Economic and Industry Outlook: P/C Insurance in 2013 and Beyond

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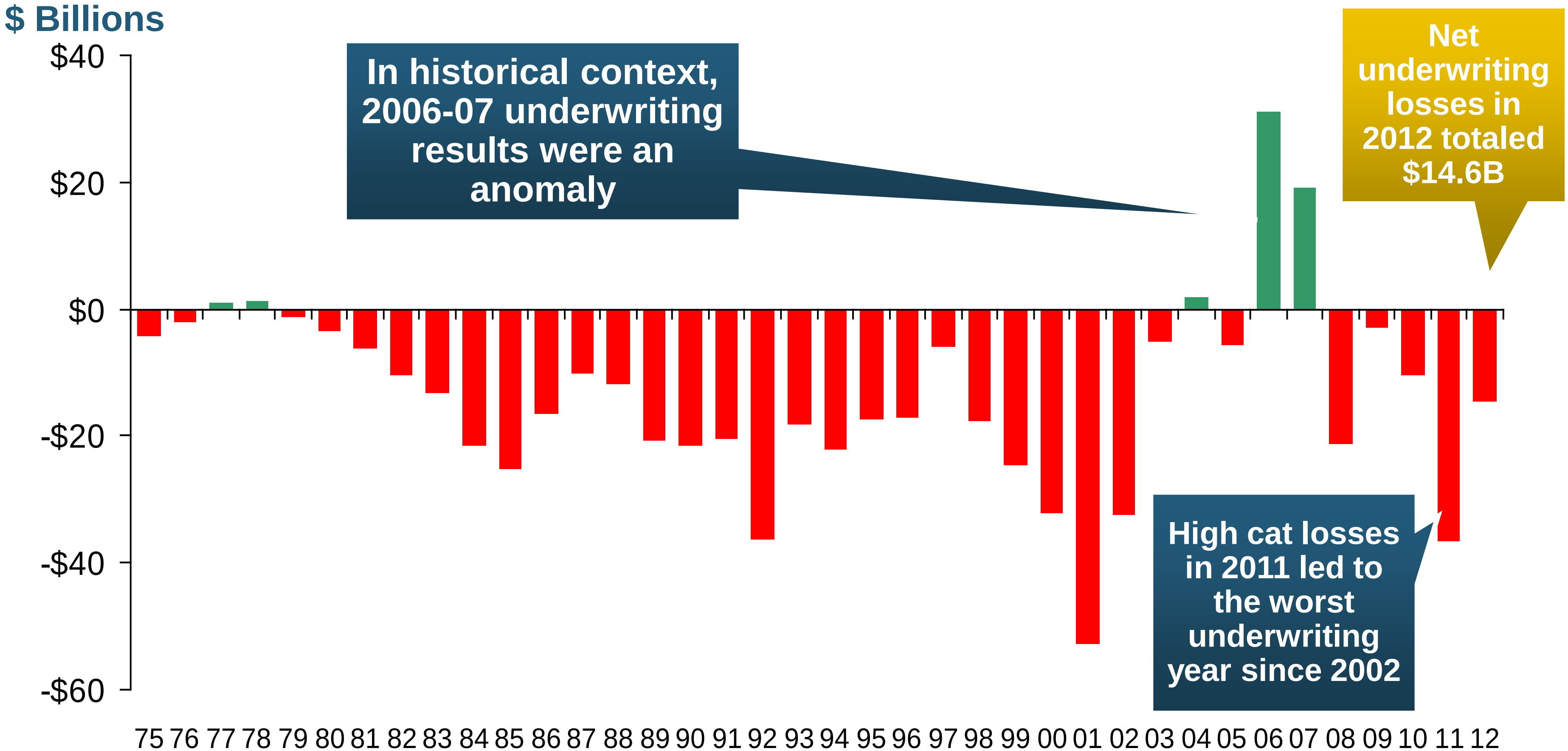
The P/C Industry: The Way We Were and Are Now

Brief Overview of P/C Industry Financial Status

Underwriting is Rarely a Profit Source
Gain (Loss) 1975–2012***

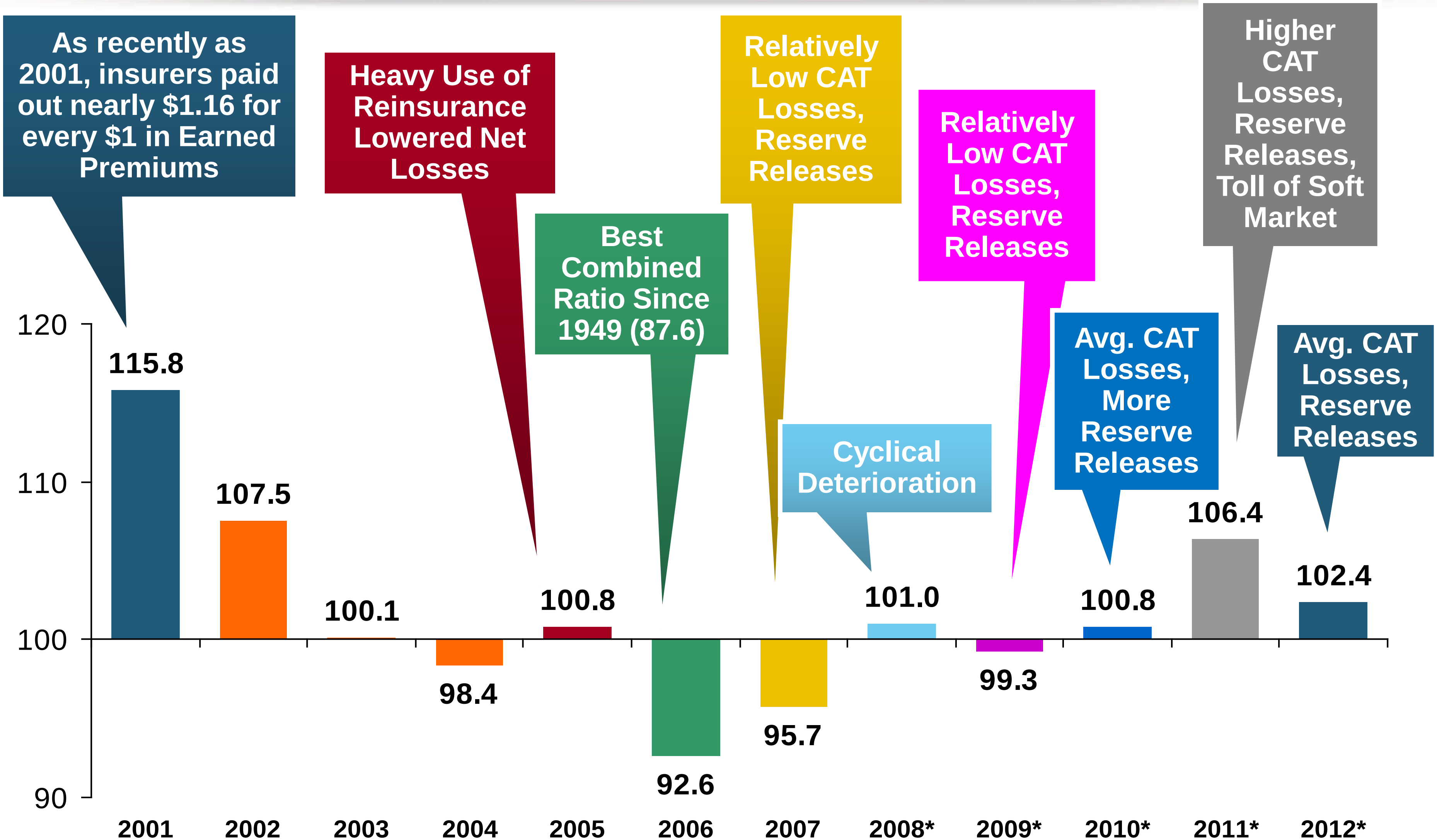


Average yearly underwriting loss in the 2008-2012 low-interest-rate environment? $17.2B. With interest rates this low, large persistent underwriting losses are not a recipe for success.

*Includes mortgage and financial guaranty insurers in all years.

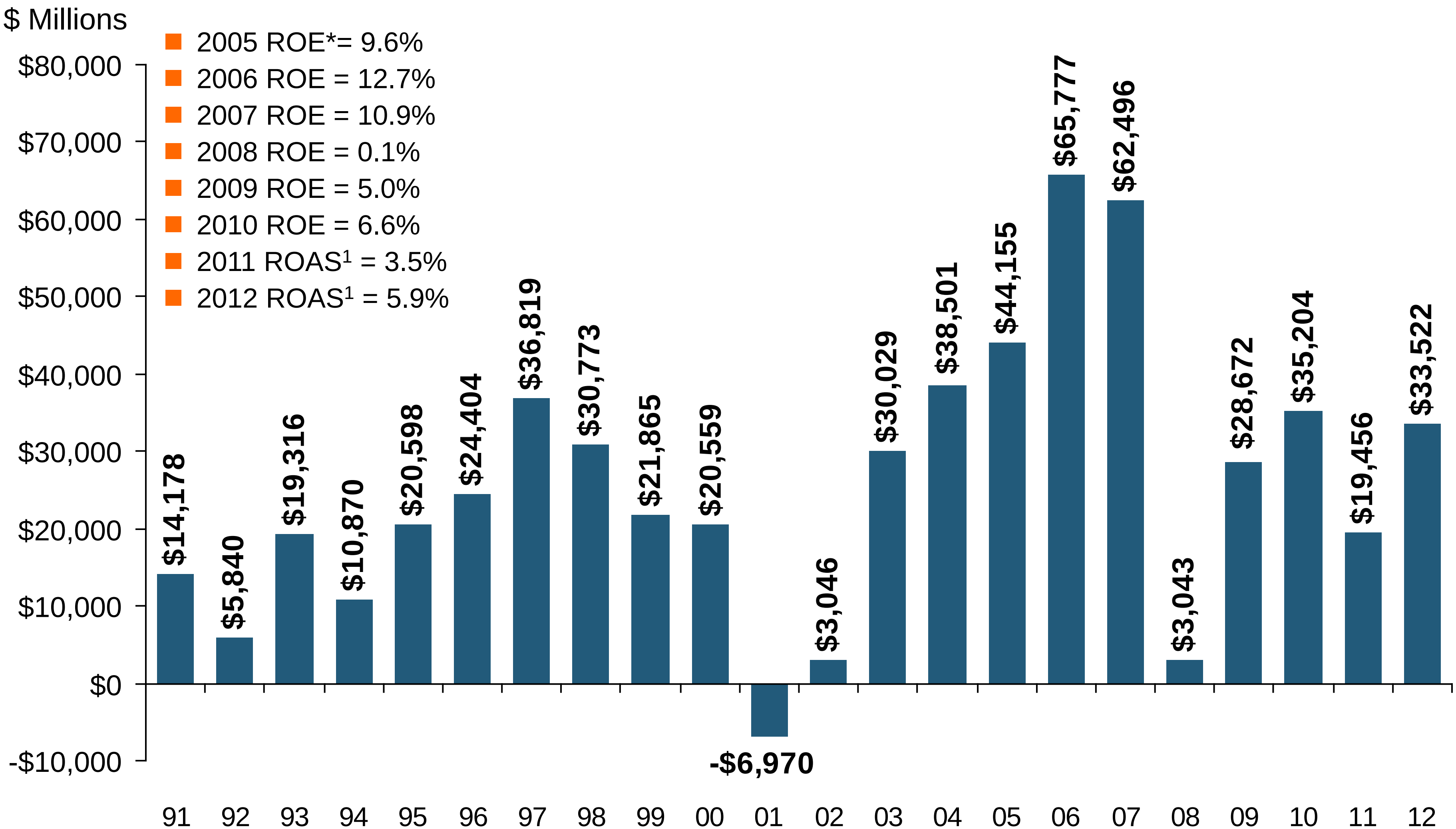
Sources: A.M. Best; ISO; Insurance Information Institute.

P/C Insurance Industry Combined Ratio, 2001–2012



* Excludes Mortgage & Financial Guaranty insurers 2008--2012. Including M&FG, 2008=105.1, 2009=100.7, 2010=102.4, 2011=108.2; 2012=103.2.
Sources: A.M. Best; ISO.

P/C Net Income After Taxes 1991–2012



* ROE figures are GAAP; [1]Return on avg. surplus. Excluding Mortgage & Financial Guaranty insurers yields a 6.2% ROAS for 2012:H1, 4.6% ROAS for 2011, 7.6% for 2010 and 7.4% for 2009.

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

Profitability (ROE) Peaks & Troughs, P/C Insurance Industry, 1975 – 2012

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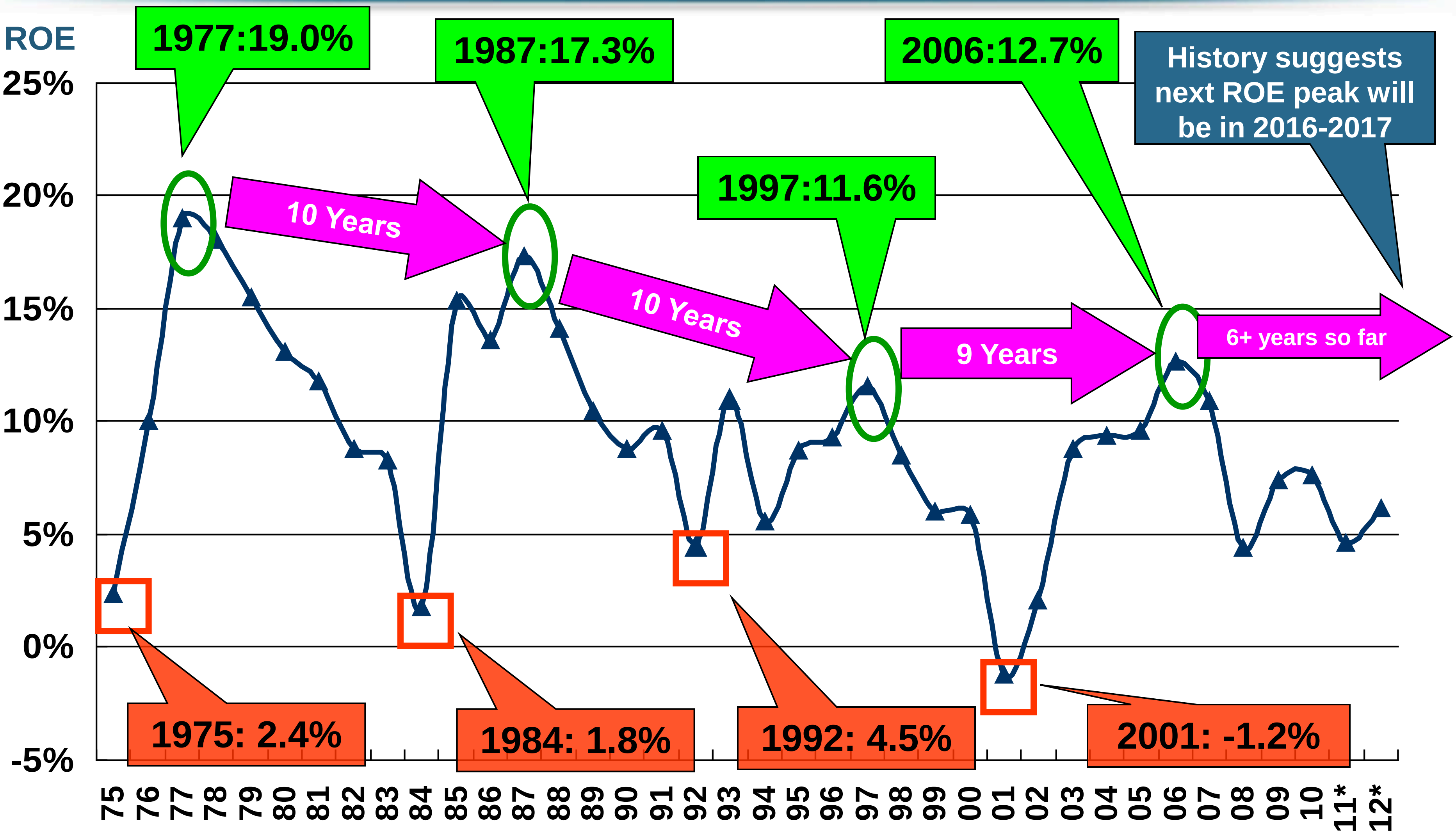
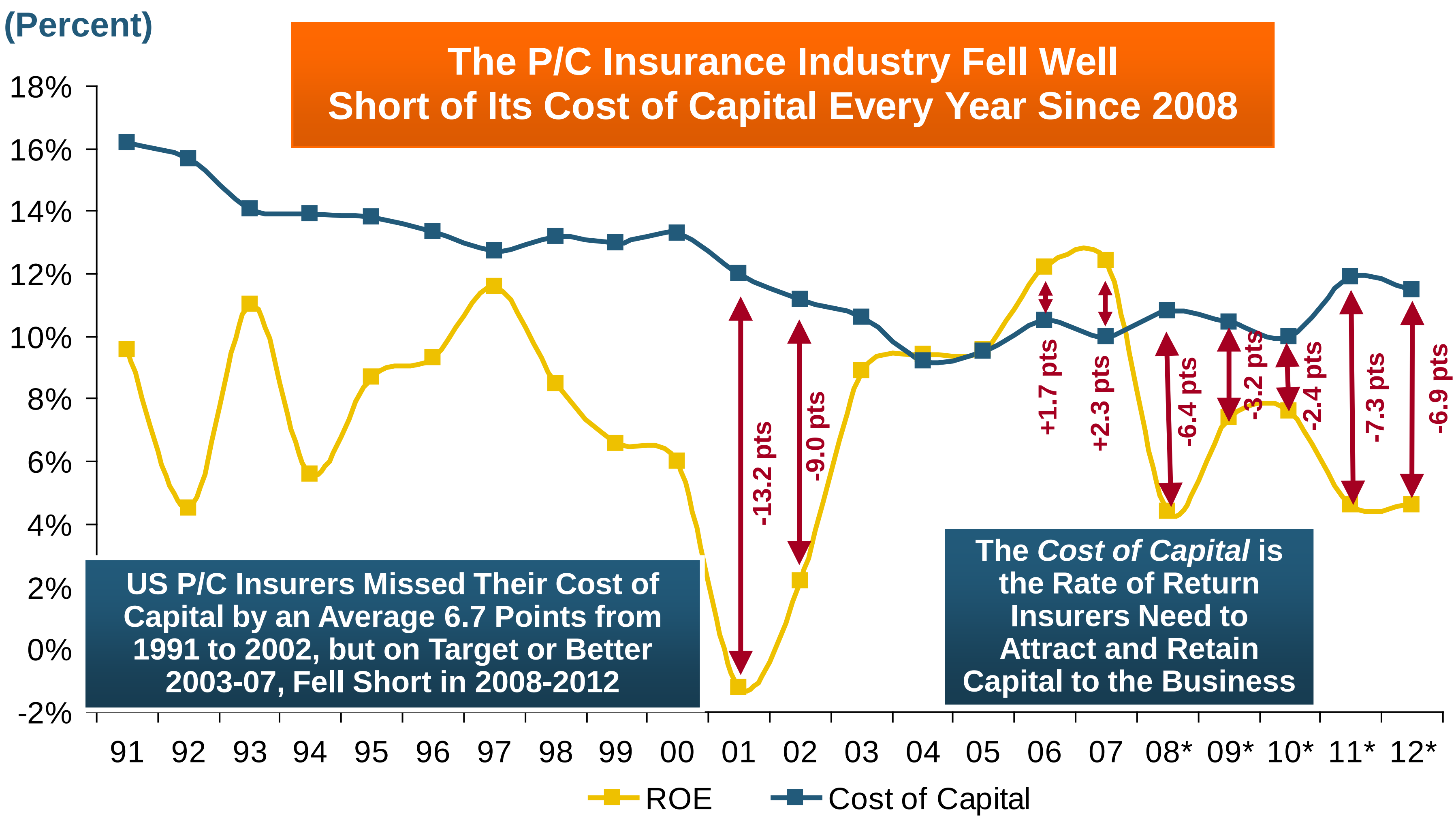


*Profitability = P/C insurer ROEs. 2012 is an estimate based on ROAS data. Note: Data for 2008-2012 exclude mortgage and financial guaranty insurers. 2012 ROAS = 5.9% including M&FG.

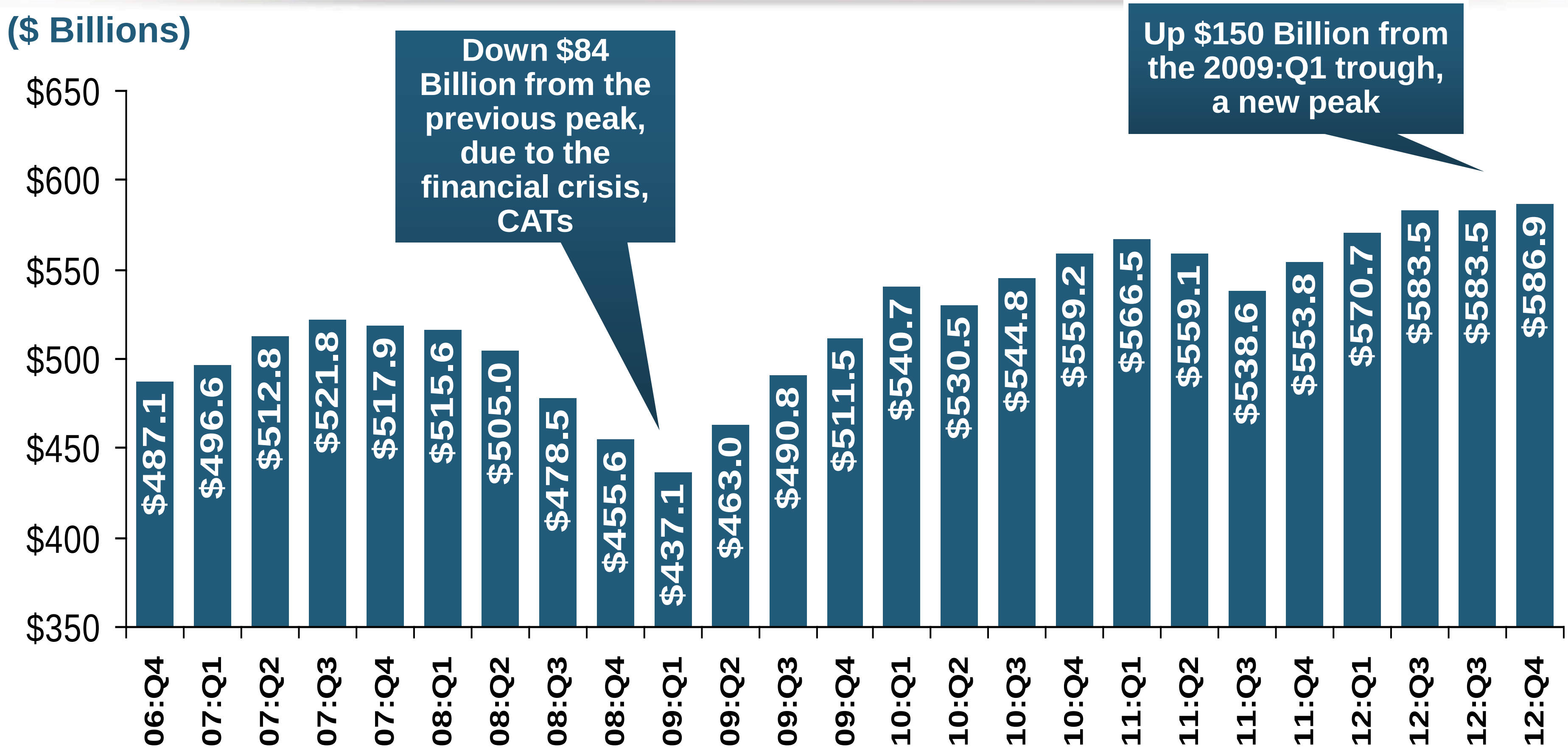
Sources: Insurance Information Institute; NAIC; ISO; A.M. Best.

