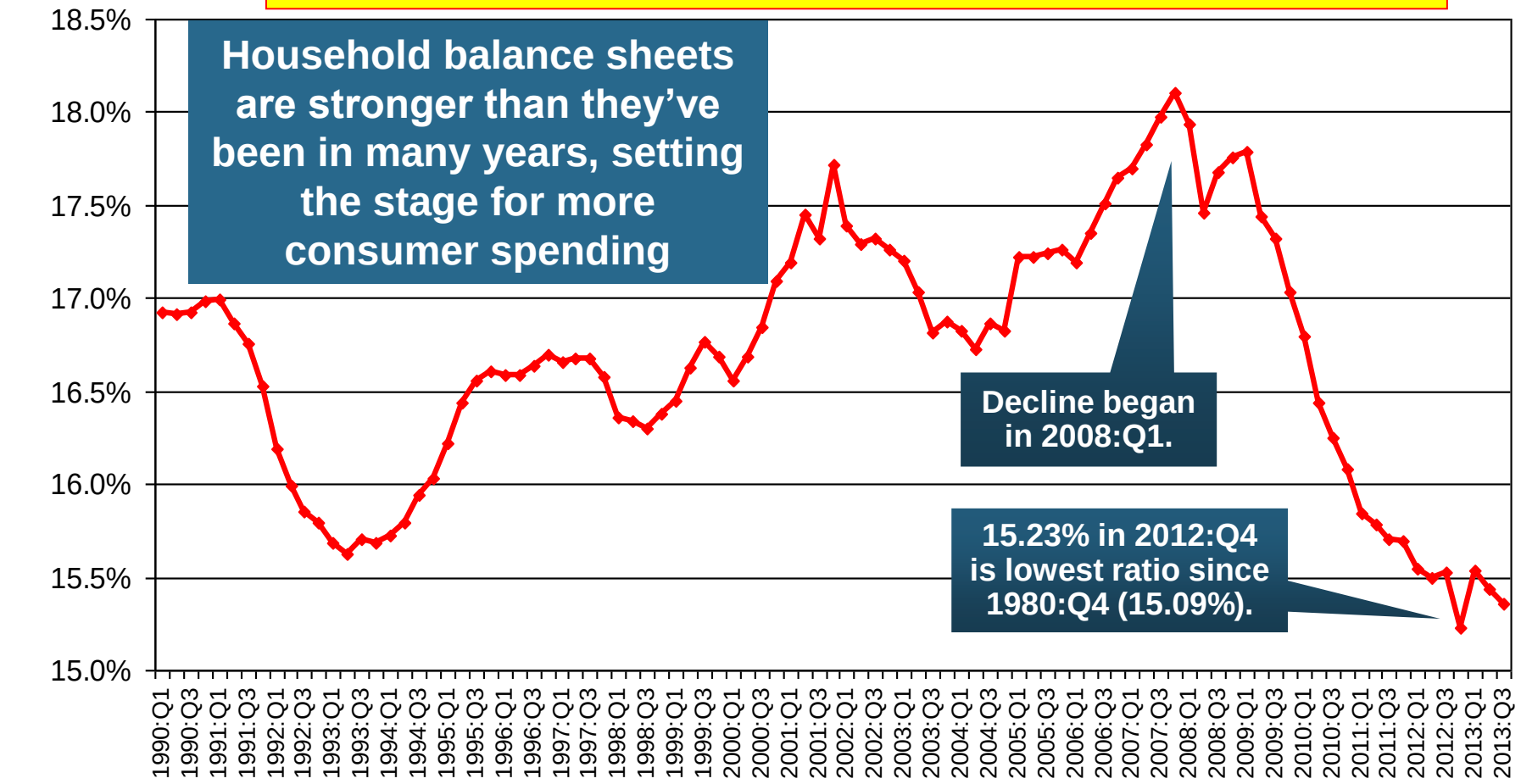
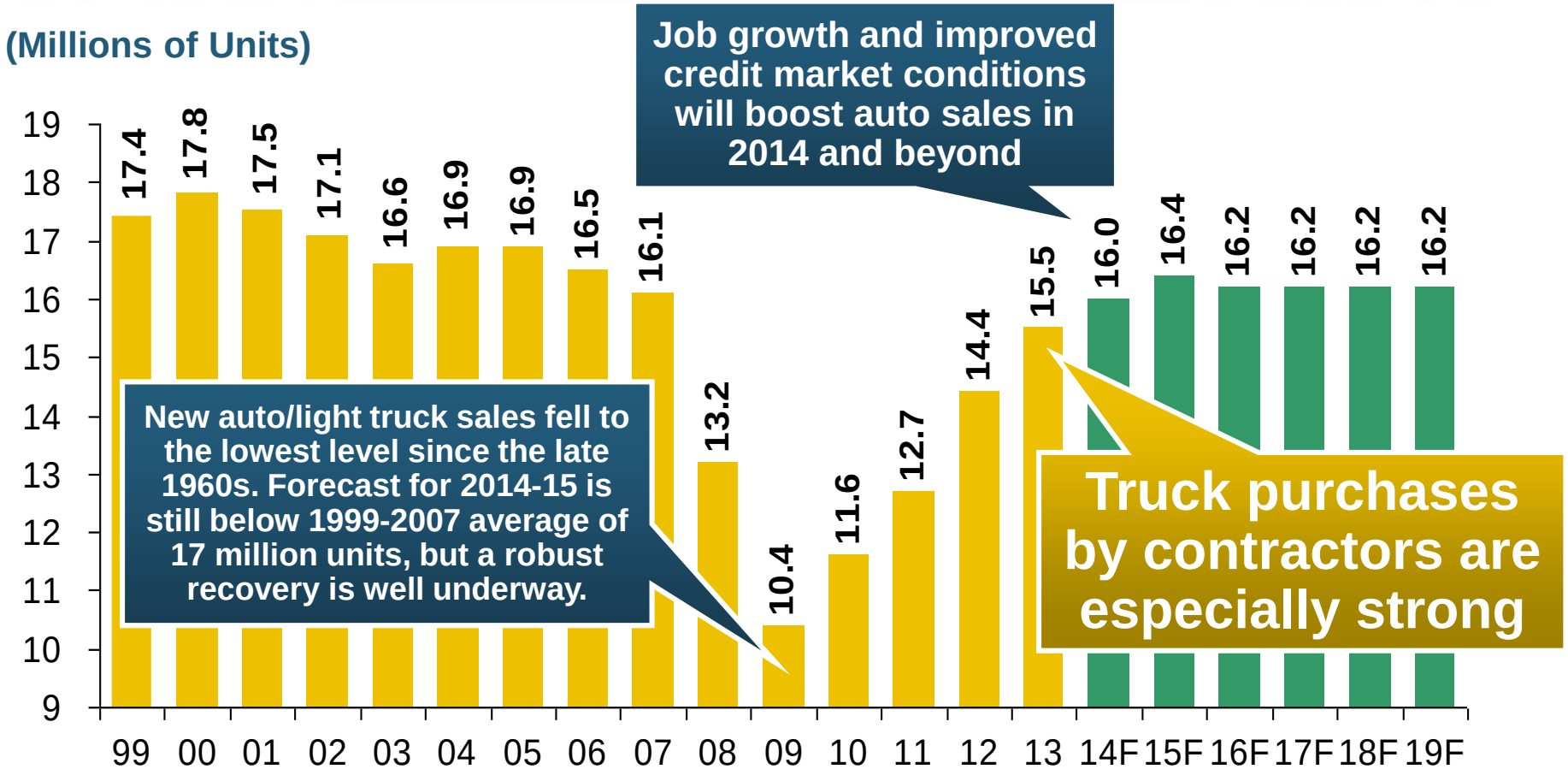
**Financial Obligations Ratio**: debt service (mortgage and consumer debt), auto lease, residence rent, HO insurance, and property tax payments as % of personal disposable income.




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

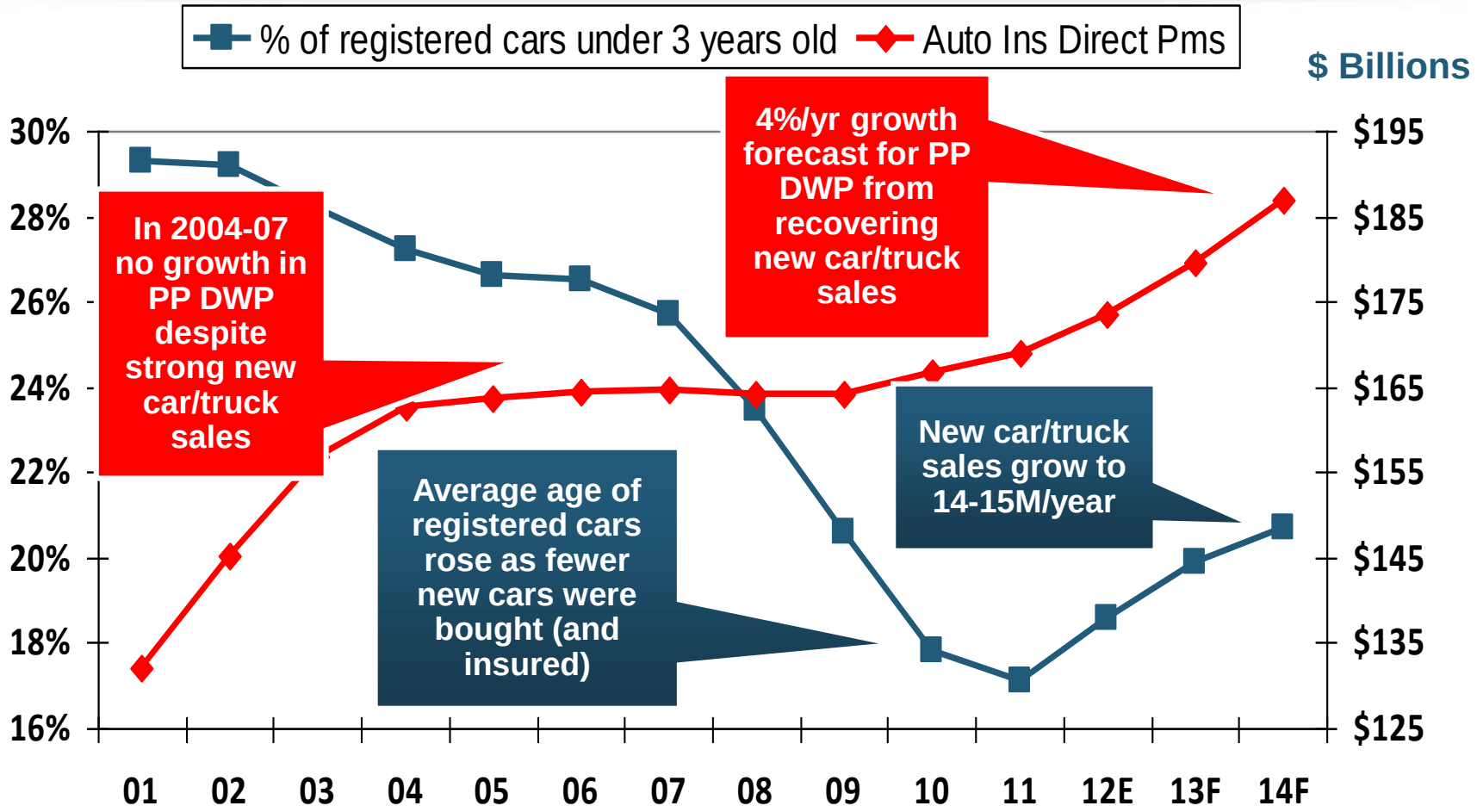
# Auto/Light Truck Sales, 1999-2019F




**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



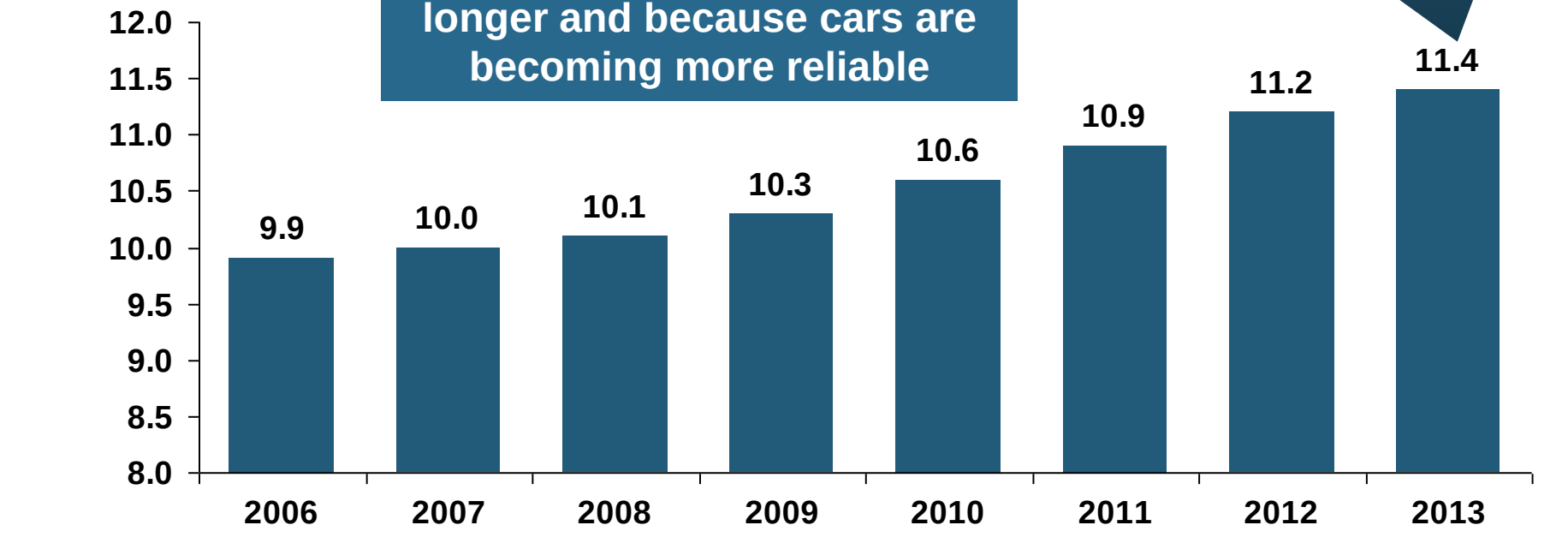

**PP DWP, flat from 2004-2009, is rising again.**
**Conning forecasts growth at 3.5% in 2013 and 4.0% in 2014.**

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

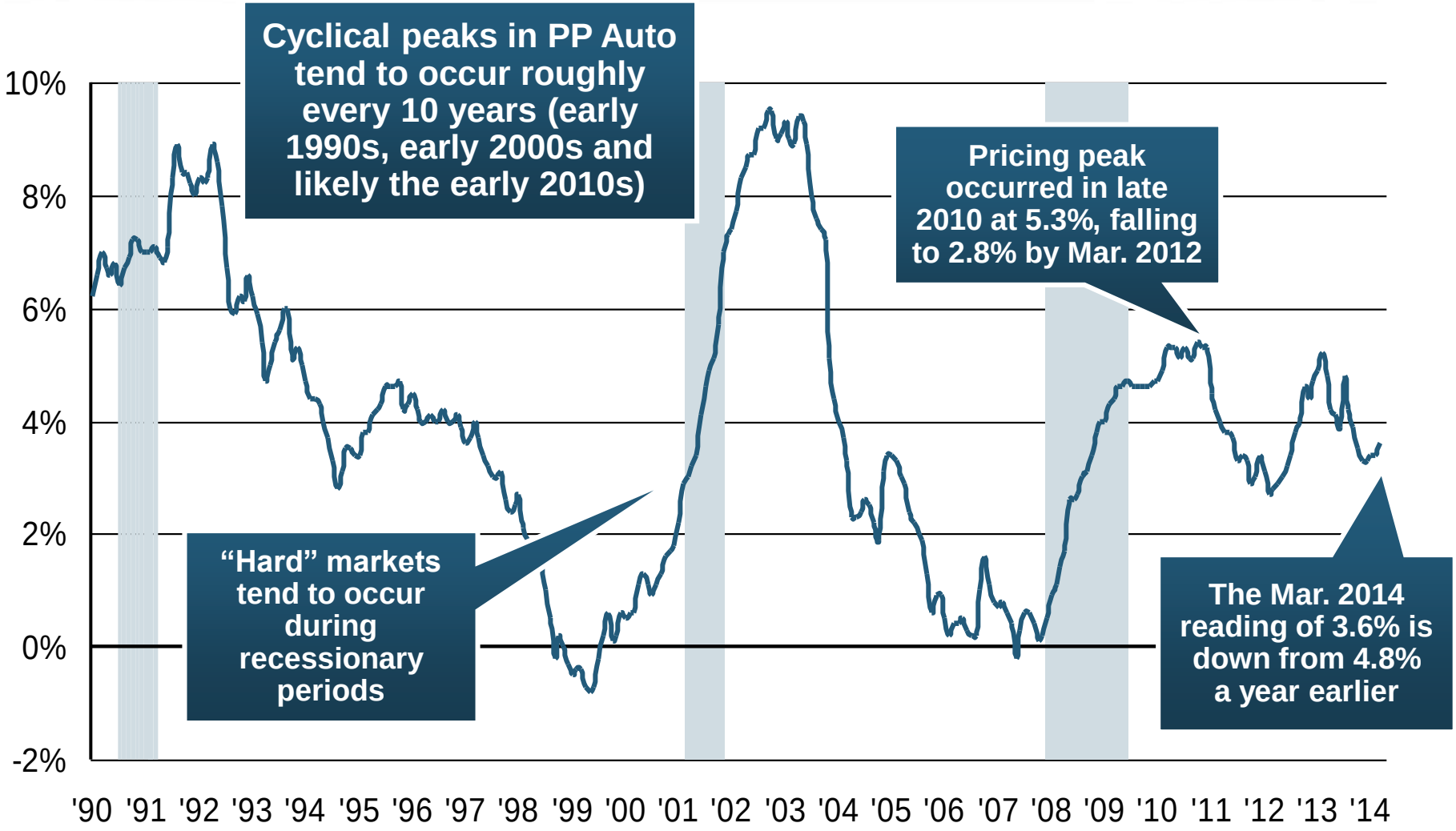
The average vehicle age reached a record 11.4 years in 2013




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*

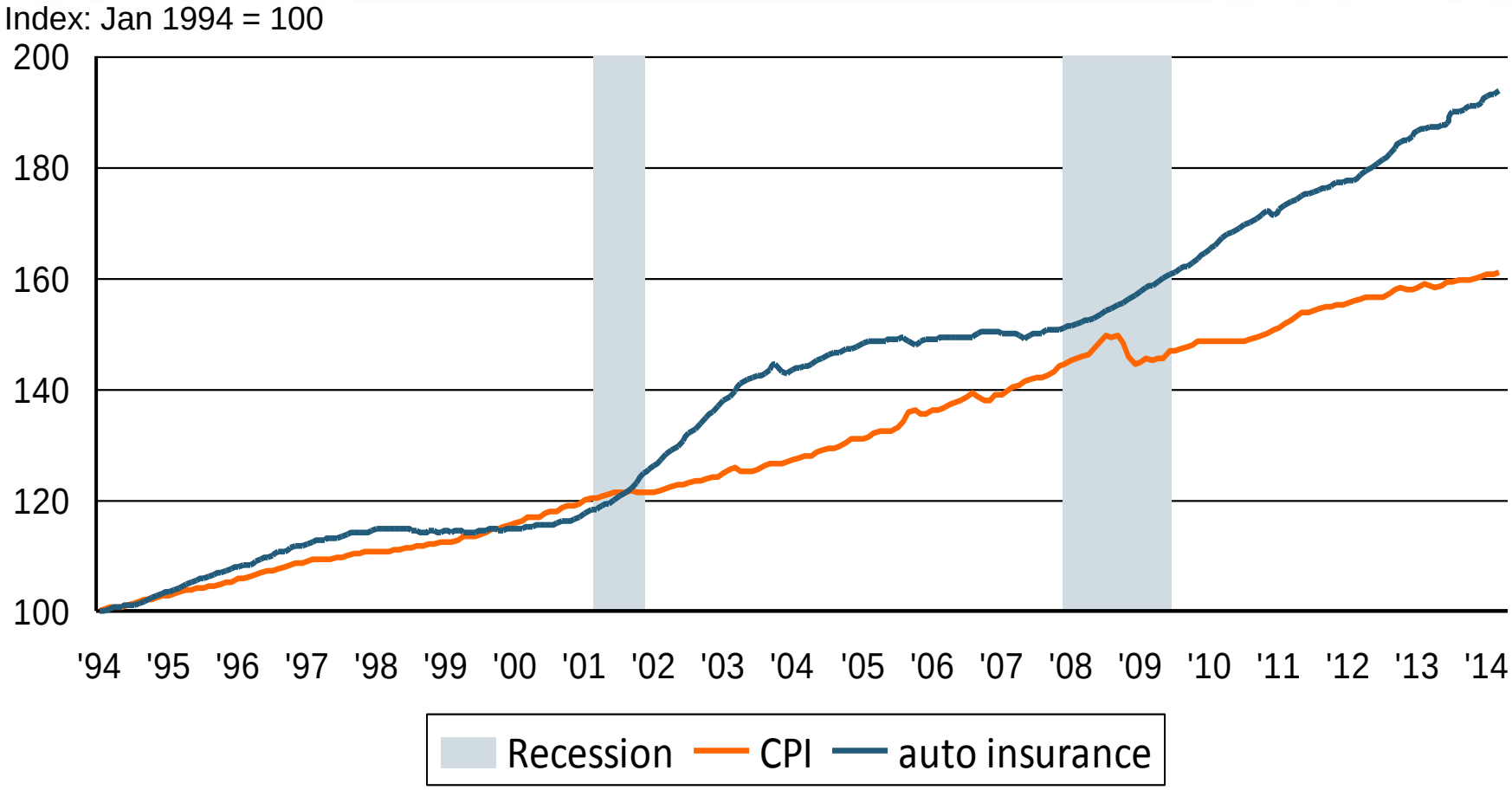



*Percentage change from same month in prior year; through March 2014; seasonally adjusted

Note: Recessions indicated by gray shaded columns.

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

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

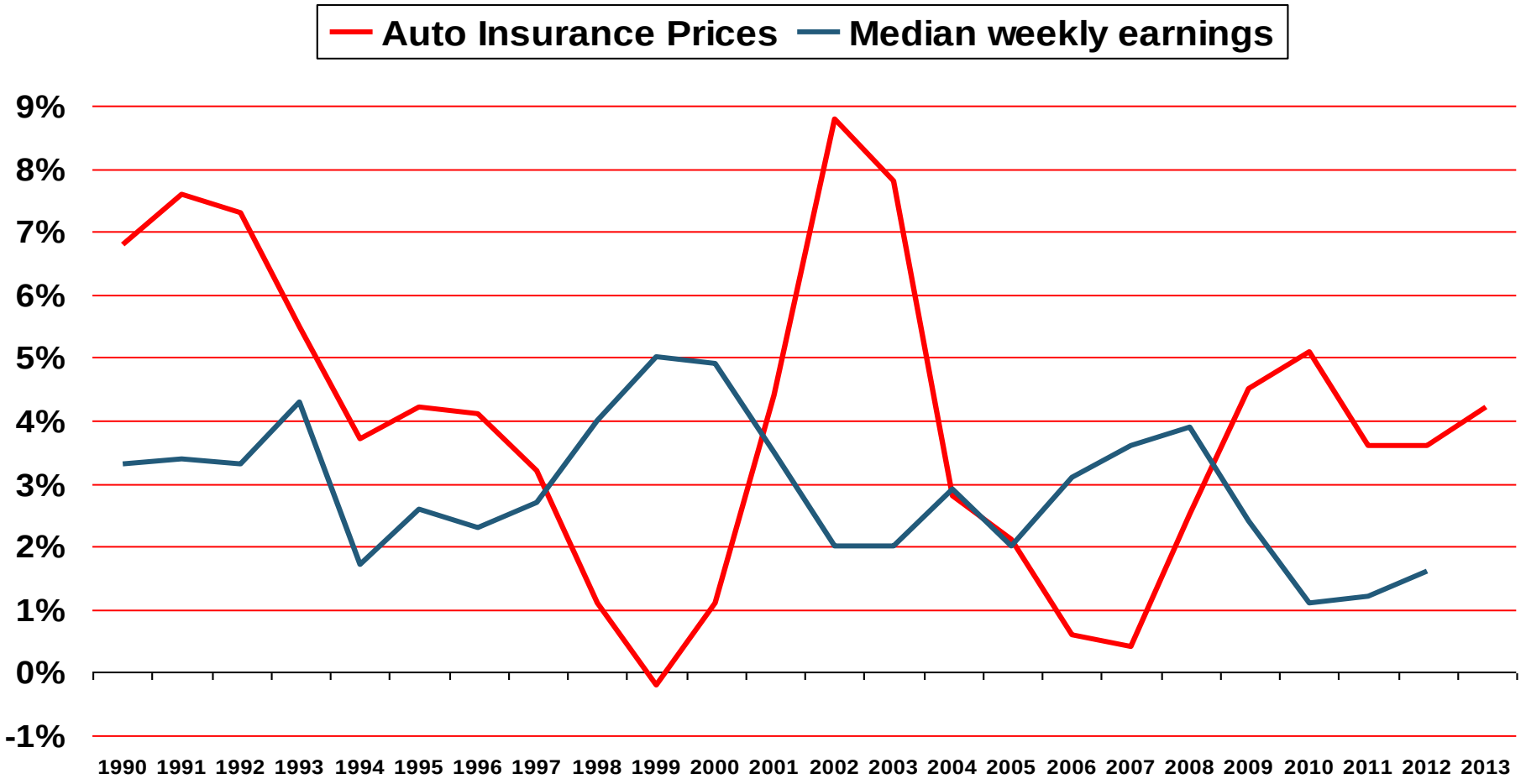



**Annual average growth rate of the CPI from 1994 to now: 2.5%.**
**Annual average growth rate of auto insurance prices from 1994 to now: 3.3%.**

*Seasonally adjusted, through March 2014

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

# Yearly Change in Auto Insurance Prices vs. Median Weekly Earnings




Sources: US Bureau of Labor Statistics; Insurance Information Institute

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

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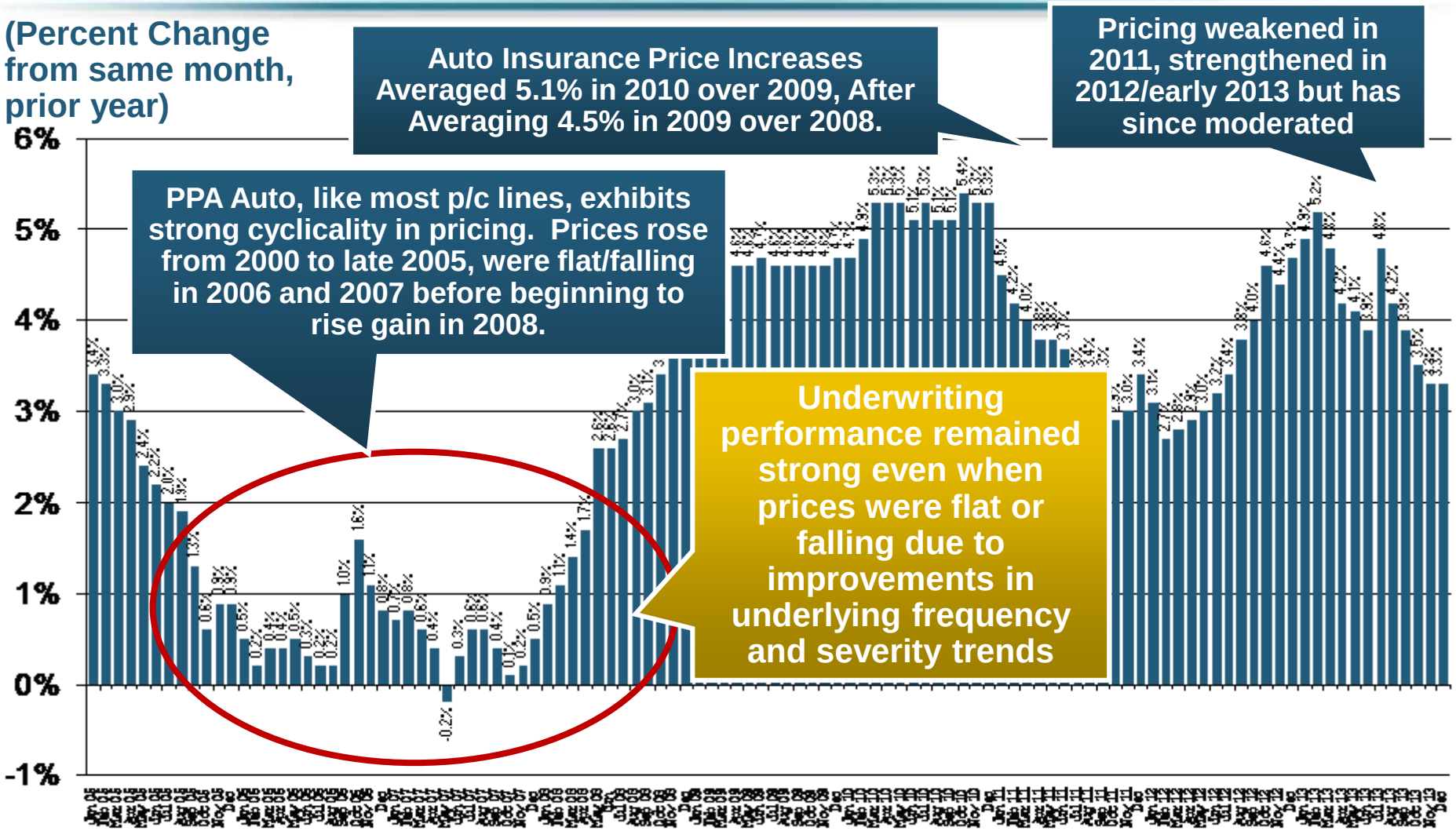
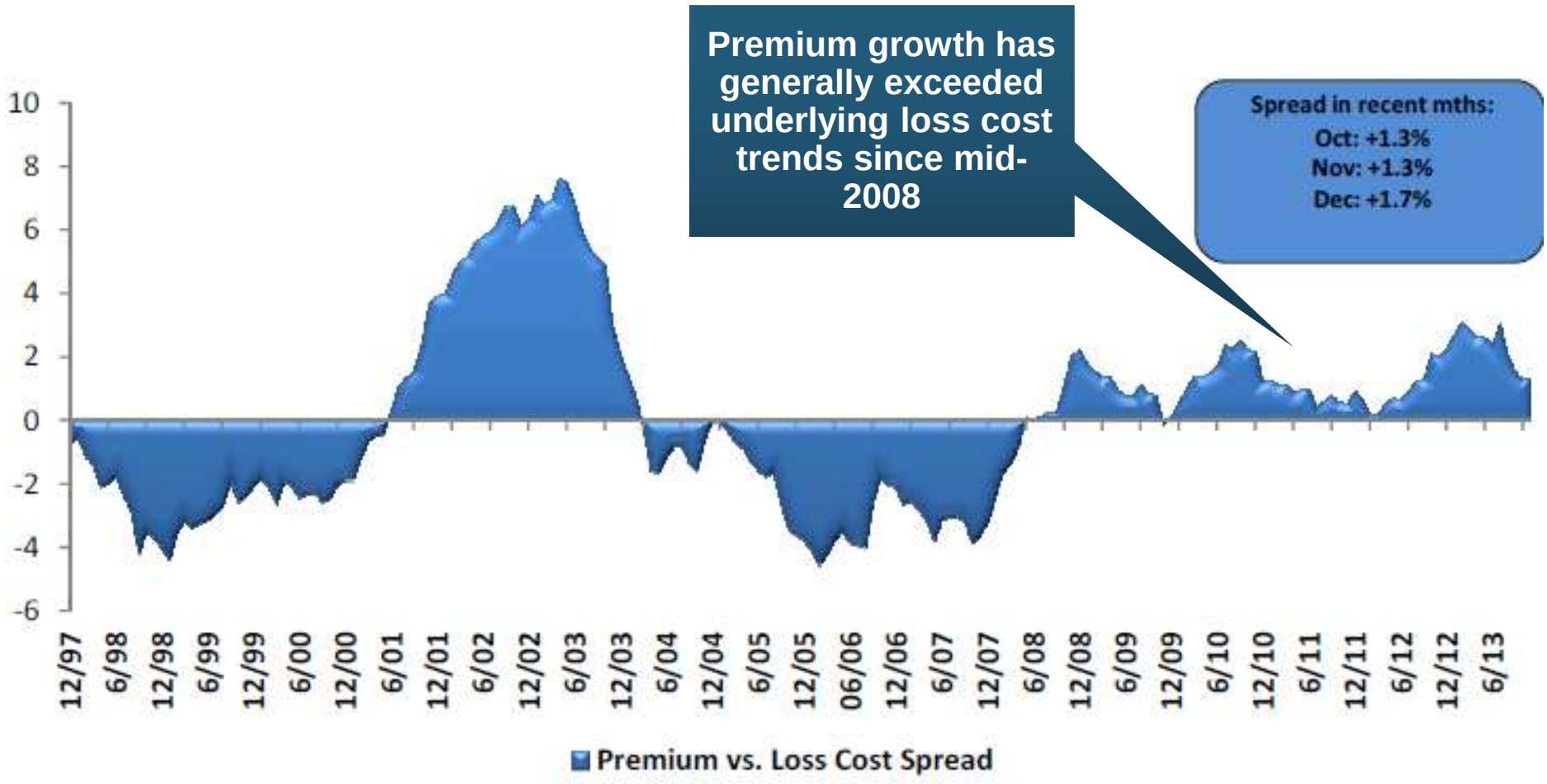
(Percent Change from same month, prior year)



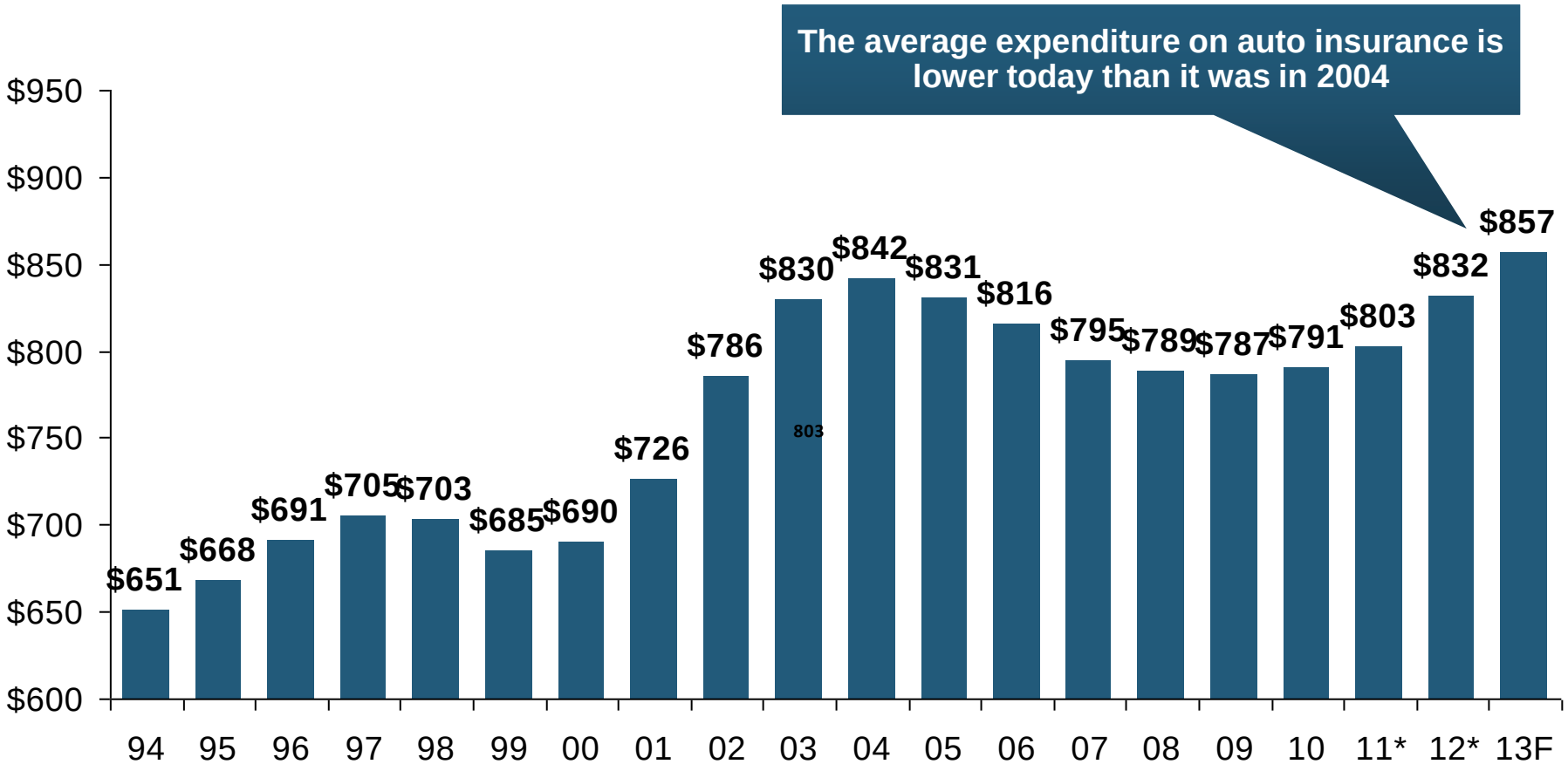

*Percentage change from same month in prior year, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute

# Private Passenger Auto: Premium Growth vs. Loss Cost Spread




Sources: Evercore Equity Research, Jan. 2014.

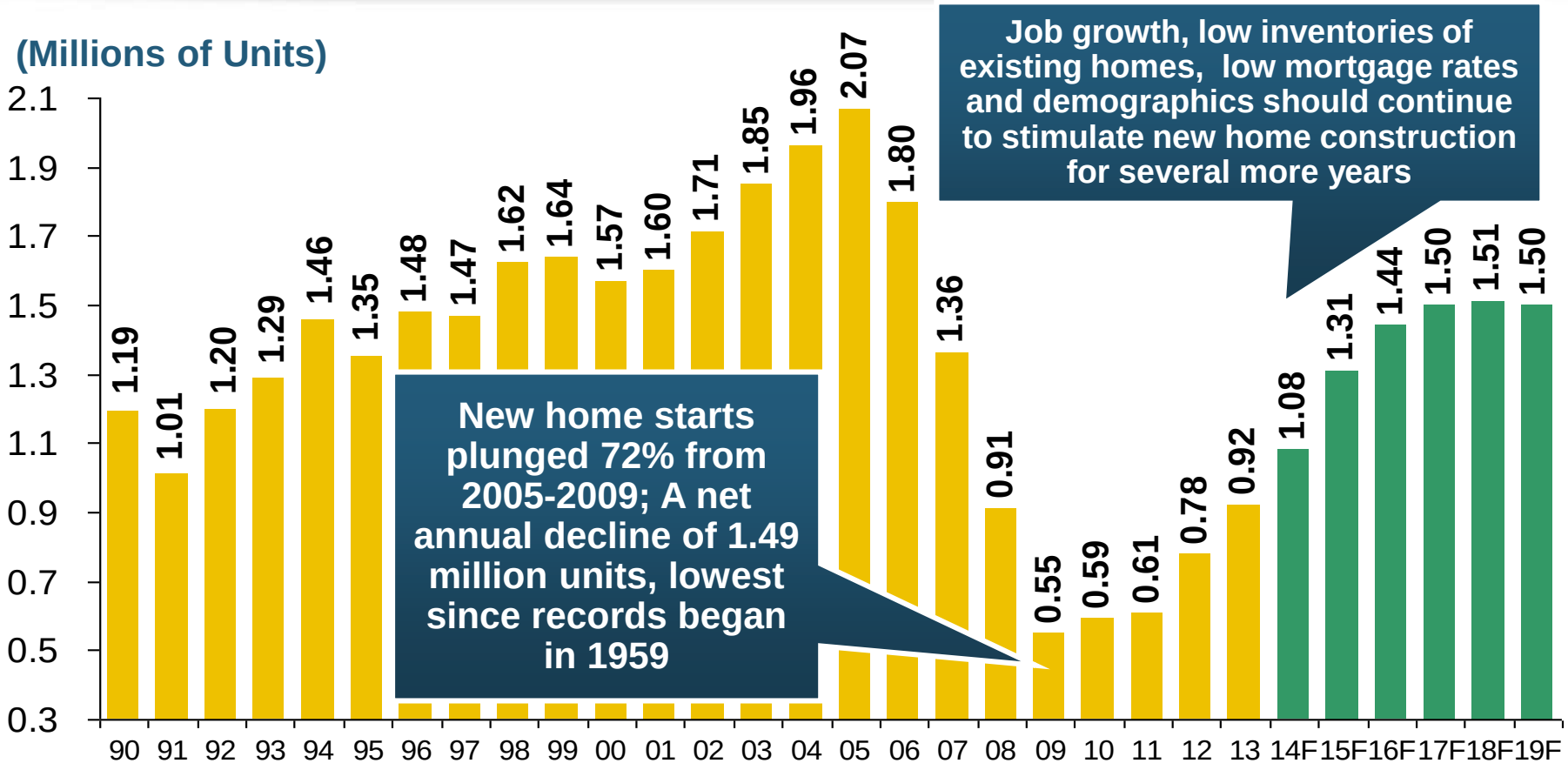
# Average Expenditures on Auto Insurance




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

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

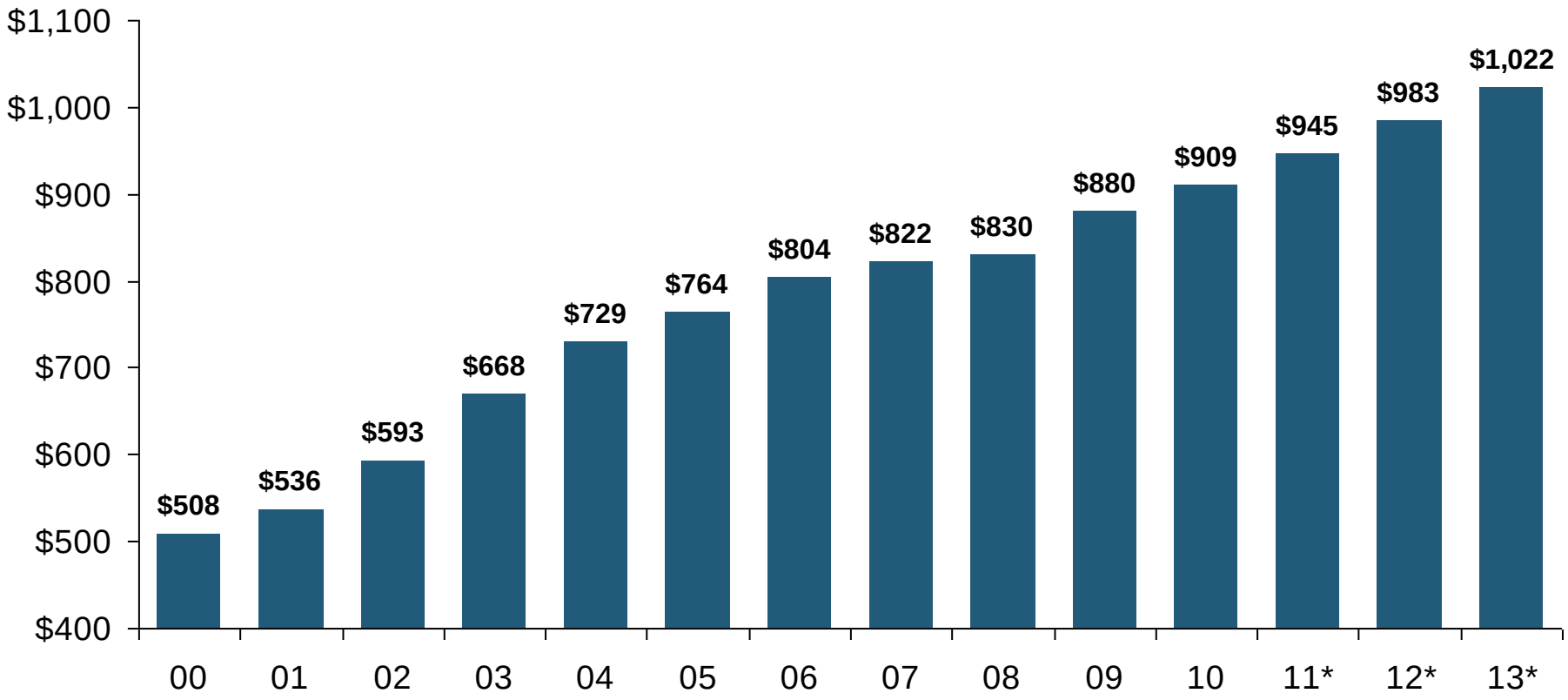
# New Private Housing Starts, 1990-2019F




**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.

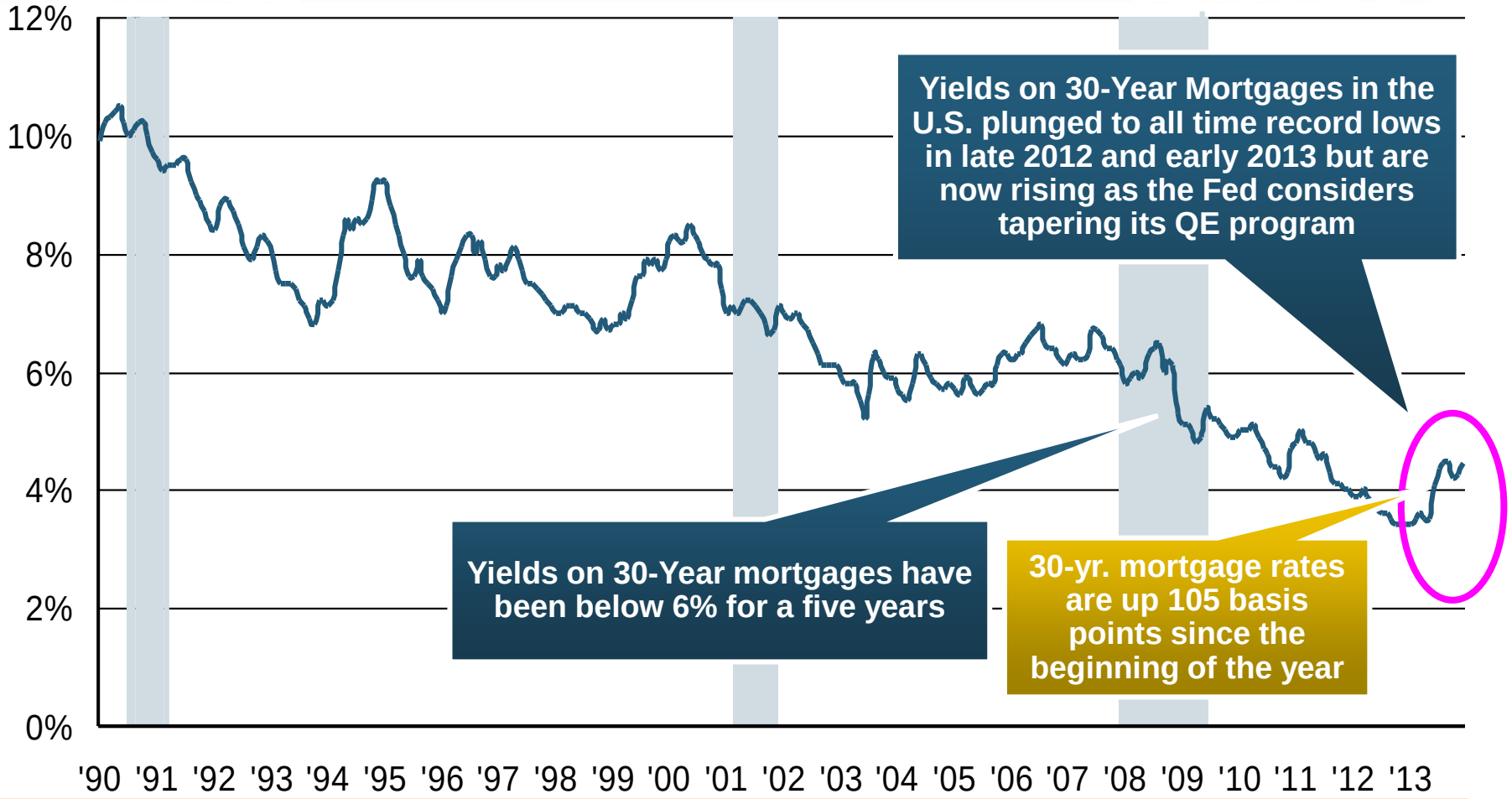
# Average Premium for Home Insurance Policies**




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

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

# Interest Rate on Convention 30-Year Mortgages: Headed Back Up, 1990–2013*

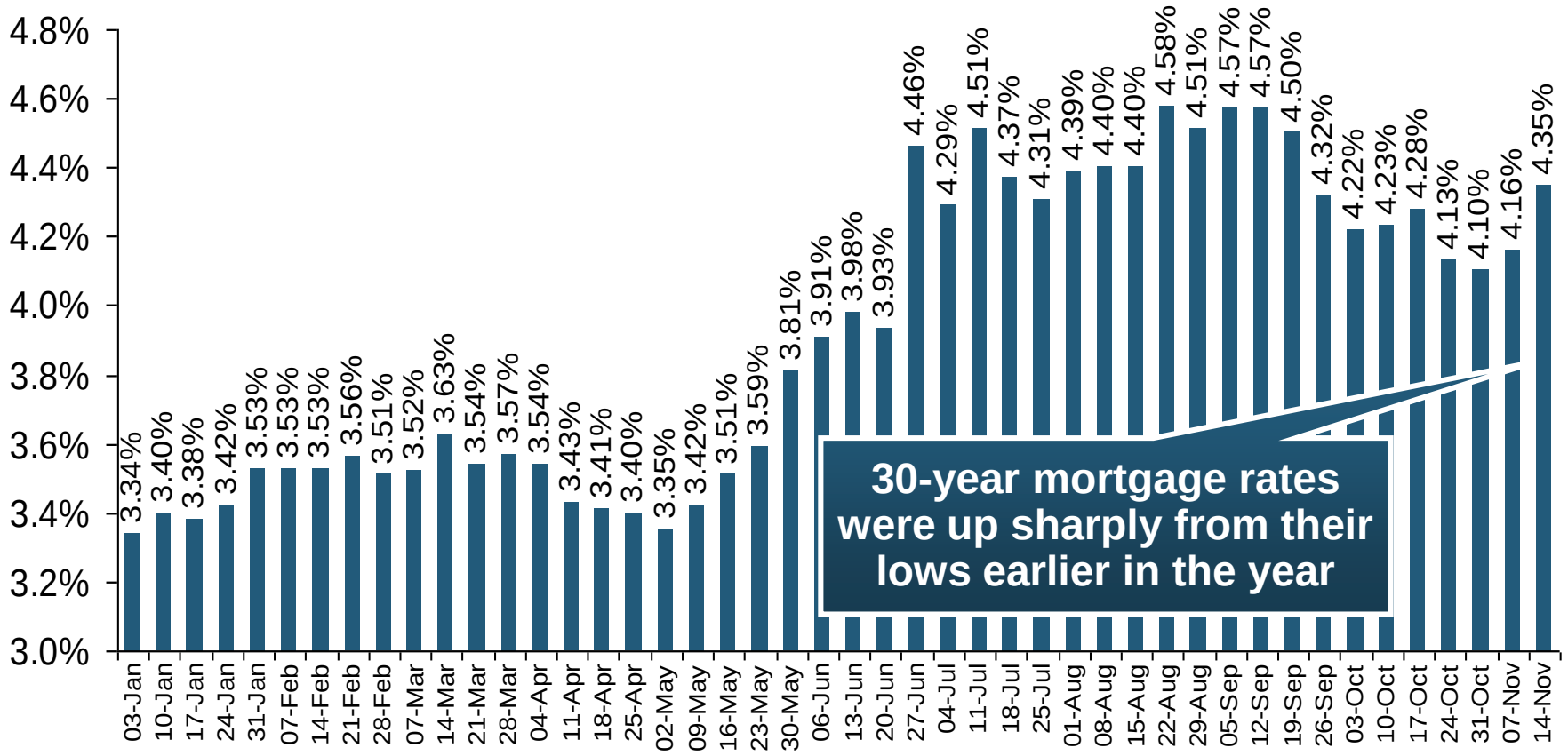



**Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.**

*Monthly, through December 2013. Note: Recessions indicated by gray shaded columns.

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

# 30-Year Mortgages in 2013 Are Rising: What Will Be the Impact on Construction?

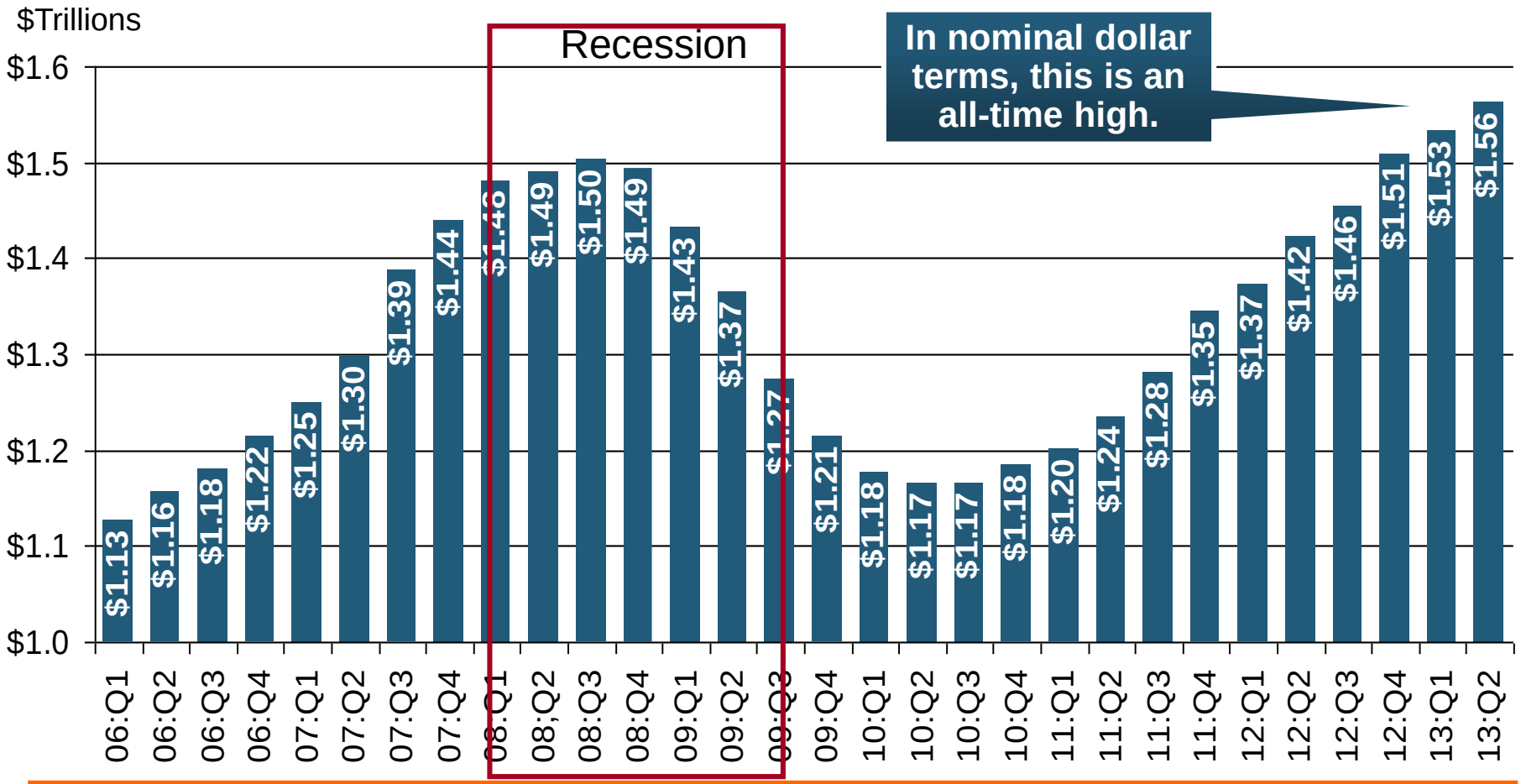



**Mortgage Interest Rates Will Rise as Expectations Over the Fed's Tapering of QE3 Persist; Still Low by Historical Standards**

*Weekly through November 14, 2013.

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

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




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

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

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

## Quarterly, 2006-2013:Q2*

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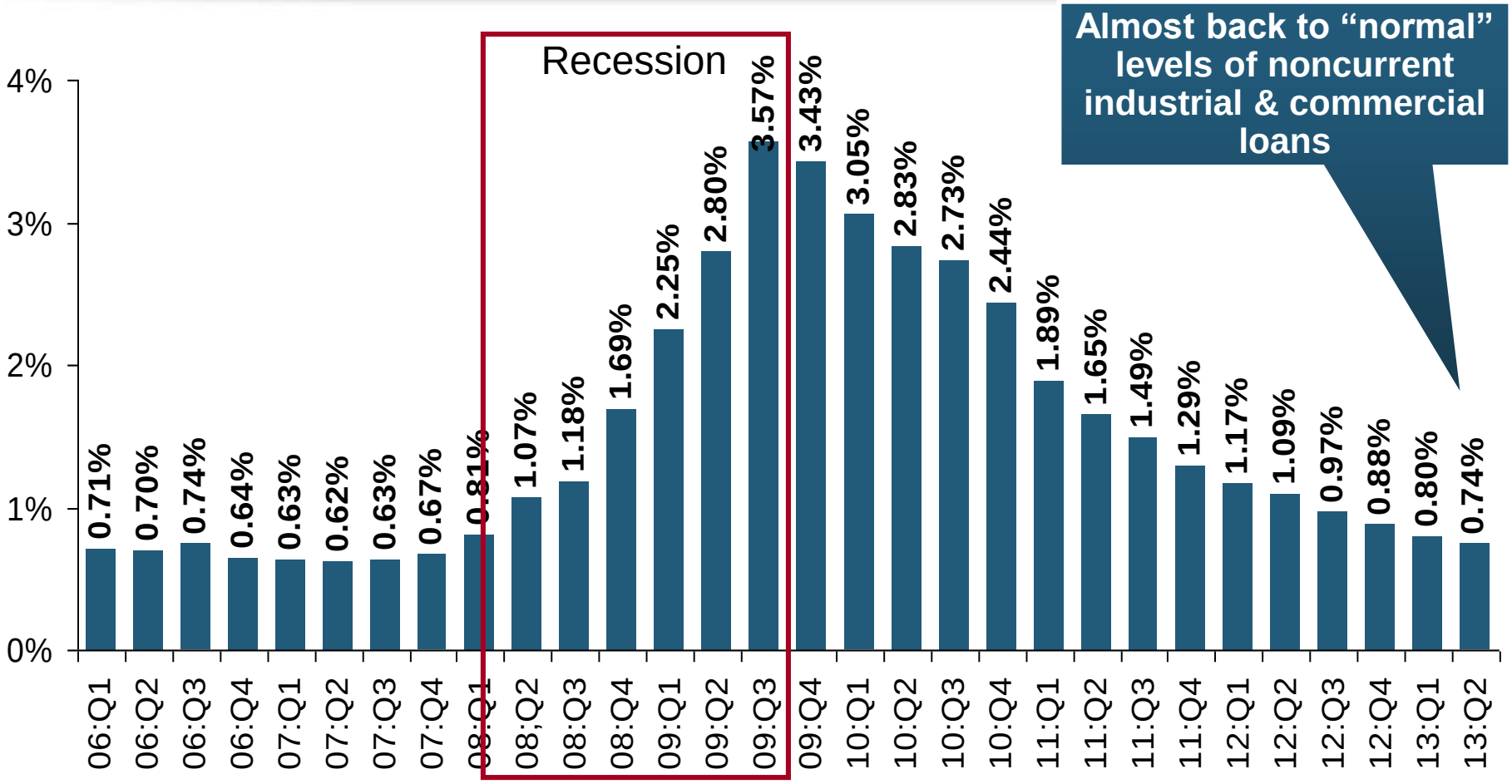


**Non-current loans (those past due 90 days or more or in nonaccrual status) are nearly back to early-recession levels, fueling bank willingness to lend.**

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

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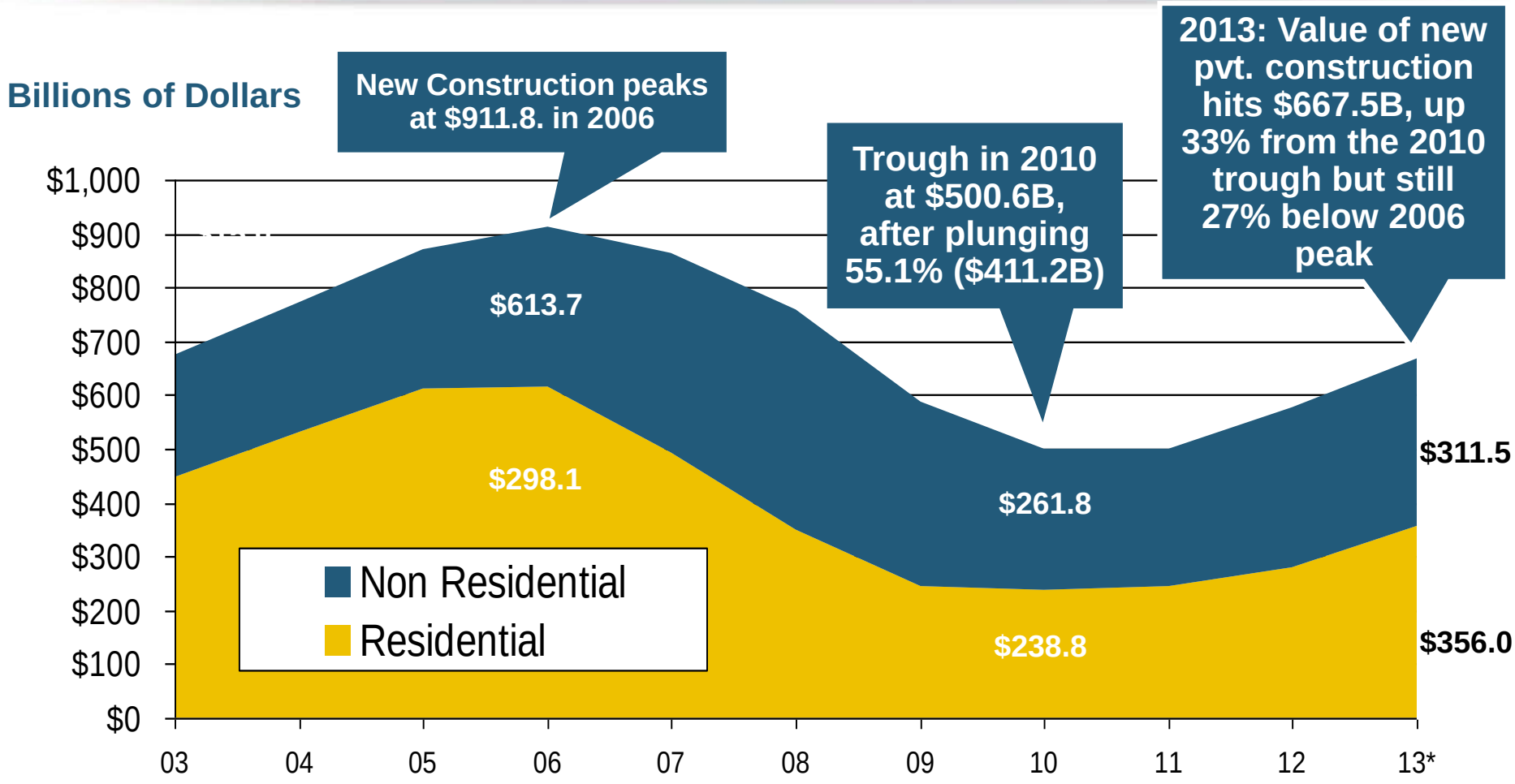
# CONSTRUCTION, MANUFACTURING & ENERGY OUTLOOK

## Key Sectors Critical to the Economy and the P/C Insurance Industry

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

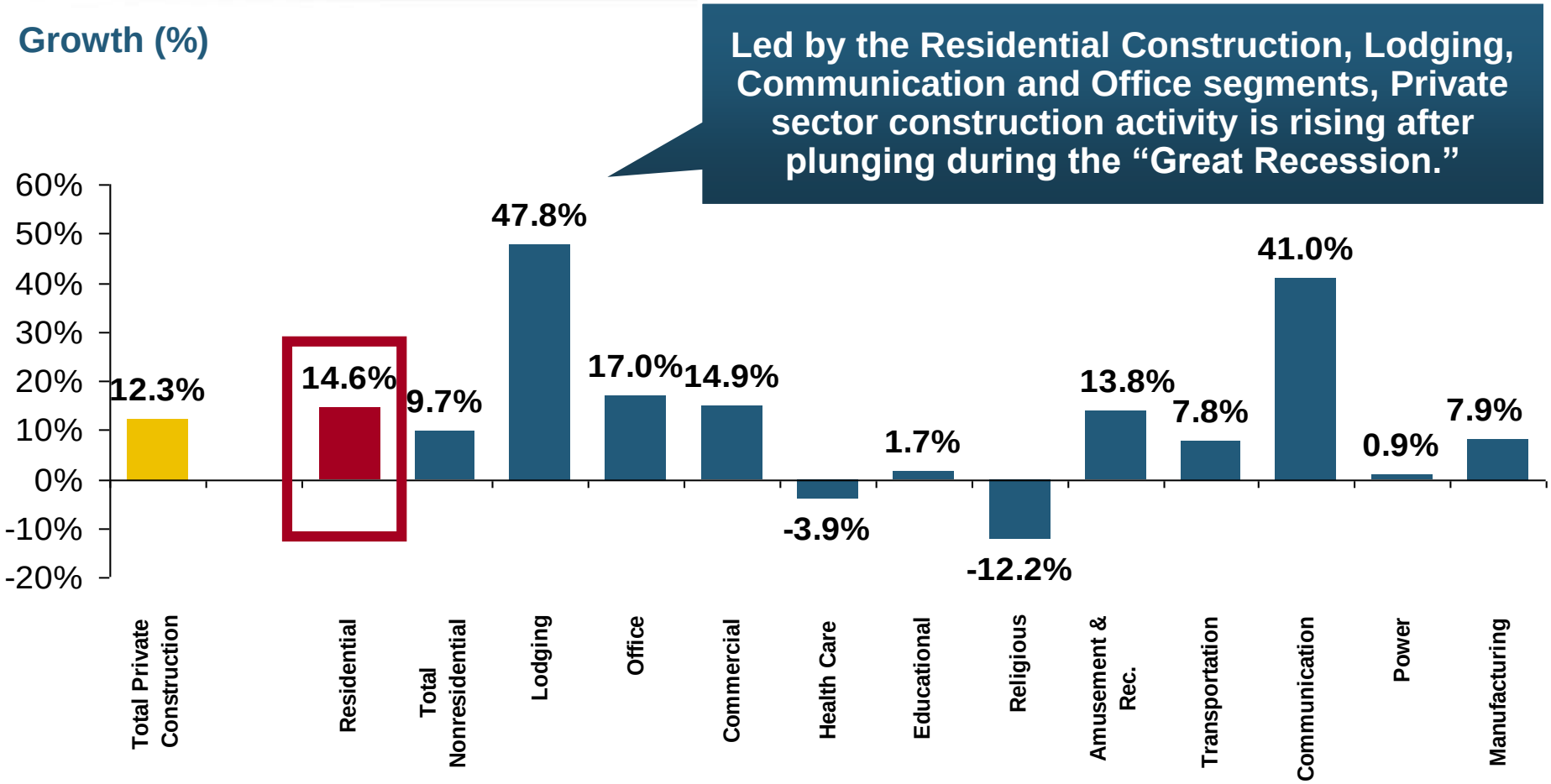



**Private Construction Activity Is Moving in a Positive Direction though Remains Well Below Pre-Crisis Peak; Residential Dominates**

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

Sources: US Department of Commerce; Insurance Information Institute.

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




**Private Construction Activity is Up in Most Segments, Including the Key Residential Construction Sector; Bodes Well for Early 2014**

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

# Private Construction by Segment/Project Type, Jan. 2014 vs. Jan. 2013*

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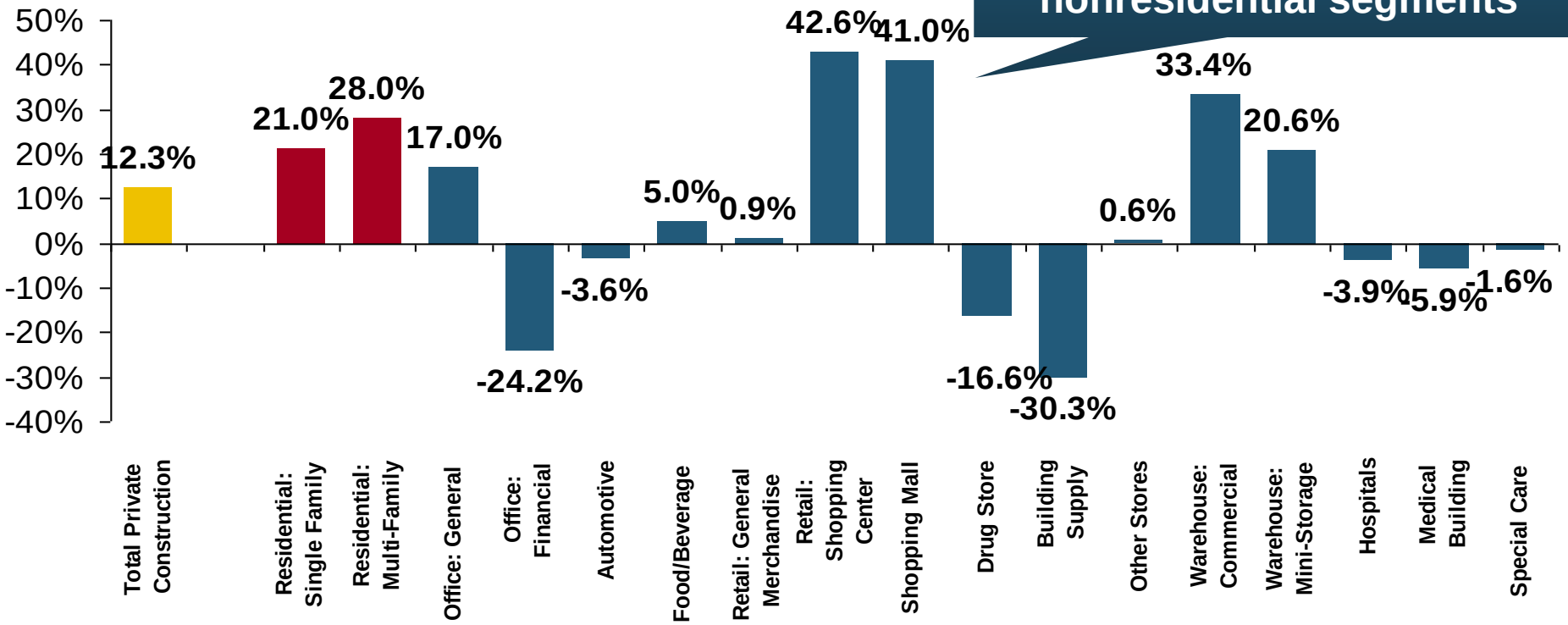
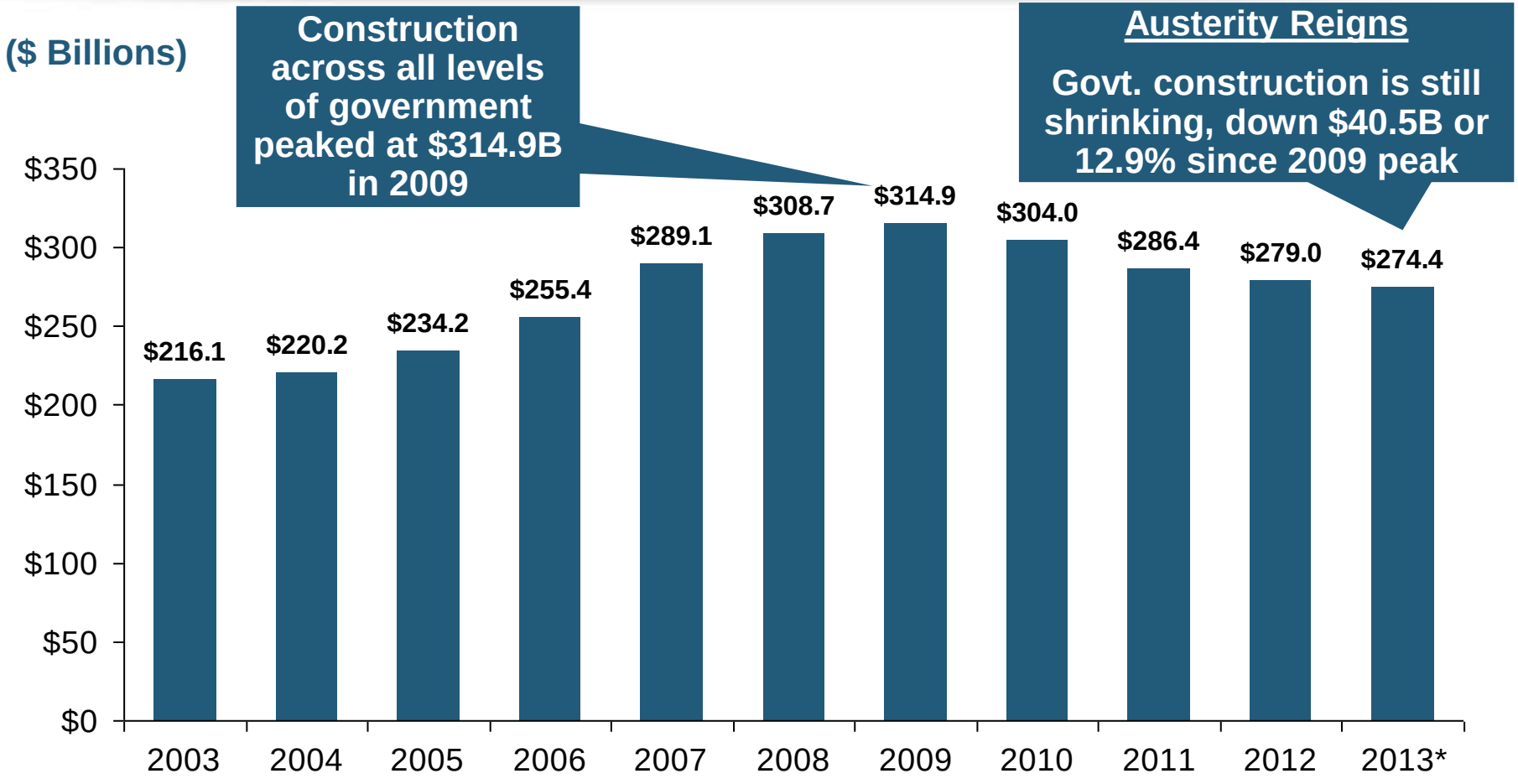
Growth (%)




**Private Construction Activity is Up in Many Segments, Including the Key Residential Construction Sector, But Down in a Few**

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

# Value of New Federal, State and Local Government Construction: 2003-2013*

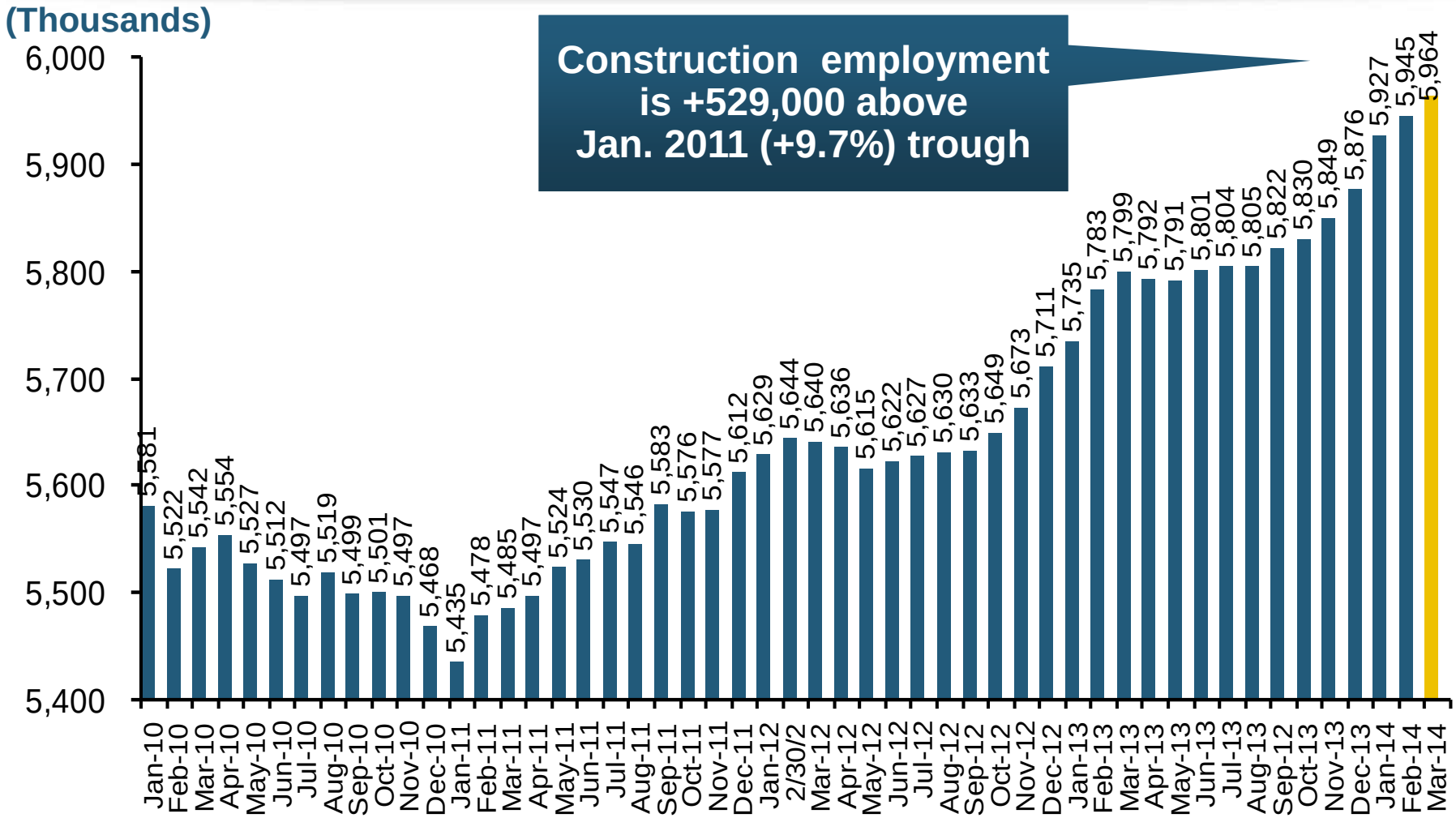



**Government Construction Spending Peaked in 2009, Helped by Stimulus Spending, but Continues to Contract As State/Local Governments Grapple with Deficits and Federal Sequestration Takes Hold**

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

Sources: US Department of Commerce; 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.

