P/C Insurance Industry Overview & Outlook

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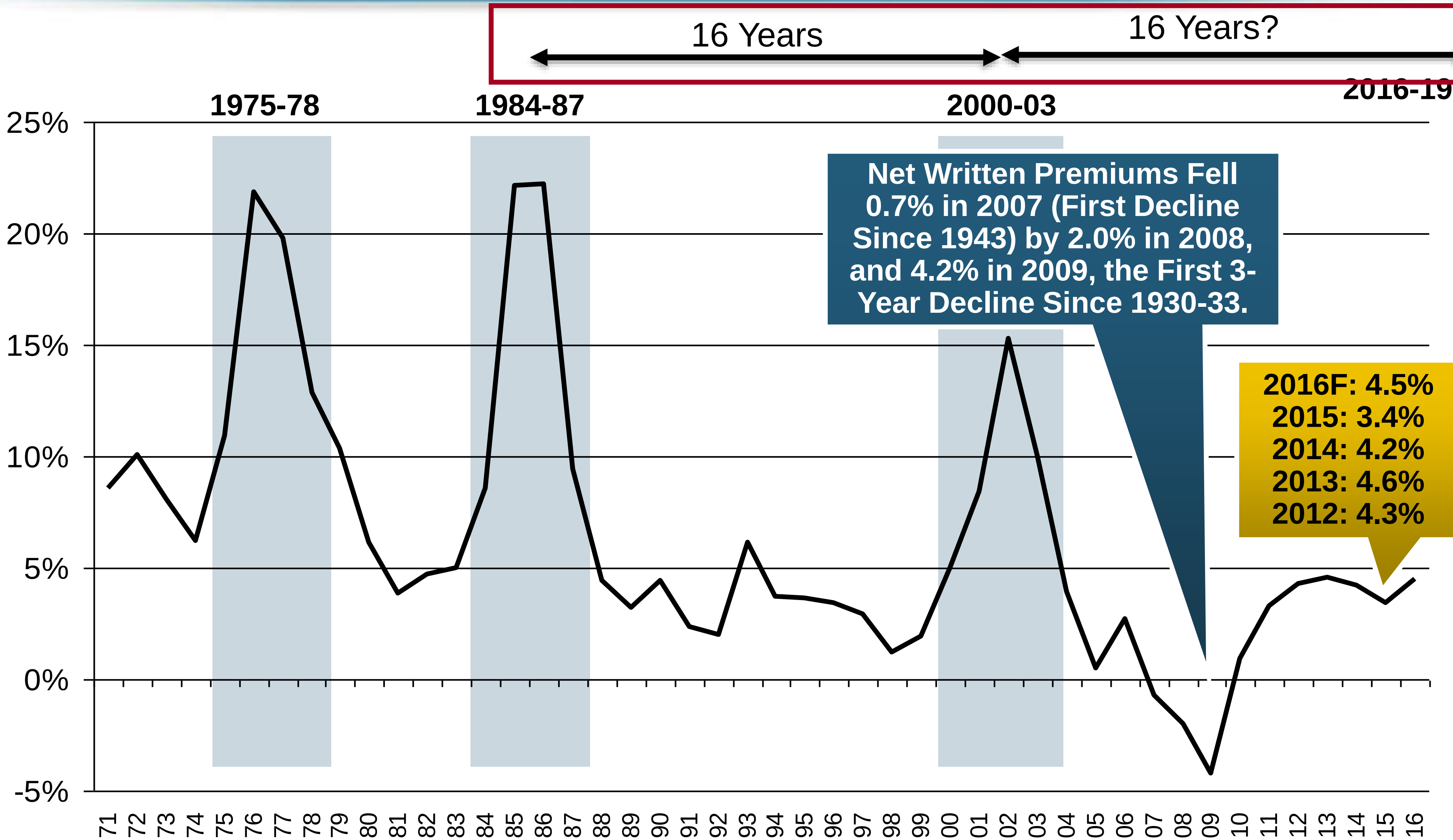
First, the Good News about the P/C Insurance Industry:

2013-15 Were Three Good Years in a Row

2016 Could Keep the String Going

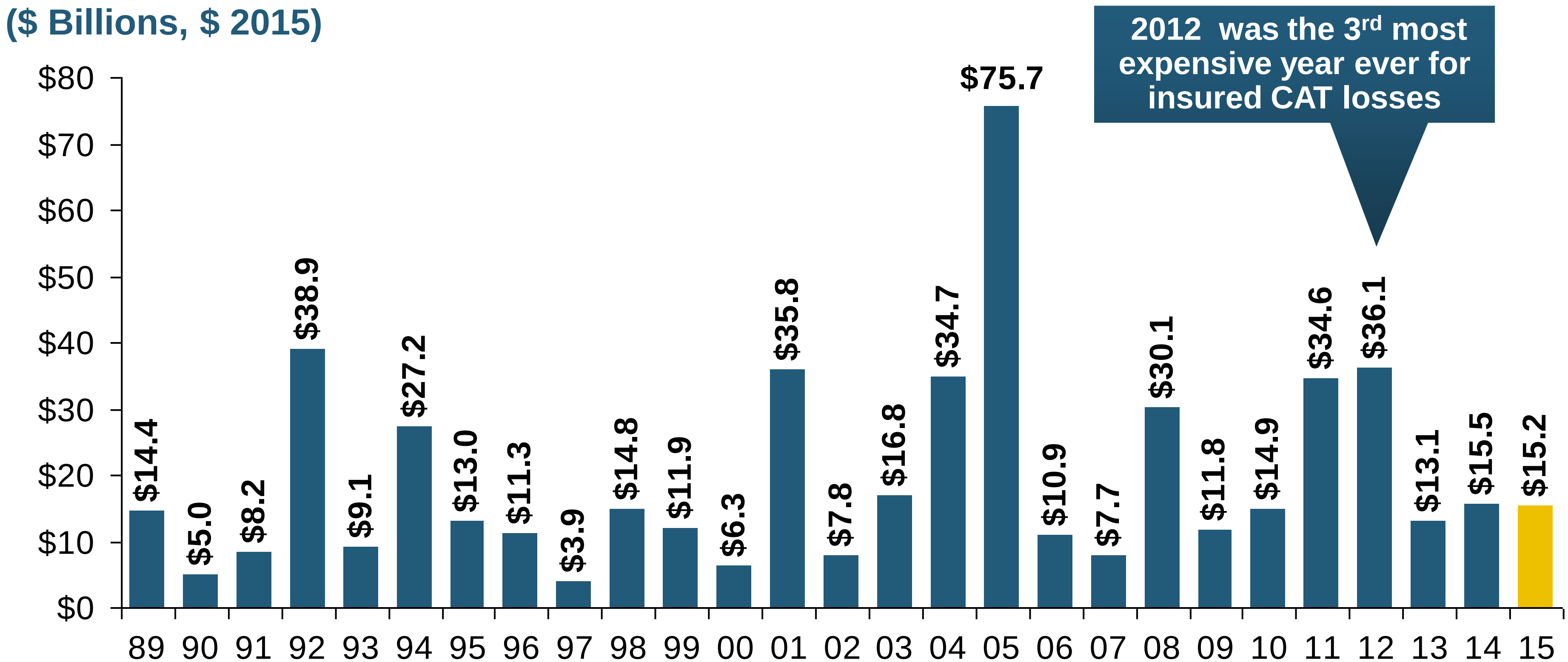
Net Premium Growth: Annual Change, 1971—2016F



Shaded areas denote “hard market” periods

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

U.S. Insured Catastrophe Losses



2013/14/15 were welcome respites from 2011/12—the latter being among the costliest years for insured disaster losses in US history. The longer-term trend is for more costly events.

*Estimate through 12/31/15 in 2015 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.

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

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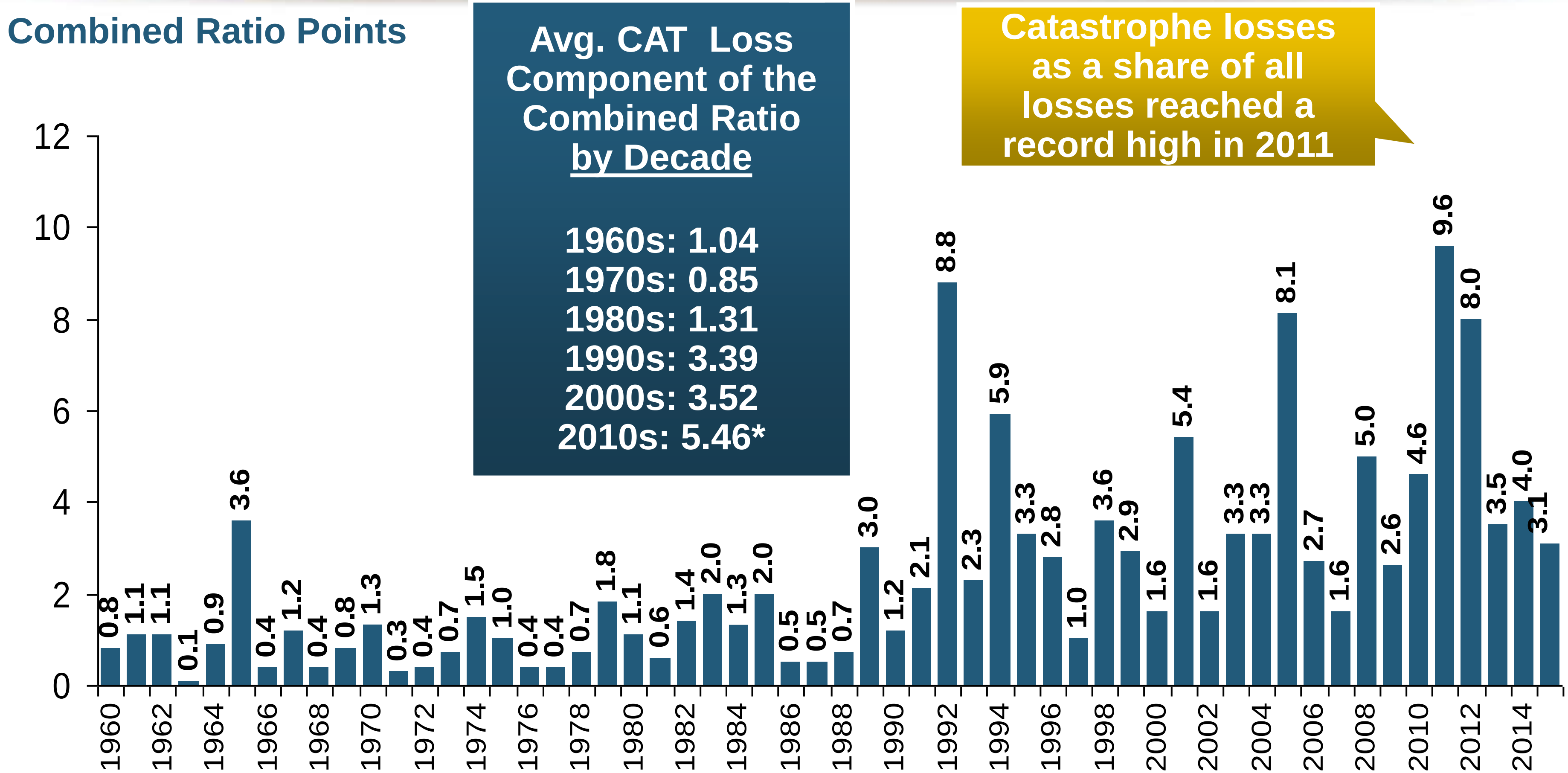
Avg. CAT Loss Component of the Combined Ratio by Decade

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



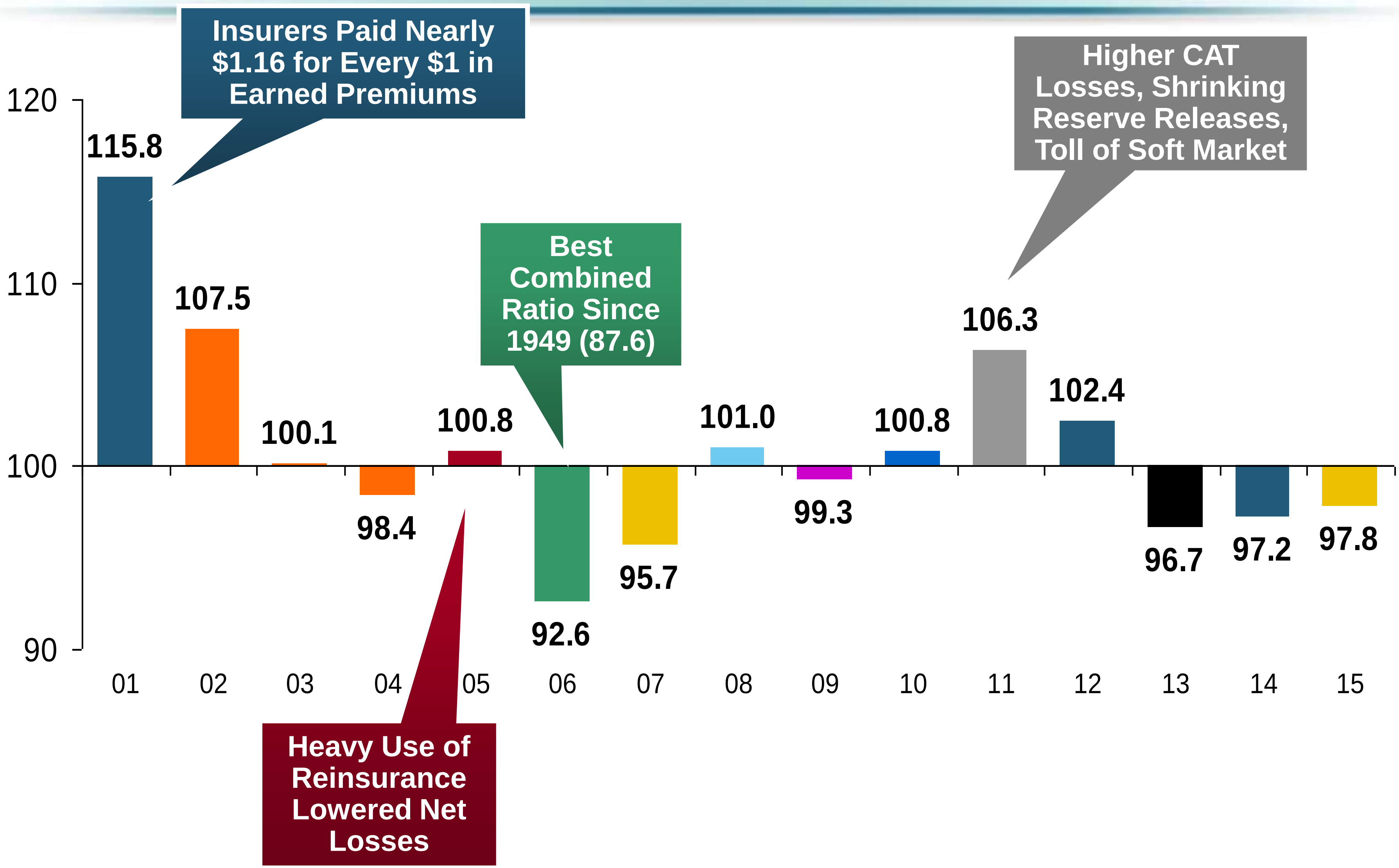
The Catastrophe Loss Component of Private Insurer Losses Has Increased Sharply in Recent Decades

*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.

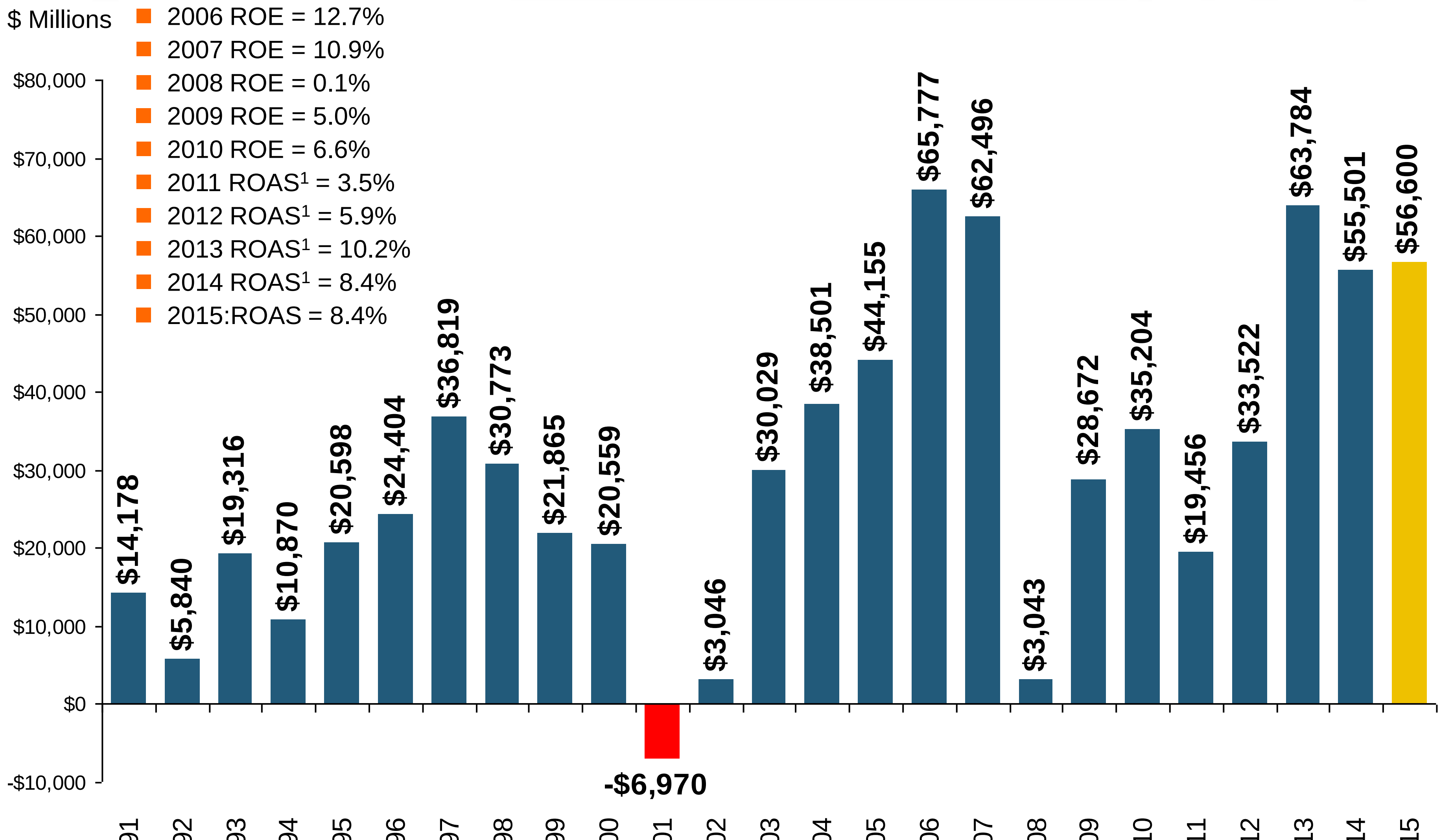
P/C Insurance Industry Combined Ratio, 2001–2015*



* 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: A.M. Best, ISO.

P/C Industry Net Income After Taxes 1991–2015



•ROE figures are GAAP; [1]Return on avg. surplus. 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.

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

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

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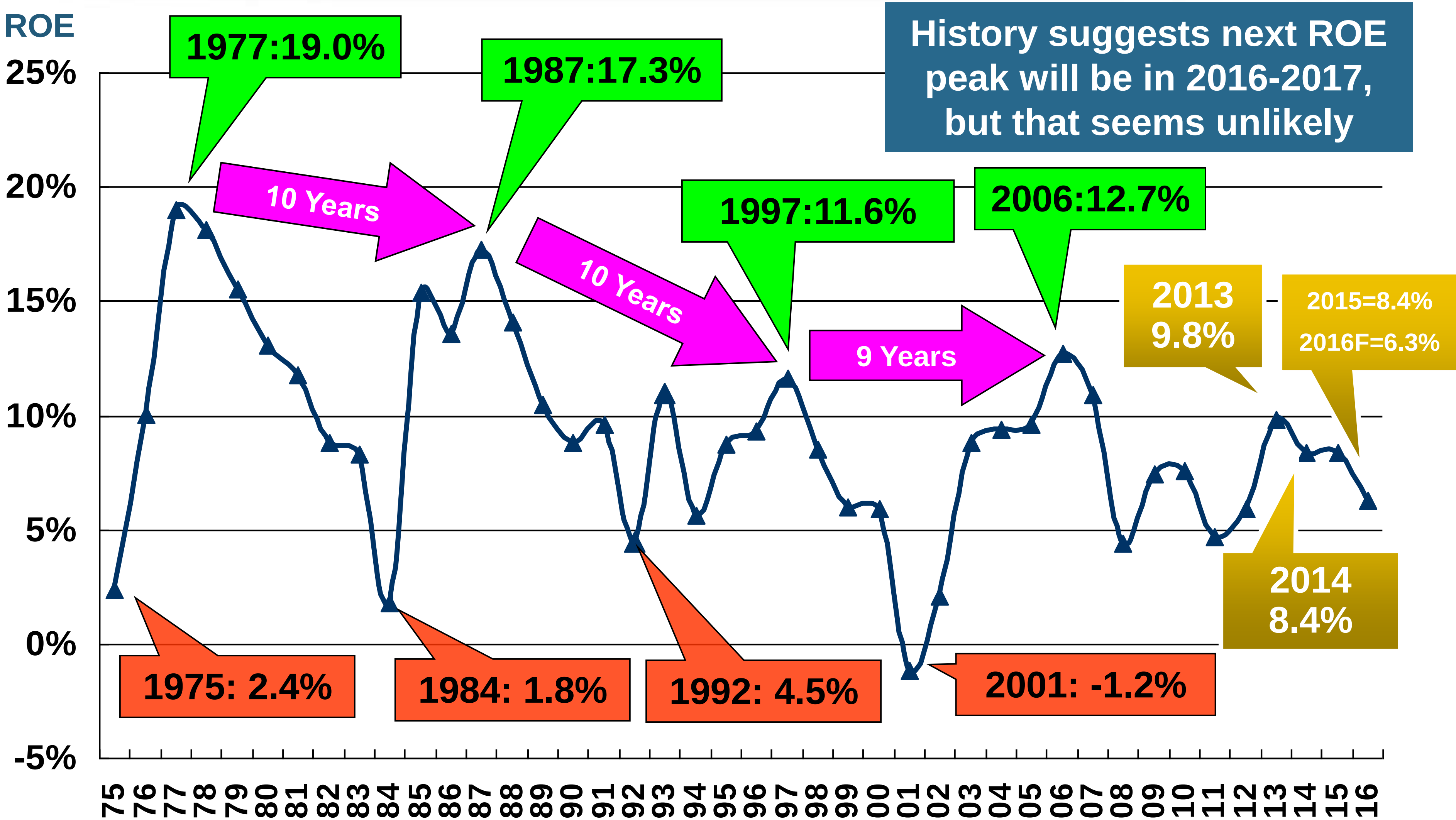
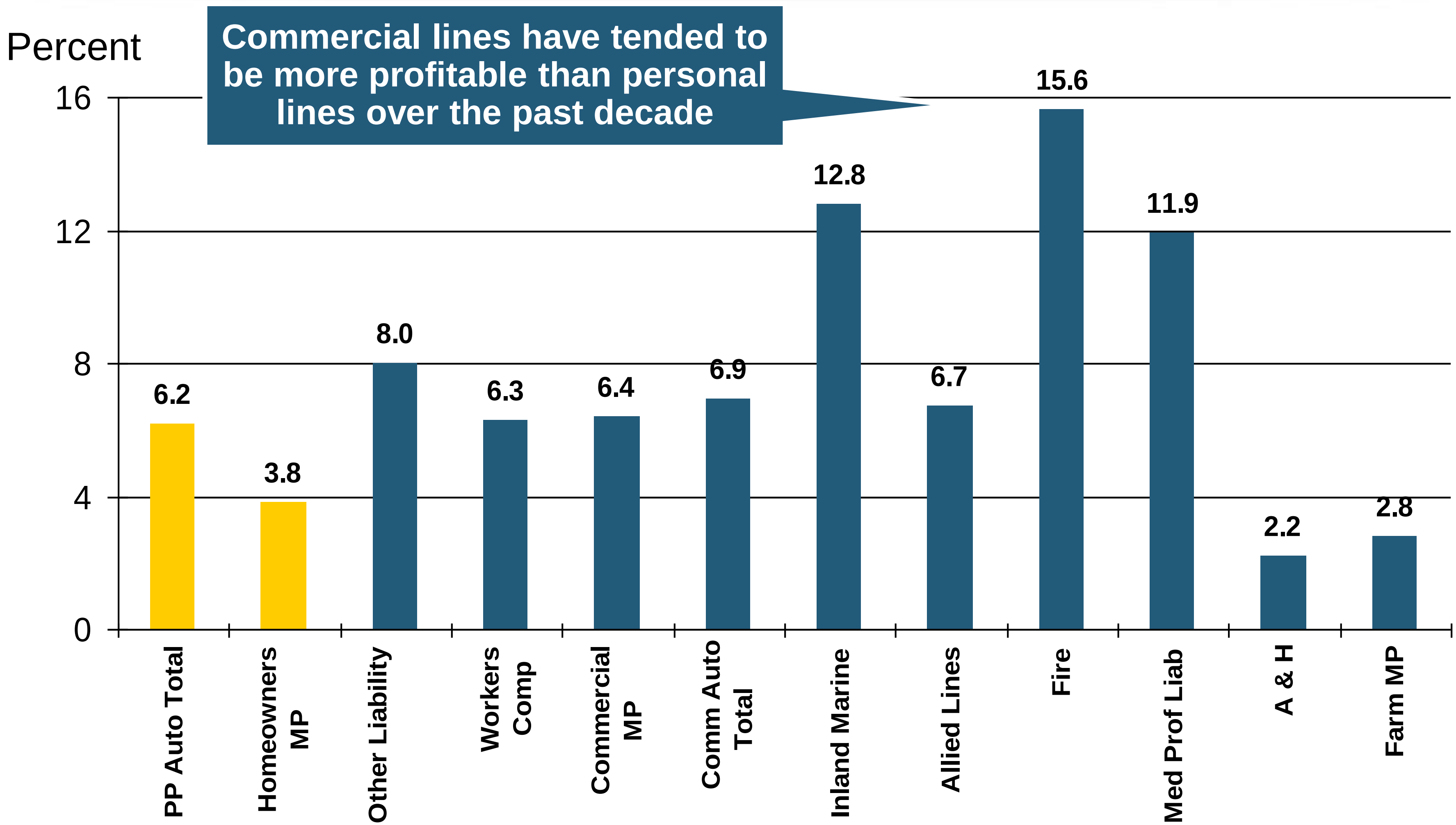


*Profitability = P/C insurer ROEs. 2011-14 figures are estimates based on ROAS data. Note: Data for 2008-2014 exclude mortgage and financial guaranty insurers.

