



P/C Insurance Industry Outlook for 2016 & Beyond

Focus on Texas Markets

**Insurance Council of Texas
Annual Issues Symposium**

Austin, TX

July 14, 2016

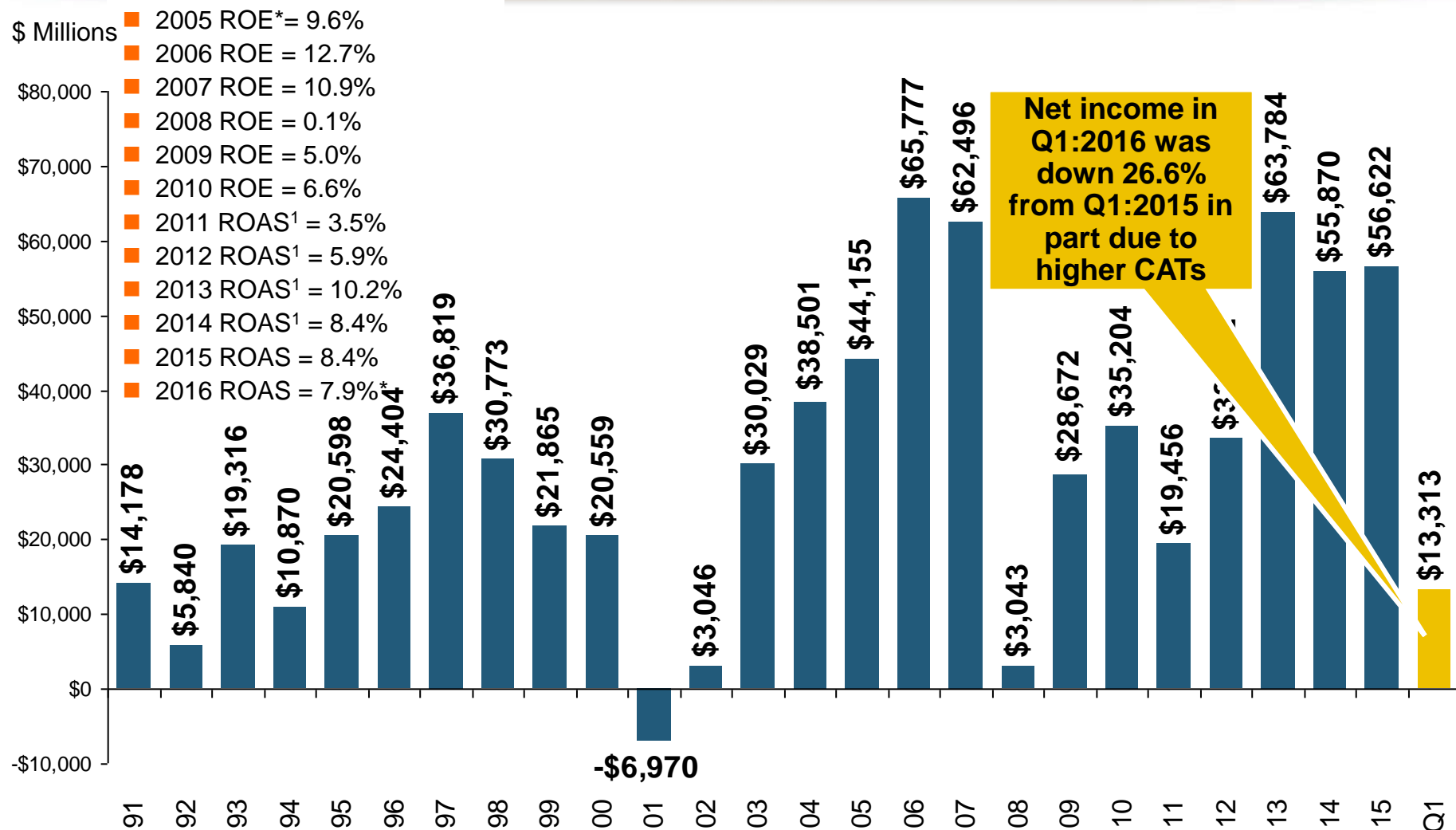
Download at www.iii.org/presentations

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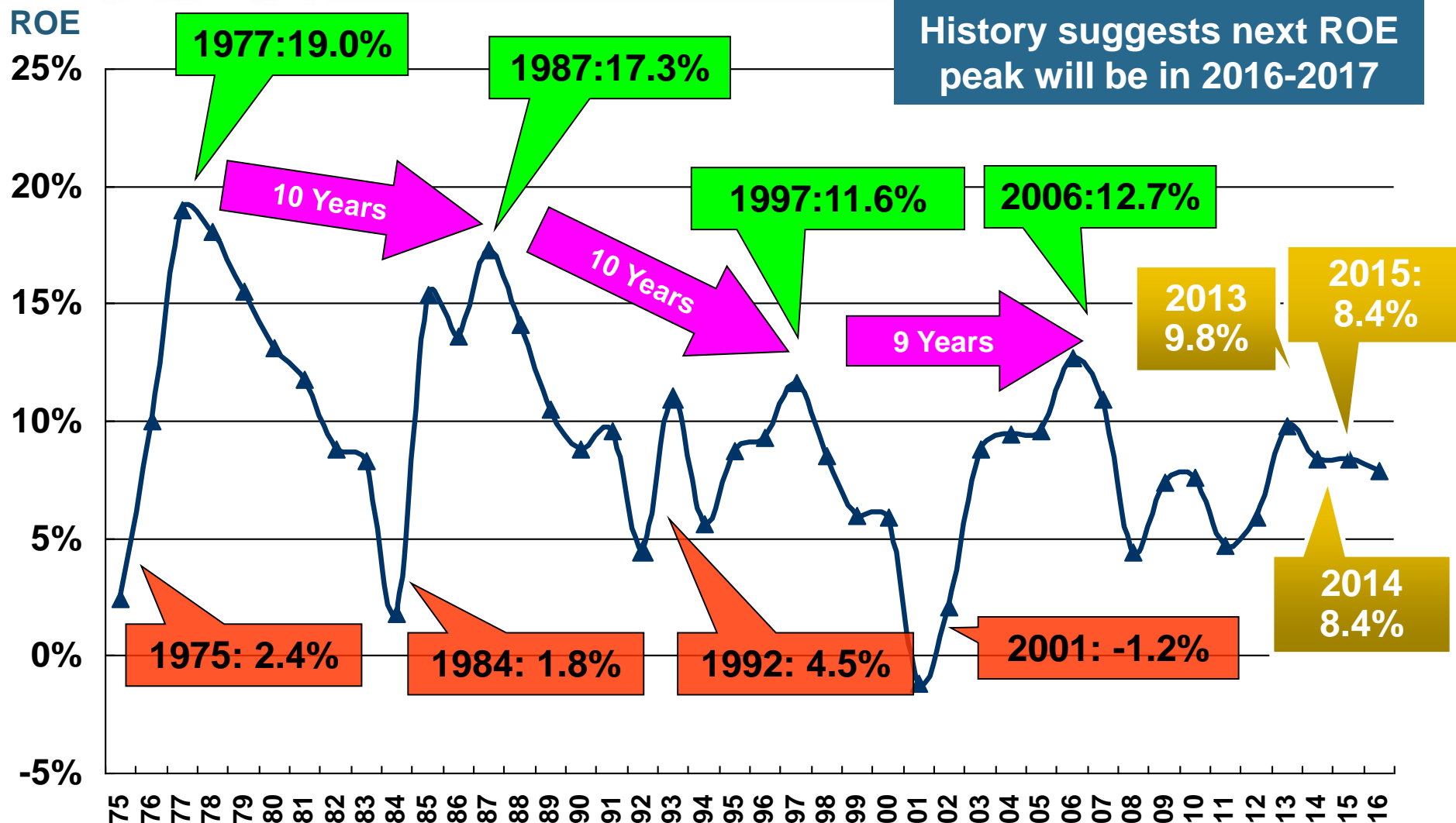
P/C Industry Net Income After Taxes 1991–2016:Q1



*ROE figures are GAAP; ¹Return on avg. surplus. 2016 data are for Q1. Excluding Mortgage & Financial Guaranty insurers yields a 8.2% ROAS in 2014, 9.8% ROAS in 2013, 6.2% ROAS in 2012, 4.7% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009; 2015E is annualized figure based actual figure through Q3 of \$44.0

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

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

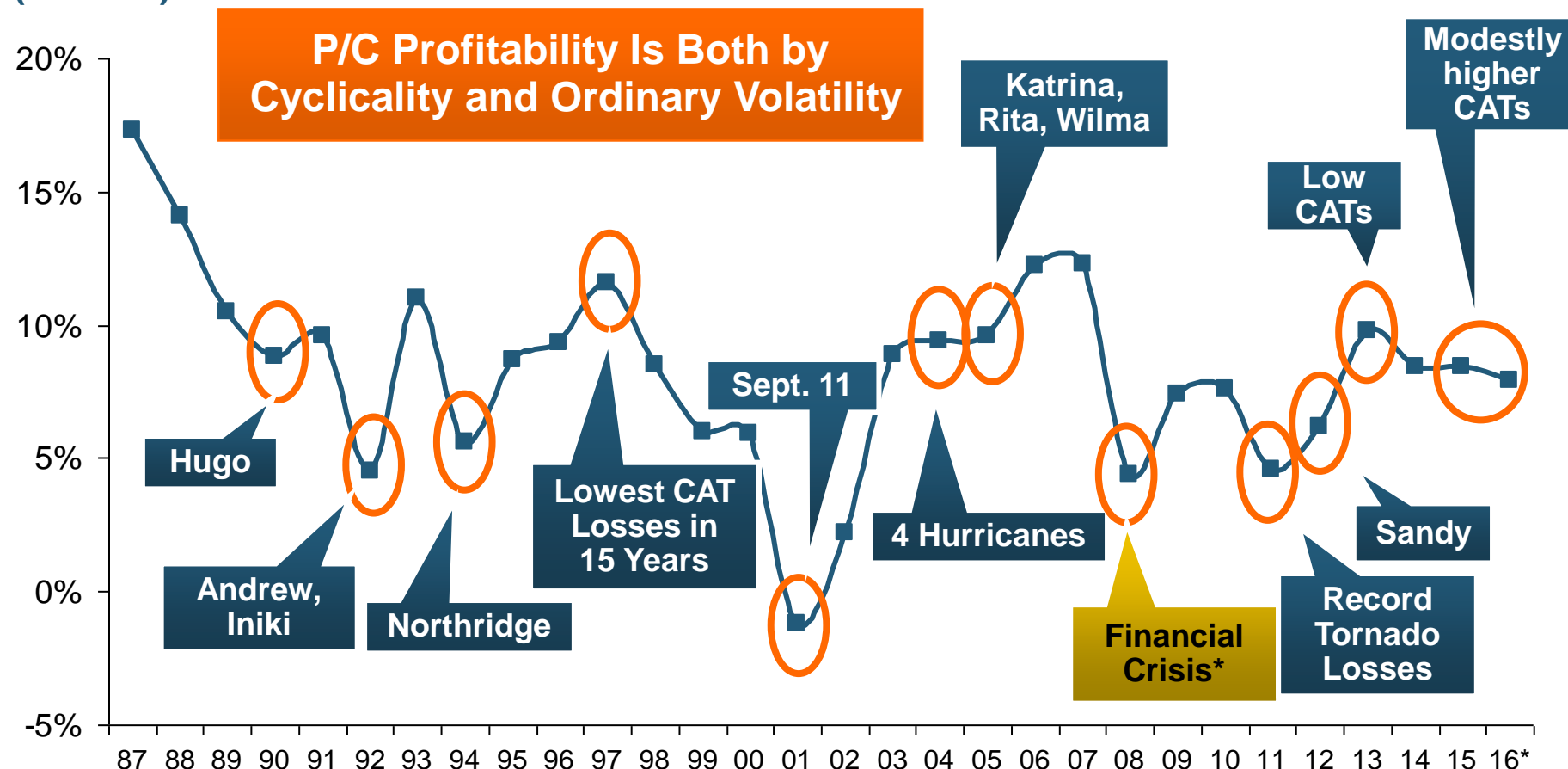


*2016 data through Q1. Profitability = P/C insurer ROEs. 2011-15 figures are estimates based on ROAS data. Note: Data for 2008-2014 exclude mortgage and financial guaranty insurers.

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

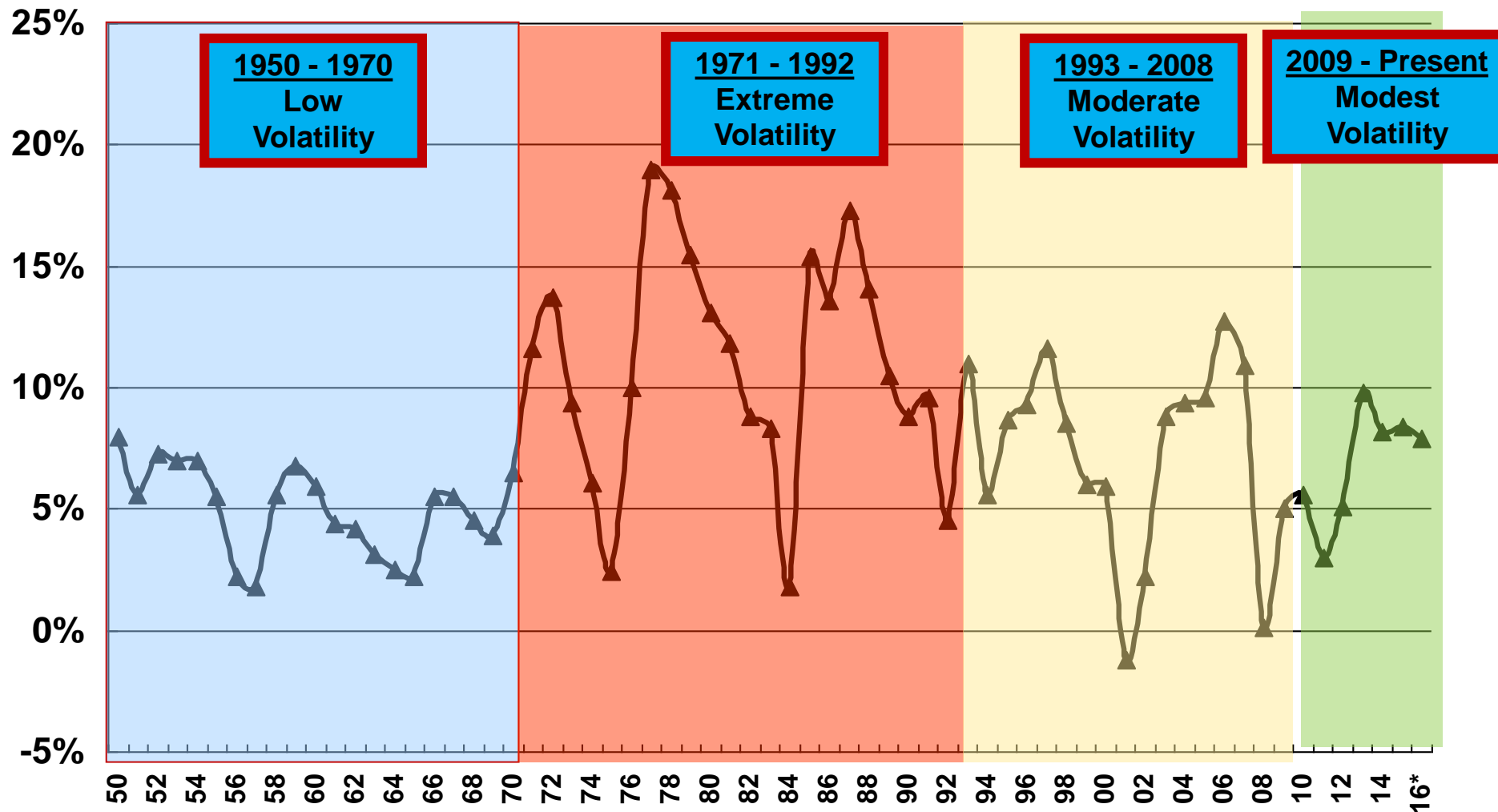
ROE: Property/Casualty Insurance by Major Event, 1987–2016:Q1

(Percent)



* Data for 2016 through Q1. Excludes Mortgage & Financial Guarantee in 2008 – 2014.
Sources: ISO, *Fortune*; Insurance Information Institute.

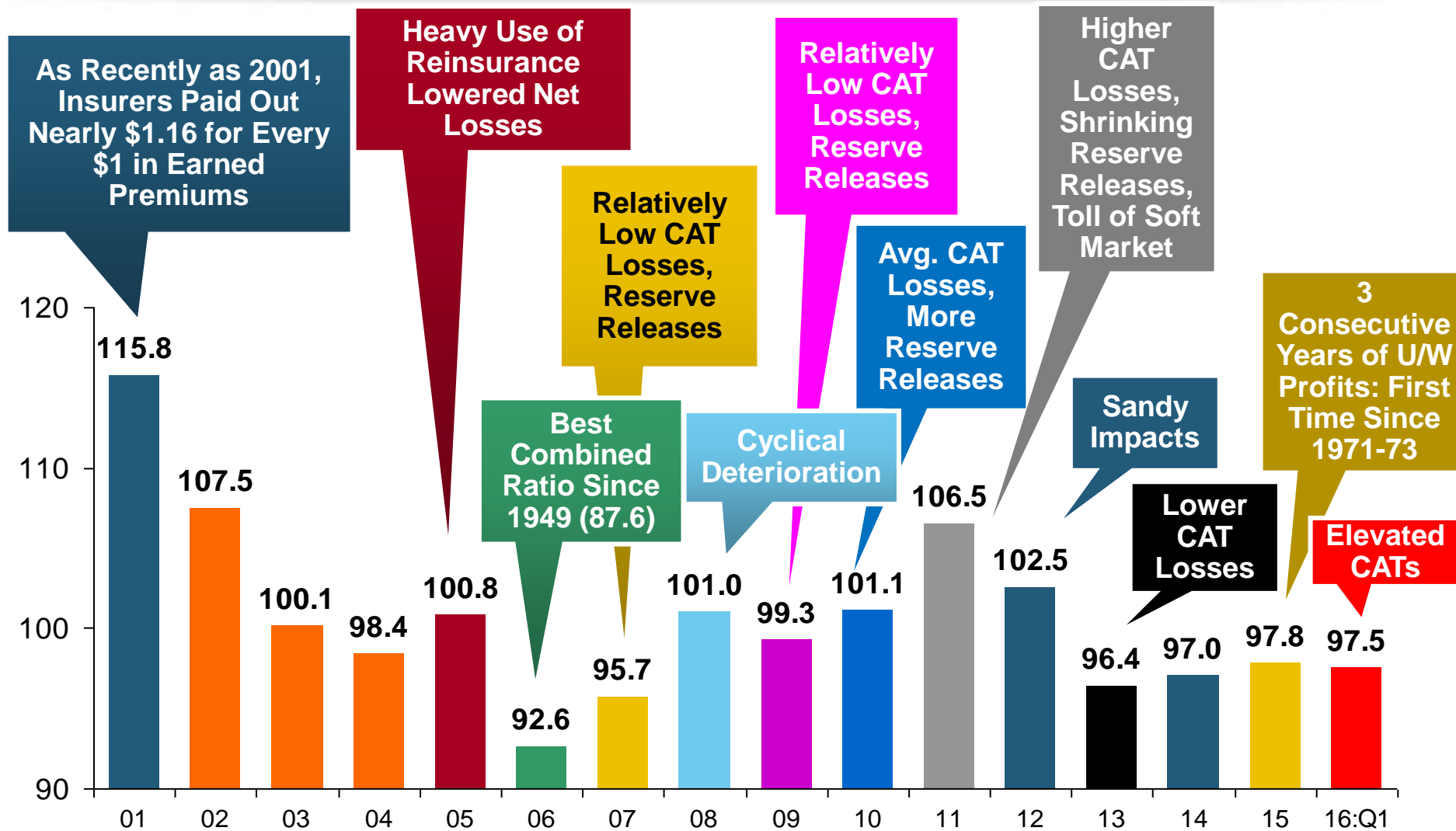
P/C Insurance Industry ROE: Magnitude of Cyclical Volatility Changes Over Time, 1950-2016:Q1



.*Through Q1 2016.

Source: Insurance Information Institute

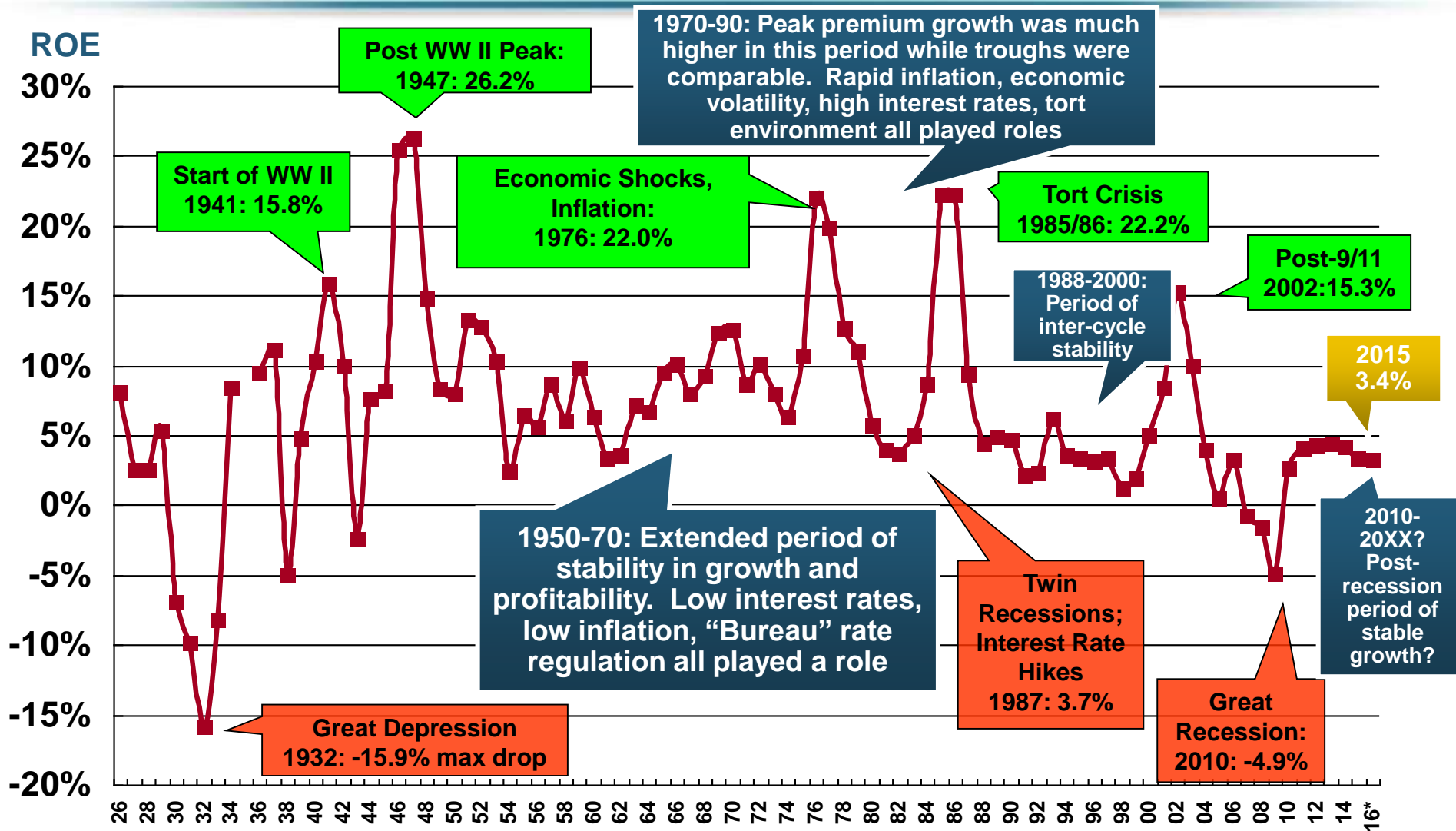
P/C Insurance Industry Combined Ratio, 2001–2016:Q1*



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

Sources: 2016 figure from ISO/Verisk; A.M. Best, ISO (2014-2015); Figure for 2010-2013 is from A.M. Best P&C Review and Preview, Feb. 16, 2016.

NPW Premium Growth: Peaks & Troughs in the P/C Insurance Industry, 1926 – 2016:Q1



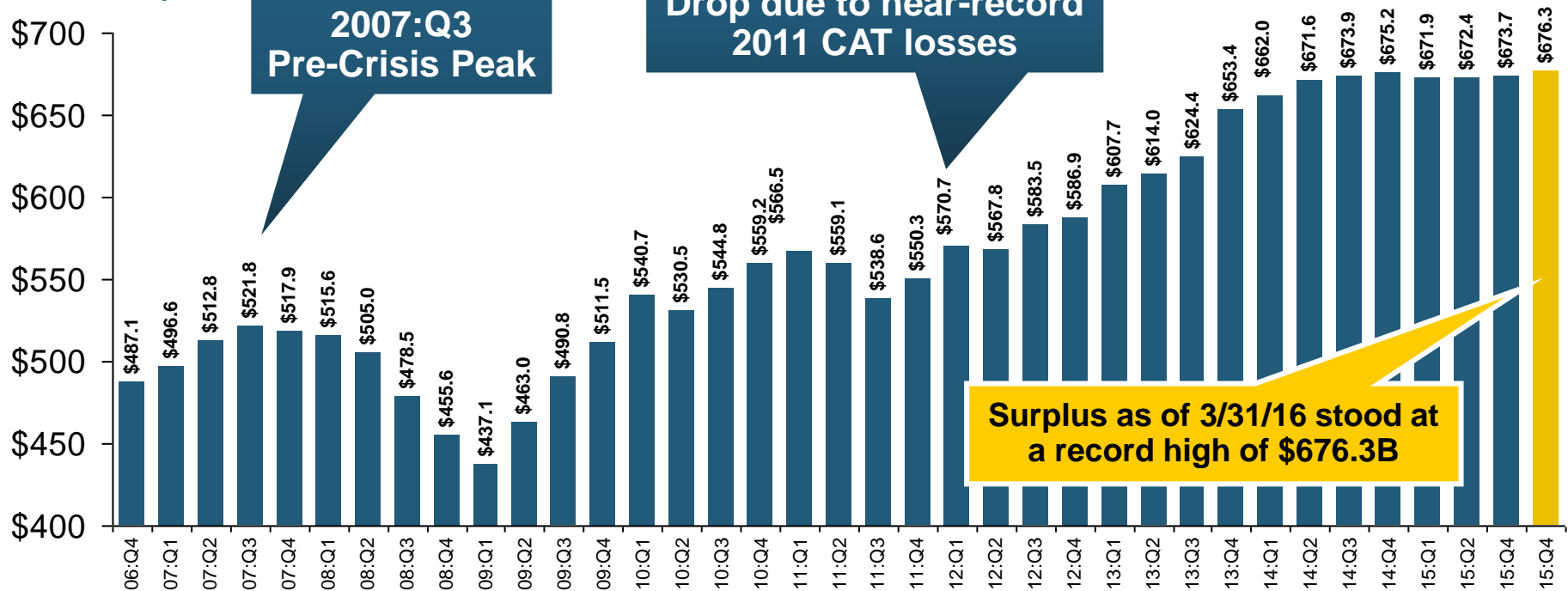
*Q1 data.

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

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

Policyholder Surplus, 2006:Q4–2016:Q1

(\$ Billions)



The industry now has \$1 of surplus for every \$0.77 of NPW, close to the strongest claims-paying status in its history.

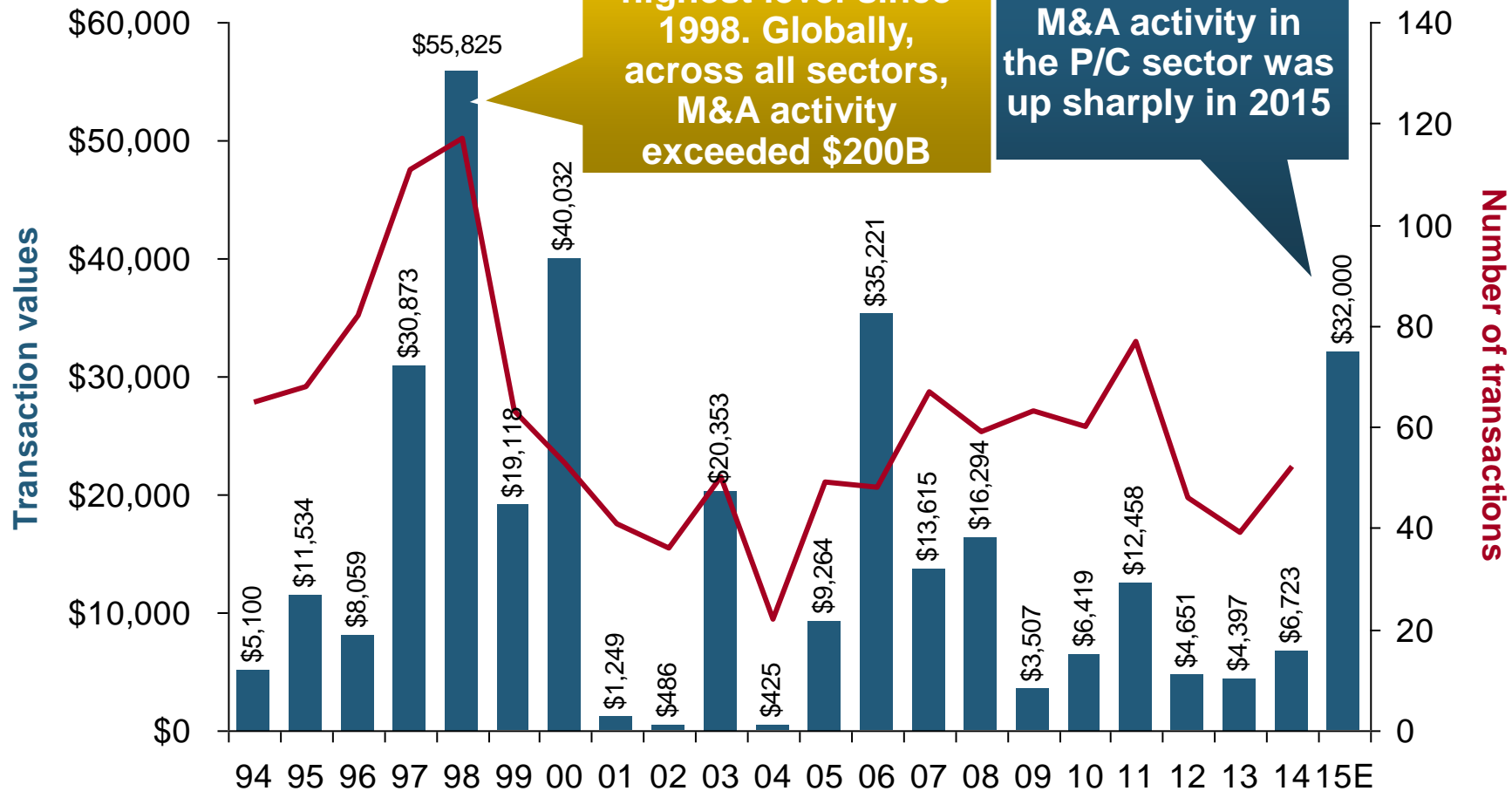
2010:Q1 data includes \$22.5B of paid-in capital from a holding company parent for one insurer's investment in a non-insurance business.

Sources: ISO, A.M. Best.

The P/C insurance industry entered 2016 in very strong financial condition.

U.S. INSURANCE MERGERS AND ACQUISITIONS, P/C SECTOR, 1994-2015E (1)

(\$ Millions)



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

Source: Conning proprietary database; 2015 I.I.I. estimate.

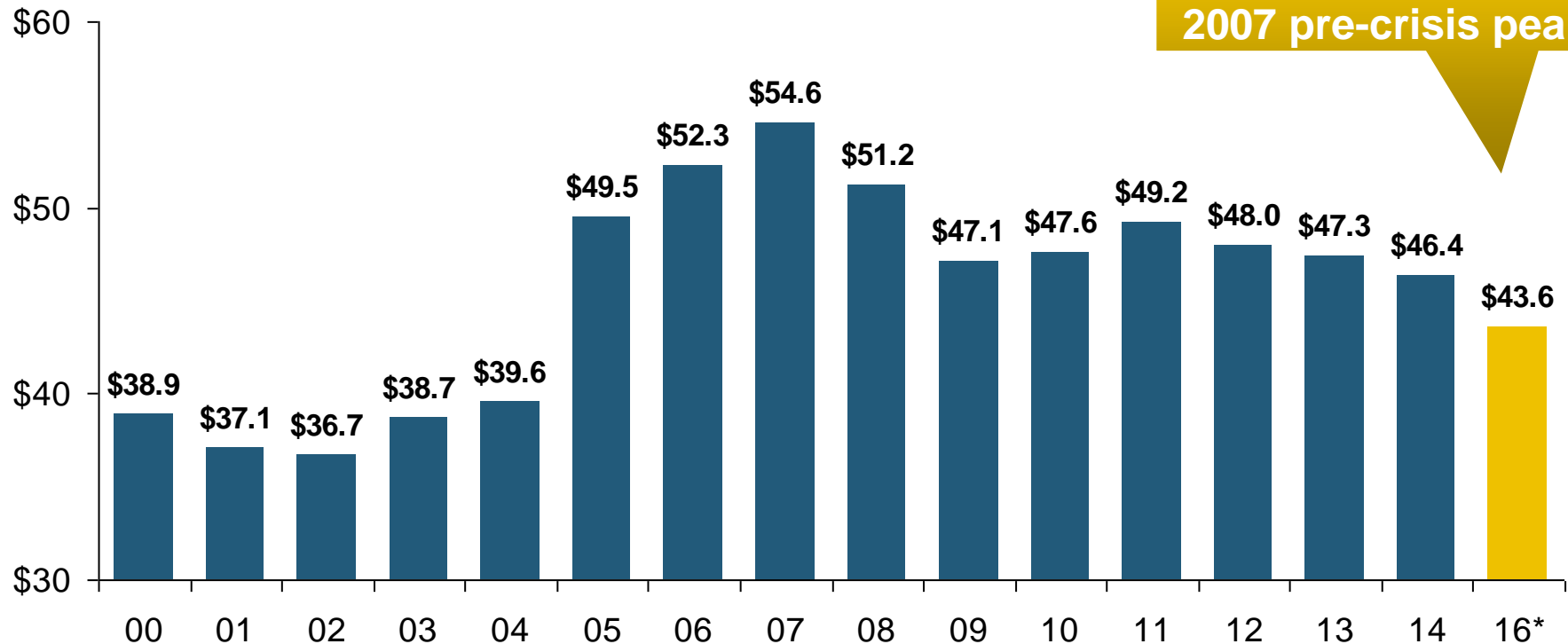
INVESTMENTS: THE NEW REALITY

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

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

Property/Casualty Insurance Industry Investment Income: 2000–2016:Q1¹

(\$ Billions)

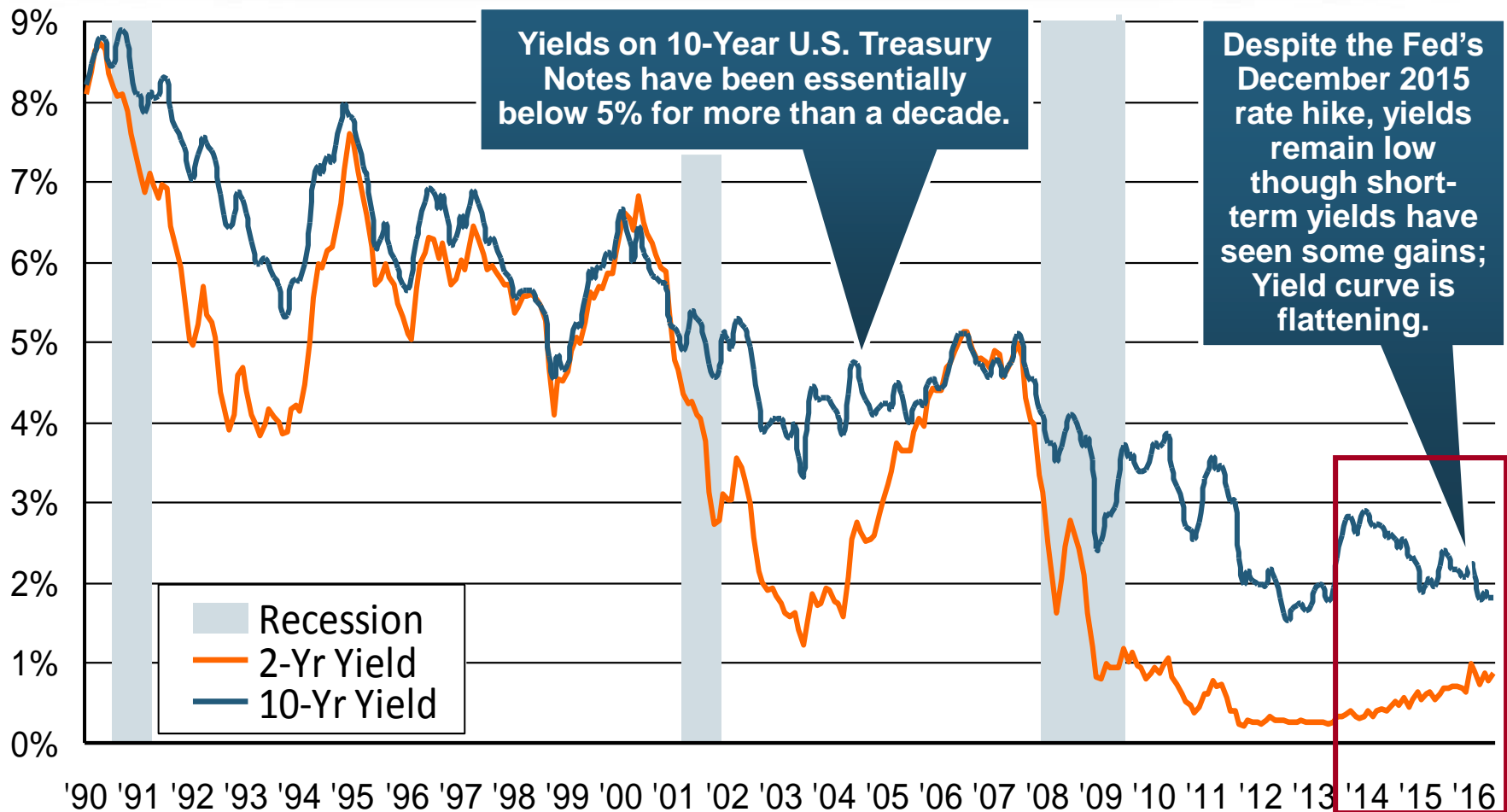


Due to persistently low interest rates, investment income fell in 2012, 2013 and 2014 but showed a small (1.9%) increase in 2015—another drop in 2016 seems likely.

*Annualized figure based on actual Q1:2016 net investment income earned of \$10.893B.

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

U.S. Treasury Security Yields: A Long Downward Trend, 1990–2016*



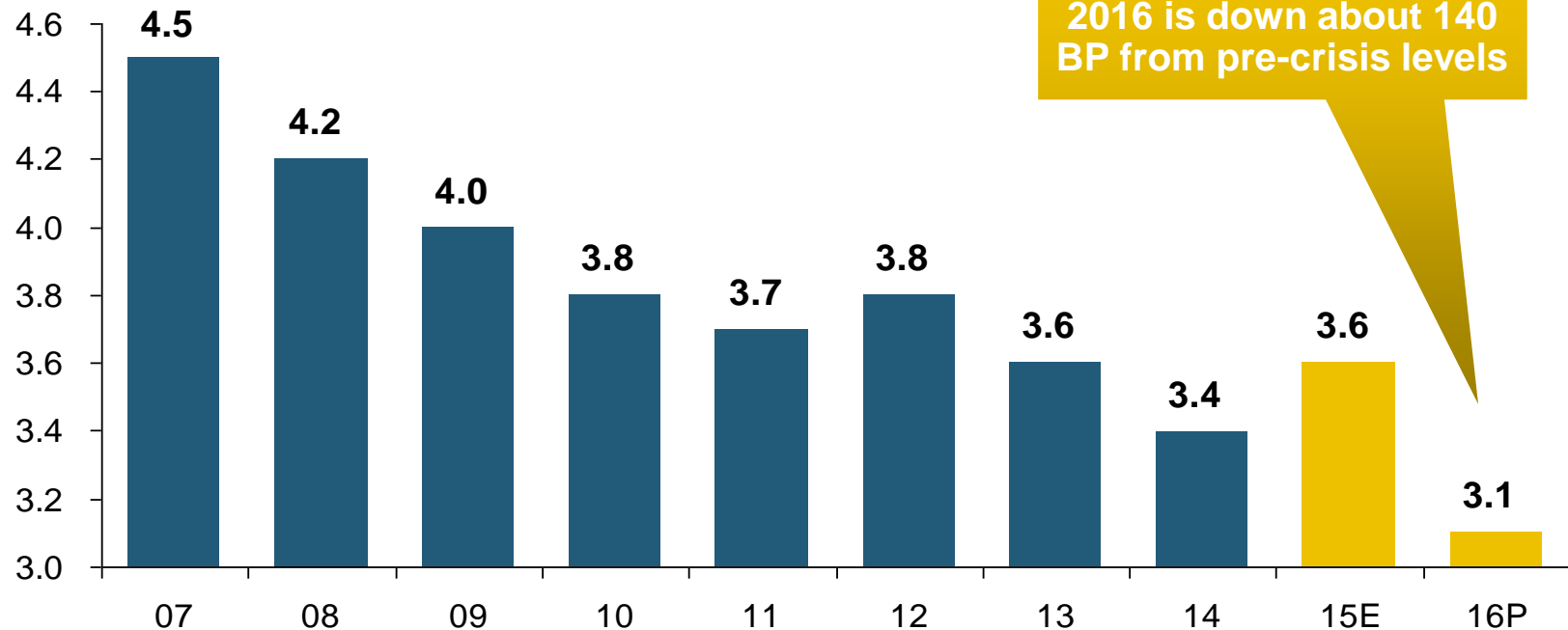
Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, constant maturity, nominal rates, through May 20, 2016.

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

Net Investment Yield on Property/ Casualty Insurance Invested Assets, 2007–2016P*

(Percent)

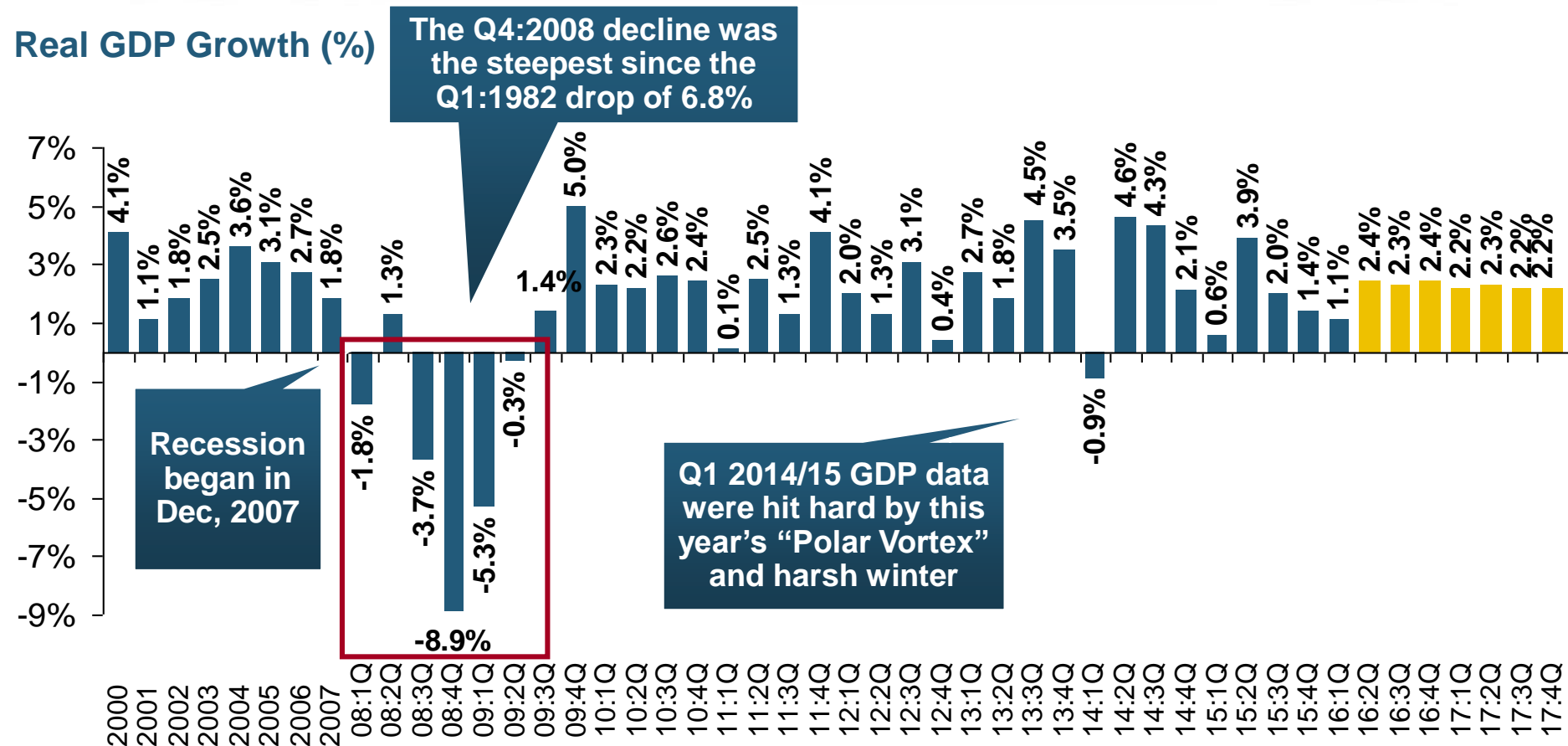


The yield on invested assets remains low relative to pre-crisis yields. The Fed's plan to raise interest rates in late 2015 has pushed up some yields, albeit quite modestly.