# Dollar Value* of Manufacturers' Shipments Monthly, Jan. 1992—Dec. 2013

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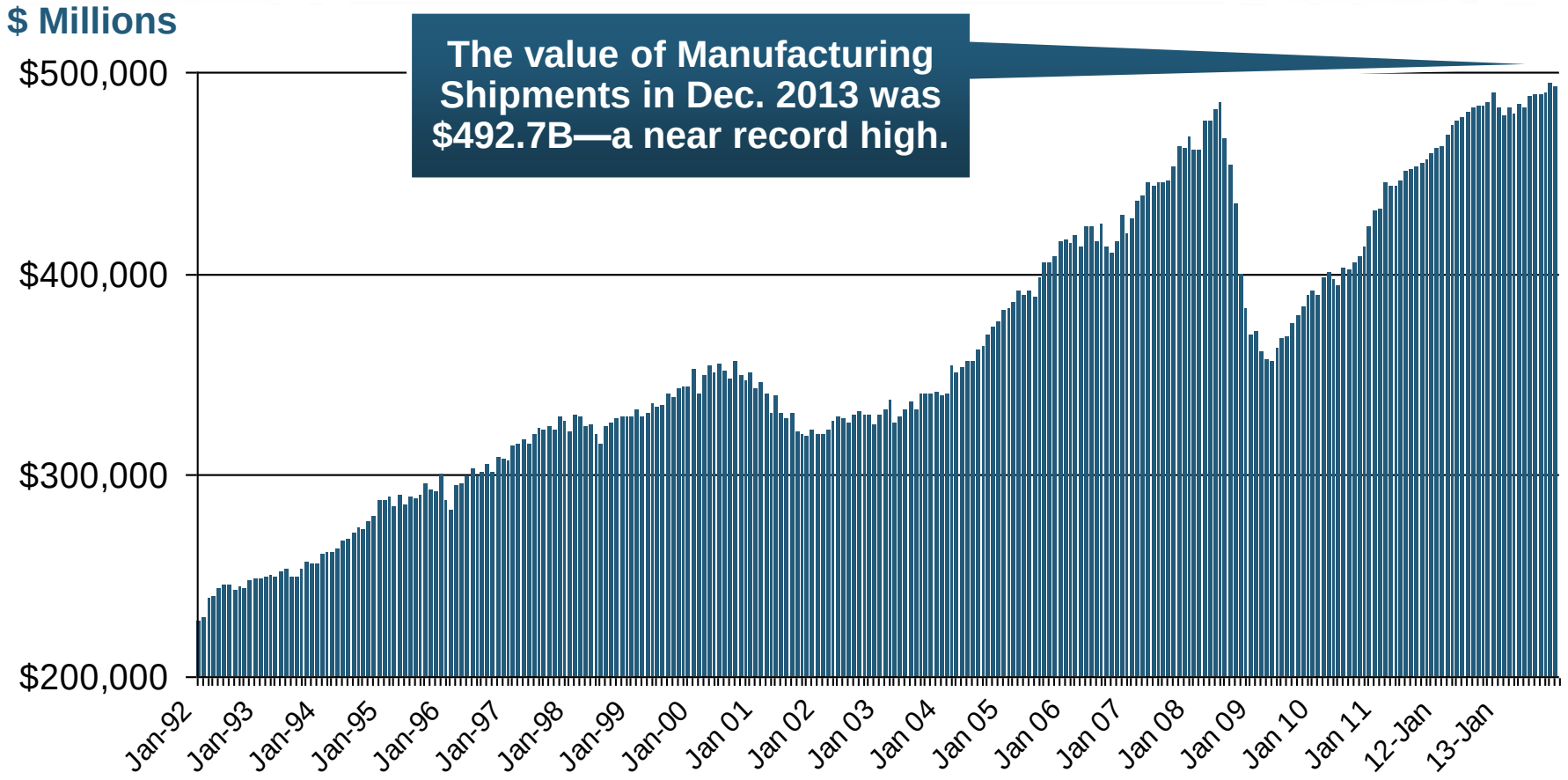
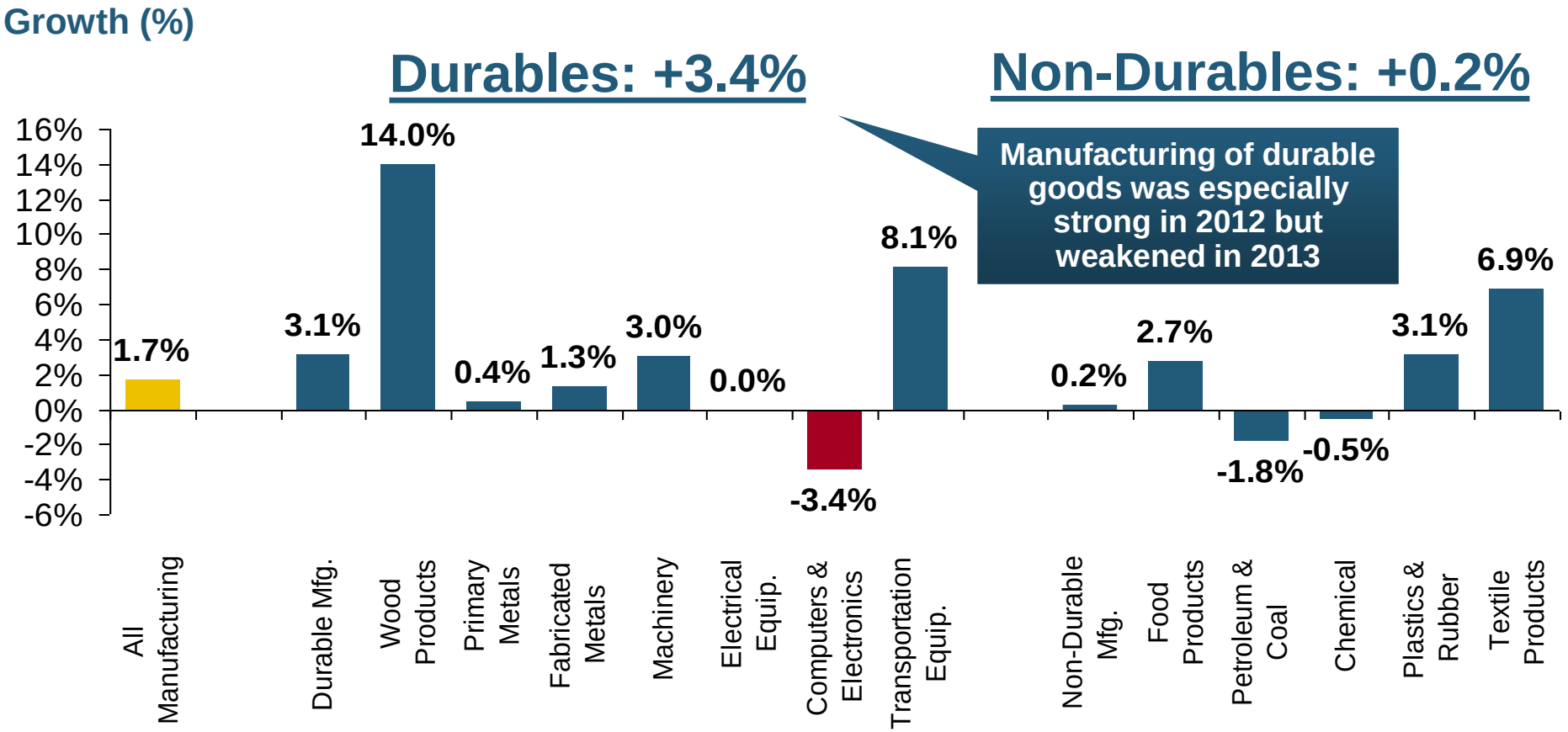



**Monthly shipments in Dec. 2013 exceeded the pre-crisis (July 2008) peak. Manufacturing is energy-intensive and growth leads to gains in many commercial exposures: WC, Commercial Auto, Marine, Property, and various Liability Coverages.**

*seasonally adjusted; Dec. 2013 is preliminary; data published February 4, 2014.
Source: U.S. Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders,* http://www.census.gov/manufacturing/m3/

# Manufacturing Growth for Selected Sectors, 2013 vs. 2012*




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

*Seasonally adjusted; Date are YTD comparing data through November 2013 to the same period in 2012.
Source: U.S. Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders,* http://www.census.gov/manufacturing/m3/

# Manufacturing Employment, Jan. 2010—March 2014*

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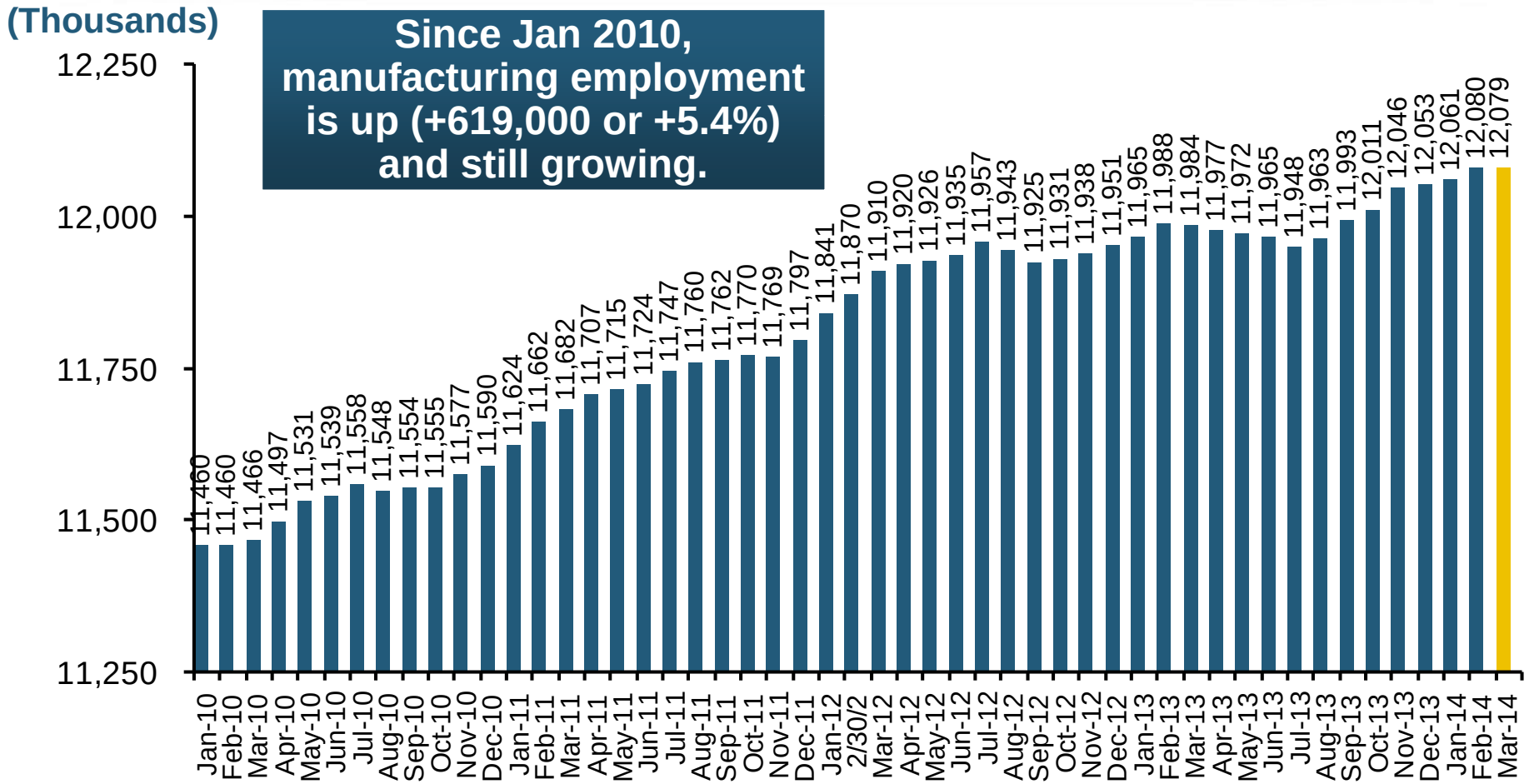
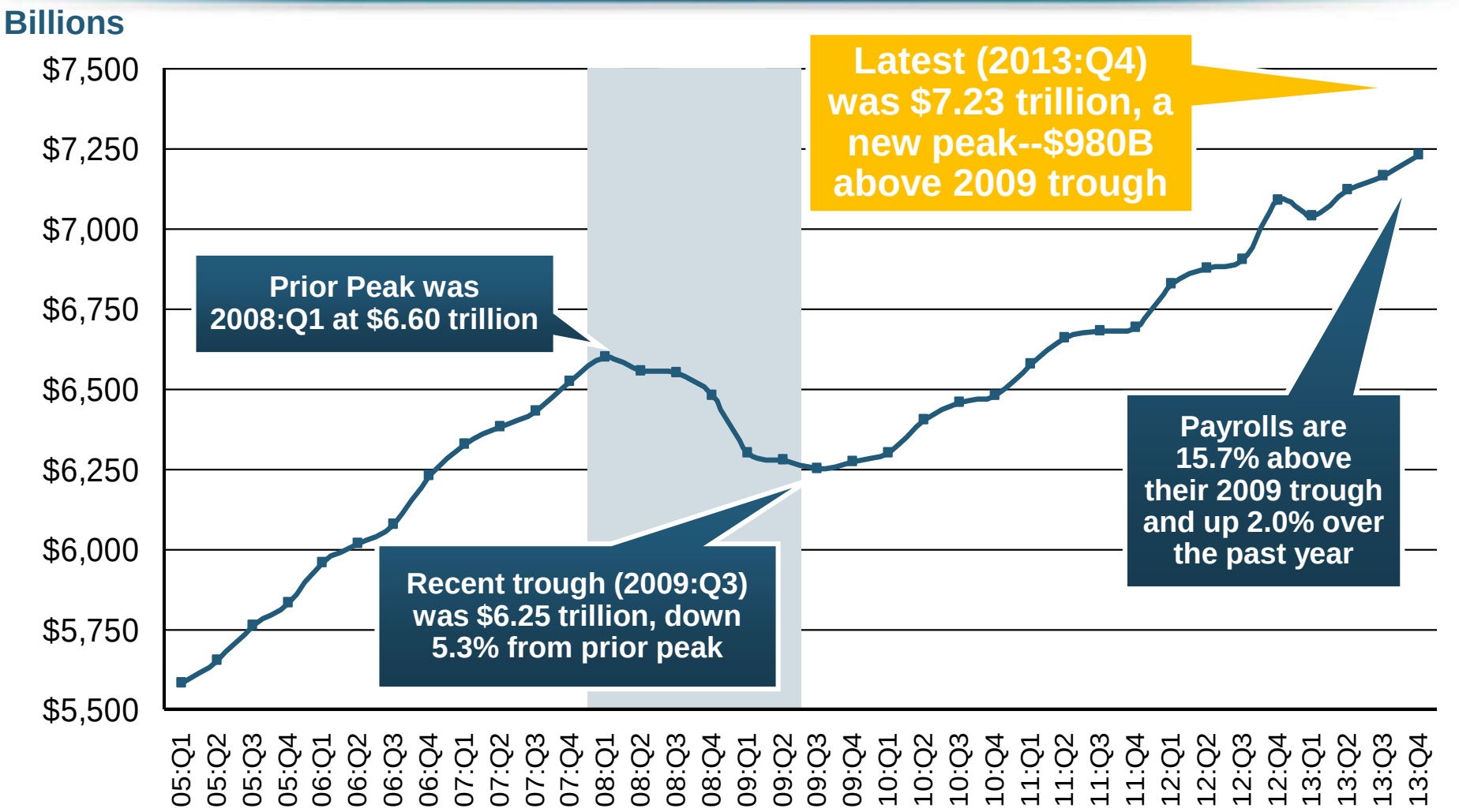



**Manufacturing employment is a surprising source of strength in the economy. Employment in the sector is at a multi-year high.**

*Seasonally adjusted; Feb. and Mar. 2014 are preliminary

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

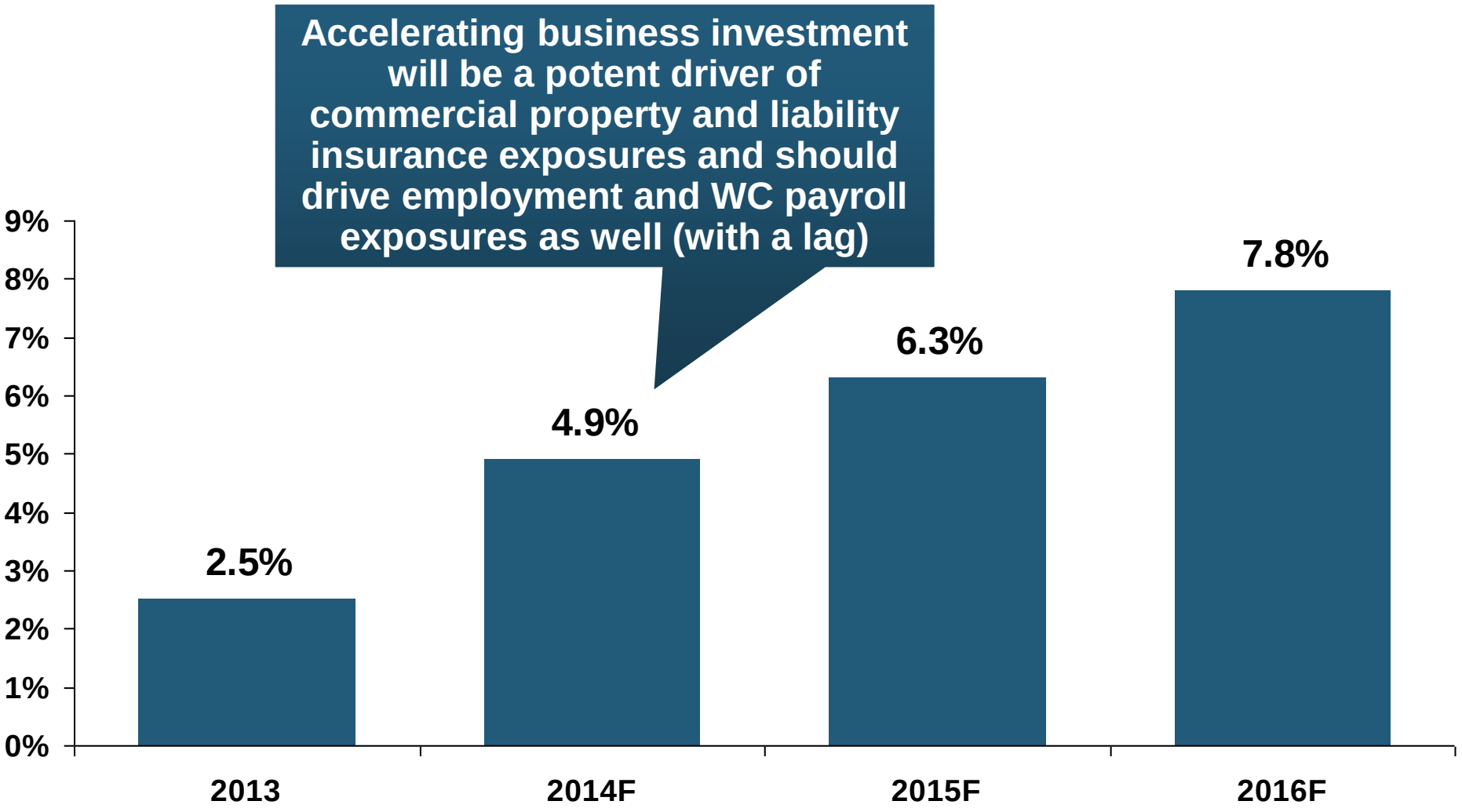
# Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2013:Q4




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.

# Business Investment: Expected to Accelerate, Fueling Commercial Exposure Growth




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

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

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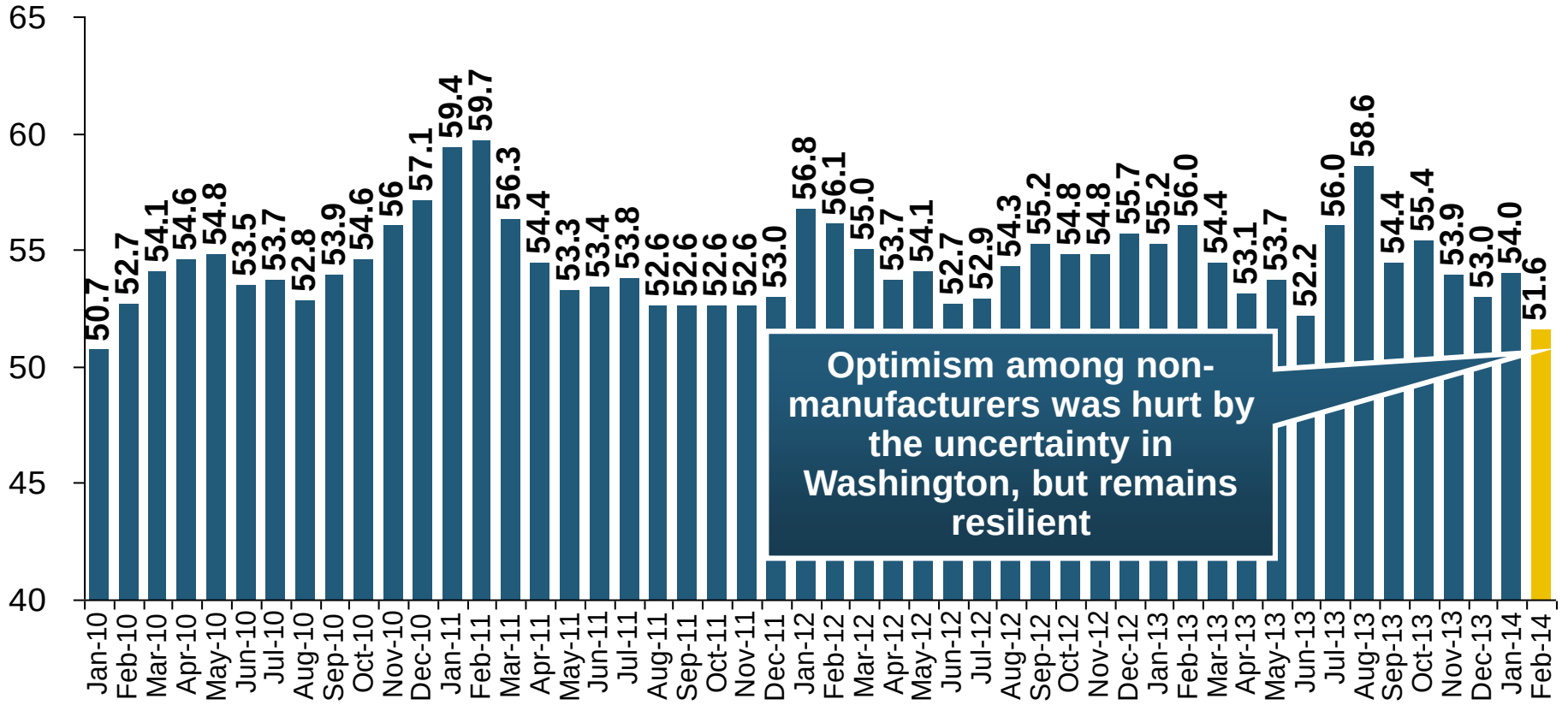
## January 2010 through February 2014




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

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

# Business Bankruptcy Filings, 1980-2013

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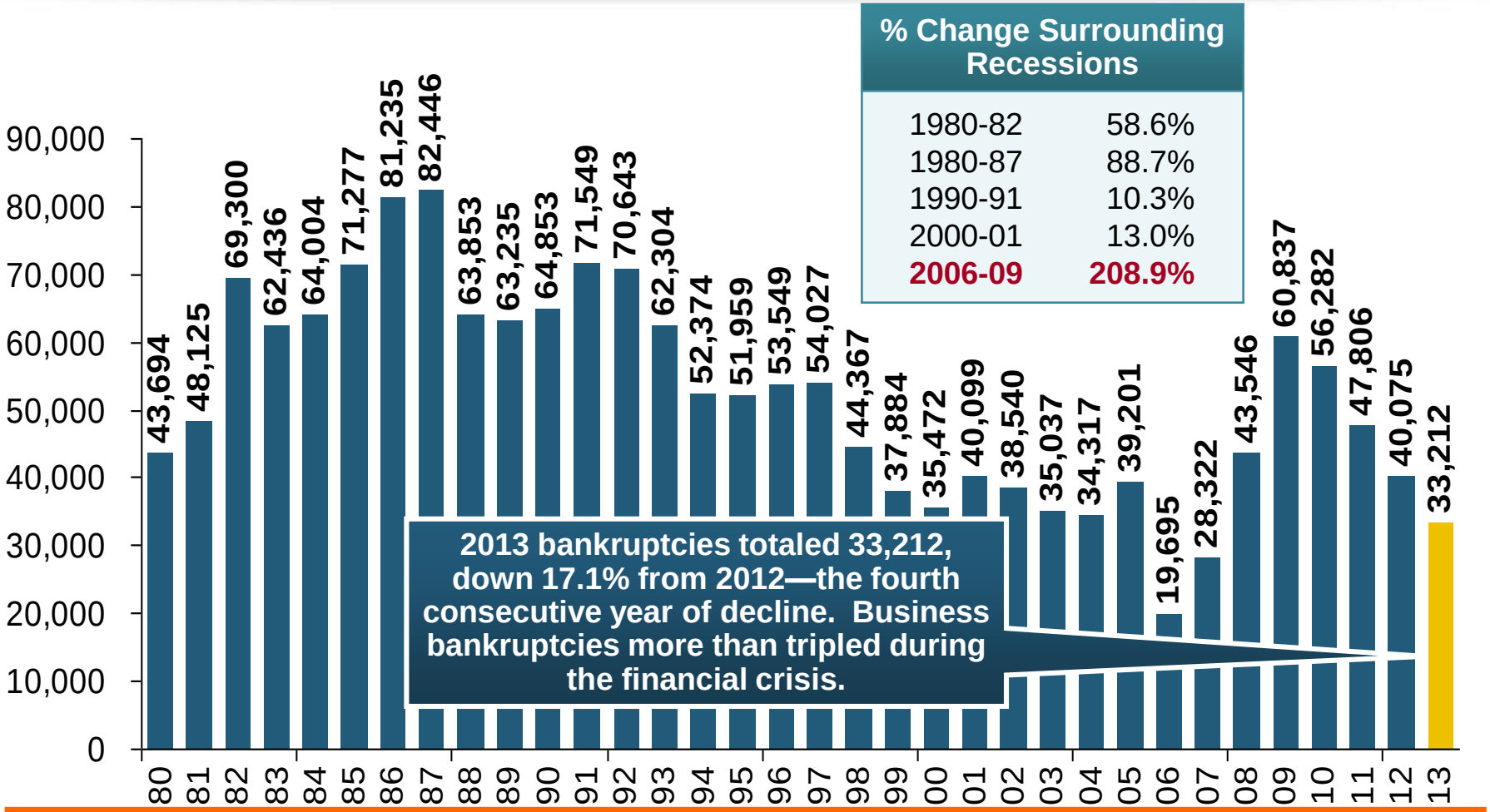


**Significant Exposure Implications for All Commercial Lines as Business Bankruptcies Begin to Decline**

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

# 12 Industries for the Next 10 Years: Insurance Solutions Needed

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

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

# U.S. Natural Has Imports and Exports, 1990 - 2040

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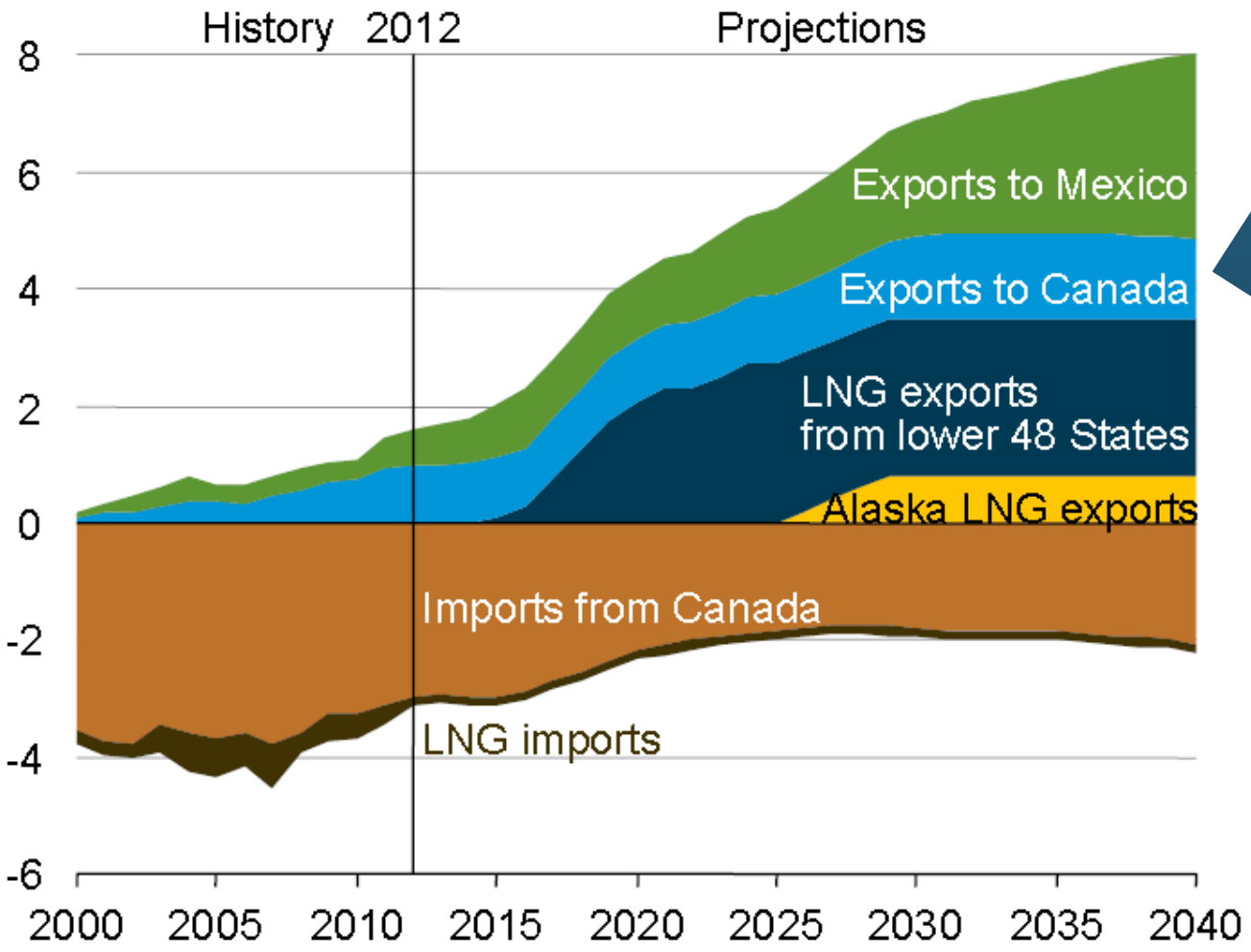
**Trillions of Cubic Feet**




**The US is now the largest gas producer in the world, though Russia is the largest exporter. The US needs to invest in its pipeline and LNG infrastructure and expedite regulatory approval to realize its full export potential**

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

# U.S. Electricity Generation by Fuel, 1990 - 2040

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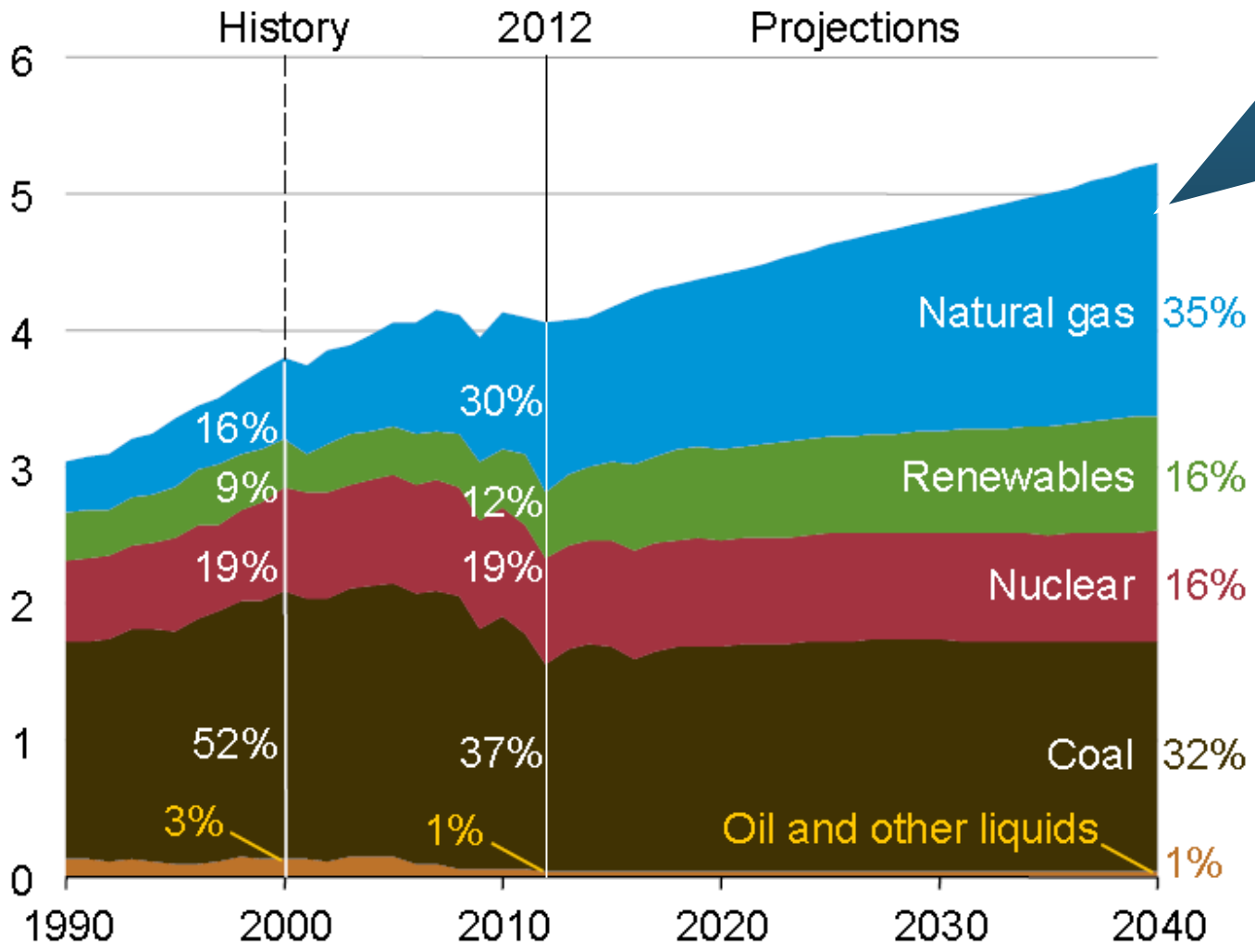
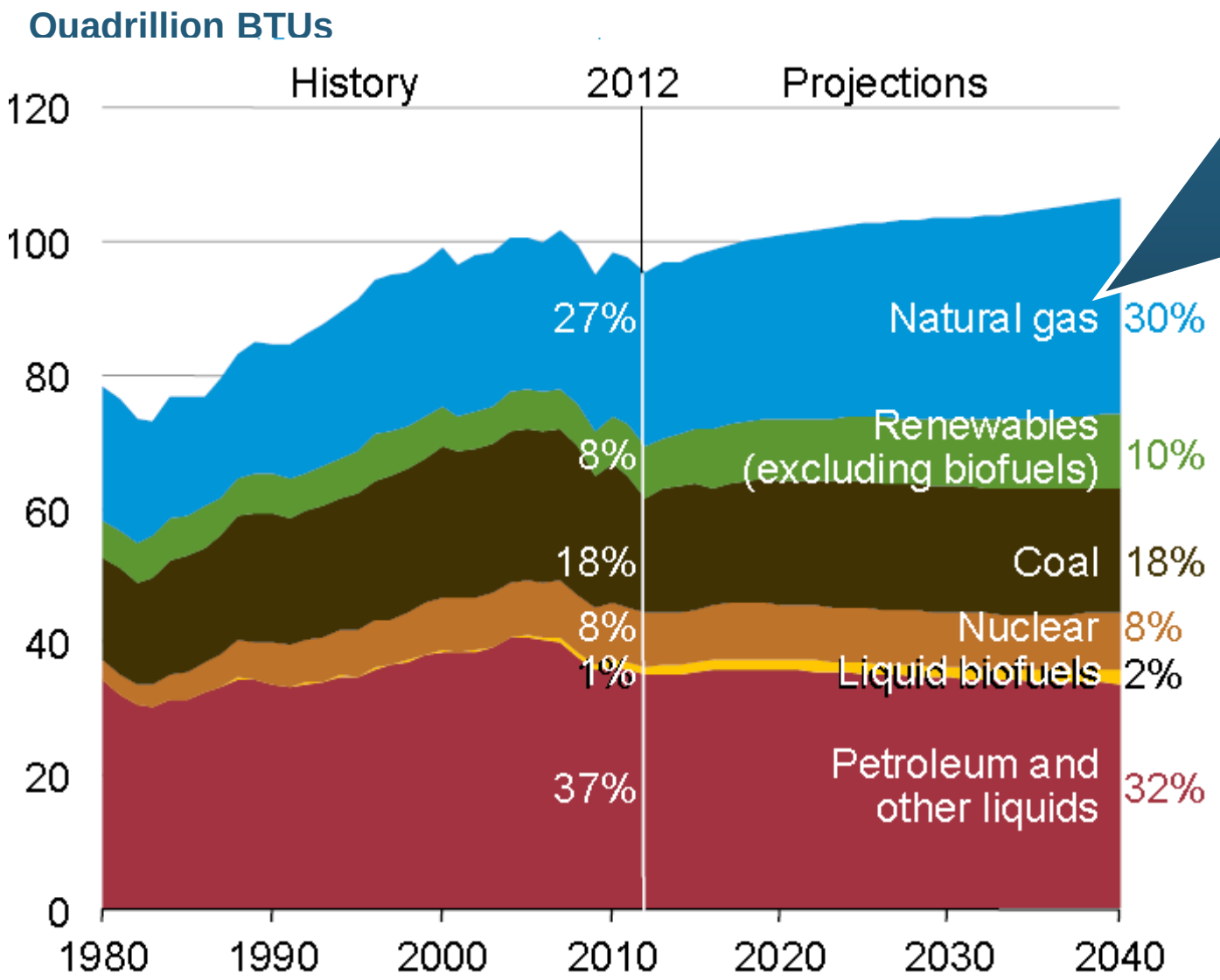
**Trillions of kilowatt Hours**




**Electricity consumption in the US will rise steadily along with the fuel shares of natural gas and renewables**

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

# U.S. Primary Energy Consumption by Fuel, 1990 - 2040



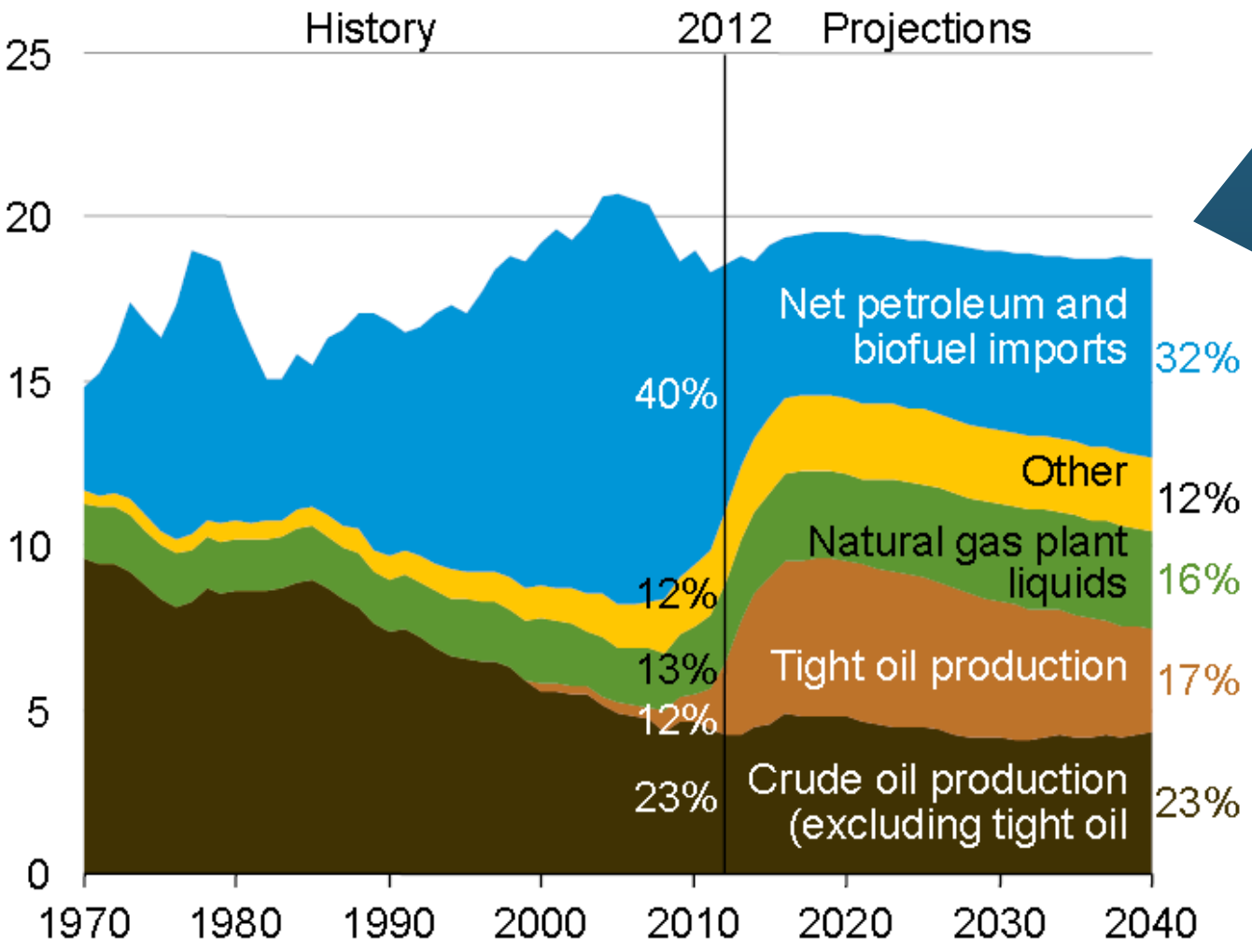

**Energy consumption in the US will rise steadily with natural gas fueling most of the additional consumption**

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

# U.S. Petroleum and Other Liquid Fuel Supplies by Source, 1990 - 2040

INSURANCE INFORMATION INSTITUTE

**Millions of Barrels per Day**




**Liquid fuel consumption is expected to change little through 2040, though "tight" oil will account for a much larger share thereby reducing imports of petroleum products**

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

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

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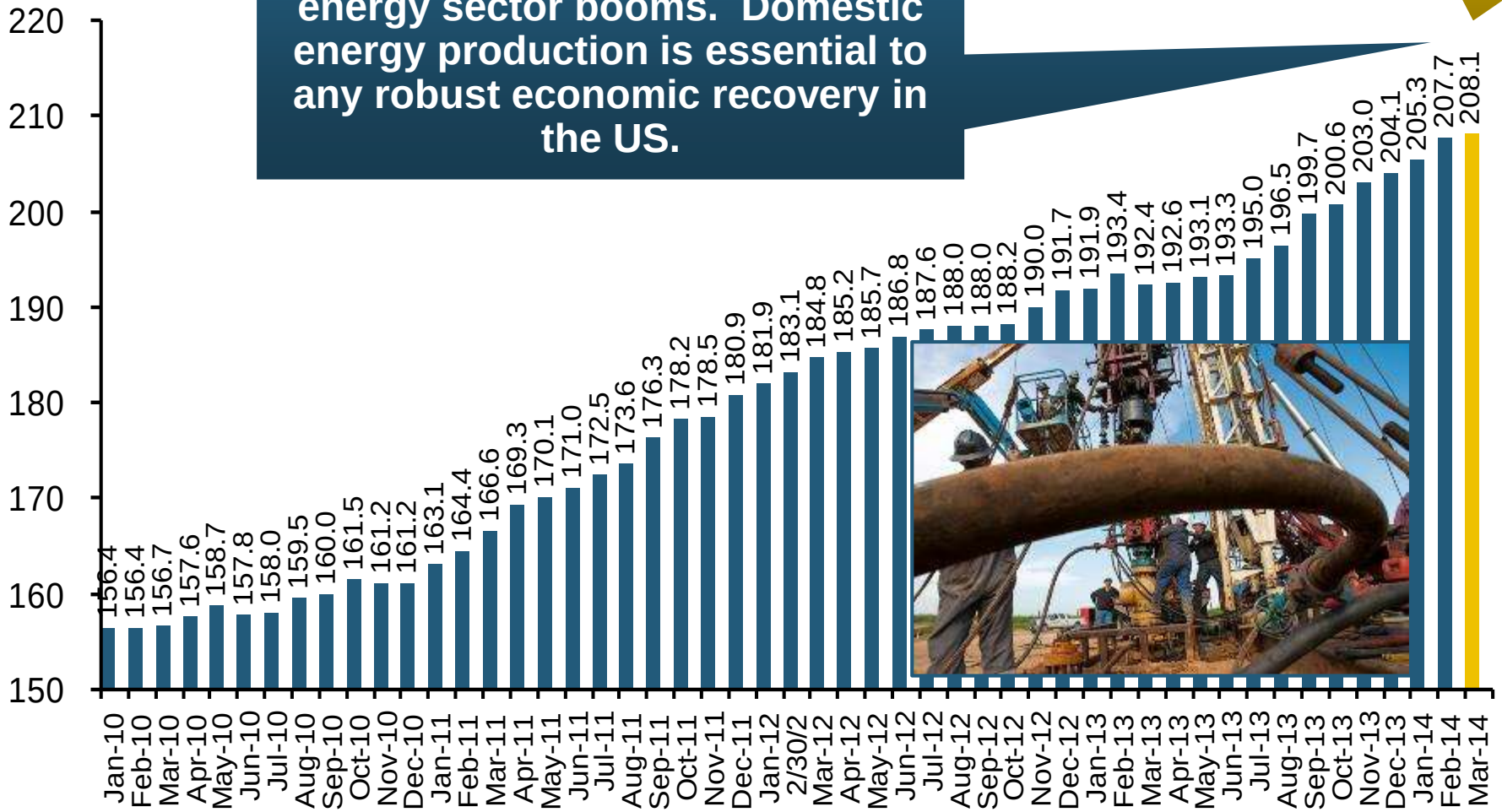
(Thousands)

**Oil and gas extraction employment is up 33.1% since Jan. 2010 as the energy sector booms. Domestic energy production is essential to any robust economic recovery in the US.**

**Highest since Aug. 1986**

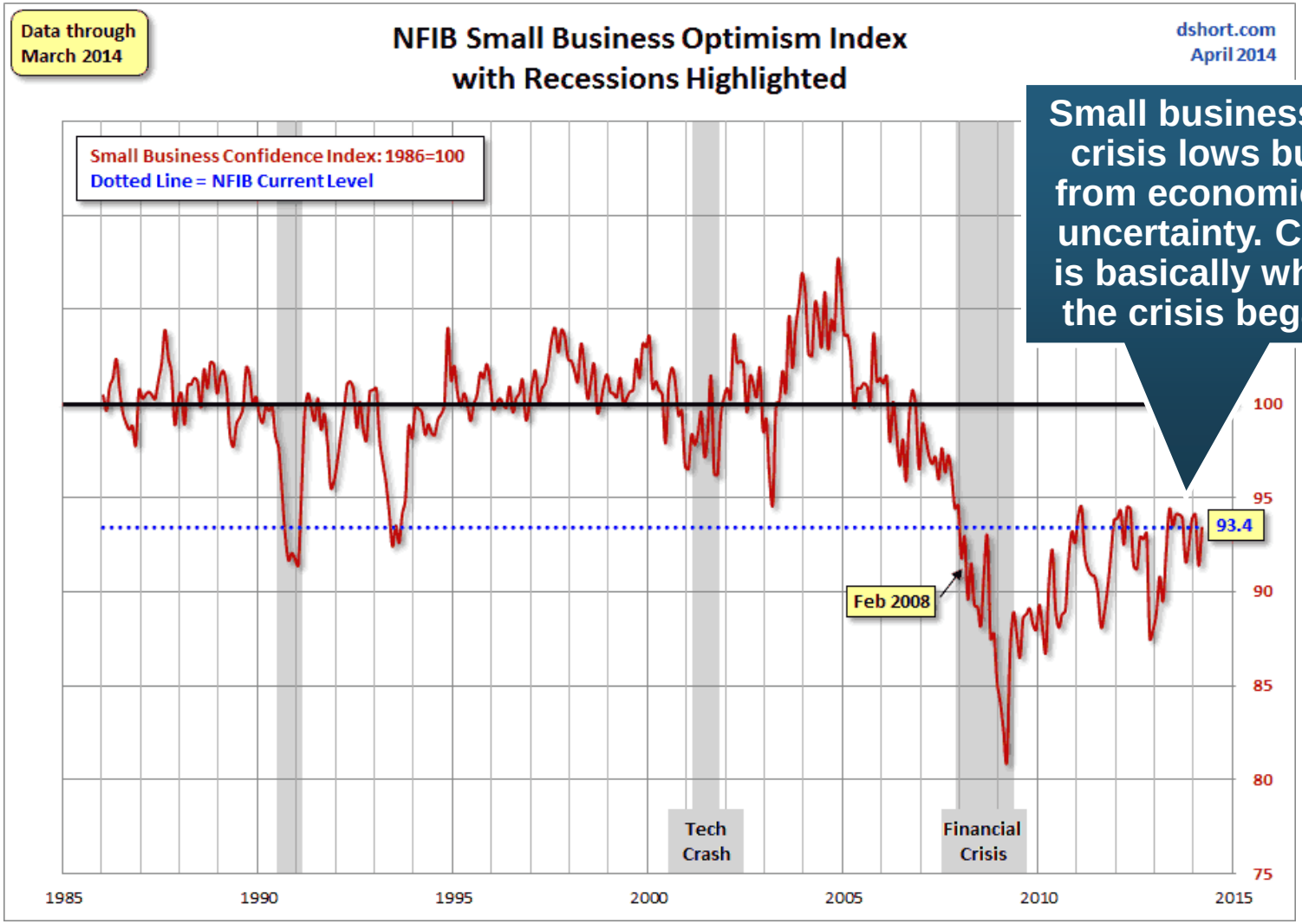



*Seasonally adjusted

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

# NFIB Small Business Optimism Index

## January 1985 through March 2014




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

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# Labor Market Trends

## Massive Job Losses Sapped the Economy and Commercial/Personal Lines Exposure, But Trend is Improving

# Unemployment and Underemployment Rates: Still Too High, But Falling

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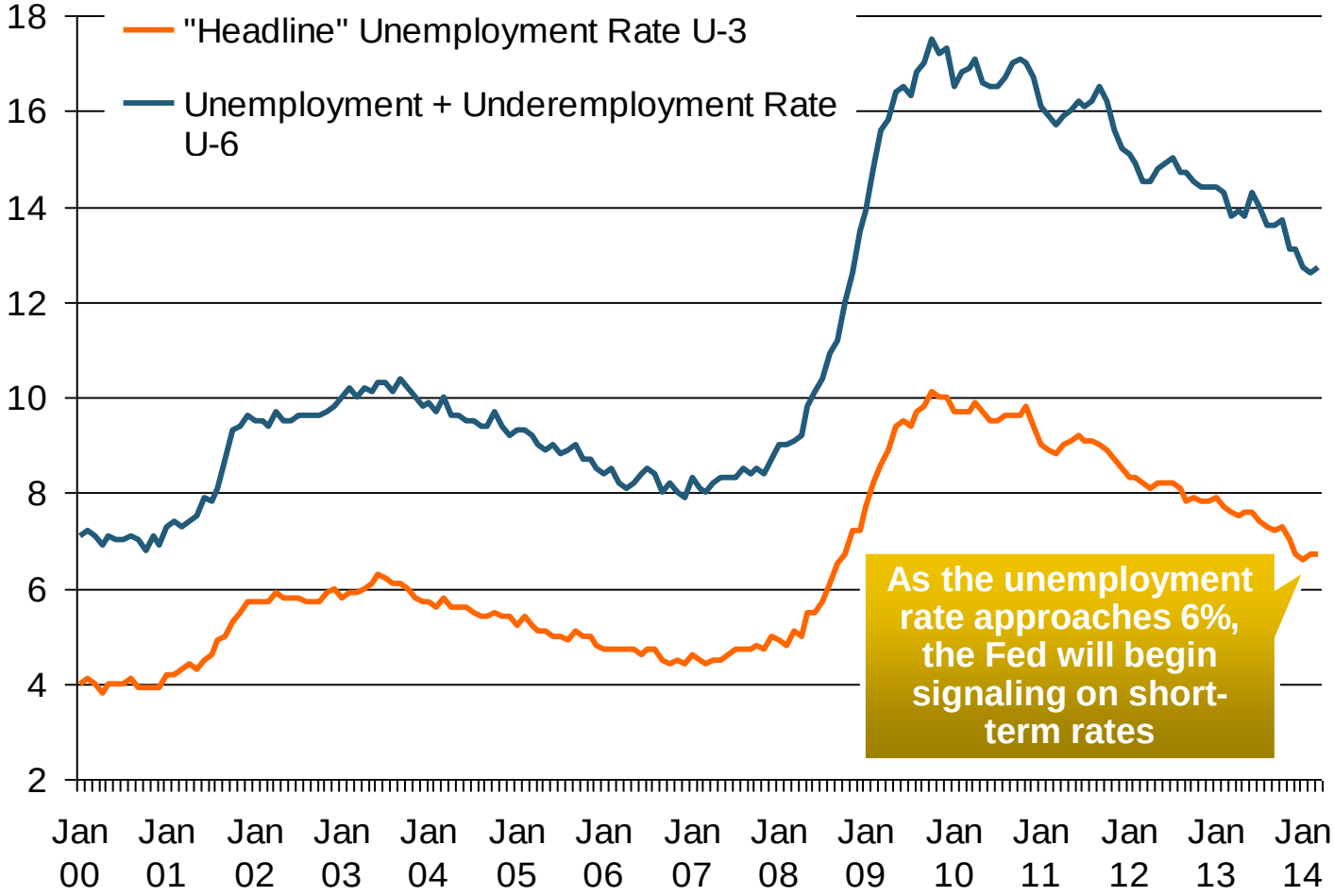
**January 2000 through March 2014, Seasonally Adjusted (%)**




**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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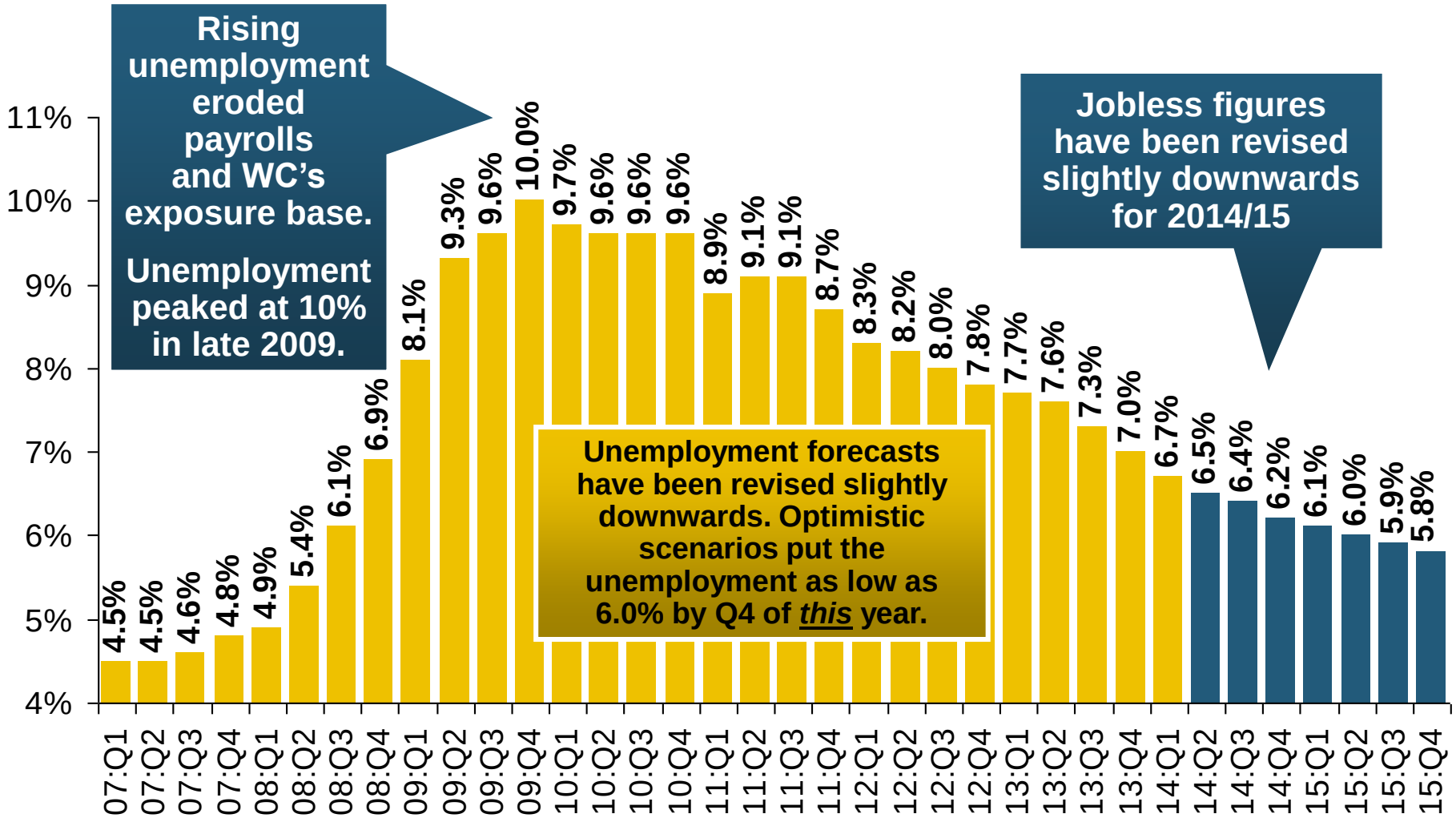
## 2007:Q1 to 2015:Q4F*




* = 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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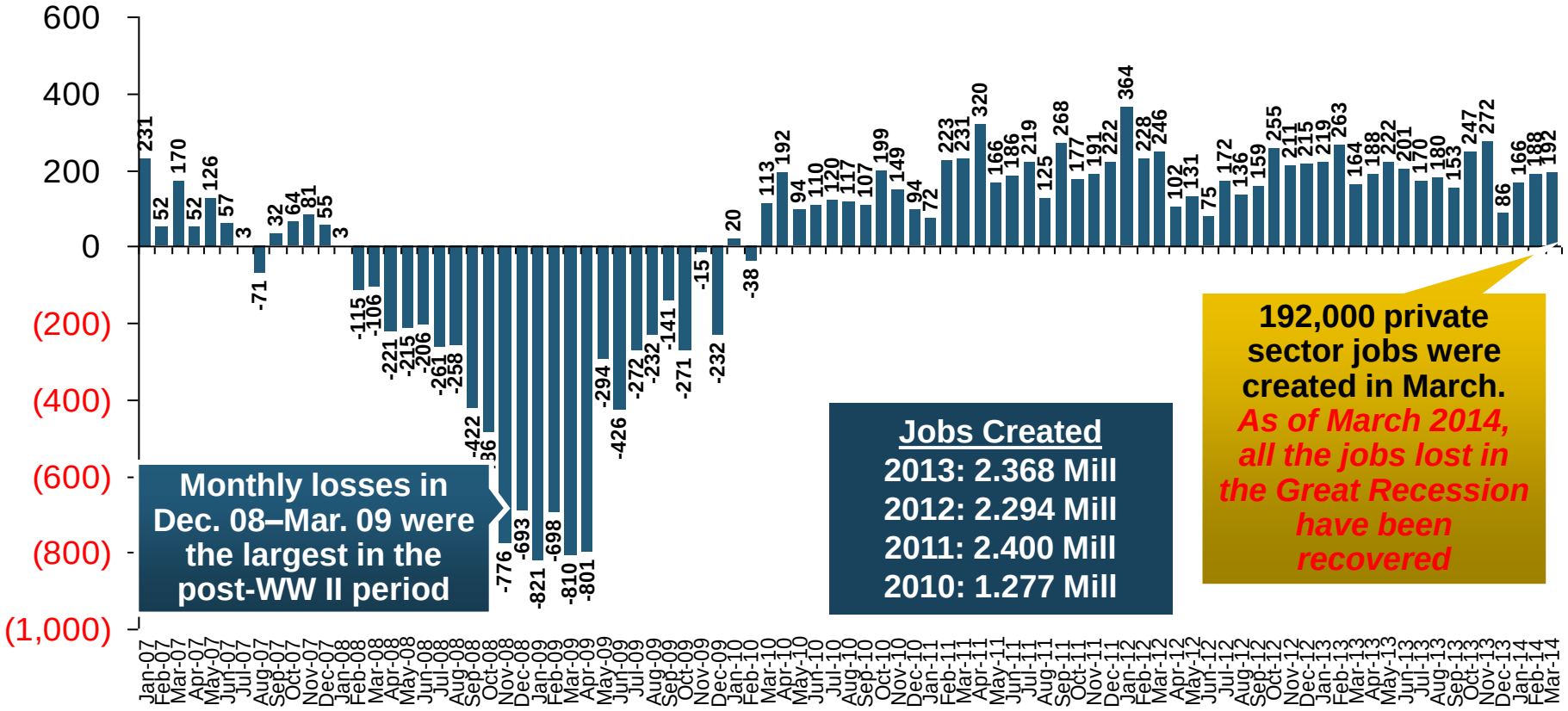
## January 2007 through March 2014 (Thousands, Seasonally Adjusted)




**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

# Cumulative Change in Private Employment: Dec. 2007—Dec. 2013

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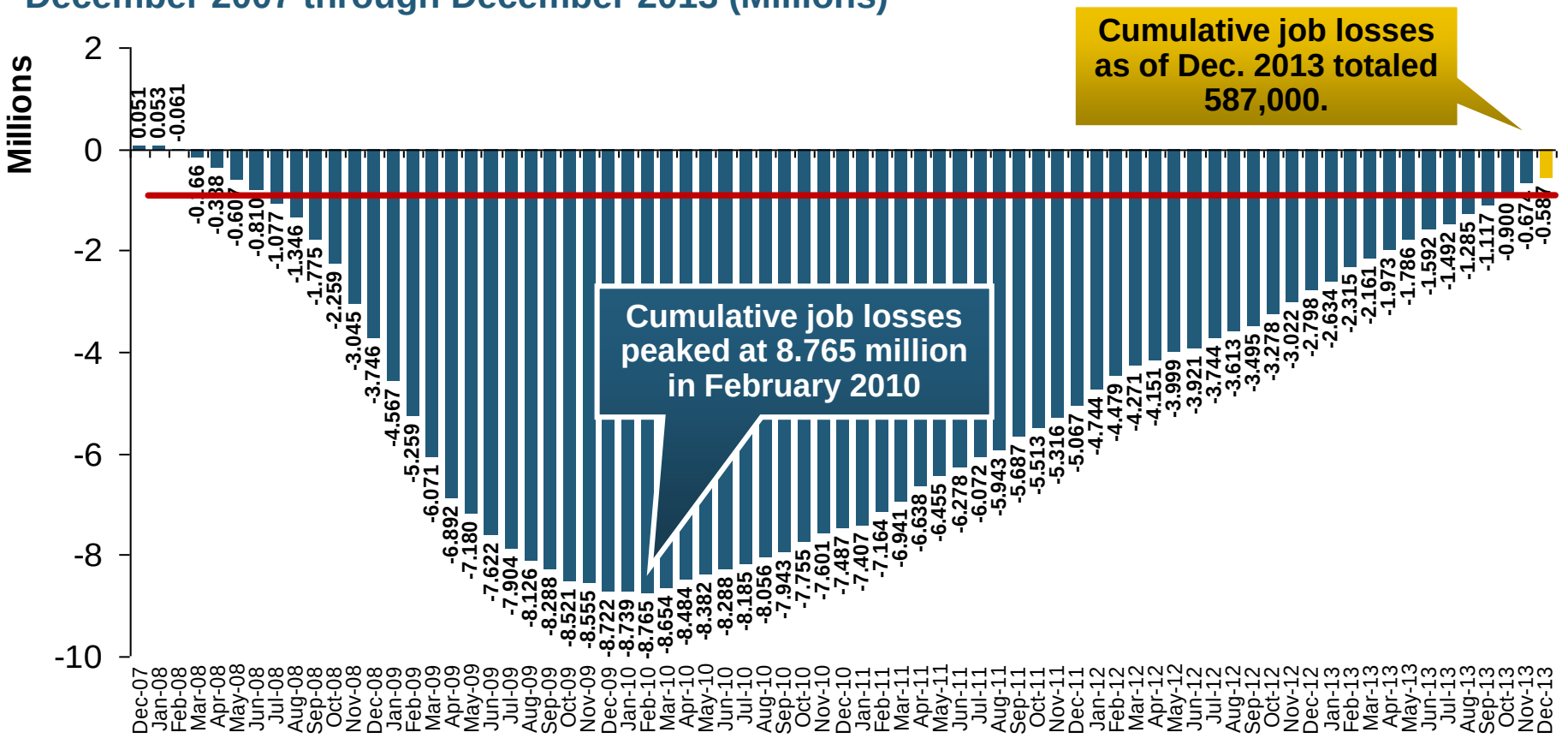
## December 2007 through December 2013 (Millions)



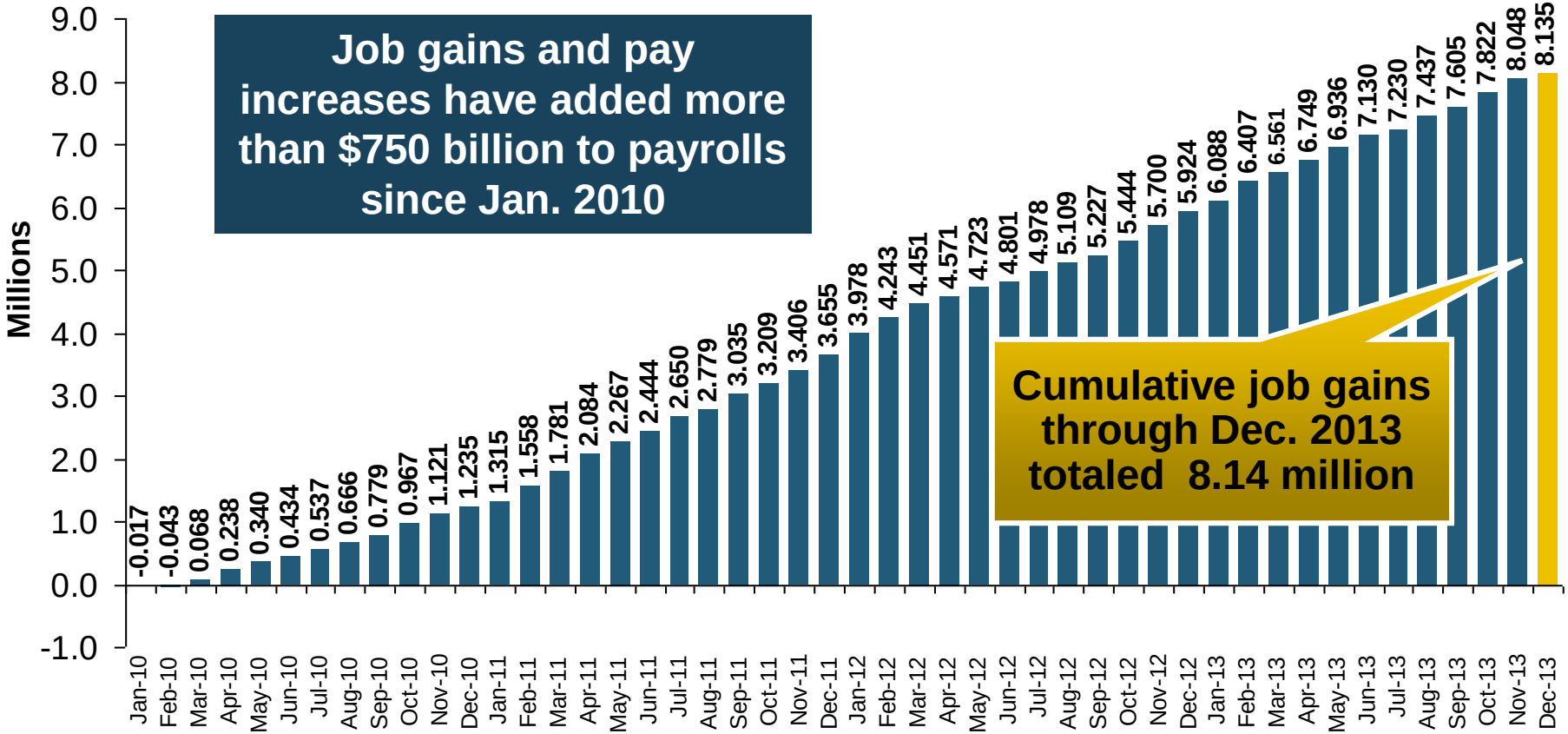

**Private Employers Added 8.14 million Jobs Since Jan. 2010 After Having Shed 4.98 Million Jobs in 2009 and 3.80 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)**

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

# Cumulative Change in Private Sector Employment: Jan. 2010—Dec. 2013

INSURANCE INFORMATION INSTITUTE

## January 2010 through December 2013* (Millions)



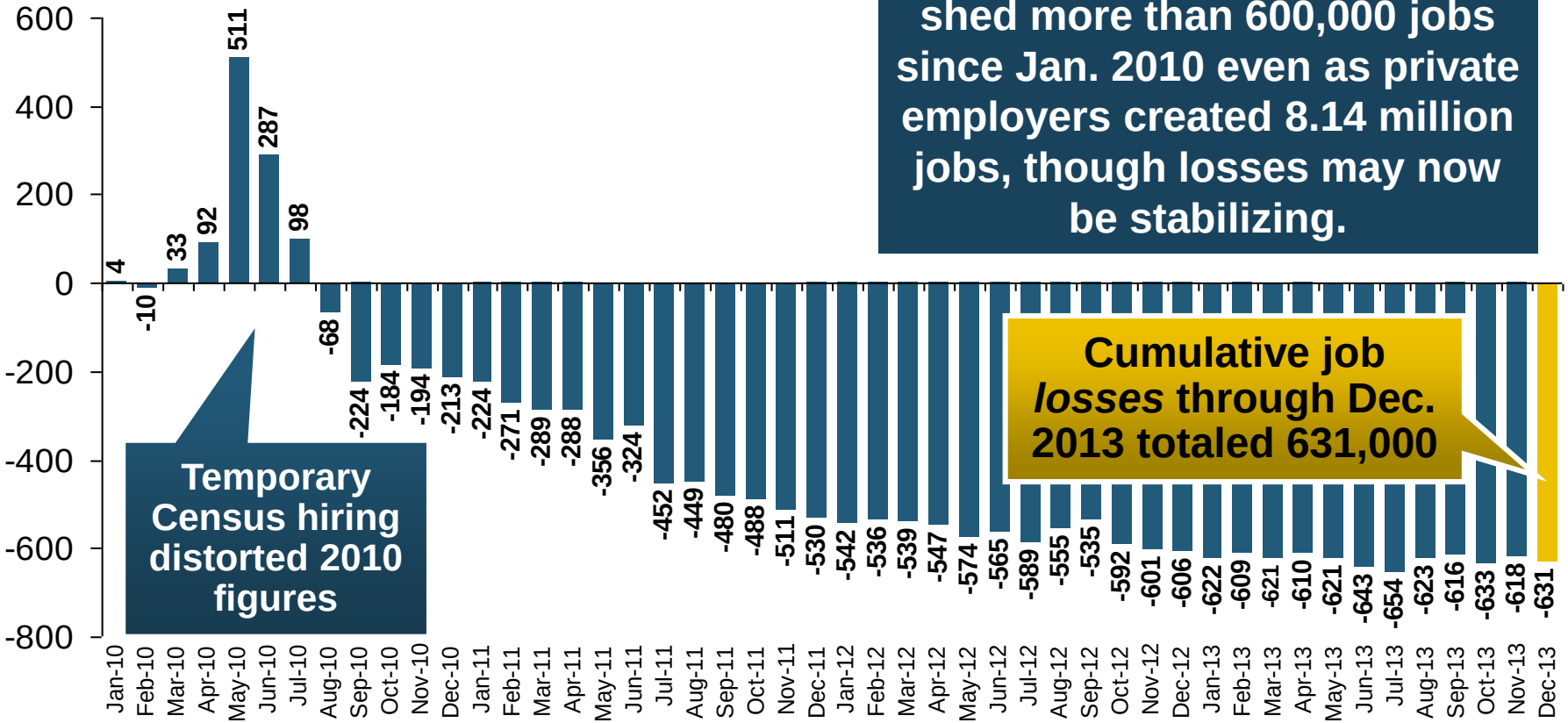

**Private Employers Added 8.14 million Jobs Since Jan. 2010 After Having Shed 4.98 Million Jobs in 2009 and 3.80 Million in 2008 (State and Local Governments Have Shed Hundreds of Thousands of Jobs)**

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

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

INSURANCE INFORMATION INSTITUTE

January 2010 through Dec. 2013* (Millions)




**Government at all levels has shed more than 600,000 jobs since Jan. 2010 even as private employers created 8.14 million jobs, though losses may now be stabilizing.**

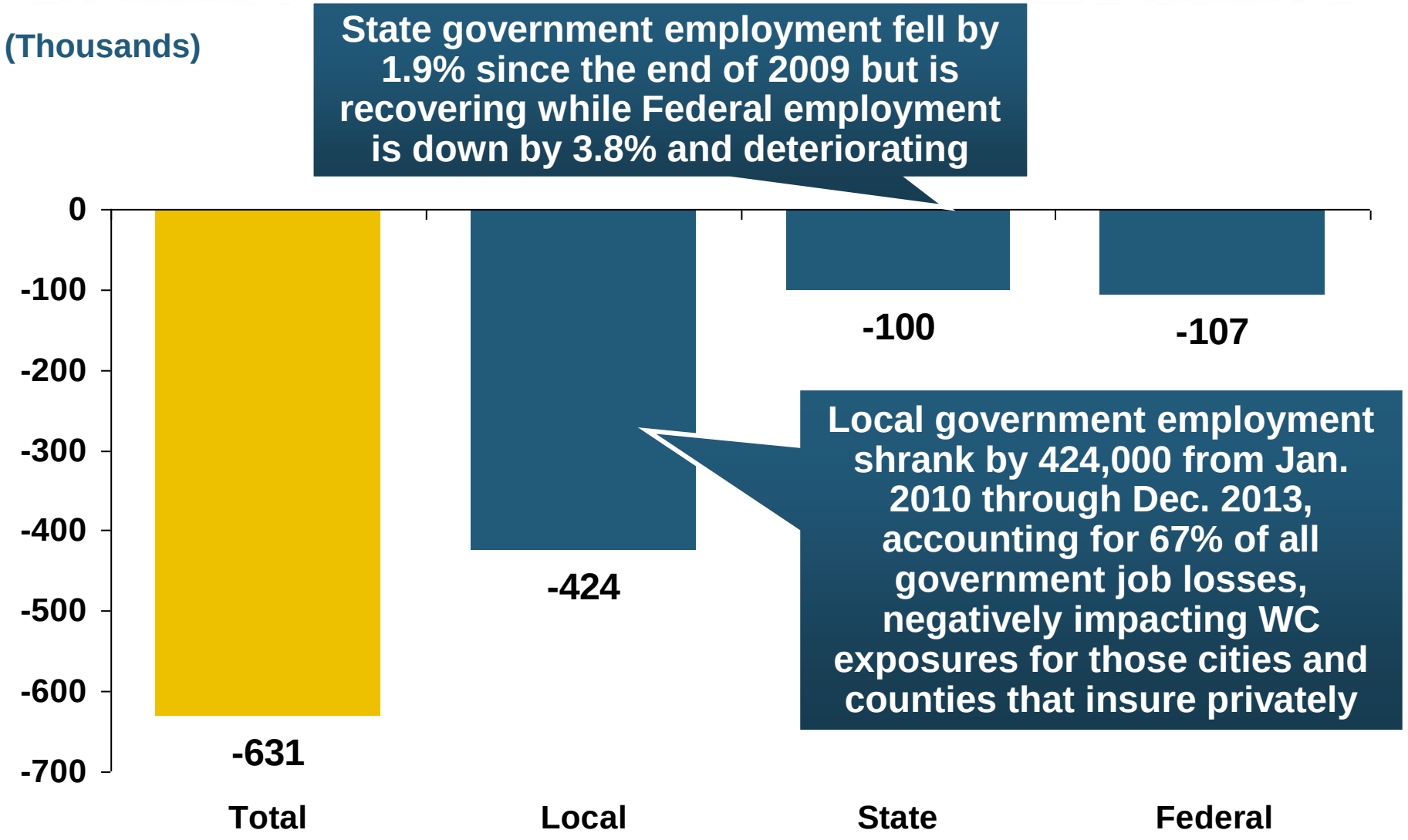
**Temporary Census hiring distorted 2010 figures**

**Cumulative job *losses* through Dec. 2013 totaled 631,000**

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

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

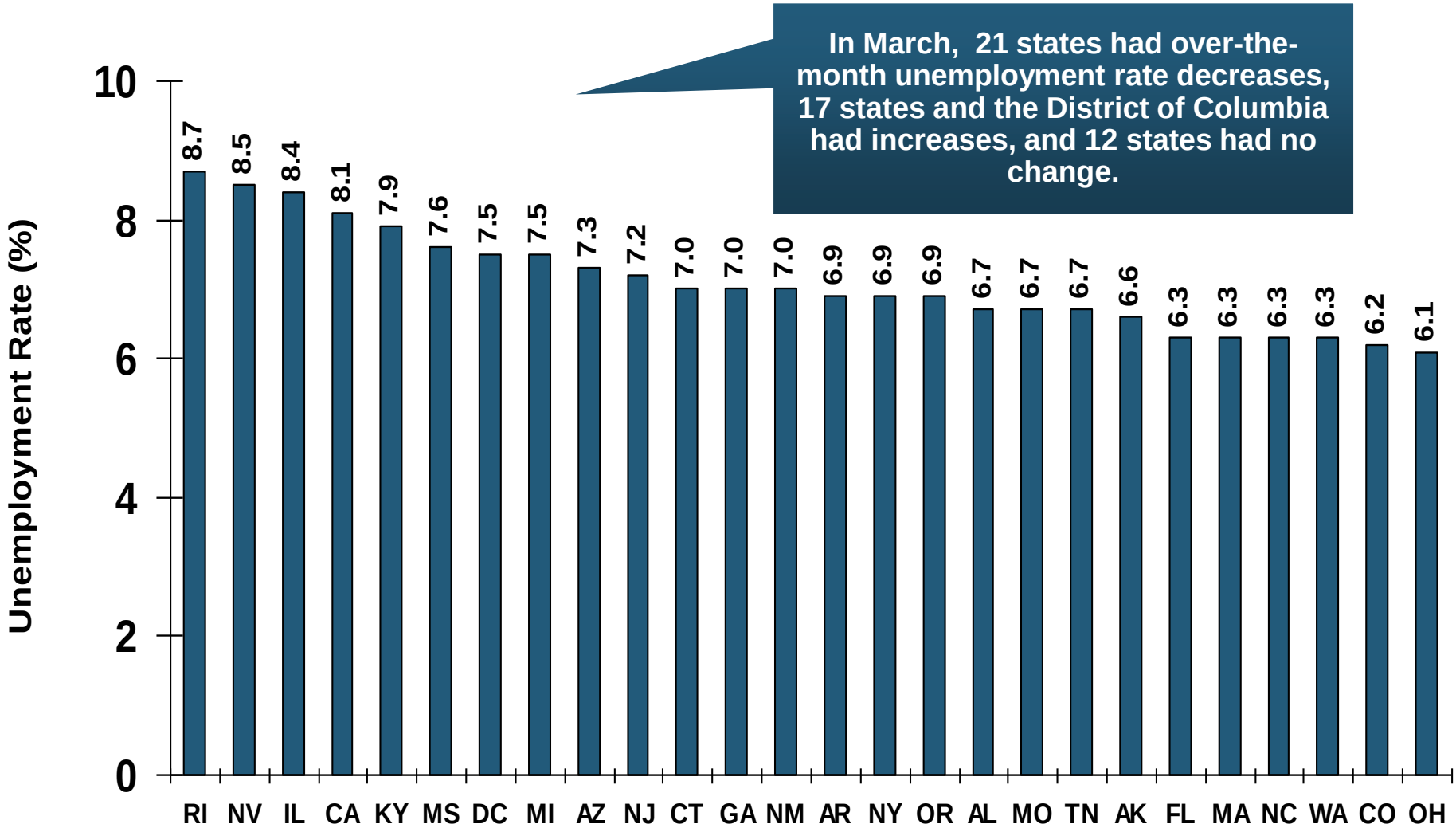
# Net Change in Government Employment: Jan. 2010—Dec. 2013*




*Cumulative change from prior month; Base employment date is Dec. 2009.

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

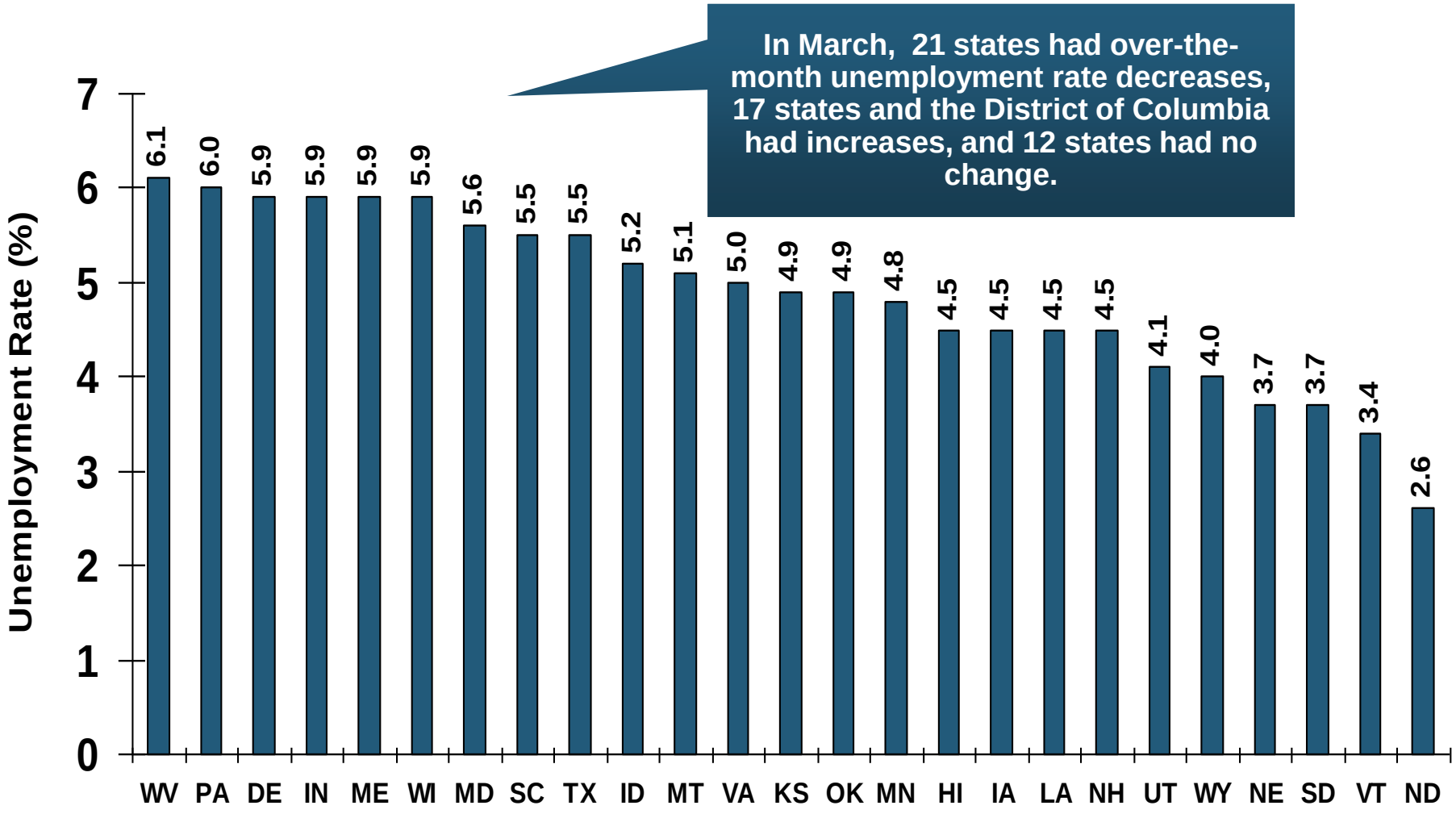
# Unemployment Rates by State, March 2014: Highest 25 States*




*Provisional figures for March 2014, seasonally adjusted.

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

# Unemployment Rates by State, March 2014: Lowest 25 States*




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

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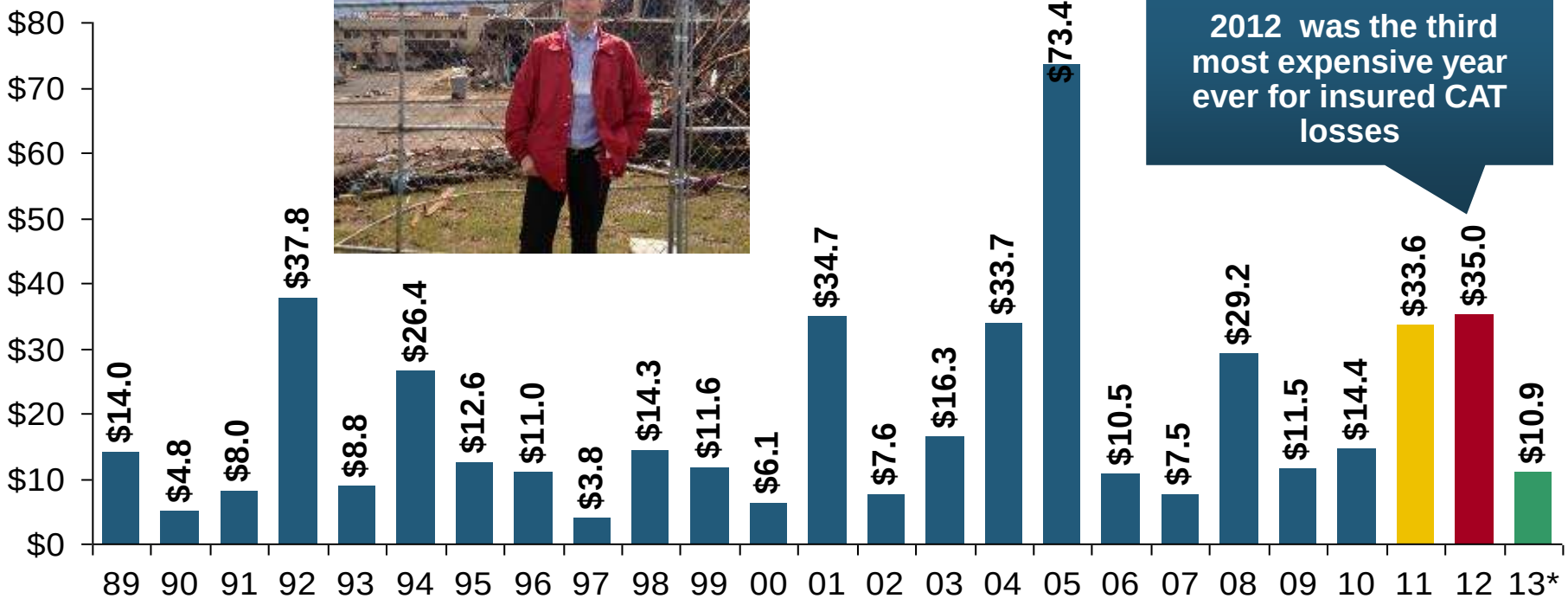
# U.S. Insured Catastrophe Loss Update

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

# U.S. Insured Catastrophe Losses

($ 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.**

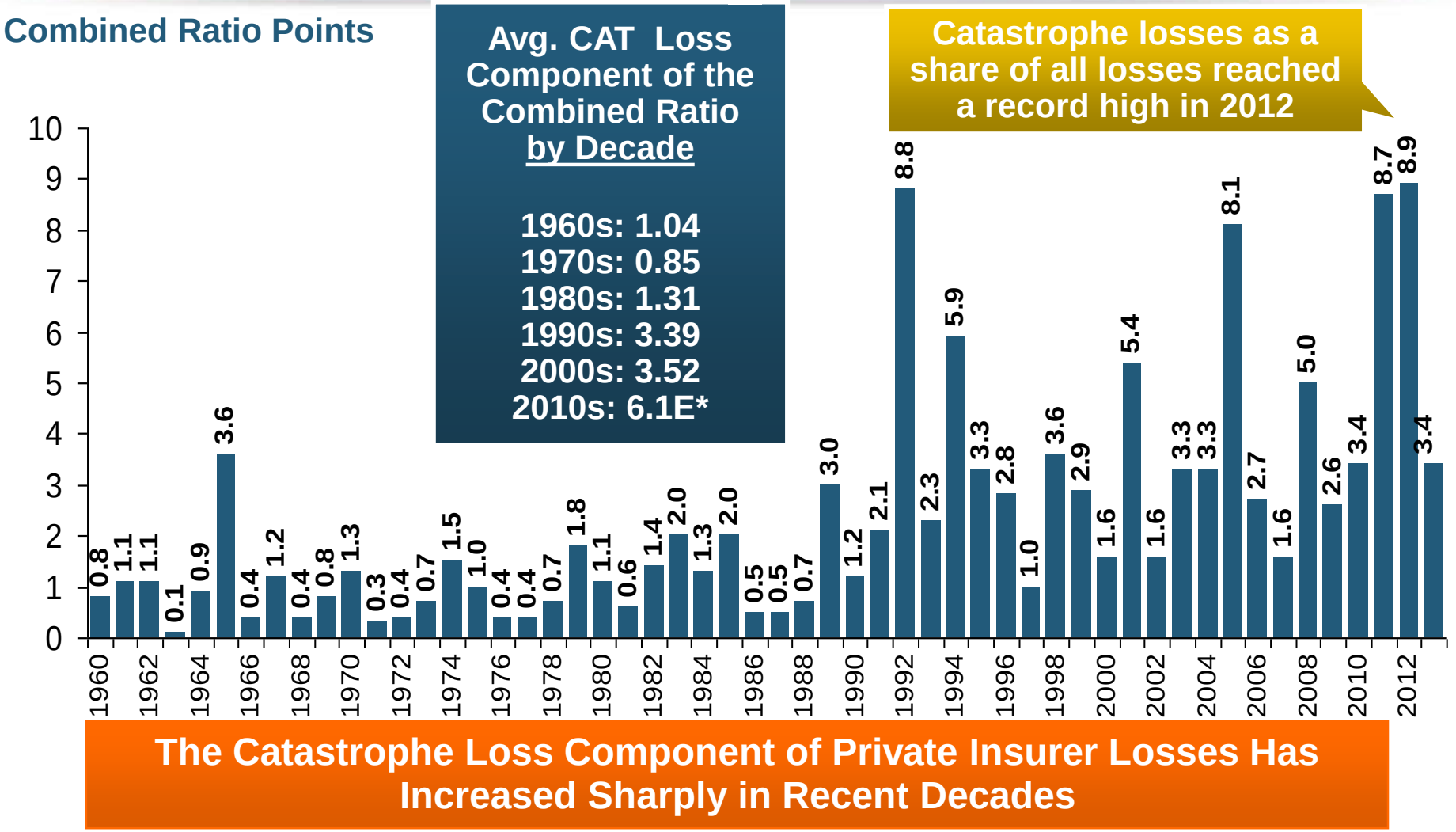
Record tornado losses caused 2011 CAT losses to surge

*Through 8/31/13. Includes $9.7B for 2013:H1 (PCS) and $1.2B I.I.I. estimate for the period 7/1 – 8/31/13.

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*

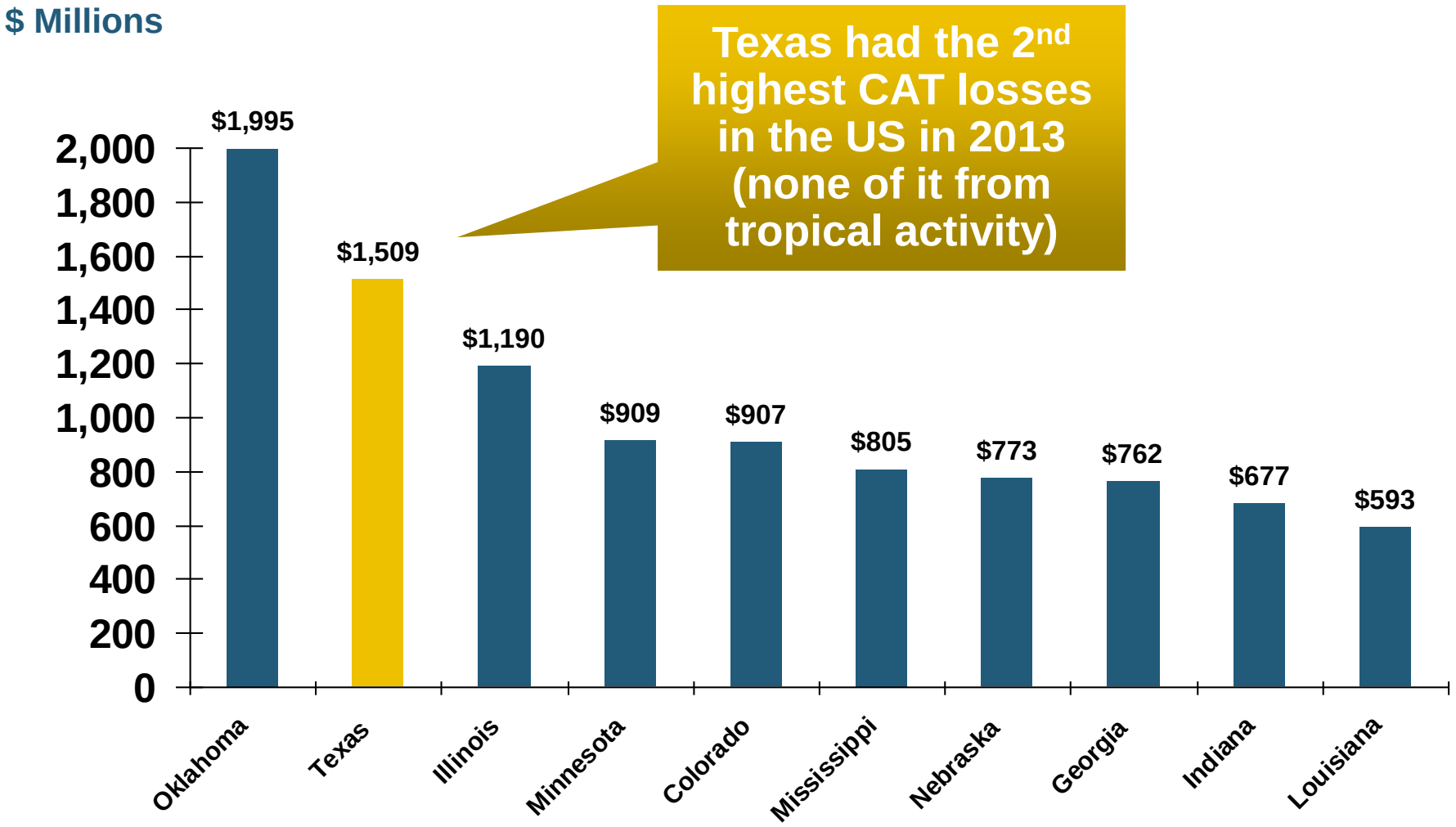



*2010s represent 2010-2013.

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.