ROE vs. Equity Cost of Capital: U.S. P/C Insurance:1991-2012*



* Return on average surplus in 2008-2012 excluding mortgage and financial guaranty insurers. 2012 figures are III estimates.
Source: The Geneva Association, Insurance Information Institute

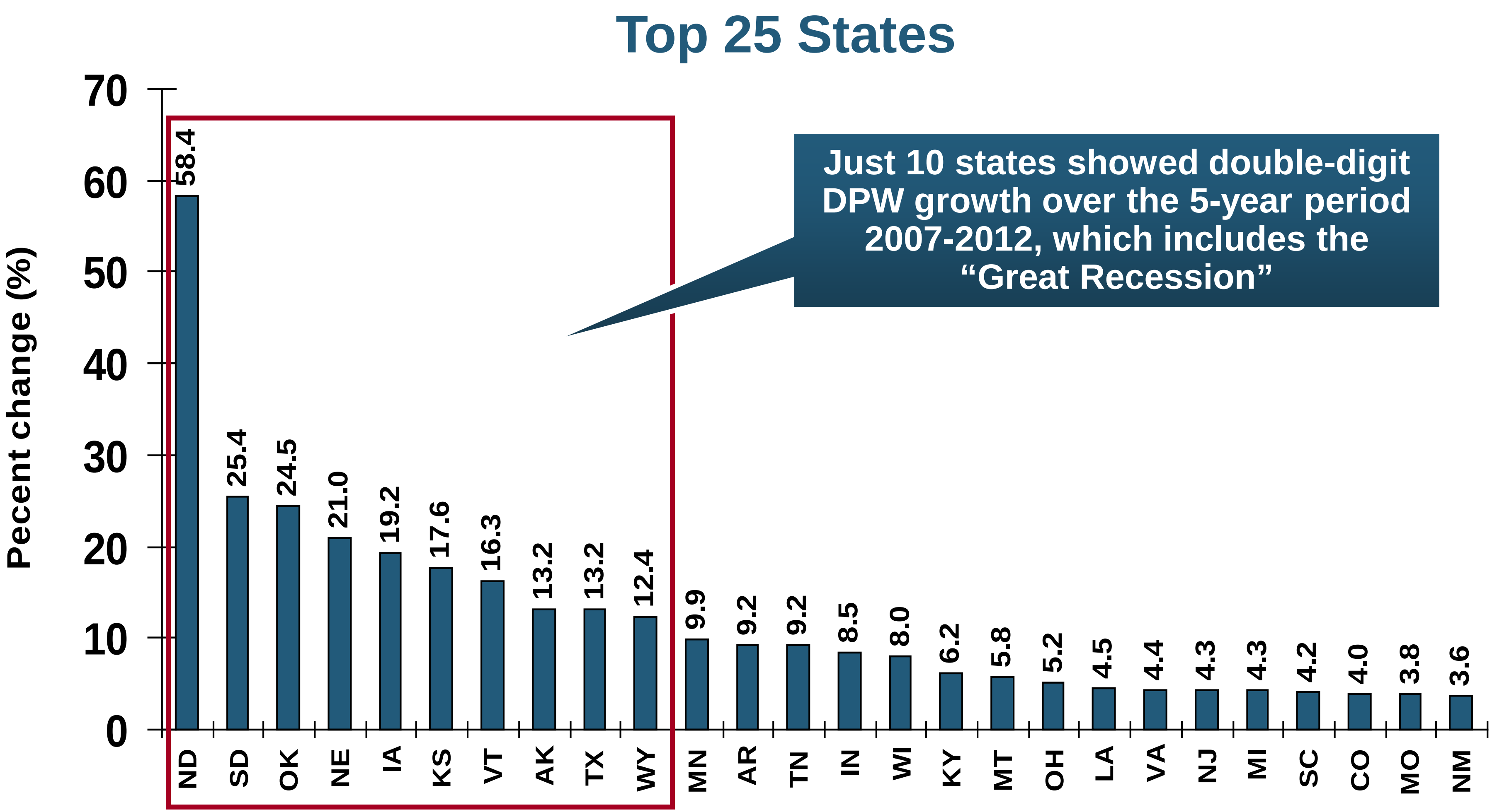
Policyholder Surplus, Quarterly, 2006:Q4–2012:Q4



The industry now (at year-end 2012) has $1 of surplus for every $0.78 of NPW, the strongest claims-paying status in its history.

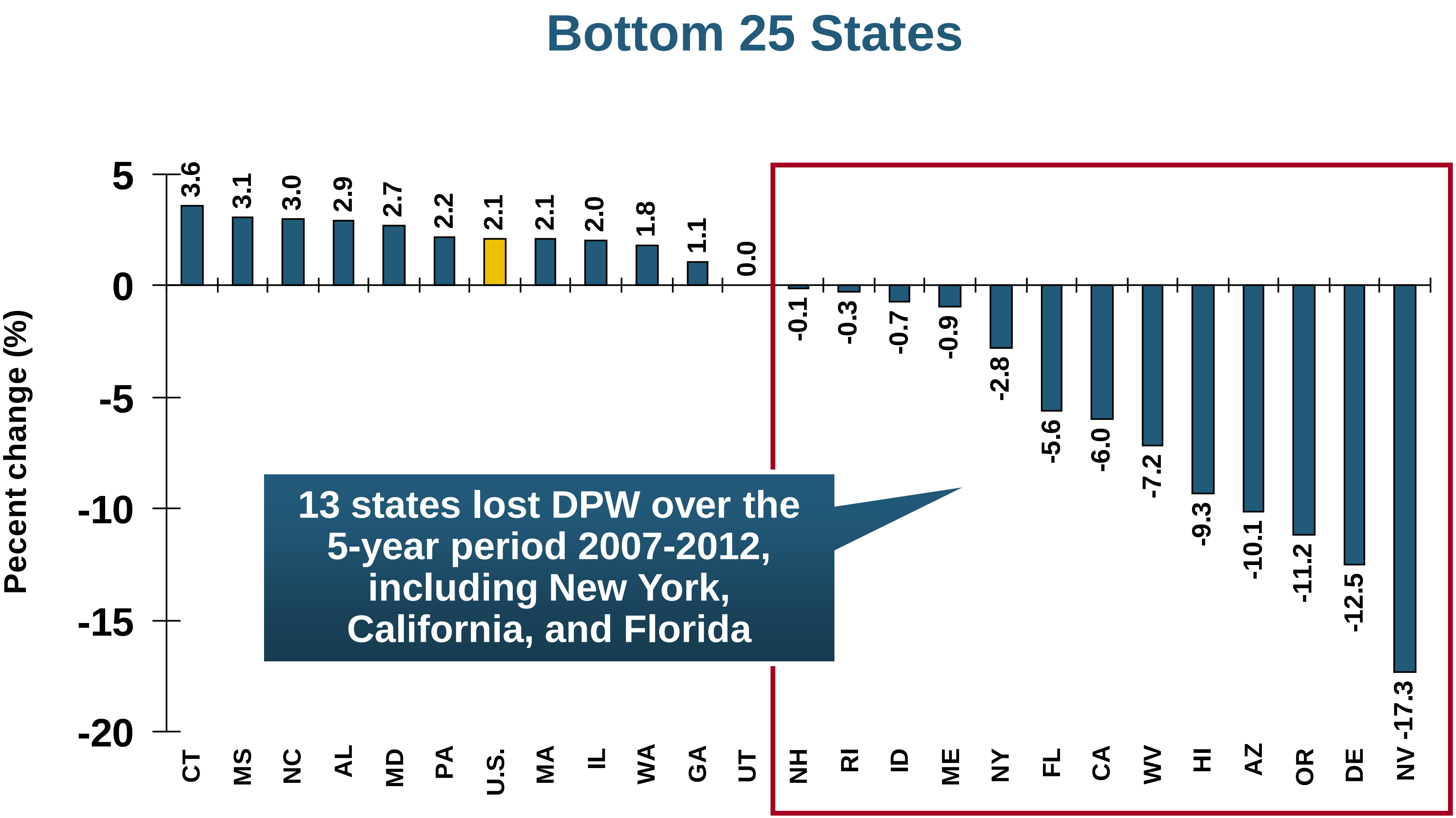
Sources: ISO; A.M .Best.

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



Sources: SNL Financial LC.; Insurance Information Institute.

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



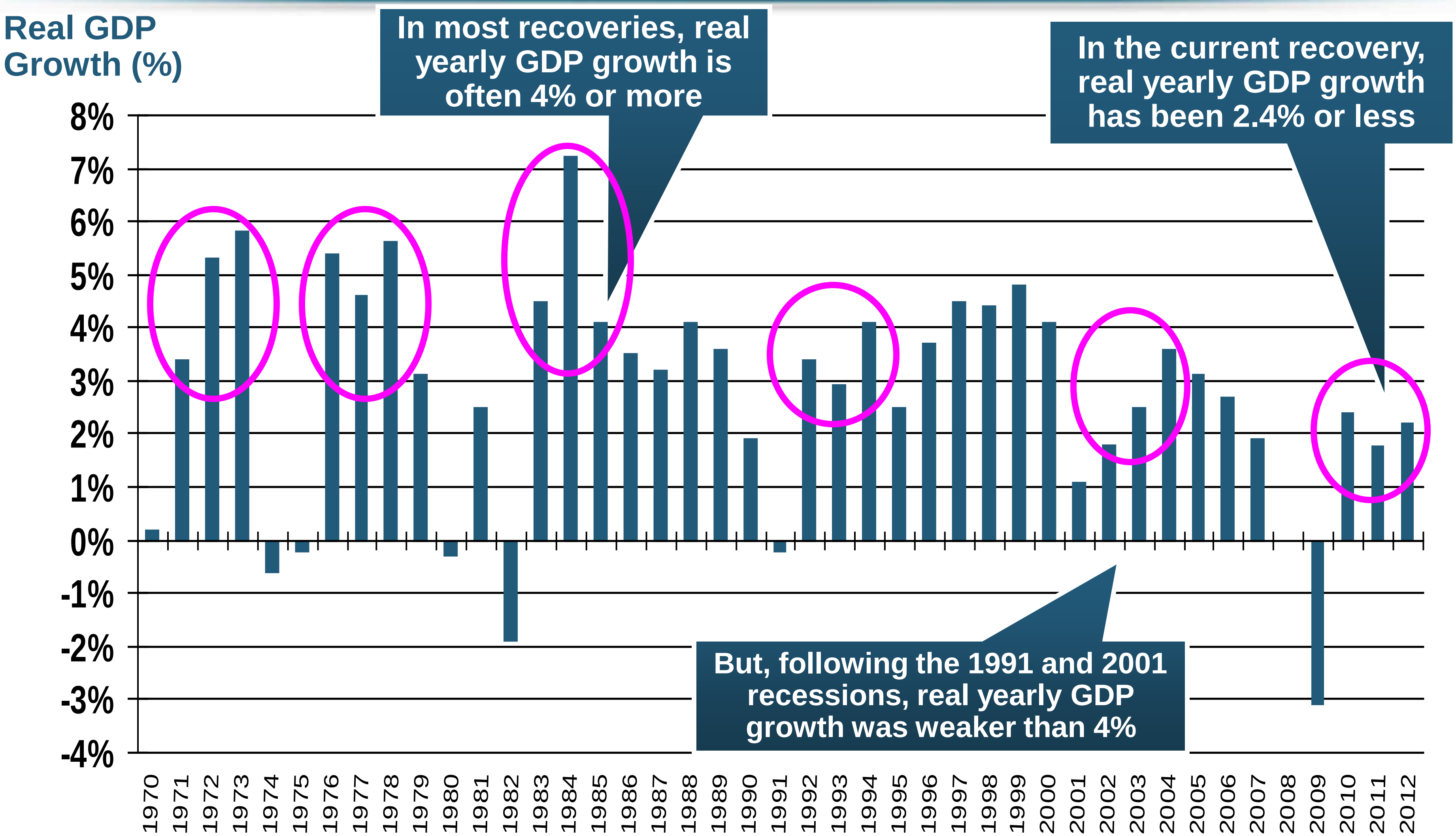
Sources: SNL Financial LC.; Insurance Information Institute.

Five Trends & Challenges Affecting the P/C Industry

1. Slow/Uncertain Exposure Growth
2. Growing Impact of CATs
3. Low Investment Income
4. Highly Variable Claims Drivers
5. Challenging Regulatory Environment

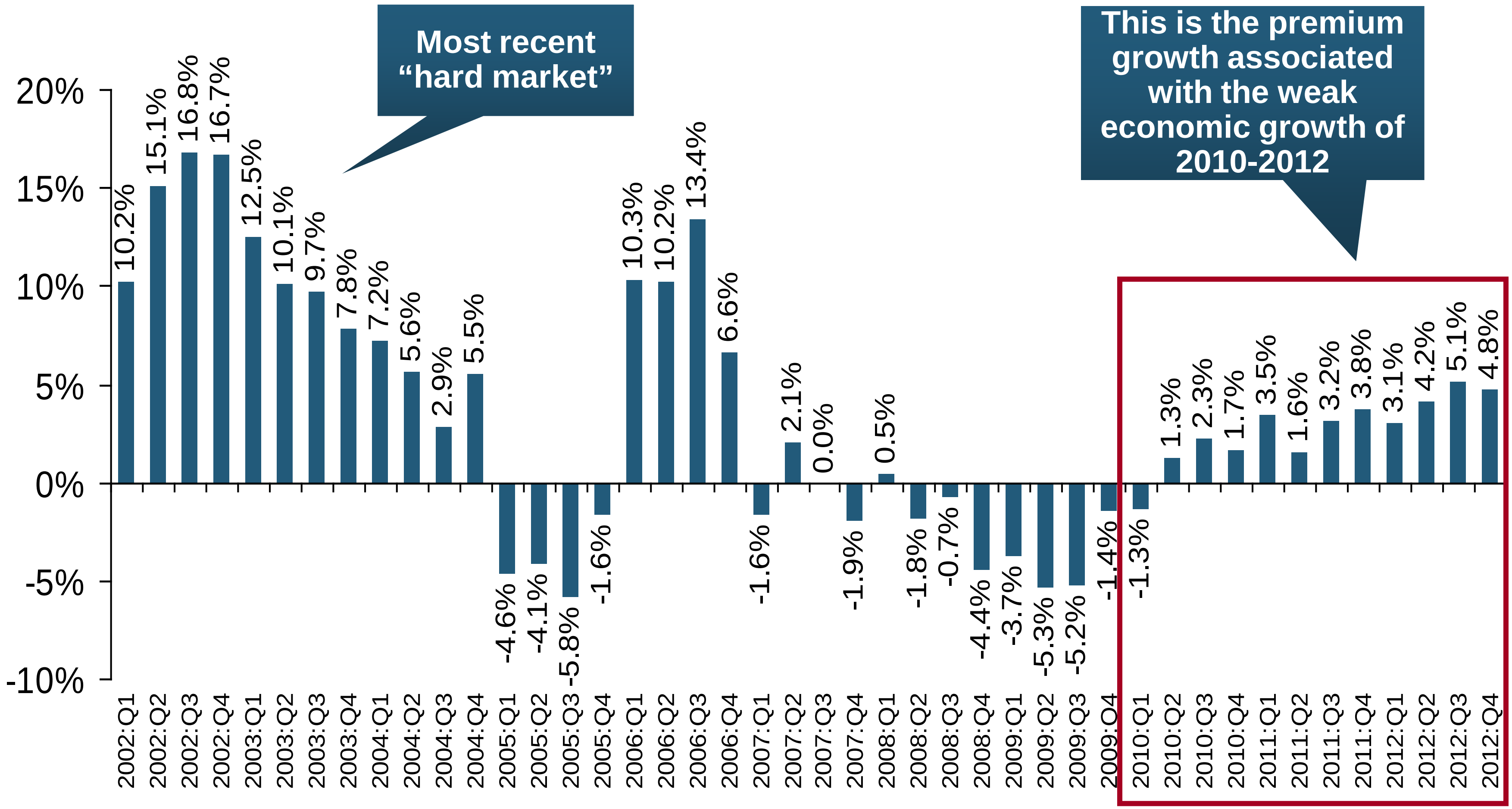
Challenge #1: Slow/Variable Exposure Growth

Real GDP Growth: Past Recessions and Recoveries, Yearly, 1970-2012



Source: (GDP) U.S. Department of Commerce at http://www.bea.gov/national/xls/gdpchg.xls.

P/C Net Premiums Written: % Change, Quarter vs. Year-Prior Quarter, 2002–2012



Finally! A sustained period (11 quarters) of growth in net premiums written (vs. same quarter, prior year), and strengthening.

Sources: ISO; Insurance Information Institute.

May 2013 Forecasts of Quarterly US Real GDP for 2013-14

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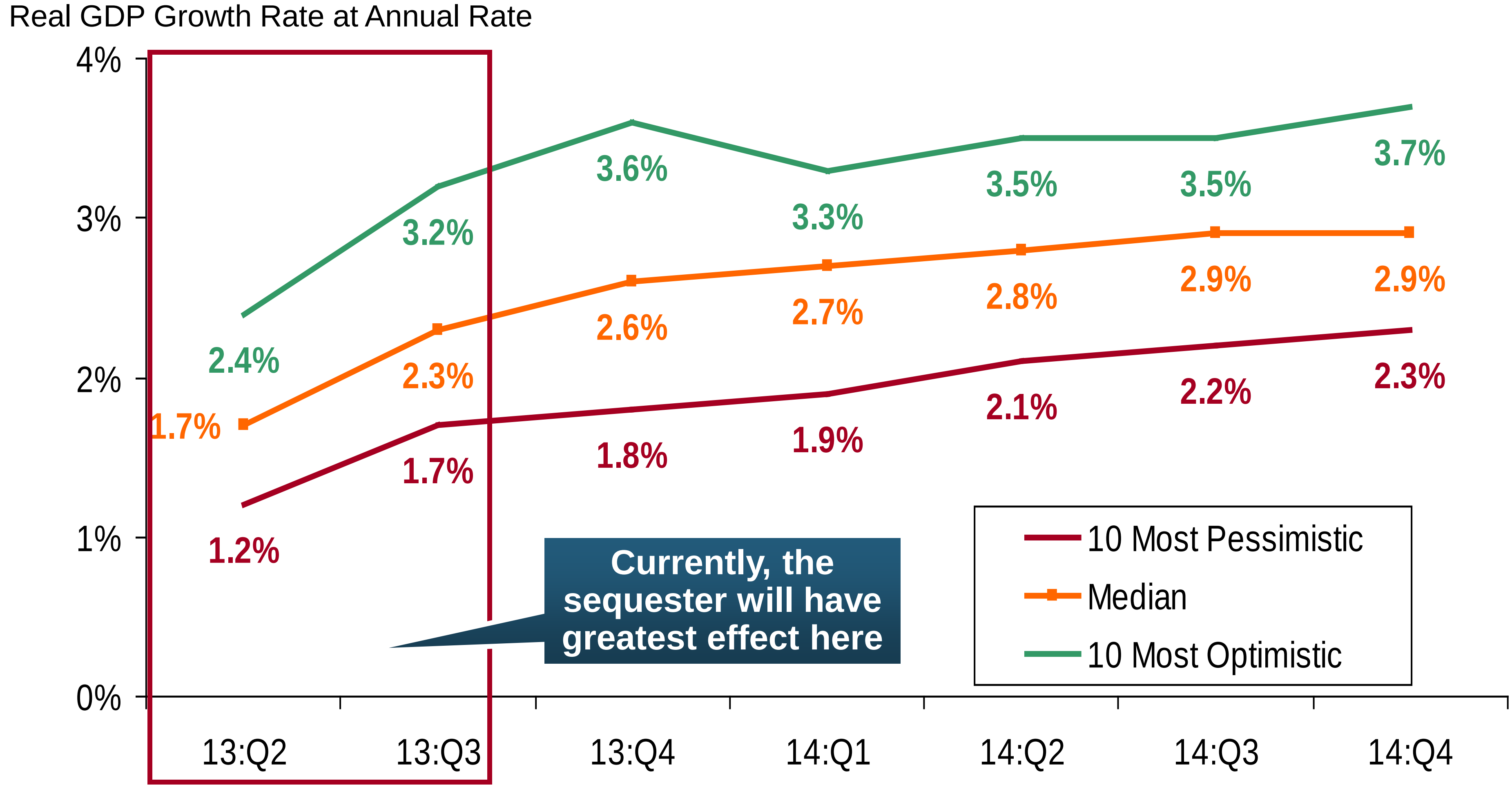
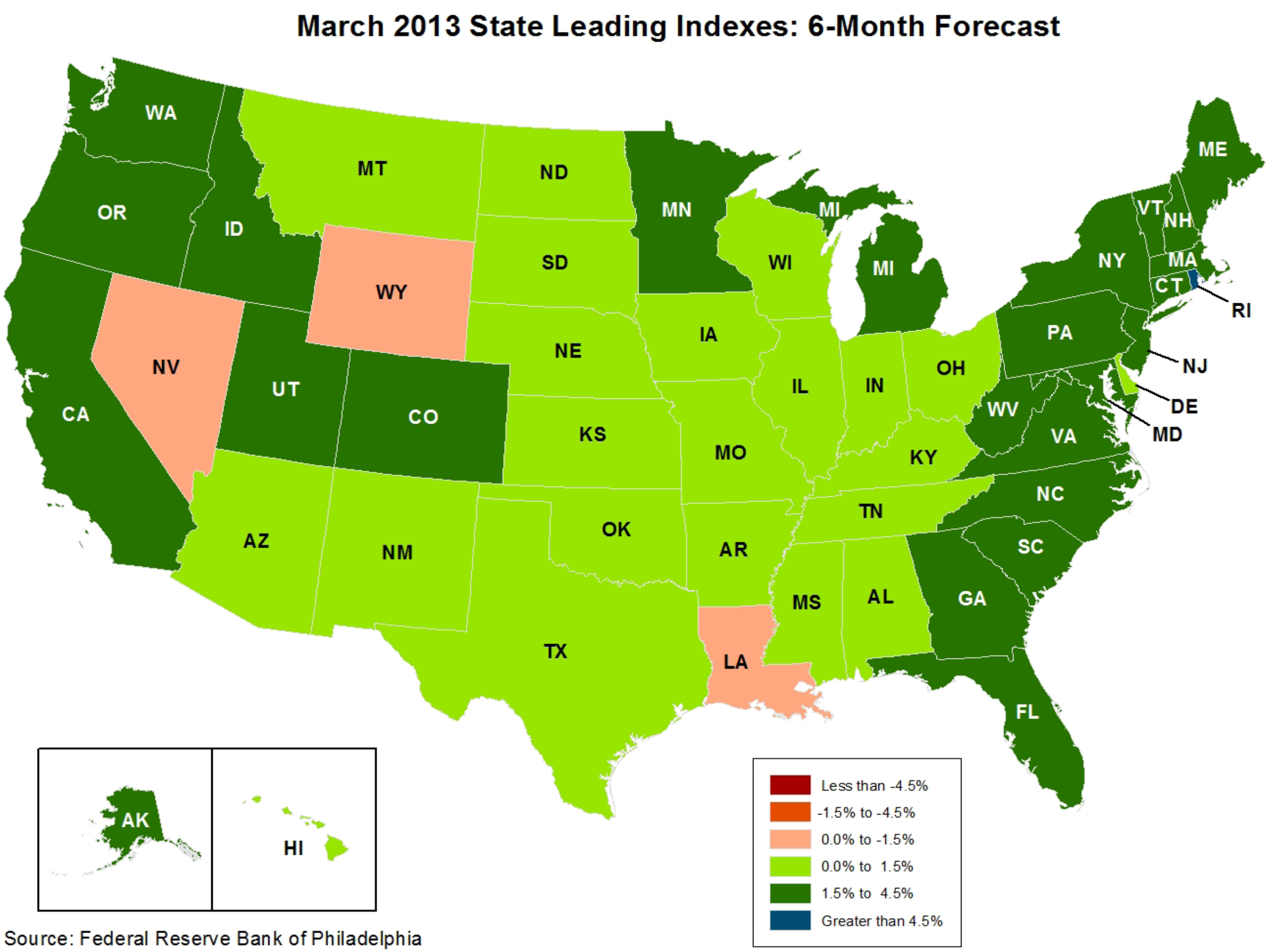


Despite the sequester and other challenges to the U.S. economy, virtually every forecast in the Blue Chip universe in early April sees improvement ahead

Sources: Blue Chip Economic Indicators (5/13); Insurance Information Institute

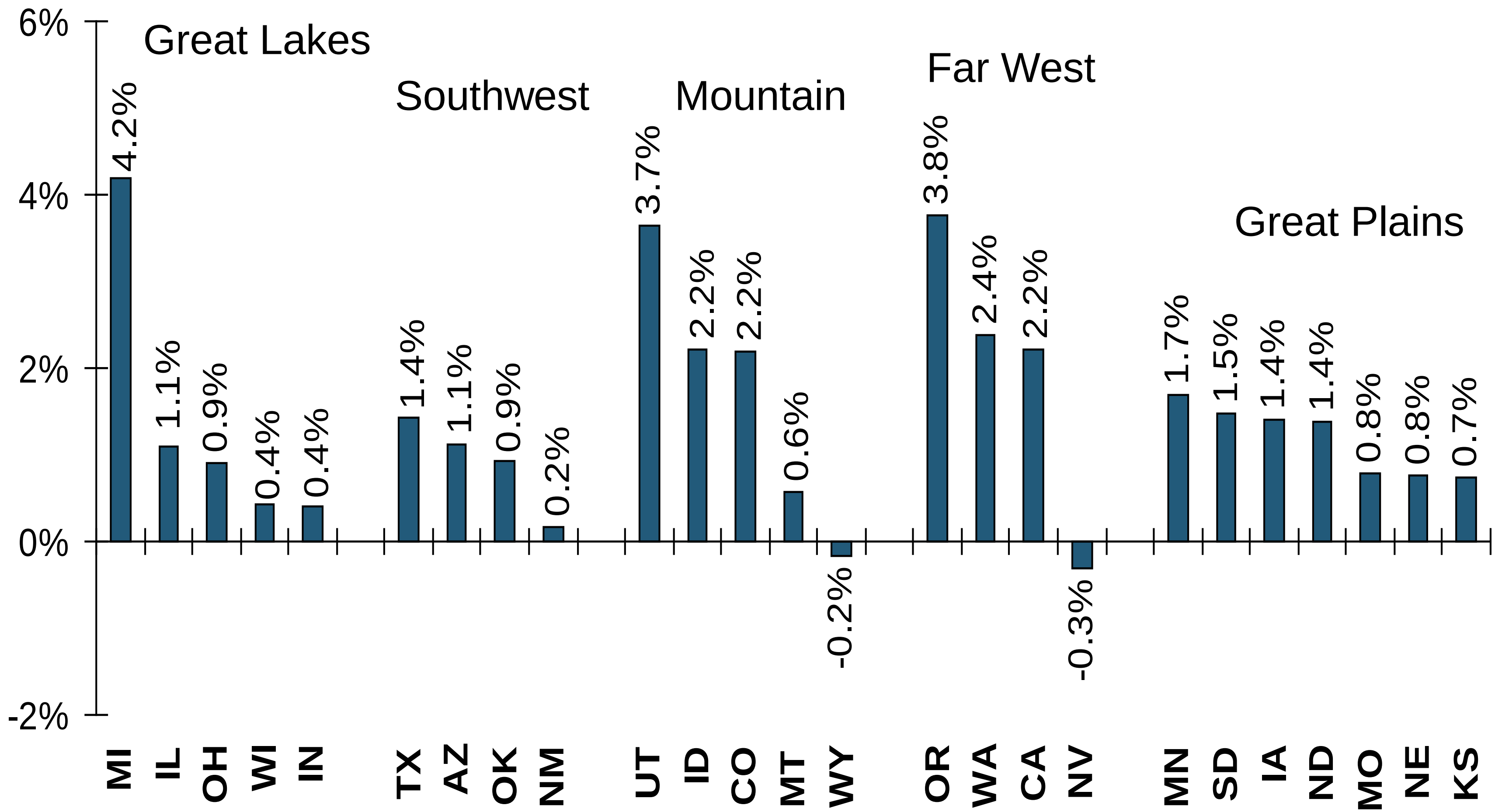
State-by-State Leading Indicators, 2013:Q2-Q3



