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# PC Insurance Industry Outlook

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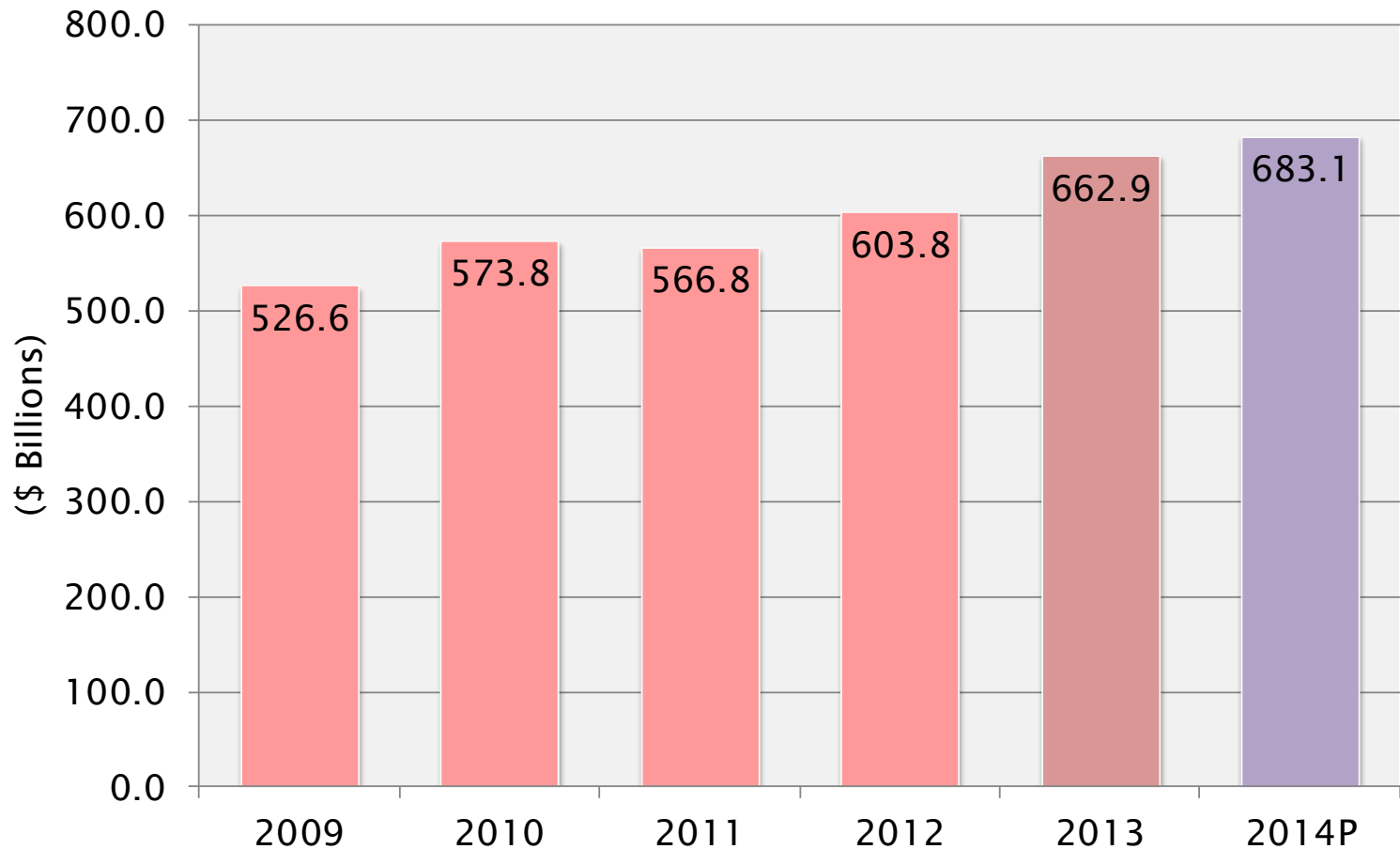
# Property/Casualty Income & Surplus Changes

	<u>2012</u>	<u>2013</u>
Net Premiums Written	459.2	480.7
Underwriting Gain/(Loss)	-13.8	14.8
<b>Beginning PHS</b>	<b>563.0</b>	<b>597.5</b>
Net Income	38.7	70.5
Unrealized Capital Gains/(Losses)	7.2	36.5
Contributed Capital	3.5	-0.8
Stockholder Dividends	-32.0	-34.6
Other Changes	17.1	-6.3
<b>Ending PHS</b>	<b>597.5</b>	<b>662.9</b>
<i>% PHS Growth</i>	<i>6.1%</i>	<i>10.9%</i>

# Property/Casualty Financial Indicators

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014P</u>
<b>Change in Net Premiums Written (%)</b>	1.0	3.5	4.1	4.7	4.0
<b>Change in Surplus (%)</b>	9.0	-1.2	6.1	10.9	2.5
<b>Combined Ratio (Reported)</b>	101.2	106.7	102.5	96.2	99.4
<b>Change in Net Inv. Income (%)</b>	-1.3	3.3	-1.8	1.8	7.7
<b>Net Investment Yield (%)</b>	3.7	3.8	3.3	3.2	3.7
<b>After-tax Return on Surplus (ROE) (%)</b>	7.2	4.3	6.7	11.2	6.9