THE ECONOMY

**The Strength of the Economy Will Greatly
Influence Insurer Exposure Base
Across Most Lines**

US Real GDP Growth*



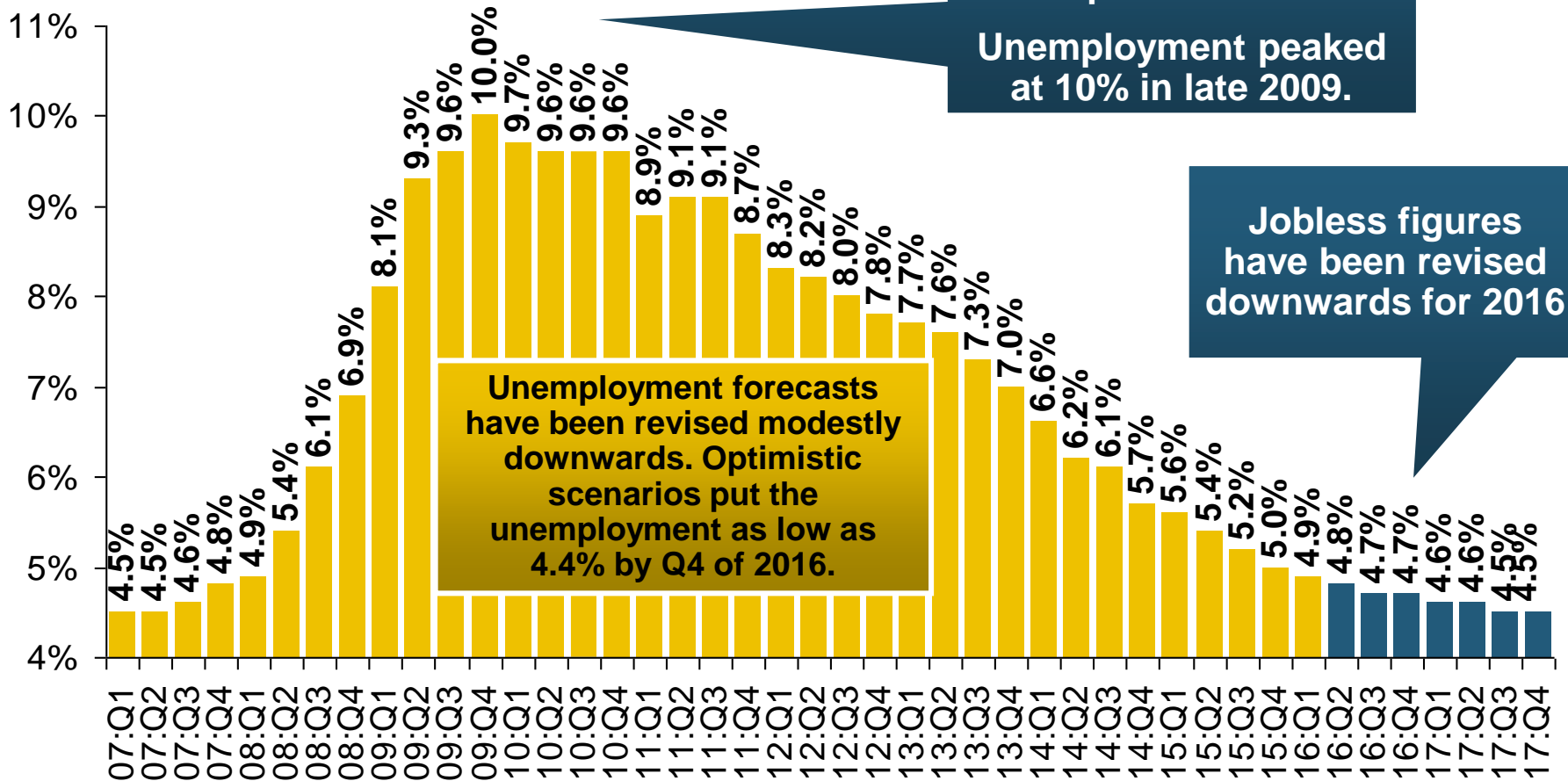
Demand for Insurance Should Increase in 2016 as GDP Growth Continues at a Steady, Albeit Moderate Pace and Gradually Benefits the Economy Broadly

* Estimates/Forecasts from Blue Chip Economic Indicators.

Source: US Department of Commerce, Blue Economic Indicators 6/16; Insurance Information Institute.

US Unemployment Rate Forecast

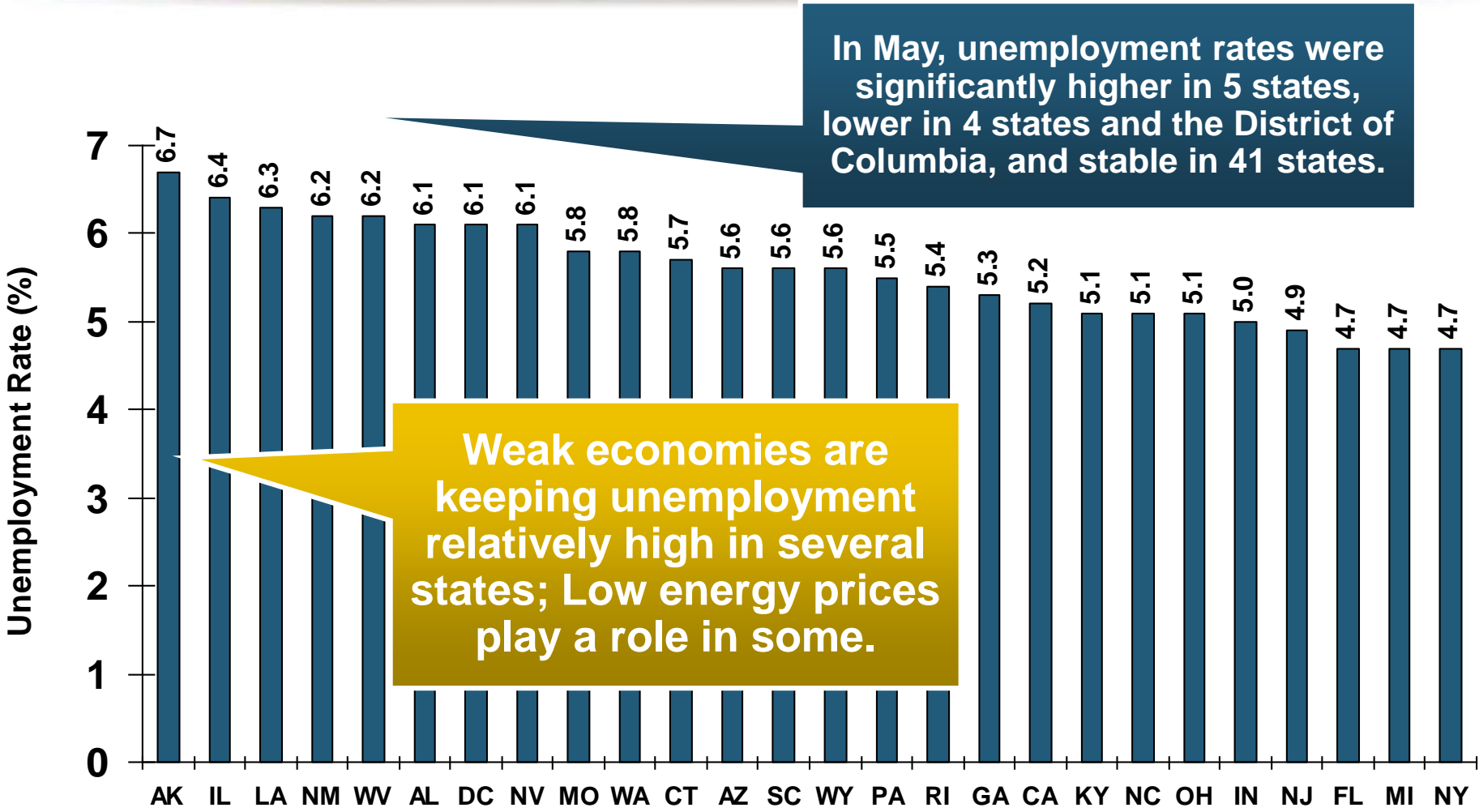
2007:Q1 to 2017:Q4F*



* ■ = actual; ■ = forecasts

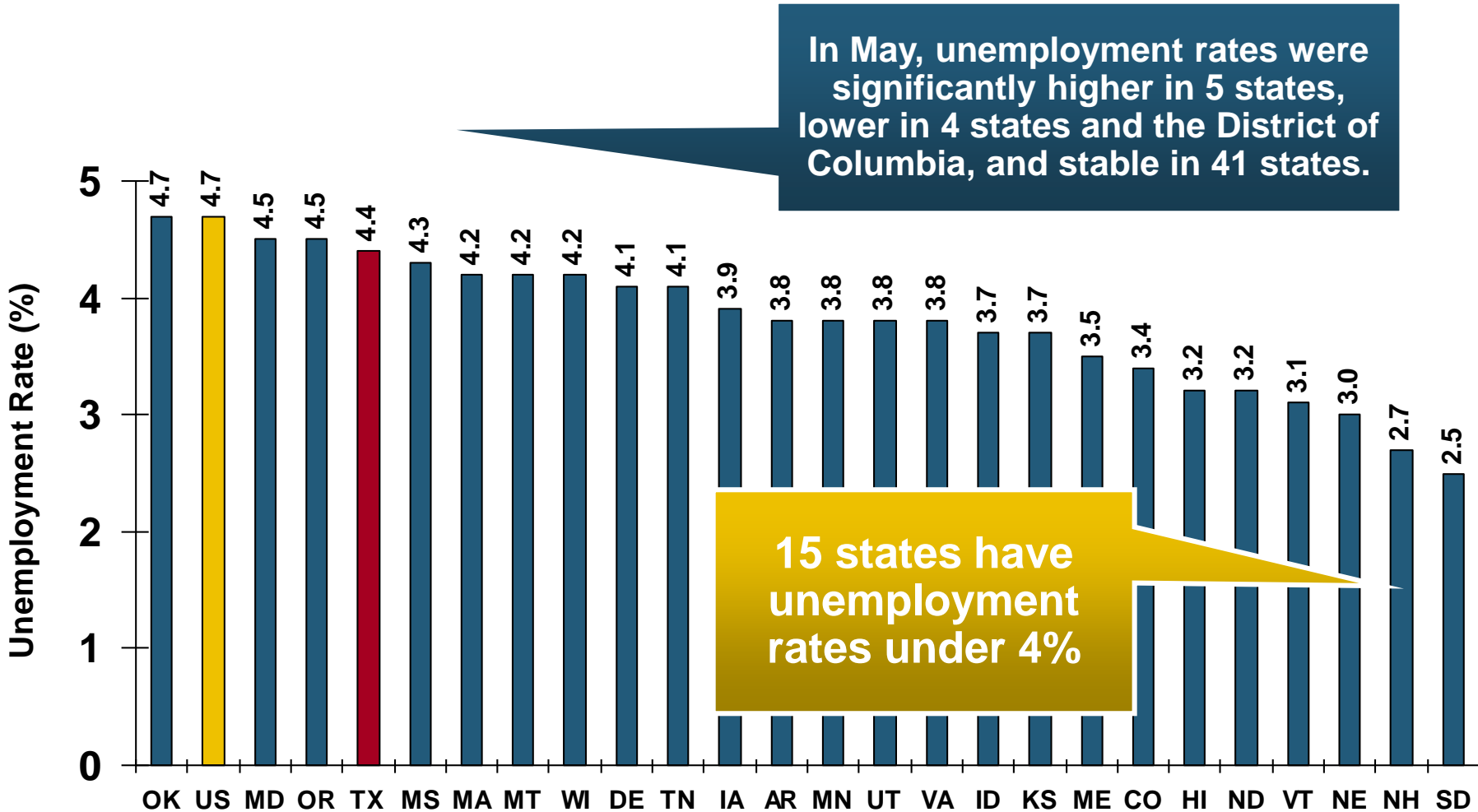
Sources: US Bureau of Labor Statistics; Blue Chip Economic Indicators (6/16 edition); Insurance Information Institute.

Unemployment Rates by State, May 2016: Highest 25 States*



*Provisional figures for May 2016, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Unemployment Rates by State, May 2016: Lowest 25 States*

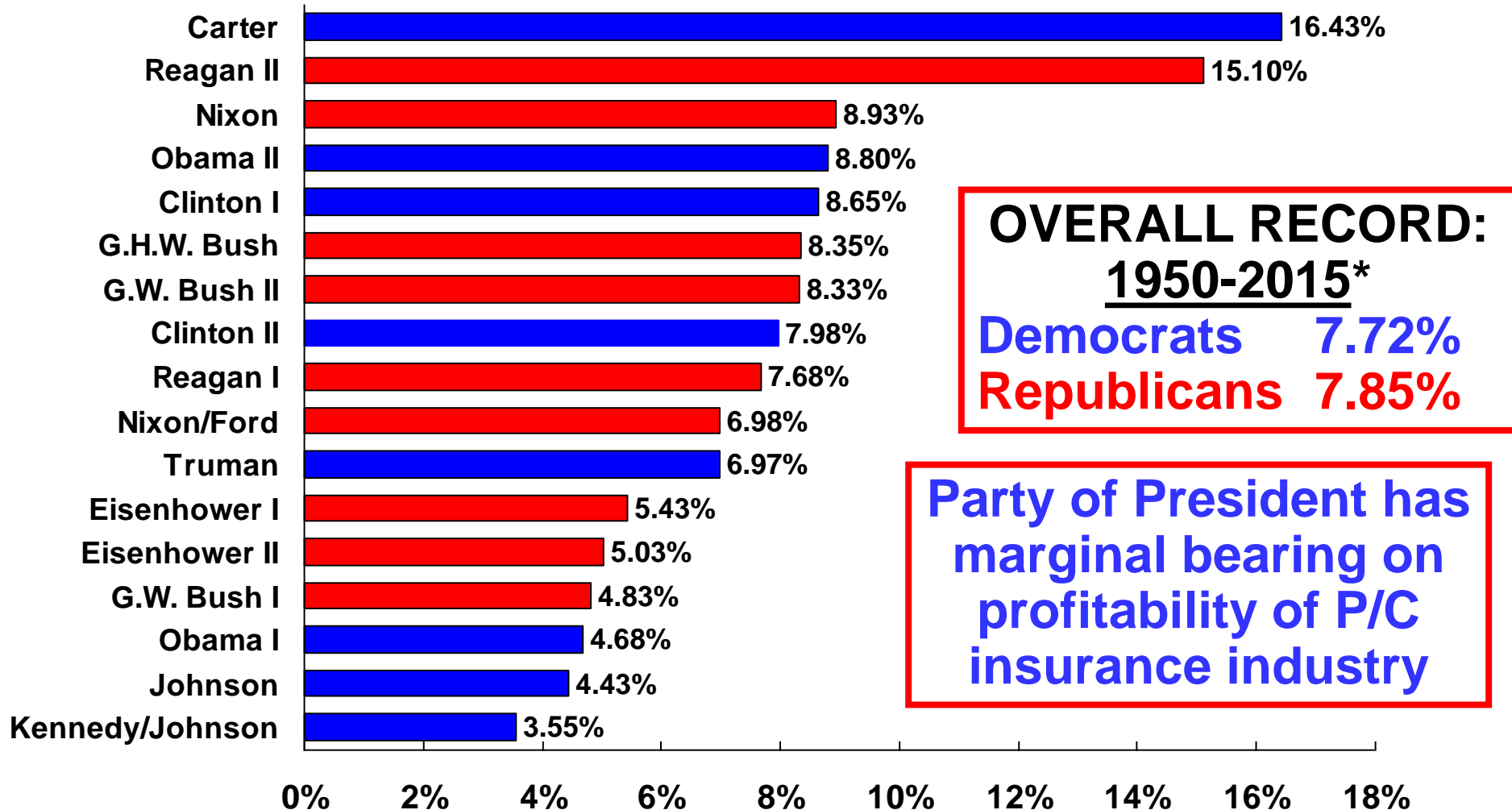


*Provisional figures for May 2016, seasonally adjusted.
Sources: US Bureau of Labor Statistics; Insurance Information Institute.

Profitability & Politics

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

P/C Insurance Industry ROE by Presidential Administration, 1950-2015*

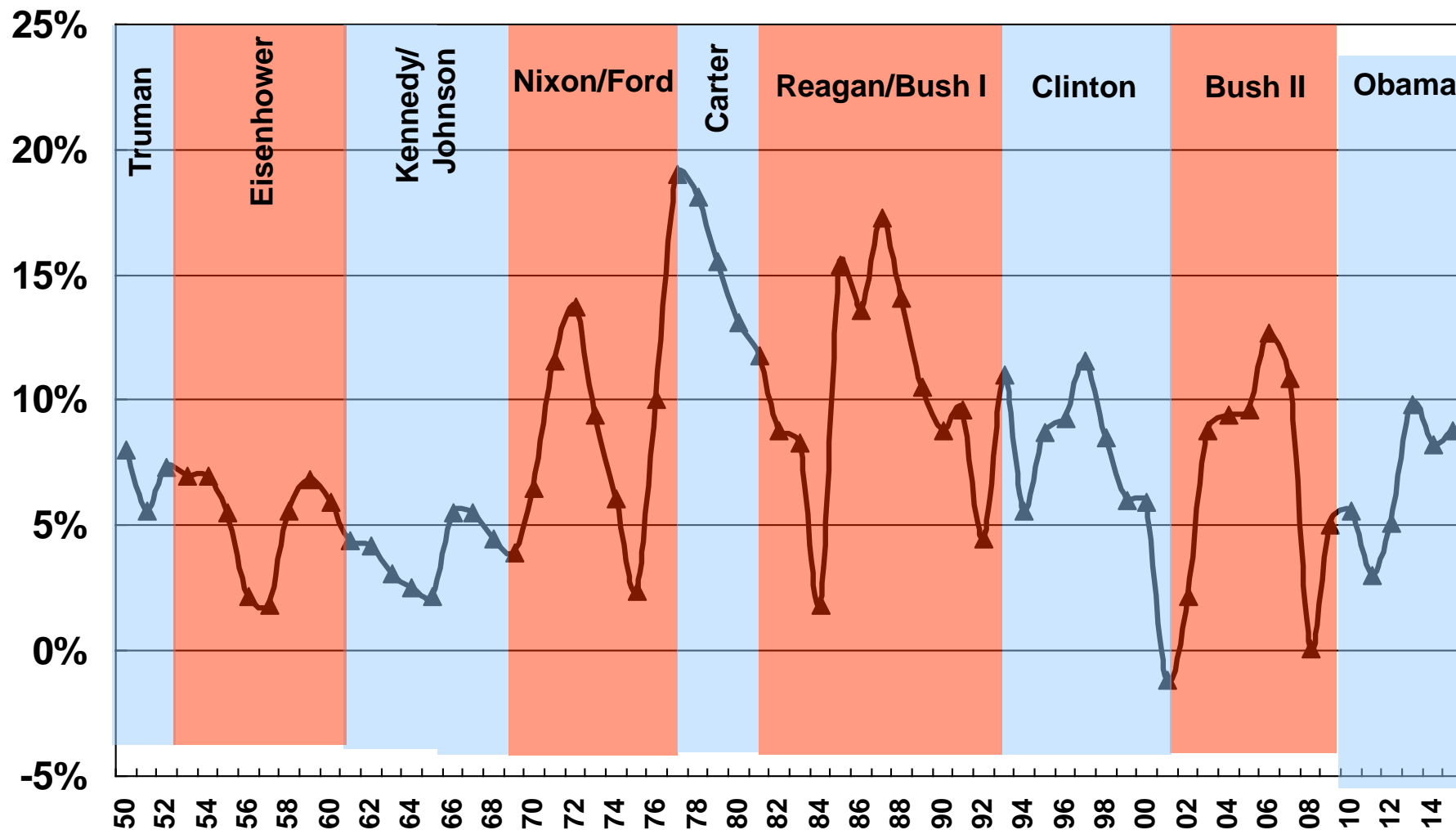


*Truman administration ROE of 6.97% based on 3 years only, 1950-52;.
Source: Insurance Information Institute

P/C insurance Industry ROE by Presidential Party Affiliation, 1950- 2015*

BLUE = Democratic President

RED = Republican President



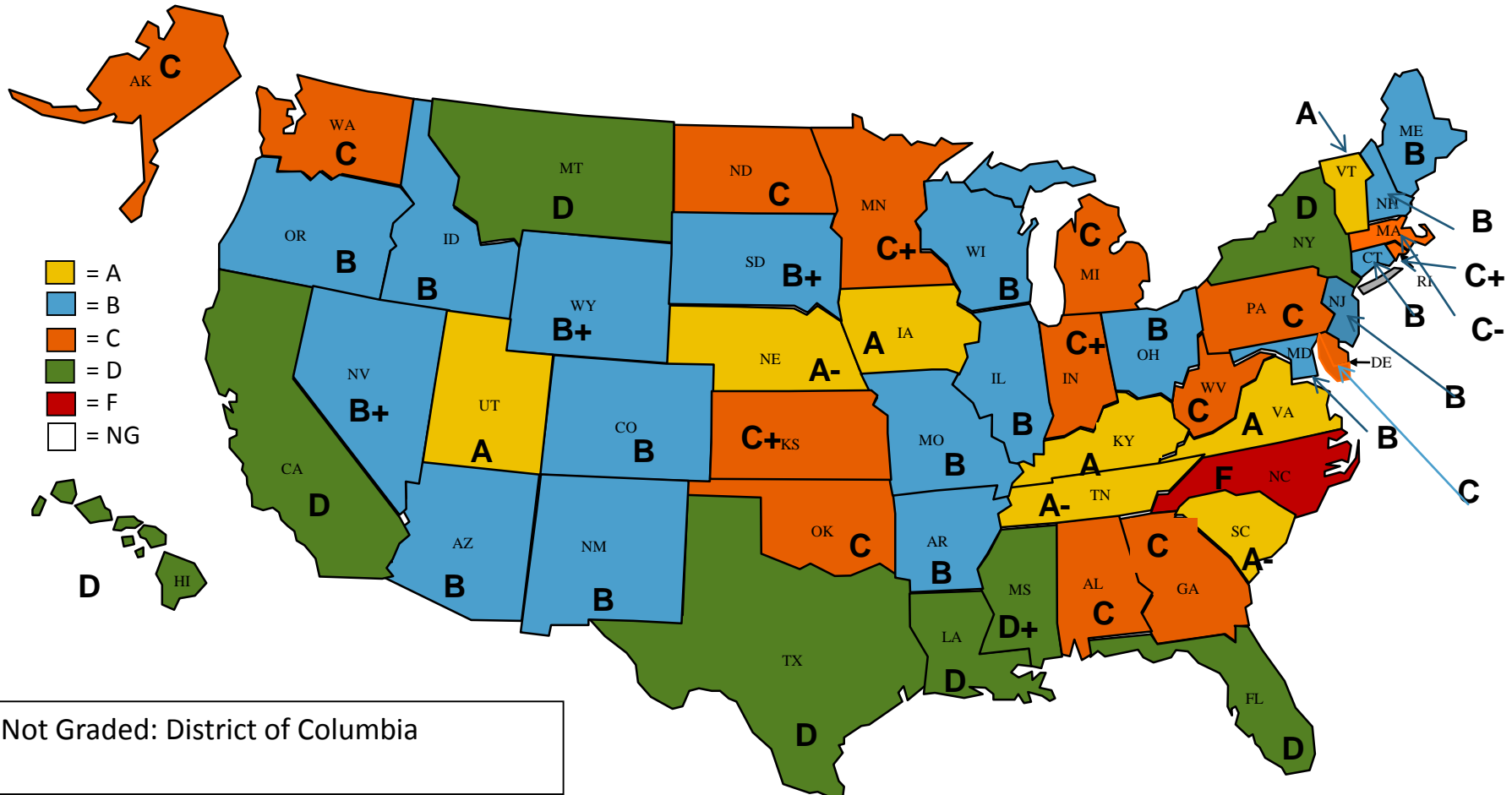
*2015 data is through Q3.

Source: Insurance Information Institute

Trump vs. Clinton: Issues that Matter to P/C Insurers

Issue	Trump	Clinton
Economy	<i>Supply Side-Like Philosophy:</i> Lower taxes→Faster real GDP growth; Deficits likely grow as tax cuts are combined with targeted increased spending on Homeland Security, Defense, etc.	<i>Keynesian Philosophy:</i> More government spending on infrastructure, education, social services; Deficits likely increase as tax increases likely difficult to pass
Interest Rates	May trend higher with larger deficits; Shift from monetary policy to fiscal focus (tax cuts, government spending)	Status quo at the Fed; Net impact on interest rates unclear
Taxes	Favors lower tax rates for corporate and personal income tax rates; Tax code overhaul?	Unlikely to reduce taxes or embark on major overhaul of tax code
International Trade	Protectionist Tendencies (appeal primarily to manufacturing sector)	Has criticized Trans-Pacific Partnership but is a realist on international matters
Tort System	Doesn't like trial lawyers but seems to like filing lawsuits	Status Quo
Health Care	ACA should be repealed & replaced	Incremental Change

2015 Property and Casualty Insurance Regulatory Report Card



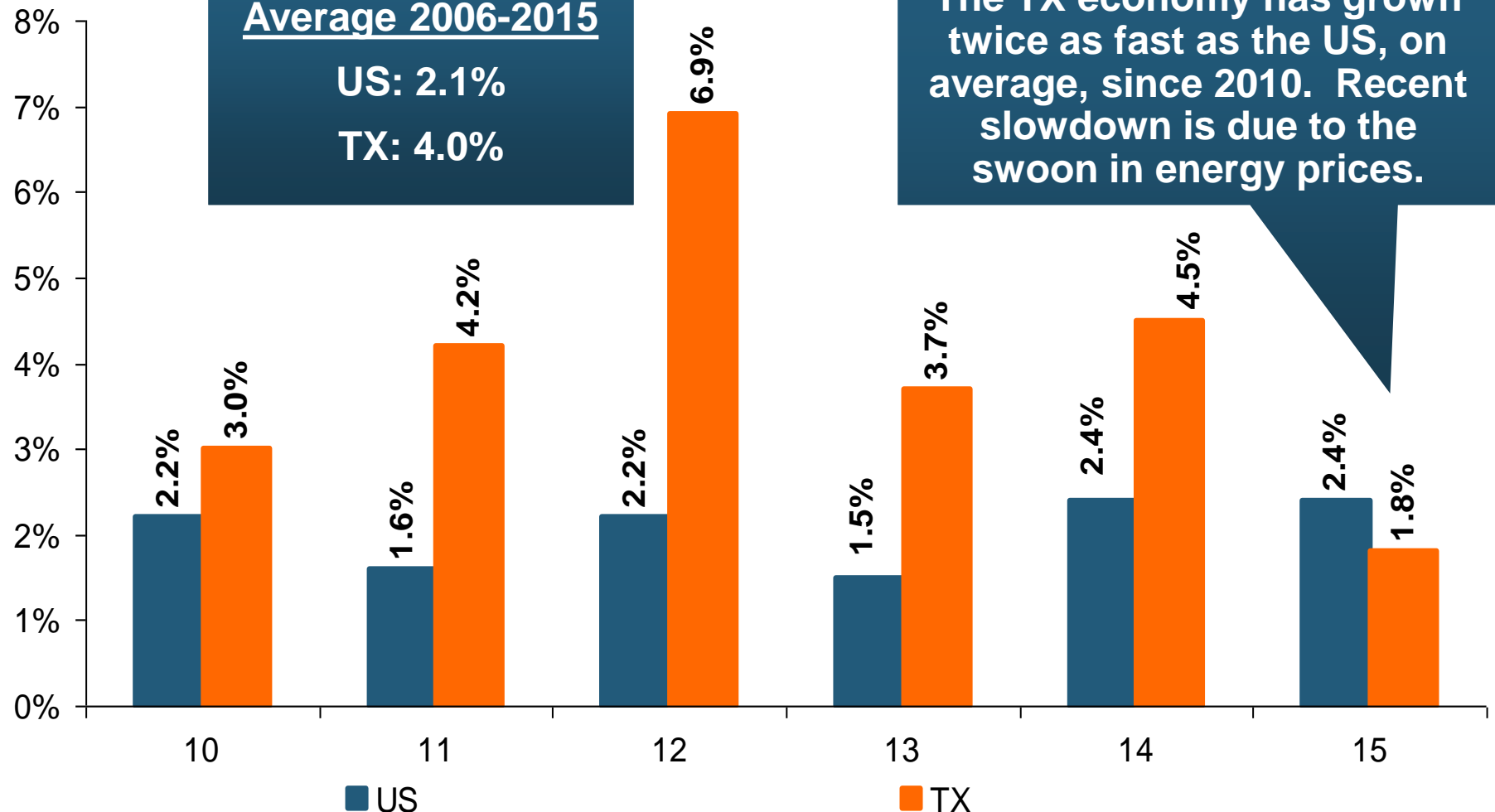
Source: R Street Insurance Regulation Report Card, December 2015

Profitability and Growth in Texas P/C Insurance Markets

Analysis by Line and Nearby State Comparisons

Real GDP Growth: TX vs. U.S., 2010-2015*

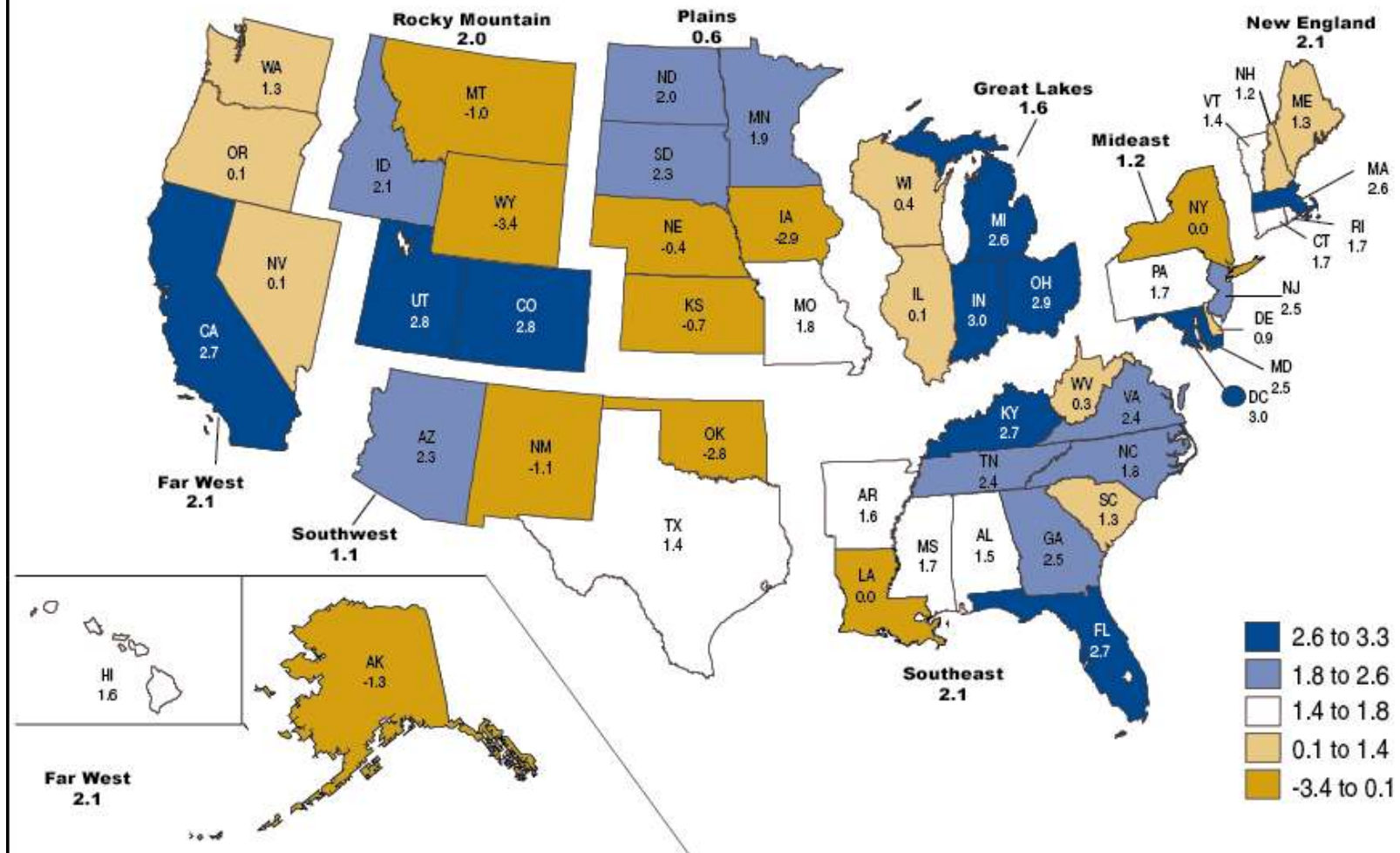
(Percent)



*2015 Texas figure is average of Q1 through Q3 (latest available).
Source: US Bureau of Economic Analysis; Insurance Information Institute.

Real GDP Growth by State: 2015:III - 2015:IV

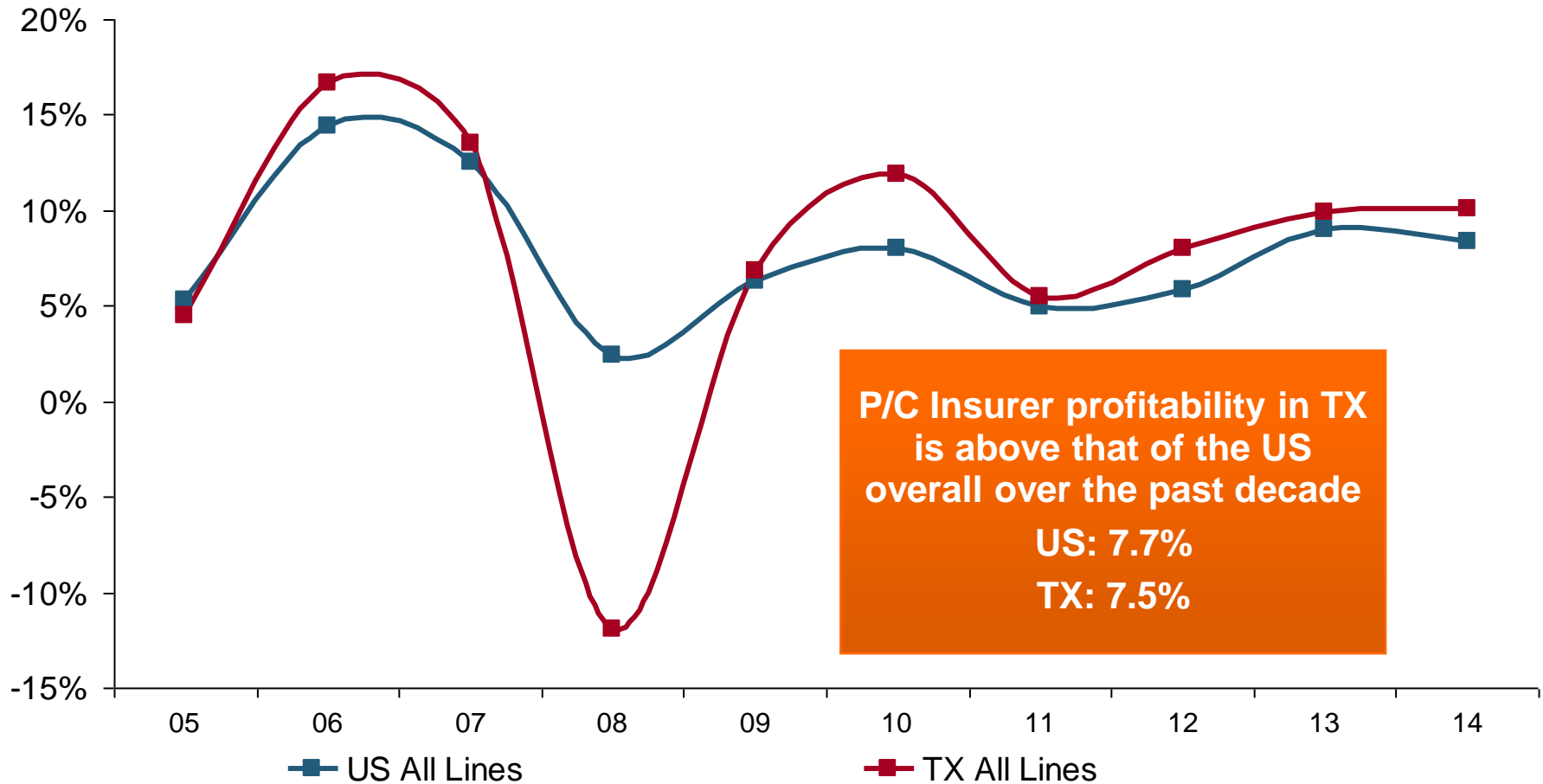
Chart 1. Percent Change in Real GDP by State, 2015:III-2015:IV, Seasonally Adjusted at Annual Rates



U.S. Bureau of Economic Analysis

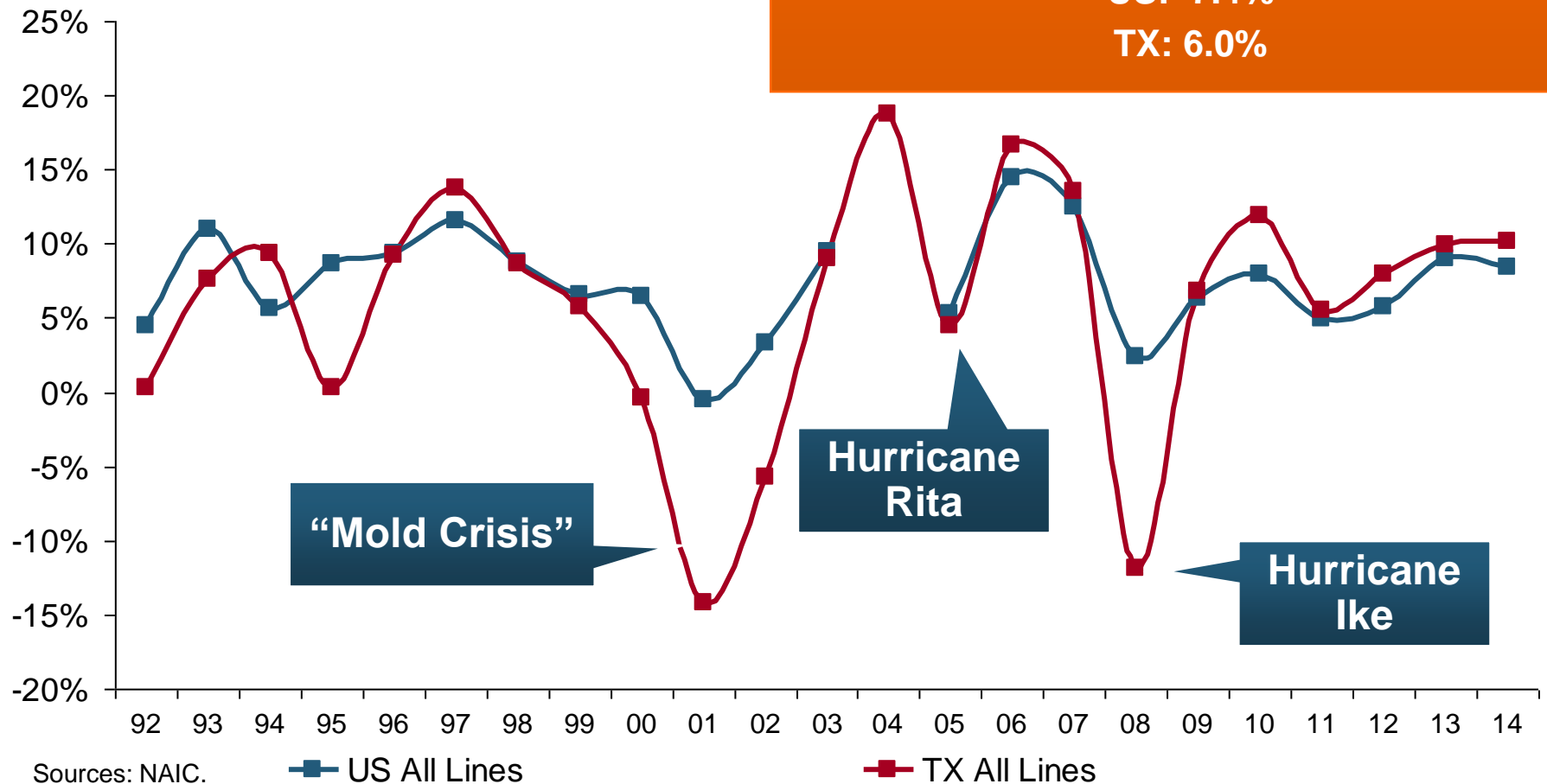
RNW All Lines: TX vs. U.S., 2005-2014

(Percent)

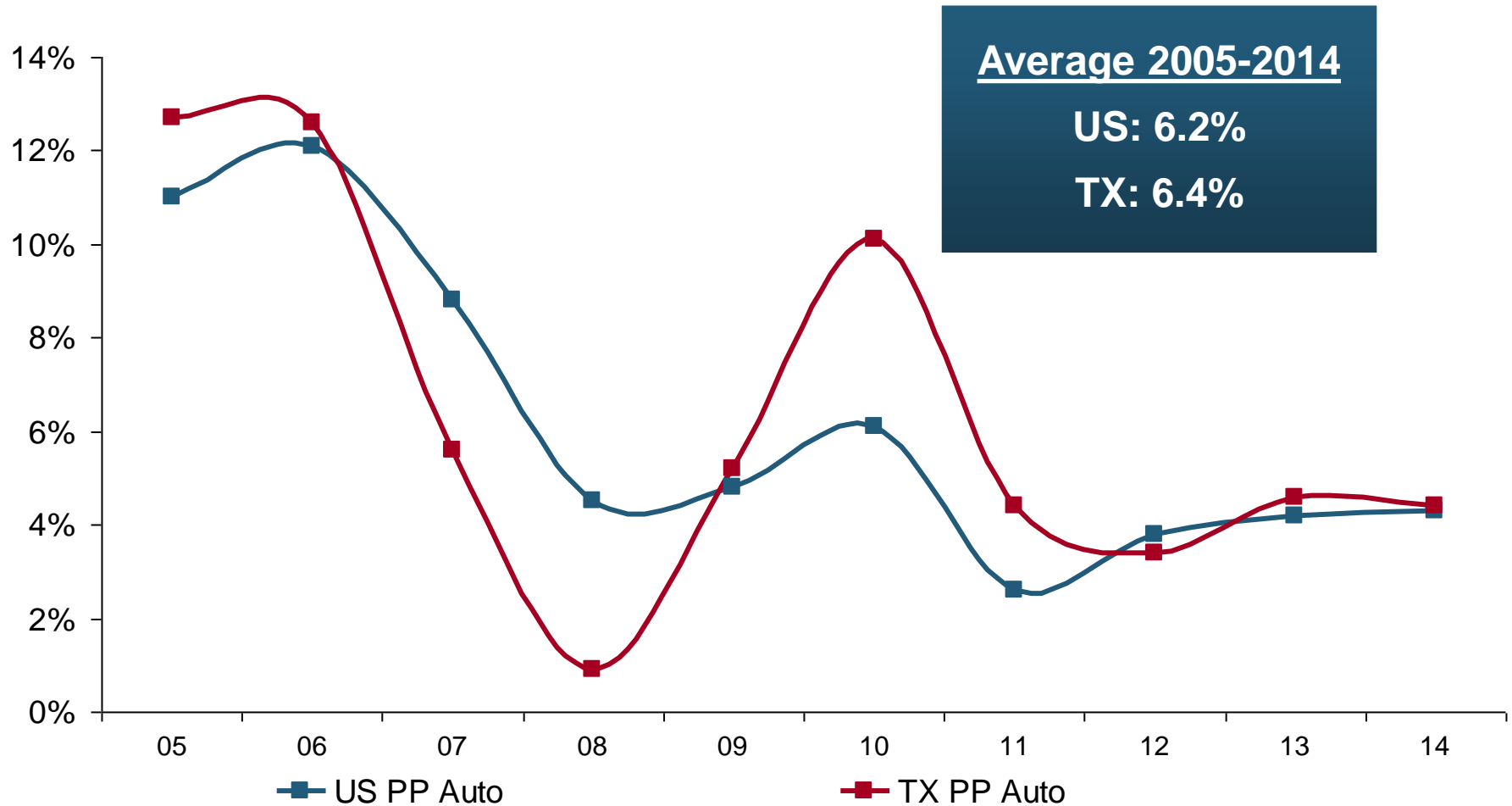


RNW All Lines: TX vs. U.S., 1992-2014

(Percent)