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

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



Source: NAIC; Insurance Information Institute.

RNW All Lines, 2005-2014 Average, Vary Widely by State and Region

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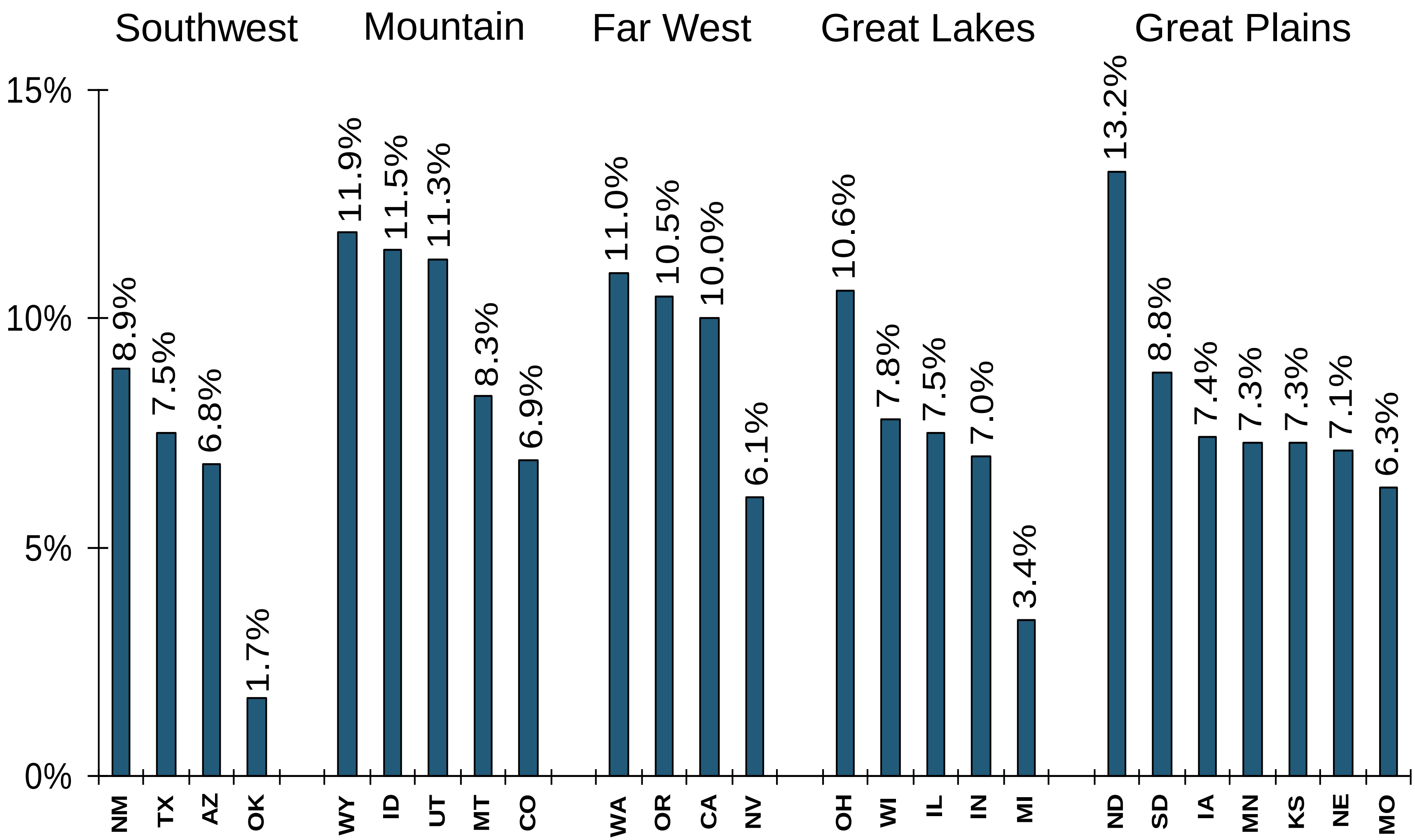

Sources: NAIC; Insurance Information Institute

RNW All Lines, 2005-2014 Average, Vary Widely by State and Region

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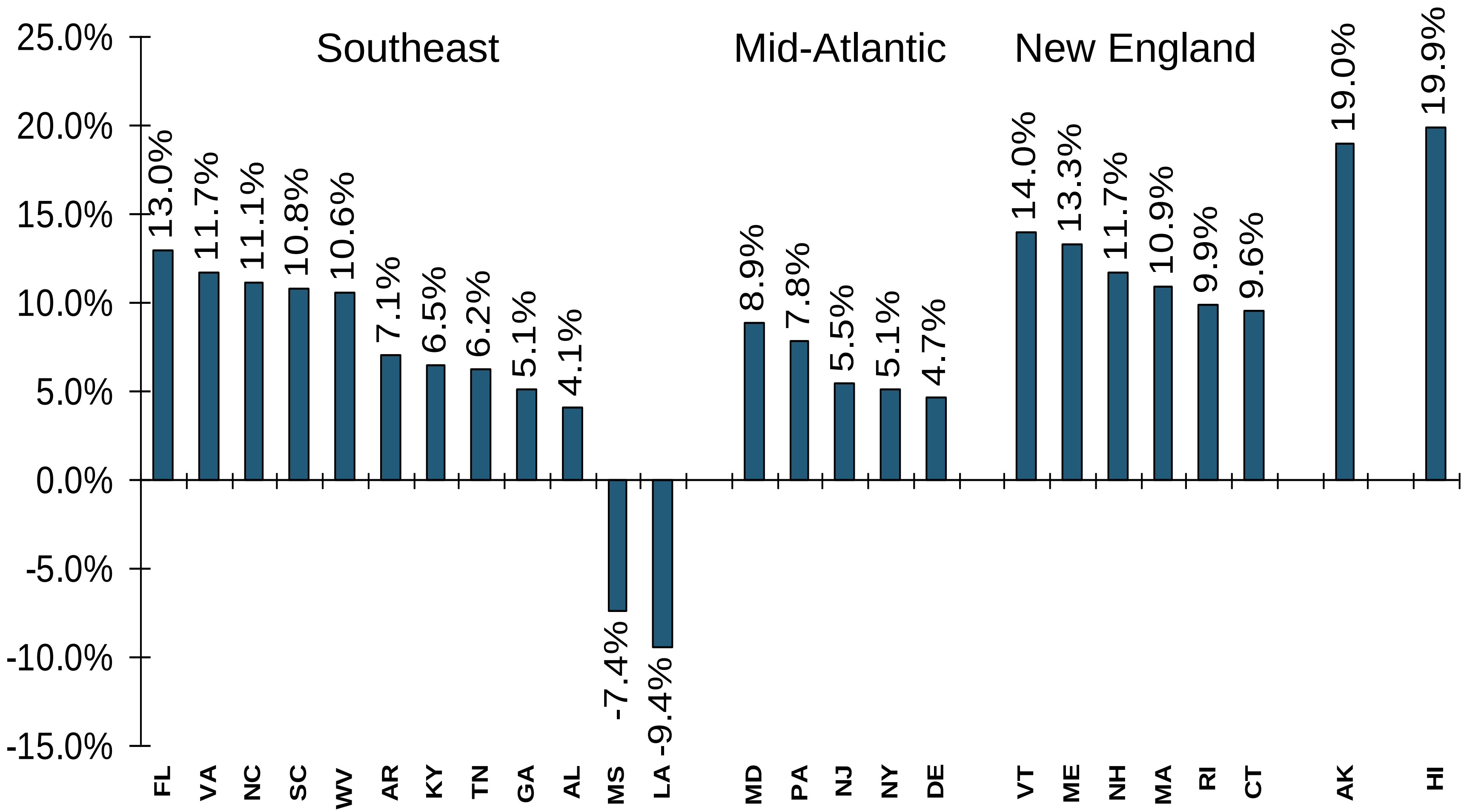
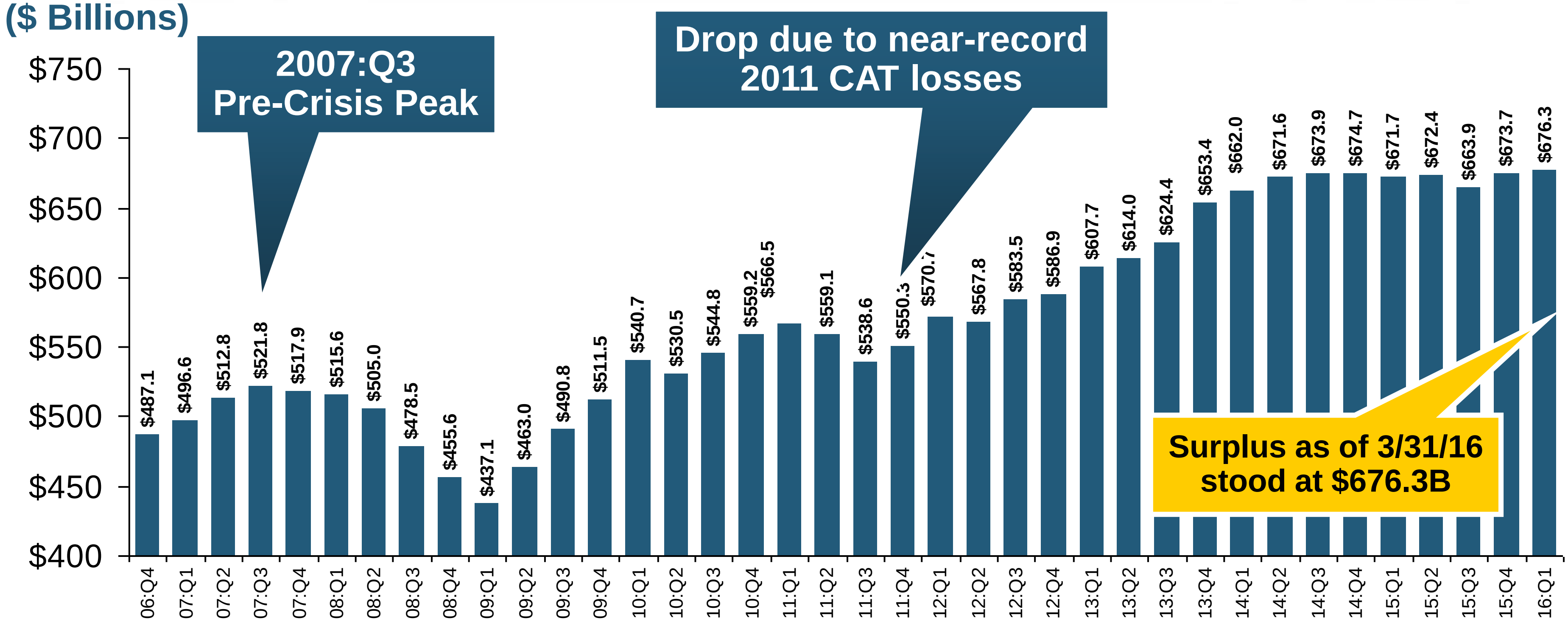


Sources: Sources: NAIC; Insurance Information Institute.

Policyholder Surplus, 2006:Q4–2016:Q1



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.

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

Sources: ISO, A.M .Best.

Modest Economic Growth in 2016-17 Should Increase the Exposure Base and Premium Volume

Both Commercial and Personal Lines Should Benefit

Real U.S. Quarterly GDP Growth Since the "Great Recession

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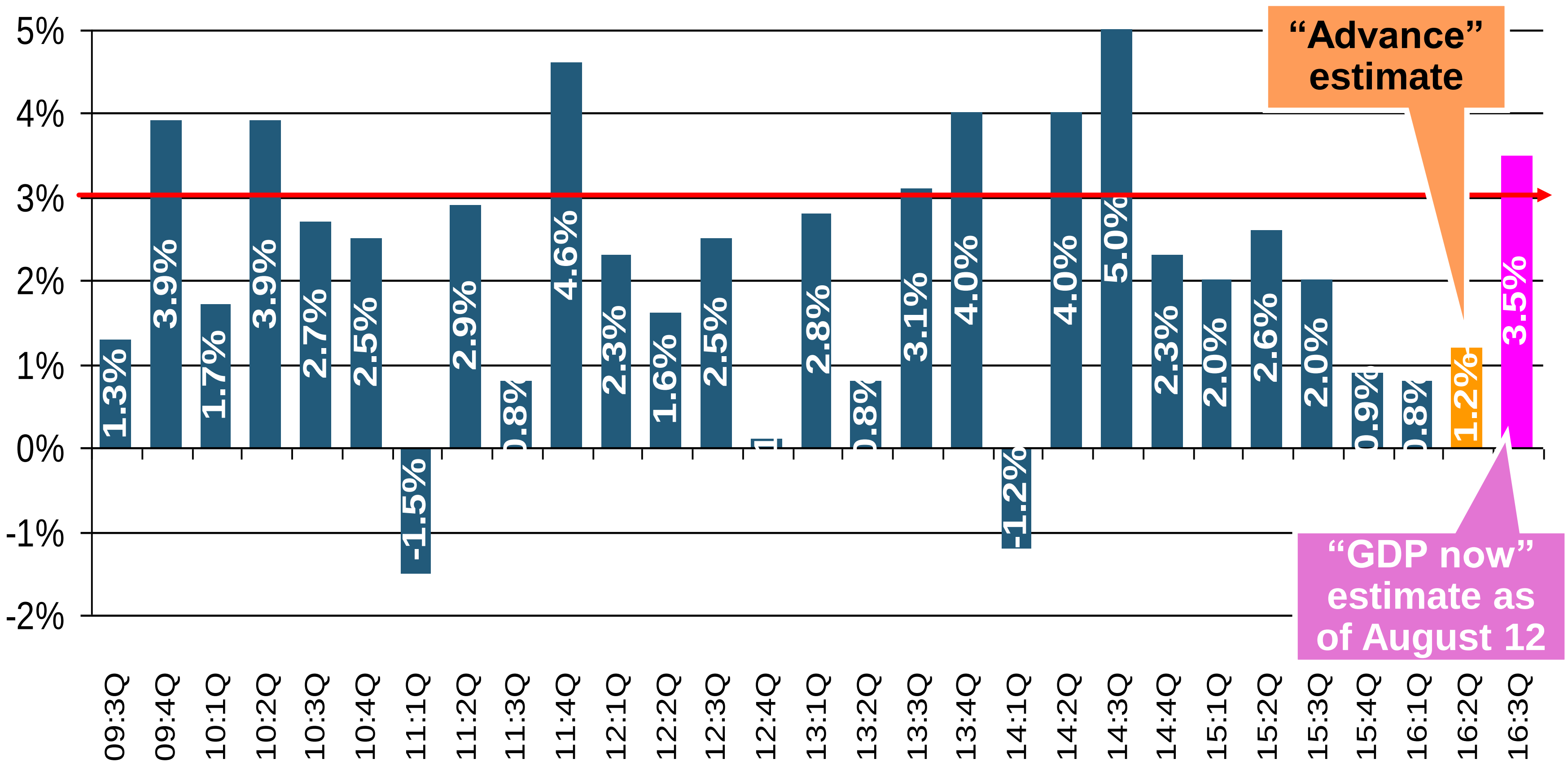

Since the Great Recession ended, even 3% real growth (at an annual rate) in a quarter has been unusual. Through 2016:Q2, it happened only 7 times in 28 quarters—and not once in the most recent 7 quarters.

Data are quarterly changes at annualized rates.

Sources: US Department of Commerce, at http://www.bea.gov/national/index.htm#gdp ; Insurance Information Institute.

Length of US Business Cycles, 1929–Present*

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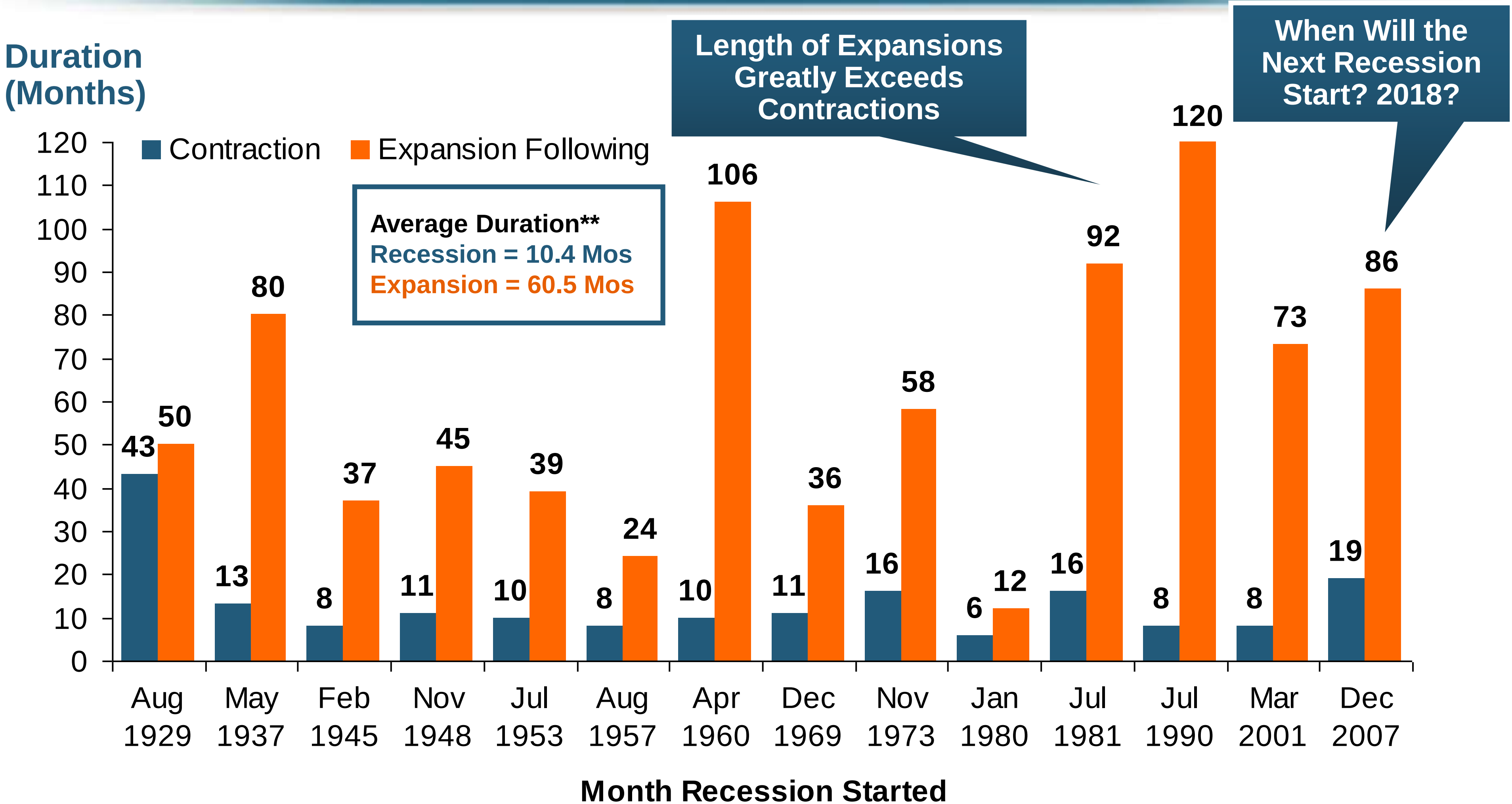
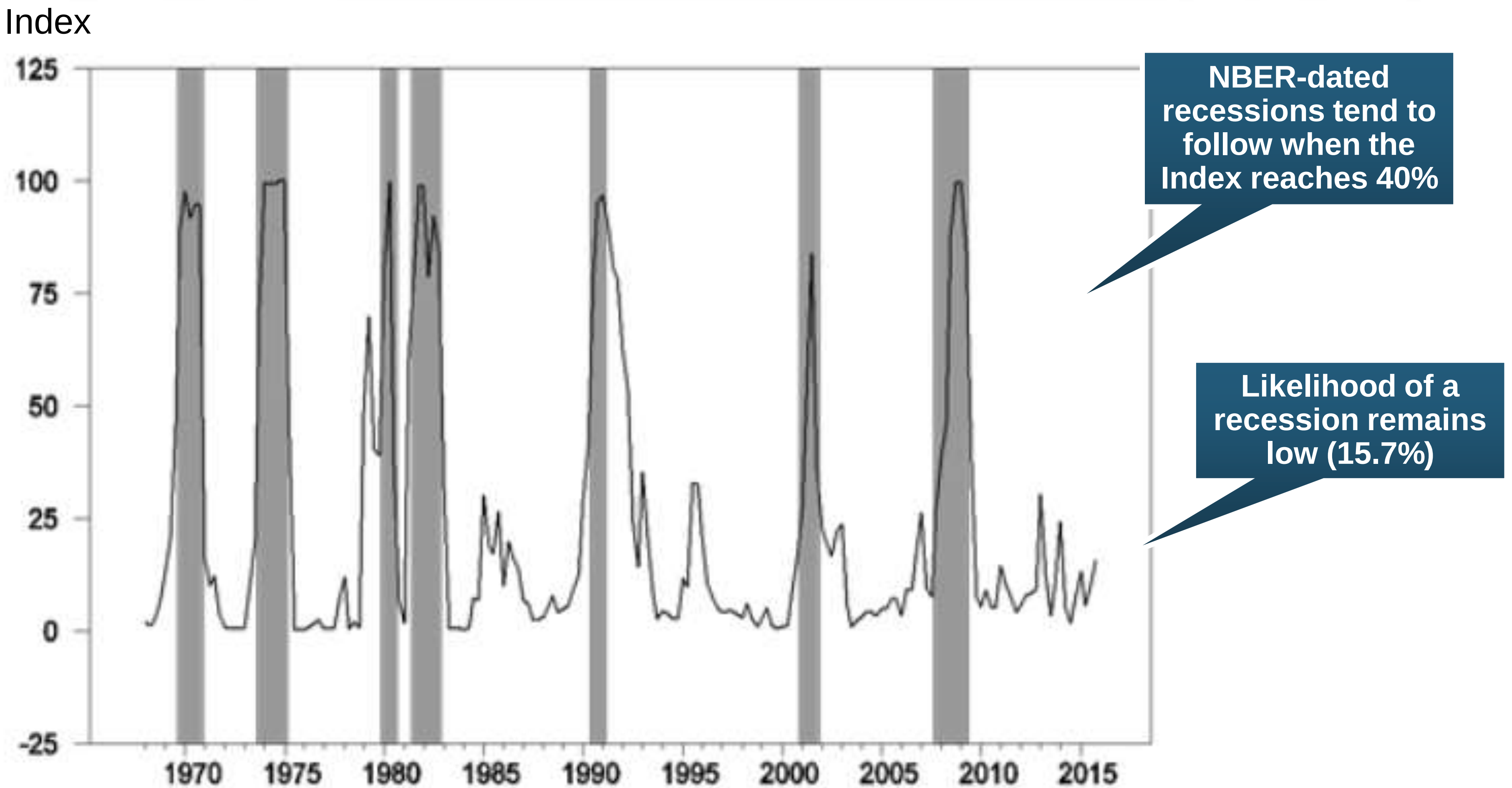


*Through August 2016.
** Post-WW II period through end of 2001-2007 expansion.
Sources: National Bureau of Economic Research; Insurance Information Institute.

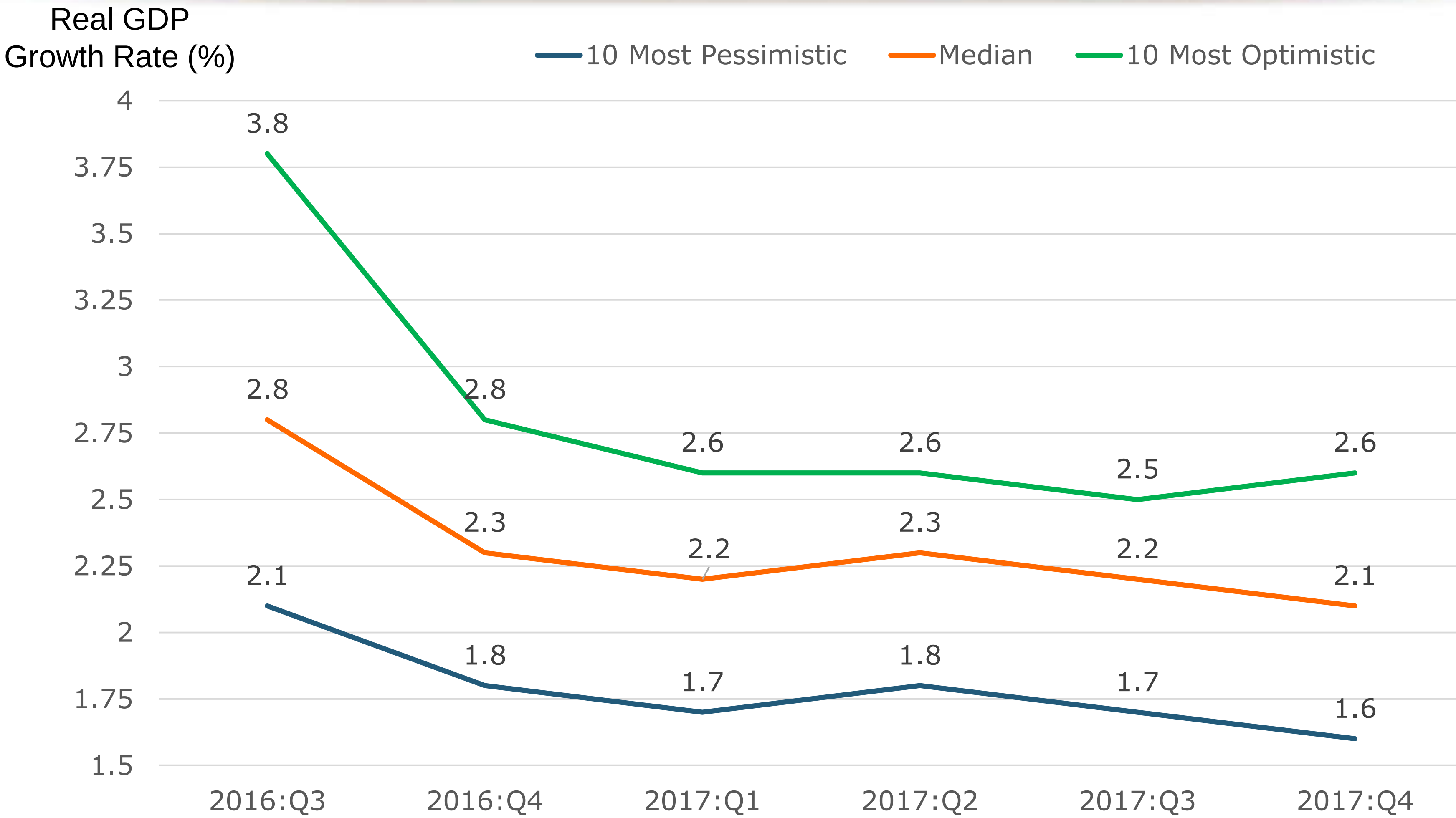
GDP-based Recession-Indicator Index, with data through 2016:Q1



The plotted value for each date is based solely on information as it would have been publicly available and reported as of one quarter after the indicated date, with 2015:Q4 the last date shown on the graph. Shaded regions represent NBER-dated recessions; which were sometimes not reported until two years after a recession was determined to have ended, and were not used in any way in constructing the index.