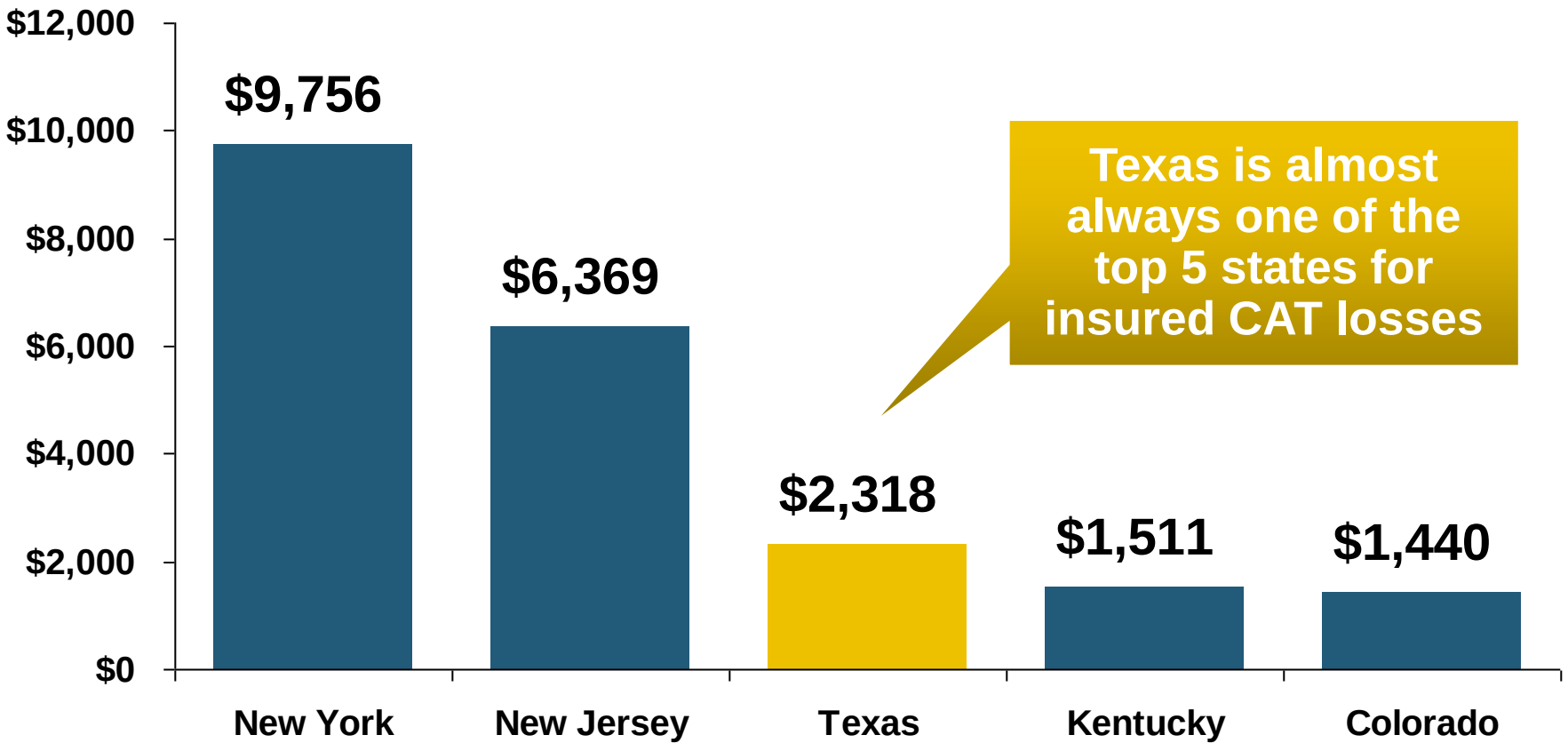
# Top 10 States for Insured Catastrophe Losses, 2013




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

# Top 5 States by Insured Catastrophe Losses in 2012*

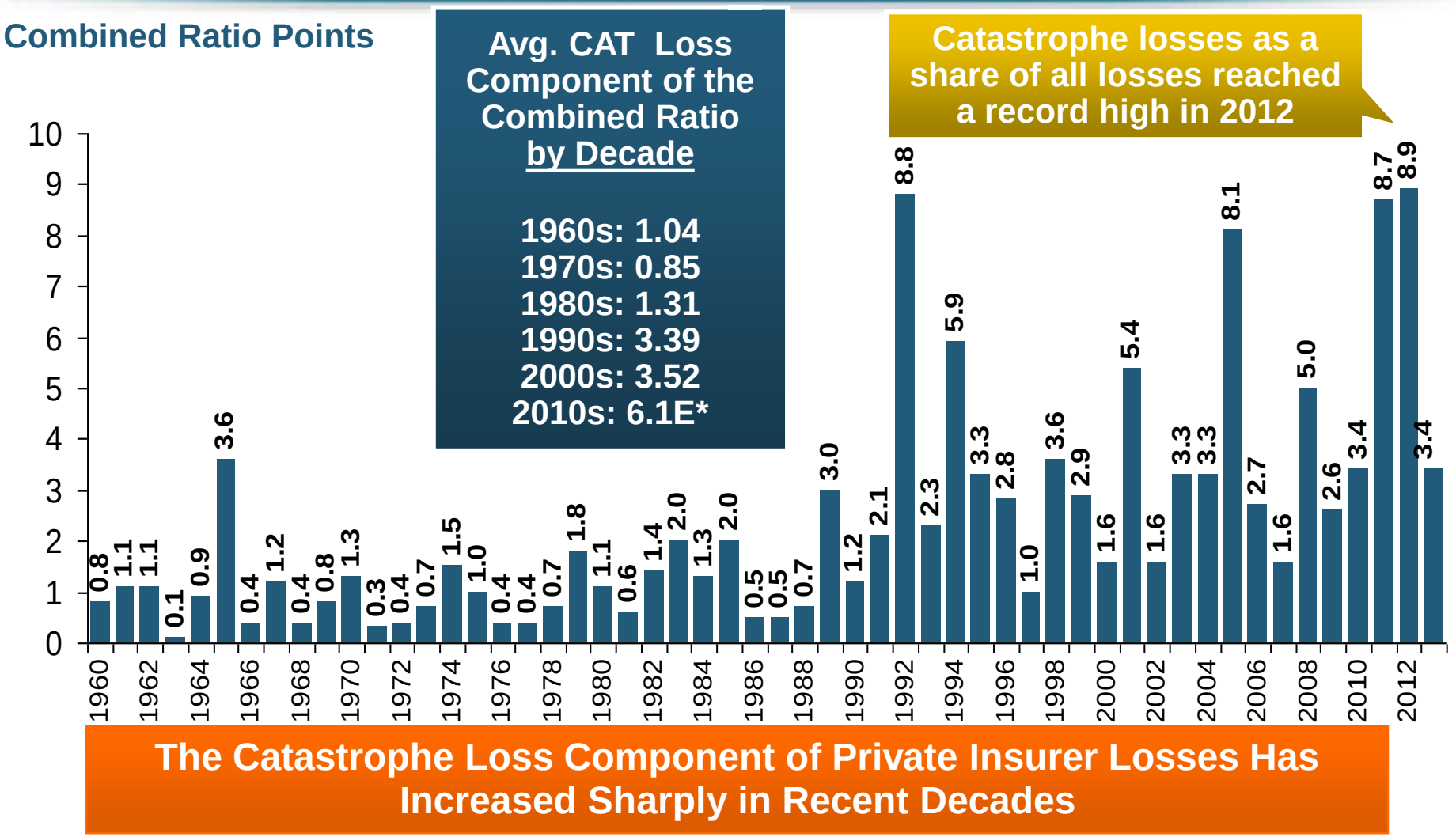
(2012, $ Billions)




*Includes catastrophe losses of at least $25 million.

Sources: PCS unit of ISO; Insurance Information Institute.

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




*2010s represent 2010-2013.

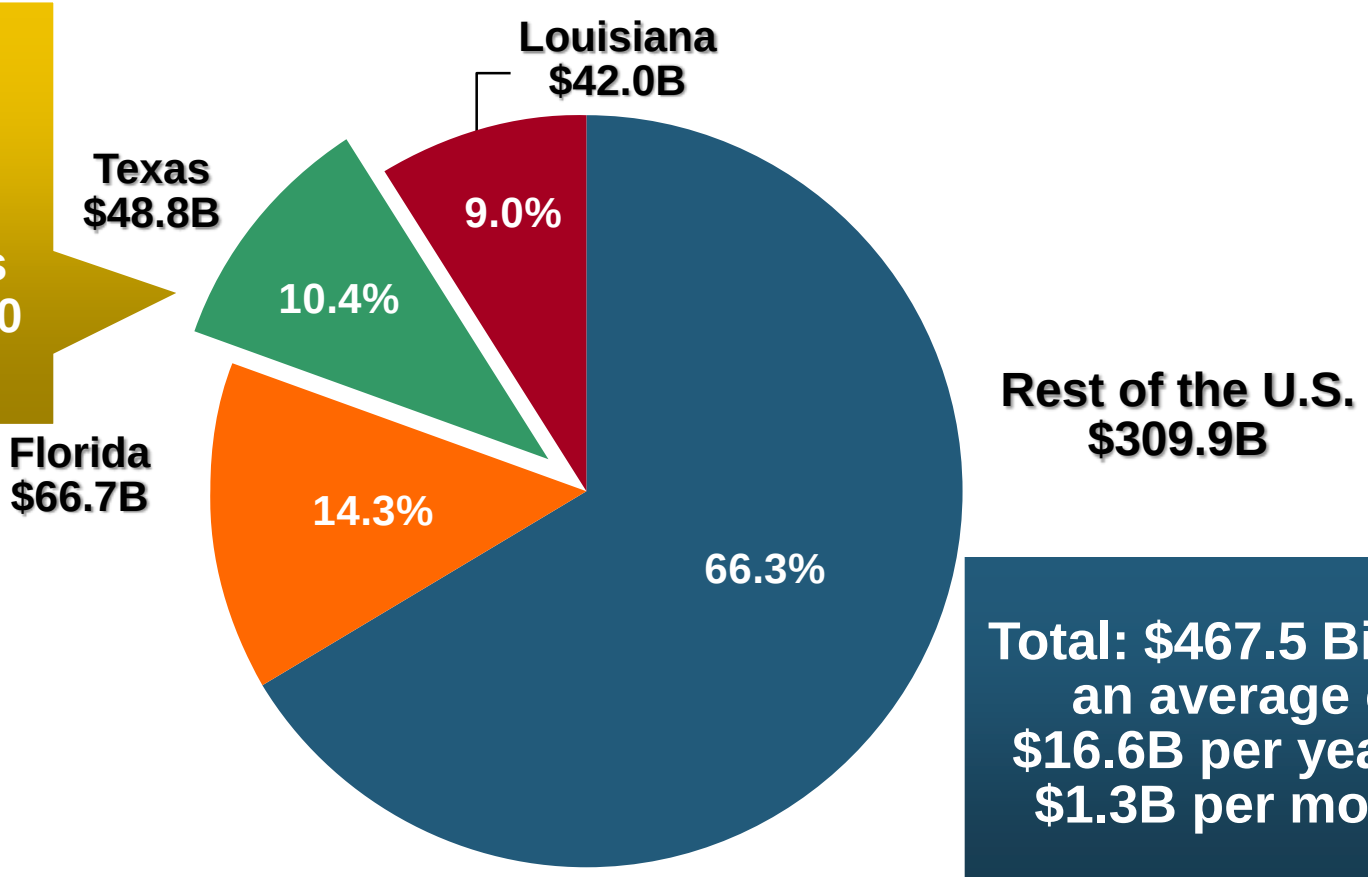
Notes: Private carrier losses only. Excludes loss adjustment expenses and reinsurance reinstatement premiums. Figures are adjusted for losses ultimately paid by foreign insurers and reinsurers.

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

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

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

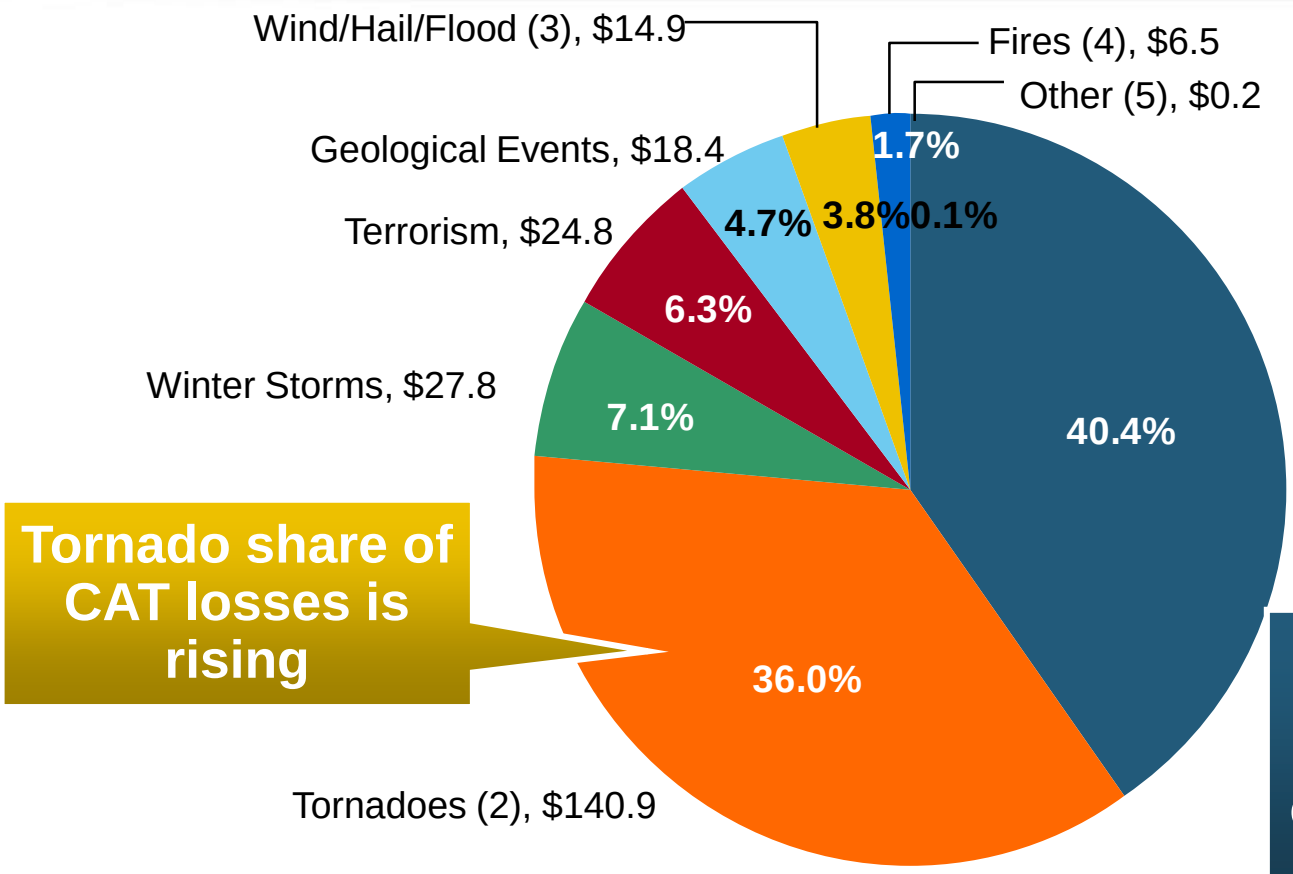
**TX is the 2nd costliest state for CATs, with nearly $50B in insured losses over the past 30 years**




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

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

# Inflation Adjusted U.S. Catastrophe Losses by Cause of Loss, 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 10 Winter Storm and Winter Damage Events in the US and Canada, 1980-2013*

INSURANCE INFORMATION INSTITUTE

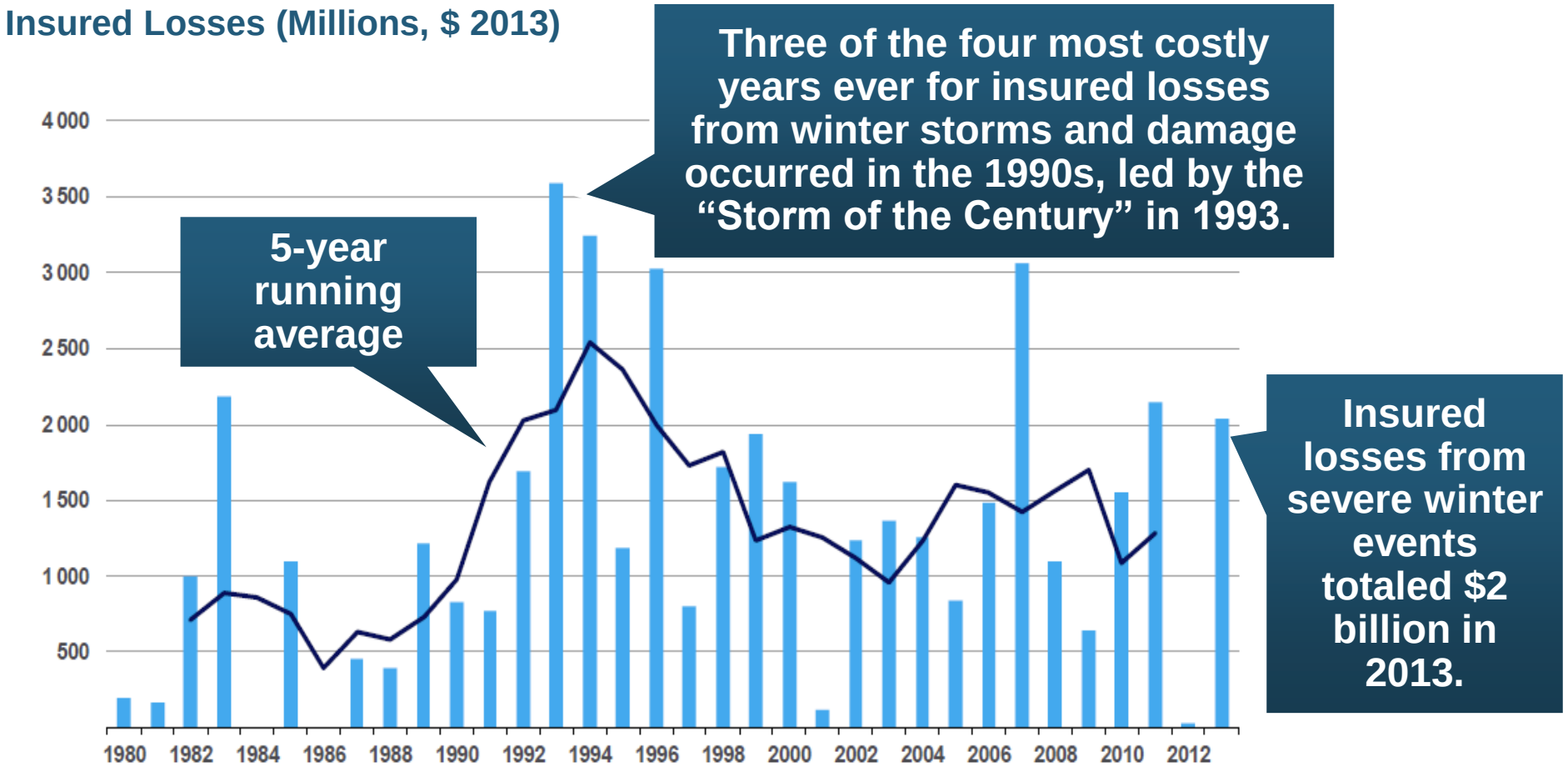
## Ranked by Insured Loss, in Millions of $ 2013*

| 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.

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

INSURANCE INFORMATION INSTITUTE



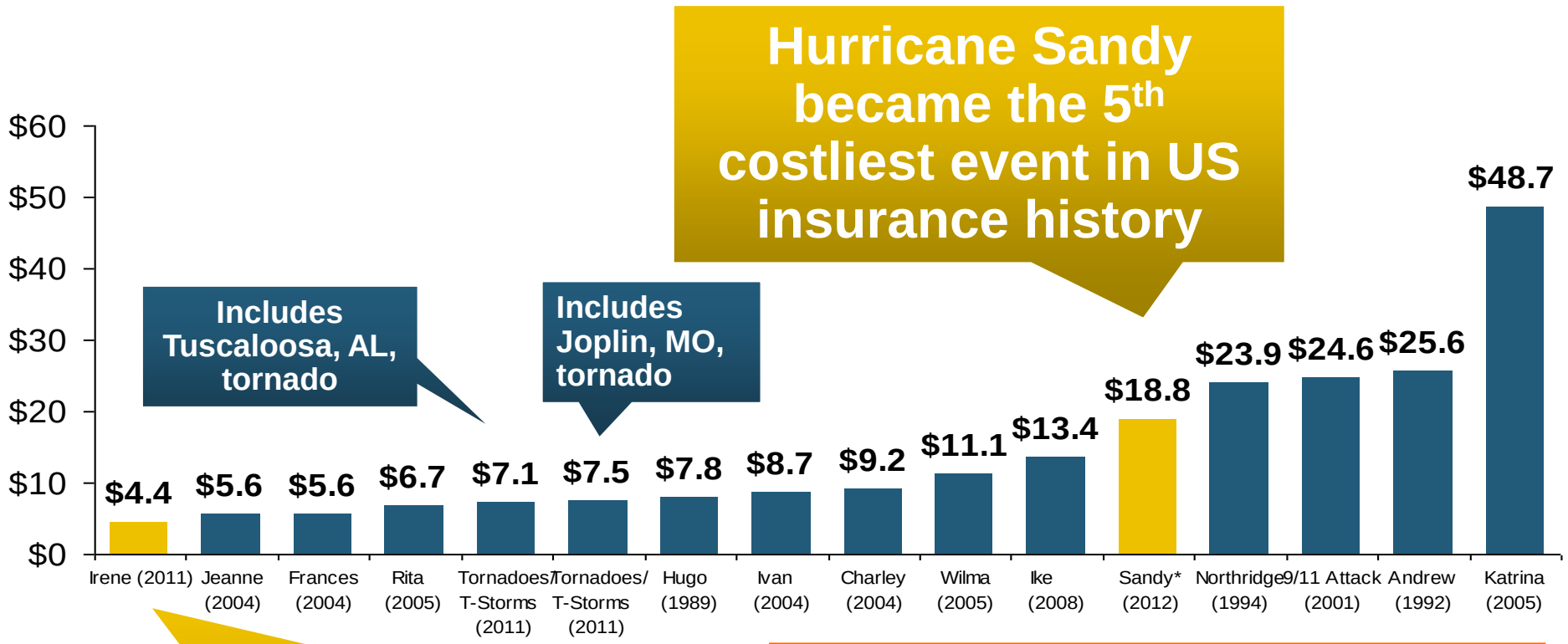

**Insured winter storm and damage losses in Jan. 2014 already totaled $1.5 billion. Continued severe weather since then makes it likely that 2014 will become one of the top 5 costliest winters since 1980.**

Sources: Munich Re NatCatSERVICE; Insurance Information Institute.

# Top 16 Most Costly Disasters in U.S. History

INSURANCE INFORMATION INSTITUTE

**(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.

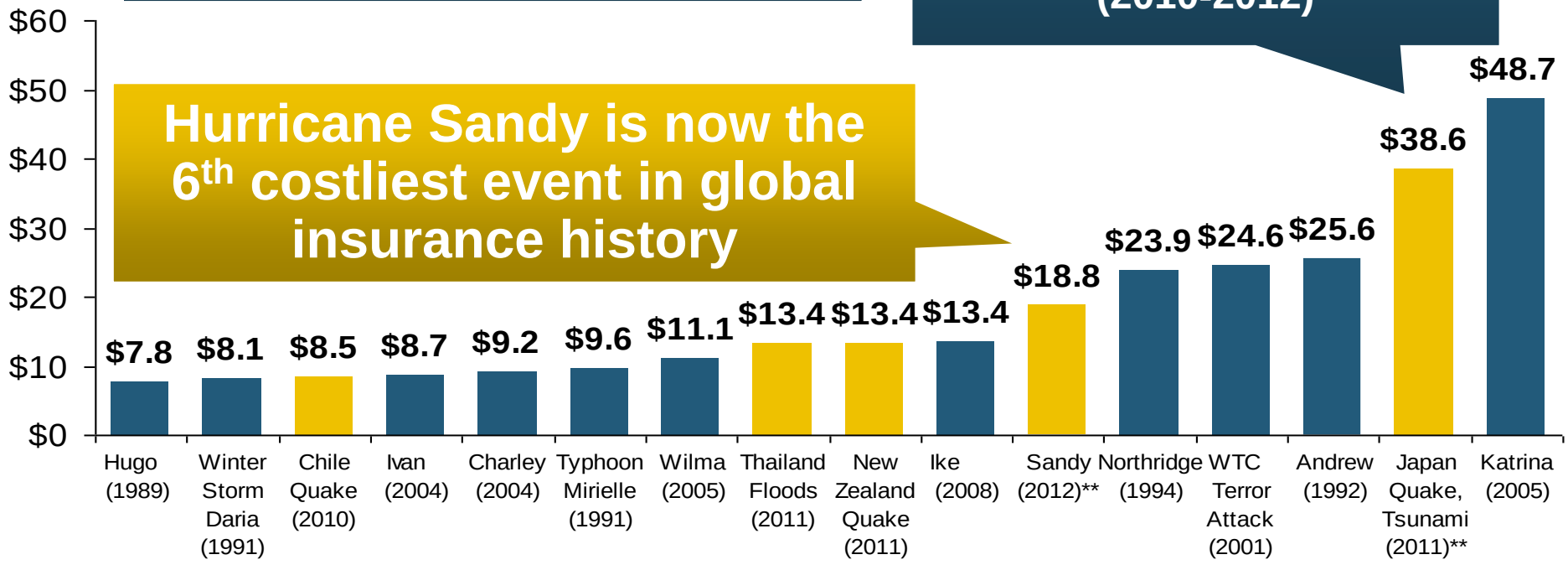
# Top 16 Most Costly World Insurance Losses, 1970-2013*

(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)**

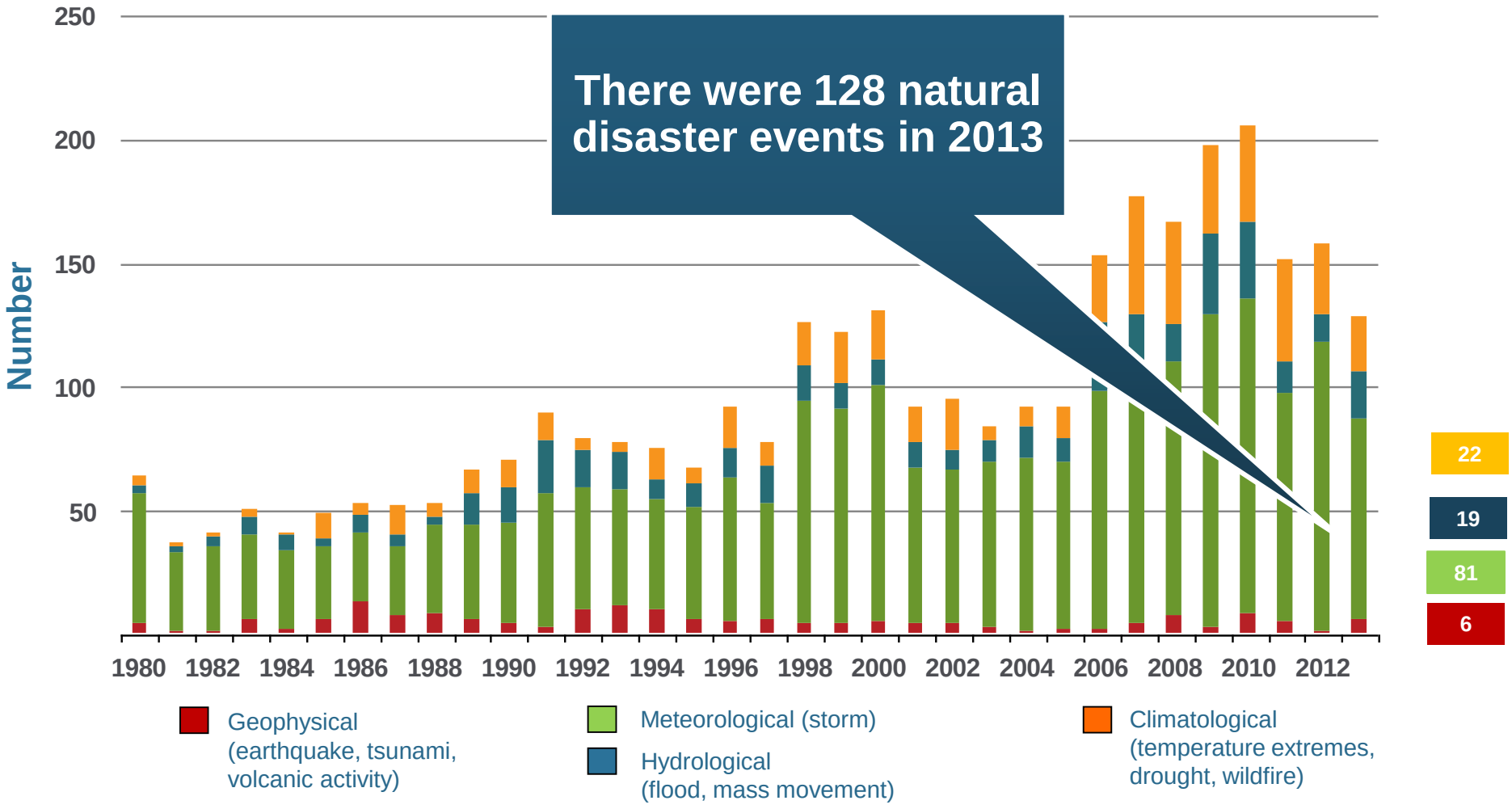
**Hurricane Sandy is now the 6th costliest event in global insurance history**




*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.

# Natural Disasters in the United States, 1980 – 2013

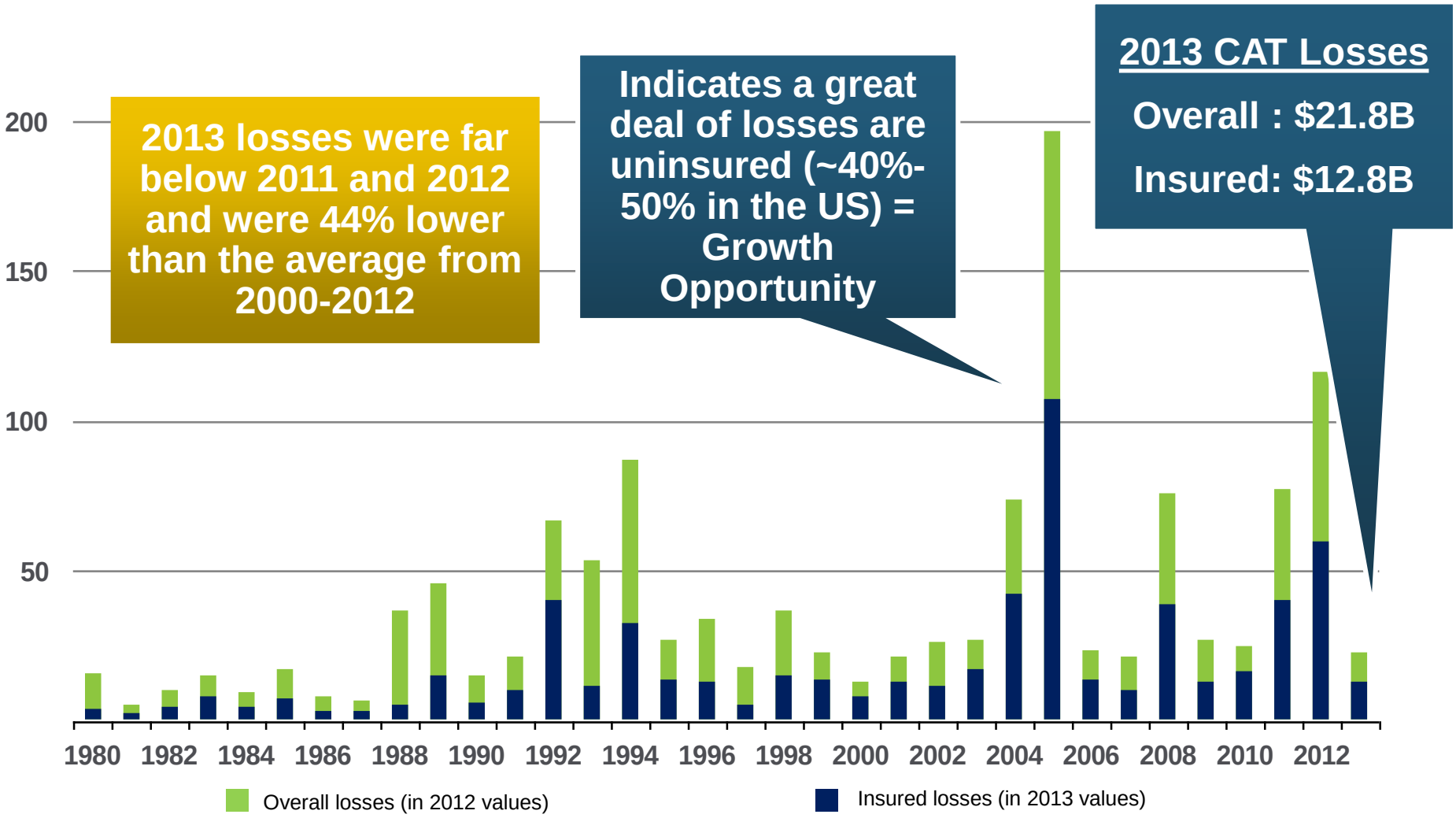
## Number of Events (Annual Totals 1980 – 2013)




Source: MR NatCat*SERVICE*

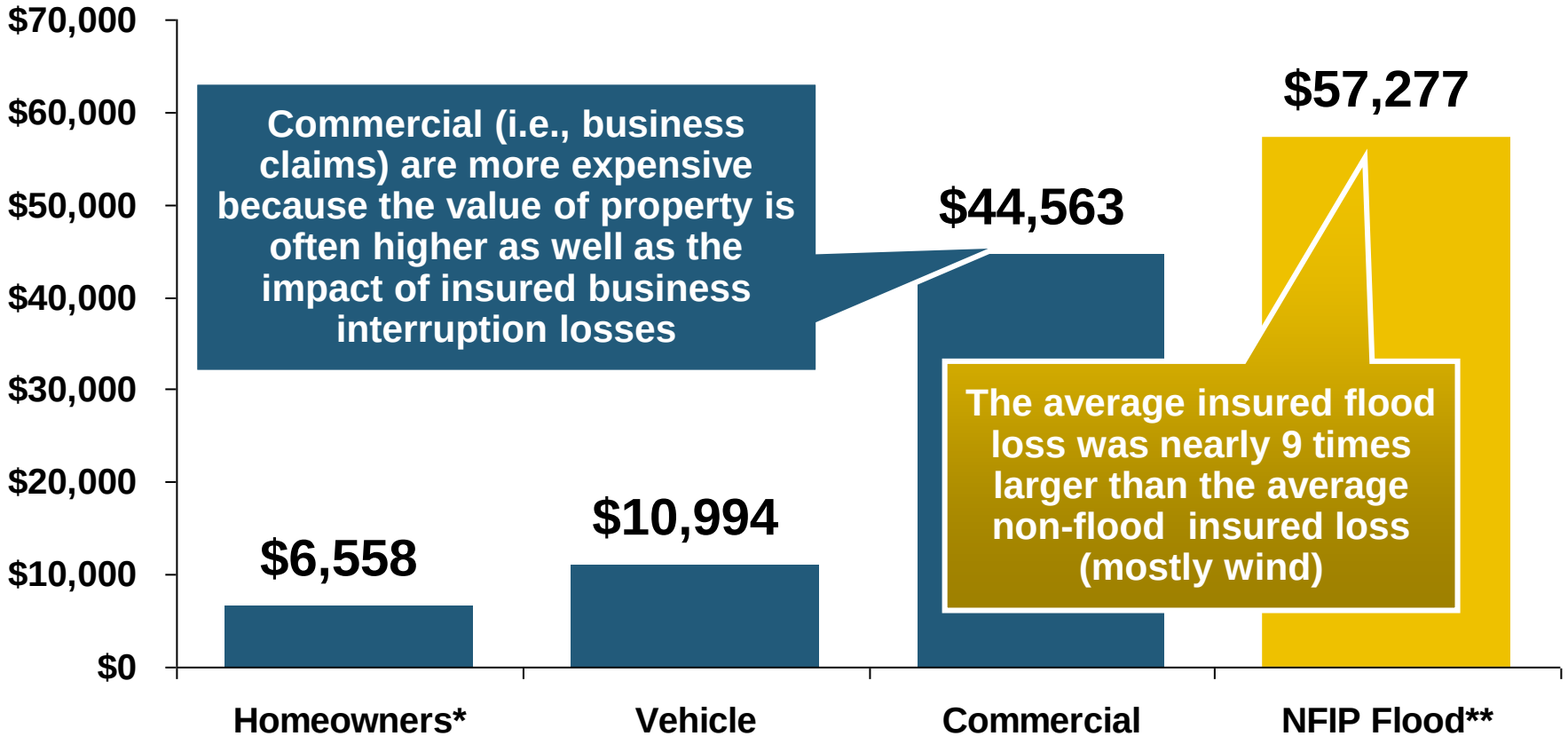
# Losses Due to Natural Disasters in the US, 1980–2013

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




Source: MR NatCat*SERVICE*

# Hurricane Sandy: Average Claim Payment by Type of Claim



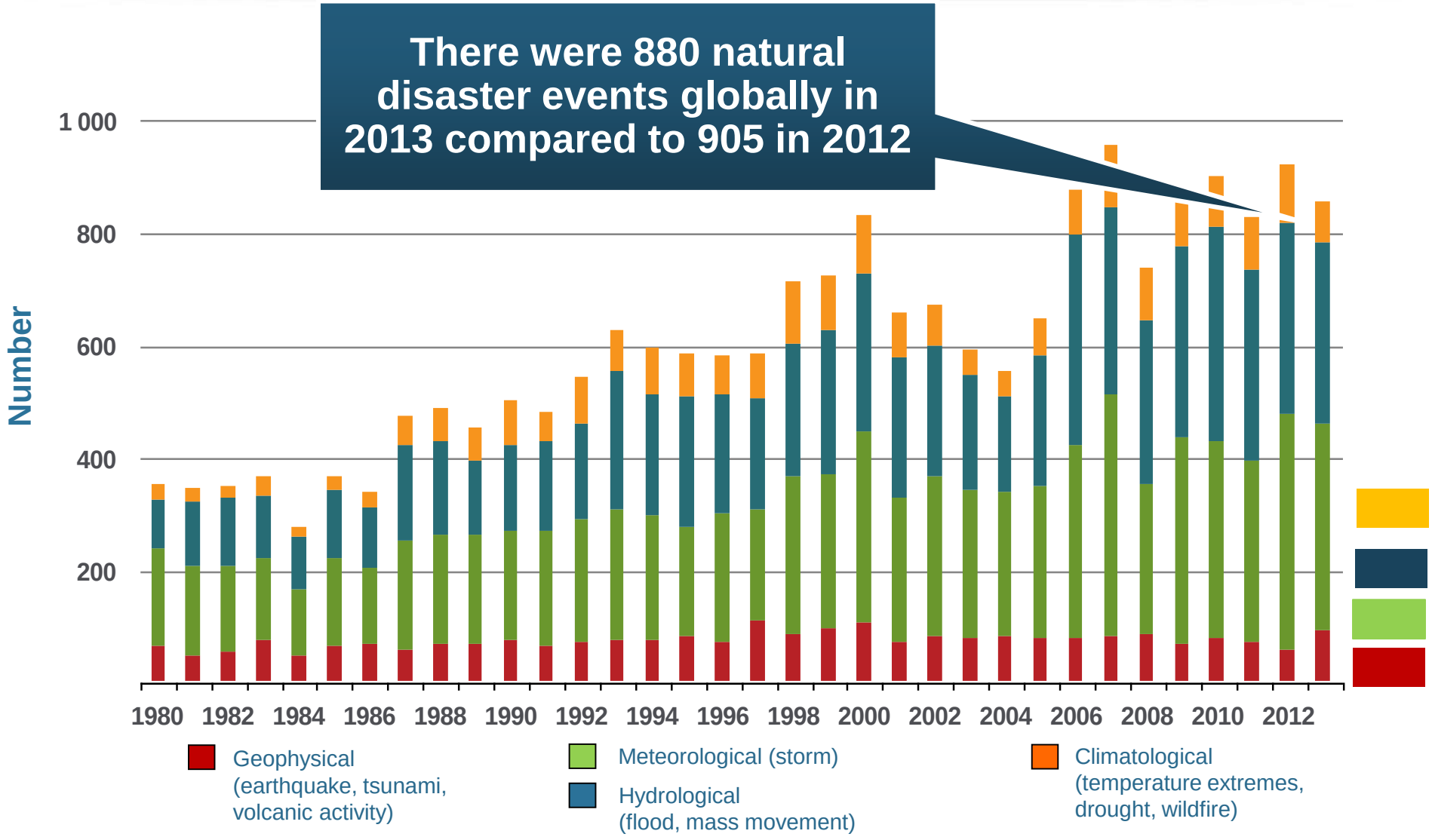

**Post-Sandy, the I.I.I. worked very hard to make help media, consumers and regulators understand the distinction between a flood claim and a standard homeowners claim. *NFIP is $24B in debt.***

*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.

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

INSURANCE INFORMATION INSTITUTE



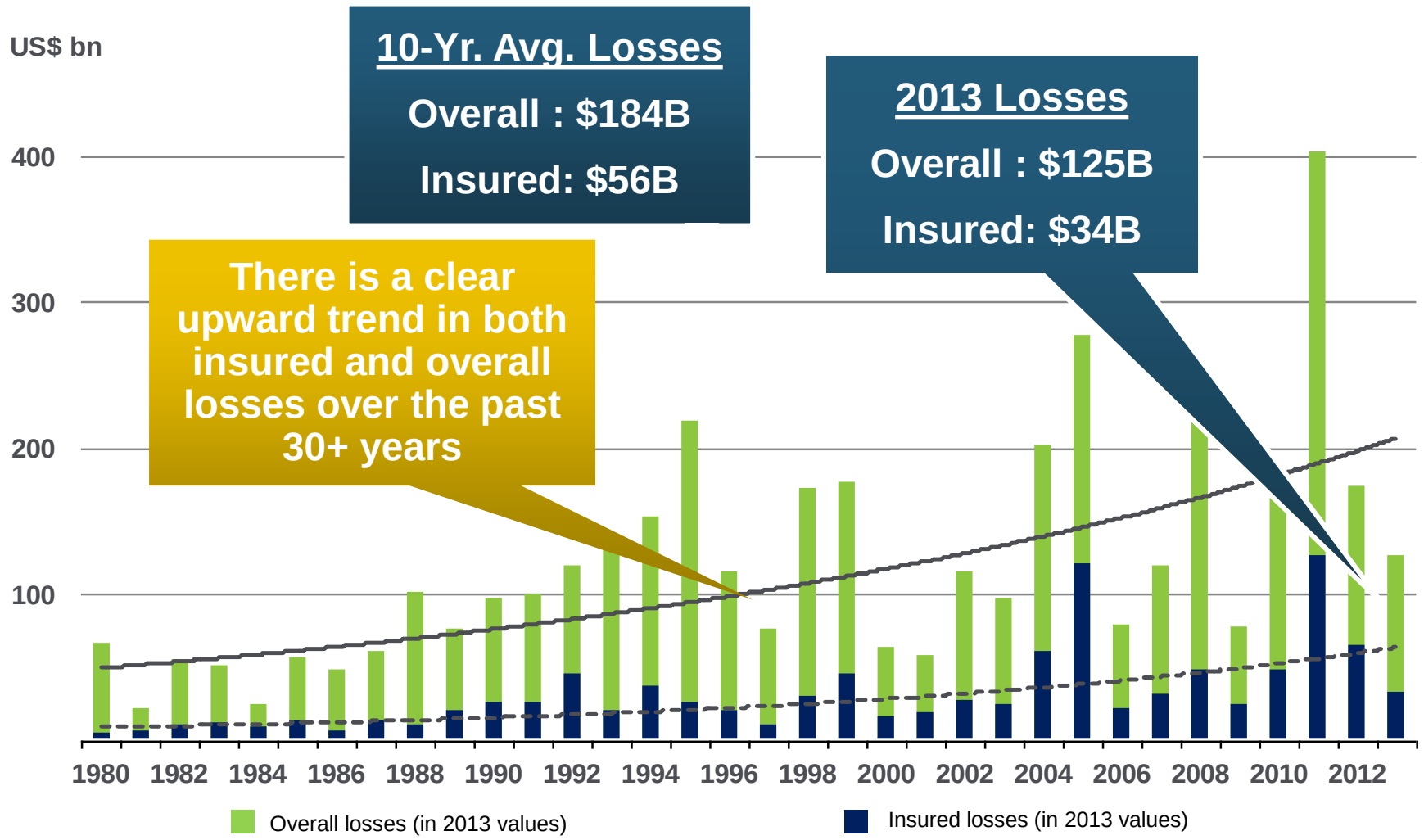

Source: MR NatCat*SERVICE*

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

INSURANCE INFORMATION INSTITUTE

## (Overall and Insured Losses)

(2013 Dollars, $ Billions)




Source: MR NatCat*SERVICE*

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

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

Source: Munich Re NatCat*SERVICE*

# Significant Natural Catastrophes, 2013

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

INSURANCE INFORMATION INSTITUTE

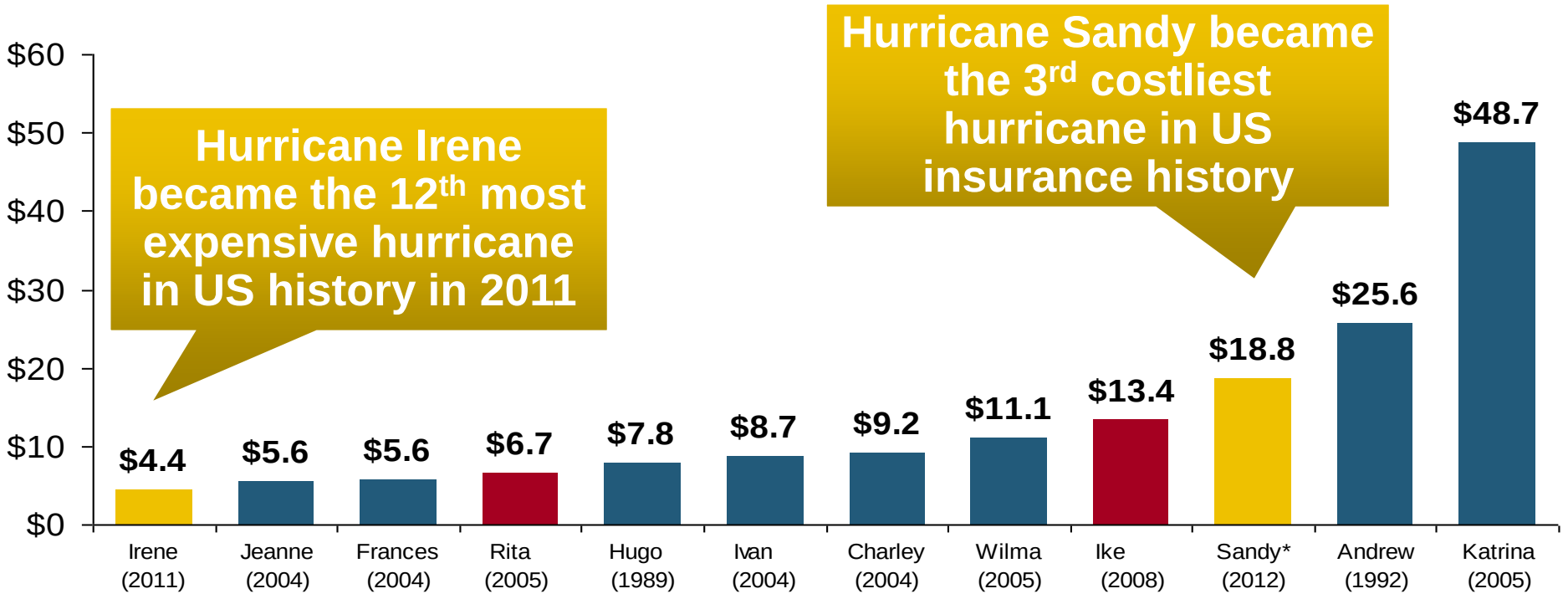
| Date | Event | Estimated Economic Losses (US $m) | Estimated Insured Losses (US $m) |
|---|---|---|---|
| February 24 – 25 | Winter Storm | 1,300 | 690 |
| March 18 – 19 | Thunderstorms | 2,200 | 1,600 |
| April 7 – 11 | Winter Storm | 1,600 | 1,200 |
| April 16 – 18 | Thunderstorms | 1,100 | 560 |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

Source: Munich Re NatCat*SERVICE*

# Top 12 Most Costly Hurricanes in U.S. History

(Insured Losses, 2012 Dollars, $ Billions)

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



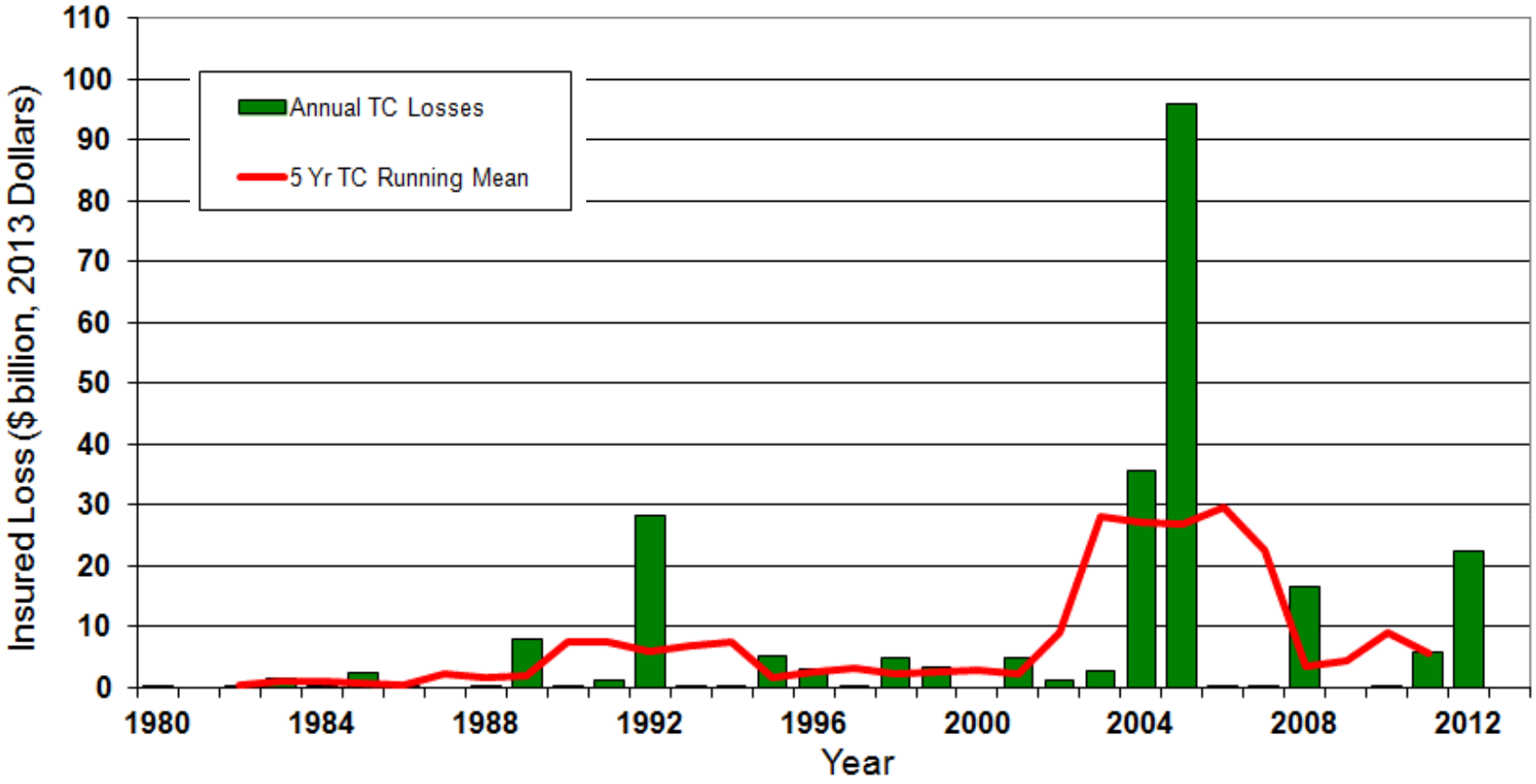

*PCS estimate as of 4/12/13.

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

# Insured US Tropical Cyclone Losses, 1980 - 2013

INSURANCE INFORMATION INSTITUTE

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

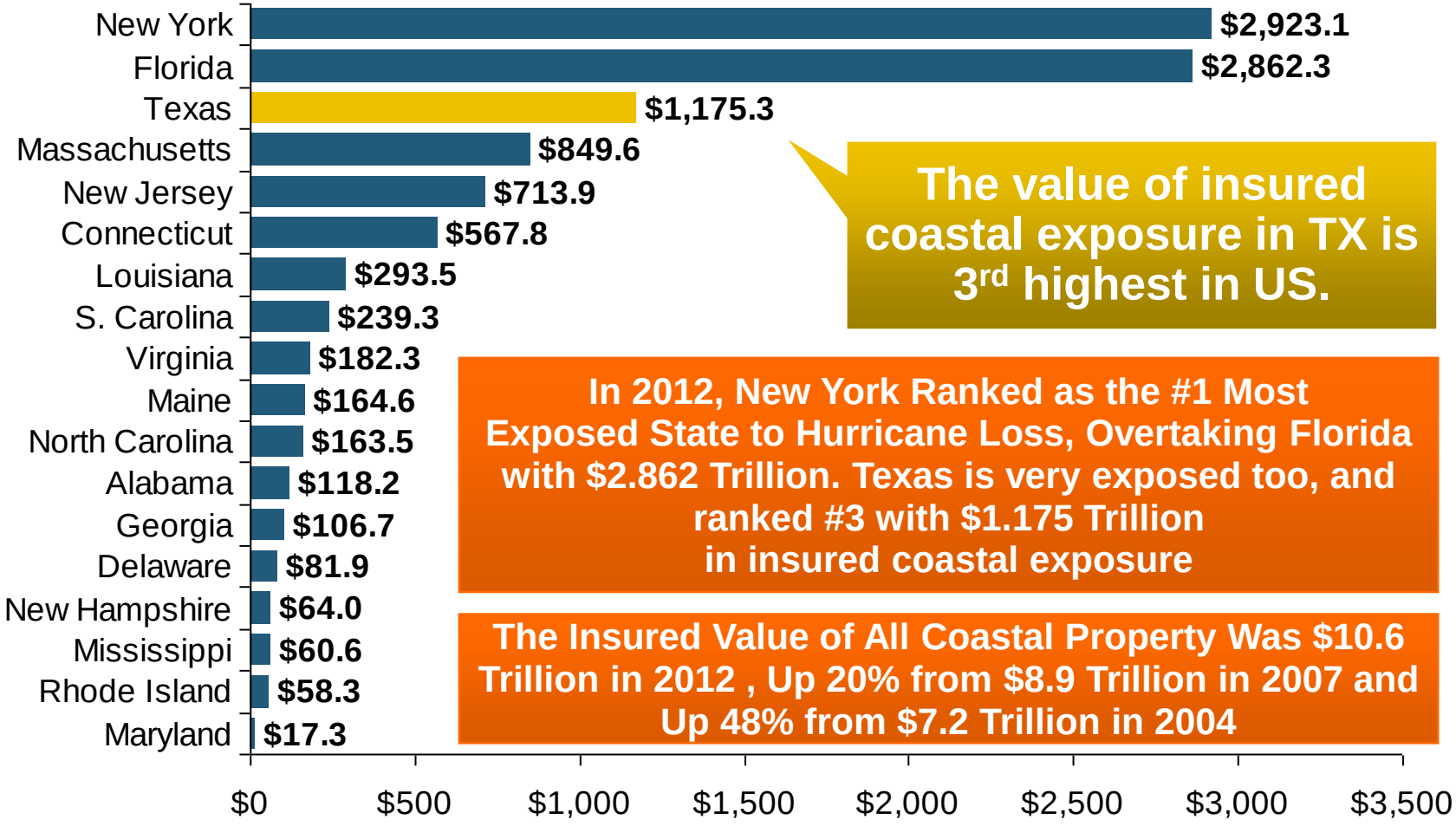



Sources: Property Claims Service, Munich Re NatCat*SERVICE,* NFIP

# Total Value of Insured Coastal Exposure in 2012

INSURANCE INFORMATION INSTITUTE

**(2012, $ Billions)**



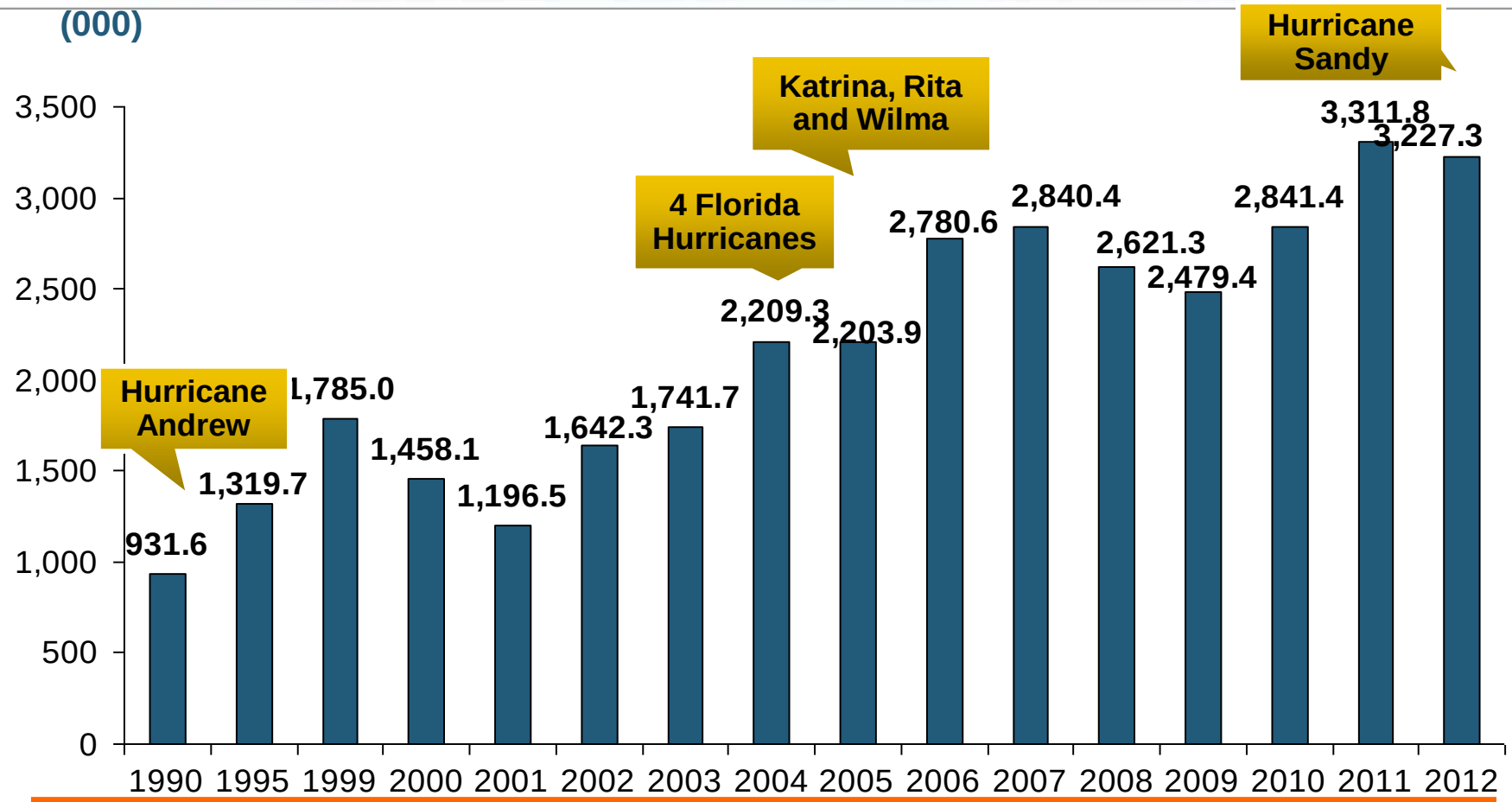

**The value of insured coastal exposure in TX is 3rd highest in US.**

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

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

Source: AIR Worldwide

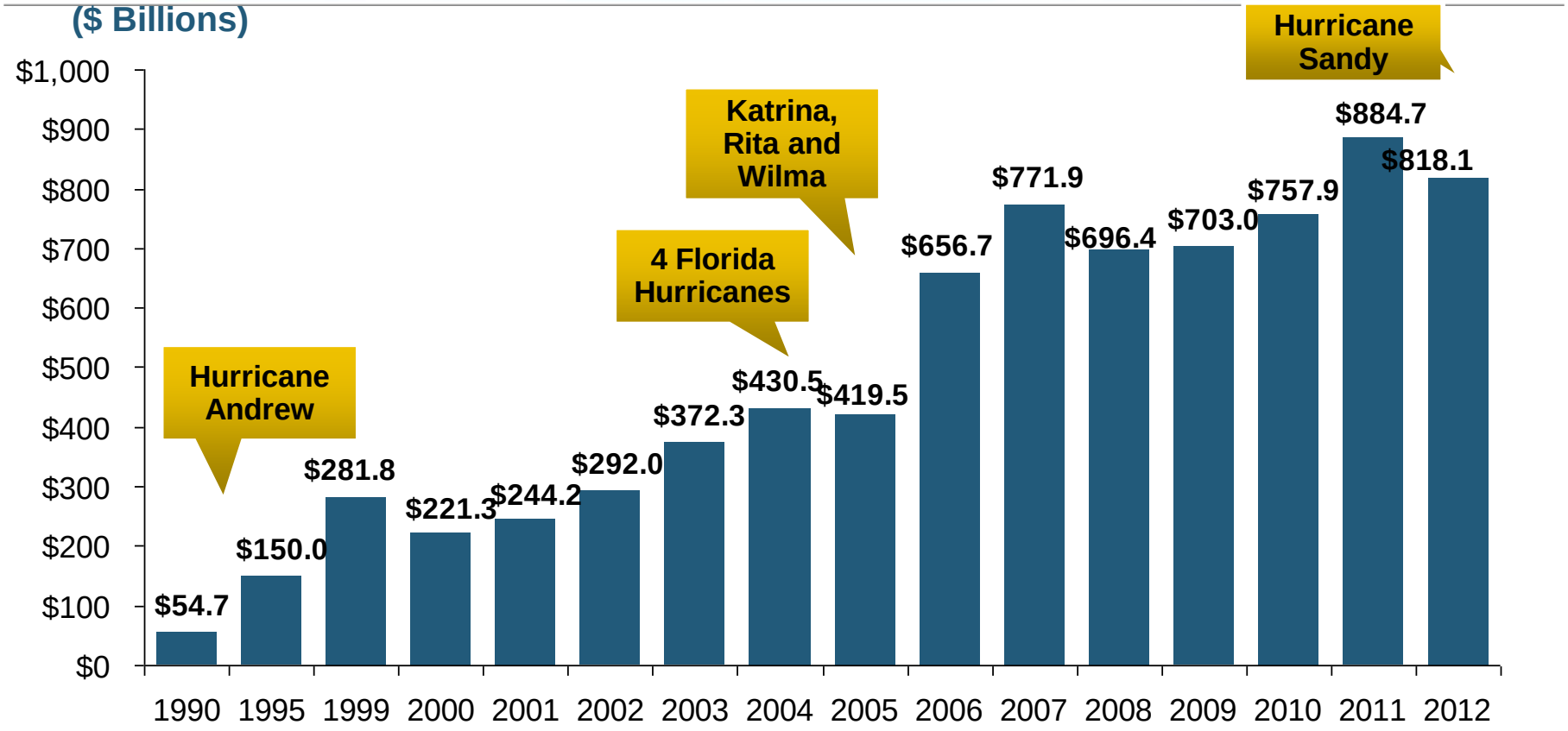
# U.S. Residual Market: Total Policies In-Force (1990-2012) (000)




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

Source: PIPSO; Insurance Information Institute

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




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

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

# Convective Loss Events in the U.S.

## Number of events 1980 – 2012 and First Half 2013

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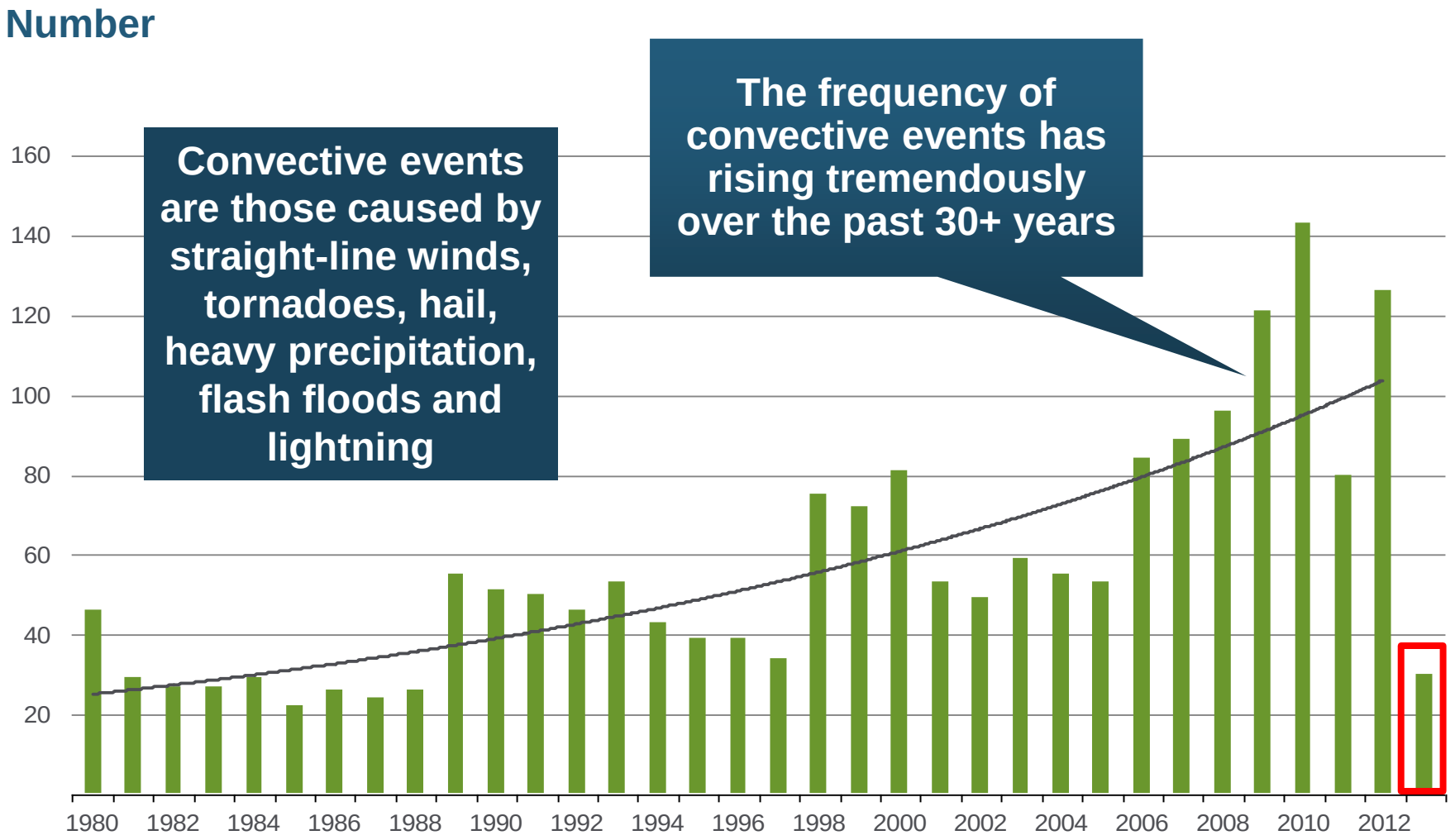
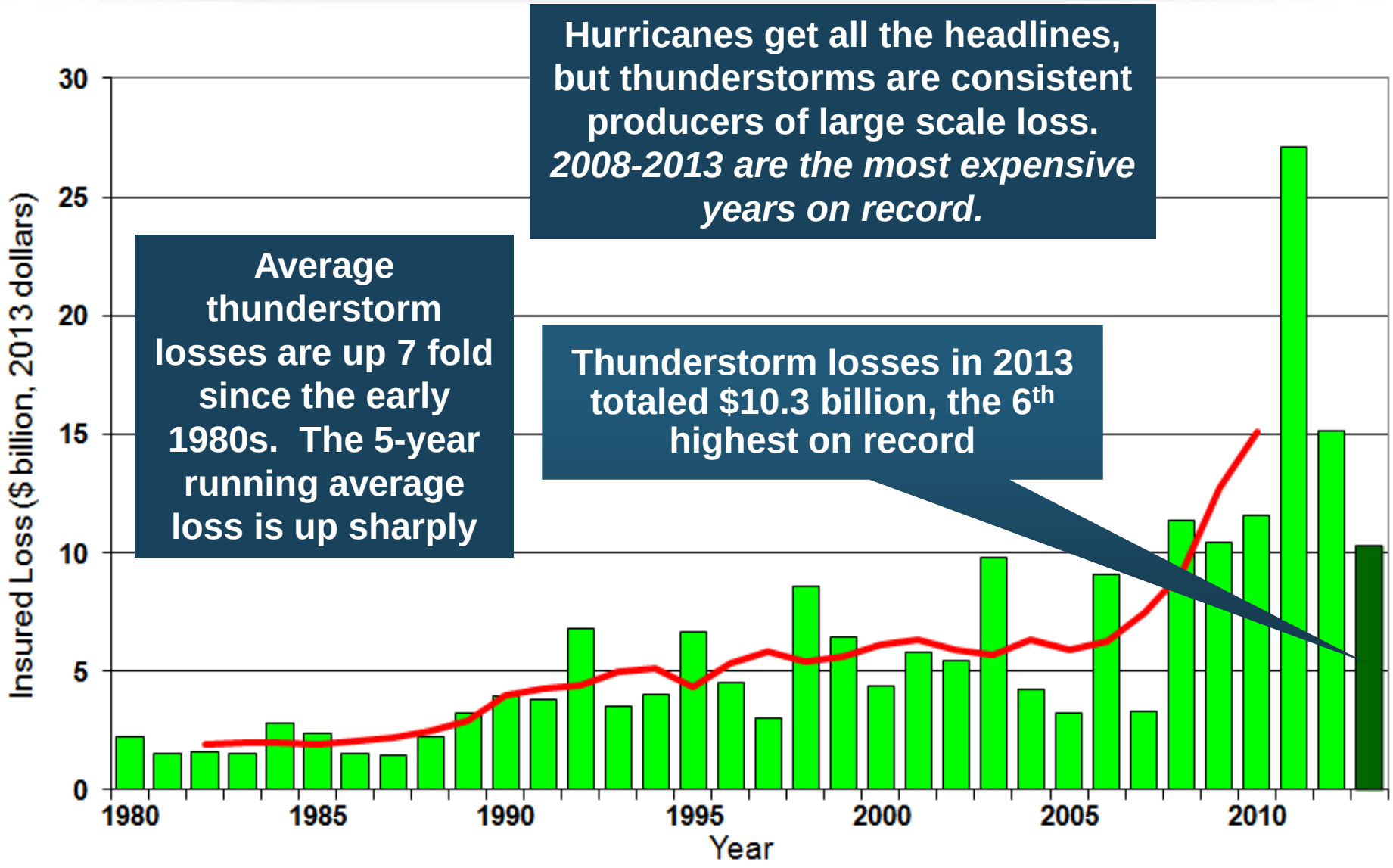



Source: Geo Risks Research, NatCatSERVICE – As at July 2013

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

INSURANCE INFORMATION INSTITUTE

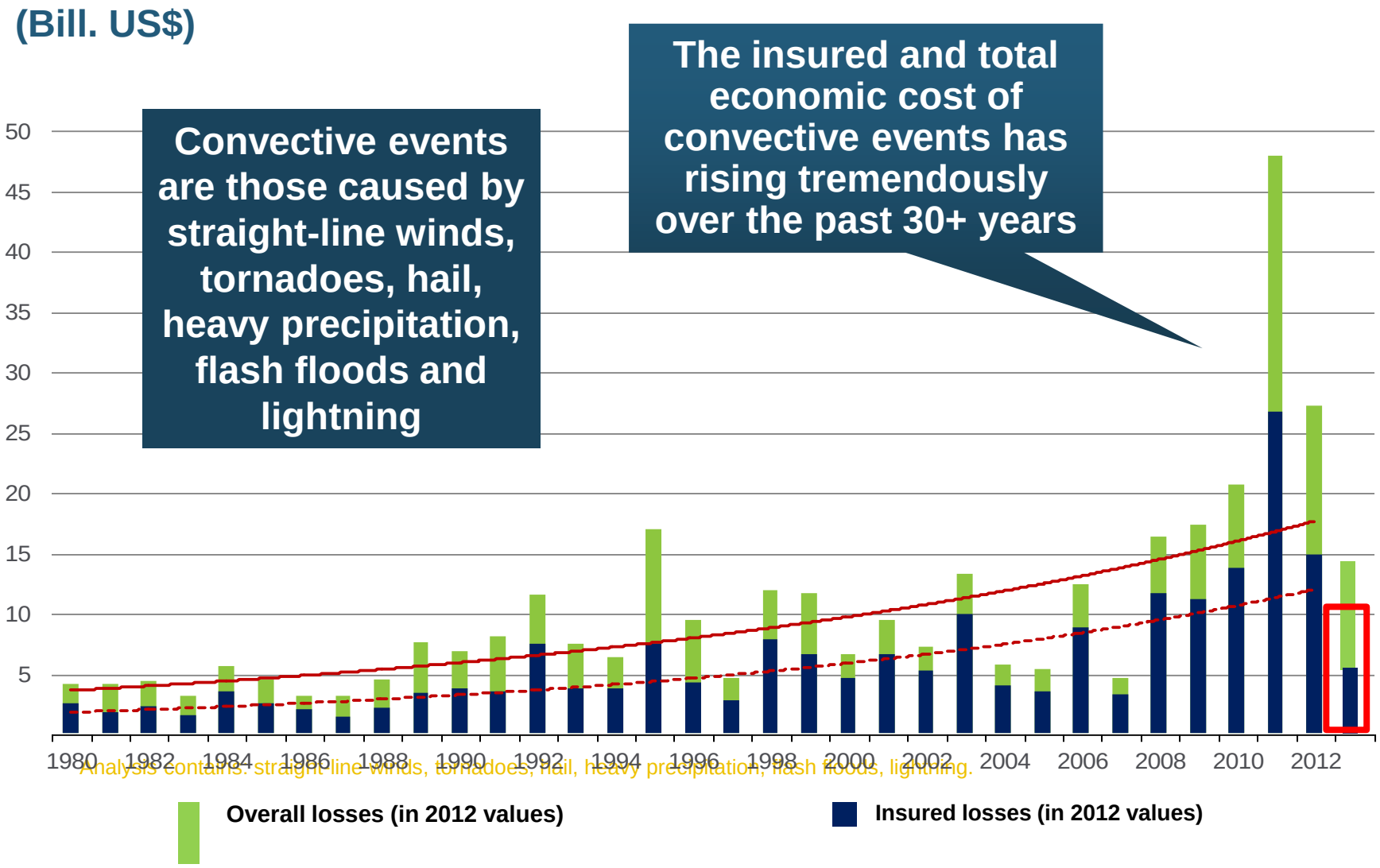



Source: Property Claims Service, MR NatCat*SERVICE*

# Convective Loss Events in the U.S.

## Overall and insured losses 1980 – 2012 and First Half 2013

INSURANCE INFORMATION INSTITUTE



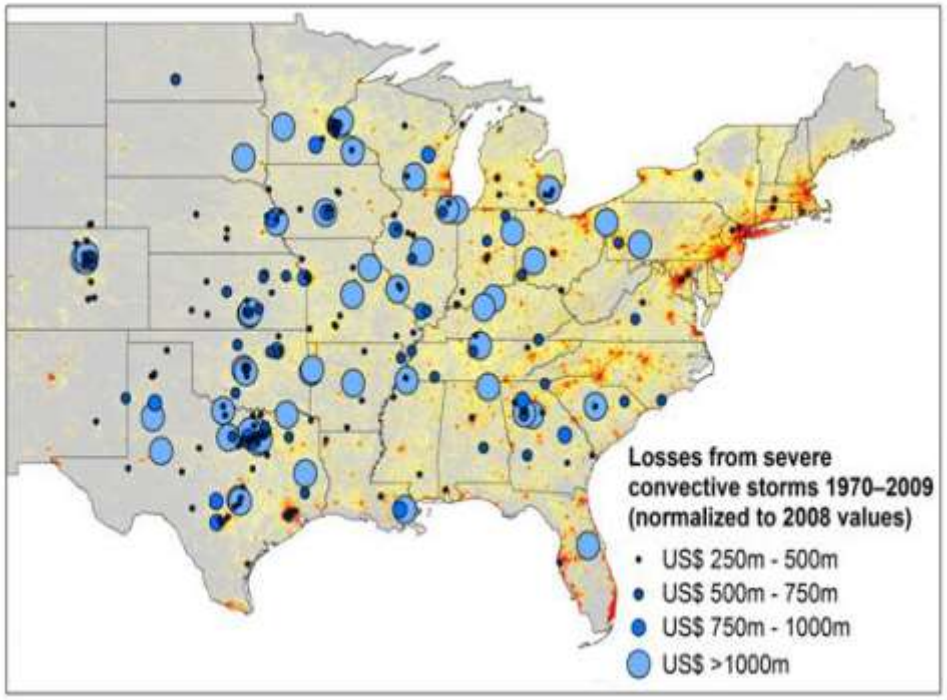

Source: Geo Risks Research, NatCatSERVICE – As at July 2013

# New Research Suggests Increase in Convective Activity Is Costly for Insurers

INSURANCE INFORMATION INSTITUTE

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

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

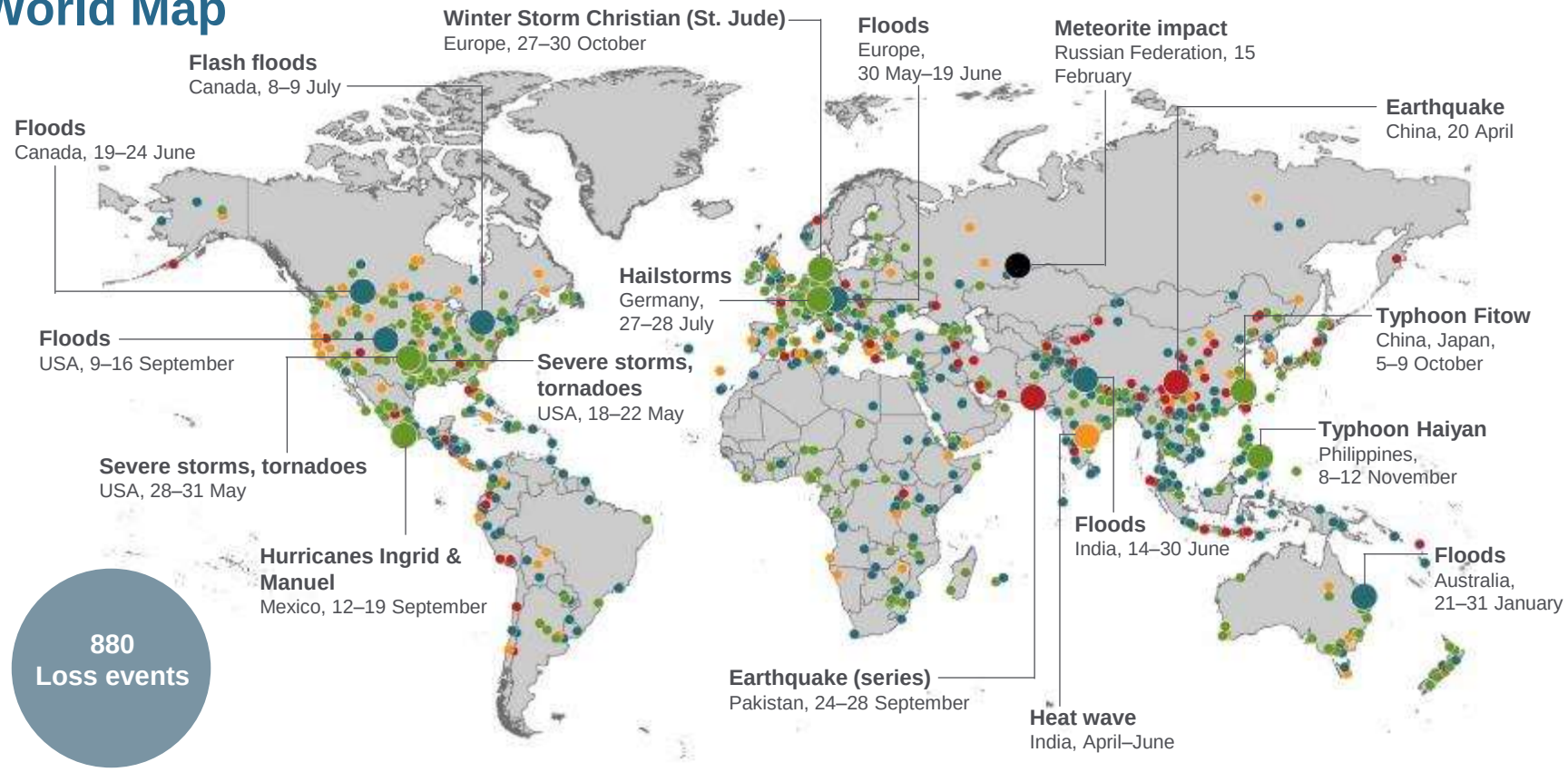



Source: Munich Re research paper, Marhc 18, 2013: *Rising Variability in Thunderstorm-Related U.S. Losses as a Reflection of Changes in Large-Scale Thunderstorm Forcing*.

# Natural Loss Events: Full Year 2013

INSURANCE INFORMATION INSTITUTE

## World Map



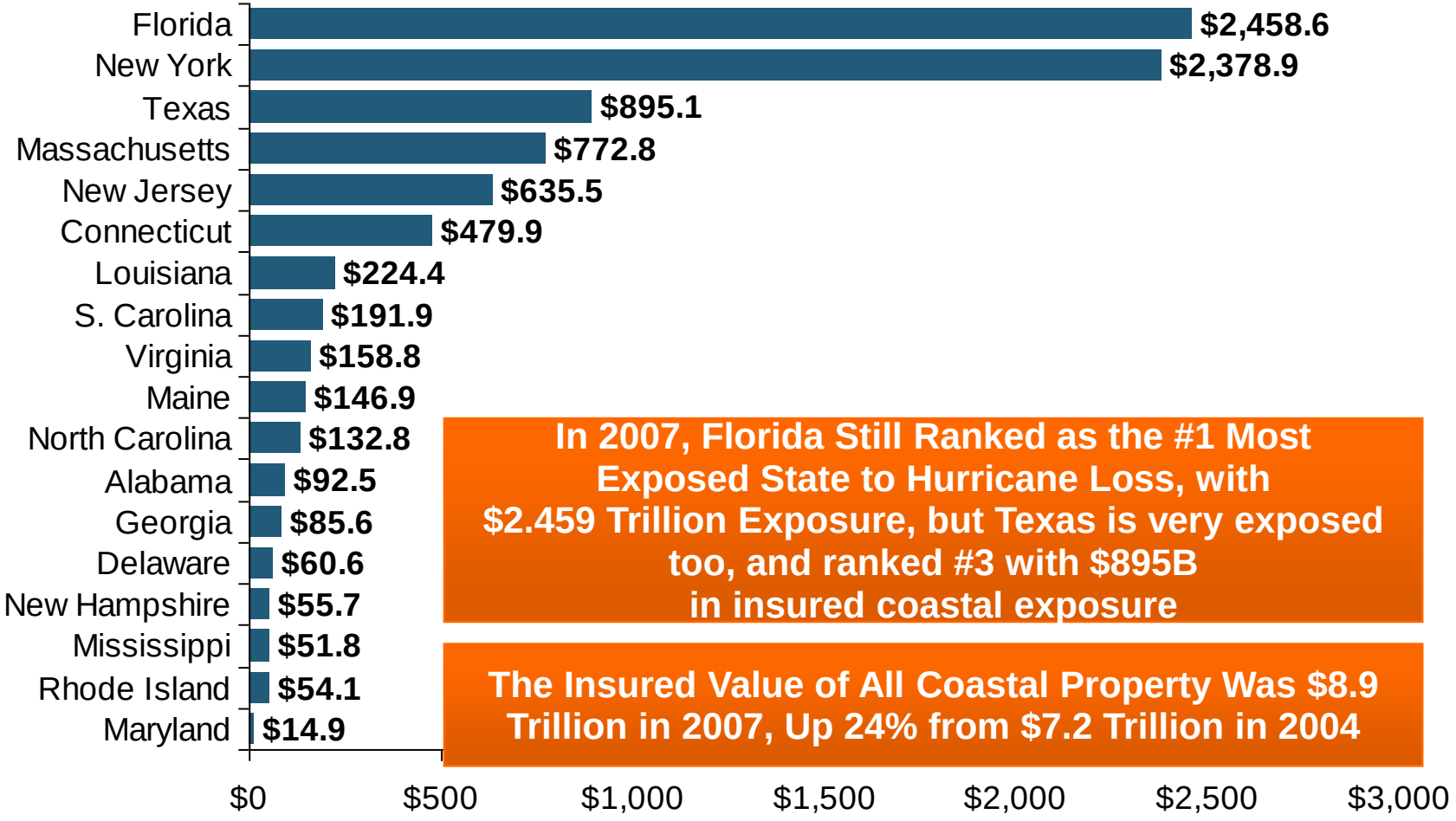

- Natural catastrophes
- Selection of significant Natural catastrophes
- **Geophysical events** (earthquake, tsunami, volcanic activity)
- **Meteorological events** (storm)
- **Hydrological events** (flood, mass movement)
- **Climatological events** (extreme temperature, drought, wildfire)
- **Extraterrestrial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

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

# Total Value of Insured Coastal Exposure in 2007

INSURANCE INFORMATION INSTITUTE

**(2007, $ Billions)**




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

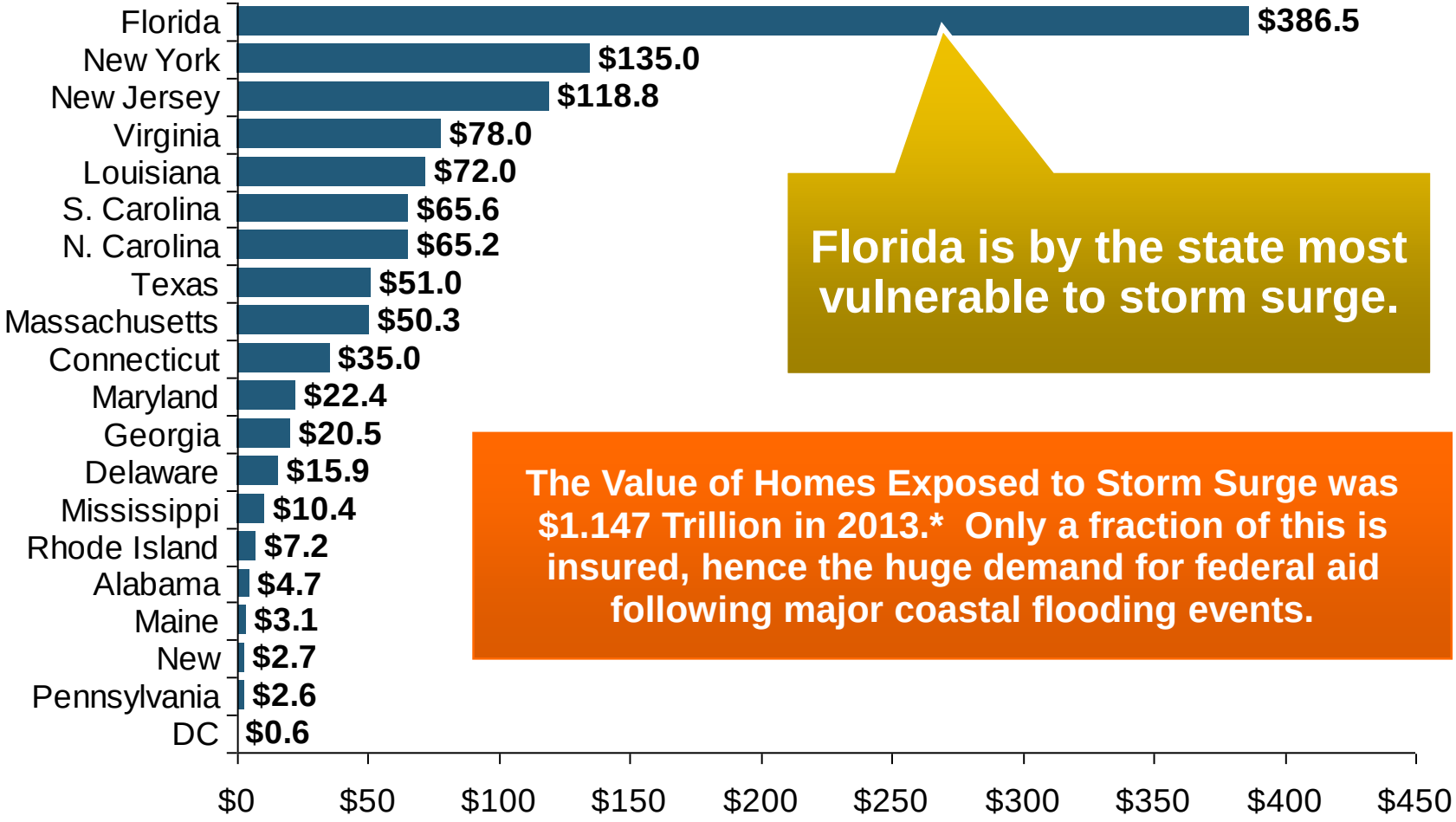
**The Insured Value of All Coastal Property Was $8.9 Trillion in 2007, Up 24% from $7.2 Trillion in 2004**

Source: AIR Worldwide

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

INSURANCE INFORMATION INSTITUTE

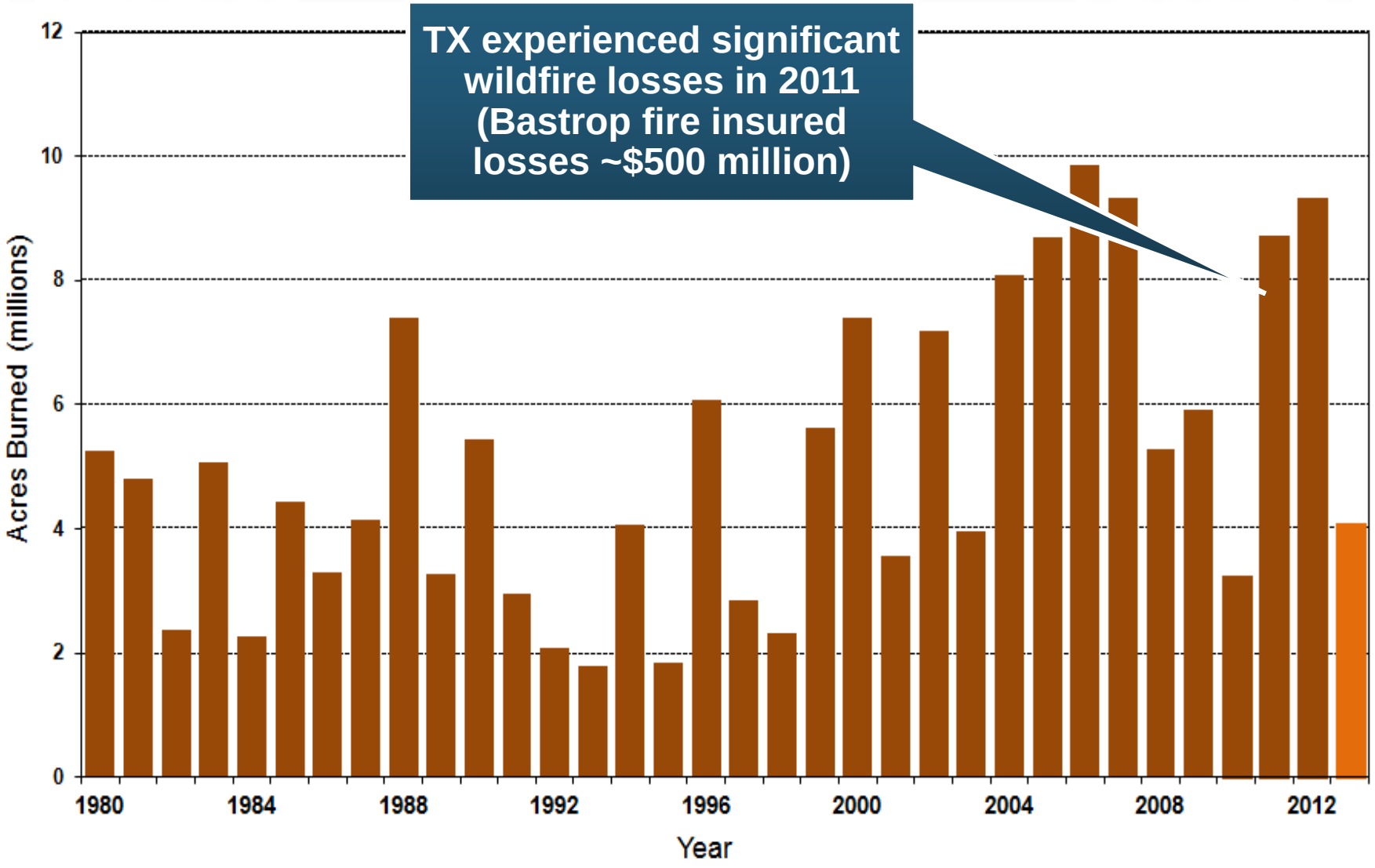
**($ Billions)**




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

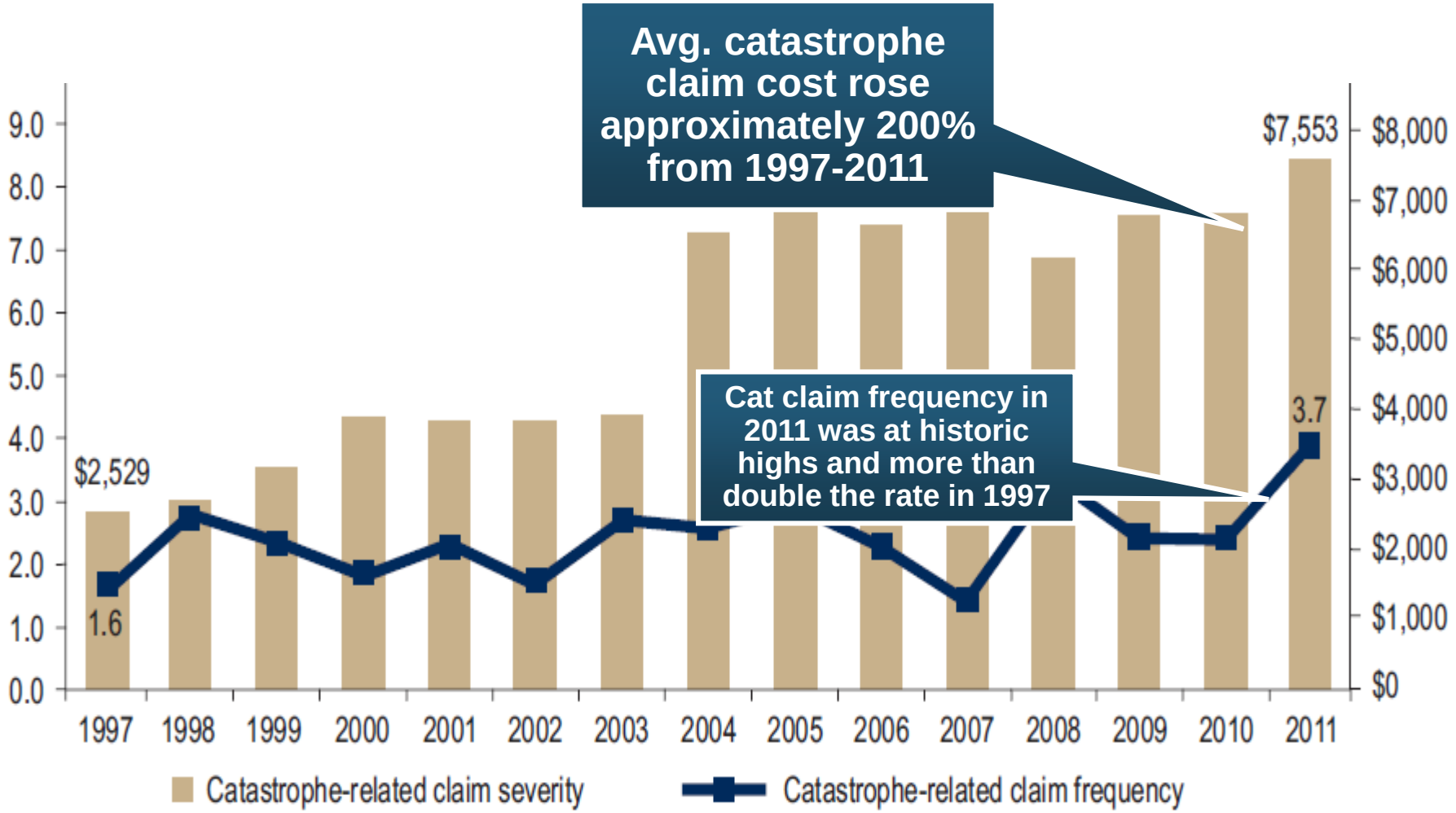
Source: *Storm Surge Report 2013,* CoreLogic.