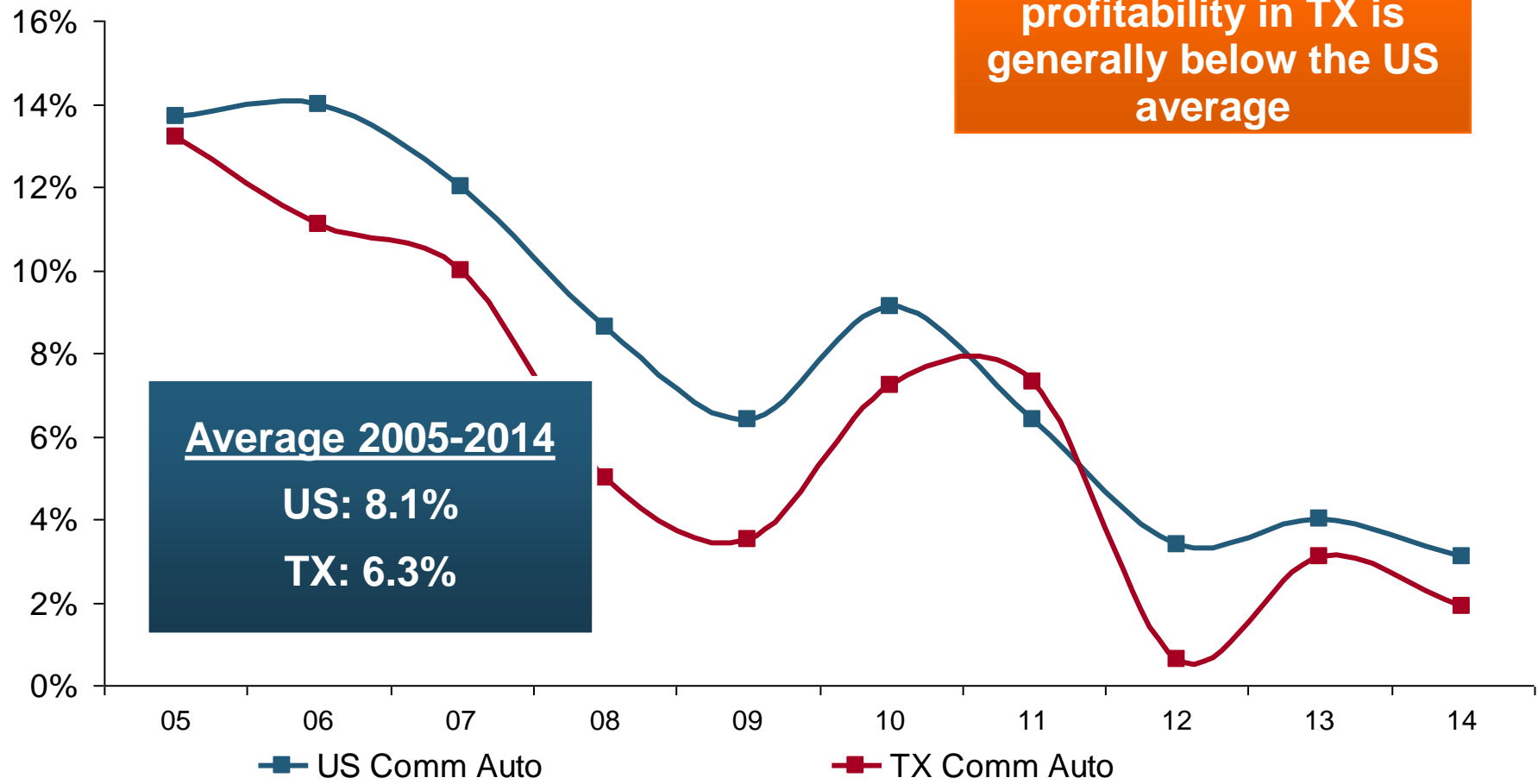


RNW PP Auto: TX vs. U.S., 2005-2014



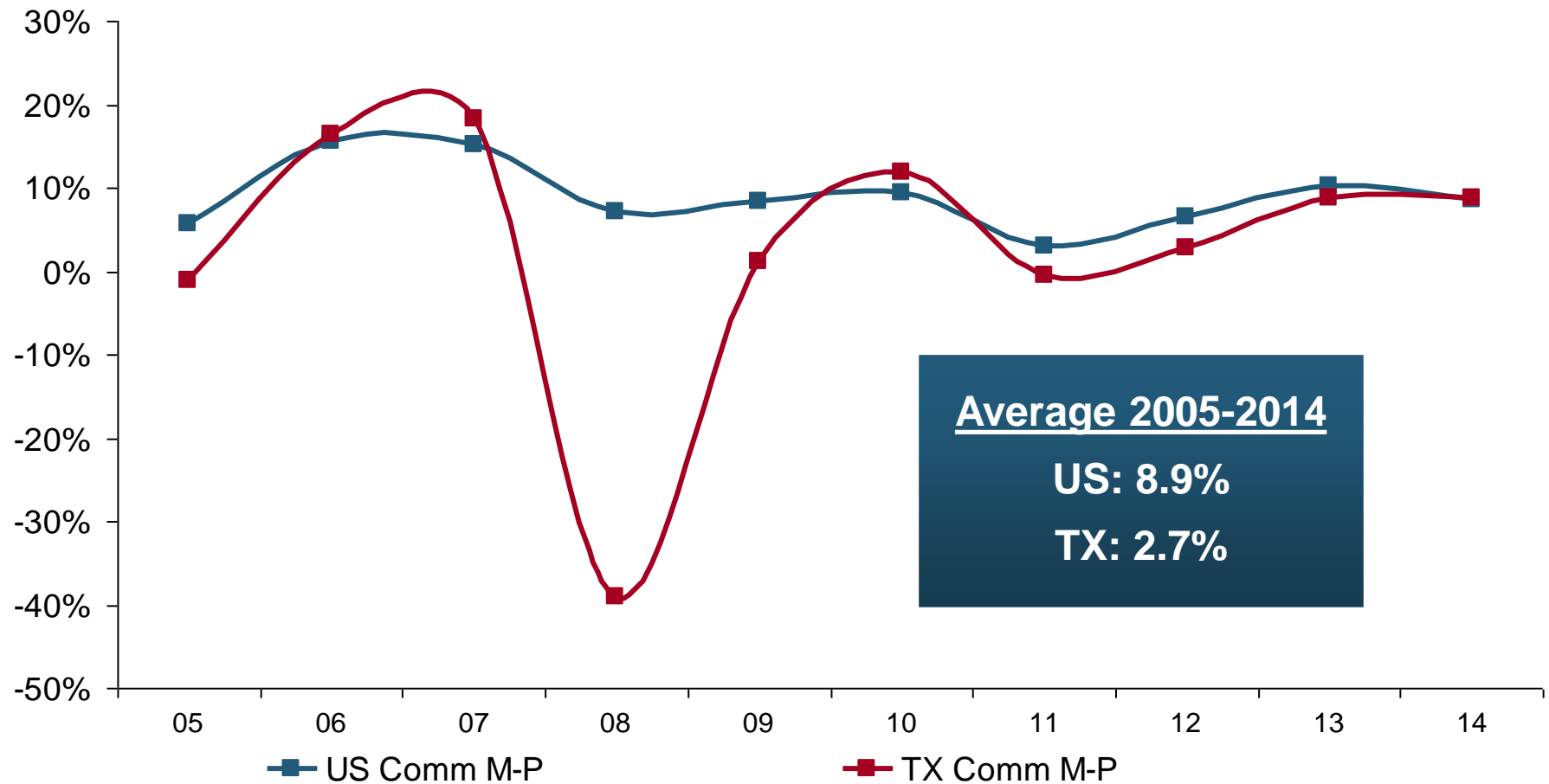
RNW Comm. Auto: TX vs. U.S., 2005-2014

(Percent)



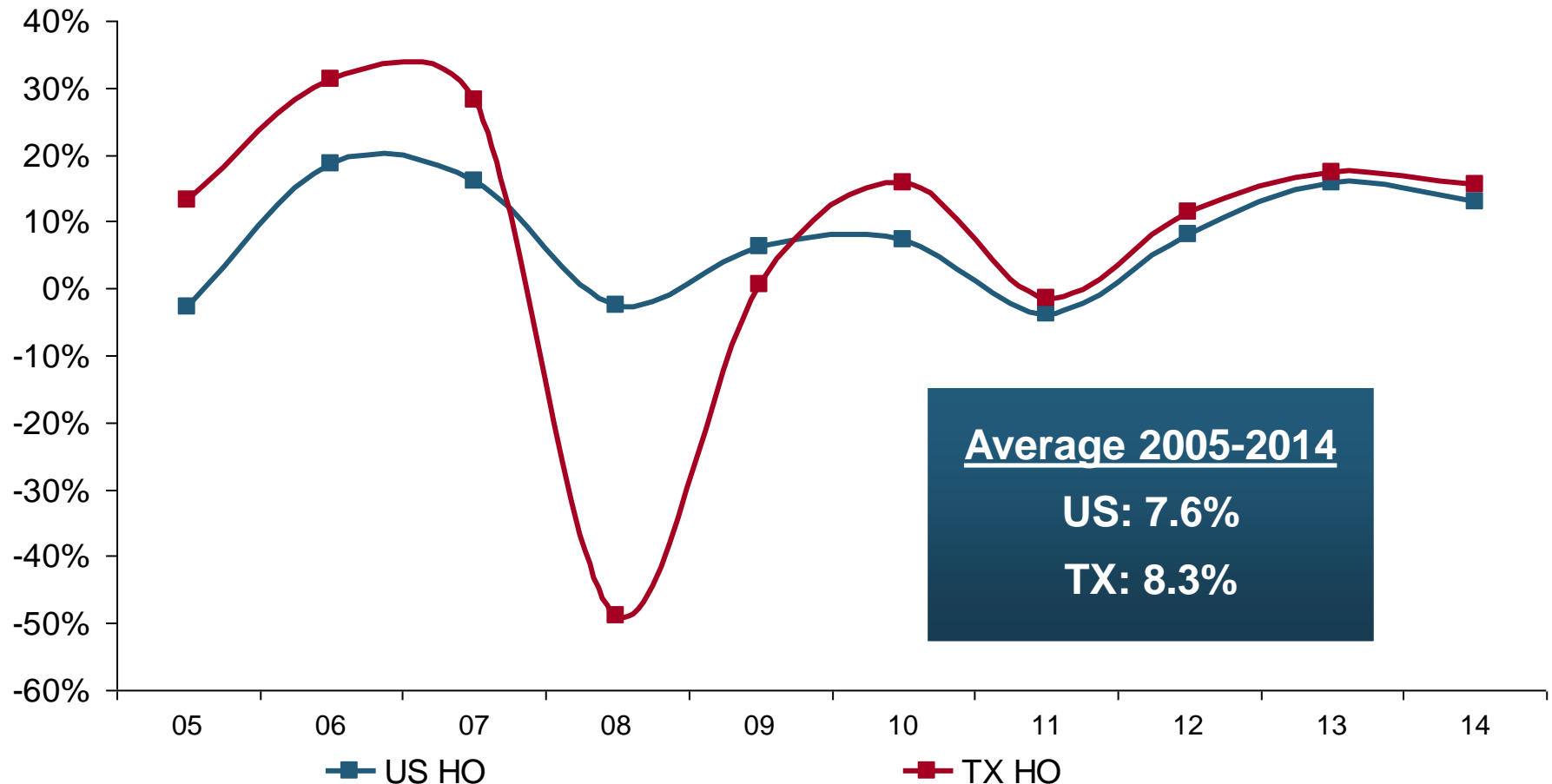
RNW Comm. Multi-Peril: TX vs. U.S., 2005-2014

(Percent)



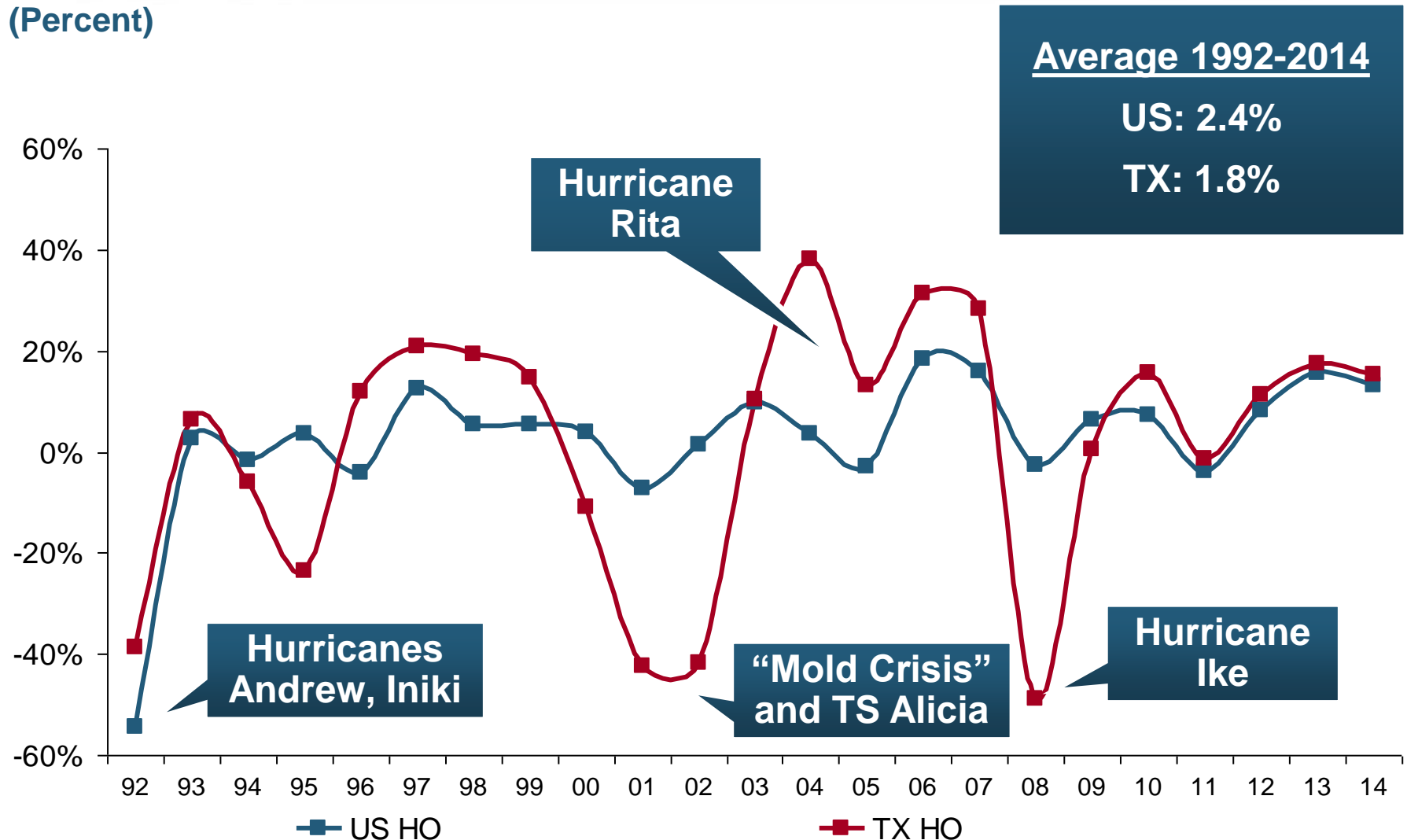
RNW Homeowners: TX vs. U.S., 2005-2014

(Percent)



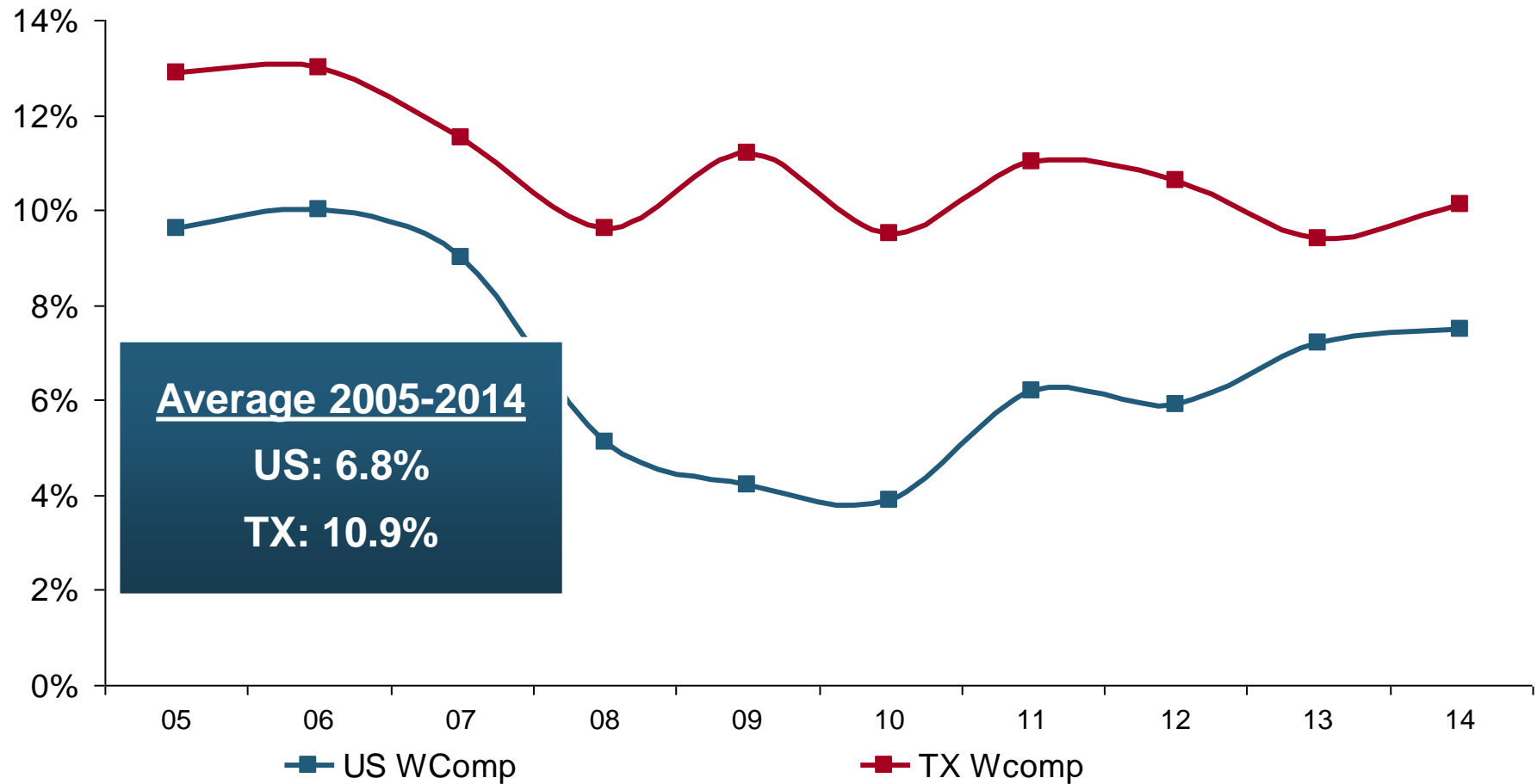
RNW Homeowners: TX vs. U.S., 1992-2014

(Percent)



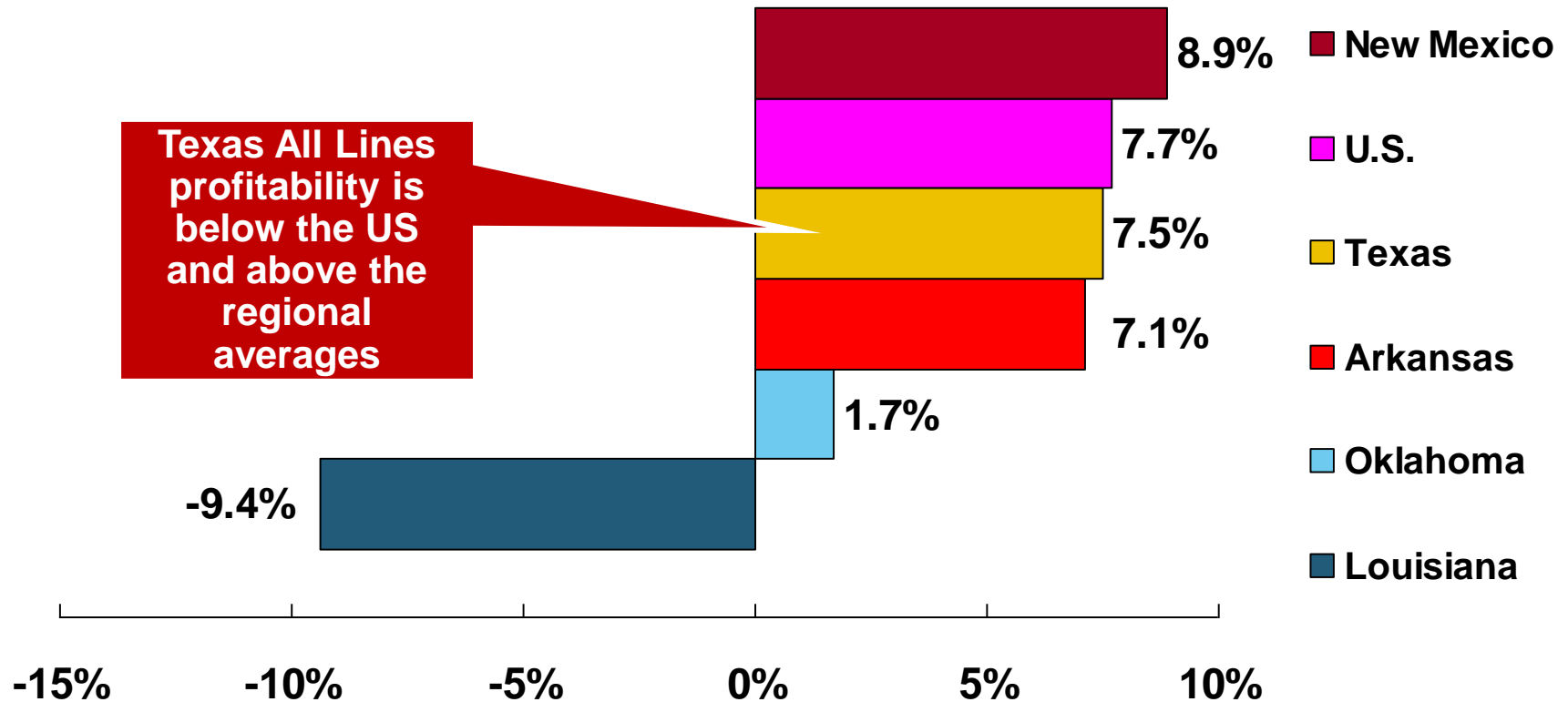
RNW Workers Comp: TX vs. U.S., 2005-2014

(Percent)



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

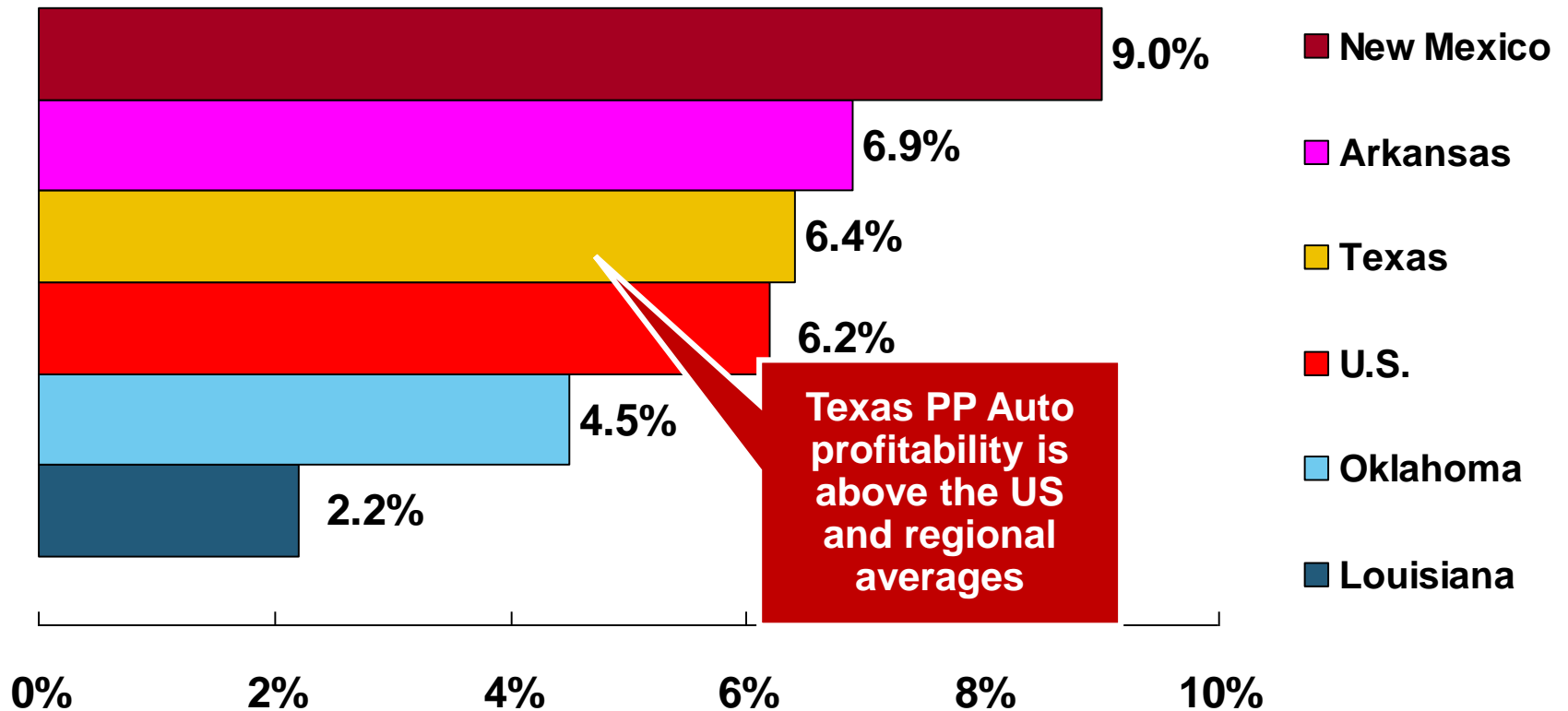
2005-2014



Source: NAIC, Insurance Information Institute

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

2005-2014



Source: NAIC, Insurance Information Institute

Top Ten Most Expensive And Least Expensive States For Automobile Insurance, 2013 (1)

Rank	Most expensive states	Average expenditure	Rank	Least expensive states	Average expenditure
1	New Jersey	\$1,254.10	1	Idaho	\$553.38
2	D.C.	1,187.49	2	Iowa	572.14
3	New York	1,181.86	3	South Dakota	580.99
4	Louisiana	1,146.29	4	Maine	592.82
5	Florida	1,143.83	5	North Dakota	604.58
6	Michigan	1,131.40	6	Wisconsin	621.05
7	Delaware	1,101.12	7	Indiana	621.71
8	Rhode Island	1,066.25	8	North Carolina	624.76
9	Connecticut	1,011.27	9	Nebraska	638.74
10	Massachusetts	1,007.98	10	Wyoming	639.71

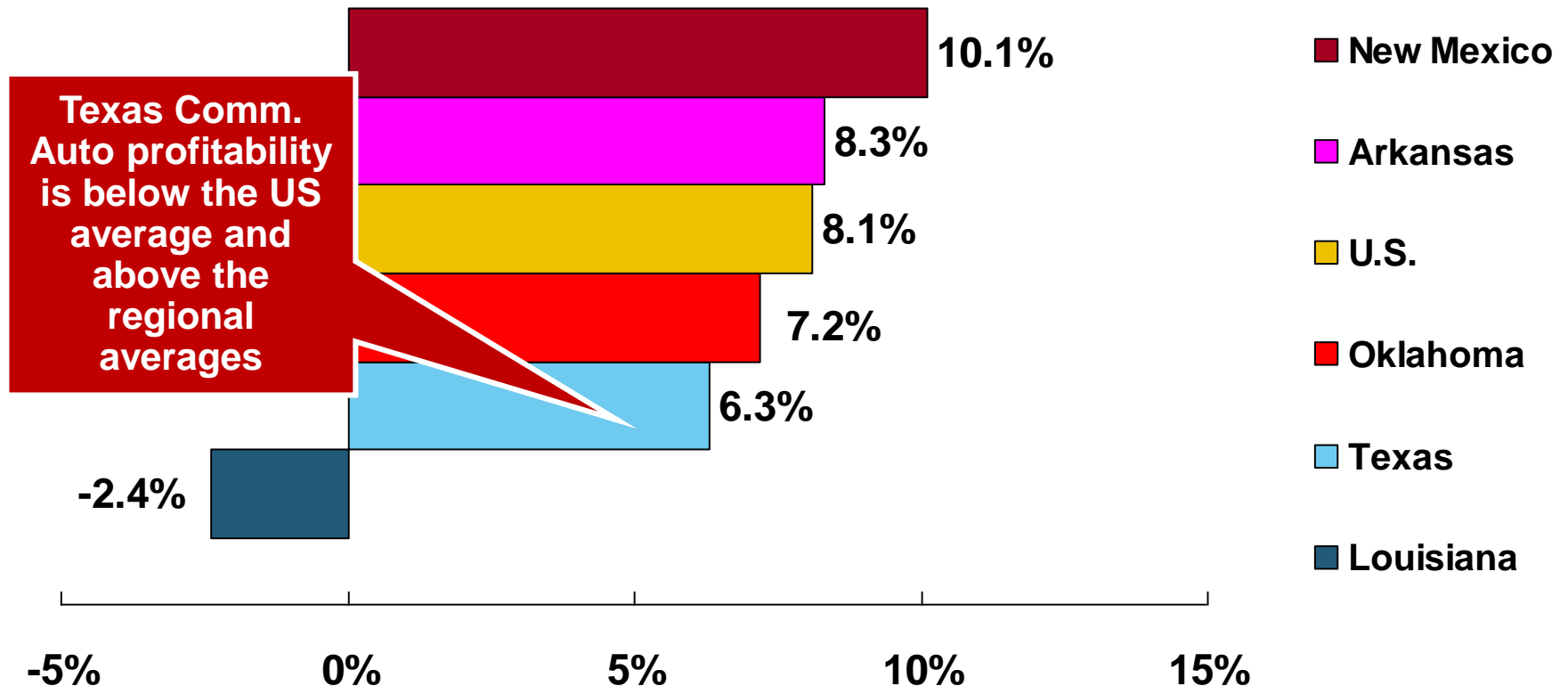
Texas ranked 13th as the most expensive state in 2013, with an average expenditure for auto insurance of \$895.44.

(1) Based on average automobile insurance expenditures.

Source: © 2016 National Association of Insurance Commissioners.

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

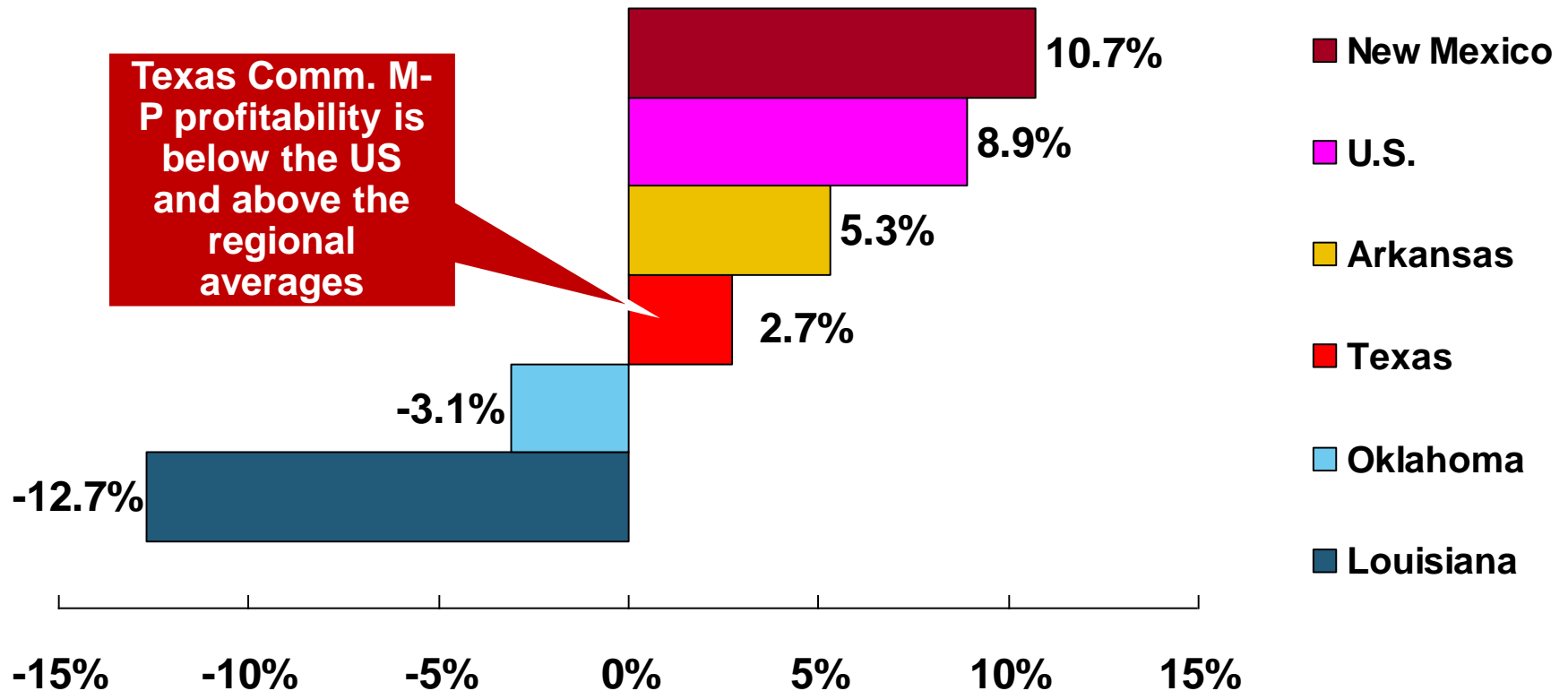
2005-2014



Source: NAIC, Insurance Information Institute

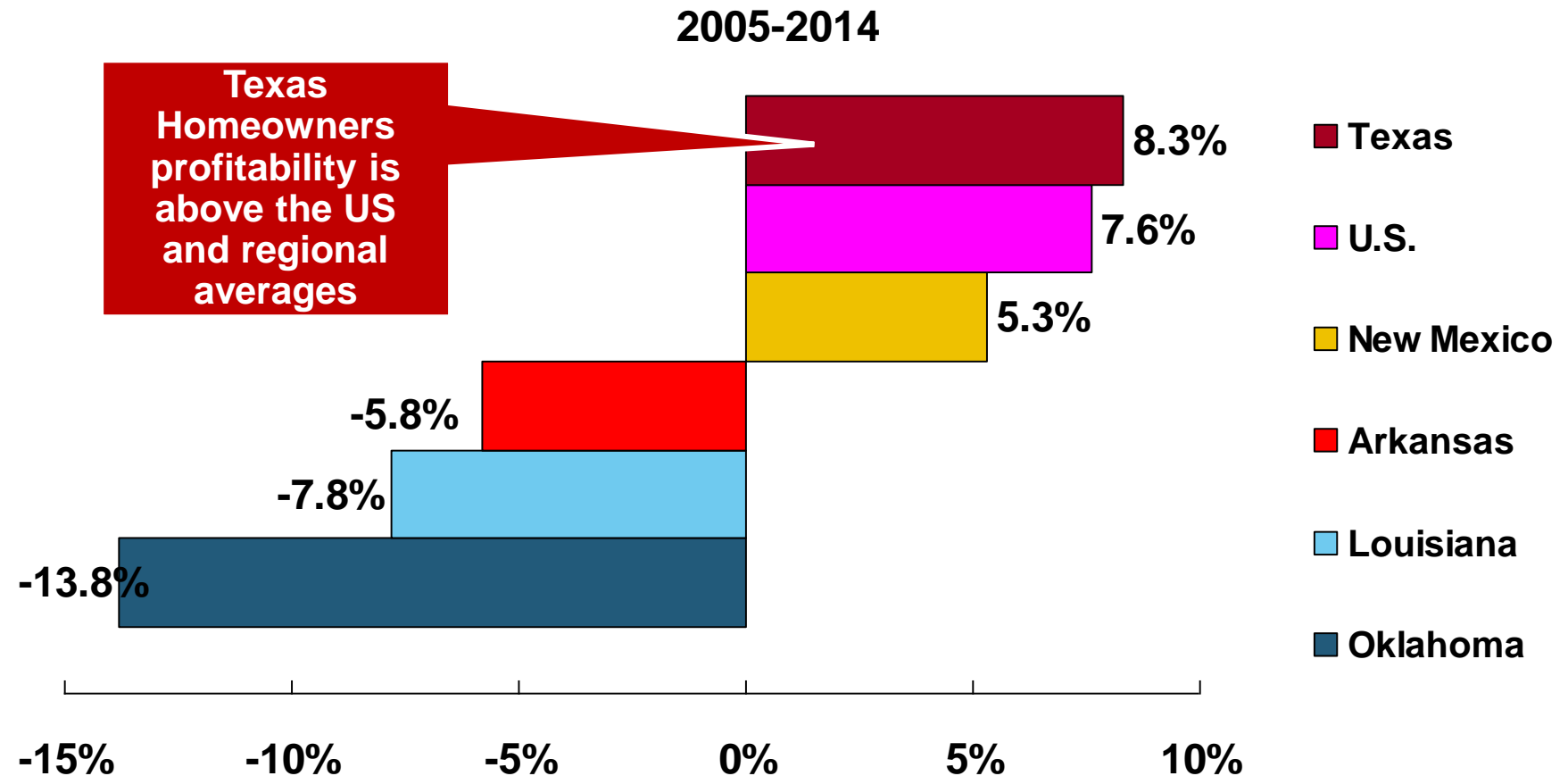
Comm. M-P: 10-Year Average RNW TX & Nearby States

2005-2014



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, 2013 (1)

Texas ranked as the 2nd most expensive state for homeowners insurance in 2013, with an average expenditure of \$1,837.

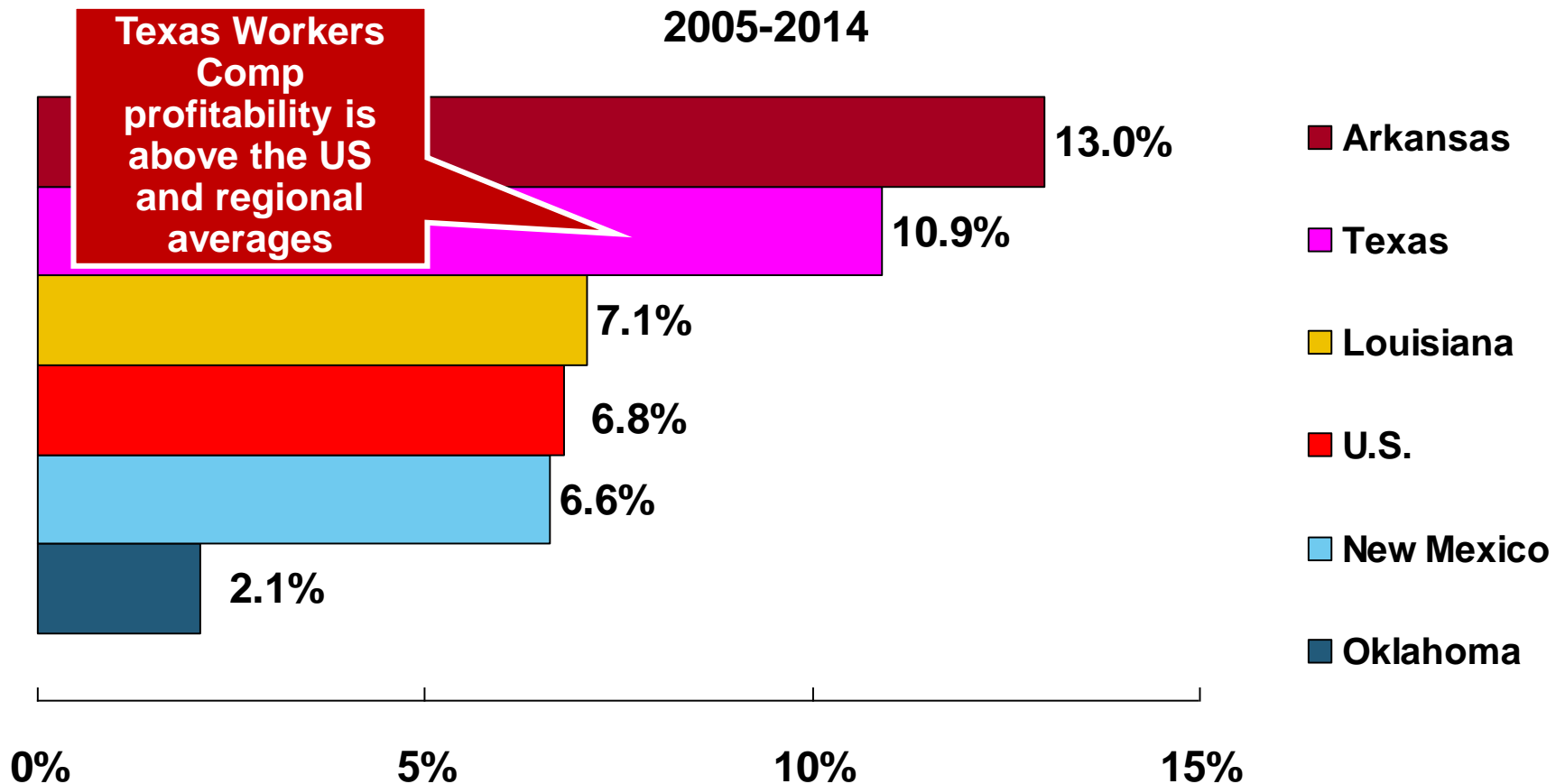
Rank	Most expensive states	HO average premium	Rank	Least expensive states	HO average premium
1	Florida	\$2,115	1	Idaho	561
2	Texas (2)	1,837	2	Oregon	568
3	Louisiana	1,822	3	Utah	609
4	Oklahoma	1,654	4	Wisconsin	665
5	Mississippi	1,395	5	Washington	676
6	Kansas	1,343	6	Nevada	687
7	Rhode Island	1,334	7	Delaware	709
8	Alabama	1,323	8	Arizona	724
9	Connecticut	1,274	9	Ohio	763
10	Massachusetts	1,263	10	Maine	776

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

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

Source: ©2016 National Association of Insurance Commissioners (NAIC). Reprinted with permission. Further reprint or distribution strictly prohibited without written permission of NAIC.