# Property / Casualty Industry Surplus





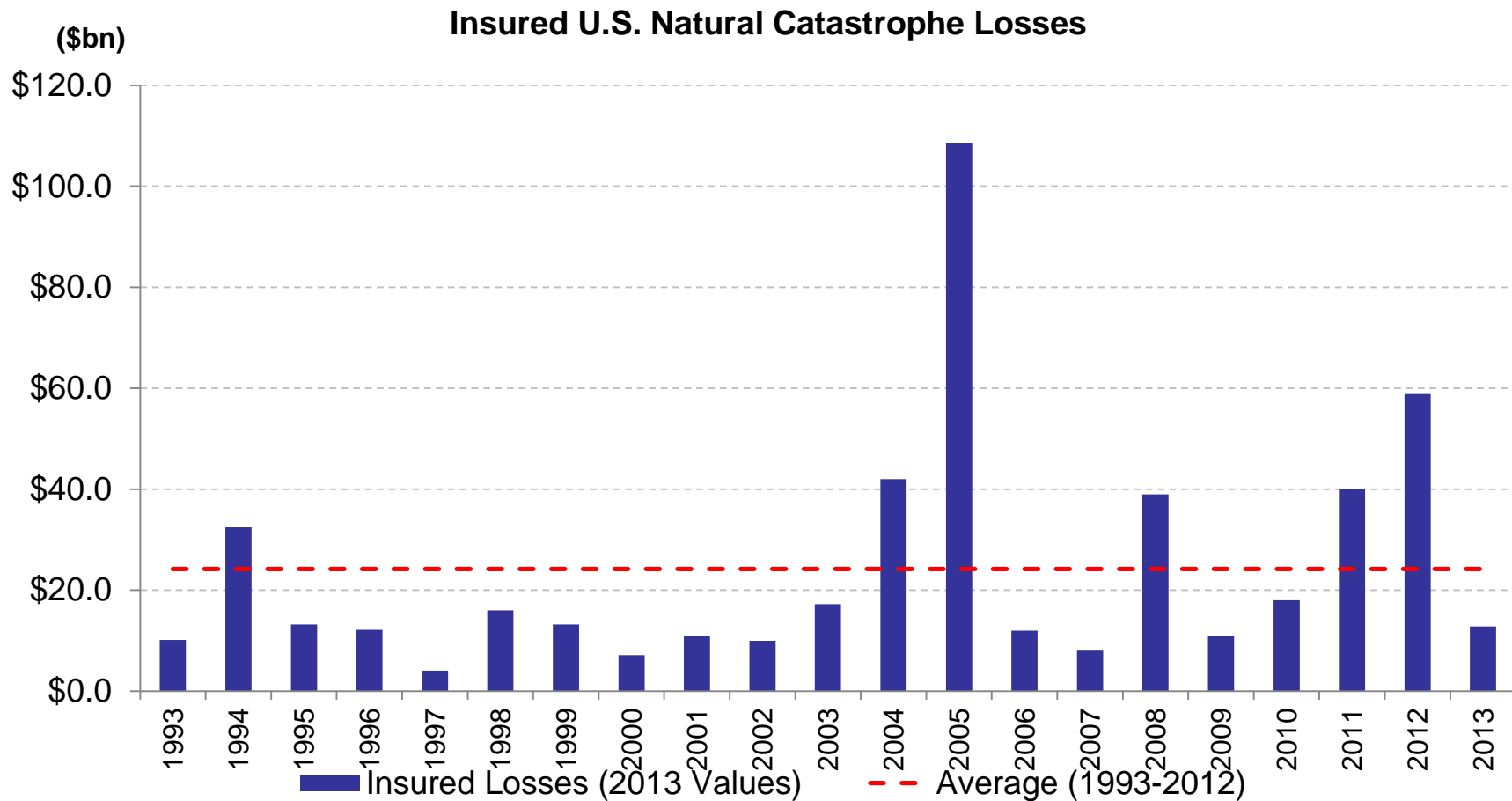
# Property/Casualty Underwriting Details

	<u>2012</u>	<u>2013</u>	<u>2014P</u>
<b>Net Written Premium Growth (%)</b>	4.1	4.7	4.0
<b>Combined Ratio (Reported)</b>	102.5	96.2	99.4
<b>Less: Catastrophe Losses (%)</b>	8.0	3.9	4.6
<b>Less: A&amp;E Losses (%)</b>	0.6	0.5	0.5
<b>CY Combined Ratio (Normalized)</b>	93.9	91.8	94.3
<b>Less: Core Loss Reserve Dev. (%)</b>	-3.2	-3.5	-2.7
<b>AY Combined Ratio (Normalized)</b>	97.1	95.3	97.0

# U.S. Property/Casualty – Product Line Underwriting Trends Combined Ratios

<u>Product Line</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013E</u>	<u>2014P</u>
Private Passenger Auto	100.3	101.3	101.0	102.0	102.1	101.5	100.5
Homeowners Multi Peril	116.9	105.7	106.9	122.1	103.9	90.3	97.5
Other & Product Liability	95.1	107.0	110.8	99.6	103.2	97.6	97.6
Workers' Compensation	104.5	108.3	116.5	118.6	111.2	105.0	104.5
CMP	104.1	96.9	100.1	113.2	105.1	92.1	98.6
Commercial Auto	96.8	99.1	97.8	103.4	106.8	104.1	102.6
Medical Pro. Liability	77.4	85.0	82.0	87.9	93.3	95.5	98.9

# A New "Normal"?



Source: Munich Re NatCatService / Property Claims Service, A.M. Best Research



# Commercial Lines Segment

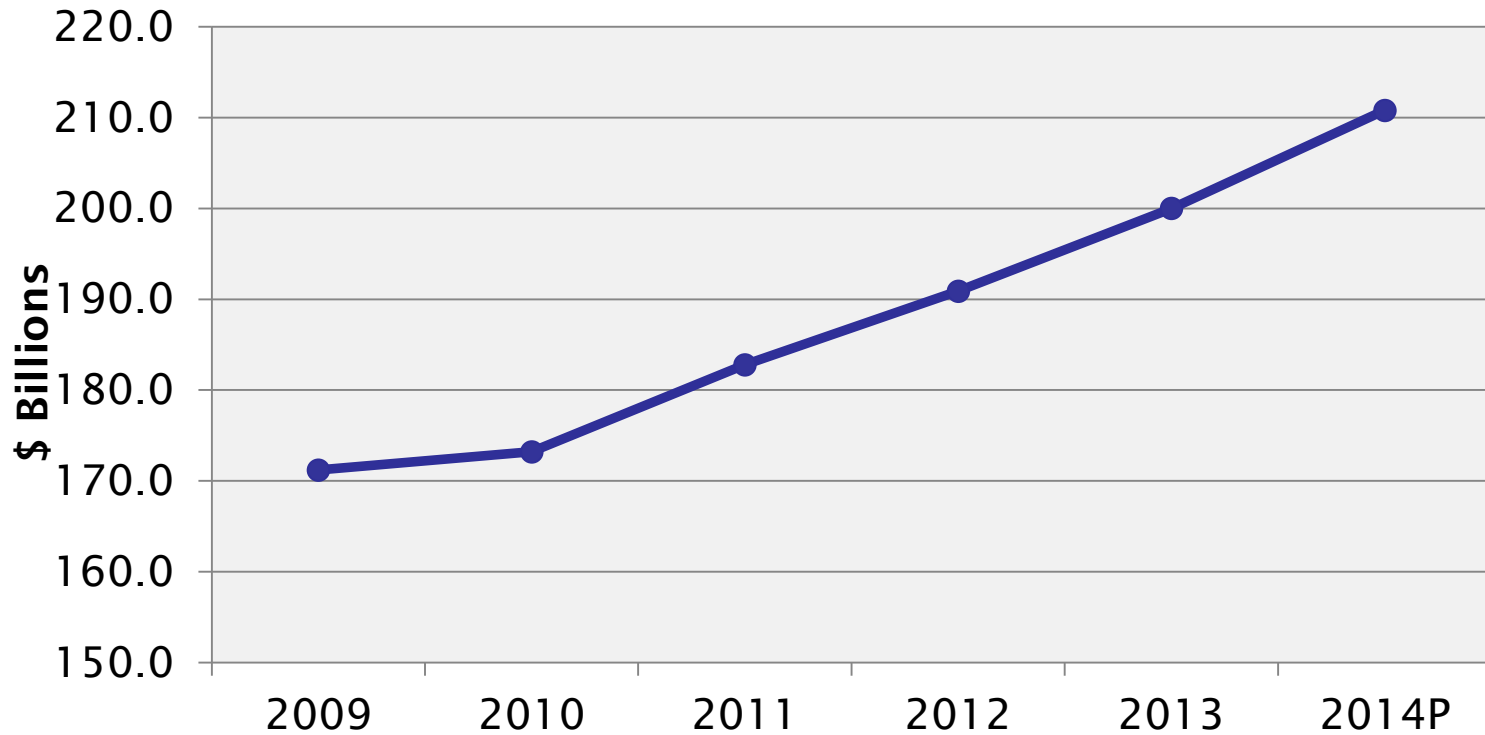
- **The Quest for Rate Adequacy**
  - Improvement over the last several years following long period of rate declines
  - Still competitive - many players chasing finite market
- **Limited New Growth Opportunities**
  - Slow U.S. GDP growth as compared to historical standards but improving
  - Still high unemployment and underemployment but improving
  - Commercial lending limited; new private construction slow by historical standards but improving