# Number of Acres Burned in Wildfires, 1980 – 2013



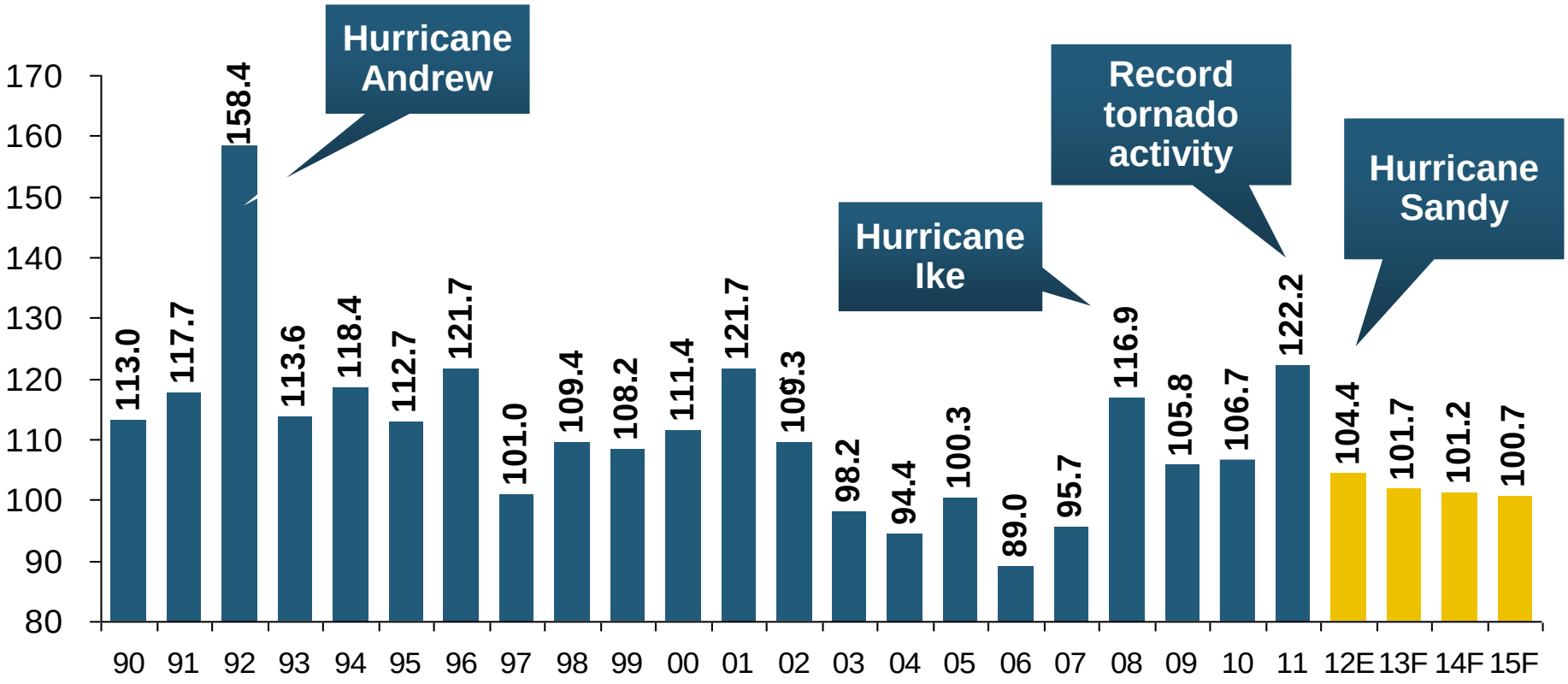

Source: National Interagency Fire Center

# 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**

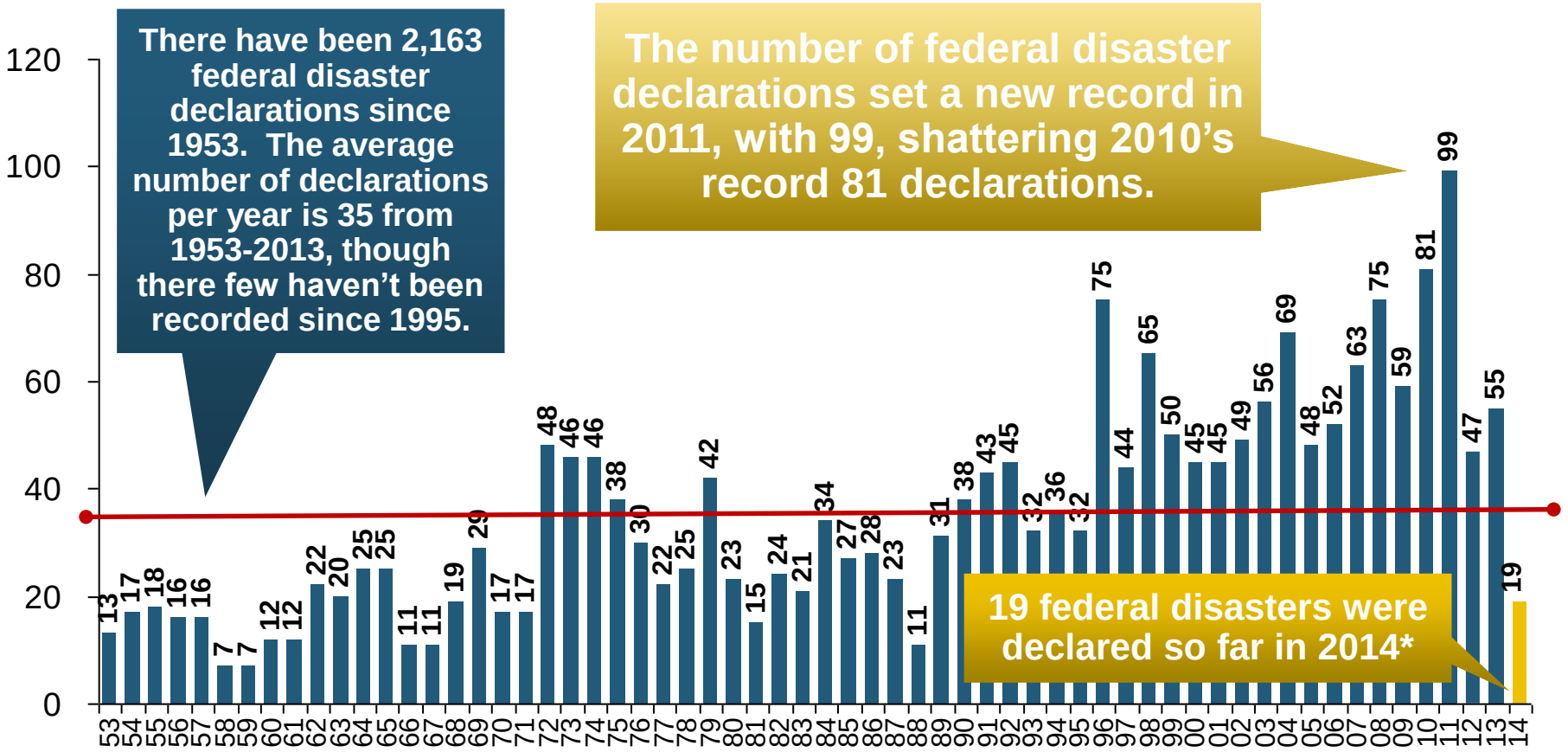
Sources: A.M. Best (1990-2011);Conning (2012E-2015F); Insurance Information Institute.

INSURANCE INFORMATION INSTITUTE

# Federal Disaster Declarations Patterns: 1953-2013

## Disaster Declarations Set New Records in Recent Years

# Number of Federal Major Disaster Declarations, 1953-2014*

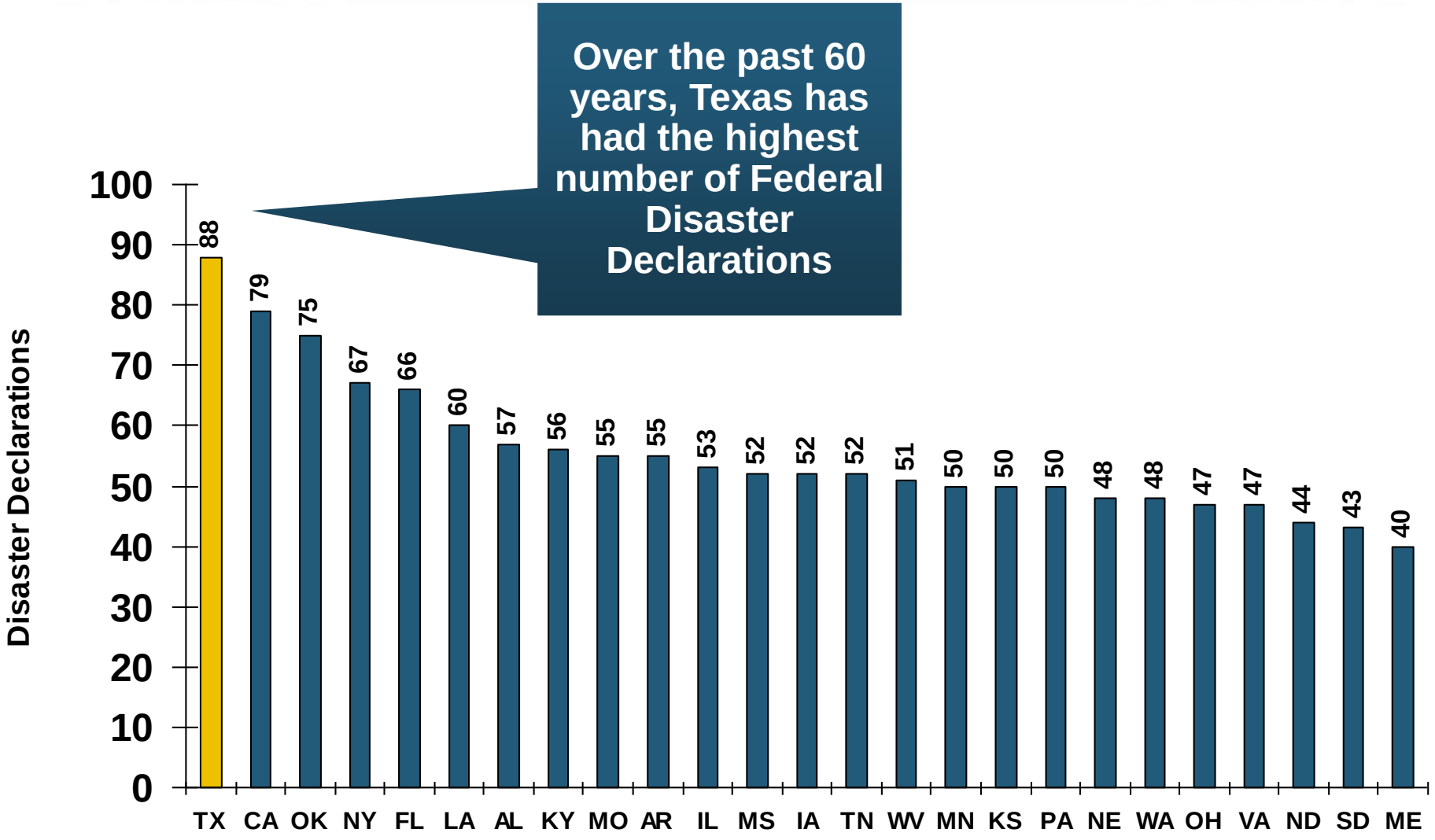



**The Number of Federal Disaster Declarations Is Rising and Set New Records in 2010 *and* 2011 Before Dropping in 2012/13**

*Through April 23, 2014.

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

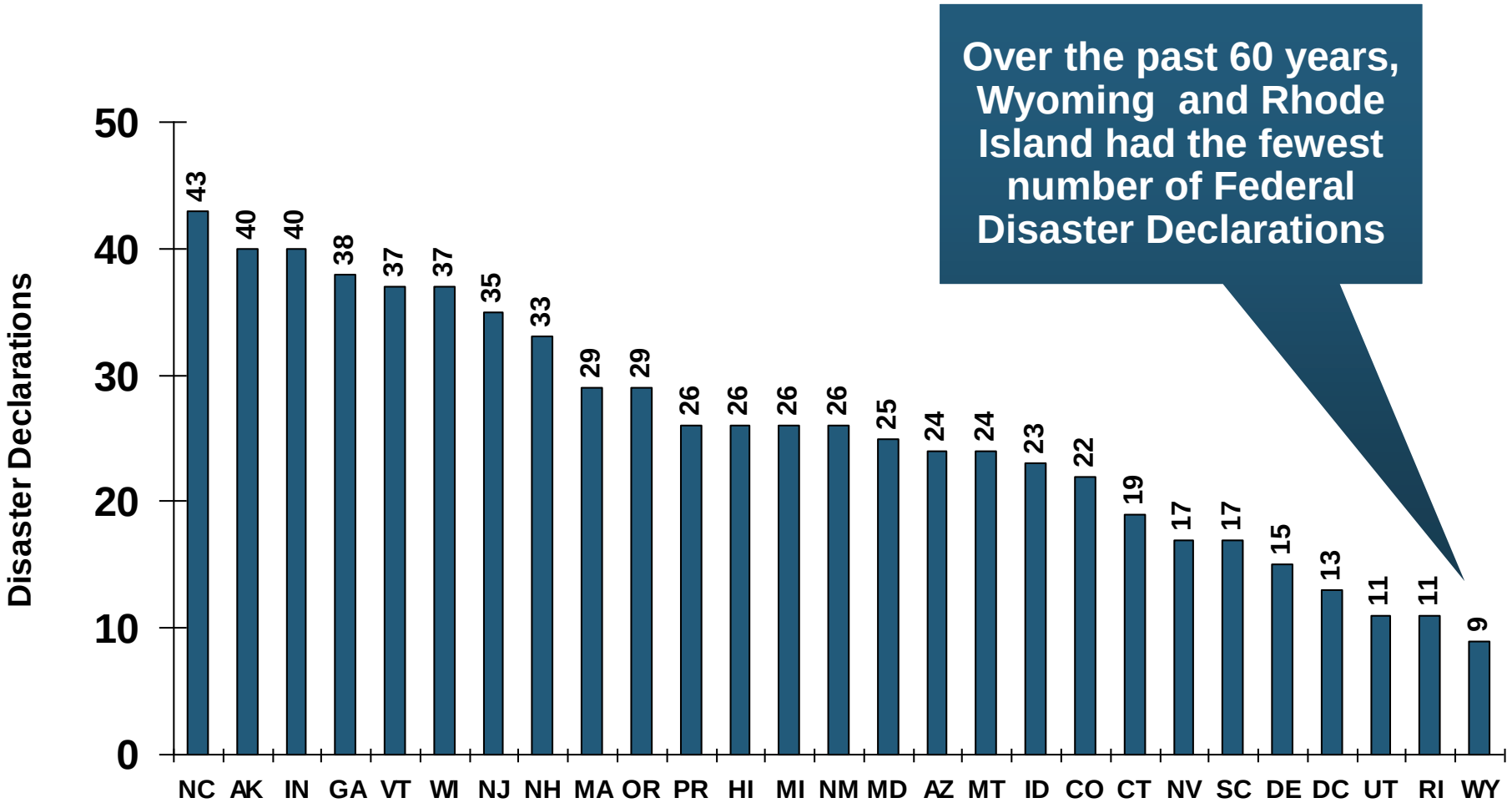
# Federal Disasters Declarations by State, 1953 – 2014: Highest 25 States*




*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

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

# Location of Tornado Reports in 2013

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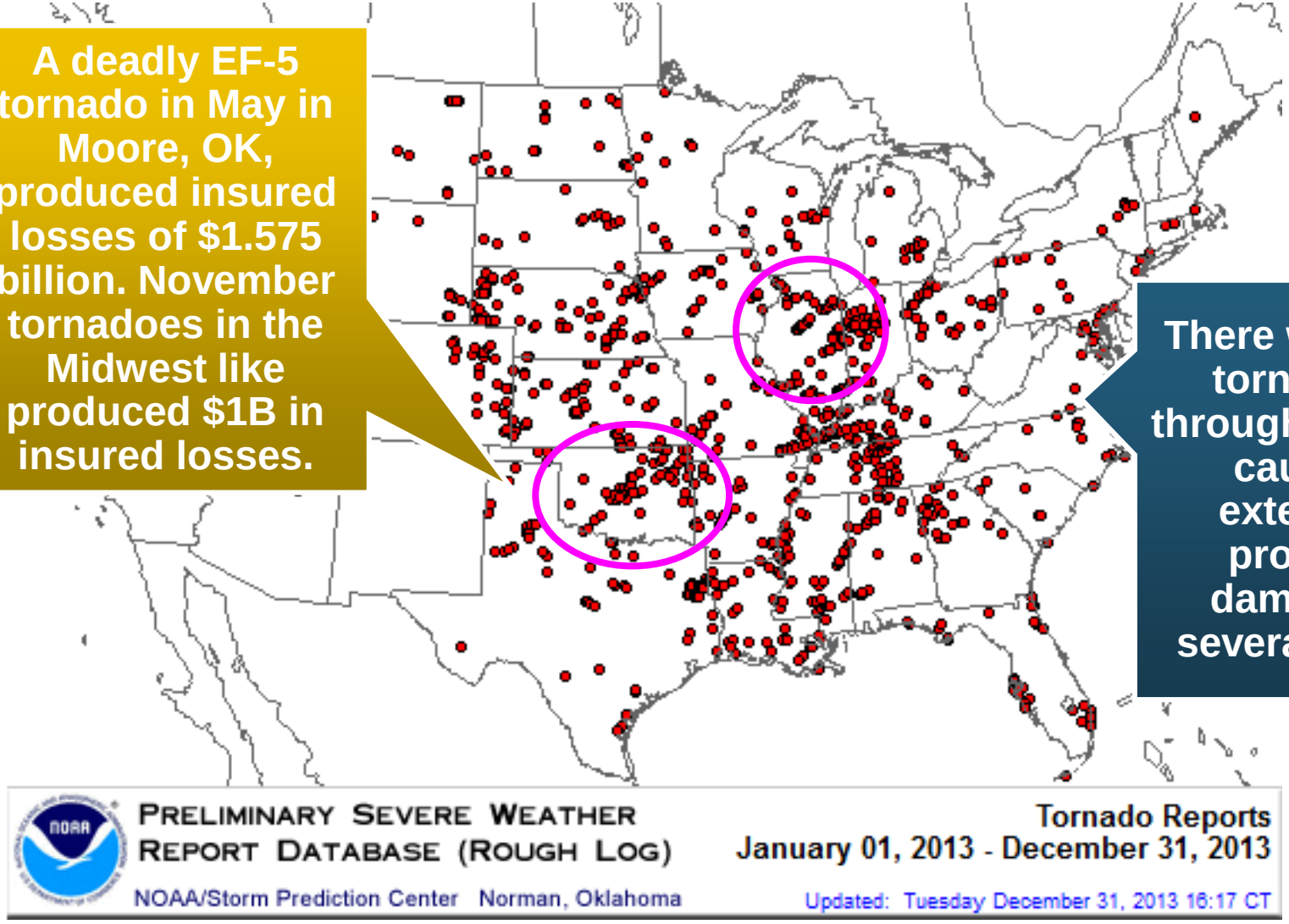
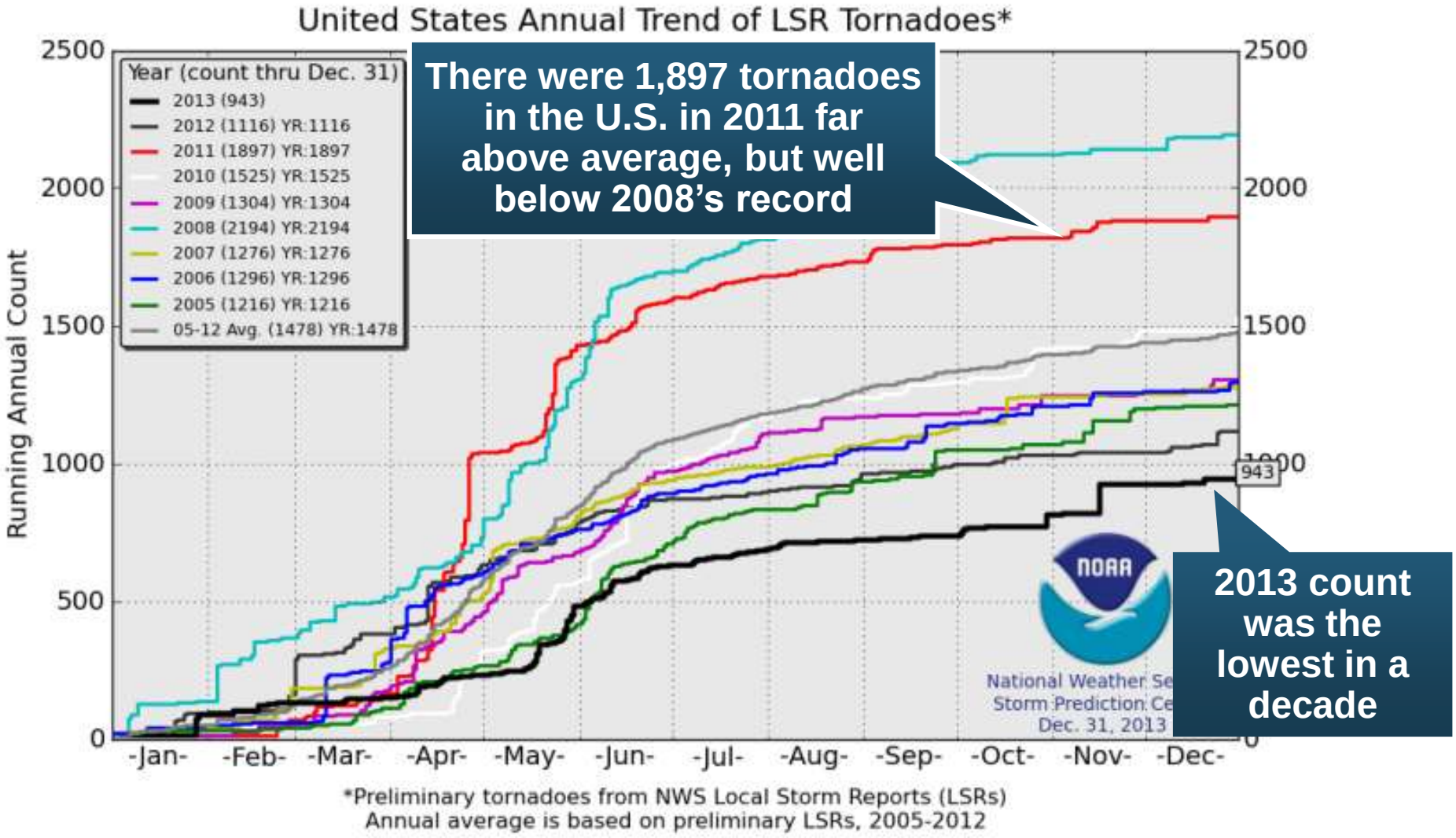
**A deadly EF-5 tornado in May in Moore, OK, produced insured losses of $1.575 billion. November tornadoes in the Midwest like produced $1B in insured losses.**




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

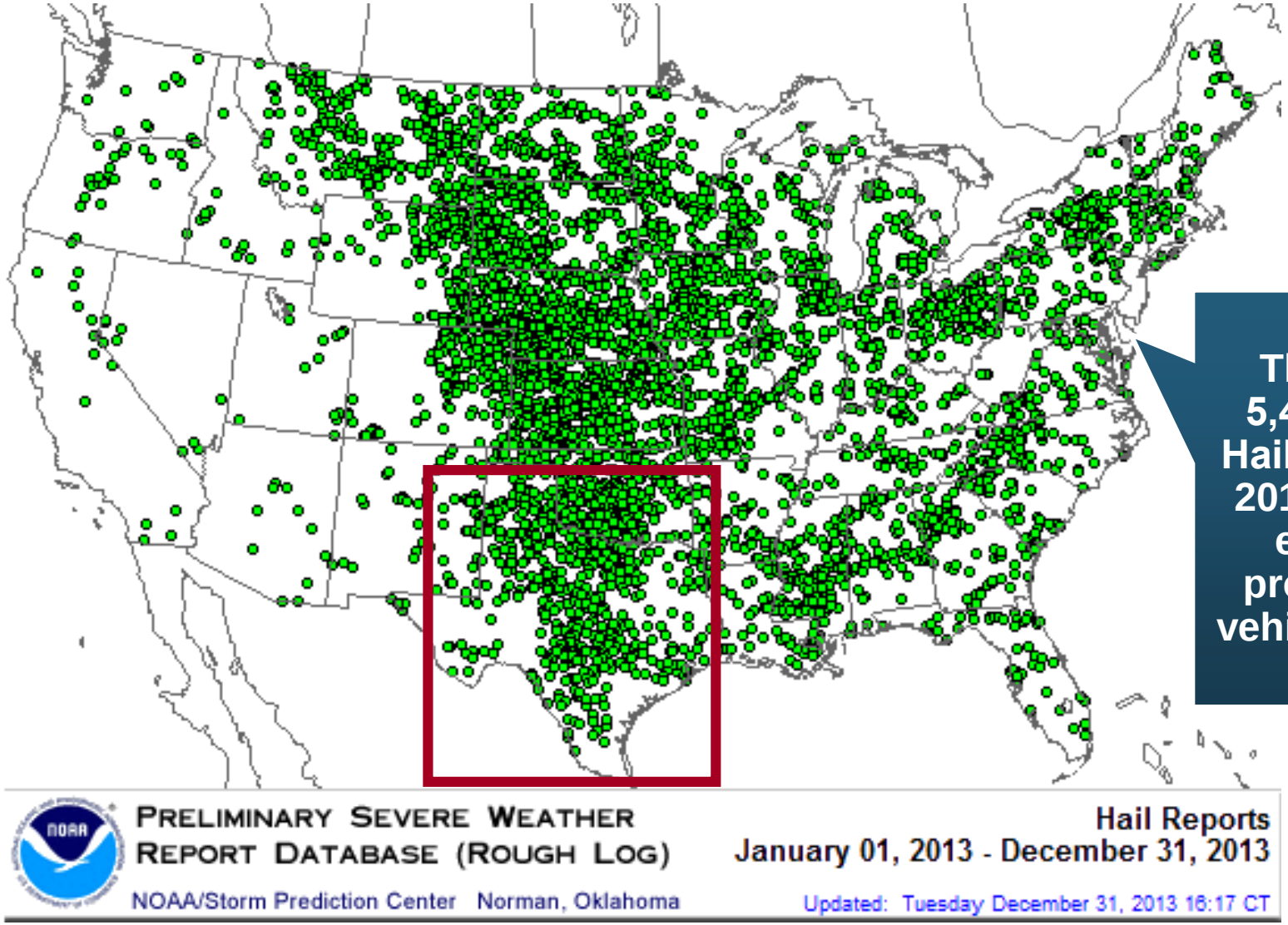
Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2013_annual_summary.html#; PCS.

# U.S. Tornado Count, 2005-2013*




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

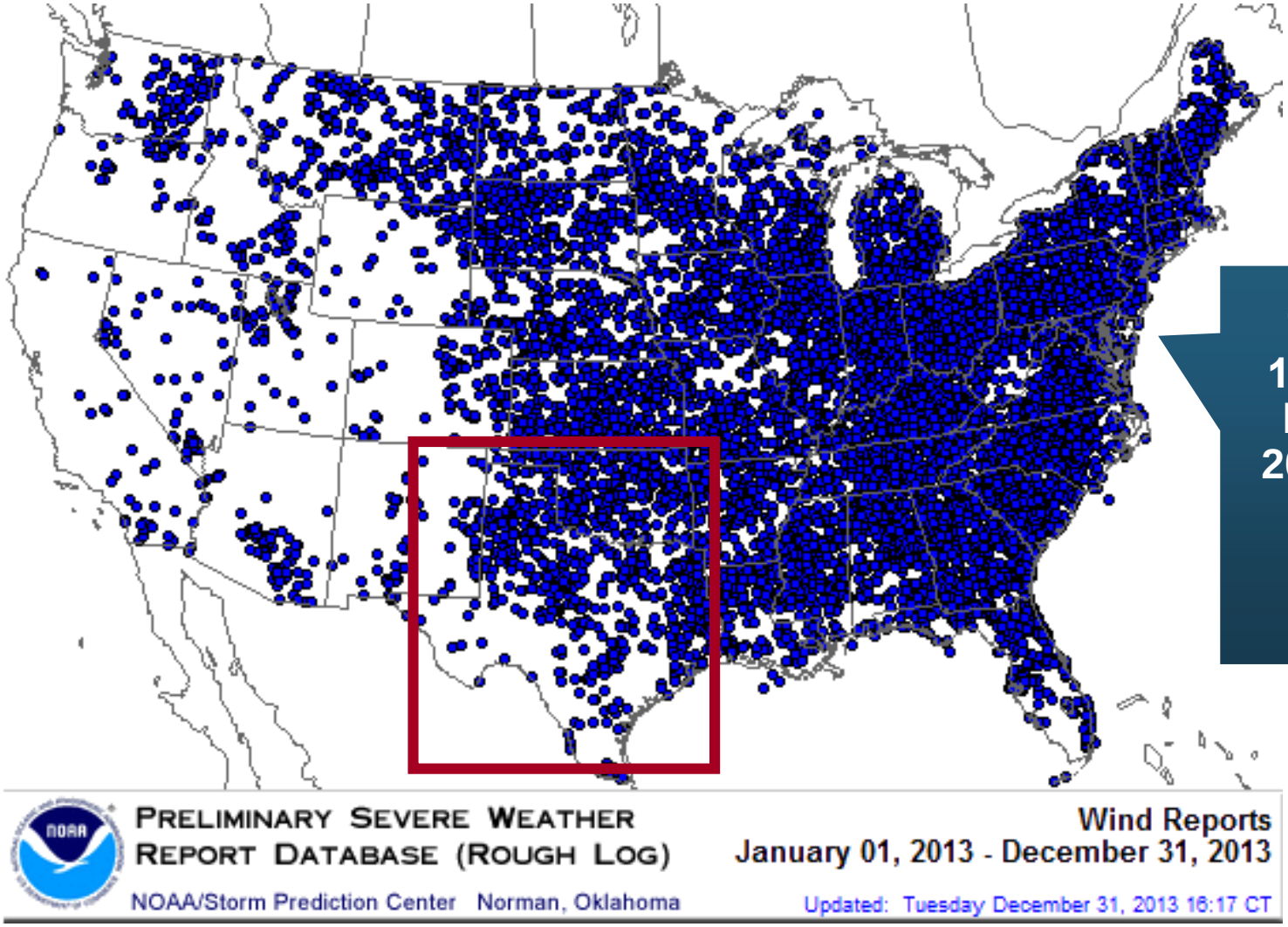
# Location of Large Hail Reports: 2013




**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#

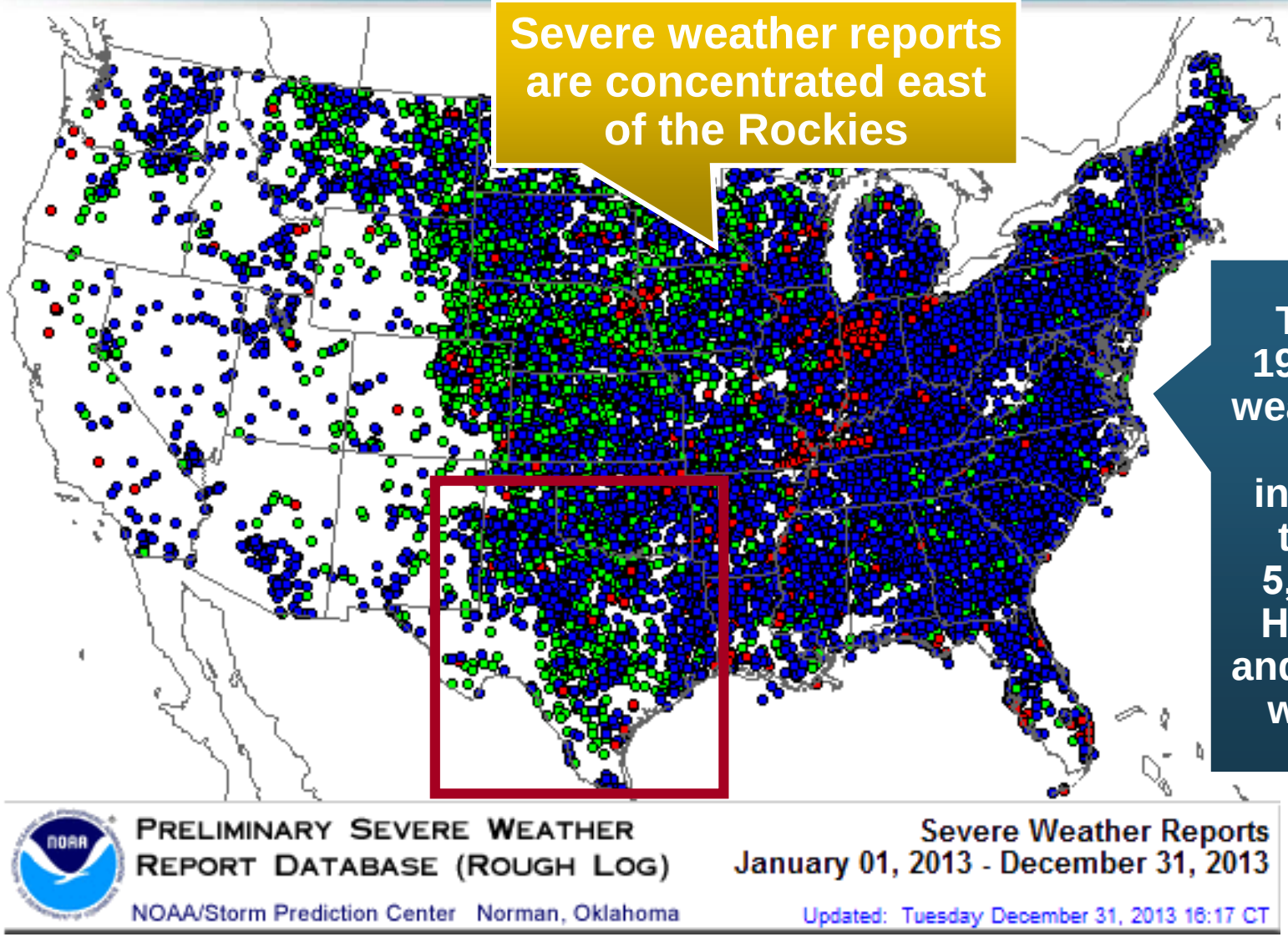
# Location of High Wind Reports: 2013




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

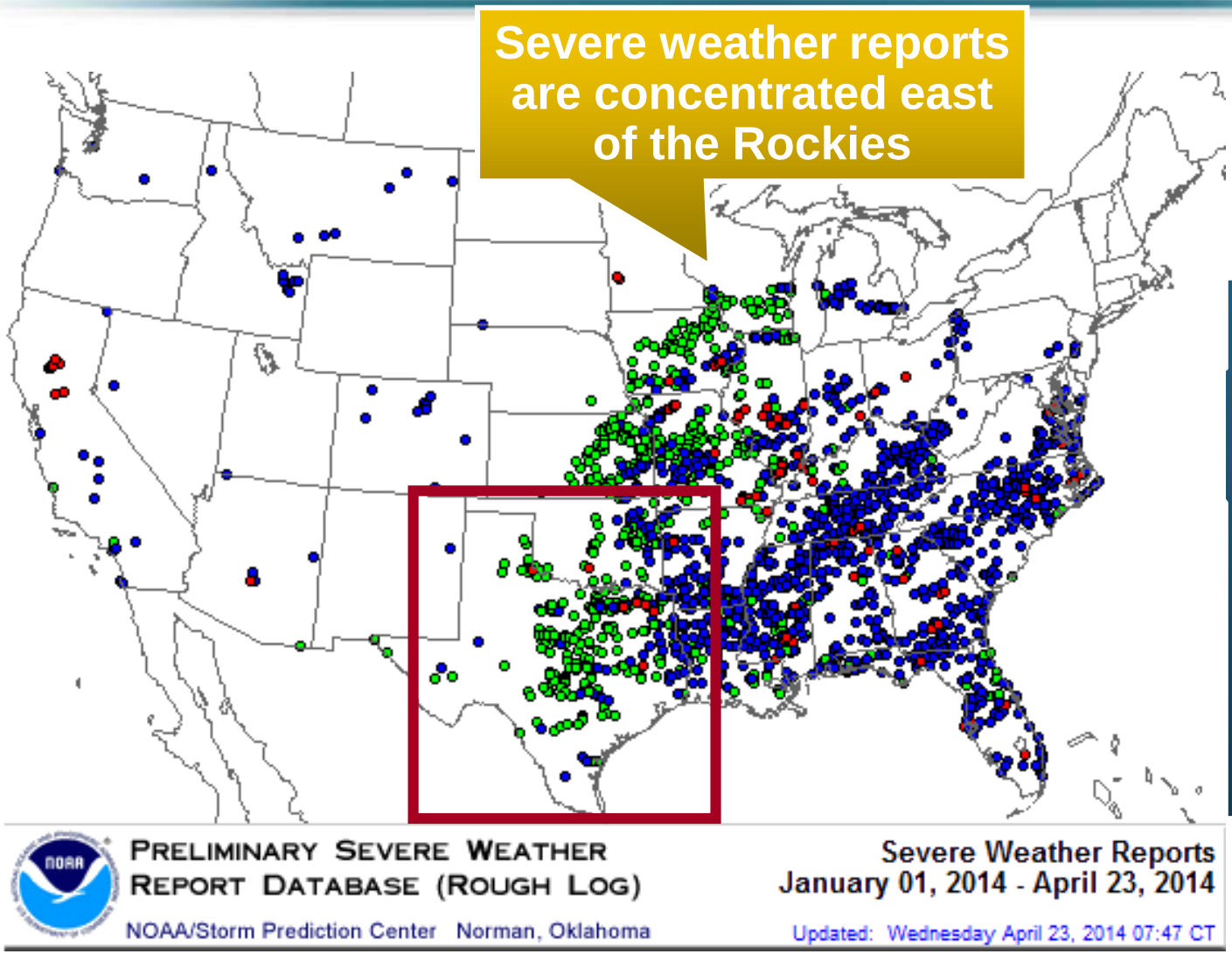
Source: NOAA Storm Prediction Center; http://www.spc.noaa.gov/climo/online/monthly/2013_annual_summary.html#

# Severe Weather Reports: 2013




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

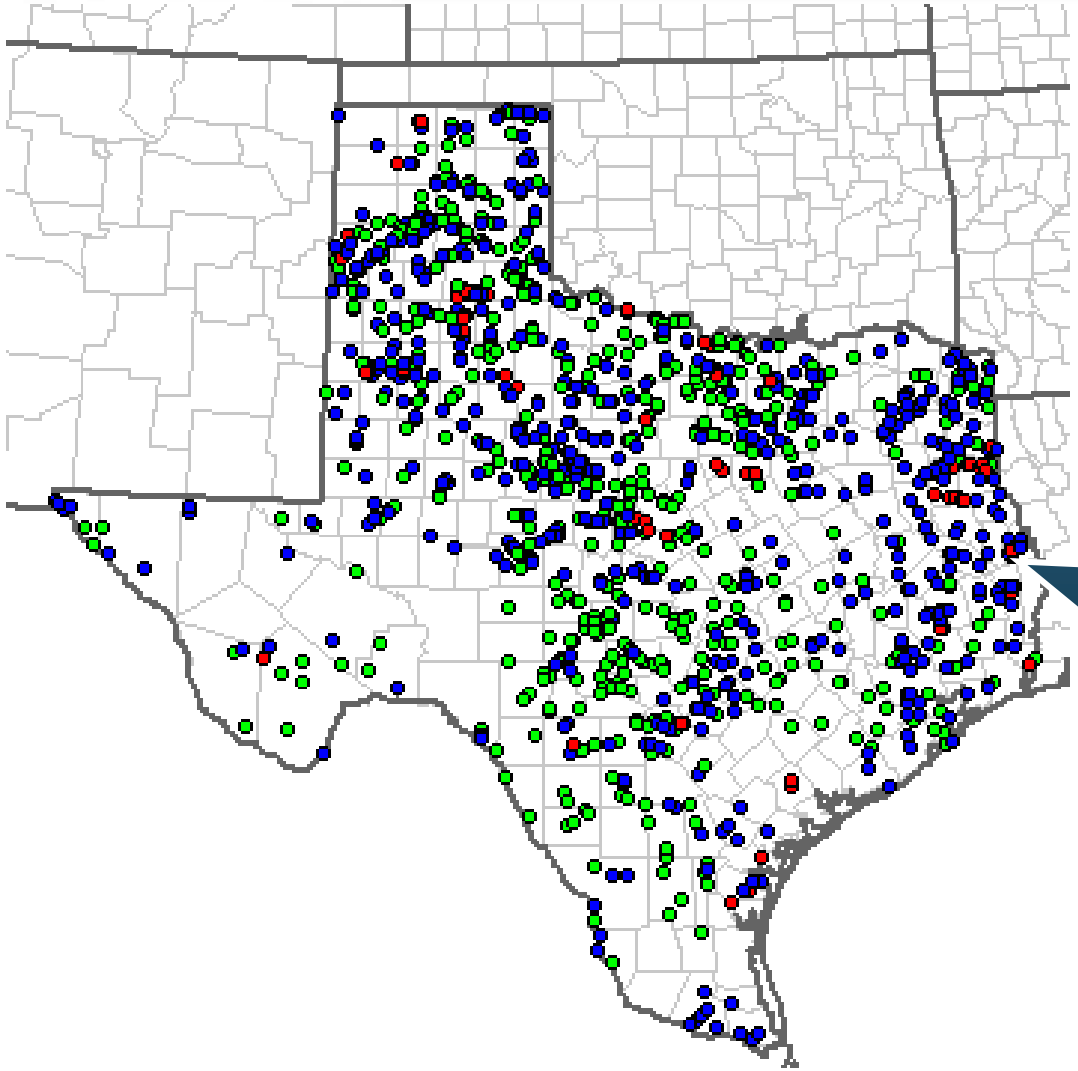
# Severe Weather Reports: 2014*




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#

# Severe Weather Reports in Texas: 2013



There were 1,411 severe weather reports in 2013

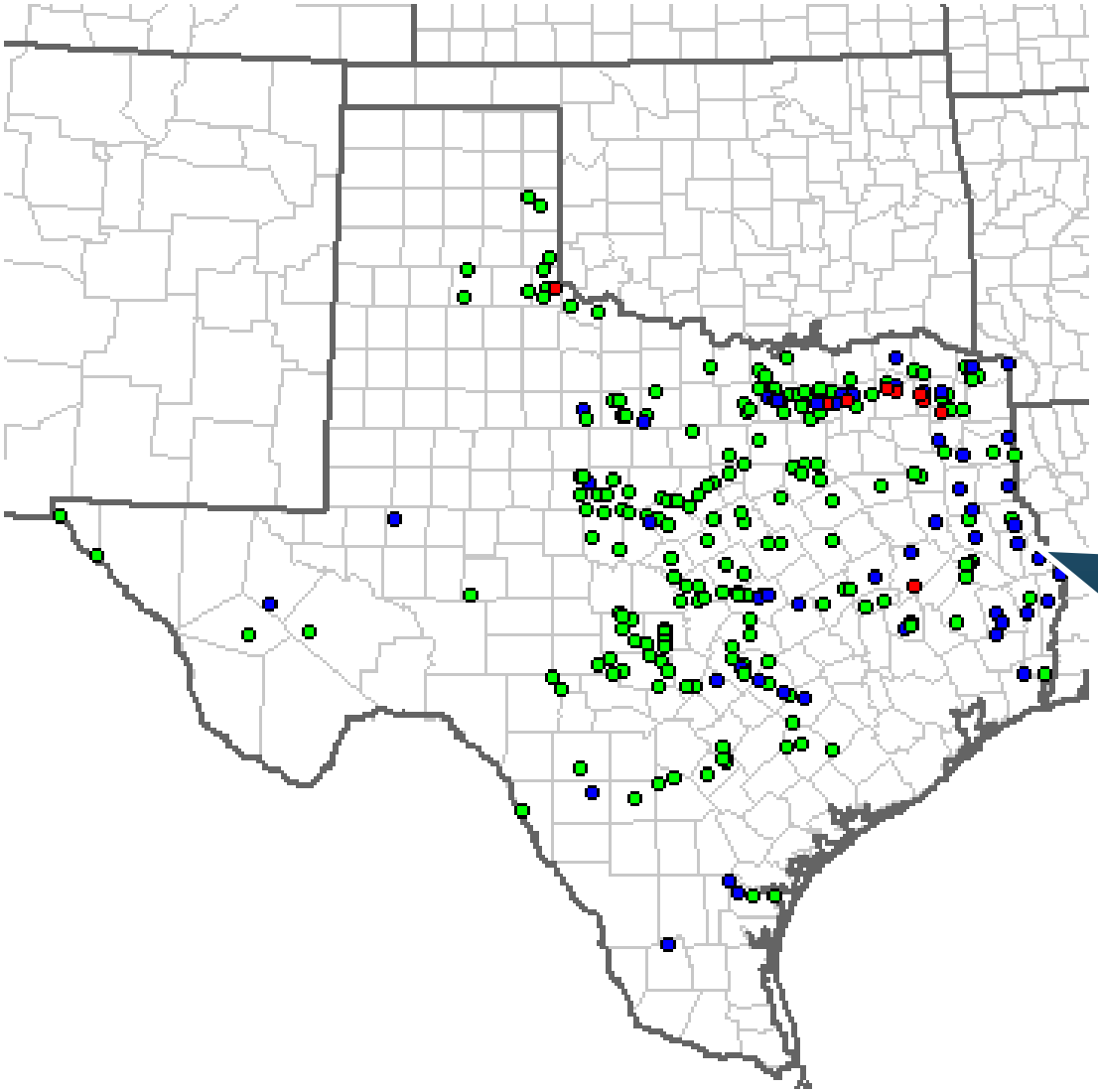
65 Tornadoes

651 Large Hail Reports

694 High Wind Events

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

# Severe Weather Reports in Texas: 2014*



**There were 271 severe weather reports in 2014***

**10 Tornadoes**

**200 Large Hail Reports**

**61 High Wind Events**

*Though April 23.

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

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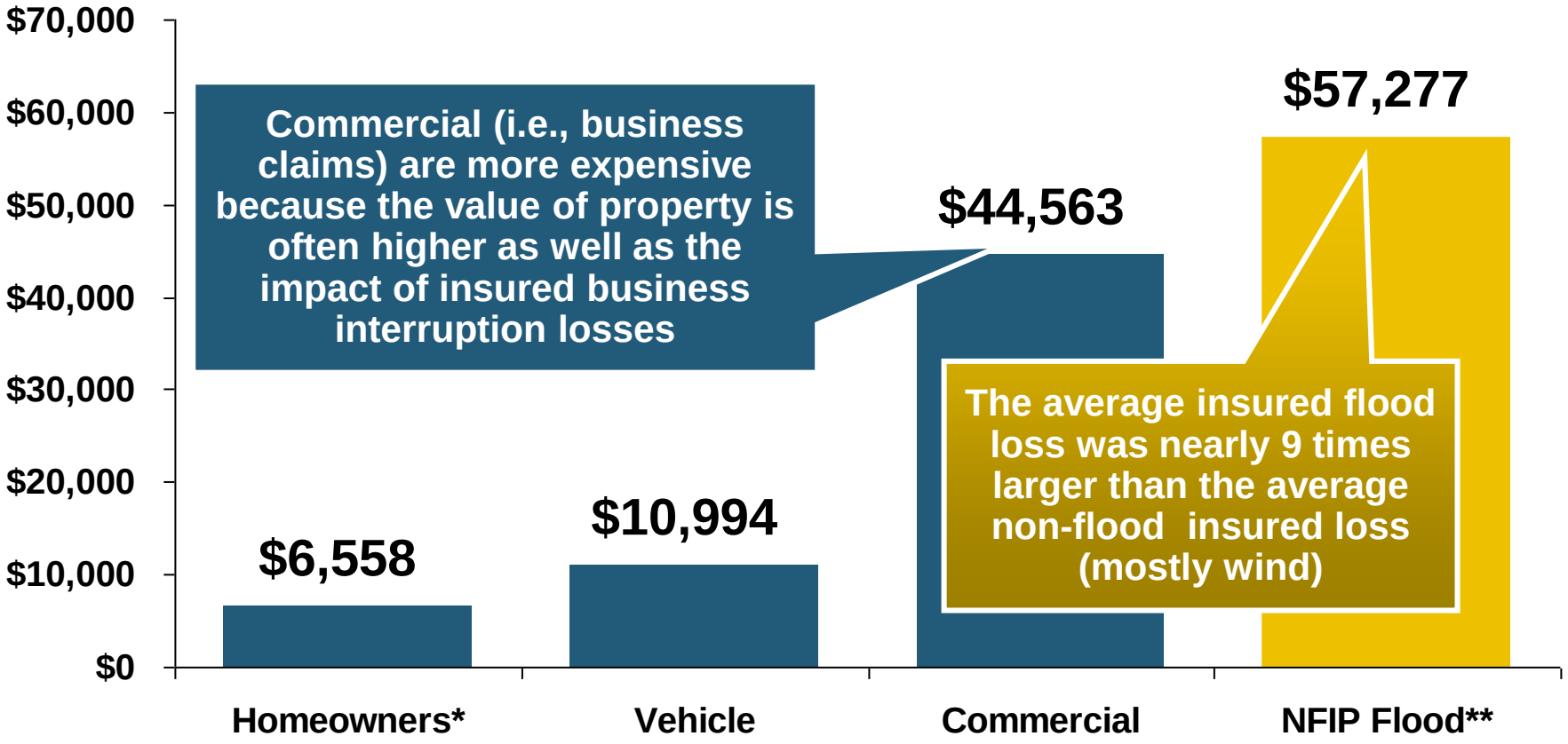
# Flood Insurance & Biggert-Waters Reforms

## Implementation of BW-12 Has Caught Media and Public Policymaker Attention

# 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.***

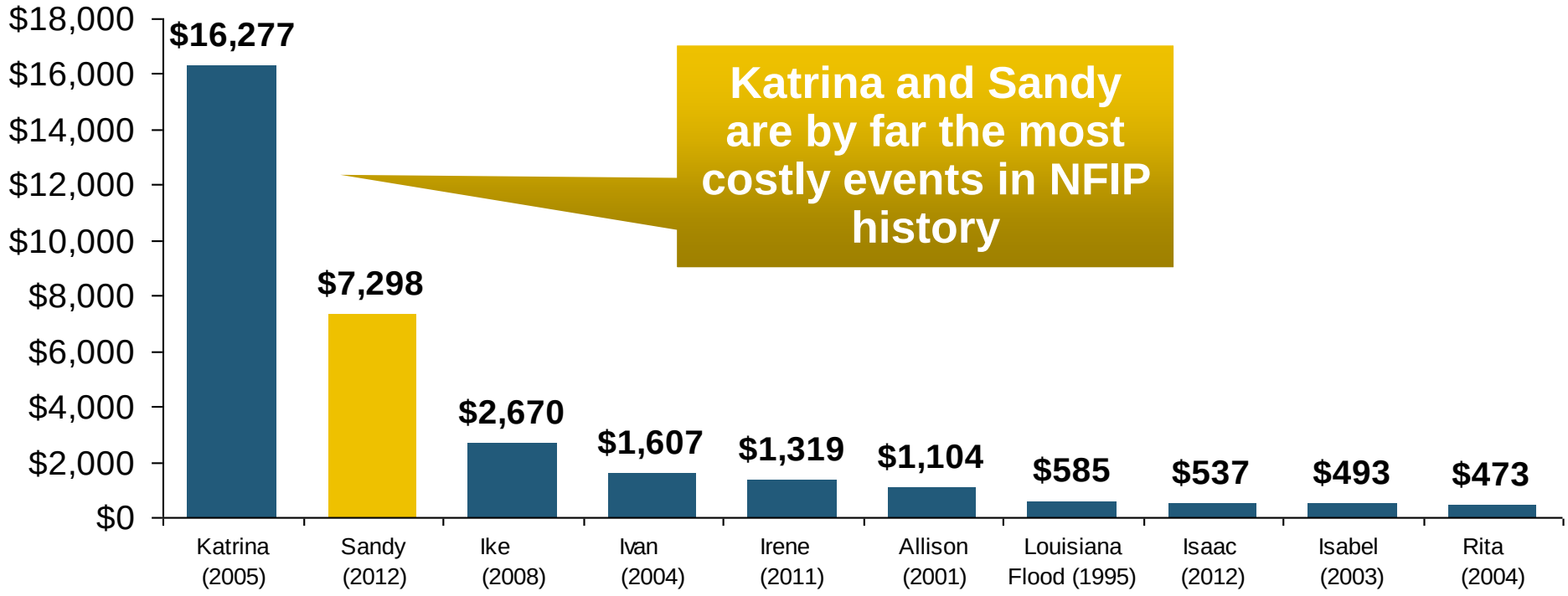
*Includes rental and condo policies (excludes NFIP flood). **As of Oct. 31, 2013.

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

# Top 12 Most Costly Flood Events by NFIP Payout*

(NFIP Insured Losses, $ Millions)

**8 of the 10 most costly events in NFIP history occurred over the past decade (2004–2013); *NFIP deficit now totals $24 billion***

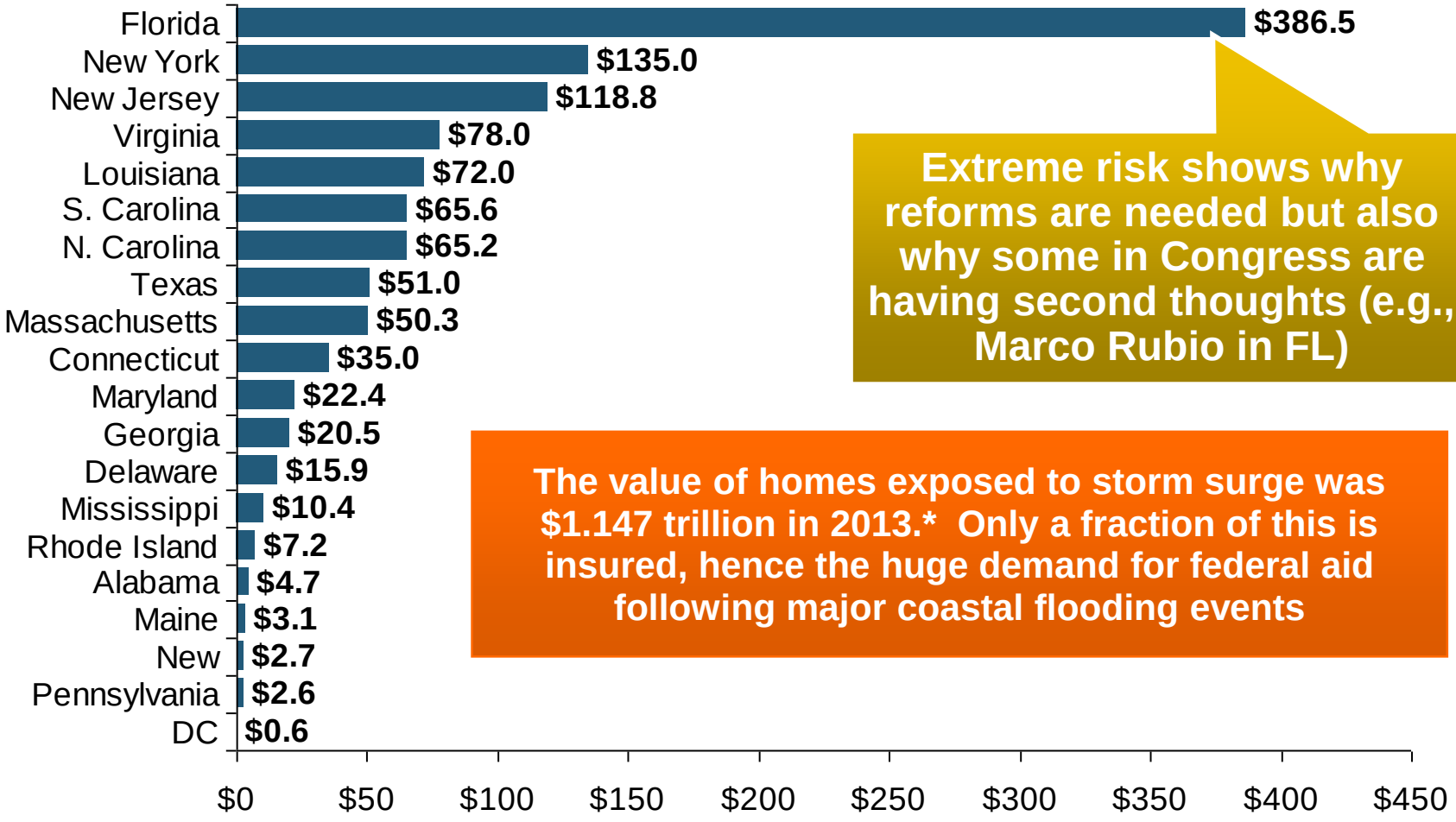



*Expressed in original dollars (not inflation-adjusted).

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

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

($ Billions)




**Extreme risk shows why reforms are needed but also why some in Congress are having second thoughts (e.g., Marco Rubio in FL)**

**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**
- **I.I.I. Is Explaining the Risks Associated with BW-12 Delay**
- **Future Pvt. Insurer Flood Participation Impacted by BW-12 Debate**
- **I.I.I. Research Report on Issue Due Soon Under BW-12 Section 236 Study Requirement (National Academy of Sciences)**

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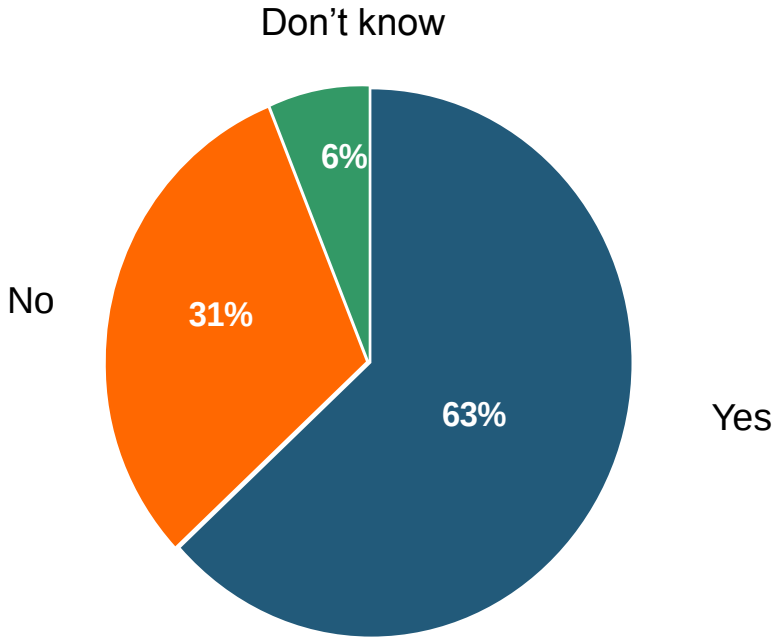
# Flood Insurance

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

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

# 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?

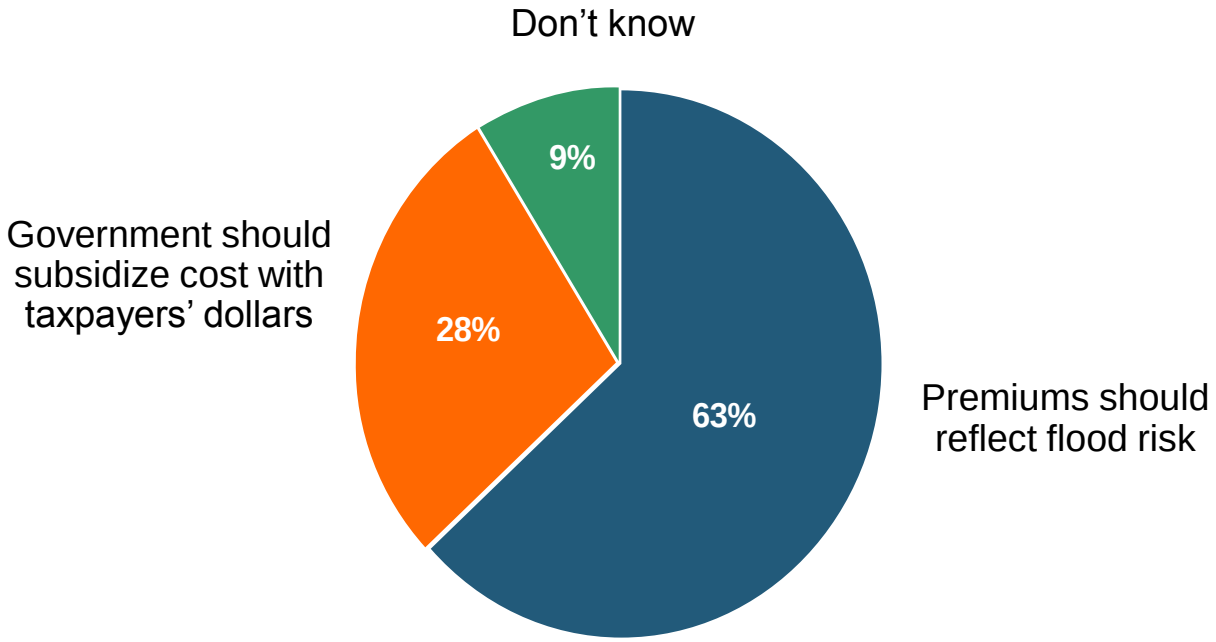



**Almost two-thirds of Americans think that it is fair that flood insurance premiums be raised for people who live in high flood risk areas and rebuild their homes after a flood but do not elevate them.**

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?**

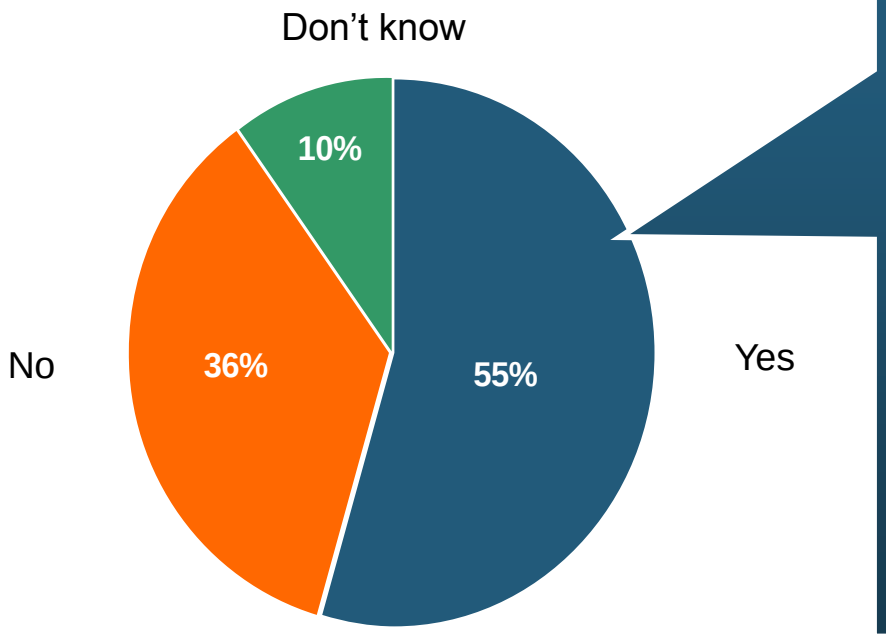



**Almost two-thirds of Americans think flood insurance premiums should be raised to reflect the risk of flooding.**

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?**



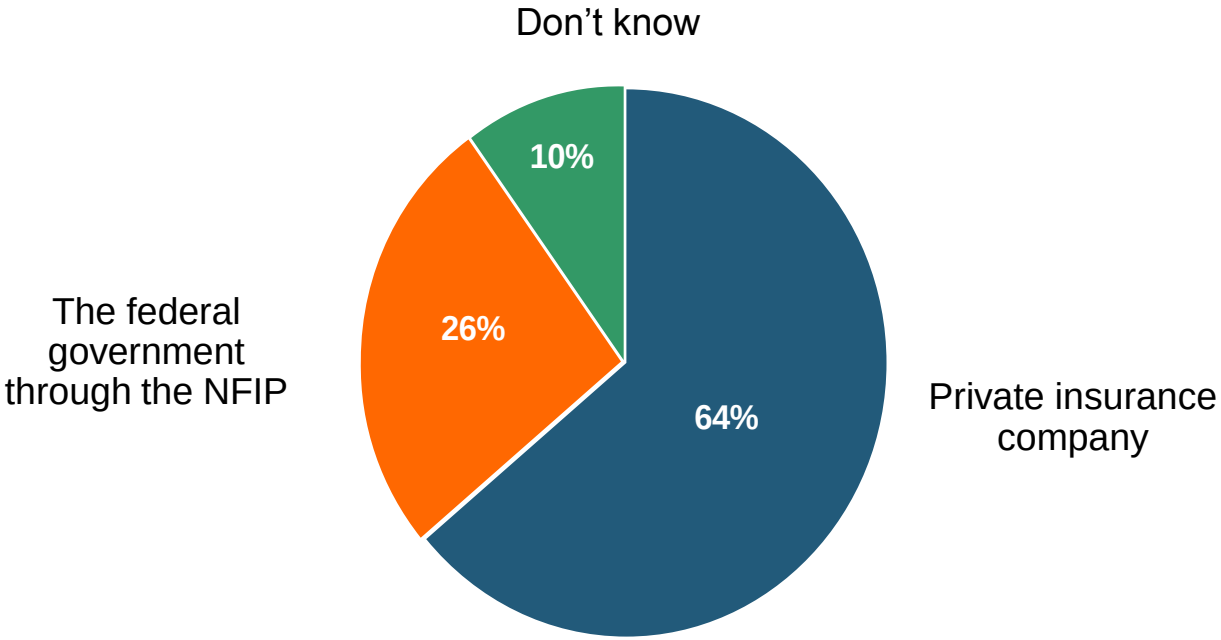

**It is inconsistent for the public to support full-risk rates but maintain subsidies, but this exactly mirrors Congressional sentiments, with supporters of BW-12 and even Tea Party conservatives supporting continuation of the subsidies**

**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?

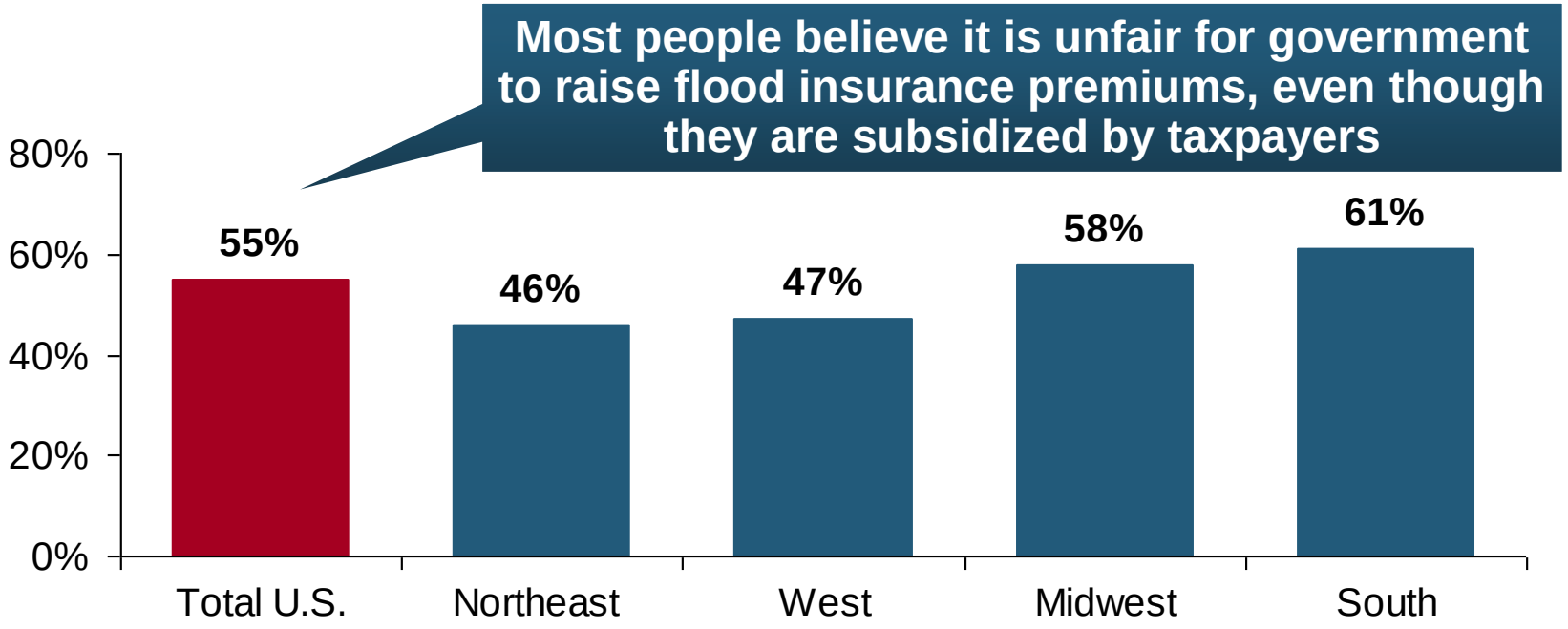



**Six out of 10 Americans would prefer to buy flood insurance from a private insurance company as opposed to the federal government, if costs were similar.**

Source: Insurance Information Institute Annual *Pulse* Survey.

# I.I.I. Poll: Flood Insurance

**Q. The federal government plans to raise the price of flood insurance so it reflects the costs of paying claims. Do you believe this is fair? *[% Responding "NO"]***

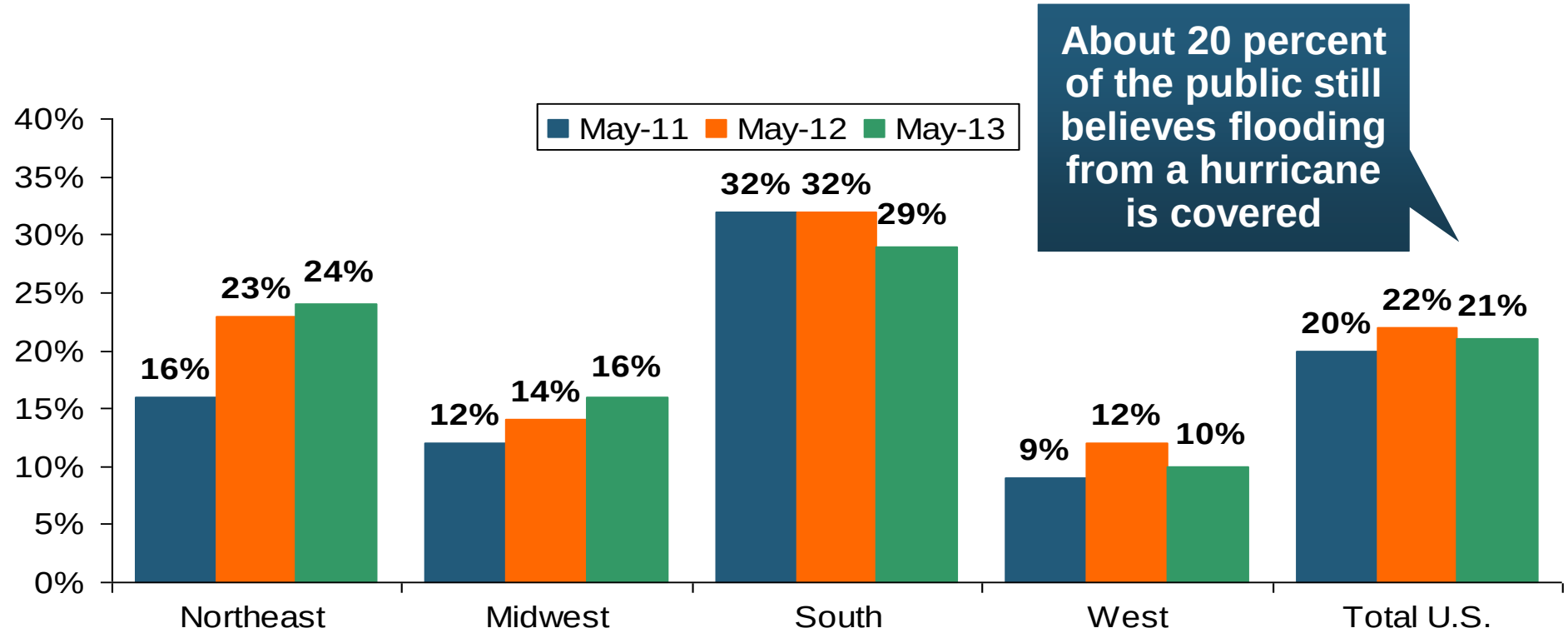



**More than one-half of Americans do not think it is fair for the federal government to raise its flood insurance premiums to better reflect claims payouts.**

Source: Insurance Information Institute Annual *Pulse* Survey.

# I.I.I. Poll: Disaster Preparedness

## Q. Does your homeowners policy cover damage from flooding during a hurricane?[1]



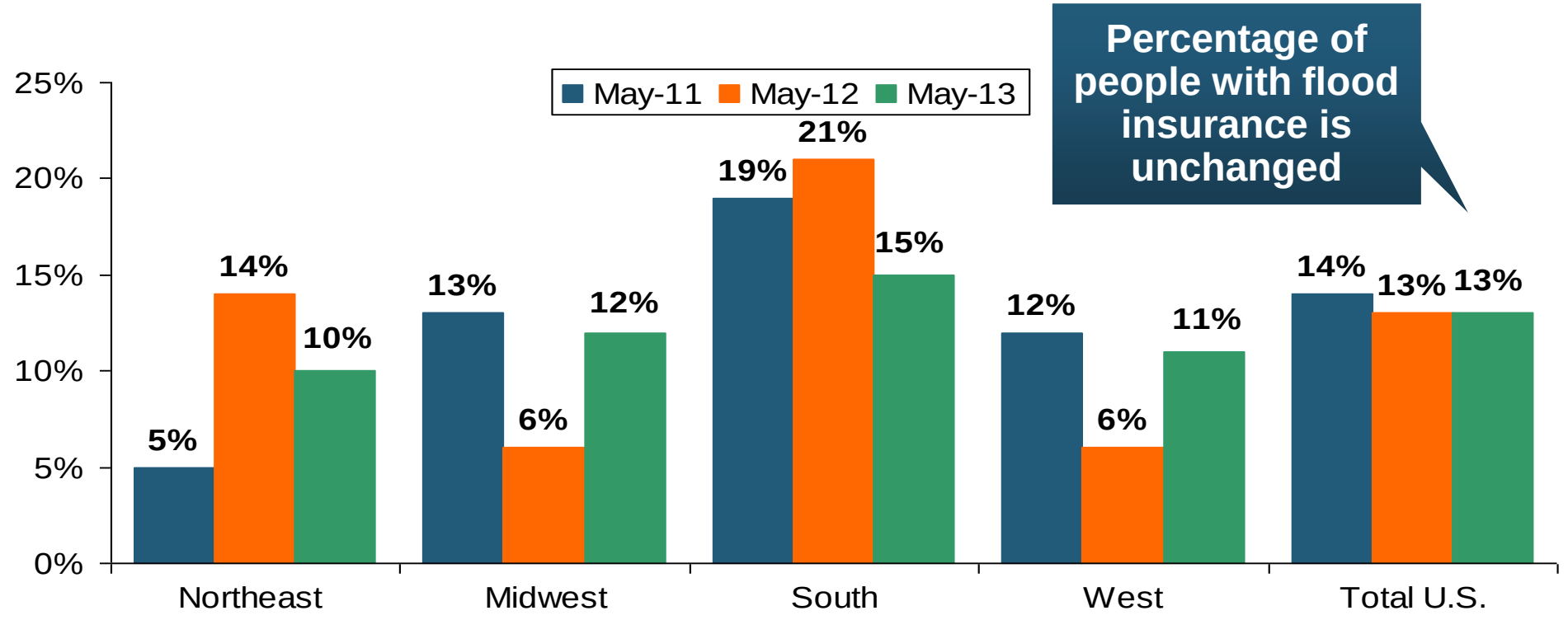

**The proportion of homeowners who believe their homeowners policy covers damage from flooding during a hurricane stands at 21 percent. This proportion rises eight percentage points in the South, to 29 percent.**

[1]Asked of those who have homeowners insurance and who responded "yes".

Source: Insurance Information Institute Annual *Pulse* Survey.

# I.I.I. Poll: Disaster Preparedness

## Q. Do you have a separate flood insurance policy?[1]



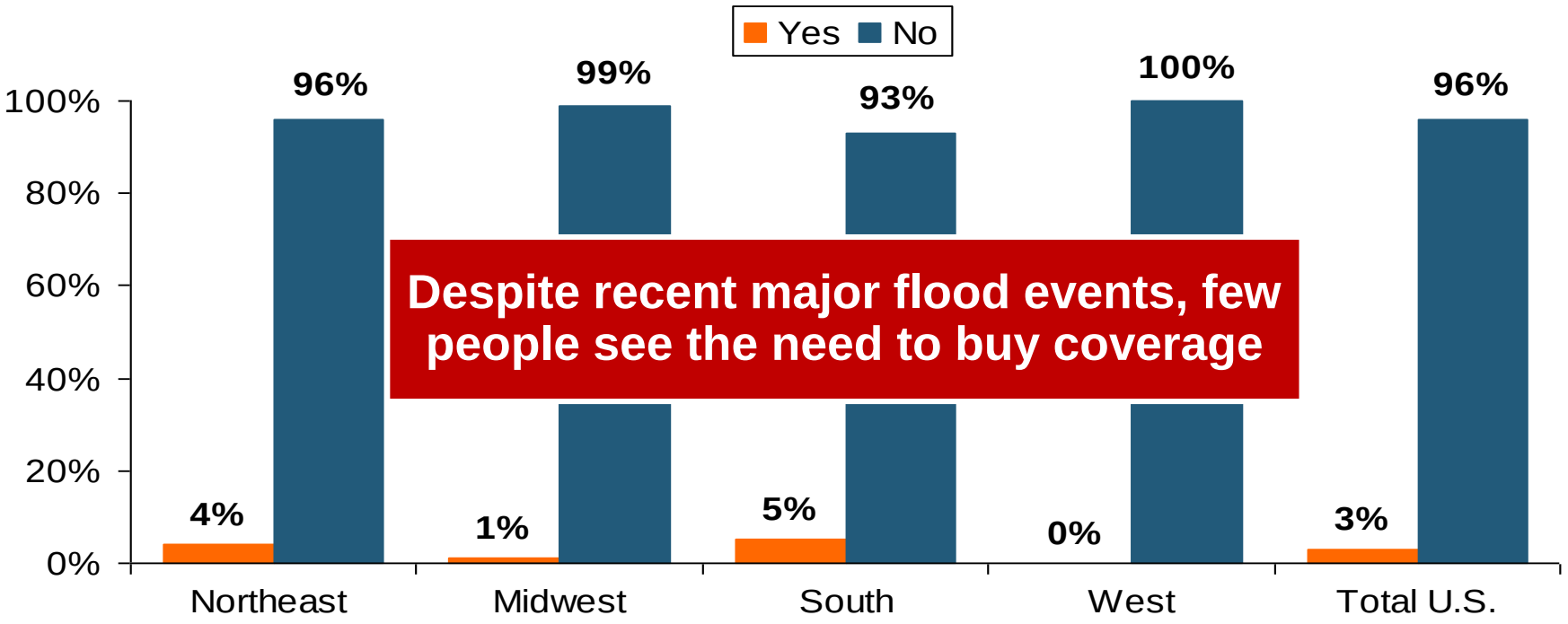

**Only 13 percent of American homeowners say they have a flood insurance policy; the percentage is lowest in the Northeast at 10 percent.**

[1]Asked of those who have homeowners insurance and who responded "yes".

Source: Insurance Information Institute Annual *Pulse* Survey.

# I.I.I. Poll: Disaster Preparedness

**Q. Have recent flooding events such as Hurricane Sandy or Hurricane Irene motivated you to buy flood coverage?[1]**




**Recent storms have not motivated people to buy flood insurance coverag.e**

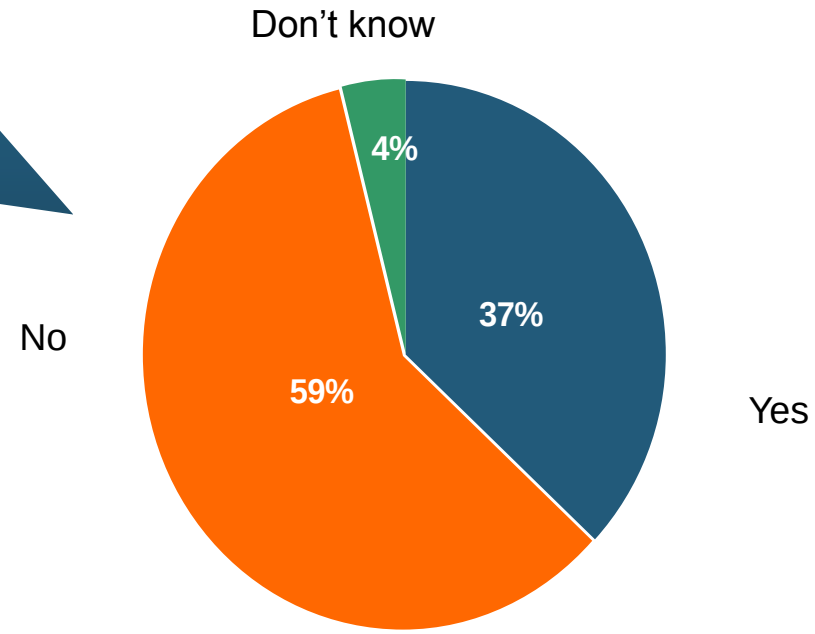
[1]Asked of those who have homeowners insurance but not flood insurance.