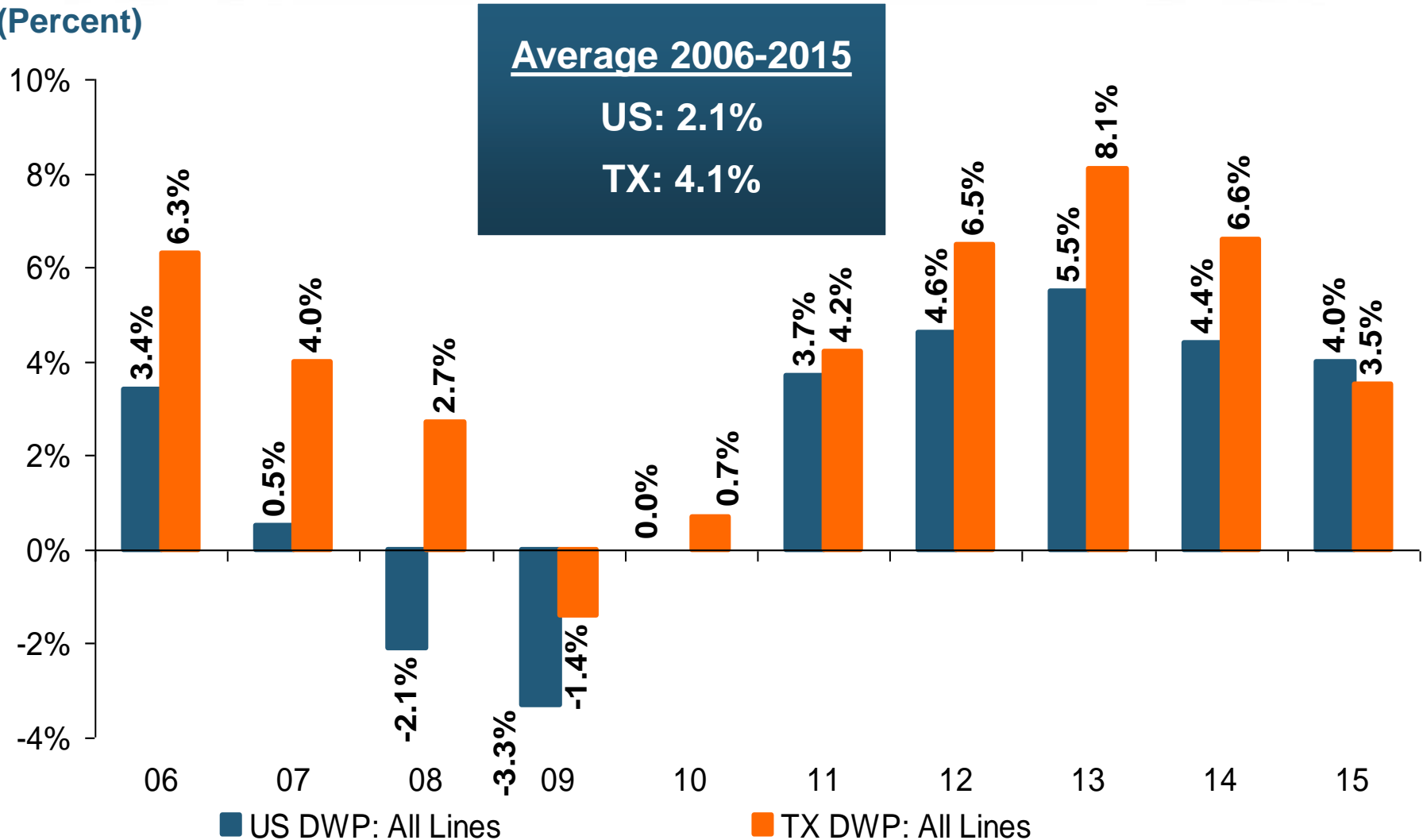
Workers Comp.: 10-Year Average RNW TX & Nearby States



Source: NAIC, Insurance Information Institute

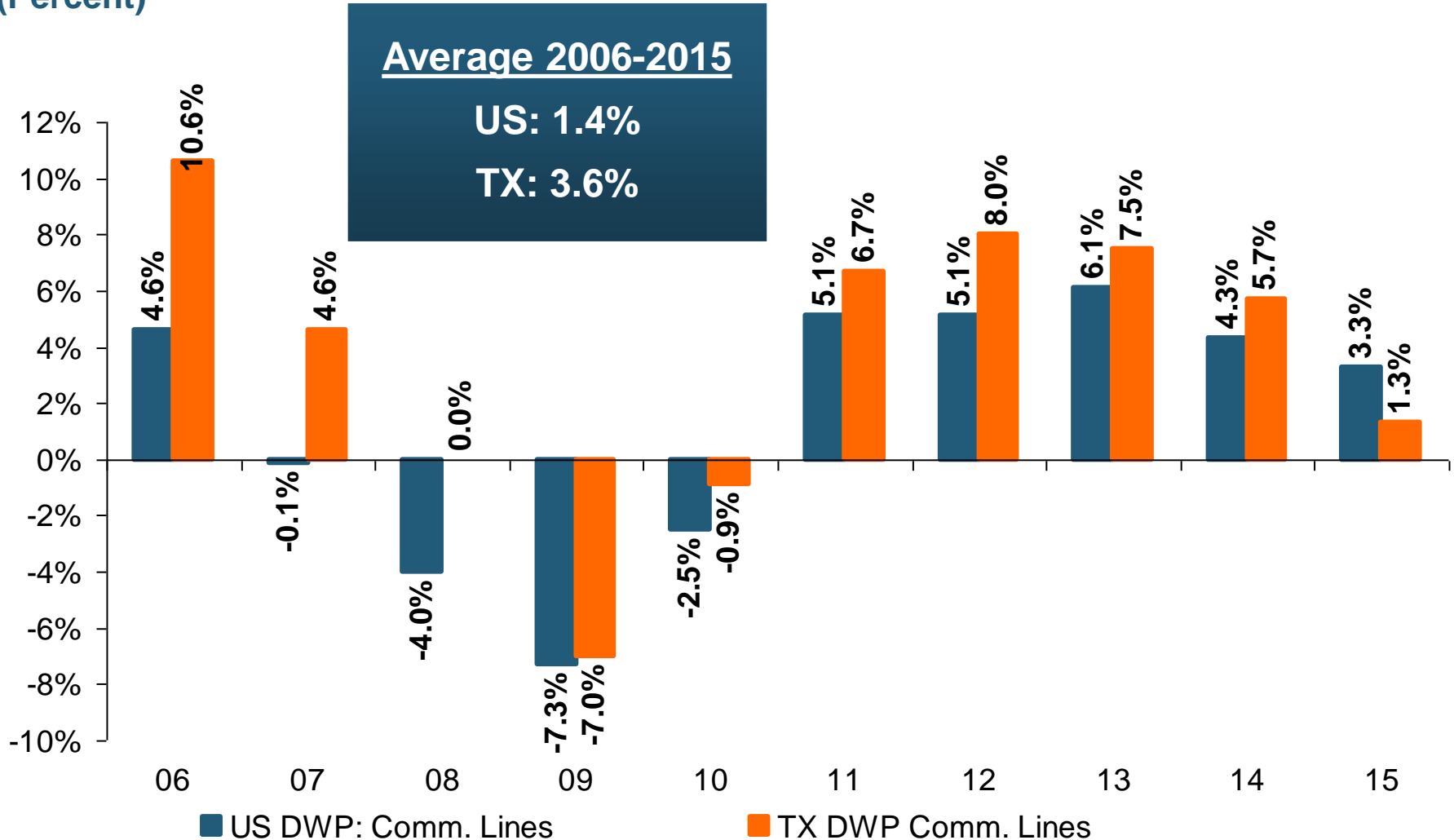
All Lines DWP Growth: TX vs. U.S., 2006-2015

(Percent)



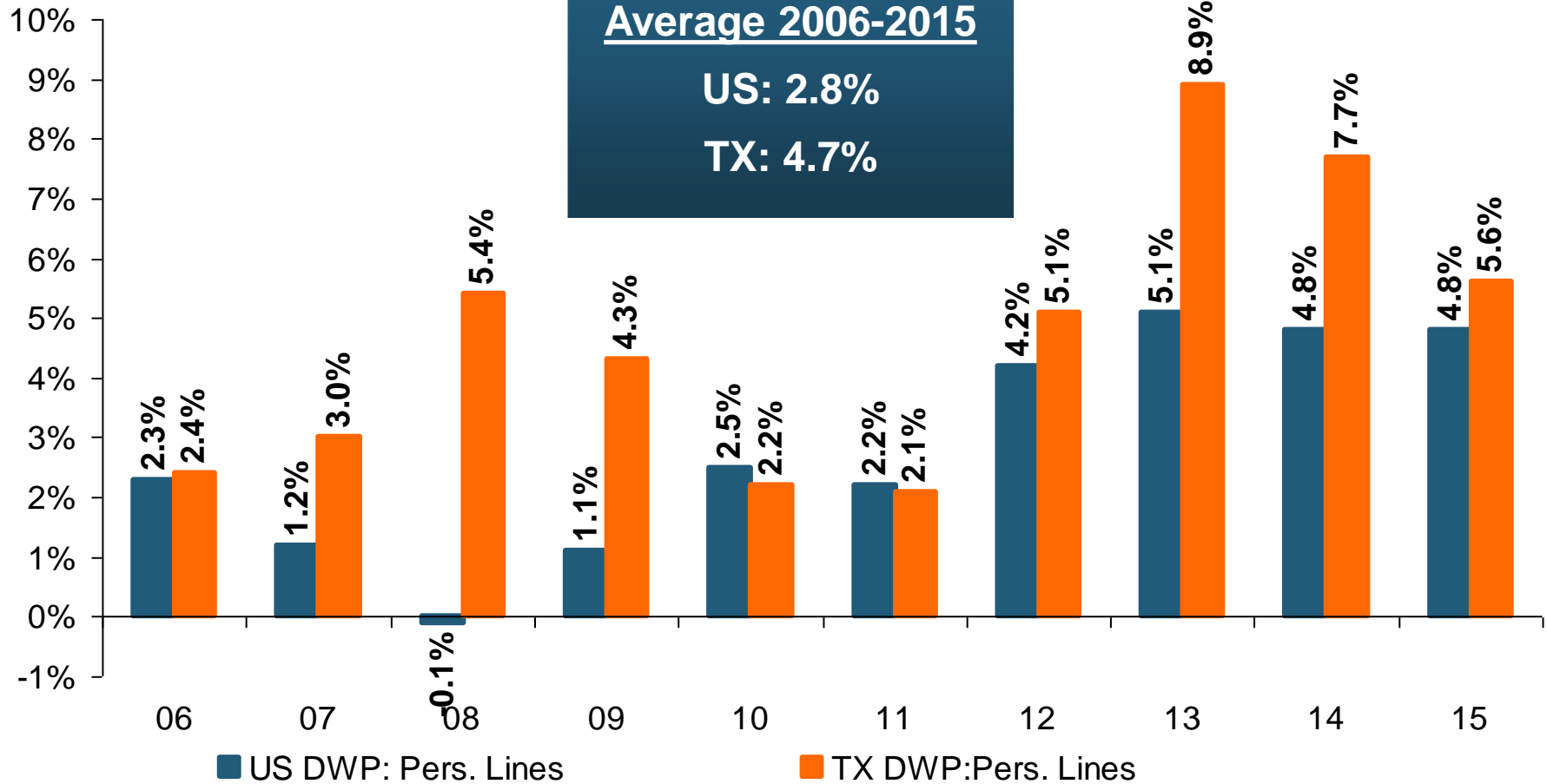
Comm. Lines DWP Growth: TX vs. U.S., 2006-2015

(Percent)



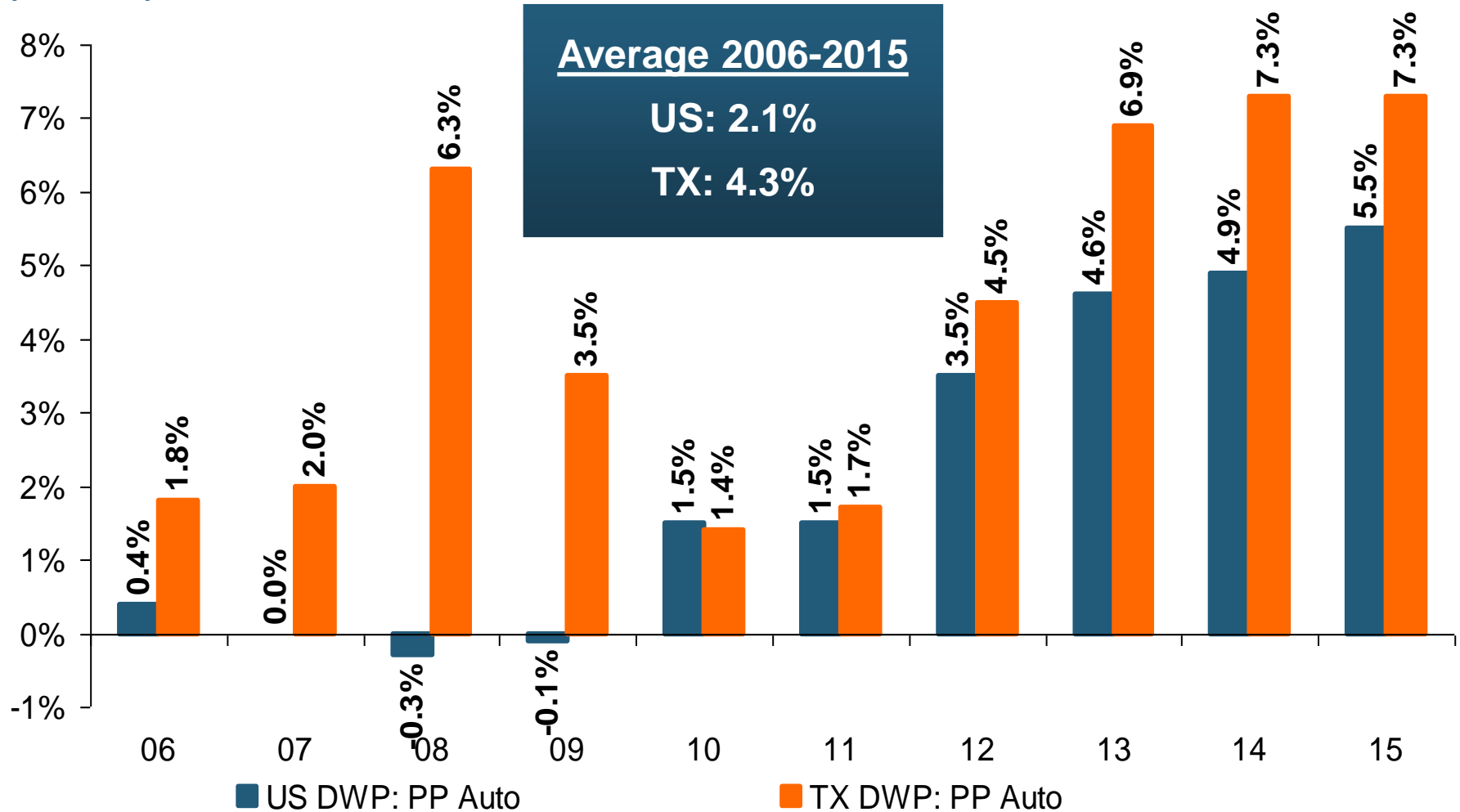
Personal Lines DWP Growth: TX vs. U.S., 2006-2015

(Percent)



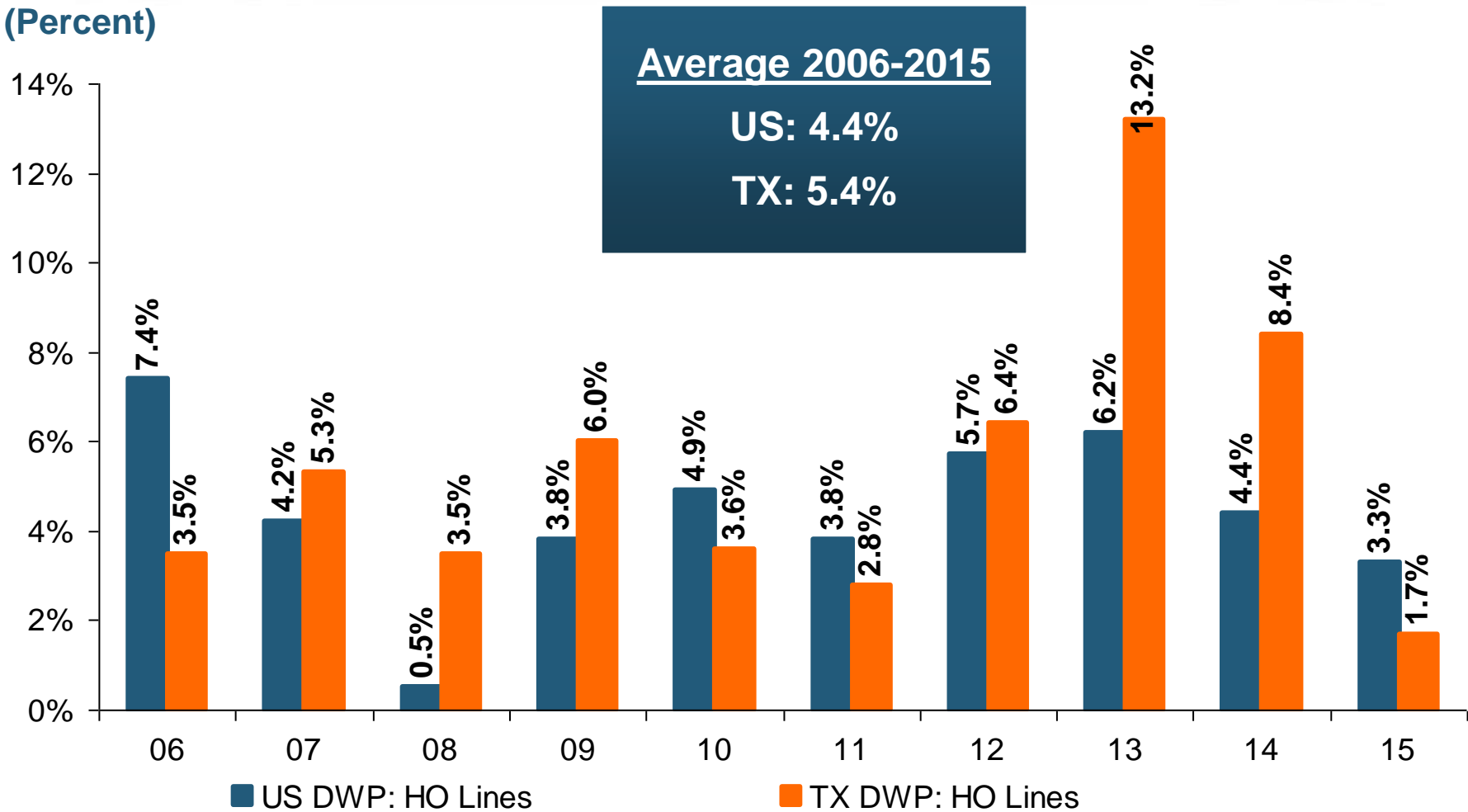
Private Passenger Auto DWP Growth: TX vs. U.S., 2006-2015

(Percent)



Homeowner's MP DWP Growth: TX vs. U.S., 2006-2015

(Percent)



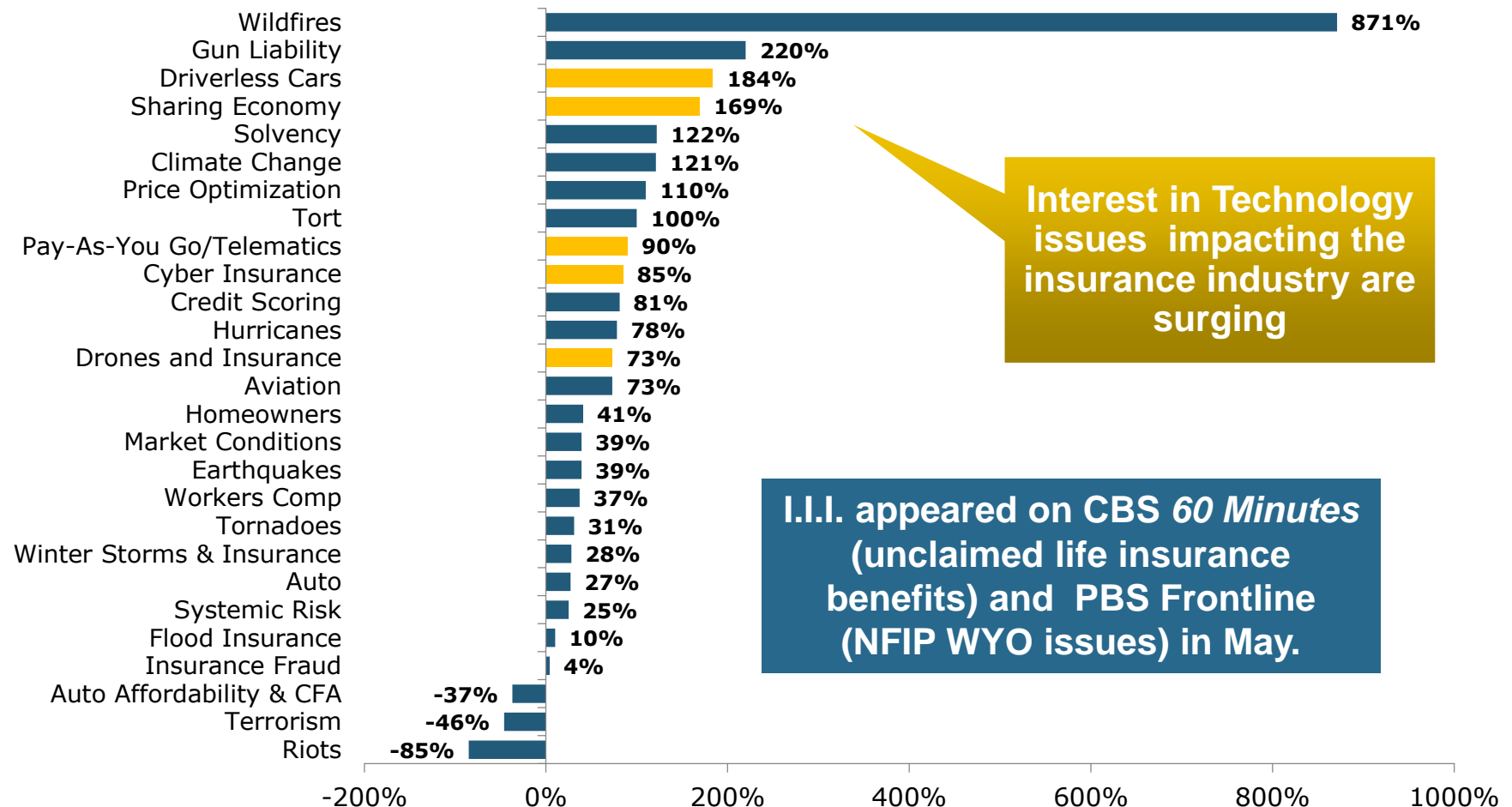
Top Insurance Issues: *What's Hot, What's Not*

**Eclectic Mix of Issues Garnered
Media Attention So Far in 2016**

***Interest in Tech Issues
Remains High***

I.I.I. Media Index, P/C, First Five Months 2015 vs. First Five Months* 2016¹

Percent Increase/Decrease from Previous Year



*Through May 15.

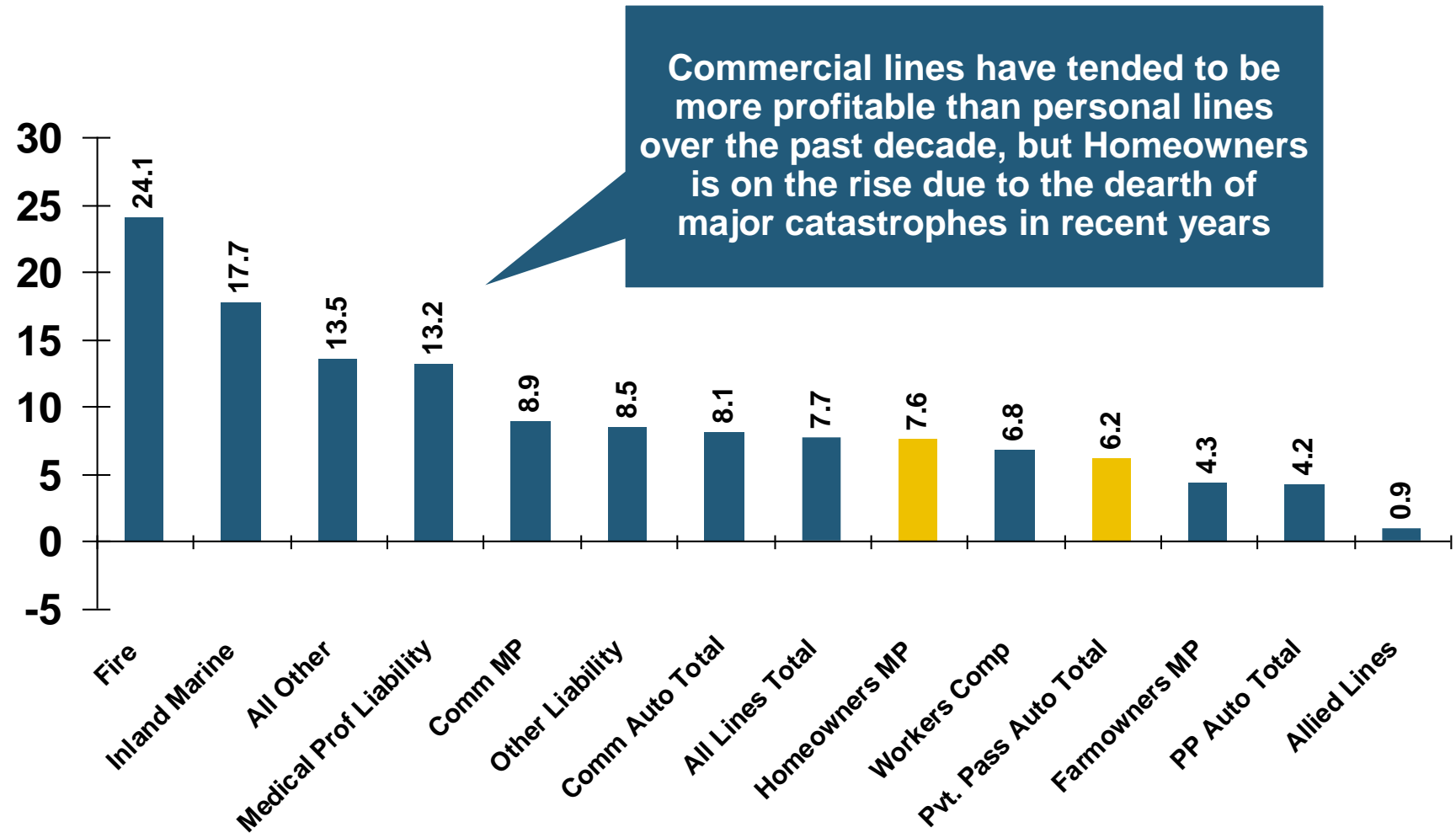
¹Based on a search of Meltwater News

Auto & Home Insurance: State of the Personal Lines Market

**Auto Frequency and Severity Are an
Immediate Challenge**

***Dearth of Major CATs (Until Recently),
Pricing Discipline Has Helped Home***

Return on Net Worth (RNW) All Lines: 2005-2014 Average



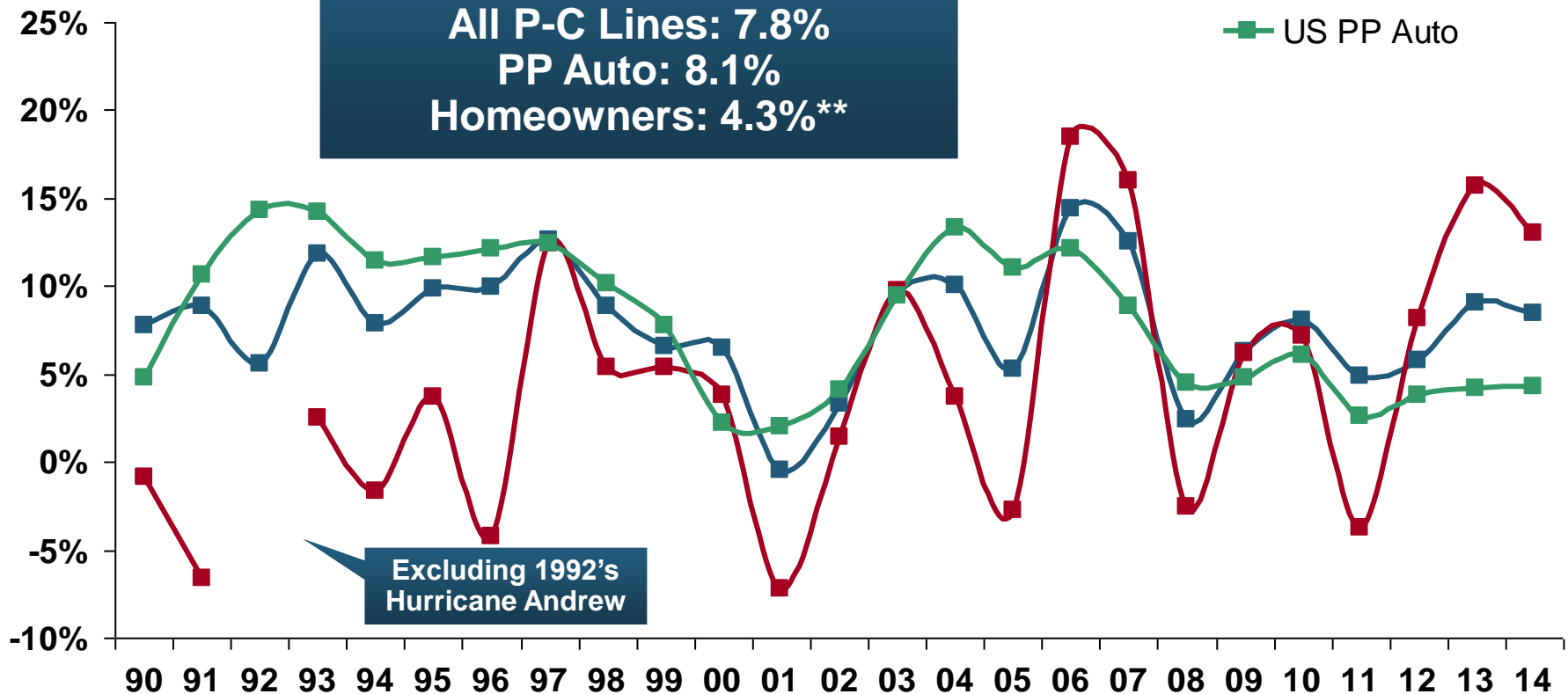
Return on Net Worth: All P-C Lines vs. Homeowners & Pvt. Pass. Auto, 1990-2014*

(Percent)

Average RNW: 1990-2013*

All P-C Lines: 7.8%
PP Auto: 8.1%
Homeowners: 4.3%**

■ US All Lines
■ US Home
■ US PP Auto



Pvt.Pass. Auto Has Consistently Outperformed the P-C Industry as a Whole. Homeowners Volatility is Associated Primarily With Coastal Exposure Issues

*Latest available.

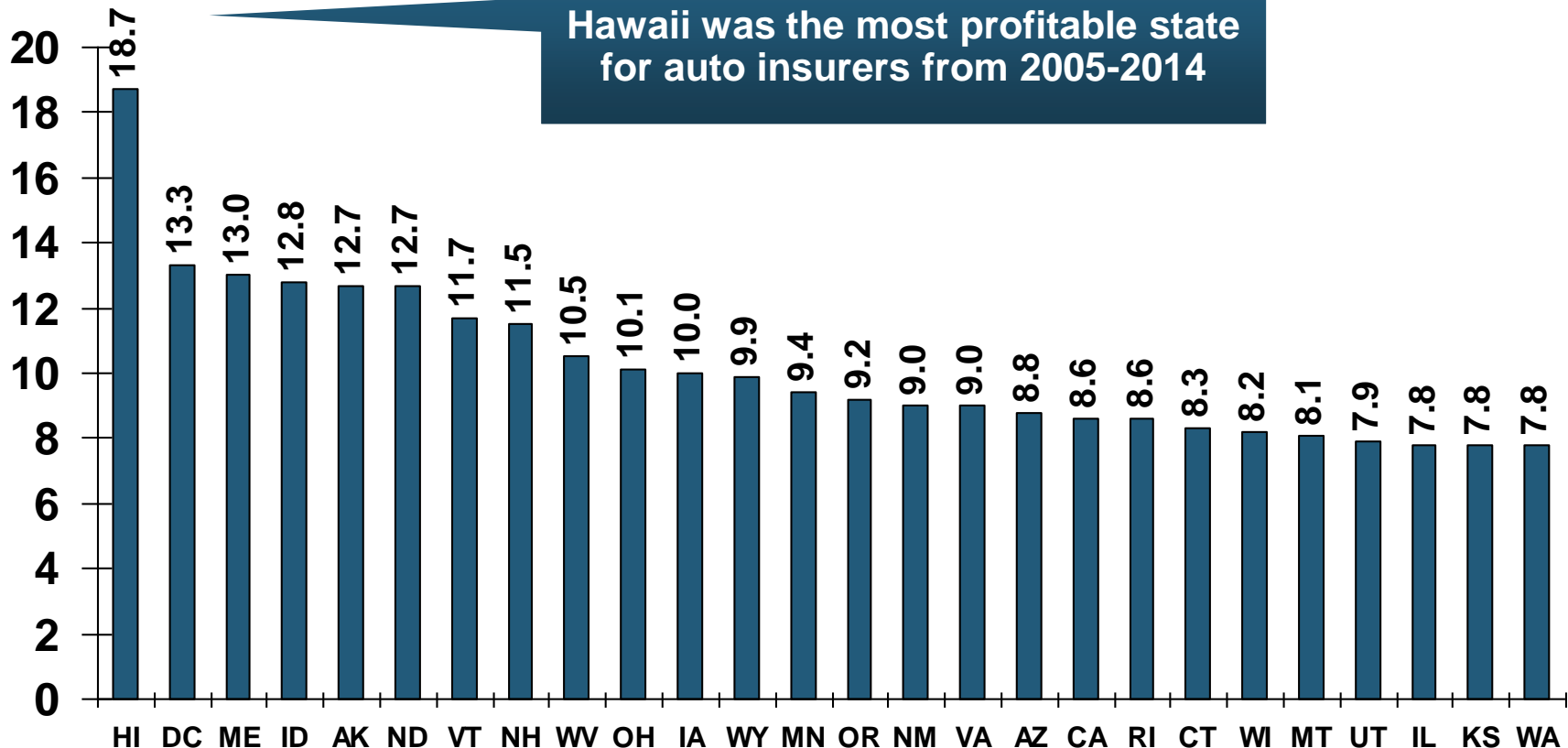
**Excludes 1992, the year of Hurricane Andrew. If 1992 is included the resulting homeowners RNW is 1.9%

Sources: NAIC; Insurance Information Institute.

RNW Pvt. Passenger Auto, 2005-2014

Average: Highest 25 States

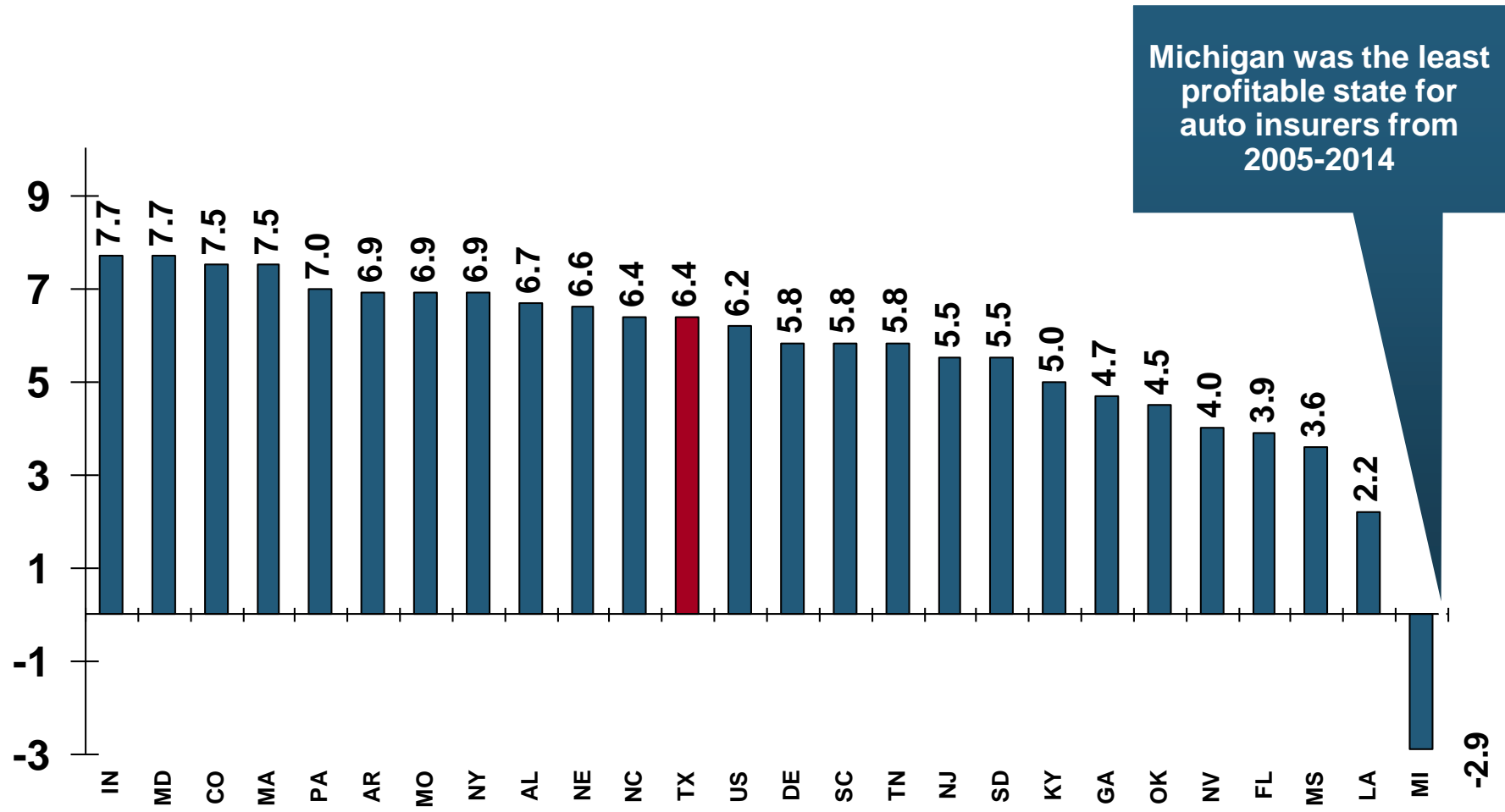
(Percent)



Sources: NAIC; Insurance Information Institute

RNW Pvt. Passenger Auto, 2005-2014 Average: Lowest 25 States

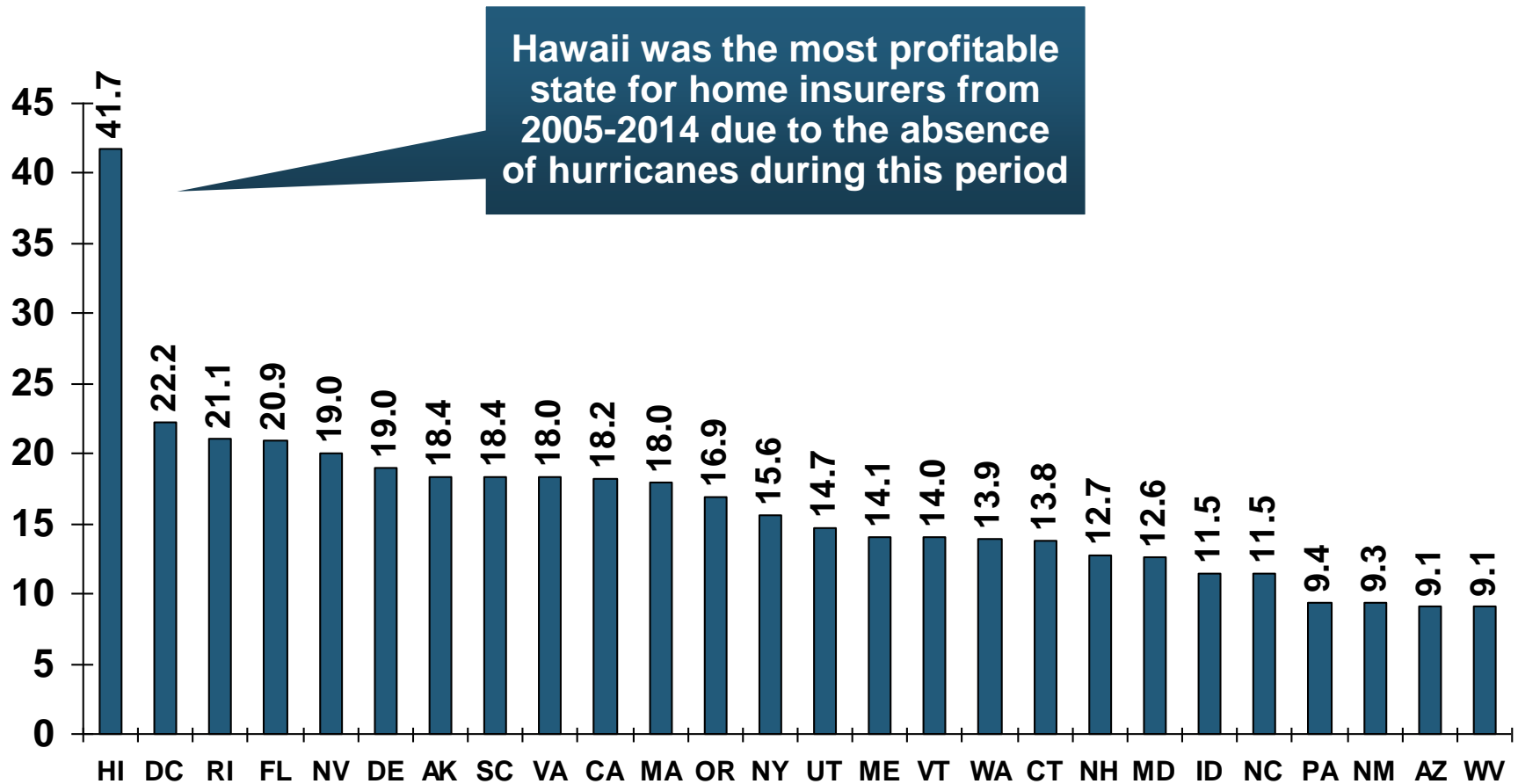
(Percent)



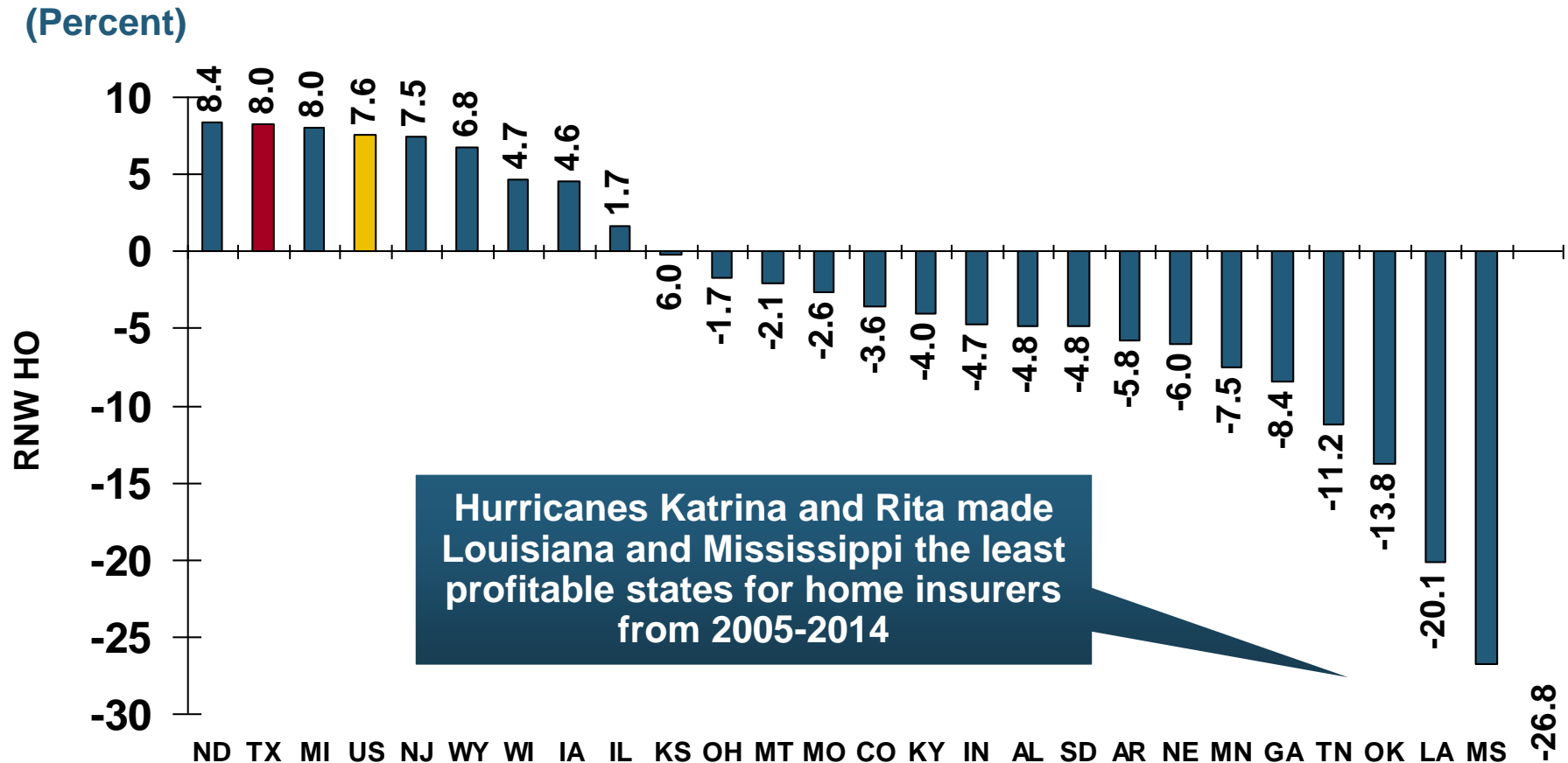
Sources: NAIC; Insurance Information Institute

RNW Homeowners Insurance, 2005-2014 Average: Highest 25 States

(Percent)



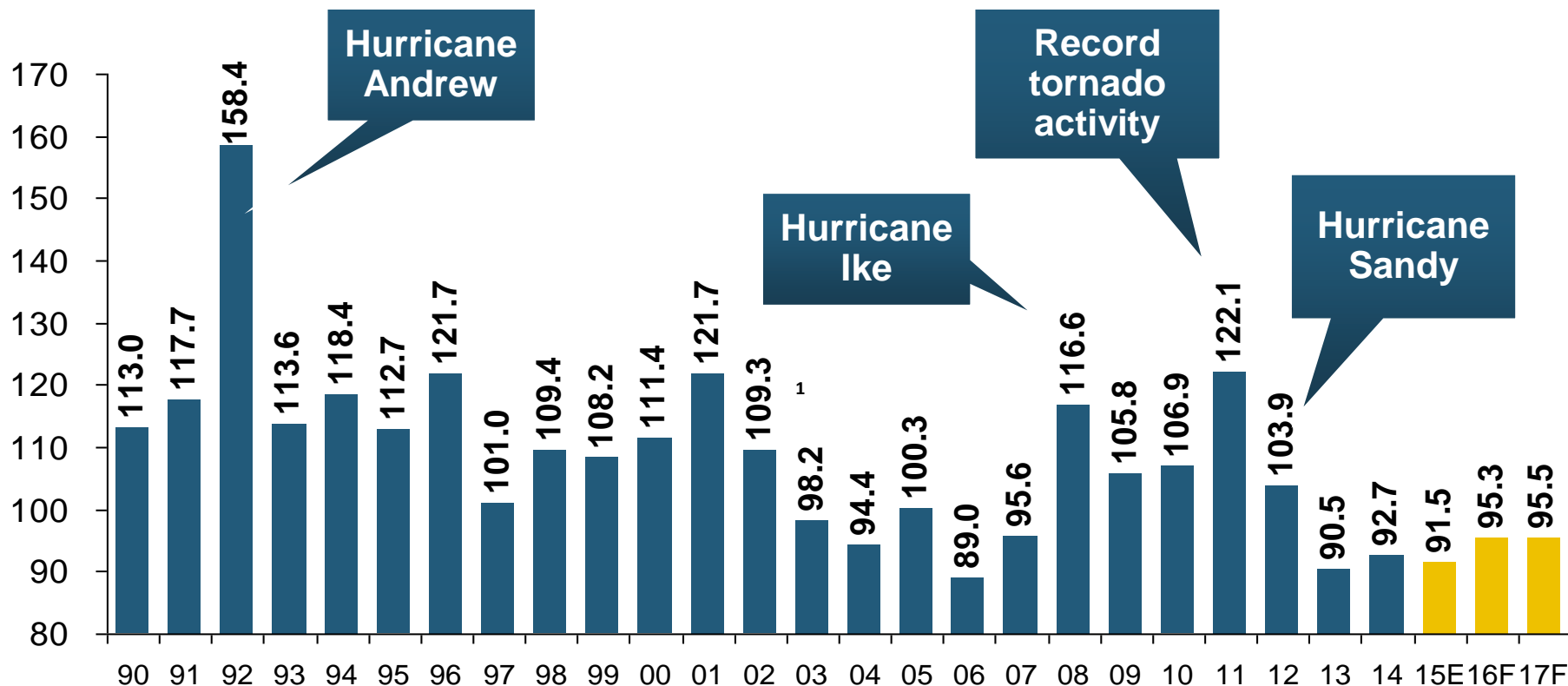
RNW Homeowners Insurance, 2005-2014 Average: Lowest 25 States



Personal Lines Underwriting Performance

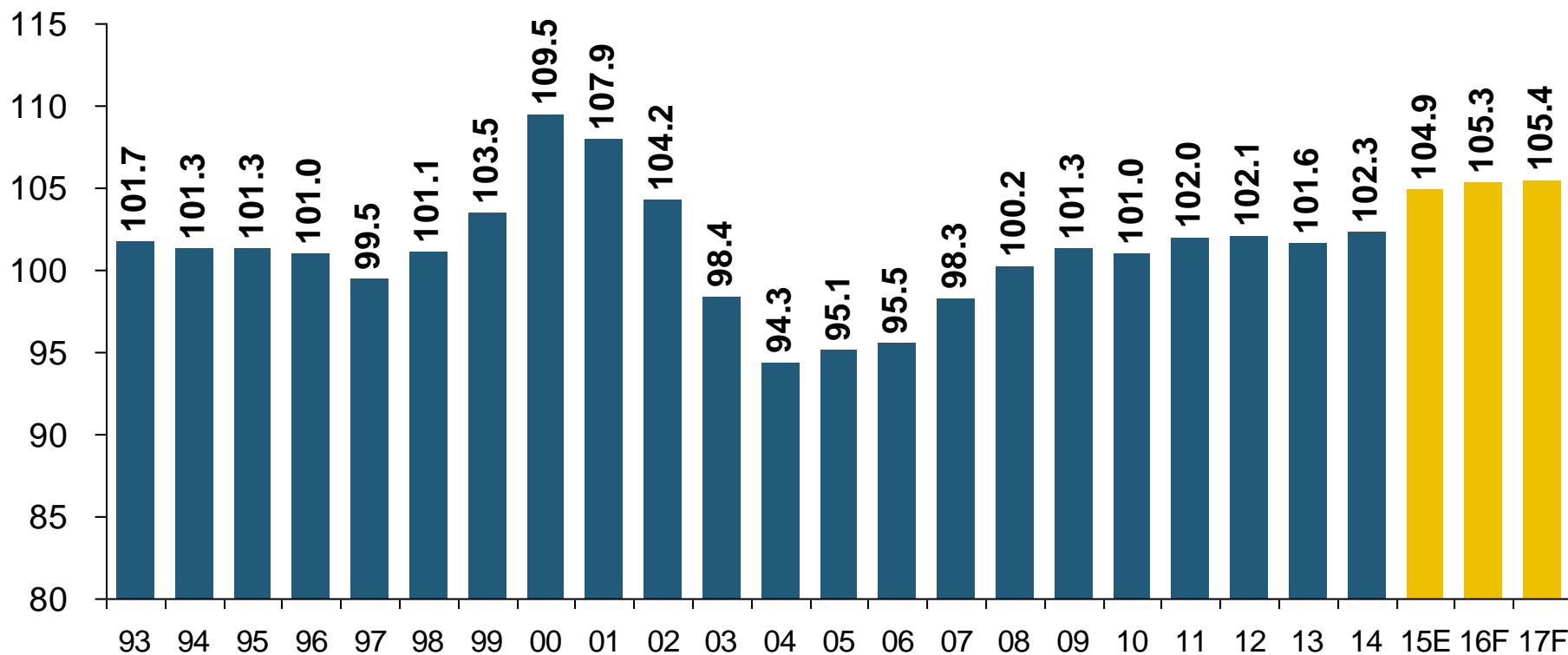
***Auto, Home Underwriting
Performance Exhibit Periods of
Both Stability and Volatility***

Homeowners Insurance Combined Ratio: 1990–2017F



Homeowners Performance Has Improved Markedly Since the 2011/12's Large Cat Losses. Extreme Regional Variation Can Be Expected Due to Local Catastrophe Loss Activity. Results in 2016 Will Be Impacted by Severe Spring Weather

Private Passenger Auto Combined Ratio: 1993–2017F



Private Passenger Auto Underwriting Performance Is Showing the Strains of Rising Frequency (and Severity) Trends in Many States

Claim Trends in Private Passenger Auto Insurance

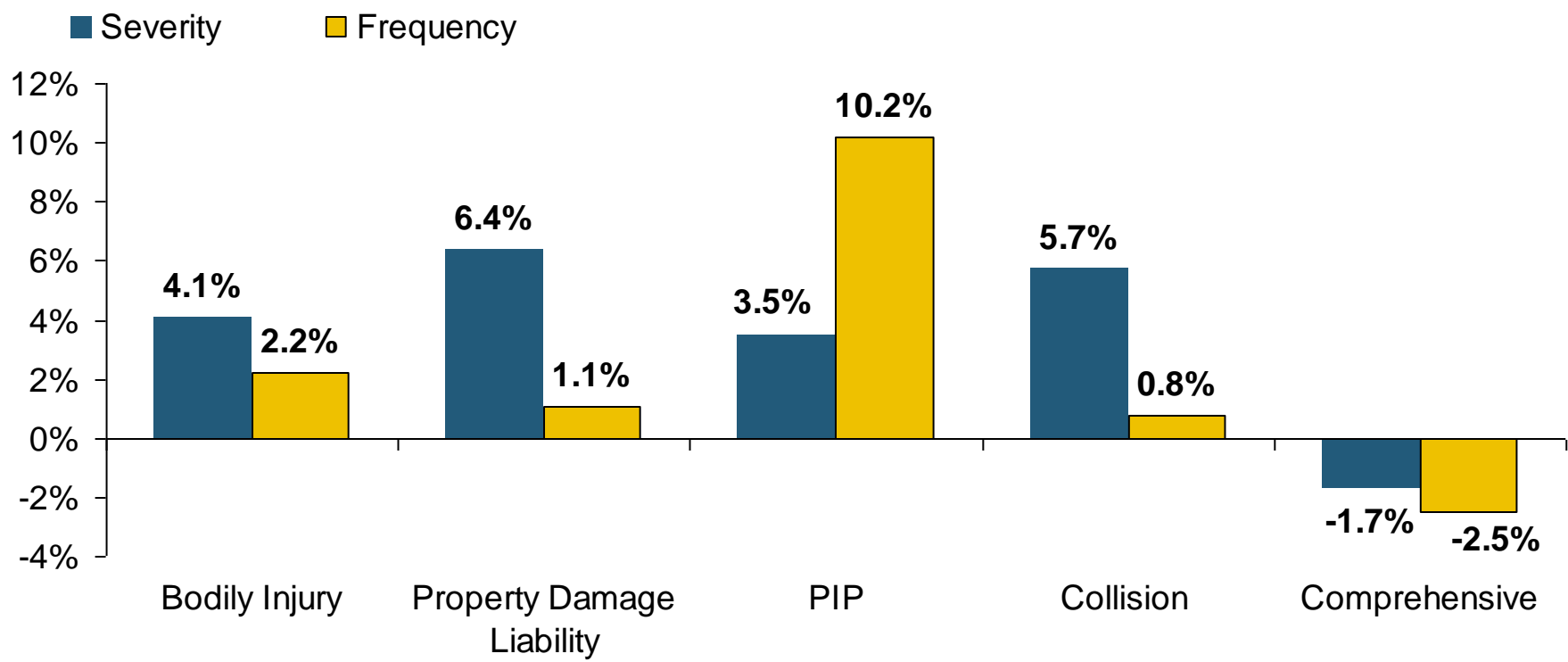
**Rising Frequencies and Severities
in Many Coverages**

Will that Pattern Be Sustained?