# Commercial Lines Income & Surplus Changes

	<u>2012</u>	<u>2013</u>
Net Premiums Written	190.9	200.0
Underwriting Gain/(Loss)	-10.3	5.7
<b>Beginning PHS</b>	<b>222.5</b>	<b>232.2</b>
Net Income	18.4	35.5
Unrealized Capital Gains/(Losses)	-6.7	5.8
Contributed Capital	2.3	0.0
Stockholder Dividends	-19.0	-23.1
Other Changes	14.7	-7.1
<b>Ending PHS</b>	<b>232.2</b>	<b>243.1</b>
<i>% PHS Growth</i>	<i>4.4%</i>	<i>4.7%</i>

# Commercial Lines

## Commercial Lines Segment Net Premiums Written



# State of Commercial Lines

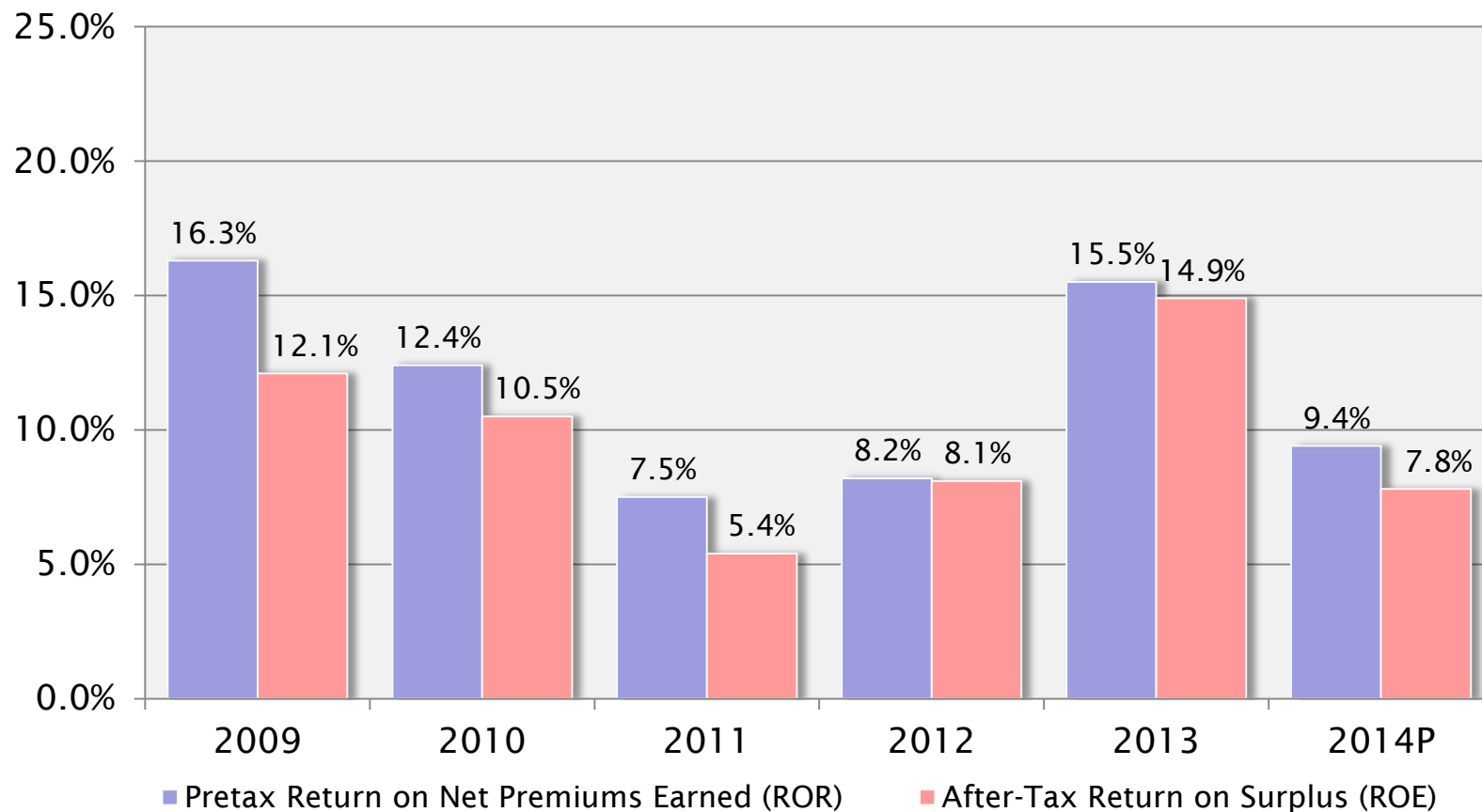
- **U.S. Catastrophes on the Rise**
  - Increased tornado/hail/wind storm frequency
  - Higher frequency of hurricanes – just haven't hit land
  - Sandy – 2012
- **Continued Investment Pressures**
  - Yields remain low – although improved
  - Short durations
- **Reserve adequacy questioned**
  - Workers' compensation and other liability account for most of the segment's deficiency