Source: https://www.frbatlanta.org/cqer/research/gdpbased_RII.aspx (updated May 11, 2016); I.I.I.

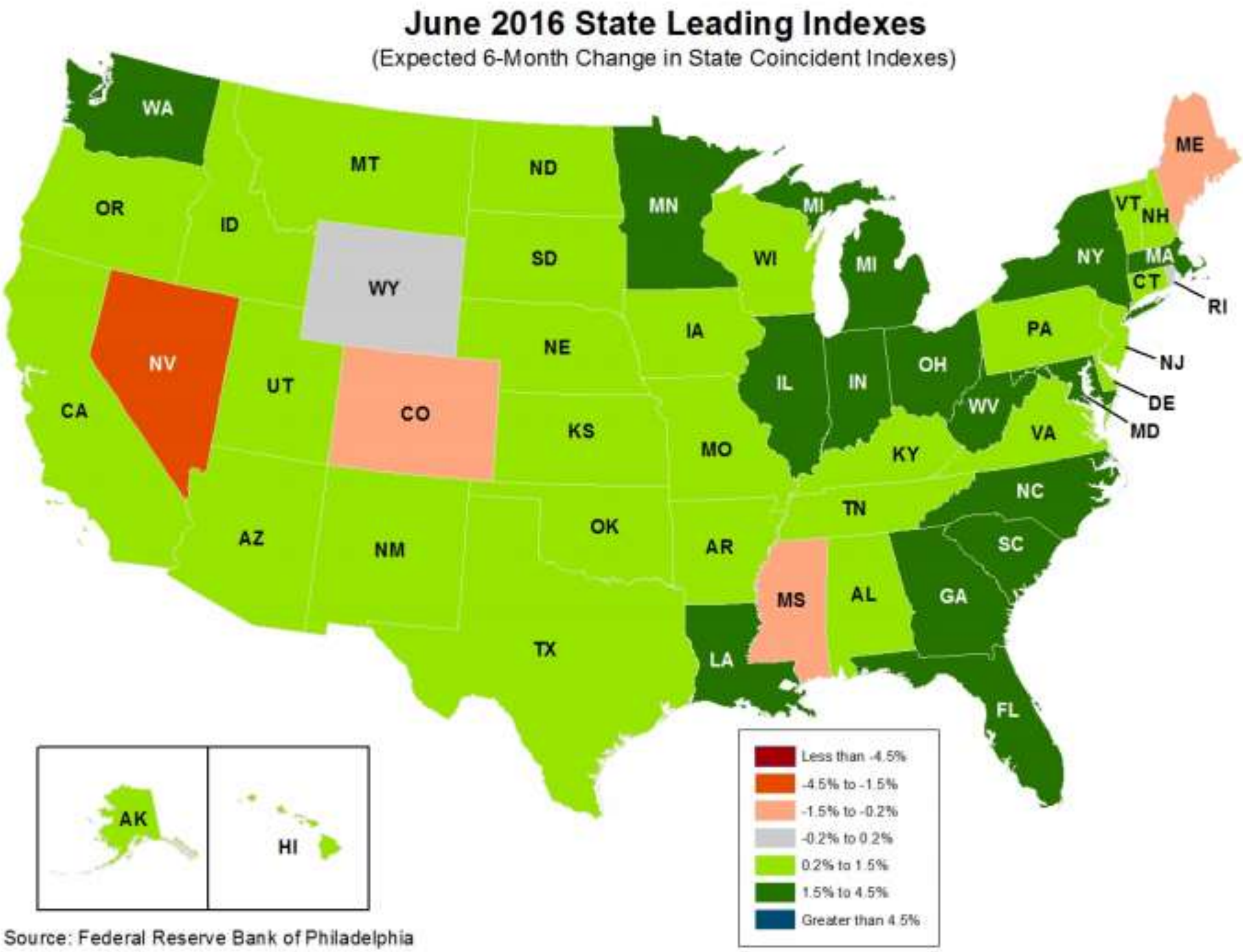
Quarterly US Real GDP for 2016-17: August 2016 Forecasts



Many of the 53 forecasts in the Blue Chip survey expect good growth in the third quarter of 2016 and slower growth in 2017.

Sources: Blue Chip Economic Indicators (8/16); Insurance Information Institute

State-by-State Leading Indicators through December 2016



Near-term growth forecasts vary widely by state. Strongest growth = dark green (1.5%-4.5%); then light green; then gray; weakest = red

Sources: Federal Reserve Bank of Philadelphia at www.philadelphiafed.org/index.cfm , released August 1, 2016; Insurance Information Institute. Next release is August 29, 2016

Nonfarm Employment, Quarterly Change, 2011 – 2016*

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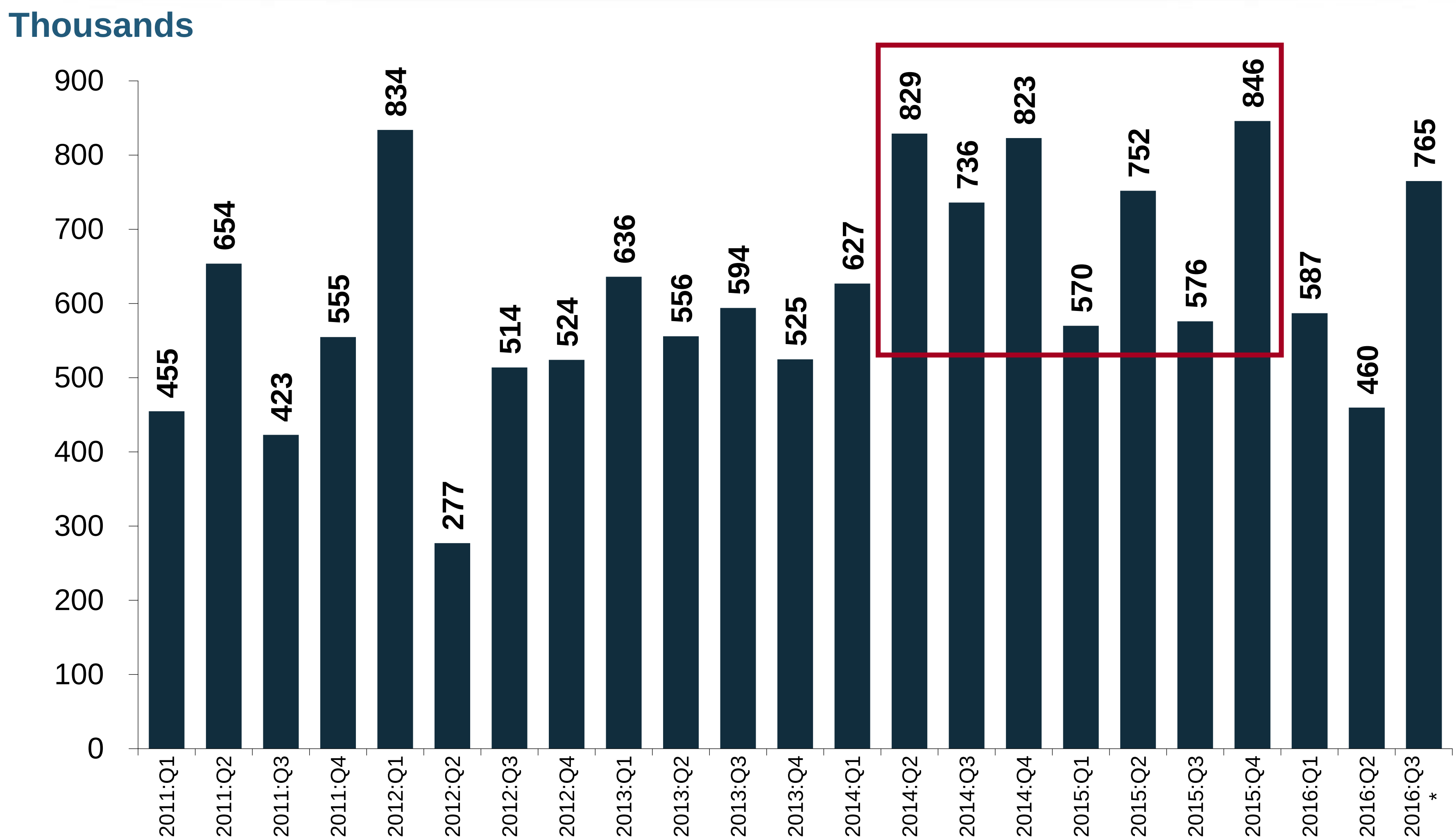
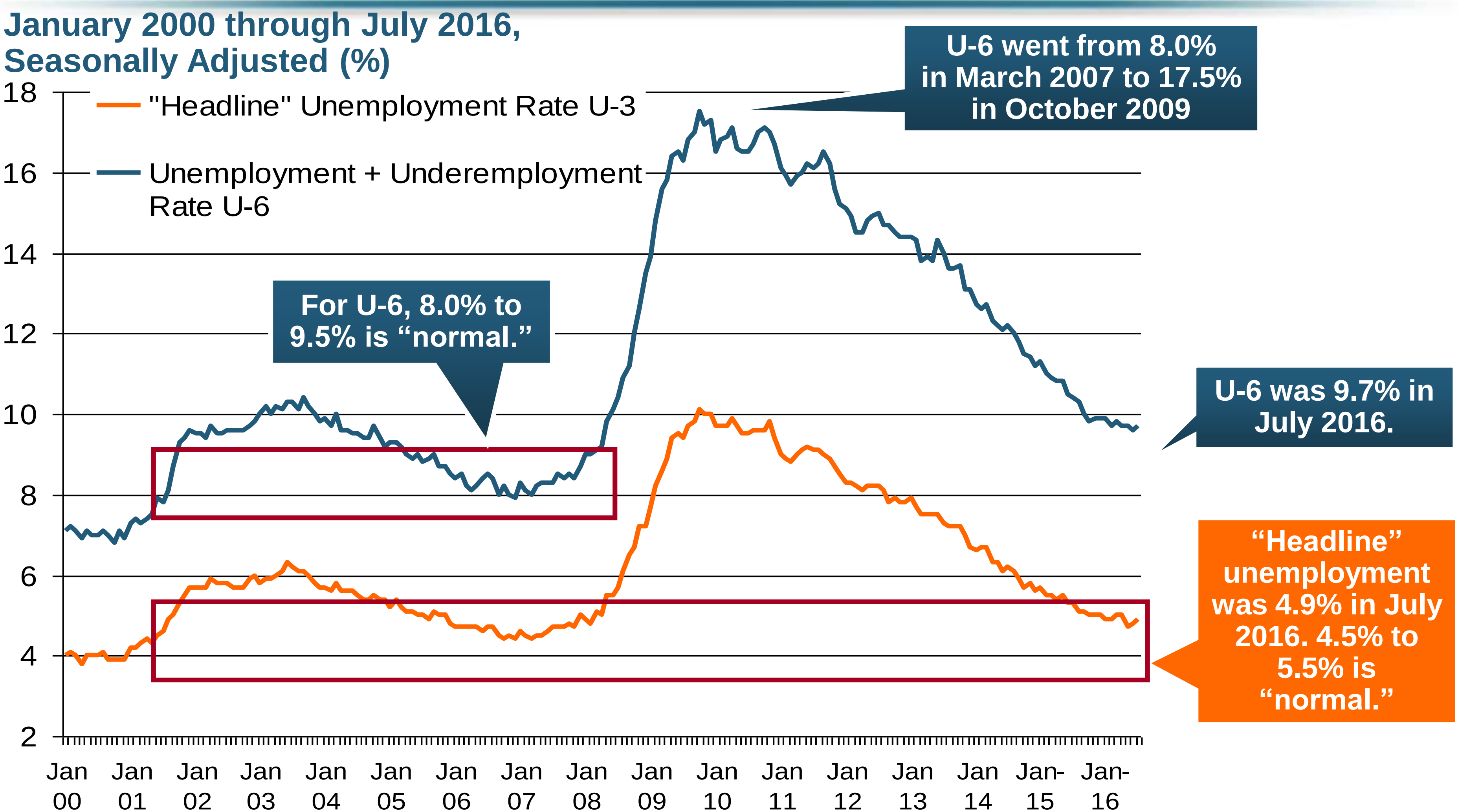


After a strong 2014-15, the pace of job growth has slowed somewhat.

*Seasonally adjusted; 2016:Q3 is July projected to the full quarter. June and July 2016 data are preliminary
Sources: US Bureau of Labor Statistics; Insurance Information Institute

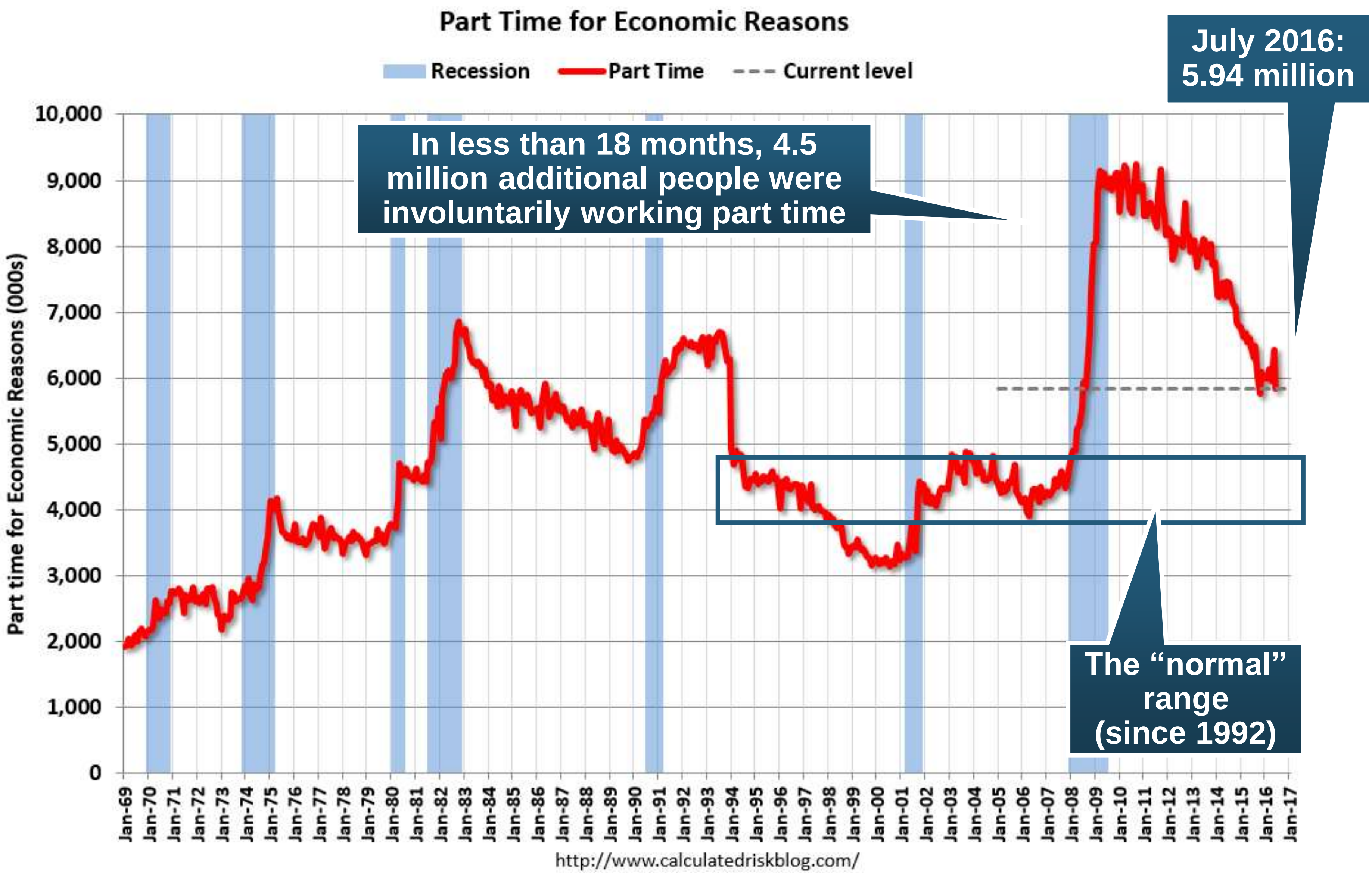
Unemployment and Underemployment Rates: Still Falling



Based on the latest readings, it appears that the job market is now close to "normal"

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

Labor Market Slack: Elevated Number of Involuntary Part-time Workers



Number of "Discouraged Workers": Elevated, but Dropping Jan 1994 – July 2016

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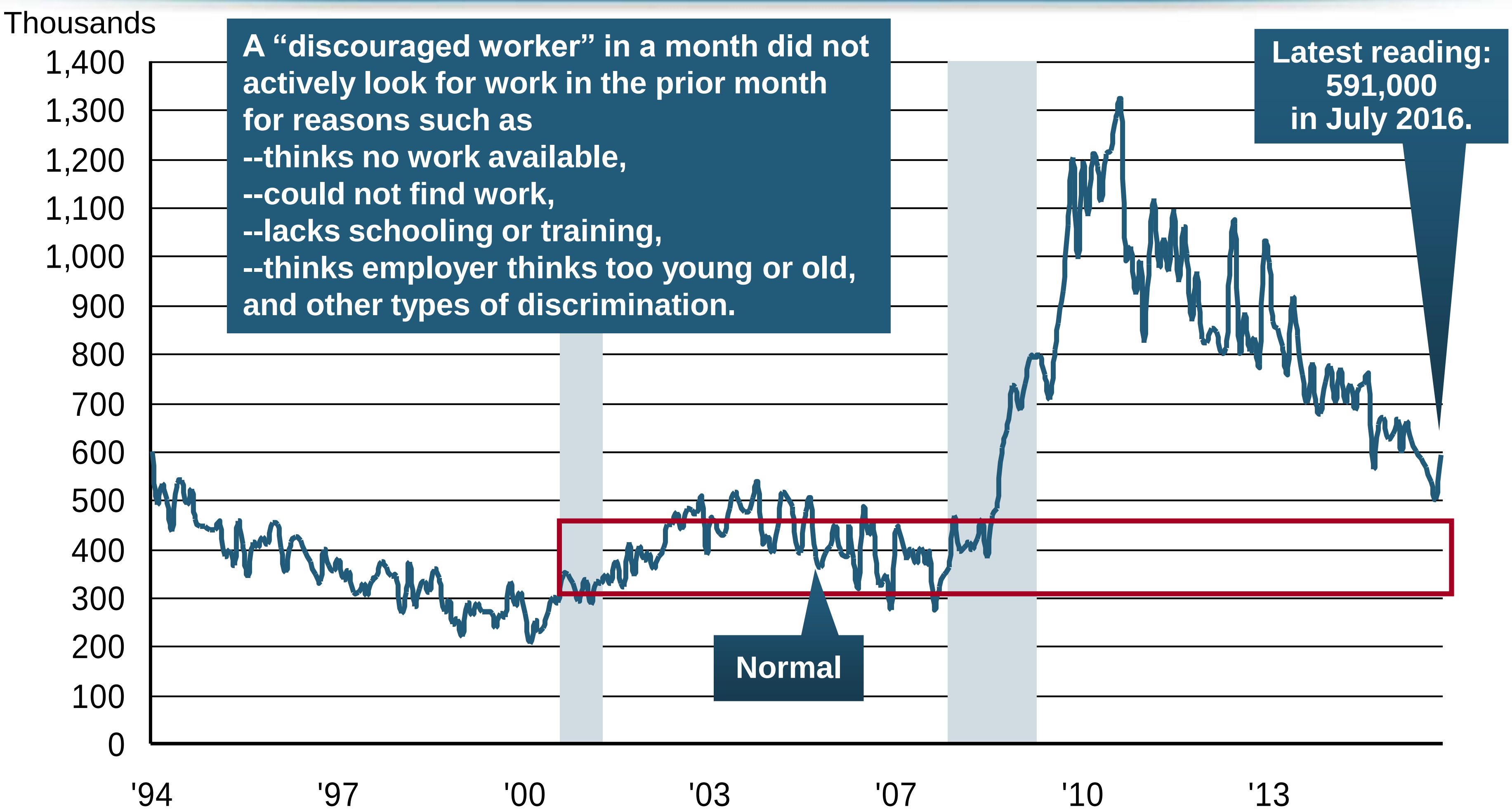
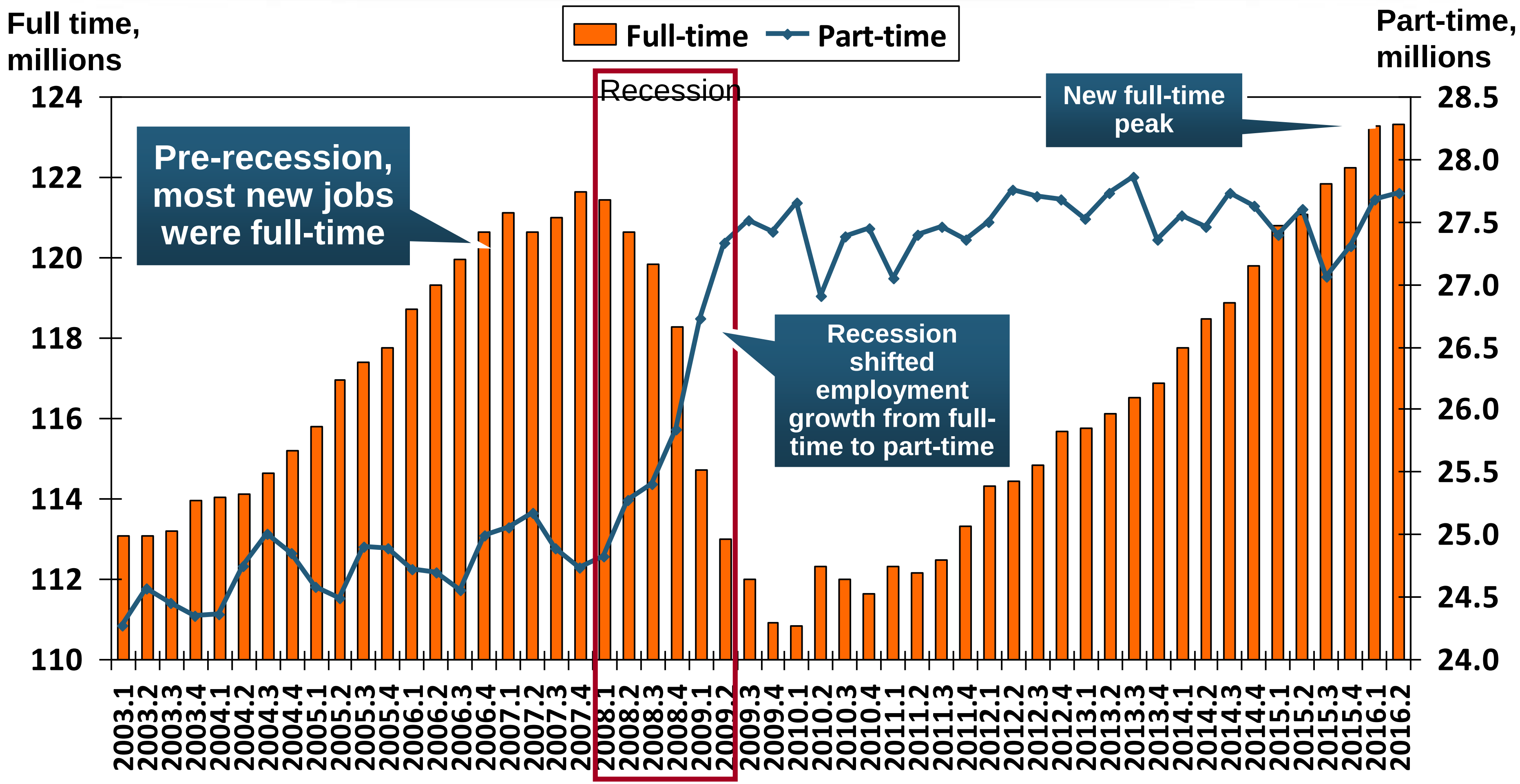


In recent good times, the number of discouraged workers ranged from 200,000-400,000 (1995-2000) or from 300,000-500,000 (2002-2007).

Notes: Recessions indicated by gray shaded columns. Data are seasonally adjusted.
Sources: Bureau of Labor Statistics; National Bureau of Economic Research (recession dates).

Full-time vs. Part-time Employment, Quarterly, 2003-2016:Q2



The Great Recession shifted employment from full-time to part-time. Full-time employment is finally above its pre-recession peak, but part-time hasn't receded.

Data are seasonally-adjusted. Sources: US Bureau of Labor Statistics, US Department of Labor; Insurance Information Institute.