Source: Insurance Information Institute Annual *Pulse* Survey.

# I.I.I. Poll: Homeowners Insurance

**Q. Do you think that it is fair that people who live in areas affected by record storms in 2011 and 2012 should pay more for their homeowners insurance in the future?**

**Public believes it is not fair to raise premiums of homeowners due to events they cannot control**



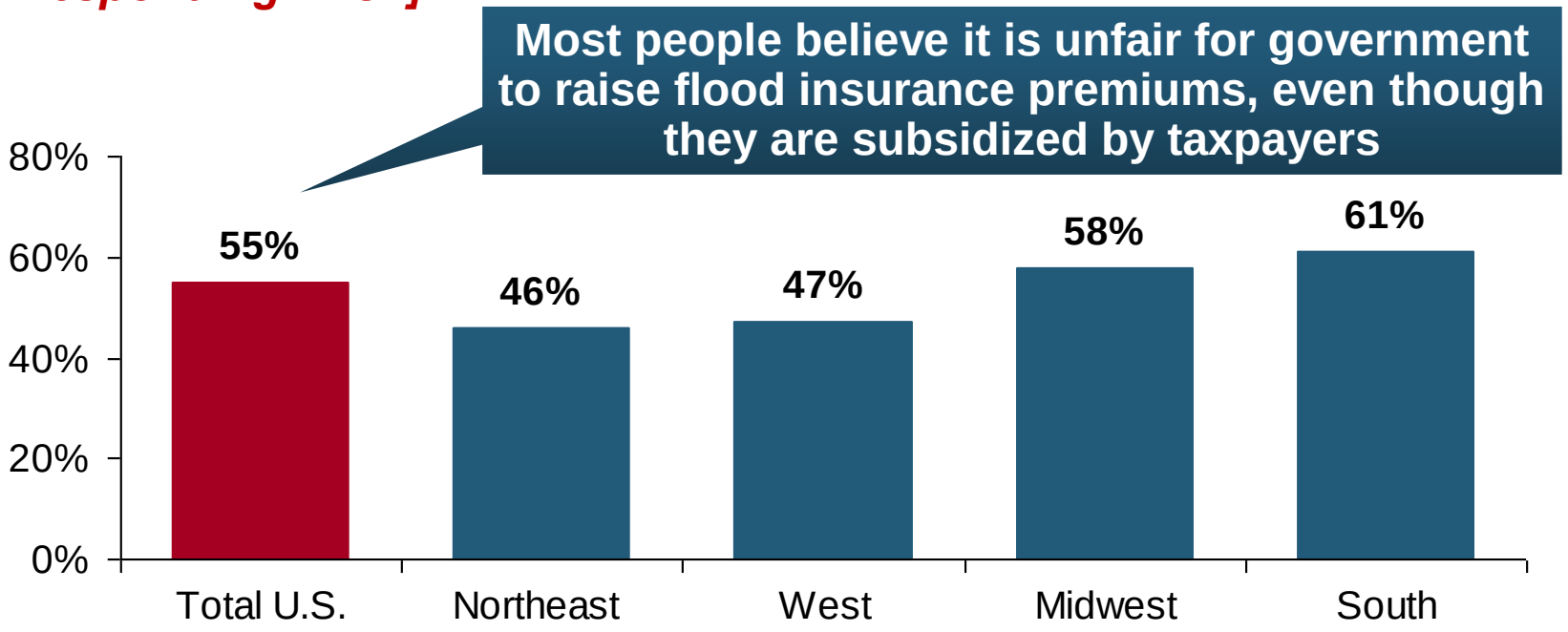

**Nearly 60 percent of Americans believe that homeowners insurance premiums should not be raised as a result of recent storms in their areas.**

Source: Insurance Information Institute Annual *Pulse* Survey.

# I.I.I. Poll: Flood Insurance

**Q. The federal government plans to raise the price of flood insurance so it reflects the costs of paying claims. Do you believe this is fair?**

***[% Responding "NO"]***

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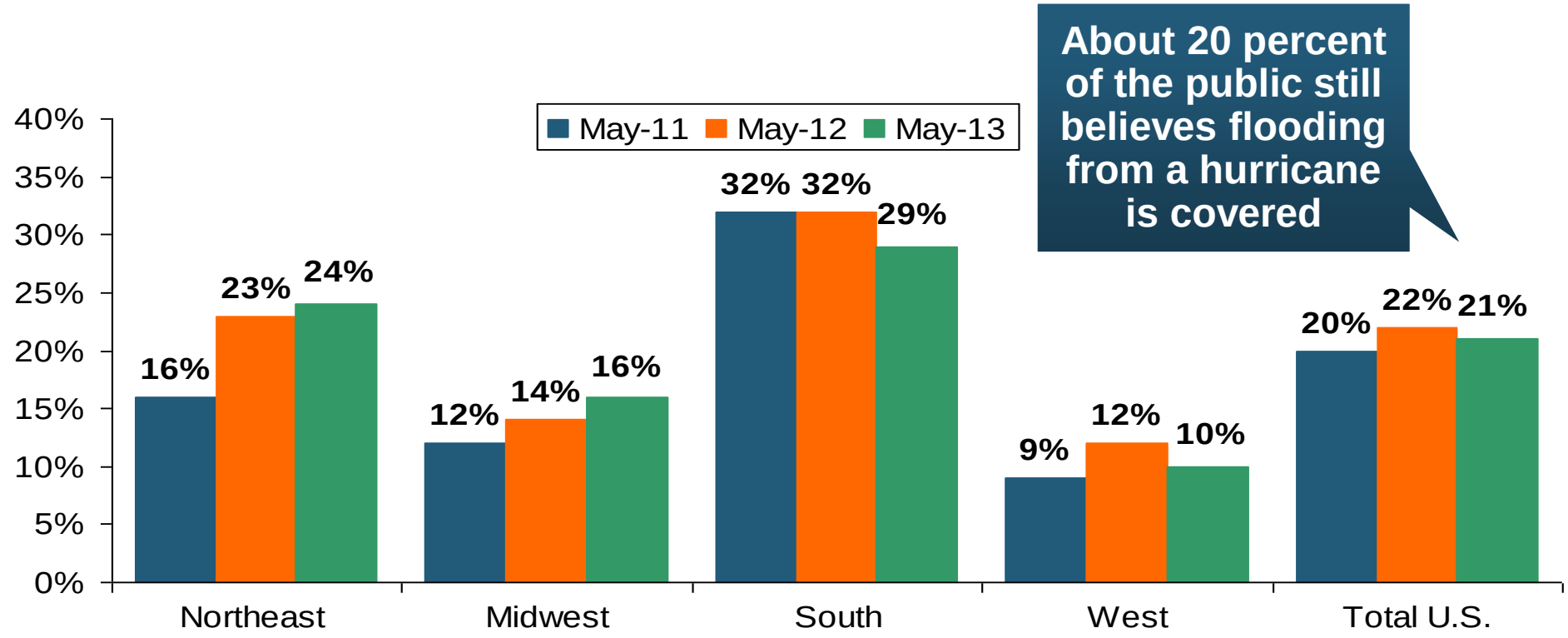


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[1]Asked of those who have homeowners insurance and who responded "yes".

Source: Insurance Information Institute Annual *Pulse* Survey.

# I.I.I. Poll: Disaster Preparedness

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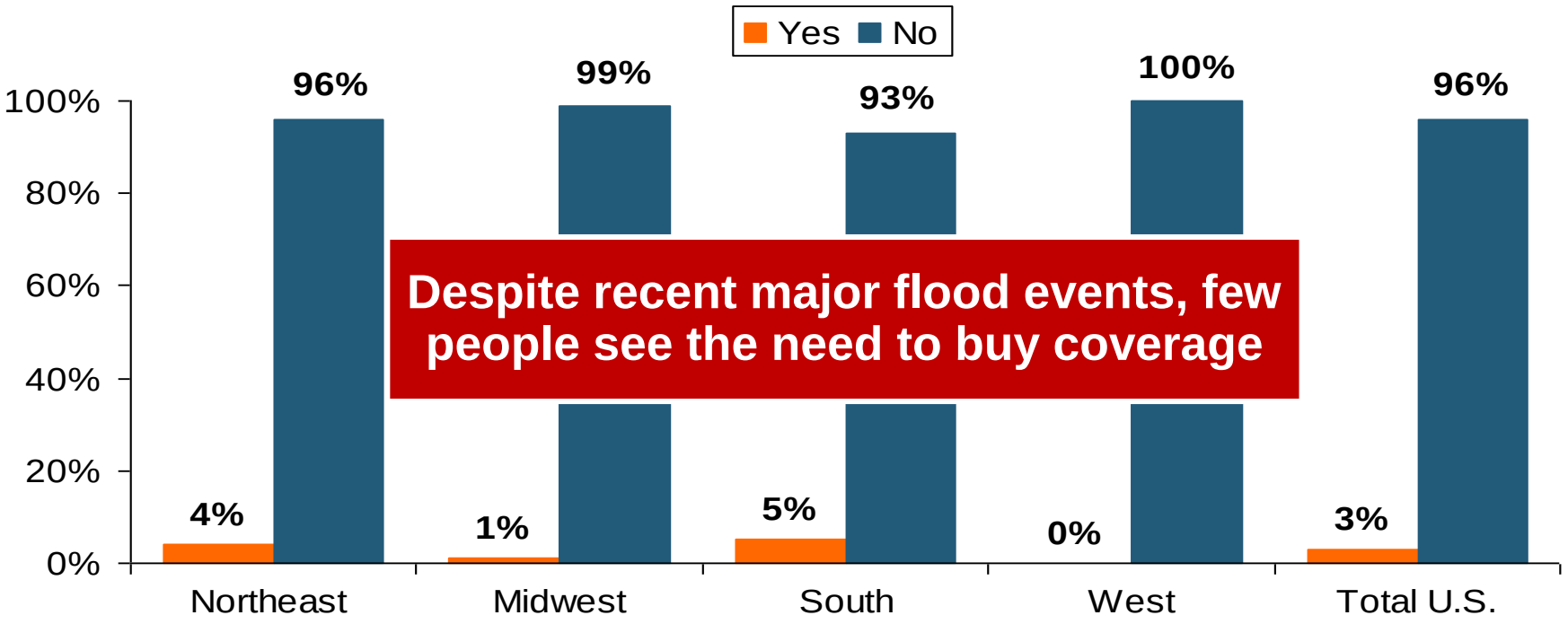


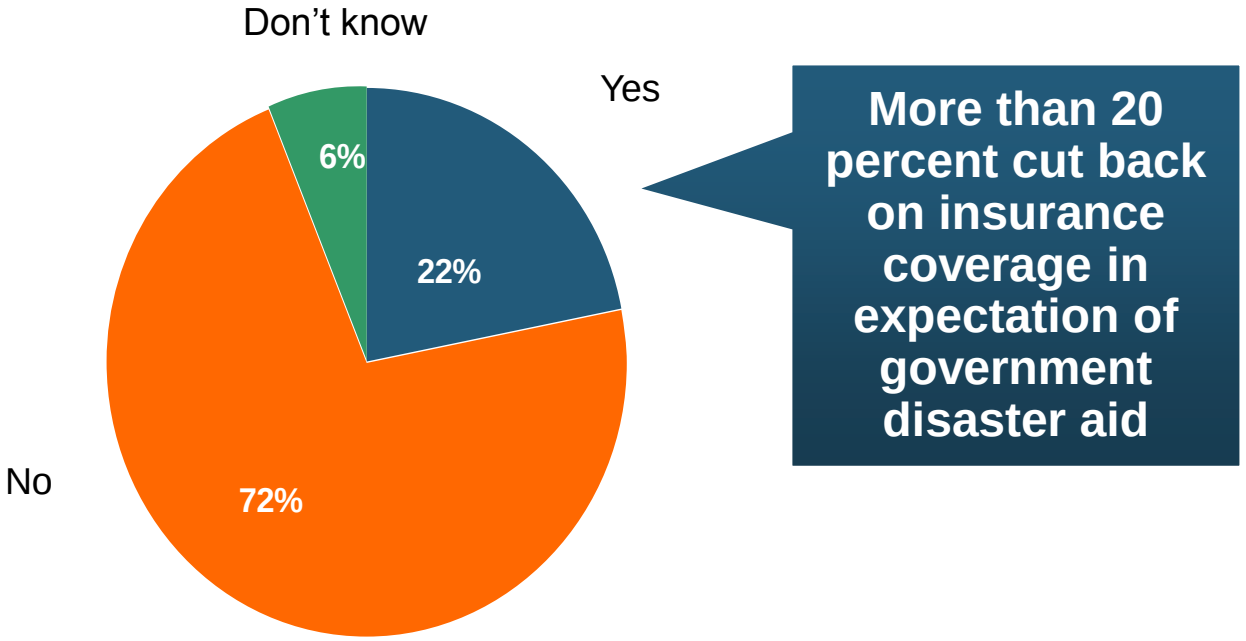

**Recent storms have not motivated people to buy flood insurance coverag.e**

[1]Asked of those who have homeowners insurance but not flood insurance.

Source: Insurance Information Institute Annual *Pulse* Survey.

# I.I.I. Poll: Disaster Preparedness

**Q. If you expect some relief from the government, do you purchase less insurance coverage against these natural disasters than you would have otherwise?**




**Seventy-two percent of Americans would not purchase less insurance if they expect some relief from the government—but 22% would.**

Source: Insurance Information Institute Annual *Pulse* Survey.

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# Growth Analysis by State and Business Segment

## Premium Growth Rates Vary Tremendously by State

# Direct Premiums Written: Total P/C Percent Change by State, 2007-2012*

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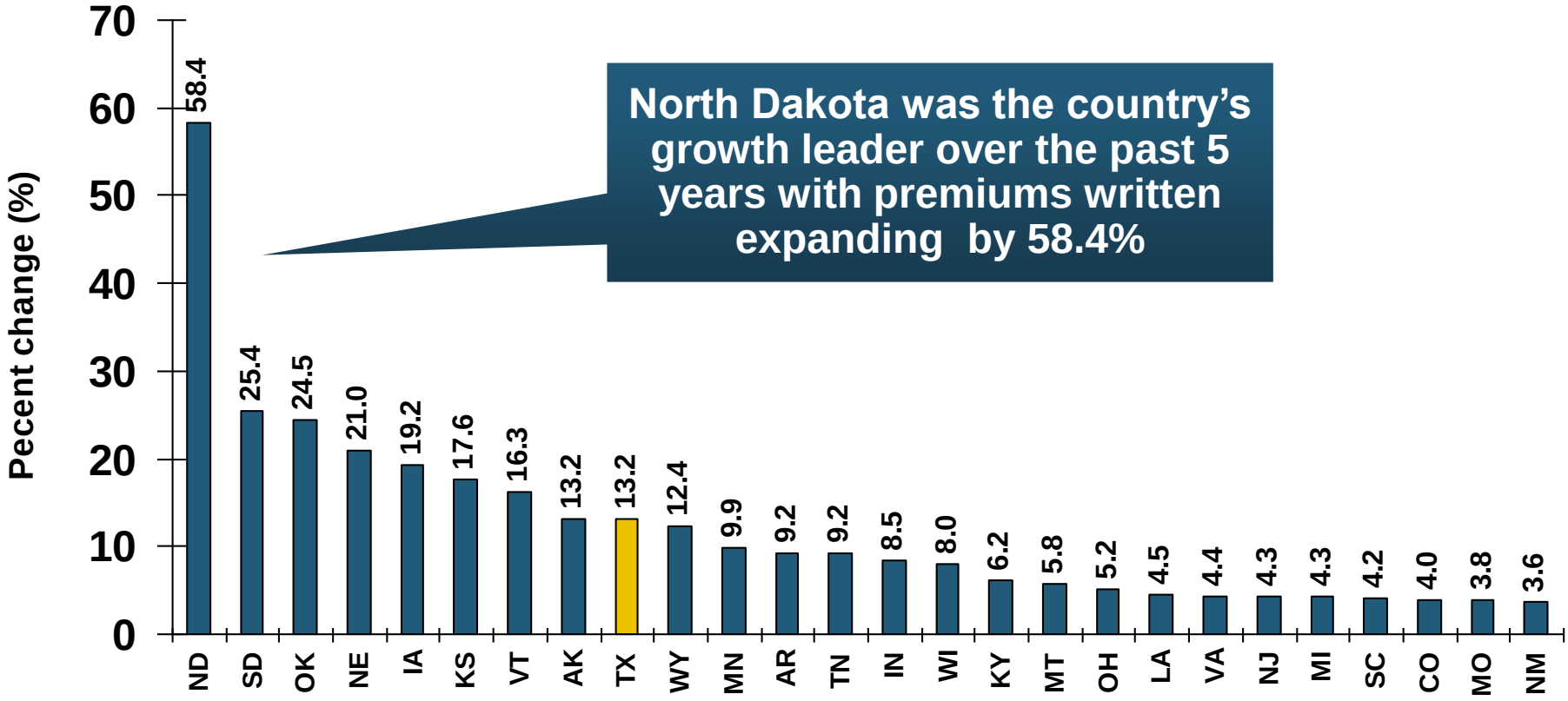
## Top 25 States




Sources: SNL Financial LC.; Insurance Information Institute.

# Direct Premiums Written: Total P/C Percent Change by State, 2007-2012*

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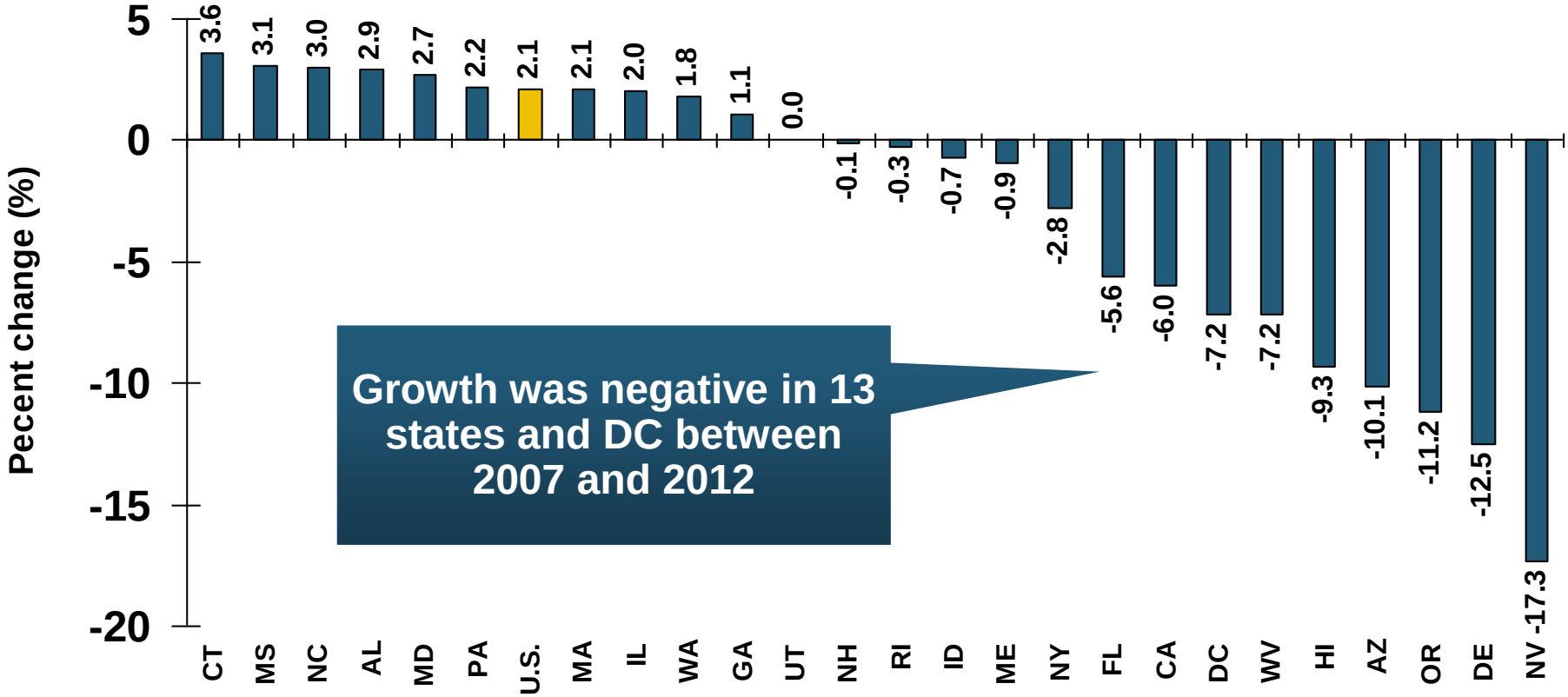
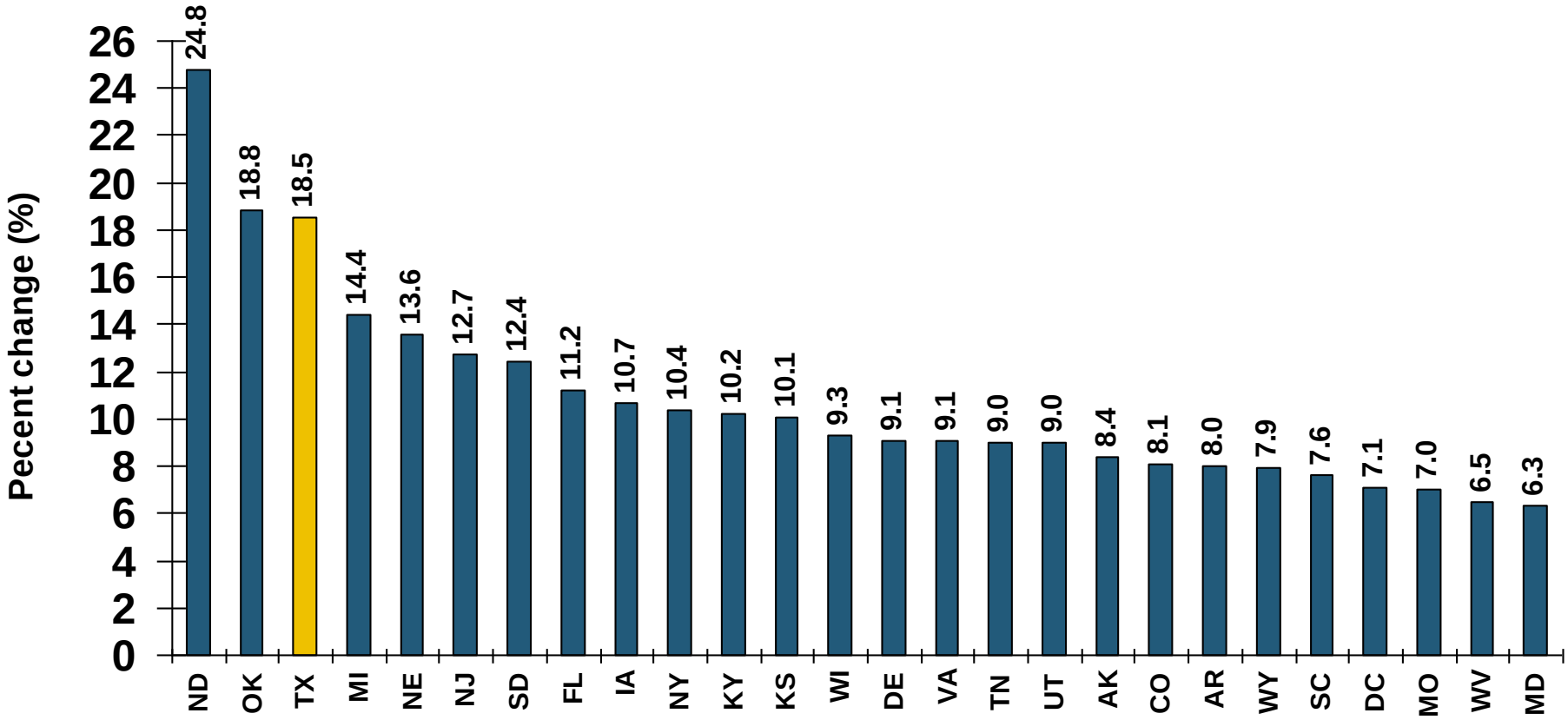



Sources: SNL Financial LC.; Insurance Information Institute.

# Direct Premiums Written: PP Auto Percent Change by State, 2007-2012*

## Top 25 States

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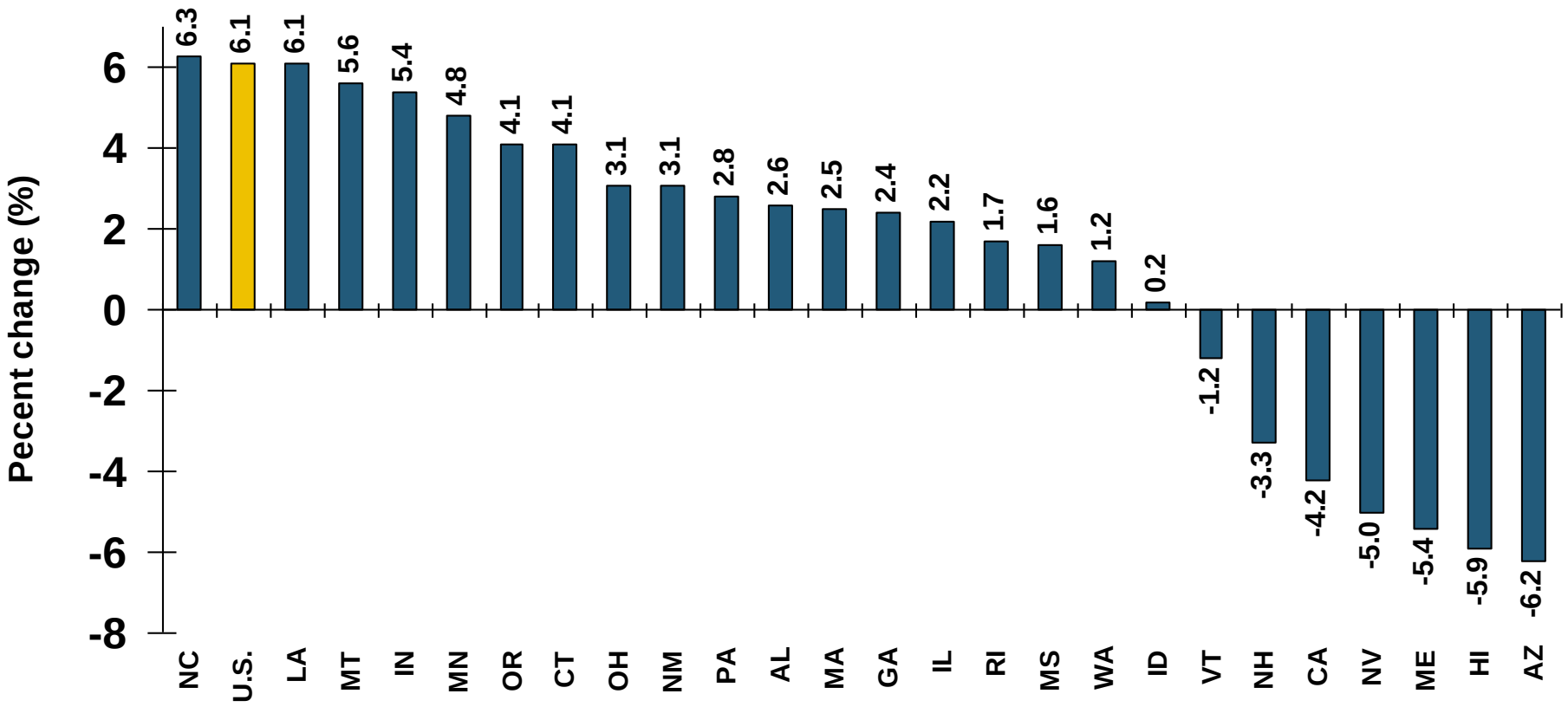


Sources: SNL Financial LC.; Insurance Information Institute.

# Advertising Expenditures by P/C Insurance Industry, 1999-2012

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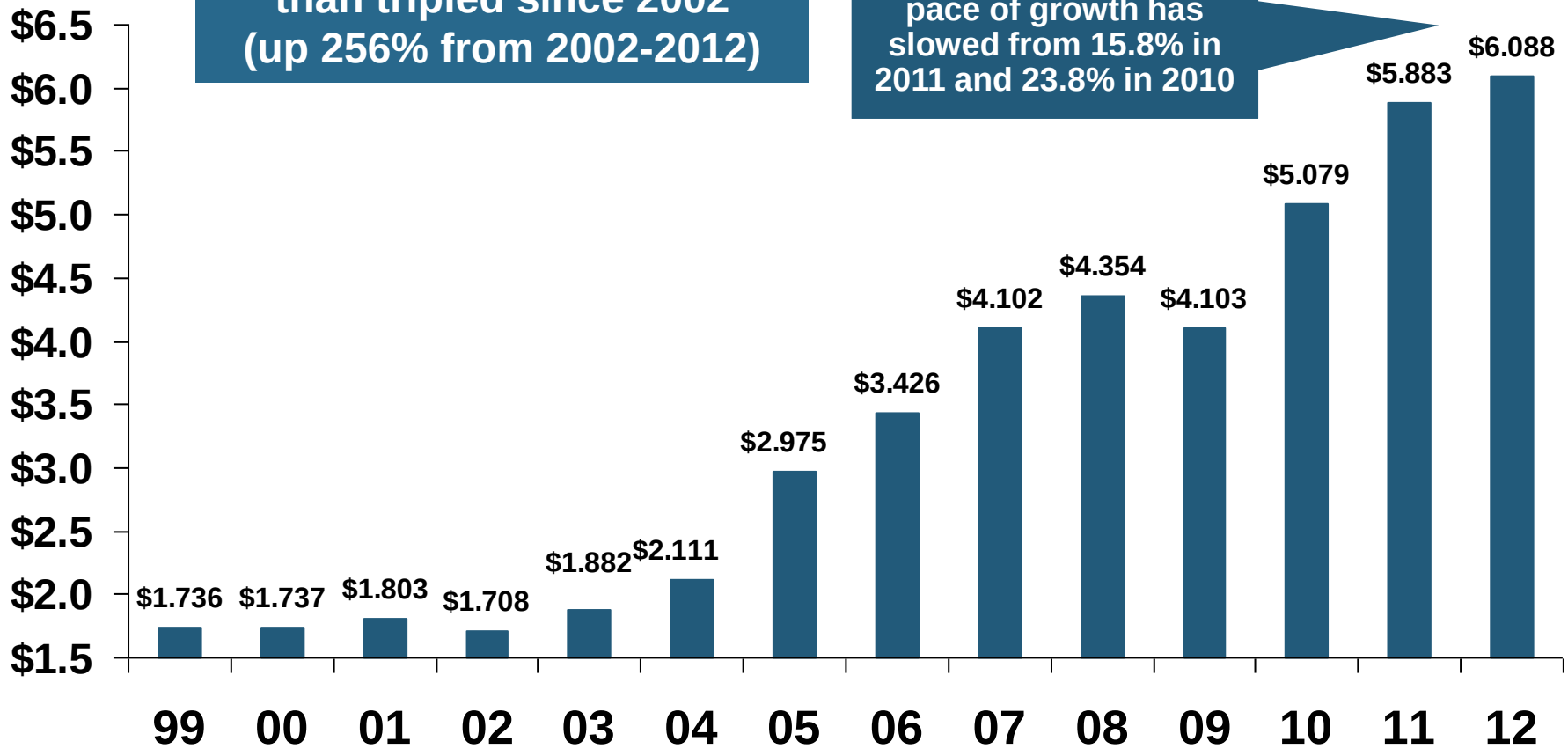
$ Billions

P/C ad spending has more than tripled since 2002 (up 256% from 2002-2012)

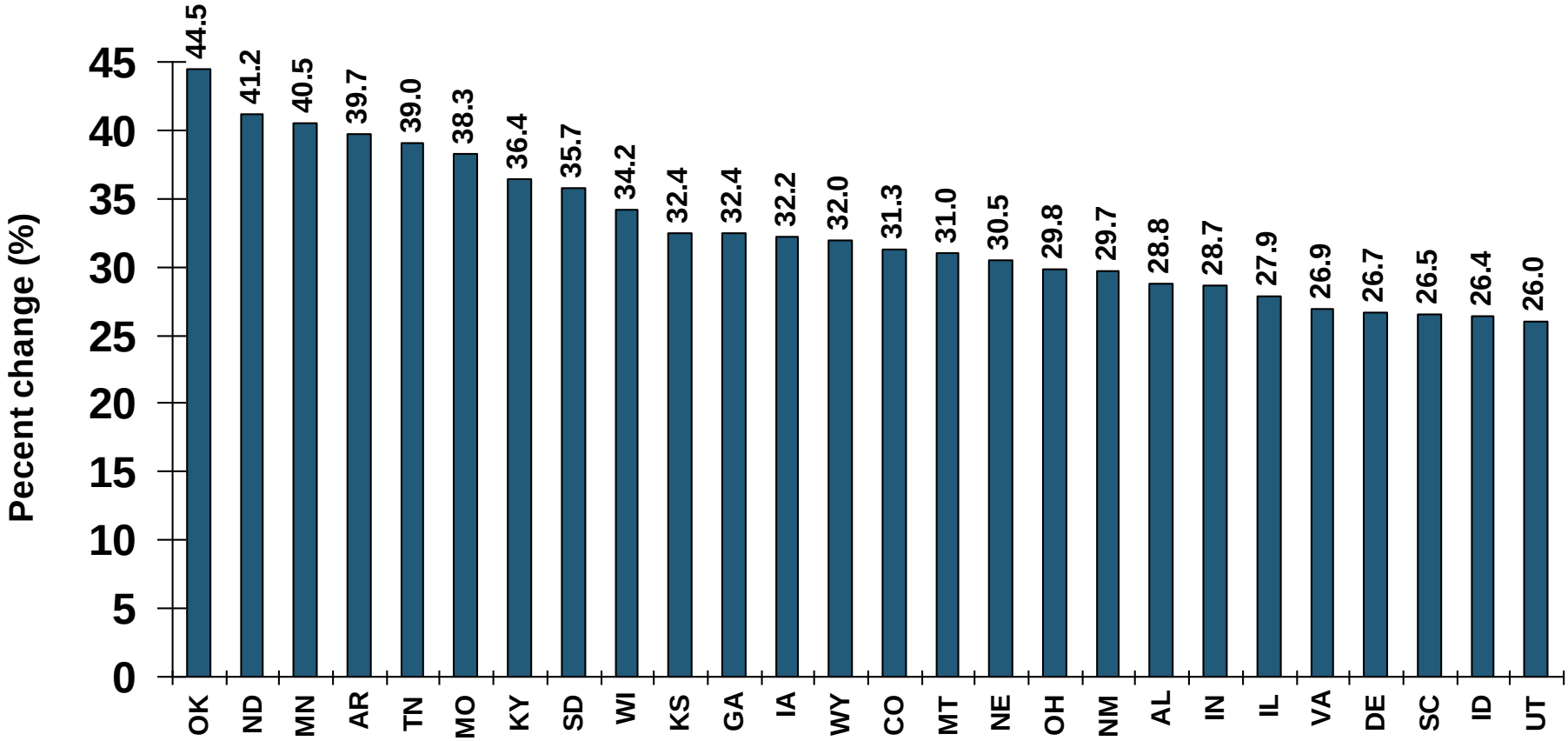
P/C ad spend hit an all time record high of $6.088 billion in 2012, up 3.5% over 2011. The pace of growth has slowed from 15.8% in 2011 and 23.8% in 2010




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

# Direct Premiums Written: Homeowners Percent Change by State, 2007-2012*

## Top 25 States




Sources: SNL Financial LLC.; Insurance Information Institute.

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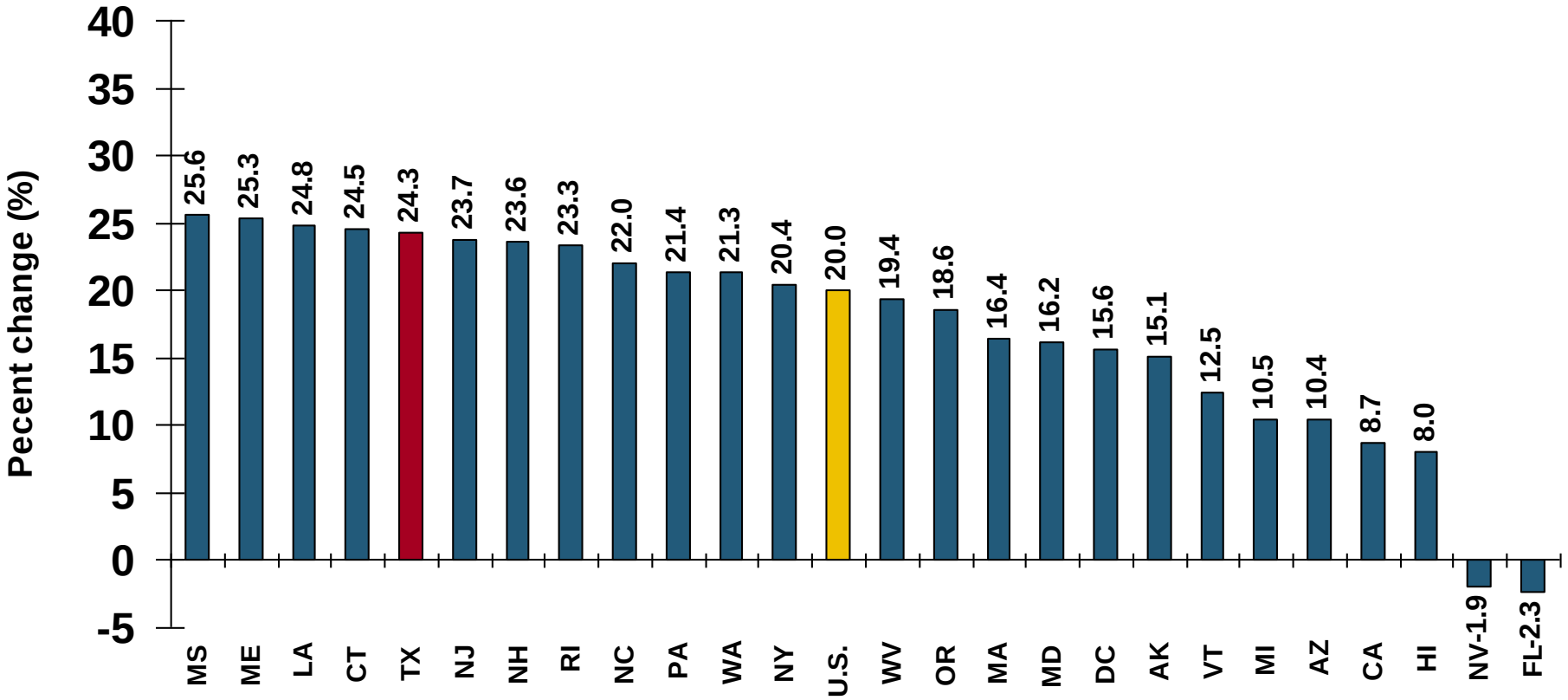
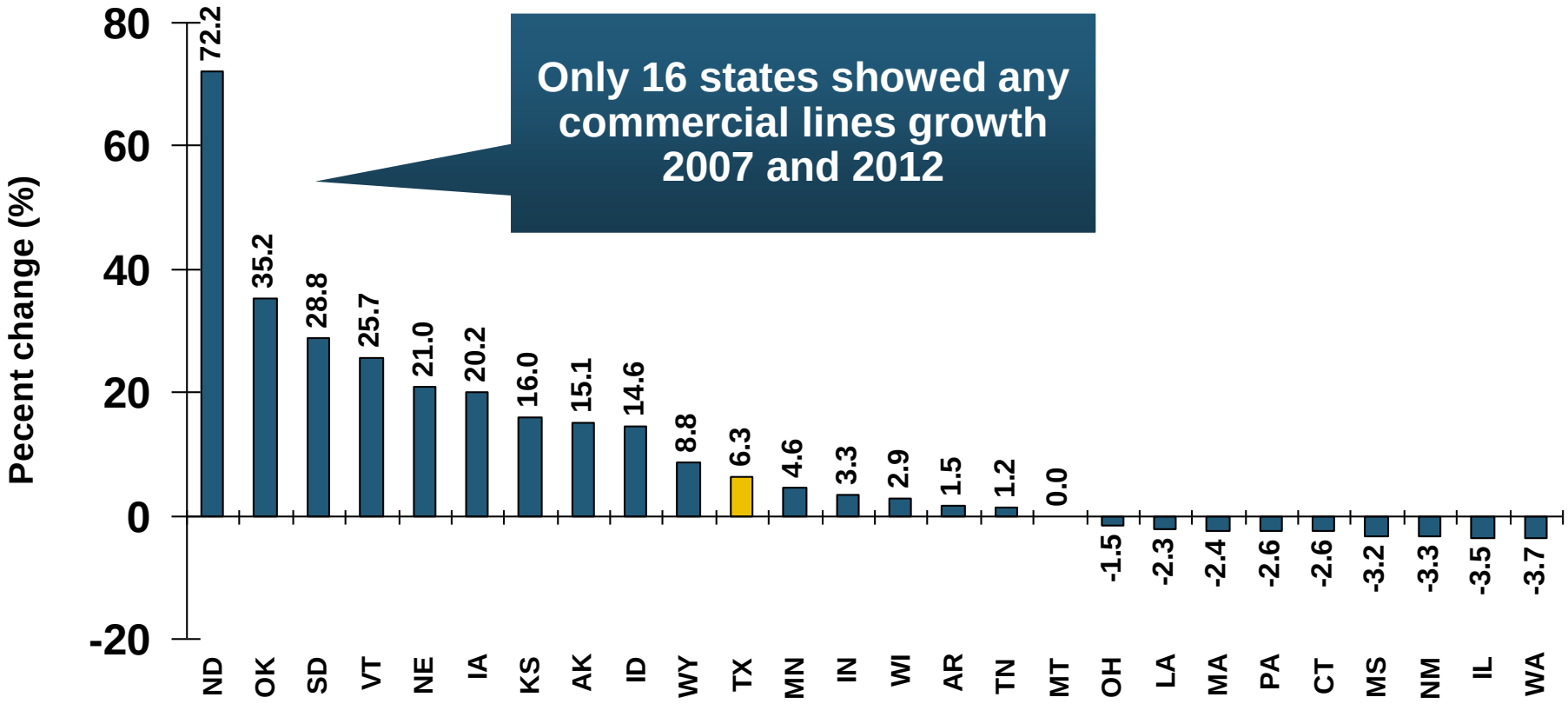



Sources: SNL Financial LLC.; Insurance Information Institute.

# Direct Premiums Written: Comm. Lines Percent Change by State, 2007-2012*

## Top 25 States




Sources: SNL Financial LLC.; Insurance Information Institute.

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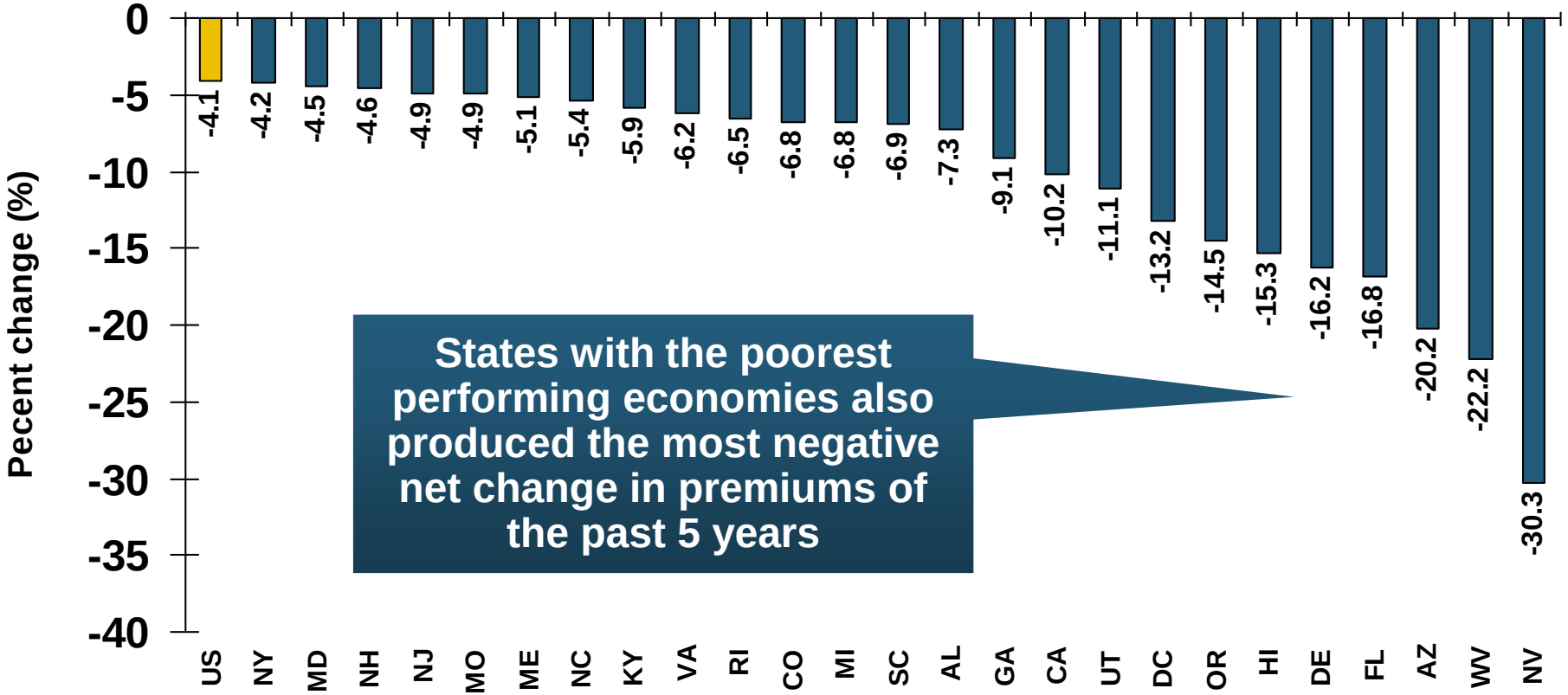


Sources: SNL Financial LLC.; Insurance Information Institute.

# Direct Premiums Written: Workers' Comp Percent Change by State, 2007-2012*

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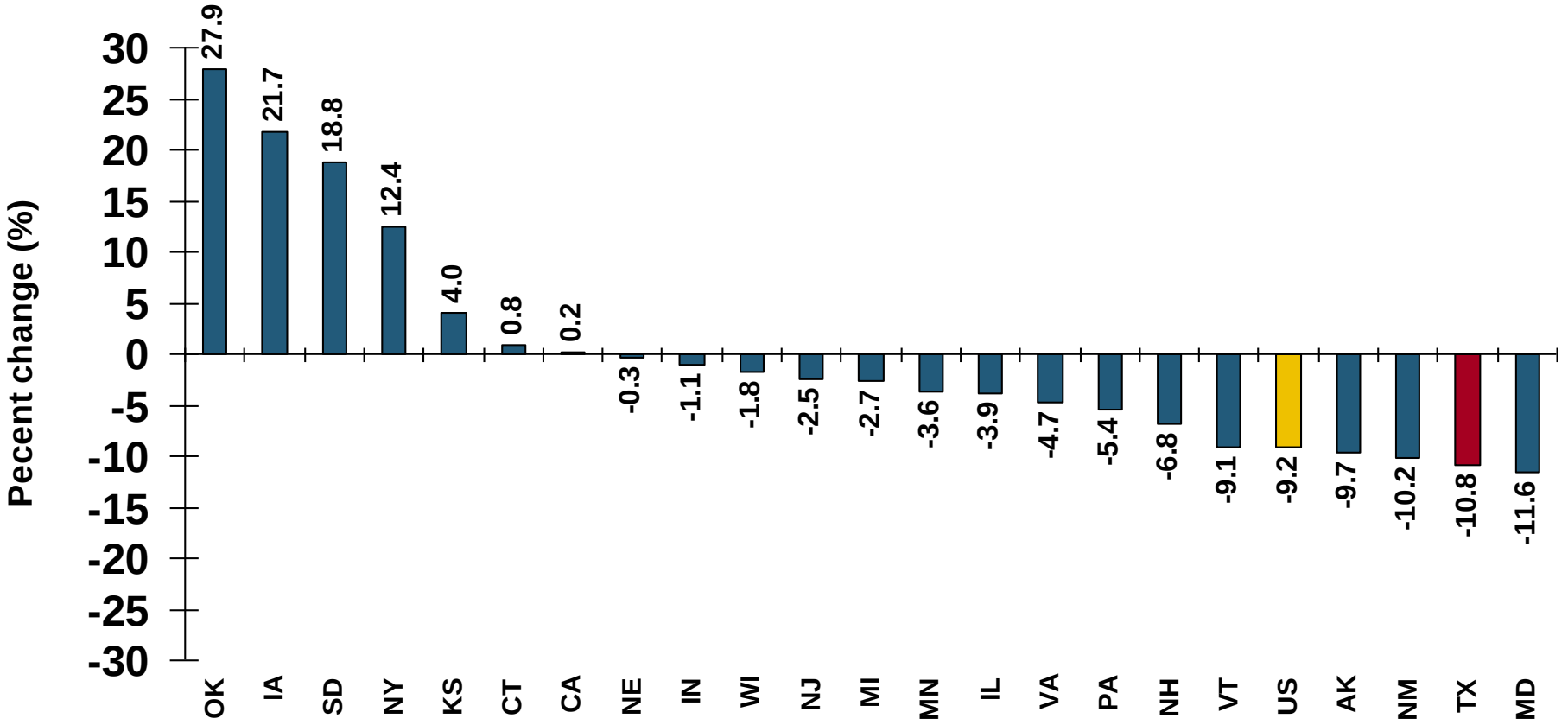
## Top 25 States




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

Sources: SNL Financial LC.; Insurance Information Institute.

# Direct Premiums Written: Worker's Comp Percent Change by State, 2007-2012*

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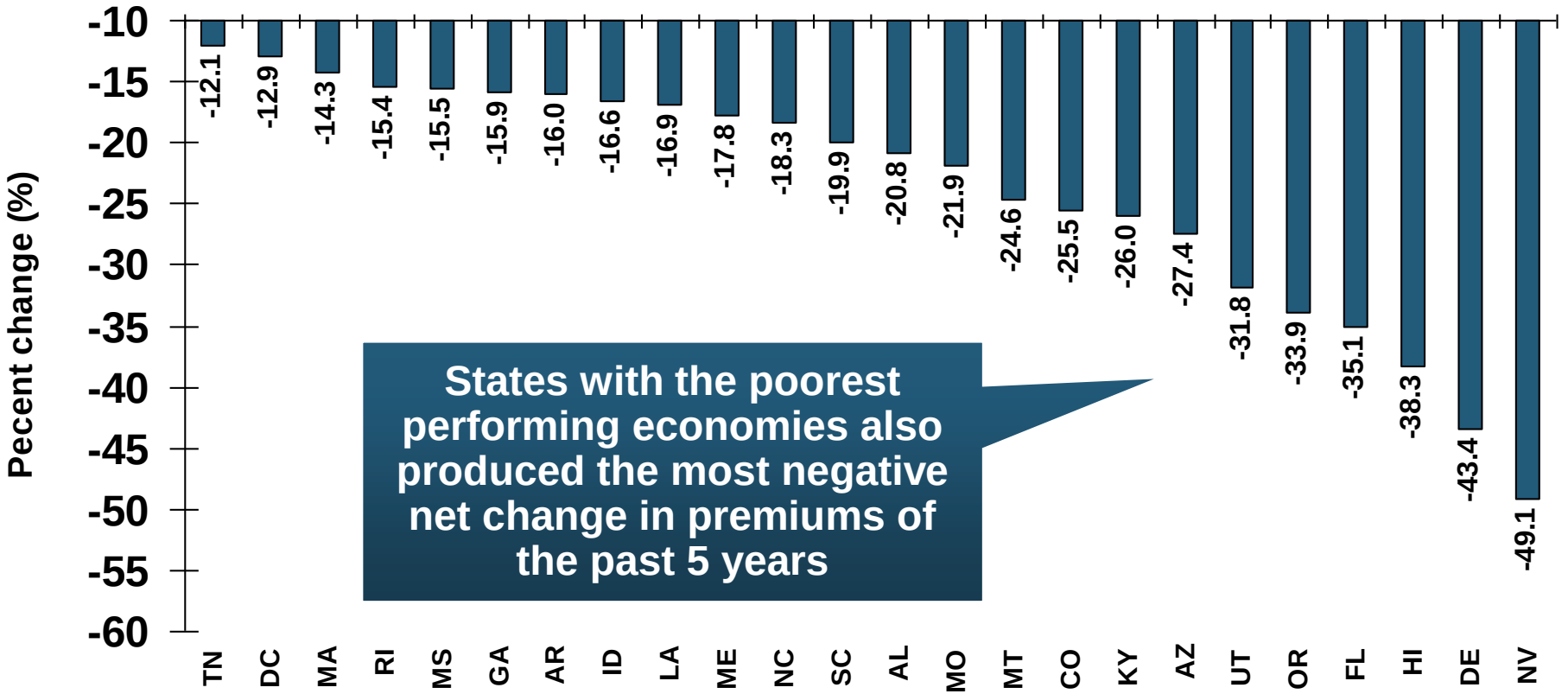


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Sources: SNL Financial LC.; Insurance Information Institute.

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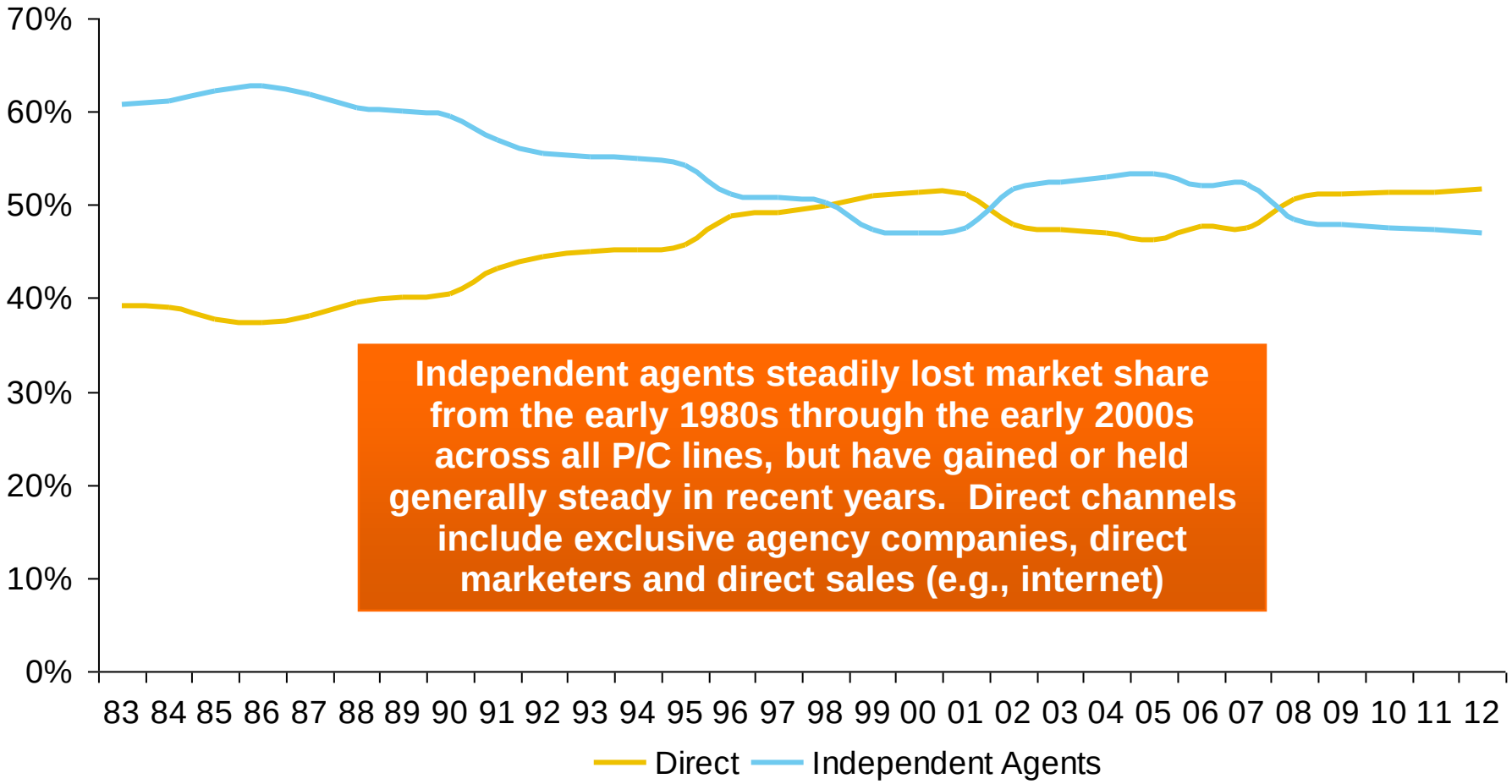
# Distribution Trends

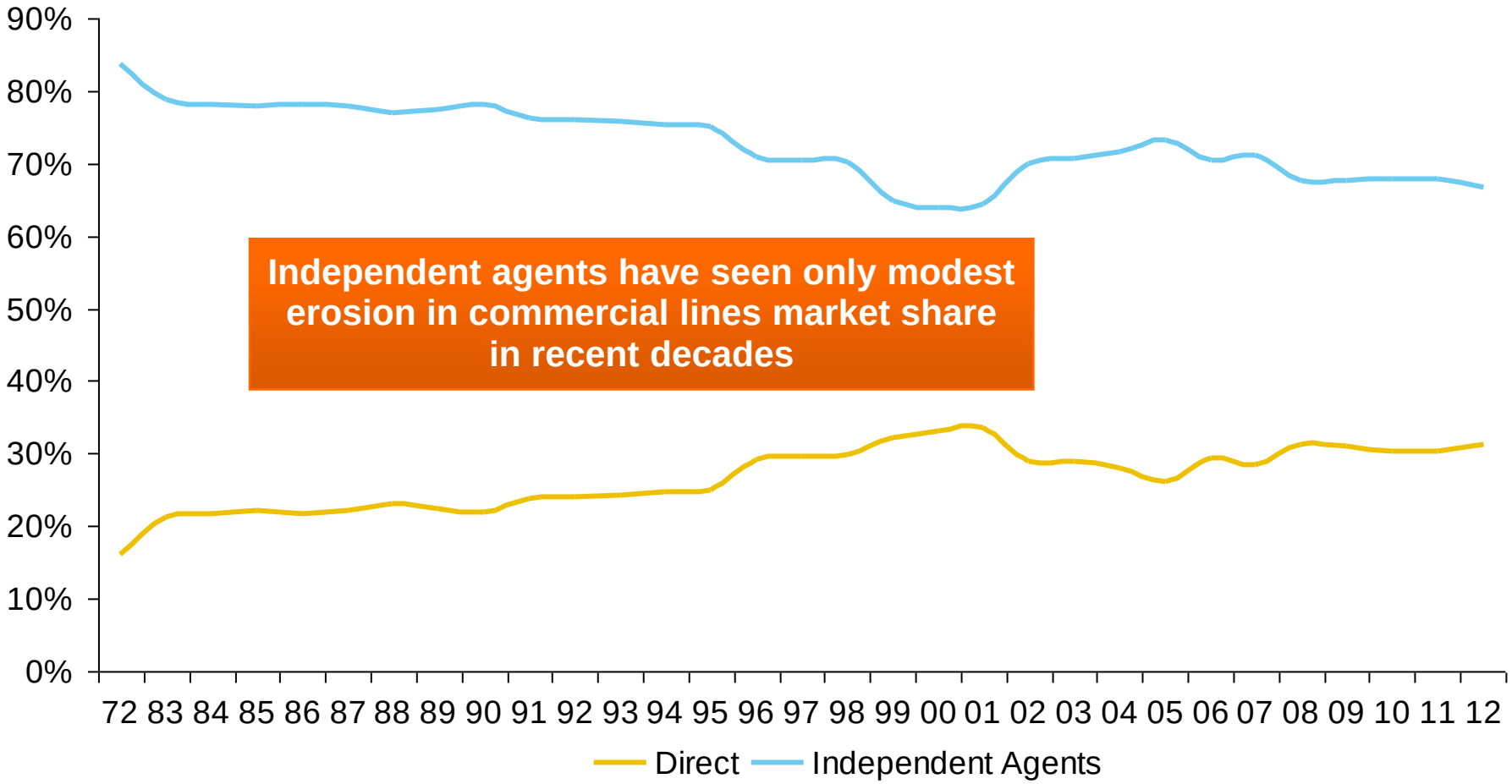
## Distribution by Channel Type Continues to Evolve Around the World

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



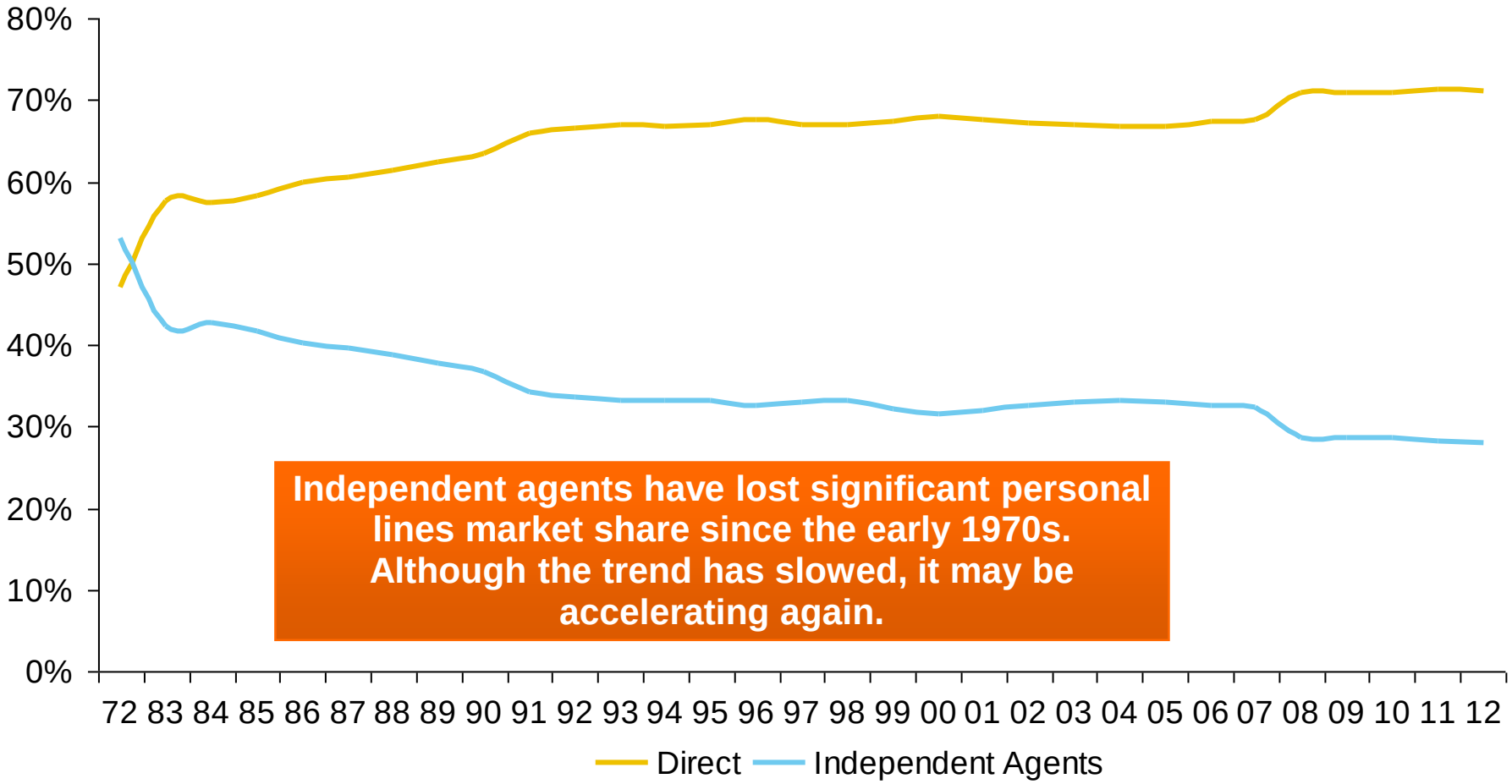

Source: Insurance Information Institute; based on data from Conning and A.M. Best.

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




Source: Insurance Information Institute; based on data from Conning and A.M. Best (*Aggregates & Averages*).

# Personal Lines Distribution Channels, Direct vs. Independent Agents




Source: Insurance Information Institute; based on data from Conning and A.M. Best (*Aggregates & Averages*).

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# The BIG Question: Where Is the Market Heading?

## Catastrophes and Other Factors Are Pressuring Insurance Markets

***New Factor: Record Low Interest Rates Are Contributing to Underwriting and Pricing Pressures***

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# INVESTMENTS: THE NEW REALITY

## Investment Performance is a Key Driver of Profitability

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

# Property/Casualty Insurance Industry Investment Income: 2000–2013[1]

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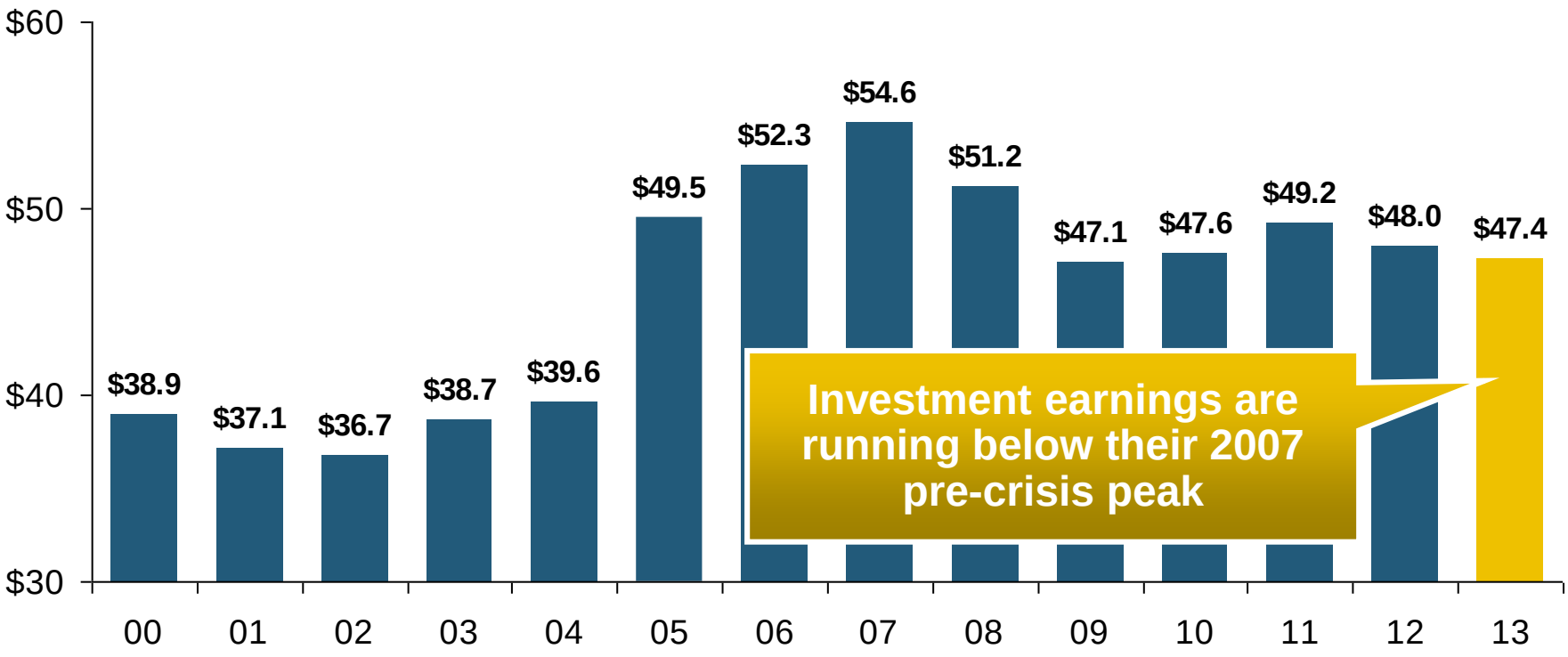
($ Billions)

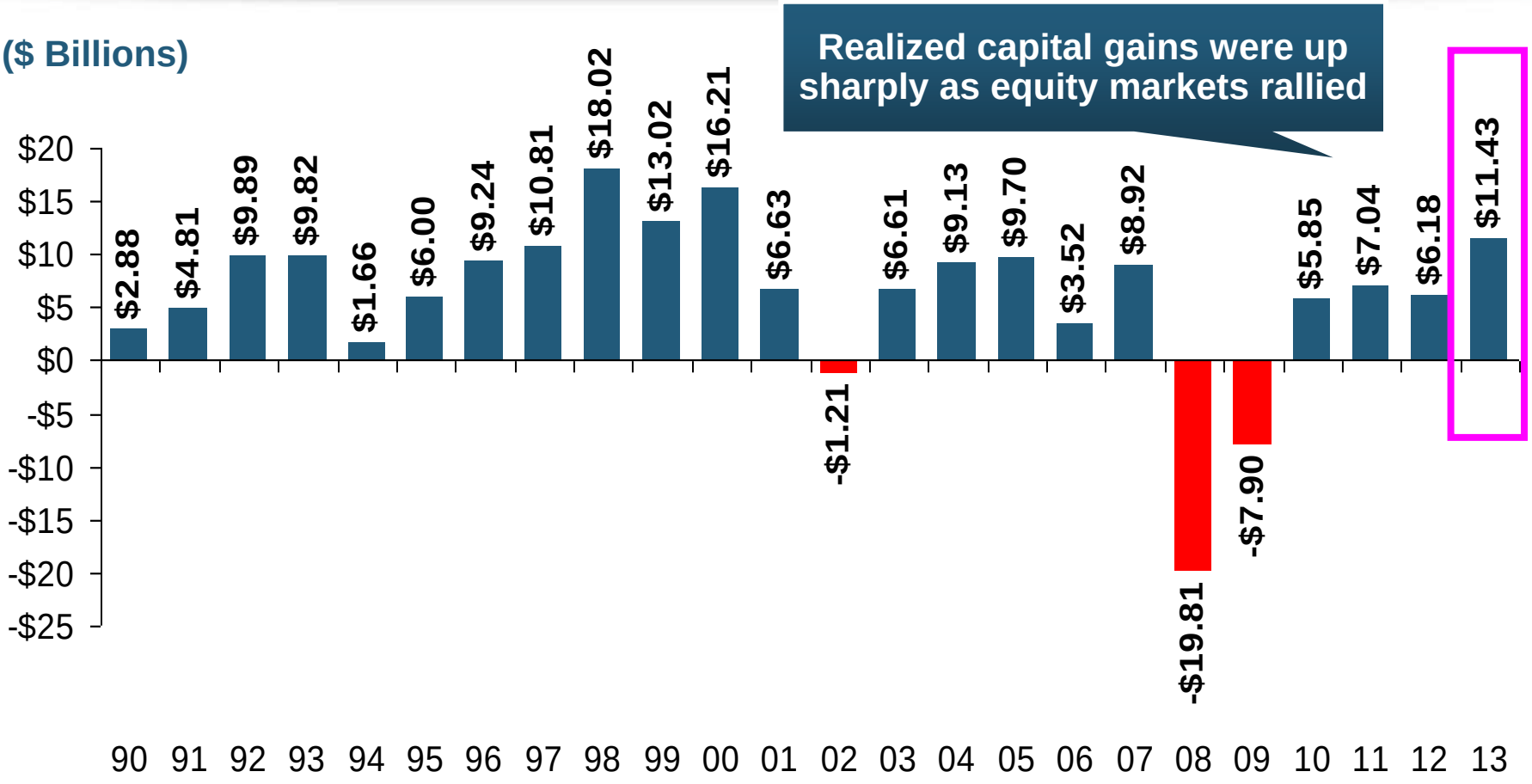



**Investment Income Fell in 2012 and 2013 Due to Persistently Low Interest Rates, Putting Additional Pressure on (Re) Insurance Pricing**

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

Sources: ISO; Insurance Information Institute.

# P/C Insurer Net Realized Capital Gains/Losses, 1990-2013

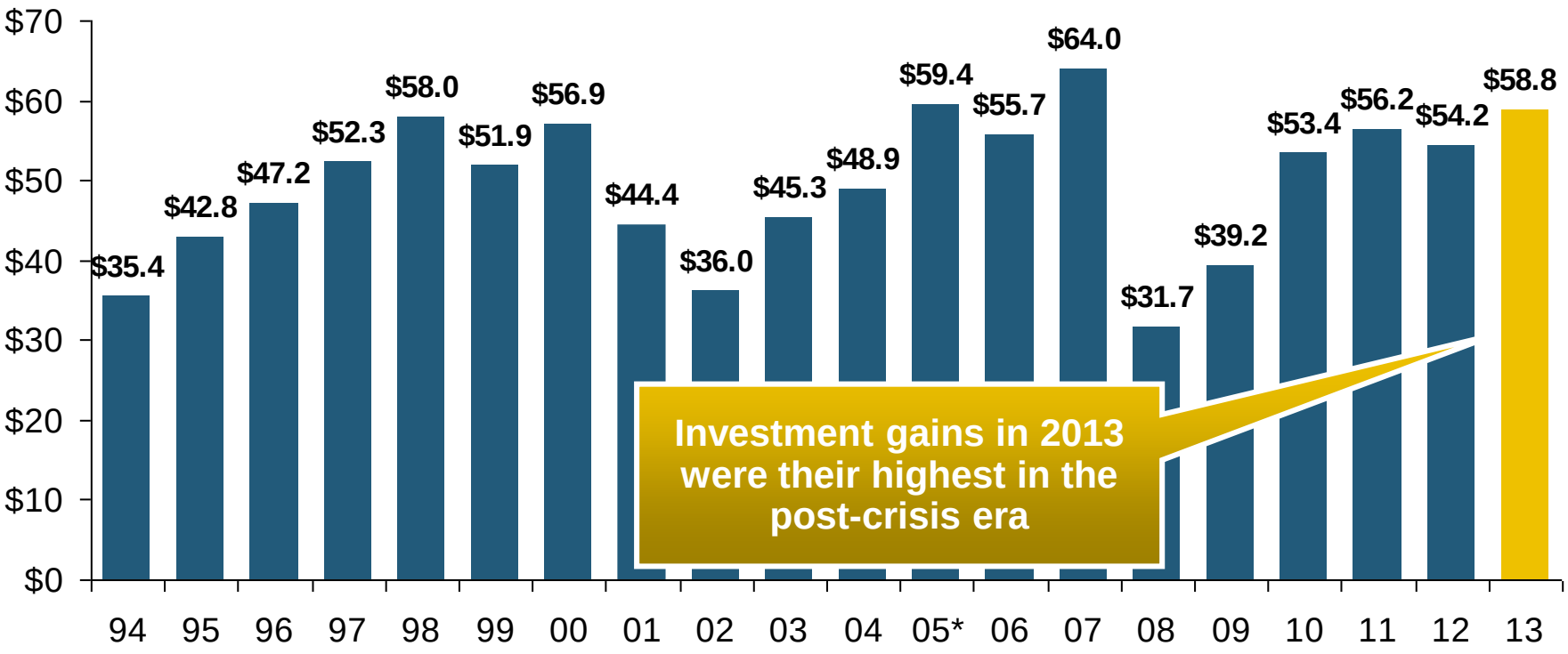



**Insurers Posted Net Realized Capital Gains in 2010 - 2013 Following Two Years of Realized Losses During the Financial Crisis. Realized Capital Losses Were the Primary Cause of 2008/2009's Large Drop in Profits and ROE**

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

# Property/Casualty Insurance Industry Investment Gain: 1994–2013[1]

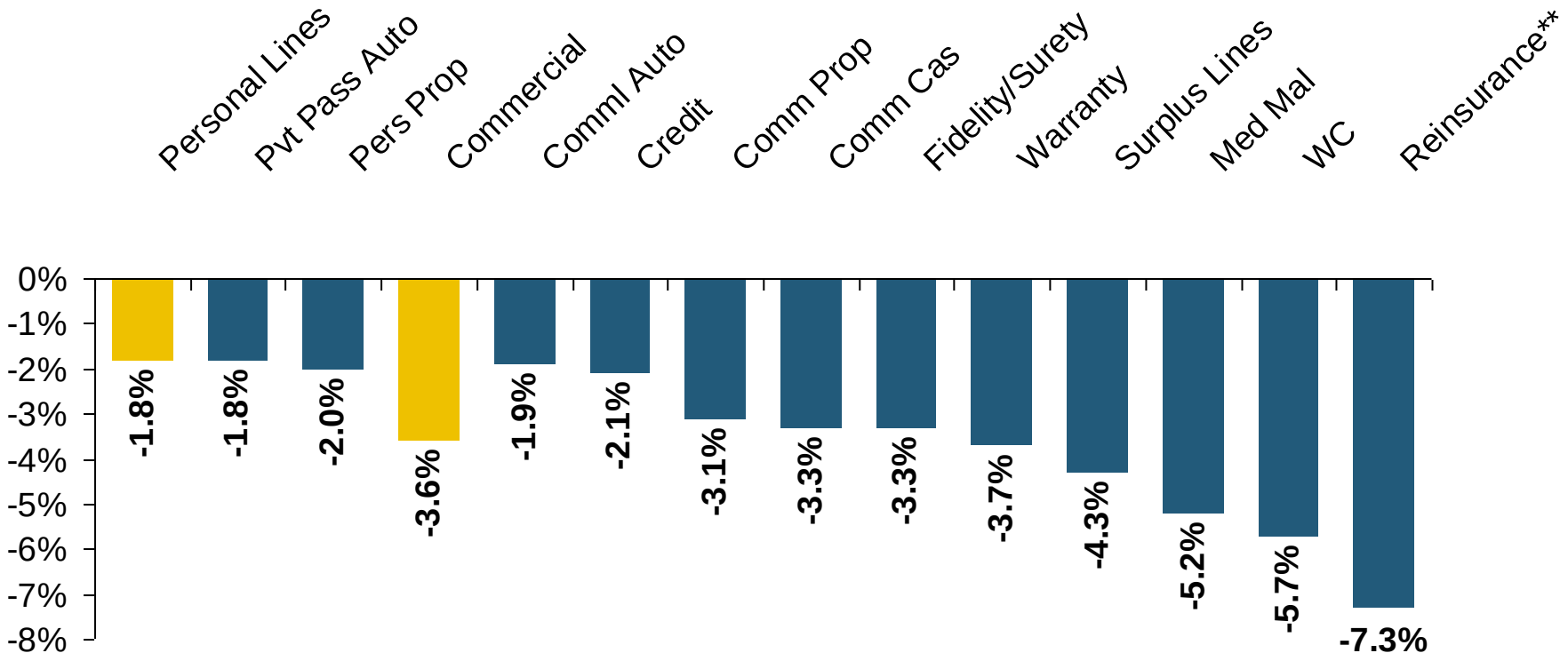
($ Billions)




**Investment Income Continued to Fall in 2013 Due to Low Interest Rates but Realized Investment Gains Were Up Sharply; The Financial Crisis Caused Investment Gains to Fall by 50% in 2008**

[1] Investment gains consist primarily of interest, stock dividends and realized capital gains and losses.
* 2005 figure includes special one-time dividend of $3.2B;
Sources: ISO; Insurance Information Institute.

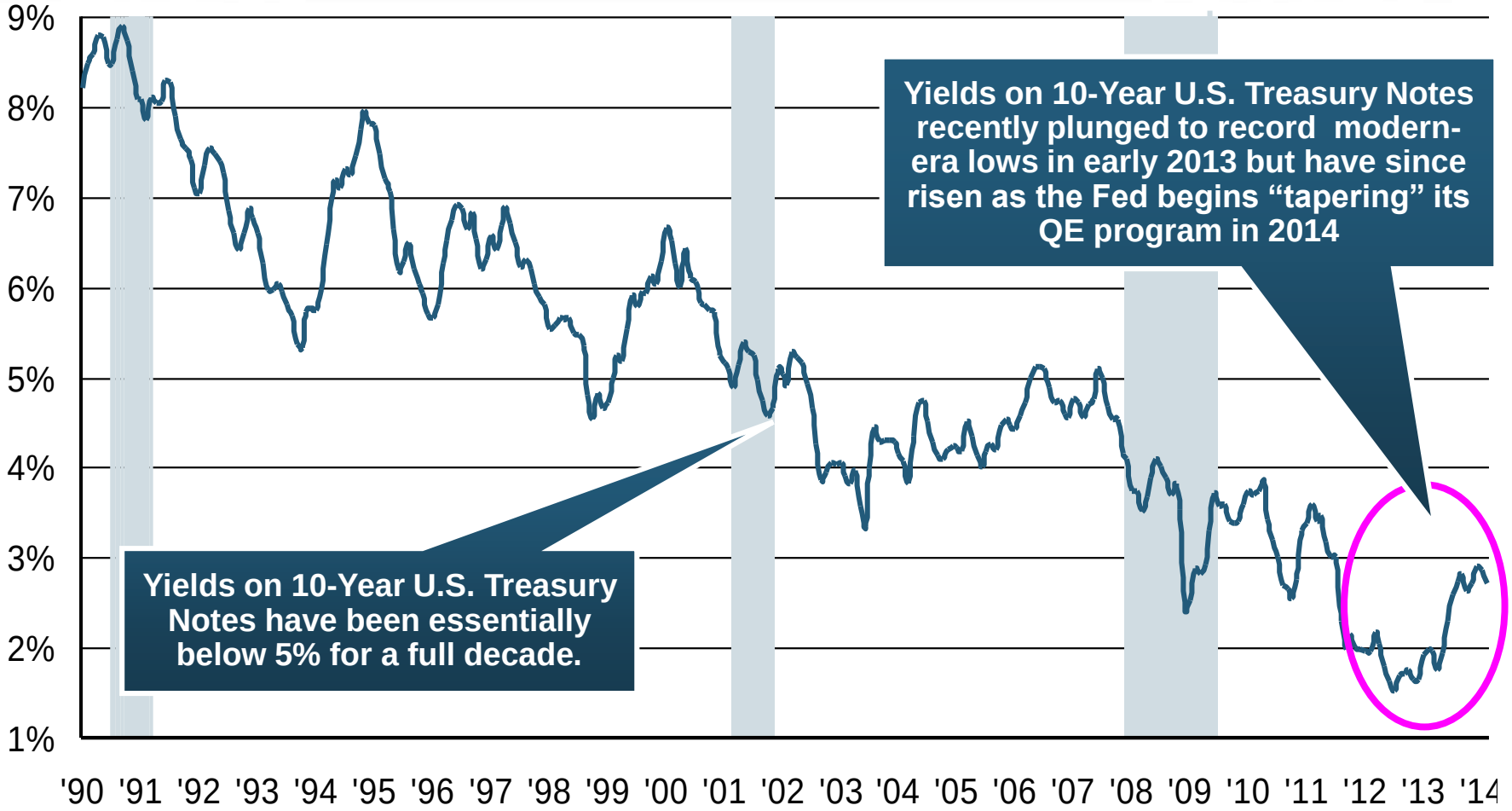
# Reduction in Combined Ratio Necessary to Offset 1% Decline in Investment Yield to Maintain Constant ROE, by Line*




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

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

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

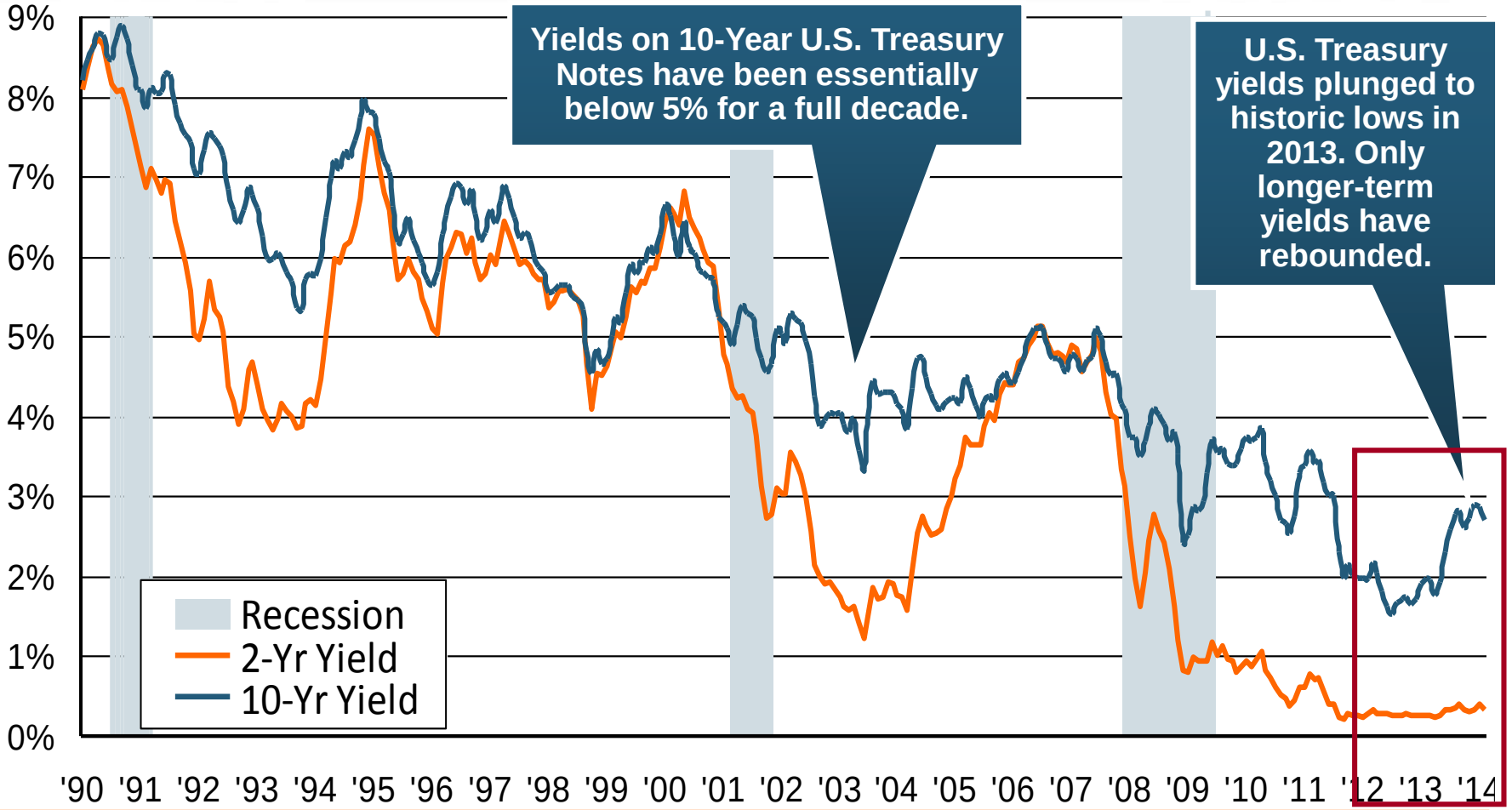



**Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.**

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

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

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

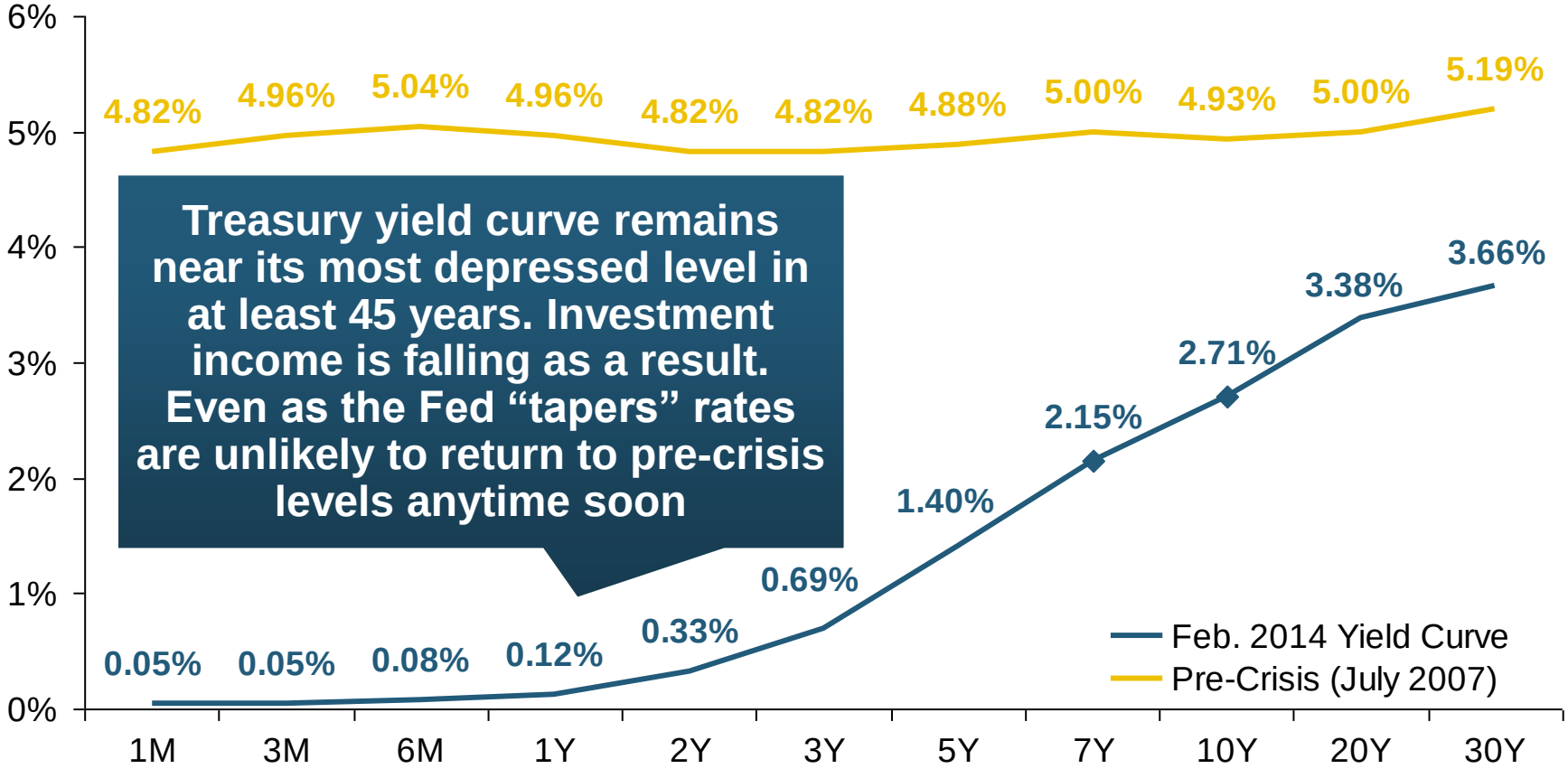



**Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.**

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

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

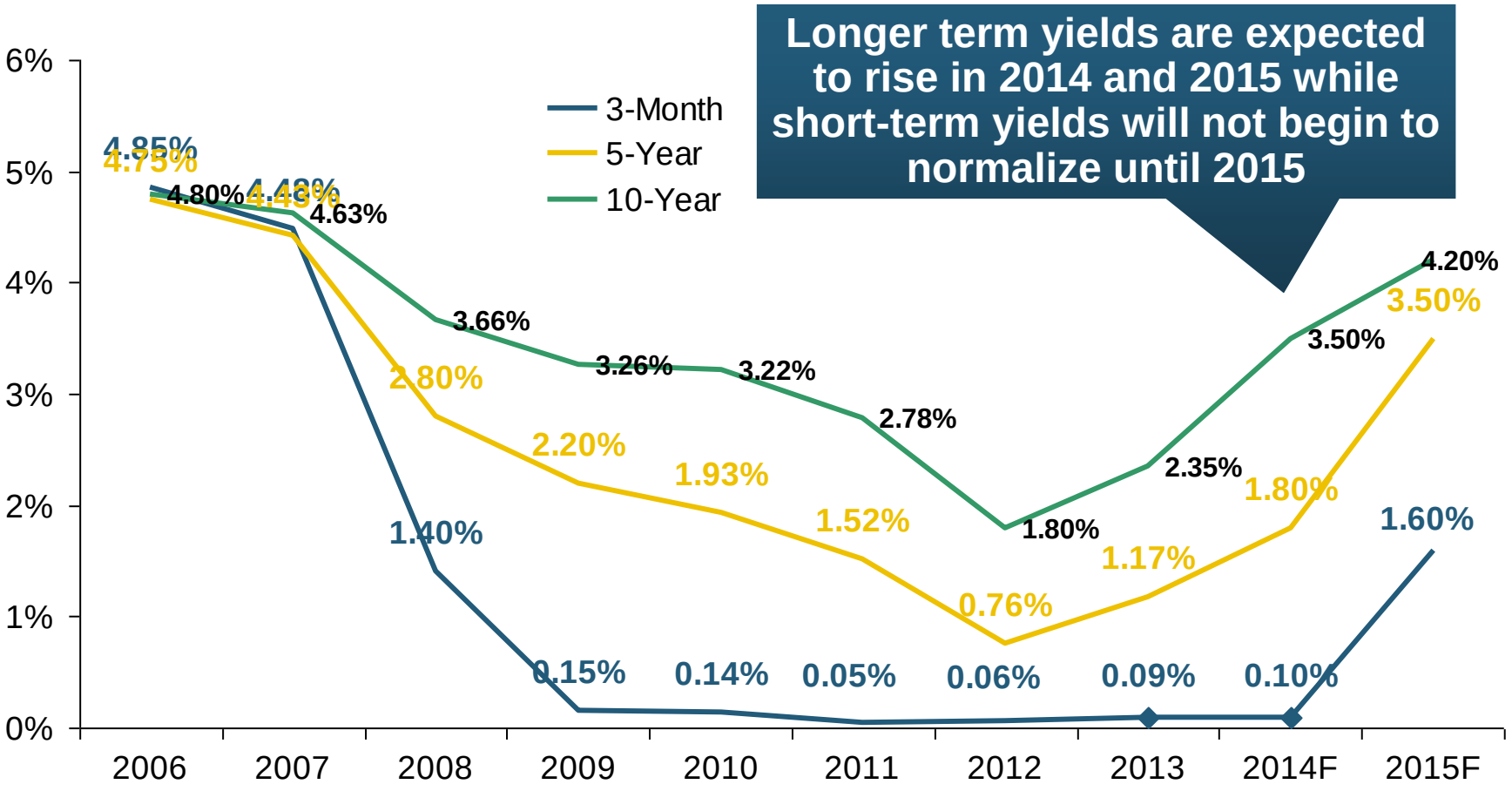
# Treasury Yield Curves: Pre-Crisis (July 2007) vs. Feb. 2014




**The Fed Is Actively Signaling that it Is Determined to Keep Rates Low Until Unemployment Drops Below 6.5% or Until Inflation Expectations Exceed 2.5%; Low Rates Add to Pricing Pressure for Insurers.**

Source: Federal Reserve Board of Governors; Insurance Information Institute.