Auto Severity & Frequency by Coverage: Trending Up in 2015



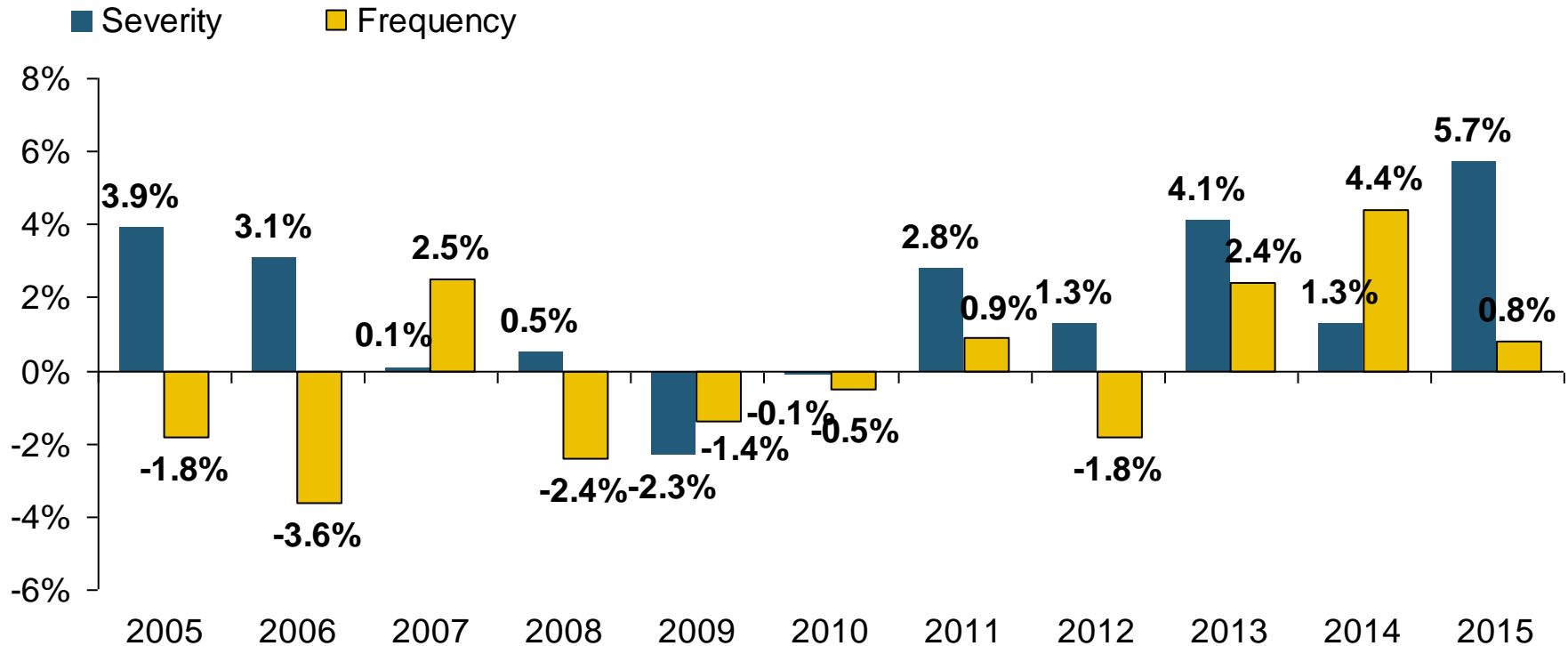
Annual Change, 2015 Over 2014



Frequency and Severity Were Up Across Most Coverage Types in 2015; A Trend Likely to Continue in 2016

Collision Coverage: Severity & Frequency Trends Are Both Higher in 2015

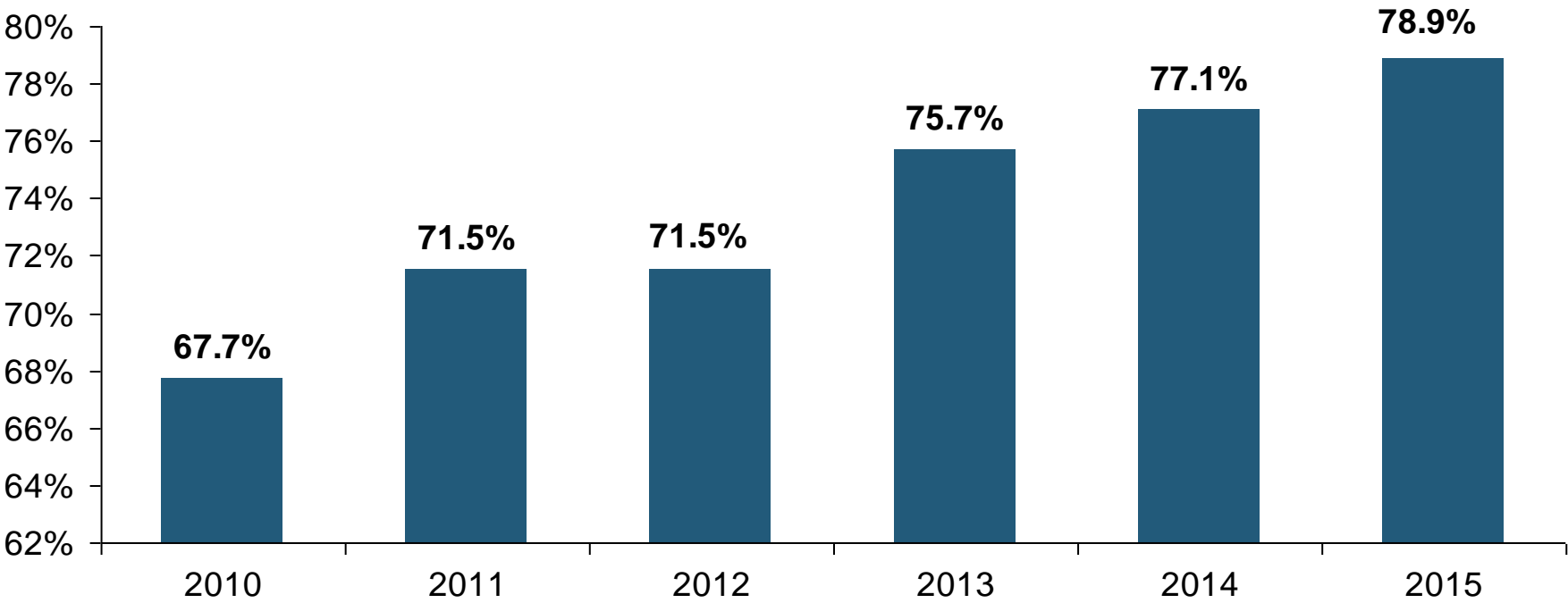
Annual Change, 2005 through 2015



The Recession, High Fuel Prices Helped Temper Frequency and Severity, But this Trend Has Clearly Reversed, Consistent with Experience from Past Recoveries

Collision Loss Ratio Trending Upward: Private Passenger Auto, 2010 – 2015

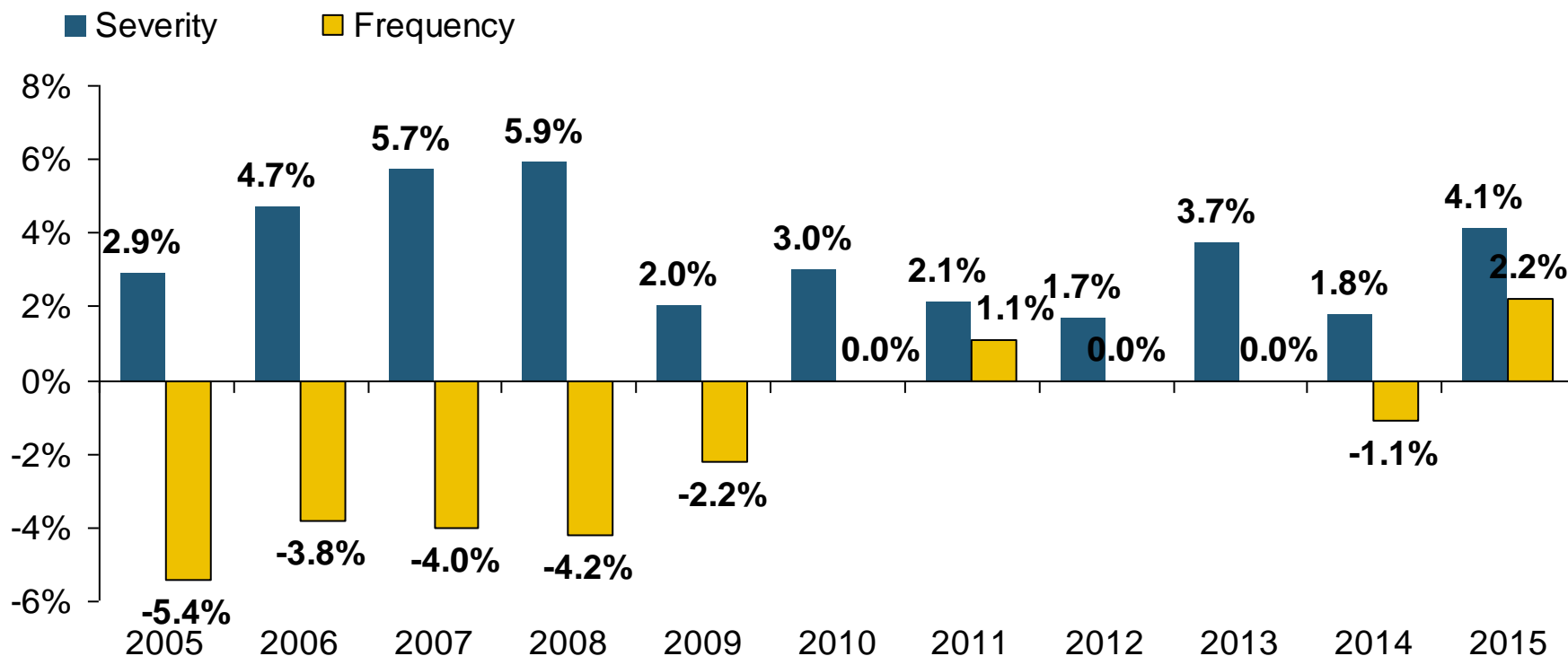
Loss Ratio



Collision Loss Ratios are Trending Steadily Upward

Bodily Injury: Severity Trend Is Up, Frequency Decline Has Ended—Rising?

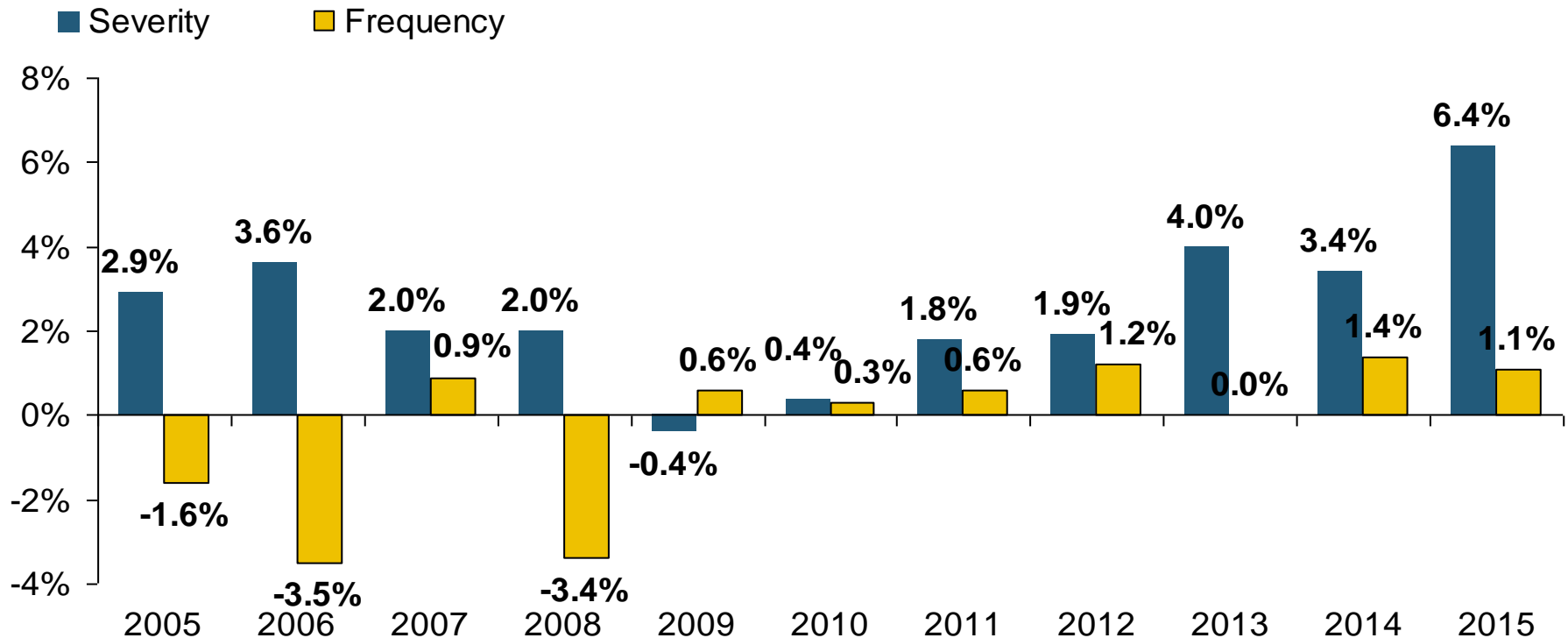
Annual Change, 2005 through 2015



Cost Pressures Will Increase if BI Frequency and Severity Trends Persist

Property Damage Liability: Severity and Frequency Are Up

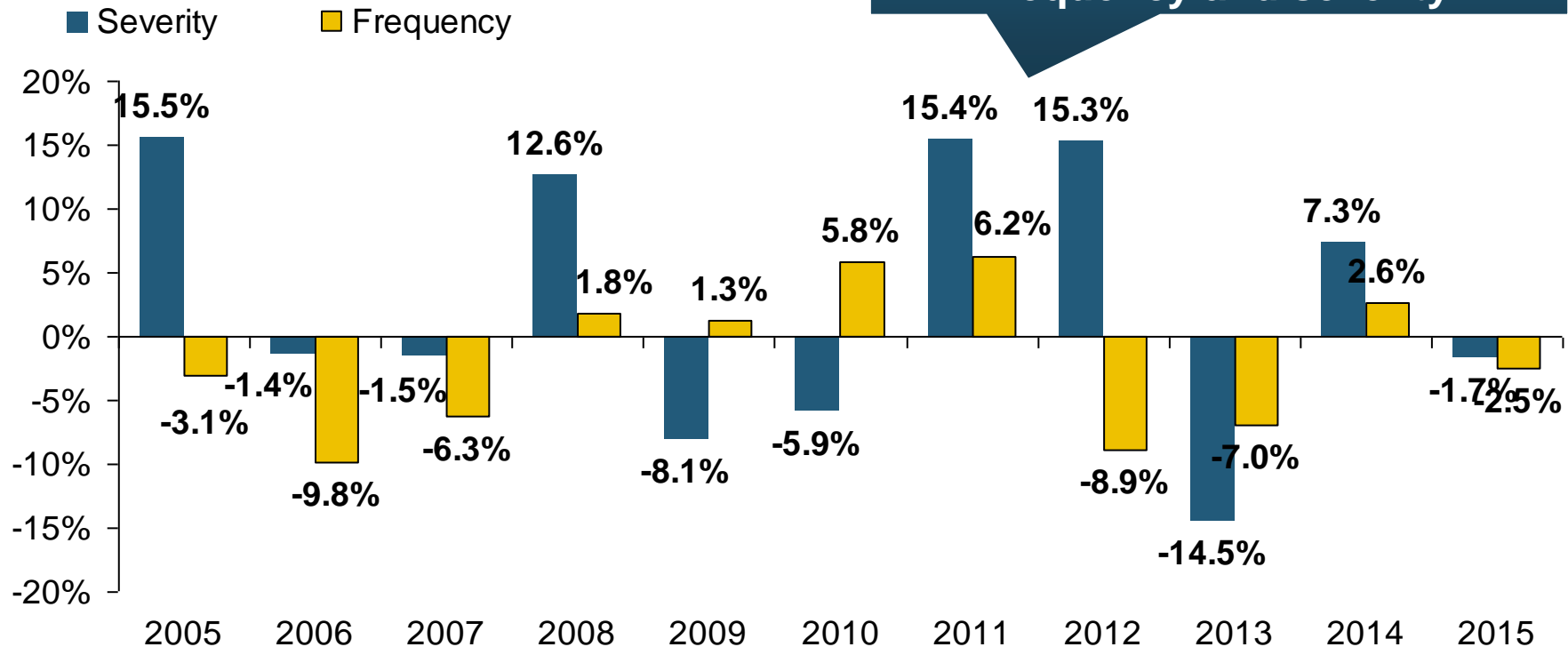
Annual Change, 2005 through 2015



Severity/Frequency Trends Have Been Volatile, But Rising Severity since 2011 Is a Concern

Comprehensive Coverage: Frequency and Severity Trends Are Volatile

Annual Change, 2005 through 2015



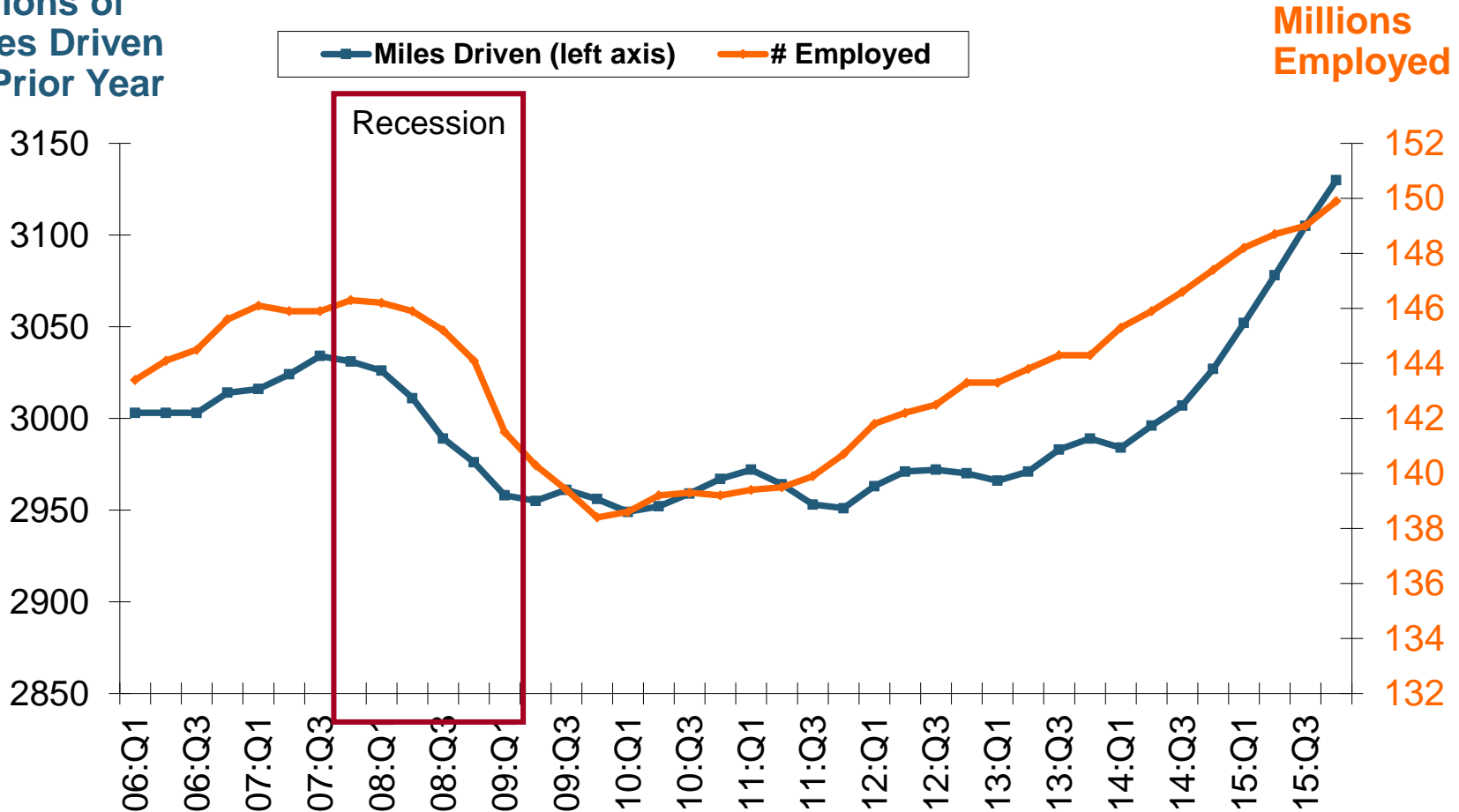
Weather Creates Volatility for Comprehensive Coverage

A Few Factors Driving Adverse Private Passenger Auto Loss Trends

More People Driving, Lower Gas Prices, Higher Speed Limits...

Why Are People Driving More Miles? Jobs?

Billions of
Miles Driven
in Prior Year



People Drive To and From Work and Drive to Entertainment. Out of Work, They Curtail Their Movement.

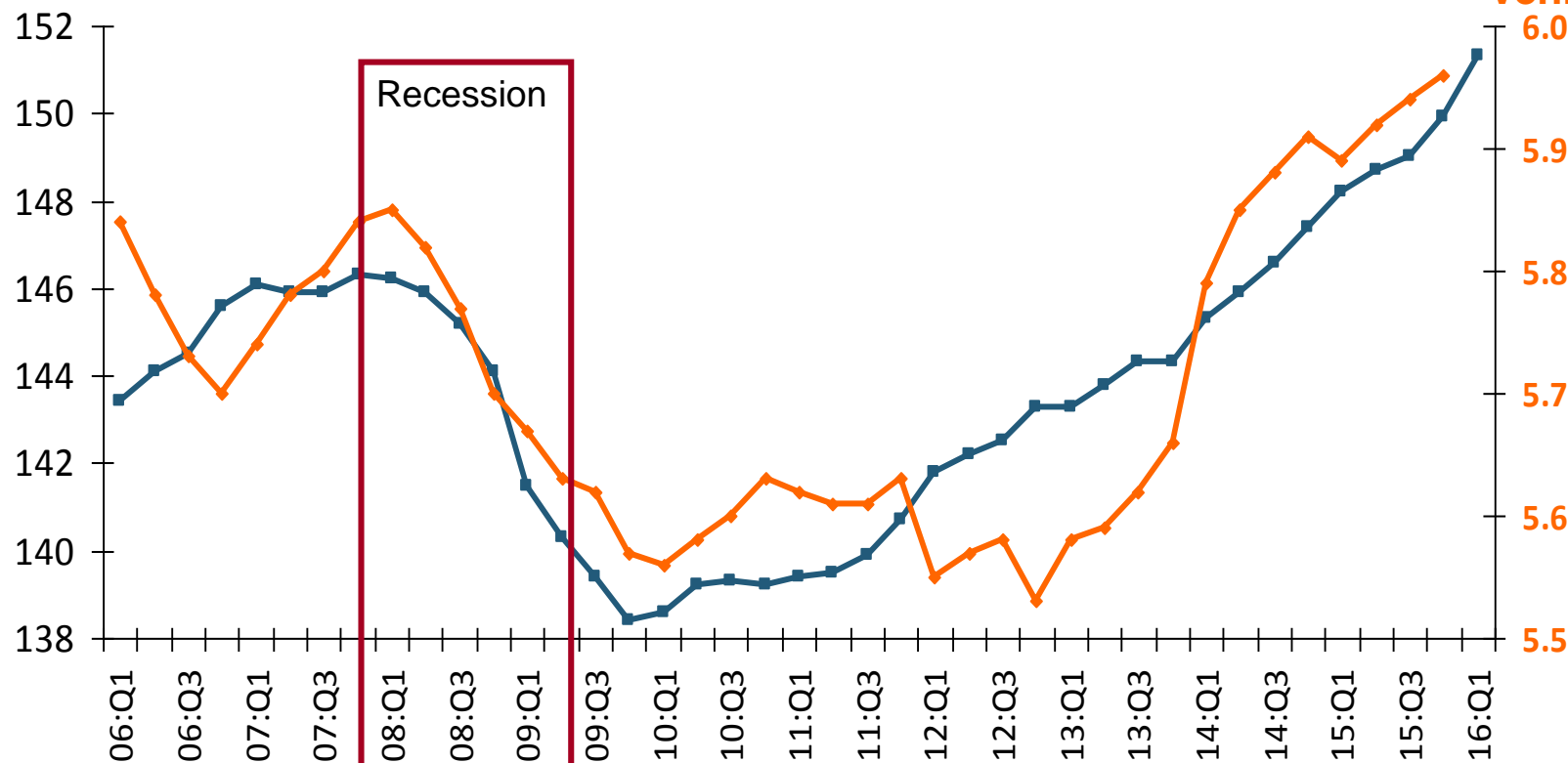
Sources: Federal Highway Administration (http://www.fhwa.dot.gov/policyinformation/travel_monitoring/tvt.cfm); Seasonally Adjusted Employed from Bureau of Labor Statistics; Insurance Institute for Highway Safety; Insurance Information Institute.

More People Working and Driving => More Collisions, 2006-2016

Number
Employed,
Millions

Number Employed (left scale) Collision Claim Frequency (right scale)

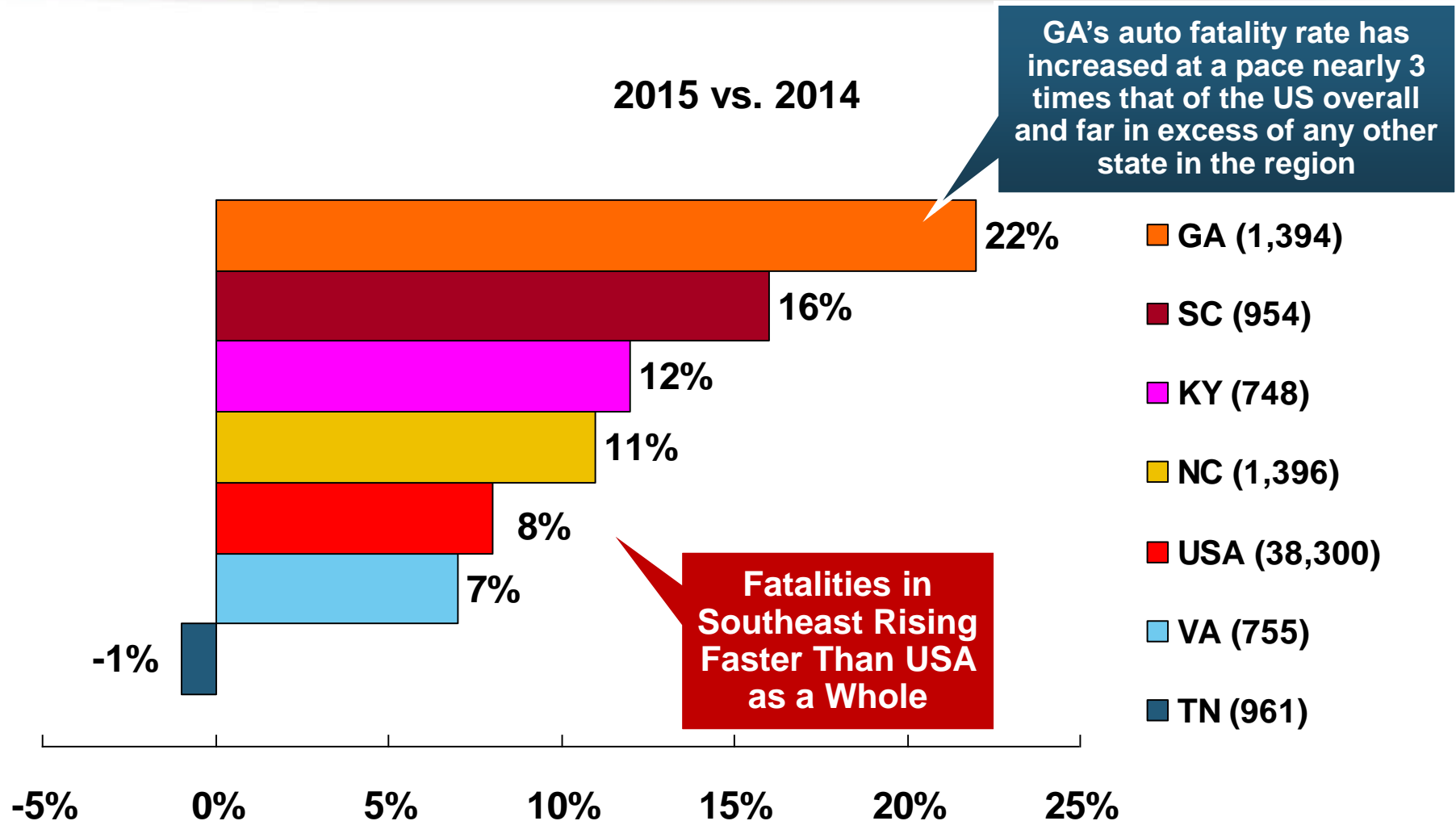
Overall
Collision Claims
Per 100 Insured
Vehicles



When people are out of work, they drive less. When they get jobs, they drive to work, helping drive claim frequency higher.

Sources: Seasonally Adjusted Employed from Bureau of Labor Statistics; Rolling Four-Qtr Avg. Frequency from Insurance Services Office; Insurance Information Institute.

Change in Auto Fatalities by State: Especially Severe in Georgia

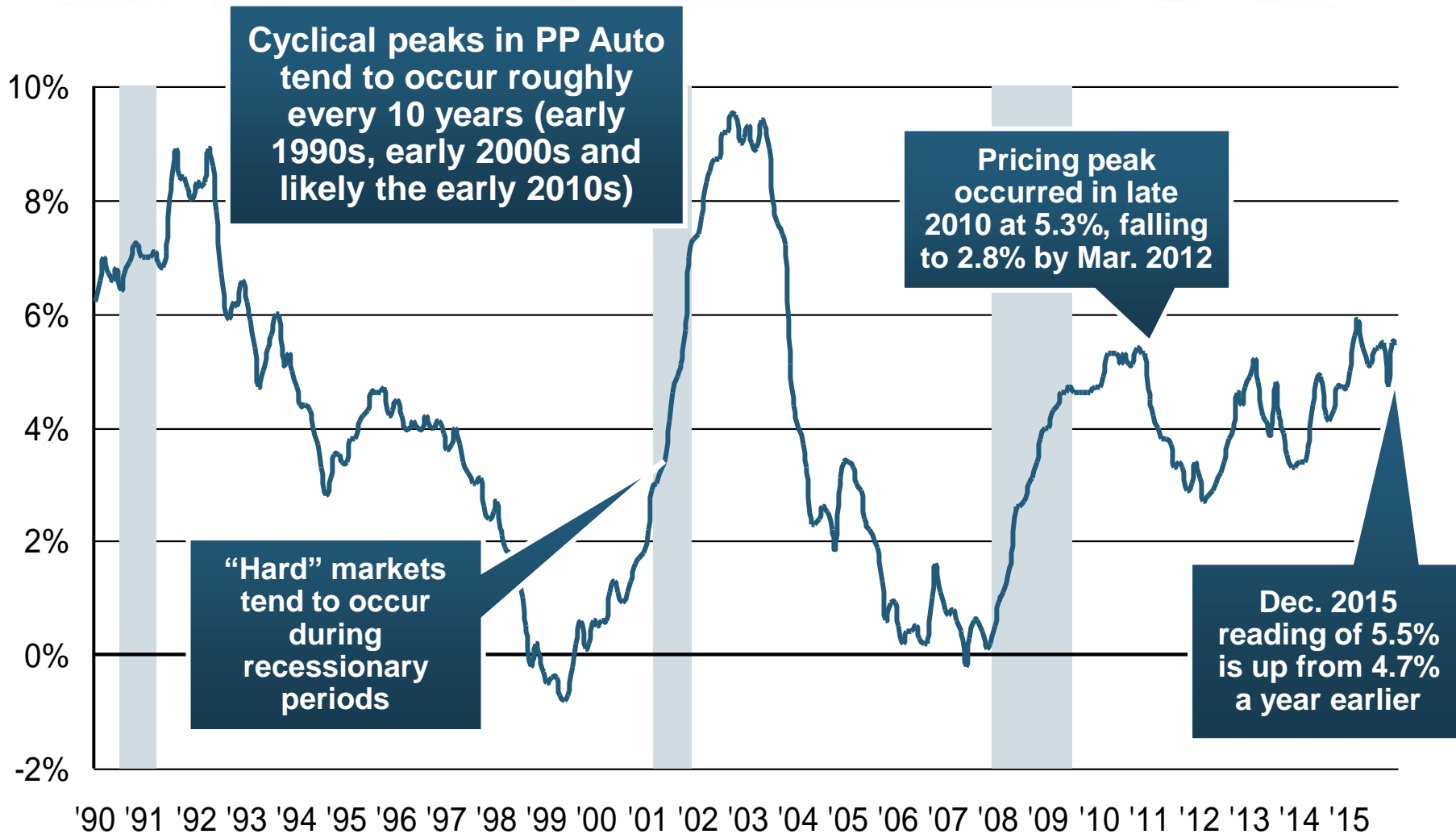


SOURCE: Estimates from National Safety Council.

Personal Lines Growth Drivers

**Rate and Exposure are Both
Presently Important
Growth Drivers**

Monthly Change in Auto Insurance Prices, 1991–2015*

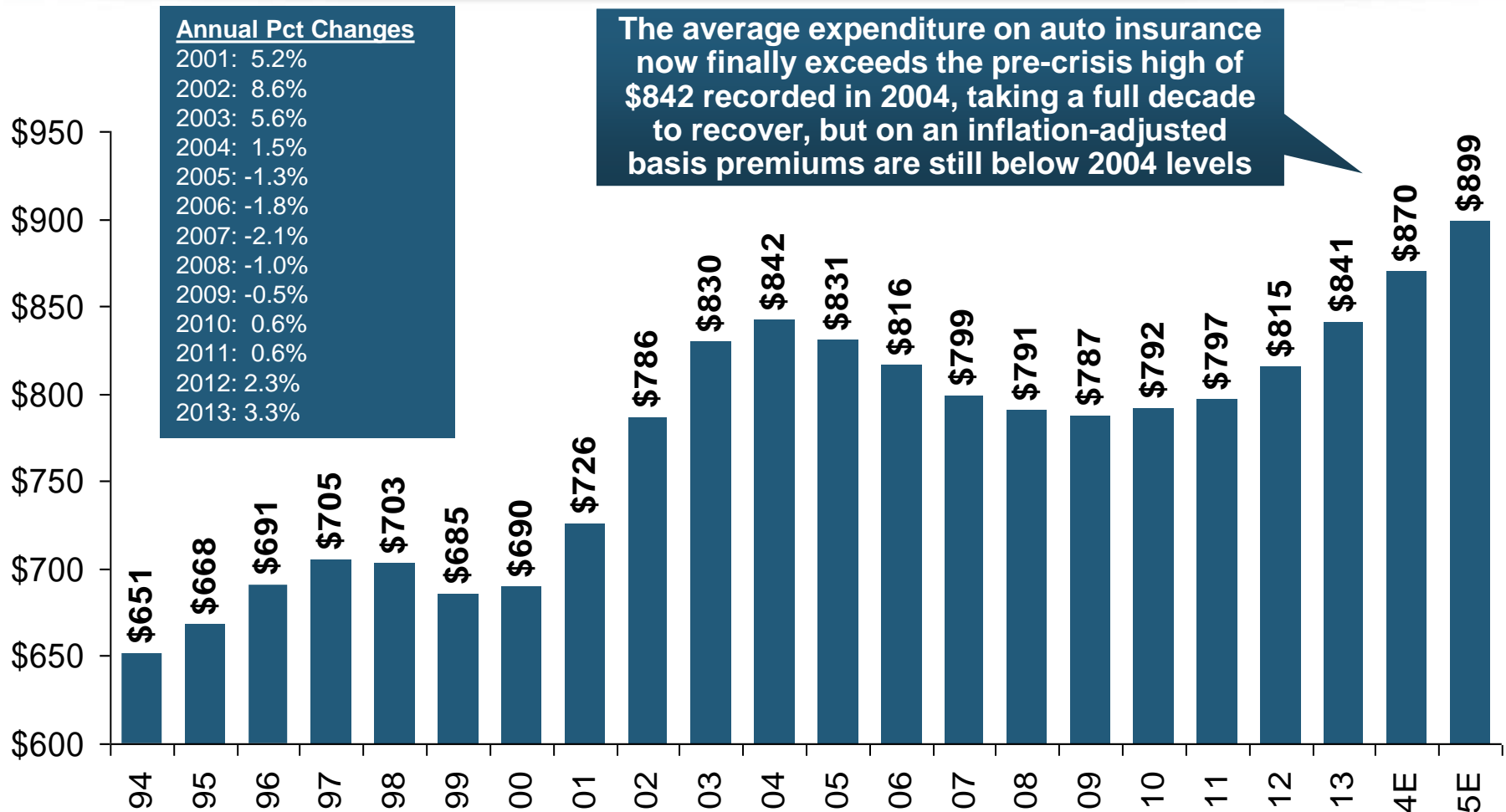


*Percentage change from same month in prior year; through Dec. 2015; seasonally adjusted

Note: Recessions indicated by gray shaded columns.

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

Average Expenditures* on Auto Insurance, 1994-2015E

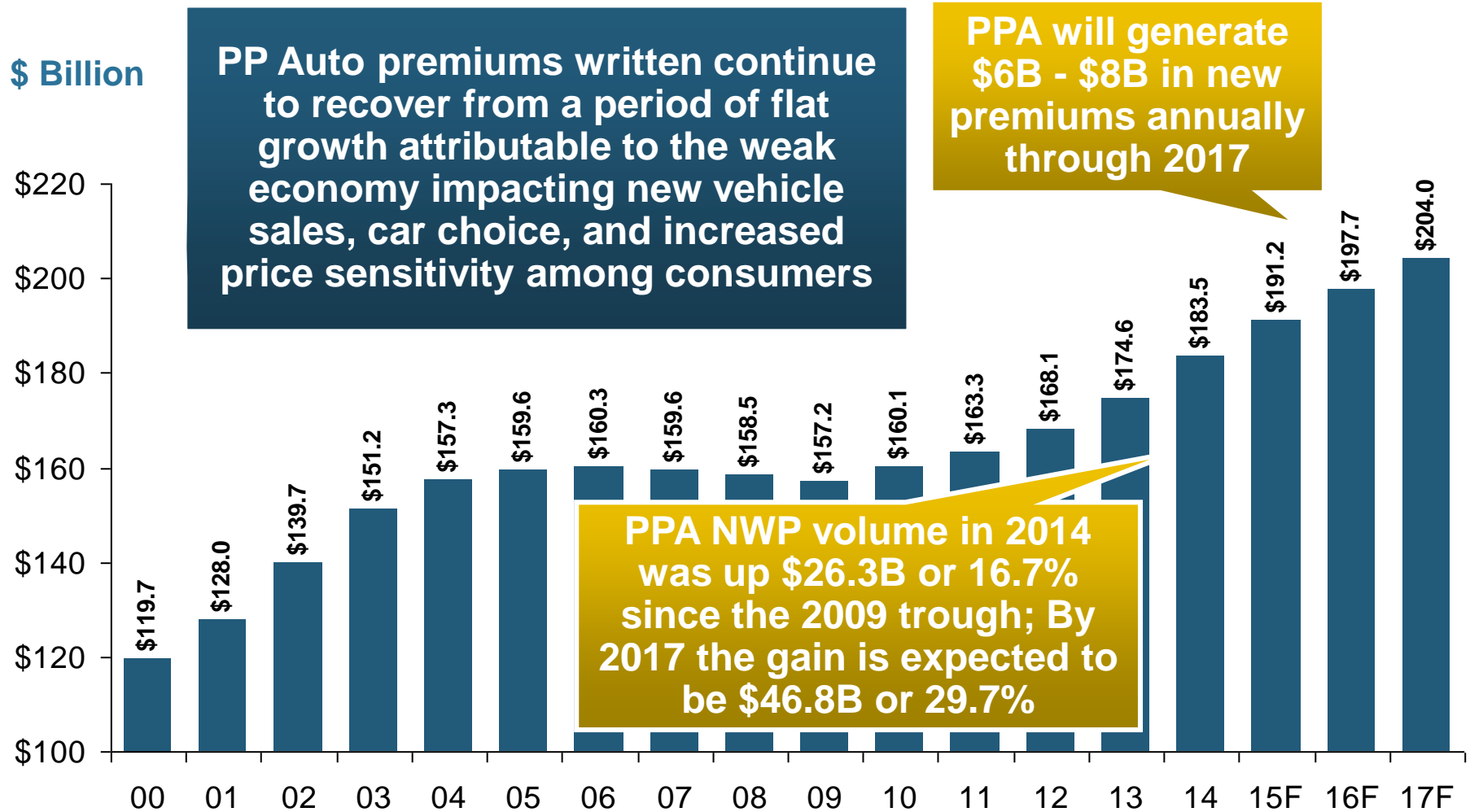


Across the U.S., auto insurance expenditures fell by 0.8% in 2008 and 0.5% in 2009 but rose 0.5% in 2010, 0.8% in 2011, 2.3% in 2012 and 3.3% in 2013; I.I.I. estimate is for +3.4% in 2014 and 2015.

* The NAIC data are per-vehicle (actually, per insured car-year)

Sources: NAIC for 1994-2013; Insurance Information Institute estimates for 2014-2015 based on CPI and other data.