ISM Manufacturing Index (Values > 50 Indicate Expansion), January 2010-July 2016

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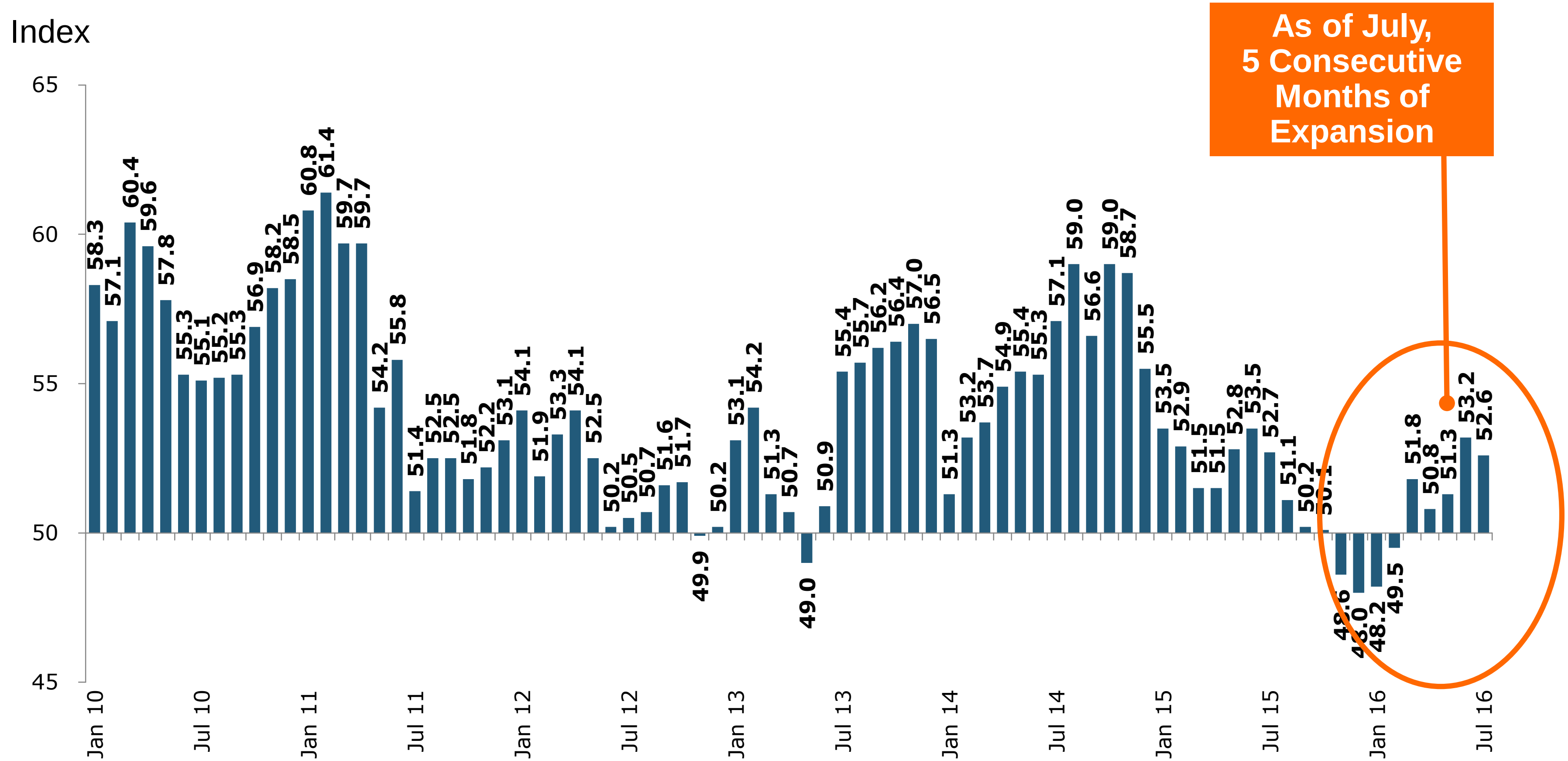

The Manufacturing Sector Expanded for 68 of the 72 Months from January 2010 Through December 2015. Manufacturing Contracted in 2015:Q4 and 2016:Q1 but is Expanding Again.

Sources: Institute for Supply Management; Insurance Information Institute.

ISM Non-Manufacturing Index (Values > 50 Indicate Expansion), January 2010-July 2016

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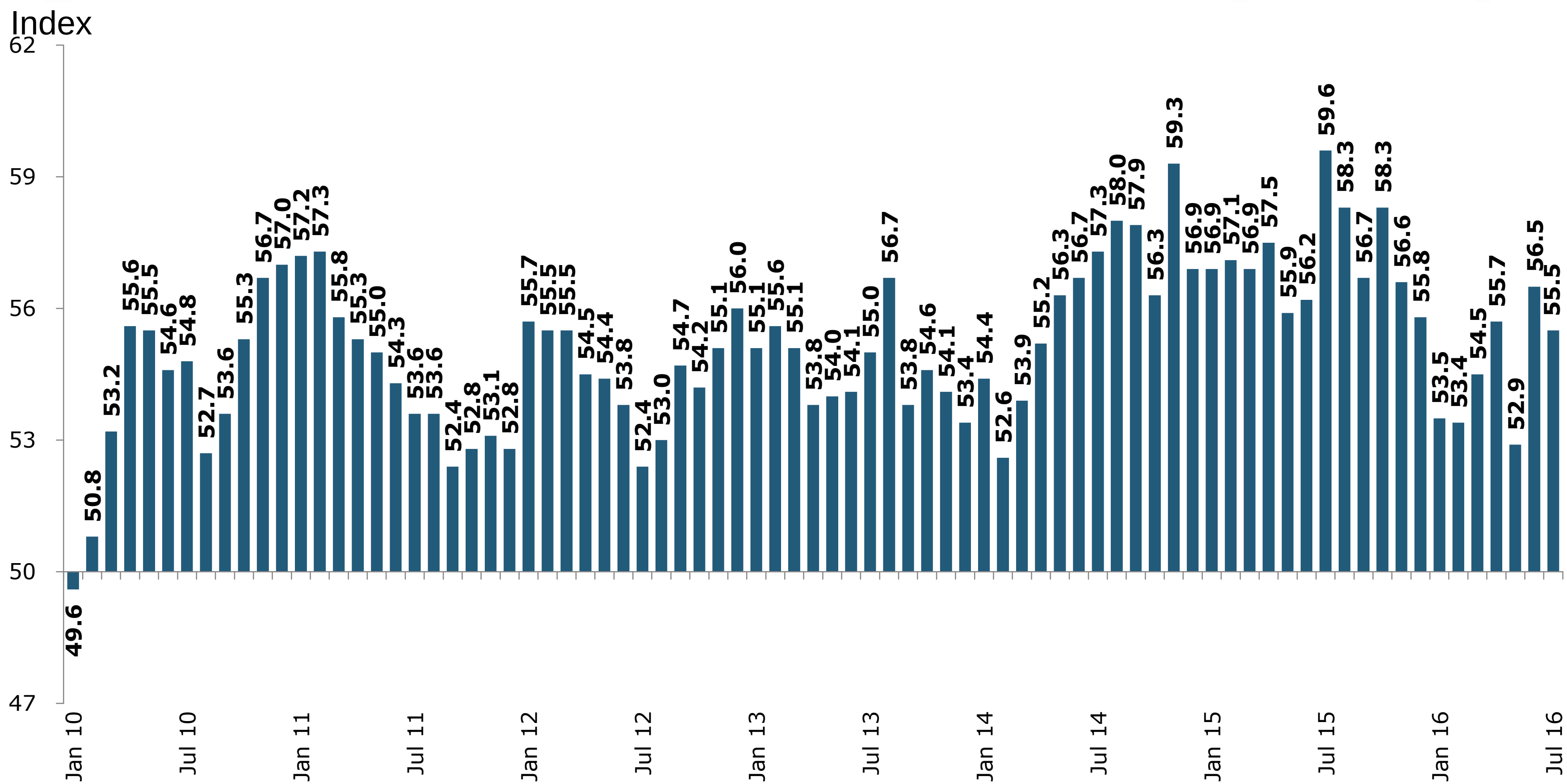

The Non-Manufacturing (Services) Sector Expanded in Every Month After January 2010. Compared to 2014-15, the Pace of Expansion Has Slowed in 2016 But Not Ended.

Sources: Institute for Supply Management via https://research.stlouisfed.org/fred2/data/NMFCI.txt; Insurance Information Institute.

Brexit: Potential Effects on the UK

- Brexit forecasts/questions for the UK:
  - UK labor costs will rise due to less outsourcing to foreign (i.e. EU) labor, so UK-produced goods will be less competitive
  - Lowered assurance of market access will discourage long-term investment in the UK
  - The UK economy will grow more slowly than it otherwise would, and might slip into recession
  - What will happen to the 2 million workers of EU-origin who now live in the UK? (6% of workers) Will they be forced to leave? Sell their homes?
  - Will the City of London continue to be the financial capital of Europe? Will headquarters move to Frankfurt?

Brexit: Potential Effects on the EU and the Global Economy

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- The free flow of financial capital, human capital and coordinated regulatory policy across EU states is, on net, good for Europe's economy
- Concern that UK's action could initiate a domino effect of other countries leaving the EU
- Economic integration is considered the cornerstone that has been keeping (most of) Europe free of war
- The UK accounts for only 4% of global GDP
  - But a slowing UK economy will be a drag on the EU economy
  - The EU sends about 7% of its exports to the UK
  - UK is 3% of US Total Trade

Potential Effects of Brexit on the Insurance Industry

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- The Brexit vote has spiked uncertainty regarding the UK economy, resulting in:
  - Dollar appreciates vs. the pound and, to a lesser extent, vs. the euro
  - Increased demand for U.S. bonds, driving long-term interest rates down
  - Likely to delay Fed rate hikes
- "Given that most insurance purchases are not discretionary in nature, demand does not change dramatically during times of economic weakness, particularly in lines such as auto and homeowners.
  - In addition, economic weakness can depress claims activity as well."*
- Does Brexit weaken Solvency II and efforts to implement European-like regulations in the US?
  - Probably not in the short term; longer-term, depends on UK-EU negotiations

Source: *Jay A. Cohen, BofAML, "Non-Life insurance should be defensive in volatile times," June 24, 2016; I.I.I.

Effect of Brexit on Stocks of Publicly-Traded Insurance Companies

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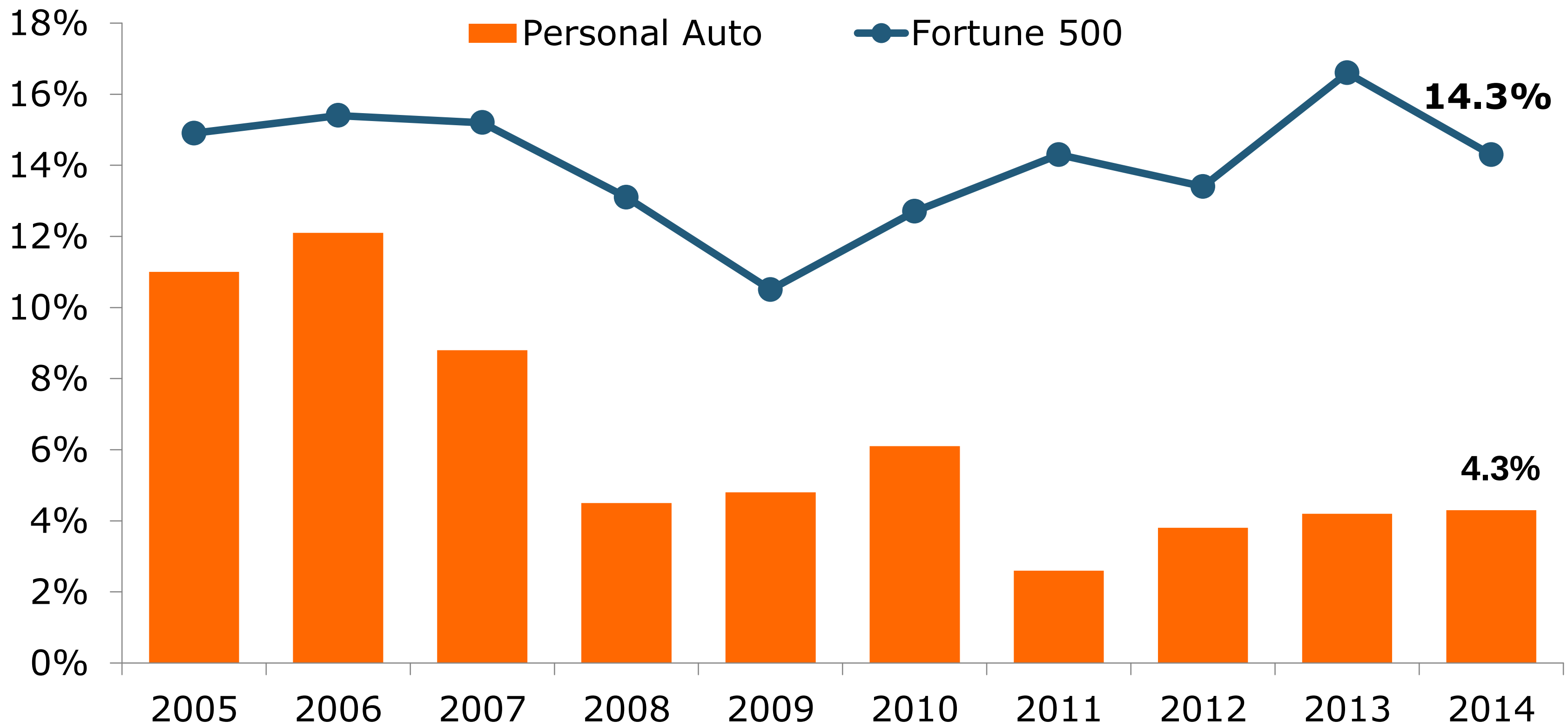
- "Domestic P/C stocks have only modest exposure to currency and a slower-growth European economy."*
- "Non-life insurer stocks are likely to be defensive relative to the market."**
- "Companies with Lloyds operations may see a modest slowdown in the top line."*
- "Sometimes surety and D&O losses emerge from volatile markets and economies."*
- "Currency has been an ongoing pressure for many of the brokers. In addition, slower growth in Europe could be an additional headwind for most brokers."*
  - But, "Global disruption tends to drive demand for consulting services."**

Sources: *Robert Glasspiegel, Janney, "Insurance Stocks in a Brexit World," June 27, 2016;
**Jay A. Cohen, BofAML, "Non-Life insurance should be defensive in volatile times," June 24, 2016.

Forces Affecting Personal Lines: Auto Insurance

Return on Net Worth: Personal Auto, 2005–2014



Auto Insurance Profitability Has Been Stuck at Low Levels.

Source: National Association of Insurance Commissioners.

Auto Insurance Net Combined Ratios, Yearly, 2005-2015

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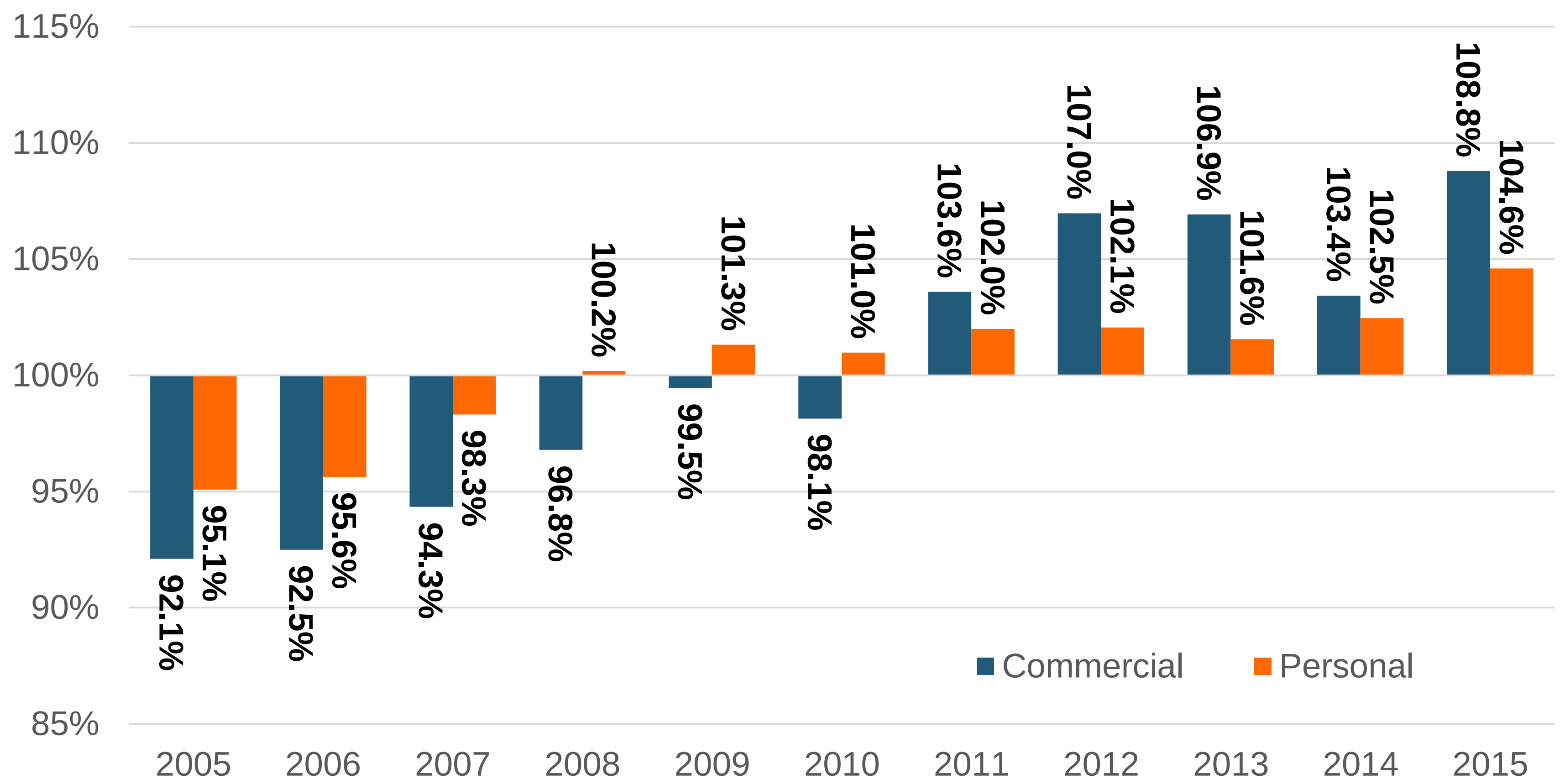

Loss Ratios Have Been Rising for A Decade.
2015 Return on Net Worth Is Likely Close to Zero or Negative.

Sources: National Association of Insurance Commissioners data, sourced from S&P Global Market Intelligence; Insurance Information Institute.

A Half Century of Auto Insurance: Frequency vs. Severity

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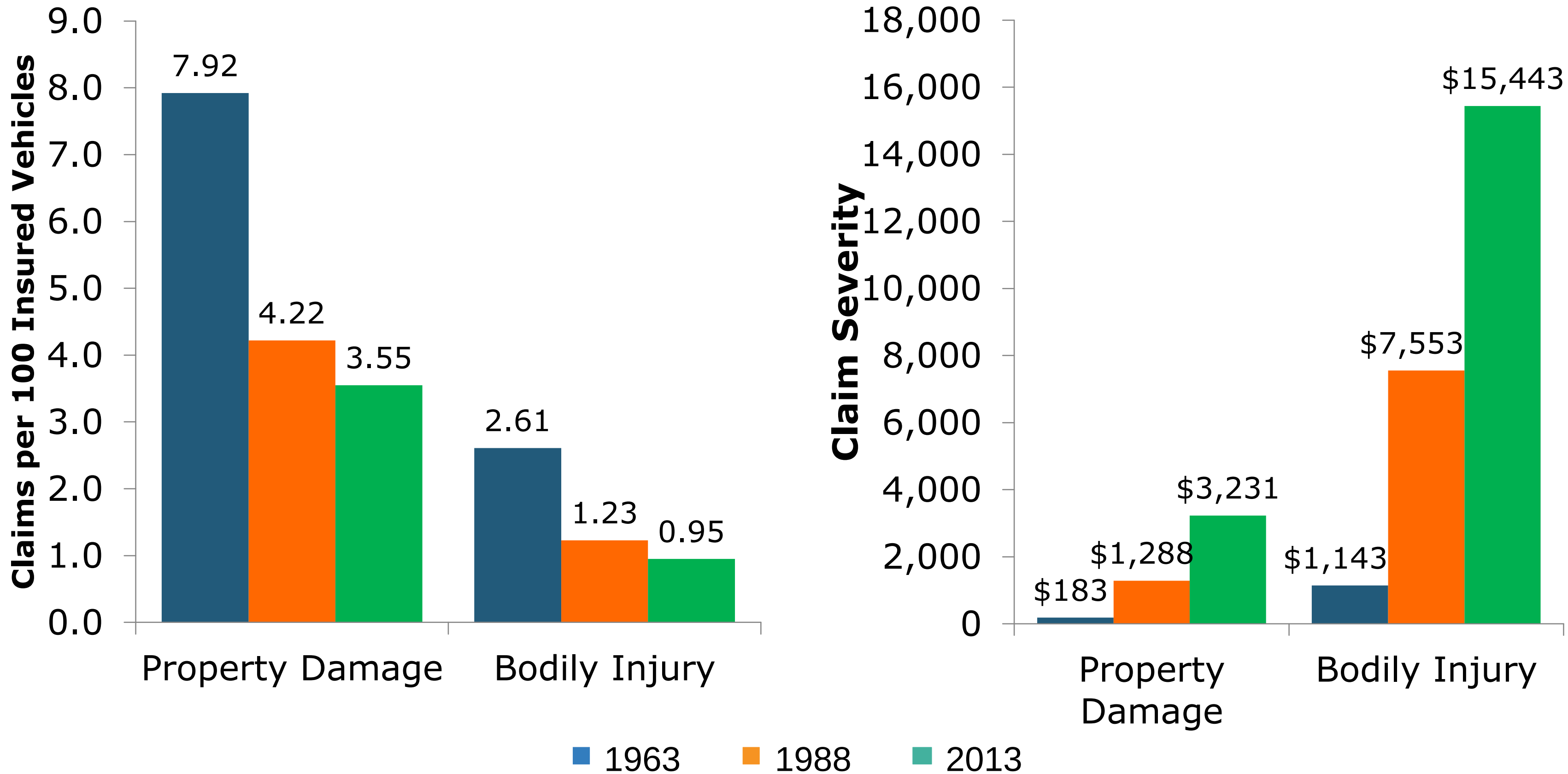
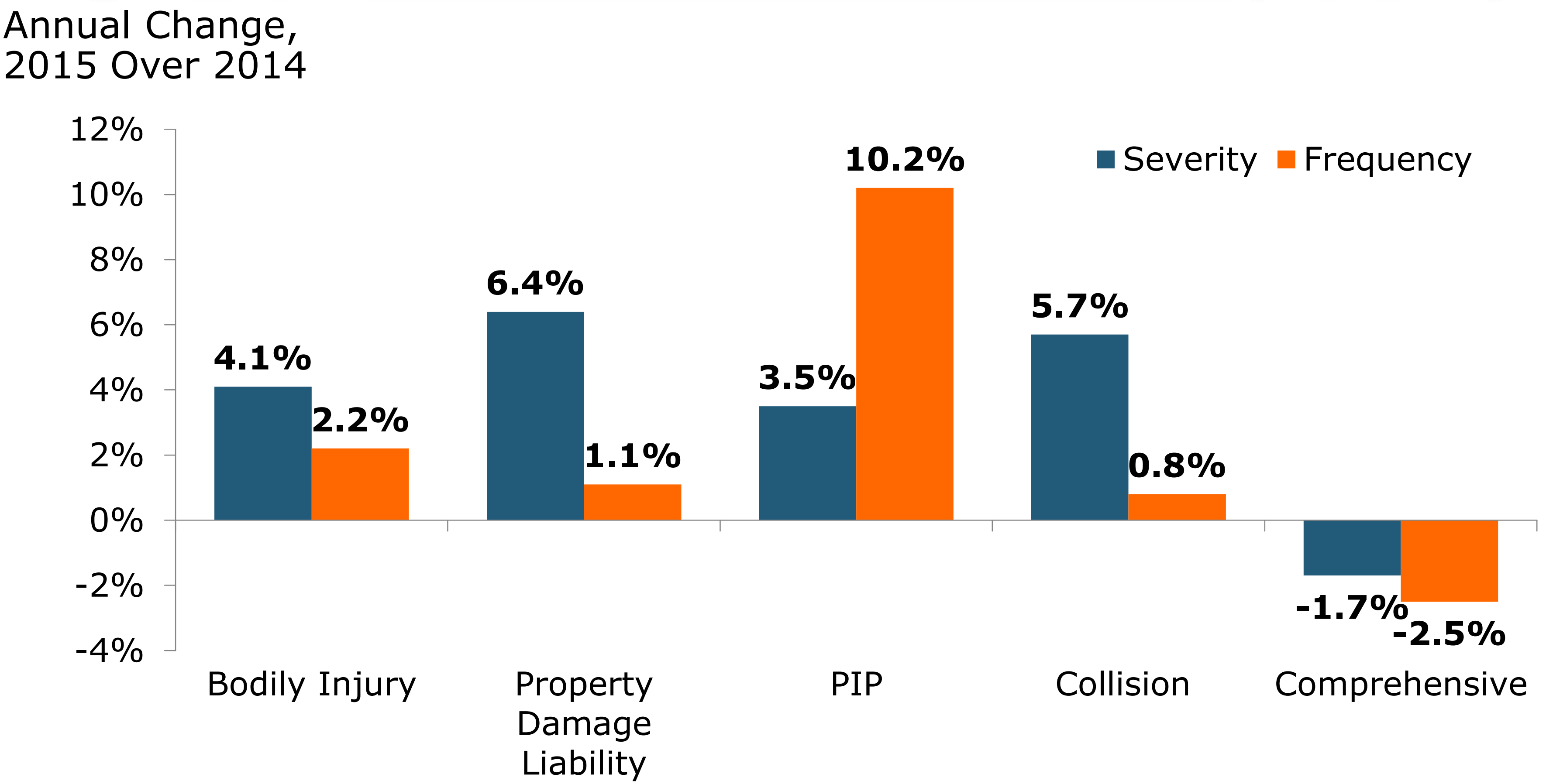
In the Long Run, Frequency Falls. Severity Increases.

Frequency | **Severity**



Sources: Insurance Institute for Highway Safety, Insurance Services Office, Insurance Information Institute.