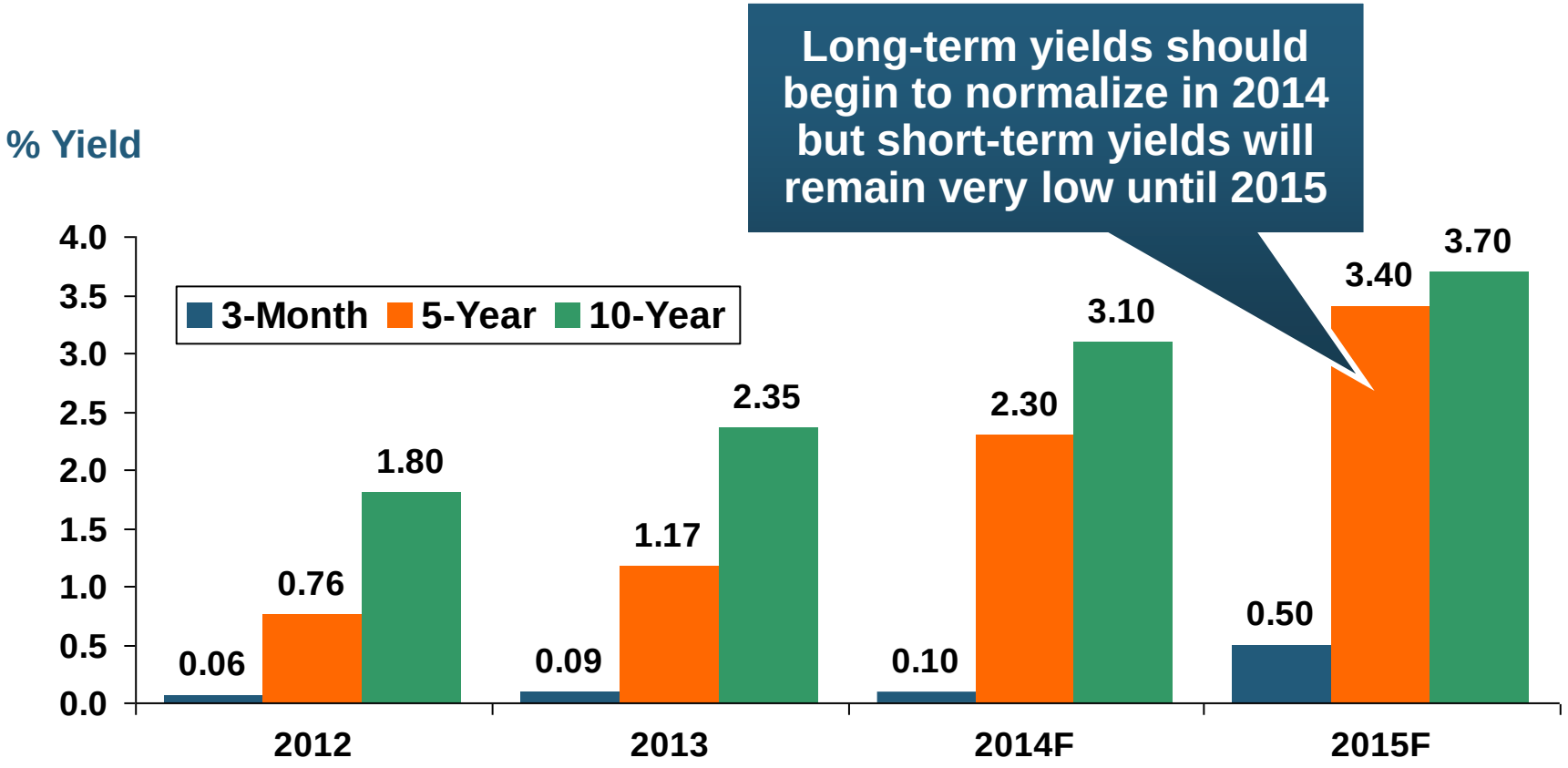
# Treasury Yield Curves: Pre-Crisis (July 2007) vs. Feb. 2014




**Higher longer-term yields will help insurers but short term yields are expected to lag behind**

Source: Federal Reserve Board of Governors (2006-2013), Swiss Re (2014-2015); Insurance Information Institute.

# Outlook for U.S. Treasury Bond Yields Through 2015




**Longer-tail lines like MPL and workers comp will benefit the most from the normalization of yields**

Source: Federal Reserve Board of Governors (2012-2013), Blue Economic Forecasts (2014-2015 3-month and 10-yr; 4/14) Swiss Re (2014-2015, 5-yr yield; 4/14); Insurance Information Institute.

# Average Maturity of Bonds Held by US P/C Insurers, 2006—2011*

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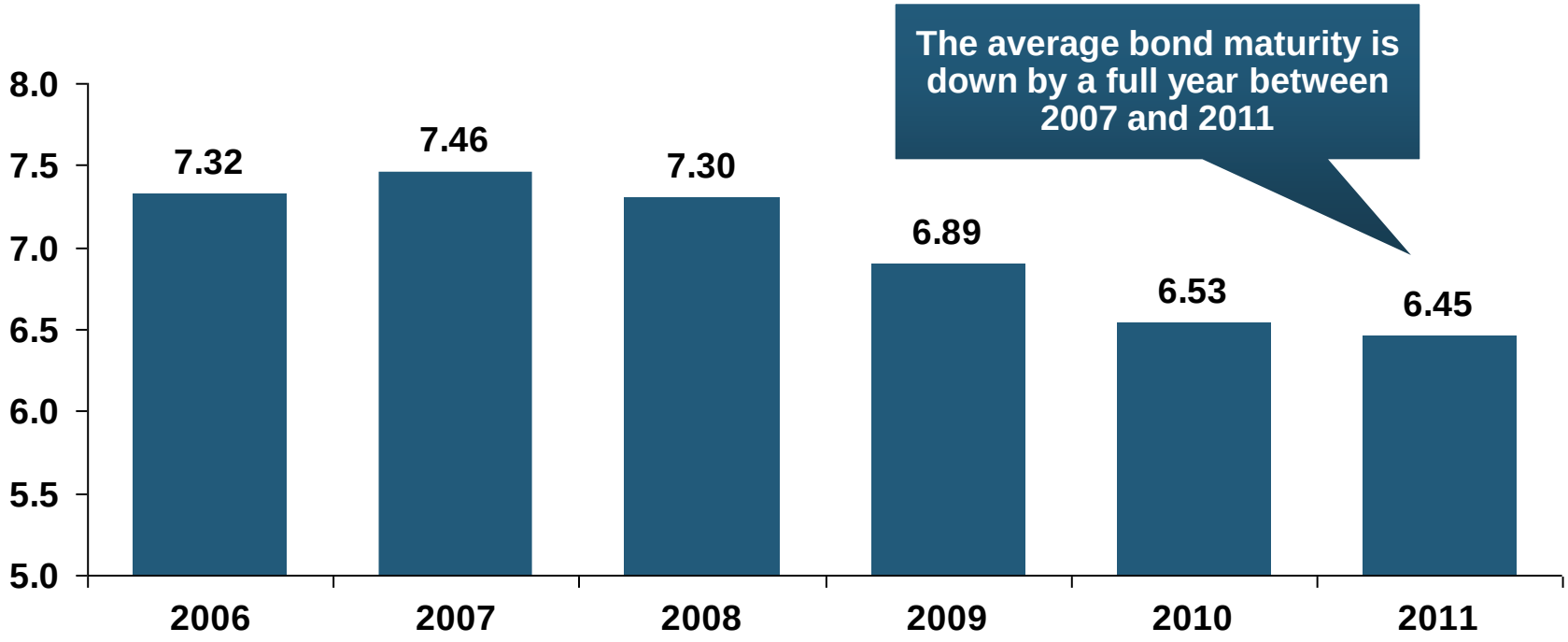
## Average Maturity (Years)

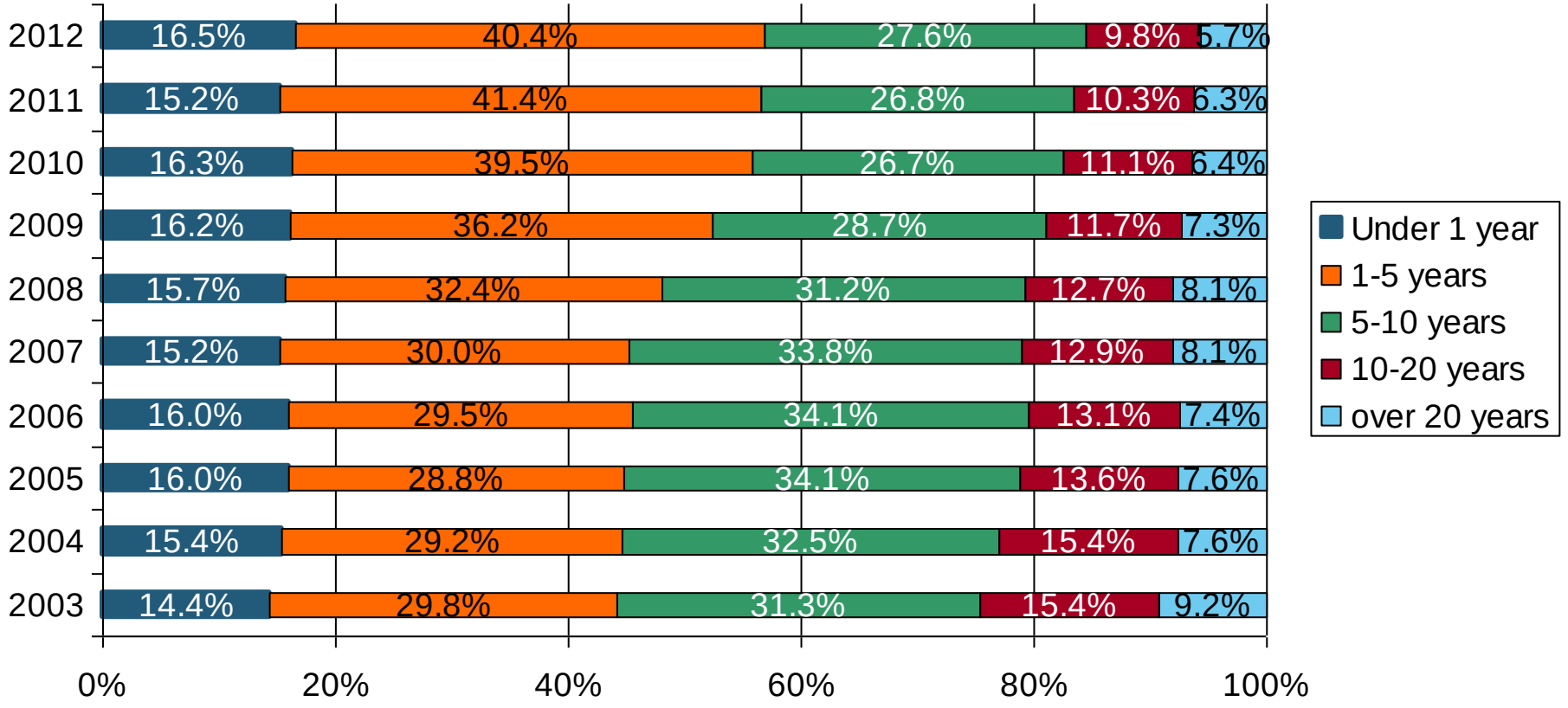



**Falling Average Maturity (and Duration) of the P/C Industry's Bond Portfolio is Contributing to the Drop in Investment Income Along With Lower Yields**

*Year-end figures. Latest available.

Sources: Insurance Information Institute calculations based on A.M. Best data.

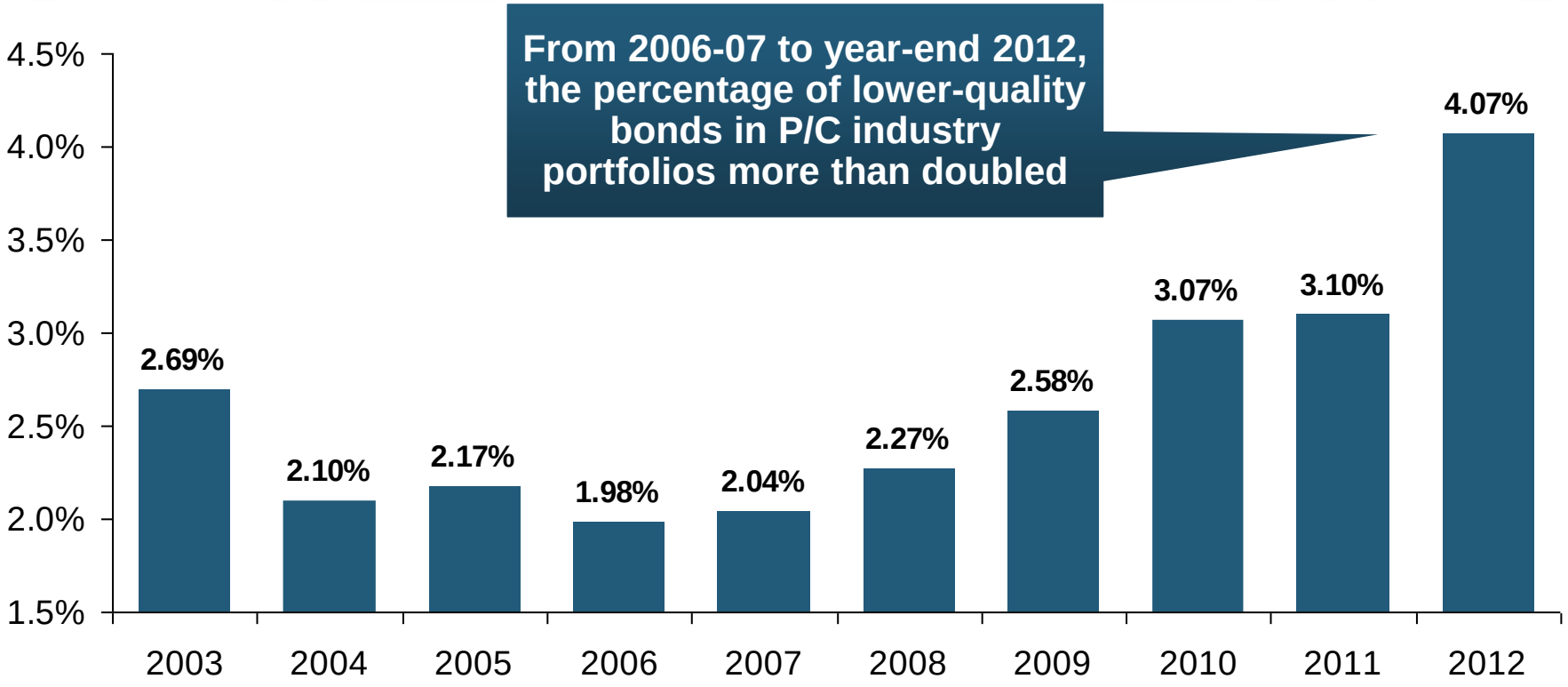
# Distribution of Bond Maturities, P/C Insurance Industry, 2003-2012




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

Sources: SNL Financial; Insurance Information Institute.

# Bonds Rated NAIC Quality Category 3-6 as a Percent of Total Bonds, 2003–2012




**There are many ways to capture higher yields on bond portfolios. One is to accept greater risk, as measured by NAIC bond ratings. The ratings range from 1 to 6, with the highest quality rated 1. Even in 2012, over 95% of the industry's bonds were rated 1 or 2.**

Sources: SNL Financial; Insurance Information Institute.

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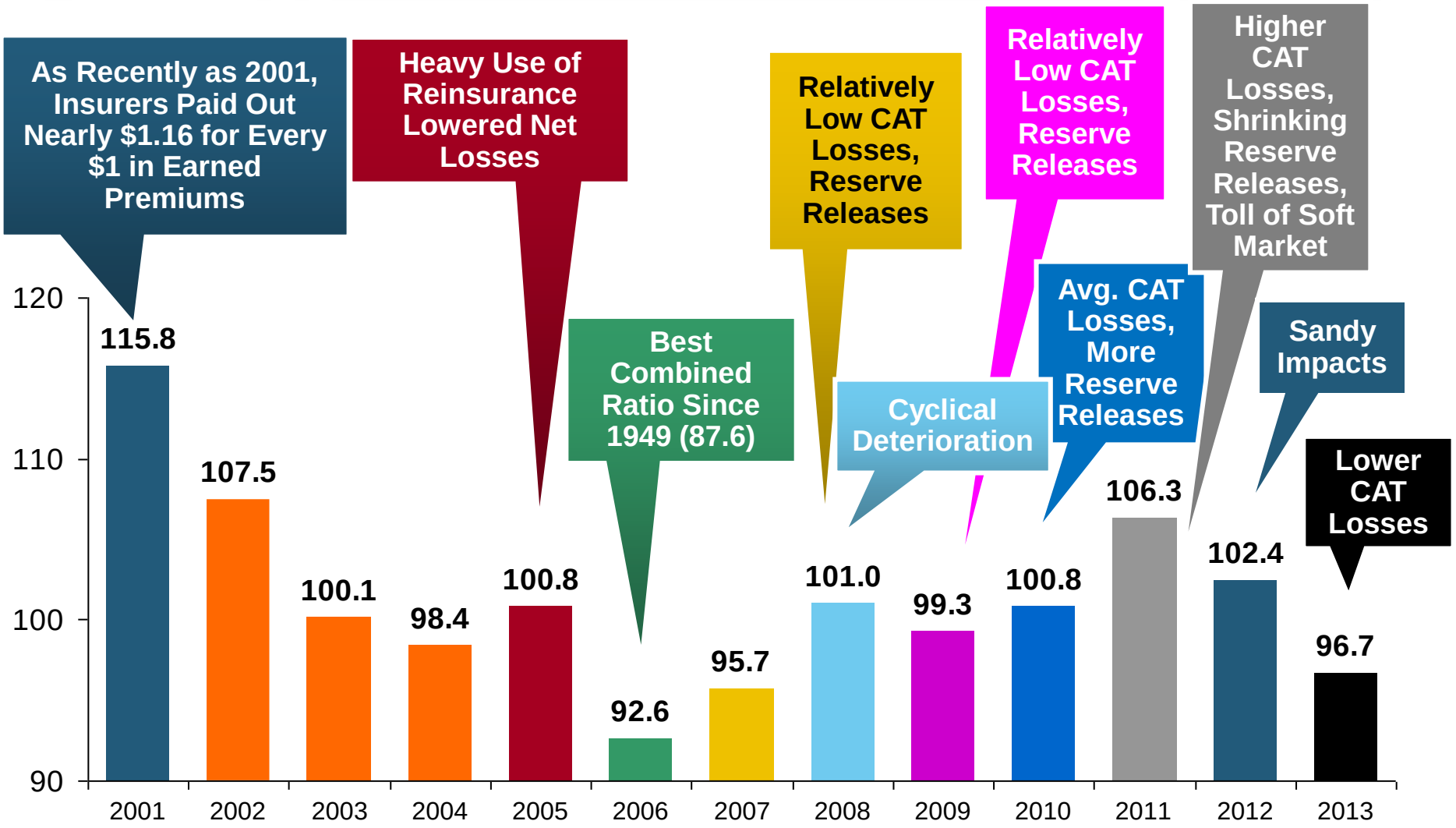
# P/C UNDERWRITING

## Underwriting Losses in 2013 Much Improved After High Catastrophe Losses in 2011/12

# P/C Insurance Industry Combined Ratio, 2001–2013*




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

Sources: A.M. Best, ISO.

# Number of Years with Underwriting Profits by Decade, 1920s–2010s

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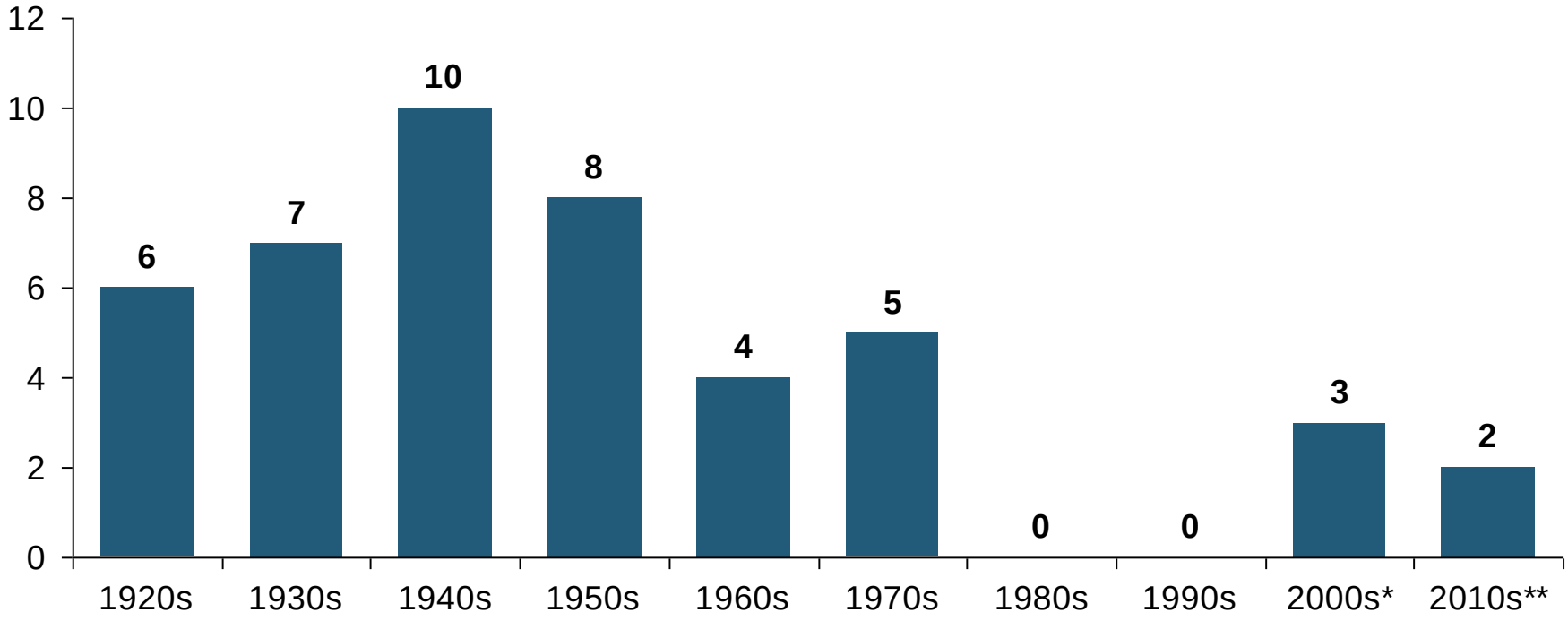
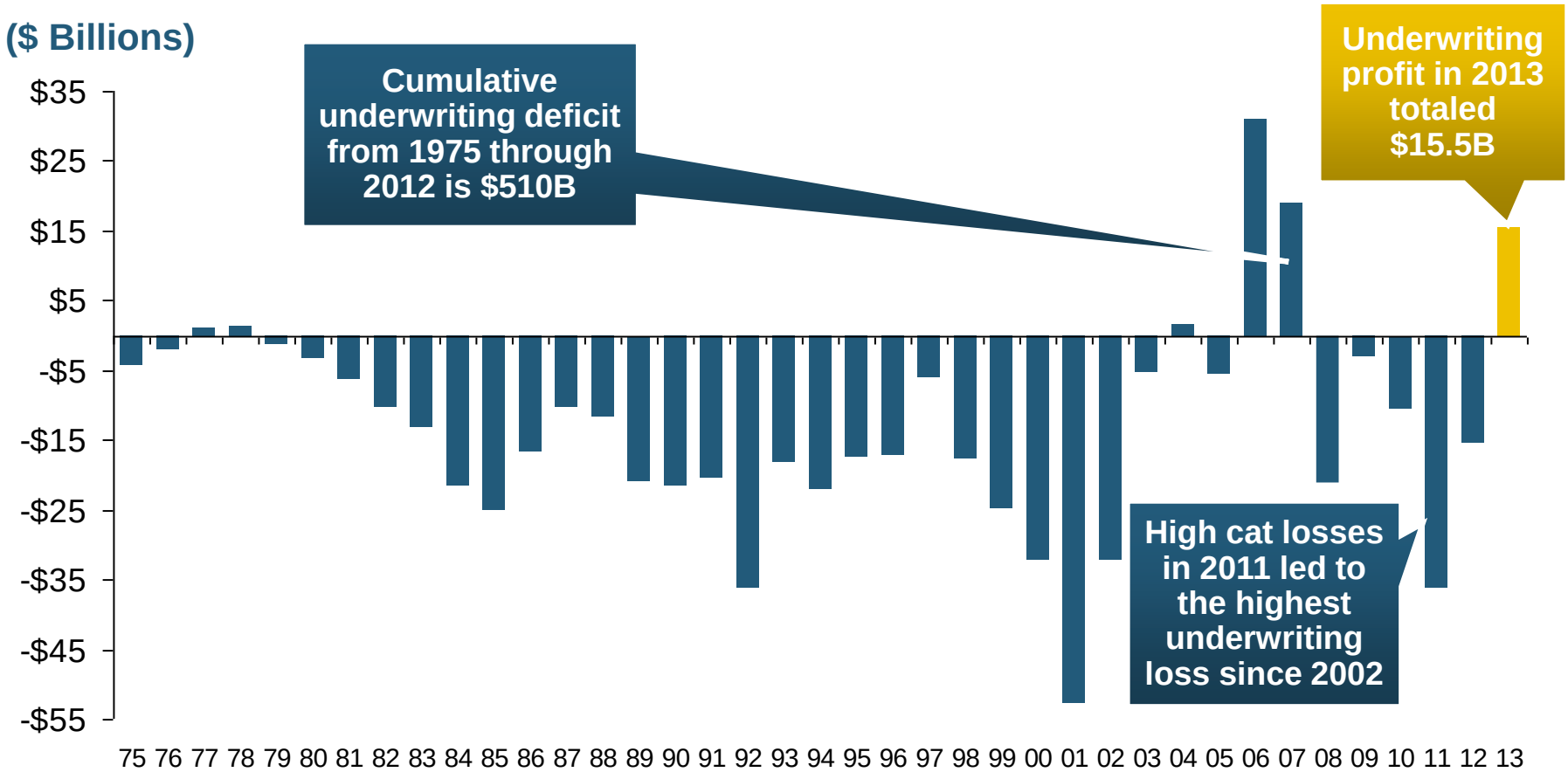
## Number of Years with Underwriting Profits




**Underwriting Profits Were Common Before the 1980s (40 of the 60 Years Before 1980 Had Combined Ratios Below 100) – But Then They Vanished. Not a Single Underwriting Profit Was Recorded in the 25 Years from 1979 Through 2003**

* 2009 combined ratio excl. mort. and finl. guaranty insurers was 99.3, which would bring the 2000s total to 4 years with an u/w profit.
**Data for the 2010s is for the period 2010 through 2013.
Note: Data for 1920–1934 based on stock companies only.
Sources: Insurance Information Institute research from A.M. Best Data.

# Underwriting Gain (Loss) 1975–2013*




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

* Includes mortgage and financial guaranty insurers in all years.

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

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

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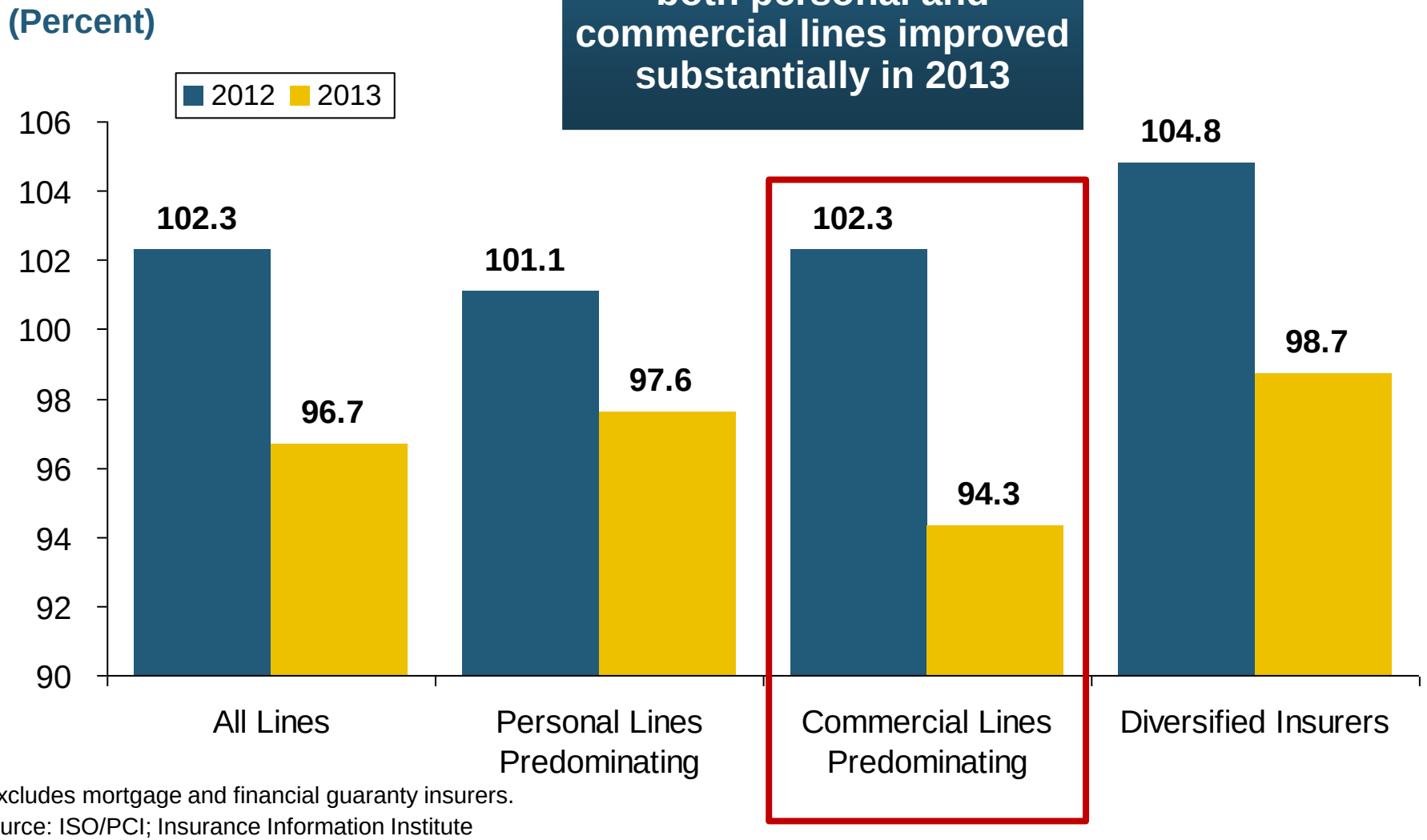
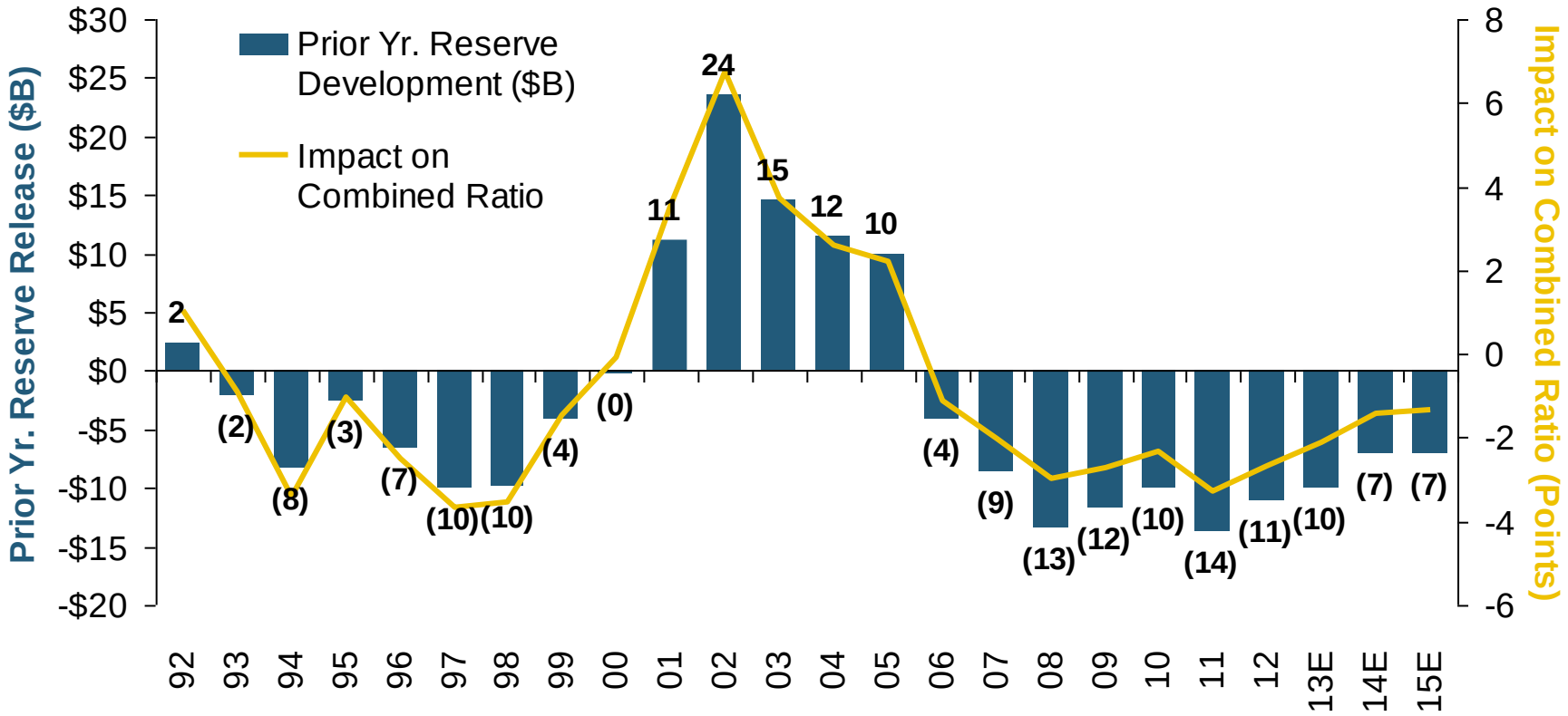
**The combined ratios for both personal and commercial lines improved substantially in 2013**




*Excludes mortgage and financial guaranty insurers.

Source: ISO/PCI; Insurance Information Institute

# P/C Reserve Development, 1992–2015E




Note: 2005 reserve development excludes a $6 billion loss portfolio transfer between American Re and Munich Re. Including this transaction, total prior year adverse development in 2005 was $7 billion. The data from 2000 and subsequent years excludes development from financial guaranty and mortgage insurance.

Sources: A.M. Best, ISO, Barclays Research (estimates for 2013-2015).

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

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

Source: A.M. Best, *P/C Review/Preview 2014;* Insurance Information Institute. *Excluding mortgage and financial guaranty segments

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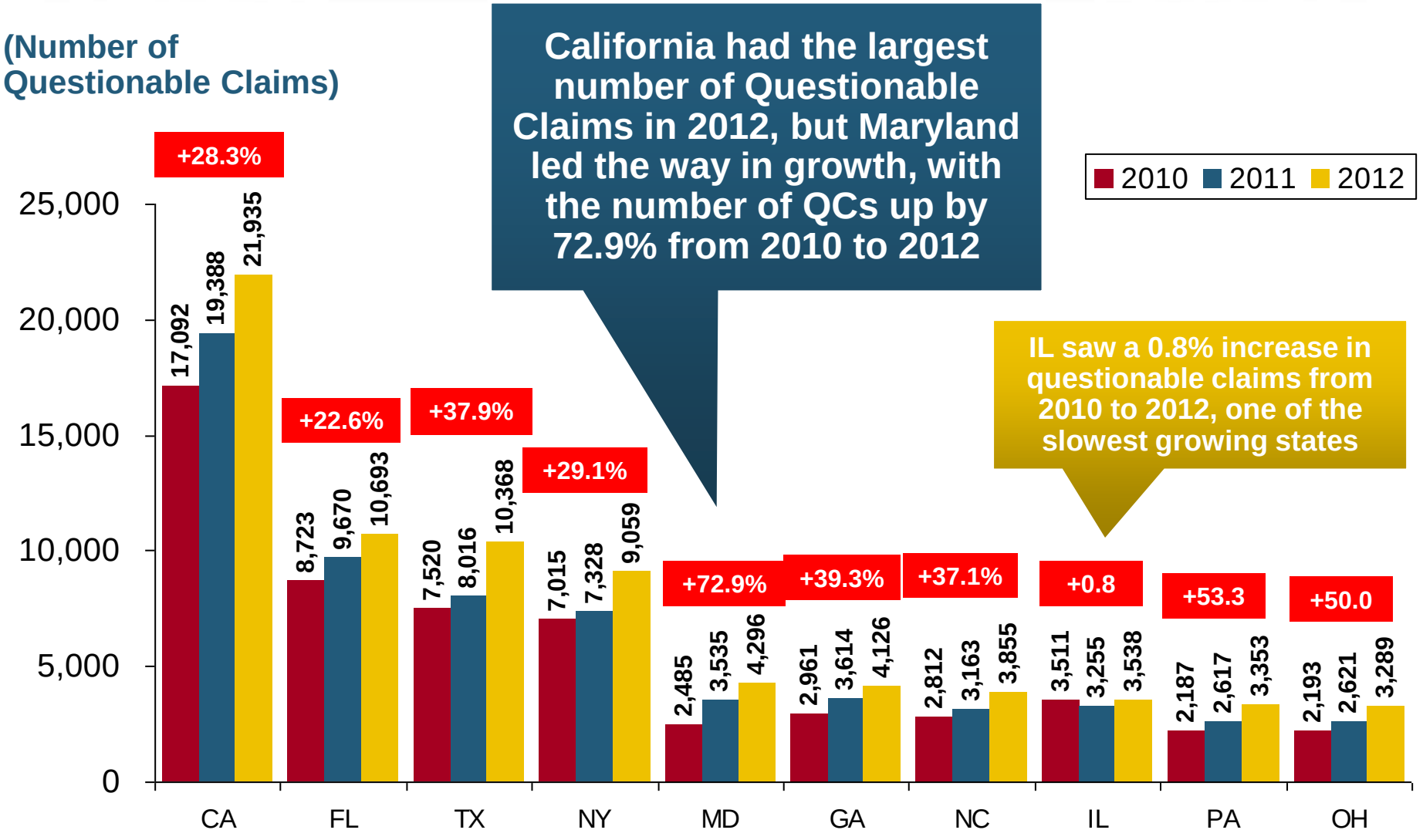
# Questionable Claims: On the Rise

## Fraud Concerns:

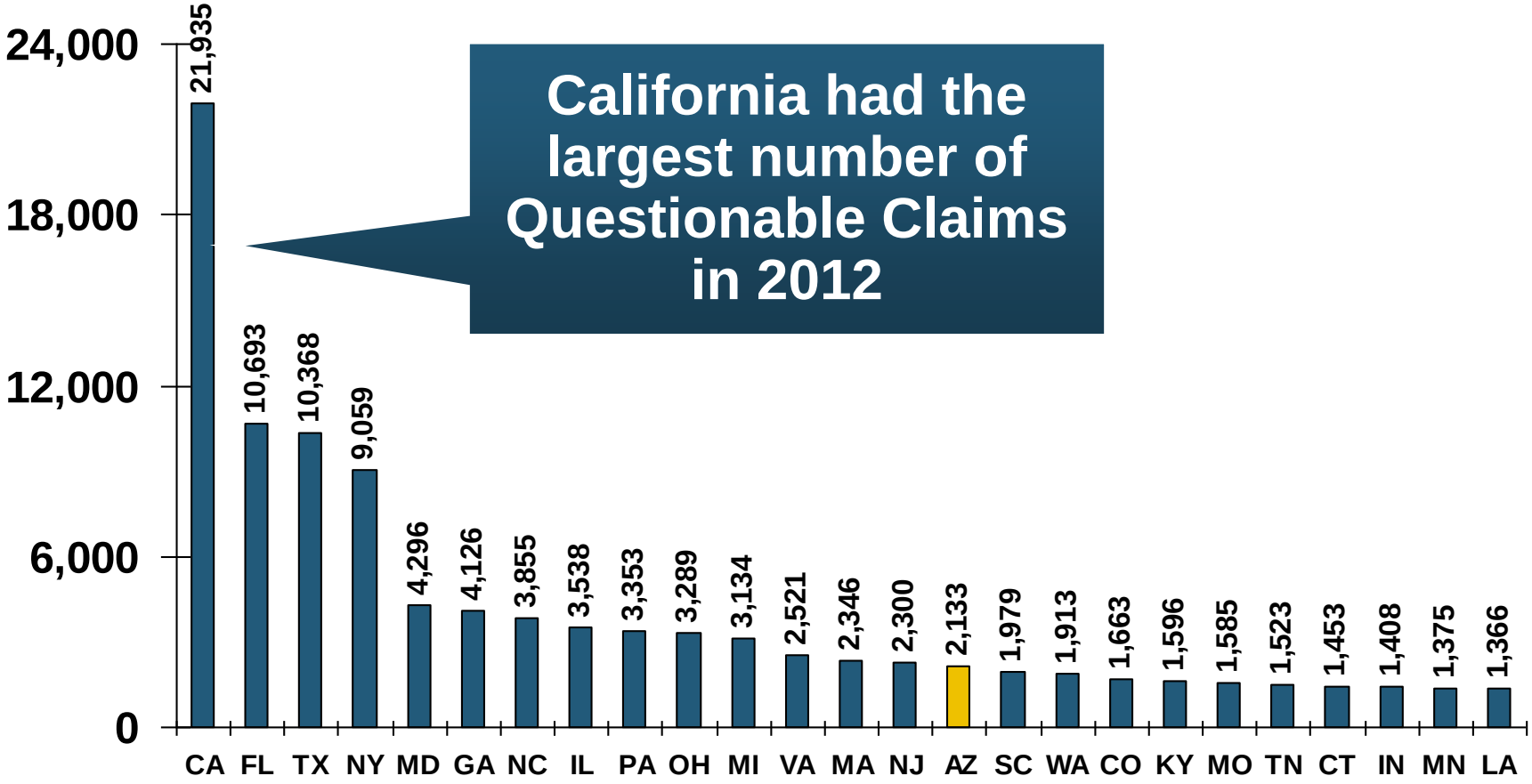
## More Questionable Claims in Most State and Across Most Lines of Insurance

# Questionable Claims, Top 10 Loss States, All Lines: 2010–2012



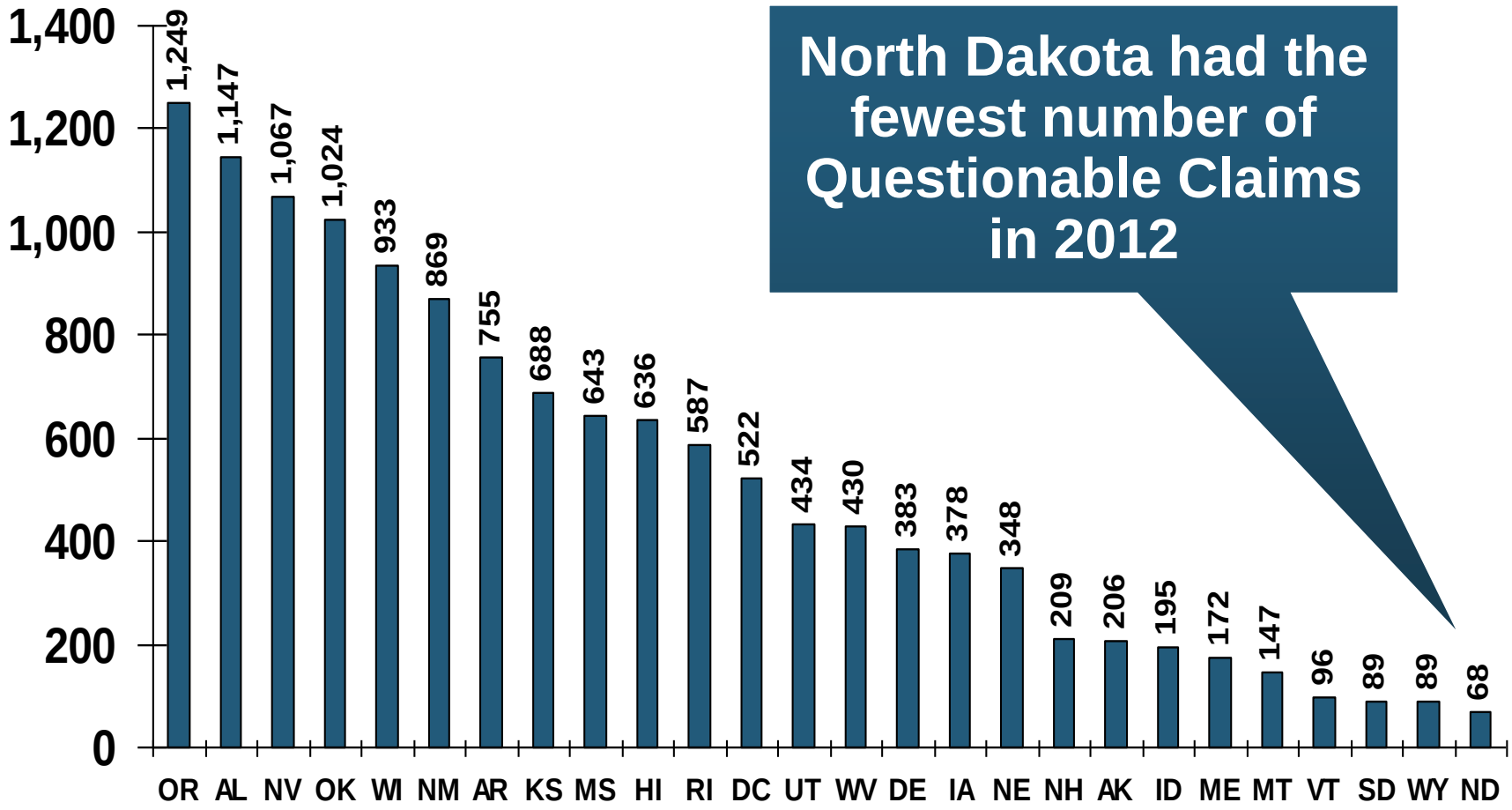

Source: National Insurance Crime Bureau, *ForeCAST Report*, May 10, 2013; Insurance Information Institute

# Total Number of Questionable Claims by State, 2012: Highest 25 States



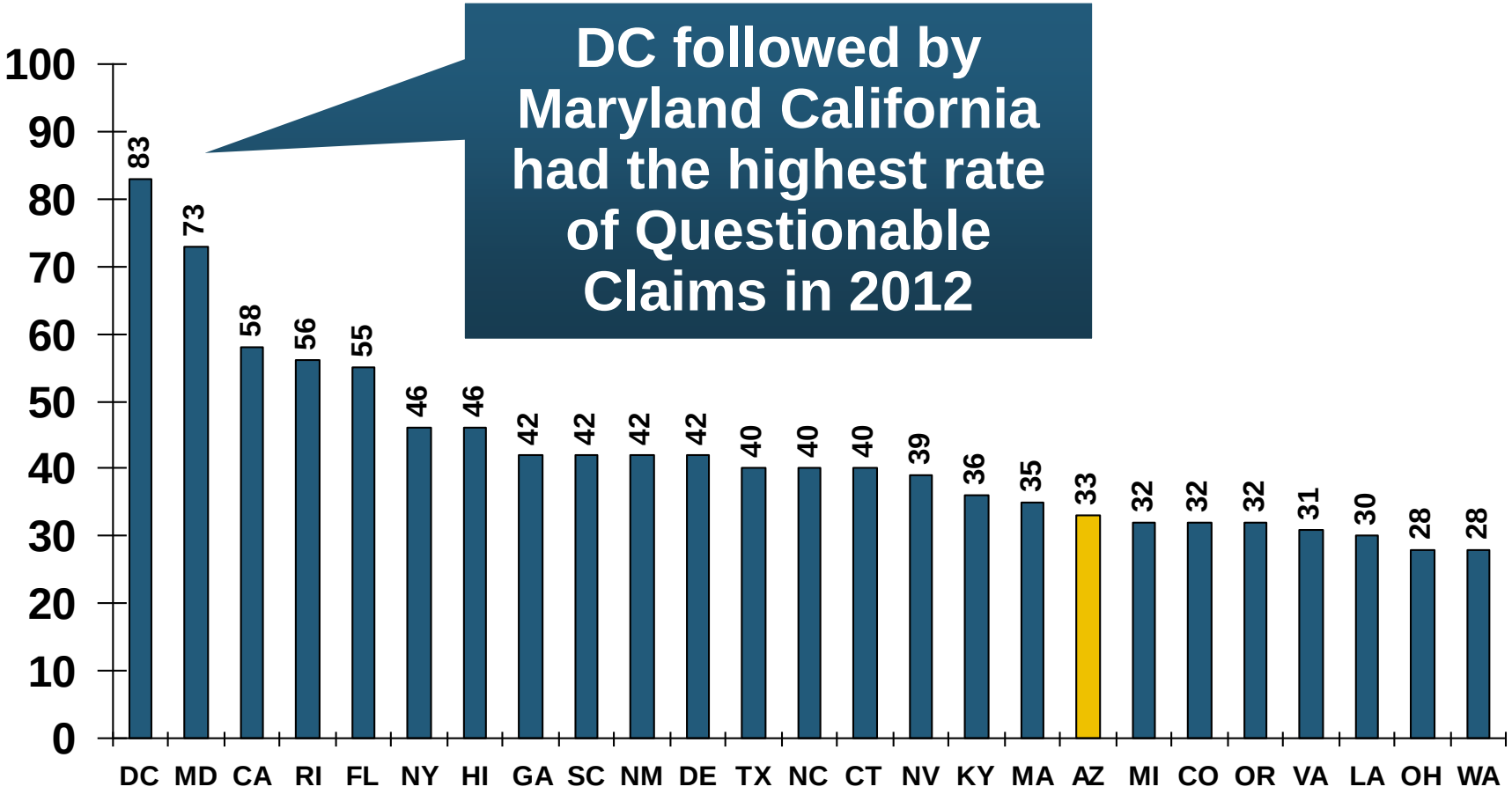

Sources: NICB; Insurance Information Institute.

# Total Number of Questionable Claims by State, 2012: Highest 25 States



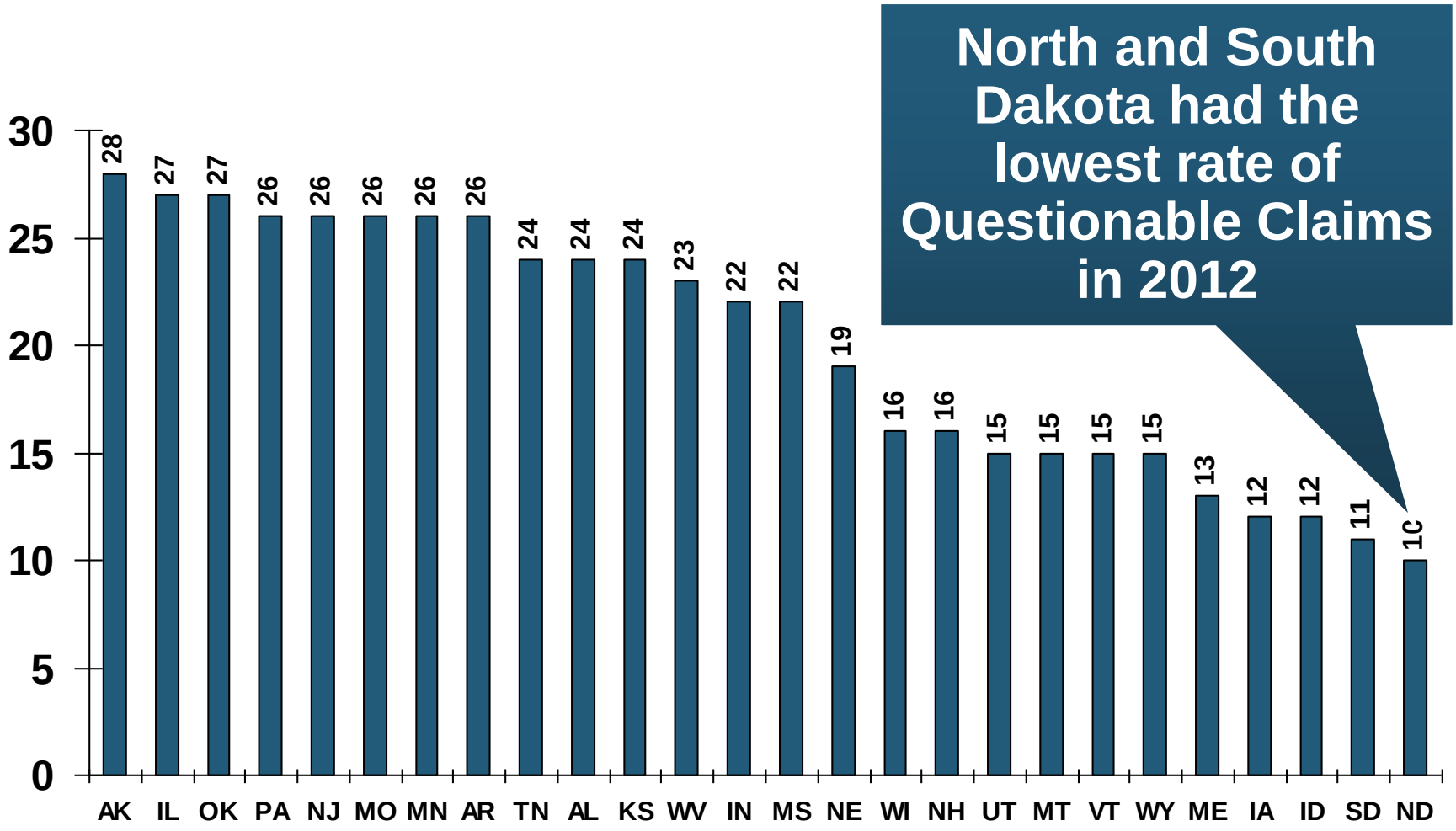

Sources: NICB; Insurance Information Institute.

# Total Number of Questionable Claims by State, per 100K Persons, 2012: Highest 25 States



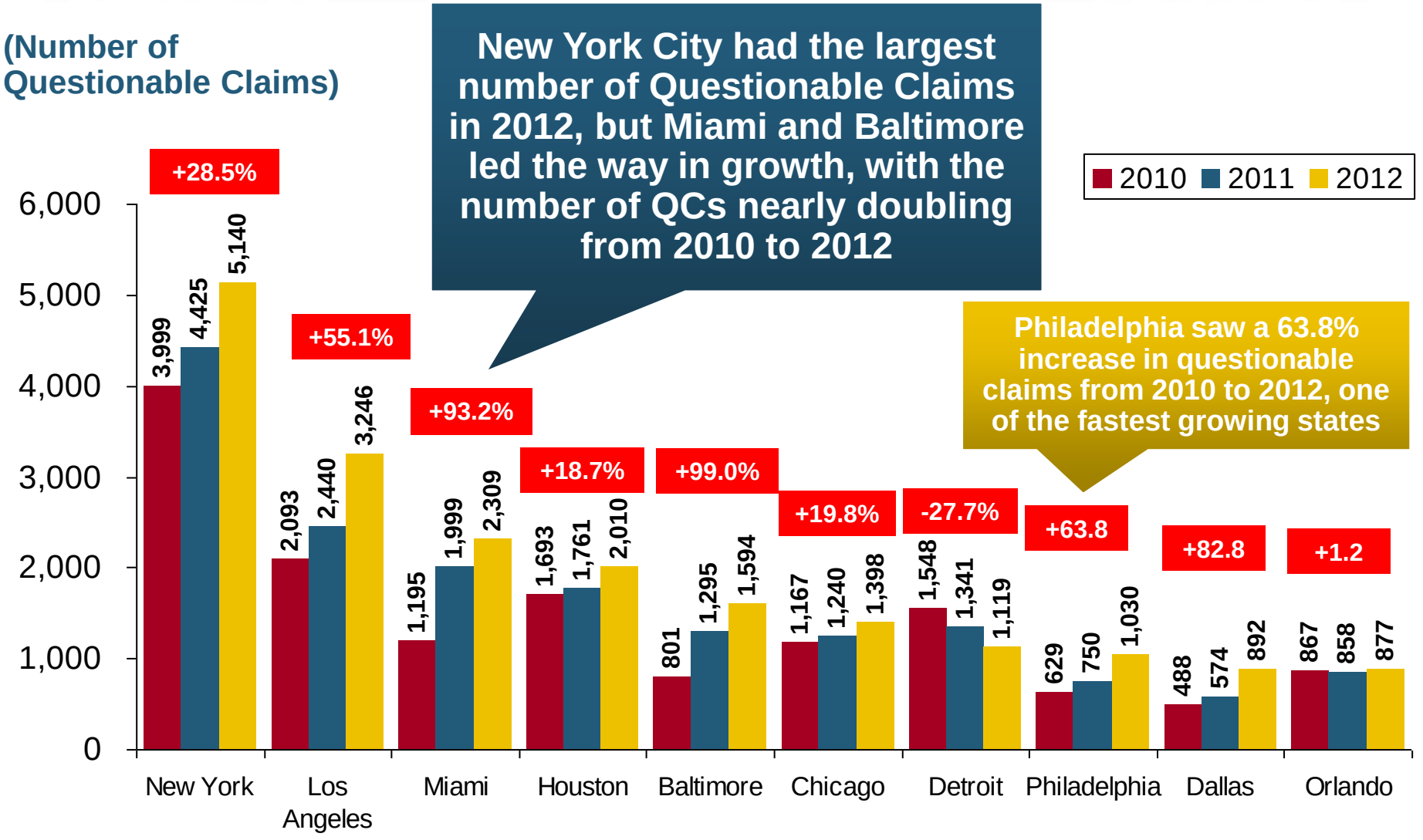

Sources: NICB; Insurance Information Institute.

# Total Number of Questionable Claims by State, per 100K Persons, 2012: Lowest 25 States



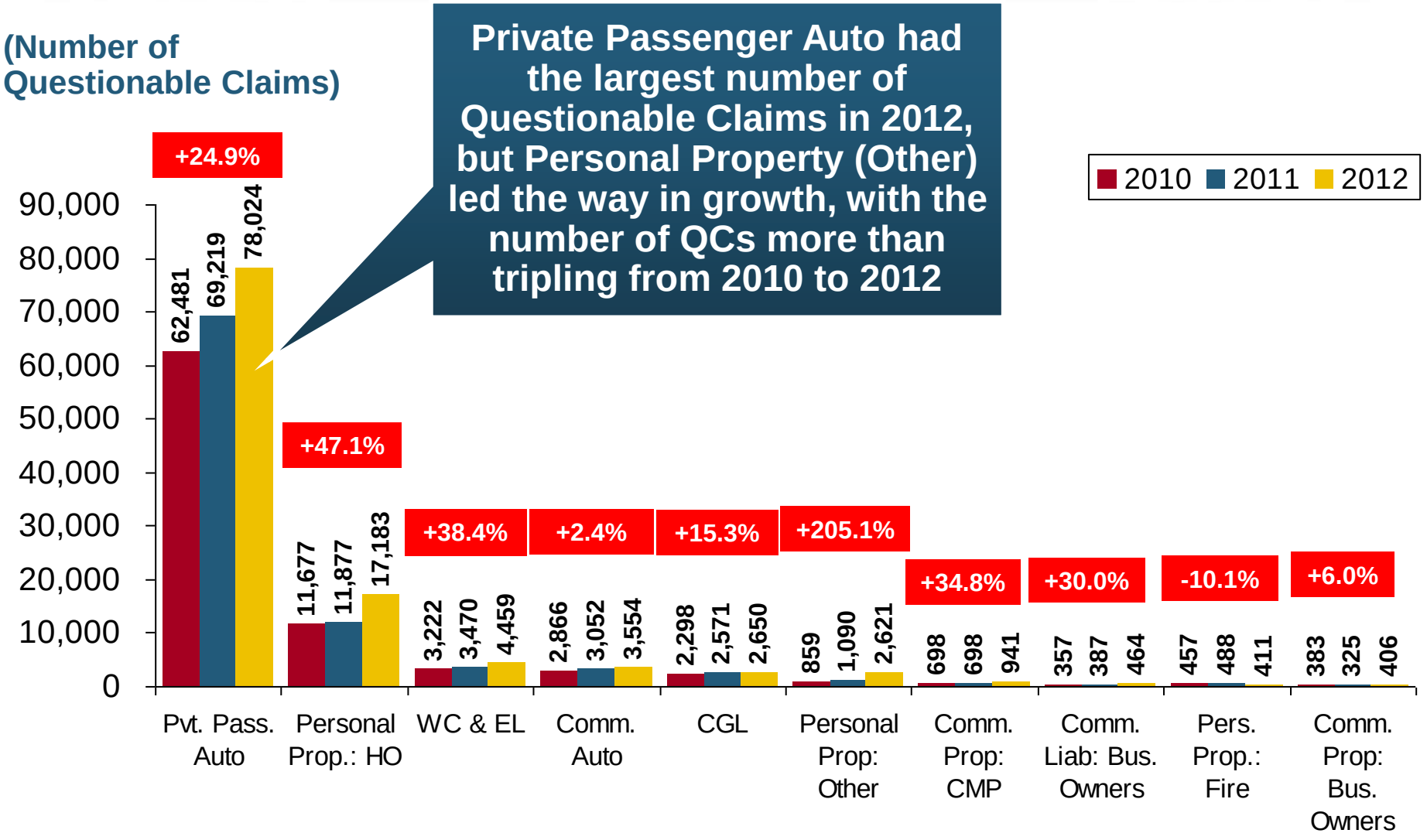

Sources: NICB; Insurance Information Institute.

# Questionable Claims, Top 10 Loss Cities, All Lines: 2010–2012




Source: National Insurance Crime Bureau, *ForeCAST Report*, May 10, 2013; Insurance Information Institute

# Questionable Claims, Top 10 Policy Types: 2010–2012




Source: National Insurance Crime Bureau, *ForeCAST Report*, May 10, 2013; Insurance Information Institute

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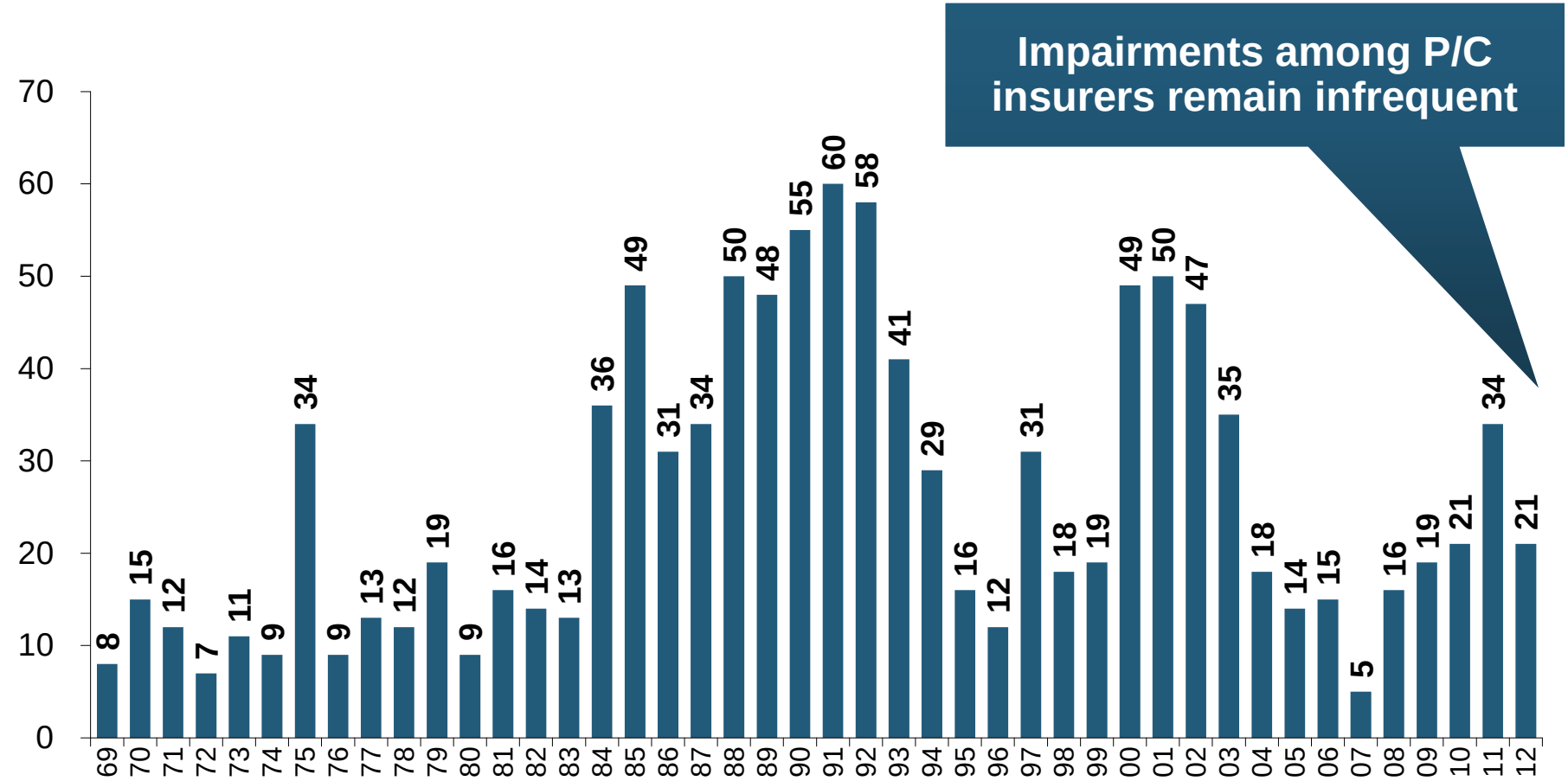
# Financial Strength & Underwriting

## Cyclical Pattern is P-C Impairment History is Directly Tied to Underwriting, Reserving & Pricing

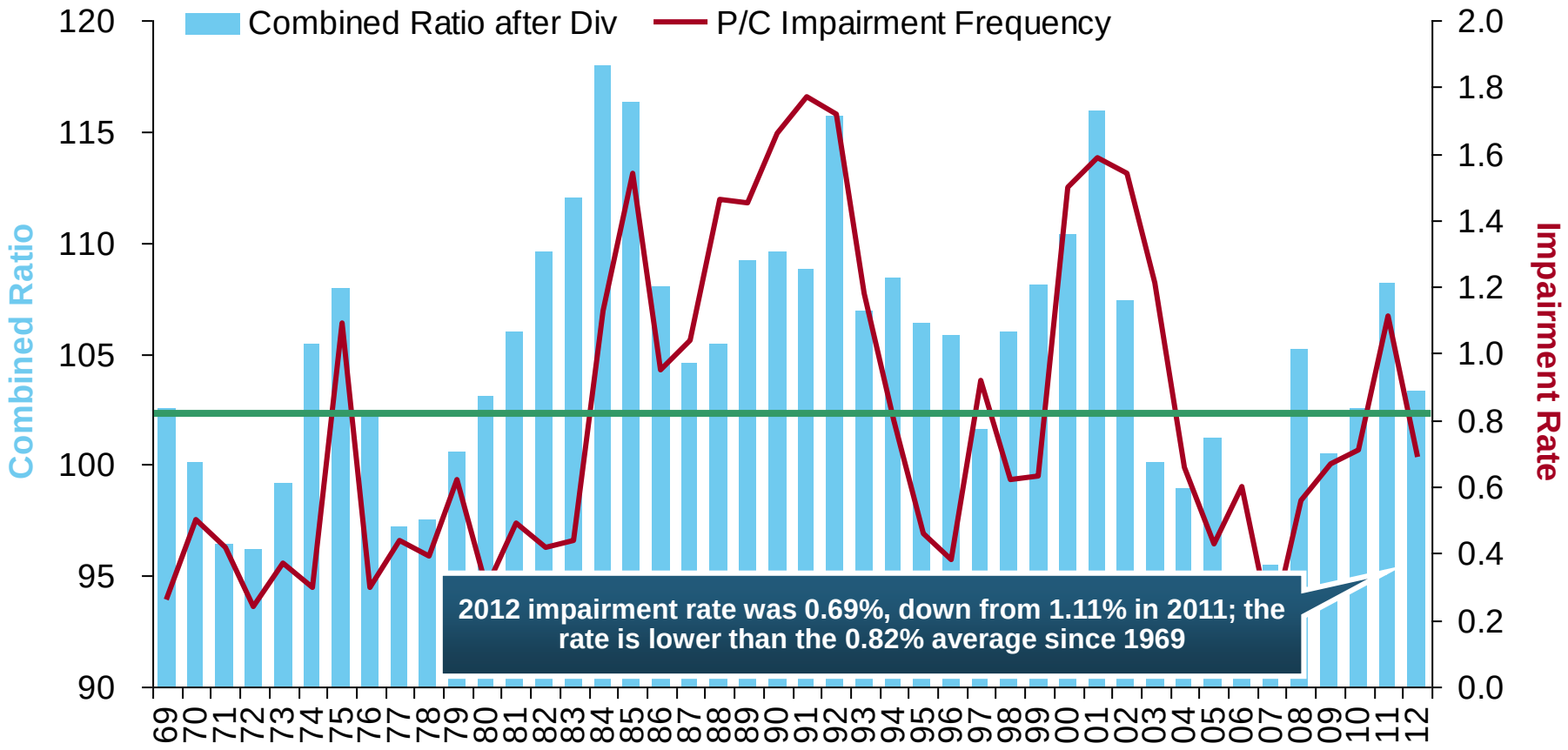
# P/C Insurer Impairments, 1969–2012




**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

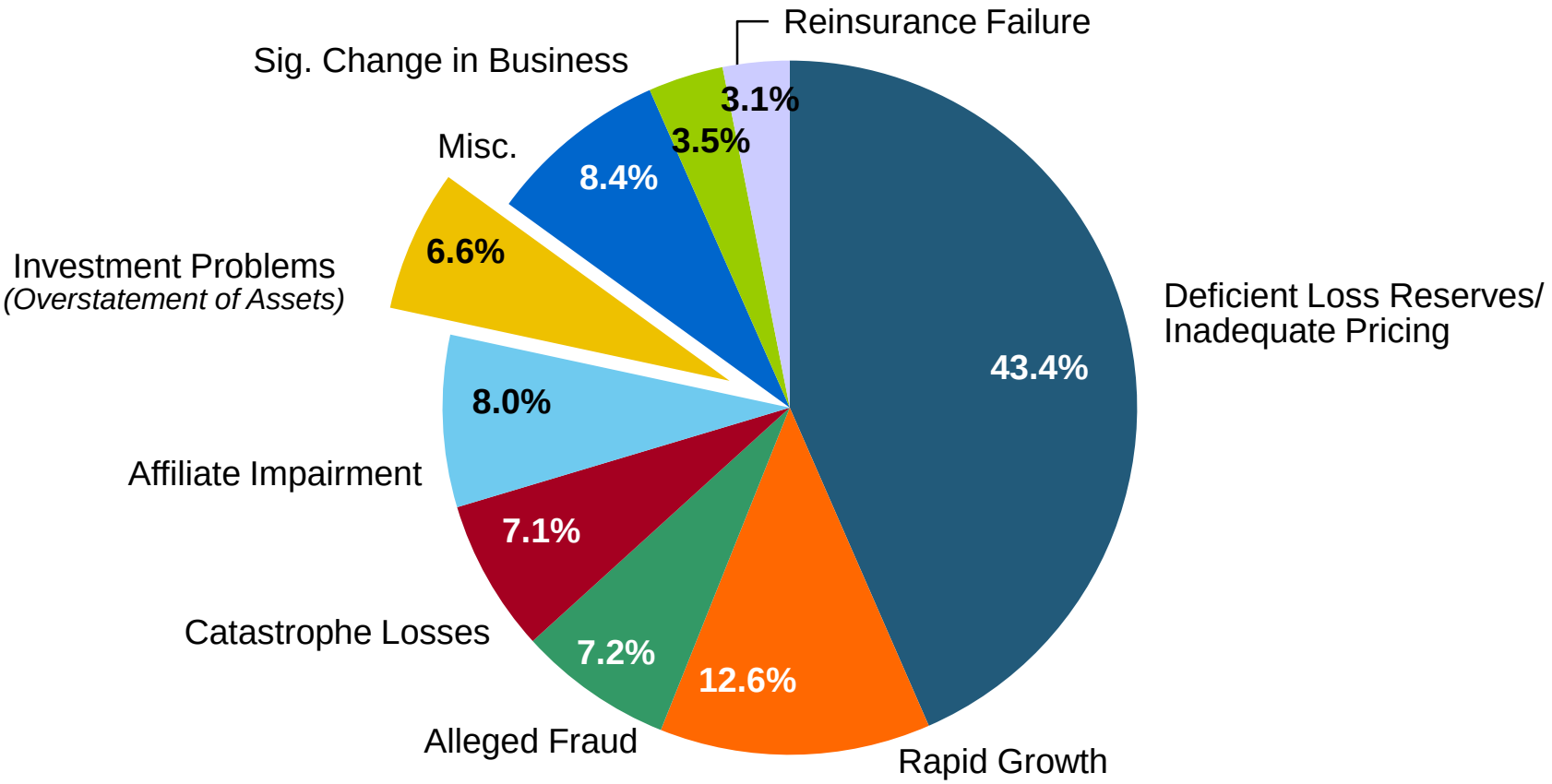



**Impairment Rates Are Highly Correlated With Underwriting Performance and Reached Record Lows in 2007; Recent Increase Was Associated Primarily With Mortgage and Financial Guaranty Insurers and Not Representative of the Industry Overall**

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**

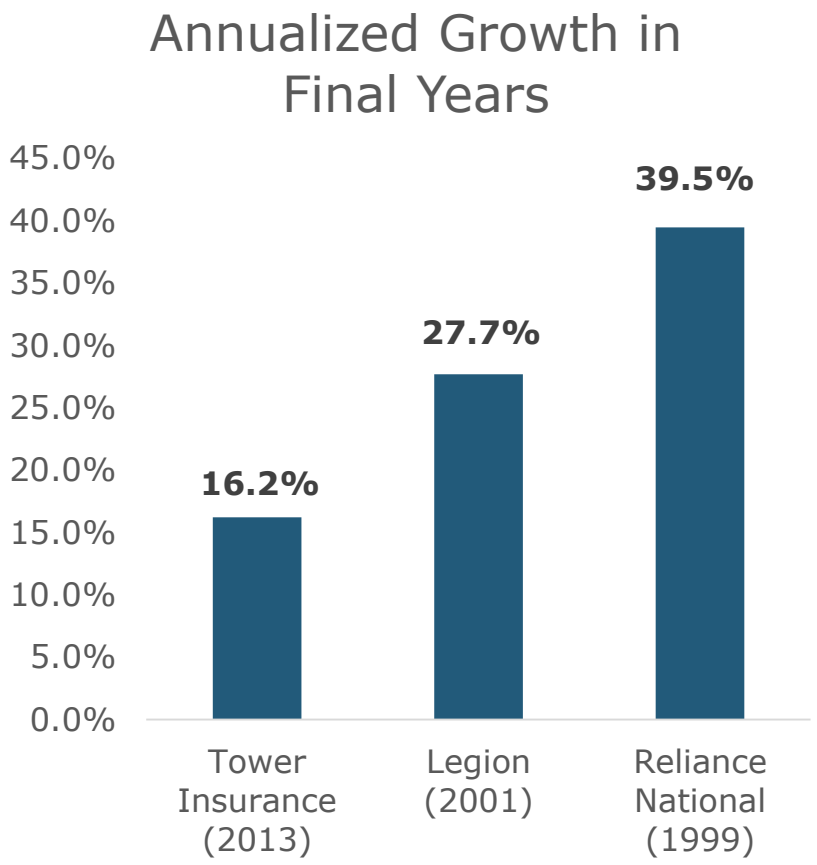



Source: A.M. Best Special Report "Pace of P/C Impairments Slowed in 2012; Auto Writers, RRGs Continued to Struggle," June 2013; Insurance Information Institute.

# Rapid Growth 'A Leading Cause' of Impairment'

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

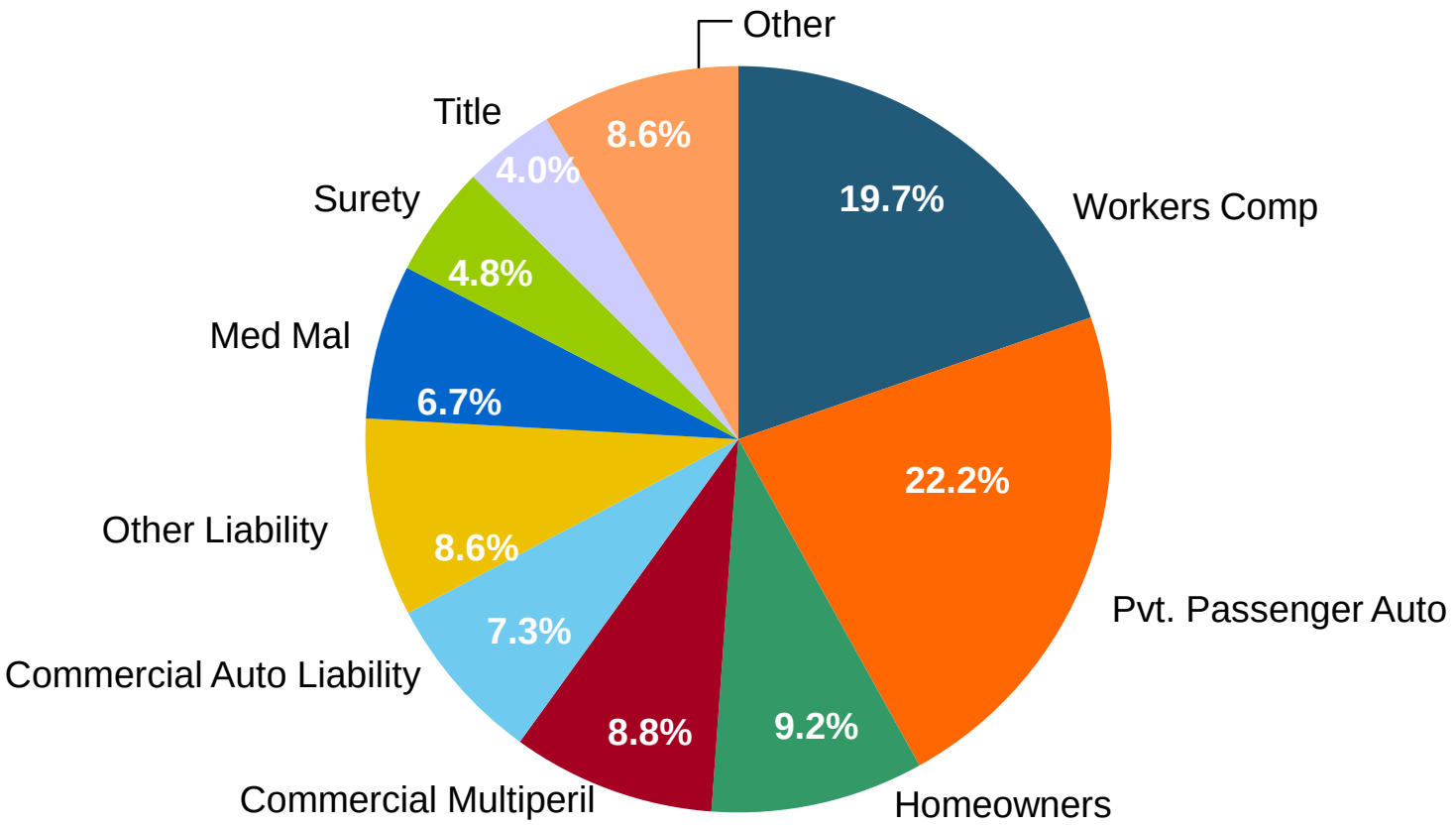
- A.M. Best, 2013




Source: SNL Financial, 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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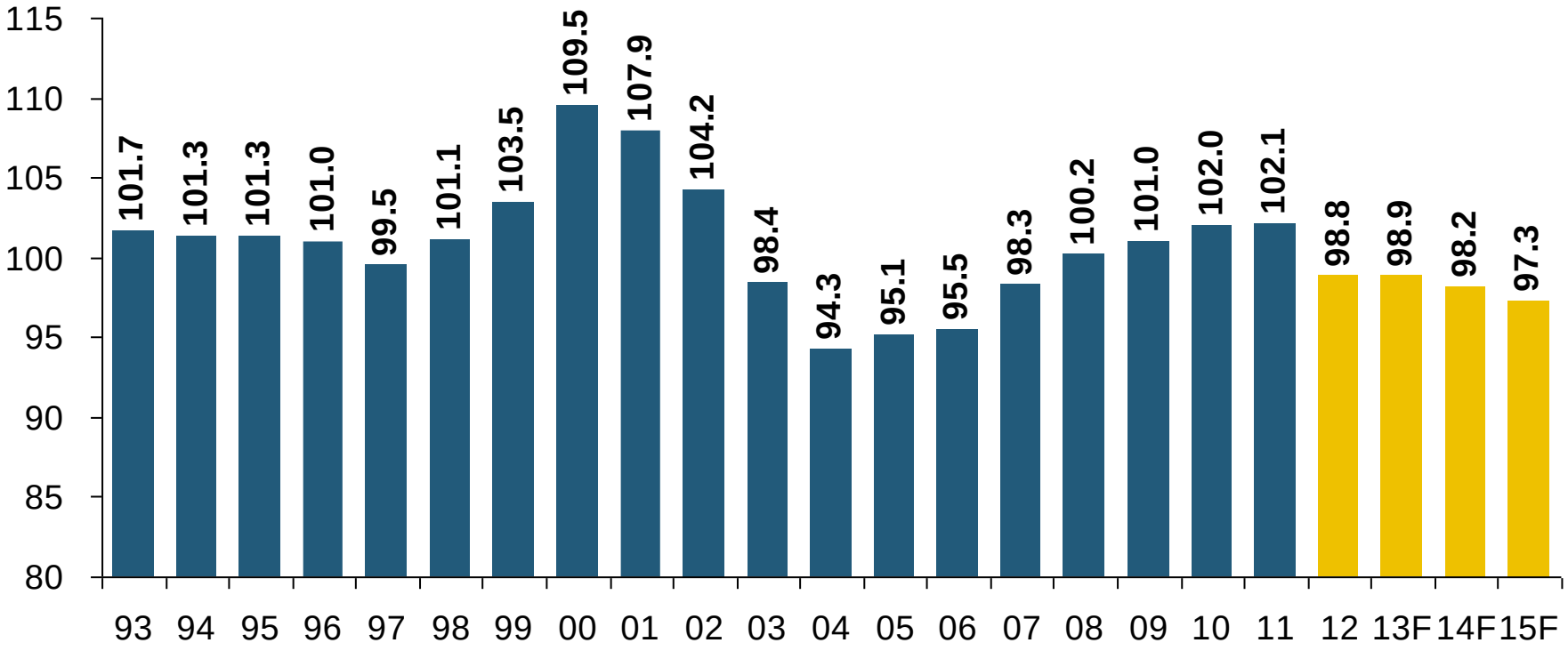
# Performance by Segment

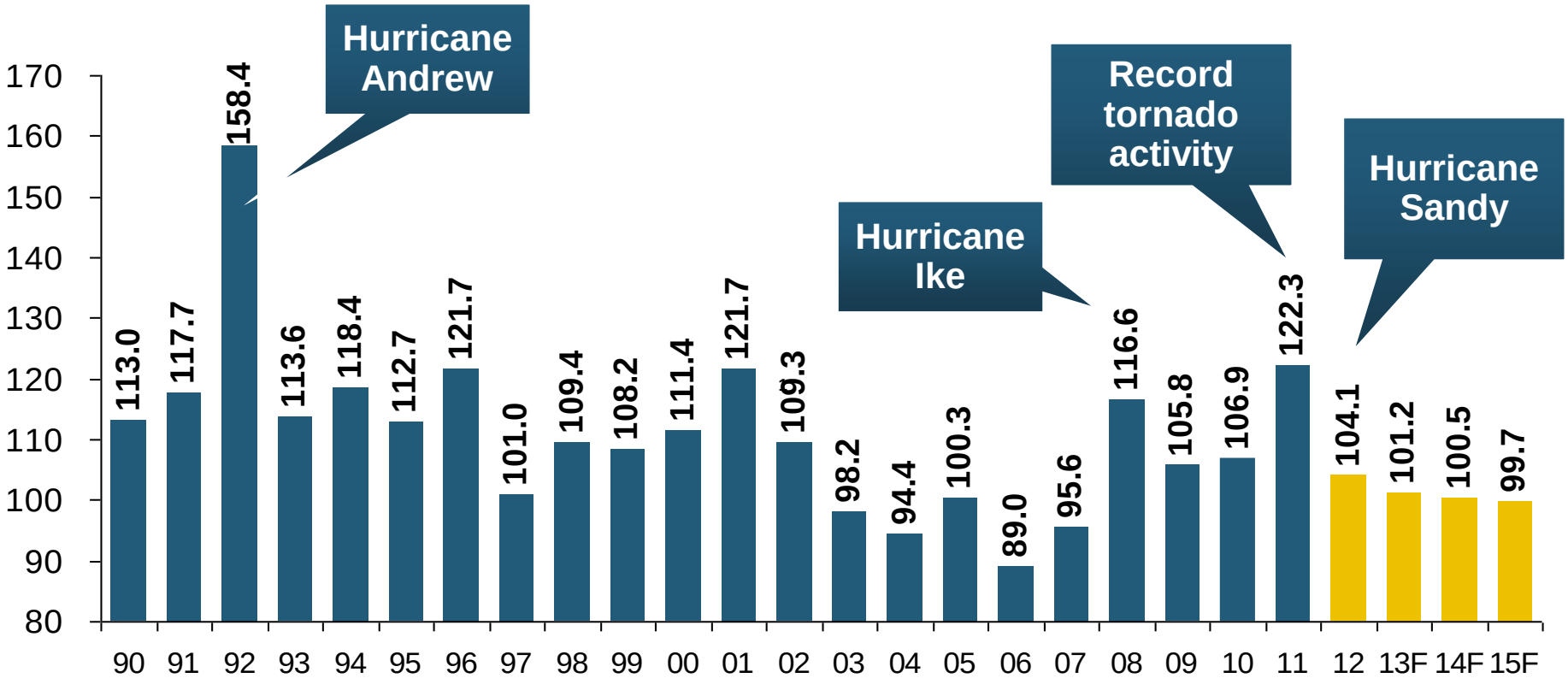
# Private Passenger Auto Combined Ratio: 1993–2015F




**Private Passenger Auto Accounts for 34% of Industry Premiums and Remains the Profit Juggernaut of the P/C Insurance Industry**

Sources: A.M. Best (1990-2012);Conning (2013F-15F); Insurance Information Institute.