# Commercial Lines

## Commercial Lines Segment

Pre-tax Return on Net Premiums Earned (ROR) and After-Tax Return on Surplus



# U.S. Property/Casualty – Estimated Loss & LAE Reserve Deficiencies – (\$ in billions) (Excluding Statutory Discount)

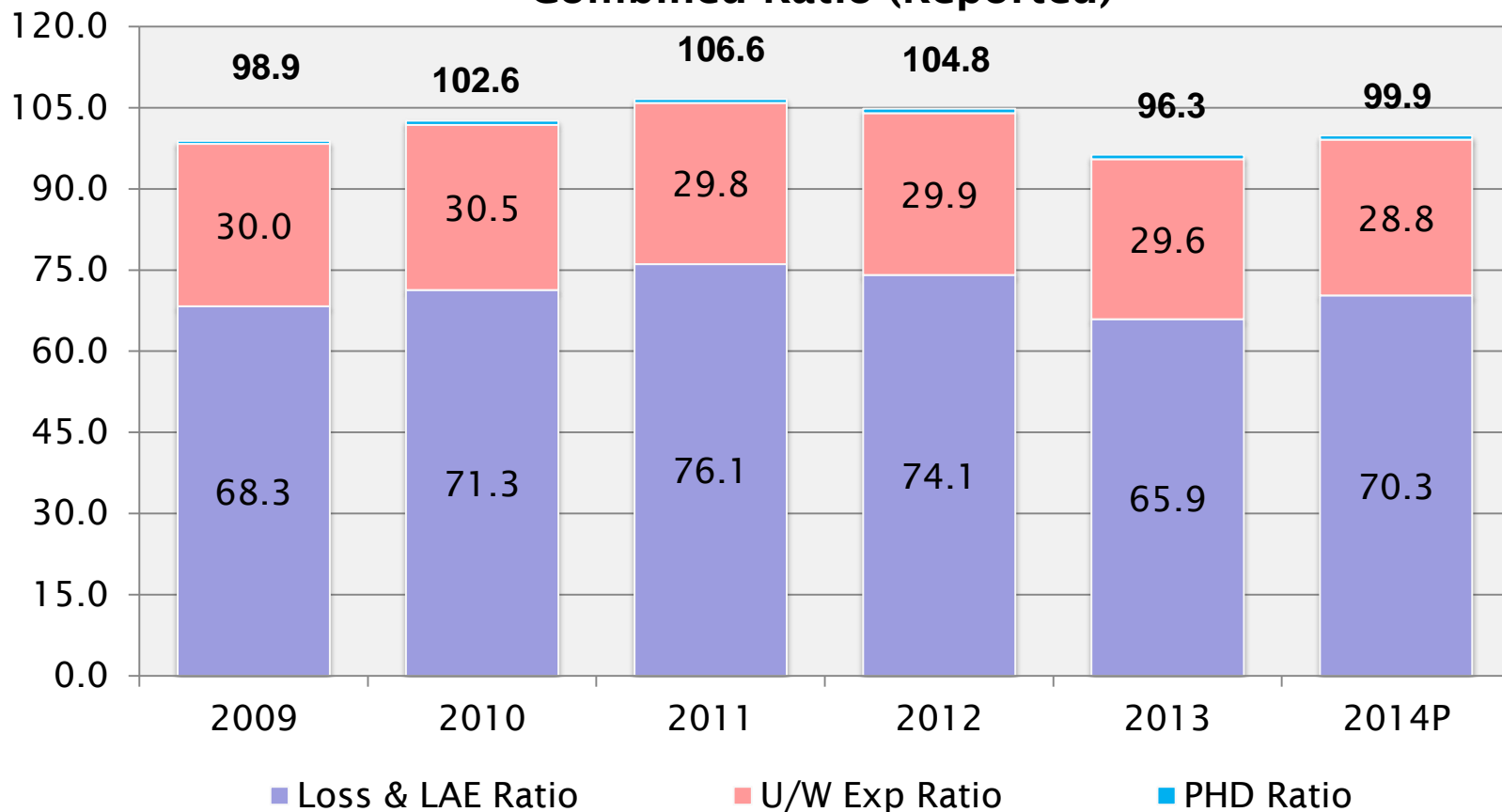
<u>Product Line</u>	<u>12/31/12</u>	<u>12/31/13</u>
Workers' Compensation	9.6	11.1
Reinsurance - Nonprop Assumed	2.6	1.0
Other/Products Liability	4.7	7.5
Commercial Multiple Peril	2.3	1.9
Medical Malpractice	-2.7	-3.5
Commercial Auto Liability	0.4	0.7
Homeowners	-0.2	-0.4
Personal Auto Liability	-3.1	-3.9
All Other Lines	<u>-3.2</u>	<u>-4.6</u>
Total Core Reserves	10.4	9.8
Asbestos & Environmental	<u>13.7</u>	<u>11.2</u>
Total	24.1	21.0

# State of Commercial Lines

- Continued rate firming
- Despite headwinds, respectable normalized combined ratios
- Gradual economic growth