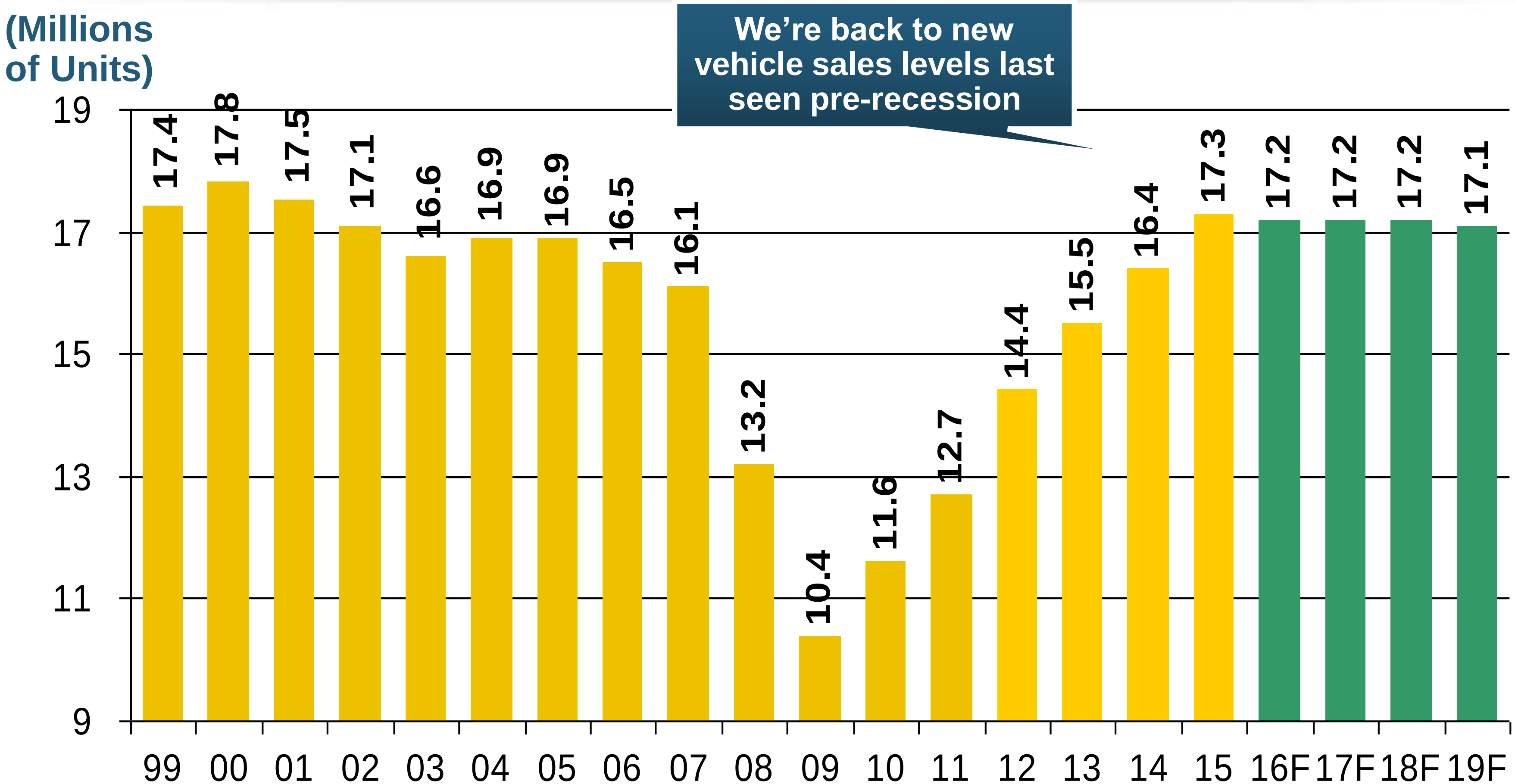
Why Personal Auto Loss Ratios are Rising: Severity & Frequency by Coverage, 2015 vs. 2014



Across All Personal Coverage Types (Except Comprehensive) in 2015, Frequency and Severity Rose. This Pattern is Likely to Continue in 2016.

Source: ISO/PCI *Fast Track* data; Insurance Information Institute.

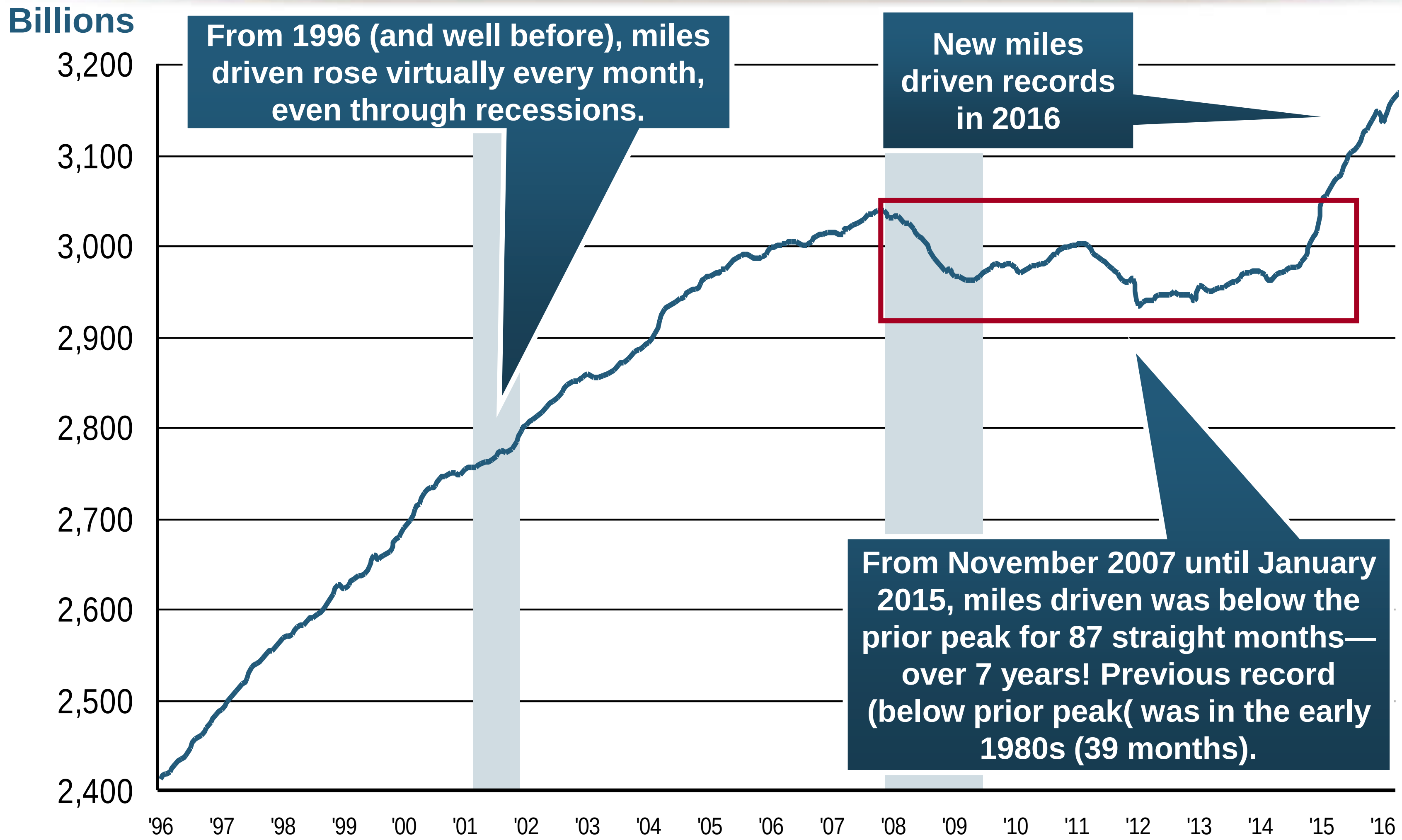
Auto/Light Truck Sales Are Forecast to Continue in 2016 at the 2015 Level



Yearly car/light truck sales will likely continue at current levels, in part replacing cars that were held onto in 2008-12. But rising interest rates could eventually restrain demand for new vehicles.

Sources: US Department of Commerce; Blue Chip Economic Indicators, 8/16 issue (forecasts); Insurance Information Institute.

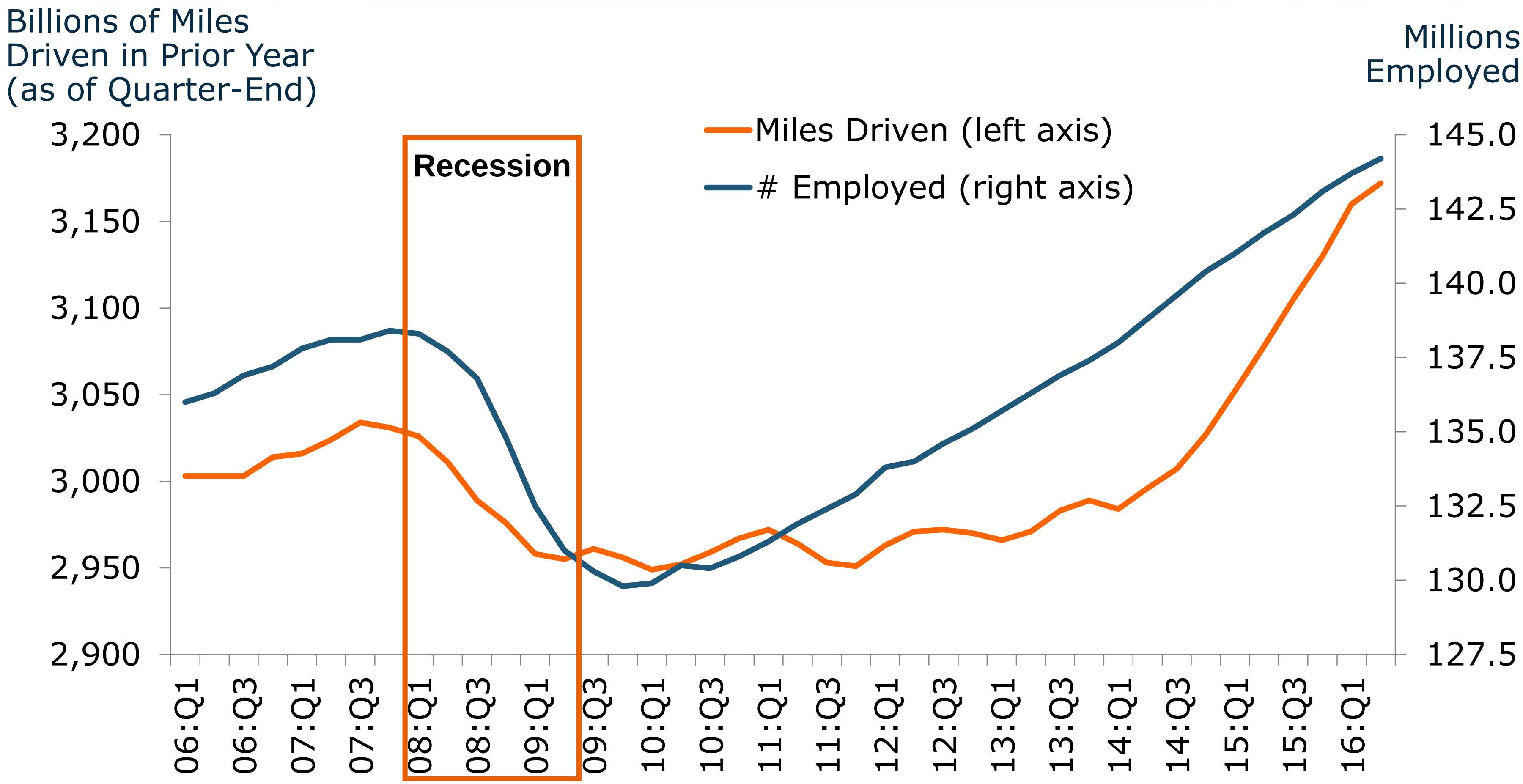
America is Driving More Again: Total Miles Driven*, 1996–2016



*Moving 12-month total. The data are through May 2016, the latest available.
Note: Recessions indicated by gray shaded columns.

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

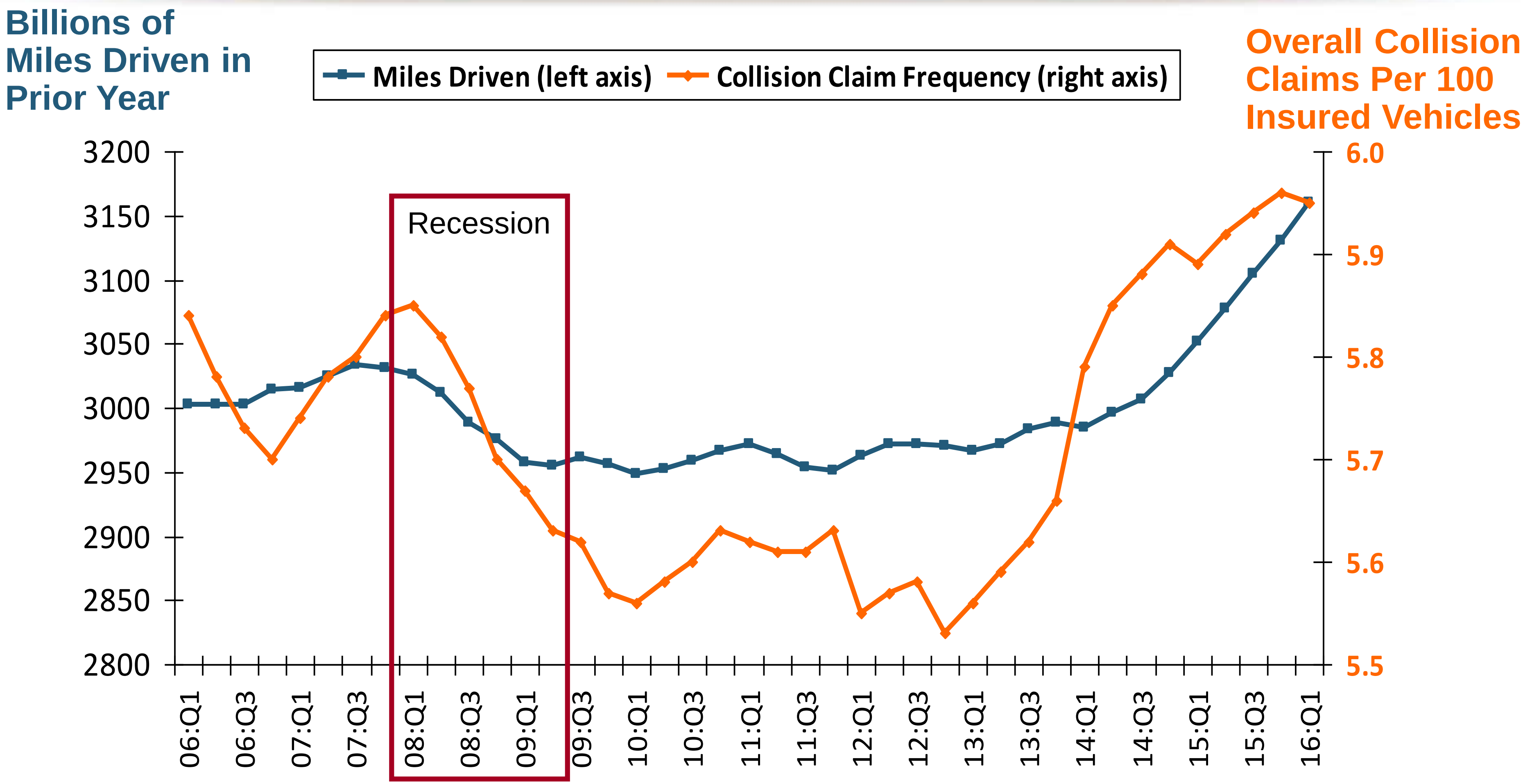
Why Are We Driving More Miles? More Are Going to Work



Most Employed People Drive to and from Work, but when They're Not Employed, They Drive Less (and not During "Rush Hour")

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

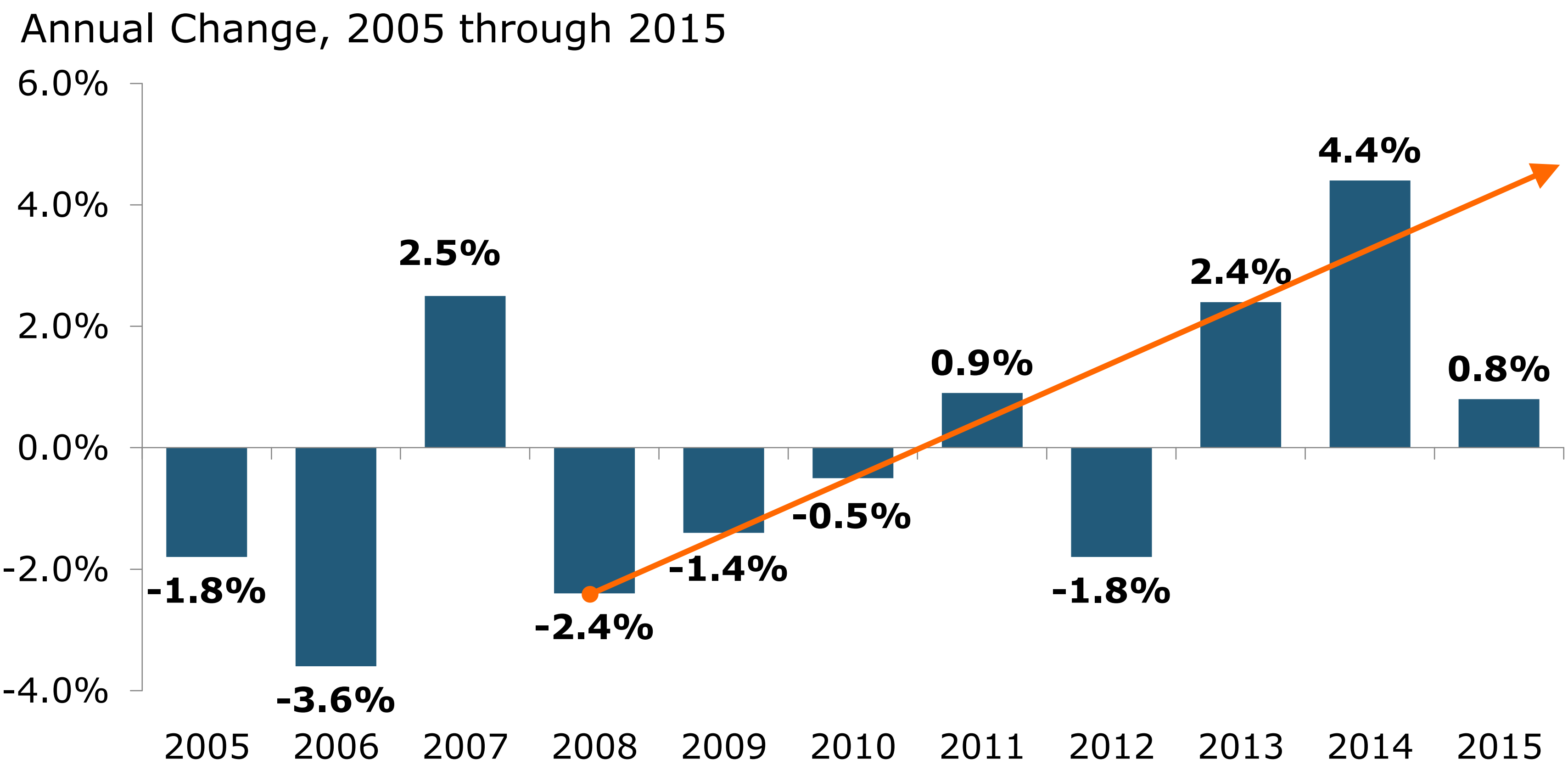
More Miles Driven
=> More Collisions, 2006–2016



The more miles people drive, the more likely they are to get in an accident, helping drive claim frequency higher.

Sources: Federal Highway Administration (http://www.fhwa.dot.gov/policyinformation/travel_monitoring/tvt.cfm); Rolling Four-Qtr Avg. Frequency from Insurance Services Office; Insurance Institute for Highway Safety; Insurance Information Institute.

Collision Claims, 2005–2015: Frequency Trending Higher Since 2009



For a Long Time, Claim Frequency Was Falling, But Since 2010 This Trend Seems to Have Reversed.

Source: ISO, a Verisk Analytics company; Insurance Information Institute.

Collision Claims: Severity Trending Higher in 2009–2015

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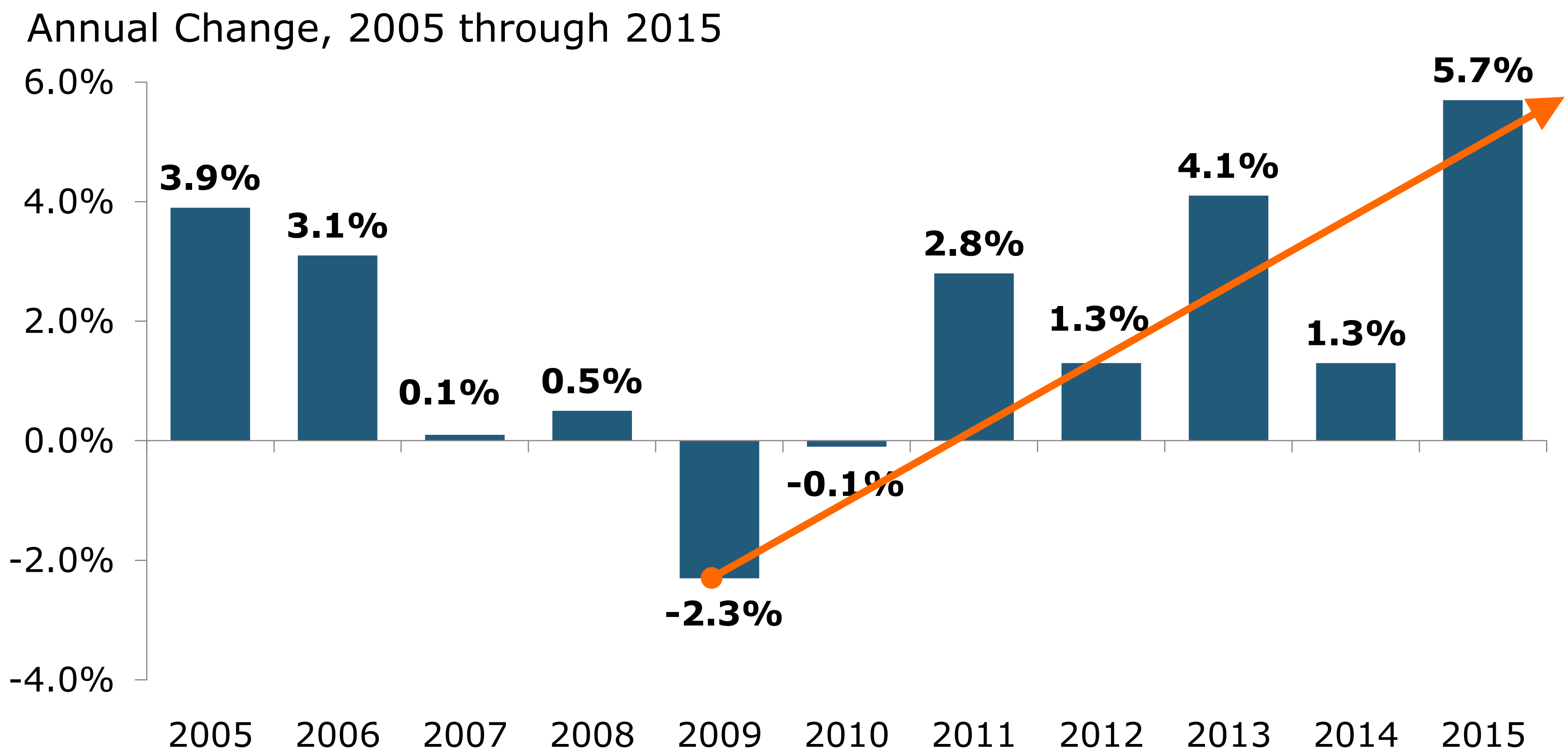
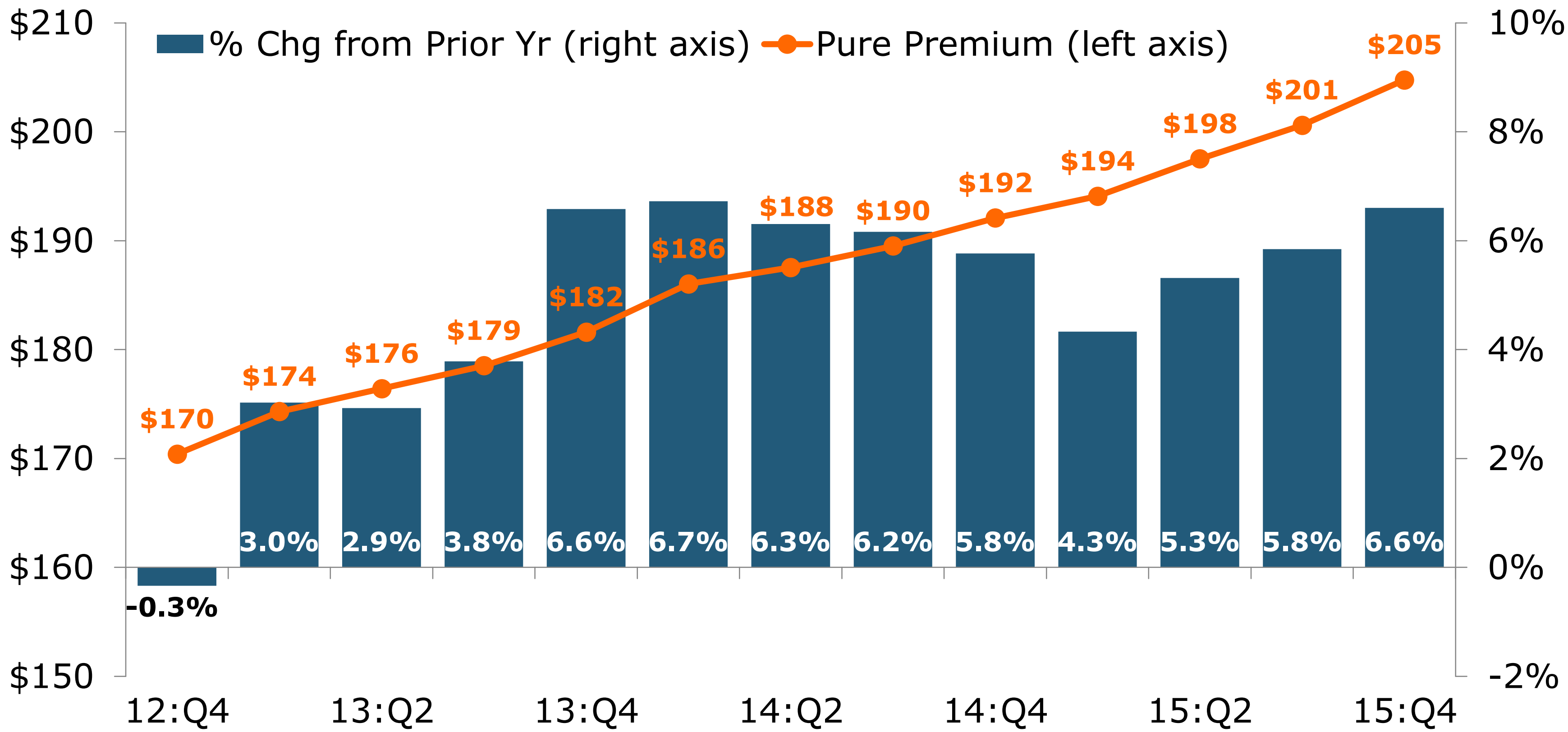


The Great Recession and High Fuel Prices Helped to Temper Claim Severity, But These Forces Have Clearly Reversed, Consistent with Experience from Past Recoveries.