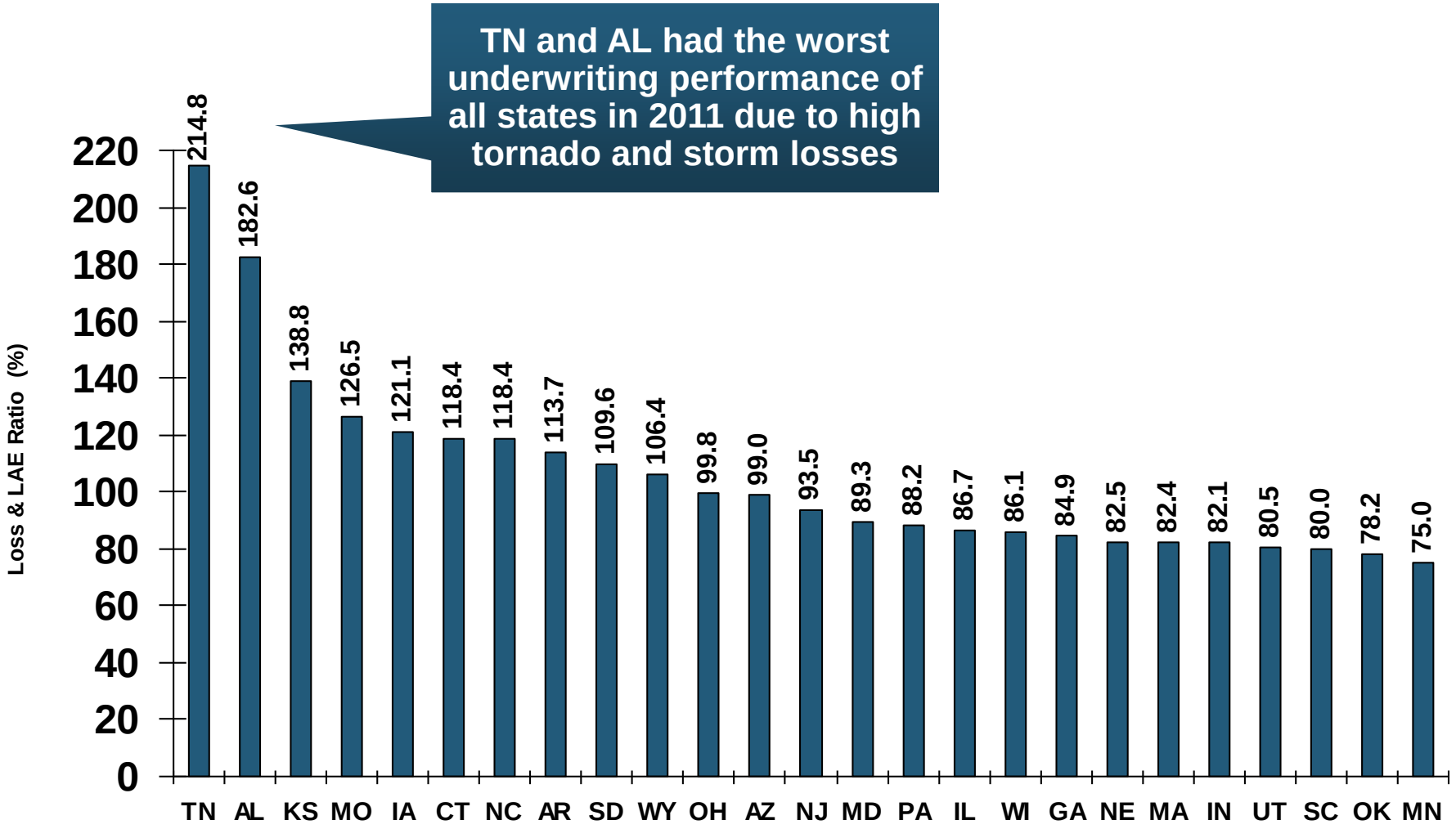
# Homeowners Insurance Combined Ratio: 1990–2015F




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

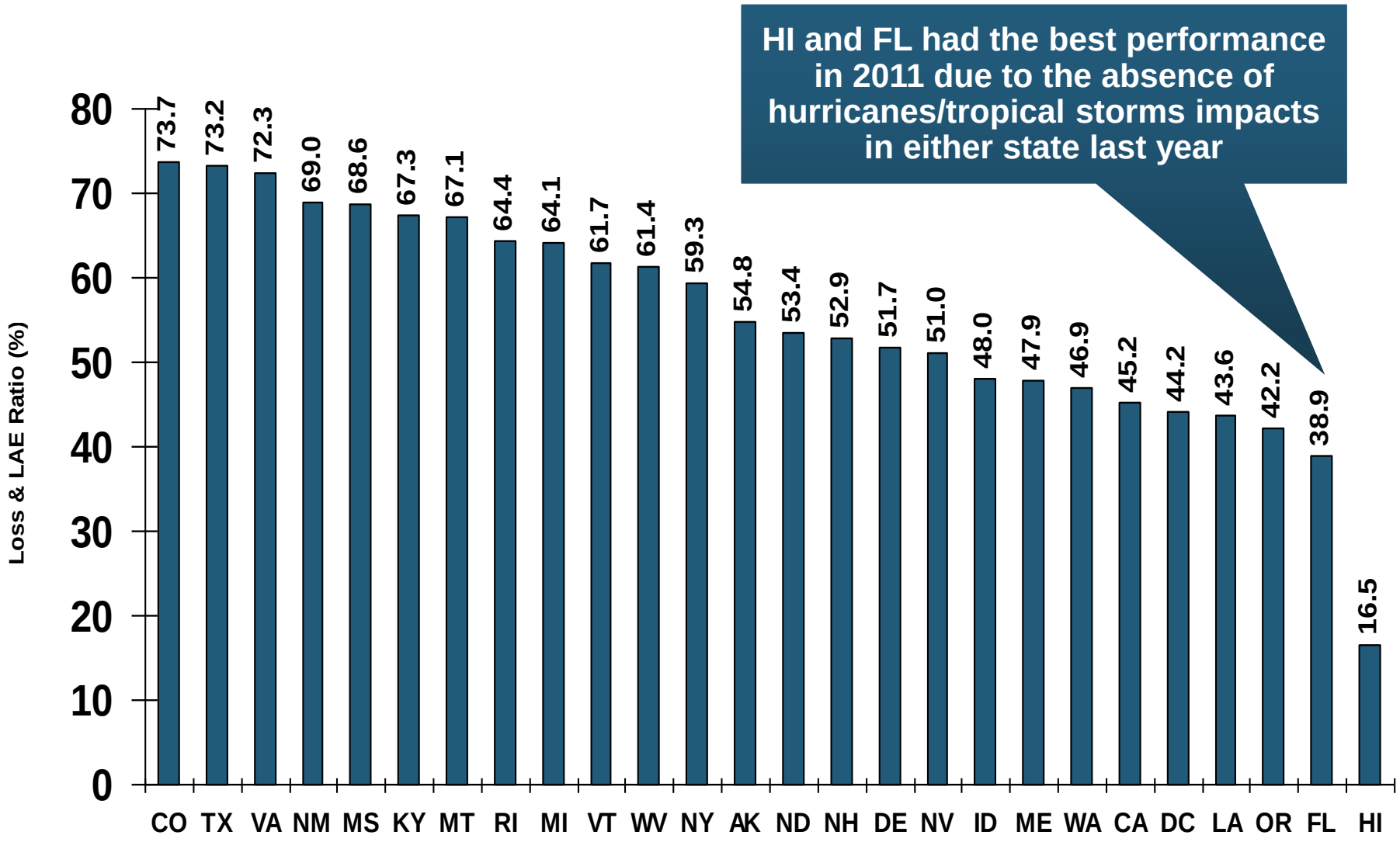
Sources: A.M. Best (1990-2012);Conning (2013E-2015F); Insurance Information Institute.

# Homeowners Multi-Peril Loss & LAE Ratio, 2011: Highest 25 States



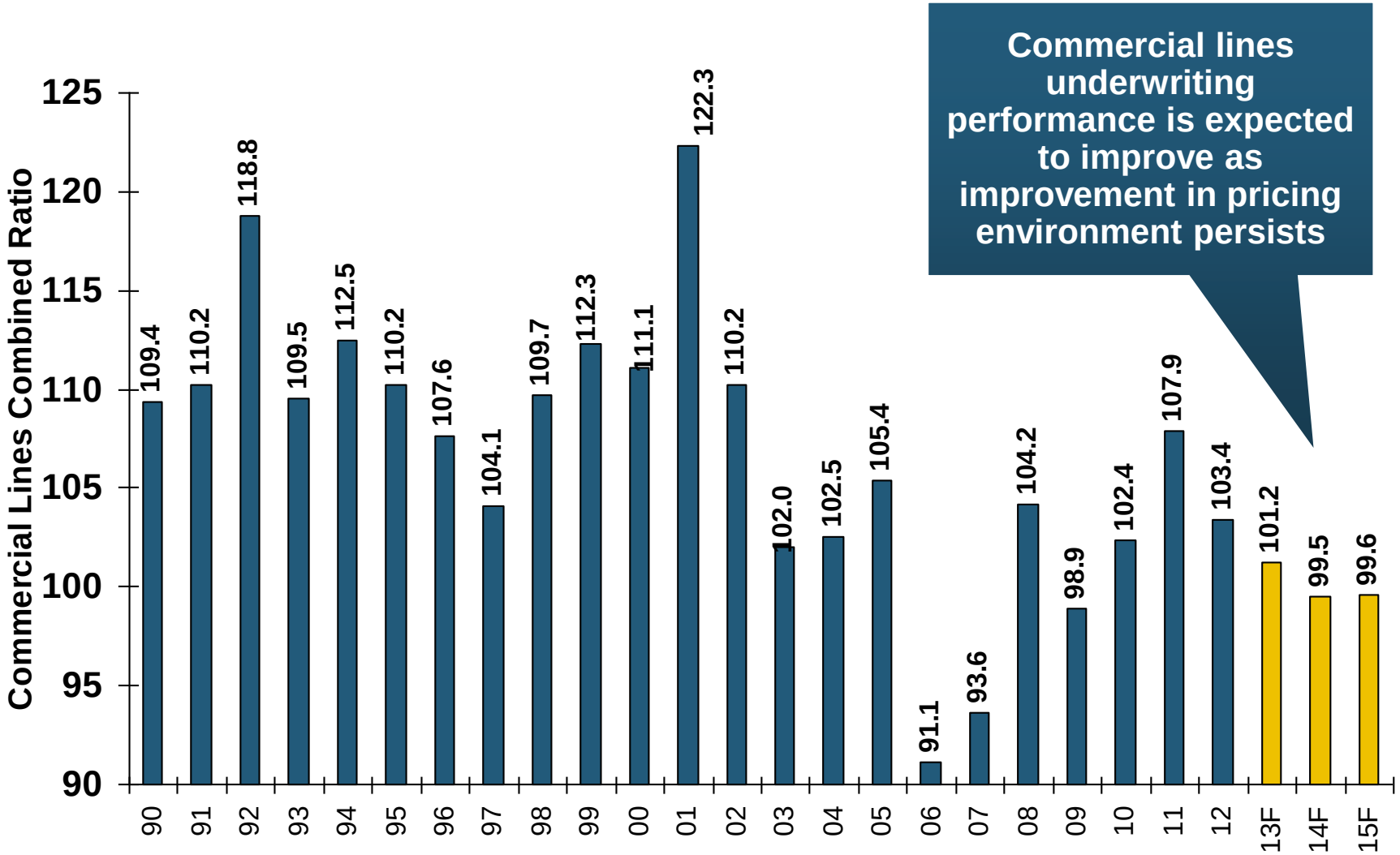

Sources: SNL Financial; Insurance Information Institute.

# Homeowners Multi-Peril Loss & LAE Ratio, 2011: Lowest 25 States



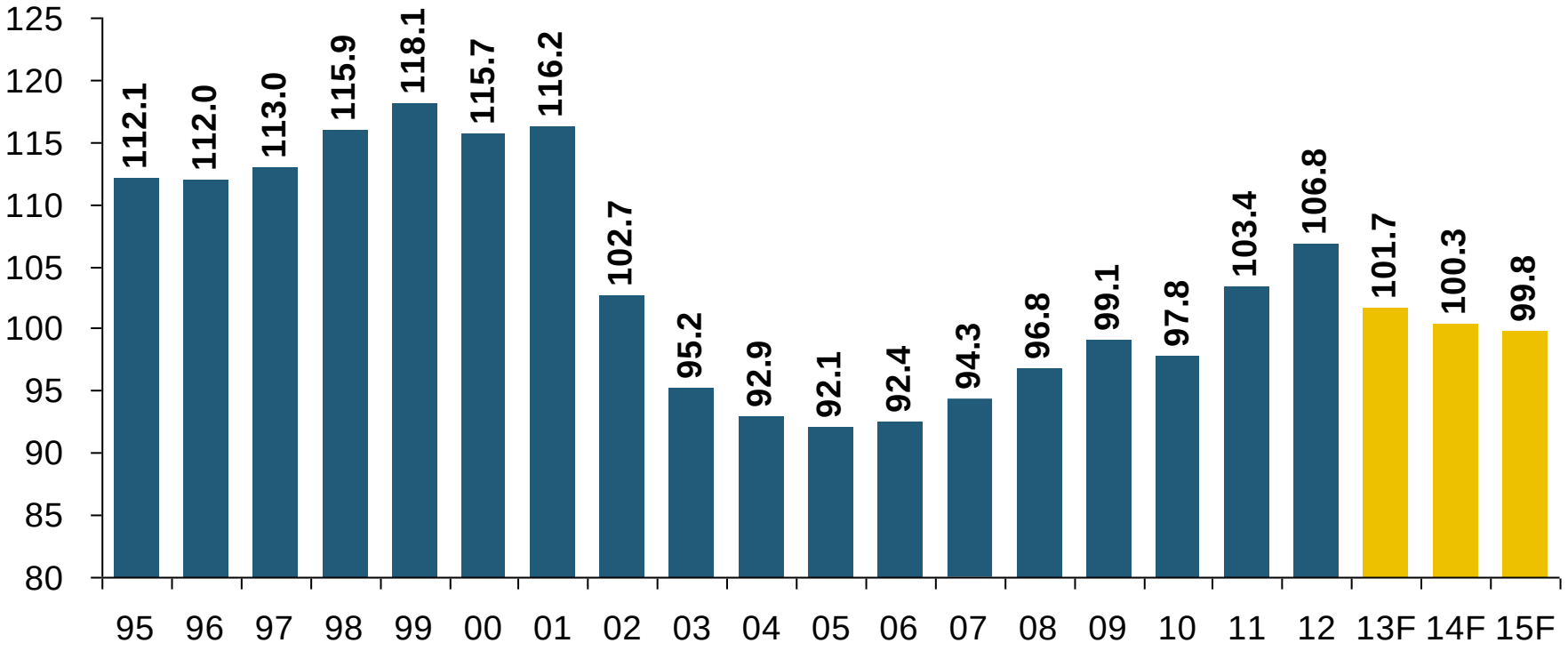

Sources: SNL Financial; Insurance Information Institute.

# Commercial Lines Combined Ratio, 1990-2015F*




*2007-2012 figures exclude mortgage and financial guaranty segments.
Source: A.M. Best (1990-2012); Conning (2013F-2015F) Insurance Information Institute

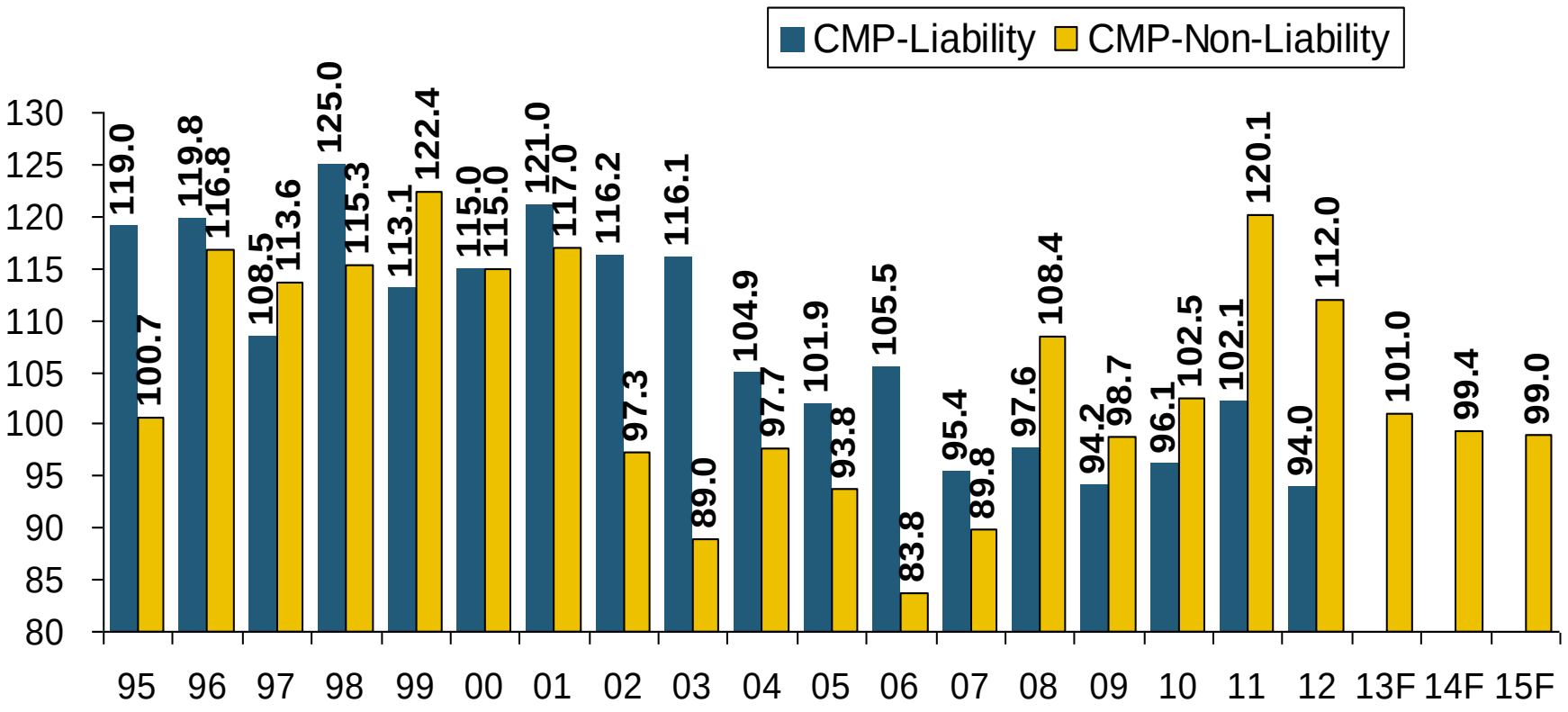
# Commercial Auto Combined Ratio: 1993–2015F




**Commercial Auto is Expected to Improve as Rate Gains Outpace Any Adverse Frequency and Severity Trends**

Sources: A.M. Best (1990-2012);Conning (2013F-2015F); Insurance Information Institute.

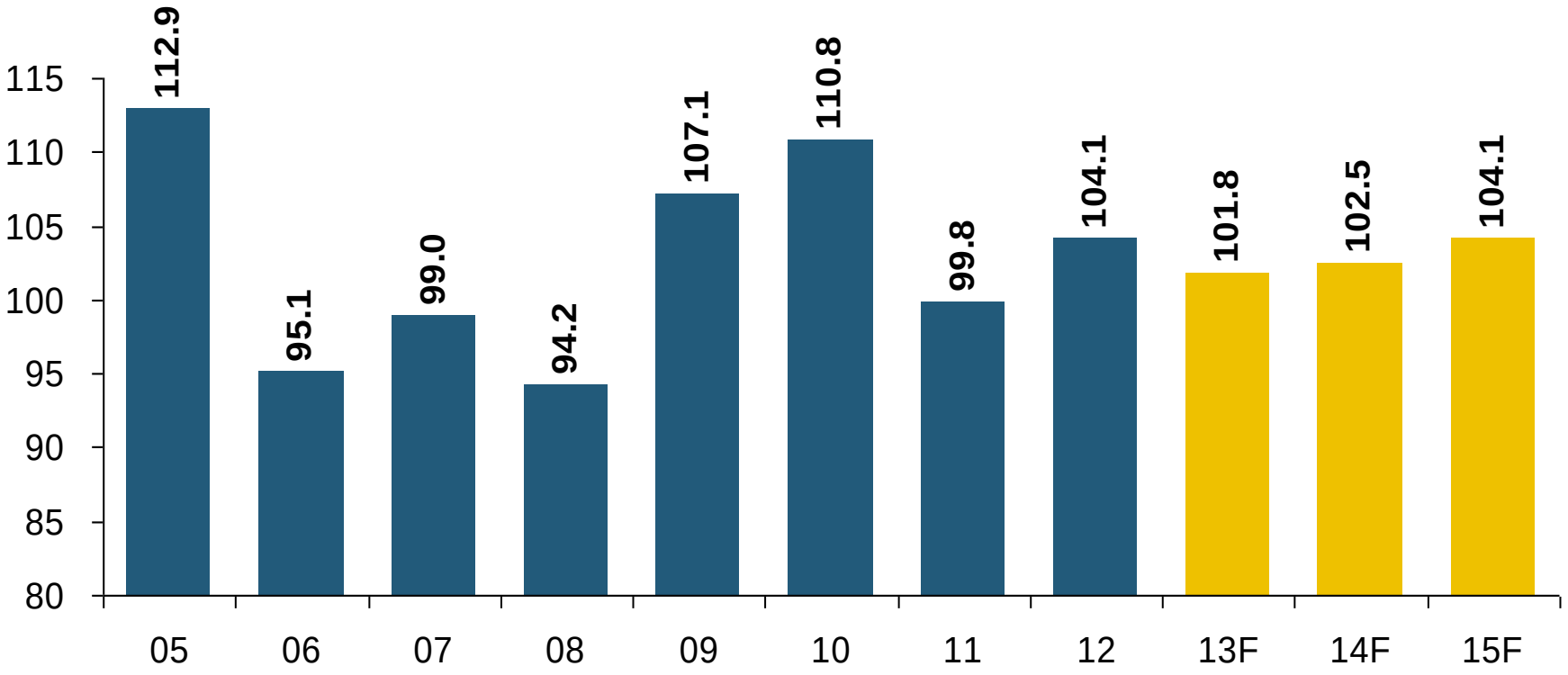
# Commercial Multi-Peril Combined Ratio: 1995–2015F




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

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

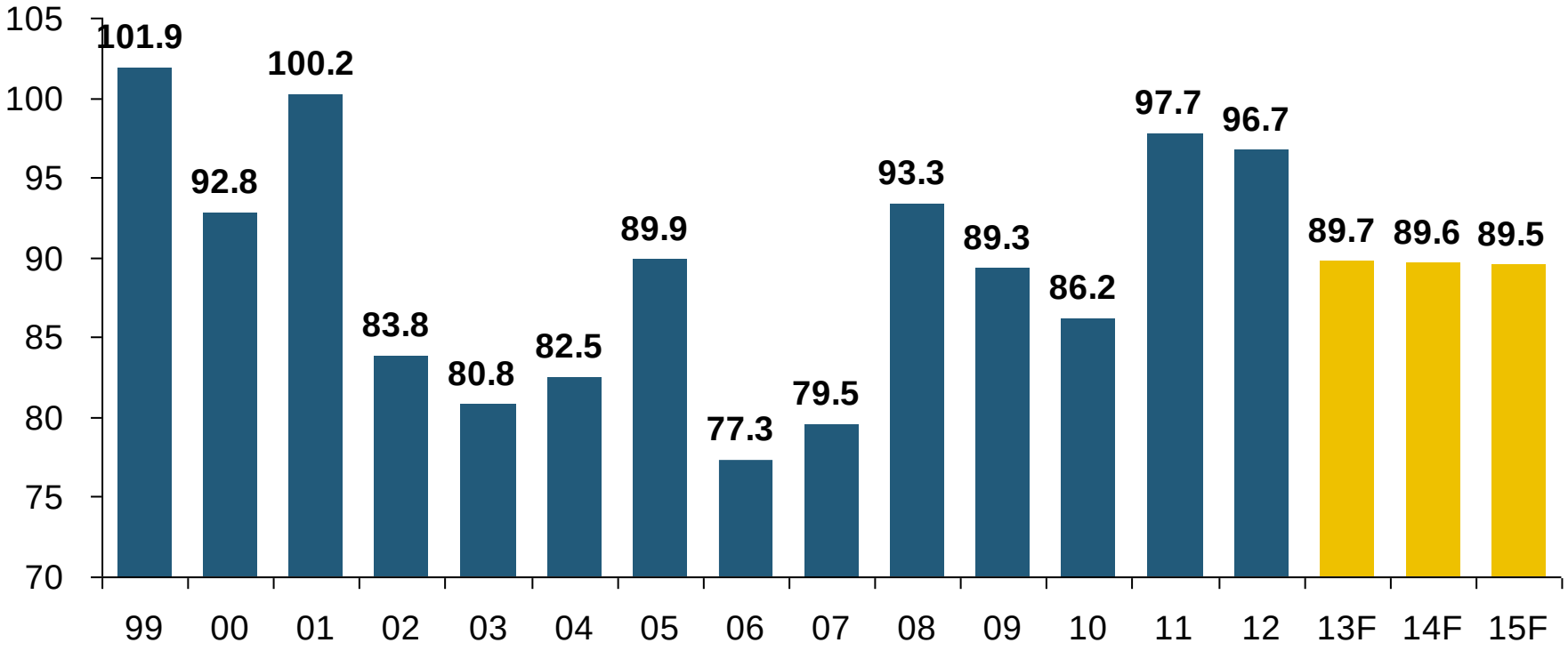
# General Liability Combined Ratio: 2005–2015F




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

Source: Conning Research and Consulting.

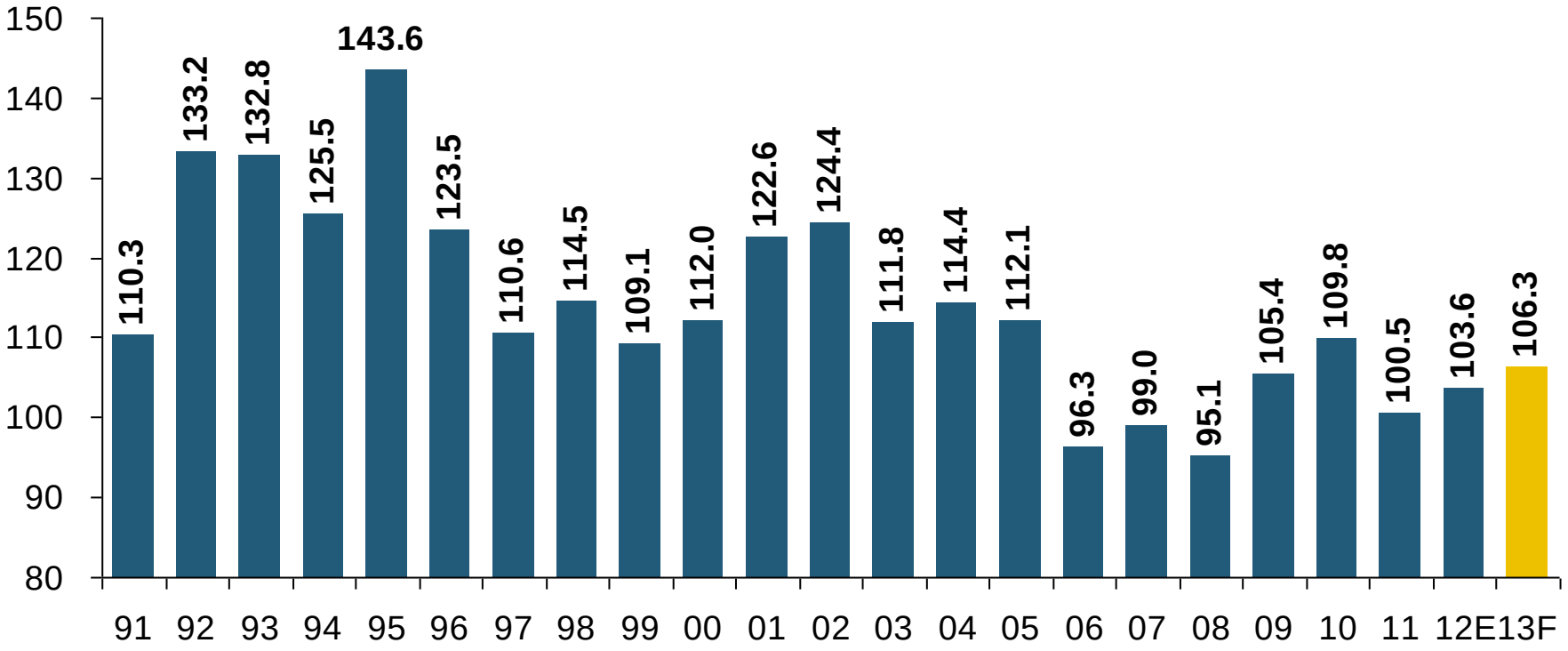
# Inland Marine Combined Ratio: 1999–2015F




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

Sources: A.M. Best (1999-2011); Conning (2012-2015F)

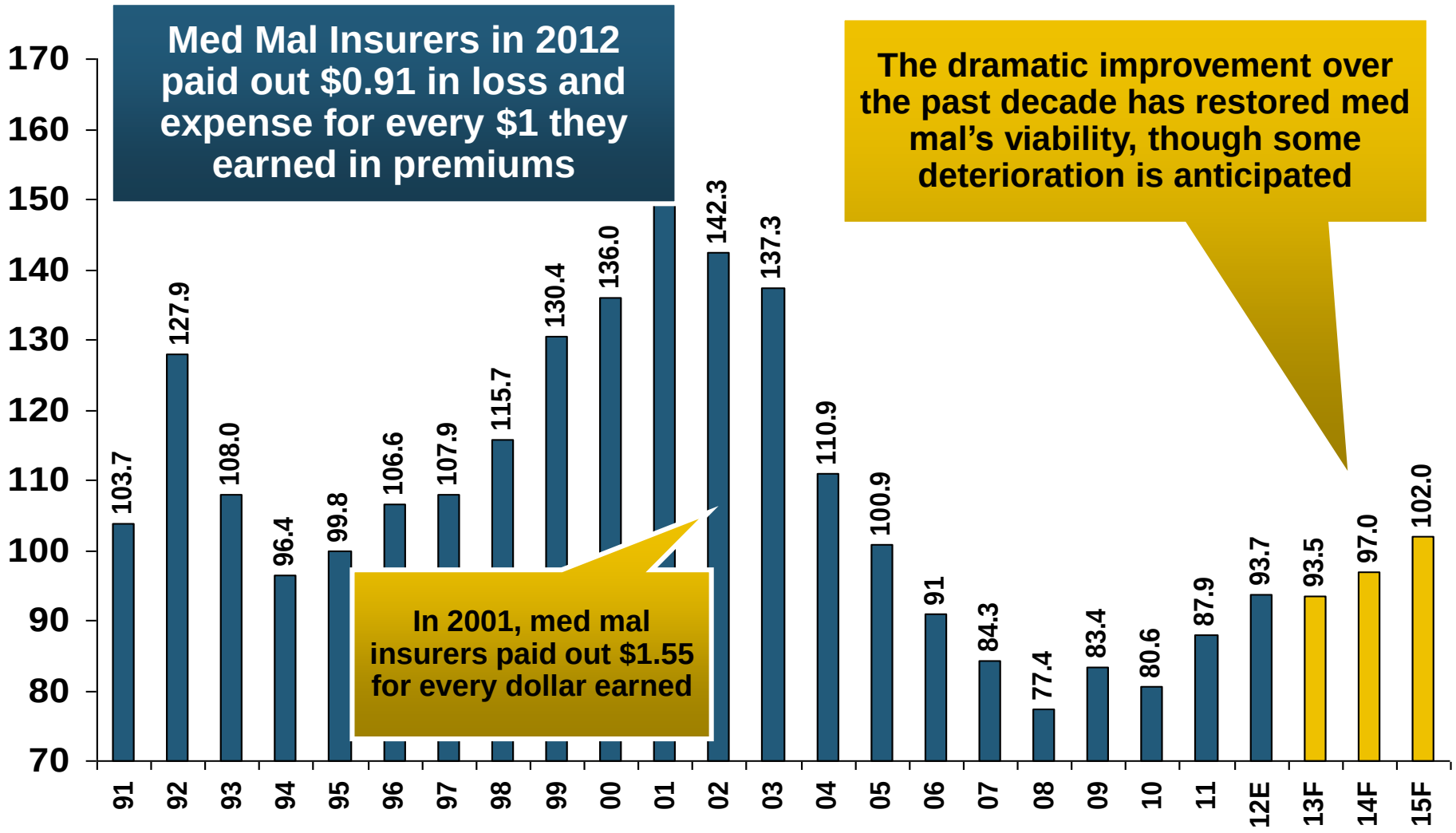
# Other & Products Liability Combined Ratio: 1991–2013F




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

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

# Medical Malpractice Combined Ratio vs. All Lines Combined Ratio, 1991-2015F




Source: AM Best (1991-2011); Conning (2012E-2015F) Insurance Information Institute

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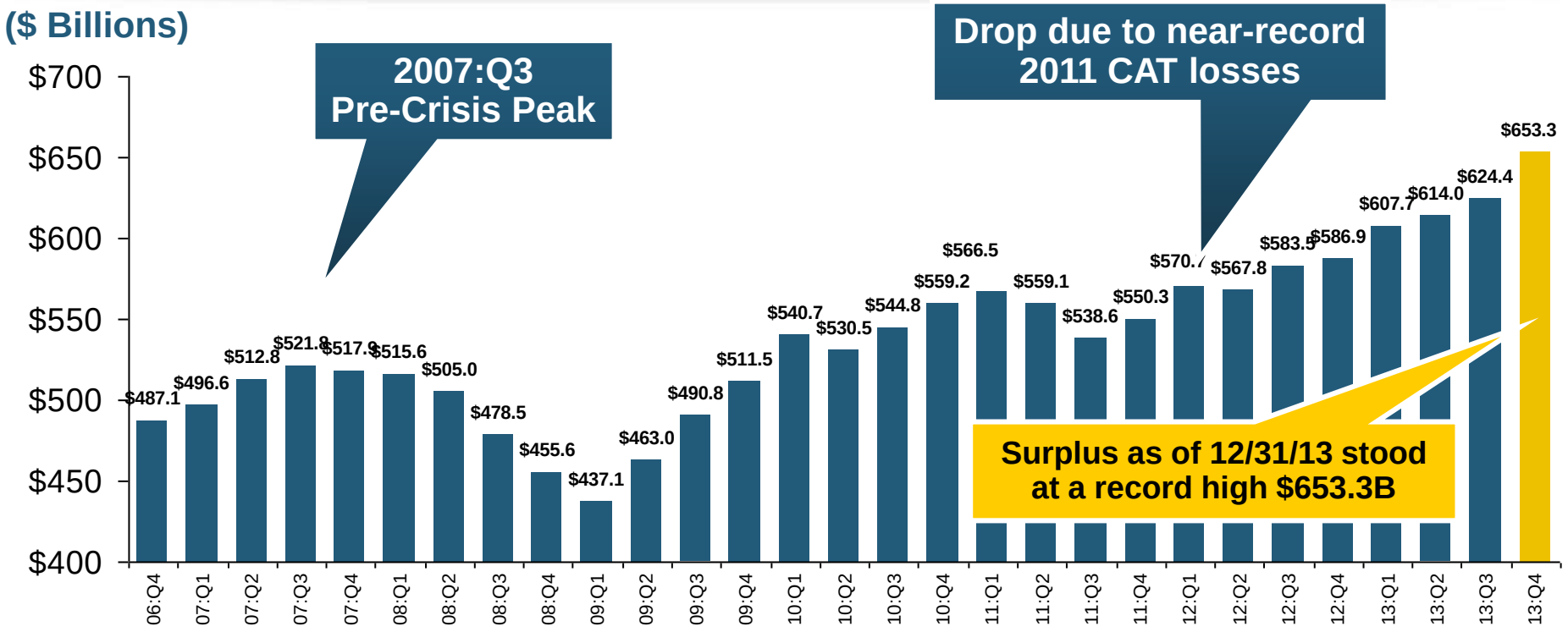
# SURPLUS/CAPITAL/CAPACITY

## 2013 Recorded Yet Another Record High in the Primary and Reinsurance Sectors

# Policyholder Surplus, 2006:Q4–2013:Q4




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

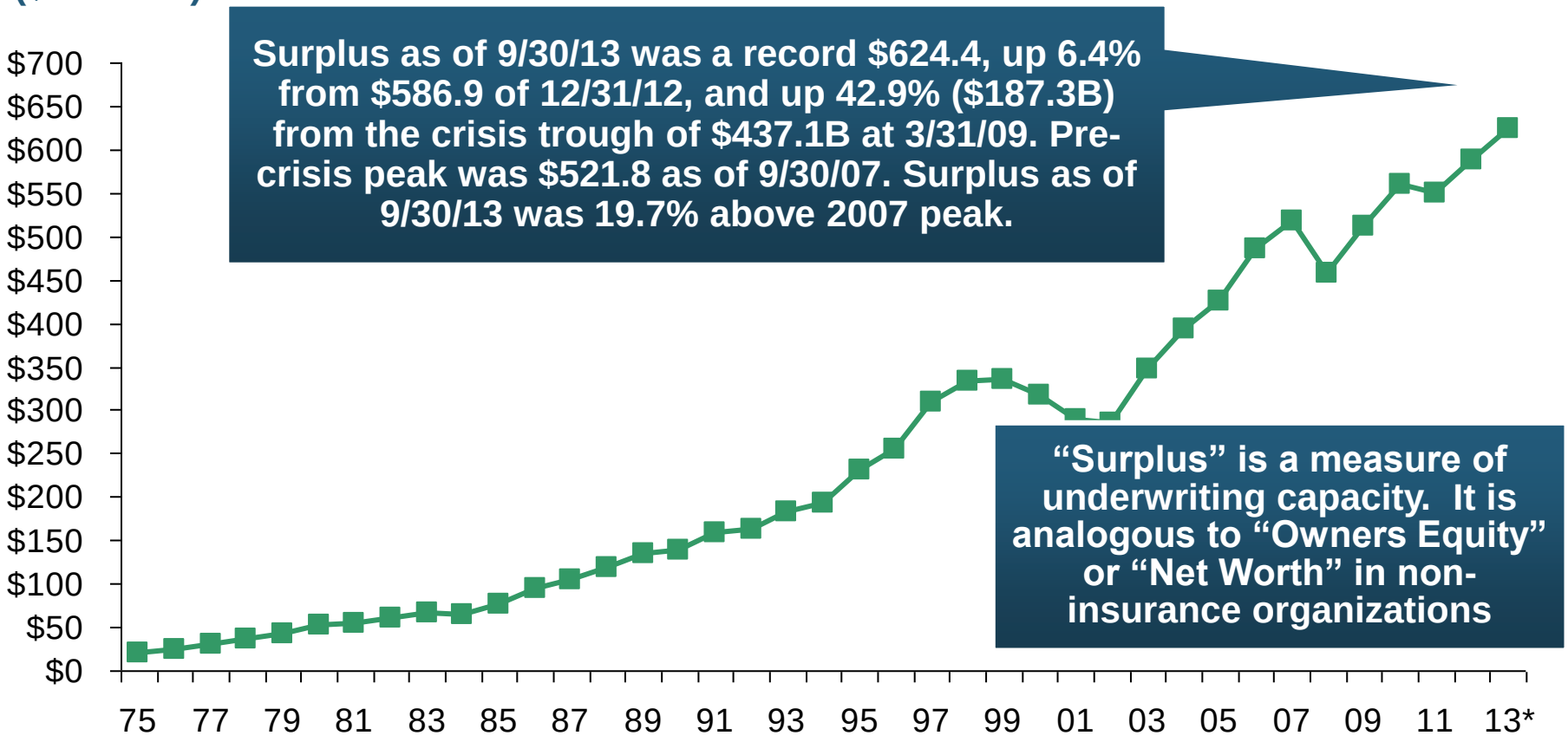
2010:Q1 data includes $22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business .

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

Sources: ISO, A.M .Best.

# US Policyholder Surplus: 1975–2013*

($ Billions)




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

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

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

* As of 9/30/13.

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

# U.S. INSURANCE MERGERS AND ACQUISITIONS, 2002-2012 (1)

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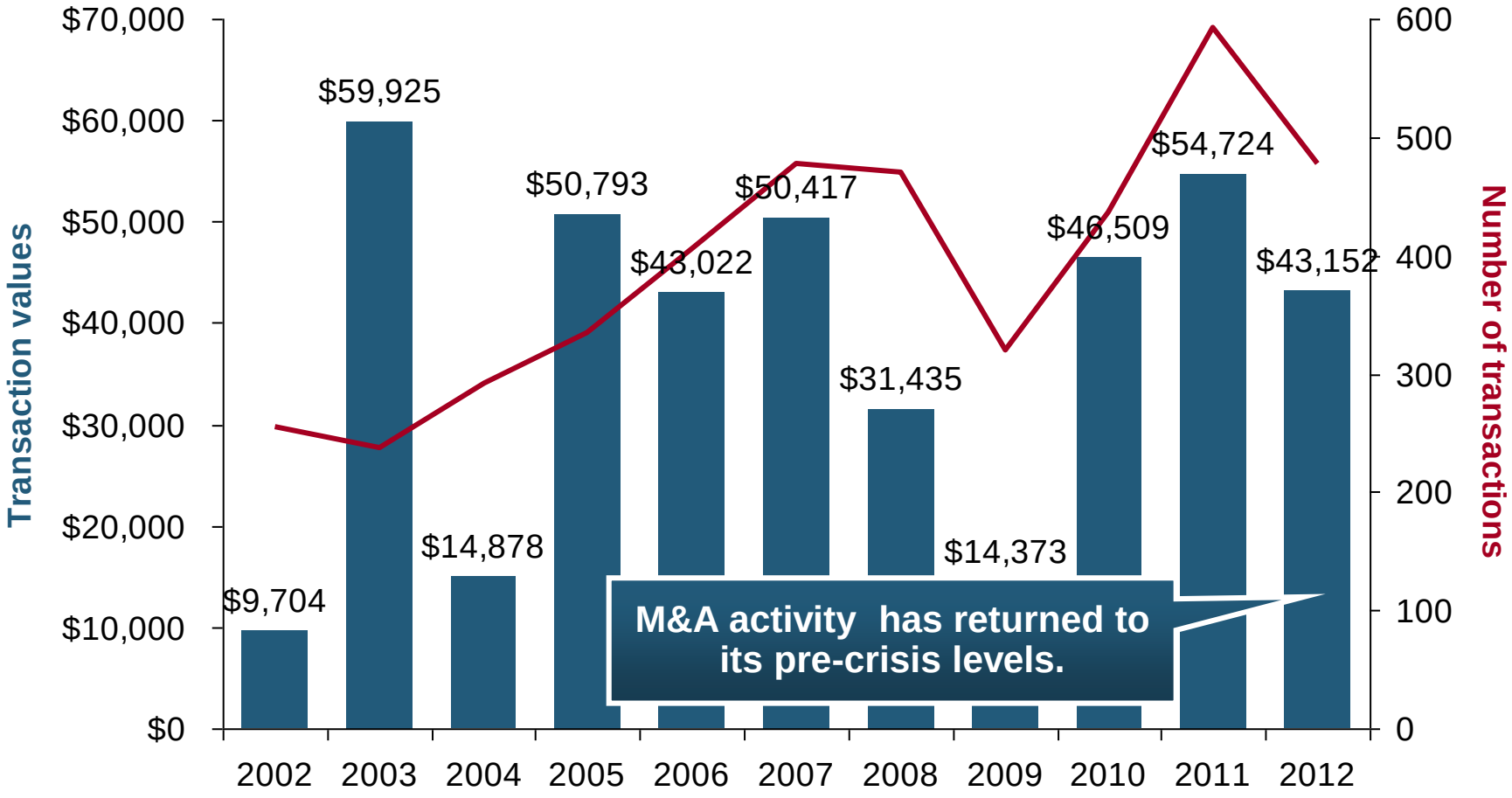
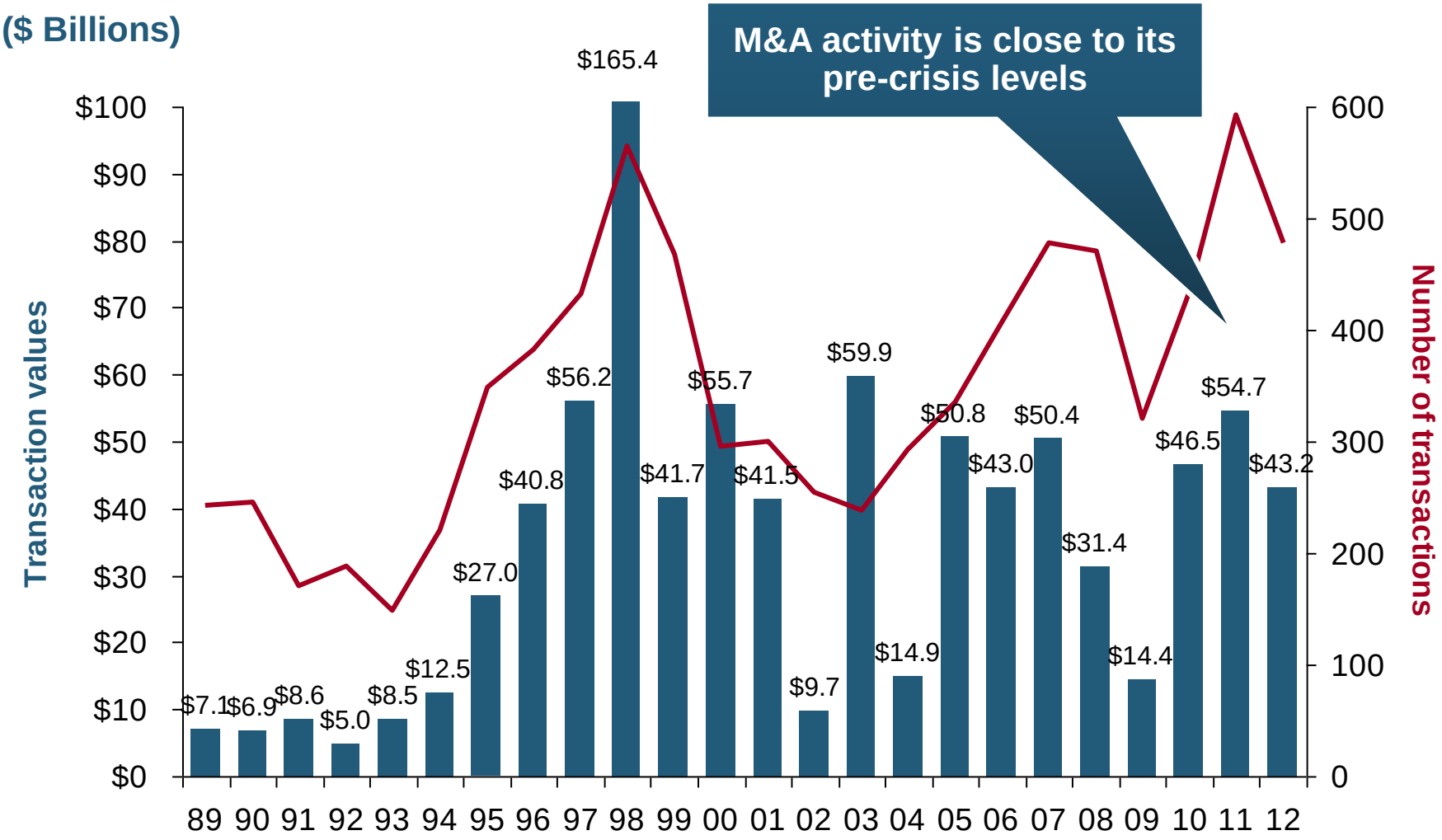
($ Millions)




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

Source: Conning proprietary database.

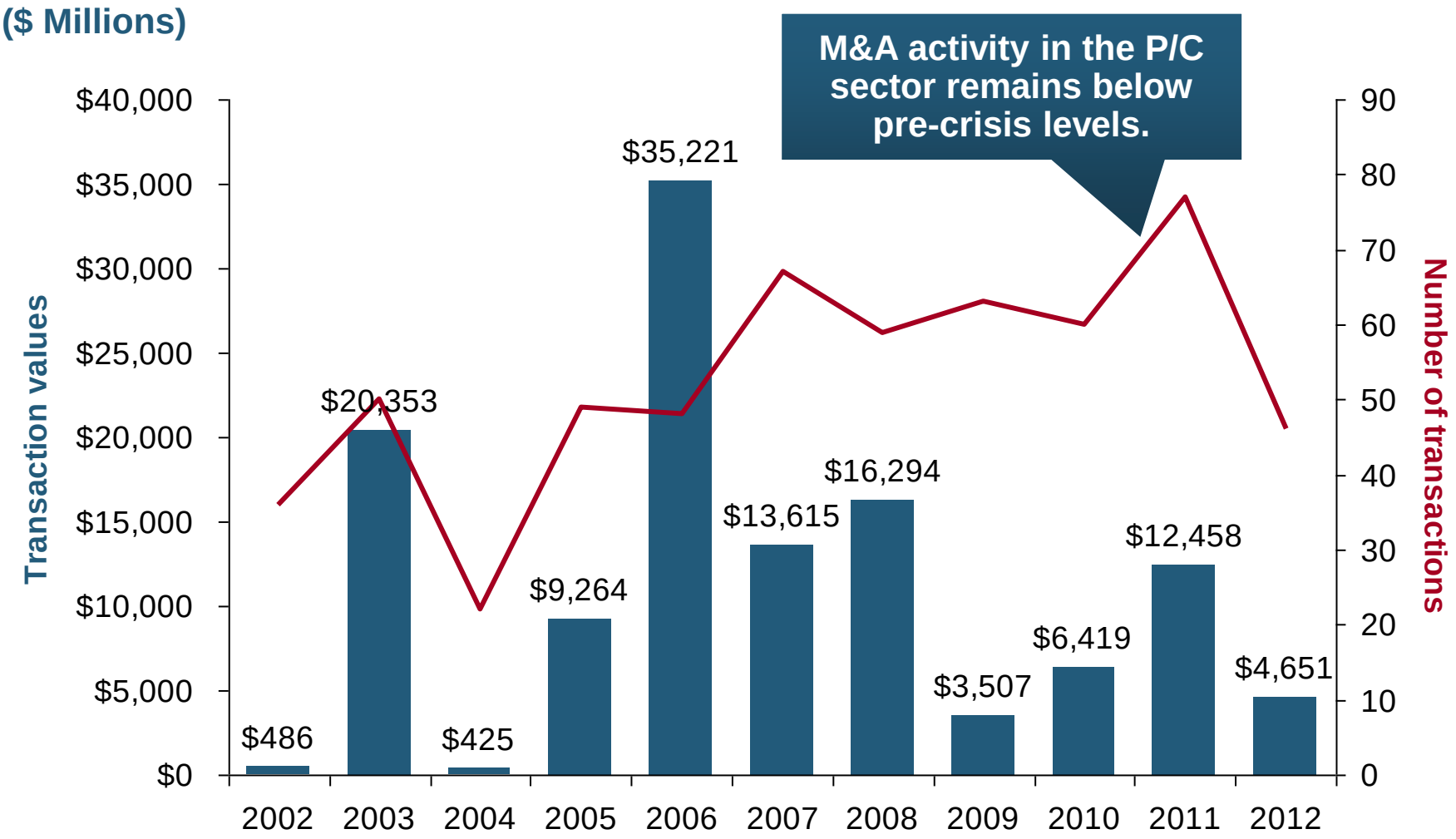
# U.S. INSURANCE MERGERS AND ACQUISITIONS, All Sectors, 1989-2012 (1)




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

Source: Conning proprietary database.

# U.S. INSURANCE MERGERS AND ACQUISITIONS, P/C SECTOR, 2002-2012 (1)




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

Source: Conning proprietary database.

# U.S. INSURANCE MERGERS AND ACQUISITIONS, LIFE/ANNUITY SECTOR, 2002-2012 (1)

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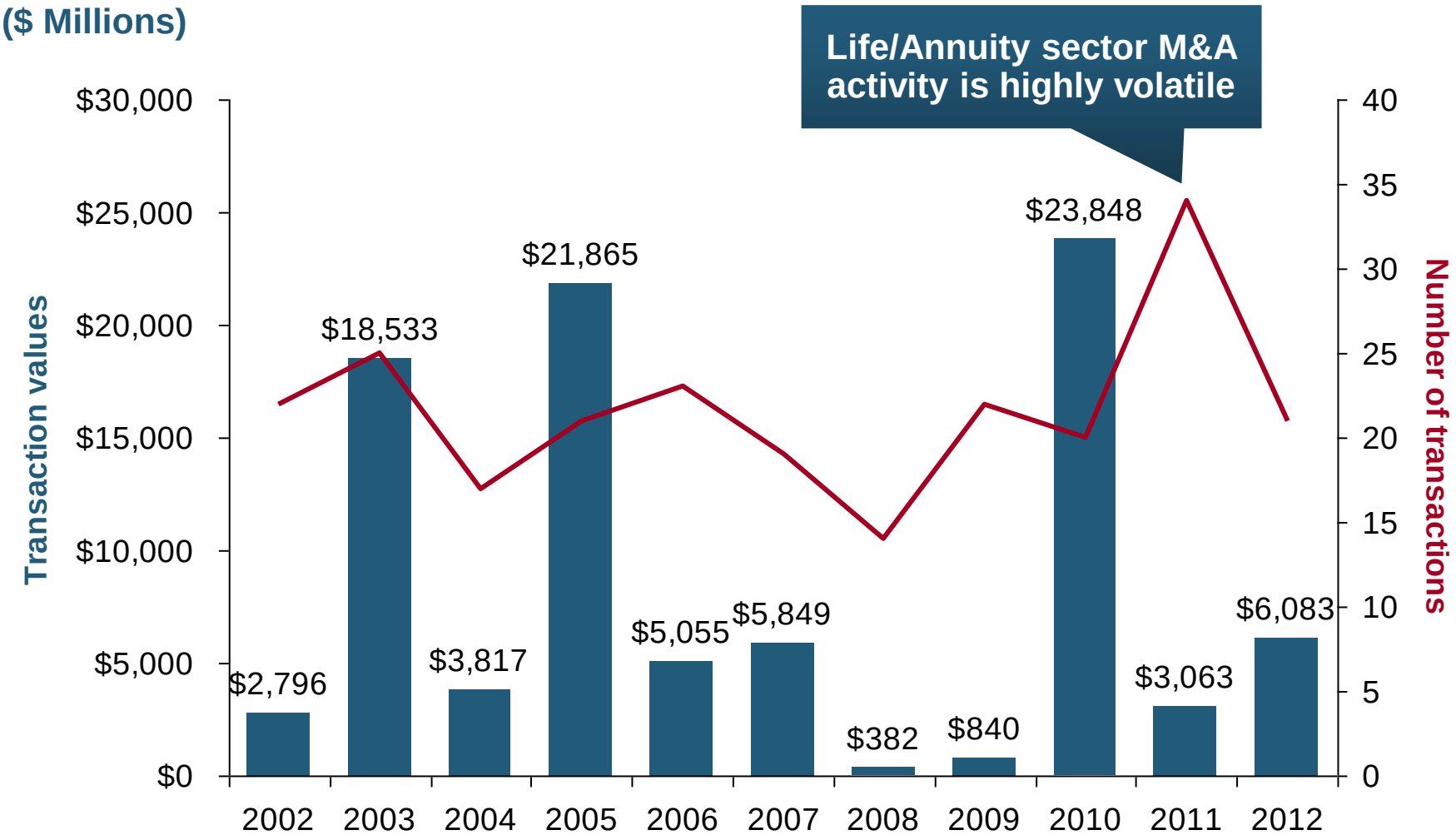


(1) Includes transactions where a U.S. company was the acquirer and/or the target.

Source: Conning proprietary database.

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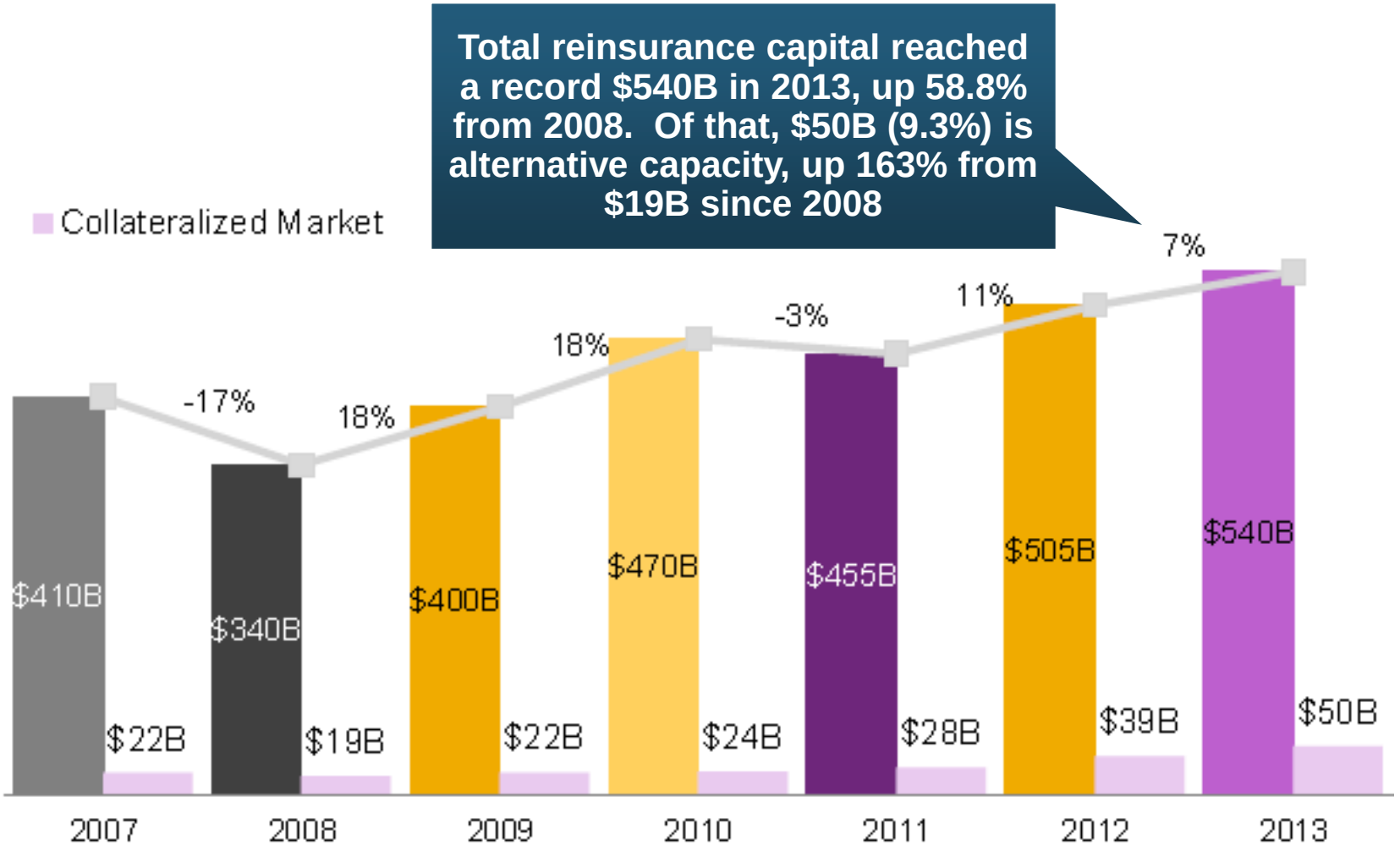
# REINSURANCE MARKET CONDITIONS

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

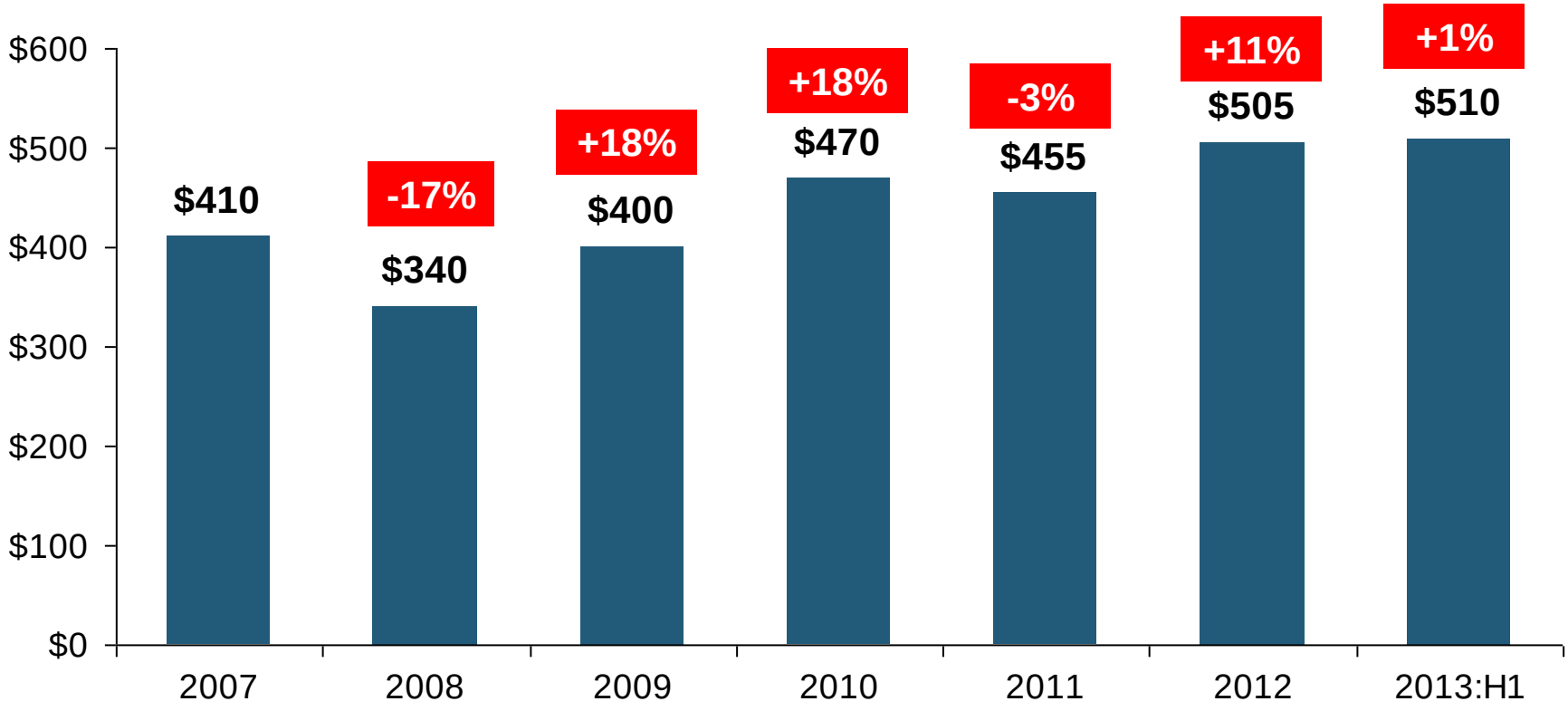
# Global Reinsurance Capital (Traditional and Alternative), 2007 - 2013




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

# Global Reinsurer Capital, 2007-2013:H1*

($ Billions)

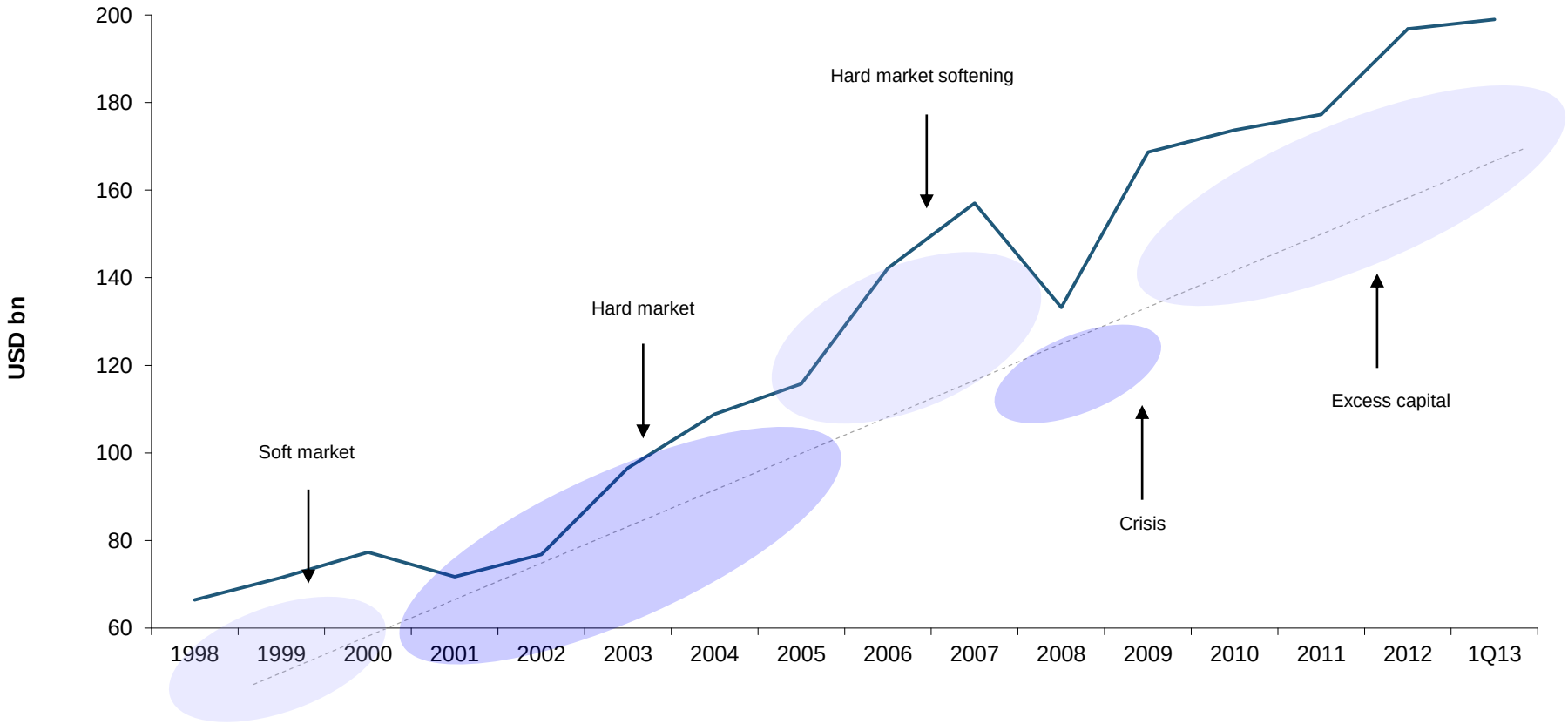



**Global Reinsurance Capital Has Been Trending Generally Upward Since the Global Financial Crisis, a Trend that Seems Likely to Continue**

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

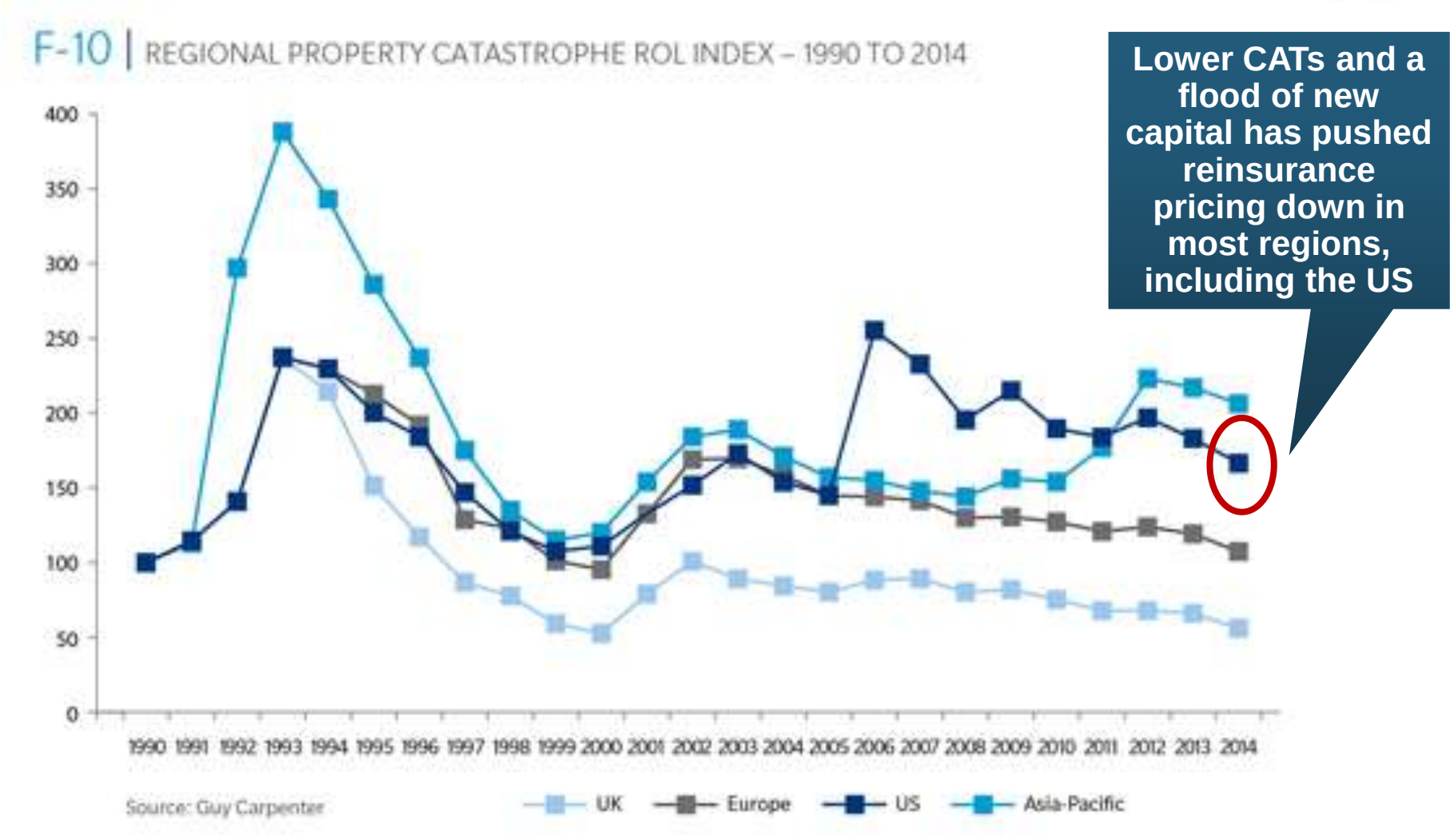
Source: Aon Benfield Aggregate study for the 6 months ending June 2013; Insurance Information Institute.

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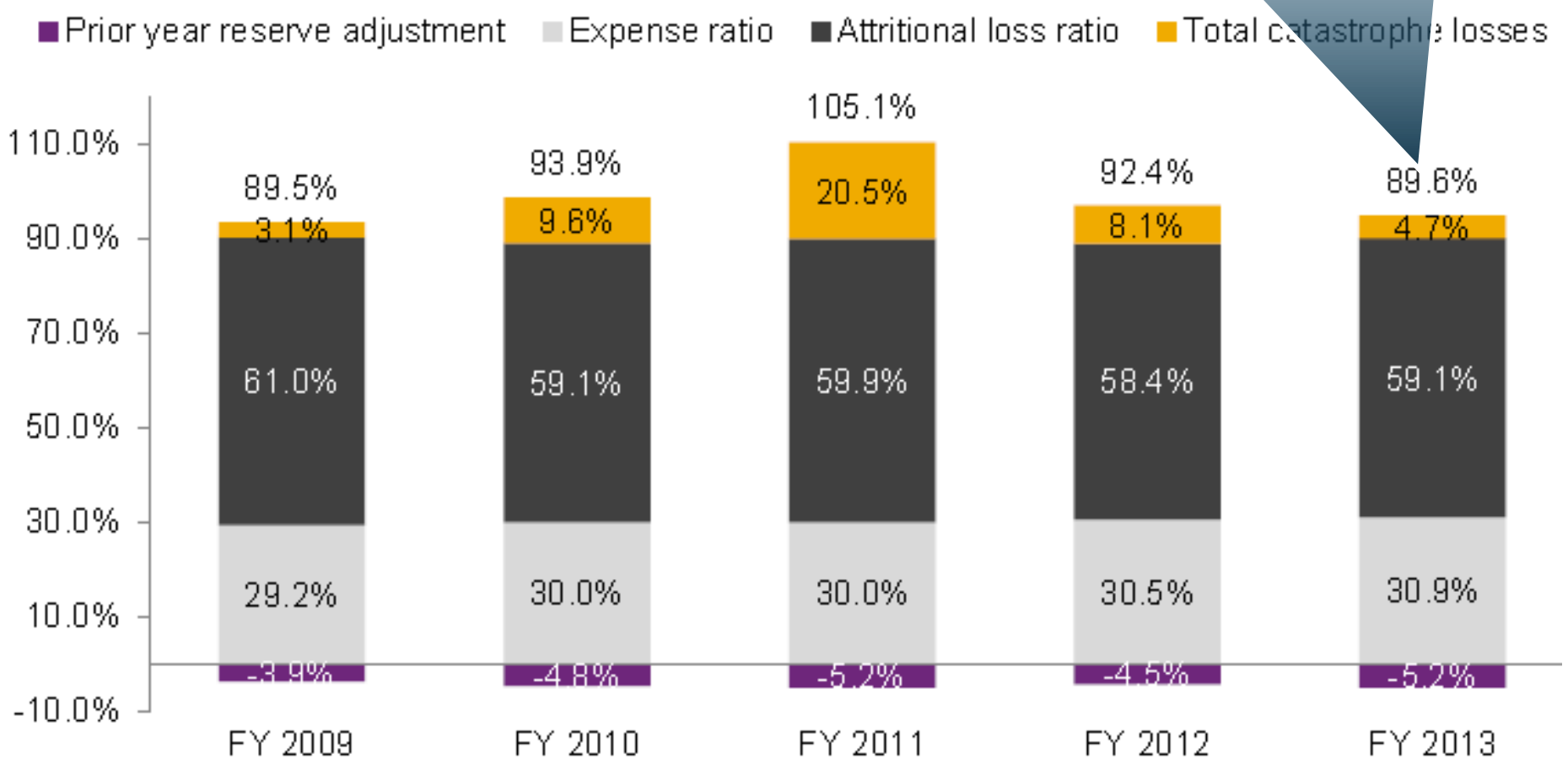
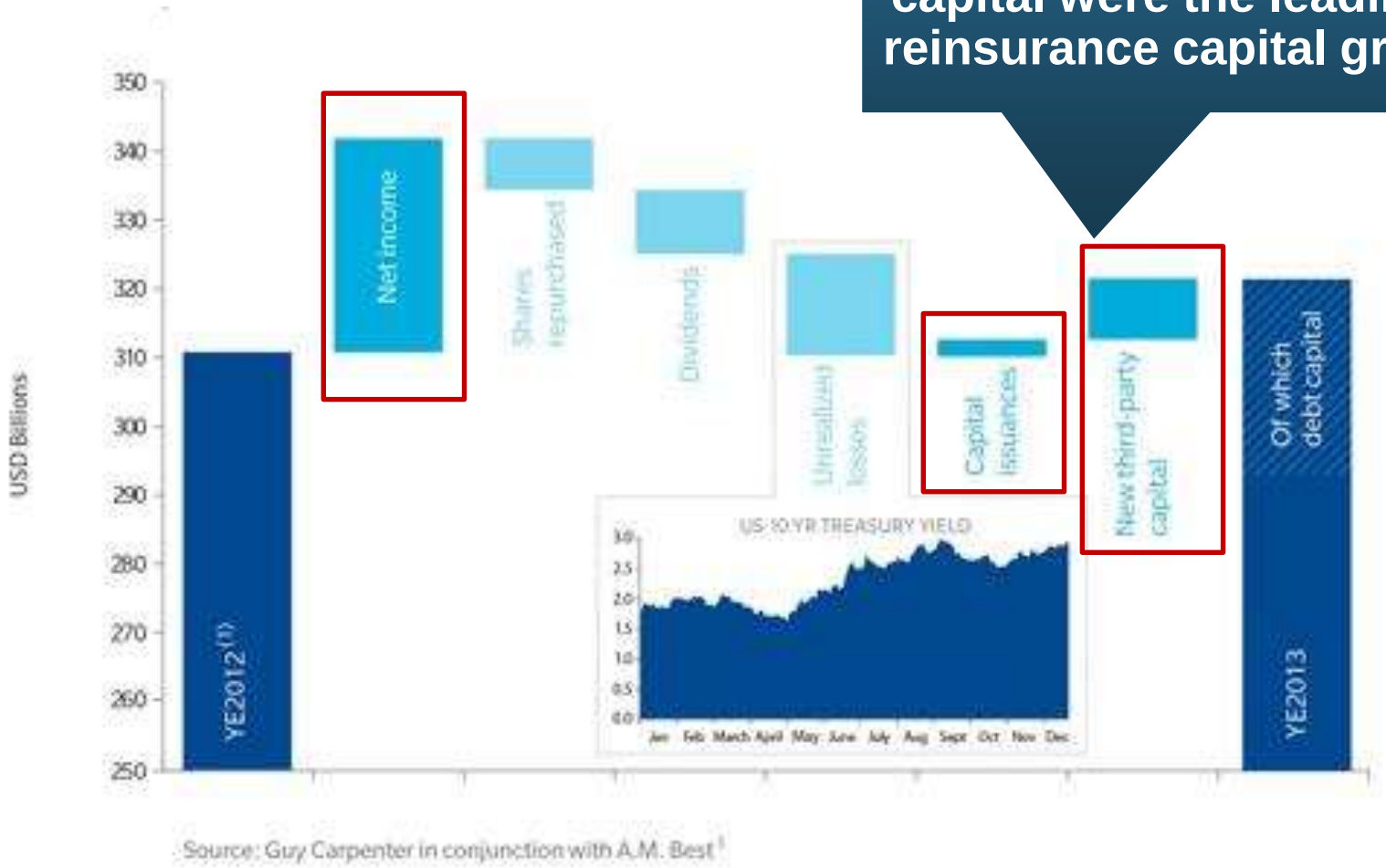
**Reinsurers posted a combined under 90 in 2013, the best result since 2009**




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

# Sources of Reinsurance Capital Change: YE 2012 to YE 2013

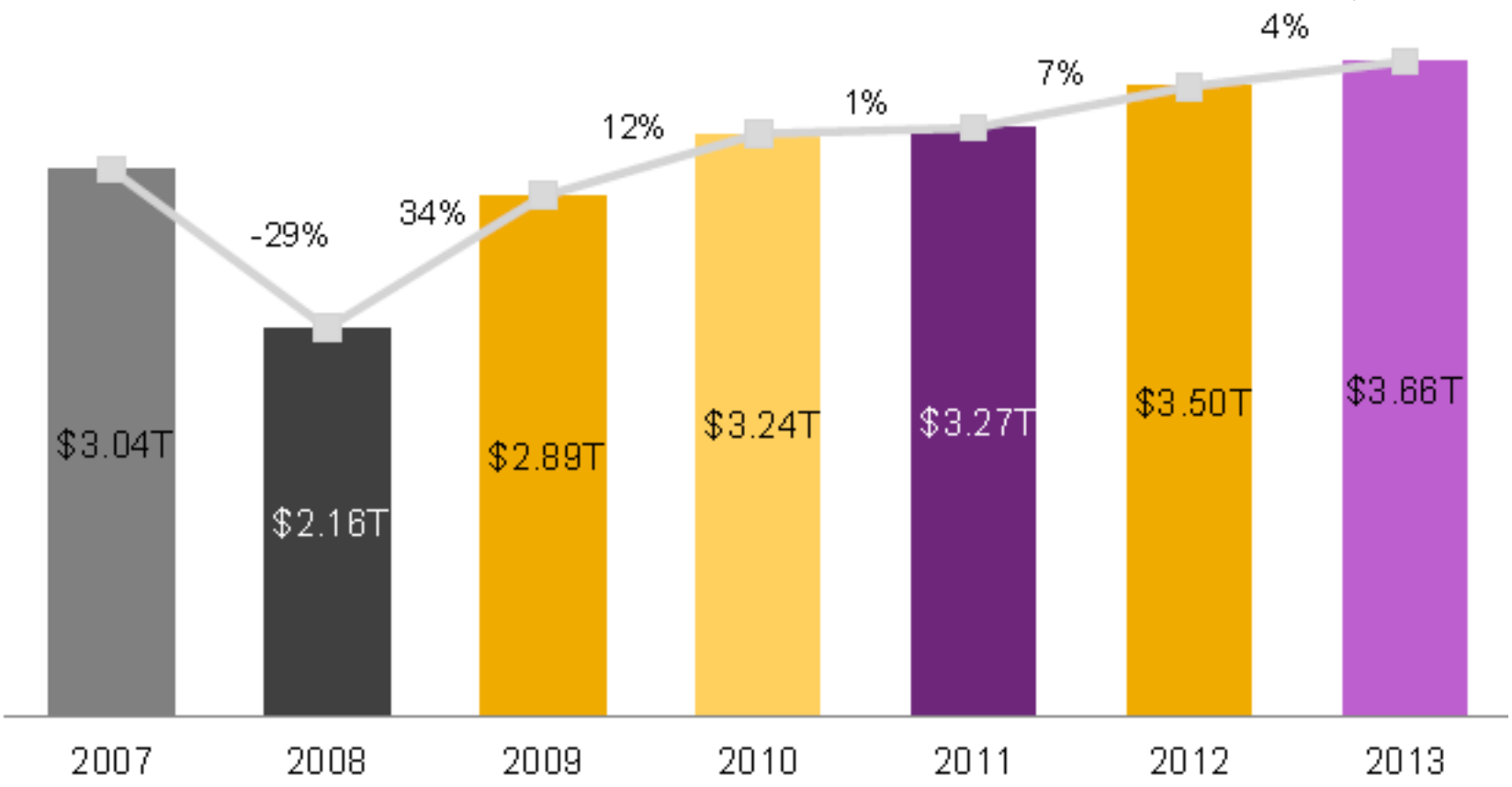
**Net income and new 3rd party capital were the leading source of reinsurance capital growth in 2013**




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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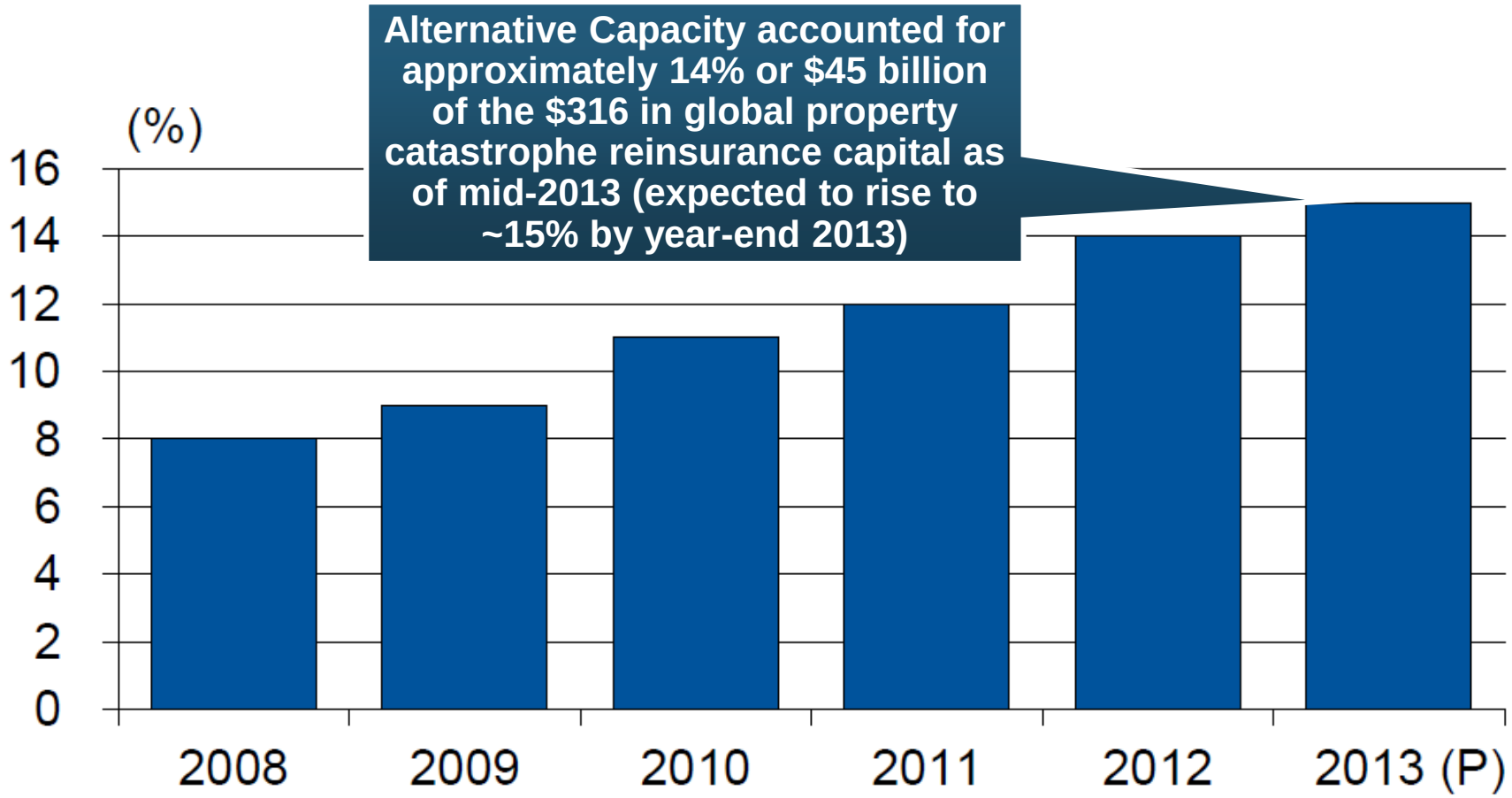
(As of Year End)




Source: Guy Carpenter

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

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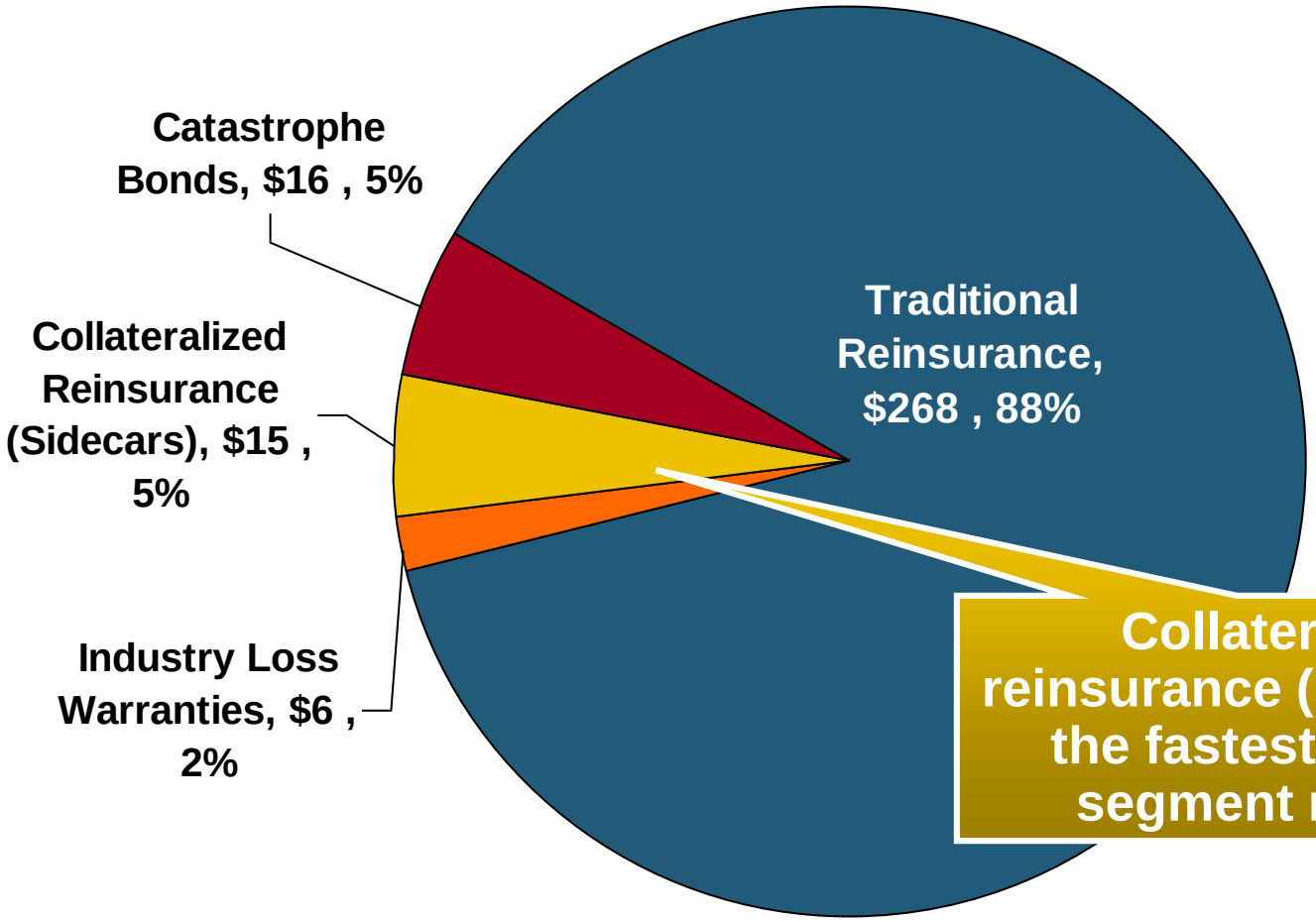
## Total = $316 Billion*

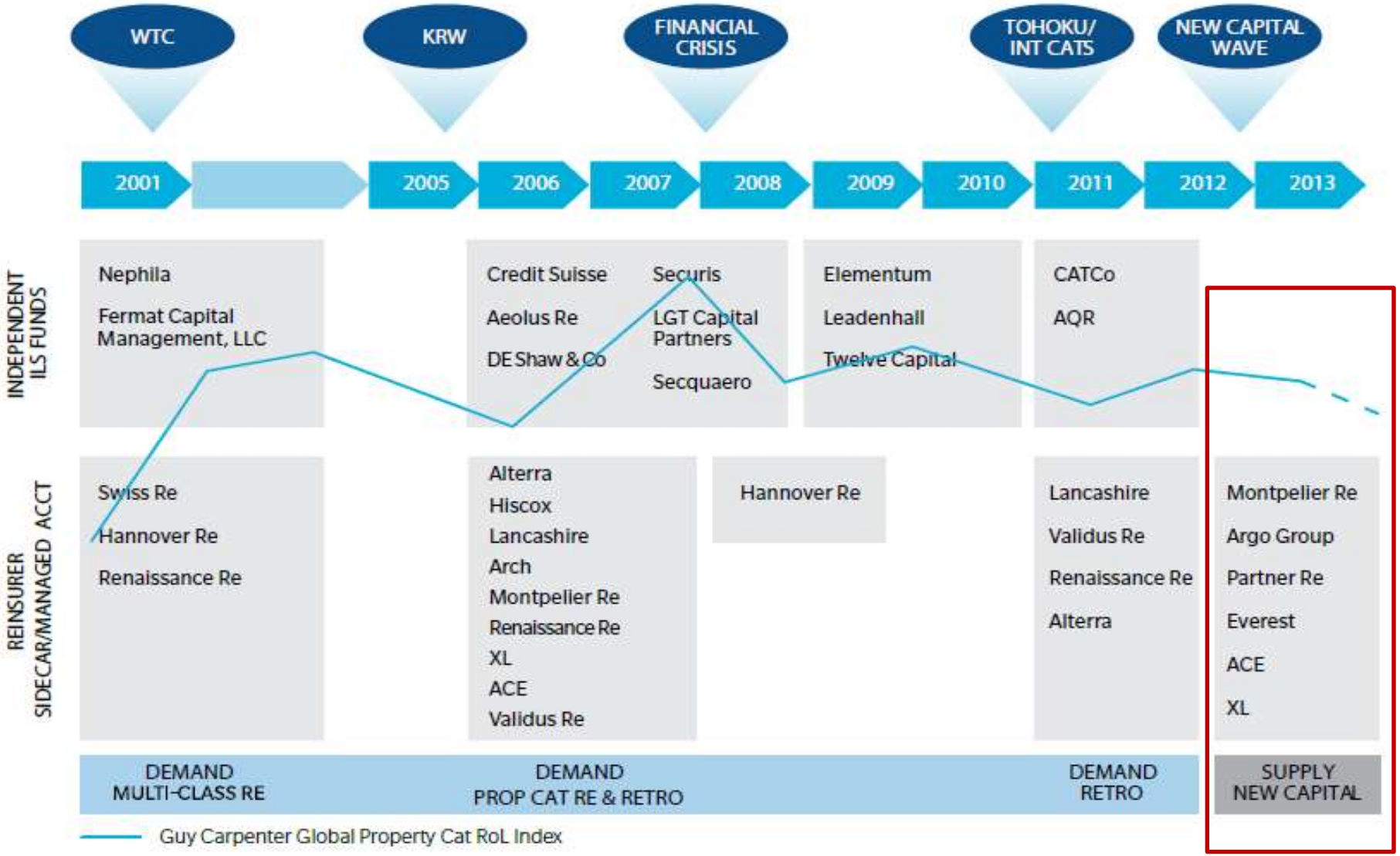



"Convergence Capital" accounted for an estimated $45B or 14% or total property catastrophe reinsurance capacity as of mid-2013, up $10B over the past 18 months (since 1/1/12). Penetration of this type of capacity is growing

Collateralized reinsurance (sidecars) is the fastest growing segment recently

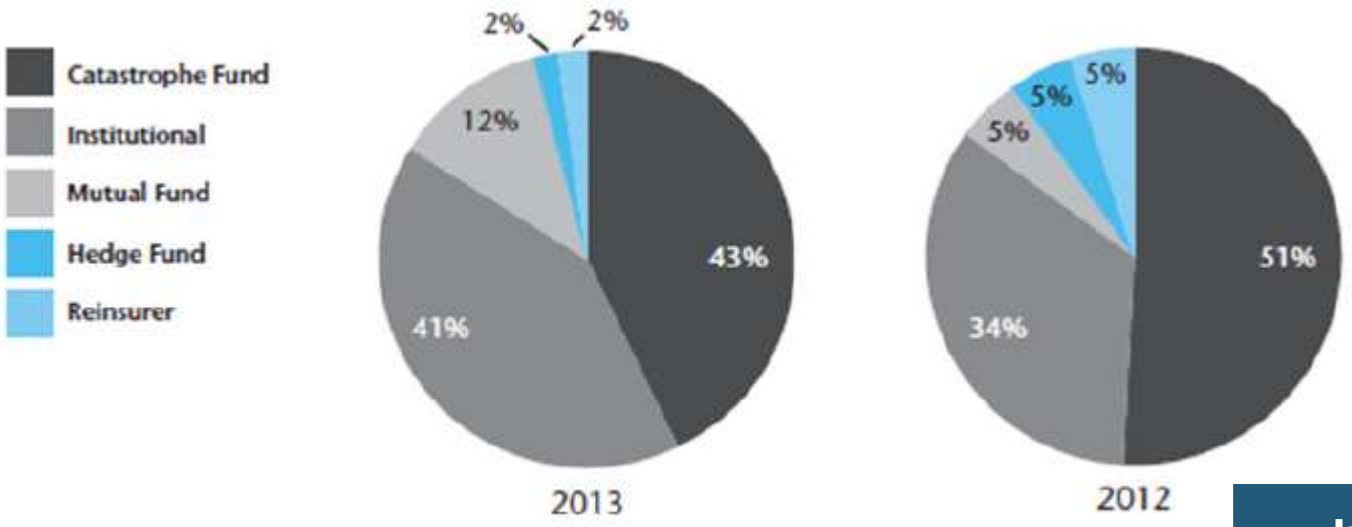
Source: Guy Carpenter; *Mid-Year Market Report,* September 2013; Insurance Information Institute.