Near-term growth forecasts vary widely by state. Strongest growth = dark green; weakest = beige

Sources: Federal Reserve Bank of Philadelphia at www.philadelphiafed.org/index.cfm; Insurance Information Institute.
Next release is May 28, 2013

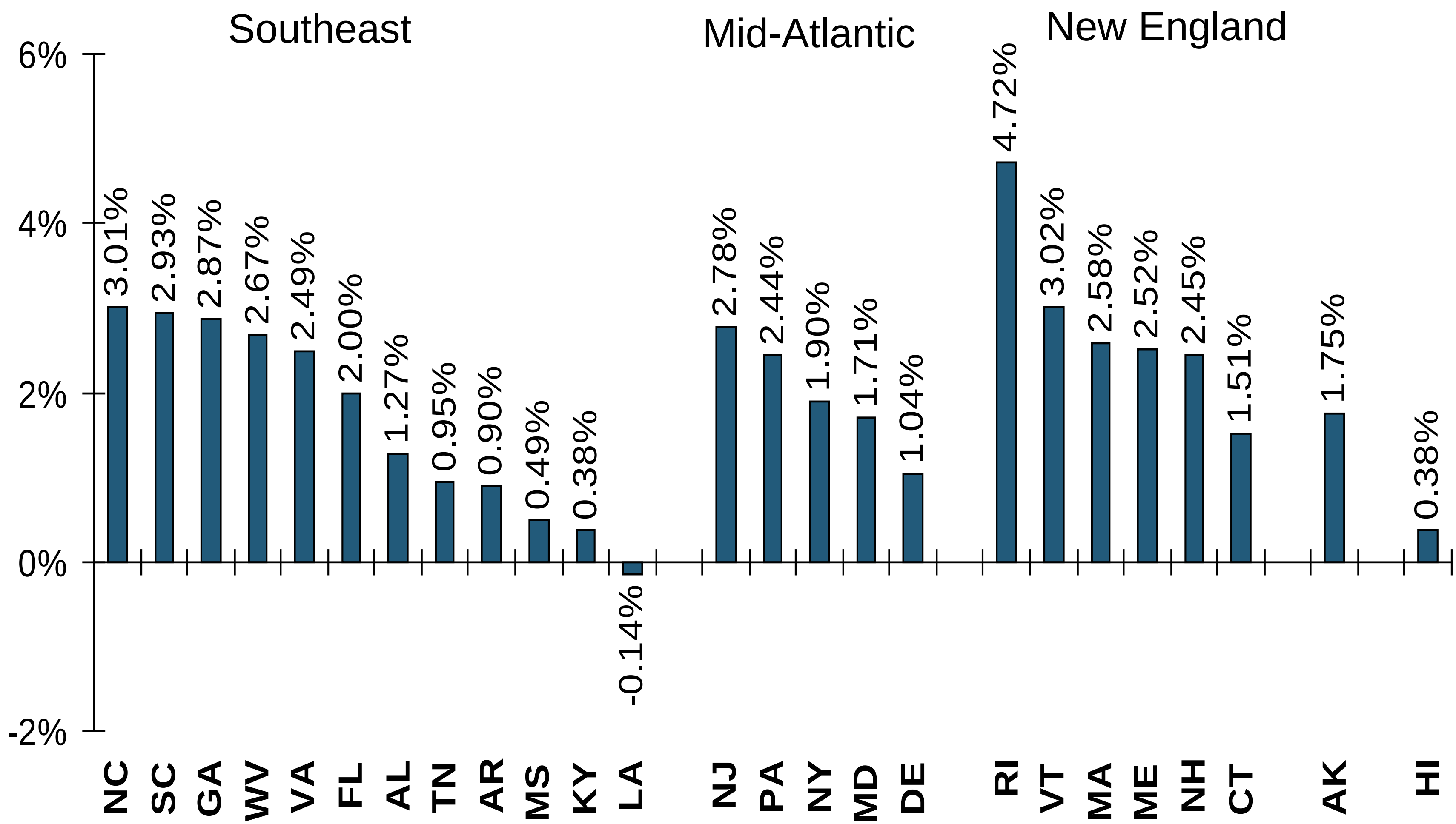
Leading Indicator Indexes Vary Widely by State and Region



Data from March 2013

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

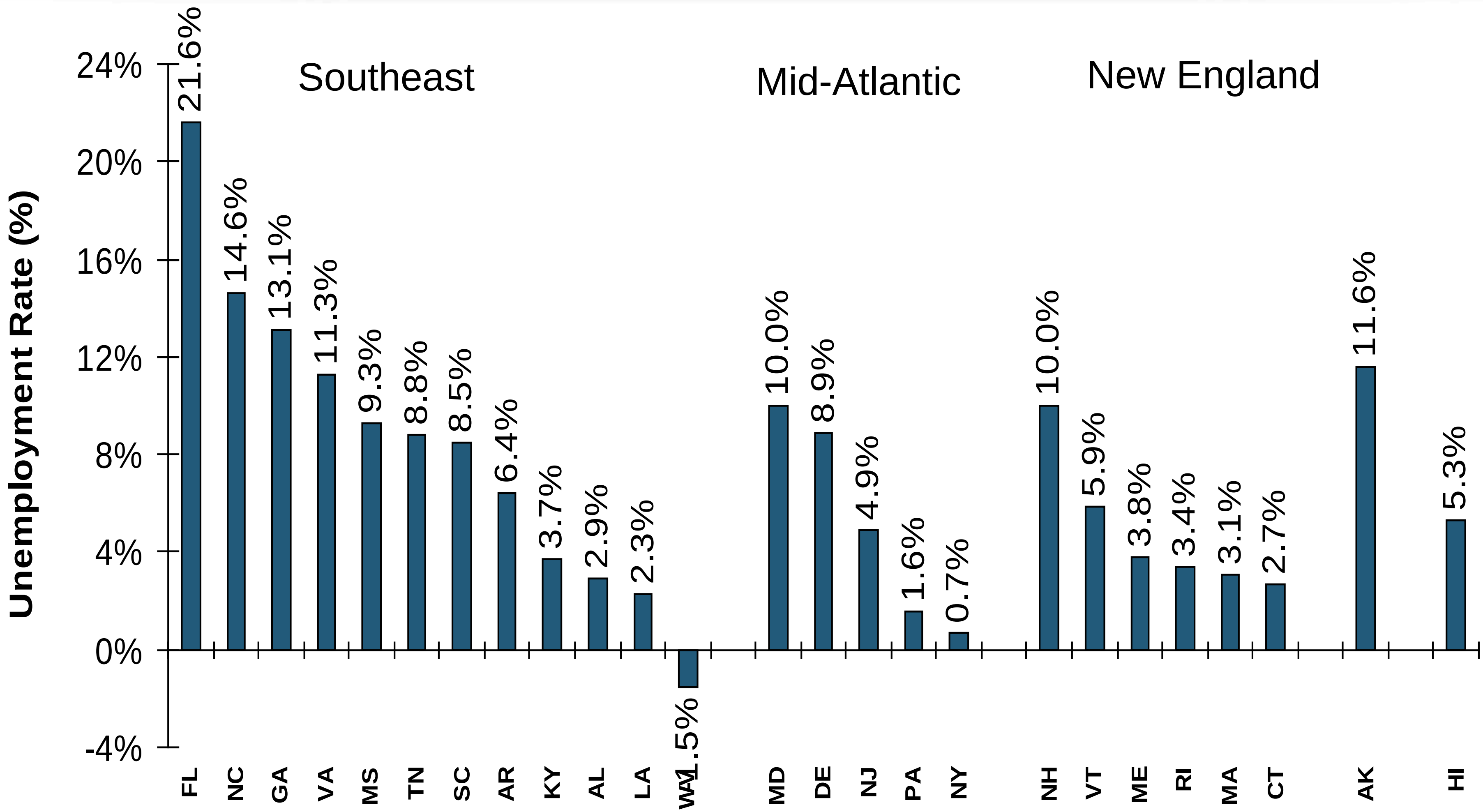
Leading Indicator Indexes Vary Widely by State and Region



Data for March 2013

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

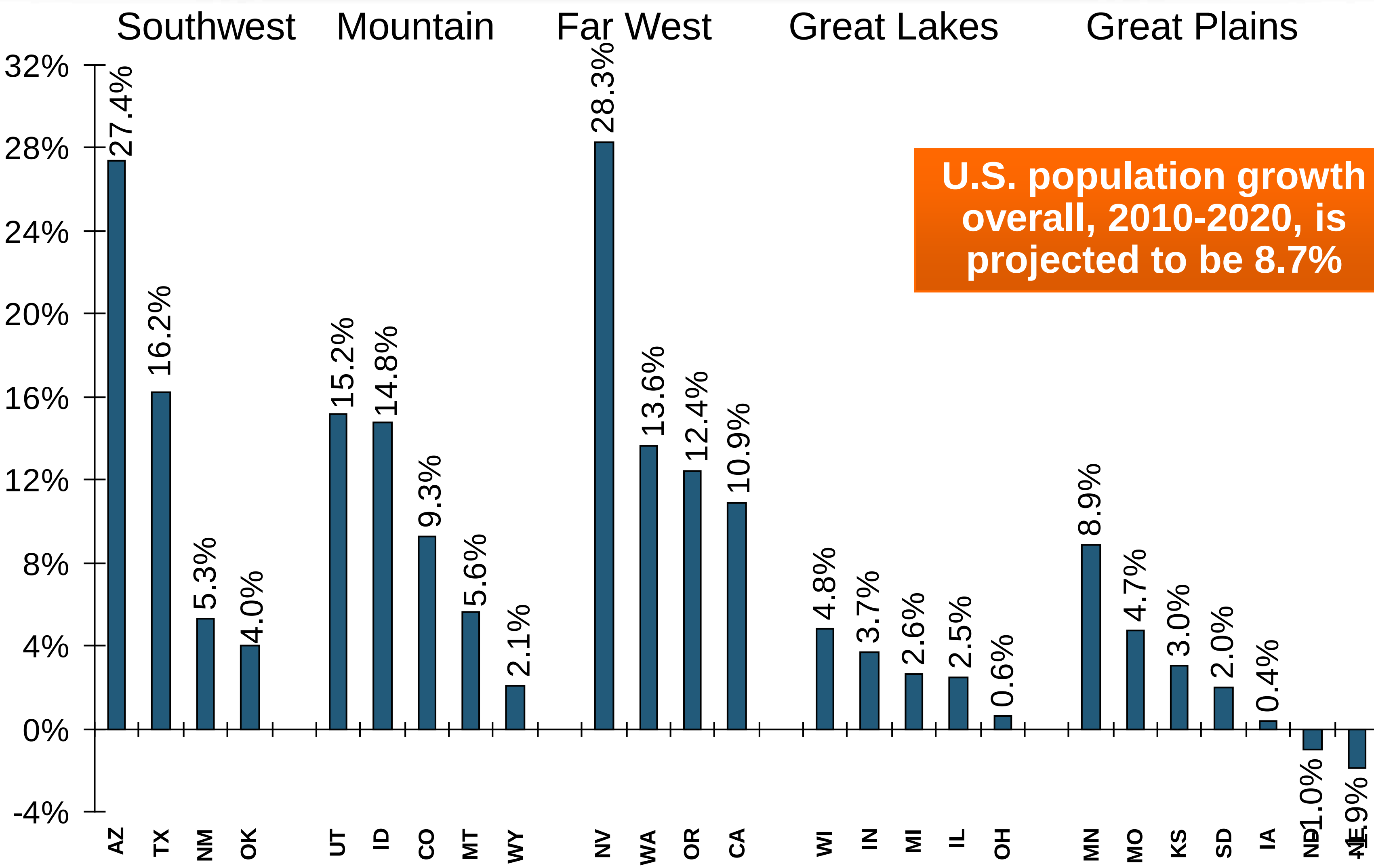
Projected Population Growth Rates (2010-2020) Vary Widely by State and Region*



U.S. population growth overall, 2010-2020, is projected to be 8.7%

*based on 2000 census.
Source: http://www.census.gov/population/projections/data/state/projectionsagesex.html (Table 7)

Projected Population Growth Rates (2010-2020) Vary Widely by State and Region* (cont'd)



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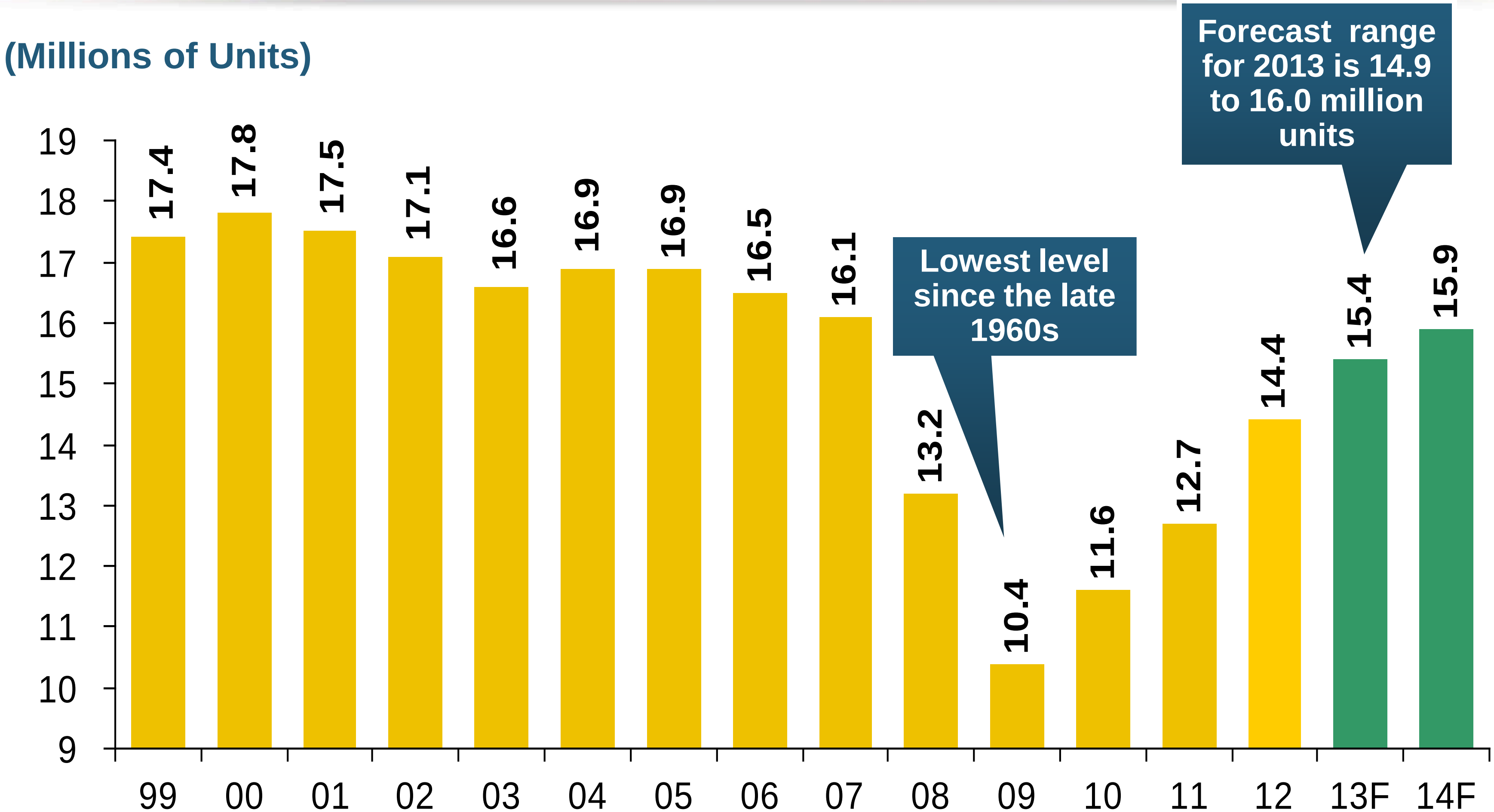
Source: http://www.census.gov/population/projections/data/state/projectionsagesex.html (Table 7)

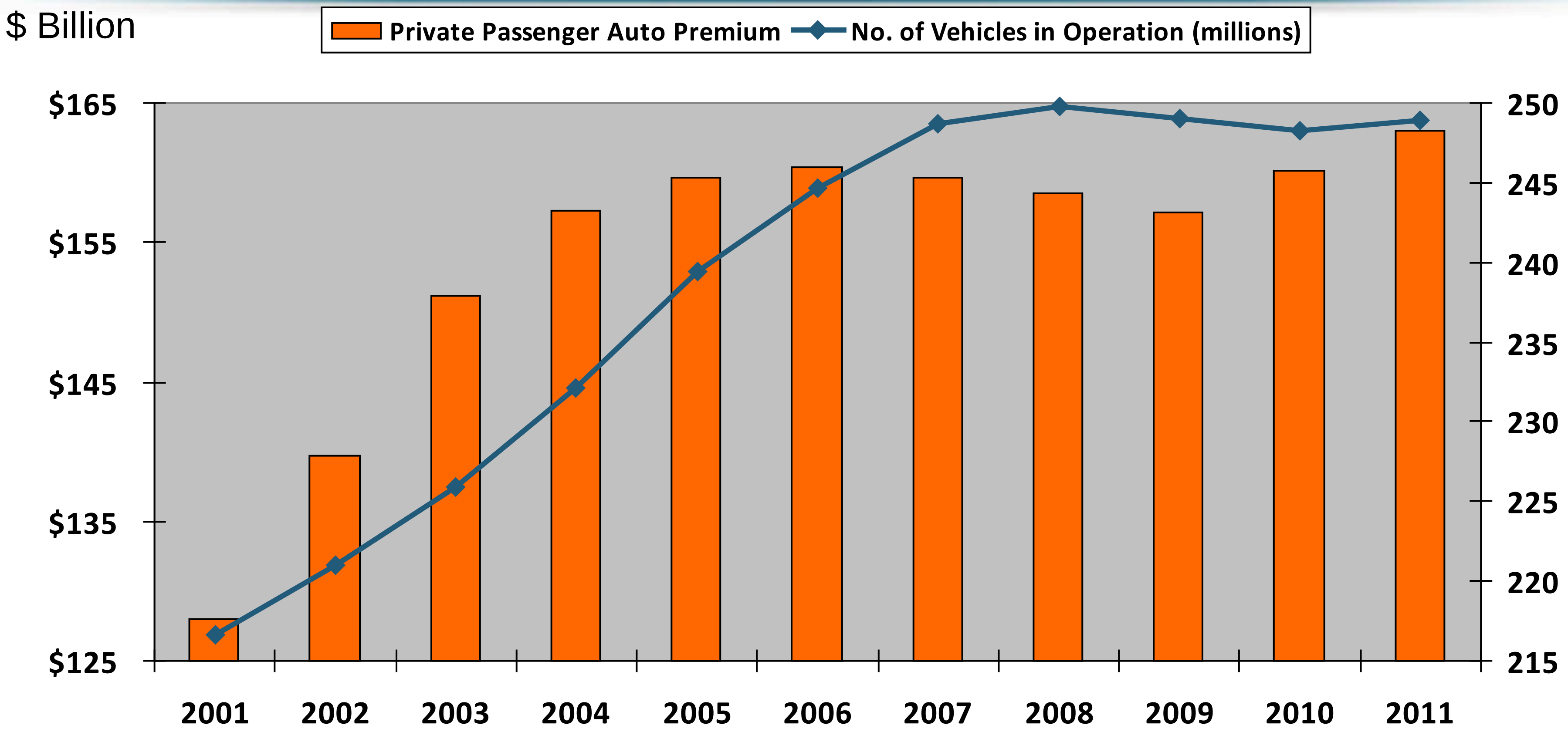
Auto/Light Truck Sales, 1999-2014F



Job growth and improved credit market conditions will boost auto sales in 2013 and beyond, bolstering the manufacturing sector and the economy generally.

Sources: U.S. Department of Commerce; Blue Chip Economic Indicators (5/13); Insurance Information Institute.

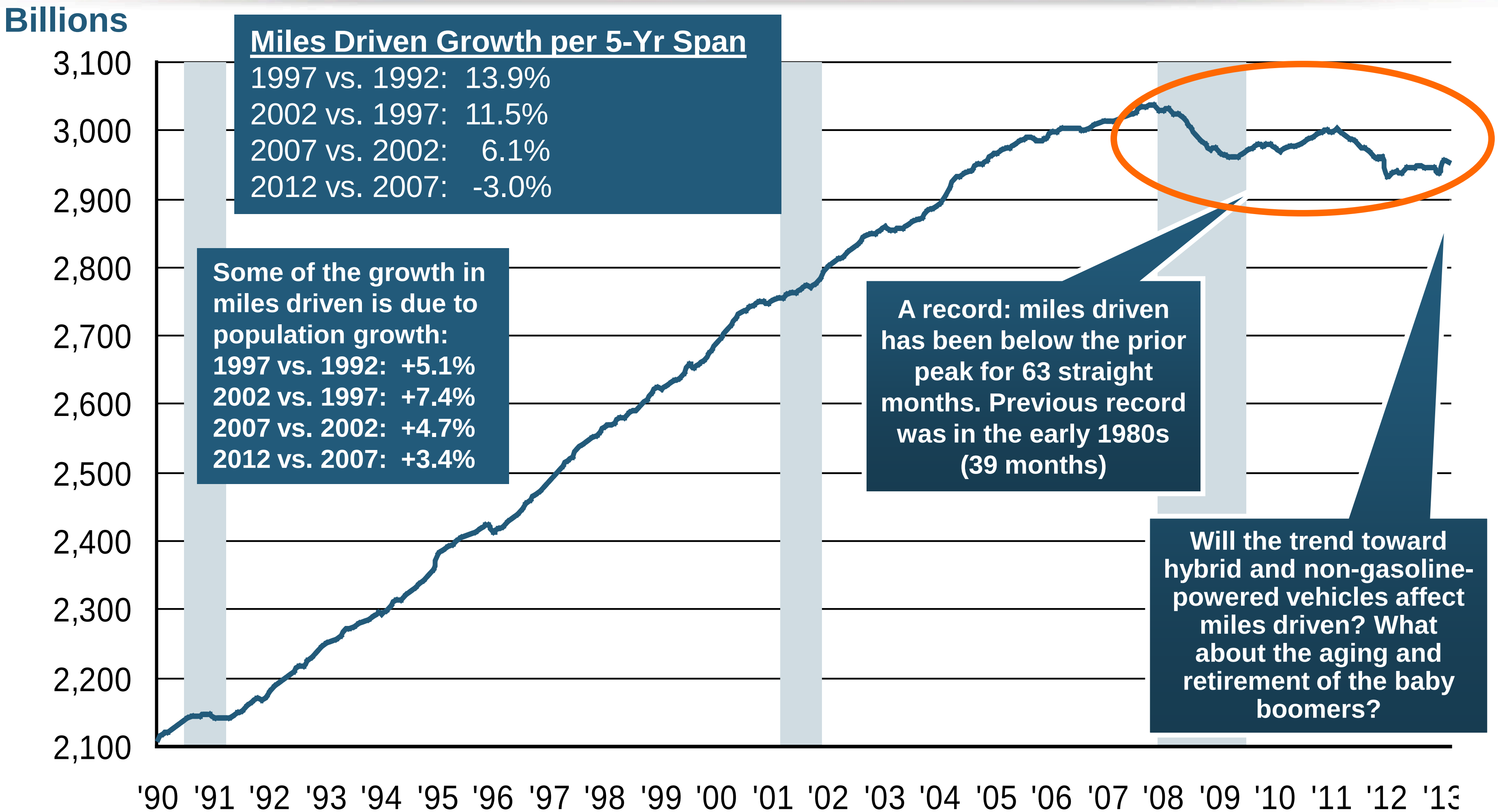
PP Auto NWP vs. # of Vehicles in Operation, 2001–2011



PP Auto premiums written are recovering from a period of no growth attributable to the weak economy affecting new vehicle sales, car choice, and increased price sensitivity among consumers

Sources: A.M. Best; NADA, *State of the Industry Report 2012*, p. 16, at www.nada.org/nadadata citing R. L. Polk; Insurance Information Institute.