Source: ISO, a Verisk Analytics company; Insurance Information Institute.

Collision Claims: Pure Premium (Losses per Insured Unit), 2011:Q4 to 2015:Q4

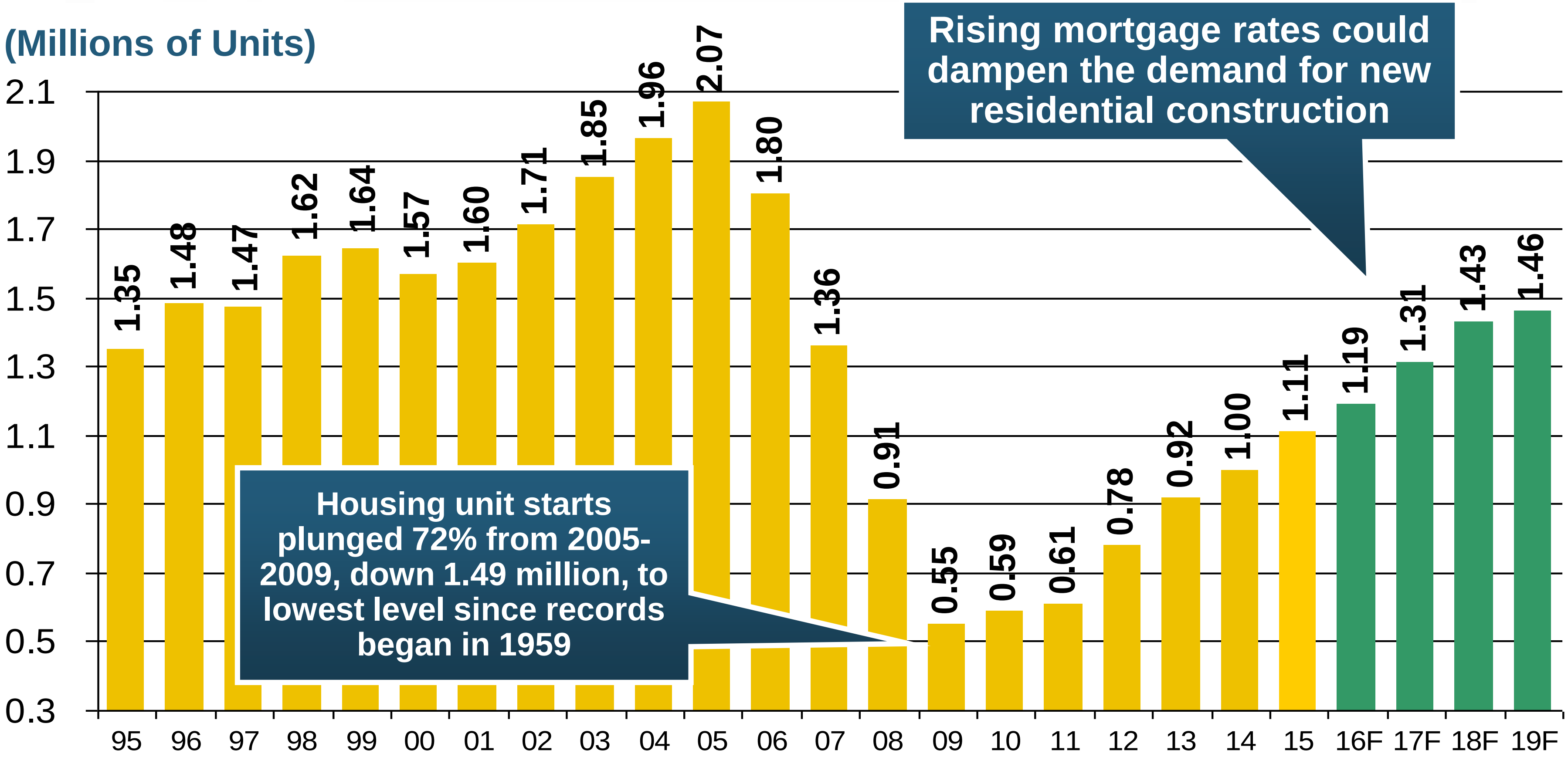


Over the Latest Four Years, the Collision Pure Premium Rose by 19.75%.

Note: Number of claims is for four quarters ending in quarter shown.
Source: ISO, a Verisk Analytics company; Insurance Information Institute.

Forces Affecting Personal Lines: Home Insurance

Forecast: Continued Growth in Private Housing Unit Starts, 1995-2019F



Housing starts are climbing slowly. Recently, the fastest growth is in multi-unit residences. Personal lines exposure will grow, and commercial insurers with Workers Comp, Construction risk exposure and Surety also benefit.

Sources: US Department of Commerce (history); Blue Chip Economic Indicators (8/2016), forecasts; Insurance Information Institute.

Number of Owner-Occupied & Renter-Occupied Housing Units, US, Quarterly, 1990:Q1-2016:Q2

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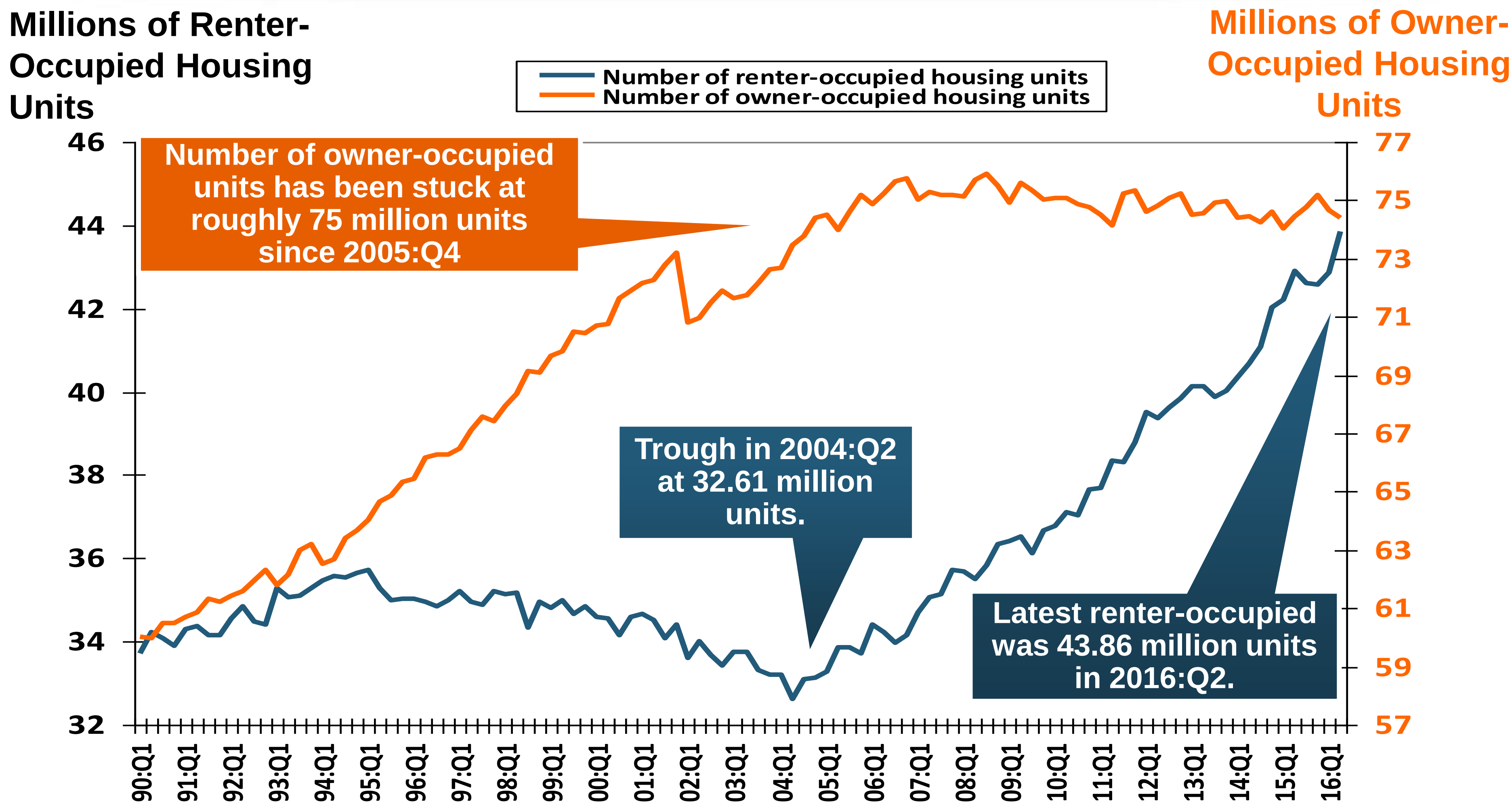

Since 2004 the number of renter-occupied housing units has grown by over 10 million units (+31.4%), but there has been no growth in the number of owner-occupied housing units in over 10 years. When will this end?

Sources: US Census Bureau at http://www.census.gov/housing/hvs/data/histtabs.html , Table 3; Insurance Information Institute.

Rental Vacancy Rates, Quarterly, 1990-2016

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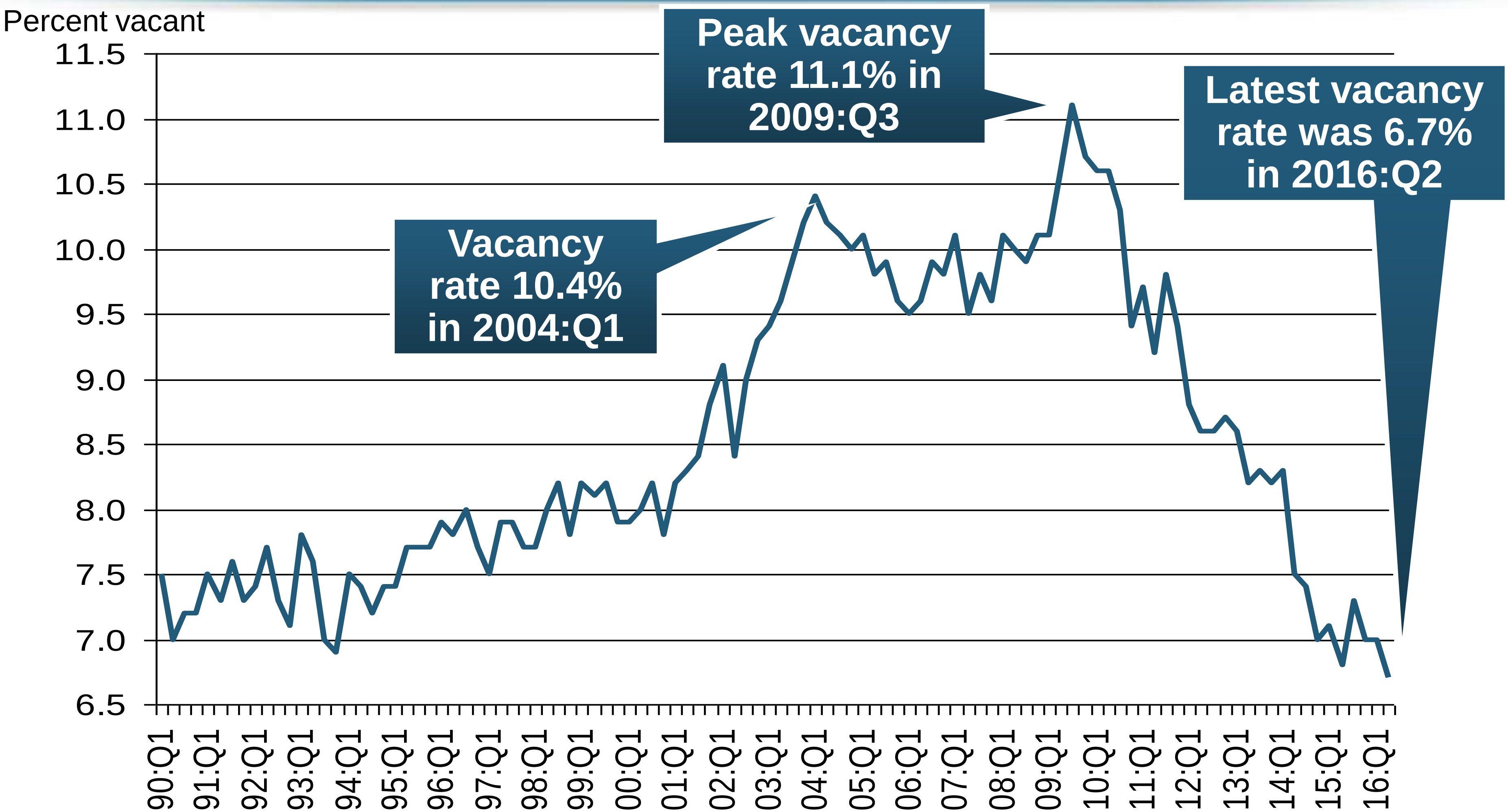
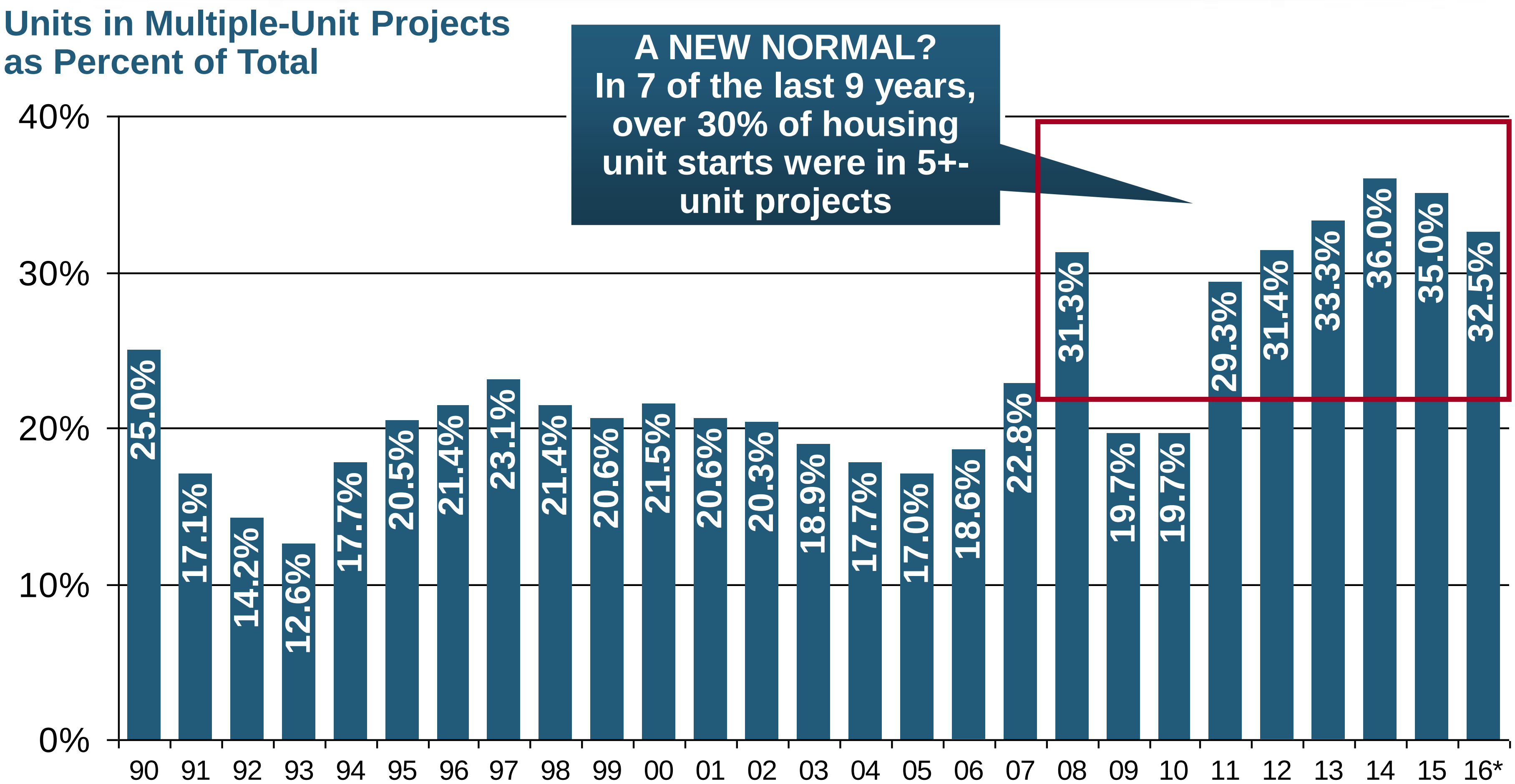


Before the 2001 recession, rental vacancy rates were 8% or less. We're below those levels now. => More multi-unit construction?

Sources: US Census Bureau, *Residential Vacancies & Home Ownership in the Second Quarter of 2016* and earlier issues; Insurance Information Institute.

US: Pct. Of Private Housing Unit Starts In Multi-Unit Projects, 1990-2016*

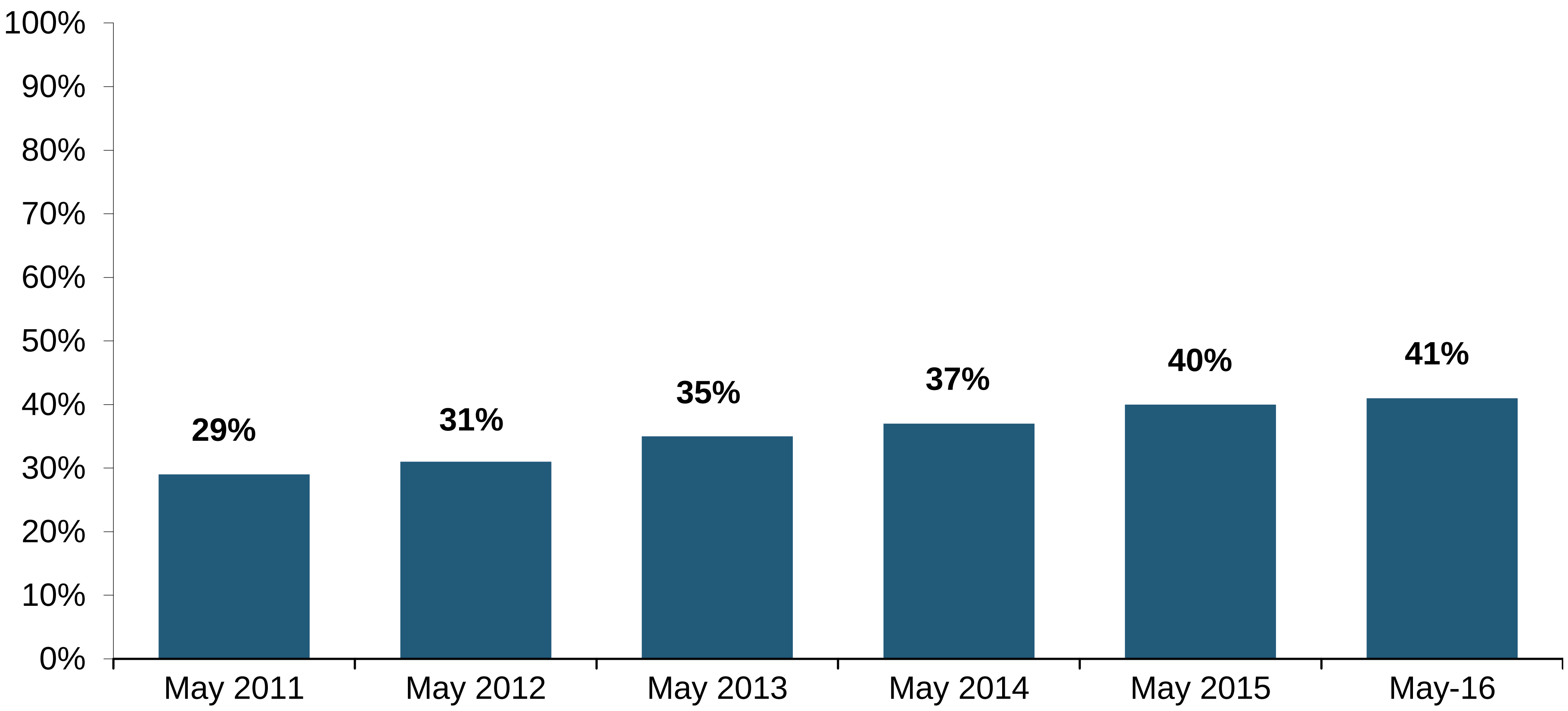


For the U.S. as a whole, the trend toward multi-unit housing projects (vs. single-unit homes) is recent. Commercial insurers with Workers Comp, Construction risk exposure, and Surety benefit.

*through July 2016 Based on seasonally-adjusted data. Sources: U.S. Census Bureau; Insurance Information Institute calculations.

I.I.I. Poll: Renters Insurance

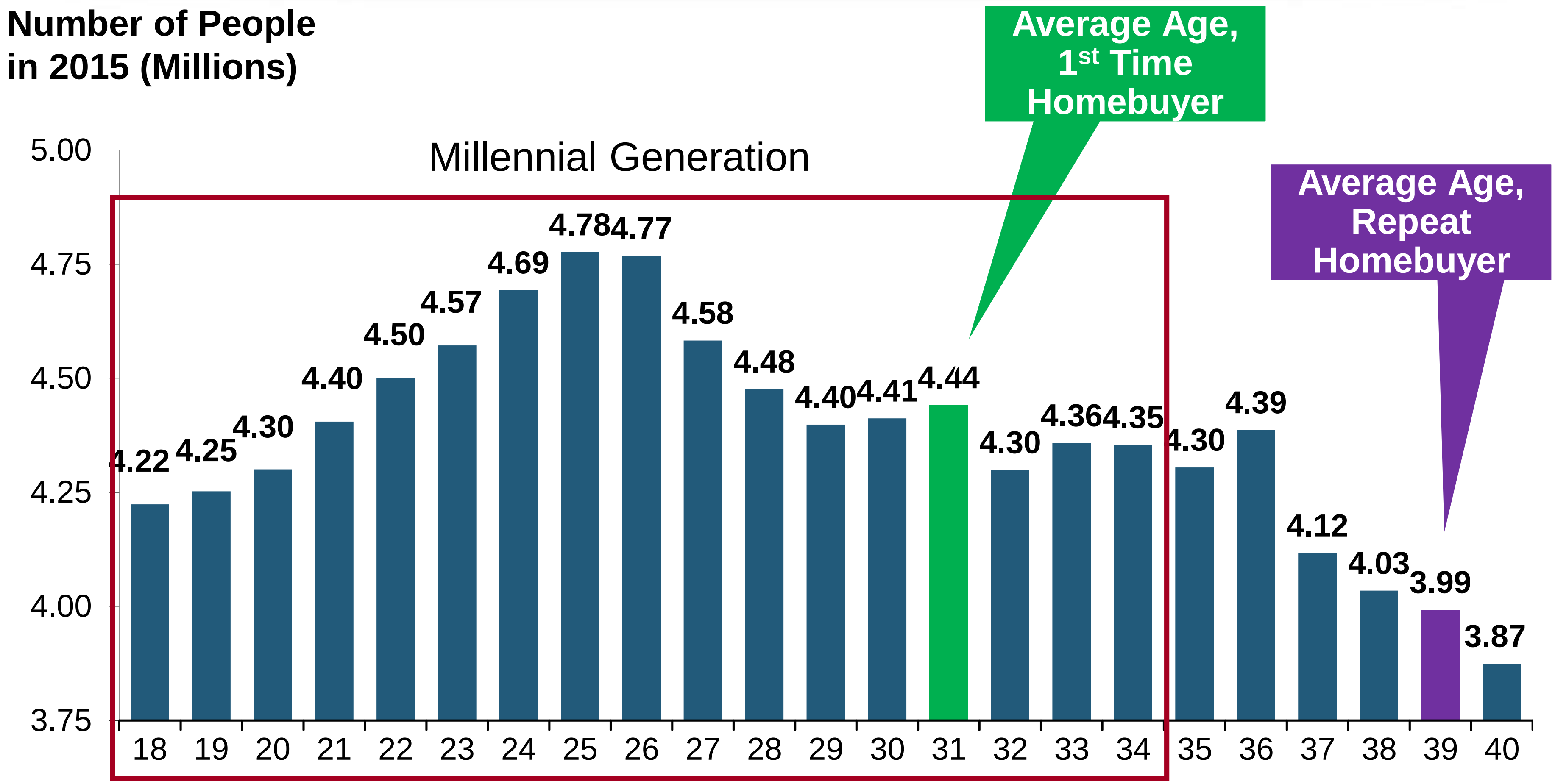
Percentage of Renters Who Have Renters Insurance, 2011-2015



The Percentage Of Renters With Renters Insurance Has Been Growing, But Slowly

Source: Insurance Information Institute Annual *Pulse* Survey.