# 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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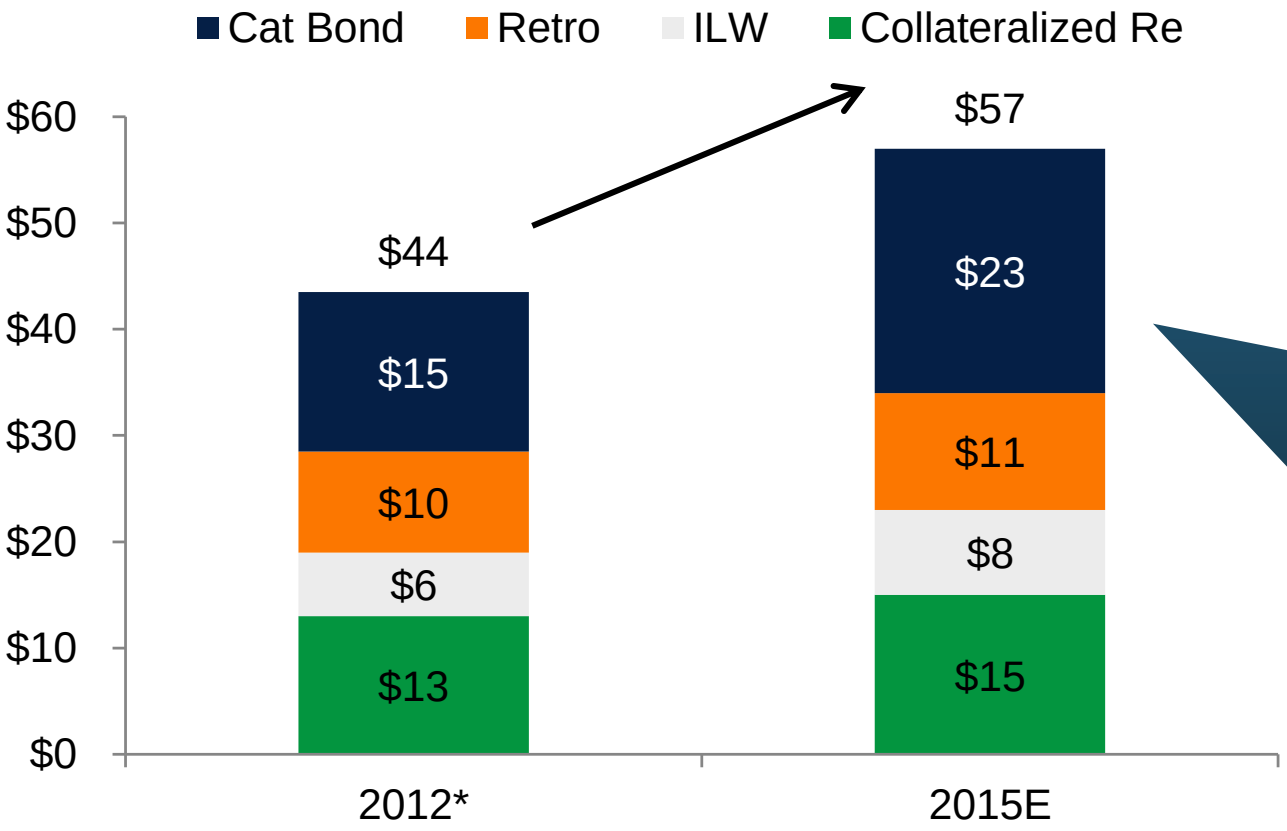
## NON-TRADITIONAL P/CAT LIMITS BY TYPE



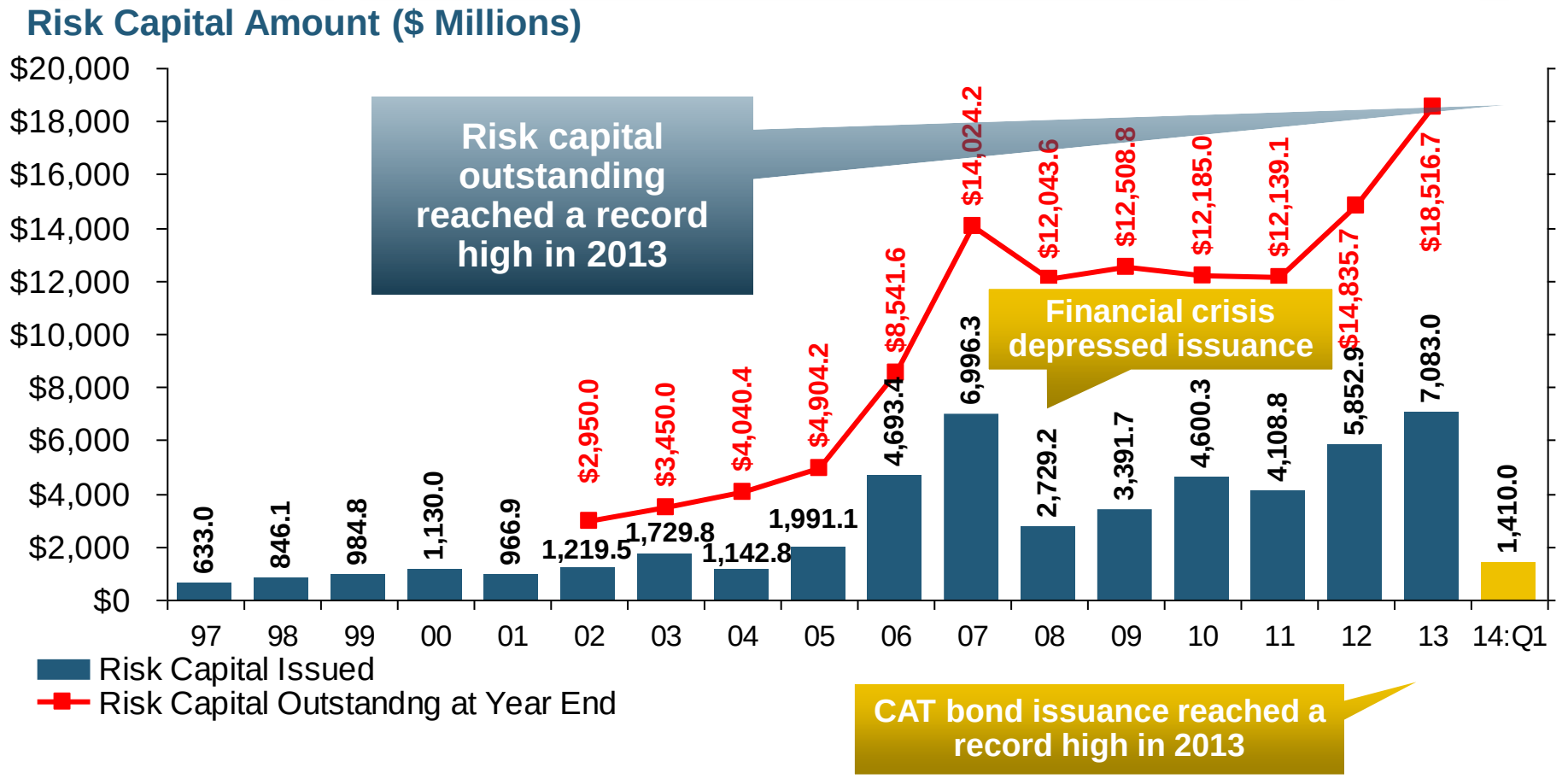

**Alternative capital is expected to rise by 30% by YE 2015 and will ultimately account for 20-30% of total reinsurance spend, according to Guy Carpenter**

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*

INSURANCE INFORMATION INSTITUTE




**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.

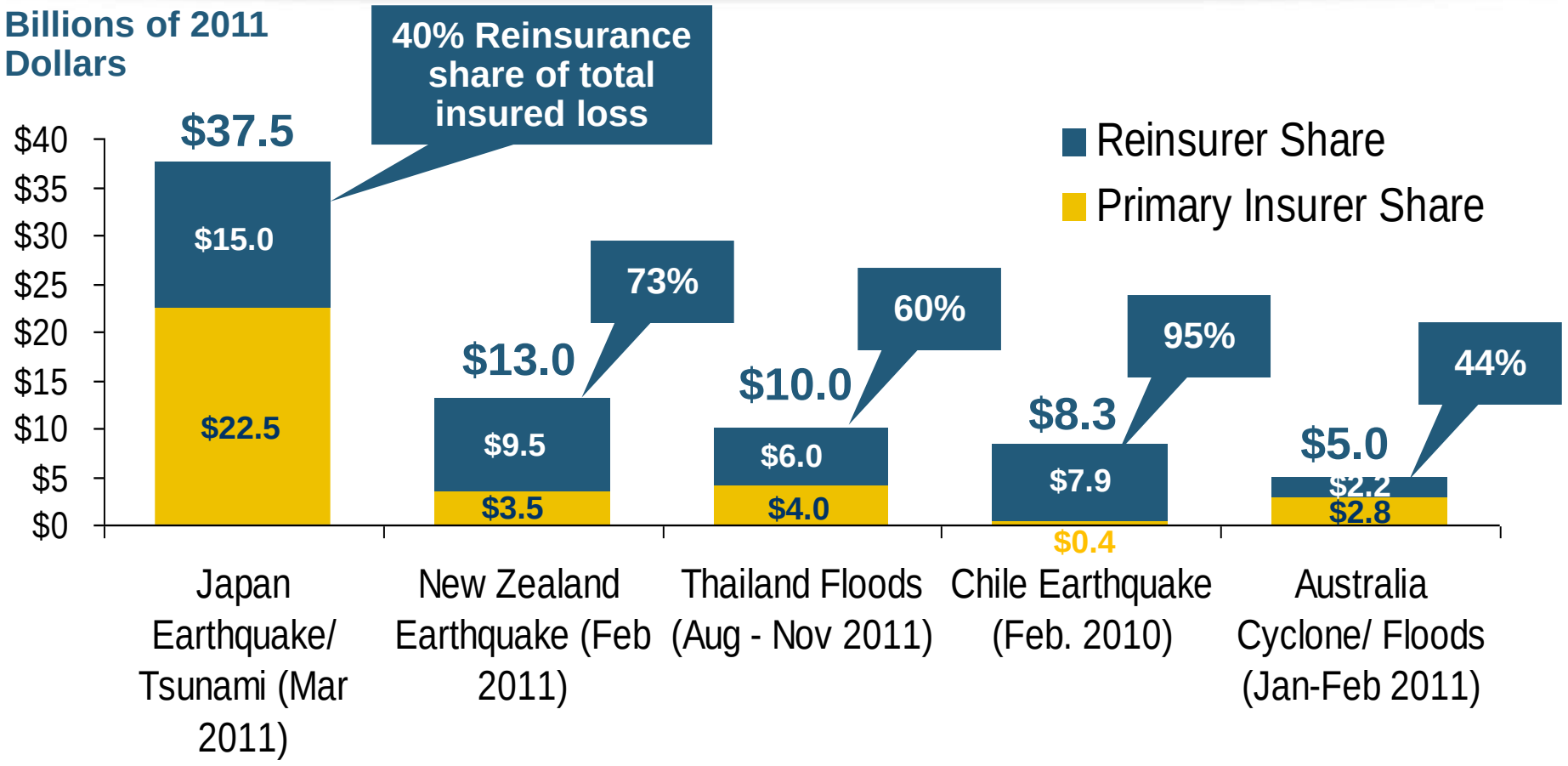
# Questions Arising from Influence of Alternative Capital

- **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***

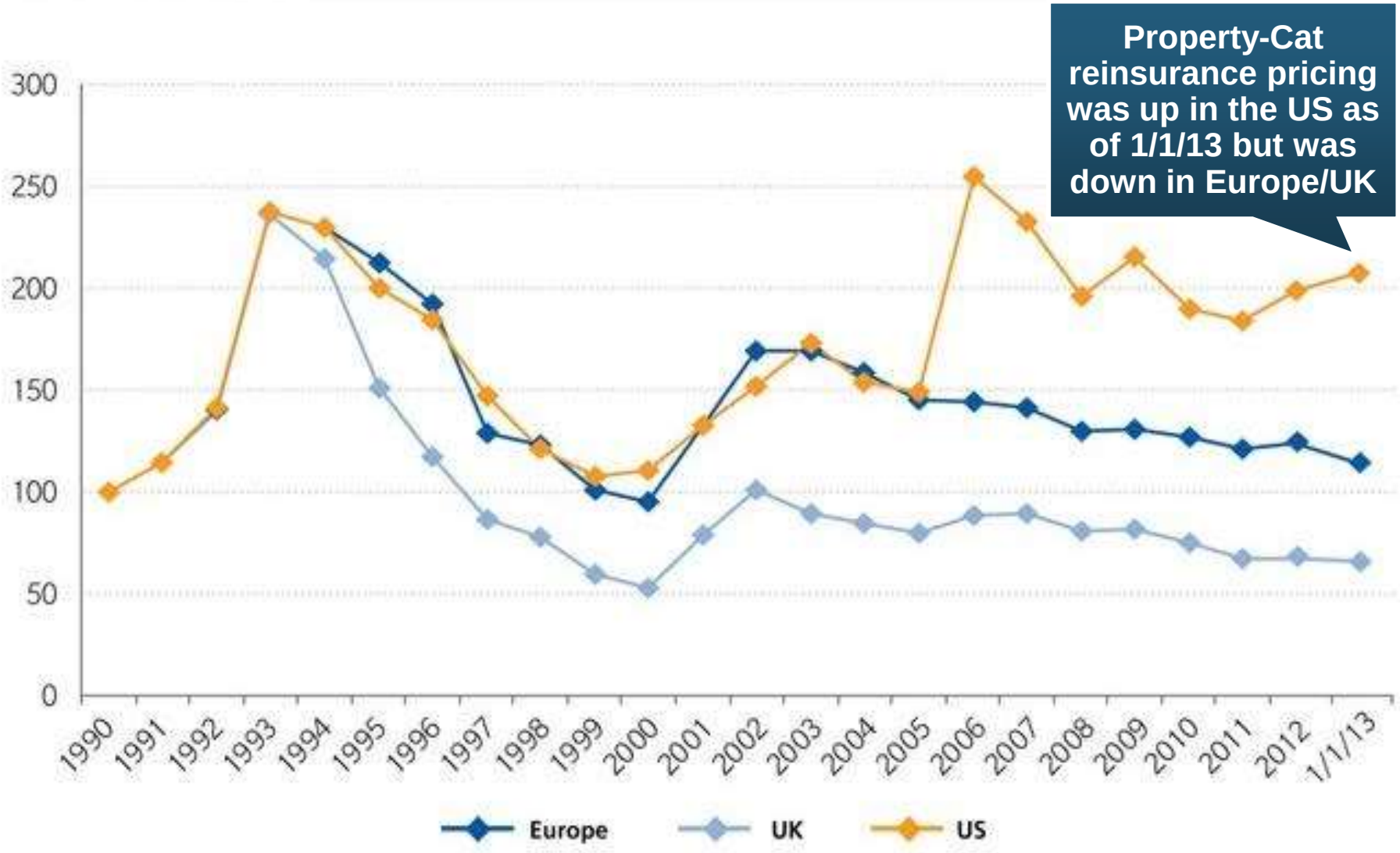
# Reinsurer Share of Recent Significant Market Losses




**Reinsurers Paid a High Proportion of Insured Losses Arising from Major Catastrophic Events Around the World in Recent Years**

Source: Insurance Information Institute from reinsurance share percentages provided in RAA, ABIR and CEA press release, Jan. 13, 2011.

# Regional Property Catastrophe Rate on Line Index, 1990—2013 (as of January 1)




Sources: Guy Carpenter; Insurance Information Institute.

# Alternative Capital: Important Definitions

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**Alternative Reinsurance Market**

Alternative reinsurance is effectively any form of managing and transferring (re)insurance risk through the use of the capital markets rather than the traditional reinsurance market. These nontraditional structures commonly include catastrophe bonds (cat bonds), collateralized quota-share reinsurance vehicles (sidecars) and industry loss warranties (ILWs).

Alternatives to traditional reinsurance essentially began following Hurricane Andrew, with the introduction of exchange traded insurance options in 1992, the first cat bond in 1994, and later sidecars in 2001, following the events of Sept. 11, 2001. However, the market began to grow significantly following Hurricane Katrina in 2005, as (re)insurers were essentially forced to increase issuances of catastrophe bonds and expand the use of sidecars in order to absorb underwriting capacity as retrocession availability became more scarce and expensive.

***Catastrophe Bonds***

Cat bonds are bonds issued by an insurer with a condition that if the issuer suffers a catastrophe loss greater than a specified amount, the obligation to pay interest/principal is deferred or forgiven, thus effectively prompting a default on the bond. Cat bonds allow sponsors (most often a (re)insurer) to transfer a portion of its catastrophe risk to the capital markets through securities purchased by investors and actively traded in the secondary market.

Favorably for the sponsor, cat bonds offer collateralized (most often invested in U.S. Treasury Money Market Funds) protection that is locked in at a fixed cost over multiple years (typically two to four years). This allows the (re)insurer to be less subject to changing reinsurance market conditions. For the investor, cat bonds offer a comparatively high yield and an opportunity to diversify their portfolios. This is due to the lack of correlation between catastrophe losses and returns on other major asset classes that are tied to more macroeconomic and financial market conditions.

***Sidecars***

Sidecars are special-purpose reinsurers that provide dedicated collateralized quota-share reinsurance, often for a single ceding company that transfers a portion of its underwriting risk (and related capital investment), and in turn receives a ceding commission. They also can be a source of fee income for the reinsurers that underwrite or provide management services to such third-party risk vehicles.

Sidecar vehicles are often established by traditional reinsurers as a means to tap into the external capacity offered by the capital markets from hedge funds, investment banks, private equity and other opportunistic investors and increase the efficiency and diversification of the company's reinsurance program. They typically have a limited life expectancy and are often wound up when market conditions deteriorate, after which any remaining capital funds are returned to investors and the sponsor.

***Industry Loss Warranties***

ILWs are a type of private reinsurance or derivative contract through which one party (often an insurer) will purchase protection based on the total loss arising from an event to the entire insurance industry rather than their own losses. The buyer pays a premium to the company that writes the ILW cover (often a reinsurer or hedge fund) and in return receives coverage for a specified limit if industry losses exceed the predefined amount under the ILW trigger.

Sources: Fitch Ratings; Insurance Information Institute.

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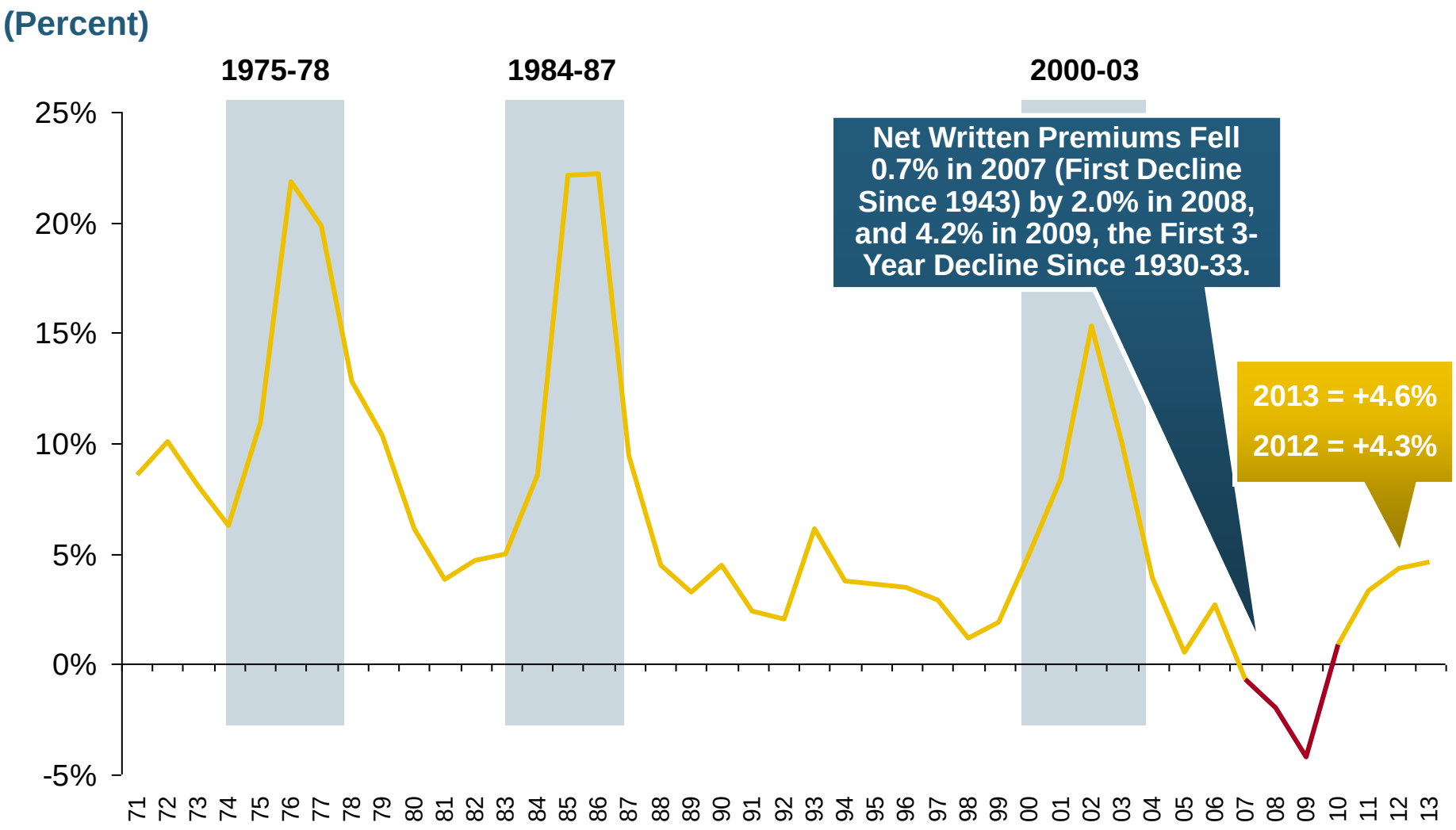
# P/C PRICING TRENDS

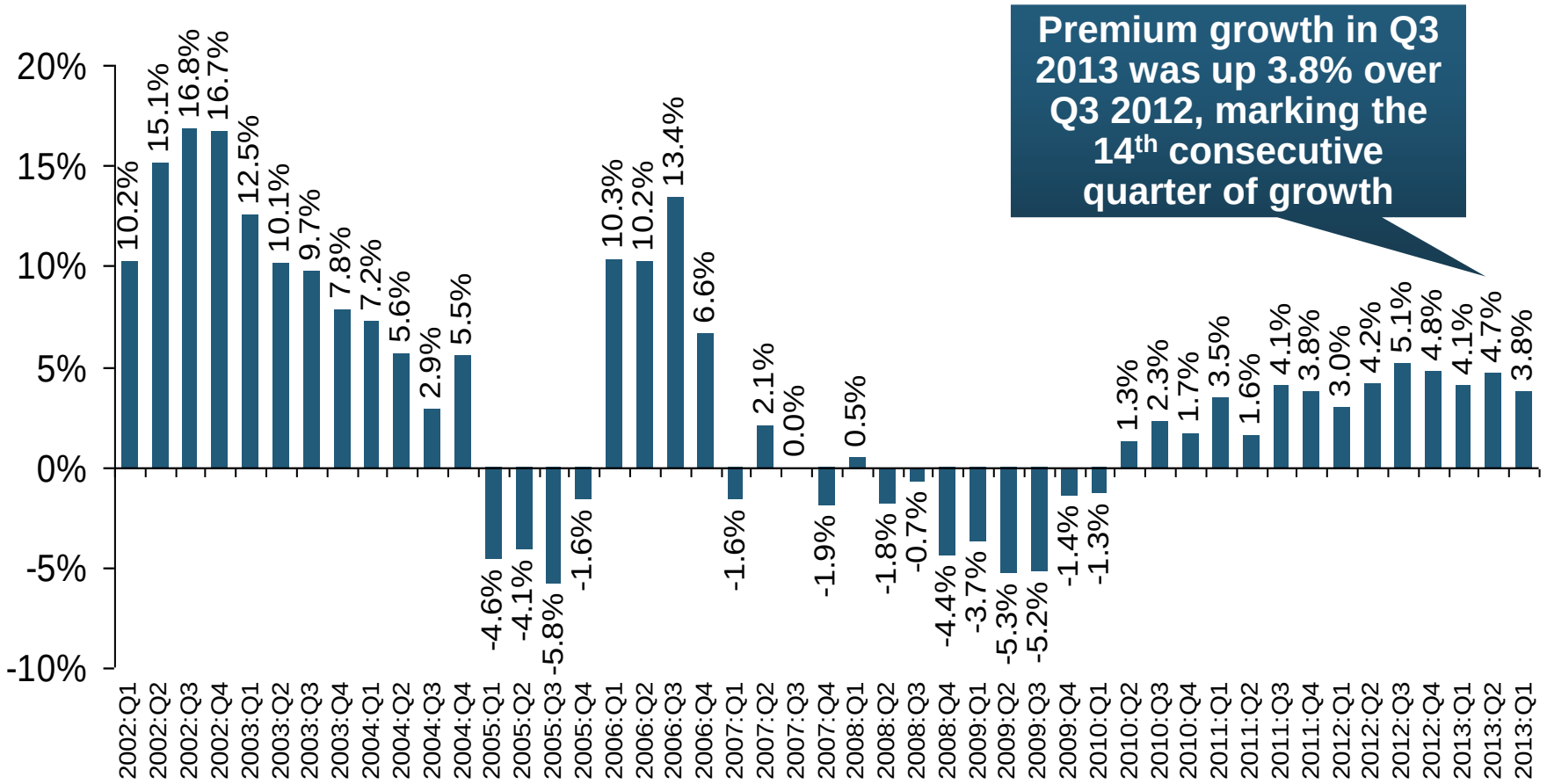
## Modest Pricing Gains in 2014

# Net Premium Growth: Annual Change, 1971—2013




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

# P/C Net Premiums Written: % Change, Quarter vs. Year-Prior Quarter

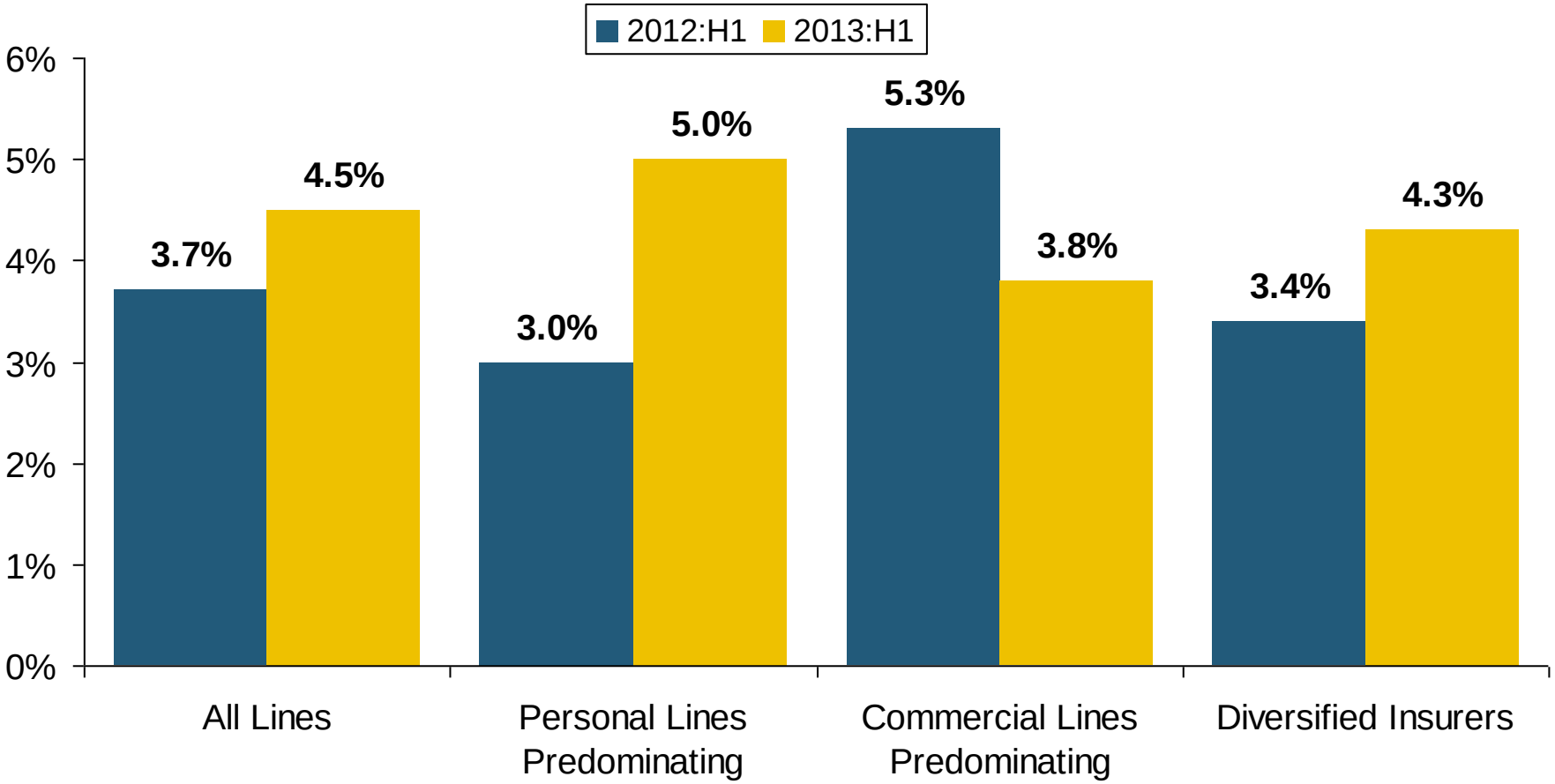



**Sustained Growth in Written Premiums (vs. the same quarter, prior year) Will Continue into 2014**

Sources: ISO, Insurance Information Institute.

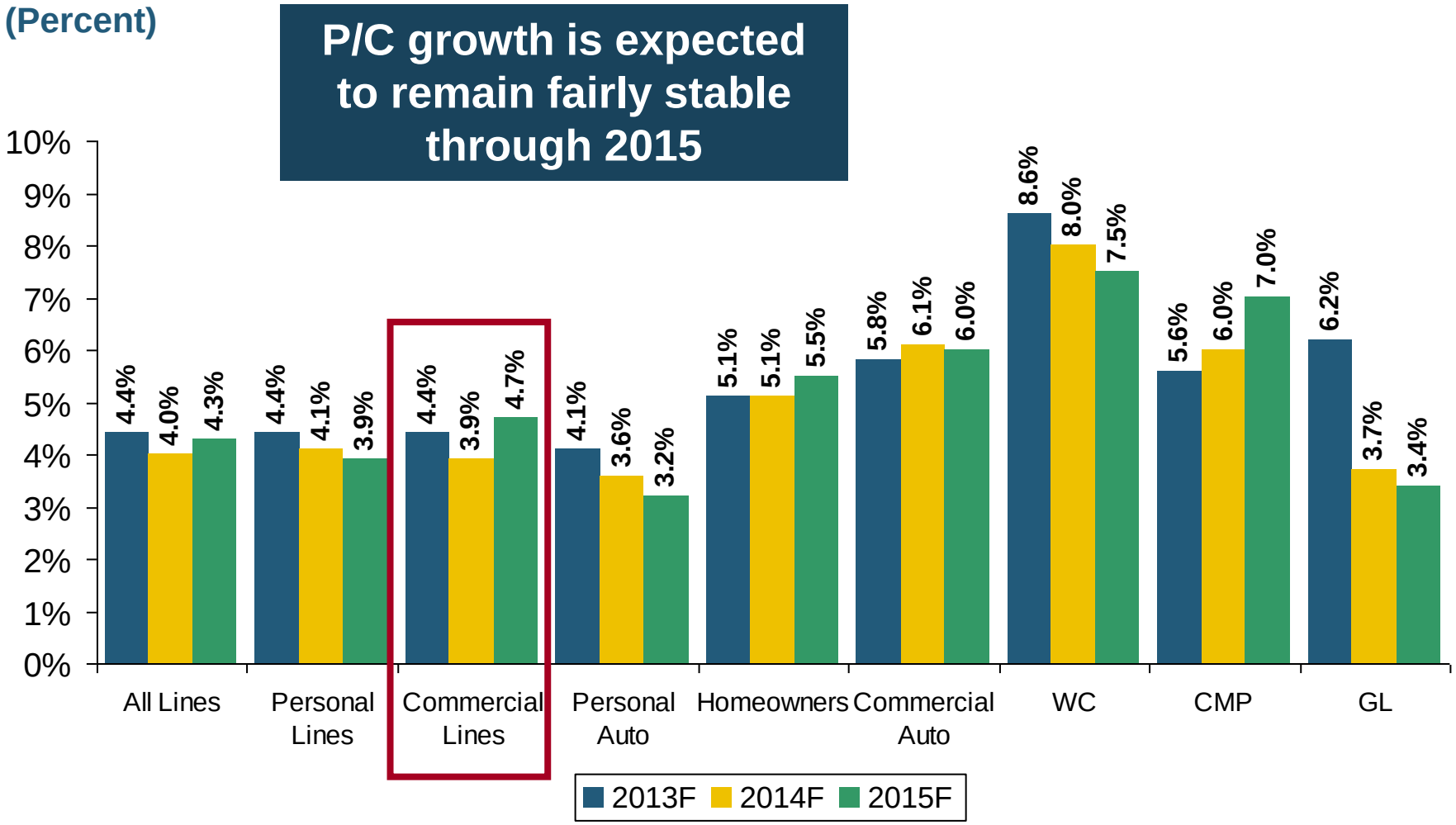
# Growth in Net Written Premium by Segment, 2013:H1 vs. 2012:H1*

(Percent)



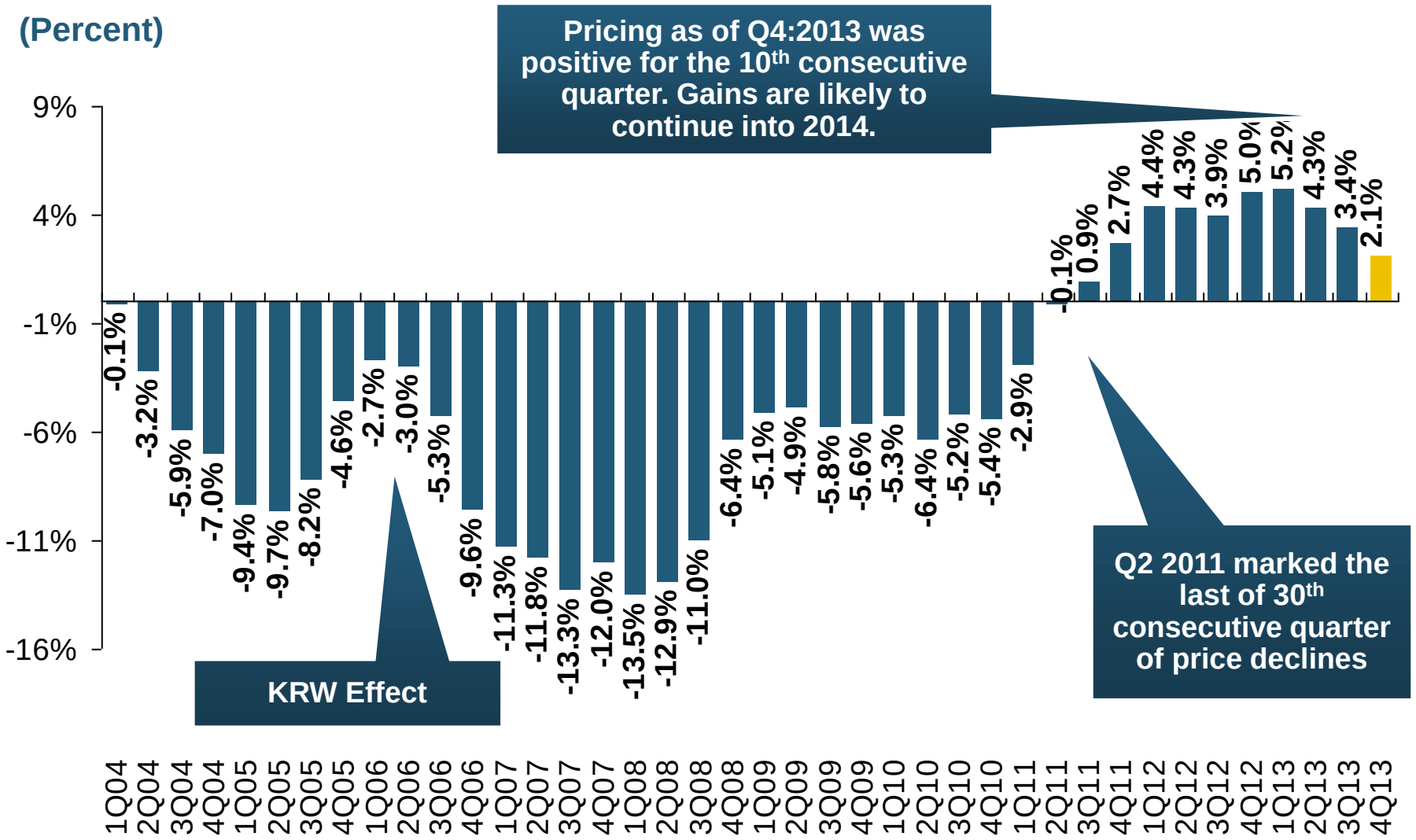

*Excludes mortgage and financial guaranty insurers.
Source: ISO/PCI; Insurance Information Institute

# 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

# Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2013:Q3

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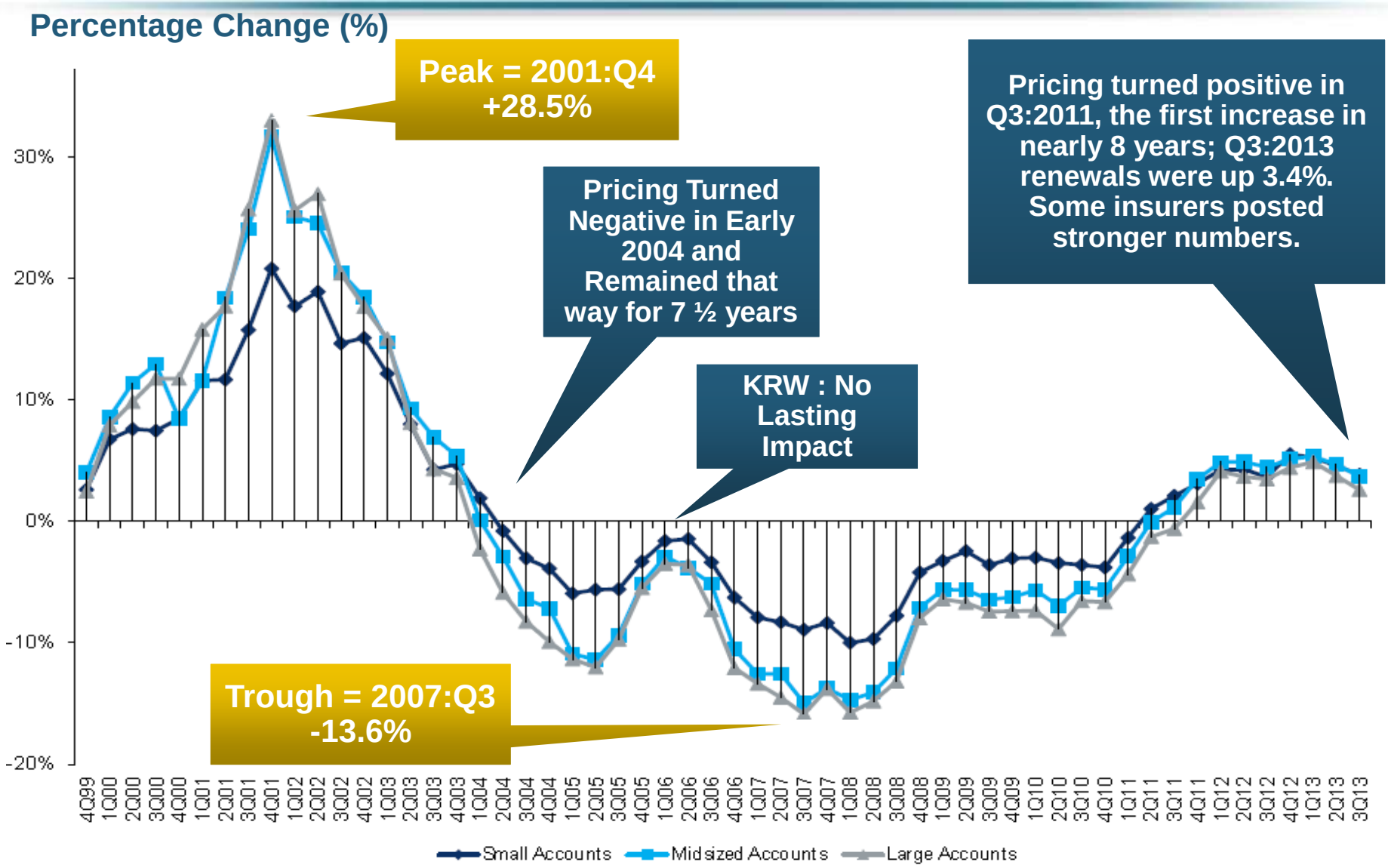


Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents and Brokers; Barclay's Capital; Insurance Information Institute.

# Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2013:Q3

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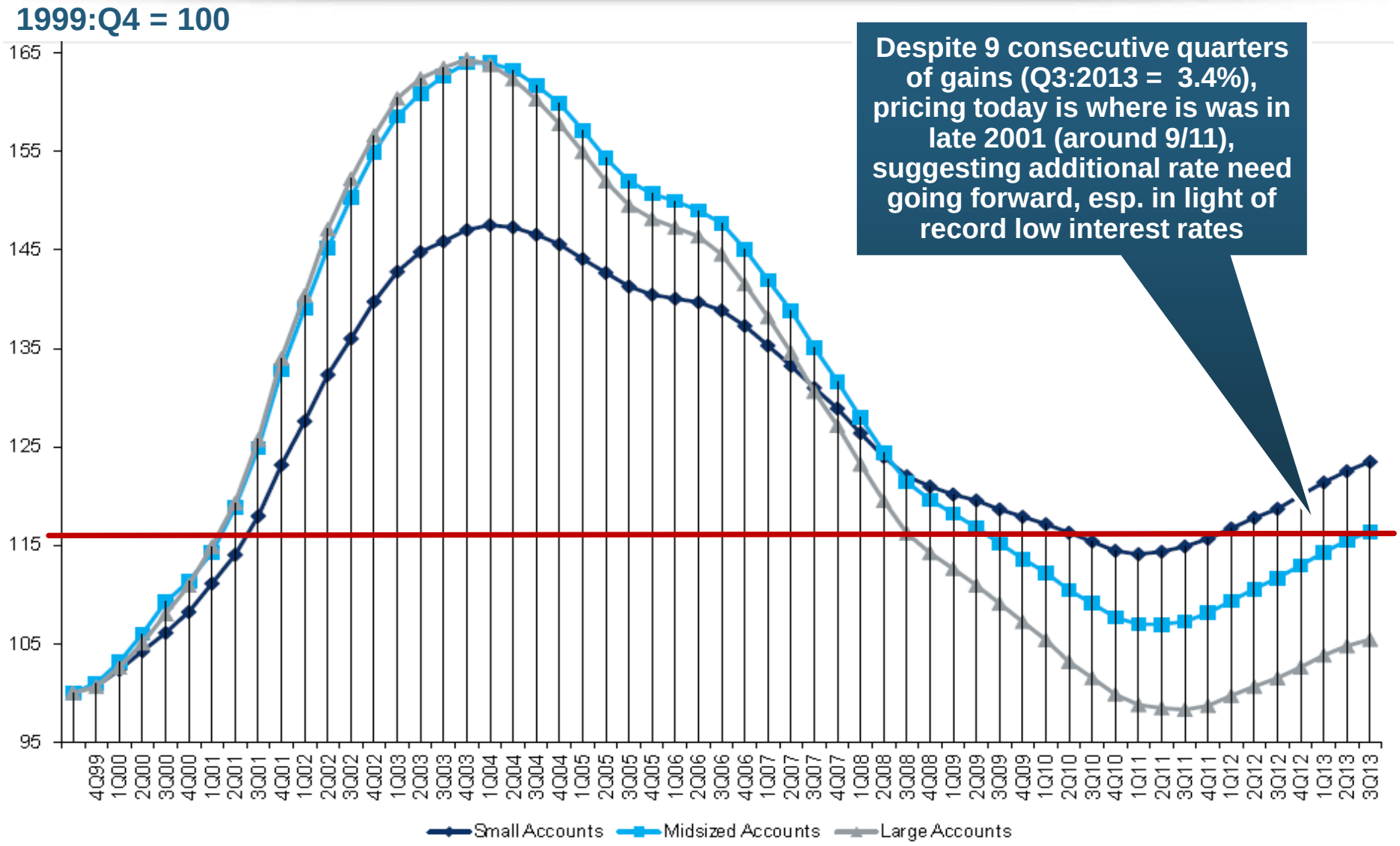
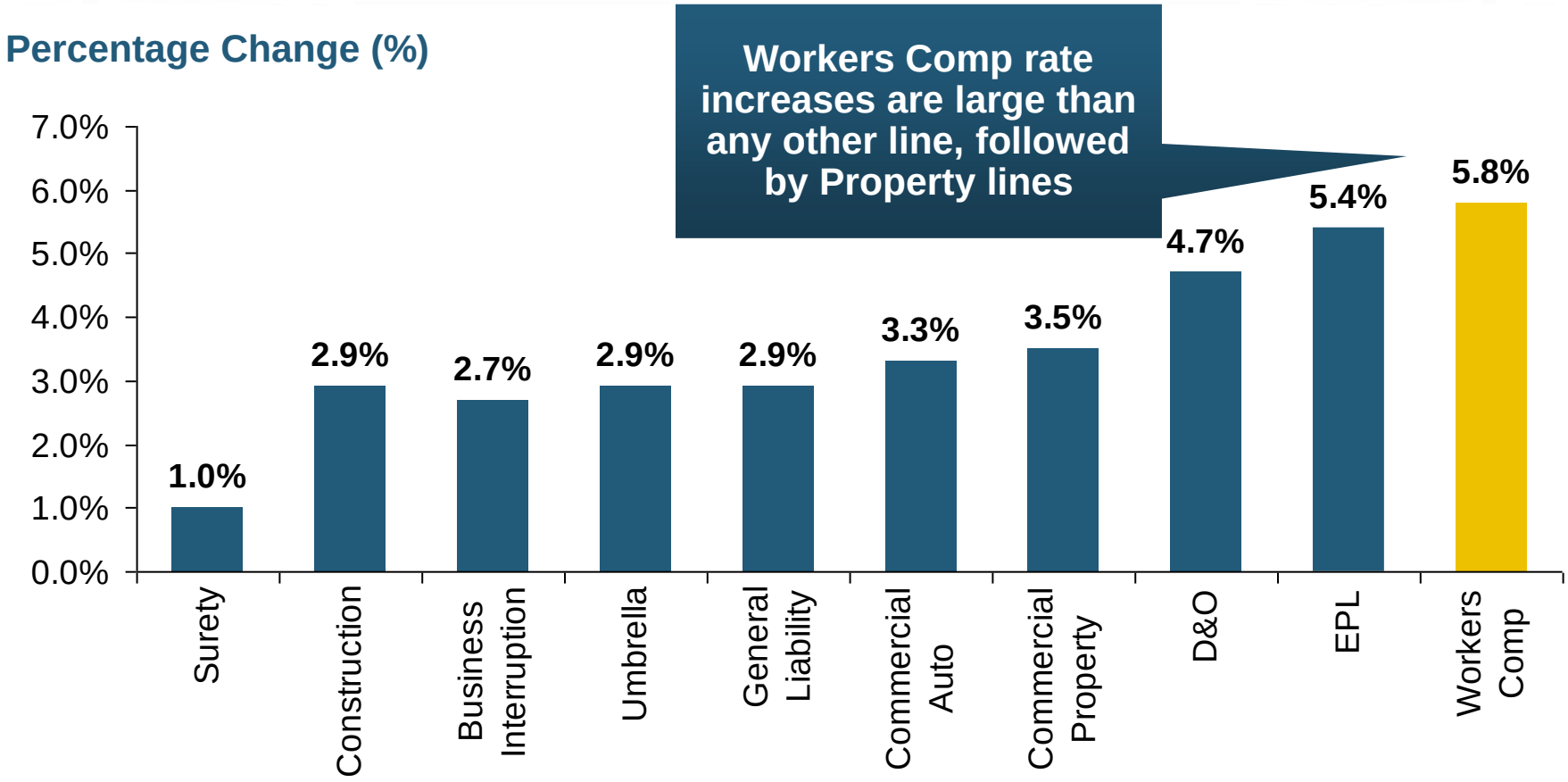



Note: CIAB data cited here are based on a survey. Rate changes earned by individual insurers can and do vary, potentially substantially.
Source: Council of Insurance Agents and Brokers; Barclay's Capital; Insurance Information Institute.

# Change in Commercial Rate Renewals, by Line: 2013:Q3




**Major Commercial Lines Renewed Uniformly Upward in Q3:2013 for the 9th Consecutive Quarter; Property Lines & Workers Comp Leading the Way; Cat Losses and Low Interest Rates Provide Momentum Going Forward**

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.

# Workers Comp Rate Changes, 2008:Q4 – 2013:Q3

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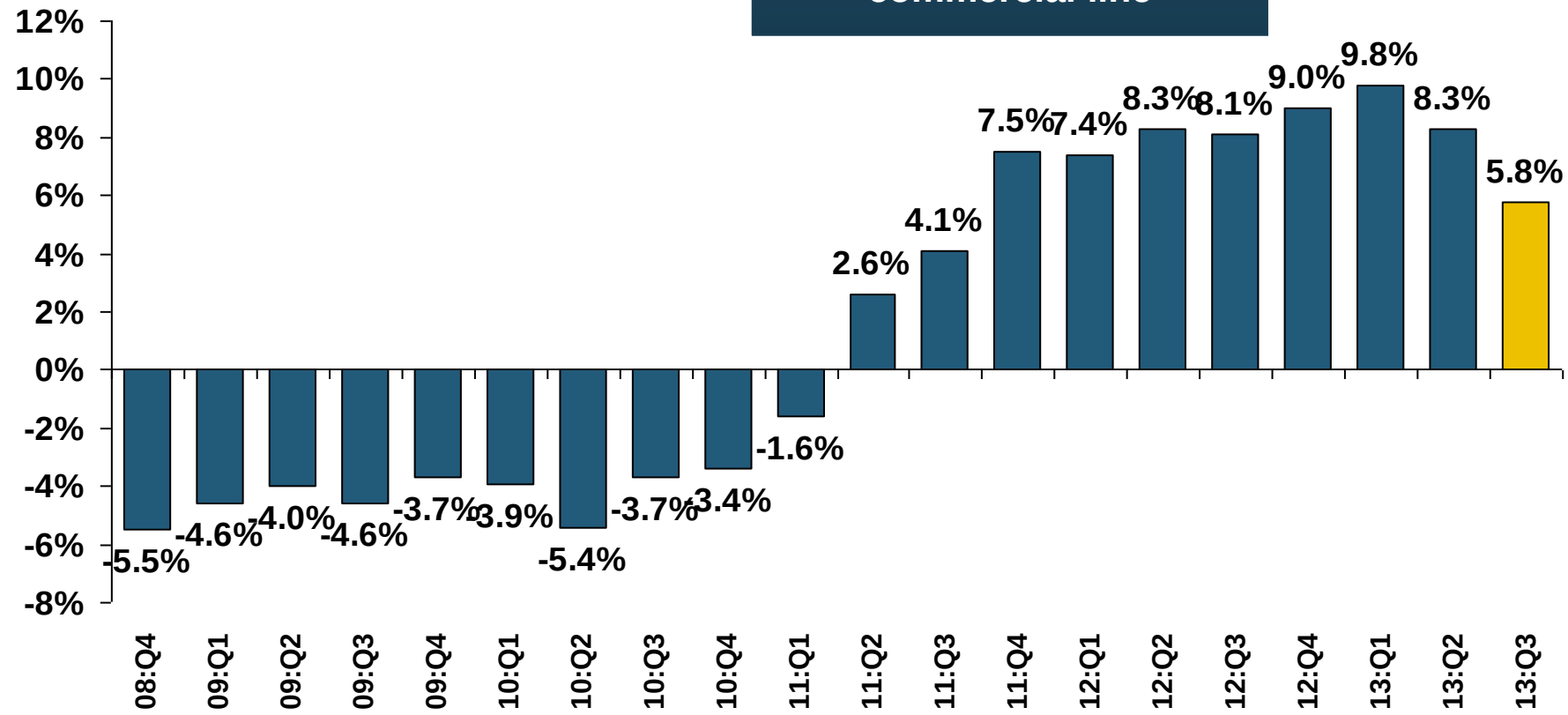
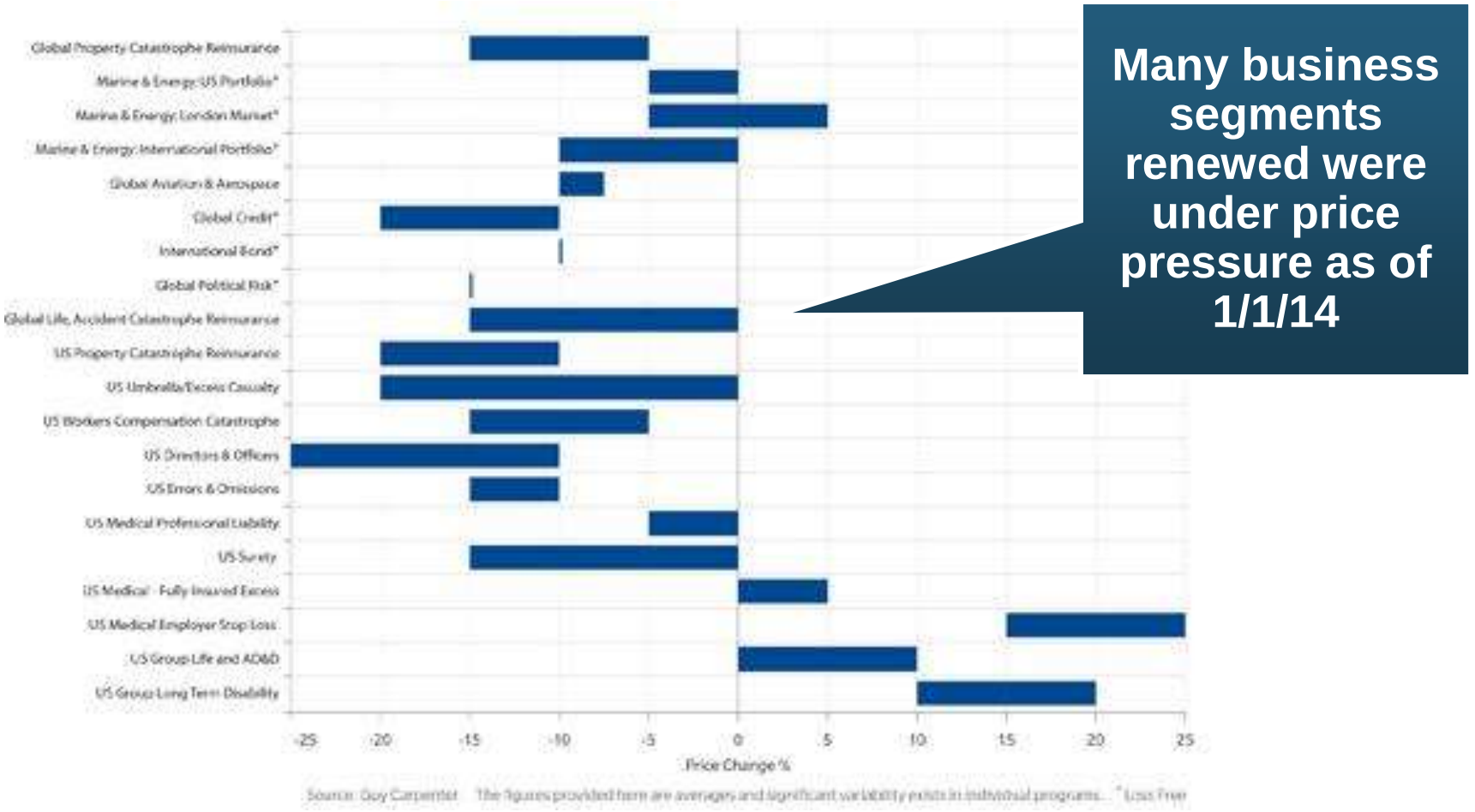
(Percent Change)

WC rate changes have been positive for 10 consecutive quarters, longer than any other commercial line




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

# Rate Movements by Business Segment as of January 1, 2014

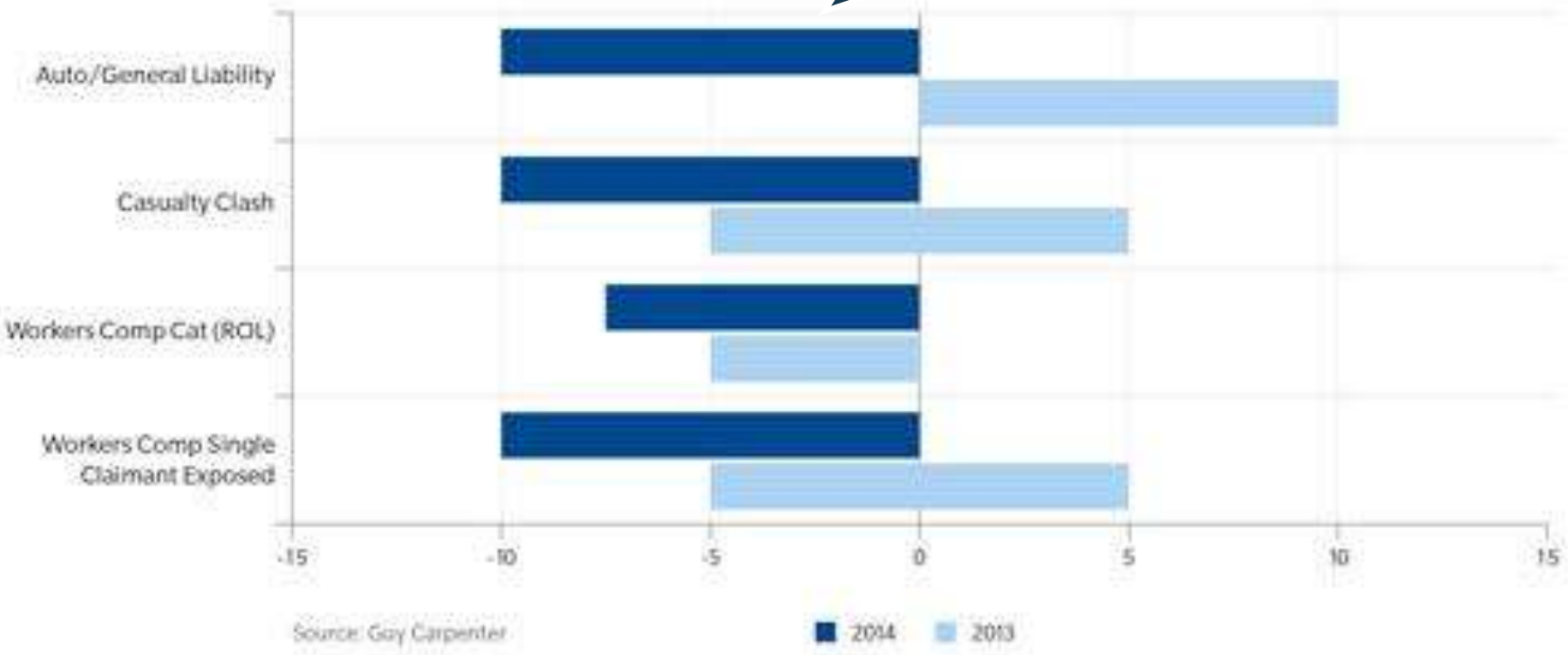



**Many business segments renewed were under price pressure as of 1/1/14**

Sources: Guy Carpenter; Insurance Information Institute .

# Casualty: Typical Excess of Loss Rate Changes as of Jan. 1, 2014

**Casualty excess of loss renewals turned generally negative as of 1/1/14**




Sources: Guy Carpenter; Insurance Information Institute .

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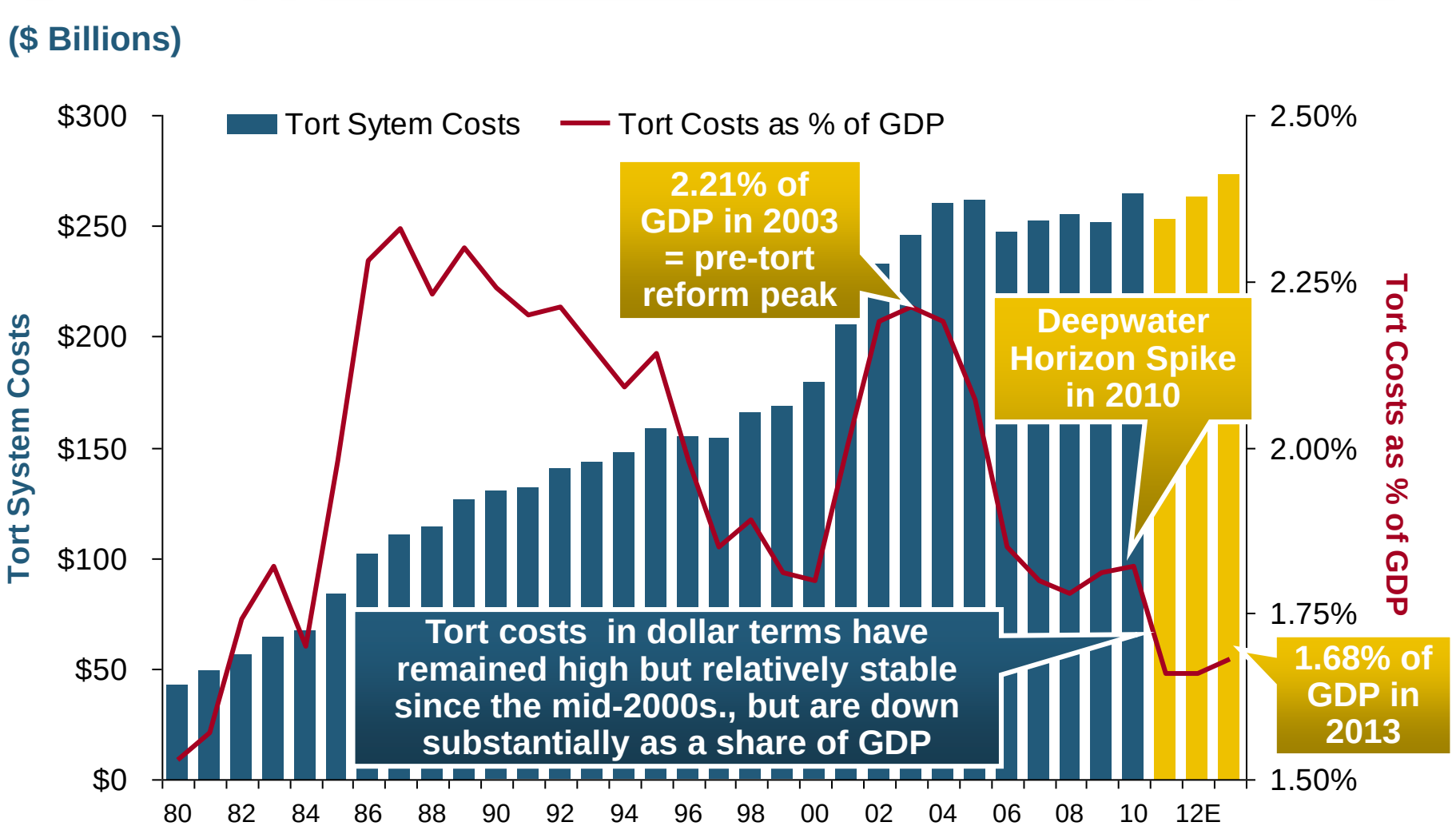
# Shifting Legal Liability & Tort Environment

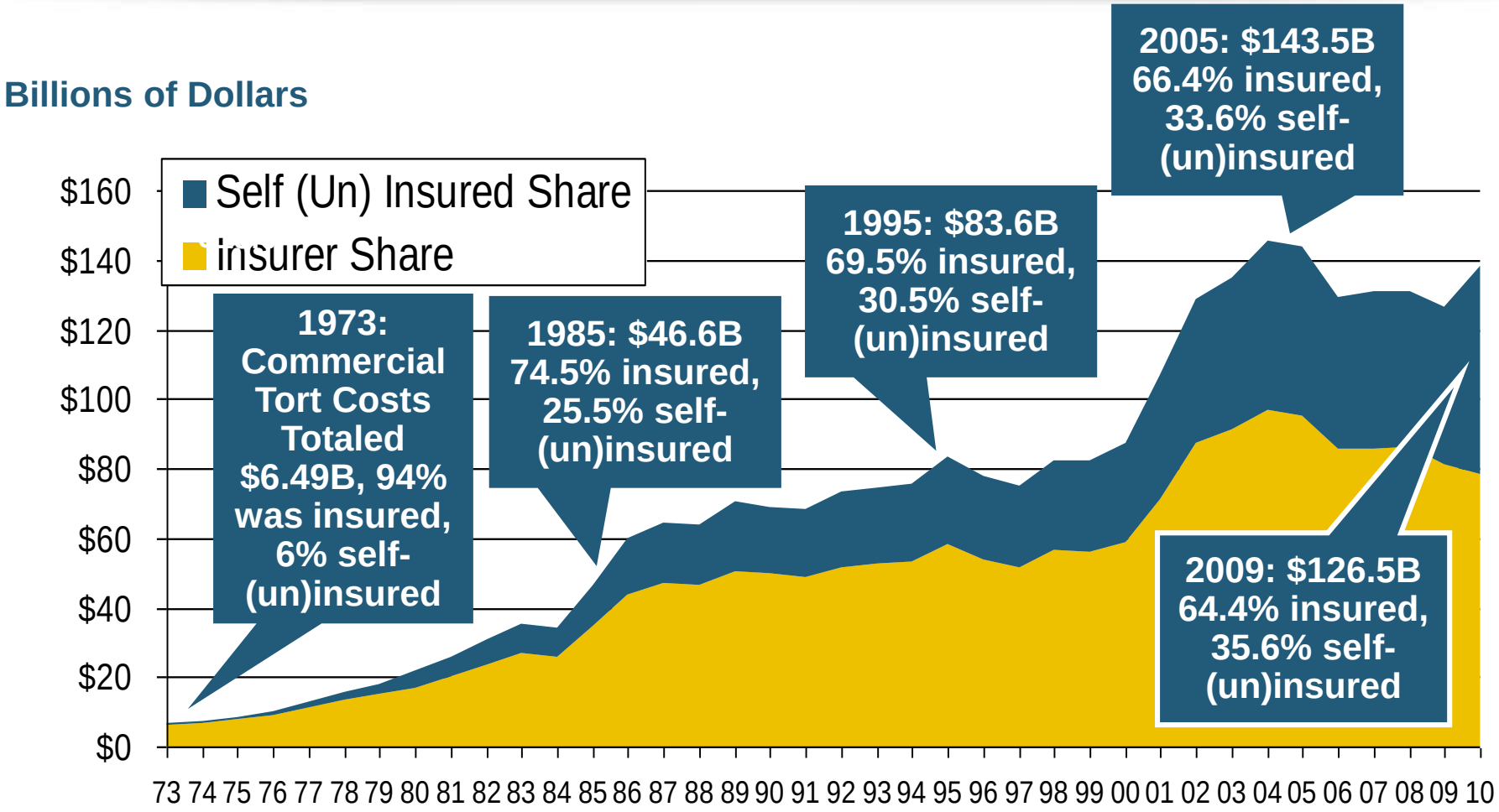
## Is the Tort Pendulum Swinging Against Insurers?

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




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

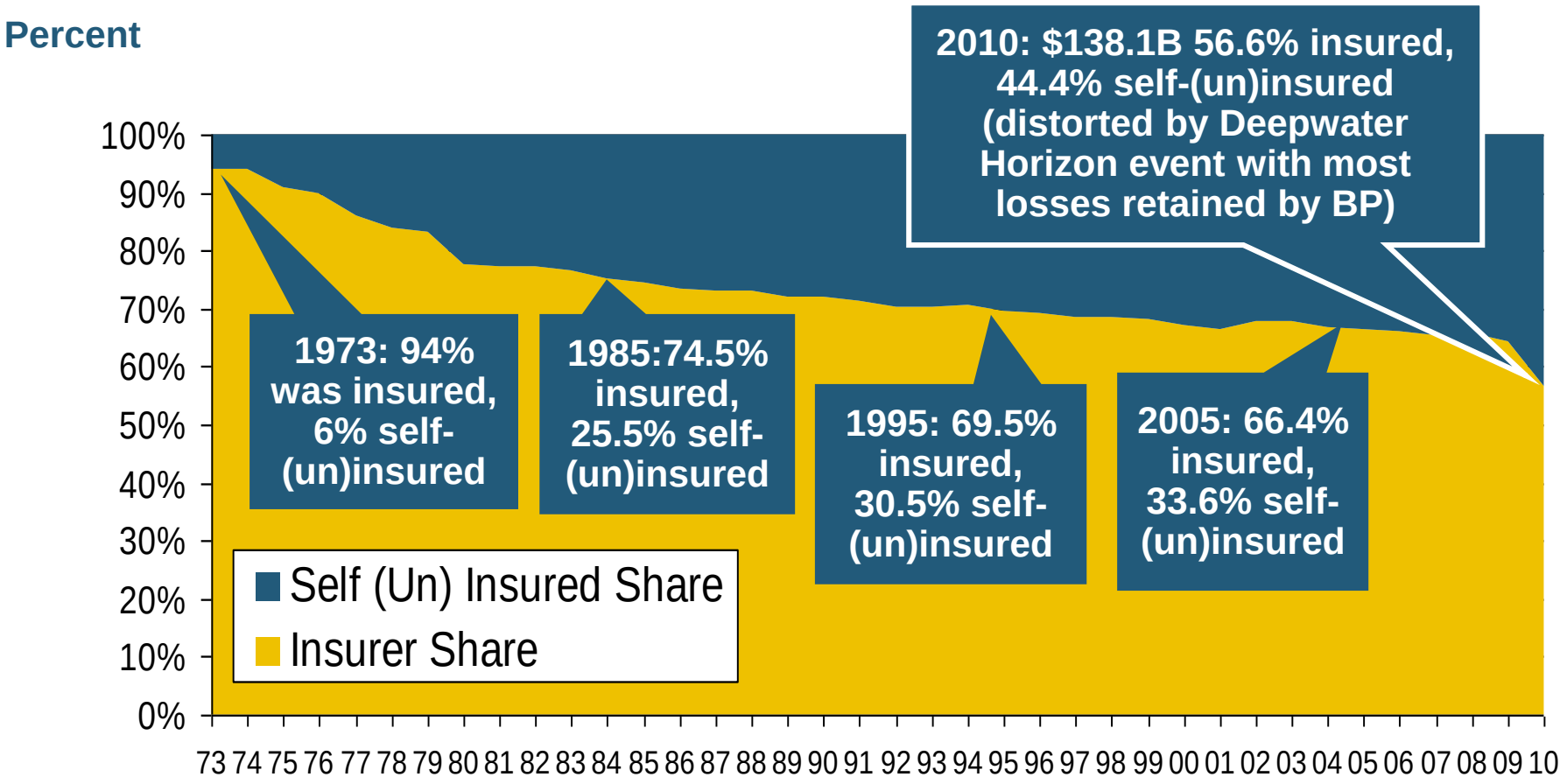
# Commercial Lines Tort Costs: Insured vs. Self-(Un)Insured Shares, 1973-2010




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

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

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




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

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

# Business Leaders Ranking of Liability Systems in 2012

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## Best States

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

### New in 2012

- Wyoming
- Minnesota
- Kansas
- Idaho

### Drop-offs

- Indiana
- Colorado
- Massachusetts
- South Dakota

## Worst States

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

### Newly Notorious

- Oklahoma

### Rising Above

- Arkansas

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

# The Nation's Judicial Hellholes: 2012/2013

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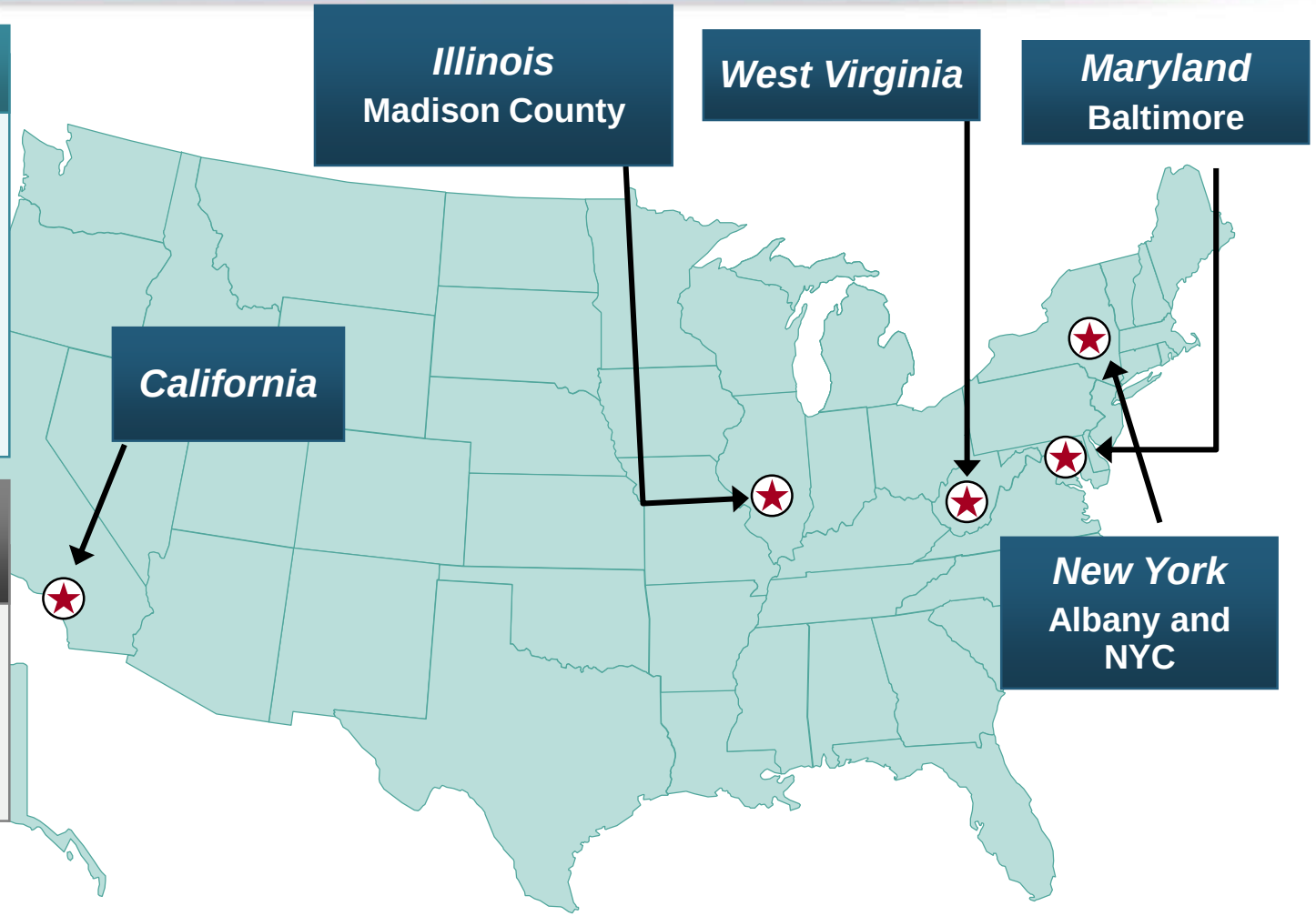
## Watch List

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

## Dishonorable Mention

- MO Supreme Court
- WA Supreme Court




Source: American Tort Reform Association; Insurance Information Institute

## Insurance Information Institute Online:

# www.iii.org

***Thank you for your time and your attention!***

***Twitter: twitter.com/bob_hartwig***

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