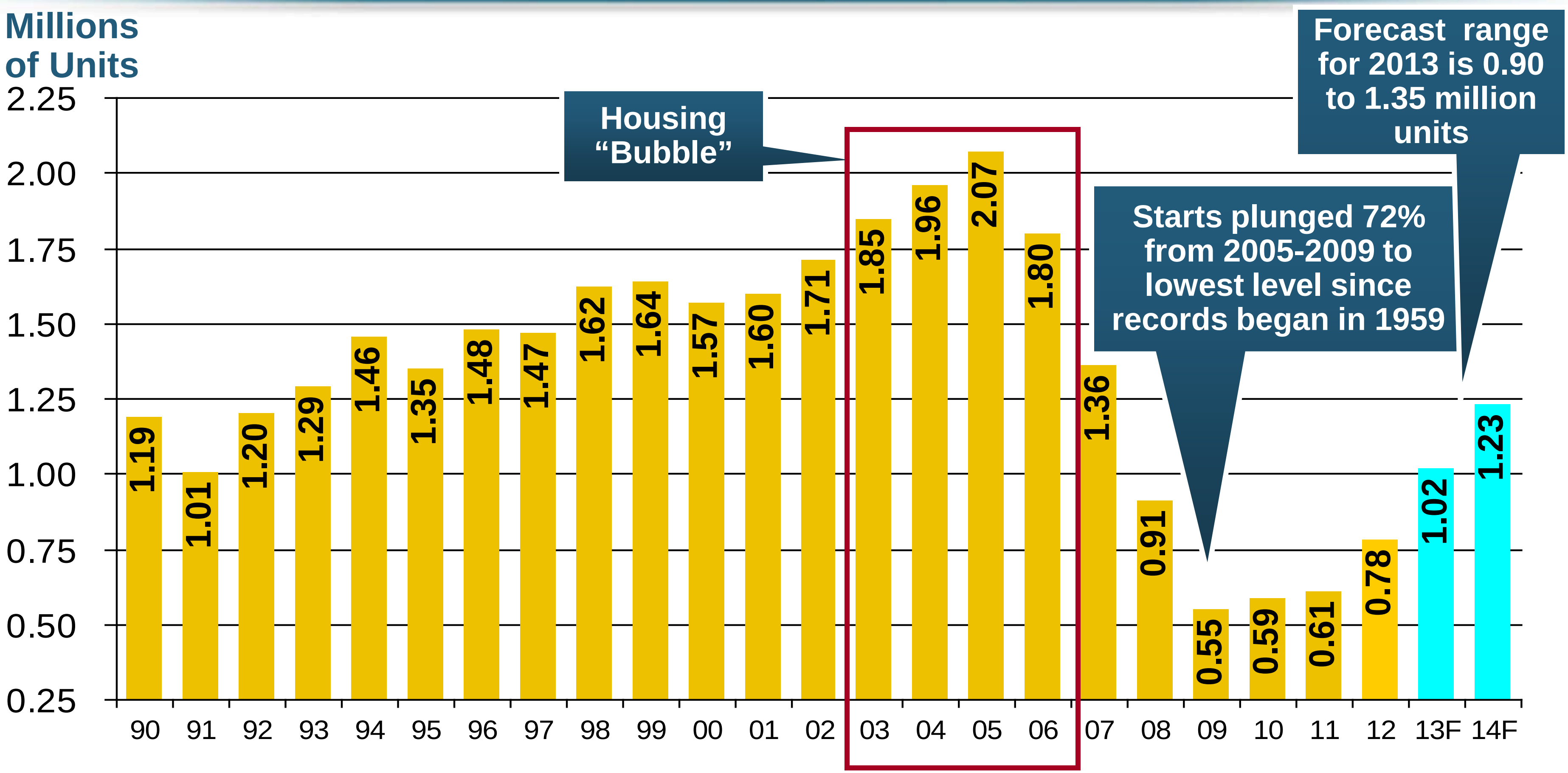
But Something Unusual is Happening: Miles Driven*, 1990–2013



*Moving 12-month total. The latest data is for February 2013. Note: Recessions indicated by gray shaded columns..

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

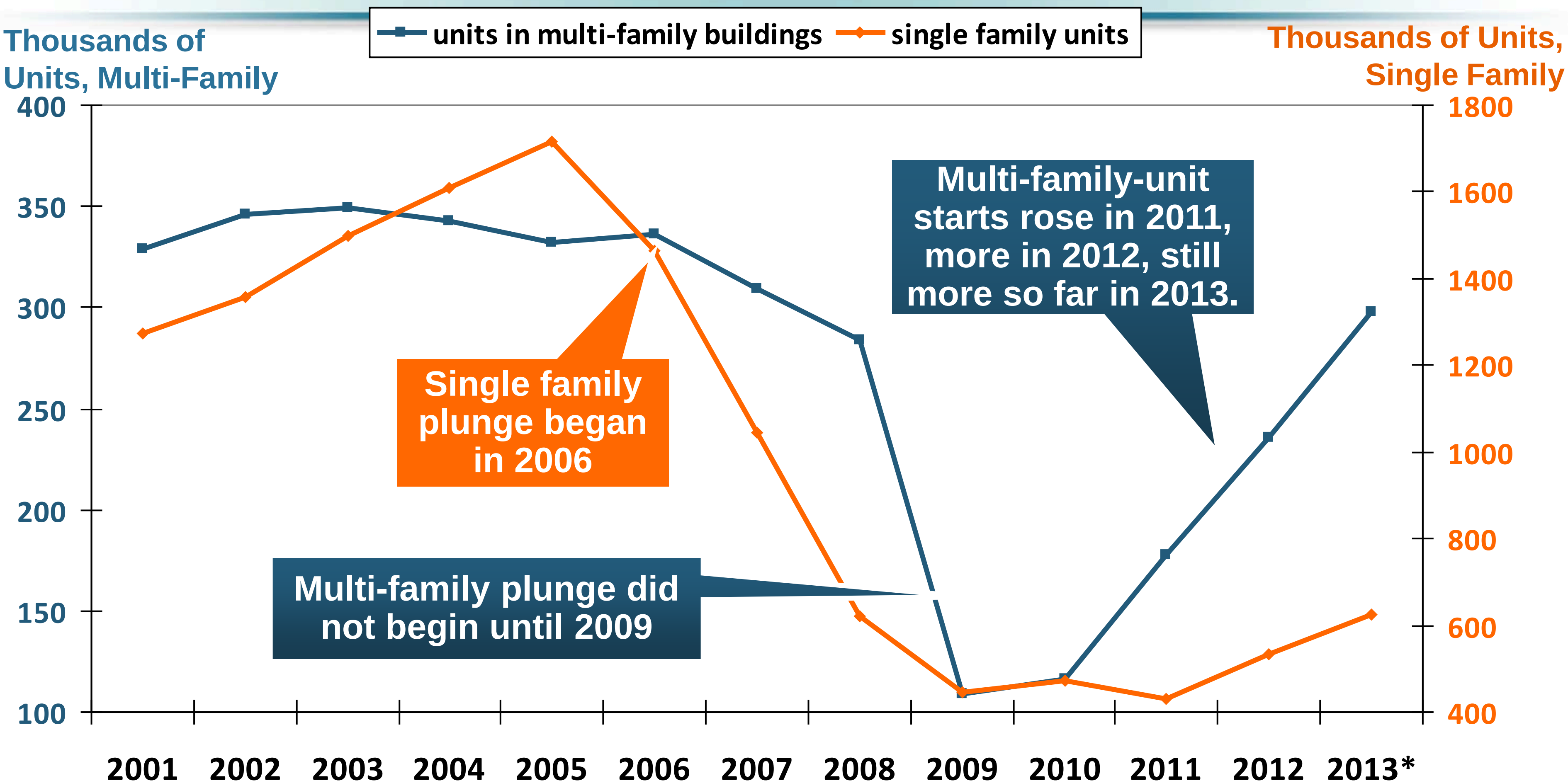
Private Housing Unit Starts, 1990-2014F



Homeowners insurers are starting to see meaningful exposure growth for the first time since 2005. Commercial insurers with construction risk exposure, surety also benefit.

Sources: U.S. Department of Commerce; Blue Chip Economic Indicators (5/13); Insurance Information Institute.

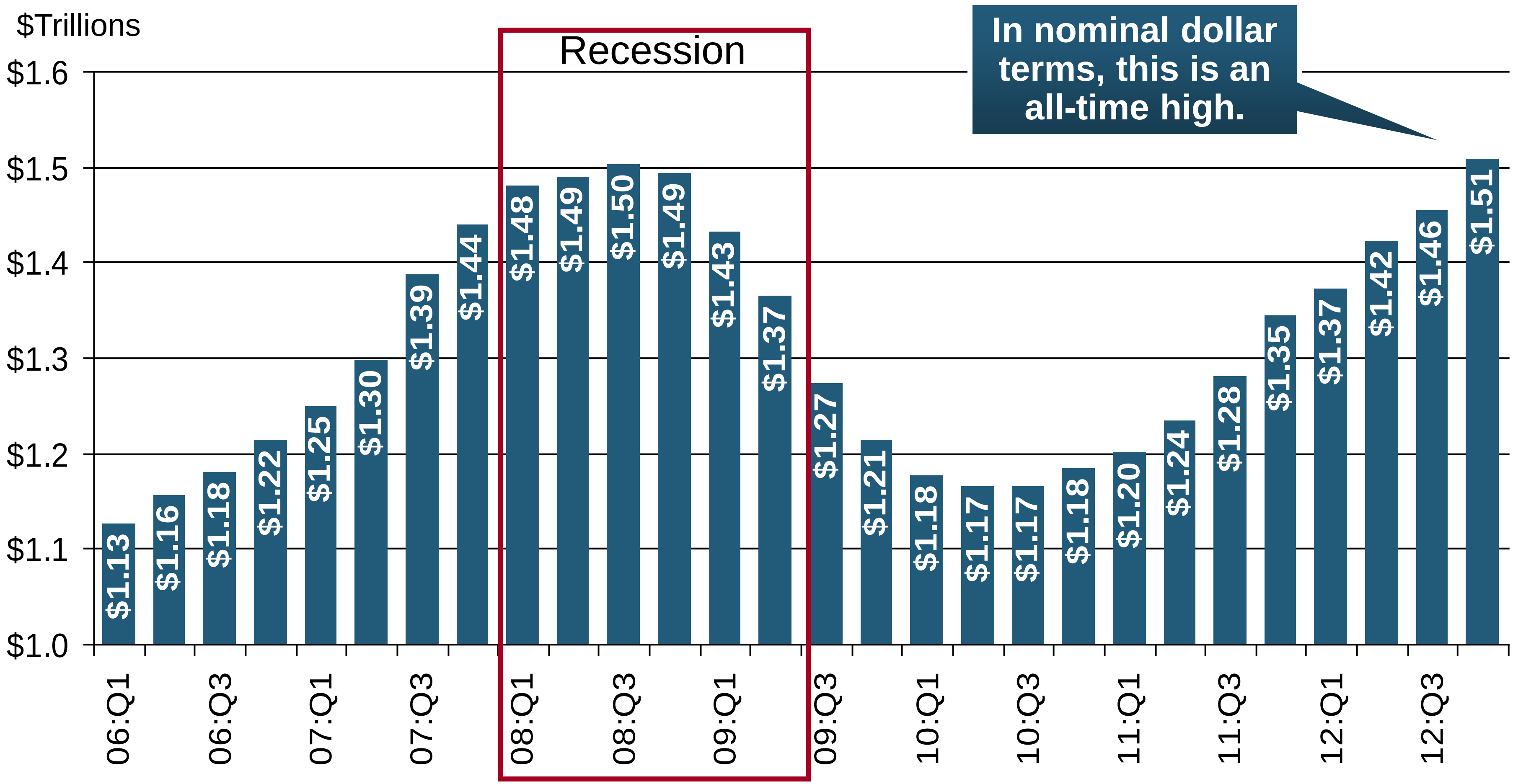
So Far, the Pickup Is Mostly in Multi-Family Housing Starts



2013:Q1 multi-unit starts at a seasonally adjusted annual rate of 325,000, are nearly back to the average annual pre-recession rate of 339,000.

*average of annualized seasonally adjusted January-April 2013 data; April is preliminary.
Source: US Census Bureau at www.census.gov/construction/nrc/pdf/newresconst.pdf.

Commercial & Industrial Loans Outstanding at FDIC-Insured Banks, Quarterly, 2006-2012*



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

*Latest data as of 2/28/2013.
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, 2006-2012*

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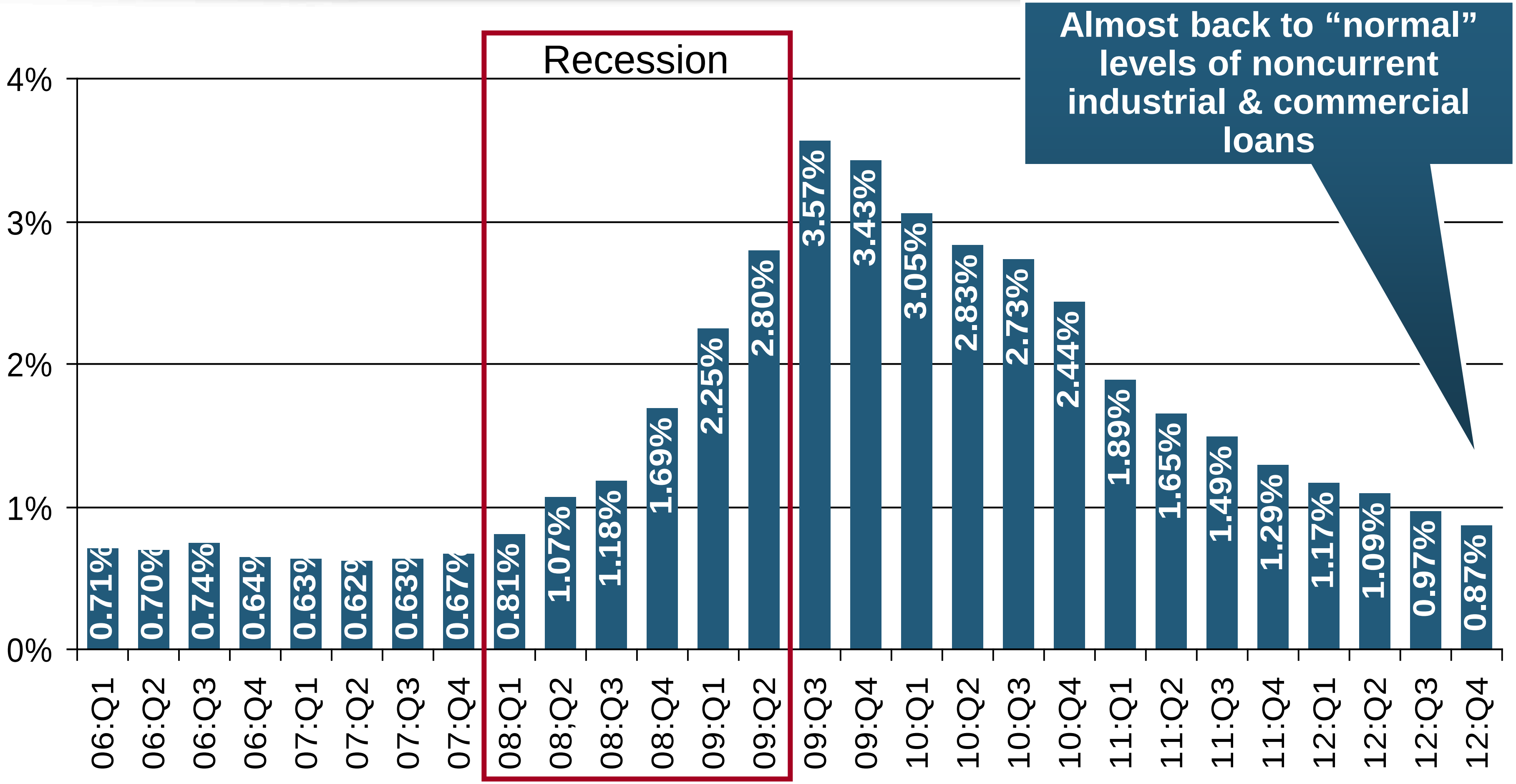

Non-current loans (those past due 90 days or more or in nonaccrual status) are back to early-recession levels, fueling bank willingness to lend.

*Latest data as of 2/28/2013.
Source: FDIC at http://www2.fdic.gov/qbp/ (Loan Performance spreadsheet); Insurance Information Institute.

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

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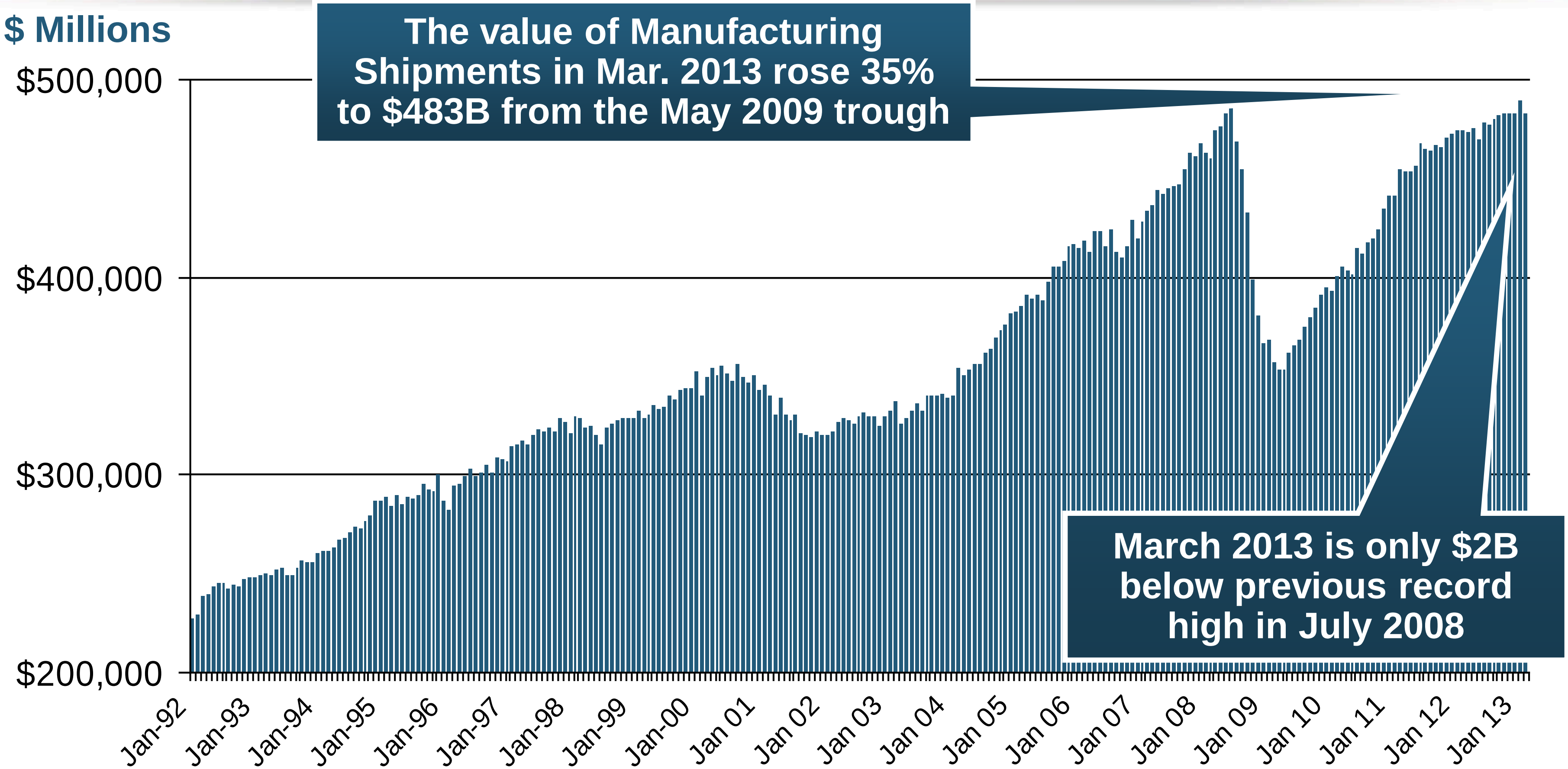
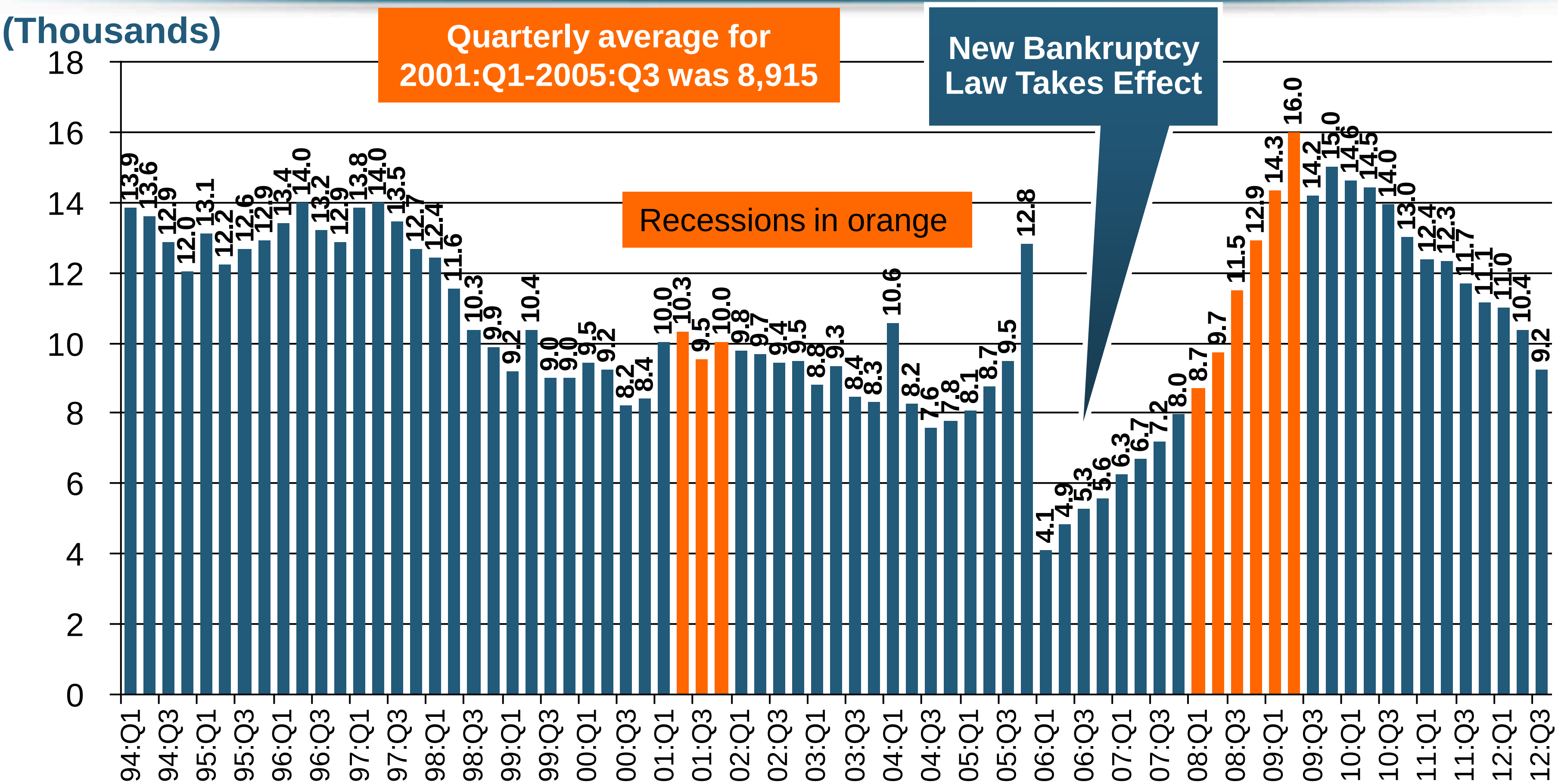


Manufacturing is energy intensive. Growth leads to gains in many commercial exposures: WC, Commercial Auto, Marine, Property and various Liability coverages.

*Seasonally adjusted.
Source: US Census Bureau, *Full Report on Manufacturers' Shipments, Inventories, and Orders,* www.census.gov/manufacturing/m3/.
Revised historical data, based on benchmark revisions, was released on May 17, 2013.

Business Bankruptcy Filings: Falling but Still High in 2012 (1994:Q1 – 2012:Q3)



Business bankruptcies were down 42% in 2012:Q3 vs. recent peak in 2009:Q2 but were still higher than 2008:Q1, the first full quarter of the Great Recession. Bankruptcies restrict exposure growth in all commercial lines.

Sources: American Bankruptcy Institute at www.abiworld.org/AM/AMTemplate.cfm?Section=Home&TEMPLATE=/CM/ContentDisplay.cfm&CONTENTID=61633; Insurance Information Institute.