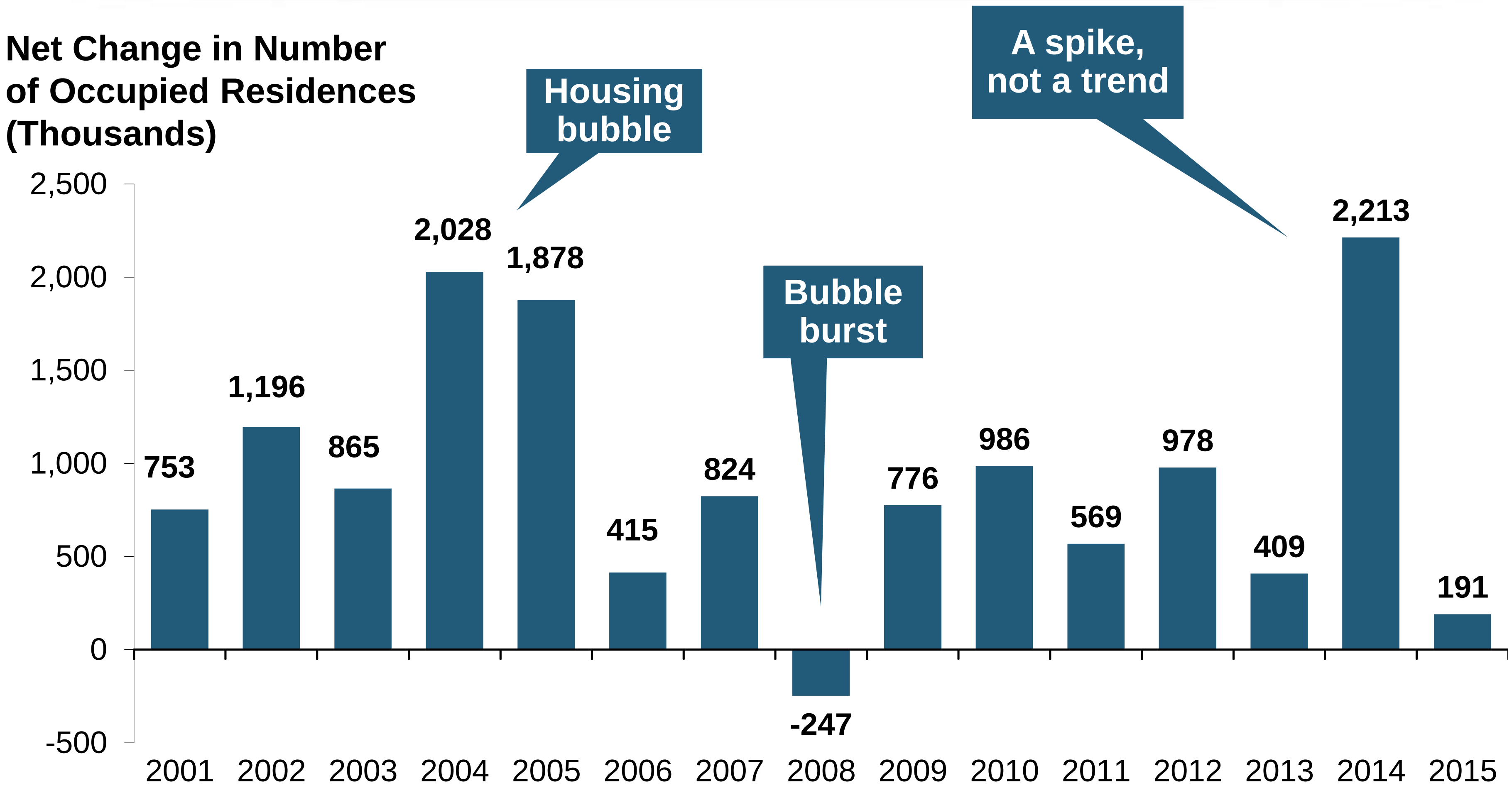
Giant Age Cohort (Millenials) Is Approaching Home-Buying Stage



If prior patterns hold, the number of homes bought by current renters, and the number of new homes built, will rise in coming years

Sources: Census Bureau; CoreLogic; Insurance Information Institute.

Growth in Number of Households => Increased Demand for Housing



If prior patterns hold, the number of homes bought by current renters, and the number of new homes built, will rise in coming years

Sources: Census Bureau; CoreLogic; Insurance Information Institute.

Forces Affecting Commercial Lines

Private Nonresidential Fixed Investment, Quarterly: Recently, a New Peak

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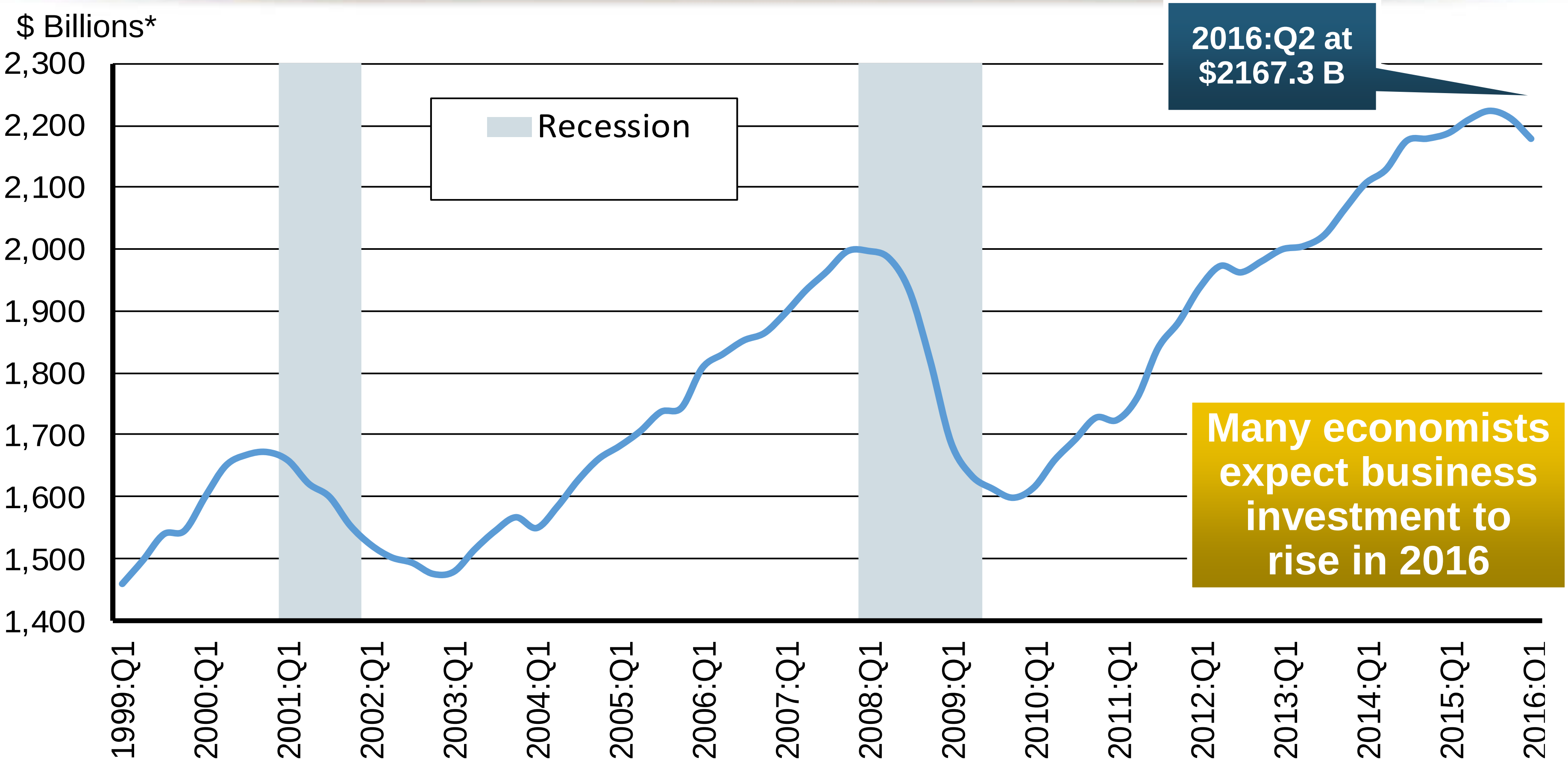

This is a measure of the growth of the commercial property exposure base. Business investment dipped in 2016:1H but is expected to grow slowly in 2016:2H. If so, commercial insurance premium volume will grow with it.

*Quarterly, at seasonally adjusted annual rate

Sources: Federal Reserve Board at http://research.stlouisfed.org/fred2/data/PNFIC96.txt . National Bureau of Economic Research (recession dates); Insurance Information Institutes.

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2016:Q1

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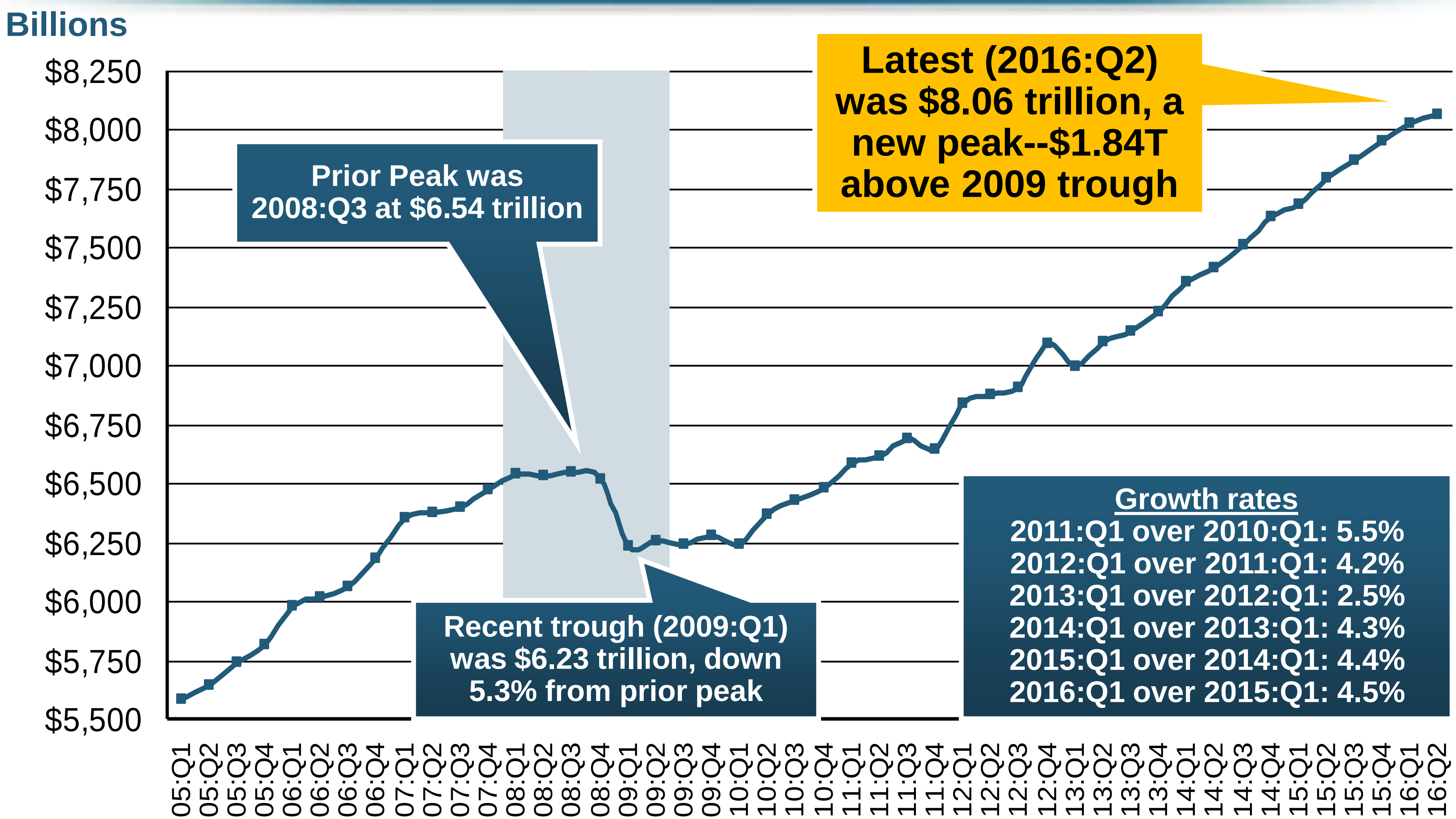


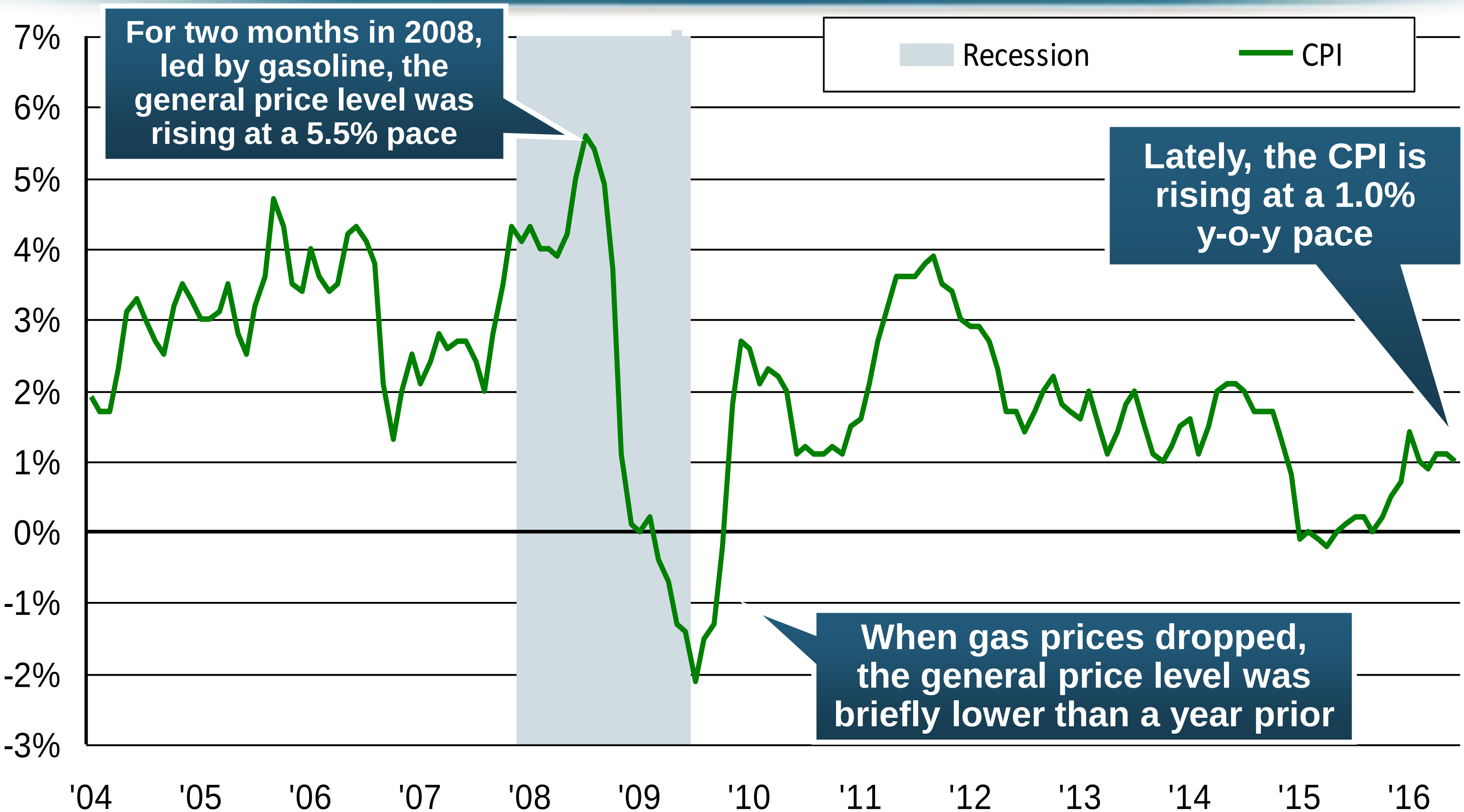
Note: Recession indicated by gray shaded column. Data are seasonally adjusted annual rates.

Sources: http://research.stlouisfed.org/fred2/series/WASCUR; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Inflation & Claims

Overall Inflation Has Been Low, but Prices for Some Items that Affect Claims Are Rising Notably Faster

Change* in the Consumer Price Index, 2004–2016

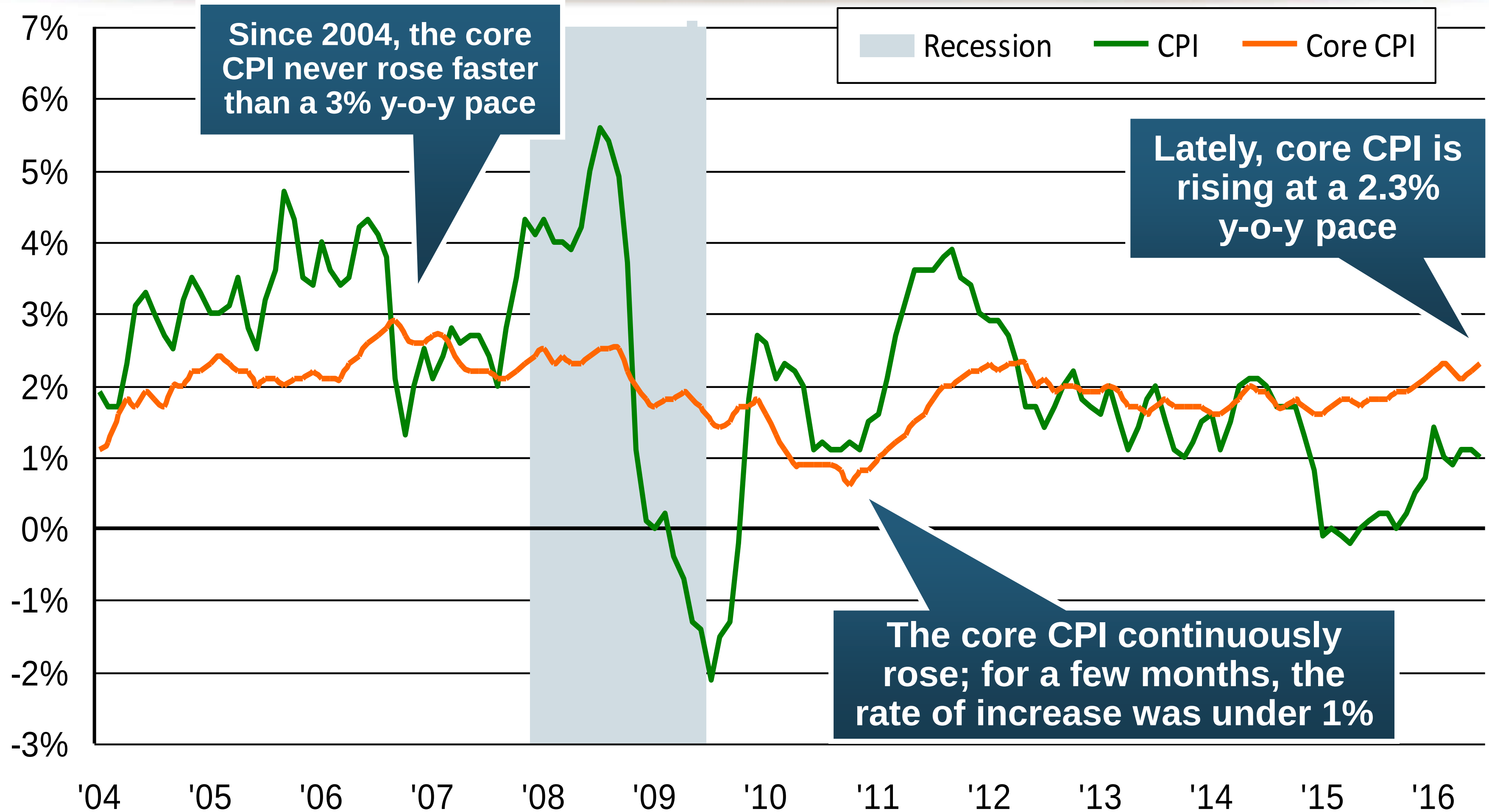


Over the last decade, prices generally rose about 2% per year.

*Monthly, year-over-year, through June 2016. Not seasonally adjusted.

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

Change* in the Consumer Price Index, 2004–2016

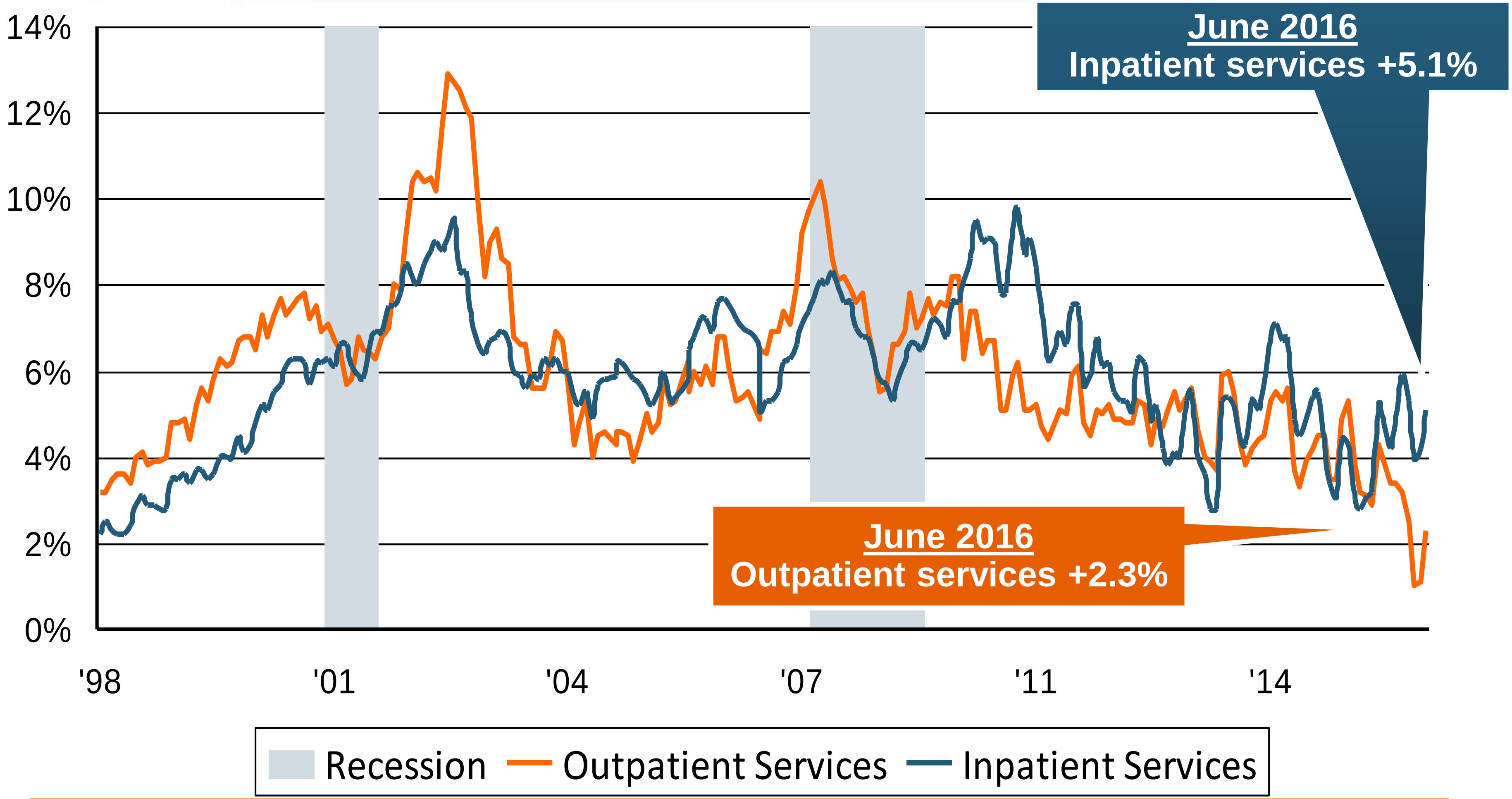


Over the last decade, prices generally rose about 2% per year.

*Monthly, year-over-year, through June 2016. Not seasonally adjusted.

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

Prices for Hospital Services:
12-Month Change,* 1998–2016



Prices for Hospital Services have risen at an annual rate of 4% (and often more) for the last 15 years, while the general price level rose by 2%/year.