# Commercial Lines

## Commercial Lines Segment Combined Ratio (Reported)



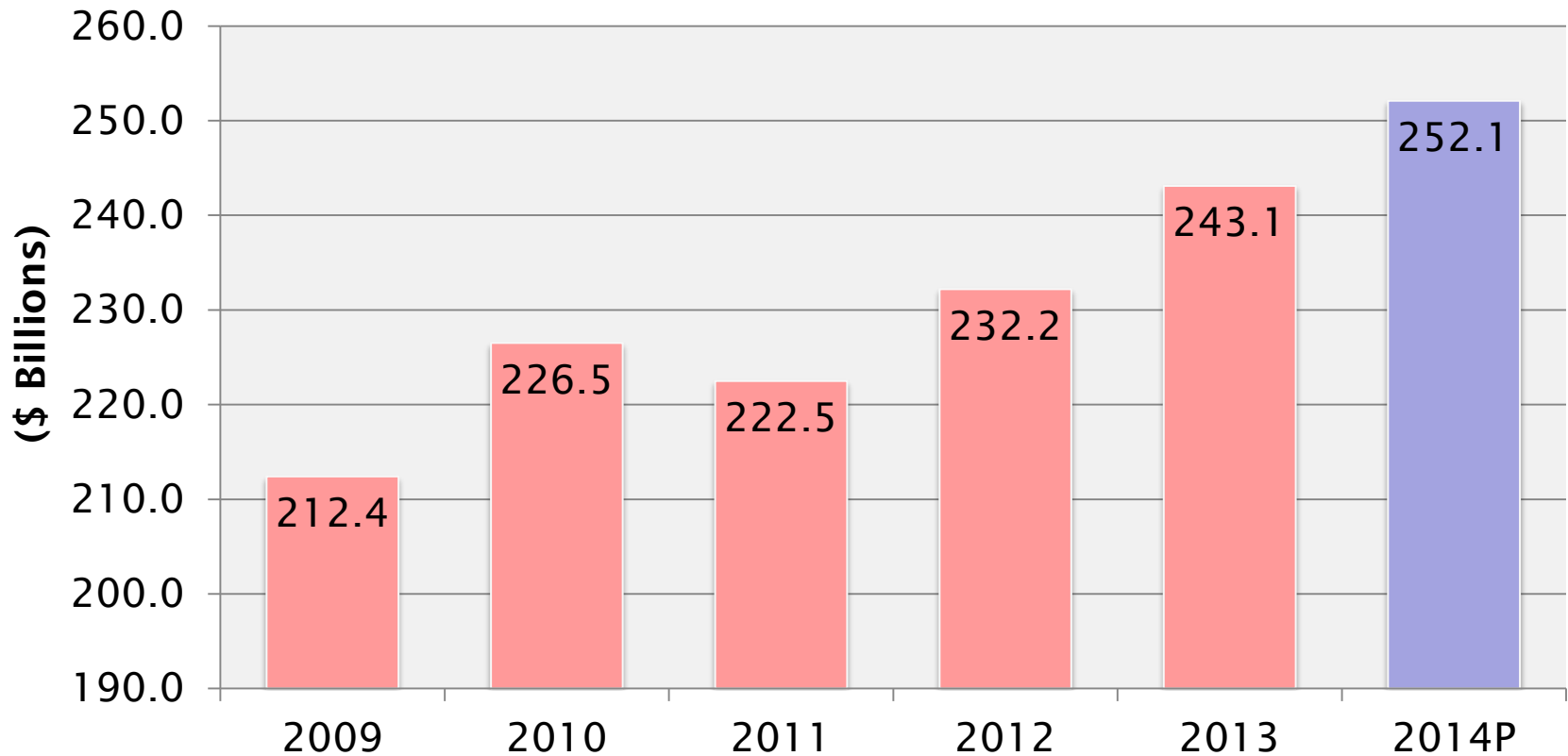
# State of Commercial Lines

- **Relatively Inexpensive Capital**
  - Low Cost of Capital
  - Debt Refinancing in recent years
- **High-Quality Investments**
  - Low Risk Tolerance For Most
- **Positive Cash Flow**
- **“Strong” Risk Adjusted Capital (BCAR)**



# Commercial Lines

## Commercial Lines Segment Policyholder Surplus



# Commercial Lines Segment Underwriting Details

	<u>2012</u>	<u>2013</u>	<u>2014P</u>
<b>Net Written Premium Growth (%)</b>	<b>4.5</b>	<b>4.8</b>	<b>5.4</b>
<b>Combined Ratio (Reported)</b>	<b>104.8</b>	<b>96.3</b>	<b>99.9</b>
<b>Less: Catastrophe Losses (%)</b>	<b>8.5</b>	<b>3.6</b>	<b>4.0</b>
<b>Less: A&amp;E Losses (%)</b>	<b>1.2</b>	<b>1.1</b>	<b>1.0</b>
<b>CY Combined Ratio (Normalized)</b>	<b>95.1</b>	<b>91.6</b>	<b>94.9</b>
<b>Less: Core Loss Reserve Dev. (%)</b>	<b>-3.8</b>	<b>-4.6</b>	<b>-2.9</b>
<b>AY Combined Ratio (Normalized)</b>	<b>98.9</b>	<b>96.2</b>	<b>97.8</b>

# Commercial Lines Outlook - Negative

- Gap widens between strong performers and underperformers
- Uncertain loss reserve adequacy
- Low investment yields
- Increased catastrophe loss potential
- Rate increases moderate

## Offsetting Factors:

- Capitalization still solid
- Improving economic conditions
- Risk management strides in the past ingrained in decision making

# Rating Action Statistics – Commercial Lines

## Look Past the Noise of Acquisitions for Negative Outlook

- **2013 - 18 Downgrades and 24 Upgrades**

Many upgrades followed acquisitions by healthier companies.

When these upgrades are removed, there were more downgrades than upgrades.

- Primary driver of downgrades: Adverse Loss Reserve Development
- Secondary driver of downgrades: Reduction in Risk-Adjusted Capital, sometimes caused by adverse reserve development.