Private Sector Business Starts, 1993:Q2 – 2012:Q2*

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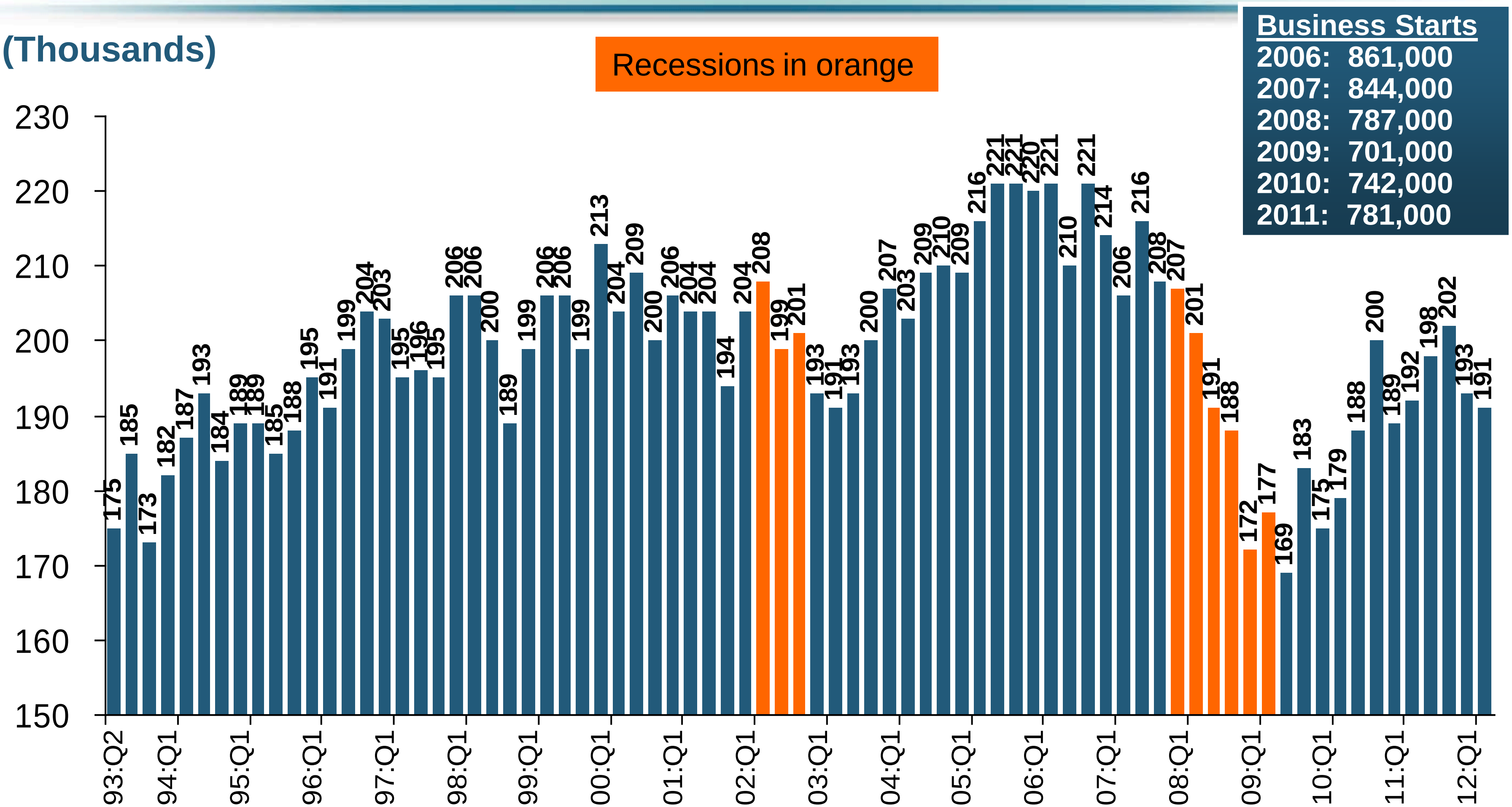

Business starts were down nearly 20% in the Great Recession, holding back most types of commercial insurance exposure, but now are recovering.

* Data through Jun 30, 2012 are the latest available (posted Jan 29, 2013); Seasonally adjusted.

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

Recovery in Capacity Utilization is a Positive Sign for Commercial Exposures

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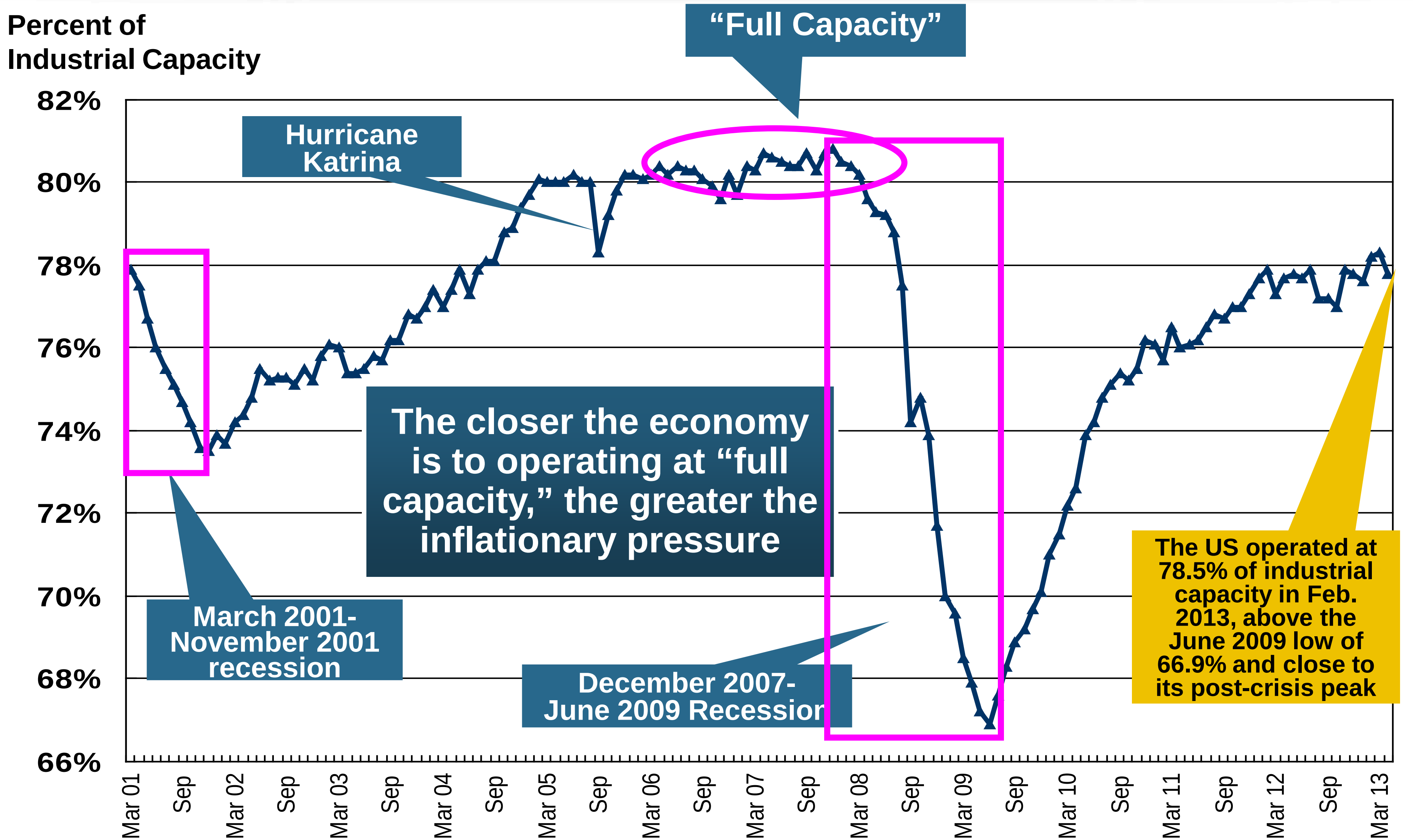
March 2001 through Apr. 2013



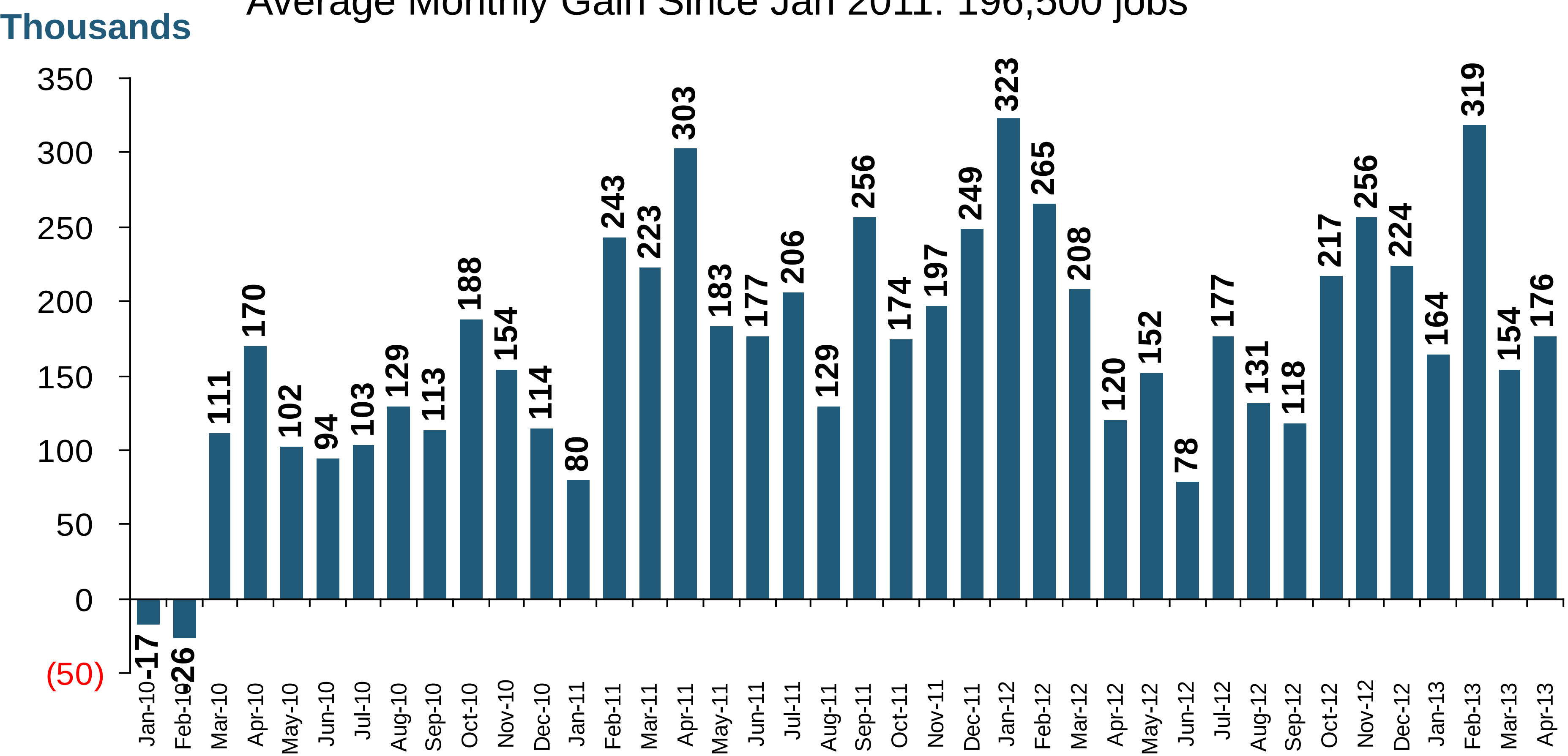
Source: Federal Reserve Board statistical releases at http://www.federalreserve.gov/releases/g17/Current/default.htm.

Labor Market Trends

Steady Job Gains in the Private Sector Offset Steady Job Losses in the Public Sector

Monthly Change in Private Employment, 2010 - 2013

Average Monthly Gain Since Jan 2011: 196,500 jobs



Private employers added 1.2 million jobs in just the last six months.

Seasonally adjusted. Mar 2013 and Apr 2013 are preliminary data
Sources: US Bureau of Labor Statistics; Insurance Information Institute

Unemployment and Underemployment Rates: Stubbornly High in 2012, But Falling

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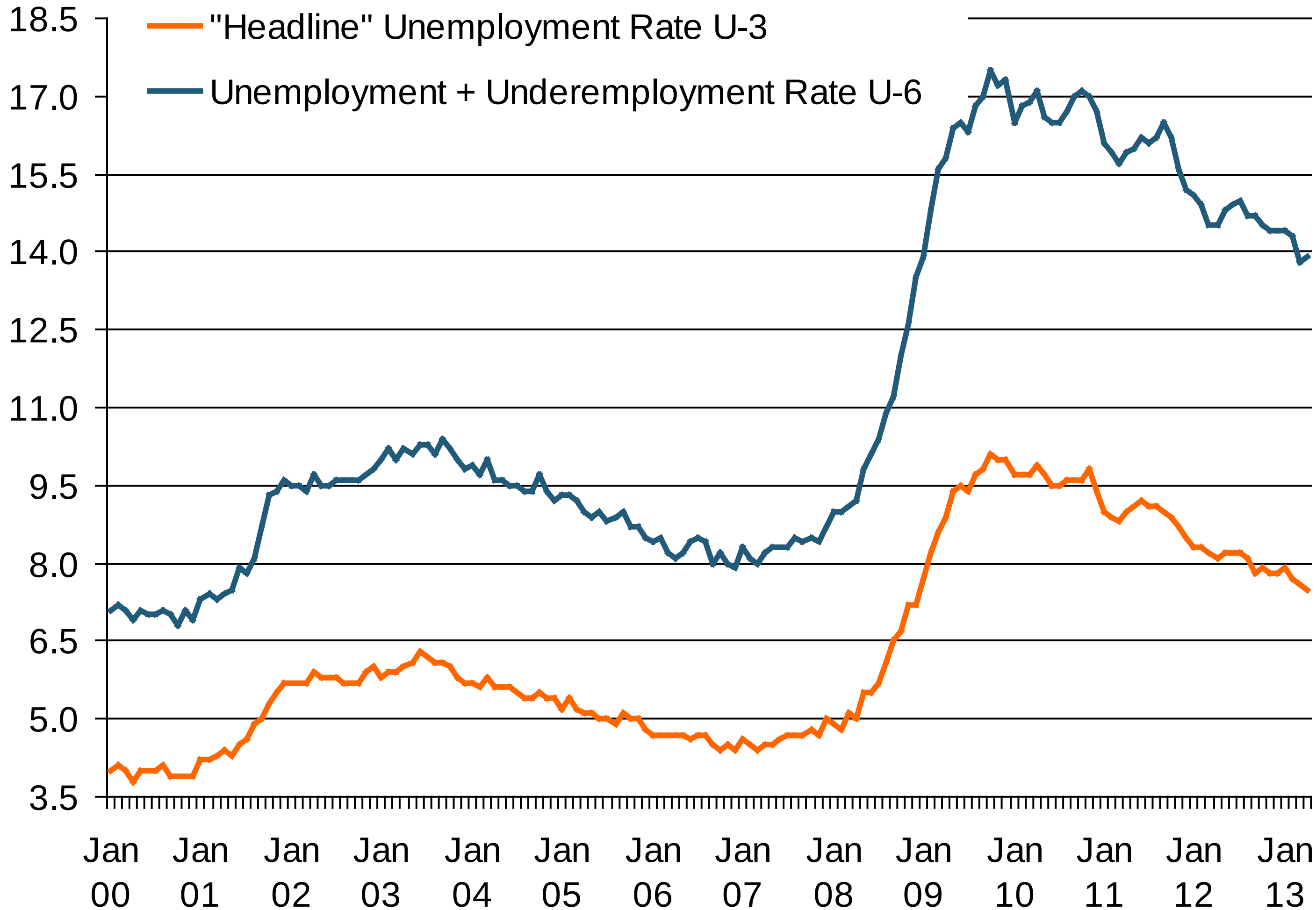
January 2000 through Apr. 2013, Seasonally Adjusted (%)



U-6 went from 8.0% in March 2007 to 17.5% in October 2009; Stood at 13.9% in Apr. 2013

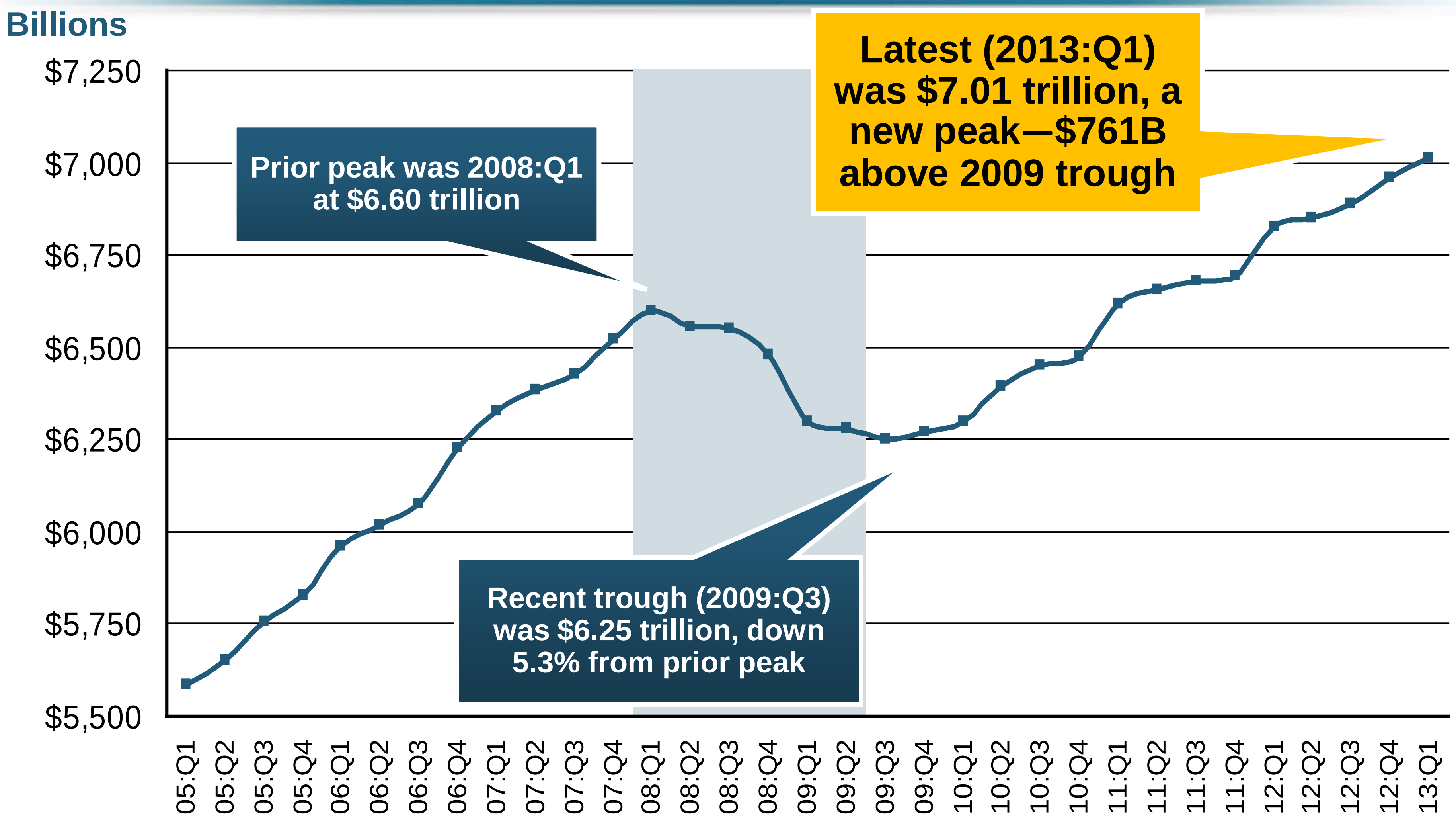
"Headline" unemployment stood at 7.5% in Apr. 2013.

The Federal Reserve's target for ending "easy money" is 6.5% (assuming inflation remains within its 2% target).

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.

Nonfarm Payroll (Wages and Salaries): Quarterly, 2005–2013:Q1



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

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

Challenge #2: Dealing with Catastrophes

Are they more frequent and more severe?

US Insured Catastrophe Losses

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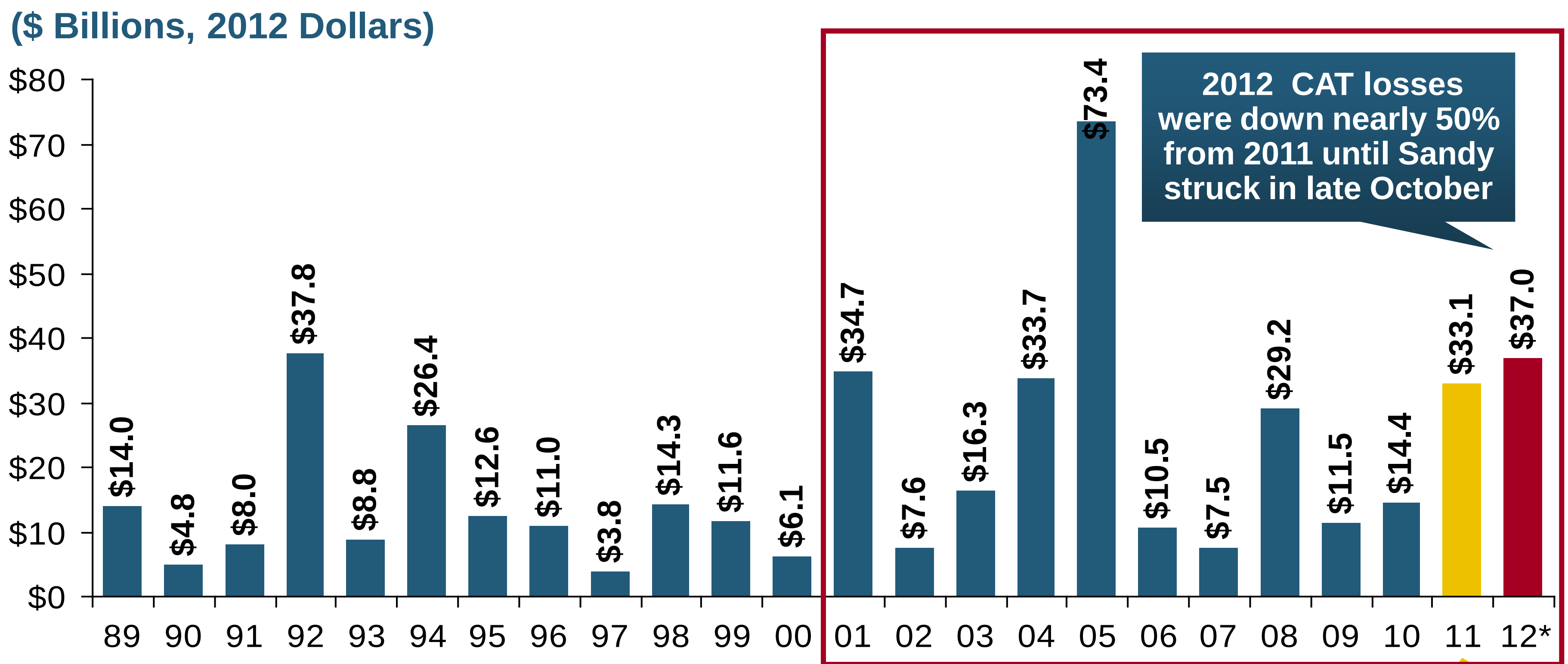


US CAT Losses in 2012 Will Likely Become the 2nd or 3rd Highest in US History on An Inflation-Adjusted Basis (Pvt Insured). 2011 Losses Were the 5th Highest

Record Tornado Losses Caused 2011 CAT Losses to Surge

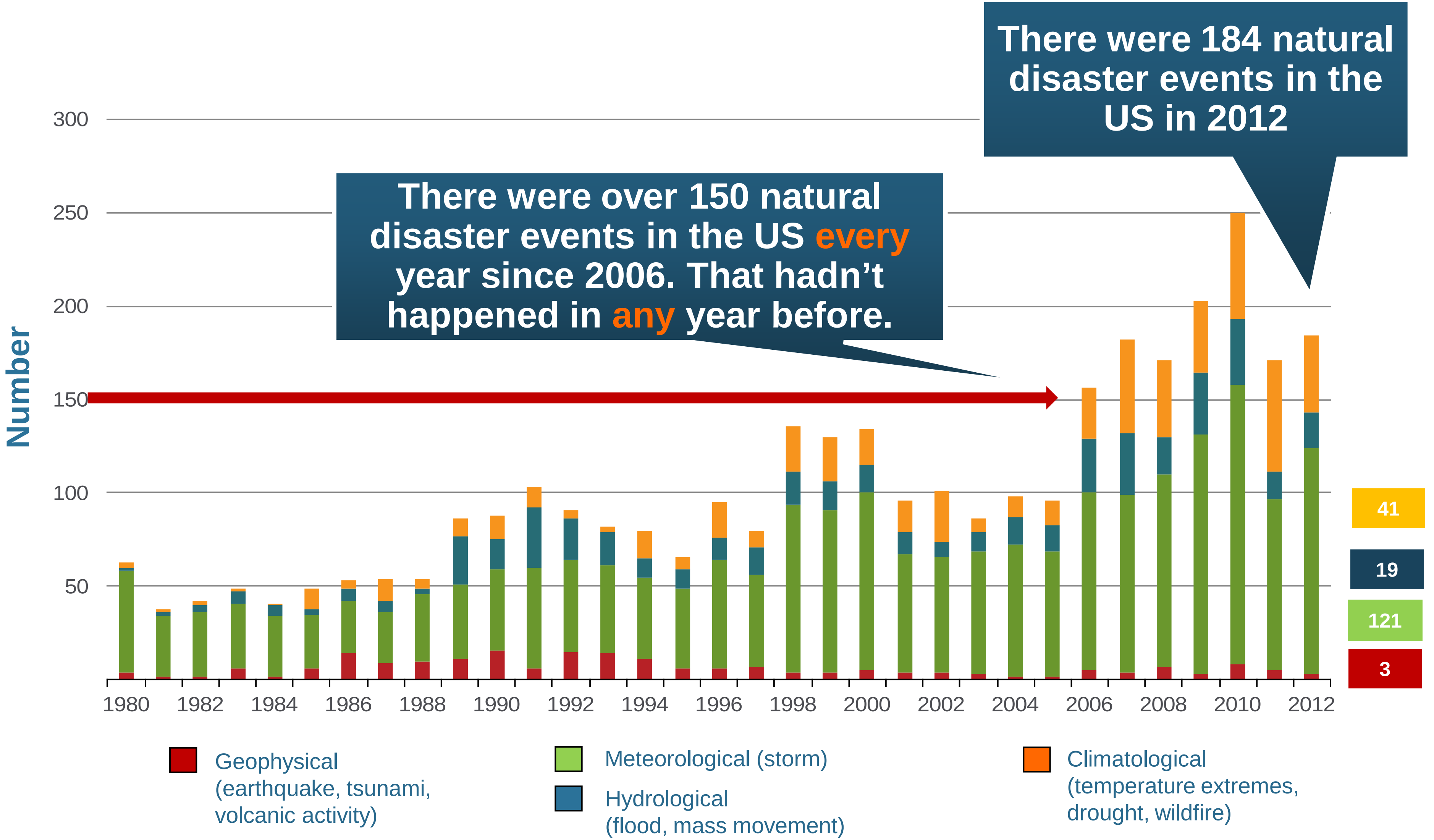
*As of 1/2/13. Includes $20B gross loss estimate for Hurricane Sandy.