Private Passenger Auto Insurance Net Written Premium, 2000–2017F

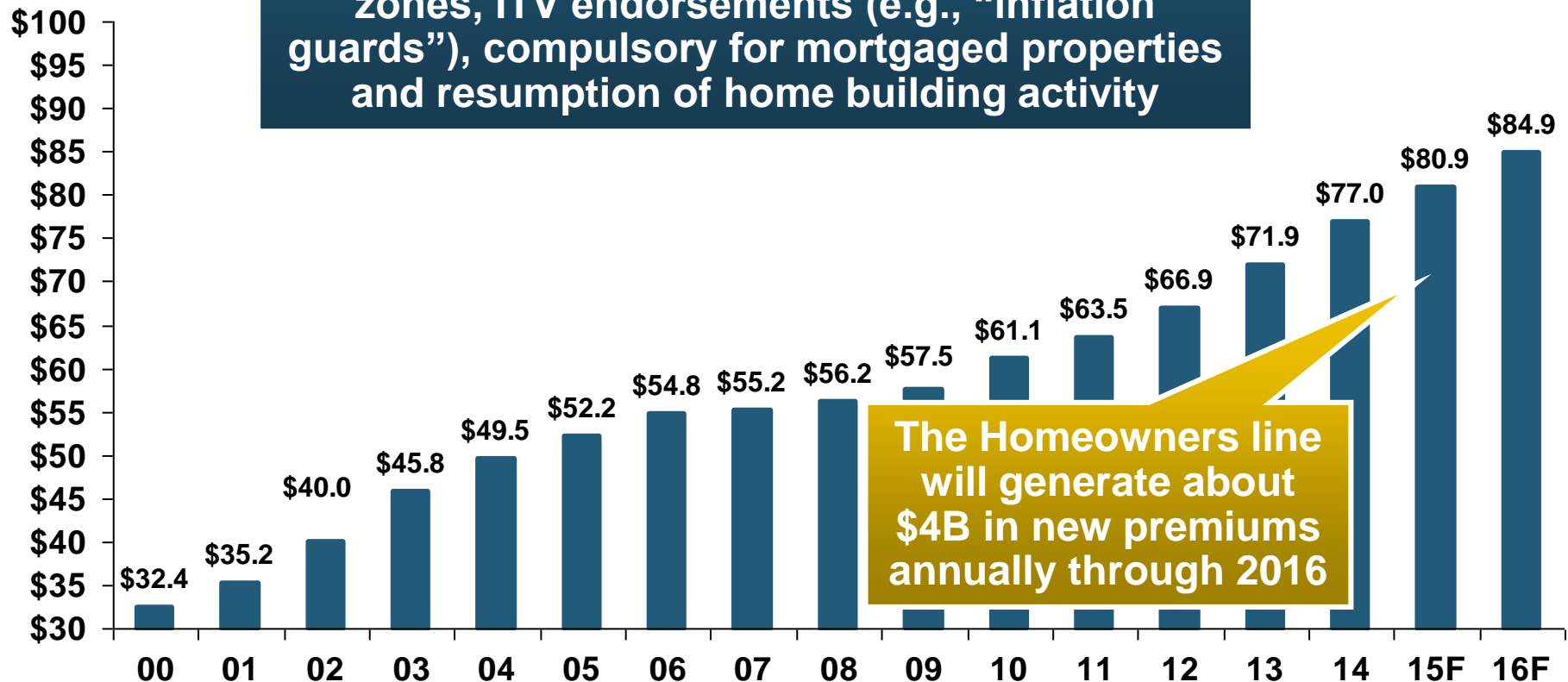


Homeowners Insurance

Net Written Premium, 2000–2016F

\$ Billions

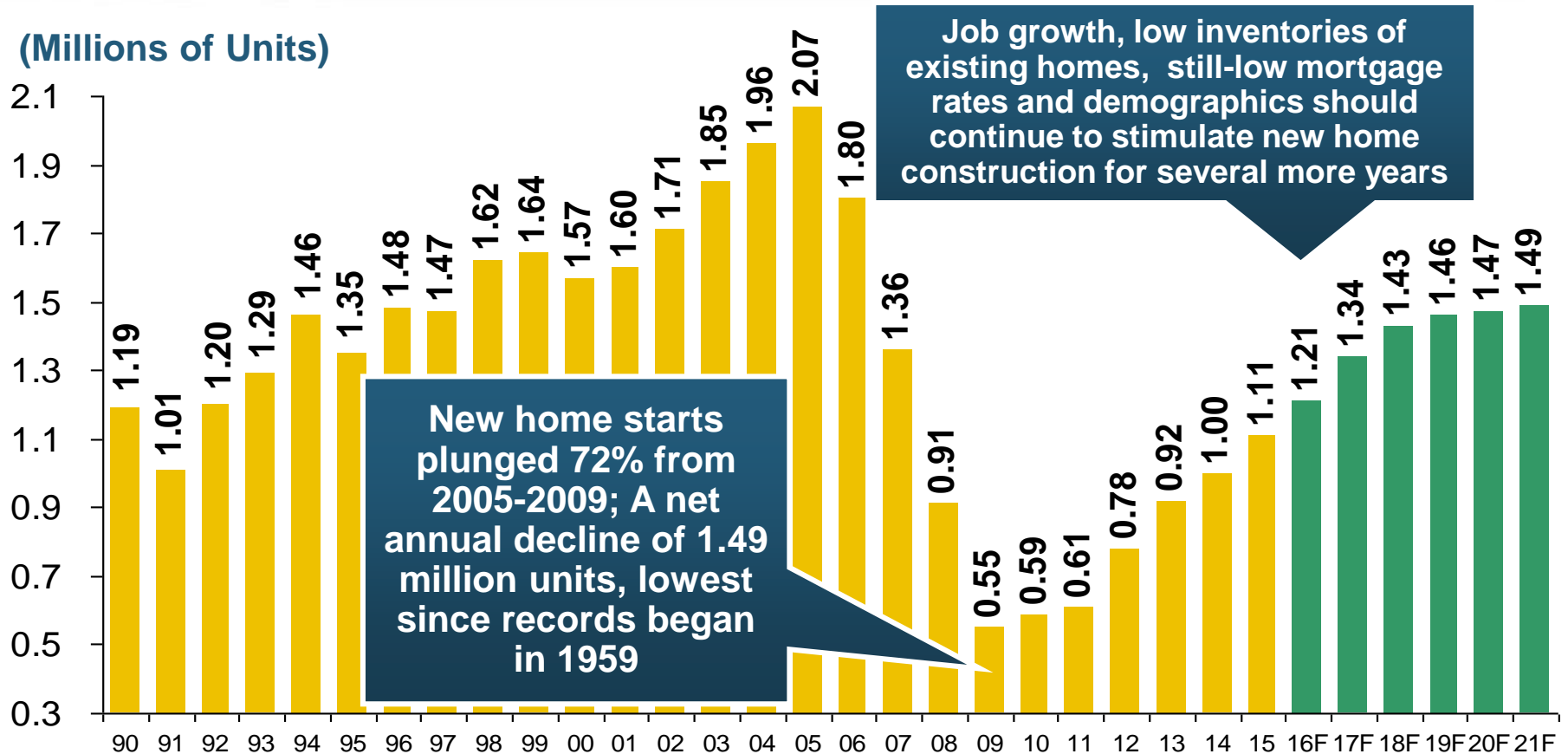
Homeowners insurance NWP continues to rise (up 150% 2000-2015F) despite very little unit growth during the real estate crash. Reasons include rate increases, especially in coastal zones, ITV endorsements (e.g., “inflation guards”), compulsory for mortgaged properties and resumption of home building activity



Personal Lines: Economic and Demographic Considerations

***Auto, Home Are Sensitive to
Underlying Economic
Conditions***

New Private Housing Starts, 1990-2021F



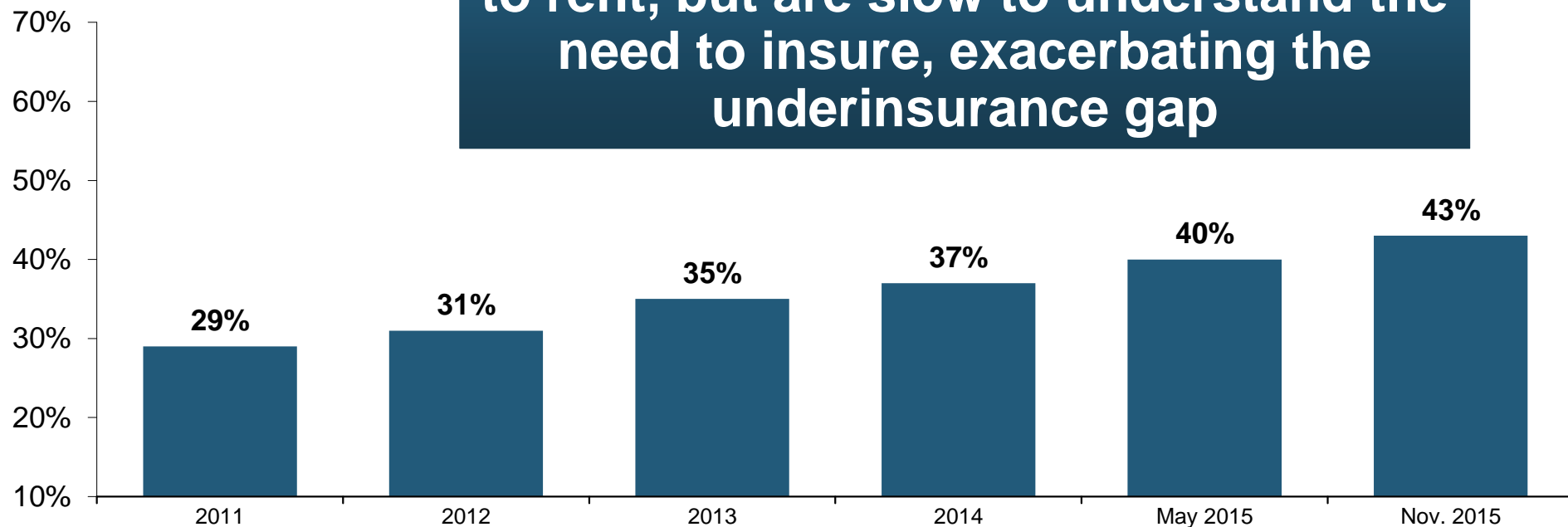
Insurers Are Continue to See Meaningful Exposure Growth in the Wake of the “Great Recession” Associated with Home Construction: Construction Risk Exposure, Surety, Commercial Auto; Potent Driver of Workers Comp Exposure

Source: U.S. Department of Commerce; Blue Chip Economic Indicators (5/16 for 2016-17; 3/16 for 2018-21F; Insurance Information Institute.

I.I.I. Poll: Renter's Insurance

Q. Do you have renters insurance? ¹

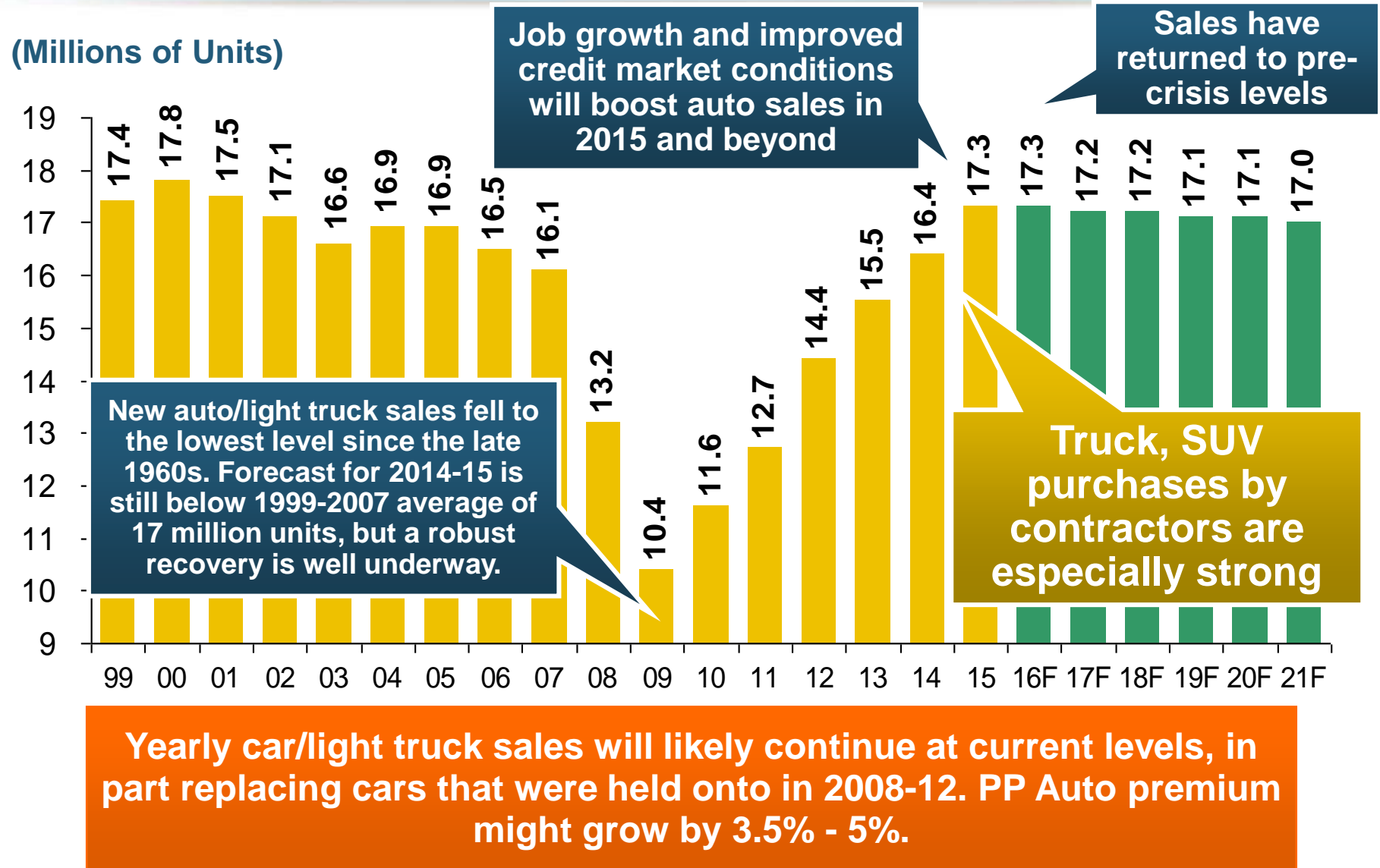
Americans are increasingly choosing to rent, but are slow to understand the need to insure, exacerbating the underinsurance gap



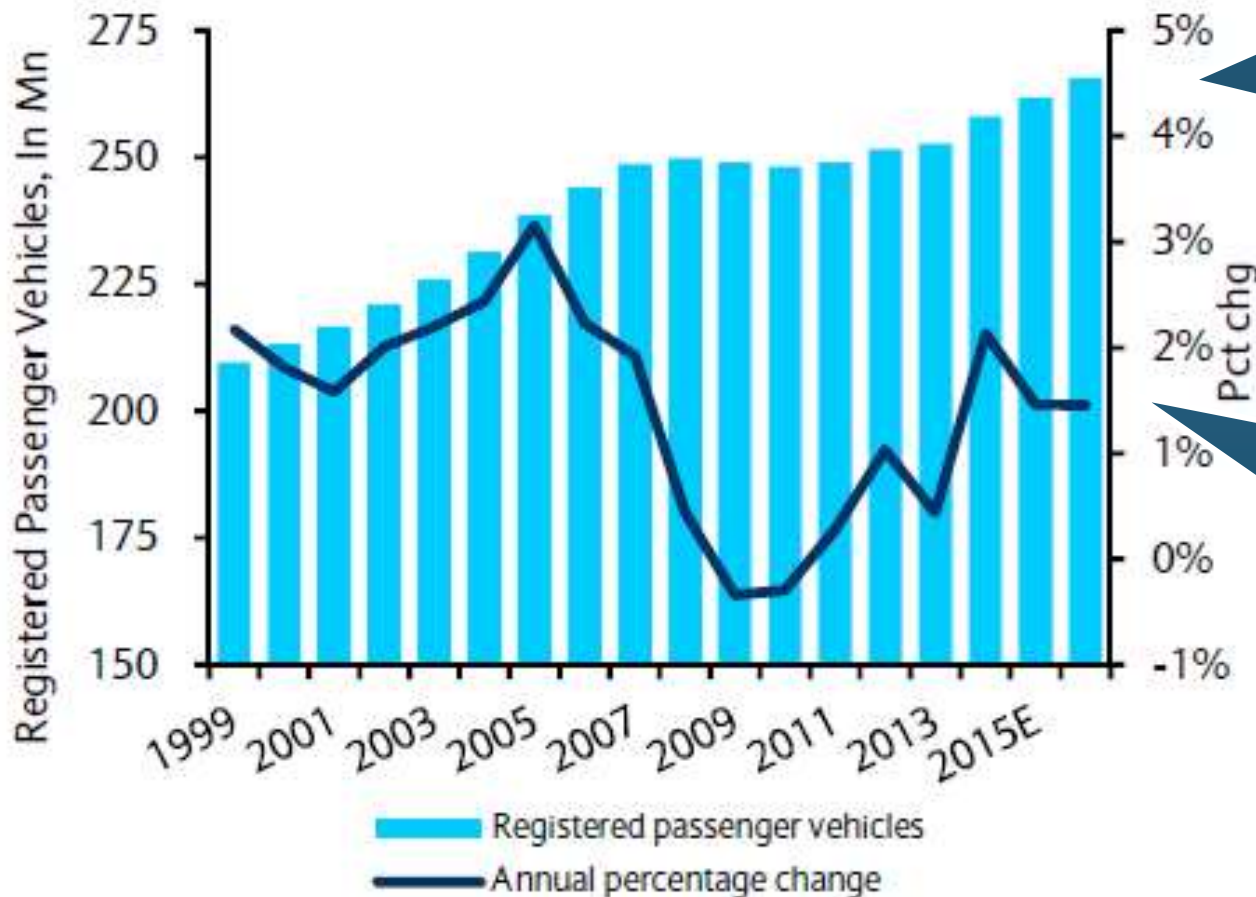
The Percentage of Renters Who Have Renters Insurance Has Been Rising Since 2011.

¹Asked of those who rent their home.

Auto/Light Truck Sales, 1999-2021F



Number of Registered Passenger Vehicles in US, 1999 – 2015E

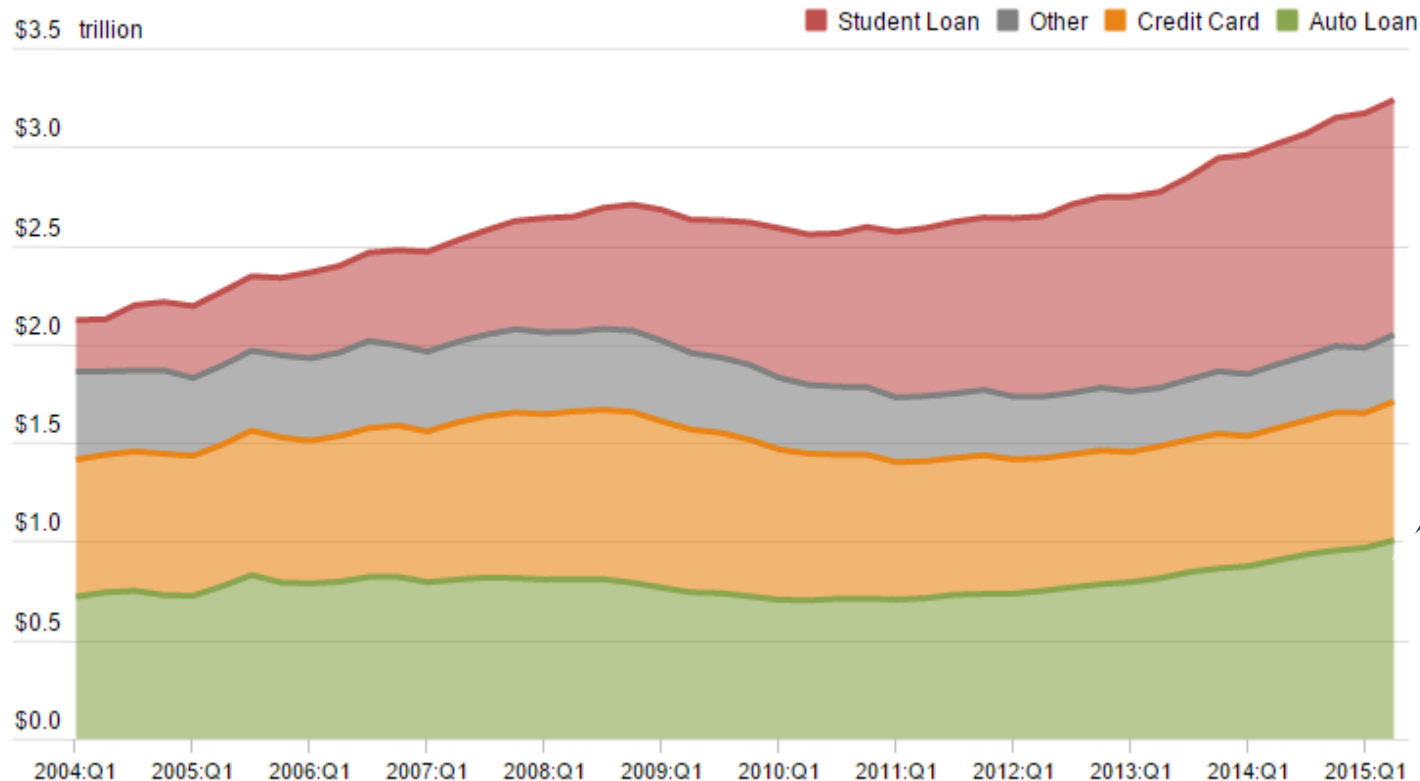


Vehicle registrations are growing once again and now finally exceed pre-crisis peak

Vehicle registrations are expected to increase at an annual rate of about 1.5% per year in 2015 and 2016

Auto Loans and Other Non-Housing Debt, 2004 – 2015*

Non-Housing Debt Balance



Auto loan debt outstanding reached \$1T for the first time ever in Q1 2015

Banks are becoming increasingly aggressive in marketing auto loans

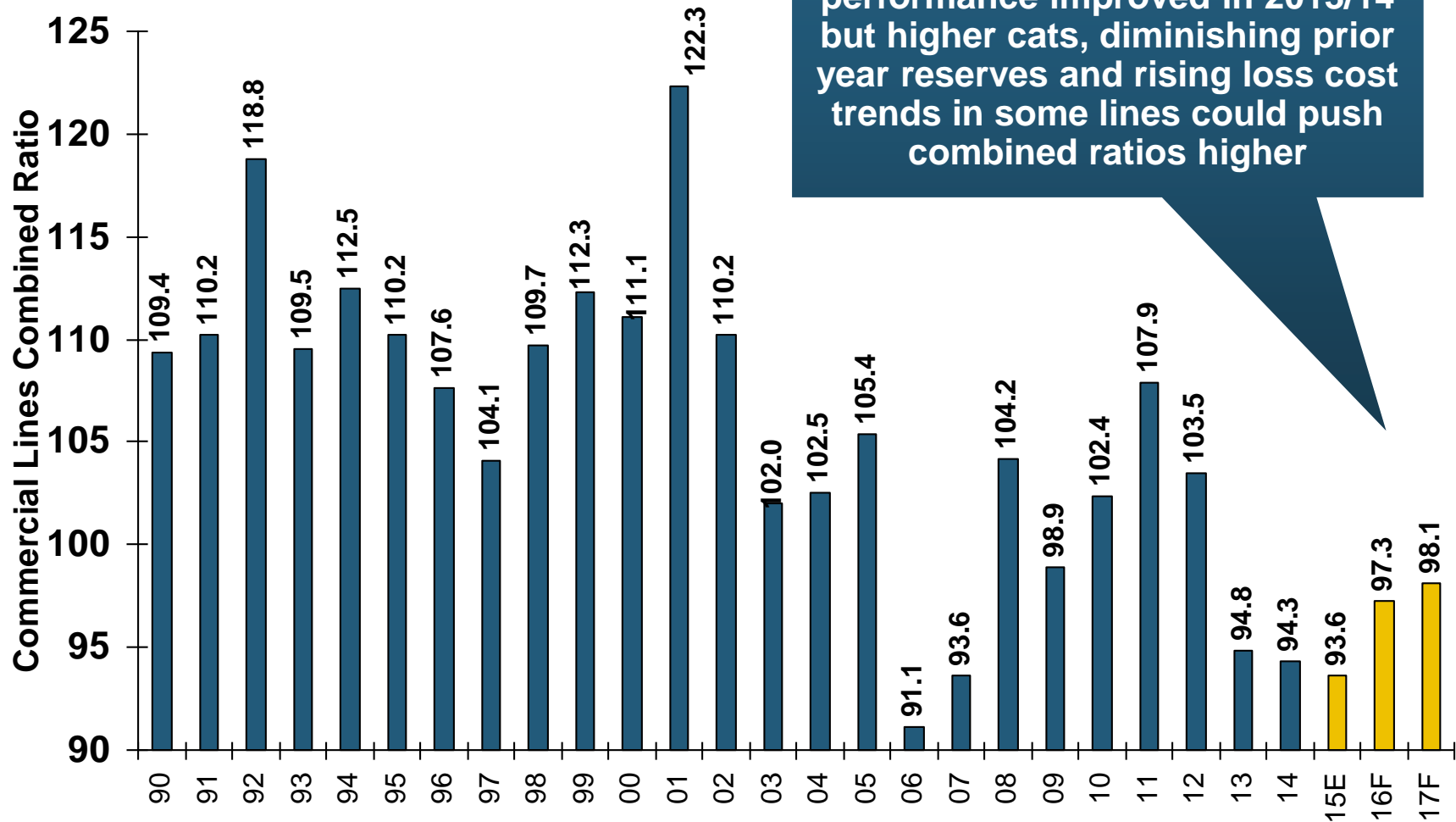
*As of Q1 2015.

Source: Federal Reserve Bank of NY Consumer Credit Panel/Equifax; I. I.I.



Commercial Lines Underwriting Performance

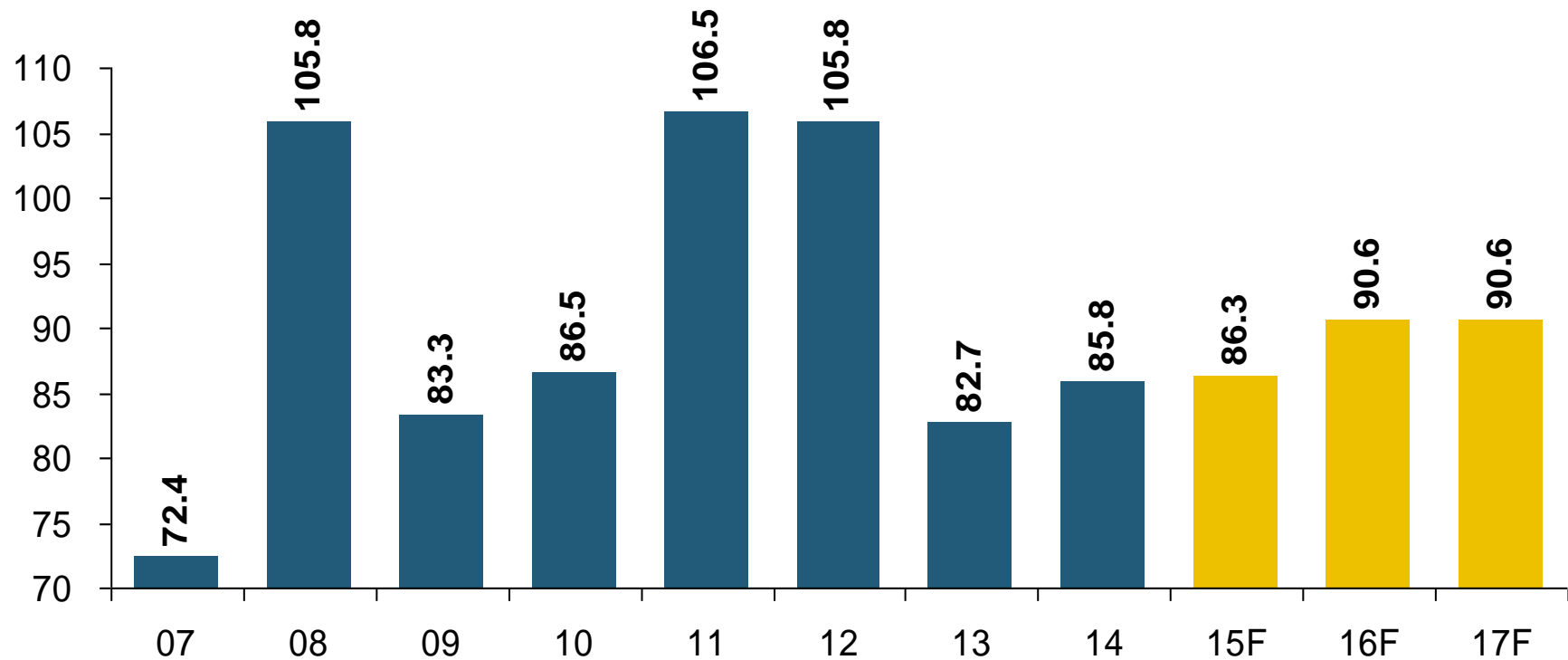
Commercial Lines Combined Ratio, 1990-2017F*



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

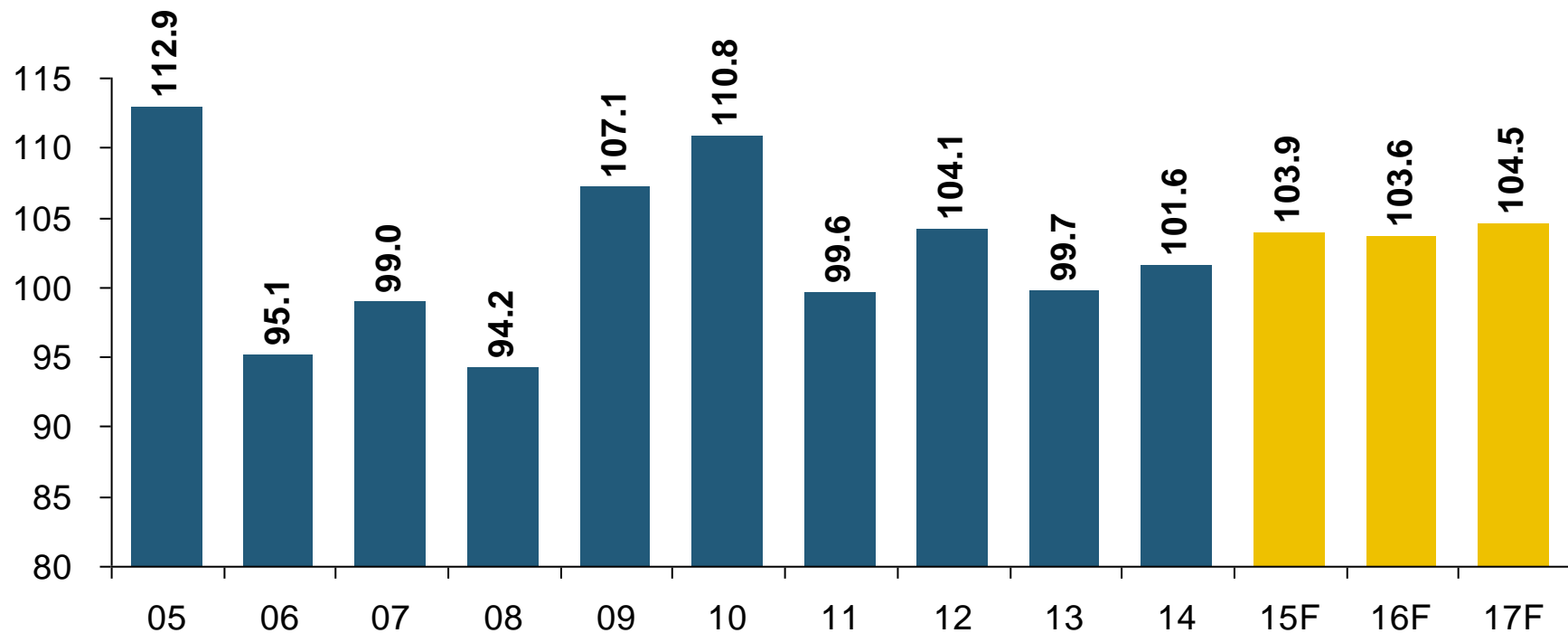
Source: A.M. Best (1990-2014); Conning (2015E-17F) Insurance Information Institute.

Commercial Property Combined Ratio: 2007–2017F



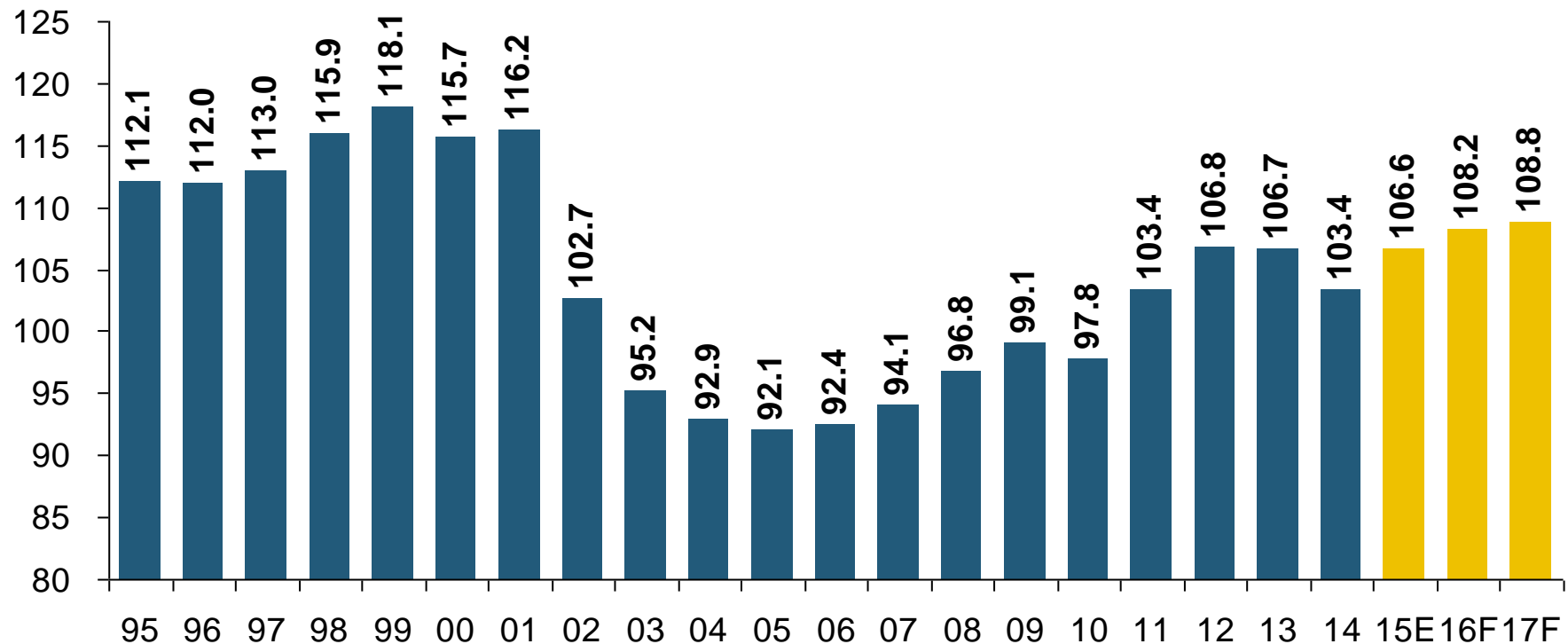
**Commercial Property Underwriting Performance
Has Improved in Recent Years, Largely Due to
Diminished CAT Activity**

General Liability Combined Ratio: 2005–2017F



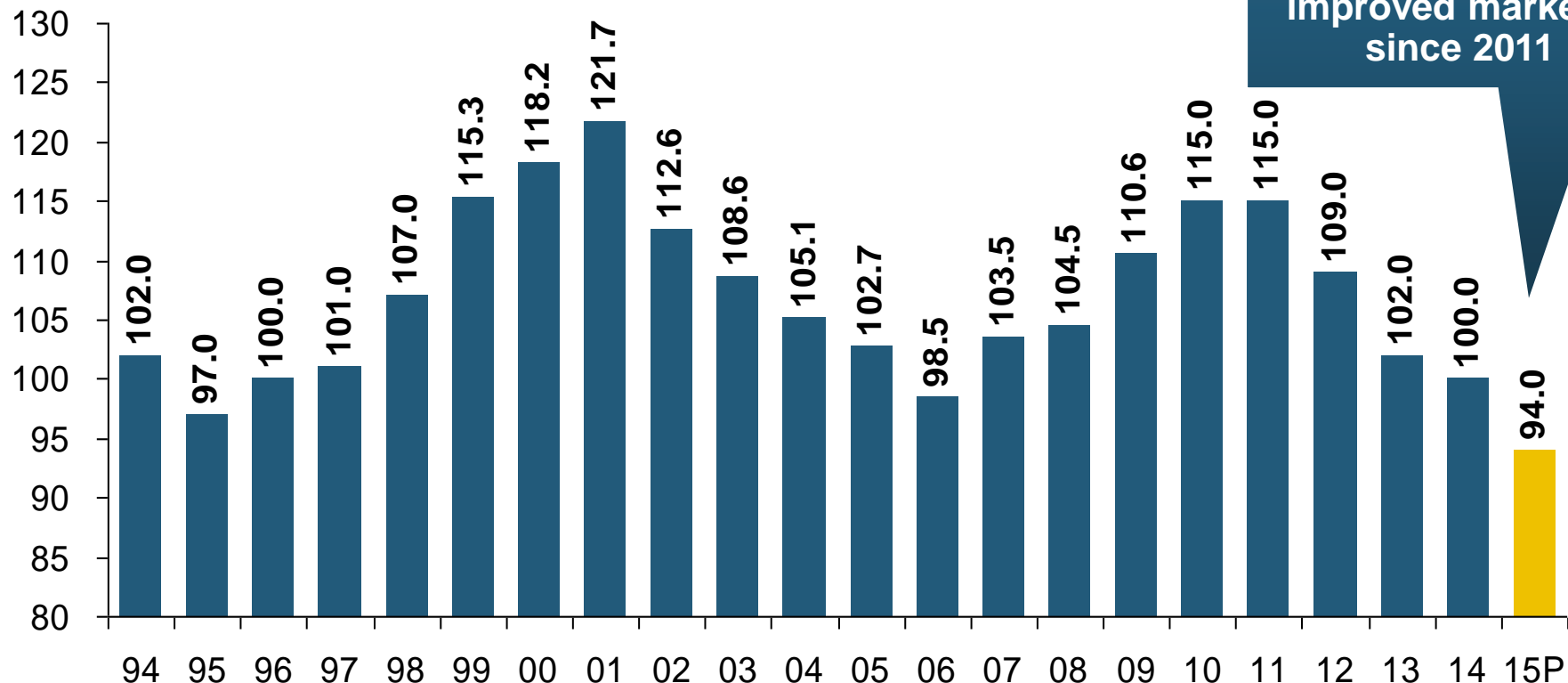
**Commercial General Liability Underwriting
Performance Has Been Volatile in Recent Years**

Commercial Auto Combined Ratio: 1993–2017F



Commercial Auto Results Are Challenged as Rate Gains Barely Have Yet to Offset Adverse Frequency and Severity Trends

Workers Compensation Combined Ratio: 1994–2015P

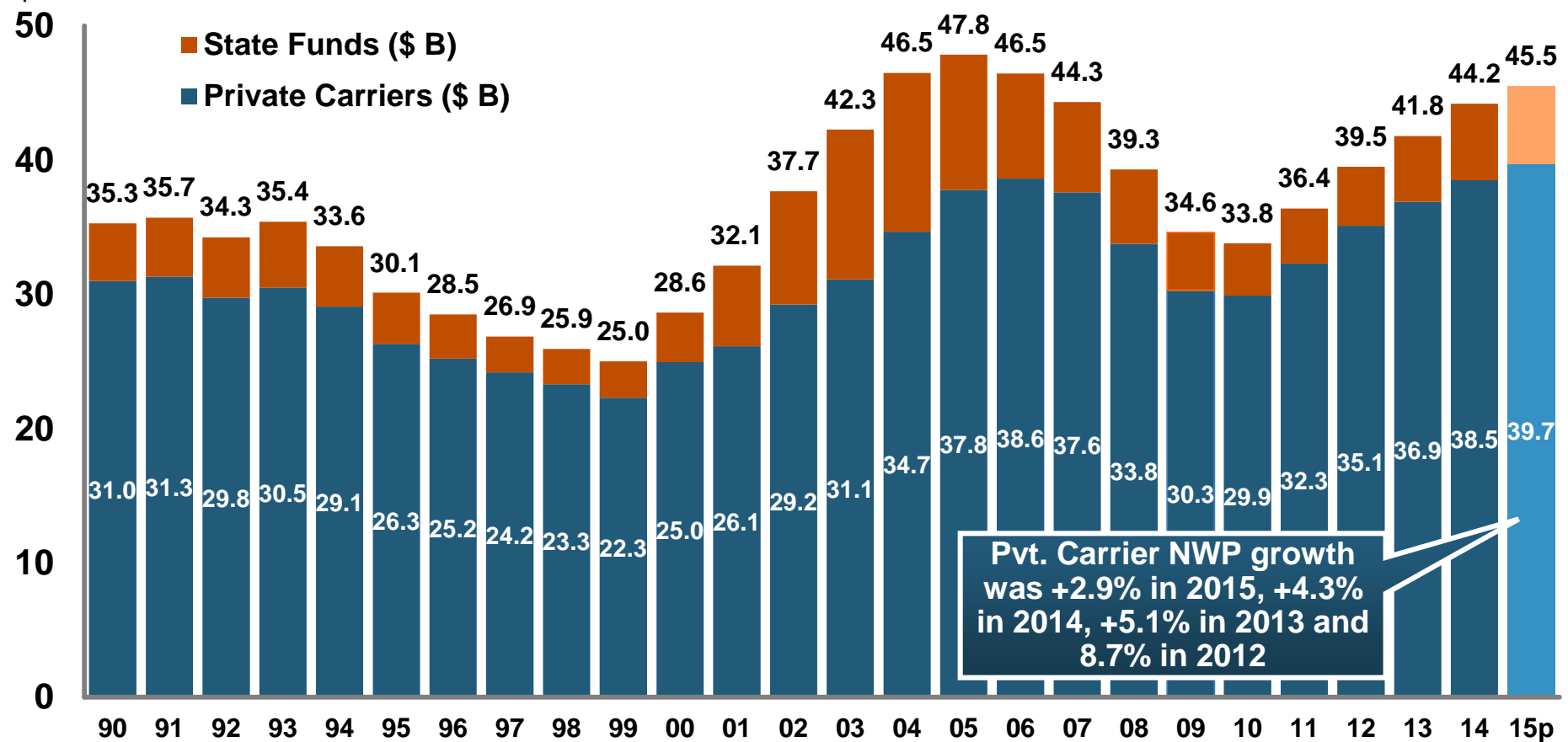


**Workers Comp Results Began to Improve in 2012.
Underwriting Results Deteriorated Markedly from 2007-
2010/11 and Were the Worst They Had Been in a Decade.**

Workers Compensation Premium: Fifth Consecutive Year of Increase

Net Written Premium

\$ Billions



p Preliminary

Source: NCCI from Annual Statement Data.

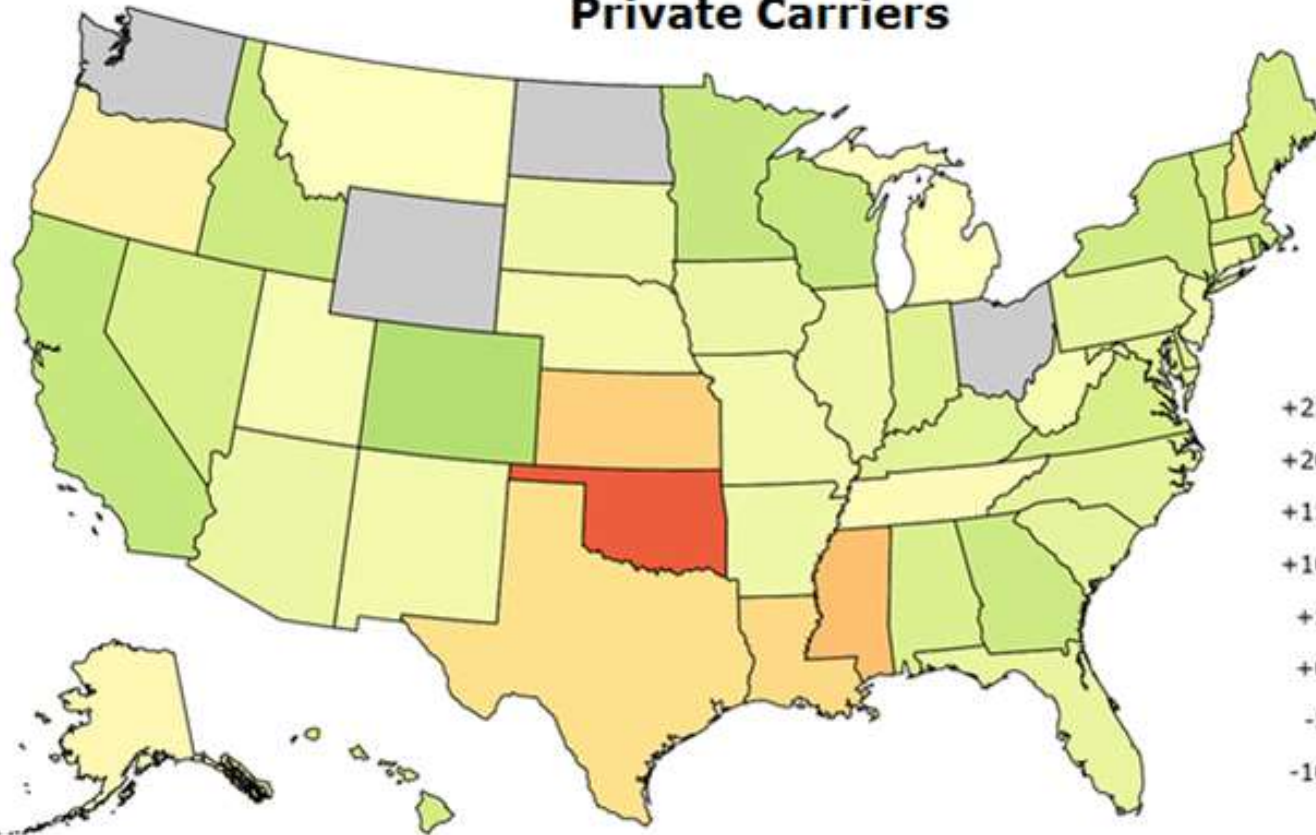
Includes state insurance fund data for the following states: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, UT.

Each calendar year total for State Funds includes all funds operating as a state fund that year.