*Percentage change from same month in prior year; through June 2016; seasonally adjusted

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

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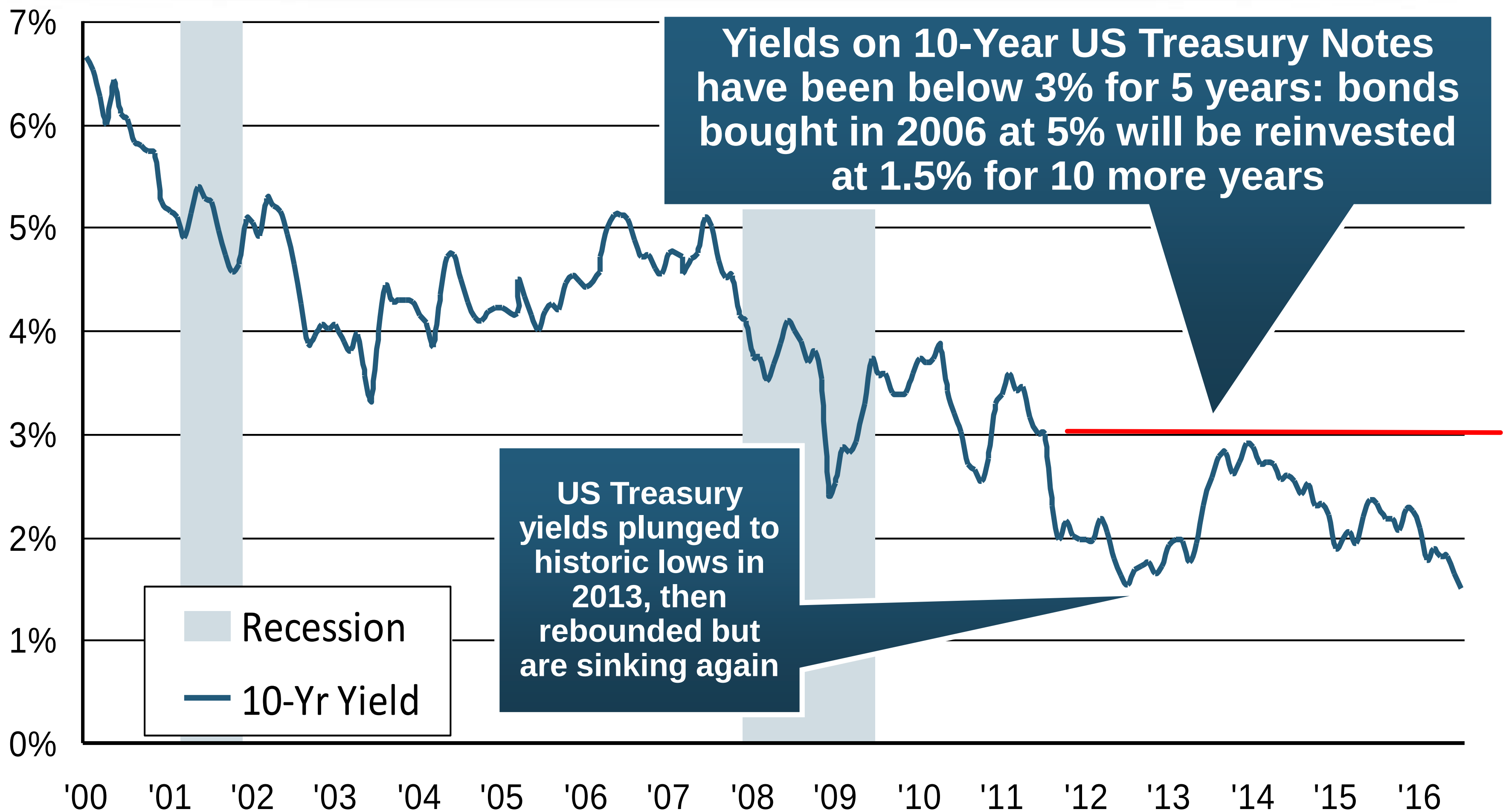
Investment Performance: a Key Driver of Profitability

Depressed Yields Influence Underwriting & Pricing

US Treasury Note 10-Year Yields: A Long Downward Trend, 2000–2016*

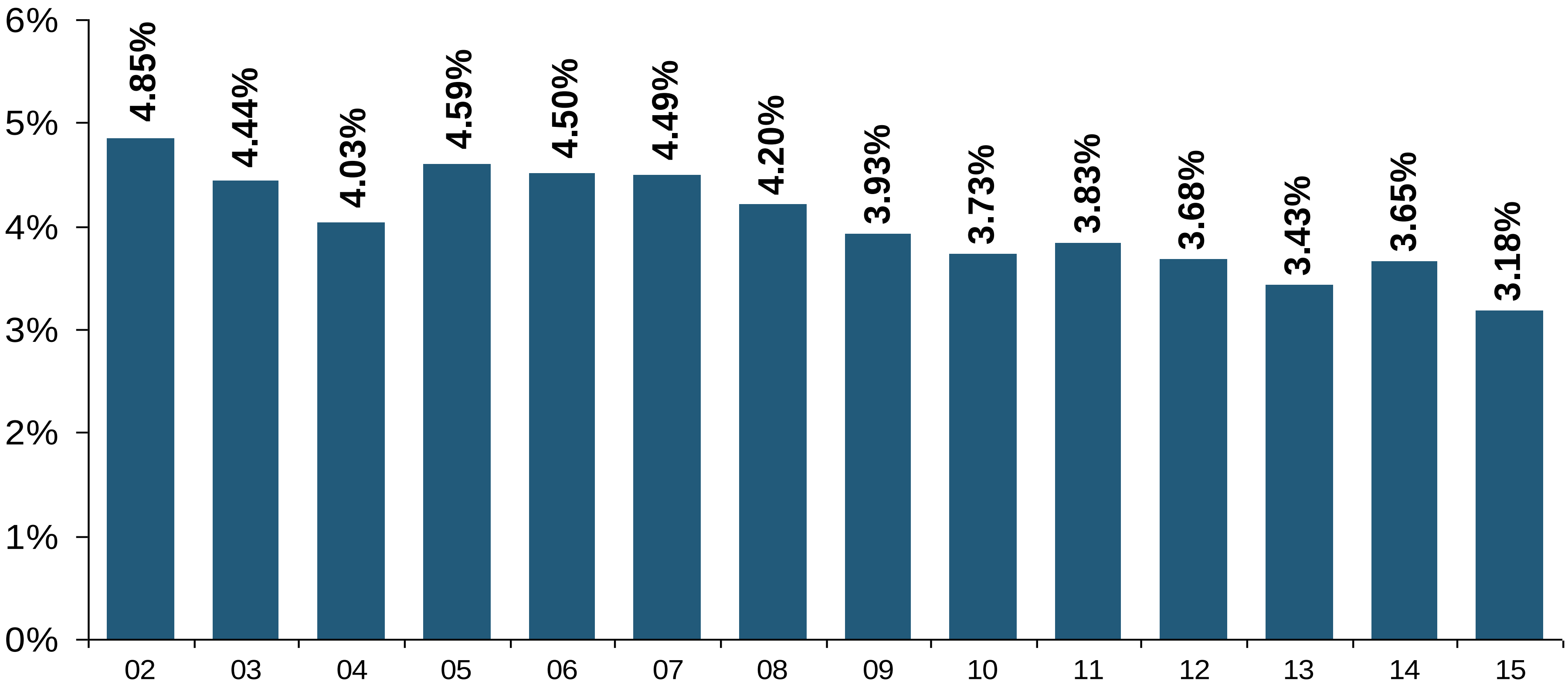


Since roughly 80% of P/C bond/cash investments are in 5-to-10-year durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, constant maturity, nominal rates, through July 2016.

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

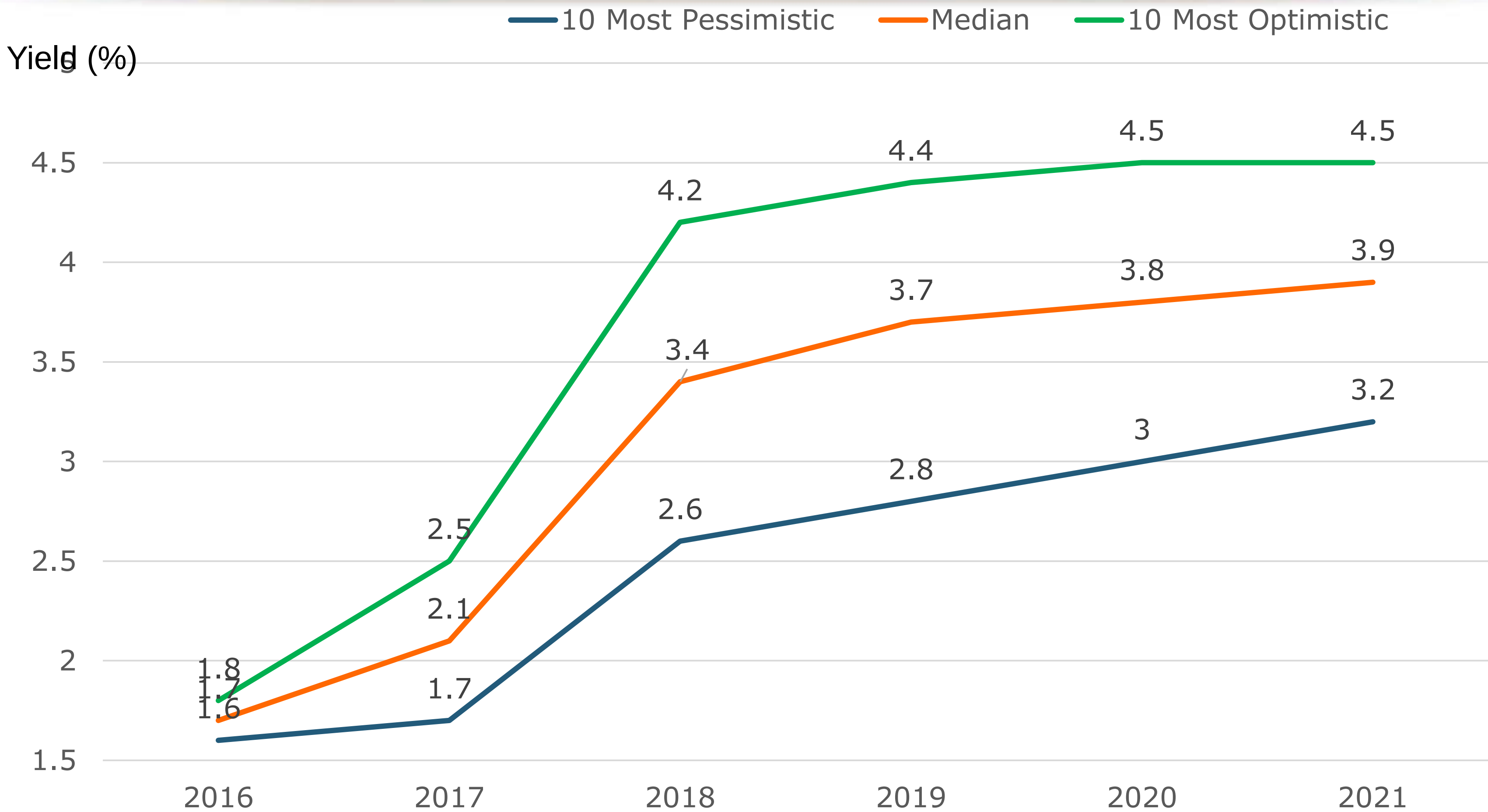
P/C Insurer Portfolio Yields, 2002-2015



P/C carrier yields have been falling for over a decade, reflecting the long downtrend in prevailing interest rates. Even as prevailing rates rise in the next few years, portfolio yields are unlikely to rise quickly, since low yields of recent years are "baked in" to future returns.

Sources: NAIC, via SNL Financial; Insurance Information Institute.

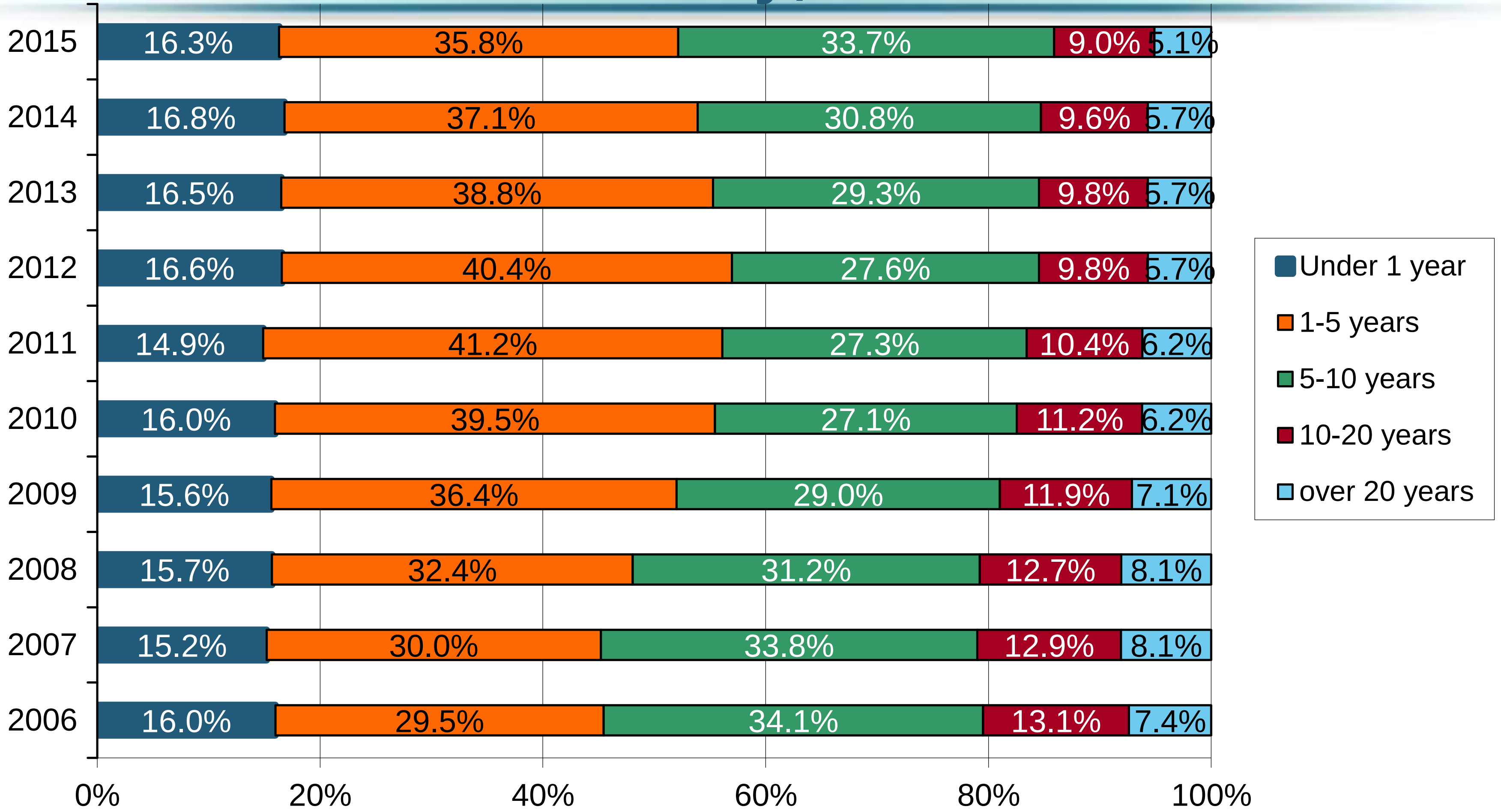
Forecasts of Avg. Yield of 10-Year US Treasury Notes



Virtually every one of the 53 forecasts in the Blue Chip survey anticipates that long-term interest rates will stay at unusually low levels through 2017

Sources: Blue Chip Economic Indicators (8/16); Insurance Information Institute

Distribution of Bond Maturities, P/C Insurance Industry, 2006-2015



Two main shifts over these years. From 2008 to 2011-12, from bonds with longer maturities to bonds with shorter maturities. But beginning in 2013, the reverse. Note, however, that the percentages in bonds with maturities over 10 years continues to drop.

Sources: SNL Financial; Insurance Information Institute.

P/C Insurers: Below-Investment-Grade (BIG) Bonds as a Percent of Total Bonds, 2001-2015

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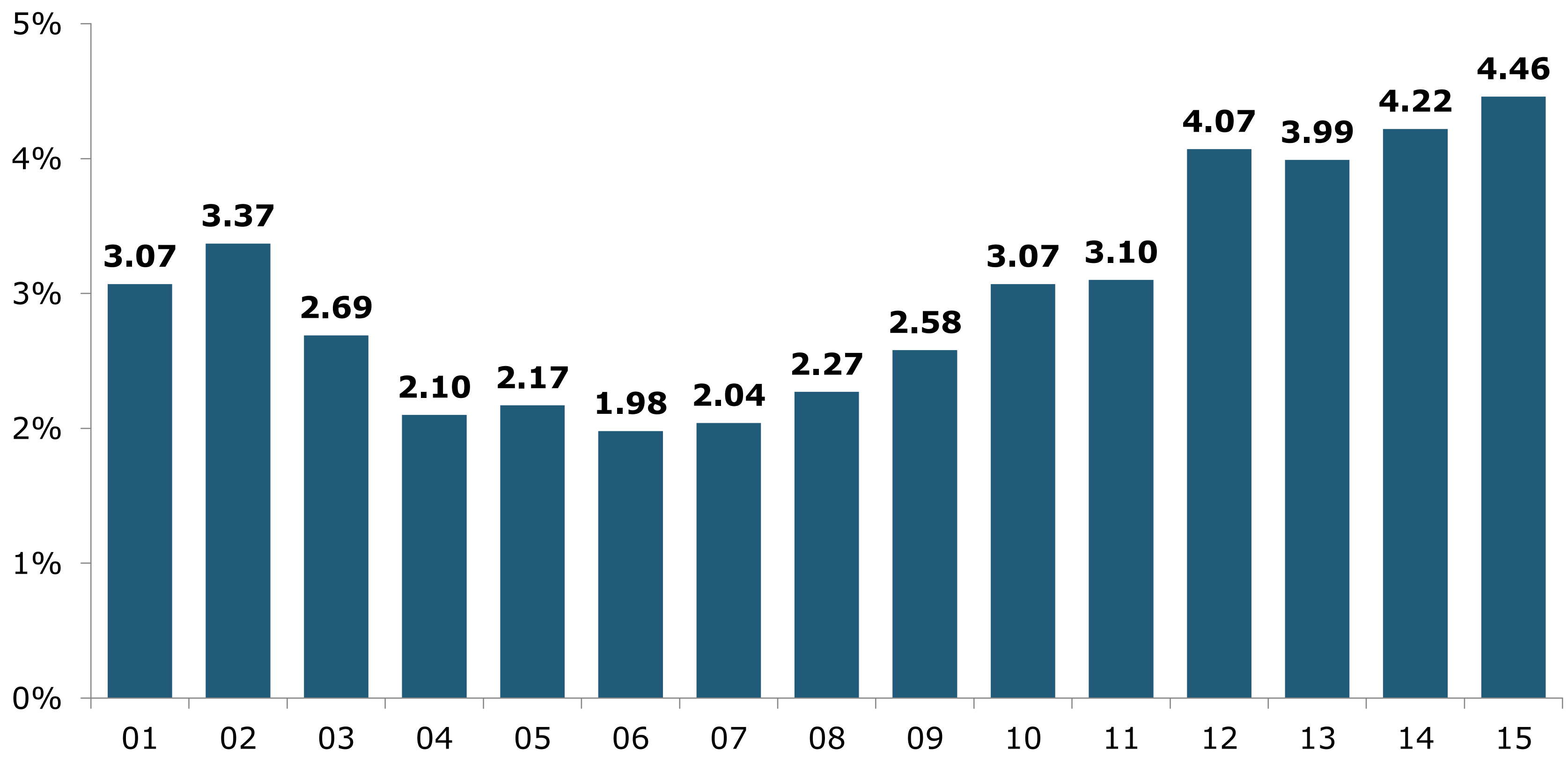

Chasing Yield? As a Group, P/C Carriers Have Increased the Percentage of Bond Investments in Riskier Instruments. Since 2006, That Percentage Has Risen About 250 Basis Points. As Interest Rates Rise, Will This Percentage Return to Pre-recession Levels?

Sources: NAIC data, sourced from S&P Global Market Intelligence; Insurance Information Institute.

P/C Insurer Groups Holdings of BIG** Bonds as a Percent of Total Bonds, 2014

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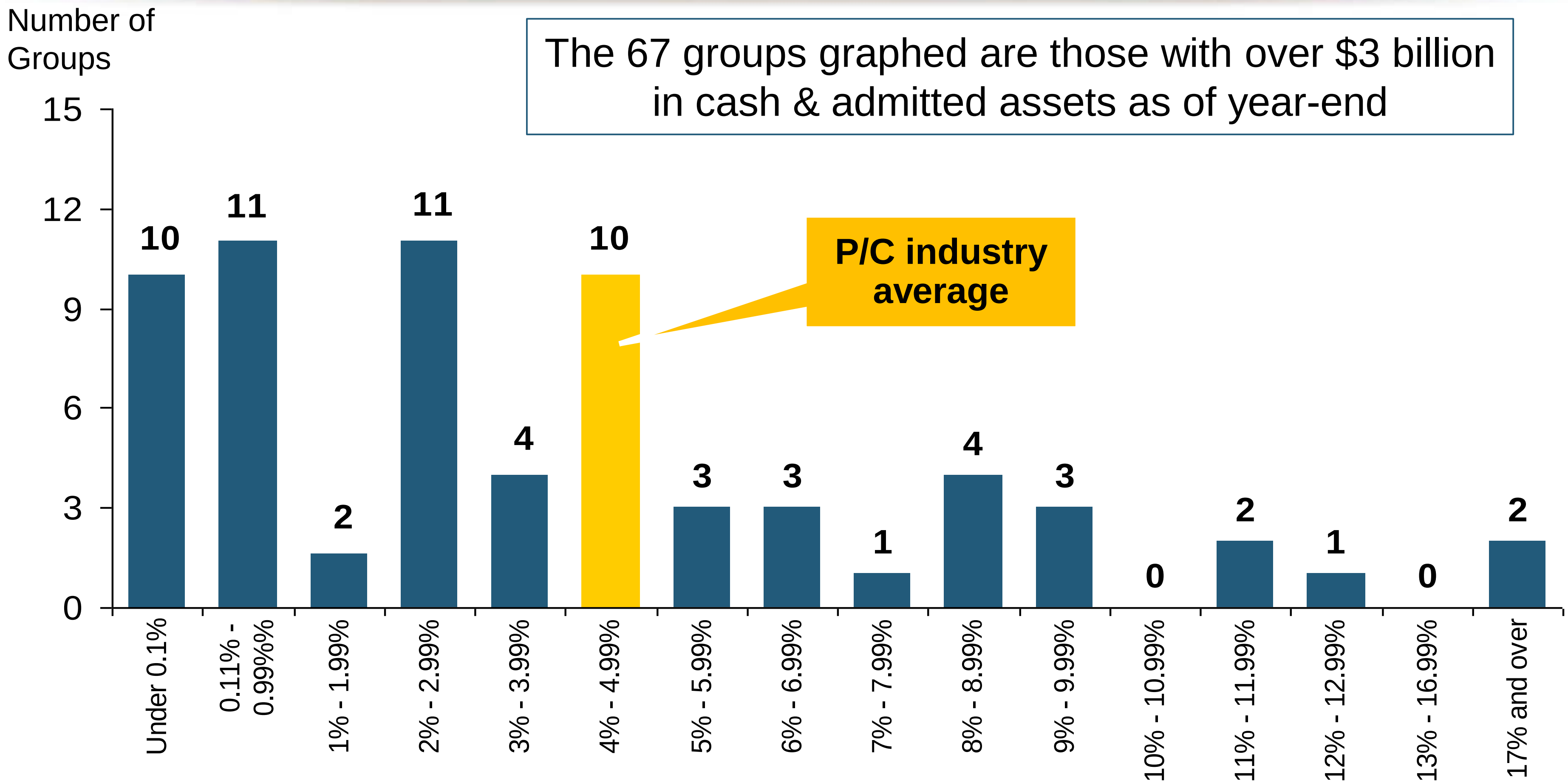

There is a wide disparity among insurance groups regarding holdings of below-investment-grade bonds. Some hold none (or almost none); a few have over 10% of their bond portfolio in BIGs.

*Below Investment Grade

Sources: NAIC, via SNL Financial; Insurance Information Institute.

Other Things That Could Affect the Course of Interest Rates

- Prices of world currencies (the value of the US Dollar vs. the Euro, the Yen, the Yuan and other major world currencies)
- Prices of a number of commodities (especially oil)
- Prevailing interest rates in other countries (determined, in part, by those countries' central banks)
- The demand for, and the supply of, loanable funds

Selected
Employment Trends

By 2018, Will We Have More Jobs to Fill than People to Fill Them?

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- Even with modest growth in the U.S. economy and no radical change in immigration between now and 2018, we should be at or near "full employment" before then
- This results from creating jobs faster than the growth in the size of the labor force
- So if we get to "full employment" and keep creating jobs faster than the growth of the labor force, won't we have job shortages then?
  - And won't those shortages put pressure on wages, which in turn will fuel high inflation?

Reference: Barry Bluestone and Mark Melnik, *After the Recovery: Help Needed* The Coming Labor Shortage and How People in Encore Careers Can Help Solve it, (Boston: Dukakis Center for Urban and Regional Policy, 2010).

Why Job Shortages by 2018 are Unlikely

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- If we follow the post-WWII historical pattern, we are likely to have another recession around 2018, give or take a year or so
  - This will cause some jobs to disappear
- Also, many currently-filled jobs will open due to retirements of the first half of the huge "baby boom" generation
  - In 2018 the first half of the huge "baby boom" generation will be ages 65-72, and the second half will be ages 54-64

Why Job Shortages by 2018 are Unlikely (cont'd)

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- Increases in productivity will likely enable us to do more work with fewer people.
- Employers might shift jobs to labor markets outside of the U.S.
- Also, there might be many fewer retirees than we might think

Labor Force Participation Rate, Ages 65-69, Quarterly, 1998:Q1-2016:Q2

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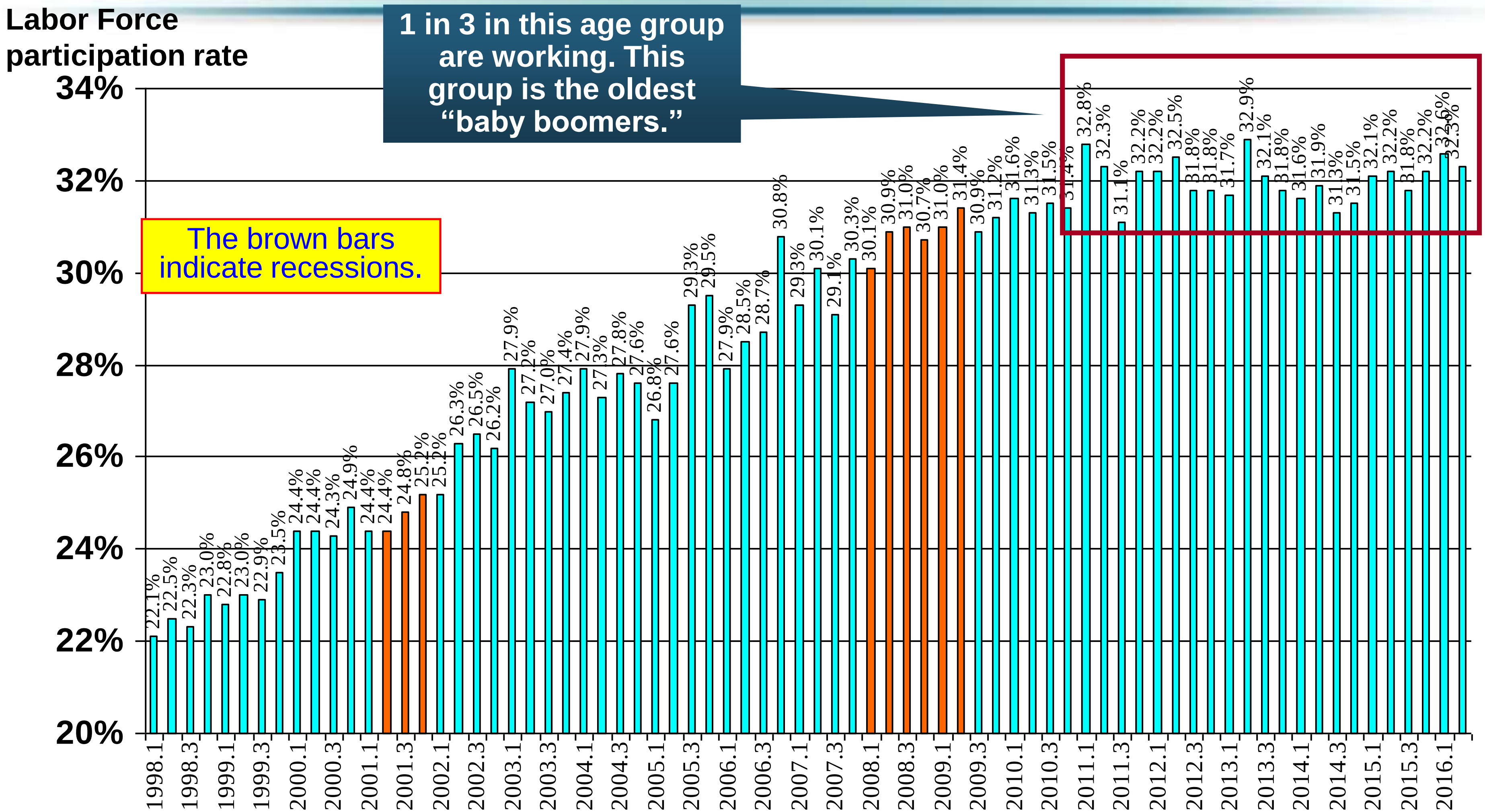

The switch from DB pension plans (with early-retirement incentives) to DC plans (with, in effect, later-retirement incentives) might be partly responsible for raising this rate.

Not seasonally adjusted. Sources: US Bureau of Labor Statistics, US Department of Labor; Insurance Information Institute.

Insurance Information Institute Online:

www.iii.org

Thank you for your time and your attention!