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.

Natural Disasters in the United States, 1980 – 2012

Number of Events (Annual Totals 1980 – 2012)



Source: MR NatCat*SERVICE*

Combined Ratio Points Associated with Catastrophe Losses: 1960 – 2012*

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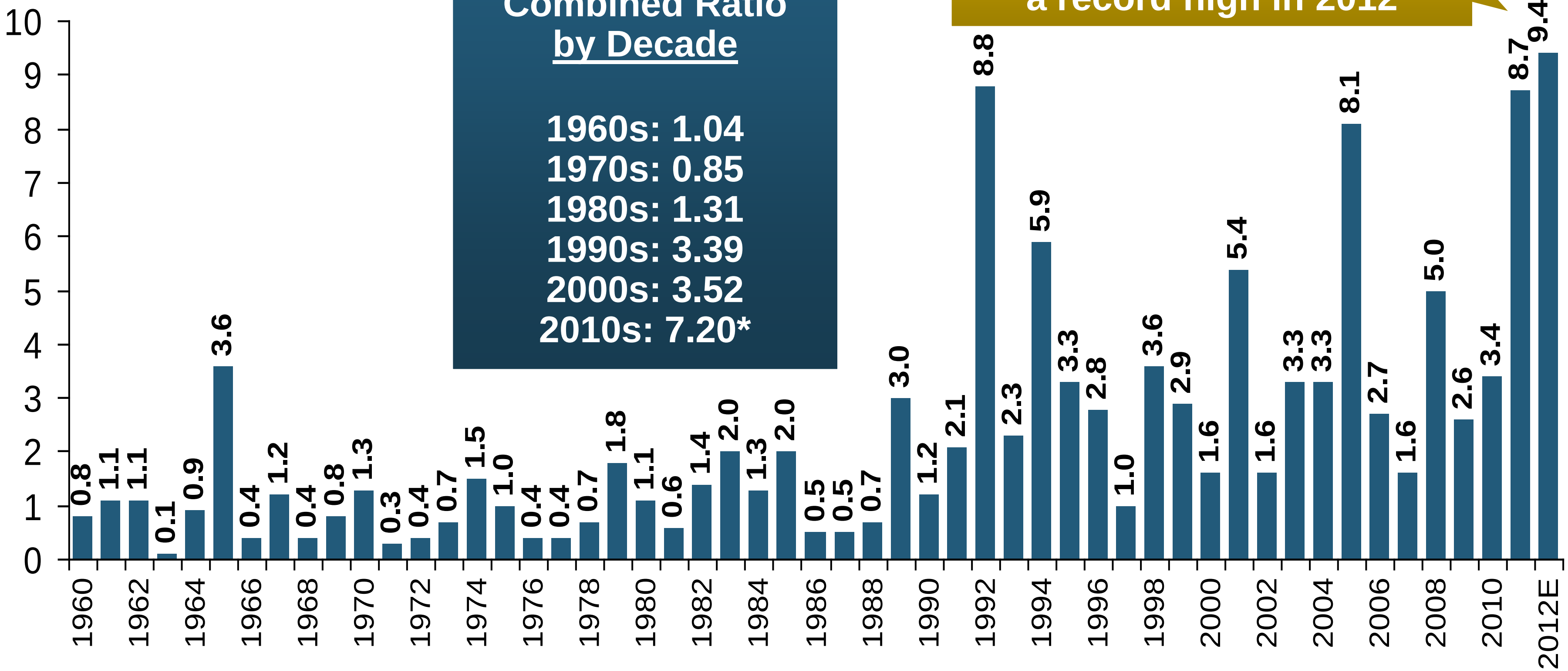


Avg. CAT Loss Component of the Combined Ratio <u>by Decade</u>

1960s: 1.04
1970s: 0.85
1980s: 1.31
1990s: 3.39
2000s: 3.52
2010s: 7.20*

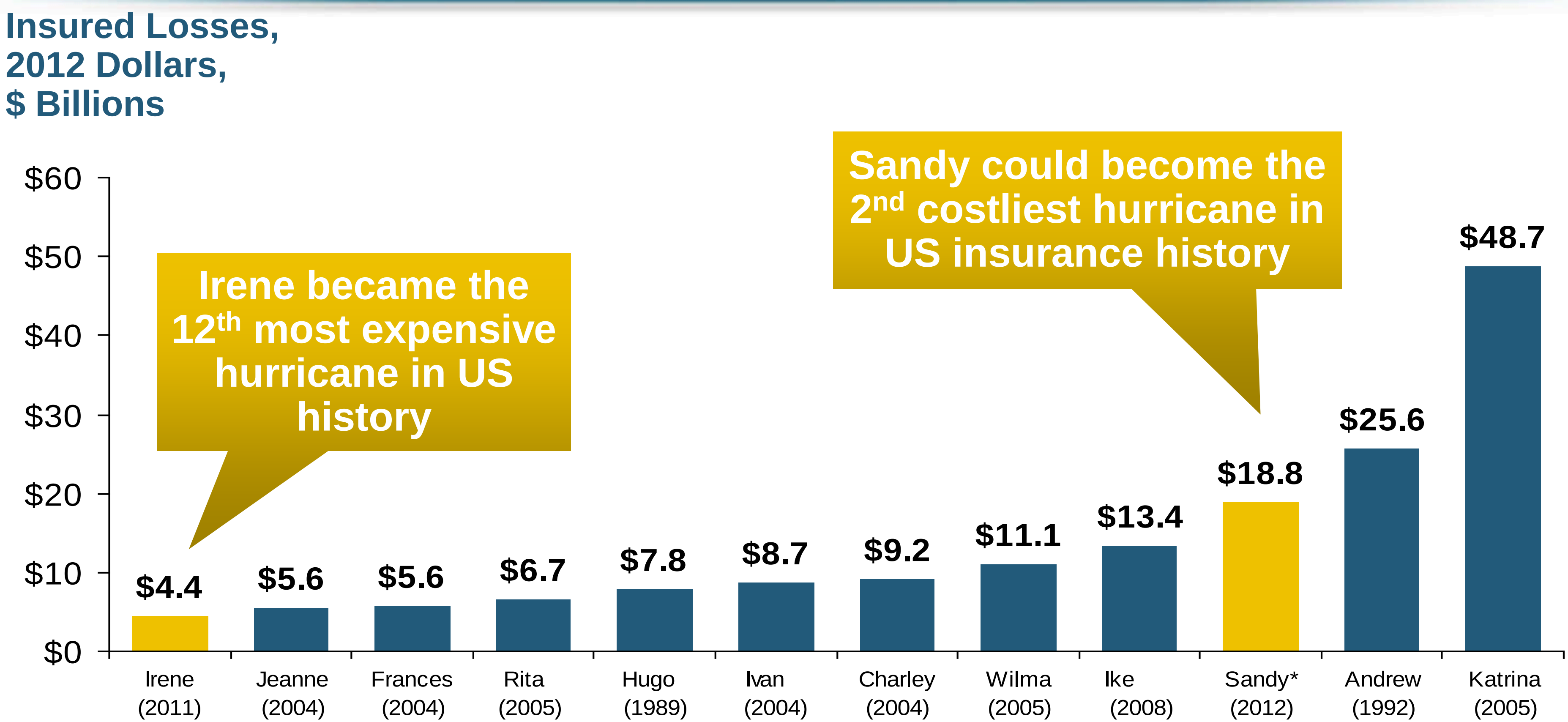
Catastrophe losses as a share of all losses reached a record high in 2012

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

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.

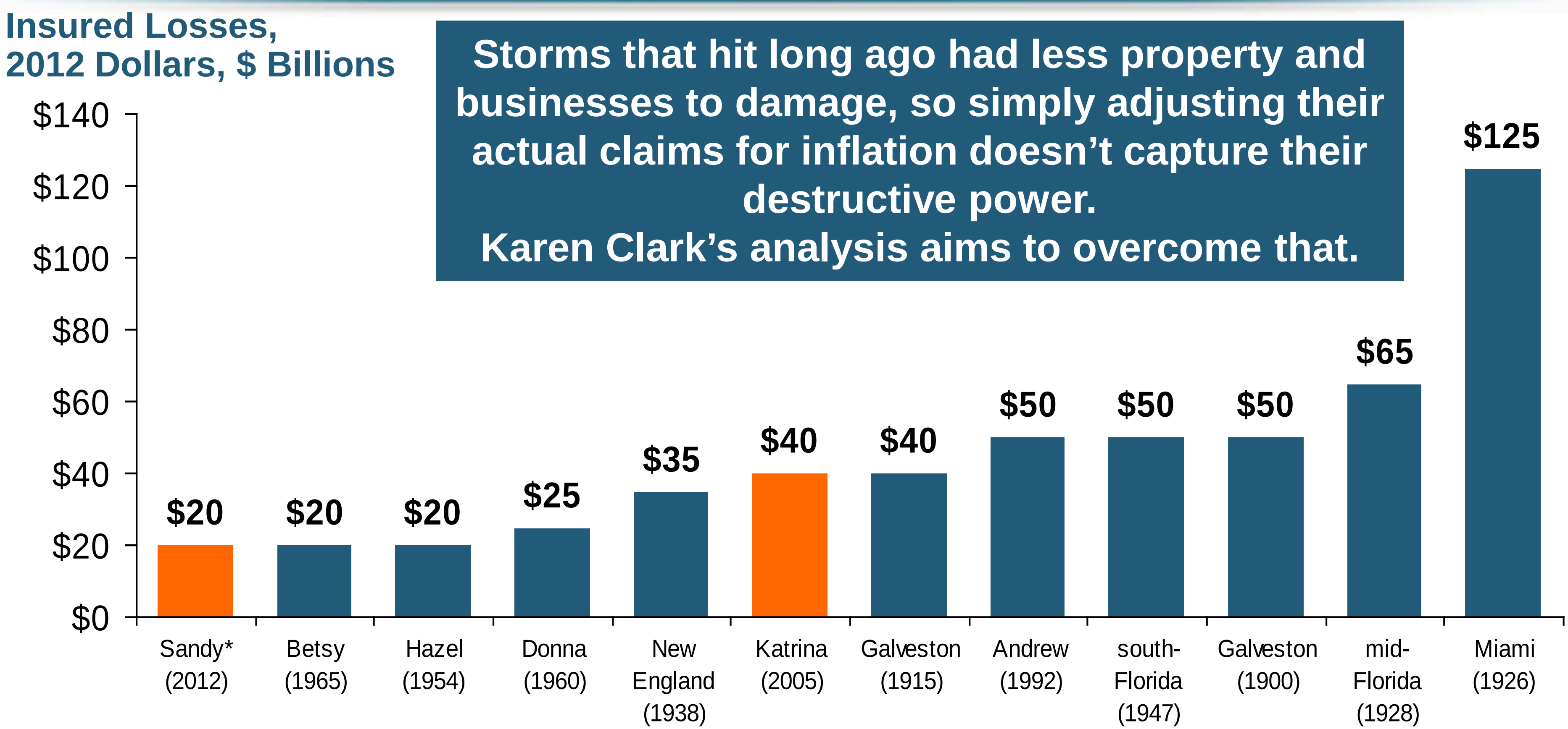
The Dozen Most Costly Hurricanes in U.S. History



10 of the 12 costliest hurricanes in private insurance history occurred in the past 9 years (2004—2012)

*Estimate as of 12/09/12 based on estimates of catastrophe modeling firms and reported losses as of 1/12/13. Estimates range up to $25B.
Sources: PCS; Insurance Information Institute inflation adjustments to 2012 dollars using the CPI.

If They Hit Today, the Dozen Costliest (to Insurers) Hurricanes in U.S. History

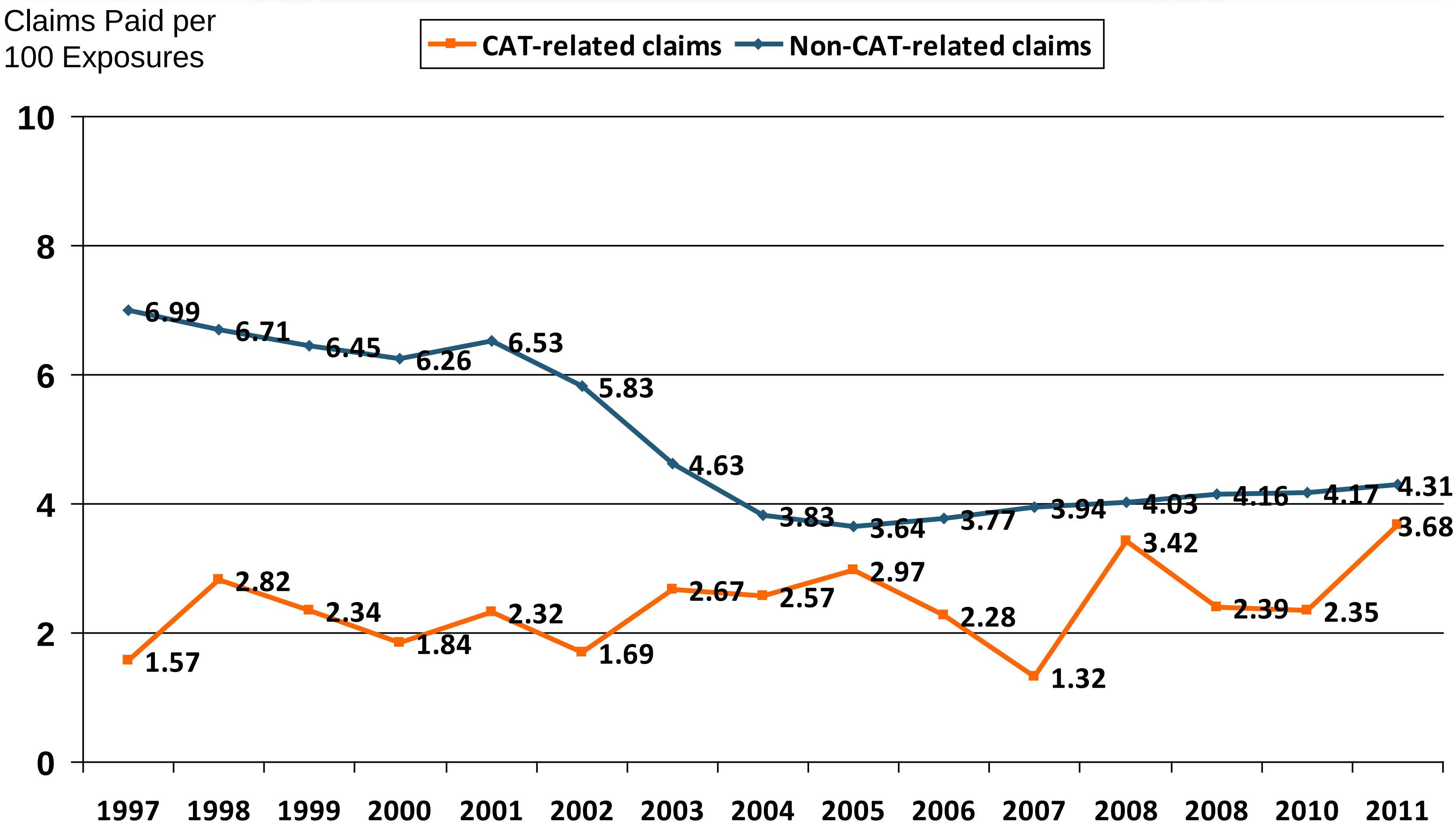


Storms that hit long ago had less property and businesses to damage, so simply adjusting their actual claims for inflation doesn't capture their destructive power. Karen Clark's analysis aims to overcome that.

When you adjust for the damage prior storms could have done if they occurred today, Hurricane Katrina slips to a tie for 6th among the most devastating storms.

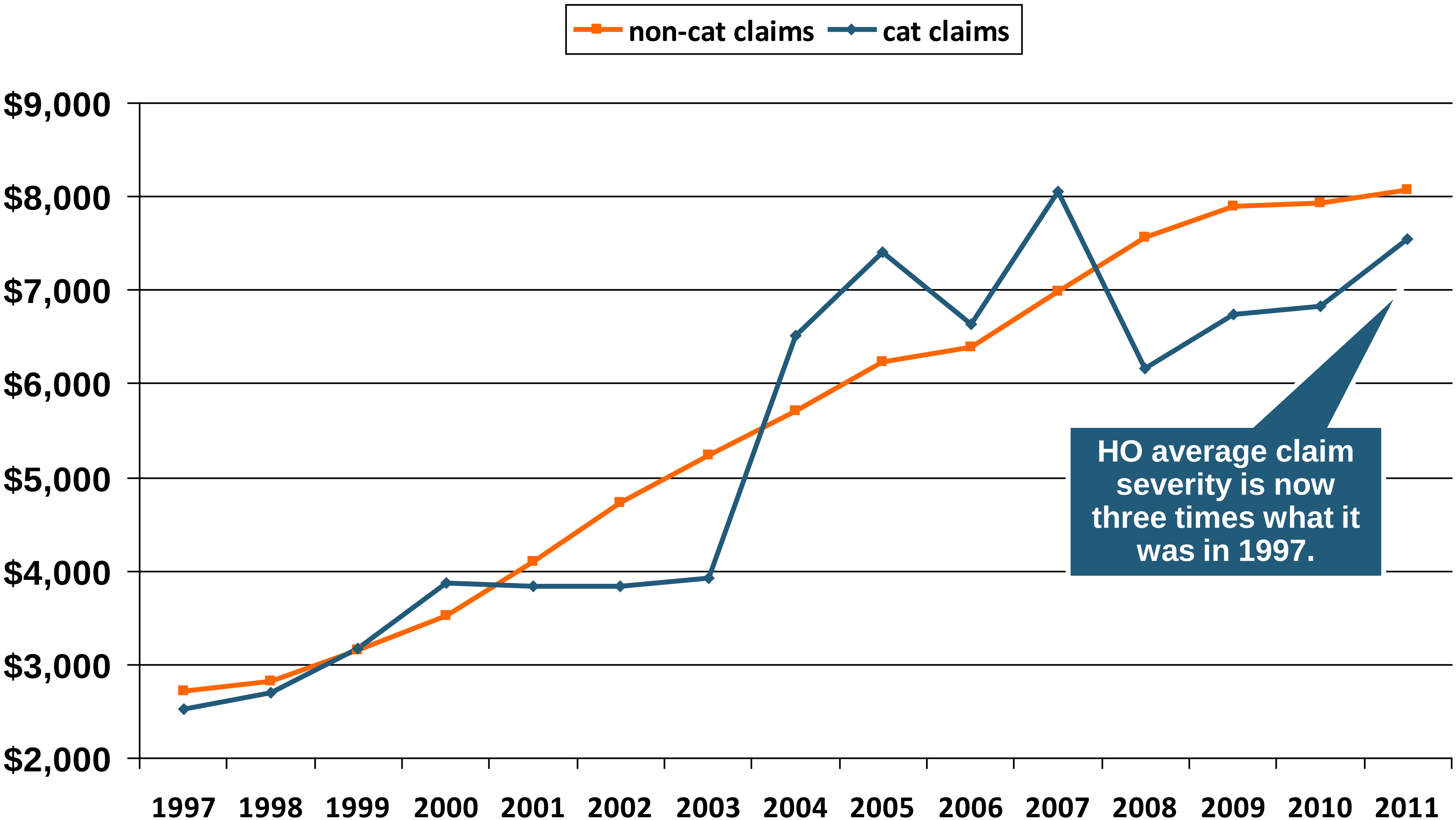
*Estimate as of 12/09/12 based on estimates of catastrophe modeling firms and reported losses as of 1/12/13. Estimates range up to $25B.
Sources: Karen Clark & Company, *Historical Hurricanes that Would Cause $10 Billion or More of Insured LossesToday*, August 2012; I.I.I.

P/C Industry Homeowners Claim Frequency, US, 1997-2011



Sources: Insurance Research Council, "Trends in Homeowners Insurance Claims," p.29; Insurance Information Institute

P/C Industry Homeowners Average Claim Severity, 1997-2011



Sources: Insurance Research Council, “Trends in Homeowners Insurance Claims,” p. 29, BLS inflation calculator, and Insurance Information Institute

Superstorm (barely a CAT 1) Sandy: 1.4 million Claims, by Type*

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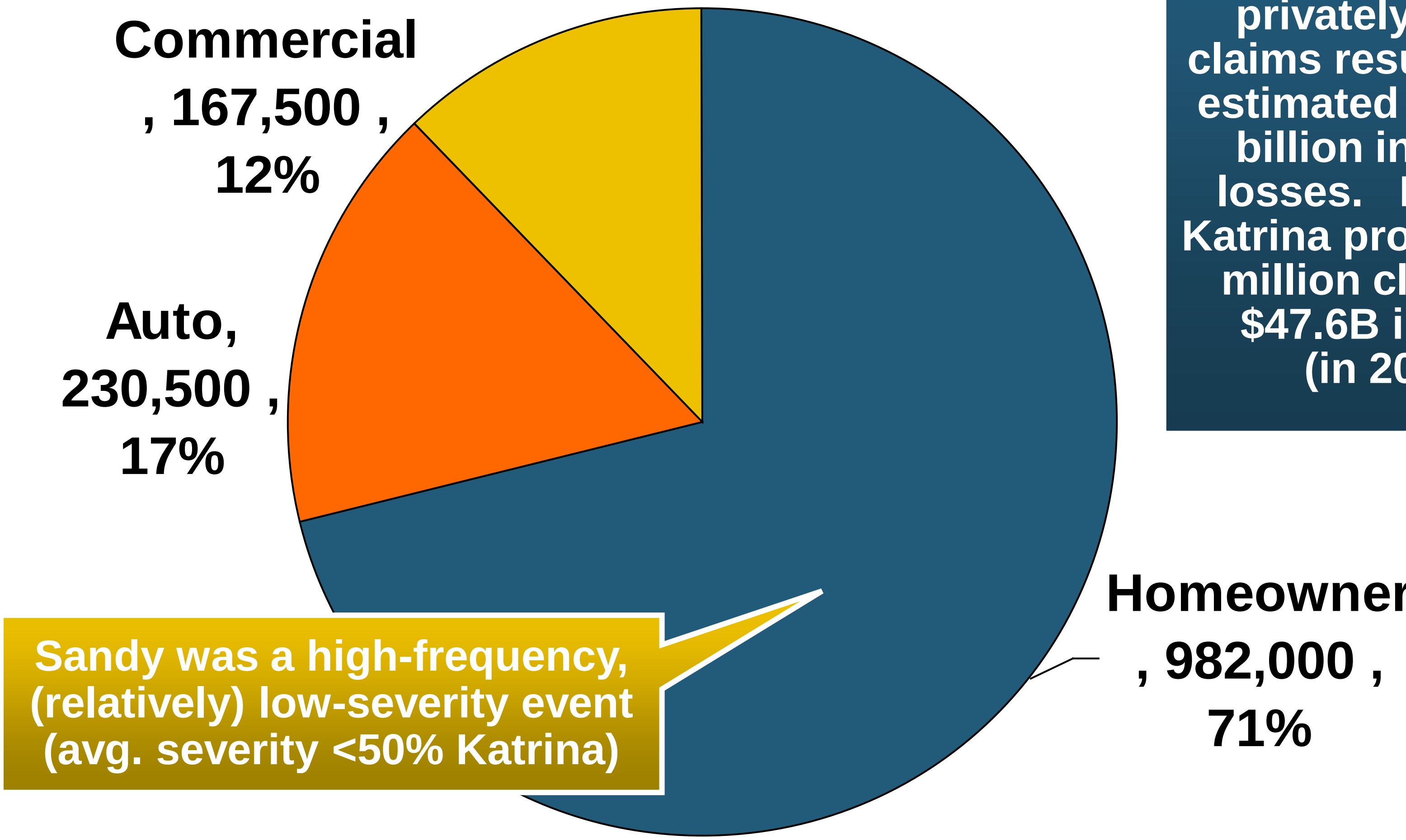
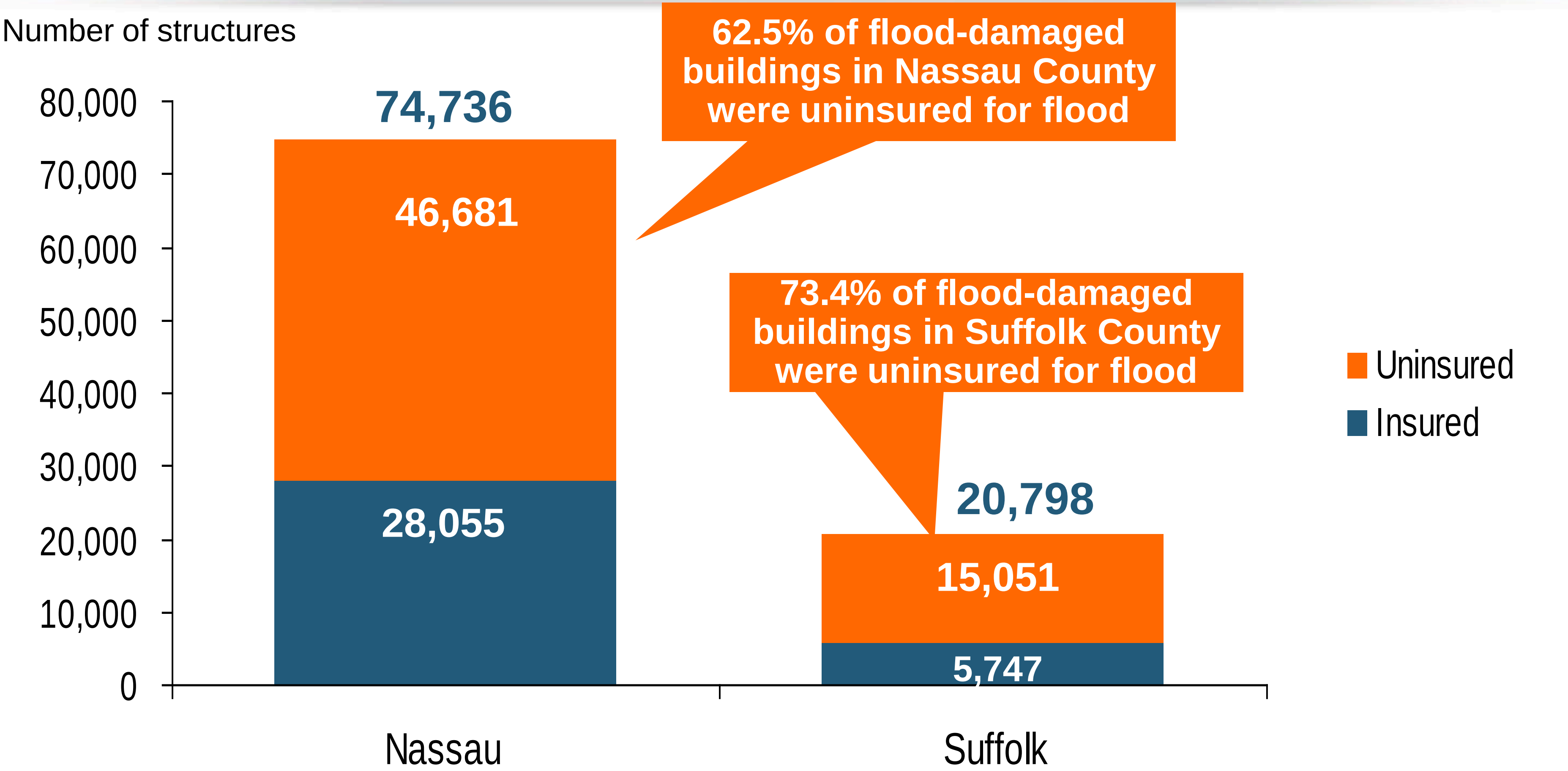


Sandy caused an estimated 1.4 million privately insured claims resulting in an estimated $15 to $25 billion in insured losses. Hurricane Katrina produced 1.74 million claims and $47.6B in losses (in 2011 $)

*PCS claim count estimate as of 11/26/12. Loss estimate represents high and low end estimates by risk modelers RMS, Eqecat and AIR. PCS estimate of insured losses as of 11/26/12 $11 billion. All figures exclude losses paid by the NFIP.
Source: PCS; AIR, Eqecat, AIR Worldwide; Insurance Information Institute.