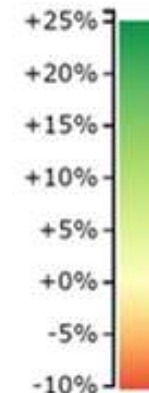
2015 Workers Compensation Direct Written Premium Growth, by State*

PRIVATE CARRIERS: Overall 2015 Growth = +4.3%

Private Carriers



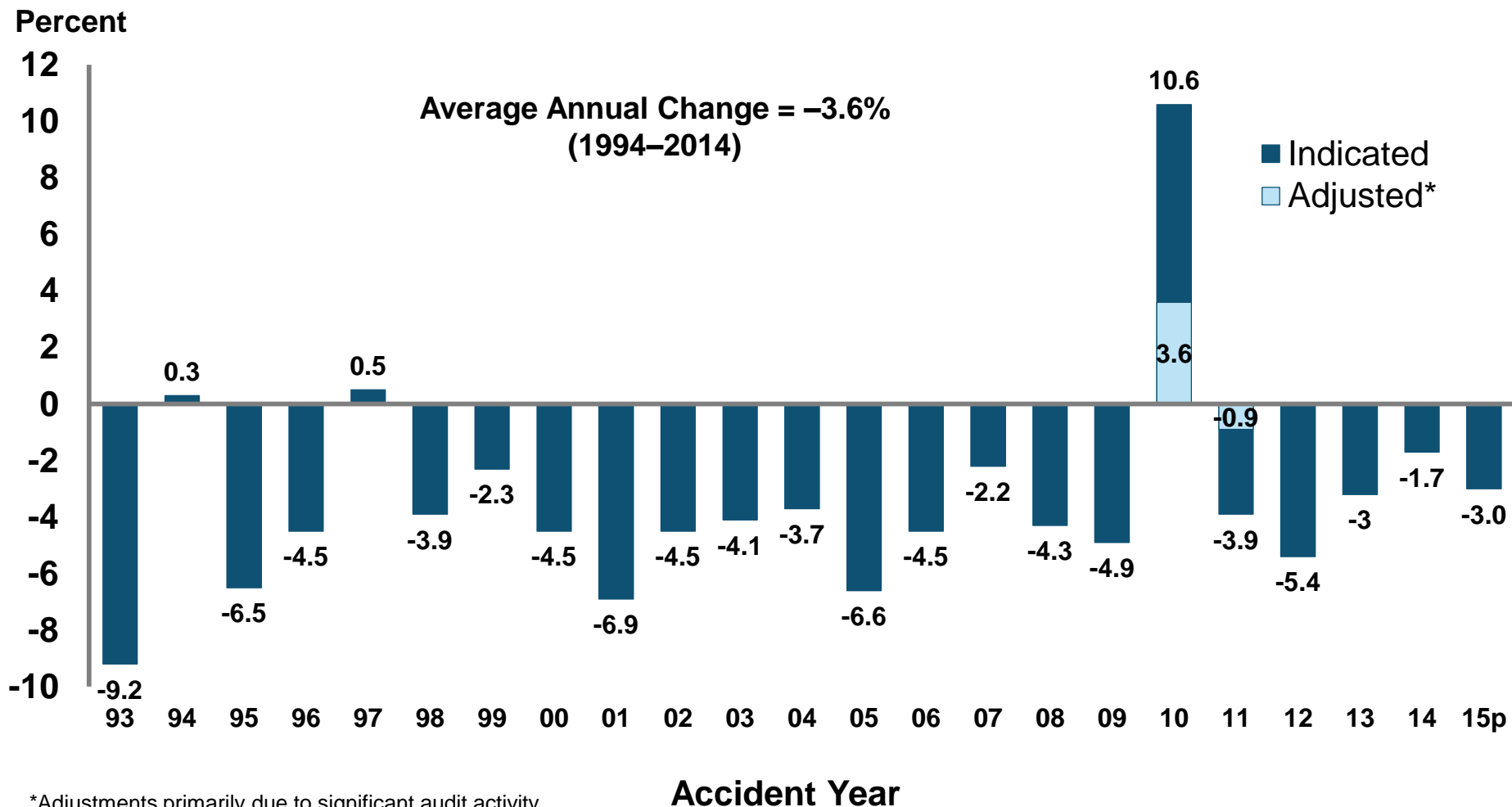
While growth rates varied widely, most states experienced modest positive growth in 2015



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

Source: NCCI.

Workers Compensation Lost-Time Claim Frequency Declined in 2015



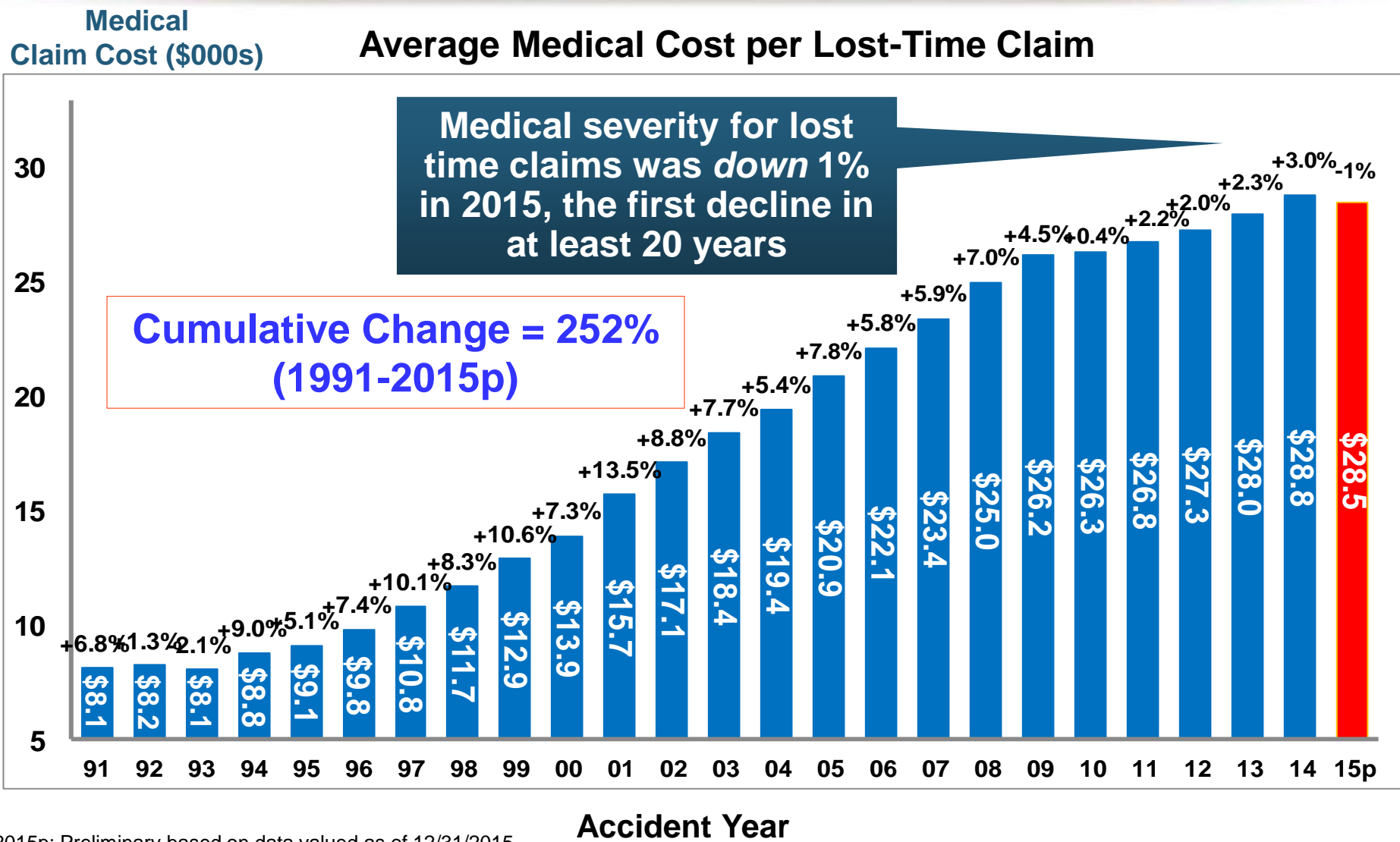
*Adjustments primarily due to significant audit activity.

2015p: Preliminary based on data valued as of 12/31/2015.

Source: NCCI Financial Call data, developed to ultimate and adjusted to current wage and voluntary loss cost level; Excludes high deductible policies; 1994-2014: Based on data through 12/31/14. Data for all states where NCCI provides ratemaking services, excluding WV.

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

Workers Compensation Medical Severity: Small Decrease in 2015



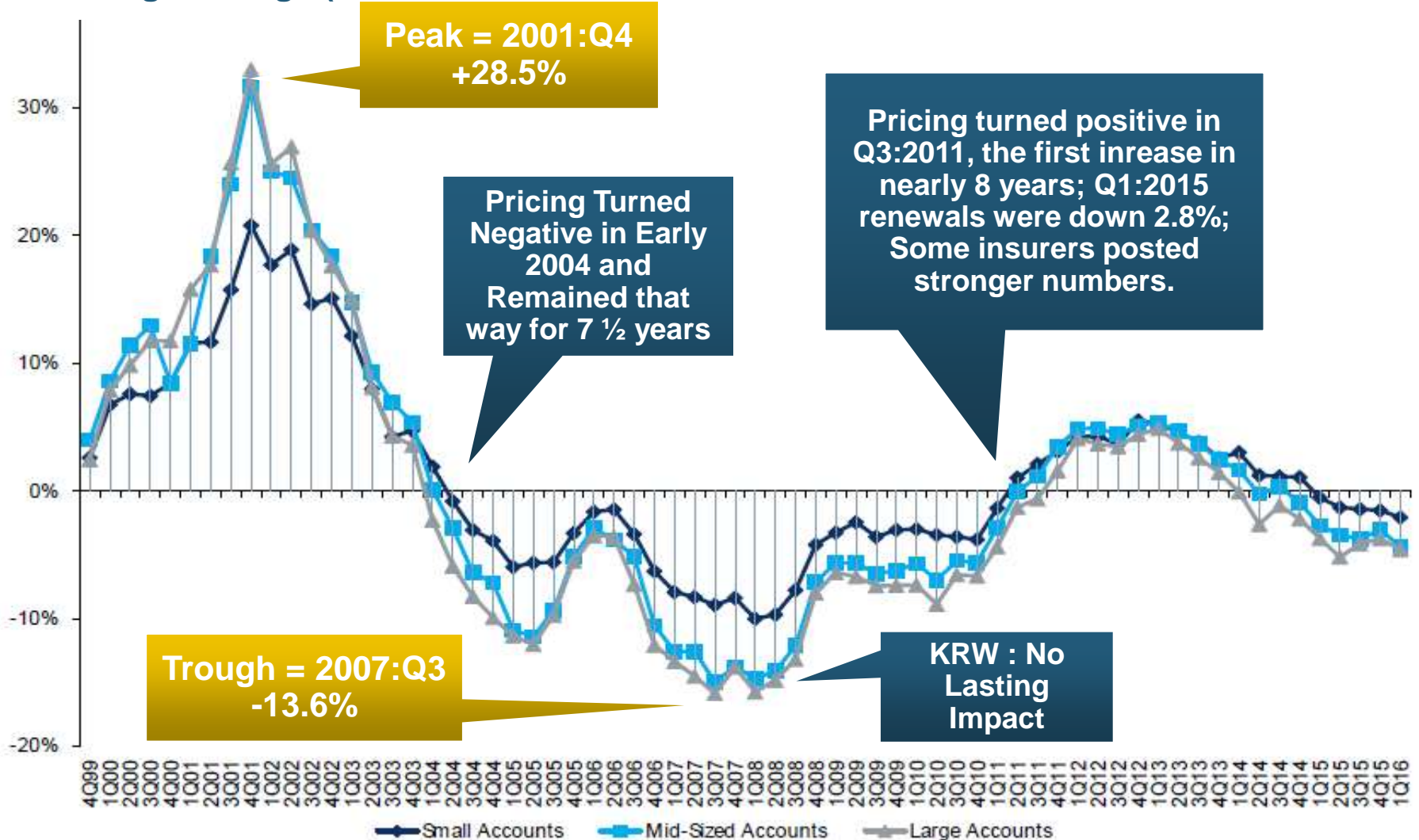
2015p: Preliminary based on data valued as of 12/31/2015.
1991-2013: Based on data through 12/31/2014, developed to ultimate
Based on the states where NCCI provides ratemaking services including state funds, excluding WV; Excludes high deductible policies.

Pricing Trends

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

Change in Commercial Rate Renewals, by Account Size: 1999:Q4 to 2016:Q1

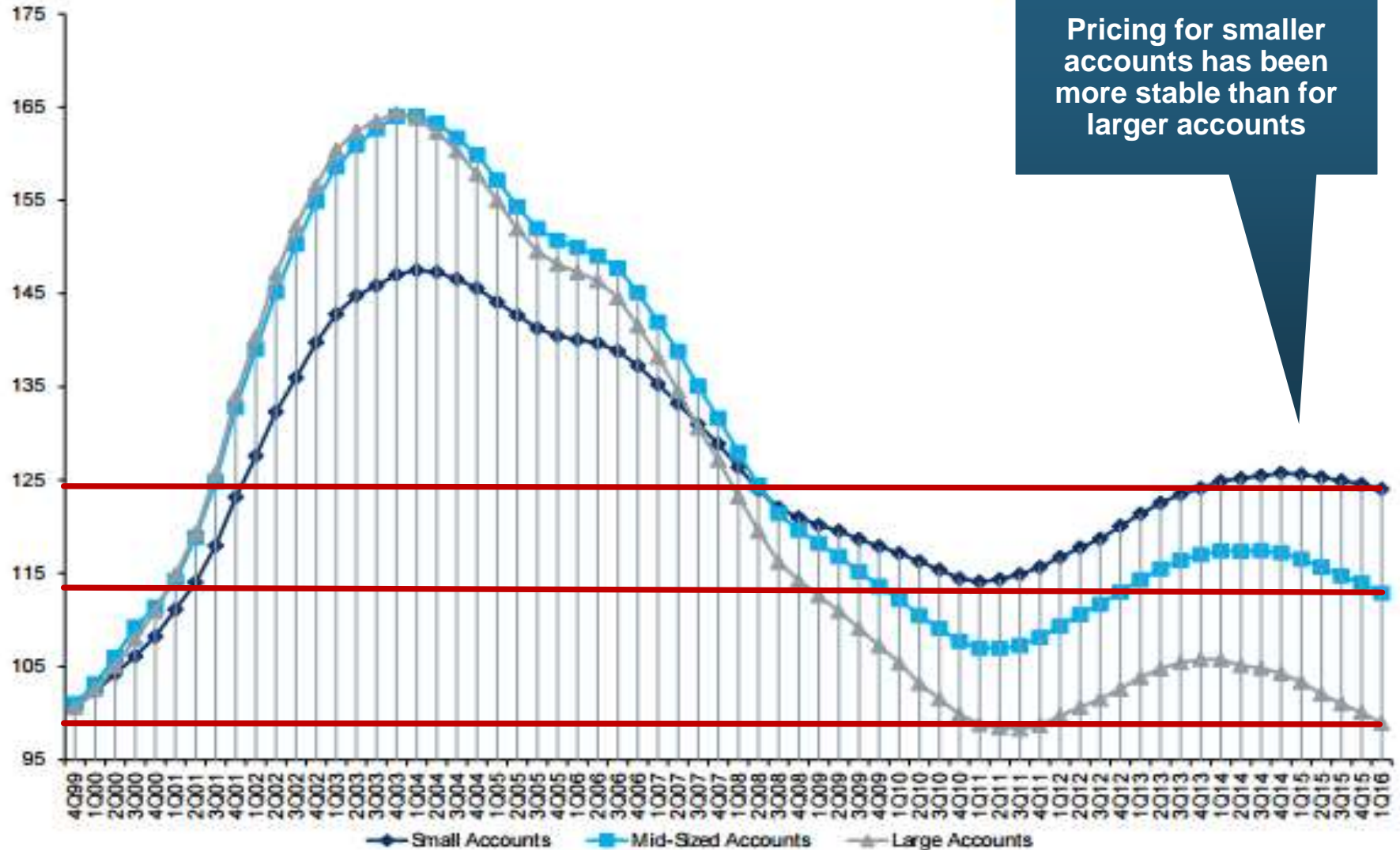
Percentage Change (%)



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

Cumulative Qtrly. Commercial Rate Changes, by Account Size: 1999:Q4 to 2016:Q1

1999:Q4 = 100

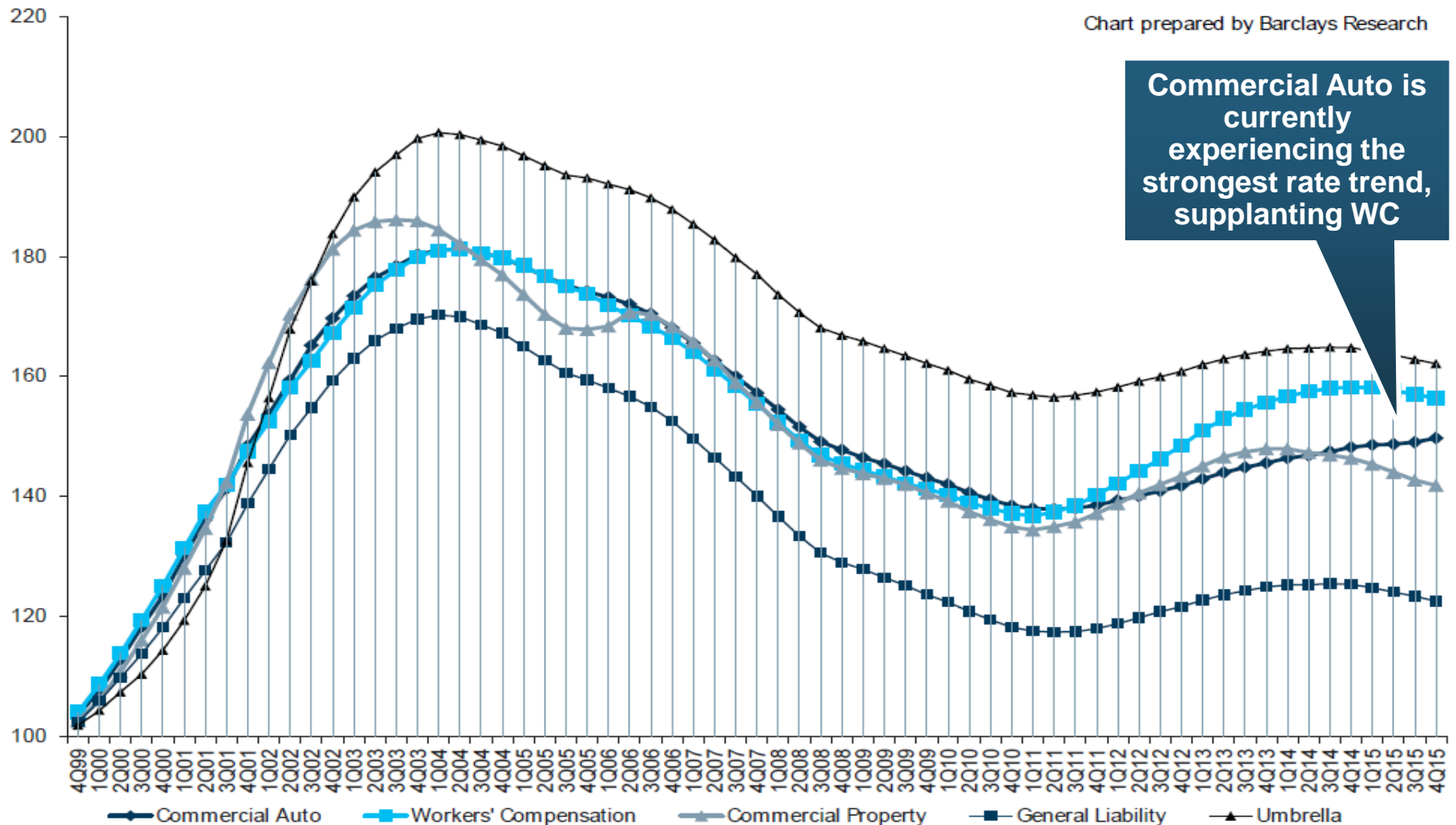


Pricing for smaller accounts has been more stable than for larger accounts

Cumulative Qtrly. Rate Changes, by Line: 1999:Q4 to 2015:Q4

1999:Q4 = 100

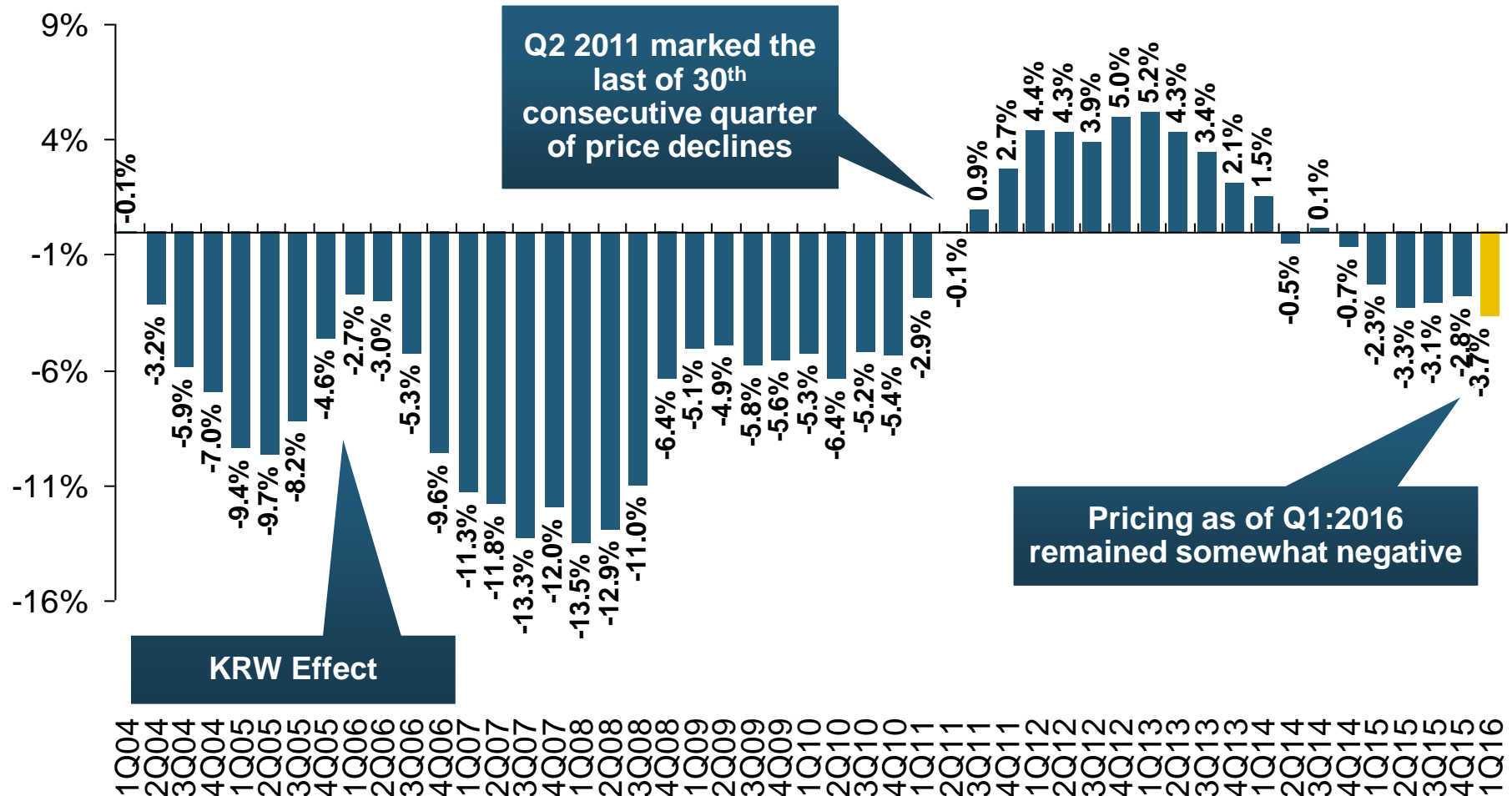
Chart prepared by Barclays Research



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.

CIAB: Average Commercial Rate Change, All Lines, (1Q:2004–1Q:2016)

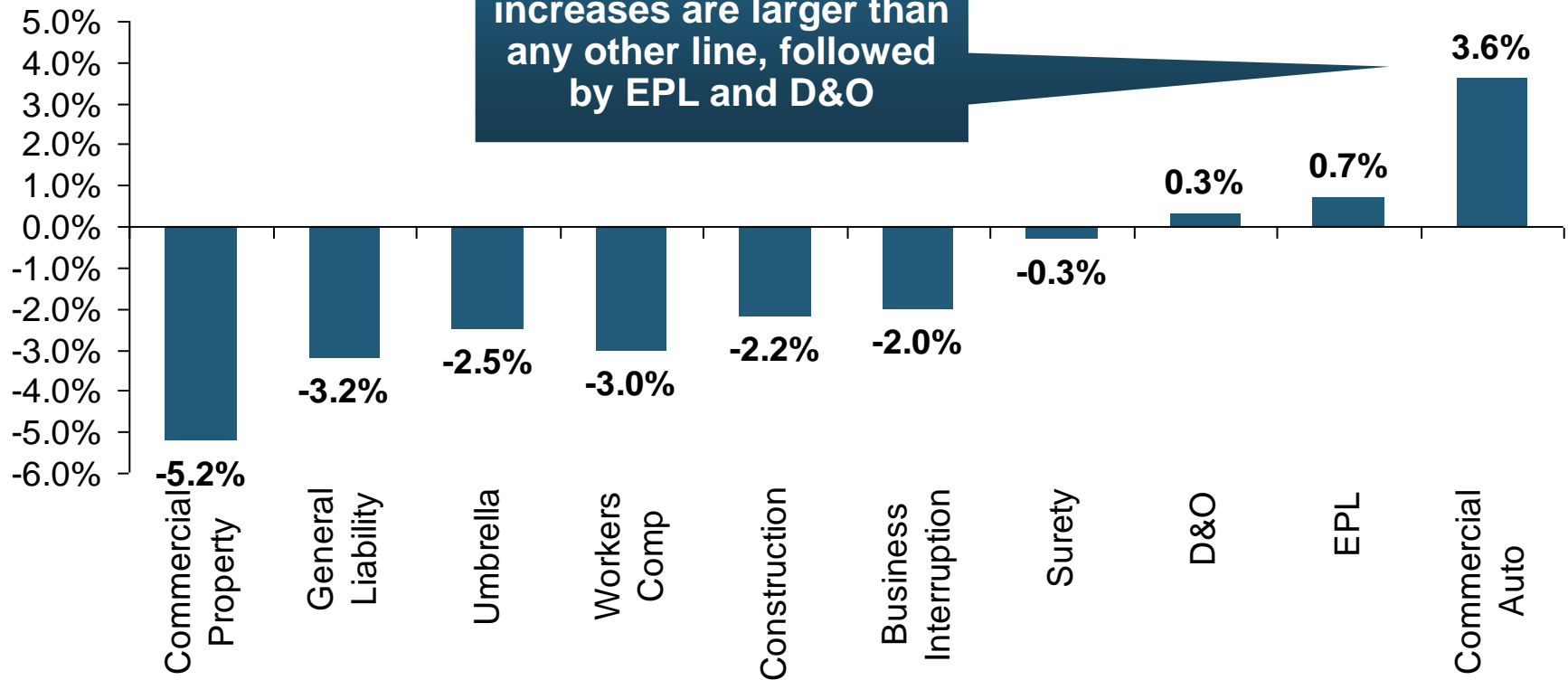
(Percent)



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

Change in Commercial Rate Renewals, by Line: 2016:Q1

Percentage Change (%)



Major Commercial Lines Renewals Were Mixed to Down in Q1:2016; EPL, D&O and Commercial Auto Saw Gains

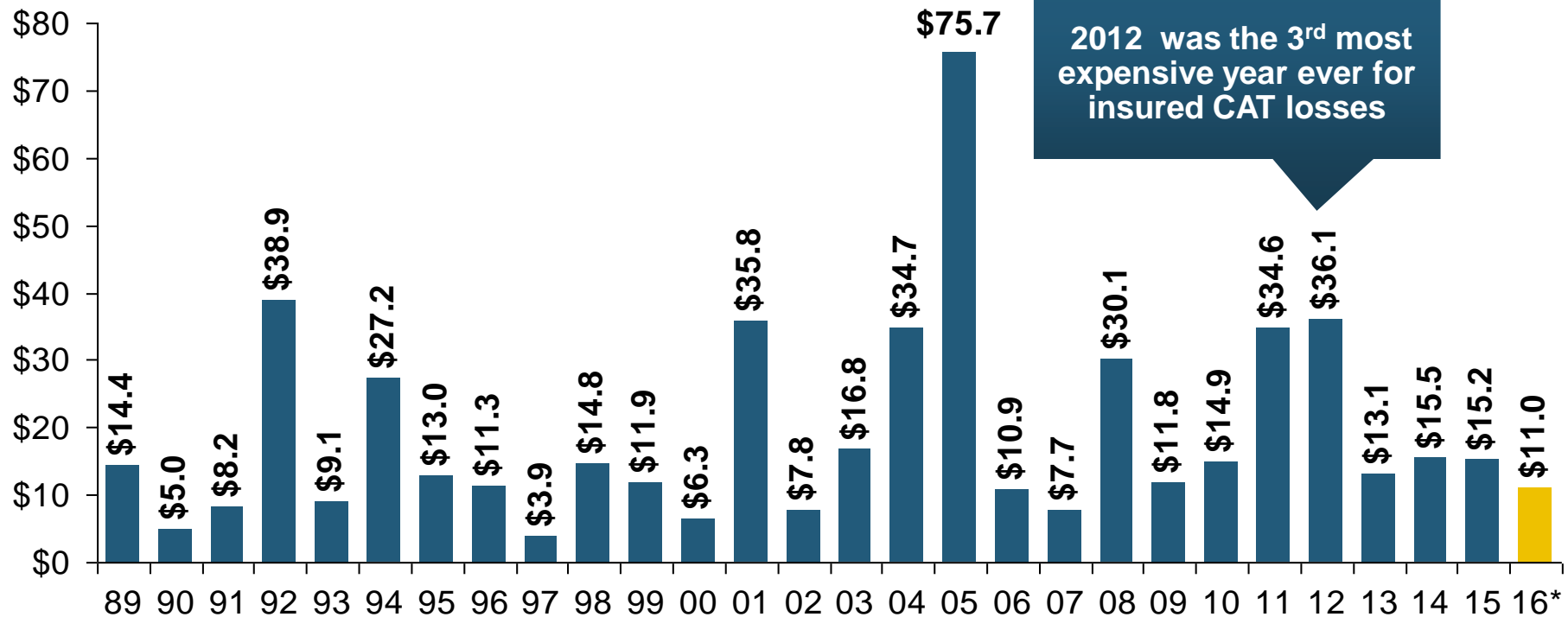
Insured Catastrophe Losses

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

2016 CAT Losses YTD Running Higher

U.S. Insured Catastrophe Losses

(\$ Billions, \$ 2015)



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

2013/14/15 Were Welcome Respite from 2011/12, among the Costliest Years for Insured Disaster Losses in US History. 2016 Is Off to a Costlier Start.

\$11.0B in insured CAT losses though 6/30/16

*Through 6/30/16. 2016 figure stated in 2016 dollars.

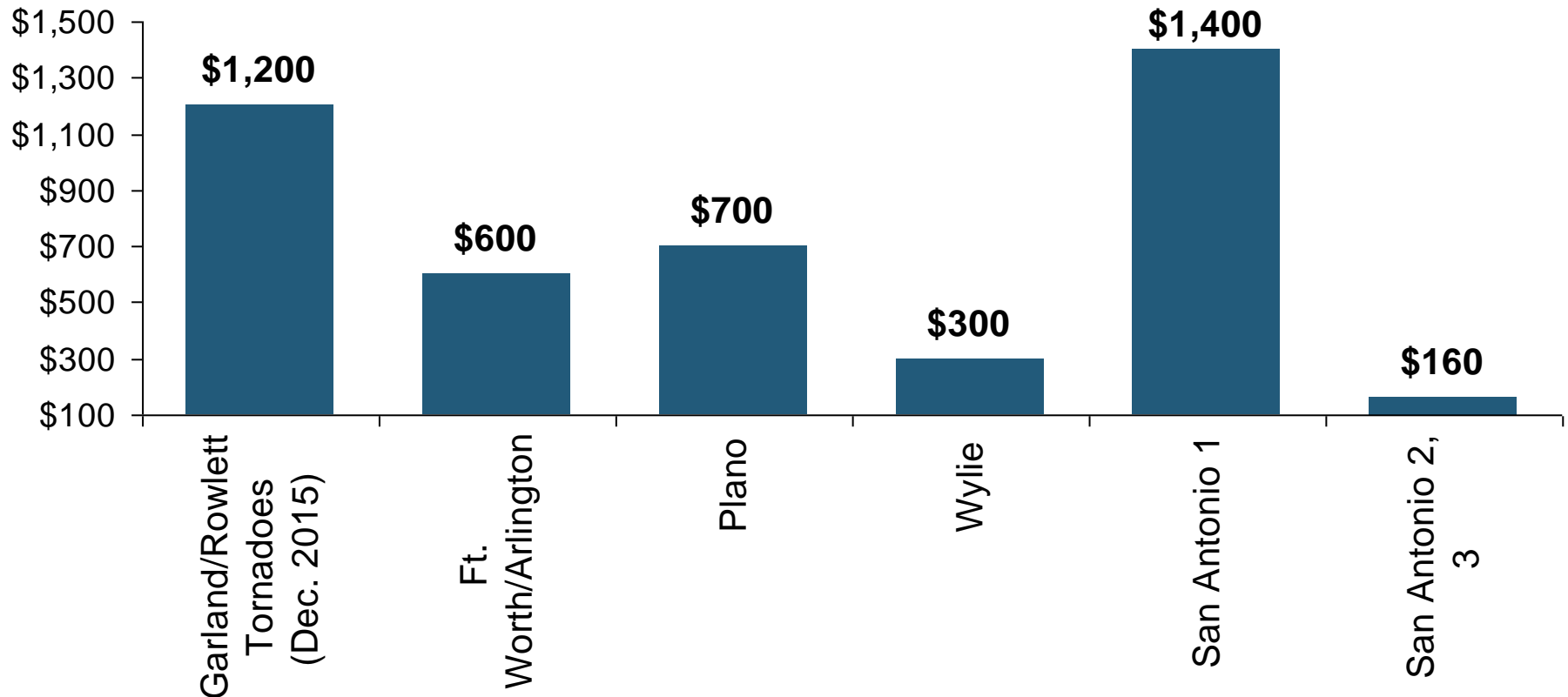
Note: 2001 figure includes \$20.3B for 9/11 losses reported through 12/31/01 (\$25.9B 2011 dollars). Includes only business and personal property claims, business interruption and auto claims. Non-prop/BI losses = \$12.2B (\$15.6B in 2011 dollars.)

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

Recent Large CATs in Texas in 2016 (except as noted)

\$ Millions

Hail caused the majority of damage in what was a costly start to 2016 in Texas



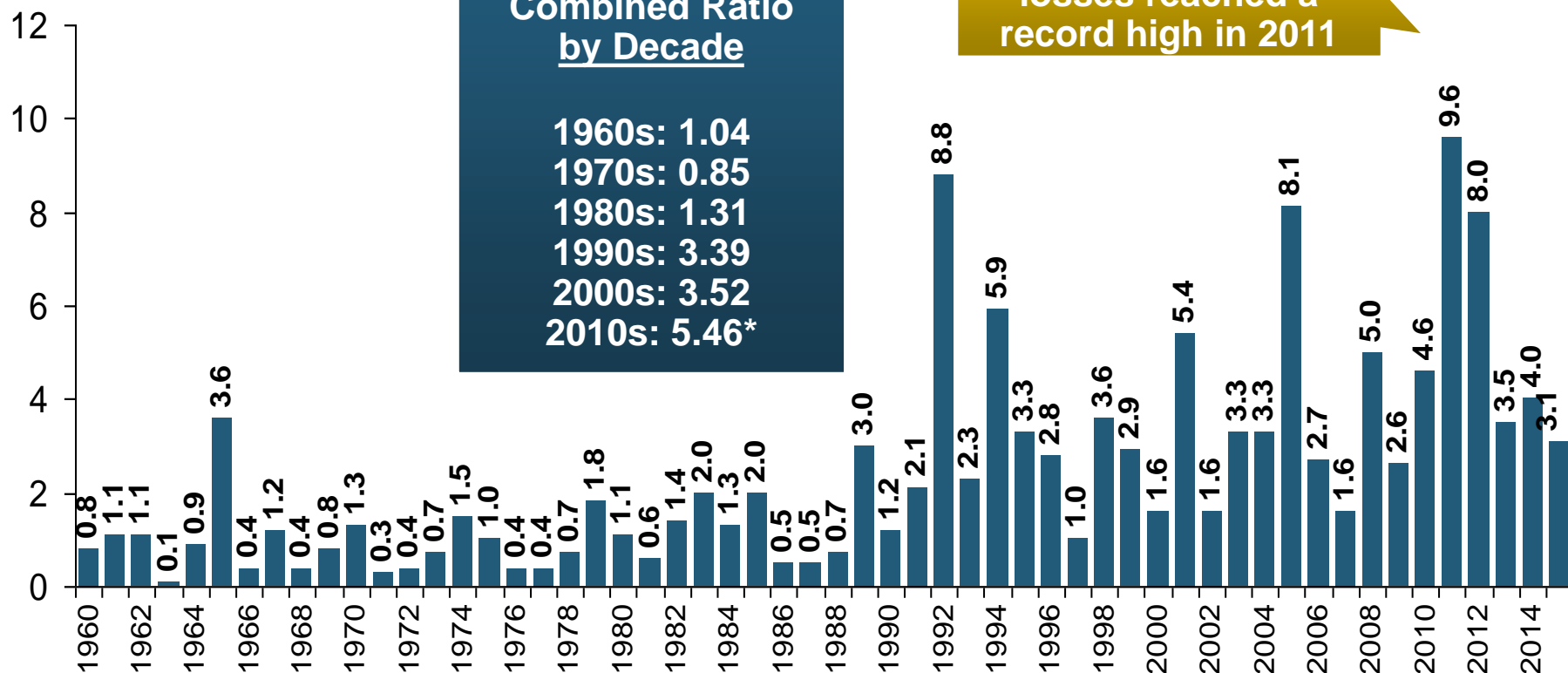
Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2015E*

Combined Ratio Points

**Avg. CAT Loss
Component of the
Combined Ratio
by Decade**

1960s: 1.04
1970s: 0.85
1980s: 1.31
1990s: 3.39
2000s: 3.52
2010s: 5.46*

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



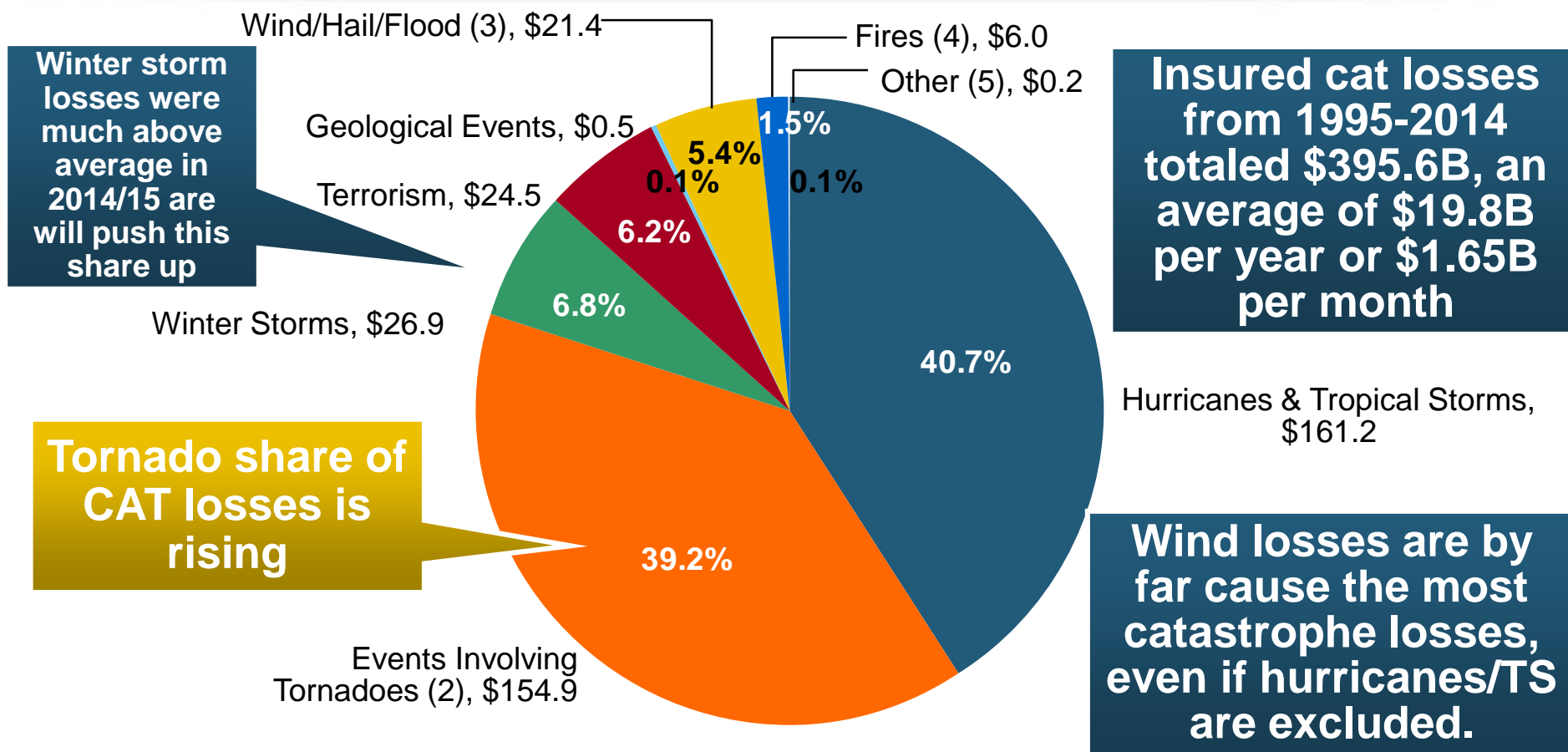
The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades

*2010s represent 2010-2015E.

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 (1960-2009); A.M. Best (2010-15E) Insurance Information Institute.

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

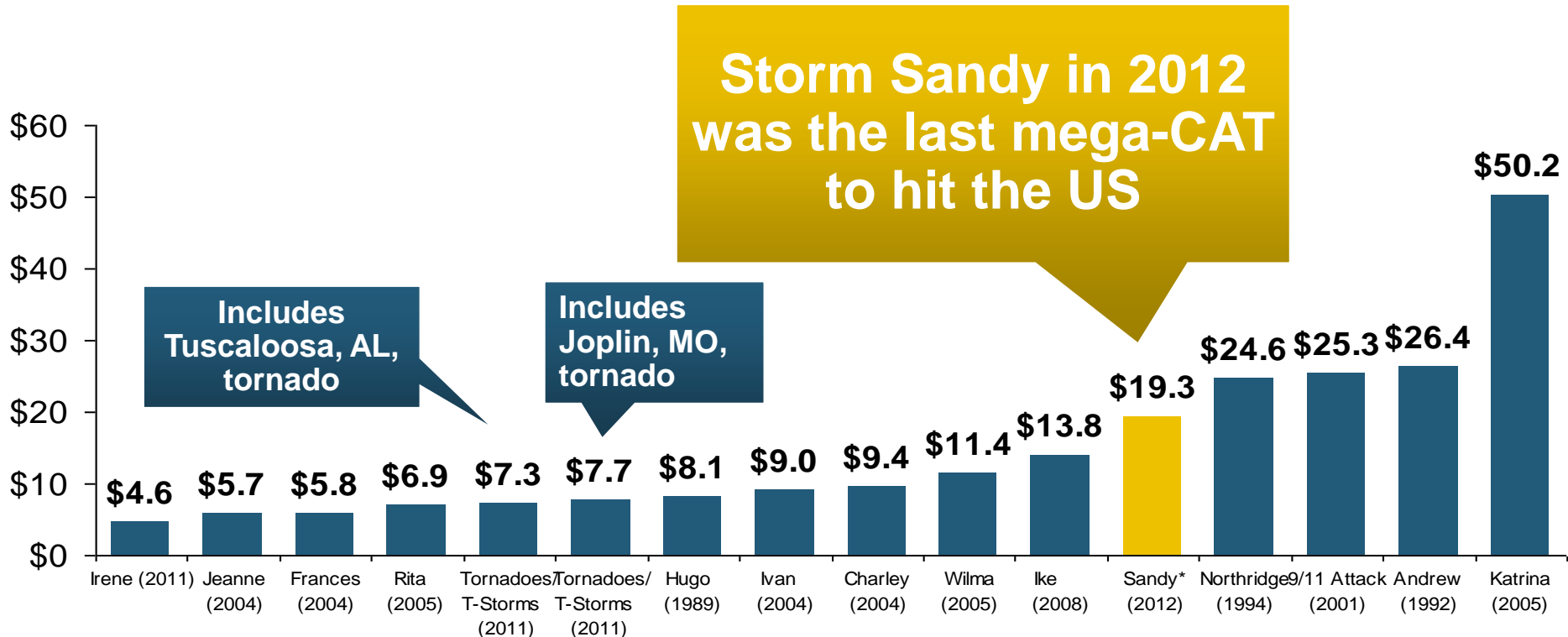


1. Catastrophes are defined as events causing direct insured losses to property of \$25 million or more in 2014 dollars.
2. Excludes snow.
3. Does not include NFIP flood losses
4. Includes wildland fires
5. Includes civil disorders, water damage, utility disruptions and non-property losses such as those covered by workers compensation.

Source: ISO's Property Claim Services Unit.