# Personal Lines Segment



# Personal Lines – Macro Trends

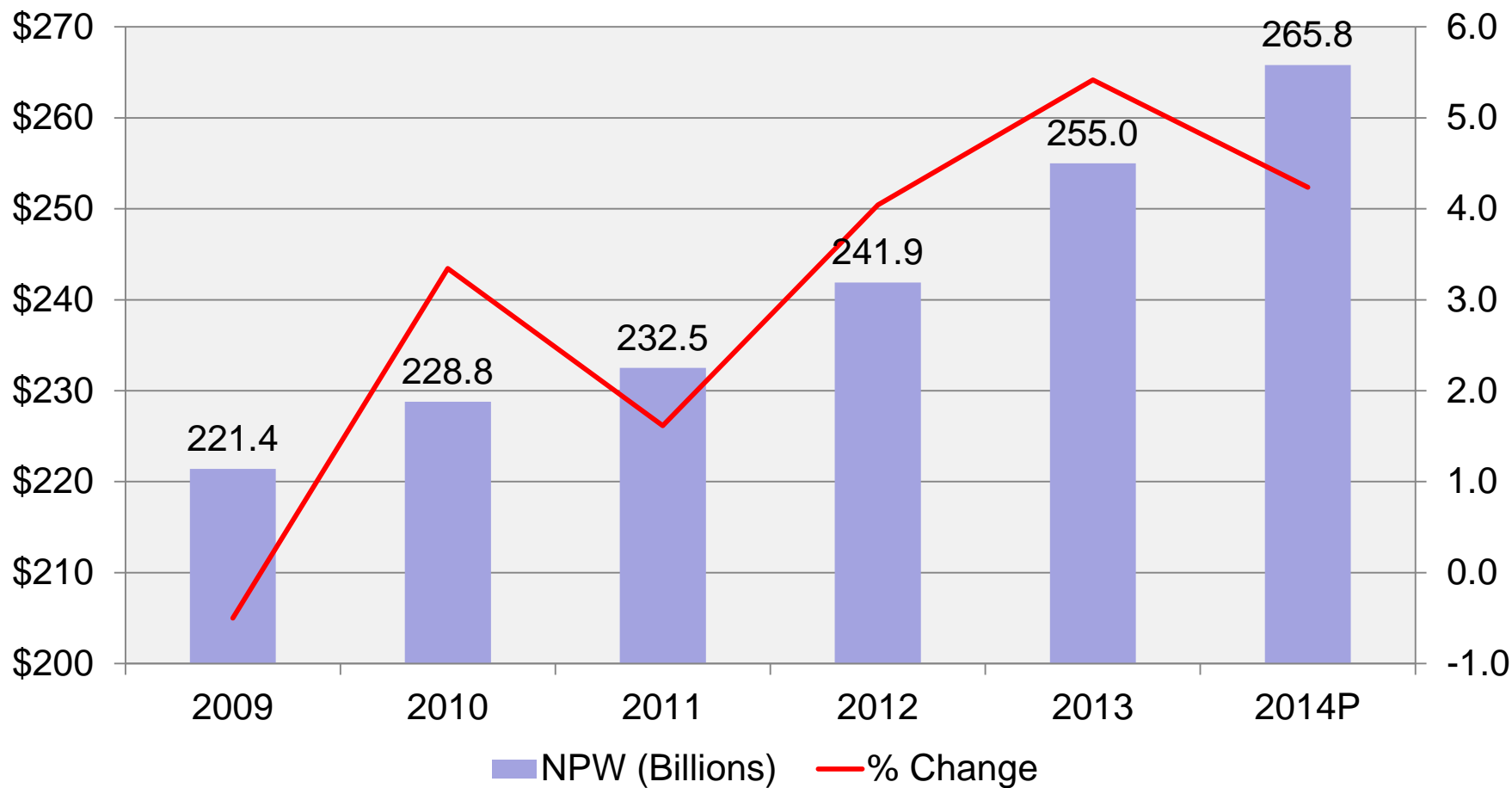
- Robust risk-adjusted capitalization
- Adequate results
- Expense management focus
- Technology initiatives underway
- Brand awareness key
- Enterprise risk-management informs decision making

**Stable Outlook**

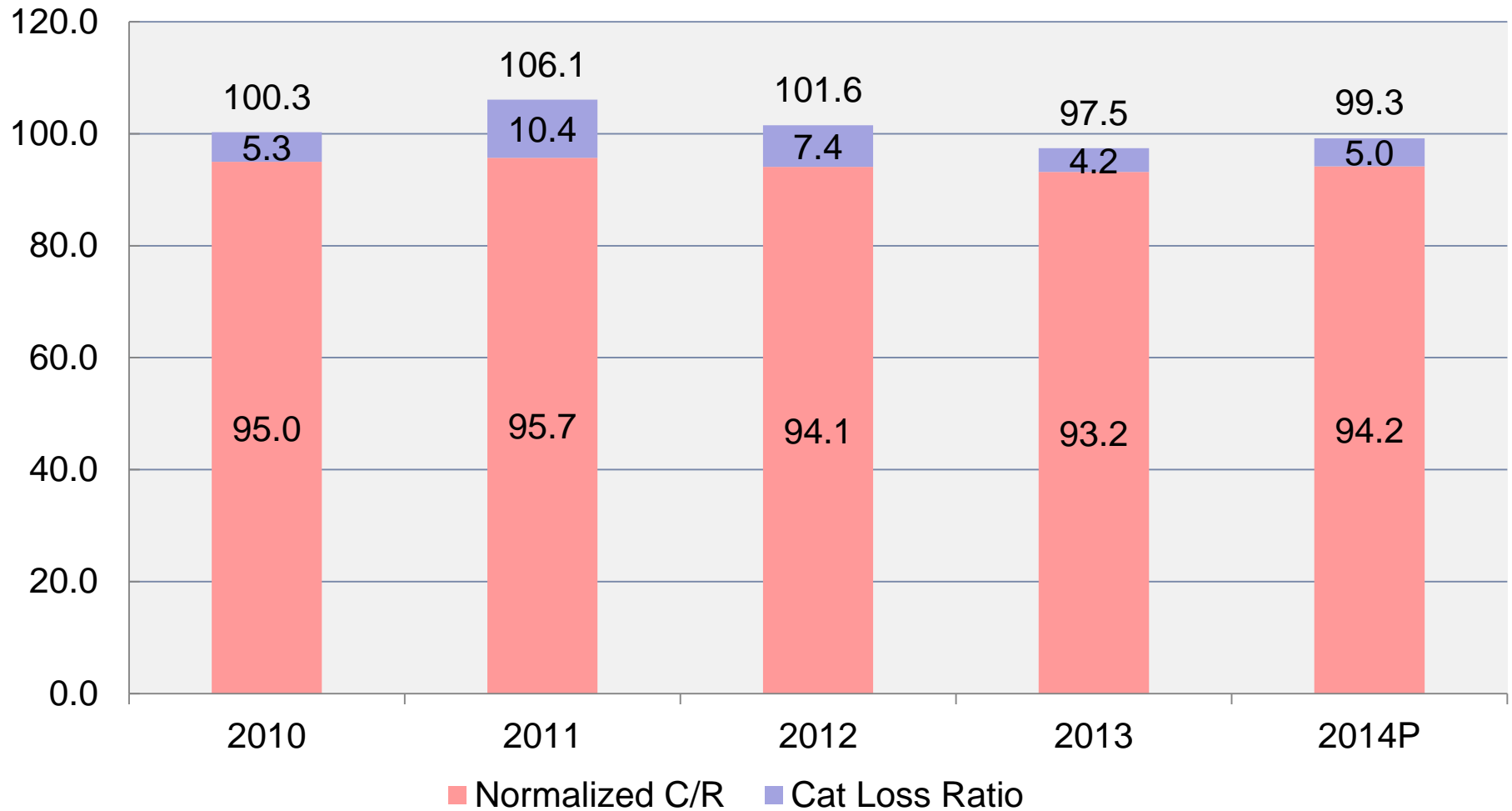
# Personal Lines Income & Surplus Changes

	<u>2012</u>	<u>2013</u>
Net Premiums Written	241.9	255.0
Underwriting Gain/(Loss)	-4.8	5.7
<b>Beginning PHS</b>	<b>214.6</b>	<b>230.6</b>
Net Income	11.6	20.9
Unrealized Capital Gains/(Losses)	4.1	9.6
Contributed Capital	1.0	-0.3
Stockholder Dividends	-5.9	-4.3
Other Changes	5.2	4.8
<b>Ending PHS</b>	<b>230.6</b>	<b>261.4</b>
<i>% PHS Growth</i>	<i>7.5%</i>	<i>13.3%</i>