Flood-Damaged Structures with/without Flood Insurance: Long Island NY



Here's a marketing challenge. Most people who live on the coast in Long Island didn't buy flood insurance.

Source: *Newsday*, 1/14/13 from FEMA and Small Business Administration.

Residential NFIP Flood Take-Up Rates in NY, CT (2010) & Sandy Storm Surge

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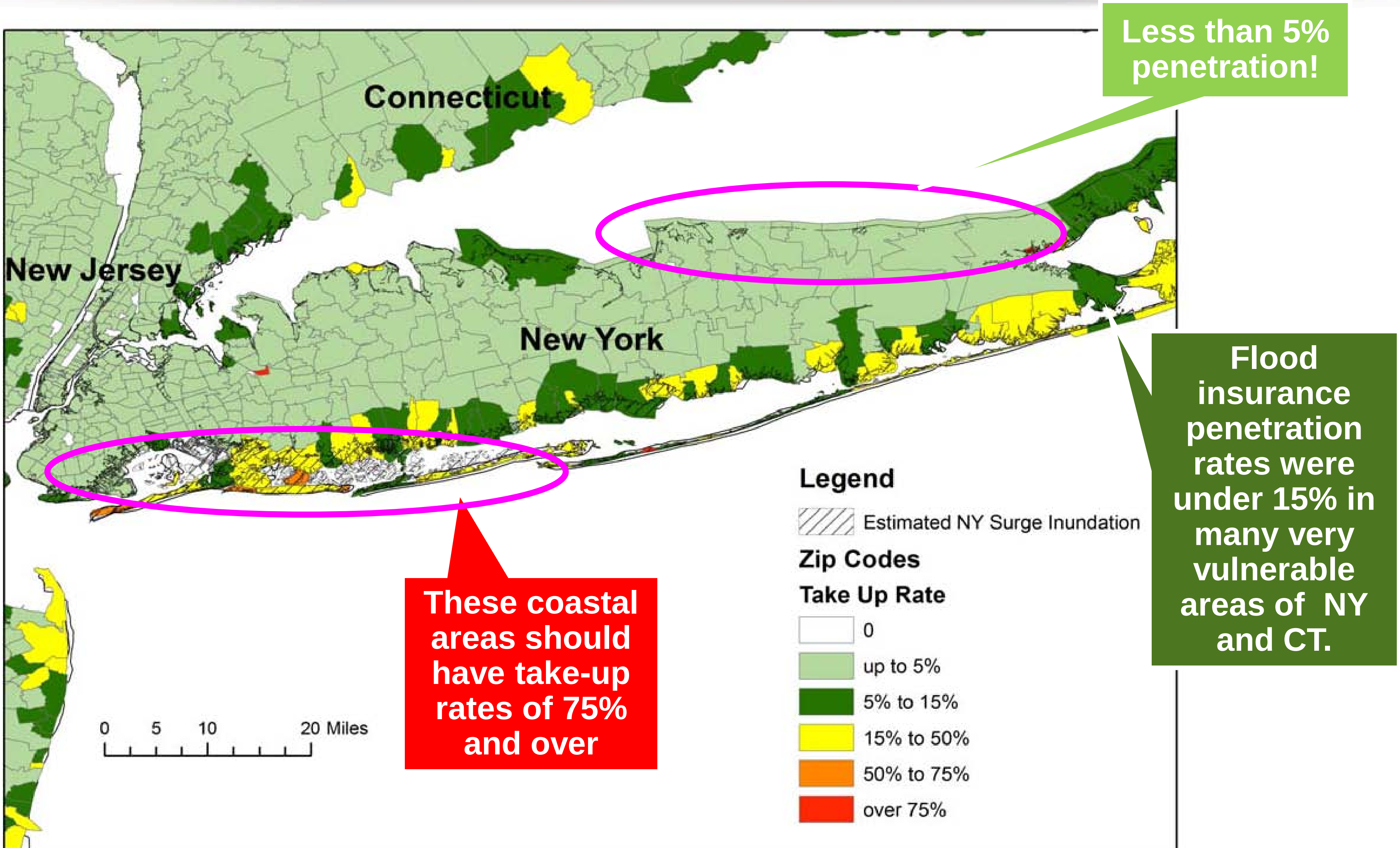

Source: Wharton Center for Risk Management and Decision Processes, *Issue Brief,* Nov. 2012; Insurance Information Institute.

Challenge #3: Prolonged Low Investment Gains

Investment Performance is a Key Driver of Profitability

U.S. Treasury Security Yields*: A Long Downward Trend, 1990–2013

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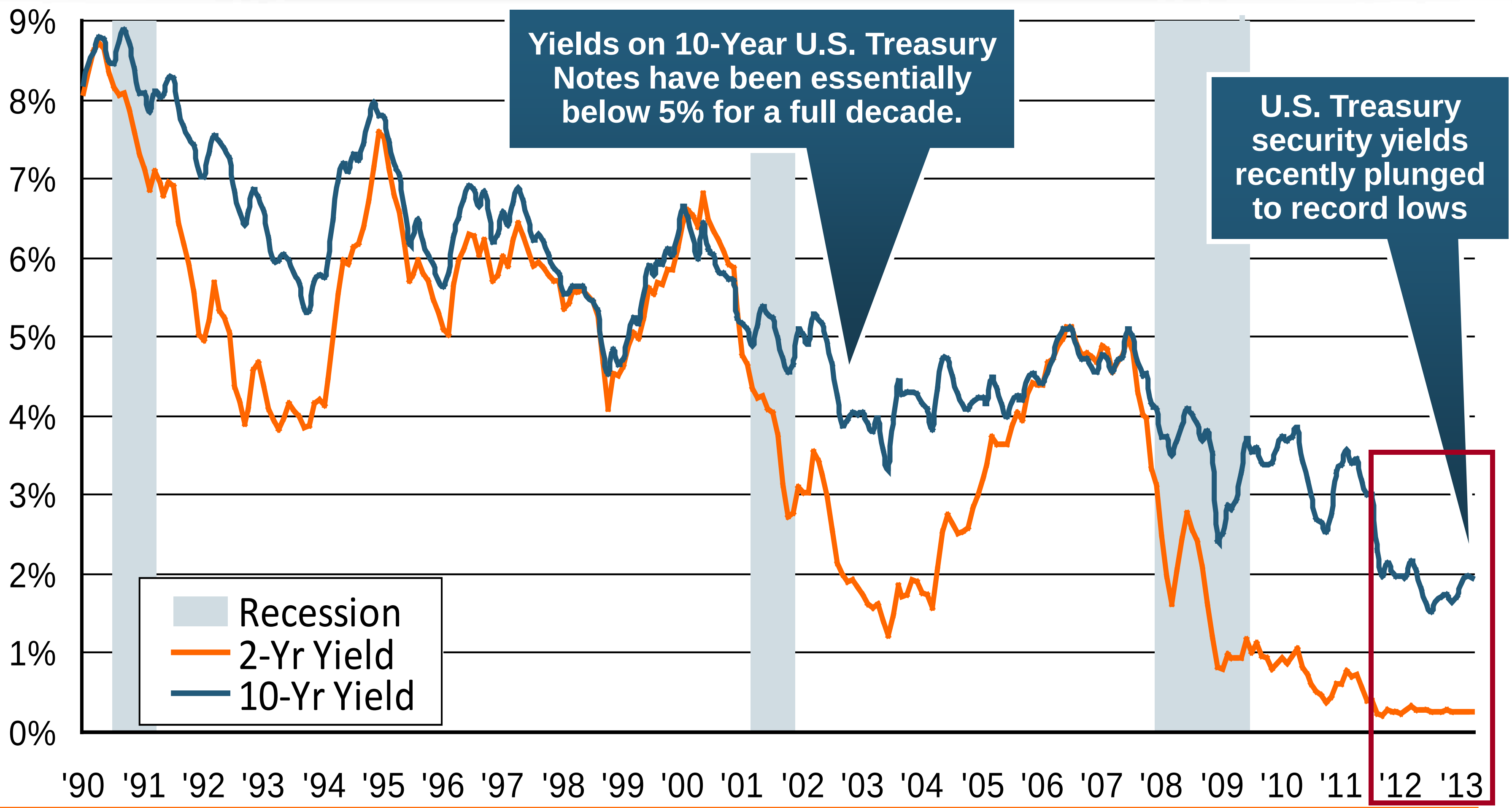

Since roughly 80% of P/C bond/cash investments are in 10-year or shorter durations, most P/C insurer portfolios will have low-yielding bonds for years to come.

*Monthly, constant maturity, nominal rates, through Mar 2013.

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

Distribution of Bond Maturities, P/C Insurance Industry, 2003-2011

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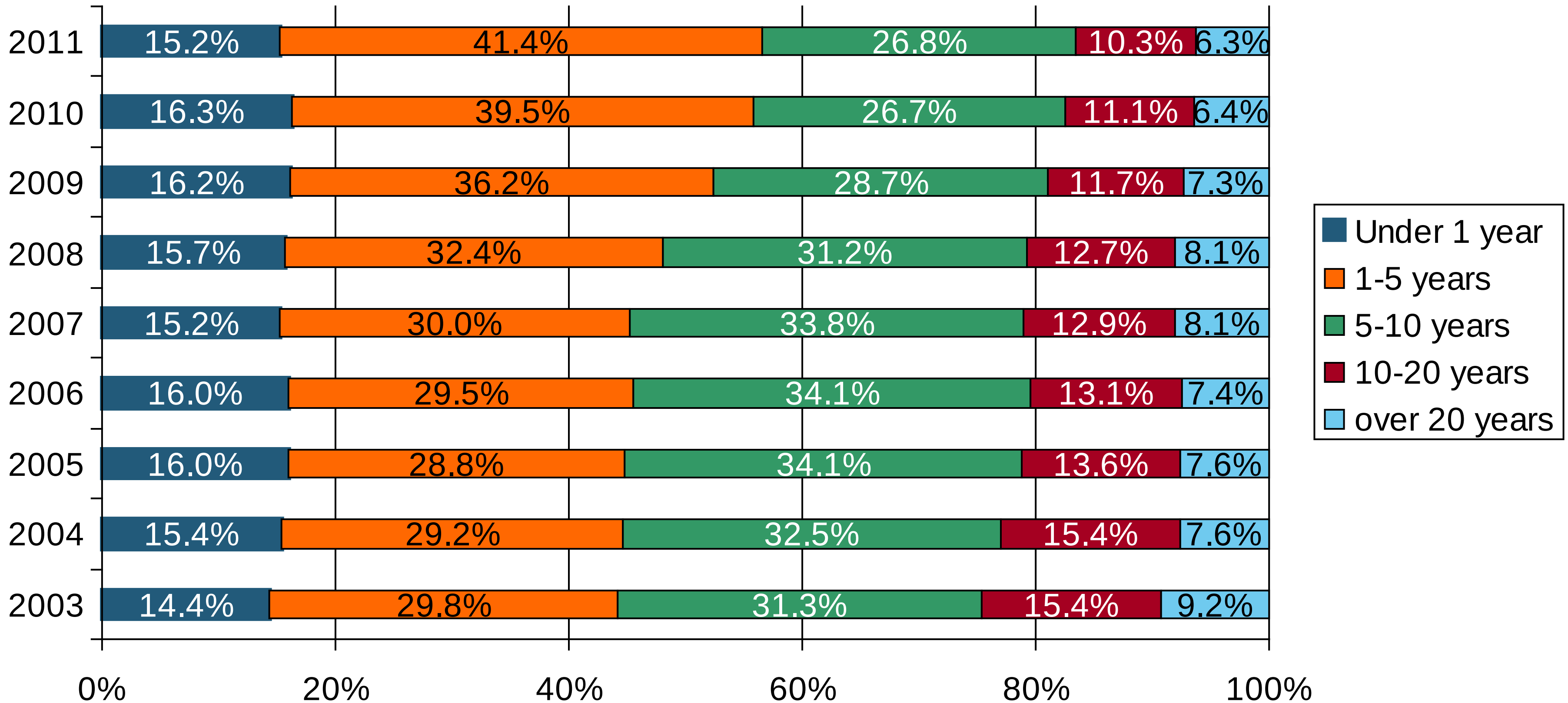
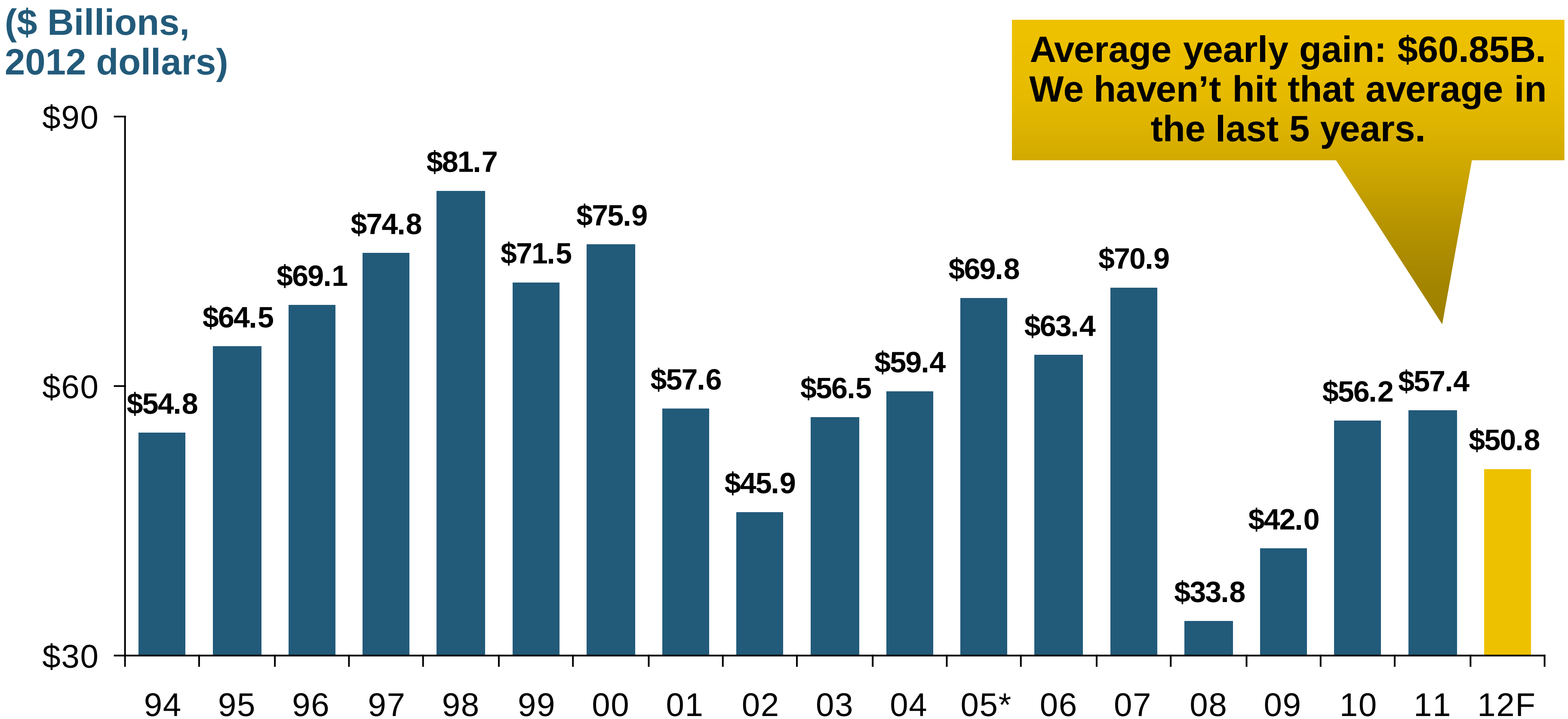


The main shift over these years has been from bonds with longer maturities to bonds with shorter maturities. The industry first trimmed its holdings of over-10-year bonds (from 24.6% in 2003 to 16.9% in 2011) and then trimmed bonds in the 5-10-year category. Falling average maturity of the P/C industry's bond portfolio is contributing to a drop in investment income along with lower yields.

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

Purchasing Power of P/C Industry Investment Gains: 1994–2012F[1]



In 2012 (1st three quarters) both investment income and realized capital gains were lower than in the comparable period in 2011. And because the Federal Reserve Board aims to keep interest rates exceptionally low until the unemployment rate hits 6.5%—likely at least another year off—maturing bonds will be re-invested at even lower rates.

[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; 2012F figure is I.I.I. estimate based on annualized actual 2012:Q3 result of $38.089B. Sources: ISO; Insurance Information Institute.

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

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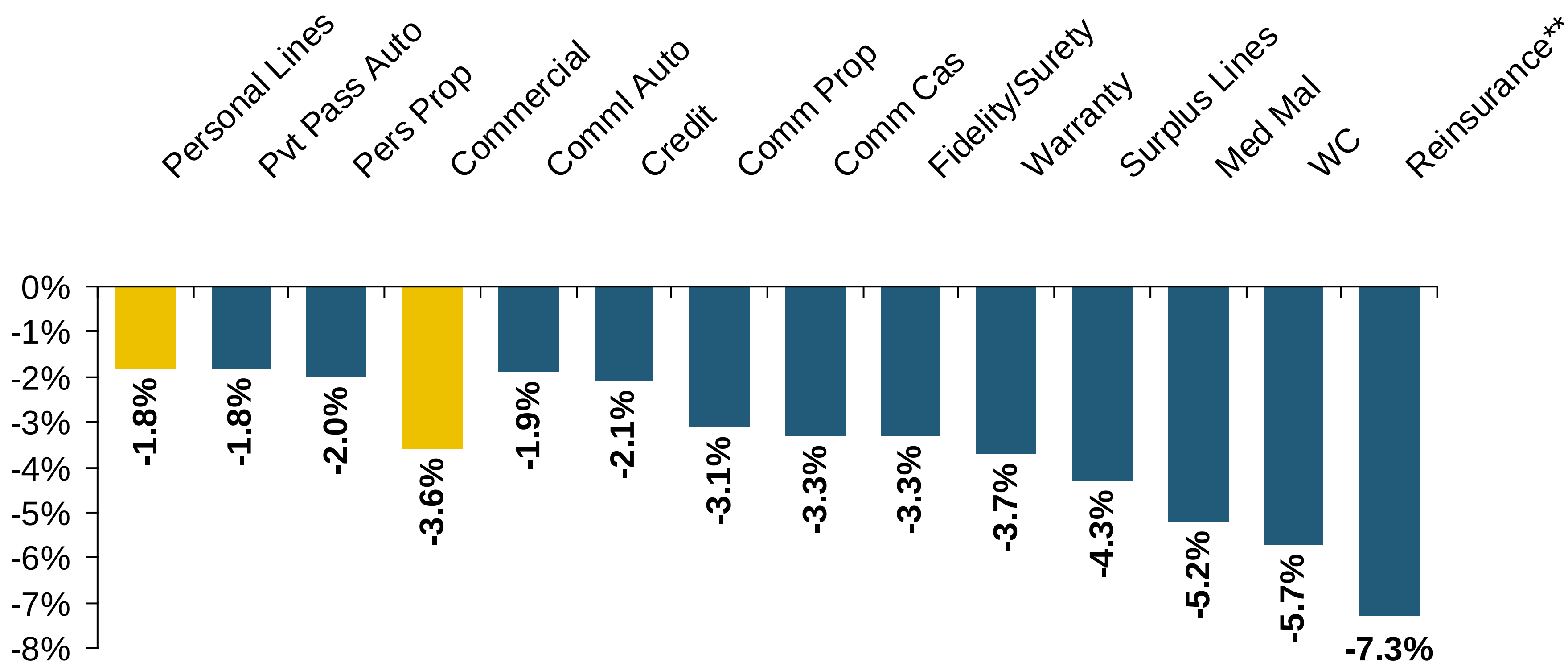


Lower Investment Earnings Place a Greater Burden on Underwriting and Pricing Discipline

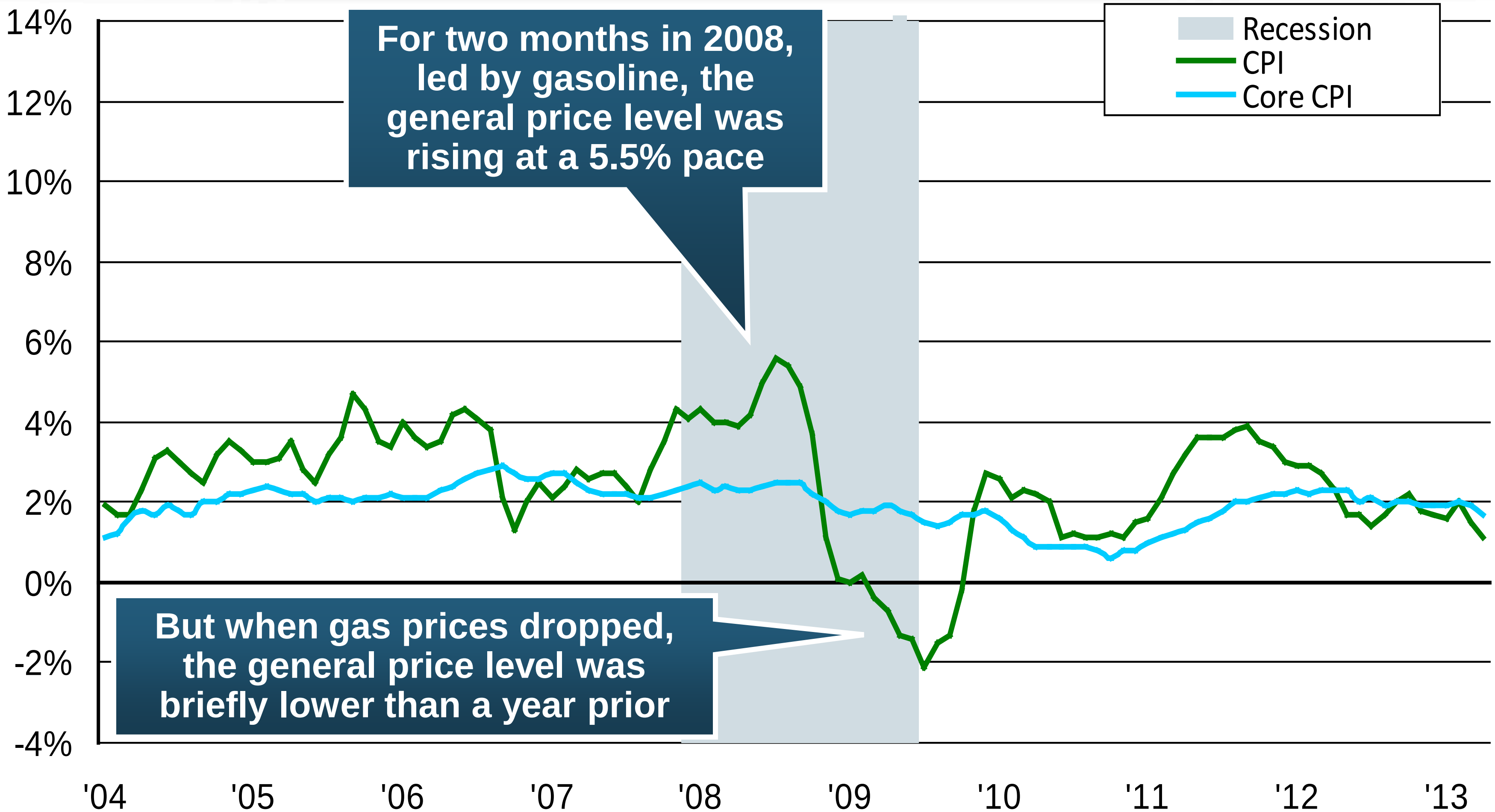
*Based on 2008 Invested Assets and Earned Premiums