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

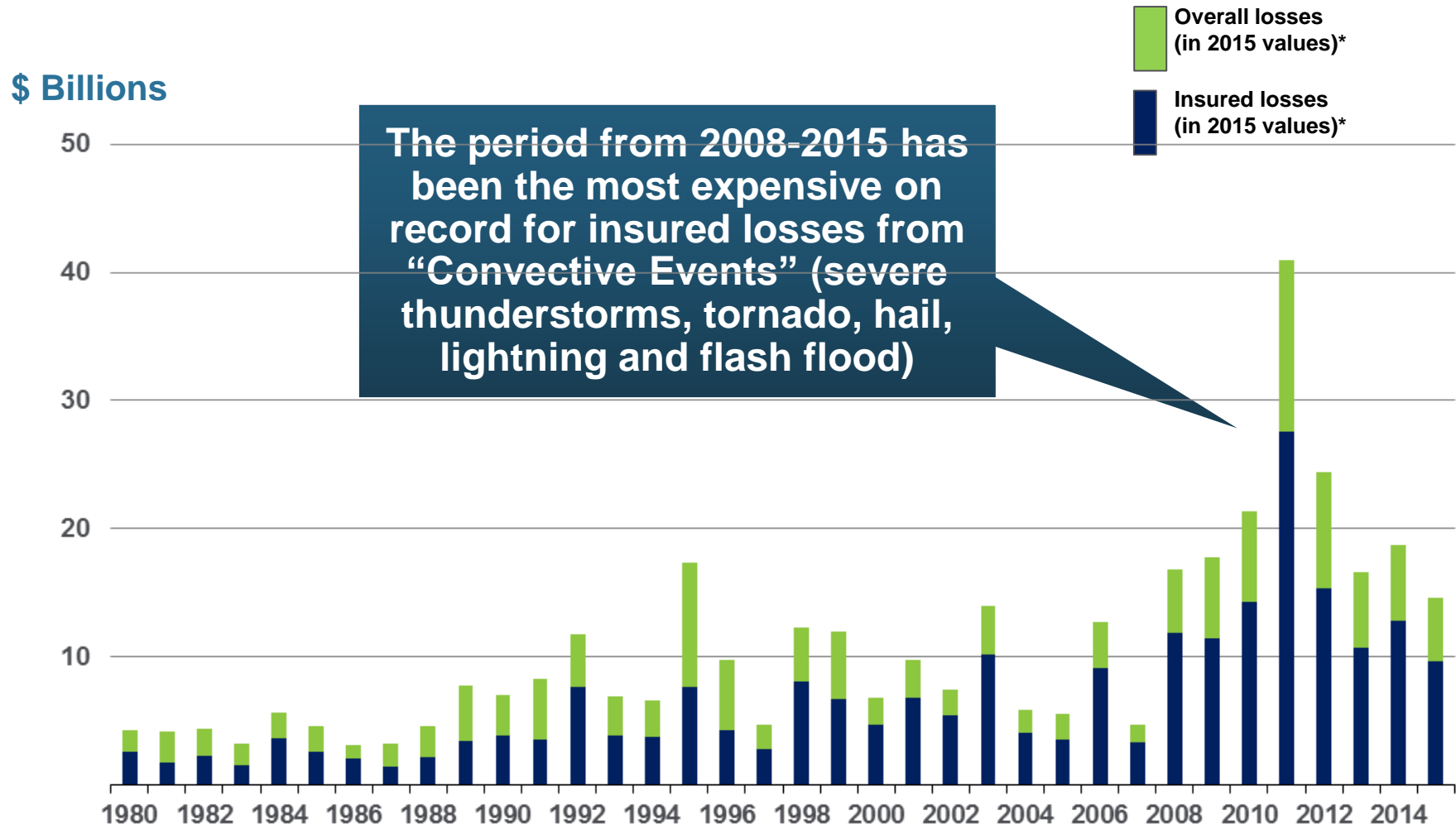
(Insured Losses, 2014 Dollars, \$ Billions)



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

Convective Loss Events in the US

Overall and insured losses, 1980 – 2015



*Losses adjusted to inflation based on CPI

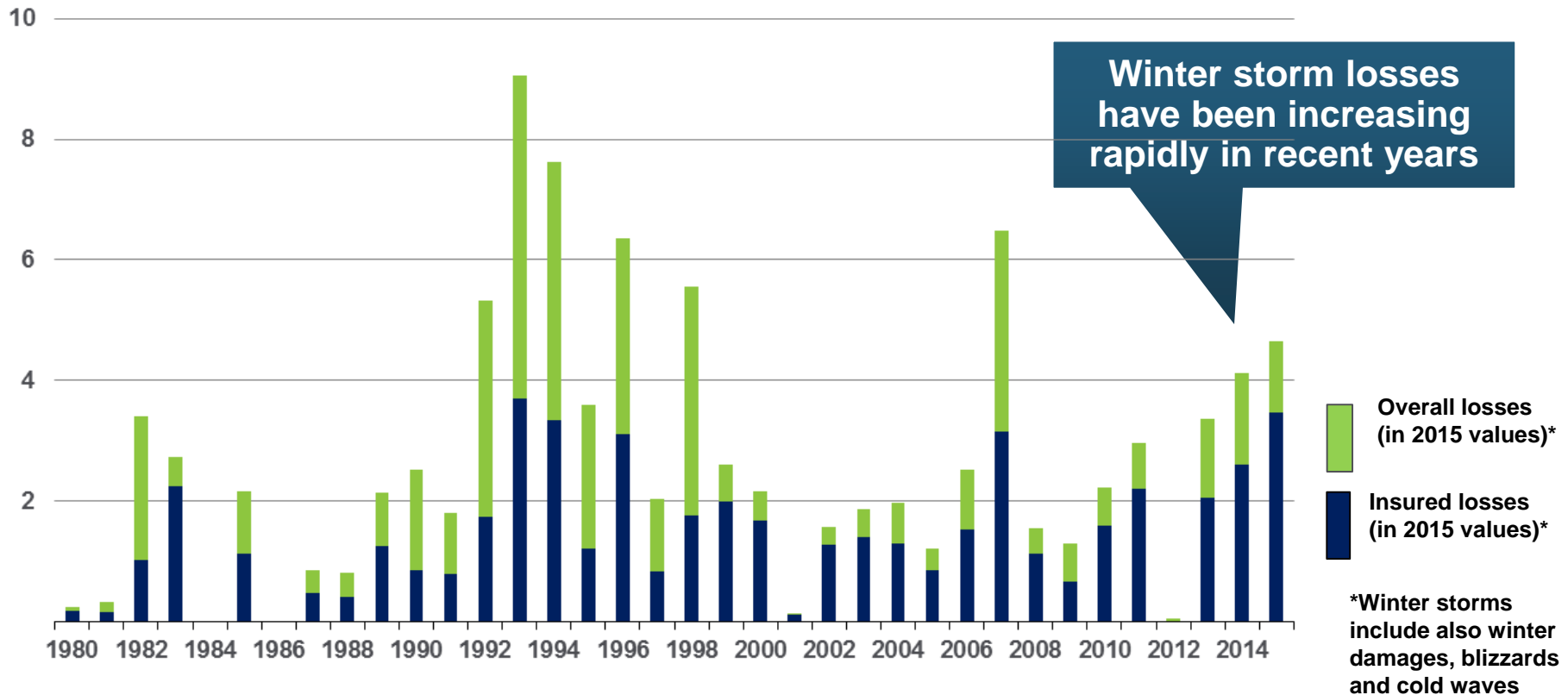
Source: Geo Risks Research, NatCatSERVICE

Analysis contains:

severe storm, tornado, hail, flash
flood and lightning

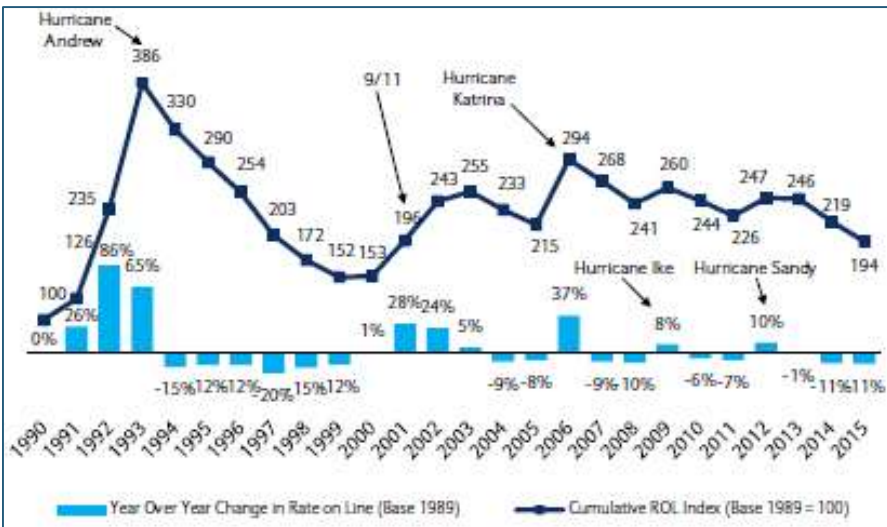
Winter Storm Losses in the US 1980 – 2015 (Overall and Insured Losses)*

\$ Billions

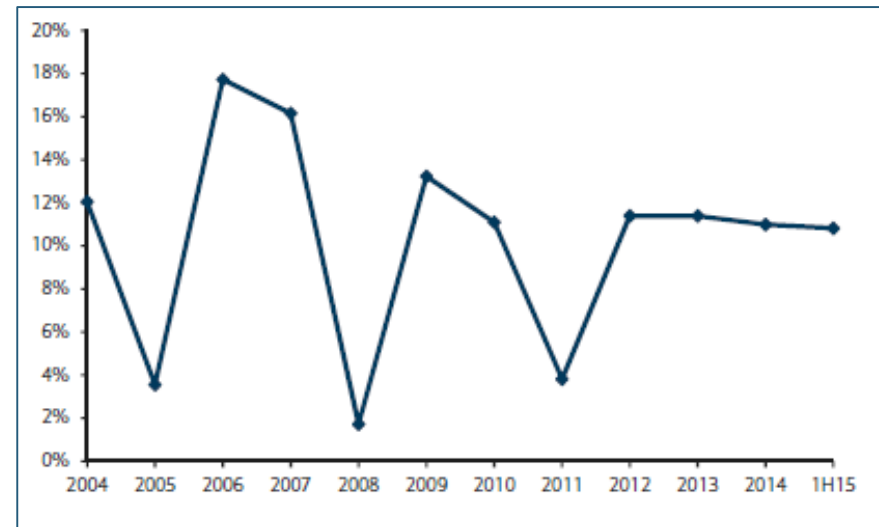


US Property CAT Rate on Line Index & Global Reinsurance ROE

US Property CAT ROL



Global Reinsurance ROE



Record traditional capacity, alternative capital and low CAT activity have pressured reinsurance prices; ROEs are now only very modestly

INDUSTRY DISRUPTORS



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

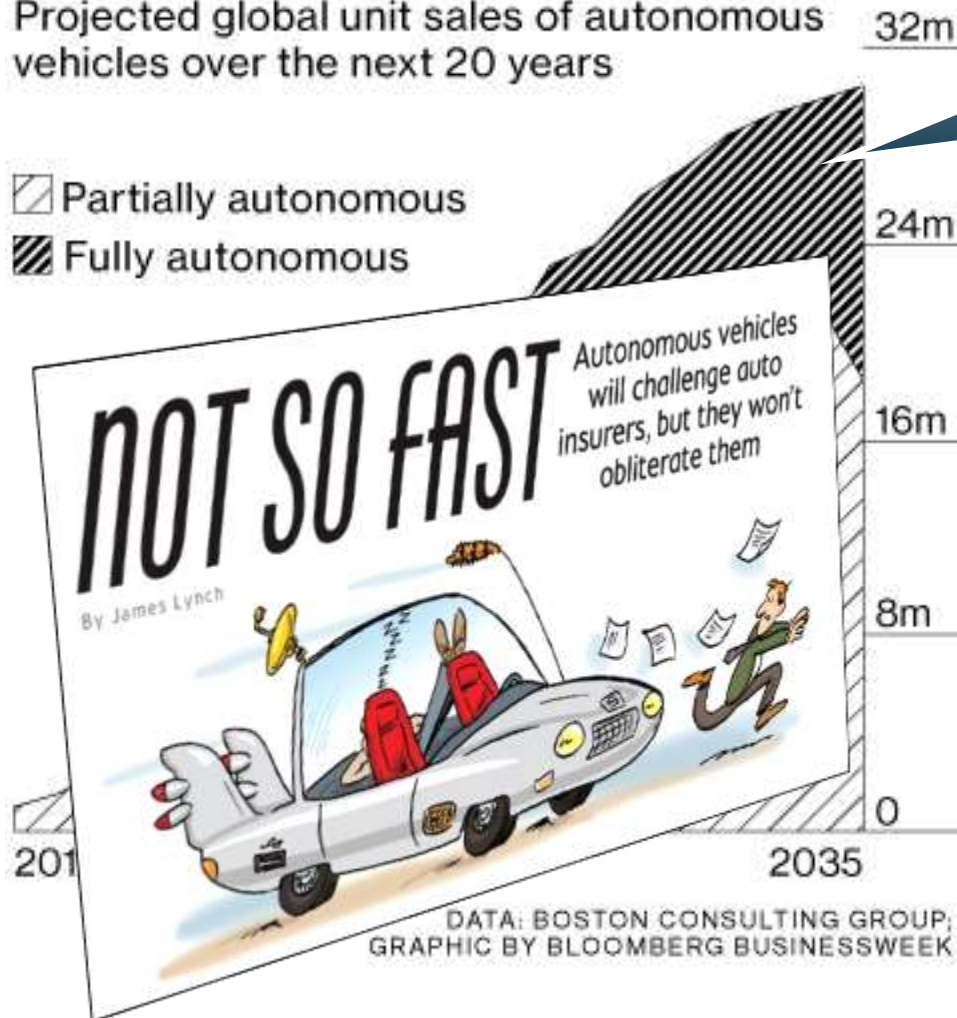
Thoughts on the Future

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

Hands-Free

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

-  Partially autonomous
 Fully autonomous



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

Questions

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

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

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

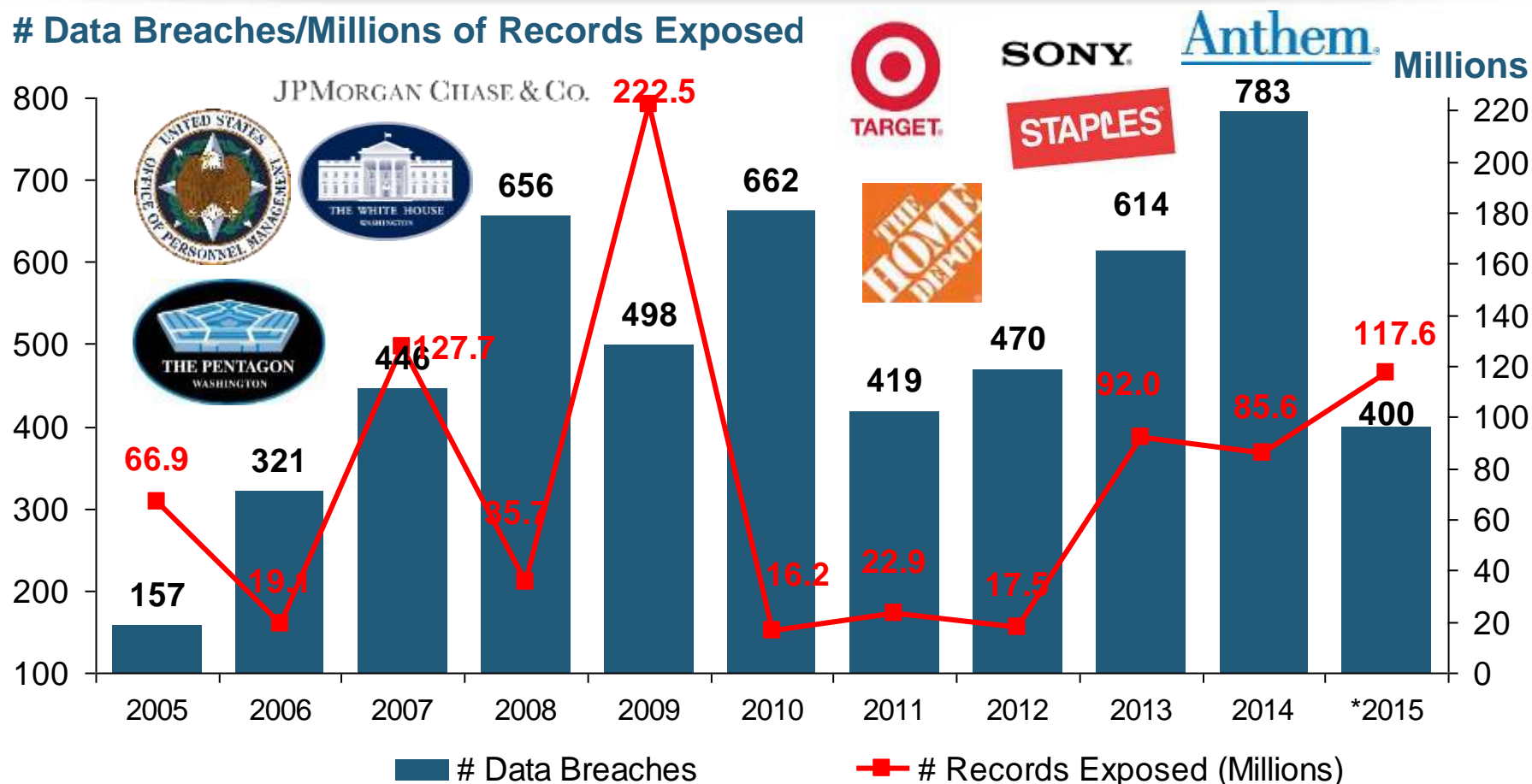


U B E R



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

Data Breaches/Millions of Records Exposed



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

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

The Sharing Economy: An Update

**The On-Demand Economy Will
Transform the American
Workforce and the
P/C Insurance Industry Too**

The Sharing Economy Has Grown— And Attracted Political Scrutiny



The image is a collage centered around the sharing economy. In the middle, a white circle with a red border contains the text "the Sharing economy" in a cursive font. Surrounding this central circle are numerous logos of sharing economy companies, including: BookMooch, GEARCOMMONS, peer2peer, zipcar, thredUP, TransferWise, TaskRabbit, Bla Bla Car, POSTMATES, Instacart, RelayRides, LIQUIDSPACE, BOATBOUND, Lyft, Shared Earth, Elance, ODesk, Girl Meets Dress.com, fiverr, LendingClub, ParkatmyHouse, Cookening, wework, and HourlyNerd. At the bottom of the collage are two portraits: Hillary Clinton on the left and Donald Trump on the right. The background is a gradient of blue and red.

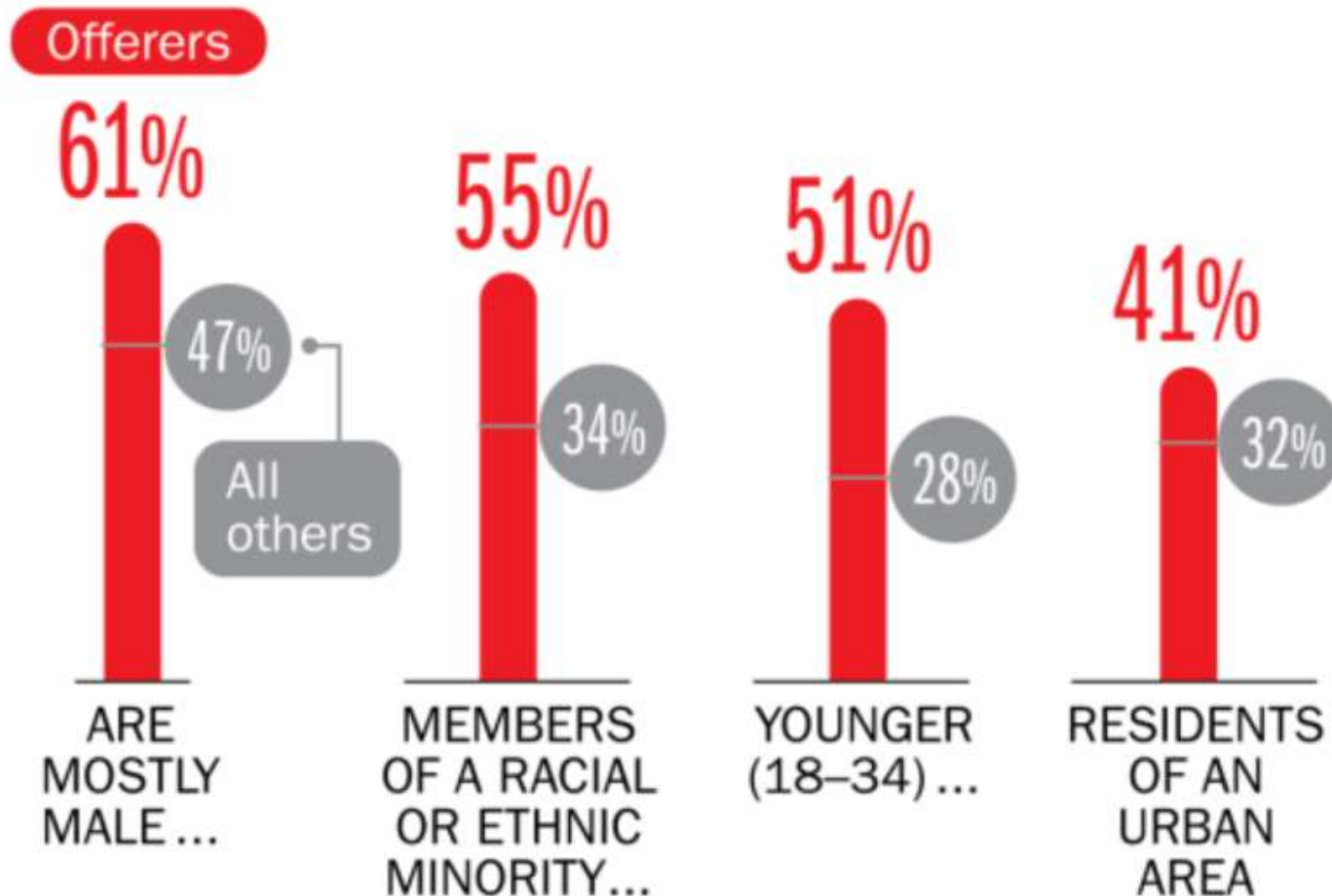
Political Skepticism About the 'Gig' Economy



*"Many Americans are making extra money renting out a spare room, designing a website ... even driving their own car. This on demand or so called 'gig' economy is creating exciting opportunities and unleashing innovation, **but it's also raising hard questions about workplace protections** and what a good job will look like in the future."*

--Hillary Clinton,
July 13, 2015

Americans Who Offer Services in the Sharing/Gig Economy Are Statistically More Prone to Workplace Injury

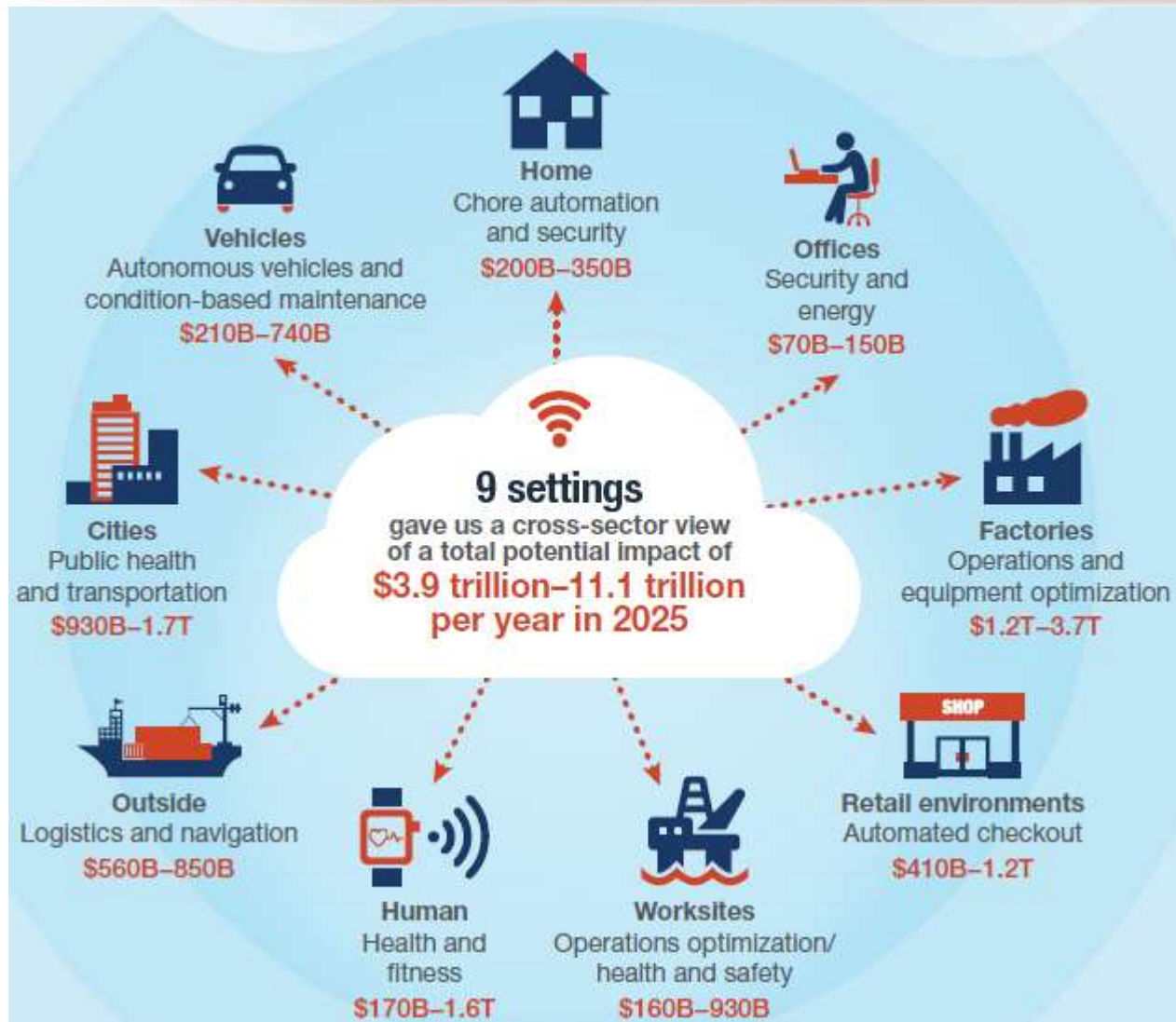


Young, urban minority males are the most likely to offer their services in the sharing economy.

THE ‘INTERNET OF THINGS’

Capturing Economic Value Amid a Shifting Insurer Value Chain

The Internet of Things and the Insurance Industry



- The “Internet of Things” will create trillions in economic value throughout the global economy by 2025
- What opportunities, challenges will this create for insurers?
- What are the impact on the insurance industry “value chain”?

Sources: McKinsey Global Institute, *The Internet of Things: Mapping the Value Beyond the Hype*, June 2015; Insurance Information Institute.

Wearables Show Significant Potential to Reduce Workplace Injury, Death

■ Wearables Today Can Monitor:

- ◆ Location
- ◆ Heart rate
- ◆ Temperature
- ◆ Steps/Exertion
- ◆ Sweat
- ◆ Sleep

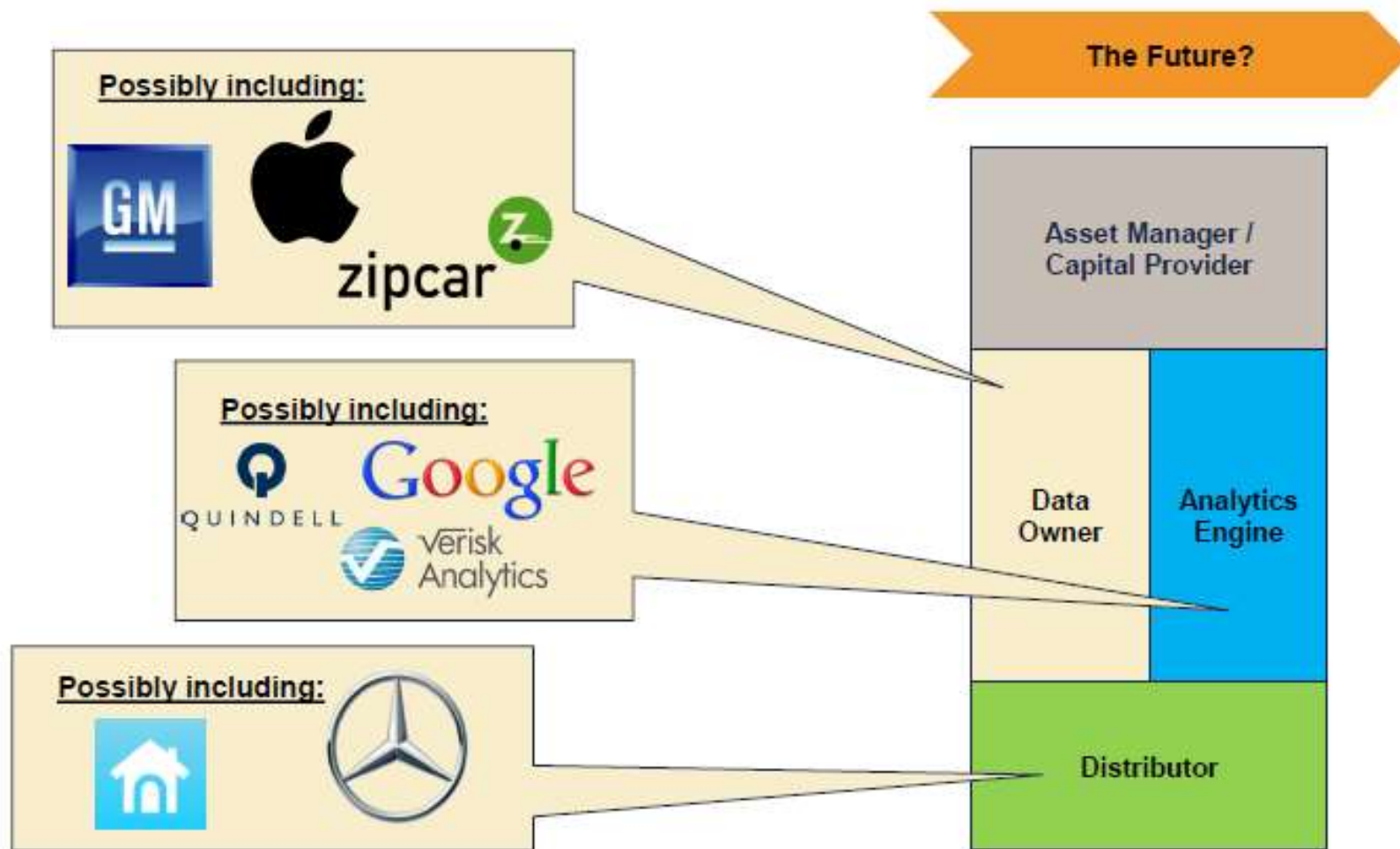


■ In the Near Future Could Monitor:

- ◆ Glucose level
- ◆ Oxygen levels
- ◆ Pain
- ◆ Nausea



The Internet of Things and the Insurance Industry Value Chain



**Who owns the data? Where does It flow? Who does the analytics?
Who is the capital provider?**



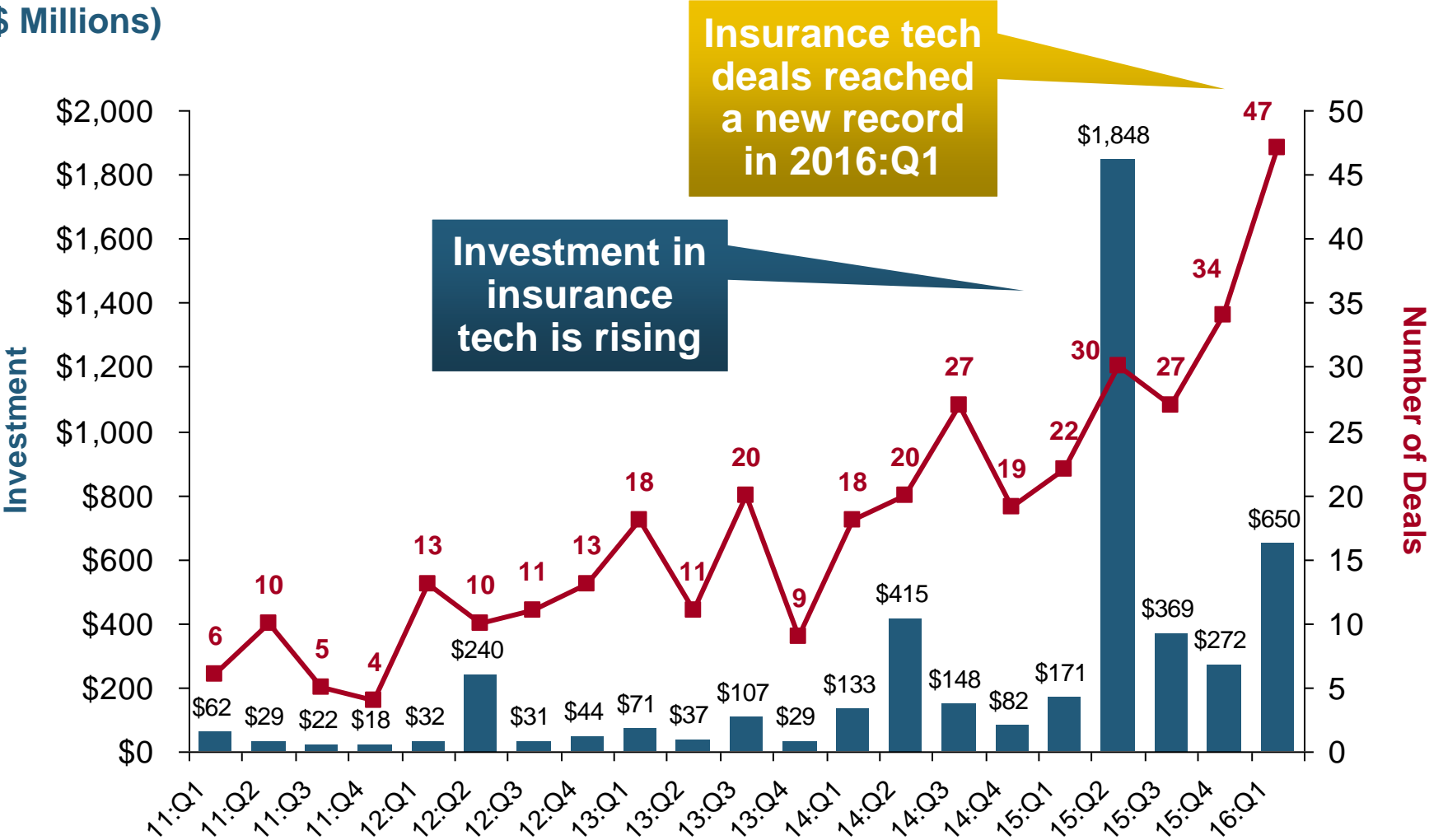
INSURANCE TECHNOLOGY: *FIN TECH ZEROES IN*

Number and Value of Deals Is Increasing

In Search of the Elusive Insurance 'Unicorn'

Insurance Technology Financing Trend: Change Is Coming

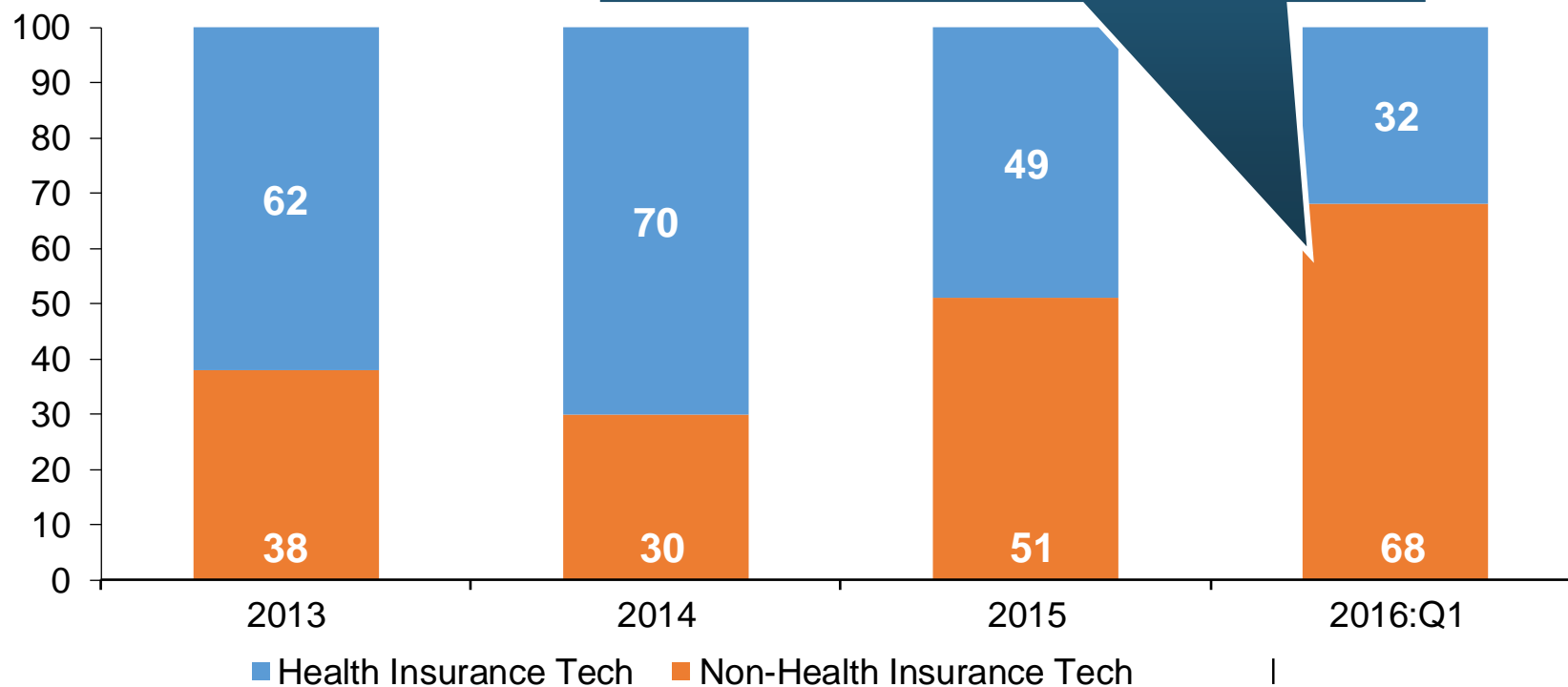
(\$ Millions)



Source: CB Insights at <https://www.cbinsights.com/blog/insurance-tech-overview-q1-2016/>; Insurance Information Institute.

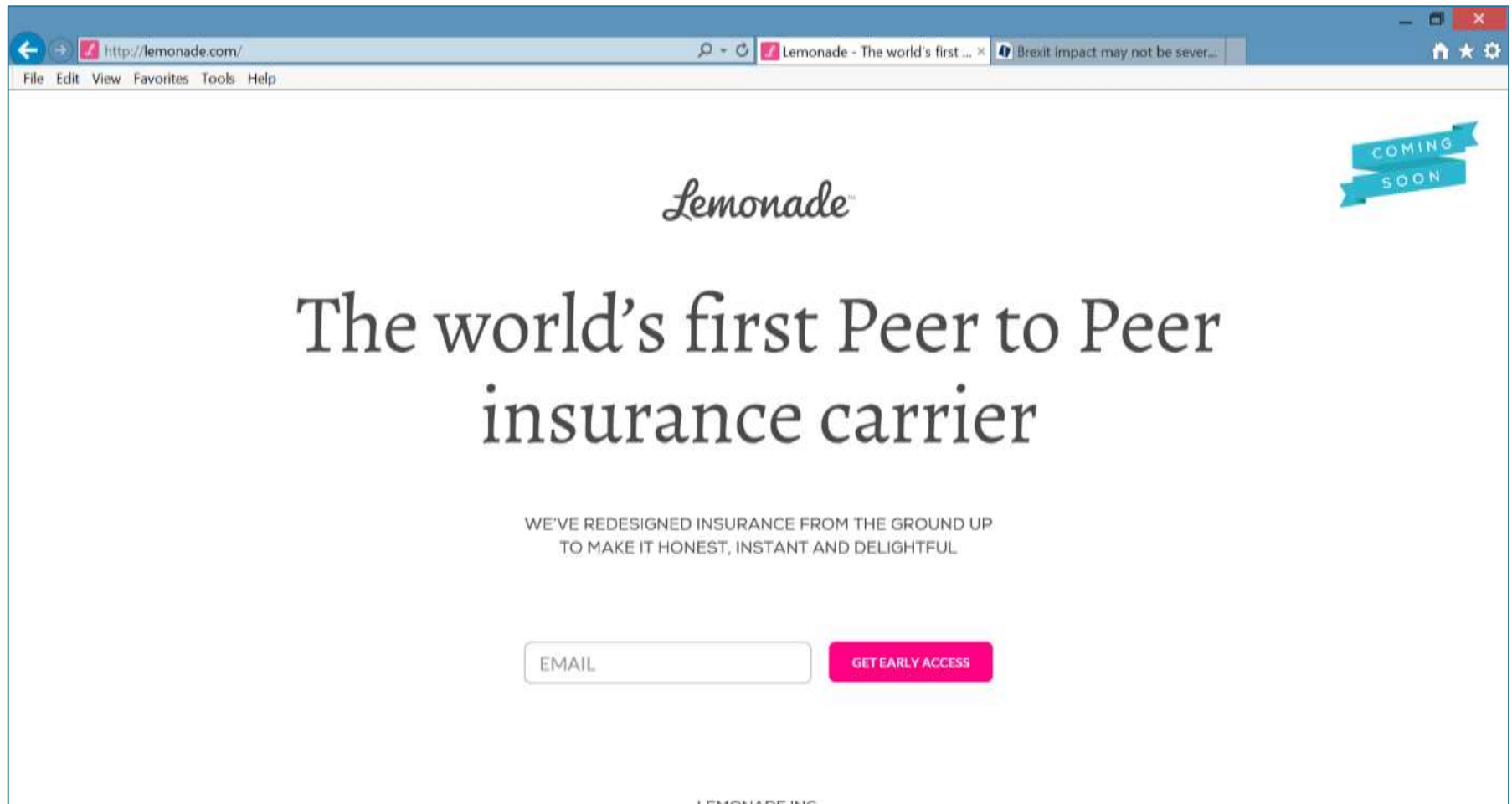
Insurance Tech Activity by Area of Interest, 2013 – 2016:Q1

(Percent)



Silicon Valley and the venture capital community have the insurance industry in their sights. Most will fail. Some will succeed.

Lemonade: Peer-to-Peer (P2P) Insurance



Lemonade: Sour Words About Insurance

Daniel Schreiber here, with updates from Lemonade.

I'm thrilled to report that a few days ago, by unanimous vote of our board and shareholders, **Lemonade became a Public Benefit Corporation**, and was also **awarded provisional 'B-Corp' certification. Both are firsts for an insurance carrier**, and are points of tremendous pride for our team.

Rebuilding insurance as a social good, rather than a necessary evil, is now part of our legal mission. **Our Chief Behavioral Officer, Professor Dan Ariely, says that "If you tried to create a system to bring out the worst in humans, it would look a lot like the insurance of today."** Working in partnership with nonprofits, and baking giving-back into our business model, holds the promise of a better insurance experience, and a more valuable insurance company.

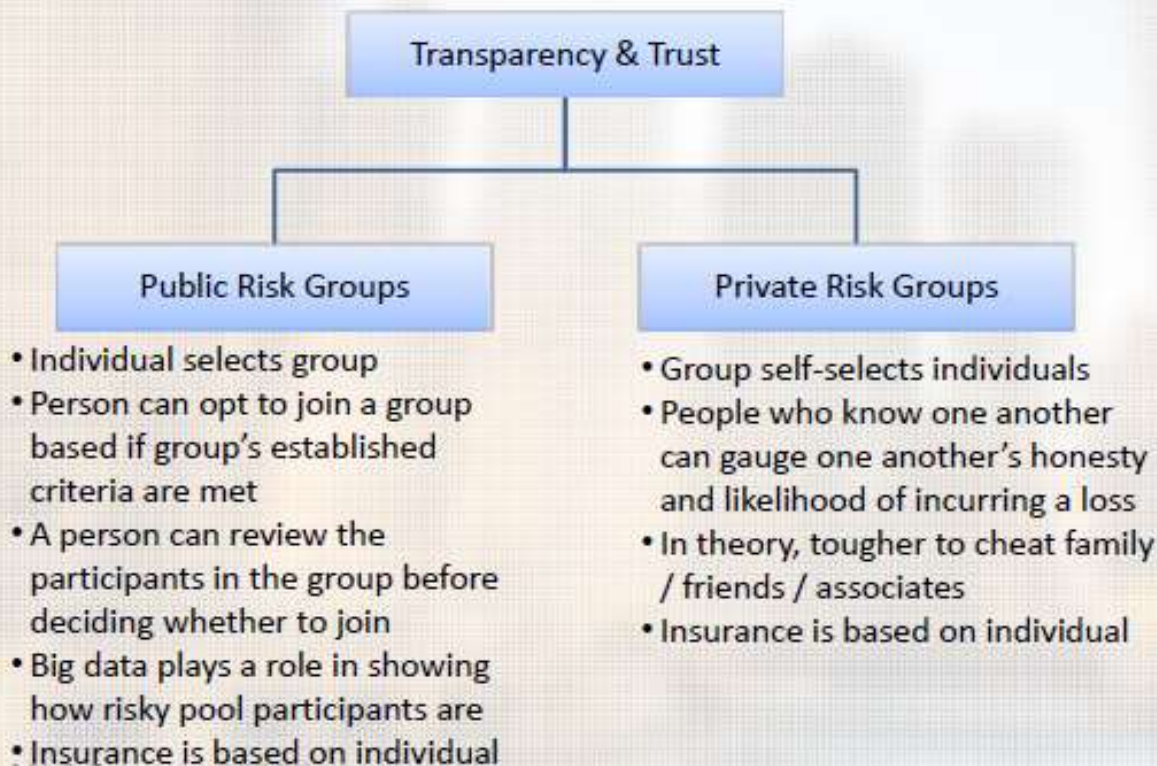
In other news, I'm happy to say that we're putting finishing touches on our product and will be ready to launch in New York within weeks. The final step is for us to get our license, and if all goes to plan, we'll have that shortly.

Be sure to follow us on [Twitter](#), [Facebook](#), and [LinkedIn](#) to stay in the know.

Until next time,
Daniel
@daschreiber

Risk Groups in P2P Structures

Risk groups



P2P model is predicated in part that view that individuals who know one another are less likely to commit fraud, etc.

Insurance Information Institute Online:

www.iii.org

*Thank you for your time
and your attention!*

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