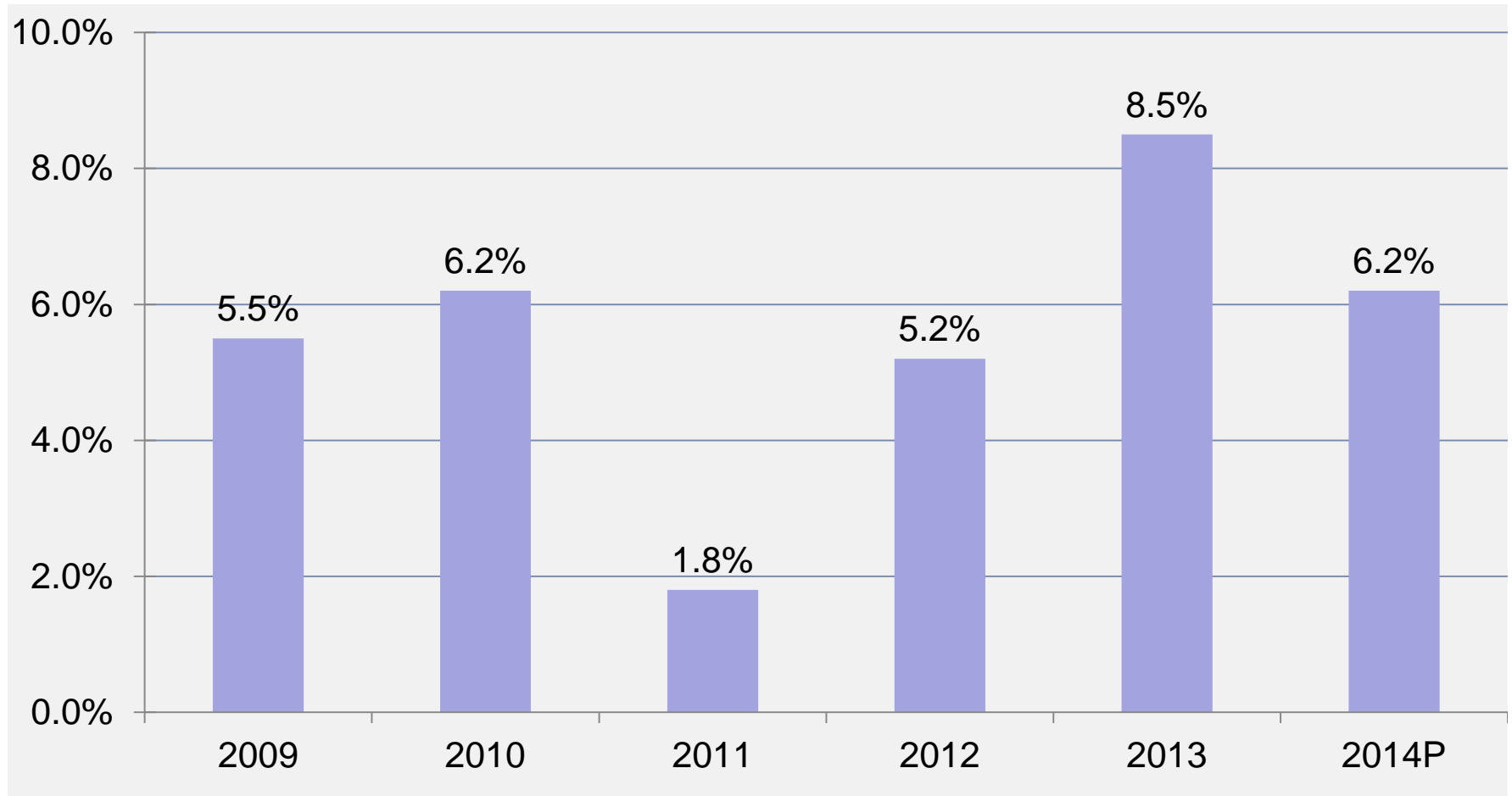
# Personal Lines Net Premium Written Trends