**US domestic reinsurance only

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

Challenge #4: Highly Variable P/C Claims Drivers

Change* in the Consumer Price Index, 2004–2013



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

*Monthly, year-over-year, through April 2013. 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,* 1998–2013

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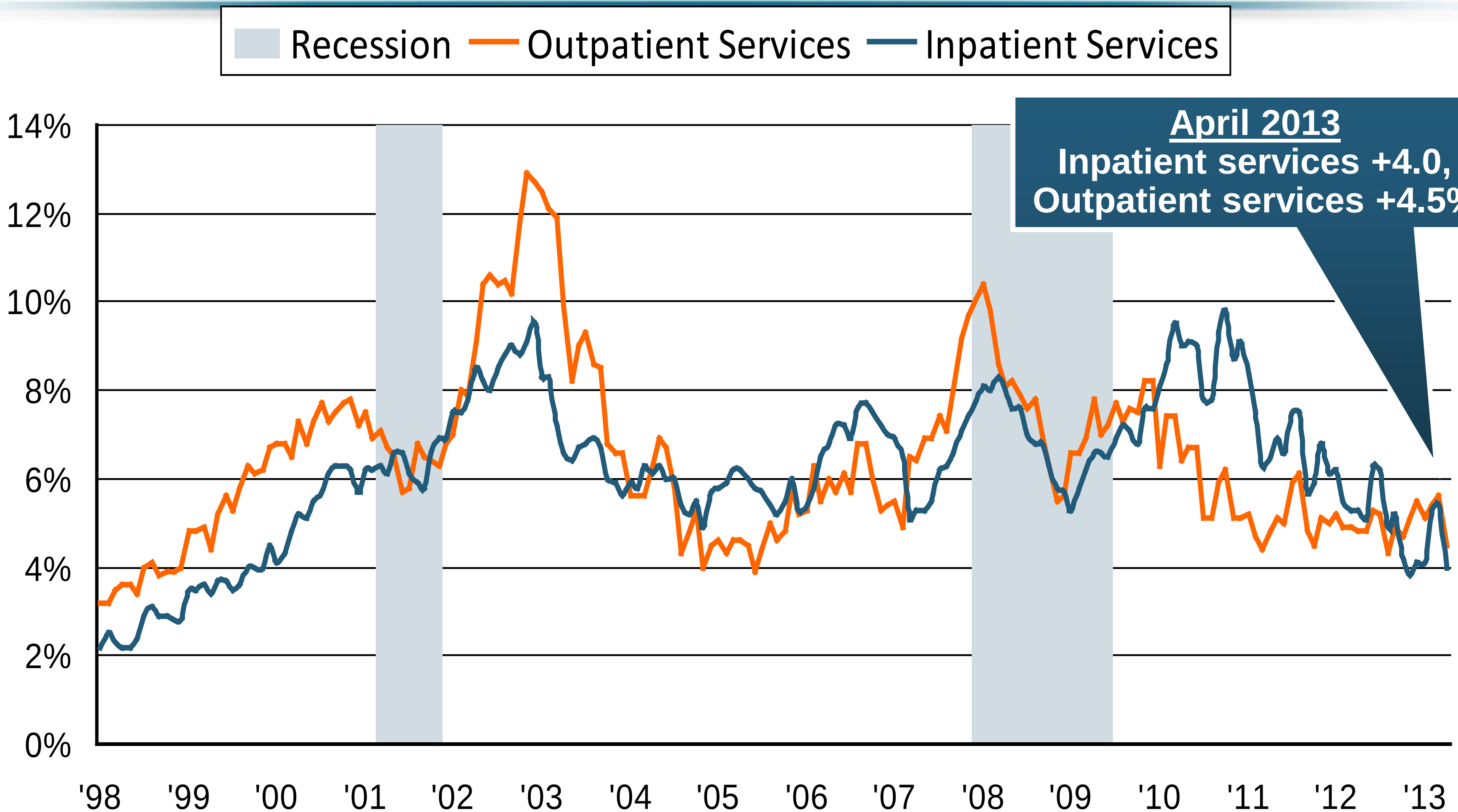
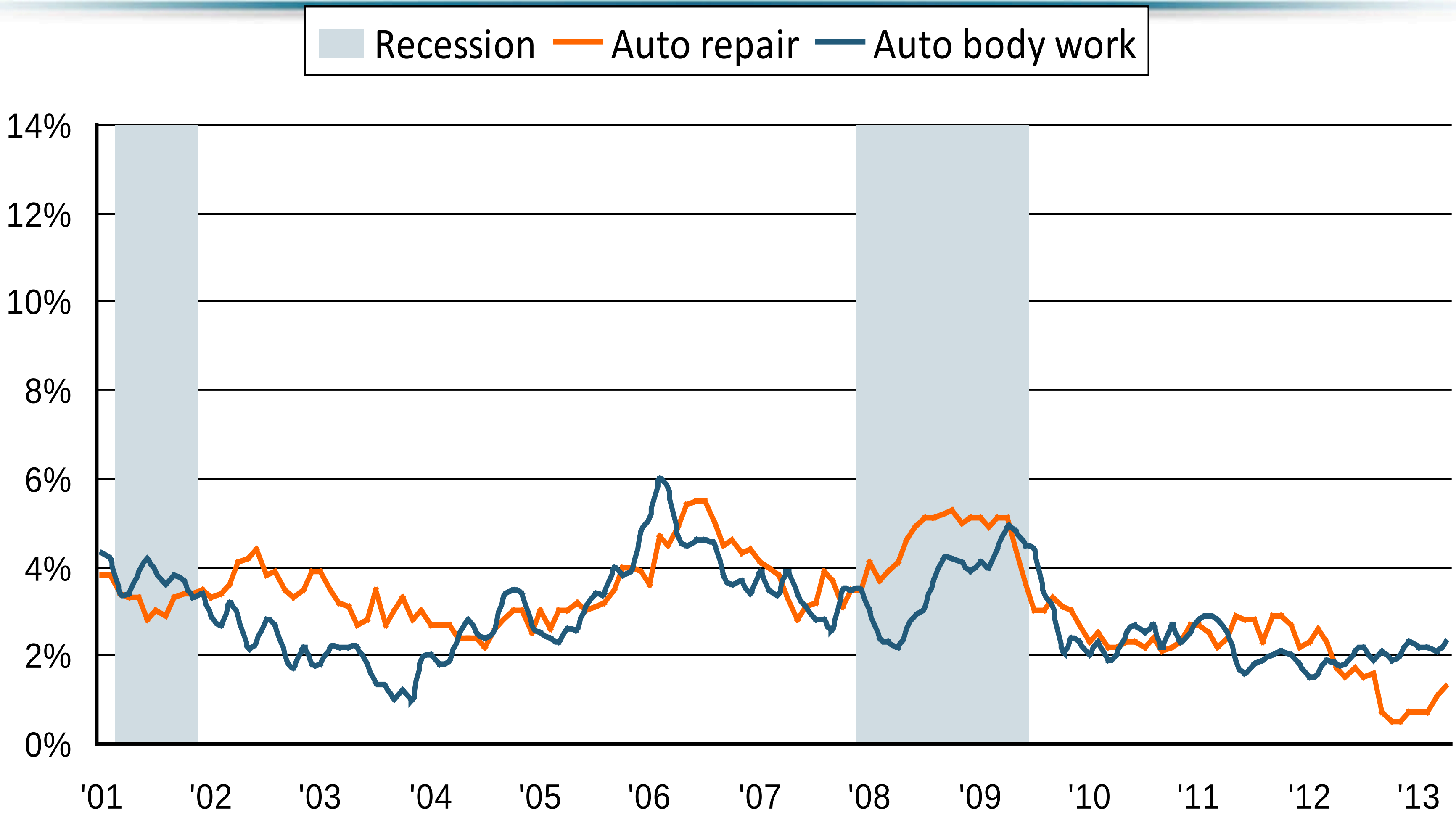


Cyclical peaks in PP Auto tend to occur approximately every 10 years (early 1990s, early 2000s, and possibly the early 2010s)

*Percentage change from same month in prior year; through April 2013; seasonally adjusted

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

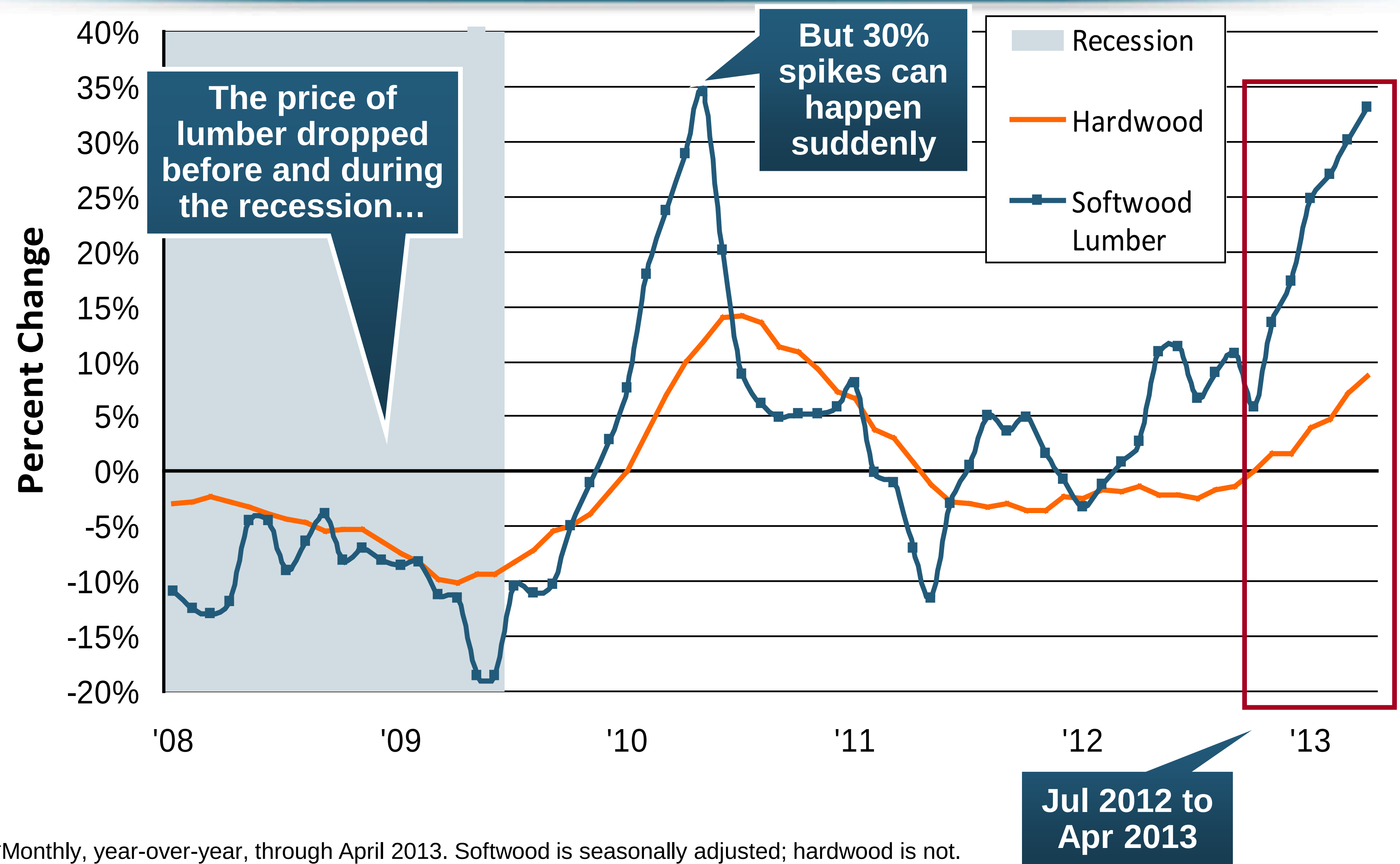
Forces that Drive Car Repair Costs:
12-Month Change,* 2001–2013



Cyclical peaks in PP Auto tend to occur approximately every 10 years (early 1990s, early 2000s, and possibly the early 2010s)

*Percentage change from same month in prior year; through April 2013; auto repair is seasonally adjusted, body work is not
Sources: US Bureau of Labor Statistics; National Bureau of Economic Research (recession dates); Insurance Information Institute.

Change* in Price Index for Lumber: Sudden Spikes, 2008–2013



*Monthly, year-over-year, through April 2013. Softwood is seasonally adjusted; hardwood is not. January through April 2013 prices are preliminary.

Sources: US Bureau of Labor Statistics, Producer Price Index series WPS0811 (softwood); WPU812 (hardwood). National Bureau of Economic Research (recession dates); Insurance Information Institutes.

Change* in Price Index for Plywood: A Recent Downward Trend but Spikes, 2004–2013

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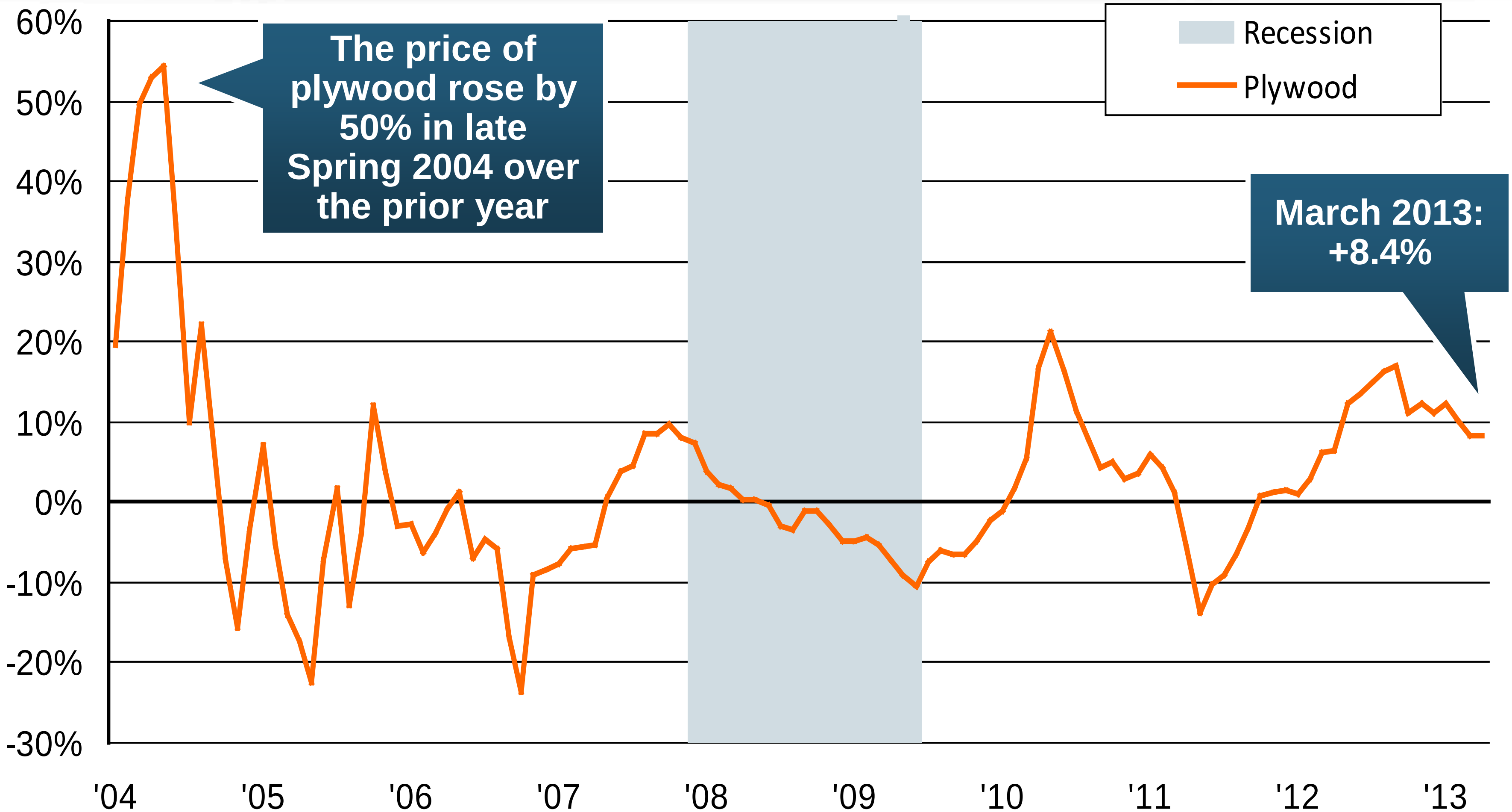

From the end of the recession (June 2009) to March 2013, the effect of the ups and downs of the price of plywood has resulted in a rise of 25.6%.

*Monthly, year-over-year, through April 2013. Not seasonally adjusted. Jan. through Apr 2013 prices are preliminary.

Sources: US Bureau of Labor Statistics, Producer Price Index series WPU083; National Bureau of Economic Research (recession dates); Insurance Information Institutes.

Challenge #5: Regulatory Pressure?

From Congress (TRIA), HUD, CFPB, FSOC/Federal Reserve (SIFIs), the NAIC's SMI, etc.

I.I.I. Congressional Testimony on the Future of the Terrorism Risk Insurance Program

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TRIA at Ten Years:

The Future of the Terrorism Risk Insurance Program

House Financial Services Subcommittee on Insurance, Housing and Community Opportunity

Testimony of

Robert P. Hartwig, Ph.D., CPCU

President & Economist

Insurance Information Institute

New York, NY

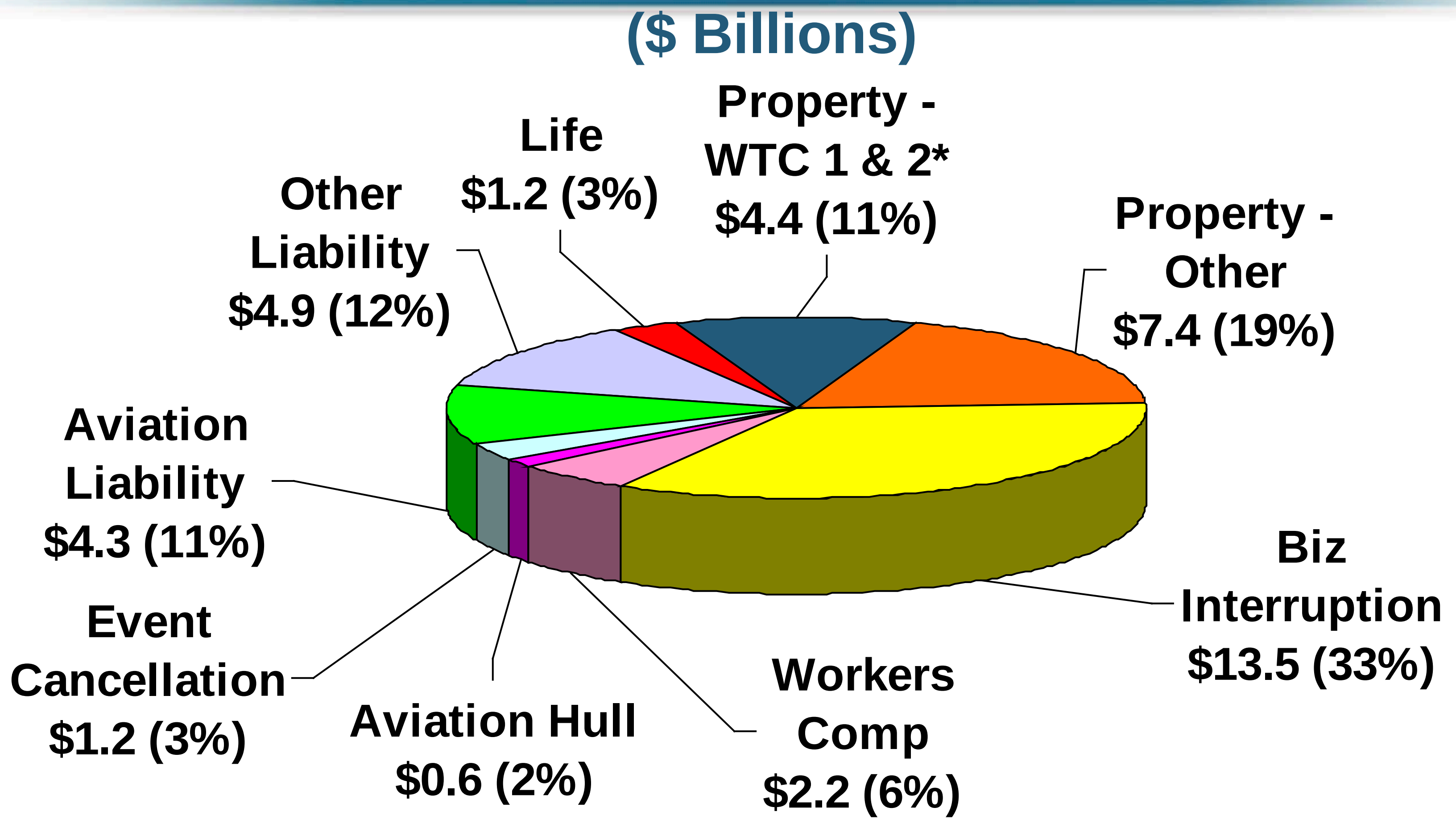
September 11, 2012

Washington, DC

INSURANCE INFORMATION INSTITUTE

- **Issue:** Act expires 12/31/14. Insurers still generally regard large-scale terror attacks as fundamentally uninsurable
- **I.I.I. Input:** Testified at first hearing on the issue in DC (on 9/11/12) on trends in terrorist activity in the US and abroad, difficulties in underwriting terror risk; Noted that bin Laden may be dead but war on terror is far from over
- **Status:** New House FS Committee Chair Jeb Hensarling has opposed TRIA in the past; Obama Administration does not seem to support extension; Little institutional memory on insurance subcommittee
- **Media:** Virtually no media coverage yet apart form trade press; WSJ will likely editorialize against it.
- **Objective:** Work with trades, risk management community and others to help build support

Loss Distribution by Type of Insurance from Sept. 11 Terrorist Attack ($ 2011)



Total Insured Losses Estimate: $40.0B**

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

**$32.5 billion in 2001 dollars.

Source: Insurance Information Institute.

Exhibit 3A

Terrorism Violates Traditional Requirements for Insurability

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

Source: Insurance Information Institute

Terrorism Violates Traditional Requirements for Insurability (cont'd)

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

Source: Insurance Information Institute

The New HUD Ruling

HO Underwriting vs. Disparate Impact

What Did HUD Rule?

- The Fair Housing Act prohibits discrimination in the sale, rental, or financing of dwellings on the basis of race, color, religion, sex, disability, familial status, or national origin.
- HUD’s rule says Plaintiffs may use statistical analysis to show that certain insurer/lender/municipality behavior had a disproportionately adverse effect on the sale, rental, or financing of housing for minorities
  - Under the rule, this showing violates the federal Fair Housing Act even if the insurer/lender/municipality did not intend to discriminate
  - Defendant can prevail if it shows the practice was needed to achieve one or more substantial, legitimate, nondiscriminatory interests
  - But plaintiff may win by showing that another practice with a less discriminatory effect could achieve this interest

Potential Impact on Property Insurance Underwriting

- Why does this affect property insurance?
  - Insurers don’t use race, religion, sex, etc. to underwrite property insurance
  - But they *do* use credit-based insurance scores, neighborhood, and other factors that could be the basis of a “disparate impact” conclusion
- Isn’t this a federal government agency’s intrusion into state regulation, against McCarran-Ferguson?
  - HUD says M-F says federal laws/regulations that “specifically relate to the business of insurance” supercede state law
- But how can insurers defend themselves if they don’t have data on race (which they’re prohibited from collecting)?
  - HUD says plaintiff have the same problem, so it’s fair

Potential Impact on Property Insurance Underwriting (cont'd)

- Could increase costs to monitor compliance and defend suits alleging discrimination
- Potentially Changes State/Federal Regulatory Balance
  - Not necessarily by itself, but in the trail of
    - Federal Insurance Office
    - FSOC
    - CFPB

Other Regulatory Challenges?

- Designating Some Insurers as Systemically Important?
  - Creating a two-tiered, “unlevel playing field”
- Extending the “Reach” of the Consumer Financial Protection Bureau?
  - The CFPB is now proposing regulations for mortgage servicers regarding property insurance on homes with mortgages
  - Will it deal with insurance offered with credit cards?
  - Bank marketing of insurance products?

Key Takaways

Takeaways: Insurance Industry Predictions for 2013

- **P/C Insurance Exposures Will Grow With the U.S. Economy**
  - Personal and commercial exposure growth is likely in 2013
- **P/C Industry Growth in 2013 Will Be Strongest Since 2004**
  - But no traditional “hard market” emerges in 2013 (or, probably, in 2014)
- **Catastrophe Claims Appear to be Increasing in Frequency and Severity**
  - But this probably has more to do with increased number and value of insured exposures “in harm’s way” than more severe storms and other events
- **Industry Capacity Hits a New Record by Year-End 2013 (Barring Meg-CAT)**
- **Investment Environment Is/Remains Challenging**
  - Interest rates remain low

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Thank you for your time and your attention!