# Personal Lines Combined Ratio



# Personal Lines After-Tax Return on Surplus

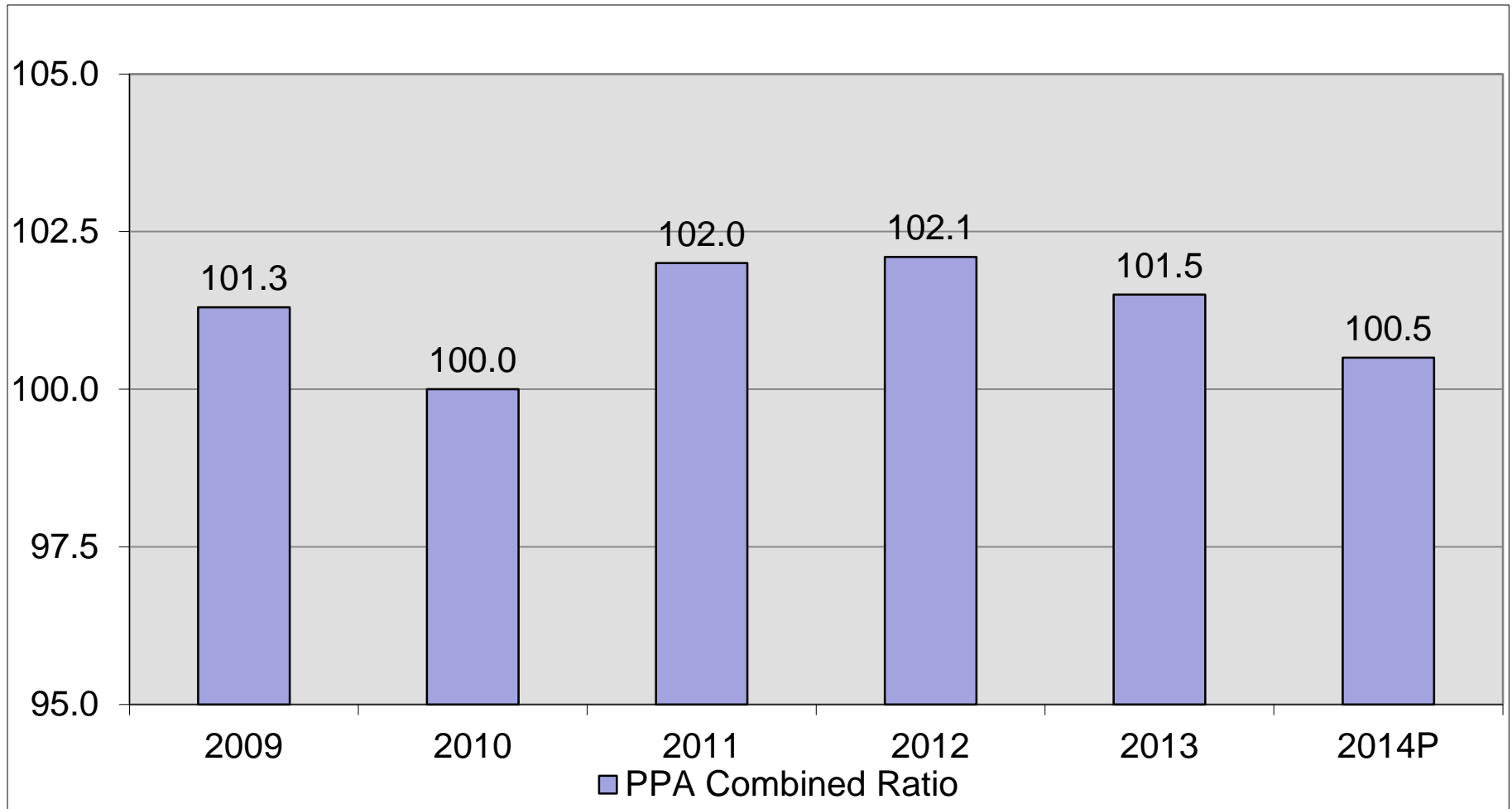




# Key Trends in Personal Auto

- Consistent auto results – stable frequency/modest severity increases
- Rate environment operates in generally tight-band
- Pricing sophistication/granularity expands:
  - Segmentation
  - Usage Based Insurance – next step in segmentation evolution
- Customer interface shifting:
  - Multi-Channel strategies
  - Flexible customer interaction expectation

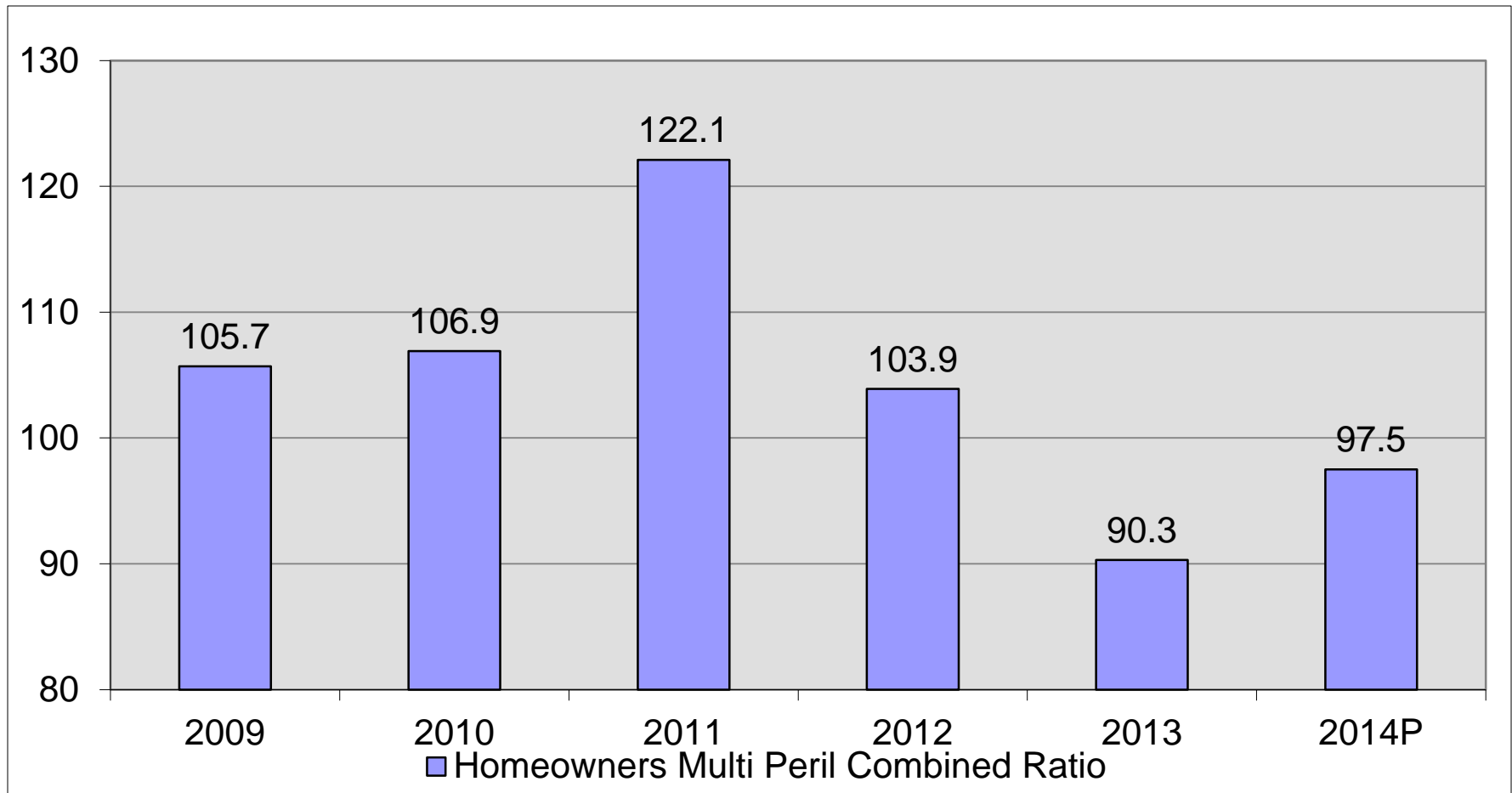
# PPA Combined Ratio



# Key Trends in Property

- Improving property performance – helped by “light” catastrophe year in 2013
- Pricing sophistication – increased granularity
- Risk avoidance morphing to better risk understanding/acceptance
- Not just rate increases - underwriting actions ingrained across segment
  - Coverage limitations
  - Deductibles
  - Aggressive claims handling

# Homeowners Multi Peril Combined Ratio



# Rating Action Statistics – Personal Lines

## Is Stable Outlook Off-Target?



- 2010 – 28 Downgrades/14 Upgrades
- 2011 - 36 Downgrades/12 Upgrades
- 2012 – 39 Downgrades/12 Upgrades
- 2013 - 24 Downgrades/12 Upgrades

Downgrades are primarily in two sub-segments of the personal lines sector:

- Concentrated property writers with limited scale
- Small non-standard auto companies

Relatively small % of the rated universe

## **CAMAR 2014**

# Thank You

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